Czechia

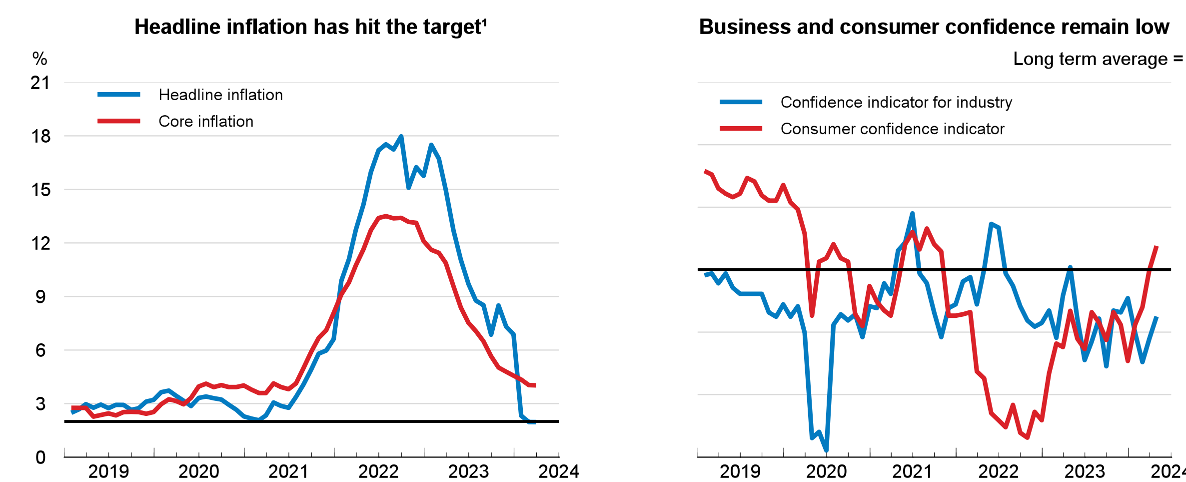
GDP is projected to grow by 1.1% in 2024 and 2.4% in 2025. Lower inflation will boost real incomes and consumption growth. The recovery of global demand will support export growth. Investment will be bolstered by easing financial conditions and faster absorption of EU recovery and resilience funds. Risks to the projections are related to geopolitical tensions and their effects on energy prices, as well as supply chain disruptions, which would lead to higher inflation and lower growth.

Monetary policy needs to remain cautious until inflation stabilises at the target. The approved fiscal consolidation will help the disinflation process and rebuild fiscal buffers in the short-term. Reforms are needed to ensure fiscal sustainability in the face of ageing pressures and to support sustainable growth. This requires reforming pensions, revising the tax system, raising the labour force participation of underutilised groups, such as mothers of young children, and enhancing workers' skills to help adaptability to structural changes.

Inflation is slowing and economic growth is subdued

GDP grew by 0.4% (quarter-on-quarter) in the last quarter of 2023, driven by export and investment growth. High-frequency indicators point to positive but weak growth in early 2024. Business confidence has rebounded, but remains subdued, and consumer confidence continues to improve, almost reaching pre-pandemic levels in April 2024. Headline consumer price inflation hit the 2% target in the first quarter of 2024. Core inflation (excluding food and energy prices), at 4% in March, is declining more slowly. The labour market has eased slightly but remains tight. Nominal wage growth eased to 6.3% in the last quarter of 2023 and unemployment has risen moderately over the past year, reaching 2.7% in February.

Czechia



1. The inflation target is 2 per cent, and represented by the black line.
Source: OECD Prices database; and Czech Statistical Office.

StatLink https://stat.link/tvh0p2

Czechia: Demand, output and prices

Czechia	2020	2021	2022	2023	2024	2025
	Current prices CZK billion	Percentage changes, volume (2015 prices)				
GDP at market prices	5 710.8	3.5	2.4	-0.2	1.1	2.4
Private consumption	2 588.7	4.1	-0.6	-3.1	1.9	3.0
Government consumption	1 242.6	1.4	0.3	3.5	2.3	0.8
Gross fixed capital formation	1 516.4	0.7	3.1	4.2	3.0	2.5
Final domestic demand	5 347.7	2.5	0.6	0.4	2.3	2.4
Stockbuilding[1]	- 22.1	4.8	0.9	-3.3	-2.4	0.0
Total domestic demand	5 325.5	7.7	1.5	-2.9	-0.2	2.3
Exports of goods and services	3 995.1	6.8	7.2	3.1	2.4	3.1
Imports of goods and services	3 609.8	13.2	6.3	-0.4	0.8	3.1
Net exports[1]	385.2	-3.6	0.9	2.7	1.2	0.1
Memorandum items						
GDP deflator	_	3.3	8.6	8.6	2.5	2.1
Consumer price index	_	3.8	15.1	10.7	2.4	2.1
Core inflation index[2]	_	5.0	12.2	7.7	3.8	2.2
Unemployment rate (% of labour force)	_	2.7	2.2	2.6	2.9	2.8
Household saving ratio, net (% of disposable income)	_	14.8	11.7	12.7	12.6	11.3
General government financial balance (% of GDP)	_	-5.1	-3.2	-3.7	-2.3	-1.9
General government gross debt (% of GDP)	_	48.3	47.7	50.3	52.0	53.1
General government debt, Maastricht definition[3] (% of GDP)	_	42.0	44.2	43.9	45.6	46.7
Current account balance (% of GDP)	_	-2.8	-4.9	0.4	0.6	0.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/qxp0ck

Supply chain bottlenecks have abated, supporting exports in the automotive industry at the end of 2023 and lowering inventories. Financial conditions are easing but remain tight. Interest rates on new private loans have fallen moderately and loan growth has stabilised, albeit at a subdued rate compared to early 2022. The narrowing of the interest rate differential with the euro area contributed to the depreciation of the koruna.

Monetary policy is easing while fiscal consolidation is under way

The Czech National Bank (CNB) started to ease monetary policy in December 2023. The key policy rate has been cut three times to 5.75% in March, from 7% (since June 2022). The CNB also lowered the countercyclical capital buffer rate from 2% to 1.75%, effective from April 2024. The projections assume continued monetary easing in 2024 and 2025, with the policy rate reaching 2.75% by the end of 2025. Energy support measures have been phased out in early 2024, and the government announced consolidation measures for 2024 and 2025 of around 1.4% and 0.5% of GDP, respectively. The measures include reductions in subsidies, increases in corporate income and real estate taxes, and the reintroduction of the sickness insurance paid by the employee (currently only paid by the employer).

Economic growth will resume in 2024 and pick up in 2025

As inflation abates, a recovery in real household incomes will support a pick-up in consumer demand. Investment will be bolstered by easing financial conditions and the use of EU recovery and resilience funds. Exports will grow in line with foreign demand. Headline inflation is expected to stabilise around the 2% target for the remainder of 2024 and 2025. Core inflation will decline more slowly due to persistent services inflation and the effects of nominal wage increases. Risks to the projections are skewed to the downside. An escalation of geopolitical tensions would weigh on foreign demand and could lead to increased global energy prices and renewed supply chain disruptions. Strong wage increases could hamper the competitiveness of the export-oriented business sector. A strong depreciation of the koruna would lead to higher inflation and force the central bank to slow monetary easing.

Reforms are needed to ensure fiscal sustainability and support growth

The planned fiscal consolidation will help rebuild fiscal buffers and aid the disinflation process, but reforms are needed to ensure fiscal sustainability in the long term. The recently legislated changes to tighten early retirement and lower pension indexation will help to contain ageing-related spending increases. This should be accompanied by the planned reform to link the retirement age to life expectancy. There is scope to further shift the tax burden away from social security contributions towards real estate, consumption and environmental taxes, to reduce distortions, make growth more sustainable and raise revenues. Increasing labour force participation of underutilised groups, such as mothers of young children, including by expanding the supply of childcare facilities and reducing the maximum duration of parental leave, would help to address chronic labour shortages and boost growth. Reforms in the education system and active labour market policies, such as improving vocational training and targeted reskilling programmes, would help workers adapt to the evolving demand for skills during the digital and green transition, fostering productivity growth.

From:

OECD Economic Outlook, Volume 2024 Issue 1

An unfolding recovery

Access the complete publication at:

https://doi.org/10.1787/69a0c310-en

Please cite this chapter as:

OECD (2024), “Czechia”, in *OECD Economic Outlook, Volume 2024 Issue 1: An unfolding recovery*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/023981be-en