Czechia

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IN A NUTSHELL

- → The economy grew by 2.6%, consumer inflation remained broadly unchanged at 2.5% and the central bank finished its cutting cycle with its policy rate at 3.5% in May 2025 after 4% by end-2024 and 7% in November 2023.
- → The mortgage market grew by more than 50% y-o-y in 2025; the average interest rate declined towards 4.5% by the end of year and average fixed rate periods remained lower over 3 years.
- → The house price index increased by 10.4%; higher prices increased the LTV ratio to above 70% but mortgage related NPLs eased to below 0.6%.

MACRO-ECONOMIC OVERVIEW

The Czech economy continued its recovery in 2025 and exceeded earlier expectations despite trade-related uncertainty linked to U.S. tariff policies. Real GDP growth accelerated to 2.6% from 1.1% in 2024, outperforming both the euro area and part of the Central European region. Growth was driven mainly by household consumption (+3.0%), supported by strong wage growth, easing inflation, and lower interest rates. Government consumption increased by 2.1%, while fiscal policy remained only mildly restrictive in an election year. Fixed investment rebounded by 2.6% after three years of decline, although investment in machinery remained subdued. Export activity strengthened significantly, growing by 4.1% despite weak demand in key European markets.

Inflation remained broadly stable at 2.5%, close to the upper part of the Czech National Bank's (CNB) target range and slightly above the 2.4% average recorded in 2024. Food prices contributed most to inflationary pressures, while headline inflation slowed to 2.1% by year-end. Core inflation increased moderately to 2.7%, reflecting persistent services inflation, strong house-price growth and continued labour market tightness. The labour market showed signs of gradual easing from its previous tightness. The registered unemployment share rose to 4.4% from 3.8% in 2024, while nominal wage growth remained at 6.6% y-o-y as in 2024, resulting into unchanged 4.1% real wage growth supporting a recovery in household purchasing power.

Persistent domestic inflationary pressures led the CNB to complete its easing cycle in May 2025, lowering the two-week repo rate to 3.5% from 7.0% at the start of the easing cycle in late 2023. The CNB subsequently kept rates unchanged for the rest of the year. Stronger economic growth, a positive interest-rate differential, and easing concerns over trade tensions supported a modest appreciation of the Czech koruna. The general government deficit remained contained at 2.1% of GDP with public debt increasing moderately to 44.3% of GDP.

LOOKING AHEAD

The Czech economy is expected to continue growing, although at a slower pace amid a more challenging external environment. According to the Czech Banking Association forecast, real GDP growth should moderate from 2.6% in 2025 to 2.0% in 2026 before accelerating to 2.4% in 2027. Domestic demand will remain the key driver, supported by real wage growth, resilient household consumption, and a gradual recovery in investment.

Key risks stem from geopolitical tensions, particularly in the Middle East, weaker euro area growth, and uncertainty surrounding future fiscal and monetary policies. Higher oil prices have worsened the inflation outlook. Consumer inflation is projected to average 2.5% in 2026 and increase to 2.7% in 2027, while core inflation is expected to remain elevated due to persistent domestic cost pressures and wage growth.

This creates upward pressure on the CNB to hike its policy rate from 3.5%. Higher long-term market rates have already affected financing conditions. The outlook for the mortgage and housing market remains broadly positive. Household lending is projected to grow by 8.2% in 2026 and 7.5% in 2027, supported by rising incomes, improving affordability relative to previous years and strong underlying housing demand. Mortgage activity in early 2026 is also being boosted by front-loaded borrowing ahead of tighter macroprudential measures. However, higher long-term yields may weigh on demand later this year. Continued house price growth and limited housing supply are expected to support market activity while remaining a challenge for affordability, especially in major cities.

A key downside scenario assumes prolonged disruption of Gulf commodity supplies. In such a case, GDP growth could slow to around 1.6% in 2026, inflation could exceed 3%, and the likelihood of further CNB rate hikes, higher mortgage rates, and weaker housing market activity would increase.

HOUSING MARKETS

The main determinants of house price growth were recovering household purchasing power, robust wage growth, high household savings, improving credit availability and a gradual revival of the mortgage market. At the same time, structural supply constraints continued to support prices. Housing demand strengthened considerably after the temporary market correction of 2022–2023, resulting in renewed growth in both housing transactions and property prices.

Although housing construction activity showed signs of stabilisation, the number of completed dwellings remained insufficient relative to underlying demand. Housing starts recovered during 2025, supported by lower financing costs and stronger demand, while building permit activity remained volatile, reflecting lengthy permitting procedures and capacity constraints in the construction sector. Overall, the Czech housing market entered 2026 with strong momentum, characterised by rising transaction activity, renewed mortgage growth, and continuing upward pressure on residential property prices.

According to the Czech Statistical Office's House Price Index (HPI), residential property prices increased by 10.3% y-o-y in the fourth quarter of 2025. Over the past five years, house prices have risen by almost 60%, reflecting a long-standing imbalance between housing demand and supply. The owner-occupied housing price index, which includes self-built housing and major renovations, grew more moderately, highlighting that transaction prices have been increasing faster than construction-related housing costs.

The strongest price growth continued to be observed in Prague and other large urban areas, where housing supply remains particularly constrained. However, regional differences narrowed somewhat as demand increasingly spread to surrounding regions and larger regional cities. Prague remains by far the most expensive housing market in the country, while affordability pressures are generally lower in less densely populated regions.

Transaction activity recovered even more strongly than prices. According to Flat Zone data, average transaction prices of new and nearly new apartments reached CZK 137,000 per square metre in the fourth quarter of 2025, approximately 20% above 2022 levels. Transaction volumes more than doubled compared with late 2022. In the secondary market, prices of existing apartments reached CZK 75,000 per square metre, around 19% above 2022 levels, while transaction volumes increased by almost 90%. This indicates that the market recovery has been driven not only by higher prices but also by a substantial return of buyers.

MORTGAGE MARKETS

MARKET DYNAMICS

Banks and building societies arranged mortgages of CZK 376 bn. (EUR 15.3 bn) which represents 53% y-o-y growth, out of which new mortgages were CZK 320 bn (+51% y-o-y), and remortgaging CZK 56 bn. (+67% y-o-y). This trend was still based on the fact that 2023 represented a long-term minimum since the crisis of 2008-2010, so the basis was favourable for growth. On the other hand, the market began to approach its maximum from 2021.

While the first quarter followed on from the previous year rather smoothly, the growth accelerated from the second quarter of the year, when quarterly sales of mortgage loans reach the amount of CZK 100 bn.

Recovery was significant in refinancing, which was driven by a decrease of interest rates on one hand and by deferred activity of the customers on the other hand.

The credit impulse from newly originated residential mortgages recovered to 3.7% of GDP in 2025, following 2.6% in 2024 and 1.5% in 2023. It exceeded the 2014-2019 average of 2.9%, and strengthened further to 4.8% in Q1 2026, matching the average level observed during the 2020-2021 housing boom. Unlike the previous cycle, however, the current upswing has been driven primarily by a higher average mortgage size, while the number of new mortgages has recovered to the solid levels seen in 2016-2018.

The positive development of the mortgage market was influenced by a mix of factors: an improved economic situation, the recovery of real estate prices, and a decrease in the mortgage rate. Confirmed easing of consumer inflation resulted in the recovery of households' purchasing power, a slight improvement of still challenging affordability of housing and it eventually allowed the central bank to stabilise 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 the future housing market development.

The Czech National Bank continued to ease monetary policy. In 2025, the basic interest rate was decreased in two steps, from 4.00% at the beginning of the year to 3.50% in May, after which it remained effective till the end of the year. In fact, this decrease confirmed downward trend and contributed to the stabilisation of mortgage interest rates in the second half of the year. The average interest rate on new mortgages declined (4.64% in 2025 vs. 5.16% in 2024), it started at 4.81% in Q1 and ended at 4.54% in Q4.

In expectation of future developments, customers preferred shorter- term fixation, usually 3 years; very short fixations up to 1 year decreased in comparison to previous year and reached a 9.7% share, falling to 7.5% in Q4 of 2025. On the other hand, almost 70% of all loans were granted with a fixation period of 1 – 3 years.

The average LTV ratio remained at 65.8% in 2025, the NPL ratio for households' mortgages decreased to 0.55% from 0.6% in 2024.

NON-MARKET LED INITIATIVES

The Czech National Bank announced at the end of 2025 slightly stricter rules for providing mortgage loans for the purchase of investment residential property, broadly defined as the acquisition of a third or subsequent property. The LTV indicator may not exceed 70% and the DTI (Debt-to-Income) indicator may not exceed a value of 7. This change has been effective since April 1st, 2026.

There have not been any explicit indicators specifically for investment mortgages valid until now. The Czech National Bank has only recommended a more prudent approach when providing loans for investment residential property to cover potentially increased risks connected with financing real estate that is not intended for the housing of the debtor.

Other limits remained unchanged. The central bank generally kept the LTV ratio at 80% (90% for borrowers under 36 years) and deactivated DTI and DSTI ratios.

The announced regulation of investment mortgages brought a pre-stocking effect and accelerated the sale of these loans in Q1 2026.

The Middle-east conflict caused an increase in interest rates at the beginning of Q2 2026 and cooling in demand for housing financing is expected as the temporary reaction by customers.

GREEN FUNDING

The New Green Saving programmes' 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, the construction or purchase of houses with very low energy consumption, ecological methods of heating buildings, including the replacement of inadequate heat sources or the use of renewable energy sources. The New Green Savings programme is financed from a portion of the proceeds of emission allowance auctions.

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

This program will be changed in 2026, with the grants provided only to low-income households, while the government will fully subsidise the interest rate on loans.

	CZECHIA 2024	CZECHIA 2025	EU 27 2025
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)*	1.1	2.6	1.5
Unemployment Rate (LSF), annual average (%) (1)	2.6	2.8	6.0
HICP inflation (%) (1)	2.7	2.3	2.0
HOUSING MARKET			
Owner occupation rate (%) (1)	74.7	75.1	68.5
Gross Fixed Investment in Housing (annual change) (1)	-3.1	1.5	2.8
Building Permits (2015=100) (2)	34.6	33.9	86.9
House Price Index - country (2015=100) (1)	222.3	245.40	161.92
House Price Index - capital (2015=100) (2)	221.8	253.4	n/a
Nominal house price growth (%) (1)*	6.5	10.4	5.5
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (1)	68,359	76,352	5,617,435.11
Outstanding Residential Loans per capita over Total Population (EUR) (2)	6,271	7,010.5	12,472.10
Outstanding Residential Loans to disposable income ratio (%) (1)	40.6	38.1	81.39
Gross residential lending, annual growth (%) (1)	80.4	n/a	2.8
Typical mortgage rate, annual average (%) (2)	5.2	4.65	3.31

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2026, Statistical Tables
* Eurostat Reviewed
** EU 2025 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 remain the banks.
What is the market share of new mortgage issuances between these entities?	Banks issue 100% of new mortgages.
Which entities hold what proportion of outstanding mortgage loans in your country?	The three biggest retail banks hold >70% of the outstanding volume.
What is the typical LTV ratio on residential mortgage loans in your country?	The macroprudential measures require the LTV ratio of new mortgage loans to be between 80% to 90% for customers younger than 36 years old. Its average and median values were around 66% and 70% respectively in 2024-2025, up from around 62% and 67.5% in 2022-23.
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?	The most typical product in 2025 was the mortgage loan for purchase or (re)construction of residential property, secured by this financed property, with a fixed interest rate for 3 years and an average maturity of 27 years (median value at 30 years). The average number of debtors was 1.6 (or median at 2).
What is the typical/ average maturity for a mortgage in your country?	The average maturity of mortgages granted in 2025 was 27 years or a median value at 30 years.
What is/are the most common ways to fund mortgage lending in your country?	The most common are a combination of retail deposits and covered bonds.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	Costs include administrative fees for record of the ownership change and fees for mortgage lien establishment to the Real Estate Cadastre (state database of real estate), which cost about 80 EUR per record. Also, the real estate agency fee (only for purchase intermediated by RE agency) exists. There is also a fee for a notary or lawyer connected with preparation of purchase contract and notarial custody of purchase price (only if seller and buyer use legal services). The transaction tax is zero after its previous rate at 4% was cancelled in 2020.
What is the level (if any) of government subsidies for house purchases in your country?	There is a 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 (≈6,200 EUR); for mortgage loans granted before 2021 up to CZK 300,000 per year (≈12,400 EUR). - Relaxed LTV ratio applied for housing loans for applicants younger than 36 years old (max. 90% instead of 80%). - State subsidies via New Green Saving program targets energy savings in family and apartment buildings. - State subsidies for establishing social housing for disadvantaged people due to their age or health.