

CZECHIA | MACRO OUTLOOK

Gradual economic recovery

GDP growth to accelerate next year

CNB to cut rates cautiously

Yield curve has remained stable

Koruna has slightly strengthened

Economy (%)	2024e	2025e	2026e
GDP (real, y/y)	0.9	2.7	2.9
Unempl. Rate	2.8	3.4	3.8
CPI (y/y)	2.4	2.5	2.2
Retail Sales (y/y)	3.7	3.0	2.9
Ind. Prod. (y/y)	-1.5	2.6	3.1
Public Debt/GDP	44.9	45.1	45.3

Source: Erste Group Research

Market	Spot	24Q4	25Q1	25Q2
EUR/CZK	25.08	24.80	24.52	24.44
USD/CZK	22.65	22.55	22.09	21.92
Target Rate (%)	4.50	4.00	4.00	3.75
3M Rate (%)	4.33	4.07	4.00	3.76
2Y Bond (%)*	3.27	3.64	3.52	3.36
5Y Bond (%)*	3.42	3.58	3.49	3.39
10Y Bond (%)*	3.70	3.70	3.63	3.54

Source: FactSet, Erste Group Research

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

Source: Erste Group Research

General	2024
Population mn	10.9
GDP/Capita EUR	28,988

Source: Erste Group Research

Spot Rates as of:
12th Sep. 2024

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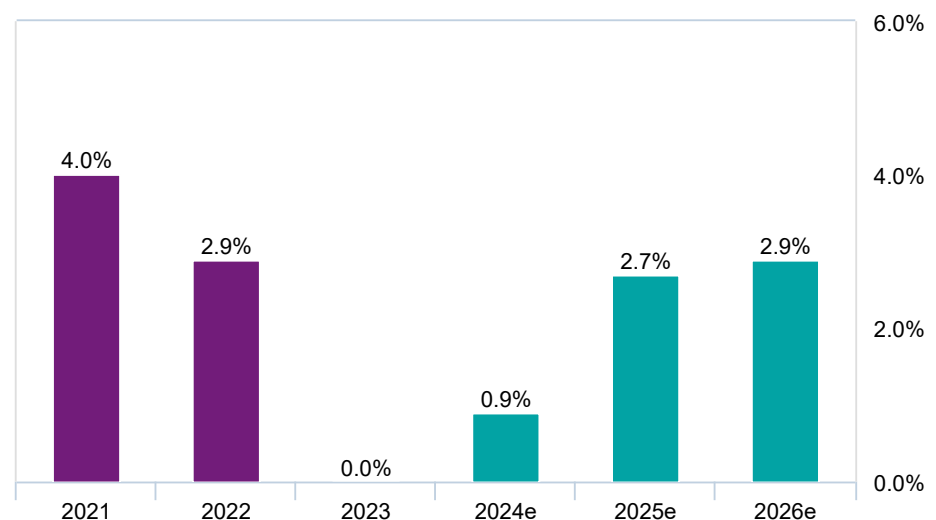
Note:

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

The Czech economy has emerged from stagnation and is slowly growing. Growth is currently being propelled primarily by a resurgence in household demand, which is expected to be complemented by foreign demand and private investment next year. Czech GDP has recently been revised significantly upwards, suggesting that the economy has outperformed initial expectations in recent years. The labor market remains robust, with real wages resuming growth this year, thereby fueling consumption. Although the unemployment rate has edged up slightly, it remains below the NAIRU.

Inflation is currently near the target, but is anticipated to rise in the coming months. Inflation is driven by robust price growth in the services sector, wage growth, and expansionary fiscal policy. These factors are expected to persist into next year, leading us to anticipate that the Czech National Bank will continue to cut rates cautiously. The koruna has recently adjusted back towards the EUR/CZK 25.0 level, aligning broadly with macroeconomic fundamentals. Consequently, we do not foresee significant further appreciation, although a slight movement by year-end cannot be ruled out.

GDP (real,y/y)



Source: Erste Group Research

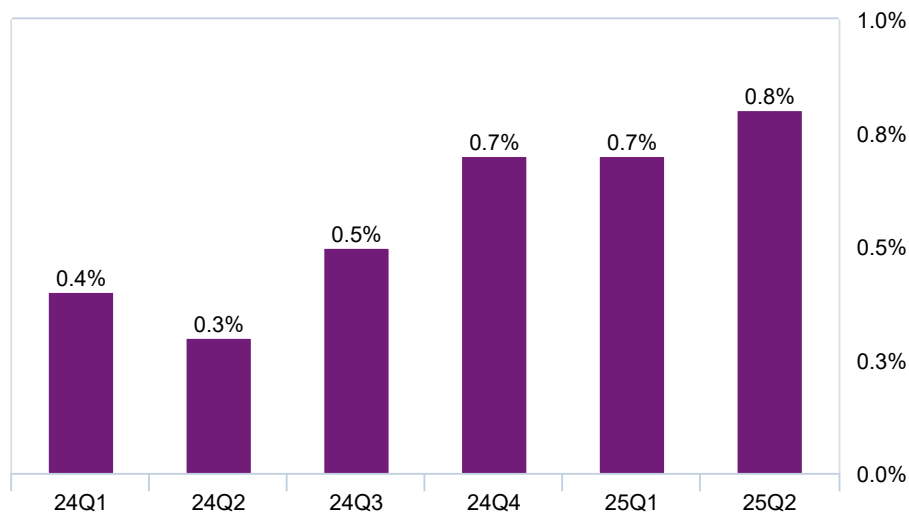
GDP

GDP growth to accelerate next year

The Czech economy is experiencing gradual growth, primarily driven by a resurgence in household consumption. This uptick is attributed to the return of inflation to low levels, an increase in real wages, and improved household sentiment. However, developments in real economic activity are still tempered by the sluggish economic conditions in Germany, which are manifesting in weak exports and private investment.

A more pronounced acceleration in the growth of the Czech economy is anticipated over the next two years, driven by an expected improvement in the Eurozone economy, which should enhance foreign trade and investment metrics. Additionally, expansionary fiscal policies, influenced by the upcoming parliamentary elections, will further bolster growth. Furthermore, inventory levels are projected to stabilize, mitigating the significant declines observed in recent years and positively impacting overall economic figures.

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



Source: Erste Group Research

Annual	2022	2023	2024e	2025e	2026e
GDP real	2.9%	0.0%	0.9%	2.7%	2.9%
CPI (y/y)	15.1%	10.7%	2.4%	2.5%	2.2%
Private Consumption	0.4%	-2.9%	2.0%	2.9%	2.9%

Source: Erste Group Research

Inflation

Inflation to strengthen in the coming months

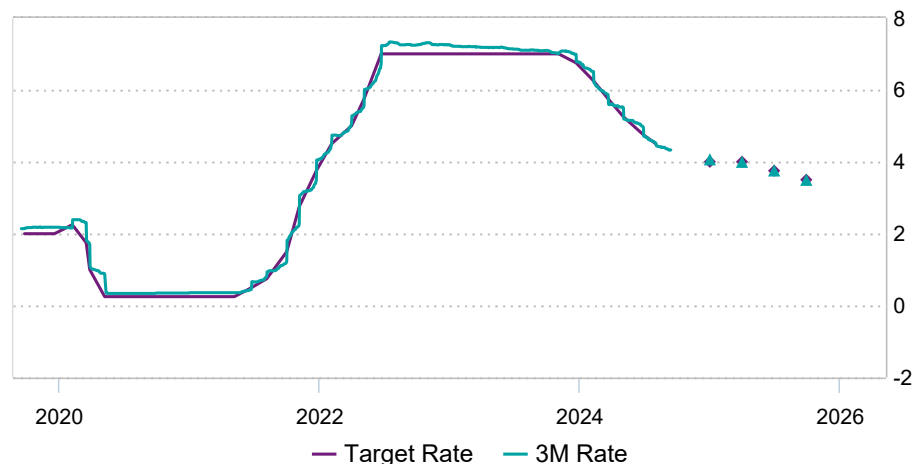
Inflation is expected to rise towards the end of this year, likely surpassing 3%, driven by strong wage growth, favorable household consumption and rising service prices, along with the base effect. Over the next two years, we expect average inflation to stay slightly above the inflation target, primarily due to an improved economic performance and continued growth in service prices. However, monetary policy and a slight cooling in the labor market will counteract these pressures. Food and energy prices represent the main uncertainty in both directions.

Monetary Policy

CNB to cut rates cautiously

For the rest of this year and the next, we expect the CNB to gradually cut interest rates, due to low expected inflation and weak GDP growth. However, important upside risks to inflation next year - such as wage growth, an expansionary fiscal policy and rising service prices - persist. Thus, the CNB is likely to remain cautious, in our view, and a preference for rate stability in some monetary policy sessions cannot be ruled out. For instance, we still see increased uncertainty for the December meeting, as a slight cut or rate stability are possible, contingent on new data or the koruna's performance.

Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q4	25Q1	25Q2	25Q3
Target Rate	4.50	4.00	4.00	3.75	3.50
3M Rate	4.33	4.07	4.00	3.76	3.50

Source: FactSet, Erste Group Research

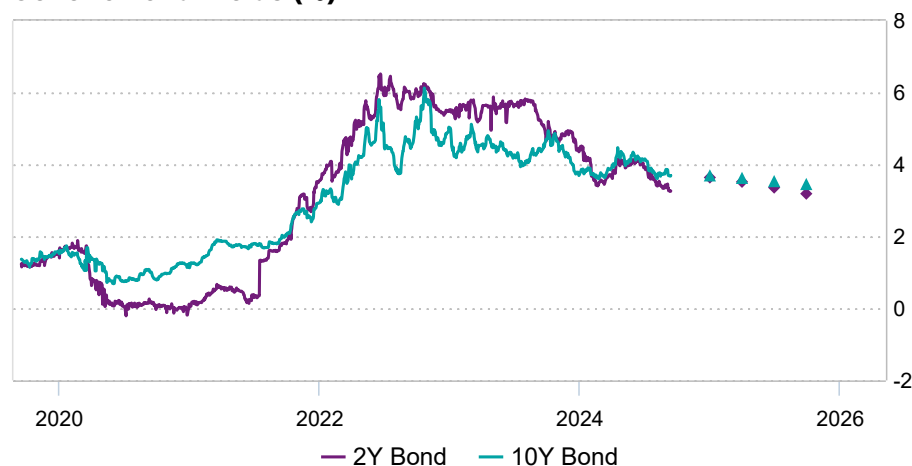
Bond Yields

Yield curve has remained stable

The yield curve has remained relatively stable recently, with no significant shifts in expectations for future monetary policy or macroeconomic developments. The market currently anticipates three 25bp rate cuts by the CNB for the remainder of the year. However, we believe the situation remains fluid, particularly for the December meeting, given the uptick in inflation, and a minor adjustment to the curve cannot be ruled out. Overall, we do not foresee substantial changes in the curve.

Over the next year, we anticipate a very gradual decline in the yield curve. This is primarily attributable to decreasing CNB rates, which are expected to trend towards a key rate close to 3% over the next two years. The Eurozone's monetary easing is likely to mirror this trend. Conversely, the Ministry of Finance's consistently high issuance activity will continue to limit the yield decline, despite the reduced volumes observed this year.

Generic Bond Yields (%)



Source: FactSet, Erste Group Research

Market	Spot	24Q4	25Q1	25Q2	25Q3
2Y Bond*	3.27	3.64	3.52	3.36	3.19
5Y Bond*	3.42	3.58	3.49	3.39	3.30
10Y Bond*	3.70	3.70	3.63	3.54	3.46

Source: FactSet, Erste Group Research

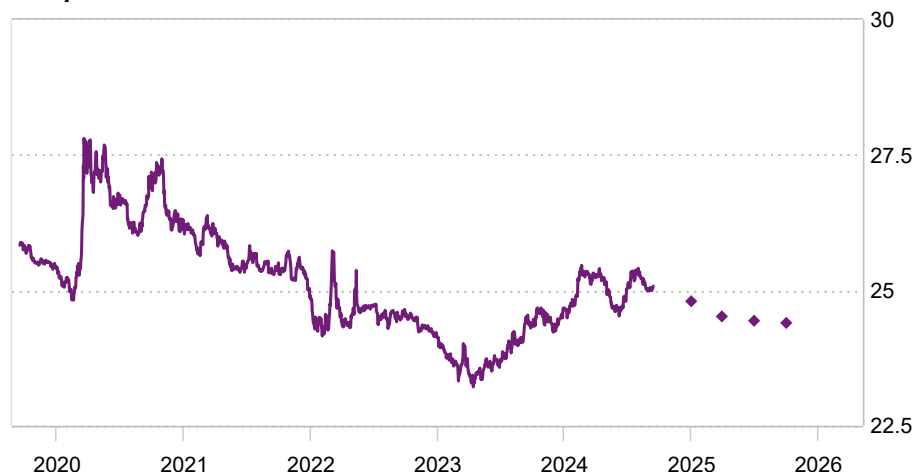
Czech Koruna

Koruna has slightly strengthened

The koruna has recently partially corrected its previous depreciation and is now only slightly above the EUR/CZK 25.0 level. This movement was influenced by summer data from the US labor market and possibly previously overly optimistic market expectations regarding the future monetary policy of the Czech National Bank. We view the current level of the koruna as broadly aligned with macroeconomic fundamentals and, therefore, do not anticipate any significant movement at this time.

Over the ensuing years, the koruna might experience a very mild strengthening, primarily driven by economic revival, including increased foreign demand, the cautious monetary policy of the CNB, and an improvement in market sentiment. Nevertheless, it is crucial to note that the currency's value will likely remain susceptible to shifts in market moods. Consequently, various global economic or geopolitical events, including the outcome of the US election, could influence its trajectory.

EUR/CZK



Source: FactSet, Erste Group Research

	Spot	24Q4	25Q1	25Q2	25Q3
EUR/CZK	25.08	24.80	24.52	24.44	24.40
vs. Spot		-1.1%	-2.2%	-2.6%	-2.7%
USD/CZK	22.65	22.55	22.09	21.92	21.67
vs. Spot		-0.4%	-2.5%	-3.2%	-4.3%

Source: FactSet, Erste Group Research

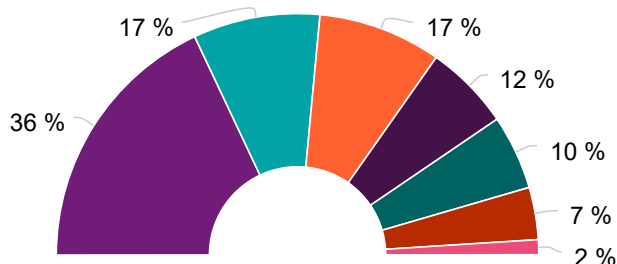
Politics

Parliamentary elections to affect policy

The current pro-EU ruling coalition holds a robust majority in parliament with 108 out of 200 seats, thereby mitigating instability risks. With the next parliamentary elections scheduled for October next year, it is likely that the government will focus on enhancing public support rather than enacting substantial reforms. In our assessment, the upcoming municipal and Senate elections in the second half of September 2024 are unlikely to exert a significant impact on national politics.

In January 2024, the government introduced a fiscal consolidation package, with initial indicators suggesting an improvement in public finances. However, comprehensive measures addressing both revenue and expenditure will likely be necessary. Given the impending elections, further significant actions in this cycle are improbable and may be deferred. Additionally, the improved economic climate is expected to have a favorable impact on 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

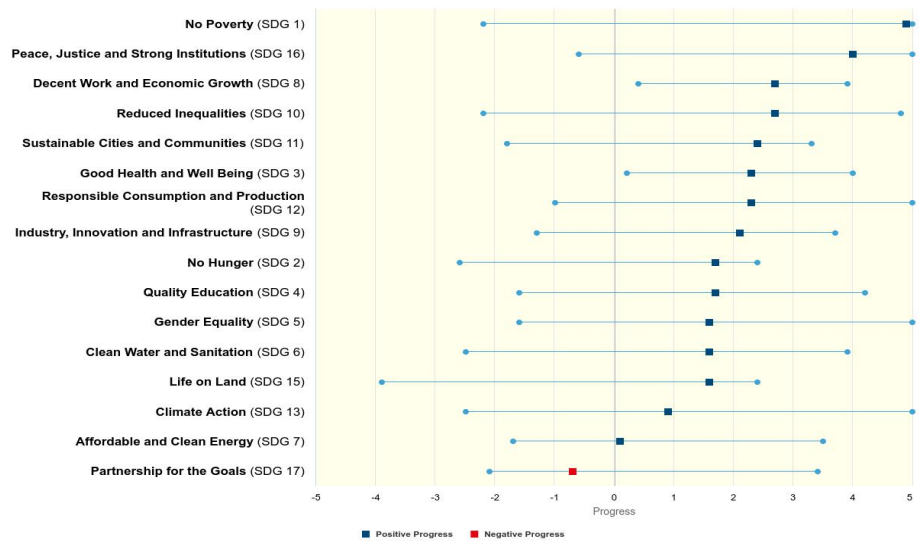
Next Election:
2025, October

Sustainable Development Goals

Best performance deals with low poverty rates

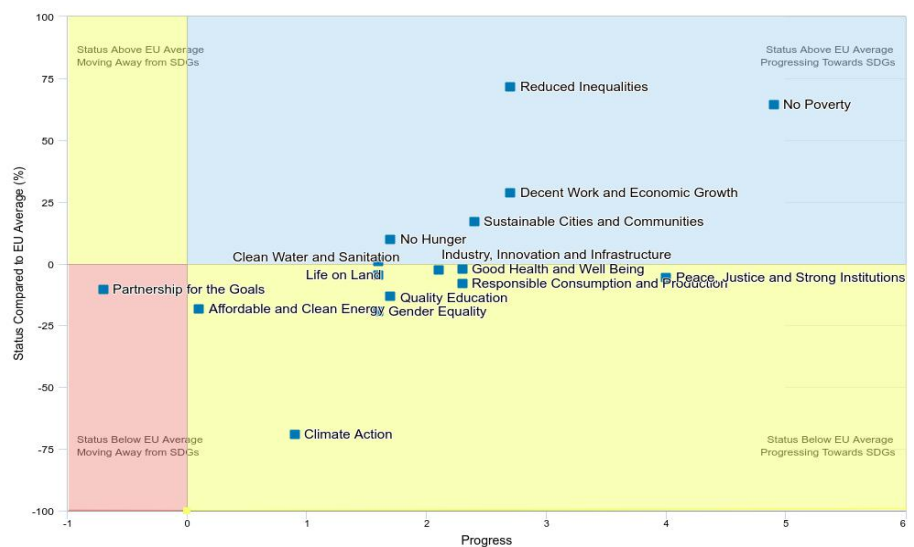
Among the SDG goals, Czechia still has the best performance in terms of goals associated with poverty, as it has one of the lowest poverty rates in the OECD. Moreover, the situation dealing with institutional quality has improved markedly. On the other hand, given the relatively strong share of industry 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	2026e
Real GDP growth	2.8	3.5	-5.3	4.0	2.9	0.0	0.9	2.7	2.9
Inflation (CPI, avg)	2.1	2.8	3.2	3.8	15.1	10.7	2.4	2.5	2.2
Unemployment rate (avg)	2.2	2.0	2.6	2.8	2.2	2.6	2.8	3.4	3.8
Retail sales growth	4.5	4.2	-1.5	3.8	-3.1	-4.5	3.7	3.0	2.9
Industrial output growth	3.0	-0.5	-6.8	6.1	2.3	-0.8	-1.5	2.6	3.1
Private consumption growth	3.4	3.0	-6.6	4.1	0.4	-2.9	2.0	2.9	2.9
Fixed capital formation growth	8.9	7.4	-4.8	6.7	6.3	2.7	-0.4	3.2	3.0
Percent of GDP									
Trade balance	1.8	2.3	3.2	0.0	-3.1	1.8	1.4	1.9	2.2
Current account balance	0.4	0.3	1.9	-2.7	-5.9	1.2	0.5	0.8	1.0
Foreign direct investment	3.3	4.2	3.3	4.4	3.5	1.9	2.3	2.7	2.8
Budget balance	0.9	0.3	-5.6	-5.0	-3.1	-3.5	-2.7	-2.3	-2.0
Public debt	31.6	29.5	36.9	40.7	42.5	42.3	44.9	45.1	45.3
External debt, gross	80.5	74.4	74.1	71.7	63.2	59.8	58.4	56.5	54.3
FX, money market									
USDLCY average	21.74	22.93	23.22	21.68	23.35	22.19	23.05	21.87	21.24
EURLCY average	25.65	25.67	26.46	25.64	24.56	24.00	25.04	24.46	24.21
EURLCY eop	25.72	25.42	26.24	24.89	24.16	24.70	24.80	24.35	24.10
(percent)									
CB policy rate (avg.)	1.06	1.92	0.77	0.88	5.94	7.00	5.13	3.70	3.09
3m interbank offer rate (avg.)	1.27	2.12	0.86	1.13	6.28	7.12	5.01	3.71	3.14
2Y Yield (average)*	1.06	1.57	0.59	1.59	5.47	5.57	3.89	3.34	2.99
5Y Yield (average)*	1.48	1.42	0.87	1.85	4.87	4.61	3.78	3.39	3.21
10Y Yield (average)*	2.02	1.61	1.18	1.96	4.45	4.52	3.93	3.54	3.39

Source: Erste Group Research

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