The Czech economy rebounded by 3.3% in 2021 according to a preliminary GDP release. The economy benefited from the easing of the pandemic-related restrictions and strong private consumption. In the fourth quarter of 2021, economic activity is estimated to have increased by 0.9% q-o-q. GDP growth is set to remain stable in the first half of this year and slightly accelerate in the second, surpassing its pre-pandemic level in the third quarter of the year. Overall, GDP growth is forecast at 4.4% in 2022 and 3.9% in 2023.

Private consumption is expected to remain the main driver of the economic recovery, reflecting high employment levels, pent-up demand and a declining saving rate of households. A sharp increase in the cost of living, in particular, due to high energy prices, is however likely to weigh on domestic spending. Due to increased uncertainty and ongoing disruptions in supply chains, investment is expected to remain subdued during the first half of the year. Supply-side disruptions are assumed to gradually fade in the second half of this year. Afterwards, domestic demand is forecast to resume its robust expansion over the rest of the forecast horizon, benefiting also from public investment support through Next Generation EU.

Net exports are set to hold back the performance of the economy until mid-2022 mainly due to two factors. First, global supply chain disruptions are set to hinder exports, particularly affecting the country’s large export-oriented manufacturing industry. Exports are therefore expected to remain constrained until supply-side issues are resolved. Second, imports are expected to remain strong, sustained by household consumption and both private and public investment. As a result, the contribution of net exports to GDP growth is forecast to turn positive only in the second half of 2022.

Inflationary pressures intensified at the end of 2021, driven by fast-growing commodity and production input prices, adverse supply side developments, as well as a tight labour market. Overall, annual HICP inflation reached 3.3% in 2021. A sharp increase in regulated energy prices and related indirect effects, faster food price growth and prices of services are expected to raise inflation further this year. Owing to tighter monetary policy, a strong koruna and the fading of inflationary factors, the growth of consumer prices should decelerate towards the end of the year, bringing average annual inflation to 5.8% in 2022. Well-anchored inflation expectations should prevent temporary price pressures from becoming entrenched, and allow inflation to slow to 2.2% in 2023.

### Graph 2.21: Czechia- Real GDP growth and contributions

**Net exports**
**Investment**
**Private consumption**
**Public consumption**
**Changes in inventories**
**Real GDP (y-o-y%)**

Forecast horizon:
- Net exports
- Investment
- Private consumption
- Public consumption
- Changes in inventories
- Real GDP (y-o-y%)