EmergingMarketWatch

Czech Republic Country Snapshot Reports | Sep 11, 2025

MAIN DEVELOPMENTS

KEY STATISTICS

STORK NEST AFFAIR

Main trial in Stork Nest case to start after general election - judge

Czech Republic | Aug 27, 09:59

- **The Supreme Court of Appeals returned the case to a first-instance court back in June**
- **The timing is favourable for opposition leader Babis, who will face no more surprises on that front**
- **Yet, it could have an impact during government formation talks, as having a PM nominee who is also a defendant in court may become problematic**

Babis refuses to stand down due to reopening of Stork Nest case

Czech Republic | Jun 25, 12:55

- **He called the court's ruling scandalous, and reiterated it was political persecution**
- **Babis intends to file a criminal complaint against the experts in the case**
- **No timeline available on when the case will reopen exactly, but we expect it to be before the general election on Oct 3-4**
- **ANO will likely see its lead to Spolu stop growing, but we doubt it will lose many voters because of the scandal**

Appeals court overturns not guilty verdict for Babis in Stork Nest case

Czech Republic | Jun 23, 19:27

- **The court returned the case for reconsideration to the Prague city court**
- **It comes at an inopportune time for Andrej Babis, who will have to deal with corruption accusations all over again**
- **It could reduce the impact of the bitcoin scandal on Spolu, though we rather expect undecided voters to turn to smaller parties**

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DUKOVANY NUCLEAR PLANT EXPANSION

Expansion of Dukovany nuclear power plant to cost CZK 407bn

Czech Republic | Jul 18, 10:56

- **There is also a fuel supply contract worth CZK 15bn**
- **The published documents are heavily redacted, so we don't have plenty of details about pricing or additional clauses**
- **However, the state will have control over subcontractors, which means KHNP's commitments to assign 60% of works to local firms will be met**

EDF doesn't plan any more legal action in Czechia related to Dukovany project

Czech Republic | Jun 26, 10:58

- **EDF did not mention anything about its complaint to the European Commission**
- **Still, it appears that legal hurdles to the project have been overcome**

Brno regional court dismisses EDF's complaint against Dukovany plant expansion

Czech Republic | Jun 25, 14:50

- **EDF claimed KHNP, the winner in the tender, received non-EU subsidies**

- The Brno court said a decision was made based on a national security exception, which did not allow appeals
- EDF could bring the case to the Supreme Administrative Court, but we doubt the outcome will be different
- The European Commission is yet to pronounce on its probe whether KHNP violated EU competition rules, though

EC continues probe into Dukovany expansion tender

Czech Republic | Jun 06, 08:47

- No timeline on a final decision given yet

Government signs Dukovany nuclear power plant expansion agreement with KHNP

Czech Republic | Jun 04, 16:27

- The project is estimated to cost about EUR 16.3bn for the two units the Czech government ordered
- Construction of the first unit is planned to start in 2029 and be completed in 2036
- Financing will be secured through government loans, as the state now controls an effective 94% of the Dukovany nuclear plant; more details pending
- Risks remain in place, as EDF's appeal of the tender is still pending, at a local court and the European Commission

Supreme Administrative Court lifts injunction on Dukovany expansion contract

Czech Republic | Jun 04, 13:03

- The Brno regional court issued the injunction after EDF appealed the result of the tender for the expansion of the Dukovany nuclear power plant
- The Supreme Administrative Court argued that the interests of KHNP and the possible higher costs due to a delay were ignored
- The high court did not strike down the appeal, though, and the first hearing on the case will be on Jun 25
- Still, there is no legal obstacle to signing an agreement with KHNP, and we expect that the government will proceed with it
- EDF has appealed the tender result to the European Commission as well, which is yet to decide

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POWER AND GAS PRICE CHANGES

E.ON to lower energy prices by 10% for some customers as of September

Czech Republic | Jun 25, 10:58

- We estimate the impact on year-on-year headline inflation at -0.11pps
- The price cut is unlikely to have an impact on monetary policy

CEZ lowers offers for household electricity prices as of February

Czech Republic | Feb 03, 12:44

- The official statement is misleading, as it compares offer prices to those in February 2024, claiming a 28% price cut

- **Compared to actual offers, the price cut could be between 8.1% and 14.4%**
- **Furthermore, this will apply only to customers after their current fixed price plans expire**
- **We estimate the cumulative impact on year-on-year CPI inflation between -0.06pps and -0.22pps**

Innogy to lower electricity, natural gas prices by 10% as of March

Czech Republic | Jan 30, 13:14

- **We estimate the impact on headline inflation as marginal, at -0.04pps**
- **innogy promises that 70% of its customers will see price cuts in 2025**

Regulated energy prices to rise in 2025, CPI impact to remain marginal

Czech Republic | Nov 29, 13:02

- **Regulated electricity prices will rise by 1.4%, regulated natural gas prices - by 8.6%**
- **We estimate the total impact on CPI inflation at +0.07pps**
- **The change in regulated energy prices will not affect CNB inflation projections, and respectively monetary policy**
- **ERU estimates that market energy prices will be considerably lower at the beginning of 2025 than a year ago**

Central heating prices expected to rise by 3-10% as of 2025

Czech Republic | Nov 26, 12:05

- **Ukraine's plans to suspend transit of Russian gas to Europe have been pushing natural gas prices upwards**
- **Yet, natural gas has only a 25% share in the generation of heat energy**
- **Another potential upward pressure may come from biomass, where failure to extend subsidies may push price up by 20%**

E.ON to lower electricity prices by 18% as of January 2025

Czech Republic | Oct 22, 12:19

- **innogy is also lowering energy prices, but in December, at 7% for electricity and 15% for natural gas**
- **We estimate the impact of innogy's price cuts at -0.04pps in December, and that of E.ON - at -0.16pps in January**
- **CEZ is also lowering energy prices next January, with a total impact of -0.16pps**
- **Thus, energy prices should have a downward impact of slightly under -0.3pps at the beginning of 2025**

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RUSSIA'S INVASION OF UKRAINE

Government seeks CZK 52bn SAFE loan with VAT exemption for Leopard tanks

Czech Republic | Jul 24, 08:45

- **Czechia to declare interest by end-July, government to decide by Nov 29, PM Fiala says**
- **Procurement covers 44 tanks, 17 variants; option lifts fleet to 77 tanks**

Defence ministry signs CZK 4.2bn contract for 24 armoured vehicles

Czech Republic | Jul 23, 17:15

- Investment enhances mobile protection against aerial combat threats
- Regiment integrates new fleet, advancing Czech air-defence readiness by 2030

An ANO government to cancel Ukraine munition initiative - Babis

Czech Republic | Jul 16, 08:05

- Babis argues that the initiative is non-transparent and overpriced
- He vows to spend that money at home instead
- Babis also sees defence spending at 5% of GDP as unrealistic
- PM Fiala says the Czech government not to join Trump's idea to purchase arms from the US and send them to Ukraine

Czech Republic to back 5% of GDP on defence if allies agree - Pavel

Czech Republic | May 21, 17:20

- President Pavel met NATO Secretary General Rutte to discuss the upcoming NATO summit in late June
- Pavel also had meetings on Israel, where he supported pressure to resolve the humanitarian situation in Gaza

Zelenskyy visits Czech Republic, seeks more arms deliveries

Czech Republic | May 06, 07:30

- Czech munition initiative to deliver 1.8mn pieces of large-calibre munitions to Ukraine in 2025; 0.5mn has already been supplied
- Czech President Pavel rules out sending foreign troops to Ukraine before a peace agreement is achieved

Government confirms full independence of Russian oil

Czech Republic | Apr 17, 11:48

- The extension to the TAL pipeline is now fully complete, and the first deliveries were loaded on Apr 16
- The new pipeline has an annual capacity of 8mn tonnes of crude, which should meet domestic needs
- The project cost was CZK 1.6bn, fully covered by the state-owned MERO CR oil supplier

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2025 GENERAL ELECTION

ANO leader Babis still committed to EU, but opposes energy taxes

Czech Republic | Sep 09, 08:52

- Babis reiterates opposition to EU-wide energy and environmental policies
- He doubled down on plans to nationalise CEZ and regulate retail energy prices
- Babis opposes raising defence spending to 5% of GDP, believes NATO should end military aid to Ukraine
- He also wants to dismantle the EU migration pact, and extend the Schengen zone so that EU borders are guarded better

SPD promises cheap food and energy, accessible housing, EU referendum

Czech Republic | Sep 08, 14:12

- **Not many details in the document, as expected**
- **SPD wants heavy state regulation in energy sector, state-run groceries to provide cheap food**
- **No tax hikes to be allowed, retirement age to be maxed at 65 years**
- **Leaving the EU should pay for these policies, as the SPD claims the Czech Republic is net loser from EU membership**
- **The party also wants to deny Ukrainians a temporary protection status, as well as social benefits**
- **There is plenty that overlaps with ANO's manifesto, but some sensitive topics remain**
- **We don't see ANO endorsing leaving the EU or expelling Ukrainians, which is may become the stumbling stone in ANO-SPD ties**

Stacilo! picks up support, Motorists closer to parliament - poll

Czech Republic | Sep 08, 08:39

- **Stacilo! may be riding high on the recent court motions against it**
- **Yet, it could have also benefited from lower panellist activity during the August holiday period**
- **ANO and Spolu lose some support, no major chances among the rest**
- **ANO still needs the SPD to even entertain the possibility of a government, likely adding the Motorists as well**

ANO promises to revise 2026 budget bill if it takes over government

Czech Republic | Sep 08, 08:18

- **ANO's Schillerova, likely to return as finance minister, said the 2026 budget bill was not manageable in its current state**
- **Meanwhile, ANO's Havlicek said that a provisional budget would be in force for no more than 6-7 weeks**
- **Thus, ANO is doubling down on plans to revise the 2026 budget bill, which means any assumptions we see are only preliminary**

Another regional court says Stacilo!, SPD circumvent coalition thresholds

Czech Republic | Sep 05, 19:17

- **The Ceske Budejovice regional court denies cancelling the registration of both formations**
- **Pilsen regional court does something similar, saying that circumventing the electoral law is a serious issue**

Czechia faces a landmark election that could lead to a major shift in policy

Czech Republic | Sep 05, 14:37

- **Next parliament is likely to be much more fragmented**
- **ANO is in the lead, but it doesn't have enough to win outright**
- **ANO has dropped fiscal discipline as a goal, will bet on more spending and tax cuts**
- **Ruling Spolu has been unable to convince voters that its policies were right**
- **ANO cannot go around the SPD in next parliament, whether it wants it or not**
- **Thus, parties from the political fringe are likely to enter the next government**

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LOCAL DEBT AUCTIONS

Finance ministry tops up Sep 10 bond auction by CZK 1.7bn

Czech Republic | Sep 11, 13:16

- **Gross bond issuance is now 1% over the monthly borrowing ceiling**
- **The finance ministry also bought CZK 21.5bn of bonds into its portfolio**
- **We estimate that gross financing needs were covered at 72% as of Sep 11**

STAN catches up to SPD, Stacilo! slides downwards in September - poll

Czech Republic | Sep 10, 16:38

- **STAN's proactive campaign has likely pushed it back to third place, though it is effectively tied with the SPD**
- **Both ANO and Spolu see some gains, though ANO's lead over Spolu remains 11pps**
- **Stacilo! lost considerable support, likely because some courts confirmed the alliance is circumventing electoral law**
- **ANO will need the SPD and one more partner (likely the Motorists) to establish an absolute majority**
- **Voters are increasingly polarised, with opposition voters expecting electoral fraud and an unfair election**

Finance ministry borrows CZK 9.7bn through bonds, EUR 500mn through a T-bill

Czech Republic | Sep 10, 13:51

- **The amount was slightly over the CZK 9bn borrowing ceiling**
- **Borrowing costs increased, but the finance ministry apparently cannot afford to borrow below borrowing ceilings any longer**
- **The finance ministry also borrowed EUR 500mn through a 6-month T-bill**

Finance ministry borrows CZK 5bn through a T-bill

Czech Republic | Sep 04, 13:46

- **The amount was at the ceiling, borrowing costs remained stable**
- **The finance ministry has now issued money market instruments that mature in 2026 for CZK 40bn**
- **We estimate that gross financing needs were covered at 64.1% as of Sep 4**

Finance ministry tops up Aug 27 auction by CZK 1.7bn

Czech Republic | Aug 28, 13:32

- **It brings the total borrowed amount to CZK 13.6bn, more than a third over the CZK 10bn borrowing ceiling**
- **Thus, gross bond issuance reached CZK 33.1bn in August, or 65% above the monthly borrowing ceiling**
- **The finance ministry also bought a net CZK 18.3bn of bonds into its portfolio, bringing purchases to CZK 40.3bn in August**
- **We estimate that gross financing needs were covered at 63.2% as of end-August**

Finance ministry borrows CZK 11.9bn through government bonds

Czech Republic | Aug 27, 14:06

- The amount was slightly above the CZK 9bn ceiling, borrowing costs remained relatively stable
- Before top-ups, gross bond issuance reached exceeded the monthly ceiling by 57%

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CEE CAR INDUSTRY

Hyundai announces three more days of shutdowns in September

Czech Republic | Sep 10, 17:32

- Production will be suspended on Sep 22-23, and Sep 29, after 3 full days of interruption so far
- It means Hyundai output will decline by 20% in September, leading to a 4% dent in overall passenger car production

New passenger car sales rise by 8% y/y in August

Czech Republic | Sep 03, 14:45

- Cumulative sales rose by 5.4% y/y in January-August, reaching 161,067 units
- Skoda did worse than the market in August, seeing a 6.6% y/y fall
- Petrol car sales led headline growth, but sales of plug-in hybrids more than doubled
- The EV segment had a market share of 9.7% in January-August, up from 4.2% a year ago, and 7.3% in the entire 2024
- Total new vehicle sales increased by 5.2% y/y in August and 2.9% y/y in January-August

Toyota to start producing electric cars in Czechia in a EUR 680mn investment

Czech Republic | Sep 03, 11:12

- Toyota is the only Czech passenger car producer that doesn't have an EV division
- The company will increase its Czech labour force by 7.7%, and the EV division will be its first in Europe
- The news will also give the ruling coalition a breath of fresh air, as it hasn't been doing that hot in the election campaign

Skoda reports a 30.3% y/y hike in EU sales in July

Czech Republic | Aug 28, 08:04

- Cumulative EU sales rose by 10.5% y/y in January-July, reaching 423,138 units
- Adding UK and EFTA sales, Skoda saw a 30.5% y/y hike in July, and a 32.3% y/y one in January-July
- Skoda was the biggest growth driver for Volkswagen Group in July, and still slightly behind Cupra in January-July

Hyundai announces partial furlough in September

Czech Republic | Aug 27, 15:52

- The disruption is not considerable, but Hyundai had previously promised there would be no more furloughs in 2025
- Hyundai already plans lowering production by about 10.8% when compared to 2024, so it appears problems are persisting

Czech carmakers welcome EU-US tariff accord with reservations

Czech Republic | Jul 28, 19:47

- **Carmakers view accord as stabilising transatlantic relations but questions 15% tariff rates**
- **US captures minimal 0.8% of Czech automotive exports worth CZK 9.3bn in 2023**
- **Impact to be mostly indirect via Germany that accounts for 30% export share in car sales to US**

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EURO ADOPTION

STAN wants euro adoption by 2030, sees issue as essential

Czech Republic | Sep 02, 15:04

- **STAN leader Rakusan says euro adoption would be a condition for any future coalition agreement STAN is a part of**
- **Yet, he admitted euro adoption was unlikely to happen during the next parliament's term**
- **Voter support for the euro remains low, at about 20-25%; on the other hand, businesses are overwhelmingly in favour**
- **We don't expect euro adoption to become a major issue, but the political debate appears to have finally started**

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EU FUNDS

Czech Republic may get up to EUR 2.06bn of loans through SAFE instrument

Czech Republic | Sep 09, 18:53

- **The money could be used for strategic defence projects, military equipment purchases, and development of domestic defence capabilities**
- **It comes in addition to the escape clause, which provides more fiscal space for defence spending**
- **The biggest utility of SAFE would be to develop domestic defence enterprises, which have been complaining of insufficient traditional financing**

Agriculture ministry moves to recover CZK 5bn EU subsidies from Agrofert

Czech Republic | Aug 27, 15:43

- **These subsidies were received while Andrej Babis, Agrofert's largest shareholder, was PM in 2017-2021**
- **Czech supreme courts confirmed Agrofert should return the subsidies earlier this year**
- **Yet, we doubt this will help the ruling coalition much, as the final court ruling was back in April, which makes this clearly timed for the general election**

Net EU inflows narrow to EUR 960.1mn in H1 2025, down by 28.7% y/y

Czech Republic | Jul 17, 12:32

- **The decline is entirely due to RRF flows; if these are excluded, net EU flows doubled in year-on-year terms**
- **The Czech government made an RRF payment request for EUR 1.8bn in June**
- **Gross EU flows fell by 10.2% y/y in H1 2025, but rose by 95.1% y/y if RRF funds are excluded**

- **Payments to the EU budget were higher by 10.9% y/y, mostly due to the GNI-based contribution**
- **The Czech Republic remains a net beneficiary from the EU during its membership, having received EUR 45.4bn**
- **RRF payments have reached EUR 3.3bn so far, with EUR 1.8bn more likely arriving in Q3 2025**

EC proposes EUR 114mn flood-related funding to Czech Republic

Czech Republic | May 27, 15:31

- **It is part of a package worth EUR 280mn that will be provided to member states and candidate countries**
- **Flood damages to state Czech property are estimated at CZK 45bn (EUR 1.8bn)**

No payments made from EU cohesion policy funds in April

Czech Republic | May 15, 13:43

- **The absorption rate remained at 13.6%, still higher than the 12.7% reported for the same period in the 2014-2020 MFF**
- **There was an improvement in payments to beneficiaries, as well as to approved projects**

EC approves EUR 960mn of investment support in strategic sectors

Czech Republic | Mar 18, 14:42

- **The scheme will aim at renewable energy sectors, and likely accelerate installation of new capacity**

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US TARIFFS

CNB's Zamrazilova signals rate-cut cycle end as housing pressures intensify

Czech Republic | Jul 29, 15:30

- **Inflationary risks from rising property prices, household spending to halt rate cuts**
- **Strong domestic demand requires tighter monetary conditions**
- **Improved industry outlook, recent US-EU trade deal expected to lift 2025 growth prospects above 2%**

US tariffs to slice 2025 GDP growth by 0.2pps - finance ministry

Czech Republic | Jul 29, 13:56

- **Estimate to be revised on Aug 21, given pending tariff-exemption list**
- **German fiscal package cushions tariff drag along with shared supply lines**
- **US takes 3% of Czech exports; Germany-led links drive main impact**

Czech carmakers welcome EU-US tariff accord with reservations

Czech Republic | Jul 28, 19:47

- **Carmakers view accord as stabilising transatlantic relations but questions 15% tariff rates**
- **US captures minimal 0.8% of Czech automotive exports worth CZK 9.3bn in 2023**
- **Impact to be mostly indirect via Germany that accounts for 30% export share in car sales to US**

Corporate loan demand slides - lending survey

Czech Republic | Jul 22, 12:13

- **Corporate loan standards stay firm while demand shrinks amid geopolitical fears**
- **Lower rates and optimism fuel surge in household mortgages**
- **Credit shifts from productive investment towards housing sector, in our view**

Growth impact of 30% US tariffs to be 0.4pps in 2025, 1.1pps in 2026 - Stanjura

Czech Republic | Jul 15, 07:49

- **If the tariffs are applied as of August, GDP growth could reach 1.6% in 2025 and 1.3% in 2026**
- **Most of the impact will be an indirect one, through EU markets, as only about 3% of Czech exports go directly to the US**
- **FinMin Stanjura hopes that a solution will be found that will not lead to a trade war**

US tariffs could push down GDP growth by 0.6-0.8pps - finance ministry forecast

Czech Republic | Apr 10, 13:31

- **The scenario was prepared before the temporary reduction of reciprocal US tariffs, but we don't see an enormous change**
- **The base scenario assumes sector-specific tariffs will stay, which impact steel, aluminium, and the automotive sector**
- **Tariff impact on inflation is projected as largely neutral in 2025, and at -0.2pps in 2026**
- **Most of the shock will be on net exports, followed by investment**
- **General government deficit is expected at 2.2% of GDP in 2025**
- **Fiscal projections for 2026 are not very informative, as a new government will be likely in power**

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ESG

European Parliament approves EUR 114mn aid as flood relief

Czech Republic | Jul 09, 16:41

- **The entire package is worth EUR 280mn, and includes Poland, Austria, Slovakia, Bosnia and Hezegovina, and Moldova**

Czech Republic disagrees with new EU climate targets - PM Fiala

Czech Republic | Jul 02, 17:02

- **Fiala believes the EU should focus more on growth than on climate targets**
- **The EU wants to reduce carbon emissions by 90% between 1990 and 2040, which environment minister Hladik finds unrealistic**

ANO's Babis still supports Trump, though he criticises tariffs

Czech Republic | Apr 10, 12:13

- **Babis endorses Trump's efforts to end the war in Ukraine, abandon climate goals, and fight illegal immigration**
- **He also wants the EU to abandon the Green Deal, even though it was his government that signed it**

Parliament approves welfare reform

Czech Republic | Mar 27, 08:16

- **A new benefit will incorporate housing and living allowance, subsistence subsidies, and child benefits**
- **The projected fiscal impact varies between savings of CZK 2.5bn and additional expenses of CZK 7.4bn**
- **The new system will be implemented as of October**

ANO formally appeals pension reform before Constitutional Court

Czech Republic | Mar 21, 12:18

- **The formal arguments pertain only to procedure, not to the actual changes introduced by the reform**
- **This is likely designed only to draw media attention, as we expect the challenge to be defeated**

Power generation from renewable sources rises by 11.5% in 2024

Czech Republic | Feb 24, 13:15

- **Solar energy led growth, rising by 24% and reaching 39% of the total**
- **Wind power and biogas reported a small decline, have a lot of undeveloped potential**

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SOVEREIGN RATINGS

Fitch Ratings affirms Czech Republic at AA-/stable

Czech Republic | Aug 11, 07:41

- **GDP growth is projected at 2.1% in 2025, 2% in 2026, and 2.4% in 2027**
- **Inflation is expected to remain stable, but above the 2% target**
- **Fitch Ratings doesn't expect a major rollback of reforms or shift in foreign stance after the general election**

Moody's confirms Czech Republic's Aa3 rating with stable outlook

Czech Republic | Jul 21, 07:51

- **Manageable debt and effective policies underpin rating**
- **Government debt ratio gradually climbs towards 50% of GDP**
- **Competitive economy confronts modest growth from aging population**
- **Fiscal discipline and reforms determine future rating direction**

Standard & Poor's affirms Czech Republic at AA-/stable

Czech Republic | Mar 31, 08:26

- **Rating could be downgraded in case local manufacturing cannot respond to technological challenges**
- **Trade disputes could have an indirect impact, which could also lower the rating**
- **Fiscal consolidation was the strongest in CEE, debt will rise but remain low among AA peers**
- **S&P expects GDP growth at 2% in 2025, 2.3% in 2026**

Fitch Ratings affirms Czech Republic at AA-/stable

Czech Republic | Feb 17, 08:18

- **GDP growth is expected to strengthen to 1.9% in 2025, 2.2% in 2026**
- **Fiscal consolidation should continue, but slowly; more effort required in the medium term**

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MACRO FORECASTS

Financial markets expect no change in policy rate in September

Czech Republic | Sep 03, 17:23

- **Markets have finally reflected the CNB's hawkish messaging and no longer price rate cuts before early 2026**
- **Inflation expectations remain anchored to the 2% target in the medium term**
- **Markets are far less optimistic than the CNB about GDP growth, expected it at 2-2.1% in 2025-2026**

FinMin upgrades GDP growth forecast to 2.1% in 2025, lowers it to 2% in 2026

Czech Republic | Aug 21, 13:28

- **Weaker GDP forecast in 2026 is due to US tariffs**
- **No fiscal projections were provided for 2026, but FinMin Stanjura said the cabinet would likely opt for a state government deficit of CZK 280bn**
- **Our early estimates indicate this would translate to a general government deficit of around 2.5-2.6% of GDP in 2026**
- **Stronger-than-expected growth in 2025 to lower general government deficit to 1.9% of GDP**
- **Inflation pressure expected to rise in H2 2026, but average inflation projections remained unchanged**
- **We see fiscal risks as relatively high, even if assuming that this government remains in power**

CBA improves GDP growth forecast to 2.1% in 2025

Czech Republic | Aug 20, 11:39

- **The previous forecast had GDP growth at 1.7%**
- **Stronger export activity, and a faster wage growth are behind the revision**
- **CPI inflation is expected at 2.5% in 2025, up 0.2pps from the previous forecast**
- **The CBA now expects the CNB policy rate at 3.50% at end-2025, a 25bp cut in Q1 2026**

Financial markets still expect some more easing in monetary conditions

Czech Republic | Aug 08, 15:04

- **One panellist saw a 25bp rate cut in August**
- **The policy rate is still seen ending up between 3% and 3.25% in July 2026**
- **GDP growth projections remain at 1.9-2% for 2025 and 2026; the survey took place before the latest CNB forecast was revealed**
- **Inflation expectations remain largely anchored to the 2% target**

CNB upgrades GDP growth projections substantially in 2025, 2026 in new forecast

Czech Republic | Aug 08, 11:03

- **The 2025 GDP projection was upgraded due to stronger investment and exports**
- **Meanwhile, the 2026 projection also relies on stronger household consumption**

- Inflation projections were upgraded slightly, the CNB expects 0.6pps of upward impact from the ETS 2 in 2027
- The labour market is expected to remain tight, CA surpluses should be a bit over 1% of GDP
- The forecast implies a policy rate at 3.50% within the forecasting horizon, which supports the current restrictive stance of the CNB
- We believe the monetary easing cycle is over, given elevated inflation pressure

OECD worsens Czech GDP growth projections for 2025-2026

Czech Republic | Jun 03, 11:30

- Uncertainty about global trade is the main reason for the downward revision
- GDP growth is expected at 1.9% in 2025 and 2.2% in 2026
- OECD sees no issue with a neutral fiscal position in the short term, but recommends regular spending reviews

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OPINION POLLS

STAN catches up to SPD, Stacilo! slides downwards in September - poll

Czech Republic | Sep 10, 16:38

- STAN's proactive campaign has likely pushed it back to third place, though it is effectively tied with the SPD
- Both ANO and Spolu see some gains, though ANO's lead over Spolu remains 11pps
- Stacilo! lost considerable support, likely because some courts confirmed the alliance is circumventing electoral law
- ANO will need the SPD and one more partner (likely the Motorists) to establish an absolute majority
- Voters are increasingly polarised, with opposition voters expecting electoral fraud and an unfair election

Stacilo! picks up support, Motorists closer to parliament - poll

Czech Republic | Sep 08, 08:39

- Stacilo! may be riding high on the recent court motions against it
- Yet, it could have also benefited from lower panellist activity during the August holiday period
- ANO and Spolu lose some support, no major chances among the rest
- ANO still needs the SPD to even entertain the possibility of a government, likely adding the Motorists as well

ANO, Spolu lose support in August, 7 formations to enter parliament - poll

Czech Republic | Sep 03, 16:35

- No major surprises, the Motorists look like they are making it past the 5% threshold
- With 7 formations in the next parliament, it will be increasingly difficult to establish a government

STAN reaches third place in August in an outlier poll

Czech Republic | Sep 01, 09:05

- STAN is ahead of the SPD, which is not in line with recent polling

- **No other surprises, though 7 parties are projected to enter the next parliament**

ANO, Spolu lose some support in third week of August - poll

Czech Republic | Sep 01, 08:53

- **ANO has seen some recent scandals, though nothing major**
- **Spolu's manifesto has probably failed to impress voters much**
- **7 parties are projected to enter the next parliament, which will complicate post-election maths**
- **ANO will need the SPD and either the Motorists or Stacilo! (or both) to establish an absolute majority**
- **A minority government appears less likely, as it will need the nod of at least two other formations**

ANO, Spolu see gains in mid-August, SPD slides - poll

Czech Republic | Aug 26, 08:09

- **ANO still has a lead of slightly over 11pps to Spolu**
- **SPD-led coalition keeps losing support, down at its worst level since early April, and tied with STAN**
- **Pirates-Greens and Stacilo! are the other formations passing the 5% threshold**
- **Post-election maths remains complicated, ANO to need both SPD and Stacilo! for an absolute majority**

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BITCOIN DONATION SCANDAL

Justice minister Decroix commits to reveal bitcoin donation audit by end-August

Czech Republic | Aug 11, 07:41

- **The contents of the probe should be published by end-August**
- **It appears that the probe has not dealt with the finance ministry's role, however**
- **STAN leader Rakusan welcomed the development**

STAN expects Decroix to make bitcoin donation audit public by end-August

Czech Republic | Aug 07, 08:08

- **Decroix attended a STAN leadership meeting and said she would say more at a press event on Aug 8**
- **Yet, she did not commit to making the audit public, which puts the ball back in STAN's court**
- **We doubt STAN will leave the government now, but its relationship with the ODS will likely turn sour**
- **All this will only provide ANO with more opportunities to solidify its victory at the coming general election**

STAN could withdraw deputy justice minister or even leave government - Farsky

Czech Republic | Aug 06, 17:11

- **Farsky is unhappy that the probe about the bitcoin donation scandal has not been made public**
- **He reminded that STAN had backed the ODS on the condition that all details around the donation will be revealed**

- We doubt STAN will leave the government, so withdrawing their deputy justice minister appears more likely
- It is a bit late for them to pick the nuclear option, as it could easily backfire

STAN leadership to hear justice minister about bitcoin affair

Czech Republic | Aug 06, 08:08

- While a probe has been completed, it was not made public
- Decroix is expected to provide arguments why that is the case, as there are suspicions of a cover-up
- If this is not cleared quickly, the scandal could finally catch up to Spolu, which has been thus far unaffected

Spolu sees some losses after bitcoin scandal, ANO remains stable - poll

Czech Republic | Jun 23, 08:43

- The poll is a bit weird, as it surveys again early June, a period already covered in two previous polls
- It appears Spolu has lost about 2pps after the bitcoin donation scandal, which is consistent with other available polling
- 6 parties are set to enter the next parliament
- An ANO-SPD alliance remains the safest path towards an absolute majority, though ANO would prefer a minority government

Government expectedly survives vote of no confidence

Czech Republic | Jun 19, 07:35

- ANO, the SPD and the Pirates backed the vote, but it was not enough
- All ruling parties remained united behind the government, with no defections
- The political impact from the vote has been limited thus far

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BUDGET 2026

ANO promises to revise 2026 budget bill if it takes over government

Czech Republic | Sep 08, 08:18

- ANO's Schillerova, likely to return as finance minister, said the 2026 budget bill was not manageable in its current state
- Meanwhile, ANO's Havlicek said that a provisional budget would be in force for no more than 6-7 weeks
- Thus, ANO is doubling down on plans to revise the 2026 budget bill, which means any assumptions we see are only preliminary

Pensions to rise by 3.2% on average in 2026 - labour minister

Czech Republic | Sep 04, 10:10

- The solidarity component will rise by CZK 240 monthly, while the merit component will rise by 2.6%
- The fiscal impact is projected at CZK 22.5bn in 2026

- Labour minister Jurecka said pensions rose by 18% in real terms over the past decade, and by 28% in nominal terms during this government's term

Government, unions fail to agree on public sector wages in 2026

Czech Republic | Sep 03, 12:28

- Unions toned down their demand again, opting for the bigger hike in the preliminary government proposal, i.e. a 7% increase in base wages
- Meanwhile, the government proposed a 5% increase, given the strain on public finances
- Labour minister Jurecka hopes an agreement will be reached before end-September, unions are not that confident

FinMin reveals 2026 budget bill, state deficit target set at CZK 286bn

Czech Republic | Sep 01, 08:40

- If defence spending over 2% of GDP and state aid for the Dukovany nuclear power plant expansion is excluded, the deficit target becomes CZK 237bn
- The general government deficit should remain flat at 1.9% of GDP in 2026, general government debt is expected to reach 45.5% of GDP at end-2026
- We estimate gross financing needs at about 7.2% of GDP in 2026
- Because this is a preliminary version of the budget bill, we don't have many details about financing yet
- Revenues expected to rise by 0.4% in 2026, spending should increase by 2.3%
- Yet, if extraordinary expenses are excluded, spending growth will be around 0.2%
- Budget adoption will likely be delayed this year, due to the general election on Oct 3-4

Government, unions to meet on public sector wages on Sep 3

Czech Republic | Aug 28, 11:46

- Government proposes a base wage hike between 5% and 7% in 2026, unions demand 10%
- A 7% increase, towards which the government reportedly leans, will cost the budget CZK 45.1bn
- We doubt an agreement will be reached, despite the relatively close positions of the two sides

Industry minister confirms state deficit target at CZK 280bn in 2026

Czech Republic | Aug 27, 19:11

- The main parameters of the 2026 budget should be revealed on Aug 31
- FinMin Stanjura says his priority is to keep the general government deficit at this year's level, i.e. 1.9% of GDP
- He probably accounts for the escape clause, as defence spending is indeed planned to increase

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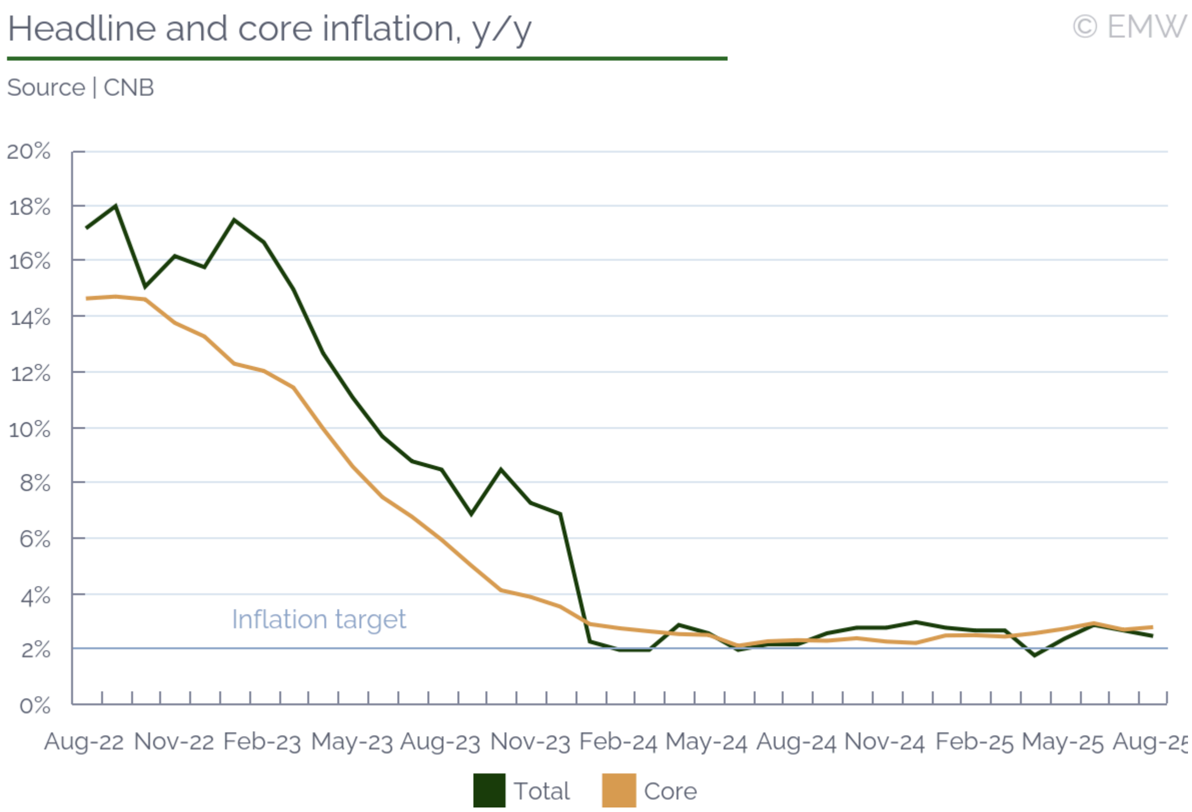
KEY STATISTICS

Core inflation picks up to 2.8% y/y in August, as expected

Czech Republic | Sep 10, 14:20

- **The deviation of headline inflation from the CNB forecast was confirmed to be through food, alcohol, and tobacco prices**
- **Core inflation picked up exclusively due to goods' prices, as market service prices reported an increase of 4.4% y/y, unchanged from July**
- **CNB staff still sees domestic prices as not having stabilised, which requites tight monetary conditions**
- **Even a slightly stronger core inflation should seal the deal for the next MPC meeting, which will leave the policy rate unchanged**

Core inflation, excluding regulated, food, alcohol, tobacco, and fuel prices, picked up slightly to 2.8% y/y in August, faster by 0.1pps m/m, according to figures from the CNB. The print was precisely in line with the CNB's projections. We remind that headline inflation ended up below the CNB's forecast, at 2.5% y/y in August, against 2.7% y/y expected by the CNB. The primary deviation came from food, beverage, alcohol, and tobacco prices, which rose by 3.3% y/y, slower by 0.5pps than the CNB's forecast. The other deviations were minor, as regulated prices rose by 1.1% y/y, or slower by 0.2pps than projected, while fuel prices fell by 7.7% y/y, or faster by 0.4pps than expected. Furthermore, the breakdown was in line with the statistical office's release, which attributed the softer headline inflation in August to food, alcohol & tobacco prices.



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It is worth noting that core inflation was driven upwards mostly by goods' prices included in the core component, as market service prices maintained their growth flat at 4.4% y/y. Housing costs have stabilised, in line with the CNB's expectations, which leaves it core goods' prices to push core prices upwards. As a result, CNB staff concluded that price developments in the domestic economy had not fully stabilised, which still required tight monetary conditions.

Monetary policy impact

The slightly stronger core inflation will likely cement the CNB board's stance, namely that interest rates are fine where they are for a while. Furthermore, signals coming from the ECB are that we should not expect its next rate cut earlier than Q1 2026, which makes the CNB's job even easier. Finally, the fact that it was goods' prices, rather than service prices, that drove core inflation upwards this time, should preclude any discussion of rate cuts for some time. It is telling that a stronger CZK has not been able to dampen domestic price pressure, which likely reflects still robust wage growth. Thus, even if manufacturing activity remains subdued due to weak external demand, the same cannot be said for the rest of the economy, which continues to generate inflation pressure.

Another consideration is that the CNB is rightly worried about inflation expectations, which have become more volatile after the recent crises, both of which have boosted inflation. Keeping inflation expectations anchored is not an easy task, and it requires the CNB to keep the lid on monetary policy when necessary, and this is likely such a period of time.

CNB inflation measures

	Aug-24	May-25	Jun-25	Jul-25	Aug-25
Change, y/y					
Total	**2.2%**	**2.4%**	**2.9%**	**2.7%**	**2.5%**
Regulated prices	5.2%	1.0%	1.1%	1.3%	1.1%
Food, beverages and tobacco	1.0%	4.1%	4.8%	4.2%	3.3%
Core inflation	**2.4%**	**2.8%**	**3.0%**	**2.7%**	**2.8%**
Fuel	-4.2%	-13.6%	-9.3%	-9.0%	-7.7%
Monetary policy-relevant inflation	**2.1%**	**2.2%**	**2.7%**	**2.5%**	**2.3%**
Contribution to y/y dynamics, pps					
Regulated prices	-0.03	0.08	0.01	0.03	-0.03
Food, beverages and tobacco	0.29	0.39	0.18	-0.17	-0.23
Core inflation	0.02	0.09	0.12	-0.12	0.05
Fuel	-0.31	0.00	0.17	0.01	0.05

Source: CNB

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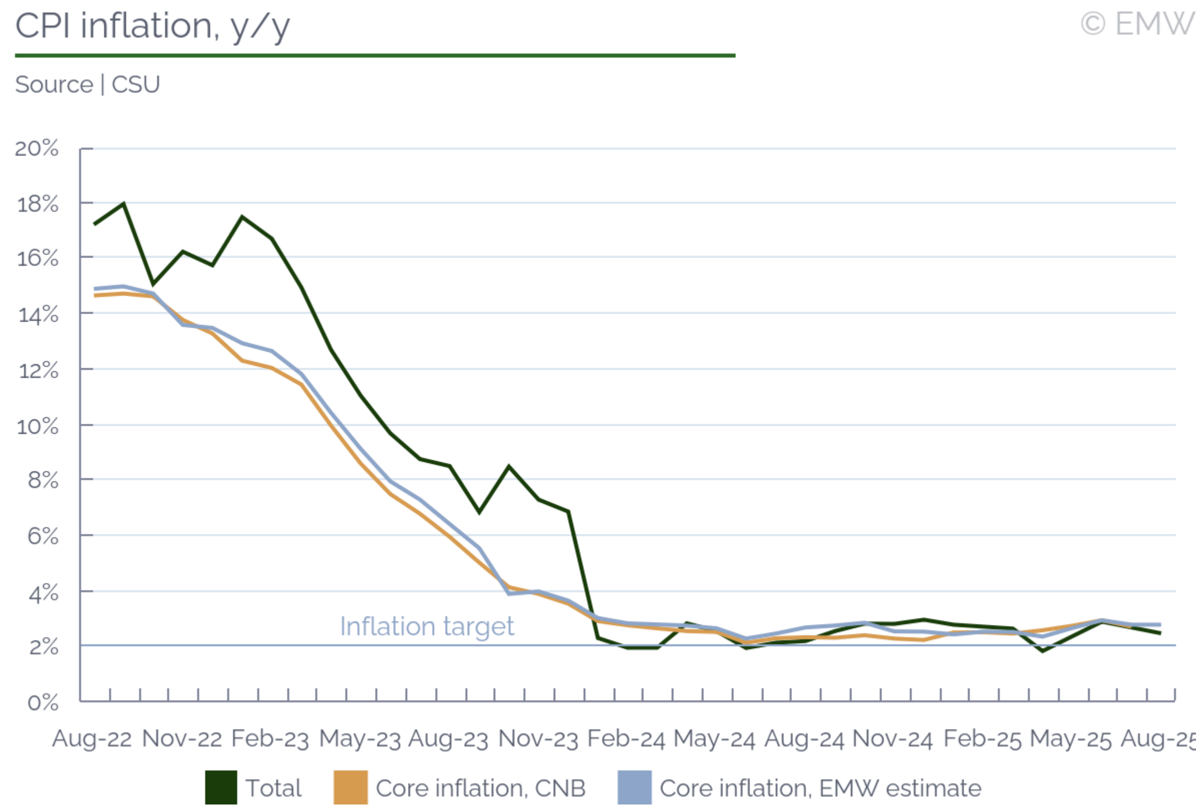
CPI inflation confirmed at 2.5% y/y in August - final release

Czech Republic | Sep 10, 10:23

- **We remind the CNB expected headline inflation at 2.7% y/y in August**
- **Food prices pushed the headline print downwards, but alcohol & tobacco had a slightly bigger downward impact**
- **Fuel prices expectedly had a slight upward push, while core inflation likely remained flat at 2.7% y/y**
- **Given how headline inflation has eased on volatile prices, we don't expect any changes in monetary policy**
- **There is also plenty of external uncertainty, so we don't expect the CNB board taking any chances during the rest of 2025**

CPI inflation was confirmed as easing to 2.5% y/y in August from 2.7% y/y in July, according to the final release from the statistical office. We remind that the print is 0.2pps below the CNB forecast, though the CNB also expected some slowdown. All main categories from the flash estimate were confirmed as well, including goods' and service prices, which rose by 1.1% y/y and 4.7% y/y, respectively.



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The slowdown in the headline print was mostly due to volatile prices, but as the flash estimate suggested, food prices did not have the bigger impact, but it came more through alcohol and tobacco. The latter also fall into the seasonal price group, as defined by the statistical office, and it is still excluded from the CNB's core inflation measure. Thus, it doesn't make a material difference, but for the sake of argument, food & beverage prices eased their growth relatively modestly, from 5.2% y/y in July to 4.7% y/y in August. Meanwhile, alcohol & tobacco prices rose by 2.7% y/y in August, which was their softest increase in the past 4 months. We suspect beer is the primary seasonal item here, sold much more extensively during the August holiday period.

Other than that, only fuel prices had a slightly upward impact, which was entirely in line with our proxy. The remaining components had a marginal impact on headline inflation, which confirms our expectation that core inflation likely remained flat at 2.7% y/y in August. This is likely to be still slightly lower than the CNB's projection, as the CNB expects core inflation at 2.8% y/y in Q3 2025. Nevertheless, inflation measures are almost exactly in line with the latest CNB staff forecast, which we consider the more important conclusion.

Monetary policy impact

Inflation developments come in support to the CNB board's cautious stance on monetary policy. While headline inflation has eased, core inflation is likely to remain elevated, and above the headline. Board members have said more than once that headline inflation easing primarily on volatile prices is not a reason to ease monetary conditions. Furthermore, labour market news remain discouraging, as nominal wages once again rose faster than the CNB's projections, and pressure on the service sector remains robust. Even though manufacturing wages have eased their growth, the situation is completely the opposite in services, where labour shortages persist, and thus wages keep rising.

It can also be argued that we are seeing some positive impact from a stronger CZK, especially on imported foods and fuels. However, this is also a volatile effect, and we don't expect the CNB to bet on the CZK remaining as strong as it currently is. Given the latest news about US trade policy, we could say that the situation is far from settled, and the Trump administration could quickly reverse course. We remind that the EU-US trade deal is nothing close to a traditional trade agreement, but rather an understanding between the two sides to do certain things. Thus, while there is political will to keep the base tariff rates at 15%, this could change in a matter of weeks if Donald Trump so wishes. Amidst all this uncertainty, we doubt the CNB will take any chances, which means the policy rate will remain unchanged for a while, maybe even throughout much of 2026, despite current market expectations.

CPI inflation, % y/y - final release

	Aug-24	May-25	Jun-25	Jul-25	Aug-25
Total	**2.2%**	**2.4%**	**2.9%**	**2.7%**	**2.5%**
Food and non-alcoholic beverages	-1.8%	5.4%	6.2%	5.2%	4.7%
Alcoholic beverages, tobacco	4.7%	3.7%	4.1%	4.4%	2.7%
Clothing and footwear	1.9%	-1.9%	-1.5%	-1.7%	-1.9%
Housing, water, energy, fuel	3.0%	1.9%	2.0%	2.1%	2.0%
Furnishings, household equipment	0.4%	1.4%	2.0%	1.6%	1.8%
Health	4.1%	3.7%	3.7%	3.2%	2.7%
Transport	1.0%	-3.3%	-1.5%	-1.7%	-1.1%
Post and telecommunication	0.8%	0.2%	0.2%	0.6%	0.6%
Recreation and culture	3.7%	3.9%	4.2%	3.9%	4.2%
Education	6.6%	11.1%	11.3%	11.3%	11.2%
Restaurants and hotels	7.0%	5.0%	4.8%	4.8%	4.8%
Miscellaneous goods and services	3.4%	3.2%	3.4%	2.8%	3.0%
Goods	0.5%	0.9%	1.6%	1.4%	1.1%
Services	5.0%	4.9%	5.0%	4.8%	4.7%
Core inflation, EMW estimate	2.7%	2.7%	3.0%	2.8%	2.8%
Core inflation, CNB	2.4%	2.8%	3.0%	2.7%	-
Imputed rentals	1.2%	4.6%	4.9%	4.9%	4.9%
Seasonal goods	-2.2%	4.6%	2.9%	3.4%	0.5%
Regulated prices	5.2%	0.8%	0.9%	1.1%	1.0%
Fuel	-4.1%	-13.5%	-9.2%	-8.9%	-7.6%
Package holidays	2.8%	4.6%	6.9%	5.0%	5.3%

Source: Czech stats office

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Regist. unemployment rate picks up to 4.5% in August, a bit above expectations

Czech Republic | Sep 08, 12:02

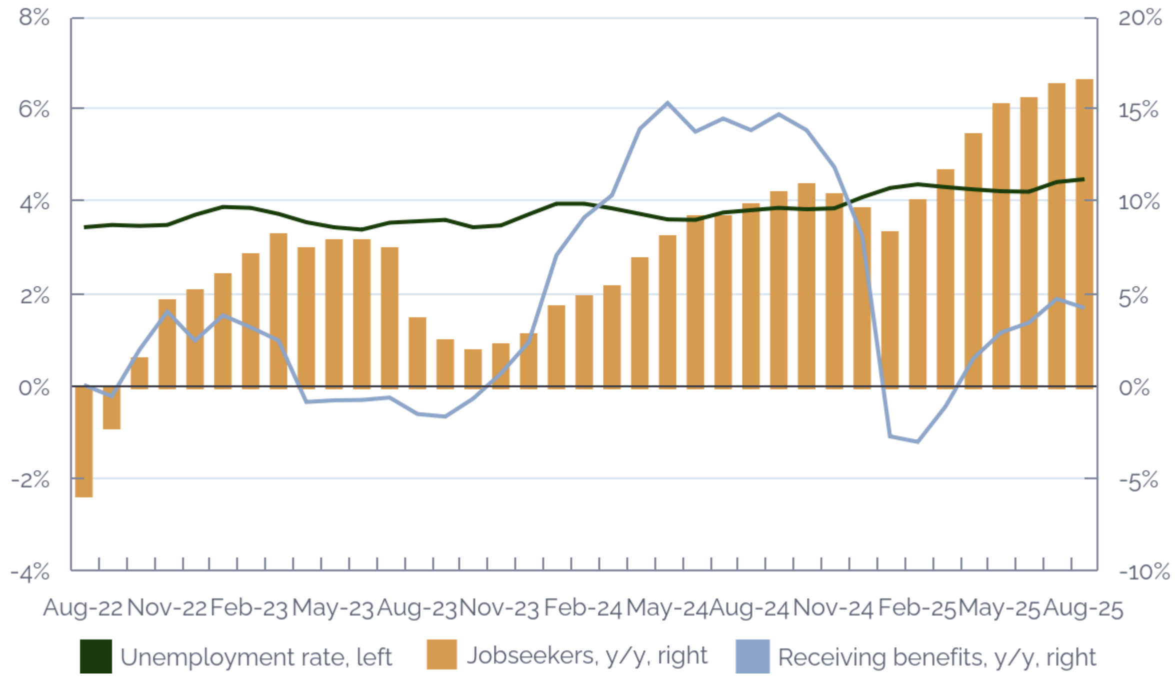
- **Markets expected the unemployment rate at 4.4%**
- **Total number of jobseekers was higher by 16.5% y/y, but people getting unemployment benefits increased by 4.3% y/y**
- **Labour market loosens a bit, but not by much**
- **Newly registered jobseekers rose by 4.5% y/y, while people who found employment increased by 2.1% y/y**
- **Newly announced vacancies were higher by 15.9% y/y, but we believe most of them are redeclared vacancies that were removed due to a methodology change**

The registered unemployment rate (15-64 years) picked up to 4.5% in August, higher by 0.7pps y/y, according to figures from the state employment agency. The print was a bit above market expectations, as the unemployment rate was projected to remain flat at 4.4%. The number of registered jobseekers rose by

16.5% y/y in August, though, as always, we are looking at people receiving unemployment benefits, whose number increased by 4.3% y/y. Even then, the number of people on benefits has been rising over the past 5 months, and the August increase was the second strongest in so many months.

Registered labour market, %

Source | Ministry of Labour



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As far as labour market tightness is concerned, it remained flat, with the ratio of vacancies per jobseeker remaining at 0.64 in August. We remind that we are using only jobseekers who have been registered within 6 months, as according to a methodology change, the state employment office now only considers vacancies as such if they have remained unfilled for up to 6 months. Any vacancy that remains open for longer is automatically excluded. Unfortunately, there is no revision of past series, and we don't have a series for the duration of job seeking before 2025, so we cannot give you a comparison whether the market has loosened much. Judging from the headline numbers up to the end of 2024, some loosening did occur in late 2024.

Newly registered jobseekers increased by 4.5% y/y in August, their softest increase in the past 6 months. Meanwhile, people taken off unemployment rolls were more by 2.4% y/y, ending 8 months with a decline. In all fairness, the decline in the past few months was mostly due to fewer people being removed due to administrative reasons, which is not necessarily a bad outcome, as it suggests there is lower fraud. Meanwhile, the number of people who have found employment has been rising without interruption since the beginning of 2023, and they rose by 2.1% y/y in August. This is still weaker than newly registered jobseekers, however, hence the actual increase in the number of unemployed.

Newly announced vacancies rose by 15.9% y/y in August, though as before, this is likely due to one-off reasons, related to the methodology change with how vacancies are classified. We have confirmation that employers have been declaring again vacancies removed from the registry at the beginning of the year, which explains the steady rise in new vacancies so far. The number of new layoffs increased by 30% y/y, though their number was lower than that of new vacancies. Moreover, filled-in positions increased by 36.9% y/y, so demand for labour remains solid.

Overall, we are seeing a sustained increase in unemployment, mostly fuelled by the manufacturing sector. As confirmed by the most recent wage print for Q2, manufacturing continues to shed jobs, mostly due to weak demand. However, this has been heavily mitigated by services, where employment has been rising at a steady rate, and where labour demand remains considerable. Furthermore, job losses in manufacturing are mostly through low-skilled and low-paid positions, and this can be seen through registered unemployment data, as 53% of new jobseekers had less than a high school diploma. Thus, while unemployment levels are rising, we don't see an immediate threat to the economy. Besides, registered unemployment rates tend always to be higher, as registering provides state-funded access to the universal healthcare system, so many prefer to stay registered, even if not actually looking for employment.

Registered labour market, %

	Aug-24	May-25	Jun-25	Jul-25	Aug-25
Unemployment rate (15-64 years)	**3.8%**	**4.2%**	**4.2%**	**4.4%**	**4.5%**
Vacancies per jobseeker (up to 6 months)	-	0.66	0.68	0.64	0.64
Change y/y					
Registered jobseekers	9.8%	15.2%	15.7%	16.4%	16.5%
o/w: available to start work	11.1%	17.1%	17.4%	18.1%	18.2%
o/w: receiving unemployment benefits	13.9%	2.9%	3.5%	4.8%	4.3%
Job vacancies	-6.4%	-63.8%	-62.6%	-63.5%	-63.9%
Newly registered job seekers	0.6%	7.1%	8.7%	5.5%	4.5%
Job seekers taken off registry	-3.7%	-2.5%	5.1%	-4.6%	2.4%
o/w: found employment	15.5%	3.0%	7.6%	1.8%	2.1%
Newly announced vacancies	-5.2%	15.1%	17.9%	27.4%	15.9%
Filled-in positions	-18.7%	-31.5%	-29.5%	44.2%	36.9%
Layoffs	-38.1%	-18.2%	-24.3%	36.2%	30.0%
Newly vacated positions	-99.5%	-20.3%	-65.0%	4,027.8%	5,680.0%

Source: Ministry of Labour

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External trade deficit narrows to CZK 1.7bn in July

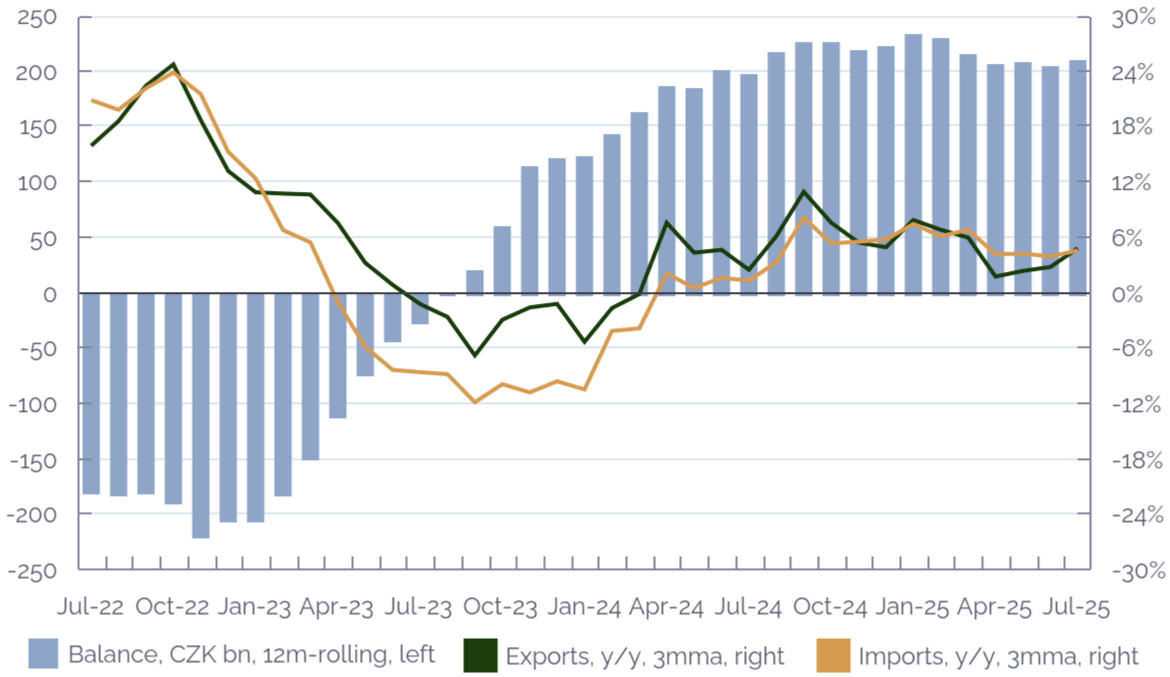
Czech Republic | Sep 08, 11:22

- **The external trade surplus reached CZK 136.7bn in January-July, lower by 6.4% y/y**
- **Machinery & transport equipment trade led to the improvement in year-on-year terms in July**
- **Export growth has weakened, though to a still decent 4.7% y/y**
- **Meanwhile, import growth narrowed to only 3.1% y/y, reflecting weaker external demand and a stronger CZK**
- **While REER gains have been noticeable, we believe we are seeing a slowdown in economy growth first, and a strong national curency second**

The external trade deficit narrowed to CZK 1.7bn in July (FOB/CIF), lower by 4.3 times in year-on-year terms, according to figures from the statistical office. It brought the cumulative trade balance to a surplus of CZK 136.7bn, lower by 6.4% y/y, while the 12m-rolling trade surplus reached CZK 211.1bn at end-July, the strongest in the past 4 months.

External trade

Source | CSU



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The improvement in the trade balance was massively due to trade with machinery & transport equipment, both in July and in January-July. There was simply no competition, especially in July. Energy trade also contributed, but its impact was magnitudes lower when compared to that of machinery & transport equipment. In that regard, the automotive sector was not the primary culprit, as while its output improved in July, it was not by a rate that really made a difference. On the other end, trade with various manufactured articles was again the main downward push on the trade balance, and we suspect it once again reflects a steady increase in Chinese exports to Europe.

As far as trade dynamics are concerned, export growth eased to 4.7% y/y in July from 7% y/y in June. The slowdown was relatively broad, with weaker performance in exports of machinery & transport equipment, chemicals, manufactured articles, parts & components. The only sector that fuelled headline growth was fuel exports, which jumped by 15.3% y/y in July, after a 5.6% y/y drop in June. Despite weak export performance, the improvement in the trade balance came from an even faster weakening of import growth, which went from 8.5% y/y in June to 3.1% y/y in July. It featured lower imports of machinery & transport equipment, chemicals, oil & natural gas, and manufactured articles.

Overall, we believe we are seeing signs of the economy decelerating its pace. Given the big dependence of local manufacturing producers on imported inputs and components, weak domestic demand inevitably leads to a decline in imports of these products. Furthermore, we are also seeing some exchange rate impact, as the CZK has gained noticeably over the past couple of months, after markets acknowledged the CNB's hawkish policy stance. Thus, we have the nominal effective exchange rate rising by 3.6% y/y in July (adjusted for the CPI), while the REER was up 2% y/y when adjusted for the PPI, and 3.7% y/y when adjusted for the CPI. In contrast, the biggest REER gain before July was 0.2% y/y, so exchange rate effects are definitely in play. We are not that concerns about the impact on exports, however, as local labour costs are still magnitudes lower than in Western Europe, and the euro has been seeing similar effects recently as well. Instead, we believe trade data coincides with industrial output numbers, suggesting some modest improvement, but nothing exceptional.

External trade

	Jul-24	Apr-25	May-25	Jun-25	Jul-25
CZK mn					
Exports	358,398	409,037	393,382	417,757	375,246
Imports, CIF	365,599	389,326	380,859	389,742	376,921
Balance, FOB/CIF	**-7,201**	**19,711**	**12,523**	**28,015**	**-1,675**
12m rolling balance	197,719	206,700	208,674	205,551	211,077
Change, y/y					
Exports	**13.0%**	**-1.1%**	**2.8%**	**7.0%**	**4.7%**
Food and live animals	24.7%	4.4%	2.3%	6.8%	2.7%
Beverages and tobacco	28.1%	4.6%	-9.4%	7.2%	-1.2%
Crude materials	29.3%	-6.2%	-7.8%	-5.4%	-8.1%
Mineral fuels, lubricants	-5.7%	20.2%	20.3%	-5.6%	15.3%
Animal and vegetable oils	17.2%	23.8%	7.9%	-2.9%	-1.6%
Chemicals and related products	20.1%	-3.0%	-1.4%	1.8%	-3.9%
Manufactured goods by material	13.9%	-3.9%	-0.5%	3.0%	1.1%
Machinery and transport equipment	10.0%	-0.5%	4.3%	10.0%	8.3%
Manufactured articles	16.9%	-4.5%	3.6%	5.9%	0.7%
Commodities not classified	24.3%	3.3%	3.9%	20.2%	13.9%
Imports	**13.1%**	**1.3%**	**2.4%**	**8.5%**	**3.1%**
Food and live animals	24.0%	10.5%	7.1%	11.5%	4.4%
Beverages and tobacco	-11.4%	2.5%	-0.9%	17.4%	9.4%
Crude materials	9.2%	-5.3%	2.4%	3.8%	6.3%
Mineral fuels, lubricants	9.7%	16.6%	1.4%	10.5%	-2.4%
Animal and vegetable oils	1.6%	-1.9%	0.5%	0.7%	2.4%
Chemicals and related products	21.6%	-5.1%	-0.9%	7.6%	-2.7%
Manufactured goods by material	18.3%	-2.1%	1.5%	2.0%	1.1%
Machinery and transport equipment	7.4%	0.5%	-0.5%	7.3%	2.5%
Manufactured articles	18.2%	4.1%	17.8%	21.4%	11.8%
Commodities not classified	75.2%	64.3%	-4.2%	11.3%	170.3%

Source: CSU

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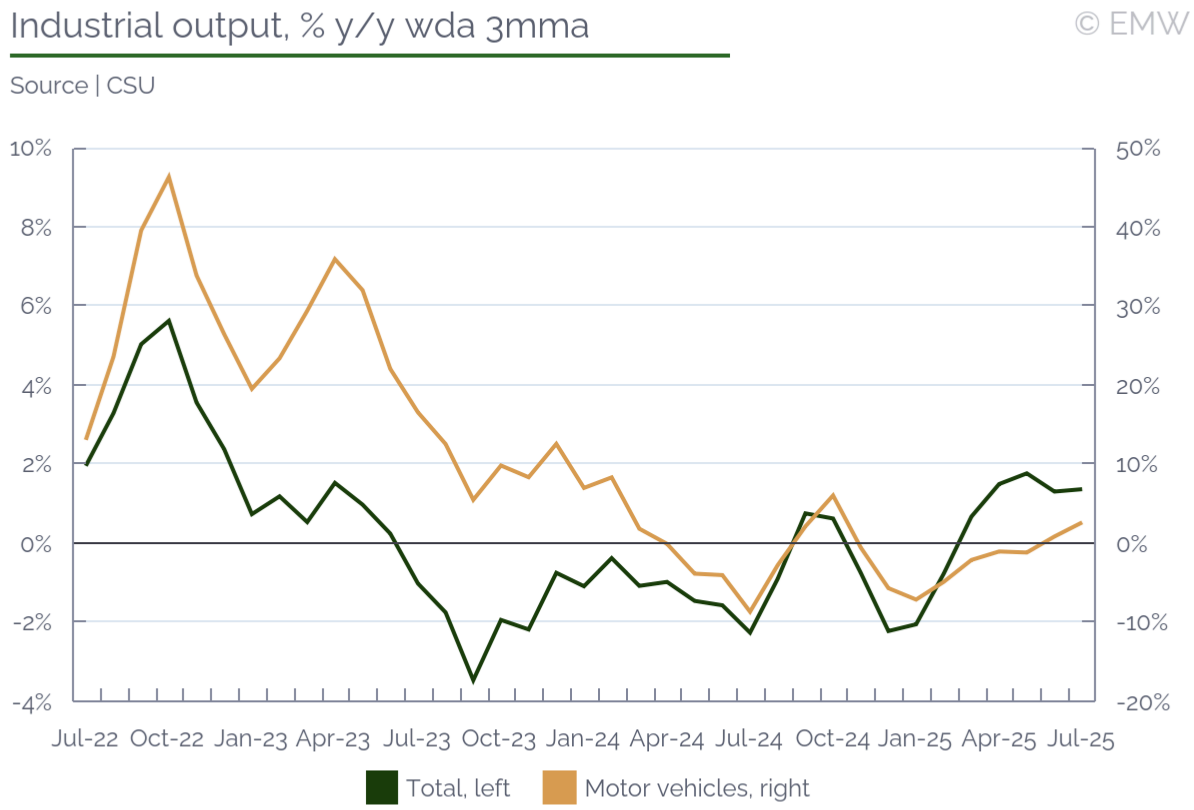
Industrial growth improves to 1.8% y/y in July, slightly above expectations

Czech Republic | Sep 08, 10:59

- **Markets expected an increase of 1.5% y/y**
- **Manufacturing output fell by 0.3% m/m (sa), but it still improved in year-on-year terms**
- **Power generation led the recovery in headline growth, manufacturing did fine as well**
- **Chemicals, machinery & equipment, plastics, and pharmaceuticals were the sectors pushing growth upwards**
- **New industrial orders saw a spike, mostly due to the automotive sector**
- **Nominal wages rose by a solid 5% y/y in July, maintaining a robust increase**

Industrial growth improved to 1.8% y/y (wda) in July, up from 0.2% y/y in June, according to figures from the statistical office. The print was slightly above market expectations, which put industrial growth at 1.5% y/y. Output improved by 0.8% m/m (sa) in July, but manufacturing output did not fare that well, seeing a 0.3% m/m fall.



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Power generation led the faster industrial growth, mostly due to a switch from a 9.1% y/y fall in June to a 1.1% y/y increase in July. There has been some volatility in power generation levels lately, which has been impacting headline industrial growth. On the other hand, manufacturing output strengthened yet again, seeing a 1.7% y/y increase in July, faster by 0.8pps m/m. It had an almost equal impact on headline growth as power generation, with the leading sectors being chemicals, machinery & equipment, plastics, and pharmaceuticals. On the other hand, transport equipment other than motor vehicles did not do well, in addition to beverages, non-metallic minerals, basic metals, and textile. Nevertheless, all these sectors did not deteriorate as significantly, so their overall impact was relatively modest. The automotive sector saw a modest improvement, but it did not impact headline growth that much this time.

New industrial orders improved, rising by 6.6% y/y (wda & sa) in July after a 3.2% y/y fall in June. The primary boost came from the automotive sector, along with production of other transport equipment. These two segments basically caused the entire swing, leaving gains like those in the chemical sector as modest. This is encouraging for the automotive industry, suggesting that despite issues, demand has seen some recovery. We suspect that most of the orders are in the EV segment, which has been growing at much stronger rates than traditional car manufacturing.

Employment in industry maintained its decline, falling by 1.9% y/y in July. Employment in the sector has now been falling for 3 consecutive years, and the rate of decline has averaged 2% y/y since the middle of 2023. There appears to be no end in sight for job shedding in the sector, though it has remained the sole major economy sector to produce unemployment. Data clearly shows that construction and services are seeing a steady increase in employment, which is the main reason preventing higher unemployment rates. Nominal wages rose by 5% y/y in July, easing from a 6.9% y/y increase in June. Nevertheless, wage growth has still exceeded 5.5% y/y in January-July, and has remained relatively steady. While it is not at the level seen in services, labour cost pressure remains solid.

All in all, we are seeing some modest recovery, but nothing really to write home about. After the consistent decline seen recently, what the numbers suggest is stabilisation, rather than solid growth. Signals from

Germany are similar, as even though the situation is a bit better, it is not a solid return to pre-crisis years. We suppose this is better than nothing, but we don't believe this will be the economy engine that many currently expect.

Industrial output

	Jul-24	Apr-25	May-25	Jun-25	Jul-25
Change, y/y wda					
Total	**-1.6%**	**1.6%**	**2.3%**	**0.2%**	**1.8%**
Mining and quarrying	-10.7%	6.9%	-1.2%	-4.0%	9.8%
Manufacturing	-1.8%	0.4%	1.7%	0.9%	1.7%
Motor vehicles	-15.0%	-1.4%	0.1%	3.9%	4.5%
Utilities	2.7%	14.4%	10.9%	-9.1%	1.1%
Industrial orders	**-1.0%**	**7.3%**	**5.4%**	**-3.2%**	**6.6%**
Export	-2.7%	11.6%	7.4%	-8.3%	4.1%
Domestic	2.2%	0.4%	2.2%	1.8%	11.4%
Employment	-1.9%	-2.0%	-2.0%	-1.9%	-1.9%
Wages	8.7%	7.8%	4.9%	6.9%	5.0%
Output, m/m sa	**-0.9%**	**0.6%**	**-1.2%**	**-1.3%**	**0.8%**

Source: Czech stats office

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Retail sales ease growth to 2.5% y/y in July, weaker than expected

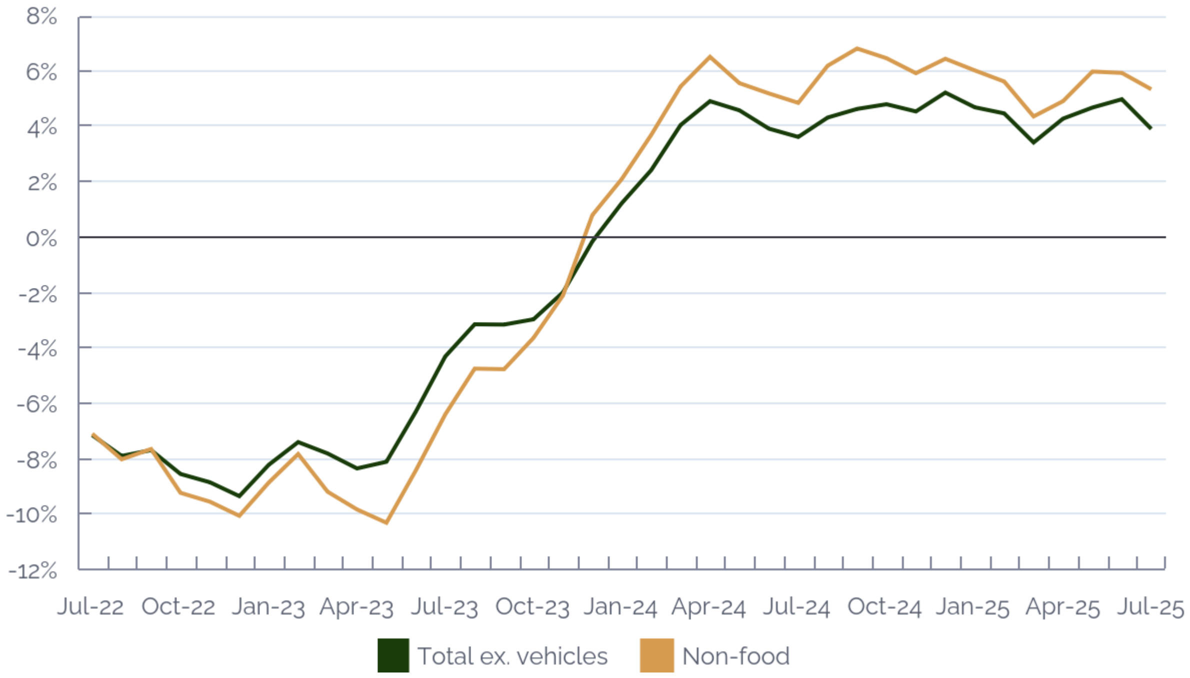
Czech Republic | Sep 05, 10:30

- **Markets expected a 4.3% y/y increase**
- **Deterioration was observed across the board, though it was the strongest in non-food sales**
- **Online sales rose at a 20-month low, but still at a solid 6.7% y/y**
- **At this point, we cannot say whether this is a one-off data point, or the beginning of a trend**

Retail sales, excluding vehicles, eased their growth to 2.5% y/y (wda) in July from 4.8% y/y in June (revised from 4.5% y/y), according to figures from the statistical office. The print was weaker than market expectations, which anticipated retail sales growth at 4.3% y/y. Retail sales also fell by 0.3% m/m (sa), indicating that the slowdown was not solely due to base effects.

Retail sales, % y/y 3mma wda

Source | CSU



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Deterioration was reported across the board, though it was non-food sales that had the biggest impact on slower headline growth. Non-food sales eased their increase to 3.5% y/y in July, the softest in the past 5 months, though it remained relatively solid on its own. Food sales followed, seeing a 0.9% y/y drop in July, after a 0.7% y/y increase in June. Meanwhile, fuel sales also reported their softest increase in 5 months, rising by 8.3% y/y, which was still a solid level. As far as non-food sales are concerned, performance worsened in all categories except cultural & recreational goods, whose impact was negligible. The biggest impact was observed with online sales, whose growth eased to 6.7% y/y, the weakest in the past 20 months, though sales of clothing and household equipment did poorly as well.

At this point, it remains unclear whether the visibly slower year-on-year growth will stick. If it does, it will indicate a noticeable slowdown in household spending in Q3, contrary to upbeat expectations. In fall fairness, inflation expectations among households strengthened in late 2024, but they have remained relatively stable over the past 10 months. Inflation has started to ease, even though it remains a bit elevated, but goods' prices have been rising at a much slower rate than services. Thus, we are not confident that we are seeing the beginning of a new trend, at least not yet. Month-on-month developments have not gone outside the norm, so we will need more data before we make conclusions about household spending patterns in Q3 and beyond.

Retail sales, y/y wda

	Jul-24	Apr-25	May-25	Jun-25	Jul-25
Total	**2.7%**	**5.3%**	**3.8%**	**2.8%**	**3.1%**
Vehicles	-1.5%	4.5%	2.5%	-1.0%	4.8%
Ex-vehicle	**4.6%**	**5.7%**	**4.5%**	**4.8%**	**2.5%**
Food, beverages and tobacco	3.6%	4.4%	-0.8%	0.7%	-0.9%
Non-food	6.4%	5.3%	6.6%	5.9%	3.5%
Retail sale in non-specialized stores	5.0%	4.6%	-0.4%	1.1%	-0.4%
Fuel	1.1%	11.4%	13.3%	12.3%	8.3%
IT and communication equipment	-0.3%	2.0%	1.5%	-3.5%	-5.3%

Other household equipment	1.3%	2.8%	1.6%	3.5%	0.9%
Cultural and recreation goods	-0.7%	4.7%	2.4%	3.5%	4.5%
Textiles, clothing, footwear	-1.8%	-1.1%	-1.1%	4.4%	-1.5%
Pharmaceuticals	9.4%	5.7%	5.1%	6.2%	5.9%
Cosmetics	9.7%	10.5%	11.7%	8.2%	7.9%
Sales via mail and internet	18.3%	10.3%	19.0%	11.3%	6.7%
Total, excl. vehicles, m/m sa	**1.3%**	**1.2%**	**-0.6%**	**0.4%**	**-0.3%**

Source: Czech stats office

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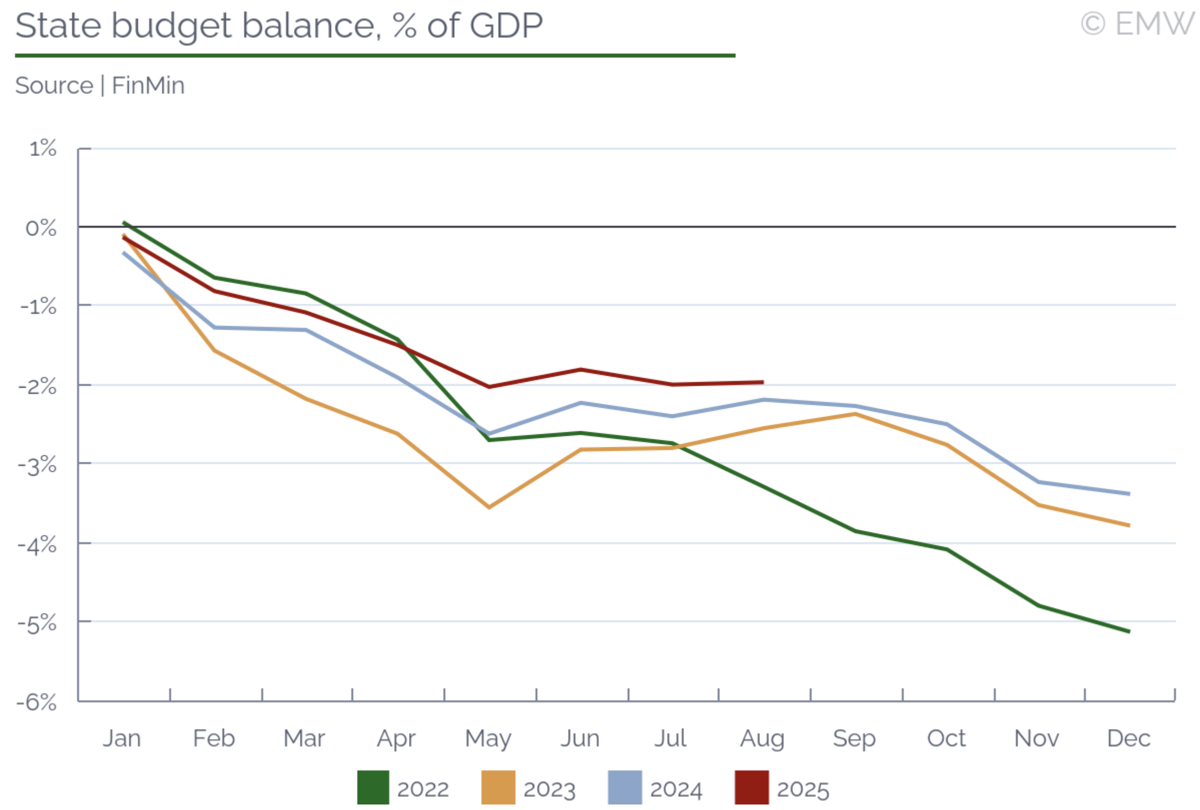
State government deficit reaches CZK 165.4bn in January-August

Czech Republic | Sep 01, 15:38

- **The budget saw a modest surplus of CZK 2.8bn in August, almost six times lower in year-on-year terms**
- **Tax revenues are a bit behind the annual plan, but not by much; windfall tax proceeds in September are likely to mitigate that**
- **EU flows could change the picture considerably as well, as they are still at just under 45% of projections**
- **Spending rose by 4.1% y/y and was also behind schedule, though current expenses were pretty much on point**
- **Public investment has been lagging a bit, but it could pick up in the remainder of 2025**
- **Meeting the CZK 241bn deficit target is still very much plausible, but there will be no spare fiscal space**

The state government budget reported a deficit of CZK 165.4bn (2% of GDP) in January-August, lower by 5.9% y/y, according to figures from the finance ministry. In August alone, the budget reported a surplus of CZK 2.8bn, almost six times lower than a year ago. The biggest drawback so far is EU flows, as when these are excluded, the budget deficit was lower by 16.9% y/y in January-August. Gross EU flows reached CZK 77.3bn over the period, with flows being only CZK 2.7bn in August. We remind that EU flows are not disbursed evenly throughout the year, which is why the budget balance could improve visibly in the rest of 2025.



Data Download

Revenues rose by 5.5% y/y in January-August, adding up to 63.6% of the annual projection. We should warn that this is a bit misleading at this point of the year, as windfall tax proceeds are due to be collected in September (they are collected quarterly). Considering that windfall tax revenue has been overperforming again (at 68.3% of the projection for H1), the odds are tax revenues will see a noticeable boost in September. Corporate income tax proceeds have been a bit behind, but they reflect a similar annual pattern, as advance payments are also made quarterly. VAT revenues were higher by 8.2% y/y, which is a decent growth rate, and at 64% of the annual projection, though this could be attributed to the summer holidays being a bit slow for VAT proceeds.

As we mentioned above, EU transfers have been keeping revenue performance behind, as gross EU flows reached CZK 77.3bn in January-August, and only CZK 2.7bn in August. We remind that year-on-year comparisons reflect a base effect, as payments from the 2014-2020 MFF are no longer disbursed. Thus, even though gross EU flows are at only 44.8% of their annual plan, this could easily change later this year, which will also propel non-tax revenue to a more favourable position. Meanwhile, property income has already exceeded the annual plan, reflecting the disbursement of the dividend from CEZ (CZK 17.6bn for the state budget).

Expenditure rose by 4.1% y/y in January-August, reaching 64.2% of the annual plan, which is also a bit behind, but not as much as revenues. Capital expenses led spending growth, mostly related to transport infrastructure, and they rose by 23.9% y/y. Among current expenses, the two growth drivers were social expenses (up 2% y/y) and interest (up 13.5% y/y). It is worth noting that current expenses are typically spread relatively evenly, while capital expenses can be much more spread out, so spending growth could easily pick up, if capital spending sees a stronger increase later this year. Other than that, there were no major oddities in budget spending.

All in all, budget execution is likely slightly behind the plan, but not excessively so. As we noted, there are some unevenly distributed flows, both on the revenue and expenditure sides, that could change the overall picture. Still, it is plausible that the CZK 241bn deficit target will be met, even if narrowly. What we are confident about is that there is no available fiscal space for any additional spending this year, which is probably why the government hinted earlier that if defence spending needed to rise, the 2025 budget would be revised. There are no apparent plans to do so, however, which is why we don't expect any surprises with financing or budget execution. The finance ministry has been becoming a bit more optimistic lately, possibly due to expectations for GDP growth not being that gloomy, which will be eventually reflected in tax revenue. However, what we are seeing is that further fiscal consolidation will require a mix of higher taxes and significant spending reforms.

State government budget, Jan-Aug, CZK bn

	2024	2025	Change, % y/y	Change	Plan 2025	% of plan
REVENUE	**1,270.2**	**1,339.6**	**5.5**	**69.4**	**2,105.0**	**63.6**
Tax revenue	1,102.4	1,195.5	8.4	93.1	1,840.1	65.0
VAT	245.0	265.1	8.2	20.2	414.0	64.0
Excise tax	105.7	110.2	4.2	4.5	161.1	68.4
Corporate income tax	110.4	121.5	10.0	11.1	210.7	57.7
Personal income tax	107.2	121.2	13.1	14.0	184.7	65.6
Windfall tax	18.2	22.9	26.1	4.7	33.6	68.3
Social and healthcare contributions	497.6	533.8	7.3	36.2	809.4	65.9
Retirement contributions	440.2	468.6	6.5	28.5	710.5	66.0
Other taxes	18.4	20.8	13.1	2.4	26.6	78.2
Non-tax and capital income, o/w:	167.8	144.1	-14.1	-23.7	264.9	54.4
EU transfers	97.2	77.3	-20.6	-20.0	172.5	44.8
Property income	34.7	23.6	-31.9	-11.1	22.7	104.2
EXPENDITURE	**1,446.0**	**1,505.0**	**4.1**	**59.0**	**2,346.0**	**64.2**
Current expenditure	1,342.8	1,377.1	2.6	34.3	2,079.1	66.2
Personnel	96.0	101.6	5.8	5.5	179.9	56.5
Maintenance	104.0	112.8	8.5	8.9	204.3	55.2
Interest	51.6	58.6	13.5	7.0	100.0	58.6
Transfers	472.6	483.7	2.4	11.1	673.1	71.9
Social expenses	603.0	615.2	2.0	12.2	914.6	67.3
o/w: pensions	474.6	477.1	0.5	2.5	716.4	66.6
Contribution to EU budget	35.1	37.7	7.3	2.6	60.7	62.1
Other current expenses	32.1	26.1	-18.7	-6.0	46.4	56.2
Capital expenditure	103.2	127.9	23.9	24.7	266.9	47.9
BALANCE	**-175.8**	**-165.4**	**-5.9**	**10.4**	**-241.0**	**68.6**
EU flows	12.8	-8.7	n/m	-21.5	0.0	n/m
Non-EU balance	-188.5	-156.6	-16.9	31.9	-241.0	65.0

Source: Ministry of Finance

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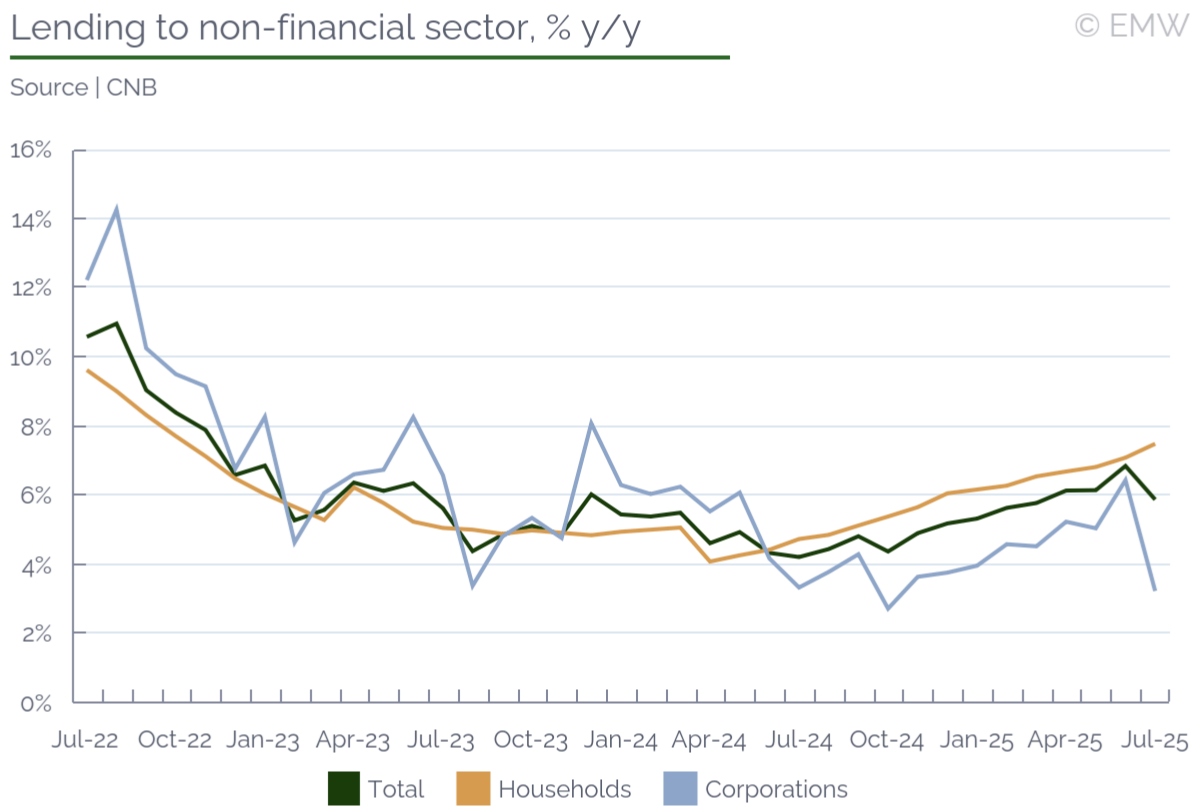
Lending to private sector eases growth to 5.9% y/y in July

Czech Republic | Aug 29, 12:07

- **Corporate loans were behind the slower increase, mostly because of short-term loans**
- **Corporate fx loans fell by 3.1% y/y in July, which could indicate a weaker exporting activity in H2**
- **Housing loans kept driving lending to households, rising by 7.5% y/y**
- **While a part of these is due to expiring periods of fixed interest rates, pure new housing loans were up 63% y/y**
- **M3 eased its growth to 3.6% y/y, implying monetary conditions remain restrictive**

Lending to the non-financial private sector eased its growth to 5.9% y/y in July, slower by 1pp m/m, according to figures from the CNB. The main reason was non-financial corporations, where lending rose by only 3.3% y/y in July, its softest increase over the past 9 months. The deterioration came primarily from short-term loans (up to 1 year), whose growth more than halved to a still strong 7.7% y/y. Meanwhile, medium-term loans (1-5 years) eased their increase to only 0.4% y/y, the weakest in the past 9 months. This was likely primarily due to fx loans, which fell by 3.1% y/y in July after a 3.5% y/y increase in June. Unfortunately, the series on fx loans starts in 2023, so we don't have insight on whether this was unprecedented. As a result, corporate fx loans fell under 50% of the total for the first time since late 2023, at 48.3%. This could be an early indicator of a weaker export activity, given that it is primarily exporting companies that are seeking fx financing. It also ties in with softer inventory accumulation reported in Q2, and we may see an even weaker number in Q3.



Data Download

Meanwhile, lending to households rose by 7.5% y/y in July, faster by 0.4pps m/m. Unsurprisingly, housing loans continued to fuel growth, rising by 7.2% y/y in July, their strongest increase since late 2022. This is likely still closely linked to borrowing costs, as new housing loan rates were lower by 40bps y/y, even though their rate of decline has narrowed lately. Early data on mortgage loans, like the Hypoindex survey, implies that mortgage offer rates are flattening out, but there may be some time before we see this into CNB numbers, as it takes 1-2 months to close a mortgage on average. Property price expectations are likely also a factor, especially with rents being on the rise. Half of housing loans are still renegotiated ones, which reflects the fixed rate periods for mortgages contracted at low rates back in 2020-2021 starting to expire. However, pure new housing loans rose by 63% y/y in July, showing there is actual growth as well. In all fairness, a low base is currently inflating the year-on-year rate. However, approved mortgages have starting to pick from about this March, so there is a real increase.

Consumer loans rose fast as well, up by 10.6% y/y in July, their fastest increase since early 2010. On a somewhat positive note, the increase comes almost entirely through long-term consumer loans (i.e. 5 years or more), so there isn't an immediate risk to loan quality. Still, we have seen the concerns of CNB board members rise lately, as stronger consumer lending inevitably means a higher indebtedness level. Objectively, there is no reason for that, as outstanding household debt was only 29.4% of GDP at end-July, and it was actually lower from pre-pandemic levels, when it was 29.7% of GDP at end-2019. Still, consumer loans rising at an average rate of 10% over the past year is likely causing uneasiness.

Broad money supply (M3) eased its growth to 3.6% y/y in July, the weakest this year. It is noticeably softer than the CNB-projected nominal GDP growth of 5.2% y/y in Q3, but so was the case earlier in 2024. For example, M3 rose by 4.2% y/y in Q1 and by 4.1% y/y in Q2, in nominal terms, compared to nominal GDP growth of 5.5% y/y and 5.8% y/y, respectively. Yet, this is in line with the view of the CNB board that monetary policy is currently restrictive, with real interest rates still being a bit on the positive side. M1 growth eased as well, to 7.2% y/y in July, the softest in the past 10 months.

Monetary policy impact

All in all, we don't believe lending is overheating, and early data on financial stability indicate that there is no deterioration in credit risk. Still, we expect some board members to use the numbers as an excuse that the economy is increasingly being driven by household consumption, thus raising inflation risks. Yet, we doubt that monetary data will be enough to justify a tightening in monetary policy, as inflation remains the primary indicator that the board is looking right now. As far as housing loans are concerned, as long as there is no visible deterioration in credit risk in the segment, we expect that the CNB will hold off from tightening lending conditions. The argument thus far has been that rising property prices are mostly due to factors outside monetary policy, like much stronger demand than supply, which is something the CNB cannot resolve.

Monetary developments

	Jul-24	Apr-25	May-25	Jun-25	Jul-25
Change, y/y					
Loans to private sector	**4.2%**	**6.1%**	**6.2%**	**6.9%**	**5.9%**
Non-financial corporations	3.4%	5.2%	5.1%	6.5%	3.3%
Households	4.8%	6.7%	6.8%	7.1%	7.5%
consumer	8.9%	9.7%	9.7%	10.3%	10.6%
housing	3.9%	6.3%	6.5%	6.7%	7.2%
other	5.6%	5.4%	5.0%	4.6%	4.8%
Pure new housing loans	107.4%	47.5%	44.2%	54.3%	63.0%
M1	6.4%	8.0%	8.1%	7.9%	7.2%
M3	6.0%	4.0%	4.3%	4.1%	3.6%
Interest rates, new business					
Households	**6.16%**	**5.58%**	**5.54%**	**5.45%**	**5.44%**
Consumer	9.02%	8.15%	8.16%	8.04%	7.98%
Housing	5.03%	4.74%	4.69%	4.67%	4.63%
Other	5.65%	5.12%	5.02%	4.97%	4.94%
Non-financial corporations	**6.42%**	**5.50%**	**5.24%**	**4.80%**	**4.55%**
Renegotiated housing loans, % of total	54.1%	52.9%	52.4%	49.5%	50.1%
Fx corporate loans, % of total	52.2%	51.4%	51.6%	50.1%	48.3%

Source: CNB

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GDP growth revised upwards to 2.6% y/y in Q2 - second release

Czech Republic | Aug 29, 10:58

- **Quarter-on-quarter growth was revised from 0.2% q/q to 0.5% q/q**
- **Household consumption was behind the stronger headline increase, rising by 3.4% y/y in Q2**
- **We suspect that a certain chunk of that is due to redirected Chinese exports from the US to Europe**
- **Investment activity was still weak, inventory accumulation kept easing**
- **Manufacturing led growth on the supply side**
- **Given the solid increase in household spending in Q2, we expect the CNB board to remain very hawkish**

GDP growth was revised upwards, from 2.4% y/y to 2.6% y/y in Q2 2025, according to the second release of national accounts from the statistical office. Moreover, quarter-on-quarter growth was revised from 0.2% q/q (sa) to 0.5% q/q (sa). This will likely lead to an upward revision of GDP forecasts, and objectively, growth should be over 2% in 2025, despite disruptions to global trade.

Data Download

Importantly, it was household consumption that drove growth this time, as it rose by 1% q/q (sa) in Q2. Meanwhile, its year-on-year growth picked up to 3.4% y/y in Q2, the strongest since 2018 when one-off effects are eliminated (like depressed consumption during the peak of the Covid-19 pandemic). This has been in line with a still tight labour market and a robust increase in nominal wages, all fuelling more consumption. On the investment front, it was effectively a wash. Even though gross fixed capital formation eased its decline, from 1.8% y/y in Q1 to 0.2% y/y in Q2, inventories had a matching downward impact. The contribution of inventories to headline growth weakened from +1.8pps in Q1 to +1.4pps in Q2, suggesting that there is still some pre-stocking going on, but at a more modest pace. As far as exports are concerned, there was a slight improvement, as exports of goods and services rose by 4.2% y/y in Q2, faster by 0.3pps q/q.

Regarding the impact of US tariffs, there have been some indirect effects, mostly due to a redirection of Chinese exports from the US to Europe. Given external trade data already published, we are fairly confident that a decent chunk of household consumption growth was fuelled by a noticeable increase in cheap imported Chinese consumer goods. Apparel has been in the headlines, but we doubt it is the only sector. In any case, trade data shows that China has been the strongest factor behind a certain deterioration in the trade balance in H1 2025, and it has been primarily in the various consumer goods category. In turn, this ties in with the results for household consumption, suggesting that this might not necessarily be a lasting improvement in household spending. This is also aided by a strong CZK, which is promoting more consumption of imported goods.

On the supply side, it was manufacturing that was behind a stronger headline GDP growth, as manufacturing rose by 2% y/y in Q2, up from 0.7% y/y in Q1. While the automotive industry hasn't been doing too hot, there was some recovery in production of electrical equipment, non-metallic minerals, rubber & plastic, which has fuelled stronger growth. IT & finance had a downward impact on the gross value added, but in both cases, it was mostly a softer growth, rather than a decline that led to that effect. There was also a noticeable expansion in construction, where the value added rose by 6.2% y/y in Q2, the strongest in a decade.

Monetary policy impact

Given how strong of an impact household consumption had on GDP growth in Q2, concerns about inflation will likely rise. We remind that the CNB is currently projecting a GDP growth of 2.6% in 2025, which we find a bit excessive. Even then, it is evident that economic activity will be likely stronger than anticipated earlier this year. It is not a completely clear picture, however, especially when we include tariffs in the equation. If we are correct that redirected Chinese exports from the US to Europe boosted household consumption growth, it doesn't immediately mean a big boost to inflation. On the one hand, the CZK has been quite strong lately, and on the other, Chinese exporters have been keeping price levels low, in an attempt to take over market share. Still, we doubt Chinese imports are the only explanation for a much stronger household spending, and we expect that the CNB board will see it the same way.

At this point, we believe that the refined GDP print only supports the current hawkish stance of the CNB board, suggesting that we are unlikely to see a change in the policy rate for a while. Due to the reasons listed above, however, we don't expect a rate hike will be on the table just yet, either. A lot will depend on inflation developments, and core inflation in particular. If inflation prints follow the path outlined in the latest staff forecast, which would mean further softening, it still points towards a rate cut in Q1 2026 at the earliest. Meanwhile, if we observe renewed acceleration, then we full anticipate that at least someone on the board will bring up the issue whether a tighter monetary stance is necessary.

GDP by components, % y/y, sa

	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
GDP	**0.5%**	**1.5%**	**1.9%**	**2.4%**	**2.6%**
Final consumption	1.9%	3.0%	3.1%	2.2%	3.1%
Households	0.9%	2.6%	3.0%	2.3%	3.4%
Government	3.6%	3.4%	3.2%	1.9%	2.2%
Gross capital formation	-6.4%	-3.8%	3.3%	5.1%	5.1%
o/w: Gross fixed capital formation	-3.1%	-3.5%	-5.1%	-1.8%	-0.2%
Exports	-0.3%	3.5%	1.1%	3.9%	4.2%
Imports	-2.0%	2.9%	2.7%	4.9%	6.0%
Gross value added	**0.0%**	**1.0%**	**1.4%**	**2.7%**	**2.8%**
Agriculture, forestry and fishing	0.6%	6.3%	1.6%	1.7%	1.9%
Industry	-4.1%	-1.5%	-2.9%	1.2%	2.2%
o/w: Manufacturing	-5.6%	-2.9%	-4.2%	0.7%	2.0%
Construction	0.2%	0.2%	2.1%	4.1%	6.2%
Trade, transportation, accommodation and food service	3.4%	5.0%	5.5%	3.8%	3.8%

Information and communication	5.4%	6.5%	7.1%	8.1%	6.8%
Financial and insurance activities	2.1%	-3.9%	3.4%	5.4%	2.0%
Real estate activities	-1.4%	-2.3%	-2.1%	0.8%	1.0%
Professional, scientific, technical and administrative activities	1.0%	2.5%	5.5%	3.3%	2.7%
Public administration, education, health and social work	0.8%	1.0%	1.7%	1.3%	1.1%
Other service activities	0.7%	2.8%	3.3%	4.4%	3.9%
GDP, % q/q	**0.30%**	**0.60%**	**0.82%**	**0.70%**	**0.45%**

Source: Czech stats office

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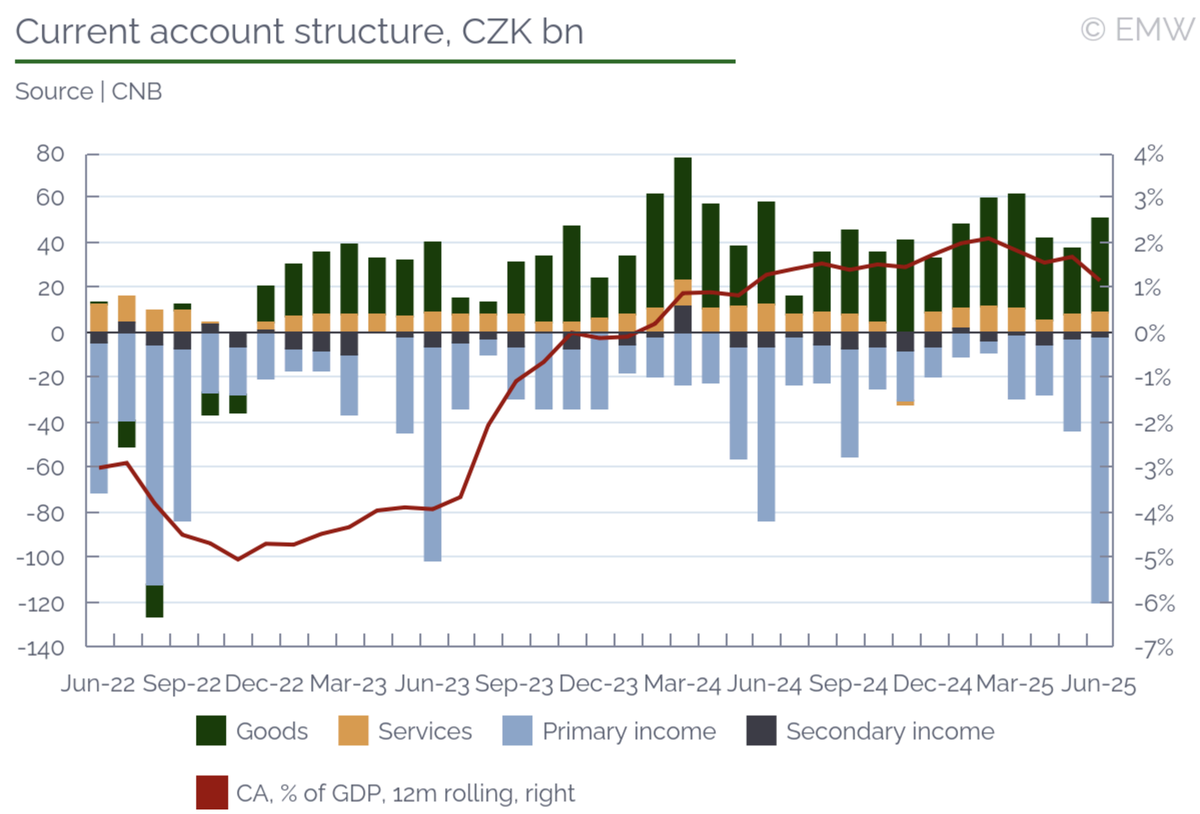
CA deficit reaches CZK 68.8bn in June, much stronger than expected

Czech Republic | Aug 13, 11:47

- **Markets expected a CA deficit of CZK 20.9bn, with the strongest projection being at CZK 30bn**
- **Primary income outflows were the main source of deterioration, up by 1.5 times in year-on-year terms in June**
- **Yet, annualised primary income flows are still slightly below their long-term average**
- **Net financial flows were positive in June, reflecting maturing debt held by residents, base effects related to non-resident deposits**
- **We consider the CNB's projections of a surplus at 1.5% of GDP a bit optimistic, but CA surpluses are likely to remain solid in 2025**

The current account reported a deficit of CZK 68.8bn in June, expanding 2.8 times in year-on-year terms, according to figures from the CNB. The print was much stronger than anticipated by markets, which projected a deficit of CZK 20.9bn. The biggest deficit projected was CZK 30bn, so the print was far above expectations. In H1 2025, the current account saw a surplus of CZK 62.2bn, lower by 41.8% y/y. Meanwhile, the 12m-rolling CA surplus added up to CZK 95.8bn (1.2% of GDP) at end-June, its softest level in the past 13 months.



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The main driver of the deterioration, both in June and in cumulative terms, were primary income outflows. They rose by 1.5 times in year-on-year terms in June, leading to a 12.5% y/y increase in H1 2025. Thus, it appears that the reason for lower outflows in the preceding months was mostly a concentration of payouts in a single month, rather than an overall decline. We remind that these flows tend to vary considerably from one month to another, and scheduled can shift from one year to another, so there is no firm pattern. In 12m-rolling terms, primary income outflows reached their strongest level in the past 13 months, reaching 4.5% of GDP at end-June. This is not a high level when compared to the long-term average, as annualised primary income outflows average 4.8% of GDP in the past 5 years, and 5% of GDP in the past decade. Thus, the more unusual part was the lower outflows seen in 2024, and we are witnessing a return to normal.

Regarding the other items in the current account, goods' trade saw a lower surplus by 6% y/y in June, and 1.1% y/y in H1 2025, which was not a major deterioration. Service flows saw a bigger decline, 31.7% y/y in June and 19.1% y/y in H1, but the size of these flows is much smaller than the rest, and their impact is negligible. Secondary income flows reported a smaller net outflow in June, but kept deteriorating in H1, mostly due to lower planned EU flows, due to the end of payments from the 2014-2020 MFF at the end of 2024.

Net financial flows were positive in June, reaching CZK 67.5bn, bringing cumulative financial flows to a net outflow of only CZK 7bn in H1 2025. The improvement in June was due to other investment flows, and then direct investment second. As far as other investment flows are concerned, the improvement was entirely due to a base effect, as there was a massive decline in non-resident deposits a year ago, related to market debt issuance. Meanwhile, direct investment flows improved due to maturing debt instruments held by residents, leading to robust increase in cash flows to the country. Thus, non-debt related investment flows deteriorated. Portfolio flows narrowed in June as well, reflecting lower net debt issuance by the bank sector, and negative net debt issuance by the government. The picture in H1 2025 was similar, though largely impacted by the numbers in June.

Overall, the numbers reflect weak external demand and the temporary spike in oil prices in June due to the Israel-Iran war. We also have some base effects in play, as far as financial flows are concerned. All in all, there is still a steady CA surplus, and the odds are it will remain at a decent level, though possibly not as high as the currently projected 1.5% of GDP by the CNB. Even then, we remind that CA surplus had been narrowing just before the Covid-19 pandemic, to a level within 0-0.5% of GDP, so anything above that would be a pretty solid performance, given the current state of external demand.

Balance of payments, CZK bn

	June			January-June		
	2024	2025	Change	2024	2025	Change
Current account	**-24.8**	**-68.8**	**-44.0**	**107.0**	**62.2**	**-44.7**
Goods	45.1	42.4	-2.7	249.1	246.4	-2.6
Exports	382.0	409.5	27.5	2,293.9	2,396.1	102.2
Imports	337.0	367.1	30.2	2,044.8	2,149.7	104.8
Services	13.1	9.0	-4.2	66.2	53.6	-12.6
Primary income	-77.5	-119.1	-41.6	-202.3	-227.6	-25.3
Secondary income	-5.6	-1.1	4.5	-6.0	-10.2	-4.2
Capital account	**24.6**	**6.0**	**-18.5**	**47.9**	**27.2**	**-20.7**
Financial account	**17.6**	**-67.5**	**-85.1**	**144.3**	**7.0**	**-137.3**
Direct investment	14.9	-42.5	-57.4	-22.9	-117.6	-94.7

Portfolio investment	-70.1	-5.6	64.6	51.7	162.5	110.8
Financial derivatives	-4.6	0.7	5.3	-22.2	-2.2	20.0
Other investment	92.7	3.3	-89.5	111.9	-78.6	-190.5
Reserve assets	-15.3	-23.4	-8.1	25.7	42.8	17.1
Net errors and omissions	**17.8**	**-4.7**	**-22.5**	**-10.6**	**-82.5**	**-71.9**

Source: CNB

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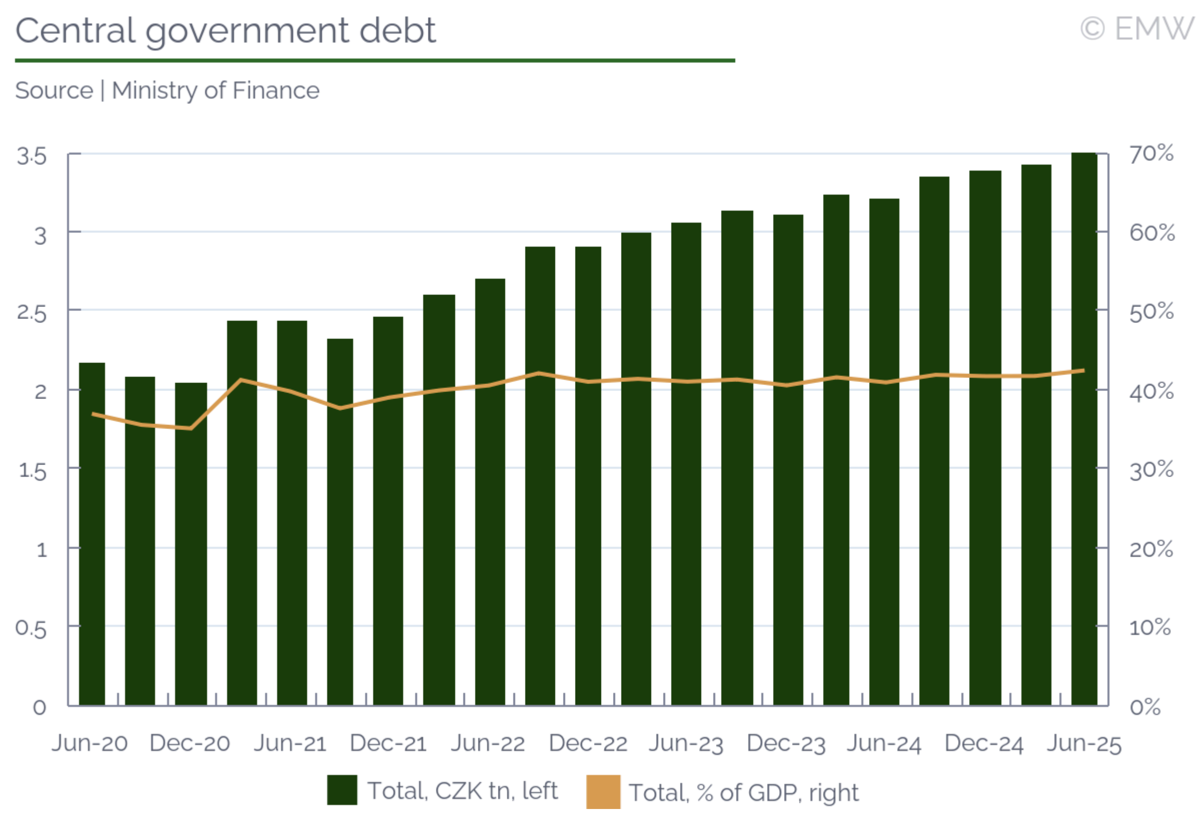
Central government debt rises by CZK 93.9bn in Q2 2025 to CZK 3.5tn

Czech Republic | Jul 18, 17:28

- **Central government debt reached 42.5% of GDP at end-Q2**
- **Short-term debt was only 4.1% of the total, while fx-debt reached 6.2%**
- **Debt growth in Q2 was fuelled mostly by long-term debt securities**
- **Fiscal policy remains the primary risk, as decisions like rolling back pension reform could push debt levels upwards**

Central government debt rose by CZK 93.9bn (2.8% q/q) in Q2 2025, adding up to CZK 3.5bn (42.5% of GDP) at the end of the quarter, according to figures from the finance ministry. The increase was primarily due to long-term debt, which increased by CZK 85.9bn, making up for most of the debt stock growth. Nevertheless, short-term debt also increased noticeably, reaching 4.1% of the total, up from 2.6% a year ago. Despite that, short-term debt remains very low, and there is no major risk due to coming redemptions.



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Debt growth was primarily due to debt securities, which rose by CZK 88.5bn in Q2. The majority of those were long-term, though the finance ministry has been relying more on money market instruments, whose weight rose to 3.9% in Q2, up from 2.7% a year ago. Even then, the situation is similar to the headline number, as money market instruments are just too low to have an impact on debt stability. Regarding the year-on-year change, long-term debt securities still accounted for most of the debt increase, but there was also a big increase in loans, primarily long-term ones. These are in line with the finance ministry's strategy to rely increasingly on bilateral borrowing, mostly from IFIs, as borrowing costs are much better than through debt markets lately.

Fx risks remain very low as well, as fx-denominated debt was only 6.2% of the total at end-Q2, up from 5.9% a year ago. However, the net fx exposure was only 4.9%, lower by 0.5pps y/y, so risks remain contained. Furthermore, just over 90% of fx-denominated debt was in euro, so not prone to geopolitical risks. The primary risk for government debt remains fiscal policy, and in the absence of additional fiscal consolidation, debt levels will only grow. Still, we don't expect debt levels to become difficult to manage soon, as they are relatively low for a country in the AA rating group. Yet, things could turn around if fiscal policy becomes much looser, like some parties' plans to roll back pension reform after the general election, for example.

Central government debt, CZK bn

	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
Total	**3,207.1**	**3,334.0**	**3,365.2**	**3,410.2**	**3,504.2**
Total, share to GDP	*41.0%*	*41.9%*	*41.8%*	*41.8%*	*42.5%*
Short-term	82.8	119.2	81.9	134.0	142.1
Long-term	3,124.2	3,214.8	3,283.4	3,276.2	3,362.1
Domestic	3,016.9	3,129.8	3,150.0	3,191.3	3,287.7
short-term	32.8	56.2	31.5	84.8	93.0
long-term	2,984.2	3,073.6	3,118.5	3,106.5	3,194.7
Foreign	190.1	204.2	215.2	218.9	216.5
short-term	50.1	63.0	50.4	49.2	49.1
long-term	140.1	141.2	164.9	169.7	167.4
Securities other than shares	3,058.4	3,177.7	3,186.9	3,223.3	3,311.8
short-term	82.8	119.2	81.9	122.2	130.1
long-term	2,975.6	3,058.6	3,105.0	3,101.0	3,181.6
Loans	148.6	156.2	178.3	186.9	192.3
short-term	0.0	0.0	0.0	11.8	11.9
long-term	148.6	156.2	178.3	175.1	180.4
Debt guaranteed by the central govt	129.5	125.2	125.0	112.5	96.0

Source: Ministry of Finance

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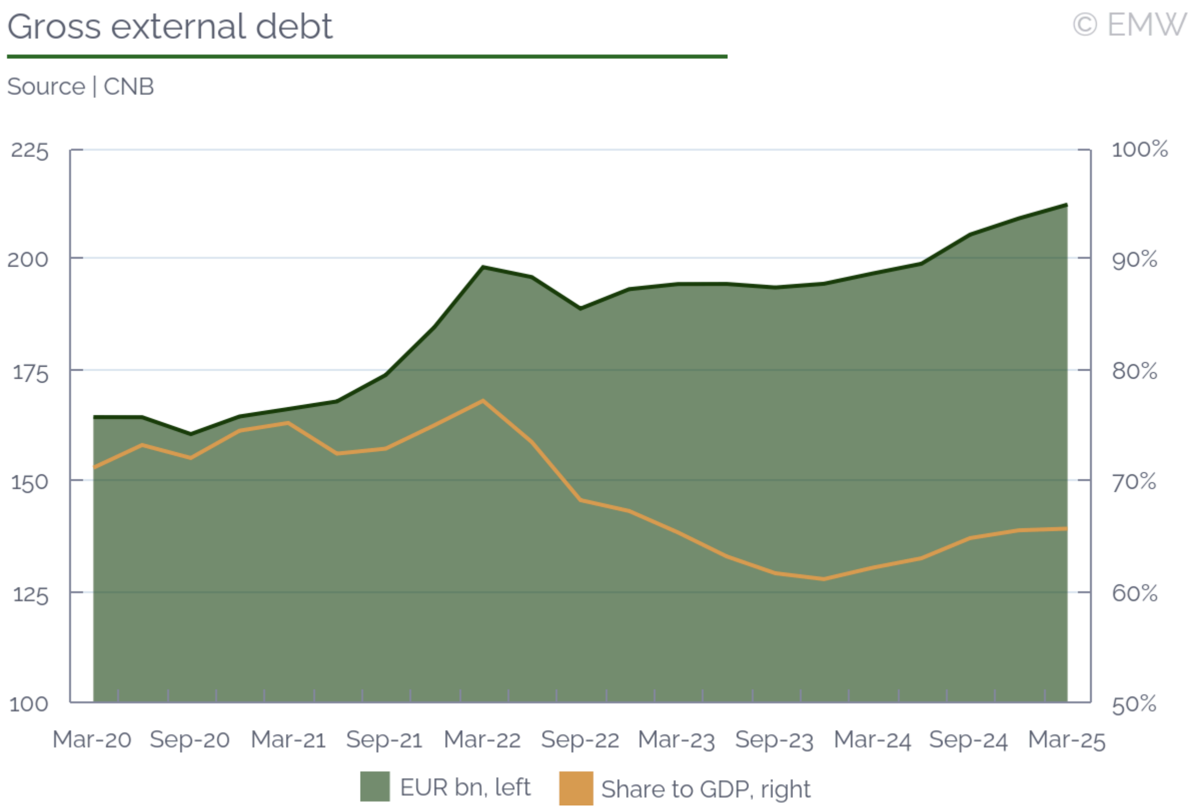
Gross external debt rises by EUR 3.1bn in Q1 2025 to EUR 212.4bn

Czech Republic | Jun 20, 11:33

- **The external debt stock reached 65.7% of GDP, a relatively low ratio**
- **Short-term debt was half of the total, but non-resident deposits represented 48% of short-term liabilities**
- **Trade credits drove debt growth in Q1, though almost all were for investment purposes**
- **External exposure remains low, and only 5.8% of the debt stock is due in the next 12 months**

Gross external debt rose by EUR 3.1bn (1.5% q/q) in Q1 2025, adding up to EUR 212.4bn (65.7% of GDP) at the end of the quarter, according to figures from the CNB. In year-on-year terms, the external debt stock was higher by EUR 15.5bn (7.9% y/y). Short-term debt was still half of the total debt stock, though 48% of that was non-resident deposits, a phenomenon that is typical for the EU's free movement of capital. The short-term debt of the bank and corporate sectors, excluding deposits, was 30.9% of the total, at approximately the same level as a year ago, when it was 30.4%.



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In Q1 2025, the strongest increase was reported by non-resident deposits, exclusively reported in the bank sector. It was mostly the result of the amortisation of short-term liabilities of commercial banks, so they mostly cancelled each other, leading to a net increase in only EUR 0.5bn. Thus, when accounting for counter flows, the biggest impact on debt growth was seen in trade credits, which rose by EUR 2.5bn in Q1 2025, and by EUR 6.8bn over the past four quarters. On a positive note, 94% of those trade credits were for investment purposes, and the increase was split almost evenly between short-term and long-term loans. It implies some recovery in business activity, particularly among exporters, which is encouraging for the external demand outlook.

In year-on-year terms, it was mostly banks and corporations that drove the debt stock upwards. Banks stepped up on debt issuance, mostly through short-term debt instruments, while corporations saw a big increase in trade credits, again, primarily for investment purposes. Government debt rose only modestly in comparison, by EUR 0.6bn, mostly through loans, as debt securities held by non-residents decreased by EUR 0.4bn over the period. We have seen a preference towards bilateral loans lately, which is likely because the finance ministry has been trying to lower borrowing costs. Future major financing is currently considered through loans as well, such as the expansion of the Dukovany nuclear power plant, for example. The government has also just approved a CZK 65bn (about EUR 2.6bn) loan from the EIB, though it will be disbursed in stages, when projects are ready, so there will be no major one-off flows.

Overall, the external debt stock remains relatively low when compared to Western Europe and North America, so external risks remain mild. The expected tightening of monetary policy, mostly through keeping interest rates stable, will likely help with a stronger CZK, reducing external exposure even further. While short-term debt remains considerable, about half of that is non-resident deposits, so the situation is much better than it appears. Moreover, only 5.8% of the external debt stock is due in the next one year, and 13.9% in the next two years, so there will be no heavy burden in the near term.

Gross external debt, EUR mn

	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25
Total	**196,877**	**199,065**	**205,644**	**209,291**	**212,412**
Short-term	97,885	100,074	102,039	104,080	106,419
Long-term	98,992	98,991	103,605	105,211	105,993
by instruments					
Currency and deposits	57,910	57,066	55,886	52,179	59,380
Debt securities	45,865	47,898	53,203	58,157	51,489
Loans	66,002	61,082	61,502	67,188	66,856
Trade credits and advances	19,212	25,310	26,957	23,525	26,057
Other liabilities	4,370	4,183	4,622	4,640	5,112
by debtor					
Central Bank	9,706	7,261	6,802	5,666	4,929
Banks	63,899	67,686	68,996	73,494	75,198
General government	32,711	31,862	34,721	33,201	33,319
Other sectors	90,561	92,256	95,125	96,930	98,966
Total, % of GDP	**62.2%**	**63.1%**	**64.9%**	**65.6%**	**65.7%**

Source: CNB

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