

## 6. Basic Data on the Czech Republic

### Key Facts

Area	78,864 km <sup>2</sup>
Population	10.6 million
Labour force	5.3 million
Capital	Prague
Language	Czech
Currency	Czech Koruna (CZK)

Source: Czech Statistical Office, 2017

### THE CZECH ECONOMY AT FIRST HALF OF 2017

In the fourth quarter of 2016 economic growth in the Czech Republic accelerated slightly to 0.4% compared with the previous quarter, while in YoY terms real GDP increased by 1.9%. In 2016 as a whole economic output increased by 2.4%.

The main growth factor in 2016 was household consumption, which increased by 2.9% compared to 2015. Consumption growth was supported by the dynamics of employment and wages and last but not least by a very low inflation during most of the year.

The development of foreign trade also significantly contributed to the economic growth. Its contribution of 1.1 pp was almost evenly distributed between improvements on the balance of goods and the balance of services. A lower dynamics of foreign trade on the global scale and within the EU led to a slowdown in the YoY real growth of export of goods and services from 7.7% in 2015 to 4.3%. However, import saw a more considerable reduction in the growth rate from 8.2% to 3.2%, in particular due to a decrease in import-intensive investments.

Investments in fixed capital, which fell by 3.7% YoY, affected economic growth in the opposite direction. This decrease was due to investment by the general government sector, which slumped by almost one third in comparison with the very high base of the extraordinary year 2015. Conversely, investment activity in the non-financial corporations sector recorded an increase, namely in the fourth quarter of 2016.

On the supply side of the economy, real gross value added increased by 2.2% in 2016. The greatest contribution to its growth was traditionally reported by the manufacturing, mainly automotive, industry. In contrast, a YoY decrease was recorded in the construction sector, whose developments in the last year were related to a decrease in investment activity, and in industrial sectors other than manufacturing.

For the beginning of 2017 confidence indicators, Purchasing Managers' Index, industrial production and retail sales all indicate stronger economic growth than at the end 2016.

On the side of domestic demand, we expect resumption of growth in gross fixed capital formation. A gradual start of projects co-funded by the EU from the 2014-2020 programming period will support not only general government investment but also private investment. Investment by the general government sector could thus increase again after a deep decline in 2016, whereas private investment growth should slightly accelerate. Along with the slowdown in the growth of export, the dynamics of investment, which is the most import-intensive component of domestic demand, will be reflected in lower contribution of net exports to GDP growth. The forecast for real GDP growth in 2017 and 2018 remains almost unchanged. We expect the economy to grow by 2.5% annually in both this and the next year.

There was a strong acceleration in YoY growth of consumer prices above the CNB's inflation target in the last two months of 2016 and at the beginning of 2017. The acceleration of inflation was influenced mainly by prices of food and fuel, which reflected the increasing price of crude oil. Anti-inflationary effect of a decrease in prices of imported goods has subsided.

This acceleration of consumer prices growth leads to an increase in the forecast for the average inflation rate in 2017 from 2.0% to 2.4%, and in 2018 from 1.6% to 1.7%.

The expected discontinuation of the CNB's exchange rate commitment will then be connected with a higher volatility of the exchange rate and probably with some appreciation.

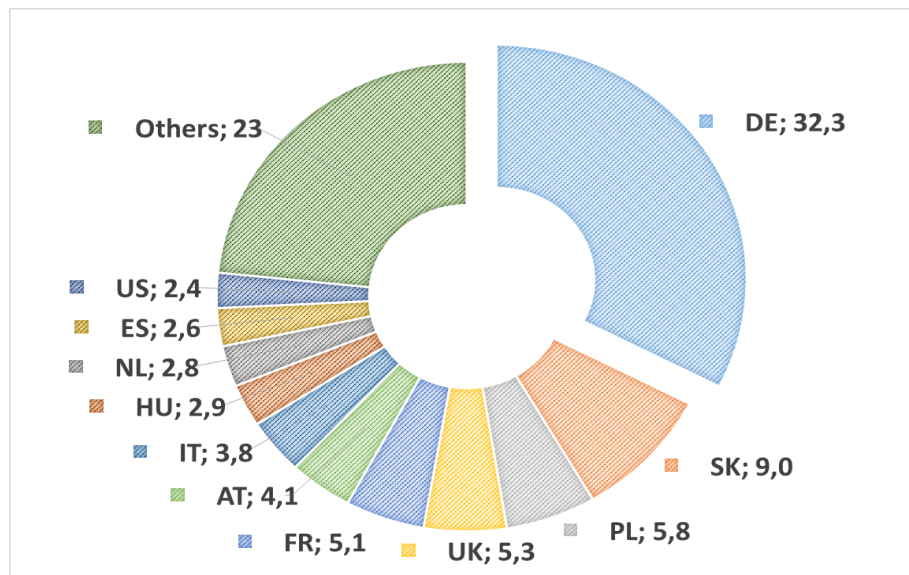
On the labour market, the economic boom is reflected in very high labour force utilization. Employment rose strongly again in the fourth quarter of 2016, by 2.2% YoY, which was the highest growth in the history of the Czech Republic. Seasonally adjusted unemployment rate (in an internationally comparable methodology) further fell to 3.4% in January 2017, being the lowest in the whole EU since the beginning of 2016. The low unemployment and mismatches between the supply of and demand for labour are reflected in a faster growth of real wages and unit labour costs. However, the lack of employees is becoming a barrier for further production growth. Thanks to a bigger-than-estimated decrease at the end of the last year, the forecast for unemployment rate in 2017 and 2018 is improved from 3.9% to 3.4% and from 3.9% to 3.3%, respectively. At this level, unemployment has very limited space to decline further.

Source: Macroeconomic Forecast of Ministry of Finance, April 2017

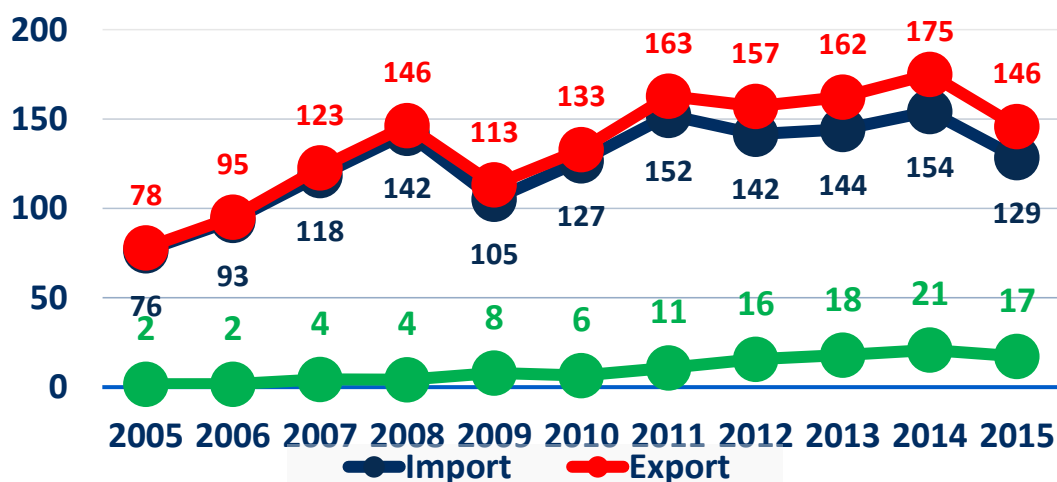
Indicators	2012	2013	2014	2015	2016	2017 Forecast	2018 Forecast
GDP growth (constant prices, %)	-0.8	-0.5	2.7	4.5	2.4	2.5	2.5
General Government debt (% GDP)	44.5	44.9	42.2	40.3	37.2	36.0	-
Long-term interest rates (YTM of 10Y gvrnmt bonds)	2.8	2.1	1.6	0.6	0.4	0.9	1.5
Average inflation rate (%)	3.3	1.4	0.4	0.3	0.7	2.4	1.7
Labour productivity (increase in %)	-1.2	-0.8	2.2	3.1	0.6	1.5	2.2
Unemployment rate (avg., %)	7.0	7.0	6.1	5.1	4.0	3.4	3.3
Average nominal gross wage (increase in %)	2.5	-0.1	2.9	2.7	4.2	4.6	4.5
Average nominal monthly gross wage ( CZK )	25,067	25,035	25,768	26,467	27,589	28,800	30,200
Average nominal monthly gross wage ( USD )	1,280	1,279	1,241	1,074	1,131	1,129	1,208
Average nominal monthly gross wage ( EUR )	997	964	936	970	1,022	1,070	1,148
Exchange rate – CZK/USD (avg.)	19.59	19.57	20.75	24.65	24.44	25.5	25.0
Exchange rate – CZK/EUR (avg.)	25.14	25.98	27.53	27.28	27.0	26.9	26.3

Source: Macroeconomic Forecast of Ministry of Finance, April 2017

## EXPORT DESTINATIONS IN 2015 (SHARE OF TOTAL)



## TRADE BALLANCE



Source: Czech Statistical Office, 2016