

CZECH REPUBLIC

The economy contracted in 2012 due to the impact of fiscal consolidation on private consumption expenditures and the effects on investment of uncertainty about the euro area. The economy is projected to recover slowly in 2013 as domestic demand strengthens and external conditions improve. Indirect tax increases are temporarily boosting inflation, but inflation expectations are well anchored.

Fiscal consolidation should continue at a steady pace. In case of a further weakening of the economy, the automatic stabilisers should be allowed to work fully. Structural reforms to foster competition should be deepened to support investment and job creation.

The economy has been contracting

Real GDP has been falling, as government consumption has declined and private consumption has been damped by indirect tax increases related to fiscal consolidation. Large uncertainties in the euro area have depressed investment, but exports have held up well. The average real wage has fallen since last year and unemployment has been increasing.

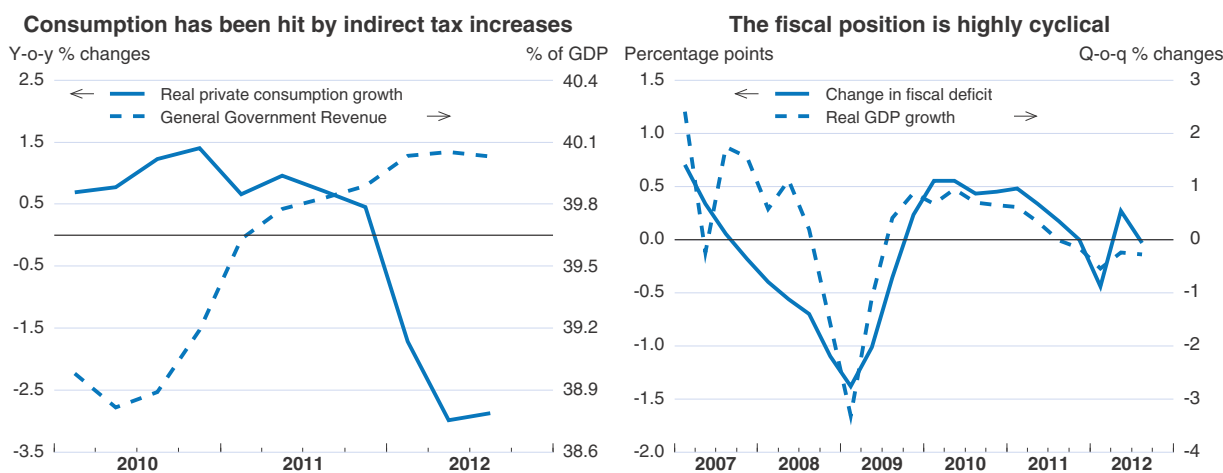
The budget impact of fiscal consolidation will be offset by the weak economy

The general government deficit will stagnate at 3.3% of GDP in 2013 as cyclical weakness will offset the impact of planned indirect tax hikes and on-going reductions in government spending. The government deficit is projected to fall in 2014, thanks to structural budget improvements and stronger economic growth.


Indirect tax increases are temporarily raising inflation

The 4 percentage points increase in the preferential VAT rate in 2012 caused a jump in the price level, and the planned hikes in both standard and preferential VAT rates by 1 percentage point in 2013 will again temporarily boost the headline inflation rate. Given that inflation expectations are well anchored, the monetary authorities have rightly cut the main refinancing rate to 0.05%.

Czech Republic



Source: OECD Economic Outlook 92 database.

StatLink  <http://dx.doi.org/10.1787/888932743216>


Czech Republic: Demand, output and prices

	2009	2010	2011	2012	2013	2014
	Current prices CZK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	3 759.0	2.5	1.9	-0.9	0.8	2.4
Private consumption	1 901.7	1.0	0.7	-2.6	0.4	1.5
Government consumption	809.3	0.5	-2.5	-1.4	-1.9	-1.6
Gross fixed capital formation	926.1	1.0	-0.7	-0.7	1.7	4.6
Final domestic demand	3 637.0	0.9	-0.4	-1.9	0.2	1.6
Stockbuilding ¹	- 29.7	1.1	-0.1	-1.5	0.1	0.0
Total domestic demand	3 607.4	2.0	-0.5	-3.4	0.4	1.6
Exports of goods and services	2 216.0	15.5	9.4	4.2	3.3	6.4
Imports of goods and services	2 064.4	15.8	6.7	1.2	2.9	5.7
Net exports ¹	151.6	0.5	2.0	2.2	0.4	0.9
<i>Memorandum items</i>						
GDP deflator	—	-1.4	-0.8	1.0	0.3	0.2
Consumer price index	—	1.5	1.9	3.2	2.0	2.1
Private consumption deflator	—	0.3	0.5	2.7	1.0	1.2
Unemployment rate	—	7.3	6.7	6.9	7.2	7.1
General government financial balance ²	—	-4.8	-3.2	-3.3	-3.3	-2.7
General government gross debt ²	—	45.1	48.0	51.3	54.5	56.9
General government debt, Maastricht definition ²	—	37.8	40.8	44.1	47.3	49.7
Current account balance ²	—	-3.7	-2.7	-0.1	-0.5	-1.9

1. Contributions to changes in real GDP, actual amount in the first column.

2. As a percentage of GDP.

Source: OECD Economic Outlook 92 database.

StatLink  <http://dx.doi.org/10.1787/888932744869>

Improving demand for exports will support growth

A strengthening of international trade and a brighter investment climate should result in stronger growth in 2013 and 2014. Recently legislated labour and product market reforms are expected to gradually manifest their effects in stronger job creation once business conditions improve.

There are domestic and external risks

Political uncertainty surrounding indirect tax increases proposed by the government threatens headline fiscal targets and may reduce confidence. Other major risks to the projections stem from positive or negative developments in the euro area that would alter the pace of export growth.



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