Ministry of Finance
of the Czech Republic

Macroeconomic Forecast
of the Czech Republic

April 2024

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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 years 2024 and 2025, and for certain indicators an outlook for the 2 following years (i.e. until 2027). 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:

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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 28 March 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 (January 2024) are indicated by italics. Data relating to the years 2026 and 2027 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. Gross domestic product fell by 0.3% in 2023, but is forecast to grow by 1.4% this year and 2.6% next year. Inflation will stay below 3% for most of 2024, before falling towards 2% in 2025. Thanks to continued strong labour demand and falling inflation, real wage growth will resume. Economic growth in the euro area will remain subdued this year but could accelerate to 1.4% next year.

Real gross domestic product of the Czech Republic, adjusted for seasonal and calendar effects, increased by 0.4% QoQ in Q4 2023. Economic output has still not surpassed the pre-pandemic level.

For the full year **2023**, GDP **fell by 0.3%**. Households were struggling with high inflation, so their real consumption fell further. Investment activity was affected by economic problems in euro area countries and restrictive monetary conditions, but public spending and projects co-financed by EU funds, mainly from the previous financial perspective, had a positive impact. Weaker year-on-year inventory accumulation slowed the economy noticeably. This factor, together with the unwinding of problems in supply chains, boosted exports, while imports declined slightly due to generally weak domestic demand. The contribution of the external trade balance to GDP growth was thus significantly positive.

In **2024**, the economic output could **increase by 1.4%**, mainly due to renewed growth in household consumption and a softer decline in gross capital formation. However, the effects of the consolidation package will dampen economic activity slightly, but this will also help to reduce inflationary pressures. In **2025**, GDP could **grow by 2.6%** on the back of stronger momentum in all components of domestic demand and more favourable economic developments abroad.

Annual **inflation** had reached the Czech National Bank's inflation target for the first time in three years at the beginning of this year and should remain below the upper boundary of the tolerance band throughout the year, with the exception of the last quarter. The previously strong inflationary external supply factors have weakened significantly and domestic demand pressures will be further dampened by higher monetary policy rates during the year, which is further supported by the restrictive effects of the fiscal consolidation package. The average inflation rate could thus fall to 2.7% this year and 2.4% in 2025.

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. It could increase from 2.6% in 2023 to 2.8% this year, before declining slightly in 2025 thanks to economic growth. The persistent tensions in the labour market will not allow nominal wage growth to slow significantly. Earnings will also rise in real terms after two years of decline.

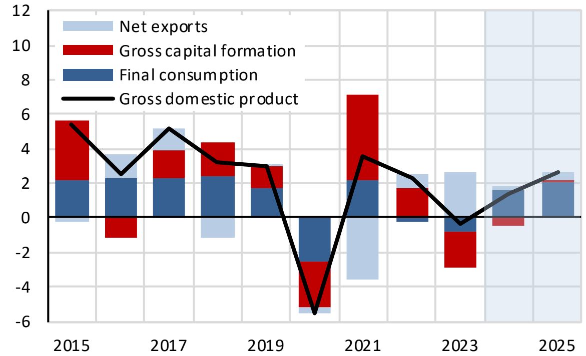
The **current account of the balance of payments** recorded a slight surplus of 0.4% of GDP in 2023. The strong year-on-year improvement in the balance was driven by lower outflows of investment income (mainly in the form of dividends) on the primary income balance. Through a decline in imports, the easing of price pressures in the industry and energy sectors led to a return of the trade balance to positive values. Going forward, these factors should continue to be relevant. We therefore estimate that the current account will reach a surplus of 0.6% of GDP this year, which could increase to 0.7% of GDP in 2025.

Public finances were running a deficit of 3.3% of GDP in 2023, reflecting one-off revenue and expenditure related to the energy crisis, inflation-driven mandatory social spending and continued assistance to Ukrainian refugees. However, the structural deficit decreased year-on-year due to the exceptional nature of some items. Debt declined slightly to 44.0% of GDP at the end of last year. The government's consolidation package, a minimum of one-off or temporary measures and the economic recovery should reduce the deficit by 1pp to 2.3% of GDP this year, despite increased spending on defence or pensions. Against the backdrop of lower nominal GDP growth, the debt ratio should reach 45.5% of GDP.

In aggregate, we consider the risks to the forecast to be **skewed to the downside**. Economic activity in some sectors of the economy (especially in the automotive industry) may be dampened by renewed problems in supply chains, e.g. in connection with the situation in the Middle East. Apart from the negative impact on economic performance, supply-side problems 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 ability to compensate for the shortfall in natural gas and oil supplies from Russia to the EU with increased imports from other suppliers and savings on the demand side remains a risk. Inflation expectations are also a risk for the Czech economy. Economic growth is supported by the integration of refugees from Ukraine into the labour market, and the full use of their human capital could boost labour productivity.

Economic growth should be driven by consumption

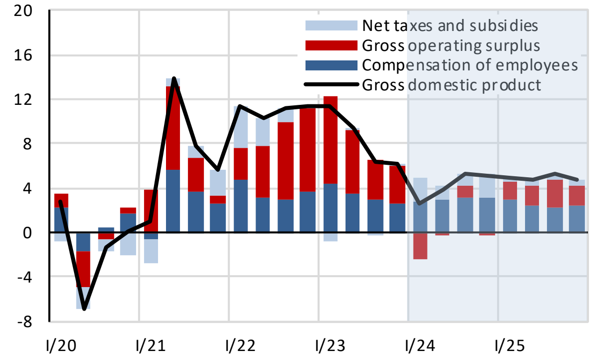
growth rate of real GDP in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

There will be a partial correction in profits this year

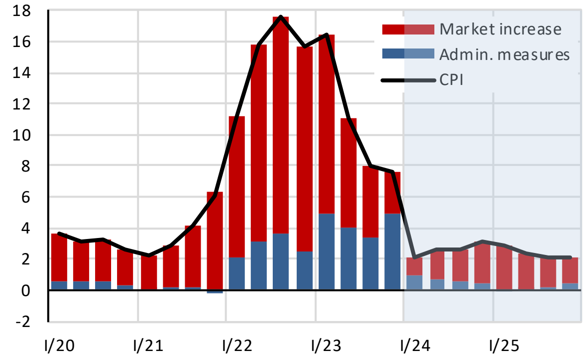
YoY growth of nominal GDP in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Inflation will fall steeply

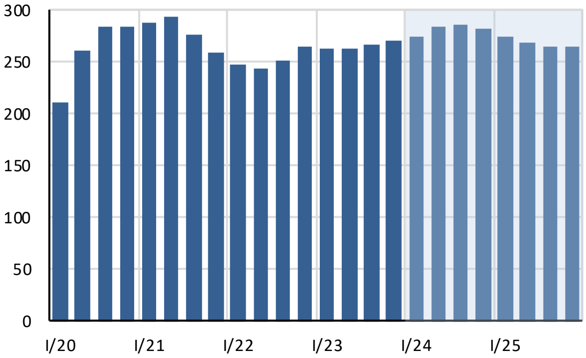
YoY growth rate of CPI in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Unemployment should temporarily increase

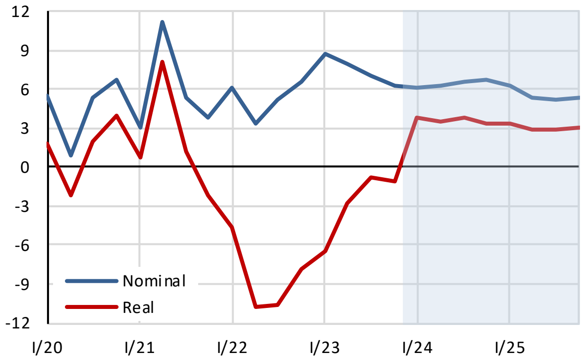
registered unemployment, in thous. of persons, seasonally adjusted



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

Real wages should rise thanks to a fall in inflation

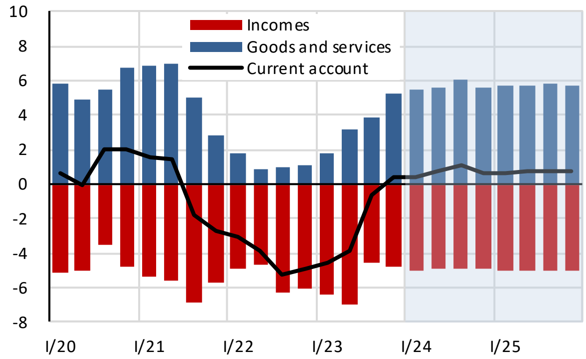
average gross monthly wage, YoY growth rate, in %



Source: CZSO. Calculations and forecast of the MoF.

Current account should be in surplus

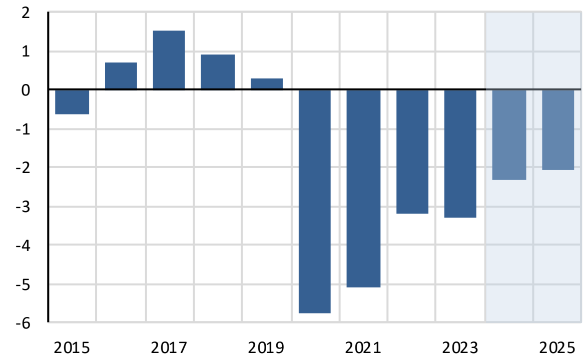
in % of GDP, yearly moving sums



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

Public finance deficit should drop below 3% of GDP

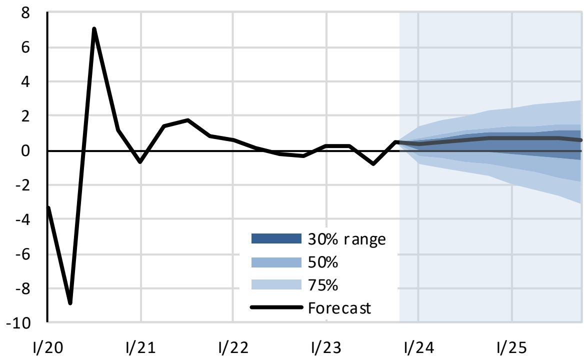
general government net lending/borrowing, in % of GDP



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

		2019	2020	2021	2022	2023	2024	2025	2023	2024
							Current forecast		*Previous forecast*	
Nominal GDP	*bill. CZK*	**5 791**	**5 709**	**6 109**	**6 787**	**7 344**	**7 657**	**8 032**	7 351	7 640
	nominal growth in %	7.0	-1.4	7.0	11.1	8.2	4.3	4.9	8.3	3.9
Gross domestic product	*real growth in %*	**3.0**	**-5.5**	**3.6**	**2.4**	**-0.3**	**1.4**	**2.6**	-0.6	1.2
Consumption of households	*real growth in %*	2.7	-7.2	4.1	-0.6	-3.1	2.7	3.5	-3.2	2.6
Consumption of government	*real growth in %*	2.5	4.2	1.4	0.3	3.5	1.6	2.2	3.1	1.6
Gross fixed capital formation	*real growth in %*	5.9	-6.0	0.8	3.0	4.0	2.2	2.4	2.0	1.2
Contribution of net exports	*pp*	0.0	-0.4	-3.6	0.9	2.6	0.2	0.4	1.7	0.7
Contrib. of change in inventories	*pp*	-0.3	-0.9	4.8	0.9	-3.3	-1.0	-0.5	-2.0	-1.4
GDP deflator	*growth in %*	**3.9**	**4.3**	**3.3**	**8.5**	**8.6**	**2.9**	**2.2**	8.9	2.8
Average inflation rate	*%*	**2.8**	**3.2**	**3.8**	**15.1**	**10.7**	**2.7**	**2.4**	10.7	3.1
Employment *(national accounts)*	*growth in %*	**0.2**	**-1.7**	**0.4**	**1.5**	**0.8**	**0.4**	**0.2**	0.8	0.5
Unemployment rate *(LFS)*	*average in %*	**2.0**	**2.6**	**2.8**	**2.2**	**2.6**	**2.8**	**2.7**	2.6	2.8
Wage bill *(domestic concept)*	*growth in %*	**7.8**	**0.1**	**5.9**	**9.3**	**7.9**	**6.8**	**5.5**	8.4	6.6
Current account balance	*% of GDP*	**0.3**	**2.0**	**-2.8**	**-4.9**	**0.4**	**0.6**	**0.7**	-0.2	0.4
General government balance	*% of GDP*	**0.3**	**-5.8**	**-5.1**	**-3.2**	**-3.3**	**-2.3**	**-2.1**	-3.6	-2.2
General government debt	*% of GDP*	**30.0**	**37.7**	**42.0**	**44.2**	**44.0**	**45.5**	**46.4**	43.7	45.6
Assumptions:										
Exchange rate CZK/EUR		**25.7**	**26.4**	**25.6**	**24.6**	**24.0**	**25.1**	**24.7**	24.0	24.4
Long-term interest rates	*% p.a.*	**1.5**	**1.1**	**1.9**	**4.3**	**4.4**	**3.7**	**3.4**	4.4	3.8
Crude oil Brent	*USD/barrel*	**64**	**42**	**71**	**101**	**82**	**84**	**78**	82	78
GDP in the euro area	*real growth in %*	**1.6**	**-6.2**	**5.9**	**3.5**	**0.5**	**0.5**	**1.4**	0.5	0.7

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, taken together, 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 for some sectors of the economy (in particular the automotive industry; see Chapter 6 for more on the situation in this sector and outlook for the future). Apart from the negative impact on economic output, 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**.

Natural gas and oil supply from Russia to the European Union is suspended and we do not expect it to be restored. We anticipate that it will continue to be replaced by increased imports from other countries and demand-side measures such as investment in new sources and energy savings.

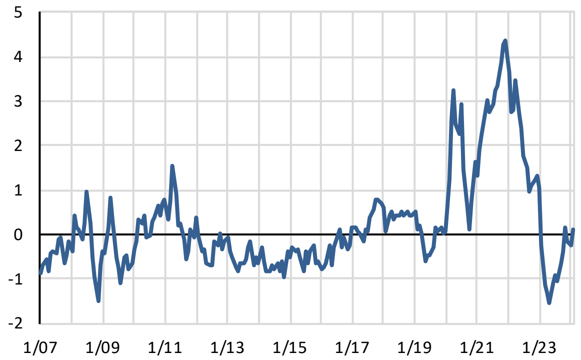
The evolution of **inflation expectations** also remains a risk, despite a significant decline in inflation at the start of this year. It is crucial that inflation expectations return to close to the Czech National Bank's inflation target. Otherwise, we would expect a tight monetary policy stance for a longer period, which would entail additional economic costs. Also related to inflationary pressures is the **fiscal policy** stance. Different macroeconomic effects of the consolidation package, or measures that would erode fiscal efforts, would affect the dynamics of economic growth and other variables.

Staff shortages, evident in almost all sectors of the economy, continue to hamper growth in production, especially in the construction sector. However, in addition to the weak economic dynamics, the influx of refugees from Ukraine is also 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 the full use of their human capital can significantly boost economic growth in the coming years.

Persisting high interest rates and substantial price increases in recent years increase the likelihood that some households and firms will run into repayment problems, which would lead 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. The overvaluation of residential property prices also remains a potential risk.

Global Supply Chain Pressure Index

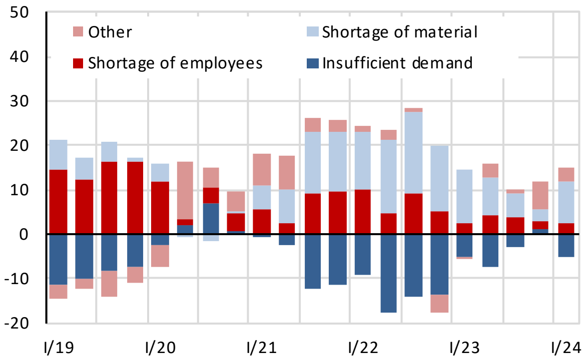
number of standard deviations from the average



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 was still limited at the turn of the year by restrictive monetary policy and heightened geopolitical instability in a number of regions. International trade was hampered by logistical problems caused by the ongoing armed conflicts and the associated lengthening of delivery times. Continued disinflation and the expected interest rate cuts by the Fed and the ECB should have a positive effect, which will support household consumption and private investment. Considering these factors and the remaining risks, **global economic** growth could slow to 2.5% (*vs. 2.6%*) this year, but accelerate to 3.6% in 2025 given the expected improvement in international trade.

The economy of the **United States** grew by 0.8% QoQ (*vs. 0.3%*) in Q4 2023. All expenditure components contributed to GDP growth, most significantly consumer spending on goods and services.

Annual inflation had risen slightly to 3.2% in February, while core inflation had fallen to 3.8%. The labour market remains relatively tight. The unemployment rate is still at low levels, although it rose slightly to 3.9% in February. Real wages are also already rising, thanks to labour market imbalances and the decline in inflation. At the January meeting the Fed kept the fed funds 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.

The February services Purchasing Managers' Index fell slightly, but continued to be in expansion territory. The number of domestic orders rose, and employment also developed positively. Retail sales rose by 1.5% YoY in February, extending the streak of annual increases to nearly four years, while industrial production grew more moderately. The manufacturing Purchasing Managers' Index was in expansion territory in February due to increases in new orders and job openings.

We expect the US economy to grow by 2.0% (*vs. 1.6%*) in 2024. Economic activity should be supported by household consumption spending due to real income growth as a result of labour market shortages. GDP growth also reflects strong quarter-on-quarter growth in Q4 2023. In 2025, GDP growth could slow slightly to 1.8%. Investment activity should have a positive impact on growth dynamics due to expected monetary easing.

China's GDP increased by 1.0% QoQ in Q4 2023 thanks to household consumption and government spending, while foreign trade weighed on growth.

China's central bank continued to increase the liquidity of the banking system in January through reverse repo operations and kept the key interest rate at 3.45% in February 2024.

Conditions in the manufacturing sector deteriorated slightly in February, according to the Purchasing Managers' Index, as the volume of orders fell. Employment and production also fell. The services Purchasing Managers' Index, on the other hand, was in expansion territory, with new orders rising.

China's economic growth could reach 4.4% (*vs. 4.6%*) in 2024 and 4.3% in 2025. Household consumption growth is expected to remain subdued given low consumer confidence and weak social safety net. Private investment activity and, to some extent, consumption should be adversely affected by persistent problems in the real estate sector. Unfavourable demographic developments will also have a negative impact on the economy. A shift up the global supply chains should help to reduce imports, which should make net exports pro-growth even in the face of weak external demand.

The **European Union's** gross domestic product stagnated quarter-on-quarter (*vs. growth of 0.1%*) in Q4 2023, as did the **euro area** economy (*in line with the estimate*). GDP growth was positively influenced by household consumption and, to a lesser extent, by general government consumption, while it was mostly dampened by changes in inventories and foreign trade.

Annual inflation in the euro area fell to 2.6% in February, while core inflation (excluding food, alcohol, tobacco and energy prices) fell to 3.1%. The European Central Bank kept its key interest rate unchanged at 4.50% in anticipation of inflation remaining above the 2% target for an extended period. We expect the ECB to start cutting rates at the beginning of H2 2024 at the earliest. The European Central Bank also intends to start reducing the size of the portfolio purchased under the pandemic emergency purchase programme in the second half of the year and to stop reinvestments under this programme by the end of this year. In addition, it 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, on balance, start to be relatively restrictive this year, following the expiry of the general escape clause contained in the Stability and Growth Pact and unwinding of energy support measures.

The unemployment rate in the euro area fell slightly to 6.4% in January, while in the EU it remained at 6.0%. According to the March Purchasing Managers' Index, manufacturing in the euro area remained in the contractionary zone, with the decline driven by most sub-indicators (production, new orders and export sales), but these fell at the slowest pace for a long time. In contrast, sentiment in the services sector is in the expansionary zone, with employment and new orders growing. The business confidence indicator rose month-on-month. Consumers' view on their expected financial situation is gradually improving, while their willingness to make larger purchases, which increased in February, remained unchanged in March.

Overall, we expect GDP growth in the EU to accelerate slightly to 0.7% (*vs. 0.9%*) in 2024, while growth in the euro area could reach 0.5% (*vs. 0.7%*). Household consumption should contribute to growth thanks to a decline in inflation, a tight labour market and rising real wages, while foreign trade could dampen growth dynamics on the back of unfavourable developments in industry. In 2025, economic growth could accelerate to 1.6% in the EU and to 1.4% in the euro area thanks to a continued recovery in household consumption and investment activity supported by interest rate cuts.

The **German** economy contracted by 0.3% QoQ (*vs. stagnation*) in Q4 2023. Gross fixed capital formation and the change in inventories were negative, while growth was supported by private and government consumption. The contribution of net exports was zero.

In Q1 2024, purchasing managers' confidence in the manufacturing industry deteriorated further as demand and new orders fell. Industrial production declined 5.5% YoY in January 2024. While activity in services improved in February, the Purchasing Managers' Index was still in contractionary territory. Consumer sentiment is gradually improving slightly. The recovery in household consumption continues to be limited by an increased propensity to save. Year-on-year inflation has declined further, reaching 2.7% in February. The unemployment rate stagnated at 3.1% in January for the fifth consecutive month.

As a result of the unsatisfactory situation in industry (especially in energy-intensive sectors), production cutbacks in the automotive industry due to weaker demand for electric cars, persistent negative sentiment among consumers and restrictive monetary policy, we expect only a slow recovery of the German economy this year. For the full year 2024, it is expected to grow by only 0.3% (*vs. 0.5%*). Higher growth will also be limited by weaker investment activity due to government austerity measures motivated by the desire to comply with the debt brake. In 2025, economic growth, supported by household consumption and a recovery in export activity, could reach 1.3%.

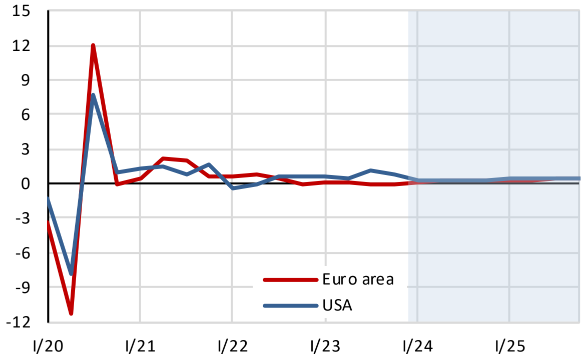
Slovakia's GDP grew by 0.3% QoQ (*vs. 0.5%*) in Q4 2023. Gross fixed capital formation made a positive contribution, while household consumption and net exports had a negative impact on overall dynamics.

The unemployment rate remained stable at the beginning of this year and stood at 5.5% in January. Manufacturing output increased by 1.4% year-on-year in January, but industrial confidence indicators deteriorated slightly during Q1. The volume of foreign orders developed negatively. Year-on-year inflation continued to decline, falling to 3.8% in February 2024. Although consumer confidence in Slovakia has gradually improved since late 2022, it is still lower than before the pandemic.

We expect Slovakia's GDP to grow by 1.8% (*vs. 2.1%*) this year. Economic growth should be supported by household consumption due to real wage growth, while foreign trade should put a brake on growth. GDP growth could accelerate to 2.7% in 2025 due to the expected increase in external demand.

Graph 1.1.1: Real GDP in the euro area and USA

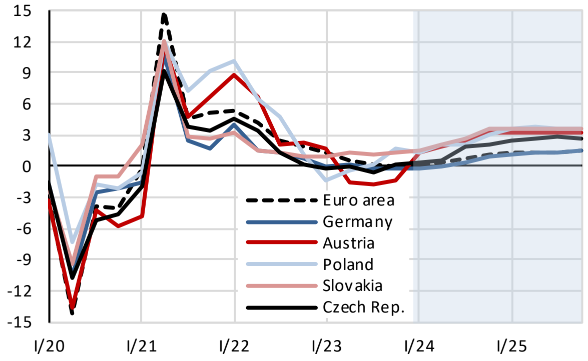
QoQ growth rate in %, seasonally adjusted



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

Graph 1.1.2: Real Gross Domestic Product

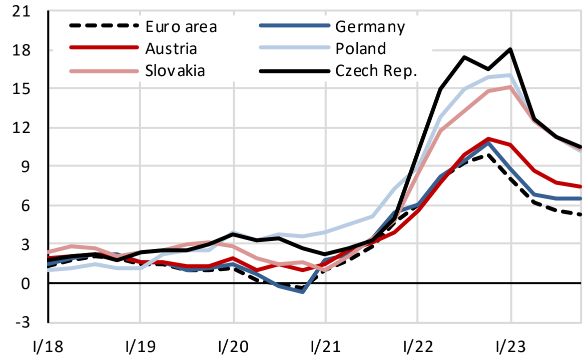
YoY growth in %, seasonally adjusted



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

Graph 1.1.3: HICP

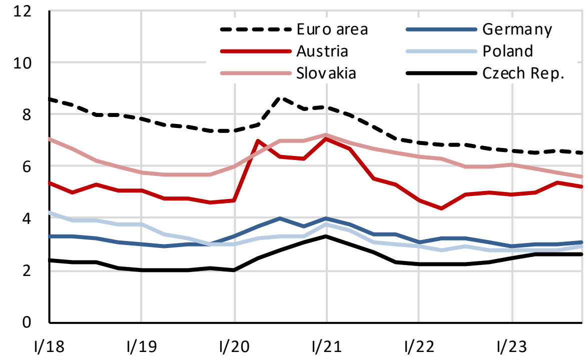
quarterly averages, YoY growth in %



Source: Eurostat. Calculations of the MoF.

Graph 1.1.4: Unemployment Rate

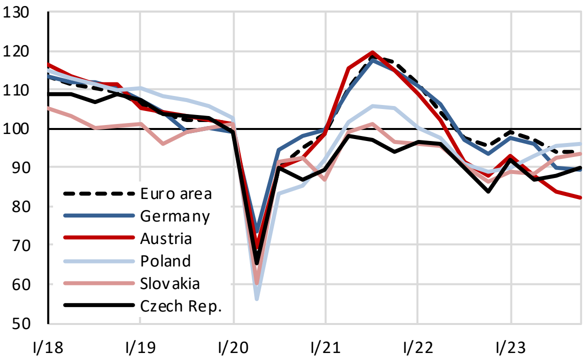
in %, LFS methodology, seasonally adjusted



Source: Eurostat.

Graph 1.1.5: Economic Sentiment Indicator

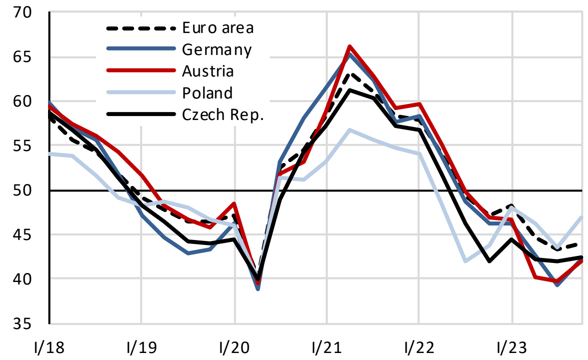
quarterly averages, long-run average = 100



Source: Eurostat. Calculations of the MoF.

Graph 1.1.6: Purchasing Managers' Index

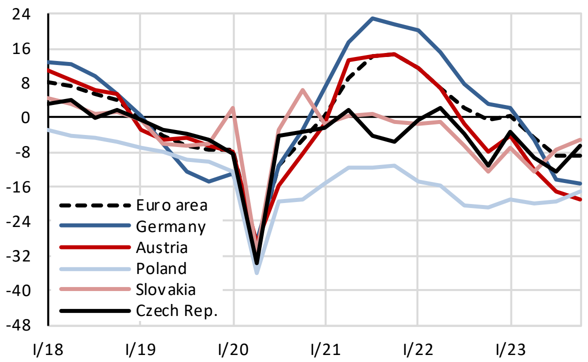
manufacturing, quarterly averages



Source: Markit. Calculations of the MoF.

Graph 1.1.7: Business Tendency

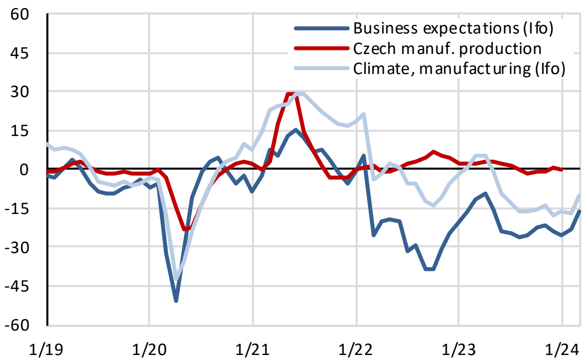
manufacturing, quarterly averages



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 %

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
									Estimate	*Forecast*	*Forecast*
World	*seasonally adjusted*	**3.2**	**3.8**	**3.6**	**2.8**	**-2.8**	**6.3**	**3.5**	**3.0**	**2.5**	**3.6**
USA	*seasonally adjusted*	**1.8**	**2.5**	**3.0**	**2.5**	**-2.2**	**5.8**	**1.9**	**2.5**	**2.0**	**1.8**
China	*seasonally adjusted*	**6.9**	**6.9**	**6.6**	**6.0**	**1.8**	**8.8**	**3.0**	**5.5**	**4.4**	**4.3**
United Kingdom	*seasonally adjusted*	**1.9**	**2.7**	**1.4**	**1.6**	**-10.4**	**8.7**	**4.3**	**0.1**	**0.3**	**1.7**
European Union	*seasonally adjusted*	**2.0**	**3.0**	**2.0**	**1.8**	**-5.8**	**5.9**	**3.5**	**0.5**	**0.7**	**1.6**
Euro area	*seasonally adjusted*	**1.9**	**2.8**	**1.8**	**1.6**	**-6.2**	**5.9**	**3.5**	**0.5**	**0.5**	**1.4**
Germany	*seasonally adjusted*	**2.1**	**3.0**	**1.0**	**1.1**	**-4.2**	**3.1**	**1.9**	**-0.1**	**0.3**	**1.3**
	unadjusted	2.2	2.7	1.0	1.1	-3.8	3.2	1.8	-0.3	0.2	1.7
France	*seasonally adjusted*	**1.0**	**2.5**	**1.8**	**1.9**	**-7.7**	**6.4**	**2.5**	**0.9**	**0.7**	**1.4**
	unadjusted	1.1	2.3	1.9	1.8	-7.5	6.4	2.5	0.7	0.8	1.3
Italy	*seasonally adjusted*	**1.4**	**1.7**	**0.8**	**0.5**	**-9.0**	**8.3**	**4.1**	**1.0**	**0.7**	**1.3**
	unadjusted	1.3	1.7	0.9	0.5	-9.0	8.3	4.0	0.9	0.9	1.2
Austria	*seasonally adjusted*	**2.0**	**2.4**	**2.4**	**1.5**	**-6.7**	**4.4**	**4.8**	**-0.7**	**0.4**	**1.7**
	unadjusted	2.0	2.3	2.4	1.5	-6.6	4.2	4.8	-0.8	0.5	1.7
Hungary	*seasonally adjusted*	**2.2**	**4.4**	**5.4**	**4.9**	**-4.7**	**7.0**	**4.6**	**-0.7**	**1.8**	**3.2**
	unadjusted	2.2	4.3	5.4	4.9	-4.5	7.1	4.6	-0.9	1.8	3.2
Poland	*seasonally adjusted*	**3.1**	**5.2**	**5.9**	**4.4**	**-2.0**	**6.9**	**5.5**	**0.1**	**2.1**	**3.6**
	unadjusted	3.0	5.1	5.9	4.4	-2.0	6.9	5.3	0.2	2.1	3.6
Slovakia	*seasonally adjusted*	**1.9**	**2.9**	**4.0**	**2.5**	**-3.3**	**4.8**	**1.8**	**1.1**	**1.8**	**2.7**
Czech Republic	*seasonally adjusted*	**2.5**	**5.3**	**3.2**	**3.0**	**-5.5**	**3.5**	**2.4**	**-0.2**	**1.2**	**2.7**
	unadjusted	2.5	5.2	3.2	3.0	-5.5	3.6	2.4	-0.3	1.4	2.6

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*	*Forecast*	*Forecast*
USA	*QoQ*	**0.6**	**0.5**	**1.2**	**0.8**	**0.2**	**0.2**	**0.3**	**0.3**
	YoY	1.7	2.4	2.9	3.1	2.8	2.5	1.6	1.2
United Kingdom	*QoQ*	**0.2**	**0.0**	**-0.1**	**-0.3**	**0.1**	**0.3**	**0.3**	**0.4**
	YoY	0.3	0.3	0.2	-0.2	-0.3	0.0	0.4	1.1
European Union	*QoQ*	**0.1**	**0.1**	**0.0**	**0.0**	**0.1**	**0.3**	**0.4**	**0.4**
	YoY	1.2	0.6	0.1	0.2	0.2	0.4	0.8	1.2
Euro area	*QoQ*	**0.0**	**0.1**	**-0.1**	**0.0**	**0.1**	**0.3**	**0.3**	**0.3**
	YoY	1.3	0.6	0.1	0.1	0.1	0.3	0.7	1.0
Germany	*QoQ*	**0.1**	**0.0**	**0.0**	**-0.3**	**0.1**	**0.2**	**0.3**	**0.3**
	YoY	-0.1	0.1	-0.3	-0.2	-0.2	0.0	0.3	0.9
France	*QoQ*	**0.0**	**0.6**	**0.0**	**0.1**	**0.1**	**0.3**	**0.4**	**0.3**
	YoY	0.9	1.2	0.6	0.7	0.8	0.4	0.8	1.0
Italy	*QoQ*	**0.5**	**-0.2**	**0.2**	**0.2**	**0.1**	**0.3**	**0.3**	**0.3**
	YoY	2.3	0.6	0.5	0.6	0.3	0.8	0.9	1.0
Austria	*QoQ*	**0.1**	**-1.3**	**-0.3**	**0.0**	**0.2**	**0.4**	**0.4**	**0.5**
	YoY	1.8	-1.5	-1.7	-1.4	1.4	1.9	2.5	3.2
Hungary	*QoQ*	**-0.3**	**0.0**	**0.8**	**0.0**	**0.3**	**0.6**	**0.8**	**0.9**
	YoY	-1.1	-2.1	-0.2	0.5	1.0	1.7	1.7	2.6
Poland	*QoQ*	**0.7**	**-0.1**	**1.1**	**0.0**	**0.3**	**0.8**	**0.9**	**1.0**
	YoY	-1.3	-0.4	0.3	1.7	1.3	2.1	2.0	3.0
Slovakia	*QoQ*	**0.2**	**0.5**	**0.3**	**0.3**	**0.3**	**0.6**	**0.7**	**0.7**
	YoY	0.9	1.3	1.2	1.3	1.6	2.1	2.8	3.6
Czech Republic	*QoQ*	**0.3**	**0.3**	**-0.8**	**0.4**	**0.4**	**0.5**	**0.6**	**0.7**
	YoY	-0.2	-0.1	-0.6	0.2	0.3	0.5	1.9	2.2

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

1.2 Commodity Prices

We estimate that the **price** of a barrel of **Brent crude oil** averaged USD 83 (*vs. USD 79*) in Q1 2024, up 2.4% YoY, or 6.6% 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 and have further reduced their production target for the second 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 is nevertheless expected to increase by 1.6% YoY to USD 84 (*vs. USD 78*) per barrel, while it could be 5.2% higher when measured in CZK due to the koruna's depreciation against the US dollar. For 2025, we assume the average price of USD 78 per barrel of Brent crude oil.

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 transition is putting further upward pressure on electricity prices through the reduction in fossil and nuclear power generation, while the greenhouse gas emissions trading scheme is increasing energy price volatility and uncertainty about the economic viability of coal-fired power plants in the coming years. 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 in electricity prices. Sufficient gas supply and filled reservoirs were secured for the past heating season, contributing to a decrease in wholesale spot and forward prices of gas and electricity and to a reduction in their volatility. However, the earlier securing of energy supplies and the frontloading of other raw materials at a time of their very high prices has slowed down the decline in prices of these commodities for consumers and many firms.

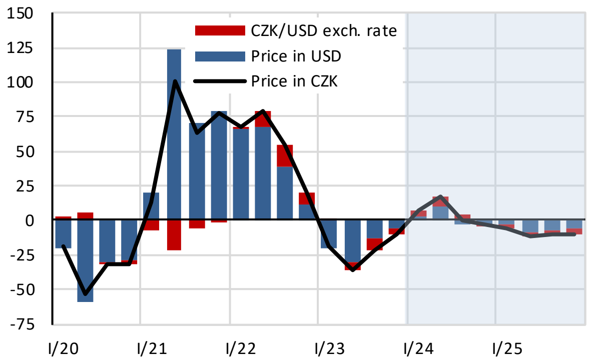
Graph 1.2.1: Dollar Price of Brent Crude Oil

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

		2016	2017	2018	2019	2020	2021	2022	2023	2024 *Forecast*	2025 *Forecast*
Crude oil Brent	*USD/barrel*	**43.6**	**54.2**	**71.3**	**64.3**	**41.8**	**70.8**	**101.0**	**82.4**	**84**	**78**
	growth in %	-16.9	24.3	31.7	-9.8	-35.0	69.3	42.7	-18.4	1.6	-6.4
Crude oil Brent index *(in CZK)*	*2010=100*	**70.1**	**83.1**	**102.1**	**97.1**	**63.6**	**101.1**	**155.3**	**120.6**	**127**	**115**
	growth in %	-17.4	18.5	22.9	-4.9	-34.6	59.1	53.5	-22.3	5.2	-9.1
Natural gas (Europe)	*USD/MMBtu*	**4.6**	**5.7**	**7.7**	**4.8**	**3.2**	**16.1**	**40.3**	**13.1**	.	.
	growth in %	-33.1	25.3	34.4	-37.5	-32.5	397.1	150.3	-67.5	.	.
Natural gas (Europe) index *(in CZK)*	*2010=100*	**70.7**	**84.2**	**106.0**	**69.6**	**47.1**	**222.9**	**601.4**	**184.5**	.	.
	growth in %	-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	Q2	Q3	Q4
						Estimate	*Forecast*	*Forecast*	*Forecast*
Crude oil Brent	*USD/barrel*	**81.1**	**78.0**	**86.7**	**84.0**	**83**	**86**	**84**	**82**
	growth in %	-19.6	-31.5	-14.0	-5.3	2.4	10.1	-3.0	-2.4
Crude oil Brent index *(in CZK)*	*2010=100*	**118.3**	**111.3**	**126.5**	**126.2**	**126**	**131**	**127**	**123**
	growth in %	-19.0	-35.9	-21.8	-9.7	6.6	17.5	0.7	-2.4
Natural gas (Europe)	*USD/MMBtu*	**16.8**	**11.3**	**10.8**	**13.5**	**.**	**.**	**.**	**.**
	growth in %	-48.4	-64.2	-82.1	-63.4	.	.	.	.
Natural gas (Europe) index *(in CZK)*	*2010=100*	**236.3**	**155.3**	**151.0**	**195.3**	**.**	**.**	**.**	**.**
	growth in %	-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

According to CZSO data, the **general government sector** ended up with a deficit of 3.3% of GDP (*vs. 3.6% of GDP*) in 2023, and a deficit of 2.0% of GDP (*vs. 2.5% of GDP*) in structural terms. Although last year's deficit is mainly attributable to the state budget, the social security funds (health insurance companies) also ran a slight deficit. On the other hand, local governments recorded a significant surplus.

Total **general government revenue** grew by 10% and **tax revenue**, including social security contributions, by 9.1%. In addition to the growth in wages and salaries in the economy, the dynamics of income taxes was strongly influenced by the windfall profits tax. The pace of **personal income tax** (14.9%) was driven by the taxation of employment, but it was also substantially determined by the almost 34% increase in capital gains tax. The 7.8% growth in **social security contributions** was related both to the development of wages and salaries and to the year-on-year increase in payments for the state insurer by CZK 9.3 billion. **The corporate income tax** revenue increased by more than 19% due to profits which, in the case of selected sectors, were subject to taxation at an additional rate of 60% from the threshold and formed the basis for the windfall profits tax with a yield of CZK 39.1 billion.

The value added tax grew by 6.7%, with the autonomous development being corrected by a revenue shortfall due to the shift of the threshold for tax registration from CZK 1 million to CZK 2 million with the budgetary impact of CZK 3 billion. **Excise** revenue, as defined by national legislation, remained almost unchanged year-on-year, despite the mineral oil tax, which benefited from the earlier abolition of the reduced rate on diesel. However, this was offset by the tax on tobacco products, where lower sales and a continued shift towards less taxed alternatives outweighed the increase in tax rates. **Taxes on production and imports** were boosted by CZK 17.2 billion last year by a levy on excess revenue from electricity producers. In contrast, the waiving of the renewable energy levy on households and companies, effective until the end of 2023, represented a revenue shortfall of CZK 12.7 billion YoY.

In the context of **property income**, the state's performance was improved by exceptionally high dividend income, which in accrual terms exceeded CZK 60 billion, and interest on loans granted under the Treasury liquidity management (reverse repo operations).

General government expenditure grew slightly faster than revenue (10.1%), largely on account of support to households and firms during the energy crisis. The rate of **final consumption expenditure** more than doubled to 9.3%. This increase was mainly driven by a strong 10% growth in **intermediate consumption**, reflecting the slowing, but still high, inflation rate and the impact of EU co-financed projects. **Compensation of employees** showed a 7% increase. The 12.1% increase in **social transfers in kind** reflected expenditure on health and social services, also financed by a higher payment for the state insured persons, as well as higher expenditure related to the payment of the housing allowance and supplementary housing benefit.

Pension benefits recorded a double-digit growth (16.4%) within **cash social benefits**, which were affected by both the standard January indexation and allowance for the raised children, as well as by the extraordinary indexation due to the high inflation rate. The cost of the extraordinary indexations from 2022 had an additional impact. Together with increases in other benefits (e.g. child benefit) and the continued payment of the humanitarian benefit for Ukrainian refugees (including the deductible housing costs), these factors led to a 10.5% increase in social benefit expenditure.

The exceptionally high dynamics of **subsidies** was primarily due to assistance to households, firms, public and other institutions in the form of energy price caps in the cumulative amount of CZK 48.4 billion. In addition, in order to avoid the full impact of high electricity and gas prices on customers, subsidies of CZK 20 billion were provided to the transmission system operator of the Czech Republic and compensation to electricity and gas distributors in the total amount of CZK 13.6 billion, with cash payments, as in the case of compensation for energy price capping, extending to 2024.

Investment in fixed assets, with growth of 16.9%, was mainly driven by investment from national sources. From the EU budget, it was still a case of drawing down funds from the 2014–2020 programming period, but also already using funds from the current 2021–2027 programming period, as well as funds from the EU Next Generation Instrument.

The 7.7% increase in **general government debt** in 2023 and high nominal GDP growth resulted in a 0.2pp decrease in the debt quota to 44.0% of GDP (*vs. 43.7% of GDP*). The evolution of debt and interest rates resulted in an increase in **interest costs**, which reached 1.3% of GDP.

The government's consolidation efforts should be reflected in the public finance outturn **in 2024**, when we expect the deficit to decline year-on-year to 2.3% of GDP and to remain at 2.0% of GDP (*unchanged*) in structural terms. **Total general government revenue** is forecast to grow by 4.0%, while tax revenue, including social security contributions, is projected to increase by 6.5%.

The unification of the reduced tax rates to 12% and the simultaneous shifting of some goods and services between rates will have a negative impact on **value added tax** revenue, with an estimated 4.2% growth rate. On the other hand, these changes will mitigate the additional revenue from the increase in **excise duties**. Their annual dynamics will be positively affected by the base effect until the end of July 2023 of the reduced tax rate on diesel fuel (CZK 5.6 billion) and the increase in tax rates on tobacco products and alcohol (CZK 4.4 billion). 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** (7.1%) and **social security contributions** (8.9%). The latter also reflect an increase in payments for state insured persons. Both titles 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 play. On the one hand, we expect a year-on-year reduction in tax revenue from windfall profits, while on the other hand, the positive effect of a 2pp increase in the statutory tax rate will be felt, with an estimated impact of CZK 22 billion.

Among other revenues, we expect significantly lower **dividend income** from state-owned companies.

General government spending should be restrained by the adopted consolidation package. We estimate that the pace of **final consumption expenditure** will slow significantly to 4.6% YoY. After a double-digit growth in **intermediate consumption** last year, its growth rate should also slow down substantially to 4.8% due to the 5% savings in operating expenditure of each department. We expect a similar slowdown in **social transfers in kind**, which should grow at a 6.5% rate. For housing benefits, we expect the relatively higher level to be maintained, but the increase should be driven mainly by higher spending by health insurance companies, made possible by an increase in social security contributions and payments for state insured persons. **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 salaries in the health and education sectors.

In the area of **cash social benefits**, we expect an increase in pension benefits expenditure. In addition to the effects of pension indexation, the dynamics will be affected by humanitarian benefits paid to refugees from Ukraine, pro-family policy measures (an increase in the parental allowance) and an increase in the payment for the state insured persons.

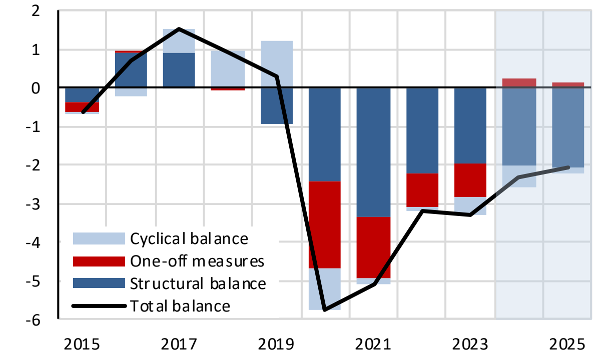
Fixed asset investment will be influenced by increased spending in transport infrastructure and defence, where the 2% of GDP threshold should be reached already this year. In the case of EU co-financed spending, the gradual build-up of funds under the EU Next Generation Instrument and the unfolding 2021–2027 financial perspective will play a role. The growth rate of total investment should reach 1.8%.

The measures of the consolidation package, together with the end of one-offs approved 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 45.5% of GDP (*vs. 45.6% of GDP*) in relative terms in 2024. This is likely to lead to a further increase in **interest expenditure** to 1.4% of GDP.

Graph 1.3.1: General Government Balance

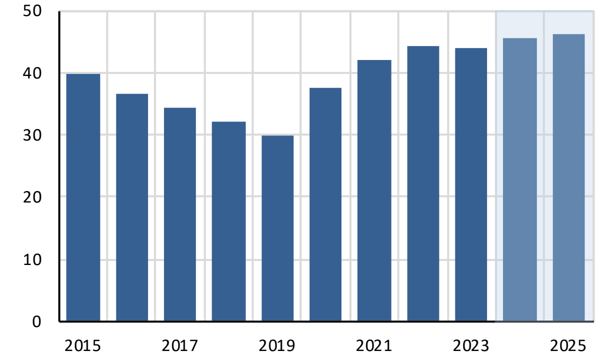
in % of GDP



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

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
General government balance	*% GDP*	**0.9**	**0.3**	**-5.8**	**-5.1**	**-3.2**	**-3.3**	**-2.3**	**-2.1**	**-1.6**	**-1.2**
	bill. CZK	48	17	-329	-311	-215	-240	-178	-165	-133	-109
Cyclical balance	*% GDP*	**0.9**	**1.2**	**-1.1**	**-0.2**	**-0.1**	**-0.5**	**-0.6**	**-0.2**	**0.2**	**0.4**
Cyclically adjusted balance	*% GDP*	**0.0**	**-0.9**	**-4.7**	**-4.9**	**-3.1**	**-2.8**	**-1.7**	**-1.9**	**-1.7**	**-1.6**
One-off measures [1]	*% GDP*	**-0.1**	**0.0**	**-2.3**	**-1.6**	**-0.9**	**-0.8**	**0.2**	**0.1**	**0.0**	**0.0**
Structural balance	*% GDP*	**0.1**	**-0.9**	**-2.4**	**-3.3**	**-2.2**	**-2.0**	**-2.0**	**-2.0**	**-1.7**	**-1.6**
Fiscal effort [2]	*pp*	**-0.9**	**-1.0**	**-1.5**	**-0.9**	**1.1**	**0.3**	**0.0**	**0.0**	**0.3**	**0.1**
Interest expenditure	*% GDP*	**0.7**	**0.7**	**0.8**	**0.8**	**1.1**	**1.3**	**1.4**	**1.5**	**1.5**	**1.5**
Primary balance	*% GDP*	**1.6**	**1.0**	**-5.0**	**-4.3**	**-2.0**	**-1.9**	**-0.9**	**-0.6**	**-0.1**	**0.2**
Cyclically adjusted primary balance	*% GDP*	**0.7**	**-0.2**	**-3.9**	**-4.2**	**-2.0**	**-1.5**	**-0.3**	**-0.4**	**-0.3**	**-0.2**
General government debt	*% GDP*	**32.1**	**30.0**	**37.7**	**42.0**	**44.2**	**44.0**	**45.5**	**46.4**	**47.1**	**47.0**
	bill. CZK	1 735	1 740	2 150	2 567	2 998	3 228	3 482	3 724	3 950	4 116
Change in debt-to-GDP ratio	*pp*	**-2.2**	**-2.0**	**7.6**	**4.4**	**2.2**	**-0.2**	**1.5**	**0.9**	**0.7**	**-0.1**

[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 Q1 2024, the Czech National Bank cut the **two-week repo rate** in total by 1.0pp to 5.75% in aggregate. In line with the inflation outlook, we expect the CNB to continue gradually lowering the repo rate over the course of 2024, with the speed of the rate cuts depending, among other things, on the Czech koruna exchange rate development. Increased depreciation pressures on the koruna would favour a slower decline in interest rates.

The **three-month PRIBOR rate** fell to 6.2% (vs. *6.4%*) in Q1 2024, following a further decline in the CNB's primary interest rates. In Q2 2024, in line with the anticipated path of monetary-policy interest rates, the three-month PRIBOR could fall further to 5.3%. For the whole year 2024, we expect on average 5.1% (vs. *5.6%*). In 2025, it could fall further to 3.3%.

We estimate that the **yield to maturity on 10-year government bonds** fell to 3.8% (*vs. 4.1%*) in Q1 2024. 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 – the yield could fall to 3.7% (*vs. 3.9%*) in Q2 2024 and average the same level (*vs. 3.9%*) for the full year 2024. In 2025, we anticipate further decline to 3.4%.

Year-on-year growth in total **loans to households** moderated to 4.8% in Q4 2023 and reached 4.9% in February. As a result of restrictive monetary policy, annual growth remains subdued compared to pre-pandemic levels. However, demand for mortgage loans has been gradually recovering since the beginning of last year.

The CNB monetary policy rate cuts are slowly making their way into market interest rates. The average client interest rate on new mortgage loans to households fell to 5.8% in Q4 2023 and to 5.5% in February. For new consumer credit, the average rate declined to 9.5% in Q4 2023 and 9.0% in February. The average client interest rate on total outstanding loans reached 4.1% in February, continuing a gradual increase from 3.3% in H2 2021. This increase is mainly due to mortgage refixing, as current rates are significantly higher than those in effect at the time of the previous fixing.

Annual growth in **household deposits** accelerated during 2023. In early 2024, the pace increased further, with annual growth reaching 8.5% in February. This development is mainly due to increased interest in longer maturity deposits as a result of their persistently higher interest rate compared to overnight deposits. The average interest rate on all households' CZK-denominated deposits stagnated at 2.3% in February.

Loans to non-financial corporations rose by 5.4% YoY in Q4 2023 and by 10.2% in February. Continued declines in the volume of koruna loans remain offset by ongoing strong growth in the volume of foreign currency loans (primarily for operating financing), mainly due to the positive interest rate differential vis-à-vis the euro area. As a result, the share of foreign currency loans in total loans to non-financial corporations increased again to 52.2% in February.

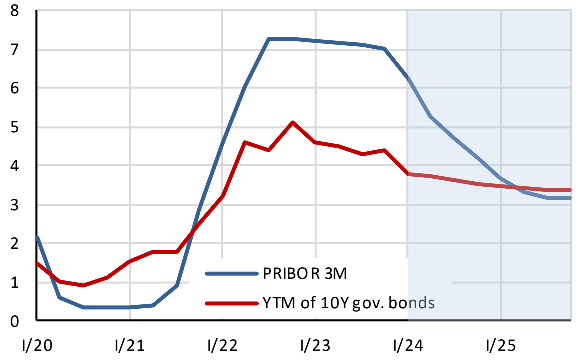
The average client interest rate on the total volume of CZK-denominated loans to non-financial corporations was 7.4% in Q4 2023. A slight decline began in December 2023 and continued at the beginning of this year, with the average rate reaching 7.1% in February.

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 2.6% in February.

The exchange rate of the Czech koruna against the euro averaged CZK 25.1/EUR (*vs. CZK 24.6/EUR*) in Q1 2024, thus depreciating by 5.1% YoY (*vs. 3.1%*). The depreciation was driven by a declining positive interest rate differential vis-à-vis the euro area. Its expected further decline should keep the Czech currency at weaker levels of around CZK 25.3/EUR (*vs. CZK 24.5/EUR*) in Q2 2024. Afterwards, the koruna could appreciate slightly in light of the expected resumption of economic convergence towards the euro area but would still weaken by 4.5% (*vs. 1.7%*) to CZK 25.1/EUR (*vs. CZK 24.4/EUR*) on average over the whole of 2024. In 2025, the koruna could strengthen by 1.5% to CZK 24.7/EUR.

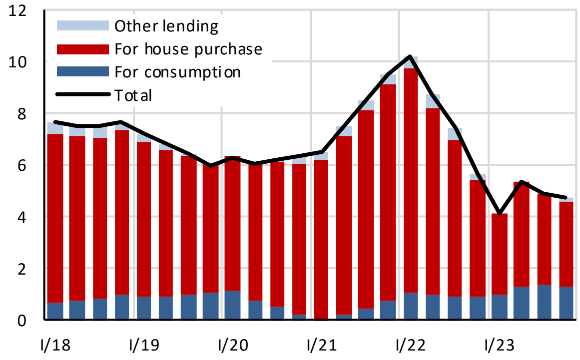
The USD/EUR exchange rate forecast implies the expected development of koruna against the US dollar and is based on the development of futures contracts before the input data cut-off date. We estimate the USD/EUR exchange rate at 1.09 this year (*vs. 1.11*) and at 1.11 in 2025.

Graph 1.4.1: Interest Rates
in % p.a.



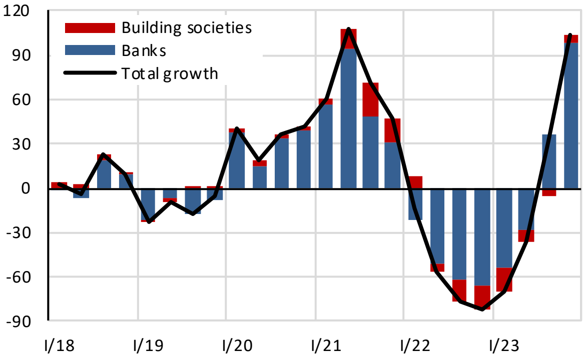
Source: CNB. Calculations and forecast of the MoF.

Graph 1.4.2: Loans to Households
YoY growth rate in%, contributions in percentage points



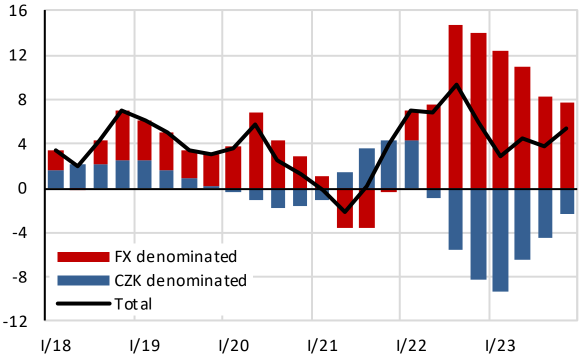
Source: CNB. Calculations of the MoF.

Graph 1.4.3: New Mortgage Loans
for purchase of residential property, YoY growth in %, contributions in pp



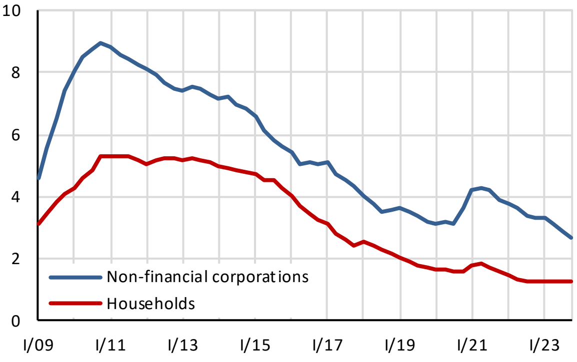
Source: CNB. Calculations of the MoF.

Graph 1.4.4: Loans to Non-financial Corporations
YoY growth rate in%, contributions in percentage points



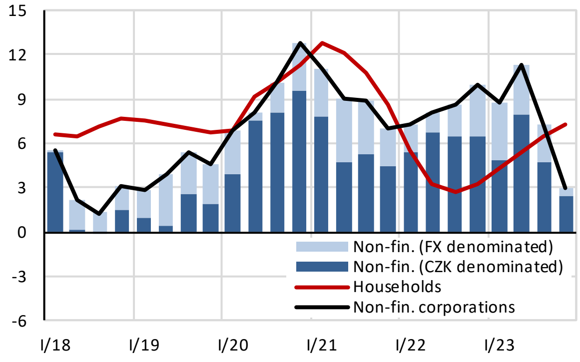
Source: CNB. Calculations of the MoF.

Graph 1.4.5: Non-performing Loans
ratio of non-performing to total loans, in%



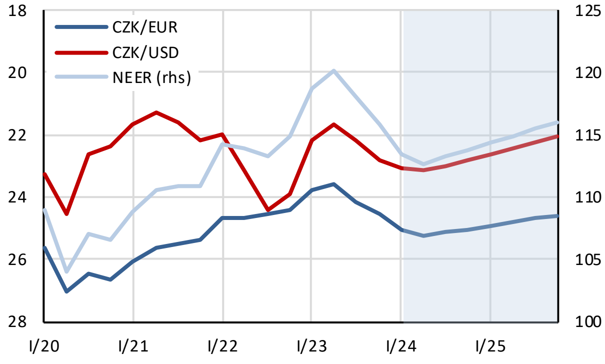
Source: CNB. Calculations of the MoF.

Graph 1.4.6: Deposits
YoY growth rate in%, contributions in percentage points



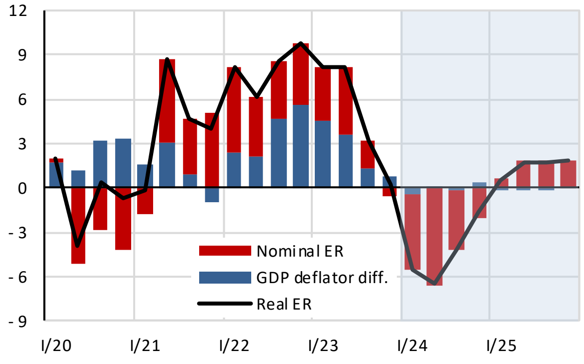
Source: CNB. Calculations of the MoF.

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

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
										Forecast	*Forecast*
Repo 2W rate CNB (*end of period*)	*in % p.a.*	0.05	0.50	1.75	2.00	0.25	3.75	7.00	6.75	.	.
Main refinancing rate ECB (*end of period*)	*in % p.a.*	0.00	0.00	0.00	0.00	0.00	0.00	2.50	4.50	.	.
Federal funds rate (*end of period*)	*in % p.a.*	0.75	1.50	2.50	1.75	0.25	0.25	4.50	5.50	.	.
PRIBOR 3M	*in % p.a.*	0.29	0.41	1.27	2.12	0.86	1.13	6.29	7.12	5.1	3.3
YTM of 10Y government bonds	*in % p.a.*	0.43	0.98	1.98	1.55	1.13	1.90	4.33	4.44	3.7	3.4
Client interest rates											
Loans to households	*in % p.a.*	4.65	4.10	3.76	3.66	3.53	3.31	3.42	3.84	.	.
Loans to non-financial corporations	*in % p.a.*	2.59	2.57	3.05	3.75	2.96	2.86	6.42	7.39	.	.
Deposits of households	*in % p.a.*	0.47	0.36	0.33	0.39	0.35	0.26	1.13	2.10	.	.
Deposits of non-financial corporations	*in % p.a.*	0.10	0.05	0.11	0.37	0.20	0.11	1.96	3.29	.	.

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
						Estimate	*Forecast*	*Forecast*	*Forecast*
Repo 2W rate CNB (*end of period*)	*in % p.a.*	7.00	7.00	7.00	6.75	5.75	.	.	.
Main refinancing rate ECB (*end of period*)	*in % p.a.*	3.50	4.00	4.50	4.50	4.50	.	.	.
Federal funds rate (*end of period*)	*in % p.a.*	5.00	5.25	5.50	5.50	5.50	.	.	.
PRIBOR 3M	*in % p.a.*	7.20	7.17	7.10	7.03	6.2	5.3	4.7	4.2
YTM of 10Y government bonds	*in % p.a.*	4.58	4.50	4.30	4.37	3.8	3.7	3.6	3.6
Client interest rates									
Loans to households	*in % p.a.*	3.66	3.77	3.90	4.03	.	.	.	.
Loans to non-financial corporations	*in % p.a.*	7.35	7.38	7.41	7.42	.	.	.	.
Deposits of households	*in % p.a.*	1.97	2.09	2.14	2.21	.	.	.	.
Deposits of non-financial corporations	*in % p.a.*	3.03	3.48	3.39	3.25	.	.	.	.

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

Table 1.4.3: Loans and Deposits – yearly averages

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Households											
Loans	*growth in %*	**3.4**	**4.8**	**7.2**	**7.8**	**7.6**	**6.6**	**6.3**	**8.0**	**8.0**	**4.8**
For consumption	*growth in %*	-0.9	3.4	6.0	4.3	5.4	6.4	4.4	2.6	7.0	9.0
For house purchase	*growth in %*	4.5	5.6	8.1	9.0	8.5	7.4	7.3	9.5	8.5	4.5
Other lending	*growth in %*	2.9	1.0	3.0	4.2	4.3	1.1	0.9	4.2	4.5	0.3
CZK denominated	*growth in %*	3.4	4.7	7.2	7.7	7.6	6.6	6.3	8.0	7.9	4.7
FX denominated	*growth in %*	0.0	12.7	8.5	36.3	1.7	9.0	6.1	16.9	43.4	26.7
Deposits	*growth in %*	**2.9**	**4.8**	**7.0**	**8.7**	**7.0**	**7.2**	**9.4**	**11.1**	**3.7**	**5.9**
CZK denominated	*growth in %*	2.7	4.1	6.9	9.7	7.1	6.9	9.2	10.9	3.2	5.2
FX denominated	*growth in %*	8.5	22.5	7.3	-13.9	3.5	15.2	14.5	16.6	16.6	20.4
Non-performing loans *(banking statistics)*	*share, in %*	**4.9**	**4.5**	**3.6**	**2.7**	**2.4**	**1.9**	**1.6**	**1.7**	**1.3**	**1.3**
Loans to deposits ratio	*in %*	**63**	**63**	**63**	**63**	**63**	**63**	**61**	**59**	**62**	**61**
Non-financial corporations											
Loans	*growth in %*	**1.9**	**6.5**	**6.6**	**5.0**	**4.2**	**4.3**	**3.2**	**0.5**	**7.2**	**4.2**
CZK denominated	*growth in %*	-1.0	5.9	2.8	-1.4	3.0	1.9	-1.8	3.2	-4.0	-9.4
FX denominated	*growth in %*	13.7	9.0	20.5	24.4	6.9	10.0	14.0	-4.6	29.6	24.2
Deposits	*growth in %*	**7.6**	**10.3**	**4.6**	**7.8**	**3.0**	**4.2**	**9.5**	**9.0**	**8.5**	**7.5**
CZK denominated	*growth in %*	5.6	6.7	4.5	13.9	2.1	1.9	9.4	7.1	8.3	6.6
FX denominated	*growth in %*	15.2	23.2	4.8	-11.1	6.6	13.0	9.9	15.3	9.2	10.7
Non-performing loans *(banking statistics)*	*share, in %*	**7.0**	**6.0**	**5.2**	**4.7**	**3.7**	**3.4**	**3.3**	**4.2**	**3.5**	**3.0**
Loans to deposits ratio	*in %*	**110**	**106**	**108**	**105**	**106**	**106**	**100**	**92**	**91**	**88**

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

		2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Households									
Loans	*growth in %*	**10.2**	**8.7**	**7.4**	**5.6**	**4.1**	**5.3**	**4.9**	**4.8**
For consumption	*growth in %*	7.8	7.1	6.5	6.6	7.1	9.7	10.0	9.2
For house purchase	*growth in %*	11.2	9.4	7.9	5.8	4.1	5.2	4.5	4.3
Other lending	*growth in %*	5.2	5.5	5.0	2.5	-0.6	-0.3	0.0	2.0
CZK denominated	*growth in %*	10.2	8.6	7.3	5.5	4.0	5.3	4.9	4.7
FX denominated	*growth in %*	22.8	43.1	50.6	55.1	46.5	32.7	16.3	17.6
Deposits	*growth in %*	**5.6**	**3.2**	**2.8**	**3.3**	**4.3**	**5.4**	**6.5**	**7.3**
CZK denominated	*growth in %*	5.3	2.8	2.2	2.6	3.4	4.6	5.9	7.0
FX denominated	*growth in %*	13.2	15.2	17.6	20.1	26.7	23.4	18.7	13.8
Non-performing loans *(banking statistics)*	*share, in %*	**1.5**	**1.4**	**1.3**	**1.2**	**1.2**	**1.2**	**1.3**	**1.3**
Loans to deposits ratio	*in %*	**62**	**62**	**62**	**62**	**62**	**61**	**61**	**61**
Non-financial corporations									
Loans	*growth in %*	**7.1**	**6.7**	**9.3**	**5.9**	**2.9**	**4.5**	**3.8**	**5.4**
CZK denominated	*growth in %*	6.6	-1.3	-8.1	-12.3	-14.4	-10.5	-7.7	-4.3
FX denominated	*growth in %*	8.0	22.8	46.5	41.7	35.2	28.7	19.2	17.1
Deposits	*growth in %*	**7.2**	**8.1**	**8.6**	**10.0**	**8.7**	**11.4**	**7.3**	**3.0**
CZK denominated	*growth in %*	7.1	9.0	8.6	8.6	6.5	10.3	6.3	3.2
FX denominated	*growth in %*	7.6	5.6	8.9	14.7	15.9	14.8	10.5	2.5
Non-performing loans *(banking statistics)*	*share, in %*	**3.8**	**3.6**	**3.4**	**3.3**	**3.3**	**3.1**	**2.9**	**2.7**
Loans to deposits ratio	*in %*	**93**	**91**	**92**	**89**	**88**	**86**	**89**	**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 1.4.5: Exchange Rates – yearly

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Nominal exchange rates											
CZK / EUR	*average*	**25.65**	**25.67**	**26.44**	**25.65**	**24.57**	**24.01**	**25.1**	**24.7**	**24.3**	**23.9**
	appreciation in %	2.7	-0.1	-2.9	3.1	4.4	2.3	-4.5	1.5	1.8	1.8
CZK / USD	*average*	**21.74**	**22.94**	**23.20**	**21.68**	**23.36**	**22.21**	**23.0**	**22.3**	**21.6**	**20.9**
	appreciation in %	7.6	-5.2	-1.1	7.0	-7.2	5.2	-3.4	3.1	3.4	3.3
NEER	*average of 2015=100*	**109.1**	**108.8**	**106.7**	**110.4**	**114.8**	**118.3**	**113**	**115**	**117**	**120**
	appreciation in %	3.7	-0.3	-1.9	3.4	4.0	3.0	-4.2	1.7	2.0	2.0
Real exchange rate to EA19 [1]	*average of 2015=100*	**107.9**	**110.1**	**109.4**	**114.1**	**123.5**	**129.4**	**124**	**125**	**128**	**130**
	appreciation in %	3.7	2.0	-0.6	4.2	8.2	4.8	-4.5	1.5	1.8	1.8
REER [2]	*average of 2015=100*	**111.1**	**111.3**	**112.1**	**116.7**	**126.2**	**139.5**	**.**	**.**	**.**	**.**
	appreciation in %	4.3	0.2	0.7	4.1	8.1	10.6	.	.	.	.

[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*
Nominal exchange rates									
CZK / EUR	*average*	**23.79**	**23.59**	**24.14**	**24.52**	**25.07**	**25.3**	**25.1**	**25.0**
	appreciation in %	3.7	4.5	1.8	-0.5	-5.1	-6.6	-4.0	-2.0
CZK / USD	*average*	**22.17**	**21.67**	**22.17**	**22.82**	**23.09**	**23.1**	**23.0**	**22.8**
	appreciation in %	-0.8	6.8	10.1	4.8	-4.0	-6.2	-3.6	0.1
NEER	*average of 2015=100*	**118.7**	**120.1**	**118.1**	**115.9**	**113**	**113**	**113**	**114**
	appreciation in %	3.9	5.5	4.3	0.8	-4.4	-6.2	-4.2	-1.8
Real exchange rate to EA19 [1]	*average of 2015=100*	**130.7**	**131.7**	**129.5**	**126.0**	**123**	**123**	**124**	**124**
	appreciation in %	8.2	8.1	3.2	0.2	-5.5	-6.5	-4.1	-1.6
REER [2]	*average of 2015=100*	**138.7**	**142.5**	**140.6**	**136.3**	**.**	**.**	**.**	**.**
	appreciation in %	11.7	13.8	10.4	6.5	.	.	.	.

[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

At the beginning of 2023, the population of the Czech Republic was 10.828 million; during the year it increased by 73.0 thousand to 10.901 million. Population growth was driven by a positive balance of foreign migration (94.7 thousand), while the balance of natural change was negative for the fourth year in a row (–21.6 thousand).

Last year, 91.1 thousand children were born alive, 10.2 thousand fewer than in 2022. The last time a lower number of births was recorded was in 2001. The year-on-year decline is influenced by a lower fertility rate, which is expected to be 1.46 children per woman in 2023.

The number of deaths (112.8 thousand) decreased by 7.4 thousand year-on-year but was 1.7 thousand higher compared to the 2015–2019 average.

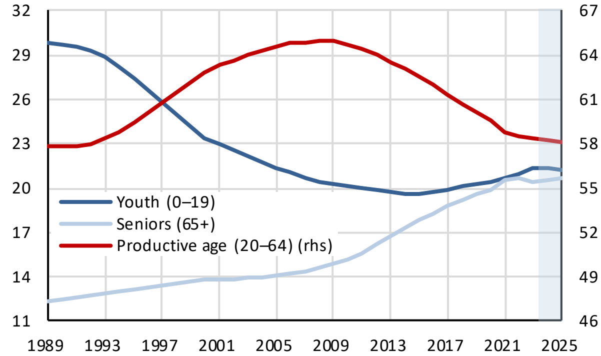
The balance of foreign migration decreased year-on-year by 235.1 thousand persons, i.e. by 71.3%. The significant decrease is due to the high comparative base of 2022, when a large number of Ukrainian refugees arrived in the Czech Republic. Compared to 2022, the number of immigrants decreased by 208.3 thousand, or 59.6%, to 141.3 thousand persons. In contrast, the number of emigrants increased by 26.8 thousand persons year-on-year to 46.6 thousand. The largest share of the total number of emigrants was accounted for by citizens of Ukraine with temporary protection. The future intensity of migration flows due to the war in Ukraine cannot be accurately estimated, but we expect some refugees to return to Ukraine, while immigration from that country will remain elevated. We therefore keep the migration balance according to the demographic projection of the CZSO.

Detailed data on the age structure of the Czech population at the beginning of 2024 will be published in May this year. Population growth can be expected in all age groups (0–19 years, 20–64 years, 65 years and over) due to increased immigration from Ukraine, but the annual growth should slow down compared to 2022.

At the beginning of 2024, the Czech Social Security Administration registered 2.371 million old-age pensioners, which corresponded to 21.8% of the population of the Czech Republic. Despite the extension of the statutory retirement age, the number of old-age pensioners increased by 4.1 thousand, or 0.2%, YoY (see Graph 1.5.3). This growth was supported by early retirements (according to data from the Czech Social Security Administration, the number of reduced pensions increased by 52,500 or 7.7% YoY, with their share in the total number of old-age pensions rising from 28.7% to 30.9%) due to the use of more favourable conditions resulting from exceptional indexation. A gradual reduction in the number of new early retirement pensions can be expected during this year due to the stricter rules for early retirement pensions applicable from 1 October 2023.

Graph 1.5.1: Age Groups

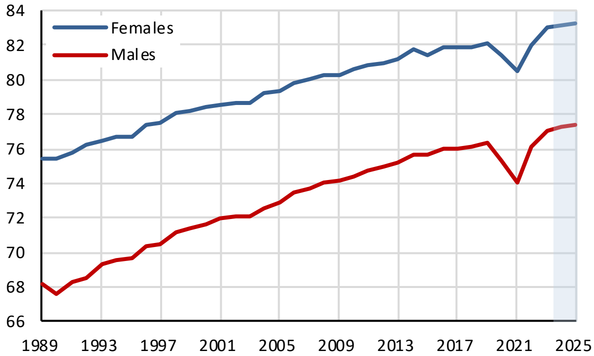
as of 1 January of the given year, shares in total population, in %



Source: CZSO. Calculations of the MoF.

Graph 1.5.2: Life Expectancy at Birth

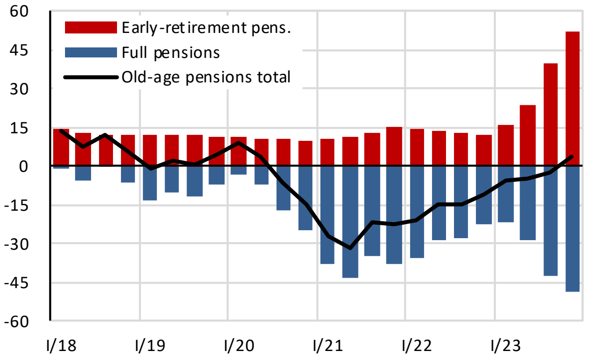
in years



Source: CZSO.

Graph 1.5.3: Old-Age Pensioners

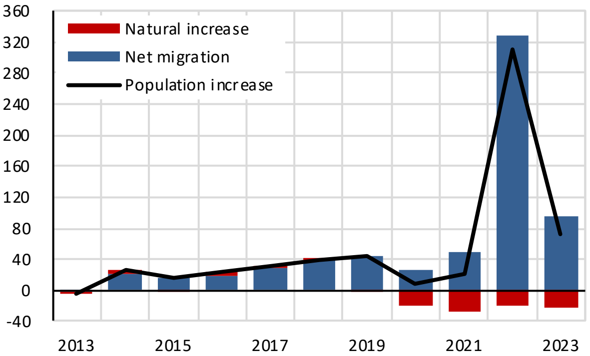
absolute increase over a year in thousands of persons



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

Graph 1.5.4: Population Change

in thousands of persons



Source: CZSO.

Table 1.5.1: Demographics

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Population (as of 1 January)	*thous. persons*	**10 610**	**10 650**	**10 694**	**10 495**	**10 517**	**10 828**	**10 901**	**10 915**	**10 862**	**10 805**
	growth in %	0.3	0.4	0.4	-1.9	0.2	3.0	0.7	0.1	-0.5	-0.5
0–19 years	*thous. persons*	2 133	2 160	2 188	2 171	2 197	2 307	2 326	2 312	2 274	2 234
	growth in %	1.3	1.3	1.3	-0.8	1.2	5.0	0.8	-0.6	-1.6	-1.8
20–64 years	*thous. persons*	6 437	6 403	6 374	6 172	6 151	6 312	6 343	6 344	6 312	6 280
	growth in %	-0.7	-0.5	-0.4	-3.2	-0.3	2.6	0.5	0.0	-0.5	-0.5
65 and more years	*thous. persons*	2 040	2 087	2 132	2 152	2 169	2 208	2 240	2 259	2 275	2 291
	growth in %	2.6	2.3	2.2	0.9	0.8	1.8	1.5	0.8	0.7	0.7
Old-age pensioners (as of 1 January) [1]	*thous. persons*	**2 404**	**2 410**	**2 415**	**2 400**	**2 378**	**2 367**	**2 371**	**2 371**	**2 363**	**2 359**
	growth in %	0.4	0.3	0.2	-0.6	-0.9	-0.4	0.2	0.0	-0.3	-0.2
Old-age dependency ratios (as of 1 January)											
Demographic [2]	*%*	31.7	32.6	33.4	34.9	35.3	35.0	35.3	35.6	36.0	36.5
Under current legislation [3]	*%*	40.4	40.4	40.5	41.2	40.6	39.3	38.8	38.6	38.5	38.5
Effective [4]	*%*	44.6	44.1	44.4	45.1	44.0	43.4	43.2	43.1	42.9	42.8
Fertility rate	*children*	**1.708**	**1.709**	**1.707**	**1.827**	**1.618**	**1.456**	**1.50**	**1.50**	**1.50**	**1.50**
Population increase	*thous. persons*	**40**	**44**	**8**	**22**	**311**	**73**	**14**	**-53**	**-57**	**-61**
Natural increase	*thous. persons*	**1**	**0**	**-19**	**-28**	**-19**	**-22**	**-19**	**-22**	**-26**	**-29**
Live births	*thous. persons*	114	112	110	112	101	91	93	91	88	86
Deaths	*thous. persons*	113	112	129	140	120	113	112	113	114	115
Net migration	*thous. persons*	**39**	**44**	**27**	**50**	**330**	**95**	**24**	**-31**	**-31**	**-32**
Immigration	*thous. persons*	58	66	56	69	350	141	.	.	.	.
Emigration	*thous. persons*	20	21	29	19	20	47	.	.	.	.
Census difference	*thous. persons*	**x**	**x**	**x**	**-207**	**x**	**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 supply from Russia to the EU remains to be replaced by a combination of increased imports from other countries (including liquefied natural gas), savings and 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 major problems and, as a result, upward pressures on the price level will also be easing;

– thanks to vaccination, the 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 guaranteed pay in the public sector will rise faster than the average nominal wage, with the minimum wage gradually approaching 47% of the average wage.

2 Economic Cycle

2.1 Position within the Economic Cycle

The output gap was close to −2% of potential output in H2 2023 but should close gradually over the forecast horizon (see Graph 2.1.1). Nevertheless, the economy is likely to remain below its potential level until the end of next year. However, given the extreme uncertainty and volatility of economic developments, the results should be treated with caution.

Potential output, whose growth has lagged well behind the long-term average in recent years, is estimated to increase by 1.5% in 2023. We expect similar dynamics over the forecast horizon.

The trend component of **total factor productivity** was an important determinant of potential growth during the pre-pandemic boom, but its contribution has been slightly negative in recent years. In 2024 and 2025, it could support potential output dynamics to the extent of 0.3pp and 0.8pp, respectively.

Only a gradual recovery in investment activity last year resulted in a slower increase in the **capital stock**. Given the forecasted evolution of gross fixed capital formation and depreciation, the contribution of this factor could decline slightly to 0.7pp this year and 0.6pp in 2025.

The population aged 15 and over accounted for about half of the total potential growth rate in 2022 and 2023, with the influx of refugees from Ukraine playing a dominant role. The **employment rate** for those aged 15 and over declined slightly last year, mainly due to a rise in the unemployment rate and a falling share of those with a naturally high participation rate, while over the long-term the opposite is true for extension of the statutory retirement age. The **average number of hours worked** per worker has been on a long-term downward trend (see Graph 2.1.4); the more pronounced fall during the pandemic and the associated downturn in economic activity was only temporary. In aggregate, **factor of labour** is expected to support potential growth less than in the previous two years, to the extent of 0.4pp this year and 0.1pp in 2025.

Box 1: Changes in the Methodology of Potential Output and Output Gap Estimation

The methodology used by the MoF to estimate potential output and the output gap is based on a Cobb-Douglas production function with constant returns to scale (see MoF and CFC, 2020 for details)[1] . In addition to the analysis of the business cycle position, estimates of potential output and the output gap are also used in the Czech Republic to derive expenditure frameworks for the state budget and state funds.

A significant shortcoming of the methodology used so far has been the large changes in estimates between forecasts, which have averaged almost 1pp over the entire forecast horizon (see Graph 1). In fact, the methodology was extremely sensitive to certain variables, in particular the average number of hours actually worked from the LFS. Over the forecast horizon, the original methodology fixed the last known value, and the time series was then adjusted for working-day effects and further smoothed by the Hodrick-Prescott filter. Nevertheless, the time series was still quite volatile and over the forecast horizon it did not follow the long-term downward trend in hours worked.

The aim of the modified methodology of the MoF and CFC (2024)[2] is to increase the stability of the estimates between individual forecasts. In addition, the changes reinforce the use of national accounts data to the maximum extent possible at the expense of the LFS. The main modifications are as follows:

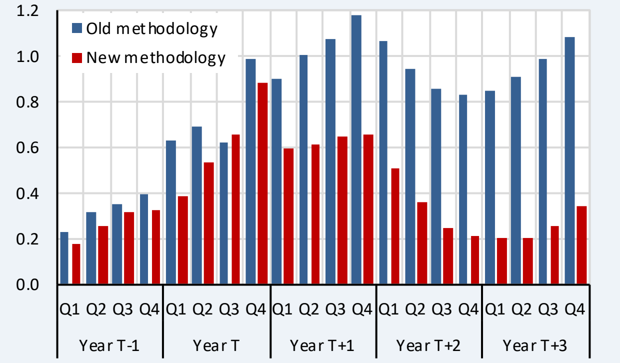
- potential output and the output gap are now estimated on data from 1996 Q1 instead of 1993 Q1,
- population data are primarily based on demographic statistics instead of the LFS; although there are breaks due to the census every ten years, these can be eliminated relatively easily,
- instead of employment in the LFS methodology, employment in the national accounts methodology is used, thus eliminating the need to expertly adjust the LFS time series for the effects of historical methodological changes and breaks; the national accounts also better capture foreigners in the Czech Republic,
- the number of unemployed is calculated on the basis of the number of employed (national accounts) and the unemployment rate (LFS); the ratios are relatively robust to methodological changes in the LFS and breaks in the time series,
- the labour factor of production is the seasonally adjusted number of hours worked in the national economy in the national accounts methodology,
- for the net stock of fixed capital at constant prices, full use is made of available data from annual national accounts.

[1] MoF and CFC (2020): Methodology of Deriving Expenditure Frameworks of the State Budget and State Funds. Prague, Ministry of Finance of the Czech Republic and Czech Fiscal Council, Methodological Compendium series, 3rd updated edition, September 2020, [accessed on 27 March 2024], <https://www.mfcr.cz/assets/en/media/Methodology-of-Deriving-Expenditure-Frameworks-of-the-State-Budget-and-State-Funds_v03.pdf>.

[2] MoF and CFC (2024): Methodology of Deriving Expenditure Frameworks of the State Budget and State Funds. Prague, Ministry of Finance of the Czech Republic and Czech Fiscal Council, Methodological Compendium series, 4th updated edition, January 2024, [accessed on 27 March 2024], <https://www.mfcr.cz/assets/en/media/2024-02-12_Methodology-of-Deriving-Expenditure-Frameworks-4th-Updated-Edition.pdf>.

Graph 1: Stability of Output Gap Estimates

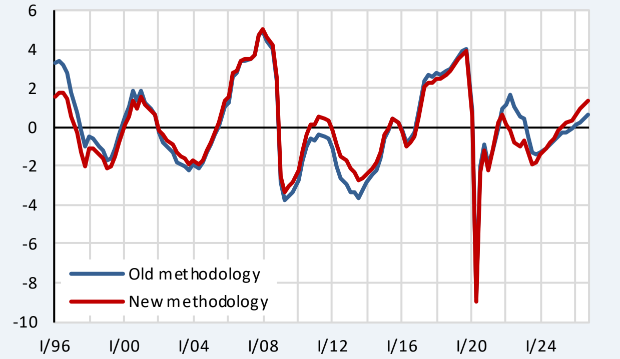
average absolute change in the output gap estimate from the previous forecast, in percentage points, forecasts from 2021–2023



Source: Calculations and forecasts of the MoF.

Graph 2: Output Gap

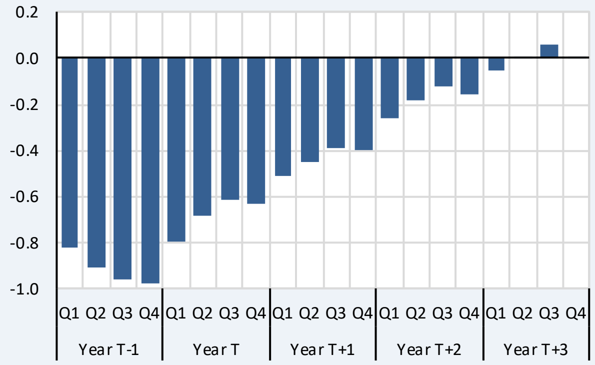
% of potential output, estimate based on data available during the preparation of the Macroeconomic Forecast (November 2023)



Source: Calculations and forecasts of the MoF.

Graph 3: Difference between Methodologies

average difference between the new and the old methodology, in pp

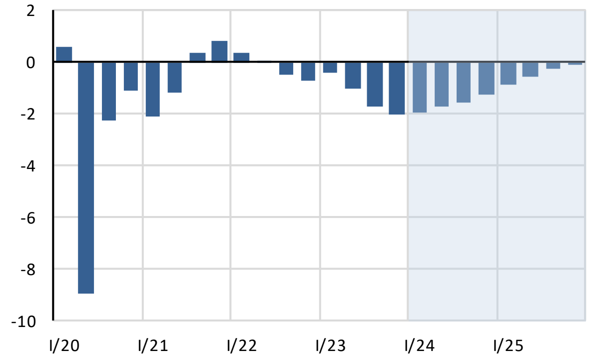


Source: Calculations and forecasts of the MoF.

To compare the new methodology with the existing one, estimates of potential output and the output gap were recalculated for the forecasts released in 2021–2023. The results show that the new methodology significantly improves the stability of the output gap estimates at the T+1 to T+3 horizon, but the improvement is generally also observed for the T and T-1 horizons (Graph 1). The overall view of the cyclical development of the Czech economy does not change fundamentally (Graph 2), although on average the estimated output gap is less positive or more negative, respectively, over the forecast horizon (Graph 3). However, the differences gradually narrow and are already negligible at the T+3 horizon.

Graph 2.1.1: Output Gap

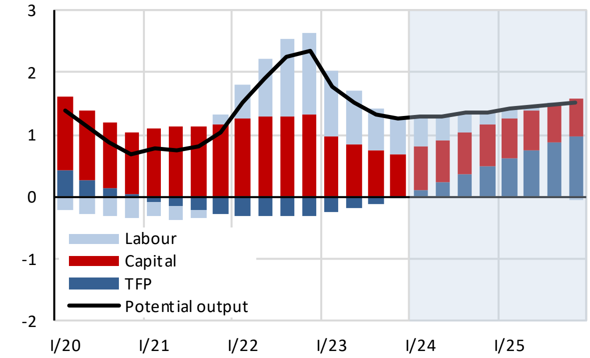
in % of potential product



Source: CZSO. Calculations and forecast of the MoF.

Graph 2.1.2: Potential Output

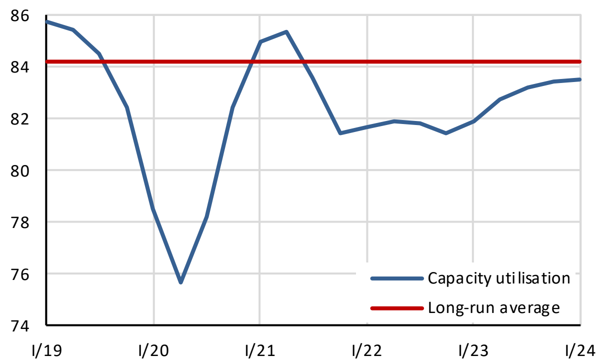
YoY growth rate in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Graph 2.1.3: Capacity Utilisation in Industry

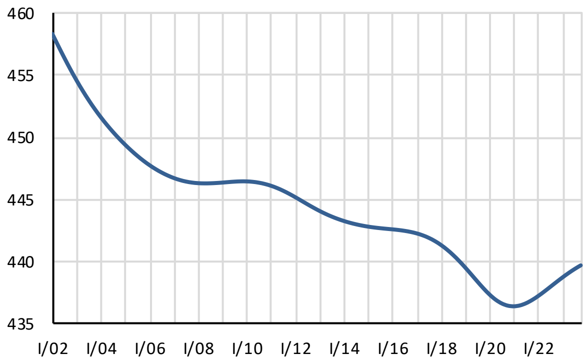
smoothed by centred moving average over 5 quarters, in %



Source: CZSO. Calculations of the MoF.

Graph 2.1.4: Average Number of Hours Worked

smoothed by Hodrick-Prescott filter (λ = 1 600), number of hours per quarter, national accounts



Source: CZSO. Calculations of the MoF.

Table 2.1.1: Output Gap and Potential Product

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Output gap	*%*	**2.6**	**3.5**	**-2.9**	**-0.5**	**-0.2**	**-1.3**	**-1.6**	**-0.4**	**0.5**	**1.1**
Potential product	*growth in %*	**2.5**	**2.0**	**1.0**	**0.9**	**2.0**	**1.5**	**1.3**	**1.5**	**1.6**	**1.7**
Contributions											
Trend total factor productivity	*pp*	1.3	0.8	0.2	-0.2	-0.3	-0.1	0.3	0.8	1.2	1.3
Fixed assets	*pp*	0.9	1.3	1.4	0.9	1.5	0.8	0.7	0.6	0.5	0.5
Population 15+	*pp*	-0.1	0.0	0.1	0.0	1.1	0.8	0.4	0.1	-0.1	-0.1
Employment rate	*pp*	0.6	0.2	-0.5	0.2	-0.5	-0.2	-0.2	0.0	0.1	0.0
Average hours worked	*pp*	-0.2	-0.3	-0.2	-0.1	0.2	0.2	0.1	0.0	0.0	0.0

Source: CZSO. Calculations and forecast of the MoF.

2.2 Business Cycle Indicators

The development of confidence indicators in Q1 2024 points to a year-on-year decline in gross value added in industry, trade and services. On the contrary, there is a higher degree of optimism in the construction sector, but the correlation between the development of confidence and gross value added in this sector is very low.

The 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, indicates a year-on-year stagnation in exports of goods.

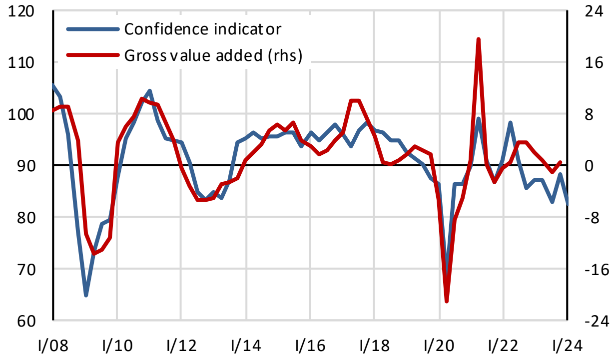
The CZSO's consumer confidence indicator strengthened slightly quarter-on-quarter in Q1 2024. Its development for Q2 2024 (the confidence indicator shows a one-quarter lead) signals a gradual recovery in household final consumption expenditure. The consumer confidence indicator, compiled by the Ministry of Finance from sub-questions of the European Commission's consumer survey, also improved. However, consumer pessimism remains considerable, stemming from a significantly negative assessment of the economic situation and concerns about the financial situation of households.

As a result, the aggregate confidence indicator signals a quarter-on-quarter and a year-on-year decline in total gross value added in Q1 2024.

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 over the business cycle (see Chapter 2.1).

Graph 2.2.1: Confidence and GVA in Industry

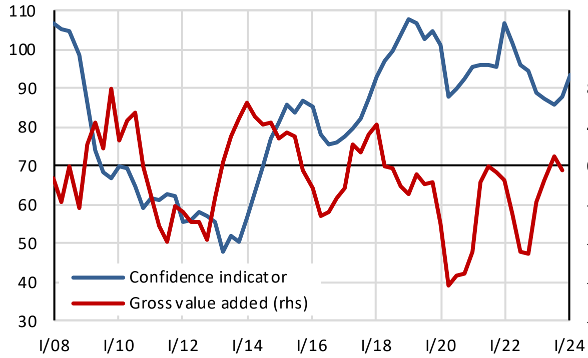
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO.

Graph 2.2.2: Confidence and GVA in Construction

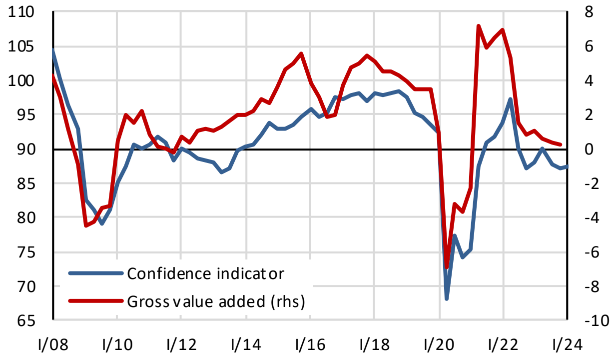
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO.

Graph 2.2.3: Confidence and GVA in Trade and Services

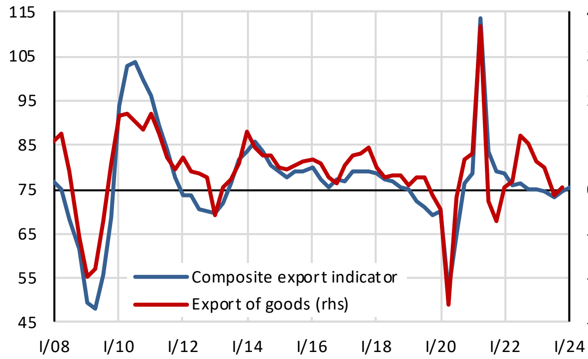
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO. Calculations of the MoF.

Graph 2.2.4: Composite Export Indicator

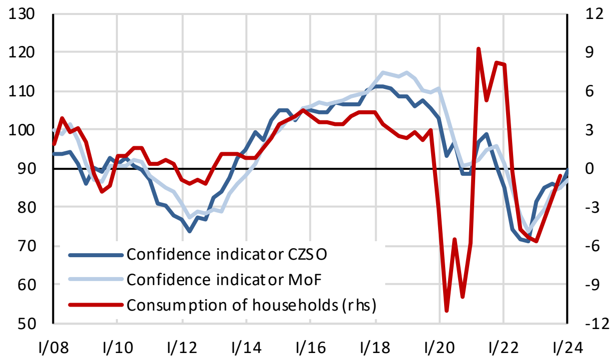
2010=100 (lhs), YoY growth in % (rhs)



Source: CESifo, CZSO. Calculations of the MoF.

Graph 2.2.5: Consumer Confidence and Consumption

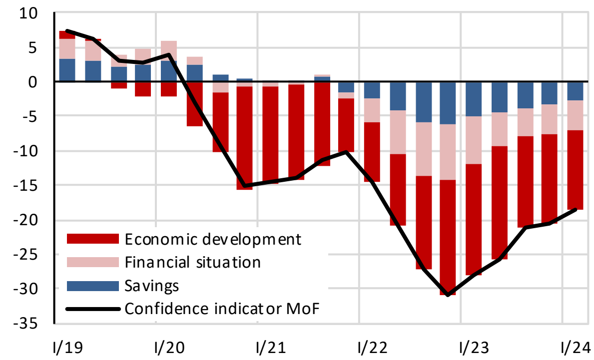
2005=100 (lhs), YoY growth in % (rhs)



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

Graph 2.2.6: Decomposition of Consumer Sentiment

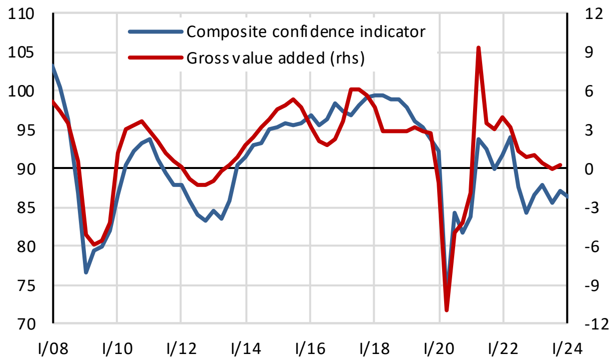
consumer confidence indicator of the MoF, balance, contributions



Source: European Commission. Calculations of the MoF.

Graph 2.2.7: Composite Confidence Indicator and GVA

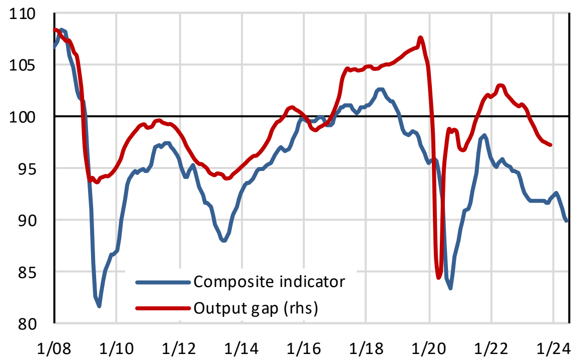
2005=100 (lhs), YoY growth in % (rhs)



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 grew by 0.2% YoY (*vs. a decline of 0.3%*) in **Q4 2023**, with seasonally adjusted **GDP** rising by 0.4% (*vs. 0.1%*) compared with the previous quarter. Economic activity was boosted most by manufacturing, while it was most significantly dampened by a decline in gross value added in industry other than manufacturing. GDP growth in H1 2023 has been revised up slightly.

Household consumption was 0.4% (*vs. 0.6%*) lower year-on-year in Q4, owing to a rise in the savings rate, while an increase in real disposable income had boosted consumption. Households reduced spending on intermediate consumption goods but purchases of other goods increased year-on-year and spending on services was almost flat. Residents' purchases abroad remained at record high levels (more than CZK 20 billion at constant prices).

Government consumption increased by 3.9% YoY (*vs. 2.5%*), underpinned by both public sector employment growth and purchases of goods and services. The latter have been driven by the central government, while purchases of the local government subsector and health insurance companies slowed down.

Gross fixed capital formation increased by 6.7% (*vs. 2.8%*). Investment activity was boosted by investment in machinery, equipment and non-residential buildings, while investment in intellectual property products and dwellings declined. From a sectoral point of view, the increase in investment by firms and the general government was dampened by lower investment spending by households. Private and government investment was supported by projects co-financed by EU funds.

The **change in inventories** and valuables took 6.3pp (*vs. 2.0pp*) off economic growth, and gross capital formation fell by 13.8% (*vs. 3.7%*). In addition to the continued normalisation of firms' inventories, geopolitical tensions in the Middle East, which have resulted in some shipping traffic from Asia to Europe being diverted from the Suez Canal route around Africa and delays in the delivery of components, may have contributed to the exceptionally strong fall in inventories (firms covered shortages of components that would have been delivered during the fourth quarter in the absence of these problems from inventories).

By contrast, the **foreign trade** balance supported economic growth to the extent of 4.0pp (*vs.0.7pp*). While exports of goods and services increased by 1.1% YoY (*vs. 0.3%*), imports decreased by 4.1% (*vs. 0.8%*). Exports to the euro area weakened slightly, while exports to other EU and non-EU countries increased. In addition to low export growth, imports were dampened by weak domestic demand (in particular the fall in inventories).

The economy teetered on the brink of recession last year, with GDP **contracting by 0.3%** for the full year **2023** (*vs. 0.6%*). However, economic activity should gradually recover this year. Private consumption should pick up again after two years of contraction, while growth in government consumption should slow, partly due to the consolidation of public finances. Investment activity will be driven by private sector spending, while government investment should fall this year as EU cohesion funds transition between financial perspectives. The change in inventories will further dampen economic growth, although not as strongly as last year. The contribution of the external trade balance should be slightly positive over the forecast horizon. As a result, real GDP could increase by **1.4%** (*vs. 1.2%*) in **2024**, with growth accelerating to **2.6% in 2025**.

Real **household consumption** fell by 3.1% (*vs. 3.2%*) in 2023 as a result of a strong increase in the savings rate, with real disposable income effectively stagnating. This year, the savings rate could already start to fall slightly, but the decline will initially be dampened by the efforts of lower-income households to rebuild their financial buffer. The decrease in the savings rate should stimulate household consumption more strongly only in 2025, but the savings rate should still remain well above its long-term pre-pandemic average. The decline in the savings rate should also be supported by falling interest rates this year and next, although at the beginning of the forecast horizon the incentive to save will still be relatively strong given the level of interest rates. Real household incomes should increase in both years thanks to the decline in inflation. Private consumption dynamics may be slightly dampened by the consolidation package. Thus, household consumption expenditure could increase by 2.7% (*vs. 2.6%*) this year and by 3.5% in 2025.

General government consumption increased by 3.5% (*vs. 3.1%*) in 2023; in 2024, its growth could slow to 1.6% (*unchanged*). In addition to the fiscal consolidation, the transition to the new 2021–2027 Financial Perspective will also have an impact, but this will be somewhat offset by a surge in current spending from other EU instruments, notably the Recovery and Resilience Facility. In 2025, government consumption growth could accelerate to 2.2% due to the increase in government employment and stronger dynamics in purchases of goods and services.

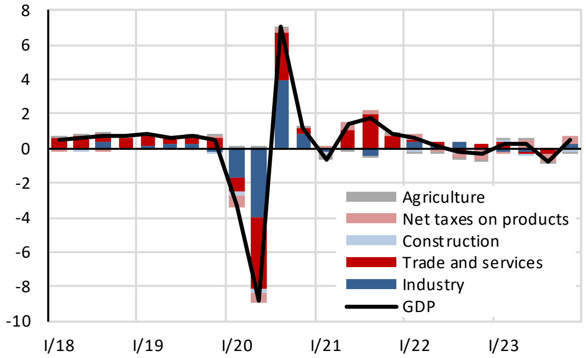
The forecast for **gross fixed capital formation** is influenced by the EU funds cycle. Private investment activity should remain relatively robust in 2024, thanks to a moderate recovery in economic activity in the euro area and a gradual easing of monetary conditions but will be dampened by the transition to the new financial perspective of EU funds. This factor will also lead to a decline in general government investment. As a result, gross fixed capital formation may increase by 2.2% (*vs. 1.2%*) in 2024, with growth accelerating to 2.4% in 2025, thanks to the economic recovery in the euro area and government investment supported by EU funding from the Recovery and Resilience Facility.

We assume that over the entire forecast horizon, the extent of stock accumulation will be broadly in line with the normal range for the given phase of the business cycle. However, given the high accumulation in previous years due to firms' efforts to ensure continuity of the production process in the event of recurrent supply shortages of key components, we expect the **change in inventories** to have a negative impact on GDP growth. Thus, gross capital formation could fall by 1.5% (*vs. 3.6%*) this year before increasing by 0.5% in 2025.

Exports of goods and services are expected to grow by 1.5% (*vs. 2.8%*) this year. Growth dynamics will be limited by weak export markets and will also be negatively affected by the decline in export performance (see Chapter 3.4). The projected acceleration of export growth to 3.7% in 2025 reflects the recovery of the main 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 rise by 1.2% (*vs. 1.9%*) in 2024. The acceleration to 3.4% in 2025 reflects the continued recovery in domestic and external demand.

Graph 3.1.1: Resources of Gross Domestic Product

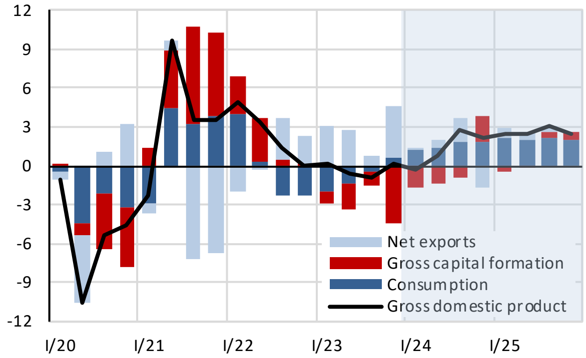
QoQ growth rate of real GDP in %, contrib. in pp, season. adjusted



Source: CZSO. Calculations of the MoF.

Graph 3.1.2: GDP by Type of Expenditure

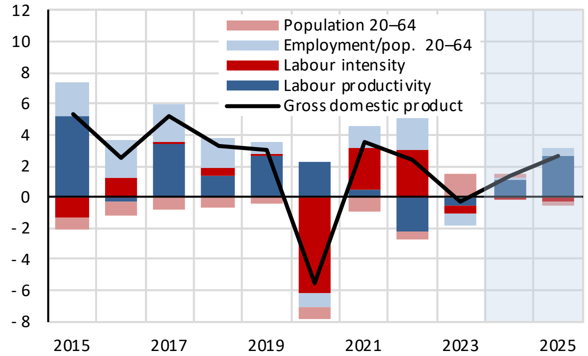
YoY growth rate of real GDP in %, contributions in pp



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.1.3: Real Gross Domestic Product

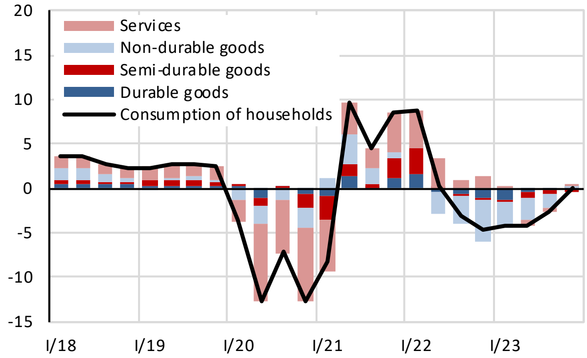
growth in %, contributions in percentage points



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

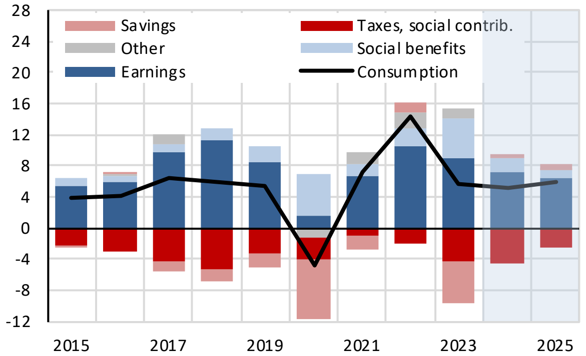
domestic concept, YoY growth rate in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Graph 3.1.5: Nominal Consumption of Households

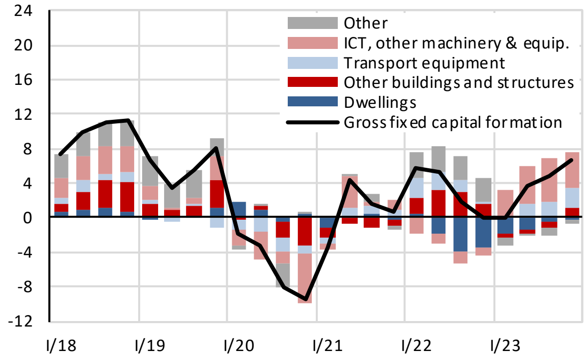
national concept, YoY growth rate in %, contributions in pp



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.1.6: Investment by Type of Expenditure

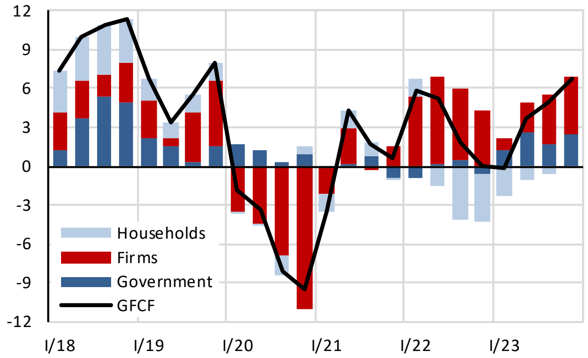
YoY growth rate of real GFCF in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Graph 3.1.7: Investment by Sector

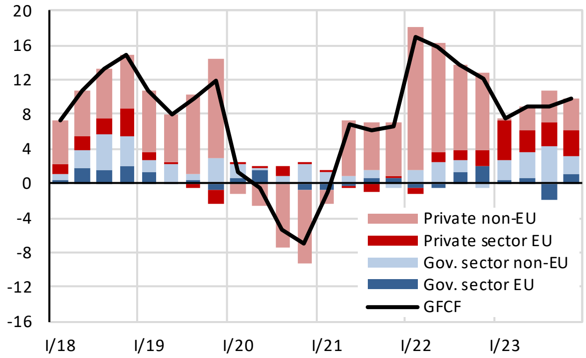
YoY growth rate of real GFCF in %, contributions in percentage points



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

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Gross domestic product	*bill. CZK 2015*	**5 148**	**5 304**	**5 013**	**5 191**	**5 313**	**5 296**	**5 368**	**5 508**	**5 643**	**5 782**
	growth in %	3.2	3.0	-5.5	3.6	2.4	-0.3	1.4	2.6	2.4	2.5
	growth in % [1]	3.2	3.0	-5.5	3.5	2.4	-0.2	1.2	2.7	2.5	2.3
Private consumption expenditure [2]	*bill. CZK 2015*	**2 438**	**2 504**	**2 322**	**2 418**	**2 402**	**2 327**	**2 390**	**2 473**	**2 544**	**2 609**
	growth in %	3.5	2.7	-7.2	4.1	-0.6	-3.1	2.7	3.5	2.9	2.5
Government consumption exp.	*bill. CZK 2015*	**949**	**973**	**1 014**	**1 027**	**1 031**	**1 067**	**1 084**	**1 108**	**1 130**	**1 149**
	growth in %	3.9	2.5	4.2	1.4	0.3	3.5	1.6	2.2	2.0	1.6
Gross capital formation	*bill. CZK 2015*	**1 425**	**1 489**	**1 351**	**1 609**	**1 699**	**1 584**	**1 560**	**1 568**	**1 598**	**1 634**
	growth in %	7.7	4.5	-9.3	19.1	5.6	-6.8	-1.5	0.5	1.9	2.2
Gross fixed capital formation	*bill. CZK 2015*	1 374	1 455	1 368	1 379	1 421	1 478	1 510	1 546	1 587	1 622
	growth in %	10.0	5.9	-6.0	0.8	3.0	4.0	2.2	2.4	2.6	2.2
Change in stocks and valuables	*bill. CZK 2015*	51	34	-16	230	278	106	50	22	11	11
Exports of goods and services	*bill. CZK 2015*	**4 322**	**4 386**	**4 034**	**4 312**	**4 624**	**4 751**	**4 822**	**5 000**	**5 161**	**5 322**
	growth in %	3.7	1.5	-8.0	6.9	7.2	2.8	1.5	3.7	3.2	3.1
Imports of goods and services	*bill. CZK 2015*	**3 989**	**4 051**	**3 719**	**4 214**	**4 479**	**4 448**	**4 503**	**4 656**	**4 807**	**4 944**
	growth in %	5.8	1.5	-8.2	13.3	6.3	-0.7	1.2	3.4	3.2	2.9
Gross domestic expenditure	*bill. CZK 2015*	**4 811**	**4 964**	**4 693**	**5 053**	**5 130**	**4 978**	**5 036**	**5 154**	**5 278**	**5 397**
	growth in %	4.8	3.2	-5.5	7.7	1.5	-3.0	1.2	2.3	2.4	2.2
Real gross domestic income	*bill. CZK 2015*	**5 149**	**5 324**	**5 083**	**5 259**	**5 232**	**5 322**	**5 406**	**5 550**	**5 691**	**5 837**
	growth in %	3.2	3.4	-4.5	3.4	-0.5	1.7	1.6	2.7	2.6	2.6
Contributions to GDP growth [4]											
Gross domestic expenditure	*pp*	**4.4**	**3.0**	**-5.1**	**7.2**	**1.5**	**-2.9**	**1.1**	**2.2**	**2.3**	**2.1**
Consumption	*pp*	**2.4**	**1.8**	**-2.6**	**2.2**	**-0.2**	**-0.8**	**1.6**	**2.1**	**1.7**	**1.5**
Household expenditure	*pp*	1.7	1.3	-3.4	1.9	-0.3	-1.5	1.2	1.6	1.3	1.2
Government expenditure	*pp*	0.7	0.5	0.8	0.3	0.1	0.7	0.3	0.5	0.4	0.3
Gross capital formation	*pp*	**2.0**	**1.2**	**-2.6**	**5.0**	**1.7**	**-2.2**	**-0.4**	**0.1**	**0.5**	**0.6**
Gross fixed capital formation	*pp*	2.5	1.6	-1.6	0.2	0.8	1.1	0.6	0.7	0.7	0.6
Change in stocks	*pp*	-0.5	-0.3	-0.9	4.8	0.9	-3.3	-1.0	-0.5	-0.2	0.0
Foreign balance	*pp*	**-1.2**	**0.0**	**-0.4**	**-3.6**	**0.9**	**2.6**	**0.2**	**0.4**	**0.2**	**0.3**
External balance of goods	*pp*	-1.0	0.4	-0.3	-3.6	1.4	3.0	0.0	0.3	0.1	0.3
External balance of services	*pp*	-0.2	-0.4	-0.1	0.0	-0.5	-0.3	0.2	0.1	0.1	0.1
Gross value added	*bill. CZK 2015*	**4 644**	**4 784**	**4 532**	**4 687**	**4 797**	**4 807**	**.**	**.**	**.**	**.**
	growth in %	3.4	3.0	-5.3	3.4	2.3	0.2	.	.	.	.
Net taxes and subsidies on products	*bill. CZK 2015*	**504**	**521**	**480**	**504**	**516**	**488**	**.**	**.**	**.**	**.**

[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
						Estimate	*Forecast*	*Forecast*	*Forecast*
Gross domestic product	*bill. CZK 2015*	**1 262**	**1 346**	**1 337**	**1 352**	**1 258**	**1 356**	**1 374**	**1 381**
	growth in %	0.1	-0.6	-0.9	0.2	-0.3	0.8	2.7	2.2
	growth in % [1]	-0.2	-0.1	-0.6	0.2	0.3	0.5	1.9	2.2
	QoQ in % [1]	0.3	0.3	-0.8	0.4	0.4	0.5	0.6	0.7
Private consumption expenditure [2]	*bill. CZK 2015*	**557**	**586**	**588**	**595**	**566**	**598**	**609**	**616**
	growth in %	-5.5	-4.3	-2.4	-0.4	1.6	2.0	3.6	3.5
Government consumption exp.	*bill. CZK 2015*	**249**	**258**	**259**	**302**	**254**	**263**	**262**	**305**
	growth in %	3.0	3.4	3.7	3.9	2.2	2.0	1.2	1.1
Gross capital formation	*bill. CZK 2015*	**359**	**419**	**441**	**366**	**336**	**401**	**429**	**392**
	growth in %	-3.0	-6.4	-3.6	-13.8	-6.2	-4.2	-2.6	7.3
Gross fixed capital formation	*bill. CZK 2015*	313	376	377	412	326	381	389	414
	growth in %	-0.1	3.8	4.9	6.7	4.2	1.1	3.2	0.7
Change in stocks and valuables	*bill. CZK 2015*	46	43	64	-46	11	21	40	-22
Exports of goods and services	*bill. CZK 2015*	**1 208**	**1 207**	**1 106**	**1 229**	**1 184**	**1 224**	**1 161**	**1 253**
	growth in %	7.7	3.5	-1.2	1.1	-2.0	1.4	5.0	1.9
Imports of goods and services	*bill. CZK 2015*	**1 111**	**1 127**	**1 066**	**1 144**	**1 083**	**1 131**	**1 094**	**1 195**
	growth in %	3.9	-0.2	-2.0	-4.1	-2.5	0.4	2.6	4.5
Gross domestic expenditure	*bill. CZK 2015*	**1 165**	**1 262**	**1 287**	**1 264**	**1 159**	**1 262**	**1 300**	**1 315**
	growth in %	-3.0	-3.4	-1.6	-3.8	-0.5	0.0	1.0	4.0
Real gross domestic income	*bill. CZK 2015*	**1 258**	**1 359**	**1 348**	**1 358**	**1 265**	**1 369**	**1 386**	**1 386**
	growth in %	0.4	2.5	1.7	2.1	0.6	0.7	2.9	2.1
Gross value added	*bill. CZK 2015*	**1 160**	**1 220**	**1 211**	**1 215**	**.**	**.**	**.**	**.**
	growth in %	1.4	-0.1	-0.2	-0.2	.	.	.	.
	growth in % [1]	1.1	0.4	0.1	-0.1	.	.	.	.
	QoQ in % [1]	0.5	-0.3	-0.4	0.1	.	.	.	.
Net taxes and subsidies on products	*bill. CZK 2015*	**101**	**125**	**126**	**137**	**.**	**.**	**.**	**.**

[1] *From seasonally and working day adjusted data*

[2] *Including consumption of non-profit institutions serving households (NPISH).*

Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.3: Nominal GDP by Type of Expenditure – yearly

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Gross domestic product	*bill. CZK*	**5 411**	**5 791**	**5 709**	**6 109**	**6 787**	**7 344**	**7 657**	**8 032**	**8 391**	**8 765**
	growth in %	5.9	7.0	-1.4	7.0	11.1	8.2	4.3	4.9	4.5	4.5
Private consumption expenditure [1)]	*bill. CZK*	**2 568**	**2 711**	**2 588**	**2 772**	**3 167**	**3 352**	**3 523**	**3 729**	**3 912**	**4 092**
	growth in %	6.1	5.6	-4.5	7.1	14.3	5.8	5.1	5.8	4.9	4.6
Government consumption exp.	*bill. CZK*	**1 050**	**1 134**	**1 243**	**1 310**	**1 371**	**1 498**	**1 566**	**1 643**	**1 713**	**1 781**
	growth in %	9.5	8.0	9.5	5.4	4.6	9.3	4.6	4.9	4.2	4.0
Gross capital formation	*bill. CZK*	**1 472**	**1 599**	**1 493**	**1 846**	**2 182**	**2 121**	**2 153**	**2 208**	**2 290**	**2 377**
	growth in %	9.2	8.7	-6.6	23.6	18.2	-2.8	1.5	2.6	3.7	3.8
Gross fixed capital formation	*bill. CZK*	1 423	1 568	1 516	1 589	1 819	1 980	2 078	2 169	2 265	2 351
	growth in %	11.7	10.2	-3.3	4.8	14.5	8.9	5.0	4.4	4.4	3.8
Change in stocks and valuables	*bill. CZK*	49	31	-22	257	364	141	74	38	25	26
External balance	*bill. CZK*	**321**	**347**	**385**	**181**	**67**	**374**	**415**	**452**	**476**	**515**
Exports of goods and services	*bill. CZK*	4 163	4 279	3 993	4 443	5 189	5 289	5 462	5 698	5 906	6 108
	growth in %	3.1	2.8	-6.7	11.3	16.8	1.9	3.3	4.3	3.7	3.4
Imports of goods and services	*bill. CZK*	3 842	3 932	3 608	4 262	5 122	4 914	5 046	5 246	5 430	5 593
	growth in %	5.1	2.3	-8.2	18.1	20.2	-4.1	2.7	4.0	3.5	3.0
Gross national income	*bill. CZK*	**5 114**	**5 441**	**5 424**	**5 859**	**6 478**	**7 142**	**7 437**	**7 792**	**8 130**	**8 483**
	growth in %	6.1	6.4	-0.3	8.0	10.6	10.2	4.1	4.8	4.3	4.3
Primary income balance	*bill. CZK*	**-297**	**-350**	**-285**	**-249**	**-309**	**-203**	**-220**	**-240**	**-260**	**-282**

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
						Estimate	*Forecast*	*Forecast*	*Forecast*
Gross domestic product	*bill. CZK*	**1 717**	**1 855**	**1 865**	**1 907**	**1 761**	**1 928**	**1 963**	**2 006**
	growth in %	11.4	9.4	6.4	6.2	2.5	3.9	5.2	5.2
Private consumption expenditure [1]	*bill. CZK*	**794**	**844**	**852**	**861**	**820**	**881**	**904**	**918**
	growth in %	7.9	5.4	4.7	5.4	3.3	4.3	6.1	6.6
Government consumption exp.	*bill. CZK*	**340**	**357**	**362**	**438**	**356**	**374**	**376**	**460**
	growth in %	11.8	9.9	9.5	6.6	4.7	4.6	3.8	5.1
Gross capital formation	*bill. CZK*	**479**	**547**	**590**	**504**	**462**	**549**	**589**	**553**
	growth in %	6.4	-2.8	-2.1	-10.9	-3.7	0.3	-0.2	9.7
Gross fixed capital formation	*bill. CZK*	418	491	508	563	445	519	536	578
	growth in %	7.5	8.9	8.9	9.8	6.6	5.6	5.5	2.8
Change in stocks and valuables	*bill. CZK*	61	56	82	-58	16	30	53	-25
External balance	*bill. CZK*	**104**	**106**	**60**	**104**	**123**	**124**	**94**	**74**
Exports of goods and services	*bill. CZK*	1 349	1 329	1 232	1 379	1 329	1 387	1 320	1 425
	growth in %	11.5	1.3	-4.9	0.6	-1.4	4.4	7.2	3.3
Imports of goods and services	*bill. CZK*	1 245	1 223	1 172	1 274	1 206	1 263	1 226	1 350
	growth in %	7.5	-6.3	-9.2	-6.8	-3.1	3.3	4.7	6.0

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

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
GDP	*bill. CZK*	**5 411**	**5 791**	**5 709**	**6 109**	**6 787**	**7 344**	**7 657**	**8 032**	**8 391**	**8 765**
	growth in %	5.9	7.0	-1.4	7.0	11.1	8.2	4.3	4.9	4.5	4.5
Balance of taxes and subsidies	*bill. CZK*	**504**	**534**	**449**	**477**	**591**	**582**	**703**	**740**	**785**	**808**
	% of GDP	9.3	9.2	7.9	7.8	8.7	7.9	9.2	9.2	9.4	9.2
	growth in %	2.2	6.0	-16.0	6.3	24.0	-1.6	20.9	5.2	6.2	2.9
Taxes on production and imports	*bill. CZK*	656	696	660	715	780	821	.	.	.	.
	growth in %	3.3	6.2	-5.3	8.3	9.2	5.2	.	.	.	.
Subsidies on production	*bill. CZK*	152	162	211	238	189	239	.	.	.	.
	growth in %	7.2	6.7	30.3	12.6	-20.5	26.4	.	.	.	.
Compensation of employees	*bill. CZK*	**2 399**	**2 586**	**2 625**	**2 787**	**3 007**	**3 235**	**3 454**	**3 643**	**3 814**	**3 989**
(domestic concept)	*% of GDP*	44.3	44.6	46.0	45.6	44.3	44.0	45.1	45.4	45.5	45.5
	growth in %	9.8	7.8	1.5	6.1	7.9	7.6	6.8	5.5	4.7	4.6
Wages and salaries	*bill. CZK*	1 842	1 986	1 989	2 106	2 302	2 485	2 653	2 798	2 929	3 064
	growth in %	9.6	7.8	0.1	5.9	9.3	7.9	6.8	5.5	4.7	4.6
Social security contributions	*bill. CZK*	557	599	636	681	705	750	801	845	885	926
	growth in %	10.3	7.6	6.2	7.0	3.5	6.5	6.8	5.5	4.7	4.6
Gross operating surplus	*bill. CZK*	**2 507**	**2 671**	**2 635**	**2 845**	**3 188**	**3 528**	**3 499**	**3 649**	**3 791**	**3 968**
and mixed income	*% of GDP*	46.3	46.1	46.2	46.6	47.0	48.0	45.7	45.4	45.2	45.3
	growth in %	3.1	6.5	-1.4	8.0	12.1	10.6	-0.8	4.3	3.9	4.7
Consumption of capital	*bill. CZK*	1 074	1 153	1 229	1 302	1 434	1 554	1 663	1 788	1 918	2 022
	growth in %	5.0	7.4	6.5	6.0	10.1	8.4	7.0	7.5	7.2	5.4
Net operating surplus	*bill. CZK*	1 434	1 518	1 406	1 543	1 754	1 973	1 837	1 861	1 874	1 946
	growth in %	1.7	5.9	-7.4	9.7	13.7	12.5	-6.9	1.3	0.7	3.9

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
						Estimate	*Forecast*	*Forecast*	*Forecast*
GDP	*bill. CZK*	**1 717**	**1 855**	**1 865**	**1 907**	**1 761**	**1 928**	**1 963**	**2 006**
	growth in %	11.4	9.4	6.4	6.2	2.5	3.9	5.2	5.2
Balance of taxes and subsidies	*bill. CZK*	**112**	**158**	**162**	**149**	**149**	**182**	**183**	**190**
	growth in %	-10.3	1.9	-2.4	2.9	33.1	14.6	12.8	27.2
Compensation of employees	*bill. CZK*	**774**	**808**	**796**	**858**	**821**	**861**	**853**	**918**
(domestic concept)	*growth in %*	9.6	8.0	7.0	5.9	6.1	6.7	7.2	7.1
Wages and salaries	*bill. CZK*	592	619	613	660	631	661	655	705
	growth in %	10.0	8.3	7.4	6.2	6.5	6.8	7.0	6.8
Social security contributions	*bill. CZK*	181	188	183	198	190	200	198	213
	growth in %	8.4	7.1	5.9	4.8	5.0	6.2	8.0	7.8
Gross operating surplus	*bill. CZK*	**831**	**889**	**907**	**900**	**791**	**885**	**926**	**897**
and mixed income	*growth in %*	16.9	12.1	7.5	7.1	-4.9	-0.5	2.2	-0.3

Source: CZSO. Calculations and forecast of the MoF.

3.2 Prices

The annual **consumer price** inflation slowed down to 2.0% (*vs. 2.5%*) in February 2024, with the stronger decrease in food prices in particular contributing to the forecast error. In terms of the consumer basket divisions, the main driver of February annual inflation was the housing division (0.9pp contribution), mainly due to a 6.8% rise in rentals for housing or a 13.1% rise in electricity prices. In contrast, natural gas prices decreased by 5.5%. Additionally, there was a high contribution from the restaurants and hotels division (0.5pp), where changes in value added tax had an impact of 0.2pp in January, and recreation and culture division (0.4pp). Food and non-alcoholic beverages division (−0.9pp) contributed to the year-on-year decrease in the price level, in part due to the January reduction in value added tax on food. Administrative measures added 0.8pp to inflation, exclusively through regulated prices (especially electricity prices), as the year-on-year increase in excise duties on alcohol, tobacco and diesel was offset by changes in value added tax rates.

The annual inflation as measured by the **HICP** (2.2%) was slightly higher in February than inflation according to the national CPI. This was due to a significant slowdown in imputed rents, which are not included in the HICP. Imputed rents are largely determined by the 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 lower availability of owner-occupied housing.

This year, inflationary pressures will be significantly lower than in the past two years. However, the contribution of regulated prices to the average inflation rate should remain elevated. While the non-regulated part of both electricity and gas should become significantly cheaper, the very strong increase in the prices of the regulated components of overall electricity and gas prices at the beginning of the year has 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 water supply and sewerage, while indirect taxes are affected by the fiscal consolidation package. Increases in excise duties on alcohol and tobacco products will add to inflation this year, while the contribution of changes in value added tax rates reported in the price statistics is negative[3]. 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 0.7pp (*vs. 1.0pp*).

The restrictive effect of monetary policy is supported by the income effect of the fiscal consolidation package; together they notably moderate inflationary pressures. By contrast, nominal wage growth, strong depreciation of the koruna against the euro and the dollar, as well as the evolution of the oil price, could be pro-inflationary.

In 2025, inflationary pressures will be formed almost exclusively by market factors. The contribution of regulated prices to the average inflation rate could be neutral thanks to the expected decrease in the price of the commodity components of electricity and gas. Increases in excise duties on alcohol and tobacco products should lead to a positive contribution of indirect taxes. Overall, the administrative measures could add 0.2pp to the average inflation rate in 2025.

The price of oil and the renewed appreciation of the koruna against the euro and the US dollar should have an anti-inflationary effect next year. Monetary policy will continue to moderate inflationary pressures through interest rates due to the length of the transmission. Continued higher nominal wage growth should present an inflationary factor. Price dynamics in services could continue to be elevated next year, the market component of inflation should thus rise slightly after the current anti-inflationary effect of the decline in prices of many production inputs has partially dissipated.

In line with the above, we expect the **average inflation rate** to fall significantly to 2.7% (*vs. 3.1%*) in 2024 and to reach 2.4% in 2025. Annual inflation should remain below 3% for most of this year; however, it could rise temporarily above that level towards the end of the second half of the year as the effect of the significant month-on-month price declines from the end of 2023 fades.

In Q4 2023, the **GDP deflator** rose by 6.1% (vs. *7.3%*), with a 4.6% (*vs. 5.3%*) increase in the gross domestic expenditure deflator and a 2.4% (*vs. 2.7%*) 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.

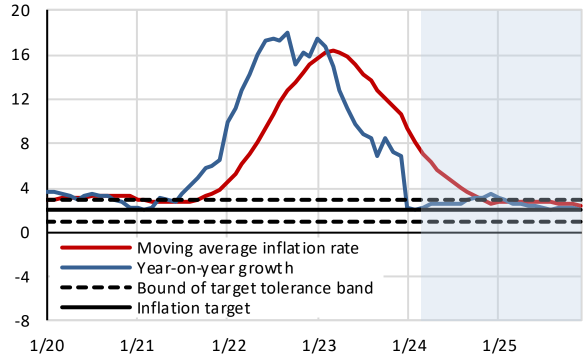
The GDP deflator growth could slow down to 2.9% (*vs. 2.8%*) thanks to lower price dynamics across all components of domestic demand and only a slight improvement in the terms of trade. In 2025, it could slow down to 2.2%, mainly due to a de facto stagnation in the terms of trade and a lower price increase of capital goods.

The persistent decline in the prices of energy commodities and other raw materials should have a positive effect on the terms of trade this year, and prices in foreign trade should more or less stabilise in 2025. As a result, the terms of trade could rise by 0.3% (*unchanged*) in 2024 and improve slightly by 0.1% in 2025.

[3] 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.

Graph 3.2.1: Consumer Prices

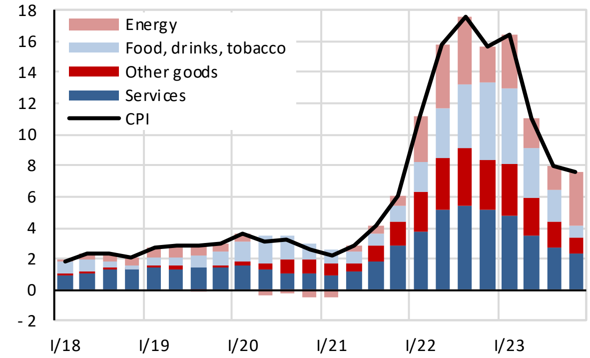
YoY growth rate in %



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

Graph 3.2.2: Consumer Prices in Main Divisions

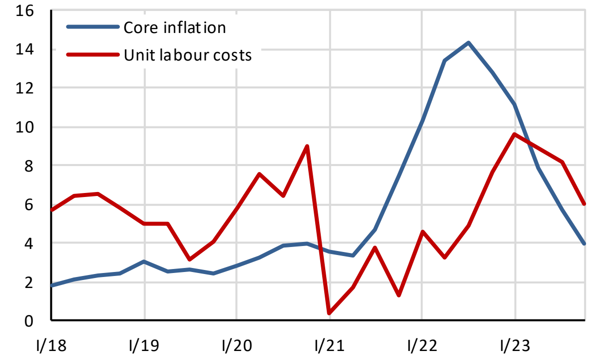
YoY growth of consumer price index in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Graph 3.2.3: Core Inflation and Unit Labour Costs

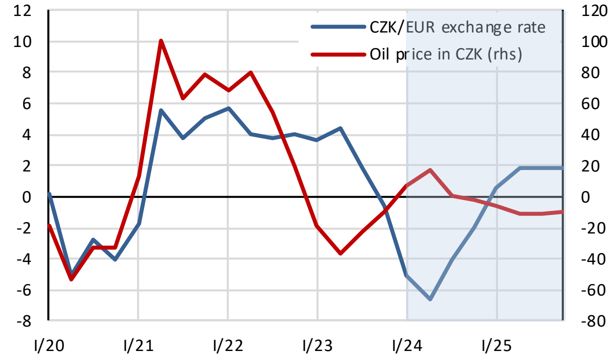
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.2.4: CZK/EUR and Koruna Price of Oil

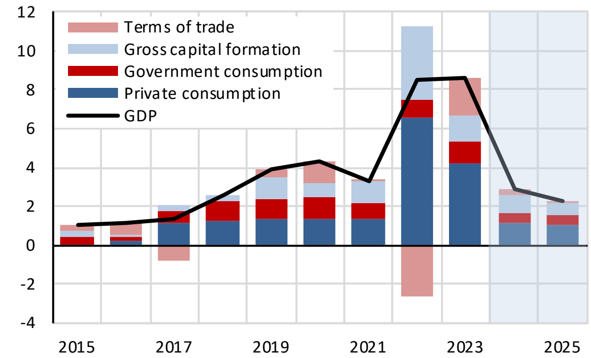
CZK/EUR appreciation, YoY change in CZK price of oil, in %



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

Graph 3.2.5: Gross Domestic Product Deflator

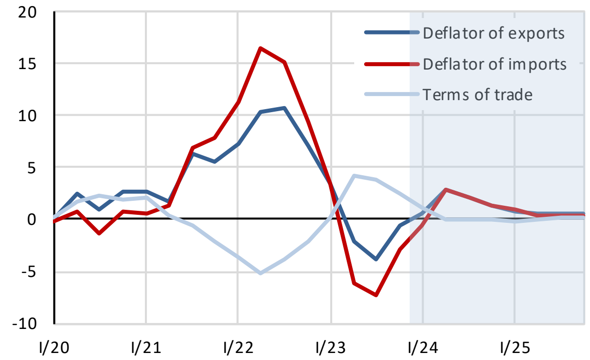
growth rate in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.2.6: Terms of Trade

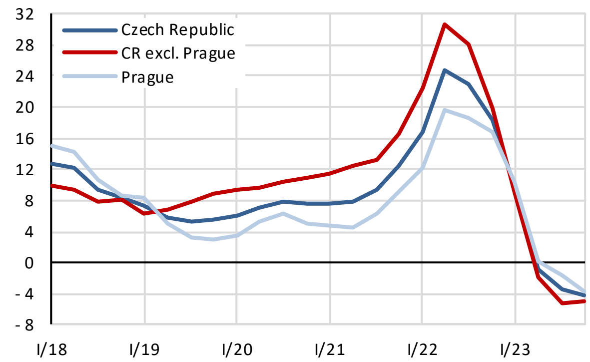
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.2.7: Offering Prices of Flats

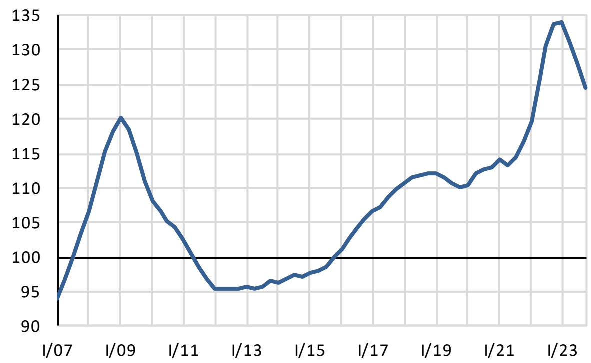
YoY growth rate in %



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

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Consumer Price Index											
Level	*average 2015=100*	**105.3**	**108.3**	**111.8**	**116.1**	**133.6**	**147.8**	**151.7**	**155.4**	**158.5**	**161.7**
Average inflation rate	*%*	**2.1**	**2.8**	**3.2**	**3.8**	**15.1**	**10.7**	**2.7**	**2.4**	**2.0**	**2.0**
Administrative measures [1)]	*percentage points*	0.3	0.6	0.5	0.0	2.8	4.3	0.7	0.2	0.3	0.3
Market increase	*percentage points*	1.8	2.2	2.7	3.8	12.3	6.4	2.0	2.2	1.7	1.7
Harmonized index of consumer prices											
Level	*average 2015=100*	**105.1**	**107.8**	**111.4**	**115.1**	**132.1**	**147.9**	**151.9**	**155.6**	**158.7**	**161.8**
Average inflation rate	*growth in %*	**2.0**	**2.6**	**3.3**	**3.3**	**14.8**	**12.0**	**2.7**	**2.4**	**2.0**	**2.0**
Deflators											
GDP	*average 2015=100*	**105.1**	**109.2**	**113.9**	**117.7**	**127.7**	**138.7**	**142.6**	**145.8**	**148.7**	**151.6**
	growth in %	2.6	3.9	4.3	3.3	8.5	8.6	2.9	2.2	2.0	2.0
Gross domestic expenditure	*average 2015=100*	**105.8**	**109.7**	**113.4**	**117.3**	**131.0**	**140.0**	**143.8**	**147.1**	**149.9**	**152.9**
	growth in %	2.8	3.7	3.4	3.4	11.7	6.9	2.7	2.3	2.0	2.0
Consumption of households	*average 2015=100*	**105.3**	**108.3**	**111.4**	**114.6**	**131.8**	**144.0**	**147.4**	**150.8**	**153.8**	**156.9**
	growth in %	2.5	2.8	2.9	2.9	15.0	9.3	2.4	2.3	2.0	2.0
Consumption of government	*average 2015=100*	**110.6**	**116.6**	**122.6**	**127.5**	**133.0**	**140.4**	**144.5**	**148.3**	**151.5**	**155.1**
	growth in %	5.4	5.4	5.2	4.0	4.3	5.5	2.9	2.6	2.2	2.3
Fixed capital formation	*average 2015=100*	**103.6**	**107.7**	**110.8**	**115.2**	**128.0**	**134.0**	**137.6**	**140.3**	**142.7**	**144.9**
	growth in %	1.6	4.0	2.9	3.9	11.1	4.7	2.7	1.9	1.7	1.6
Exports of goods and services	*average 2015=100*	**96.3**	**97.5**	**99.0**	**103.0**	**112.2**	**111.3**	**113.3**	**114.0**	**114.4**	**114.8**
	growth in %	-0.6	1.3	1.5	4.1	8.9	-0.8	1.7	0.6	0.4	0.3
Imports of goods and services	*average 2015=100*	**96.3**	**97.1**	**97.0**	**101.1**	**114.4**	**110.5**	**112.1**	**112.7**	**113.0**	**113.1**
	growth in %	-0.6	0.8	0.0	4.2	13.1	-3.4	1.4	0.5	0.3	0.2
Terms of trade	*average 2015=100*	**100.0**	**100.5**	**102.0**	**101.9**	**98.1**	**100.7**	**101.1**	**101.1**	**101.3**	**101.5**
	growth in %	0.0	0.5	1.5	-0.1	-3.7	2.7	0.3	0.1	0.2	0.1

[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
						Estimate	*Forecast*	*Forecast*	*Forecast*
Consumer Price Index	*average 2015=100*	**147.1**	**147.6**	**148.6**	**148.0**	**150.2**	**151.5**	**152.6**	**152.7**
	growth in %	16.4	11.1	8.0	7.6	2.1	2.6	2.7	3.2
Administrative measures [1]	*percentage points*	4.9	4.0	3.4	4.9	0.9	0.7	0.5	0.5
Market increase	*percentage points*	11.5	7.1	4.6	2.7	1.2	1.9	2.1	2.7
Harmonized index of consumer prices	*average 2015=100*	**147.1**	**147.9**	**148.8**	**147.9**	**150.6**	**151.8**	**152.7**	**152.6**
	growth in %	18.0	12.6	9.5	8.4	2.4	2.6	2.7	3.2
Deflators									
GDP	*average 2015=100*	**136.1**	**137.9**	**139.5**	**141.1**	**139.9**	**142.2**	**142.9**	**145.2**
	growth in %	11.3	10.0	7.3	6.1	2.8	3.1	2.5	2.9
Gross domestic expenditure	*average 2015=100*	**138.5**	**138.6**	**140.2**	**142.7**	**141.3**	**143.0**	**143.7**	**146.9**
	growth in %	11.5	7.2	5.0	4.6	2.0	3.1	2.5	3.0
Consumption of households	*average 2015=100*	**142.5**	**144.1**	**144.9**	**144.7**	**144.8**	**147.4**	**148.4**	**149.0**
	growth in %	14.2	10.2	7.3	5.8	1.7	2.3	2.4	3.0
Consumption of government	*average 2015=100*	**136.6**	**138.8**	**139.9**	**145.2**	**139.9**	**142.5**	**143.4**	**150.9**
	growth in %	8.6	6.3	5.6	2.6	2.4	2.6	2.5	3.9
Fixed capital formation	*average 2015=100*	**133.7**	**130.5**	**134.7**	**136.7**	**136.7**	**136.3**	**137.6**	**139.6**
	growth in %	7.6	5.0	3.8	2.9	2.3	4.4	2.2	2.1
Exports of goods and services	*average 2015=100*	**111.6**	**110.1**	**111.4**	**112.2**	**112.3**	**113.3**	**113.7**	**113.7**
	growth in %	3.5	-2.1	-3.8	-0.5	0.6	2.9	2.1	1.4
Imports of goods and services	*average 2015=100*	**112.1**	**108.5**	**109.9**	**111.4**	**111.4**	**111.7**	**112.1**	**113.0**
	growth in %	3.4	-6.1	-7.3	-2.9	-0.6	2.9	2.0	1.4
Terms of trade	*average 2015=100*	**99.6**	**101.4**	**101.3**	**100.7**	**100.8**	**101.4**	**101.4**	**100.7**
	growth in %	0.1	4.2	3.8	2.4	1.2	0.0	0.1	0.0

[1] *The contribution of change in regulated prices and indirect taxes.*
Source: CZSO, Eurostat. Calculations and forecast of the MoF.

3.3 Labour Market

Employment (national accounts) increased by 0.4% YoY (*vs. 0.7%*) in Q4 2023. Growth was driven by sectors in both market and non-market services, but it was dampened by developments in manufacturing, where the number of workers fell year-on-year for the third quarter in a row. Over the whole of last year, employment increased by 0.8% (*in line with the estimate*). Over the forecast horizon, it is expected to increase year-on-year, thanks to the expected economic recovery and continued strong labour demand. Thus, employment could grow by 0.4% on average this year (*vs. 0.5%*) and by 0.2% next year.

According to the MoLSA data, the shortage of workers was also evident at the beginning of 2024. The number of job vacancies in February exceeded the number of the registered unemployed in 26 districts and 4 regions. However, the mismatch between demand and supply on the labour market is gradually easing. Moreover, not 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 October 2023 and the start of 1 January 2024 or later). 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.

Demand for foreign workers remains strong. According to the MoLSA data, the number of foreign employees rose by 30 thousand year-on-year to 812 thousand in February this year. Workers from Ukraine and Slovakia have dominated in the long term. The number of Ukrainian workers increased by 15 thousand year-on-year to 281 thousand in February 2024.

The **unemployment rate** rose to 2.6% in 2023 (*in line with the estimate*), while remaining close to this level throughout the year. However, the seasonally adjusted unemployment rate for the 15–64 age group increased slightly in both December 2023 and January 2024. We expect the lagged effects of weaker economic activity from the previous year to be felt in the labour market in the first half of 2024, and therefore the unemployment rate could rise slightly. Thereafter, however, it should start to decline gradually thanks to the economic recovery. The unemployment rate could thus rise to 2.8% on average this year (*unchanged*), and we forecast a fall to 2.7% in 2025.

The **share of unemployed persons** (MoLSA) in the labour office registers increased year-on-year in January and February. This year, it could rise to 3.8% on average (*unchanged*), while next year it could fall to 3.7%.

The **participation rate** (20–64 years), which was 84.1% (*vs. 83.7%*) in Q4 2023, averaged 83.8% (*vs. 83.7%*) for 2023 as a whole, an increase of 1.1pp year-on-year. The strong growth is due to the faster increase in the labour force compared to the rise in the working-age population. Over the forecast horizon, the main driver of the increase in the participation rate will be the extension of the statutory retirement age, while the demographic effect of the declining share of age groups with a naturally high economic activity rate will have a negative impact. The participation rate could thus reach 84.0% (*vs. 84.3%*) in 2024 and rise slightly to 84.1% the following year.

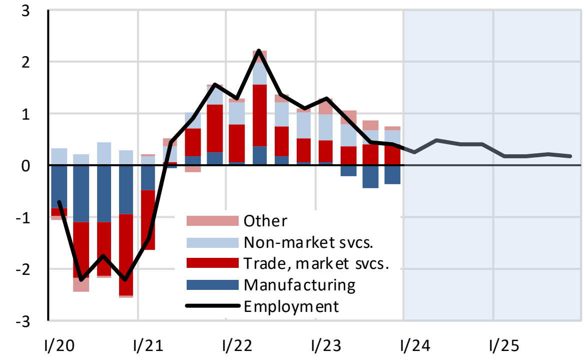
Wages and salaries rose by 6.2% (*vs. 7.7%*) in Q4 2023 and by 7.9% (*vs. 8.4%*) for the full year 2023. In the most macroeconomically important sector, manufacturing, wages and salaries increased by 5.1% (with a 1.7% reduction in the number of employees).

Despite some easing, the labour shortage in many professions and sectors should be reflected in this year's nominal earnings growth. High consumer price inflation and strong corporate profitability in recent years have increased the wage demands of employees. As of 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 there will be a significant year-on-year reduction in the contribution of the public sector as a result of the consolidation measures. In addition to stronger labour demand due to economic growth, the minimum wage indexation mechanism should have a positive impact next year, with the ratio of minimum to average wage moving towards the reference level of 47% (from an expected 41% in 2024). The January forecast had assumed the same growth rate for minimum and average wage. In aggregate, wages and salaries could rise by 6.8% (*vs. 6.6%*) this year, with growth slowing to 5.5% in 2025.

The **average wage** (full-time equivalent) increased by 6.3% (*vs. 8.2%*) in Q4 2023, with the largest contributions coming from a 7.1% increase in average wage in manufacturing (1.2pp contribution) and 6.1% in health and social care (0.8pp contribution). Taking into account the above factors, the average wage could increase by 6.4% (*unchanged*) in 2024, with growth slowing down to 5.5% next year.

Graph 3.3.1: Employment

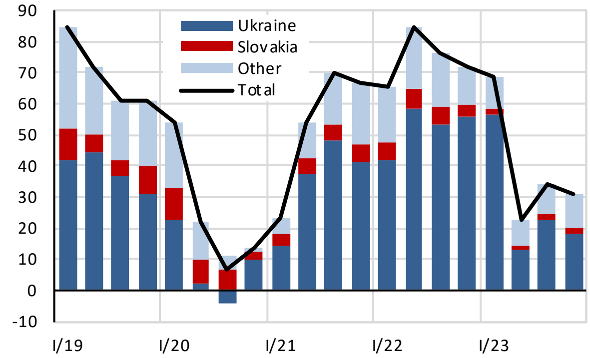
YoY growth rate in%, contributions in pp, national accounts



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.2: Number of Foreign Employees in the CR

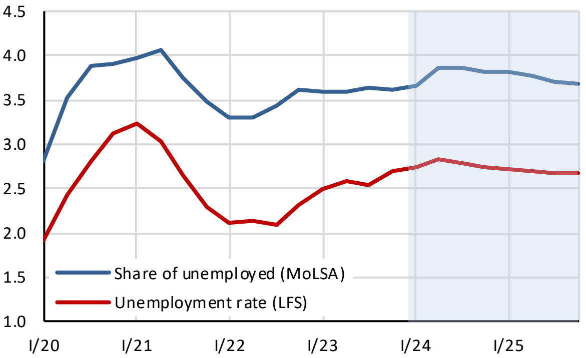
YoY change in thousands of persons



Source: MoLSA. Calculations of the MoF.

Graph 3.3.3: Indicators of Unemployment

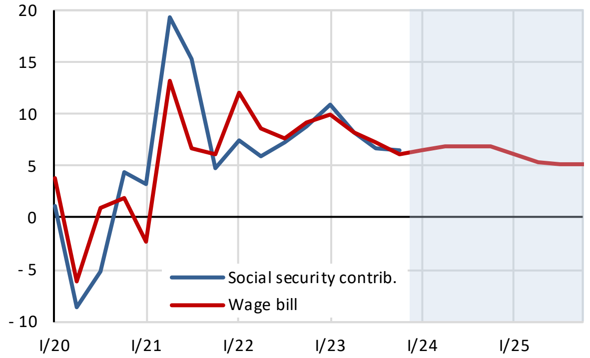
seasonally adjusted data, in%



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

Graph 3.3.4: Social Security Contributions and Earnings

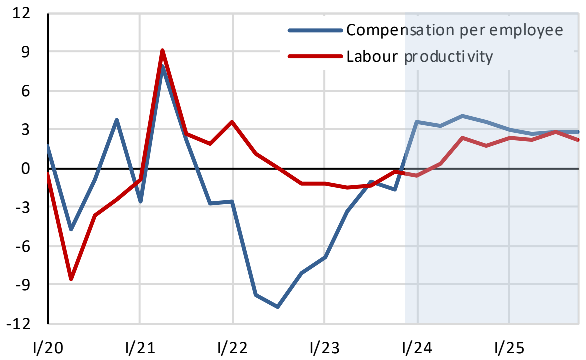
YoY growth rate in%



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

Graph 3.3.5: Compens. per Employee and Productivity

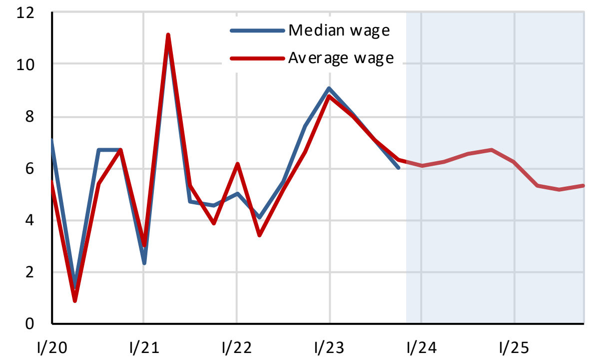
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.6: Nominal Monthly Wages

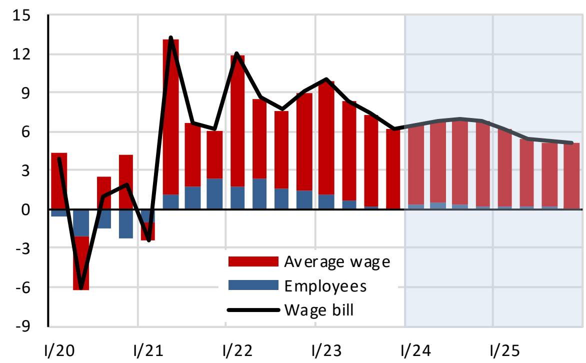
YoY growth rate in%



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.7: Nominal Wage Bill

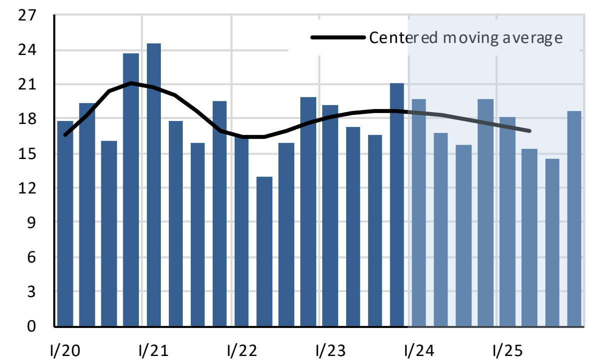
YoY growth rate in %, domestic concept of the wage bill



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

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
National accounts											
Employment	*av. in thous. persons*	**5 417**	**5 430**	**5 337**	**5 358**	**5 438**	**5 479**	**5 500**	**5 511**	**5 516**	**5 507**
	growth in %	1.3	0.2	-1.7	0.4	1.5	0.8	0.4	0.2	0.1	-0.2
Employees	*av. in thous. persons*	4 653	4 678	4 605	4 654	4 738	4 762	4 780	4 788	4 791	4 783
	growth in %	1.6	0.5	-1.6	1.1	1.8	0.5	0.4	0.2	0.1	-0.2
Self-employed persons	*av. in thous. persons*	764	752	732	703	700	717	720	723	724	724
	growth in %	-0.1	-1.5	-2.7	-3.9	-0.5	2.4	0.5	0.3	0.3	-0.1
Wage bill	*growth in %*	**9.6**	**7.8**	**0.1**	**5.9**	**9.3**	**7.9**	**6.8**	**5.5**	**4.7**	**4.6**
Labour productivity	*growth in %*	**1.9**	**2.8**	**-3.9**	**3.2**	**0.8**	**-1.1**	**1.0**	**2.4**	**2.4**	**2.6**
Unit labour costs [6)]	*growth in %*	**6.1**	**4.3**	**7.3**	**1.8**	**5.1**	**8.2**	**5.4**	**2.8**	**2.2**	**2.1**
Compensation of employees	*% of GDP*	**44.3**	**44.6**	**46.0**	**45.6**	**44.3**	**44.0**	**45.1**	**45.4**	**45.5**	**45.5**
Labour Force Survey											
Unemployment rate	*average in %*	**2.2**	**2.0**	**2.6**	**2.8**	**2.2**	**2.6**	**2.8**	**2.7**	**2.6**	**2.6**
Employment rate 20–64	*average in %*	**79.9**	**80.3**	**79.7**	**80.0**	**81.0**	**81.7**	**81.7**	**81.9**	**82.3**	**82.6**
Participation rate 20–64	*average in %*	**81.7**	**81.9**	**81.8**	**82.2**	**82.7**	**83.8**	**84.0**	**84.1**	**84.5**	**84.8**
Registered unemployment											
Unemployment	*av. in thous. persons*	**242**	**212**	**259**	**280**	**252**	**266**	**281**	**269**	**259**	**251**
Share of unemployed [1)]	*average in %*	**3.2**	**2.8**	**3.5**	**3.8**	**3.4**	**3.6**	**3.8**	**3.7**	**3.6**	**3.5**
Job vacancies	*av. in thousands*	**285**	**340**	**332**	**346**	**326**	**283**	**.**	**.**	**.**	**.**
Business statistics											
Average monthly wage											
Nominal	*CZK monthly*	32 051	34 578	36 176	38 277	40 317	43 341	46 106	48 643	50 912	53 245
	growth in %	8.1	7.9	4.6	5.8	5.3	7.5	6.4	5.5	4.7	4.6
Real	*CZK 2015*	30 438	31 928	32 358	32 969	30 177	29 324	30 384	31 310	32 128	32 936
	growth in %	5.9	4.9	1.3	1.9	-8.5	-2.8	3.6	3.0	2.6	2.5
Median monthly wage	*CZK monthly*	**27 561**	**29 439**	**31 049**	**32 795**	**34 629**	**37 227**	**.**	**.**	**.**	**.**
	growth in %	8.5	6.8	5.5	5.6	5.6	7.5	.	.	.	.

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*
National accounts									
Employment	*av. in thous. persons*	**5 445**	**5 486**	**5 501**	**5 483**	**5 459**	**5 512**	**5 525**	**5 505**
	YoY growth in %	1.3	0.9	0.5	0.4	0.3	0.5	0.4	0.4
	QoQ growth in %	0.2	1.0	-0.7	-0.1	0.2	0.4	0.0	0.1
Wages and salaries	*growth in %*	**10.0**	**8.3**	**7.4**	**6.2**	**6.5**	**6.8**	**7.0**	**6.8**
Labour Force Survey									
Unemployment rate	*average in %*	**2.6**	**2.5**	**2.6**	**2.6**	**2.9**	**2.8**	**2.8**	**2.6**
Employment rate 20–64	*average in %*	**81.1**	**81.9**	**81.8**	**82.0**	**80.7**	**81.8**	**82.0**	**82.1**
	increase over a year	0.6	1.0	0.6	0.7	-0.4	-0.1	0.2	0.2
Participation rate 20–64	*average in %*	**83.2**	**83.9**	**84.0**	**84.1**	**83.1**	**84.1**	**84.4**	**84.3**
	increase over a year	0.6	1.4	1.0	1.0	-0.2	0.2	0.4	0.2
Registered unemployment									
Unemployment	*av. in thous. persons*	**279**	**259**	**259**	**265**	**292**	**279**	**278**	**276**
Share of unemployed [1)]	*average in %*	**3.8**	**3.5**	**3.5**	**3.5**	**3.9**	**3.8**	**3.8**	**3.7**
Job vacancies	*av. in thousands*	**284**	**285**	**284**	**279**	**.**	**.**	**.**	**.**
Business statistics									
Average monthly wage									
Nominal	*CZK monthly*	41 338	43 305	42 678	46 013	43 847	45 998	45 481	49 098
	growth in %	8.8	8.0	7.1	6.3	6.1	6.2	6.6	6.7
Real	*CZK 2015*	28 102	29 339	28 720	31 090	29 188	30 367	29 809	32 153
	growth in %	-6.5	-2.8	-0.8	-1.2	3.9	3.5	3.8	3.4
Median monthly wage	*CZK monthly*	**34 803**	**36 911**	**37 509**	**39 685**	**.**	**.**	**.**	**.**
	growth in %	9.1	8.1	7.1	6.0	.	.	.	.

[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

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
										Forecast	*Forecast*
Current income											
Compensation of employees	*bill.CZK*	**2 038**	**2 223**	**2 430**	**2 599**	**2 650**	**2 800**	**3 016**	**3 253**	**3 472**	**3 663**
	growth in %	6.0	9.1	9.3	7.0	1.9	5.7	7.7	7.9	6.7	5.5
Gross operating surplus	*bill.CZK*	**703**	**740**	**801**	**845**	**833**	**856**	**926**	**969**	**988**	**1 023**
and mixed income	*growth in %*	1.7	5.2	8.3	5.5	-1.4	2.7	8.3	4.6	1.9	3.5
Property income received	*bill.CZK*	**133**	**162**	**162**	**163**	**129**	**171**	**234**	**317**	**324**	**333**
	growth in %	4.1	21.9	0.2	0.5	-20.9	32.5	37.0	35.7	2.1	2.9
Social benefits not-in-kind	*bill.CZK*	**630**	**650**	**685**	**738**	**885**	**923**	**985**	**1 144**	**1 203**	**1 232**
	growth in %	2.8	3.2	5.4	7.7	19.9	4.3	6.6	16.2	5.1	2.4
Other current transfers received	*bill.CZK*	**217**	**244**	**281**	**338**	**363**	**471**	**571**	**598**	**620**	**637**
	growth in %	19.4	12.8	15.1	20.4	7.3	29.8	21.1	4.7	3.7	2.8
Current expenditure											
Property income paid	*bill.CZK*	**14**	**13**	**19**	**28**	**27**	**26**	**50**	**78**	**81**	**85**
	growth in %	0.2	-7.4	43.2	44.8	-2.7	-2.3	89.5	54.9	5.1	3.7
Curr. taxes on income and property	*bill.CZK*	**227**	**264**	**309**	**316**	**342**	**266**	**265**	**290**	**311**	**324**
	growth in %	10.8	16.3	16.9	2.3	8.3	-22.3	-0.4	9.6	7.1	4.1
Social contributions	*bill.CZK*	**775**	**836**	**911**	**976**	**1028**	**1129**	**1181**	**1290**	**1 405**	**1 479**
	growth in %	5.8	7.9	9.0	7.1	5.3	9.8	4.6	9.2	8.9	5.3
Other current transfers paid	*bill.CZK*	**207**	**238**	**278**	**335**	**358**	**469**	**549**	**590**	**625**	**648**
	growth in %	22.4	15.3	16.5	20.6	6.7	31.1	17.0	7.5	6.0	3.6
Gross disposable income	*bill.CZK*	**2 497**	**2 666**	**2 842**	**3 029**	**3 106**	**3 331**	**3 687**	**4 034**	**4 184**	**4 353**
	growth in %	3.4	6.8	6.6	6.6	2.5	7.3	10.7	9.4	3.7	4.0
Final consumption	*bill.CZK*	**2 241**	**2 383**	**2 524**	**2 663**	**2 536**	**2 716**	**3 107**	**3 286**	**3 454**	**3 656**
	growth in %	4.1	6.4	5.9	5.5	-4.8	7.1	14.4	5.8	5.1	5.8
Change in share in pension funds	*bill.CZK*	**31**	**32**	**33**	**37**	**38**	**38**	**28**	**1**	**28**	**35**
Gross savings	*bill.CZK*	**286**	**315**	**350**	**404**	**607**	**653**	**609**	**749**	**758**	**731**
Capital transfers											
(income (-) / expenditure (+))	*bill.CZK*	**-14**	**-11**	**-12**	**-13**	**-41**	**-35**	**-25**	**-39**	**-30**	**-27**
Gross capital formation	*bill.CZK*	**237**	**216**	**261**	**297**	**300**	**314**	**310**	**319**	**331**	**340**
	growth in %	7.9	-9.2	21.2	13.7	0.9	4.9	-1.3	2.9	3.6	2.7
Change in financial assets and liab.	*bill.CZK*	**61**	**110**	**101**	**116**	**348**	**375**	**325**	**470**	**458**	**419**
Real disposable income	*growth in %*	**3.0**	**4.4**	**4.0**	**3.7**	**-0.4**	**4.3**	**-3.8**	**0.2**	**1.3**	**1.7**
Gross savings rate	*%*	**11.3**	**11.7**	**12.2**	**13.2**	**19.3**	**19.4**	**16.4**	**18.6**	**18.0**	**16.7**

Source: CZSO. Calculations of the MoF.

3.4 External Relations

Export markets declined by 5.2% YoY (*in line with the estimate*) in Q4 2023. Weaker-than-estimated GDP growth of our major trading partners was offset by a more modest reduction in their import intensity. In 2023, export markets fell by 4.8% (*vs. 4.9%*). Taking into account the development of economic activity abroad (see Chapter 1.1), we expect a 0.7% (*vs. 1.3%*) increase in export markets this year; in 2025 the growth could strengthen to 3.6% thanks to the recovery of the main trading partners' economies and of their import intensity.

Export performance grew by 5.9% (*vs. 5.2%*) in Q4 2023. Increased production in the automotive industry and inventory reduction contributed to the strong growth[4]. Last year, export performance rose by 7.7% (*vs. 7.2%*). The expected 0.3% decline (*vs. 0.9% growth*) in performance this year reflects lower volume of industrial orders from abroad. Next year, in the context of the expected improvement in manufacturing conditions, we forecast a moderate performance growth of 0.4%; however, the growth will be limited by the year-on-year appreciation of the koruna against the euro (see Chapter 1.4).

The **current account of the balance of payments** reached a surplus of 0.4% of GDP (*vs. a deficit of 0.2% of GDP*)[5], the first positive balance since H1 2021. The year-on-year improvement in the balance of 5.3% of GDP was driven by an increase in the surplus of foreign trade with goods and a reduction in the primary income deficit.

With the release of data for Q4 2023, the data for 2022 and the first three quarters of 2023 were revised simultaneously. The major change for 2022 was a reduction in the goods balance deficit by 1.1% of GDP to 0.3% of GDP. The current account deficit was narrowed in a similar proportion, to 4.9% of GDP.

The **balance of goods** improved by 4.3% of GDP year-on-year in Q4 2023, reaching a surplus of 4.0% of GDP (*vs.* 3*.2% of GDP*). The positive trade balance mainly reflects cheaper imported energy commodities and partly also the growth of production and exports in the automotive industry.

Mineral fuel prices continue to be an important factor influencing the **terms of trade**. The deficit on the fuel part of the balance was 2.8% of GDP (*vs. 3.0% of GDP*) in Q4 2023 and is expected to remain at this level (*unchanged*) in relative terms in 2024, given the evolution of oil prices (see Chapter 1.2) and other energy commodities (especially natural gas). It could fall to 2.5% of GDP in 2025.

We expect the surplus on the balance of goods to reach 4.1% of GDP (*vs. 4.0% of GDP*) this year and increase slightly to 4.2% of GDP next year. The trade balance will be positively influenced this year by improving terms of trade due to the depreciation of the koruna against the euro, and will be supported by the economic recovery abroad in 2025.

The **balance of services** showed a surplus of 1.3% of GDP (*vs. 0.9% of GDP*) in Q4 2023. The slight year-on-year reduction in the surplus was driven by an increase in imports in insurance services and increased demand for foreign holidays. Taking into account the growth in toll revenues, the increased number of tourists in the Czech Republic in the first two months of this year and the base effect from Q4 2023 (nominal services exports growth was 4.6pp higher than forecast), we expect a positive balance of 1.5% of GDP (*vs. 1.0% of GDP*) this year, which could increase to 1.6% of GDP in 2025 thanks to the projected economic recovery.

The **primary income** deficit declined by 1.1% of GDP year-on-year to 4.3% of GDP (*vs. 3.9% of GDP*) in Q4 2023 due to lower outflows of direct investment income (mainly dividends). The significant reduction in the deficit was 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. In view of the projected evolution of economic output this year, we expect a slight increase in the deficit to 4.4% of GDP (*vs. 3.9% of GDP*), and we forecast the same deficit in relative terms for 2025.

Against this background, we expect the **current account of the balance of payments** to be in surplus over the forecast horizon. The positive balance should reach 0.6% of GDP (*vs. 0.4% of GDP*) this year and could improve slightly to 0.7% of GDP in 2025.

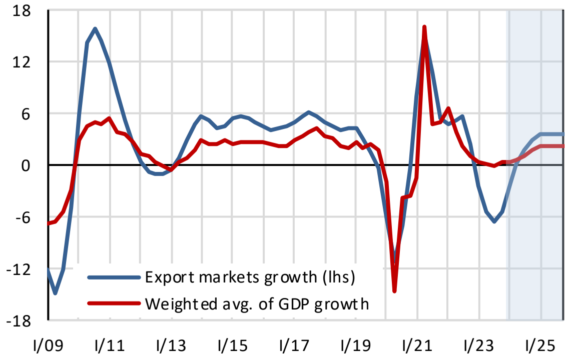
The **current external balance** (national accounts methodology) reached a surplus of 1.5% of GDP in Q4 2023 (see Graph 3.4.8). From a sectoral perspective, this was mainly driven by households, whose savings exceeded investment by 5.9% of GDP. However, in the general government and non-financial corporations sectors, the relationship between savings and investment was the opposite, with gross capital formation exceeding gross savings by 3.7% and 1.4% of GDP, respectively.

[4] 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 therefore in export markets compared to Czech exports, the performance indicator is then improved without any real increase in exports from the Czech Republic.

[5] 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.

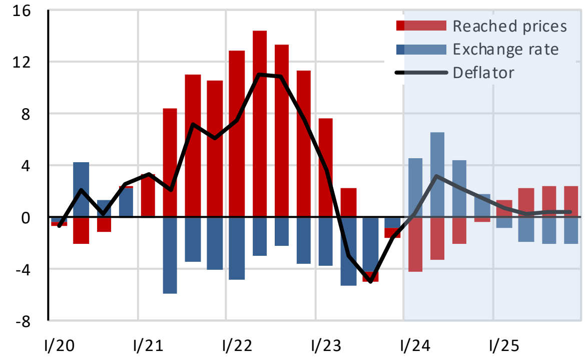
Graph 3.4.2: Real Exports of Goods

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

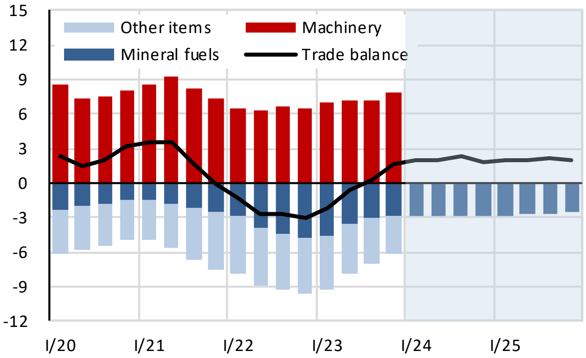
YoY growth in %, contributions in percentage points



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

Graph 3.4.4: Balance of Trade

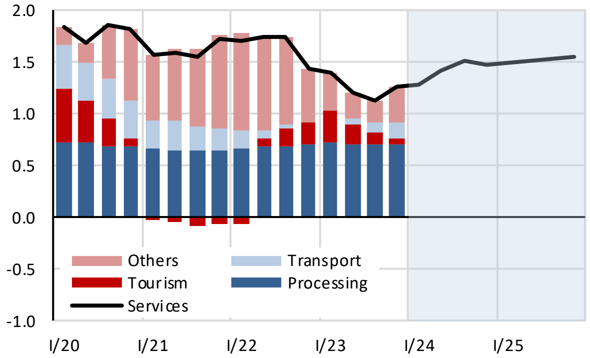
four-quarter moving totals, in % of GDP, change of ownership concept



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.4.5: Balance of Services

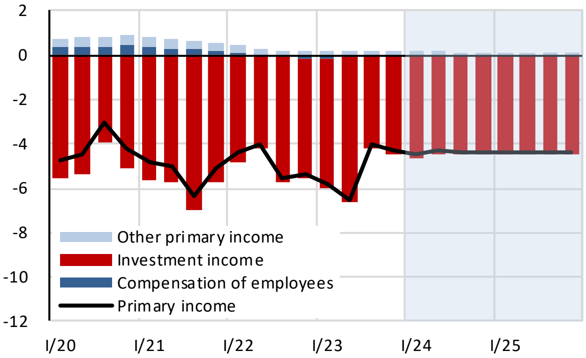
four-quarter moving totals, in % of GDP



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

Graph 3.4.6: Balance of Primary Income

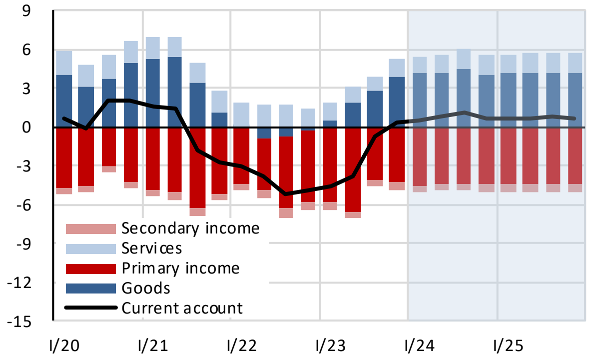
four-quarter moving totals, in % of GDP



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

Graph 3.4.7: Current Account

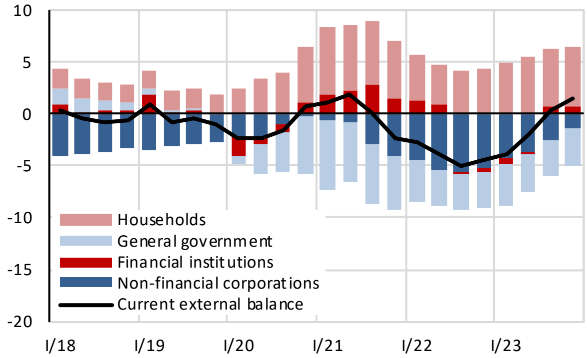
four-quarter moving totals, in % of GDP, BoP methodology



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

		2016	2017	2018	2019	2020	2021	2022	2023	2024 Forecast	2025 Forecast
GDP [1]	*average of 2010=100*	**111.5**	**114.9**	**117.4**	**119.6**	**113.7**	**119.4**	**122.8**	**123.1**	**124**	**126**
	growth in %	2.1	3.1	2.2	1.9	-4.9	5.0	2.9	0.2	0.8	1.9
Import intensity [2]	*average of 2010=100*	**112.6**	**115.4**	**118.0**	**118.4**	**117.0**	**122.4**	**124.4**	**118.2**	**118**	**120**
	growth in %	2.3	2.5	2.3	0.3	-1.1	4.6	1.6	-5.0	-0.1	1.7
Export markets [3]	*average of 2010=100*	**125.5**	**132.5**	**138.6**	**141.6**	**133.1**	**146.2**	**152.8**	**145.4**	**146**	**152**
	growth in %	4.4	5.6	4.6	2.2	-6.0	9.8	4.6	-4.8	0.7	3.6
Export performance	*average of 2010=100*	**110.7**	**112.8**	**111.7**	**110.6**	**110.2**	**107.1**	**108.5**	**116.8**	**116**	**117**
	growth in %	-0.2	1.9	-1.0	-1.0	-0.4	-2.8	1.3	7.7	-0.3	0.4
Real exports	*average of 2010=100*	**138.9**	**149.5**	**154.7**	**156.6**	**146.6**	**156.5**	**165.8**	**169.9**	**171**	**178**
	growth in %	4.2	7.6	3.5	1.2	-6.4	6.7	5.9	2.5	0.4	4.1
1 / NEER	*average of 2010=100*	**106.9**	**103.9**	**100.2**	**100.5**	**102.4**	**99.1**	**95.7**	**92.4**	**96**	**95**
	growth in %	-2.1	-2.8	-3.6	0.3	1.9	-3.3	-3.3	-3.5	4.3	-1.7
Prices on foreign markets	*average of 2010=100*	**98.2**	**100.2**	**103.2**	**103.8**	**103.0**	**111.5**	**126.1**	**128.6**	**125**	**128**
	growth in %	-0.7	2.1	3.0	0.7	-0.8	8.3	13.0	2.0	-2.5	2.2
Exports deflator	*average of 2010=100*	**104.9**	**104.1**	**103.4**	**104.4**	**105.5**	**110.5**	**120.7**	**118.9**	**121**	**122**
	growth in %	-2.8	-0.7	-0.7	1.0	1.1	4.7	9.2	-1.5	1.8	0.5
Nominal exports	*average of 2010=100*	**145.7**	**155.6**	**159.9**	**163.5**	**154.6**	**172.9**	**200.1**	**201.9**	**206**	**216**
	growth in %	1.2	6.8	2.8	2.2	-5.4	11.8	15.8	0.9	2.2	4.6

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 Estimate	Q2 Forecast	Q3 Forecast	Q4 Forecast
GDP [1]	*average of 2010=100*	**123.0**	**123.0**	**123.2**	**123.1**	**123**	**124**	**124**	**125**
	growth in %	0.3	0.1	0.0	0.3	0.3	0.6	0.9	1.5
Import intensity [2]	*average of 2010=100*	**120.3**	**118.2**	**117.1**	**117.1**	**117**	**118**	**118**	**119**
	growth in %	-2.7	-5.3	-6.5	-5.5	-2.4	-0.4	1.0	1.5
Export markets [3]	*average of 2010=100*	**147.9**	**145.4**	**144.3**	**144.1**	**145**	**146**	**147**	**148**
	growth in %	-2.4	-5.2	-6.5	-5.2	-2.2	0.2	1.9	3.0
Export performance	*average of 2010=100*	**115.5**	**117.4**	**116.2**	**118.2**	**116**	**116**	**117**	**117**
	growth in %	8.7	10.6	5.7	5.9	0.7	-0.9	0.3	-1.2
Real exports	*average of 2010=100*	**170.9**	**170.6**	**167.6**	**170.3**	**168**	**169**	**171**	**173**
	growth in %	6.1	4.9	-1.2	0.4	-1.5	-0.7	2.2	1.7
1 / NEER	*average of 2010=100*	**92.0**	**90.9**	**92.4**	**94.2**	**96**	**97**	**96**	**96**
	growth in %	-3.7	-5.2	-4.2	-0.8	4.6	6.6	4.4	1.9
Prices on foreign markets	*average of 2010=100*	**130.9**	**129.5**	**127.2**	**126.8**	**126**	**125**	**125**	**126**
	growth in %	7.7	2.3	-0.8	-0.7	-4.1	-3.2	-2.0	-0.4
Exports deflator	*average of 2010=100*	**120.5**	**117.8**	**117.6**	**119.5**	**121**	**122**	**120**	**121**
	growth in %	3.6	-3.0	-4.9	-1.6	0.3	3.2	2.3	1.5
Nominal exports	*average of 2010=100*	**205.9**	**201.0**	**197.2**	**203.5**	**203**	**206**	**206**	**210**
	growth in %	9.9	1.7	-6.0	-1.2	-1.2	2.4	4.5	3.2

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

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
										Forecast	*Forecast*
Goods and services	*bill.CZK*	**365**	**384**	**321**	**346**	**384**	**174**	**75**	**384**	**425**	**462**
	% GDP	7.6	7.5	5.9	6.0	6.7	2.8	1.1	5.2	5.6	5.8
Goods	*bill.CZK*	259	259	201	240	280	69	-23	290	312	337
	% GDP	5.4	5.1	3.7	4.1	4.9	1.1	-0.3	4.0	4.1	4.2
Services	*bill.CZK*	107	125	120	106	104	105	97	93	113	125
	% GDP	2.2	2.4	2.2	1.8	1.8	1.7	1.4	1.3	1.5	1.6
Primary income	*bill.CZK*	**-253**	**-255**	**-260**	**-292**	**-242**	**-312**	**-367**	**-317**	**-334**	**-355**
	% GDP	-5.3	-5.0	-4.8	-5.0	-4.2	-5.1	-5.4	-4.3	-4.4	-4.4
Secondary income	*bill.CZK*	**-27**	**-50**	**-37**	**-34**	**-28**	**-33**	**-40**	**-37**	**-44**	**-51**
	% GDP	-0.6	-1.0	-0.7	-0.6	-0.5	-0.5	-0.6	-0.5	-0.6	-0.6
Current account	*bill.CZK*	**85**	**79**	**24**	**19**	**114**	**-168**	**-333**	**29**	**46**	**57**
	% GDP	1.8	1.5	0.4	0.3	2.0	-2.8	-4.9	0.4	0.6	0.7
Capital account	*bill.CZK*	**52**	**45**	**13**	**24**	**67**	**104**	**48**	**88**	**108**	**116**
	% GDP	1.1	0.9	0.2	0.4	1.2	1.7	0.7	1.2	1.4	1.5
Net lending/borrowing	*bill.CZK*	**137**	**124**	**37**	**44**	**180**	**-64**	**-285**	**118**	**155**	**173**
	% GDP	2.9	2.4	0.7	0.8	3.2	-1.1	-4.2	1.6	2.0	2.2
Financial account	*bill.CZK*	**122**	**116**	**61**	**8**	**163**	**-40**	**-294**	**144**	**.**	**.**
Direct investments	*bill.CZK*	-187	-46	-51	-137	-149	-29	-83	-16	.	.
Portfolio investments	*bill.CZK*	-170	-268	30	-105	-136	75	331	90	.	.
Financial derivatives	*bill.CZK*	11	-14	-15	1	11	-58	-45	1	.	.
Other investments	*bill.CZK*	-97	-802	47	139	389	-325	-190	33	.	.
Reserve assets	*bill.CZK*	564	1 246	50	110	48	296	-307	36	.	.
International investment position	*bill.CZK*	**-1 304**	**-1 273**	**-1 320**	**-1 147**	**-929**	**-883**	**-1 270**	**-967**	**.**	**.**
	% GDP	-27.2	-24.9	-24.4	-19.8	-16.3	-14.5	-18.7	-13.2	.	.
Gross external debt	*bill.CZK*	**3 499**	**4 370**	**4 413**	**4 384**	**4 321**	**4 519**	**4 493**	**4 622**	**.**	**.**
	% GDP	72.9	85.5	81.6	75.7	75.7	74.0	66.2	62.9	.	.

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
						Estimate	*Forecast*	*Forecast*	*Forecast*
Goods and services	*bill.CZK*	**128**	**225**	**281**	**384**	**403**	**421**	**454**	**425**
	% GDP	1.8	3.2	3.9	5.2	5.5	5.6	6.0	5.6
Goods	*bill.CZK*	31	139	199	290	308	315	340	312
	% GDP	0.4	2.0	2.7	4.0	4.2	4.2	4.5	4.1
Services	*bill.CZK*	97	86	82	93	95	106	114	113
	% GDP	1.4	1.2	1.1	1.3	1.3	1.4	1.5	1.5
Primary income	*bill.CZK*	**-406**	**-463**	**-294**	**-317**	**-332**	**-323**	**-330**	**-334**
	% GDP	-5.8	-6.5	-4.1	-4.3	-4.5	-4.3	-4.4	-4.4
Secondary income	*bill.CZK*	**-38**	**-34**	**-34**	**-37**	**-38**	**-40**	**-42**	**-44**
	% GDP	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6
Current account	*bill.CZK*	**-315**	**-271**	**-47**	**29**	**33**	**58**	**82**	**46**
	% GDP	-4.5	-3.8	-0.7	0.4	0.4	0.8	1.1	0.6
Capital account	*bill.CZK*	**66**	**88**	**74**	**88**	**93**	**98**	**103**	**108**
	% GDP	0.9	1.2	1.0	1.2	1.3	1.3	1.4	1.4
Net lending/borrowing	*bill.CZK*	**-250**	**-183**	**26**	**118**	**127**	**156**	**186**	**155**
	% GDP	-3.6	-2.6	0.4	1.6	1.7	2.1	2.5	2.0
Financial account	*bill.CZK*	**-242**	**-158**	**59**	**144**	**.**	**.**	**.**	**.**
Direct investments	*bill.CZK*	-125	-122	-76	-16	.	.	.	.
Portfolio investments	*bill.CZK*	239	-46	-119	90	.	.	.	.
Financial derivatives	*bill.CZK*	-7	16	11	1	.	.	.	.
Other investments	*bill.CZK*	174	419	330	33	.	.	.	.
Reserve assets	*bill.CZK*	-523	-425	-86	36	.	.	.	.
International investment position	*stock in bill.CZK*	**-1 312**	**-1 176**	**-1 015**	**-967**	**.**	**.**	**.**	**.**
	% GDP	-18.8	-16.5	-14.0	-13.2	.	.	.	.
Gross external debt	*stock in bill.CZK*	**4 334**	**4 393**	**4 455**	**4 622**	**.**	**.**	**.**	**.**
	% GDP	62.2	61.7	61.6	62.9	.	.	.	.

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

4 Survey of Other Institutions' Forecasts

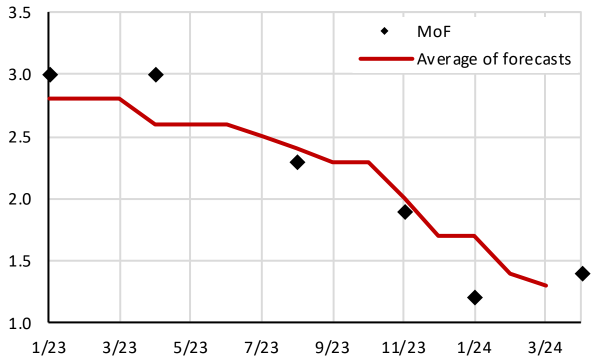
On average, the surveyed institutions forecast that the Czech economy will grow by 1.3% in 2024 and accelerate to 2.7% next year. They expect the average inflation rate to reach 3.0% this year and then fall to 2.3% in 2025. The average wage growth could be 6.4% in 2024 and slow down to 5.4% next year. In 2024 and 2025, the current account of the balance of payments could show a surplus of 0.5% and 0.7% of GDP, respectively.

When assessing the differences between the current macroeconomic 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 surveyed institutions, the MoF expects slightly faster GDP growth in 2024, while for 2025 it estimates slower growth. The forecast for the average inflation rate for this year is slightly lower than the average of the monitored forecasts. The expected evolution of the average wage does not differ much from the forecasts of the surveyed institutions, as is the case for the forecast of the current account of the balance of payments.

Graph 4.1: Forecasts for Real GDP Growth in 2024

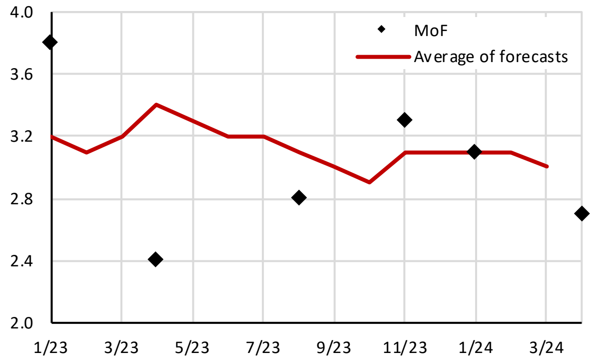
in %; the month, in which the survey was made on the horizontal axis



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

		March 2024			April 2024
		min.	*max.*	*average*	*MoF forecast*
Gross domestic product (2024)	*growth in %, const.pr.*	0.6	2.3	1.3	1.4
Gross domestic product (2025)	*growth in %, const.pr.*	2.1	3.2	2.7	2.6
Average inflation rate (2024)	*%*	2.4	4.6	3.0	2.7
Average inflation rate (2025)	*%*	2.0	3.0	2.3	2.4
Average monthly wage (2024)	*growth in %*	5.8	7.0	6.4	6.4
Average monthly wage (2025)	*growth in %*	4.5	6.5	5.4	5.5
Current account / GDP (2024)	*%*	-1.0	1.7	0.5	0.6
Current account / GDP (2025)	*%*	-1.0	1.8	0.7	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 Evaluation of the 2023 State Budget Forecast

The macroeconomic framework of the 2023 State Budget was based on the August 2022 Macroeconomic Forecast. Table 5.1 shows a comparison of the main indicators of the framework with the data available as of 28 March 2023.

According to the assumptions of the macroeconomic framework, problems in supply chains were expected to continue to hamper global economic growth in 2023, but their intensity was expected to gradually decline and upward pressures on the price level were expected to ease. However, supply chains eventually functioned without significant difficulties in 2023, as reflected in a more positive contribution from the external trade balance and a more negative contribution from the change in inventories. The budget forecast, on the other hand, could not anticipate the escalation of geopolitical tensions in the Middle East that occurred at the end of last year, though the impact of this factor on the Czech economy was not significant last year.

Higher-than-expected inflation and weaker consumer sentiment dampened real household consumption, which fell by 3.1% instead of rising by 0.5%. Thanks to the unwinding of problems in supply chains, inventory accumulation was noticeably reduced – the change in inventories and valuables took 3.3pp off GDP growth, while the macroeconomic framework assumed a contribution of −1.2pp. Growth in fixed investment was broadly in line with the budget forecast, but faster for general government consumption. As a result, the Czech economy contracted by 0.3% in 2023 instead of the forecast growth of 1.1%.

Labour market developments have been predicted very accurately. In line with the framework, the unemployment rate rose slightly to 2.6%, while wages and salaries increased by 7.9%. In the case of employment, the comparison is strongly influenced by methodological changes in the LFS (see Macroeconomic Forecast, November 2023 for more details). In the national accounts methodology, the budget forecast assumed a 0.5% increase in employment, which was only 0.3pp lower than the actual outcome.

The assessment of the macroeconomic framework of the 2023 State Budget should take into account the high degree of uncertainty that persisted at the time of preparing the budget forecast. In hindsight, however, it can be noted that real GDP growth fell significantly short of expectations and its structure also differed. Yet, nominal GDP evolved in line with the macroeconomic framework due to faster price level growth. Among the indicators relevant for the general government sector budget performance, wages and salaries were in line with expectations, while real and nominal household consumption lagged behind the forecast values.

Table 5.1: Comparison of the 2023 State Budget Macroeconomic Framework with Actual Outcome

		Outcome (March 2024)				State Budget 2023 (August 2022)				Difference (outcome - forecast)			
		2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Gross domestic product	*bill. CZK*	**5 709**	**6 109**	**6 787**	**7 344**	**5 709**	**6 108**	**6 799**	**7 356**	**0**	**0**	**-12**	**-11**
Gross domestic product	*growth in %, curr.pr.*	-1.4	7.0	11.1	8.2	-1.4	7.0	11.3	8.2	0.0	0.0	-0.2	0.0
Gross domestic product	*growth in %, const.pr.*	**-5.5**	**3.6**	**2.4**	**-0.3**	**-5.5**	**3.5**	**2.2**	**1.1**	**0.0**	**0.0**	**0.1**	**-1.4**
Consumption of households	*growth in %, const.pr.*	-7.2	4.1	-0.6	-3.1	-7.2	4.1	0.5	0.5	0.0	0.0	-1.1	-3.6
Consumption of government	*growth in %, const.pr.*	4.2	1.4	0.3	3.5	4.2	1.5	0.8	1.3	0.0	-0.2	-0.5	2.3
Gross fixed capital formation	*growth in %, const.pr.*	-6.0	0.8	3.0	4.0	-6.0	0.7	6.1	3.4	0.0	0.1	-3.1	0.6
Net exports	*contribution, pp*	-0.4	-3.6	0.9	2.6	-0.4	-3.6	-1.0	0.9	0.0	0.0	1.9	1.8
GDP deflator	*growth in %*	**4.3**	**3.3**	**8.5**	**8.6**	**4.3**	**3.3**	**8.9**	**7.0**	**0.0**	**0.0**	**-0.3**	**1.6**
Average inflation rate	*%*	**3.2**	**3.8**	**15.1**	**10.7**	**3.2**	**3.8**	**16.2**	**8.8**	**0.0**	**0.0**	**-1.1**	**1.9**
Employment (LFS)	*growth in %*	**-1.3**	**-0.4**	**-4.4**	**1.5**	**-1.3**	**-0.4**	**-0.7**	**0.2**	**0.0**	**0.0**	**-3.7**	**1.3**
Unemployment rate (LFS)	*average in %*	**2.6**	**2.8**	**2.2**	**2.6**	**2.6**	**2.8**	**2.5**	**2.6**	**0.0**	**0.0**	**-0.4**	**0.0**
Wage bill (domestic concept)	*growth in %, curr.pr.*	**0.1**	**5.9**	**9.3**	**7.9**	**0.1**	**5.8**	**9.8**	**7.9**	**0.0**	**0.1**	**-0.5**	**0.0**
Current account balance	*% of GDP*	**2.0**	**-2.8**	**-4.9**	**0.4**	**2.0**	**-0.8**	**-4.6**	**-4.0**	**0.0**	**-1.9**	**-0.3**	**4.4**
Assumptions:													
Exchange rate CZK/EUR		**26.4**	**25.6**	**24.6**	**24.0**	**26.4**	**25.6**	**24.6**	**24.4**	**0.0**	**0.0**	**0.0**	**-0.4**
Long-term interest rates	*% p.a.*	**1.1**	**1.9**	**4.3**	**4.4**	**1.1**	**1.9**	**4.1**	**4.2**	**0.0**	**0.0**	**0.2**	**0.2**
Crude oil Brent	*USD/barrel*	**42**	**71**	**101**	**82**	**42**	**71**	**105**	**88**	**0**	**0**	**-4**	**-6**
GDP of the euro area	*growth in %, const.pr.*	**-6.2**	**5.9**	**3.5**	**0.5**	**-6.5**	**5.3**	**3.0**	**1.2**	**0.3**	**0.6**	**0.5**	**-0.7**

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

6 Automotive Industry and e-Mobility

The production of motor vehicles is an important part of the Czech industry and economy. According to the CZSO, it accounted for 18.2% of the value added of manufacturing in 2022, while the share in the total value added was 4.2%. The share of the automotive industry in the economy is almost twice as high if we consider production in the supplier industries (MoF, 2019). Within the motor vehicle manufacturing sector, motor vehicle production alone accounted for more than half of value added in 2022. Meanwhile, average wages and performance, as measured by return on assets, were higher than in both bodies manufacturing and parts and accessories manufacturing (Table 6.1). Parts and accessories manufacturing has a significant, albeit gradually declining, share not only in value added (about 46% in 2022) but also in employment (almost 70% in 2022). However, return on assets is low.

The motor vehicle manufacturing sector also makes a significant contribution to the Czech Republic's international trade. According to the CZSO cross-border movements statistics on international trade, exports of road vehicles accounted for 18.8% of total exports of goods from the Czech Republic in 2023 (Table 6.2). Exports of road vehicles consist mainly of passenger cars (57.2%) and parts and accessories (36.6%). The motor vehicle sector is a significant driver of export growth and the overall economy (MoF, 2019).

The automotive industry is undergoing transformation in response to the requirements of new emission standards being introduced in the context of the EU climate targets. The production of alternative fuel vehicles and in particular the manufacture of batteries brings new production processes and associated demands on the occupational structure and skills of the workforce. The advent of electromobility will also have a significant impact on parts and accessories manufacturers, which are the majority employer within the vehicle manufacturing sector.

Table 6.1: Selected Indicators in Motor Vehicle Manufacturing (CZ-NACE 29)

		2015	2019	2020	2021	2022*
Manufacture of motor vehicles (CZ-NACE 29.1)						
Value added share	%	47.1	49.4	50.6	53.4	52.9
Employment share	%	22.1	25.0	26.6	28.0	28.4
Average wage	CZK	41 287	54 201	55 025	55 582	61 162
Return on assets	%	16.2	14.4	7.5	12.4	.
Manufacture of bodies for motor vehicles; manuf. of trailers and semi-trailers (CZ-NACE 29.2)						
Value added share	%	1.1	1.1	1.2	1.2	1.3
Employment share	%	2.1	1.9	1.8	1.9	2.0
Average wage	CZK	26 180	32 889	33 238	35 757	37 364
Return on assets	%	8.7	7.8	5.7	7.4	.
Manufacture of parts and accessories for motor vehicles (CZ-NACE 29.3)						
Value added share	%	51.8	49.4	48.2	45.4	45.7
Employment share	%	75.7	73.1	71.6	70.1	69.6
Average wage	CZK	28 721	35 225	34 903	36 966	39 907
Return on assets	%	9.3	3.2	0.6	1.9	.

*Note: * preliminary data. Return on assets is the ratio of EBIT to total assets.*
Source: Ministry of Industry and Trade.

Table 6.2: Exports of Road Vehicles in 2023
share in exports of road vehicles and in total exports in %

	Road vehicles	Total exports
Passenger motor cars (SITC 781)	57.2	10.8
Other motor vehicles (SITC 782, 783)	6.2	1.2
Parts and accessories of the motor vehicles (SITC 784)	36.6	6.9
Total	**100.0**	**18.8**

Note: Groups in SITC 78 – Road vehicles; no adjustments.
Source: CZSO.

6.1 Business Cycle Situation

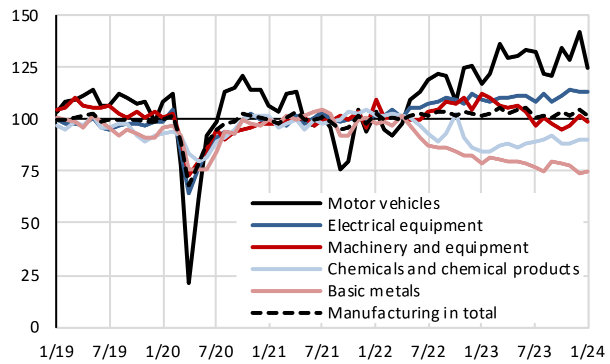
As in other manufacturing sectors, firms in the motor vehicle industry have to cope with increases in production costs, in particular energy prices, labour shortages or shortages in the supply of production inputs. Compared to some other manufacturing sectors, however, motor vehicle production has been gradually increasing since 2022, reaching historically high levels (Graph 6.1).

The data from the European Commission's business and consumer surveys provide information on, among other things, how firms perceive the level of demand or which factors they consider to be barriers to increasing production. Czech motor vehicle manufacturers rated the level of demand by order book as broadly satisfactory in 2021–2023, while the perception of demand across the manufacturing industry as a whole was more pessimistic from mid-2022 onwards (Graph 6.2). However, earlier this year, the assessment of the level of demand in motor vehicle manufacturing deteriorated markedly. Corresponding to this is the development of a lack of demand as a barrier to output growth (Graph 6.3). This factor has increased at the beginning of this year, while in the manufacturing industry, an increase in the lack of demand has been signalled since the end of 2022. Both these indicators thus illustrate a more favourable demand situation in the automotive industry compared to the manufacturing industry as a whole in the recent period. A similar development is observed in Germany, which is the most important trading partner of the Czech Republic. The level of demand according to the order book has been declining from high levels since mid-2022, while a lack of demand as a barrier to growth has been signalled in the German automotive industry since the second half of last year.

The automotive industry in both the Czech Republic and Germany has faced material shortages since 2021 (Graph 6.4). This factor limiting production declined over the past year. At the beginning of this year, the Czech Republic saw a resumption of material shortages similar to that of the manufacturing industry as a whole. In motor vehicle manufacturing, there has been no change in the Czech Republic's perception of its competitive position in foreign markets so far (Graph 6.5). In manufacturing as a whole, a reduction in the competitive position is indicated as early as mid-2022, probably related to rising production costs, especially energy prices. A deterioration of the competitive position on foreign markets is reported by German companies in the automotive and the entire manufacturing industry over the same period.

Graph 6.1: Production in Selected Industries

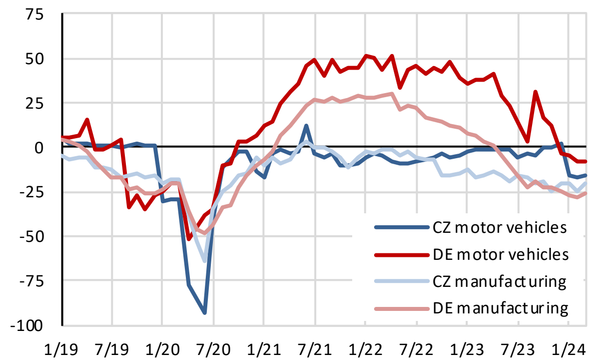
industrial production index, 2021=100, constant prices, seas. adjusted



Source: CZSO.

Graph 6.2: Assessment of Order Book Levels

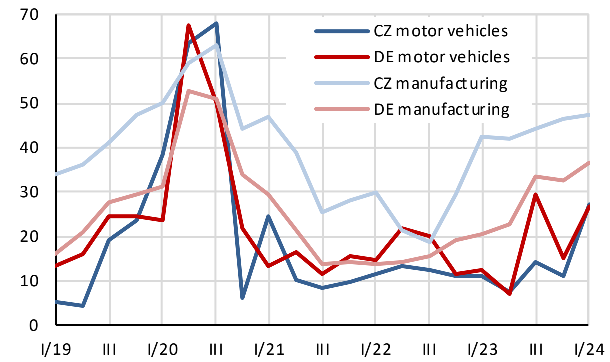
seasonally adjusted balance



Note: CZ – more than satisfactory minus less than satisfactory; DE – pending orders relatively large minus relatively small.
Source: European Commission.

Graph 6.3: Factors Limiting Production – Demand

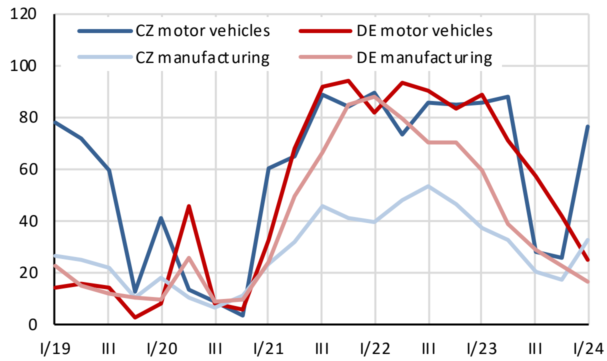
seasonally adjusted balance



Source: European Commission.

Graph 6.4: Factors Limiting Production – Shortage of Material and/or Equipment

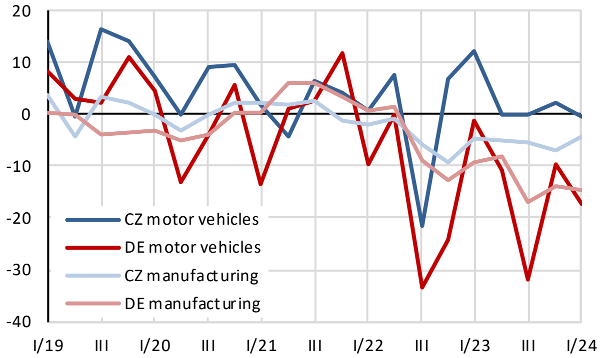
seasonally adjusted balance



Source: European Commission.

Graph 6.5: Change in Compet. Position in Foreign Markets

average of seasonally adjusted balances of answers to competitive position inside EU and outside EU



Note: CZ – improved minus worsened in the past 3 months; DE – improved minus worsened over the last 3 months compared to the previous 3 months.
Source: European Commission.

6.2 Production, Sales and Exports

Passenger car production in the Czech Republic returned to pre-pandemic levels last year, with 1.4 million passenger cars produced, as in 2019, according to data from the Czech Automotive Industry Association. Of these, 12.9% were electric (battery electric vehicles – BEVs, and plug-in hybrids – PHEVs). The number of electric vehicles produced has been roughly stable since 2021, when statistics are available (Graph 6.6). Total passenger car production, which is dominated by vehicles with internal combustion engines, experienced a significant drop in 2020 due to the pandemic and in 2021 and 2023 due to shortages of parts and accessories. However, component shortages did not affect the production of electric vehicles. Domestic sales of passenger cars are very small compared to total production, with most production finding a market abroad.

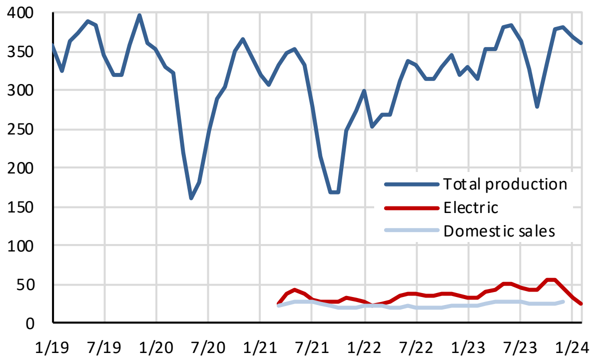
The observed development in total production corresponds to the value of exports of passenger cars with internal combustion engines (see Graph 6.7). Exports of electric vehicles have been roughly stable since 2021, as have exports of hybrid cars. A significant part of the motor vehicle sector's exports is made up of parts and accessories. Passenger car production and exports were apparently affected by a shortfall in imports of components in the past year, in particular. Electric and hybrid passenger motor vehicles accounted for about one-third of passenger motor vehicle exports in 2021 and 2022 (Graph 6.8). The increase in share in 2023 was due to a temporary shortfall in exports of internal combustion engine cars.

The planned decline in the production of passenger cars with internal combustion engines will mean the phasing out of the production of parts and accessories for vehicles with internal combustion engines. These are mainly gearboxes (product class HS 8708.40), radiators (HS 8708.91), silencers and exhaust pipes (HS 8708.92) and clutches (HS 8708.93). The share of these specific components in exports of all motor vehicle parts and accessories, which ranged between 19% and 22% in 2019–2022, was 20.2% in 2023.

Foreign demand for electric and hybrid vehicles will continue to be an important factor influencing production in the vehicle manufacturing sector in the years to come. At the same time, the demand for electric vehicles may be influenced by state aid. In Germany, the phasing out of support for the purchase of electric vehicles has had a significant impact on new registrations in recent years (Graph 6.9). The increase in registrations before the end of 2022 was preceded by a reduction in support for the purchase of battery vehicles and the end of support for plug-in hybrids. A further increase in registrations of battery vehicles in Germany occurred during 2023 due to the expected end of support for sales of this vehicle category in December 2023.

Graph 6.6: Prod. and Domestic Sales of Passenger Cars

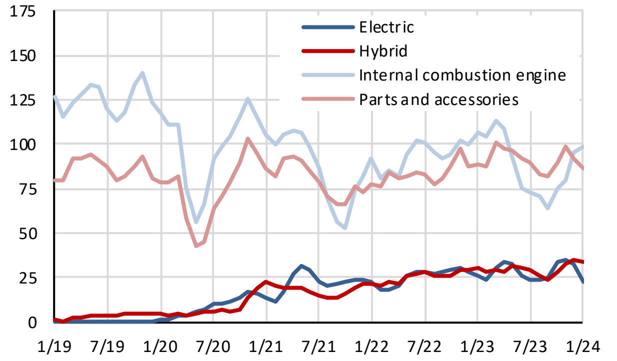
3month moving sum, thousand vehicles



Note: Electric are battery (BEV) and plug-in hybrid (PHEV) vehicles.
Source: Czech Automotive Industry Association.

Graph 6.7: Export of Passenger Cars, Parts and Accs.

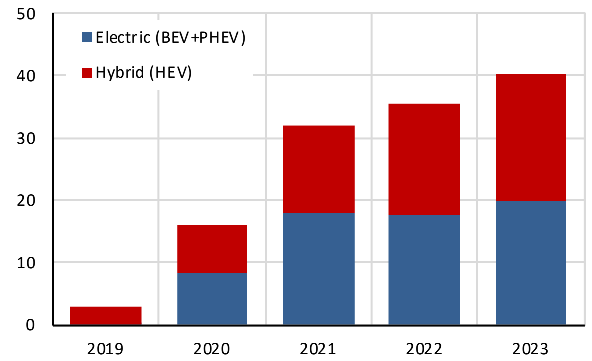
3month moving sum, bill. CZK



Note: Passenger cars (product group HS 8703) are electric (battery and plug-in hybrid), hybrid and internal combustion engine vehicles. Parts and accessories (HS 8708) for motor vehicles of product groups HS 8701 to HS 8705.
Source: CZSO.

Graph 6.8: Export of Electric and Hybrid Passenger Cars

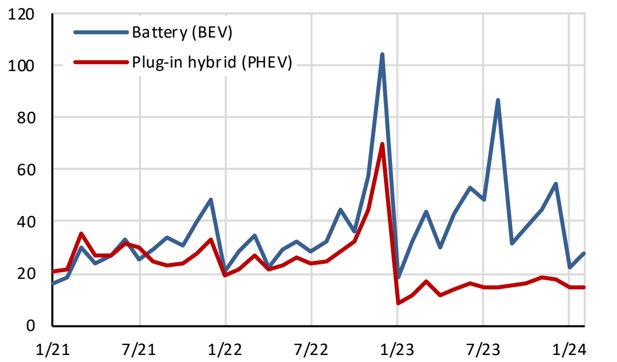
share in passenger car exports from CZ, in %



Source: CZSO.

Graph 6.9: New Registrations of Electric Passenger Cars in Germany

thousand vehicles



Source: VDA.

6.3 Integration into Global Value Chains

The significant share of motor vehicle production and exports increases the Czech economy's sensitivity to shocks from abroad and to structural changes. This is reinforced by the integration of Czech manufacturers into supply and demand chains. A more detailed view is provided by international symmetric input-output tables (OECD, 2023, see also MoF, 2021).

Motor vehicle production uses intermediate products from other industries and from abroad. In exports, the share of domestic value added was around 50% in 2020 (Graph 6.10). Among the other countries of origin of value added, Germany (12.0%), China (5.1%) and Poland (4.5%) were the most important. Thus, the continuity of production is dependent on the supply of components mainly from these countries. There have been significant changes in the shares of some countries over a longer period. Compared to 2005, the share of Germany has decreased, while the shares of China and Poland have increased.

The exported parts and accessories are used abroad for the production of cars which are either sold on the local market or exported to third countries. The demand for components from the Czech Republic is therefore determined by the demand in the countries of consumption of the final products, just like the demand for passenger cars. In 2020, only 10.5% of the value added in the motor vehicle manufacturing sector found a consumer in the Czech Republic (Graph 6.11). Of the other countries, Germany has the largest share (19.3%), followed by France (8.6%), Poland (4.4%) and China (4.0%). Demand in these countries significantly influences domestic production in the motor vehicle manufacturing sector. Compared to 2005, the share of the Czech Republic has decreased significantly, while the share of France, Poland and especially China has increased.

The integration of producers into supply and demand chains increases the sensitivity of employment in the Czech Republic to changes in domestic and foreign demand. OECD international symmetric input-output tables combined with sectoral employment statistics provide evidence of labour market effects (Horvát et al., 2020).

In addition to those employed in this sector, workers in the supplying industries are also involved in the production and export of motor vehicles. According to OECD data, 172 thousand employees were directly involved in the products of the motor vehicle manufacturing sector exported from the Czech Republic in 2020 and another 203 thousand indirectly in downstream industries (Graph 6.12). Thus, a total of 375 thousand employees (7.0%) were involved in the exported output of the motor vehicle manufacturing sector, more than double the number of those directly employed. This is significantly higher than in other major manufacturing industries. The number of direct and indirect employees involved in exports of the motor vehicle sector has increased significantly compared to 2005.

According to the CZSO, 199 thousand people were employed in the production of motor vehicles in 2020. Assuming that the share of those employed in supply industries in production is the same as in exports, then 434 thousand people were directly or indirectly employed in the production of the automotive industry in 2020, which represented 8.1% of total employment.

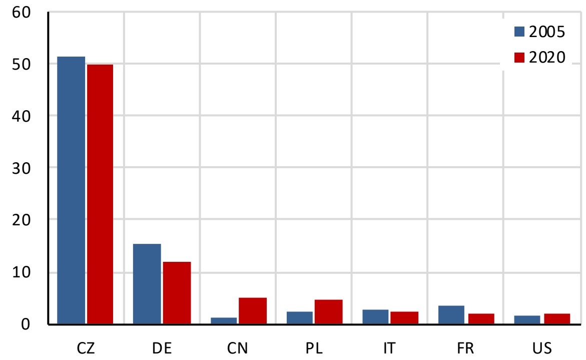
The MoF (2021), using OECD international input-output tables, presents a simulation of a shock to aggregate demand and its impact on the Czech economy. In the event of a 10% drop in demand for cars (domestic and foreign), which may be caused by a rise in vehicle prices or a shortage of components, the gross value added in the Czech Republic will fall by 1.18% in the short term. The most affected would be motor vehicle manufacturing (8.2% fall in output), wholesale, retail trade and repair of motor vehicles (1.2% fall), basic metals (2.0% fall), rubber and plastic products (2.3% fall), fabricated metal products (1.4% fall) and electrical equipment (1.4% fall).

Using these estimates, it is possible to simulate the impact of a shortfall in demand for components for internal combustion engine cars, which represents 20% of exports of parts and accessories (see Chapter 6.2). This would result in a 6.0% fall in output in the motor vehicle sector and a 0.9% fall in total gross value added. Employment in motor vehicle manufacturing would fall by 12,000 persons and, with the contributions of other supplier industries, by 18,000 persons overall, equivalent to 0.3% of total employment.

The impact assessment assumes that the production of components specific to the production of internal combustion engine vehicles will be discontinued without replacement. Impacts may be less pronounced if some resources are reallocated to the production of other components. On the other hand, the Czech economy may be more severely affected by the decline in production of internal combustion engine passenger cars if manufacturers do not maintain their market shares. In the extreme scenario, total direct and indirect employment in motor vehicle manufacturing, which accounted for 8.1% of employment in 2020, may be at risk. In connection with the shortening of production chains, a further decline in the production and export of parts and accessories and a concentration of production closer to battery producers as a key component of electric vehicle production can be expected in the future (Graph 6.13). Further developments will be influenced by measures taken by the state and the parent companies of Czech manufacturers.

Graph 6.10: Gross Exports in Motor Vehicle Manufacturing

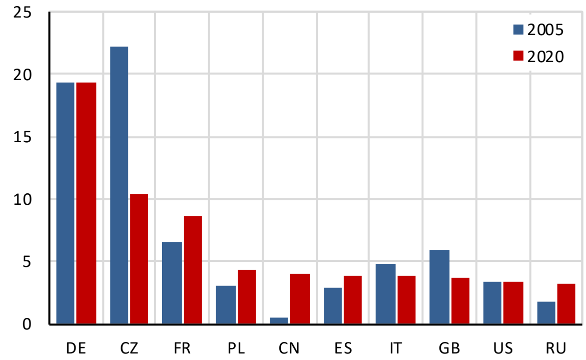
origin of value added share in %



Source: OECD.

Graph 6.11: Domestic Value Added in Motor Vehicle Manufacturing

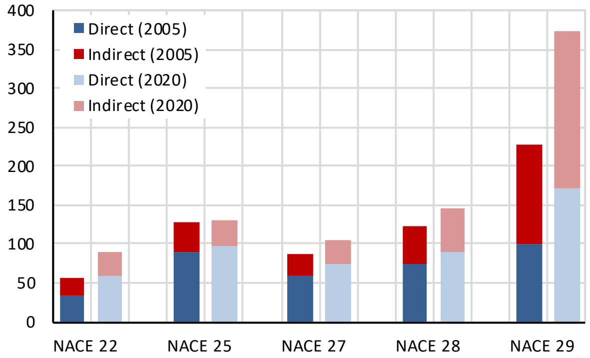
final demand share in %



Source: OECD.

Graph 6.12: Employment Embodied in Gross Exports

thousand persons

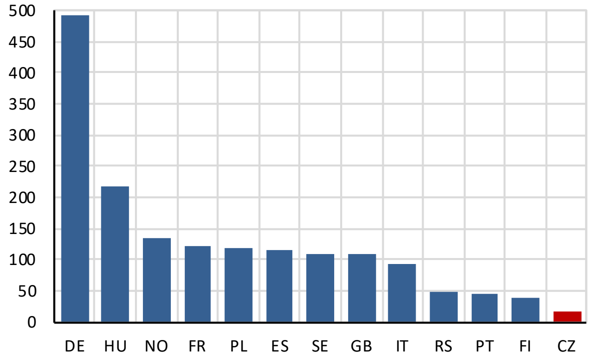


Note: Top five manufacturing industries with the highest total employment in 2020. Indirect employment is involved in the production of intermediate products in other industries that are used in the production of motor vehicles, and also includes imports that contain value added previously exported from the Czech Republic.

Source: OECD.

Graph 6.13: Battery Production in Europe in 2030

expected battery cell production capacity in GWh



Source: Transport and Environment (2023).

6.4 Conclusions

Output in the motor vehicle manufacturing sector has developed more favourably than in other manufacturing industries over the past two years. Despite partial shortfalls in component deliveries, passenger car production has reached pre-crisis levels. The production of electric vehicles is also contributing to this.

The demand assessment according to the order book has been negative since the beginning of this year; however, the automotive industry in the Czech Republic, unlike vehicle manufacturers in Germany, does not signal a loss of competitive position on foreign markets. Production and exports of passenger cars continue to be dominated by vehicles with internal combustion engines. In 2021 and 2023, their production experienced significant declines due to component shortages.

The integration of producers in supply and demand chains increases the sensitivity of output and labour demand to shocks from abroad and to structural changes. About half of the value added of exports in the motor vehicle manufacturing sector comes from abroad, with Germany, China and Poland accounting for the largest share. The continuity of production depends on the supply of components whose value added originates in these countries. Only one tenth of domestic value added ends up with customers in the Czech Republic. A significant share of domestic value added finds outlets in Germany, France, Poland and China. In the territorial structure of origin and destination of value added, there has been a significant increase in the share of China over a longer period.

A significant part of the exports of the motor vehicle sector are parts and accessories. Roughly one fifth of their exports are components that are only applicable to the manufacture of vehicles with internal combustion engines. This part of production will be directly threatened by the planned decline in the production of passenger cars with internal combustion engines. If the production of these specific components were to cease without replacement, the production of the motor vehicle sector would fall by 6.0%, total gross value added would fall by 0.9% and total employment by 0.3%. In 2020, 8.1% of employment in the Czech Republic was directly or indirectly involved in the production of motor vehicles. The planned shift to electromobility will pose challenges for the structural adjustment of this part of the economy.

6.5 References

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