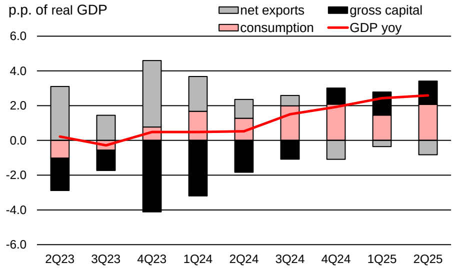
Czech Economic Quarterly

September 17, 2025

Business uncertainties remain a drag

- In 2Q25, real GDP growth slowed only slightly to 0.5% qoq, accelerating further to 2.6% yoy. In the yoy comparison, growth was driven mainly by private consumption, which added 3.4%. Government consumption rose 2.2% yoy, while fixed capital formation remained in a slight yoy decline (-0.2%). Inventory accumulation contributed significantly to yoy GDP growth (1.4 p.p.), but this was partly offset by a negative contribution from net exports (-0.8 p.p.).
- The latest short-term indicators, such as the yoy services production index for July (0.8%), appear consistent with an economic slowdown in 3Q25. A clearer picture, however, will only emerge after the release of August data. For 3Q25, we forecast GDP growth of 0.1% qoq and 2.1% yoy.
- The mix of opposing effects in each of the main demand-side components should overall push annual GDP growth slightly down, to 1.8% in 2026 compared to the estimated 2.2% for this year. Export volumes will grow at nearly the same pace (2.8% versus 3.0%), as weaker demand from the US should be offset by improvements in Germany and other Czech trading partners in Europe. Private consumption growth will slow slightly (2.3% versus 2.7%), and fixed investment will start a modest increase (1.8% versus -0.1%).
- The persistent rise in services prices at a pace close to 5% and faster-than-expected wage growth in 2Q25 (7.8% yoy) have likely dashed hopes for an additional CNB rate cut this year. We see the next move only in 2Q26, if at all.

GDP growth by components of demand*



*/ Contributions to real GDP yoy growth in p.p.
Sources: CZSO, UniCredit Research.

Household and government consumption confirmed their role as the main drivers of yoy GDP growth in 2Q25. The total contribution of consumption returned to the level of 4Q24 – the highest in three years. Gross capital formation supported GDP growth for the third consecutive quarter, though again only thanks to inventory accumulation. Net exports continued to weigh on GDP negatively.

REAL GDP (CONSTANT PRICES 2020, ADJUSTED)

	2Q25		1Q25 revised	
	YoY change	% of change in GDP	YoY change	% of change in GDP
GDP total	**2.6**	**2.6**	**2.4**	**2.4**
Household consumption (%)	3.4	1.7	2.3	1.1
Government consumption (%)	2.2	0.4	1.9	0.4
Fixed capital formation (%)	-0.2	-0.1	-1.8	-0.5
Change in inventories	-	1.4	-	1.8
Net exports	-	-0.8	-	-0.4

Source: CZSO, UCB CZ
Note: National accounts are based on chained data, which creates a discrepancy between GDP and the sum of demand components.

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2Q25: Acceleration of consumption growth

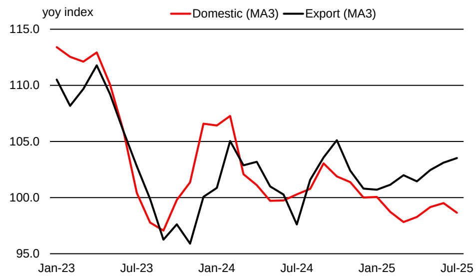
In 2Q25, real GDP growth slowed only slightly to 0.5% qoq, accelerating further to 2.6% yoy. In the yoy comparison, growth was driven mainly by private consumption, which added 3.4%. The individual component of government consumption, represented mainly by health insurance expenditures, also grew strongly. Actual individual consumption thus recorded yoy growth of 3.4% and, unlike private consumption, was already above the 2019 level. Government consumption as a whole rose 2.2% yoy. Fixed capital formation remained in a slight yoy decline (-0.2%), with residential construction and investment in machinery falling. Inventory accumulation contributed significantly to yoy GDP growth (1.4 p.p.), partly offset by a negative contribution from net exports (-0.8 p.p.). A surprise was the acceleration in foreign trade volumes, with exports of goods and services up 4.2% yoy (4.7% for goods alone) and imports of goods and services up 6.0% yoy (5.7% for goods). Gross value added (GVA) in constant prices rose 2.8% yoy, again with growth across all basic industries. The highest dynamics were recorded in ICT (6.8% yoy) and construction (6.2% yoy), while the weakest was in real estate activities (1.0% yoy). In nominal terms, GDP was 6.0% higher yoy, with the deflator halting its long-term slowdown and rising 3.3% yoy. Total employment increased 1.0% yoy and the number of hours worked by 1.5%. The latter rose yoy across all industries except ICT and finance. Productivity rose in real terms by 1.8% per worker and 1.3% per hour. Gross operating surplus and mixed income in current prices were 4.4% higher yoy, while employee compensation grew 8.0%. The latter has been outpacing the former continuously for six quarters.

Household consumption growth (3.4% yoy) in 2Q25 was the strongest in three years. Its acceleration is consistent with the faster dynamics of real wages (5.3% yoy), driven both by larger nominal increases and easing inflation. In the consumption structure, the long-term decline in the share of durable goods, ongoing since the pandemic-driven boom of 2021, has stopped. However, in confidence surveys households only slightly eased their long-standing pessimism about the right moment to make large purchases. Thus, the consumption dynamics likely stemmed more from the natural need to replace aging goods rather than from a longer-term shift in consumer behavior.

3Q25: First signs of slowdown

The July yoy indices of industrial production (1.8%) and retail sales (2.5%) indicated continued growth. Compared with the 2Q25 average, industrial output (1.3%) was slightly higher, while retail sales (5.0%) were markedly lower. The leading S&P PMI index for industry declined slightly in both July and August, with its latest value (49.4) suggesting only limited growth potential for production in the coming months. Exports in current prices continued to grow yoy in July (4.7%), though the figure was influenced by one extra working day. After a long period, exports to the US recorded a yoy decline, likely dragged by the introduction of US import tariffs. Construction output showed a strong increase in July (10.1%). However, the services production index slowed sharply yoy to 0.8% in July, down from 2.2% in

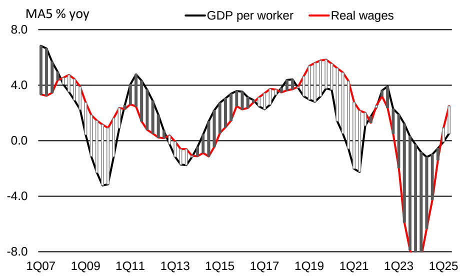
Industrial sales – domestic and from direct export*



*/ current prices, adjusted
Sources: CZSO, UniCredit Research.

The index of export sales of industrial producers has outpaced domestic sales for 12 consecutive months. Such divergence in the dynamics of the two components of total sales is not unusual, but the current gap and its duration are significant. Part of the explanation is related to exporters' competitiveness, but it may also be linked to weak investment activity of domestic firms.

Real wages and GDP per worker in Czechia



Sources: CZSO, UniCredit Research.

Real wage path should be in line with productivity growth to preserve wage competitiveness. The chart shows that this relationship holds in Czechia over the long term, though in the short run the two series may diverge substantially in both directions. After the dramatic decline in 2023, real wages started to outpace productivity again in 1H25. This lead should last at least six quarters to compensate for the previous wage slump.

2Q25. Overall, we see short-term indicators as consistent with an economic slowdown in 3Q25, although the picture will become clearer only after the release of August data. For 3Q25, we forecast GDP growth of 0.1% qoq and 2.1% yoy.

4Q25 and 2026: Business uncertainties remain a drag

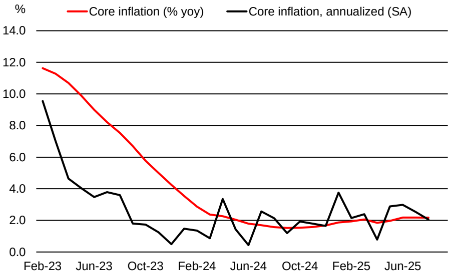
For the end of this year and the whole of next year, we expect a mix of opposing influences across the main demand components. Overall, this mix should push full-year **GDP growth** in 2026 slightly down, to 1.8% compared to the estimated 2.2% for this year.

A positive factor is the easing of uncertainty regarding **US import tariffs**. However, the base rate of 15% is at the upper end of our earlier expectations and will negatively affect export demand throughout the period. In the short term, an additional negative shock will come from earlier stockpiling in the US economy. Risks also stem from disruptions in global supply chains related to the introduction of new US tariffs. On the other hand, a positive role should be played by the recovery of German GDP growth (forecast at 1.3% in 2026 versus 0.1% in 2025), supported by a cyclical turnaround as well as increased fiscal spending. We also expect moderate acceleration among other Czech trading partners in Europe. As a result, Czech **export volume** growth should slow only temporarily in 2H25, while in a full-year comparison 2026 versus 2025 it should remain almost unchanged (2.8% versus 3.0%).

Private consumption will remain the main driver of GDP growth. Its growth will be supported by the inertia of consumer habits, **wage growth** (we raised our forecasts to 7.2% for this year and 5.6% for 2026), and a stable **inflation** outlook (2.5% this year, 2.4% next one). Additional support for spending in 2026 could come from cyclical demand for durable goods, which last experienced a boom in 2021. What may, however, dampen household spending growth in 2026 is the large volume of refinancing of cheap mortgages. As a result, household **interest expenses** are expected to rise by CZK 10bn yoy. We estimate private consumption growth at 2.3% in 2026 versus 2.7% for this year.

We consider the outlook for **fixed capital** formation highly uncertain. For this year, we estimate full-year stagnation (-0.1%), as higher government **infrastructure spending** yoy will be offset by weaker **private sector investment activity**. Next year, however, we expect a more limited contribution from the public sector, due to temporarily lower EU fund drawdowns. A compensating increase in private sector spending after two years of declines or stagnation would be logical, but business uncertainties weigh against it. These include, for example, debates over the EU's long-term climate goals, which in the Czech Republic are intensifying ahead of parliamentary elections. Reducing these uncertainties will likely require the new political leadership to disclose its intentions and the business sector to align with them. Another brake on investment, particularly in construction and energy, remains the **long permitting procedures**, where we see no positive shift yet. Overall, we therefore forecast only mild growth (1.8%) in **fixed investment** next year.

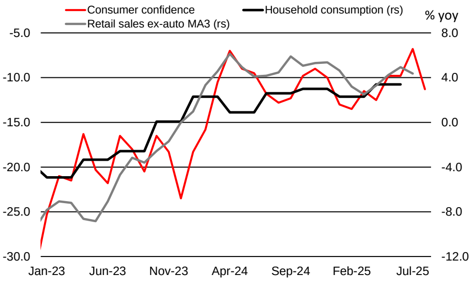
Core inflation in CZ – yoy and mom annualized



Zdroje: ČSÚ, UniCredit Research.

Core inflation remains close to 2% both in yoy and annualized mom terms. The latter showed a slight increase in June and July, but August brought it back down. The picture is unlikely to change in the coming months.

Consumer confidence, retail sales and household consumption



Sources: CZSO, UniCredit Research.

Retail sales continue to grow, though at a slightly weaker pace. Consumer confidence fluctuates month to month without showing any trend. For household consumption, this signals stable short-term growth.

CNB policy: No further repo rate cut until 2Q26

The persistent rise in services prices at a pace close to 5% and faster-than-expected wage growth in 2Q25 (7.8% yoy) have likely dashed hopes for another CNB rate cut this year. The necessary conditions for monetary easing would probably be a slowdown in domestic demand and a more favorable structure of price pressures. We do not see a chance for such a development before 2Q26.

Focus: Sectoral differences in productivity trends

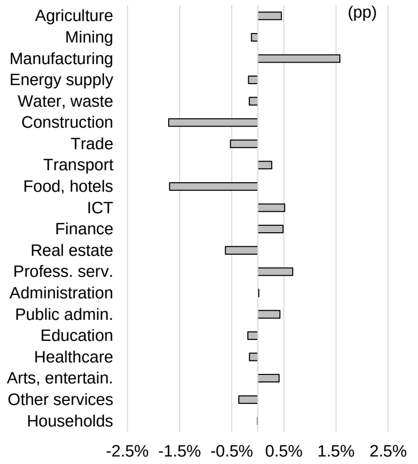
Labor productivity in Czechia, measured as gross value added (GVA) per hour worked in constant prices, suffered significant losses during the series of crises over the past 5 years. In 2015–2019, the average annual growth of this indicator reached 2.6%, in line with the long-term average (2.5%). In 2020–2024, however, growth turned into an average annual decline of 0.1%. In 2020, productivity still grew solidly, as the collapse in hours worked in the first pandemic year (-8.4%) exceeded the drop in GVA (-5.1%). In 2021, productivity growth stalled, and during the inflation wave of 2022–2023 it fell sharply, with the decline continuing in 2024. In those years, the number of hours worked increased substantially, but did not generate adequate value added. A touch of optimism came only with the latest 1H25 data, showing a 1.0% yoy increase in productivity.

From a sectoral perspective, the biggest drags on productivity growth between 2019–2024 were accommodation&food services and construction, each with cumulative contributions of -1.7 p.p. In these sectors, an hour of work in 2024 generated 43.0% and 21.6% less real value, respectively, than in 2019. Hospitality increased employment by 6.1% with GVA dropping by 39.5%, whereas construction increased employment by 9.3% but produced 14.2% lower GVA. On the positive side, several industries contributed to productivity growth, most notably manufacturing (+1.6 p.p.). Industry faced adverse GVA developments (-1.7%) by reducing hours worked (-7.5%), which raised productivity by 6.3%. The largest GVA growth was observed in ICT (+38.8%), with employment up by 18.5%, translating into productivity growth of 17.1%.

The dramatic differences between sectors may look shocking at first glance, but they are not necessarily due only to efficiency. Construction, for example, increased real output by 5.5% over 2019–2024 and nominal GVA by 41.4%. The decline in real GVA thus likely reflects a combination of several issues, including firms' reluctance to lay off workers in a rigid labor market and the huge price swings during the inflation wave. The latter may also have affected the calculation of sectoral GVA deflators. Deflators may have been overestimated in construction while underestimated in other sectors (wholesale, industry).

These doubts about calculations do not change our conviction that government should direct its policies toward supporting sectors with faster-growing real productivity, especially ICT and some manufacturing industries. Productivity growth is crucial for maintaining living standards in the context of demographic change. Additional hope in this regard also comes from the revolutionary progress in artificial intelligence, which, according to some estimates, could raise global productivity by up to 30%.

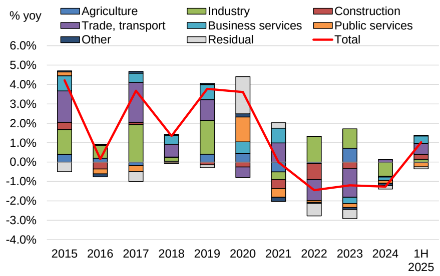
Sectors' contributions to productivity growth between 2019-2024



Sources: CZSO, UniCredit Research

Hourly labor productivity declined by 0.4% in real terms between 2019–2024, driven mainly by construction and hospitality. On the positive side, manufacturing made a key contribution. While part of the story may be distorted by statistical issues, the fact remains that the Czech economy needs to strengthen its focus on sectors with higher innovation potential.

Productivity of hours worked by sector's contributions



Note: Public services include NACE codes O–R, business services include codes J–N.
Sources: CZSO, UniCredit Research

In 2015–2019, hourly labor productivity grew at an average real rate of 2.6%. In 2022–2024, we saw a sharp decline. A touch of optimism came only with the 1H25 data, showing a 1.0% yoy increase. This was driven mainly by trade, transport, hospitality; and construction (catching up previous productivity losses), and business services led by ICT.

Macroeconomic outlook for Czechia

	2022	2023	2024	2025 forecast	2026 forecast
GDP growth (real yoy change, %)	2.9	0.2	1.1	2.2	1.8
Household consumption (real yoy change, %)	0.5	-2.5	2.4	2.7	2.3
Gross fixed capital formation (real yoy change, %)	6.3	4.5	-3.1	-0.1	1.8
Industrial output (real yoy change, %)	2.1	-0.8	-0.9	1.5	1.5
Unemployment rate (average, %)	3.4	3.6	3.8	4.3	4.3
Inflation rate (CPI yoy change, average, %)	15.1	10.7	2.4	2.5	2.4
Average wages (nominal yoy change, %)	4.3	8.0	7.1	7.2	5.6
Interest rates (3-M PRIBOR, end of period, %)	7.26	6.97	3.91	3.50	3.35
Interest rates (3-M PRIBOR, average, %)	6.28	7.13	4.98	3.59	3.39
EUR/CZK exchange rate (end of period)	24.12	24.73	25.19	24.80	24.80
EUR/CZK exchange rate (average)	24.57	24.01	25.12	24.80	24.80
Current account balance (% of GDP)	-4.7	-0.1	1.7	2.0	2.4
FDI net inflow (% of GDP)	1.2	1.0	0.5	0.7	0.7
General government balance (% of GDP)*	-3.1	-3.7	-2.2	-2.3	-2.7
Public debt (% of GDP)	42.5	42.5	43.3	43.6	44.4

Remarks:
**/ ESA 2010 definition*
Sources: Czech National Bank, Czech Statistical Office.
Forecasts: UniCredit Bank CZ+SK.