

CZECHIA | MACRO OUTLOOK

Recovery of the economy

Czech economy has been recovering
CNB to continue with rate cuts
Yield curve affected by market expectations
Koruna has appreciated notably

Economy (%)	2023	2024e	2025e
GDP (real, y/y)	-0.2	1.3	3.1
Unempl. Rate	2.6	3.1	3.6
CPI (y/y)	10.7	2.8	2.6
Retail Sales (y/y)	-4.5	3.5	3.0
Ind. Prod. (y/y)	-0.8	0.4	3.3
Public Debt/GDP	44.0	44.9	45.1

Source: Erste Group Research

Market	Spot	24Q3	24Q4	25Q1
EUR/CZK	24.69	24.73	24.60	24.50
USD/CZK	22.99	22.79	22.36	22.07
Target Rate (%)	5.25	4.50	4.00	3.75
3M Rate (%)	5.07	4.52	4.02	3.91
2Y Bond (%)*	4.12	3.91	3.71	3.55
5Y Bond (%)*	4.18	3.86	3.71	3.57
10Y Bond (%)*	4.24	4.02	3.87	3.70

Source: FactSet, Erste Group Research

Rating	Current	Outlook
Moodys	Aa3	stable
S&P	AA-	stable
Fitch	AA-	stable

Source: Erste Group Research

General	2023
Population mn	10.9
GDP/Capita EUR	28,108

Source: Erste Group Research

Spot Rates as of:

11th Jun. 2024

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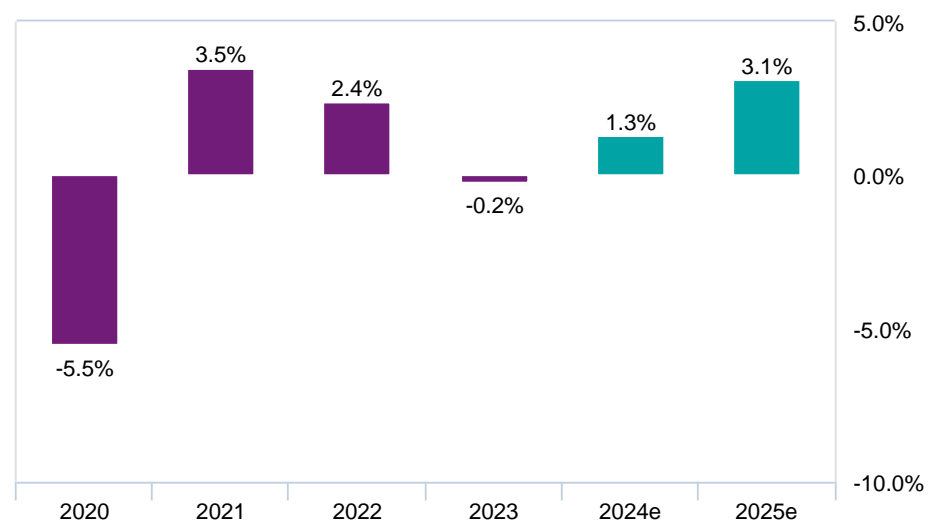
Note:

*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

The recovery of the Czech economy continues, powered predominantly by household consumption. Foreign demand is predicted to eventually join forces, potentially accelerating GDP growth to around 3% in subsequent years. Labor market conditions remain positive. Despite a marginal projected rise, unemployment seems poised to remain low. Additionally, real wages are set to resume growth this year, further fuelling demand within the economy.

Inflationary impulses were amplified in 2Q, primarily due to a heightened household appetite for shopping. Nevertheless, inflation stayed within the tolerance band around the inflation target. However, a temporary shift is anticipated by year-end, with inflation likely surpassing 3%. We envisage the CNB continuing with rate cuts at a moderate pace, with expected standard 25-point steps. Its stance on inflation spikes in 4Q24 remains uncertain, posing a risk of a slowdown in rate cuts. After a significant appreciation, we predict a stable koruna, with year-end levels close to the current one.

GDP (real,y/y)



Source: Erste Group Research

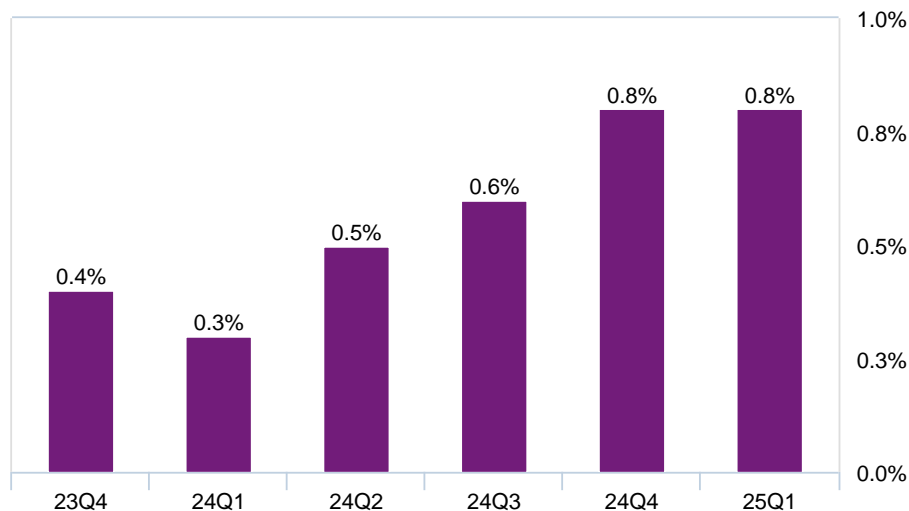
GDP

Czech economy has been recovering

Fresh economic figures point to a revival in the Czech economy, as it transitions from stagnation to a path of growth. In 1Q24, a modest surge in GDP growth was recorded at 0.3% q/q and 0.2% y/y. Predominantly, this uptick has been propelled by strengthening household consumption, bolstered by easing inflation, ascending real wages, and an enhancement in household sentiment. Conversely, external demand is still weak, marred by the subdued economic performance in Germany, thus resulting in weakened export figures and private investment.

Forecasted economic trends suggest a continuation in the coming quarters. The revival in household consumption is projected to slowly coincide with a bolstering of foreign demand. Should anticipated upgrades in the broader Eurozone's macroeconomic landscape come to fruition, we stand to witness a revitalization of investment and exports. Consequently, an achievable GDP growth of approx. 3% could be projected for the following year.

GDP (real, s.a., q/q)



Source: Erste Group Research

Annual	2021	2022	2023	2024e	2025e
GDP real	3.5%	2.4%	-0.2%	1.3%	3.1%
CPI (y/y)	3.8%	15.1%	10.7%	2.8%	2.6%
Private Consumption	4.1%	-0.8%	-3.1%	2.7%	3.1%

Source: Erste Group Research

Inflation

Inflation could exceed 3% in 4Q24

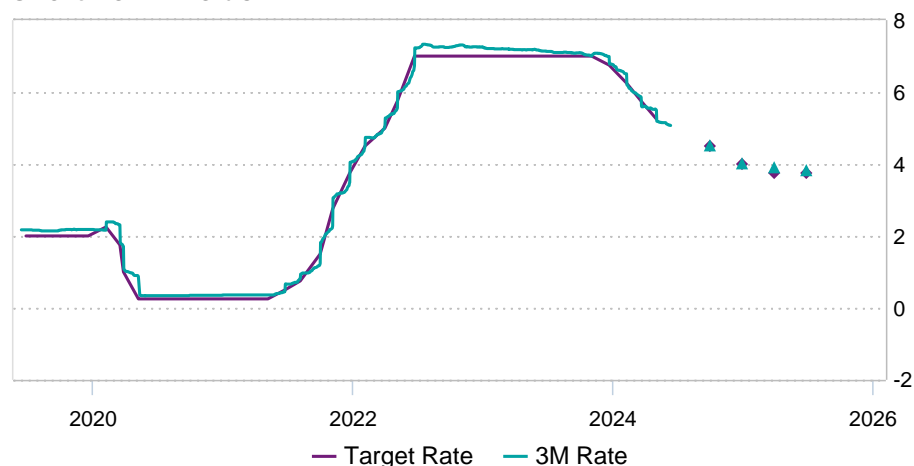
Following an unforeseen surge in April's inflation, due to food and fuel costs, a slight slowdown cannot be ruled out in the coming months. Nonetheless, 4Q24 will see a rebound of headline inflation, breaching the 3% tolerance band, also due to the base effect. In 2025, inflation should range within 2-3%, although it could stay volatile. The resurgent consumer demand will remain the most important pro-inflationary factor. Uncertainty persists over food and energy prices, affecting both sides.

Monetary Policy

CNB to continue with rate cuts

As the gap between interest rates and forecasted inflation persists, the CNB plans to continue with its gradual policy easing. Factoring in rising inflation, we foresee a return to standard 25-point rate adjustments. We estimate a 2024 year-end key rate of 4%, with inflation potentially surpassing 3% in 4Q24. Although we anticipate inflation to settle below 3% by 2025, the bank Board's reaction to temporarily higher inflation remains uncertain. The board could hint at a pause in rate reductions, potentially pushing the key rate towards a year's end level of 4.25% or 4.50%.

Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q3	24Q4	25Q1	25Q2
Target Rate	5.25	4.50	4.00	3.75	3.75
3M Rate	5.07	4.52	4.02	3.91	3.83

Source: FactSet, Erste Group Research

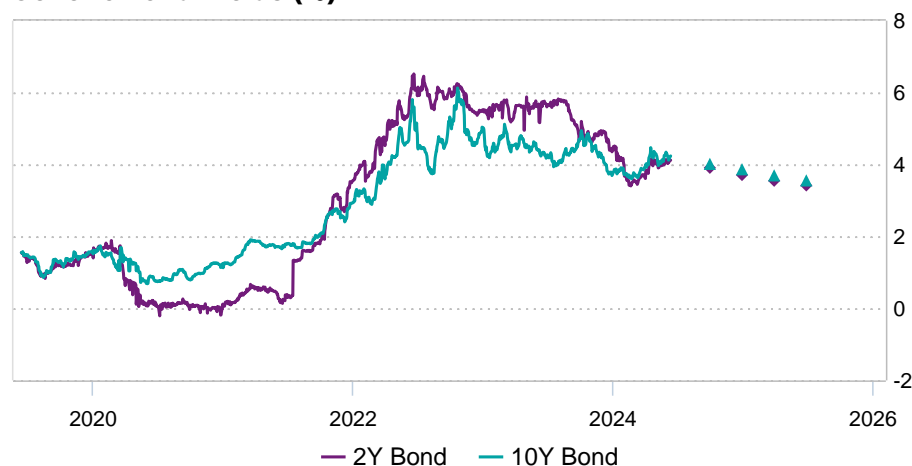
Bond Yields

Yield curve affected by market expectations

The alteration in market expectations regarding the Czech National Bank and major foreign central bank rates has gradually spilled into the yield curve, culminating in a distinct upward shift. Over the ensuing months, primarily the CNB's stance on monetary policy evolution by year-end could impact the curve. If the CNB leans towards a tempered pace of rate cuts — prompted by the recently intensified inflationary pressures — we may observe a slight upward move of the curve.

In the medium term, we anticipate a gradual reduction in the yield curve. This is primarily attributable to dwindling CNB rates, trending towards a key rate close to 3% over the course of the next two years. The Eurozone's monetary easing is set to echo this trend. Conversely, the Ministry of Finance's persistently high issuance activity will continue to constrain the yield decline, despite the curtailed volumes we have seen this year.

Generic Bond Yields (%)



Source: FactSet, Erste Group Research

Market	Spot	24Q3	24Q4	25Q1	25Q2
2Y Bond*	4.12	3.91	3.71	3.55	3.42
5Y Bond*	4.18	3.86	3.71	3.57	3.45
10Y Bond*	4.24	4.02	3.87	3.70	3.56

Source: FactSet, Erste Group Research

Czech Koruna

Koruna has appreciated notably

In recent times, the koruna has experienced a notable appreciation. While a minor correction cannot be ruled out, a significant move back is not anticipated. This strength in the koruna is driven by two elements. Firstly, financial markets have pivoted towards expectations of an elevated interest rate trajectory. Secondly, a solid retail sales performance and unanticipated surge in the April inflation heighten the potential risk of the CNB needing to moderate the rapidity of its rate reductions.

The koruna's present exchange rate closely matches our year-end expectations. Hence, we foresee no further substantial appreciation, with the currency likely sustaining the proximity to its current level in subsequent quarters. Over the ensuing years, the koruna might witness mild strengthening, primarily spurred by economic revival and an enhancement in market sentiment. Nevertheless, it is crucial to note that the currency's value will likely remain susceptible to shifts in market moods.

EUR/CZK



Source: FactSet, Erste Group Research

	Spot	24Q3	24Q4	25Q1	25Q2
EUR/CZK	24.69	24.73	24.60	24.50	24.39
vs. Spot		0.2%	-0.4%	-0.8%	-1.2%
USD/CZK	22.99	22.79	22.36	22.07	21.87
vs. Spot		-0.9%	-2.7%	-4%	-4.9%

Source: FactSet, Erste Group Research

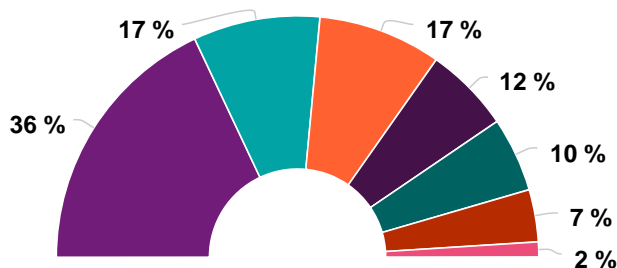
Politics

Fiscal consolidation improves public finances

The current pro-EU ruling coalition maintains a strong hold in the parliament with 108 of 200 seats, reducing instability risks. Notwithstanding the recent European parliamentary elections, where the opposition claimed victory, the current stability is likely to persist. Looking towards October 2025's parliamentary elections, it is probable that the government will prioritize bolstering public support over implementing dramatic reforms.

In January 2024, the government launched a fiscal consolidation package, with early signs indicating improved public finances. However, comprehensive actions will likely be required for both income and spending aspects. With elections approaching, additional moves in this cycle are unlikely. Furthermore, the better economic climate should positively affect public finances.

Parliament Seats



- ANO | left
- Civil Democratic Party | right
- Mayors and Independents | center
- Christian Democrats (KDU-CSL) | center, religious
- Freedom and Direct Democracy | populists
- TOP 09 | right
- Czech Pirate Party | center

Source: Erste Group Research

Last Election:
2021, October

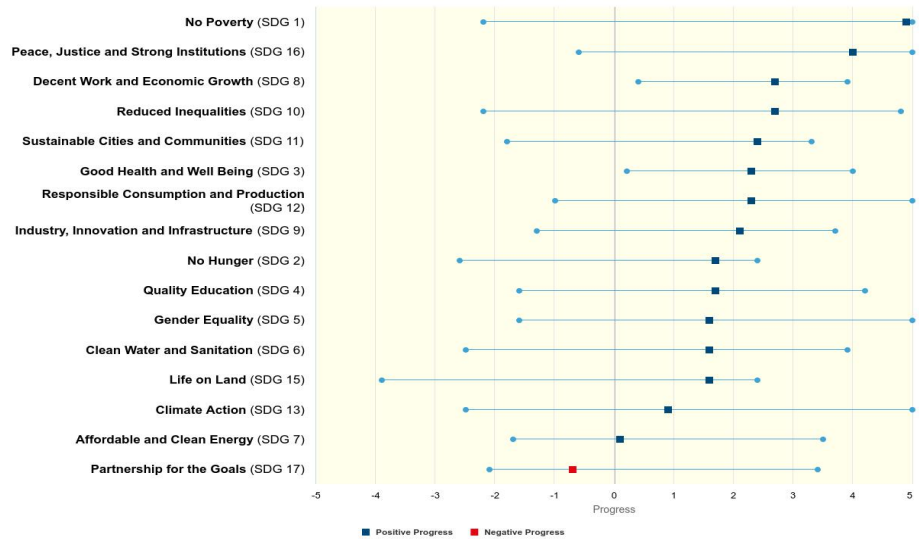
Next Election:
2025, October

Sustainable Development Goals

Best performance deals with low poverty rates

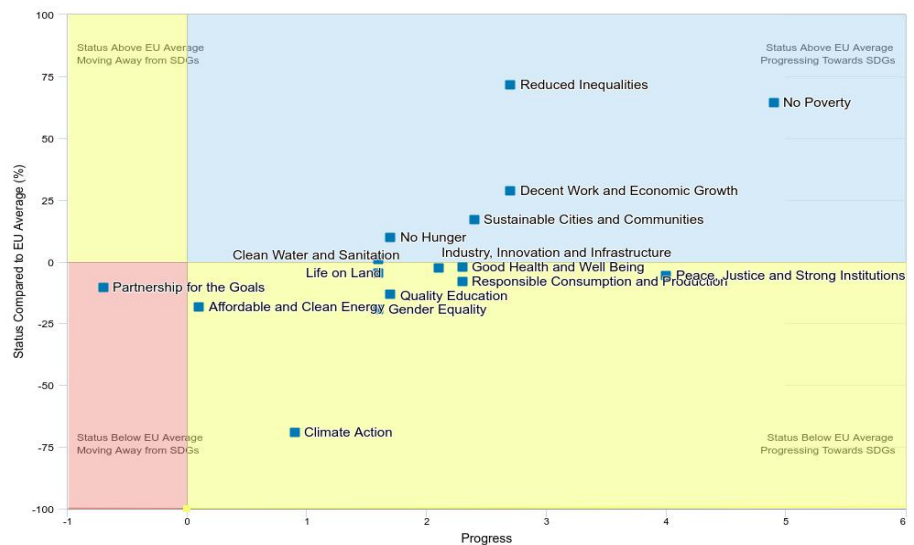
Among the SDG goals, Czechia still has the best performance in terms of goals associated with poverty, as it has one of the lowest poverty rates in the OECD. Moreover, the situation dealing with institutional quality has improved markedly. On the other hand, given the relatively strong share of industry in GDP, additional energy- and carbon-reducing effort needs to be made. Also, there is scope for improving gender equality, although relatively significant progress has already been made here.

Progress Overview



Source: Erste Group Research

Progress Overview



Source: Erste Group Research

Forecasts

Annual	2018	2019	2020	2021	2022	2023	2024e	2025e
Real GDP growth	3.2	3.0	-5.5	3.5	2.4	-0.2	1.3	3.1
Inflation (CPI, avg)	2.1	2.8	3.2	3.8	15.1	10.7	2.8	2.6
Unemployment rate (avg)	2.2	2.0	2.6	2.8	2.2	2.6	3.1	3.6
Retail sales growth	4.5	4.2	-1.5	3.8	-3.1	-4.5	3.5	3.0
Industrial output growth	3.0	-0.5	-6.8	6.1	2.3	-0.8	0.4	3.3
Private consumption growth	3.3	2.6	-7.4	4.1	-0.8	-3.1	2.7	3.1
Fixed capital formation growth	10.0	5.8	-6.0	0.7	3.1	4.2	-0.5	4.8
Percent of GDP								
Trade balance	1.8	2.4	3.3	0.0	-3.2	1.9	1.6	2.1
Current account balance	0.4	0.3	2.0	-2.8	-6.1	1.2	0.5	0.9
Foreign direct investment	3.4	4.2	3.4	4.6	3.6	1.9	2.4	2.7
Budget balance	0.9	0.3	-5.8	-5.1	-3.2	-3.7	-2.7	-2.3
Public debt	32.0	30.0	37.6	42.0	44.2	44.0	44.9	45.1
External debt, gross	81.5	75.7	75.7	74.0	65.6	62.0	60.6	58.4
FX, money market								
USDLCY average	21.74	22.93	23.22	21.68	23.35	22.19	22.90	21.81
EURLCY average	25.65	25.67	26.46	25.64	24.56	24.00	24.86	24.39
EURLCY eop	25.72	25.42	26.24	24.89	24.16	24.70	24.60	24.25
(percent)								
CB policy rate (avg.)	1.06	1.92	0.77	0.88	5.94	7.00	5.25	3.64
3m interbank offer rate (avg.)	1.27	2.12	0.86	1.13	6.28	7.12	5.19	3.73
2Y Yield (average)*	1.06	1.57	0.59	1.59	5.47	5.57	3.97	3.39
5Y Yield (average)*	1.48	1.42	0.87	1.85	4.87	4.61	3.87	3.43
10Y Yield (average)*	2.02	1.61	1.18	1.96	4.45	4.52	4.02	3.54

Source: Erste Group Research

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