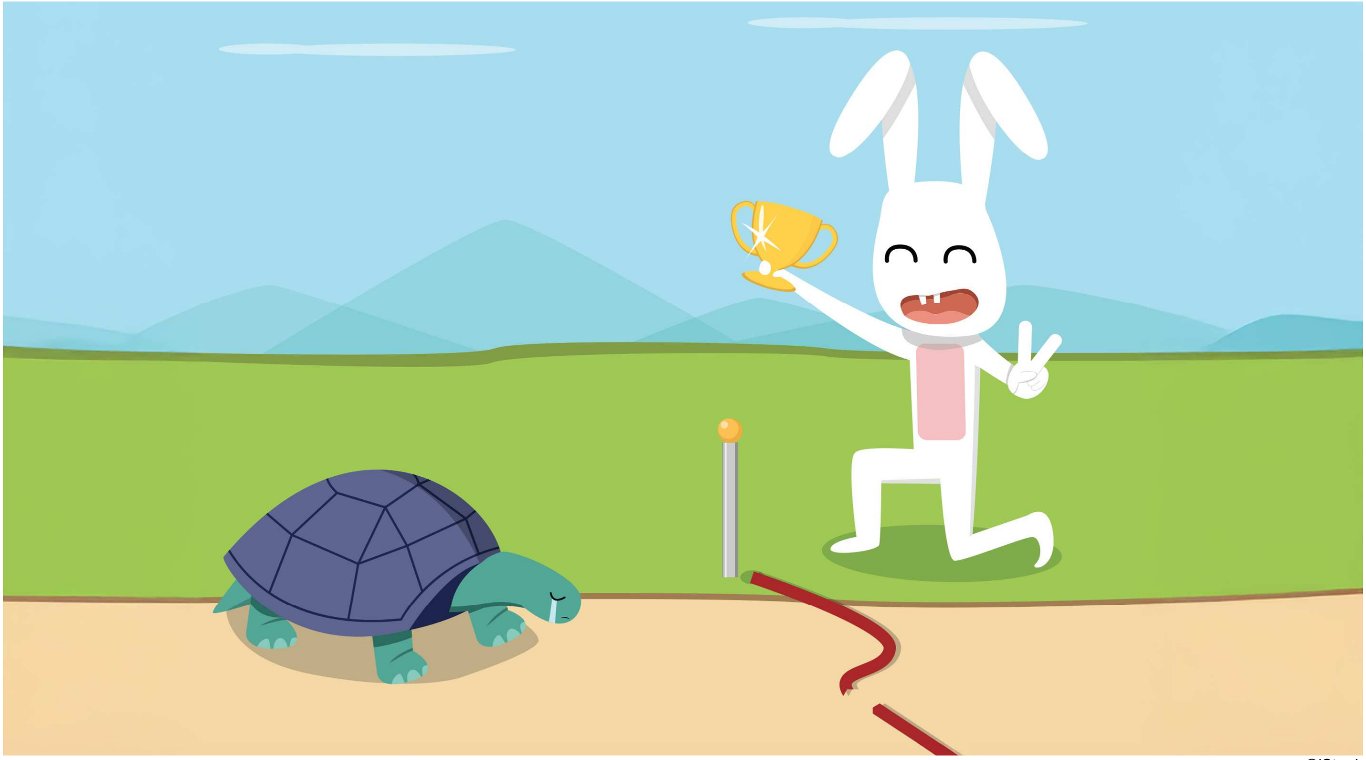
Quarterly report

# Czech Economic Outlook

## Inflation on Target, Economy Limping Along



©iStock

■ **Czech economic growth to remain relatively weak this year** While we estimate GDP growth at 0.9% in 2024, we expect it to accelerate to 1.5% in 2025. In our view, the only source of economic growth this year will be domestic demand, driven mainly by a continued recovery in household consumption. By contrast, industry is likely to contract for the third year in a row, contributing to a lower export performance of the economy.

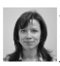
■ **Inflation to stabilise close to the 2% target in 2H25** The first half of the year could be marked by higher volatility, but inflation should remain safely within the CNB's tolerance band. We expect inflation to be 2.2% in 2025 as a whole and to fall to 2.1% in 2026. Our expectation for easing inflation is based on cheaper energy, subdued consumer demand and weak industrial output. On the other hand, food and housing prices are likely to rise more sharply.

■ **CNB to resume interest rate cuts this year** This should be driven by an optimistic inflation outlook and a weak economy. We expect a 25bp cut at each meeting from February to June, after which the repo rate should have reached the 3% terminal level.

■ **Market rates close to the normal** CZK IRS with shorter maturities could still fall slightly with further monetary policy easing by the CNB, while the longer end of the curve should stabilise roughly around the current levels, in our view.

■ **The koruna caught between a strong dollar and a recovering economy** We expect the slow recovery of the Czech economy, the narrowing interest rate differential and strong USD to postpone any marked appreciation of the CZK vs EUR until the second half of this year. The currency should then be supported both by developments in global FX markets and by a gradual strengthening of Czech economic growth.


**Jan Vejmělek**
(420) 222 008 568
jan_vejmelek@kb.cz


**Jana Steckerová**
(420) 222 008 524
jana_steckerova@kb.cz


**Martin Gürtler**
(420) 222 008 509
martin_gurtler@kb.cz


**Kevin Tran Nguyen**
(420) 222 008 569
kevin_tran@kb.cz


**Jaromír Gec**
(420) 222 008 598
jaromir_gec@kb.cz

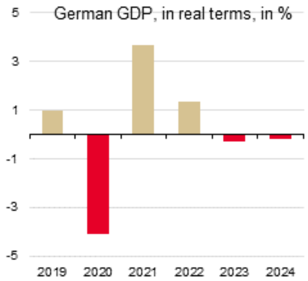
SOCIETE GENERALE GROUP

# No counting on Germany; self-help required

**Jan Vejmělek**
(420) 222 008 568
jan_vejmelek@kb.cz

Welcome to the first 2025 edition of Komerční banka's *Czech Economic Outlook.* We look at what the reader can expect in 2025 – most of which will be taken up by the electoral campaign in the run-up to the autumn general elections. Despite the prevailing uncertainty essentially worldwide, our forecasts point to a **slightly better year for the Czech economy than 2024 in many respects.**

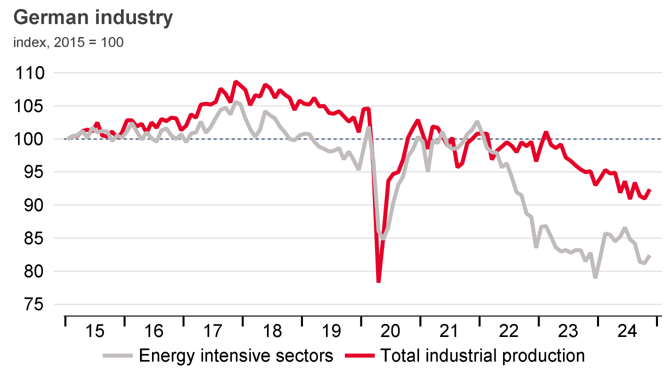
**The German economy has declined for the last two years**




Source: Macrobond, Economic and Strategy Research, Komerční banka

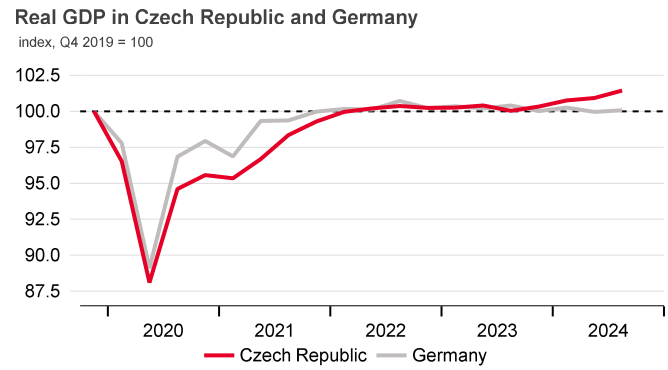
**However, we probably won't be able to count on external demand.** The reason for this is that the Czech Republic's most important trade partner, Germany, is having to contend with serious difficulties stemming from an accumulation of structural issues that have not been addressed. These include high energy intensity and a costly energy transition in the wake of the federal government's decision to shut all of the country's nuclear power plants down and phase out fossil-fuel-based electricity generation, replacing them with renewable energy sources. In addition to this, we note the political pressure in terms of electrification in the key automotive industry, combined with market share losses in other industries due to underinvestment, and increased pressure to raise wages. In particular, German industry is suffering from reduced competitiveness. Over the last ten years or so, production has decreased by nearly one-tenth in real terms, and almost 20% in energy-intensive production. In 2024, the overall economy saw a decline in real GDP for the second year in a row. It has remained more or less stagnant at the pre-pandemic end-2019 level essentially for the past three years. Unfortunately, the situation has also had its political fallout, with early elections now scheduled in Germany for late February. In *Box 1,* Jana Steckerová discusses the prospects of the various political parties in these elections, along with the key aspects of their programmes.

**German industrial production has suffered considerably in recent years, in particular energy-intensive production**




Source: Macrobond, Economic and Strategy Research, Komerční banka

**Germany has still failed to rebound from the pre-pandemic level, whereas the Czechia succeeded in doing so last year**

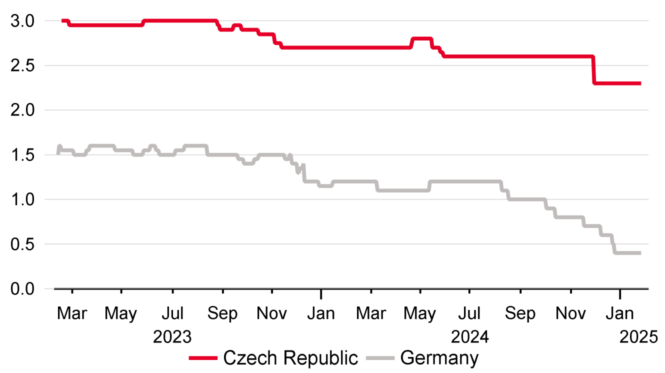



Source: Macrobond, Economic and Strategy Research, Komerční banka

**German economic growth prospects for 2025 have been gradually deteriorating**. We have observed a period of downward revisions since the autumn, when the markets started to price in what would ultimately prove to be a victorious outcome for Donald Trump in the US presidential election. Investors and economists are now concerned primarily about increasing protectionist measures from the US government, which would constitute more bad news for German industry and Czech industry in turn. This is because Czech industry is a major subcontractor for and exporter of final production to the German market. The US is also the number one market for German exporters, in particular for added-value exports. Given the above-mentioned relationship, the situation in the German manufacturing sector is crucial for Czech industrialists. Kevin Tran Nguyen takes a detailed look at this issue in *Box 2*. The deteriorating growth expectations for Germany, primarily due to the situation in industry, are also clearly affecting the Czech Republic, with prospects for the Czech economy also being revised downwards, albeit to a lesser degree. The Bloomberg consensus is for the Czech Republic to grow almost two percentage points faster than Germany. Although KB's forecast is slightly more pessimistic, we nevertheless expect visibly faster growth in the Czech Republic (of 1.5%) than in Germany (0.7%).

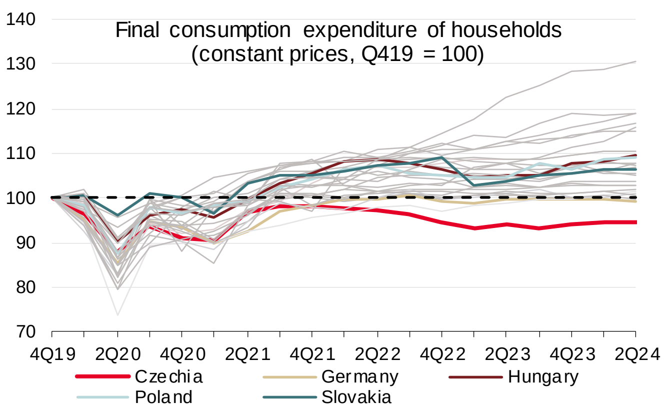
**Pending a recovery in Germany, the Czech economy must resort to self-help.** A combination of weak external demand and last year's unfinished production exports in the automotive sector lead us to expect the contribution of net exports to growth in the Czech economy to be significantly negative this year. Thus, domestic demand alone is likely to drive the Czech economy this year. Given the earlier slump in domestic demand (mainly household consumption, as a result of high inflation in 2022 and 2023) and the sharp fall in real wages, the room for recovery is quite visible. On the production front, we expect sectors that are more dependent on domestic demand, such as retail trade and services, to have to compensate for industry, which we expect to decline for the third year in a row.

**Growth prospects for 2025 are shrinking for the Czechia and Germany; but the CR should be by far the faster of the two**



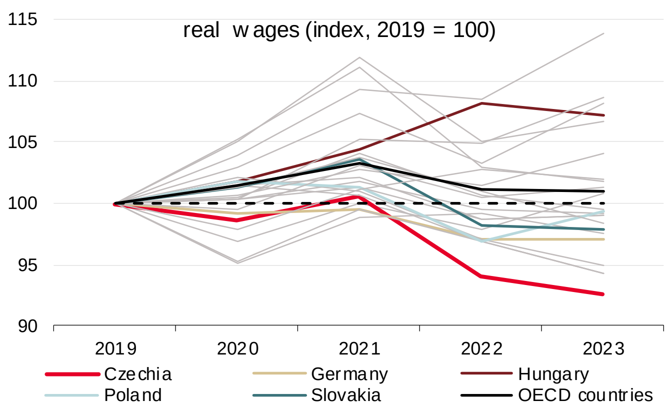

Source: Bloomberg, Economic and Strategy Research, Komerční banka

**Within the EU, Czech household consumption has seen the least growth vs the pre-pandemic period**




Source: Eurostat, Economic and Strategy Research, Komerční banka

**In particular, plunging real wages have led to lagging household consumption in the Czech Republic**




Source: OECD, Economic and Strategy Research, Komerční banka

**Inflation likely to remain safely within the target corridor this year at around 2%,** although it will probably be relatively volatile from a year-on-year perspective—mainly in the first half of the year—due to a statistical base effect. We believe that the rate of inflation at which monetary policy intervenes will basically stay at the target level this and next year. Our forecast is consistent with an overall decrease in the CNB's key rate (the two-week repo rate) in the first half of this year, of 100bp, at a pace of 25bp cuts at each CNB Board meeting, thus reaching the 3% neutral level. The weak economic growth is more of a problem today than inflation.

We hope you enjoy reading this winter edition of Komerční banka's *Czech Economic Outlook*.

## Table of Contents

# External environment and assumptions

## Key economies to continue growing

**Jana Steckerová**
(420) 222 008 524
jana_steckerova@kb.cz

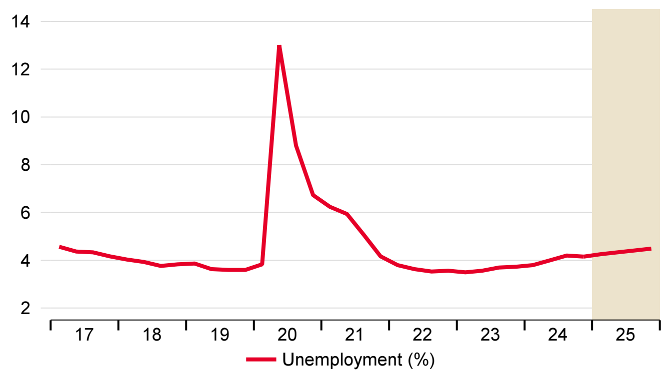
**Inflation is slowing on both sides of the Atlantic. In the euro area, our estimate is that it will remain at the European Central Bank's 2% target throughout this year. We expect the ECB to continue cutting interest rates, as per our forecast, until the deposit rate reaches 2.25%, probably around April this year. The euro area economy should see a slight upturn in growth thanks to the recovery in household consumption. The geopolitical situation, and the introduction of tariffs by the US and its related impact on sentiment, both remain a risk. However, the tariffs themselves should have a minimal impact on euro area GDP. The US economy also remains in good shape. The re-election of Donald Trump has contributed to a recovery in the confidence indicators, and the situation on the labour market is also good. This should not, however, prevent the central bank there from lowering interest rates further towards the neutral level. Thus, we expect a further easing of monetary conditions by 25bp in March and every quarter thereafter. However, given the inflation risks stemming from the introduction of tariffs, the risks are concentrated in the direction of slower monetary easing.**

## US: Trump's policies boost growth, higher inflation a risk

The US economy fared well around the end of the year.

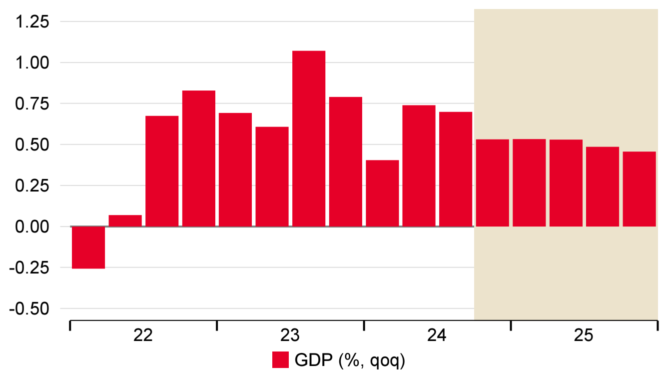
**The US economy performed well in the final quarter of 2024.** The outcome of the presidential election led to an increase in confidence among consumers, small businesses, and industrialists. In December, the ISM industrial index jumped to its highest level since March last year (49.3 points), although the market consensus was also surpassed by the ISM in services (54.1 points) and consumer confidence (104.7 points). The real estate market also improved thanks to higher supply and lower prices. Retail sales also made strong gains (0.4 mom in December, even 0.7 mom in the control group that is important for the GDP calculation). The labour market continued to deliver good job creation (256,000 in December), with the unemployment rate falling to 4.1%. Thus, published data suggest that the US economy will continue to grow this year (our estimate is for 2.2% growth) and 1.8% for the next year.

**US labour market remains tight**




Source: Macrobond, SG Cross Asset Research/Economics

**US economy remains resilient (GDP, %, qoq)**




Source: Macrobond, SG Cross Asset Research/Economics

Another rate cut in March.

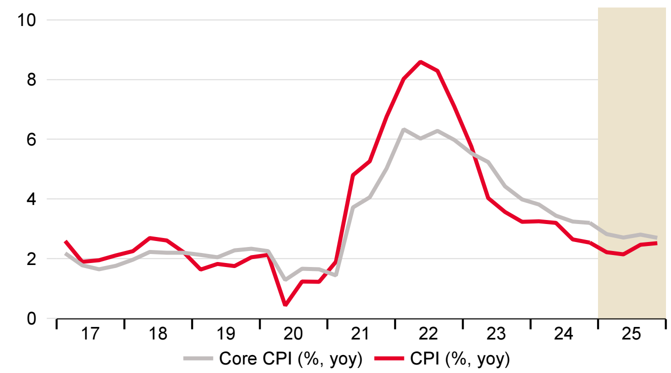
**In assessing the labour market, we think US central bank will respond asymmetrically.** While it may well try to "frontload" interest rate cuts if the labour market cools off, as we saw in September, stronger labour market data or a faster GDP growth rate would not, in our view, be a reason for the Fed to stop cutting rates. There will be two more pieces of data from the local labour market before the March meeting. These should vindicate (or not) the market expectations that the Fed will pause on easing monetary conditions in the first half of this year.

Meanwhile, our estimate is for a further 25bp rate cut at the March meeting, and for the Fed to cut by the same amount every quarter until the key rate reaches neutral level of 3.00-3.25%.

Inflationary risks skewed to the upside.

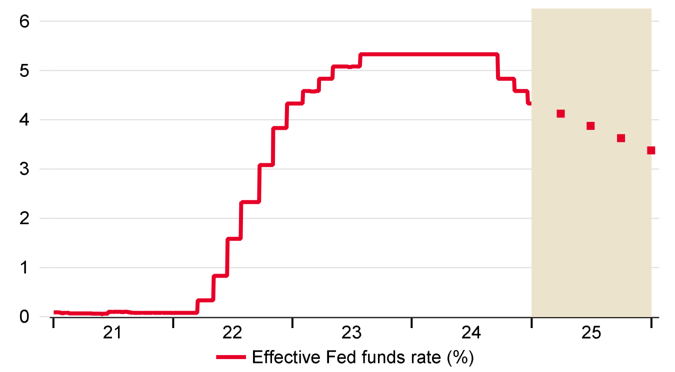
**How fast or slow the US central bank will eventually cut interest rates will also depend on further inflation developments.** Here, we see risks in the direction of higher inflation and thus fewer “cuts”. US inflation rose in annual terms in December, reaching 2.9% yoy. However, its core component surprised positively with lower growth of 3.2% yoy and +0.2% mom compared to market expectations of 3.3% and +0.3%, respectively. Significantly, imputed rents, which make up 27% of the consumer basket, rose only 0.3% mom in December after 0.2% in November (which was the lowest monthly rise since the COVID-impacted month of January 2021). Slowing rent growth is essential for the Fed to hit its target. This remains at elevated levels year-to-date (4.8% yoy in December), whereas a growth rate of around 3.5% would be needed to reach the 2% target. Still, it is already a noticeable slowdown compared to the 8% we saw in the spring of 2023. We currently expect inflation in the US to reach 2.3% this year, and 2.5% the next year. At the same time, the introduction of tariffs and President Trump’s migration policy pose an upside risk to inflation.

**Inflationary pressures are easing in the US**




Source: Macrobond, SG Cross Asset Research/Economics

**Fed to cut rates again in March**




Source: Macrobond, SG Cross Asset Research/Economics

## China: fiscal package will help economy

Growth target was achieved, trade surplus set another record last year.

**The Chinese economy surprised in the final quarter of 2024, with a significant acceleration in GDP growth from 4.6% yoy in 3Q to 5.4% yoy in 4Q.** It added 1.6% qoq, following the 1.3% recorded in 3Q. The acceleration was mainly driven by higher exports, which were driven by efforts to frontload Chinese goods imports ahead of possible tariffs being imposed by the US. In December, exports to the US even hit a 30-month high, at almost 16% higher yoy. For 2024 as a whole, China’s external trade balance hit its highest ever surplus (USD992bn), helped by low imports (1.1% yoy) due to weak domestic demand, but above all by a faster pace of export growth (5.9% yoy). This higher export activity then kick-started Chinese industry.

China is likely to unveil a fiscal package in March.

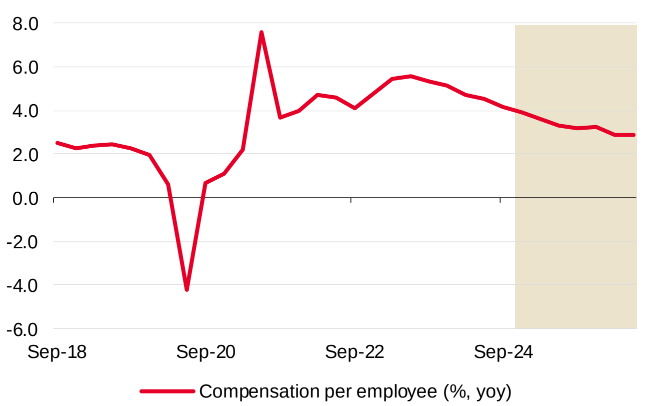
**Overall, however, we see the current recovery of the Chinese economy as fragile.** If the government wants to ensure more sustainable economic growth, it will have to come up with a significant fiscal stimulus this year. Already last year, Chinese officials agreed to increase the budget deficit to 4%. We now await the specific details of this fiscal package to help overcome the threat of US tariffs, kick-start the property market, and deliver on the 5% growth target. What will be important going forward is what tariffs the US will eventually impose on China and at what pace. Our baseline scenario assumes that their introduction will be gradual. In that case, China will be able to announce its fiscal plans at its own pace, with the central bank having no need to seek a weaker yuan. If Donald Trump were to proceed more forcefully, Beijing would likely announce part of its fiscal plans before 5 March, when the annual session of parliament is scheduled.

## Eurozone: ECB to continue to cut rates

Household consumption is set to drive GDP growth.

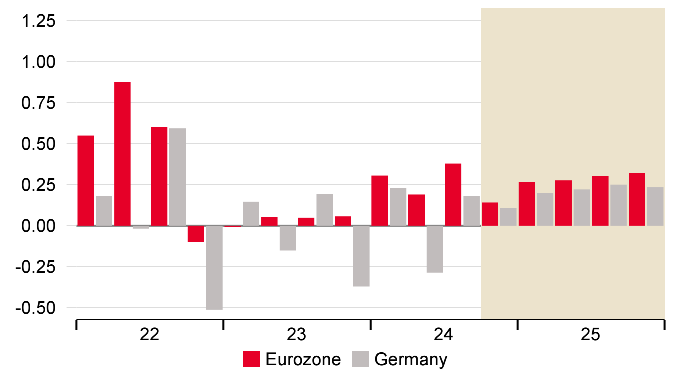
**This year, we expect household consumption in the euro area to finally gather pace.** The savings rate is still around 3.1pp higher than it was on average between 2013 and 2019 (but no longer growing), with excess savings reaching around 8% of GDP. Real household disposable income is rising due to robust wage growth (SGe 4.3% for the whole of last year, 3.3% for this year) and slowing inflation. All of this should lead to an acceleration in household consumption, which the published data are starting to reflect. Retail sales grew solidly in the fourth quarter, with car registrations also recovering. Gross domestic product is thus expected to reach 1.1% this year (after 0.8% last year), while next year it should be 1.2%, according to our estimate.

**Wage growth is currently strong by European standards in EA**




Source: Macrobond, SG Cross Asset Research/Economics

**Household consumption should fuel GDP growth (%, qoq)**




Source: Macrobond, SG Cross Asset Research/Economics

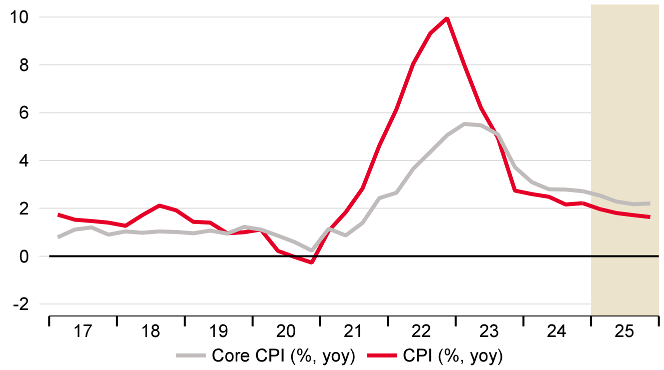
The impact of tariffs on the euro area economy should be marginal.

**In our view, the impact on the euro area of the potential introduction of 10% tariffs by the United States would be minimal.** They may be more pronounced in the case of Germany or Switzerland, whose trade is more closely linked to the US. However, we estimate that the impact on the GDP of the euro area as a whole would not exceed 0.1% of GDP one year after implementation and 0.3% of GDP three years after implementation. This is because broadly imposed tariffs would have little impact on the relative competitiveness of the EU. At the same time, a weaker euro against the US dollar could have a positive impact on euro area GDP. Stronger domestic demand in the US ultimately means higher euro area output. What could threaten eurozone economic growth more than tariffs alone is uncertainty, which in turn has a negative impact on the willingness of households to spend and companies to invest.

Inflation should hover around the target.

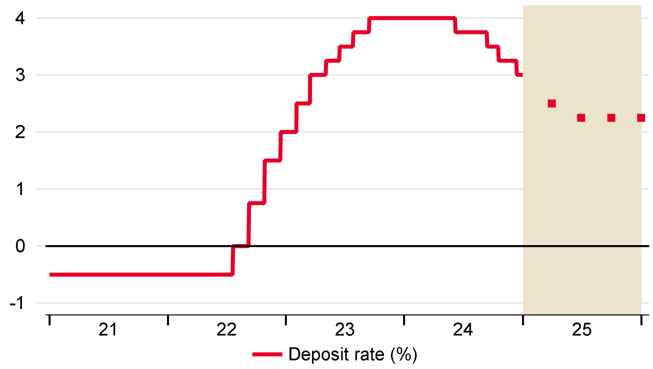
**Euro area inflation accelerated to 2.4% yoy in December, while its core component remained at 2.7%.** Services inflation (4.0% in December) remains high. This year, we expect inflation to average around the 2% target, and its core component to hold at 2.4%. Slower wage growth should lead to lower price growth in services (3.3% this year, after 4.3% in 2024). For these reasons and given our expectation of a modest acceleration in GDP growth this year, we expect the ECB to continue cutting interest rates. We expect the deposit rate to fall to 2.25% in April this year. Financial markets expect it to fall to as low as 2%, having been as low as 1.5% at the end of last year, well below the neutral level, which we estimate at around 2.25%. For the ECB to cut so sharply below the neutral rate, in our view, there would have to be a significant deterioration in the labour market and a slowdown in wage growth in 1Q25. However, with unemployment at historical lows (6.3%), this does not seem likely.

Inflation in the euro at 2% target




Source: Macrobond, SG Cross Asset Research/Economics

ECB to continue cutting rates

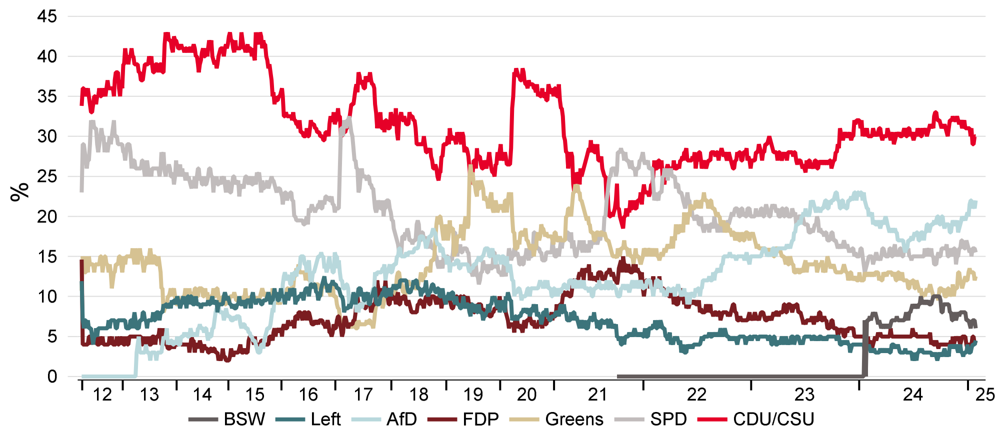



Source: Macrobond, SG Cross Asset Research/Economics

## Box 1: The debt brake will decide Germany's fate

**The outcome of the snap Bundestag elections, called due to the collapse of the “traffic-light” coalition of the SPD, the Greens and the FDP (Free Democratic Party), will be crucial for the future of the German economy.** The date has been set for 23 February. If the elections were held now (27.1.), according to the INSA poll, the conservative CDU/CSU would win with 30% of the vote, followed by the right-populist to far-right Alternative for Germany (AfD) with 22%, followed by the SPD with 15.5% and the Greens with 12.5%. Sahra Wagenknecht's new left-populist Alliance (BSW) would get 6%, while the FDP is slightly below the 5% threshold required to enter parliament.

Voting preferences (%)



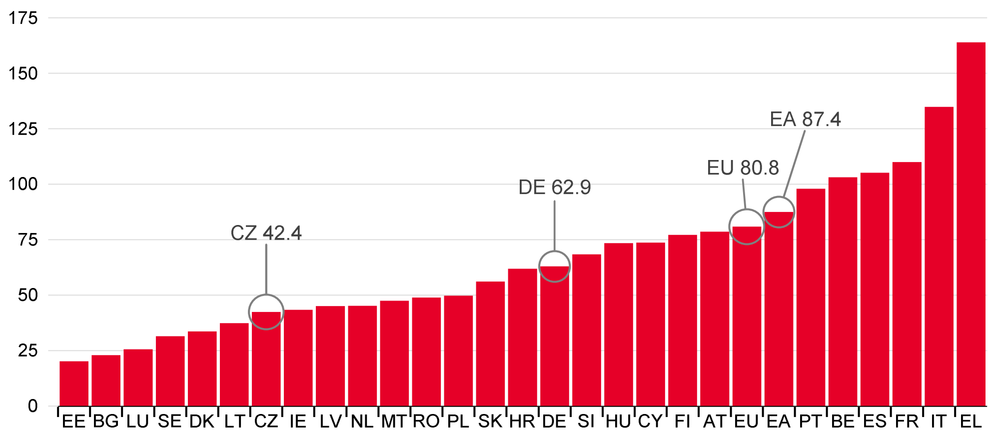

Source: Macrobond, INSA, SG Cross Asset Research/Economics

**The reasons for the collapse of the coalition were divisions between its leaders, waning support for the coalition, the results of the regional elections and different stances on the debt brake, among other things.** The debt break was adopted during the global financial crisis, when German public debt rose to 70% of GDP. It came into force in 2010, when debt reached 80% of GDP. The debt brake limits annual structural budget deficits to 0.35% of GDP and, in addition, commits regional governments to balanced budgets from 2020. However, the current state of the German economy, its structural problems and declining competitiveness suggest that without changes to the debt brake, the German economy will not be able to tackle its structural problems and kick-start economic growth on a more sustainable basis.

**A two-thirds majority in both houses of parliament is needed to push through changes related to the debt brake or to approve another extra-budgetary fund** (a €100bn fund was approved in 2021 to meet the military spending target of 2% of GDP, which will be exhausted in 2026-27). Even if the CDU/CSU emerges victorious from the February elections, it is unlikely to win a majority and will have to look for a strong coalition partner. This would probably be the SPD. However, in order to win a two-thirds majority, the CDU/CSU and the SPD will need the support of a third party. According to the polls, the second-strongest party is the AfD. However, its electoral programme (leave the euro, expand coal mining, return to Russian gas, leave NATO, build border controls and stop the flow of migrants) is so different to that of the CDU/CSU and the SPD that it is not an option as a coalition partner. At the same time, the forthcoming elections will be more about economic issues than migration policy, and the AfD may lose out in the electoral battle. The FDP is responsible for the collapse of the current government. Moreover, it is not yet certain whether the FDP will enter parliament at all. The second most likely coalition partner seems to be the Greens, who are in agreement with the SPD on many issues.

**The Green Party would most likely support the change to the Debt Brake Act proposed by the SPD.** The CDU/CSU, on the other hand, has so far resisted such changes. At the same time, however, we believe that, given that the CDU/CSU is planning significant tax cuts for which it is not clear how they would be financed (2% of GDP, €80bn a year), it too will eventually have to reconsider its position. It will also be pressured to relax the rules by the future substantial need for military spending of around €40bn a year (1% of GDP) and infrastructure spending (€20bn a year on our estimates). In our view, a change in the rules will therefore eventually happen, but negotiations may be protracted and stretch into 2026.

**Debt to GDP (%)**




Source: Eurostat, INSA, SG Cross Asset Research/Economics

**German industry in particular suffers from significant structural problems.** It suffers from its high-energy intensity, high energy prices, the costly transition to greener energies and declining competitiveness. It could be helped by the CDU's electoral plans to lift the ban on sales of new petrol and diesel cars from 2035, the re-use of nuclear energy, including support for research into small reactors and nuclear fusion, or a gradual reduction in corporation tax from 30% to 25%. The SPD then proposes the establishment of a 'German Fund' of €100bn from private and public funds to provide loans for the transition to green energy, investment in technology and housing, an investment premium of 10% for investment in Germany and a reduction in industrial electricity prices. Similar investment support to that proposed by the SPD ('German Fund'), favouring renewables, charging stations, railways and capital support for new industrial capacity, is also proposed by the Greens.

**The suspension of some investment activities, which occurred as a result of the collapse of the governing coalition, could create room for higher spending once the new government takes power.** This fiscal stimulus could amount to around €10-15bn. If a loosening of the debt brake is approved, Germany would have considerably more room for investment. In 2023, Germany's debt is almost half the level of France, and significantly lower compared to the EU average. However, an agreement between the new coalition partners will be needed to relax the debt brake, which may take some time, while investment activity will also take time to kick-start and for structural problems to be resolved. In the short term, the good news is that German households still have accumulated COVID savings, while companies are also in relatively good financial shape. Although the German economy has been in decline for two years now (-0.3% in 2023, -0.2% in 2024), we do not expect a deep recession; on the contrary, we expect growth of 0.7% this year and 0.9% next year. However, the German economy can no longer do without major structural reforms.

**Jana Steckerová**
(420) 222 008 524
jana_steckerova@kb.cz

## CEE: interest rate cuts delayed

This year, the first rate cut in Polish rates in September.

**The Polish central bank left interest rates unchanged (at 5.75%) at the end of last year.** We expect the bank will remain on hold in the coming months. In December, Governor Glapinski, who has taken a distinctly dovish stance in the past, said that the Monetary Policy Committee should postpone the discussion on monetary easing from March to October, adding that he doesn’t expect interest rate cut before 2026. The main reason for this is the postponement of the energy price thaw until the final quarter of this year, which poses a significant inflation risk. In light of this, we too have pushed back our interest rate cut expectation from April to September this year, followed by a similar move expected in November. By this time, in our view, the Polish central bank will already have enough information from the political scene (Poland holds the first round of presidential elections on 18 May, followed by the second round on 1 June) to make a decision on easing monetary conditions. On our estimates, the zloty will trade in the range of EURPLN 4.30-4.35 in 2025.

The Hungarian central bank will leave rates unchanged until May.

**Last year, the Hungarian central bank cut the key three-month deposit rate by a total of 425bp to the current 6.5%.** However, it did not ease monetary policy further in the final months of last year, emphasising the stability of the domestic currency. However, the currency weakened the most in two years (to EURHUF 416 in December) due to geopolitical developments, the strengthening of the US dollar, and the rise in US government bond yields. Moreover, inflation returned above 4% in December and is likely to remain there in the first months of this year due to the impact of the comparison base and tax changes. Based on this, we estimate that the central bank will leave interest rates unchanged until May, when we expect a 25bp cut. This pace should continue until 3Q26, when the key interest rate should have reached its neutral level (5%). In our view, the forint will continue to weaken given the likely developments in the external environment. We expect it to be at EURHUF 420 in the middle of the year and at EURHUF 430 at the end of the year.

# Macroeconomic forecast

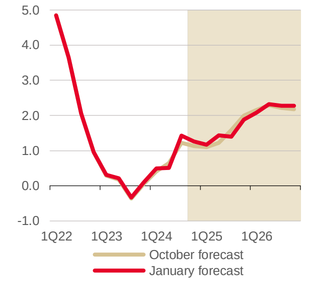
**Martin Gürtler**
(420) 222 008 509
martin_gurtler@kb.cz

**Major changes**

**GDP:**
Our outlook for the Czech economy is little changed from the October forecast. We still expect GDP growth to accelerate but to remain relatively weak. After 0.9% last year, we expect growth to reach 1.5% this year and 2.2% next year. In 2025, the only driver of economic growth will be a gradual recovery in domestic demand. On the contrary, lower export performance due to declining industrial production will weigh on the economy.

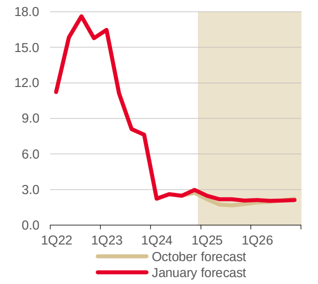
**Inflation:**
We have raised our forecast for this year's inflation from 1.8% to 2.2%, mainly due to an upward revision in the outlook for food and fuel prices. However, annual inflation should remain within the CNB's tolerance band throughout this year and settle close to the 2% target in 2H25. We expect inflation to fall to 2.1% in 2026, with monetary policy relevant inflation at 2%. We expect core inflation to be 2.3% this year and to fall to 2.2% next year.

Changes to GDP forecast (%, yoy)




Source: CZSO, Economic & Strategy Research, Komerční banka

Changes to CPI forecast (%, yoy)

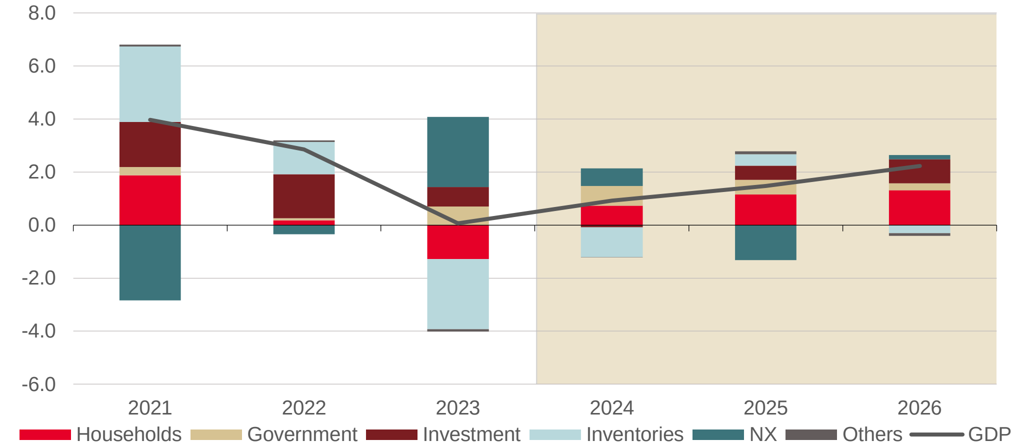



Source: CZSO, Economic & Strategy Research, Komerční banka

## With inflation under control, it's time to focus on the economy

**We expect the Czech economy to continue to grow this year and next, with the pace of growth gradually accelerating. Nevertheless, economic growth will remain weak in 2025. Domestic demand should be the sole driver. Household consumption is likely to continue to rise on the back of renewed real wage growth. However, we do not expect real household income and expenditure to return to pre-pandemic levels until 2026. On the other hand, the economy is likely to be held back this year by weaker export performance linked to the gloomy situation in industry. We expect industrial production to fall for the third year in a row. This is likely to slow wage growth and contribute to a slight rise in unemployment. We expect inflation to remain within the central bank's tolerance band throughout the year and to settle around the 2% target in the second half of the year, as it will in 2026. Core inflation should remain slightly above 2%, although we expect it to decline further. Rising property prices, supported by the strong recovery in the housing market, will also have an impact.**

Domestic demand to be the sole driver of economic growth this year (%, pp, yoy)

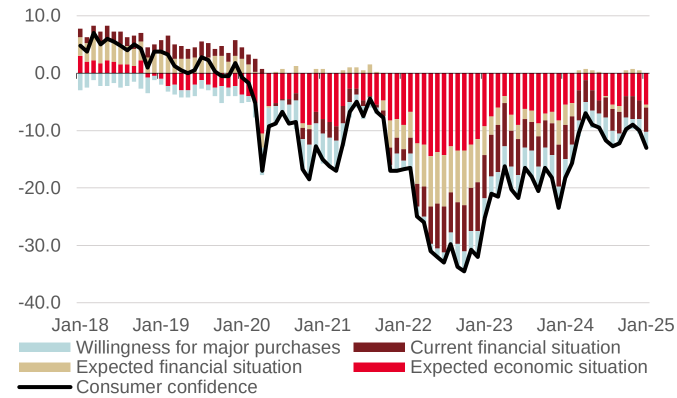



Source: CZSO, Economic & Strategy Research, Komerční banka

### Czech economy driven by domestic demand, industry remains a drag

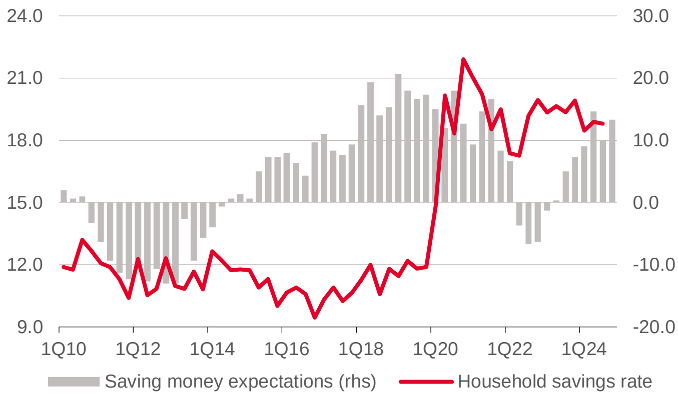
**The economy surprised with strong GDP growth in 3Q24, but its structure was not encouraging.** According to the latest national accounts data for 3Q24, growth in the Czech economy accelerated to 0.5% qoq from 0.2% in 2Q24, exceeding our October forecast. We had expected GDP to increase by 0.2% qoq in 3Q24. However, the positive surprise was largely offset by the downward revision of 2Q24 data, which initially showed stronger economic growth of 0.4% qoq. The optimism about 3Q24 GDP was then completely offset by its structure. Quarterly growth was driven by inventories, which contributed +1.2pp. From a fundamental perspective, this could have been the effect of the increase in work in progress, as the automotive industry continued to face partial supply problems with production components last year, probably exacerbated by the September floods. Poor sales of industrial goods due to weak demand may also have been a factor. At the same time, however, inventories are a volatile item in the national accounts, subject to frequent and large revisions, and therefore not a good indicator of future economic developments. Among the other components of GDP, only household consumption made a positive contribution to qoq growth (+0.3pp). After stagnating in 2Q24, it returned to growth and reached +0.7% qoq in 3Q24. However, compared to the pre-pandemic level of 4Q19, household consumption was still significantly lower (-4.6%). The negative contribution of net exports to qoq GDP growth was -0.7pp in 3Q24 and -0.3pp for fixed investment. These developments likely reflected the poor situation in industry, both domestically and abroad. Overall, the 3Q24 GDP data confirmed the trend of a slow recovery in consumer demand combined with a continued decline in industrial production.

**Consumer confidence fell in January after a slight improvement in 4Q24 (balance of answers in %, SA)**




Source: CZSO, Economic & Strategy Research, Komerční banka
Note: While the expected economic situation refers to the performance of the economy as a whole, the expected and current financial situation assesses the state of household finances. Expectations always refer to the next 12 months.

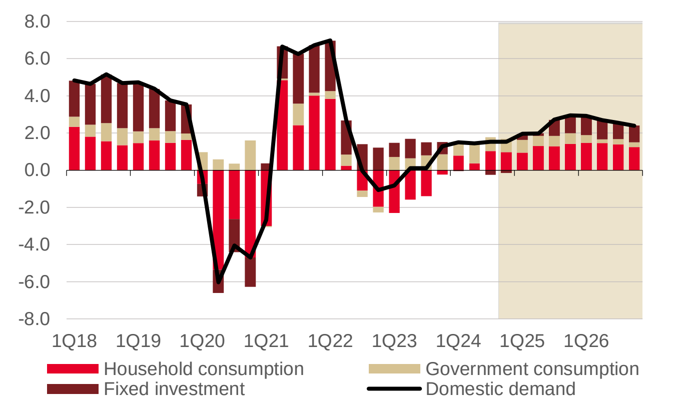
**Household savings rate and expectations for saving money remain high (%, SA)**




Source: CZSO, Economic & Strategy Research, Komerční banka
Note: Expectations for saving money during the next 12 months are expressed as a balance of answers in % based on a survey by the Czech Statistical Office.

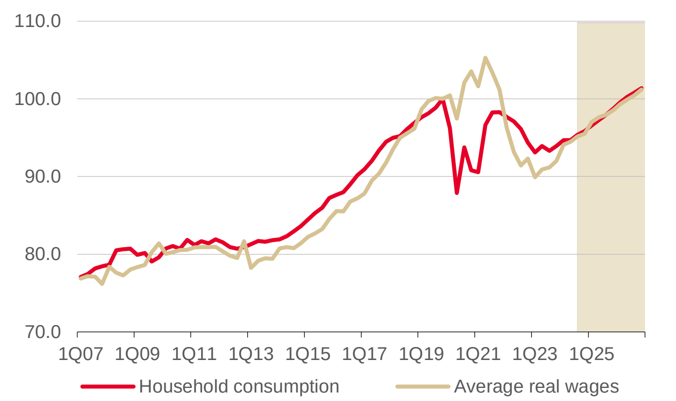
**We expect the economy to have improved only marginally in 4Q24 and to have grown by 0.9% for the year as a whole.** We estimate that GDP grew by only 0.1% qoq in 4Q24. Structurally, domestic demand should be the main driver. We expect household consumption to have risen by 0.5% qoq in 4Q24 on the back of renewed real wage growth and a slight improvement in consumer sentiment. Government consumption is also likely to have increased. This could reflect aid to the affected regions after the massive floods in September. We expect fixed investment to have increased slightly qoq, possibly reflecting government investment in transport infrastructure and, more generally, investment in transport equipment, as suggested by recent developments in car sales. By contrast, the contribution from net exports is likely to have remained negative, dampening qoq GDP growth. The situation in the manufacturing sector has not improved, as the decline in its output is likely to have accelerated to more than -1% qoq in 4Q24 after -0.2% qoq in 3Q24. We also expect a negative contribution from inventories, which should partially correct the strong positive contribution from 3Q24. However, the further development of inventories is difficult to predict, which increases the uncertainty around our 4Q24 GDP estimate. Our expectation of 0.9% GDP growth in 2024 would only be marginally better than our previous forecast (+0.8%). After a negligible increase of 0.1% in 2023, this will likely be the second consecutive year of weak growth for the Czech economy.

**Domestic demand will be supported by all its components, in particular by a recovery in household consumption (%, pp, yoy)**




Source: CZSO, Economic & Strategy Research, Komerční banka

**Real wages and household consumption will not return to pre-pandemic levels until 2026 (4Q19=100)**

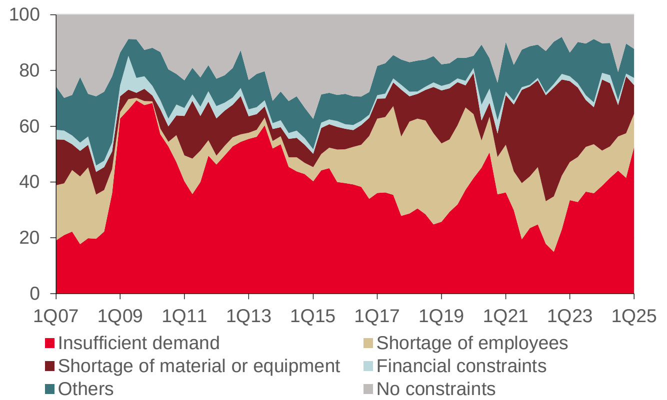



Source: CZSO, Economic & Strategy Research, Komerční banka

The export performance of the Czech economy is likely to deteriorate this year due to problems in industry. As a result, domestic demand will be the sole driver of GDP growth.

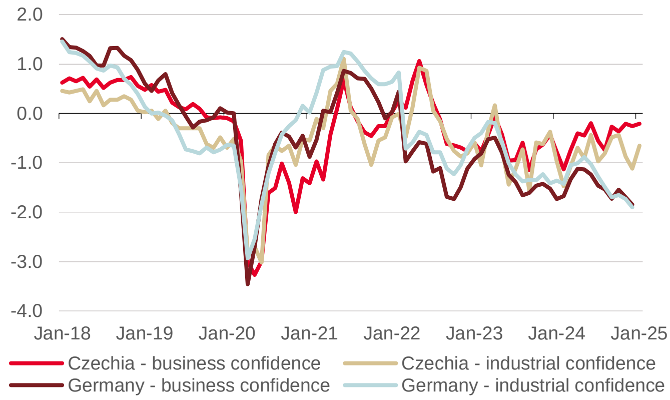
**Domestic demand should continue its recovery and be the sole driver of the Czech economy's 1.5% growth this year.** Compared to our October forecast, we therefore maintain our estimate of still relatively weak GDP growth in 2025. We expect household consumption growth to accelerate to 2.6% this year from 1.7% last year. Nevertheless, household consumption will remain below its 4Q19 pre-pandemic level. We do not expect it to be reached until 2026, as in our previous forecast. We believe that growth in household consumption will continue to be driven mainly by real wage developments. Just as the decline in household consumption has corresponded to the decline in real wages, we expect the same for the pace of their recovery. This is confirmed by the data, as real wages in 3Q24 were 4.5% below their pre-pandemic level from 4Q19, broadly in line with consumption. As we write below, we expect only moderate real wage growth over the forecast horizon, given the problems seen in industry. Subdued consumer sentiment is also likely to restrain household spending growth. At the same time, households have accumulated a large amount of savings, which are still growing rapidly. The household saving rate was 18.8% in 3Q24, almost double the pre-pandemic level. Over the period 1999-2019, it averaged 11.7%. The higher propensity to save may be related to heightened uncertainty and downside risks to the economic outlook. However, the high level of savings may also significantly accelerate house price growth in the context of the ongoing recovery in the housing market. Domestic demand should also be supported this year by government consumption, which we expect to continue to grow rapidly. This is due to the political cycle surrounding the upcoming general election in the autumn.

**Insufficient demand is the main constraint on production growth for 53% of Czech industrial companies (%)**




Source: CZSO, Economic & Strategy Research, Komerční banka

**Business and industrial confidence remain low in Czechia and Germany, with the latter showing a negative trend (z-score, SA)**



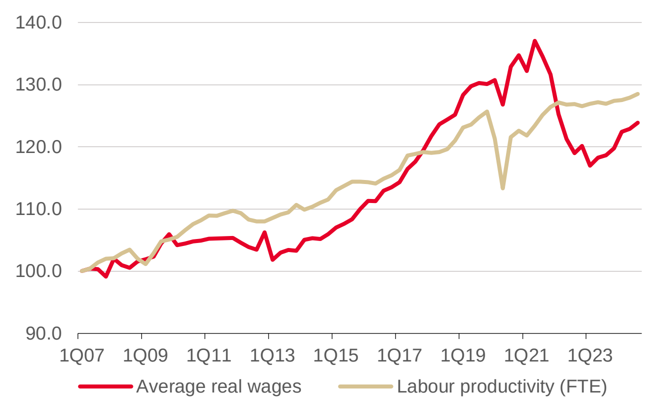

Source: CZSO, Ifo, Economic & Strategy Research, Komerční banka
Note: Indicators for Czechia are based on the CZSO business survey, while those for Germany are based on data from the Ifo Institute. Z-scores are calculated using time series from 2005 onwards.

**We expect industry to contract for the third consecutive year in 2025, which will be reflected in the economy's lower export performance.** After a contraction of 0.8% in 2023, we expect industrial production to fall by 1.5% in 2024 and by a further 1.3% in 2025. The reasons are both cyclical and structural. The cyclical factor is the global slowdown in demand for industrial goods in the context of tighter monetary conditions and a decline in household purchasing power due to high inflation. Structural factors include high energy prices, dependence on scarce and already relatively expensive labour, and general underinvestment in Czech industry. All these factors, which reduce competitiveness, are even more relevant for industry in neighbouring Germany, which is the most important foreign market for Czech companies. So far, leading indicators do not give much hope for an improvement in European industry. We therefore expect the contribution of net exports to Czech economic growth to be strongly negative this year. This will be due not only to the continued decline in industrial production, but also to an increase in imports, supported by a recovery in domestic demand

and the unwinding of the effect of exports of previously unfinished goods. In our view, the latter is the main reason why net exports should make a positive contribution to GDP growth in 2024. After subdued development last year, we expect fixed investment to rise this year, making it the third component in the strengthening of domestic demand. Although investment activity will be hampered by weak business confidence and the poor industrial situation, investment will be necessary to overcome the economy's structural problems – not only private but also public investment. The Czech Republic faces an investment deficit in many public policy areas, such as transport infrastructure and digitalisation, which further reduces the economy's potential growth. We now estimate it at 2.0-2.5%. However, we do not expect Czech GDP growth to exceed 2% until 2026. Household investment in real estate, linked to the recovery in the housing market, could also be reflected in investment growth.

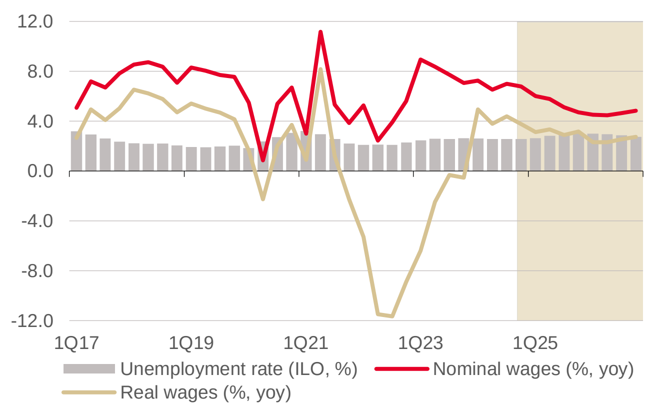
**The main risk to our GDP forecast is the introduction of import tariffs by the US.** This would only worsen the already weak position of European industry and hit the industrial and export-oriented Czech economy hard.

**Real wages are lagging behind stagnant labour productivity, so their further growth may not be inflationary (1Q07=100)**




Source: CZSO, Economic & Strategy Research, Komerční banka
Note: Labour productivity as a ratio of real GDP to full-time equivalent employment

**Wages will continue to grow at a moderate pace and will not return to their pre-pandemic purchasing power until 2026**



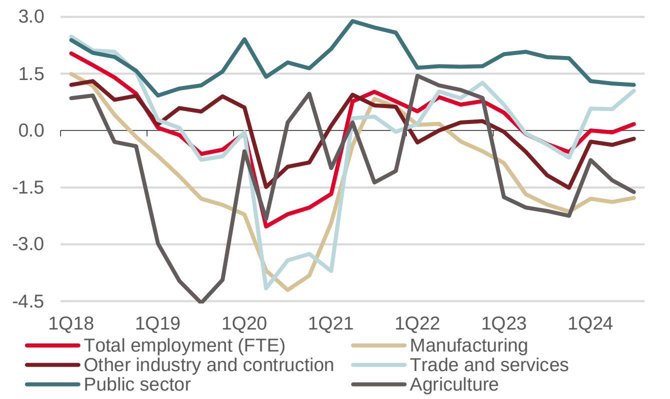

Source: CZSO, Economic & Strategy Research, Komerční banka

## Wages to grow, but their purchasing power to recover slowly

The weakness in industry is likely to be a factor in a slight cooling of the labour market and will slow the pace of wage increases.

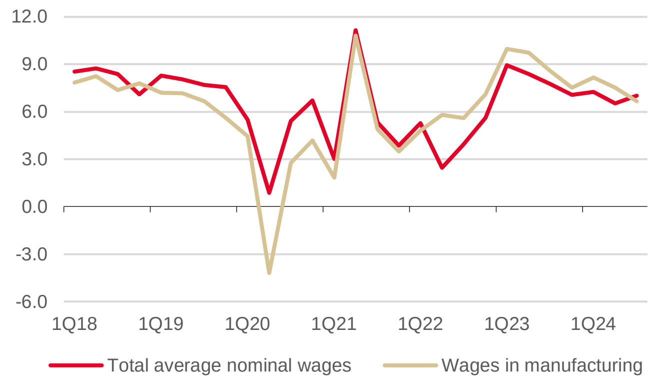
**We expect nominal wage growth to slow to 5.4% this year from 6.9% last year.** Our estimate for 2024, for which data are only available for the first three quarters, has thus been revised slightly upwards from the original 6.6%. However, we have lowered our forecast for 2025 from 5.8% to 5.4%. This is due to the pessimistic outlook for the manufacturing sector, which according to recent monthly data is starting to be reflected in weaker industrial wage growth. At the same time, manufacturing employment is falling, by around 2% yoy. So far, however, there has been no significant increase in unemployment at the aggregate level, as workers leaving industry are likely to find jobs in other sectors of the economy where employment continues to grow. We expect this to continue over the forecast horizon as we forecast the ILO unemployment rate to rise only slightly towards 3%. However, given the uncertainty about industrial developments and the associated downside risks, a more significant rise in unemployment cannot be ruled out. While employment growth has been strong in the past two years, supported by the influx of Ukrainian refugees, we expect it to be roughly flat this year. Continued rise in nominal wages, combined with a decline in inflation to close to the 2% target, will contribute to a further increase in household purchasing power. Over the course of last year and this year, we expect real wages to increase by more than 7% in total. However, this will follow a decline of almost 12% in 2022 and 2023 combined. We therefore continue to only expect a recovery to pre-pandemic real wage levels in 2026.

**While employment in manufacturing is falling, employment in trade, services and public sector is growing (%, yoy)**




Source: CZSO, Economic & Strategy Research, Komerční banka

**Nominal wage growth in manufacturing slows under the weight of falling output (%, yoy)**

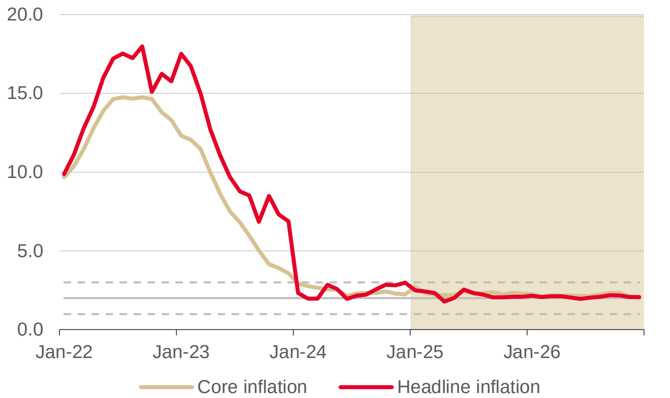



Source: CZSO, Economic & Strategy Research, Komerční banka

## Inflation already close to the 2% target this year

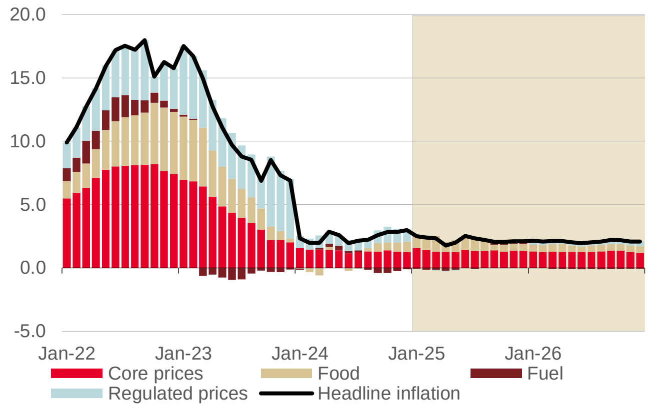
**Annual consumer price growth accelerated towards the end of last year, driven by higher food and fuel prices combined with a lower comparative base.** The lower base affected most items in the consumer basket, as price pressures eased towards the end of 2023. Energy, food and fuel prices were falling at that time. While household energy prices continued their gradual decline, food and fuel prices reversed their trend in 2H24 and started to rise again on a mom basis. The higher momentum of food and fuel prices is the reason why the average annual inflation rate in 4Q24 was slightly higher than expected in our October forecast (2.9% vs 2.7%). Core inflation developed in line with our forecast, averaging 2.3% yoy, as in 3Q24. For 2024 as a whole, headline inflation stood at 2.4%, down sharply from 10.7% in 2023. Meanwhile, inflation remained in the 2-3% yoy range in all months of last year, i.e. also in the upper half of the central bank's tolerance band.

**Inflation to remain within CNB's tolerance band and stabilise at around the 2% target in 2H25 (%, yoy)**




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

**Food prices to rise by more than 2% this year, while regulated prices are likely to stagnate due to cheaper energy (%, pp, yoy)**



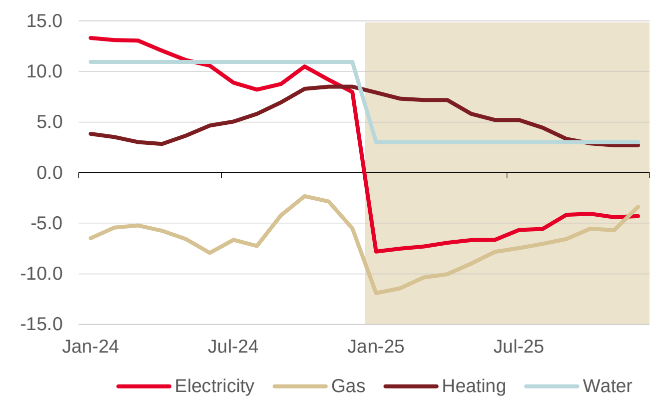

Source: CZSO, CNB, Economic & Strategy Research, Komerční banka

**We expect inflation to fall to close to 2.5% yoy in January and to settle close to the CNB's target in 2H25.** However, the first half of the year is likely to be characterised by higher volatility. While inflation may fall slightly below 2% yoy in some months, it may rise to 2.5% yoy in others. This will mainly be due to the impact of volatile inflation components such as food and fuel. However, despite the higher volatility, we expect annual inflation to remain well within the central bank's tolerance band. In 2H25, we expect headline inflation to settle slightly above 2% yoy and essentially at the CNB's target, excluding the impact of higher excise taxes.

We expect headline and core inflation to be close to the central bank's 2% target both this year and next.

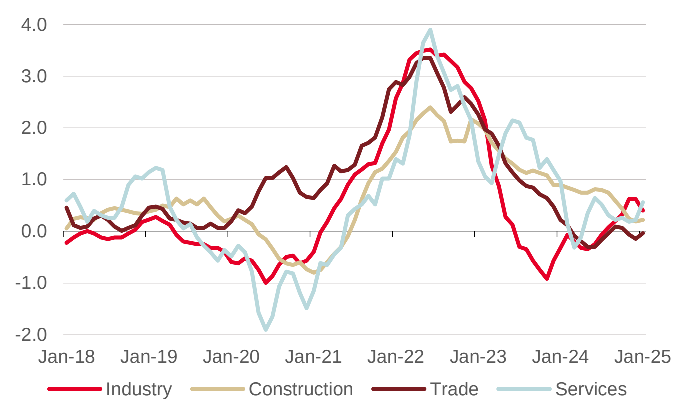
**We expect inflation to be 2.2% this year and to fall to 2.1% next year.** In our previous forecast we predicted 1.8% for 2025 and 2.0% for 2026. The reason for the upward revision of this year's inflation estimate is a different outlook for food and fuel prices. We had expected an upward trend in food prices due to the impact of climate change on global agricultural harvests, but the actual intensity of the increase has been higher, as mentioned above. The devastating floods in the country in September may also have contributed. As a result, we have raised our estimate for food price growth this year from 2.5% to 3.1%. We still expect fuel prices to fall this year, but at a slower pace than in our October forecast. Subdued global economic growth and the gradual shift away from fossil fuels should support the downward trend. The risk of a faster decline in fuel prices could then come from higher oil production in the US. However, given the high level of geopolitical uncertainty, fuel and food prices are likely to remain volatile and their outlook could be subject to more frequent and significant revisions.

**While final household electricity and gas prices will fall this year, we expect heating and water prices to rise (%, yoy)**




Source: CZSO, Economic & Strategy Research, Komerční banka

**Inflation expectations have declined and are close to normal (z-score, SA, 3MA)**




Source: CZSO, Economic & Strategy Research, Komerční banka
Note: Price expectations for a specific economic sector based on the CZSO survey. Z-scores are calculated using time series from 2003 onwards and the graph shows their three-month moving averages.

**Household energy prices will fall this year, while excise duties will rise slightly.** The decline in household energy prices will reflect the lagged effect of lower electricity and gas prices on the wholesale market, which will outweigh a slight increase in the regulated components of energy prices. We estimate that final household electricity prices will fall by 5.9% on average this year, and gas prices by 8.0%. This should be partly offset by increases in heating and water prices. In addition, the fall in household electricity and gas prices is likely to be offset by growth in the non-energy part of regulated prices, which mainly includes health and education services and public transport. These prices rose rapidly last year and we expect them to remain above 2% this year, despite our expectation of a slowdown. We expect the whole category of regulated prices to rise only marginally by 0.2% in 2025, dampening headline inflation. In our previous forecast, we expected regulated prices to rise by 1.0%. As regards tax changes, excise duties on tobacco and alcohol will continue to increase this year and we estimate their impact on annual inflation at around 0.1pp. A similar impact can be expected in 2026 and 2027, for which excise duty increases have also been set. Monetary inflation, i.e. inflation adjusted for the effect of changes in indirect taxes, will thus be 2.1% in 2025 and fall to 2.0% in 2026, according to our forecast.

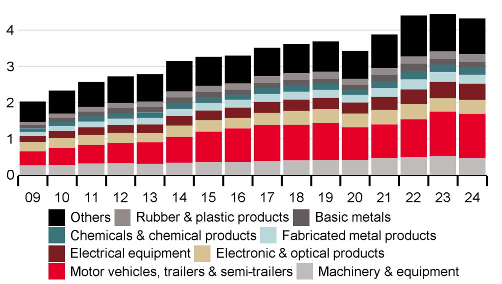
**Core inflation is likely to remain above the 2% target in both 2025 and 2026, as we expect the impact of higher property prices and rents.** From 2.5% last year, we expect core inflation to slow to 2.3% this year and 2.2% in 2026. This is broadly in line with our October forecast of 2.2% in both 2025 and 2026. Available data on the housing market have confirmed its continued strong recovery, as reflected in accelerating house price growth.

Given the strong excess of housing demand over supply in an environment of falling mortgage rates and high household savings, we expect house price growth to continue. In our view, this will be reflected in higher imputed rent growth and, given the lower affordability of owner-occupied housing, paid rents are also likely to rise. Overall, services price inflation is likely to remain above 2% this year, but we expect it to slow. Weak consumer demand, cheaper energy for businesses and the earlier tightening of monetary policy should have an impact. By contrast, goods prices within core inflation are likely to be below the central bank's target as we expect the impact of global industrial overcapacity to be felt in the context of weak demand for industrial goods and the Chinese government's strong support for its manufacturing sector.

## Box 2: Caught in the stranglehold of Germany's industrial woes

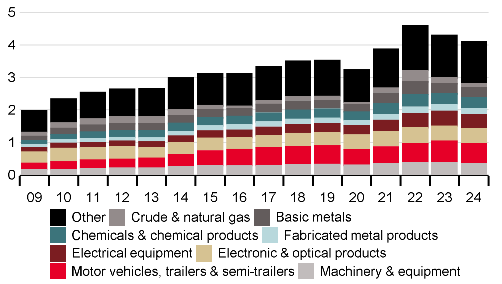
**The deep-rooted connection with its German counterpart is one of the Czech economy's key traits.** This means financial markets tend to assess Czech assets through the lens of its German neighbour. Unsurprisingly, given their industrial orientation, the two countries' post-pandemic recoveries have been among the worst in the EU. However, today, while Germany continues to struggle and has shrunk for two consecutive years, Czechia has managed to avoid a similar fate. Nonetheless, its growth understandably leaves a lot to be desired. In this *Box*, we discuss the link between Czech and German industry and the general condition of Czech industry in view of the developments in Germany, which is becoming a significant drag.

**Czech exports (CZKtn)**




Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka
Note: Data for 2024 are as of November only.

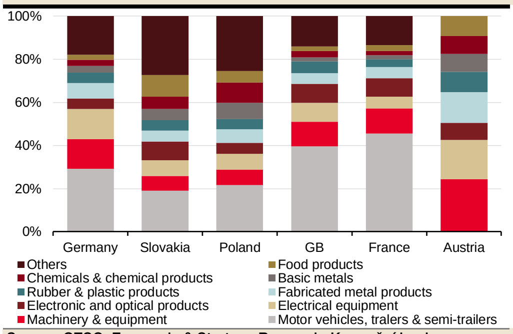
**Czech imports (CZKtn)**




Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka
Note: Data for 2024 are as of November only.

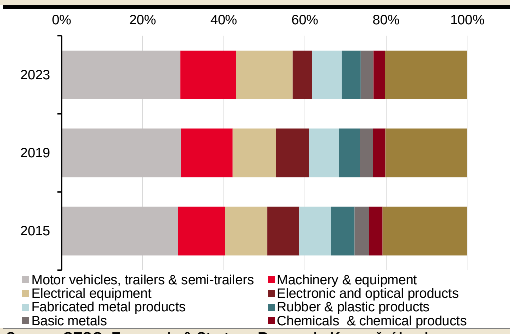
**Germany is by far the largest market for Czech exports, with a 30% share.** Last year (data as of November), it was followed by Slovakia (9%), Poland (7.4%) and France (4.9%). The diversification of export destinations has not expanded that much over the years. Germany's share dropped by 2.5pp (1.4pp) in the last 10 years (5 years), while Poland gained 1pp over the same period. The structure of exports has also changed slightly, with the share of final goods rising at the expense of intermediate goods, signifying higher value-added exports.

**Structure of exports to selected destinations**




Source: CZSO, Economic & Strategy Research, Komerční banka
Note: Data as of 2023.

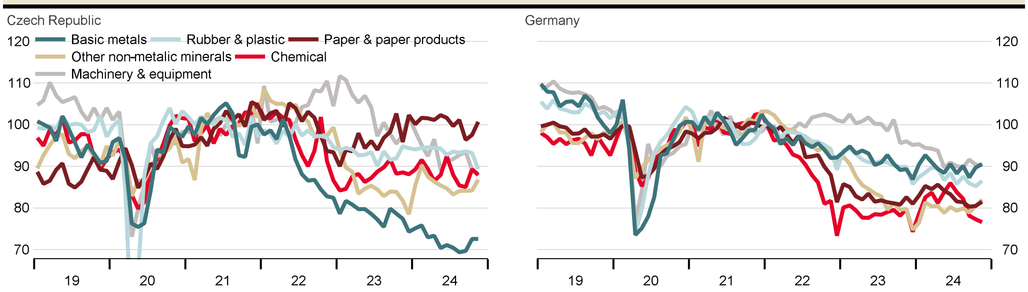
**Exports to Germany by product classification**




Source: CZSO, Economic & Strategy Research, Komerční banka

**Czech and German industry are fundamentally intertwined**, not only through supplier-customer relations, but also in terms of ownership. Over the past two years, German industry has been hit harder due to higher energy prices, weak demand for industrial goods – especially from China – and tight monetary policy. By comparison, the decline in Czech industry has been more modest. However, there is no doubt that the competitiveness of Czech manufacturing has also suffered from the above, its dependence on Germany and other long-term problems it faces – including the high energy intensity of production.

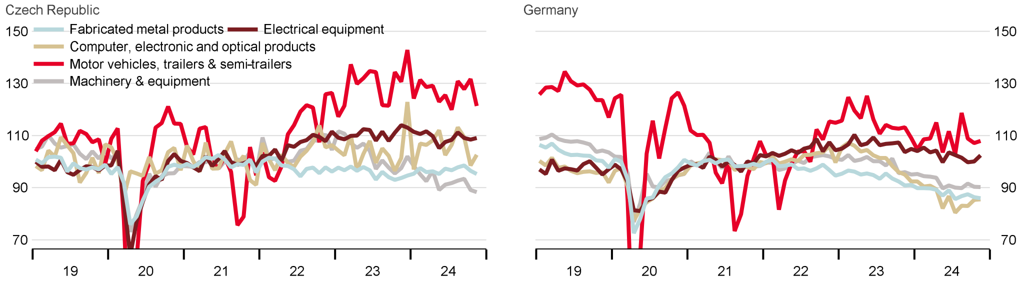
**Production in energy-intensive industries in the Czech Republic and Germany (2021=100)**




Source: CZSO, Destatis, Macrobond, Economic & Strategy Research, Komerční banka
Note: Selected values are not shown in the chart for better clarity.

**The share of energy-intensive industries in Germany is higher than in Czechia.** This may partly explain the better performance of latter's industry. In addition, production in the key Czech automotive sector has been better able to offset the weakness in other sectors – and this pattern has been repeated in Germany. In both countries, however, large order backlogs at car manufacturers due to longer delivery times caused by supply chain issues played a significant one-off role. As they subsided, production picked up strongly, and despite weaker new demand, production and export figures exhibited strength. This had an acyclical effect, as other sectors felt the pressure from weak demand, high inflation of production inputs and tight monetary policy more acutely. This favourable effect has now mostly faded, and the automotive sector has joined the others in contracting. Furthermore, European carmakers are now also having to deal with strong Chinese competition on the market. Given the large overcapacity in Chinese manufacturing, deflationary pressures could spill over to Europe through this recently strengthened import channel.

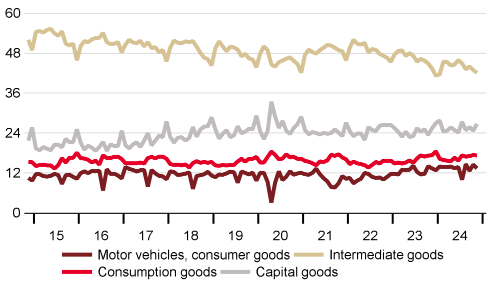
## Production in selected industries in the Czech Republic and Germany (2021=100)




Source: CZSO, Destatis, Macrobond, Economic & Strategy Research, Komerční banka
Note: Selected values are not shown in the chart for better clarity.

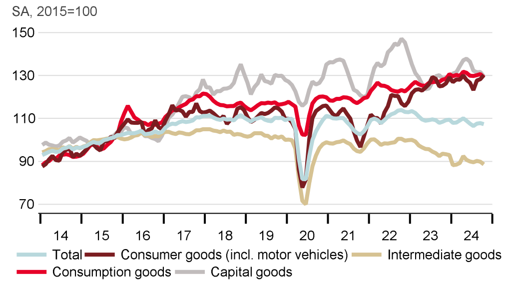
**Monthly industrial indicators have tended to overstate the weakness in industry in both countries.** Although gross value added in manufacturing is on a downward trend and illustrates the sector's woes, the picture remains more favourable. This is likely in part due to higher-value-added manufacturing, which may imply lower value-added in energy-intensive sectors. In the Czech case, it is also reflected in higher exports of final consumer goods at the expense of intermediate goods, traditionally the dominant export article to Germany. In 2024 (as of November), the share of intermediate goods in total (nominal) exports fell by almost 6pp and 1pp, respectively, compared to 2024 and 2019, while the share of final consumer goods rose by 2pp and 0.5pp, respectively. The increase in the share of transport equipment was even more pronounced (+5pp vs both 2014 and 2019).

## Product shares in total exports of goods (%)




Source: Eurostat, Macrobond, Economic & Strategy Research, Komerční banka
Note: breakdown by BEC Rev. 4 product classification.

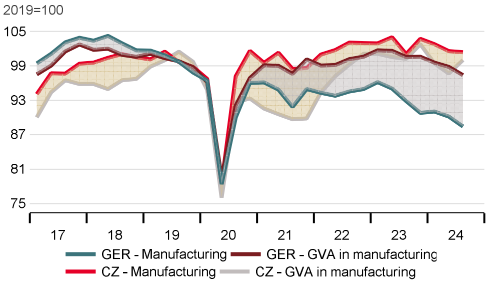
## Export volume of goods by BEC*




Source: Eurostat, Macrobond, Economic & Strategy Research, Komerční banka.
Note: real volume, *BEC = Broad Economic Categories

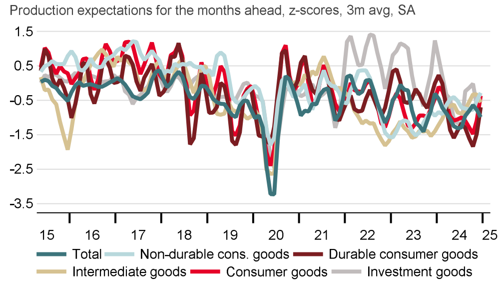
**The weakness in intermediate goods production – given its position in the production pipeline – points to low expectations of an imminent broad-based recovery in industry.** The assessment of individual sectors points to this too. Concerns about possible US tariffs, slowly easing financial conditions and – more importantly for Germany and Czechia – elevated energy prices, have done little to boost industrial confidence. These are unlikely to return to their pre-pandemic levels and are therefore effectively crippling the competitiveness of both industries to some extent.

### GVA and industrial production index




Source: CZSO, Destatis, Macrobond, Economic & Strategy Research, Komerční banka
Note: GVA = gross value added. Industrial production index is a monthly indicator.

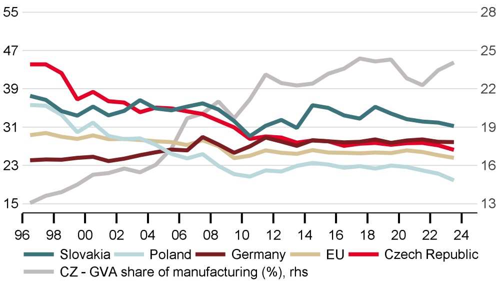
### Production outlook still subdued in Czechia




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

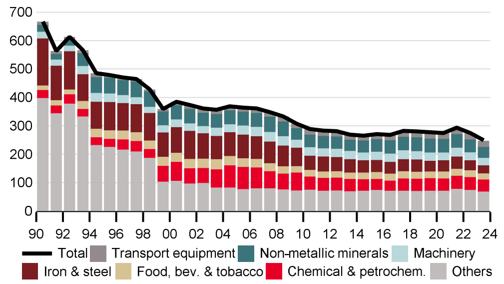
**Greater energy efficiency would contribute to improvements.** The share of industry in total energy consumption has been slowly declining over the past decade in Czechia, while the economy has become more industrialised, as reflected in the rising share of industry in total GVA. Investment in more sustainable production, encouraged by the easing of financial conditions, may provide some support. At the sector level, the automotive, machinery, rubber and plastic products, and fabricated metal products sectors have seen their share in total economy's GVA decline compared to 2019.[1] Surprisingly, other traditionally energy-intensive sectors have not seen a marked decline in profits – measured by the ratio of gross operating surplus (GOS) to GVA. Given the deterioration in competitiveness due to energy prices, it would therefore be advisable to invest these funds in more energy-efficient production.

### Industrial share in energy consumption (%)




Source: CZSO, Eurostat, Macrobond, Economic & Strategy Research, Komerční banka
Note: GVA = gross value added.

### Industry energy consumption structure (PJ)

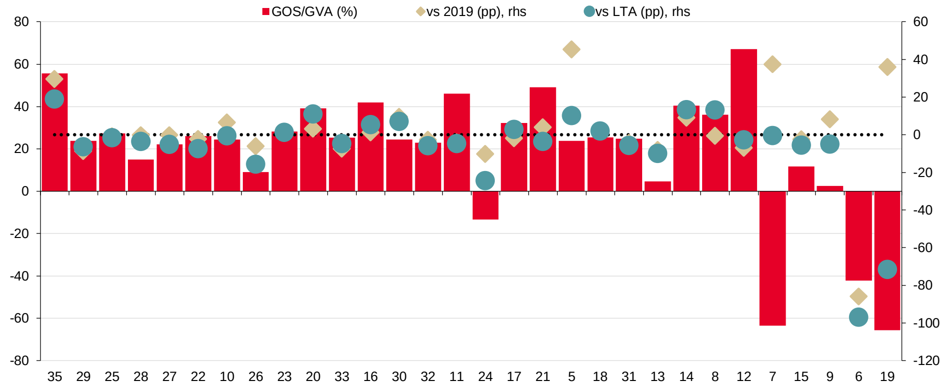



Source: Eurostat, Macrobond, Economic & Strategy Research, Komerční banka
Note: PJ = petajoules.

**The weakness of the German economy and especially the industrial sector is a significant drag on the Czech economy.** Moreover, industry in both is no longer supported by the acyclic development in the automotive sector. Dependence on the German market remains dominant, although a little diversification in both geography and product has helped to ease the pressure on the Czech economy. Nonetheless, a significant part of both German and Czech industry is losing competitiveness, especially the energy-intensive industry. In both cases, investment, in more sustainable production for instance, or – especially in Czechia – a greater diversification of the product portfolio and a move up the production chain would help to remedy this, at least in part.

[1] Sector-level data is available only on an annual basis until 2023.

## Changes in the pp of gross operating surplus (GOS) as a share of GVA in the sector



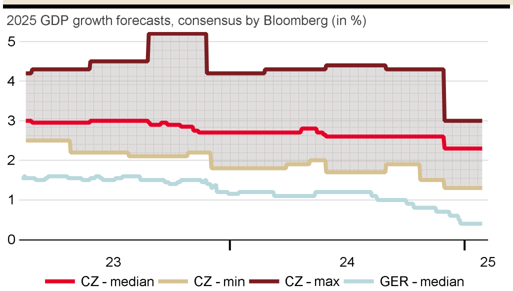

**Legend (sectors are in descending order according to their share in total GVA)**

| | | | | |
|---|---|---|---|---|
| 35 Electricity, gas, steam and air conditioning supply | 10 Manufacture of food products | 30 Manufacture of other transport equipment | 05 Mining of coal and lignite | 12 Manufacture of tobacco products |
| 29 Manufacture of motor vehicles, trailers and semi-trailers | 26 Manufacture of computer, electronic and optical products | 32 Other manufacturing | 18 Printing and reproduction of recorded media | 07 Mining of metal ores |
| 25 Manufacture of fabricated metal products, except machinery and equipment | 23 Manufacture of other non-metallic mineral products | 11 Manufacture of beverages | 31 Manufacture of furniture | 15 Manufacture of leather and related products |
| 28 Manufacture of machinery and equipment n.e.c. | 20 Manufacture of chemicals and chemical products | 24 Manufacture of basic metals | 13 Manufacture of textiles | 09 Mining support service activities |
| 27 Manufacture of electrical equipment | 33 Repair and installation of machinery and equipment | 17 Manufacture of paper and paper products | 14 Manufacture of wearing apparel | 06 Extraction of crude petroleum and natural gas |
| 22 Manufacture of rubber and plastic products | 16 Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 21 Manufacture of basic pharmaceutical products and pharmaceutical preparations | 08 Other mining and quarrying | 19 Manufacture of coke and refined petroleum products |

Source: CZSO, Economic & Strategy Research, Komerční banka
Note: GVA = gross value added, GOS = gross operating surplus, LTA = long-term average. Latest figure from 2023.

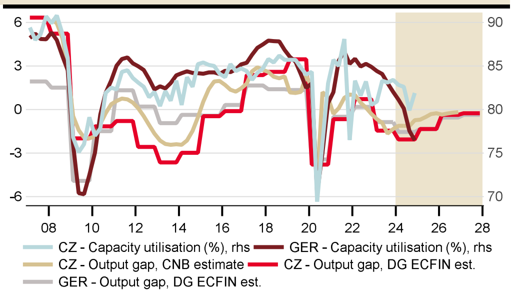
**The upcoming German elections will provide further clues as to the direction of the German economy and, by extension, industry** (see more in *Box 1*). The cyclical recovery in demand for industrial goods, but above all the addressing of structural problems in industry, will also be a welcome boost for the Czech economy. However, this is likely to be lacking in the near term, which is why we believe that industry will not be much of a help in driving 2025 growth in Czechia. Moreover, the Czech economy is set to be driven by household consumption, which is still only catching up to the pre-pandemic level. Equally, the comparative growth advantage of the Czech economy over Germany is not real indicator of a genuine ability to break away from the effects of Germany's woes.

## Growth prospects in a gradual decline




Source: Bloomberg, Economic & Strategy Research, Komerční banka
Note: Consensus as of 27.01.2025.

## Output gap and capacity utilisation in industry




Source: Eurostat, Macrobond, Economic & Strategy Research, Komerční banka
Note: DG ECFIN estimates are on an annual basis, others are quarterly

**Kevin Tran Nguyen**
(420) 222 008 569
kevin_tran@kb.cz

# Monetary policy

**Martin Gürtler**
(420) 222 008 509
martin_gurtler@kb.cz

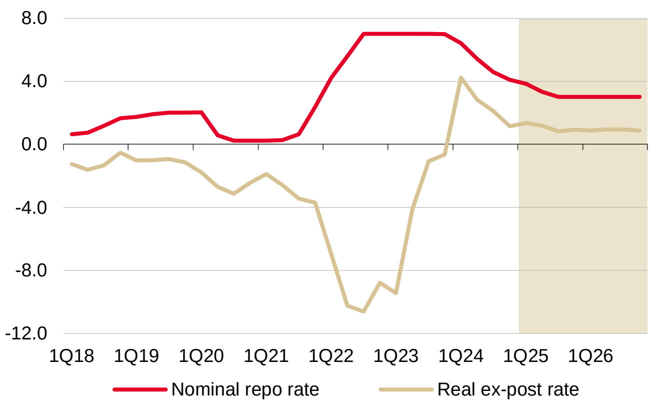
## CNB to resume rate cuts this year

**After a pause in December, we expect the Czech National Bank to resume interest rate cuts in February. This should be supported by a decline in inflation, which should gradually return to the 2% target and remain well within the CNB's tolerance band throughout the year. Inflationary pressures will be dampened by the weak economy, for which the monetary policy is too tight. We therefore expect the CNB to cut rates at a pace of 25bp per meeting from February until June, when the repo rate reaches its terminal level of 3%. However, the risks to our interest rate forecast remain skewed to the upside.**

The CNB forecasts inflation to accelerate to 2.6% in 2025. In contrast, we expect it to slow to 2.2%, close to the central bank's target.

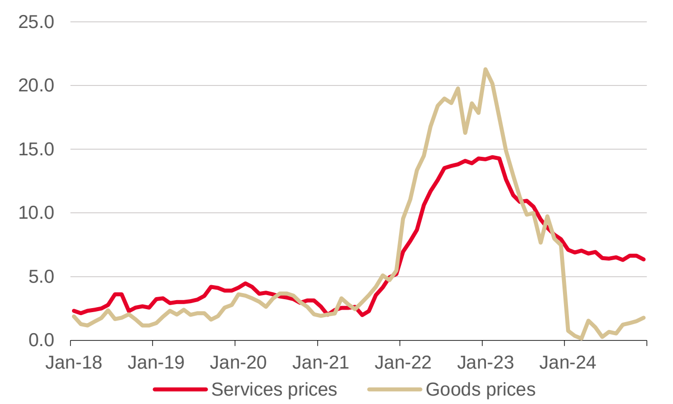
**The Czech National Bank took a pause in its interest rate cuts in December.** The key repo rate remained at 4.0%, having been cut by 300bp over the previous 12 months. The main reason for the December pause was most likely the board's concern about inflation at the turn of the year. At the time of the previous monetary policy meeting, central bankers did not yet know the December inflation figure, which had threatened to exceed 3% yoy and thus the upper limit of the CNB's tolerance band. This could also have had a negative impact on January inflation. However, fears of excessive consumer price growth in December did not materialise and it reached 3.0% yoy. As in previous meetings, the board justified its caution by pointing to the continued rapid growth of services prices. According to the CPI statistics, services prices reached 5.0% yoy in December, and even 6.4% yoy in terms of the HICP. However, goods prices rose by 1.7% and 1.8% yoy respectively, so their growth was slightly below the CNB's 2% target.

Monetary policy was highly restrictive in 2024, which will contribute to inflation falling close to the target this year (%)




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

Services prices continue to rise at a fast pace, while goods price growth remains below the 2% target (HICP, %, yoy)



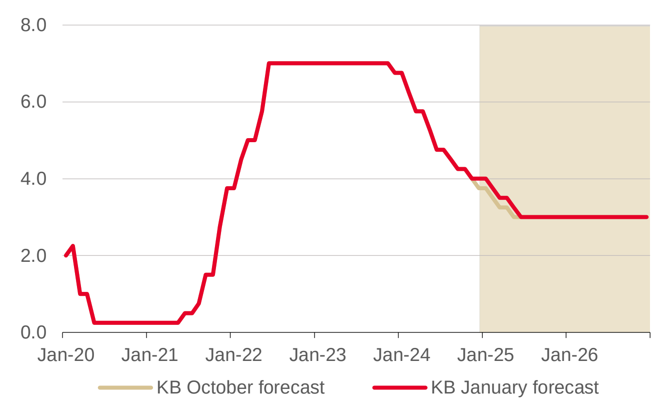

Source: Eurostat, Economic & Strategy Research, Komerční banka

**Despite the stronger economy and wage growth in 3Q24, we see the risks to the CNB's November forecast as tilted towards lower inflation.** Like us, the central bank was positively surprised by the growth of the Czech economy in 3Q24, as it had estimated +0.3% qoq vs the actual +0.5% qoq. However, we are more pessimistic than the CNB about further GDP developments. The central bank expects GDP growth to accelerate to 0.7% qoq in 4Q24 and to maintain this pace in 1H25. For the full-year 2025, the CNB expects the economy to grow by 2.4%, compared to our forecast of 1.5%. Wages also surprised the central bank with higher growth in 3Q24, rising 7.0% yoy vs the CNB's estimate of 6.1% yoy. It expects wage growth of 5.7% in 2025, which is slightly higher than our 5.4% forecast. We therefore believe that the real economy will be weaker this year than the central bank thinks. In our view, the ongoing weakness in monthly indicators such as retail and services sales and – even more so – the continued decline in industrial production, point in this direction. Moreover, expectations for the German economy, which accounts for around 30% of Czech exports, are gradually being revised downwards. Accordingly, we believe that Czech inflation will continue to decline over the next two years. After 2.4% last year, the CNB forecasts an acceleration in consumer price growth to 2.6% this year and a slowdown to 2.2% next year. By contrast, we estimate 2.2% for 2025 and 2.1% for 2026. The announced growth in the regulated components of energy prices, which can be considered rather conservative compared to the original assumptions, could also be a factor in the direction of lower inflation this year than in the CNB's November forecast.

We expect the return of inflation to close to 2% and the weak economy to convince the central bank to cut the repo rate further, to a terminal 3% in June.

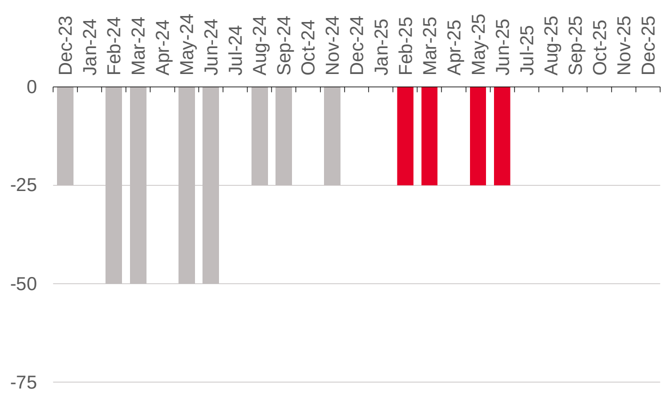
**We expect the CNB to resume interest rate cuts at a pace of 25bp per meeting from February until June, when the repo rate will reach its terminal level of 3%.** Compared with our October forecast, in which we did not expect rates to remain unchanged in December, this represents a one-meeting shift forward in our original CNB rate path. The CNB's November forecast even points to a slightly faster decline in the repo rate, despite expectations of stronger economic growth and higher inflation. The preliminary estimate of January inflation, which will be published the morning before the February meeting, should convince the board to resume the process of rate cuts. We expect inflation to fall to close to 2.5% yoy in January, well within the central bank's tolerance band. The board's concerns about the future path of inflation have probably been significantly reduced, as Deputy Governor Eva Zamrazilová said that the first digit of January's inflation will be 2 and that inflation for the full-year 2025 will be in the range of 2.0-2.5%. Together with another board member, Jan Procházka, she therefore sees room for a rate cut in February. At subsequent meetings, rate developments are likely to depend on incoming data, which we expect to support further rate cuts. While inflation is likely to be volatile in 1H25, the trend should nevertheless clearly point towards the 2% target. Moreover, the monetary policy horizon is now 1H26, by which time we expect inflation to be convincingly anchored at the 2% target. The weak economy should contribute to this. We expect interest rates in the euro area to fall at a similar pace as in the Czech Republic, so the impact of monetary policy on the koruna exchange rate should not be significant. However, given the continued hawkish communication from the board, especially with regard to rising service prices, we see the risks to our forecast for CNB interest rates as being skewed towards their higher level for longer.

**We expect repo rate cuts to end in June at 3.0%**




Source: CNB, Economic & Strategy Research, Komerční banka

**Repo rate cuts to resume at a pace of 25bp per meeting**




Source: CNB, Economic & Strategy Research, Komerční banka

# Fiscal policy

Jaromír Gec
(420) 222 008 598
jaromir_gec@kb.cz

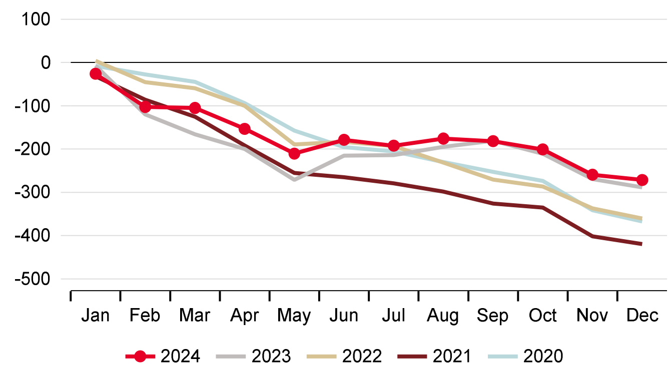
## Deficit safely back below 3%

**We expect the state budget deficit to narrow to CZK240bn this year from CZK271.4bn last year. As a share of GDP, we expect the general government deficit to narrow to 2.3% this year from 2.7% last year. The deficit should thus continue to trend significantly better than the EU average. The impact of fiscal policy on the economy will be broadly neutral this year, according to our estimates, after being restrictive last year due to the consolidation package. We expect total public debt as a share of nominal GDP to rise slightly in the coming years, but to stabilise gradually. Indeed, the current legal framework requires the continued consolidation of public finances.**

### Last year, the state budget reported its lowest deficit in 5 years

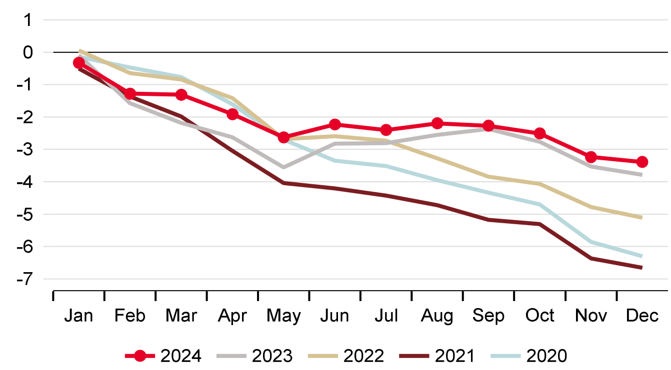
**The cash deficit of the state budget fell to CZK271.4bn last year,** CZK17.1bn lower yoy and CZK10.6bn lower than the approved CZK282.0bn. The better-than-planned outcome was partly due to flood-related expenditure, which was not fully spent. As a share of GDP, the state budget deficit in cash terms fell to 3.4% last year, its lowest level since 2019. The acceleration of defence spending was particularly noticeable towards the end of the year, reflecting efforts to meet the NATO commitment (2% of GDP). Nevertheless, the monthly (non-cumulative) deficit in December was actually slightly lower than in 2023, as revenues increased at the same time.

State budget balance (CZKbn, ytd cumulative)




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

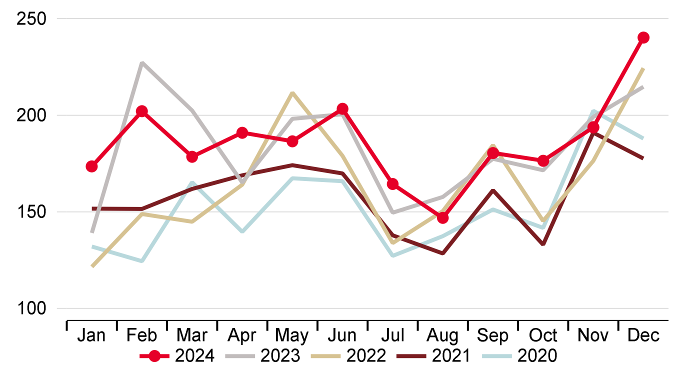
State budget balance (% GDP, ytd cumulative)




Source: Ministry of Finance, CZSO, Macrobond, Economic & Strategy Research, Komerční banka
Note: Nominal GDP in 2024 according to the KB forecast.

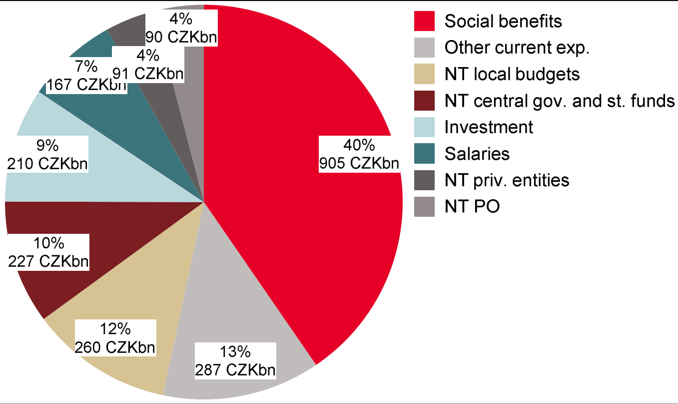
**Expenditure was CZK34.1bn (+1.6%) higher yoy last year.** Compared to 2023, the increase was mainly in social benefits (up by CZK36.6bn), mainly reflecting the orderly indexation of old-age pensions. Investment (up by CZK30.5bn) and expenditure in the chapters of non-investment transfers to state funds (up by CZK21.3bn) also increased significantly yoy. Expenditure on servicing public debt (up by CZK20.1bn) was almost a third higher than in the previous year. On the other hand, the previous compensation for high energy prices dropped out of non-investment transfers to enterprises (down by CZK71.2bn).

**State budget expenditure (CZKbn, non-cumulative)**




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

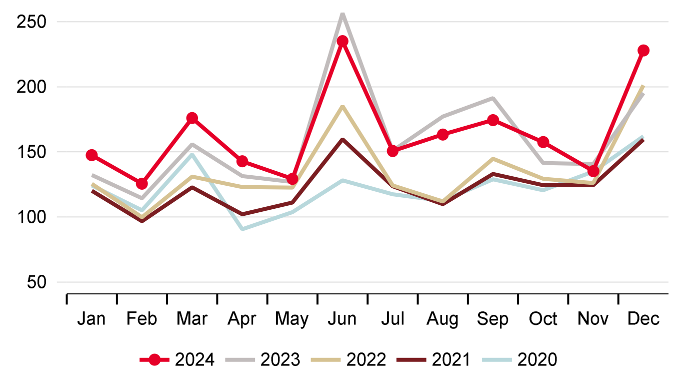
**State budget expenditure in 2024**




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

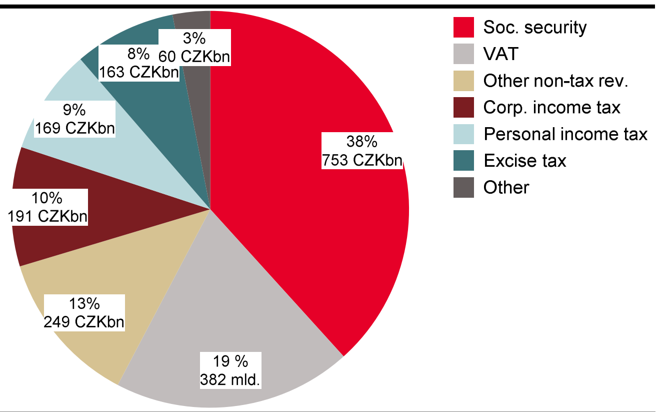
**Revenues increased by CZK51.3bn (+2.7%) yoy in 2024.** Among the individual items, the highest contributors were: insurance premiums (up by CZK63.4bn), personal income tax (up by CZK20.0bn), VAT (up by CZK16.4bn) and excise duties (up by CZK14.6bn). This was offset by yoy lower revenues from the EU (down by CZK14.3bn) and the general treasury administration chapter (down by CZK26.7bn). The solid rise in the largest item by weight, social contributions (+9.2% yoy) reflects both solid nominal wage growth and tax changes that came into effect at the beginning of last year. Nevertheless, the MinFin estimates that the pension system ran a deficit of CZK55.0bn last year.

**State budget revenue (CZKbn, non-cumulative)**




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

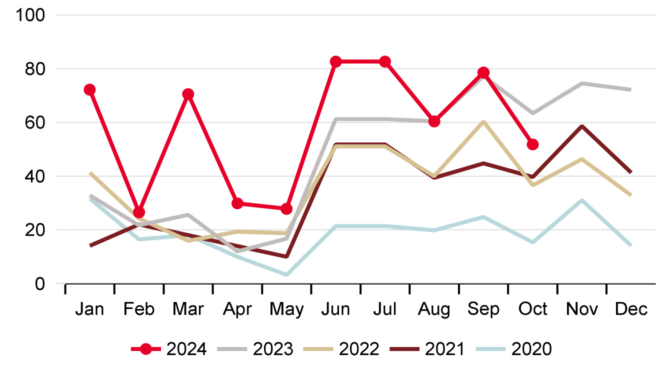
**State budget revenue in 2024**




Source: Ministry of Finance, Macrobond, Economic & Strategy Research, Komerční banka
Note: other revenue includes EU funds for example

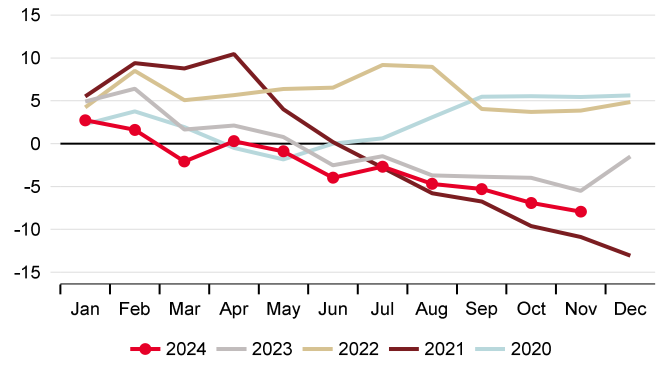
**By the end of October last year, local government budgets had recorded a cumulative surplus of CZK51.4bn ytd.** The year-on-year increase in revenues (by CZK6.2bn, +0.9%) did not cover the increase in expenditures (by CZK17.8bn, 2.9%), resulting in a yoy decrease in the positive balance by CZK11.6bn. The rise on the revenue side was due to increased personal income tax reflecting solid wage growth, but also due to measures under the consolidation package, with VAT collection being supported by higher household consumption. Municipalities also recorded a significant increase in property tax revenues. The accumulation of local government funds in bank accounts also continued last year. At the end of September, according to the Ministry of Finance, municipalities and regions had a total of CZK551.1bn in their accounts, while their debts amounted to CZK86.5bn.

**Municipal finances (CZKbn, ytd cumulative)**




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

**Health insurers' finances (CZKbn, ytd cumulative)**




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

## This year, the state budget deficit should ease to CZK240bn

**This year's revenue growth will mainly be driven by insurance premiums, we expect, but also by higher personal income tax and VAT collections.** This should reflect continued solid growth in nominal wages and consumption and, in the case of personal income tax, also some legislative changes adopted as part of the consolidation package that took effect from the beginning of 2025. We expect investment to be the main contributor to the increase in expenditure this year, but the increase in the volume of social benefits paid, especially old-age pensions, should also be noticeable. According to the budget, the pension account alone will post a liability of CZK13.2bn. The cost of servicing public debt will also remain high and will continue to rise this year, reaching around CZK100bn. Thereafter, in line with the MinFin's medium-term outlook, we expect the state budget deficit to be CZK225bn in 2026 and CZK180bn in 2027.

**The risk to the state budget is skewed towards deeper deficits over the entire horizon.** This year, the outlook for economic growth, which we estimate to be significantly lower than the MinFin's August forecast on which the budget was based (MinFin: 2.7%, KB: 1.5%), comes with negative risks. In the following years, the risks are skewed in the same direction due to a possible loosening of domestic fiscal rules. The EU's fiscal rules are less stringent than Czech legislation, requiring 'only' a public deficit of up to 3% of GDP.

**Public finance forecasts**

| | 2022 | 2023 | 2024e | 2025f | 2026f | 2027f |
|---|---|---|---|---|---|---|
| Balance (% GDP) | -3.1 | -3.8 | -2.7 | -2.3 | -1.8 | -1.2 |
| Fiscal effort (pp GDP) | 0.9 | -0.4 | 0.4 | 0.2 | 0.5 | 0.5 |
| Public debt (CZKbn) | 2 997.6 | 3 234.0 | 3 505.4 | 3 745.4 | 3 970.4 | 4 150.4 |
| Debt ratio (% GDP) | 42.5 | 42.4 | 43.8 | 45.0 | 45.6 | 45.7 |

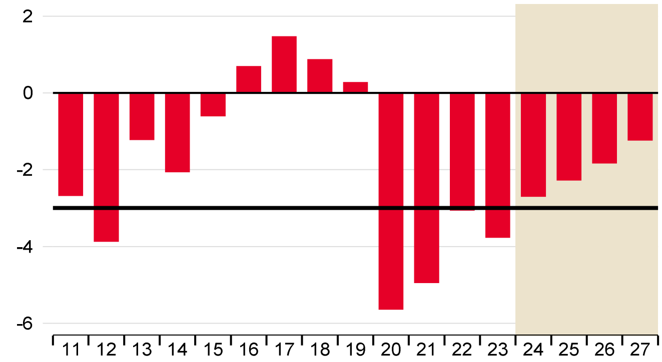
Source: CZSO, Macrobond, Ministry of Finance for published data, Economic & Strategy Research, Komerční banka
Note: fiscal effort is measured as the yoy change in the public finance balance, adjusted for the economic cycle and one-off operations on GDP in pp.

## Public finances to remain below 3% of GDP

In our view, the public finances will see a deficit of 2.3% of GDP this year vs 2.7% last year.

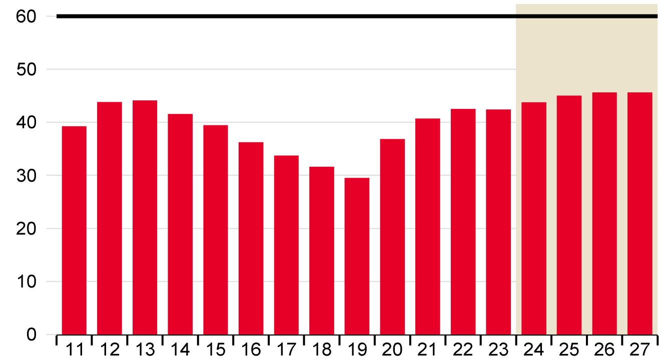
**This year, we expect the public finance deficit to fall to 2.3% of GDP, after 2.7% last year.** Overall, the public finance deficit should again be lower than the state budget deficit. Meanwhile, the market median estimate of the general government balance for the EU as a whole is currently -3.2% of GDP in 2024 and -3.0% of GDP in 2025. We estimate that the Czech government's debt-to-GDP ratio will increase by 0.8pp per year on average over 2024-2027, rising to 45.7% by 2027.

**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

**The impact of discretionary fiscal policy measures on the economy should be roughly neutral this year.** There was visible easing of the structural deficit of public finances last year, which was facilitated by the so-called ‘consolidation package’. We now estimate that fiscal restriction, measured by the approximate aggregate fiscal impulse, will take a negligible 0.1pp of GDP growth out of the Czech economy this year. The more significant restrictive effect of fiscal policy on economic growth will then resume in 2026-2027 as part of the consolidation trajectory that is enshrined in law.

**Structural imbalances in public finances persist, and Czech law obliges the next government to consolidate.** Although the consolidation package has lowered the mismatch between government revenues and expenditures, the general government’s structural deficit remains at around 2% of GDP. However, the statutory limit[2] on structural balances tightens by 0.5pp[3] per year in 2025-2027 from a baseline of 2.75% in 2024. The next government will therefore be required to continue consolidating public finances as per Czech law as it currently stands.

[2] Act No. 23/2017 Coll. on the Rules of Budgetary Responsibility

[3] The limit is 2.25% of GDP in 2025, 1.75% in 2026 and 1.25% in 2027. From 2028 onwards, it is 1% of GDP.

# Summary forecast table

| | Q2 24 | Q3 24 | Q4 24 | Q1 25 | Q2 25 | Q3 25 | Q4 25 | Q1 26 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **GDP and its breakdown** | | | | | | | | | | | | | | |
| **GDP (real, yoy, %)** | 0.5 | 1.4 | 1.3 | 1.2 | 1.4 | 1.4 | 1.9 | 2.1 | 0.1 | 0.9 | 1.5 | 2.2 | 2.3 | 2.3 |
| **Household consumption (real, yoy, %)** | 0.8 | 2.2 | 2.1 | 2.0 | 2.8 | 2.7 | 3.0 | 3.1 | -2.8 | 1.7 | 2.6 | 2.9 | 2.3 | 2.1 |
| **Government consumption (real, yoy, %)** | 4.5 | 3.3 | 3.1 | 3.0 | 2.4 | 2.4 | 2.4 | 1.7 | 3.4 | 3.6 | 2.6 | 1.2 | 1.8 | 2.0 |
| **Fixed investment (real, yoy, %)** | 0.2 | -0.8 | -0.5 | 1.1 | 0.4 | 3.0 | 3.3 | 3.6 | 2.7 | -0.3 | 1.9 | 3.3 | 2.0 | 2.2 |
| **Net exports (contribution to yoy)** | 1.2 | 0.6 | -1.2 | -1.2 | -1.6 | -1.2 | -1.3 | -0.8 | 2.6 | 0.7 | -1.3 | 0.2 | 0.5 | 0.3 |
| **Inventories (contribution to yoy)** | -2.0 | -0.6 | 1.0 | 0.4 | 1.0 | 0.0 | 0.3 | 0.1 | -2.6 | -1.1 | 0.4 | -0.3 | -0.1 | 0.1 |
| **Monthly data from the real economy** | | | | | | | | | | | | | | |
| **Foreign trade (CZKbn)** | 71.2 | 28.2 | 42.7 | 71.4 | 47.7 | 0.8 | 6.6 | 64.5 | 122.5 | 225.2 | 126.5 | 153.4 | 196.8 | 227.2 |
| **Exports (nominal, yoy, %)** | 4.7 | 10.6 | 4.3 | 3.2 | 1.1 | 6.9 | 2.0 | 4.7 | 0.8 | 4.8 | 3.3 | 5.7 | 6.1 | 5.5 |
| **Imports (nominal, yoy, %)** | 1.7 | 7.7 | 4.8 | 4.5 | 3.2 | 9.6 | 5.3 | 5.6 | -6.3 | 2.5 | 5.7 | 5.2 | 5.4 | 5.2 |
| **Industrial production (real, yoy, %)** | -2.1 | 0.3 | -3.2 | -2.6 | -1.7 | -1.3 | 0.5 | 1.6 | -0.8 | -1.5 | -1.3 | 2.7 | 2.9 | 2.3 |
| **Construction output (real, yoy, %)** | -5.7 | -0.9 | 0.0 | -0.1 | 2.7 | 3.2 | 1.9 | 2.7 | -2.6 | -3.3 | 1.9 | 3.7 | 4.1 | 2.6 |
| **Retail sales (real, yoy, %)** | 4.5 | 5.0 | 4.2 | 2.8 | 2.8 | 2.3 | 2.6 | 2.6 | -4.5 | 4.3 | 2.6 | 2.8 | 2.6 | 2.1 |
| **Labour market** | | | | | | | | | | | | | | |
| **Wages (nominal, yoy, %)** | 6.5 | 7.0 | 6.8 | 6.0 | 5.8 | 5.1 | 4.7 | 4.5 | 8.0 | 6.9 | 5.4 | 4.6 | 4.7 | 4.4 |
| **Wages (real, yoy, %)** | 3.8 | 4.4 | 3.8 | 3.1 | 3.4 | 2.9 | 3.2 | 2.3 | -2.4 | 4.2 | 3.1 | 2.5 | 2.5 | 2.3 |
| **Unemployment rate (MLSA, %)** | 3.7 | 3.8 | 3.9 | 4.3 | 4.1 | 4.3 | 4.4 | 4.6 | 3.6 | 3.8 | 4.3 | 4.3 | 4.1 | 4.2 |
| **Unemployment rate (ILO 15+, %)** | 2.5 | 2.6 | 2.5 | 2.8 | 2.8 | 3.0 | 2.9 | 3.2 | 2.6 | 2.6 | 2.9 | 2.9 | 2.7 | 2.8 |
| **Employment (ILO 15+, yoy, %)** | 2.1 | 2.3 | 2.5 | -0.4 | 0.4 | 0.2 | 0.1 | 0.2 | 1.5 | 2.7 | 0.1 | 0.4 | 0.6 | 0.1 |
| **Consumer and producer prices** | | | | | | | | | | | | | | |
| **CPI Inflation (yoy, %)** | 2.6 | 2.5 | 3.0 | 2.5 | 2.2 | 2.2 | 2.1 | 2.1 | 10.7 | 2.4 | 2.2 | 2.1 | 2.1 | 2.0 |
| **Taxes (contribution to yoy inflation)** | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| **Core inflation (yoy, %) (*)** | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.2 | 7.6 | 2.5 | 2.3 | 2.2 | 2.1 | 2.0 |
| **Food prices (yoy, %) (*)** | 0.0 | 1.1 | 2.8 | 4.1 | 3.7 | 2.8 | 2.0 | 2.0 | 10.0 | 0.7 | 3.1 | 1.9 | 2.1 | 2.4 |
| **Fuel prices (yoy, %) (*)** | 7.3 | -3.9 | -7.4 | -3.0 | -4.2 | 0.5 | 3.0 | -0.9 | -12.4 | -0.9 | -0.9 | -2.1 | 0.0 | 0.3 |
| **Regulated prices (yoy, %)** | 5.9 | 5.8 | 7.4 | 0.0 | -0.2 | 0.4 | 0.5 | 2.1 | 27.8 | 6.3 | 0.2 | 2.3 | 2.1 | 2.0 |
| **Producer prices (yoy, %)** | 1.1 | 1.2 | 1.8 | 1.1 | 2.0 | 2.0 | 0.9 | 1.4 | 5.3 | 0.8 | 1.5 | 1.2 | 1.3 | 1.5 |
| **Financial variables** | | | | | | | | | | | | | | |
| **2W Repo (%, average)** | 5.4 | 4.6 | 4.1 | 3.8 | 3.3 | 3.0 | 3.0 | 3.0 | 7.0 | 5.1 | 3.3 | 3.0 | 3.0 | 3.0 |
| **3M PRIBOR (%, average)** | 5.3 | 4.5 | 4.0 | 3.8 | 3.3 | 3.2 | 3.2 | 3.3 | 7.1 | 5.0 | 3.4 | 3.3 | 3.3 | 3.3 |
| **EUR/CZK (average)** | 25.0 | 25.2 | 25.2 | 25.3 | 25.1 | 25.0 | 24.8 | 24.8 | 24.0 | 25.1 | 25.0 | 24.7 | 24.5 | 24.2 |
| **External environment** | | | | | | | | | | | | | | |
| **GDP in EMU (real, yoy, %)** | 0.6 | 0.9 | 1.0 | 1.0 | 1.1 | 1.0 | 1.2 | 1.2 | 0.5 | 0.8 | 1.1 | 1.2 | 1.1 | 1.0 |
| **GDP in Germany (real, yoy, %)** | -0.2 | -0.3 | 0.2 | 0.2 | 0.7 | 0.8 | 0.9 | 0.9 | -0.1 | -0.1 | 0.7 | 0.9 | 0.8 | 0.8 |
| **CPI in EMU (yoy, %)** | 2.5 | 2.1 | 2.2 | 2.0 | 1.8 | 1.7 | 1.6 | 1.8 | 5.5 | 2.4 | 1.8 | 1.8 | 1.9 | 2.0 |
| **Brent oil price (USD/bbl, average)** | 85.6 | 82.0 | 73.1 | 78.0 | 76.8 | 77.3 | 77.0 | 76.5 | 82.5 | 80.8 | 77.3 | 75.8 | 74.4 | 74.0 |
| **EUR/USD (quarter eop, year average)** | 1.08 | 1.10 | 1.07 | 1.02 | 1.03 | 1.04 | 1.06 | 1.08 | 1.08 | 1.08 | 1.04 | 1.10 | 1.13 | 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

# Czech IRS market and government bonds

Jaromír Gec
(420) 222 008 598
jaromir_gec@kb.cz

## Near the normal

**In our view, koruna market interest rates at shorter maturities could fall slightly further following the CNB's faster-than-market-expected monetary easing. For longer maturities, we expect them to stabilise around current levels. We expect gross CZGB issuance to increase this year as higher volumes of maturing bonds and treasury bills outweigh the easing of the government budget deficit. Overall, improving global market sentiment, combined with continued fiscal consolidation, should, in our view, contribute to a slight narrowing of spreads over market interest rates (IRS) for domestic government bonds.**

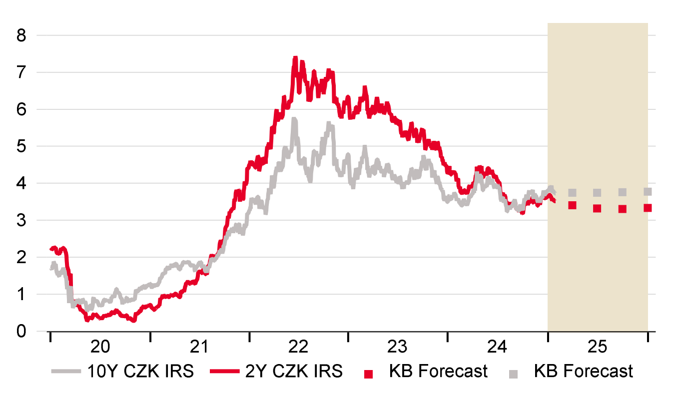
### The Czech IRS market: gradual stabilisation

**The recent rise in foreign market interest rates has also been reflected in the koruna curve.** The first upswing in October was related to market bets on a Trump victory, which was subsequently sealed by the Republicans winning control of Congress. However, continued strong US economic data also played a role. Among domestic factors, the CNB also had an impact on koruna market interest rates, as it continued its cautious rhetoric and even suspended the process of cutting its policy rates in December. However, domestic inflation figures for December, published in mid-January, surprised the central bank and the markets to the downside, which led markets to increase their bets on further monetary easing by the CNB.

In our view, there is only limited scope for further reductions in koruna market interest rates. According to our forecasts, rates with shorter maturities could see a slight decline. The longer end of the curve should stabilise more or less near current levels.

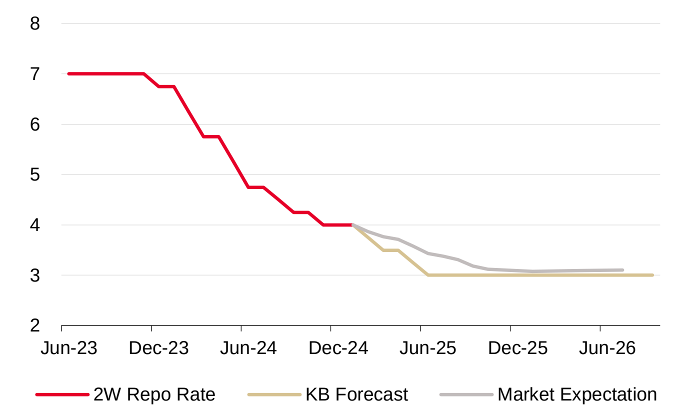
**In our view, shorter-term koruna market interest rates could still fall slightly as a result of the CNB's continued rate cuts.** Market instruments are currently pricing in a somewhat slower pace of monetary easing by the CNB than we forecast**. For longer maturities, we expect koruna interest rates to stabilise around current levels.** The CNB's market-implied terminal policy rate is close to our forecast of 3%. Increased uncertainty about its level, both domestically and abroad, as well as a more uncertain medium-term trend in global inflation, inter alia in connection with the risk of increased protectionist measures in world trade, keep the term premium elevated. Compared with our previous forecast, we have revised our outlook for interest rates in the koruna market interest rates slightly upwards. This is mainly due to external assumptions (higher foreign rates).

**IRS forecast (%)**




Source: Bloomberg, Economic & Strategy Research, Komerční banka

**Expected CNB key interest rate path as of 28 January 2025 (%)**




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

**CZK IRS outlook (end of period, %)**

| | 1Q25f | 2Q25f | 3Q25f | 4Q25f |
|---|---|---|---|---|
| 2y | 3.40 | 3.30 | 3.30 | 3.35 |
| 5y | 3.55 | 3.50 | 3.55 | 3.55 |
| 10y | 3.75 | 3.75 | 3.75 | 3.75 |

Source: Economic & Strategy Research, Komerční banka

## Euro market consistently offers lower interest rates

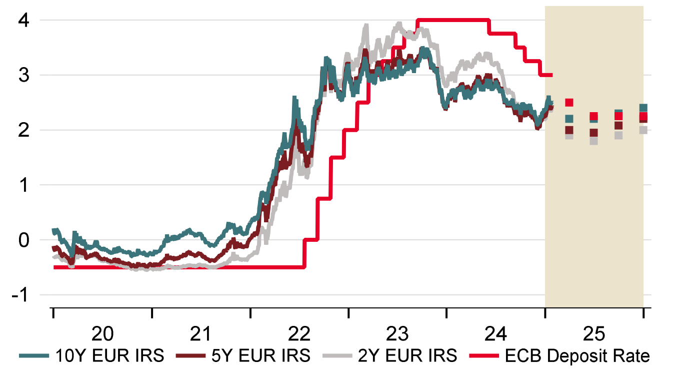
**Interest-rate hedging conditions in the koruna markets deteriorated across maturities as foreign interest rates rose.** Shortly after Donald Trump's inauguration, however, part of the recent increase was again corrected. The forward market tends to offer higher rates compared to the spot IRS. **Visibly lower interest rates compared to the koruna continue to prevail in the euro area.** The spread between koruna and euro rates, while narrowing again since around mid-December, remains elevated.

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

| Forward \ Maturity | 1Y | 2Y | 3Y | 5Y | 10Y |
|---|---|---|---|---|---|
| Spot | 3.61 | 3.51 | 3.51 | 3.55 | 3.72 |
| 3M | 3.51 | 3.48 | 3.49 | 3.54 | 3.72 |
| 6M | 3.42 | 3.45 | 3.47 | 3.54 | 3.72 |
| 1Y | 3.41 | 3.45 | 3.50 | 3.57 | 3.75 |
| 2Y | 3.48 | 3.55 | 3.57 | 3.66 | 3.81 |
| 3Y | 3.62 | 3.62 | 3.67 | 3.75 | 3.85 |

Source: Bloomberg, Economic & Strategy Research, Komerční banka, as of 28 January 2025

**Euro area rates (%)**




Source: Bloomberg, SG Cross Asset Research/Economics

## Gross CZGB issuance to rise visibly this year, net issuance more moderately

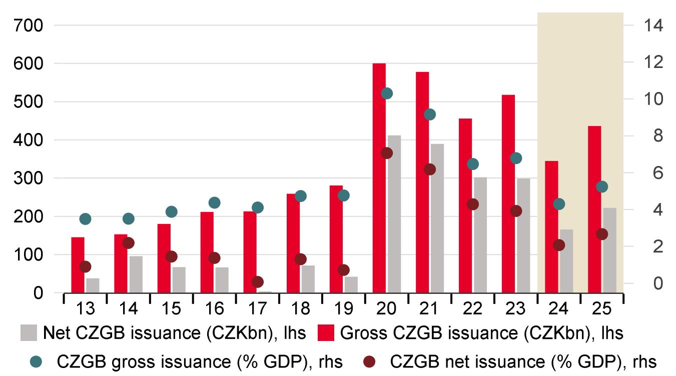
**We expect the cash deficit of the state budget to move towards CZK240bn this year, down from CZK271.4bn last year.** Combined with other financing needs, in particular the redemption of maturing bonds and treasury bills, we estimate that the gross issuance of CZGBs will amount to CZK436.2bn this year, with the Ministry of Finance (MinFin) expecting to issue CZK350-450bn. In our view, the supply of CZGBs will thus increase by CZK91.6bn yoy this year. This reflects higher T-bond and T-bill repayments, which will more than offset the lower state budget deficit. For 1Q25, the MinFin has set the indicative volume to be offered in primary auctions at CZK85.0bn. The MinFin is also allowing the issuance of a euro-denominated bond this year (we estimate the volume at EUR1.0bn), while traditionally preferring to use domestic issuance to cover foreign currency financing needs.

### Funding programme and issuance activity (CZKbn)

| | 2025 | |
|---|---|---|
| | **MinFin** | **KB** |
| State budget deficit | 241.0 | 240.0 |
| Transfers and other operations of state financial assets | 7.4 | 7.4 |
| T-bonds denominated in local currency redemptions | 214.2 | 214.2 |
| T-bonds denominated in foreign currency redemptions | 0.0 | 0.0 |
| Redemptions and early redemptions on savings bonds | 19.0 | 19.0 |
| Money market instrument redemptions | 81.3 | 81.3 |
| Redemption of T-bills | | 81.3 |
| Redemption of other money market instruments | | 0.0 |
| Repayments on credits and loans | 0.6 | 0.6 |
| **Total financing needs** | **563.5** | **562.5** |
| Money market instruments | | 70.0 |
| T-bills | | 60.0 |
| Other money market instruments | | 10.0 |
| Gross issuance of CZK T-bonds on domestic market | | 436.2 |
| Gross issuance of EUR T-bonds on domestic market/eurobond | | 25.0 |
| Gross issuance of government savings bonds | | 1.3 |
| Received credits and loans | | 15.0 |
| Financial asset and liquidity management | | 15.0 |
| **Total financing sources** | | **562.5** |
| **Gross borrowing requirement** | | **547.5** |
| **Net CZGB issuance** | | **222.0** |

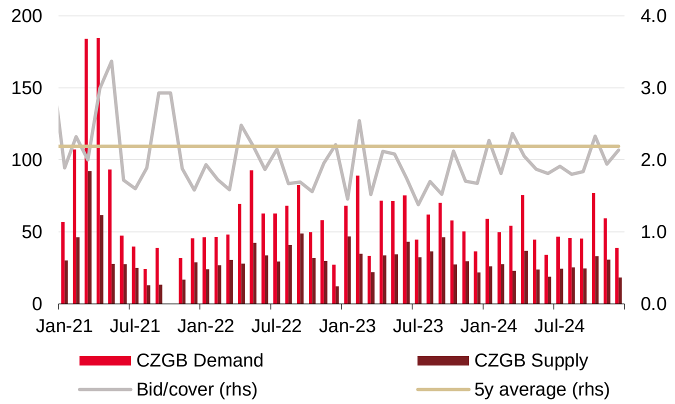
Source: MinFin, Economic & Strategy Research, Komerční banka

### CZGB issuance




Source: MinFin, Economic & Strategy Research, Komerční banka

### CZGB primary market (CZKbn)




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

### CZGB yield forecast (end of period)

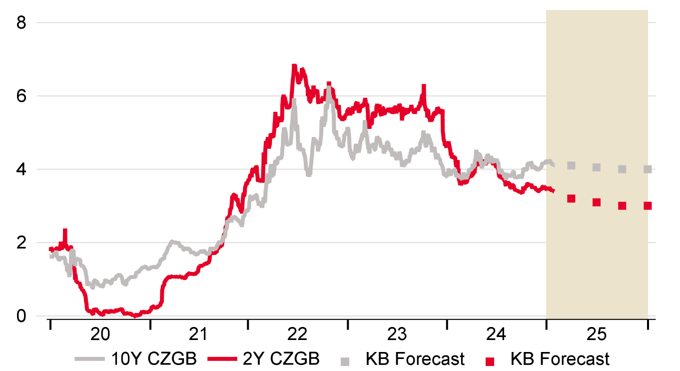
| | 1Q25f | 2Q25f | 3Q25f | 4Q25f |
|---|---|---|---|---|
| 2y CZGB yield (%) | 3.20 | 3.10 | 3.00 | 3.00 |
| 5y CZGB yield (%) | 3.65 | 3.60 | 3.50 | 3.50 |
| 10y CZGB yield (%) | 4.10 | 4.05 | 4.00 | 4.00 |
| 10y CZGB ASW (bp) | 35 | 30 | 25 | 25 |

Source: Economic & Strategy Research, Komerční banka

## Continued fiscal consolidation should keep bond yields at bay

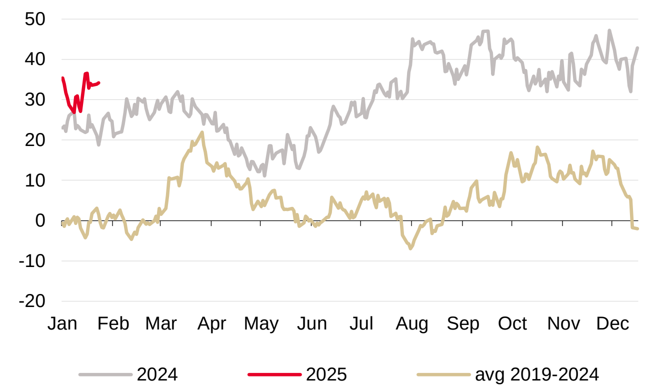
**As government bond yields recently lagged behind IRS growth, ASW spreads narrowed and CZGBs thus became relatively more expensive.** Given that we expect the government deficit to decline further this year to 2.3% of GDP from 2.7% last year, and that the law requires further consolidation in subsequent years so that the structural government deficit reaches 1% of GDP in 2028, we believe that spreads between market interest rates and bond yields could gradually narrow. Demand for CZGBs could also be supported this year by a partial outflow of capital from US assets into riskier assets against the backdrop of further Fed rate cuts and slowing US economic growth. Overall, in line with market interest rates, yields at shorter maturities should tend to fall slightly, while the longer end of the yield curve should, in our view, roughly stabilise at levels slightly below current levels.

**CZGB yield forecast (%)**




Source: Bloomberg, Economic & Strategy Research, Komerční banka

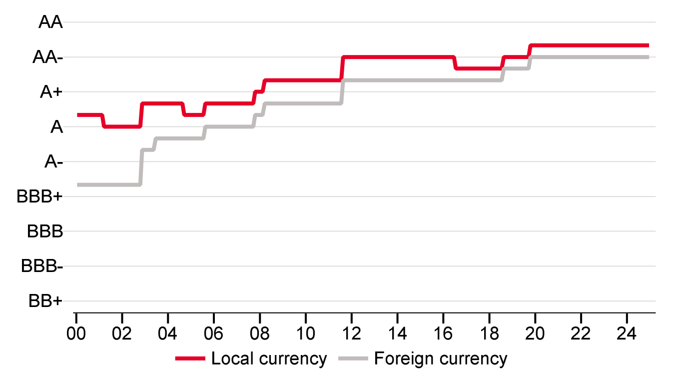
**10y CZGB ASW (bp)**




Source: Bloomberg, Economic & Strategy Research, Komerční banka

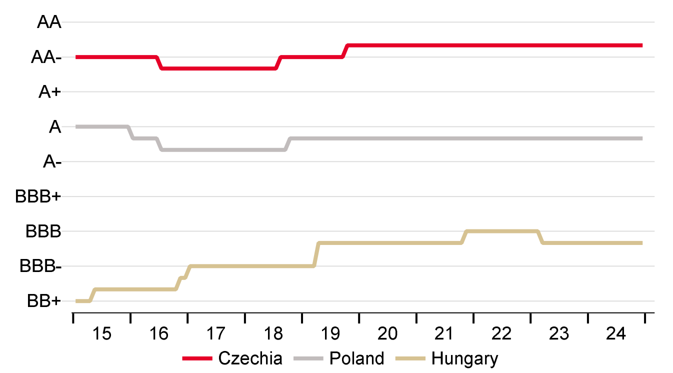
**The Czech Republic's credit rating remains unchanged, with stable outlooks from all major agencies.** The latest change came last February, when Fitch, like Moody's in November 2023, upgraded the outlook from negative to stable. The outlook downgrade in 2022 was mainly related to the energy crisis and deteriorating public finances. Both Fitch and Moody's praised the Czech government's consolidation efforts and the reduced energy dependence on Russia in their latest assessments. Fitch also cited as positive the moderation in inflation and the lack of impact of the pandemic and energy shock on the long-term growth prospects of the Czech economy. The Czech Republic still has the best credit rating of any CEE country.

**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

**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 |

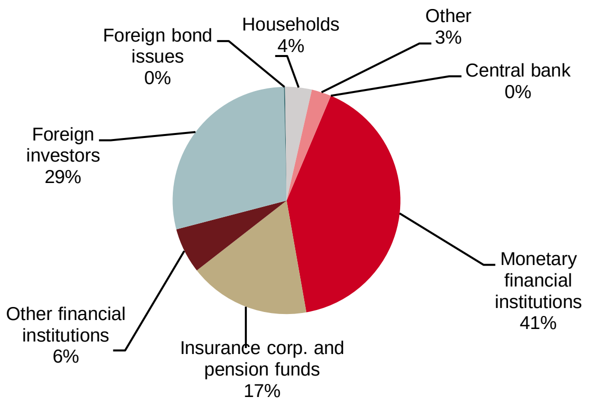
Source: Bloomberg, Economic & Strategy Research, Komerční banka

## 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 |
| 2.40 Sep-25 | 0.6 | 0.0 | 85% | 3.48 | 0 | 1 | 2.39 | -25 | 1 | 16 | -69 | | -24 | 1.9 | 1 | -11.6 | 1 | -28.1 | 24 |
| 6.00 Feb-26 | 1.0 | 0.0 | 71% | 3.27 | -4 | -12 | 2.13 | -40 | 1 | 6 | -58 | | -15 | -0.3 | 7 | 12.8 | 24 | -19.5 | 23 |
| 1.00 Jun-26 | 1.3 | 0.0 | 100% | 3.45 | -5 | -18 | 2.43 | -18 | -1 | -7 | -21 | | 10 | -1.5 | 20 | -3.1 | 7 | -9.1 | 22 |
| 0.25 Feb-27 | 2.0 | 0.0 | 112% | 3.52 | -10 | -22 | 2.55 | -7 | -3 | -4 | -14 | | 22 | -1.3 | 18 | -5.9 | 4 | -4.2 | 21 |
| 2.50 Aug-28 | 3.3 | 0.0 | 94% | 3.53 | -10 | -19 | 2.63 | -6 | -4 | -5 | -9 | | 18 | -1.6 | 21 | 4.2 | 20 | -0.9 | 19 |
| 5.50 Dec-28 | 3.5 | 2.2 | 74% | 3.50 | -9 | -17 | 2.63 | -6 | -4 | -7 | -13 | | 11 | -1.0 | 14 | 9.6 | 23 | -1.4 | 20 |
| 5.75 Mar-29 | 3.5 | 0.0 | 123% | 3.58 | -9 | -17 | 2.69 | 1 | -3 | -5 | -9 | | 63 | -0.6 | 9 | 4.4 | 21 | -0.7 | 18 |
| 2.75 Jul-29 | 4.1 | 0.0 | 100% | 3.67 | -8 | -16 | 2.75 | 6 | -3 | -2 | -1 | | 19 | -1.1 | 16 | -1.9 | 10 | 0.2 | 17 |
| 0.05 Nov-29 | 4.7 | 5.6 | 62% | 3.68 | -8 | -16 | 2.73 | 3 | -2 | -4 | 2 | | 18 | -2.0 | 24 | -0.8 | 11 | 0.6 | 16 |
| 0.95 May-30 | 5.0 | 0.0 | 100% | 3.68 | -9 | -17 | 2.73 | 3 | -1 | -4 | 1 | | 51 | -1.7 | 22 | 2.9 | 18 | 0.6 | 14 |
| 5.00 Sep-30 | 4.8 | 5.4 | 101% | 3.72 | -7 | -14 | 2.82 | 11 | 0 | -1 | 3 | | 25 | -0.5 | 8 | 1.9 | 15 | 0.8 | 13 |
| 1.20 Mar-31 | 5.6 | 0.0 | 100% | 3.80 | -8 | -15 | 2.80 | 10 | 1 | -1 | 8 | | 24 | -1.8 | 23 | -2.1 | 9 | 1.3 | 11 |
| 6.20 Jun-31 | 5.2 | 18.3 | 100% | 3.77 | -5 | -11 | 2.86 | 16 | 2 | 0 | 4 | | 21 | 0.9 | 2 | 3.2 | 19 | 1.1 | 12 |
| 1.75 Jun-32 | 6.6 | 0.0 | 100% | 3.89 | -4 | -8 | 2.85 | 13 | 2 | 2 | 7 | | 26 | -1.0 | 15 | -0.5 | 12 | 1.8 | 9 |
| 4.50 Nov-32 | 6.4 | 4.0 | 78% | 3.98 | -3 | -9 | 3.00 | 29 | 3 | 1 | 18 | | 38 | 0.3 | 3 | -7.2 | 2 | 2.1 | 8 |
| 3.00 Mar-33 | 6.8 | 4.2 | 42% | 4.00 | -6 | -11 | 2.96 | 24 | 2 | 0 | 18 | | 36 | -0.8 | 11 | -6.0 | 3 | 2.1 | 7 |
| 2.00 Oct-33 | 7.6 | 0.0 | 100% | 4.03 | -6 | -10 | 2.93 | 22 | 1 | 0 | 17 | | 35 | -1.2 | 17 | -4.5 | 6 | 2.2 | 5 |
| 4.90 Apr-34 | 7.1 | 10.4 | 108% | 4.07 | -4 | -9 | 3.05 | 34 | 2 | 1 | 23 | | 44 | 0.1 | 5 | -4.8 | 5 | 2.3 | 2 |
| 3.50 May-35 | 8.3 | 5.4 | 86% | 4.09 | -4 | -10 | 3.01 | 28 | 0 | -2 | 22 | | 41 | -0.8 | 10 | 1.0 | 14 | 2.2 | 3 |
| 3.60 Jun-36 | 8.9 | 4.5 | 25% | 4.15 | -5 | -12 | 3.07 | 31 | 0 | -4 | 24 | | 44 | -0.9 | 12 | 2.3 | 17 | 2.2 | 4 |
| 4.20 Dec-36 | 9.1 | 0.0 | 100% | 4.18 | -5 | -11 | 3.13 | 36 | 1 | -2 | 25 | | 46 | 0.1 | 4 | 1.9 | 16 | 2.3 | 1 |
| 1.95 Jul-37 | 10.4 | 2.3 | 60% | 4.24 | -6 | -11 | 3.07 | 29 | 0 | -2 | 21 | | 43 | -0.9 | 13 | 0.3 | 13 | 2.1 | 6 |
| 1.50 Apr-40 | 12.6 | 2.4 | 63% | 4.30 | -5 | -9 | 3.09 | 27 | -1 | -2 | 21 | | 44 | -1.4 | 19 | 6.7 | 22 | 1.5 | 10 |
| 4.00 Apr-44 | 12.8 | 2.3 | 5% | 4.44 | -3 | -4 | 3.30 | 51 | 0 | 3 | 36 | | 69 | 0.0 | 6 | -2.9 | 8 | 0.6 | 15 |

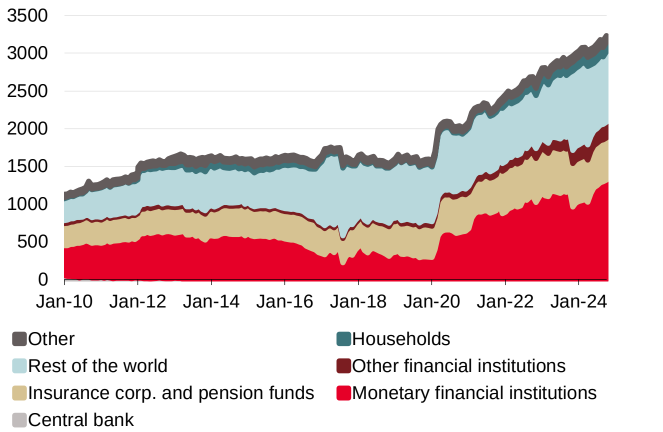
Source: Economic & Strategy Research, Komerční banka; Note: more details in CZGB Auction Alerts

## Holdings of CZK government debt (November 2024)




Source: MinFin, Economic & Strategy Research, Komerční banka

## Holdings of CZK government debt




Source: MinFin, Economic & Strategy Research, Komerční banka

# Czech FX market

**Jaromír Gec**
(420) 222 008 598
jaromir_gec@kb.cz

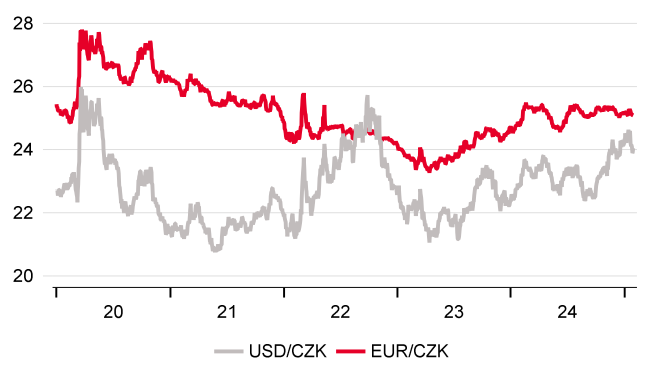
## Between a strong dollar and a recovering domestic economy

**The slow recovery of the domestic economy, the narrowing interest rate differential and strong USD will postpone any visible appreciation of the Czech koruna until the second half of this year, in our view. The currency should then be supported both by developments in global foreign exchange markets and by a gradual strengthening of growth in the Czech economy, which will likely outperform the euro area, in our view. Emerging market currencies in general will likely benefit this year from some decline in risk aversion and slowing US economic growth, as well as from Fed interest rate cuts, which we believe will be accompanied by some unwinding of long dollar positions. Overall, we expect the koruna to strengthen gradually towards EURCZK 25.0 and to trade just below this level by the end of 3Q25.**

### US dollar dominates the foreign exchange markets

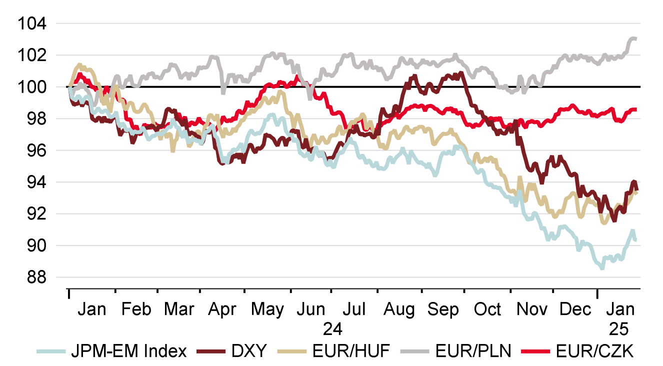
**Developments on the global FX markets contributed to keeping the koruna above the EURCZK 25.0 threshold in the last quarter.** With the markets having gradually priced in what would ultimately prove to be a victorious outcome for Donald Trump in the US presidential election, underpinned by strong data from the US economy, capital inflows into dollar assets continued, all the while putting pressure on the weakening of emerging market (EM) currencies. In our view, financial market optimism about the dollar is unlikely to increase significantly. In our baseline scenario, we expect a modest reduction in long dollar positions over the course of this year amid further Fed easing, which we expect to be more pronounced than the dollar money market is pricing in (see more in the *External Environment* chapter). This should be partly positive for EM currencies. We expect the US dollar to weaken against the euro towards EURUSD 1.06 by the end of the year.

**CZK exchange rates**




Source: Bloomberg, Economic & Strategy Research, Komerční banka

**Performance of CE currencies (1 January 2024 = 100)**



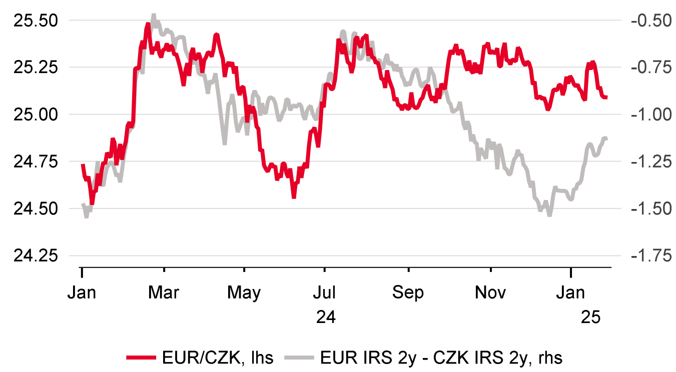

Source: Bloomberg, Economic & Strategy Research, Komerční banka
Note: a value above 100 indicates an appreciation of the CZK, PLN or HUF against the EUR or the Emerging Market Currency Index (JPM-EM), or a weakening of the Dollar Index (DXY) from 1 January 2024.

We have revised our EURCZK forecast to slightly weaker levels over the entire horizon to factor in a deterioration in global sentiment towards EM currencies.

**The widening interest rate differential is protecting the koruna from further weakening.** The interest rate differential between two-year koruna and euro market interest rates peaked close to annual highs in December, only to correct to a still-significant level of around 120bp at the beginning of this year. This development reflected opposing trends in the koruna and euro markets. While short koruna rates initially rose on the announcement of a pause in interest rate cuts in December, they fell again after December inflation print surprised to the downside. Short euro rates only rose from early December until mid-January. In our view, however, this additional support for the koruna is likely to fade.

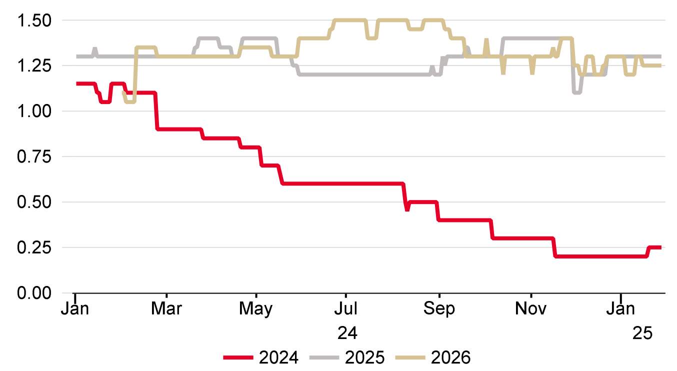
Over the forecast horizon, we expect the interest rate differential to narrow as the CNB eases its monetary policy faster than the markets expect. The ECB's future actions, as implied by market contracts, are broadly in line with our forecast in the short term, but we assume a slightly higher terminal deposit rate (2.25%) than the market.

**EUR/CZK and interest rate differential**




Source: Bloomberg, Economic & Strategy Research, Komerční banka

**GDP growth differential between the Czech Republic and the euro area – Bloomberg consensus (pp)**




Source: Bloomberg, Economic & Strategy Research, Komerční banka

**The domestic economy is getting off to a slow start, but its momentum should outpace the euro area this year and next.** Compared to the market consensus, we expect the Czech economy to grow more moderately, but the recovery should still be stronger than in the euro area, partly due to the low initial base. In our baseline scenario, we expect a growth differential of 0.5pp this year and 1pp in 2026. However, the impact on the exchange rate is dampened by the fact that domestic demand is expected to be the main driver of GDP growth. According to our model, the equilibrium exchange rate was slightly above EURCZK 25.0 in 4Q24. We expect it to decline gradually as the Czech economy resumes convergence. A possible increase in the volume of sales from the CNB's foreign exchange reserves, which has been close to EUR300m per month since September 2023, could also play a stabilising role for the koruna exchange rate. The central bank's foreign exchange reserves reached EUR140.9bn at the end of September last year. Relative to the size of the economy, Czech FX reserves amount to more than 40% of annual nominal GDP and remain among the largest in the world.

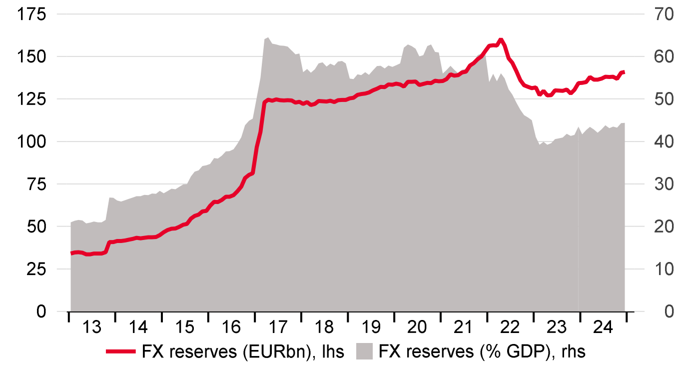
**Overall, we expect a gradual appreciation of the koruna.** In the first half of the year, we expect it will remain above EURCZK 25.0 and will only return close to this level in the third quarter, given the slow recovery of the domestic economy. In our view, appreciation below this level will likely occur rather late in the year due to a combination of improving global sentiment and the resumption of stronger growth in the Czech economy.

**Koruna exchange rate forecast (end of period)**

| | 1Q25f | 2Q25f | 3Q25f | 4Q25f |
|---|---|---|---|---|
| EUR/CZK | 25.20 | 25.10 | 24.95 | 24.80 |
| USD/CZK | 24.70 | 24.35 | 23.95 | 23.40 |
| EUR/USD | 1.02 | 1.03 | 1.04 | 1.06 |

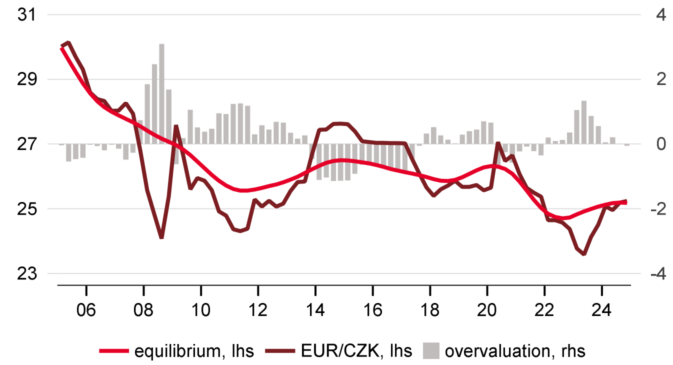
Source: Economic & Strategy Research, Komerční banka

CNB's FX reserves




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

Equilibrium EUR/CZK exchange rate

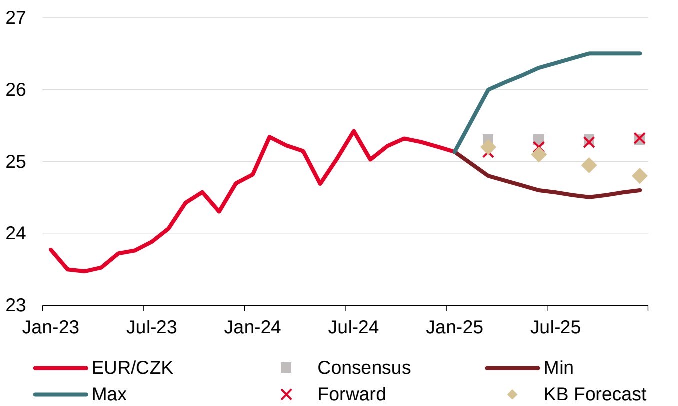



Source: Macrobond, Economic & Strategy Research, Komerční banka
Note: the estimated equilibrium exchange rate is based on a model of the economy's internal (output gap) and external (net export-to-GDP gap) equilibrium.

## Exchange rate risks are skewed towards a weaker CZK

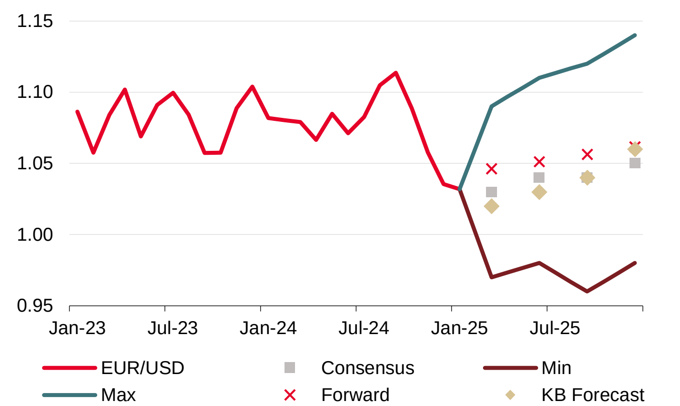
**Interest rate differential risks are two-sided compared with our baseline scenario.** We see a risk of more monetary easing in our outlook for ECB policy rates, where we expect a slightly higher terminal rate than the market. For short-term koruna rates, however, we see a likelihood of slower CNB rate cuts and a higher terminal rate. **In the direction of a weaker koruna, there is a risk of a renewed intensification in the inverse relationship between the koruna exchange rate and the dollar, as well as the threat of tariffs on EU exports to the US.** The speed of the domestic economic recovery in an environment of continued weakness in the German economy and the global geopolitical situation remain general uncertainties.

Expected EUR/CZK path, Bloomberg consensus
(as of 28 January 2025)




Source: Bloomberg, Economic & Strategy Research, Komerční banka

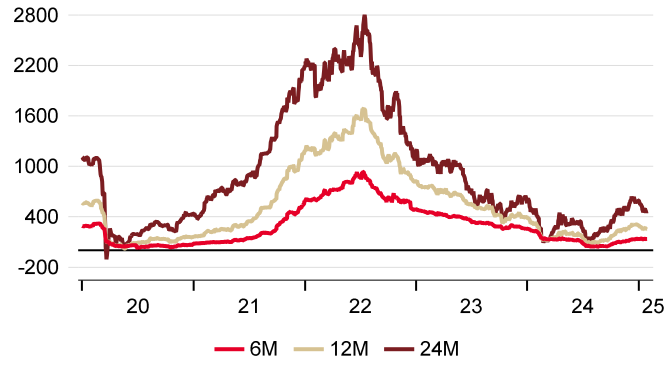
Expected EUR/USD path, Bloomberg consensus
(as of 28 January 2025)




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

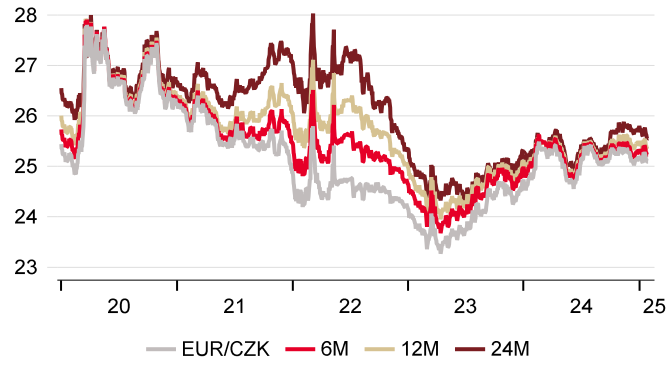
**The conditions for hedging against koruna appreciation are likely to deteriorate.** As mentioned above, we do not expect a further weakening of the spot exchange rate, but rather a gradual strengthening of the koruna against the euro. From an exporters' perspective, we therefore see temporary market fluctuations in forward exchange rates to weaker levels as relatively attractive for potential hedging against exchange rate risk, also in view of the expected narrowing of the interest rate differential.

**Forward points**




Source: Bloomberg, Economic & Strategy Research, Komerční banka

**Forward vs spot exchange rate: EUR/CZK**




Source: Bloomberg, Economic & Strategy Research, Komerční banka

# Banking sector

**Kevin Tran Nguyen**
(420) 222 008 569
kevin_tran@kb.cz

## Credit impulse poised to give the economy a slight boost

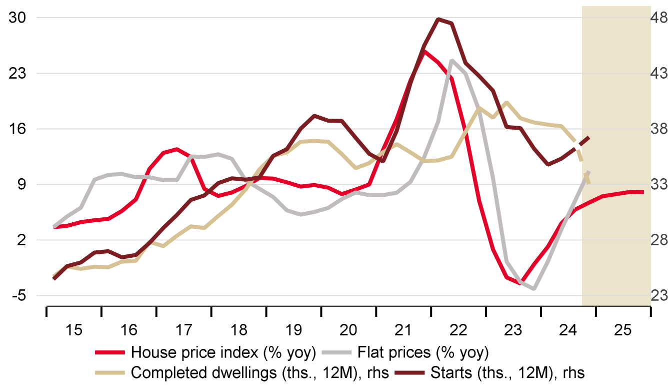
**In view of the drivers of economic growth in 2025, the disparity in the strength of credit impulse between households and corporates will likely persist. Household credit should continue to grow strongly on the back of the housing market recovery, renewed confidence, lower interest rates and rising income. Cyclical demand factors are set to continue to exert upward pressure on house prices. Corporate credit demand is likely to rise gradually, restrained by the prevailing uncertainty. However, domestic and external monetary policy easing and a stronger recovery in aggregate demand should provide a stronger impetus in 2H25. Deposit volumes remain elevated thanks to high household savings and large corporate liquidity buffers. However, deposits growth should moderate gradually as outflows intensify in response to lower interest rates. Credit risks in the banking sector remain modest and the strong recovery in household demand has not yet led to an excessive risk build-up on loan portfolios. On the corporates side, the situation remains very stable.**

### Real estate and mortgage markets expansion to accelerate this year

The real estate and mortgage markets should be supported by falling interest rates and the realisation of pent-up demand. House prices remain a bogeyman for inflation this year.

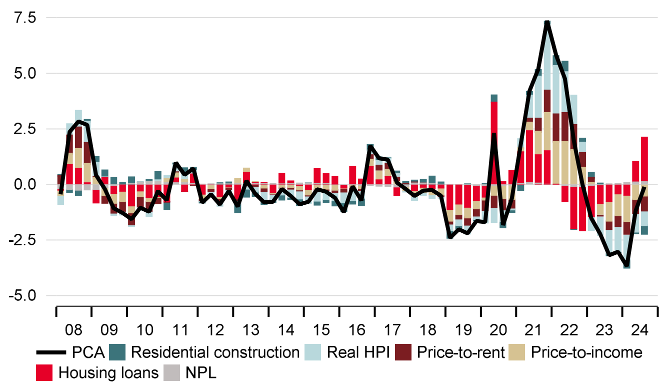
**The housing market is poised to expand further and will likely help keep core inflation above the 2% target.** The House Price Index (HPI) showed an increase of 5.8% yoy in house prices in 3Q24, as the qoq dynamic slowed slightly from 2% in 2Q to 1.7%, where we expect it to have remained in 4Q. We expect qoq growth to accelerate back above 2% early this year. Other housing market price metrics corroborate this. Asking prices for flats were up 10.7% yoy in 4Q24 and monthly *Dataligence* data (as of November) show them up 7.5-9.5% yoy, based on the flat type. After rising by an average of 4.5% in 2024, we estimate house prices will gain a further 8.1% in 2025. This should be driven by lower mortgage rates, renewed consumer confidence and the release of pent-up demand supported by excess savings and rising incomes. In addition to these cyclical factors, the structural and recently aggravated imbalance between strong demand for owner-occupied housing – partly crowded out by investment demand – and limited residential construction is set to contribute to upward pressure on house prices. Rising house prices are likely to further deteriorate housing affordability in Czechia, which is already among the worst in the OECD. The housing market may instil concerns, as it is likely to help sustain core inflation above the target through imputed rents, as we discussed in the autumn issue of the *Czech Economic Outlook*.

**House-price growth still has room to accelerate further**



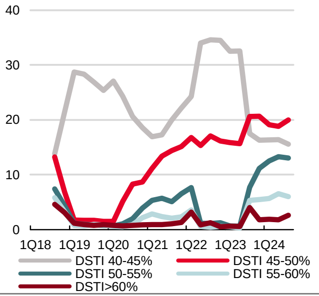

Source: CZSO, Macrobond. Economic & Strategy Research, Komerční banka
Note: data on dwelling completions and starts (as of November 2024) is extrapolated and only indicative for 4Q24. 12M denotes the 12-month trailing sum.

**The housing market is expanding, primarily the demand side**




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.

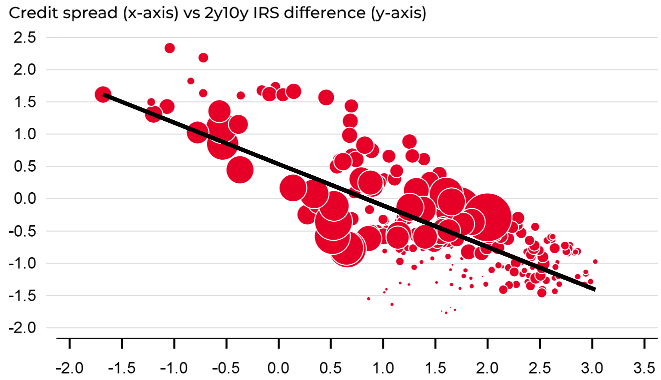
**Share of loans by DSTI (%)**




Source: CNB, Economic & Strategy Research, Komerční banka

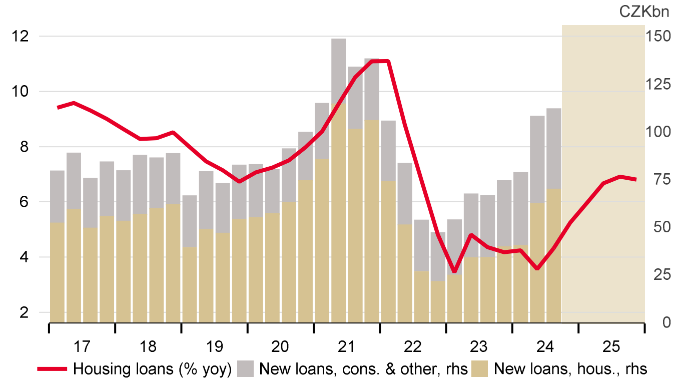
**Mortgage lending momentum recovered strongly in 2024, limiting the scope for further strengthening in 2025.** Based on CBA data, full-year 2024 volume is likely to be around CZK240bn (+80% ytd). This figure may not be fully reflected in the housing loan stock and deferred drawdown is likely to boost this year's figures. In our view, the volume of new loans could grow by roughly 15%, reaching CZK270-280bn, implying housing loan stock growth of 6.8% in 2025.[4] However, we see a risk of the reintroduction of the DSTI and DTI limits, given the upturn in the mortgage market. From a financial stability perspective, concerns about the overvaluation of house prices and the inflation impact may be offset by favourable credit signs, which do not suggest high risk accumulation. The share of loans above the 45% DSTI threshold (deactivated in July 2023) was at 41.6% in 3Q24, of which 21.6% were above 50% DSTI. Reactivating the DSTI limit at 45% would significantly cripple the mortgage market.

**Mortgage credit spreads over IRS and 2y10y yield spread (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).

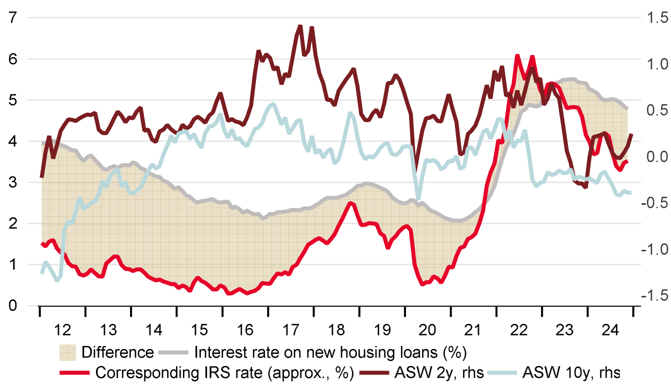
**Housing loans stock growth lags the rise in new loans**




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

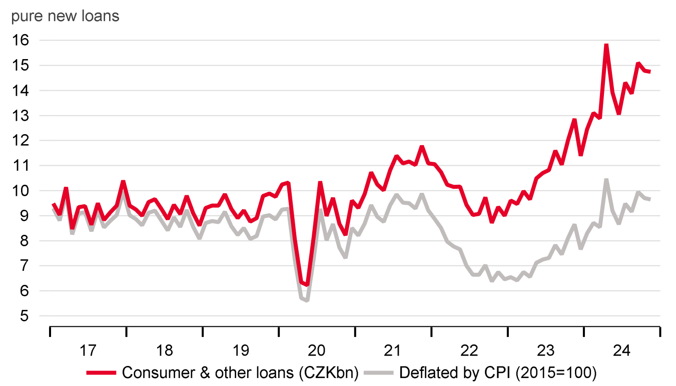
**Mortgage rates are down by 50bp over the past year** and from the current level of around 4.8%, we expect them to fall incrementally to just below 4.5%. We see limited scope for a significant reduction below this level, given the elevated level of IRS and the yield curve shape. Banks' refinancing concerns are likely to keep the spread between long and short maturity rates narrow. Shorter fixings should contribute to faster monetary policy transmission.

**Normalisation of mortgage rate spreads over IRS (%, pp)**




Source: CNB, Bloomberg, Macrobond, Economic & Strategy Research, Komerční banka
Note: ASW of corresponding CZGBs.

**Consumer lending is growing strong due to elevated price level**




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

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

Consumer credit remains closely linked to the mortgage segment. The retail segment should continue to drive the increase of the banks' loan books.

## Strong credit demand signals continued recovery in household consumption

**Consumer and mortgage lending set to continue to strengthen.** The strong recovery in household credit demand remains in contrast with the subdued recovery in consumer spending. Still, the positive household credit impulse generally indicates a further rise in consumer spending. The volume of new consumer credit in real terms is already at 2019 levels. However, high interest rates are starting to be reflected in defaults. The consumer credit default rate has risen 0.2pp over the past year to 4.1% in November, but it remains historically low. Nevertheless, defaults may limit the strength of the recovery in household consumption. Consumer credit growth reached 9.5% in 2024 (KBe), driven by elevated prices. For 2025, we expect similarly strong growth at 9.0%. The household debt ratio – household credit to nominal GDP – is set to rise further to 29.3% (+0.9pp yoy), in our view. This is still below the 2021 peak of 30% GDP. In general, credit growth is likely to continue to be driven by the retail sector, in line with our view on the overall growth factors in the Czech economy.

Bank loans and deposits (%, yoy)

| | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 | 3Q25 | 4Q25 | 1Q26 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank loans** | | | | | | | | | | | | | | |
| **Total** | 6.0 | 5.5 | 4.6 | 4.8 | 5.5 | 6.3 | 6.3 | 6.6 | 5.9 | 5.9 | 5.7 | 6.4 | 6.1 | 5.8 |
| **Households - real estate loans** | 3.6 | 4.3 | 5.3 | 6.0 | 6.7 | 6.9 | 6.8 | 6.7 | 4.2 | 4.3 | 6.6 | 6.2 | 5.6 | 5.4 |
| **Households - consumer loans** | 7.9 | 8.8 | 9.5 | 8.8 | 9.1 | 8.6 | 9.0 | 8.4 | 8.7 | 8.7 | 8.9 | 7.5 | 6.8 | 6.2 |
| **Corporate loans** | 7.2 | 6.8 | 4.0 | 3.3 | 3.9 | 5.1 | 5.6 | 6.4 | 6.0 | 7.2 | 4.5 | 6.4 | 6.1 | 5.8 |
| **Deposits** | | | | | | | | | | | | | | |
| **Total** | 6.5 | 6.8 | 6.7 | 8.2 | 9.1 | 7.6 | 5.1 | 4.9 | 9.4 | 7.2 | 7.5 | 4.7 | 5.1 | 5.1 |
| **Households** | 8.6 | 7.8 | 7.2 | 7.1 | 6.8 | 6.7 | 6.1 | 5.1 | 6.6 | 8.0 | 6.7 | 4.6 | 5.1 | 4.9 |
| **Non-financial corporations** | 1.3 | 6.3 | 7.2 | 5.2 | 5.9 | 6.4 | 4.7 | 4.3 | 8.1 | 5.1 | 5.6 | 4.2 | 4.4 | 4.8 |
| **Others** | 6.9 | 5.7 | 5.2 | 12.0 | 15.0 | 9.8 | 3.4 | 5.0 | 16.8 | 7.3 | 10.1 | 5.2 | 5.6 | 5.4 |
| **Ratios** | | | | | | | | | | | | | | |
| **Loans/GDP** | 57.2 | 57.2 | 56.9 | 57.3 | 57.6 | 58.4 | 58.3 | 58.8 | 57.0 | 57.2 | 57.9 | 59.1 | 59.9 | 60.7 |
| **Deposits/GDP** | 93.3 | 93.7 | 89.3 | 96.2 | 97.3 | 96.8 | 90.3 | 97.1 | 91.0 | 92.4 | 95.2 | 95.5 | 96.0 | 96.6 |
| **Loans/deposits** | 61.3 | 61.1 | 63.7 | 59.6 | 59.2 | 60.3 | 64.5 | 60.6 | 62.6 | 61.9 | 60.9 | 61.9 | 62.5 | 62.9 |
| **Interest rates** | | | | | | | | | | | | | | |
| **Real estate loans** | 5.0 | 4.9 | 4.7 | 4.7 | 4.5 | 4.4 | 4.4 | 4.4 | 5.4 | 5.0 | 4.5 | 4.4 | 4.5 | 4.5 |
| **Consumer loans** | 8.9 | 8.7 | 8.5 | 8.0 | 7.9 | 7.6 | 7.6 | 7.7 | 9.4 | 8.7 | 7.8 | 7.9 | 8.1 | 8.4 |
| **Corporate loans** | 6.6 | 6.0 | 5.5 | 5.2 | 4.8 | 4.7 | 4.7 | 4.8 | 8.6 | 6.3 | 4.9 | 4.8 | 4.8 | 4.8 |
| **Share of NPL** | | | | | | | | | | | | | | |
| **Real estate loans** | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.9 | 0.7 | 0.7 | 0.8 | 0.9 | 1.2 | 1.4 |
| **Consumer loans** | 4.2 | 4.2 | 4.2 | 4.6 | 4.9 | 5.2 | 5.4 | 5.6 | 3.9 | 4.2 | 5.0 | 6.1 | 6.9 | 7.3 |
| **Corporate loans** | 2.5 | 2.4 | 2.6 | 2.8 | 3.1 | 3.2 | 3.3 | 3.3 | 2.9 | 2.5 | 3.1 | 3.4 | 3.9 | 4.7 |

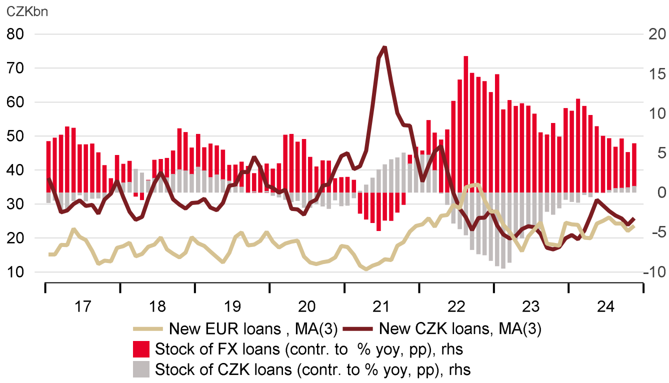
Source: CNB, CZSO, Macrobond, Economic & Strategy Research, Komerční banka
Note: quarterly values are end of period, full-year values are averages.

Persistent economic uncertainty is hampering firms' investment appetite. However, with stronger growth and lower interest rates, investment activity should strengthen more tangibly over the course of the year.

## Investment appetite still subdued; a more tangible rise in 2025 on the cards

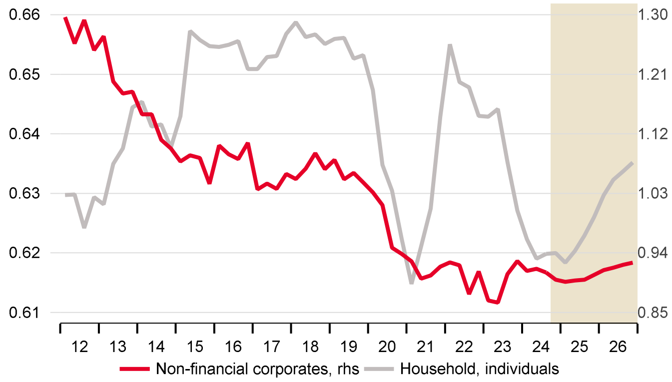
**Non-financial corporates' (NFCs) credit demand increased in 2024, but it remains constrained by tight monetary policy and prevailing uncertainty** in the domestic economy. While new CZK and EUR loans were up 32% and 15% ytd as of November, the stock of NFC loans grew only modestly, primarily due to foreign-currency denominated loans. The ratio of new CZK and EUR loans oscillates around 50%. Demand for CZK loans is still below average, while EUR loans demand remains elevated. The further easing of domestic and external monetary policy and more solid domestic growth in 2H25 should contribute to a more tangible rise in NFC's credit demand. However, non-bank financing is likely to continue to constrain the bank lending channel, including the growing importance of real-estate financing flowing through domestic real estate investment funds. The traditional bank lending channel is set to primarily benefit from the recovery in demand from small and medium enterprises, which are mostly affected by the tight monetary policy. In aggregate, the NFC leverage ratio remains low and given lower interest rates, we expect it to increase slightly. With stronger economic growth and a rebound in industry in 2H25 on the cards, drawdowns on open loan facilities are also likely to increase materially. We expect credit to NFC to grow by 5.6% in 2025 and total business loans to increase by 5.5%.

**Sluggish recovery in NFC credit demand**




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

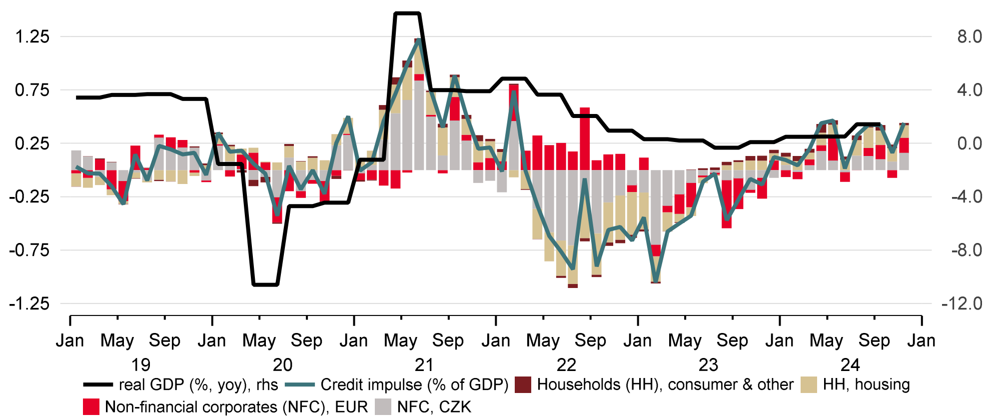
**Loan-to-deposit ratios**




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

**Financial conditions worsened due to a rise in market IRS and a reduction in expectations for CNB monetary easing.** Compared with CZK funding, conditions for EUR funding improved due to the weakening of the CZK and the widened 2y IRS differential. In terms of short-term rates, we expected the current PRIBOR-EURIBOR spread to narrow from the current 120bp to 75bp by mid-2025, reducing the relative advantage of EUR funding. The expected renewed appreciation of the CZK in 2H25 should contribute to this too.

**Credit impulse does not yet indicate a sharp acceleration in domestic economic growth**




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

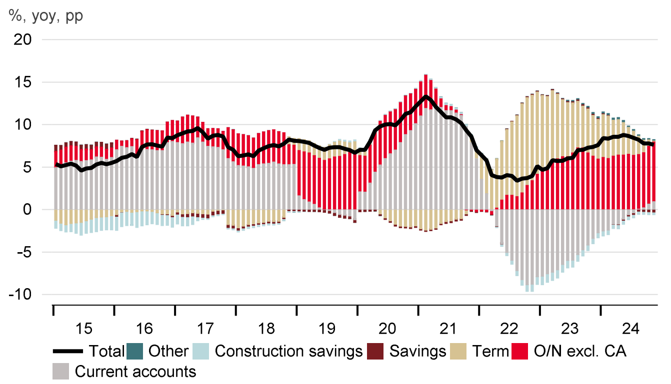
Note: credit impulse is defined as the change in the volume of new borrowing, often given as a % of annual GDP. The presented credit impulse represents the yoy change in new borrowing of the non-financial private sector to trailing 12m nominal GDP. It is further broken down according to the use of the loan for households and the currency denomination for firms. As opposed to monthly credit indicators (as of November 2024), GDP (as of 3Q24) is a quarterly indicator.

## Deposit growth remains elevated, but will likely weaken gradually

The overhang of deposits over loans remains high but should gradually ease.

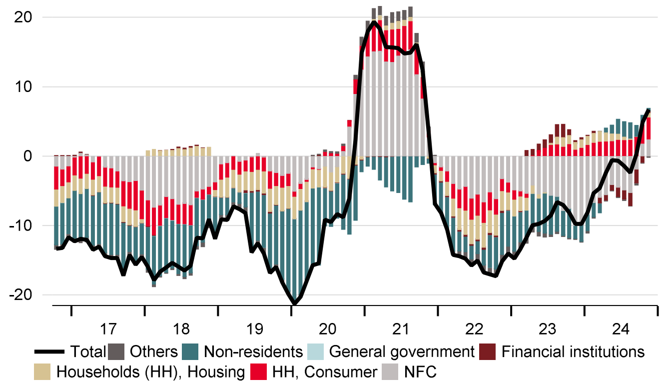
**The overhang of deposits over loans remains high, however, the appeal of deposits should continue to decline.** The elevated volume of deposits still reflects the high household savings rate, as documented by the strong inflows into term deposits, and the large corporate liquidity buffers, which limit financing needs to an extent. The high concentration of household deposits in savings products suggests that the recovery in consumer spending is likely to continue to be only gradual. Lower deposit interest rates are likely to step up outflows to non-bank solutions, even for the sticky retail deposit base. Interest rates on retail deposits have fallen markedly from their peaks, down 2.8pp on term deposits to 3.3% in November 2024, and down slightly by 0.5-0.8pp on non-term deposits. Further easing of monetary policy and high excess liquidity in the banking sector should reduce retail deposit rates further. However, higher lending activity and interest income from term deposits should be reflected positively in deposit growth. We estimate deposits will grow by 5.1% in 2025. The outlook is associated with a high degree of uncertainty related to the high fluctuation of corporate deposits, which may spark stronger outflows due to the high interest-rate sensitivity.

**Household deposits are concentrated in savings products**




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

**Small rise in NPL volumes should not raise alarms (%, yoy)**




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

## Risk accumulation on loan portfolios should not spark major concerns yet

Low risk in the mortgage segment is not pushing the CNB into tightening mortgage limits. Corporate default rates remain near historical low and reflect good financial health.

**Default rates remain at very low levels. Credit risks have admittedly increased, but payment morale remains robust** and still indicates overall good financial health, especially for corporates. However, the rising share of non-performing loans (NPLs) in consumer credit suggests a deteriorating household situation, which may limit the recovery in consumption. The much larger mortgage segment, however, shows no signs of deterioration, which in turn does not push for reintroduction of mortgage limits by the CNB. In the corporate sector, NPL volume is up slightly yoy in NFC and non-resident segments. Nonetheless, as shown in the latest *Financial Stability Report* (CNB, autumn 2024)[5], the share of Stage 2 loans (increased credit risk compared to the origination period) declined in 1H24. In our view, the accumulation of risks on bank portfolios remains moderate for the time being, even with the upturn in the financial cycle. However, sector-specific risks may raise regulators' concerns.

[5] CNB *Financial Stability Report – Autumn 2024*; https://www.cnb.cz/en/financial-stability/publications-on-financial-stability/Financial-Stability-Report-Autumn-2024-00001/

# Key economic indicators

## Macroeconomic indicators – long-term outlook

| | | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|
| GDP | real, % | 4.0 | 2.9 | 0.1 | 0.9 | 1.5 | 2.2 | 2.3 | 2.3 |
| Inflation | average, % | 3.8 | 15.1 | 10.7 | 2.4 | 2.2 | 2.1 | 2.1 | 2.0 |
| Current account | % of GDP | -2.0 | -4.7 | 0.3 | 1.6 | 0.3 | 0.3 | 0.5 | 0.6 |
| 3M PRIBOR | average, % | 1.1 | 6.3 | 7.1 | 5.0 | 3.4 | 3.3 | 3.3 | 3.3 |
| EUR/CZK | average | 25.6 | 24.6 | 24.0 | 25.1 | 25.0 | 24.7 | 24.5 | 24.2 |
| USD/CZK | average | 21.7 | 23.4 | 22.2 | 23.3 | 24.2 | 22.7 | 21.8 | 21.2 |

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

## FX & interest-rate outlook

| | | 28-01-2025 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 |
|---|---|---|---|---|---|---|---|
| EUR/CZK | end of period | 25.1 | 25.20 | 25.10 | 24.95 | 24.80 | 24.80 |
| EUR/USD | end of period | 1.04 | 1.02 | 1.03 | 1.04 | 1.06 | 1.08 |
| USD/CZK | end of period | 24.0 | 24.70 | 24.35 | 23.95 | 23.40 | 22.95 |
| 3M PRIBOR | end of period, % | 3.84 | 3.45 | 3.05 | 3.20 | 3.20 | 3.25 |
| 10Y IRS | end of period, % | 3.73 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |

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

## Monthly macroeconomic data

| | | IV-24 | V-24 | VI-24 | VII-24 | VIII-24 | IX-24 | X-24 | XI-24 | XII-24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Inflation (CPI) | %, yoy | 2.9 | 2.6 | 2.0 | 2.2 | 2.2 | 2.6 | 2.8 | 2.8 | 3.0 |
| Inflation (CPI) | %, mom | 0.7 | 0.0 | -0.3 | 0.7 | 0.3 | -0.4 | 0.3 | 0.1 | -0.3 |
| Producer prices (PPI) | %, yoy | 1.4 | 1.0 | 1.0 | 1.7 | 1.1 | 0.6 | 0.8 | 1.7 | 2.8 |
| Producer prices (PPI) | %, mom | 0.2 | -1.2 | -0.3 | 0.6 | -0.4 | -0.2 | 0.1 | 0.4 | 0.6 |
| Unemployment rate | % (MLSA) | 3.7 | 3.6 | 3.6 | 3.8 | 3.8 | 3.9 | 3.8 | 3.9 | 4.1 |
| Industrial production | %, yoy, c.p. | 9.3 | -3.2 | -9.0 | 7.1 | -1.3 | 4.7 | -2.1 | -2.7 | n.a. |
| Industrial sales | %, yoy, current.p. | 12.1 | -2.7 | -8.5 | 8.8 | 2.0 | 7.1 | 0.5 | 0.2 | n.a. |
| Construction output | %, yoy, c.p. | -0.3 | -7.3 | -9.5 | 1.3 | -1.1 | -8.1 | -3.6 | 2.5 | n.a. |
| External trade | CZKbn (national met.) | 29.7 | 11.3 | 30.2 | -6.4 | 12.4 | 22.3 | 13.0 | 23.6 | n.a. |
| Current account | CZKbn | 33.6 | -16.8 | -25.3 | -15.3 | 13.6 | -7.7 | 13.0 | 30.0 | n.a. |
| Financial account | CZKbn | 49.1 | -17.4 | 10.0 | -24.7 | -2.8 | 0.0 | 31.0 | -12.8 | n.a. |
| M2 growth | %, yoy | 7.1 | 6.7 | 6.4 | 5.3 | 5.8 | 5.4 | 6.0 | 5.3 | n.a. |
| State budget | CZKbn (YTD cum.) | -153.1 | -210.4 | -178.6 | -192.3 | -175.8 | -181.8 | -200.7 | -259.2 | -271.4 |
| PRIBOR 3M | %, average | 5.55 | 5.17 | 5.03 | 4.61 | 4.41 | 4.30 | 4.13 | 3.95 | 3.91 |
| EUR/CZK | average | 25.3 | 24.8 | 24.8 | 25.3 | 25.2 | 25.1 | 25.3 | 25.3 | 25.1 |
| USD/CZK | average | 23.6 | 23.0 | 23.0 | 23.3 | 22.8 | 22.6 | 23.2 | 23.8 | 24.0 |

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

# Disclaimer

The information herein is not intended to be an offer to buy or sell, or a solicitation of an offer to buy or sell any securities. All information and opinions have been obtained from or are based on sources believed to be reliable, but their completeness and accuracy are not guaranteed by Komerční banka, a.s., even though Komerční banka, a.s. believes them to be fair and not misleading or deceptive. The views of Komerční banka, a.s. reflected in this document may change without notice.

Komerční banka, a.s. and its affiliated companies may from time to time deal in, profit from the trading of, hold or act as market makers of securities, or act as advisers, brokers or bankers in relation to securities or derivatives thereof emitted by persons, firms or entities mentioned in this document.

Employees of Komerční banka, a.s. and its affiliated companies, or individuals connected to them may from time to time have a position in or be holding any of the investments or related derivatives mentioned in this document. The authors of this document are not authorized to acquire the investment instruments mentioned in this document. This does not apply to cases when inrormation mentioned in this document represents dissemination of an investment recommendation earlier produced by third parties according to Chapter III of regulation (EU) 2016/958. Komerční banka, a.s. and its affiliated companies are under no obligation to provide any services to their clients on the basis of this document.

Komerční banka, a.s. does not accept any liability whatsoever arising from the use of the material or information contained herein beyond what is required by law. This research document is primarily intended for professional and qualified investors. Should a private customer obtain a copy of this report, they should not base their investment decisions solely on the basis of this document and should seek independent financial advice. The investors must make their own informed decisions regarding the appropriateness of their investments because the securities discussed in this report may not be suitable for all investors.

The performance attained by investment instruments in the past may not under any circumstance serve as an guarantee of future performance. The estimates of future performance are based on assumptions that may not be realized. Investment instruments and investments are connected with different investment risks, the value of any investment can rise and fall and there is no guarantee for the return of the initial invested amount. Investment instruments denominated in foreign currencies are also subject to fluctuations caused by changes in exchange rates, which can have both positive and negative influences particularly on the prices of the investment instrument and consequently on the investment return.

This publication is issued by Komerční banka, a.s. which is a bank/stockbroker according to the applicable legislation and thus regulated by the Czech National Bank. Komerční banka, a.s. applies various measures to prevent conflict of interests in the process of creating this document and other investment recommendations, such as the implementation of an appropriate internal separation including information barriers between different departments of Komerční banka, a.s. in compliance with the requirements imposed by applicable regulation. The employees of Komerční banka, a.s. proceed in accordance with the internal regulations governing conflict of interest.

The evaluation of employees creating this document is never by any means tied with the volume or profit of the trades with instruments mentioned in this document done by Komerční banka, a.s., or the trades of Komerční banka, a.s. with the issuers of such instruments. However, the evaluation of the authors of this document is linked to the profits of Komerční banka, a.s. which also partially include the results of trading with investment instruments.

Information mentioned in this document are intended for the public and the document before its publication is not available to persons not involved in the creation of this document. As per our practice, the issuers do not receive a copy of research reports prior to their publication. Each author of this research report hereby states that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the securities or issuers at stake.

This document and its contents is not designed for persons with permanent residence or seat in the United States of America and to persons who are deemed as “U.S. persons”, as defined in Regulation S under the US Securities Act of 1933, as amended.

This document is not an investment recommendation according to Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse and does not constitute investment advisory according to Act no 256/2004 Coll., on Capital market undertakings as amended.

Please refer to our website http:\\www.trading.kb.cz for more details.

# KB ECONOMIC & STRATEGY RESEARCH


**Chief Economist and Head of Research**
**Jan Vejmělek, Ph.D., CFA**
(420) 222 008 568
jan_vejmelek@kb.cz

**Economists**


**Martin Gürtler**
(420) 222 008 509
martin_gurtler@kb.cz


**Jana Steckerová**
(420) 222 008 524
jana_steckerova@kb.cz


**Kevin Tran Nguyen**
(420) 222 008 569
kevin_tran@kb.cz

**Strategist**


**Jaromír Gec**
(420) 222 008 598
jaromir_gec@kb.cz

**Equity Analyst**


**Bohumil Trampota**
(420) 222 008 560
bohumil_trampota@kb.cz

# SG GLOBAL ECONOMICS RESEARCH


**Head of Global Economics**
**Klaus Baader**
(44) 20 7762 4714
klaus.baader@sgcib.com

**Euro area**


**Michel Martinez**
(33) 1 4213 3421
michel.martinez@sgcib.com

**Germany/ECB**


**Anatoli Annenkov**
(44) 20 7762 4676
anatoli.annenkov@sgcib.com

**France/ESG**


**Fabien Bossy**
(33) 1 5898 2873
fabien.bossy@sgcib.com

**United Kingdom**


**Sam Cartwright**
(44) 20 7762 4506
sam.cartwright@sgcib.com

**North America**


**Stephen Gallagher**
(1) 212 278 4496
stephen.gallagher@sgcib.com

**India**


**Kunal Kumar Kundu**
(91) 80 6716 8266
kunal.kundu@sgcib.cz

**Korea**


**Suktae Oh**
(82) 2195 7430
suktae.oh@sgcib.com

**China**


**Wei Yao**
(33) 1 57 29 69 60
wei.yao@sgcib.com

**Greater China**


**Michelle Lam**
(85) 2 21 66 57 21
michelle.lam@sgcib.com

**Japan**


**Jin Kenzaki**
(81) 3 6777 8032
jin.kenzaki@sgcib.com

**Latin America**


**Dev Ashish**
(91) 80 2802 4381
dev.ashish@socgen.com

# SG CROSS ASSET RESEARCH – FIXED INCOME & FOREX GROUPS


Global Head of Economics,
Cross-Asset & Quant Research
**Kokou Agbo Bloua**
(44) 20 7762 5433
kokou.agbo-bloua@sgcib.com

**Head of FIC & Commodity Research**


**Dr Mike Haigh**
(44) 20 7762 4694
michael.haigh@sgcib.com

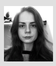
**Head of Rates Strategy**


**Adam Kurpiel**
(33) 1 42 13 63 42
adam.kurpiel@sgcib.com

**Head of US Rates Strategy**


**Subadra Rajappa**
(1) 212 278 5241
subadra.rajappa@sgcib.com


**Shakeeb Hulikatti**
(91) 80 2802 4380
shakeeb.hulikatti@sgcib.com


**Ninon Bachet**
(33) 1 58 98 30 26
ninon.bachet@sgcib.com


**Jorge Garayo**
(44) 20 7676 7404
jorge.garayo@sgcib.com


**Sean Kou**
(44) 20 7550 2053
sean.kou@sgcib.com


**Mathias Kpade**
(33) 157294393
mathias.kpade@socgen.com


**Theodore Kalambokidis**
(1) 212 278 4504
theodore.kalambokidis@sgcib.com


**Anamika Misra**
(91) 8067310385
anamika.misra@sgcib.com


**Stephen Spratt**
(852) 2166 4108
stephen.spratt@sgcib.com

**Chief Global FX Strategy**


**Kit Juckes**
(44) 20 7676 7972
Kit.juckes@sgcib.com

**FX Derivatives Strategy**


**Olivier Korber**
(33) 1 42 13 32 88
olivier.korber@sgcib.com

**Head of Emerging Markets Strategy**


**Phoenix Kalen**
(44) 20 7676 7305
phoenix.kalen@sgcib.com


**Gergely Urmossy**
(44) 20 7762 4815
gergely.urmossy@sgcib.com


**Kiyong Seong**
(852) 2166 4658
kiyong.seong@sgcib.com


**Bertrand Delgado**
(1) 212 278 6918
bertrand.delgado-calderon@sgcib.com


**Marek Dřímal**
(44) 20 7550 2395
marek.drimal@sgcib.com