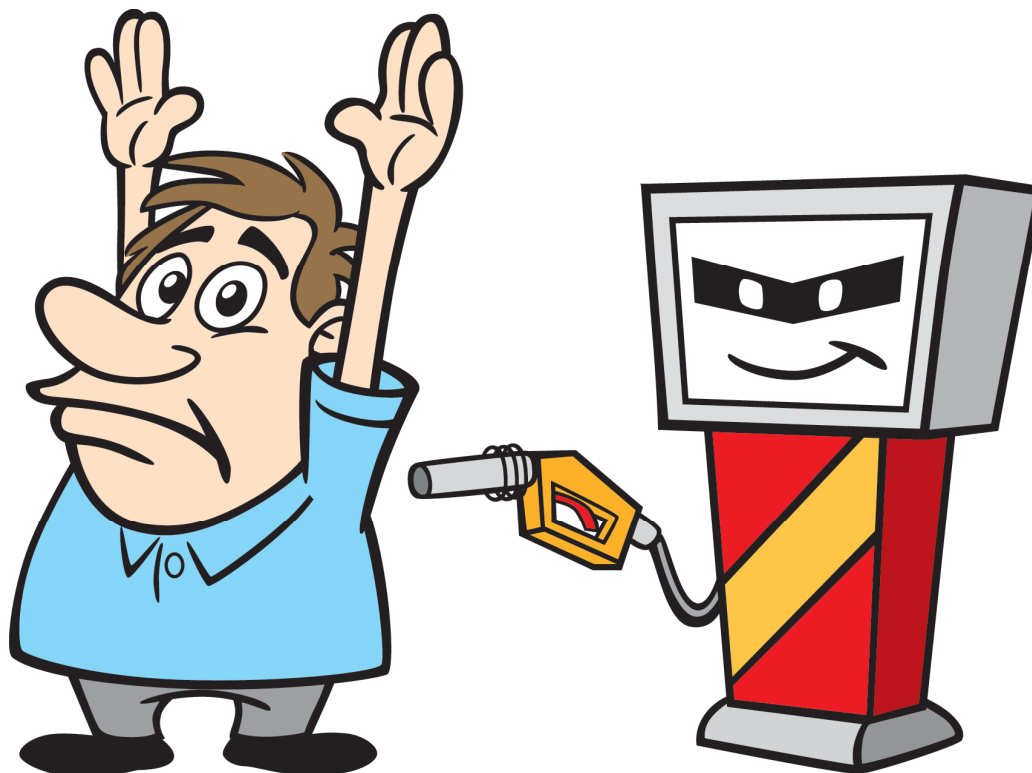


Quarterly report

Czech Economic Outlook

Held captive by geopolitics



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■ **The economy is set to remain resilient despite the energy shock** We forecast economic growth to slow slightly to 2.3% this year, before picking up again next year to 2.8%. In both years, GDP growth is still likely to be driven mainly by domestic demand – including consumption and investment – and expansionary fiscal policy.

■ **Inflation should gradually increase to 3% due to higher energy costs** We expect inflation to average 2.2% this year, before rising to 2.7% next year as higher fuel and energy prices feed through to other areas of the economy. We see both headline and core inflation remaining in the upper half of the CNB's tolerance band for most of 2026 and 2027.

■ **The CNB looks set to stay on hold, but risks are tilted towards a hike** The central bank is in a favourable position, with interest rates still slightly restrictive and the koruna remaining strong. However, in our scenario of robust domestic demand and strong fiscal expansion, alongside the impact of higher energy prices, there is a risk of higher inflation and CNB rate hikes.

■ **Market rates are likely to remain elevated** The short end of the koruna interest rate curve could be pushed down slightly if the CNB's monetary policy stance remains unchanged, and the Middle East conflict gradually de-escalates – as we assume. The longer end of the curve should remain high due to accelerating inflation and the effects of fiscal policy easing.

■ **The koruna holds firm, for now** So far, the Czech currency has reacted only mildly to the Middle East conflict. However, we think downward pressure could return. This could be fuelled by increased uncertainty, a deterioration in the external balance of the economy, or a narrowing of the interest-rate differential amid ECB monetary policy tightening and stable CNB rates.

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Stagflation déjà vu? More likely a light version...

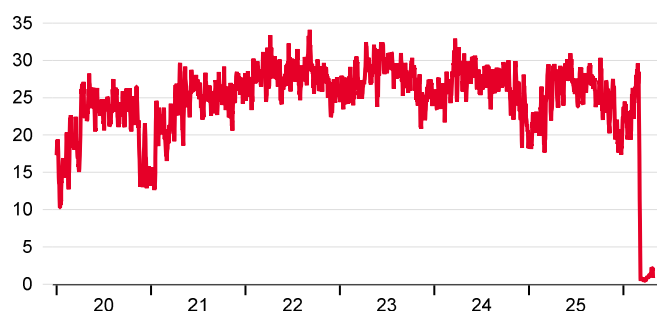


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Only a few months ago, we entered 2026 nurturing cautious optimism, a sentiment reflected in the title of the winter edition of Komerční banka's *Czech Economic Outlook: The Economy Is Going up a Gear*. Indeed, the Czech economy's growth dynamics at the end of 2025 and the beginning of 2026 were among the strongest in Europe, with relatively stable inflation to boot. In February, overall annual inflation declined to as low as 1.4%, although the core component continued to increase. This, combined with the prospect of fiscal stimulus at home and abroad, had led us to expect the rapid economic growth to continue in 2026 too.

Traffic in the Strait of Hormuz has plummeted to a minimum

Weekly trade via the Strait of Hormuz (in million metric tonnes)



Source: Macrobond, Economic and Strategy Research, Komerční banka

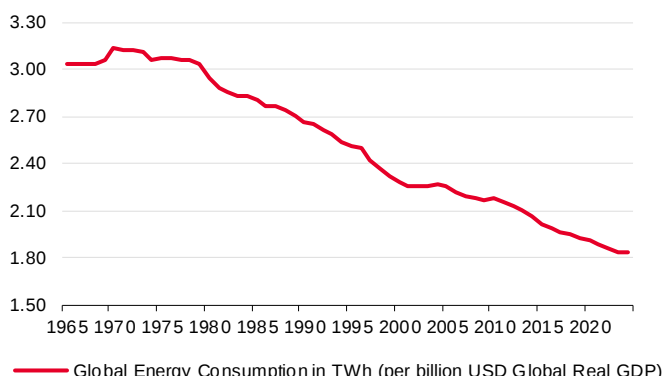
Energy commodity prices have skyrocketed



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

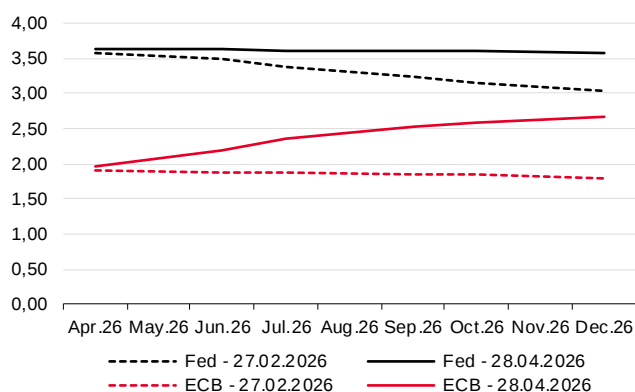
How important is the current oil shock caused by the conflict in Iran? The experience gained in 2022 and 2023 constitutes a major advantage this time round. The energy intensity of production in both the Czech and global economies has been declining over time, in particular as regards crude oil. Equally, the world economy began the year with relatively robust growth, expansionary fiscal policies, and inflation close to central bank targets, albeit with elevated core inflation. Central banks have also learnt a lesson from the last inflation episode: not to underestimate the risk of secondary inflationary impacts of the energy shock this time.

Global energy intensity of production has been falling for a long time



Source: SG Cross Asset Research/Economics, Statistical Review of World Energy

Financial markets have significantly restated central banks' prospective policies (implied key rates, %)



Source: Bloomberg, Economic and Strategy Research, Komerční banka

The lessons learnt from the most recent inflation wave are fully reflected in financial markets. Money markets have significantly restated their expectations of the direction that monetary policies will follow. Fed rate cut expectations for this year have virtually disappeared, while the market still expects rate hikes from the ECB this year. The market has

experienced a similarly energetic shift with regard to the Czech National Bank, with a recurring tightening scenario now expected vs an easing in monetary policy initially anticipated.

It is extremely difficult to quantify the current energy shock's impact on the Czech economy; primarily due to the rapidly changing geopolitical situation. We have therefore decided to address this key issue more extensively and prepared several analytical boxes that discuss the various transmission channels and structural contexts of the current developments in greater detail.

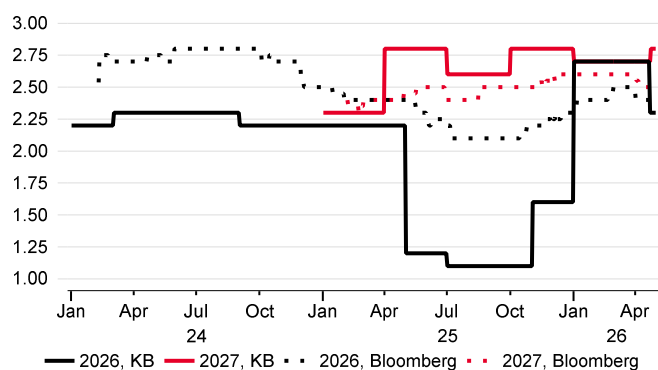
1. Jana Steckerová's *Box 1* shows that **central European economies are now facing global shocks in a much better condition than in the past.** The growing importance of the service sector, in particular ICT, combined with the dynamic development of AI-related investments, are gradually reducing the region's dependence on the industrial cycle and also its energy intensity. Robust exports of services are therefore having a stabilising effect in a context of increased geopolitical and pricing uncertainty.
2. Martin Gürtler's *Box 2* offers a more detailed view of the inflation channels, focusing on **the oil shock's impact on the structure of Czech inflation.** The analysis shows that the direct impact of more expensive motor fuels on inflation is fairly limited due to their relatively small weight in the consumption basket. However, the main risk lies in the indirect and delayed effects that are or will be gradually felt in transport, foodstuff and regulated prices, and, last but not least, in core inflation at later points in time. These secondary impacts are crucial from a monetary policy perspective, for they may cause inflation expectations to increase.
3. Jaromír Gec's *Box 3* **elaborates on the macroeconomic repercussions of the oil shock on a small open economy.** Based on model simulations, he shows that, although the oil shock's negative impact on the real economy's activities is visible, it is weaker than the impact on inflation. Thus, the rather persistent increase in crude prices is felt most of all in higher inflation, in currency depreciation pressures, and in the gradual tightening of financial conditions, while the Czech central bank's responses are usually delayed and cautious due to the supply nature of the shock. Nevertheless, the actual effects are likely to be less pronounced than in the model simulations, mainly thanks to the Czech economy's declining energy intensity. The still-relatively-strong Czech koruna should also play a role.

To summarise, we note that **the current situation has indeed spawned stagflation risks.** On the other hand, the Czech economy's structure and the country's economic policies' response functions are far more robust today than they were in the past. Whether or not the cost shock can be prevented from spilling over into long-term inflation expectations and wages will be the true test for the coming quarter.

The changes to Komerční banka's macroeconomic forecasts therefore reflect the current stagflation shock, although the overall increase in our inflation estimates and the decrease in our GDP growth assumption for this year are not dramatic at all. We have raised our average inflation estimate for 2026 from 1.6% in January to a current 2.2%, which basically matches the market consensus. The energy shock will be more apparent in the full-year inflation figure only in 2027, when we expect it to stand at 2.7%. Contrary to market expectations, we are concerned about stronger inflationary pressures next year. Hence, we have postponed our expectation of CNB rate cuts to neutral levels to as late as 2028. This year, we expect Middle East conflict-related uncertainty to be reflected in somewhat weaker growth dynamics (2.3% following the 2.7% expected three months ago) in

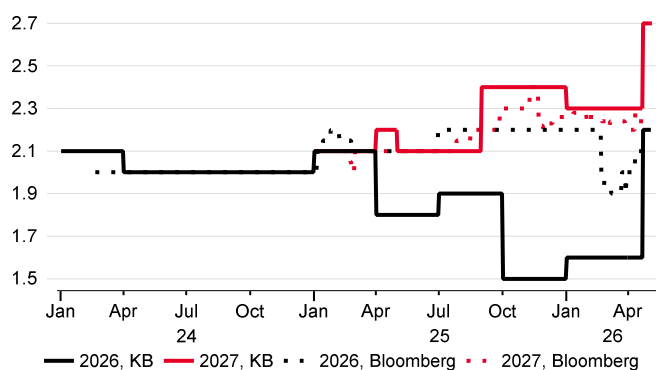
the real economy. For 2027, we have raised our growth assumption only negligibly to 2.8% (from 2.7%). Compared with the market consensus, we are moderate optimists.

The Czech economy's growth prospects (GDP, %, yoy)



Source: Bloomberg, Economic and Strategy Research, Komerční banka

The Czech economy's inflation prospects (CPI, %, yoy)



Source: Bloomberg, Economic and Strategy Research, Komerční banka

Despite the prevailing geopolitical uncertainty, including the turbulent developments in energy commodities, we do not currently expect a repeat of the 2022/2023 crisis. On that note, we hope you enjoy reading the spring edition of Komerční banka's *Czech Economic Outlook*!

Table of Contents

External environment and assumptions	6
Box 1: CEE region – resilience, structural shifts, strong services, the AI boom.....	10
Macroeconomic forecast	12
Box 2: The impact of the oil shock on the structure of Czech inflation.....	19
Monetary policy	22
Fiscal policy	24
Box 3: Oil shock – the Czech economy is becoming more resilient.....	27
Summary forecast table.....	31
The Czech IRS market and government bonds.....	32
Czech FX market	37
Banking sector	40
Key economic indicators.....	45

External environment and assumptions



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The US and eurozone economies remain resilient

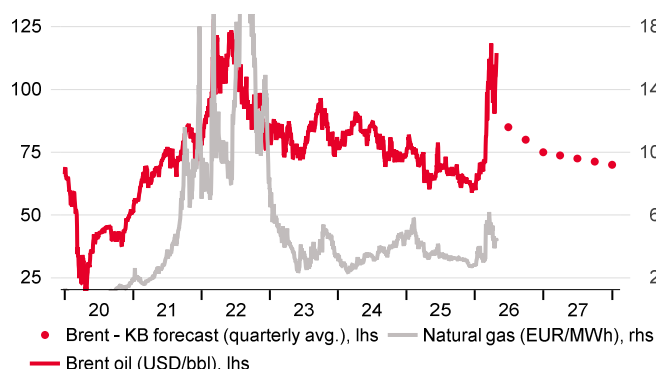
Despite the current energy crisis, the outlook for the US, the eurozone and central Europe remains favourable. In the first half of the year, the US is set to benefit from fiscal stimulus and robust household spending. Meanwhile, the eurozone can depend on Germany's fiscal package, EU funds, excess household savings and increased investment in AI. Moreover, the current energy crisis has found the eurozone in much better shape, as its energy intensity is significantly lower than it was before the war in Ukraine. However, due to oil price developments, we expect inflation in the eurozone to exceed 3% in April, with core inflation also remaining high. According to our forecasts, the ECB will respond with two interest rate hikes by 25bp, in June and September. In contrast, the Fed will probably leave rates unchanged this year.

The outlook has been significantly affected by the oil shock.

The outlook for both the external environment and the domestic economy has been severely impacted by the current oil crisis caused by the war in the Middle East. This crisis is considered to be the greatest disruption to oil supplies in history. According to estimates, OPEC oil production fell by around 42% in March, and in April the situation is likely to be similar. Our baseline scenario assumes that production will begin to normalise in May, but that it will take about nine months to fully recover, consistent with past experience of crises in the Middle East. We therefore expect a gradual normalisation in oil prices, which is consistent with the slope of the Brent crude futures curve.

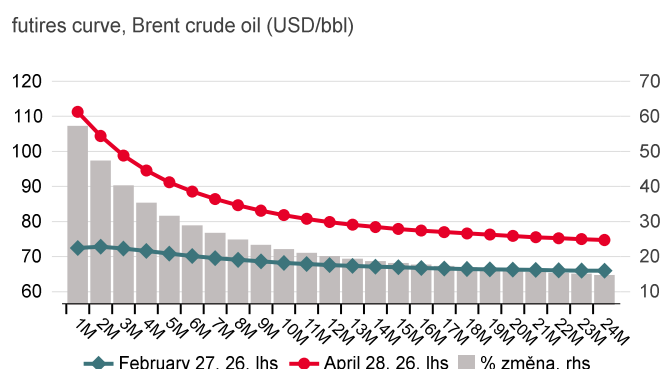
The main risk is that the conflict in the Middle East continues, leading to persistently high oil prices and more widespread disruption to global supply chains. This would increase the risk of a decline in demand, with negative impacts on global growth and inflation. While some economies, including countries in the eurozone and central Europe, have improved their resilience and diversified their energy sources, the adverse effects of price volatility remain significant, and the duration of the supply shock is just as important as its magnitude.

Oil and gas prices have reached multi-year highs



Source: Bloomberg, Economic and Strategy Research, Komerční banka

The Brent crude oil futures curve has a downward slope



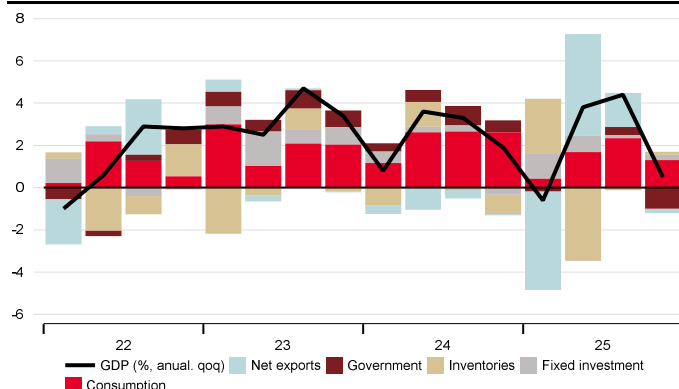
Source: Bloomberg, Economic and Strategy Research, Komerční banka

US: Fed interest rates likely to remain unchanged this year

Despite trade wars and high commodity prices, the outlook for the US economy remains favourable. This is supported by robust household consumption and substantial fiscal stimulus resulting from Donald Trump's *One Big Beautiful Bill Act*. GDP growth should therefore reach 2.5% this year on our estimates, with the strongest growth occurring in the

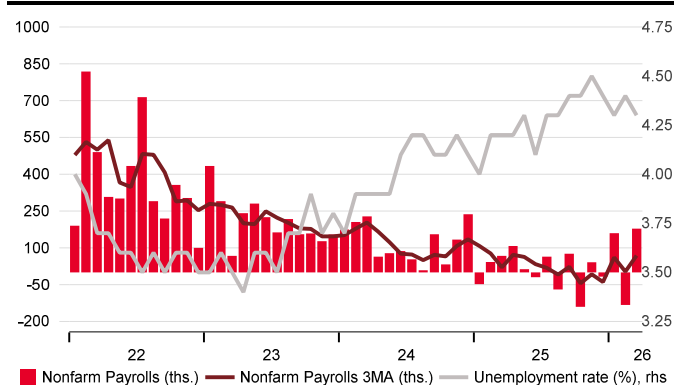
first half of the year before gradually weakening to 1.8% next year as the impact of the fiscal stimulus fades. The labour market should remain stable, with the number of new jobs created and the unemployment rate stabilising and wage growth set to remain at around 4% on our estimates.

The US economy is in good shape



Source: Macrobond, Economic and Strategy Research, Komerční banka

The US labour market looks set to stabilise

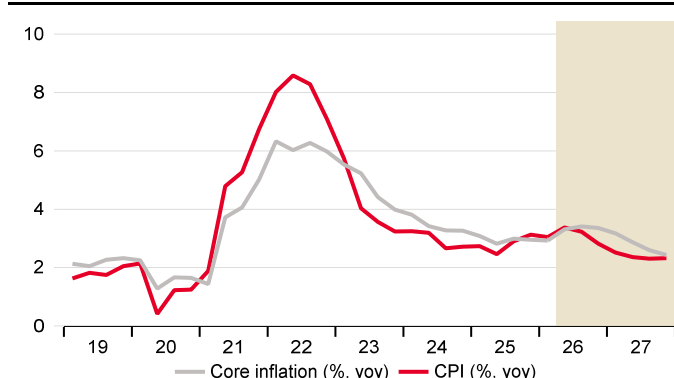


Source: Macrobond, Economic and Strategy Research, Komerční banka

Inflation is unlikely to return to target this year. Hence, we expect the Fed to leave rates unchanged.

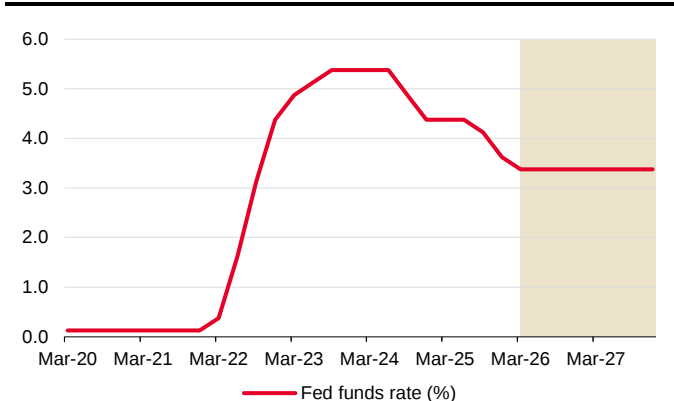
Inflation in the US remains above the Federal Reserve's target. In March, it reached 3.3% year-on-year, with the core component coming in at 2.6%. The US central bank's preferred inflation indicator, the personal consumption expenditures price index (PCEPI), also known as the PCE deflator, remains significantly high too. We expect it to reach 3.8% yoy in March. While we anticipate a return to 3% yoy in the coming months, this will not be enough for it to reach the US central bank's target this year. Consequently, we expect the Fed to maintain interest rates at their current level of 3.50–3.75% until the end of the year. We anticipate a further easing in monetary conditions in 2027, once it is clearer that inflationary pressures are waning. The main risk to our scenario would be for oil prices to remain at higher levels for an extended period. However, we note that the US is a net exporter of both oil and natural gas, and fiscal stimulus is likely to have a strong impact during the first half of the year. Consequently, the impact of high prices on the real economy should be limited, in our view.

US: inflation remains high (% , yoy)



Source: Macrobond, SG Cross Asset Research/Economics

Fed interest rates (% , effective rate)



Source: Macrobond, SG Cross Asset Research/Economics

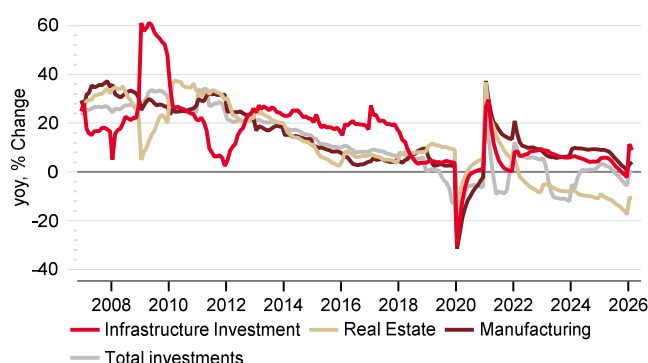
China: exports set to drive the economy

According to our estimates, the Chinese economy is set to grow by 4.7% this year, with net exports still the key growth driver. Exports are benefiting from the China's highly competitive manufacturing sector, particularly in the high-tech segments of electric mobility,

Exports are growing, domestic demand is weak.

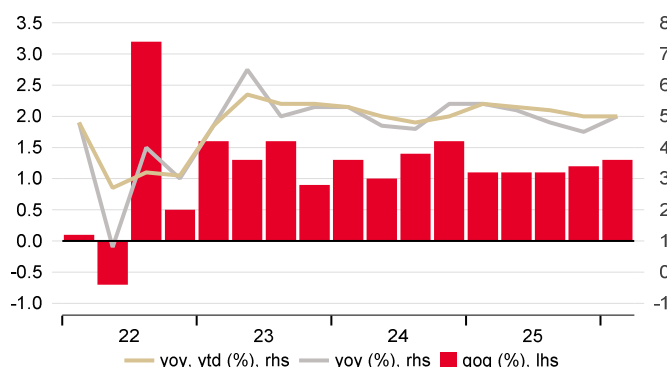
battery technology and renewable energy. Artificial intelligence (AI) related exports already account for 20% of the total. In contrast, domestic demand remains weak. Consumption and investment are being held back by the ongoing correction in the real estate market, low household confidence and a relatively weak labour market. Therefore, the recovery in consumption is fragile and only gradual, which is also in line with the government's less ambitious official growth target of 4.5–5%.

Chinese investments: the recovery is gradual



Source: Macrobond, Economic and Strategy Research, Komerční banka

Trend in China's GDP



Source: Macrobond, Economic and Strategy Research, Komerční banka

There is limited room for monetary policy to be eased.

In our view, deflationary pressures in China have already reached their lowest point, but the recovery in price growth will be gradual. Industrial prices should benefit from increased demand, restrictions on excessive competition (anti-involution policies) and higher commodity prices. However, the impact on consumer prices is likely to be limited due to weak demand and falling real estate prices. The central bank has limited scope to reduce interest rates. Moreover, the effectiveness of such a move would be questionable in a context of excess supply. Hence, we expect at most one interest rate cut this year, with targeted tools playing a greater role. These tools include support for technology, green investments, and SMEs, as well as government bond purchases. Fiscal policy expansion remains moderate, prioritising investment over consumption support, implying that the shift towards consumption will proceed very gradually.

The eurozone is in relatively good shape

Inflation set to exceed 3% in April.

Not even the eurozone can escape the impact of the current energy crisis. However, it did enter this crisis in a significantly better position than in 2022. Energy imports into the EU are currently at near historical lows at 1.6% of GDP. For a comparable shock to that experienced in 2022 to occur, the price of oil would need to rise above \$150/bbl and remain there for some time.

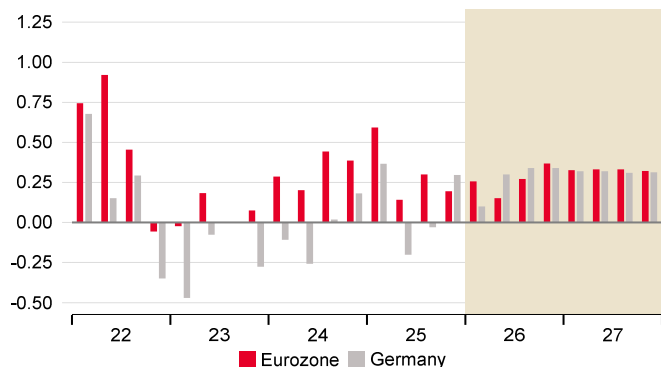
Our scenario assumes that the conflict will end within a few weeks and that the oil price will gradually decline. Nevertheless, we have had to raise our inflation outlook significantly. We now estimate that headline inflation will reach 3.5% in May and remain at this level until April 2027. It should then fall back to 2.4%, where it would then remain until the end of 2027. According to our estimates, the core component will accelerate from the current 2.4% year-on-year (yoy) to 2.8% yoy in March of next year, after which it should return to the 2.5% level.

ECB likely to hike rates twice this year.

In light of the increase in core inflation, we expect the ECB to seek to pre-empt the risk of further rises. We therefore anticipate two interest rate hikes of 25 basis points, one each in June and September this year. This would take the deposit rate towards the upper end of the range at which the ECB estimates its neutral level. However, a weak impact of interest rate

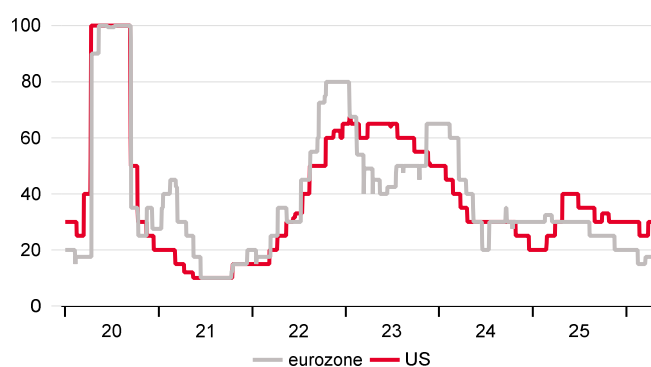
cuts on economic growth and financial conditions, or a greater spillover of higher energy prices into other price categories or wage growth, could prompt the ECB to tighten monetary conditions more aggressively. However, this is not our baseline scenario. Instead, our baseline scenario assumes that the European economy will remain relatively resilient in the short term.

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



Source: Macrobond, SG Cross Asset Research/Economics

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

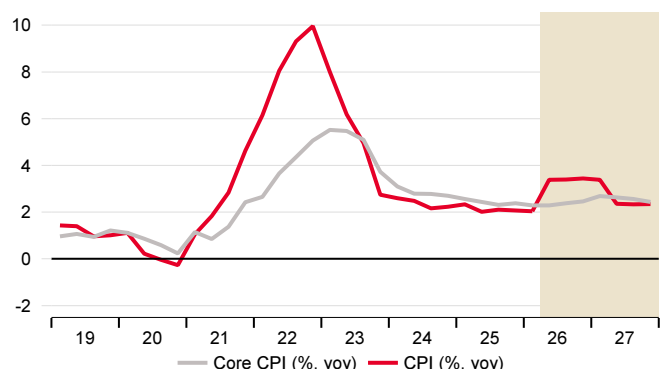


Source: Macrobond, Bloomberg consensus, Economic and Strategy Research, Komerční banka

The economy is set to grow, supported by strong consumption, investment in AI, and the German fiscal package.

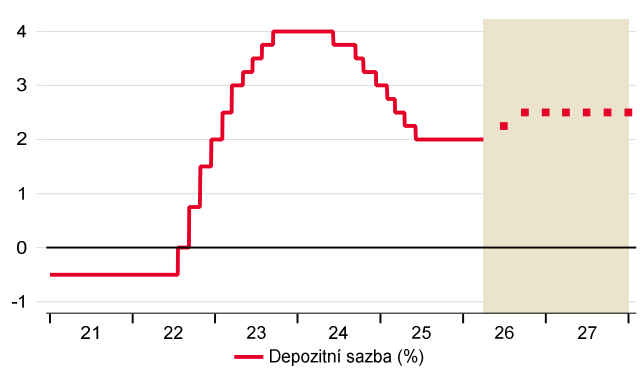
We estimate that the current energy shock will reduce GDP growth by 0.2–0.3 percentage points. Hence, we are looking for GDP growth of 0.9% this year and 1.3% next year, driven by robust private consumption, a recovery in the real estate market, funds being drawn down from the NextGenerationEU (NGEU) programme, and AI-related investments. Furthermore, households have high savings, unemployment is at a historical low and wage growth is robust. The German fiscal package will also play a significant role. It will lead to an increase in Germany's public finance deficit, from 2.7% of GDP last year to 4.3% this year. The current energy crisis will prompt the German government to implement the planned measures with greater urgency, in our view. After three years of slowdown, we expect the German economy to experience a more pronounced recovery this year. We project GDP growth of 0.6% (nsa) for this year and 1.3% for 2027.

Inflation in the eurozone set to temporarily rise above 3%



Source: Macrobond, SG Cross Asset Research/Economics

ECB to hike rates two times (depo rate, %)



Source: Macrobond, SG Cross Asset Research/Economics

Interest rates in Poland likely to remain unchanged.

CEE region: the outlook is favourable

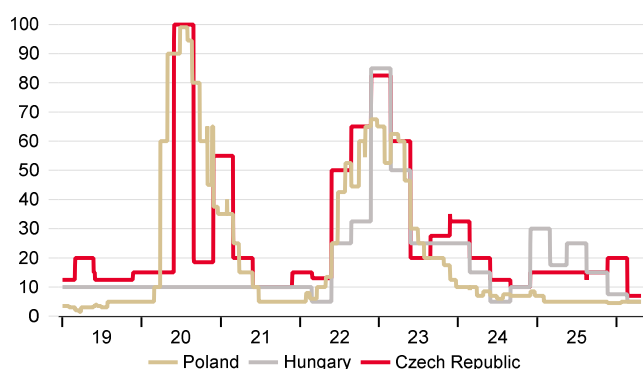
Like the eurozone, countries in the central European region entered the current energy crisis in a significantly better position than in 2022. Inflation is significantly lower than before the invasion of Ukraine, and central bank rates are higher than inflation, exerting a restrictive effect. Unemployment in the region has risen slightly and wage growth more or

less slowed compared to five years ago. Furthermore, the current shock is less severe in terms of both price increases and supply disruptions. The Polish government has also introduced a cap on fuel prices, which should further mitigate the impact. We therefore estimate that inflation in Poland will remain within the central bank's tolerance band for the rest of this year. We therefore expect the key interest rate to remain unchanged at 3.75%. The Polish zloty will continue to benefit from the strength of the local economy, the Ministry of Finance's potential sale of euros on the foreign exchange market, and the inflow of additional funds from EU defence programme SAFE (EUR6.5bn).

Better times ahead for Hungary.

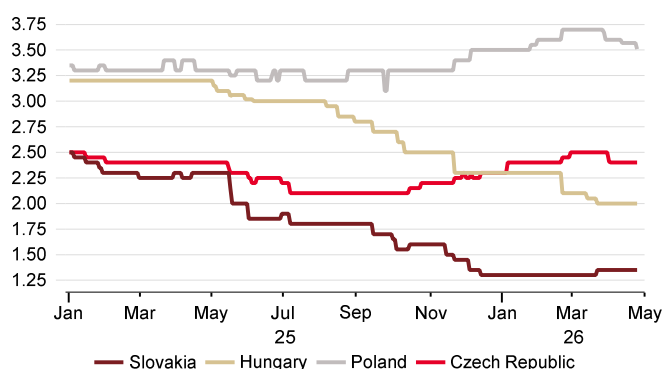
A key event in Hungary was the victory of the opposition Tisza party, which ended Prime Minister Viktor Orbán's continuing 16-year rule by securing a constitutional majority in the Hungarian parliament. This should lead to the release of EU funds, with Hungary expected to gain access to the first half of these as early as the second quarter of this year. The Hungarian forint strengthened by 3% in response to the election results, while yields on 10-year government bonds fell by more than 140 basis points to their lowest level since the beginning of 2024. According to our estimates, the Hungarian forint exchange rate should remain within the EURHUF 340–350 range in the medium term, while bond yields should converge with those in Poland. Given the stronger domestic exchange rate and inflation within the tolerance band, the central bank is likely to resume its cycle of interest rate cuts. We expect monetary policy to be eased by 25 basis points at the September and December meetings and again in March 2027, which would bring the key rate down to 5.5%.

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



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

GDP growth for 2026, Bloomberg consensus (in %)



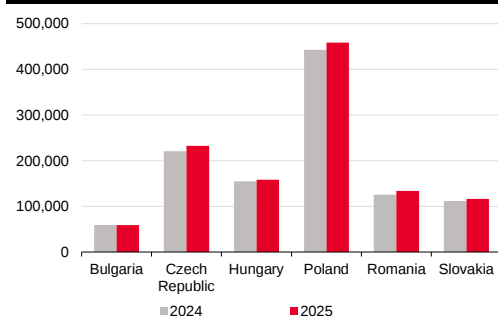
Source: Macrobond, Bloomberg consensus, Economic and Strategy Research, Komerční banka

Box 1: CEE region – resilience, structural shifts, strong services, the AI boom

Despite facing challenges, the CEE region has proven to be surprisingly resilient. An increasing share of gross value added (GVA) from services, robust ICT (Information and Communication Technology) exports, and the acceleration in AI related investment have helped put CEE economies in a better position to withstand global shocks.

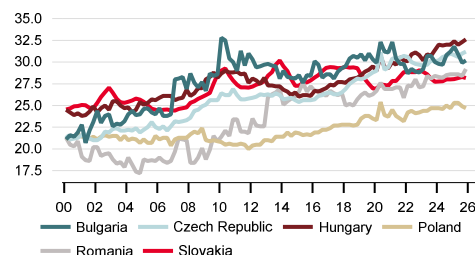
Last year, exports from the CEE region exceeded even those of 2024 in nominal terms, despite the trade wars. The explanation for this lay in a change in their composition. While goods exports faced headwinds, services exports surged, as did their share of gross value added (GVA). Although manufacturing still remains crucial for the CEE region, its share of GVA is declining, bringing with it a decrease in energy intensity and a reduction in the region's vulnerability.

Goods and services exports remain resilient (€m, in nominal terms)



Source: Eurostat, Economic and Strategy Research, Komerční banka

Market services (as a % of total GVA)

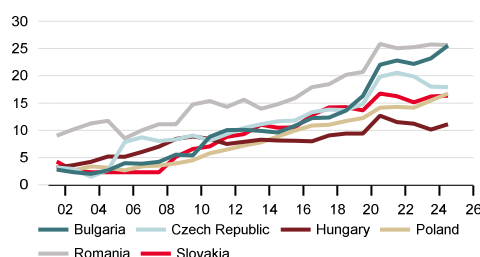


Source: Eurostat, Economic and Strategy Research, Komerční banka

The ICT services sector, which includes software development, cloud services, cybersecurity, and other digital activities has been the standout performer. It is now one of the fastest-growing components of total exports, helping offset volatility in traditional manufacturing sectors. In some countries, it already accounts for a quarter of services exports.

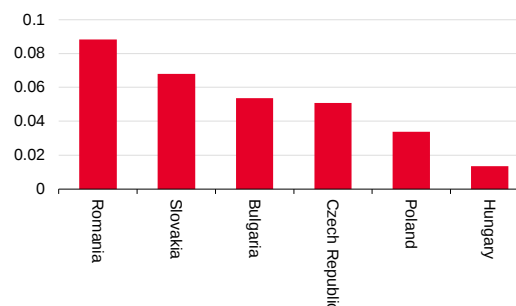
Rapid growth in AI-related investment has been another emerging pillar of resilience. Venture capital flows into AI start-ups, automation technologies, and data-infrastructure companies have increased significantly. While the absolute volumes remain lower than in western Europe, the growth rate has been remarkable. These factors combined help make the region more resilient than in the past.

ICT service exports (% of service exports)



Source: World Bank, Economic and Strategy Research, Komerční banka

Venture capital investments in AI (2022-2025 share of GDP, %*)



Source: OECD.AI, Economic and Strategy Research, Komerční banka, *sum of 2022-2025, GDP 2025)

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Macroeconomic forecast



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Main changes

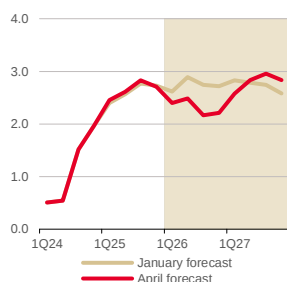
GDP

Developments so far have confirmed the strong growth momentum of the Czech economy. However, the conflict in the Middle East is likely to slow this growth due to increased uncertainty and high energy prices. As a result, we have lowered our GDP growth estimate for this year from 2.7% to 2.3%. However, we have left our forecast for next year almost unchanged at 2.8%. Growth in both years should be driven by domestic demand, supported by significant fiscal stimulus.

Inflation

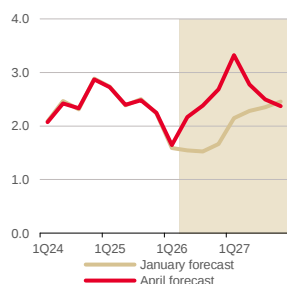
Increasing fuel or wholesale energy prices are pushing inflation higher than we originally anticipated. We have therefore raised our forecast for this year from 1.6% to 2.2%. However, the impact on other inflation components will be delayed, so we have also increased our estimate for next year from 2.3% to 2.7%.

Changes to GDP forecast (% , yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka

Changes to CPI forecast (% , yoy)

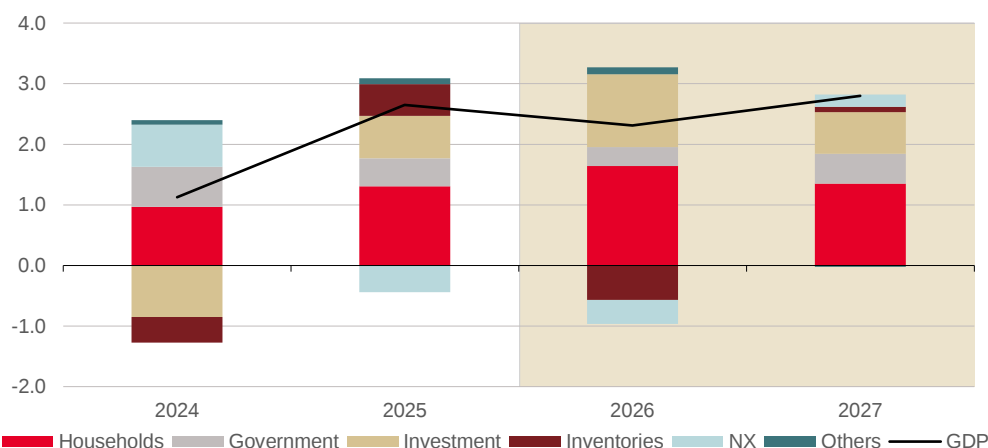


Source: CZSO, Economic and Strategy Research, Komerční banka

Czech economy should remain resilient despite rising inflation

The Czech economy entered the current energy crisis, linked to the conflict in the Middle East, from a position of strength. Last year, the economy grew by 2.6%, primarily driven by rising private consumption and fixed investment. Structural changes connected to the emergence of new sectors are also contributing to the resilience of the economy. Although we expect GDP growth to slow slightly to 2.3% this year, we expect it to accelerate to 2.8% next year, supported in part by fiscal expansion. We therefore believe that unemployment is now near its peak. This means that the labour market should remain tight, pushing up wages and increasing household purchasing power. However, the impact of a robust domestic economy combined with higher energy prices as a result of the conflict in the Middle East will lead to rising inflation. We estimate inflation at 2.2% this year, rising to 2.7% next year. The risks to our forecast lean towards weaker GDP growth and higher inflation.

Domestic demand is set to be the main driver of economic growth (% , yoy)

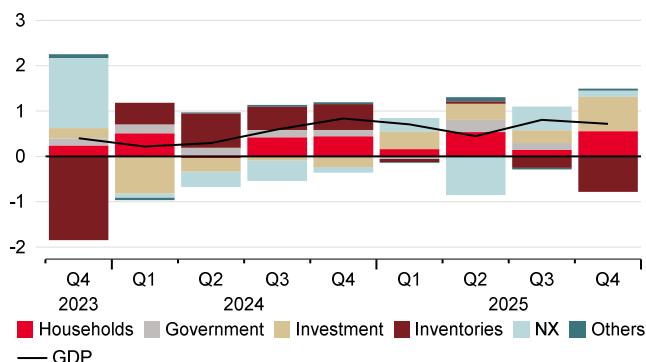


Source: CZSO, Economic and Strategy Research, Komerční banka

Economy unlikely to slow much as domestic demand should remain strong

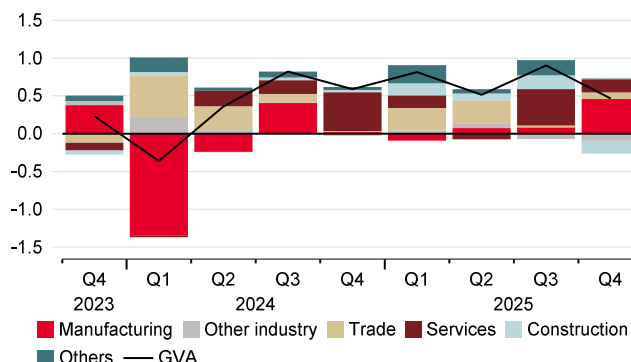
The Czech economy continued to grow at a fast pace towards the end of last year, driven by rising domestic demand. GDP increased by 0.7% qoq in 4Q25, which was slightly below our estimate of 0.8% qoq included in our previous forecast from January. The economy therefore maintained strong momentum, growing by an average of 0.7% qoq in each of the past six quarters (3Q24–4Q25). Household consumption rose by 1.2% qoq in 4Q25, contributing 0.6pp to GDP growth. This was the first time in six years that it had reached the pre-pandemic level last seen in 4Q19. Furthermore, growth in household spending accelerated sharply from 0.3% qoq in 3Q25, supported by a substantial improvement in consumer sentiment and continued wage growth. Fixed investment also grew faster, accelerating from 1.0% qoq in 3Q to 2.8% in 4Q, contributing 0.8pp to GDP growth. Unlike in 3Q, when growth was largely driven by public investment and household investment in real estate, the corporate sector may also have contributed to higher investment activity in 4Q due to the broader nature of the growth. The contribution of net exports to qoq GDP growth declined from 0.5pp in 3Q to 0.1pp in 4Q but remained positive. This was likely due to a recovery in domestic demand, given that export growth slowed only marginally from 0.9% to 0.8% qoq, while import growth accelerated from 0.2% to 0.6% qoq. Inventories recorded a negative contribution of 0.8pp in 4Q25, as the recovery in demand may have allowed firms to reduce their inventory levels.

Domestic demand, including both consumption and fixed investment, drove growth in the past two years (SA, %, qoq)



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

In addition to trade and services, the recovery in manufacturing also helped to raise the gross value added in 4Q25 (SA, %, qoq)

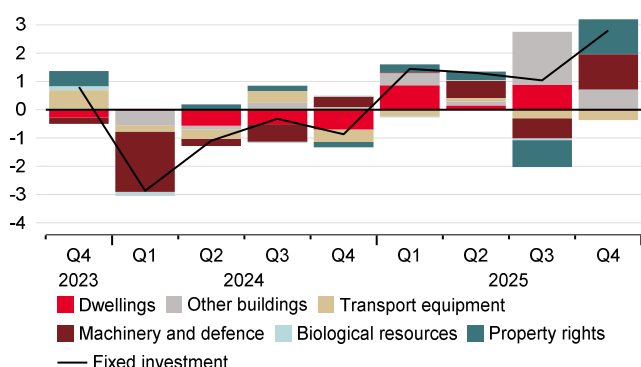


Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka
Note: Services include only market services. Public services are included in the others category. The trade sector also includes transport, accommodation and hospitality.

The Czech economy was in good shape when the energy shock hit.

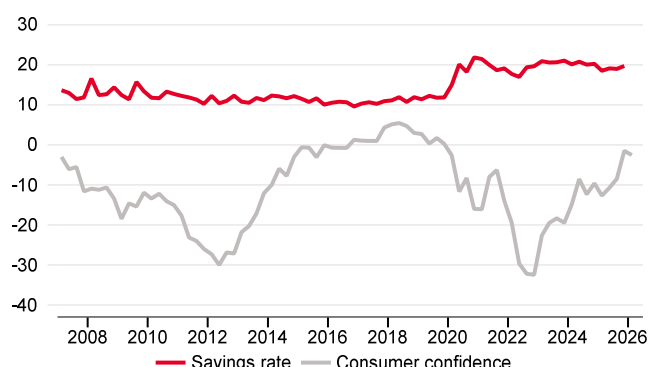
We estimate that GDP growth slowed to 0.4% qoq in 1Q26, due to a negative contribution from net exports. However, we expect household consumption growth to have remained strong at 1.2% qoq in 1Q26. Following a significant increase in 4Q25, consumer confidence remained around 10% higher than its long-term average in 1Q26. Real wages likely continued to grow rapidly qoq, supported by easing consumer price momentum. Lastly, households should still have substantial savings, with the savings rate having remained close to 20% since the pandemic (roughly double the pre-pandemic rate). Having experienced robust growth throughout 2025 (with an average increase of 1.6% qoq per quarter), we expect fixed investment to have slowed to a still solid 0.8% qoq in 1Q26. This may have been influenced by the change in government and the provisional budget, which could have reduced investment and public sector expenditure. Meanwhile, renewed global uncertainty due to the conflict in the Middle East, which began in late February, may have had a negative impact on private investment. However, we believe that companies have somewhat adapted to greater uncertainty over the past six turbulent years. Furthermore, higher energy prices are likely to renew pressure to reduce fossil fuel consumption and boost investment in energy-efficient technologies and renewable energy sources. Ongoing structural changes within the economy related to the development of new sectors also contribute to the resilience of domestic demand. These include information services supported by the AI boom, the defence industry and the production of green technologies. We expect net exports to have contributed negatively to qoq GDP growth in 1Q26 (-0.4pp after +0.1pp in 4Q25). This should be due to continued strong growth in import-intensive domestic demand, combined with a slowdown in industrial growth at the beginning of the year.

Investment posted strong growth in 2025 (SA, %, qoq)



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

Household savings and confidence are high (SA, %)

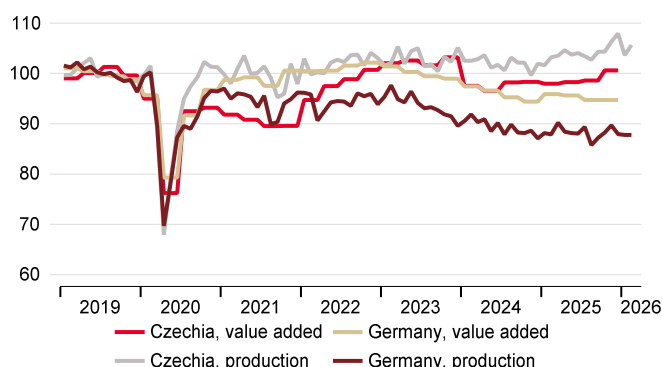


Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka

We expect the economy to grow relatively strongly this year and next, mainly due to domestic demand.

We forecast economic growth to reach 2.3% this year and accelerate to 2.8% next year. However, the conflict in the Middle East poses downside risks. Compared to our January forecast, this year's estimate is lower, while next year's is only slightly higher due to the base effect (our previous forecasts were 2.7% for both years). Nevertheless, following last year's growth of 2.6%, the economy is likely to remain robust. Although higher energy prices could hinder the recovery of the industrial sector, the economy is better prepared for an energy shock than it was in previous years thanks to significant investments in energy efficiency. The automotive industry, which is important for the economy, maintains a strong competitive position, with capacity utilisation exceeding that of neighbouring Germany and the entire eurozone. We believe that domestic demand should be the main driver of economic growth. This will be amplified by the significant fiscal stimulus that the new government is gradually implementing. The increase in fiscal spending in Germany should also have a positive effect. The current geopolitical context presents both risks and opportunities for growth in the Czech economy. This is particularly evident in the defence industry and the production of energy-efficient technologies. The economy's favourable starting position is also being confirmed by strong growth in lending activity, encompassing both household loans and corporate investment loans. However, our baseline forecast scenario assumes that the conflict in the Middle East will be short-lived and that the energy shock will subside gradually. If the conflict turns out to be protracted and leads to high prices or a shortage of production inputs, economic growth will be weaker than we expect.

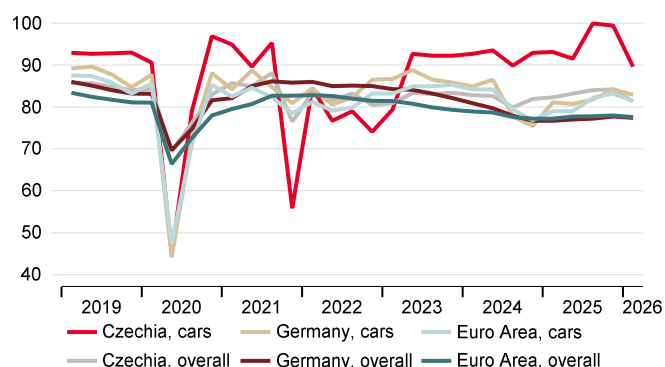
Czech industry saw a slowdown in production at the start of the year, while German output remains weak (SA, 2019=100)



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

The labour market is likely to remain tight, driving further wage growth and helping to sustain robust domestic demand.

Although capacity utilisation in the Czech automotive industry has declined, it still exceeds its competitors (SA, %)



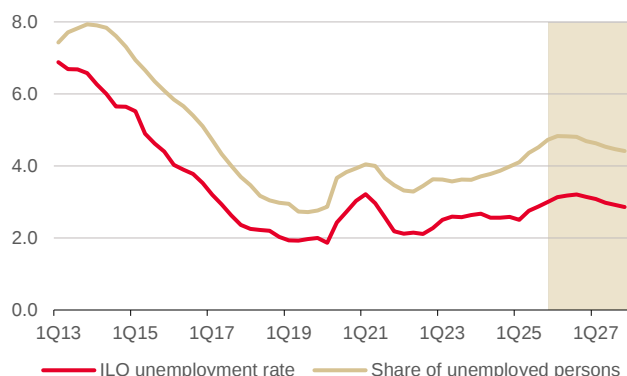
Source: DG ECFIN, Macrobond, Economic and Strategy Research, Komerční banka

Continued real wage growth is set to underpin domestic demand

We believe unemployment is approaching its peak. Based on our estimates, the seasonally adjusted ILO unemployment rate increased from 3.0% in 4Q25 to 3.1% in 1Q26 and we expect an average of 3.2% for the year as a whole. The seasonally adjusted share of unemployed persons rose from 4.7% in 4Q25 to 4.8% in 1Q26, which is also our predicted average for the whole year. The increase in the share of unemployed persons has so far been greater than that of the ILO rate. This trend is likely to have been influenced by administrative factors such as digitisation, which has made claiming social benefits easier, as well as higher benefit levels and legislative changes that have made the labour market more flexible. However, the incorporation of Ukrainian refugees may also have played a role. Job losses in recent years have mainly occurred in industry. Conversely, employment has grown in the trade and services sectors, as well as in the public sector. Given our forecast of continued expansion in the tertiary sector and growth in domestic demand, this trend is likely to continue. Therefore, any increase in the unemployment rate compared to previous years should primarily be of a frictional nature, resulting from shifts in employment between different sectors of the economy or job roles. Assuming that robust economic growth continues, we

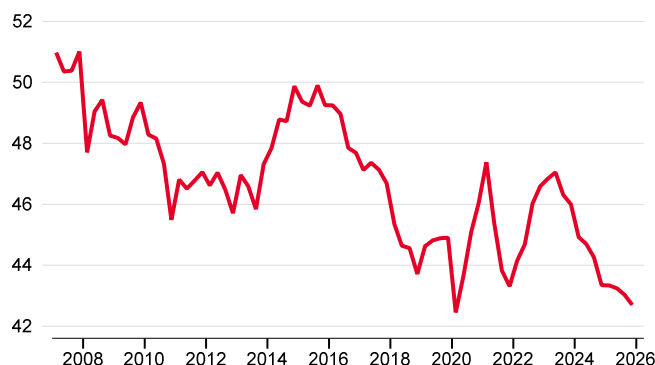
expect the ILO rate and the share of unemployed persons to fall slightly in 2027, thereby maintaining a tight labour market.

Unemployment is nearing its peak, and with the economy growing strongly, it should gradually start to fall again (SA, %)



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

The profitability of the non-financial corporate sector has steadily declined since mid-2023 (SA, %)

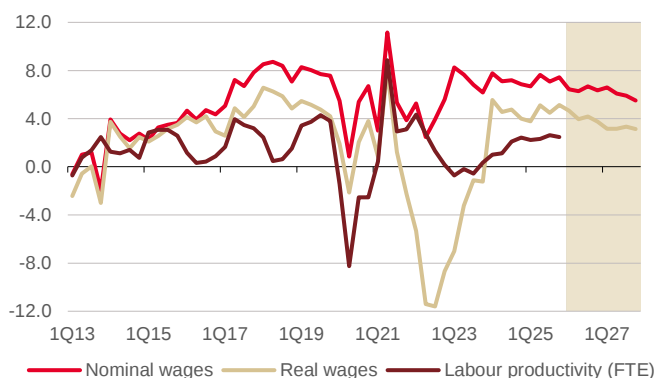


Source: CZSO, Economic and Strategy Research, Komerční banka

Note: The chart shows the ratio of gross operating surplus to gross value added in the non-financial corporate sector, based on sector accounts data.

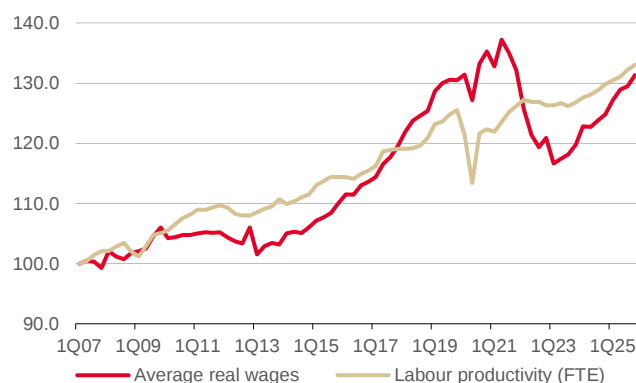
Following an increase of 7% in each of the previous three years, we forecast a slowdown in nominal wage growth to 6.4% this year and 6.0% next year. The only significant change to our previous forecast is our substantially increased estimate for 2026, which was originally 5.6%. This increase comes as a result of the materialisation of risks of higher wage growth in the public sector, which fits into the context of the new government's expected fiscal policy expansion. The persistent labour shortage in a robustly growing economy will likely continue to put pressure on wages in the private sector. However, we expect overall wage growth to somewhat slow this year. This is because real wages, like household consumption, returned to pre-pandemic levels in 4Q25 after six years and have now converged with labour productivity growth. Furthermore, pressure for higher wages and the weakened position of the manufacturing sector have resulted in a consistent decline in the profitability of non-financial firms over the past three years. Growing foreign competition, particularly from China, is also contributing to this trend by putting pressure on firms' margins. Nevertheless, according to our forecasts, nominal wage growth should offset higher inflation and thus contribute to an increase in household purchasing power. We expect average real wages to rise by 4.1% in 2026 and a further 3.2% in 2027. This should provide sufficient support for our expected growth in household consumption of 3-4% yoy this year and next. The main risk to this forecast is the current high level of global uncertainty, which could lead to greater caution and consequently reduce consumer spending.

Nominal wage growth should gradually slow, but real wage growth is set to remain relatively strong (% , yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka

Real wage growth is catching up with labour productivity, which is currently growing at around 2.5% yoy (1Q07=100)



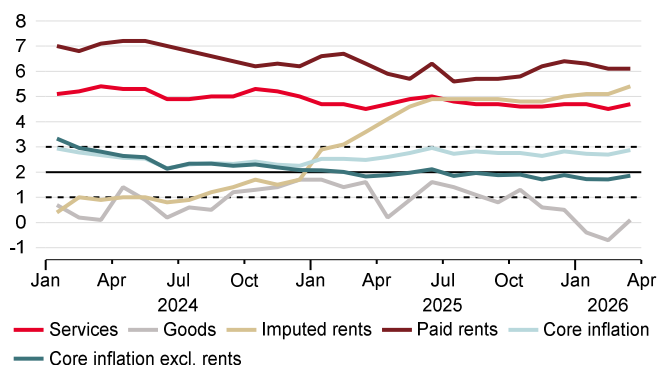
Source: CZSO, Economic and Strategy Research, Komerční banka

Headline inflation printed below the central bank's 2% target in 1Q26, but core inflation rose slightly towards 3%.

Inflation should gradually rise to 3% as a result of higher energy prices

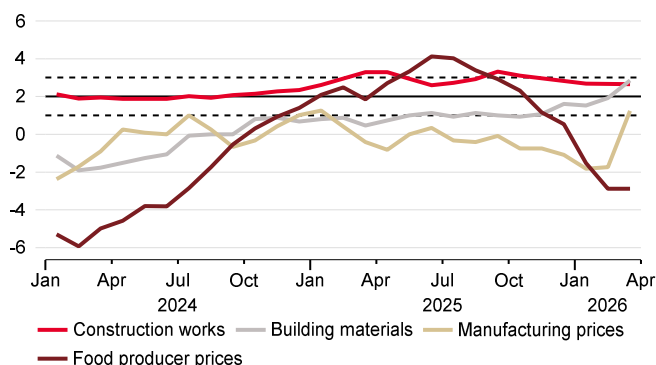
Annual inflation remained below the central bank's 2% target throughout 1Q26, but the trend changed in March due to the oil shock. While headline inflation stood at 2% yoy at the end of 2025, it fell to 1.6% yoy in January and then 1.4% yoy in February. The main reason for this decline was the administrative impact of transferring renewable energy payments from households to the state, which reduced regulated electricity prices. We estimate that this lowered headline inflation by around 0.3pp. Moreover, this was accompanied by a further decline in the market electricity and gas prices paid by households. Annual food price growth also fell below the CNB's 2% target at the turn of this and last year, reflecting the favourable agricultural harvest of the previous year, a strong koruna and the previous decline in fuel prices. In March, however, prices at petrol stations rose by almost 20% mom, reflecting the sharp increase in oil prices due to the conflict in the Middle East. Consequently, there was a significant shift in annual fuel price dynamics, with prices rising by 13% yoy in March, after having fallen by almost 9% yoy in February. This was the main reason why headline inflation accelerated to 1.9% yoy in March. Headline inflation remained below the 2% target due to a yoy decline in food prices, influenced by the base effect of the timing of the Easter holiday this year vs last. On average for 1Q26, headline inflation reached 1.6% yoy, in line with our January forecast.

Core inflation and imputed rents accelerated at the start of the year, while goods inflation reflected higher fuel prices (% , yoy)



Source: CZSO, CNB, Economic and Strategy Research, Komerční banka
Note: Core inflation excluding rents does not include either imputed or paid rents. The goods category also includes food, fuel and other energy sources. The chart also shows the central bank's tolerance band of +/- 1pp around its 2% inflation target.

The turnaround in producer price developments, including the construction sector, poses an inflationary risk (% , yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka
Note: The chart also shows the central bank's tolerance band of +/- 1pp around its 2% inflation target.

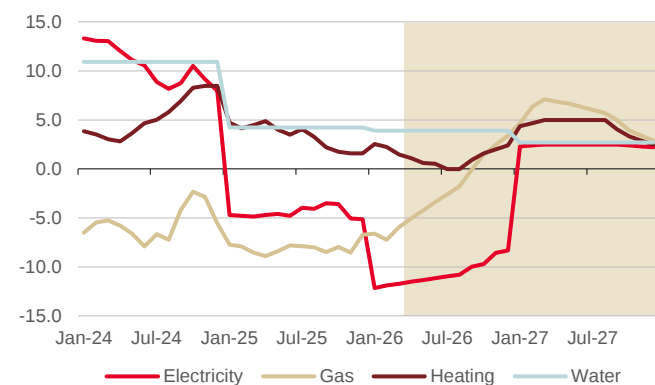
Core inflation exceeded our expectations at the start of this year, with growth in imputed rents accelerating. Core inflation rose from 2.7% yoy in 4Q25 to 2.8% yoy in 1Q26, compared to our forecast of a decline to 2.5% yoy. In March, it came in at 2.9% yoy. Although average service price growth remained at 4.6% yoy in 1Q26, imputed rent growth gradually increased from 5.0% yoy in December to 5.4% yoy in March. This was largely driven by rising house prices, which exceeded our expectations at the turn of this and last year. Moreover, other imputed rent components are also gaining momentum. Construction material prices jumped by 0.8% mom in March due to the conflict in the Middle East, leading to a significant acceleration in yoy growth from 1.9% to 2.9%. Construction work prices continued to grow at an elevated rate of 2.7% yoy during 1Q26. Higher energy prices were also reflected in the manufacturing sector, with prices rising by 1.2% yoy in March, compared to a decline of 1.7% yoy in February. However, food producer prices remained 2.9% yoy lower in March, as in February.

We expect higher energy prices to gradually feed through into other inflation components. As mentioned above, higher oil prices have immediately resulted in higher fuel

We expect the energy shock to gradually feed through to all components of inflation, which we expect to rise to 2.7% next year, from 2.2% this year.

prices. However, the impact on other inflation components is likely to be more gradual, as illustrated in *Box 2* below. Therefore, we expect headline inflation to remain in the 2.0–2.5% yoy range until roughly the middle of the year. This should be supported by the still relatively subdued trend in food prices, which are likely to continue to some extent as a result of last year's strong agricultural harvest. In line with this, March data on food and agricultural producer prices did not indicate strong inflationary pressures. Nevertheless, it is reasonable to assume that the impact of higher fuel prices will become more apparent in the second half of the year. Significantly higher prices for agricultural fertilisers will also likely be reflected in food prices with a delay. As a result, we forecast a 1.3% increase in consumer food prices this year, accelerating to 2.8% next year. Along with oil, natural gas prices have risen on global markets due to the conflict in the Middle East. This will likely lead to higher energy prices for households during the upcoming heating season. Therefore, starting this autumn, households will likely begin to feel the impact of rising gas and heating costs, a trend that will likely continue into next year. In contrast, we anticipate only a slight increase in electricity prices. Overall, we forecast regulated prices to rise by 3.2% in 2027, following a decline of 0.7% this year, which is significantly influenced by the transfer of renewable energy payments to the state. Regulated price dynamics are also likely to include higher public transport fares. Higher energy and fuel prices should gradually feed into core inflation. Rising airfares, driven by higher jet fuel costs or supply shortages, could contribute significantly to this trend. Consequently, we expect core inflation to accelerate to 2.8% this year, up from 2.7% last year, before falling back to 2.7% in 2027. Robust domestic demand, coupled with a tight labour market, strong house price growth and fiscal policy expansion will contribute to high levels of core inflation.

We expect household gas and heating costs to rise due to the conflict in the Middle East (% , yoy)



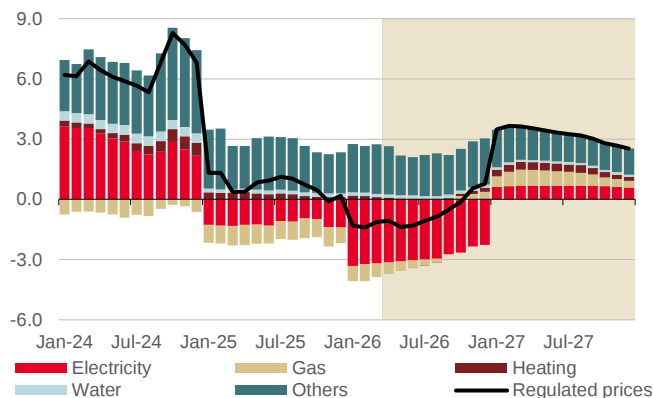
Source: CZSO, Economic and Strategy Research, Komerční banka

Note: These are final prices for households, including both market and regulated components.

Core inflation should remain close to the 3% upper limit of the CNB's tolerance band until the end of the year and should not drop below 2.5% yoy in 2027.

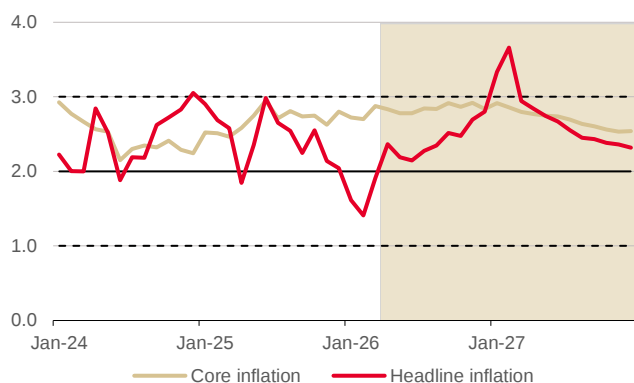
We expect inflation to accelerate from 2.2% this year to 2.7% next year, approaching the upper limit of 3% of the CNB's tolerance band by the end of the year. In the second half of this year, we expect headline inflation to range between 2.5% and 3.0% yoy due to the delayed impact of higher energy prices. In the first two months of 2027, our forecasts indicate that inflation will rise above 3% yoy, though this will mainly be due to the low comparison base from the start of this year. Thereafter, inflation should ease as the energy shock subsides, but it will likely remain above the central bank's 2% target until the end of next year. We expect core inflation to remain close to 3% yoy until the end of the year. We believe that mom growth will remain strong due to the aforementioned factors, but a gradually rising comparison base should prevent further increases in yoy core inflation.

We forecast only a slight increase in electricity prices next year, after this year's fall driven by administrative changes (% , yoy)



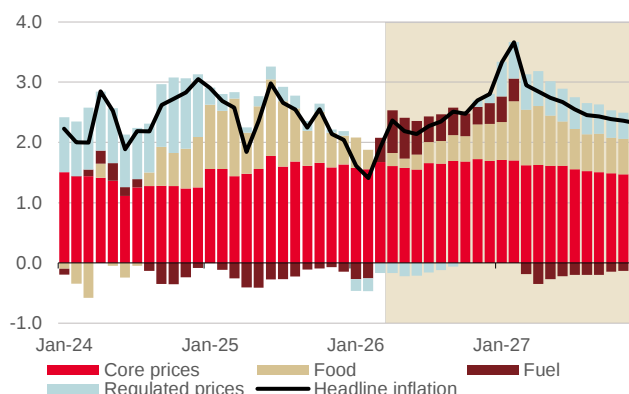
Source: CZSO, Economic and Strategy Research, Komerční banka

Inflation should gradually pick up and peak early next year, with the core component remaining around 3% (%, yoy)



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

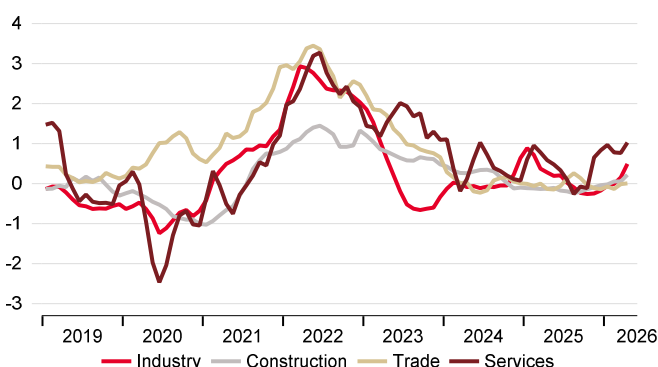
The energy shock is likely to gradually affect all inflation components (%, yoy)



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

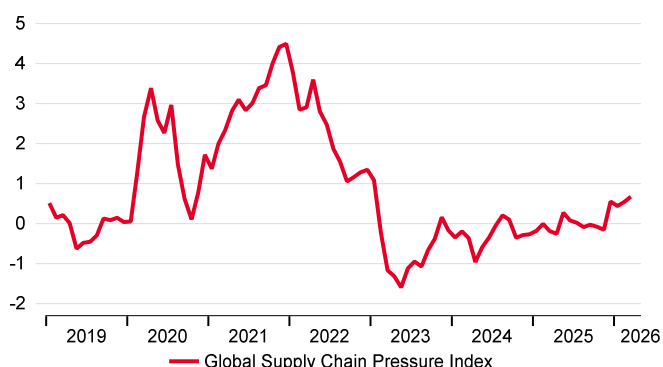
Inflation risks remain on the upside, though administrative measures could ease some of the pressure. Our forecast assumes that the energy shock will gradually subside. However, if this does not occur and the conflict in the Middle East continues for longer, the expected inflationary impact will increase. So far, government measures have only addressed fuel prices. Fuel sellers' margins have been capped, which has mainly contributed to the faster transmission of wholesale fuel prices to prices at petrol stations in both directions. At the same time, the excise duty on diesel was reduced in April. We expect this to lower headline inflation by 0.06pp and assume that the reduction in diesel excise duty will remain in effect until the middle of the year. However, further measures regarding electricity and gas prices cannot be ruled out, including changes to tax rates or further reductions in the regulated components of energy prices. The nationalisation of part of the energy company CEZ, which has been discussed, would likely make state intervention in the energy market easier. Additionally, the government plans to abolish fees for state television and radio broadcasting. We estimate that this would reduce inflation by 0.2pp, but due to uncertainties regarding the effective date, we have not yet included this in our forecasts. The government also intends to increase public transport discounts for children, students and retirees.

Inflation expectations remain elevated in services, and have also risen in other sectors (SA, 3MA, z-score)



Source: DG ECFIN, Macrobond, Economic and Strategy Research, Komerční banka
Note: Expected price developments in the sector based on the business survey from the European Commission.

Despite a slight increase in tensions, the NY Fed's indicator for March did not signal any major supply chain issues (z-score)

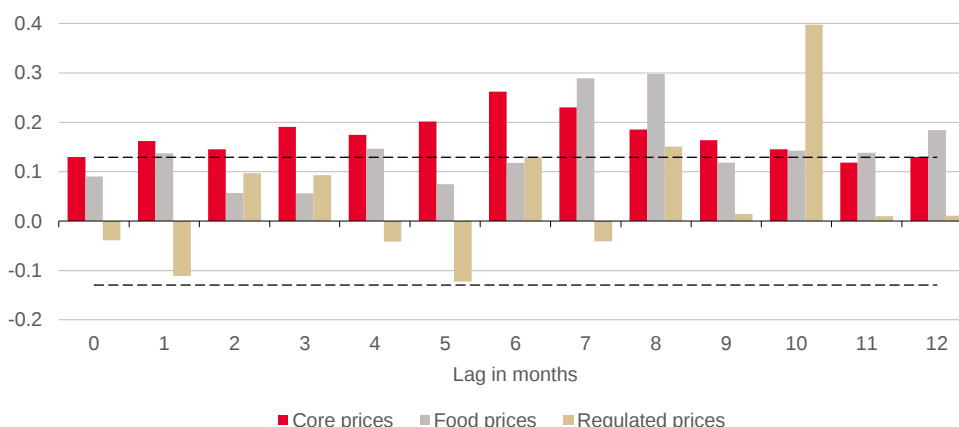


Source: New York Fed, Macrobond, Economic and Strategy Research, Komerční banka

Box 2: The impact of the oil shock on the structure of Czech inflation

Higher oil prices affect inflation in more ways than just making fuel more expensive. The pass-through of higher crude oil prices to petrol station prices is relatively straightforward and rapid, as demonstrated by recent developments arising from the US-Iran conflict. Once converted into the domestic currency – which is also influenced by changes in the koruna exchange rate – the raw commodity (oil or other additives) accounts for around half of the final fuel price at petrol stations in the Czech Republic on average.¹ The remainder consists of taxes (excise duty and VAT) and sellers' gross margins. Fuel accounts for only around 3% of the consumer basket used in the Czech Republic to calculate inflation. Of this, just under two-thirds is petrol, with the remainder being diesel (LPG has a negligible share). Therefore, the small weighting of fuel prices in the consumer basket limits the direct impact of higher oil prices on Czech inflation.

According to cross-correlation functions, higher fuel prices are reflected in other components of inflation only with a delay (correlation coefficients of seasonally adjusted mom changes)



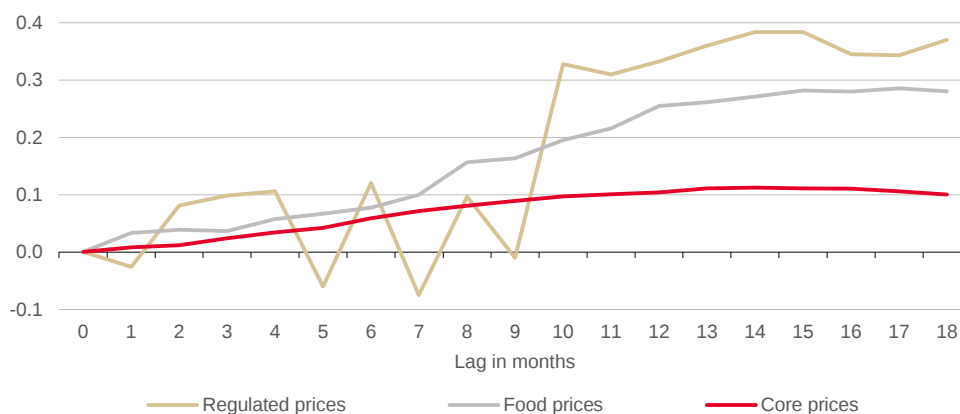
Source: Economic and Strategy Research, Komerční banka

Note: The dashed lines show the boundaries of statistical significance at a 95% confidence level.

The delayed and indirect impact of an oil shock on other components of inflation amplifies the oil shock's overall effect. Higher fuel prices make transport, whether for passengers or freight, more expensive. This subsequently leads to higher prices for goods and some services. Furthermore, oil is used to produce certain materials. An analysis of available monthly data from 2007 to 2026 using cross-correlation functions, which are applied to seasonally adjusted month-on-month changes in Czech fuel prices on the one hand and core, food and regulated prices on the other, confirms that changes in fuel prices are reflected in other prices only with a delay. This may be due to contracts between customers and suppliers that stipulate a fixed price for a given period. In the case of core inflation, dependence on fuel prices intensifies with each passing month, peaking after roughly six months. A similar situation is seen with food prices, although the threshold of statistical significance is not reached in the earlier months. The biggest lag is seen in regulated prices, at around ten months, where price setting is traditionally more rigid.

¹ When calculating the commodity component share, we use fuel prices from mid-April 2026. At that time, we also take into account prevailing value-added tax and excise duty rates, meaning the calculation already reflects the reduced diesel excise duty. Furthermore, the average commodity component share reflects the proportions of petrol and diesel in the consumer basket used to calculate inflation in 2026. If any of these parameters change significantly, the average share of the commodity component in consumer fuel prices may also change. However, we disregard the possibility of components other than crude oil being included in the commodity component of fuel prices.

Cumulative responses of other inflation components to a permanent 1% increase in fuel prices (pp)

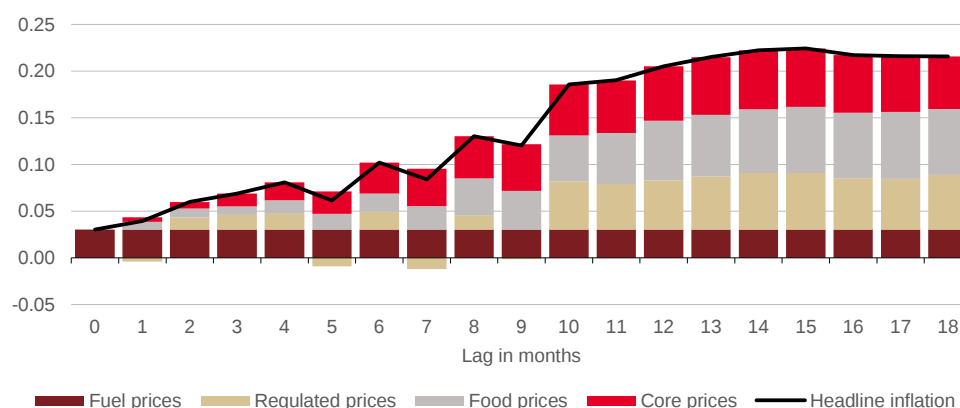


Source: Economic and Strategy Research, Komerční banka

Note: The horizontal axis shows the number of months since the increase in fuel prices.

We estimate that a permanent 1% increase in fuel prices would lead to a rise in inflation of around 0.2pp after roughly a year. We used vector autoregression (VAR) to estimate the impact of higher fuel prices on the rest of inflation, including the core component, food prices (including all beverages and tobacco) and regulated prices. The VAR model was estimated using the logarithmic differences of the seasonally adjusted monthly indices of all four inflation components from 2007 to 2026, including twelve lags. While the results of the unrestricted model are presented, variants with different zero restrictions on the parameters were also tested, particularly with regard to the exogeneity of fuel prices and reducing the number of estimated parameters. However, these variants did not produce significantly different results. Based on the estimated VAR model, the above chart shows the cumulative impulse responses of the inflation components to a permanent 1% increase in fuel prices. When generating these responses, we ignore the possibility of interdependence between the individual shocks contained in the model. However, an analysis of the covariance matrix of the random variables of the estimated VAR model shows that this simplification should not significantly affect the results, as the correlation coefficients between individual shocks do not exceed 10%.

The full impact of higher fuel prices on inflation becomes apparent after around a year, by which time the indirect effects outweigh the direct ones (pp)



Source: Economic and Strategy Research, Komerční banka

Note: The horizontal axis shows the number of months since the increase in fuel prices. The cumulative response of annual headline inflation to a 1% rise in fuel prices is calculated as the weighted average of the responses of individual components, with the weights corresponding to the current structure of the consumer basket used to calculate inflation.

The indirect impact of the oil shock on Czech inflation is greater than its direct effect in the form of higher fuel prices. Given the weight of fuel prices in the consumer basket, a 1%

increase at petrol stations leads to a 0.03pp rise in inflation. Like cross-correlation functions, impulse responses show that other inflation components react to higher fuel prices with a delay, peaking at around one year. After this period, core, food and regulated prices contribute to an overall 0.2pp increase in headline inflation to a similar extent. Assuming a permanent 10% rise in oil prices, implying a roughly 5% increase in fuel prices, this analysis suggests that inflation would rise by around 1pp after approximately one year. However, the size and speed of the impact vary across inflation components. Core inflation would rise by 0.5pp in response to a 10% increase in oil prices, while food and regulated price inflation would rise by 1.3pp and 1.8pp, respectively. The aforementioned roughly equal contributions to the overall increase in headline inflation are due to the different weights of the individual components in the consumer basket. According to the current weighting scheme, core prices accounts for 56.03%, food prices (including all beverages and tobacco) 25.15% and regulated prices 15.79%. The calculation of the impact on individual inflation components is based on long-term elasticities derived from estimated impulse responses. These responses imply that a permanent 1% increase in fuel prices would lead to a 0.1pp rise in core inflation, a 0.25pp rise in food price inflation and a 0.35pp rise in regulated price inflation.

Our current forecast's baseline scenario does not factor in such a pronounced impact of the oil shock on inflation. This impact should be mitigated given our assumption that the shock will be temporary rather than permanent. Furthermore, the sensitivity of other inflation components is estimated based on historical data. However, the economy has become significantly less vulnerable to energy shocks in recent years, which may also limit the impact. The continuing strength of the Czech koruna may also play a role. Nevertheless, the above conclusions confirm that the risks to our forecast are skewed towards higher inflation.

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Monetary policy



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CNB rates move unlikely, but risks are tilted towards a hike

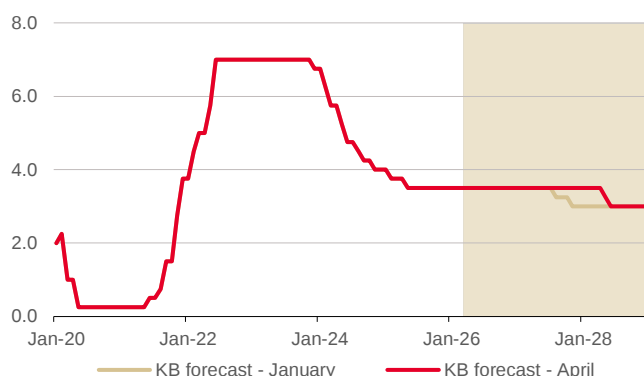
We do not expect the CNB to tighten monetary policy in response to the rise in inflationary pressures caused by the conflict in the Middle East. Our view is based on the still relatively restrictive level of interest rates, the strong koruna, and the low current inflation rate. We forecast that CNB interest rates will remain unchanged this year and next. However, in our forecast, we have delayed the repo rate's return from the current 3.5% to a neutral level of 3% until 2028. Nevertheless, we view the risks to our forecast as skewed towards a possible increase in CNB rates. Whether this risk materialises will depend largely on how higher fuel and energy costs feed through to other prices in the economy. This will also depend on the strength of domestic demand and fiscal expansion.

We see the risks to the CNB's February forecast as leaning towards higher inflation and weaker economic growth.

Economic growth, wages and, ultimately, consumer price inflation were all higher than the CNB had anticipated in its February forecast. GDP increased by 0.7% qoq and 2.7% yoy in 4Q25, exceeding the central bank's projections of 0.6% qoq and 2.5% yoy. Nominal wages grew by 7.4% yoy in 4Q25 vs 7.1% yoy in the CNB forecast. While inflation averaged 1.6% yoy in 1Q26, in line with the CNB forecast, it rose to 1.9% yoy in March due to the conflict in the Middle East, which was 0.3pp above the central bank's estimate. Core inflation was also higher in March, reaching 2.9% yoy compared to the CNB's expectation of 2.8% yoy. Therefore, the latest data tilted the risks of the CNB's February forecast towards higher inflation. The central bank expects inflation to remain low at 1.6% and 2.1% this year and next, while projecting strong economic growth of 2.9% in both years. However, when we compare this with our new forecast, which already factors in the impact of the conflict in the Middle East, we clearly see the risks to the CNB's February forecasts as being higher inflation and lower economic growth. We anticipate inflation reaching 2.2% this year and 2.7% next year, and we estimate economic growth of 2.3% in 2026 and 2.8% in 2027.

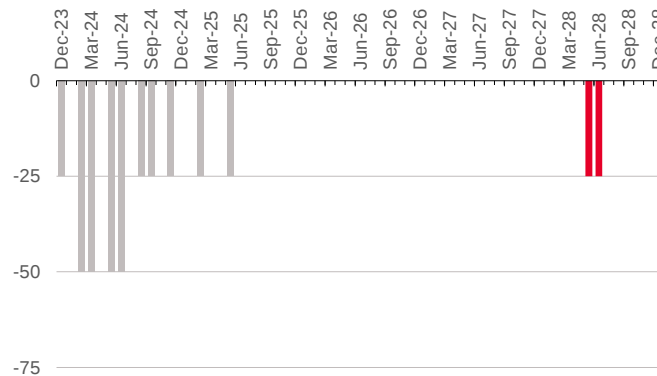
Monetary conditions in 1Q26 were broadly in line with the CNB forecast. The CNB staff predicted a slight decline in the repo rate, from an average of 3.5% in 4Q25 to 3.4% in 1Q26. Meanwhile, the central bank continued its policy of stable interest rates, which it has pursued since June 2025. The koruna exchange rate came in at EURCZK 24.30, as anticipated in the CNB's February forecast.

We expect the repo rate to remain at its current level of 3.5% this year and next (%)



Source: CNB, Economic and Strategy Research, Komerční banka

We have postponed the reduction of the repo rate to the policy-neutral level of 3% from the second half of 2027 to 2028 (bp)



Source: CNB, Economic and Strategy Research, Komerční banka

In our baseline scenario, we expect the CNB to maintain the current level of interest rates until the end of next year. The current 3.5% level of the key repo rate is probably still

slightly restrictive, given that the policy-neutral level is usually estimated to be around 3.0%. The continued strength of the Czech koruna, which has not weakened significantly compared to previous external shocks, provides another advantage in the current situation of heightened inflationary risks. As *Box 3* shows, a weakening of the koruna has historically tended to amplify the inflationary effects of external energy shocks. Relatively tight monetary conditions and a low initial inflation rate therefore put the central bank in a favourable position. As the central bank cannot influence the direct impact of higher wholesale energy prices on inflation, it is likely to look through these effects. The CNB is thus more likely to focus on core inflation, which, according to our forecast, should remain within the central bank's tolerance band. At the beginning of this year, the central bank acted similarly when it refused to react to the decline in headline inflation below the 2% target, as this was largely due to the administrative transfer of renewable energy payments from households to the state. So far, the only change we have made to our previous CNB interest rate forecasts is that we have moved the expected return of the repo rate to the neutral level of 3% from the second half of 2027 to 2028.

We expect the CNB's interest rates to remain unchanged this year and next, but we see the risks as tilted towards a hike.

We view the risks to our forecast as leaning towards a potential rise in CNB interest rates. This is due to the accumulation of macroeconomic risks indicating higher inflation. The main inflationary risk is, of course, higher energy prices. The central bank will be mainly interested in the secondary effects of higher energy costs, including fuel prices, on other prices in the economy. As *Box 2* notes, these secondary effects are far more important than the primary ones in terms of their impact on headline inflation. Moreover, the central bank can manage these secondary effects more effectively than the primary ones using interest rates. However, our projected economic, labour market and fiscal policy developments could pose challenges for the CNB regarding the extent of these secondary effects. Despite the energy shock, we expect domestic demand to remain robust, which could facilitate the pass-through of higher costs to final consumer prices. The situation could therefore resemble what we saw in 2021, i.e. on the eve of the previous inflationary wave. At that time, domestic demand was significantly bolstered by fiscal policy due to tax changes effective since January 2021, leading to a significant and widespread increase in net wages. Furthermore, companies could make use of another inflationary wave to increase their margins, as they did over the previous one. While core inflation is more relevant to the central bank, households and firms focus mainly on headline inflation, using it to form their inflation expectations. This could help the central bank, as we expect headline inflation to remain below core inflation for most of this year and next. This is because the starting level of headline inflation is significantly lower than that of core inflation (1.9% vs 2.9% yoy in March). Moreover, as mentioned in the chapter describing our macroeconomic forecast, further administrative measures by the new government could push headline inflation lower.

Fiscal policy



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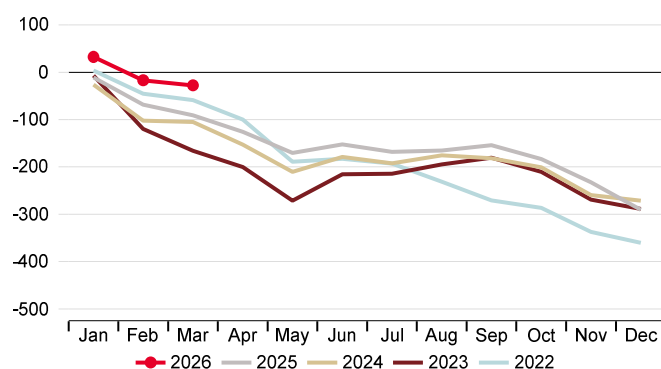
Fiscal discipline set to deteriorate

We expect the state budget cash deficit to widen to CZK310bn this year. Consequently, we predict that the general government deficit will increase from 2.1% of GDP last year to 2.8% in 2026. Now that the provisional budget is behind us, we expect fiscal policy to gradually become more expansionary for the remainder of the year. We also do not anticipate a return to public budget consolidation in the coming years. This also suggests that domestic fiscal policy rules are likely to be relaxed. While we still anticipate adherence to EU limits in our baseline scenario, we see the risks as leaning towards deeper deficits and thus faster growth in public debt, given the proposed amendment to the Budgetary Rules Act currently under discussion. The risks associated with the current energy shock are also pushing in the same direction.

The provisional budget has ended; the deficit is set to start deepening markedly

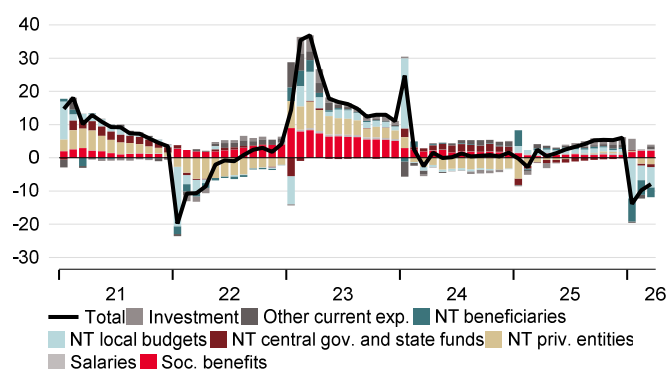
By the end of March, the state budget deficit had reached CZK27.6bn. Compared to the same period last year, the balance improved by CZK63.6bn. This was mainly driven by higher insurance premium revenues compared to last year, reflecting continued solid wage growth and a legislative increase in contributions from self-employed individuals. However, higher quarterly corporate income tax and EU revenue collections also contributed significantly to the reduction in the deficit yoy. **On the expenditure side, the provisional budget helped to improve the balance.** Consequently, expenditure for the first quarter fell by almost 8% yoy. The provisional budget was reflected mainly in reduced transfers and pre-financing in the chapters on regional education, social services, and research.

State budget balance (CZKbn, ytd cumulative)



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

State budget expenditure (% , pp, yoy, ytd cumulative)



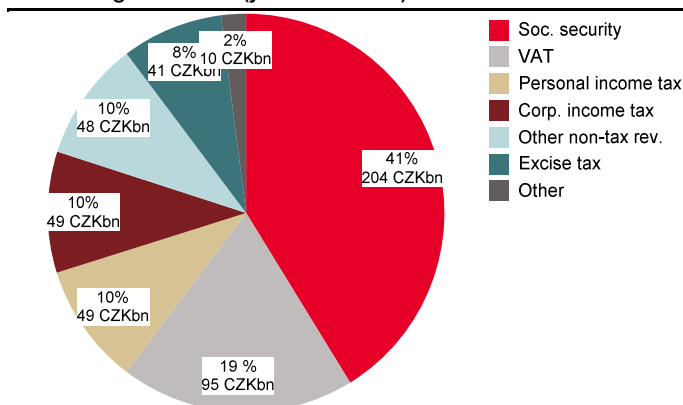
Source: Ministry of Finance, Macrobond, Economic & Strategy Research, Komerční banka
Note: NT – non-investment transfers

We expect the state budget to perform significantly worse for the remainder of the year.

The provisional budget ended with the approval of this year's budget in March. In the coming months, spending will therefore increase, reflecting not only the higher overall expenditures of this year's budget, but also the implementation of funding for certain budget chapters that had been delayed under the provisional budget. Increased revenues from EU funds are also likely to have been temporary, possibly resulting solely from the completion of pre-financed projects from last year. Insurance premiums are also likely to be partially compensated for by the current increase in growth, as the government plans to return the assessment base for self-employed individuals to the 2025 level on 1 July 2026, with a retroactive effect on contributions made in the first half of this year. Given the seasonal nature of the data, a

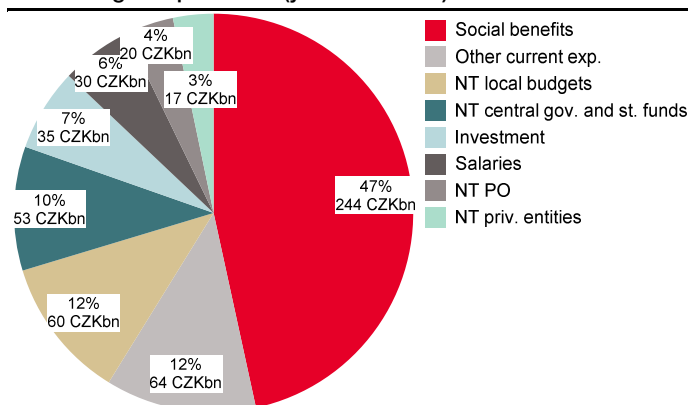
significant widening of the deficit is expected as early as April and May. Overall, we still assume the state budget deficit will reach the approved CZK310bn this year.

State budget revenue (ytd cumulative)



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

State budget expenditure (ytd cumulative)



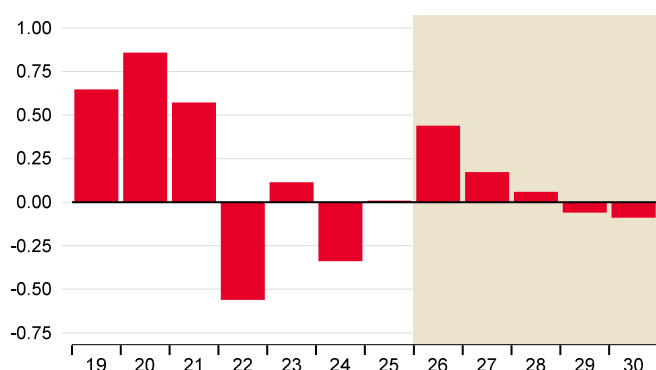
Source: Ministry of Finance, Macrobond, Economic & Strategy Research, Komerční banka
Note: NT – non-investment transfers

Fiscal policy turns expansionary this year

Budgetary rules requiring the consolidation of public finances are likely to be revised.

The Act on Budgetary Responsibility requires a reduction in the structural deficit by 0.5pp of GDP to a maximum of 1.75% of GDP in 2026, and the same reduction is also stipulated for 2027. From 2028 onward, the ceiling for the structural deficit is 1%. Defence spending is exempt from these rules, with only expenditures up to 2% of GDP counted towards the structural balance. Furthermore, unlike under the cash-based methodology, the accrual-based public finance deficit is not affected by loans for the construction of new units at the Dukovany nuclear power plant.

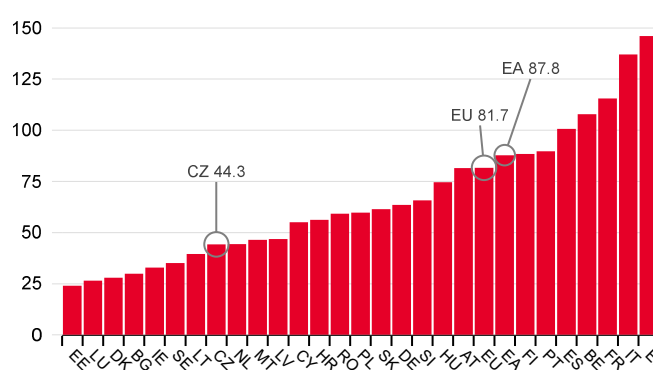
Fiscal impulse (contribution to GDP growth in percentage points)



Source: Economic & Strategy Research, Komerční banka

Note: The fiscal impulse reflects the estimated impact of a change in the structural balance (fiscal discretion) on GDP growth. The calculation is based on a top-down approach using a uniform fiscal multiplier of 0.6.

Public debt (% of GDP, 2025)



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

The Czech Republic's relatively favourable initial position, the rigour of its national fiscal rules and the government's policies do not bode well for future consolidation. With public debt slightly above 44% of GDP by the end of 2025, the Czech Republic is in the top third of least indebted EU countries. Furthermore, European fiscal rules are less stringent than domestic ones. At the same time, the government is signalling a preference for further increases in public spending without proportional increases in revenue. We therefore do not expect a consolidation of the structural balance to resume in the coming years. However, in

line with previous government statements, we expect the Czech Republic to continue meeting the Maastricht criteria for public finance deficits and debt levels.

According to our baseline scenario, discretionary fiscal policy measures will have an expansionary impact on the economy this year and a roughly neutral impact thereafter. After a marked reduction in the structural deficit of public finances in 2024 — helped by the so-called consolidation package among other factors — we estimate that fiscal restraint, as measured by the approximate aggregate fiscal impulse, subsided last year. This will be offset by a renewed increase in the structural balance this year. More information on the general impact of fiscal expansion on the Czech economy can be found in the box in one of the previous issues: https://bit.ly/CEO_4Q25_EN.

We expect fiscal expansion to remain within the EU limits, but the downside risks are mounting

We expect the general government deficit to rise to 2.8% of GDP this year. Compared to the central government budget, the general government deficit will be offset by the positive balance of local governments, which has been in surplus since 2013. In the coming years, the public finance deficit relative to the state budget's cash balance should also be mitigated by the continued financing of the completion of the Dukovany nuclear power plant through government loans, which are not included in the accrual-based deficit. Continued solid growth in economic activity will also contribute to a slight improvement in the balance relative to GDP. We estimate that public sector debt as a percentage of GDP will grow by an average of 1.1pp per year between 2026 and 2030, rising to 49.7% of GDP by 2030.

The public finances ended last year with a deficit of 2.1% of GDP. We expect this to widen to 2.8% of GDP this year.

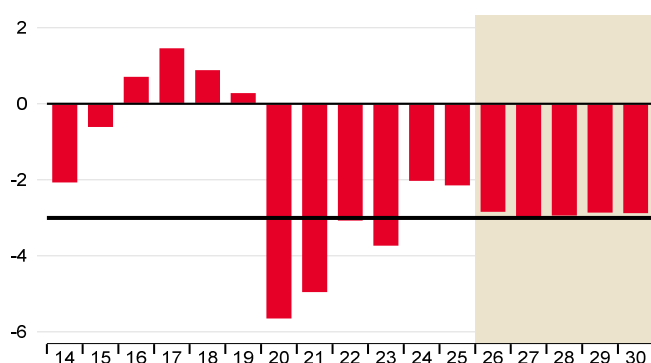
Public finance forecasts

	2025	2026f	2027f	2028f	2029f	2030f
Balance (% GDP)	-2.1	-2.8	-3.0	-2.9	-2.9	-2.9
Fiscal effort (pp GDP)	0.0	-0.7	-0.3	-0.1	0.1	0.1
Public debt (CZKbn)	3786.3	4096.3	4416.3	4746.3	5086.3	5436.3
Debt ratio (% GDP)	44.2	45.3	46.2	47.3	48.5	49.7

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

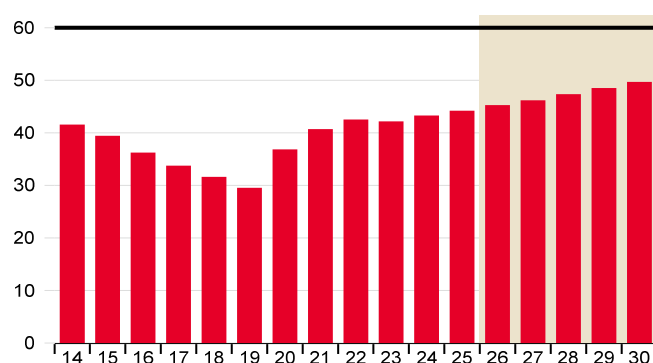
Note: fiscal effort is measured as the yoy change in the public finance balance, adjusted for the economic cycle and one-off operations on GDP in pp.

Public 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 government bill under discussion², which amends the national fiscal responsibility rules, shifts the risk of our baseline scenario in a significantly negative direction. The proposed version not only loosens national rules to bring them into line with European ones, but also includes (in the form of amendments) an extension of so-called escape clauses to

² <https://www.psp.cz/sqw/tisky.sqw?O=10&T=90>

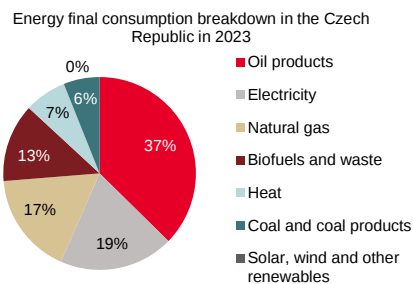
infrastructure investments³, which would no longer be subject to statutory limits. One of the proposed amendments could also lead to the fiscal rules ceasing to be active following a potential return of the budget proposal by the Chamber of Deputies.

The current energy crisis also poses a significant risk to public finances. Although spending on fuel — and thus VAT revenue — may rise in the short term as fuel prices increase, this is likely to be offset by reduced consumer spending on other items. At the same time, the negative supply shock is leading to a slowdown in economic activity, which generally weakens revenue. The reduction in the excise tax on diesel that has already been implemented has had an impact of roughly CZK1.0bn per month. In addition, there is also a risk of further compensation for increased prices for businesses and households in the event of a prolonged conflict (similar to the situation during the energy crisis that followed the outbreak of war in Ukraine). Furthermore, the higher inflation associated with the energy shock is likely to generate additional expenditure on the largest budget items, such as pensions and healthcare payments for state-insured individuals, whose adjustments are linked to inflation.

Box 3: Oil shock – the Czech economy is becoming more resilient

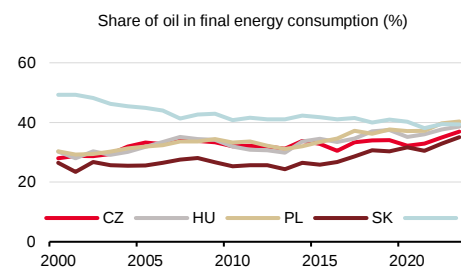
Oil prices are a significant external macroeconomic factor that can affect the functioning of a small open economy quickly and significantly. Unexpected fluctuations in oil prices typically feed through to production and transportation costs, and subsequently to inflation and the wider economy. Ultimately, these fluctuations can potentially impact monetary policy parameters. The impact of oil shocks can be amplified by the energy intensity of the economy or the structure of energy imports. In small open economies, such as the Czech economy, channels related to the exchange rate also play a significant role.

Oil represents the lion's share of final energy consumption



Source: IEA, Economic and Strategy Research, Komerční banka
Note: Total energy consumption in 2023 was 1,029 PJ.

The share of oil in Czech energy consumption is comparable to that of neighbouring countries



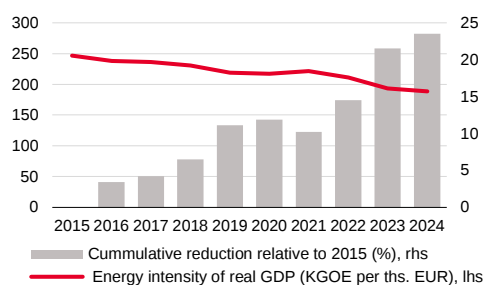
Source: IEA, Economic and Strategy Research, Komerční banka

Oil represents the lion's share of total final domestic energy consumption, at 37%. Over the past two decades, this share has risen slightly at the expense of coal, natural gas and heat. From an international perspective, oil's share in the Czech Republic's energy consumption is comparable to that of neighbouring countries. However, Czech assets are perceived as risky in relation to oil shocks, given the country's near-total dependence on oil imports.⁴

³ In 2026, planned investment transfers from the State Fund for Transport Infrastructure (SFDI) amount to CZK101.5bn, i.e., 1.1% of GDP.

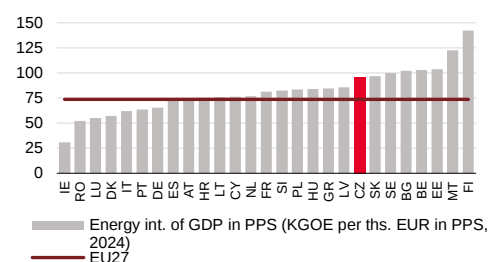
⁴ In accordance with Czech and EU legislation, the Material Reserves Administration maintains emergency reserves of oil and petroleum products equivalent to at least 90 days of average daily net imports in the reference year.

The energy intensity of the Czech economy is gradually declining, ...



Source: Eurostat, Economic and Strategy Research, Komerční banka
Note: KGOE = kilogrammes of oil equivalent;

... but remains above average within the EU



Source: Eurostat, Economic and Strategy Research, Komerční banka
Note: KGOE = kilogrammes of oil equivalent; PPS = purchasing power standard

The energy intensity of the Czech economy is declining. Over the past ten years (up to end-2024), it has fallen by more than a fifth cumulatively. This was likely driven by the declining share of industry in total gross value added, as well as further energy savings within the economy. **Therefore, we consider the empirical effects of rising oil prices presented below, estimated using longer time series, to be their upper bound.** However, if the conflict in the Middle East is not resolved soon, or if the Strait of Hormuz remains closed, there is a risk of not only higher oil prices spilling over into the economy ('a classic oil shock'), but also of broader disruptions to global supply chains, which this analysis does not take into account.

In a small open economy, rising oil prices primarily affect the economy through cost, demand, exchange rate and financial channels. Rising oil prices increase firms' production costs, leading to higher energy and transportation prices, which directly feed into consumer inflation. At the same time, the higher cost burden dampens investment activity and real household income, resulting in a slowdown in GDP growth. For an economy with significant energy import dependence, one would also typically expect exchange rate depreciation due to worsening terms of trade and investor sentiment. Financial markets usually respond to an oil shock by raising the risk premiums on bonds issued by emerging economies, especially net importers of energy commodities. For these countries, an oil shock may therefore also result in tighter financial conditions and higher financing costs.

Pressure on the domestic currency may be exacerbated by the central bank's limited response. In the event of a negative supply shock leading to higher prices and lower economic output, the central bank could be faced with an unpleasant dilemma. It could respond as it would to a positive demand shock, by raising interest rates. However, this would not only reduce inflation, but also exacerbate the negative impact on the real economy (including rising unemployment). The second option in the event of supply shocks is to apply an exemption from the inflation target. This implies that the central bank does not take supply shocks into account when setting monetary policy and temporarily tolerates the resulting deviation of inflation from the target. However, at the same time, the central bank runs the risk of unanchoring inflation expectations and undermining the credibility of the inflation target, particularly if supply shocks persist over a longer period.

Below, we present the impact of temporary and permanent oil shocks of various magnitudes.⁵ The responses are based on an empirical Bayesian VAR (BVAR) model, the structure of which is described in more detail in the Special report: https://bit.ly/Oil_shock_EN.

⁵ For alternative price shock magnitudes, the responses presented below can be rescaled by the appropriate multiplier.

A temporary shock is defined as an increase in the average oil price for one quarter, after which it returns to the initial level. A permanent shock is defined as a situation in which the oil price rises and remains at a higher level. In our view, these two scenarios should cover the majority of possible outcomes for a given shock magnitude. The true response is therefore likely to fall within this range.

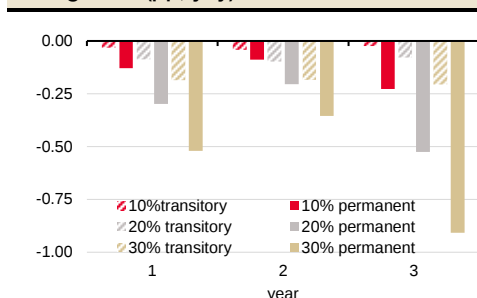
The impact on real GDP is less pronounced than the impact on inflation. Our estimate suggests that a temporary shock leading to a 10% increase in oil prices would typically have a negligible impact on the Czech GDP. However, a permanent rise in oil prices of the same magnitude, results in a reduction in annual GDP growth of 0.1–0.2pp in the following years, with a cumulative loss of approximately 0.6pp. This limited impact on economic activity is likely to be due to the weakening in the koruna, which has an expansionary effect on the economy, and the central bank's delayed and partial response to the oil shock. Consequently, the negative impact on GDP is also only observed after a delay.

Year-on-year inflation temporarily rises by up to 1pp following a permanent 10% increase in oil prices. In addition to the direct impact on fuel (which account for about 3% of the CPI basket) and transportation costs, a long-term shock also results in a general increase in costs across other categories. This spillover effect is significantly amplified by the weakening in the koruna (temporarily by more than 1.5%), which is characterised by strong persistence in the event of a permanent oil price shock. On a full-year basis, the CPI inflation rises by 0.6pp in the first year following a 10% permanent oil price shock, according to the model simulation.

The oil shock is also pushing up interest rates. Once again, the response to a permanent shock is more significant. According to our estimates, a permanent 10% increase in oil prices leads to a gradual rise in short-term interest rates of up to 40bp. There is likely to be a certain lag in the central bank's response, due not only to the delay in macroeconomic data, but also to the supply-side nature of the shock and uncertainty regarding its duration. According to the simulation, the yield on a 10y CZGB rises by a similar amount to the short-term interbank rate, but more rapidly. This is probably due to an increase in risk and term premiums on emerging market assets amid heightened uncertainty.

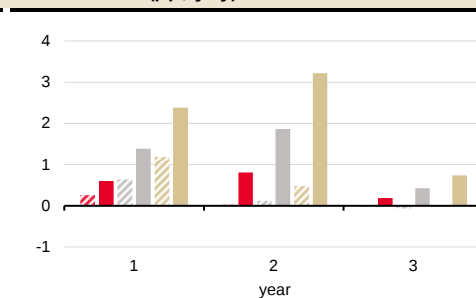
The impact of higher oil prices on the Czech economy

GDP growth (pp, yoy)



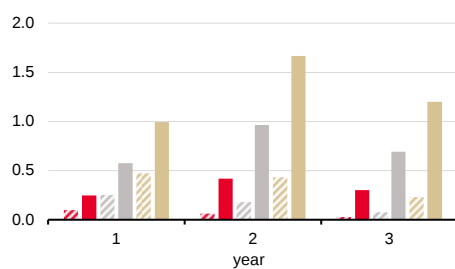
Source: Economic and Strategy Research, Komerční banka

CPI inflation (pp, yoy)



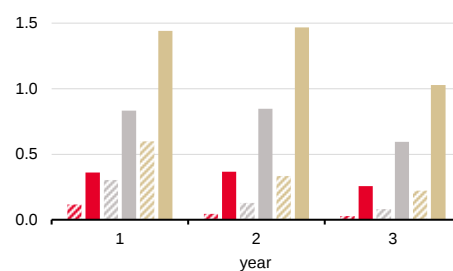
Source: Economic and Strategy Research, Komerční banka

3M PRIBOR (pp)



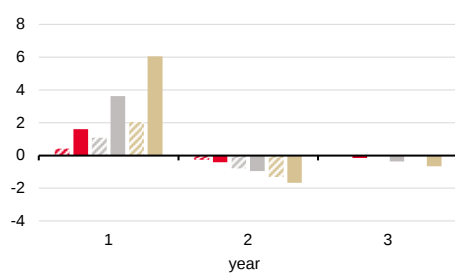
Source: Economic and Strategy Research, Komerční banka

10y CZGB yield (pp)



Source: Economic and Strategy Research, Komerční banka

EURCZK exchange rate (pp, yoy)



Source: Economic and Strategy Research, Komerční banka

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Summary forecast table

	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27	Q2 27	2025	2026	2027	2028	2029	2030
GDP and its breakdown														
GDP (real, yoy, %)	2.8	2.7	2.4	2.5	2.2	2.2	2.6	2.8	2.6	2.3	2.8	2.5	2.2	2.3
Household consumption (real, yoy, %)	2.9	3.2	4.0	3.5	3.9	3.4	3.1	3.0	3.0	3.7	3.0	2.6	2.4	2.3
Government consumption (real, yoy, %)	2.4	1.8	1.9	0.9	1.1	1.9	2.7	2.6	2.1	1.5	2.3	2.2	2.0	1.8
Fixed investment (real, yoy, %)	2.9	6.7	6.1	4.8	4.5	2.5	2.3	2.7	2.6	4.4	2.5	2.6	2.6	2.4
Net exports (contribution to yoy)	-0.1	0.1	-0.6	0.4	-0.6	-0.7	-0.1	-0.1	-0.4	-0.4	0.2	0.3	0.3	0.1
Inventories (contribution to yoy)	0.3	-1.1	-0.9	-1.0	-0.6	0.2	0.1	0.2	0.5	-0.6	0.1	0.1	0.0	0.0
Monthly data from the real economy														
Foreign trade (CZKbn)	27.1	50.4	39.8	26.4	-35.4	-4.8	67.1	33.3	209.8	26.1	118.5	163.5	198.3	215.5
Exports (nominal, yoy, %)	1.3	0.0	1.7	1.3	8.8	6.9	6.8	12.0	2.7	4.6	7.9	6.0	5.3	5.4
Imports (nominal, yoy, %)	1.3	-0.9	5.0	3.9	14.6	12.1	4.7	11.7	3.0	8.8	6.0	5.3	4.9	5.3
Industrial production (real, yoy, %)	1.2	4.3	1.9	1.7	2.9	1.5	2.8	3.1	2.1	2.0	3.3	2.7	2.3	2.5
Construction output (real, yoy, %)	14.4	7.0	0.0	2.4	-0.7	3.6	2.4	6.1	10.7	1.3	3.8	3.1	2.0	2.0
Retail sales (real, yoy, %)	2.9	3.0	4.1	3.2	3.5	3.2	2.6	2.7	3.3	3.5	2.9	2.7	2.3	2.2
Labour market														
Wages (nominal, yoy, %)	7.1	7.4	6.4	6.3	6.7	6.4	6.6	6.1	7.2	6.4	6.0	5.0	4.6	4.4
Wages (real, yoy, %)	4.5	5.2	4.7	4.0	4.2	3.8	3.2	3.2	4.6	4.1	3.2	3.0	2.5	2.3
Unemployment rate (MLSA, %)	4.5	4.7	5.1	4.7	4.7	4.6	4.9	4.4	4.4	4.8	4.5	4.4	4.5	4.6
Unemployment rate (ILO 15+, %)	2.9	2.9	3.2	3.1	3.2	3.1	3.2	2.9	2.8	3.2	3.0	2.8	3.0	3.1
Employment (ILO 15+, yoy, %)	1.4	1.4	0.5	0.6	0.3	0.4	0.3	0.5	1.2	0.4	0.5	0.5	0.3	0.1
Consumer and producer prices														
CPI Inflation (yoy, %)	2.5	2.2	1.6	2.2	2.4	2.7	3.3	2.8	2.5	2.2	2.7	1.9	2.0	2.0
Taxes (contribution to yoy inflation)	0.2	0.2	-0.3	-0.4	-0.3	-0.3	0.1	0.1	0.2	-0.3	0.1	0.0	0.0	0.0
Core inflation (yoy, %) (*)	2.8	2.7	2.8	2.8	2.9	2.9	2.9	2.7	2.7	2.8	2.7	2.3	2.1	2.0
Food prices (yoy, %) (*)	3.2	2.3	1.0	0.8	1.4	2.0	3.2	3.2	3.4	1.3	2.8	1.7	2.0	2.1
Fuel prices (yoy, %) (*)	-6.8	-3.6	-1.6	21.3	16.8	13.2	8.1	-7.8	-6.7	12.4	-2.2	-1.7	0.0	1.0
Regulated prices (yoy, %)	1.1	0.4	-1.3	-1.3	-0.8	0.4	3.6	3.5	0.9	-0.7	3.2	1.8	2.1	2.0
Producer prices (yoy, %)	-0.9	-1.5	-2.3	0.7	1.7	1.9	5.0	3.2	-0.8	0.5	3.3	1.6	1.7	1.8
Financial variables														
2W Repo (% , average)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.6	3.5	3.5	3.2	3.0	3.0
3M PRIBOR (% , average)	3.5	3.5	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.5	3.6	3.3	3.1	3.1
EUR/CZK (average)	24.5	24.3	24.3	24.5	24.5	24.4	24.4	24.3	24.7	24.4	24.2	23.9	23.7	23.7
External environment														
GDP in EMU (real, yoy, %)	1.4	1.2	0.9	0.9	0.9	1.1	1.1	1.3	1.5	0.9	1.3	1.3	1.2	1.1
GDP in Germany (real, yoy, %)	0.3	0.4	0.2	0.7	1.0	1.1	1.3	1.3	0.4	0.7	1.3	1.1	1.0	1.0
CPI in EMU (yoy, %)	2.1	2.1	2.1	3.4	3.4	3.4	3.4	2.4	2.1	3.1	2.6	2.5	2.3	2.0
Brent oil price (USD/bbl, average)	69.5	64.3	71.6	85.0	80.0	75.0	73.8	72.5	69.0	77.9	71.9	70.0	68.8	68.9
EUR/USD (quarter eop, year average)	1.17	1.16	1.17	1.15	1.14	1.13	1.12	1.13	1.13	1.15	1.14	1.15	1.15	1.15

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

The Czech IRS market and government bonds



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Rates to remain elevated

The short end of the market interest rate curve may be pushed down slightly by the stability of CNB rates amid the assumed gradual de-escalation of the conflict in the Middle East. However, we expect the longer end of the curve to remain at elevated levels due to accelerating headline inflation and the effects of fiscal easing both domestically and abroad. The spread between government bond yields and market rates may widen again as CZGBs issuance picks up in the second half of the year. Overall, we do not expect koruna market interest rates or bond yields to return to pre-war levels. Moreover, the risks to our baseline scenario are skewed toward a further increase in koruna funding costs.

Koruna market interest rates are riding the wave of global trends

Market interest rates increased sharply following the outbreak of conflict in the Middle East. This was linked to rising inflation expectations, caused by higher energy prices and supply chain disruption. However, the relaxation of fiscal policy in Germany is also likely contributing to the increase in long-term interest rates in the eurozone. Even if the conflict ends quickly, it is relatively unlikely that rates will return to pre-war levels, given the damaged production capacity in the Persian Gulf and the already observed impacts on inflation.

The CNB's unchanged monetary policy should push shorter-term koruna market interest rates slightly lower, while we expect the longer end of the curve to remain elevated.

Shorter-term koruna market rates could decline slightly once expectations of monetary tightening by the CNB ease. In our base-case scenario, we expect CNB rates to remain stable this year. We see inflation remaining elevated and above the central bank's target this year and next. However, in our view—given the temporary and supply-side nature of the shock and the tightening of credit conditions through higher market interest rates with longer maturities—the central bank will leave monetary policy rates at their current level, i.e. in slightly restrictive territory. By contrast, the koruna money market is currently pricing in more than two 25bp interest rate hikes this year.

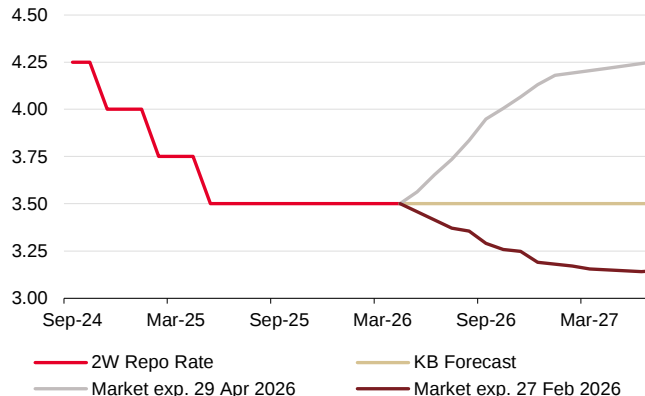
In our view, the long end of the koruna IRS curve should remain at elevated levels over the next year. We see this being driven by the acceleration in observed inflation, as well as by fiscal easing both domestically and abroad. Overall, our outlook for koruna interest rates has been revised upwards compared with our previous forecast, mainly due to increased uncertainty and a reassessment of the inflation outlook.

IRS forecast (%)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Expected CNB key interest rate path (%)



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

In our baseline scenario, the risk is skewed towards a further rise in koruna market interest rates. As described in Box 3, a prolonged oil shock would put significant upward pressure on interest rates across all maturities. A similar risk exists at the longer end of the curve in connection with domestic fiscal policy, which is described in more detail in the *Fiscal*

Policy chapter. In an adverse scenario, the draft state budget for 2027 could be subject to significantly more relaxed national budget rules.

CZK IRS outlook (end of period, %)

	2Q26f	3Q26f	4Q26f	1Q27f
2y	3.90	3.75	3.80	3.85
5y	4.15	4.05	4.05	4.10
10y	4.35	4.30	4.30	4.35

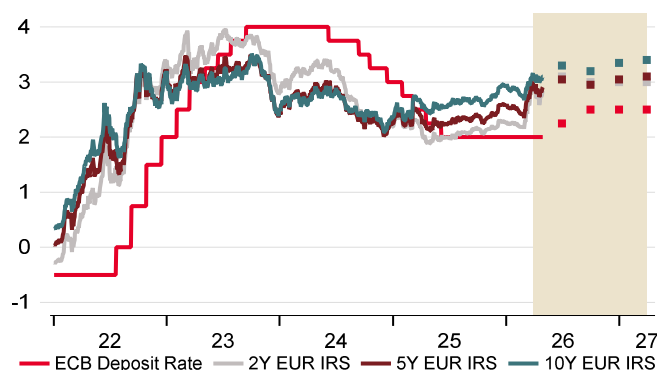
Source: Economic & Strategy Research, Komerční banka

Interest rate hedging conditions are deteriorating. Opportunities for hedging in the short term could mainly arise from declines linked to potential news of a de-escalation of the conflict, as well as, at the shorter end of the curve, the CNB's reluctance to raise monetary policy rates. This is driven by the significant risks of further increases in market interest rates (international developments, domestic fiscal policy, the risk of a protracted war in the Persian Gulf with pro-inflationary effects). The forward market offers higher rates across the entire curve compared to spot CZK IRS. Interest rates in the eurozone remain markedly lower than in the Czech Republic, with the interest rate differential having widened compared to the end of February.

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

	Maturity				
	1Y	2Y	3Y	5Y	10Y
Spot	3.98	4.20	4.30	4.39	4.53
Forward					
3M	4.07	4.30	4.33	4.39	4.53
6M	4.25	4.42	4.40	4.44	4.56
9M	4.36	4.44	4.43	4.46	4.58
1Y	4.46	4.46	4.46	4.49	4.60
2Y	4.45	4.46	4.47	4.53	4.64
3Y	4.47	4.48	4.51	4.57	4.69

Euro area rates (%)



Source: Bloomberg, Economic & Strategy Research, Komerční banka, as of 29 April 2026

Source: Bloomberg, Economic & Strategy Research, Komerční banka

Net CZGB issuance to rise this year

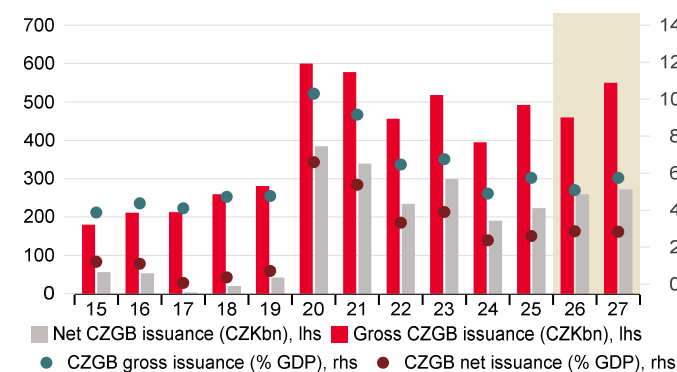
We expect the cash deficit in the state budget to approach the approved figure of CZK310bn this year. Taking into account other financing needs, particularly the redemption of maturing bonds and treasury bills, we estimate that the gross issuance of CZGBs will probably be at the upper end of the target range set by the Ministry of Finance (MinFin). This assumes the issuance of CZGBs totalling CZK400–500bn. Compared to last year, our estimate suggests an increase of issuance of around a fifth in net terms. In addition to CZK bond issuances, the total financing need will be significantly covered by other instruments. Alongside the assumption of continued growth in T-bill supply, we also anticipate drawing extra-budgetary loans from the EIB, issuing euro-denominated bonds and resuming savings retail bonds for citizens. **Next year, CZGB's gross issuance is expected to increase compared to this year, primarily due to a larger refinancing volume.** In net terms, we believe issuance activity will remain comparable to this year. However, an important assumption in our baseline scenario is that the public finance deficit in 2027 will remain below 3% of GDP, while the risks are skewed towards a deeper deficit.

Funding programme and issuance activity (CZKbn)

	2026		2027	
	MinFin	KB	MinFin	KB
State budget deficit	310.0	310.0	??	320.0
Transfers and other operations of state financial assets		0.0		0.0
T-bonds denominated in local currency redemptions	200.3	200.3	278.0	278.0
T-bonds denominated in foreign currency redemptions	0.0	0.0	36.0	36.0
Redemptions and early redemptions on savings bonds	19.7	19.7	13.2	13.2
Money market instrument redemptions	177.3	177.3	165.0	165.0
Redemption of T-bills	165.6	165.6	165.0	165.0
Redemption of other money market instruments	11.7	11.7	0.0	0.0
Repayments on credits and loans	26.3	26.3	0.9	0.9
Total financing needs	733.6	733.6	??	813.1
Money market instruments		165.0		165.0
T-bills		165.0		165.0
Other money market instruments		0.0		0.0
Gross issuance of CZK T-bonds on domestic market		459.8		549.6
Gross issuance of EUR T-bonds on domestic market/eurobond		48.8		48.5
Gross issuance of government savings bonds		10.0		10.0
Received credits and loans		40.0		30.0
Financial asset and liquidity management		10.0		10.0
Total financing sources		733.6		813.1
Gross borrowing requirement		723.6		803.1
Net CZGB issuance		259.5		271.6

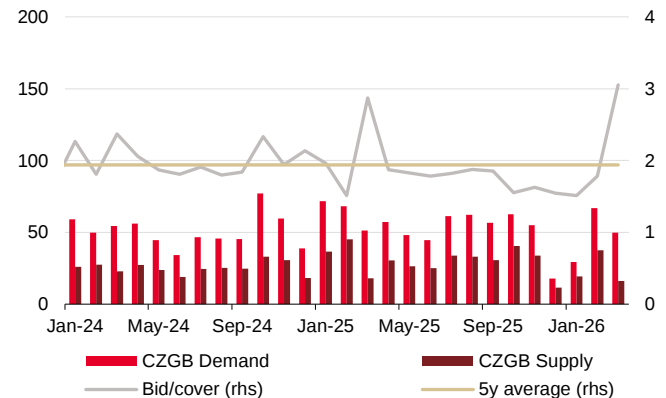
Source: MinFin, Economic & Strategy Research, Komerční banka

CZGB issuance



Source: MinFin, Economic & Strategy Research, Komerční banka

CZGB primary market (CZKbn)



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

CZGB yields are unlikely to fall

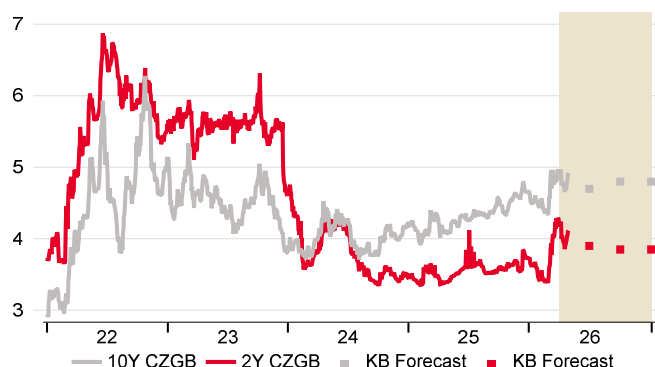
After the outbreak of the Middle East conflict, the spread between government bond yields and market interest rates narrowed. The MinFin's reduced issuance activity likely also contributed to this. As issuance increases over the remainder of this year, we expect the spread to widen again, causing a relative cheapening of bonds to CZK IRS. A key downside risk beyond the baseline scenario is an even greater deterioration in the budget deficit in next year's draft budget if the new fiscal rules are approved in a more relaxed form than the current EU regulations. This could result in the deficit exceeding the assumed 3% of GDP.

CZGB yield forecast (end of period)

	2Q26f	3Q26f	4Q26f	1Q27f
2y CZGB yield (%)	3.90	3.85	3.85	3.90
5y CZGB yield (%)	4.20	4.25	4.25	4.25
10y CZGB yield (%)	4.70	4.80	4.80	4.80
10y CZGB ASW (bp)	35	50	50	45

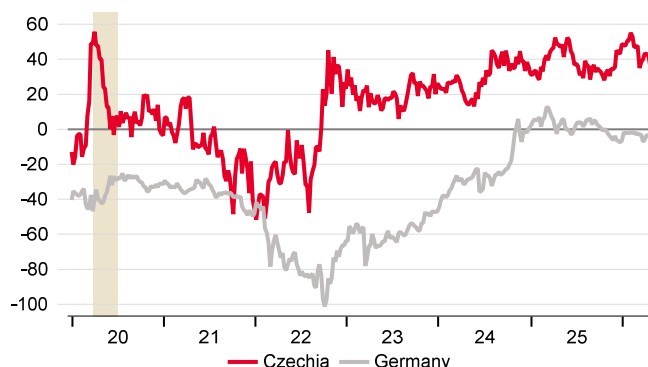
Source: Economic & Strategy Research, Komerční banka

CZGB yield forecast (%)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

10y bond ASW (bp)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Note: ASW= 10y CZGB yield - 10y CZK IRS; shading indicates recessionary period in Czechia

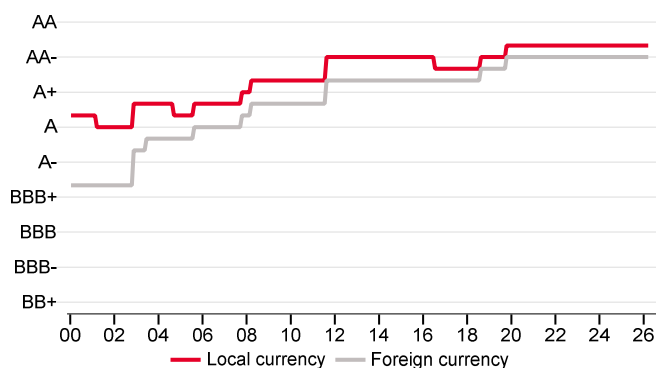
The Czech Republic's credit rating remains unchanged (Aa3/AA-) with a stable outlook, although the risk of a downgrade persists. The Czech Republic continues to boast the highest credit rating among all Central and Eastern European countries. However, Fitch and Moody's have made the current rating contingent on further consolidation—or at least a stabilization—of the country's public finances. At the same time, the agencies noted that an important long-term challenge is the aging population and the associated pressure on public finances. In our baseline scenario, we expect a relaxation of domestic fiscal policy rules and compliance with EU budget rules. However, as we describe in more detail in the *Fiscal Policy* chapter, there is also a risk that national rules could be relaxed to the extent that the deficit might no longer fit within the pan-European limits. Overall, we therefore continue to see a risk of the rating outlook deteriorating from stable to negative.

Czech Republic sovereign rating overview

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

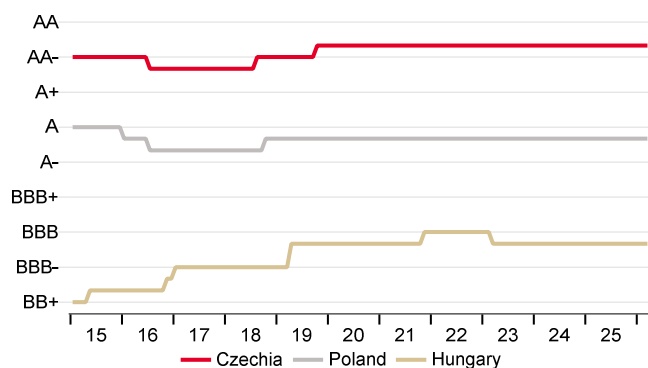
Source: Bloomberg, Economic & Strategy Research, Komerční banka

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



Source: Bloomberg, Economic & Strategy Research, Komerční banka

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



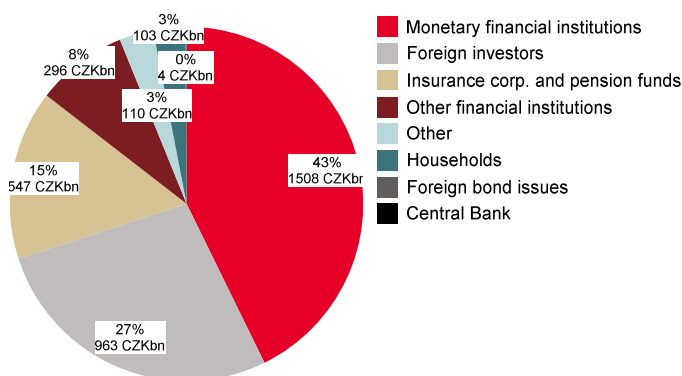
Source: Bloomberg, Economic & Strategy Research, Komerční banka

Government bond overview

Government bond overview										Rich-cheap analysis														
Bond	Dur.	Issued last 90D	Issuance limit	Yield	Δ1W	Δ1M	FX hedged	ASW	Δ1W	Δ1M	Min	90D			Max	Z-Score	Rank	Spline spread	Rank	Carry Roll 90D	Rank			
0.25 Feb-27	0.8	0.0	110%	3.67	11	-25	2.75	-24	1	-13	-28			-2	-2.3	20	6.1	24	4.6	24				
2.50 Aug-28	2.1	0.0	94%	4.08	17	-16	2.88	-23	-7	-10	-27			4	-2.3	18	-4.3	6	9.3	3				
5.50 Dec-28	2.4	0.0	90%	4.14	20	-15	2.94	-19	-8	-10	-21			2	-1.8	9	-5.7	4	9.7	1				
5.75 Mar-29	2.6	5.6	133%	4.18	22	-14	2.96	-17	-7	-11	-19			5	-2.0	14	-4.7	5	9.4	2				
2.75 Jul-29	2.9	0.0	100%	4.25	24	-13	2.98	-14	-3	-9	-13			8	-2.0	13	-6.0	3	9.2	4				
0.05 Nov-29	3.4	0.0	61%	4.29	23	-10	2.99	-15	-2	-6	-12			8	-2.6	22	-4.2	7	8.5	5				
0.95 May-30	3.8	0.0	100%	4.32	24	-11	3.01	-13	-1	-7	-12			12	-2.3	19	-1.2	14	8.0	6				
5.00 Sep-30	3.8	0.0	121%	4.32	22	-15	3.05	-11	-5	-13	-12			15	-2.3	17	4.5	23	7.8	7				
3.95 Oct-30	3.9	0.0	10%	4.17	20	-14	2.90	-26	-3	-11	-26			5	-2.2	16	19.2	26	6.7	12				
1.20 Mar-31	4.5	0.0	100%	4.40	23	-12	3.08	-9	-1	-9	-6			16	-2.9	25	2.3	21	7.3	9				
6.20 Jun-31	4.2	0.0	103%	4.41	24	-13	3.14	-3	-1	-11	-5			22	-2.0	11	4.5	22	7.5	8				
1.75 Jun-32	5.5	5.1	107%	4.55	25	-11	3.21	1	-1	-8	4			23	-3.0	26	1.9	19	6.7	13				
4.50 Nov-32	5.4	0.0	130%	4.63	28	-8	3.35	12	0	-6	9			33	-1.6	5	-2.1	12	7.0	10				
3.00 Mar-33	5.9	9.2	88%	4.71	27	-6	3.38	15	1	-5	15			34	-2.0	12	-6.9	1	6.8	11				
2.00 Oct-33	6.5	0.0	100%	4.76	25	-5	3.40	14	0	-4	16			34	-2.6	23	-6.1	2	6.3	14				
4.90 Apr-34	6.4	0.0	115%	4.78	26	-3	3.51	23	1	-2	16			41	-1.4	3	-3.9	9	6.3	15				
4.25 Oct-34	6.8	12.1	100%	4.82	25	-2	3.54	24	1	-2	22			43	-1.5	4	-4.1	8	6.1	16				
3.50 May-35	7.5	0.0	117%	4.82	26	-1	3.52	19	1	-2	18			38	-1.7	7	-0.1	17	5.5	18				
5.30 Sep-35	7.1	4.4	61%	4.87	28	1	3.63	28	3	-1	24			46	-1.1	2	-2.3	11	5.8	17				
4.55 Oct-35	7.3	0.0	10%	4.68	25	-5	3.44	9	0	-6	7			37	-1.8	8	16.0	25	5.1	21				
3.60 Jun-36	7.9	17.0	117%	4.89	24	-3	3.61	23	0	-4	24			44	-2.0	15	-0.5	16	5.2	19				
4.20 Dec-36	8.1	0.0	100%	4.89	23	-2	3.65	24	0	-2	23			44	-1.8	10	2.3	20	4.9	22				
4.95 Feb-37 *	8.2	7.9	18%	4.94	22	2	3.74	32	0	0	26			44	-0.6	1	-1.9	13	5.2	20				
1.95 Jul-37	9.3	0.0	71%	4.96	22	-1	3.62	20	0	-1	21			42	-2.5	21	-0.9	15	4.6	23				
1.50 Apr-40	11.7	0.0	65%	5.09	19	3	3.70	20	-3	2	20			42	-2.7	24	-2.5	10	3.9	26				
4.00 Apr-44	12.0	1.8	29%	5.22	17	3	3.92	35	-7	-1	31			65	-1.7	6	0.7	18	4.3	25				

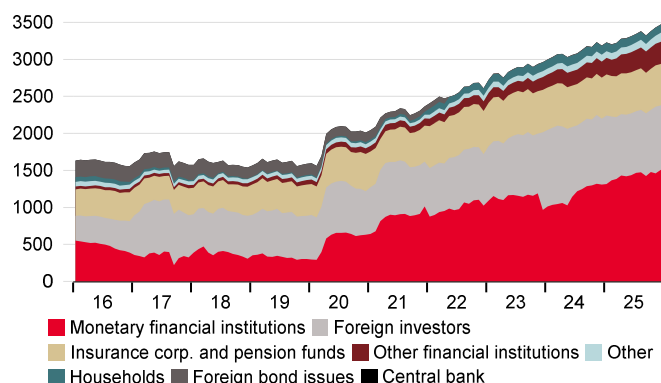
Source: Economic & Strategy Research, Komerční banka; Note: more details in CZGB Auction Alerts

Holdings of CZK government debt (February 2026)



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

Holdings of CZK government debt (CZKbn)



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

Czech FX market



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The koruna holds firm, for now

So far, the Czech koruna has reacted relatively mildly to the sharp rise in energy prices. However, we believe the downward pressure on the currency could return. This could be fuelled by increased uncertainty, a deterioration in the external balance of the Czech economy, or a narrowing of the interest rate differential amid the ECB's monetary policy tightening and stability of the CNB rates. Following an initial weakening, we expect the exchange rate to stabilise at around EURCZK 24.50 for the remainder of the year. A depreciation of the koruna against the euro on the spot market could also lead to improved conditions for hedging the domestic currency against appreciation.

The oil shock has not yet had a significant impact on the koruna

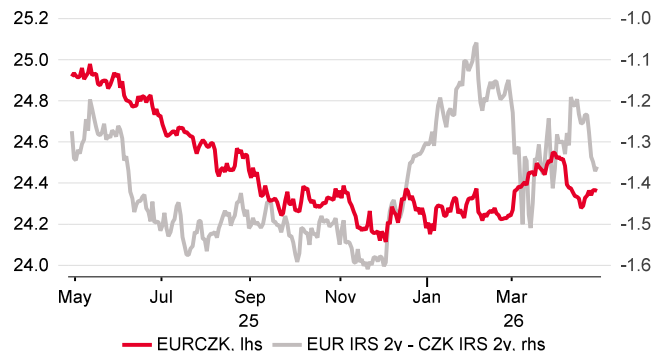
The Czech koruna has only reacted slightly to the heightened risk associated with the conflict in the Middle East. Its temporary weakening against the euro by around 1%, to a level of EURCZK 24.50, has already partially reversed amid growing hopes for de-escalation. However, as the analysis in Box 3 shows, oil shocks have historically been associated with significant, albeit temporary, weakening of the koruna. While the milder current reaction can be partly explained by the domestic economy's gradually declining energy intensity, we believe that the external environment will overall remain a negative factor for the koruna. This is also underscored by the expected strengthening of the US dollar, which SG forecasts will appreciate against the euro to EURUSD 1.12 over the next year, mainly due to continued robust US economic growth. The US dollar's recent weakening should therefore be only temporary.

CZK exchange rates



Source: Bloomberg, Economic & Strategy Research, Komerční banka

EURCZK and interest rate differential



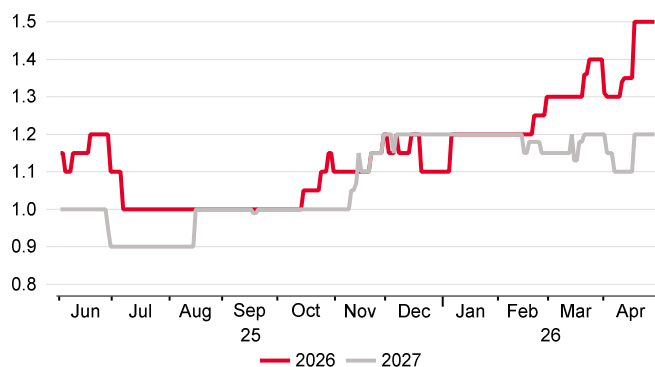
Source: Bloomberg, Economic & Strategy Research, Komerční banka

The interest rate differential will not provide much support for the koruna. The spread between koruna and euro market interest rates has narrowed again as markets are increasingly betting on a tightening of the ECB's monetary policy, much like at the turn of the year, when they expected the CNB to cut rates. Furthermore, we expect the CNB to leave rates unchanged, which should contribute to a further narrowing of the differential, while the koruna money market is pricing in more than two 25bp hikes in the key repo rate this year.

The Czech Republic's growth differential over the eurozone is expected to remain significantly positive. According to the median estimate, Czech GDP is expected to grow at a rate more than 1pp faster than that of the eurozone this year and next. However, we believe

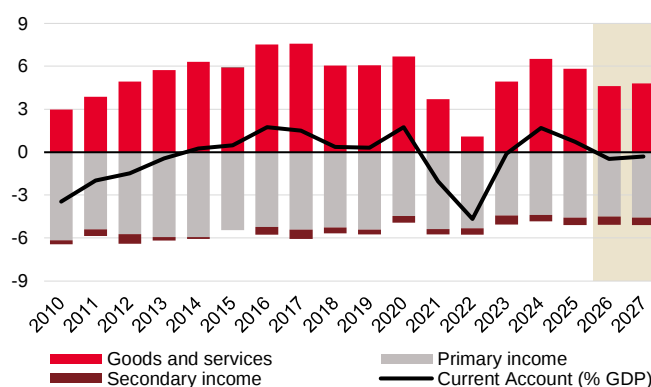
that the structure of growth in the domestic economy will not be particularly favourable in terms of the external balance. We expect domestic demand, aided by loose fiscal policy, to be the main driver of growth. We anticipate that the negative impact of rising energy prices on the terms of trade will result in a noticeable deterioration in the trade balance and the current account, preventing the koruna from appreciating significantly.

Expected GDP growth differential between the Czech Republic and the eurozone – Bloomberg consensus (pp)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Current account balance (% of GDP)

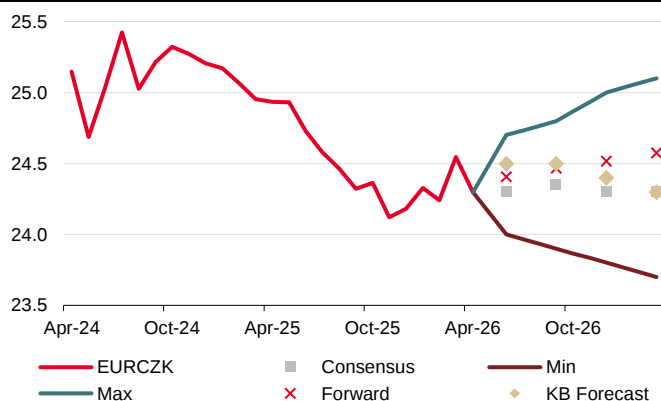


Source: CNB, CZSO, Macrobond, Economic & Strategy Research, Komerční banka

We have revised our outlook with a weaker CZK vs EUR compared to our January forecast, primarily due to the conflict in the Middle East and its effects.

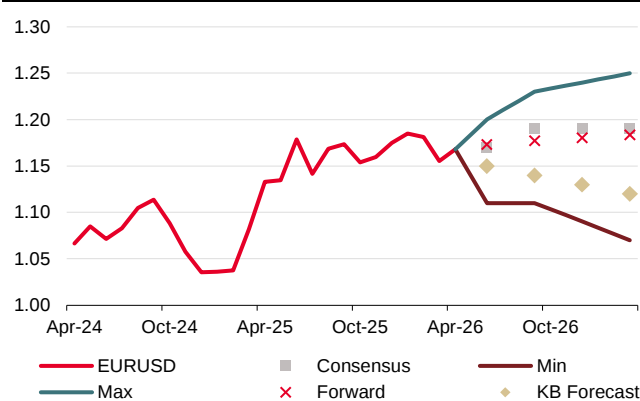
Overall, we expect the koruna to come under depreciation pressure in the short term. At the end of the second and third quarters of this year, we anticipate that it will trade at around EURCZK 24.50. However, with the conflict in the Middle East gradually de-escalating, energy commodity prices declining, and the domestic economy continuing to grow solidly, it could subsequently strengthen slightly. However, given the simultaneous strengthening of the US dollar, the koruna's appreciation is likely to be only gradual. Over the one-year horizon, we forecast an exchange rate of EURCZK 24.30.

Expected EURCZK path, Bloomberg consensus (as of 29 April 2026)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Expected EURUSD path, Bloomberg consensus (as of 29 April 2026)



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

Koruna exchange rate forecast (end of period)

	2Q26f	3Q26f	4Q26f	1Q27f
EURCZK	24.50	24.50	24.40	24.30
USDCZK	21.30	21.50	21.60	21.70
EURUSD	1.15	1.14	1.13	1.12

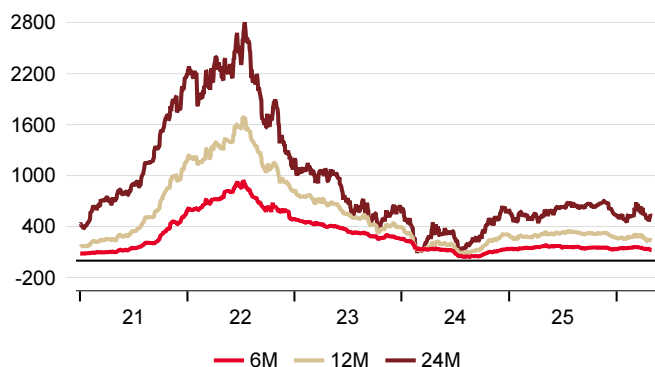
Source: Economic & Strategy Research, Komerční banka, SG Cross Asset Research

Increased uncertainty is persisting for now

The risks are two-sided relative to our baseline scenario. They are mainly related to the duration and impact of higher energy prices on the Czech economy and the EU. Given the

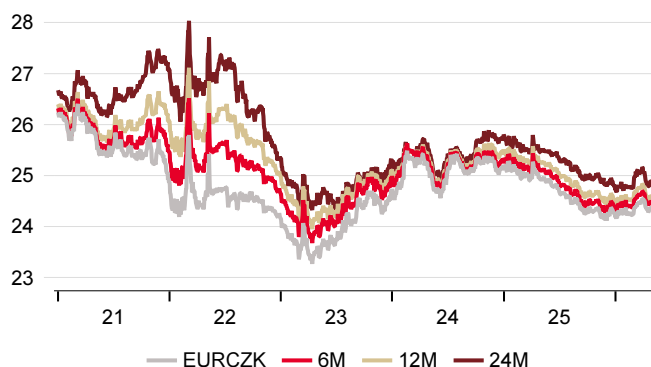
koruna's very mild reaction so far, we believe the risk is skewed toward a weaker domestic currency, also due to the Czech economy's still relatively high energy intensity. In the event of a prolonged oil shock, this could be partially offset by the interest rate differential. Spillover into other non-energy components of the consumer basket could, in fact, lead to a tightening of the CNB's monetary policy, which goes against our assumption of interest rate stability. How the war in Ukraine progresses, and the impacts of US tariff policy also remain sources of general uncertainty, with potential implications for the market perception of all Central European currencies.

Forward points



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Forward vs spot exchange rate: EURCZK



Source: Bloomberg, Economic & Strategy Research, Komerční banka

The markets do not indicate any significant fluctuations in the koruna exchange rate in the coming months. Implied volatility and the volatility index are at their lowest levels since the start of the war in the Middle East. In our baseline scenario, hedging conditions for exporters with euro exposure could improve slightly again as the spot exchange rate weakens.

Banking sector



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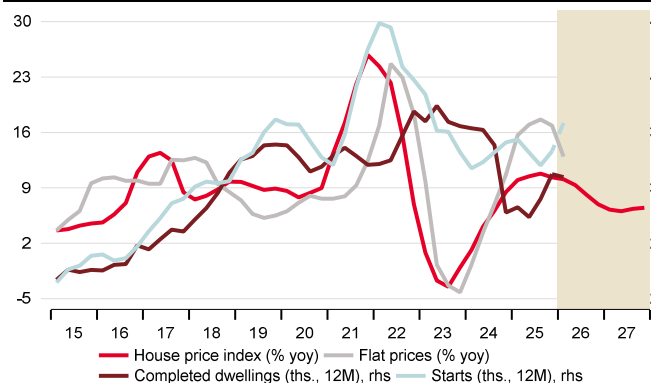
Credit impulse to bolster the economy despite geopolitics

Credit activity in the Czech economy looks set to remain strong in the coming quarters, despite higher interest rates and prevailing geopolitical headwinds. Growth in household credit should continue to be supported by housing and consumer financing, although momentum in the mortgage market is likely to slow gradually, owing to higher mortgage rates and worsening housing affordability. We expect house price growth to remain elevated and to continue to outpace wage growth, despite some moderation. In the corporate sector, we think the rebound in credit activity will continue, driven by renewed investment appetite, fiscal stimulus and growth in aggregate demand. Low default rates on loans continue to provide room for credit expansion, while continuing robust deposit growth supports the capacity to finance the economy. Nonetheless, the sizeable deposit overhang relative to loans should persist.

The housing and mortgage markets should continue to expand, despite a slowdown this year due to higher interest rates.

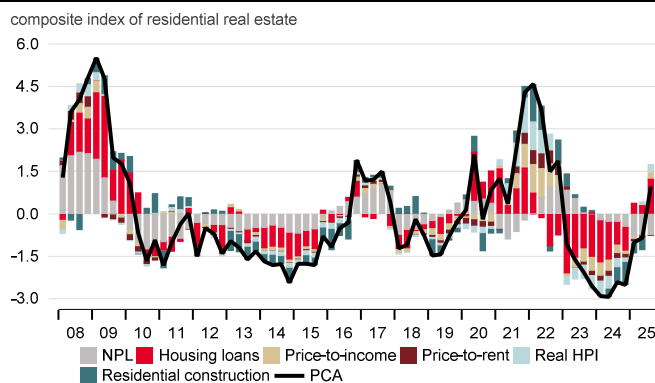
Growth in the housing and mortgage markets shows little signs of petering out. Although house price growth is showing signs of deceleration, it remains elevated and continues to outpace growth in household incomes. After the House Price Index (HPI) slowed to a 10.3% yoy increase in 4Q25, we expect further deceleration this year owing to weaker cyclical pressures and higher interest rates. On a qoq basis, house prices rose by 2.4% in 4Q25, only marginally slower than the 2.5% recorded in 3Q. We expect a more pronounced slowdown to materialise this year. Following last year's growth of 10.4% on average, we expect the HPI to increase by 8.6% in 2026. Asking prices for flats also point to deceleration, with yoy growth easing from 16.9% in 4Q25 to 13% in 1Q26, while qoq growth slowed by 0.5pp to 2.3%. Transaction data from *Flat Zone* nevertheless continue to show a persistently high growth rate for Prague new-build flats, which stood at 11.3% yoy at the end of last year – unchanged from 3Q25. We expect house price growth to moderate further in the coming years. However, it is still likely to outpace wage growth due to the persistent structural imbalance on the housing market. Moreover, we see upside risks for this year and next, stemming from rising construction material costs, potential strengthening of investment demand despite CNB recommendations on investment mortgages, and possible government stimulus related to housing. Price dynamics are likely to continue to differ across regions due to demographic factors, with price increases mainly concentrated in metropolitan areas, where affordability is already strained.

Despite moderating, house-price growth is set to remain elevated



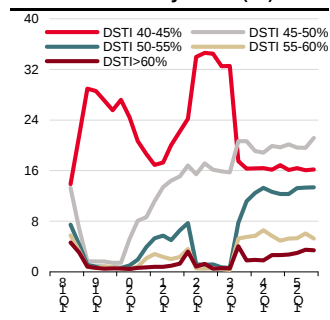
Source: CZSO, Macrobond. Economic & Strategy Research, Komerční banka
Note: data on dwelling completions and starts (as of February 2026) is extrapolated and only indicative for 1Q26. 12M denotes the 12-month trailing sum.

Housing market expansion amid low default rates



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). Constructed 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.

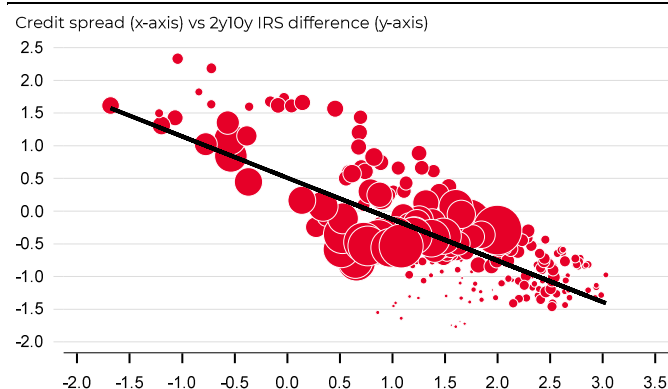
Share of loans by DSTI (%)



Source: CNB, Economic & Strategy Research, Komerční banka

Mortgage-market growth is likely to strengthen this year. However, compared with last year's 50% increase in the volume of (pure) new housing loans, we expect growth this year to slow. While volumes rose by 48% ytd as of February, this reflected frontloading ahead of the CNB's recommendation on investment mortgages. Moreover, the elevated March volume – indicated by the CBA data – also reflects efforts to avoid higher rates stemming from the impact of the war in Iran. Growth in the stock of loans in 1Q26 does not fully capture new loans, which enter the stock with a lag. Despite the cooling of the mortgage market due to higher rates, growth in housing loans should remain strong and slow more visibly only in 2H26, in our view. Following a rise of 8.3% in 2025, we expect growth to accelerate to 8.7% in 2026.⁶ While we expect the pace to moderate gradually, it is still likely to remain elevated in subsequent years due to house price growth. Worsening housing affordability will become an increasingly binding constraint for the mortgage market.

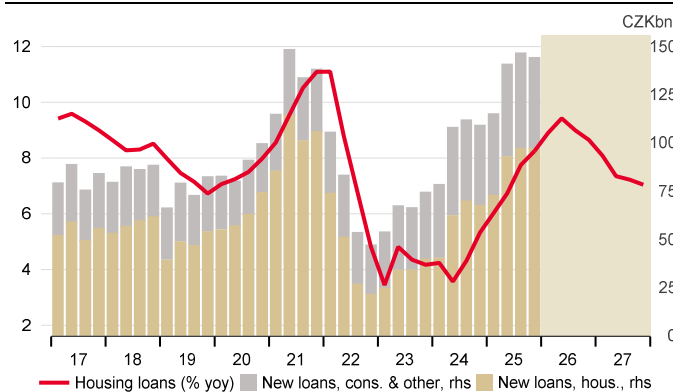
Mortgage credit spreads over IRS and IRS curve inversion (pp)



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

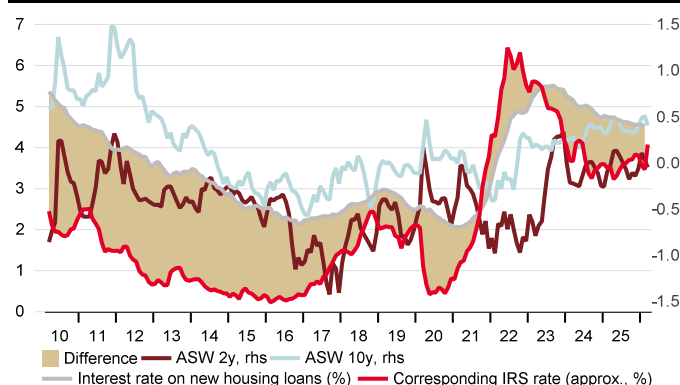
The rise in market interest rates (IRS) due to the war in Iran is pushing mortgage rates close to 5%. Even with a gradual decline in IRS if the situation in the Middle East stabilises, a quick return to mortgage rates below 4.5% appears unlikely. Higher mortgage rates complicate this year's elevated volume of mortgage refinancing, which accounted for around 20% of new loans in 1Q26. The impact on household disposable income is partly offset by the strong wage growth seen in recent years. Risks to the mortgage market therefore remain limited, as also highlighted by the [CNB's recent blog](#) (only in Czech) on mortgage refinancing.

Growth in outstanding housing loans should gradually slow



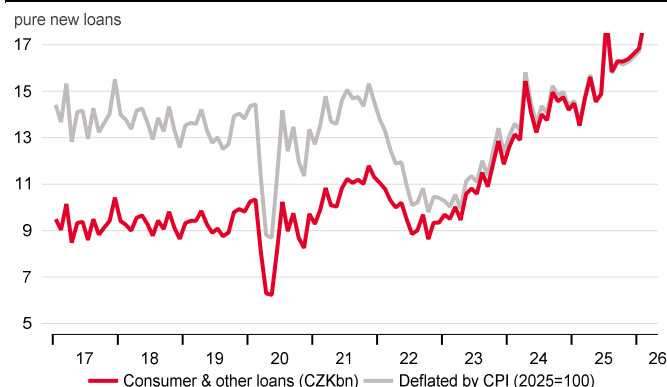
Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka

Mortgage rate spreads over IRS (% , pp)



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

Consumer financing has continued its upward trend



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

⁶ Unless stated otherwise, values refer to the end-of-period yoy growth.

Note: ASW (CZGB-IRS) of corresponding CZGBs.

Note: Pure new loans are loans or extensions to loans that enter the economy for the first time.

We expect the credit impulse from household loans to continue supporting growth in household consumption.

Consumer finance is growing strongly and the household debt ratio is rising

The credit impulse of household lending is benefiting from the housing market expansion and renewed consumer confidence and continues to signal solid growth in consumer spending. New consumer loans averaged 0.2% of GDP in January and February, around one standard deviation above the long-term average. Their nominal volume increased by 25% ytd, while the [CNB's Bank Lending Survey](#) indicates a strong rise in consumer lending in 2Q. In the short term, higher interest rates and weaker consumer sentiment could constrain lending. On our estimates, consumer credit-to-GDP rose to 4.7% of GDP in 1Q26 (+0.3pp yoy), and we expect it to rise further to 4.8% of GDP by year-end. Following consumer loans growth of 10.8% in 2025, we expect a deceleration to a still-strong 10.2% in 2026 and further to 8.8% in 2027. We have revised up our growth forecasts for consumer and mortgage lending for both this year and next, to reflect higher inflation and faster house price growth. In the coming years, consumer finance growth is likely to slow further, but its level relative to GDP should continue to rise alongside increasing household debt. In 4Q25, this stood at 53.8% of gross disposable income, remaining well below the 2022 peak.

Bank loans and deposits (% , yoy)

	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	2025	2026	2027	2028	2029	2030
Bank loans														
Total	6.1	7.0	8.1	7.2	8.5	7.8	7.3	7.2	6.2	7.9	7.3	6.7	6.0	5.4
Households - real estate loans	7.8	8.3	8.9	9.4	9.0	8.7	8.1	7.3	7.2	9.0	7.4	6.4	5.6	4.8
Households - consumer loans	10.4	10.8	11.8	11.5	10.4	10.2	9.3	9.4	9.9	11.0	9.2	7.7	6.4	5.6
Corporate loans	2.9	5.1	7.3	6.3	9.3	7.0	5.6	6.3	4.5	7.5	6.6	6.8	6.2	5.9
Deposits														
Total	3.6	6.1	6.4	7.3	7.9	6.8	8.8	7.9	4.6	7.1	7.5	6.1	5.6	5.4
Households	4.7	4.8	5.7	7.0	7.1	6.7	6.1	5.2	5.0	6.6	5.4	5.5	5.0	4.7
Non-financial corporations	3.2	1.8	5.2	4.4	5.9	5.4	5.3	5.2	2.9	5.2	5.4	5.2	3.9	4.4
Others	2.0	12.1	8.4	9.9	10.7	8.2	15.4	14.0	5.5	9.3	12.3	7.7	7.4	7.1
Ratios														
Loans/GDP	57.0	57.4	57.8	57.9	58.3	58.5	58.7	58.9	57.2	58.1	59.1	59.9	60.7	61.3
Deposits/GDP	91.1	89.5	91.7	92.8	92.7	90.5	94.5	95.0	91.1	91.9	93.6	94.5	95.3	96.2
Loans/deposits	62.6	64.1	63.0	62.4	62.9	64.6	62.1	62.0	62.8	63.2	63.1	63.4	63.7	63.7
Interest rates														
Real estate loans	4.6	4.6	4.6	4.9	4.8	4.7	4.6	4.6	4.6	4.8	4.6	4.6	4.6	4.7
Consumer loans	8.0	8.0	8.0	8.2	8.4	8.4	8.4	8.4	8.0	8.2	8.4	8.4	8.6	9.0
Corporate loans	5.3	5.2	5.5	5.4	5.4	5.4	5.5	5.5	5.2	5.4	5.5	5.2	5.0	5.0
Share of NPL														
Real estate loans	0.7	0.7	0.6	0.7	0.7	0.8	0.8	0.8	0.7	0.7	0.8	0.8	1.1	1.4
Consumer loans	4.2	4.1	4.1	4.4	5.0	5.4	5.7	6.0	4.2	4.7	6.1	6.8	7.6	8.6
Corporate loans	2.5	2.4	2.3	2.3	2.3	2.5	2.7	2.8	2.5	2.3	2.9	3.7	4.5	5.2

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

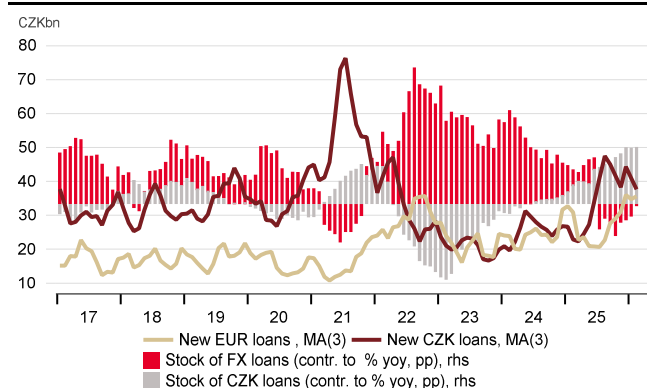
We expect the recovery in corporate lending activity to continue.

Corporate investment appetite to increase despite geopolitical uncertainty

We expect the rebound in corporate lending to continue despite tighter financial conditions. The level of interest rates alone no longer represents a significant constraint on corporate lending, as per the [CNB's Bank Lending Survey](#). New loans taken out prior to this year are likely to have contributed to the acceleration in the growth of loans to non-financial corporations (NFCs) to 6.9% yoy in February – adjusting for the exchange rate effect; the growth could be higher by 2pp on our estimate. The main drivers of the growth are long-term koruna loans, signalling a higher appetite for investment in the Czech economy, which we expect to strengthen in the remainder of this year given the fiscal stimulus, rise in aggregate demand and solid outlook for the Czech economy. Although the volume of new loans in the first two months of this year is up by 37% and 21% ytd for koruna-denominated and euro

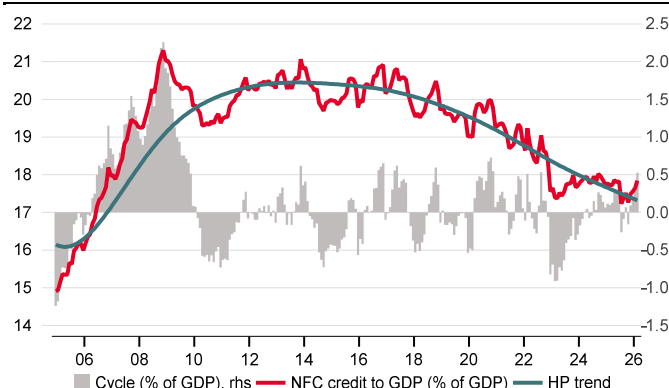
loans, respectively, relative to GDP in total they average 0.8% of GDP (+0.14pp yoy). This is significantly lower than the pre-pandemic average.

NFC credit activity has picked up considerably



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

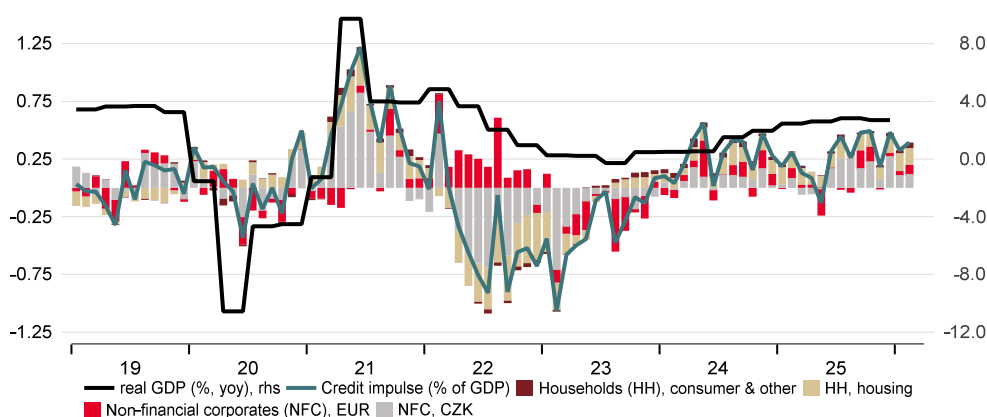
NFC credit-to-GDP ratio is rising above its trend



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

The total financial debt of domestic NFCs (including debt issuance) as a percentage of GDP showed a long-term downward trajectory and stood at 53.8% of GDP in 4Q25. The NFC debt ratio (the ratio of financial debt to gross operating surplus) remains relatively low, but we expect the NFC loans relative to GDP to rise gradually this year and in the years thereafter, reflecting the re-leveraging of domestic firms. We estimate NFC credit growth to accelerate to 7% this year (vs 5.1% in 2025) and expect a relatively strong pace of c.6-7% for the coming years as well.

Credit impulse in the Czech economy remains strongly positive



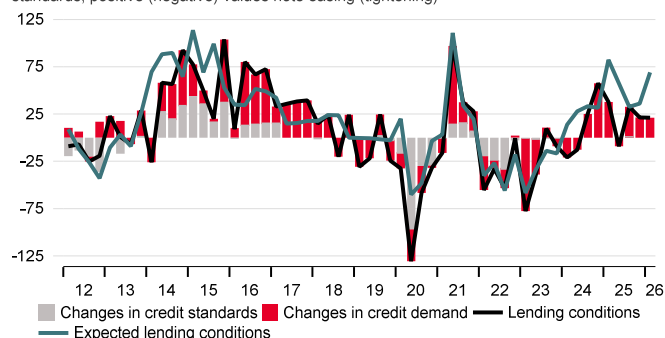
Source: CNB, CZSO, Macrobond, Economic & Strategy Research, Komerční banka

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 February 2026), GDP (as of 4Q25) is a quarterly indicator.

The latest *Bank Lending Survey* (CNB, April 2026) signals an increase in corporate credit demand in the coming months. According to banks, the rise in demand at the start of the year was linked to fixed investment, M&A activity, and debt restructuring, all of which should continue. However, the Middle East conflict remains a large unknown, which, among other things, has tightened financial conditions. According to the survey, however, the level of interest rates itself has not represented a significant barrier to corporate financing. However, notably, financial conditions have tightened significantly due to the Middle East conflict.

Lending conditions signal an increase in demand for financing

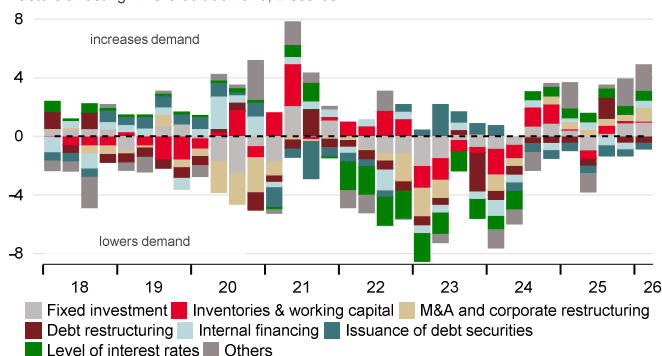
Lending conditions refer to the net increase in loan demand minus the net tightening of credit standards, positive (negative) values note easing (tightening)



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: Bank Lending Survey (CNB, 1Q26), loans to NFCs. Expected lending standards refer to questions regarding banks' expectations for the next three months.

Factors affecting NFC credit demand, according to banks

Factors affecting NFC credit demand, z-scores



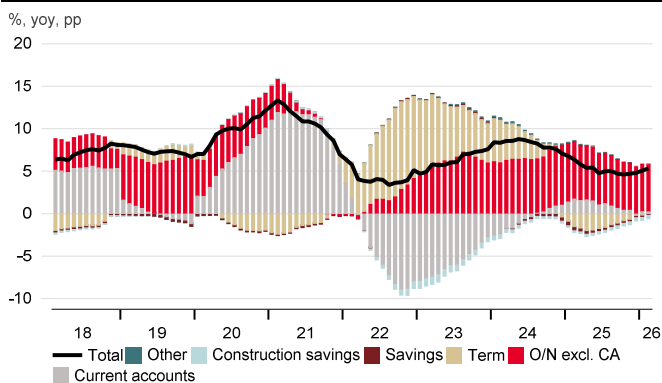
Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: Stacking the z-scores in the bar chart is for presentation purposes only. Others refers to loans from other banks and non-bank institutions, issuance of equity and other.

The loan-to-deposit ratio is likely to rise modestly.

Solid growth in deposits is only slightly narrowing the gap with loans

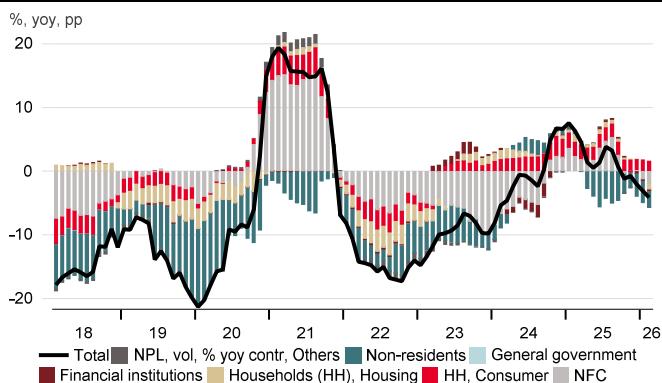
Deposit growth is set to accelerate this year, supported by a revival in credit activity and financing overall, particularly among corporates, as well as by expansionary fiscal policy. Although the loan-to-deposit ratio should gradually edge higher, the overhang of deposits is likely to persist. In February, the ratio of bank loans to deposits reached 0.63x, up by just under one hundredth yoy. This development was driven mainly by households due to rising indebtedness, while the ratio for corporates increased only marginally. Solid growth in the domestic banks' deposit base should expand lending capacity and the banks' ability to absorb government bond issuance, which could rise in the coming years in the event of a more expansionary fiscal policy. For 2026, we estimate average deposit growth of 7.1%, rising to 7.5% in 2027.

Growth in household deposits has accelerated slightly



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

The volume of non-performing loans has continued to fall



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

The default rates remain low amid an accelerating financial cycle.

Default rates remain low in an environment of expanding credit activity

Despite the recovery in lending activity, default rates remain close to historical lows. The volume of non-performing loans (NPLs) at the start of the year continued to decline yoy. NPL ratios are still near historical lows, pointing to limited credit risk despite renewed lending growth and, above all, confirming the solid financial position of households and firms. In our view, current geopolitical uncertainty is unlikely to trigger a material rise in NPLs. We expect household NPL ratios to remain low and increase only marginally, while a mild uptick in NPLs is common in the strong financial expansion phase. The Bank Lending Survey further indicates that only a few banks expect an increase in credit losses in the coming quarter, especially in the household segment.

Key economic indicators

Macroeconomic indicators – long-term outlook

		2023	2024	2025	2026	2027	2028	2029	2030
GDP	real, %	0.2	1.1	2.6	2.3	2.8	2.5	2.2	2.3
Inflation	average, %	10.8	2.4	2.5	2.2	2.7	1.9	2.0	2.0
Current account	% of GDP	-0.1	1.7	0.7	-0.5	-0.3	0.1	0.4	0.4
3M PRIBOR	average, %	7.1	5.0	3.6	3.5	3.6	3.3	3.1	3.1
EUR/CZK	average	24.0	25.1	24.7	24.4	24.2	23.9	23.7	23.7
USD/CZK	average	22.2	23.2	21.9	21.3	21.4	20.8	20.6	20.6

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

Note: KB forecasts are in red

FX & interest-rate outlook

		28-04-2026	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
EUR/CZK	end of period	24.4	24.5	24.5	24.4	24.3	24.3
EUR/USD	end of period	1.17	1.15	1.14	1.13	1.12	1.13
USD/CZK	end of period	20.8	21.3	21.5	21.6	21.7	21.5
3M PRIBOR	end of period, %	3.6	3.5	3.5	3.5	3.6	3.6
10Y IRS	end of period, %	4.6	4.4	4.3	4.3	4.4	4.4

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

Note: KB forecasts are in red

Monthly macroeconomic data

		VII-25	VIII-25	IX-25	X-25	XI-25	XII-25	I-26	II-26	III-26
Inflation (CPI)	%, yoy	2.7	2.5	2.3	2.5	2.1	2.1	1.6	1.4	1.9
Inflation (CPI)	%, mom	0.5	0.1	-0.6	0.5	-0.3	-0.3	0.9	-0.1	0.6
Producer prices (PPI)	%, yoy	-1.2	-0.8	-1.0	-1.2	-1.3	-2.1	-3.0	-2.9	-1.1
Producer prices (PPI)	%, mom	0.1	0.0	-0.4	-0.1	0.3	-0.2	-0.7	0.1	1.5
Unemployment rate	% (MLSA)	4.4	4.5	4.6	4.6	4.6	4.8	5.1	5.2	5.0
Industrial production	%, yoy, c.p.	5.7	-2.9	4.0	1.8	-0.1	7.9	-0.2	1.3	n.a.
Industrial sales	%, yoy, current.p.	3.5	-5.2	2.4	-0.7	-1.7	4.5	-3.4	-0.2	n.a.
Construction output	%, yoy	9.6	14.3	13.1	7.1	6.2	5.3	-1.5	4.1	n.a.
External trade	CZKbn (national met.)	-2.4	1.4	28.1	22.4	12.5	15.6	20.3	19.3	n.a.
Current account	CZKbn	-27.0	-8.8	26.2	13.6	-4.7	4.8	29.2	17.4	n.a.
Financial account	CZKbn	3.6	-28.4	72.1	39.8	-15.0	1.8	36.0	26.6	n.a.
M2 growth	%, yoy	3.0	2.8	3.2	2.8	3.3	3.8	4.5	4.8	n.a.
State budget	CZKbn (YTD cum.)	-168.2	-165.4	-153.9	-183.1	-232.5	-290.7	32.4	-16.9	-27.6
PRIBOR 3M	%, average	3.49	3.50	3.49	3.53	3.55	3.54	3.50	3.48	3.55
EUR/CZK	average	24.6	24.5	24.3	24.3	24.2	24.3	24.3	24.3	24.4
USD/CZK	average	21.1	21.0	20.7	20.9	21.0	20.7	20.7	20.5	21.1

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

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