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Czech GDP appears solid, while oil prices put inflation at risk

Czech GDP has been revised upwards in 4Q25, with ample dynamics in household consumption and fixed investment. We see a solid performance this year – although the recent turmoil in energy markets poses inflationary risks, with potential repercussions for economic activity. Stable rates are the right response to a situation with elevated uncertainty

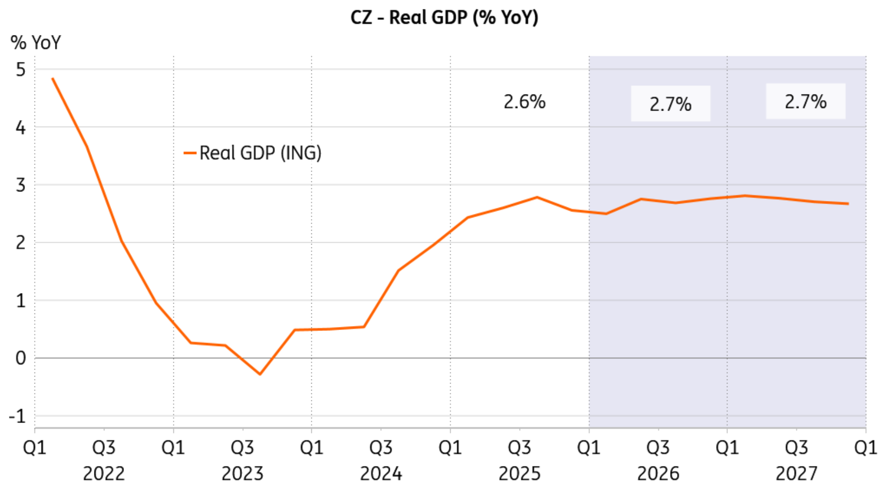
We should see a solid performance for Czech growth this year

Favourable GDP structure in 2025 and ahead

Czech real GDP grew 0.6% quarter-on-quarter and 2.6% year-on-year in the fourth quarter of 2025, with both figures revised slightly higher in the refined estimate, which also provides a detailed breakdown. The main growth factors in the quarterly comparison were final consumption expenditure and gross fixed capital formation. Foreign demand also made a positive contribution in the last quarter of the year, while changes in inventories had a negative impact.

The revision aligns with our intuition. Household consumption picked up vigorously, rising 1.3% QoQ and 3.2% YoY, with purchases of non-durable goods and services as the main drivers. Government consumption increased by 1.0% QoQ and by 2.5% YoY in 4Q25, with an upward revision from the preceding quarter. Gross fixed capital formation gained a noticeable 1.7% QoQ and 5.3% YoY, with upward revisions of quarterly dynamics also in Q1 and Q3. The revision means that fixed investment increased by at least 1% every quarter throughout the previous year, confirming our view that Czech firms are investment-hungry after the *annus horribilis* of 2024. We stay on the side of Twisted Sister's song Stay Hungry and believe that more is to come this year. In terms of price developments, the overall GDP deflator increased by 1.0% QoQ and by 3.9% YoY in 4Q25.

Growth outlook looks good



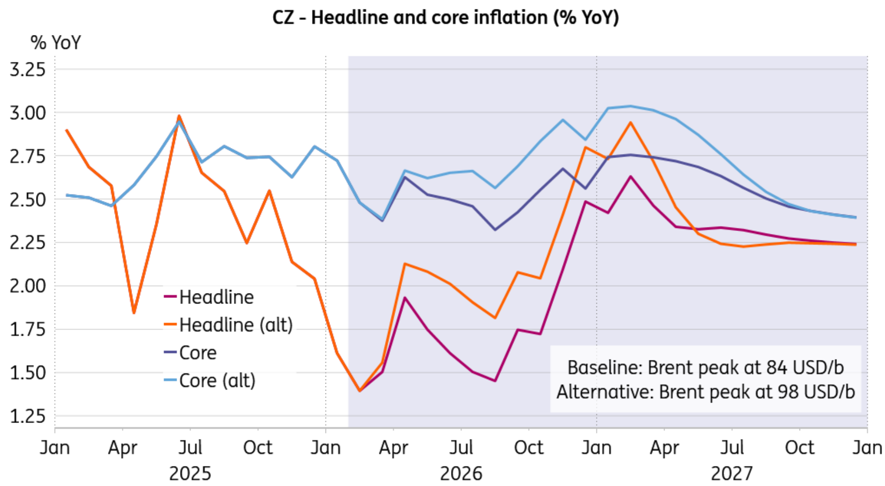
Source: CZSO, ING, Macrobond

Taking onboard the latest GDP breakdown and developments in the Middle East, we maintain our forecast of economic expansion at 2.7% for this year and next. We pencil in stronger annual household consumption and fixed investment for the 2026 average; however, this is on the back of the stronger 4Q25 observations. This is offset by a negative contribution of the inventory drawdown in 2026. We see some risks that household consumption could be stronger than we currently expect, depending on whether the industry can properly lift off and propel the labour market, and on how strongly uncertainty about global developments weighs on both consumer and business sentiment. Protracted conflict is no good news for consumer goods exports, while it may provide a firmer foundation for the Czech arms industry in the medium term.

Higher oil prices will propel inflation

Considering the tumultuous events in the Middle East, we have updated our inflation forecast. Higher crude oil and natural gas prices will eventually feed through all price domains. The weakening of the koruna against the dollar reinforces their increase. Fuel prices are affected almost immediately; food prices follow suit due to higher transportation costs and fertiliser prices. For core inflation, the pass-through appears to begin about three months after the shock and lasts up to the seventh month. Moreover, we consider the impact of energy prices on core inflation to be non-linear: the move is absorbed in margins to some extent, but when the increase exceeds a certain threshold, it is almost fully passed through to end prices. With this in mind, the chart below shows the trajectories of headline and core inflation under two scenarios.

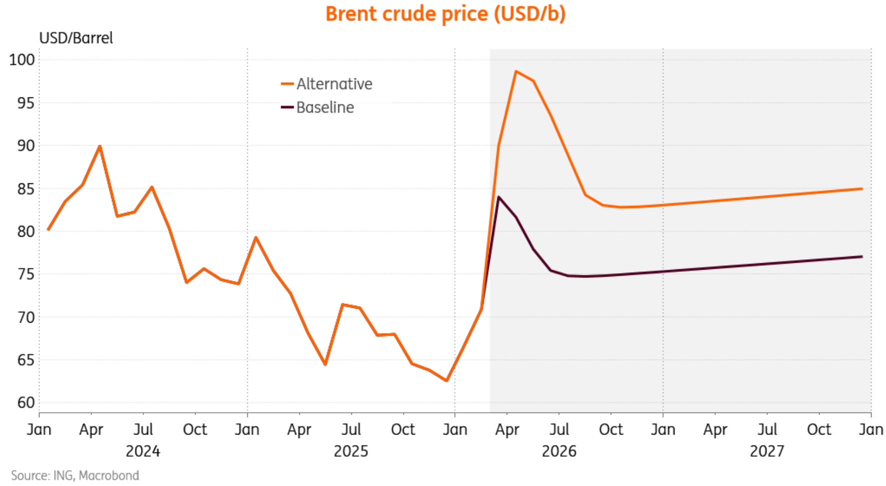
Energy prices filter through all price domains



Source: CNB, ING, Macrobond

As a baseline, we assume the Brent crude price peaks at 84 USD/b this month and then swiftly declines to more reasonable levels. In such a case, headline inflation is expected to average 1.7% this year, while core inflation would average some 2.5%. The alternative shows a situation in which Brent crude would climb further, parking at some 98 USD/b. In such a case, headline inflation would average 2% this year, while core inflation would pick up to 2.7% as the year's average. *Mutatis mutandis*, the analogic profile is applied to natural gas prices.

Oil prices and uncertainty on the rise



Neither of these scenarios supports any appetite for easier monetary policy. Therefore, we refrain from our call for a single rate reduction, which was meant to come at any time between May and August. And as this is a negative supply shock, the Czech National Bank would likely also refrain from tightening monetary conditions, as such a move could harm the economy. Should oil prices peak and then decline as in our scenarios, we don't see a substantial negative impact on economic performance for now. However, should elevated energy prices prevail, the negative supply shock would take its toll on economic output. Keep calm and sail on.

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