# KOMERČNÍ BANKA’S MACROECONOMIC FORECAST Economy revving up

**The Czech economy is growing rapidly. The anti-pandemic measures were eased quickly during 2Q, which resulted in the economic activity surging as quickly. Both retailers and providers of services welcomed customers again at last. Internal demand will be the main driver of economic development until the end of this year. However, production will be limited by shortages or higher prices of certain feedstock and other inputs into manufacture, and workforce shortages continue to be a barrier to faster growth. The CNB will, in a situation of an already growing economy, correct the persisting inflationary pressures through rate hikes.**

**The Czech economy will return to its pre-pandemic level of production this year.** Whilelast year’s pandemic recession pushed real GDP down by 5.8%, for this year we estimate its growth by 4.2%. Thus, the growth forecast has been improved versus the April one by 0.8 pp. “*As early as the last quarter of this year, the volume of our production will return to the pre-pandemic level, i.e. the end of 2019*,” Jan Vejmělek, Komerční banka’s Chief Economist, comments on the bank’s new forecast, which envisages an economic growth of a strong 5.3% for 2022.

**The quick recovery of the global, including the Czech economy is being impeded by limits: shortages of input components for production and workforce.** Rather unusually, this year the components missing in production will contribute to a strong growth of inventories because of the large share of production in progress, and will thus become the driver of the economy. Investments supported by finances from the EU funds or the National Recovery Fund will gradually team up with inventories. Green investments will play a major role. The pandemic recession has resulted in a relatively small increase in unemployment and so we can rely on households’ strong consumption as the economy opens. “*The labour market clearly shows signs of stabilisation. We believe that the rate of unemployment has peaked and that it may even decline slightly next year,*” Michal Brožka, Komerční banka’s economist, clarifies the situation in the labour market.

**Inflation has been hovering above the central bank’s 2% target for more than two years.** “*Inflation does not yet appear to be willing to slow down; in the new forecast, we have raised it to 2.8%, and expect it at 2.4% next year*,” clarifies Michal Brožka. In addition, the current economic development is associated with a number of inflationary risks. This may have an adverse effect on inflation expectations, of which also the central bankers are aware and are thus determined to return rates back to the normal levels. The rapidly recovering economy and the expanding proportion of vaccinated population are making decisions easier for them. “*Thus, following the June rate hike of 0.25 pp, for the rest of the year we expect another three such hikes, in August, September, and November,*” Martin Gürtler, Komerční banka’s economist, reveals the CNB’s expected steps, adding: “*Nevertheless, nor can a 0.5 pp hike be ruled out, especially at the August Board meeting.*”

**The wheel of the economy spinning anew has been positively reflected in the national budget’s results at the end of 1H 2021.** The Ministry of Finance had pushed through a budget with an expected deficit of CZK 500 billion for this year. Early this year, we expected a lower deficit of CZK 400 billion and we continue to hold this assumption. František Táborský, Komerční banka’s strategist, notes: “*This year, the national budget will continue in the practice of underestimating revenues and, like last year, will also benefit from savings of expenditure slated for ‘covid’ schemes; at the end of the day, this will again lead to a lower than planned deficit in the national budget*.”

**The growing economy and the rising rates will underpin the koruna.** “*To euro, the koruna will strengthen to 25.10 CZK/EUR by the end of this year while next year, the euro will cost less than CZK 25*,” František Táborský quantifies the expected koruna rate. Compared with the preceding forecast, the koruna will strengthen at a slower pace. The main reason is the complete revision of the euro/dollar rate towards a stronger dollar. “*For the time being, financial markets do not really expect rate hikes in the US. Once they start to include them in their prices, the US dollar will appreciate,*” adds Jana Steckerová, Komerční banka’s economist. “*We regard the koruna’s summer volatility and occasional weakening as an opportunity to put in place better conditions for exporters*,” adds František Táborský.

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| **Macroeconomic forecast** |  |  |  |
|  | 2020 | **2021** | **2022** |
| **GDP** (real growth, yoy in %) | -5.8 | **4.2** | **5.3** |
| **Household consumption** (real growth, yoy in %) | -7.1 | **1.3** | **6.6** |
| **Fixed investment** (real growth, yoy in %) | -7.2 | **2.5** | **5.6** |
| **External trade balance** (CZK bn) (\*) | 181 | **181** | **183** |
| **Industrial production** (real growth, yoy) | -7.1 | **10.8** | **7.3** |
| **Retail sales** (real growth, yoy in %) | -0.6 | **3.0** | **4.9** |
| **Wages** (nominal growth, yoy in %) | 3.1 | **4.5** | **4.2** |
| **Unemployment rate** (MPSV, average, in %) | 3.6 | **3.9** | **3.6** |
| **Inflation** (average in %) | 3.2 | **2.8** | **2.4** |
| **3M PRIBOR** (average) | 0.9 | **0.8** | **1.9** |
| **2W Repo** (average) | 0.8 | **0.6** | **1.8** |
| **CZK/EUR** (average) | 26.5 | **25.6** | **24.9** |

Source: CSO, CNB, Ministry of Labour and Social Affairs, Macrobond, Economic and Strategic Research, Komerční banka

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