

# **Macroeconomic Forecast of the Czech Republic**

**August 2021**

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## **of the Czech Republic**

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The Macroeconomic Forecast is prepared by the Economic Policy Department of the Czech Ministry of Finance. It contains a forecast for the years 2021 and 2022 and for certain indicators an outlook for 2 following years (i.e. until 2024). It is published on a quarterly basis (in January, April, August and November) and is also available on the website of the Ministry of Finance at:

***[www.mfcr.cz/macroforecast](http://www.mfcr.cz/macroforecast)***

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

***[macroeconomic.forecast@mfcr.cz](mailto:macroeconomic.forecast@mfcr.cz)***

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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
EA19.....	euro zone consisting of 19 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
pp.....	percentage points
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 forecast is based on the data known as of 10 August 2021; the cut-off date for selected forecast assumptions was 27 July 2021.

## 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 (April 2021) are indicated by italics. Data relating to the years 2023 and 2024 are an extrapolation scenario that indicates only the direction of possible developments, and as such are not commented upon in the following text.



# Introduction and Summary

Improved epidemic situation and the resulting easing of measures to contain the spread of coronavirus, increased consumer and business confidence and strong fiscal stimuli put the world's advanced economies back in motion. These factors are outweighing the temporary disruption to production chains caused by shortages of certain inputs and hikes in their prices. The short-term outlook for the EU economies has thus substantially improved.

Forecasts for consumer inflation are being revised up in response to the rising prices of energy and other commodities, production barriers due to shortages of components and raw materials, capacity constraints in the face of expanding demand, and loose monetary policy pursued by central banks.

Despite the dismal epidemic situation and restrictions in numerous areas, the Czech economy recorded only a slight decline in Q1 2021. **Real gross domestic product** adjusted for seasonal and calendar effects shrank by 0.3% QoQ and its year-on-year decrease eased to 2.6%. The economy grew by 0.6% QoQ in Q2, according to the flash estimate.

As for domestic demand, the year-on-year drop in **household consumption** moderated to 6.2% in Q1. Some parts of retail trade and certain services remained hobbled by anti-epidemic measures. This, combined with heightened uncertainty about the future, kept the savings rate extremely high. **General government consumption** grew by 1.1%, pushed up by increased health spending and employment growth.

**Fixed capital investments** fell by 3.0%. The most important decrease could be found in investments in machinery and equipment, including transport equipment, and in non-residential construction. From the sectoral perspective, a small increase in public and household investment had a positive effect.

The **change in inventories** gave the economy a major boost (contribution of 1.2 pp) thanks perhaps to the replenishment of warehouse inventories. This was also reflected in the strong momentum of imports of goods, which resulted in **external trade** contributing -0.5 pp.

In the forecast, we adopt the scenario that the progress in vaccination of the population and the high number of people who have already contracted COVID-19 should prevent the need to adopt further macroeconomically significant anti-epidemic restrictions. Consequently, economic activity should substantially recover from Q3 2021 onwards and gradually cancel out the previous shock to aggregate demand and supply.

The expected **3.2%** increase in economic output **this year** should be driven by all components of domestic demand, most notably fixed capital investments and household consumption. Due to high import momentum, the external trade balance should slow down economic growth slightly. Inventory restocking should act in the opposite direction this year, supported by an accumulation of work-in-progress inventories caused by problems in supply chains.

Economic **growth** could accelerate to **4.2%** in **2022**, driven in particular by continued recovery in private con-

sumption. The momentum of fixed capital investment should remain relatively strong. As export markets continue to grow, the external trade balance should also spur the economy slightly.

Inflationary pressures have turned out to be stronger than had been expected in the April macroeconomic forecast. High energy and other commodity prices are gradually being felt in other price categories, including consumer prices. To reflect this, we are raising our forecasts for the average **inflation rate** in 2021 and 2022 to 3.2% and 3.5%, respectively.

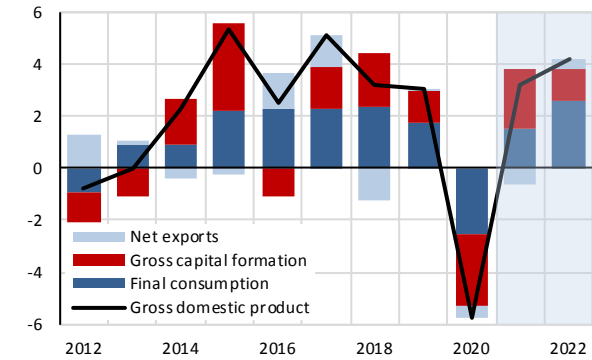
Labour market developments remain positive. Although most fiscal stimulus measures have been terminated, there has been no increase in **unemployment**. The seasonally adjusted unemployment rate (15–64 years) was 0.6 pp lower in June 2021 than in March. The effects of easing the anti-epidemic restrictions and the impact of strong labour demand in certain sectors, especially industry, have evidently prevailed. Nevertheless, the unemployment rate (LFS) should increase to 3.0% in 2021 due to delayed effects of the economic downturn. Economic recovery could push it back down to 2.7% in 2022.

The **current account of the balance of payments** reported a sizeable surplus of 3.5% of GDP in Q1 2021, as the surplus on the goods balance grew on the back of strong external demand for capital goods. The base effect stemming from production shutdowns in spring 2020 also played a role. Even so, there should be a pronounced decline in the trade surplus in the second half of this year due to the expected recovery in investment activity and a rise in oil prices. Parallel to this, the profitability of foreign-controlled businesses is forecast to pick up again and the primary income deficit to widen. The current account surplus could thus fall to 1.1% of GDP this year and then to 0.5% of GDP in 2022.

In 2021, the **general government sector** has been heavily burdened by the coronavirus epidemic, its economic consequences, and the measures implemented in public health and under the stimulus fiscal policy. We forecast a deficit equal to 7.7% of GDP. Expansionary fiscal policy is expected to result in a structural deficit of 6.1% of GDP and a rise in debt to 43.5% of GDP. Neither the economy nor the general government balance should be influenced by the epidemic in 2022. Assuming that consolidation will have started, we estimate the deficit to reach 5.0% of GDP and debt to increase to 46.2% of GDP.

### The recovery driven by domestic demand

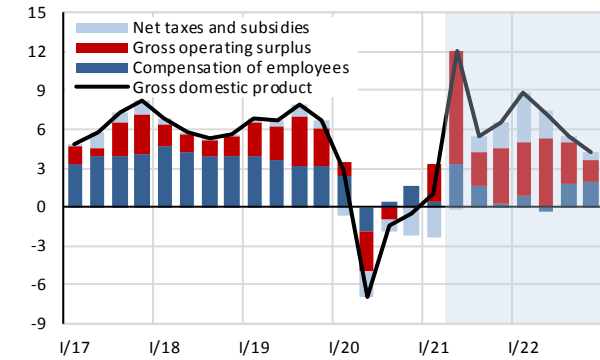
growth rate of real GDP in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

### Firms' profitability likely to increase strongly

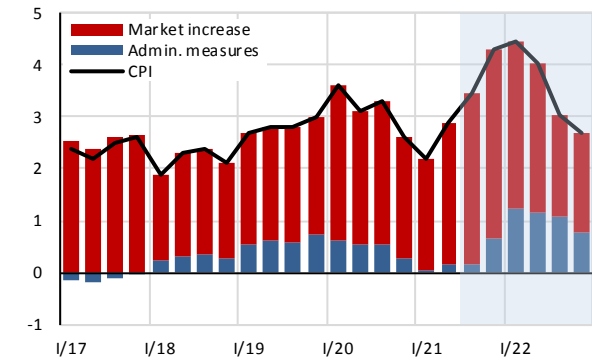
YoY growth of nominal GDP in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

### Inflation temporarily well above the CNB's 2% target

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



Source: CZSO. Calculations and forecast of the MoF.

### Unemployment should start to decline

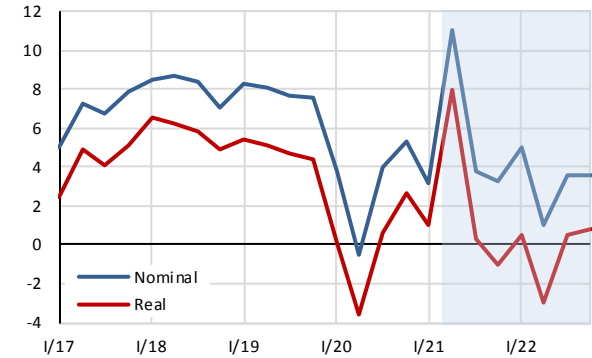
registered unemployment, in thous. of persons, seasonally adjusted



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

### Wage growth should moderate

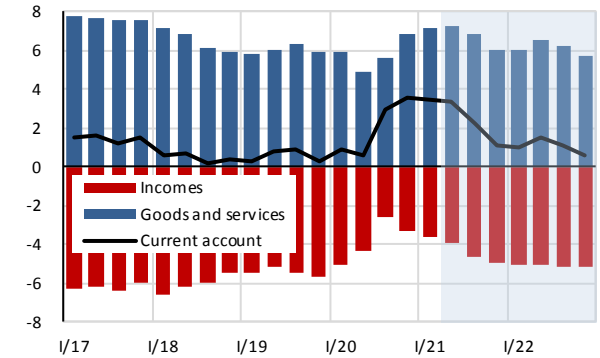
average gross monthly wage, YoY growth rate, in %



Source: CZSO. Calculations and forecast of the MoF.

### Current account surplus should gradually decrease

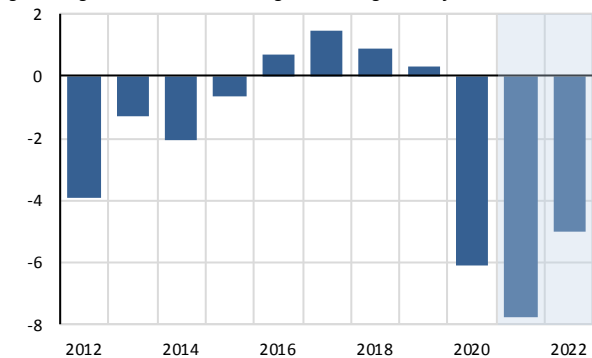
in % of GDP (yearly moving sums)



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

### Public finances bear the costs of the crisis

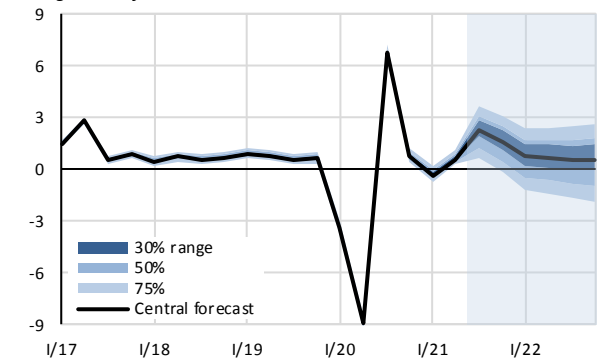
general government net lending/borrowing, in % of GDP



Source: CZSO. Calculations and forecast of the MoF.

### Forecast risks are broadly balanced

QoQ growth of real GDP in %



Note: Past probability distribution determined by data revisions.

Source: CZSO. Calculations and forecast of the MoF.

Table: Main Macroeconomic Indicators

		2016	2017	2018	2019	2020	2021	2022	2021	2022
								Current forecast	Previous forecast	
<b>Nominal GDP</b>	<i>bill. CZK</i>	<b>4 797</b>	<b>5 111</b>	<b>5 410</b>	<b>5 790</b>	<b>5 695</b>	<b>6 048</b>	<b>6 431</b>	5 932	6 257
	<i>nominal growth in %</i>	3.7	6.5	5.8	7.0	-1.7	6.2	6.3	4.9	5.5
<b>Gross domestic product</b>	<i>real growth in %</i>	<b>2.5</b>	<b>5.2</b>	<b>3.2</b>	<b>3.0</b>	<b>-5.8</b>	<b>3.2</b>	<b>4.2</b>	3.1	3.7
Consumption of households	<i>real growth in %</i>	3.8	4.0	3.5	2.7	-6.8	2.3	5.5	0.1	5.7
Consumption of government	<i>real growth in %</i>	2.5	1.8	3.8	2.5	3.4	2.4	0.4	3.4	0.9
Gross fixed capital formation	<i>real growth in %</i>	-3.0	4.9	10.0	5.9	-7.2	6.0	4.9	3.8	4.5
Contribution of net exports	<i>pp</i>	1.4	1.2	-1.2	0.0	-0.5	-0.6	0.3	0.4	-0.2
Contrib. of change in inventories	<i>pp</i>	-0.3	0.5	-0.5	-0.3	-0.9	0.7	0.0	0.9	0.0
<b>GDP deflator</b>	<i>growth in %</i>	<b>1.1</b>	<b>1.3</b>	<b>2.6</b>	<b>3.9</b>	<b>4.4</b>	<b>2.9</b>	<b>2.1</b>	1.8	1.7
<b>Average inflation rate</b>	<i>%</i>	<b>0.7</b>	<b>2.5</b>	<b>2.1</b>	<b>2.8</b>	<b>3.2</b>	<b>3.2</b>	<b>3.5</b>	2.5	2.3
<b>Employment (LFS)</b>	<i>growth in %</i>	<b>1.9</b>	<b>1.6</b>	<b>1.4</b>	<b>0.2</b>	<b>-1.3</b>	<b>-1.0</b>	<b>0.4</b>	-1.4	0.0
<b>Unemployment rate (LFS)</b>	<i>average in %</i>	<b>4.0</b>	<b>2.9</b>	<b>2.2</b>	<b>2.0</b>	<b>2.6</b>	<b>3.0</b>	<b>2.7</b>	3.6	3.7
<b>Wage bill (domestic concept)</b>	<i>growth in %</i>	<b>5.7</b>	<b>9.2</b>	<b>9.6</b>	<b>7.8</b>	<b>0.2</b>	<b>2.9</b>	<b>3.9</b>	0.7	2.3
<b>Current account balance</b>	<i>% of GDP</i>	<b>1.8</b>	<b>1.5</b>	<b>0.4</b>	<b>0.3</b>	<b>3.6</b>	<b>1.1</b>	<b>0.5</b>	1.3	0.5
<b>General government balance</b>	<i>% of GDP</i>	<b>0.7</b>	<b>1.5</b>	<b>0.9</b>	<b>0.3</b>	<b>-6.1</b>	<b>-7.7</b>	<b>-5.0</b>	-8.8	-5.9
<b>Assumptions:</b>										
<b>Exchange rate CZK/EUR</b>		<b>27.0</b>	<b>26.3</b>	<b>25.6</b>	<b>25.7</b>	<b>26.4</b>	<b>25.7</b>	<b>25.3</b>	25.9	25.5
<b>Long-term interest rates</b>	<i>% p.a.</i>	<b>0.4</b>	<b>1.0</b>	<b>2.0</b>	<b>1.5</b>	<b>1.1</b>	<b>2.0</b>	<b>2.6</b>	1.5	1.8
<b>Crude oil Brent</b>	<i>USD/barrel</i>	<b>44</b>	<b>54</b>	<b>71</b>	<b>64</b>	<b>42</b>	<b>69</b>	<b>68</b>	64	60
<b>GDP in the euro area</b>	<i>real growth in %</i>	<b>1.8</b>	<b>2.7</b>	<b>1.9</b>	<b>1.4</b>	<b>-6.5</b>	<b>4.9</b>	<b>4.3</b>	3.8	3.6

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

# Forecast Risks and Uncertainty

The macroeconomic forecast is subject to numerous risks which, taken together, we consider to be **broadly balanced**.

The main negative factor for the Czech Republic and other economies is the **epidemic situation**. The forecast works on the assumption that macroeconomically significant anti-epidemic restrictions will no longer be necessary thanks to the ongoing vaccination of the population against COVID-19 and the high number of people who have contracted the disease. However, the emergence and spread of new coronavirus mutations – against which the vaccines available may be less effective – poses a risk. We also assume that the pandemic's negative impact on **global supply chains** will rather be temporary.

Another crucial factor is whether and how quickly **structural changes** will take place in the economy. The data available suggests that, following a short hiatus, the imbalances characterising the labour market before the outbreak of the epidemic are beginning to reappear on a greater scale. If there is a downturn and large-scale lay-offs in some sectors (e.g. in sectors hit hard by the crisis), the imbalance between supply and demand could push up unemployment, driven by a mismatch between the skill structure of jobseekers and the requirements of employers. This factor would also limit the growth of firms in emerging sectors as they would face labour shortages. On the other hand, tensions in the labour market could boost the **momentum of wages**, which could grow faster than forecast. This mainly concerns the outlook horizon, when the strong increase in the prices of many production inputs should have subsided.

Taking into account demographic trends, it will remain crucial, in the medium and long term, to increase **labour productivity**. Labour market problems could spur **investment** in automation, robotization and digital technologies. As a result, gross fixed capital formation could

grow even faster than forecast. Considering how heavily involved Czech firms are in global supply chains, there would be a significant boost for productivity growth if they shifted to higher value-added positions (focusing either on the initial R&D phase or the final-product sales phase).

The slump in real GDP in 2020 was largely prompted by the decline in household consumption. As a result of an unprecedented increase in the savings rate there has been a strong accumulation of financial assets mainly in the form of currency and deposits. Households could use these funds, at least in part, to finance **deferred consumption**. The recovery in household consumption might therefore be much more dynamic than forecast. Consumption and savings during the pandemic are discussed in detail in section 5.

The downturn in economic activity and the associated deterioration in the financial situation of certain households and businesses did not trigger a major increase in the volume of non-performing loans. However, the **overvaluation of residential property prices** remains a risk.

Bearing in mind how important the **automotive industry** is to the Czech economy, risks are posed by the strong procyclicality of this sector, its export focus, and its dependence on supply chains. The last factor is an immediate problem for the automotive industry (e.g. because of the shortage of chips). The risks are also exacerbated by the structural changes that are likely to take place in the automotive industry as emission standards are gradually tightened. The transition to alternative propulsion will require huge investments in the development of technology, machinery and equipment, as well as in infrastructure. Repercussions for employment, supplier-customer relations or energy prices can also be expected.

# 1 Forecast Assumptions

## 1.1 External Environment

As the epidemic situation gradually improved, economic activity in many countries picked up in Q2 2021. Thanks to the progress in vaccination, the easing of anti-epidemic restrictions, and government support schemes the global economy could grow by 5.8% this year (*versus* 5.5%); we forecast a slowdown to 4.5% (*versus* 4.0%) for 2022. However, the outlook is fraught with significant risks. The evolution of the pandemic and the effectiveness of vaccines against new coronavirus mutations will be crucial factors. Persistent problems in global supply chains, rising inflationary pressures and structural changes in the automotive industry could also have a negative impact.

In the **US**, economic growth accelerated to 1.6% QoQ (*versus* 1.4%) in Q2 2021. Household consumption was the dominant factor, underpinned by the ongoing economic recovery, the easing of restrictive measures, and government support.

The labour market situation continued to improve slowly. The unemployment rate, having increased slightly in June, fell by 0.5 pp to 5.4% in July 2021, its lowest level since March 2020. The participation rate was almost stagnant (up 0.1 pp). The rise in employment was fuelled in particular by strong growth in the hospitality, leisure and education.

Inflation has been accelerating sharply since April this year on the back of economic recovery and higher consumer demand. The annual inflation rate climbed to 5.4% in June, the highest level since August 2008. In an effort to support the country's economic recovery, the Fed decided at its July meeting to maintain the federal funds rate within the target range of 0.00–0.25% and to keep asset purchasing at the current level, despite inflation developments.

Thanks to the economic recovery and the base effect, retail sales grew by 18% YoY in June. Rising output and new orders were behind the increase in the industrial purchasing managers' index to a record level in July. Conversely, the services purchasing managers' index lost ground. Consumer confidence was lower than in previous months, suppressed by accelerating inflation and less optimistic economic outlook.

The US economic growth could be further boosted by the pending USD 1 trillion infrastructure package (approximately 4.7% of 2019 GDP) aimed at improving and modernising surface transport, increasing internet connectivity and improving the environment. Considering the massive fiscal stimuli and the recovery in economic activity, we forecast that US economic output could in-

crease by 6.7% in 2021 (*versus* 5.9%). We then expect GDP growth to slow to 3.9% (*versus* 4.4%) next year.

**China's** economy grew by 1.3% QoQ (*versus* 0.5%) in Q2 2021. This growth was mainly driven by domestic consumption. In June, consumption contracted amid new outbreaks of coronavirus. This was reflected in a slight slowdown in annual retail sales growth to 12.1%. The worsening epidemic situation, the decline in new orders, extreme weather, and high material prices all contributed to a further fall in the manufacturing purchasing managers' index in July. In contrast, the services purchasing managers' index shot up after a deep slump in June, mainly thanks to the successful handling of an increase in new cases of COVID-19 and a related rise in new orders. We estimate that China's GDP could grow by 7.9% (*unchanged*) in 2021 and by 4.9% (*versus* 4.1%) in 2022.

Quarter-on-quarter GDP growth in the **European Union** in Q2 2021 was 1.9% (*versus* 1.1%), and 2.0% (*versus* 1.2%) in the euro area.

The inflation rate in the euro area reached 1.9% in June, forced up primarily by significant increases in energy prices. Following a recent reassessment of its monetary strategy, the European Central Bank introduced a symmetric, medium-term inflation target of 2% in July. The Governing Council left key interest rates unchanged, with no plans to raise them until inflation stabilises at its target level. The unemployment rate fell to 7.7% in June. Retail sales rose by 5.0% YoY. While the industrial purchasing managers' index declined slightly in July from an all-time high in June, the services purchasing managers' index climbed to its highest level in the reporting period.

In May, the EU-UK Trade and Cooperation Agreement entered into force. However, tensions remain in their mutual relations, particularly over the trade regime introduced under the Northern Ireland Protocol, which prevents a hard border on the island of Ireland and introduces checks and controls between Northern Ireland and the rest of the UK. On the other hand, bilateral trade between the EU and the US could improve following the outcome of a recent EU-US summit. Considering more favourable epidemic situation, we expect GDP growth to accelerate to 4.8% (*versus* 3.6%) this year. Next year, economic output could increase by 4.4% (*versus* 3.7%).

**Germany's** economy grew by 1.5% QoQ (*versus* 1.8%) in Q2 2021 following an increase in household and government consumption.

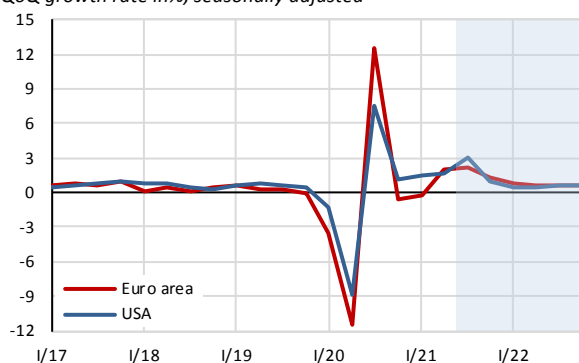
The manufacturing purchasing managers' index increased in July thanks to robust growth in output and

new orders. The easing of epidemic measures and an increase in demand contributed to the highest ever level of services purchasing managers' index. Although consumer confidence remained at the July level in August in response to a rise in COVID-19 cases and stagnation in the pace of vaccination, it was still the highest since August 2020. Retail sales went up by 6.2% YoY in June, while unemployment remained flat at 3.7%. The easing of restrictive measures, the continuation of government support schemes and the implementation of the national recovery plan could fuel German GDP growth of 3.3% this year (*unchanged*). In 2022, economic output could increase by 4.2% (*versus* 3.6%).

In **Slovakia**, GDP contracted by 2.0% QoQ (*versus* 1.4%) in Q1 2021. The unfavourable epidemic situation at the beginning of the year and extended lockdowns pushed down all components of domestic demand. The external trade balance, on the other hand, was positive. Industrial output is only marginally below the all-time high. The unemployment rate has been declining slowly to 6.8% in June. With the pandemic developing along more favourable lines, we estimate that GDP could increase by 4.6% (*versus* 4.2%) this year as household consumption recovers and external demand grows. In 2022, including in connection with the implementation of a recovery plan, the Slovak economy could expand by 4.9% (*versus* 3.7%).

**Graph 1.1.1: Real GDP in the euro area and USA**

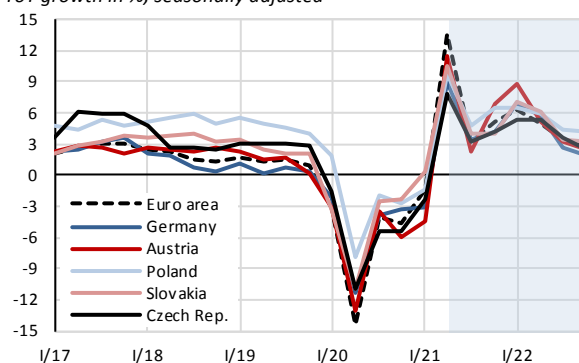
QoQ growth rate in%, seasonally adjusted



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

**Graph 1.1.2: Real Gross Domestic Product**

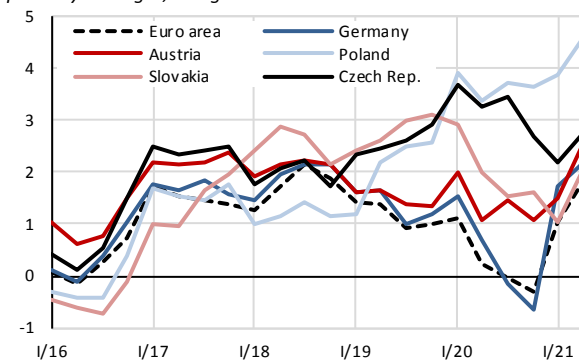
YoY growth in %, seasonally adjusted



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

**Graph 1.1.3: HICP**

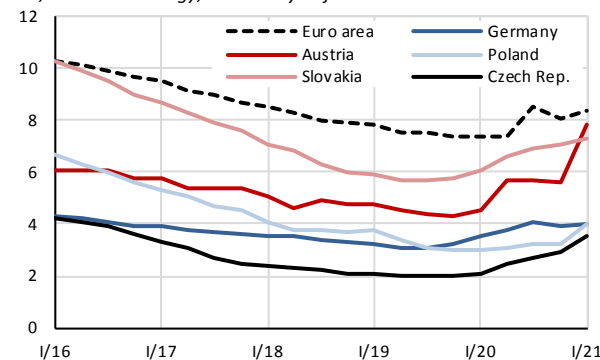
quarterly averages, YoY growth in %



Source: Eurostat. Calculations of the MoF.

**Graph 1.1.4: Unemployment Rate**

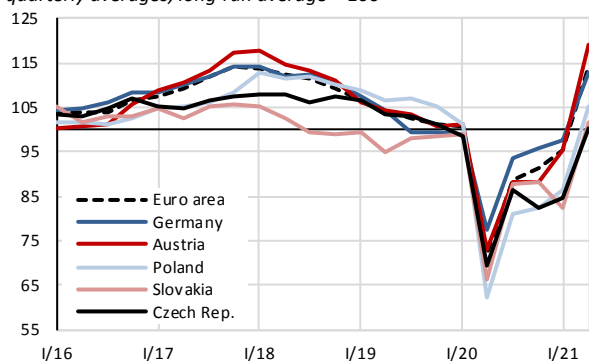
in %, LFS methodology, seasonally adjusted



Source: Eurostat.

**Graph 1.1.5: Economic Sentiment Indicator**

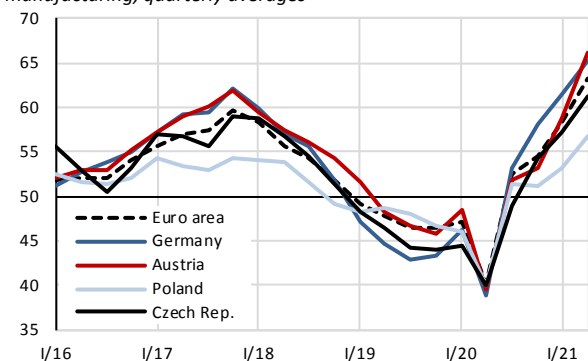
quarterly averages, long-run average = 100



Source: Eurostat. Calculations of the MoF.

**Graph 1.1.6: Purchasing Managers' Index**

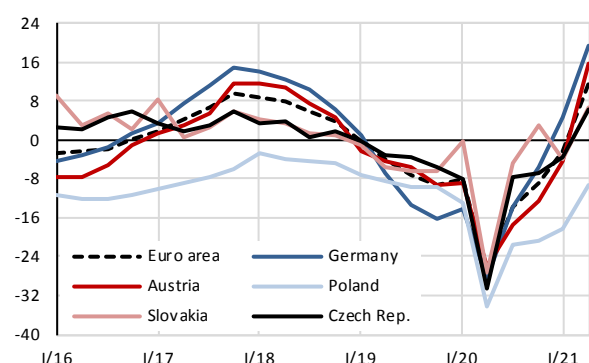
manufacturing, quarterly averages



Source: Markit. Calculations of the MoF.

**Graph 1.1.7: Business Tendency**

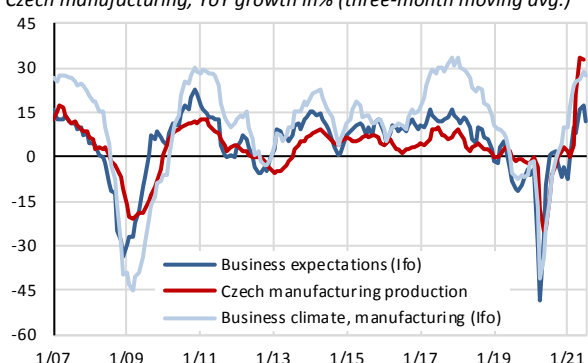
manufacturing, quarterly averages



Source: OECD. Calculations of the MoF.

**Graph 1.1.8: Ifo and Czech manufacturing production**

balances (Ifo); seasonally adjusted index of 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 %

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
											Forecast
World	seasonally adjusted	3.5	3.6	3.5	3.3	3.8	3.6	2.8	-3.2	5.8	4.5
USA	seasonally adjusted	1.8	2.3	2.7	1.7	2.3	2.9	2.3	-3.4	6.7	3.9
China	seasonally adjusted	7.8	7.4	7.3	6.9	7.0	6.7	5.9	2.1	7.9	4.9
United Kingdom	seasonally adjusted	2.2	2.9	2.4	1.7	1.7	1.3	1.4	-9.8	5.9	4.5
European Union	seasonally adjusted	0.0	1.6	2.2	2.0	2.9	2.1	1.7	-6.1	4.8	4.4
	unadjusted	0.0	1.6	2.3	2.0	2.8	2.1	1.6	-6.0	.	.
Euro area	seasonally adjusted	-0.2	1.4	1.9	1.8	2.7	1.9	1.4	-6.5	4.9	4.3
	unadjusted	-0.2	1.4	2.0	1.9	2.6	1.9	1.4	-6.4	.	.
Germany	seasonally adjusted	0.6	2.2	1.2	2.1	2.9	1.3	0.6	-5.1	3.3	4.2
	unadjusted	0.4	2.2	1.5	2.2	2.6	1.3	0.6	-4.8	3.3	4.4
France	seasonally adjusted	0.6	1.0	1.0	1.0	2.4	1.8	1.8	-8.0	5.6	4.0
	unadjusted	0.6	1.0	1.1	1.1	2.3	1.9	1.8	-7.9	5.7	3.9
Italy	seasonally adjusted	-1.9	0.1	0.7	1.4	1.7	0.8	0.3	-8.9	5.5	4.1
	unadjusted	-1.8	0.0	0.8	1.3	1.7	0.9	0.3	-8.9	5.5	3.9
Austria	seasonally adjusted	0.0	0.8	0.9	2.0	2.5	2.5	1.4	-6.4	3.8	4.8
	unadjusted	0.0	0.7	1.0	2.0	2.4	2.6	1.4	-6.3	3.8	4.8
Hungary	seasonally adjusted	1.9	4.2	3.8	2.1	4.5	5.4	4.6	-5.1	6.1	5.0
	unadjusted	1.9	4.2	3.8	2.1	4.3	5.4	4.6	-5.0	6.1	5.0
Poland	seasonally adjusted	1.1	3.4	4.2	3.2	4.9	5.4	4.8	-2.7	4.8	5.2
	unadjusted	1.1	3.4	4.2	3.1	4.8	5.4	4.7	-2.7	4.8	5.2
Slovakia	seasonally adjusted	0.7	2.6	4.8	2.1	3.0	3.7	2.5	-4.8	4.6	4.9
Czech Republic	seasonally adjusted	0.0	2.3	5.5	2.4	5.4	3.2	3.0	-5.8	3.1	4.2
	unadjusted	0.0	2.3	5.4	2.5	5.2	3.2	3.0	-5.8	3.2	4.2

Source: CZSO, Eurostat, IMF, NBS China, 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

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast
USA	QoQ	-1.3	-8.9	7.5	1.1	1.5	1.6	3.0	1.0
	YoY	0.6	-9.1	-2.9	-2.3	0.5	12.2	7.4	7.3
China	QoQ	-8.7	10.0	2.8	3.0	0.4	1.3	0.6	0.5
	YoY	-5.4	2.9	4.5	6.3	16.9	7.7	5.4	2.8
United Kingdom	QoQ	-2.8	-19.5	16.9	1.3	-1.6	3.3	3.0	1.2
	YoY	-2.2	-21.4	-8.5	-7.3	-6.1	20.4	6.0	6.0
European Union	QoQ	-3.2	-11.1	11.6	-0.4	-0.1	1.9	2.0	1.2
	YoY	-2.6	-13.6	-3.9	-4.3	-1.3	13.1	3.4	5.0
Euro area	QoQ	-3.6	-11.4	12.4	-0.6	-0.3	2.0	2.1	1.3
	YoY	-3.2	-14.4	-4.0	-4.6	-1.3	13.6	3.2	5.2
Germany	QoQ	-2.0	-9.7	8.7	0.5	-1.8	1.5	3.3	1.3
	YoY	-2.2	-11.2	-3.8	-3.3	-3.1	8.9	3.5	4.3
France	QoQ	-5.9	-13.2	18.5	-1.5	-0.1	0.9	2.2	0.9
	YoY	-5.5	-18.4	-3.5	-4.6	1.2	17.6	1.4	3.9
Italy	QoQ	-5.7	-12.9	15.9	-1.8	0.1	2.7	1.1	1.0
	YoY	-5.8	-18.1	-5.2	-6.5	-0.8	17.1	2.1	5.0
Austria	QoQ	-2.6	-10.6	11.6	-3.1	-1.1	4.3	2.4	1.2
	YoY	-3.1	-13.2	-3.4	-5.9	-4.5	11.5	2.3	6.9
Hungary	QoQ	-0.4	-14.5	9.7	2.8	2.0	0.7	1.0	1.1
	YoY	2.1	-13.3	-5.2	-3.9	-1.6	15.8	6.7	4.9
Poland	QoQ	-0.2	-8.9	7.5	-0.5	1.1	1.5	2.5	1.2
	YoY	2.0	-7.9	-2.0	-2.7	-1.4	9.8	4.7	6.5
Slovakia	QoQ	-4.6	-7.5	9.9	0.8	-2.0	1.8	3.4	0.9
	YoY	-3.3	-10.9	-2.5	-2.3	0.3	10.4	4.0	4.1
Czech Republic	QoQ	-3.4	-8.9	6.8	0.7	-0.3	0.6	2.3	1.6
	YoY	-1.5	-10.9	-5.4	-5.3	-2.4	7.8	3.3	4.2

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

## 1.2 Commodity Prices

The price of **Brent crude oil** averaged USD 69 per barrel (*versus USD 66 per barrel*) in Q2 2021. Due to the very low level last year, it increased by more than 130% YoY and roughly doubled in CZK terms.

The Organisation of the Petroleum Exporting Countries and affiliate states continued to gradually ease production limits in Q2 2021. Their July agreement reaffirmed this path and yielded a further gradual increase, each month by 0.4 million barrels of daily oil production. The deal will be up for review in December.

Parallel to the rising global oil production, oil consumption has also increased as the world economy has picked up. The US Energy Information Administration estimates that crude oil inventories declined between Q3 2020 and Q2 2021, but starting in Q3 2021 global oil production should roughly match consumption. This should pave the way for a stable price.

In the futures market, however, oil with later delivery dates trades cheaper than oil with earlier delivery dates. The assumed Brent crude oil price reflects the declining futures price curve, which, however, is positioned higher than in the April macroeconomic forecast. In 2021, the average price of a barrel of oil should be 64% higher than in 2020, i.e. USD 69 (*versus USD 64*), and it should reach USD 68 in 2022 (*versus USD 60*). In 2021, the rise in the CZK price of oil should be dampened by the appreciation of the Czech koruna vis-à-vis the US dollar (see Graph 1.2.2).

Besides the price of oil, the price of natural gas also increased significantly in H1 2021 (see Table 1.2.2). Neither of these commodities is an exception to the trend visible in **commodity markets** since the end of last year. In addition to energy (including electricity market prices), this trend has also affected metals and food commodities and is gradually being reflected in consumer prices.



**Graph 1.2.1: Dollar Price of Brent Crude Oil**

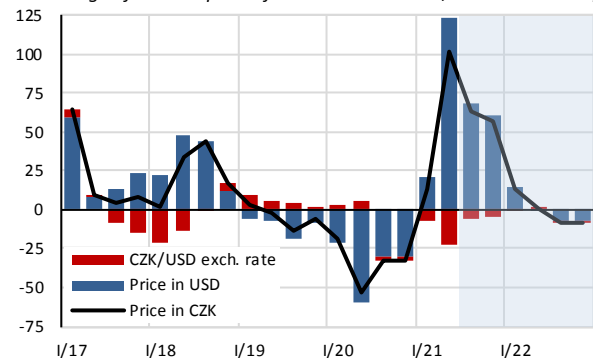
USD/barrel



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

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Crude oil Brent	USD/barrel	108.6	99.0	52.4	43.6	54.2	71.4	64.3	41.8	69	68
	growth in %	-2.6	-8.8	-47.1	-16.9	24.3	31.7	-9.9	-35.0	64.3	-0.8
Crude oil Brent index (in CZK)	2010=100	139.9	134.6	85.0	70.1	83.1	102.2	97.1	63.6	97	96
	growth in %	-2.7	-3.8	-36.9	-17.4	18.5	23.0	-5.0	-34.6	53.3	-1.4
Natural gas (Europe)	USD/MMBtu	11.8	10.1	6.8	4.6	5.7	7.7	4.8	3.2	.	.
	growth in %	2.7	-14.7	-32.1	-33.1	25.3	34.4	-37.5	-32.5	.	.
Natural gas (Europe) index (in CZK)	2010=100	145.9	131.7	106.2	70.7	84.2	106.0	69.6	47.1	.	.
	growth in %	2.6	-9.8	-19.4	-33.4	19.2	25.8	-34.3	-32.4	.	.

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

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Crude oil Brent	USD/barrel	50.3	29.7	42.9	44.3	61.0	69.0	73	72
	growth in %	-20.3	-57.0	-30.7	-30.0	21.3	132.3	70.2	62.1
Crude oil Brent index (in CZK)	2010=100	77.0	48.0	64.0	65.2	86.9	96.6	104	102
	growth in %	-18.0	-53.8	-32.2	-32.3	12.9	101.2	62.8	56.4
Natural gas (Europe)	USD/MMBtu	3.1	1.8	2.9	5.2	6.5	8.8	.	.
	growth in %	-49.8	-57.6	-25.1	5.1	111.2	383.8	.	.
Natural gas (Europe) index (in CZK)	2010=100	45.4	28.2	41.1	73.5	89.3	118.2	.	.
	growth in %	-48.4	-54.5	-26.8	1.7	96.5	319.0	.	.

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

### 1.3 Fiscal Policy

In 2021, the **general government sector** has continued to be heavily influenced by the situation caused by the coronavirus epidemic, its economic consequences, and the measures implemented in public health and counter-cyclical fiscal expansion. We therefore expect a wide deficit of 7.7% of GDP (*versus 8.8% of GDP*), which will be mainly borne by the state budget. The local government sector is likely to post another surplus, helped by an adjustment in tax assignment. Despite a further increase in the payment for state-insured individuals, we forecast that social security funds will run a deficit. From the perspective of the **structural balance**, the expansionary fiscal policy should lead to a deficit of 6.1% of GDP (*versus 6.5% of GDP*).

Tax revenues and social security contributions are forecast to rise this year by 2.1%, with tax receipts themselves expected to fall by 2.3%, mainly as a result of the approved "2021 Tax Package". The package has introduced, among other things, a reduction in the effective **personal income tax** rate, estimated to have an impact of CZK 99 billion, which cuts revenue from this tax by 30%. For **corporate income tax**, we still expect a lower level than in 2019, again due to several measures under the "2021 Tax Package".

**Social security contributions** are expected to increase by 7.6% YoY. This pace reflects wage and salary growth in the economy, compounded by the gradual unwinding of measures introduced to mitigate the socio-economic impact of the anti-epidemic restrictions. The increase in the payment for state-insured individuals to the public health insurance system contributes 1.3 pp to momentum on the revenue side.

We forecast growth of 4.8% in **value added tax** revenue. The reclassification of selected goods and services to the second reduced VAT rate during 2020 will cut revenue by CZK 2.4 billion this year. Similarly, the VAT waiver on COVID-19 testing kits, vaccines and respirators will reduce revenue by a further CZK 2.5 billion.

The revenue from **excise duties** (excluding renewable energy subsidies) is projected to increase by 7.7%. In particular, the changes in the rates on tobacco products, estimated to net a total of CZK 5.2 billion, will have a positive effect. In contrast, mineral oil tax revenue is dampened by the reduced tax rate on diesel, estimated at CZK 5.6 billion for the full year.

**Final consumption expenditure**, expected to grow by 6.9%, is boosted by social transfers in kind, compensation of employees, and intermediate consumption. Workers in education, health and social services receive salary increases, while in other areas pay is fixed. Nevertheless, public sector salaries are expected to increase by 5.8% once extraordinary epidemic-related bonuses for health, social services and armed forces staff are fac-

tored in. The relatively strong growth reported for social transfers in kind (11.5%) should continue. We anticipate that, up to a point, health spending will still be determined by the epidemic situation and the vaccination of the population. Intermediate consumption growth should come to 4.8% this year, partly offsetting last year's lacklustre increase following the closure of schools and other public institutions. In health care, purchases of COVID-19 vaccines and testing kits for schools should be felt.

The 6.1% increase in **cash social benefits** reflects both the statutory indexation of pension benefits and adjustments to certain benefits supporting families with children, the carer's allowance in the event of school closures or a child's quarantine, and an increase in transfers to public health insurance.

Fixed capital **investments** should grow at a rate of 11%. We expect new EU programmes and instruments to play a role here.

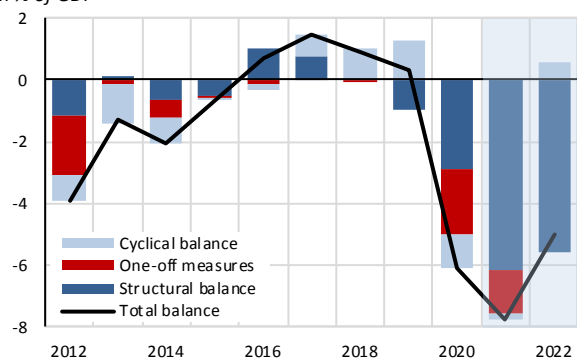
COVID-19-related support schemes account for an approximately 11% growth in **subsidies**. This includes the continuation of programmes started in 2020 (especially the Antivirus scheme) and a new form of compensation to mitigate the negative impact that restrictions associated with COVID-19 measures have on businesses (the COVID-2021 and COVID-Uncovered Costs programmes). Other forms of support, such as the compensatory bonus or the concept of loss carryback, are classified as **capital transfers**, which are likely to decrease slightly year on year.

The government deficit will be reflected in the level of **debt**, which is expected to reach 43.5% of GDP at the end of the year (*versus 44.8% of GDP*). The increase in debt and the projected developments in interest rates will raise **interest expense** by around 7%. However, we expect these costs to remain flat relative to GDP (0.8% of GDP).

In **2022**, public finances should no longer be influenced by direct effects of the epidemic. Most of the one-off or other temporary measures will cease to be effective and expenditure in the area of health care should lose momentum. Improvement in the labour market and household consumption, unconstrained by supply, will have a positive impact on revenues. However, some stabilisation and stimulation measures, primarily related to the 2021 tax package, will stay in place. The forecast envisages minimum fiscal effort according to the Act on Fiscal Responsibility Rules, amounting to 0.5 pp (in comparison with 2021). We therefore expect the general government deficit to narrow to -5.0% of GDP (*versus -5.9% of GDP*) and debt to increase to 46.2% of GDP (*versus 48.2% of GDP*).

**Graph 1.3.1: General Government Balance**

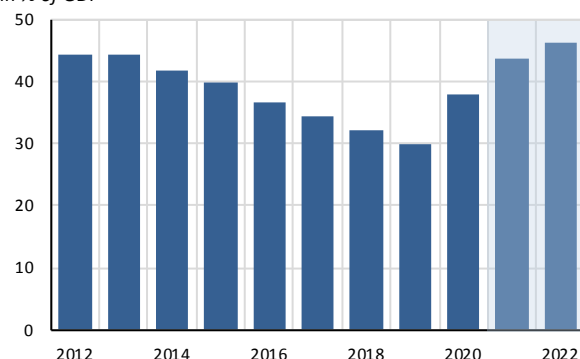
in % of GDP



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**

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Forecast Outlook Outlook									
General government balance	% GDP	-0.6	0.7	1.5	0.9	0.3	-6.1	-7.7	-5.0	-4.5	-4.1
	bill. CZK	-30	34	77	49	18	-348	-468	-322	-301	-286
Cyclical balance	% GDP	-0.1	-0.2	0.7	1.0	1.3	-1.1	-0.2	0.6	0.6	0.5
Cyclically adjusted balance	% GDP	-0.6	0.9	0.8	-0.1	-1.0	-5.0	-7.5	-5.6	-5.1	-4.6
One-off measures <sup>1)</sup>	% GDP	-0.1	-0.1	0.0	-0.1	0.0	-2.1	-1.4	0.0	0.0	0.0
Structural balance	% GDP	-0.5	1.1	0.8	0.0	-1.0	-2.9	-6.1	-5.6	-5.1	-4.6
Fiscal effort <sup>2)</sup>	pp	0.2	1.6	-0.3	-0.8	-1.0	-1.9	-3.2	0.6	0.5	0.5
Interest expenditure	% GDP	1.1	0.9	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Primary balance	% GDP	0.4	1.6	2.2	1.7	1.0	-5.3	-7.0	-4.2	-3.7	-3.3
Cyclically adjusted primary balance	% GDP	0.5	1.8	1.5	0.7	-0.3	-4.2	-6.8	-4.8	-4.3	-3.8
General government debt	% GDP	39.7	36.6	34.2	32.1	30.0	37.8	43.5	46.2	49.2	51.8
	bill. CZK	1 836	1 755	1 750	1 735	1 740	2 153	2 632	2 970	3 295	3 605
Change in debt-to-GDP ratio	pp	-2.2	-3.1	-2.3	-2.2	-2.0	7.8	5.7	2.7	3.1	2.6

<sup>1)</sup> 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.

<sup>2)</sup> Change in structural balance.

Source: CZSO. Calculations and forecast of the MoF.

## 1.4 Monetary Policy, Financial Sector and Exchange Rates

### 1.4.1 Monetary Policy

As expected, the CNB raised the **two-week repo rate** from 0.25% to 0.50% at the end of Q2 2021, and increased the rate by the same amount also in early August. The CNB was mainly responding to rising domestic and foreign inflationary pressures amid a gradually recovering economy after the end of most restrictive anti-epidemic measures.

With inflation elevated, the interest-rate component of monetary conditions was relatively relaxed in mid-2021. Taking into account the inflation forecast and the expected gradual normalisation of monetary-policy interest rates, real interest rates should be rather stimulative over the remainder of this year and in 2022, albeit at a gradually declining rate. The exchange-rate component has been almost neutral in 2021 so far; in Q3 2021 it contributed to a moderate tightening of monetary conditions. We expect it to be more or less neutral again in the period ahead.

### 1.4.2 Financial Sector and Interest Rates

The **three-month PRIBOR rate** averaged 0.4% in Q2 2021 (*as forecast*). Assuming the monetary-policy stance is as expected, the rate should be 1.2% in Q3 2021 (*versus 0.4%*) and 0.9% on average for the whole of 2021 (*versus 0.4%*). In 2022, the three-month PRIBOR rate could rise to an average of 2.1% (*versus 1.1%*).

**Yields to maturity on 10-year government bonds** for convergence purposes increased to 1.8% (*versus 1.6%*) in the Q2 2021. Taking into account the assumed monetary-policy stance of the CNB and the ECB, inflation developments and the gradually narrowing spread relative to interbank rates, we believe that long-term interest rates could reach 2.4% (*versus 1.6%*) in Q2 and average 2.0% in 2021 as a whole (*versus 1.5%*). In 2022, we expect a further small increase to 2.6% (*versus 1.8%*), with a relatively flat yield curve.

In Q2 2021, **loans to households** went up by 7.5% YoY. Growth in total housing loans gradually accelerated to 9.0% in Q2 2021, driven by continued low interest rates and the loosening of the CNB's recommendations on the management of risks linked to retail lending secured with residential property. Consumer credit growth climbed to 1.7% after stagnating at the beginning of the

year. Growth in other loans, including loans to sole traders, increased to 4.1%. The average customer interest rate on total loans to households fell by 0.2 pp YoY to 3.3% in Q2 2021.

**Loans to non-financial corporations** recorded a 2.1% YoY decline in Q2 2021, while CZK-denominated loans and loans with a maturity of 1–5 years increased. The average customer interest rate on total loans to non-financial corporations fell by 0.5 pp YoY to 2.5% in Q2 2021.

The non-performing loans ratio stagnated QoQ at 1.8% for households and increased by 0.1 pp to 4.3% for non-financial corporations in Q2 2021. Although financial situation of some households and firms deteriorated as a result of the epidemic, the impact on the quality of banks' loan portfolios was minimal.

### 1.4.3 Exchange Rates

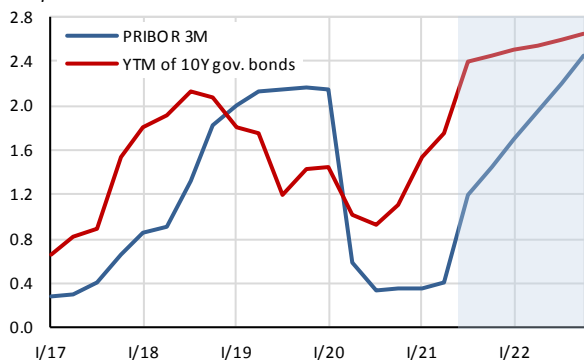
In Q2 2021, the **koruna** appreciated against the euro on average to CZK 25.6/EUR (*versus CZK 26.0/EUR*), which translates into year-on-year appreciation of 5.5% (*versus 4.2%*). The koruna's exchange rate remains relatively volatile in the face of highly unstable sentiment on the international financial markets.

Starting in Q3 2021, we expect to see a trend where the koruna slowly appreciates by 0.3% QoQ. The koruna's exchange rate against the euro should thus average CZK 25.6/EUR in Q3 2021 (*versus CZK 25.9/EUR*), and CZK 25.7/EUR for 2021 as a whole (*vs. CZK 25.9/EUR*). In 2022, the koruna could trade at CZK 25.3/EUR (*versus CZK 25.5/EUR*) on average. The gradual appreciation should initially reflect the positive interest-rate differential and the improvement in global sentiment following the stabilisation of the epidemic situation; later, the renewed real convergence of the Czech economy towards the euro area should also be a contributing factor.

Developments expected in the exchange rate of the koruna to the US dollar are implied by the USD/EUR exchange rate, where there was an assumption of stability at the average of the last 10 days before the cut-off date for selected forecast assumptions, i.e. at USD 1.18/EUR (*versus USD 1.21/EUR*).

**Graph 1.4.1: Interest Rates**

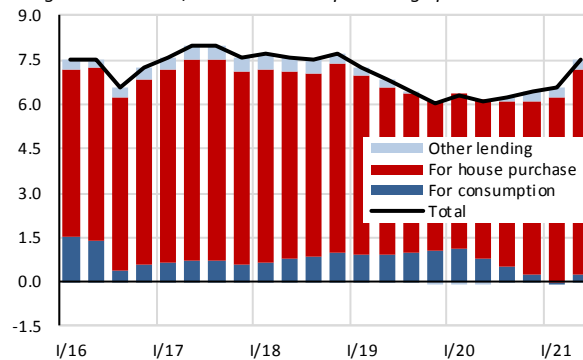
in % p.a.



Source: CNB. Calculations and forecast of the MoF.

**Graph 1.4.2: Loans to Households**

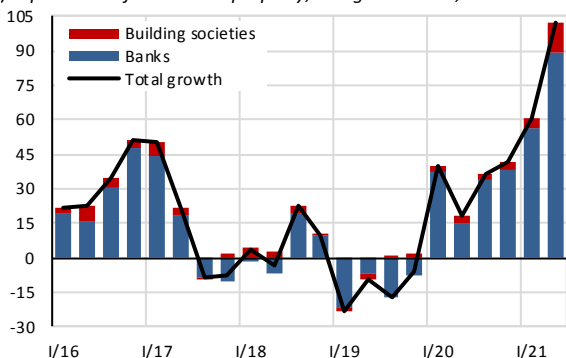
YoY growth rate in%, contributions in percentage points



Source: CNB. Calculations of the MoF.

**Graph 1.4.3: New Mortgage Loans**

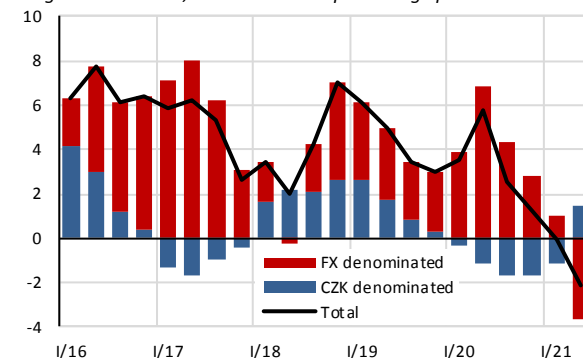
for purchase of residential property, YoY growth in %, contributions in pp



Source: CNB. Calculations of the MoF.

**Graph 1.4.4: Loans to Non-financial Corporations**

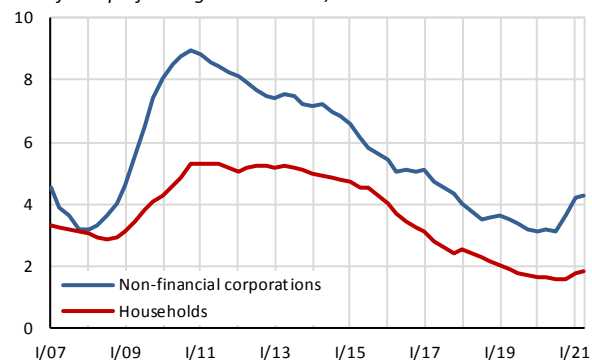
YoY growth rate in%, contributions in percentage points



Source: CNB. Calculations of the MoF.

**Graph 1.4.5: Non-performing Loans**

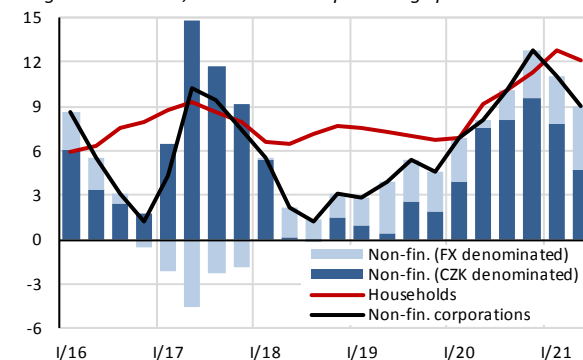
ratio of non-performing to total loans, in%



Source: CNB. Calculations of the MoF.

**Graph 1.4.6: Deposits**

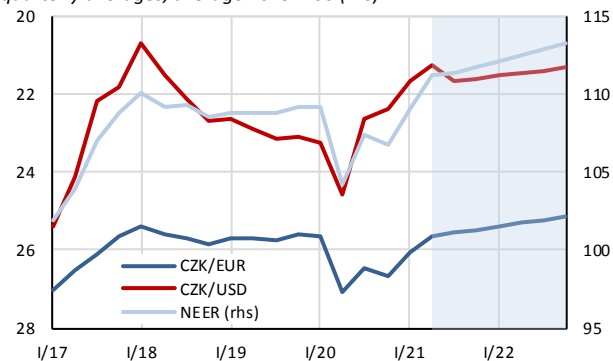
YoY growth rate in%, contributions in percentage points



Source: CNB. Calculations of the MoF.

**Graph 1.4.7: Nominal Exchange Rates**

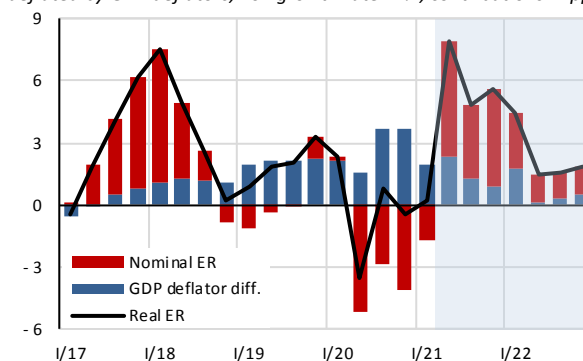
quarterly averages, average 2015=100 (rhs)



Source: CNB. Calculations and forecast of the MoF.

**Graph 1.4.8: Real Exchange Rate to the EA19**

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*

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
											<i>Forecast</i>
<b>Repo 2W rate CNB</b> <i>(end of period)</i>	<i>in % p.a.</i>	0.05	0.05	0.05	0.05	0.50	1.75	2.00	0.25	.	.
<b>Main refinancing rate ECB</b> <i>(end of period)</i>	<i>in % p.a.</i>	0.25	0.05	0.05	0.05	0.00	0.00	0.00	0.00	.	.
<b>Federal funds rate</b> <i>(end of period)</i>	<i>in % p.a.</i>	0.25	0.25	0.50	0.75	1.50	2.50	1.75	0.25	.	.
<b>PRIBOR 3M</b>	<i>in % p.a.</i>	0.46	0.36	0.31	0.29	0.41	1.23	2.12	0.86	0.9	2.1
<b>YTM of 10Y government bonds</b>	<i>in % p.a.</i>	2.11	1.58	0.58	0.43	0.98	1.98	1.55	1.13	2.0	2.6
<b>Client interest rates</b>											
<b>Loans to households</b>	<i>in % p.a.</i>	6.05	5.59	5.15	4.65	4.10	3.76	3.66	3.53	.	.
<b>Loans to non-financial corporations</b>	<i>in % p.a.</i>	3.20	3.01	2.78	2.59	2.57	3.05	3.75	2.96	.	.
<b>Deposits of households</b>	<i>in % p.a.</i>	1.02	0.85	0.65	0.47	0.36	0.33	0.39	0.35	.	.
<b>Deposits of non-financial corporations</b>	<i>in % p.a.</i>	0.41	0.29	0.19	0.10	0.05	0.11	0.37	0.20	.	.

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

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	1.00	0.25	0.25	0.25	0.25	0.50	.	.
Main refinancing rate ECB (end of period)	in % p.a.	0.00	0.00	0.00	0.00	0.00	0.00	.	.
Federal funds rate (end of period)	in % p.a.	0.25	0.25	0.25	0.25	0.25	0.25	.	.
PRIBOR 3M	in % p.a.	2.15	0.59	0.34	0.35	0.36	0.40	1.2	1.5
YTM of 10Y government bonds	in % p.a.	1.46	1.02	0.93	1.11	1.55	1.76	2.4	2.5
Client interest rates									
Loans to households	in % p.a.	3.62	3.53	3.50	3.46	3.39	3.32	.	.
Loans to non-financial corporations	in % p.a.	3.76	2.97	2.56	2.55	2.55	2.54	.	.
Deposits of households	in % p.a.	0.44	0.38	0.30	0.27	0.25	0.23	.	.
Deposits of non-financial corporations	in % p.a.	0.43	0.22	0.08	0.06	0.05	0.05	.	.

Table 1.4.3: Loans and Deposits – yearly averages

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Households</b>											
<b>Loans</b>	<i>growth in %</i>	<b>6.6</b>	<b>5.0</b>	<b>4.0</b>	<b>3.4</b>	<b>4.8</b>	<b>7.2</b>	<b>7.8</b>	<b>7.6</b>	<b>6.6</b>	<b>6.3</b>
For consumption	<i>growth in %</i>	4.2	-1.0	-0.1	-0.9	3.4	6.0	4.3	5.4	6.4	4.4
For house purchase	<i>growth in %</i>	6.5	6.4	5.5	4.5	5.6	8.1	9.0	8.5	7.4	7.3
Other lending	<i>growth in %</i>	11.1	6.0	1.2	2.9	1.0	3.0	4.2	4.3	1.1	0.9
CZK denominated	<i>growth in %</i>	6.6	4.9	4.0	3.4	4.7	7.2	7.7	7.6	6.6	6.3
FX denominated	<i>growth in %</i>	2.4	30.8	-1.3	0.0	12.7	8.5	36.3	1.7	9.0	6.1
<b>Deposits</b>	<i>growth in %</i>	<b>5.0</b>	<b>4.5</b>	<b>3.3</b>	<b>2.9</b>	<b>4.8</b>	<b>7.0</b>	<b>8.7</b>	<b>7.0</b>	<b>7.2</b>	<b>9.4</b>
CZK denominated	<i>growth in %</i>	5.4	4.7	3.3	2.7	4.1	6.9	9.7	7.1	6.9	9.2
FX denominated	<i>growth in %</i>	-4.0	-2.1	2.3	8.5	22.5	7.3	-13.9	3.5	15.2	14.5
<b>Non-performing loans</b> (banking statistics)	<i>share, in %</i>	<b>5.3</b>	<b>5.2</b>	<b>5.2</b>	<b>4.9</b>	<b>4.5</b>	<b>3.6</b>	<b>2.7</b>	<b>2.4</b>	<b>1.9</b>	<b>1.6</b>
<b>Loans to deposits ratio</b>	<i>in %</i>	<b>62</b>	<b>63</b>	<b>63</b>	<b>63</b>	<b>63</b>	<b>63</b>	<b>63</b>	<b>63</b>	<b>63</b>	<b>61</b>
<b>Non-financial corporations</b>											
<b>Loans</b>	<i>growth in %</i>	<b>4.7</b>	<b>3.5</b>	<b>1.3</b>	<b>1.9</b>	<b>6.5</b>	<b>6.6</b>	<b>5.0</b>	<b>4.2</b>	<b>4.3</b>	<b>3.2</b>
CZK denominated	<i>growth in %</i>	4.9	2.6	0.3	-1.0	5.9	2.8	-1.4	3.0	1.9	-1.8
FX denominated	<i>growth in %</i>	3.7	7.8	5.7	13.7	9.0	20.5	24.4	6.9	10.0	14.0
<b>Deposits</b>	<i>growth in %</i>	<b>0.4</b>	<b>8.9</b>	<b>4.9</b>	<b>7.6</b>	<b>10.3</b>	<b>4.6</b>	<b>7.8</b>	<b>3.0</b>	<b>4.2</b>	<b>9.5</b>
CZK denominated	<i>growth in %</i>	2.0	8.2	4.2	5.6	6.7	4.5	13.9	2.1	1.9	9.4
FX denominated	<i>growth in %</i>	-6.1	11.8	8.0	15.2	23.2	4.8	-11.1	6.6	13.0	9.9
<b>Non-performing loans</b> (banking statistics)	<i>share, in %</i>	<b>8.5</b>	<b>7.8</b>	<b>7.4</b>	<b>7.0</b>	<b>6.0</b>	<b>5.2</b>	<b>4.7</b>	<b>3.7</b>	<b>3.4</b>	<b>3.3</b>
<b>Loans to deposits ratio</b>	<i>in %</i>	<b>126</b>	<b>120</b>	<b>116</b>	<b>110</b>	<b>106</b>	<b>108</b>	<b>105</b>	<b>106</b>	<b>106</b>	<b>100</b>

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

		2019		2020				2021	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>Households</b>									
<b>Loans</b>	<i>growth in %</i>	<b>6.4</b>	<b>6.0</b>	<b>6.3</b>	<b>6.1</b>	<b>6.2</b>	<b>6.4</b>	<b>6.5</b>	<b>7.5</b>
For consumption	<i>growth in %</i>	6.4	7.0	7.6	5.2	3.6	1.6	0.0	1.7
For house purchase	<i>growth in %</i>	7.2	6.7	6.9	7.1	7.3	7.7	8.1	9.0
Other lending	<i>growth in %</i>	0.4	-0.7	-0.4	-0.7	1.1	3.7	3.8	4.1
CZK denominated	<i>growth in %</i>	6.4	6.0	6.3	6.1	6.2	6.4	6.5	7.5
FX denominated	<i>growth in %</i>	0.6	0.9	-2.7	4.9	7.4	15.5	15.8	11.7
<b>Deposits</b>	<i>growth in %</i>	<b>7.1</b>	<b>6.7</b>	<b>6.9</b>	<b>9.1</b>	<b>10.1</b>	<b>11.3</b>	<b>12.8</b>	<b>12.1</b>
CZK denominated	<i>growth in %</i>	6.7	6.3	6.4	8.9	10.1	11.2	12.9	11.9
FX denominated	<i>growth in %</i>	18.2	17.4	21.0	14.7	9.0	14.1	12.6	18.2
<b>Non-performing loans</b> (banking statistics)	<i>share, in %</i>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.8</b>	<b>1.8</b>
<b>Loans to deposits ratio</b>	<i>in %</i>	<b>63</b>	<b>63</b>	<b>63</b>	<b>61</b>	<b>61</b>	<b>60</b>	<b>59</b>	<b>58</b>
<b>Non-financial corporations</b>									
<b>Loans</b>	<i>growth in %</i>	<b>3.4</b>	<b>3.0</b>	<b>3.5</b>	<b>5.7</b>	<b>2.6</b>	<b>1.2</b>	<b>-0.1</b>	<b>-2.1</b>
CZK denominated	<i>growth in %</i>	1.2	0.4	-0.5	-1.6	-2.5	-2.5	-1.7	2.3
FX denominated	<i>growth in %</i>	8.4	8.7	12.5	21.8	13.4	8.7	3.1	-10.0
<b>Deposits</b>	<i>growth in %</i>	<b>5.4</b>	<b>4.5</b>	<b>6.9</b>	<b>8.2</b>	<b>10.0</b>	<b>12.9</b>	<b>11.1</b>	<b>9.0</b>
CZK denominated	<i>growth in %</i>	3.3	2.5	5.0	9.7	10.4	12.4	10.2	6.0
FX denominated	<i>growth in %</i>	13.2	12.2	13.9	2.8	8.7	14.5	14.2	20.1
<b>Non-performing loans</b> (banking statistics)	<i>share, in %</i>	<b>3.4</b>	<b>3.2</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.7</b>	<b>4.2</b>	<b>4.3</b>
<b>Loans to deposits ratio</b>	<i>in %</i>	<b>107</b>	<b>107</b>	<b>103</b>	<b>103</b>	<b>100</b>	<b>96</b>	<b>93</b>	<b>92</b>

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

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
								Forecast	Forecast	Outlook	Outlook
<b>Nominal exchange rates</b>											
<b>CZK / EUR</b>	average	27.28	27.03	26.33	25.65	25.67	26.44	25.7	25.3	24.9	24.6
	appreciation in %	0.9	0.9	2.7	2.7	-0.1	-2.9	3.0	1.7	1.3	1.3
<b>CZK / USD</b>	average	24.60	24.43	23.39	21.74	22.94	23.19	21.5	21.4	21.1	20.9
	appreciation in %	-15.7	0.7	4.5	7.6	-5.2	-1.1	7.7	0.6	1.3	1.3
<b>NEER</b>	average of 2015=100	100.0	102.4	105.4	109.3	108.9	106.9	111	113	114	116
	appreciation in %	-0.8	2.4	2.9	3.7	-0.3	-1.9	3.8	1.6	1.3	1.3
<b>Real exchange rate to EA19 <sup>1)</sup></b>	average of 2015=100	100.0	101.1	104.0	108.1	110.3	110.0	115	118	120	122
	appreciation in %	0.5	1.1	2.9	3.9	2.0	-0.2	4.6	2.3	1.8	1.9
<b>REER <sup>2)</sup></b>	average of 2015=100	100.0	102.6	106.6	111.1	111.5	112.4	.	.	.	.
	appreciation in %	-0.9	2.6	3.9	4.3	0.3	0.8	.	.	.	.

<sup>1)</sup> Deflated by GDP deflators.

<sup>2)</sup> Eurostat calculations, deflated by CPI, versus 42 countries.

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

Table 1.4.6: Exchange Rates – quarterly

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Nominal exchange rates</b>									
<b>CZK / EUR</b>	average	25.63	27.05	26.46	26.66	26.07	25.64	25.6	25.5
	appreciation in %	0.2	-5.1	-2.7	-4.1	-1.7	5.5	3.6	4.7
<b>CZK / USD</b>	average	23.25	24.55	22.64	22.36	21.64	21.27	21.7	21.6
	appreciation in %	-2.7	-6.9	2.3	3.3	7.4	15.5	4.5	3.6
<b>NEER</b>	average of 2015=100	109.2	104.2	107.4	106.8	109.1	111.3	111	112
	appreciation in %	0.4	-4.2	-1.3	-2.2	-0.2	6.8	3.7	4.7
<b>Real exchange rate to EA19 <sup>1)</sup></b>	average of 2015=100	112.2	106.2	111.3	110.5	112.5	115	117	117
	appreciation in %	2.4	-3.5	0.8	-0.5	0.3	7.9	4.9	5.6
<b>REER <sup>2)</sup></b>	average of 2015=100	114.0	109.2	113.5	112.7	115.2	.	.	.
	appreciation in %	2.0	-1.7	2.0	0.8	1.0	.	.	.

<sup>1)</sup> Deflated by GDP deflators.

<sup>2)</sup> Eurostat calculations, deflated by CPI, versus 42 countries.

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

## 1.5 Structural Policies

Numerous restrictive measures were taken to minimise the risk coronavirus contagion. To mitigate their macroeconomic and social impact and to support the subsequent recovery, bold fiscal stimuli were introduced on both the revenue and expenditure side of public budgets. As the critical phase of the epidemic gradually faded, most of the restrictive measures were gradually eased, and temporary support schemes were phased out in Q2 2021.

An amendment to the Employment Act was adopted, effective from 1 July 2021, which introduces a permanent mechanism for **partial employment support** (the so-called **kurzarbeit**) to ensure the ability of stimulating the labour market in emergency situations in the future. Under the law, the government may cover 80% of employers' wage costs when their staff's working hours are reduced in critical cases (a risk to the economy or a sector, natural disaster, epidemic, etc.). The employer must

allocate work to the employees concerned that covers 20–80% of their normal working hours.

In order to maintain the improved epidemic (and consequently economic) situation in the long run, **a substantial part of the Czech population needs to be vaccinated**. The inoculation process started at the end of December 2020, when the first vaccine doses arrived in the Czech Republic. Vaccination process was slow in the beginning because of the low number of doses delivered and problems in vaccination logistics. The pace of vaccination subsequently accelerated significantly (see Graph 1.5.1), with almost 3 million vaccine doses administered in June 2021. As the holiday season started, there was an expected slowdown because people were taking time off work and a high proportion of the most vulnerable parts of the population had been vaccinated (see Graph 1.5.2).



As of the forecast cut-off date, almost 5.2 million people (48% of the population) had completed the vaccination, and 5.8 million people (54% of the population) had received at least the first dose.

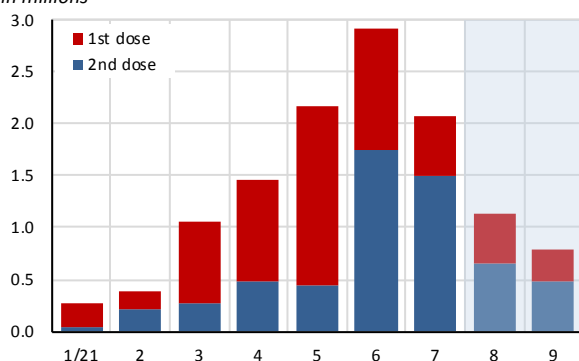
Vaccination is expected to continue in the coming period so that, by the end of Q3 2021, approximately 6.2–6.5 million people (58–61% of the population) will be fully vaccinated. Attempts to achieve a higher vaccination rate are hampered by the impossibility of vaccinating

children under 12 years of age (1.4 million, i.e. 13% of the population) and by the greater reluctance to be vaccinated among some – especially younger – groups.

The successful handling of the vaccination process should be a big step forwards in the sustainable restoration of normal economic and social life. New coronavirus mutations and the reduced effectiveness of existing vaccines against them could pose a risk.

**Graph 1.5.1: Administered COVID-19 Vaccine Doses**

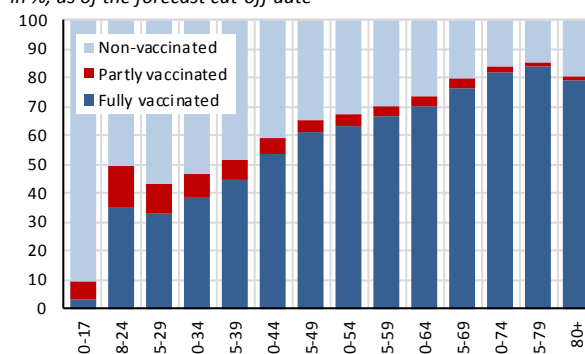
in millions



Source: Ministry of Health. Calculations and forecast of the MoF

**Graph 1.5.2: Vaccination in Age Groups**

in %, as of the forecast cut-off date



Source: CZSO, Ministry of Health. Calculations of the MoF.

## 1.6 Demographic Trends

The population of the Czech Republic dropped by 7,300 to 10.694 million in Q1 2021. It has thus returned below the 10.7 million mark it broke through last June. The fall was due to a significant natural decline in the population, prompted by a record number of deaths.

The difference between the number of births and deaths resulted in natural shrinkage of population by 19,100, more than in 2020 as a whole. The number of **live births** (27,200) increased only slightly compared to the same period of the previous year. The Czech Republic is therefore one of those countries where there has not been a pandemic-induced increase in births so far.

Conversely, there were 46,400 **deaths** from January to March this year. Compared to Q1 2020, this was an increase by 16,200 (54%). It was mainly due to the escalation of the coronavirus epidemic. This was the highest quarterly figure recorded since 1992, i.e. the beginning of the available time series.

Between March 2020 and June 2021 (according to weekly data), 38,000 more people died compared to the 2015 to 2019 average. The Institute of Health Information and Statistics reported that more than 30,000 people died with COVID-19 over this period (just under 90% were people aged 65+). As the critical phase of the epidemic subsided and the inoculation of the population progressed, the number of deaths returned to normal at the end of Q2.

The positive **migration balance** came to 11,900 people in Q1, up by 7,400 YoY. There was both an uptick in the number of immigrants and a downturn in emigration. As in previous years, the positive migration balance was dominated by Ukrainians (6,400). The intensity and directions of migration flows are likely to continue to be influenced by developments in the pandemic and the economy.

In addition, the Czech Statistical Office published a detailed **age structure** of the population at the beginning of 2021. In 2020, the Czech population rose by 8,000 people. Population ageing was reflected in a rise in the number of seniors (65+) by 26,000. However, this increase was two-fifths lower compared to the previous year, mainly due to the coronavirus epidemic. The high number of females born in the late 1970s and 1980s and the relatively high birth rate resulted in an increase in the number of children and young people under 19 by 22,000. On the other hand, the population aged 20–64 plummeted by 40,000.

Nevertheless, developments in this category are not homogeneous on account of how the birth rate fluctuated in the past. The decline was concentrated in the 20–45 age group, where the number of people went down by 80,000. In contrast, there was a marked 67,000 increase in the population aged 46–60. Employment and participation rates among people of this age are high, which has so far helped to eliminate the impacts of the population ageing on the supply side of the economy. On

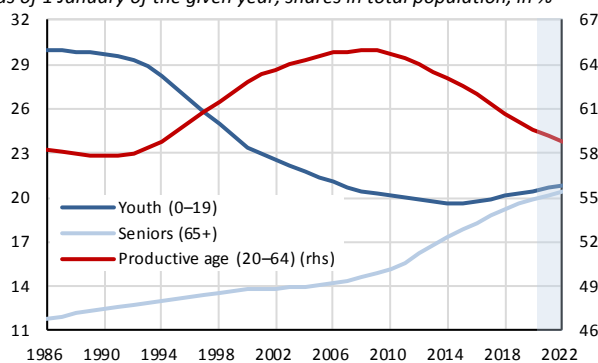
the other hand, the drop by 27,000 in the number of people aged 60–64 has temporarily slowed down the strain on the pension system.

At the beginning of July 2021, there were 2,378,000 **old-age pensioners** in the pension system, i.e. 22.2% of the

population of the Czech Republic. The rise in the statutory retirement age, combined with demographic developments, in particular increased mortality, led to a year-on-year decrease in the number of old-age pensioners by 31,800, i.e. by 1.3%.

**Graph 1.6.1: Age Groups**

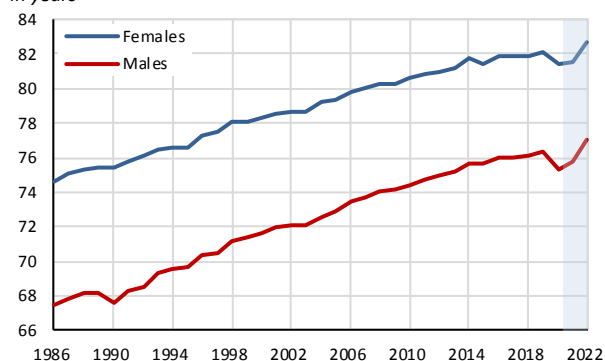
as of 1 January of the given year, shares in total population, in %



Source: CZSO. Calculations of the MoF.

**Graph 1.6.2: Life Expectancy at Birth**

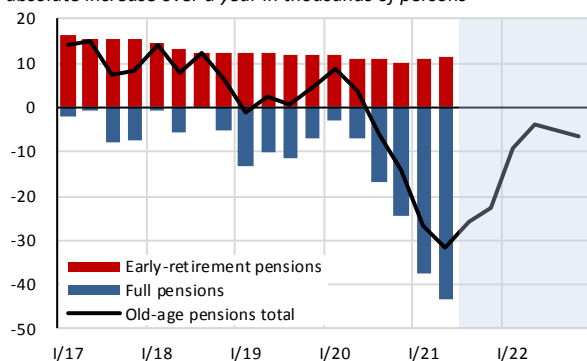
in years



Source: CZSO.

**Graph 1.6.3: Old-Age Pensioners**

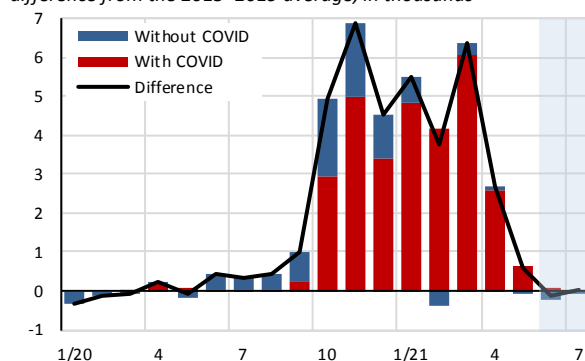
absolute increase over a year in thousands of persons



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

**Graph 1.6.4: Number of Deaths in 2020 and 2021**

difference from the 2015–2019 average, in thousands



Note: June and July 2021 – estimate of the MoF.

Source: CZSO, Institute of Health Information and Statistics. Calculations of the MoF.

Table 1.6.1: Demographics

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
								Forecast	Forecast	Outlook	Outlook
<b>Population (as of 1 January)</b>	<i>thous. persons</i>	<b>10 538</b>	<b>10 554</b>	<b>10 579</b>	<b>10 610</b>	<b>10 650</b>	<b>10 694</b>	<b>10 702</b>	<b>10 702</b>	<b>10 719</b>	<b>10 734</b>
	<i>growth in %</i>	0.2	0.1	0.2	0.3	0.4	0.4	0.1	0.0	0.2	0.1
0–19 years	<i>thous. persons</i>	2 064	2 082	2 106	2 133	2 160	2 188	2 210	2 228	2 244	2 256
	<i>growth in %</i>	0.3	0.9	1.2	1.3	1.3	1.3	1.0	0.8	0.7	0.5
20–64 years	<i>thous. persons</i>	6 594	6 540	6 484	6 437	6 403	6 374	6 333	6 289	6 257	6 235
	<i>growth in %</i>	-0.5	-0.8	-0.9	-0.7	-0.5	-0.4	-0.6	-0.7	-0.5	-0.4
65 and more years	<i>thous. persons</i>	1 880	1 932	1 989	2 040	2 087	2 132	2 158	2 184	2 219	2 243
	<i>growth in %</i>	3.0	2.8	2.9	2.6	2.3	2.2	1.3	1.2	1.6	1.1
<b>Old-age pensioners (as of 1 January) <sup>1)</sup></b>	<i>thous. persons</i>	<b>2 355</b>	<b>2 377</b>	<b>2 395</b>	<b>2 403</b>	<b>2 410</b>	<b>2 415</b>	<b>2 400</b>	<b>2 378</b>	<b>2 371</b>	<b>2 361</b>
	<i>growth in %</i>	0.6	0.9	0.8	0.3	0.3	0.2	-0.6	-0.9	-0.3	-0.4
<b>Old-age dependency ratios (as of 1 January)</b>											
Demographic <sup>2)</sup>	%	28.5	29.5	30.7	31.7	32.6	33.4	34.1	34.7	35.5	36.0
Under current legislation <sup>3)</sup>	%	39.3	39.8	40.1	40.4	40.4	40.5	40.2	40.0	39.8	39.6
Effective <sup>4)</sup>	%	46.9	46.8	46.2	45.7	45.2	45.5	46.0	45.7	45.4	45.1
<b>Fertility rate</b>	<i>children</i>	<b>1.570</b>	<b>1.630</b>	<b>1.687</b>	<b>1.708</b>	<b>1.715</b>	<b>1.707</b>	<b>1.70</b>	<b>1.70</b>	<b>1.70</b>	<b>1.70</b>
<b>Population increase</b>	<i>thous. persons</i>	<b>16</b>	<b>25</b>	<b>31</b>	<b>40</b>	<b>44</b>	<b>8</b>	<b>0</b>	<b>17</b>	<b>15</b>	<b>12</b>
<b>Natural increase</b>	<i>thous. persons</i>	<b>0</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>-19</b>	<b>-26</b>	<b>-9</b>	<b>-11</b>	<b>-14</b>
Live births	<i>thous. persons</i>	111	113	114	114	112	110	107	105	103	101
Deaths	<i>thous. persons</i>	111	108	111	113	112	129	133	114	114	115
<b>Net migration</b>	<i>thous. persons</i>	<b>16</b>	<b>20</b>	<b>28</b>	<b>39</b>	<b>44</b>	<b>27</b>	<b>26</b>	<b>26</b>	<b>26</b>	<b>26</b>
Immigration	<i>thous. persons</i>	35	38	46	58	67	56	.	.	.	.
Emigration	<i>thous. persons</i>	19	17	18	20	22	29	.	.	.	.

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

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

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

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

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

## 2 Economic Cycle

### 2.1 Position within the Economic Cycle

The Czech economy plunged into a **deeply negative output gap** in 2020 as a result of the epidemic and the measures taken to counter its spread. Real gross value added fell short of its potential by almost 9% in Q2 2020; this was by far the biggest difference in the history of the independent Czech Republic. The robust recovery in economic performance in Q3, followed by stagnation or only modest growth, kept the output gap close to -2% of potential output until Q2 2021. For the full year 2020, the negative output gap was -3.1%, comparable in annual terms to the recessions of 2009 and 2013.

Calculations suggest that the negative output gap should close during H2 2021 and eventually reach positive values approaching 2%. These estimates should be treated with considerable caution given the uncertainties surrounding the input data on usual hours worked (see below) and the heightened uncertainty of results at a time when there is considerable volatility in economic performance.

The economic slump has strengthened the medium-term tendency of **potential-output** growth slowdown. Potential output growth is currently estimated to have reached a low of just 0.8% in 2021. Once the epidemic subsides and an environment conducive to the development of economic activity returns, potential output growth should gradually accelerate to more than 2% in 2023 and 2024.

In terms of factors (Graph 2.1.2), potential growth is determined by the trend component of **total factor productivity**. It is forecast to make a contribution of 1.1 pp in 2021, gradually increasing in the years ahead.

The fall in gross fixed capital formation in 2020 led to a slowdown in the increase in **capital stock**. Its contribution to potential growth is forecast to be 0.6 pp this year.

However, this could increase again from 2022 onwards on the basis of renewed investment growth.

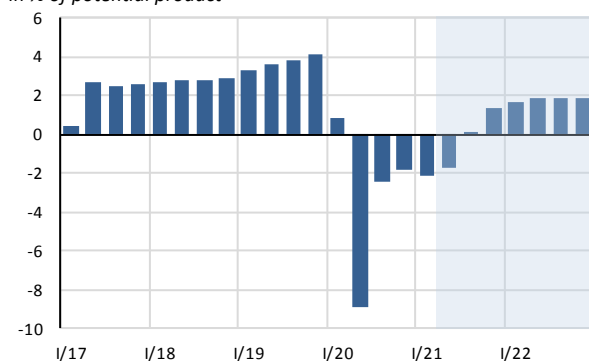
**Labour supply** is affected by population ageing (see section 1.6). This is reflected, in part, in the long-term decline in the working-age population (20–64 years). This should take 0.3 pp off potential-output growth in 2021 and have a slightly negative impact in the coming period.

The negative impact that demographic trends are having on labour supply was cushioned for a long time by a dynamic **increase in the participation rate**, which swelled the size of the labour force in the economy. However, in early 2020 there was a turning point and the participation rate started to decline. Despite the measures taken to protect the labour market, economic uncertainty is likely to have temporarily compounded this trend, but a return to a growth trajectory is expected this year. The participation rate should thus contribute 0.1 pp to potential output growth in 2021. In future years, this contribution could stand at around 0.3 pp on the strength of the increase that has been forecast in the economic activity rate (see section 3.3).

Between 2017 and 2020, the **number of hours usually worked** stayed within a very narrow range of 40.2–39.9 hours, with a slight downward trend. However, a figure of 39.3 hours has been published for Q1 2021, which is completely out of line with the long-term time series (see Graph 2.1.4) and lacks economic justification. In our view, this may be a consequence of methodological changes to the LFS since Q1 2021. The calculation of potential output and output gap are very sensitive to the input variable of hours usually worked, leading to a negative contribution to potential output growth of -0.5 pp this year and a narrowing of the estimate of the negative output gap by a similar extent.

**Graph 2.1.1: Output Gap**

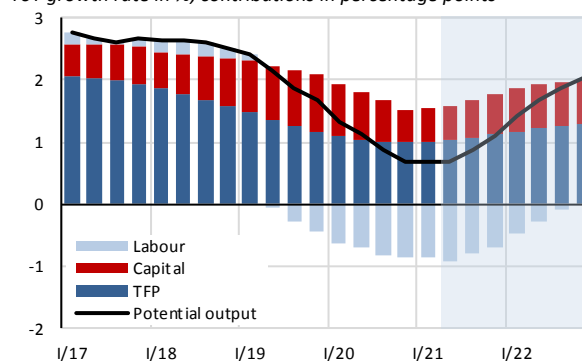
in % of potential product



Source: CZSO. Calculations and forecast of the MoF.

**Graph 2.1.2: Potential Output**

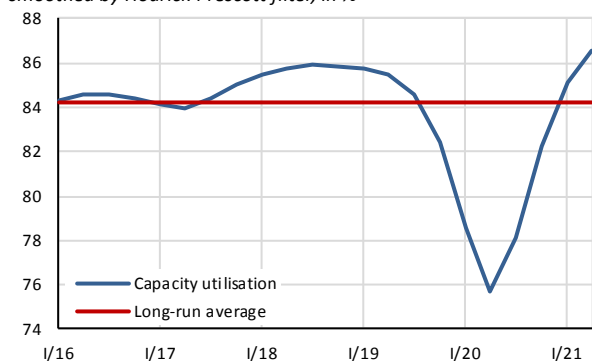
YoY growth rate in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

**Graph 2.1.3: Capacity Utilisation in Industry**

smoothed by Hodrick-Prescott filter, in %



Source: CZSO.

**Graph 2.1.4: Hours Usually Worked**

number of hours usually worked per week



Source: Eurostat.

**Table 2.1.1: Output Gap and Potential Product**

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
								Forecast	Forecast	Outlook	Outlook
<b>Output gap</b>	%	-0.2	-0.6	2.0	2.8	3.7	-3.1	-0.6	1.8	1.9	1.5
<b>Potential product <sup>1)</sup></b>	growth in %	2.5	2.8	2.7	2.6	2.0	1.0	0.8	1.7	2.2	2.2
<b>Contributions</b>											
Trend total factor productivity	pp	1.8	2.0	2.0	1.7	1.3	1.0	1.1	1.2	1.3	1.3
Fixed assets	pp	0.7	0.6	0.5	0.7	0.9	0.7	0.6	0.7	0.7	0.8
Population 20–64 yers	pp	-0.3	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1
Participation rate	pp	0.5	0.8	0.7	0.7	0.2	-0.1	0.1	0.3	0.3	0.2
Usually worked hours	pp	-0.1	-0.1	-0.2	-0.1	-0.1	-0.3	-0.5	-0.2	0.0	0.0

<sup>1)</sup> Based on gross value added.

Source: CZSO. Calculations and forecast of the MoF.

## 2.2 Business Cycle Indicators

Developments of confidence indicators in Q2 2021 show that the quarter-on-quarter recovery of gross value added in industry and in trade and services continued. In the construction sector, the confidence indicator signals approximate stabilisation of the year-on-year growth in gross value added. Even so, the correlation between developments in confidence and gross value added in the construction sector is very low.

The composite goods export indicator, compiled by the Ministry of Finance from sub-questions in the Czech Statistical Office's business cycle survey and from business confidence in Germany, indicates very strong year-on-year growth in goods exports for Q2 2021.

The Statistical Office's consumer confidence indicator noticeably recovered in Q2 2021 after a slight decline in the previous quarter. Developments in the second half of 2021 (the confidence indicator has a lead of 1–2 quarters) suggest a resumption of positive year-on-year dynamics in household final consumption expenditure. By contrast, the consumer confidence indicator compiled by

the Ministry of Finance from sub-questions in the European Commission's consumer survey stagnated at low levels in Q2 2021. Consumers' pessimism stemmed mainly from their highly negative assessment of the economic situation.

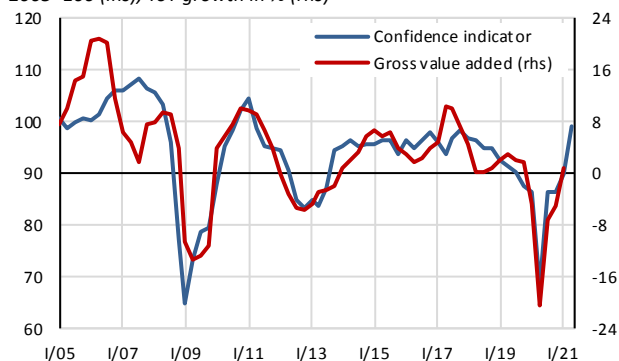
Overall, the composite confidence indicator signals a strong quarter-on-quarter growth in total gross value added in Q2 2021.

In July 2021, the composite indicator stabilised compared to the previous quarter. A correction in industrial confidence and the strengthening of confidence among consumers and in trade and services worked against each other. Confidence in construction remained unchanged.

In response to the easing of restrictive measures, the composite leading indicator points to a noticeable closing of the negative output gap in Q2 and Q3 2021. However, given the persistent risks, the closing of the output gap outlined above should still be perceived more in qualitative terms.

**Graph 2.2.1: Confidence and GVA in Industry**

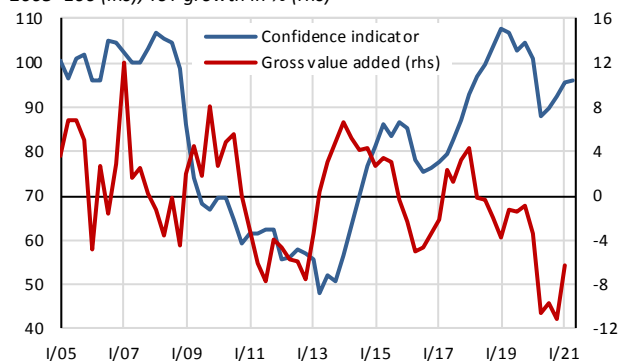
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO.

**Graph 2.2.2: Confidence and GVA in Construction**

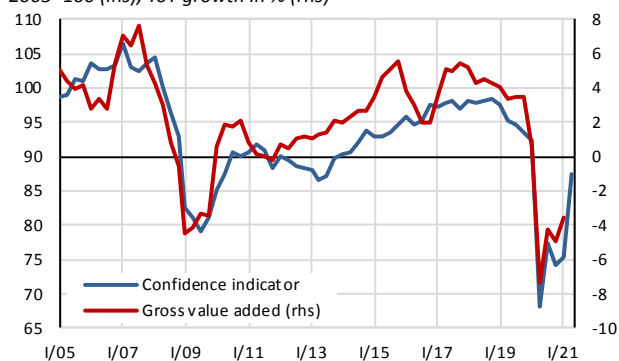
2005=100 (lhs), YoY growth in % (rhs)



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**

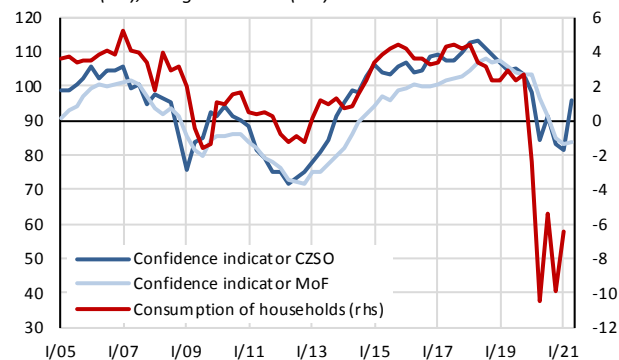
2010=100 (lhs), YoY growth in % (rhs)



Source: CESifo, CZSO. Calculations of the MoF.

**Graph 2.2.5: Consumer Confidence and Consumption**

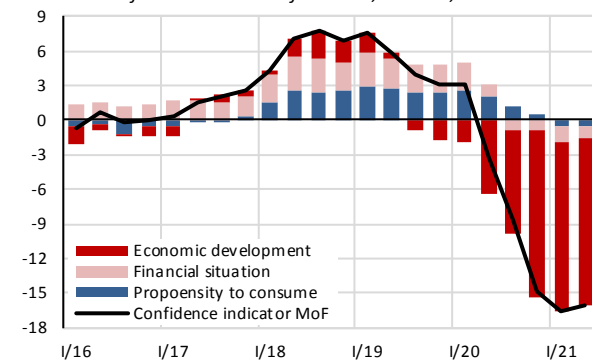
2005=100 (lhs), YoY growth in % (rhs)



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

**Graph 2.2.6: Decomposition of Consumer Sentiment**

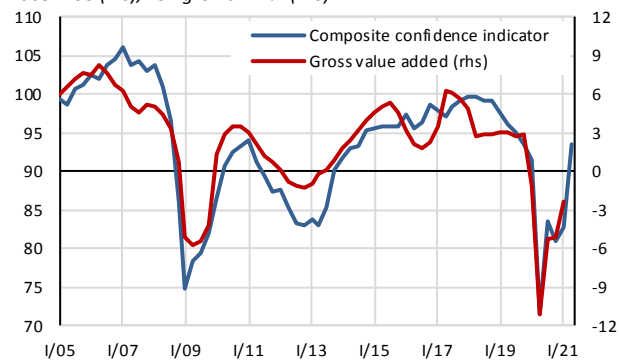
consumer confidence indicator of the MoF, balance, contributions



Source: European Commission. Calculations of the MoF.

**Graph 2.2.7: Composite Confidence Indicator and GVA**

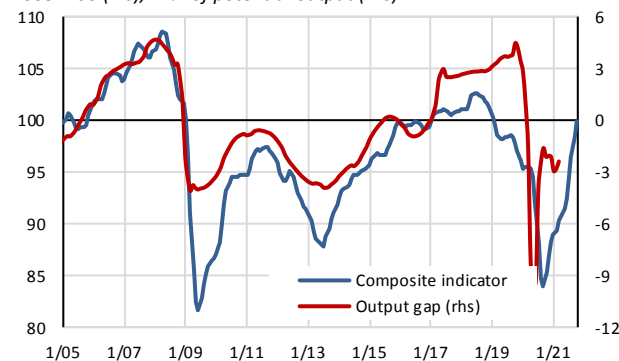
2005=100 (lhs), YoY growth in % (rhs)



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

#### 3.1.1 GDP in the First Quarter of 2021

Real GDP fell by 2.6% YoY (*versus 3.1%*) in Q1 2021. Despite the stricter anti-epidemic measures, seasonally adjusted GDP declined by only 0.3% QoQ (*versus 0.9%*); manufacturing, financial and insurance activities in particular had a positive impact, while public administration, education, health and social work and, to a lesser extent, trade, transportation, accommodation and food services held back momentum the most.

When publishing the annual national accounts, the Czech Statistical Office revised real GDP growth in 2019 upwards by 0.7 pp to 3.0%, while in 2020 it was revised downwards by 0.2 pp to -5.8%. In terms of expenditure components, there was a deterioration in household final consumption expenditure in both years, which was largely offset by stronger overall investment activity. The contribution made by external trade to GDP growth was stronger in 2019, but it dampened economic activity more significantly in 2020.

The year-on-year drop in real GDP in Q1 2021 was driven by a decline in external and especially domestic demand. Here, the economic downturn was tempered by growth in government final consumption expenditure and a rise in inventories.

Household consumption fell significantly year-on-year as the anti-epidemic measures limited the opportunity to spend on selected services and goods. This was compounded by pessimistic expectations. Given the nature of the restrictions, spending on semi-durable goods recorded the relatively largest decline, but the fall in spending on services was the most significant in terms of the impact on total consumption. Purchases of consumer durables were also reduced, while spending on non-durable goods increased slightly. In real terms, household final consumption expenditure decreased by 6.2% (*versus 8.0%*). General government consumption increased by 1.1% (*versus 4.7%*), mainly due to employment growth.

Gross fixed capital formation fell by 3.0% (*versus 4.1%*) due to a decrease in investments in machinery and equipment, transport equipment, and non-residential construction. From the sectoral perspective, the decline was cushioned by rising general government and household investment. The highly positive contribution made by the change in inventories was behind the 2.1% increase in gross capital formation (*versus a 0.6% decline*).

The brisk growth in external trade in goods continued in Q1 2021, but exports and imports of services fell by more than 10% YoY. Overall, exports of goods and services rose by 3.9% (*versus a decline of 3.2%*) in Q1 2021.

Imports of goods and services, driven by growth in exports and gross capital formation, increased by 5.1% (*versus a 3.5% decline*). Net exports therefore made a negative contribution of -0.5 pp to GDP growth.

With export and import prices growing, terms of trade improved by 2.2% (*versus 1.7%*). Consequently, real gross domestic income was down by 1.1 % YoY (*versus 1.9 %*).

Gross operating surplus rose by 6.2% (*versus 1.9%*), compensation of employees increased by 0.9% (*versus 1.4%*), and net taxes on production were 31.4% lower YoY (*versus 21.4%*). As a result, nominal GDP reported growth of 0.9% (*versus a decline of 0.1%*).

#### 3.1.2 GDP Forecast for 2021 and 2022

In response to the improvement in the epidemic situation, most of the restrictive measures that primarily affected the retail and services sectors were gradually relaxed during Q2 2021. According to a flash estimate by the Czech Statistical Office, seasonally adjusted real GDP grew by 0.6% QoQ (*versus 0.9%*) and by 7.8% YoY (*versus 7.5%*) in Q2 2021. The quarter-on-quarter GDP growth was weaker than indicated by the monthly figures available at the forecast cut-off date (confidence indicators, industrial and construction output, retail and services sales, and external trade).

In 2021, GDP growth should be driven exclusively by domestic demand, while foreign trade should dampen it. Real GDP is expected to grow by 3.2% (*versus 3.1%*) this year and by 4.2% (*versus 3.7%*) in 2022. The forecast works on the assumption that macroeconomically significant anti-epidemic restrictions will no longer be necessary thanks to the ongoing vaccination of the population against COVID-19 and the high number of people who have contracted the disease. We anticipate that the pandemic's negative impact on global supply chains will probably be rather temporary.

In 2021, household final consumption expenditure should be positively influenced by growth in real disposable income; its momentum will benefit not only from the reduction in the effective taxation of wages, salaries and income of the self-employed, but also from a number of supportive fiscal programmes. The household savings rate should gradually normalise from the second half of this year. However, it should remain more or less at the 2020 level on average for the year as a whole, particularly on account of limited opportunities to spend in the first half of the year. Against the background of the recovery predicted in consumer spending from Q2 onwards, real household consumption should grow by 2.3% (*versus 0.1%*) in 2021 as a whole. In 2022, its mo-

momentum should be fuelled by a reduction in the savings rate (which should remain well above the long-run average, though), as well as the statistical effect of the strong recovery in consumer spending in H2 this year. Household consumption could thus increase by 5.5% (*versus* 5.7%).

We expect general government consumption to grow by 2.4% (*versus* 3.4%) in 2021. It will then slow to 0.4% (*versus* 0.9%) in 2022. The main drivers of growth in 2021 may still include an increase in purchasing volumes due to the epidemic, as well as growth in public sector employment. Despite savings in central government, staffing increases are foreseen in education and the armed forces. Growth in expenditure on purchases of goods and services, supported by current subsidies from EU funds, may also boost momentum. In 2022, the expected slowdown is related to the unwinding of temporary factors related to the epidemic.

Gross fixed capital formation should start to recover in 2021 thanks to renewed economic growth abroad, loose monetary conditions, above-average capacity utilisation in industry, and the accelerated depreciation of tangible assets. Investment activity in the general government sector, supported by the implementation of projects co-financed by EU funds, should also contribute to growth. In early 2021, investment momentum was dampened by the restrictive measures adopted and the associated un-

certainties. These should subside in the coming quarters. As a result, the pace of private investment should noticeably increase. The outlook for 2023 includes the purchase of military helicopters, which will also be fully reflected in imports of goods. Gross fixed capital formation could rise by 6.0% in 2021 (*versus* 3.8%), while growth of 4.9% (*versus* 4.5%) is forecast for 2022.

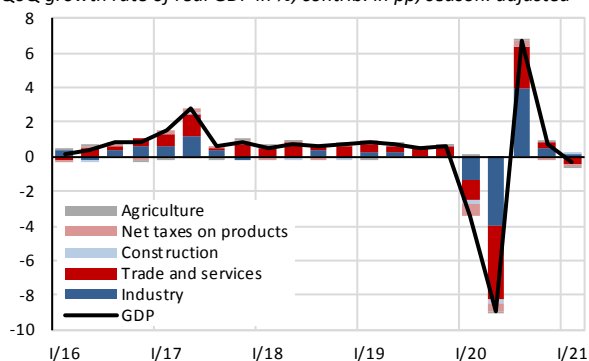
We anticipate that 2021 could be a time of restocking after significant depletion. This should also be supported by a build-up of work in progress in warehouses due to problems in supply chains. For the years ahead, the forecast works on the technical assumption that the change in inventories will make a zero contribution to GDP growth. Total gross capital formation could therefore increase by 8.8% (*versus* 7.7%) in 2021 and by 4.8% (*versus* 4.5%) next year.

Exports of goods and services are expected to grow by 8.5% (*versus* 5.0%) in 2021 and by 6.6% (*versus* 5.7%) in 2022. Export growth in 2021 reflects growth in export markets only (see section 3.4). The momentum of exports and import-intensive investment demand is reflected in the pace of imports of goods and services, which could grow by 10.4% (*versus* 4.9%) in 2021. In 2022, the slowdown in import growth to 6.7% (*versus* 6.6%) should reflect a much lower rate of gross capital formation, as well as a reduction in export momentum.



**Graph 3.1.1: Resources of Gross Domestic Product**

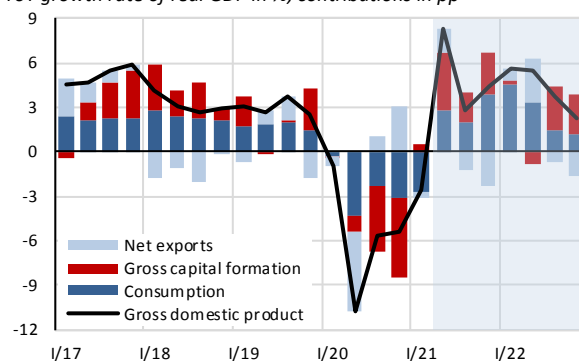
QoQ growth rate of real GDP in %, contrib. in pp, season. adjusted



Source: CZSO. Calculations of the MoF.

**Graph 3.1.2: GDP by Type of Expenditure**

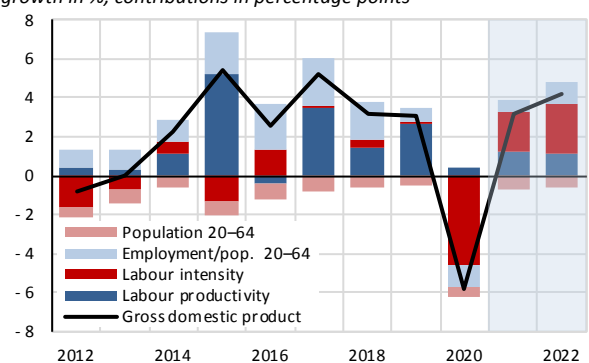
YoY growth rate of real GDP in %, contributions in pp



Source: CZSO. Calculations and forecast of the MoF.

**Graph 3.1.3: Real Gross Domestic Product**

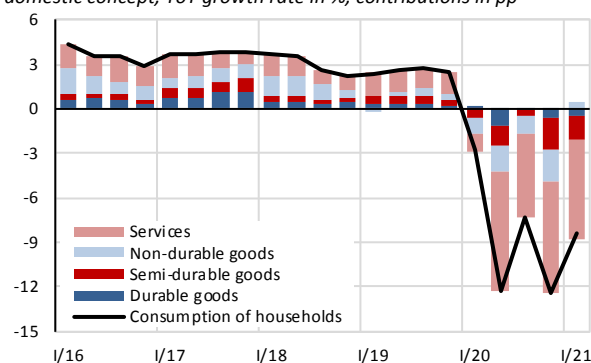
growth in %, contributions in percentage points



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**

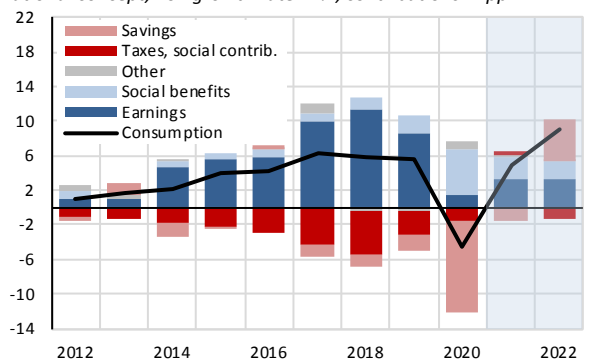
domestic concept, YoY growth rate in %, contributions in pp



Source: CZSO. Calculations of the MoF.

**Graph 3.1.5: Nominal Consumption of Households**

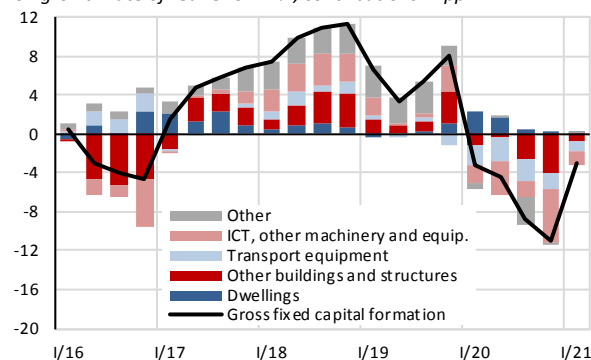
national concept, YoY growth rate in %, contributions in pp



Source: CZSO. Calculations and forecast of the MoF.

**Graph 3.1.6: Investment by Type of Expenditure**

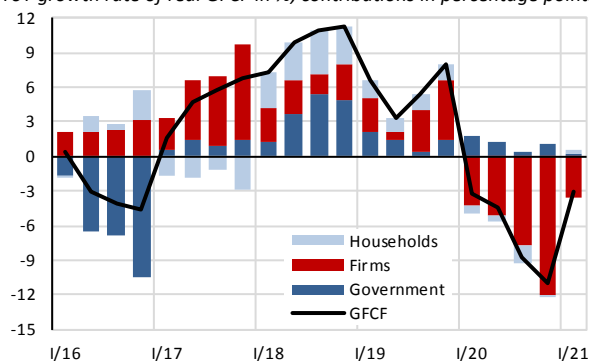
YoY growth rate of real GFCF in %, contributions in pp



Source: CZSO. Calculations of the MoF.

**Graph 3.1.7: Investment by Sector**

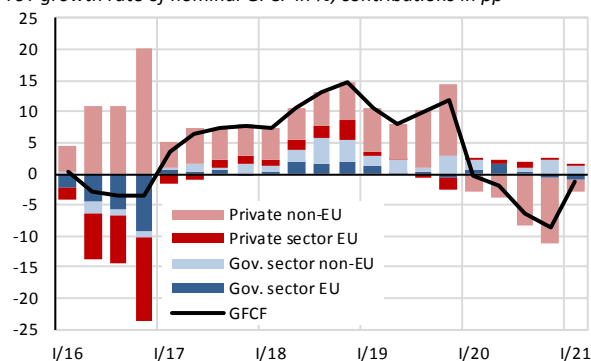
YoY growth rate of real GFCF in %, contributions in percentage points



Source: CZSO. Calculations of the MoF.

**Graph 3.1.8: Investment Co-financing from EU Funds**

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*

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
								Forecast	Forecast	Outlook	Outlook
<b>Gross domestic product</b>	<i>bill. CZK 2015</i>	<b>4 625</b>	<b>4 743</b>	<b>4 988</b>	<b>5 147</b>	<b>5 303</b>	<b>4 996</b>	<b>5 156</b>	<b>5 372</b>	<b>5 484</b>	<b>5 592</b>
	<i>growth in %</i>	5.4	2.5	5.2	3.2	3.0	-5.8	3.2	4.2	2.1	2.0
	<i>growth in % <sup>1)</sup></i>	5.5	2.4	5.4	3.2	3.0	-5.8	3.1	4.2	2.3	1.8
<b>Private consumption expenditure <sup>2)</sup></b>	<i>bill. CZK 2015</i>	<b>2 181</b>	<b>2 264</b>	<b>2 355</b>	<b>2 438</b>	<b>2 504</b>	<b>2 332</b>	<b>2 385</b>	<b>2 516</b>	<b>2 568</b>	<b>2 625</b>
	<i>growth in %</i>	3.9	3.8	4.0	3.5	2.7	-6.8	2.3	5.5	2.0	2.2
<b>Government consumption exp.</b>	<i>bill. CZK 2015</i>	<b>875</b>	<b>897</b>	<b>913</b>	<b>948</b>	<b>972</b>	<b>1 006</b>	<b>1 029</b>	<b>1 034</b>	<b>1 044</b>	<b>1 059</b>
	<i>growth in %</i>	1.8	2.5	1.8	3.8	2.5	3.4	2.4	0.4	1.0	1.4
<b>Gross capital formation</b>	<i>bill. CZK 2015</i>	<b>1 294</b>	<b>1 243</b>	<b>1 323</b>	<b>1 425</b>	<b>1 489</b>	<b>1 338</b>	<b>1 455</b>	<b>1 524</b>	<b>1 595</b>	<b>1 608</b>
	<i>growth in %</i>	13.1	-4.0	6.5	7.7	4.5	-10.2	8.8	4.8	4.6	0.8
Gross fixed capital formation	<i>bill. CZK 2015</i>	1 227	1 190	1 248	1 374	1 455	1 350	1 432	1 501	1 572	1 585
	<i>growth in %</i>	9.7	-3.0	4.9	10.0	5.9	-7.2	6.0	4.9	4.7	0.8
Change in stocks and valuables	<i>bill. CZK 2015</i>	67	53	75	51	34	-12	23	23	23	23
<b>Exports of goods and services</b>	<i>bill. CZK 2015</i>	<b>3 726</b>	<b>3 888</b>	<b>4 168</b>	<b>4 322</b>	<b>4 386</b>	<b>4 083</b>	<b>4 430</b>	<b>4 722</b>	<b>4 962</b>	<b>5 118</b>
	<i>growth in %</i>	6.0	4.3	7.2	3.7	1.5	-6.9	8.5	6.6	5.1	3.1
<b>Imports of goods and services</b>	<i>bill. CZK 2015</i>	<b>3 451</b>	<b>3 549</b>	<b>3 771</b>	<b>3 989</b>	<b>4 051</b>	<b>3 773</b>	<b>4 165</b>	<b>4 443</b>	<b>4 709</b>	<b>4 840</b>
	<i>growth in %</i>	6.8	2.8	6.3	5.8	1.5	-6.9	10.4	6.7	6.0	2.8
<b>Gross domestic expenditure</b>	<i>bill. CZK 2015</i>	<b>4 351</b>	<b>4 404</b>	<b>4 592</b>	<b>4 810</b>	<b>4 963</b>	<b>4 682</b>	<b>4 874</b>	<b>5 074</b>	<b>5 204</b>	<b>5 289</b>
	<i>growth in %</i>	6.0	1.2	4.3	4.8	3.2	-5.7	4.1	4.1	2.6	1.6
<b>Methodological discrepancy <sup>3)</sup></b>	<i>bill. CZK 2015</i>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>3</b>	<b>3</b>	<b>11</b>	<b>21</b>	<b>19</b>	<b>24</b>	<b>22</b>
<b>Real gross domestic income</b>	<i>bill. CZK 2015</i>	<b>4 625</b>	<b>4 780</b>	<b>4 988</b>	<b>5 148</b>	<b>5 323</b>	<b>5 075</b>	<b>5 243</b>	<b>5 439</b>	<b>5 549</b>	<b>5 664</b>
	<i>growth in %</i>	5.7	3.4	4.3	3.2	3.4	-4.7	3.3	3.7	2.0	2.1
<b>Contributions to GDP growth <sup>4)</sup></b>											
<b>Gross domestic expenditure</b>	<i>pp</i>	<b>5.6</b>	<b>1.2</b>	<b>3.9</b>	<b>4.4</b>	<b>3.0</b>	<b>-5.3</b>	<b>3.8</b>	<b>3.9</b>	<b>2.4</b>	<b>1.5</b>
<b>Consumption</b>	<i>pp</i>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.4</b>	<b>1.8</b>	<b>-2.5</b>	<b>1.5</b>	<b>2.6</b>	<b>1.2</b>	<b>1.3</b>
Household expenditure	<i>pp</i>	1.9	1.8	1.9	1.7	1.3	-3.2	1.0	2.5	0.9	1.0
Government expenditure	<i>pp</i>	0.3	0.5	0.3	0.7	0.5	0.7	0.5	0.1	0.2	0.3
<b>Gross capital formation</b>	<i>pp</i>	<b>3.4</b>	<b>-1.1</b>	<b>1.7</b>	<b>2.0</b>	<b>1.2</b>	<b>-2.8</b>	<b>2.3</b>	<b>1.3</b>	<b>1.3</b>	<b>0.2</b>
Gross fixed capital formation	<i>pp</i>	2.5	-0.8	1.2	2.5	1.6	-2.0	1.6	1.3	1.3	0.2
Change in stocks	<i>pp</i>	0.9	-0.3	0.5	-0.5	-0.3	-0.9	0.7	0.0	0.0	0.0
<b>Foreign balance</b>	<i>pp</i>	<b>-0.2</b>	<b>1.4</b>	<b>1.2</b>	<b>-1.2</b>	<b>0.0</b>	<b>-0.5</b>	<b>-0.6</b>	<b>0.3</b>	<b>-0.3</b>	<b>0.4</b>
External balance of goods	<i>pp</i>	-1.0	1.0	0.9	-1.0	0.4	-0.4	-0.5	0.2	-0.4	0.4
External balance of services	<i>pp</i>	0.8	0.4	0.3	-0.2	-0.4	-0.1	-0.2	0.1	0.1	0.0
<b>Gross value added</b>	<i>bill. CZK 2015</i>	<b>4 165</b>	<b>4 269</b>	<b>4 491</b>	<b>4 643</b>	<b>4 783</b>	<b>4 515</b>	.	.	.	.
	<i>growth in %</i>	4.8	2.5	5.2	3.4	3.0	-5.6	.	.	.	.
<b>Net taxes and subsidies on products</b>	<i>bill. CZK 2015</i>	<b>460</b>	<b>474</b>	<b>497</b>	<b>504</b>	<b>521</b>	<b>481</b>	.	.	.	.

<sup>1)</sup> From working day adjusted data.

<sup>2)</sup> Including consumption of non-profit institutions serving households (NPISH).

<sup>3)</sup> Deterministic impact of using prices and structure of the previous year for calculation of y-o-y growth.

<sup>4)</sup> Calculated on the basis of prices and structure of the previous year with perfectly additive contributions.

Source: CZSO. Calculations and forecast of the MoF.

**Table 3.1.2: Real GDP by Type of Expenditure – quarterly***chained volumes, reference year 2015*

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
<b>Gross domestic product</b>	<i>bill. CZK 2015</i>	<b>1 230</b>	<b>1 192</b>	<b>1 280</b>	<b>1 294</b>	<b>1 197</b>	<b>1 291</b>	<b>1 317</b>	<b>1 351</b>
	<i>growth in %</i>	-1.0	-10.8	-5.7	-5.4	-2.6	8.3	2.9	4.4
	<i>growth in % <sup>1)</sup></i>	-1.5	-10.9	-5.4	-5.3	-2.4	7.8	3.3	4.2
	<i>QoQ in % <sup>1)</sup></i>	-3.4	-8.9	6.8	0.7	-0.3	0.6	2.3	1.6
<b>Private consumption expenditure <sup>2)</sup></b>	<i>bill. CZK 2015</i>	<b>584</b>	<b>563</b>	<b>601</b>	<b>584</b>	<b>547</b>	<b>589</b>	<b>614</b>	<b>635</b>
	<i>growth in %</i>	-2.1	-9.9	-5.1	-9.8	-6.2	4.5	2.2	8.6
<b>Government consumption exp.</b>	<i>bill. CZK 2015</i>	<b>237</b>	<b>242</b>	<b>240</b>	<b>286</b>	<b>239</b>	<b>251</b>	<b>251</b>	<b>288</b>
	<i>growth in %</i>	3.9	1.8	0.5	7.2	1.1	3.5	4.8	0.4
<b>Gross capital formation</b>	<i>bill. CZK 2015</i>	<b>316</b>	<b>344</b>	<b>351</b>	<b>327</b>	<b>323</b>	<b>390</b>	<b>378</b>	<b>364</b>
	<i>growth in %</i>	-0.4	-4.2	-14.7	-18.6	2.1	13.6	7.9	11.1
Gross fixed capital formation	<i>bill. CZK 2015</i>	302	327	345	376	293	344	375	419
	<i>growth in %</i>	-3.2	-4.4	-8.8	-11.1	-3.0	5.2	8.8	11.5
Change in stocks and valuables	<i>bill. CZK 2015</i>	14	17	6	-49	29	47	3	-56
<b>Exports of goods and services</b>	<i>bill. CZK 2015</i>	<b>1 061</b>	<b>851</b>	<b>1 018</b>	<b>1 152</b>	<b>1 102</b>	<b>1 137</b>	<b>1 043</b>	<b>1 147</b>
	<i>growth in %</i>	-2.5	-23.9	-4.6	3.5	3.9	33.7	2.4	-0.4
<b>Imports of goods and services</b>	<i>bill. CZK 2015</i>	<b>968</b>	<b>814</b>	<b>930</b>	<b>1 060</b>	<b>1 017</b>	<b>1 083</b>	<b>972</b>	<b>1 092</b>
	<i>growth in %</i>	-1.9	-18.8	-6.5	-0.7	5.1	33.1	4.5	2.9
<b>Gross domestic expenditure</b>	<i>bill. CZK 2015</i>	<b>1 137</b>	<b>1 151</b>	<b>1 192</b>	<b>1 202</b>	<b>1 111</b>	<b>1 230</b>	<b>1 244</b>	<b>1 289</b>
	<i>growth in %</i>	-0.4	-5.9	-7.0	-8.8	-2.3	6.9	4.4	7.2
<b>Methodological discrepancy <sup>3)</sup></b>	<i>bill. CZK 2015</i>	<b>0</b>	<b>6</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>7</b>	<b>2</b>	<b>9</b>
<b>Real gross domestic income</b>	<i>bill. CZK 2015</i>	<b>1 241</b>	<b>1 211</b>	<b>1 301</b>	<b>1 322</b>	<b>1 228</b>	<b>1 309</b>	<b>1 332</b>	<b>1 373</b>
	<i>growth in %</i>	-0.7	-9.7	-4.2	-3.8	-1.1	8.1	2.4	3.9
<b>Gross value added</b>	<i>bill. CZK 2015</i>	<b>1 122</b>	<b>1 074</b>	<b>1 155</b>	<b>1 164</b>	<b>1 095</b>	.	.	.
	<i>growth in %</i>	-0.5	-11.0	-5.5	-5.1	-2.5	.	.	.
	<i>growth in % <sup>1)</sup></i>	-1.1	-11.1	-5.2	-5.0	-2.3	.	.	.
	<i>QoQ in % <sup>1)</sup></i>	-3.0	-9.5	7.2	0.9	-0.2	.	.	.
<b>Net taxes and subsidies on products</b>	<i>bill. CZK 2015</i>	<b>107</b>	<b>118</b>	<b>125</b>	<b>130</b>	<b>102</b>	.	.	.

<sup>1)</sup> From seasonally and working day adjusted data<sup>2)</sup> Including consumption of non-profit institutions serving households (NPISH).<sup>3)</sup> Deterministic impact of using prices and structure of the previous year for calculation of y-o-y growth.

Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.3: Nominal GDP by Type of Expenditure – yearly

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
								Forecast	Forecast	Outlook	Outlook
<b>Gross domestic product</b>	bill. CZK	<b>4 625</b>	<b>4 797</b>	<b>5 111</b>	<b>5 410</b>	<b>5 790</b>	<b>5 695</b>	<b>6 048</b>	<b>6 431</b>	<b>6 692</b>	<b>6 958</b>
	growth in %	6.4	3.7	6.5	5.8	7.0	-1.7	6.2	6.3	4.0	4.0
<b>Private consumption expenditure <sup>1)</sup></b>	bill. CZK	<b>2 181</b>	<b>2 273</b>	<b>2 420</b>	<b>2 568</b>	<b>2 711</b>	<b>2 596</b>	<b>2 724</b>	<b>2 968</b>	<b>3 098</b>	<b>3 234</b>
	growth in %	3.9	4.2	6.5	6.1	5.6	-4.3	4.9	9.0	4.4	4.4
<b>Government consumption exp.</b>	bill. CZK	<b>875</b>	<b>910</b>	<b>959</b>	<b>1 049</b>	<b>1 133</b>	<b>1 232</b>	<b>1 317</b>	<b>1 345</b>	<b>1 378</b>	<b>1 416</b>
	growth in %	4.1	4.0	5.4	9.4	8.1	8.7	6.9	2.1	2.5	2.8
<b>Gross capital formation</b>	bill. CZK	<b>1 294</b>	<b>1 248</b>	<b>1 348</b>	<b>1 472</b>	<b>1 599</b>	<b>1 478</b>	<b>1 641</b>	<b>1 752</b>	<b>1 870</b>	<b>1 923</b>
	growth in %	14.5	-3.6	8.0	9.2	8.7	-7.6	11.1	6.8	6.7	2.8
Gross fixed capital formation	bill. CZK	1 227	1 196	1 273	1 423	1 568	1 495	1 616	1 728	1 845	1 897
	growth in %	11.2	-2.5	6.4	11.7	10.2	-4.7	8.1	6.9	6.8	2.8
Change in stocks and valuables	bill. CZK	67	52	74	49	31	-17	25	25	26	26
<b>External balance</b>	bill. CZK	<b>275</b>	<b>366</b>	<b>384</b>	<b>321</b>	<b>347</b>	<b>389</b>	<b>366</b>	<b>366</b>	<b>346</b>	<b>384</b>
Exports of goods and services	bill. CZK	3 726	3 795	4 039	4 163	4 279	4 042	4 465	4 832	5 119	5 314
	growth in %	4.6	1.8	6.4	3.1	2.8	-5.5	10.4	8.2	5.9	3.8
Imports of goods and services	bill. CZK	3 451	3 429	3 654	3 842	3 932	3 654	4 099	4 466	4 774	4 930
	growth in %	5.0	-0.7	6.6	5.1	2.3	-7.1	12.2	9.0	6.9	3.3
<b>Gross national income</b>	bill. CZK	<b>4 308</b>	<b>4 473</b>	<b>4 821</b>	<b>5 113</b>	<b>5 440</b>	<b>5 496</b>	<b>5 784</b>	<b>6 132</b>	<b>6 371</b>	<b>6 615</b>
	growth in %	6.4	3.8	7.8	6.0	6.4	1.0	5.2	6.0	3.9	3.8
<b>Primary income balance</b>	bill. CZK	<b>-317</b>	<b>-324</b>	<b>-289</b>	<b>-297</b>	<b>-350</b>	<b>-199</b>	<b>-264</b>	<b>-299</b>	<b>-321</b>	<b>-343</b>

<sup>1)</sup> 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

		2020					2021			
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast	
<b>Gross domestic product</b>	bill. CZK	<b>1 371</b>	<b>1 349</b>	<b>1 460</b>	<b>1 515</b>	<b>1 384</b>	<b>1 512</b>	<b>1 539</b>	<b>1 614</b>	
	growth in %	2.8	-7.0	-1.5	-0.5	0.9	12.1	5.4	6.5	
<b>Private consumption expenditure <sup>1)</sup></b>	bill. CZK	<b>647</b>	<b>627</b>	<b>671</b>	<b>651</b>	<b>614</b>	<b>669</b>	<b>706</b>	<b>735</b>	
	growth in %	1.5	-7.1	-2.7	-8.1	-5.1	6.8	5.2	12.9	
<b>Government consumption exp.</b>	bill. CZK	<b>278</b>	<b>288</b>	<b>293</b>	<b>374</b>	<b>287</b>	<b>332</b>	<b>319</b>	<b>379</b>	
	growth in %	9.4	5.3	4.7	14.6	3.4	15.2	9.1	1.2	
<b>Gross capital formation</b>	bill. CZK	<b>344</b>	<b>377</b>	<b>388</b>	<b>368</b>	<b>362</b>	<b>433</b>	<b>427</b>	<b>419</b>	
	growth in %	2.5	-1.9	-12.2	-15.7	5.4	14.7	10.0	13.7	
Gross fixed capital formation	bill. CZK	330	360	383	421	326	386	425	479	
	growth in %	-0.3	-1.8	-6.3	-8.6	-1.2	7.2	10.9	13.6	
Change in stocks and valuables	bill. CZK	14	17	5	-53	36	47	2	-60	
<b>External balance</b>	bill. CZK	<b>103</b>	<b>56</b>	<b>109</b>	<b>121</b>	<b>120</b>	<b>77</b>	<b>87</b>	<b>81</b>	
Exports of goods and services	bill. CZK	1 037	853	1 002	1 150	1 109	1 159	1 046	1 152	
	growth in %	-2.4	-22.0	-3.8	6.4	6.9	35.9	4.4	0.1	
Imports of goods and services	bill. CZK	935	796	893	1 029	989	1 082	959	1 070	
	growth in %	-2.2	-18.4	-7.9	-0.1	5.8	35.8	7.3	4.0	

<sup>1)</sup> 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

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
								Forecast	Forecast	Outlook	Outlook
<b>GDP</b>	<i>bill. CZK</i>	<b>4 625</b>	<b>4 797</b>	<b>5 111</b>	<b>5 410</b>	<b>5 790</b>	<b>5 695</b>	<b>6 048</b>	<b>6 431</b>	<b>6 692</b>	<b>6 958</b>
	<i>growth in %</i>	6.4	3.7	6.5	5.8	7.0	-1.7	6.2	6.3	4.0	4.0
<b>Balance of taxes and subsidies</b>	<i>bill. CZK</i>	<b>434</b>	<b>454</b>	<b>493</b>	<b>504</b>	<b>534</b>	<b>448</b>	<b>465</b>	<b>570</b>	<b>610</b>	<b>621</b>
	<i>% of GDP</i>	9.4	9.5	9.7	9.3	9.2	7.9	7.7	8.9	9.1	8.9
	<i>growth in %</i>	13.0	4.8	8.6	2.2	6.0	-16.1	3.7	22.6	7.0	1.9
Taxes on production and imports	<i>bill. CZK</i>	570	595	635	656	696	659	.	.	.	.
	<i>growth in %</i>	9.6	4.4	6.6	3.3	6.2	-5.3	.	.	.	.
Subsidies on production	<i>bill. CZK</i>	137	141	142	152	162	211	.	.	.	.
	<i>growth in %</i>	-0.1	3.2	0.4	7.2	6.7	30.4	.	.	.	.
<b>Compensation of employees</b>	<i>bill. CZK</i>	<b>1 891</b>	<b>2 003</b>	<b>2 185</b>	<b>2 399</b>	<b>2 586</b>	<b>2 621</b>	<b>2 698</b>	<b>2 764</b>	<b>2 876</b>	<b>2 998</b>
(domestic concept)	<i>% of GDP</i>	40.9	41.7	42.8	44.3	44.7	46.0	44.6	43.0	43.0	43.1
	<i>growth in %</i>	5.1	5.9	9.1	9.8	7.8	1.4	2.9	2.4	4.1	4.2
Wages and salaries	<i>bill. CZK</i>	1 455	1 538	1 680	1 842	1 986	1 990	2 049	2 128	2 215	2 308
	<i>growth in %</i>	5.0	5.7	9.2	9.6	7.8	0.2	2.9	3.9	4.1	4.2
Social security contributions	<i>bill. CZK</i>	437	464	505	557	599	631	649	636	662	689
	<i>growth in %</i>	5.5	6.4	8.7	10.3	7.6	5.4	2.8	-2.1	4.1	4.2
<b>Gross operating surplus</b>	<i>bill. CZK</i>	<b>2 300</b>	<b>2 340</b>	<b>2 432</b>	<b>2 506</b>	<b>2 670</b>	<b>2 625</b>	<b>2 885</b>	<b>3 098</b>	<b>3 206</b>	<b>3 339</b>
	<i>% of GDP</i>	49.7	48.8	47.6	46.3	46.1	46.1	47.7	48.2	47.9	48.0
	<i>growth in %</i>	6.4	1.7	4.0	3.0	6.5	-1.7	9.9	7.4	3.5	4.2
Consumption of capital	<i>bill. CZK</i>	957	988	1 022	1 074	1 153	1 225	1 294	1 373	1 432	1 489
	<i>growth in %</i>	3.8	3.2	3.5	5.0	7.4	6.2	5.7	6.1	4.3	4.0
Net operating surplus	<i>bill. CZK</i>	1 343	1 352	1 410	1 433	1 517	1 400	1 591	1 725	1 774	1 850
	<i>growth in %</i>	8.3	0.6	4.3	1.6	5.9	-7.7	13.6	8.4	2.8	4.3

Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.6: GDP by Type of Income – quarterly

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast
<b>GDP</b>	<i>bill. CZK</i>	<b>1 371</b>	<b>1 349</b>	<b>1 460</b>	<b>1 515</b>	<b>1 384</b>	<b>1 512</b>	<b>1 539</b>	<b>1 614</b>
	<i>growth in %</i>	2.8	-7.0	-1.5	-0.5	0.9	12.1	5.4	6.5
<b>Balance of taxes and subsidies</b>	<i>bill. CZK</i>	<b>101</b>	<b>109</b>	<b>133</b>	<b>105</b>	<b>69</b>	<b>108</b>	<b>151</b>	<b>136</b>
	<i>growth in %</i>	-8.8	-21.1	-10.0	-23.7	-31.4	-0.6	13.3	29.5
<b>Compensation of employees</b>	<i>bill. CZK</i>	<b>650</b>	<b>620</b>	<b>644</b>	<b>707</b>	<b>656</b>	<b>664</b>	<b>668</b>	<b>710</b>
(domestic concept)	<i>growth in %</i>	5.2	-4.2	1.0	3.6	0.9	7.2	3.6	0.4
Wages and salaries	<i>bill. CZK</i>	501	455	502	533	490	498	514	547
	<i>growth in %</i>	5.8	-8.2	2.1	1.3	-2.2	9.5	2.5	2.6
Social security contributions	<i>bill. CZK</i>	150	165	143	174	166	166	154	163
	<i>growth in %</i>	3.2	9.0	-2.5	11.1	11.2	0.6	7.7	-6.2
<b>Gross operating surplus</b>	<i>bill. CZK</i>	<b>620</b>	<b>620</b>	<b>683</b>	<b>702</b>	<b>658</b>	<b>739</b>	<b>720</b>	<b>767</b>
	<i>growth in %</i>	2.5	-6.9	-2.0	0.0	6.2	19.2	5.5	9.3

Source: CZSO. Calculations and forecast of the MoF.

## 3.2 Prices

In July 2021 the year-on-year **consumer price inflation** was 3.4% (*versus* 2.1%). The price trend observed deviated from the forecast entirely because of market factors, including, in particular, the core component of inflation. In terms of consumer basket divisions, transport (0.9 pp contribution) contributed most to July's annual inflation, as fuel and car prices rose rapidly. The contribution made by housing (0.6 pp) and alcoholic beverages, tobacco (0.6 pp) was also significant; the rise in the price of tobacco products was supported by an increase in excise duty. The year-on-year inflation was driven almost entirely by market factors. Administrative measures reported a contribution of just 0.1 pp, with the effect of the rise in excise duties outweighing the impact of a slight decline in regulated prices.

In 2019 and 2020, the Czech economy reported an elevated average inflation rate of close to 3%. We expect a similar result in 2021 and 2022. In the current macroeconomic forecast, the inflation forecast is revised up substantially. There are several reasons for this:

- we do not consider the aforementioned deviation of the year-on-year inflation from the forecast to be one-off;
- risks identified in the April macroeconomic forecast are materialising; in particular, global commodity price growth is feeding through to other price categories and also, gradually, to consumer prices;
- we expect a higher oil price over the forecast horizon;
- in the context of rising energy prices, we assume a higher contribution of administrative measures to the average inflation rate in 2021 and, especially, 2022 (electricity and gas prices are reported by the Czech Statistical Office as regulated/administrative prices, even though only part of them is subject to price regulation); electricity and gas prices are expected to increase at the consumer price level over the remainder of this year and in Q1 2022;
- the unemployment rate forecast has been lowered substantially, while average wage growth and the estimate of the output gap have been revised upwards significantly.

**In 2021**, inflation should be dominated by market factors. Administrative measures are likely to contribute to the average inflation rate only 0.3 pp (*versus* 0.2 pp), with increases in regulated prices and indirect taxes contributing in equal measure. In particular, supply-side frictions and a significant rise in the price of oil and other commodities should be identified as pro-inflationary factors in 2021. The decline in unit labour costs should act in the direction of lower inflation, and the negative output gap is also likely to have some impact. The appreciation of the Czech koruna against both of the world's main currencies should also inhibit inflation.

The year-on-year inflation is likely to accelerate markedly over the remainder of this year and to exceed the upper boundary of the CNB's tolerance band for the inflation target by a considerable margin. We expect the **average inflation rate in 2021** to be 3.2% (*versus* 2.5%).

**In 2022**, administrative measures, especially the rise in regulated prices, should have a stronger impact on consumer prices. In this respect, an increase in the price of electricity and natural gas is likely to be the most important. As part of changes to indirect taxes, we expect a further (albeit more modest compared to this year) increase in excise duty on tobacco products. The contribution made by administrative measures to the average inflation rate should be 1.1 pp (*versus* 0.5 pp). According to forecast assumptions, oil prices should be broadly flat next year. This ought to reduce supply-side pressure on consumer price inflation. Conversely, demand-side factors should push inflation higher, as the output gap should already be positive and we expect a significant recovery in household consumption. The decline in unit labour costs should continue to exert downward pressure on inflation. The appreciation of the Czech koruna against both major world currencies could also have a modest anti-inflationary effect. In line with the above, we forecast that the **average inflation rate** will come to 3.5% (*versus* 2.3%) **in 2022**.

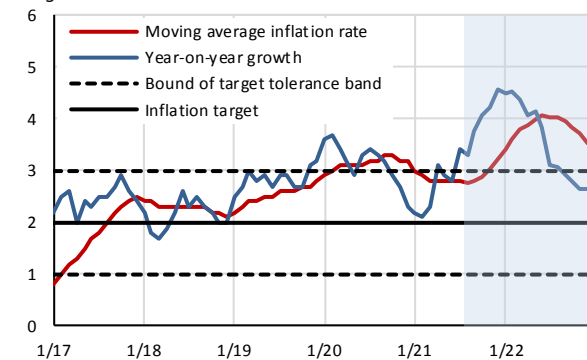
In the Q3 2021, the **GDP deflator** increased by 3.7% (*versus* 3.1%), with the gross domestic expenditure deflator growing by 3.2% (*versus* 1.9%) and terms of trade improving by 2.2% (*versus* 1.7%). Developments in the gross domestic expenditure deflator reflected growth in the deflators of all domestic demand components.

In 2021, the GDP deflator could increase by 2.9% (*versus* 1.8%). The significant decline in momentum compared to 2020 will mainly be due to developments in terms of trade and, to a lesser extent, the lower contribution made by the gross domestic expenditure deflator. In 2022, GDP deflator growth could slow further to 2.1% (*versus* 1.7%). Within the gross domestic expenditure deflator, slower growth in the government consumption deflator (mainly driven by reduced momentum of salaries) will be partly offset by faster consumer price growth (see above). Terms of trade are expected to decline slightly and their contribution should thus be 0.5 pp lower than in 2021.

In 2021, the developments projected in export and import prices will be influenced by a strong increase in oil prices and the renewed appreciation of the koruna, which looks set to persist into subsequent periods. As a result, terms of trade are expected to report a much lower year-on-year improvement of 0.2% in 2021 (*versus* a deterioration of 0.5%). They could then deteriorate by 0.6% (*versus* 0.2%) in 2022.

**Graph 3.2.1: Consumer Prices**

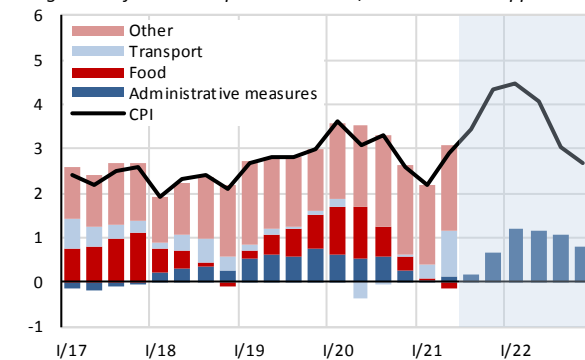
YoY growth rate in %



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

**Graph 3.2.2: Consumer Prices in Main Divisions**

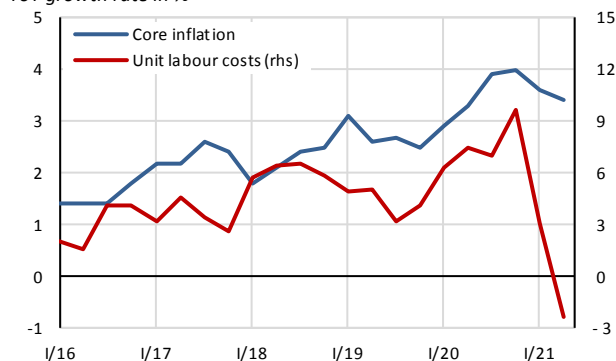
YoY growth of consumer price index in %, contributions in pp



Source: CZSO. Calculations and forecast of the MoF.

**Graph 3.2.3: Core Inflation and Unit Labour Costs**

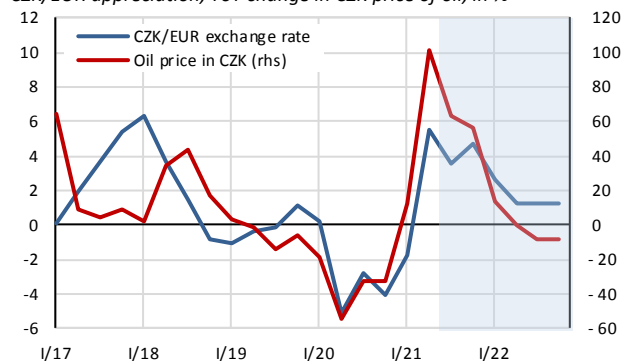
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

**Graph 3.2.4: CZK/EUR and Koruna Price of Oil**

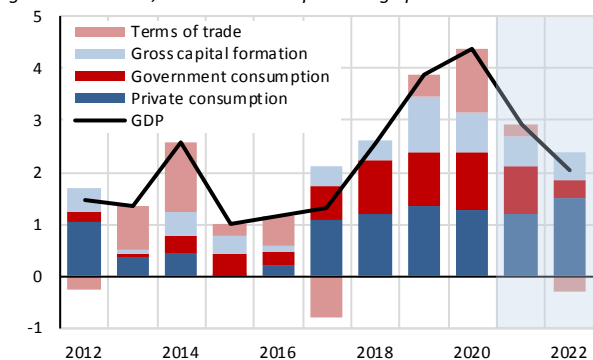
CZK/EUR appreciation, YoY change in CZK price of oil, in %



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**

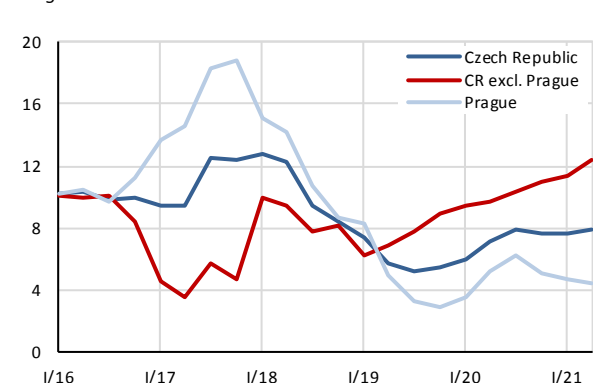
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

**Graph 3.2.7: Offering Prices of Flats**

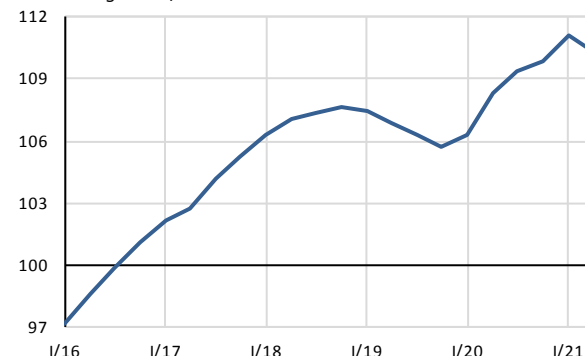
YoY growth rate in %



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, Q4 2010=100



Source: CZSO. Calculations of the MoF.

Table 3.2.1: Prices – yearly

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
								Forecast	Forecast	Outlook	Outlook
<b>Consumer Price Index</b>											
<b>Level</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>100.7</b>	<b>103.1</b>	<b>105.3</b>	<b>108.3</b>	<b>111.8</b>	<b>115.4</b>	<b>119.5</b>	<b>122.3</b>	<b>124.9</b>
<b>Average inflation rate</b>	%	<b>0.3</b>	<b>0.7</b>	<b>2.5</b>	<b>2.1</b>	<b>2.8</b>	<b>3.2</b>	<b>3.2</b>	<b>3.5</b>	<b>2.4</b>	<b>2.1</b>
Administrative measures <sup>1)</sup>	<i>percentage points</i>	0.2	0.2	-0.1	0.3	0.6	0.5	0.3	1.1	0.4	0.3
Market increase	<i>percentage points</i>	0.1	0.5	2.6	1.8	2.2	2.7	3.0	2.5	1.9	1.8
<b>Harmonized index of consumer prices</b>											
<b>Level</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>100.7</b>	<b>103.1</b>	<b>105.1</b>	<b>107.8</b>	<b>111.4</b>	<b>114.8</b>	<b>118.7</b>	<b>121.4</b>	<b>123.9</b>
<b>Average inflation rate</b>	<i>growth in %</i>	<b>0.3</b>	<b>0.6</b>	<b>2.4</b>	<b>2.0</b>	<b>2.6</b>	<b>3.3</b>	<b>3.0</b>	<b>3.4</b>	<b>2.3</b>	<b>2.0</b>
<b>Deflators</b>											
<b>GDP</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>101.1</b>	<b>102.5</b>	<b>105.1</b>	<b>109.2</b>	<b>114.0</b>	<b>117.3</b>	<b>119.7</b>	<b>122.0</b>	<b>124.4</b>
	<i>growth in %</i>	1.0	1.1	1.3	2.6	3.9	4.4	2.9	2.1	1.9	2.0
<b>Gross domestic expenditure</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>100.6</b>	<b>102.9</b>	<b>105.8</b>	<b>109.7</b>	<b>113.3</b>	<b>116.6</b>	<b>119.5</b>	<b>121.9</b>	<b>124.3</b>
	<i>growth in %</i>	0.8	0.6	2.3	2.8	3.7	3.3	2.9	2.5	2.0	1.9
<b>Consumption of households</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>100.4</b>	<b>102.7</b>	<b>105.3</b>	<b>108.3</b>	<b>111.3</b>	<b>114.2</b>	<b>118.0</b>	<b>120.7</b>	<b>123.2</b>
	<i>growth in %</i>	0.0	0.4	2.3	2.5	2.8	2.8	2.6	3.3	2.3	2.1
<b>Consumption of government</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>101.4</b>	<b>105.0</b>	<b>110.6</b>	<b>116.6</b>	<b>122.6</b>	<b>127.9</b>	<b>130.1</b>	<b>131.9</b>	<b>133.7</b>
	<i>growth in %</i>	2.3	1.4	3.5	5.4	5.4	5.1	4.4	1.7	1.4	1.4
<b>Fixed capital formation</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>100.5</b>	<b>102.0</b>	<b>103.6</b>	<b>107.7</b>	<b>110.7</b>	<b>112.9</b>	<b>115.1</b>	<b>117.4</b>	<b>119.7</b>
	<i>growth in %</i>	1.3	0.5	1.5	1.6	4.0	2.8	2.0	1.9	2.0	2.0
<b>Exports of goods and services</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>97.6</b>	<b>96.9</b>	<b>96.3</b>	<b>97.5</b>	<b>99.0</b>	<b>100.8</b>	<b>102.3</b>	<b>103.2</b>	<b>103.8</b>
	<i>growth in %</i>	-1.3	-2.4	-0.7	-0.6	1.3	1.5	1.8	1.5	0.8	0.6
<b>Imports of goods and services</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>96.6</b>	<b>96.9</b>	<b>96.3</b>	<b>97.1</b>	<b>96.8</b>	<b>98.4</b>	<b>100.5</b>	<b>101.4</b>	<b>101.9</b>
	<i>growth in %</i>	-1.7	-3.4	0.3	-0.6	0.8	-0.2	1.6	2.1	0.9	0.5
<b>Terms of trade</b>	<i>average 2015=100</i>	<b>100.0</b>	<b>101.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.5</b>	<b>102.2</b>	<b>102.4</b>	<b>101.8</b>	<b>101.8</b>	<b>101.9</b>
	<i>growth in %</i>	0.4	1.0	-1.0	0.0	0.5	1.7	0.2	-0.6	-0.1	0.2

<sup>1)</sup> 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

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast
<b>Consumer Price Index</b>	<i>average 2015=100</i>	<b>111.2</b>	<b>111.5</b>	<b>112.4</b>	<b>112.0</b>	<b>113.6</b>	<b>114.7</b>	<b>116.3</b>	<b>116.8</b>
	<i>growth in %</i>	3.6	3.1	3.3	2.6	2.2	2.9	3.4	4.3
<b>Of which the contribution of:</b>									
Administrative measures <sup>1)</sup>	<i>percentage points</i>	0.6	0.5	0.6	0.3	0.0	0.1	0.2	0.7
Market increase	<i>percentage points</i>	3.0	2.6	2.7	2.3	2.2	2.8	3.3	3.6
<b>Harmonized index of consumer prices</b>	<i>average 2015=100</i>	<b>110.7</b>	<b>111.1</b>	<b>112.1</b>	<b>111.6</b>	<b>113.1</b>	<b>114.2</b>	<b>115.7</b>	<b>116.1</b>
	<i>growth in %</i>	3.7	3.3	3.5	2.7	2.2	2.8	3.2	4.1
<b>Deflators</b>									
<b>GDP</b>	<i>average 2015=100</i>	<b>111.5</b>	<b>113.1</b>	<b>114.1</b>	<b>117.0</b>	<b>115.6</b>	<b>117.1</b>	<b>116.9</b>	<b>119.5</b>
	<i>growth in %</i>	3.8	4.2	4.4	5.1	3.7	3.5	2.5	2.1
<b>Gross domestic expenditure</b>	<i>average 2015=100</i>	<b>111.5</b>	<b>112.3</b>	<b>113.4</b>	<b>115.9</b>	<b>113.8</b>	<b>116.6</b>	<b>116.7</b>	<b>118.9</b>
	<i>growth in %</i>	3.8	3.0	3.0	3.8	2.0	3.8	2.9	2.5
<b>Consumption of households</b>	<i>average 2015=100</i>	<b>110.9</b>	<b>111.3</b>	<b>111.6</b>	<b>111.4</b>	<b>112.2</b>	<b>113.7</b>	<b>114.8</b>	<b>115.8</b>
	<i>growth in %</i>	3.7	3.1	2.5	1.9	1.2	2.2	2.9	3.9
<b>Consumption of government</b>	<i>average 2015=100</i>	<b>117.2</b>	<b>118.8</b>	<b>122.0</b>	<b>130.6</b>	<b>119.9</b>	<b>132.2</b>	<b>127.0</b>	<b>131.6</b>
	<i>growth in %</i>	5.3	3.4	4.2	6.9	2.3	11.3	4.1	0.8
<b>Fixed capital formation</b>	<i>average 2015=100</i>	<b>109.1</b>	<b>110.3</b>	<b>111.1</b>	<b>111.9</b>	<b>111.1</b>	<b>112.4</b>	<b>113.3</b>	<b>114.1</b>
	<i>growth in %</i>	3.1	2.7	2.7	2.8	1.9	1.9	1.9	1.9
<b>Exports of goods and services</b>	<i>average 2015=100</i>	<b>97.8</b>	<b>100.3</b>	<b>98.4</b>	<b>99.8</b>	<b>100.6</b>	<b>101.9</b>	<b>100.2</b>	<b>100.4</b>
	<i>growth in %</i>	0.1	2.5	0.9	2.7	2.9	1.6	1.9	0.5
<b>Imports of goods and services</b>	<i>average 2015=100</i>	<b>96.5</b>	<b>97.9</b>	<b>96.0</b>	<b>97.1</b>	<b>97.2</b>	<b>99.8</b>	<b>98.6</b>	<b>98.0</b>
	<i>growth in %</i>	-0.4	0.5	-1.5	0.5	0.7	2.0	2.7	1.0
<b>Terms of trade</b>	<i>average 2015=100</i>	<b>101.3</b>	<b>102.5</b>	<b>102.4</b>	<b>102.8</b>	<b>103.5</b>	<b>102.1</b>	<b>101.7</b>	<b>102.4</b>
	<i>growth in %</i>	0.5	2.0	2.4	2.2	2.2	-0.4	-0.7	-0.4

<sup>1)</sup> The contribution of change in regulated prices and indirect taxes.

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

### 3.3 Labour Market

Developments on the labour market were significantly affected by government support schemes in the first half of this year. Even though they have been discontinued, the unemployment rate could gradually decline as the economy recovers.

According to the LFS, **employment** fell by 0.8% YoY (*versus 1.4%*) in Q2 2021. The number of employees increased by 0.5% (*versus a decline of 1.3%*), while the number of entrepreneurs decreased by 7.2% (*versus 1.8%*). The number of entrepreneurs without employees (sole traders) fell by 6.9% YoY, and the number of entrepreneurs with employees went down by 5.4% (however, this indicator is known for its high volatility). Family helpers slumped by more than a quarter.

According to official job vacancy figures, there was still an evident shortage of employees in most sectors and regions in the middle of this year. In July, more vacancies than registered unemployed were reported in 43 districts (in 8 regions). However, by no means all vacancies registered by employment offices can be considered active. At the end of July, the share of active offers (jobs for which the last change took place after 1 February 2021 and the start date was 1 May 2021 or later) was 49%, i.e. approximately 176,000 jobs. Staff shortages remained a major barrier to output growth in the construction sector in Q2 2021.

Although effects of the economic downturn are fading, demand for foreign workers remains very strong. Their number rose by 79,000 YoY to 682,000 in June. Workers from Slovakia and Ukraine have long predominated.

The effects of the negative macroeconomic situation on the labour market were also cushioned by a number of government measures during Q2 2021. Among the main ones was the Antivirus scheme, under which employers were provided with wage subsidies. Another important factor was the decline in effective taxation on employees, which allowed firms to maintain high employment levels with less upward pressure on labour costs. Among entrepreneurs, the compensation bonus limited increase in the number of people who were registered as unemployed. We project that the economic recovery will lead to modest quarter-on-quarter improvements in employment from Q2 2021 onwards. For this year as a whole, though, it should still fall by 1.0% (*versus 1.4%*). In 2022, employment could rise by 0.4% (*versus stagnation*).

The **unemployment rate** (LFS) declined to 3.0% (*versus 3.6%*) in Q2 2021. In addition to continued government support schemes, persistent labour shortages in some occupations have helped. Although the delayed effects of recession have partially kicked in this year, the high number of job openings and employed foreigners limit the scope for unemployment to rise. The unemployment rate should continue to fall slightly as economic activity

picks up. It could average 3.0% (*versus 3.6%*) this year, and is forecast to fall to 2.7% (*versus 3.7%*) in 2022.

The **share of unemployed persons** (MoLSA) is no longer increasing year-on-year. We expect it to average 3.8% (*versus 4.3%*) this year, and it could fall slightly to 3.6% (*versus 4.2%*) in 2022.

We estimate that the **participation rate** (among those aged 20–64) reached 81.2% in Q2 2021 (*versus 81.5%*), and could fall slightly to 81.6% (*versus 81.8%*) on average for the full year. Over the forecast horizon, increases in the statutory retirement age and a growing share of age groups with a naturally high level of economic activity (especially the 45–54 group) will play a dominant role. However, a decline in the participation of pre-retirement-age individuals, who could retire early at an increased rate, may have the opposite effect. The participation rate could thus rise to 81.8% (*versus 82.3%*) in 2022.

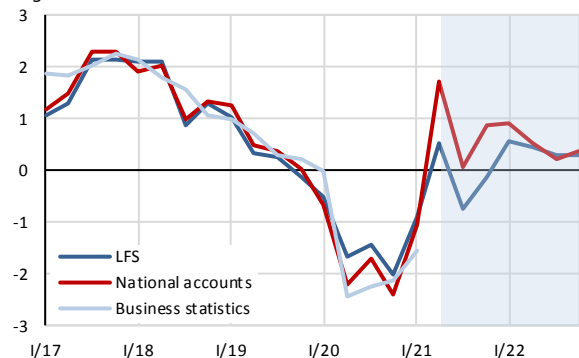
**Wages and salaries** fell by 2.2% YoY (*versus 0.8%*) in Q1 2021. In manufacturing – the most important sector – earnings fell by 2.1%. Restrictive measures were most pronounced in trade, transportation, accommodation and food services, where wages and salaries fell by 13.4%. By contrast, the highest growth was recorded in public administration, education, health care and social work, where earnings increased by 5.3%.

We estimate that wages and salaries rose by 9.5% (*versus 2.6%*) in Q2 2021. In addition to the declining unemployment rate, the momentum was boosted by extraordinary bonuses in the healthcare sector and by the base effect. In H2, in line with the receding decline in the number of employees in market sectors, earnings could grow at around 2.5%, well below the long-run average. We do not expect a significant recovery in the private sector momentum until next year, when labour demand should resurface amid persistent labour market frictions. In the opposite direction, there will be a significant slowdown in earnings growth in the government-dominated sectors in 2022. On aggregate, wages and salaries could increase by 2.9% (*versus 0.7%*) in 2021 and then by 3.9% (*versus 2.3%*) in the following year.

The **average wage** (business statistics, full-time equivalent) increased by 3.2% (*versus 2.9%*) in Q1 2021, while median wage rose by 2.5%. The increase in the average wage is likely to have been driven by lay-offs of relatively lower-paid employees. The payment of extraordinary bonuses in the healthcare sector and increases in salary scales, which should be reflected throughout H1, also played a significant role. Average wage could rise by 11.1% (*versus 6.3%*) in Q2 2021, and by 5.3% (*versus 3.2%*) for the full year 2021. Next year, the slowdown in salaries (partly due to bonuses paid in 2021) should outweigh the acceleration in momentum in market sectors. Average nominal wage growth could thus slow to 3.3% (*versus 1.8%*).

**Graph 3.3.1: Employees in Different Statistics**

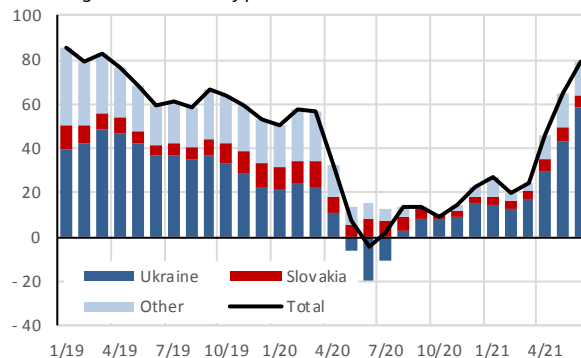
YoY growth rate in %



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 and forecast of the MoF.

**Graph 3.3.3: Indicators of Unemployment**

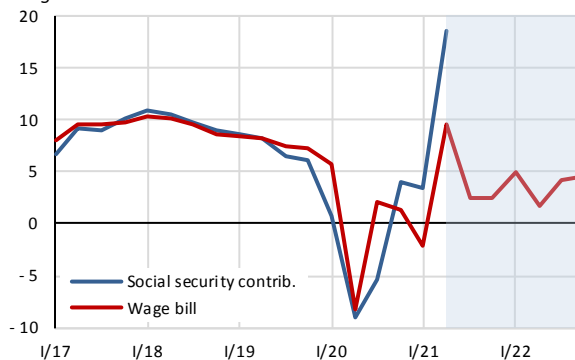
seasonally adjusted data, in %



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

**Graph 3.3.4: Social Security Contributions and Earnings**

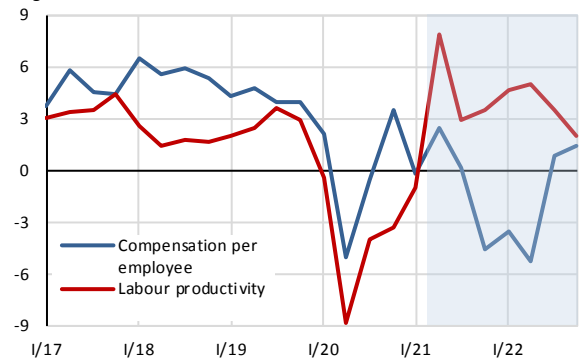
YoY growth rate in %



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

**Graph 3.3.5: Compens. per Employee and Productivity**

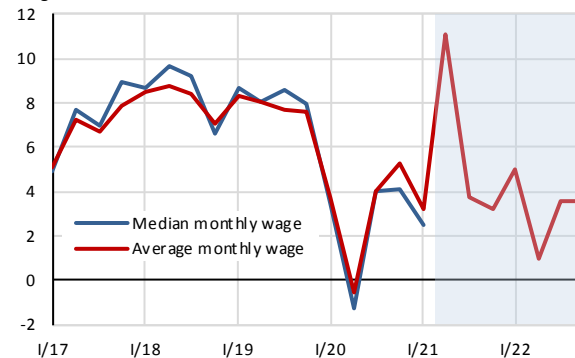
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

**Graph 3.3.6: Nominal Monthly Wage**

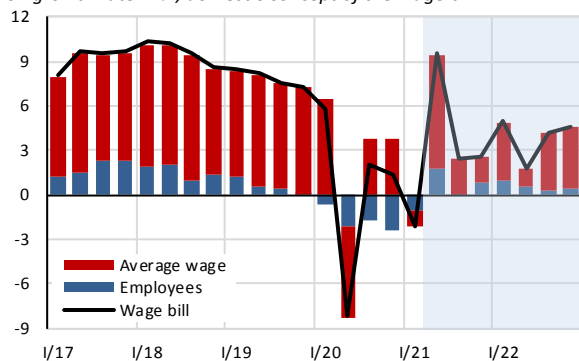
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

**Graph 3.3.7: Nominal Wage Bill**

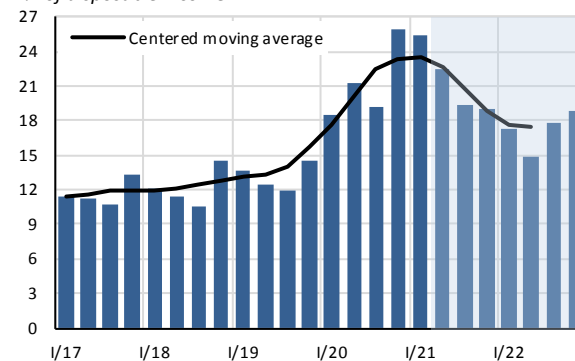
YoY growth rate in %, domestic concept of the wage bill



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

			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
										Forecast	Forecast	Outlook	Outlook
Labour Force Survey													
Employment	av. in thous.persons		5 042	5 139	5 222	5 294	5 303	5 235	5 184	5 202	5 217	5 229	
	growth in %		1.4	1.9	1.6	1.4	0.2	-1.3	-1.0	0.4	0.3	0.2	
Employees	av. in thous.persons		4 168	4 257	4 327	4 396	4 412	4 351	4 338	4 355	4 369	4 379	
	growth in %		2.2	2.1	1.7	1.6	0.4	-1.4	-0.3	0.4	0.3	0.2	
Entrepreneurs and self-employed	av. in thous.persons		874	882	894	897	891	884	846	847	848	850	
	growth in %		-2.4	1.0	1.4	0.4	-0.8	-0.7	-4.3	0.1	0.1	0.2	
Unemployment	av. in thous.persons		268	211	156	122	109	137	161	145	141	135	
Unemployment rate	average in %		5.1	4.0	2.9	2.2	2.0	2.6	3.0	2.7	2.6	2.5	
Long-term unemployment <sup>1)</sup>	av. in thous.persons		127	89	54	37	33	30	.	.	.	.	
Labour force	av. in thous.persons		5 310	5 350	5 377	5 415	5 412	5 372	5 345	5 347	5 358	5 363	
	growth in %		0.2	0.8	0.5	0.7	-0.1	-0.7	-0.5	0.0	0.2	0.1	
Population aged 20–64	av. in thous.persons		6 579	6 523	6 469	6 423	6 390	6 364	6 325	6 288	6 260	6 243	
	growth in %		-0.6	-0.9	-0.8	-0.7	-0.5	-0.4	-0.6	-0.6	-0.5	-0.3	
Employment/Pop. 20–64	average in %		76.6	78.8	80.7	82.4	83.0	82.3	82.0	82.7	83.3	83.8	
Employment rate 20–64 <sup>2)</sup>	average in %		74.7	76.6	78.4	79.8	80.2	79.6	79.1	79.7	80.0	80.2	
Labour force/Pop. 20–64	average in %		80.7	82.0	83.1	84.3	84.7	84.4	84.5	85.0	85.6	85.9	
Participation rate 20–64 <sup>3)</sup>	average in %		78.7	79.9	80.9	81.7	82.0	81.8	81.6	81.8	82.4	82.7	
Participation rate 15–64 <sup>3)</sup>	average in %		74.0	75.0	75.9	76.6	76.7	76.4	76.3	76.1	76.3	76.2	
Registered unemployment													
Unemployment	av. in thous.persons		479	406	318	242	212	259	280	253	245	239	
Share of unemployed <sup>4)</sup>	average in %		6.6	5.6	4.3	3.2	2.8	3.5	3.8	3.6	3.4	3.3	
Wages and salaries													
Average monthly wage <sup>5)</sup>													
Nominal	CZK monthly		26 591	27 764	29 638	32 051	34 578	35 662	37 538	38 764	40 218	41 822	
	growth in %		3.2	4.4	6.7	8.1	7.9	3.1	5.3	3.3	3.8	4.0	
Real	CZK 2010		24 730	25 641	26 735	28 307	29 693	29 665	30 264	30 179	30 592	31 149	
	growth in %		2.9	3.7	4.3	5.9	4.9	-0.1	2.0	-0.3	1.4	1.8	
Median monthly wage	CZK monthly		22 414	23 692	25 398	27 561	29 851	30 633	.	.	.	.	
	growth in %		2.9	5.7	7.2	8.5	8.3	2.6	.	.	.	.	
Wage bill	growth in %		5.0	5.7	9.2	9.6	7.8	0.2	2.9	3.9	4.1	4.2	
Labour productivity	growth in %		3.9	0.9	3.6	1.8	2.8	-4.2	3.3	3.7	1.7	1.6	
Unit labour costs <sup>6)</sup>	growth in %		-0.8	3.0	3.5	6.1	4.3	7.7	-0.8	-1.7	1.9	2.2	
Compens. of employees / GDP	%		40.9	41.7	42.8	44.3	44.7	46.0	44.6	43.0	43.0	43.1	

<sup>1)</sup> Persons in unemployment for longer than 12 months.

<sup>2)</sup> The indicator does not include employment over 64 years.

<sup>3)</sup> The indicator does not include labour force over 64 years.

<sup>4)</sup> Share of available job seekers aged 15 to 64 years in the population of the same age.

<sup>5)</sup> Derived from full-time-equivalent employers in the entire economy.

<sup>6)</sup> Ratio of nominal compensation per employee to real productivity of labour.

Source: CZSO, Ministry of Labour and Social Affairs. Calculations and forecast of the MoF.

Table 3.3.2: Labour Market – quarterly

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast
<b>Labour Force Survey</b>									
<b>Employment</b>	<i>av. in thous. persons</i>	<b>5 277</b>	<b>5 213</b>	<b>5 233</b>	<b>5 217</b>	<b>5 166</b>	<b>5 171</b>	<b>5 191</b>	<b>5 208</b>
	<i>YoY growth in %</i>	-0.5	-1.6	-1.4	-1.6	-2.1	-0.8	-0.8	-0.2
	<i>QoQ growth in %</i>	0.0	-1.2	0.0	-0.5	-0.6	0.2	0.2	0.1
Employees	<i>av. in thous. persons</i>	4 390	4 330	4 347	4 337	4 351	4 353	4 316	4 332
	<i>growth in %</i>	-0.5	-1.7	-1.4	-2.0	-0.9	0.5	-0.7	-0.1
Entrepreneurs and self-employed	<i>av. in thous. persons</i>	888	882	886	880	815	819	875	876
	<i>growth in %</i>	-0.7	-1.1	-1.2	0.1	-8.2	-7.2	-1.2	-0.5
<b>Unemployment</b>	<i>av. in thous. persons</i>	<b>106</b>	<b>126</b>	<b>154</b>	<b>162</b>	<b>179</b>	<b>159</b>	<b>157</b>	<b>149</b>
<b>Unemployment rate</b>	<i>average in %</i>	<b>2.0</b>	<b>2.4</b>	<b>2.9</b>	<b>3.0</b>	3.4	3.0	2.9	2.8
<b>Long-term unemployment <sup>1)</sup></b>	<i>av. in thous. persons</i>	<b>29</b>	<b>26</b>	<b>31</b>	<b>35</b>	<b>40</b>	.	.	.
<b>Labour force</b>	<i>av. in thous. persons</i>	<b>5 384</b>	<b>5 339</b>	<b>5 387</b>	<b>5 379</b>	<b>5 345</b>	<b>5 330</b>	<b>5 349</b>	<b>5 357</b>
	<i>growth in %</i>	-0.6	-1.1	-0.6	-0.6	-0.7	-0.2	-0.7	-0.4
<b>Population aged 20–64</b>	<i>av. in thous. persons</i>	<b>6 369</b>	<b>6 374</b>	<b>6 355</b>	<b>6 358</b>	<b>6 333</b>	<b>6 333</b>	<b>6 322</b>	<b>6 311</b>
	<i>growth in %</i>	-0.5	-0.4	-0.5	-0.3	-0.6	-0.6	-0.5	-0.7
<b>Employment/Pop. 20–64</b>	<i>average in %</i>	<b>82.9</b>	<b>81.8</b>	<b>82.3</b>	<b>82.1</b>	<b>81.6</b>	<b>81.7</b>	<b>82.1</b>	<b>82.5</b>
	<i>increase over a year</i>	-0.1	-0.9	-0.8	-1.1	-1.3	-0.1	-0.2	0.5
<b>Employment rate 20–64 <sup>2)</sup></b>	<i>average in %</i>	<b>80.1</b>	<b>79.2</b>	<b>79.7</b>	<b>79.4</b>	<b>79.0</b>	<b>78.8</b>	<b>79.1</b>	<b>79.5</b>
	<i>increase over a year</i>	0.0	-0.8	-0.6	-1.0	-1.1	-0.4	-0.6	0.1
<b>Labour force/Pop. 20–64</b>	<i>average in %</i>	<b>84.5</b>	<b>83.8</b>	<b>84.8</b>	<b>84.6</b>	<b>84.4</b>	<b>84.2</b>	<b>84.6</b>	<b>84.9</b>
	<i>increase over a year</i>	-0.1	-0.6	-0.1	-0.3	-0.1	0.4	-0.2	0.3
<b>Participation rate 20–64 <sup>3)</sup></b>	<i>average in %</i>	<b>81.7</b>	<b>81.3</b>	<b>82.0</b>	<b>82.1</b>	<b>82.2</b>	<b>81.2</b>	<b>81.4</b>	<b>81.7</b>
	<i>increase over a year</i>	-0.1	-0.4	-0.1	-0.1	0.5	-0.1	-0.6	-0.4
<b>Participation rate 15–64 <sup>3)</sup></b>	<i>average in %</i>	<b>76.4</b>	<b>75.9</b>	<b>76.6</b>	<b>76.7</b>	<b>76.7</b>	<b>76.0</b>	<b>76.1</b>	<b>76.3</b>
	<i>increase over a year</i>	-0.3	-0.6	-0.3	-0.2	0.3	0.1	-0.5	-0.3
<b>Registered unemployment</b>									
<b>Unemployment</b>	<i>av. in thous. persons</i>	<b>226</b>	<b>256</b>	<b>277</b>	<b>277</b>	<b>307</b>	<b>291</b>	<b>268</b>	<b>255</b>
<b>Share of unemployed <sup>4)</sup></b>	<i>average in %</i>	<b>3.0</b>	<b>3.5</b>	<b>3.8</b>	<b>3.8</b>	<b>4.2</b>	<b>4.0</b>	<b>3.7</b>	<b>3.5</b>
<b>Wages and salaries</b>									
<b>Average monthly wage <sup>5)</sup></b>									
Nominal	<i>CZK monthly</i>	34 197	34 382	35 487	38 584	35 285	38 187	36 836	39 843
	<i>growth in %</i>	3.8	-0.6	4.0	5.3	3.2	11.1	3.8	3.3
Real	<i>CZK 2010</i>	28 608	28 685	29 370	32 047	28 894	30 971	29 470	31 724
	<i>growth in %</i>	0.1	-3.6	0.7	2.7	1.0	8.0	0.3	-1.0
<b>Median monthly wage</b>	<i>CZK monthly</i>	<b>29 137</b>	<b>29 217</b>	<b>31 258</b>	<b>32 920</b>	<b>29 867</b>	.	.	.
	<i>growth in %</i>	3.5	-1.2	4.0	4.1	2.5	.	.	.
<b>Wage bill</b>	<i>growth in %</i>	<b>5.8</b>	<b>-8.2</b>	<b>2.1</b>	<b>1.3</b>	<b>-2.2</b>	<b>9.5</b>	<b>2.5</b>	<b>2.6</b>

<sup>1)</sup> Persons in unemployment for longer than 12 months.

<sup>2)</sup> The indicator does not include employment over 64 years.

<sup>3)</sup> The indicator does not include labour force over 64 years.

<sup>4)</sup> Share of available job seekers aged 15 to 64 years in the population of the same age.

<sup>5)</sup> Derived from full-time-equivalent employers in the entire economy.

Source: CZSO, Ministry of Labour and Social Affairs. Calculations and forecast of the MoF.

Table 3.3.3: Income and Expenditures of Households – yearly

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
										Forecast	Forecast
<b>Current income</b>											
<b>Compensation of employees</b>	bill.CZK	1 751	1 825	1 923	2 038	2 223	2 430	2 599	2 646	2 713	2 779
	growth in %	1.5	4.2	5.4	6.0	9.1	9.3	7.0	1.8	2.6	2.4
<b>Gross operating surplus and mixed income</b>	bill.CZK	655	674	691	703	740	801	845	835	852	876
	growth in %	-0.7	3.0	2.4	1.7	5.2	8.3	5.5	-1.2	2.0	2.7
<b>Property income received</b>	bill.CZK	133	133	127	133	162	162	163	179	184	188
	growth in %	3.9	0.0	-4.3	4.1	21.9	0.2	0.5	10.0	2.9	1.8
<b>Social benefits not-in-kind</b>	bill.CZK	583	596	613	630	650	685	738	881	944	996
	growth in %	-0.8	2.2	2.8	2.8	3.2	5.4	7.7	19.3	7.2	5.5
<b>Other current transfers received</b>	bill.CZK	146	160	181	217	244	281	338	310	304	318
	growth in %	-3.1	9.2	13.3	19.4	12.8	15.1	20.4	-8.4	-1.9	4.7
<b>Current expenditure</b>											
<b>Property income paid</b>	bill.CZK	21	16	14	14	13	19	28	27	25	25
	growth in %	40.5	-24.3	-10.7	0.2	-7.4	43.2	44.8	-3.1	-8.7	1.6
<b>Curr. taxes on income and property</b>	bill.CZK	185	197	205	227	264	309	316	308	224	218
	growth in %	3.5	6.5	3.9	10.8	16.3	16.9	2.2	-2.4	-27.5	-2.6
<b>Social contributions</b>	bill.CZK	670	696	732	775	836	911	976	1023	1 098	1 137
	growth in %	2.4	3.8	5.3	5.8	7.9	9.0	7.1	4.8	7.3	3.6
<b>Other current transfers paid</b>	bill.CZK	140	150	169	207	238	278	335	300	295	308
	growth in %	-9.3	7.3	12.5	22.4	15.3	16.5	20.6	-10.6	-1.6	4.4
<b>Gross disposable income</b>	bill.CZK	2 251	2 328	2 414	2 497	2 666	2 842	3 029	3 194	3 357	3 470
	growth in %	0.2	3.4	3.7	3.4	6.8	6.6	6.6	5.4	5.1	3.3
<b>Final consumption</b>	bill.CZK	2 027	2 072	2 152	2 241	2 383	2 524	2 663	2 543	2 667	2 906
	growth in %	1.6	2.2	3.9	4.1	6.4	5.9	5.5	-4.5	4.9	9.0
<b>Change in share in pension funds</b>	bill.CZK	35	35	33	31	32	33	37	38	38	41
<b>Gross savings</b>	bill.CZK	260	292	295	286	315	350	404	689	728	604
<b>Capital transfers</b>	(income (-) / expenditure (+))	bill.CZK	-13	-32	-12	-14	-11	-12	-13	-41	-37
<b>Gross capital formation</b>	bill.CZK	203	214	220	237	216	261	297	292	298	306
	growth in %	1.7	5.2	2.9	7.9	-9.2	21.2	13.7	-1.8	2.1	2.5
<b>Change in financial assets and liab.</b>	bill.CZK	68	108	85	61	110	101	116	438	466	327
<b>Real disposable income</b>	growth in %	-0.5	2.6	3.7	3.0	4.4	4.0	3.7	2.6	2.5	0.0
<b>Gross savings rate</b>	%	11.4	12.4	12.1	11.3	11.7	12.2	13.2	21.3	21.5	17.2

Source: CZSO. Calculations of the MoF.



### 3.4 External Relations

The **current account of the balance of payments** reported a surplus of 3.5% of GDP<sup>1</sup> in Q1 2021 (*in line with the estimate*). Only the balance of goods improved quarter-on-quarter; other items reported a worse result. The deterioration in the balance of services reflects persisting constraints in tourism. The higher outflows of direct investment income translated into a widening of the primary income deficit, and a decline in revenues from EU structural funds led to a deterioration in the secondary income balance.

**Export markets** increased by 7.0% (*versus 2.1%*) YoY in Q1 2021. While the 2.3% decline in GDP of our trading partners was in line with expectations (a –0.1 pp deviation), the growth in import intensity was 5.1 pp stronger. This may be related to inventory restocking. Bearing in mind the improvement in forecasts of our main trading partners' GDP and the expected increase in their imports, we believe that export markets will grow by 9.8% (*versus 5.1%*) this year. In 2022, export markets could increase by 5.9% (*versus 5.4%*) on the strength of the continued recovery abroad and a slight increase in import intensity.

**Export performance** improved by 0.7% (*versus a decline of 2.1%*) in Q1 2021. The slight strengthening of performance was driven by a year-on-year growth in manufacturing output, but curbed by the stronger exchange rate of the koruna. We expect a 0.2% decline in performance this year (*versus stagnation*). The deterioration in the forecast reflects the stronger appreciation of the koruna against the euro (see section 1.4) and carmakers' deepening problems with component shortages, leading to forced production shutdowns. For 2022, we estimate export performance growth of 0.9% (*versus 0.3%*) as supply chain difficulties, mainly in the motor vehicle segment, subside.

Within external trade (balance of payments methodology), the **balance of goods** surplus grew to 5.5% of GDP (*versus 5.4% of GDP*) in Q1 2021. The year-on-year improvement in the balance of machinery and transport equipment, a group that accounts for more than half of all exports of goods, contributed to this result. Within this group, exports of motor vehicles and electrical equipment increased. The higher surplus on the balance of goods can also be attributed to the base effect caused by last year's production shutdowns that were related to the outbreak of the coronavirus epidemic in Europe.

Prices of mineral fuels remain an important factor affecting **terms of external trade** in goods. The deficit in the fuel part of the balance was 1.5% of GDP (*versus 1.6% of GDP*) in Q1 2021. Considering the projected oil price (see section 1.2), we expect the deficit to widen to 2.1% of GDP (*versus 2.0% of GDP*) this year. For 2022, we esti-

mate a moderate reduction in the deficit of the mineral fuels class to 1.9% of GDP (*versus 1.7% of GDP*).

We forecast that the surplus on the balance of goods, relative to GDP, will reach 4.4% (*versus 4.8%*) this year. The faster recovery in economic activity abroad will be a positive factor. However, the growth of the surplus will be limited by supply chain disruptions, the forecast stronger investment activity, which will encourage import growth, and a rise in inventories in H1 2021. In 2022, we expect the surplus to narrow to 4.0% of GDP (*versus 4.1% of GDP*) due to a recovery in household consumption and a deterioration in terms of trade.

The **balance of services** posted a surplus of 1.7% of GDP (*versus 1.8% of GDP*) in Q1 2021. There was a decline in tourism revenues and a rise in costs in the transport sector. The negative impact of the coronavirus pandemic was cushioned by revenue growth in construction-related services. Given the restrictions on economic activity in services in the first half of the year, we expect the surplus to narrow slightly to 1.6% of GDP (*versus 1.8% of GDP*) this year. Then, in 2022, the positive services balance should come to 1.7% of GDP (*versus 1.8% of GDP*) as economic activity picks up.

The **primary income** deficit widened by 0.2% of GDP quarter-on-quarter to 3.0% of GDP (*versus 3.2% of GDP*) in Q1 2021. The increase in the deficit reflects the payment of direct investment income in the form of dividends and reinvested earnings abroad. However, this amount fell slightly short of expectations. The slower increase in dividend outflows may have been influenced by persistent uncertainty about the evolution of the pandemic and by caution among banking institutions (restrictions on dividend payments based on the CNB's 2020 recommendations). Taking into account the forecasts for GDP and gross operating surplus, we estimate that foreign-controlled firms' profits will rise this year. The primary income deficit could thus amount to 4.1% of GDP (*versus 4.7% of GDP*). The deficit could widen to 4.4% of GDP (*versus 4.9% of GDP*) in 2022 due to continued growth in economic activity and hence the profitability of firms owned by non-residents.

Against this background, we expect the **current account of the balance of payments** to remain in surplus, which could amount to 1.1% of GDP (*versus 1.3% of GDP*) this year. For 2022, we forecast a reduction in the positive balance to 0.5% of GDP (*unchanged*).

The **current external balance** (national accounts methodology) posted a surplus of 2.7% of GDP in Q1 2021 (see Graph 3.4.8). From the sectoral perspective, this was mainly driven by households, whose savings exceeded investments by 8.0% of GDP. In the general government sector, the relationship between savings and investments was the reverse, with gross capital formation exceeding gross savings by 7.0% of GDP.

<sup>1</sup> All *quarterly* figures relative to GDP are reported as annual rolling 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**

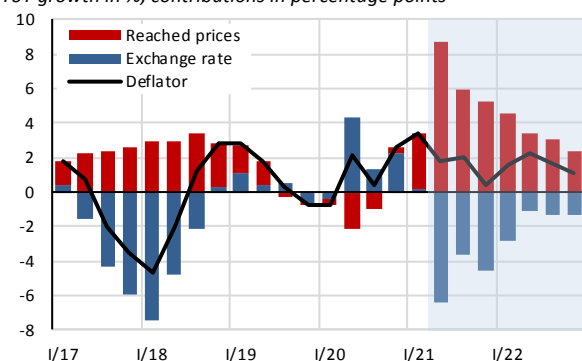
YoY growth in %, contributions in pp, seasonally adjusted



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

**Graph 3.4.3: Deflator of Exports of Goods**

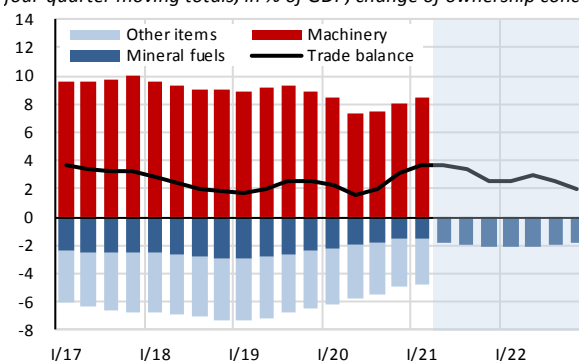
YoY growth in %, contributions in percentage points



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

**Graph 3.4.4: Balance of Trade**

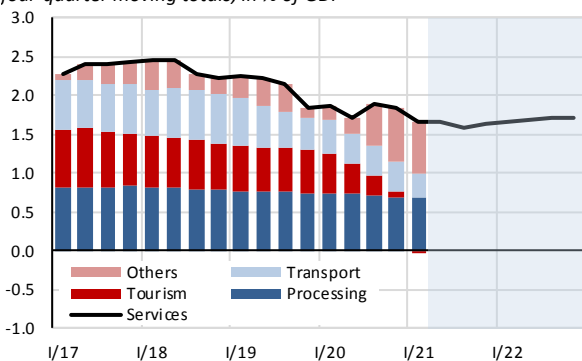
four-quarter moving totals, in % of GDP, change of ownership concept



Source: CZSO. Calculations and forecast of the MoF.

**Graph 3.4.5: Balance of Services**

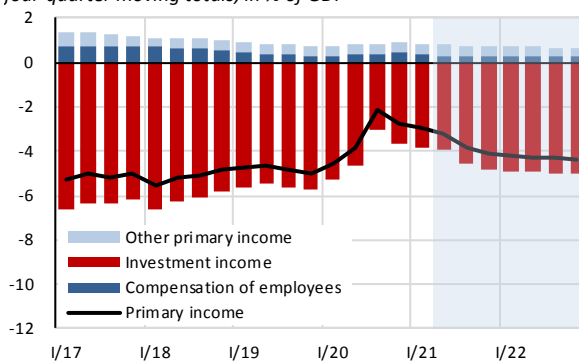
four-quarter moving totals, in % of GDP



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

**Graph 3.4.6: Balance of Primary Income**

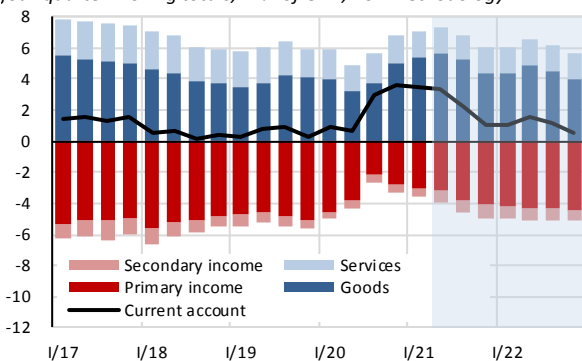
four-quarter moving totals, in % of GDP



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

**Graph 3.4.7: Current Account**

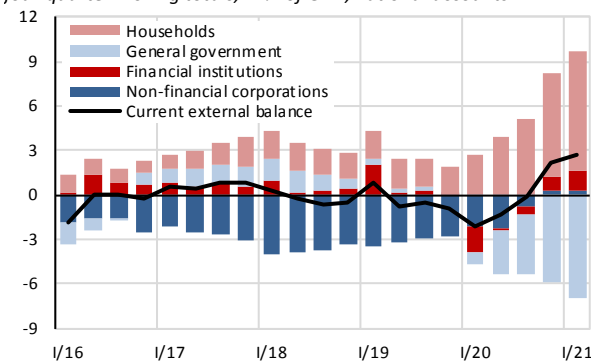
four-quarter moving totals, in % of GDP, BoP methodology



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

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
											Forecast Forecast
<b>GDP</b> <sup>1)</sup>	average of 2010=100	105.2	107.6	109.9	112.2	115.6	118.1	119.9	113.5	118	123
	growth in %	0.7	2.2	2.2	2.1	3.0	2.2	1.5	-5.4	4.1	4.5
<b>Import intensity</b> <sup>2)</sup>	average of 2010=100	104.5	107.1	110.6	113.1	116.1	118.5	119.0	118.3	125	126
	growth in %	1.5	2.5	3.3	2.3	2.6	2.1	0.4	-0.6	5.5	1.3
<b>Export markets</b> <sup>3)</sup>	average of 2010=100	109.9	115.2	121.6	127.0	134.2	140.0	142.7	134.2	147	156
	growth in %	2.2	4.8	5.5	4.5	5.7	4.3	2.0	-6.0	9.8	5.9
<b>Export performance</b>	average of 2010=100	105.3	109.8	109.7	109.4	111.4	110.5	109.7	110.8	111	111
	growth in %	-1.5	4.3	-0.1	-0.3	1.8	-0.8	-0.8	1.0	-0.2	0.9
<b>Real exports</b>	average of 2010=100	115.7	126.5	133.3	138.9	149.4	154.7	156.6	148.7	163	174
	growth in %	0.7	9.3	5.4	4.2	7.6	3.5	1.2	-5.0	9.5	6.8
<b>1 / NEER</b>	average of 2010=100	103.0	108.6	109.9	106.9	103.9	100.2	100.5	102.4	99	97
	growth in %	2.4	5.5	1.2	-2.8	-2.8	-3.6	0.4	1.9	-3.6	-1.6
<b>Prices on foreign markets</b>	average of 2010=100	102.5	100.8	98.2	98.2	100.2	103.2	103.9	103.0	109	113
	growth in %	-0.9	-1.7	-2.6	-0.1	2.1	3.0	0.6	-0.8	5.7	3.3
<b>Exports deflator</b>	average of 2010=100	105.6	109.5	108.0	104.9	104.1	103.4	104.4	105.5	108	109
	growth in %	1.5	3.7	-1.4	-2.8	-0.8	-0.7	1.0	1.1	1.9	1.6
<b>Nominal exports</b>	average of 2010=100	122.2	138.5	143.9	145.7	155.6	159.9	163.4	156.8	175	190
	growth in %	2.2	13.4	3.9	1.2	6.8	2.8	2.2	-4.1	11.7	8.5

<sup>1)</sup> Weighted average of GDP of the six most important partners – Germany, Slovakia, Austria, the United Kingdom, Poland and France.

<sup>2)</sup> Index of ratio of real imports of goods to real GDP.

<sup>3)</sup> 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

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast
GDP <sup>1)</sup>	average of 2010=100	117.0	105.0	115.8	115.9	114.4	116	120	121
	growth in %	-2.3	-12.2	-3.6	-3.5	-2.3	10.9	3.6	4.8
Import intensity <sup>2)</sup>	average of 2010=100	115.2	121.5	114.7	121.9	126.0	126	123	124
	growth in %	-4.0	1.5	-3.2	3.6	9.4	3.9	7.2	1.4
Export markets <sup>3)</sup>	average of 2010=100	134.8	127.6	132.9	141.4	144.2	147	148	150
	growth in %	-6.2	-10.9	-6.7	-0.1	7.0	15.2	11.1	6.2
Export performance	average of 2010=100	112.4	93.9	117.9	117.9	113.1	112	109	109
	growth in %	3.4	-15.1	6.5	8.2	0.7	19.1	-7.9	-7.8
Real exports	average of 2010=100	151.4	119.8	156.7	166.7	163.1	164	160	163
	growth in %	-3.0	-24.3	-0.6	8.1	7.7	37.2	2.3	-2.1
1 / NEER	average of 2010=100	100.2	105.0	101.9	102.5	100.4	98	98	98
	growth in %	-0.4	4.4	1.3	2.3	0.2	-6.4	-3.6	-4.5
Prices on foreign markets	average of 2010=100	103.6	102.0	102.7	103.7	106.9	111	109	109
	growth in %	-0.4	-2.2	-1.0	0.3	3.2	8.7	5.9	5.2
Exports deflator	average of 2010=100	103.9	107.1	104.7	106.4	107.4	109	107	107
	growth in %	-0.8	2.1	0.4	2.6	3.4	1.8	2.1	0.4
Nominal exports	average of 2010=100	157.3	128.4	164.1	177.3	175.2	179	171	174
	growth in %	-3.8	-22.7	-0.2	11.0	11.4	39.7	4.4	-1.6

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

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
											Forecast
											Forecast
<b>Goods and services</b>	<i>bill.CZK</i>	<b>237</b>	<b>276</b>	<b>274</b>	<b>365</b>	<b>384</b>	<b>321</b>	<b>346</b>	<b>390</b>	<b>366</b>	<b>366</b>
	<i>% GDP</i>	5.7	6.3	5.9	7.6	7.5	5.9	6.0	6.8	6.0	5.7
Goods	<i>bill.CZK</i>	167	220	188	259	259	201	240	285	267	255
	<i>% GDP</i>	4.0	5.1	4.1	5.4	5.1	3.7	4.1	5.0	4.4	4.0
Services	<i>bill.CZK</i>	70	56	87	107	125	120	106	105	98	111
	<i>% GDP</i>	1.7	1.3	1.9	2.2	2.4	2.2	1.8	1.8	1.6	1.7
<b>Primary income</b>	<i>bill.CZK</i>	<b>-249</b>	<b>-261</b>	<b>-255</b>	<b>-253</b>	<b>-255</b>	<b>-260</b>	<b>-292</b>	<b>-158</b>	<b>-249</b>	<b>-284</b>
	<i>% GDP</i>	-6.0	-6.0	-5.5	-5.3	-5.0	-4.8	-5.0	-2.8	-4.1	-4.4
<b>Secondary income</b>	<i>bill.CZK</i>	<b>-10</b>	<b>-7</b>	<b>1</b>	<b>-27</b>	<b>-50</b>	<b>-37</b>	<b>-34</b>	<b>-29</b>	<b>-51</b>	<b>-47</b>
	<i>% GDP</i>	-0.2	-0.2	0.0	-0.6	-1.0	-0.7	-0.6	-0.5	-0.8	-0.7
<b>Current account</b>	<i>bill.CZK</i>	<b>-22</b>	<b>8</b>	<b>21</b>	<b>85</b>	<b>79</b>	<b>24</b>	<b>19</b>	<b>204</b>	<b>66</b>	<b>35</b>
	<i>% GDP</i>	-0.5	0.2	0.4	1.8	1.5	0.4	0.3	3.6	1.1	0.5
<b>Capital account</b>	<i>bill.CZK</i>	<b>82</b>	<b>32</b>	<b>99</b>	<b>52</b>	<b>45</b>	<b>13</b>	<b>24</b>	<b>71</b>	<b>24</b>	<b>32</b>
	<i>% GDP</i>	2.0	0.7	2.1	1.1	0.9	0.2	0.4	1.3	0.4	0.5
<b>Net lending/borrowing</b>	<i>bill.CZK</i>	<b>61</b>	<b>40</b>	<b>120</b>	<b>137</b>	<b>124</b>	<b>37</b>	<b>44</b>	<b>275</b>	<b>90</b>	<b>67</b>
	<i>% GDP</i>	1.5	0.9	2.6	2.9	2.4	0.7	0.8	4.8	1.5	1.0
<b>Financial account</b>	<i>bill.CZK</i>	<b>68</b>	<b>64</b>	<b>173</b>	<b>122</b>	<b>116</b>	<b>61</b>	<b>8</b>	<b>244</b>	<b>.</b>	<b>.</b>
Direct investments	<i>bill.CZK</i>	7	-80	50	-187	-46	-51	-137	-73	.	.
Portfolio investments	<i>bill.CZK</i>	-93	90	-164	-170	-268	30	-105	-136	.	.
Financial derivatives	<i>bill.CZK</i>	-5	-6	-5	11	-14	-15	1	12	.	.
Other investments	<i>bill.CZK</i>	-30	-13	-59	-97	-802	47	139	393	.	.
Reserve assets	<i>bill.CZK</i>	188	73	351	564	1 246	50	110	48	.	.
<b>International investment position</b>	<i>bill.CZK</i>	<b>-1 695</b>	<b>-1 577</b>	<b>-1 523</b>	<b>-1 304</b>	<b>-1 273</b>	<b>-1 320</b>	<b>-1 147</b>	<b>-709</b>	<b>.</b>	<b>.</b>
	<i>% GDP</i>	-40.9	-36.3	-32.9	-27.2	-24.9	-24.4	-19.8	-12.5	.	.
<b>Gross external debt</b>	<i>bill.CZK</i>	<b>2 733</b>	<b>2 947</b>	<b>3 119</b>	<b>3 499</b>	<b>4 370</b>	<b>4 413</b>	<b>4 384</b>	<b>4 301</b>	<b>.</b>	<b>.</b>
	<i>% GDP</i>	66.0	67.8	67.4	72.9	85.5	81.6	75.7	75.5	.	.

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*

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
<b>Goods and services</b>	<i>bill.CZK</i>	<b>343</b>	<b>282</b>	<b>320</b>	<b>390</b>	<b>406</b>	<b>427</b>	<b>405</b>	<b>366</b>
	<i>% GDP</i>	5.9	4.9	5.6	6.8	7.1	7.3	6.8	6.0
Goods	<i>bill.CZK</i>	234	184	212	285	311	329	311	267
	<i>% GDP</i>	4.0	3.2	3.7	5.0	5.5	5.6	5.2	4.4
Services	<i>bill.CZK</i>	108	98	108	105	95	98	94	98
	<i>% GDP</i>	1.9	1.7	1.9	1.8	1.7	1.7	1.6	1.6
<b>Primary income</b>	<i>bill.CZK</i>	<b>-266</b>	<b>-220</b>	<b>-124</b>	<b>-158</b>	<b>-171</b>	<b>-188</b>	<b>-228</b>	<b>-249</b>
	<i>% GDP</i>	-4.6	-3.8	-2.2	-2.8	-3.0	-3.2	-3.8	-4.1
<b>Secondary income</b>	<i>bill.CZK</i>	<b>-25</b>	<b>-27</b>	<b>-25</b>	<b>-29</b>	<b>-36</b>	<b>-41</b>	<b>-46</b>	<b>-51</b>
	<i>% GDP</i>	-0.4	-0.5	-0.4	-0.5	-0.6	-0.7	-0.8	-0.8
<b>Current account</b>	<i>bill.CZK</i>	<b>52</b>	<b>35</b>	<b>171</b>	<b>204</b>	<b>200</b>	<b>198</b>	<b>131</b>	<b>66</b>
	<i>% GDP</i>	0.9	0.6	3.0	3.6	3.5	3.4	2.2	1.1
<b>Capital account</b>	<i>bill.CZK</i>	<b>48</b>	<b>57</b>	<b>73</b>	<b>71</b>	<b>50</b>	<b>38</b>	<b>28</b>	<b>24</b>
	<i>% GDP</i>	0.8	1.0	1.3	1.3	0.9	0.6	0.5	0.4
<b>Net lending/borrowing</b>	<i>bill.CZK</i>	<b>100</b>	<b>92</b>	<b>244</b>	<b>275</b>	<b>250</b>	<b>236</b>	<b>159</b>	<b>90</b>
	<i>% GDP</i>	1.7	1.6	4.3	4.8	4.4	4.0	2.7	1.5
<b>Financial account</b>	<i>bill.CZK</i>	<b>109</b>	<b>69</b>	<b>257</b>	<b>244</b>	<b>232</b>	.	.	.
Direct investments	<i>bill.CZK</i>	-107	-94	-27	-73	-54	.	.	.
Portfolio investments	<i>bill.CZK</i>	1	-13	33	-136	-33	.	.	.
Financial derivatives	<i>bill.CZK</i>	23	20	21	12	-2	.	.	.
Other investments	<i>bill.CZK</i>	70	46	123	393	234	.	.	.
Reserve assets	<i>bill.CZK</i>	121	109	107	48	86	.	.	.
<b>International investment position</b>	<i>stock in bill.CZK</i>	<b>-731</b>	<b>-755</b>	<b>-553</b>	<b>-709</b>	<b>-546</b>	.	.	.
	<i>% GDP</i>	-12.5	-13.2	-9.7	-12.5	-9.6	.	.	.
<b>Gross external debt</b>	<i>stock in bill.CZK</i>	<b>4 476</b>	<b>4 373</b>	<b>4 366</b>	<b>4 301</b>	<b>4 308</b>	.	.	.
	<i>% GDP</i>	76.8	76.4	76.6	75.5	75.5	.	.	.

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

## 4 Survey of Other Institutions' Forecasts

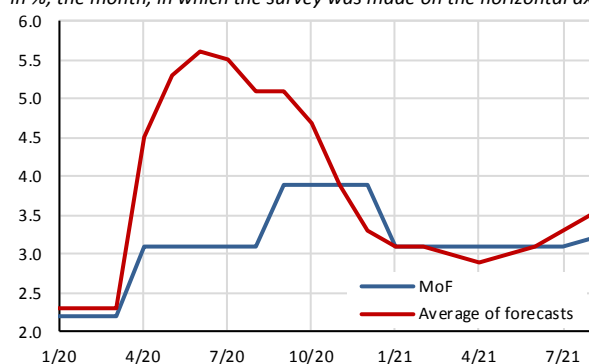
On average, the surveyed institutions assume that the base effect will allow for real GDP growth of 3.5% this year. However, this will fall far short of restoring the 2019 level of economic output. Economic growth should accelerate to 4.4% in 2022. The average inflation rate should be 2.8% in 2021, before slowing to 2.4% in 2022. Average wage growth could accelerate to 4.4% next year from 4.0% in 2021. The current account of the balance of payments should continue to report a surplus in both 2021 and 2022, albeit smaller than in the record year 2020.

The forecast of the Ministry of Finance for economic growth differs only slightly from the average of individual

institutions' forecasts. The forecast for the inflation rate in 2022 is significantly higher than the forecasts made by the surveyed institutions, as it already includes both the acceleration in price growth in July and new information on the expected development of regulated prices (see section 3.2). Similarly, the MoF's forecast for average wage growth in 2022 deviates from the range of surveyed forecasts. This probably stems from the inclusion of information on government sector salaries (the extra bonuses for health and rescue workers in 2021, salary freezes for most government employees in 2022). As for the current account surplus, the MoF also expects it to decrease gradually.

**Graph 4.1: Forecasts for Real GDP Growth in 2021**

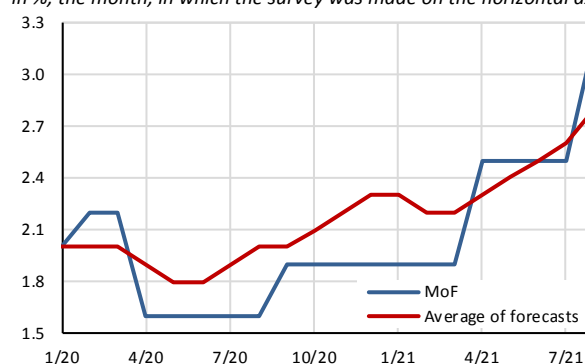
in %; the month, in which the survey was made on the horizontal axis



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

**Graph 4.2: Forecasts for Average Inflation Rate in 2021**

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**

		August 2021			August 2021
		min.	max.	average	MoF forecast
Gross domestic product (2021)	growth in %, const.pr.	2.7	4.2	3.5	3.2
Gross domestic product (2022)	growth in %, const.pr.	3.0	5.3	4.4	4.2
Average inflation rate (2021)	%	2.2	3.4	2.8	3.2
Average inflation rate (2022)	%	1.9	2.9	2.4	3.5
Average monthly wage (2021)	growth in %	2.8	5.4	4.0	5.3
Average monthly wage (2022)	growth in %	3.5	5.3	4.4	3.3
Current account / GDP (2021)	%	0.8	5.2	2.3	1.1
Current account / GDP (2022)	%	0.1	3.1	1.1	0.5

Note: The survey is based on publicly available forecasts of 13 institutions, of which 8 institutions are domestic (CNB, Ministry of Labour and Social Affairs, domestic banks and investment companies) and the remaining are foreign entities (European Commission, OECD, IMF etc.). 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 Household Consumption and Savings in the Pandemic

In 2020 the global economic activity was affected by the pandemic of a new type of coronavirus (SARS CoV-2) in a totally unprecedented way. Despite the adoption of massive fiscal and monetary stimuli to mitigate the impact of the pandemic and anti-epidemic restrictions, real GDP fell deeply in numerous countries. The only EU Member State to record economic growth last year was Ireland (5.9%). However, the Irish economy is heavily affected by the activities of large multinational corporations; according to gross national income, it also declined (by 3.5%). In many EU countries, including the Czech Republic, household consumption was the main demand-side driver of the economic downturn (see Graph 5.1). This contrasts quite sharply with the “Great Recession” in late 2008 and early 2009, when the contribution of household consumption to GDP growth was only slightly negative in many EU countries, or even positive (see Graph 5.2).

Although the typical channels through which household consumption tends to be negatively affected in recessions (income reduction due to a fall in employment or precautionary savings) were dampened by many support measures, consumption was seriously affected by anti-epidemic restrictions, especially in the retail, services, and travel sectors. Households were thus unable to carry out usual expenses in these areas. The result was an extremely strong increase in the savings rate (see Graph 5.3), averaging 8.2 pp in the EU. This is several times larger than during the Great Recession (see Graph 5.4), when savings rate in the EU increased by 1.5 pp. In the quarters ahead, the use of the extra savings accumulated during the pandemic, together with a certain normalisation of the savings rate, could become an important pro-growth factor. Equally, however, it could also boost consumer inflation or asset price growth.

### 5.1 Importance of Household Consumption for the Czech Economy

In the Czech Republic, household consumption is the most important component of domestic demand. Its share in GDP was close to 46% between 2017 and 2019. Even so, this ranked it among the lowest of EU countries (see Graph 5.5). In the context of the coronavirus epidemic and measures taken to contain the spread of the disease, real household consumption in the Czech Republic fell by a record 7.1% in 2020, which was roughly in line with the EU average (see Graph 5.6). Consequently, the share of household consumption in GDP fell to 44.7%.

From the long-term perspective, the share of household consumption in GDP has been gradually declining in the Czech Republic (see Graph 5.7). This trend is evident in both current and constant price data, which means that it is not primarily determined by different price developments. For example, between 2003 and 2020, the implicit GDP deflator increased by 36%, almost as much as

the household consumption deflator. Therefore, over this period, the decline in the share of household consumption in GDP reflected exclusively the evolution of real aggregates – while GDP grew by almost 50%, household consumption increased by about a third. The main reasons for this were the massive inflow of foreign direct investment and the Czech Republic’s accession to the EU, as a result of which the export-led orientation of the economy was significantly bolstered. As a result, the balance of goods and services improved markedly – in 2003 net exports reported a slight deficit relative to GDP, but in 2020 the surplus was more than 6% of GDP.

Considering the structure of GDP use, it is therefore not surprising that household consumption is an important driver of economic momentum. Between 1993 and 2020, the Czech economy grew at an average annual rate of 2.4%, with household consumption contributing 1.2 pp (see Graph 5.8).

### 5.2 Household Consumption during the Pandemic

When analysing household consumption, it is useful to make a distinction between consumption in the national and domestic concept. In the national concept, household consumption consists of expenditure by resident households on the economic territory and in the rest of the world, while in the domestic concept consumption encompasses expenditure by resident and non-resident households on the economic territory.

Household consumption in the national concept is dominated by expenditure on housing, food and beverages, and transport (see Table 5.1). *Clothing and Footwear*, *Recreation and Culture* and *Restaurants and Hotels*,

where consumption was significantly reduced by government anti-epidemic measures, accounted for almost 20% of total household consumption in 2015–2019.

In 2015–2019, household consumption grew quite dynamically, i.e. by an average of 3.5% per year, with spending on some groups of goods and services increasing by more than 6% per year. In 2020, however, consumption registered a record deep fall of 7.1%; in some sections of the consumption basket, the slump was even double-digit. Real spending fell the most in *Restaurants and Hotels* (–36.7%), *Clothing and Footwear* (–21.2%), and *Transport* (–17.3%). The decline of around 12% in

*Recreation and Culture* was also significant. The aggregate contribution made by these sections to the decline in total consumption was 6.2 pp.

An alternative breakdown of consumption by durability offers a similar picture of how consumption expenditure evolved in 2020. Spending on semi-durable goods and services fell the most, though spending on durable and non-durable goods also declined. In terms of contributions, the most significant drop was in spending on services, which were the hardest hit by the restrictive measures.

In 2020, consumption in the domestic concept (see Table 5.2) developed along very similar lines as consumption in the national concept. Compared to consumption in the national concept, *Restaurants and Hotels* – the category in which the structure of consumption differs most in the two concepts – posted the largest difference in real expenditure dynamics. This is because spending on these services by non-residents (e.g. foreign tourists) in the Czech Republic is much higher than spending by residents in the rest of the world (in 2019, the difference was over CZK 60 billion). The same goes for other categories of tourism-related expenditure, namely *Transport* and *Recreation and Culture*, although the differences here are not as pronounced (approximately CZK 9 billion and CZK 7 billion, respectively). However, in 2020, anti-epidemic restrictions severely limited cross-border movement, resulting in an aggregate reduction in the difference between expenditure by non-residents and residents by more than CZK 45 billion in the above sections (*Restaurants and Hotels* accounted for CZK 37 billion). In other words, non-residents' expenditure in the Czech Republic fell much more than residents' expenditure in the rest of the world (see Table 5.3). This explains the deeper fall in consumption according to the domestic concept compared to consumption in the national concept.

Quarterly figures disaggregated by durability offer a more detailed look at the evolution of real consumption during the pandemic. While these figures are only available

for household consumption in the domestic concept, when we consider that expenditures of resident households on Czech economic territory account for the vast majority of consumption in both the domestic and national concept (see Table 5.3), they can also be applied to consumption in the national concept, at least qualitatively.

Year on year, household consumption decreased slightly as early as in Q1 2020 (see Graph 5.11), as the first measures to contain the spread of the disease were taken in mid-March. Developments in the following months and the strength of the anti-epidemic measures are well illustrated by the Stringency Index compiled by the University of Oxford (see Hale *et al.*, 2021). The index is based on nine indicators capturing restrictions in a number of areas of everyday life. These include school closures, cancellations of mass events, or restrictions on assembly, movement and cross-border travel. The index values range from 0 to 100, with 0 indicating that no restrictive measures are taken in that particular region.

In the Czech Republic, the Stringency Index peaked at the end of March 2020, but similarly stringent measures were applied in Q1 2021 (see Graph 5.9). In general, restrictions were toughest over the duration of the states of emergency (from 12 March to 17 May 2020 and then from 5 October 2020 to 11 April 2021). Compared to developments in other EU countries, it is clear that the intensity of the restrictions was largely synchronised (see Graph 5.10), although the specific measures varied.

Starting in Q2 2020, household consumption essentially “copied” the development of anti-epidemic measures. The declines were much deeper than in Q1 2020, with consumer spending falling in all groups, most notably for semi-durable goods. However, considering the structure of consumption (see Table 5.2), the fall in spending on services was by far the most significant. The softening of the decline in Q3 2020 mainly reflected the easing of anti-epidemic measures and the associated recovery in consumer spending (see Graph 5.12), while in Q1 2021 it was related to the base effect.

### 5.3 Household Disposable Income

The evolution of household consumption (in the national concept) can also be viewed through sectoral accounts data. These accounts make it possible to determine, among other things, the impact that changes in disposable income and savings have on consumption. Although sectoral accounts data are only available in current prices, they can also be used to analyse real household consumption if one uses a suitable deflator (e.g. the household consumption deflator).

Real gross disposable income of households grew by an average of 4.0% YoY in 2017–19 and maintained a similar pace in Q1 2020, when it increased by 3.6%. Neverthe-

less, the deep economic downturn that followed did not lead to a decline, with the exception of Q2 2020 when there was a marginal 0.2% decrease (see Graph 5.13). In fact, thanks to the support measures adopted and the effects of automatic stabilisers, the growth of household disposable income only slowed down, averaging 2.3% between Q2 2020 and Q1 2021. While there was a noticeable loss of momentum in income from labour (compensation of employees) and business (gross operating surplus and mixed income), this was largely offset by an increase in income from social benefits. This result is all the more striking when the structure of households' current income is taken into account. While the share of in-



come from work and business exceeds 70%, social benefits account for around 17% of current income. On the expenditure side, lower paid taxes and social security contributions made a positive contribution to developments in disposable income in the first three quarters of 2020. A detailed list of measures taken on both the revenue and expenditure sides of public budgets to mitigate the macroeconomic and social impacts of the anti-epidemic restrictions and to support the subsequent recovery is presented in the January 2021 Fiscal Outlook of the Czech Republic (MoF, 2021a), while the January Macroeconomic Forecast (MoF, 2021b) quantifies their impact on the Czech economy.

The impact of the epidemic and anti-epidemic restrictions on disposable income has also been significantly cushioned in other countries. In the EU, the growth rate of real gross disposable income of households slowed by 2.0 pp between Q2 2020 and Q1 2021 compared with the 2017–2019 average, leaving disposa-

ble income stagnant (see Graph 5.14). In the Czech Republic, the loss of momentum during the epidemic was on a par with the EU average, yet growth in Czech households' disposable income remained among the strongest in the EU.

Government measures also mitigated the pandemic's impact on income inequality. Aspachs *et al.* (2021) estimate that inequality would have risen by 30% in Spain had there not been any support schemes. In Germany, according to Bruckmeier *et al.* (2020), the progressivity of the measures introduced was even more pronounced and actually led to a decline in disposable income inequality. Consumption restraint had a greater impact on high-income households, which have a relatively lower share of expenditure on essential goods and, in contrast, focus more of their consumption on the hardest hit sectors. Thus, in most countries, the significantly higher savings by richer households is likely to lead to a rise in wealth inequality.

## 5.4 Household Savings

Considering the epidemic's subdued impact on household disposable income, savings were an absolutely crucial factor behind the fall in household consumption (see Graph 5.15). Increases in the savings rate were recorded in all EU countries with available data. Savings accumulation was a drag on real consumption growth in 2020, with the contribution ranging from –19.4 pp (Ireland) to –1.5 pp (Denmark); the EU average was –7.4 pp. In the Czech Republic, the impact of this factor was the fourth most significant in 2020 (–9.7 pp). Even in Q1 2021, savings stifled household consumption growth (see Graph 5.16). Again, this was related to the anti-epidemic restrictions.

CNB (2021a) estimates that out of the total of more than CZK 680 billion (constant prices, seasonally adjusted) saved by households<sup>2</sup> between Q1 2020 and Q1 2021, CZK 425 billion (roughly 62%) could be attributed to ordinary savings, i.e. savings that households would have made even without the epidemic. Precautionary savings, which households make, for example, because they are worried about falling incomes or job losses, amounted to CZK 58 billion (9%). The remaining CZK 199 billion (29%) are “forced” savings due to restrictions in retail and services. However, given the relatively high stability of the forced savings from Q2 2020 onwards, there may be some doubt as to whether these estimates adequately reflect the course of the anti-epidemic restrictions, in particular the eased measures in Q3 2020.

It is also worth stressing the important distinction between the change in savings in the common sense and savings as they are understood in national accounts. In the latter, savings (together with net capital transfers) are a source for the acquisition of non-financial assets (see Table 5.4). For households, this mainly means residential property. It is rather net lending (the difference between the change in financial assets and liabilities) that corresponds to the accumulation of savings in the common sense, i.e. the funds that households do not spend in the current period and allocate them among various financial assets. Net lending totalled around CZK 520 billion in the period from Q1 2020 to Q1 2021 (seasonally adjusted, constant prices).

An important aspect of the increased accumulation of savings during the epidemic, including in terms of future household consumption, is the distribution of extra savings across the income distribution (given the lower propensity to consume among higher-income households). Relevant figures for the Czech Republic are unfortunately not available, but certain sample surveys and related studies have addressed this issue abroad. Observations of the socio-economic profile of households, their financial situation, expectations of economic variables and other fundamental factors of household consumption suggest that consumption expenditure is deviating from its usual links to explanatory variables. However, this approach also implicitly captures supply-side constraints, combining both precautionary and forced savings. A European Commission survey (2021) found that economic expectations and intentions to buy durable goods (household appliances, furniture, etc.) depended on evolution of the epidemic. In contrast, the propensity to save trended upwards right from the first coronavirus

<sup>2</sup> According to data available as of the forecast cut-off date, seasonally adjusted gross household savings in constant 2015 prices exceeded CZK 790 billion in total in the period from Q1 2020 to Q1 2021. In the most recently released sector accounts, the figures for 2020 (current prices, unadjusted) were revised upwards by more than CZK 90 billion.

outbreak, suggesting strong inertia in prudent behaviour combined with the repeated introduction of restrictions. Individuals in the lower half of income distribution made higher drawdowns on existing savings or only accumulated very modest savings. In contrast, the proportion of people accumulating financial reserves increased significantly in the upper half of the distribution, as did the proportion of people over 65. Baker *et al.* (2020) analysed transactional data and found that the immediate effect of the pandemic in the US had been to increase the consumption of necessities as a result of stockpiling and concerns that businesses would be shuttered. This response was uniform across the income distribution. Franklin *et al.* (2021) document not only higher household savings in the top income quintiles, but also recorded increasing differences between quintiles as the pandemic progressed. The Bank of England (2020), drawing on a survey conducted among UK households, reports that 42% of high-income employee households increased their savings, compared to only 22% of low-income households.

The household budget survey (2019 data) can also provide some guidance on the distribution of savings accumulation. While less than 35% of the Czech population

lives in households where the net money income per capita falls in the top 40% of the distribution (higher-income households have, on average, fewer members than low-income households), their share of total consumer spending in the categories most affected by the government's anti-epidemic measures (clothing and footwear, transport, recreation and culture, restaurants and hotels) exceeds 47% on aggregate. This means that, comparatively speaking, government restrictions had a greater impact on the consumption of high-income households. It can therefore be assumed that a significant part of the forced savings was generated by higher income households (in 2021, the unevenness of the accumulation of savings across the income distribution seems to have been exacerbated by changes in personal income taxation). At the same time, they have the lowest average propensity to consume, which we estimate at 65% for households above the highest income quintile, based on the household budget survey and statistics on income and living conditions (EU-SILC). Among households in the middle part of the distribution, i.e. between the first and fourth quintiles, the average propensity to consume is in the 75–80% range; it is slightly above 100% among the fifth of the poorest households.

## 5.5 Implications for Post-pandemic Consumption Trends

The rampant accumulation of savings during the pandemic raises the question of when and to what extent households will use these extra savings to finance consumption. In the UK, for example, only a relatively small proportion of consumers intend to spend at least part of their savings. According to September 2020 survey in Bank of England (2021), only 10% of UK households planned to spend their increased savings; this share rose to around a quarter in March 2021. Only 3.5% of households intend to consume more than half of their additional funds. Households' inflation expectations will also be an important driver of consumption behaviour, reflecting the currently strong price growth and the change in the consumption basket during the pandemic. According to literature, the effects of structural changes on actual price growth are not clear-cut. Drawing on detailed sales data CNB (2021b) confirms that, overall, the conventional consumer price index is of telling value. By contrast, Cavallo (2020) analysed transactional data in the US and found that the altered consumption structure shows much higher price growth than the official consumer price index, which likely amplifies the perceived price increases among consumers.

Considering how anti-epidemic restrictions are developing (see Graph 5.9), the effect of deferred consumption in the Czech Republic could have been significant as early as Q2 2021, at least in certain segments of consumer spending. Although national accounts figures for this period were not available at the forecast cut-off date, monthly data on sales in retail trade and selected service

sectors may provide some guidance here. In the case of non-food goods, sales in May and June were quite significantly above the pre-crisis level (see Table 5.5). In addition to the resumption of normal operations, sales were thus likely boosted by the fact that people were now engaging in the consumption they had deferred. By contrast, in services, sales levels are still well below pre-pandemic levels. In accommodation, although sales rose by more than 80% MoM in June, they were still 47% lower than in February 2020. In the restaurants and hospitality sector, sales actually fell month-on-month in June. Consumer spending on certain services is thus likely to take longer to return to normal, and it is uncertain whether deferred consumption will be realised at all, i.e. whether there will be a period when people will, for example, go to restaurants or hairdressers more often just because they had before gone to them less or not at all.

In terms of households' ability to finance deferred consumption in the future out of their extraordinary savings, it is also worth asking whether households have already used these funds in other ways, such as investing them in real estate or securities.

Changes in the financial assets and liabilities, which form net lending/borrowing, are recorded in the financial account (see Table 5.6). For the sake of comparison, we also present data from the quarterly financial accounts compiled by the Czech National Bank. However, these are not fully consistent with data from the national accounts system. While households' financial assets in-



creased by CZK 614 billion in 2020 due to transactions (i.e. excluding holding gains/losses and other changes in the volume of assets), liabilities rose by CZK 176 billion. In terms of households' ability to finance deferred consumption, it is significant that less than two thirds of this increase in financial assets (CZK 393 billion) is attributable to changes in currency and deposits (here, we implicitly assume that investments in other financial assets, such as bonds, shares or mutual fund shares, are not short-term in nature). However, this does not tell us anything about how households will dispose of these funds

in the future. Indeed, considering that currency and deposits account for roughly two thirds of the increase in households' financial assets over the long term (the average over the period 1999–2019), it is possible that households will use the increase in currency and deposits from 2020 as a long-term financial buffer or consider it an "investment". The financial accounts for Q1 2021 confirm how conservative Czech households are – the bulk of the increase in financial assets due to transactions was again accounted for by an increase in currency and deposits.

## 5.6 Conclusion

The measures taken to stop the spread of the coronavirus encroached on the daily and economic life of many households and businesses on an unprecedented scale. While the extraordinary economic policy stimuli prevented a fall in households' disposable income, the anti-epidemic restrictions on retail, services and travel contributed significantly to a very strong increase in savings.

Although a number of factors will influence the strength of the economic recovery, household consumption should be very important. While it is not clear how quickly the savings rate will "normalise" and to what extent households' extra savings will be used to finance consumer spending, investment in property or other as-

sets, or whether households will use savings to reduce their debt, the question of whether the epidemic will have a more lasting impact on consumer preferences remains unanswered.

In the macroeconomic forecast for next year, we expect some normalisation of the household savings rate, but even so it should remain well above the long-term average. Likewise, we do not expect a significant "deferred consumption effect". Thus, a faster return to the pre-epidemic savings rate or higher use of extraordinary savings remains a positive risk for the Czech Republic's future economic development.

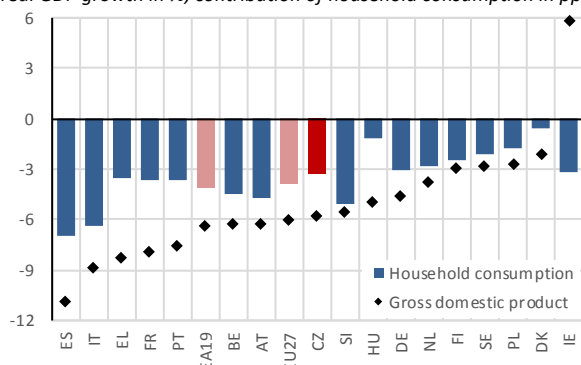
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- Resolution No. 396 of the Government of the Czech Republic of 9 April 2020 on the prolongation of the state of emergency in relation to the SARS CoV-2 virus epidemic.
- Resolution No. 485 of the Government of the Czech Republic of 30 April 2020 on the prolongation of the state of emergency in relation to the SARS CoV-2 virus epidemic.
- Resolution No. 957 of the Government of the Czech Republic of 30 September 2020 on the declaration of the state of emergency on the territory of the Czech Republic for 30 days starting on 5 October 2020 at 0 am, due to health risks related to proven occurrence of coronavirus (SARS CoV-2) on the territory of the Czech Republic.
- Resolution No. 1108 of the Government of the Czech Republic of 30 October 2020 on the prolongation of the state of emergency in relation to the SARS CoV-2 virus epidemic.
- Resolution No. 1195 of the Government of the Czech Republic of 20 November 2020 on the prolongation of the state of emergency in relation to the SARS CoV-2 virus epidemic.
- Resolution No. 1294 of the Government of the Czech Republic of 10 December 2020 on the prolongation of the state of emergency in relation to the SARS CoV-2 virus epidemic.
- Resolution No. 1373 of the Government of the Czech Republic of 23 December 2020 on the prolongation of the state of emergency in relation to the SARS CoV-2 virus epidemic.
- Resolution No. 55 of the Government of the Czech Republic of 22 January 2021 on the prolongation of the state of emergency in relation to the SARS CoV-2 virus epidemic.
- Resolution No. 125 of the Government of the Czech Republic of 14 February 2021 on the declaration of the state of emergency on the territory of the Czech Republic for 14 days starting on 15 February 2021 at 0 am, due to health risks related to proven occurrence of coronavirus (SARS CoV-2) on the territory of the Czech Republic.
- Resolution No. 1530 of the Chamber of Deputies of 18 February 2021 on the termination of the state of emergency.
- Resolution No. 196 of the Government of the Czech Republic of 26 February 2021 on the declaration of the state of emergency on the territory of the Czech Republic for 30 days starting on 27 February 2021 at 0 am, due to health risks related to proven occurrence of coronavirus (SARS CoV-2) on the territory of the Czech Republic.
- Resolution No. 314 of the Government of the Czech Republic of 26 March 2021 on the prolongation of the state of emergency in relation to the SARS CoV-2 virus epidemic.

**Graph 5.1: GDP and Household Consumption in 2020**

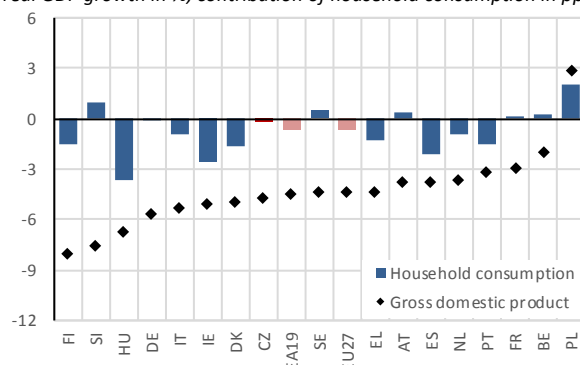
real GDP growth in %, contribution of household consumption in pp



Source: Eurostat. Calculations of the MoF.

**Graph 5.2: GDP and Household Consumption in 2009**

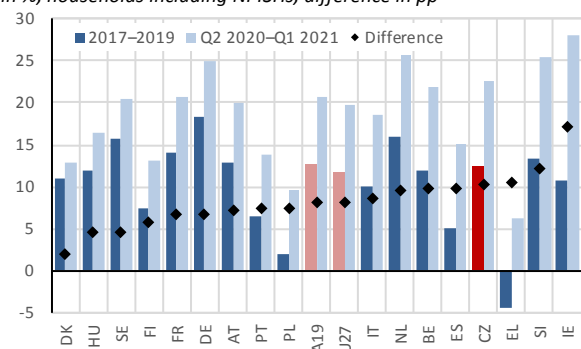
real GDP growth in %, contribution of household consumption in pp



Source: Eurostat. Calculations of the MoF.

**Graph 5.3: Household Savings Rate – Pandemic**

in %, households including NPISHs, difference in pp

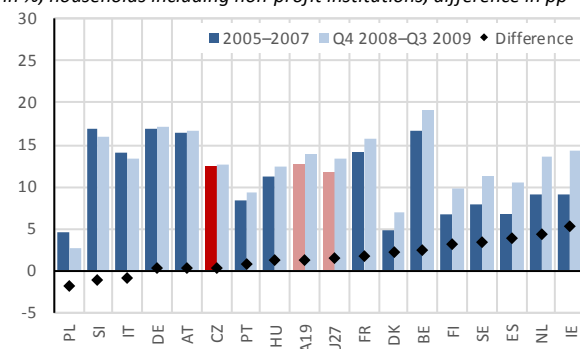


Note: Average savings rate in specified periods, FR – average in 2020.

Source: Eurostat. Calculations of the MoF.

**Graph 5.4: Household Savings Rate – Great Recession**

in %, households including non-profit institutions, difference in pp

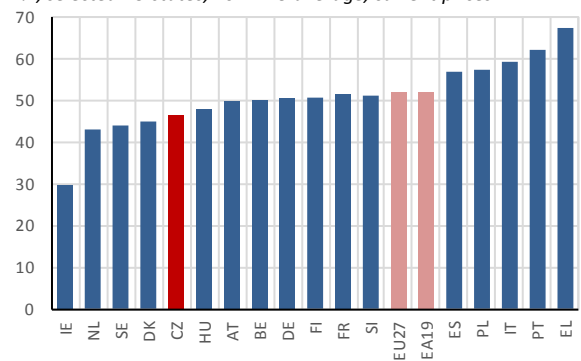


Note: Average savings rate in specified periods.

Source: Eurostat. Calculations of the MoF.

**Graph 5.5: Share of Household Consumption in GDP**

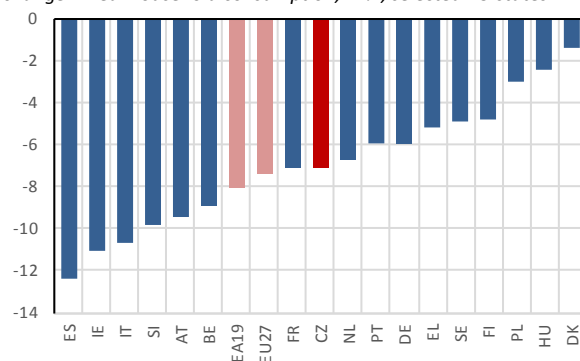
in %, selected EU states, 2017–19 average, current prices



Source: Eurostat. Calculations of the MoF.

**Graph 5.6: Household Consumption in 2020**

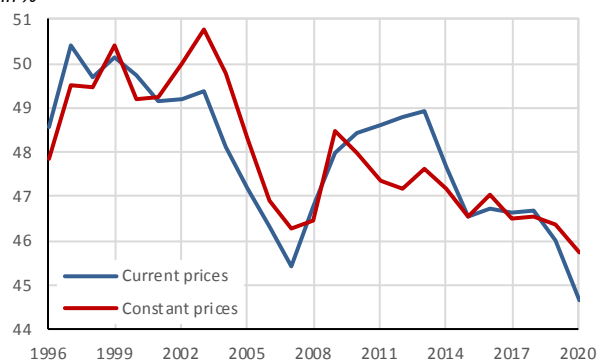
change in real household consumption, in %, selected EU states



Source: Eurostat. Calculations of the MoF.

**Graph 5.7: Share of Household Cons. in GDP – CR**

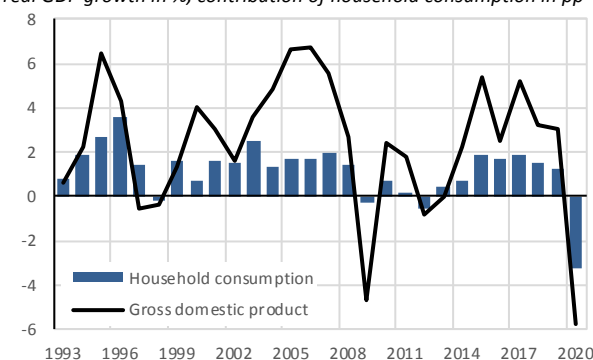
in %



Source: CZSO. Calculations of the MoF.

**Graph 5.8: GDP and Household Consumption – CR**

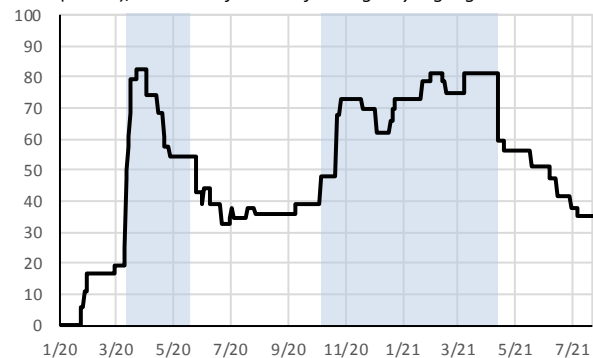
real GDP growth in %, contribution of household consumption in pp



Source: CZSO. Calculations of the MoF.

**Graph 5.9: Stringency Index – CR**

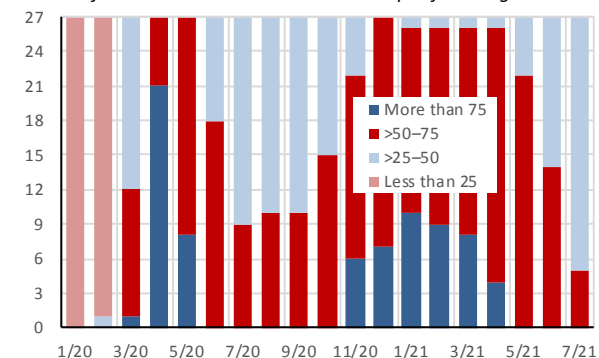
index (0–100), duration of states of emergency highlighted



Source: University of Oxford, resolutions of the government.

**Graph 5.10: Stringency Index – EU**

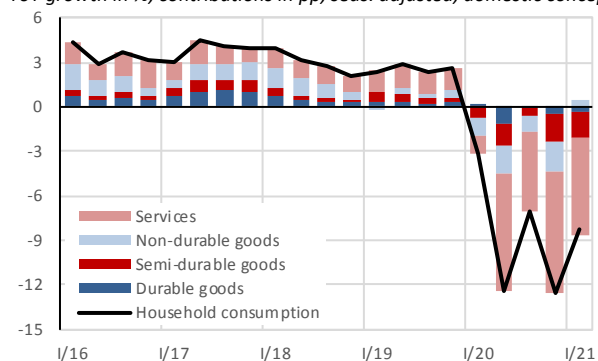
number of EU states with the index value in specified range



Source: University of Oxford. Calculations of the MoF.

**Graph 5.11: Real Household Consumption – CR**

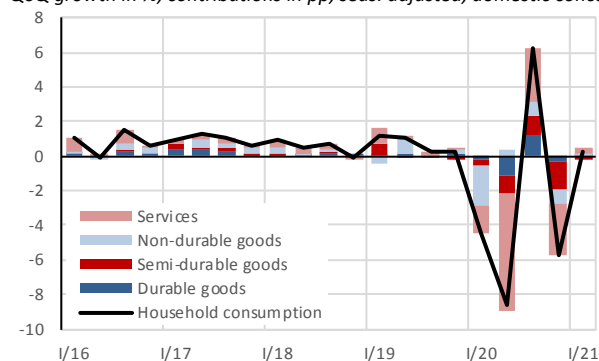
YoY growth in %, contributions in pp, seas. adjusted, domestic concept



Source: CZSO. Calculations of the MoF.

**Graph 5.12: Real Household Consumption – CR**

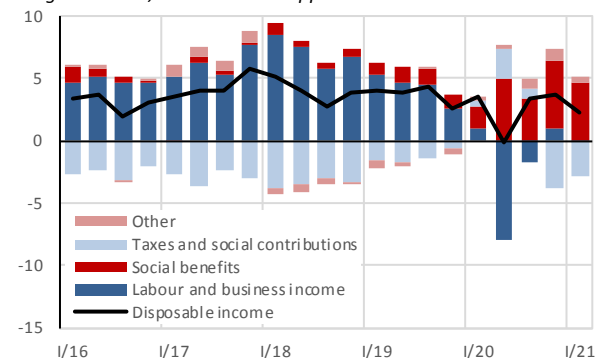
QoQ growth in %, contributions in pp, seas. adjusted, domestic concept



Source: CZSO. Calculations of the MoF.

**Graph 5.13: Real Household Disposable Income – CR**

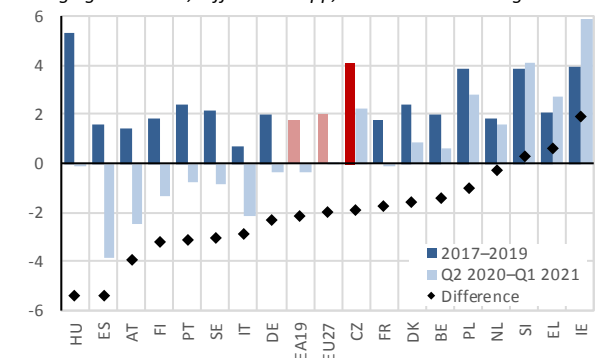
YoY growth in %, contributions in pp



Source: CZSO. Calculations of the MoF.

**Graph 5.14: Real Household Disposable Income**

average growth in %, difference in pp, households including NPISHs

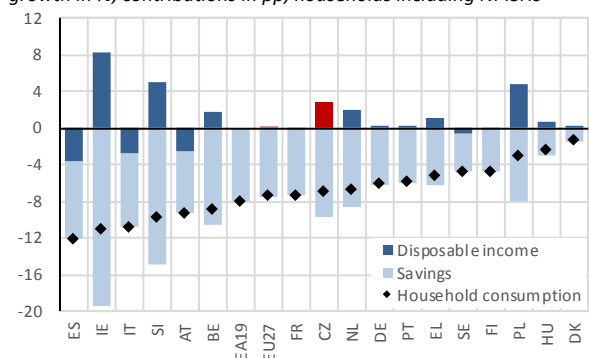


Note: France – average growth of disposable income in 2020.

Source: Eurostat. Calculations of the MoF.

**Graph 5.15: Real Household Consumption in 2020**

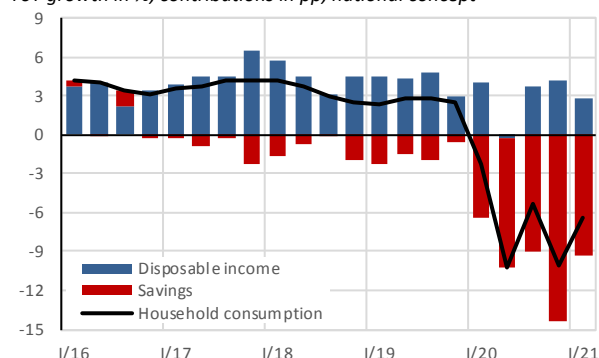
growth in %, contributions in pp, households including NPISHs



Source: Eurostat. Calculations of the MoF.

**Graph 5.16: Real Household Consumption – CR**

YoY growth in %, contributions in pp, national concept



Source: CZSO. Calculations of the MoF.

**Table 5.1: Household Consumption – national concept**

levels in CZK billion (current prices), structure of nominal consumption and real consumption growth in %, contributions and change in structure in pp

	Level		Structure				Growth		Contrib.
	2019	2020	2015–19	2019	2020	20 vs. 19	2015–19	2020	2020
<b>Household consumption</b>	<b>2 663</b>	<b>2 543</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		<b>3.5</b>	<b>-7.1</b>	<b>-7.1</b>
Food and non-alcoholic beverages	416	441	16.0	15.6	17.3	1.7	2.9	1.5	0.2
Alcoholic beverages, tobacco and narcotics	217	217	8.4	8.1	8.5	0.4	1.8	-6.2	-0.5
Clothing and footwear	99	80	3.7	3.7	3.2	-0.6	7.0	-21.2	-0.8
Housing, water, electricity, gas, other fuels	727	735	27.3	27.3	28.9	1.6	1.4	-2.4	-0.7
Furnishings, household equipment	140	143	5.3	5.3	5.6	0.4	4.1	-0.4	0.0
Health	62	70	2.3	2.3	2.7	0.4	2.7	10.2	0.2
Transport	272	225	10.1	10.2	8.8	-1.4	6.3	-17.3	-1.8
Communication	80	83	3.0	3.0	3.3	0.3	6.7	7.7	0.2
Recreation and culture	240	207	8.9	9.0	8.1	-0.8	6.2	-12.1	-1.1
Education	14	13	0.5	0.5	0.5	0.0	1.8	-14.9	-0.1
Restaurants and hotels	186	124	6.7	7.0	4.9	-2.1	4.2	-36.7	-2.6
Miscellaneous goods and services	209	205	7.9	7.9	8.1	0.2	3.6	-3.6	-0.3
Expenditure on durable goods	237	232	8.9	8.9	9.1	0.2	6.9	-4.8	-0.4
Expenditure on semi-durable goods	179	153	6.6	6.7	6.0	-0.7	6.4	-16.5	-1.1
Expenditure on non-durable goods	1 049	1 044	40.7	39.4	41.1	1.7	2.5	-3.6	-1.4
Expenditure on services	1 198	1 114	43.8	45.0	43.8	-1.2	3.3	-9.1	-4.1

Note: The column "Growth 2015–19" – average growth rates in this period.

Source: CZSO. Calculations of the MoF.

**Table 5.2: Household Consumption – domestic concept**

levels in CZK billion (current prices), structure of nominal consumption and real consumption growth in %, contributions and change in structure in pp

	Level		Structure				Growth		Contrib.
	2019	2020	2015–19	2019	2020	20 vs. 19	2015–19	2020	2020
<b>Household consumption</b>	<b>2 752</b>	<b>2 578</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		<b>3.3</b>	<b>-8.8</b>	<b>-8.8</b>
Food and non-alcoholic beverages	419	440	15.6	15.2	17.1	1.9	2.9	0.9	0.1
Alcoholic beverages, tobacco and narcotics	216	216	8.0	7.8	8.4	0.5	1.7	-6.3	-0.5
Clothing and footwear	99	80	3.5	3.6	3.1	-0.5	6.9	-20.6	-0.7
Housing, water, electricity, gas, other fuels	724	731	26.2	26.3	28.4	2.1	1.4	-2.5	-0.6
Furnishings, household equipment	144	145	5.3	5.2	5.6	0.4	4.0	-1.7	-0.1
Health	67	73	2.4	2.4	2.8	0.4	1.7	5.6	0.1
Transport	281	228	10.1	10.2	8.8	-1.4	5.9	-18.6	-1.9
Communication	80	83	2.9	2.9	3.2	0.3	6.7	7.9	0.2
Recreation and culture	247	211	8.8	9.0	8.2	-0.8	6.1	-12.8	-1.2
Education	14	13	0.5	0.5	0.5	0.0	0.6	-12.7	-0.1
Restaurants and hotels	247	147	8.8	9.0	5.7	-3.2	3.5	-43.0	-3.9
Miscellaneous goods and services	216	209	7.9	7.9	8.1	0.3	3.4	-4.8	-0.4
Expenditure on durable goods	240	234	8.7	8.7	9.1	0.4	6.8	-5.1	-0.4
Expenditure on semi-durable goods	182	155	6.5	6.6	6.0	-0.6	6.2	-17.0	-1.1
Expenditure on non-durable goods	1 054	1 042	39.4	38.3	40.4	2.1	2.4	-4.1	-1.6
Expenditure on services	1 276	1 147	45.4	46.4	44.5	-1.9	3.1	-12.3	-5.7

Note: The column "Growth 2015–19" – average growth rates in this period.

Source: CZSO. Calculations of the MoF.

**Table 5.3: Household Consumption – national and domestic concept**

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Consumption – national concept</b>	<i>bill. CZK, curr. pr.</i>	<b>1 974</b>	<b>1 995</b>	<b>2 027</b>	<b>2 072</b>	<b>2 152</b>	<b>2 241</b>	<b>2 383</b>	<b>2 524</b>	<b>2 663</b>	<b>2 543</b>
	<i>real growth in %</i>	0.4	-1.1	0.9	1.4	3.9	3.7	3.9	3.3	2.6	-7.1
Expenditure of resident households on the economic territory	<i>bill. CZK, curr. pr.</i>	1 931	1 950	1 981	2 018	2 090	2 176	2 313	2 452	2 588	2 492
	<i>real growth in %</i>	0.5	-1.1	1.0	1.1	3.6	3.6	3.8	3.3	2.6	-6.3
	<i>contribution, pp</i>	0.4	-1.1	1.0	1.0	3.5	3.5	3.7	3.2	2.5	-6.1
Expenditure of resident households in the rest of the world	<i>bill. CZK, curr. pr.</i>	43	46	45	54	62	65	70	72	75	51
	<i>real growth in %</i>	-2.7	0.2	-4.8	15.7	15.2	7.0	8.4	4.2	2.7	-34.3
	<i>contribution, pp</i>	-0.1	0.0	-0.1	0.3	0.4	0.2	0.2	0.1	0.1	-1.0
<b>Consumption – domestic concept</b>	<i>bill. CZK</i>	<b>2 064</b>	<b>2 085</b>	<b>2 113</b>	<b>2 153</b>	<b>2 234</b>	<b>2 325</b>	<b>2 471</b>	<b>2 610</b>	<b>2 752</b>	<b>2 578</b>
	<i>real growth in %</i>	0.3	-1.1	0.7	0.9	3.8	3.6	3.7	3.0	2.6	-8.8
Expenditure of resident households on the economic territory	<i>bill. CZK, curr. pr.</i>	1 931	1 950	1 981	2 018	2 090	2 176	2 313	2 452	2 588	2 492
	<i>real growth in %</i>	0.5	-1.1	1.0	1.1	3.6	3.6	3.8	3.3	2.6	-6.3
	<i>contribution, pp</i>	0.4	-1.1	0.9	1.0	3.4	3.4	3.6	3.1	2.5	-5.9
Expend. of non-resident households on the economic territory	<i>bill. CZK, curr. pr.</i>	133	135	132	135	144	149	157	158	165	86
	<i>real growth in %</i>	-1.5	-0.7	-4.0	-0.9	7.3	3.2	2.8	-1.9	1.5	-48.9
	<i>contribution, pp</i>	-0.1	0.0	-0.3	-0.1	0.5	0.2	0.2	-0.1	0.1	-2.9

Source: CZSO. Calculations of the MoF.

**Table 5.4: Gross Savings and Net Lending/Borrowing of Households**

		I/20	II/20	III/20	IV/20	I/21	2020
Gross disposable income	(1) <i>bill. CZK</i>	768.7	770.5	804.9	849.5	796.3	3 193.6
Adj. for change in net equity of hous. in pens. funds res.	(2) <i>bill. CZK</i>	9.8	9.2	8.3	10.9	9.3	38.2
Final consumption expenditure	(3) <i>bill. CZK</i>	634.4	614.0	657.5	636.9	601.0	2 542.9
<b>Gross savings</b>	(4) = (1) + (2) - (3) <i>bill. CZK</i>	<b>144.1</b>	<b>165.6</b>	<b>155.7</b>	<b>223.5</b>	<b>204.5</b>	<b>688.9</b>
Capital transfers, net	(5) <i>bill. CZK</i>	2.4	27.3	3.7	7.4	13.8	40.8
Gross capital formation	(6) <i>bill. CZK</i>	60.0	66.3	76.9	88.7	60.9	291.9
Acquisition less disposal of non-fin. non-produced assets	(7) <i>bill. CZK</i>	0.0	-0.1	-0.1	0.0	1.1	-0.2
<b>Net lending/borrowing</b>	(8) = (4) + (5) - (6) - (7) <i>bill. CZK</i>	<b>86.5</b>	<b>126.8</b>	<b>82.6</b>	<b>142.1</b>	<b>156.3</b>	<b>437.9</b>
Consumption of fixed capital	(9) <i>bill. CZK</i>	-39.4	-39.8	-40.2	-40.7	-40.7	-160.1
<b>Changes in net worth due to saving and capital transfers</b>	(10) = (4) + (5) + (9) <i>bill. CZK</i>	<b>107.1</b>	<b>153.2</b>	<b>119.1</b>	<b>190.2</b>	<b>177.7</b>	<b>569.6</b>
<b>Seasonally adjusted data</b>							
<b>Gross savings</b>	<i>bill. CZK</i>	<b>136.9</b>	<b>181.7</b>	<b>163.1</b>	<b>206.6</b>	<b>194.0</b>	<b>688.2</b>
	<i>bill. CZK 2015</i>	123.3	163.5	145.9	186.0	172.4	618.7
<b>Net lending/borrowing</b>	<i>bill. CZK</i>	<b>74.5</b>	<b>116.9</b>	<b>102.3</b>	<b>144.1</b>	<b>144.0</b>	<b>437.9</b>
	<i>bill. CZK 2015</i>	67.0	105.1	91.4	129.7	127.9	393.2

Source: CZSO. Calculations of the MoF.

**Table 5.5: Sales in Selected Segments of Retail and Services***index, Feb 2020 = 100, constant prices, seasonally adjusted*

	3/20	4	5	6	7	8	9	10	11	12	1/21	2	3	4	5	6
<b>Retail trade</b>																
<b>Food, beverages, tobacco</b>	99	98	97	97	98	99	99	100	99	98	99	100	99	96	99	100
<b>Non-food goods</b>	82	86	101	101	102	102	101	99	88	102	89	94	94	97	111	111
Information, communication equip	78	74	90	90	95	96	96	93	98	97	97	98	96	99	101	106
Other household equipment	76	91	103	100	101	99	100	99	79	103	78	87	91	94	104	105
Cultural and recreation goods	62	67	116	112	107	102	97	91	68	91	66	70	75	79	116	114
Clothing, footwear, leather goods	39	21	82	91	94	92	85	64	25	89	28	39	25	38	113	102
Sale via stalls and markets	57	39	61	74	104	88	95	73	75	78	49	29	35	40	62	66
Sale via internet	104	127	124	121	119	119	120	124	128	125	132	135	137	139	141	144
<b>Automotive fuel</b>	88	77	85	92	103	101	99	92	92	91	92	93	86	89	94	97
<b>Services</b>																
<b>Air transport</b>	70	22	18	13	28	31	30	30	34	36	38	39	40	37	38	40
<b>Accommodation</b>	45	15	19	43	70	63	53	27	25	30	20	21	20	20	29	53
<b>Food and beverage service activities</b>	53	27	41	55	66	75	82	48	37	51	38	42	45	48	64	60
<b>Travel agency, tour operator services</b>	46	7	4	6	20	24	19	20	21	23	24	25	24	26	25	27

*Source: CZSO. Calculations of the MoF.***Table 5.6: Changes in Financial Assets/Liabilities of Households Resulting from Transactions***change in financial assets/liabilities during the period, CZK billion, current prices*

	I/20	II/20	III/20	IV/20	I/21	2020	2020
	CNB	CNB	CNB	CNB	CNB	CNB	CZSO
<b>Changes in assets</b>	<b>119.5</b>	<b>173.1</b>	<b>103.7</b>	<b>161.5</b>	<b>210.7</b>	<b>557.8</b>	<b>614.4</b>
Currency	7.8	29.0	8.0	16.1	12.1	60.8	59.9
Transferable deposits	86.9	116.9	77.6	99.6	153.7	381.0	386.9
Other deposits	-6.8	-34.0	-16.2	3.2	-13.8	-53.8	-53.4
Debt securities	3.0	-0.2	3.8	-20.0	-3.3	-13.5	4.8
Equity	7.5	30.7	-16.4	29.8	21.5	51.7	29.2
Investment fund shares/units	6.3	-9.1	17.6	0.1	12.6	14.8	43.0
Insurance pension and standardised guarantee schemes	-4.1	21.0	10.3	13.8	9.4	41.0	37.6
Other assets	18.9	18.9	18.9	18.9	18.4	75.7	106.4
<b>Changes in liabilities</b>	<b>36.4</b>	<b>41.1</b>	<b>50.5</b>	<b>49.9</b>	<b>45.4</b>	<b>177.8</b>	<b>176.5</b>
Loans	18.9	23.5	32.9	32.4	28.6	107.7	113.7
Other liabilities	17.5	17.5	17.5	17.5	16.8	70.1	62.8

*Source: CNB, CZSO. Calculations of the MoF.*

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