

## Czech GDP confirmed at 5% YoY

The Czech economic growth is broad-based but the latest data may persuade some central bank members that a need for further interest rate hike is not so imminent



Source: Shutterstock

Today's revised estimate of GDP for the third quarter of 2017 confirmed that Czech economy accelerated by 5% YoY, 0.5% QoQ. As such, GDP dynamics ended slightly above the initial market expectations of 4.7% but was in line with the Czech National Bank's forecast.

**5.0%** 3Q17 Czech GDP growth  
(% YoY)

Better than expected

### Broad-based growth

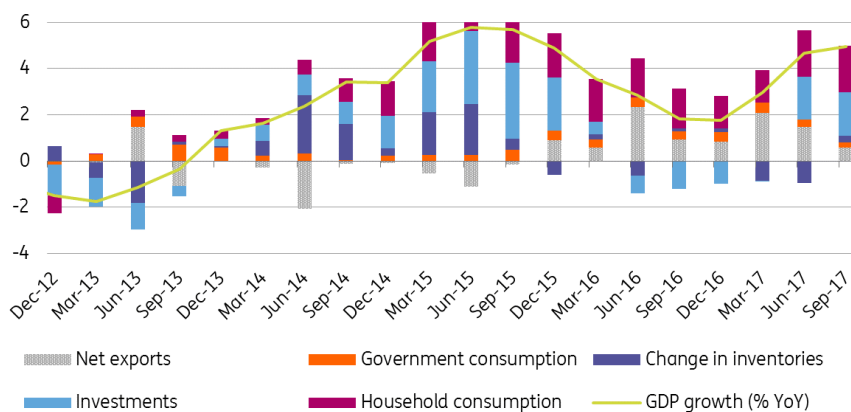
Looking at the GDP structure, the economy was driven mainly by favourable household consumption and renewed investment activity. Indeed, the highest contribution to the YoY GDP

growth was driven by investments. These accelerated by 7.5% and together with growth in inventories contributed to the GDP by 2.2ppt. Investment growth was relatively even, seeing stronger investment in dwellings, transport equipment's and ICT and other machinery.

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Also, the household' consumption developed favourably, as the YoY dynamics remained at 4.4% YoY and contributed to the GDP growth by 2.0ppt. The net export contributed less than in the previous quarter due to acceleration in imports. But manufacturing segment is keeping strong dynamics and remains still the main engine of the Czech export (see Figure).

### Annual GDP growth structure (ppt)



Source: CZSO, ING Bank

All in all, the GDP structure confirms that a growth of the domestic economy is broad-based, driven by both domestic demand due to household consumption and renewed investment activity, but also by foreign trade. Even growth structure supported by investments is a reasonable prerequisite that growth dynamics will remain favourable. This also confirms latest PMI figures, which hit its 6.5-year high in November.

The Czech economy will accelerate by about 4.5% this year, which will be the fastest GDP growth in the last 10 years, excluding the exceptional year 2015 supported strongly by tapping EU-funds. Next year, we expect some slowdown, but GDP growth should remain around 3.5%.

### The CNB might wait till February for more tightening

Although total GDP growth was in line with the CNB's estimate, the growth structure was slightly different. The CNB expected higher household and government consumption, as well as a more buoyant foreign trade dynamics.

As such, the latest GDP data is less pro-inflationary in comparison with the CNB's forecast and may persuade some CNB Board members that a need for further interest rate hike is

not so imminent and can wait till February monetary meeting.