Czechia

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IN A NUTSHELL

- → The economy grew by 1%, inflation fell to 2.5% as the central bank cut its policy rate to 4% by end-2024 from 7% in November 2023.
- → The mortgage market grew by 89% y-o-y in 2024; average interest rate declined below 5% by the end of year and average fixed rate periods more than halved to 3 years.
- → Offer house prices increased by 10.7%, higher prices increased LTV ratio above 65% but mortgage related NPLs remained low at 0.6%.

MACROECONOMIC OVERVIEW

The economy gradual recovered, GDP grew by 1% after stagnating in 2023. This was mainly driven by rising household consumption (+2%), with stronger wage growth and easing inflation, and government spending (nearly +4%) despite fiscal consolidation. However, despite ongoing modest recovery in exports (+1.3%) fixed investment, reflecting a tight policy rate and fiscal consolidation, declined by 1.3% due to weaker investments into machinery and dwellings. Inflation moderated significantly: CPI fell to 2.4% from the average 13% in 2022–2023. This brought inflation back into the upper part of the Czech National Bank's (CNB) inflation target tolerance band. Lower energy and food prices were key contributors, though core inflation remained relatively persistent at 2.5%, mainly due to services prices.

This enabled the CNB to gradually lower its policy rate from the 7% mid-2022 and December 2023 in multiple steps to 4% by November 2024. The pace of rate cuts slowed in the second half of the year due to persistent inflation in services, and the CNB paused further easing in December 2024. The rate cuts, alongside a narrowing interest rate differential with the ECB and the Fed, contributed to a depreciation of the Czech koruna. The average exchange rate against the euro weakened to 25.1 CZK/EUR from 24.0 in 2023. Lower energy prices and ongoing though modest recovery in export activity resulted in a current account surplus of 1.8% of GDP. The fiscal consolidation and economic recovery narrowed the general government deficit to 2.2% of GDP after average Covid related deficit of 5.3% in 2020-2021 and energy crisis related deficit of 3.5% in 2022-2023. This resulted into the debt-to-GDP ratio at 43.6% in 2024.

LOOKING AHEAD

Slower growth is expected this year, at 1.7%, and only a moderate acceleration to 2.0% in 2026. This is due to the negative impact of trade wars and the associated uncertainty. However, we do not expect a major effect on the labour market or inflation, which also limits the policy response. We assume a slight slowdown in annual consumer price inflation to 2.3% this year and a further mild easing to 2.2% in 2026. In our forecast, real wages will grow by 3.5% and 2.7%, following a 4.5% increase last year – slightly more favorable than projected in February. However, real gros wages are expected to reach pre-COVID levels next year. The CNB's interest rates will likely continue to decline gradually. However, for this year, we still see room for one more cut in the two-week repo rate to 3.25%, and to 3.0% next year.

Bank lending to households is expected to strengthen slightly above 6% in both this year and next, following nearly 5% growth in 2024. These figures suggest a shift in the structure of credit creation, reflected in new loan disbursments in Q1 2025 and reflecting the composition of economic growth – namely, rising consumption, weaker investment activity, and a stronger real estate and construction sector. Looking specifically at housing loans, the volume of new mortgages in Q1 rose to around 3,5% of GDP that is above the long-term 3% average. This boosted new housing loans to increase to nearly 4% of GDPConsumer loan volumes stabilized at the beginning of this year at around 1.7% of GDP, slightly above the long-term average. This year, we expect deposit growth to slow to below 6%, and to further decelerate to below 5% in 2026, following nearly 7.5% growth last year. This reflects a combination of factors: weaker growth in corporate lending, declining interest rates, and a projected decrease in the household savings rate.

HOUSING MARKETS

The real estate market continued to grow significantly last year. Transactions with flats increased by 34% overall, and by 51% for new construction and 24% for old flats. The market is thus continuing to return to pre-crisis pace of activity relatively quickly after the monetary policy tightening and uncertainty depressed the real estate transactions in second half of 2022 and at the beginning of 2023.

After a shallow fall in prices between 2022 and 2023, there was a relatively significant increase in apartment and house prices last year. On average, offer prices rose by 10.7%, for older houses this was 10% nationwide but in Prague 18%. Prices for new buildings increased more slowly – by 8% on average, and by 9% in the capital. Family houses then maintained almost the same value in the regions and at the national level, but in Prague they increased by 15%.

Since 2015 property prices have increased by 124%, and are again growing faster than disposable incomes deepening the housing availability problem – compared to 2015, property prices outpaced income per capita by 24%.

Despite a slight increase in construction starts in particular in Prague and the Central Bohemian Region, the number of completed apartments remains below the long-term average. This creates a cumulative deficit of over twenty thousand apartments compared to the long-term average, half of which are in Prague and the Central Bohemian Region.

Rents are also growing at a higher rate than disposable household incomes.

MORTGAGE MARKETS

Banks and building societies arranged mortgages of CZK 246 bn (EUR 10 bn), an increase of 89% y-o-y growth, of which new mortgages were CZK 212 bn (+90% y-o-y), and remortgaging CZK 34 bn. (+83% y-o-y). This growth is partially because in 2023 origination was the lowest since 2008-2021 due to interest rates and low consumer confidence. After a weak Q1, when sales were at 60% of the remainder of the year, origination significantly strengthened and stabilized, in particular in new loans than in refinancing, as rates remained relatively high disincentivising refinancing. The newly provided mortgages recovered to 2.7% of GDP (1.5% in 2023) and though it remained below the 4.8% average boom from 2020-21, it was close to 2.9% in 2014-19.

This was due to many factors: the improved economic situation, recovery of real estate prices and the decrease in mortgage rates. The easing of consumer inflation (2.4% compared to 10.7% in 2023), resulted in a recovery of household purchasing power, and a slight improvement of still challenging affordability of housing and it eventually allowed the central bank to ease monetary policy. Generally, these factors contributed to improving consumer confidence and restoring demand for financing. Demand was also supported by addressing deferred housing financing needs and by expectations of future housing market development.

The Czech National Bank started easing monetary policy at the end of 2023 when it decreased the policy interest rate by 25 bps. the first change since mid 2022. In 2024 it cut 7 further times to 4.00%. This decline was partly reflected in the decline in long-term rates, which are decisive for setting mortgage interest rates. The average rate on new mortgages declined (5.16% in 2024 vs. 5.88% in 2023), it started at 5.51% in Q1 and ended slightly under 5% in Q4.

In expectation of further declines, customers preferred shorter- term fixed periods – up to 5 years, most often 3 years – very short fixed periods (up to 1 year) reached more than 10% market share, the highest in the last 10 years. As a result, the average fixed period decreased to 3 years from 4.3 in 2023 and it is less than half of average 6.3 year fixed period between 2018-2022.

Increased real estate prices likely contributed to a higher average LTV ratio at 65.8% i (63.1% in 2023).

The NPL ratio for households' mortgages remained virtually unchanged at 0.6%.

The National Bank reconsidered its macroprudential regulations during 2023 and gradually relaxed its restrictions on income ratios – the DSTI limit was fully cancelled in the second half of 2023 followed by cancellation of DTI from the beginning of 2024. These steps were to revive mortgage financing. The effect fully appeared just in the H1 2024 sales figures. The LTV limit at 80% (90% for younger than 36 years) remained valid without any changes.

In September 2024 new regulation of early repayments became effective. There was a defined maximum of reasonable cost for the repayment of mortgages outside their interest rate renewal period. Reasonably made cost must not exceed 1% of the total early repayment amount.

This is a change from the current interpretation of the CNB, which states that banks can only charge an administrative fee for early repayment. However, this setting of payments for early repayment will not dampen the refinancing if there is a significant decrease in interest rates. It was only partly the case of 2024, but further decline of interest rates can accelerate refinancing in 2025.

MORTGAGE FUNDING

The Czech banking sector has a massive excess of liquidity that is placed at the central bank. The loan-to-deposit ratio reached 62% in 2024 and ratio of loans to households to households' deposits is around 61% (the share of housing loans to households' deposits at 47%). Hence, the issuance of mortgage covered bonds is not a key financing source for Czech banks.

GREEN FUNDING

The main instrument to support investment in the energy saving was the New Green Saving program, its goal was to increase the energy efficiency of buildings and reduce emissions of greenhouse gases and other pollutants in the air. Support is aimed at building insulation, construction or purchase of houses with very low energy consumption, ecological methods of heating buildings, including replacement of inadequate heat sources or the use of renewable energy sources. The New Green Savings program is financed from a portion of the proceeds of emission allowance auctions.

There are 2 main pillars of the support provided to households – (i) providing consultancy to receive direct subsidy to household and (ii) if household needs additional loan, the state provides zero interest funding to financial institution up to 50% of that loan provided to household. Based on this scheme the state sets an upper limit on interest rate on loan provided to households on semi-annual basis that is actually half of the market interest rate on housings loans households.

	CZECHIA 2023	CZECHIA 2024	EU 27 2024
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)*	-0.1	1.1	1.0
Unemployment Rate (LSF), annual average (%) (1)*	2.6	2.6	5.9
HICP inflation (%) (1)	12	2.7	2.6
HOUSING MARKET			
Owner occupation rate (%) (1)	76.0	74.7	68.4
Gross Fixed Investment in Housing (annual change) (1)	-6.0	-1.9	-4.3
Building Permits (2015=100) (2)	90.1	84.0	136.9
House Price Index - country (2015=100) (2)	208.7	222.3	179.8
House Price Index - capital (2015=100) (2)	n/a	n/a	171.5
Nominal house price growth (%) (2)	-1.1	6.5	4.9
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	66,410	68,359	6,879,667
Outstanding Residential Loans per capita over Total Population (EUR) (2)	6,133	6,271	15,311
Outstanding Residential Loans to disposable income ratio (%) (2)	39.2	40.6	71.3
Gross residential lending, annual growth (%) (2)	-22.6	80.4	3.9
Typical mortgage rate, annual average (%) (2)	5.9	5.2	4.34

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2024, Statistical Tables
* Eurostat Reviewed
** EU 2024 to be confirmed

CZECHIA FACT TABLE

Which entities can issue mortgage loans in your country?	The only subjects that are entitled to issue mortgage loans are banks
What is the market share of new mortgage issuances between these entities?	Banks issue 100% new mortgages
Which entities hold what proportion of outstanding mortgage loans in your country?	3 biggest retail banks hold >70% of outstanding volume
What is the typical LTV ratio on residential mortgage loans in your country?	Typical LTV ratio of new mortgage loans is 80%
How is the distinction made between loans for residential and non-residential purposes in your country?	Majority of mortgage loans is issued for residential purpose
What is/are the most common mortgage product(s) in your country?	Typical product in 2024 was the mortgage loan for purchase or (re)construction of residential property, secured by this financed property, with interest rate fixed for 3 years and maturity 25 – 30 years.
What is the typical/ average maturity for a mortgage in your country?	Typical maturity is 25 – 30 years, that is close to maximum maturity (30 years) recommended by regulation
What is/are the most common ways to fund mortgage lending in your country?	Combination of covered bonds and deposits
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	Administrative fee for record of the ownership change and fee for mortgage lien establishment to Real Estate Cadastre (state database of real estates) – 80 EUR per record Real estate agency fee (only for purchase intermediated by RE agency) Fee for notary or lawyer connected with preparation of purchase contract and notarial custody of purchase price (only if seller and buyer use legal services)
What is the level (if any) of government subsidies for house purchases in your country?	There is quite limited range of subsidies available: - Tax-deductible paid interests: The amount paid in interest on a mortgage loan to finance housing needs can be deducted from the tax base of physical entities' income, up to CZK 150,000 per year (= 6,000 EUR) - Relaxed LTV ratio applied for housing loans for applicants younger 36 years (max. 90% instead of 80%) - State subsidies aiming energy savings in family and apartment buildings - State subsidies for establishing social housing for disadvantaged people due to their age or health.