

CZECHIA : MACRO OUTLOOK

Favorable economic development expected to continue

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Economy Czechia - Analyses and Forecasts | Erste Group Bank AG

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Spot Rates as of: September 12, 2025

Note: Information on past performance is not a reliable indicator for future performance.

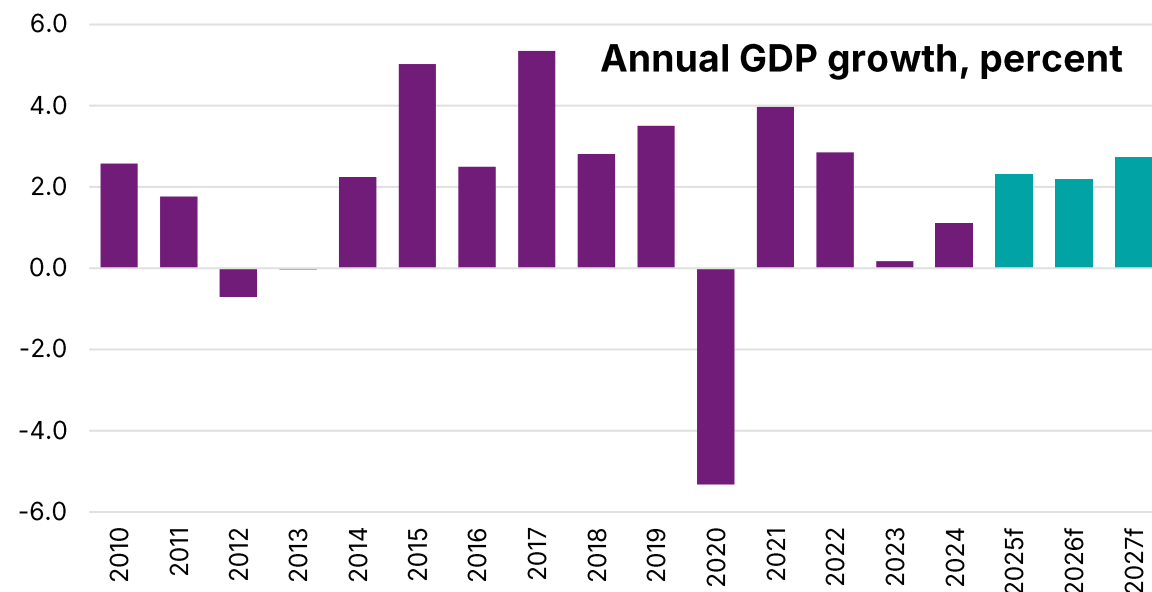
Forecasts are not a reliable indicator for future performance.

Expected development in a nutshell

The Czech economy is undergoing a gradual recovery that is expected to continue over the next two years. Currently, it is primarily driven by strong household consumption, positively influenced by labor market developments. Conversely, foreign trade and private investments are hindered by weak macroeconomic conditions in Germany, global economic uncertainty, and US tariffs. We anticipate a similar trend next year. However, in 2027, growth could accelerate, primarily due to improved foreign demand. The labor market will remain favorable over the next two years, though it will experience a slight cooling compared to this year due to restrictive rate setting and the weaker condition of the German automotive industry.

Inflation is expected to remain slightly above the target on average for the rest of this year and the next two years. Strong domestic inflationary pressures should gradually weaken, contributing less to inflation during 2026 compared to this year. However, heightened risks are anticipated for 2027, primarily related to ETS2. There is also a risk of intensified fiscal expansion following this year's parliamentary elections. Due to these factors, the CNB has shifted to a more hawkish stance. The most likely scenario now is medium-term rate stability of the key rate, in our view, with a reduction expected around mid-2027. Risks are elevated, and a rate cut next year cannot be ruled out. The koruna should continue to strengthen gradually, although at a slower pace than this year. Overall, both CNB policy and koruna development will depend on global trends.

GDP growth

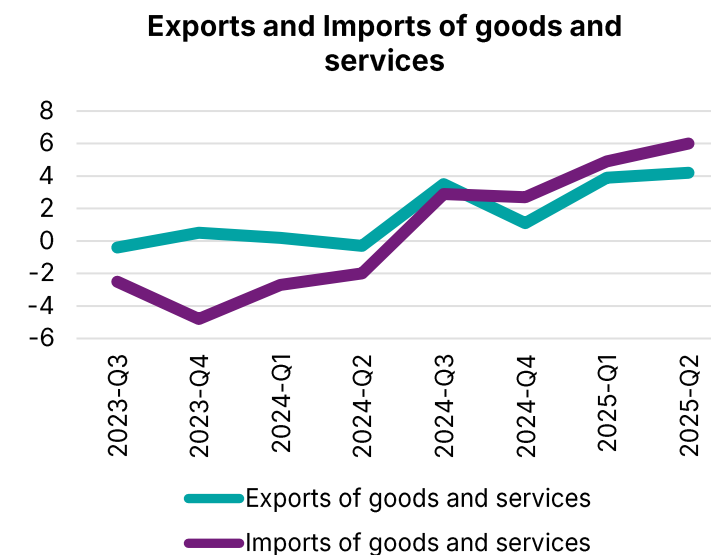
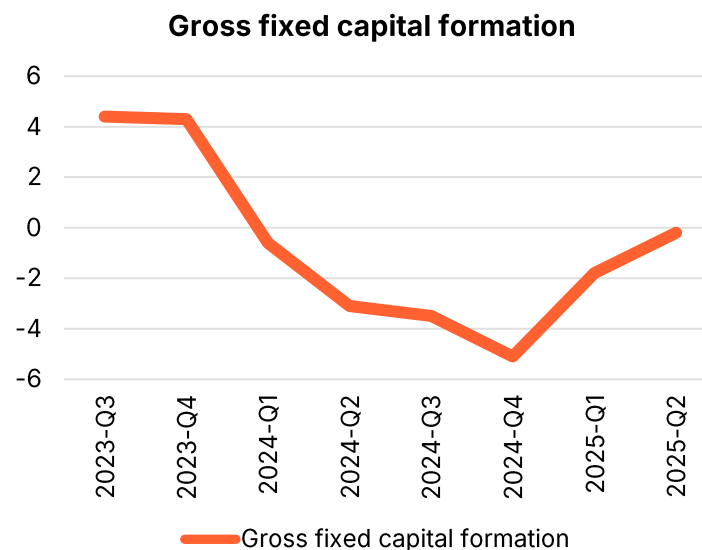
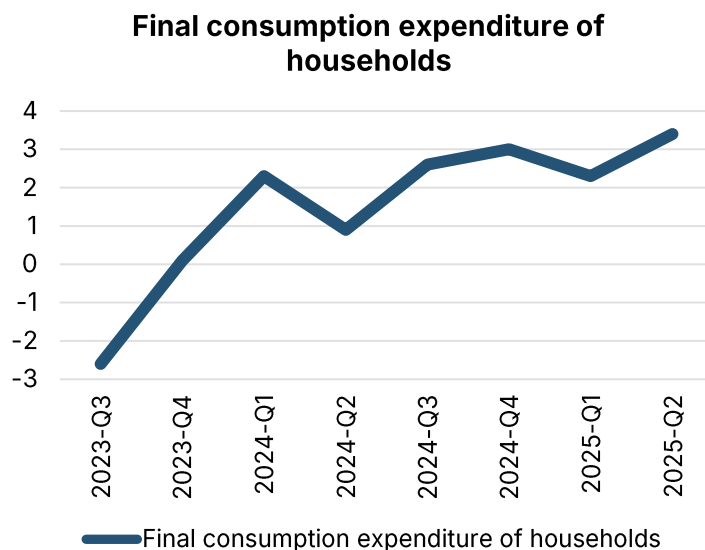


The Czech economy continues its gradual recovery, primarily driven by household consumption. Moreover, growth in the first half of this year surprised on the upside, as the data indicates greater resilience of the Czech economy to external factors (such as weak macroeconomic developments in Germany and US tariffs).

In the second half of this year, however, we expect a slight slowdown in economic growth, primarily in exports, which were significantly influenced by US importers' stockpiling in previous quarters. Nevertheless, this year's GDP growth should exceed 2%.

The Czech economy could grow around 2% next year as well. From around the middle of 2026, we anticipate a gradual improvement in foreign demand, along with expected economic improvements in Germany. Growth in 2027 is thus expected to strengthen.

GDP structure



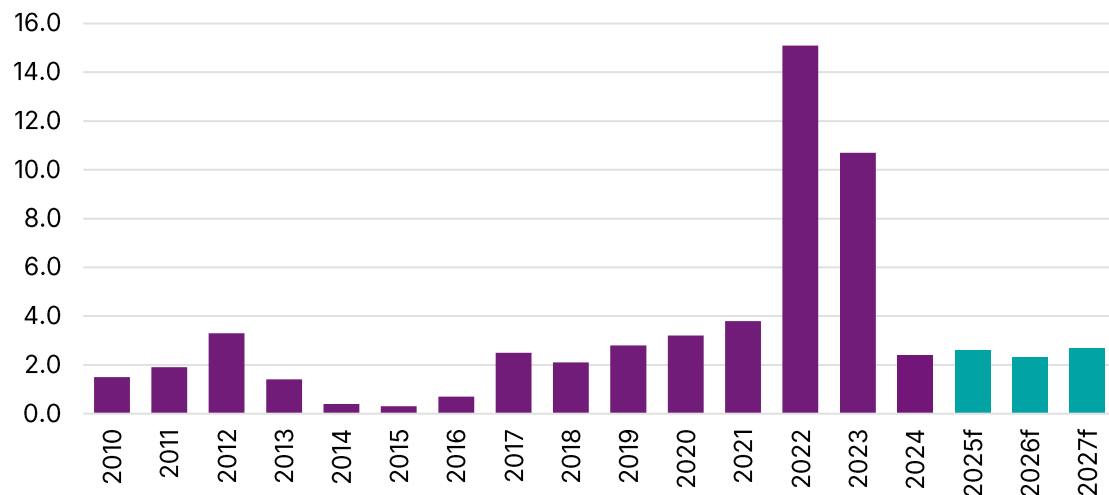
Strong household consumption remains the main driver of GDP growth, supported by favorable labor market conditions, low inflation, and improved consumer sentiment. Expansive fiscal policy also contributes in the same direction.

The development of fixed investments, similar to the cyclical component of exports, remains negatively impacted by the weak performance of the German economy and significant risks arising from global economic developments. The contribution of foreign trade will likely be negative this year, with improvement expected next year.

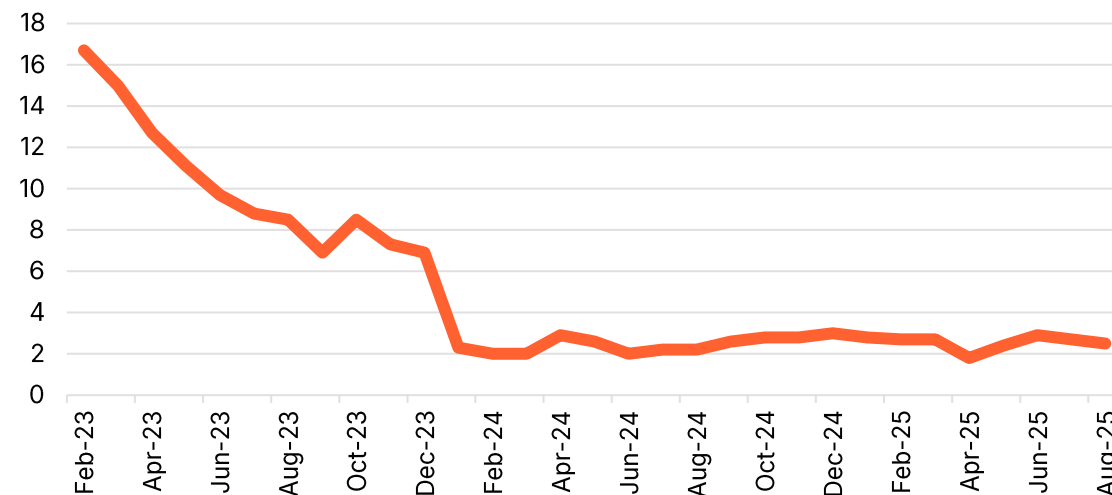
Risks remain elevated and are skewed to the downside. The first is uncertainty related to the German economy, particularly the automotive industry. The second risk remains developments in the global economy.

Inflation development

Annual inflation, percent



Monthly inflation development, y/y percent

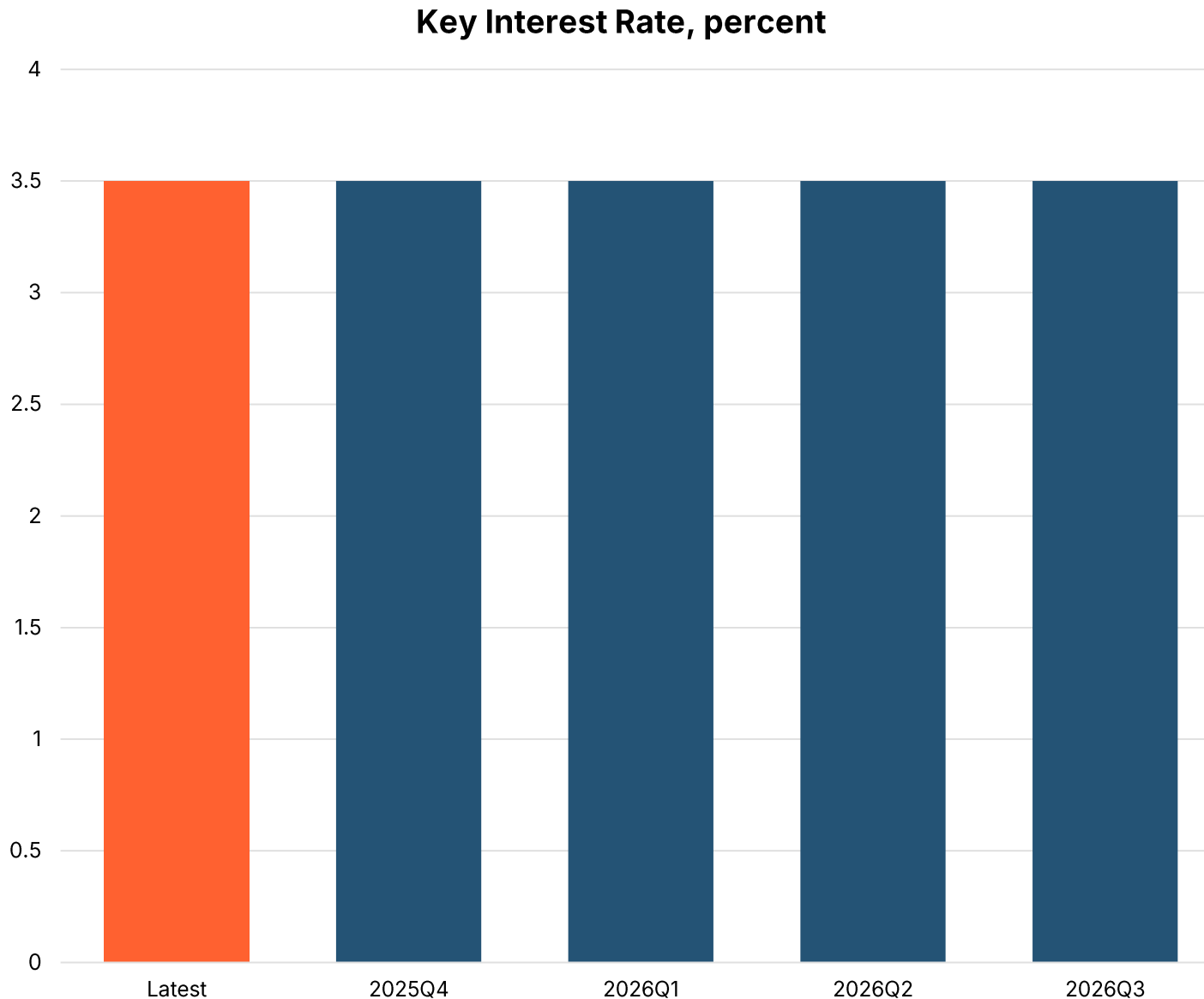


Headline inflation is currently within the upper half of the tolerance band around the target, as inflationary pressures are still strong in parts of the economy, particularly sectors linked to household consumption.

This trend is expected to continue, however, the domestic part of inflation could gradually weaken during 2026, due to the CNB's restrictive rate setting, the fading of some inflationary impulses from this year (such as the significant rise in agricultural commodity prices), and a stronger koruna.

In 2027, headline inflation could strengthen, and its average yearly figure could come closer to 3%. It will be affected by inflationary impacts of the ETS2, although the exact impact is not yet clear, as it may be influenced by various political decisions. An inflationary risk is the potential intensification of fiscal expansion following this year's elections.

Monetary policy



The CNB might keep rates unchanged for the remainder of this year and into 2026. This is due to strong domestic inflationary pressures and inflation risks for 2027. We anticipate the next rate cut around mid-2027.

A rate cut next year cannot be ruled out, as inflation is expected to slow closer to the target.

The key factor will likely be developments in the global economy. If there is a significant worsening, the CNB may respond swiftly by easing monetary policy.

Yields and spreads

The Czech yield curve has recently shifted upward. This movement was primarily driven by the CNB's new forecast and communication, leading part of the market to revise its expectations for future rate developments towards medium-term stability. The market is now awaiting new information from both Czech and global economies.

From a medium-term perspective, we expect a gradual decline in the yield curve. This should be influenced by improved sentiment, solid demand for Czech government bonds, and the future CNB rate cut, which we now anticipate in 2027.

Conversely, the decline in yields will continue to be restrained by the Ministry of Finance's issuance activity, which will remain high in the medium term.

10Y yield development and forecast



FX market development and forecast



FX market

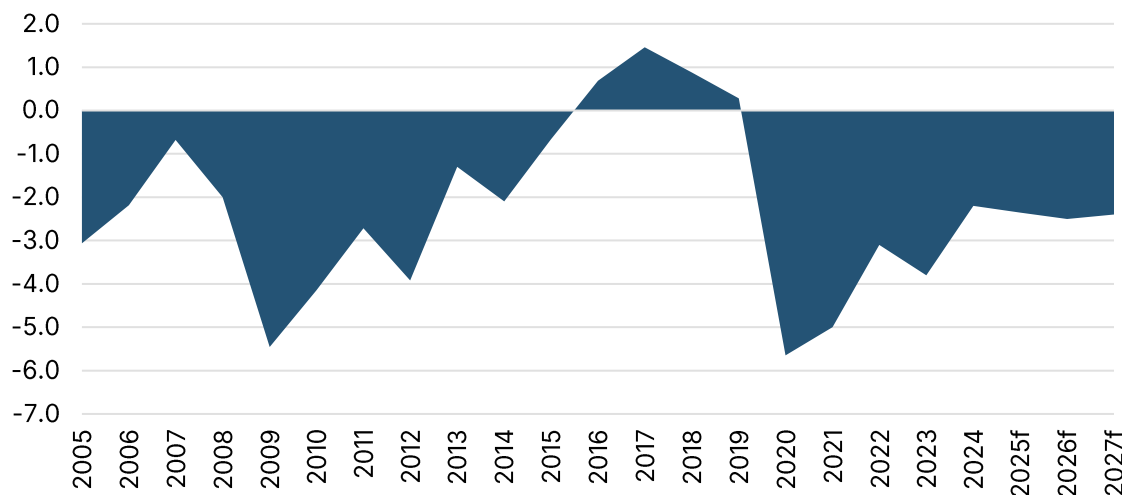
The koruna is currently close to EUR/CZK 24.5. Factors supporting a stronger koruna include the CNB's relatively hawkish communication, CNB's recent forecast change, some inflationary data from the Czech economy, and a weaker dollar.

We view the current value of the koruna as close to macroeconomic fundamentals, so we do not anticipate significant exchange rate shifts in the near future.

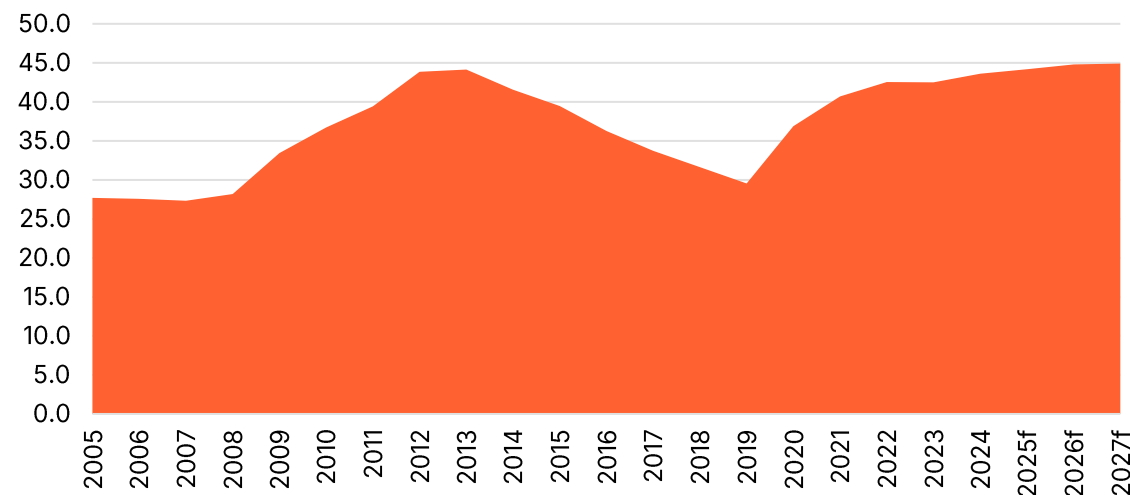
In the medium term, we expect a gradual strengthening of the koruna, driven by the anticipated recovery of the Czech and European economies and prolonged period of stable CNB rates.

Fiscal situation

Budget balance, percent of GDP



Public debt, percent of GDP



Since January 2024, the government has implemented a consolidation package. This has improved the medium-term development of public finances. The second reason the deficit remains relatively low is the surplus in the local government budget. As a result, along with the gradual economic recovery, the overall public budget deficit relative to GDP is expected to stay close to 2.5%.

Next year, a slight increase in the public finance deficit is expected, influenced by anticipated higher defense spending and investments related to the completion of the Dukovany nuclear power plant. Uncertainty is currently heightened due to the upcoming elections, as post-election outcomes may lead to intensified fiscal expansion.

Government sector debt is gradually increasing, and this trend is likely to continue in the coming years. However, the overall public debt-to-GDP ratio remains low, with recent y/y changes being relatively modest.

Political landscape

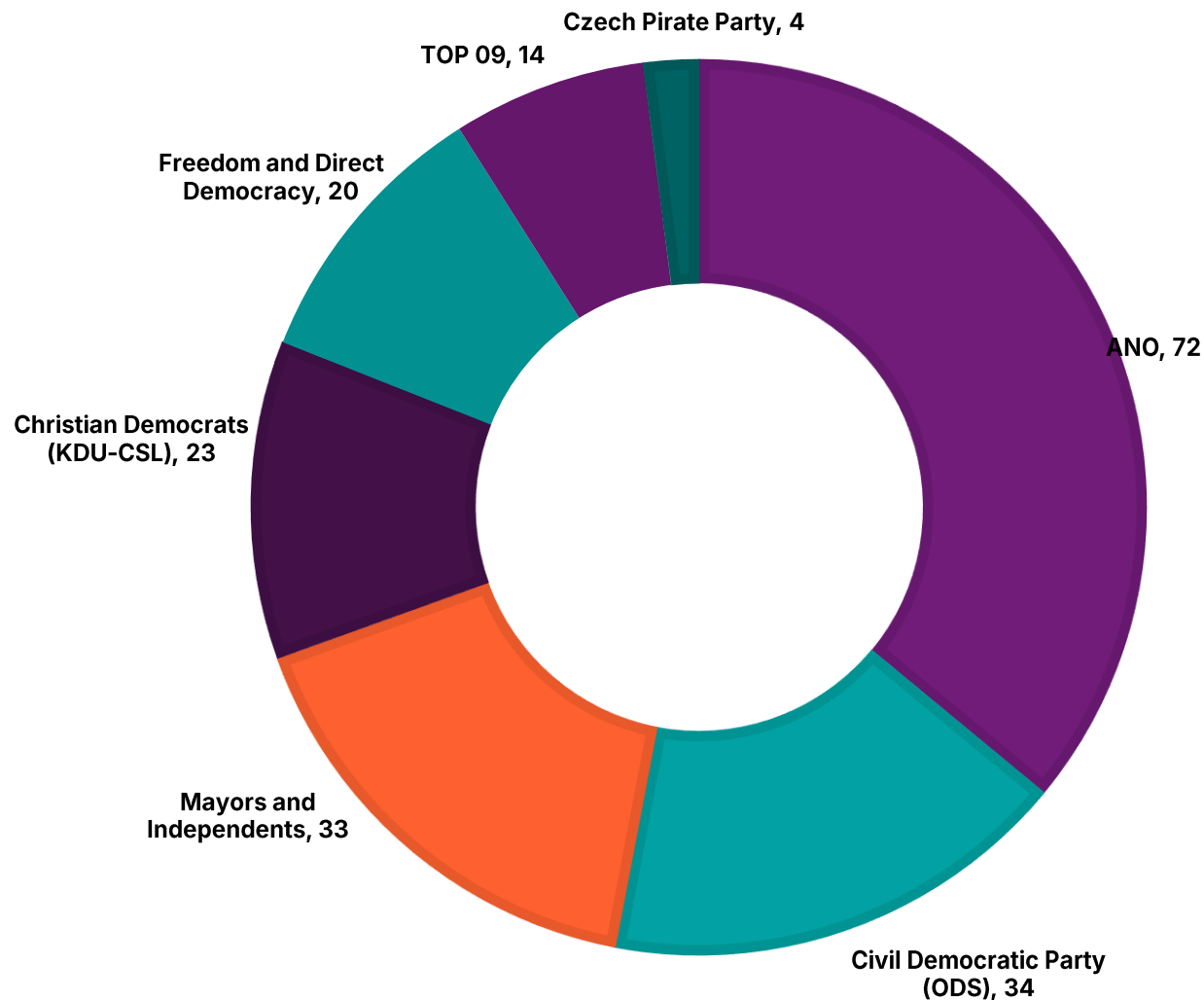
In about a month (October 2-3), parliamentary elections will be held. The campaign is currently in its heated phase, influenced by the fact that a relatively large number of voters remain undecided.

Voter turnout will also be a decisive factor in the elections, as some supporters of the current governing coalition are disappointed and undecided about participating actively.

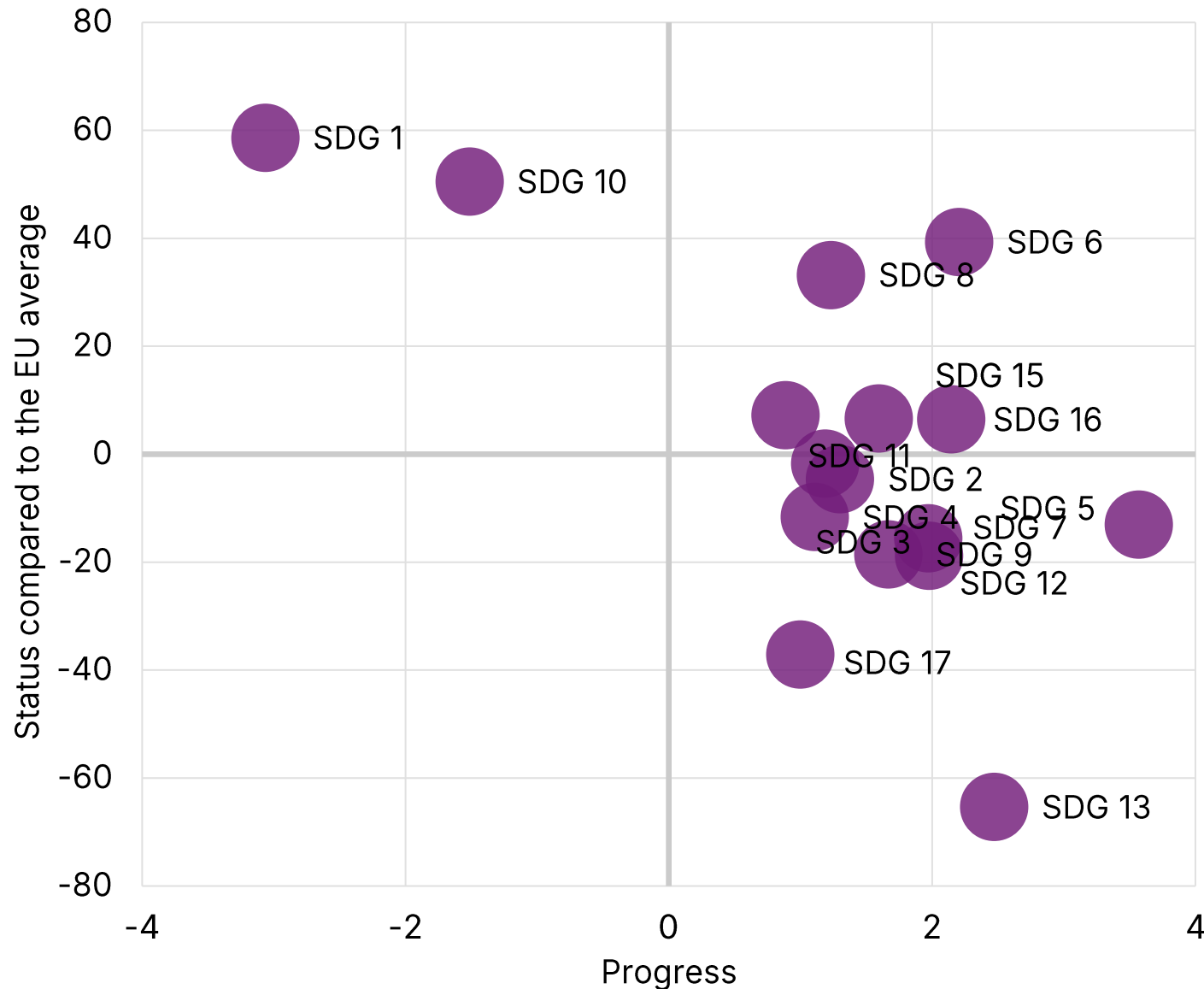
Currently, the opposition movement ANO, led by former Prime Minister Babiš, is leading in the polls by a significant margin. As in the past, the composition of the next government will largely depend on the electoral performance of smaller parties, many of which are currently hovering around the 5% threshold required for entry into parliament.

Currently, it is unclear how much economic policy will change after the elections, as it will significantly depend on the number of parties in parliament and the composition of the new government. Given pre-election surveys, it cannot be ruled out that the far-right SPD (Freedom and Direct Democracy) or the far-left Stačilo! (That's enough!) may be part of the next government.

Parliamentary seats



Social Development Goals



Czechia continues to excel in social development goals, particularly in poverty reduction, maintaining one of the lowest poverty rates in the OECD. Institutional quality has also seen marked improvement.

However, given the substantial role of industry in GDP, additional measures are required to curb energy consumption and carbon emissions. Furthermore, while significant strides have been made, there is still scope for advancing gender equality.

The CNB has become more hawkish

During the second quarter, domestic inflationary pressures intensified in the Czech economy. The CNB board gradually shifted its communication towards greater caution and higher perceived inflationary risks. In August, there was also a significant revision of the official CNB forecast, and some board members are communicating that further rate cuts are not necessary.

In our forecast, we expect CNB rate stability for the remainder of this year and throughout 2026. However, a rate cut next year cannot be ruled out, as domestic inflationary pressures are expected to slow. Much will also depend on global developments and subsequent ECB policy.



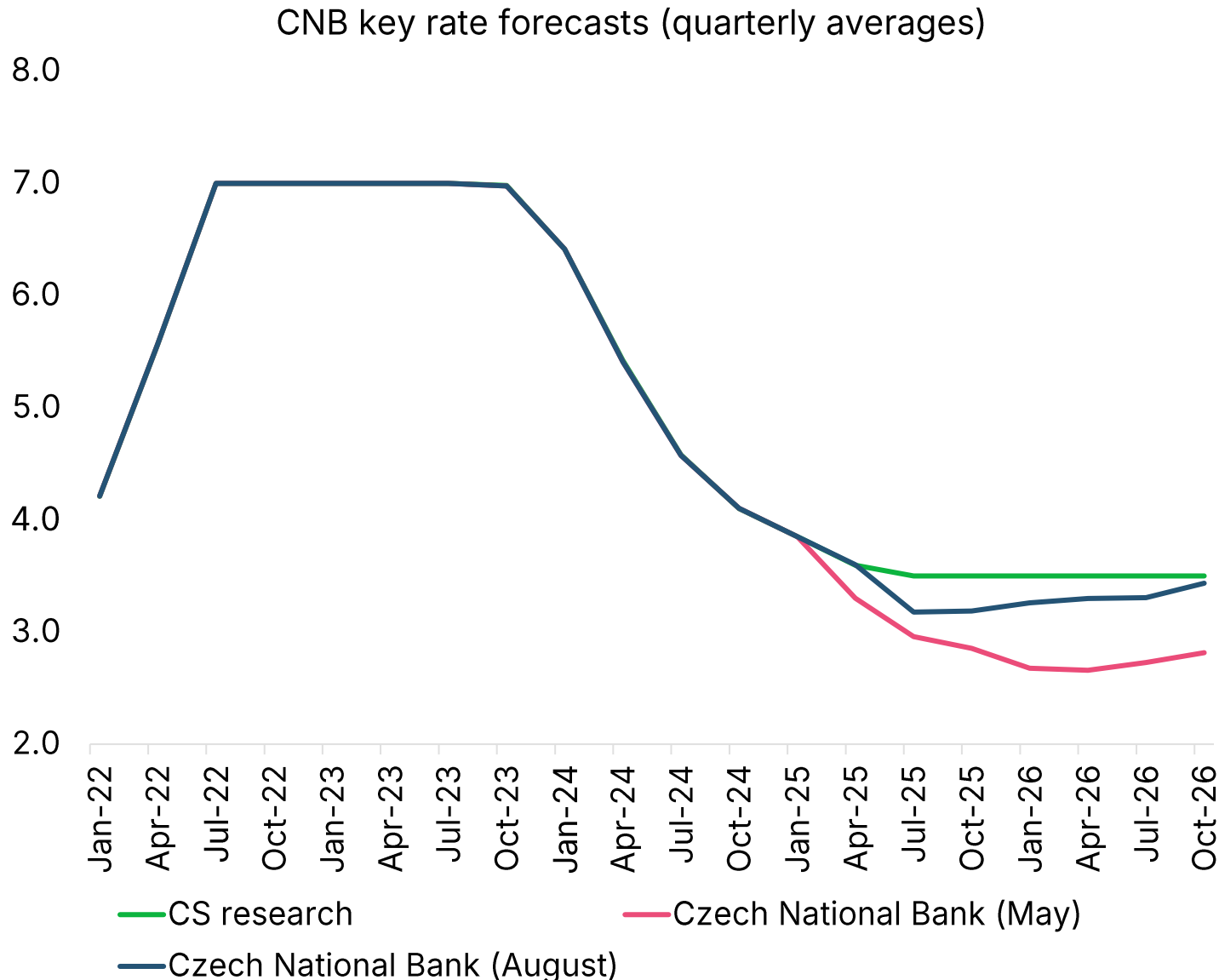
Interest rate outlook

Although inflation is within the tolerance band, it remains high in sectors influenced by strong consumption. This is particularly evident in the service sector, where inflation reached 4.7% in August.

In August, the CNB significantly revised its interest rate forecast towards medium-term stability.

Next year, the domestic component of inflation is expected to weaken, potentially allowing for rate cuts. However, this is countered by the CNB's current hawkish communication, its forecast change, and inflationary risks for 2027, particularly the risk of increased fiscal expansion post-elections and ETS2.

Therefore, we lean towards the CNB keeping rates at the current level for a longer period. Nevertheless, part of the market still anticipates a rate cut next year.



Czechia: Forecasts

	2018	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f
Percent				Annual average						
Real GDP growth	2.8	3.5	-5.3	4.0	2.9	0.2	1.1	2.3	2.2	2.7
Private consumption growth	3.4	3.0	-6.6	4.1	0.4	-2.7	2.2	2.8	2.7	2.6
Fixed capital formation growth	8.9	7.3	-4.8	6.6	6.3	4.5	-3.1	0.2	2.4	3.1
Inflation	2.1	2.8	3.2	3.8	15.1	10.7	2.4	2.6	2.3	2.7
Unemployment rate	2.2	2.0	2.6	2.8	2.2	2.6	2.7	2.9	3.5	3.5
Percent of GDP										
Budget balance	0.9	0.3	-5.6	-5.0	-3.1	-3.8	-2.2	-2.4	-2.5	-2.4
Public debt	31.6	29.5	36.9	40.7	42.5	42.5	43.6	44.2	44.8	44.9
Current account balance	0.4	0.3	1.8	-2.1	-4.7	0.3	1.7	1.9	1.4	1.0
				End of year						
EURLCY	25.72	25.42	26.24	24.89	24.16	24.70	25.20	24.35	24.10	23.86
Central bank policy rate	1.75	2.00	0.25	3.75	7.00	6.75	4.00	3.50	3.50	3.25
3M interbank offer rate	2.01	2.18	0.36	4.08	7.26	6.77	3.92	3.56	3.57	3.32
2Y Yield	1.50	1.77	0.14	3.65	5.58	5.40	3.45	3.59	3.41	3.13
5Y Yield	1.76	1.46	0.84	3.30	5.30	4.24	3.82	3.83	3.66	3.45
10Y Yield	1.94	1.63	1.30	2.86	5.10	4.28	4.22	4.20	3.95	3.75

Czechia : Country overview

Official EU language: Czech

Capital: Prague

Geographical size: 78 871km²

Population: 10 900 555

GDP per capita: EUR 34 200, below the EU average

Currency: Czech koruna CZK

Credit Ratings:

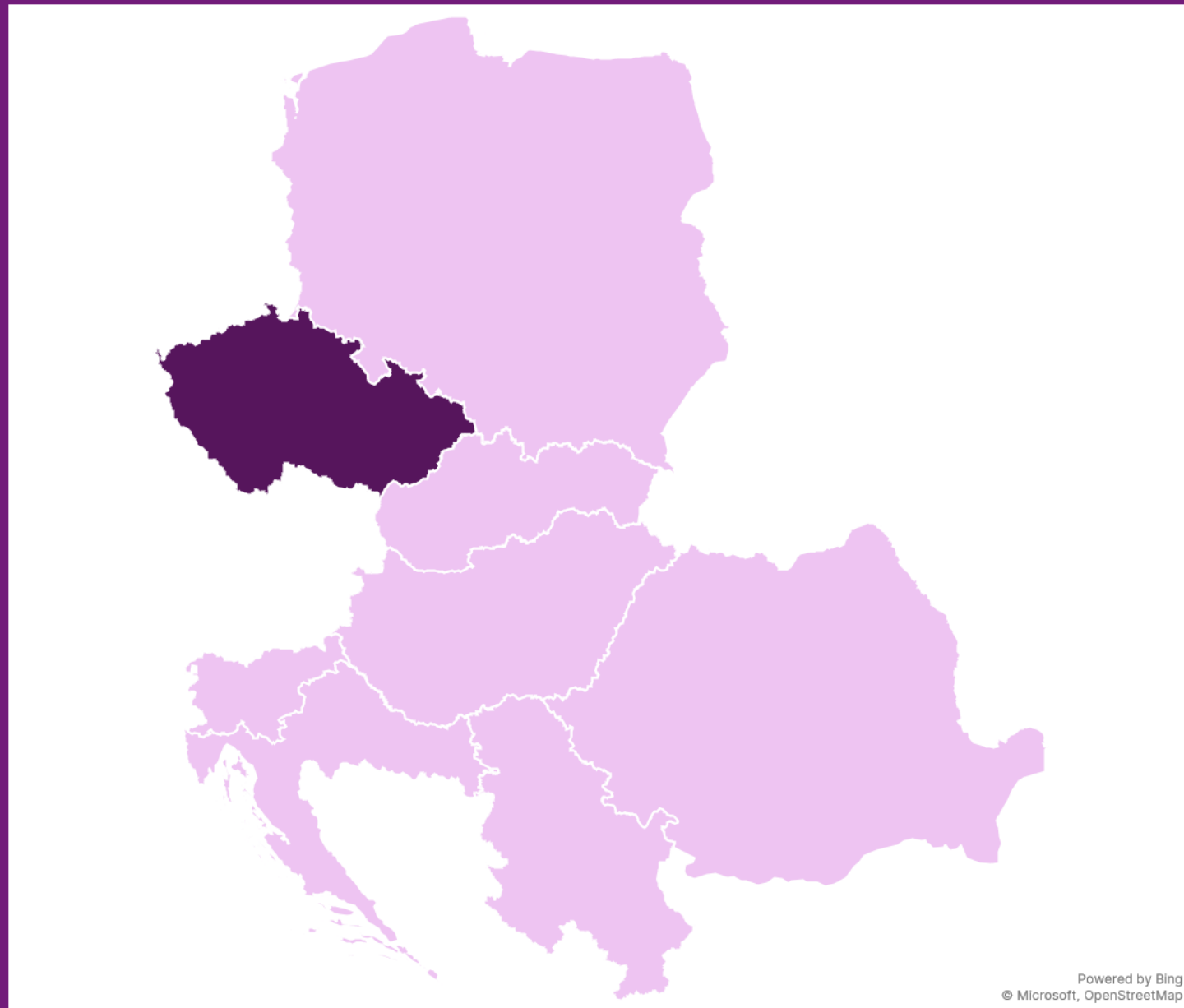
Moody's: Aa3, outlook stable

S&P: AA-, outlook stable

Fitch: AA-, outlook negative

EU member state: since 1 May 2004

Schengen: member since 21 December 2007



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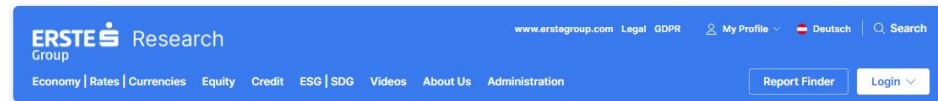


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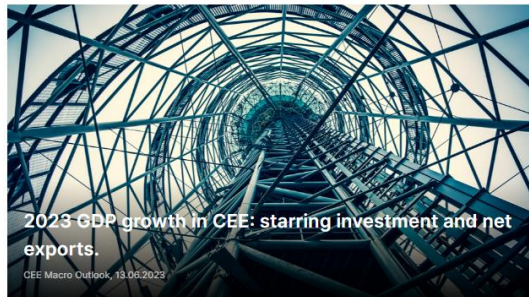


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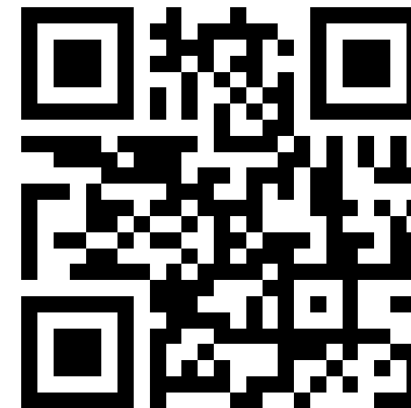
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