

## Czech Republic: GDP grows a solid 4.5% in 1Q

The first estimate of GDP growth in 1Q18 came in at 4.5% year-on-year and 0.5% on a quarterly basis. Though slightly below market estimates, this is still a favourable figure and confirms strong domestic demand



Source: Shutterstock

### No details yet, but domestic demand was the main growth driver in 1Q

The preliminary GDP estimate does not provide any detailed information about the structure of GDP. The Czech Statistical Office (CZSO) just stated that: "GDP growth in Q1 2018 was driven solely by increasing domestic demand. An important increase in household spending continued as well as the investment expenditure of companies. Most of the economic activities of services, as well as industry, contributed significantly to gross value added (GVA). Construction was also successful." For more information, we need to wait until the beginning of the June, when more details will be released.

# 4.5% YoY

## GDP growth in 1Q18

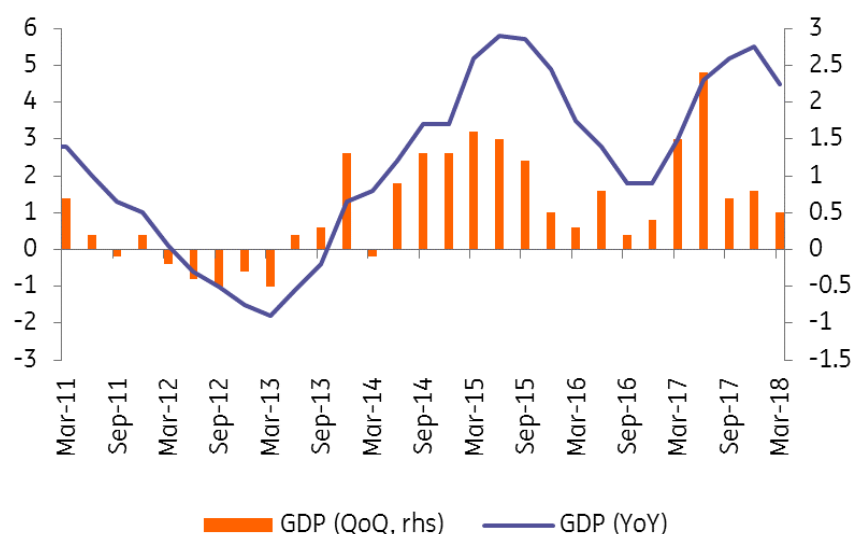
market expectation 4.8% YoY

Lower than expected

### Net exports and intensity of investments might be behind weaker-than-expected print

According to the CZSO, economic growth has been driven mainly by domestic demand. Increased imports related to higher domestic demand and import-intensive investments, in combination with the decelerating dynamics of exports, resulted in a weaker contribution of net exports to GDP growth. As such, the contribution of net exports in 1Q18 will be negative, and it could be one of the reasons behind slightly weaker-than-expected GDP. Also, the CZSO stated that investments contributed to growth, but the question is about their strength. Investments accelerated at a double-digit pace in 4Q17 and the market expected similar strong dynamics in 1Q18. If investment dynamics was slightly weaker, for example, due to slow EU-funds tapping, it could also lead to a slightly weaker GDP print.

### Czech GDP growth (%)



Source: CZSO, ING Bank

### No game changer for the total 2018-GDP estimate of 3.5%

Despite missing estimates today, the preliminary GDP figure confirms that the economy continues to be favourable, on the back of strong household consumption driven by solid wage dynamics and also by renewed investment activity. However, increased import intensity of investments and higher domestic demand will increase imports this year, which will then statistically reduce the contribution of net foreign exports to GDP growth. In this respect, GDP growth should moderate slightly this year to 3.5% and today's 1Q18 preliminary GDP estimate is no game changer for this

estimate. Importantly, the structure of growth was most likely in line with expectations.