

# Household spending and investment drive the Czech economy

Continued gains in household spending and a rebound in investment in 2Q provide a solid base for an economic recovery. GDP growth came in below expectations and was dragged down by a negative net export contribution, reflecting the waves in foreign trade caused by tariff negotiations. The recent US-EU trade deal reduces uncertainty for Czech exporters

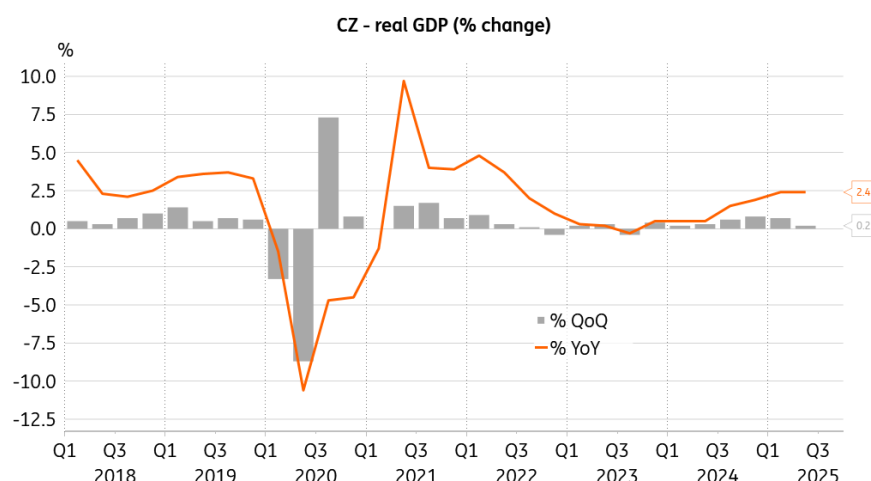


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## Household spending continues and investment recovers

The Czech economy expanded 0.2% quarter-on-quarter and 2.4% year-on-year in the second quarter, in line with the preliminary estimate and weaker than markets had expected. The quarterly dynamic was primarily supported by household spending, which improved for the fourth consecutive quarter. Capital formation also contributed positively to the quarterly increase in GDP. In contrast, the foreign trade balance had a negative impact, reflecting volatile exports due to the front-loading effects in the first quarter, linked to tariffs and the general reshuffling of the global trade landscape.

## Softer growth reflects weak net exports



Source: CZSO, Macrobond

The quarterly gain in gross value added was primarily influenced by the domestic trade, transport, and hospitality sectors, with construction also performing well in the second quarter of the year. Meanwhile, manufacturing recorded a slight quarterly decline. Employment added 0.4% QoQ and 1% compared to the previous year, contributing to the continued tightness of the labour market.

## Czech rebound on track despite choppy foreign trade

We think this reading confirms that the Czech economic rebound remains well on track, with households and investment representing the solid growth base. The effect of foreign trade must be assessed once the expenditure breakdown is available, with a noticeable drag likely stemming from net exports. Following the recent [trade deal](#) between the US and the EU, which includes a 15% tariff on EU imports, along with a 50% rate on steel and aluminium, export and import patterns are expected to calm down over the coming quarters. The significant reduction in uncertainty is generally positive news for Czech exporters; still, EU-based firms will face a five percentage point comparative disadvantage to businesses based in the UK when it comes to reaching the US market.

We reiterate our initial estimate based on the 20% tariff assumption on EU imports announced for April's Liberation Day. The adverse impact on the Czech annual GDP growth was estimated at -0.2ppt via the direct effect of less buoyant exports and -0.2ppt via indirect effects, such as confidence channels. Our estimate is broadly in line with the Ministry of Finance's view, which predicts a -0.4ppt adverse effect on the 2026 Czech GDP dynamic based on the latest EU-US agreement. A negative effect linked to the foreign trade reshuffle has been part of our forecast since April. It's partially compensated for by the expected positive spillover of the German infrastructure and defence package, along with the anticipated boost to Czech defence-linked government spending and induced private investment. For now, we're sticking to our whole-year expansion forecast of 2.3% for this year and 2.5% for the next. Given the shifting trade winds, we could well echo Emperor Augustus's "Vare, Vare, redde mihi aquilas!"

## Author

### David Havrlant

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

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