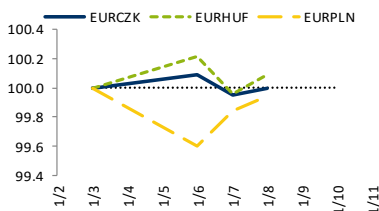
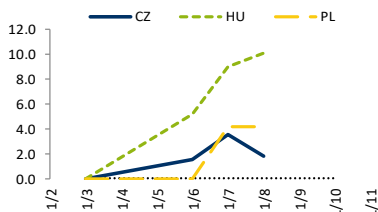




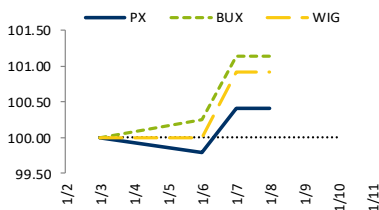
Wednesday, 08 January 2025

Forex markets (index)

	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.14	25.13	0.05
EURHUF	415.9	415.3	0.13
EURPLN	4.268	4.263	0.10

Gov. bonds 10 Y (bps change)

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.157	4.174	-1.7
HUGB 10Y	6.76	6.75	0.2
PLGB 10Y	5.97	5.97	0.0

Equity indices (index)

	LAST	PREVIOUS	CHANGE (%)
PX	1786.4	1786.4	0.00
BUX	80677	80677	0.00
WIG	82190	82190	0.00

Our regional insights:

Czech budget deficit cut significantly in 2024

The Czech state budget deficit reached CZK 271.4bn last year, compared to the approved plan of CZK 282bn. Despite a slight year-on-year improvement of CZK 17bn, it is the fifth deepest deficit in the history of the Czech Republic in nominal terms.

The good news is that budget revenues grew faster than expenditure last year. On the revenue side, higher collections of insurance premiums helped mainly due to renewed real wage growth and the reintroduction of employee sickness insurance. Total expenditure rose most in the traditional case of pensions and social benefits, but its pace was held in check by a sharp fall in transfers to businesses (CZK 71bn) linked to the unwinding of spending on the energy crisis.

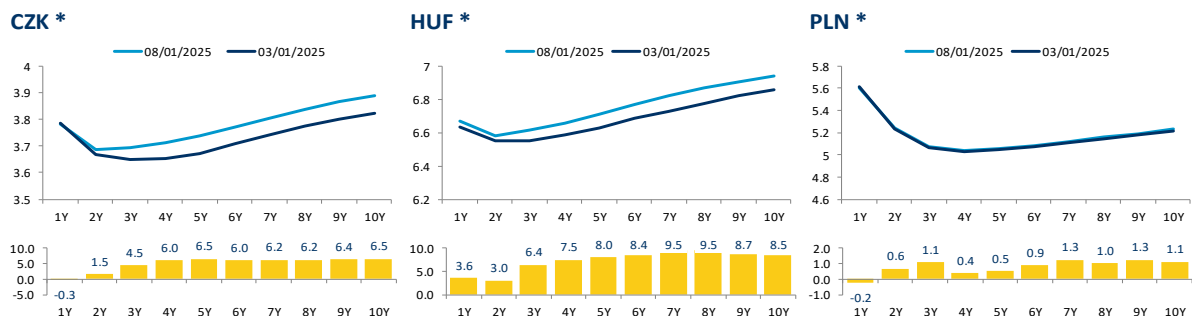
On the positive side, the Ministry of Defence's capital purchases increased, bringing defence spending above 2% of GDP (the level targeted by NATO) for the first time in 20 years. Although total capital spending exceeded the government's original plan by CZK 25bn, it was flat compared to the previous year.

Unpleasant news came from the sharp increase in expenditure on servicing the national debt - by CZK 20bn year-on-year to CZK 89bn. Recall that in 2022, the debt service was roughly a half of the year 2024. This year, these expenditures are expected to rise further and reach CZK 100bn!

To conclude, the Czech state budget deficit, although slightly down in year-on-year terms, remains - with normalisation of economic developments - too high. Moreover, the government compares the result with the amended version of the budget, when the deficit was increased by CZK 30bn due to the floods, but the cost of flood damage was only CZK 15bn.

Looking forward to the year 2025, the Czech government expects a deficit of CZK 241bn. However, we are afraid of that it will be difficult to achieve this target. First, this is an election year, hence there is a chance that some spending will be increased; 2) the estimate of GDP growth of 2.6% is perhaps too optimistic (hence there is risk of lower tax collection); 3) this year's budget contains some specific uncertainties – e.g. related to sources of subsidies for renewable energy and/or to overestimation of revenues coming from emission allowances.

Interest-rate Swap Curves



* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday). Source for all market data: Bloomberg

Calendar

Country	Date	Time	Indicator		Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	01/09	8:30	Industrial output	%	11/2024							2.0	-3.1
HU	01/09	8:30	Retail sales	%	11/2024								3.6
CZ	01/09	9:00	Construction output	%	11/2024								-3.6
CZ	01/09	9:00	Industrial output	%	11/2024		-2.5			-0.5			-2.1
CZ	01/09	9:00	Unemployment rate 15-64	%	12/2024	4.0				4.1		3.9	
HU	01/10	11:00	Budget balance	HUF B	12/2024							-3284.3	
CZ	01/13	9:00	Retail sales ex autos	%	11/2024		3.3						5.5
CZ	01/13	9:00	CPI	%	12/2024	0.0	3.2					0.1	2.8
CZ	01/13	10:00	Current account	CZK B	11/2024							12.99	

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