

Czech household consumption to feed core inflation

The Czech economy expanded at a decent pace at year-end, coming in only marginally softer than market participants had expected. It seems that household spending and foreign trade did well. We assume that an inventory drawdown affected the figure. The propensity to consume and the impact on core inflation will be a topic for policymakers

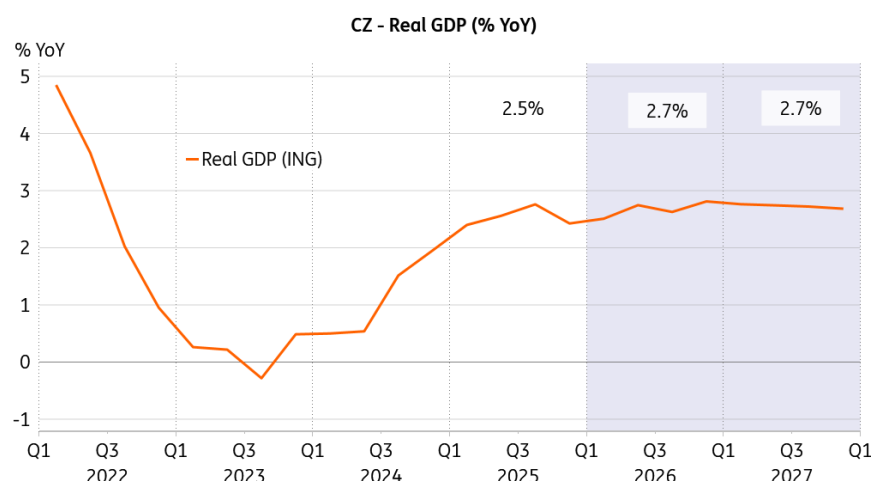


Strong consumer spending could make Czech policymakers more hesitant to ease policy

Economic expansion looks good

The Czech economy expanded 0.5% quarter-on-quarter and by 2.4% year-on-year in the last quarter of 2025. Growth was supported mainly by higher final consumption expenditure. The foreign trade balance also had a slightly positive effect on overall growth. Considering the entire previous year, real GDP added 2.5%, according to a preliminary estimate. Employment remained unchanged from the previous quarter and advanced by 0.9% YoY. For the whole year, employment gained 1.0% in 2025.

Solid growth ahead



Source: CZSO, ING, Macrobond

A detailed breakdown is not available in the preliminary estimate. Still, we can draw some insights. Data points before 4Q25 were not revised this time. Annual growth was mainly driven by household consumption and foreign demand, while gross capital formation hurt the overall performance. Such an outcome suggests that net exports performed slightly better than our forecast, while no distinction is available between total capital formation and fixed investment. We assume that the 4Q dynamic was affected by the negative contribution from changes in inventories, which in turn points to rather decent domestic and foreign demand. That said, we don't alter our whole year growth forecast and keep it at 2.7% for now, waiting for more details when the breakdown is released.

Spending pass-through to core inflation is key

The main takeaway for the Czech National Bank is likely the still-strong contribution of household consumption, which could make policymakers more hesitant to adopt a more relaxed monetary policy in practice. Given the expected low inflation over the year, we still see one cosmetic cut as the most likely outcome. Bear in mind that cosmetics relate to beautification, so don't expect any gargantuan moves, despite a low-inflation environment.

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