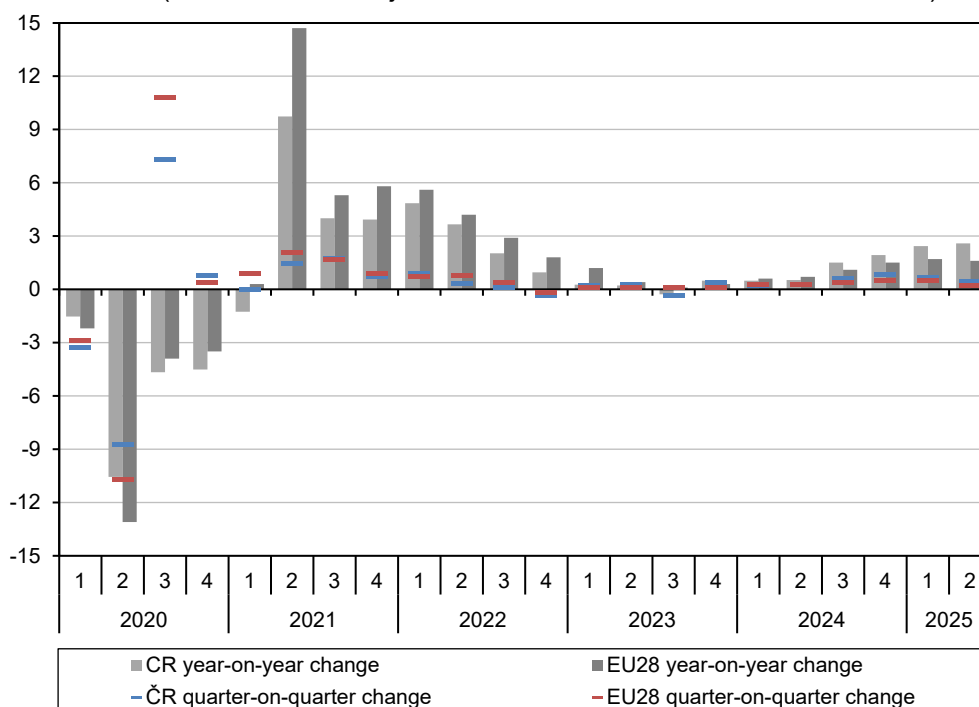


## 2. Overall Economic Performance

Year-on-year GDP growth strengthened in Q2.

The Czech economy continued on the course set in H2 2024, when the Gross domestic product (GDP) growth recovered<sup>1</sup>. The GDP thus grew by 0.5%, quarter-on-quarter, in Q2 2025. The increase slowed slightly compared to previous periods due to the negative effect of the international trade balance. However, domestic demand strengthened significantly, mainly due to domestic consumption and creation of inventories. The investment activity grew slightly, quarter-on-quarter, for the second quarter in a row. Annual GDP growth strengthened to 2.6% in Q2 thanks to the ongoing quarter-on-quarter growth. Household consumption grew more significantly, year-on-year, and total economic growth was also supported by a change of inventories. Nevertheless, the investment activity continued to lag behind, year-on-year, and the international trade balance also had an adverse effect on GDP.

**Chart 1 GDP** (volume indices, adjusted for seasonal and calendar effects, in %)



Source: CZSO, Eurostat

GDP growth has slowed in the EU, especially under the influence of Germany.

Quarter-on-quarter GDP growth slowed to 0.2% in the EU in Q2<sup>2</sup>. Mainly the large German economy influenced the slowdown, its economy shrank again by 0.3% after the growth from Q1. GDP also declined in Finland (-0.4%) and Italy (-0.1%). A minority of EU countries grew more moderately than in the previous quarter (in addition to the Czech Republic also Ireland, Belgium, Lithuania and the Netherlands). The fastest quarter-on-quarter GDP growth was recorded in Denmark (1.3%), Croatia and Romania (both 1.2%). Consumption in the EU developed positively in Q2 (0.4%, growing, quarter-on-quarter, in the vast majority of countries) and expenditure on gross capital formation also increased. However, this was mostly favourably affected by the creation of inventories. Investment in the EU fell by 1.7%, quarter-on-quarter (by -1.4% in Germany). The international trade balance adversely affected the GDP growth in Q2 (in contrast to Q1). The EU economy grew by 1.6%, year-on-year. In the second quarter, GDP growth was negatively affected by the external trade balance (in contrast to the first quarter). The EU economy grew by 1.6%, year-on-year. GDP increased the

<sup>1</sup> The development of the GDP, gross value added, and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 29<sup>th</sup> August 2025.

<sup>2</sup> Data for Greece not available.

most in Ireland (18.0%), Cyprus (3.3%) and Croatia (3.2%). On the other hand, it decreased in Luxembourg (−0.2%) and the year-on-year GDP growth rate in Germany (0.2%) and Hungary (0.2%) was close to stagnation.

The volume of wages and salaries has strengthened significantly.

The volume of wages and salaries paid in Q2 showed a significant acceleration of quarter-on-quarter growth to 3.0%, with a simultaneous increase of employment by 0.5%<sup>3</sup>. The real increase thanks to this acceleration reached a very robust 2.4%<sup>4</sup>. Wages and salaries increased the most, quarter-on-quarter, in real estate activities (7.2% amid a 0.2% decline of employment), where wage growth often fluctuates significantly, among other things, in relation to real estate prices movements. Very strong quarter-on-quarter increases were also recorded in a number of services divisions – public administration, education, health and social work (4.3%, employment +0.9%), professional, scientific, technical and administrative activities (3.8%, employment −0.6%). In particular, the increase of employment by 1.3% supported a solid increase of the volume of wages and salaries in the group trade, transport, accommodation and food service activities (2.7%). On the contrary, due to a 4.1% decline of employment, there was only a slight increase of paid disbursements in information and communication (1.3%) and the volume of wages and salaries stagnated in financial and insurance activities (employment decreased by 0.6%). The only plunge of the volume of wages and salaries within services and the total economy eventuated in other activities<sup>5</sup> (−3.1% with an increase of employment by 4.3%). In Q2, wages and salaries were raised strongly again in construction (3.0%, employment −0.4%). Quarter-on-quarter growth of wages and salaries in industry also strengthened (2.7%, employment +0.4%). Of these, the recovery was more pronounced in manufacturing (2.8%, employment +0.2%).

The services sector drove the growth of wages and salaries forward.

The strong quarter-on-quarter recovery also had a direct impact on the year-on-year increase of the volume of paid out wages and salaries, which strengthened to 8.3% in Q2 with an increase of employment by 1.0%. The real year-on-year increase climbed to 5.0%. Wages and salaries also grew the most, year-on-year, in real estate activities (17.9%, employment +3.0%). The increase was above average in professional, scientific, technical and administrative activities (11.6%, employment +1.0%), in construction (10.2%, employment +1.1%), public administration and defence, education, human health and social work activities (9.2%, employment +2.3%) and in the group trade, transport, accommodation and food services (9.0%, employment +1.2%). The pace weakened in information and communication (7.5%, employment −1.2%), in other activities (4.8% against an increase of employment by 4.7%) and in financial and insurance activities (3.8%, employment −0.3%). In total industry and in the manufacturing industry itself, wages and salaries increased by 5.9%, year-on-year, accompanied by a slight decrease of employment (−0.5% in industry, of which −0.4% in manufacturing).

The domestic consumption revived.

Solid domestic consumption growth resumed after a brief slowdown in Q2. Consumption increased by 1.1%, quarter-on-quarter, and by 3.1%, year-on-year. Consumption thus contributed a total of 1.7 p. p. to the annual GDP growth and 0.6 p. p., quarter-on-quarter<sup>6</sup>. The recovery concerned both household and government consumption. In the case of households, expenditure increased by 1.0%, quarter-on-quarter, in Q2 and was higher by 3.4%, year-on-year. General government consumption increased by 1.2%, quarter-on-quarter, and by 2.2%, year-on-year. In terms of durability classification of consumption<sup>7</sup>,

<sup>3</sup> Employment data are in the national accounts conception (persons), figure seasonally adjusted.

<sup>4</sup> Converted into the real expression using the deflator of household consumption.

<sup>5</sup> This section contains activities of organisations of common interests, repairs of computers and mainly personal and household goods and a number of other personal services (beauty, hairdressing treatment etc.).

<sup>6</sup> Additions to the GDP change after exclusion of imports for final use.

<sup>7</sup> Data regarding consumption based on durability are in domestic conception.

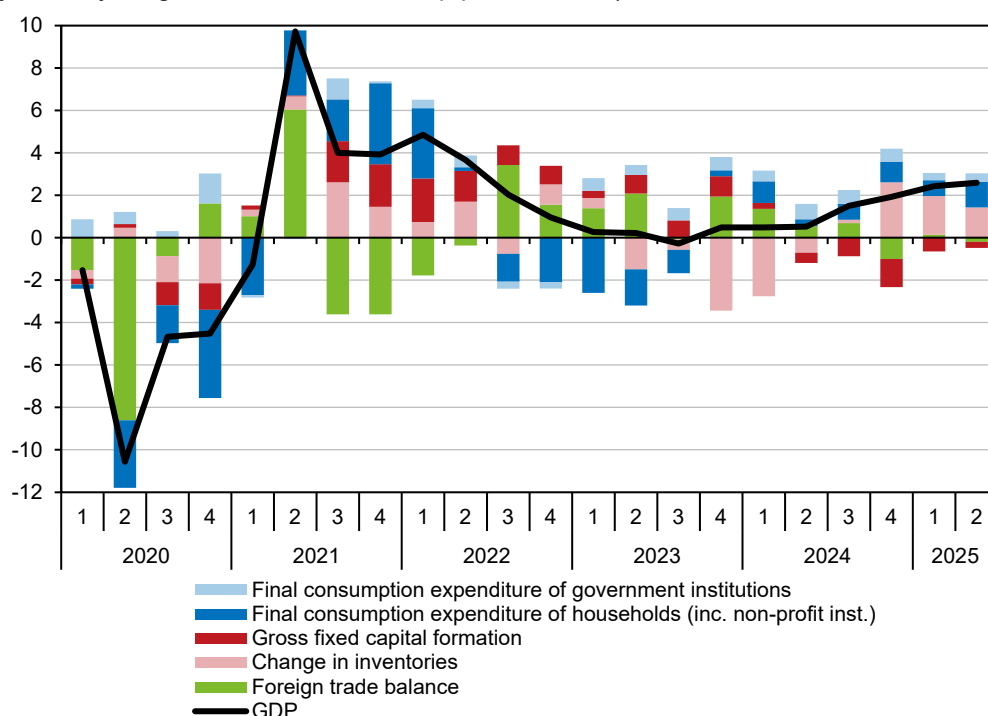


a strong quarter-on-quarter recovery of long-term consumption expenditure manifested (3.2% was the highest increase in the last four years, consumption of durables increased by 2.7%, year-on-year). Consumption of non-durables (2.4%, quarter-on-quarter, 5.6%, year-on-year) and semi-durables (0.7%, quarter-on-quarter, 2.1%, year-on-year) also strengthened. In contrast, the consumption of services grew more slowly (0.3%, quarter-on-quarter, 2.0%, year-on-year).

Investment increased slightly, quarter-on-quarter, but GDP growth was mainly supported by inventories creation.

Expenditure on gross capital formation increased by 1.8%, quarter-on-quarter, in real terms in Q2 and was higher by 5.1%, year-on-year, the same as in Q1. Capital outlays contributed 0.4 p. p. to total quarter-on-quarter GDP growth and 1.1 p. p. to the year-on-year growth. The quarter-on-quarter growth of investment itself (expenditure on gross fixed capital formation) was only moderate (0.5%), and investment activity lagged behind by 0.2%, year-on-year. A change in inventories maintained a positive effect on gross capital formation<sup>8</sup>. Breakdown of gross fixed capital formation by type of capital good showed a positive quarter-on-quarter development in the area of other buildings and structures in Q2 (2.8%, year-on-year investment was higher by 4.7%), which also represented an ongoing favourable impulse for the domestic construction. Investment in transport equipment also grew (2.4%, quarter-on-quarter, 2.1%, year-on-year). Expenditure on intellectual property products stagnated (quarter-on-quarter growth of 0.1%, year-on-year by 0.5%). By contrast, investment into ICT and other machinery and equipment recorded a quarter-on-quarter decline of 1.6%, and a slight decrease (-0.5%) was also apparent for investment in dwellings. In both cases, the series of year-on-year declines was thus extended. Expenditure on ICT and machinery and equipment lagged behind the same period of the last year by 3.1%, and 4.1% for dwellings.

**Chart 2 Contribution of expenditure items to real GDP change\*** (volume indices, year-on-year growth, contributions in p.p., GDP in %)



Source: CZSO

\* after exclusion of exports for final use

<sup>8</sup> Change of the inventory stock (in current prices and not seasonally adjusted) attained 36.7 bn CZK in Q2 2025. It was 9.5 bn CZK in the same period of the last year and -6.9 bn in Q1 this year.

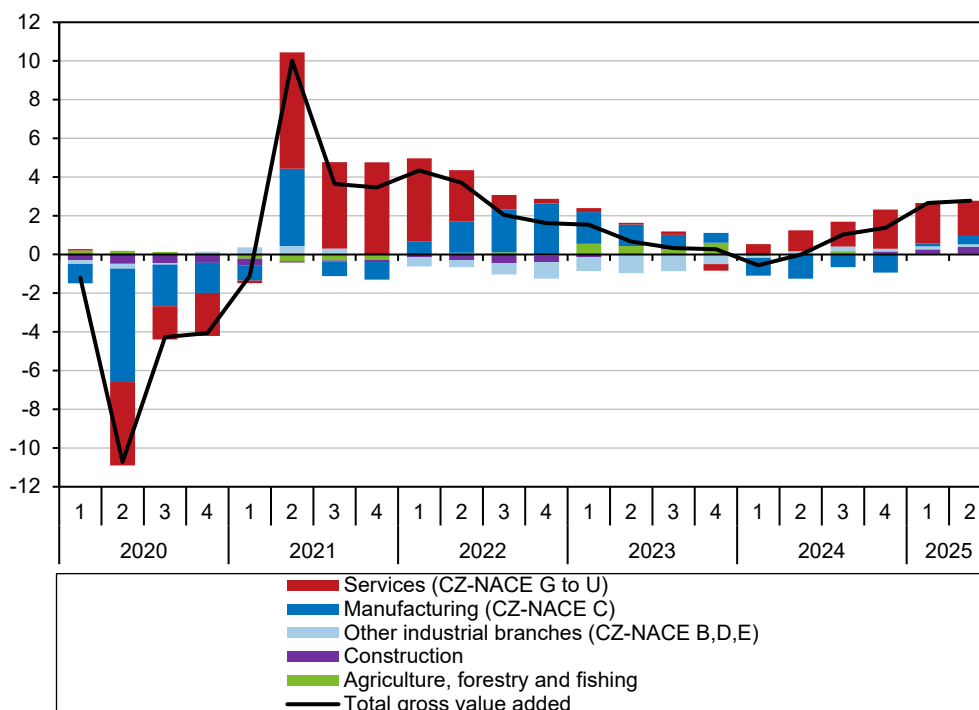
The balance of international trade with goods and services deteriorated.

Exports of goods and services<sup>9</sup> increased by 0.3%, quarter-on-quarter, in Q2, while exports of goods were higher by 0.6% and decreased by 1.0% for services. Growth slowed down significantly, mainly compared to the first quarter, which received an impetus in the form of impending tariffs between the US and the EU. The negative impact of the international trade balance of goods and services on GDP growth (−0.6 p. p., quarter-on-quarter, and −0.2 p. p., year-on-year) in Q2 was mainly due to the fact that imports maintained strong quarter-on-quarter (1.5%) and year-on-year (6.0%) dynamics compared to exports. Exports of goods and services were higher by 4.2%, year-on-year (exports of goods increased by 4.7% and services by 2.2%). The international trade balance of goods and services at current prices reached a surplus of 118.8 bn CZK in Q2, which is a year-on-year deterioration of 11.0 bn CZK. Trade with services contributed more to the year-on-year deterioration (−8.5 bn CZK), but the surplus of trade with goods also declined (−2.5 bn). The surplus also worsened quarter-on-quarter and again mainly under the influence of services.

Trade, transport, accommodation and food service activities were thriving.

Gross value added (GVA) increased by 0.5%, quarter-on-quarter, in Q2. The increase slowed down, mainly resulting from the financial and insurance activities, which went from the previous growth to a decline of GVA by 4.6%, and further also due to the moderation of GVA dynamics in information and communication to 0.5%. The group trade, transport, accommodation and food service activities (1.7%) contributed the most to the GVA growth, supported by the recovery of domestic consumption. Solid development in construction also continued (1.9%) and professional, scientific, technical and administrative activities grew significantly (1.3%). Growth slowed in real estate activities (0.2%) and other activities (0.2%). GVA in manufacturing increased slightly again (0.3%) following a preceding decline, continuing a series of uncertain performance of the industry. GVA decreased in public administration and defence, education, human health and social work activities (−0.2%).

**Chart 3 Contributions of branches to real change in GVA** (volume indices, year-on-year contributions in p. p., GVA in %)



Source: CZSO

<sup>9</sup> According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). International trade balance in current prices and seasonally adjusted.



The favourable development continued in construction.

Year-on-year GVA growth strengthened to 2.8% in Q2. The group trade, transport, accommodation and food service activities, where the GVA was higher by 3.8%, worked the most in the direction of growth. Information and communication also contributed significantly to the growth (6.8%). The most significant year-on-year GVA increase was recorded in construction (6.2%), which is experiencing a more successful period after years of declines<sup>10</sup>. The GVA increase in other activities was also above the total average (3.9%). Gross value added in total industry increased by 2.2%, year-on-year, in Q2, in that by 2.0% in manufacturing. The increase was mainly influenced by the low comparison basis of the previous year, as the pace acceleration was not supported by quarter-on-quarter dynamics. Growth slowed down in the group professional, scientific, technical and administrative activities (2.7%), in financial and insurance activities (2.0%). Activities in real estate (1.0%) and public administration and defence, education, human health and social work activities (1.1%) grew only slightly, year-on-year.

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<sup>10</sup> The branch was continuously falling, year-on-year, since Q3 2018 till Q2 2023.