Quarterly report

Czech Economic Outlook

Forging Ahead Through Headwinds

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- **Despite elevated geopolitical uncertainty, the Czech economic outlook remains favourable** We expect GDP to grow by 2.1% in 2026 and 2.6% in 2027. Domestic demand should remain the key driver, including resilient household consumption, ongoing investment activity and expansionary fiscal policy. A tight labour market should continue to underpin robust wage growth.

- **Gradual pass-through of higher energy prices is likely to push inflation close to 3% by year-end** We forecast inflation to average 2.1% in 2026 before rising to 2.6% in 2027. Core inflation should remain elevated in both years due to resilient domestic demand, the delayed effects of the conflict in the Middle East, and further growth in wages and housing costs.

- **The CNB should keep interest rates on hold, although further hikes cannot be ruled out** While core inflation is likely to remain elevated, the year-on-year rate should not accelerate significantly. We expect growth in lending activity, wages and house prices to moderate. However, we still see a further rate increase as more likely than an interest rate cut.

- **Longer rates may prove sticky on the downside** We expect the slope of the curve to gradually steepen once the situation in the Middle East stabilises. The short end of the curve should be pushed down slightly by the CNB's unchanged policy, while we believe the longer end will remain elevated after a partial correction due to fiscal easing, both domestically and abroad.

- **The koruna to remain stable** Further significant appreciation of the CZK should be prevented for the remainder of this year by the strengthening of the US dollar and the stability of the CNB's interest rates. We anticipate a subsequent, gradual appreciation to EURCZK 24 over next 12 months, driven by stronger Czech economic growth compared to the eurozone.

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

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

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

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

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

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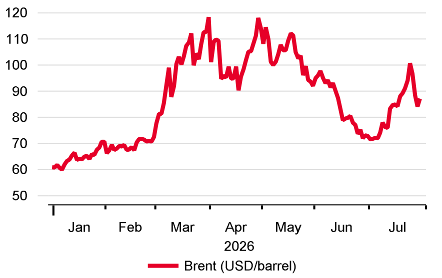
Oil shock: A storm in a teacup?

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

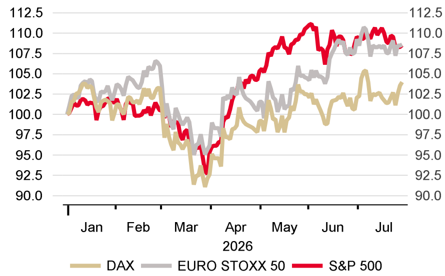
Most of 1H26 was marked by tensions in the Middle East, but financial markets became gradually less sensitive to geopolitical factors. As usual, the markets' response proved strongest right when the shock came. This was the case during the COVID pandemic, upon Russia's invasion of Ukraine and the subsequent energy shock, and with last year's fallout from President Trump's tariff wars. The conflict between the US and Iran eased temporarily at the end of June. Following the subsequent reescalation in July, the response was clearly visible in oil prices, while the broader financial markets remained relatively calm.

The US-Iran conflict resulted in an oil shock, March was the crisis month



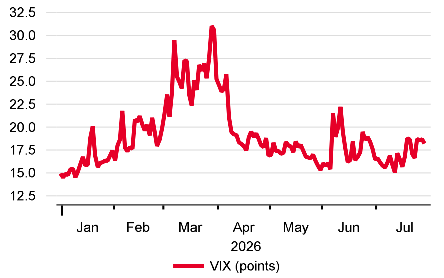
Source: Bloomberg, Macrobond, Economic and Strategy Research, Komerční banka

Equity markets growing since 2Q (1 January 2026 = 100)



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

The July reescalation has not raised the fear index



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

Naturally, the latest oil shock has affected the energy-intensive Czech economy, but its macroeconomic impact has not been too significant. The relatively recent experience of the energy crisis in 2022 and 2023 and the smaller scale of the current shock have helped. In addition, the Czech economy is becoming less energy-intensive, with Eurostat data indicating a decline in the energy intensity of production of more than 13% between 2020 and 2024 in the Czech Republic.

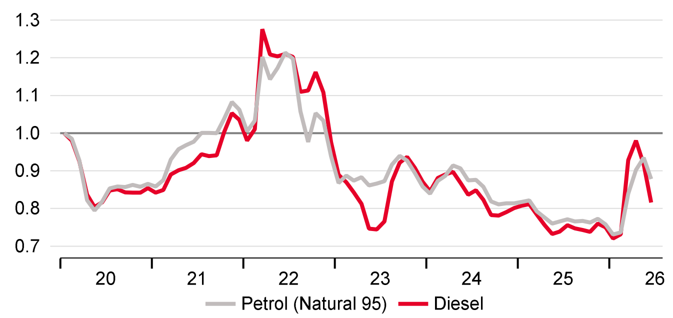
The Brent price in real terms was c.15% lower than in early 2020

Index, January 2020 = 100, deflated by total CPI

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

In mid-2026, the diesel price was almost one-fifth lower than in January 2020; petrol was also cheaper in real terms

Index, January 2020 = 100, deflated by total CPI

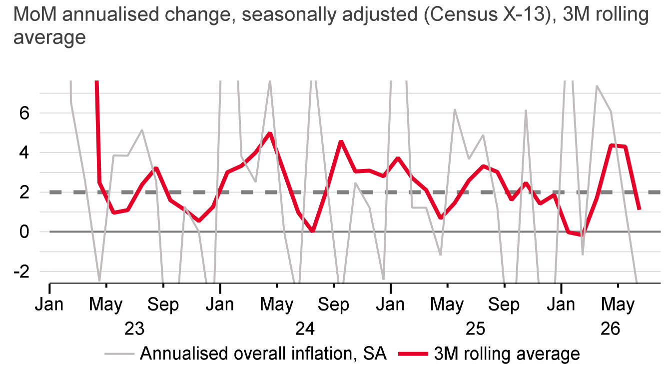


Source: Bloomberg, Macrobond, Economic and Strategy Research, Komerční banka

In macroeconomic aggregates, the oil shock was most apparent at the end of 1Q26, i.e. in its first month of existence and effects. Monthly March data from the real economy suggest stockpiling effects in imports, inventories within capital expenditure, and exports, as our trading partners also appear to have brought forward purchases and built up inventories. Greater caution was visible on the part of industrialists and consumers. Nevertheless, during the second quarter, the economy's growth momentum was, in our view, climbing again. Thus, for the second quarter as a whole, we estimate qoq growth in GDP was 0.5%, following a temporary slowdown to 0.2% in the first quarter.

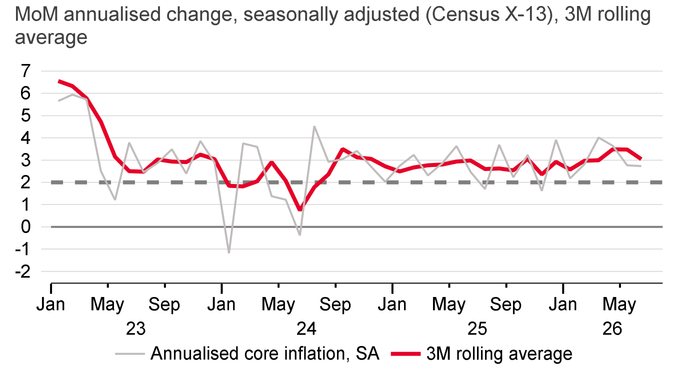
The oil shock has encouraged inflation, primarily through higher motor fuel prices, the heaviest impact of which was evident in March. Their further inflationary effect was then constrained by the government's price controls – the government was determining price caps for petrol and diesel on a daily basis – and, in particular, via reduced excise duty on diesel. In the second quarter, inflation momentum weakened significantly. While wholesale fuel prices reversed course, it was primarily food prices that drove the slowdown, exerting a pronounced disinflationary effect. However, the key factor was that core inflation maintained its high momentum of around 3% yoy, reflecting local inflationary pressures, which were mainly visible in services and housing-related items. It was local inflationary pressures, albeit in the context of an external cost shock, that prompted the CNB's June decision to hike monetary policy rates.

Dynamics of overall inflation oscillating at around the target …



Source: Macrobond, Economic and Strategy Research, Komerční banka

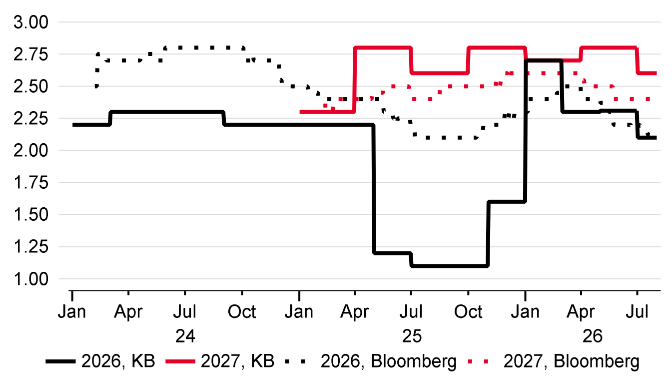
… but core inflation momentum has been hovering above the target for a long time



Source: Macrobond, Economic and Strategy Research, Komerční banka

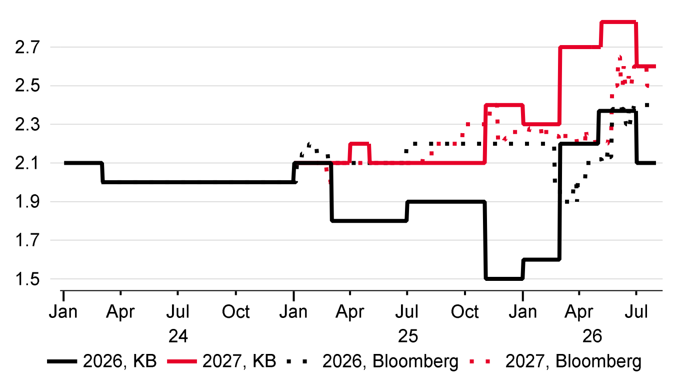
The stagflationary impact of the oil shock was, primarily, reflected in Komerční banka's April macroeconomic forecasts, already in which we had lowered our growth assumptions for 2026, while raising the inflation outlook. **Thus, the current forecast does not bring any fundamental changes.** We had expected the Middle East conflict to be fairly brief. This still seemed to be a highly realistic scenario as late as June. However, the conflict escalated again in July. We reflect the ongoing conflict and the weaker growth dynamics of the first quarter in a slight downward revision of our GDP growth expectations for 2026 and 2027. This year, we forecast growth of 2.1% for the Czech economy, in line with the market consensus. For 2027, we expect the growth momentum to pick up to 2.6%. Compared with median market expectations for next year, our estimates are optimistic.

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



Source: Bloomberg, Economic and Strategy Research, Komerční banka

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



Source: Bloomberg, Economic and Strategy Research, Komerční banka

At 2.1%, our inflation forecast for this year is below the consensus. On the other hand, our average inflation estimate for 2027 of 2.6% is slightly above market expectations. In our view, core inflation will continue to oscillate at around the upper limit of the tolerance band until the beginning of next year, when it will start to decline continuously. We consider the current monetary policy to be sufficiently restrictive, and do not expect any further rate hikes.

Despite the ongoing geopolitical uncertainty, the Czech economy has proven resilient. This is largely dependent on domestic demand, which includes both consumption and investment, in which we anticipate no major changes in the coming months. We hope you enjoy reading the summer edition of Komerční banka's *Czech Economic Outlook!*

Table of Contents

External environment and assumptions

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

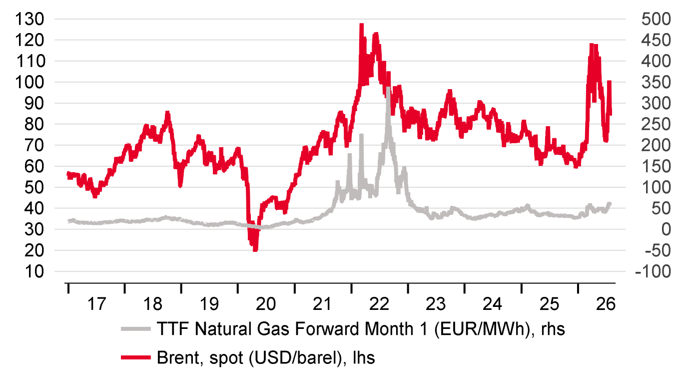
The US and eurozone economies remain resilient

Despite persistently high oil prices and heightened geopolitical uncertainty, the outlook for the US, eurozone and Central European economies remains favourable. The US is benefiting from fiscal stimulus, robust household spending, and sustained high levels of corporate investment (mainly in data centres). Meanwhile, the eurozone is being supported by German fiscal package, EU funds, excess household savings, increased investment in AI, and a recovering real estate market. Although inflation slowed in June in both the US and the eurozone, it remains above central bank targets, posing a risk that central banks will have to tighten monetary conditions. The ECB raised interest rates at its June meeting, and we expect it to make a similar move in September. This would bring the deposit rate to the upper end of estimates for its neutral level, where we expect it to remain for an extended period. According to our forecasts, the Fed will leave rates unchanged this year and next, although risks are skewed towards tighter monetary conditions.

The oil market tends to respond to disruptions in oil supplies by curbing demand and drawing down inventories rather than through sustained price fluctuations.

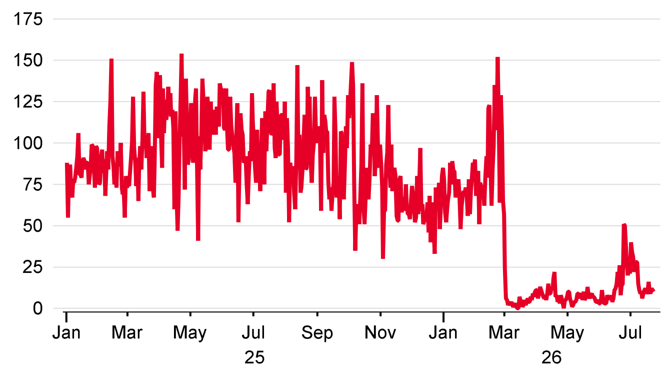
After tensions in the Middle East eased and the Strait of Hormuz reopened, the oil price briefly returned to its pre-war level in June. However, hostilities between Iran and the US have now resumed, preventing tankers from passing through the Strait. Consequently, the price of oil is once again trading above pre-war levels. However, it has become apparent that the oil market is primarily responding to supply disruptions through reduced demand and the drawdown of inventories, rather than through sustained price fluctuations. In our view, this trend will continue. If supplies are restored, as we expect, the oil market should shift from a deficit to a surplus over the course of next year and prices should normalise. We expect the average oil price to be $75 per barrel in the final quarter of this year and $73 for next year as a whole. Electromobility is also a significant factor beginning to influence oil demand. Global electric vehicle penetration increased from 22.7% in February to 26.1% (of new registrations) in May. China accounted for the largest share of this increase, but significant growth was also recorded in Europe and the UK. Over the next five years, we expect demand for oil to decline by 3.4 million barrels per day (mb/d) as a result of the increase in electric vehicle adoption. Such a decline would not be insignificant, given that total demand stood at 104 mb/d in 2025.

Oil and gas prices



Source: Macrobond, Economic and Strategy Research, Komerční banka

Number of vessels passing through the Strait of Hormuz

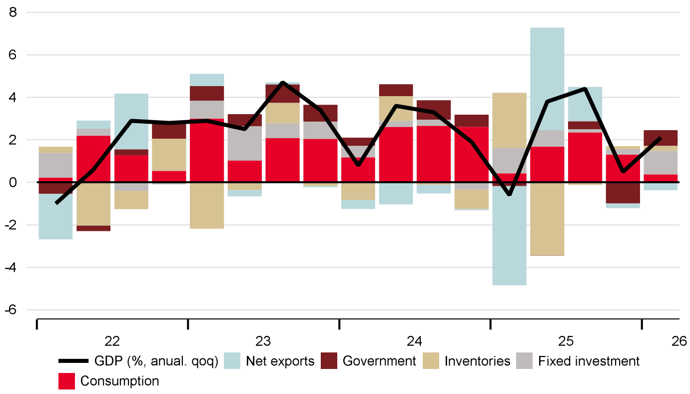


Source: Macrobond, Economic and Strategy Research, Komerční banka

US: solid GDP growth looks set to continue

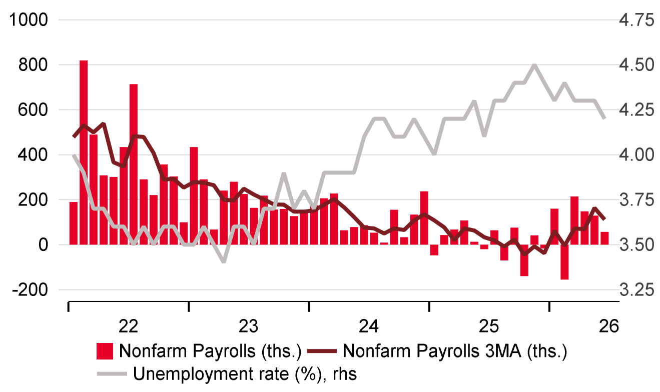
At its June meeting, the U.S. Federal Reserve kept interest rates unchanged at 3.50-3.75%. However, the tone of the 'dot plot' was hawkish. The central bankers signalled the possibility of an interest rate hike within the next year. Nine of them indicated that at least one rate hike before the end of the year would be appropriate, while six even indicated they would prefer to raise rates at least twice this year. Interestingly, the new Fed Chair, Kevin Warsh, did not share his opinion. Nevertheless, the latest US economic data has reduced pressure for an immediate interest rate hike. The number of new jobs created in the non-farm sector in June was roughly half what financial markets had anticipated (57 ths.), and the data for April and May were also revised down by a total of 74 ths. Nevertheless, even after these revisions, the pace of employment growth over the past three months remained solid, averaging 111 ths. per month. Nor did the unemployment rate signal a significant cooling of the labour market: after seasonal adjustment, it fell slightly from 4.3% to 4.2%. Similarly, the weekly number of jobless claims remained near the low 200 ths. mark. Thanks to the strong labour market, household consumption remains robust. This is further supported by fiscal stimulus. Business investment remains strong, particularly in data centres. We therefore expect GDP growth to reach 2.3% this year. However, next year, the effect of the fiscal stimulus should begin to wane, so we expect GDP growth to slow to 1.7%.

The US economy is in good shape



Source: Macrobond, Economic and Strategy Research, Komerční banka

The US labour market has stabilised



Source: Macrobond, Economic and Strategy Research, Komerční banka

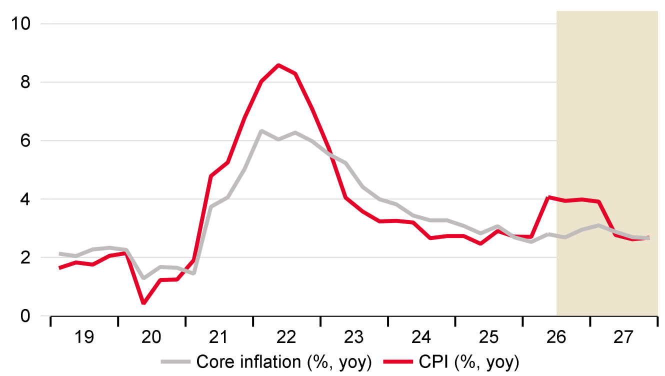
Inflation remains above target, but we do not expect interest rates to rise at this time.

The pressure to increase interest rates has eased due to the inflation development, although price pressures in the local economy remain strong. US consumer inflation slowed from 4.2% yoy in May to 3.5% yoy in June. Fuel prices played a key role in this decline, as they fell by 6% mom. Core inflation also fell short of expectations, with shelter prices curbing the pace, resulting in a slowdown from 2.9% yoy to 2.6% yoy. June's industrial producer prices also fell short of expectations, with year-on-year growth slowing from 6% in May to 5.5% in June. The lower-than-expected inflationary pressures in June led to a reduction in bets on the Fed hiking interest rates. The market now includes up to two hikes in its prices over the rest of the year. Our forecast currently assumes stability in interest rates, although risks are shifting towards tighter monetary policy.

It will be more difficult to predict the Fed's next moves.

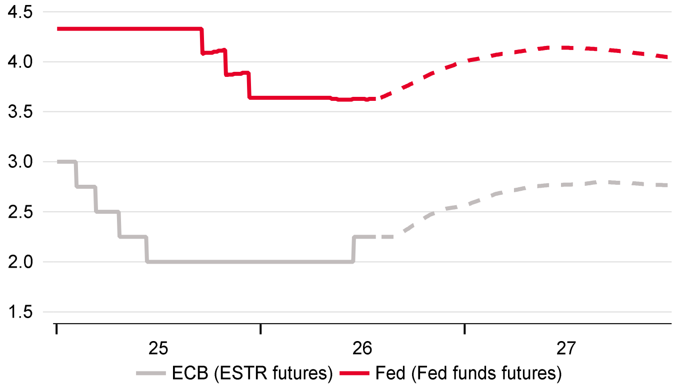
It will also be interesting to see what direction the US central bank will take under the leadership of its new Chair, Kevin Warsh. It is already clear that greater emphasis will be placed on variability in scenarios and the uncertainty of economic forecasts. Therefore, it will be more difficult to predict the Fed's moves. Compared to the ECB, this has already been the case. This is evident from the fact that of the 67 analysts who predict the ECB's next steps in the regular Bloomberg survey, 50 were placed first based on results over the last two years, while only 13 of the 101 Fed forecasters were placed first.

US: inflation remains high (%, yoy)



Source: Macrobond, SG Cross Asset Research/Economics

Market expectations for Fed and ECB rate moves (%)



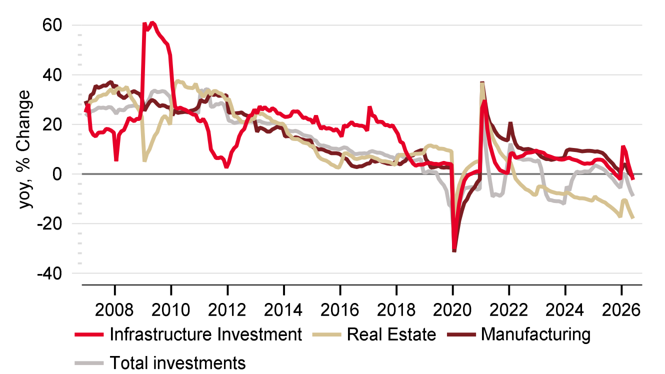
Source: Bloomberg

China: domestic demand is weak

China's domestic demand is weak; exports are driving the economy.

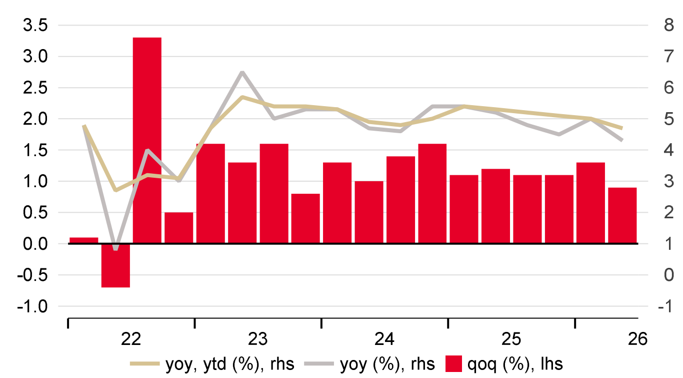
China's GDP growth slowed from 5% in 1Q to 4.3% yoy in 2Q, due to weak domestic demand and a decline in investment activity. According to our estimates, the Chinese economy should grow by 4.6% over the course of the year, with net exports the main driver of growth. Exports are benefiting from the strong competitiveness of China's manufacturing sector, particularly in the high-tech segments of electromobility, battery technology and renewable energy, as well as from the AI boom. 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. We do not think the housing market will reach its lowest point this year either. According to our estimates, new apartment sales will decline by a further 5% this year, while total real estate investment could fall by over 10%. The recovery in household consumption remains fragile for now. While investment as a whole is growing slightly thanks to fiscal stimulus, there are still challenges in the form of debt sustainability and excess production capacity in the manufacturing sector. Overall, we estimate China's GDP growth at 4.6% for 2026 and 4.7% for the following year.

Chinese investments: the recovery is stalling



Source: Macrobond, Economic and Strategy Research, Komerční banka

Trend in China's GDP



Source: Macrobond, Economic and Strategy Research, Komerční banka

Inflation is rebounding from its low point.

In our view, deflationary pressures in China have already reached their lowest point, but it will take time for prices to start growing again. We expect industrial prices to rise due to higher commodity prices and supply chain disruption. However, the pass-through to consumer prices is likely to be limited due to weak demand and falling real estate prices.

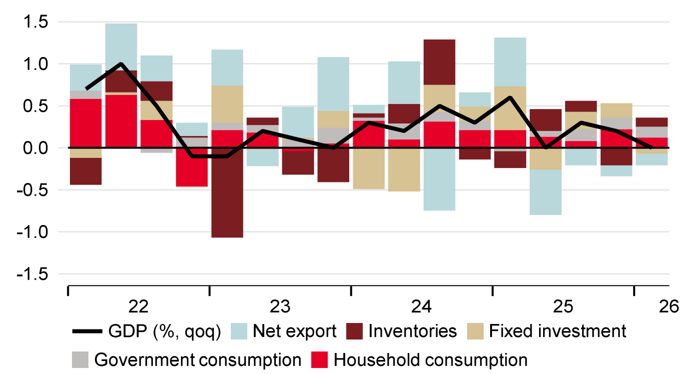
Nevertheless, we are already witnessing an increase in price pressures here, driven by base effects and less aggressive discounts on durable goods. The central bank has limited scope for further interest rate cuts. Moreover, the effectiveness of such a move would be questionable in an environment of excess supply. We therefore expect interest rates to remain stable this year. Fiscal policy expansion remains moderate and continues to prioritise investment over supporting consumption, meaning the structural rebalancing towards consumption should proceed very gradually.

The eurozone: ECB likely to raise rates again in September

Elevated core inflation, rising inflation expectations, and the spillover effects of the Middle East conflict could prompt the ECB to raise rates again.

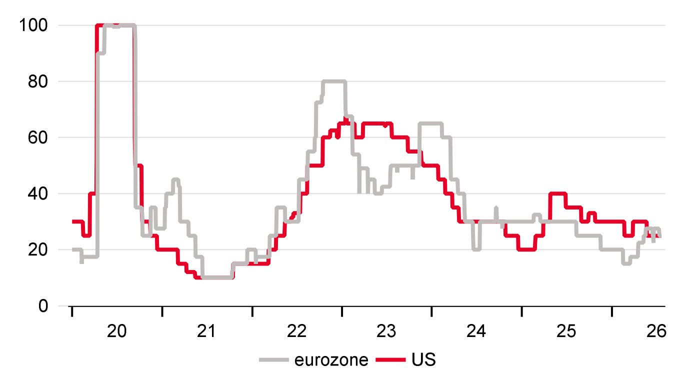
Eurozone inflation slowed from 3.2% in May to 2.8% yoy in June, while core inflation fell from 2.6% to 2.4% yoy. The decline in headline inflation in June was primarily driven by lower fuel prices and moderating price growth for food and tourism-related services. The secondary effects of higher energy prices on other components of inflation are not yet very noticeable. However, we believe these effects will materialise with a lag, specifically during the second half of this year. However, given the recent sharp drop in oil prices, we now expect the magnitude of these effects to be more limited than originally anticipated. We expect inflation in the eurozone to fall further in July to 2.5-2.6% yoy due to lower fuel prices, but to then gradually rise again towards 3% yoy. Inflation expectations also remain elevated, holding steady at around 2.9% yoy over a three-year horizon. In response to inflation trends, the ECB raised interest rates as early as June. Given the trend in core inflation and the risk of further increases due to the secondary effects of higher energy prices, we expect the ECB to take the same step again in September. This would bring the deposit rate to the upper end of the range the ECB considers to be the neutral level, where, according to our forecasts, it will remain for an extended period (deposit rate of 2.5%).

Eurozone GDP growth rates (%, qoq)



Source: Macrobond, Economic and Strategy Research, Komerční banka

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

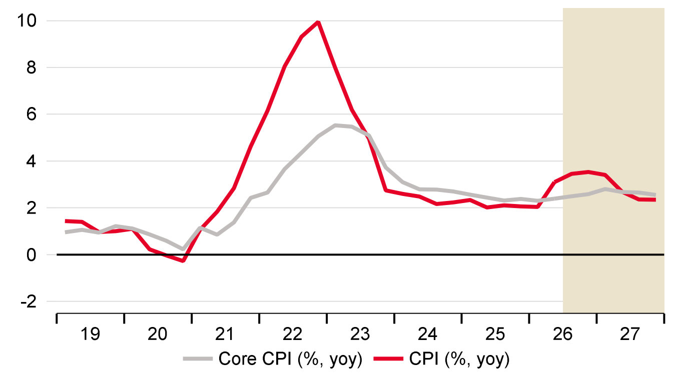


Source: Macrobond, Bloomberg consensus, Economic and Strategy Research, Komerční banka

The eurozone economy should continue to grow, supported by strong consumption, investment in AI, and Germany's fiscal package.

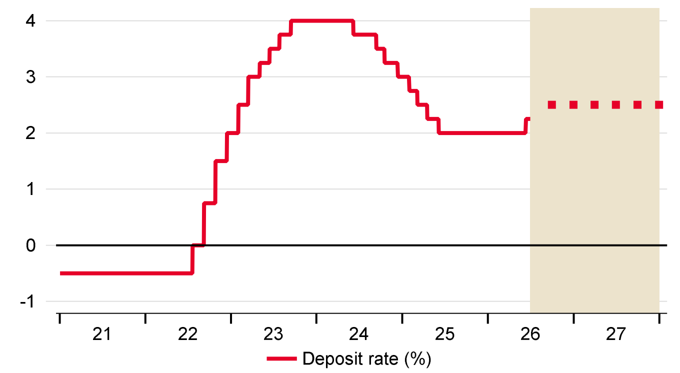
The eurozone economy has remained resilient to the oil shock so far. After adjusting for the volatile performance of the Irish economy, we estimate that eurozone GDP will grow by 0.9% this year and by 1.1% next year. This growth should be supported by robust private consumption, a recovery in the real estate market, funds drawn down from NextGenerationEU (NGEU) and investments in AI. Additionally, households have substantial savings, unemployment is at a historical low, and wage growth remains robust. The German fiscal package will also play a significant role. It will lead to an increase in Germany's public deficit, from 2.6% of GDP last year to 4.2% this year. After three years of slowdown, we estimate that the German economy is set for a more pronounced recovery. We project GDP growth of 0.5% (unadjusted) for this year and 1.0% for 2027.

Inflation in the eurozone is set to rise temporarily above 3%



Source: Macrobond, SG Cross Asset Research/Economics

ECB likely to hike rates one more time this year (depo rate, %)



Source: Macrobond, SG Cross Asset Research/Economics

CEE region: interest rates are heading down

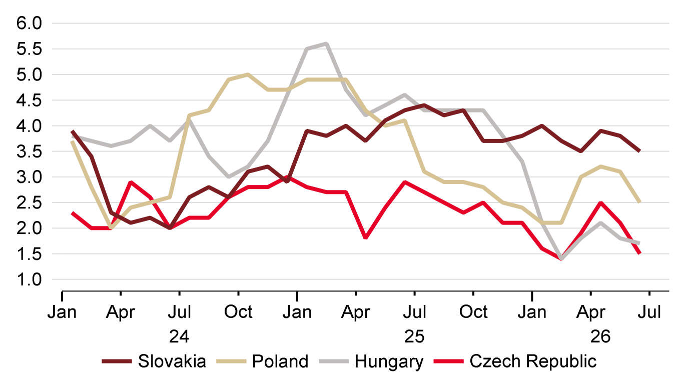
Poland's central bank is likely to cut rates this autumn.

In July, Poland's central bank left interest rates unchanged at 3.75%. At the subsequent press conference, Governor Glapiński struck a distinctly dovish tone. He stated that the central bank has inflation firmly under control and that an interest rate cut could come as early as this year. This is also in line with our forecast, which anticipates this move at the November meeting. However, given the governor's comments and the expectation that inflation will slow in the coming months, there is now a greater likelihood of monetary conditions being eased earlier. According to our forecast, the zloty exchange rate will correct back to PLNEUR 4.25. This should be supported by a strong inflow of EU funds and significant growth.

The Hungarian central bank will continue to cut interest rates, in our view.

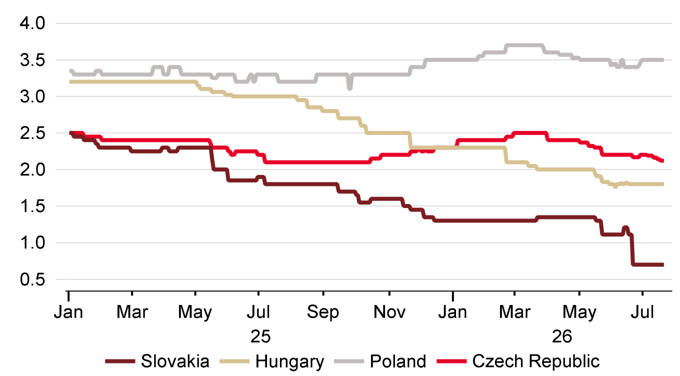
The Hungarian central bank has significantly revised down its inflation outlook to an average of 1.8% for this year and 2.3% for 2027. At the same time, it cut interest rates by 25bp in both June and July, bringing the key three-month deposit rate to 5.75%. Given the expected inflation outlook, we estimate that it will continue to cut interest rates. We anticipate further reductions in August, September and December.

Inflation in the region is trending downward (%, yoy)



Source: Macrobond, Economic and Strategy Research, Komerční banka

GDP growth for 2026, Bloomberg consensus (in %)



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

Macroeconomic forecast

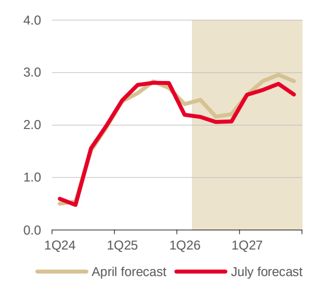
Martin Gürtler
(420) 222 008 509
martin_gurtler@kb.cz

Main changes

GDP
We have trimmed our 2026 and 2027 GDP growth forecasts by 0.2pp vs our April estimates, to 2.1% and 2.6%, respectively. This mainly reflects the prolonged conflict in the Middle East, leading to supply chain disruptions and higher energy prices, and thus weighing on industrial activity. Nevertheless, domestic economic fundamentals remain solid. Growth should continue to be supported by resilient household consumption, sustained investment activity and a more expansionary fiscal stance.

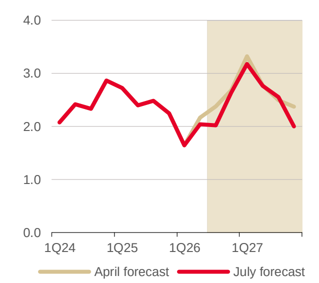
Inflation
We now project headline inflation of 2.1% in 2026 and 2.6% in 2027, i.e. 0.1pp lower than in our April forecast for both years. This reflects lower-than-expected inflation in 2Q26, driven by the ongoing decline in food prices and the limited second-round effects of higher energy costs. However, we see the broader effects of the conflict in the Middle East materialising with a lag. Core inflation is likely to remain elevated, supported by rising housing costs and resilient domestic demand.

Changes to our GDP forecast (%, yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka

Changes to our CPI forecast (%, yoy)

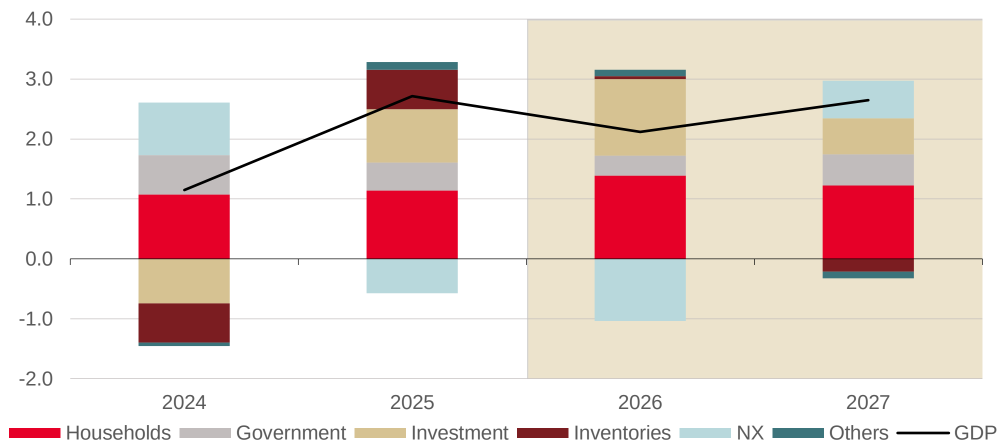


Source: CZSO, Economic and Strategy Research, Komerční banka

The Czech economy continues to show resilience

Despite a weaker external environment and high geopolitical uncertainty, we forecast ongoing solid growth in the Czech economy, supported primarily by domestic demand. We expect GDP to expand by 2.1% this year before accelerating to 2.6% in 2027. Growth should, in our view, be underpinned by resilient household consumption, sustained investment activity and a more expansionary fiscal stance. We expect tight labour market conditions to support wage growth of 7.1% and 6.1% this year and next, respectively, thereby sustaining favourable growth in household disposable income. We project a rise in headline inflation from 2.1% in 2026 to 2.6% in 2027, reflecting the gradual pass-through of higher energy prices, firmer food price inflation and persistent housing cost increases. We anticipate ongoing elevated core inflation of around 3%. Significant risks to the outlook remain, primarily due to the conflict in the Middle East, which could further disrupt supply chains, increase energy prices and weigh on industrial activity.

Economic growth will continue to be driven primarily by domestic demand (%, yoy)

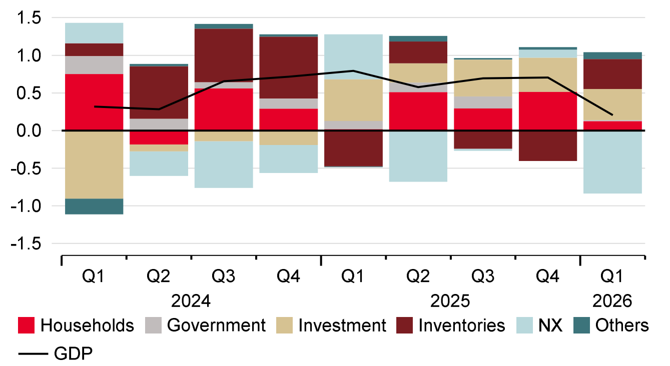


Source: CZSO, Economic and Strategy Research, Komerční banka

Economic growth set to gradually accelerate

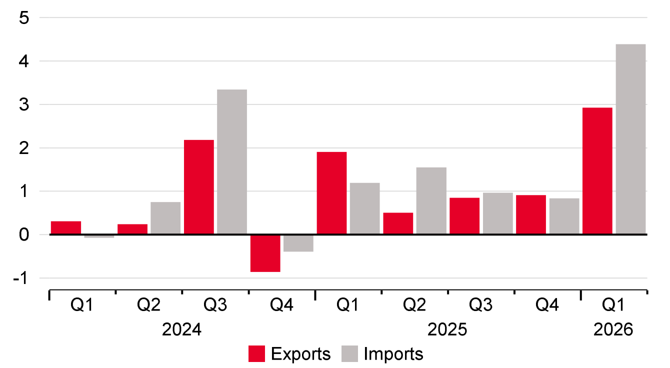
The Czech economy entered 2026 from a position of relative strength, despite GDP growth slowing from 0.7% qoq in 4Q25 to 0.2% qoq in 1Q26. We had anticipated a moderation in economic activity in our April forecast, though to a lesser extent, having projected GDP growth of 0.4% qoq in 1Q26. The weaker outcome was mainly driven by a significant negative contribution from net exports (-0.8pp). Importantly, this did not reflect weaker external demand. Rather, robust domestic demand led to import growth outpacing export growth. While exports increased by a solid 2.9% qoq in 1Q26, supported by both goods and services, imports rose by an even stronger 4.4% qoq. Alongside continued growth in household consumption and fixed investment, stronger imports may also have reflected precautionary stock-building following the escalation of conflict in the Middle East at the end of February. Rising input costs and disruptions to international trade appear to have encouraged firms to increase inventories, including production materials. This interpretation is supported by PMI surveys of industrial firms. Similar behaviour was observed during the previous geopolitical shock, triggered by the introduction of elevated US import tariffs. Stockpiling may also explain the positive contribution of inventories to qoq GDP growth in 1Q26 (+0.4pp), partially offsetting the drag from net exports. As a result, annual GDP growth slowed from 2.8% in 4Q25 to 2.2% in 1Q26, although the overall pace of economic expansion remained robust.

The slowdown in GDP growth in 1Q26 was mainly due to the negative contribution from net exports (SA, %, qoq)



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

Import growth in 1Q26 outpaced the strong rise in exports, driven by domestic demand and stockpiling (SA, %, qoq)

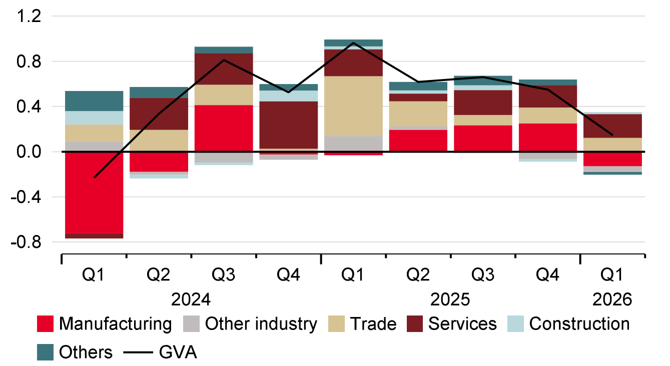


Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka
Note: Both exports and imports are in real terms and in the definition of national accounts.

The slowdown in economic growth at the beginning of 2026 was probably only temporary, possibly influenced by stockpiling in response to the conflict in the Middle East.

Household consumption and fixed investment are still the key pillars of economic growth. Although quarter-on-quarter growth in household consumption moderated from 1.2% in 4Q25 to 0.3% in 1Q26, annual growth remained strong, at 3.3%. Fixed investment growth also eased slightly, from 1.7% to 1.5% qoq, but remained healthy, resulting in annual growth of 6.0% in 1Q26. The moderation in investment activity may have partly reflected the provisional budget associated with the forming of the new government, which constrained public expenditure at the turn of the year. The impact was visible not only in investment spending but also in current expenditure. Government consumption increased by only 0.1% qoq in 1Q26 after stagnating in the previous quarter. Sectoral developments indicate that economic growth continued to be driven primarily by trade and services. By contrast, manufacturing recorded declines in both output and gross value added in 1Q26, likely reflecting weakness in foreign industry, rising wholesale prices for energy and other production inputs, and disruptions to international trade related to the conflict in the Middle East. Overall, the Czech economy remained supported by solid domestic fundamentals, which enhanced its resilience to a deteriorating external environment and elevated geopolitical uncertainty.

Growth in gross value added in 1Q26 continued to be driven by trade and services, while manufacturing declined (SA, %, qoq)



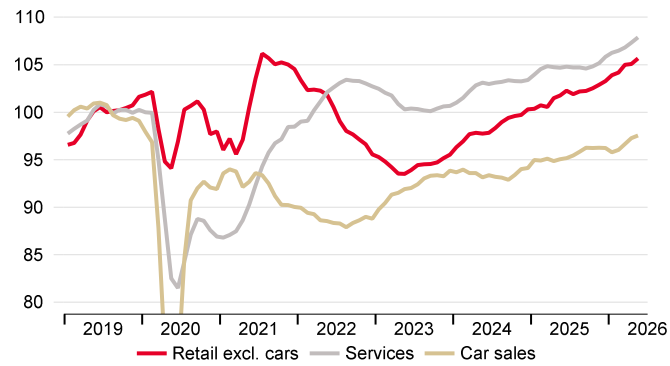
Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka
Note: The services category only includes market services, while public services are included in the others category. Trade also encompasses transport, hotels and restaurants.

The situation in supply chains has deteriorated this year as a result of the conflict in the Middle East (z-score)

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

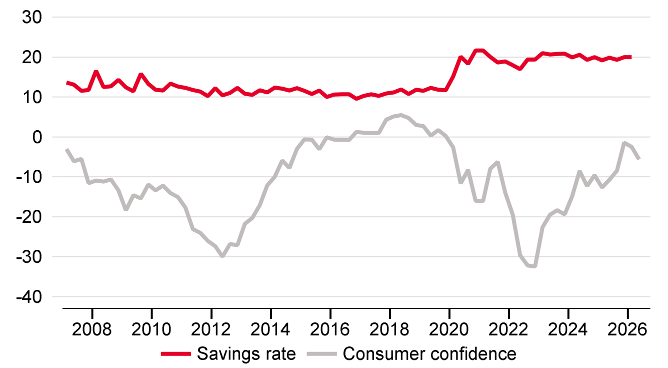
According to our estimate, GDP growth accelerated to 0.5% qoq in 2Q26. However, the composition of growth is likely to have remained broadly unchanged, with domestic demand again providing the principal support. We expect household consumption growth to have accelerated to 1.1% qoq in 2Q26. Monthly indicators for retail sales and services sales did not point to a meaningful slowdown in consumer spending in 1Q26. On the contrary, they suggest that strong consumption momentum continued into 2Q26. This assessment is consistent with the ongoing increase in lending activity. Wage growth in 1Q26 also exceeded expectations, albeit part of this strength was likely temporary. Consumer confidence weakened in 2Q26 in response to the conflict in the Middle East, but remained, on average, 5% above its long-term mean. The high household savings rate, which remains close to 20% and thus roughly double its pre-pandemic level, should continue to provide a buffer against heightened uncertainty. At the same time, we expect the effect of a high comparison base, the gradually fading impact of the provisional budget, and increased global uncertainty to have contributed to a moderation in fixed investment growth to 0.7% qoq in 2Q26. Nevertheless, annual investment growth looks set to remain close to 6%. Structural changes within the economy and renewed efforts to reduce the energy intensity of production, encouraged by higher energy prices, should continue to support investment activity. However, stock-building and strong domestic demand are also likely to have boosted imports, resulting in a negative contribution from net exports to qoq GDP growth in 2Q26 (-0.4pp), partially offset by a positive contribution from inventories (+0.2pp). Available indicators suggest that domestic industrial production rebounded in 2Q26, likely expanding by more than 1% qoq, which should provide some support to exports.

Real retail and services sales continue to trend upwards, signalling ongoing consumer demand (2019=100, SA, 3MA)



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

Household confidence and the household savings rate remain high (SA, %)

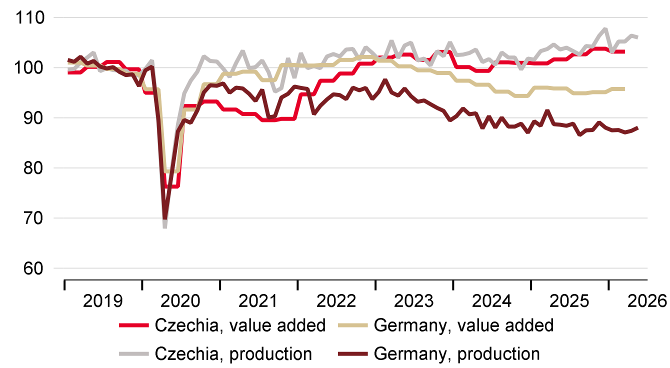


Source: CZSO, Macrobond, Economic and Strategy Research, Komerční banka

Despite the turbulent geopolitical climate, we remain optimistic about the outlook for the Czech economy, thanks to its strong domestic foundations.

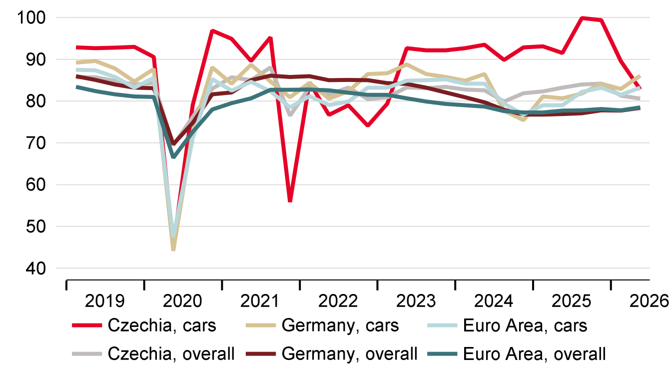
Despite a moderate downward revision to our outlook, we forecast Czech GDP growth at a solid 2.1% in 2026 and 2.6% in 2027. This is 0.2pp lower than our April forecast for both years. The revision primarily reflects the prolonged conflict in the Middle East and its implications for supply chains, energy prices and industrial activity. Domestic industry continues to face broader structural challenges, including declining competitiveness in Europe, particularly in Germany, which remains a key trading partner and a crucial element of Czech manufacturing supply chains. Capacity utilisation in the Czech automotive sector declined significantly in 1H26, most likely among components suppliers, while domestic car manufacturers continued to report strong results. Although the German government has introduced a series of recovery measures and is gradually increasing fiscal expenditure, economic performance in Germany remains subdued. Conversely, domestic fundamentals remain strong, supported in part by emerging sectors that strengthen resilience to external shocks, while also supporting convergence towards more advanced economies. In addition, domestic demand is likely to benefit from a more expansionary fiscal stance from the new Czech government over the forecast horizon. Nevertheless, risks to the growth outlook remain skewed to the downside, primarily due to the ongoing conflict in the Middle East.

Domestic industry could show a further slight improvement this year, while the downturn in Germany continues (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 Czech automotive industry saw a significant drop in capacity utilisation during the first half of this year (SA, %)



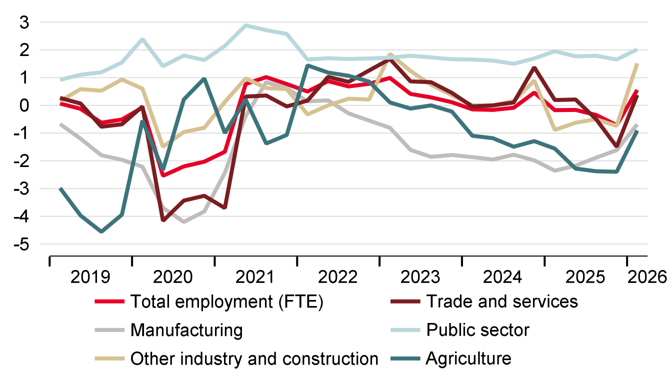
Source: DG ECFIN, Macrobond, Economic and Strategy Research, Komerční banka

A tight labour market is fuelling wage and price pressures

Unemployment is unlikely to rise significantly further, and the tight labour market is therefore likely to continue to exert upward pressure on wages.

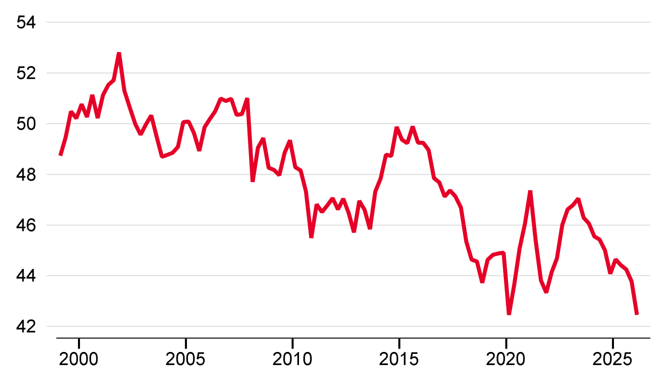
Wage developments in early 2026 confirmed that labour market conditions remained tight. The average nominal wage increased by 8.1% yoy in 1Q26, compared with the 6.4% projected in our April forecast. However, this deviation was largely the result of revisions to historical data. The original figures had shown full-year wage growth of 7.2% in both 2024 and 2025, but these were revised down to 6.6% for both years. Wage growth in 1Q26 was driven primarily by the private sector, where wages increased by 8.9% yoy, while public sector wage growth reached 6.2% yoy. Adjusted for inflation, the purchasing power of the average wage rose by around 6% yoy in 1Q26. Robust wage growth therefore further strengthened households' financial positions and supported continued growth in consumption. The ILO unemployment rate remained low in 2Q26; seasonally adjusted, it stagnated at 3% for the third consecutive quarter, according to our estimates, remaining among the lowest in the EU. In contrast, the seasonally adjusted share of unemployed persons continued to rise, from 4.8% in 1Q26 to 5.0% in 2Q26. This increase was probably linked to changes in social policy and the integration of Ukrainian refugees, who are also likely contributing to ongoing employment growth. In structural terms, new jobs continue to be created in trade and services as well as in the public sector, while employment in manufacturing has been declining almost continuously for several years.

Although employment in manufacturing is falling steadily, it is rising in trade, services and the public sector (%, yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka

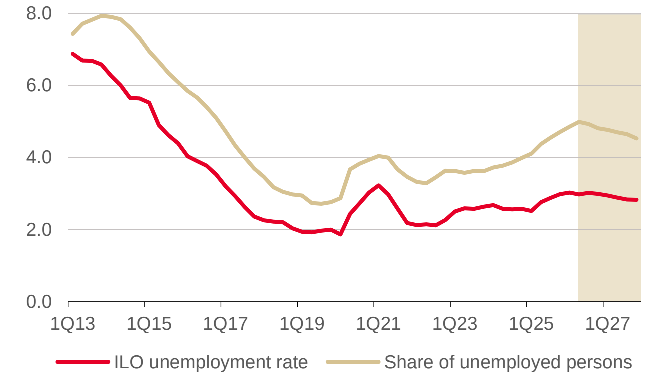
Profitability in the non-financial corporate sector has fallen to its lowest level since the start of the pandemic (SA, %)



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.

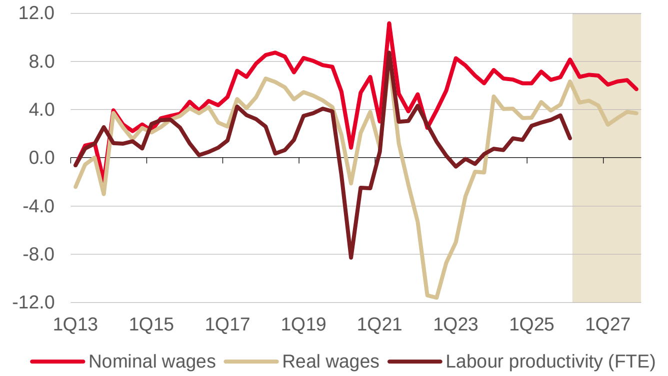
We expect nominal wage growth to reach 7.1% this year before slowing to 6.1% in 2027. In our April forecast, we anticipated wage growth of 6.4% in 2026 and 6.0% in 2027. The main revision therefore concerns this year, although this is significantly affected by the historical data revisions mentioned above. Leading indicators suggest that the strong quarter-on-quarter wage growth recorded in 1Q26, which we estimate at 2-3% in both nominal and real terms after seasonal adjustment, was only temporary. Nevertheless, unemployment should not rise materially further, in our view. Combined with robust economic growth, wage pressures are therefore likely to persist. However, at the same time, companies' weaker financial positions are expected to act as a restraining factor. In the non-financial corporate sector, margins have declined steadily over the past three years, as the share of gross operating surplus in gross value added has fallen. At 42.5%, this ratio reached a historical low in 1Q26 in the available time series since 1999. Profitability was similarly weak only in 1Q20, during the first wave of the COVID pandemic. This likely reflects a combination of rising production costs and wages, together with increasing foreign competition, particularly from Asian manufacturers. Although a sectoral breakdown of this indicator is not available, the negative profitability trend is likely concentrated mainly in the supplier segment of Czech industry. Another factor limiting private-sector wage growth is the fact that current wage growth exceeds productivity growth. In the public sector, on the other hand, wage growth may accelerate further as a result of fiscal expansion and its previous lag behind the private sector.

Unemployment is unlikely to rise significantly further, so the labour market will remain tight (SA, %)



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

The growth of both nominal and real wages is outpacing labour productivity growth (%, yoy)



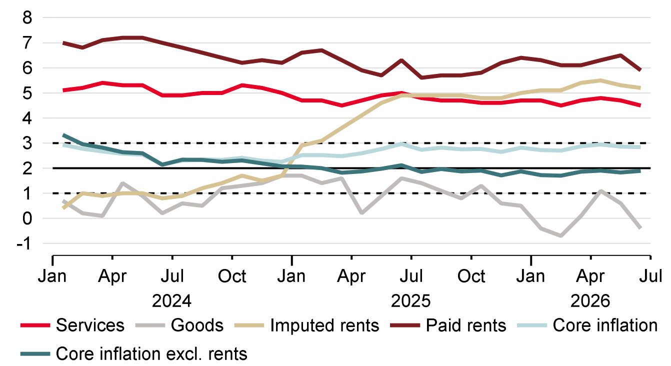
Source: CZSO, Economic and Strategy Research, Komerční banka

Inflation set to rise, but should broadly remain within the CNB's band

The inflation trends observed in 2Q26 were primarily driven by volatile fuel and food prices.

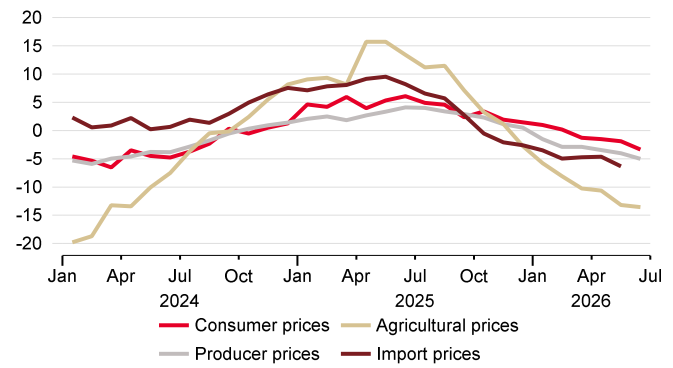
Inflation remained close to the CNB's 2% target in 2Q26. After rising to 2.5% yoy in April, reflecting the impact of the oil shock, inflation slowed to 2.1% yoy in May and 1.5% yoy in June as the situation in the Middle East stabilised. For 2Q26 as a whole, inflation averaged exactly 2% yoy, or 0.2pp below our April forecast. Inflation dynamics in 2Q were driven mainly by volatile fuel and food prices. Fuel prices largely mirrored sharp fluctuations in crude oil markets. While they rose by almost 30% yoy in April and May, the pace slowed to just under 20% yoy in June. So far, fuel prices were the only component to show a significant impact from the oil shock. The pass-through of higher energy prices to other inflation components has remained limited. Food prices declined year-on-year in 2Q despite higher transport costs. The conflict in the Middle East also had no visible impact on household electricity and gas prices, which continued to fall throughout 2Q, while only heating costs increased slightly. However, core inflation remained close to the 3% upper limit of the central bank's tolerance band, averaging 2.9% yoy in 2Q and standing 0.1pp above our April scenario. In June, core inflation eased slightly from 2.9% to 2.8% yoy. The main driver remained rising housing costs, reflected in strong growth in imputed and paid rents, at 5.2% and 5.9% yoy, respectively in June. Excluding these two items, core inflation remained below the 2% target, according to our estimate, at 1.9% yoy in June.

High core inflation is mainly attributable to rising housing costs; without which core inflation would be below 2% (%, 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.

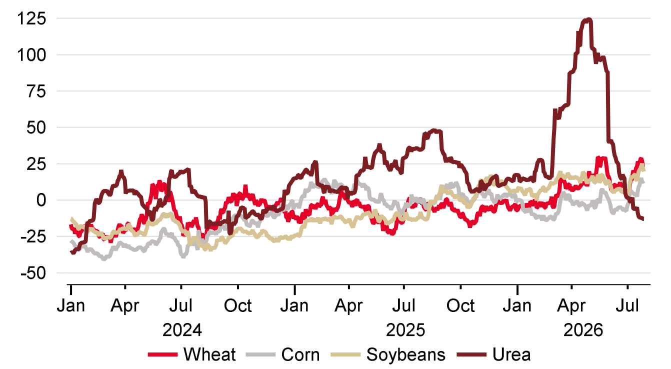
The annual decline in prices has continued to deepen across the entire food sector (%, yoy)



Source: CZSO, Economic and Strategy Research, Komerční banka
Note: The price categories shown only reflect the trend in food prices, excluding all beverages and tobacco.

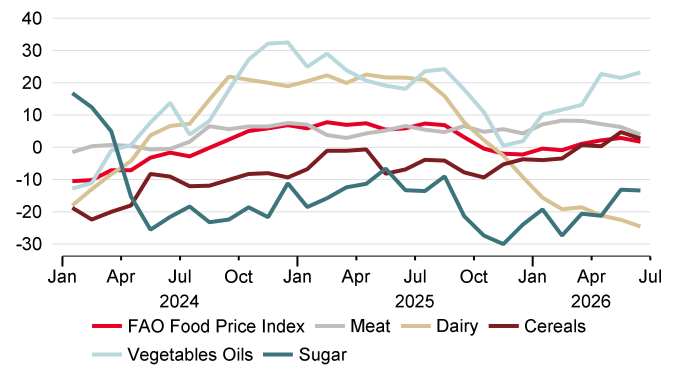
Food prices are declining for the time being. Consumer food prices, excluding all beverages and tobacco, saw their annual decline deepen during 2Q26, reaching -3.4% yoy in June. The same trend was visible in food and agricultural producer prices as well as food import prices, where the year-on-year declines were even sharper. Concerns had emerged that higher prices for fuel and agricultural fertilisers, linked to the conflict in the Middle East, could reverse the downward trend in food prices. Leading indicators do not currently suggest that such a reversal is likely in the coming months. For domestic food producers, prices fell not only year-on-year but also month-on-month in May and June. In addition, neighbouring countries are also recording a slowdown in consumer food price inflation. Prices of agricultural fertilisers have corrected significantly after their previous increase. Some key agricultural commodities, such as cereals, have become more expensive over the past year, possibly reflecting signs of a weaker harvest this year. At the same time, however, wholesale prices of other agricultural products, including dairy products and sugar, continue to fall sharply. We therefore forecast only a slight increase in domestic consumer food prices, including all beverages and tobacco, of 0.3% this year. However, in 2027, we expect food prices to rise more markedly, by 3.0%, driven by delayed effects from higher fuel and natural gas prices, the impact of adverse weather conditions on global agricultural harvests and rapid domestic wage growth.

Spot prices of key agricultural commodities and fertilisers on global markets (%, yoy)



Source: Macrobond, Economic and Strategy Research, Komerční banka
Note: Prices as of 28 July 2026.

Price trends for individual agricultural commodities vary considerably (%, yoy)

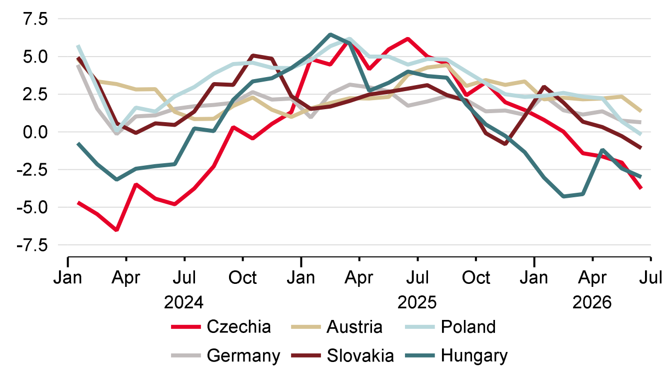


Source: FAO, Macrobond, Economic and Strategy Research, Komerční banka

With the ongoing conflict in the Middle East, there is an increasing likelihood that higher energy costs will be reflected in other prices across the economy.

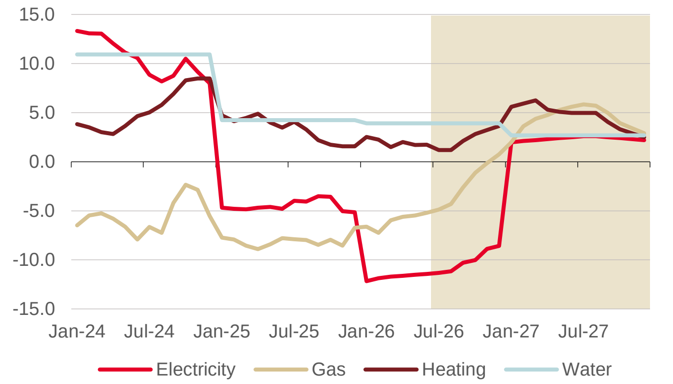
The second-round effects of higher energy prices are likely to lead to a gradual increase in year-on-year inflation over the remainder of this year. The likelihood of these effects materialising rises the longer the Middle East conflict continues. In addition to food prices, household energy costs are also likely to be affected. We expect households to begin feeling the adverse impact with the start of the new heating season this autumn, particularly in the form of higher natural gas and heating prices. For electricity prices, following this year's sharp decline, linked to the transfer of renewable energy payments from households to the state – a measure that also significantly affects the overall trend in regulated prices – we expect only a modest increase next year. Consequently, we forecast a rise in regulated prices of 2.6% in 2027 after a 0.9% decline this year. Increases in public transport tariffs may also play a role. But at the same time, our forecasts for next year are affected by the expected abolition of licence fees for radio and television broadcasting, which is set to have the opposite effect. Given recent developments, this measure appears increasingly likely and we have therefore already incorporated it into our forecasts. We estimate that it will reduce headline inflation next year by around 0.2pp. The expected gradual rise in food price inflation and regulated prices is the main reason why we expect year-on-year inflation to accelerate over the remainder of this year and approach 3% by year-end. However, if the second-round effects of the energy shock do not materialise, as has been the case so far, or if this year's agricultural harvest turns out better than expected, a more pronounced increase in inflation over the rest of the year may not occur.

Over the past year, food price inflation has slowed not only in Czechia, but also in neighbouring countries (HICP, %, yoy)



Source: Eurostat, Macrobond, Economic and Strategy Research, Komerční banka
Note: Changes in consumer prices for food, excluding all beverages and tobacco, are calculated using the HICP methodology, which is internationally comparable.

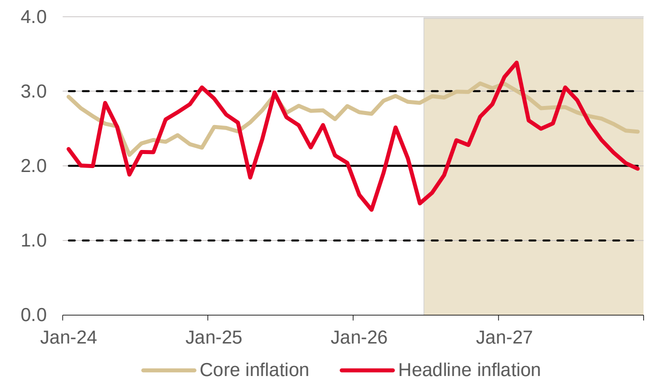
As the new heating season begins, households are likely to feel higher energy costs, especially for gas and heating (%, yoy)



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

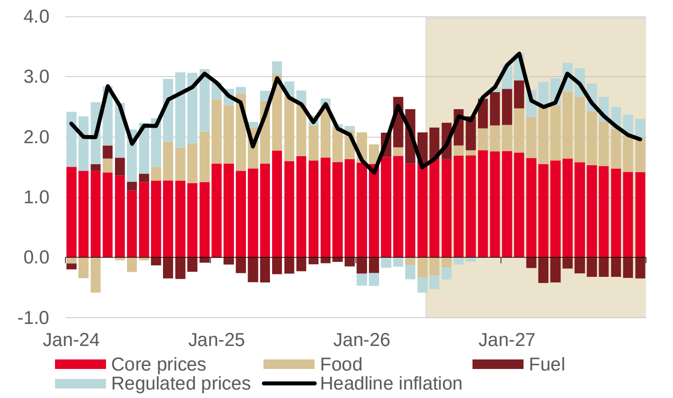
We anticipate a rise in headline inflation from 2.1% this year to 2.6% in 2027, but a slight easing in core inflation from 2.9% to 2.7%. Compared with our April forecast, our current estimates for headline inflation are 0.1pp lower for both years. By contrast, we have raised our core inflation forecast by 0.1pp for 2026, but our estimate for 2027 remains unchanged. Following an increase over the rest of 2026, headline inflation is likely to temporarily exceed the 3% upper limit of the CNB's tolerance band in the first two months of 2027, peaking in February at around 3.5% yoy. This temporary overshoot will, in our view, mainly reflect base effects from early 2026, when annual inflation was well below 2%. From March 2027, we therefore expect inflation to return within the central bank's tolerance band. Core inflation should be less volatile and is likely to remain close to 3% yoy until the beginning of next year. Rising housing costs are likely to remain the main driver of elevated core inflation, reflecting both ongoing rapid growth in property prices and renewed increases in building material costs. Robust domestic demand, supported by rapid wage growth and higher fiscal expenditure, is also set to be an important factor. Although structural imbalances in the housing market suggest that pressure on house and flat prices is unlikely to ease significantly, momentum should moderate somewhat, partly due to a higher rate of new construction. We also expect wage growth to slow against the backdrop of weaker corporate profitability and restrictive monetary policy, while higher base effects contribute to easing core inflation as well. Over the course of next year, we therefore forecast a gradual return of core inflation to 2.5% yoy. However, it is unlikely to fall to the central bank's 2% target in the coming years, due to structural challenges in the Czech economy, particularly in the housing and labour markets.

Inflation is likely to rise to 3% by year-end and peak in February 2027, with core inflation remaining elevated (%, yoy)



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

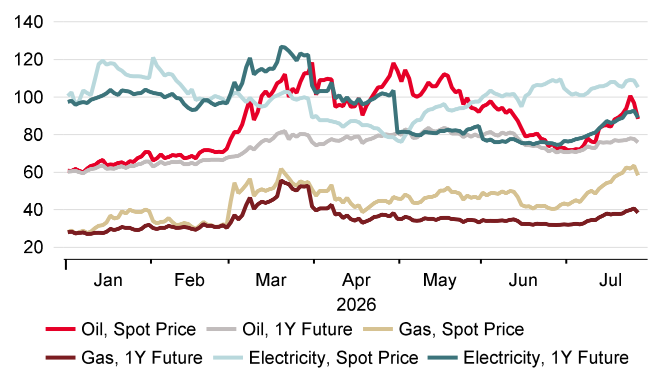
In addition to rising fuel prices, we expect the energy shock to gradually impact other areas of inflation (%, yoy)



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

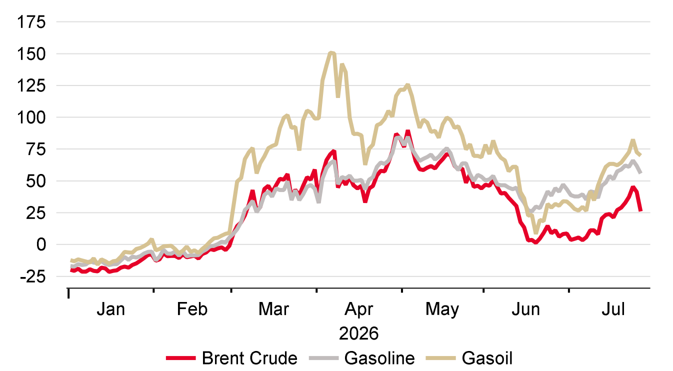
Given the renewed fighting in the Middle East, our inflation forecast is subject to significant uncertainty. However, given the conflict's previous high volatility and the associated sharp fluctuations in financial markets, we believe this constitutes broad uncertainty rather than clearly one-sided risks. In our scenario, we assume that the price of Brent crude oil will rise from an average of USD69.0/bbl in 2025 to USD83.7/bbl this year, before falling again to an average of USD73.1/bbl in 2027. However, beyond crude oil prices, we also take into account the fact that prices of refined petroleum products, which are more relevant for petrol station prices, have been rising faster than crude oil itself. This probably reflects lower global refinery capacity caused by damage to energy infrastructure in Middle East. We also assume that restoring this infrastructure will take time and that any decrease in refined product prices may therefore be less pronounced than the decline in crude oil prices. Overall, however, significant deviations in oil prices in either direction from our assumptions would weaken the validity of our inflation forecast.

The Middle East conflict has raised oil and natural gas prices, whereas electricity prices have not been significantly affected



Source: Macrobond, Economic and Strategy Research, Komerční banka
Note: The price of Brent crude is in US dollars per barrel, while wholesale electricity and gas prices for the European market are quoted in euros per MWh. Prices as of 28 July 2026.

The rise in refined petroleum product prices is stronger than that of crude oil, due to limited refinery capacity (%, yoy)



Source: Macrobond, Economic and Strategy Research, Komerční banka
Note: Prices of crude oil and refined petroleum products on global markets. Prices as of 28 July 2026.

Monetary policy

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

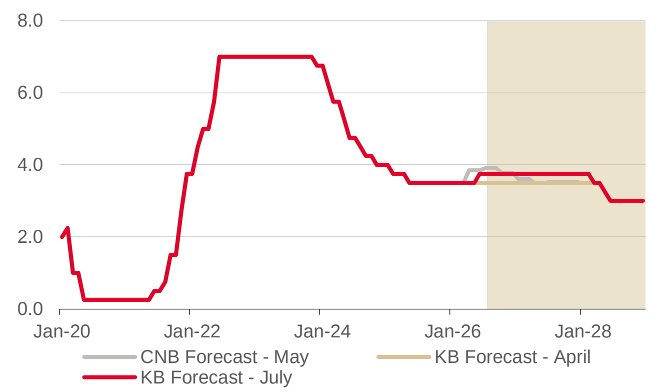
Monetary policy tightening appears appropriate for now

New data released since the CNB's May forecast have mixed implications for monetary policy settings. Weaker GDP growth and lower-than-expected inflation reduce the case for further interest rate increases. However, faster wage growth, persistent core inflationary pressures and robust domestic demand, supported by fiscal expansion, leave little room for monetary policy easing. Taken together, the data would seem to support keeping the repo rate at an elevated level. We interpret the CNB's June rate hike as a pre-emptive move to guard against persistent inflationary risks that were amplified by concerns over the impact of the conflict in the Middle East. In our baseline scenario, we expect the repo rate to remain unchanged at 3.75% for the rest of this year and throughout 2027, with risks tilted more towards a further increase than an imminent cut.

Slower economic growth and lower inflation than the CNB forecast were offset by faster wage growth.

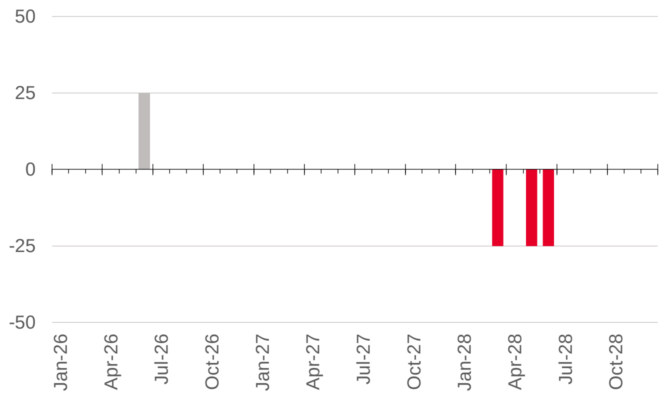
Data released since the CNB's May forecast imply mixed risks for monetary policy. While GDP growth and consumer price inflation came in below the central bank's expectations, wage growth surprised to the upside. GDP growth in 1Q26 was only 0.2% qoq, compared with the CNB's estimate of 0.5%. Household consumption growth was also weaker than expected, at 3.3% vs 3.6% yoy in the CNB forecast. Inflation was highly volatile in 2Q26, which was also reflected in deviations from the central bank's forecast. The April increase in inflation to 2.5% yoy, driven mainly by a sharp rise in fuel prices, was 0.1pp above the CNB's expectation. However, the subsequent easing of tensions in the Middle East, together with a surprisingly sharp decline in food prices, gradually pushed inflation in the opposite direction to the CNB forecast. Inflation of 2.1% yoy in May was in line with the central bank's projection, but the June figure of 1.5% yoy was 0.6pp lower. As a result, inflation averaged at 2.0% in 2Q26 and was 0.2pp below the CNB forecast. Average core inflation at 2.9% yoy in 2Q was consistent with the central bank's forecast, although the June reading of 2.8% yoy was 0.1pp lower. Labour market developments, by contrast, delivered a more pronounced inflationary surprise, with nominal wages rising by 8.1% yoy in 1Q26 compared with 7.0% yoy in the CNB forecast. A significant part of this surprise, however, reflected revisions to historical data.

We expect the repo rate to remain at 3.75%, meaning that monetary policy will be tighter than we previously forecast



Source: CNB, Economic and Strategy Research, Komerční banka

The repo rate is unlikely to return to its policy-neutral level of 3% until 2028 (bp)



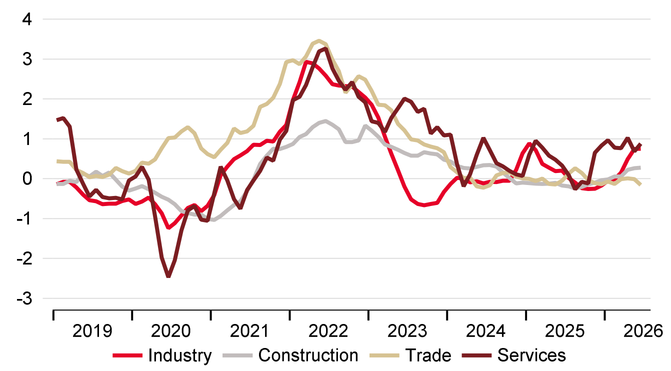
Source: Economic and Strategy Research, Komerční banka

Monetary conditions in 2Q26 were slightly more accommodative than assumed in the CNB's May forecast. The forecast was based on an increase in the repo rate from 3.5% in 1Q26 to an average of 3.9% in 2Q26. The actual quarterly average, however, was only slightly above 3.5%, as the central bank raised interest rates by 25bp only at its meeting at the end of June. As in 1Q26, the koruna exchange rate averaged EURCZK 24.3 in 2Q, in line with the CNB's May forecast.

We expect the repo rate to remain at 3.75% for the rest of this year and throughout next year, although further increases cannot be ruled out.

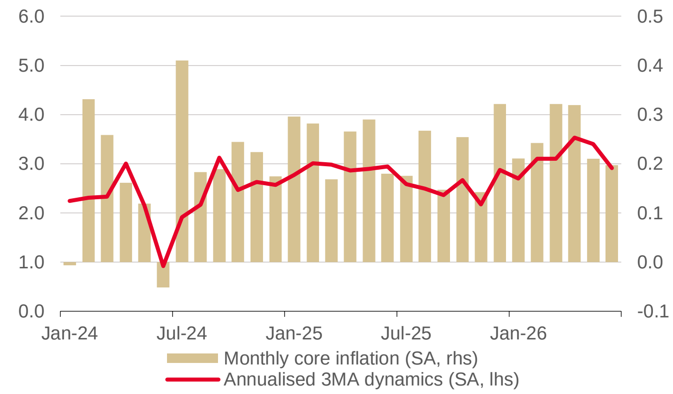
We interpret the CNB's June interest rate increase as a pre-emptive measure to guard against mounting inflationary risks. Consistent with this interpretation, the Bank Board stated after the June decision that the move did not necessarily mark the beginning of a new monetary policy cycle, although it added that further rate increases could not be ruled out. Six out of the seven Bank Board members voted in favour of raising the two-week repo rate by 25bp to 3.75% in June. The decision followed a pronounced hawkish shift in the central bank's communication and primarily reflected concerns over persistent domestic inflationary pressures, particularly in the context of heightened external risks related to the conflict in the Middle East. The Bank Board continued to identify the rise in core inflation as a key concern, given that the rate remained close to the 3% upper limit of the tolerance band around the CNB's 2% target. In this context, the Bank Board also continued to emphasise rapid wage growth, stronger lending activity and rising fiscal expenditure. These factors could reinforce domestic demand and contribute to core inflation remaining elevated for an extended period. In our April forecast, we had not expected the CNB to raise rates in June and had assumed a modest weakening of the koruna to EURCZK 24.5 in 2Q26. Monetary conditions are therefore tighter than we previously expected, both at the start of the forecast horizon and over its course.

Inflation expectations are elevated in services and industry, but stay within the range of the past two years (z-score, SA, 3MA)



Source: DG ECFIN, Macrobond, Economic and Strategy Research, Komerční banka
Note: Price expectations across sectors according to a European Commission survey.

Core inflation momentum weakened in May and June, yet it remains above the CNB's 2% target (%, mom)



Source: CNB, Economic and Strategy Research, Komerční banka

In our baseline scenario, we expect the repo rate to remain unchanged at 3.75% for the remainder of this year and throughout 2027. Monetary conditions are likely to stay restrictive, in our view, supported also by the strength of the Czech koruna, which continues to withstand geopolitical pressures. According to our forecast, growth in wages, lending activity and house prices should gradually slow. Seasonally adjusted month-on-month core inflation eased in May and June, reaching its lowest level since the start of this year. In the forecast, however, we expect that core inflation momentum will pick up again in 2H26 as second-round effects from the conflict in the Middle East begin to materialise, although the magnitude of these effects remains highly uncertain. Even so, we do not anticipate year-on-year core inflation to accelerate significantly further. It should, in our view, remain close to 3% until the beginning of next year before declining gradually to 2.5% by the end of 2027, supported also by a higher comparison base. The turn of 2027 and 2028 also corresponds to the current monetary policy horizon, meaning that the central bank has only limited scope to affect earlier inflation developments. Risks to our interest rate forecast remain skewed towards a possible further increase if the momentum in the indicators mentioned above does not ease, if the conflict in the Middle East generates significant second-round effects, or if domestic fiscal policy creates stronger inflationary pressures than assumed in our forecast. We do not expect the repo rate to return to its policy-neutral level of 3% until 2028. In our view, an earlier rate cut would be constrained by the ongoing expansion of the economy, which, partly owing to structural imbalances in the housing and labour markets, including unfavourable demographic trends, is likely to keep core inflation above 2% for an extended period. Core inflation has remained continuously above the 2% target since 2018.

Fiscal policy

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

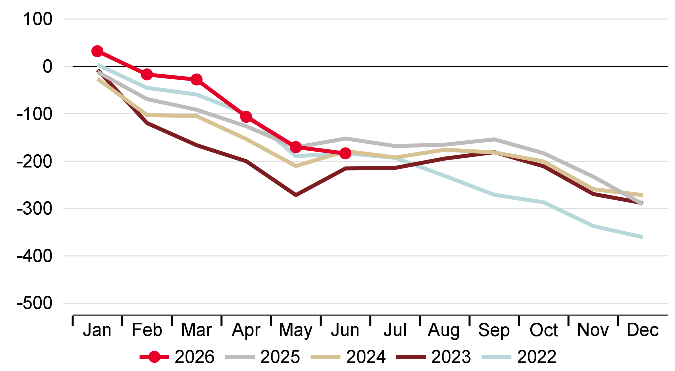
Deficit on the rise despite economic growth

Although the cash deficit in the state budget exceeded CZK180bn by the middle of the year, the full-year target of CZK310bn should still be achievable. At the same time, we expect the general government deficit to increase from 2.1% of GDP last year to 2.8% this year. We also anticipate a significant positive fiscal impulse due to the relaxation of national fiscal rules next year, when the general government deficit could exceed 3% of GDP. Thus, despite solid economic growth, fiscal policy is likely to remain expansionary this year and next. We do not expect significant consolidation in the coming years either. We therefore expect public debt to rise gradually, reaching 50% of GDP by the end of the decade.

The end of the provisional budget resulted in the deficit widening

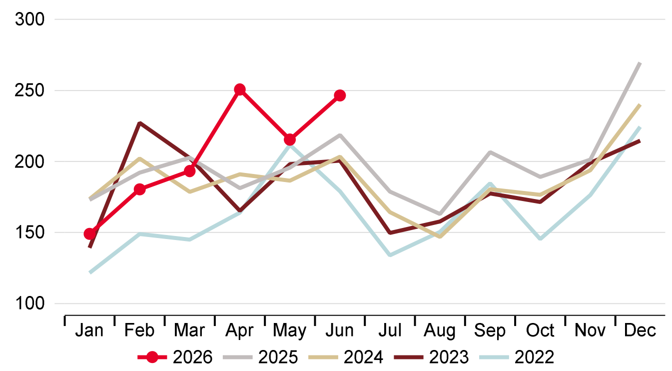
By the end of June, the state budget deficit had reached CZK183.6bn. This represents a deficit that is CZK31.2bn - or CZK52.9bn after adjusting for the balance with the EU - deeper than a year ago. June's result alone, at -CZK13.4bn, was CZK31.5bn worse than last year. The rapid widening of the deficit in the second quarter was driven by the end of the provisional budget, which, in the first three months of this year, had limited transfers and pre-financing in areas such as regional education, social services and research. The year-on-year increase in expenditure in the first half of the year was mainly driven by social benefits (pensions), which account for the largest share, as well as pre-financing of payments for state-insured individuals and contributions to the EU budget. However, we still believe that the approved full-year deficit of CZK310bn is achievable. This is because the second half of the year - and the third quarter in particular - are traditionally much more favourable in terms of cash budget development.

State budget balance (CZKbn, ytd cumulative)



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

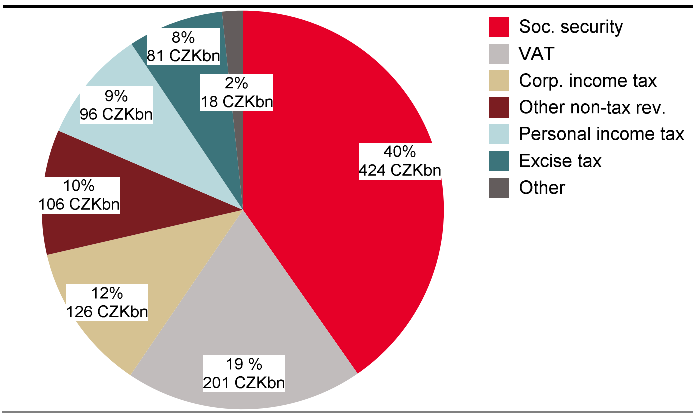
State budget expenditure (CZKbn, non-cumulative)



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

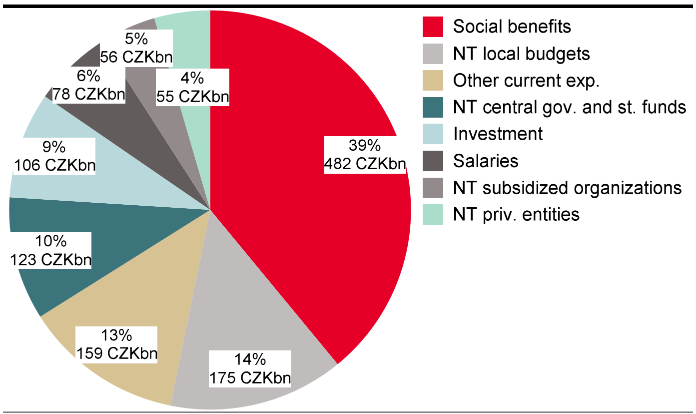
Revenue growth remains solid. On a ytd basis, revenue for the first six months increased by 4% yoy (+CZK40.7bn). Social security contributions were the most significant contributor to this growth (+CZK25.6bn, or 6.4% yoy), driven by continued robust growth in wages and salaries. However, the increase in the assessment base for self-employed individuals may also have played a role. Revenues from the EU were also notably higher (+CZK22.2bn, +36.5% yoy), possibly due to the drawdown of pre-financed projects from last year, as indicated by the positive CZK20bn balance with the EU. Year-on-year growth in VAT, corporate income tax and personal income tax - which nevertheless remained clearly positive - is being dampened this year by administrative measures in the form of a reduction in the state budget's share of revenues in favour of municipalities and regions.

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

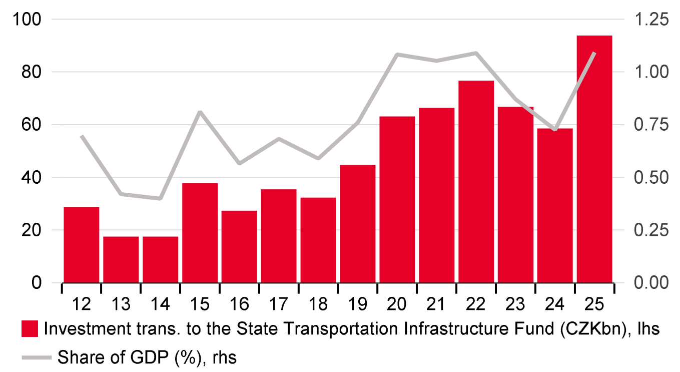
Fiscal policy turns expansionary this year

National budgetary rules are being relaxed. The amendment approved by Parliament regulates the so-called *escape clauses*, among other things. In addition to extending their validity for defence spending, these clauses have also been expanded to cover infrastructure investment projects. Last year, investment transfers from the state budget to the State Fund for Transport Infrastructure (SFDI) reached 1.1% of GDP (CZK94bn). It should now also be possible to increase total expenditure[1] by up to 10% in the event of a 'deteriorating security situation', as determined by the State Security Council (consisting of government members). Any future consolidation of public budgets will now be guided by a fiscal-structural plan, meaning the law no longer contains a specific trajectory for the maximum structural deficit of public finances. These and other changes generally relax budgetary rules beyond those at the EU level. However, even within the EU framework, it is possible to invoke the defence-spending exemption, which could ultimately result in a public finance deficit exceeding 3% as early as 2027. Nevertheless, the budget could remain in compliance with European fiscal rules and thus the *excessive deficit procedure* would not be triggered. Additionally, the cash and accrual methods for reporting government loans for the construction of new reactor units at the Dukovany nuclear power plant will be harmonised so that neither set of statistics will include them (thus far, the cash-based deficit has included them).

According to our baseline scenario, discretionary fiscal policy measures will clearly have an expansionary impact on the economy this year and next. Following the reduction in the structural deficit of public finances in 2024 - to which the previous government's consolidation package, among other factors, contributed - 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. We also anticipate that the structural balance will continue to deepen next 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 of the *Czech Economic Outlook*: https://bit.ly/CEO_4Q25_EN.

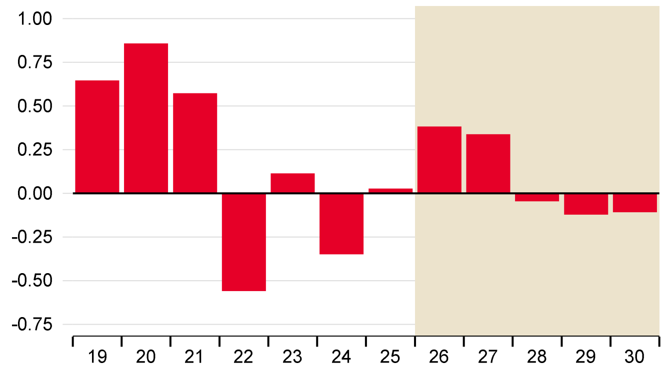
[1] Total state budget expenditure reached CZK2,371.8bn in 2025 and it is planned to reach CZK2,428.0bn in 2026.

Investment transfers to the State Transportation Infrastructure Fund from the State budget



Source: MinFin, Economic & Strategy Research, Komerční banka

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.

Next year, the deficit could exceed 3% of GDP

Last year, the public finances ended with a deficit of 2.1% of GDP. We expect this to increase to 2.8% of GDP this year and reach 3.2% in 2027.

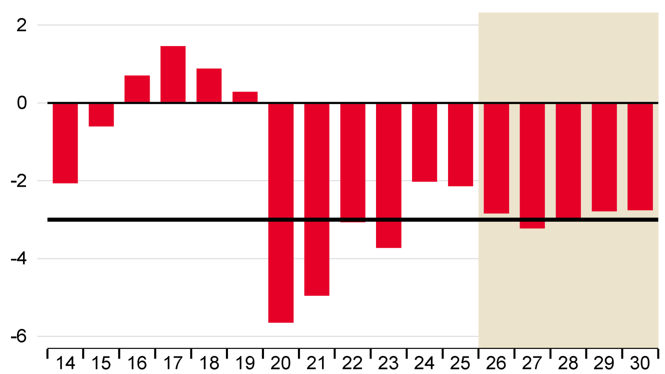
We expect the general government deficit to rise to 2.8% of GDP this year. Unlike for the central government accounts or the national budget, the general government deficit as a whole will be offset by the positive balance of local governments, which has been in surplus since 2013. Based on the government's statements to date and the escape clauses described above, we anticipate that the state budget cash deficit will widen to CZK360bn next year, with the general government deficit reaching 3.2% of GDP. The Ministry of Finance's new fiscal-structural plan calls for public budget consolidation in the coming years. However, given that the measures required to achieve this are unclear, we are maintaining a deficit of around 3% of GDP across our entire forecast horizon for now. According to our estimates, public sector debt to GDP will grow by an average of 1.5pp per year between 2026 and 2030, reaching 51.5% of GDP in 2030.

Public finance forecasts

	2025	2026f	2027f	2028f	2029f	2030f
Balance (% GDP)	-2.1	-2.8	-3.2	-3.0	-2.8	-2.8
Fiscal effort (pp GDP)	0.0	-0.6	-0.6	0.1	0.2	0.2
Public debt (CZKbn)	3,786.3	4,096.3	4,481.3	4,856.3	5,221.3	5,586.3
Debt ratio (% GDP)	44.1	45.7	47.4	48.9	50.2	51.5

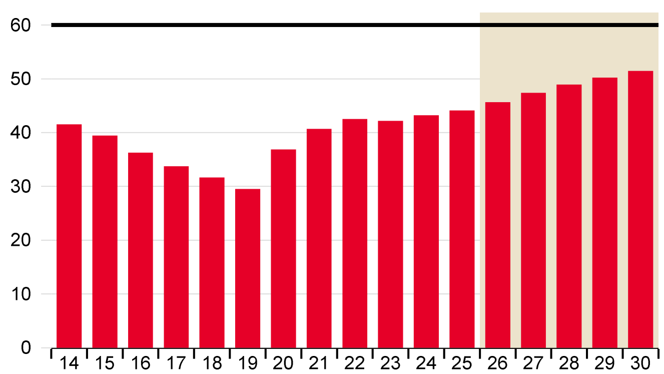
Source: CZSO, Macrobond, Ministry of Finance for published data, Economic & Strategy Research, Komerční banka
Note: fiscal effort is measured as the yoy change in the public finance balance, adjusted for the economic cycle and one-off operations on GDP in pp.

Public finance balance (% of nominal GDP)



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

Public debt (% of nominal GDP)



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

Summary forecast table

	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27	Q2 27	Q3 27	2025	2026	2027	2028	2029	2030
GDP and its breakdown														
GDP (real, yoy, %)	2.8	2.2	2.2	2.1	2.1	2.6	2.7	2.8	2.7	2.1	2.6	2.6	2.4	2.2
Household consumption (real, yoy, %)	3.0	3.3	3.2	3.4	2.7	3.1	2.8	2.5	2.6	3.1	2.7	2.2	1.9	2.1
Government consumption (real, yoy, %)	1.9	1.4	1.3	1.2	2.3	2.7	2.6	2.4	2.2	1.6	2.4	2.3	2.3	2.0
Fixed investment (real, yoy, %)	6.6	6.0	5.7	4.2	2.8	1.9	2.0	2.2	3.3	4.7	2.2	2.4	2.3	2.4
Net exports (contribution to yoy)	0.0	-1.5	-1.2	-0.9	-0.6	0.3	0.9	0.8	-0.6	-1.0	0.6	0.5	0.4	0.2
Inventories (contribution to yoy)	-0.8	0.1	-0.1	0.0	0.3	-0.2	-0.4	-0.2	0.7	0.1	-0.2	0.0	0.2	0.1
Monthly data from the real economy														
Foreign trade (CZKbn)	47.6	69.6	41.7	-18.6	15.9	78.4	63.9	19.1	206.8	108.6	199.1	237.6	280.0	295.3
Exports (nominal, yoy, %)	-0.3	2.6	6.3	11.5	9.5	4.9	8.2	2.2	2.5	7.4	4.8	6.1	5.6	5.2
Imports (nominal, yoy, %)	-1.0	3.4	7.8	15.8	12.6	4.4	6.7	-0.8	2.9	9.9	3.1	5.6	5.1	5.2
Industrial production (real, yoy, %)	4.3	1.2	2.4	2.7	1.2	2.6	1.4	2.6	2.1	1.9	2.4	2.9	2.5	2.3
Construction output (real, yoy, %)	7.0	4.1	0.0	1.2	5.0	3.3	3.7	1.2	10.7	2.6	2.7	3.1	2.4	2.2
Retail sales (real, yoy, %)	2.9	4.4	3.5	3.6	3.1	2.3	2.2	2.9	3.3	3.7	2.6	2.4	2.3	2.1
Labour market														
Wages (nominal, yoy, %)	6.7	8.1	6.7	6.9	6.8	6.1	6.3	6.5	6.6	7.1	6.1	5.2	4.8	4.4
Wages (real, yoy, %)	4.4	6.3	4.6	4.8	4.3	2.8	3.3	3.8	4.1	5.0	3.4	3.4	2.7	2.4
Unemployment rate (MLSA, %)	4.7	5.1	4.8	4.9	4.7	5.0	4.6	4.6	4.4	4.9	4.7	4.4	4.5	4.6
Unemployment rate (ILO 15+, %)	2.9	3.1	2.9	3.1	2.9	3.0	2.8	2.9	2.8	3.0	2.9	2.8	2.9	3.0
Employment (ILO 15+, yoy, %)	1.4	1.1	1.1	0.9	0.8	0.4	0.4	0.5	1.2	1.0	0.5	0.4	0.3	0.1
Consumer and producer prices														
CPI Inflation (yoy, %)	2.2	1.6	2.0	2.0	2.6	3.2	2.8	2.5	2.5	2.1	2.6	1.8	2.1	2.0
Taxes (contribution to yoy inflation)	0.2	-0.3	-0.4	-0.3	-0.3	0.1	0.2	0.1	0.2	-0.3	0.1	0.0	0.0	0.0
Core inflation (yoy, %) (*)	2.7	2.8	2.9	2.9	3.0	3.0	2.8	2.7	2.7	2.9	2.7	2.3	2.2	2.0
Food prices (yoy, %) (*)	2.3	1.0	-0.4	-0.4	1.1	2.4	3.8	3.5	3.4	0.3	3.0	1.8	2.0	1.9
Fuel prices (yoy, %) (*)	-3.6	-1.6	24.9	18.8	17.5	9.8	-11.2	-10.0	-6.7	14.9	-5.6	-5.8	-0.4	1.2
Regulated prices (yoy, %)	0.4	-1.3	-1.3	-1.1	0.0	2.6	2.8	2.7	0.9	-0.9	2.6	1.7	2.1	2.0
Producer prices (yoy, %)	-1.5	-2.3	1.3	2.4	2.3	5.2	2.6	1.6	-0.8	0.9	2.8	1.1	1.8	2.0
Financial variables														
2W Repo (%, average)	3.5	3.5	3.5	3.8	3.8	3.8	3.8	3.8	3.6	3.6	3.8	3.3	3.0	3.0
3M PRIBOR (%, average)	3.5	3.5	3.6	3.9	3.9	3.9	3.9	3.9	3.6	3.7	3.9	3.4	3.1	3.1
EUR/CZK (average)	24.3	24.3	24.3	24.3	24.2	24.1	24.0	23.9	24.7	24.3	23.9	23.6	23.4	23.4
External environment														
GDP in EMU (real, yoy, %)	1.2	1.1	0.9	0.8	0.7	0.8	1.1	1.2	1.1	0.9	1.1	1.3	1.2	1.1
GDP in Germany (real, yoy, %)	0.4	0.3	0.2	0.3	0.3	0.3	0.9	1.2	0.3	0.3	0.9	1.2	1.1	1.0
CPI in EMU (yoy, %)	2.1	2.1	3.1	3.4	3.5	3.4	2.7	2.3	2.1	3.0	2.7	2.4	2.3	2.0
Brent oil price (USD/bbl, average)	64.3	71.6	108.1	80.0	75.0	75.0	75.0	72.5	69.0	83.7	73.1	68.1	67.0	67.8
EUR/USD (quarter eop, year average)	1.16	1.17	1.16	1.12	1.11	1.11	1.13	1.14	1.13	1.14	1.13	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

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

On a geopolitical roller coaster

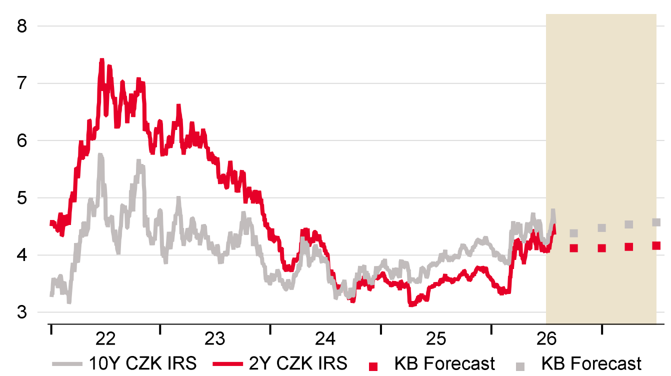
Geopolitics remains the main driver of koruna market interest rates. Aggressive bets on the CNB tightening its monetary policy have flattened the market interest rate curve. However, we expect the curve to gradually re-steepen. In our view, the CNB is likely to keep rates stable, which would push down the short end of the curve, while we expect the longer end to remain at elevated levels following a partial correction, held up by fiscal easing, both domestically and abroad. In the coming months, the spread between government bond yields and market rates will likely be kept in check by subdued supply related to the resumption of retail bond issuance. However, next year, the effects of a widening budget deficit and a higher volume of refinancing should begin to dominate.

Koruna market interest rates continue to be driven by external developments

Market interest rates are primarily being affected by developments in the Middle East. In June, hopes for a ceasefire between the US and Iran, coupled with the gradual resumption of shipping in the Strait of Hormuz, pushed global market interest rates downward. However, July was again marked by a rise in oil prices. These developments affect not only the expected trajectory of central bank interest rates. Inflation concerns stemming from higher energy prices, against the backdrop of fiscal easing in a number of countries, are also putting pressure on longer-term market interest rates and government bond yields.

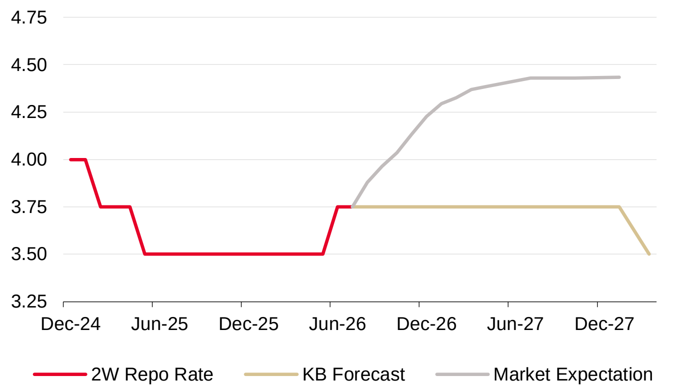
Short-term koruna rates could fall slightly as expectations of further CNB tightening are scaled back. As we explain in more detail in the *Monetary Policy* chapter, our baseline scenario assumes stability in monetary policy rates this year and next. However, the koruna money market is currently pricing in between two or three additional 25bp interest rate hikes over the next year.

IRS forecast (%)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Expected CNB key interest rate path (%)



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

We expect the longer end of the koruna curve to rise gradually following a correction driven by the expected stabilisation of the situation in the Middle East. Easing fiscal policy both in the Czech Republic and abroad should contribute to this. While the market consensus currently expects the domestic public finance deficit to reach 2.9% next year, we estimate it at 3.2%. Furthermore, in light of the relaxation of national budget rules, we see a risk of an even more significant fiscal stimulus. Overall, this would lead to a steeper slope in the koruna market interest rate curve, which flattened significantly with the July wave of geopolitical escalation. Compared with our previous forecast, we have raised our outlook for koruna rates due to the CNB's higher repo rate and a deeper public finance deficit, while external assumptions (including oil prices) have not undergone any major revisions.

In our baseline scenario, the risk continues to be skewed towards higher koruna market interest rates. As discussed in detail in a special box in the April issue of the *Czech Economic Outlook,* a prolonged oil shock could lead to significant upward pressure on interest rates across all maturities.

CZK IRS outlook (end of period, %)

	3Q26f	4Q26f	1Q27f	2Q27f
2y	4.10	4.10	4.15	4.15
5y	4.25	4.35	4.40	4.40
10y	4.40	4.45	4.55	4.55

Source: Economic & Strategy Research, Komerční banka

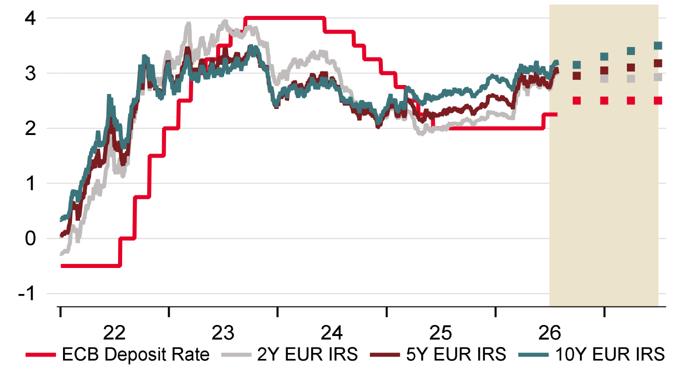
Interest rate hedging conditions are deteriorating. In the short term, hedging opportunities could primarily arise from declines linked to potential reports of de-escalation of the conflict in the Middle East, as well as the CNB's reluctance to raise monetary policy rates as aggressively as the koruna money market currently prices in. Compared to spot IRSs, the forward market offers higher rates across the entire curve. Interest rates in the eurozone remain noticeably lower than in the koruna market, and the interest rate spread has widened again in July.

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

Forward \ Maturity	1Y	2Y	3Y	5Y	10Y
Spot	4.29	4.45	4.51	4.56	4.65
3M	4.40	4.48	4.48	4.60	4.68
6M	4.53	4.58	4.53	4.64	4.71
9M	4.51	4.55	4.53	4.65	4.72
1Y	4.50	4.51	4.53	4.65	4.72
2Y	4.52	4.54	4.70	4.70	4.78
3Y	4.56	4.79	4.76	4.75	4.84

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

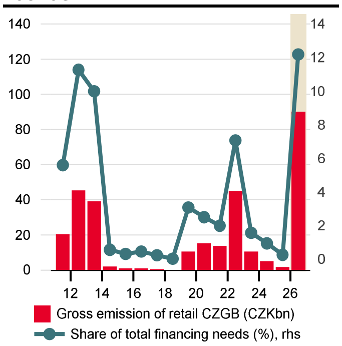
Euro area rates (%)



Source: Bloomberg, Economic & Strategy Research, Komerční banka

CZGB issuance to rise this year

Issuance of retail government bonds



Source: MinFin, Economic & Strategy Research, Komerční banka

In the second half of the year, the supply of government bonds on financial markets will be reduced by issuance of retail bonds to citizens. During the first subscription period of this year, the Ministry of Finance (MinFin) issued retail bonds and T-bills totalling CZK74bn. Furthermore, the full-year amount is set to increase given that another round of three-month retail T-bill[2] will be issued on 15 October, with yields linked to the CNB's repo rate. The final pre-Christmas subscription period will impact next year's financing needs, as the bonds subscribed during this period will not be issued until 15 January 2027. So far this year, MinFin has issued a total of CZK183.6bn in bonds on the primary market (MinFin projects CZK270-370bn for the full year), as well as an additional CZK121.8bn on the secondary market through direct sales and swap transactions. At the same time, the MinFin has already covered all of this year's koruna-denominated debt repayments. Overall, we estimate that approximately CZK100bn will be issued on the financial markets during 2H26. Therefore, issuance activity in the coming months is likely to remain subdued, and we expect the full-year

[2] During the first subscription period, demand reached CZK27.6bn.

volume of CZGBs sold on the primary market to be closer to the lower end of the range indicated by the MinFin.

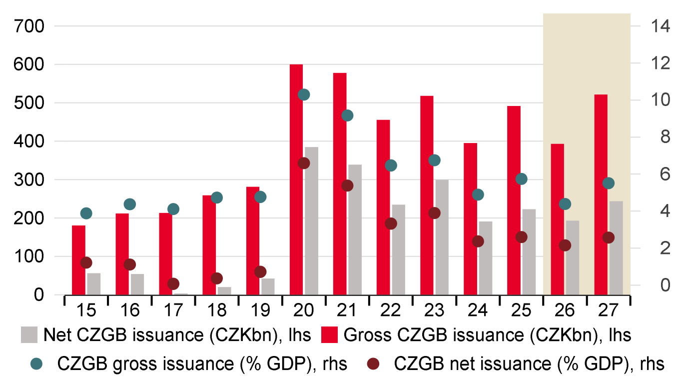
Next year, we expect gross CZGB gross issuance to increase compared to this year due to a larger volume of refinancing and a deeper government budget deficit. We expect this increase to be driven largely by the rise in the volume of maturing bonds; however, even in net terms, we estimate that the easing of fiscal policy will increase issuance by about one-quarter. In line with this, we anticipate that the spread between government bond yields and market interest rates will widen again next year.

Funding programme and issuance activity (CZKbn)

	2026		2027	
	MinFin	KB	MinFin	KB
State budget deficit	310.0	310.0	??	360.0
Transfers and other operations of state financial assets	3.6	3.6	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	36.2	35.9
Redemptions and early redemptions on savings bonds	20.4	20.4	12.6	12.6
Money market instrument redemptions	177.5	177.5	165.2	182.9
Redemption of T-bills	165.6	165.6	165.2	182.9
Redemption of other money market instruments	11.9	11.9	0.0	0.0
Repayments on credits and loans	26.4	26.4	0.9	0.9
Total financing needs	**738.2**	**738.2**	**??**	**870.3**
Money market instruments		182.9		182.9
T-bills (incl. EUR)		182.9		182.9
Other money market instruments		0.0		0.0
Gross issuance of CZK T-bonds on domestic market		393.2		521.6
Gross issuance of EUR T-bonds on domestic market/eurobond		12.2		35.9
Gross issuance of government savings (retail) bonds		90.0		80.0
Received credits and loans		60.0		50.0
Financial asset and liquidity management		0.0		0.0
Total financing sources		**738.2**		**870.3**
Gross borrowing requirement		**738.2**		**870.3**
Net CZGB issuance		**192.9**		**243.6**

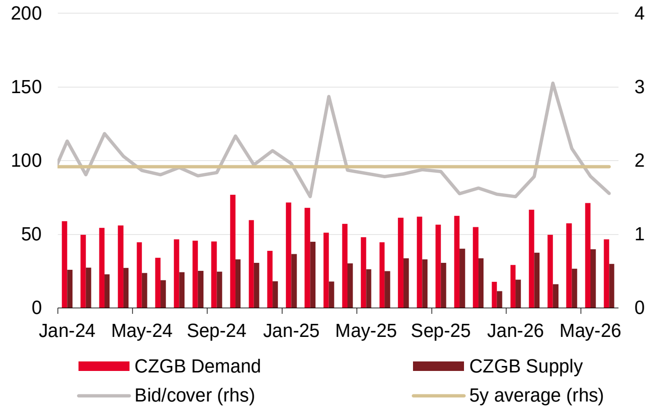
Source: MinFin, Economic & Strategy Research, Komerční banka

CZGB issuance



Source: MinFin, Economic & Strategy Research, Komerční banka

CZGB primary market (CZKbn)



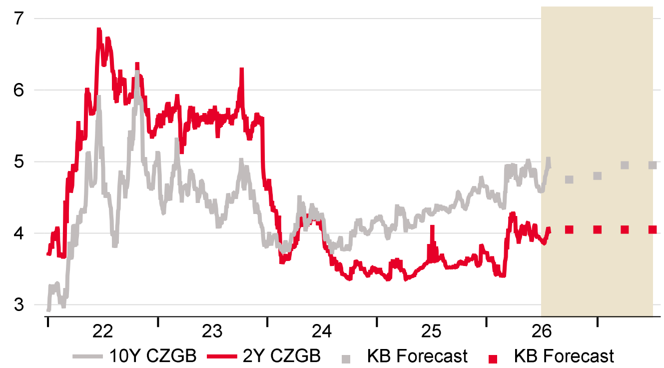
Source: MinFin, CNB, Economic & Strategy Research, Komerční banka

CZGB yield forecast (end of period)

	3Q26f	4Q26f	1Q27f	2Q27f
2y CZGB yield (%)	4.05	4.05	4.05	4.05
5y CZGB yield (%)	4.30	4.40	4.40	4.45
10y CZGB yield (%)	4.75	4.80	4.95	4.95
10y CZGB ASW (bp)	35	35	40	40

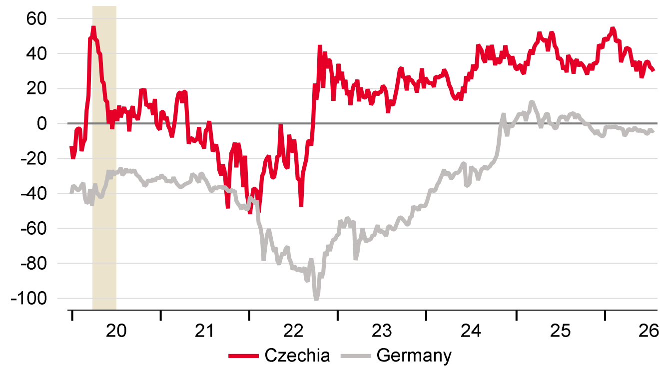
Source: Economic & Strategy Research, Komerční banka

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

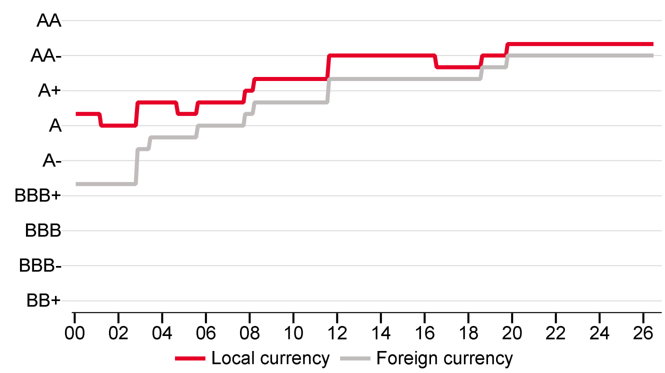
The Czech Republic's credit rating remains unchanged (Aa3/AA-) with a stable outlook. The Czech Republic continues to hold the highest rating among all countries in Central and Eastern Europe. However, given the easing of fiscal policy and budgetary rules, we continue to see a risk that the rating outlook could be downgraded 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

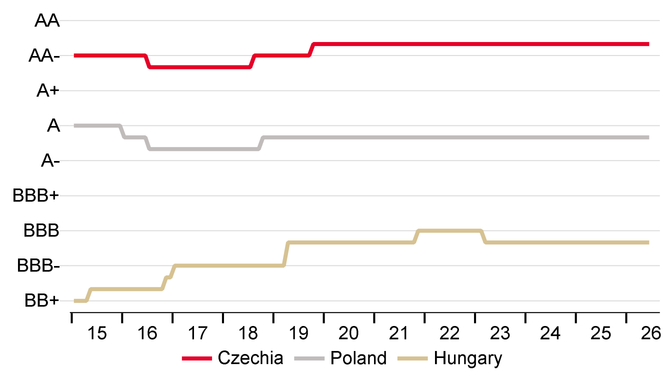
Source: Bloomberg, Economic & Strategy Research, Komerční banka

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)



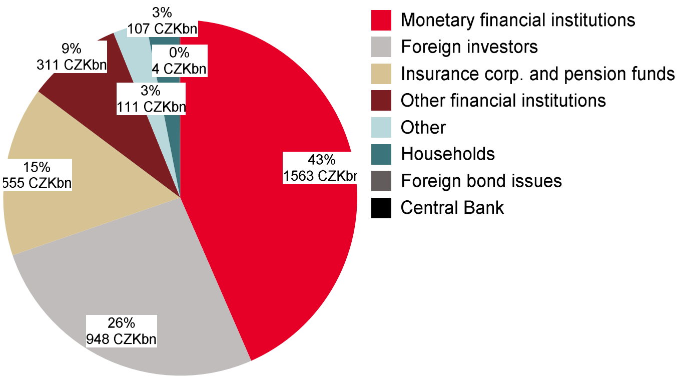
Source: Bloomberg, Economic & Strategy Research, Komerční banka

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	0.5	0.0	110%	3.68	0	12	2.70	-37	2	0	-52		-26	0.2	12	-3.5	6	-21.4	26
2.50 Aug-28	2.0	0.0	94%	3.95	-1	7	2.70	-47	5	-25	-56		-21	-1.5	25	2.0	20	3.7	23
5.50 Dec-28	2.1	0.0	90%	4.00	-7	13	2.74	-43	-1	-18	-51		-20	-1.7	26	3.0	23	5.0	14
5.75 Mar-29	2.4	5.3	133%	4.09	-3	18	2.83	-35	3	-15	-41		-17	-1.2	24	-1.4	9	5.9	5
2.75 Jul-29	2.8	0.0	100%	4.19	1	23	2.90	-28	5	-5	-39		-12	-0.4	19	-5.2	4	6.1	2
0.05 Nov-29	3.2	0.0	61%	4.22	1	22	2.92	-25	4	-11	-36		-12	-0.5	22	-2.4	7	5.7	9
0.95 May-30	3.6	0.0	100%	4.26	3	29	2.95	-22	5	-5	-46		-10	0.2	13	0.3	17	5.7	8
5.00 Sep-30	3.6	0.0	121%	4.32	6	34	3.01	-17	8	-3	-30		-4	0.1	15	0.4	18	6.2	1
3.95 Oct-30	3.7	0.0	10%	4.13	0	28	2.83	-35	3	-8	-46		-17	-0.5	21	19.2	26	4.7	16
1.20 Mar-31	4.3	0.0	100%	4.39	9	37	3.06	-13	9	-1	-26		-4	0.5	5	-0.7	13	5.7	7
6.20 Jun-31	4.2	0.0	103%	4.39	6	32	3.10	-10	8	-4	-153		3	0.4	9	3.5	24	5.9	4
1.75 Jun-32	5.4	0.0	107%	4.55	7	37	3.19	-2	8	-1	-40		5	0.7	3	-0.4	15	5.4	10
4.50 Nov-32	5.2	0.0	130%	4.65	6	38	3.32	11	6	1	-4		17	0.9	2	-5.6	3	6.0	3
3.00 Mar-33	5.7	5.5	88%	4.70	4	39	3.35	12	5	0	2		21	0.5	6	-8.1	2	5.7	6
2.00 Oct-33	6.3	0.0	100%	4.77	4	38	3.38	15	5	0	3		19	1.0	1	-9.0	1	5.4	11
4.90 Apr-34	6.2	0.0	115%	4.74	3	36	3.43	18	5	-1	5		24	0.4	8	-1.1	10	5.3	12
4.25 Oct-34	6.6	5.5	100%	4.81	1	36	3.48	22	3	-2	11		27	0.2	11	-3.6	5	5.2	13
3.50 May-35	7.3	0.0	117%	4.83	3	34	3.48	20	4	-3	10		22	0.7	4	-0.4	16	4.7	17
5.30 Sep-35	6.9	30.2	82%	4.86	0	32	3.57	27	3	-5	16		32	0.0	17	-1.5	8	4.9	15
4.55 Oct-35	7.1	0.0	10%	4.75	5	32	3.45	14	6	-5	0		20	0.4	7	9.7	25	4.4	18
3.60 Jun-36	7.9	7.4	117%	4.88	1	32	3.55	22	3	-4	-25		28	0.3	10	1.2	19	4.4	20
4.20 Dec-36	7.9	0.0	100%	4.89	2	31	3.58	24	4	-5	13		30	0.1	14	3.0	22	4.2	21
4.95 Feb-37	7.9	21.0	42%	4.94	3	31	3.66	31	5	-6	17		37	0.1	16	-1.0	12	4.4	19
1.95 Jul-37	9.4	0.0	71%	4.93	1	27	3.54	17	3	-7	6		25	-0.4	20	2.8	21	3.7	22
1.50 Apr-40	11.5	0.0	65%	5.09	3	26	3.63	18	6	-8	10		27	-0.3	18	-1.1	11	3.2	25
4.00 Apr-44	11.8	0.0	29%	5.22	1	18	3.83	32	24	4	19		52	-0.8	23	-0.4	14	3.5	24

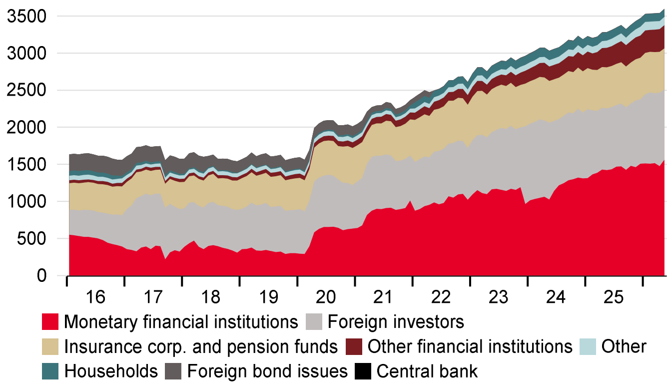
Source: Economic & Strategy Research, Komerční banka; Note: more details in CZGB Auction Alerts

Holdings of CZK government debt (May 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

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

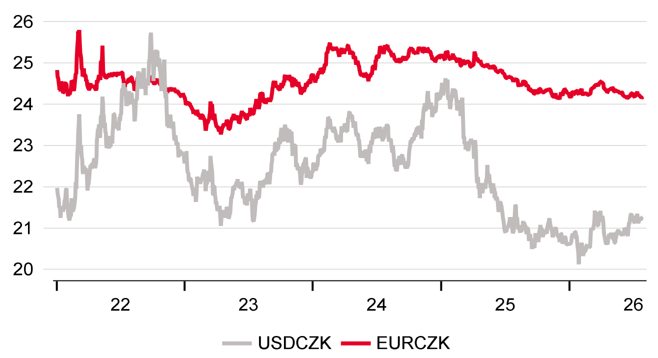
The koruna remains stable

The Czech koruna continues to withstand heightened geopolitical tensions successfully. Episodes of escalation and de-escalation have been accompanied by opposing trends in market interest rates and sentiment towards emerging-market currencies, which have roughly cancelled each other out. In the second half of this year, we believe that a strengthening in the USD and the stability of CNB rates should prevent a more significant appreciation of the koruna. The koruna's gradual strengthening vs the euro should therefore mainly be attributed to the resilience of the Czech economy and its stronger growth momentum compared to the eurozone. Overall, we expect the exchange rate to be around EURCZK 24.20 by the end of the year and EURCZK 24.00 within a year. The gradual deterioration in conditions for hedging the currency against appreciation should therefore continue.

An island of stability in a turbulent geopolitical sea

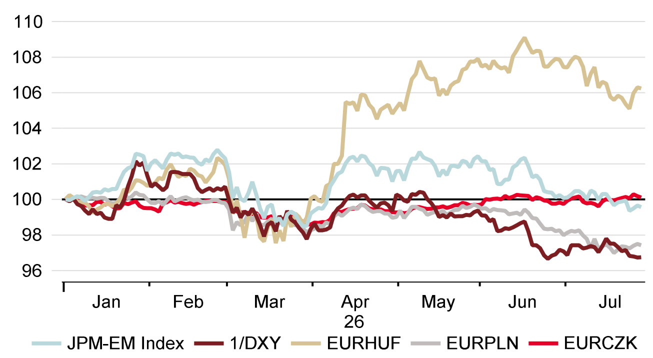
The Czech koruna remains the most stable currency in central Europe. The energy shock linked to the sharp rise in crude oil prices' impact on financial markets has had only a limited effect on the EURCZK so far, which has remained largely unchanged since the beginning of the year. Alternating episodes of escalation and de-escalation in the Middle East appear to have had a relatively limited impact, partly because rising tensions, which are typically associated with unfavourable sentiment towards all emerging market currencies, have simultaneously led to a widening in the interest rate differential in favour of these currencies. Consequently, the two factors have offset each other to some extent. Nevertheless, global developments are unlikely to be particularly favourable for the koruna for the rest of 2026. Our colleagues at Société Générale expect attention to gradually shift back towards economic fundamentals. From this perspective, the US dollar should be the clear winner. The US economy is benefiting not only from favourable short-term exchange rate developments due to higher oil prices, but also from investments in AI and fiscal stimulus. According to our assumptions, the greenback is set to strengthen against the euro to reach a level of EURUSD 1.11 before the end of the year.

CZK exchange rates



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Performance of CE currencies (1 January 2026 = 100)



Source: Bloomberg, Economic & Strategy Research, Komerční banka
Note: a value above 100 indicates an appreciation of the CZK, PLN or HUF against the EUR or the Emerging Market Currency Index (JPM-EM), or a weakening of the Dollar Index (DXY) from 1 January 2026.

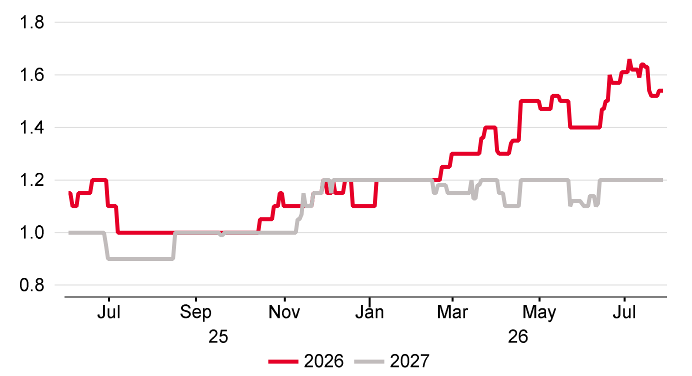
The interest rate differential is unlikely to offer much support to the koruna. In recent weeks, the spread between koruna and euro market interest rates has moved in the opposite direction to the price of oil. We expect the CNB to leave rates unchanged for an extended period of time, which should contribute to a further narrowing in the spread, given that the koruna money market is pricing in between two and three more 25bp increases in the key repo rate over the next 12 months. Meanwhile, our model's estimate of the 3Q26 equilibrium exchange rate is around EURCZK 24.5, and continues to suggest that the koruna is slightly overvalued against the euro.

Conversely, the Czech Republic's growth lead relative to the eurozone looks set to remain significantly positive. According to Bloomberg's median estimate, Czech GDP is set to grow at a 1.5pp higher rate than the eurozone this year, and at a 1.2pp higher rate next year. However, we believe that the growth structure of the Czech economy will not be particularly favourable for the external balance. This is because we expect domestic demand, aided by an accommodative fiscal policy, to be the main driver of growth. At the same time, we believe that the negative shock to the terms of trade caused by rising energy prices will result in a deterioration in both the trade and current account balances, preventing the koruna from appreciating significantly.

The EURCZK and interest rate differential

Source: Bloomberg, Economic & Strategy Research, Komerční banka

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

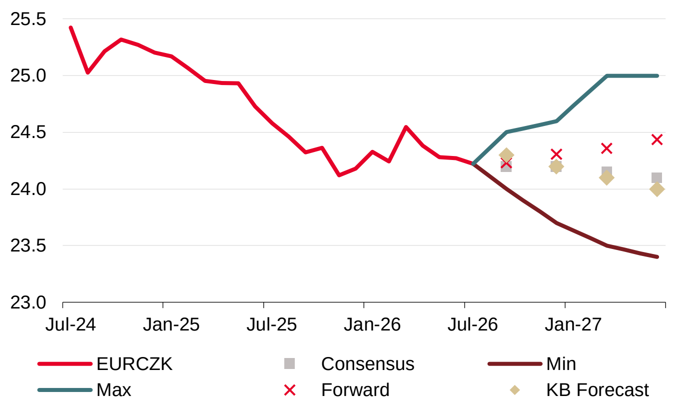


Source: Bloomberg, Economic & Strategy Research, Komerční banka

We have revised our outlook, factoring in a stronger CZK vs EUR compared to our April forecast, primarily due to the CNB's tighter monetary policy.

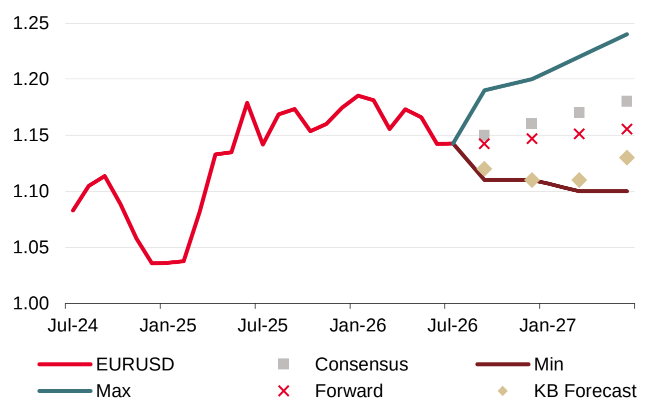
Overall, we expect the koruna's appreciation to pause temporarily. By the end of 3Q26, we see it trading near EURCZK 24.30. As the conflict in the Middle East gradually de-escalates and the Czech economy continues to grow at a solid pace, the koruna could subsequently strengthen slightly. However, given the concurrent strengthening in the US dollar and stable CNB interest rates, the koruna's appreciation should be gradual. Over the next year, we expect the exchange rate to remain at around EURCZK 24.

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



Source: Bloomberg, Economic & Strategy Research, Komerční banka

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



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

Koruna exchange rate forecast (end of period)

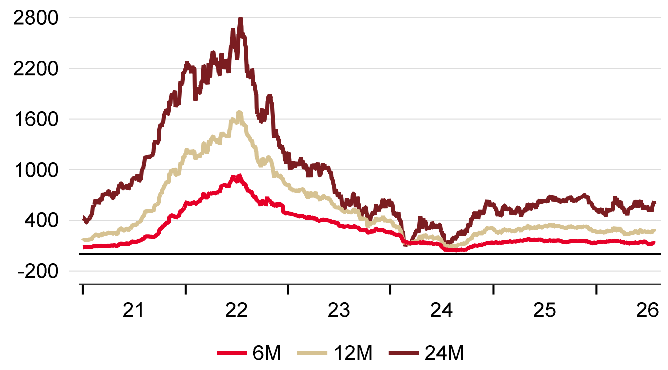
	3Q26f	4Q26f	1Q27f	2Q27f
EURCZK	24.30	24.20	24.10	24.00
USDCZK	21.70	21.80	21.70	21.20
EURUSD	1.12	1.11	1.11	1.13

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

Developments in the Middle East constitute the main risk in the short term

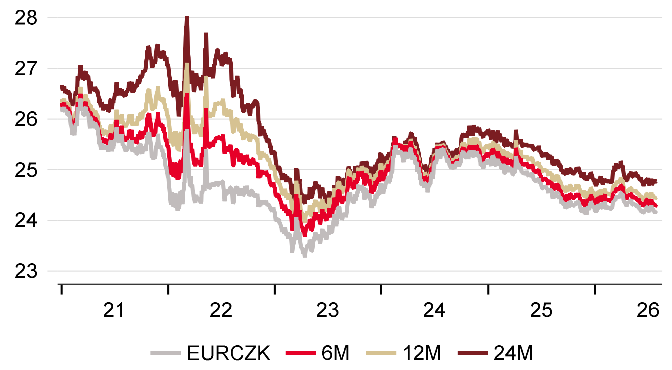
Compared to our baseline scenario, the risks are twofold. They primarily relate to the duration and impact of higher energy prices on the Czech economy. Given the economy still-relatively-high energy intensity we believe there is a risk of a weaker currency. In the event of a prolonged oil shock, this could be partially offset by the interest rate differential, as – contrary to our assumption of stable interest rates – spillover effects into other non-energy components of the consumer basket could lead to a tightening of the CNB's monetary policy. However, we believe that the risks to CNB monetary policy are skewed towards further interest rate hikes, also due to domestic factors (see the *Monetary Policy* chapter for more details).

Forward points



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Forward vs spot exchange rate: EURCZK



Source: Bloomberg, Economic & Strategy Research, Komerční banka

The markets are not signalling any significant fluctuations in the koruna exchange rate over the next few months. Implied volatility and the volatility index are both below the levels seen before the start of the current war in the Middle East. From the perspective of exporters with euro exposure, hedging conditions in our baseline scenario look set to deteriorate slightly further as the spot exchange rate gradually strengthens.

Banking sector

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

Expanding financial cycle despite tighter conditions

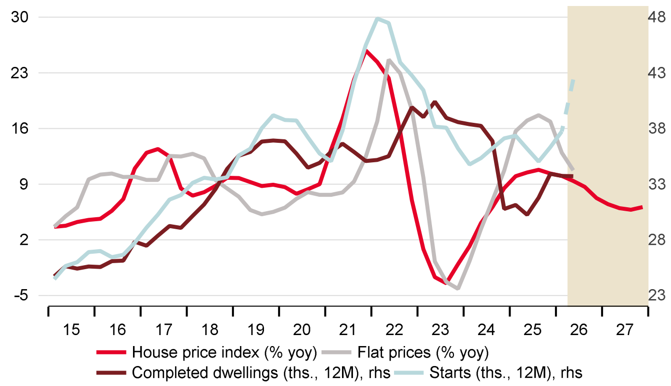
Credit activity should remain robust in the coming quarters, despite higher interest rates and prevailing geopolitical uncertainty. The credit impulse strengthened further in 2Q26, and should continue to support domestic demand growth in the remainder of the year. Nonetheless, new mortgage and consumer lending looks set to cool in 2H26 owing to higher market interest rates. This should further contribute to a moderation in house price growth, which we expect to slow to below 9% on average this year. On the corporate side, we expect the recovery in credit activity to continue, driven by investment demand, fiscal stimulus and structural investments. Therefore, we expect the financial cycle expansion to continue in tandem with the economic cycle despite tighter financial conditions. Solid growth in deposits is set to persist, on our estimates, but an outflow of deposits from local government poses a significant risk next year. Loan default rates remain low despite the strong expansion of the financial cycle.

The overheating housing and mortgage markets are cooling down

The mortgage market looks set to cool in 2H26 due to higher interest rates. This is likely to contribute to a continued moderation in house price growth.

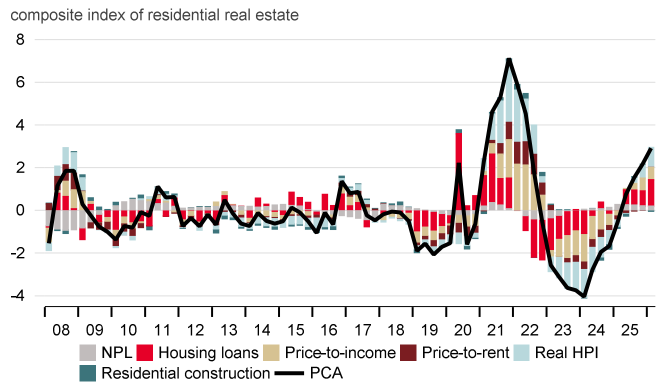
The slowdown in house price growth looks set to continue. Data for 1H26 suggests that price pressures in the housing market are easing. Growth in the House Price Index (HPI) slowed to 10% yoy in 1Q26, and seasonally adjusted growth slowed to 2.3% qoq, compared with last year's average of 2.5%. Growth in asking prices for flats eased to 10.7% yoy in 2Q26 compared with 17.7% yoy in 1Q, while seasonally adjusted growth also lowered to 1.6% qoq (vs 2.4% in 1Q). The continuing slowdown in house price growth should be supported by lower mortgage demand, hit by higher interest rates and the fading effect of pent-up demand and, eventually, frontloading too. We expect next year's increased supply thanks to the rebound in residential construction this year to also alleviate some pressure on house price growth. We look for HPI growth to slow from last year's 10.4% to an average of 8.8% this year. In subsequent years, it should ease further to a range of 5-7%. Even so, it should outpace wage growth given the persistent structural imbalance in the domestic property market. Rising building materials costs (6.7% yoy in June) and the potential introduction of government support measures for housing pose a risk of stronger house price growth than in our baseline scenario. Conversely, a more significant tightening of financial conditions and an economic slowdown could have the opposite effect.

The slowdown in house price growth is set to continue



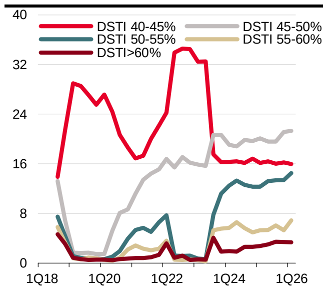
Source: CZSO, Macrobond. Economic & Strategy Research, Komerční banka
Note: data on dwelling completions and starts (as of May 2026) is extrapolated and only indicative for 2Q26. 12M denotes the 12-month trailing sum.

Housing market expansion becoming more all-rounded



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

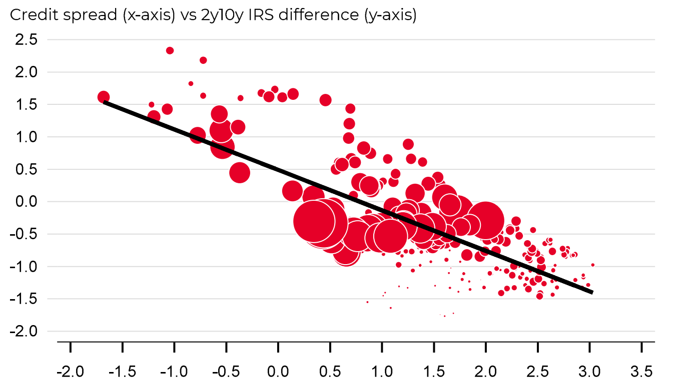
Share of loans by DSTI (%)



Source: CNB, Economic & Strategy Research, Komerční banka

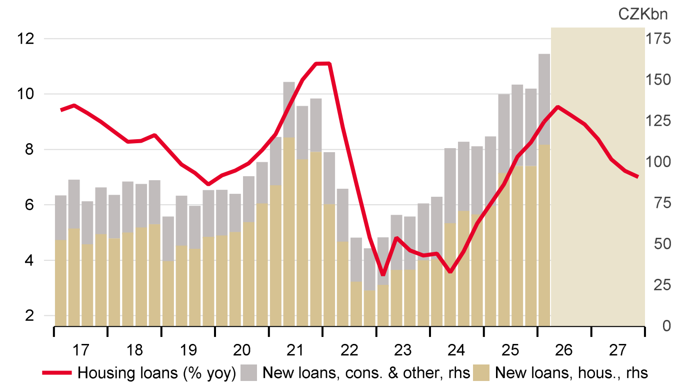
The mortgage market is likely to grow faster than last year, but 2H26 should see a notable slowdown. The volume of (pure) new housing loans was up 53% ytd as of May. There was a notable impact from frontloading ahead of the CNB's recommendation on investment mortgages (effective April) – reflected in higher average mortgage loans in 2Q26 (CZK4.8m; up 16% yoy). A further impact came from efforts to avoid higher interest rates, resulting so far in only a limited increase in realised mortgage rates. Based on drawdown timing, the stock of housing loans should reflect new loans with a lag. Hence, despite a slight slowdown, growth should remain elevated in 2H26. We expect the housing loan market to grow by 8.9% this year and to slow to 7% in 2027.[3] Tighter financial conditions and reduced housing affordability are likely to continue to limit growth in housing loans.

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



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

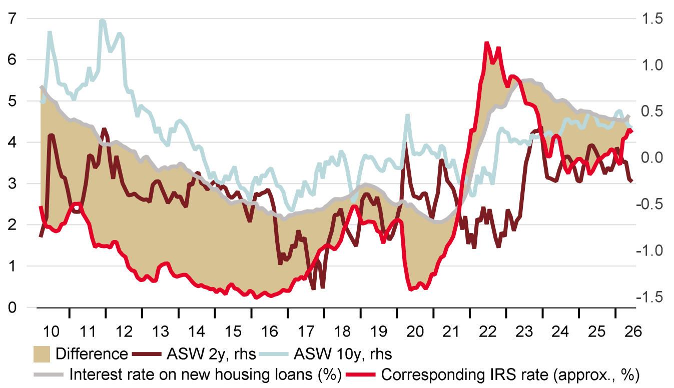
Growth in housing loans should eventually slow down



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

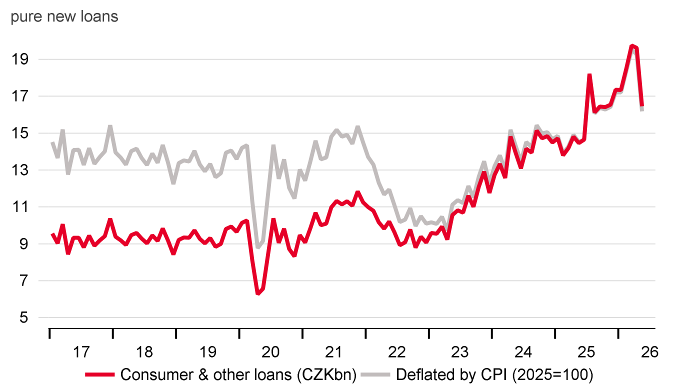
Given the higher interbank market interest rates, mortgage rates are likely to rise to 5%. In May, the realised rate stood at around 4.8%. In the event of a more significant tightening of financial conditions – and specifically credit terms – including a widening of credit spreads, mortgage rates could rise modestly above the 5% threshold. Higher mortgage rates also look set to affect this year's high volume of refinancing, which accounted for 26.4% of "new" loans in 1H26 (vs 2025 average of 20.7%). However, higher mortgage rates due to refinancing should not pose a major threat to household consumption (see the CNB's *MPR, Box 3*).

Mortgage rate spreads over IRS (%, pp)



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

Strong rise in consumer credit has moderated recently



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

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

Consumer financing to slow down following a strong first half of the year

The household credit impulse should decline in the second half of the year.

The strong growth in consumer finance is linked to expanding activity on the housing and mortgage markets. The total volume of new consumer loans rose by 28% ytd as of May, and their outstanding stock relative to GDP reached 4.9% of GDP in 2Q26 (+0.4pp yoy), well above the average for the last 10 years (4.4% of GDP). For 3Q26, the latest *BLS* (July 2026)[4] does not indicate any change in demand for consumer finance from the current high levels. In our view, however, uncertainty, the pass-through of higher market interest rates to lending rates, and a slowdown in the housing market should lead to lower demand for consumer credit. For this year, we expect growth to accelerate to 13.4%, followed by a slowdown to a still-strong 9.4% in 2027. The ratio of consumer credit to GDP should continue rising, albeit at a more moderate pace, in the coming years. This should also be accompanied by a rise in household indebtedness, which stood at 54.8% of gross disposable income in 1Q26. Although this was 2pp higher yoy, it still lagged significantly behind the 2022 peak of 58.7%.

Bank loans and deposits (%, yoy)

	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	2025	2026	2027	2028	2029	2030
Bank loans														
Total	7.0	8.3	7.8	9.1	8.6	8.0	7.6	7.6	6.2	8.5	7.6	6.8	6.2	5.4
Households - real estate loans	8.3	9.0	9.5	9.2	8.9	8.4	7.6	7.2	7.2	9.2	7.6	6.4	5.6	4.8
Households - consumer loans	10.8	13.1	14.2	13.4	13.4	11.5	10.2	10.0	9.9	13.5	10.3	8.3	7.0	5.7
Corporate loans	5.1	7.2	7.2	10.0	8.3	7.2	6.5	7.1	4.5	8.2	6.9	6.9	6.3	5.7
Deposits														
Total	6.1	5.6	4.9	5.6	6.2	6.3	7.7	7.7	4.6	5.6	6.9	6.4	5.6	5.2
Households	4.8	5.6	5.4	5.2	5.5	5.3	6.3	6.5	5.0	5.4	6.1	5.9	5.3	4.8
Non-financial corporations	1.8	4.8	2.4	4.6	4.6	5.7	5.8	6.2	2.9	4.1	5.7	5.3	4.1	4.5
Others	12.1	6.0	5.7	6.8	8.7	8.5	11.2	10.6	5.5	6.8	8.9	7.8	7.1	6.2
Ratios														
Loans/GDP	57.3	57.9	58.4	59.1	59.5	59.8	59.9	60.3	57.1	58.7	60.1	61.1	61.9	62.4
Deposits/GDP	89.4	91.1	91.1	91.3	90.7	92.5	93.5	93.4	90.9	91.0	92.6	93.8	94.5	95.0
Loans/deposits	64.1	63.6	64.2	64.7	65.5	64.6	64.1	64.6	62.8	64.5	65.0	65.2	65.5	65.7
Interest rates														
Real estate loans	4.6	4.5	4.7	4.9	5.0	5.0	4.9	4.9	4.6	4.8	4.9	4.8	4.8	4.9
Consumer loans	7.9	7.1	8.0	8.2	8.4	8.4	8.3	8.3	8.0	7.9	8.3	8.2	8.2	8.6
Corporate loans	5.2	5.1	5.4	5.6	5.6	5.6	5.6	5.5	5.2	5.4	5.6	5.0	4.8	4.8
Share of NPL														
Real estate loans	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.7	0.8	1.0	1.3
Consumer loans	4.1	4.0	4.0	4.6	4.9	5.0	5.5	5.7	4.2	4.4	5.6	6.3	6.9	7.7
Corporate loans	2.4	2.3	2.2	2.3	2.4	2.6	2.8	2.9	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.

Firm investment appetite to withstand higher interest rates and uncertainty

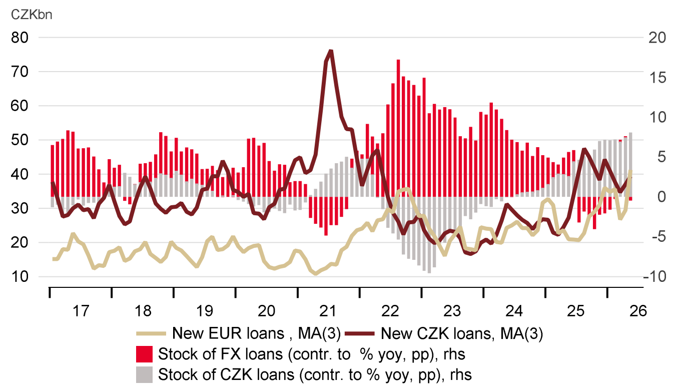
Tighter financial conditions are likely to slow corporate lending activity, but the solid outlook for domestic growth should nevertheless support it.

Investment appetite will face tighter financial conditions. Despite increased uncertainty and higher market interest rates, their spillover into loans to non-financial corporations (NFCs) has been fairly limited so far. Credit activity growth continues to show solid momentum. Growth in outstanding NFC loans reached 7.6% yoy in May, driven exclusively by koruna loans. The volume of new koruna-denominated loans rose by 42% ytd as of May, whilst euro-denominated loans were up 67% ytd, thanks to a large spike in volume in May. However, the recovery in credit activity is taking place against a backdrop of declining NFC profit margins and a still relatively low debt ratio relative to gross operating surplus (GOS). Although it rose to 2.3x GOS in 1Q26, from a historical perspective the debt ratio remains low compared with the peaks seen in previous financial cycle expansion phases; we do note, however, that earlier peaks were generally recorded only after the financial cycle had culminated. The trend in

4 https://www.cnb.cz/en/statistics/bank-lending-survey/index.html

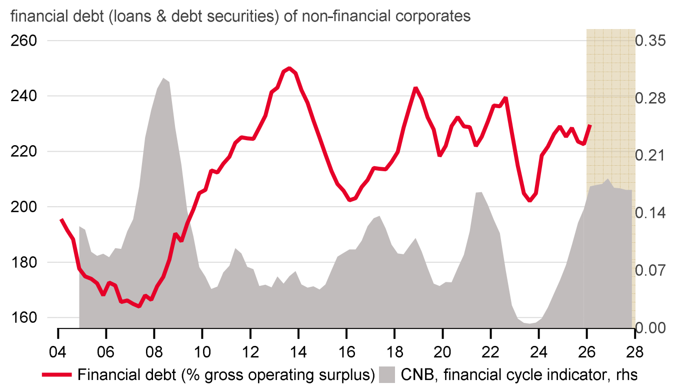
lending activity relative to GDP shows signs of strong expansion. In our view, despite a slight slowdown due to higher market interest rates, the expansion should continue this year and next, albeit at a more moderate pace. Corporate credit activity continued to contribute to the strengthening of the credit impulse in 2Q26. Looking ahead, it should be supported by solid growth prospects and ongoing investments linked to the partial structural transformation of the Czech economy.

Growth in outstanding NFC loans continued to accelerate



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

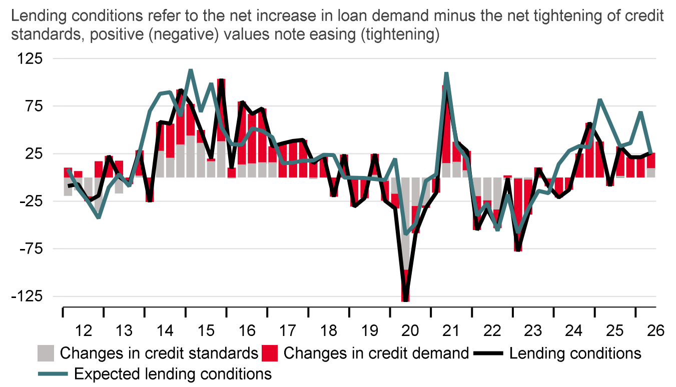
NFC leverage has nudged up only slightly so far



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

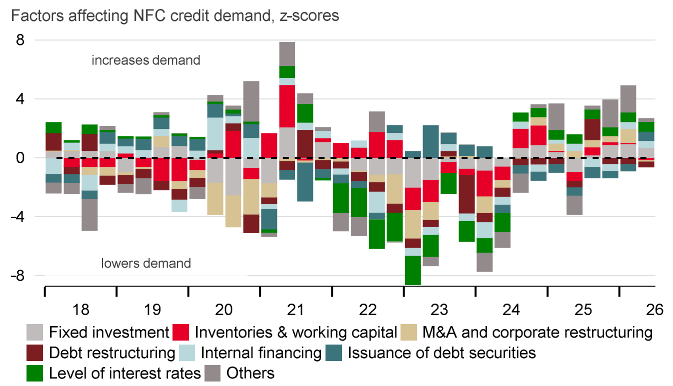
We estimate that growth in NFC loans will accelerate to 8.3% in 2026, before slowing to 7% in 2027. We expect total business loans to grow by 7.7% in 2026 and 7.1% in 2027. The NFC loan-to-GDP ratio has already deviated significantly from its previous downward trend and reached its highest level since the end of 2022 as of May; we expect it to rise further gradually. This should reflect the ongoing expansion of the financial cycle, in tandem with faster growth of the Czech economy and investment in expanding capacity in the domestic economy. For 3Q26, the CNB's latest *Bank Lending Survey* also points to a further increase in NFC credit demand. Despite higher market interest rates and geopolitical uncertainty, banks are not signalling a tightening of credit standards; nor did the level of interest rates itself have a significant negative impact on credit demand in 2Q26.

Lending conditions still signal higher credit demand



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: Bank Lending Survey (CNB, July 2026), loans to NFCs. Expected lending standards refer to questions regarding banks' expectations for the next three months.

Factors affecting NFC credit demand, according to banks



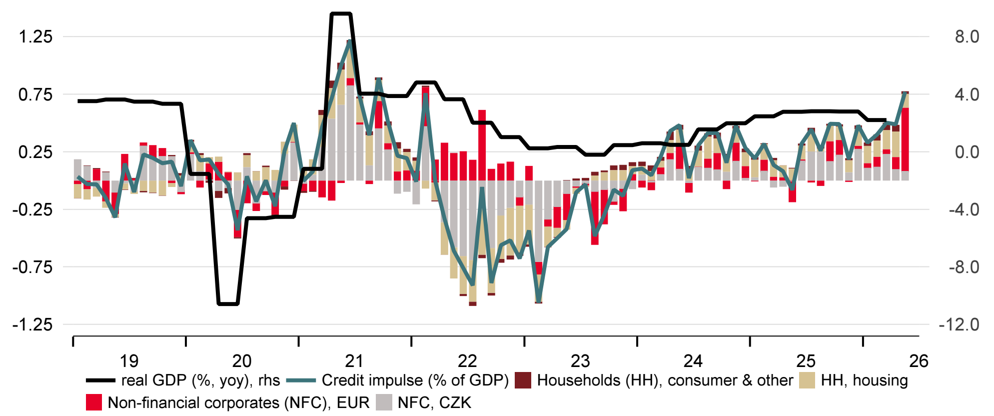
Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: Stacking the z-scores in the bar chart is for presentation purposes only. *Others* refers to loans from other banks and non-bank institutions, issuance of equity and other.

Deposit growth remains solid despite modest household deposits outflow

We expect the outflow of deposits into retail bonds to impact overall deposit growth by around 0.5–1pp. Moreover, an outflow of funds from local authorities could have a major impact next year.

The deposit base of domestic banks continues to grow at a solid pace. This should continue to be supported by financing demand, the delayed drawdown of loans from 1H26, and expansionary fiscal policy. The overhang of deposits over loans remains substantial, but we believe it should gradually ease. In May, the loans-to-deposit ratio stood at 0.64x, up by two hundredths yoy. We expect retail bond issuance to reduce this year's household deposit growth by 1-1.5pp. The impact on overall deposit growth should be around 0.5-1.0pp. We forecast average total deposit growth of 5.6% in 2026 and 6.9% in 2027. However, the outflow of local government deposits to the State Treasury account at the CNB could have a major impact in 2027. The volume of funds held by local authorities (including social security funds) in domestic bank accounts stood at CZK517.6bn as of May, representing 6.5% of total bank deposits. Depending on the extent of the outflow, the impact on the banking sector could be significant, especially amid stronger competition for deposits, rising lending activity and compressed interest margins.

Credit impulse in the Czech economy accelerated strongly during 2Q26



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

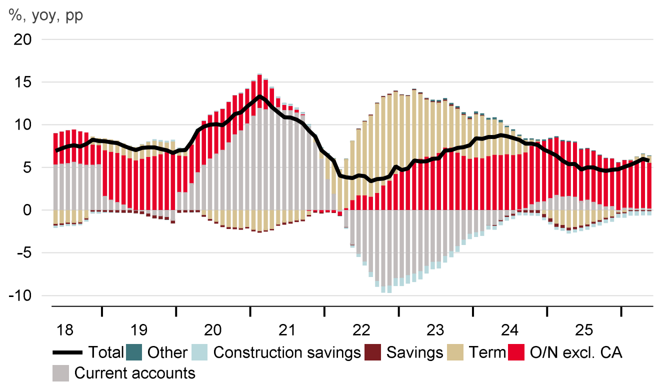
Note: Credit impulse is defined as the change in the volume of new borrowing, often given as a % of annual GDP. The presented credit impulse represents the yoy change in new borrowing of the non-financial private sector to trailing 12m nominal GDP. It is further broken down according to the use of the loan for households and the currency denomination for firms. As opposed to monthly credit indicators (as of May 2026), GDP (as of 1Q26) is a quarterly indicator.

Default rates remain low despite expanding financial cycle

Despite the significant expansion of the financial cycle, the default rate has not yet shown any signs of rising.

Despite the strong financial cycle expansion, the share of non-performing loans (NPLs) remains low and shows no significant rise. The NPL ratio remains close to historic lows, at 1.5% in May; against the backdrop of rising credit activity, it fell across sectors, both for households (housing and consumption) and for NFCs. Typically, an increase in the default rates occurs at a later stage of the financial cycle; we therefore expect this ratio to rise slightly, especially next year. Still, default rates should remain fairly low. The *BLS* suggests only a mild increase in credit losses over the next 12 months, primarily among NFCs, reported by banks representing 15% of the market. This share has remained more or less stable since 2Q24.

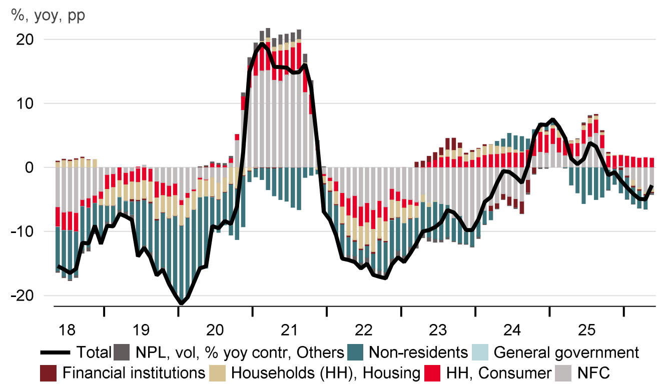
Household deposits continue to grow at a solid pace



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

Note: O/N = overnight; O/N excl. CA also includes non-term savings deposits

The volume of non-performing loans is still down yoy



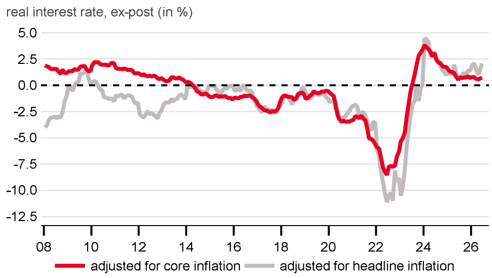
Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka

Box 1: Monetary tightening against a backdrop of strong financial cycle expansion

Real interest rates are positive, and the CNB is effectively delivering a restrictive monetary policy. However, developments in the financial and credit cycles seem far less clear cut. Financial conditions have already eased significantly on a cumulative basis, and strong growth in credit activity, accompanied by a rising private-sector indebtedness, is raising doubts about whether the current monetary policy stance remains sufficiently restrictive. In this *Box*, we discuss the degree of monetary policy tightness, the current expansion of the financial cycle, and present our financial conditions index. We do not analyse the issue from the perspective of financial stability in this *Box*.

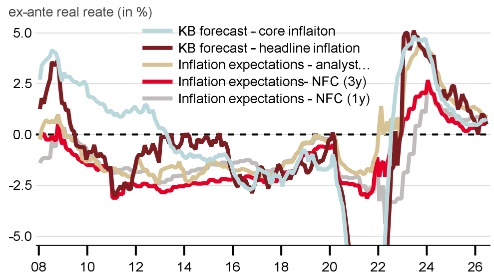
Monetary tightness can be assessed by comparing the nominal interest rates with inflation, or rather with the inflation outlook or expectations. In a small open economy, the exchange rate also plays a significant role. Ex-post real interest rates are clearly positive (restrictive).[5] Taking core inflation into account, the current degree of restriction is notably lower, although the real rate remains significantly higher than over the 2014–22 period. Meanwhile, the inflation outlook does not imply a marked improvement in the restrictiveness of monetary policy, especially in terms of headline inflation. This is reflected in the ex-ante real interest rate, which compares the current monetary policy rate with inflation over the monetary policy horizon – one year ahead, here. From this perspective, the repo rate is only slightly restrictive, with real rates below 1%, according to various metrics. From a historical perspective, it is evident that the ex-ante repo rate was rarely positive, and almost never so between 2009 and 2019. In the context of the currently only mild restriction, this effectively looks like only a fine-tuning of monetary policy by the CNB, and from this simplified perspective, the recent 25bp hike has made a non-negligible contribution to the restriction. The strong Czech koruna, which on our estimates is trading slightly below equilibrium, is also contributing to tight monetary conditions.

Ex-post real rates are showing mild restriction



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

The inflation outlook is not pushing for hikes



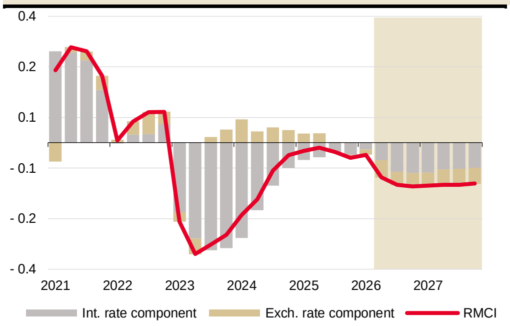
Source: CNB, CZSO, Macrobond, Economic & Strategy Research, Komerční banka
Note: The legend indicates the method used to adjust for inflation. NFC = non-financial corporates. Selected values are not shown in the chart.

The combination of the interest rate and the exchange rate components is reflected in the so-called *Real Monetary Conditions Index* (RMCI). This incorporates, in a 3:1 ratio, the deviations of the ex-ante real interest rate and the koruna exchange rate from their estimated equilibrium levels. The CNB's May forecast indicated only a slightly restrictive monetary policy but pointed to further tightening in the future. At the time, the forecast included two 25bp

[5] For the purposes of this *Box*, we assume a neutral nominal level for the CNB's monetary policy rate of 3%. Taking into account the 2% inflation target, this implies a neutral real interest rate of 1%. The neutral rate, which is not an observable variable, nevertheless tends to vary over time.

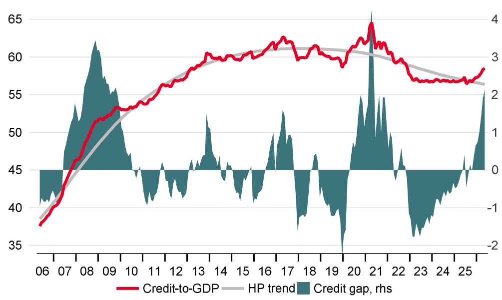
hikes as early as 2Q. Our inflation outlook, combined with expectations of stable CNB rates, also implies increasing monetary tightness for the rest of the year. However, the exchange-rate component should gradually weaken as the koruna exchange rate converges towards its equilibrium level, i.e. the deviation between the koruna exchange rate and its equilibrium level narrows.

RMCI – CNB May forecast



Source: CNB, Monetary Policy Report (May 2026)
Note: Positive values indicate loose monetary conditions and vice versa

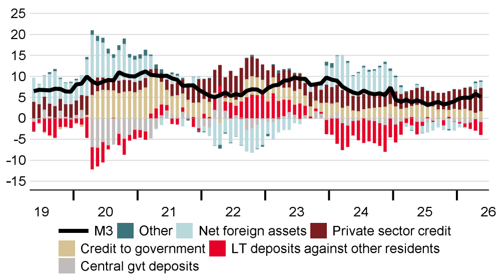
The credit cycle is showing strong expansion



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

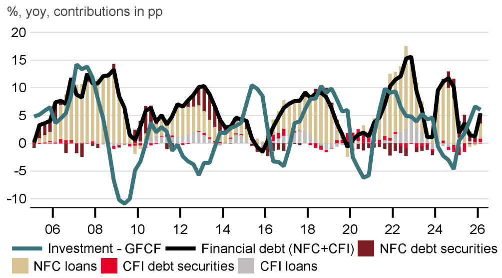
However, the credit market is in a phase of strong expansion. Growth in private-sector credit has been accelerating across sectors since 3Q25, reaching 9% yoy in May, and the private sector credit-to-GDP ratio confirms strong expansion after stagnating since 2023, as well as a strengthening in the (bank) credit impulse (see *Banking Sector*). Moreover, for non-financial corporations (NFCs), higher interest rates no longer represent a significant barrier to financing, as shown in the CNB's latest *Bank Lending Survey* (July 2026).

M3 money supply growth accelerating



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

Investment cycle and financing growth

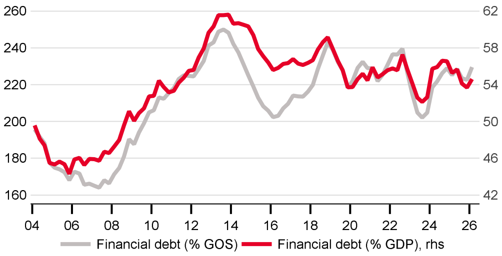


Source: CNB, CZSO, Macrobond, Economic & Strategy Research, Komerční banka
Note: NFC= non-financial corporates, CFI– captive financial institutions, GFCF – gross fixed capital formation

Despite higher short- and long-term interest rates, indebtedness is rising again. This is evident among households, while NFC debt relative to both the GDP and gross operating surplus (GOS) does not yet signal a significant recovery in leverage, despite an increase in 1Q26. This could be linked to the deteriorating profitability of domestic NFCs, whose profit margins, following a sharp fall in 1Q26, stood at 42.5%, as in 1Q20. This is the lowest level in the time series dating back to 1999. The decline in profitability has been evident since mid-2023. Therefore, the private non-financial sector's debt-to-GDP ratio is still lagging behind the 2019 level. The current rapid growth in lending can be seen in the context of releveraging or even higher banking sector penetration in the Czech Republic, as Czech private non-financial sector debt is among the lowest in Europe.

Financial debt of non-financial corporates

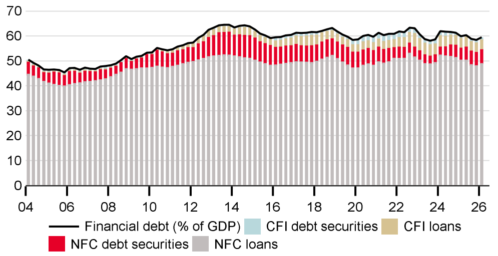
financial debt (loans + debt securities) of non-financial corporates



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

NFC and CFI financial debt burden

financial debt of NFCs and captive financial institutions



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka
Note: The inclusion of captive financial institutions is motivated by this CNB blog (only in Czech): https://www.cnb.cz/cs/o_cnb/cnblog/Trendy-v-zadluzenosti-nejen-nefinancnich-podniku/

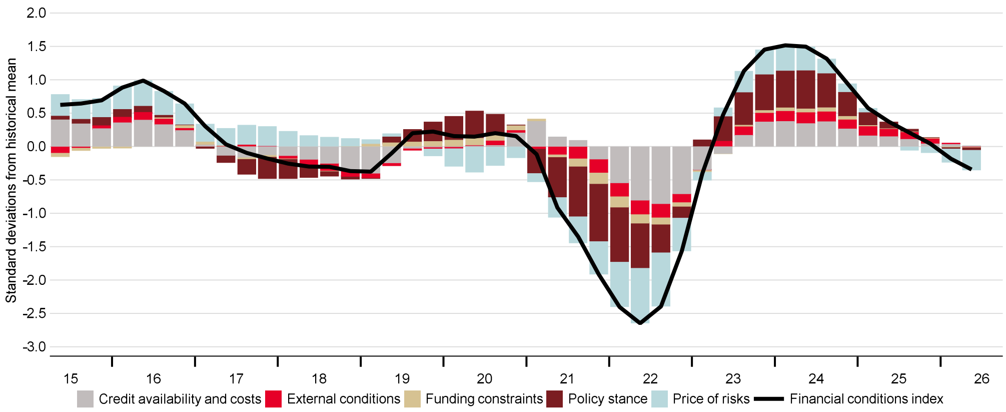
Financial conditions index

Methodological note: The Financial Conditions Index is estimated using the PLS (*Partial Least Squares*) method, which extracts latent factors from a large number of financial variables that have the covariance-maximised relationship with the selected *"target"* variable. In this case, the *"target"* variable is the yoy growth in the liabilities of the private non-financial sector (households and non-financial corporations). One advantage over other common statistical methods (such as PCA) is its better handling of multicollinearity between financial variables and its ability to capture changes in the financial environment in relation to the *"target"* variable. The financial conditions index is linked to the growth of household and NFC liabilities and therefore does not necessarily represent an exact measure of the degree of financial conditions. However, the extracted indicator can, to a certain extent, be interpreted as an indication of the relative tightening and easing of financial conditions. A more comprehensive discussion is available in the original IMF

Financing is not determined by monetary conditions alone, but also by broad financial conditions. In addition to policy rates and the koruna exchange rate, they also include asset prices, credit spreads, standards, terms and conditions, and the overall availability of financing. Hence, they provide a more comprehensive view of financing and better capture the transmission mechanism between the financial sector and the real economy. In constructing the *Financial Conditions Index* (FCI), we replicate an IMF working paper[6], although we deviate in our choice of variables. In total, we include 43 variables, which based on IMF methodology and at our discretion are divided into five categories: *credit availability and cost, external conditions, funding constraints, policy stance* and *price of risk*. For the sake of brevity, we do not discuss the methodology, classification and selection of variables further. The FCI points to an easing of financial conditions, driven by most factors, including policy stance and in particular the price of risk, which relates to accommodative financing conditions and a greater risk appetite. This is typical of the expansionary phase of the financial cycle. Still, the share of non-performing loans remains close to historic lows. The FCI shows a significant easing at the start of this year. However, with the rise in market IRS, the widening of credit spreads and other financial market developments, a partial tightening can be expected in 2Q. Similarly, financial conditions in the US have tightened, while the *Bloomberg Financial Conditions Index* for the euro area surprisingly signals a partial easing following the rise in March.

Our financial conditions index signals a significant easing and a greater risk appetite

positive (negative) values represent relative tightening (loosening) of financial conditions

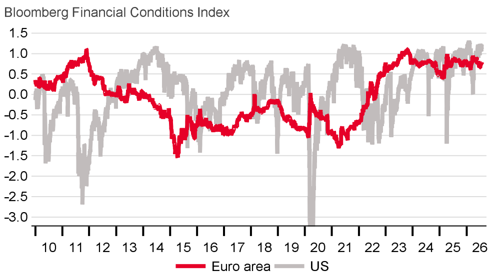


Source: Own calculations, Economic & Strategy Research, Komerční banka

[6] Giovanni Borraccia, Raphael A Espinoza, Vincenzo Guzzo, Romain Lafarguette, Fuda Jiang, Vina Nguyen, Miguel A. Segoviano, and Philippe Wingender. "*Financial Conditions in Europe: Dynamics, Drivers, and Macroeconomic Implications*", IMF Working Papers 2023, 209 (2023), accessed 21 July 2026, https://doi.org/10.5089/9798400254789.001

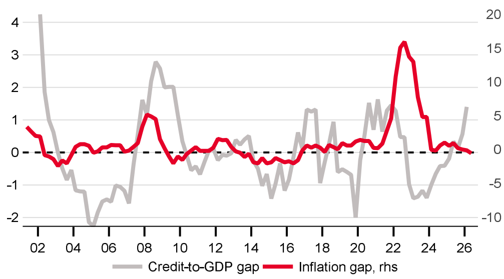
However, given the easing of financial conditions, accelerating credit growth and rising leverage, it is still not possible to determine with certainty the monetary policy stance. Still, these factors do raise a risk of it potentially not being sufficient to prevent excessive financial expansion, even though both headline and core inflation are within the tolerance band. From this perspective, the impact of the financial cycle on inflation is key. The credit gap – the deviation of the credit-to-GDP ratio from its long-term trend – often opens in tandem with the inflation gap – its deviation from the 2% target. Nonetheless, its current positive widening does not necessarily signal the onset of inflationary pressures, but rather the peak or overheating of the financial cycle, which could be reflected more in asset prices (e.g. housing) than in consumer inflation.

Euro area and US financial conditions



Source: Bloomberg, Economic & Strategy Research, Komerční banka

Credit and inflation gaps diverging



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

Although an accelerating financial cycle, easing of financial conditions and asset-price inflation do not necessarily imply lacking monetary policy restriction, they do constitute a potential inflationary factor. A continuation of these trends may ultimately signal insufficient monetary policy tightening. The financial cycle tends to be more inertial and to lag behind the business cycle. Hence the combination of these factors may persist even in an environment of close-to-target inflation and a stabilising economy (narrowing output gap). However, the question remains to what extent the potentially excessive growth in financing and the easing of financial conditions will be reflected in the inflation outlook. Our baseline scenario points to a slowdown in the household credit impulse and house price growth, as well as a partial tightening in financial conditions through a rise in longer-term interest rates. Current developments should, nonetheless, prompt some scepticism as to the adequacy of the monetary policy stance, and the mere fact that policy rates are higher than inflation does not guarantee that the monetary policy stance is particularly *"hawkish"* or adequate. Moreover, the above-mentioned development shows that the discussions regarding interest rate cuts at the start of the year were slightly misdirected, and that domestic development alone still points more towards rate hikes rather than cuts.

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

Key economic indicators

Macroeconomic indicators – long-term outlook

		2023	2024	2025	2026	2027	2028	2029	2030
GDP	real, %	0.2	1.1	2.7	2.1	2.6	2.6	2.4	2.2
Inflation	average, %	10.8	2.4	2.5	2.1	2.6	1.8	2.1	2.0
Current account	% of GDP	-0.1	1.7	0.7	-0.6	0.0	0.6	0.9	1.0
3M PRIBOR	average, %	7.1	5.0	3.6	3.7	3.9	3.4	3.1	3.1
EUR/CZK	average	24.0	25.1	24.7	24.3	23.9	23.6	23.4	23.4
USD/CZK	average	22.2	23.2	21.9	21.3	21.1	20.5	20.4	20.4

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

FX & interest-rate outlook

		28-07-2026	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
EUR/CZK	end of period	24.2	24.30	24.20	24.10	24.00	23.85
EUR/USD	end of period	1.14	1.12	1.11	1.11	1.13	1.14
USD/CZK	end of period	21.2	21.70	21.80	21.70	21.20	20.90
3M PRIBOR	end of period, %	3.9	3.85	3.85	3.85	3.85	3.85
10Y IRS	end of period, %	4.6	4.40	4.45	4.55	4.55	4.60

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

Monthly macroeconomic data

		X-25	XI-25	XII-25	I-26	II-26	III-26	IV-26	V-26	VI-26
Inflation (CPI)	%, yoy	2.5	2.1	2.1	1.6	1.4	1.9	2.5	2.1	1.5
Inflation (CPI)	%, mom	0.5	-0.3	-0.3	0.9	-0.1	0.6	0.5	0.1	-0.3
Producer prices (PPI)	%, yoy	-1.2	-1.3	-2.1	-3.0	-2.9	-1.1	1.0	1.5	1.3
Producer prices (PPI)	%, mom	-0.1	0.3	-0.2	-0.7	0.1	1.5	1.4	-0.1	-0.4
Unemployment rate	% (MLSA)	4.6	4.6	4.8	5.1	5.2	5.0	4.9	4.8	4.8
Industrial production	%, yoy, c.p.	1.8	-0.1	7.9	-0.5	1.0	3.9	1.5	-1.0	n.a.
Industrial sales	%, yoy, current.p.	-0.7	-1.7	4.5	-3.9	-0.5	2.3	1.4	-0.1	n.a.
Construction output	%, yoy	7.1	5.2	5.3	-1.5	4.1	6.4	7.7	4.4	n.a.
External trade	CZKbn (national met.)	22.1	11.2	14.2	18.6	21.4	29.7	8.2	9.9	n.a.
Current account	CZKbn	13.6	-4.7	4.8	33.2	25.6	11.8	1.2	-38.3	n.a.
Financial account	CZKbn	39.8	-15.0	1.8	43.2	9.1	14.1	24.7	-12.0	n.a.
M2 growth	%, yoy	2.8	3.3	3.8	4.5	4.8	4.8	6.0	5.1	n.a.
State budget	CZKbn (YTD cum.)	-183.1	-232.5	-290.7	32.4	-16.9	-27.6	-106.1	-170.3	-183.6
PRIBOR 3M	%, average	3.53	3.55	3.54	3.50	3.48	3.55	3.57	3.56	3.69
EUR/CZK	average	24.3	24.2	24.3	24.3	24.3	24.4	24.4	24.3	24.2
USD/CZK	average	20.9	21.0	20.7	20.7	20.5	21.1	20.9	20.8	21.0

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

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KB ECONOMIC & STRATEGY RESEARCH


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

Economists


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


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


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

Strategist


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

Equity Analyst


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

SG GLOBAL ECONOMICS RESEARCH


Head of Global Economics
Wei Yao
+852 2166 4983
wei.yao@sgcib.com

United States


Jan Groen
(1) 2122784228
johannes.groen@sgcib.com

Euro area


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

Germany/ECB


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

France/ESG


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

United Kingdom


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

Latin America


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

India


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

Japan


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

Greater China


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

SG CROSS ASSET RESEARCH – FIXED INCOME & FOREX GROUPS


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

Head of FIC & Commodity Research


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

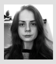
Head of Rates Strategy


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

Head of US Rates Strategy


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


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


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


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


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


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


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

Chief Global FX Strategy


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

FX Derivatives Strategy


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

Head of Emerging Markets Strategy


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


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


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


Galvin Chia
(852) 2166 4791
galvin.chia@sgcib.com


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


Juan Orts
(44) 20 7676 8210
juan.orts@sgcib.com