Quarterly report

Czech Economic Outlook

The economy is going up a gear

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■ **The economy is exceeding expectations and is set to continue growing rapidly** We expect its current resilience, combined with the impact of strong fiscal stimulus domestically and in Germany, to contribute to GDP growth of 2.7% this year and next. We also think that this growth will be widespread, driven by both domestic and foreign demand.

■ **Inflation should fall below 2% this year but rise above the target again next year** The main reason for this year's decline is significantly lower energy prices. However, strong fiscal expansion, combined with a recovering economy should gradually adversely impact price developments. After averaging 1.6% this year, we expect inflation to rise to 2.3% next year. Core inflation should remain above the CNB's 2% target in both years.

■ **The Czech National Bank is unlikely to cut interest rates this year due to the inflationary effect of fiscal policy** In addition to the anticipated fiscal expansion, the unexpectedly strong economy is another reason why the CNB is unlikely to cut rates. However, given the change in the CNB's communication, a cut cannot be ruled out this year. If this happens, we believe it will most likely be in the spring.

■ **The return of the upward trend in market rates** Financial market expectations for the easing of domestic monetary policy should temporarily halt the upward trend in CZK interest rates. However, a reassessment of market expectations for the CNB, combined with fiscal policy easing at national and international levels, should contribute to the resumption of this trend in the rest of the year.

■ **Koruna to strengthen slightly against the euro this year** More dovish rhetoric from the central bank and a decline in headline inflation below the 2% target may put the CZK under depreciation pressure in the short term. However, subsequently, we expect it to strengthen slightly, supported by a widening interest rate differential and continued strong growth in the Czech economy.

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Government money poised to support the growing economy even more

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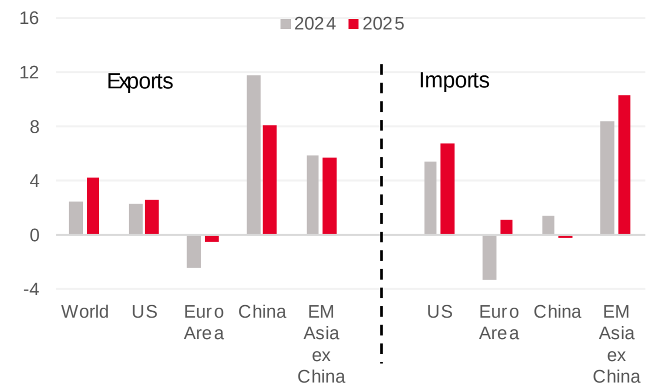
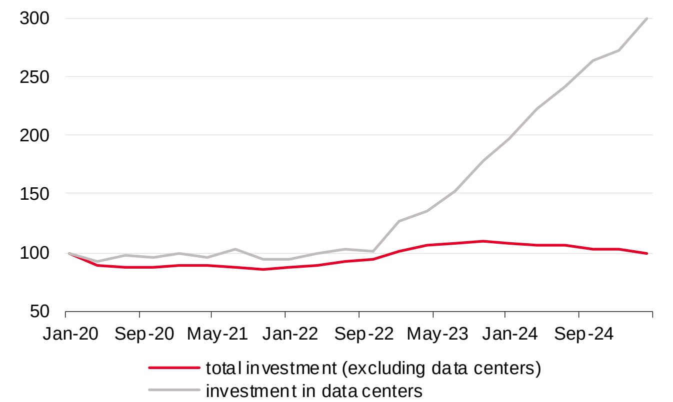
In last autumn's edition of the *Czech Economic Outlook*, under the heading *New Era of Fiscal Dominance,* **we were already expecting a significant fiscal stimulus from the newly elected government that was set to take power from December. And this scenario seems poised to unfold, based on the government's statements thus far. What we underestimated to some extent was the gradual and, in the second half of the year, accelerating rate of the Czech economy's growth**; in the autumn, the quarterly annualised growth rate was over 3%. In addition, in light of its election pledges, the government is preparing a major fiscal stimulus for this year, while we can clearly see a change in rhetoric from the central bank: from the heavily inflationary effects of numerous factors, including the fiscal policy, throughout 2025, to a shift towards a neutral assessment of the existing range of risks at the CNB board meeting in December, to moderately dovish as indicated by CNB Governor Aleš Michl in his first public statement at the beginning of 2026. In his interview for CNN Prima News[1] he also opened the door to a scenario of potential rate cuts for this year.

International trade dynamics (%, yoy, real terms)



Source: SG Cross Asset Research/Economics, CPB
Note: 2025 shows January to October

Investment in non-residential projects in the US (real terms, 1Q20 = 100)



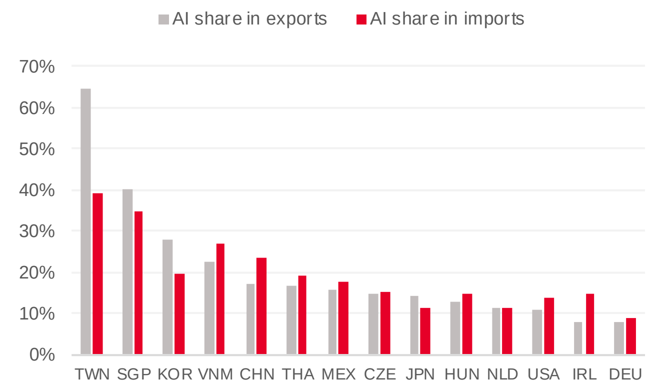
Source: BEA, 11am.cz, Economic and Strategy Research, Komerční banka

In light of last year's aggravation of international trade relationships, which was triggered by US President Trump's tariff policy, the global economy's resilience was a surprise. Naturally, the imposition of much higher custom duties on imports into the US had an impact in the form of higher inflation in the US and lower profit margins for companies exporting to the US. Nevertheless, the economic reality withstood political ideology. The reason is that President Trump's originally announced plan to increase duties to approximately 30% did not materialise, although the average effective custom duty for all imports was around 13% at the end of last year, which was still more than 10pp higher than at the end of 2024. In addition, the increased tariff does not apply to a number of products and, for example, China – the country the most significantly affected by the tariffs – was able to redirect its exports to other geographies (including Europe). **From the perspective of growth of (not only) the US economy, the negative impact of the tariff wars was offset to a large extent by the artificial intelligence (AI) boom and the strong investment-related activity.** The end of the year then brought the first encouraging signals from German industry, where the long-expected fiscal stimulus at last began to show some encouraging signs. However,

[1] https://www.ceskenoviny.cz/zpravy/michl-cnb-se-bude-snazit-drzet-urokove-sazby-nad-ocekavanou-inflaci-dve-pct/2767338

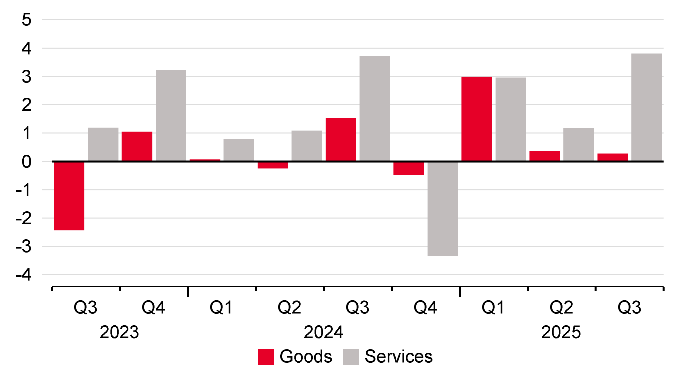
Donald Trump started 2026 in a decidedly forceful manner. The geopolitical uncertainty and the related risk of the continuing redrawing of international trade relationships remain high.

Trade in AI hardware and services (in % of total exports/imports, 2024)



Source: SG Cross Asset Research/Economics, UN Comtrade, CEIC
Note: These are countries with the world's largest shares (ranked in the descending order) of the countries that provide detailed high-frequency data on their trade.

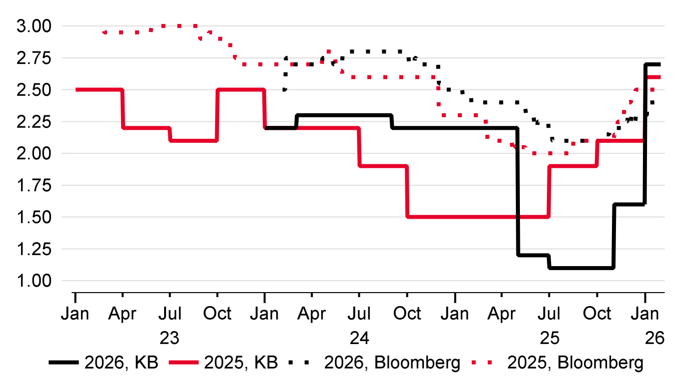
Mainly services drove higher exports in real terms in 3Q25, but goods exports also grew somewhat (SA, %, qoq)



Source: CZSO, Economic and Strategy Research, Komerční banka

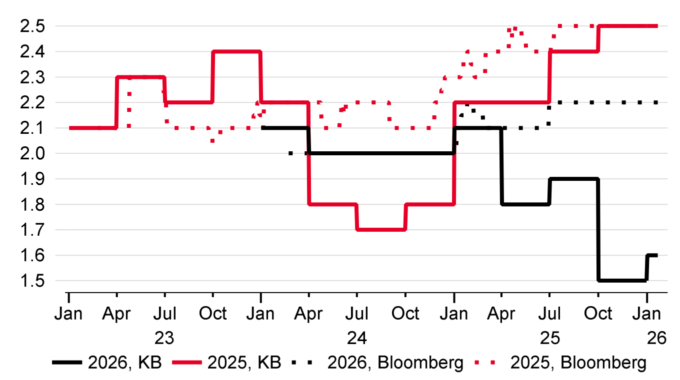
Czech exports also felt the strength of external demand in the second half of last year, primarily in services, and mainly in exports of ICT services. As regards the aforementioned role of the AI-related activities from the Czech perspective, its service producers and providers are holding their own on the global stage. Equally importantly, the continuously rising defence spending and the successful Czech defence industry leaders can play a role on the export side.

Growth prospects for the Czech economy (GDP, %, yoy)



Source: Bloomberg, Economic and Strategy Research, Komerční banka

Inflation prospects for the Czech economy (CPI, %, yoy)



Source: Bloomberg, Economic and Strategy Research, Komerční banka

By the end of last year, Czech household consumption had most probably reached its pre-pandemic, end-2019 level. The main reason was the continuing strong growth in real wages. We estimate that the pre-COVID value was exceeded also in this respect. Compared with our October forecast, this took place almost half a year earlier than we had expected. The significant increase in consumer confidence in the last few months of 2025, combined with the persisting high rate of savings, suggest that household consumption will once again be the key driver of the Czech economy this year. In connection with the recovery of industrial production, we expect Czech companies to whet their appetite for investment. On the whole, we have significantly increased our forecast for Czech economic growth this year, to 2.7% from the original 1.6%. Compared with the market consensus, we are now slightly more optimistic.

Inflation will be, on average, well below the 2% target this year. We expect average inflation at 1.6%, i.e. only slightly higher than in our October forecast. Our expectation for the government to transfer the payments for renewable energy sources, currently contained in the regulated component of the electricity supply price, from households to the government has materialised. However, core inflation will stay elevated at 2.3% on average. It will decline to close to the 2% target in the summer months, but we are concerned about its acceleration in the second half of this year due to robust domestic demand, also stimulated by an expansive fiscal policy. The key question is how the central bank will act in this environment, given the aforementioned change in Governor Michl's rhetoric?

Our forecast indicates that the central bank will not adjust its rates this year. The transfer of the payments for renewables is a one-off administrative step that will be relevant in the year-on-year price dynamics only this year, but monetary policy should already target 2027 when the inflationary effect of domestic demand can be expected. In recent years, the central bank has clearly criticised, in particular, the preceding government's fiscal policy and financial deficits. Simultaneously, during the energy crisis, the CNB Governor voiced his opinion that the central bank should not respond to energy price fluctuations by changing interest rates; in other words, an exemption from meeting the inflation target was to be applied to these prices. However, we see a considerable risk that, in the end, central bankers may ultimately cut rates during the first half of this year when they face overall year-on-year inflation of around 1.5%.

Enjoy the winter edition of Komerční banka's *Czech Economic Outlook*!

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External environment and assumptions

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The US and eurozone economies remain resilient

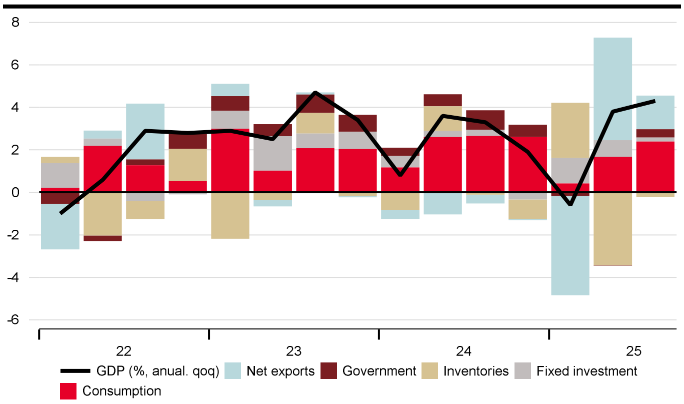
The first quarter of this year is likely to be dominated by geopolitics and uncertainty surrounding global trade. In the United States, the labour market will be an important macroeconomic topic. The market is cooling, offering one of the main reasons for the US Federal Reserve to continue cutting interest rates. We estimate the terminal rate at between 3.00% and 3.25%. Economic growth is set to slow this year due to the negative impact of tariffs on profit margins, a cooling labour market, and slower wage growth. However, we do not expect a recession either in the US or the eurozone. The eurozone economy is set to be supported by looser fiscal policy and faster household consumption growth. This growth is to be fuelled by accumulated savings, relatively high real disposable income, and low unemployment. We expect eurozone inflation to slow to below 2% this year. In the medium term, however, we forecast that inflationary pressures will strengthen, prompting the ECB to raise interest rates by the end of the year. In contrast, the central banks of Poland and Hungary are likely to continue easing monetary conditions.

US: there is only limited scope for more rate cuts

The US economy remains resilient.

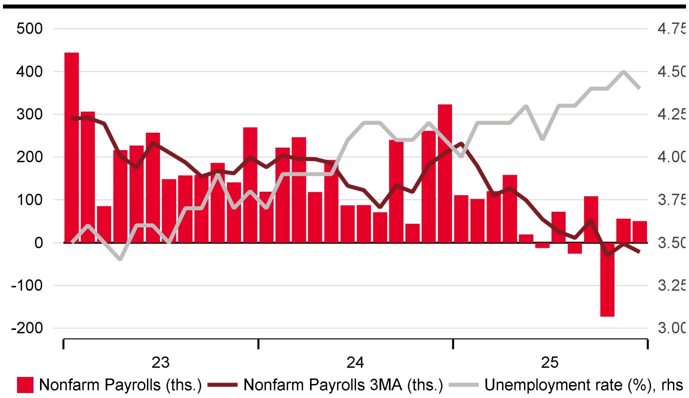
Data from the US has confirmed the relative resilience of the economy. In the third quarter, GDP growth rose to 4.4% qoq on an annualized basis, up from 3.8% in the second quarter of last year. According to available data, the final quarter showed no significant turn of events. Conversely, retail sales in the control group, which are important for calculating GDP, showed very good results in October and November (0.8% and 0.4% mom, respectively). However, concerns remain about developments in the labour market, where job creation has significantly lagged market expectations since June. The unemployment rate rose to 4.5% in November before dropping slightly to 4.4% in December. Nevertheless, it remains above the Fed's long-term unemployment estimate of 4.2%. In response to the cooling labour market last year, the Fed cut interest rates by 75bp in total. This left the key interest rate at 3.50-3.75%.

US economy in relatively good shape



Source: Macrobond, Economic and Strategy Research, Komerční banka

But the labour market is cooling



Source: Macrobond, Economic and Strategy Research, Komerční banka

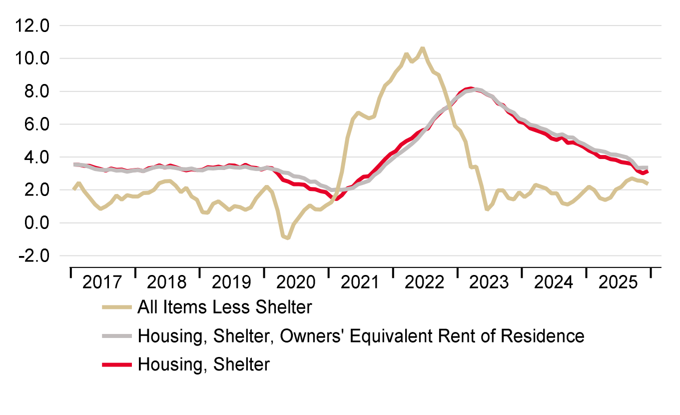
Inflation remains at elevated levels

According to our estimates, the Fed will continue easing monetary policy this year. However, there is limited scope for more cuts. In December, inflation stagnated at 2.7% yoy. The core component slowed to 2.6%, thanks to slower growth of rents, which account for about 35% of the consumer basket. Nevertheless, the growth rate of goods prices remains high due to introduced tariffs, which should continue at least during the first half of this year. Another issue is that the Fed's preferred inflation indicator, the PCE, gives rent significantly less weight (17%) than consumer inflation does. The growth rate of service prices (excluding housing), which represent the main part of this indicator, remains relatively high. This should keep the indicator closer to 3% yoy than to the Fed's 2% target.

The Fed is likely to cut rates in March and June.

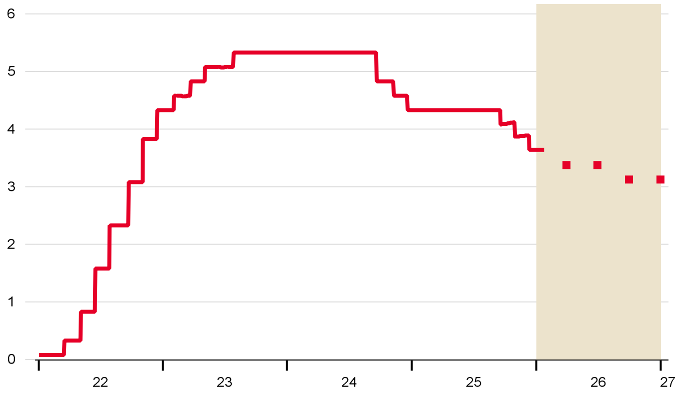
In the short term, we expect concerns about labour market developments to prevail, prompting the Fed to cut interest rates by 25bp in March and June, in our view. This would bring the key rate to 3.00-3.25%. However, given high inflation in services, there is a risk of only one cut. For the rest of the year, we expect the central bank to refrain from easing monetary conditions partly due to reputational risk so as to avoid being accused of losing independence with the arrival of the new Fed Chair appointed by Donald Trump, whose term begins in May. Current Chair Jerome Powell will also advocate for this approach and we believe he will remain a member of the FOMC until his term ends in 2028.

US: inflation remains elevated (%, yoy)



Source: Macrobond, Economic and Strategy Research, Komerční banka

Expected development of Fed interest rates (%, effective rate)



Source: Macrobond, Economic and Strategy Research, Komerční banka

The Supreme Court will decide whether Donald Trump can use the IEEPA law to impose tariffs.

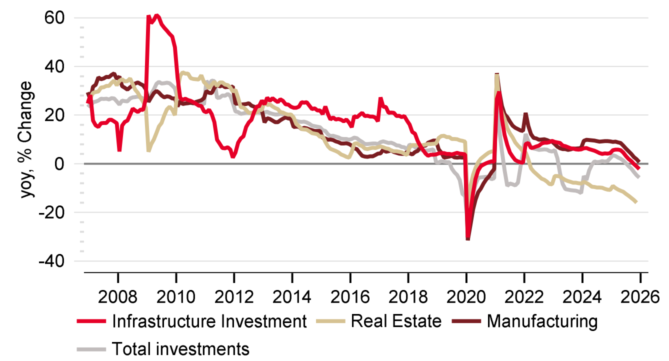
Geopolitics will continue to dominate the headlines this year, alongside economic events. In January, Donald Trump was rarely out of the news, with his call for the arrest of the Venezuelan president, his efforts to overthrow the Cuban regime, and his plan to annex Greenland. The situation was further complicated by his threat to impose additional tariffs on selected European countries that rounded in support of Greenland. Financial markets were also upset by Trump's/DoJ's threat to prosecute the head of the US Federal Reserve. Unsurprisingly, investors are eagerly awaiting the US Supreme Court's decision on whether Trump can continue to use the International Emergency Economic Powers Act (IEEPA) to quickly impose tariffs with virtually no restrictions by citing a national emergency. If the court rules against him, it does not mean the end of tariffs. Trump could resort to alternative instruments, although none offer such broad and immediate powers as the IEEPA. One option is to quickly increase tariffs on selected countries or products with little or no procedure — but this mechanism would come with high legal risk. Another option involves lengthy and careful investigations aimed at proving unfair trade practices by partners. This route is legally sounder, but slower. Finally, there is an instrument that allows tariffs to be imposed under the pretext of protecting national security. In practice, the definition of "security" is very broad and affects entire sectors. In any case, tariffs will remain one of the instruments of power at Trump's disposal. They pose a major risk to the eurozone's economic growth forecast.

China: growth target may be lower in the future

Exports are growing, domestic demand is weak.

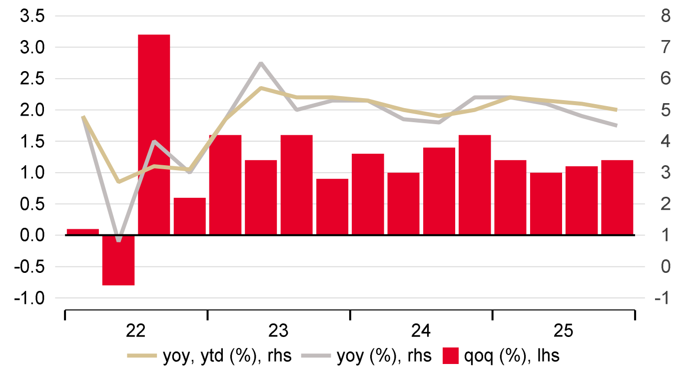
China's foreign trade remains surprisingly resilient, with the surplus hitting a record USD1.2tn last year (6.1% of GDP, up from 5.3% in 2024). While the surplus with the US declined, exports to ASEAN and the EU grew significantly thanks to exports of electronics, machinery, and transportation equipment. The development of exports thus contrasts with the development of domestic demand, which remains weak. The positive impact of government support on household consumption is already fading, while the slump in the housing market continues. Despite additional stimulus measures, investment has not yet picked up. Although inflation rose slightly at the end of last year, this was solely due to food prices, while the recovery in industrial producer prices remains subdued.

Chinese investments have stalled



Source: Macrobond, Economic and Strategy Research, Komerční banka

Development of Chinese GDP



Source: Macrobond, Economic and Strategy Research, Komerční banka

Instead of quantity, China plans to focus on quality

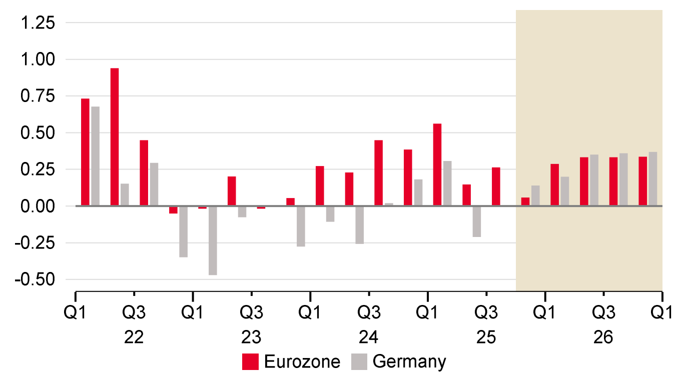
Monetary and fiscal policy will likely be more moderate compared to last year. For this year, we expect the public finance deficit to increase by 0.5pp, and for the central bank to lower interest rates by 20bp. The emphasis will be on reviving the housing market, where we expect further stimulus measures. At the same time, the new 5-year economic plan has brought some surprises. There is now a major emphasis on the *quality* of economic growth rather than *quantity*. This may mean that China will target lower growth (4.5-5.0%) in 2026-30.

Eurozone: interest rates to remain stable until end of year

GDP is set to grow above potential.

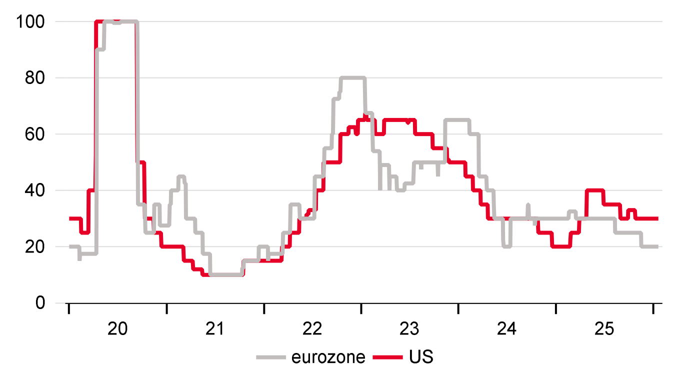
Last year, economic growth in the eurozone was subdued due to trade wars, weak confidence indicators, and the slow implementation of the German fiscal package. However, growth should strengthen starting in the spring thanks to fiscal stimulus, increased household spending, and a stabilized housing market. We estimate GDP growth at 1.0% this year and 1.1% in 2027–30.

Eurozone and Germany: GDP growth rate (%, qoq)



Source: Macrobond, SG Cross Asset Research/Economics

Probability of recession over a one-year horizon – Bloomberg consensus (%)



Source: Macrobond, Bloomberg consensus, Economic and Strategy Research, Komerční banka

Structural problems persist.

Nevertheless, the eurozone will continue to face significant structural challenges. Productivity remains low and lags the US significantly. Investment in digital technologies

(2.3% of GDP in the eurozone versus 4% in the US) and research and development (1.5% versus 2.8%) are low as well. High energy prices, a fragmented capital market, an ageing population, and a rigid labour market also hamper economic growth. Trade wars and geopolitics also pose significant risks.

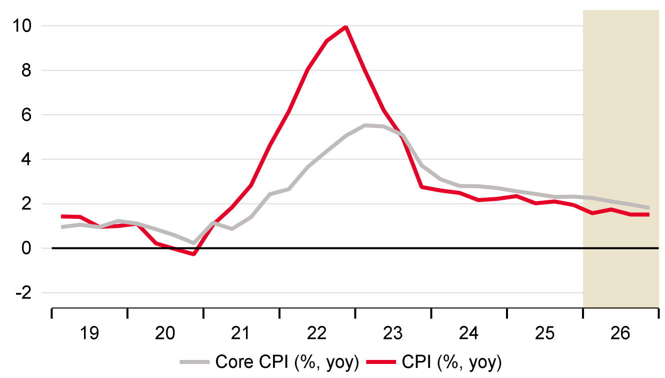
We expect an average inflation rate of 1.7% this year.

Inflation in the eurozone fell from 2.1% yoy in November to 2.0% in December. Its core component also slowed to 2.3%. The key factors influencing inflation's future development include: i) the annual changes in the consumer basket weights, ii) the implementation of fiscal measures, and iii) the January revaluation of goods and services. Inflation is also likely to be affected by the euro's recent strengthening against the US dollar, the expected decline in oil prices to $52 per barrel this year, and slower wage growth compared to last year. These factors should cause wage growth to slow from 3.3% yoy to 2.7% yoy this year, with the risk skewed toward an even slower pace due to trade wars and strong competition from China. Therefore, we expect inflation to average 1.7% this year, with the core component at 2%.

The next step for the ECB will be to raise interest rates.

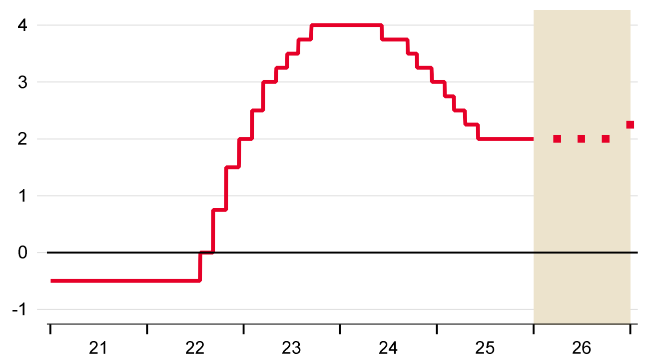
In the medium term, however, we believe that inflationary pressures will intensify. We see pressures as being driven by negative demographic developments, reflected in a tight labour market and pressure on wage growth. Other drivers include loose fiscal policy and the impact of climate policy, specifically the introduction of ETS2 in 2028. These factors should result in the first interest rate hike, which we expect at the end of this year. Another rate hike should follow in the first half of 2027, after which interest rates will remain unchanged for an extended period, with the deposit rate at 2.5%.

Eurozone inflation likely to decelerate to below the ECB target (%, yoy)



Source: Macrobond, SG Cross Asset Research/Economics

ECB to hike rates at the end of the year (depo rate, %)



Source: Macrobond, SG Cross Asset Research/Economics

The German fiscal package is paying off.

Data from the German economy suggests that the fiscal package is having an impact. In November, factory orders rose significantly mom (+5.6%), thanks to orders for transport equipment, mainly aircraft, ships, trains, and military vehicles. Industrial production has grown rapidly for three consecutive months, and the recovery is expected to continue this year. Following last year's growth of 0.2%, we anticipate GDP growth of 0.8% this year and 1.3% next year. However, the implementation of the fiscal package will also lead to a significant increase in the government budget deficit. According to our estimates, the deficit will rise to 4.3% of GDP this year and will remain high from 2027 to 2029.

CEE region: rates set to decrease further

The National Bank of Poland is likely to lower rates at its March and April meetings.

In January, the National Bank of Poland left interest rates unchanged at 4%. Since new inflation data will not be available before the February meeting, we expect interest rates to remain stable at that meeting. Therefore, we expect further easing of monetary conditions in March and April, and we expect the key interest rate to move to its neutral level of 3.5%. However, given our expectations of a slowdown in inflation, the risks are skewed toward even lower rates. We estimate that the Polish zloty exchange rate will be slightly weaker in the first half of this year (EURPLN 4.25) and strengthen to EURPLN 4.20 in the second half of the year.

Hungarian central bank to cut rates in February and March.

Inflation in Hungary has slowed significantly. Inflation fell from 3.8% yoy in November to just 3.3% in December. However, the problem remains in the services sector, where prices increased by 0.8% mom from November to December. January inflation will be crucial for determining future monetary policy. According to our estimate, inflation should fall to 2.1%, which is well below the central bank's target of 3%. Despite higher inflation in services, we therefore expect the central bank to make two 25bp interest rate cuts in February and March, from 6.5% to 6%. In the first half of this year, Hungarian political developments will also be closely monitored, as parliamentary elections have been scheduled for 12 April. The polls currently suggest a narrow victory for the opposition Tisza party. This could lead to the partial release of EU funds that are currently blocked. However, if the party only achieves a simple majority in parliament, as seems likely now, implementing its government programme will be very difficult. This will likely lead to the Hungarian forint stabilising at around EURHUF 400 during the year.

Macroeconomic forecast

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The Czech economy is set to enjoy better times

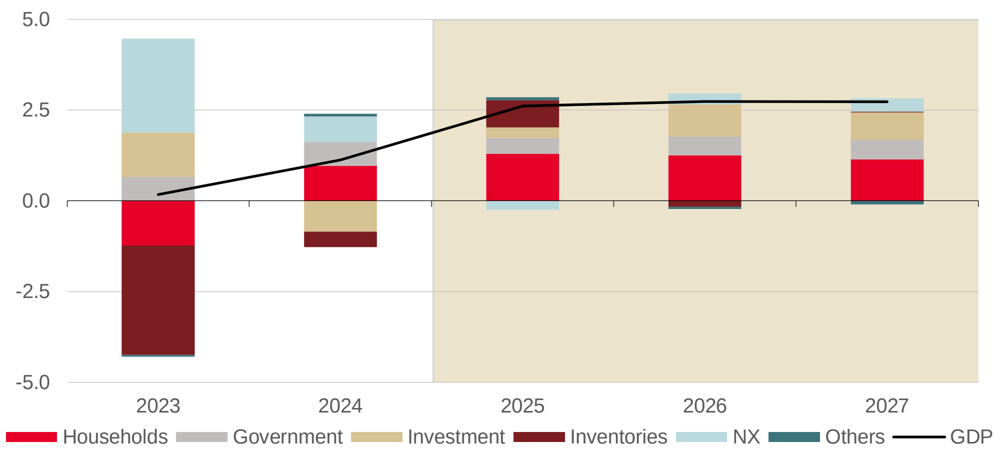
The Czech economy has performed better than expected in recent quarters, confirming its resilience to external shocks. The manufacturing industry has outperformed its foreign counterparts and has not been significantly impacted by US tariffs. Emerging sectors are also likely to be contributing to the economy's resilience. This is probably reflected in the structure of exports, which have recently been driven by services. As the European economy recovers, supported by strong fiscal stimulus in Germany, exports of goods should also increase and improved industrial sentiment should encourage higher investment. Consumer sentiment rose significantly at the end of last year, leading to growth in household consumption. We estimate that household consumption and real wages reached their pre-pandemic level in 4Q25. Strong economic growth should gradually lead to renewed labour market tensions, supporting household earnings and purchasing power. Inflation is likely to fall below 2% this year due to cheaper energy. However, we expect it to return above the central bank's target next year due to the new Czech government's expansionary fiscal policy.

Main changes

GDP
The strong economic momentum and the surprisingly positive results in 2H25 have led us to significantly increase our GDP growth forecast for this year, raising it from 1.6% to 2.7%. We expect growth to remain at this level in 2027, bolstered by the anticipated strong fiscal stimulus.

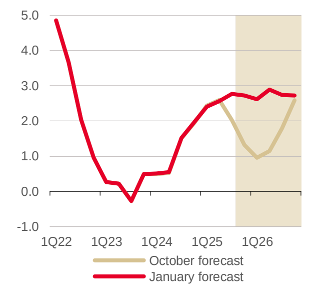
Inflation
We have only made a slight adjustment to our inflation estimate for this year, raising it from 1.5% to 1.6%. As in our previous forecast, we anticipate the impact of transferring renewable energy payments from households to the state. However, we expect that the recovering economy and expansionary fiscal policy will push inflation back above the central bank's 2% target in 2027.

Economic growth to be strong and widespread (%, yoy)



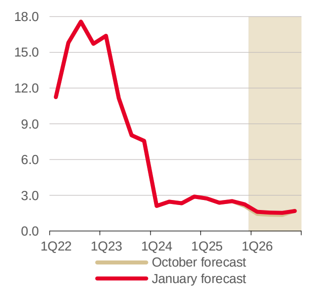
Source: CZSO, Economic and Strategy Research, Komerční banka

Changes to GDP forecast (%, yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka

Changes to CPI forecast (%, yoy)



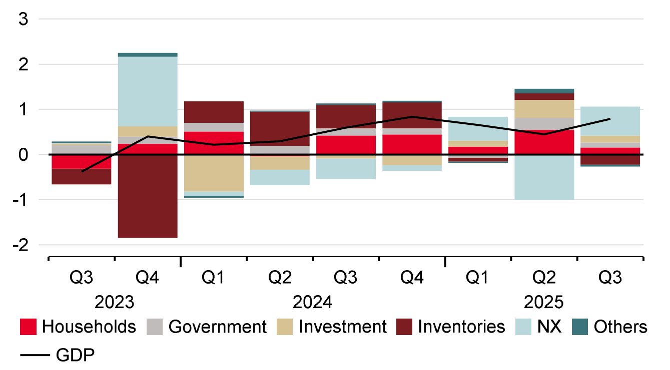
Source: CZSO, Economic and Strategy Research, Komerční banka

Czech economic performance exceeds expectations

The Czech economy saw stronger-than-expected growth in 3Q25. According to the latest available data, GDP growth accelerated from 0.5% qoq in 2Q to 0.8% qoq in 3Q. This exceeded all estimates, including our own. Particularly surprising was the highly positive contribution of net exports to qoq GDP growth, which reached 0.6pp in 3Q after -1.0pp in 2Q. While export growth strengthened, import growth weakened. The import side was negatively affected by weaker domestic demand. Growth in household consumption slowed significantly from 1.2% qoq in 2Q to just 0.3% qoq in 3Q. Government consumption and fixed investment also slowed to a similar extent. Despite the lower domestic demand dynamics, the market services sector was the main driver of qoq economic growth in 3Q (contributing 0.4pp to the 0.9% qoq increase in gross value added). Value added grew strongly in banking and insurance, as well as in the information and communication services. However, demand for market services largely came from abroad. Exports of services rose by 3.8% qoq in real terms in 3Q, marking the third consecutive strong increase. By contrast, growth in goods exports continued to weaken, reaching 0.3% qoq in 3Q. This was due to the gradual fading of the US frontloading effect, which had boosted exports of goods at the beginning of last year.

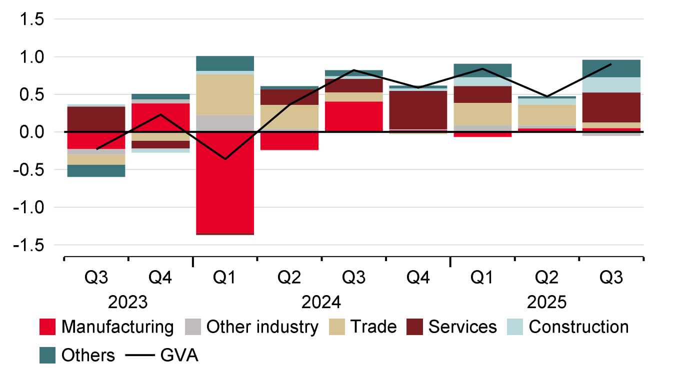
Nevertheless, there was a positive surprise on the goods side too, as qoq export growth remained positive despite a significant increase in US tariffs.

The acceleration in GDP growth in 3Q25 was mainly due to a surprisingly strong contribution from net exports (SA, %, qoq)



Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka
Note: NX denotes net exports.

The increase in gross value added over the past two years has been driven by trade and services sectors (SA, %, qoq)



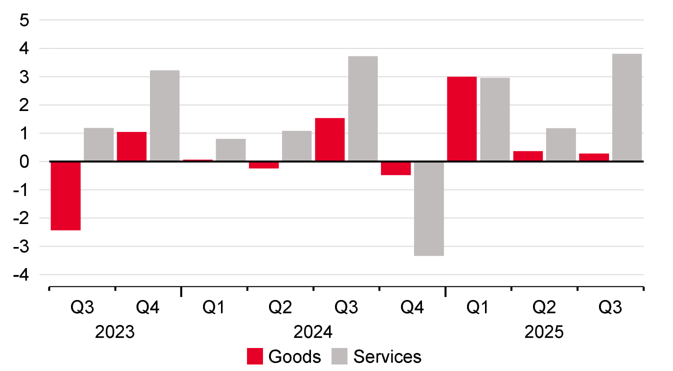
Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka
Note: Services include only market services. Public services are included in the others category. The trade sector also includes transport, accommodation and hospitality.

The economy is likely undergoing structural changes that could help maintain a higher growth rate in the coming quarters. It has performed well over the past year, growing at an average rate of 0.7% qoq (from 3Q24 to 3Q25), or just under 3% on an annualised basis. Despite facing challenges, particularly from the external environment, its performance in recent quarters has tended to exceed expectations. Predictive models based on available leading indicators have generally underestimated the economy's outcome. This might be due to the emergence of new sectors. One such area is information and communication activities, which may have expanded due to the global boom in artificial intelligence. This could explain the steady increase in value added in this sector, as well as the unusually strong growth in exports of services. Quarterly balance of payments data confirm the growing share of service exports on the credit side of the current account. A more detailed analysis reveals the influence of the information services sector and the tourism industry. Other expanding sectors may include the defence or green technologies industry. This could explain why Czech industry has shown such resilience in the face of the decline in the German manufacturing sector, with which it has historically been closely linked. The strong competitive position of the Czech automotive sector also contributes to this resilience.

Real export volume growth accelerated in 3Q25, while imports stagnated quarter-on-quarter (SA, %, qoq)

Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka

Developments of goods exports were affected by US tariffs, but exports of services grew at a rapid pace in 2025 (SA, %, qoq)

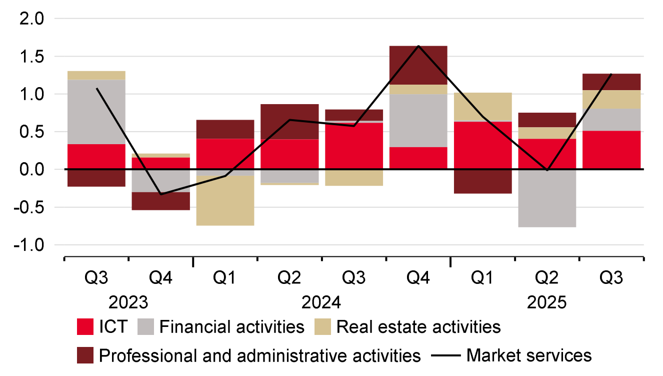


Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka

The economic performance in 2H25 exceeded our original expectations, and the strong growth momentum suggests favourable economic developments will continue this year.

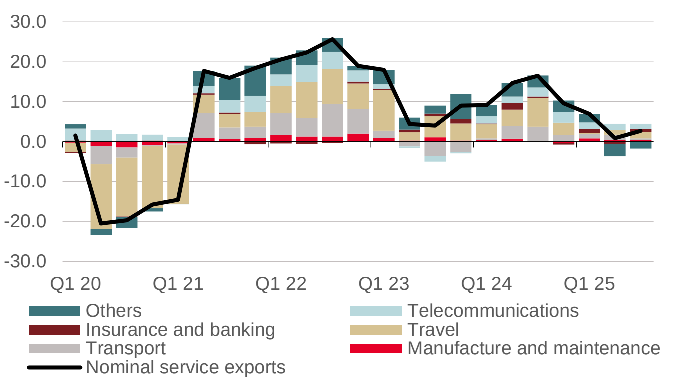
We have thus significantly improved our forecast for Czech economic growth this year. We estimate GDP growth of 0.8% qoq in 4Q25, which is as strong as in 3Q. We believe that domestic demand recovered in 4Q against the backdrop of a significant increase in consumer optimism. According to the Czech Statistical Office's economic survey, consumer confidence was around 10% higher than the long-term average during the last three months of last year. We therefore estimate that real household consumption returned to its 4Q19 pre-pandemic level in 4Q25, after six years. In addition to retail and service sales, monthly indicators also show a significant recovery in domestic industrial production over 4Q. This may be related to the gradual positive impact of higher fiscal spending in Germany, which may also explain the partial improvement in European industrial sentiment indicators. Another positive factor may have been the expected transfer of renewable energy payments from households and businesses to the Czech state, which came into effect at the start of this year. The improving outlook for the industrial sector should encourage higher private investment, which has shown less momentum than public investment in recent period. Due to significantly better economic performance in 2H25, we have raised our GDP growth estimate for 2025 from 2.1% to 2.6%. This improved starting position, supported by likely structural changes, is also the reason for the significant upward revision of this year's GDP growth forecast from 1.6% to 2.7%. As in our October forecast, we expect the strong fiscal stimulus announced by the Czech and German governments to positively impact the economy in 2026 and also contribute to its sustained growth of 2.7% in 2027.

Growth in gross value added in the ICT sector is steady, while other services are also performing well (SA, %, qoq)



Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka

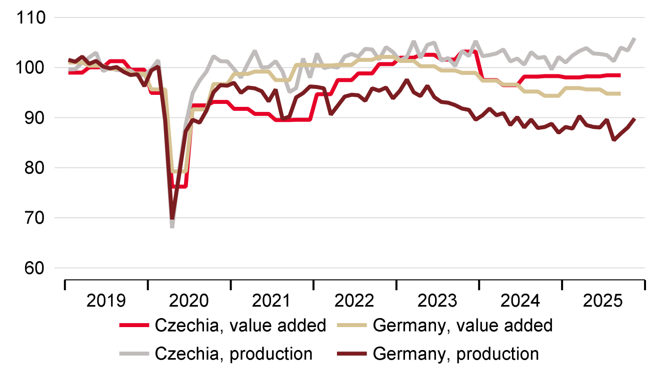
The tourism and information activities sectors contributed most to the increase in service exports last year (%, yoy)



Source: CNB, Economic and Strategy Research, Komerční banka
Note: The slowdown in year-on-year growth in total exports of services in nominal terms in 2025 is related to a decline in export prices.

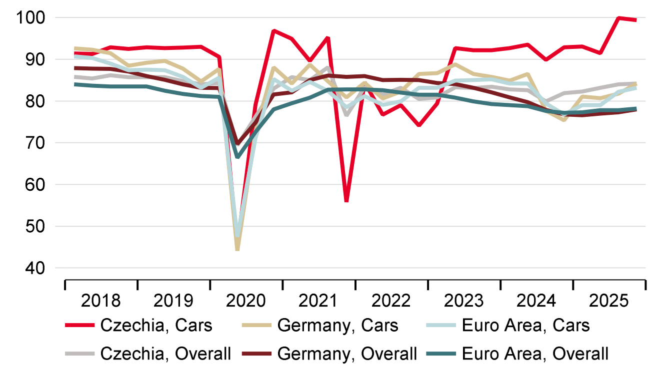
The main risk to our GDP forecast is the possibility of renewed global political tensions and the resulting economic measures such as tariffs. The recent disputes between the US and the EU over Greenland demonstrate that geopolitical uncertainty remains high. Developments in Czech industry may also be associated with risks of weaker growth. Although the sector has performed better than expected so far, it continues to face structural issues that undermine its competitiveness. Furthermore, the Czech automotive industry is reportedly close to full capacity utilisation, which may limit the scope for improvement in industrial performance.

Czech manufacturing is performing better than its German counterpart, despite their tight past connections (SA, 2019=100)



Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka
Note: Comparison of industrial production and gross value added in the manufacturing sector in the Czech Republic and Germany.

Current production capacity utilisation in the Czech automotive and overall industry is higher than in the rest of Europe (SA, %)



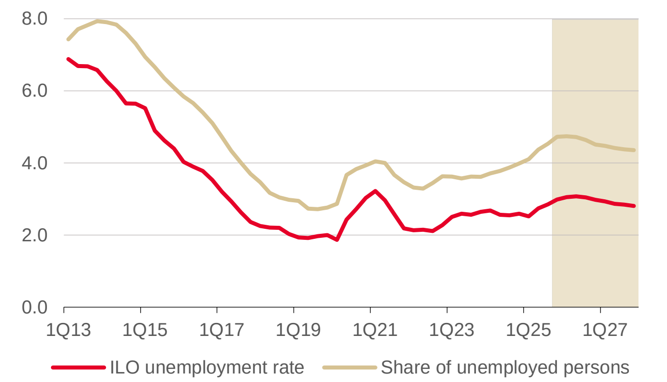
Source: DG ECFIN, Macrobond, Economic and Strategy Research, Komerční banka

The labour market will remain tight and contribute to wage growth

The accelerating economy will perpetuate labour market tensions and put pressure on wage growth.

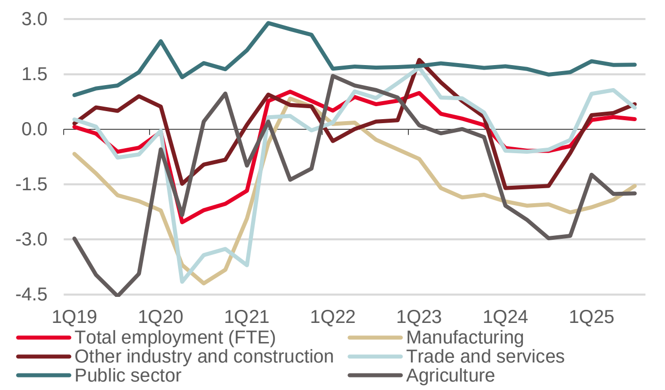
Unemployment should already be close to its peak. The ILO unemployment rate increased from 2.6% in 2024 to 2.8% last year, and we expect it to rise further to 3.0% this year. The increase in the share of unemployed persons was more pronounced last year, rising from 3.8% in 2024 to 4.4%, but this was also influenced by a change in how the number of unemployed people is reported. We anticipate a further modest increase to 4.6% this year. Job losses in recent years have mainly occurred in the manufacturing industry. However, those who lost their jobs found employment in the trade and services sectors, as well as in the public sector. Given our expectations of continued expansion in the tertiary sector and further growth in household consumption, this shift in the workforce is likely to persist. Therefore, the slightly higher unemployment rate should remain mainly related to the movement of employees between different sectors of the economy. As the economy continues to grow relatively strongly, we forecast that the ILO unemployment rate and the share of unemployed persons will fall slightly in 2027. Consequently, the Czech labour market is likely to remain tight in the coming years, putting upward pressure on wages.

Unemployment is close to its peak and should gradually decline again with the rapidly growing economy (SA, %)



Source: CZSO, MLSA, Economic and Strategy Research, Komerční banka

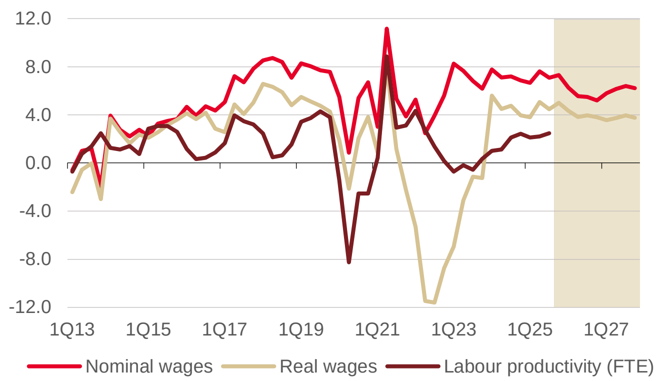
Employment in manufacturing is declining, while in trade, services and the public sector it is growing (%, yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka
Note: The graph shows the development of employment after conversion to full-time equivalents (FTE).

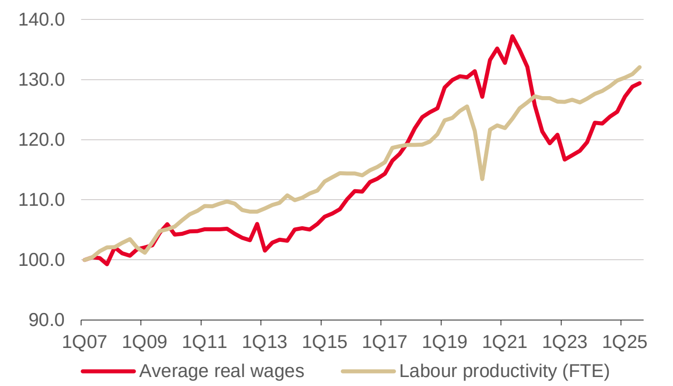
Alongside the economic recovery, we expect to see a gradual acceleration in wage growth. Following last year's increase of 7.2%**,** we are predicting a rise in the average nominal wages of 5.6% this year, accelerating to 6.1% next year. This is higher than our previous forecast of increases of 5.2% in 2026 and 5.1% in 2027. The reason for this revision is the economy's improved starting position and growth outlook. Our expected slowdown in wage growth for this year should reflect the deteriorated situation in the business sector due to weaker economic performance in previous years. However, the current strong economic momentum, supported by the expected fiscal stimulus in the coming quarters, should lead to acceleration in wage growth in 2027. Moreover, the risks to our wage forecast are skewed towards higher growth due to the potential for a more significant increase in public sector wages. Alongside nominal wage growth and inflation close to the 2% target, real wages, and therefore household purchasing power, should continue to rise. According to our estimate, average real wages, like household consumption, only reached the 4Q19 pre-pandemic level in 4Q25, following an extended recovery period. We forecast real wages to grow by around 4% this year and next, providing grounds for a continued increase in private spending. Given the renewed growth in labour productivity, which we estimate to be currently around 2.5% yoy, the increase in real wages is not yet having an inflationary effect.

After this year's slowdown, nominal wage growth will accelerate again next year due to the robust economy (%, yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka

Given the renewed growth in labour productivity, current real wage increases are not too inflationary (1Q07=100)



Source: CZSO, Economic and Strategy Research, Komerční banka

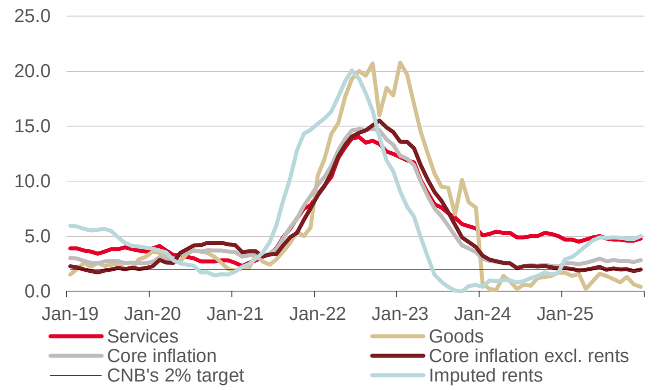
The decline in inflation to below 2% this year will only be temporary

We expect inflation to fall below 2% this year due to cheaper energy, but to return above the target next year as a result of expansionary fiscal policy.

As we expected, annual consumer price growth slowed towards the end of last year, approaching the central bank's 2% target. On average, headline inflation fell from 2.5% yoy in 3Q to 2.2% yoy in 4Q and stood at 2.1% yoy in December. This was primarily driven by a deceleration in food price growth (including alcohol and tobacco) from 3.2% yoy in 3Q to 2.3% yoy in 4Q, also supported by a higher comparative base from 2H24. Moreover, cheaper energy and fuel contributed to the slowdown by reducing production and transport costs. The stronger domestic agricultural harvest also had an impact. Lower prices for imported goods, including food, were influenced by the stronger koruna. The gradual decline in household energy prices has continued over this heating season, with further price cuts contributing to regulated price growth slowing from 1.1% yoy in 3Q to just 0.4% yoy in 4Q. Core inflation eased only slightly, from 2.8% yoy in 3Q to 2.7% yoy in 4Q, printing 0.1pp higher than our forecast. In terms of structure, the elevated level of core inflation continues to be related to the ongoing rapid growth in service prices, which reached 4.7% yoy in 4Q, the same as in 3Q. Growth in the weight-wise important imputed rents also stagnated, at 4.9% yoy. By contrast, goods price growth (including food, energy and fuel) remained well below the 2% target, slowing from 1.1% yoy in 3Q to 0.8% yoy in 4Q.

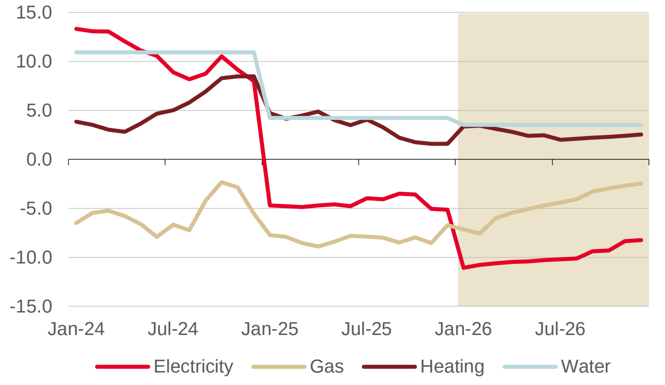
We expect inflation to remain below 2% throughout this year due to the impact of transferring renewable energy payments from households to the state. However, as this effect was already factored into our previous forecast, we have only made a slight adjustment to our inflation estimate for this year, raising it from 1.5% to 1.6%. We estimate that the transfer of renewable energy payments will lower annual headline inflation by approximately 0.3pp. This will likely be compounded by a further reduction in electricity and gas market prices for households, which we expect to be only partially offset by higher average heat and water prices. Overall, we estimate that lower energy prices will contribute to a reduction in annual headline inflation of 0.4-0.5pp this year. We expect the January annual inflation figure to be close to the 2026 average. The fall in headline inflation from last year's average of 2.5% should also be supported by food price developments. We anticipate that food price growth will slow from 3.4% in 2025 to 1.9% in 2026. The aforementioned factors, which are already slowing food price growth, should have a positive effect. We forecast fuel prices to continue to fall this year, albeit at a slower pace than last year.

Core inflation excluding rents remains on target, as high service inflation is offset by subdued goods price growth (%, yoy)



Source: CZSO, CNB, Economic and Strategy Research, Komerční banka
Note: Core inflation excluding rents does not include either imputed or paid rents.

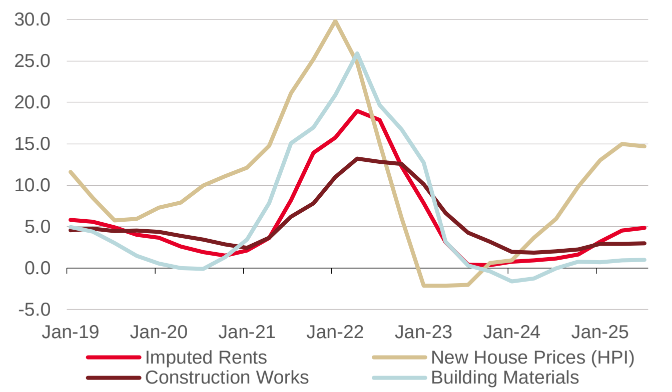
The continuing decline in electricity and gas prices will be only partially offset by higher heating and water prices (%, yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka
Note: These are final prices for households, including both market and regulated components.

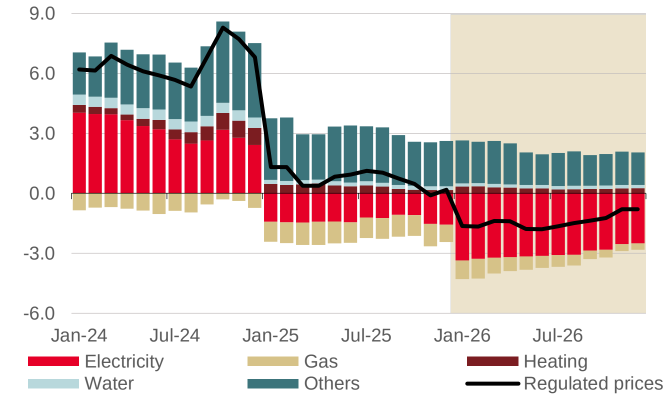
Core inflation is likely to remain above 2% and, after a temporary slowdown this year, we expect it to accelerate again due to significant fiscal expansion and a strong economy. After last year's 2.7%, we forecast core inflation to fall to 2.3% this year. This is slightly higher than in our October forecast (2.1%). This revision is due to stronger economic growth than we had expected. At the beginning of this year, core inflation is likely to remain above 2.5% yoy. However, it should then slow down and could approach the 2% target around the middle of the year. In addition to the base effect and lower prices of imported goods thanks to the strong koruna, the spillover of cheaper energy into other inflation components should have a positive impact. Despite the recovery, we believe that the current level of consumer demand is not very inflationary. However, the expected strong fiscal stimulus should lead to a gradual change in this, resulting in renewed acceleration of core inflation in 2H26. This will also be reflected in 2027, when we expect core inflation to accelerate to 2.4% and headline inflation to 2.3%.

While house price growth should be close to a peak, growth in price of construction work and materials is moderate (%, yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka

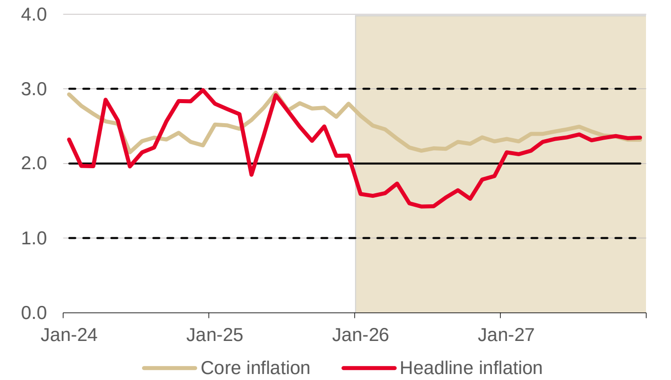
Cheaper electricity is the main reason for our expected decline in regulated prices this year (%, yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka

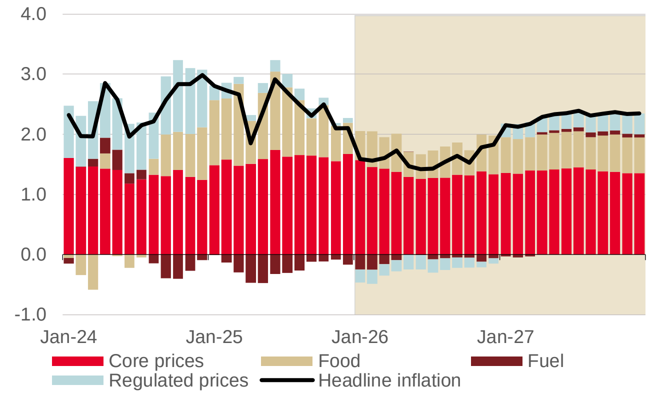
Upside risks to our inflation forecast include the possibility of continued rapid growth in house prices (through imputed rents) and the potentially stronger rise in public wages. Stronger wage dynamics could lead to persistently high inflation in the services sector. Assumptions about commodity price developments, including oil, remain subject to greater uncertainty, given ongoing geopolitical risks. Geopolitical tensions may also disrupt supply chains, with accompanying negative effects on the economy and upward pressures on prices.

Headline inflation will be around 1.5% this year, but core inflation will remain above the 2% target (%, yoy)



Source: CZSO, CNB, Economic and Strategy Research, Komerční banka
Note: Along with the expected development of headline and core inflation, the central bank's tolerance band of +/- 1pp around the 2% target is also shown.

With the effect of cheaper energy fading and the core component rising, inflation to return above 2% in 2027 (%, yoy)



Source: CZSO, CNB, Economic and Strategy Research, Komerční banka

Monetary policy

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We do not expect the CNB to cut rates this year

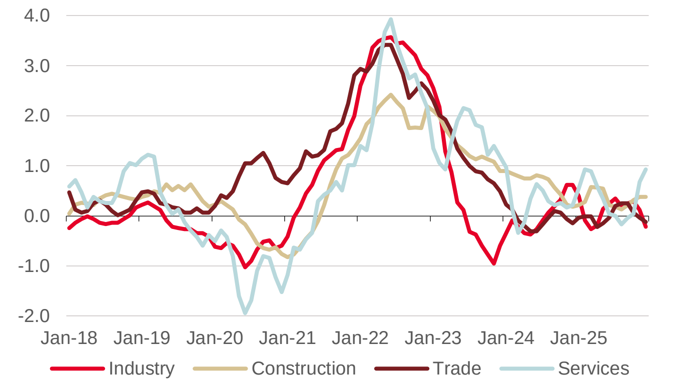
Despite the central bank's sharp change in rhetoric, acknowledging the possibility of interest rate cuts this year, we still do not expect such cuts to materialise, as set out in our previous forecast. The reason for this remains the expectation of significant fiscal expansion, which is now compounded by the impact of a stronger-than-expected economy. In our view, this means that the decline in headline inflation below 2% this year will only be temporary, with inflation returning above the central bank's target in 2027, i.e. within the current monetary policy horizon. Moreover, core inflation is likely to remain above 2% this year and next. However, an interest rate cut cannot be ruled out this year. If it were to happen, we think it would most likely be in March or May.

While the economy is in better shape than the CNB's November forecast assumed, headline and core inflation are lower than the central bank expected.

The Czech economy is stronger than the CNB expected, but inflation has fallen below its forecast. Like other institutions, the central bank had expected weaker qoq GDP growth in 3Q25, at 0.2% vs the actual figure of 0.8% qoq. In its latest forecast from November, the CNB predicted an acceleration to 0.6% qoq in 4Q25. If our estimate for 4Q (+0.8% qoq) is correct, the economy's starting position would be significantly better than in the CNB's November forecast. Although average inflation for 4Q (2.2% yoy) was in line with the central bank's forecast, the trend was the opposite. The CNB expected headline inflation to rise slightly during 4Q to 2.3% yoy in December, but it actually fell to 2.1% yoy. Core inflation was also slightly lower than the CNB's forecast, in terms of both the average for 4Q (2.7% vs 2.8% yoy) and the December figure (2.8% vs 2.9% yoy). A comparison of the CNB's forecast average for 4Q and the December figure suggests that the central bank also expected a slight upward trend in core inflation. Wage growth in 3Q25 was broadly in line with the CNB's forecast of 7.0% yoy, compared to the actual reported growth in average nominal wages of 7.1% yoy.

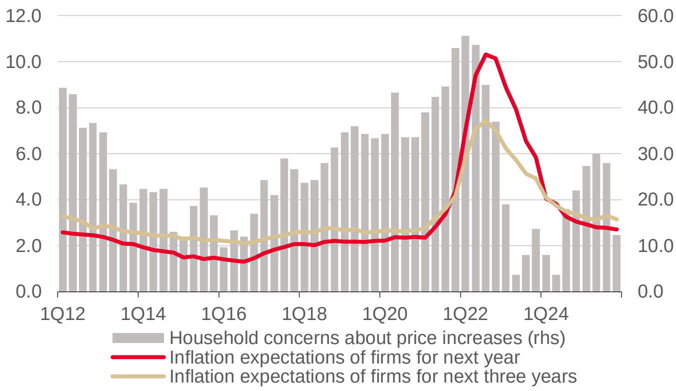
Monetary conditions were slightly tighter than the CNB staff had forecast, with higher interest rates and a stronger koruna. The CNB's forecast for 4Q assumed an average repo rate of 3.3%, whereas the actual rate was 3.5%. The bank board made its last cut in May and has kept interest rates unchanged since then. Meanwhile, the average koruna exchange rate reached EURCZK 24.30, stronger than the EURCZK 24.40 included in the CNB's forecast.

Price expectations remain subdued in industry, but have increased in services (z-score, SA, 3MA)



Source: CZSO, Economic and Strategy Research, Komerční banka
Note: Expected price developments in the sector according to the CZSO business survey. Z-scores are calculated on time series since 2003, and the graph shows their three-month moving averages.

Firms' inflation expectations stand at 3%, while fears of price rises among households fell below the long-term average (%)



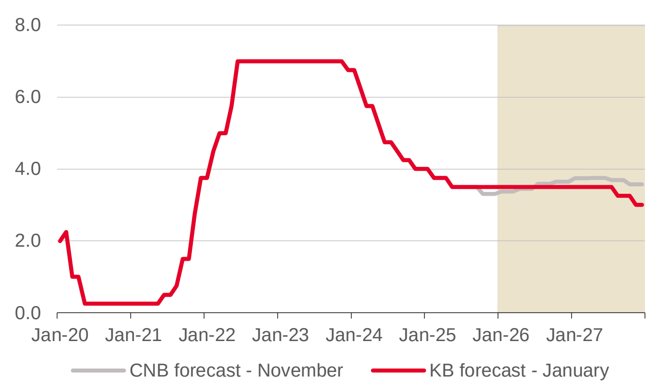
Source: CZSO, CNB, Economic and Strategy Research, Komerční banka

The central bank softened its hawkish tone in communications after Governor Michl suggested lowering interest rates this year. Until then, the central bank's statements had been purely hawkish, primarily emphasising inflationary risks. This was the reason for tighter monetary policy and, consequently, for maintaining interest rates at elevated levels, according to previous CNB board statements. Following the December meeting, however, the assessment of risks to achieving the inflation target changed. For a long time, the bank board assessed these risks as skewed towards higher inflation, but now considers them balanced. The dovish statements mainly came from Governor Michl, and it is unclear whether the entire board shares this view. For example, Deputy Governor Zamrazilová continues to highlight inflationary risks, stating that any reduction in interest rates this year is contingent upon sufficient deceleration in the rapid growth of service prices. The board has often used this as an argument for higher rates. The deputy governor states that inflation in services would have to fall below 4% yoy.

Given the recovering economy and the anticipated strong fiscal expansion, we do not expect the CNB to cut interest rates this year.

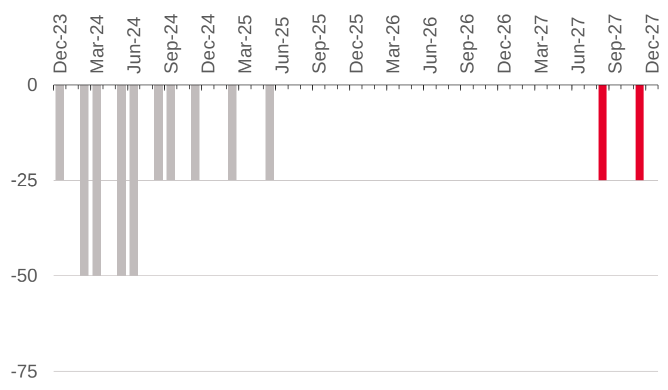
We still do not expect the CNB to cut interest rates this year. As in our previous forecast, we consider the main reason to be the expected strong fiscal expansion by the new government. In our view, this will result in inflation accelerating above the central bank's 2% target again in 2027, which is currently the monetary policy horizon. The decline in inflation below 2% this year, mainly due to the administrative shift of renewable energy payments from households to the state, is likely to be only temporary. Consequently, some members of the board have stated that the CNB should not respond to this temporary fluctuation. In addition to the argument of expansionary fiscal policy, our current forecast for CNB rates is also supported by the surprising strength of the economy. The combination of these two factors is likely to result in accelerated wage growth and may thus create an inflationary environment. This creates a paradoxical situation in which the central bank's rhetoric is changing at a time when the inflationary risks it has long warned about are materialising. The inflationary impact of fiscal policy was at the heart of these warnings. In our forecast, we do not expect interest rates to be cut until 2H27, by which time the inflationary effects of the economic recovery and strong fiscal expansion will have faded. Furthermore, the monetary policy horizon will be 2H28 at that time.

We are not changing our forecast and continue to expect the repo rate to remain stable at 3.5% until the end of this year (%)



Source: CNB, Economic and Strategy Research, Komerční banka

We do not expect further reductions in the repo rate until 2H27, when the inflationary effects of fiscal policy will subside (bp)



Source: CNB, Economic and Strategy Research, Komerční banka

However, given the change in the CNB's communication, a reduction in interest rates cannot be ruled out this year. If this does happen, we believe it will most likely occur in the spring. The March or May meetings appear to be the most likely dates for the first cut this year. It can be assumed that most board members will first want to see how inflation develops at the beginning of the year. Although the CNB board will have a preliminary estimate of January's inflation at its February meeting, it will not know its detailed structure. This should be key, as attention should focus on core inflation and the growth of service prices. In recent years, the traditional price reassessment at the beginning of the year has been spread over several months and has affected more than just January. Given the large movements in energy prices, a similar situation could arise this year, with some sellers waiting to see how their energy bills change.

Fiscal policy

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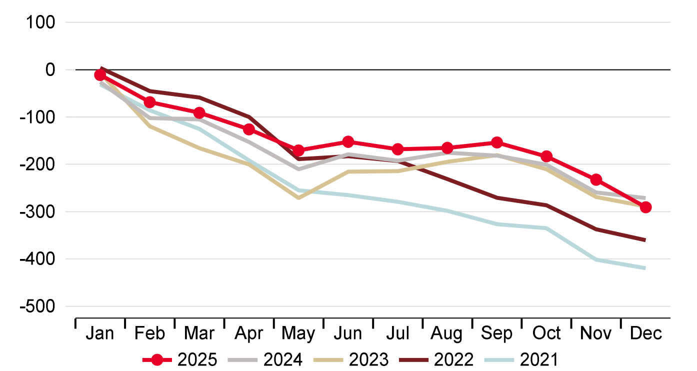
Fiscal policy shifts to expansion

We expect the state budget cash deficit to reach CZK310bn this year, with the public finance deficit rising from 2.1% to 2.8% of GDP compared with last year. Once the provisional budget has ended, we expect to see the gradual phasing in of an expansionary fiscal policy, which will positively impact GDP growth, inflation and interest rates. We do not expect public budget consolidation to resume in the coming years. This could mean that Czech budgetary policy rules are relaxed. Nevertheless, we assume that the Czech Republic will continue to meet the Maastricht criteria for public finance deficits and debt levels throughout our forecast period.

Cash deficit was significantly affected by EU funds in 2025

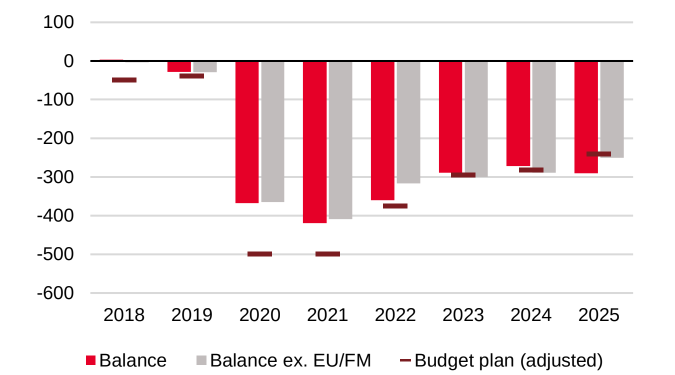
Last year, the annual cash deficit of the state budget reached CZK290.7bn. This represents an increase of CZK19.3bn year-on-year. The deviation from the planned deficit of CZK241bn was primarily caused by a lower-than-expected drawdown of EU funds. However, these funds had apparently been pre-financed on the expenditure side. Cash flows from the EU are usually budgeted neutrally within a given year in relation to the deficit (revenues = expenditures). Therefore, this is likely to be only a temporary mismatch due to the different timings of cash flows. Consequently, the observed deepening of the cash deficit may therefore be temporary and should not affect internationally comparable public finance indicators using the accrual methodology. After adjusting for revenues and expenditures relating to EU projects and financial mechanisms, the budget deficit was CZK249.9bn; this was CZK38.9bn lower than the previous year and exceeded the target by only CZK8.9bn.

State budget balance (CZKbn, ytd cumulative)



Source: Ministry of Finance, Macrobond, Economic & Strategy Research, Komerční banka

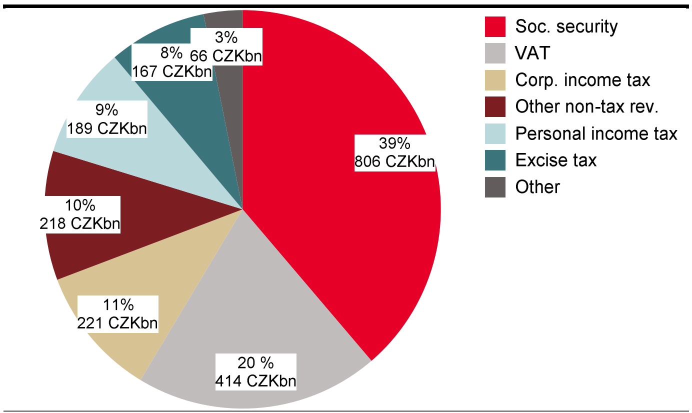
State budget balance – Impact of EU funds (CZKbn)



Source: Ministry of Finance, CZSO, Macrobond, Economic & Strategy Research, Komerční banka

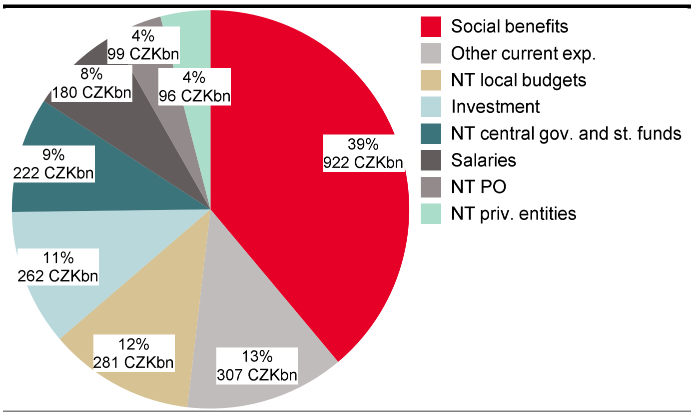
Revenues rose by CZK115.7bn (5.9%) yoy in 2025. The most significant contributors to revenues were social security insurance premiums (by CZK53.6bn) and VAT (by CZK32.1bn). Both items saw yoy growth rates exceeding 7%, reflecting robust consumer demand. However, companies also performed well, as evidenced by corporate income tax collection. **Expenditure was CZK135bn or 6% higher yoy last year.** Current expenditure increased by 8.5% (by CZK22bn) in transfers to local government budgets, by 7.2% (by CZK12.1bn) in salaries, and by 10.9% (by CZK9.7bn) in servicing the national debt. Social benefits expenditure, which stood at almost 40%, is by far the largest expenditure item, having increased by 2% yoy (by CZK17.7bn). Public investment in transport infrastructure is emphasised by a yoy increase in State Transport Infrastructure Fund transfers of 60.2% yoy (CZK35.2bn). This was also reflected in a significant increase in Czech construction output.

State budget revenue in 2025



Source: Ministry of Finance, Macrobond, Economic & Strategy Research, Komerční banka

State budget expenditure in 2025



Source: Ministry of Finance, Macrobond, Economic & Strategy Research, Komerční banka
Note: NT – non-investment transfers

The deficit will deepen this year, Czech fiscal rules could undergo revision

We expect the state budget deficit to reach CZK310bn this year. This is the same deficit that the government approved at its meeting on January 26. However, until the new budget is finally approved in the legislative process, a provisional budget remains in force, whereby the budget is governed by that of the previous year (in this case, 2025), with a maximum of one-twelfth applicable to each month.

In our forecast, we do not anticipate any further visible consolidation of public finances. This also implies that budgetary policy rules should be relaxed. The current version of the *Fiscal Responsibility Act* requires the structural deficit to be reduced by 0.5pp of GDP, to a maximum of 1.75% of GDP in 2026. The same reduction is also required for 2027. From 2028 onwards, the ceiling for the structural balance is set at 1%. Defence spending is exempt from these rules, with defence expenditure above 2% of GDP not counting towards the structural balance. Unlike the cash method, the accrual method of the public finance deficit is unaffected by loans for the construction of new nuclear power plant units in Dukovany. Given that: 1) public debt amounts to 43.3% of GDP at the end of 2024, placing the Czech Republic among the least indebted EU countries; 2) European fiscal rules are less strict than domestic ones; and 3) the government is signalling the need for further increases in public budget expenditure without a proportional increase in revenues, we do not expect the consolidation of the structural balance to resume in the coming years. Nevertheless, in line with the new government's statements, we expect the Czech Republic to continue to meet the Maastricht criteria for public finance deficits and debt levels.

Given the expected increase in the structural deficit, the impact of discretionary fiscal policy measures on the economy will be expansionary in 2026 and then roughly neutral. Following the easing of the structural deficit in public finances in 2024, which was partly due to the consolidation package, we estimate that fiscal restriction, as measured by the approximate aggregate fiscal impulse, disappeared last year. This year, it will be offset by a renewed increase in the structural balance. More information on the general impact of fiscal expansion on the Czech economy can be found in the box in the previous issue: https://bit.ly/CEO_4Q25_EN.

Fiscal expansion should remain within the limits of the Maastricht criteria

In our view, the public finances ended last year with a deficit of 2.1% of GDP. We expect this to widen to 2.8% of GDP this year.

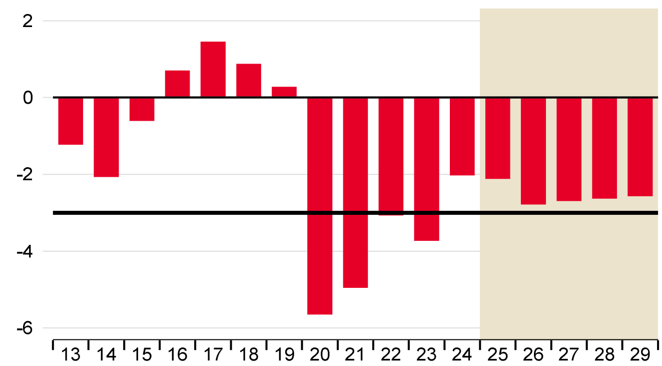
We expect the public finance deficit to reach 2.8% of GDP this year. Within the the public finance, the less favourable state budget (central government) balance development will be partially offset by local government finances, which have been in surplus since 2013. In the coming years, the public finance deficit should also be reduced by continued financing for the completion of the Dukovany nuclear power plant in the form of state loans, which are not included in the accrual-based deficit. Continued solid growth in economic activity will also contribute to a slight improvement in the balance relative to GDP. According to our estimates, public sector debt relative to GDP will grow by an average of 1.2pp per year between 2026 and 2029, reaching 48.6% of GDP in 2029.

Public finance forecasts

	2024	2025e	2026f	2027f	2028f	2029f
Balance (% GDP)	-2.0	-2.1	-2.8	-2.7	-2.6	-2.6
Fiscal effort (pp GDP)	0.6	0.1	-0.8	0.0	0.0	0.1
Public debt (CZKbn)	3488.5	3739.2	4049.2	4359.2	4679.2	5009.2
Debt ratio (% GDP)	43.3	43.8	45.1	46.1	47.4	48.6

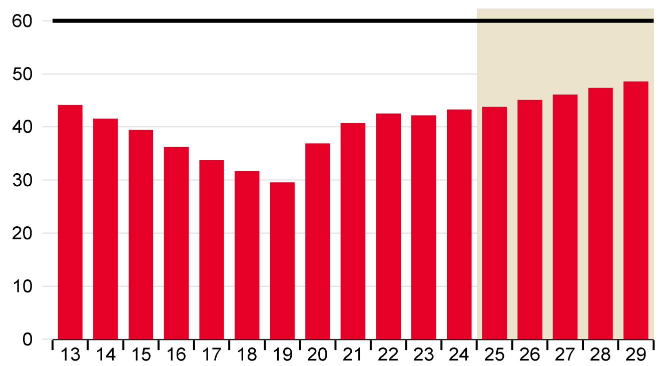
Source: CZSO, Macrobond, Ministry of Finance for published data, Economic & Strategy Research, Komerční banka
Note: fiscal effort is measured as the yoy change in the public finance balance, adjusted for the economic cycle and one-off operations on GDP in pp.

Public finance balance (% of nominal GDP)



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

Public debt (% of nominal GDP)



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

Summary forecast table

	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27	2024	2025	2026	2027	2028	2029
GDP and its breakdown														
GDP (real, yoy, %)	2.6	2.8	2.7	2.6	2.9	2.7	2.7	2.8	1.1	2.6	2.7	2.7	2.3	2.2
Household consumption (real, yoy, %)	3.6	3.0	2.9	3.2	2.7	2.9	2.5	2.5	2.2	2.9	2.8	2.6	2.3	2.2
Government consumption (real, yoy, %)	2.3	2.1	2.0	2.6	2.0	2.4	2.7	3.2	3.1	2.1	2.4	2.5	1.9	2.1
Fixed investment (real, yoy, %)	0.8	1.7	3.4	3.7	2.8	3.2	3.6	3.2	-3.0	1.0	3.3	2.8	2.4	2.1
Net exports (contribution to yoy)	-1.1	0.1	0.4	-0.2	1.0	0.2	0.2	0.3	0.7	-0.2	0.3	0.4	0.2	0.2
Inventories (contribution to yoy)	1.2	0.4	-0.3	-0.2	-0.4	-0.1	0.0	0.0	-0.4	0.8	-0.2	0.0	0.1	0.1
Monthly data from the real economy														
Foreign trade (CZKbn)	57.4	32.5	42.7	95.0	59.1	22.2	43.9	96.9	220.5	210.0	220.2	236.0	243.1	256.0
Exports (nominal, yoy, %)	3.1	1.2	-1.4	-0.1	-0.7	5.7	6.8	3.3	5.0	2.2	2.8	5.7	5.5	5.4
Imports (nominal, yoy, %)	4.5	0.8	-1.7	-1.6	-0.9	6.8	7.0	3.4	2.8	2.6	2.7	5.6	5.6	5.4
Industrial production (real, yoy, %)	1.2	0.4	3.6	1.5	2.1	3.8	2.5	3.9	-1.0	1.4	2.5	3.3	2.4	2.4
Construction output (real, yoy, %)	10.3	13.0	-0.5	2.5	2.6	-0.3	3.8	1.9	-1.6	7.5	2.1	3.6	2.8	2.1
Retail sales (real, yoy, %)	4.7	3.1	3.3	3.3	2.4	2.7	2.2	2.4	4.5	3.6	2.6	2.9	2.4	2.2
Labour market														
Wages (nominal, yoy, %)	7.6	7.1	7.3	6.3	5.6	5.5	5.2	5.8	7.2	7.2	5.6	6.1	4.7	4.3
Wages (real, yoy, %)	5.1	4.5	5.0	4.4	3.8	4.0	3.8	3.6	4.7	4.6	4.0	3.7	2.6	2.3
Unemployment rate (MLSA, %)	4.2	4.5	4.7	5.0	4.6	4.6	4.5	4.7	3.8	4.4	4.6	4.4	4.4	4.6
Unemployment rate (ILO 15+, %)	2.7	2.9	2.9	3.1	3.0	3.1	2.9	3.0	2.6	2.8	3.0	2.9	2.9	3.1
Employment (ILO 15+, yoy, %)	1.5	1.4	1.6	0.2	0.3	0.2	0.3	0.4	2.6	1.2	0.2	0.5	0.3	0.2
Consumer and producer prices														
CPI Inflation (yoy, %)	2.4	2.5	2.2	1.6	1.5	1.5	1.7	2.1	2.4	2.5	1.6	2.3	2.1	2.0
Taxes (contribution to yoy inflation)	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.0	0.0
Core inflation (yoy, %) (*)	2.8	2.8	2.7	2.5	2.2	2.2	2.3	2.3	2.5	2.7	2.3	2.4	2.1	2.0
Food prices (yoy, %) (*)	3.8	3.2	2.3	1.9	1.7	1.8	2.0	2.1	0.7	3.4	1.9	2.1	2.2	1.9
Fuel prices (yoy, %) (*)	-12.2	-6.8	-3.6	-6.3	-0.1	-1.5	-2.3	-0.6	-0.9	-6.7	-2.6	1.7	1.5	1.0
Regulated prices (yoy, %)	0.9	1.1	0.4	-1.6	-1.6	-1.5	-0.9	1.5	6.3	0.9	-1.4	1.8	2.1	2.0
Producer prices (yoy, %)	-0.9	-0.9	-1.5	-0.5	0.4	0.3	0.3	1.0	0.8	-0.8	0.1	2.0	2.5	2.2
Financial variables														
2W Repo (%, average)	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5	5.1	3.6	3.5	3.4	3.0	3.0
3M PRIBOR (%, average)	3.6	3.5	3.5	3.5	3.5	3.6	3.6	3.6	5.0	3.6	3.6	3.5	3.1	3.1
EUR/CZK (average)	24.9	24.5	24.3	24.4	24.3	24.2	24.1	24.1	25.1	24.7	24.2	24.1	23.9	23.7
External environment														
GDP in EMU (real, yoy, %)	1.6	1.4	1.0	0.8	0.9	1.0	1.3	1.3	0.9	1.4	1.0	1.3	1.1	1.1
GDP in Germany (real, yoy, %)	0.3	0.3	0.2	0.1	0.7	1.1	1.3	1.4	-0.5	0.3	0.8	1.3	1.0	1.0
CPI in EMU (yoy, %)	2.0	2.1	2.0	1.6	1.7	1.5	1.5	1.6	2.4	2.1	1.6	1.8	2.3	2.2
Brent oil price (USD/bbl, average)	67.3	69.5	64.3	59.0	57.0	53.0	52.0	55.0	80.8	69.0	55.3	59.5	65.4	68.8
EUR/USD (quarter eop, year average)	1.13	1.17	1.16	1.20	1.19	1.17	1.14	1.15	1.08	1.13	1.18	1.15	1.15	1.15

Source: CZSO, CNB, MLSA, Bloomberg, Macrobond, Economic & Strategy Research, Komerční banka
Note: (*) these parts of inflation are adjusted for the primary effect of indirect tax changes

The Czech IRS market and government bonds

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The return of the upward trend

Expectations on the financial markets of further easing of the CNB's monetary policy could temporarily prevent market interest rates from rising. However, we believe that their growth will resume subsequently. This should be aided by fiscal policy easing at home and abroad, as well as the resulting increase in fundamental inflationary pressures and euro market interest rates. The deeper government budget deficit will also result in higher yoy net issuance activity and increased CZGB yields. Nevertheless, partial pre-financing and the use of alternative instruments will prevent the supply of CZGBs on financial markets from increasing dramatically. That said, we do not anticipate a significant narrowing of the currently relatively wide spreads between bond yields and market interest rates, particularly given the growing likelihood of a deterioration in the Czech sovereign rating outlook.

Market interest rates are continuing to rise

Dollar and euro market interest rates rose at the end of last year. In the United States, concerns about an economic slowdown eased after the end of the government shutdown in mid-November, with growth momentum continuing to be strong. Despite mild cooling, the US labour market also remains robust, contributing to increased core inflationary pressures. Financial markets therefore believe that, despite recent political pressures, the Fed does not need to ease its monetary policy urgently. Resilience and signs of recovery in the eurozone economy, together with the loosening of fiscal policies on the continent, also pushed up euro market rates, albeit to a lesser extent than in the US. Furthermore, European countries' increased borrowing needs are colliding with weaker demand compared to the pre-pandemic period. In this context, the ECB is lacking as an important counterparty, given that it is no longer expanding its balance sheet by purchasing government bonds.

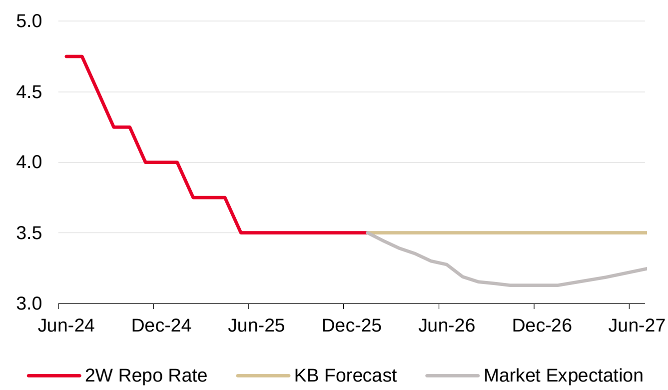
An increase in shorter koruna rates could be temporarily hampered by financial market expectations of monetary policy easing by the CNB. However, the upward trend should resume for the rest of the year.

CZK market interest rates will be pushed back up by foreign rates and a change in market expectations regarding the CNB. The CZK money market currently expects the CNB to ease its monetary policy this year. This market narrative could persist in the first quarter due to the likely decline in inflation below the central bank's target. However, we believe it is more likely that the CNB will not respond to the temporary decline in inflation caused by administrative measures. On the contrary, we expect core inflation to rise in the second half of the year in connection with the easing of fiscal policy. This should support a renewed rise in the short end of the curve. The longer end will likely be supported in its upward trajectory during the year mainly by the continuing rise in euro market interest rates. Compared to our previous forecast, our outlook for koruna rates for this year remains largely unchanged.

IRS forecast (%)

Source: Bloomberg, Economic & Strategy Research, Komerční banka

Expected CNB key interest rate path as of 28 January 2026 (%)



Source: Bloomberg, CNB, Economic & Strategy Research, Komerční banka

CZK IRS outlook (end of period, %)

	1Q26f	2Q26f	3Q26f	4Q26f
2y	3.40	3.65	3.80	3.80
5y	3.70	3.90	3.95	4.00
10y	3.95	4.15	4.20	4.25

Source: Economic & Strategy Research, Komerční banka

The slowdown in inflation could be an opportunity to hedge

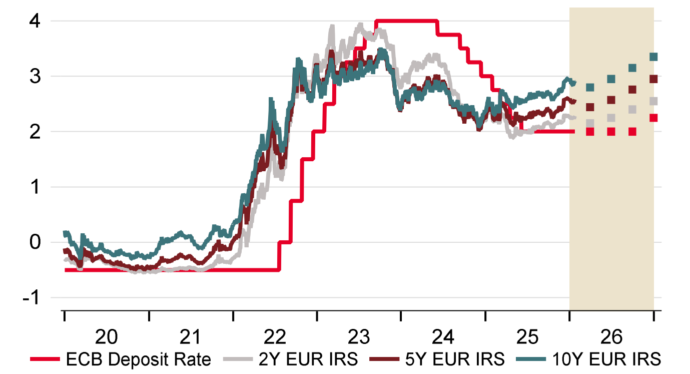
Conditions for interest rate hedging on the koruna market have improved recently, helped by the CNB's more dovish stance. The decline in inflation at the beginning of the year could prevent rates from rising. However, conditions are likely to deteriorate again later in the year. The forward market currently offers higher rates than the spot IRS. Interest rates in the eurozone remain significantly lower than in the Czech Republic.

CZK forward interest rate swaps (%, p.a. vs 6M Pribor, 1Y vs 3M Pribor)

Forward \ Maturity	1Y	2Y	3Y	5Y	10Y
Spot	3.36	3.36	3.47	3.65	3.98
3M	3.33	3.39	3.51	3.69	4.01
6M	3.28	3.41	3.54	3.72	4.03
9M	3.32	3.47	3.60	3.76	4.07
1Y	3.36	3.53	3.65	3.81	4.10
2Y	3.71	3.80	3.87	4.00	4.24
3Y	3.90	3.95	4.01	4.13	4.33

Source: Bloomberg, Economic & Strategy Research, Komerční banka, as of 28 January 2026

Euro area rates (%)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Net CZGB issuance to rise this year

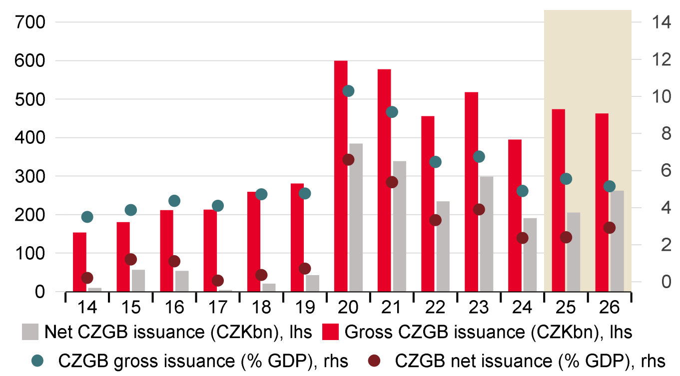
We expect the state budget cash deficit to reach CZK310bn this year. Taking into account other financing needs, particularly the repayment of maturing bonds and treasury bills, we estimate that the gross issuance of CZGBs will be more likely in the upper end of the range indicated by the Ministry of Finance (MinFin). MinFin assumes the issuance of koruna government bonds with a total amount of CZK400-500bn. Compared to last year, this represents an estimated increase of around a quarter in net terms. In addition to CZK-denominated bond issuance, the total financial needs will be significantly covered by other instruments. Alongside the assumption of a continued elevated supply of treasury bills, we also anticipate the drawing of extra-budgetary loans from the EIB, the issuing of euro-denominated bonds and the resumption of the issuance of government retail savings bonds for citizens.

Funding programme and issuance activity (CZKbn)

	2026	
	MinFin	KB
State budget deficit	310.0	310.0
Transfers and other operations of state financial assets		2.5
T-bonds denominated in local currency redemptions	200.3	200.3
T-bonds denominated in foreign currency redemptions	0.0	0.0
Redemptions and early redemptions on savings bonds	19.7	19.7
Money market instrument redemptions	177.3	177.3
Redemption of T-bills	165.6	165.6
Redemption of other money market instruments	11.7	11.7
Repayments on credits and loans	26.3	26.3
Total financing needs	**733.6**	**736.1**
Money market instruments		165.0
T-bills		165.0
Other money market instruments		0.0
Gross issuance of CZK T-bonds on domestic market		462.7
Gross issuance of EUR T-bonds on domestic market/eurobond		48.4
Gross issuance of government savings bonds		10.0
Received credits and loans		40.0
Financial asset and liquidity management		10.0
Total financing sources		**736.1**
Gross borrowing requirement		**726.1**
Net CZGB issuance		**262.4**

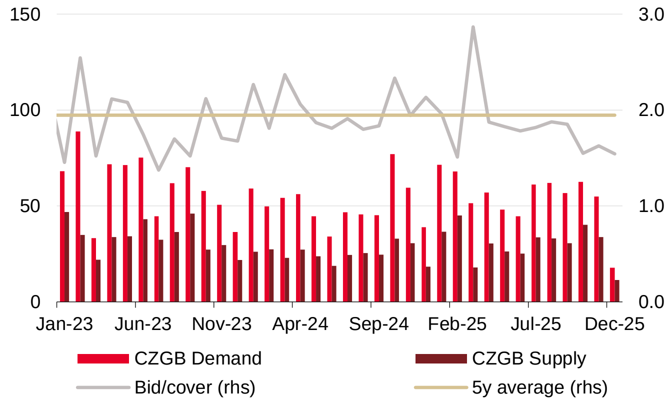
Source: MinFin, Economic & Strategy Research, Komerční banka

CZGB issuance



Source: MinFin, Economic & Strategy Research, Komerční banka

CZGB primary market (CZKbn)



Source: MinFin, CNB, Economic & Strategy Research, Komerční banka

CZGB yields have not yet peaked

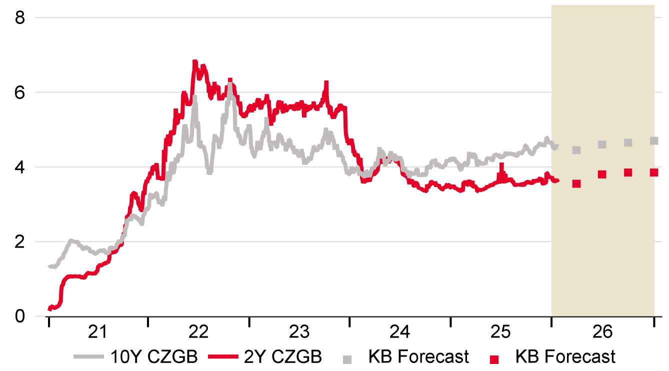
At the end of last year, CZGBs came under greater pressure than IRS, effectively making them cheaper. We expect ASW spreads to remain at elevated levels for the rest of this year. The increase in government bond issuance will ultimately be less pronounced than we had previously forecast. However, negative sentiment is likely to persist, given the potential loosening of domestic fiscal rules, the possible downgrade of the rating outlook and the medium-term outlook for public finances resulting from the cancellation of the pension reform. As an asset class, bonds are also unlikely to benefit from the cyclical position of the economy, which is expected to exceed its potential in the second half of this year. Overall, we expect this year's increase in CZGB yields to be roughly similar to that of koruna market interest rates.

CZGB yield forecast (end of period)

	1Q26f	2Q26f	3Q26f	4Q26f
2y CZGB yield (%)	3.55	3.80	3.85	3.85
5y CZGB yield (%)	3.95	4.10	4.15	4.20
10y CZGB yield (%)	4.45	4.60	4.65	4.70
10y CZGB ASW (bp)	50	45	45	45

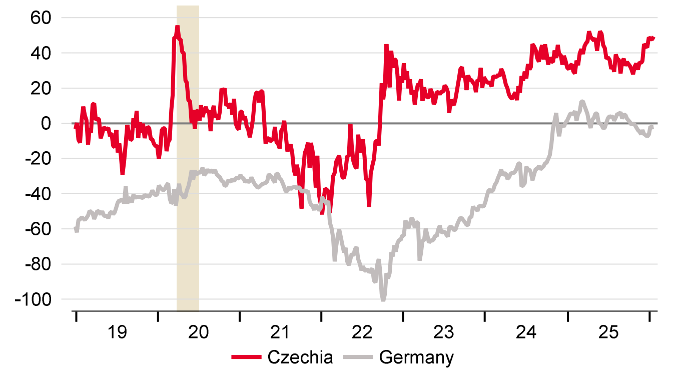
Source: Economic & Strategy Research, Komerční banka

CZGB yield forecast (%)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

10y bond ASW (bp)



Source: Bloomberg, Economic & Strategy Research, Komerční banka
Note: ASW= 10y CZGB yield - 10y CZK IRS; shading indicates recessionary period in Czechia

The Czech Republic's credit rating remains unchanged at Aa3/AA-, with a stable outlook. However, the likelihood of a downgrade to the outlook is increasing. The Czech Republic still has the best rating of any country in Central and Eastern Europe. However, Fitch and Moody's have made the current rating conditional on further consolidation or, at the very least, no deterioration in the state of domestic public finances. They also point out that an important long-term challenge is the ageing population and the associated pressure on public finances. In our baseline scenario, we anticipate an increase in the public finance deficit, followed by a revision of domestic fiscal rules. In the medium term, the risk of a downgrade is increased further by the new government's announced cancellation of the pension reform. Among other things, the current amendment will gradually increase the retirement age even after 2030 and slow the growth of pensions. This should save approximately 1.5% of GDP in pension expenditure per year from the 2050s onwards, compared to a scenario without reform.[2] Overall, this increases the likelihood that at least one of the agencies will downgrade its outlook from stable to negative.

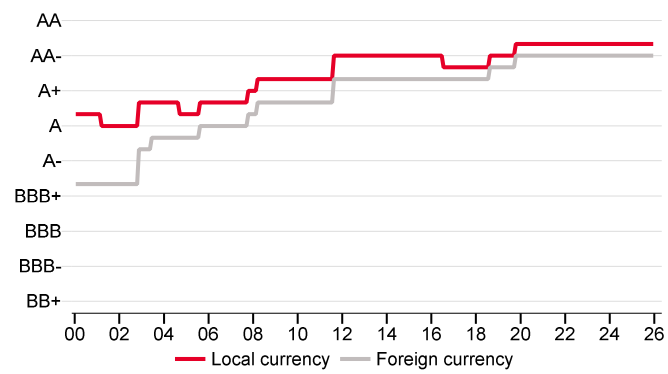
Czech Republic sovereign rating overview

	Local currency	Outlook	Foreign currency	Outlook
S&P	AA	STABLE	AA-	STABLE
Moody's	Aa3	STABLE	Aa3	STABLE
Fitch	AA-	STABLE	AA-	STABLE

Source: Bloomberg, Economic & Strategy Research, Komerční banka

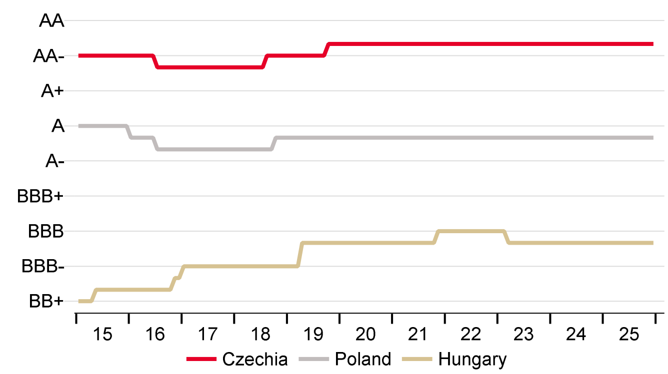
[2] https://economy-finance.ec.europa.eu/document/download/f6fd1e81-2434-4729-bc36-28f9e6a79eb9_en?filename=CZ_final_2025.pdf

The Czech Republic's rating (average of Fitch, S&P and Moody's)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Rating in CE3 – local currency (avg. of Fitch, S&P and Moody's)



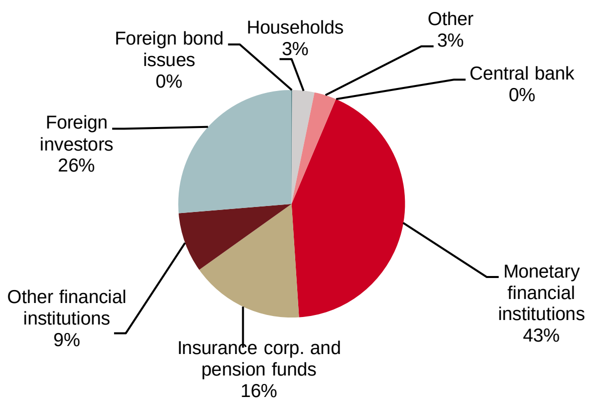
Source: Bloomberg, Economic & Strategy Research, Komerční banka

Government bond overview

Government bond overview									Rich-cheap analysis											
Bond		Dur.	Issued last 90D	Issuance limit	Yield	Δ1W	Δ1M	FX hedged	ASW	Δ1W	Δ1M	Min	90D	Max	Z-Score	Rank	Spline spread	Rank	Carry Roll 90D	Rank
1.00	Jun-26	0.4	0.0	100%	3.35	2	21	2.11	-14	2	27	-57		-14	2.1	7	-8.0	2	-28.8	26
0.25	Feb-27	1.0	0.0	110%	3.36	-5	-9	2.27	-5	3	12	-24		-5	1.6	14	-1.7	11	-5.0	25
2.50	Aug-28	2.4	0.0	94%	3.50	-9	-18	2.48	2	0	10	-22		4	1.9	10	3.4	19	2.8	22
5.50	Dec-28	2.6	0.0	90%	3.50	-9	-24	2.51	1	0	4	-25		2	1.7	12	6.4	24	2.5	23
5.75	Mar-29	2.8	8.9	118%	3.56	-9	-24	2.55	6	1	5	-16		6	2.1	8	4.4	21	3.1	21
2.75	Jul-29	3.2	0.0	100%	3.63	-8	-25	2.61	5	0	3	-8		8	1.3	17	1.9	18	3.6	20
0.05	Nov-29	3.7	0.0	61%	3.68	-8	-24	2.64	4	-1	3	-6		8	0.9	24	0.9	15	3.9	17
0.95	May-30	4.0	0.0	100%	3.74	-9	-23	2.70	7	-2	5	-2		12	0.9	22	1.3	17	4.2	16
5.00	Sep-30	4.1	0.0	121%	3.77	-11	-24	2.79	13	-2	5	4		15	1.5	16	3.4	20	4.4	15
3.95	Oct-30	4.2	0.0	10%	3.68	-10	-20	2.70	3	-1	6	-8		5	2.0	9	11.6	26	3.9	18
1.20	Mar-31	4.7	0.0	100%	3.88	-7	-19	2.83	14	-1	7	5		16	0.9	23	-2.2	10	4.8	14
6.20	Jun-31	4.4	0.0	103%	3.93	-5	-16	2.98	26	-1	10	4		26	3.2	1	-4.1	7	5.2	11
1.75	Jun-32	5.8	0.0	100%	4.05	-8	-19	2.99	19	-2	6	12		23	0.6	26	-2.4	9	5.2	12
4.50	Nov-32	5.7	3.7	130%	4.12	-9	-20	3.14	31	-2	6	16		33	1.6	15	-4.6	5	5.5	6
3.00	Mar-33	6.0	0.0	74%	4.18	-9	-19	3.14	30	-2	5	21		34	1.3	19	-7.1	3	5.5	4
2.00	Oct-33	6.8	0.0	100%	4.28	-6	-17	3.20	31	-1	6	22		34	1.2	20	-9.4	1	5.6	3
4.90	Apr-34	6.5	4.0	114%	4.29	-8	-18	3.31	40	-2	6	26		41	2.3	3	-4.5	6	5.7	1
4.25	Oct-34	7.1	12.6	74%	4.36	-7	-16	3.35	40	-2	7	26		42	2.1	6	-5.0	4	5.6	2
3.50	May-35	7.5	11.8	117%	4.37	-7	-14	3.32	34	-3	7	21		38	1.8	11	0.7	14	5.4	7
5.30	Sep-35	7.4	14.6	59%	4.41	-8	-16	3.45	45	-2	6	30		46	2.5	2	-0.7	13	5.5	5
4.55	Oct-35	7.6	0.0	10%	4.35	-7	-18	3.36	35	-3	4	23		37	1.3	18	6.0	23	5.2	10
3.60	Jun-36	8.2	3.2	67%	4.47	-7	-14	3.43	38	-1	6	27		42	1.6	13	1.2	16	5.3	8
4.20	Dec-36	8.5	0.0	100%	4.47	-5	-12	3.47	39	-2	8	26		40	2.2	5	5.9	22	5.3	9
1.95	Jul-37	9.6	2.4	70%	4.61	-4	-11	3.47	35	-1	7	26		41	1.1	21	-1.0	12	4.9	13
1.50	Apr-40	11.8	0.0	64%	4.74	1	-13	3.58	34	2	4	26		40	0.6	25	6.5	25	3.9	19
4.00	Apr-44	11.9	0.5	19%	4.93	1	-6	3.93	60	1	10	37		60	2.2	4	-3.0	8	2.4	24

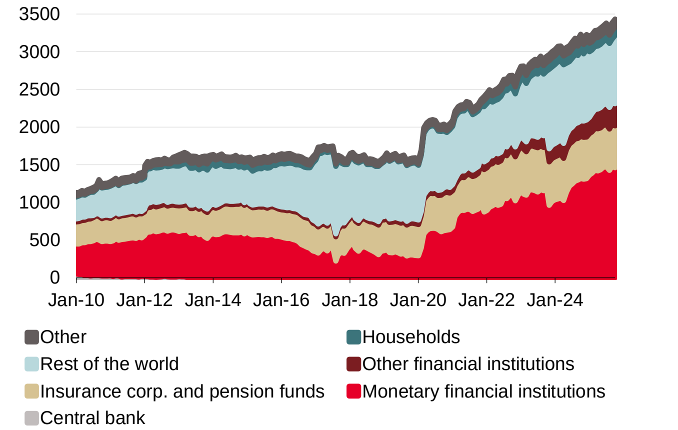
Source: Economic & Strategy Research, Komerční banka; Note: more details in CZGB Auction Alerts

Holdings of CZK government debt (November 2025)



Source: MinFin, Economic & Strategy Research, Komerční banka

Holdings of CZK government debt (CZKbn)



Source: MinFin, Economic & Strategy Research, Komerční banka

Czech FX market

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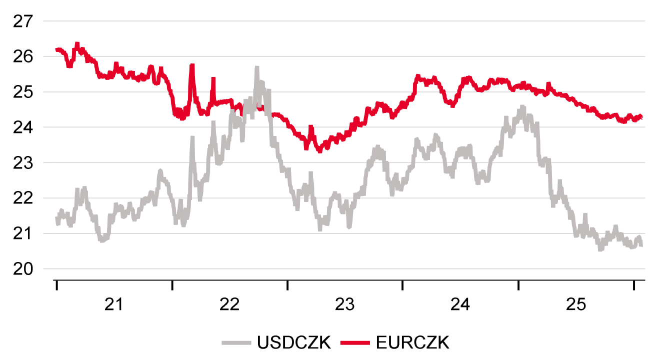
Koruna will strengthen slightly this year

Despite relatively favourable global sentiment, the Czech currency may come under pressure in the coming months due to financial market speculation regarding further interest rate cuts by the CNB. However, in our baseline scenario, we do not expect domestic monetary policy to be eased this year. Therefore, we believe that the koruna should appreciate against the euro from the second quarter onwards, supported by the widening interest rate differential and solid growth in the Czech economy. This will be partially offset, however, by the simultaneous resumption of strengthening in the US dollar, which typically does not benefit emerging market currencies. Overall, we expect the koruna to strengthen slightly to EURCZK 24.10 by the end of the year, after an initial weakening.

In the short term, the koruna may remain under pressure from dovish CNB and slowing inflation

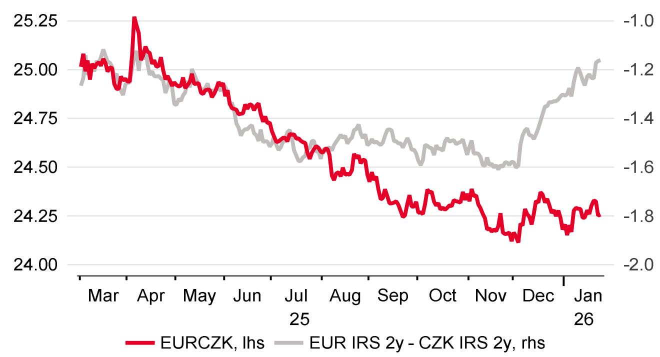
Over the past four months, the koruna has remained within the range of EURCZK 24.10-24.40. The recent weakening towards the upper end of this range was primarily due to the narrowing of the interest rate differential. This reflected increasing speculation on financial markets that the CNB would cut rates this year, in line with the central bank's more dovish rhetoric at its December meeting, and the prospect of headline inflation falling below the 2% target. However, this was partly offset by favourable developments on global foreign exchange markets for emerging market currencies, as opposed to the US dollar. Both factors may remain relevant in the first quarter of this year. According to external assumptions of our forecast, the EURUSD exchange rate is expected to reach 1.20 by the end of 1Q26. The market's dovish CNB narrative may continue as well given that we expect headline inflation to slow below the central bank's target at the beginning of this year.

CZK exchange rates



Source: Bloomberg, Economic & Strategy Research, Komerční banka

EURCZK and interest rate differential

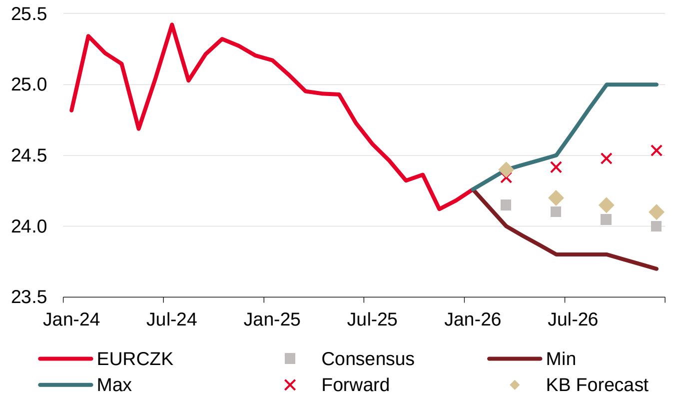


Source: Bloomberg, Economic & Strategy Research, Komerční banka

During the year, the koruna will be supported by a change in market expectations regarding the CNB, as well as by solid domestic economic growth. In our baseline scenario, the CNB will not lower interest rates from their current level this year. This will be driven by continued elevated core inflationary pressures, which may intensify further in 2H26 as fiscal policy is eased. Alongside this, we expect the interest rate differential to widen. Appreciation will also be supported by the rapidly growing domestic economy, which we estimate will outperform the eurozone by a substantial 1.7pp on an annual basis, up from 1.2pp in 2025. However, we expect these favourable effects to be partially offset by global sentiment. According to the external assumptions of our forecast, this will favour US assets from the second quarter onwards. In line with this, we anticipate the dollar to strengthen against the euro to EURUSD 1.14 by the end of 2026.

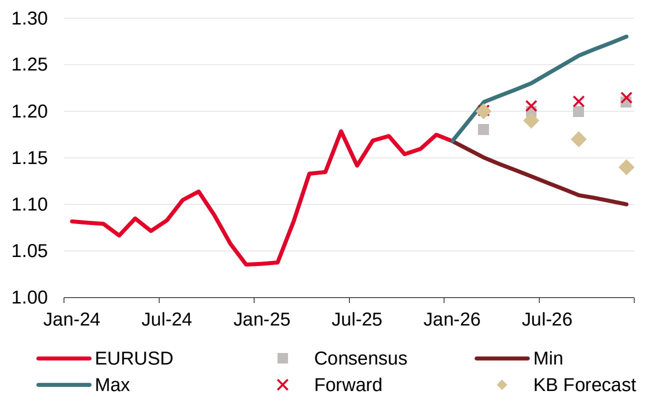
Overall, we expect the koruna to come under depreciation pressure in the short term, but it should strengthen slightly against the euro for the rest of the year. At the end of 1Q26, we predict the koruna will be at EURCZK 24.40. The gradual strengthening should then resume as the interest rate differential widens and the Czech economy continues to grow strongly. However, given the simultaneous strengthening of the US dollar, this process will be gradual. By the end of the year, we anticipate an exchange rate of EURCZK 24.10.

Expected EURCZK path, Bloomberg consensus (as of 28 January 2026)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Expected EURUSD path, Bloomberg consensus (as of 28 January 2026)



Source: Bloomberg, Economic & Strategy Research, Komerční banka, SG Cross Asset Research

Our forecast for the EURCZK exchange rate remains largely unchanged. This is the result of a better economic outlook for the Czech economy, which is partially offset, however, by significantly less favourable global sentiment reflected in a stronger US dollar.

Koruna exchange rate forecast (end of period)

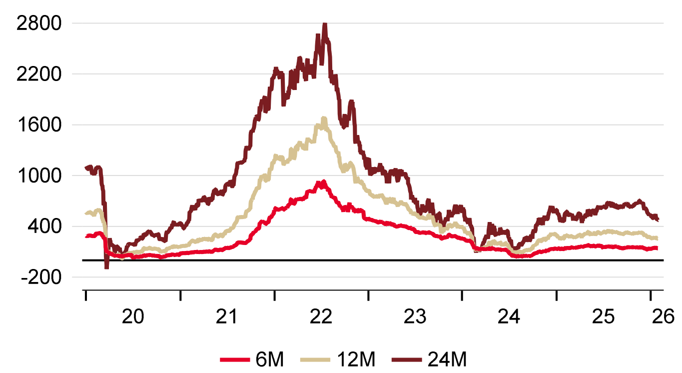
	1Q26f	2Q26f	3Q26f	4Q26f
EURCZK	24.40	24.20	24.15	24.10
USDCZK	20.30	20.35	20.65	21.15
EURUSD	1.20	1.19	1.17	1.14

Source: Economic & Strategy Research, Komerční banka, SG Cross Asset Research

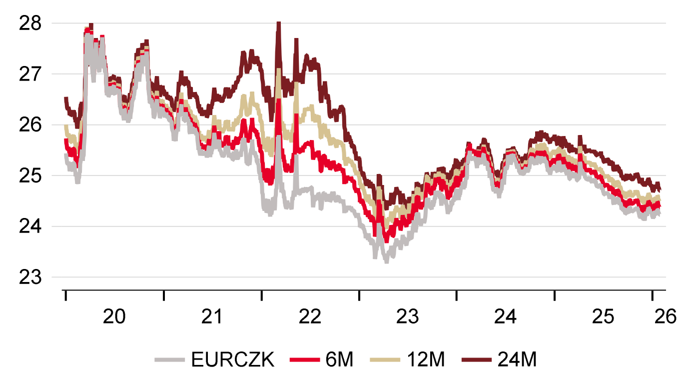
Further developments remain subject to considerable uncertainty

The risks are two-sided compared to our baseline scenario. They are mainly related to uncertainty about the impact of tariff barriers on the Czech economy and the EU, and the monetary policy stance of the CNB and the ECB. In the case of the CNB, the risk is skewed more towards a looser monetary policy and thus a weaker koruna. The further development of the war in Ukraine also remains a general uncertainty, with a potential impact on market perceptions of all Central European currencies.

Forward points



Forward vs spot exchange rate: EURCZK



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Source: Bloomberg, Economic & Strategy Research, Komerční banka

Markets do not expect any significant fluctuations in the koruna exchange rate in the coming months. Implied volatility and the volatility index remain low. In our baseline scenario, conditions for exporters with euro exposure could improve slightly in the short term, given the slowdown in headline inflation at the start of the year and the dovish market expectations regarding the CNB. However, the negative impact of the strengthening spot exchange rate should prevail for the rest of the year.

Banking sector

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Steadfast credit currents lifting the economy

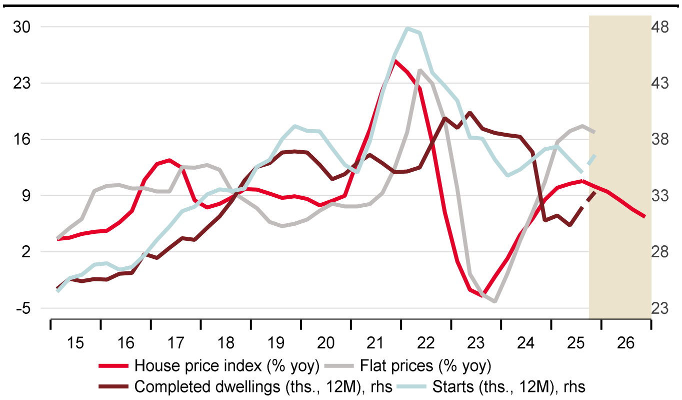
Increased retail credit activity is likely to continue this year, while corporate lending is set to strengthen more significantly. The credit impulse is set to remain positive on the back of strong growth in the Czech economy, fiscal policy easing, and only slight monetary policy restriction. Demand for housing and consumer lending is likely to remain strong, but there is limited scope for a further substantial increase in volumes. Similarly, we expect house price growth to slow but remain high, likely continuing to outpace wage growth. Despite tighter financial conditions overall, we expect investment appetite to rise, supported by renewed confidence in the economy and rising aggregate demand. Default rates have remained close to all-time lows, which should provide sufficient room for a strong rise in bank lending.

Housing and mortgage markets are only slowly coming off the boil

The overheating phase of the housing and mortgage markets has likely peaked. We do not expect a further acceleration in house price growth and mortgage volumes.

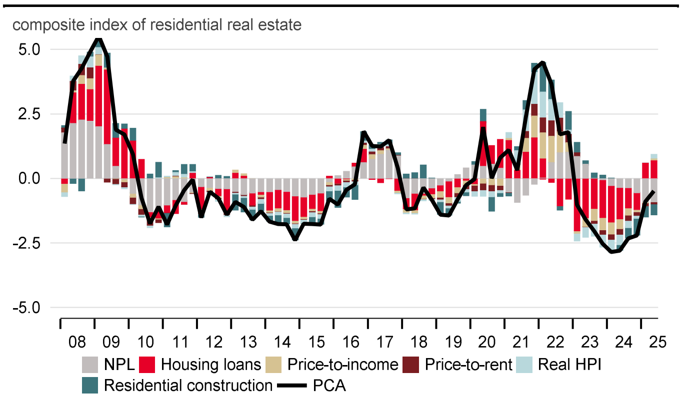
Despite a slight slowdown, house price growth should remain high due to the structural imbalance in the domestic housing market. According to the HPI, house price growth reached 10.8% yoy in 3Q25, but showed signs of a limited slowdown compared to 2Q. House prices were up 2.4% qoq in 3Q (vs 2.6% in 2Q), mainly due to new builds, while qoq growth for existing dwellings accelerated slightly. Signals of a slowdown from other house price indicators are mixed. Offer prices for flats rose by almost 17% yoy in 4Q25, but the qoq growth continues to show some signs of cooling. Realised flat prices also recorded lower qoq growth in 3Q compared to 2Q. In contrast, *Flat Zone* transaction data shows continued high growth in first-sale Prague apartments, reaching 13% yoy in 4Q25 vs 11.3% in 3Q. We believe that the overheating phase of the housing market has peaked in this cycle, in terms of price growth. We expect house price growth to gradually slow in the coming quarters as cyclical pressures ease, such as lower wage growth and the volume of accumulated household savings and limited room for mortgage rate reduction. Nevertheless, the prevailing structural imbalance between strong demand and limited supply should keep house price growth elevated. We estimate HPI growth to slow to an average 7.9% in 2026, down from 10.4% in 2025.

House price growth slowdown should be fairly limited



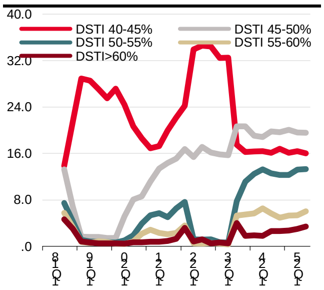
Source: CZSO, Macrobond. Economic & Strategy Research, Komerční banka
Note: data on dwelling completions and starts (as of November 2025) is extrapolated and only indicative for 4Q25. 12M denotes the 12-month trailing sum.

Housing market expansion back on track



Source: Economic & Strategy Research, Komerční banka
Note: own calculations; PCA = principal component analysis vector. The composite housing index is the result of Principal Component Analysis (PCA). Construed as per Cár, M., & Vrbovský, R. (2019, March). *Composite index to assess housing price development in Slovakia.* https://www.nbs.sk/_img/documents/_publik_nbs_fsr/biatec/rok2019/03-2019/05_biatec19-3_car.pdf.

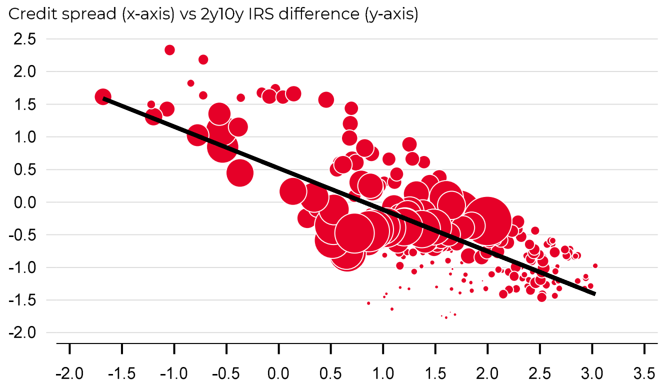
Share of loans by DSTI (%)



Source: CNB, Economic & Strategy Research, Komerční banka

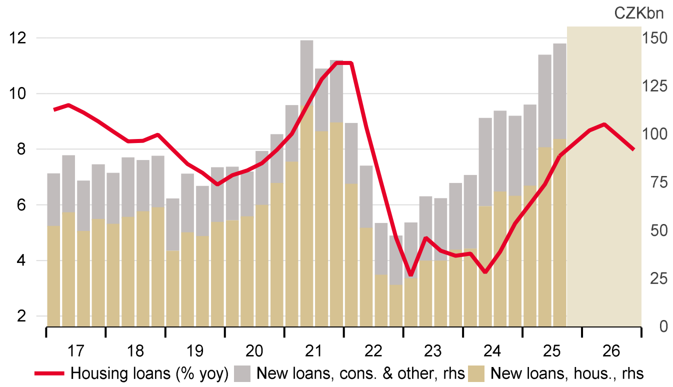
The mortgage market is set to grow strongly again this year, although the volume of new loans is unlikely to increase significantly further. The volume of (pure) new housing loans grew by near 50% ytd as of November 2025, likely reaching CZK360bn for FY25. We expect the volume to reach similar levels, and the mortgage market to grow by 8% in 2026, following 8.2% in 2025 (KBe).[3] The CNB's recommendation regarding investment mortgages – accounting for c.10% of FY25 volume – should have a negative impact. While we do not expect further acceleration in mortgage activity, it should remain strong. Moreover, given the limited accumulation of risks to financial stability, we do not expect the reintroduction of DSTI and DTI limits in the coming quarters. However, a potential large increase in mortgage activity and an acceleration in house price growth could bring these into view, particularly in 2H26.

Mortgage credit spreads over IRS and IRS curve inversion (pp)



Source: CNB, Bloomberg, Macrobond, Economic & Strategy Research, Komerční banka
Note: The size of the bubbles represents the volume of new loans. Credit spread is computed as the difference between the realised interest rate on housing loans and the weighted average of corresponding market IRS (only an approximation).

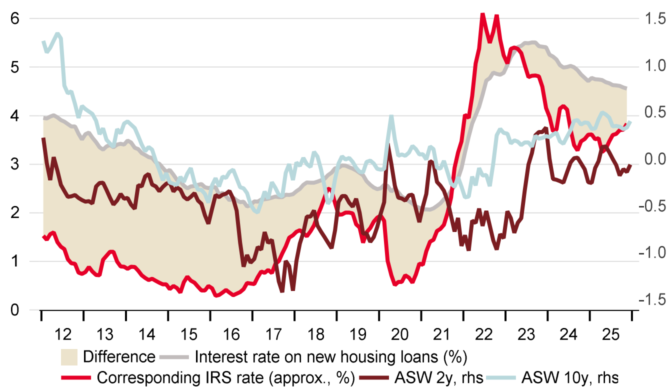
Growth in outstanding housing loans should remain strong



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka

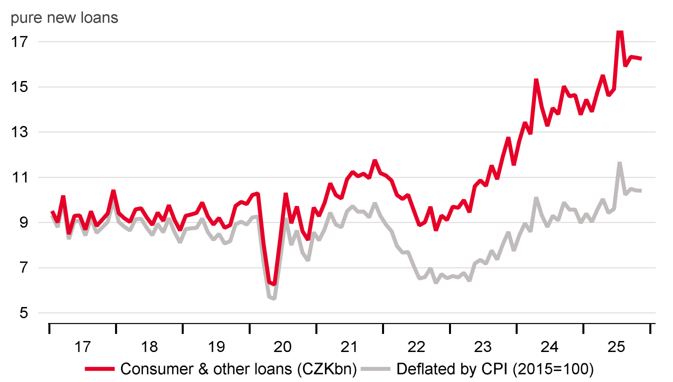
There is little room for mortgage rates to fall, given the stability of CNB rates. Higher market IRS rates and a steeper yield curve likewise limit the scope for mortgage rates to fall closer to 4%. The eventual easing of monetary policy would open up this possibility, potentially leading to an acceleration in mortgage activity and house price growth. The high share of mortgages up for interest rate renegotiation in 2026 may put downward pressure on mortgage rates. Most existing loans up for renegotiation are likely to see higher interest rates, which could reduce households' disposable income and dampen consumption growth.

Mortgage rate spreads over IRS (%, pp)



Source: CNB, Bloomberg, Macrobond, Economic & Strategy Research, Komerční banka
Note: ASW (CZGB-IRS) of corresponding CZGBs.

Consumer financing growing strongly, even in real terms



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: Pure new loans are loans or extensions to loans that enter the economy for the first time.

[3] Unless stated otherwise, values refer to the end of period yoy growth.

Consumer loans showing strong growth, indebtedness is rising only modestly

Despite rapid growth in household lending, the indebtedness ratio has risen only slightly so far and remains well below the 2015-21 average.

Growth in household credit exceeded our expectations, including stronger-than-expected consumer financing. In real terms, new consumer loans were up 8.5% ytd as of November 2025, and 11.2% ytd in nominal terms. The household credit impulse remains strongly positive, reaching about 0.5% of GDP in 4Q25. We expect it to continue to lift growth in 2026, but, given our expectation of a limited rise in new volumes compared to 2025, the household credit impulse should weaken in 2026. Consumer financing growth likely reached around 10.7% in 2025, and we expect it to reach 9.6% in 2026. Despite the rapid growth in consumer financing, there appears to be no excessive rise in household indebtedness, which, relative to gross disposable income, rose to 54% in 3Q25, well below levels from 2015-21. The outstanding stock of consumer loans relative to GDP is set to rise by 0.2pp to 4.8% of GDP in 2026, similar rise as in 2025. We have lifted our housing and consumer loans estimates in view of the improved economic outlook. The retail segment should again contribute significantly to overall credit growth in 2026.

Bank loans and deposits (%, yoy)

	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2024	2025	2026	2027	2028	2029
Bank loans														
Total	6.8	6.1	6.6	7.3	6.6	8.0	7.3	7.5	6.1	6.1	7.3	7.1	6.1	5.9
Households - real estate loans	6.7	7.8	8.2	8.7	8.9	8.4	8.0	7.5	4.4	7.2	8.5	6.7	5.5	5.7
Households - consumer loans	9.3	10.4	10.7	10.7	10.8	9.8	9.6	9.2	8.7	9.9	10.2	8.1	6.4	6.2
Corporate loans	5.9	2.9	4.2	4.8	4.1	7.8	6.5	7.1	7.5	4.2	5.8	7.3	6.4	6.0
Deposits														
Total	4.8	3.6	4.1	5.4	6.1	7.5	4.7	7.3	7.4	4.1	5.9	6.5	5.1	4.8
Households	4.8	4.7	5.0	5.0	5.6	5.7	5.4	5.7	8.0	5.1	5.4	5.6	5.1	4.6
Non-financial corporations	4.6	3.2	1.6	4.5	3.9	6.0	4.4	5.2	5.4	2.9	4.7	5.0	4.3	4.6
Others	4.9	2.0	4.5	6.6	8.3	11.3	3.6	11.4	8.0	3.6	7.4	8.9	5.6	5.2
Ratios														
Loans/GDP	57.5	57.1	57.3	57.5	57.9	58.5	58.5	58.8	57.0	57.2	58.1	59.2	59.9	60.8
Deposits/GDP	92.0	91.2	88.1	91.2	92.2	93.0	87.6	93.1	92.1	90.8	91.0	92.1	92.4	92.8
Loans/deposits	62.5	62.6	65.1	63.1	62.8	62.9	66.7	63.2	61.9	63.0	63.9	64.3	64.9	65.6
Interest rates														
Real estate loans	4.7	4.6	4.5	4.5	4.4	4.3	4.3	4.3	5.0	4.6	4.4	4.3	4.3	4.4
Consumer loans	8.0	8.0	7.9	8.1	8.1	8.3	8.4	8.5	8.8	8.0	8.2	8.5	8.5	9.0
Corporate loans	4.8	5.3	5.1	5.1	5.0	5.1	5.1	5.1	6.3	5.2	5.1	5.0	4.6	4.7
Share of NPL														
Real estate loans	0.7	0.7	0.7	0.7	0.8	0.8	0.9	1.0	0.7	0.7	0.8	1.1	1.3	1.5
Consumer loans	4.2	4.2	4.1	4.4	4.7	5.2	5.5	5.9	4.2	4.2	4.9	6.2	6.9	7.8
Corporate loans	2.6	2.5	2.4	2.4	2.3	2.4	2.5	2.7	2.5	2.5	2.4	3.0	3.8	4.8

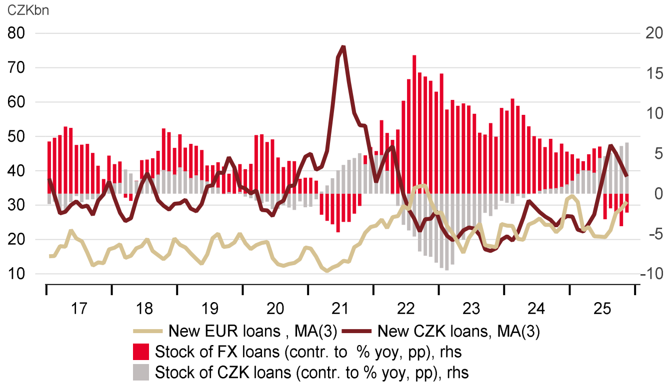
Source: CNB, CZSO, Macrobond, Economic & Strategy Research, Komerční banka
Note: quarterly values are end of period, full-year values are averages.

Rising investment appetite on the back of fiscal easing and a strong economy

Corporate credit demand should benefit from a stronger economy and renewed confidence, despite tighter financial conditions.

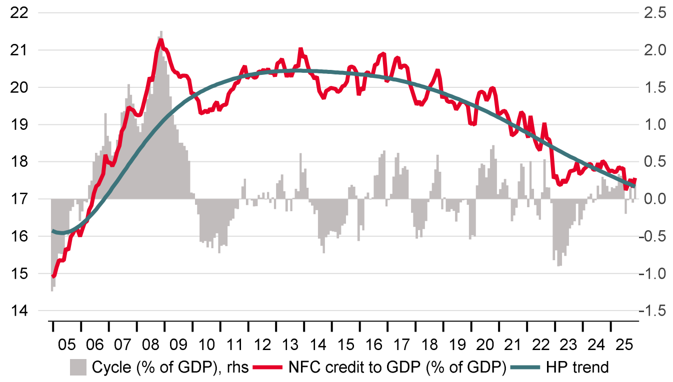
Non-financial corporate (NFC) lending picked up in 2H25 despite uncertainty and the introduction of US tariffs. However, NFC loan growth remained low at +4% yoy in November, affected by the stronger Czech koruna reducing the value of foreign currency loans, as well as higher repayments. We estimate the stronger CZK to have reduced NFC loan growth by around 2pp in 2025. The volume of new (pure) CZK loans rose by 33.3% ytd as of November 2025, while the volume of EUR loans recorded growth of +5.3% ytd. Relative to GDP, the volume of new loans in 2H25 was on average still 22% lower than in 2014-19. We expect volumes to increase in 2026, which should boost the credit impulse of NFC loans, mainly owing to small- and medium-sized enterprises. This is likely already reflected in higher demand for koruna loans, while larger corporate segments increasingly opt for non-bank financing.

NFC credit activity strengthened significantly in 2H25



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka

NFC credit-to-GDP ratio has risen above its declining trend

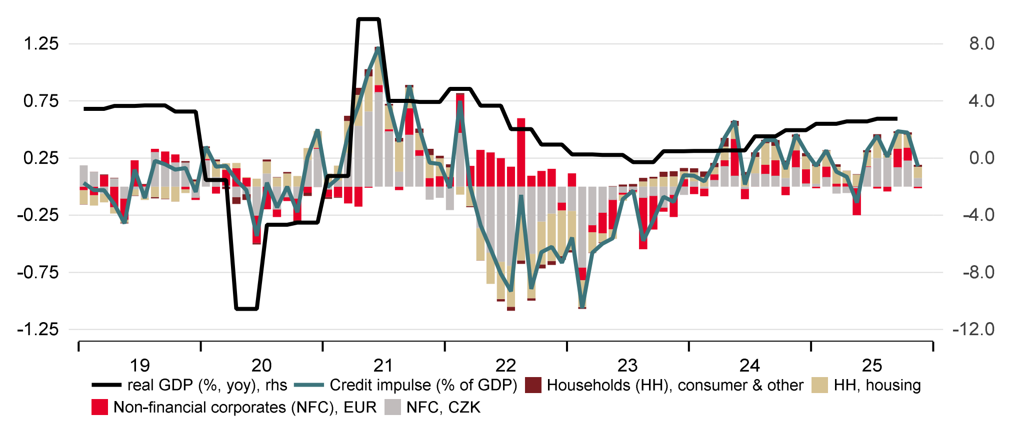


Source: CZSO, CNB, Macrobond, Economic & Strategy Research, Komerční banka

Alternative financing sources via issuance of bonds, intra-company financing or investment funds continue to offset traditional bank financing. However, we believe that NFC loans relative to GDP should continue to grow modestly. On the other hand, a more expansionary fiscal policy could crowd out private investment. We have raised our estimate for NFC loan growth to 6.5%, following our improved outlook for the Czech economy.

Lastly, in terms of interest rates, we do not expect a significant easing of financial conditions. On the contrary, rising longer-term IRS market rates could tighten them. The relative advantage of EUR financing over CZK could diminish towards end of the year, thru the optics of monetary policy rates, given our expectation for stability of CNB rates and a gradual increase in ECB rates over a one-year horizon.

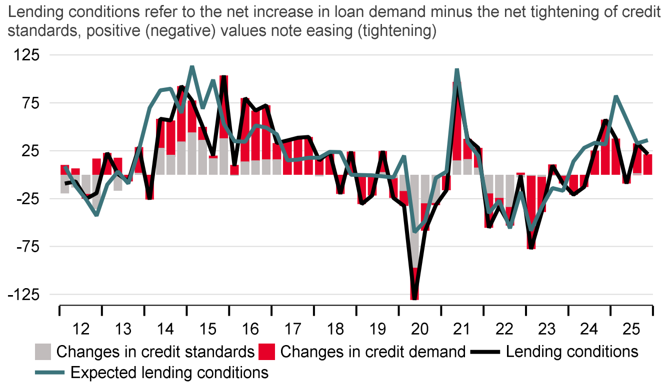
Credit impulse continues to strongly propel Czech economic growth



Source: CNB, CZSO, Macrobond, Economic & Strategy Research, Komerční banka

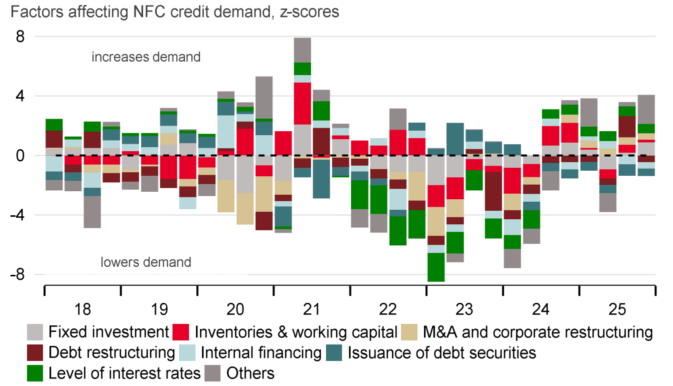
Note: Credit impulse is defined as the change in the volume of new borrowing, often given as a % of annual GDP. The presented credit impulse represents the yoy change in new borrowing of the non-financial private sector to trailing 12m nominal GDP. It is further broken down according to the use of the loan for households and the currency denomination for firms. As opposed to monthly credit indicators (as of November 2025), GDP (as of 3Q25) is a quarterly indicator.

Lending conditions indicate higher credit demand



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: Bank Lending Survey (CNB, 4Q25), loans to NFCs. Expected lending standards refer to questions regarding banks' expectations for the next three months.

Factors affecting NFC credit demand, according to banks



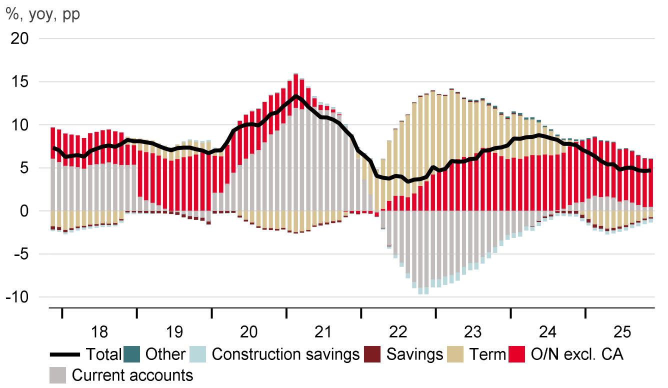
Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: Stacking the z-scores in the bar chart is for presentation purposes only. *Others* refers to loans from other banks and non-bank institutions, issuance of equity and other.

Partial course correction of the growing deposit overhang over loans

Deposit growth is likely to accelerate in 2026 thanks to easing fiscal policy and increased credit activity. But we expect loans-to-deposit ratio to increase.

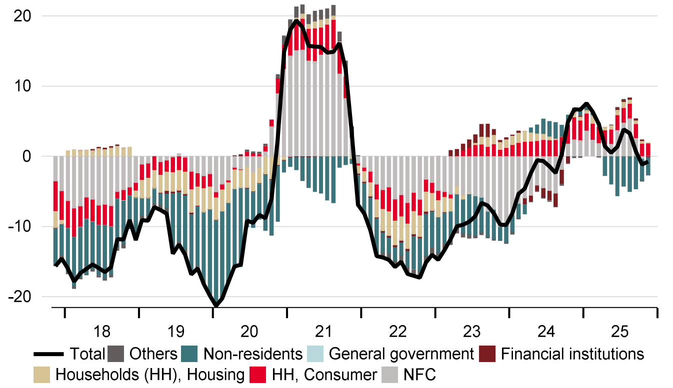
The loan-to-deposit ratio is likely to gradually increase. This should reflect a rebound in credit activity and slower deposit growth due to lower interest rates. However, the large overhang of deposits over loans should persist. The loan-to-deposit ratio stood at 0.63x in November 2025, up only slightly by two hundredths yoy, with both household and corporate sectors contributing to this. We expect deposit growth to strengthen in 2026 compared to 2025 thanks to increased credit activity and financing in general, as well as to an expansionary fiscal policy. The growing deposit base and banks' balance sheets should increase the absorption capacity for government bonds. We estimate deposits to increase by 5.9% on average this year.

Rise in household deposits dominated by interest-bearing ones



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: O/N = overnight; O/N excl. CA also includes non-term savings deposits

The volume of non-performing loans is down yoy again (%, yoy)



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka

Low default rates offer plenty of room for increased lending in the economy

Despite the expanding financial cycle, the default rate remains close to its lows and the accumulation of risks is currently also limited.

The default rates (share of non-performing loans – NPLs) remain close to all-time lows, providing room for a more significant rise in financing. This is also supported by a stable and growing strong deposit base. Default rates have remained stable in recent quarters. The slight increase in the consumer loan defaults came to a halt in 4Q25, while mortgage default rates continued to fall slightly, reaching 0.67% in November 2025. The situation remains similarly favourable in the business sector. The latest *Bank Lending Survey* (CNB, 4Q25) shows banks expecting a slight increase in credit losses on consumer and NFC loans, while more participants expect a decline in losses tied to mortgages. This is also underpinning our view that the reintroduction of DSTI and DTI limits is unlikely for the time being.

Key economic indicators

Macroeconomic indicators – long-term outlook

		2022	2023	2024	2025	2026	2027	2028	2029
GDP	real, %	2.9	0.2	1.1	2.6	2.7	2.7	2.3	2.2
Inflation	average, %	15.1	10.8	2.4	2.5	1.6	2.3	2.1	2.0
Current account	% of GDP	-4.7	-0.1	1.7	0.5	0.9	0.6	0.5	0.4
3M PRIBOR	average, %	6.3	7.1	5.0	3.6	3.6	3.5	3.1	3.1
EUR/CZK	average	24.6	24.0	25.1	24.7	24.2	24.1	23.9	23.7
USD/CZK	average	23.4	22.2	23.2	21.9	20.6	20.9	20.8	20.6

Source: CZSO, CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: KB forecasts are in red

FX & interest-rate outlook

		28-01-2026	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
EUR/CZK	end of period	24.3	24.40	24.20	24.15	24.10	24.10
EUR/USD	end of period	1.20	1.20	1.19	1.17	1.14	1.15
USD/CZK	end of period	20.3	20.30	20.35	20.65	21.15	20.95
3M PRIBOR	end of period, %	3.46	3.55	3.55	3.55	3.60	3.60
10Y IRS	end of period, %	3.93	3.95	4.15	4.20	4.25	4.30

Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka, SG Economic Research
Note: KB forecasts are in red

Monthly macroeconomic data

		IV-25	V-25	VI-25	VII-25	VIII-25	IX-25	X-25	XI-25	XII-25
Inflation (CPI)	%, yoy	1.8	2.4	2.9	2.7	2.5	2.3	2.5	2.1	2.1
Inflation (CPI)	%, mom	-0.1	0.5	0.3	0.5	0.1	-0.6	0.5	-0.3	-0.3
Producer prices (PPI)	%, yoy	-1.3	-0.8	-0.7	-1.2	-0.8	-1.0	-1.2	-1.3	-2.1
Producer prices (PPI)	%, mom	-0.8	-0.6	-0.2	0.1	0.0	-0.4	-0.1	0.3	-0.2
Unemployment rate	% (MLSA)	4.3	4.2	4.2	4.4	4.5	4.6	4.6	4.6	4.8
Industrial production	%, yoy, c.p.	-1.5	-0.7	3.2	4.9	-4.1	3.9	1.1	-0.3	n.a.
Industrial sales	%, yoy, current.p.	-2.4	-0.7	4.6	2.8	-5.6	2.4	-1.7	-2.5	n.a.
Construction output	%, yoy, c.p.	3.3	12.6	14.5	8.9	12.3	13.4	8.0	7.0	n.a.
External trade	CZKbn (national met.)	18.3	11.2	27.9	-1.2	3.0	30.6	24.2	16.2	n.a.
Current account	CZKbn	24.8	-19.3	-63.8	-30.1	-9.4	25.5	16.8	8.2	n.a.
Financial account	CZKbn	15.2	-4.4	-51.1	-12.5	-27.4	90.1	55.6	-26.5	n.a.
M2 growth	%, yoy	3.2	3.5	2.9	3.0	2.8	3.2	2.8	3.3	n.a.
State budget	CZKbn (YTD cum.)	-126.1	-170.5	-152.4	-168.2	-165.4	-153.9	-183.1	-232.5	-290.7
PRIBOR 3M	%, average	3.68	3.53	3.51	3.49	3.50	3.49	3.53	3.55	3.54
EUR/CZK	average	25.0	24.9	24.8	24.6	24.5	24.3	24.3	24.2	24.3
USD/CZK	average	22.3	22.1	21.5	21.1	21.0	20.7	20.9	21.0	20.7

Source: CZSO, CNB, MF, MLSA, Macrobond, Economic & Strategy Research, Komerční banka

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