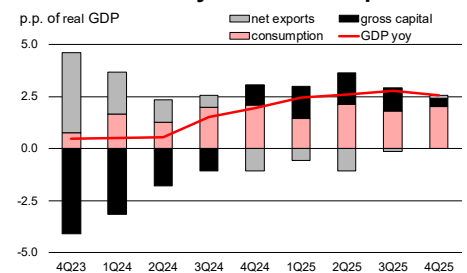


## Oil shock therapy

- In 4Q25, real GDP growth slowed to 0.6% qoq and 2.6% yoy. In yoy terms, growth was driven mainly by private consumption, which accelerated to 3.2%. Government consumption increased by 2.5%, while fixed capital formation accelerated to 5.3% thanks to strong construction activity. Inventory formation contributed negatively to growth for the first time in six quarters (-1.0 p.p.), while net exports added 0.1 p.p.
- This January data indicate that growth continued, albeit at a slower pace. Industrial production rose yoy by 2.8% and retail sales by 5.0%, while construction output fell by 1.5%. Growth was dampened by the provisional budget in place until the second half of March, whereas the price shock from Iran has not yet affected activity. For 1Q26, we estimate GDP growth at 0.2% qoq and 2.1% yoy.
- Assuming oil prices remain in the range of USD/bl 90-100 until the end of this year, we are lowering our GDP growth outlook to 1.6% this year and 1.7% in 2027 from the previously considered 2.2% and 2.4%. More expensive oil will result in a loss of purchasing power for households due to higher inflation, lower export dynamics and weaker corporate investment. We expect private consumption to grow by 2.7% this year.
- Average inflation will reach 2.4% this year and accelerate to 3.5% next year, with a peak above 4% expected at the beginning of 2027. The CNB will therefore need to account for the secondary effects of the price shock and tighten monetary policy. In 4Q26, we expect a 50 b.p. increase in the repo rate in two steps, followed by a reduction back to 3.50% in 2H27.

### Growth of GDP by demand components\*



\*/ Contributions to real GDP growth in percentage points  
Sources: CZSO, UniCredit Research.

In 4Q25, for the first time in four and a half years, all three main components of demand contributed to GDP growth, i.e. consumption, gross capital formation and net exports. Consumption remained the main driver. Fixed investment accelerated, but this was offset in overall gross capital formation by a reduction in inventories. The foreign trade balance turned positive, but the size was insignificant.

### REAL GDP (CONSTANT 2020 PRICES, SEASONALLY ADJUSTED)

	4Q25		3Q25 revised	
	Yoy change(%)	Contribution to growth (p.p.)	Yoy change(%)	Contribution to growth (p.p.)
<b>GDP total</b>	<b>2.6</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>
Household consumption	3.2	1.5	2.9	1.3
Household consumption	2.5	0.5	2.2	0.4
Fixed capital formation	5.3	1.4	2.7	0.7
Change in inventories	-	-1.0	-	0.4
Net exports	-	0.1	-	-0.1

Source: CZSO. Calculations: UCB CZ.

Note: National accounts are based on chain-linked data, which creates a discrepancy between GDP and the sum of demand components.

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## 4Q25: Further stabilization of performance

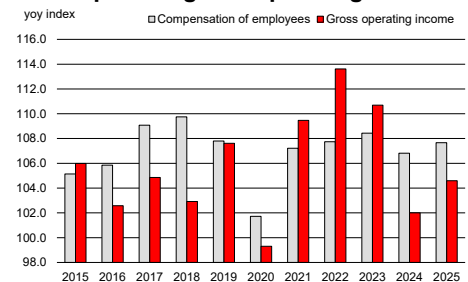
In 4Q25, GDP increased in real terms by 0.6% qoq and 2.6% yoy, with both growth rates slowing by 0.2 p.p. compared with 3Q25. In the yoy comparison, growth was again driven mainly by private consumption, which accelerated to 3.2%. Government consumption increased by 2.5% yoy, with almost balanced growth in collective and individual components. Fixed capital formation accelerated to 5.3% yoy, mainly due to a ten-percent increase in construction investment. Investment other than construction, on the other hand, overall stagnated yoy. The change in inventories was negative in 4Q25 by 1.0 p.p. of GDP, for the first time in six quarters. Net exports contributed a modest 0.1 p.p. to growth, with strong yoy dynamics in both exports (5.1%) and imports (5.3%). Geographically, unlike in previous quarters, the growth of export demand was very balanced. Gross value added (GVA) in constant prices increased by 2.8% yoy, almost the same as in previous quarters, with growth in all major sectors except for financial activities. GVA rose the most in the ICT sector (7.7%), in construction, and in other services (both 5.6%). Nominal GDP increased by 6.6% yoy, the fastest pace in eight quarters. The GDP deflator reached 3.9% yoy, the highest in six periods. Total employment grew at a stable yoy pace of 1.0%, while the number of hours worked rose by 2.9%. Productivity per worker therefore increased by 1.6% yoy, while hourly productivity decreased by 0.3% yoy. Gross operating surplus and mixed income in current prices rose by 5.3% yoy, while compensation of employees increased by 9.1%. A higher growth rate of compensation than operating surplus has been observed for eight consecutive quarters.

The increase in the volume of construction investment combined with the decline in inventories appears to reflect the completion of several larger infrastructure projects. Therefore, continuation of the strong momentum in fixed capital formation observed in 4Q25 seems rather unlikely.

## 1Q26: A slowdown in growth, but not due to energy prices

The monthly data published so far for 1Q26 indicate continued GDP growth, but at a slower pace than in 4Q25. January services output increased by 1.5% yoy compared with the average pace of 1.8% in the months of the previous quarter. Industrial production was up 2.8% yoy in January, but industrial sales in current prices fell by 1.3%. Retail sales rose by 5.0% yoy in January, while construction output recorded a yoy decline of 1.5%. New car registrations for January–February increased by a modest 1% yoy. The February value of the S&P PMI leading index for industry reached exactly 50.0, a level that historically corresponds to industrial growth of around 2%. Another reason for the expected GDP slowdown is the government's provisional budget, which lasted until the second half of March and may have reduced not only construction activity but also government consumption, which is captured by the indicators mentioned above. The price shock from the war in Iran likely did not significantly affect GDP in 1Q26, though it may have contributed to inventory accumulation due to increased fuel purchases. Overall, we expect GDP to grow 0.2% qoq, which would slow the yoy growth rate to 2.1%.

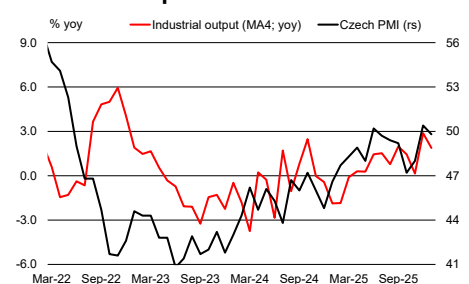
### Compensation of employees and companies' gross operating income



Sources: ČSÚ, UniCredit Research.

For two consecutive years now, employee compensation has been outpacing corporate profit growth, which can be seen as a correction of the period 2021–2023, when the opposite was true. Strong wage growth has driven robust household consumption over the past two years, while lagging corporate profits have contributed to weaker investment growth.

### Industrial production and S&P PMI



Sources: ČSÚ, S&P, UniCredit Research

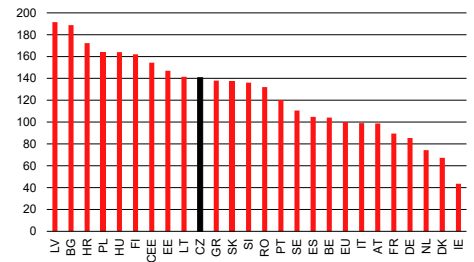
The February reading of the S&P PMI leading indicator for the Czech manufacturing reached a “neutral” value of 50, which historically corresponds to industrial growth of around 2%.

### The rest of 2026: The oil price will decide

The development of **oil prices**, affected by the war in Iran, is the dominant risk factor for inflation and GDP in the Czech economy. Under the scenario we now consider the baseline — that the price stays in the **USD/bbl 90–100** range until the end of this year and then gradually moves towards an equilibrium of USD/bbl 80 — we expect yoy inflation to peak slightly above 4% in the first months of 2027. **GDP in Czechia** should slow to 1.6% this year and 1.7% in 2027, down from the previously assumed 2.2% and 2.4%. The slowdown channels are weaker **household purchasing power** due to higher inflation, lower **export dynamics**, and softer **corporate investment**. Importantly, the war in Iran affects not only the oil market but also gas and, indirectly, other commodities. We must also consider the risk of supply-chain disruptions. Europe and Czechia seem less vulnerable to a **supply shock** than in 2022, when it triggered a major inflation wave (in Czechia pushing inflation up to 17.5%) and nearly erased economic growth. We also judge that the Czech economy, thanks to broad-based growth and low inflation, is in a relatively better starting position than the euro area compared with 2022. Higher energy prices, however, will hit Czechia harder due to its 40% higher **energy consumption per unit of GDP** as against the euro area. Oil has a lower share in Czech energy use (29%) than in the euro area, but energy price increases will not end up with oil.

**Average inflation** under these assumptions would reach 2.4% this year and 3.5% next year. With unchanged forecasts for nominal wages and the usual reaction of consumers to changes in real purchasing power, **private consumption** can be expected to grow by 2.7% this year and 1.9% in 2027. After a weaker 1Q26, government consumption will likely accelerate in the remaining quarters of 2026 to above 2% yoy and maintain a similar pace next year. As for **fixed capital formation**, the Czech economy is in a phase of the cycle in which companies typically strengthen investment. This year, however, investment will be held back by geopolitical uncertainty, which would be only partly reduced even if the war in Iran were to end. At the EU level, delays in policies aimed at improving competitiveness could also become an issue, given the need to address the immediate challenges of the energy price shock. For some private investments, changes in economic priorities after the formation of a new government may also pose obstacles. For **public-sector investment**, we expect stagnation in 2026 at the relatively high level reached last year. Overall, we therefore assume growth of **total capital formation** (including inventories) as well as **fixed capital formation** of around 1.0%. The dominance of construction investment over machinery and equipment, observed last year, should give way to a more balanced composition. In 2027, assuming a reduction in geopolitical risks, capital formation could accelerate (to an expected 2%), although businesses may face a constraint in the form of lower **profitability** caused by weaker demand and rising costs. For **exports**, we likewise expect volume growth of about 1% this year and 2% in 2027. Exports to the Middle East accounted for roughly 1% of Czech GDP and this share will decline noticeably this year. A decline in demand is also likely from other regions.

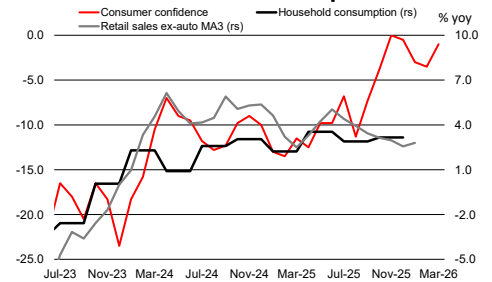
Energy consumption per unit of GDP (2024, EU average = 100)



Sources: Eurostat, UniCredit Research.

Czechia consumes 40% more energy per unit of GDP than the EU average. This indicator has declined noticeably over the past 10 years both in Czechia and in the EU as a whole, so the relative position of Czechia has changed very little.

Consumer confidence, retail sales and household consumption



Sources: ČSÚ, UniCredit Research.

The growth rates of retail sales and private consumption have converged noticeably, offering a more stable picture. Consumer confidence, in our view, remains unjustifiably high, and in the coming months we expect it to decline due to inflationary risks following the outbreak of the war in Iran. The dynamics of household consumption is likely to weaken slightly over the next quarters.

Much darker scenarios than our baseline are also conceivable for energy prices. Oil at **USD/bl 125–130** for the remainder of the year, together with more expensive gas, would likely push both the euro area and Czechia into a **technical recession** around the turn of 2026–2027.

### Monetary policy: Tightening will likely become necessary

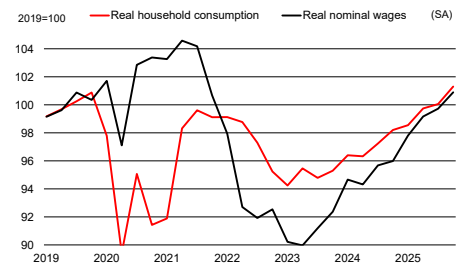
The CNB will not react to an exogenous price shock directly, but it must account for its secondary effects on domestic prices. Low initial inflation (1.4% yoy in February) gives the CNB time flexibility but does not change the inflation risk. With inflation expected to exceed 4% early next year, monetary policy will need to tighten. In 4Q26, we expect two steps raising the repo rate by a total of 50 bp, followed by a reduction back to 3.5% in 2H27. In an alternative scenario of extremely high oil prices, the CNB’s response would need to be broader and longer-lasting.

### Focus: High household saving rate will likely persist

Seasonally adjusted real wages finally moved above their 2019 average in 4Q25 (by 0.9%). Household consumption rose similarly (1.3%). Despite that, households have accumulated unusually large savings since the pandemic began. In 3Q25, they saved 18.5% of disposable income, well above the historical norm of about 12% seen in 1999–2019. Measured against that benchmark, households accumulated over CZK 1.8 trillion in “excess” savings (almost 30% of GDP). This raises several questions. First, where did the extra savings come from if consumption broadly followed wages? The main source is the abolition of the super-gross wage, which effectively increased net wages by about 5%. Other non-wage components of household income may have also contributed. Second, why do Czech households save among the most in the EU? According to the CNB model, about two-thirds of the elevated saving rate reflect high real interest rates and precautionary motives linked to geopolitical risks. The remaining roughly 2 p.p. are unexplained and may stem from demographic trends, retirement concerns, higher financial literacy, new investment platforms, or simply saturated consumption. Third, will the saving rate fall and boost the economy? Likely not. Both main drivers — uncertainty and relatively high interest rates — appear more like a new normal. The unexplained part also probably reflects lasting structural changes rather than temporary factors

Can such high savings benefit the economy? It depends on allocation. The purpose of savings is to fund productive investment, but household fixed investment remains at long-term norms. Excess savings have thus gone mainly into deposits and securities. Deposits do not finance productive activity, while securities partly can — but the underdeveloped Czech capital market means the domestic economy gains very little. This underscores the need to build a functional capital market in Czechia.

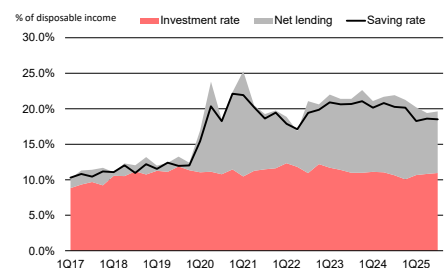
### Household consumption and real wages



Sources: ČSÚ, UniCredit Research

Real household consumption finally exceeded its 2019 level in Q4 2025, moving in line with real gross wages. The reduction in the tax burden following the abolition of the super-gross wage created room for household savings to grow.

### Household savings and its allocation



Sources: ČSÚ, UniCredit Research

The savings rate of Czech households ranks among the highest in Europe. The increase began during the Covid-19 pandemic, but the current stabilization at high levels is primarily driven by high real interest rates and households’ precautionary motives. We believe that the high savings rate is more of a new normal than a temporary phenomenon.

## Macroeconomic outlook for Czechia

	2023	2024	2025	2026	2027
				forecast	forecast
GDP growth (real yoy change, %)	0.2	1.1	2.6	1.6	1.7
Household consumption (real yoy change, %)	-2.7	2.2	3.0	2.7	1.9
Gross fixed capital formation (real yoy change, %)	4.5	-3.0	2.0	1.0	2.0
Industrial output (real yoy change, %)	-0.8	-0.9	1.5	1.0	2.0
Unemployment rate (average, %)	3.6	3.8	4.4	4.9	4.5
Inflation rate (CPI yoy change, average, %)	10.7	2.4	2.4	2.4	3.5
Average wages (nominal yoy change, %)	7.2	7.2	7.2	5.8	5.3
Interest rates (3-M PRIBOR, end of period, %)	6.97	3.91	3.54	4.10	3.60
Interest rates (3-M PRIBOR, average, %)	7.13	4.98	3.60	3.68	3.98
EUR/CZK exchange rate (end of period)	24.73	25.19	24.25	24.40	24.40
EUR/CZK exchange rate (average)	24.01	25.12	24.69	24.45	24.40
Current account balance (% of GDP)	-0.1	1.7	0.7	-0.1	0.1
FDI net inflow (% of GDP)	1.0	0.5	0.5	0.8	0.9
General government balance (% of GDP)*	-3.7	-2.0	-2.5	-2.9	-3.0
Public debt (% of GDP)	42.2	43.3	43.3	44.7	45.3

Remarks:

\*/ ESA 2010 definition

Sources: Czech National Bank, Czech Statistical Office.

Forecasts: UniCredit Bank CZ+SK.

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