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CZECH REPUBLIC

# The Czech heart goes boom as consumption picks up and sentiment surges

Both business and consumer confidence hit record highs after quite some time, boosting hopes of a real economic rebound for the Czech economy. Growth should flourish in the upcoming year as industry and fixed investment recover, although 2027 remains shrouded in a fog of uncertainty amid rising confusion about the ETS2 impact

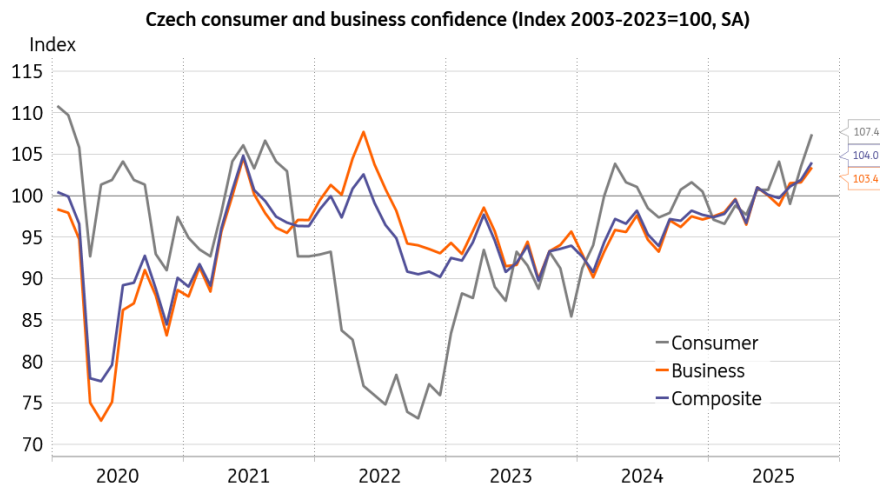


The year ahead in the Czech Republic should see robust growth as consumers continue to spend

## Mood in industry stabilises as consumers rock

Czech business and consumer confidence both picked up in October, coming in above expectations. The business confidence indicator rose by 1.8 points to 103.4, and the consumer confidence indicator added 3.9 points to 107.4. The business indicator drifted to its highest value since mid-2022, while consumer confidence hit the strongest figure seen since March 2020.

## Sentiment hits ample figures in both firms and households

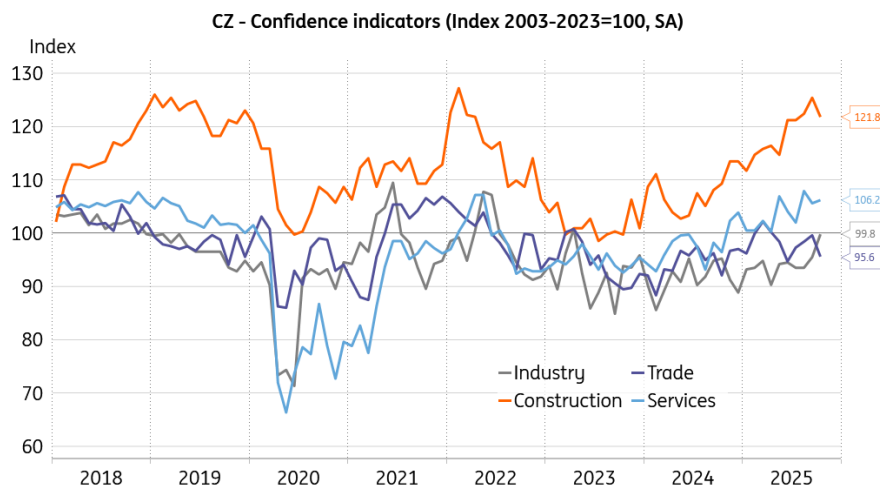


Source: CZSO, Macrobond

October's business confidence increased in industry (+4.3 points) and in selected service sectors (+0.6 points), while it declined in trade (-4.0 points) and construction (-3.6 points). Business confidence in the economy has remained above its long-term average for the third month in a row.

Although sentiment among entrepreneurs is gradually improving, many are still significantly constrained by insufficient demand and, particularly in the construction industry, a shortage of skilled workers. For consumers, the share expecting the overall economic situation in the Czech Republic to deteriorate over the next year fell significantly; the share expecting their financial situation to improve over the next year increased.

## Industry is the key to mature expansion



Source: CZSO, Macrobond

Consumers have enough cash stemming from ample nominal and real wage growth to date to be able to proceed with solid spending through the rest of the year. The situation in the Czech industry has somewhat stabilised throughout 2025, but it's not in the much-needed proper expansion mode.

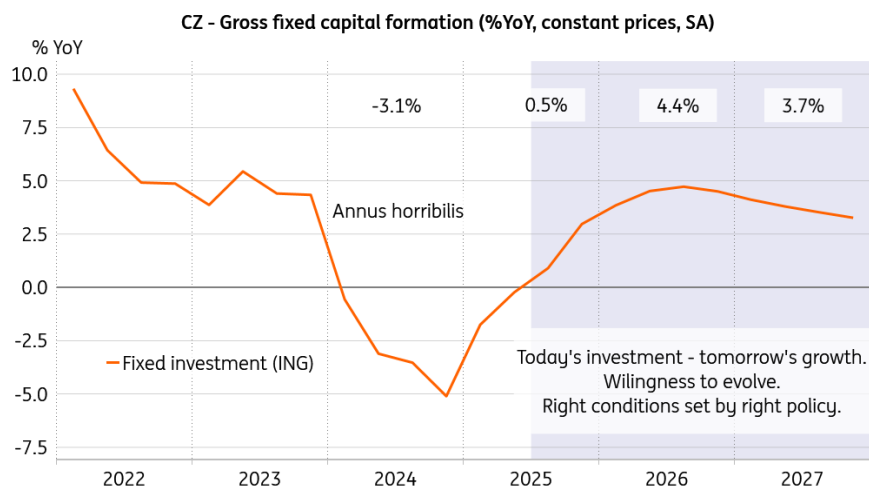
We are relatively optimistic about the positioning of the Czech industrial base looking ahead, subject to nothing going too much south for Czechia's main trading partners in the eurozone, namely Germany and France. If that is the case, the monetary setup will be neutral at best if rates stay untouched.

### Fixed investment set to propel future performance

We see the Czech economy gaining traction over the coming year, with the rate of annual growth picking up to 2.7% in 2026 from 2.5% this year. Household consumption is expected to remain the main engine of growth, supported by continued strong gains in both nominal and real wages, especially as labour market conditions are likely to tighten again.

The novelty might well be the more upbeat dynamics in fixed investment, which we expect to pick up to 4.4% next year, following a miniscule 0.5% growth this year and a humiliating 3.1% drop in 2023. In such a case, fixed investment would contribute 1.2ppt to the 2026 growth rate, similar to government consumption. Don't blame us for the overenthusiasm; fixed investment in the Czech economy could add around 8% from year to year in good times.

### Appetite to evolve sides with Czech firms



Source: CZSO, ING, Macrobond

The 2027 estimate, however, is more difficult. Not only are we dealing with a slightly more distant future, but, for most, it is shrouded in a thicker fog of uncertainty. As is typical for Europe, the regulatory type of fog – this time linked to the implementation of emission

allowances for households and small and medium-sized firms – blurs the lens of our telescope.

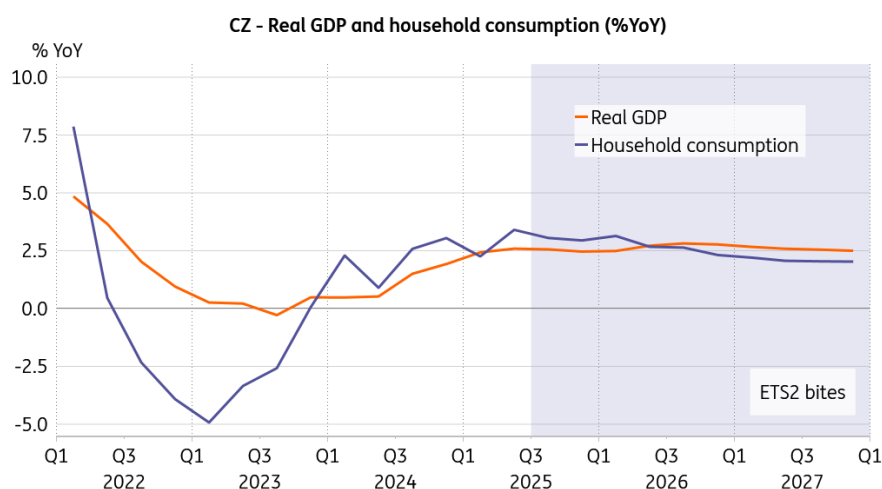
The situation here is growing more confusing. Some EU member states are pushing strongly to apply changes to the whole setup, so that the impact (especially on households) is somewhat mitigated. As is often the case, it could be argued that the European Commission is only likely to go ahead with cosmetic adjustments that won't completely shift the landscape.

### ETS2 likely to harm 2027

So, we stick to our baseline take that the impact on consumer inflation will be tangible in 2027. We estimate the full impact at 1.2ppt on overall annual inflation, but incorporate only a third into the baseline scenario. Two-thirds is also a realistic estimate, depending on which mitigation measures would be taken.

In any case, rising inflation would put pressure on household budget constraints, and ample uncertainty about how it all plays out in terms of price tags would harm consumer sentiment. We therefore see household consumption expenditure growth cooling down somewhat throughout 2027.

### Household budgets will experience ETS2 pressure



Source: CZSO, ING, Macrobond

That said, do not forget the impact on firms and the second-round effects on the economy. Yes, it's the feedback loops again!

You guessed it – yet another negative supply shock for the EU economy, when less is produced for higher prices. For all these reasons, still burdened with a fair portion of uncertainty, we see the 2027 Czech economic expansion not reaching its full potential, but softening to 2.6% or more, depending on the winners and losers in the ETS2 game.

At the same time, the EC has recently published its legislative initiatives plan for 2026. And while it offers some positive potential, it might be said that it lacks the courage to take fundamental steps to reduce Europe's regulatory burden and improve its competitiveness. There is simply not much on securing stable, affordable energy for both firms and households; it seems pretty heavy on legislative proposals without much added value, while tackling barriers in the internal market no longer seems to be at policymakers' hearts. Has the Commission grown out of touch with reality – and is that a lesson already learned from the Draghi report?

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