

CZECH REPUBLIC

Real GDP has been growing since the second half of last year, mainly due to a recovery in export markets. Domestic demand remains subdued as a result of high unemployment and fiscal tightening. A gradual recovery is projected for 2010 and 2011, with GDP growth of 2% and 3% respectively. Inflation is expected to rise gradually to about 2% by 2011, which is within the new official target.

The new government needs to put forward a concrete plan for fiscal consolidation. The recovery of growth will improve the fiscal balance only to a limited extent and putting fiscal policy on a sustainable basis therefore requires spending restraint, particularly on pensions, health care and welfare benefits, and institutional changes, to strengthen the fiscal policy framework and create mechanisms to facilitate a comprehensive approach to policy making.

Latest indicators show a somewhat hesitant pick-up in activity

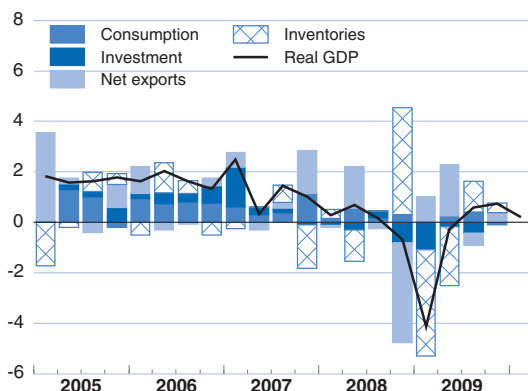
After a sizable fall of 4.1% last year, real GDP growth turned positive in the second half of 2009, driven by exports while private consumption remains subdued. Industrial production has recovered strongly and continues to be driven by automotive and manufactured metals production. The Czech Statistical Office's composite confidence indicator marked a negligible fall in March, before recovering again in April. The unemployment rate seems to have peaked and it decreased in both March and April.

Monetary policy remains easy and the banking sector appears resilient

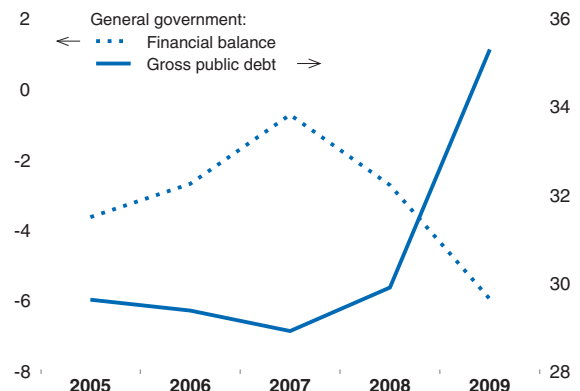
Given weak inflationary pressures, the main monetary policy rate was cut in May to the historically low level of 0.75%. After a volatile period during the unfolding international financial crisis, the exchange rate has returned broadly to its trend path of real appreciation. Even though the rate of non-performing loans is on the rise, the banking sector continues to display resilience. It is well capitalised, is financed by local deposits, is not affected by toxic assets or foreign currency loans and continues to be profitable.

Czech Republic

Growth has turned positive
Contributions to quarterly growth, %



Public debt is rising
% of GDP



Note: Gross debt is according to the Maastricht definition.

Source: OECD Economic Outlook 87 database; OECD, National Accounts database.

StatLink <http://dx.doi.org/10.1787/888932304506>

Czech Republic: **Demand, output and prices**


	2006	2007	2008	2009	2010	2011
	Current prices CZK billion	Percentage changes, volume (2000 prices)				
Private consumption	1 562.8	5.0	3.5	-0.1	-0.8	1.8
Government consumption	687.0	0.7	1.0	4.4	2.4	0.8
Gross fixed capital formation	796.3	10.8	-1.5	-8.3	0.6	4.5
Final domestic demand	3 046.1	5.5	1.6	-1.2	0.3	2.2
Stockbuilding ¹	69.5	-0.2	-0.5	-2.5	0.6	0.0
Total domestic demand	3 115.7	5.2	1.1	-3.8	0.9	2.2
Exports of goods and services	2 467.6	15.0	5.7	-9.9	6.0	7.1
Imports of goods and services	2 357.6	14.2	4.3	-9.9	4.8	6.5
Net exports ¹	110.0	1.1	1.3	-0.4	1.1	0.9
GDP at market prices	3 225.6	6.1	2.3	-4.1	2.0	3.0
GDP deflator	–	3.4	1.8	2.7	1.0	1.9
<i>Memorandum items</i>						
Consumer price index	–	3.0	6.3	1.0	1.8	2.0
Private consumption deflator	–	2.9	4.9	0.3	1.4	2.1
Unemployment rate	–	5.3	4.4	6.7	7.8	7.5
General government financial balance ²	–	-0.7	-2.7	-5.9	-5.4	-5.7
Current account balance ²	–	-3.2	-0.6	-1.0	0.1	-0.4

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods* (<http://www.oecd.org/eco/sources-and-methods>).

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

2. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink  <http://dx.doi.org/10.1787/888932306653>

Fiscal consolidation began in 2010 already, but the outlook is uncertain

At 5.9% of GDP the general government deficit turned out somewhat lower than originally planned last year, largely due to one-off factors. The authorities withdrew their stimulus measures early on and legislated a limited consolidation package for 2010, which includes VAT and excise tax increases and one-year restraint in government expenditures. The need for further consolidation is generally accepted, but there is no consensus in the Czech Republic about how to achieve it. Bringing about the necessary improvement in the structural balance will require addressing large expenditure items such as social benefits, healthcare and pensions and achieving efficiency savings in government operations. Making the rules based fiscal policy framework more effective and strengthening expert advice and inter-ministerial coordination could help to improve fiscal discipline and commitment to consolidation, especially in the coming upturn.

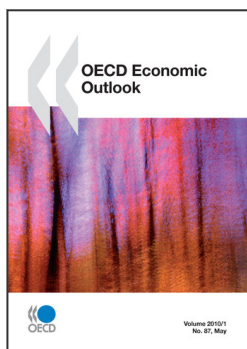
Growth prospects should improve due to stronger recovery in world trade

The growth profile is expected to be fairly flat throughout 2010 as the recovery in the main export markets is likely to be only gradual. Growth will rise modestly in 2011 with improvements of the general economic environment and investment gaining strength. EU structural funds could also provide a welcome boost. The unemployment rate, which rose rapidly in 2009 is projected to be more or less stable this year and as growth improves should begin to fall slightly next year. However, the

ongoing adjustment in the labour market coupled with expected fiscal policy consolidation is likely to limit private consumption growth.

Developments abroad are crucial to growth prospects

The projection is subject to risks in major export markets, in particular the euro area. On the domestic side, the main downside risk lies in a possible weakening of private consumption in response to uncertainty about the composition of future fiscal consolidation.



From:
OECD Economic Outlook, Volume 2010 Issue 1

Access the complete publication at:
https://doi.org/10.1787/eco_outlook-v2010-1-en

Please cite this chapter as:

OECD (2010), "Czech Republic", in *OECD Economic Outlook, Volume 2010 Issue 1*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2010-1-16-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.