

Macroeconomic Forecast of the Czech Republic

January 2024

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ISSN 2533-5588 (on-line)

Issued quarterly, free distribution

Electronic archive:

<http://www.mfcz.cz/macroforecast>

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The Macroeconomic Forecast is prepared by the Economic Policy Department of the Czech Ministry of Finance. It contains forecast for the year 2024, and for certain indicators an outlook for the 2 following years (i.e. until 2026). It is published on a quarterly basis (in January, April, August and November) and is also available on the website of the Ministry of Finance at:

www.mfcr.cz/macroforecast

Any comments or suggestions that would help us improve the quality of our publication and closer satisfy the needs of its users are welcome. Please send any comments to the following email address:

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List of Abbreviations

BoP.....	balance of payments
const. pr.....	constant prices
CNB.....	Czech National Bank
CPI.....	consumer price index
CR.....	Czech Republic
curr. pr.....	current prices
CZSO.....	Czech Statistical Office
EA20.....	euro zone consisting of 20 countries
EC.....	European Commission
ECB.....	European Central Bank
EU27.....	European Union consisting of 27 countries
Fed.....	Federal Reserve System
GDP.....	gross domestic product
GFCF.....	gross fixed capital formation
GVA.....	gross value added
IMF.....	International Monetary Fund
LFS.....	Labour Force Survey
MoF.....	Ministry of Finance
MoLSA.....	Ministry of Labour and Social Affairs
NPISHs.....	non-profit institutions serving households
OECD.....	Organisation for Economic Co-operation and Development
pp.....	percentage points
PPS.....	Purchasing Power Standard
TFP.....	total factor productivity
VAT.....	value-added tax

Symbols Used in Tables

-	A dash in place of a number indicates that the phenomenon did not occur.
.	A dot in place of a number indicates that we do not forecast that variable, or the figure is unavailable or unreliable.
x, (space)	A cross or space in place of a number indicates that no entry is possible for logical reasons.

Cut-off Date for Data Sources

The Macroeconomic Forecast is based on data known as of 12 January 2024.

Notes

All data in the Macroeconomic Forecast are unadjusted for seasonal and calendar effects, unless stated otherwise. Published aggregate data may not match sums of individual items to the last decimal place due to rounding.

Data from the previous forecast (November 2023) are indicated by italics. Data relating to the years 2025 and 2026 are an extrapolation scenario that indicates only the direction of possible developments, and as such are not commented upon in the following text.

Summary of the Forecast

Last year, the Czech economy teetered on the edge of recession. For the full year 2023, gross domestic product is likely to have fallen by 0.6%, but is forecast to grow by 1.2% in 2024. Inflation will fall significantly this year and remain below 3% for most of the year. The impact of weak economic dynamics on the labour market should not be significant given the persistent imbalances. The risks to the forecast are skewed to the downside.

While **real gross domestic product** of the Czech Republic, adjusted for seasonal and calendar effects, had grown slightly in the first half of last year, it fell by 0.6% QoQ in Q3 2023. Economic performance had thus still not surpassed the pre-pandemic level.

For the full year **2023**, GDP is likely to **have fallen by 0.6%**. Households have been struggling with high inflation, so their real consumption has decreased further. Investment activity was affected by economic problems in euro area countries and restrictive monetary conditions, but was positively influenced by government spending and projects co-financed by EU funds from the previous financial perspective. Weaker inventory accumulation, mainly due to the completion of work in progress, weighed substantially on the economy. This factor, together with the unwinding of problems in supply chains, boosted exports, but imports remained subdued in view of generally weak domestic demand. The contribution of the external trade balance to GDP growth was thus likely strongly positive.

In **2024**, the economy's output could **increase by 1.2%**, mainly thanks to renewed growth in household consumption. Private investment and growth in export markets will also support economic activity. The impact of the consolidation package will dampen it slightly, though, but this will also help to reduce inflationary pressures.

High **inflation** last year further slowed economic growth and lowered living standards. The average inflation rate reached 10.7% in 2023. Although annual inflation declined rapidly over the course of last year, it was boosted in Q4 by the base effect of the energy tariff. For most of this year, annual inflation should remain below the upper boundary of the Czech National Bank's inflation target tolerance band. Inflationary external supply factors have considerably weakened, and domestic demand pressures will be further dampened throughout the year by higher monetary policy rates. This will be reinforced by the restrictive effect of the fiscal consolidation package. The average inflation rate could thus fall to 3.1% this year.

Labour market imbalances related to labour shortages continue to manifest themselves. As a result, despite the weak economic momentum, the unemployment rate should not rise much in 2024. From an estimated 2.6% in 2023, it could increase to 2.8% this year. The persistent tensions in the labour market will not allow a significant slowdown in wage growth. Earnings will also increase in real terms after two years of decline.

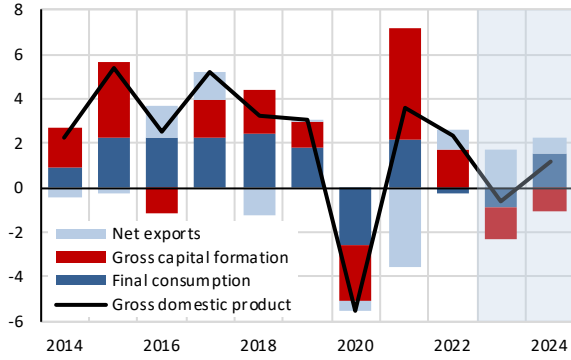
The **current account of the balance of payments** posted a deficit of 1.0% of GDP in Q3 2023. The noticeable quarter-on-quarter narrowing of the deficit was driven by lower outflows of investment income (mainly in the form of dividends) on the primary income balance. Unwinding of price pressures in the industry and energy sectors led to an increase in the positive trade balance, thanks to a higher decline in imports. At the same time, these factors should continue to be a guiding factor. We therefore estimate that the current account was in a slight deficit of 0.2% of GDP in 2023, and could reach a surplus of 0.4% of GDP this year due to a further improvement in terms of trade.

The **general government sector's budget performance** in 2023 reflected extraordinary revenues and expenditures related to the energy crisis, rising mandatory social spending and continued assistance to Ukrainian refugees. At the moment, we maintain our estimate that the overall deficit reached 3.6% of GDP last year. The government's consolidation efforts should be reflected in this year's outturn, bringing the deficit below the 3% threshold set by the European fiscal rules. As a result of the expected increase in general government debt in 2023 and high estimated nominal GDP growth, the debt ratio is projected to fall to 43.7% of GDP, with the debt ratio exceeding 45% of GDP this year.

The macroeconomic forecast is subject to **risks** that, in aggregate, we consider to be **skewed to the downside**. Economic activity, especially in some sectors of the economy (automotive), may be dampened by renewed problems in supply chains, e.g. in the context of the situation in the Middle East. In addition to the negative impact on economic performance, supply-side frictions would create additional inflationary pressures. These could also be triggered by a rise in energy commodity prices in the event of an escalation of geopolitical tensions. The ability to replace the shortfall in natural gas and oil supplies from Russia to the European Union with increased imports from other suppliers and savings on the demand side is still a certain risk to the forecast. Inflation and inflation expectations, as well as overvaluation of residential property prices, are also risks for the Czech economy. On the positive side, however, the extraordinary increase in household savings in recent years could help cushion the impact of higher consumer prices on consumption. Economic growth could also be supported by the successful integration of refugees from Ukraine and the full use of their human capital.

The economy should expand modestly this year

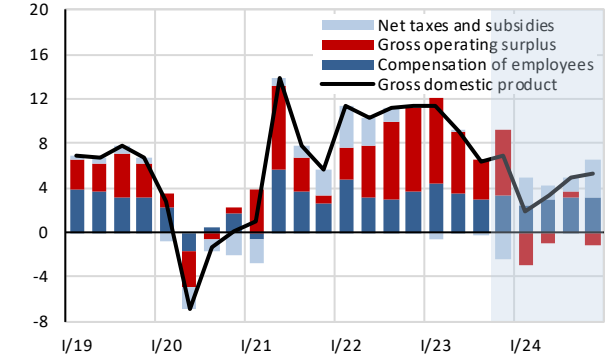
growth rate of real GDP in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

There will be a partial correction in profits

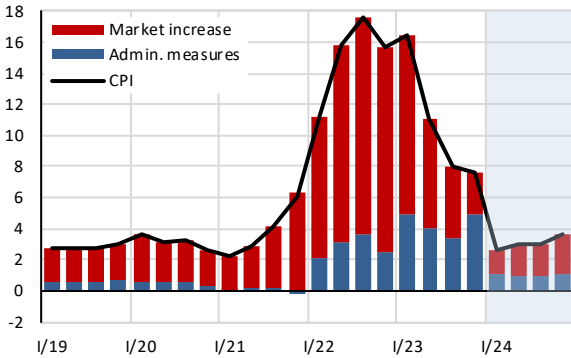
YoY growth of nominal GDP in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Inflation will fall steeply, but will stay above the target

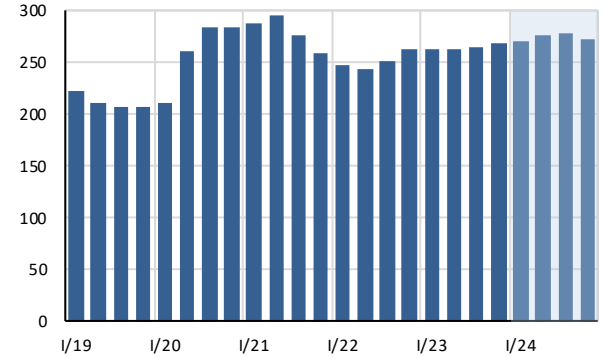
YoY growth rate of CPI in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Unemployment should increase marginally

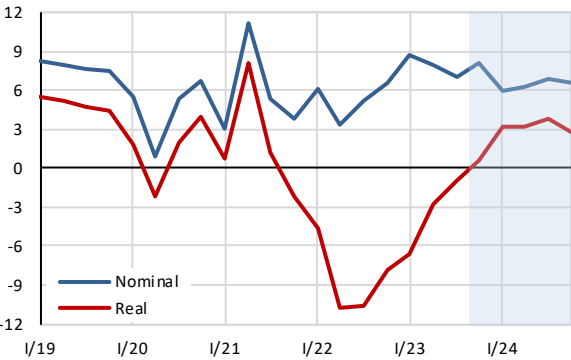
registered unemployment, in thous. of persons, seasonally adjusted



Source: MoLSA. Calc. and forecast of the MoF.

Real wages should rise in 2024

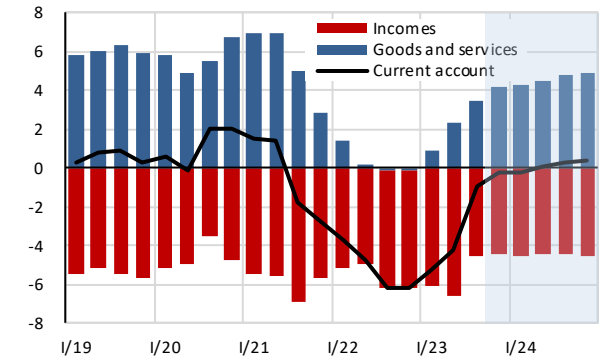
average gross monthly wage, YoY growth rate, in %



Source: CZSO. Calculations and forecast of the MoF.

Current account should be balanced

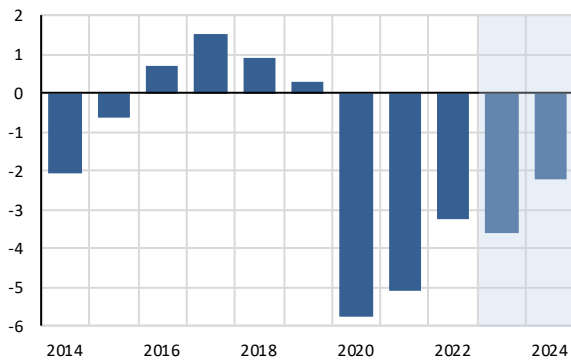
in % of GDP, yearly moving sums



Source: CNB, CZSO. Calculations and forecast of the MoF.

Public finance deficit should drop below 3% of GDP

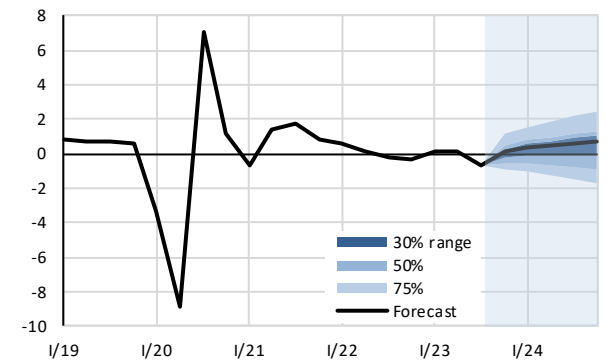
general government net lending/borrowing, in % of GDP



Source: CZSO. Calculations and forecast of the MoF.

Forecast risks are skewed to the downside

QoQ growth of real GDP in %



Source: CZSO. Calculations and forecast of the MoF.

Table: Main Macroeconomic Indicators

		2018	2019	2020	2021	2022	2023	2024	2023	2024	
								Current forecast		Previous forecast	
Nominal GDP	<i>bill. CZK</i>	5 411	5 791	5 709	6 109	6 787	7 351	7 640	7 363	7 726	
	<i>nominal growth in %</i>	5.9	7.0	-1.4	7.0	11.1	8.3	3.9	8.5	4.9	
Gross domestic product	<i>real growth in %</i>	3.2	3.0	-5.5	3.6	2.4	-0.6	1.2	-0.5	1.9	
Consumption of households	<i>real growth in %</i>	3.5	2.7	-7.2	4.1	-0.6	-3.2	2.6	-2.7	3.9	
Consumption of government	<i>real growth in %</i>	3.9	2.5	4.2	1.4	0.3	3.1	1.6	2.4	1.6	
Gross fixed capital formation	<i>real growth in %</i>	10.0	5.9	-6.0	0.8	3.0	2.0	1.2	2.2	1.7	
Contribution of net exports	<i>pp</i>	-1.2	0.0	-0.4	-3.6	0.9	1.7	0.7	1.5	1.3	
Contrib. of change in inventories	<i>pp</i>	-0.5	-0.3	-0.9	4.8	0.9	-2.0	-1.4	-1.8	-1.9	
GDP deflator	<i>growth in %</i>	2.6	3.9	4.3	3.3	8.5	8.9	2.8	9.0	3.0	
Average inflation rate	<i>%</i>	2.1	2.8	3.2	3.8	15.1	10.7	3.1	10.8	3.3	
Employment (national accounts)	<i>growth in %</i>	1.3	0.2	-1.7	0.4	1.5	0.8	0.5	0.9	0.5	
Unemployment rate (LFS)	<i>average in %</i>	2.2	2.0	2.6	2.8	2.2	2.6	2.8	2.7	2.8	
Wage bill (domestic concept)	<i>growth in %</i>	9.6	7.8	0.1	5.9	9.3	8.4	6.6	8.4	6.5	
Current account balance	<i>% of GDP</i>	0.4	0.3	2.0	-2.8	-6.1	-0.2	0.4	-2.4	-1.2	
General government balance	<i>% of GDP</i>	0.9	0.3	-5.8	-5.1	-3.2	-3.6	-2.2	-3.6	-2.2	
General government debt	<i>% of GDP</i>	32.1	30.0	37.7	42.0	44.2	43.7	45.6	44.7	45.9	
Assumptions:											
Exchange rate CZK/EUR		25.6	25.7	26.4	25.6	24.6	24.0	24.4	24.0	24.4	
Long-term interest rates	<i>% p.a.</i>	2.0	1.5	1.1	1.9	4.3	4.4	3.8	4.4	3.6	
Crude oil Brent	<i>USD/barrel</i>	71	64	42	71	101	82	78	83	84	
GDP in the euro area	<i>real growth in %</i>	1.8	1.6	-6.2	5.9	3.4	0.5	0.7	0.5	1.0	

Source: CNB, CZSO, Eurostat, U. S. Energy Information Administration. Calculations and forecast of the MoF.

Risks to the Forecast

The macroeconomic forecast is subject to a number of **risks** that, in aggregate, we consider to be **skewed to the downside**.

The possibility of **renewed problems in supply chains**, e.g. in the context of the situation in the Middle East, poses a significant risk, especially for certain sectors of the economy (automotive industry). In addition to the negative impact on economic performance, supply-side frictions would create additional inflationary pressures. These could also be triggered by an increase in energy commodity prices in the event of an **escalation of geopolitical tensions**.

The **supply of natural gas and oil from Russia to the European Union** has been severely restricted and we do not expect it to resume. We anticipate that this shortfall will be compensated by increased imports of these raw materials from other countries and demand-side measures such as investments in energy efficiency.

Despite the relatively rapid decline in inflation in recent months, further developments in consumer prices (especially the extent of repricing in January 2024) and **inflation expectations** remain a significant risk to the Czech economy. It is crucial that inflation expectations return to the vicinity of the Czech National Bank's inflation target. Otherwise, a return of inflation to 2% would require tight monetary policy stance over a longer period, which would entail additional economic costs. Similarly, for **fiscal policy**, a different intensity and structure of consolidation efforts over the forecast horizon would affect economic dynamics.

The **shortage of employees**, evident in almost all sectors of the economy, is a significant barrier to output growth, especially in the construction sector. However, the influx of refugees from Ukraine, in addition to the weak economic dynamics, is contributing to the easing of the mismatch between demand and supply in the labour market and the associated upward pressure on wages. It turns out that due to the still high demand for labour by companies and the nature of vacancies (most with low qualification requirements), Ukrainian refugees do not have any significant problems finding employment on the Czech labour market, even though their qualification structure may not match demand. Legislative changes in this area are also helping to facilitate the employment of foreigners. Successful **integration of refugees** and full use of their human capital can significantly boost economic growth in the coming years.

Household gross savings rate, as well as the level of net lending/borrowing, has remained elevated since the pandemic. These extra savings could be used by households to **cushion the impact of high consumer price inflation on real consumption**.

A rise in interest rates and a substantial increase in prices could cause some households and firms to run into repayment problems, leading to a deterioration in the quality of banks' loan portfolios. For the time being, however, the share of non-performing loans in total loans to households remains at very low levels or continues to decline slowly for loans to non-financial corporations. **Overvaluation of residential property prices** also remains a risk.

Global Supply Chain Pressure Index

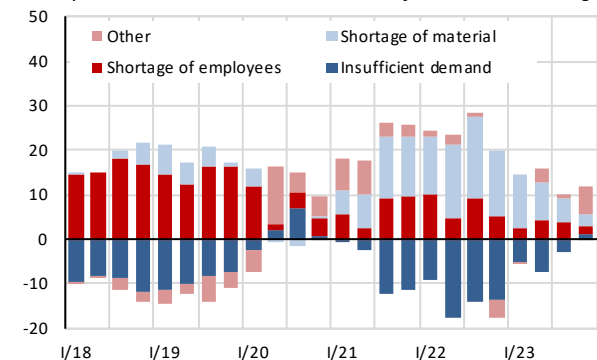
number of standard deviations from the average



Source: Federal Reserve Bank of New York.

Barriers to Production Growth

industry, construction and services; deviation from 2005–19 average



Source: CZSO. Calculations of the MoF.

1 Forecast Assumptions

1.1 External Environment

Global economic growth is affected by restrictive monetary policy, elevated price levels and only a slow growth rate of the Chinese economy. International trade and investment activity are also dampened by ongoing wars and heightened uncertainty. Significant risks include the evolution of energy prices for consumers and firms, the shortening of supply chains and the international trade fragmentation. Given these factors and the persistent risks, growth in **the world economy** could slow slightly to 2.6% (*unchanged*) this year.

The **US** economy grew by 1.2% QoQ (*unchanged*) in Q3 2023, mainly due to higher household consumption spending on goods and services and an increase in inventories. However, government spending and private fixed investment also supported economic growth. The foreign trade balance was neutral with respect to GDP growth.

Annual inflation rose to 3.4% in December, but core inflation fell to 3.9%. Meanwhile, the labour market remains tight, with an excess of labour demand over supply, especially in services. Unemployment rate is thus at very low level, averaging 3.6% in 2023, the same as in 2022. Thanks to labour market imbalances and the fall in inflation, real wages are also already rising. At its December meeting, the Fed kept the key interest rate in the target range of 5.25%–5.50%. The volume of assets on the Fed's balance sheet continues to decline in line with the May 2022 plan.

December's Purchasing Managers' Index signalled an increase in activity in services. Higher new orders translated into rising employment. Despite a rise in household living costs, business confidence at service providers improved, and the anticipated easing of monetary conditions should also support it. Retail sales increased by 0.3% MoM in November, while industrial production fell by 0.4%. The manufacturing Purchasing Managers' Index was in contractionary territory in December, while spare capacity, ample materials and lower demand resulted in shorter delivery times.

We estimate that the US economy grew by 2.4% (*unchanged*) in 2023, with GDP growth slowing to 1.6% (*unchanged*) this year. High interest rates will weigh on economic activity, especially at the beginning of the forecast horizon, but the positive effect of falling inflation on domestic demand and labour market shortages, supporting wage growth, should prevail later.

China's gross domestic product grew by 1.3% QoQ in Q3 2023. The Chinese central bank kept the key interest rate at 3.45% in December and continued to increase liquidity in the banking system through reverse repo op-

erations in January. In November, industrial production increased by 6.6% YoY, while retail sales rose by 10.1%. Purchasing Managers' Indices in manufacturing and services were in expansion territory in December, driven in both sectors by higher new orders.

China's economic growth may have reached 5.6% (*unchanged*) last year and could slow to 4.6% (*unchanged*) this year. Household consumption growth momentum should remain weak given low consumer confidence and a weak social safety net. Private investment activity and, to some extent, consumption should be adversely affected by the persistent problems in the real estate sector, but infrastructure investment should pick up. Adverse demographic developments will also have a negative impact on the economy. A shift up in the supply chains should help to reduce imports, which should make net exports pro-growth even in the face of weak external demand.

The **EU's** gross domestic product stagnated quarter-on-quarter (*vs. growth of 0.1%*) in Q3 2023, while the **euro area** economy contracted by 0.1% (*unchanged*). Growth in the EU27 and EA20 was driven by consumption of households and, to a lesser extent, of the general government sector, while it was mostly dampened by changes in inventories. In the EU27, the external trade balance also supported economic activity.

Annual inflation in the euro area rose to 2.9% in December, according to a flash estimate, but core inflation (excluding food, alcohol, tobacco and energy prices) fell further to 3.4%. The European Central Bank kept interest rates unchanged at 4.50% in anticipation of inflation remaining above the 2% target for an extended period. We assume that there will be no further monetary tightening by the European Central Bank and that it will cut interest rates during the course of this year. The European Central Bank intends to reduce the size of the portfolio purchased under the pandemic emergency purchase programme in the second half of the year and to end reinvestments under this programme by the end of this year. It also continues to gradually reduce the volume of securities purchased under the asset purchase programme.

In terms of the stimulus to the economy, fiscal policy should start to be relatively restrictive this year, following the expiry of the general escape clause contained in the Stability and Growth Pact and the winding down of energy support measures.

The unemployment rate in the euro area fell slightly to 6.4% in November, compared with 5.9% in the EU. According to the December euro area Purchasing Manag-

ers' Index, manufacturing remained in contraction, with the decline in output and job losses continuing for the seventh consecutive month. Some sub-indices showed signs of improvement, with a moderation in the decline in new orders, for example. The mood in the services sector is also pessimistic, due to the decline in demand in this sector at the end of last year. Business sentiment was virtually flat in December. By contrast, consumer expectations improved slightly.

Overall, we therefore estimate that GDP growth in the EU and the euro area slowed to 0.5% (*unchanged*) in 2023. In 2024, economic growth could accelerate to 0.9% (*vs. 1.3%*) in the EU and 0.7% (*vs. 1.0%*) in the euro area due to a recovery in household consumption and investment activity.

The **German** economy contracted by 0.1% QoQ (*unchanged*) in Q3 2023. Household consumption contracted due to higher inflation and persistently low consumer confidence, while the change in inventories also had a negative impact on GDP. However, other components were pro-growth.

The manufacturing Purchasing Managers' Index continued to be in a contractionary zone in December, despite an increase in its value, while both production and employment fell. Activity in the services sector contracted again in December. The volume of new orders, mainly from abroad, fell, as did the number of employees. Consumer sentiment is gradually improving slightly. Annual inflation fell to 2.3% in November but rose to 3.8% in December, primarily due to the base effect of subsidies from reduced energy prices. The unemployment rate

remained at 3.1% in November for the third month in a row.

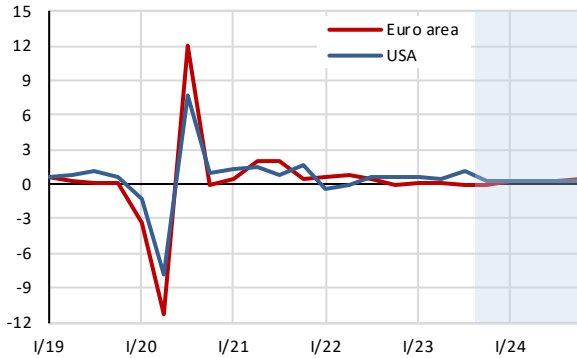
As a result of the unsatisfactory situation in industry and services, higher inflation, restrictive monetary policy, falling production and pessimism among households, we estimate that the German economy contracted by 0.1% (*unchanged*) last year. In 2024, economic growth, boosted by household consumption and a recovery in export activity, could reach 0.5% (*vs. 1.0%*). However, higher growth will be limited by weaker investment activity due to government austerity measures, motivated by the desire to comply with the debt brake.

Slovakia's GDP grew by 0.2% QoQ (*vs. 0.5%*) in Q3 2023. The highly positive contribution of the change in inventories was almost entirely offset by the foreign trade balance, while the impact of other components of domestic demand on GDP dynamics was very weak. In November, the unemployment rate remained at 5.8%, while output in manufacturing fell by 2.1% YoY due to weak external demand and a fall in the volume of manufacturing orders. Annual inflation fell to 6.6% in December and consumer confidence reached its highest level since March 2020.

Against this backdrop, we estimate that Slovakia's GDP grew by 1.1% (*vs. 1.3%*) last year. Economic growth was mainly supported by higher investment co-financed by EU funds. Thanks to an expected recovery in exports and household consumption, GDP growth could accelerate to 2.1% (*vs. 2.2%*) in 2024. Government measures to support households, in particular energy price subsidies, will also contribute to the increase in growth dynamics.

Graph 1.1.1: Real GDP in the euro area and USA

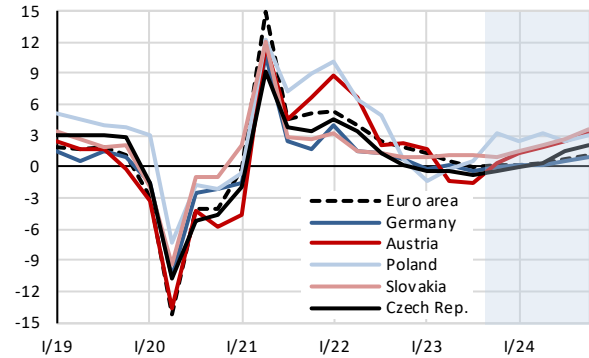
QoQ growth rate in%, seasonally adjusted



Source: Eurostat, OECD. Calculations and forecast of the MoF.

Graph 1.1.2: Real Gross Domestic Product

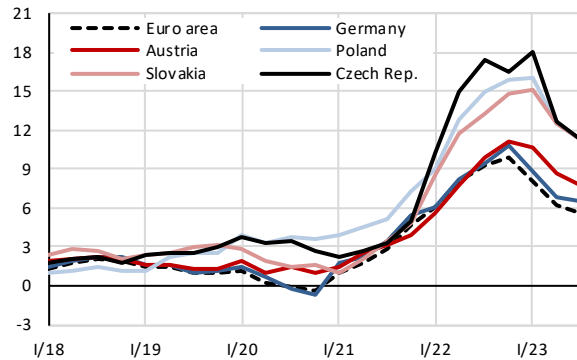
YoY growth in %, seasonally adjusted



Source: CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 1.1.3: HICP

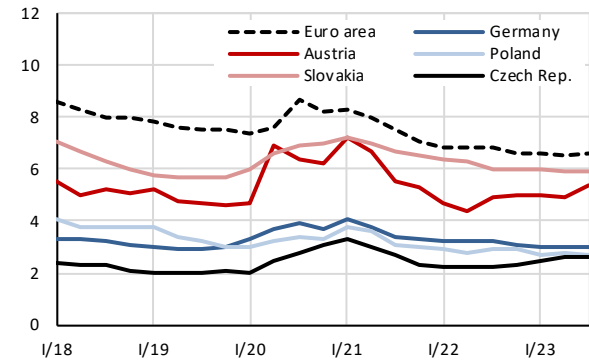
quarterly averages, YoY growth in %



Source: Eurostat. Calculations of the MoF.

Graph 1.1.4: Unemployment Rate

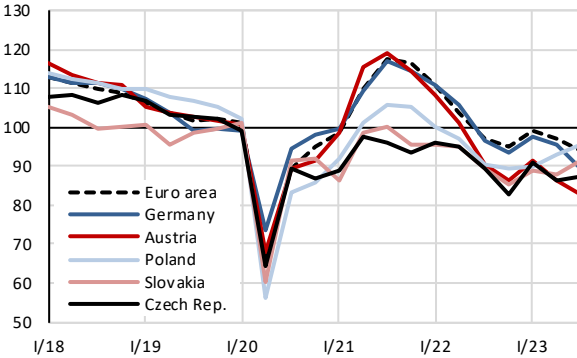
in %, LFS methodology, seasonally adjusted



Source: Eurostat.

Graph 1.1.5: Economic Sentiment Indicator

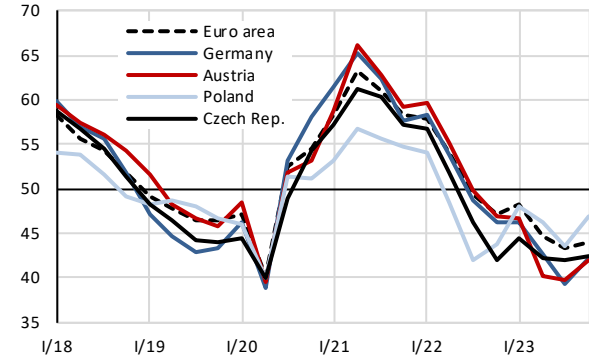
quarterly averages, long-run average = 100



Source: Eurostat. Calculations of the MoF.

Graph 1.1.6: Purchasing Managers' Index

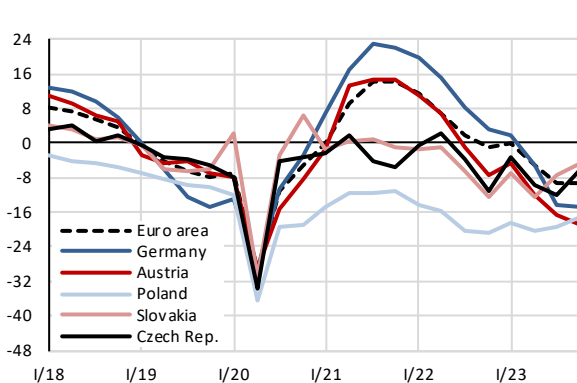
manufacturing, quarterly averages



Source: Markit. Calculations of the MoF.

Graph 1.1.7: Business Tendency

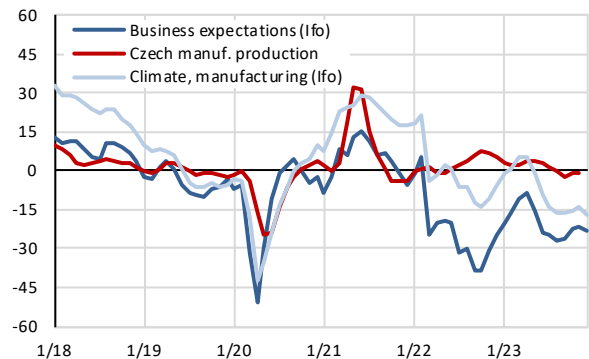
manufacturing, quarterly averages



Source: OECD. Calculations of the MoF.

Graph 1.1.8: Ifo and Czech manufacturing production

balances (Ifo, manufacturing); seas. adjusted industrial production in Czech manufacturing, YoY growth in% (three-month moving avg.)



Source: CESifo, CZSO. Calculations of the MoF.

Table 1.1.1: Gross Domestic Product – yearly

growth rate of real GDP in %

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
											Estimate	Forecast
World	seasonally adjusted	3.4	3.2	3.8	3.6	2.8	-2.8	6.3	3.5	2.8	2.6	
USA	seasonally adjusted	2.9	1.8	2.5	3.0	2.5	-2.2	5.8	1.9	2.4	1.6	
China	seasonally adjusted	7.2	6.9	6.9	6.7	6.0	1.7	8.8	3.0	5.6	4.6	
United Kingdom	seasonally adjusted	2.2	1.9	2.7	1.4	1.6	-10.4	8.7	4.3	0.3	0.6	
European Union	seasonally adjusted	2.1	2.0	3.0	2.0	1.8	-5.8	5.9	3.5	0.5	0.9	
Euro area	seasonally adjusted	1.9	1.9	2.8	1.8	1.6	-6.2	5.9	3.4	0.5	0.7	
Germany	seasonally adjusted	1.2	2.1	3.0	1.0	1.1	-4.2	3.1	1.9	-0.1	0.5	
	unadjusted	1.5	2.2	2.7	1.0	1.1	-3.8	3.2	1.8	-0.4	0.4	
France	seasonally adjusted	1.0	1.0	2.5	1.8	1.9	-7.7	6.4	2.5	0.8	0.8	
	unadjusted	1.1	1.1	2.3	1.9	1.8	-7.5	6.4	2.5	0.7	0.9	
Italy	seasonally adjusted	0.6	1.4	1.7	0.8	0.5	-9.0	8.3	3.9	0.7	0.7	
	unadjusted	0.8	1.3	1.7	0.9	0.5	-9.0	8.3	3.7	0.7	0.9	
Austria	seasonally adjusted	1.0	2.0	2.4	2.4	1.5	-6.7	4.4	4.8	-0.7	0.6	
	unadjusted	1.0	2.0	2.3	2.4	1.5	-6.6	4.2	4.8	-1.0	0.8	
Hungary	seasonally adjusted	3.7	2.2	4.4	5.4	4.9	-4.7	7.0	4.6	-0.6	2.6	
	unadjusted	3.7	2.2	4.3	5.4	4.9	-4.5	7.1	4.6	-0.7	2.6	
Poland	seasonally adjusted	4.3	3.1	5.2	5.9	4.4	-2.0	6.8	5.5	0.5	2.8	
	unadjusted	4.4	3.0	5.1	5.9	4.4	-2.0	6.9	5.3	0.5	2.9	
Slovakia	seasonally adjusted	5.2	1.9	2.9	4.0	2.5	-3.3	4.8	1.8	1.1	2.1	
Czech Republic	seasonally adjusted	5.5	2.5	5.3	3.2	3.0	-5.5	3.5	2.4	-0.5	1.0	
	unadjusted	5.4	2.5	5.2	3.2	3.0	-5.5	3.6	2.4	-0.6	1.2	

Source: CZSO, Eurostat, IMF, OECD, Office for National Statistics. Calculations of the MoF.

Table 1.1.2: Gross Domestic Product – quarterly

growth rate of real GDP in %, data adjusted for seasonal and calendar effects

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Estimate				Forecast			
USA	QoQ	0.6	0.5	1.2	0.3	0.2	0.2	0.3	0.3
	YoY	1.7	2.4	2.9	2.6	2.3	2.0	1.1	1.2
United Kingdom	QoQ	0.3	0.0	-0.1	0.1	0.1	0.3	0.3	0.4
	YoY	0.4	0.3	0.3	0.2	0.1	0.3	0.8	1.1
European Union	QoQ	0.2	0.1	0.0	0.1	0.2	0.4	0.4	0.4
	YoY	1.1	0.5	0.0	0.3	0.4	0.7	1.1	1.4
Euro area	QoQ	0.1	0.1	-0.1	0.0	0.2	0.3	0.3	0.4
	YoY	1.3	0.6	0.0	0.1	0.2	0.4	0.8	1.2
Germany	QoQ	0.0	0.1	-0.1	0.0	0.1	0.2	0.3	0.4
	YoY	-0.2	0.1	-0.4	0.0	0.1	0.2	0.6	1.0
France	QoQ	0.1	0.6	-0.1	0.1	0.2	0.3	0.4	0.3
	YoY	0.9	1.2	0.6	0.6	0.8	0.4	1.0	1.2
Italy	QoQ	0.6	-0.4	0.1	0.1	0.2	0.3	0.3	0.3
	YoY	2.1	0.3	0.1	0.4	0.1	0.7	0.9	1.1
Austria	QoQ	0.1	-1.1	-0.5	0.2	0.4	0.4	0.4	0.5
	YoY	1.7	-1.3	-1.6	0.4	1.4	1.9	2.5	3.2
Hungary	QoQ	-0.2	0.0	0.9	0.6	0.5	0.8	0.9	0.9
	YoY	-1.1	-2.2	-0.3	1.2	2.0	2.8	2.8	3.1
Poland	QoQ	1.1	0.3	0.7	0.4	0.3	0.9	0.9	1.0
	YoY	-1.4	-0.3	0.6	3.3	2.5	3.2	2.6	3.1
Slovakia	QoQ	0.2	0.4	0.2	0.5	0.5	0.6	0.7	0.7
	YoY	0.9	1.2	1.1	0.9	1.6	2.1	2.8	3.6
Czech Republic	QoQ	0.1	0.1	-0.6	0.1	0.4	0.5	0.6	0.7
	YoY	-0.3	-0.4	-0.8	-0.3	-0.1	0.3	1.6	2.2

Source: CZSO, Eurostat, OECD, Office for National Statistics. Calculations and forecast of the MoF.

1.2 Commodity Prices

The price of a barrel of Brent crude oil averaged USD 84 (vs. USD 88) in Q4 2023, marking a 5.3% YoY decrease, or nearly 10% when measured in CZK.

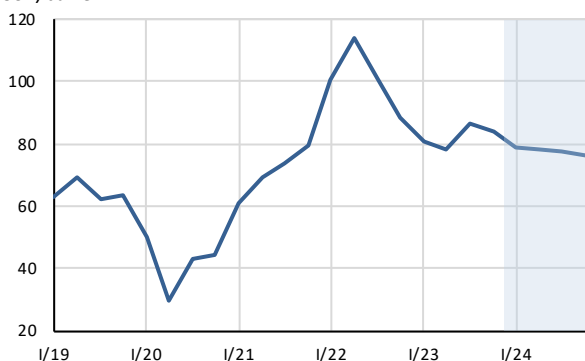
Over the upcoming quarters, only a very gradual increase in oil demand is expected, given the slow growth of the world economy. The Organisation of the Petroleum Exporting Countries and other coordinating countries (OPEC+) have previously expressed their commitment to adequately limit oil exports to ensure oil price stability. At the end of November, they further reduced their production target for the first quarter of this year. Conversely, many non-OPEC+ countries are likely to further increase their production. Escalating geopolitical tensions in the Middle East, in particular, pose a risk to the future oil price.

Oil prices in the futures market are lower for later delivery than earlier delivery. The forecast Brent crude oil price reflects this downward sloping curve. This year, the average price of Brent crude oil is expected to decrease by 5.7% YoY to USD 78 (vs. USD 84) per barrel, with a 6.8% decrease when measured in CZK due to the koruna's slight appreciation against the US dollar.

Prices and volatility on commodity markets remain elevated, largely due to the severe reduction in the supply of oil, oil products and natural gas from the Russian Federation to the EU. The ongoing European energy transformation is putting further upward pressure on electricity prices through the greenhouse gas emissions trading scheme and the reduction in fossil and nuclear power generation. Conversely, the recommissioning of a large part of nuclear power plants in France which were temporarily suspended earlier has been a factor in the decline of electricity prices. Sufficient alternative gas supply and filled reservoirs have been ensured for the current heating season, contributing to a further decline in wholesale spot and forward prices of gas and electricity and to a reduction in their volatility. However, the securing of energy supply, as well as the frontloading of other raw materials at the time of their highly elevated prices has slowed down the decrease in prices of these commodities for consumers and many firms. The increased prices thus continue to be reflected in consumer prices (see Chapter 3.2).

Graph 1.2.1: Dollar Price of Brent Crude Oil

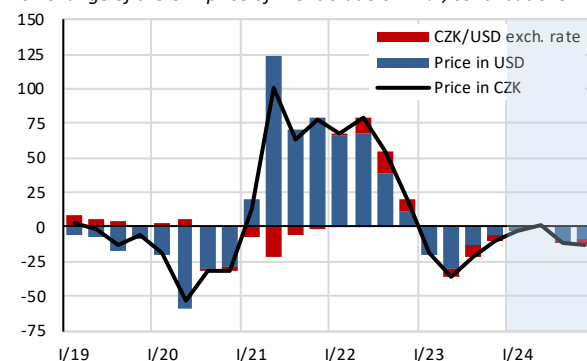
USD/barrel



Source: U. S. EIA. Calculations and forecast of the MoF.

Graph 1.2.2: Koruna Price of Brent Crude Oil

YoY change of the CZK price of Brent crude oil in %, contributions in pp



Source: CNB, U. S. EIA. Calculations and forecast of the MoF.

Table 1.2.1: Prices of Selected Commodities – yearly

spot prices

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
		<i>Forecast</i>									
Crude oil Brent	USD/barrel	52.4	43.6	54.2	71.3	64.3	41.8	70.8	101.0	82.4	78
	growth in %	-47.1	-16.9	24.3	31.7	-9.8	-35.0	69.3	42.7	-18.4	-5.7
Crude oil Brent index (in CZK)	2010=100	84.9	70.1	83.1	102.1	97.1	63.6	101.1	155.3	120.6	112
	growth in %	-36.9	-17.4	18.5	22.9	-4.9	-34.6	59.1	53.5	-22.3	-6.8
Natural gas (Europe)	USD/MMBtu	6.8	4.6	5.7	7.7	4.8	3.2	16.1	40.3	13.1	.
	growth in %	-32.1	-33.1	25.3	34.4	-37.5	-32.5	397.1	150.3	-67.5	.
Natural gas (Europe) index (in CZK)	2010=100	106.2	70.7	84.2	106.0	69.6	47.1	222.9	601.4	184.5	.
	growth in %	-19.4	-33.4	19.2	25.8	-34.3	-32.4	373.7	169.7	-69.3	.

Source: CNB, U. S. Energy Information Administration, World Bank. Calculations and forecast of the MoF.

Table 1.2.2: Prices of Selected Commodities – quarterly

spot prices

		2023				2024			
		Q1	Q2	Q3	Q4	Q1 <i>Forecast</i>	Q2 <i>Forecast</i>	Q3 <i>Forecast</i>	Q4 <i>Forecast</i>
Crude oil Brent	<i>USD/barrel</i>	81.1	78.0	86.7	84.0	79	78	78	77
	<i>growth in %</i>	-19.6	-31.5	-14.0	-5.3	-3.1	0.2	-10.5	-8.8
Crude oil Brent index (in CZK)	<i>2010=100</i>	118.3	111.3	126.5	126.2	115	113	112	110
	<i>growth in %</i>	-19.0	-35.9	-21.8	-9.7	-3.0	1.9	-11.8	-13.2
Natural gas (Europe)	<i>USD/MMBtu</i>	16.8	11.3	10.8	13.5	.	.	.	.
	<i>growth in %</i>	-48.4	-64.2	-82.1	-63.4	.	.	.	.
Natural gas (Europe) index (in CZK)	<i>2010=100</i>	236.3	155.3	151.0	195.3	.	.	.	.
	<i>growth in %</i>	-48.0	-66.5	-83.7	-65.1	.	.	.	.

Source: CNB, U. S. Energy Information Administration, World Bank. Calculations and forecast of the MoF.

1.3 Fiscal Policy

We estimate that the **general government sector** ran a deficit of 3.6% of GDP (*unchanged*) in **2023**. Adjusted for the impact of the business cycle and one-off measures, which mainly cushioned negative effects of high energy prices on economic agents and on the other hand provided an additional source of financing for them, the deficit was 2.5% of GDP (*unchanged*).

In the national cash methodology, the state budget had a deficit of CZK 288.5 billion at the end of 2023. Adjusting the revenue and expenditure side for the impact of funds from the EU and financial mechanisms, it was almost CZK 11 bn. higher, though. At the end of November 2023, health insurance companies reported a deficit of CZK 5.5 bn. (cash basis), a year-on-year deterioration of CZK 9.4 billion. In contrast, local governments achieved a record surplus of CZK 74.5 billion over the same period, which was CZK 28.2 billion higher year-on-year.

The estimate assumes an 11.1% growth in total **general government revenue** and a 9.2% growth in tax revenue, including social security contributions. The rate of **value added tax** was kept below 6%, with autonomous developments partially offset by a revenue shortfall due to the shift of the tax registration threshold to CZK 2 million (with an impact of CZK 3 billion). **Excise duty** growth was driven by mineral oil tax revenue, which benefited from the earlier abolition of the reduced rate on diesel. The impact of the rate increase on tobacco products was probably offset by lower sales and a continued shift towards less taxed alternatives. **Taxes on production and imports** were boosted by CZK 18.3 billion last year due to a levy on excess revenues of electricity producers. In contrast, the waiving of the renewable energy levy on households and companies, effective until the end of 2023, represented an additional revenue shortfall of an estimated CZK 13.8 billion.

In addition to wage and salary growth in the economy, the dynamics of income taxes was significantly affected by the introduction of the windfall profits tax. The growth rate of **personal income tax** (15.1%) was deter-

mined by the taxation of employment based on wages and salaries, but it was also significantly influenced by a one-third increase in capital tax. The estimated 8.4% increase in **social security contributions** was related both to earnings developments and to the CZK 9.3 billion YoY increase in payments for the state insured persons. The more than 19% growth in **corporate income tax** revenue was driven by higher profits, which were subject to an extraordinary 60% tax rate from the threshold in selected industries and companies and formed the basis for a windfall profits tax with an estimated revenue of CZK 39.1 billion in 2023.

Within **property income**, the state's performance was improved by exceptionally high dividend income, esp. more than CZK 54 billion from the energy company ČEZ.

General government expenditure was apparently growing at a rate of almost 12%. We estimate that **final consumption** accelerated to 10.2% YoY, driven by a still strong pace in purchases (10.8%). Compensation of employees should show a dynamic of 8.3%. On the basis of the national accounts data for the first 3 quarters, we expect a significantly higher pace (13.0%) of social transfers in kind, reflecting spending on health and social services, also financed by higher payments for the state insured persons, as well as higher spending related to the payment of the housing allowance and supplementary housing benefit. In contrast, the much lower dynamics are indicated by the Q3 data for output, which in the calculation reduces final consumption expenditure.

In the area of **cash social benefits**, there was mainly an increase in pension benefits (16.5%), which were determined both by the normal January indexation plus the allowance for each child raised and by the extraordinary indexation due to the high inflation rate since June last year. This, together with the increase in other benefits (e.g. child benefit) and the continued payment of the humanitarian benefit for Ukrainian refugees (including deductible housing costs), probably led to a 10.6% increase in cash social benefit expenditure.

Last year's exceptionally high dynamics of **subsidies** is particularly due to the assistance to households, companies, public and other institutions in the form of capping energy prices in an estimated cumulative amount exceeding CZK 46 bn. (i.e. including payments for the last months of 2023 made in 2024). Furthermore, in order to avoid the full impact of high electricity and gas prices on customers, the Government approved a subsidy to the transmission system operator of the Czech Republic in the amount of CZK 22.7 bn. for 2023 or compensation to electricity and gas distributors in the total amount of CZK 15.4 bn., with the final cash payments, like in case of the compensation for energy price capping, being paid out in 2024.

According to the national accounts, the rate of **investment in fixed assets** slowed down significantly in Q3 last year due to local governments, reaching 12.3% in the first three quarters. For the full year 2023, we estimate investment growth of 14.2%, with a significant contribution from the EU budget, not only due to the end of the possibility to use funds from the 2014–2020 programming period, but also by already using funds from the current 2021–2027 programming period, as well as funds from the EU Next Generation Instrument.

As a result of the expected 7.2% increase in **general government debt** in 2023 and high estimated nominal GDP growth, the debt quota is projected to have fallen by 0.5pp to 43.7% of GDP (vs. 44.7% of GDP due to lower government debt). Higher debt and interest rate developments have resulted in an increase in **interest costs**, which might have reached 1.3% of GDP.

The government's consolidation efforts should be reflected in the economic outturn in **2024**, when we expect the deficit-to-GDP ratio to fall below the 3% threshold set by the European fiscal rules. Compared to the autumn forecast, however, we see risks in the lower dynamics of some macroeconomic fundamentals crucial for the expected tax revenue development. On the other hand, the final performance of public finances in 2023 may come as a positive surprise, which would be reflected in the forecast for the following years.

The relatively lower inflation rate should boost real household consumption and have a positive impact on consumption taxes. Conversely, **value added tax** revenue will be negatively affected by the consolidation package, which reduces tax rates to 21% and 12% while shifting some goods and services to a different rate. On the other hand, it should bring higher value added tax revenue due to the increase in excise duties. **Excise tax** dynamics will be positively affected by the decrease in the tax rate on diesel in 2023 and the increase in the tax rates on tobacco and alcohol as part of the consolidation package measures. The increase in property tax is expected to bring an estimated CZK 10 billion to public budgets.

The expected growth in wages and salaries in the economy determines both **personal income tax** and **social**

security contributions, which also reflect an increase in payments for state insured persons. Both will also be positively affected by the discretionary measures in the consolidation package. In the case of **corporate income tax**, two conflicting factors will be at work. On the one hand, we expect a year-on-year reduction in tax revenue from windfall profits, while on the other, the positive effect of a 2pp increase in the statutory tax rate will be felt.

Overall revenue dynamics are likely to be negatively affected by the development of **transfers**, reflecting the end of the 2014–2020 financial perspective, partly offset by the start of projects co-financed by the EU budget from the 2021–2027 programming period and funds from the Next Generation EU instrument. Significantly lower year-on-year **dividend income** from state-owned companies will also play a role.

On the expenditure side, we expect a slowdown in the pace of **final consumption expenditure**. The growth rate of compensation of general government employees is likely to be significantly lower than last year, especially in view of the measures approved in the consolidation package. In contrast, we expect an increase in the health sector and, as a result of the adopted indexation mechanism on the average teacher salary, in education. The pace of social transfers in kind is also expected to slow down, due to the base effect. For housing benefits, we expect the relatively higher level to be maintained, but the increase should then be driven mainly by health insurance companies' expenditure, made possible by an increase in their revenues including the payments for state insured persons. We expect growth in intermediate consumption to be much lower than in 2023, primarily due to lower inflation.

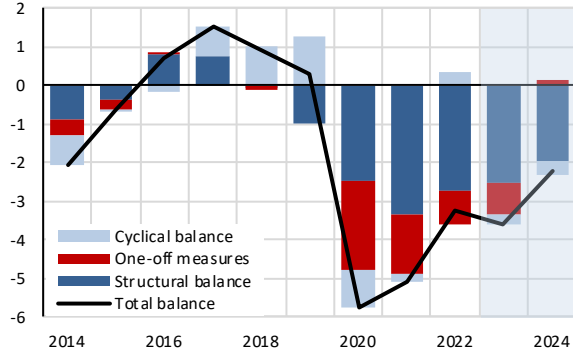
In the area of **cash social benefits**, we expect an increase in expenditure on the payment of pension benefits. These should be affected by both the standard indexation from January 2024 and the extra payment of the extraordinary indexation from last June. In addition to pensions, humanitarian benefits paid to refugees from Ukraine or the increase in the payment for the state insured persons will also affect the dynamics.

Fixed asset investment will be influenced by increased spending in transport infrastructure and defence, where for the latter the 2% of GDP threshold should be reached already this year. In the case of EU co-financed spending, the gradual build-up of funds under the EU Next Generation Instrument or the unfolding 2021–2027 financial perspective will play a role. The measures of the consolidation package, together with the end of temporary measures adopted in response to the energy crisis, will represent annual savings in **subsidies** and **transfers** in the order of tens of billions of CZK.

General government **debt** is expected to rise to 45.6% of GDP (vs. 45.9% of GDP) in 2024. This, together with the expected path of interest rates, is likely to lead to a further increase in **interest expenditure**.

Graph 1.3.1: General Government Balance

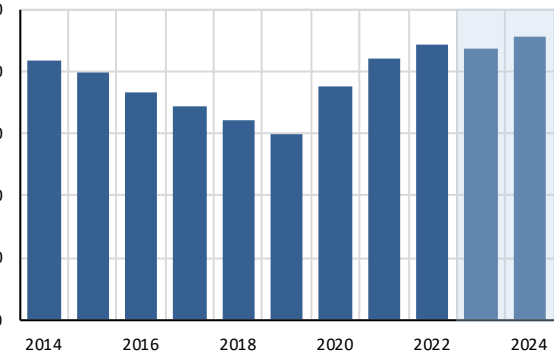
in % of GDP



Source: CZSO. Calculations and forecast of the MoF.

Graph 1.3.2: General Government Debt

in % of GDP



Source: CZSO. Calculations and forecast of the MoF.

Table 1.3.1: Net Lending/Borrowing and Debt

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
											Estimate	Forecast
General government balance	% GDP	-0.6	0.7	1.5	0.9	0.3	-5.8	-5.1	-3.2	-3.6	-2.2	
	bill. CZK	-30	34	77	48	17	-329	-311	-218	-264	-169	
Cyclical balance	% GDP	0.0	-0.2	0.7	1.0	1.3	-1.0	-0.2	0.4	-0.2	-0.4	
Cyclically adjusted balance	% GDP	-0.6	0.9	0.8	-0.1	-1.0	-4.8	-4.9	-3.6	-3.3	-1.9	
One-off measures ¹⁾	% GDP	-0.3	0.1	0.0	-0.1	0.0	-2.3	-1.6	-0.9	-0.8	0.1	
Structural balance	% GDP	-0.4	0.8	0.8	0.0	-1.0	-2.5	-3.3	-2.7	-2.5	-2.0	
Fiscal effort ²⁾	pp	0.5	1.2	0.0	-0.8	-1.0	-1.5	-0.8	0.6	0.2	0.5	
Interest expenditure	% GDP	1.1	0.9	0.7	0.7	0.7	0.8	0.8	1.1	1.3	1.4	
Primary balance	% GDP	0.4	1.6	2.2	1.6	1.0	-5.0	-4.3	-2.1	-2.3	-0.8	
Cyclically adjusted primary balance	% GDP	0.4	1.8	1.5	0.6	-0.3	-4.0	-4.1	-2.4	-2.0	-0.4	
General government debt	% GDP	39.7	36.6	34.2	32.1	30.0	37.7	42.0	44.2	43.7	45.6	
	bill. CZK	1 836	1 755	1 750	1 735	1 740	2 150	2 567	2 998	3 213	3 486	
Change in debt-to-GDP ratio	pp	-2.2	-3.1	-2.3	-2.2	-2.0	7.6	4.4	2.2	-0.5	1.9	

¹⁾ One-off and temporary measures are such measures that have only a temporary impact on public budgets. Besides their temporary impact on overall balance, these measures are usually of non-recurring nature and very often result from the events that are beyond the direct power of the government.

²⁾ Change in structural balance.

Source: CZSO. Calculations and forecast of the MoF.

1.4 Monetary Policy, Financial Sector and Exchange Rates

In December 2023, the Czech National Bank cut the **two-week repo rate** by 0.25pp to 6.75%. Considering the forecasted inflation trend, we expect the CNB to continue gradually cutting the repo rate in 2024.

The **three-month PRIBOR** rate fell to 7.0% (vs. 6.9%) in Q4 2023 in line with financial market expectations of a CNB cut in primary interest rates, and was 7.1% (*in line with the forecast*) in 2023 as a whole. In line with the anticipated path of monetary-policy interest rates, the three-month PRIBOR should fall to 6.4% on average in Q1. For the full year 2024, we expect an average value of 5.6% (vs. 5.8%).

The **yield to maturity on 10-year government bonds** rose to 4.4% (vs. 4.1%) in Q4 2023, and was virtually flat at 4.4% (*in line with the forecast*) for the full year 2023. Taking into account the assumed monetary policy stance of the CNB and the ECB, as well as inflation developments, we believe that long-term interest rates should move along a downward trajectory – they should fall to 4.1% in Q1 2024 and average 3.9% (vs. 3.6%) for the full year 2024.

Annual growth in total **loans to households** slowed to 4.9% in Q3 2023, due to weaker growth in housing loans as a result of tighter monetary policy. This trend continued in October and November, with year-on-year increases of 4.9% and 4.8%, respectively. The average customer interest rate on total loans to households increased to 3.9% in Q3 and rose further to 4.0% and 4.1% in October and November. For net new mortgage loans, the average client interest rate declined very slowly to 5.8% during Q3 as well as October and November. Annual growth in household deposits accelerated further to 7.4% in November, thanks to stronger growth in koruna deposits.

Loans to non-financial corporations rose by 3.8% YoY in Q3 2023, and by 5.0% and 4.3% in October and November. Continued significant declines in koruna loans were offset by persistently strong growth in foreign currency loans, mainly due to the positive interest rate spread vis-à-vis the euro area. As a result, the share of foreign currency loans in total loans increased again to 49.6% in November. The average client interest rate on total loans to non-financial corporations was virtually flat at 7.5% in November.

The **share of non-performing loans** in total loans to non-financial corporations and households continued to hover around historic lows. For households, it has stagnated at 1.3% in recent months, while for non-financial corporations it rose slightly to 2.8% in November.

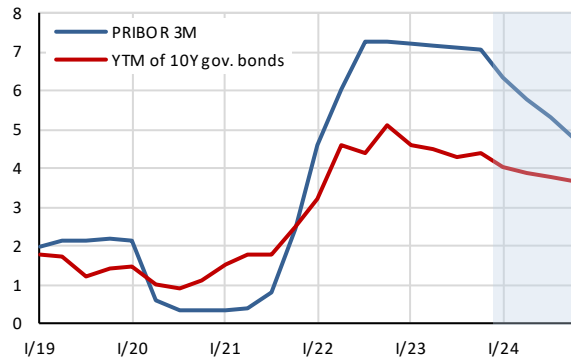
In Q4 2023, the **koruna's exchange rate against the euro** averaged CZK 24.5/EUR (vs. CZK 24.6/EUR), depreciating by 0.5% YoY (vs. 0.7%). However, the koruna strengthened by 2.3% to CZK 24.0/EUR (*in line with the forecast*) on average over the whole of 2023.

In the context of the unfavourable global economic outlook, the expected narrowing of the positive interest rate differential vis-à-vis the euro area and increased geopolitical risks, the koruna could depreciate by 3.1% YoY to CZK 24.6/EUR in Q1 2024. Going forward, it should strengthen slightly in light of the expected resumption of economic convergence towards the euro area, but given the strong levels at the start of 2023, it could still depreciate by 1.7% (vs. 1.5%) to CZK 24.4/EUR (*unchanged*) on average over the whole of 2024.

The forecast for the USD/EUR exchange rate is based on the development of forward contracts before the input data cut-off date. For this year, we estimate it at 1.11 (vs. 1.07). The USD/EUR exchange rate implies the expected development of the koruna against the US dollar.

Graph 1.4.1: Interest Rates

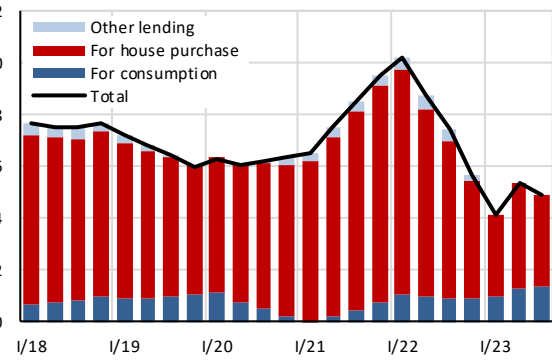
in % p.a.



Source: CNB. Calculations and forecast of the MoF.

Graph 1.4.2: Loans to Households

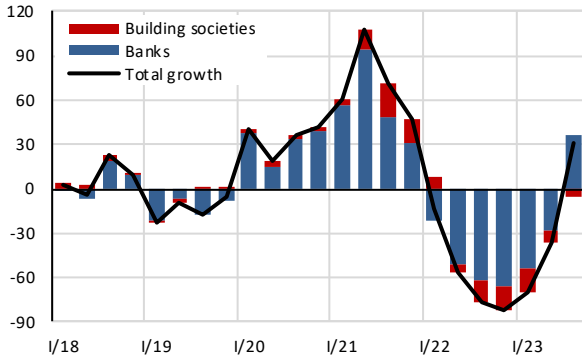
YoY growth rate in%, contributions in percentage points



Source: CNB. Calculations of the MoF.

Graph 1.4.3: New Mortgage Loans

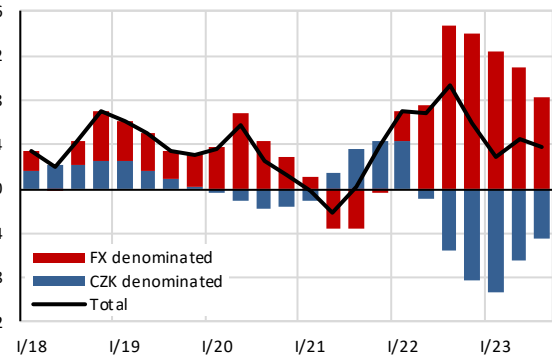
for purchase of residential property, YoY growth in %, contributions in pp



Source: CNB. Calculations of the MoF.

Graph 1.4.4: Loans to Non-financial Corporations

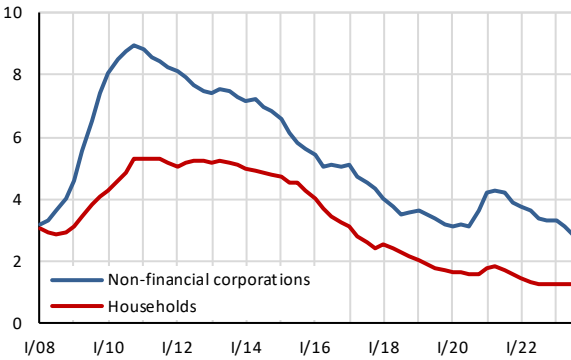
YoY growth rate in%, contributions in percentage points



Source: CNB. Calculations of the MoF.

Graph 1.4.5: Non-performing Loans

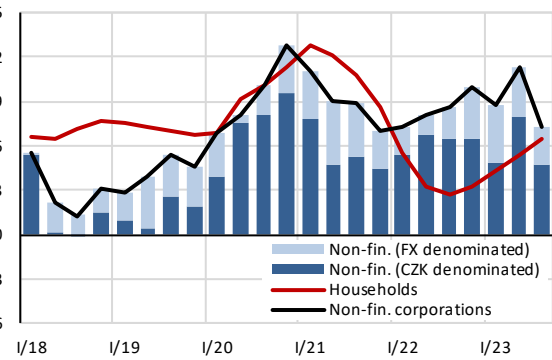
ratio of non-performing to total loans, in%



Source: CNB. Calculations of the MoF.

Graph 1.4.6: Deposits

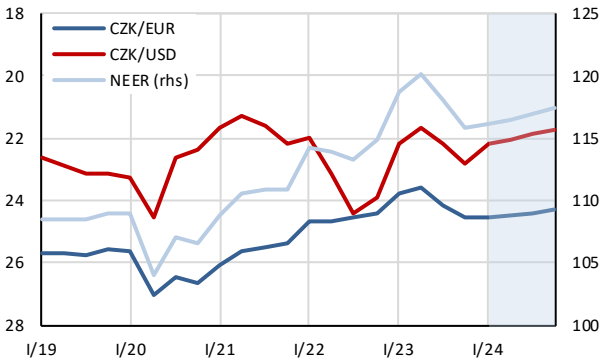
YoY growth rate in%, contributions in percentage points



Source: CNB. Calculations of the MoF.

Graph 1.4.7: Nominal Exchange Rates

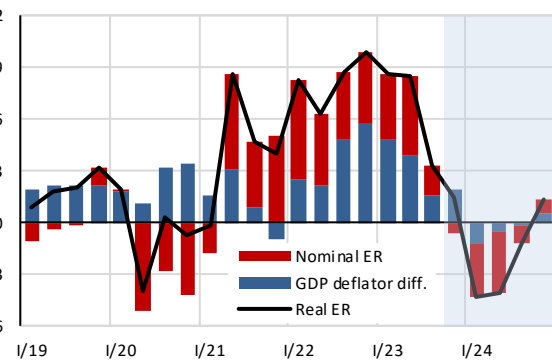
quarterly averages, average 2015=100 (rhs)



Source: CNB. Calculations and forecast of the MoF.

Graph 1.4.8: Real Exchange Rate to the Eurozone

deflated by GDP deflators, YoY growth rate in %, contributions in pp



Source: CNB, CZSO, Eurostat. Calculations and forecast of the MoF.

Table 1.4.1: Interest Rates – yearly*average of period, unless stated otherwise*

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
											<i>Forecast</i>
Repo 2W rate CNB (<i>end of period</i>)	<i>in % p.a.</i>	0.05	0.05	0.50	1.75	2.00	0.25	3.75	7.00	6.75	.
Main refinancing rate ECB (<i>end of period</i>)	<i>in % p.a.</i>	0.05	0.00	0.00	0.00	0.00	0.00	0.00	2.50	4.50	.
Federal funds rate (<i>end of period</i>)	<i>in % p.a.</i>	0.50	0.75	1.50	2.50	1.75	0.25	0.25	4.50	5.50	.
PRIBOR 3M	<i>in % p.a.</i>	0.31	0.29	0.41	1.23	2.12	0.86	1.00	6.29	7.13	5.6
YTM of 10Y government bonds	<i>in % p.a.</i>	0.57	0.43	0.98	1.98	1.55	1.13	1.90	4.33	4.44	3.9
Client interest rates											
Loans to households	<i>in % p.a.</i>	5.15	4.65	4.10	3.76	3.66	3.53	3.31	3.42	.	.
Loans to non-financial corporations	<i>in % p.a.</i>	2.78	2.59	2.57	3.05	3.75	2.96	2.86	6.42	.	.
Deposits of households	<i>in % p.a.</i>	0.65	0.47	0.36	0.33	0.39	0.35	0.26	1.13	.	.
Deposits of non-financial corporations	<i>in % p.a.</i>	0.19	0.10	0.05	0.11	0.37	0.20	0.11	1.96	.	.

*Source: CNB, ECB, Fed. Calculations and forecast of the MoF.***Table 1.4.2: Interest Rates – quarterly***average of period, unless stated otherwise*

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Repo 2W rate CNB (<i>end of period</i>)	<i>in % p.a.</i>	7.00	7.00	7.00	6.75	.	.	.	.
Main refinancing rate ECB (<i>end of period</i>)	<i>in % p.a.</i>	3.50	4.00	4.50	4.50	.	.	.	.
Federal funds rate (<i>end of period</i>)	<i>in % p.a.</i>	5.00	5.25	5.50	5.50	.	.	.	.
PRIBOR 3M	<i>in % p.a.</i>	7.20	7.17	7.11	7.04	6.4	5.8	5.3	4.8
YTM of 10Y government bonds	<i>in % p.a.</i>	4.58	4.50	4.30	4.37	4.1	3.9	3.8	3.7
Client interest rates									
Loans to households	<i>in % p.a.</i>	3.66	3.77	3.90	.	.	.	.	.
Loans to non-financial corporations	<i>in % p.a.</i>	7.35	7.38	7.41	.	.	.	.	.
Deposits of households	<i>in % p.a.</i>	1.97	2.09	2.14	.	.	.	.	.
Deposits of non-financial corporations	<i>in % p.a.</i>	3.03	3.48	3.39	.	.	.	.	.

Source: CNB, ECB, Fed. Calculations and forecast of the MoF.

Table 1.4.3: Loans and Deposits – yearly averages

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Households											
Loans	<i>growth in %</i>	4.0	3.4	4.8	7.2	7.8	7.6	6.6	6.3	8.0	8.0
For consumption	<i>growth in %</i>	-0.1	-0.9	3.4	6.0	4.3	5.4	6.4	4.4	2.6	7.0
For house purchase	<i>growth in %</i>	5.5	4.5	5.6	8.1	9.0	8.5	7.4	7.3	9.5	8.5
Other lending	<i>growth in %</i>	1.2	2.9	1.0	3.0	4.2	4.3	1.1	0.9	4.2	4.5
CZK denominated	<i>growth in %</i>	4.0	3.4	4.7	7.2	7.7	7.6	6.6	6.3	8.0	7.9
FX denominated	<i>growth in %</i>	-1.3	0.0	12.7	8.5	36.3	1.7	9.0	6.1	16.9	43.4
Deposits	<i>growth in %</i>	3.3	2.9	4.8	7.0	8.7	7.0	7.2	9.4	11.1	3.7
CZK denominated	<i>growth in %</i>	3.3	2.7	4.1	6.9	9.7	7.1	6.9	9.2	10.9	3.2
FX denominated	<i>growth in %</i>	2.3	8.5	22.5	7.3	-13.9	3.5	15.2	14.5	16.6	16.6
Non-performing loans (banking statistics)	<i>share, in %</i>	5.2	4.9	4.5	3.6	2.7	2.4	1.9	1.6	1.7	1.3
Loans to deposits ratio	<i>in %</i>	63	63	63	63	63	63	63	61	59	62
Non-financial corporations											
Loans	<i>growth in %</i>	1.3	1.9	6.5	6.6	5.0	4.2	4.3	3.2	0.5	7.2
CZK denominated	<i>growth in %</i>	0.3	-1.0	5.9	2.8	-1.4	3.0	1.9	-1.8	3.2	-4.0
FX denominated	<i>growth in %</i>	5.7	13.7	9.0	20.5	24.4	6.9	10.0	14.0	-4.6	29.6
Deposits	<i>growth in %</i>	4.9	7.6	10.3	4.6	7.8	3.0	4.2	9.5	9.0	8.5
CZK denominated	<i>growth in %</i>	4.2	5.6	6.7	4.5	13.9	2.1	1.9	9.4	7.1	8.3
FX denominated	<i>growth in %</i>	8.0	15.2	23.2	4.8	-11.1	6.6	13.0	9.9	15.3	9.2
Non-performing loans (banking statistics)	<i>share, in %</i>	7.4	7.0	6.0	5.2	4.7	3.7	3.4	3.3	4.2	3.5
Loans to deposits ratio	<i>in %</i>	116	110	106	108	105	106	106	100	92	91

Note: All indicators, except for the share of non-performing loans, are from the monetary statistics.

Source: CNB, ECB. Calculations of the MoF.

Table 1.4.4: Loans and Deposits – quarterly averages

		2021	2022				2023		
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Households									
Loans	<i>growth in %</i>	9.5	10.2	8.7	7.4	5.6	4.1	5.3	4.9
For consumption	<i>growth in %</i>	5.5	7.8	7.1	6.5	6.6	7.1	9.7	10.0
For house purchase	<i>growth in %</i>	10.8	11.2	9.4	7.9	5.8	4.1	5.2	4.5
Other lending	<i>growth in %</i>	4.4	5.2	5.5	5.0	2.5	-0.6	-0.3	0.0
CZK denominated	<i>growth in %</i>	9.5	10.2	8.6	7.3	5.5	4.0	5.3	4.9
FX denominated	<i>growth in %</i>	18.3	22.8	43.1	50.6	55.1	46.5	32.7	16.3
Deposits	<i>growth in %</i>	8.6	5.6	3.2	2.8	3.3	4.3	5.4	6.5
CZK denominated	<i>growth in %</i>	8.4	5.3	2.8	2.2	2.6	3.4	4.6	5.9
FX denominated	<i>growth in %</i>	15.2	13.2	15.2	17.6	20.1	26.7	23.4	18.7
Non-performing loans (banking statistics)	<i>share, in %</i>	1.6	1.5	1.4	1.3	1.2	1.2	1.2	1.3
Loans to deposits ratio	<i>in %</i>	61	62	62	62	62	62	61	61
Non-financial corporations									
Loans	<i>growth in %</i>	3.9	7.1	6.7	9.3	5.9	2.9	4.5	3.8
CZK denominated	<i>growth in %</i>	6.6	6.6	-1.3	-8.1	-12.3	-14.4	-10.5	-7.7
FX denominated	<i>growth in %</i>	-0.9	8.0	22.8	46.5	41.7	35.2	28.7	19.2
Deposits	<i>growth in %</i>	7.0	7.2	8.1	8.6	10.0	8.7	11.4	7.3
CZK denominated	<i>growth in %</i>	5.8	7.1	9.0	8.6	8.6	6.5	10.3	6.3
FX denominated	<i>growth in %</i>	10.8	7.6	5.6	8.9	14.7	15.9	14.8	10.5
Non-performing loans (banking statistics)	<i>share, in %</i>	3.9	3.8	3.6	3.4	3.3	3.3	3.1	2.9
Loans to deposits ratio	<i>in %</i>	93	93	91	92	89	88	86	89

Note: All indicators, except for the share of non-performing loans, are from the monetary statistics.

Source: CNB, ECB. Calculations of the MoF.

Table 1.4.5: Exchange Rates – yearly

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								Estimate	Forecast	Outlook	Outlook
Nominal exchange rates											
CZK / EUR	average	26.33	25.65	25.67	26.44	25.65	24.57	24.01	24.4	24.1	23.8
	appreciation in %	2.7	2.7	-0.1	-2.9	3.1	4.4	2.3	-1.7	1.3	1.3
CZK / USD	average	23.39	21.74	22.94	23.20	21.68	23.36	22.21	22.0	21.3	20.7
	appreciation in %	4.5	7.6	-5.2	-1.1	7.0	-7.2	5.2	1.2	3.0	2.9
NEER	average of 2015=100	105.2	109.1	108.8	106.7	110.4	114.8	118.3	117	118	120
	appreciation in %	2.8	3.7	-0.3	-1.9	3.4	4.0	3.0	-1.3	1.5	1.4
Real exchange rate to EA19¹⁾	average of 2015=100	104.0	107.9	110.1	109.4	114.1	123.6	130	128	129	131
	appreciation in %	2.8	3.7	2.0	-0.6	4.2	8.3	5.4	-2.0	1.4	1.2
REER²⁾	average of 2015=100	106.6	111.1	111.5	112.3	116.7	126.8	140	.	.	.
	appreciation in %	3.9	4.3	0.3	0.8	3.9	8.7	10.3	.	.	.

¹⁾ Deflated by GDP deflators.

²⁾ Eurostat calculations, deflated by CPI, versus 42 countries.

Source: CNB, Eurostat. Calculations and forecast of the MoF.

Table 1.4.6: Exchange Rates – quarterly

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Nominal exchange rates									
CZK / EUR	average	23.79	23.59	24.14	24.52	24.6	24.5	24.4	24.3
	appreciation in %	3.7	4.5	1.8	-0.5	-3.1	-3.6	-1.1	0.8
CZK / USD	average	22.17	21.67	22.17	22.82	22.2	22.0	21.9	21.7
	appreciation in %	-0.8	6.8	10.1	4.8	-0.1	-1.6	1.4	5.1
NEER	average of 2015=100	118.7	120.1	118.1	115.9	116	117	117	117
	appreciation in %	3.9	5.5	4.3	0.8	-2.2	-3.0	-1.0	1.3
Real exchange rate to EA19¹⁾	average of 2015=100	131.2	132.2	129.9	128	126	127	128	129
	appreciation in %	8.6	8.5	3.4	1.4	-4.2	-4.0	-1.2	1.4
REER²⁾	average of 2015=100	141.2	142.2	139.9	136	.	.	.	.
	appreciation in %	12.2	12.5	9.8	6.6	.	.	.	.

¹⁾ Deflated by GDP deflators.

²⁾ Eurostat calculations, deflated by CPI, versus 42 countries.

Source: CNB, Eurostat. Calculations and forecast of the MoF.

1.5 Demographic Trends

The population of the Czech Republic rose by 54.7 thousand to 10.882 million from January to September 2023. Population growth was again driven by a positive balance of foreign migration (68.0 thousand), while the balance of natural change was negative (-13.3 thousand).

During the first nine months of last year, 69.2 thousand children were born alive, 8.6 thousand (11.0%) fewer year-on-year. A lower number of births in the first three quarters was last recorded in 1999.

The number of deaths in the first three quarters of last year reached 82.6 thousand. Compared to the same period in 2022, it decreased by 5.8 thousand, or 6.5%.

The positive balance of foreign migration from January to September last year fell by 226.4 thousand (76.9%) YoY. The significant decline is due to the base effect, given the large number of refugees from Ukraine arriving in the Czech Republic in the first three quarters of 2022.

During the first three quarters of 2023, 116.7 thousand people immigrated to the Czech Republic, a year-on-year decrease of 192.5 thousand, or 62.3%. On the other hand, 48.6 thousand persons emigrated from the Czech Republic, 33.9 thousand more year-on-year. Two-fifths of the emigrants were recorded in September 2023, when the stay of persons with temporary protection who failed to appear on time for the posting of the visa sticker on the travel document was terminated.

In November 2023, the CZSO published a new demographic projection; the assumption of future population development is derived from its medium variant. Until 2027, the population in the new projection is higher than in the previous projection due to high immigration, which could not be anticipated in the 2018 projection. The more pessimistic outlook in later years is then due to lower total fertility rate, which is expected to be around 1.5 (vs. 1.7) children per woman. The decline in

the Czech population will not be reversed either by a higher estimated migration balance, which should stabilise at 35,000 (vs. 26,000) per year from 2028, or by higher life expectancy at birth for both sexes.

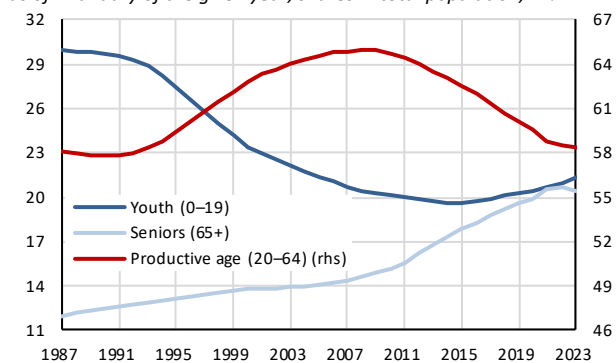
For an economic perspective, the dependency ratio (the ratio of the population aged 65 and over to the population aged 20–64) is an important indicator of demographic projections. It is expected to increase gradually from the current value of 35.0% to 39.4% in 2035, when the population-heavy cohorts will retire. From this year onwards, the dependency ratio will accelerate significantly to 59.0% in 2060 (vs. 59.6%). However, at the end of the projection horizon the dependency ratio could be as high as 67.9% (vs. 57.6%). The increase in the dependency ratio can be attributed to both the decline in the working-age population (20–64), which is more pronounced after 2071 than in the 2018 demographic projection (see Graph 1.5.4), and the increase in the popula-

tion aged 65+. The population ageing process will thus continue to strongly influence economic and social development in the future.

At the end of September 2023, the Czech Social Security Administration registered 2.366 million old-age pensioners, corresponding to 21.8% of the Czech population. The extension of the statutory retirement age led to a year-on-year decrease in the number of old-age pensioners by 2.1 thousand, or 0.1% (see Graph 1.5.3). However, this decline was cushioned by early retirements (according to data from the Czech Social Security Administration, the number of early retirement pensions increased by 39,900 or 5.9% YoY) due to the use of more favourable conditions resulting from exceptional indexation. Stricter rules for early retirement pensions have been in force since 1 October 2023 and a decrease in the number of new early retirement pensions can thus be expected in the following quarters.

Graph 1.5.1: Age Groups

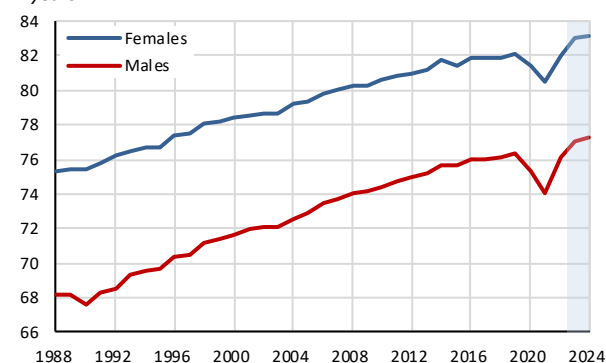
as of 1 January of the given year, shares in total population, in %



Source: CZSO. Calculations of the MoF.

Graph 1.5.2: Life Expectancy at Birth

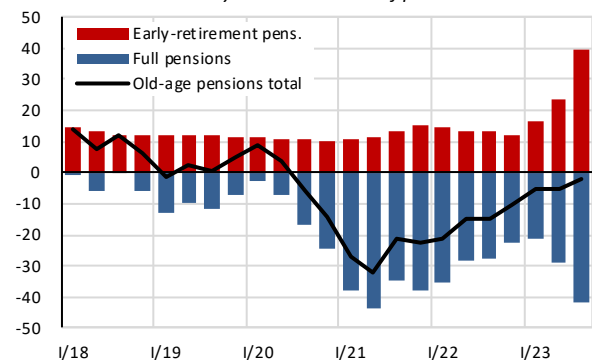
in years



Source: CZSO.

Graph 1.5.3: Old-Age Pensioners

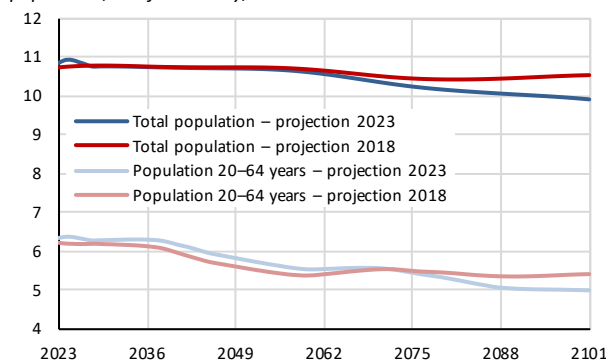
absolute increase over a year in thousands of persons



Source: Czech Social Security Administration. Calculations of the MoF.

Graph 1.5.4: Comparison of 2018 and 2023 Projections

population, as of 1 January, in millions



Source: CZSO.

Table 1.5.1: Demographics

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								<i>Estimate</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Population (as of 1 January)	<i>thous. persons</i>	10 579	10 610	10 650	10 694	10 495	10 517	10 828	10 909	10 915	10 862
	<i>growth in %</i>	0.2	0.3	0.4	0.4	-1.9	0.2	3.0	0.8	0.0	-0.5
0–19 years	<i>thous. persons</i>	2 106	2 133	2 160	2 188	2 171	2 197	2 307	2 326	2 312	2 274
	<i>growth in %</i>	1.2	1.3	1.3	1.3	-0.8	1.2	5.0	0.8	-0.6	-1.6
20–64 years	<i>thous. persons</i>	6 484	6 437	6 403	6 374	6 172	6 151	6 312	6 343	6 344	6 312
	<i>growth in %</i>	-0.9	-0.7	-0.5	-0.4	-3.2	-0.3	2.6	0.5	0.0	-0.5
65 and more years	<i>thous. persons</i>	1 989	2 040	2 087	2 132	2 152	2 169	2 208	2 240	2 259	2 275
	<i>growth in %</i>	2.9	2.6	2.3	2.2	0.9	0.8	1.8	1.5	0.8	0.7
Old-age pensioners (as of 1 January) ¹⁾	<i>thous. persons</i>	2 395	2 404	2 410	2 415	2 400	2 378	2 367	2 377	2 371	2 363
	<i>growth in %</i>	0.8	0.4	0.3	0.2	-0.6	-0.9	-0.4	0.4	-0.3	-0.3
Old-age dependency ratios (as of 1 January)											
Demographic ²⁾	%	30.7	31.7	32.6	33.4	34.9	35.3	35.0	35.3	35.6	36.0
Under current legislation ³⁾	%	40.1	40.4	40.4	40.5	41.2	40.6	39.3	38.8	38.6	38.5
Effective ⁴⁾	%	46.2	45.7	45.2	45.5	46.0	45.2	47.3	47.1	46.8	46.6
Fertility rate	<i>children</i>	1.687	1.708	1.709	1.707	1.827	1.618	1.50	1.50	1.50	1.50
Population increase	<i>thous. persons</i>	31	40	44	8	22	311	82	5	-53	-57
Natural increase	<i>thous. persons</i>	3	1	0	-19	-28	-19	-16	-19	-22	-26
Live births	<i>thous. persons</i>	114	114	112	110	112	101	94	93	91	88
Deaths	<i>thous. persons</i>	111	113	112	129	140	120	110	112	113	114
Net migration	<i>thous. persons</i>	28	39	44	27	50	330	98	24	-31	-31
Immigration	<i>thous. persons</i>	46	58	66	56	69	350	.	.	.	.
Emigration	<i>thous. persons</i>	18	20	21	29	19	20	.	.	.	.
Census difference	<i>thous. persons</i>	x	x	x	x	-207	x	x	x	x	x

Note: Between 2020 and 2021, there is a break in the population time series resulting from the 2021 Census.

¹⁾ In 2010 disability pensions of pensioners over 64 were transferred into old-age pensions.

²⁾ Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (20–64).

³⁾ Dependency under current legislation: ratio of people above the official retirement age to the people over 19 below the official retirement age.

⁴⁾ Effective dependency: ratio of old-age pensioners to working people (LFS methodology).

Source: Czech Social Security Administration, CZSO. Calculations and forecast of the MoF.

1.6 Other Assumptions

In addition to the factors mentioned in the previous chapters, the forecast is based on the following assumptions:

- The shortfall in natural gas and oil supplies from Russia to the EU will be replaced by a combination of increased imports from other countries (including liquefied natural gas), savings and a switch to alternative technologies;
- neither the ongoing war in Ukraine nor the tensions in the Middle East will lead to a sustained increase in commodity prices on world markets;
- except for the changes included in the consolidation package, the rates and bases of other major taxes and compulsory levies will remain unchanged;
- over the forecast horizon, supply chains will work without significant problems and, as a result, upward pressures on the price level will also ease;
- thanks to the vaccination, high number of people who have contracted COVID-19 and wider treatment options, it will not be necessary to adopt macroeconomically significant restrictions should the epidemic situation worsen in the future;
- the minimum wage and the lowest levels of the guaranteed wage will be increased in the coming years in line with the forecast growth of the average nominal wage.

2 Economic Cycle

2.1 Position within the Economic Cycle

The **output gap**, which returned to negative territory in Q2 2023, is expected to widen until Q2 this year (see Graph 2.1.1). The economy is likely to remain below its potential level throughout 2024. However, given the extreme uncertainty and volatility of economic developments, the results should be treated with caution.

Potential output, whose growth has slowed considerably since 2020 as a result of the economic recession, is estimated to have increased by 2.1% (vs. 2.2%) in 2023. Its growth could slow slightly to 1.9% (vs. 2.0%) this year.

In the long run, the trend component of **total factor productivity** is the main driver of potential growth. Its contribution has been close to 1pp in recent years and should remain around this value over the forecast horizon. It would thus continue to lag well behind the level it reached during the pre-pandemic boom.

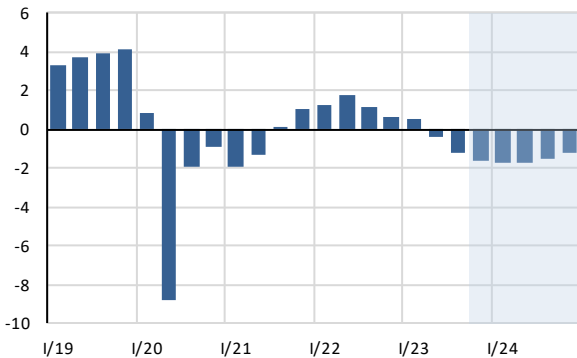
A significant reduction in investment activity in 2020 and only a slight recovery in 2021 resulted in a slower in-

crease in the **capital stock**. With expected developments in gross fixed capital formation and depreciation, this factor could raise potential growth by 0.7pp (*unchanged*) in 2024.

The number of people in the working age group (20–64 years) has been declining for a long time due to population ageing, which is having a negative impact on **labour supply**. However, the economic upturn, accompanied by a strong increase in the **participation rate**, has more than compensated for the negative effects until 2018. By contrast, the average number of **hours usually worked** is showing a downward trend. The significant break in the time series (see Graph 2.1.4), which occurred in 2021, is not economically justified and results from methodological changes in the LFS. In aggregate, the production factor of **labour** could support potential growth in 2024 to the extent of 0.3pp (*unchanged*).

Graph 2.1.1: Output Gap

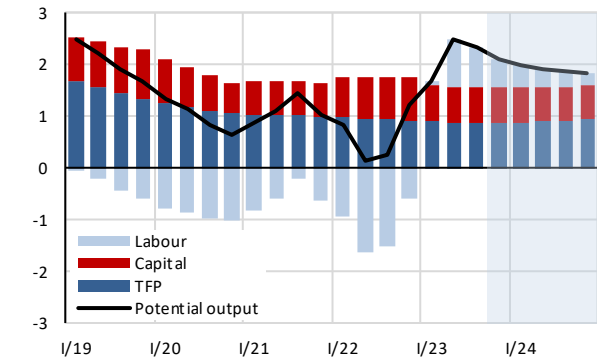
in % of potential product



Source: CZSO. Calculations and forecast of the MoF.

Graph 2.1.2: Potential Output

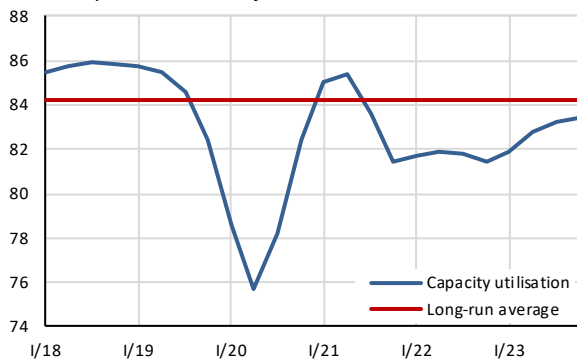
YoY growth rate in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Graph 2.1.3: Capacity Utilisation in Industry

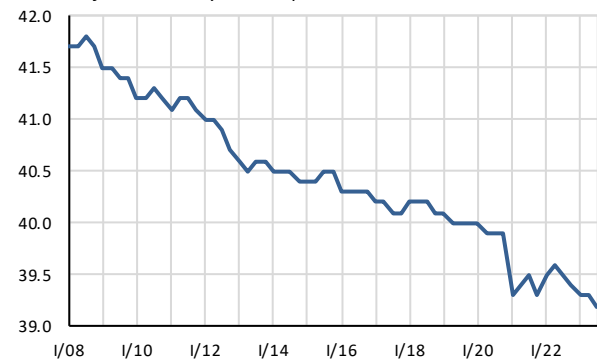
smoothed by Hodrick-Prescott filter, in %



Source: CZSO.

Graph 2.1.4: Hours Usually Worked

number of hours usually worked per week



Source: Eurostat.

Table 2.1.1: Output Gap and Potential Product

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								Estimate	Forecast	Outlook	Outlook
Output gap	%	2.2	2.9	3.8	-2.7	-0.5	1.2	-0.7	-1.5	-0.7	0.0
Potential product	growth in %	2.7	2.6	2.1	1.0	1.1	0.6	2.1	1.9	1.7	1.6
Contributions											
Trend total factor productivity	pp	2.2	2.0	1.5	1.2	1.0	1.0	0.9	0.9	1.0	1.1
Fixed assets	pp	0.5	0.6	0.9	0.7	0.6	0.8	0.7	0.7	0.6	0.5
Population 20–64 years	pp	-0.6	-0.5	-0.4	-0.4	-0.4	-1.7	0.0	0.2	0.0	-0.2
Participation rate	pp	0.7	0.7	0.2	-0.2	0.2	0.6	0.8	0.2	0.1	0.2
Usually worked hours	pp	-0.2	-0.1	-0.1	-0.3	-0.4	-0.1	-0.2	-0.1	0.0	0.0

Source: CZSO. Calculations and forecast of the MoF.

2.2 Business Cycle Indicators

The evolution of confidence indicators in Q4 2023 points to quarter-on-quarter growth in gross value added in industry. Also in the construction sector, the confidence indicator signals a quarter-on-quarter increase in gross value added. However, the correlation between the development of confidence and gross value added in the construction sector is very low. In contrast, in trade and services, gross value added is expected to continue to decline.

A composite indicator of exports of goods compiled by the Ministry of Finance from sub-questions of the CZSO's business cycle survey and business confidence in Germany, indicated a slight recovery in exports of goods.

The CZSO's consumer confidence indicator weakened slightly quarter-on-quarter in Q4 2023. For Q1 2024 (the confidence indicator shows a 1 quarter lead), its devel-

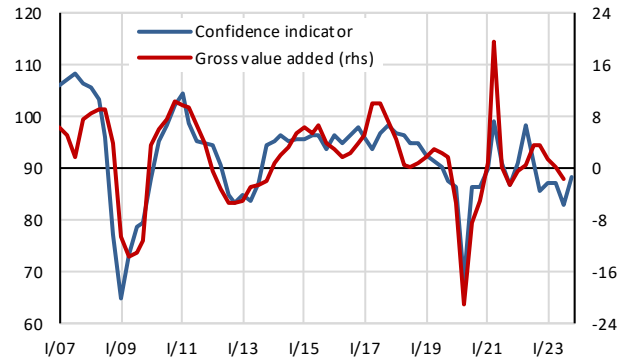
opment signals only a gradual recovery in household final consumption expenditure. By contrast, the consumer confidence indicator compiled by the Ministry of Finance from sub-questions of the European Commission's consumer survey, increased slightly in Q4 2023 compared with the previous period. However, consumer pessimism remains considerable and stems from a strongly negative assessment of the economic situation and households' concerns about their financial situation.

As a result, the composite confidence indicator signals quarter-on-quarter growth in total gross value added in Q4 2023.

According to the composite leading indicator, the negative output gap is expected to stabilise by mid-2024. This is in line with our current estimate of the economy's position in the business cycle (see Chapter 2.1).

Graph 2.2.1: Confidence and GVA in Industry

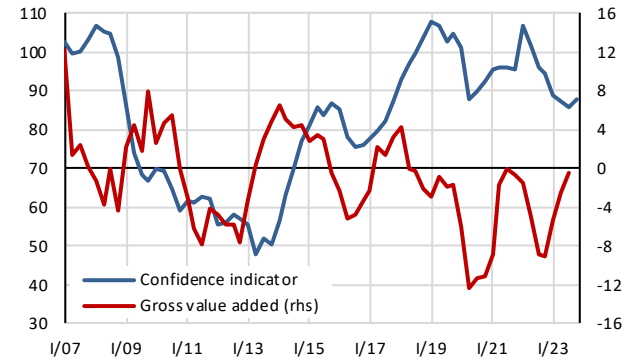
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO.

Graph 2.2.2: Confidence and GVA in Construction

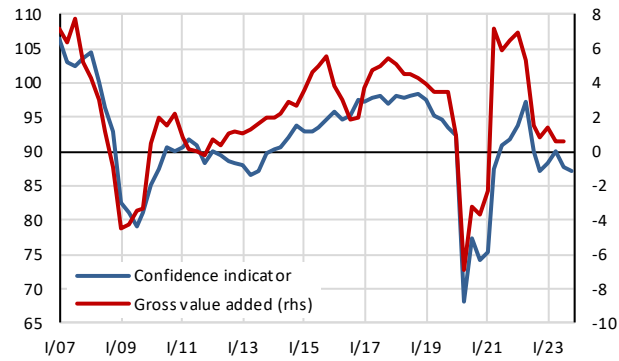
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO.

Graph 2.2.3: Confidence and GVA in Trade and Services

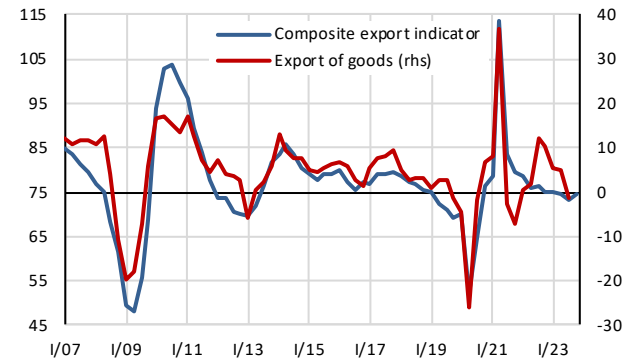
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO. Calculations of the MoF.

Graph 2.2.4: Composite Export Indicator

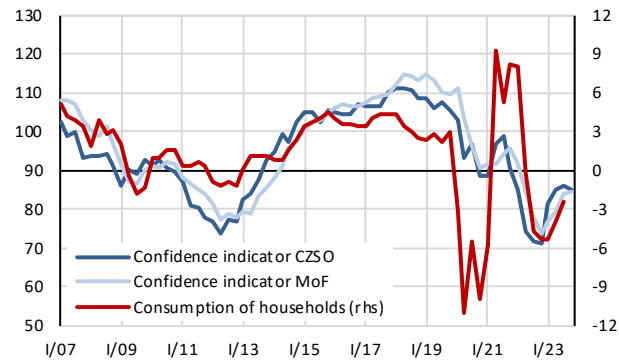
2010=100 (lhs), YoY growth in % (rhs)



Source: CESifo, CZSO. Calculations of the MoF.

Graph 2.2.5: Consumer Confidence and Consumption

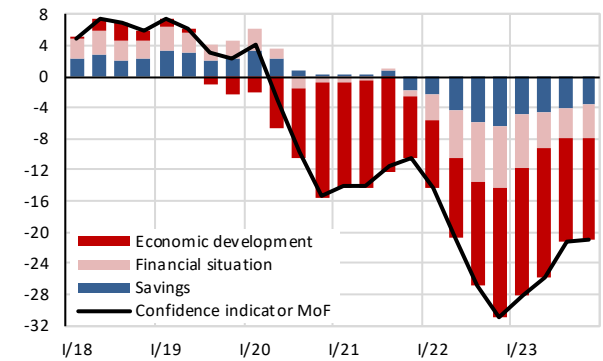
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO, European Commission. Calculations of the MoF.

Graph 2.2.6: Decomposition of Consumer Sentiment

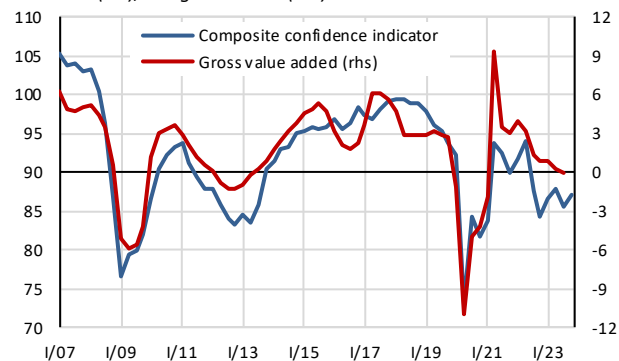
consumer confidence indicator of the MoF, balance, contributions



Source: European Commission. Calculations of the MoF.

Graph 2.2.7: Composite Confidence Indicator and GVA

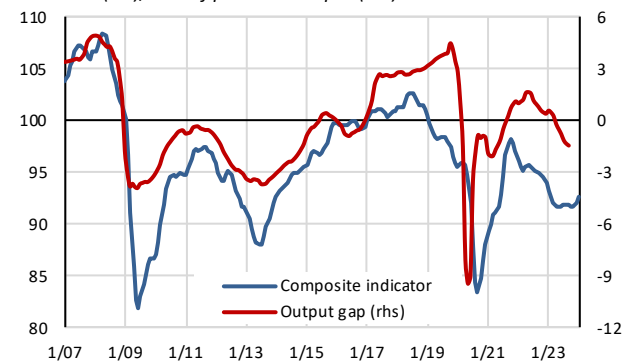
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO.

Graph 2.2.8: Composite Leading Indicator

2005=100 (lhs), in % of potential output (rhs)



Source: CZSO. Calculations of the MoF.

3 Forecast of Macroeconomic Developments in the CR

3.1 Economic Output

The Czech economy contracted by 1.0% YoY (vs. 0.9%) in **Q3 2023**, with seasonally adjusted **GDP** down by 0.6% (vs. 0.3%) compared with the previous quarter. Economic activity was boosted most by industry other than manufacturing, while it was most significantly dampened by a decline in value added in manufacturing, non-market services and trade, transportation, accommodation and food services. GDP dynamics in H1 2023 was revised up slightly.

Household consumption was 2.5% (vs. 1.7%) lower year-on-year in Q3, due to both a fall in real disposable income and a rise in the savings rate. Households cut back most on spending on durables but purchases of other goods and spending on services also fell. Residents' purchases abroad were record high (more than CZK 25 bn. at constant prices).

Government consumption increased by 3.9% YoY (vs. 2.0%), driven by growth in public sector employment, purchases of goods and services and, in particular, strong growth in social benefits in kind. Purchases of goods and services (intermediate consumption) grew fastest in the central government subsector. Within individual general government sector entities, Správa železnic (national railway infrastructure manager) recorded the most dynamic development with growth of almost 50%. In the case of social benefits in kind, both health care expenditure and increased housing-related state social support benefits played a role.

Gross fixed capital formation increased by 3.9% (vs. 3.7%). Investment activity was boosted by investment in machinery and equipment, but the other major categories declined, most notably investment in intellectual property products. From a sectoral perspective, the increase in investment by firms and the government sector was partially offset by lower investment spending by households. Private investment was supported by projects co-financed by EU funds.

The **change in inventories** and valuables took 2.5pp (vs. 1.5pp) off the growth of the economy, and gross capital formation thus fell by 4.5% (vs. 1.5%). Although firms continued to increase their inventories of production inputs in order to avoid losses resulting from possible shortfalls in component supplies, inventory accumulation fell year-on-year.

The **foreign trade** balance supported economic growth to the extent of 0.8pp (vs. -0.1pp). While exports of goods and services fell by 1.2% YoY (vs. 0.8%), imports fell by 2.2% (vs. 0.5%). Exports to the EU in particular weakened, while exports to countries outside the EU in-

creased. In addition to low export growth, weak domestic demand also weighed on imports.

We estimate that the Czech economy grew by 0.1% QoQ (vs. 0.4%) in Q4 2023. For the full year **2023**, GDP thus fell by 0.6% (vs. 0.5%). Foreign trade was the most significant contributor to economic activity last year, but government consumption and fixed investment were also pro-growth. The continued decline in household consumption had the opposite effect, as did lower inventory accumulation. We expect the impact of the government's consolidation package on growth dynamics to be slightly negative (-0.3pp). Thus, in **2024**, real GDP could grow by 1.2% (vs. 1.9%) with positive contributions from both external and domestic demand.

Last year, **households' final consumption expenditure** was affected by the continued decline in real disposable income and the restrictive monetary policy stance. By contrast, consumer spending by refugees from Ukraine had a positive impact on the full-year consumption growth. The savings rate increased in view of the persistently negative consumer sentiment. We estimate that real household consumption fell by 3.2% (vs. 2.7%) in 2023. This year, assuming an improvement in consumer sentiment, the savings rate could already start to decline (but its decline will be dampened by lower-income households' efforts to rebuild their financial buffers), thus stimulating consumption growth. Even so, the savings rate should remain well above its long-term average. Moreover, the reduction in inflation should lead to an increase in real household incomes in 2024. However, private consumption dynamics will be slightly dampened by the consolidation package, and household consumption expenditure could increase by 2.6% (vs. 3.9%). The relatively large revision of the forecast for this year mainly reflects worse-than-estimated developments in Q3 2023 and, following the new data, a revision of the forecast for Q4 2023.

We estimate that **consumption of the general government sector** grew by 3.1% (vs. 2.4%) in 2023. The migration wave from Ukraine has led to an increase in staff capacity, particularly in education, which has been reflected in employment growth. Purchases of goods and services were supported by current subsidies from EU funds as the end of the 2014–2020 financial perspective approached. In 2024, growth in general government consumption could slow to 1.6% (*unchanged*). In addition to fiscal consolidation, the transition to the new 2021–2027 financial perspective will also have a negative effect, which, however, will be partly offset by a pick-up in current spending from other EU instruments, notably the Recovery and Resilience Facility.

Gross fixed capital formation slowed down in 2023 due to economic problems in euro area countries. Monetary conditions, which were restrictive at the end of last year, also weighed on its dynamics. In contrast, investment activity was positively affected by government spending co-financed by EU funds from the previous financial perspective. Persistent negative sentiment and weak economic growth in the euro area should limit private investment activity in the first half of this year. It will also be dampened by the effects of restrictive monetary and fiscal policy stance. The transition to the new financial perspective of EU funds will lead to a decline in investment by the general government sector. Thus, gross fixed capital formation could have increased by 2.0% (vs. 2.2%) in 2023, while its growth could slow to 1.2% (vs. 1.7%) in 2024.

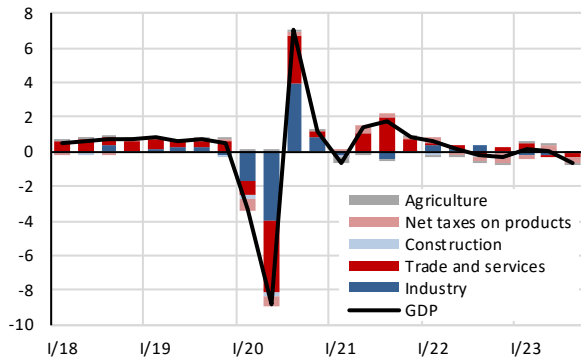
We assume that the **change in inventories** will have a negative effect on GDP growth over the entire forecast horizon. However, due to firms' efforts to ensure conti-

nunity of the production process in the event of recurrent supply disruptions of key components, inventory accumulation will remain high in magnitude. As a result, gross capital formation may have fallen by 4.5% (vs. 3.9%) last year and could decrease by 3.6% (vs. 5.1%) this year.

We estimate that **exports of goods and services** grew by 2.4% (*unchanged*) last year. The impact of the decline in export markets outpaced the increase in export performance due to the unwinding of supply chain problems and the completion of work-in-progress inventories (see Chapter 3.4). The projected slight acceleration of export growth to 2.8% (vs. 4.2%) in 2024 reflects the recovery of major export markets. The dynamism of exports and domestic demand, especially import-intensive investment, is then reflected in the pace of **imports of goods and services**, which could have risen slightly by 0.1% (vs. 0.3%) in 2023. The acceleration of growth to 1.9% (vs. 2.6%) in 2024 mainly reflects a recovery in household consumption and private investment activity.

Graph 3.1.1: Resources of Gross Domestic Product

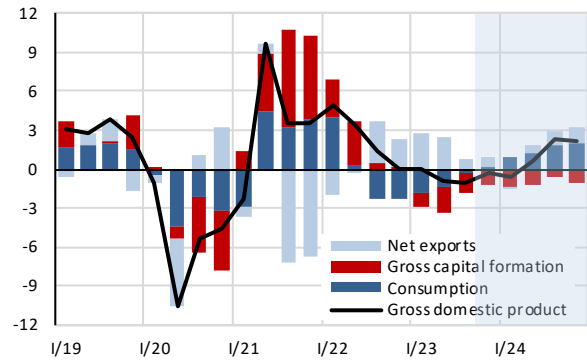
QoQ growth rate of real GDP in %, contrib. in pp, season. adjusted



Source: CZSO. Calculations of the MoF.

Graph 3.1.2: GDP by Type of Expenditure

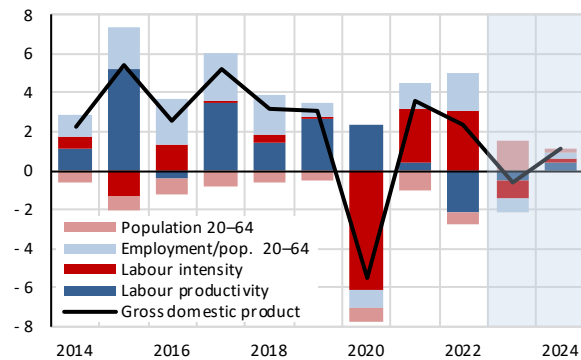
YoY growth rate of real GDP in %, contributions in pp



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.1.3: Real Gross Domestic Product

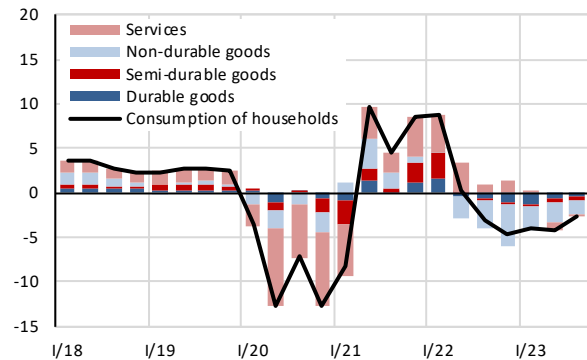
growth in %, contributions in percentage points



Note: Labour intensity gauges the number of hours worked per worker.
Source: CZSO. Calculations and forecast of the MoF.

Graph 3.1.4: Real Consumption of Households

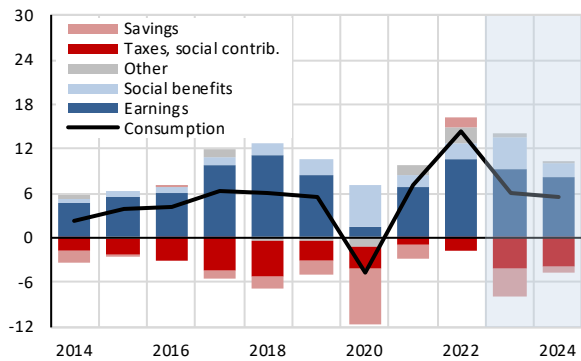
domestic concept, YoY growth rate in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Graph 3.1.5: Nominal Consumption of Households

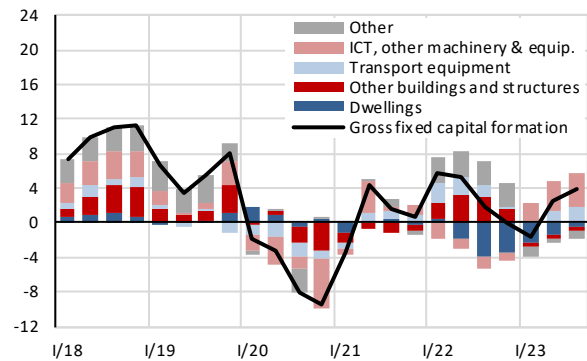
national concept, YoY growth rate in %, contributions in pp



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.1.6: Investment by Type of Expenditure

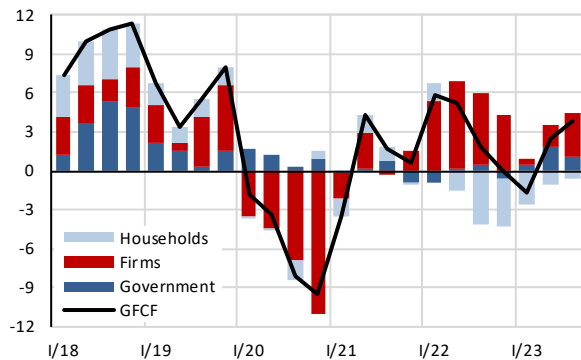
YoY growth rate of real GFCF in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Graph 3.1.7: Investment by Sector

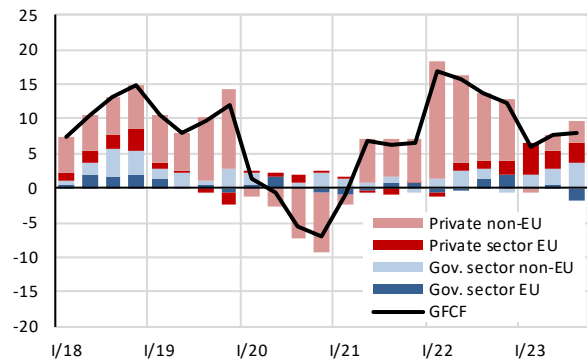
YoY growth rate of real GFCF in %, contributions in percentage points



Source: CZSO. Calculations of the MoF.

Graph 3.1.8: Sources of Investment Financing

YoY growth rate of nominal GFCF in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Table 3.1.1: Real GDP by Type of Expenditure – yearly

chained volumes, reference year 2015

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								Estimate	Forecast	Outlook	Outlook
Gross domestic product	bill. CZK 2015	4 988	5 148	5 304	5 013	5 191	5 313	5 281	5 342	5 477	5 604
	growth in %	5.2	3.2	3.0	-5.5	3.6	2.4	-0.6	1.2	2.5	2.3
	growth in % ¹⁾	5.3	3.2	3.0	-5.5	3.5	2.4	-0.5	1.0	2.6	2.4
Private consumption expenditure ²⁾	bill. CZK 2015	2 355	2 438	2 504	2 322	2 418	2 402	2 326	2 386	2 470	2 541
	growth in %	4.0	3.5	2.7	-7.2	4.1	-0.6	-3.2	2.6	3.5	2.9
Government consumption exp.	bill. CZK 2015	913	949	973	1 014	1 027	1 031	1 063	1 080	1 101	1 123
	growth in %	1.8	3.9	2.5	4.2	1.4	0.3	3.1	1.6	2.0	2.0
Gross capital formation	bill. CZK 2015	1 323	1 425	1 489	1 351	1 609	1 699	1 623	1 565	1 561	1 573
	growth in %	6.5	7.7	4.5	-9.3	19.1	5.6	-4.5	-3.6	-0.2	0.8
Gross fixed capital formation	bill. CZK 2015	1 248	1 374	1 455	1 368	1 379	1 421	1 450	1 467	1 498	1 532
	growth in %	4.9	10.0	5.9	-6.0	0.8	3.0	2.0	1.2	2.1	2.3
Change in stocks and valuables	bill. CZK 2015	75	51	34	-16	230	278	173	98	63	41
Exports of goods and services	bill. CZK 2015	4 168	4 322	4 386	4 034	4 312	4 624	4 733	4 865	5 030	5 167
	growth in %	7.2	3.7	1.5	-8.0	6.9	7.2	2.4	2.8	3.4	2.7
Imports of goods and services	bill. CZK 2015	3 771	3 989	4 051	3 719	4 214	4 479	4 484	4 570	4 700	4 814
	growth in %	6.3	5.8	1.5	-8.2	13.3	6.3	0.1	1.9	2.8	2.4
Gross domestic expenditure	bill. CZK 2015	4 592	4 811	4 964	4 693	5 053	5 130	5 011	5 034	5 140	5 246
	growth in %	4.3	4.8	3.2	-5.5	7.7	1.5	-2.3	0.5	2.1	2.1
Real gross domestic income	bill. CZK 2015	4 988	5 149	5 324	5 083	5 259	5 232	5 304	5 369	5 504	5 630
	growth in %	4.3	3.2	3.4	-4.5	3.4	-0.5	1.4	1.2	2.5	2.3
Contributions to GDP growth ⁴⁾											
Gross domestic expenditure	pp	3.9	4.4	3.0	-5.1	7.2	1.5	-2.3	0.4	2.0	2.0
Consumption	pp	2.3	2.4	1.8	-2.6	2.2	-0.2	-0.8	1.5	2.0	1.8
Household expenditure	pp	1.9	1.7	1.3	-3.4	1.9	-0.3	-1.5	1.2	1.6	1.3
Government expenditure	pp	0.3	0.7	0.5	0.8	0.3	0.1	0.6	0.3	0.4	0.4
Gross capital formation	pp	1.7	2.0	1.2	-2.6	5.0	1.7	-1.5	-1.1	-0.1	0.2
Gross fixed capital formation	pp	1.2	2.5	1.6	-1.6	0.2	0.8	0.5	0.3	0.6	0.6
Change in stocks	pp	0.5	-0.5	-0.3	-0.9	4.8	0.9	-2.0	-1.4	-0.6	-0.4
Foreign balance	pp	1.2	-1.2	0.0	-0.4	-3.6	0.9	1.7	0.7	0.5	0.4
External balance of goods	pp	0.9	-1.0	0.4	-0.3	-3.6	1.4	2.3	0.7	0.4	0.3
External balance of services	pp	0.3	-0.2	-0.4	-0.1	0.0	-0.5	-0.6	0.0	0.1	0.1
Gross value added	bill. CZK 2015	4 491	4 644	4 784	4 532	4 687	4 797	.	.	.	.
	growth in %	5.2	3.4	3.0	-5.3	3.4	2.3	.	.	.	.
Net taxes and subsidies on products	bill. CZK 2015	497	504	521	480	504	516	.	.	.	.

¹⁾ From working day adjusted data.²⁾ Including consumption of non-profit institutions serving households (NPISH).

Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.2: Real GDP by Type of Expenditure – quarterly

chained volumes, reference year 2015

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK 2015</i>	1 260	1 341	1 335	1 345	1 252	1 349	1 367	1 374
	<i>growth in %</i>	0.0	-0.9	-1.0	-0.3	-0.6	0.6	2.4	2.2
	<i>growth in % ¹⁾</i>	-0.3	-0.4	-0.8	-0.3	-0.1	0.3	1.6	2.2
	<i>QoQ in % ¹⁾</i>	0.1	0.1	-0.6	0.1	0.4	0.5	0.6	0.7
Private consumption expenditure ²⁾	<i>bill. CZK 2015</i>	559	586	588	593	565	597	609	615
	<i>growth in %</i>	-5.3	-4.4	-2.5	-0.6	1.1	1.9	3.5	3.6
Government consumption exp.	<i>bill. CZK 2015</i>	248	257	260	298	253	261	262	304
	<i>growth in %</i>	2.8	3.4	3.9	2.5	1.8	1.6	0.9	2.0
Gross capital formation	<i>bill. CZK 2015</i>	359	419	437	409	339	402	431	393
	<i>growth in %</i>	-3.1	-6.4	-4.5	-3.7	-5.5	-4.1	-1.4	-3.7
Gross fixed capital formation	<i>bill. CZK 2015</i>	308	372	373	397	317	370	379	401
	<i>growth in %</i>	-1.7	2.5	3.9	2.8	2.8	-0.5	1.4	1.2
Change in stocks and valuables	<i>bill. CZK 2015</i>	51	47	63	12	22	32	52	-8
Exports of goods and services	<i>bill. CZK 2015</i>	1 200	1 207	1 106	1 219	1 193	1 236	1 173	1 263
	<i>growth in %</i>	7.0	3.5	-1.2	0.3	-0.6	2.4	6.0	3.6
Imports of goods and services	<i>bill. CZK 2015</i>	1 106	1 132	1 064	1 183	1 098	1 148	1 113	1 211
	<i>growth in %</i>	3.4	0.2	-2.2	-0.8	-0.7	1.4	4.5	2.4
Gross domestic expenditure	<i>bill. CZK 2015</i>	1 166	1 262	1 284	1 300	1 159	1 261	1 301	1 314
	<i>growth in %</i>	-2.9	-3.5	-1.9	-1.1	-0.6	-0.1	1.3	1.1
Real gross domestic income	<i>bill. CZK 2015</i>	1 253	1 352	1 344	1 354	1 250	1 360	1 376	1 383
	<i>growth in %</i>	0.0	2.1	1.4	1.9	-0.2	0.6	2.4	2.1
Gross value added	<i>bill. CZK 2015</i>	1 159	1 219	1 209	.	.	.	.	.
	<i>growth in %</i>	1.3	-0.2	-0.3	.	.	.	.	.
	<i>growth in % ¹⁾</i>	1.0	0.3	-0.1	.	.	.	.	.
	<i>QoQ in % ¹⁾</i>	0.4	-0.3	-0.4	.	.	.	.	.
Net taxes and subsidies on products	<i>bill. CZK 2015</i>	100	122	126	.	.	.	.	.

¹⁾ From seasonally and working day adjusted data²⁾ Including consumption of non-profit institutions serving households (NPISH).

Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.3: Nominal GDP by Type of Expenditure – yearly

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								<i>Estimate</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK</i>	5 111	5 411	5 791	5 709	6 109	6 787	7 351	7 640	8 022	8 370
	<i>growth in %</i>	6.5	5.9	7.0	-1.4	7.0	11.1	8.3	3.9	5.0	4.3
Private consumption expenditure ¹⁾	<i>bill. CZK</i>	2 420	2 568	2 711	2 588	2 772	3 167	3 362	3 545	3 764	3 949
	<i>growth in %</i>	6.5	6.1	5.6	-4.5	7.1	14.3	6.1	5.5	6.2	4.9
Government consumption exp.	<i>bill. CZK</i>	959	1 050	1 134	1 243	1 310	1 371	1 511	1 581	1 656	1 725
	<i>growth in %</i>	5.4	9.5	8.0	9.5	5.4	4.6	10.2	4.7	4.7	4.2
Gross capital formation	<i>bill. CZK</i>	1 348	1 472	1 599	1 493	1 846	2 182	2 162	2 122	2 159	2 215
	<i>growth in %</i>	8.0	9.2	8.7	-6.6	23.6	18.2	-0.9	-1.8	1.7	2.6
Gross fixed capital formation	<i>bill. CZK</i>	1 273	1 423	1 568	1 516	1 589	1 819	1 942	2 017	2 105	2 194
	<i>growth in %</i>	6.4	11.7	10.2	-3.3	4.8	14.5	6.8	3.9	4.4	4.2
Change in stocks and valuables	<i>bill. CZK</i>	74	49	31	-22	257	364	220	106	54	21
External balance	<i>bill. CZK</i>	384	321	347	385	181	67	316	391	443	481
Exports of goods and services	<i>bill. CZK</i>	4 039	4 163	4 279	3 993	4 443	5 189	5 256	5 494	5 709	5 882
	<i>growth in %</i>	6.4	3.1	2.8	-6.7	11.3	16.8	1.3	4.5	3.9	3.0
Imports of goods and services	<i>bill. CZK</i>	3 654	3 842	3 932	3 608	4 262	5 122	4 940	5 103	5 266	5 400
	<i>growth in %</i>	6.6	5.1	2.3	-8.2	18.1	20.2	-3.6	3.3	3.2	2.6
Gross national income	<i>bill. CZK</i>	4 821	5 114	5 441	5 424	5 859	6 478	7 230	7 504	7 865	8 193
	<i>growth in %</i>	7.8	6.1	6.4	-0.3	8.0	10.6	11.6	3.8	4.8	4.2
Primary income balance	<i>bill. CZK</i>	-289	-297	-350	-285	-249	-309	-121	-136	-156	-177

¹⁾ Including consumption of non-profit institutions serving households (NPISH).

Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.4: Nominal GDP by Type of Expenditure – quarterly

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	1 716	1 851	1 863	1 920	1 749	1 912	1 957	2 023
	<i>growth in %</i>	11.3	9.1	6.3	6.9	1.9	3.3	5.0	5.4
Private consumption expenditure ¹⁾	<i>bill. CZK</i>	796	844	852	869	823	883	907	932
	<i>growth in %</i>	8.1	5.4	4.7	6.5	3.4	4.6	6.4	7.2
Government consumption exp.	<i>bill. CZK</i>	340	358	365	447	354	373	377	477
	<i>growth in %</i>	12.0	10.2	10.3	8.9	4.1	4.0	3.3	6.7
Gross capital formation	<i>bill. CZK</i>	479	547	584	551	460	534	587	541
	<i>growth in %</i>	6.3	-2.8	-3.0	-2.7	-4.1	-2.4	0.5	-1.7
Gross fixed capital formation	<i>bill. CZK</i>	412	486	503	541	435	496	524	562
	<i>growth in %</i>	5.9	7.6	7.8	5.7	5.7	2.2	4.1	3.8
Change in stocks and valuables	<i>bill. CZK</i>	68	62	81	9	25	38	64	-21
External balance	<i>bill. CZK</i>	100	101	62	53	112	121	86	72
Exports of goods and services	<i>bill. CZK</i>	1 340	1 330	1 232	1 354	1 356	1 398	1 330	1 410
	<i>growth in %</i>	10.8	1.3	-4.9	-1.2	1.2	5.2	7.9	4.1
Imports of goods and services	<i>bill. CZK</i>	1 240	1 228	1 170	1 301	1 244	1 277	1 244	1 338
	<i>growth in %</i>	7.0	-5.9	-9.3	-4.9	0.4	4.0	6.3	2.8

¹⁾ Including consumption of non-profit institutions serving households (NPISH).

Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.5: GDP by Type of Income – yearly

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								<i>Estimate</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
GDP	<i>bill. CZK</i>	5 111	5 411	5 791	5 709	6 109	6 787	7 351	7 640	8 022	8 370
	<i>growth in %</i>	6.5	5.9	7.0	-1.4	7.0	11.1	8.3	3.9	5.0	4.3
Balance of taxes and subsidies	<i>bill. CZK</i>	493	504	534	449	477	591	538	692	764	804
	<i>% of GDP</i>	9.7	9.3	9.2	7.9	7.8	8.7	7.3	9.1	9.5	9.6
	<i>growth in %</i>	8.6	2.2	6.0	-16.0	6.3	24.0	-9.0	28.7	10.4	5.2
Taxes on production and imports	<i>bill. CZK</i>	635	656	696	660	715	780	.	.	.	.
	<i>growth in %</i>	6.6	3.3	6.2	-5.3	8.3	9.2	.	.	.	.
Subsidies on production	<i>bill. CZK</i>	142	152	162	211	238	189	.	.	.	.
	<i>growth in %</i>	0.4	7.2	6.7	30.3	12.6	-20.5	.	.	.	.
Compensation of employees <i>(domestic concept)</i>	<i>bill. CZK</i>	2 185	2 399	2 586	2 625	2 787	3 007	3 249	3 463	3 626	3 787
	<i>% of GDP</i>	42.8	44.3	44.6	46.0	45.6	44.3	44.2	45.3	45.2	45.2
	<i>growth in %</i>	9.1	9.8	7.8	1.5	6.1	7.9	8.0	6.6	4.7	4.4
Wages and salaries	<i>bill. CZK</i>	1 680	1 842	1 986	1 989	2 106	2 302	2 495	2 659	2 784	2 908
	<i>growth in %</i>	9.2	9.6	7.8	0.1	5.9	9.3	8.4	6.6	4.7	4.4
Social security contributions	<i>bill. CZK</i>	505	557	599	636	681	705	754	804	842	879
	<i>growth in %</i>	8.7	10.3	7.6	6.2	7.0	3.5	7.0	6.6	4.7	4.4
Gross operating surplus and mixed income	<i>bill. CZK</i>	2 432	2 507	2 671	2 635	2 845	3 188	3 563	3 485	3 631	3 779
	<i>% of GDP</i>	47.6	46.3	46.1	46.2	46.6	47.0	48.5	45.6	45.3	45.1
	<i>growth in %</i>	4.0	3.1	6.5	-1.4	8.0	12.1	11.8	-2.2	4.2	4.1
Consumption of capital	<i>bill. CZK</i>	1 022	1 074	1 153	1 229	1 302	1 434	1 550	1 643	1 754	1 869
	<i>growth in %</i>	3.5	5.0	7.4	6.5	6.0	10.1	8.1	6.0	6.7	6.5
Net operating surplus	<i>bill. CZK</i>	1 410	1 434	1 518	1 406	1 543	1 754	2 014	1 841	1 877	1 910
	<i>growth in %</i>	4.3	1.7	5.9	-7.4	9.7	13.7	14.8	-8.6	1.9	1.8

Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.6: GDP by Type of Income – quarterly

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	1 716	1 851	1 863	1 920	1 749	1 912	1 957	2 023
	<i>growth in %</i>	11.3	9.1	6.3	6.9	1.9	3.3	5.0	5.4
Balance of taxes and subsidies	<i>bill. CZK</i>	114	158	163	103	156	184	187	166
	<i>growth in %</i>	-8.7	1.7	-1.8	-29.1	36.7	16.1	14.5	61.7
Compensation of employees <i>(domestic concept)</i>	<i>bill. CZK</i>	774	807	796	871	817	861	853	932
	<i>growth in %</i>	9.7	8.0	7.1	7.5	5.5	6.7	7.2	6.9
Wages and salaries	<i>bill. CZK</i>	593	620	613	670	627	661	655	715
	<i>growth in %</i>	10.1	8.4	7.4	7.7	5.8	6.7	6.9	6.8
Social security contributions	<i>bill. CZK</i>	181	188	184	202	189	200	198	216
	<i>growth in %</i>	8.3	6.8	6.1	6.9	4.5	6.5	7.9	7.3
Gross operating surplus and mixed income	<i>bill. CZK</i>	828	886	904	946	777	867	916	925
	<i>growth in %</i>	16.4	11.6	7.2	12.5	-6.2	-2.2	1.4	-2.2

Source: CZSO. Calculations and forecast of the MoF.

3.2 Prices

The **average inflation rate** in 2023 was 10.7% (vs. 10.8%). The annual **consumer price** inflation slowed to 6.9% (vs. 7.6%) in December 2023. Excluding the energy tariff, the annual inflation in December would have been 4.2%. The main contributors to the forecast error were a stronger decrease in food and fuel prices, while energy prices were higher. In terms of the consumer basket divisions, the main driver of December annual inflation was the housing division (4.6pp contribution), mainly due to price increases of 7.3% for rentals for housing, 142.4% for electricity (24.7% if we exclude the effect of the energy tariff) and 24.2% for heat and hot water. Additionally, there was a high contribution from the following divisions: alcoholic beverages, tobacco (0.5pp), recreation and culture (0.5pp) and restaurants and hotels (0.5pp). Prices of food and non-alcoholic beverages and the transport division contributed to the year-on-year decrease in the price level. Administrative measures added 4.7pp to inflation, with regulated prices (especially energy prices) contributing 4.6pp and tax changes 0.1pp.

The higher annual inflation rate in December as measured by the **HICP** (7.6% according to preliminary data) compared to the inflation according to the national CPI was due to a significant slowdown in imputed rents, which are not included in the HICP. Imputed rents are largely determined by market prices of new flats and houses. Their very high prices (see Graph 3.2.8), as well as more expensive and by regulation formerly restricted mortgage lending, have led to a significant slowdown in imputed rents dynamics through the lower availability of owner-occupied housing.

The price level increased significantly in **2023** compared to the previous year, but annual price growth was declining at a rapid pace over the course of the year. Administrative measures contributed 4.3pp (*in line with the forecast*) to the average inflation rate. Within these measures, energy prices were the dominant factor. The slightly positive contribution of indirect taxes of 0.1pp (*in line with the forecast*) reflected an increase in excise duties on tobacco products and changes in excise duties on fuel.

The price of oil was anti-inflationary in full-year terms over the last year, as was the exchange rate of the koruna against the major world currencies, despite unfavourable developments of both factors towards the end of the year. Supply chains were already functioning without major problems, so inflationary pressures stemming from supply-side frictions were not significant. The reduction in private consumption resulting from a significant decrease in real incomes and reduced willingness of households to spend was anti-inflationary. However, the tight labour market was increasing upward pressures on nominal wage growth and thus had an inflationary effect. Last year, inflation was already more strongly dampened by high monetary policy rates.

This year, inflationary pressures will be significantly lower than in the past two years. However, the contribution of administered prices to the average inflation rate should still be elevated. While the non-regulated part of both electricity and gas should become significantly cheaper, the very strong increase in prices of the regulated components of overall electricity and gas prices will have an opposite effect. Other regulated prices will reflect especially an increase in the price of the annual voucher for the motorway vignette or an increase in the prices of heat and hot water and water supply and sewerage. The fiscal consolidation package will make changes to indirect taxes. Increases in excise duties on alcohol and tobacco products will increase inflation this year, while the contribution of changes in value-added tax rates reported in price statistics should be negative¹. Thus, the first-round effects of changes in indirect taxes could increase inflation by almost 0.1pp (*unchanged*). In total, the contribution of administrative measures to the average inflation rate in 2024 could be 1.0pp (vs. 0.3pp).

A restrictive effect of monetary policy will be supported by an income effect of the fiscal consolidation package, and together they will significantly moderate inflationary pressures. A slight decrease in the oil price and the appreciation of the koruna against the dollar could also be anti-inflationary. Inflationary factors could include not only relatively high nominal wage growth but also a depreciation of the koruna against the euro.

In line with the above, we expect the **average inflation rate** to fall significantly to 3.1% (vs. 3.3%) in 2024. Annual inflation should remain below 3% for most of the year; however, it should temporarily approach 4% towards the end of the second half of the year as the effect of the significant month-on-month price declines at the end of 2023 fades.

In Q3 2023, the **GDP deflator** rose by 7.4% (vs. 9.0%), with a 5.1% (vs. 5.8%) increase in the gross domestic expenditure deflator and a 3.8% (vs. 5.0%) improvement in the terms of trade. The evolution of the gross domestic expenditure deflator mainly reflected consumer price inflation. The significantly better performance of the terms of trade was mostly driven by lower import prices, particularly of mineral fuels and chemicals.

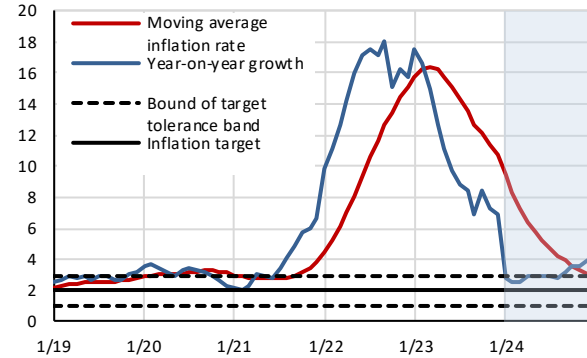
¹ The primary impact of the VAT change is fully captured by the CZSO in the administrative component, while the secondary impact of the expected incomplete pass-through to consumer prices is recorded in the market component of inflation.

We estimate that the GDP deflator increased by 8.9% (vs. 9.0%) in 2023. The continued strong growth of the gross domestic expenditure deflator, especially of household consumption, was amplified by an improvement in the terms of trade (see Graph 3.2.5). This year, GDP deflator growth could slow down to 2.8% (vs. 3.0%) due to lower price dynamics across all components of domestic demand.

Last year, the terms of trade were positively affected by a decline in the prices of many production inputs, mainly oil and gas. This year, foreign trade prices should more or less stabilise. As a result, the terms of trade could have improved by 2.7% (vs. 2.3%) in 2023 and might improve further by 0.3% (vs. 0.1%) in 2024.

Graph 3.2.1: Consumer Prices

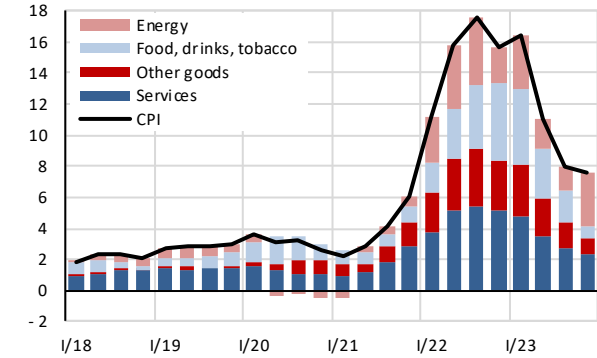
YoY growth rate in %



Source: CNB, CZSO. Calculations and forecast of the MoF.

Graph 3.2.2: Consumer Prices in Main Divisions

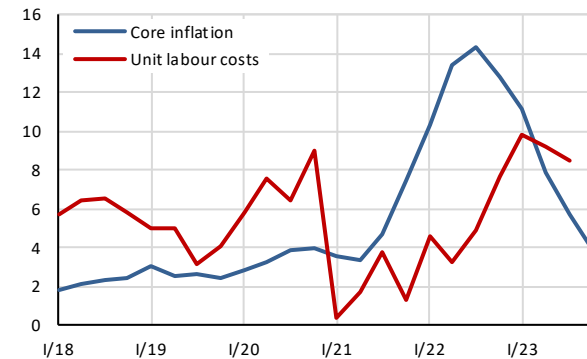
YoY growth of consumer price index in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Graph 3.2.3: Core Inflation and Unit Labour Costs

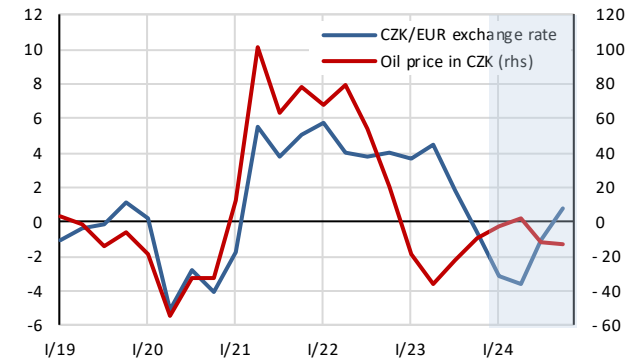
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.2.4: CZK/EUR and Koruna Price of Oil

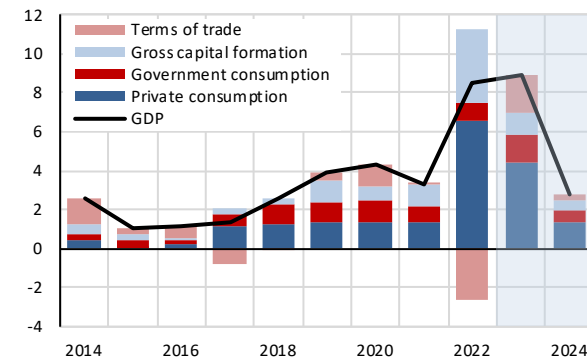
CZK/EUR appreciation, YoY change in CZK price of oil, in %



Source: CNB, U.S. EIA. Calculations and forecast of the MoF.

Graph 3.2.5: Gross Domestic Product Deflator

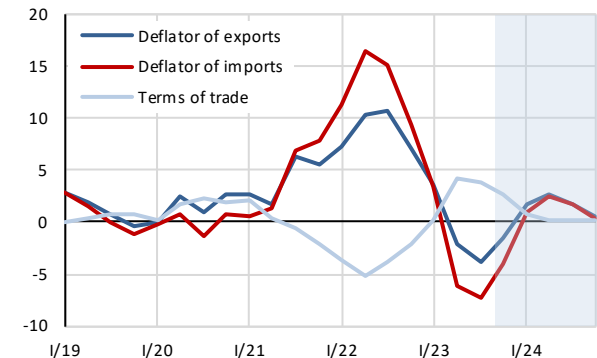
growth rate in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.2.6: Terms of Trade

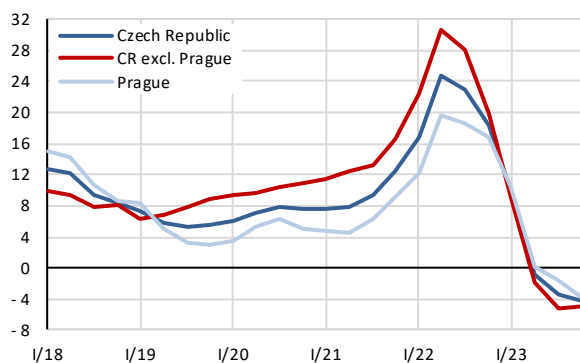
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.2.7: Offering Prices of Flats

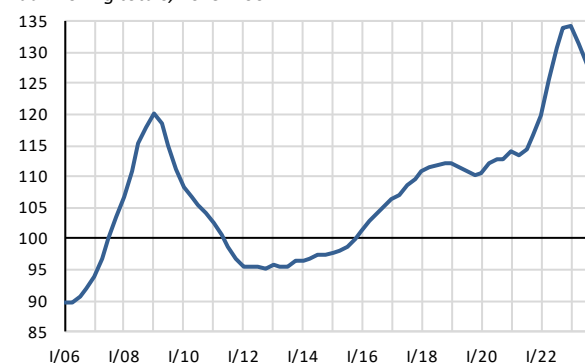
YoY growth rate in %



Source: CZSO.

Graph 3.2.8: Prices of Flats Relative to Average Wage

ratio of index of offering prices of flats to index of average wage, annual moving totals, 2015=100



Source: CZSO. Calculations and forecast of the MoF.

Table 3.2.1: Prices – yearly

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								Estimate	Forecast	Outlook	Outlook
Consumer Price Index											
Level	average 2015=100	103.1	105.3	108.3	111.8	116.1	133.6	147.8	152.3	156.4	159.5
Average inflation rate	%	2.5	2.1	2.8	3.2	3.8	15.1	10.7	3.1	2.6	2.0
Administrative measures ¹⁾	percentage points	-0.1	0.3	0.6	0.5	0.0	2.8	4.3	1.0	0.5	0.3
Market increase	percentage points	2.6	1.8	2.2	2.7	3.8	12.3	6.4	2.1	2.1	1.7
Harmonized index of consumer prices											
Level	average 2015=100	103.1	105.1	107.8	111.4	115.1	132.1	147.9	152.6	156.6	159.8
Average inflation rate	growth in %	2.4	2.0	2.6	3.3	3.3	14.8	12.0	3.2	2.6	2.0
Deflators											
GDP	average 2015=100	102.5	105.1	109.2	113.9	117.7	127.7	139.2	143.0	146.5	149.4
	growth in %	1.3	2.6	3.9	4.3	3.3	8.5	8.9	2.8	2.4	2.0
Gross domestic expenditure	average 2015=100	102.9	105.8	109.7	113.4	117.3	131.0	140.4	144.0	147.5	150.4
	growth in %	2.3	2.8	3.7	3.4	3.4	11.7	7.2	2.6	2.4	2.0
Consumption of households	average 2015=100	102.7	105.3	108.3	111.4	114.6	131.8	144.5	148.6	152.4	155.4
	growth in %	2.3	2.5	2.8	2.9	2.9	15.0	9.6	2.8	2.5	2.0
Consumption of government	average 2015=100	105.0	110.6	116.6	122.6	127.5	133.0	142.2	146.4	150.4	153.6
	growth in %	3.5	5.4	5.4	5.2	4.0	4.3	6.9	3.0	2.7	2.2
Fixed capital formation	average 2015=100	102.0	103.6	107.7	110.8	115.2	128.0	133.9	137.5	140.5	143.2
	growth in %	1.5	1.6	4.0	2.9	3.9	11.1	4.6	2.7	2.2	1.9
Exports of goods and services	average 2015=100	96.9	96.3	97.5	99.0	103.0	112.2	111.1	112.9	113.5	113.8
	growth in %	-0.7	-0.6	1.3	1.5	4.1	8.9	-1.0	1.7	0.5	0.3
Imports of goods and services	average 2015=100	96.9	96.3	97.1	97.0	101.1	114.4	110.2	111.7	112.0	112.2
	growth in %	0.3	-0.6	0.8	0.0	4.2	13.1	-3.7	1.4	0.3	0.1
Terms of trade	average 2015=100	100.0	100.0	100.5	102.0	101.9	98.1	100.8	101.1	101.3	101.5
	growth in %	-1.0	0.0	0.5	1.5	-0.1	-3.7	2.7	0.3	0.2	0.2

¹⁾ The contribution of change in regulated prices and indirect taxes to the average inflation rate.

Source: CZSO, Eurostat. Calculations and forecast of the MoF.

Table 3.2.2: Prices – quarterly

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Consumer Price Index	<i>average 2015=100</i>	147.1	147.6	148.6	148.0	151.0	152.0	153.0	153.4
	<i>growth in %</i>	16.4	11.1	8.0	7.6	2.6	3.0	3.0	3.6
Administrative measures ¹⁾	<i>percentage points</i>	4.9	4.0	3.4	4.9	1.1	0.9	0.9	1.1
Market increase	<i>percentage points</i>	11.5	7.1	4.6	2.7	1.6	2.1	2.1	2.5
Harmonized index of consumer prices	<i>average 2015=100</i>	147.1	147.9	148.8	147.9	151.6	152.4	153.2	153.3
	<i>growth in %</i>	18.0	12.6	9.5	8.4	3.1	3.0	3.0	3.7
Deflators									
GDP	<i>average 2015=100</i>	136.2	138.0	139.6	142.7	139.7	141.7	143.2	147.2
	<i>growth in %</i>	11.4	10.1	7.4	7.3	2.6	2.6	2.6	3.1
Gross domestic expenditure	<i>average 2015=100</i>	138.6	138.7	140.3	143.6	141.2	142.0	143.9	148.5
	<i>growth in %</i>	11.6	7.3	5.1	5.3	1.9	2.4	2.5	3.4
Consumption of households	<i>average 2015=100</i>	142.5	144.1	144.9	146.5	145.7	148.0	148.9	151.6
	<i>growth in %</i>	14.2	10.2	7.4	7.1	2.3	2.7	2.8	3.5
Consumption of government	<i>average 2015=100</i>	137.1	139.3	140.5	150.3	140.2	142.6	143.9	157.1
	<i>growth in %</i>	9.0	6.6	6.1	6.2	2.3	2.4	2.4	4.5
Fixed capital formation	<i>average 2015=100</i>	133.7	130.6	134.7	136.5	137.3	134.1	138.3	140.1
	<i>growth in %</i>	7.6	5.0	3.8	2.8	2.8	2.7	2.6	2.6
Exports of goods and services	<i>average 2015=100</i>	111.6	110.1	111.4	111.1	113.7	113.1	113.4	111.6
	<i>growth in %</i>	3.6	-2.1	-3.8	-1.5	1.8	2.8	1.8	0.5
Imports of goods and services	<i>average 2015=100</i>	112.1	108.5	110.0	110.1	113.3	111.3	111.8	110.4
	<i>growth in %</i>	3.4	-6.1	-7.3	-4.1	1.0	2.5	1.7	0.3
Terms of trade	<i>average 2015=100</i>	99.6	101.5	101.3	100.9	100.3	101.7	101.4	101.1
	<i>growth in %</i>	0.1	4.2	3.8	2.7	0.8	0.2	0.1	0.1

¹⁾ The contribution of change in regulated prices and indirect taxes.

Source: CZSO, Eurostat. Calculations and forecast of the MoF.

3.3 Labour Market

Due to weak economic activity and the influx of refugees from Ukraine, the mismatch between demand and supply on the labour market has eased, but the number of job vacancies still exceeded the number of job seekers for most of last year. The tight labour market thus continued to put upward pressure on nominal earnings growth, which, however, has lagged behind inflation.

Employment (national accounts) increased by 0.5% YoY (*unchanged*) in Q3 2023. Growth was driven mainly by the market and non-market services sectors, but was significantly dampened by developments in manufacturing, where employment has been declining year-on-year for two consecutive quarters. Employment may have increased by 0.7% YoY (*vs. 0.8%*) in Q4 2023 and by 0.8% (*vs. 0.9%*) on average over the whole of 2023. With continued strong labour demand and an expected recovery in economic activity, employment should increase year-on-year over the forecast horizon. Thus, it could grow by 0.5% (*unchanged*) on average this year.

According to MoLSA data, the shortage of workers was also evident in the fourth quarter of last year. At the end of December 2023, the number of job vacancies exceeded the number of the registered unemployed in 4 regions or 30 districts. However, far from all vacancies registered by the labour offices can be considered active. Of the vacancies offered on the website of the labour offices, approx. 44% were active at the forecast cut-off date (offers with the last change after 1 July 2023 and the start date on or after 1 October 2023). According to the CZSO's business cycle survey, the shortage of employees remains the main barrier to output growth in the construction sector and is also not insignificant in industry. However, this problem is mitigated by refugees from Ukraine.

The persistent shortage of workers is also boosting firms' demand for foreign workers. According to the MoLSA data, the number of foreign employees increased by 31,000 YoY to 826,000 in Q4 2023. In the long term, workers from Ukraine and Slovakia dominate. The number of Ukrainian workers increased by 18,000 YoY to 287,000 in Q4 last year.

The unemployment rate remains very low, at 2.6% (*vs. 2.9%*) in Q3 2023. Due to the weak growth dynamics of the Czech economy, the forecast assumes a slight increase in the unemployment rate in Q4 2023 and, due to lagged effects, a moderate increase in the unemployment rate during the first half of this year. Thereafter, however, the unemployment rate should start to decline gradually thanks to the recovery in economic activity. Thus, it is estimated to reach 2.6% (*vs. 2.7%*) on average for the whole of 2023 and to rise to 2.8% (*unchanged*) this year.

The share of unemployed persons (MoLSA) in the labour office registers rose again year-on-year in December 2023, after a slight decline in October and November. It was 3.6% (*in line with the forecast*) in 2023 and could rise slightly to 3.8% (*vs. 3.7%*) this year.

The participation rate (20–64 years) reached 84.0% (*vs. 83.8%*) in Q3 2023, up 1.0pp YoY. The year-on-year growth was driven by labour force growth, which outpaced population growth, so the participation rate could have increased to 83.7% (*unchanged*) for the whole of last year. This year, the increase in the labour force should remain relatively dynamic given the aforementioned factors, but the working-age population (20–64 years) should grow faster than in the November forecast (due to the inclusion of the new demographic projection, see Chapter 1.6 for more details). However, the participation rate should still rise to 84.3% (*vs. 84.4%*) in 2024.

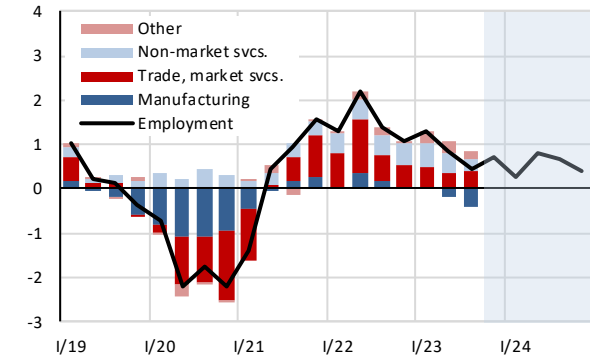
The **volume of wages and salaries** increased by 7.4% (*vs. 7.0%*) in Q3 2023. In the most macroeconomically important sector, manufacturing, wages and salaries increased by 6.0% (with a 1.9% decrease in the number of employees).

The tight labour market situation, which is reflected in labour shortages in many occupations and sectors, is boosting nominal earnings dynamics. Continued high consumer price inflation is in turn boosting wage demands of employees, and the slightly rising number of employees (national accounts methodology) should act in the same direction over the forecast horizon. From 1 January 2024, the minimum wage increased by 9.2% to CZK 18,900. The guaranteed wage has increased by the same amount (CZK 1,600) in the second and third job groups, while in the eighth group it has increased to twice the minimum wage, as required by law. The other grades remained unchanged. In 2024, the automatic indexation of teachers' salaries will be a supporting factor for wages and salaries, but as a result of the consolidation measures, the contribution of the public sector will be significantly reduced year-on-year. Thus, the dynamics of total earnings will be driven by the private sector this year. We estimate that wages and salaries grew by 8.4% (*unchanged*) last year and could be higher by 6.6% (*vs. 6.5%*) in 2024.

The **average wage** (full-time equivalent) increased by 7.1% (*in line with the estimate*) in Q3 2023, with manufacturing contributing the most (1.5pp). The average nominal wage increased most in the electricity, gas, steam and air conditioning supply (by 13.7%), and least in other service activities (by 0.9%). Average wage could have increased by 8.0% (*unchanged*) in 2023, while this year the growth rate could slow down to 6.4% (*vs. 6.3%*).

Graph 3.3.1: Employment

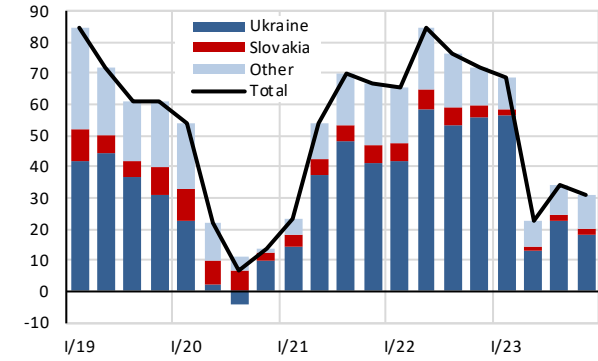
YoY growth rate in%, contributions in pp, national accounts



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.2: Number of Foreign Employees in the CR

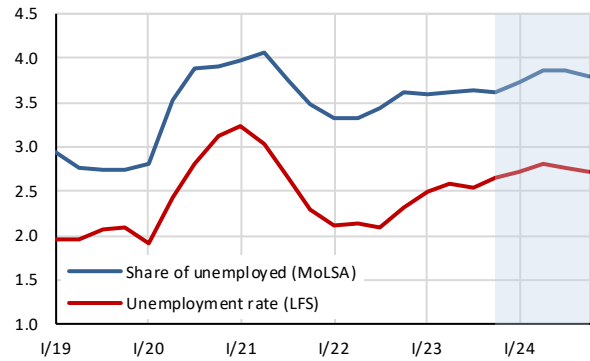
YoY change in thousands of persons



Source: MoLSA. Calculations of the MoF.

Graph 3.3.3: Indicators of Unemployment

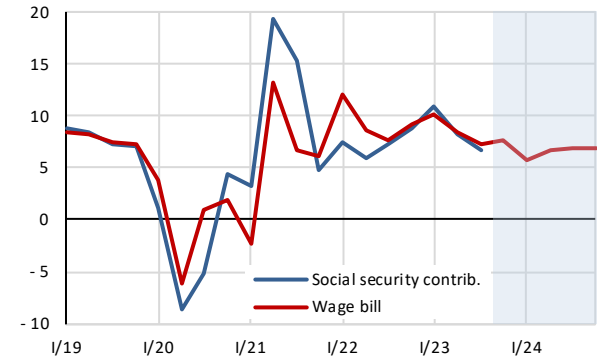
seasonally adjusted data, in%



Source: CZSO, MoLSA. Calculations and forecast of the MoF.

Graph 3.3.4: Social Security Contributions and Earnings

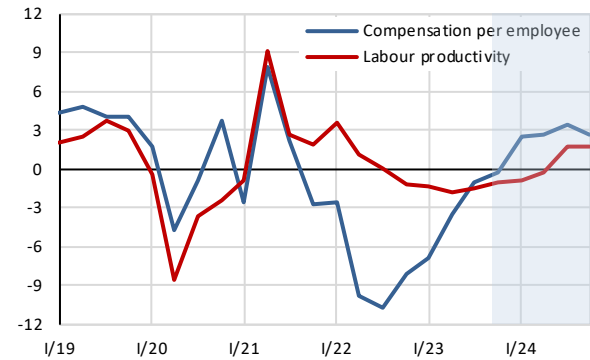
YoY growth rate in%



Source: CZSO, MoF. Calculations and forecast of the MoF.

Graph 3.3.5: Compens. per Employee and Productivity

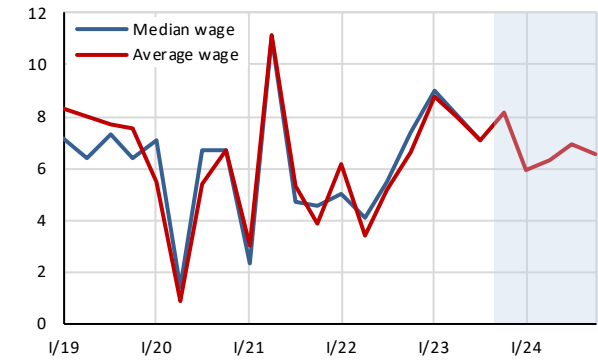
YoY growth rate in%



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.6: Nominal Monthly Wages

YoY growth rate in%



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.7: Nominal Wage Bill

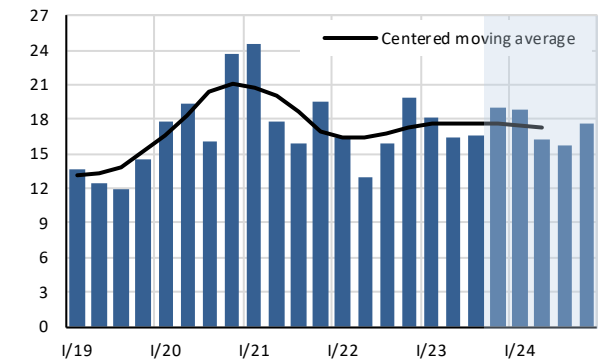
YoY growth rate in%, domestic concept of the wage bill



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.8: Gross Savings Rate of Households

in % of disposable income



Source: CZSO. Calculations and forecast of the MoF.

Table 3.3.1: Labour Market – yearly

		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								Estimate	Forecast	Outlook	Outlook
National accounts											
Employment	<i>av. in thous. persons</i>	5 346	5 417	5 430	5 337	5 358	5 438	5 483	5 513	5 526	5 534
	<i>growth in %</i>	1.5	1.3	0.2	-1.7	0.4	1.5	0.8	0.5	0.2	0.1
Employees	<i>av. in thous. persons</i>	4 581	4 653	4 678	4 605	4 654	4 738	4 765	4 791	4 801	4 806
	<i>growth in %</i>	1.8	1.6	0.5	-1.6	1.1	1.8	0.6	0.5	0.2	0.1
Self-employed persons	<i>av. in thous. persons</i>	764	764	752	732	703	700	718	722	726	728
	<i>growth in %</i>	-0.1	-0.1	-1.5	-2.7	-3.9	-0.5	2.6	0.6	0.4	0.3
Wage bill	<i>growth in %</i>	9.2	9.6	7.8	0.1	5.9	9.3	8.4	6.6	4.7	4.4
Labour productivity	<i>growth in %</i>	3.6	1.9	2.8	-3.9	3.2	0.8	-1.4	0.6	2.3	2.2
Unit labour costs⁶⁾	<i>growth in %</i>	3.5	6.1	4.3	7.3	1.8	5.1	9.0	5.4	2.2	2.1
Compensation of employees	<i>% of GDP</i>	42.8	44.3	44.6	46.0	45.6	44.3	44.2	45.3	45.2	45.2
Labour Force Survey											
Unemployment rate	<i>average in %</i>	2.9	2.2	2.0	2.6	2.8	2.2	2.6	2.8	2.7	2.6
Employment rate 20–64	<i>average in %</i>	78.9	80.3	80.7	80.0	80.3	81.4	82.1	82.4	82.6	83.0
Participation rate 20–64	<i>average in %</i>	80.8	81.7	81.9	81.8	82.2	82.7	83.7	84.3	84.4	84.9
Registered unemployment											
Unemployment	<i>av. in thous. persons</i>	318	242	212	259	280	252	266	275	263	255
Share of unemployed¹⁾	<i>average in %</i>	4.3	3.2	2.8	3.5	3.8	3.4	3.6	3.8	3.7	3.6
Job vacancies	<i>av. in thousands</i>	178	285	340	332	346	326	283	.	.	.
Business statistics											
Average monthly wage											
Nominal	<i>CZK monthly</i>	29 638	32 051	34 578	36 176	38 277	40 317	43 524	46 319	48 512	50 592
	<i>growth in %</i>	6.7	8.1	7.9	4.6	5.8	5.3	8.0	6.4	4.7	4.3
Real	<i>CZK 2015</i>	28 747	30 438	31 928	32 358	32 969	30 177	29 448	30 404	31 028	31 716
	<i>growth in %</i>	4.3	5.9	4.9	1.3	1.9	-8.5	-2.4	3.2	2.1	2.2
Median monthly wage	<i>CZK monthly</i>	25 398	27 561	29 439	31 049	32 795	34 607	.	.	.	.
	<i>growth in %</i>	7.2	8.5	6.8	5.5	5.6	5.5	.	.	.	.

Note: Following the 2021 Census, new demographic weights have been applied in the LFS since Q1 2022; a new weighting methodology (weighting to the population in private households) is also applied in the data from 2022 onwards. There is therefore a break in the time series between 2021 and 2022.

¹⁾ Share of available job seekers aged 15 to 64 years in the population of the same age.

Source: CZSO, MoLSA. Calculations and forecast of the MoF.

Table 3.3.2: Labour Market – quarterly

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
National accounts									
Employment	<i>av. in thous. persons</i>	5 445	5 486	5 501	5 500	5 461	5 530	5 539	5 522
	<i>YoY growth in %</i>	1.3	0.9	0.5	0.7	0.3	0.8	0.7	0.4
	<i>QoQ growth in %</i>	0.2	1.0	-0.7	0.3	0.1	0.3	0.0	0.1
Wages and salaries	<i>growth in %</i>	10.1	8.4	7.4	7.7	5.8	6.7	6.9	6.8
Labour Force Survey									
Unemployment rate	<i>average in %</i>	2.6	2.5	2.6	2.6	2.9	2.8	2.8	2.6
Employment rate 20–64	<i>average in %</i>	81.5	82.2	82.4	82.1	81.5	82.8	83.0	82.1
	<i>increase over a year</i>	1.0	1.4	1.1	0.4	0.0	0.6	0.6	0.1
Participation rate 20–64	<i>average in %</i>	83.2	83.9	84.0	83.7	83.4	84.7	84.9	83.9
	<i>increase over a year</i>	0.6	1.4	1.0	0.7	0.2	0.8	1.0	0.2
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	279	259	259	265	288	272	270	268
Share of unemployed¹⁾	<i>average in %</i>	3.8	3.5	3.5	3.5	4.0	3.8	3.8	3.7
Job vacancies	<i>av. in thousands</i>	284	285	284	279	.	.	.	.
Business statistics									
Average monthly wage									
Nominal	<i>CZK monthly</i>	41 320	43 298	42 658	46 821	43 761	46 037	45 600	49 876
	<i>growth in %</i>	8.7	8.0	7.1	8.2	5.9	6.3	6.9	6.5
Real	<i>CZK 2015</i>	28 090	29 335	28 707	31 636	28 988	30 294	29 796	32 513
	<i>growth in %</i>	-6.6	-2.8	-0.9	0.6	3.2	3.3	3.8	2.8
Median monthly wage	<i>CZK monthly</i>	34 787	36 905	37 492	.	.	.	.	.
	<i>growth in %</i>	9.0	8.1	7.1	.	.	.	.	.

¹⁾ Share of available job seekers aged 15 to 64 years in the population of the same age.

Source: CZSO, MoLSA. Calculations and forecast of the MoF.

Table 3.3.3: Income and Expenditures of Households – yearly

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
											Estimate	Forecast
Current income												
Compensation of employees	<i>bill.CZK</i>	1 923	2 038	2 223	2 430	2 599	2 650	2 800	3 016	3 269	3 485	
	<i>growth in %</i>	5.4	6.0	9.1	9.3	7.0	1.9	5.7	7.7	8.4	6.6	
Gross operating surplus and mixed income	<i>bill.CZK</i>	691	703	740	801	845	833	856	926	959	1 013	
	<i>growth in %</i>	2.4	1.7	5.2	8.3	5.5	-1.4	2.7	8.3	3.5	5.6	
Property income received	<i>bill.CZK</i>	127	133	162	162	163	129	171	234	292	304	
	<i>growth in %</i>	-4.3	4.1	21.9	0.2	0.5	-20.9	32.5	37.0	24.8	4.3	
Social benefits not-in-kind	<i>bill.CZK</i>	613	630	650	685	738	885	923	985	1 120	1 177	
	<i>growth in %</i>	2.8	2.8	3.2	5.4	7.7	19.9	4.3	6.6	13.7	5.1	
Other current transfers received	<i>bill.CZK</i>	181	217	244	281	338	363	471	571	593	618	
	<i>growth in %</i>	13.3	19.4	12.8	15.1	20.4	7.3	29.8	21.1	3.9	4.1	
Current expenditure												
Property income paid	<i>bill.CZK</i>	14	14	13	19	28	27	26	50	74	77	
	<i>growth in %</i>	-10.7	0.2	-7.4	43.2	44.8	-2.7	-2.3	89.5	48.6	3.9	
Curr. taxes on income and property	<i>bill.CZK</i>	205	227	264	309	316	342	266	265	288	309	
	<i>growth in %</i>	3.9	10.8	16.3	16.9	2.3	8.3	-22.3	-0.4	8.8	7.3	
Social contributions	<i>bill.CZK</i>	732	775	836	911	976	1 028	1 129	1 181	1 285	1 392	
	<i>growth in %</i>	5.3	5.8	7.9	9.0	7.1	5.3	9.8	4.6	8.8	8.4	
Other current transfers paid	<i>bill.CZK</i>	169	207	238	278	335	358	469	549	589	617	
	<i>growth in %</i>	12.5	22.4	15.3	16.5	20.6	6.7	31.1	17.0	7.3	4.8	
Gross disposable income	<i>bill.CZK</i>	2 414	2 497	2 666	2 842	3 029	3 106	3 331	3 687	3 997	4 201	
	<i>growth in %</i>	3.7	3.4	6.8	6.6	6.6	2.5	7.3	10.7	8.4	5.1	
Final consumption	<i>bill.CZK</i>	2 152	2 241	2 383	2 524	2 663	2 536	2 716	3 107	3 297	3 477	
	<i>growth in %</i>	3.9	4.1	6.4	5.9	5.5	-4.8	7.1	14.4	6.1	5.5	
Change in share in pension funds	<i>bill.CZK</i>	33	31	32	33	37	38	38	28	2	-6	
Gross savings	<i>bill.CZK</i>	295	286	315	350	404	607	653	609	701	717	
Capital transfers												
<i>(income (-) / expenditure (+))</i>	<i>bill.CZK</i>	-12	-14	-11	-12	-13	-41	-35	-25	-34	-28	
Gross capital formation	<i>bill.CZK</i>	220	237	216	261	297	300	314	310	321	332	
	<i>growth in %</i>	2.9	7.9	-9.2	21.2	13.7	0.9	4.9	-1.3	3.4	3.6	
Change in financial assets and liab.	<i>bill.CZK</i>	85	61	110	101	116	348	375	325	415	414	
Real disposable income	<i>growth in %</i>	3.7	3.0	4.4	4.0	3.7	-0.4	4.3	-3.8	-1.1	2.2	
Gross savings rate	<i>%</i>	12.1	11.3	11.7	12.2	13.2	19.3	19.4	16.4	17.5	17.1	

Source: CZSO. Calculations of the MoF.

3.4 External Relations

Export markets declined by 6.6% YoY (vs. 4.9%) in Q3 2023. The worse-than-estimated development was solely due to the quarter-on-quarter reduction in import intensity of most of the Czech Republic's main trading partners. Imports fell most significantly in Poland, the United Kingdom, Italy and Germany, driven down not only by a lower volume of imported mineral fuels due to the easing of the threat of energy commodity shortages, but also by a decline in imports for intermediate consumption due to worsening conditions in industry. High accumulation of inventories two years ago due to concerns about high inflation and component supply shortages probably also played a role. Taking into account the evolution of economic activity abroad (see Chapter 1.1) and the fall in import intensity, we estimate that export markets declined by 4.9% (vs. 3.9%) in 2023, but could grow by 1.3% (vs. 2.5%) in 2024 due to the recovery of the main trading partners' economies.

Export performance grew by 5.4% (vs. 4.5%) in Q3 2023. The strong growth² was driven by the unwinding of supply-side frictions and inventory reductions. For the whole of last year, we estimate that export performance grew by 7.2% (vs. 6.4%). The expected 0.9% (vs. 1.6%) performance growth this year should be supported by the year-on-year depreciation of the koruna against the euro (see Chapter 1.4) and continued inventory draw-downs. By contrast, growth will be limited by the expected lower volume of industrial orders from abroad.

The **current account** deficit on the **balance of payments** narrowed by 3.3% of GDP³ QoQ to 1.0% of GDP (vs. 2.6% of GDP) in Q3, mainly on the back of lower primary income deficit and higher surplus of foreign trade in goods.

The **balance of goods** improved by 4.2% of GDP YoY in Q3 2023, reaching a surplus of 2.5% of GDP (vs. 2.1% of GDP). The positive trade balance mainly reflects the cheaper imported energy commodities.

Mineral fuel prices continue to be an important factor influencing the **terms of trade**. The deficit on the fuel part of the balance was 3.1% of GDP (vs. 3.4% of GDP) in Q3 2023. Taking into account the evolution of oil prices (see Chapter 1.2) and other energy commodities (in particular natural gas), we estimate that the deficit declined

to 3.0% of GDP (vs. 3.3% of GDP) in 2023. In 2024, it could narrow further to 2.7% of GDP (vs. 3.2% of GDP).

We estimate that the balance of goods ended last year with a surplus of 3.2% of GDP (vs. 2.1% of GDP) and for this year we project a further increase to 4.0% of GDP (vs. 3.2% of GDP). Last year, the trade balance was positively affected by improving terms of trade and the unwinding of problems in supply chains, which allowed firms to complete work-in-progress production and subsequently export it. The balance of foreign trade in goods in 2024 will also be supported by the economic recovery abroad and a slowdown in the growth of import-intensive investment activity.

The **balance of services** posted a surplus of 1.0% of GDP (vs. 1.1% of GDP) in Q3 2023. The 0.6% of GDP year-on-year decline was driven by an increase in imports of ICT services, insurance services and other business services. We estimate that the surplus on the services balance reached 0.9% of GDP (vs. 1.1% of GDP) in 2023 and could increase to 1.0% of GDP (vs. 1.3% of GDP) this year. The improvement in the services balance will be limited by sluggish economic recovery in the euro area (see Chapter 1.1).

The **primary income** deficit narrowed by 1.5% of GDP year-on-year to 4.0% of GDP (vs. 5.4% of GDP) in Q3 2023 due to lower outflows of direct investment income (mainly dividends). The significant reduction in the deficit is also caused by a record-high dividend payout in Q3 2022, boosted by the payment of retained profits of the domestic banking sector from 2019 and 2020. As a result of the above, we estimate that the primary income deficit narrowed to 3.9% of GDP (vs. 5.3% of GDP) last year. The same deficit in relative terms (vs. 5.2% of GDP) is expected in 2024, given the projected evolution of economic activity.

Against this background, we expect the **current account of the balance of payments** to be largely balanced over the forecast horizon. Last year, the deficit could have reached 0.2% of GDP (vs. 2.4% of GDP), and for this year we forecast a slightly positive balance of 0.4% of GDP (vs. a deficit of 1.2% of GDP).

The **current external balance** (national accounts methodology) reached a surplus of 1.1% of GDP in Q3 2023 (see Graph 3.4.8). From a sectoral perspective, this was mainly driven by households, whose savings exceeded investment by 5.3% of GDP. However, in the general government and non-financial corporations sectors, the relationship between savings and investment was reversed, with gross capital formation exceeding gross savings by 3.2% and 2.1% of GDP, respectively.

² At the same time, it is necessary to point out the methodological bias of the decomposition used. Export performance is calculated as the ratio of total exports of goods to export markets. It is therefore based on the principle that faster growth of exports compared to imports by trading partners leads to a higher share of Czech goods on those markets at the expense of other countries and thus to a higher growth of this indicator. However, in the case of a significant decline in imports from our trading partners and thus in export markets relative to Czech exports, the performance indicator then improves without any real increase in exports from the Czech Republic.

³ All quarterly data relative to GDP are reported in annual moving totals.

Graph 3.4.1: GDP and Goods Imports of Partner Countries

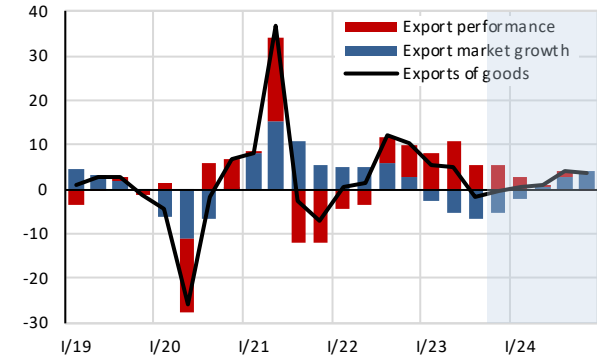
YoY growth rate in %, seasonally adjusted



Source: Eurostat. Calculations and forecast of the MoF.

Graph 3.4.2: Real Exports of Goods

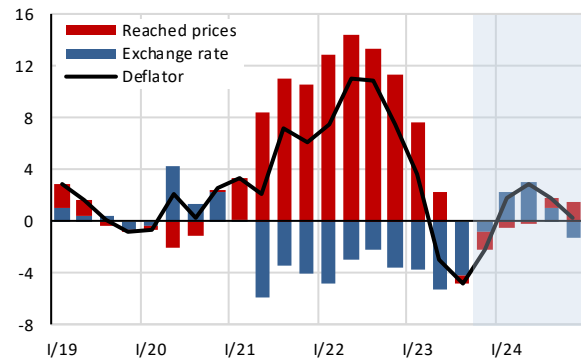
YoY growth in %, contributions in pp, seasonally adjusted



Source: CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 3.4.3: Deflator of Exports of Goods

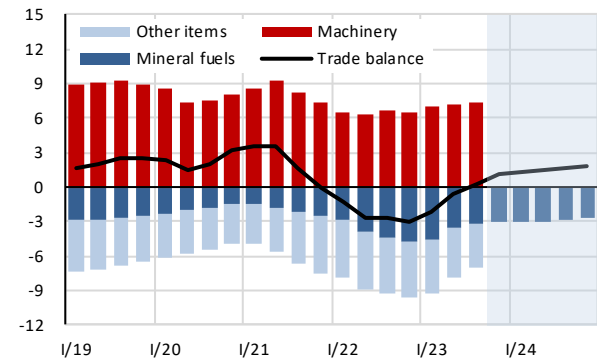
YoY growth in %, contributions in percentage points



Source: CNB, CZSO. Calculations and forecast of the MoF.

Graph 3.4.4: Balance of Trade

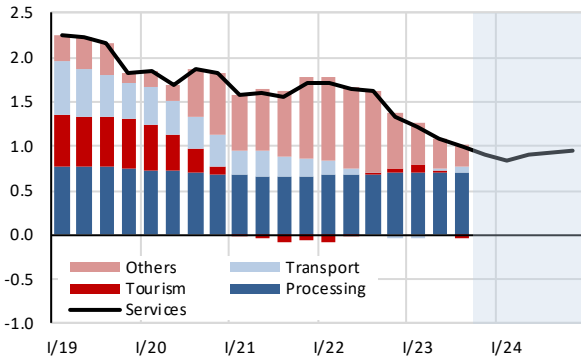
four-quarter moving totals, in % of GDP, change of ownership concept



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.4.5: Balance of Services

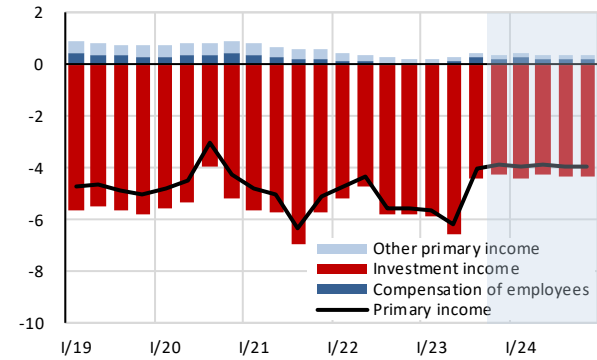
four-quarter moving totals, in % of GDP



Source: CNB, CZSO. Calculations and forecast of the MoF.

Graph 3.4.6: Balance of Primary Income

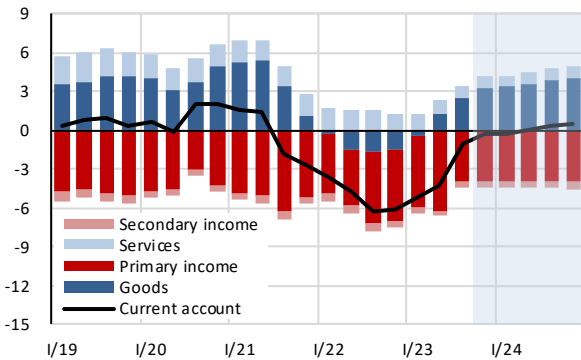
four-quarter moving totals, in % of GDP



Source: CNB, CZSO. Calculations and forecast of the MoF.

Graph 3.4.7: Current Account

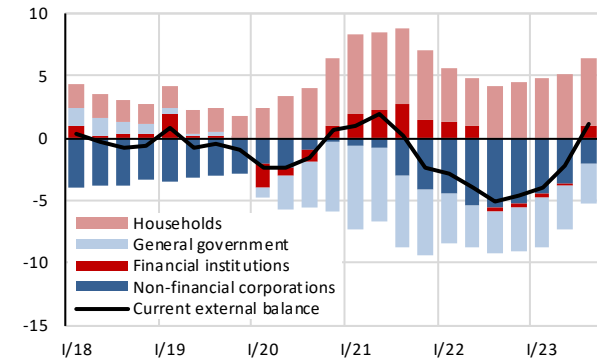
four-quarter moving totals, in % of GDP, BoP methodology



Source: CNB, CZSO. Calculations and forecast of the MoF.

Graph 3.4.8: Current External Balance

four-quarter moving totals, in % of GDP, national accounts



Source: CZSO. Calculations of the MoF.

Table 3.4.1: Decomposition of Exports of Goods (National Accounts Methodology) – yearly*seasonally adjusted*

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
											<i>Estimate</i>	<i>Forecast</i>
GDP ¹⁾	<i>average of 2010=100</i>	109.2	111.5	114.9	117.4	119.6	113.7	119.4	122.8	123	124	
	<i>growth in %</i>	2.2	2.1	3.1	2.2	1.9	-4.9	5.0	2.9	0.2	1.1	
Import intensity ²⁾	<i>average of 2010=100</i>	110.0	112.6	115.4	118.0	118.4	117.0	122.4	124.4	118	118	
	<i>growth in %</i>	3.2	2.3	2.5	2.3	0.3	-1.1	4.6	1.6	-5.1	0.2	
Export markets ³⁾	<i>average of 2010=100</i>	120.2	125.5	132.5	138.6	141.6	133.1	146.1	152.8	145	147	
	<i>growth in %</i>	5.5	4.4	5.6	4.6	2.2	-6.0	9.8	4.5	-4.9	1.3	
Export performance	<i>average of 2010=100</i>	111.0	110.7	112.8	111.7	110.6	110.2	107.1	108.5	116	117	
	<i>growth in %</i>	-0.1	-0.2	1.9	-1.0	-1.0	-0.4	-2.8	1.3	7.2	0.9	
Real exports	<i>average of 2010=100</i>	133.4	138.9	149.5	154.7	156.6	146.6	156.5	165.8	169	173	
	<i>growth in %</i>	5.4	4.2	7.6	3.5	1.2	-6.4	6.7	5.9	2.0	2.2	
1 / NEER	<i>average of 2010=100</i>	109.2	106.9	103.9	100.2	100.5	102.4	99.1	95.7	92	94	
	<i>growth in %</i>	0.7	-2.1	-2.8	-3.6	0.3	1.9	-3.3	-3.3	-3.5	1.3	
Prices on foreign markets	<i>average of 2010=100</i>	98.9	98.2	100.2	103.2	103.8	103.0	111.5	126.1	128	129	
	<i>growth in %</i>	-2.1	-0.7	2.1	3.0	0.7	-0.8	8.3	13.0	1.9	0.4	
Exports deflator	<i>average of 2010=100</i>	108.0	104.9	104.1	103.4	104.4	105.5	110.5	120.7	119	121	
	<i>growth in %</i>	-1.4	-2.8	-0.7	-0.7	1.0	1.1	4.7	9.2	-1.6	1.7	
Nominal exports	<i>average of 2010=100</i>	144.0	145.7	155.6	159.9	163.5	154.6	172.9	200.1	201	209	
	<i>growth in %</i>	3.9	1.2	6.8	2.8	2.2	-5.4	11.8	15.8	0.3	3.9	

¹⁾ Weighted average of GDP of eight most important partners – Germany, Slovakia, Austria, the United Kingdom, Poland, France, Italy and Hungary.²⁾ Index of ratio of real imports of goods to real GDP.³⁾ Weighted average of imports of goods of main partners.

Source: CNB, CZSO, Eurostat. Calculations and forecast of the MoF.

Table 3.4.2: Decomposition of Exports of Goods (National Accounts Methodology) – quarterly*seasonally adjusted*

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Estimate</i>				<i>Forecast</i>			
GDP ¹⁾	<i>average of 2010=100</i>	122.9	123.0	123.2	123	124	124	125	125
	<i>growth in %</i>	0.2	0.1	0.0	0.6	0.6	0.9	1.3	1.6
Import intensity ²⁾	<i>average of 2010=100</i>	120.3	118.1	117.0	117	117	118	119	120
	<i>growth in %</i>	-2.7	-5.4	-6.6	-5.7	-2.7	-0.4	1.4	2.4
Export markets ³⁾	<i>average of 2010=100</i>	147.8	145.3	144.0	144	145	146	148	150
	<i>growth in %</i>	-2.5	-5.2	-6.6	-5.2	-2.0	0.5	2.7	4.1
Export performance	<i>average of 2010=100</i>	114.8	117.4	115.9	117	118	118	117	117
	<i>growth in %</i>	8.0	10.6	5.4	5.2	2.5	0.2	1.3	-0.4
Real exports	<i>average of 2010=100</i>	169.6	170.6	167.0	169	170	172	174	175
	<i>growth in %</i>	5.3	4.9	-1.5	-0.2	0.4	0.7	4.1	3.6
1 / NEER	<i>average of 2010=100</i>	92.0	90.9	92.4	94	94	94	93	93
	<i>growth in %</i>	-3.7	-5.2	-4.2	-0.8	2.3	3.1	1.0	-1.3
Prices on foreign markets	<i>average of 2010=100</i>	131.0	129.5	127.4	126	130	129	128	128
	<i>growth in %</i>	7.7	2.3	-0.6	-1.3	-0.5	-0.2	0.8	1.5
Exports deflator	<i>average of 2010=100</i>	120.5	117.8	117.8	119	123	121	120	119
	<i>growth in %</i>	3.6	-3.0	-4.8	-2.1	1.8	2.9	1.8	0.2
Nominal exports	<i>average of 2010=100</i>	204.4	201.0	196.7	201	209	208	208	209
	<i>growth in %</i>	9.1	1.7	-6.2	-2.4	2.1	3.6	6.0	3.9

¹⁾ Weighted average of GDP of eight most important partners – Germany, Slovakia, Austria, the United Kingdom, Poland, France, Italy and Hungary.²⁾ Index of ratio of real imports of goods to real GDP.³⁾ Weighted average of imports of goods of main partners.

Source: CNB, CZSO, Eurostat. Calculations and forecast of the MoF.

Table 3.4.3: Balance of Payments – yearly
international investment position and gross external debt – end of period

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
											Estimate	Forecast
Goods and services	bill.CZK	274	365	384	321	346	384	174	-9	304	377	
	% GDP	5.9	7.6	7.5	5.9	6.0	6.7	2.8	-0.1	4.1	4.9	
Goods	bill.CZK	188	259	259	201	240	280	69	-99	237	305	
	% GDP	4.1	5.4	5.1	3.7	4.1	4.9	1.1	-1.5	3.2	4.0	
Services	bill.CZK	87	107	125	120	106	104	105	90	66	73	
	% GDP	1.9	2.2	2.4	2.2	1.8	1.8	1.7	1.3	0.9	1.0	
Primary income	bill.CZK	-255	-253	-255	-260	-292	-242	-312	-375	-285	-300	
	% GDP	-5.5	-5.3	-5.0	-4.8	-5.0	-4.2	-5.1	-5.5	-3.9	-3.9	
Secondary income	bill.CZK	1	-27	-50	-37	-34	-28	-33	-31	-36	-43	
	% GDP	0.0	-0.6	-1.0	-0.7	-0.6	-0.5	-0.5	-0.5	-0.5	-0.6	
Current account	bill.CZK	21	85	79	24	19	114	-168	-415	-17	34	
	% GDP	0.4	1.8	1.5	0.4	0.3	2.0	-2.8	-6.1	-0.2	0.4	
Capital account	bill.CZK	99	52	45	13	24	67	104	7	43	63	
	% GDP	2.1	1.1	0.9	0.2	0.4	1.2	1.7	0.1	0.6	0.8	
Net lending/borrowing	bill.CZK	120	137	124	37	44	180	-64	-408	26	97	
	% GDP	2.6	2.9	2.4	0.7	0.8	3.2	-1.1	-6.0	0.4	1.3	
Financial account	bill.CZK	173	122	116	61	8	163	-40	-415	.	.	
Direct investments	bill.CZK	50	-187	-46	-51	-137	-149	-29	-172	.	.	
Portfolio investments	bill.CZK	-164	-170	-268	30	-105	-136	75	331	.	.	
Financial derivatives	bill.CZK	-5	11	-14	-15	1	11	-58	-38	.	.	
Other investments	bill.CZK	-59	-97	-802	47	139	389	-325	-229	.	.	
Reserve assets	bill.CZK	351	564	1 246	50	110	48	296	-307	.	.	
International investment position	bill.CZK	-1 523	-1 304	-1 273	-1 320	-1 147	-929	-883	-1 340	.	.	
	% GDP	-32.9	-27.2	-24.9	-24.4	-19.8	-16.3	-14.5	-19.7	.	.	
Gross external debt	bill.CZK	3 119	3 499	4 370	4 413	4 384	4 321	4 519	4 454	.	.	
	% GDP	67.4	72.9	85.5	81.6	75.7	75.7	74.0	65.6	.	.	

Source: CNB, CZSO. Calculations and forecast of the MoF.

Table 3.4.4: Balance of Payments – quarterly*four-quarter moving totals, international investment position and gross external debt – end of period*

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Goods and services	<i>bill.CZK</i>	60	168	253	304	315	335	358	377
	<i>% GDP</i>	0.9	2.4	3.5	4.1	4.3	4.5	4.8	4.9
Goods	<i>bill.CZK</i>	-25	92	182	237	253	268	289	305
	<i>% GDP</i>	-0.4	1.3	2.5	3.2	3.4	3.6	3.8	4.0
Services	<i>bill.CZK</i>	85	76	71	66	62	67	69	73
	<i>% GDP</i>	1.2	1.1	1.0	0.9	0.8	0.9	0.9	1.0
Primary income	<i>bill.CZK</i>	-390	-440	-290	-285	-293	-289	-295	-300
	<i>% GDP</i>	-5.6	-6.2	-4.0	-3.9	-4.0	-3.9	-3.9	-3.9
Secondary income	<i>bill.CZK</i>	-31	-31	-33	-36	-37	-39	-41	-43
	<i>% GDP</i>	-0.5	-0.4	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6
Current account	<i>bill.CZK</i>	-362	-302	-70	-17	-15	7	22	34
	<i>% GDP</i>	-5.2	-4.2	-1.0	-0.2	-0.2	0.1	0.3	0.4
Capital account	<i>bill.CZK</i>	29	64	54	43	48	53	58	63
	<i>% GDP</i>	0.4	0.9	0.7	0.6	0.7	0.7	0.8	0.8
Net lending/borrowing	<i>bill.CZK</i>	-333	-238	-17	26	33	60	81	97
	<i>% GDP</i>	-4.8	-3.3	-0.2	0.4	0.4	0.8	1.1	1.3
Financial account	<i>bill.CZK</i>	-337	-208	16	.	.	.	.	.
Direct investments	<i>bill.CZK</i>	-189	-171	-107	.	.	.	.	.
Portfolio investments	<i>bill.CZK</i>	239	-46	-119	.	.	.	.	.
Financial derivatives	<i>bill.CZK</i>	-8	15	16	.	.	.	.	.
Other investments	<i>bill.CZK</i>	144	420	314	.	.	.	.	.
Reserve assets	<i>bill.CZK</i>	-523	-425	-86	.	.	.	.	.
International investment position	<i>stock in bill.CZK</i>	-1 284	-1 199	-1 097	.	.	.	.	.
	<i>% GDP</i>	-18.4	-16.9	-15.2	.	.	.	.	.
Gross external debt	<i>stock in bill.CZK</i>	4 353	4 420	4 546	.	.	.	.	.
	<i>% GDP</i>	62.5	62.1	62.9	.	.	.	.	.

Source: CNB, CZSO. Calculations and forecast of the MoF.

4 Survey of Other Institutions' Forecasts

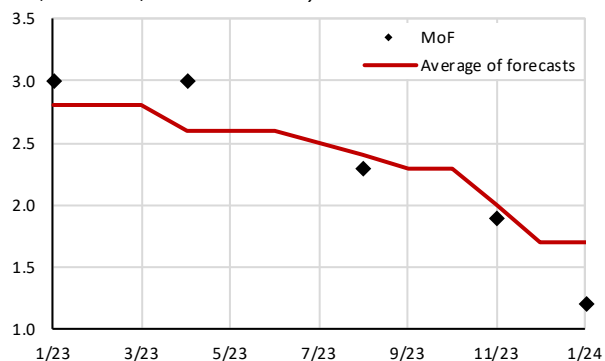
On average, the institutions surveyed expect the Czech economy to increase by 1.7% in 2024, with growth accelerating to 2.8% next year. They estimate that the average inflation rate could be 3.1% this year and fall to 2.4% in 2025. The average wage could rise by 6.7% this year and slow to 5.8% next year. The current account of the balance of payments could show a surplus of 0.2% and 0.6% of GDP in 2024 and 2025, respectively.

When assessing the differences between the current forecast of the MoF and the average of the estimates of individual institutions, it is necessary to take into account the date of preparation of individual forecasts and the information available to their authors.

Compared to the average of the forecasts of the monitored institutions, the MoF expects slower GDP growth in both 2024 and 2025. The MoF's forecast for the average inflation rate this year is in line with the average of the monitored forecasts, but the MoF expects slightly faster consumer price growth next year. According to the MoF's forecast, the average wage will grow more slowly in both years than forecasts of the monitored institutions envisage. In line with the average of the surveyed institutions' forecasts, the MoF expects a gradual increase in the positive balance on the current account of the balance of payments, although it expects a slightly larger surplus in both years.

Graph 4.1: Forecasts for Real GDP Growth in 2024

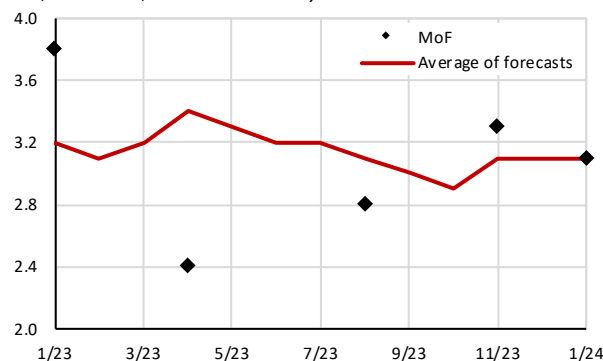
in %; the month, in which the survey was made on the horizontal axis



Source: Forecasts of individual institutions. Calculations of the MoF.

Graph 4.2: Forecasts for Average Inflation Rate in 2024

in %; the month, in which the survey was made on the horizontal axis



Source: Forecasts of individual institutions. Calculations of the MoF.

Table 4.1: Summary of the Surveyed Forecasts

		January 2024			January 2024
		min.	max.	average	MoF forecast
Gross domestic product (2024)	growth in %, const.pr.	1.2	2.3	1.7	1.2
Gross domestic product (2025)	growth in %, const.pr.	2.1	3.3	2.8	2.5
Average inflation rate (2024)	%	1.9	4.6	3.1	3.1
Average inflation rate (2025)	%	1.8	3.0	2.4	2.6
Average monthly wage (2024)	growth in %	6.0	7.6	6.7	6.4
Average monthly wage (2025)	growth in %	5.1	6.5	5.8	4.7
Current account / GDP (2024)	%	-1.0	1.7	0.2	0.4
Current account / GDP (2025)	%	-1.0	1.8	0.6	0.7

Note: The survey is based on publicly available forecasts of 11 institutions, of which 7 institutions are domestic (Czech Banking Association, CNB, Ministry of Labour and Social Affairs, domestic banks) and the remaining are foreign entities (European Commission, OECD, IMF, The Economist). In the case of GDP, no difference is being made between working-day adjusted and unadjusted forecasts.

Source: Forecasts of individual institutions. Calculations and forecast of the MoF.

5 International Comparison

GDP per capita in current purchasing power parity increased in 2022 in all countries surveyed (see Table 5.1), most notably in Austria and Portugal. With the exception of Estonia, economic growth has contributed in all countries. In 2022 the purchasing power parity of the Czech currency compared to the EU27 was CZK 19.82/PPS, and CZK 18.88/EUR compared to the EA20. In the same year the relative economic level of the Czech Republic in current purchasing power parity fell slightly to 87% of the euro area, but could have fallen to 86% in 2023 due to strong growth in the cost of living and a fall in household consumption. We expect a relatively stronger economic recovery in the Czech Republic this year, with GDP per capita reaching 87% of the euro area average.

In 2022, GDP per capita in **exchange rate** terms in the Czech Republic rose to EUR 25,800, equivalent to 67% of the euro area average. In both 2023 and 2024, the Czech Republic should be closer to the euro area level, with GDP per capita (in euros) at almost 70% of the euro area average.

In 2022, **actual individual consumption** per capita in current purchasing power parity in the Czech Republic fell to 77% of the euro area average. Given the persistently high inflation rate and subdued household consumption, we estimate a slight decline to 76% last year, but thanks to a reduction in inflation and a recovery in consumption, actual individual consumption per capita could rise back to 77% of the euro area average this year.

The **comparative price level of GDP**, expressed as the ratio of GDP in purchasing power parity to GDP in exchange rate terms, rose to 77% of the euro area average in 2022. In 2023, due to the inflation differential and the appreciation of the koruna, it could have risen to 81%, but this year it could fall to 79% due to a slight year-on-year depreciation of the exchange rate against the euro.

In 2022, **average earnings** in the Czech Republic, expressed in current purchasing power parity terms, slightly decreased to 73% of the euro area average. In domestic currency terms, earnings in the Czech Republic grew faster than in the euro area (by 7.4% vs. 4.8%), but they increased less than in the euro area (by 3.2% vs. 5.0%) in purchasing power parity terms due to the depreciation of the CZK/PPS by around 4%.

The differences in relative economic performance compared to the euro area in 2022 are summarised in Graph 5.21, which decomposes GDP per capita in purchasing power parity into hourly labour productivity, average hours worked, the employment rate of people of working-age (20–64 years) and the effect of demographic factors.

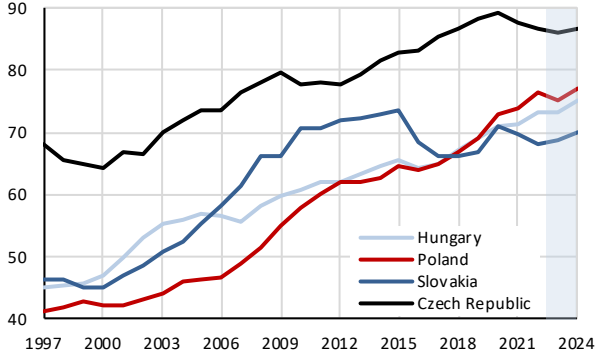
In 2022, hourly **labour productivity** increased in most of the surveyed countries (listed in Tables 5.1–5.3), but only in the Czech Republic and Estonia remained at the 2021 level. Labour productivity in Germany, Austria and France remains above the euro area average, but in the new EU Member States it is still tens of percent lower. Most of the countries whose productivity is below the euro area average either approached or at least remained at the same relative level as in 2021. While the relative level of labour productivity in the Czech Republic fell (it also fell in Estonia, Lithuania and Slovakia) to 71% of the euro area average, it was still the second highest among the new EU Member States (it reached 77% in Slovenia).

The **average number of hours worked** per worker in 2022 increased in all countries surveyed, except Germany, Austria, Poland, Bulgaria and Romania. Still, the average number of hours worked in the new Member States is higher than in the euro area, and in the Czech Republic it was 15% higher in 2022. The **ratio of the number of employed persons to the working-age population** varies considerably across the countries surveyed. Countries with high structural unemployment (Spain, Italy and Greece) have long been below the euro area level. The Czech Republic is above the euro area average (by 7% in 2022) thanks to very dynamic employment growth until 2019, limited labour market effects of the pandemic and rising effective retirement age.

The share of the working-age population captured by the **demographic component** declined in most countries in 2022 (except France, Greece, Lithuania, Bulgaria and Croatia) due to continued population ageing. In the Czech Republic, the demographic component was below the euro area average in 2022 for the first time since 2002, by around 1%. Given the demographic development, no significant improvement can be expected over the forecast horizon.

Graph 5.1: GDP per Capita in Current PPP

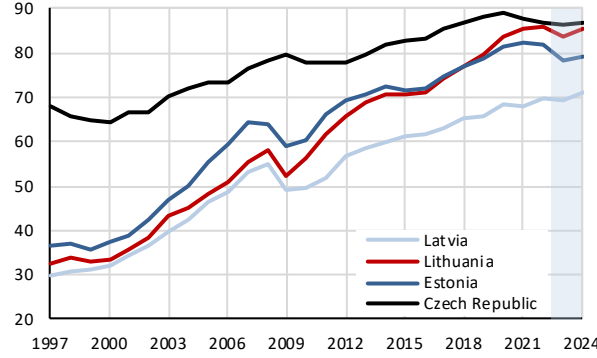
EA20=100



Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.2: GDP per Capita in Current PPP

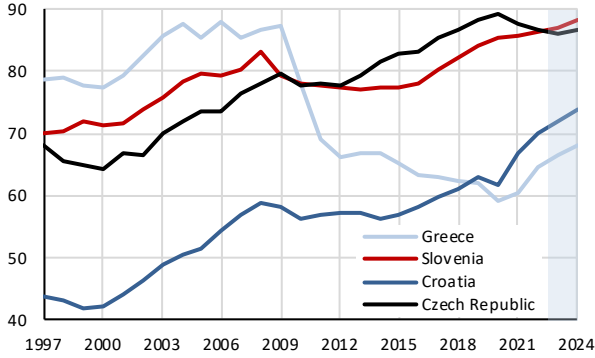
EA20=100



Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.3: GDP per Capita in Current PPP

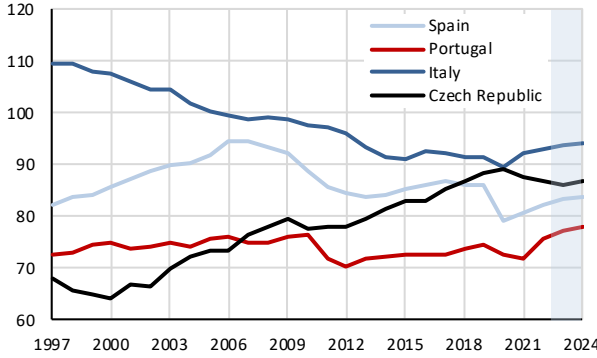
EA20=100



Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.4: GDP per Capita in Current PPP

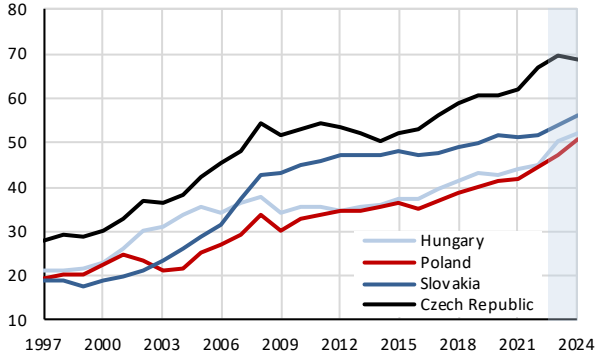
EA20=100



Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.5: Exchange Rate Adjusted GDP per Capita

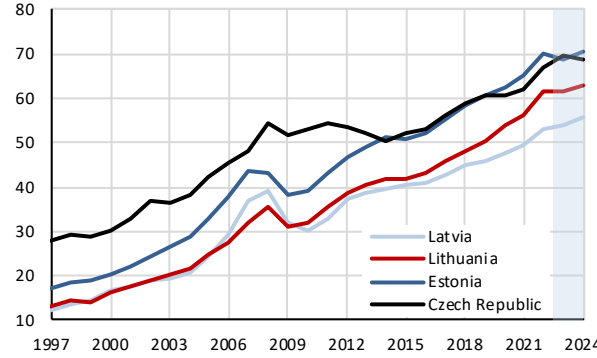
EA20=100



Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.6: Exchange Rate Adjusted GDP per Capita

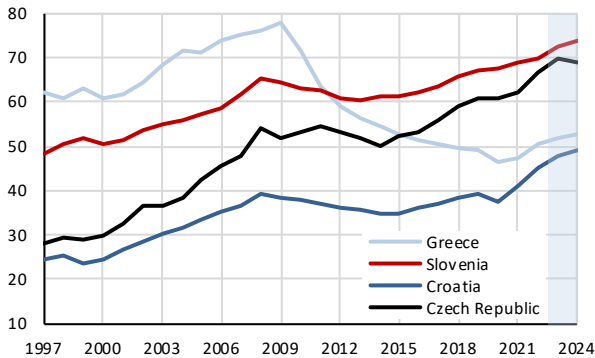
EA20=100



Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.7: Exchange Rate Adjusted GDP per Capita

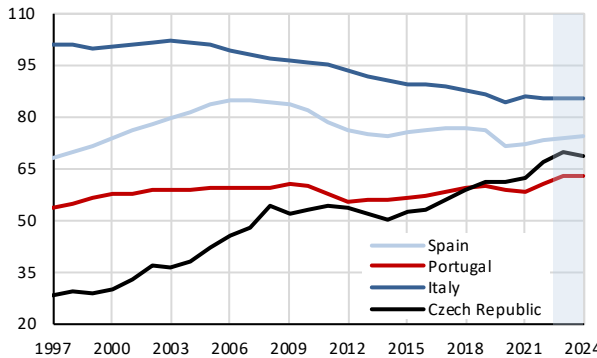
EA20=100



Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

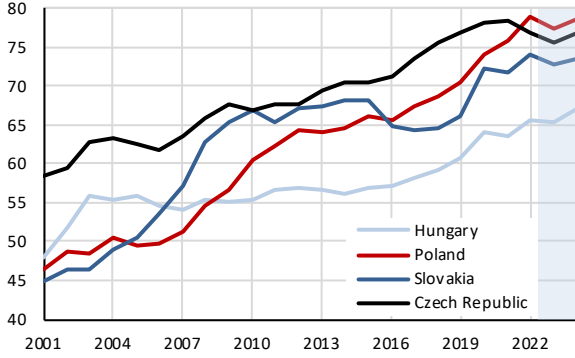
Graph 5.8: Exchange Rate Adjusted GDP per Capita

EA20=100



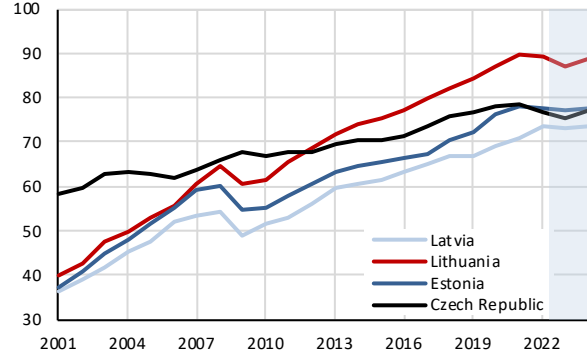
Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.9: Actual Individual Consumption per Capita in current PPP, EA20=100



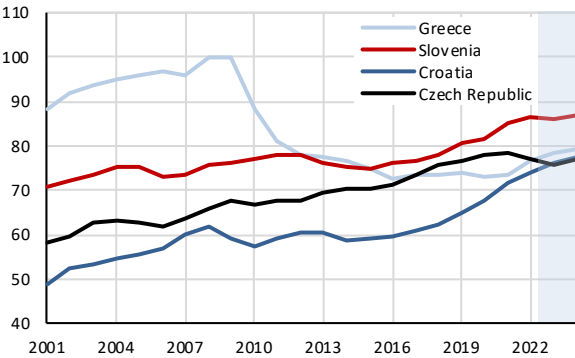
Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.10: Actual Individual Consumption per Capita in current PPP, EA20=100



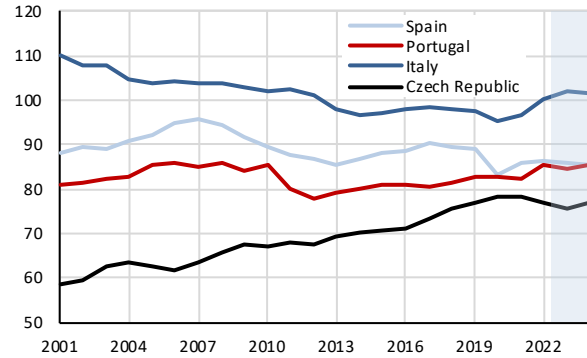
Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.11: Actual Individual Consumption per Capita in current PPP, EA20=100



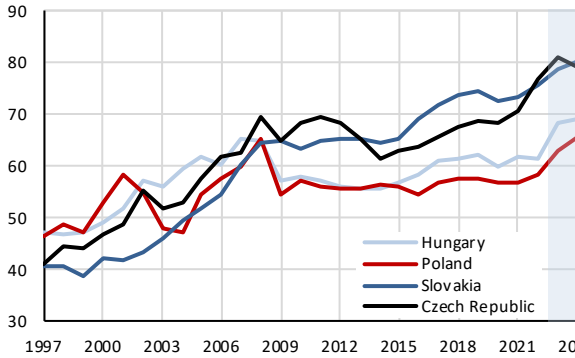
Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.12: Actual Individual Consumption per Capita in current PPP, EA20=100



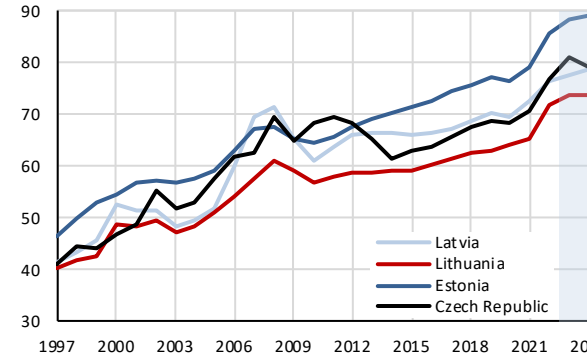
Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.13: Comparative Price Level of GDP EA20=100



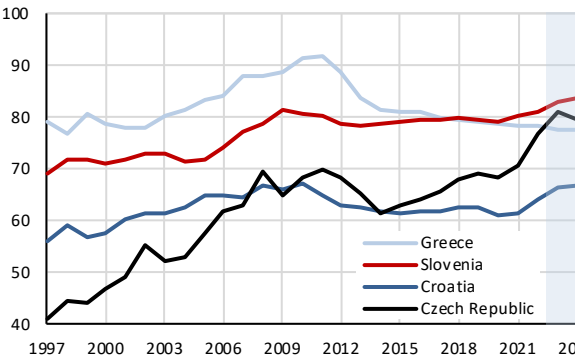
Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.14: Comparative Price Level of GDP EA20=100



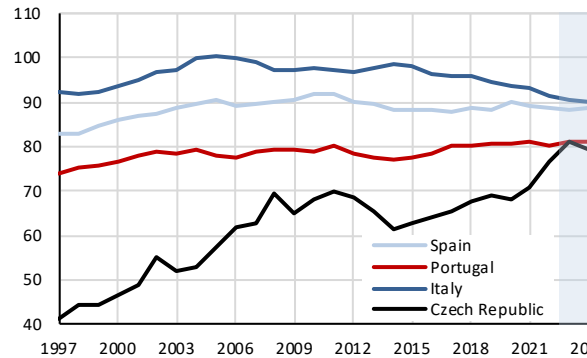
Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.15: Comparative Price Level of GDP EA20=100



Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

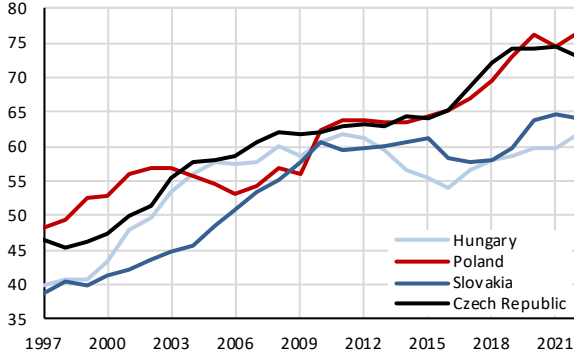
Graph 5.16: Comparative Price Level of GDP EA20=100



Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 5.17: Average Earnings in Current PPP

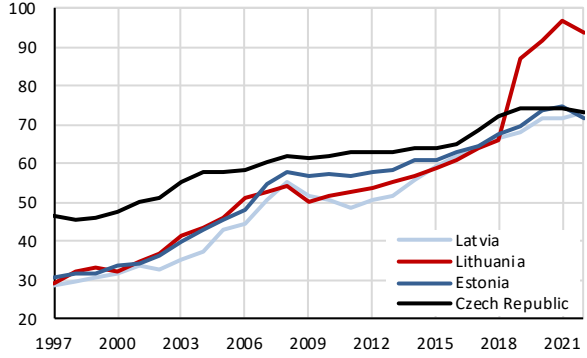
EA20=100



Source: Eurostat. Calculations of the MoF.

Graph 5.18: Average Earnings in Current PPP

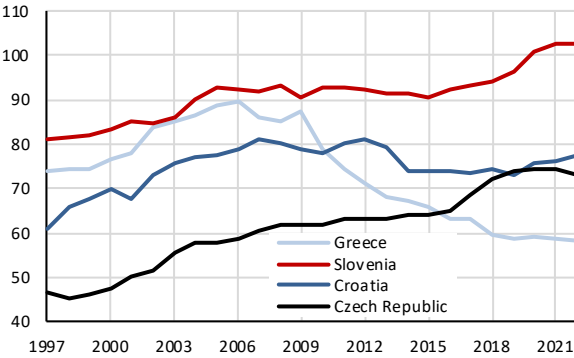
EA20=100



Source: Eurostat. Calculations of the MoF.

Graph 5.19: Average Earnings in Current PPP

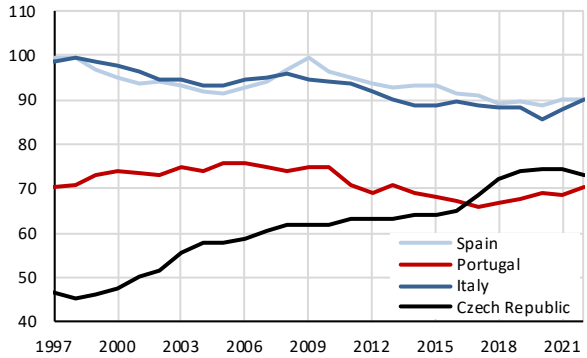
EA20=100



Source: Eurostat. Calculations of the MoF.

Graph 5.20: Average Earnings in Current PPP

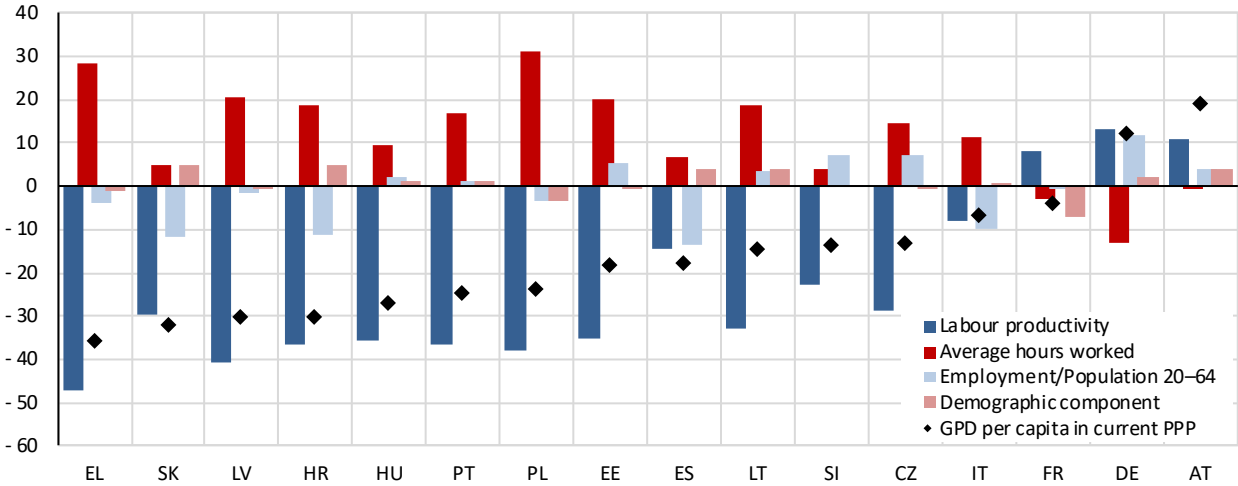
EA20=100



Source: Eurostat. Calculations of the MoF.

Graph 5.21: Current PPP Adjusted GDP per Capita Level Relative to the EA20 Average in 2022

in percentage points



Note: The demographic component is the ratio of the working-age (20–64) to total population.

Source: Eurostat. Calculations of the MoF.

Table 5.1: GDP per Capita in Current Purchasing Power Parity

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
											<i>Estimate</i>	<i>Forecast</i>
Austria	<i>PPS</i>	35 900	36 600	37 200	38 600	39 400	37 400	40 000	44 000	46 200	47 800	
	<i>EA20=100</i>	122	121	119	120	119	119	117	119	118	118	
Germany	<i>PPS</i>	34 200	35 100	36 500	37 400	37 900	37 000	39 100	41 300	43 400	44 800	
	<i>EA20=100</i>	116	117	117	116	115	118	114	112	111	111	
France	<i>PPS</i>	29 400	29 800	30 500	31 400	33 100	31 400	33 700	35 500	37 800	39 100	
	<i>EA20=100</i>	100	99	98	98	100	100	99	96	97	97	
Italy	<i>PPS</i>	26 700	28 000	28 800	29 400	30 200	28 200	31 500	34 400	36 700	38 100	
	<i>EA20=100</i>	91	93	92	92	91	90	92	93	94	94	
Czech Republic	<i>PPS</i>	24 400	25 100	26 700	27 900	29 200	28 100	30 000	32 000	33 700	35 000	
	<i>EA20=100</i>	83	83	85	87	88	89	88	87	86	87	
Slovenia	<i>PPS</i>	22 700	23 600	25 100	26 500	27 800	26 900	29 300	31 900	34 000	35 700	
	<i>EA20=100</i>	77	78	80	82	84	85	86	86	87	88	
Lithuania	<i>PPS</i>	20 700	21 500	23 200	24 700	26 400	26 300	29 200	31 600	32 700	34 400	
	<i>EA20=100</i>	70	71	74	77	80	84	85	86	84	85	
Spain	<i>PPS</i>	25 100	25 900	27 200	27 600	28 500	24 900	27 600	30 300	32 600	33 900	
	<i>EA20=100</i>	85	86	87	86	86	79	81	82	84	84	
Estonia	<i>PPS</i>	21 000	21 700	23 300	24 700	25 900	25 600	28 200	30 100	30 500	32 000	
	<i>EA20=100</i>	71	72	74	77	78	81	82	82	78	79	
Poland	<i>PPS</i>	19 000	19 300	20 300	21 500	22 800	22 900	25 200	28 200	29 400	31 200	
	<i>EA20=100</i>	65	64	65	67	69	73	74	76	75	77	
Portugal	<i>PPS</i>	21 300	22 000	22 700	23 700	24 600	22 900	24 600	27 900	30 200	31 500	
	<i>EA20=100</i>	72	73	73	74	74	73	72	76	77	78	
Hungary	<i>PPS</i>	19 300	19 400	20 300	21 600	22 900	22 400	24 400	27 000	28 600	30 300	
	<i>EA20=100</i>	65	64	65	67	69	71	71	73	73	75	
Croatia	<i>PPS</i>	16 800	17 600	18 700	19 600	20 900	19 500	22 800	25 800	28 100	29 800	
	<i>EA20=100</i>	57	58	60	61	63	62	67	70	72	74	
Latvia	<i>PPS</i>	18 000	18 600	19 700	20 900	21 700	21 500	23 200	25 700	27 100	28 600	
	<i>EA20=100</i>	61	62	63	65	65	68	68	70	69	71	
Slovakia	<i>PPS</i>	21 600	20 700	20 700	21 300	22 100	22 400	23 900	25 200	26 800	28 200	
	<i>EA20=100</i>	73	69	66	66	67	71	70	68	69	70	
Greece	<i>PPS</i>	19 200	19 100	19 600	20 100	20 600	18 600	20 700	23 800	26 000	27 500	
	<i>EA20=100</i>	65	63	63	62	62	59	61	65	67	68	

Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Table 5.2: Exchange Rate Adjusted GDP per Capita

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
											Estimate	Forecast
Austria	EUR	39 900	40 900	42 000	43 600	44 700	42 700	45 300	49 400	52 700	55 000	
	EA20=100	129	130	128	129	129	129	126	128	129	130	
	Comparative price level	EA20=100	106	107	108	108	108	108	108	107	109	110
Germany	EUR	37 000	38 100	39 500	40 600	41 800	40 900	43 500	46 300	48 700	50 300	
	EA20=100	120	120	121	120	120	123	121	119	119	119	
	Comparative price level	EA20=100	103	103	104	103	105	105	106	107	107	107
France	EUR	33 000	33 400	34 200	35 000	36 000	34 100	36 700	38 500	40 900	42 300	
	EA20=100	107	106	105	104	104	103	102	100	100	100	
	Comparative price level	EA20=100	107	107	107	106	103	103	103	103	103	103
Italy	EUR	27 500	28 200	28 900	29 600	30 100	27 900	30 800	33 000	34 900	36 100	
	EA20=100	89	89	88	88	87	84	86	85	85	85	
	Comparative price level	EA20=100	98	96	96	96	95	94	93	91	91	90
Spain	EUR	23 200	24 000	25 000	25 800	26 400	23 600	25 800	28 300	30 200	31 500	
	EA20=100	75	76	76	76	76	71	72	73	74	74	
	Comparative price level	EA20=100	88	88	88	89	88	90	89	89	88	89
Slovenia	EUR	18 800	19 600	20 800	22 100	23 300	22 400	24 800	27 000	29 700	31 300	
	EA20=100	61	62	64	66	67	67	69	70	72	74	
	Comparative price level	EA20=100	79	79	79	80	80	79	80	81	83	84
Estonia	EUR	15 700	16 500	18 100	19 700	21 100	20 600	23 400	27 000	28 200	29 900	
	EA20=100	51	52	55	58	61	62	65	70	69	71	
	Comparative price level	EA20=100	71	73	74	76	77	76	79	85	88	89
Czech Republic	EUR	16 100	16 800	18 300	19 900	21 100	20 200	22 300	25 800	28 600	29 100	
	EA20=100	52	53	56	59	61	61	62	67	70	69	
	Comparative price level	EA20=100	63	64	66	68	69	68	71	77	81	79
Lithuania	EUR	12 900	13 600	14 900	16 200	17 500	17 800	20 100	23 800	25 300	26 600	
	EA20=100	42	43	46	48	50	54	56	61	62	63	
	Comparative price level	EA20=100	59	60	62	63	63	64	66	72	74	74
Portugal	EUR	17 400	18 100	19 000	20 000	20 800	19 500	21 000	23 500	25 700	26 700	
	EA20=100	56	57	58	59	60	59	58	61	63	63	
	Comparative price level	EA20=100	78	79	80	80	81	81	81	80	81	81
Latvia	EUR	12 400	12 900	13 900	15 100	16 000	15 800	17 700	20 600	22 000	23 700	
	EA20=100	40	41	42	45	46	48	49	53	54	56	
	Comparative price level	EA20=100	66	67	67	69	70	70	73	76	78	79
Slovakia	EUR	14 800	15 000	15 600	16 500	17 300	17 100	18 400	20 000	22 200	23 800	
	EA20=100	48	47	48	49	50	52	51	52	54	56	
	Comparative price level	EA20=100	65	69	72	74	75	73	73	76	79	80
Greece	EUR	16 300	16 200	16 400	16 700	17 100	15 400	17 100	19 500	21 200	22 400	
	EA20=100	53	51	50	50	49	46	47	50	52	53	
	Comparative price level	EA20=100	81	81	80	79	79	79	78	78	78	77
Hungary	EUR	11 500	11 800	13 000	13 900	15 000	14 100	15 900	17 400	20 500	22 000	
	EA20=100	37	37	40	41	43	43	44	45	50	52	
	Comparative price level	EA20=100	57	58	61	61	62	60	62	62	68	69
Croatia	EUR	10 800	11 400	12 100	12 900	13 700	12 500	14 800	17 400	19 600	20 900	
	EA20=100	35	36	37	38	39	38	41	45	48	49	
	Comparative price level	EA20=100	61	62	62	63	62	61	61	64	66	67
Poland	EUR	11 200	11 100	12 100	13 000	13 900	13 700	15 100	17 300	19 400	21 500	
	EA20=100	36	35	37	39	40	41	42	45	47	51	
	Comparative price level	EA20=100	56	55	57	58	58	57	57	59	63	66

Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

Table 5.3: Actual Individual Consumption per Capita in Current Purchasing Power Parity

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
											<i>Estimate</i>	<i>Forecast</i>
Austria	<i>PPS</i>	23 400	23 600	24 100	24 800	25 200	23 700	25 700	28 500	29 700	31 000	
	<i>EA20=100</i>	118	117	116	116	115	114	116	117	116	116	
Germany	<i>PPS</i>	22 500	23 100	23 700	24 300	24 600	23 800	24 900	26 900	27 900	28 800	
	<i>EA20=100</i>	113	114	114	114	112	115	112	111	109	108	
France	<i>PPS</i>	20 400	20 800	21 200	21 700	22 700	21 800	23 200	24 500	25 900	27 000	
	<i>EA20=100</i>	103	103	102	102	104	105	105	101	101	101	
Italy	<i>PPS</i>	19 200	19 900	20 500	20 900	21 300	19 800	21 400	24 400	26 100	27 100	
	<i>EA20=100</i>	97	98	98	98	98	95	97	100	102	102	
Lithuania	<i>PPS</i>	15 000	15 600	16 600	17 500	18 400	18 100	20 000	21 700	22 300	23 600	
	<i>EA20=100</i>	76	77	80	82	84	87	90	89	87	89	
Slovenia	<i>PPS</i>	14 800	15 400	16 000	16 700	17 700	16 900	18 900	21 100	22 000	23 200	
	<i>EA20=100</i>	75	76	77	78	81	82	85	87	86	87	
Spain	<i>PPS</i>	17 500	17 900	18 800	19 100	19 500	17 300	19 000	21 000	21 900	22 800	
	<i>EA20=100</i>	88	89	90	89	89	83	86	86	86	86	
Portugal	<i>PPS</i>	16 000	16 400	16 800	17 400	18 100	17 100	18 300	20 700	21 600	22 700	
	<i>EA20=100</i>	81	81	80	82	83	83	82	85	85	85	
Poland	<i>PPS</i>	13 100	13 300	14 100	14 700	15 400	15 300	16 900	19 200	19 800	21 000	
	<i>EA20=100</i>	66	65	67	69	71	74	76	79	77	79	
Estonia	<i>PPS</i>	13 000	13 500	14 100	15 000	15 800	15 800	17 300	18 800	19 700	20 700	
	<i>EA20=100</i>	66	67	68	70	72	76	78	78	77	78	
Czech Republic	<i>PPS</i>	14 000	14 400	15 300	16 200	16 800	16 200	17 400	18 700	19 300	20 500	
	<i>EA20=100</i>	70	71	74	76	77	78	78	77	76	77	
Greece	<i>PPS</i>	14 900	14 800	15 300	15 700	16 200	15 100	16 300	18 700	20 100	21 100	
	<i>EA20=100</i>	75	73	74	74	74	73	73	77	78	79	
Croatia	<i>PPS</i>	11 700	12 000	12 700	13 400	14 200	14 000	15 900	18 000	19 500	20 700	
	<i>EA20=100</i>	59	59	61	63	65	68	72	74	76	78	
Slovakia	<i>PPS</i>	13 500	13 200	13 400	13 800	14 500	15 000	15 900	18 000	18 700	19 600	
	<i>EA20=100</i>	68	65	64	65	66	72	72	74	73	74	
Latvia	<i>PPS</i>	12 200	12 800	13 600	14 300	14 600	14 300	15 800	17 900	18 700	19 600	
	<i>EA20=100</i>	62	63	65	67	67	69	71	74	73	74	
Hungary	<i>PPS</i>	11 300	11 600	12 100	12 700	13 300	13 200	14 100	16 000	16 700	17 900	
	<i>EA20=100</i>	57	57	58	59	61	64	64	66	65	67	

Source: AMECO, CZSO, Eurostat. Calculations and forecast of the MoF.

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