Ministry of Finance
of the Czech Republic

Macroeconomic Forecast

of the Czech Republic

August 2024

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ISSN 2533-5588 (on-line)

Issued quarterly, free distribution

Electronic archive:
http://www.mfcr.cz/macroforecast

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The Macroeconomic Forecast is prepared by the Economic Policy Department of the Czech Ministry of Finance. It contains forecast for the years 2024 and 2025, and for certain indicators an outlook for the 2 following years (i.e. until 2027). 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:

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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:

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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
EA20	euro zone consisting of 20 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
OECD	Organisation for Economic Co-operation and Development
pp	percentage points
PPS	Purchasing Power Standard
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 Macroeconomic Forecast is based on data known as of 12 August 2024.

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 2024) are indicated by italics. Data relating to the years 2026 and 2027 are an extrapolation scenario that indicates only the direction of possible developments, and as such are not commented upon in the following text.

Summary of the Forecast

Global economic growth remains constrained by restrictive monetary policy and heightened geopolitical instability. International trade is hampered by logistical problems due to ongoing armed conflicts and the associated lengthening of delivery times. Economic growth in the euro area will remain subdued this year but could accelerate to 1.3% next year.

The Czech economy stagnated last year. Gross domestic product fell by 0.1%, but is forecast to grow by 1.1% this year and 2.7% next year. Annual inflation is expected to be close to 2% over the forecast horizon. Real wages will rise thanks to continued strong labour demand and a fall in inflation.

According to the preliminary estimate of the Czech Statistical Office, **real gross domestic product** of the Czech Republic, adjusted for seasonal and calendar effects, increased by 0.3% QoQ and by 0.4% YoY in Q2 2024. In Q1 2024, for which detailed data on the structure of growth are available, GDP fell by 0.2% YoY (unadjusted). Revised national accounts data show that economic output surpassed the pre-pandemic level already in Q2 2022, but since then the Czech economy has more or less stagnated.

GDP could **increase by 1.1%** in **2024**, mainly thanks to renewed growth in household consumption. The external trade balance should also provide a significant boost to the economy, mainly due to a weakening of import-intensive investment demand and expected inventory developments. In **2025**, the Czech economy could **grow by 2.7%** thanks to stronger consumption and investment dynamics and more favourable economic developments abroad, but a more robust recovery in domestic demand will also support imports.

Annual **inflation** had reached the Czech National Bank's inflation target for the first time in three years at the beginning of this year and should remain within the tolerance band for the rest of the year. Inflationary external supply factors have weakened significantly while domestic demand pressures are further dampened by higher monetary policy rates, aided this year by the restrictive effects of the fiscal consolidation package. The average inflation rate could thus fall to 2.4% this year and further to 2.3% in 2025.

Labour market imbalances related to labour shortages continue to manifest themselves. Thus, despite the weak economic dynamics, the unemployment rate should not increase much in 2024. From 2.6% in 2023, it could rise to 2.8% this year and fall slightly to 2.7% next year thanks to economic growth. The persistent labour market tightness will not allow nominal wage growth to slow significantly. Earnings will also rise in real terms after two years of decline.

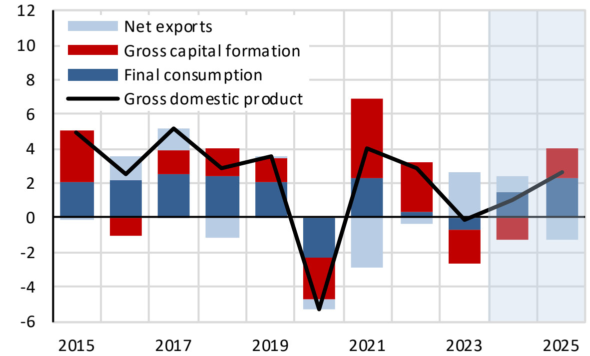
The **current account of the balance of payments** ended with a surplus of 1.3% of GDP in Q1 2024. The significant year-on-year improvement in the external balance was mainly due to an increase in the surplus on the goods balance, driven on the import side by the unwinding of price pressures in the industry and energy sectors and weak investment activity in Q1 2024. On the primary income balance, investment income outflows (mainly in the form of dividends) decreased. Meanwhile, these factors should continue to be relevant over the course of this year. We therefore expect the current account to reach a surplus of 1.6% of GDP this year, which will fall to 0.1% of GDP in 2025 due to the recovery in domestic demand.

The **general government sector** is expected to end 2024 with a deficit of 2.5% of GDP, down by 1.3pp year-on-year, despite increased defence and pension spending. This will be supported by the government's consolidation package, the waning measures related to the energy crisis and the economic recovery. Amid lower nominal GDP growth, the government debt is expected to reach 43.7% of GDP.

In aggregate, we consider the **risks** to the macroeconomic forecasts to be **skewed to the downside**. Economic activity in some sectors of the economy may be dampened by renewed problems in supply chains, e.g. in relation to the situation in the Middle East. In addition to the negative impact on economic performance, supply-side problems would create additional inflationary pressures. These could also be triggered by an increase in energy commodity prices in the event of an escalation of geopolitical tensions, or by the introduction or increase in tariffs or other barriers to foreign trade. Given the significant trade links between the Czech and German economies, we also consider structural problems and weak economic growth in Germany to be a downside risk to the forecast. The ability to compensate for reduced imports of natural gas and oil from Russia into the European Union with increased imports from other suppliers and demand-side measures remains a risk. The persistence of prices in services and the evolution of inflation expectations are also risks for the Czech economy. Economic growth is supported by the participation of refugees from Ukraine in the labour market, and the full use of their human capital could boost labour productivity.

Economic growth driven by recovery in consumption

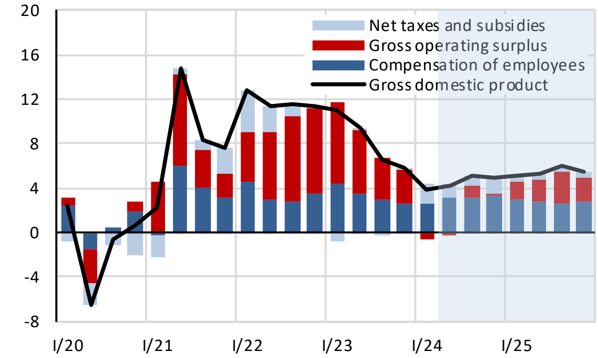
growth rate of real GDP in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

There will be a partial correction in profits this year

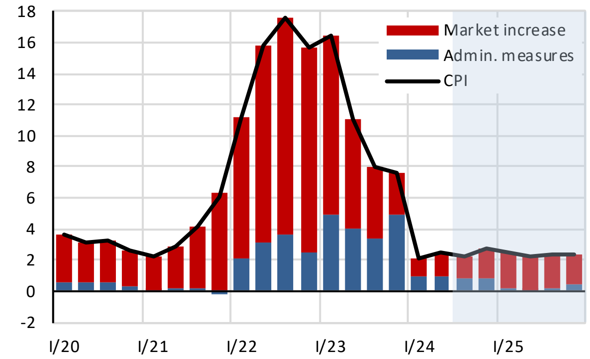
YoY growth of nominal GDP in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Inflation should hover near 2%

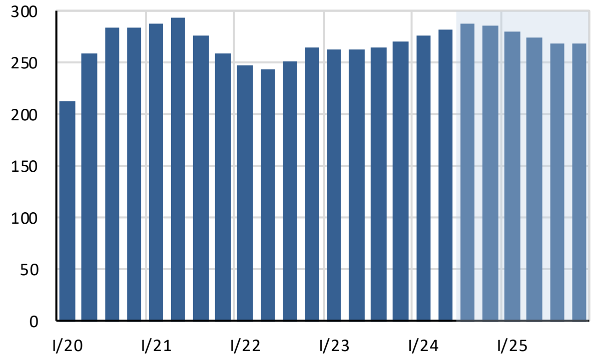
YoY growth rate of CPI in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Unemployment should fall moderately next year

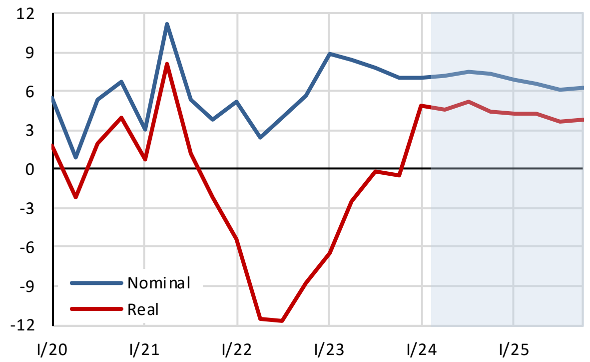
registered unemployment, in thous. of persons, seasonally adjusted



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

Real wages should rise further due to a fall in inflation

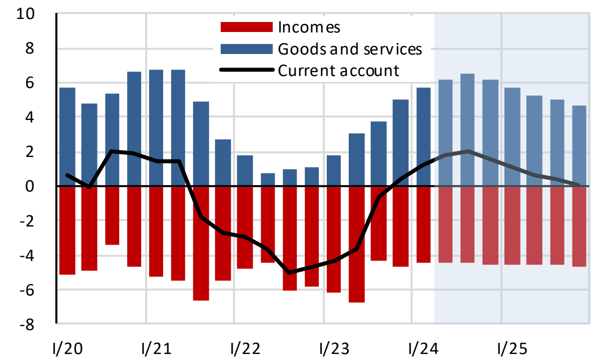
average gross monthly wage, YoY growth rate, in %



Source: CZSO. Calculations and forecast of the MoF.

Current account should be in surplus

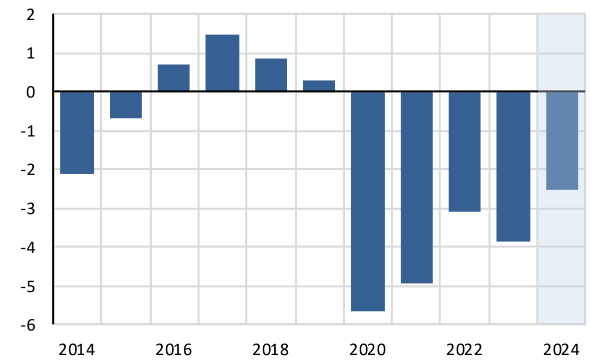
in % of GDP, yearly moving sums



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

Public finance deficit should drop below 3% of GDP

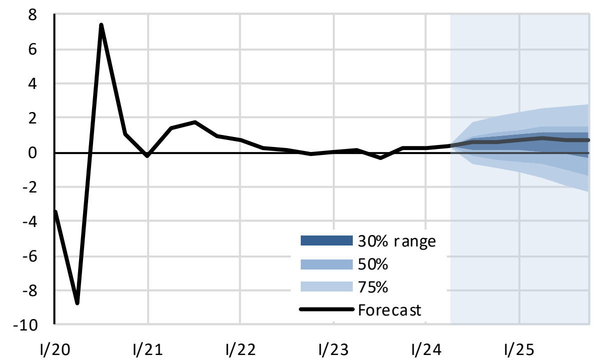
general government net lending/borrowing, in % of GDP



Source: CZSO. Calculations and forecast of the MoF.

Forecast risks are skewed to the downside

QoQ growth of real GDP in %



Source: CZSO. Calculations and forecast of the MoF.

Table: Main Macroeconomic Indicators

		2019	2020	2021	2022	2023	2024	2025	2024	2025
							Current forecast		*Previous forecast*	
Nominal GDP	*bill. CZK*	**5 889**	**5 828**	**6 308**	**7 050**	**7 619**	**7 960**	**8 393**	7 657	8 032
	nominal growth in %	7.5	-1.0	8.2	11.8	8.1	4.5	5.4	4.3	4.9
Gross domestic product	*real growth in %*	**3.6**	**-5.3**	**4.0**	**2.8**	**-0.1**	**1.1**	**2.7**	1.4	2.6
Consumption of households	*real growth in %*	3.1	-6.4	4.2	0.5	-2.8	2.1	3.9	2.7	3.5
Consumption of government	*real growth in %*	2.6	4.1	1.5	0.4	3.5	2.3	2.2	1.6	2.2
Gross fixed capital formation	*real growth in %*	7.5	-4.8	6.7	6.3	2.5	-0.5	3.6	2.2	2.4
Contribution of net exports	*pp*	0.1	-0.6	-2.8	-0.3	2.6	1.0	-1.3	0.2	0.4
Contrib. of change in inventories	*pp*	-0.4	-1.2	2.8	1.2	-2.7	-1.2	0.8	-1.0	-0.5
GDP deflator	*growth in %*	**3.8**	**4.5**	**4.0**	**8.7**	**8.2**	**3.4**	**2.7**	2.9	2.2
Average inflation rate	*%*	**2.8**	**3.2**	**3.8**	**15.1**	**10.7**	**2.4**	**2.3**	2.7	2.4
Employment *(national accounts)*	*growth in %*	**-0.1**	**-2.3**	**1.0**	**1.0**	**1.0**	**0.3**	**0.2**	0.4	0.2
Unemployment rate *(LFS)*	*average in %*	**2.0**	**2.6**	**2.8**	**2.2**	**2.6**	**2.8**	**2.7**	2.8	2.7
Wage bill *(domestic concept)*	*growth in %*	**7.9**	**0.4**	**7.2**	**9.1**	**7.7**	**7.1**	**6.4**	6.8	5.5
Current account balance	*% of GDP*	**0.3**	**2.0**	**-2.7**	**-4.7**	**0.4**	**1.6**	**0.1**	0.6	0.7
General government balance	*% of GDP*	**0.3**	**-5.6**	**-5.0**	**-3.1**	**-3.8**	**-2.5**	**.**	-2.3	-2.1
General government debt	*% of GDP*	**29.6**	**36.9**	**40.7**	**42.5**	**42.4**	**43.7**	**.**	45.5	46.4
Assumptions:										
Exchange rate CZK/EUR		**25.7**	**26.4**	**25.6**	**24.6**	**24.0**	**25.1**	**24.9**	25.1	24.7
Long-term interest rates	*% p.a.*	**1.5**	**1.1**	**1.9**	**4.3**	**4.4**	**3.9**	**3.6**	3.7	3.4
Crude oil Brent	*USD/barrel*	**64**	**42**	**71**	**101**	**82**	**82**	**75**	84	78
GDP in the euro area	*real growth in %*	**1.7**	**-6.2**	**6.0**	**3.5**	**0.5**	**0.8**	**1.3**	0.5	1.4

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

Risks to the Forecast

The macroeconomic forecast is subject to a number of **risks** that, taken together, we consider to be **skewed to the downside**.

The possibility of **renewed problems in supply chains**, e.g. in the context of the situation in the Middle East, poses a significant risk for some sectors of the economy. Apart from the negative impact on economic output, supply-side problems would create additional inflationary pressures. These could also be triggered by an increase in energy commodity prices in the event of **an escalation of geopolitical tensions**, or by an introduction or increase in **tariffs** or other barriers to foreign trade.

Given the significant trade links between the Czech and German economies, we also consider **structural problems and weak economic growth in Germany** to be a downside risk to the forecast (see Chapter 5 for more details).

Imports of natural gas and oil from Russia to the European Union are severely restricted and we do not expect them to be restored. We anticipate that they will continue to be replaced by increased imports from other countries and demand-side measures such as investment in new sources and energy savings.

In addition to the persistence of price growth in services, the evolution of **inflation expectations** remains a risk. Despite the significant decline in inflation at the beginning of this year, firms in Q2 2024 expected inflation of almost 4%, both at the 1-year and 3-year horizons.

Different macroeconomic effects of the consolidation package or measures that would lead to a change in the **fiscal policy** stance would affect the dynamics of economic growth and other variables.

Staff shortages, evident in almost all sectors of the economy, continue to hamper growth in production, especially in the construction sector. However, in addition to the weak economic dynamics, the influx of refugees from Ukraine is also contributing to the easing of the mismatch between demand and supply in the labour market and the associated upward pressure on wages. Due to the still high demand for labour by companies and the nature of vacancies (most with low qualification requirements), Ukrainian refugees do not have significant problems finding employment in the Czech labour market, although their qualification structure may not match demand. Legislative changes in this area are also helping to facilitate the employment of foreigners. Successful **integration of refugees** and the full use of their human capital can boost economic growth in the coming years.

Interest rate developments and substantial price increases in recent years have raised the likelihood that some households and firms will run into repayment problems, which would lead to a deterioration in the quality of banks' loan portfolios. However, the economic recovery, renewed real income growth and the expected further decline in interest rates are gradually mitigating this risk. As a result, the share of non-performing loans in total loans to households and non-financial corporations remains at very low levels. Overvaluation of residential property prices remains a potential risk.

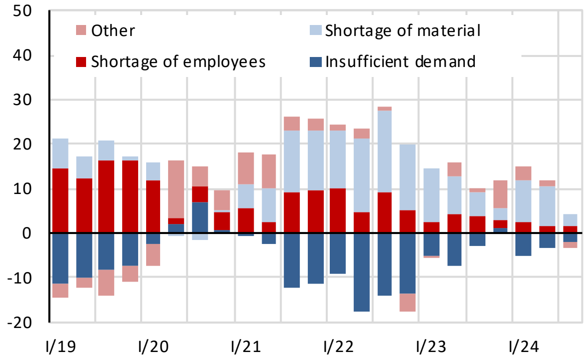
Global Supply Chain Pressure Index

number of standard deviations from the average

Source: Federal Reserve Bank of New York.

Barriers to Production Growth

industry, construction and services; deviation from 2005–19 average



Source: CZSO. Calculations of the MoF.

1 Forecast Assumptions

1.1 External Environment

Global economic growth was still limited in Q2 2024 by restrictive monetary policy in a number of countries and heightened geopolitical instability. International trade was hampered by logistical problems caused by ongoing armed conflicts and the associated lengthening of delivery times. The disinflation process will continue to have a positive effect, though the impact will weaken as economies approach their inflation target. Consumption and private investment will be supported by the expected interest rate cuts by the Fed and the ECB (the ECB already made the first rate cut in June). In view of these factors and the remaining risks, global economic growth could slow to 2.9% (*vs. 2.5%*) this year, but accelerate to 3.6% (*unchanged*) in 2025, given the expected improvement in international trade.

US GDP grew by 0.4% QoQ (*vs. 0.2%*) in Q1 2024. According to the preliminary estimate, growth accelerated to 0.7% (*vs. 0.2%*) in Q2, driven mainly by household consumption and replenishment of inventories.

Annual inflation has been between 3% and 4% since June 2023, but has gradually declined during Q2 2024 to 3.0% in June. Core inflation fell to 3.3% in June and was down 1.5pp year-on-year. The unemployment rate has been rising slowly this year. It reached 4.3% in July, the highest in almost 3 years. Nevertheless, the labour market remains relatively tight. We expect labour market imbalances to gradually ease, which, together with a decline in inflation, will support real wage growth. Annual retail sales growth slowed further to 2.3% in June and remains relatively weak compared to the long-term average.

At the July meeting, the Fed kept the key interest rate in the target range of 5.25–5.50%. The volume of assets on the Fed's balance sheet will continue to decline, but starting in July 2024 at a slower pace than indicated by the plan from May 2022.

July's Purchasing Managers' Index signalled that solid expansion of business activity continues in services. An increase in new orders and positive expectations encouraged firms to hire new employees. In industry, by contrast, conditions deteriorated at the start of Q3, yet output rose slightly thanks to work on unfinished orders and strong restocking of finished goods. However, the volume of new orders fell and employment growth slowed. In both industry and services, input prices were increasing faster than selling prices, meaning that firms' profitability declined.

We expect the US economy to grow by 2.6% (*vs. 2.0%*) in 2024. Economic activity should be supported by household consumption spending due to real income growth. In 2025, GDP growth could slow to 2.0% (*vs. 1.8%*). Investment activity should have a positive impact on growth dynamics due to expected monetary easing.

China's GDP increased by 1.5% QoQ in Q1 2024 and slowed to 0.7% in Q2 (but was close to 5% YoY in both quarters). The slowdown was mainly due to weaker consumption, which was reflected in a reduction in demand for foreign goods. The fall in imports, combined with a rise in exports, increased the external trade surplus.

Consumer prices rose by 0.5% YoY in July. In view of persistent deflationary pressures and weaker-than-expected economic growth in Q2, the central bank cut the key interest rate slightly to 3.35% in July.

Annual growth in industrial production slowed to 5.3% in June. Production is growing in most sectors, with small and medium-sized enterprises doing better. However, conditions in manufacturing deteriorated slightly in July, according to the Purchasing Managers' Index. In services, by contrast, activity continued to grow at the start of Q3.

China's economic growth could reach 4.7% (*vs. 4.4%*) in 2024 and 4.3% (*unchanged*) in 2025. Household consumption growth momentum should remain weaker given low consumer confidence and a weak social safety net. Private investment activity and, to some extent, consumption could be adversely affected by persistent problems in the real estate sector. The high debt burden of local governments also remains a risk. Unfavourable demographic developments will also have a negative impact on the economy. A shift to the higher rungs of supply chains should help to reduce imports, which should make net exports pro-growth even in the face of weaker external demand.

The economies of the **European Union** and the **euro area** grew by 0.3% QoQ (*vs. 0.1%*) in Q1 2024. Growth was driven by the external trade balance, with exports rising and imports falling, and household consumption also contributed positively, though to a lesser extent. In contrast, gross fixed capital formation and the change in inventories had a negative effect, while the impact of general government consumption on growth was almost neutral. According to the preliminary estimate, GDP in the euro area and the EU27 also grew by 0.3% in Q2 (*in line with the forecast*).

Annual inflation in the euro area rose slightly to 2.6% in July, but has remained close to 2.5% for the past six months. The decline in core inflation (excluding food, alcohol, tobacco and energy prices), which stayed at 2.9% for the third month in July, has also stopped.

As part of a review of the implementation of monetary policy, the European Central Bank is strengthening the role of the deposit rate among the main monetary policy rates, lowering it to 3.75% in June. We expect the ECB to continue cutting its key interest rate. The European Central Bank has also confirmed that it will reduce the size of the portfolio purchased under the Pandemic emergency purchase programme in H2 and stop reinvestments under this programme by the end of this year. In addition, it continues to gradually reduce the volume of securities purchased under the Asset purchase programme.

In terms of the stimulus to the economy, fiscal policy should, on balance, start to be relatively restrictive this year, following the expiry of the general escape clause of the Stability and Growth Pact and unwinding of energy support measures.

Unemployment rate in the euro area (6.5%) and the EU (6.0%) remains more or less stagnant, but at record low levels. According to the July Purchasing Managers' Index, manufacturing in the euro area remained in a contractionary zone, with the decline driven by most subindicators (output, new orders and employment). Also, the European Commission's Business Climate Indicator, which fell in July to its lowest level since September 2020, illustrates the deteriorating conditions in manufacturing. In the services sector, on the other hand, the Purchasing Managers' Index points to an increase in activity, although the value of the indicator has been declining for the last three months. On the positive side, an increase in new orders in July motivated firms to slightly increase the number of employees. Growth in input prices accelerated, while it slowed in the case of selling prices. Consumer confidence continued to improve gradually in the EU and the euro area. Households are more positive about their financial situation and their willingness to make larger purchases increased.

Overall, we expect GDP growth in the European Union to accelerate slightly to 0.9% (*vs. 0.7%*) in 2024, while growth in the euro area could reach 0.8% (*vs. 0.5%*). Amid the decline in inflation, tight labour market and rising real wages, the growth should be driven by household consumption. Foreign trade, on the other hand, could dampen the growth momentum on the back of unfavourable developments in industry. In 2025, economic growth could accelerate to 1.5% in the EU (*vs. 1.6%*) and to 1.3% in the euro area (*vs. 1.4%*), thanks to a continued recovery in household consumption and investment activity supported by interest rate cuts.

Germany's economy grew by 0.2% QoQ (*vs. 0.1%*) in Q1 2024 and contracted by 0.1% (*vs. 0.2% growth*) in Q2, according to the preliminary estimate.

In Q2 2024, purchasing managers' confidence in manufacturing deteriorated further as demand, new orders and production fell. Industrial production decreased by 4.1% YoY in June 2024. Significant declines occurred in the automotive and machinery and equipment sectors. The Services Purchasing Managers' Index fell further in July, but still pointed to an increase in activity. Growth in new orders slowed as foreign demand weakened. Consumer sentiment is gradually improving slightly in light of easing cost pressures, wage growth and income expectations. Annual inflation rose slightly to 2.6% in July, but has remained below 3% since February. The unemployment rate has been rising slowly since the first half of last year, reaching 3.4% in June.

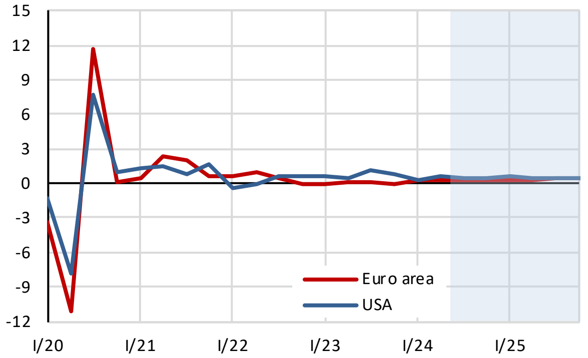
The German economy is expected to stagnate in 2024 (*vs. 0.3% growth*). In addition to the aforementioned factors, growth will be limited by weaker government investment activity due to austerity measures in an attempt to adhere to the debt brake. In 2025, economic growth, supported by household consumption and a recovery in export activity, could reach 1.2% (*vs. 1.3%*).

Slovakia's GDP grew by 0.7% QoQ (*vs. 0.3%*) in Q1 2024, with positive contributions coming mainly from net exports and household consumption, while government consumption grew more moderately. In contrast, gross fixed capital formation and the change in inventories contributed negatively.

The unemployment rate was approximately stable in H1 2024, falling by 0.1pp to 5.5% in May (the lowest value in the available time series) and remaining at this level in June. With the exception of a temporary dip during the first wave of the pandemic in the spring 2020, manufacturing output has been more or less stagnant since mid-2019, down by almost 15% compared to the peak reached in November 2017. Industrial confidence has gradually improved in recent months, but the indicator showed a small decline in July. Year-on-year inflation rose by 0.5pp to 2.9% in July, according to the preliminary estimate, and core inflation also increased by the same amount (to 4.1%). Consumer confidence improved slightly in July and remains above the long-term average.

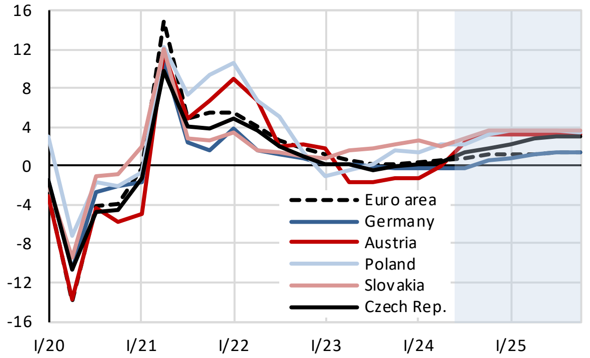
We expect Slovakia's GDP to grow by 2.4% (*vs. 1.8%*) this year. Economic growth should be supported by household consumption due to real wage growth, while foreign trade should dampen growth dynamics. In 2025, GDP growth could accelerate to 2.7% (*unchanged*) due to the expected increase in external demand.

Graph 1.1.1: Real GDP in the euro area and USA
QoQ growth rate in %, seasonally adjusted



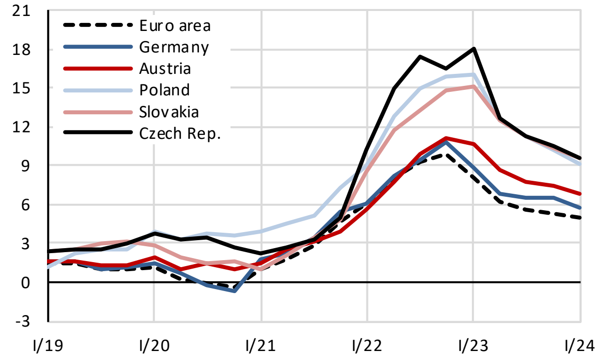
Source: Eurostat, OECD. Calculations and forecast of the MoF.

Graph 1.1.2: Real Gross Domestic Product
YoY growth in %, seasonally adjusted



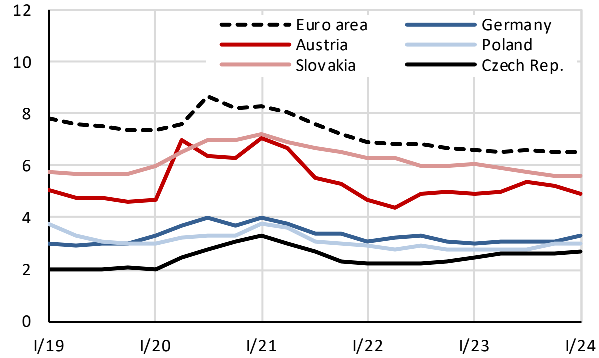
Source: CZSO, Eurostat. Calculations and forecast of the MoF.

Graph 1.1.3: HICP
quarterly averages, YoY growth in %



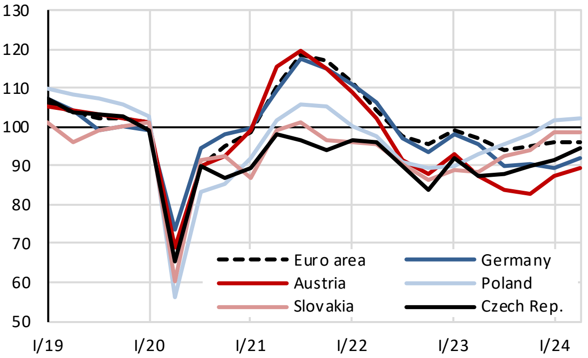
Source: Eurostat. Calculations of the MoF.

Graph 1.1.4: Unemployment Rate
in %, LFS methodology, seasonally adjusted



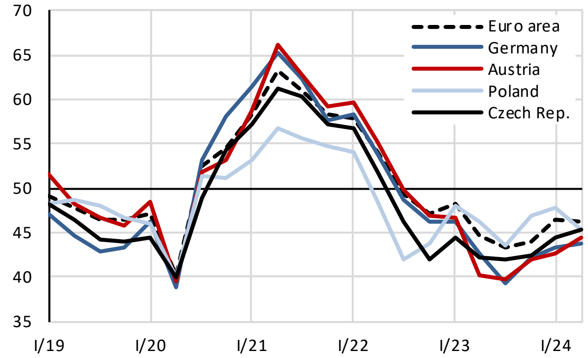
Source: Eurostat.

Graph 1.1.5: Economic Sentiment Indicator
quarterly averages, long-run average = 100



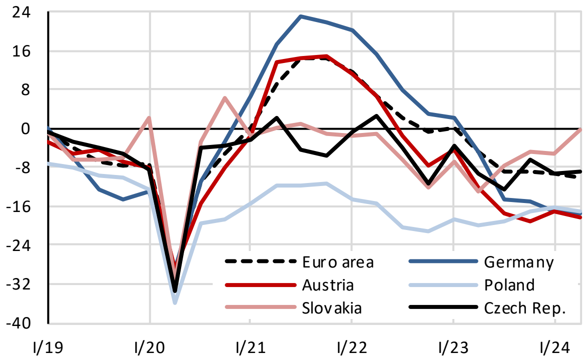
Source: Eurostat. Calculations of the MoF.

Graph 1.1.6: Purchasing Managers' Index
manufacturing, quarterly averages



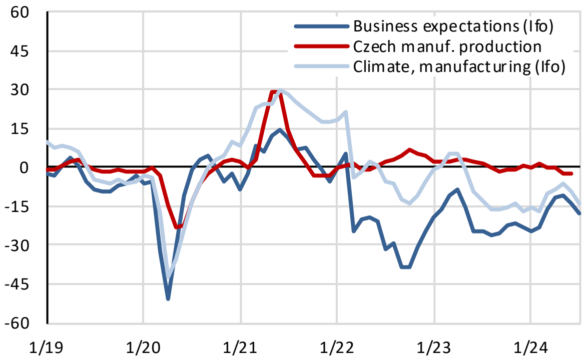
Source: Markit. Calculations of the MoF.

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, manufacturing); seas. adjusted 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 %

		2016	2017	2018	2019	2020	2021	2022	2023	2024 Forecast	2025 Forecast
World	*seasonally adjusted*	**3.3**	**3.8**	**3.6**	**2.8**	**-2.7**	**6.5**	**3.5**	**3.3**	**2.9**	**3.6**
USA	*seasonally adjusted*	**1.8**	**2.5**	**3.0**	**2.5**	**-2.2**	**5.8**	**1.9**	**2.5**	**2.6**	**2.0**
China	*seasonally adjusted*	**6.9**	**6.9**	**6.6**	**6.0**	**1.8**	**8.9**	**3.0**	**5.6**	**4.7**	**4.3**
United Kingdom	*seasonally adjusted*	**1.9**	**2.7**	**1.4**	**1.6**	**-10.4**	**8.7**	**4.3**	**0.1**	**1.0**	**1.7**
European Union	*seasonally adjusted*	**1.9**	**2.9**	**2.0**	**1.9**	**-5.7**	**6.1**	**3.5**	**0.5**	**0.9**	**1.5**
Euro area	*seasonally adjusted*	**1.8**	**2.8**	**1.7**	**1.7**	**-6.2**	**6.0**	**3.5**	**0.5**	**0.8**	**1.3**
Germany	*seasonally adjusted*	**2.1**	**3.0**	**1.0**	**1.1**	**-4.2**	**3.1**	**1.9**	**0.0**	**0.0**	**1.2**
	unadjusted	2.2	2.7	1.0	1.1	-3.8	3.2	1.8	-0.2	-0.1	1.6
France	*seasonally adjusted*	**0.7**	**2.3**	**1.6**	**2.1**	**-7.6**	**6.8**	**2.6**	**1.1**	**1.3**	**1.4**
	unadjusted	0.9	2.1	1.6	2.0	-7.4	6.9	2.6	0.9	1.4	1.3
Italy	*seasonally adjusted*	**1.4**	**1.7**	**0.8**	**0.5**	**-9.0**	**8.3**	**4.1**	**1.0**	**1.0**	**1.3**
	unadjusted	1.3	1.7	0.9	0.5	-9.0	8.3	4.0	0.9	1.1	1.1
Austria	*seasonally adjusted*	**2.0**	**2.3**	**2.4**	**1.5**	**-6.7**	**4.4**	**4.9**	**-0.7**	**0.0**	**1.5**
	unadjusted	2.0	2.3	2.4	1.5	-6.6	4.2	4.8	-0.8	0.2	1.5
Hungary	*seasonally adjusted*	**2.2**	**4.4**	**5.4**	**4.9**	**-4.7**	**7.0**	**4.6**	**-0.7**	**1.4**	**2.7**
	unadjusted	2.2	4.3	5.4	4.9	-4.5	7.1	4.6	-0.9	1.4	2.7
Poland	*seasonally adjusted*	**3.1**	**5.2**	**5.9**	**4.4**	**-2.0**	**6.9**	**5.9**	**0.1**	**2.2**	**3.6**
	unadjusted	3.0	5.1	5.9	4.4	-2.0	6.9	5.6	0.2	2.3	3.6
Slovakia	*seasonally adjusted*	**1.9**	**2.9**	**4.0**	**2.5**	**-3.3**	**4.8**	**1.9**	**1.6**	**2.4**	**2.7**
Czech Republic	*seasonally adjusted*	**2.5**	**5.3**	**2.8**	**3.5**	**-5.3**	**4.0**	**2.9**	**0.0**	**0.9**	**2.8**
	unadjusted	2.6	5.2	2.8	3.6	-5.3	4.0	2.8	-0.1	1.1	2.7

Source: CZSO, Eurostat, IMF, 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

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2 Estimate	Q3 Forecast	Q4 Forecast
USA	*QoQ*	**0.6**	**0.5**	**1.2**	**0.8**	**0.4**	**0.7**	**0.4**	**0.4**
	YoY	1.7	2.4	2.9	3.1	2.9	3.1	2.3	1.9
United Kingdom	*QoQ*	**0.2**	**0.0**	**-0.1**	**-0.3**	**0.7**	**0.4**	**0.3**	**0.4**
	YoY	0.3	0.2	0.2	-0.2	0.3	0.7	1.1	1.9
European Union	*QoQ*	**0.1**	**0.1**	**0.1**	**0.0**	**0.3**	**0.3**	**0.3**	**0.4**
	YoY	1.1	0.5	0.2	0.4	0.6	0.7	0.9	1.3
Euro area	*QoQ*	**0.0**	**0.1**	**0.0**	**0.0**	**0.3**	**0.3**	**0.3**	**0.3**
	YoY	1.3	0.5	0.1	0.2	0.5	0.6	0.8	1.2
Germany	*QoQ*	**0.3**	**-0.1**	**0.1**	**-0.5**	**0.2**	**-0.1**	**0.2**	**0.3**
	YoY	0.1	0.2	-0.1	-0.2	-0.2	-0.2	-0.2	0.6
France	*QoQ*	**0.1**	**0.6**	**0.1**	**0.4**	**0.3**	**0.3**	**0.5**	**0.2**
	YoY	1.0	1.3	0.9	1.3	1.5	1.1	1.5	1.2
Italy	*QoQ*	**0.3**	**-0.1**	**0.4**	**0.1**	**0.3**	**0.2**	**0.3**	**0.3**
	YoY	2.2	0.6	0.6	0.7	0.7	1.1	1.0	1.1
Austria	*QoQ*	**0.1**	**-1.3**	**-0.2**	**0.1**	**0.2**	**0.0**	**0.3**	**0.4**
	YoY	1.8	-1.6	-1.7	-1.3	-1.3	0.0	2.5	3.2
Hungary	*QoQ*	**-0.5**	**0.2**	**0.8**	**0.0**	**0.7**	**-0.2**	**0.4**	**0.7**
	YoY	-1.1	-2.1	-0.2	0.5	1.6	1.3	0.9	1.7
Poland	*QoQ*	**0.8**	**-0.2**	**1.1**	**0.0**	**0.5**	**0.8**	**0.9**	**1.0**
	YoY	-1.1	-0.5	0.2	1.7	1.3	2.3	2.1	3.2
Slovakia	*QoQ*	**0.2**	**0.8**	**0.6**	**0.6**	**0.7**	**0.5**	**0.6**	**0.7**
	YoY	0.8	1.5	1.8	2.2	2.7	2.1	2.8	3.6
Czech Republic	*QoQ*	**0.0**	**0.1**	**-0.4**	**0.3**	**0.2**	**0.3**	**0.5**	**0.6**
	YoY	0.3	0.2	-0.4	0.0	0.3	0.4	1.4	1.7

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

1.2 Commodity Prices

The **price** of a barrel **of Brent crude oil** averaged USD 85 (*vs. USD 86*) in Q2 2024, marking an 8.6% YoY increase, or 16.1% when measured in CZK.

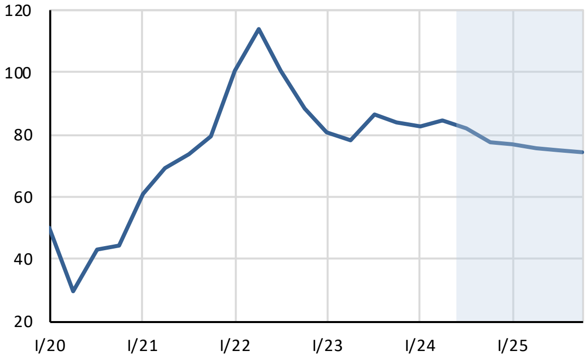
In the coming quarters, only a very gradual increase in oil demand can be expected in the context of the persistent problems in the world economy. The Organisation of the Petroleum Exporting Countries and other coordinating countries (OPEC+) are limiting oil exports to ensure that oil prices stabilise. Consequently, they have again extended their targeted production cuts until the end of next year. In parallel, eight OPEC+ countries are voluntarily reducing production beyond this commitment. Conversely, many non-OPEC+ countries are likely to increase their production further, notably the United States. In particular, developments in the Middle East and uncertainty about China's economic health pose risks to the future price of oil.

In the futures market, oil with a later delivery date trades cheaper than oil with an earlier delivery date. The projected development of the Brent crude oil price reflects this downward curve in futures prices. This year, the average price of Brent crude oil could fall by 0.7% YoY to USD 82 (*vs. USD 84*) per barrel, with a 3.2% increase when measured in CZK due to the koruna's depreciation against the US dollar. For 2025, we assume the average price of USD 75 (*vs. USD 78*) per barrel.

Volatility in **commodity markets** remains elevated, largely due to geopolitical risks. Europe's ongoing energy transformation through the reduction of fossil and nuclear power generation is putting upward pressure on electricity prices, while the greenhouse gas emissions trading scheme is increasing energy price volatility and uncertainty about the economic viability of coal-fired power plants in the coming years. Longer-term energy supply contracts and frontloading of other commodities are helping to relatively stabilise final prices for consumers and businesses.

Graph 1.2.1: Dollar Price of Brent Crude Oil

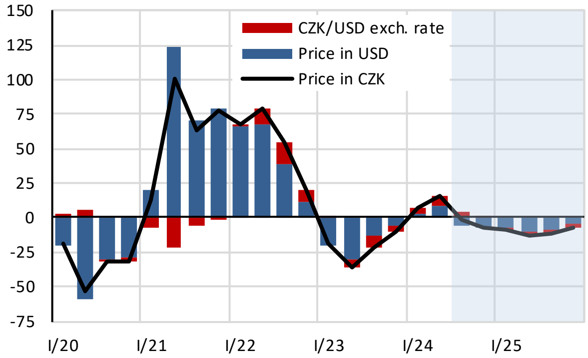
USD/barrel



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

		2016	2017	2018	2019	2020	2021	2022	2023	2024 *Forecast*	2025 *Forecast*
Crude oil Brent	*USD/barrel*	**43.6**	**54.2**	**71.3**	**64.3**	**41.8**	**70.8**	**101.0**	**82.4**	**82**	**75**
	growth in %	-16.9	24.3	31.7	-9.8	-35.0	69.3	42.7	-18.4	-0.7	-7.8
Crude oil Brent index *(in CZK)*	*2010=100*	**70.1**	**83.1**	**102.1**	**97.1**	**63.6**	**101.1**	**155.3**	**120.6**	**124**	**112**
	growth in %	-17.4	18.5	22.9	-4.9	-34.6	59.1	53.5	-22.3	3.2	-10.1
Natural gas (Europe)	*USD/MMBtu*	**4.6**	**5.7**	**7.7**	**4.8**	**3.2**	**16.1**	**40.3**	**13.1**	.	.
	growth in %	-33.1	25.3	34.4	-37.5	-32.5	397.1	150.3	-67.5	.	.
Natural gas (Europe) index *(in CZK)*	*2010=100*	**70.7**	**84.2**	**106.0**	**69.6**	**47.1**	**222.9**	**601.4**	**184.5**	.	.
	growth in %	-33.4	19.2	25.8	-34.3	-32.4	373.7	169.7	-69.3	.	.

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

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Forecast	*Forecast*
Crude oil Brent	*USD/barrel*	**81.1**	**78.0**	**86.7**	**84.0**	**82.9**	**84.7**	**82**	**78**
	growth in %	-19.6	-31.5	-14.0	-5.3	2.3	8.6	-5.6	-7.3
Crude oil Brent index *(in CZK)*	*2010=100*	**118.3**	**111.3**	**126.5**	**126.2**	**126.1**	**129.2**	**125**	**118**
	growth in %	-19.0	-35.9	-21.8	-9.7	6.5	16.1	-1.4	-6.6
Natural gas (Europe)	*USD/MMBtu*	**16.8**	**11.3**	**10.8**	**13.5**	**8.8**	**10.0**	**.**	**.**
	growth in %	-48.4	-64.2	-82.1	-63.4	-48.0	-11.5	.	.
Natural gas (Europe) index *(in CZK)*	*2010=100*	**236.3**	**155.3**	**151.0**	**195.3**	**127.9**	**147.0**	**.**	**.**
	growth in %	-48.0	-66.5	-83.7	-65.1	-45.9	-5.3	.	.

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

1.3 Fiscal Policy

The consolidation package prepared by the government affects the public finances performance **in 2024**. At the same time, they bear, for example, the costs of previous strong pension indexations or the fulfilment of the commitment to NATO in defence spending. This year, we expect the deficit to decrease by 1.3pp year-on-year to 2.5% of GDP (*vs. 2.3% of GDP*), while in structural terms the deficit should decrease by 0.5pp year-on-year to 2.1% of GDP (*vs. 2.0% of GDP*). The negative balance will be mainly attributable to the state budget, with health insurance companies also likely to run a slight deficit. In contrast, local governments are expected to show a positive balance again.

Total general government revenue is forecast to rise by 6.2%, while tax revenue, including social security contributions, should increase by 7.7%. **Value-added tax** revenue, with an estimated 2.8% growth rate, will be negatively affected by the unification of reduced tax rates to 12% and concurrent shifting of some goods and services between rates. On the other hand, these changes will be mitigated by additional revenue from the increase in **excise duties**. Their annual dynamics will be positively affected by the base effect until the end of July 2023 of the reduced tax rate on diesel fuel (CZK 5.6 billion) and the increase in tax rates on tobacco products and alcohol (CZK 4 billion). The year-on-year dynamics of tax revenues is dampened by the end of the effectiveness of an extraordinary measure during the energy crisis in the form of a levy on excess revenues of electricity producers. However, this effect is offset by the end of the across-the-board waiver of the renewable energy levy for households and companies at the end of 2023, which this year applies only to energy-intensive businesses, for which the government has allocated CZK 3.5 billion. The increase in **property tax** is expected to bring an estimated CZK 10 billion to public budgets.

The expected growth in wages and salaries in the economy determines both **personal income tax** (11.3%) and **social security contributions** (8.9%), which also reflect an increase in payments for state insured persons. Both revenue items will also be positively affected by the discretionary measures in the consolidation package. In the case of **corporate income tax**, there are mainly two conflicting factors. On the one hand, we expect a year-on-year reduction in tax revenue from windfall profit tax, while on the other hand, a 2pp increase in the tax rate will have an estimated impact of around CZK 21 billion.

Among other revenues, we expect significantly lower **dividend income** from state-owned companies, as well as interest on loans granted under the Treasury liquidity management.

General government expenditure is being held back by the adopted consolidation package. We estimate that the pace of **final consumption expenditure** will slow to 5.7% YoY. After a nearly 10% growth in **intermediate consumption** last year, its growth rate should also slow down substantially to 5.5% due to the 5% savings in operating expenditure of each department. We expect a similar slowdown in **compensation of** government **employees**, which is likely to be significantly lower than last year, especially in view of the measures approved in the consolidation package. The health and education sectors are determining the growth in the volume of salaries. **Social transfers in kind** are likely to maintain their still high double-digit pace, with an estimated annual growth rate of around 11%, according to national accounts data for Q1. This is underpinned by a persistently relatively higher level of housing benefits, but the increase should be driven mainly by health insurance spending, made possible by increases in social security contributions, payments for state insured persons and an expected slight widening of the social security deficit.

In the area of **cash social benefits**, we reflect an increase in expenditure on pension benefits. In addition to the effects of pension indexation, humanitarian benefits paid to refugees from Ukraine, unemployment benefits, sickness insurance benefits and the increase in payments for the state insured persons will also affect the dynamics.

All this should lead to a 5.5% increase in cash social benefits.

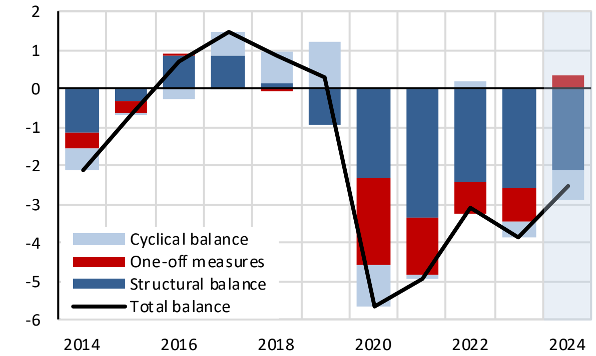
Investment in fixed assets will be influenced by increased spending in transport infrastructure and defence, where the 2% of GDP threshold should be reached already this year. In the case of EU co-financed spending, the gradual ramp-up of funds under the Next Generation EU instrument or the unfolding 2021–2027 financial perspective will play a role.

The measures of the consolidation package, together with the end of temporary measures approved in response to the energy crisis, will represent annual savings in **subsidies** and partly **current transfers** in the order of tens of billions of CZK.

General government debt is expected to rise to 43.7% of GDP in 2024 (*vs. 45.5% of GDP*). This is likely to lead to a further increase in **interest expenditure** to 1.4% of GDP.

Graph 1.3.1: General Government Balance

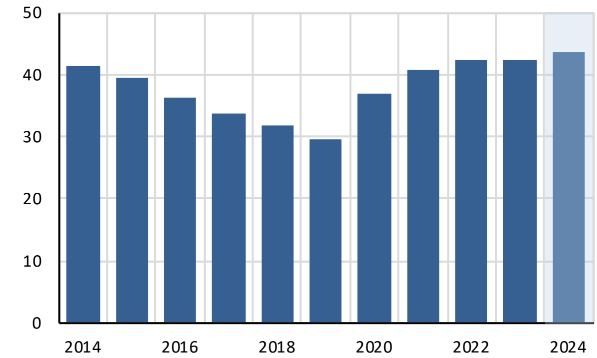
in % of GDP



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
General government balance	*% GDP*	**-0.7**	**0.7**	**1.5**	**0.9**	**0.3**	**-5.6**	**-5.0**	**-3.1**	**-3.8**	**-2.5**
	bill. CZK	-31	33	76	48	17	-329	-312	-216	-292	-202
Cyclical balance	*% GDP*	**-0.1**	**-0.2**	**0.6**	**0.8**	**1.2**	**-1.1**	**-0.1**	**0.2**	**-0.4**	**-0.8**
Cyclically adjusted balance	*% GDP*	**-0.6**	**0.9**	**0.8**	**0.1**	**-0.9**	**-4.5**	**-4.8**	**-3.3**	**-3.4**	**-1.8**
One-off measures [1)]	*% GDP*	**-0.3**	**0.1**	**0.0**	**-0.1**	**0.0**	**-2.2**	**-1.5**	**-0.8**	**-0.8**	**0.3**
Structural balance	*% GDP*	**-0.3**	**0.9**	**0.8**	**0.2**	**-0.9**	**-2.3**	**-3.3**	**-2.4**	**-2.6**	**-2.1**
Fiscal effort [2)]	*pp*	**0.8**	**1.2**	**0.0**	**-0.7**	**-1.1**	**-1.4**	**-1.0**	**0.9**	**-0.2**	**0.5**
Interest expenditure	*% GDP*	**1.1**	**0.9**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**1.1**	**1.3**	**1.4**
Primary balance	*% GDP*	**0.4**	**1.6**	**2.2**	**1.6**	**1.0**	**-4.9**	**-4.2**	**-2.0**	**-2.5**	**-1.1**
Cyclically adjusted primary balance	*% GDP*	**0.4**	**1.8**	**1.6**	**0.8**	**-0.2**	**-3.8**	**-4.1**	**-2.1**	**-2.1**	**-0.4**
General government debt	*% GDP*	**39.5**	**36.2**	**33.8**	**31.7**	**29.6**	**36.9**	**40.7**	**42.5**	**42.4**	**43.7**
	bill. CZK	1 836	1 755	1 750	1 735	1 740	2 150	2 567	2 998	3 228	3 480
Change in debt-to-GDP ratio	*pp*	**-2.1**	**-3.2**	**-2.5**	**-2.1**	**-2.1**	**7.3**	**3.8**	**1.8**	**-0.1**	**1.3**

[1)] 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.

[2)] Change in structural balance.

Note: The balance for 2023 has been revised downwards by CZK 23.2 billion compared to the CZSO's April 2024 notification due to known facts regarding the revenue from corporate income tax and the levy on excess revenue.

Source: CZSO. Calculations and forecast of the MoF.

1.4 Monetary Policy, Financial Sector and Exchange Rates

The Czech National Bank started the monetary policy rate cut cycle in December 2023 and has since gradually reduced the **two-week repo rate** by 250 basis points in total from 7.00% to 4.50%. Given the outlook for inflationary pressures, we expect the two-week repo rate to continue its gradual decline in the second half of this year and subsequently in 2025.

The three-month PRIBOR rate fell to 5.3% (*in line with the forecast*) in Q2 2024, following a further reduction in the CNB's primary interest rates. In Q3, in line with the expected path of the CNB's monetary policy, the three-month PRIBOR rate could fall further to 4.5% (*vs. 4.7%*) and average 5.0% (*vs. 5.1%*) for the whole of 2024. For 2025, we expect another decline to 3.6% (*vs. 3.3%*).

The yield to maturity on 10-year government bonds rose to 4.2% (*vs. 3.7%*) on average in Q2 2024 but is forecast to fall to 3.8% (*vs. 3.6%*) in Q3. Taking into account the assumed monetary policy stance of the CNB and the ECB, as well as inflation outlook, we believe that long-term interest rates should continue on a slightly downward trajectory, averaging 3.9% (*vs. 3.7%*) in 2024 and 3.6% (*vs. 3.4%*) in 2025.

The annual growth in total **loans to households** was 4.3% in Q2 2024. Compared with the pre-pandemic level, the year-on-year growth remains subdued due to lower demand for mortgage loans; however, the demand is gradually rising, supported by falling interest rates – the average client interest rate on new mortgage loans to households fell by 0.6pp to 5.2% during the first half of 2024. For new consumer credit, the rate fell by 0.5pp to 9.0% over the same period.

The average client interest rate on total household koruna-denominated loans increased to 4.2% in Q2 2024, continuing its gradual growth (from 3.3% in H2 2021). This increase is mainly due to mortgage refixing, as current rates remain higher than those prevailing at the time of the previous fixing.

The volume of **household deposits** increased by 8.3% YoY in Q2 2024. The acceleration in growth from Q4 2022 onwards is driven by increased households' interest in savings accounts and longer maturity deposits as a result of their persistently higher interest rates compared to current accounts. The average client rate on all household koruna-denominated deposits fell by 0.1pp to 2.1% in 1H 2024.

Loans to non-financial corporations grew by 8.7% YoY in Q2 2024. Continued, albeit gradually diminishing, year-on-year declines in the volume of koruna-denominated loans continue to be offset by ongoing strong growth in foreign-currency-denominated loans (primarily for operating financing), mainly due to the positive interest rate differential vis-à-vis the euro area. The share of foreign-currency-denominated loans in total loans to non-financial corporations stood at 51.7% in June.

The average client interest rate on the total volume of koruna-denominated loans to non-financial corporations fell by 0.9pp to 6.5% in H1 2024. For deposits the rate decreased by 0.5pp to 2.7%.

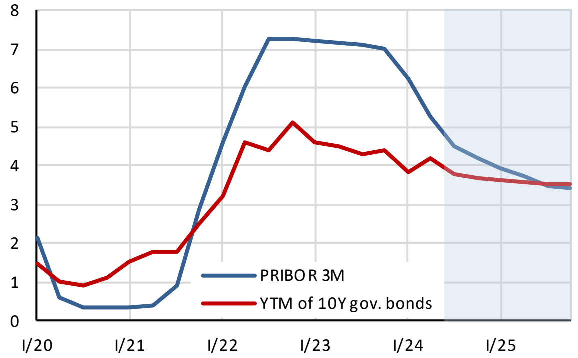
The share of non-performing loans in total loans to non-financial corporations and households continued to hover around historic lows. In Q2 2024, it was 1.3% for households and 2.6% for non-financial corporations.

The exchange rate of the Czech koruna against the euro averaged CZK 25.0/EUR in Q2 2024 (*vs. CZK 25.3/EUR*), thus depreciating by 5.5% YoY (*vs. 6.6%*). For Q3 2024, we expect an average exchange rate of CZK 25.2/EUR (vs. *CZK 25.1/EUR*). We assume that the Czech currency will appreciate slightly against the euro over the forecast horizon. An anticipated slowdown in the pace of koruna interest rate cuts against the backdrop of falling interest rates abroad could have a positive effect. In the longer term, appreciation pressures should be mainly generated by the expected resumption of economic convergence. In 2024, the koruna could thus depreciate by 4.3% (vs. 4.5%) on average to CZK 25.1/EUR (*unchanged*). Next year, it could appreciate by 0.9% YoY (*vs. 1.5%*) to CZK 24.9/EUR (*vs. CZK 24.7/EUR*).

The expected development of koruna against the US dollar is implied by the USD/EUR exchange rate forecast, which is based on the development of forward rates prior to the cut-off date for input data. We estimate the USD/EUR exchange rate at 1.09 (*unchanged*) this year and 1.11 (*unchanged*) in 2025.

Graph 1.4.1: Interest Rates

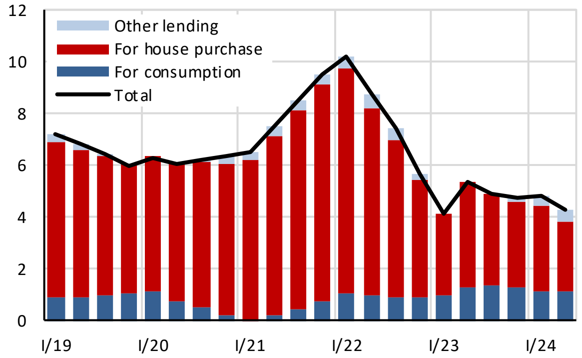
in % p.a.



Source: CNB. Calculations and forecast of the MoF.

Graph 1.4.2: Loans to Households

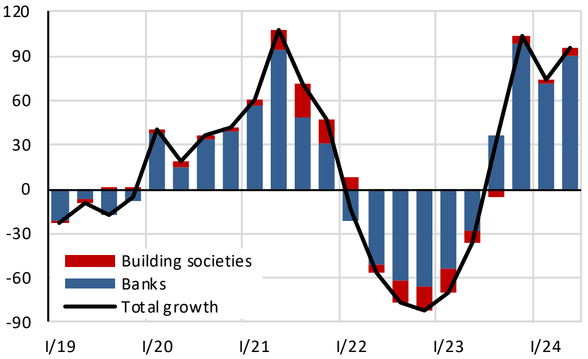
YoY growth rate in %, contributions in percentage points



Source: CNB. Calculations of the MoF.

Graph 1.4.3: New Mortgage Loans

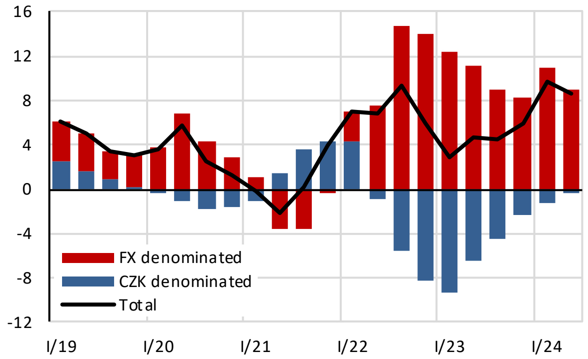
for purchase of residential property, YoY growth in %, contributions in pp



Source: CNB. Calculations of the MoF.

Graph 1.4.4: Loans to Non-financial Corporations

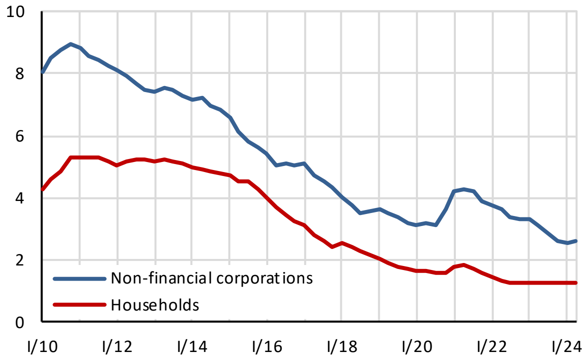
YoY growth rate in %, contributions in percentage points



Source: CNB. Calculations of the MoF.

Graph 1.4.5: Non-performing Loans

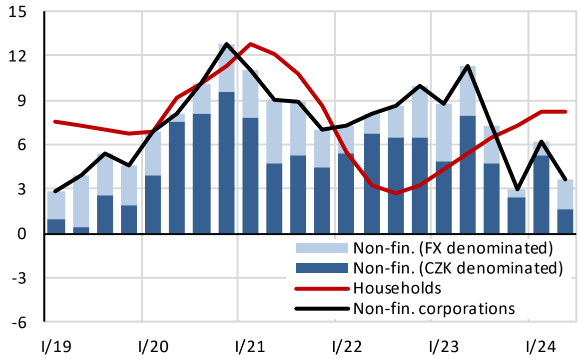
ratio of non-performing to total loans, in %



Source: CNB. Calculations of the MoF.

Graph 1.4.6: Deposits

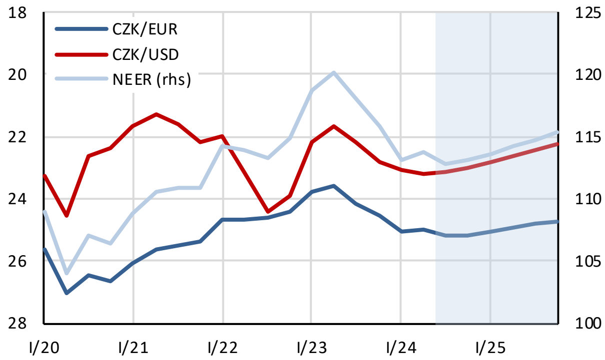
YoY growth rate in %, contributions in percentage points



Source: CNB. Calculations of the MoF.

Graph 1.4.7: Nominal Exchange Rates

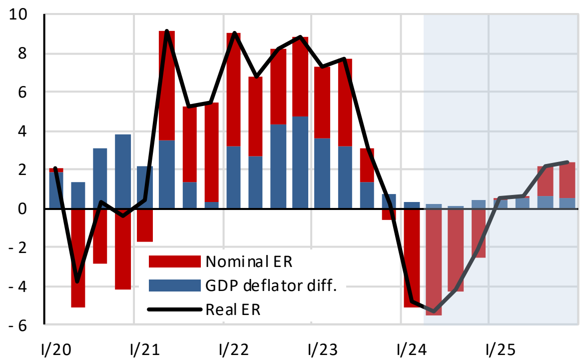
quarterly averages, average 2015=100 (rhs)



Source: CNB. Calculations and forecast of the MoF.

Graph 1.4.8: Real Exchange Rate to the Eurozone

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

		2016	2017	2018	2019	2020	2021	2022	2023	2024 *Forecast*	2025 *Forecast*
Repo 2W rate CNB (*end of period*)	*in % p.a.*	0.05	0.50	1.75	2.00	0.25	3.75	7.00	6.75	.	.
Main refinancing rate ECB (*end of period*)	*in % p.a.*	0.00	0.00	0.00	0.00	0.00	0.00	2.50	4.50	.	.
Federal funds rate (*end of period*)	*in % p.a.*	0.75	1.50	2.50	1.75	0.25	0.25	4.50	5.50	.	.
PRIBOR 3M	*in % p.a.*	0.29	0.41	1.27	2.12	0.86	1.13	6.29	7.12	5.0	3.6
YTM of 10Y government bonds	*in % p.a.*	0.43	0.98	1.98	1.55	1.13	1.90	4.33	4.44	3.9	3.6
Client interest rates											
Loans to households	*in % p.a.*	4.65	4.10	3.76	3.66	3.53	3.31	3.42	3.85	.	.
Loans to non-financial corporations	*in % p.a.*	2.59	2.57	3.05	3.75	2.96	2.86	6.42	7.39	.	.
Deposits of households	*in % p.a.*	0.47	0.36	0.33	0.39	0.35	0.26	1.13	2.10	.	.
Deposits of non-financial corporations	*in % p.a.*	0.10	0.05	0.11	0.37	0.20	0.11	1.96	3.29	.	.

Source: CNB, ECB, Fed. Calculations and forecast of the MoF.

Table 1.4.2: Interest Rates – quarterly

average of period, unless stated otherwise

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3 *Forecast*	Q4 *Forecast*
Repo 2W rate CNB (*end of period*)	*in % p.a.*	7.00	7.00	7.00	6.75	5.75	4.75	.	.
Main refinancing rate ECB (*end of period*)	*in % p.a.*	3.50	4.00	4.50	4.50	4.50	4.25	.	.
Federal funds rate (*end of period*)	*in % p.a.*	5.00	5.25	5.50	5.50	5.50	5.50	.	.
PRIBOR 3M	*in % p.a.*	7.20	7.17	7.10	7.03	6.23	5.25	4.5	4.2
YTM of 10Y government bonds	*in % p.a.*	4.58	4.50	4.30	4.37	3.82	4.19	3.8	3.7
Client interest rates									
Loans to households	*in % p.a.*	3.67	3.78	3.91	4.04	4.13	4.22	.	.
Loans to non-financial corporations	*in % p.a.*	7.35	7.38	7.41	7.42	7.13	6.52	.	.
Deposits of households	*in % p.a.*	1.97	2.09	2.14	2.21	2.29	2.10	.	.
Deposits of non-financial corporations	*in % p.a.*	3.03	3.48	3.38	3.25	3.07	2.71	.	.

Source: CNB, ECB, Fed. Calculations and forecast of the MoF.

Table 1.4.3: Loans and Deposits – yearly averages

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Households											
Loans	*growth in %*	**3.4**	**4.8**	**7.2**	**7.8**	**7.6**	**6.6**	**6.3**	**8.0**	**8.0**	**4.8**
For consumption	*growth in %*	-0.9	3.4	6.0	4.3	5.4	6.4	4.4	2.6	7.0	9.0
For house purchase	*growth in %*	4.5	5.6	8.1	9.0	8.5	7.4	7.3	9.5	8.5	4.5
Other lending	*growth in %*	2.9	1.0	3.0	4.2	4.3	1.1	0.9	4.2	4.5	0.3
CZK denominated	*growth in %*	3.4	4.7	7.2	7.7	7.6	6.6	6.3	8.0	7.9	4.7
FX denominated	*growth in %*	0.0	12.7	8.5	36.3	1.7	9.0	6.1	16.9	43.4	26.7
Deposits	*growth in %*	**2.9**	**4.8**	**7.0**	**8.7**	**7.0**	**7.2**	**9.4**	**11.1**	**3.7**	**5.9**
CZK denominated	*growth in %*	2.7	4.1	6.9	9.7	7.1	6.9	9.2	10.9	3.2	5.2
FX denominated	*growth in %*	8.5	22.5	7.3	-13.9	3.5	15.2	14.5	16.6	16.6	20.4
Non-performing loans *(banking statistics)*	*share, in %*	**4.9**	**4.5**	**3.6**	**2.7**	**2.4**	**1.9**	**1.6**	**1.7**	**1.3**	**1.3**
Loans to deposits ratio	*in %*	**63**	**63**	**63**	**63**	**63**	**63**	**61**	**59**	**62**	**61**
Non-financial corporations											
Loans	*growth in %*	**1.9**	**6.5**	**6.6**	**5.0**	**4.2**	**4.3**	**3.2**	**0.5**	**7.2**	**4.5**
CZK denominated	*growth in %*	-1.0	5.9	2.8	-1.4	3.0	1.9	-1.8	3.2	-4.0	-9.4
FX denominated	*growth in %*	13.7	9.0	20.5	24.4	6.9	10.0	14.0	-4.6	29.6	25.1
Deposits	*growth in %*	**7.6**	**10.3**	**4.6**	**7.8**	**3.0**	**4.2**	**9.5**	**9.0**	**8.5**	**7.5**
CZK denominated	*growth in %*	5.6	6.7	4.5	13.9	2.1	1.9	9.4	7.1	8.3	6.6
FX denominated	*growth in %*	15.2	23.2	4.8	-11.1	6.6	13.0	9.9	15.3	9.2	10.7
Non-performing loans *(banking statistics)*	*share, in %*	**7.0**	**6.0**	**5.2**	**4.7**	**3.7**	**3.4**	**3.3**	**4.2**	**3.5**	**3.0**
Loans to deposits ratio	*in %*	**110**	**106**	**108**	**105**	**106**	**106**	**100**	**92**	**91**	**89**

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

		2022		2023				2024	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Households									
Loans	*growth in %*	**7.4**	**5.6**	**4.1**	**5.3**	**4.9**	**4.8**	**4.9**	**4.3**
For consumption	*growth in %*	6.5	6.6	7.1	9.7	10.0	9.2	8.3	8.0
For house purchase	*growth in %*	7.9	5.8	4.1	5.2	4.5	4.3	4.2	3.5
Other lending	*growth in %*	5.0	2.5	-0.6	-0.3	0.0	2.0	5.2	5.3
CZK denominated	*growth in %*	7.3	5.5	4.0	5.3	4.9	4.7	4.8	4.3
FX denominated	*growth in %*	50.6	55.1	46.5	32.7	16.3	17.6	19.2	10.0
Deposits	*growth in %*	**2.8**	**3.3**	**4.3**	**5.4**	**6.5**	**7.3**	**8.2**	**8.3**
CZK denominated	*growth in %*	2.2	2.6	3.4	4.6	5.9	7.0	8.4	8.7
FX denominated	*growth in %*	17.6	20.1	26.7	23.4	18.8	13.9	5.6	0.2
Non-performing loans *(banking statistics)*	*share, in %*	**1.3**	**1.2**	**1.2**	**1.2**	**1.3**	**1.3**	**1.3**	**1.3**
Loans to deposits ratio	*in %*	**62**	**62**	**62**	**61**	**61**	**61**	**60**	**59**
Non-financial corporations									
Loans	*growth in %*	**9.3**	**5.9**	**2.9**	**4.6**	**4.5**	**6.0**	**9.7**	**8.7**
CZK denominated	*growth in %*	-8.1	-12.3	-14.4	-10.5	-7.7	-4.3	-2.3	-0.6
FX denominated	*growth in %*	46.5	41.7	35.2	29.0	20.9	18.5	23.8	19.1
Deposits	*growth in %*	**8.6**	**10.0**	**8.7**	**11.4**	**7.3**	**3.0**	**6.2**	**3.6**
CZK denominated	*growth in %*	8.6	8.6	6.5	10.3	6.3	3.2	7.0	2.2
FX denominated	*growth in %*	8.9	14.7	15.9	14.8	10.5	2.4	3.8	8.1
Non-performing loans *(banking statistics)*	*share, in %*	**3.4**	**3.3**	**3.3**	**3.1**	**2.8**	**2.6**	**2.6**	**2.6**
Loans to deposits ratio	*in %*	**92**	**89**	**88**	**86**	**90**	**92**	**91**	**90**

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

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Nominal exchange rates											
CZK / EUR	*average*	**25.65**	**25.67**	**26.44**	**25.65**	**24.57**	**24.01**	**25.1**	**24.9**	**24.4**	**24.0**
	appreciation in %	2.7	-0.1	-2.9	3.1	4.4	2.3	-4.3	0.9	1.8	1.8
CZK / USD	*average*	**21.74**	**22.94**	**23.20**	**21.68**	**23.36**	**22.21**	**23.1**	**22.5**	**21.8**	**21.2**
	appreciation in %	7.6	-5.2	-1.1	7.0	-7.2	5.2	-3.8	2.6	3.2	3.1
NEER	*average of 2015=100*	**109.1**	**108.8**	**106.7**	**110.4**	**114.8**	**118.3**	**113**	**114**	**117**	**119**
	appreciation in %	3.7	-0.3	-1.9	3.4	4.0	3.0	-4.3	1.1	1.9	1.9
Real exchange rate to EA19 [1]	*average of 2015=100*	**108.9**	**111.0**	**110.6**	**116.1**	**125.6**	**131.3**	**126**	**128**	**130**	**133**
	appreciation in %	3.9	2.0	-0.4	5.0	8.2	4.5	-4.1	1.4	2.0	1.9
REER [2]	*average of 2015=100*	**111.2**	**111.6**	**112.4**	**116.7**	**126.8**	**139.6**	**.**	**.**	**.**	**.**
	appreciation in %	4.3	0.3	0.8	3.8	8.7	10.1	.	.	.	.

[1] *Deflated by GDP deflators.*
[2] *Eurostat calculations, deflated by CPI, versus 42 countries.*
Source: CNB, Eurostat. Calculations and forecast of the MoF.

Table 1.4.6: Exchange Rates – quarterly

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	*Forecast*	*Forecast*
Nominal exchange rates									
CZK / EUR	*average*	**23.79**	**23.59**	**24.14**	**24.52**	**25.07**	**24.96**	**25.2**	**25.2**
	appreciation in %	3.6	4.5	1.8	-0.5	-5.1	-5.5	-4.2	-2.5
CZK / USD	*average*	**22.17**	**21.67**	**22.17**	**22.82**	**23.09**	**23.18**	**23.1**	**23.0**
	appreciation in %	-0.8	6.8	10.1	4.8	-4.0	-6.5	-4.2	-0.7
NEER	*average of 2015=100*	**118.7**	**120.1**	**118.1**	**115.9**	**113.2**	**113.8**	**113**	**113**
	appreciation in %	3.9	5.5	4.3	0.8	-4.7	-5.2	-4.5	-2.4
Real exchange rate to EA19 [1]	*average of 2015=100*	**132.7**	**133.9**	**130.9**	**127.8**	**126.4**	**127**	**125**	**125**
	appreciation in %	7.3	7.7	3.1	0.2	-4.8	-5.3	-4.2	-2.1
REER [2]	*average of 2015=100*	**141.1**	**142.0**	**139.6**	**135.7**	**134.1**	**.**	**.**	**.**
	appreciation in %	12.2	12.4	9.4	6.3	-5.0	.	.	.

[1] *Deflated by GDP deflators.*
[2] *Eurostat calculations, deflated by CPI, versus 42 countries.*
Source: CNB, Eurostat. Calculations and forecast of the MoF.

1.5 Demographic Trends

The population of the Czech Republic decreased by 41.0 thousand to 10.86 million during Q1 2024. The decline was driven by a negative balance of natural change (−9.2 thousand) and foreign migration (−31.8 thousand).

During January–March 2024, 20.3 thousand children **were born** alive, 2.6 thousand (11.3%) fewer year-on-year. A lower number of births in the first quarter has not been recorded since 1992.

The number of **deaths** in Q1 2024 reached 29.5 thousand. Compared to the same period of the previous year, this is a decrease of 1.0 thousand, or 3.4%. The number of deaths was 0.4 thousand lower compared to the average number for the first quarter of the years 2015–2019.

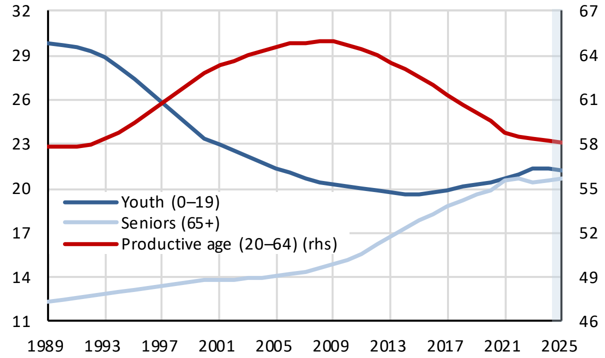
The balance of foreign migration from January to March 2024 deteriorated by 64.5 thousand year-on-year to −31.8 thousand. A higher number of emigrants than immigrants in the first quarter was last recorded in 2004. The negative balance of foreign migration was mainly due to the high number of emigrants (62.3 thousand), a large part of whom were persons whose temporary protection in connection with the war in Ukraine expired at the end of March and who did not apply for its extension. During Q1 2024, 30.5 thousand people immigrated to the Czech Republic, 8.2 thousand fewer year-on-year. Nevertheless, the number of immigrants was more than double the average number for the first quarter of the years 2017–2021.

The future intensity of migration flows related to the war in Ukraine cannot be estimated, but we expect some refugees to return to Ukraine, while immigration from that country to remain elevated. We therefore keep the migration balance according to the demographic projection of the CZSO.

The CZSO also published a detailed **age structure of** the population as of the beginning of 2024. The population of the Czech Republic increased by 73.0 thousand persons during 2023. In all main age categories (0–19 years, 20–64 years, 65 years and over) there was a year-on-year growth, but it slowed down significantly compared to the previous year. This was influenced by the base effect, mainly due to immigration from Ukraine. The population aged 65 and over increased by 29.5 thousand (1.3%) year-on-year. The number of children and young people aged under 19 was 13.6 thousand (0.6%) higher and the working-age population (20–64 years) increased by 30.0 thousand (0.5%) year-on-year. However, the development within this group was far from even. In the 20–44 age group, there was a year-on-year decrease of 35.3 thousand persons (1.1%). In contrast, the 45–59 and 60–64 age groups recorded increases of 51.4 thousand (2.2%) and 13.9 thousand (2.3%), respectively.

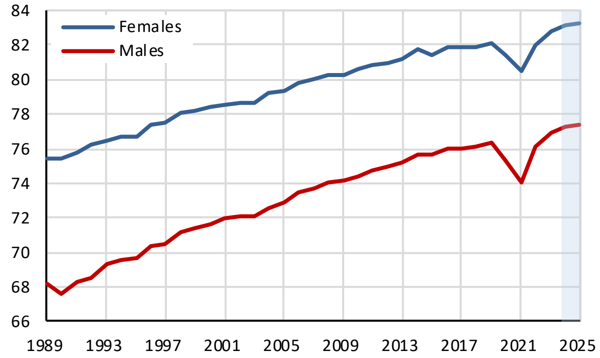
At the end of June 2024, the Czech Social Security Administration registered 2.372 million **old-age pensioners**, which corresponded to 21.8% of the Czech population. Despite the extension of the statutory retirement age, the number of old-age pensioners increased by 14.1 thousand, i.e. by 0.6% YoY (Graph 1.5.3). This was driven by early retirements, which increased by 57.5 thousand or 8.3% YoY. However, annual growth slowed down compared to the previous quarter due to stricter rules on early retirement. In this context, it should be mentioned that people who had claimed a pension benefit by the end of September 2023 could apply for early retirement within 6 months under the original more favourable conditions. For this reason, the slowdown in annual growth was not reflected until Q2 2024.

Graph 1.5.1: Age Groups
as of 1 January of the given year, shares in total population, in %



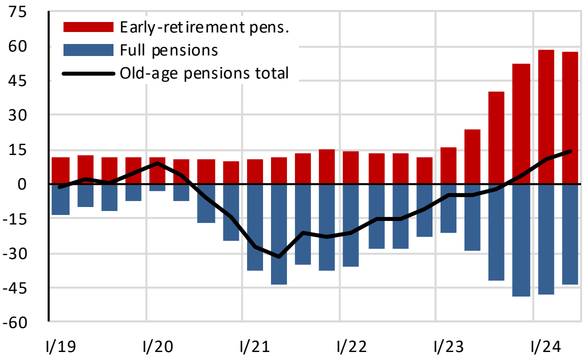
Source: CZSO. Calculations of the MoF.

Graph 1.5.2: Life Expectancy at Birth
in years



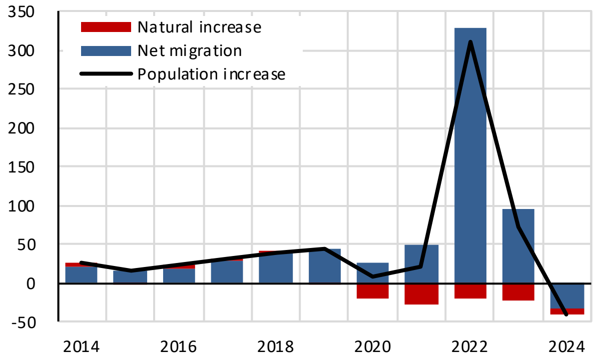
Source: CZSO.

Graph 1.5.3: Old-Age Pensioners
absolute increase over a year in thousands of persons



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

Graph 1.5.4: Population Change
in thousands of persons, 2024 only Q1



Source: CZSO.

Table 1.5.1: Demographics

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Population (as of 1 January)	*thous. persons*	**10 610**	**10 650**	**10 694**	**10 495**	**10 517**	**10 828**	**10 901**	**10 906**	**10 853**	**10 796**
	growth in %	0.3	0.4	0.4	-1.9	0.2	3.0	0.7	0.0	-0.5	-0.5
0–19 years	*thous. persons*	2 133	2 160	2 188	2 171	2 197	2 307	2 321	2 307	2 270	2 229
	growth in %	1.3	1.3	1.3	-0.8	1.2	5.0	0.6	-0.6	-1.6	-1.8
20–64 years	*thous. persons*	6 437	6 403	6 374	6 172	6 151	6 312	6 342	6 342	6 311	6 279
	growth in %	-0.7	-0.5	-0.4	-3.2	-0.3	2.6	0.5	0.0	-0.5	-0.5
65 and more years	*thous. persons*	2 040	2 087	2 132	2 152	2 169	2 208	2 237	2 256	2 272	2 288
	growth in %	2.6	2.3	2.2	0.9	0.8	1.8	1.3	0.8	0.7	0.7
Old-age pensioners (as of 1 January) [1]	*thous. persons*	**2 404**	**2 410**	**2 415**	**2 400**	**2 378**	**2 367**	**2 371**	**2 371**	**2 363**	**2 359**
	growth in %	0.4	0.3	0.2	-0.6	-0.9	-0.4	0.2	0.0	-0.3	-0.2
Old-age dependency ratios (as of 1 January)											
Demographic [2]	*%*	31.7	32.6	33.4	34.9	35.3	35.0	35.3	35.6	36.0	36.4
Under current legislation [3]	*%*	40.4	40.4	40.5	41.2	40.6	39.3	38.8	38.5	38.5	38.5
Effective [4]	*%*	45.0	44.6	45.0	45.9	44.7	44.2	43.9	43.7	43.5	43.4
Fertility rate	*children*	**1.708**	**1.709**	**1.707**	**1.827**	**1.618**	**1.453**	**1.50**	**1.50**	**1.50**	**1.50**
Population increase	*thous. persons*	**40**	**44**	**8**	**22**	**311**	**73**	**5**	**-53**	**-57**	**-61**
Natural increase	*thous. persons*	**1**	**0**	**-19**	**-28**	**-19**	**-22**	**-19**	**-22**	**-26**	**-29**
Live births	*thous. persons*	114	112	110	112	101	91	93	91	88	86
Deaths	*thous. persons*	113	112	129	140	120	113	112	113	114	115
Net migration	*thous. persons*	**39**	**44**	**27**	**50**	**330**	**95**	**24**	**-31**	**-31**	**-32**
Immigration	*thous. persons*	58	66	56	69	350	141	.	.	.	.
Emigration	*thous. persons*	20	21	29	19	20	47	.	.	.	.
Census difference	*thous. persons*	**x**	**x**	**x**	**-207**	**x**	**x**	**x**	**x**	**x**	**x**

Note: Between 2020 and 2021, there is a break in the population time series resulting from the 2021 Census.
[1] *In 2010 disability pensions of pensioners over 64 were transferred into old-age pensions.*
[2] *Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (20–64).*
[3] *Dependency under current legislation: ratio of people above the official retirement age to the people over 19 below the official retirement age.*
[4] *Effective dependency: ratio of old-age pensioners to working people (LFS methodology).*
Source: Czech Social Security Administration, CZSO. Calculations and forecast of the MoF.

1.6 Other Assumptions

In addition to the factors mentioned in the previous chapters, the forecast is based on the following assumptions:

– the significant reduction in imports of natural gas and oil from Russia to the EU remains to be replaced by a combination of increased supplies from other countries (including liquefied natural gas), savings and alternative technologies;
– neither the ongoing war in Ukraine nor the tensions in the Middle East will lead to a sustained increase in commodity prices on world markets;
– except for the changes included in the consolidation package, the rates and bases of other major taxes and compulsory levies will remain unchanged;
– over the forecast horizon, supply chains will work without major problems and, as a result, upward pressures on the price level will also ease;
– the minimum wage and the lowest levels of guaranteed pay will rise faster than the average nominal wage, with the minimum wage gradually approaching 47% of the average wage.

2 Economic Cycle

2.1 Position within the Economic Cycle

The **output gap** was just below −2% of potential output in Q1 2024, but should close gradually over the forecast horizon (Graph 2.1.1). However, given the considerable uncertainty and volatility of economic developments, the estimates should be treated with caution.

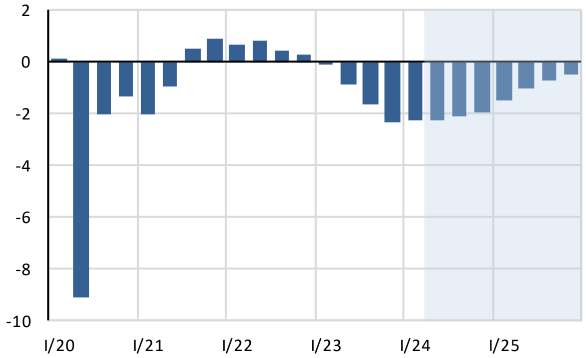
Potential output growth, which continues to lag behind its long-term average, accelerated to 2.4% last year (*vs. 1.5%*). The significant change in the estimate stems mainly from a revision of national accounts data. In 2024, momentum could slow to 1.6% (*vs. 1.3%*), and potential output could grow at a similar pace in subsequent years.

The trend component of **total factor productivity**, which was an important determinant of potential growth during the pre-pandemic boom, had virtually neutral impact on potential output in the last two years. In 2024 and 2025, it could support potential output dynamics to the extent of 0.5pp (*vs. 0.3pp*) and 0.9pp (*vs. 0.8pp*), respectively.

Thanks to the recovery in investment activity, the **capital stock** had been the driver of potential growth in the previous two years. Given the forecast evolution of gross fixed capital formation and depreciation, the contribution of this factor could fall to 0.9pp (*vs. 0.7pp*) this year and further to 0.6pp (*unchanged*) in 2025.

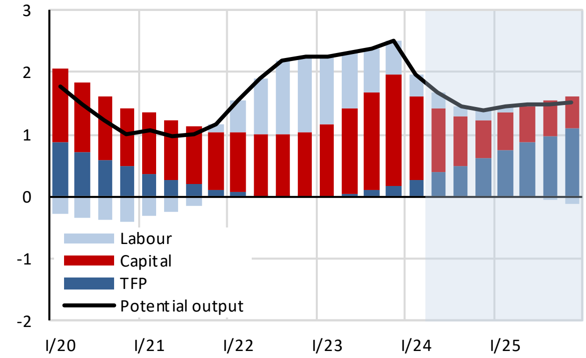
The **population aged 15 and over** accounted for a significant part of the total potential growth dynamics in 2022 and 2023, with the arrival of refugees from Ukraine playing a dominant role. The **employment rate** in the 15+ age group declined slightly last year, mainly due to a rise in the unemployment rate and a falling share of those with a naturally high participation rate. The long-run increase in the statutory retirement age is working in the opposite direction. The **average number of hours worked** per worker has been on a downward trend over the long term (Graph 2.1.4), with only a temporary drop during the pandemic. In aggregate, the **factor of labour** is expected to support potential growth less than in the previous two years – to the extent of 0.2pp this year (*vs. 0.4pp*), and to be neutral in 2025 (*vs. 0.1pp*).

Graph 2.1.1: Output Gap
in % of potential product



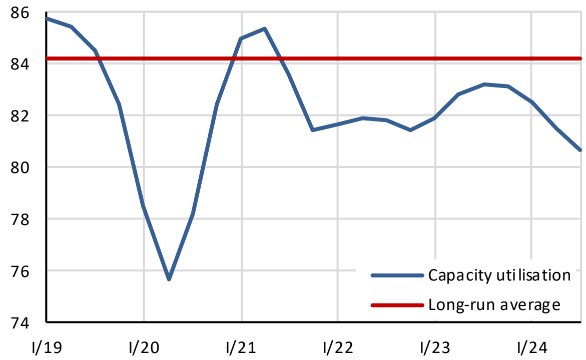
Source: CZSO. Calculations and forecast of the MoF.

Graph 2.1.2: Potential Output
YoY growth rate in %, contributions in percentage points



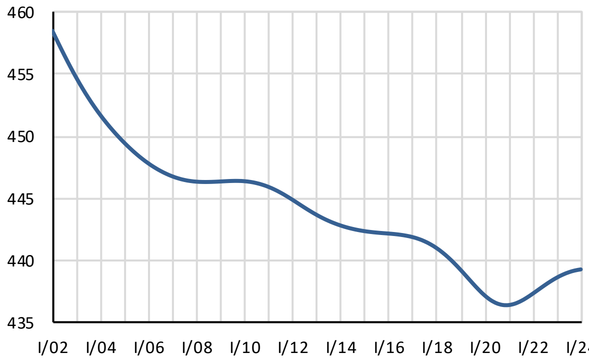
Source: CZSO. Calculations and forecast of the MoF.

Graph 2.1.3: Capacity Utilisation in Industry
smoothed by centred moving average over 5 quarters, in %



Source: CZSO. Calculations of the MoF.

Graph 2.1.4: Average Number of Hours Worked
smoothed by Hodrick-Prescott filter (λ = 1 600), number of hours per quarter, national accounts



Source: CZSO. Calculations of the MoF.

Table 2.1.1: Output Gap and Potential Product

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Output gap	*%*	**2.3**	**3.5**	**-3.1**	**-0.4**	**0.6**	**-1.2**	**-2.1**	**-0.9**	**0.2**	**0.9**
Potential product	*growth in %*	**2.5**	**2.3**	**1.4**	**1.1**	**2.0**	**2.4**	**1.6**	**1.5**	**1.6**	**1.7**
Contributions											
Trend total factor productivity	*pp*	1.7	1.2	0.7	0.2	0.0	0.1	0.5	0.9	1.3	1.4
Fixed assets	*pp*	0.6	1.2	1.5	0.5	1.3	1.4	0.9	0.6	0.4	0.5
Population 15+	*pp*	-0.1	0.1	0.1	-0.1	1.1	0.8	0.3	0.1	-0.1	-0.1
Employment rate	*pp*	0.5	0.0	-0.8	0.5	-0.7	-0.1	-0.1	-0.1	0.1	0.0
Average hours worked	*pp*	-0.2	-0.2	-0.1	-0.1	0.3	0.1	0.0	0.0	-0.1	-0.1

Source: CZSO. Calculations and forecast of the MoF.

2.2 Business Cycle Indicators

The development of confidence indicators in Q2 2024 points to a year-on-year decline in gross value added in industry, while there has been a significant year-on-year improvement in confidence in the trade and services sectors. In the construction sector, sentiment has deteriorated compared to the previous quarter, but the year-on-year development still signals a rise in gross value added. However, the correlation between confidence and gross value added in the construction sector is very low.

The composite indicator of exports of goods, compiled by the Ministry of Finance from sub-questions of the CZSO's business cycle survey and business confidence in Germany, indicates a year-on-year stagnation in exports of goods.

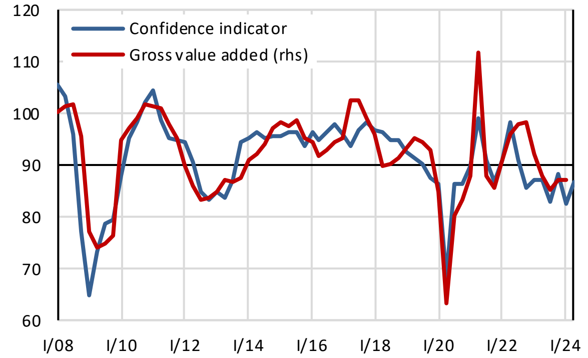
The CZSO's consumer confidence indicator strengthened quarter-on-quarter and year-on-year in Q2 2024. Its development signals that the gradual recovery in household final consumption expenditure will continue in Q3 2024 (the confidence indicator shows a one-quarter lead). The same development of household consumption is also indicated by the consumer confidence indicator compiled by the Ministry of Finance from sub-questions of the European Commission's consumer survey. Nevertheless, consumer pessimism remains considerable and stems from a strongly negative assessment of the economic situation and households' concerns about their financial situation.

As a result, the composite confidence indicator signals a moderate quarter-on-quarter and year-on-year growth in total gross value added in Q2 2024.

According to the composite leading indicator, the output gap is expected to remain deeply negative in H2 2024. This is in line with our current estimate of the economy's position in the business cycle (Chapter 2.1).

Graph 2.2.1: Confidence and GVA in Industry

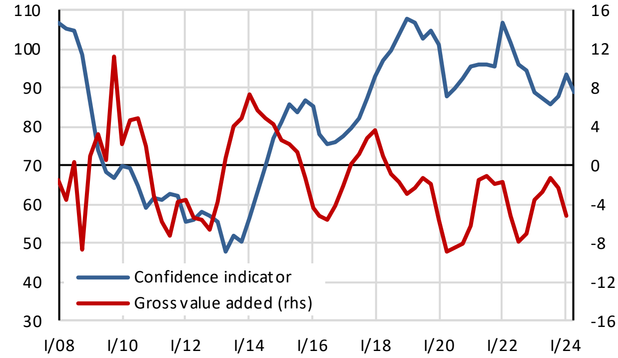
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO.

Graph 2.2.2: Confidence and GVA in Construction

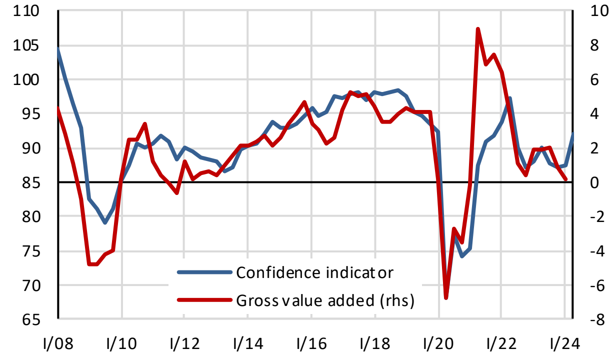
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO.

Graph 2.2.3: Confidence and GVA in Trade and Services

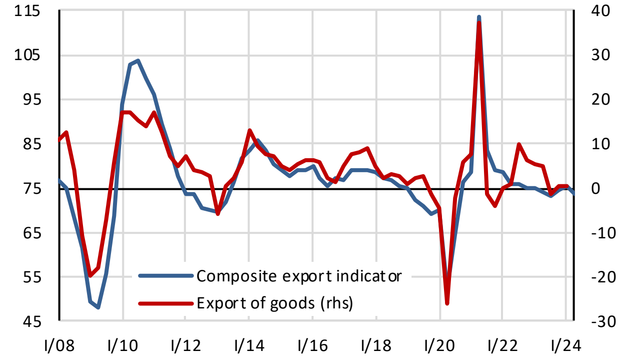
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO. Calculations of the MoF.

Graph 2.2.4: Composite Export Indicator

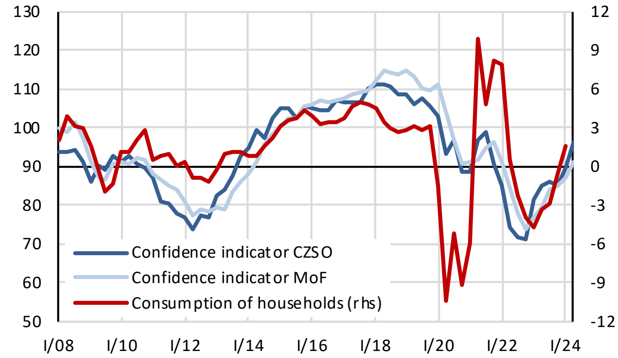
2010=100 (lhs), YoY growth in % (rhs)



Source: CESifo, CZSO. Calculations of the MoF.

Graph 2.2.5: Consumer Confidence and Consumption

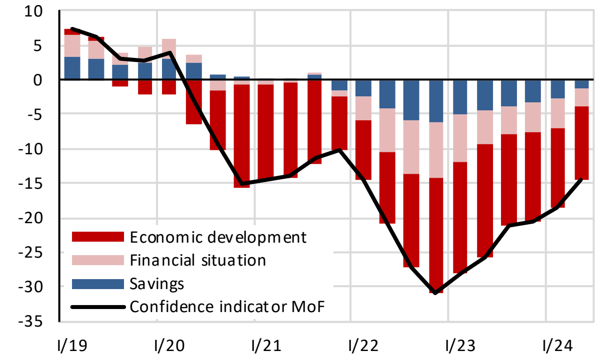
2005=100 (lhs), YoY growth in % (rhs)



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

Graph 2.2.6: Decomposition of Consumer Sentiment

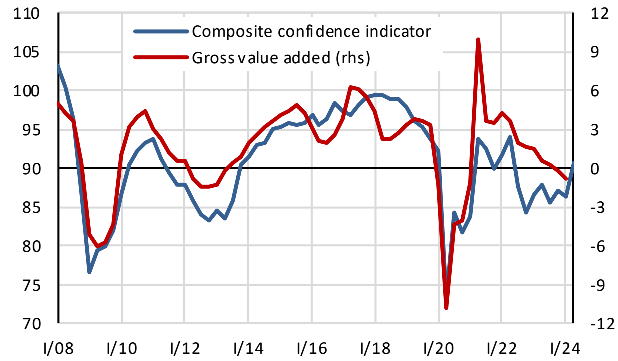
consumer confidence indicator of the MoF, balance, contributions



Source: European Commission. Calculations of the MoF.

Graph 2.2.7: Composite Confidence Indicator and GVA

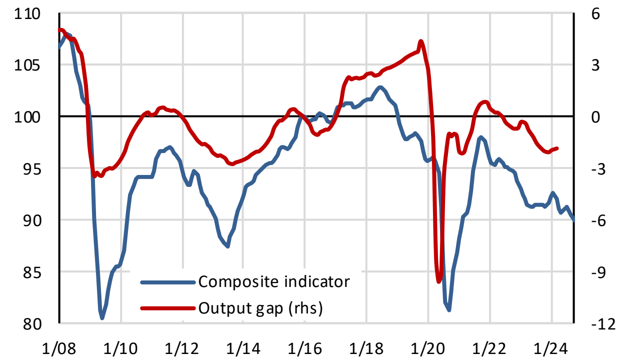
2005=100 (lhs), YoY growth in % (rhs)



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

The Czech economy contracted by 0.2% YoY in **Q1 2024** (*vs. 0.3%*), with seasonally adjusted **GDP** rising by 0.2% (*vs. 0.4%*) compared with the previous quarter. Economic activity was boosted most by the trade, transportation, accommodation and food services and non-market services sectors, while it was dampened most significantly by a decline in gross value added in manufacturing. As part of an extraordinary revision, the entire time series of the national accounts since 1990 were revised.

Household consumption was 1.2% higher year-on-year in Q1 (*vs. 1.6%*), thanks to a significant fall in the savings rate, while the decline in real disposable income had a negative effect. Households spent more on non-durable goods but purchases of other goods and services were lower year-on-year. Consumption expenditure by residents abroad (in constant prices) increased by more than 10%.

Government consumption increased by 3.4% YoY (*vs. 2.2%*), driven mainly by purchases of goods and services. These rose in all sub-sectors, with the largest increase recorded by the central government. In the case of social benefits in kind, health insurance companies also reported a higher pace.

Gross fixed capital formation fell by 3.5% (*vs. growth of 4.2%*). Investment activity was boosted only by investment in transport equipment, while other major categories declined. From the sectoral point of view, the decline in investment was across-the-board, with investment activity by households, firms and the government sector weakening. Government investment was marginally supported by projects co-financed by EU funds.

The change in inventories and valuables subtracted 2.6pp from economic growth (*vs. 2.7pp*), and gross capital formation thus fell by 13.1% (*vs. 6.2%*). We believe that the strong fall in inventories in Q1 reflected – as in the previous year – mainly a reduction of work-in-progress inventories and the normalisation of production inputs inventories.

The **foreign trade** balance supported economic growth to the extent of 1.8pp (*vs. 0.2pp*). While exports of goods and services fell only slightly by 0.2% YoY (*vs. 2.0%*), imports fell by 3.0% (*vs. 2.5%*). Exports to the euro area weakened, while exports to other EU and non-EU countries increased. In addition to low export growth, imports were dampened by weak domestic demand (in particular investment and the decrease in inventories).

According to the preliminary estimate, seasonally adjusted GDP increased by 0.3% QoQ (*vs. 0.5%*) in Q2 2024 thanks to domestic demand. In the second half of this year, the recovery of the Czech economy should continue. As a result, real GDP could increase **by 1.1%** (*vs. 1.4%*) **in 2024**. Private consumption should pick up again after a decline last year, while growth in government consumption should slow down, inter alia in the context of the consolidation of public finances. Investment activity will be dampened by lower spending not only by the private but also by the government sector. The transition between financial perspectives for EU cohesion funds will have a negative impact. The change in inventories will further dampen economic growth, although not as strongly as last year. The external trade balance should have a positive impact on GDP growth, mainly due to a weakening of import-intensive investment demand and expected inventory developments.

In 2025, economic growth could accelerate to **2.7%** (*vs. 2.6%*). Growth is forecast to be driven by domestic demand, but this will also support import growth. The contribution of foreign trade should therefore be negative, despite stronger growth in our trading partners.

Real **household consumption** could increase by 2.1% (*vs. 2.7%*) this year and by 3.9% (*vs. 3.5%*) in 2025. The savings rate could start to fall gradually this year, but its decline will initially be dampened by the efforts of lower-income households to rebuild their financial buffer. The decrease in the savings rate should stimulate household consumption more strongly only in 2025, but the savings rate should remain well above its long-term pre-pandemic average. This year and next, the reduction in the savings rate should also be supported by falling interest rates, although the incentive to save will still be relatively strong at the beginning of the forecast horizon, given the level of interest rates. Real household incomes should increase in both years thanks to the decline in inflation and persistent labour market tightness. Private consumption dynamics may be slightly dampened by the consolidation package.

Growth in the **general government consumption** could slow to 2.3% (*vs. 1.6%*) this year. In addition to fiscal consolidation, the transition to the new 2021–2027 financial perspective will also have an impact, but this will be somewhat offset by a pick-up in current spending from other EU instruments, notably the Recovery and Resilience Facility. In 2025, the government consumption should reflect the ongoing consolidation and lower deficit of the state budget, with growth estimated at 2.2% (*unchanged*).

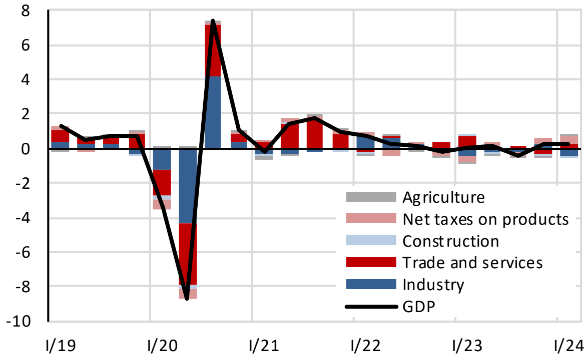
Gross fixed capital formation is expected to fall by 0.5% (*vs. growth of 2.2%*) in 2024 due to economic problems in euro area countries, persistent negative sentiment, lower capacity utilisation in industry and the restrictive monetary policy stance. At the same time, the transition to the new financial perspective of EU funds is taking place, affecting primarily the investment of the general government sector. For next year, we expect investment activity to increase by 3.6% (*vs. 2.4%*), thanks to the economic recovery in the euro area and the growth in government spending supported by EU funding from the Recovery and Resilience Facility. Private investment activity will also benefit from the planned investment by onsemi in chip production.

We expect that during the course of this year there will be a reduction in existing inventories and the work in progress will be completed. The process of inventories normalization should continue also next year. **The change in inventories** should therefore have a negative impact on GDP growth in 2024, while a positive contribution is expected for 2025. Thus, gross capital formation could fall by 4.7% (*vs. 1.5%*) this year, while it should rise by 6.6% (*vs. 0.5%*) in 2025.

We expect **exports of goods and services** to grow by 2.7% (*vs. 1.5%*) this year. Growth dynamics will be limited by weak export markets, while export performance, which should benefit from strong motor vehicle production in the first half of this year, will have a positive impact (Chapter 3.4). The projected acceleration of export growth in 2025 to 3.4% (*vs. 3.7%*) reflects the recovery of the main export markets. The dynamics of exports and domestic demand, especially import-intensive investment, is then reflected in the pace of **imports of goods and services**, which could rise by 1.4% (*vs. 1.2%*) in 2024. The acceleration of growth to 5.8% (*vs. 3.4%*) in 2025 reflects not only the continued recovery in domestic and foreign demand, but also imports for the aforementioned investment by onsemi.

Graph 3.1.1: Resources of Gross Domestic Product

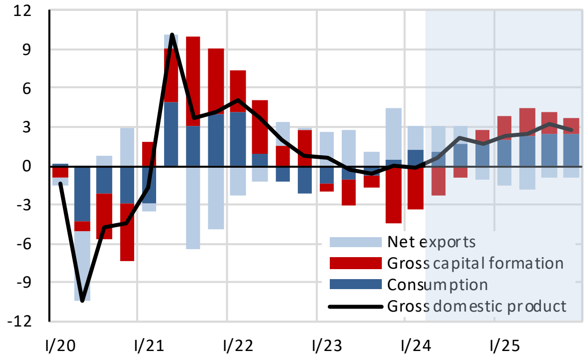
QoQ growth rate of real GDP in %, contrib. in pp, season. adjusted



Source: CZSO. Calculations of the MoF.

Graph 3.1.2: GDP by Type of Expenditure

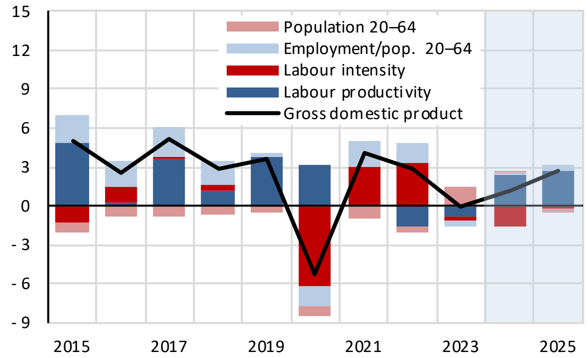
YoY growth rate of real GDP in %, contributions in pp



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.1.3: Real Gross Domestic Product

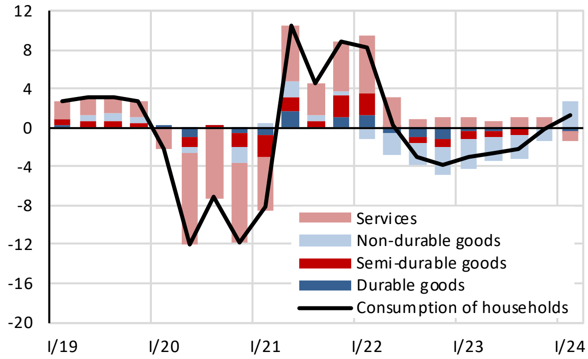
growth in %, contributions in percentage points



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

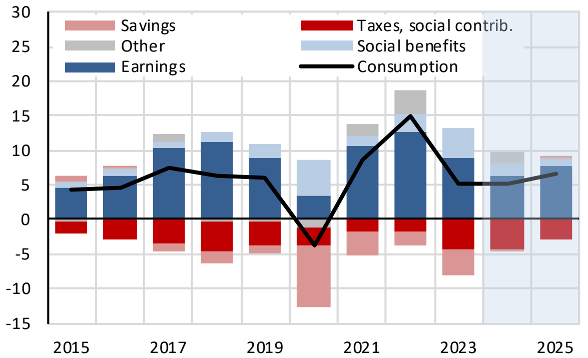
domestic concept, YoY growth rate in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Graph 3.1.5: Nominal Consumption of Households

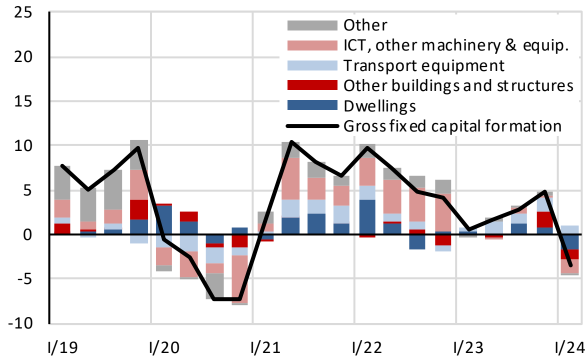
national concept, YoY growth rate in %, contributions in pp



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.1.6: Investment by Type of Expenditure

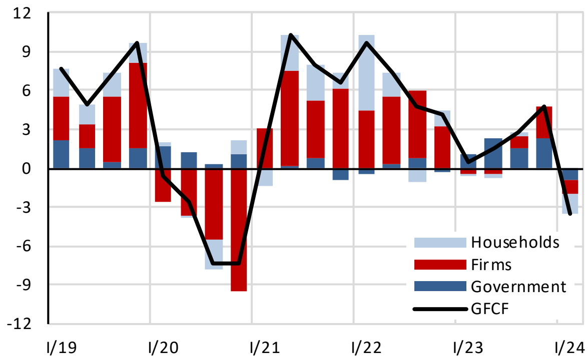
YoY growth rate of real GFCF in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Graph 3.1.7: Investment by Sector

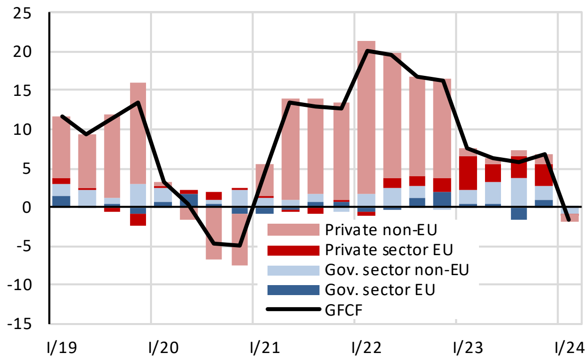
YoY growth rate of real GFCF in %, contributions in percentage points



Source: CZSO. Calculations of the MoF.

Graph 3.1.8: Sources of Investment Financing

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

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Gross domestic product	*bill. CZK 2020*	**5 943**	**6 155**	**5 828**	**6 063**	**6 236**	**6 230**	**6 298**	**6 468**	**6 639**	**6 809**
	growth in %	2.8	3.6	-5.3	4.0	2.8	-0.1	1.1	2.7	2.6	2.6
	growth in % [1]	2.8	3.5	-5.3	4.0	2.9	0.0	0.9	2.8	2.7	2.4
Private consumption expenditure [2]	*bill. CZK 2020*	**2 846**	**2 933**	**2 745**	**2 859**	**2 874**	**2 794**	**2 853**	**2 964**	**3 054**	**3 130**
	growth in %	3.5	3.1	-6.4	4.2	0.5	-2.8	2.1	3.9	3.1	2.5
Government consumption exp.	*bill. CZK 2020*	**1 169**	**1 200**	**1 250**	**1 268**	**1 273**	**1 318**	**1 347**	**1 377**	**1 404**	**1 430**
	growth in %	3.5	2.6	4.1	1.5	0.4	3.5	2.3	2.2	2.0	1.8
Gross capital formation	*bill. CZK 2020*	**1 503**	**1 589**	**1 441**	**1 708**	**1 881**	**1 758**	**1 676**	**1 786**	**1 873**	**1 952**
	growth in %	6.4	5.7	-9.3	18.5	10.2	-6.5	-4.7	6.6	4.9	4.2
Gross fixed capital formation	*bill. CZK 2020*	1 454	1 563	1 488	1 589	1 689	1 731	1 723	1 786	1 850	1 910
	growth in %	8.9	7.5	-4.8	6.7	6.3	2.5	-0.5	3.6	3.6	3.3
Change in stocks and valuables	*bill. CZK 2020*	49	26	-47	119	192	27	-48	0	23	42
Exports of goods and services	*bill. CZK 2020*	**4 261**	**4 317**	**3 949**	**4 271**	**4 491**	**4 614**	**4 736**	**4 896**	**5 065**	**5 224**
	growth in %	3.5	1.3	-8.5	8.2	5.1	2.7	2.7	3.4	3.5	3.1
Imports of goods and services	*bill. CZK 2020*	**3 835**	**3 884**	**3 556**	**4 043**	**4 284**	**4 245**	**4 303**	**4 552**	**4 760**	**4 932**
	growth in %	5.5	1.3	-8.4	13.7	5.9	-0.9	1.4	5.8	4.6	3.6
Gross domestic expenditure	*bill. CZK 2020*	**5 520**	**5 724**	**5 435**	**5 835**	**6 028**	**5 864**	**5 872**	**6 123**	**6 328**	**6 509**
	growth in %	4.3	3.7	-5.0	7.3	3.3	-2.7	0.1	4.3	3.3	2.8
Real gross domestic income	*bill. CZK 2020*	**5 858**	**6 085**	**5 828**	**6 060**	**6 077**	**6 196**	**6 284**	**6 458**	**6 636**	**6 812**
	growth in %	2.8	3.9	-4.2	4.0	0.3	2.0	1.4	2.8	2.8	2.7
Contributions to GDP growth [4]											
Gross domestic expenditure	*pp*	**4.0**	**3.5**	**-4.7**	**6.9**	**3.2**	**-2.7**	**0.1**	**4.0**	**3.2**	**2.7**
Consumption	*pp*	**2.4**	**2.0**	**-2.3**	**2.3**	**0.3**	**-0.7**	**1.4**	**2.3**	**1.9**	**1.6**
Household expenditure	*pp*	1.7	1.5	-3.1	2.0	0.3	-1.4	1.0	1.9	1.5	1.2
Government expenditure	*pp*	0.7	0.5	0.8	0.3	0.1	0.7	0.4	0.4	0.4	0.4
Gross capital formation	*pp*	**1.6**	**1.5**	**-2.4**	**4.6**	**2.9**	**-2.0**	**-1.3**	**1.7**	**1.3**	**1.2**
Gross fixed capital formation	*pp*	2.1	1.9	-1.2	1.7	1.7	0.7	-0.1	1.0	0.9	0.9
Change in stocks	*pp*	-0.5	-0.4	-1.2	2.8	1.2	-2.7	-1.2	0.8	0.4	0.3
Foreign balance	*pp*	**-1.1**	**0.1**	**-0.6**	**-2.8**	**-0.3**	**2.6**	**1.0**	**-1.3**	**-0.5**	**-0.2**
External balance of goods	*pp*	-1.0	0.5	-0.4	-3.0	0.5	2.6	0.7	-1.3	-0.6	-0.2
External balance of services	*pp*	-0.2	-0.4	-0.2	0.1	-0.9	0.0	0.3	0.0	0.1	0.0
Gross value added	*bill. CZK 2020*	**5 404**	**5 598**	**5 315**	**5 524**	**5 685**	**5 709**	**.**	**.**	**.**	**.**
	growth in %	3.0	3.6	-5.1	3.9	2.9	0.4	.	.	.	.
Net taxes and subsidies on products	*bill. CZK 2020*	**538**	**556**	**513**	**539**	**551**	**522**	**.**	**.**	**.**	**.**

[1] *From working day adjusted data.*

[2] *Including consumption of non-profit institutions serving households (NPISH).*

Source: CZSO. Calculations and forecast of the MoF.

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

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	*Forecast*	*Forecast*
Gross domestic product	*bill. CZK 2020*	**1 475**	**1 582**	**1 577**	**1 596**	**1 472**	**1 593**	**1 610**	**1 623**
	growth in %	0.6	-0.2	-0.6	0.0	-0.2	0.7	2.1	1.7
	growth in % [1]	0.3	0.2	-0.4	0.0	0.3	0.4	1.4	1.7
	QoQ in % [1]	0.0	0.1	-0.4	0.3	0.2	0.3	0.5	0.6
Private consumption expenditure [2]	*bill. CZK 2020*	**669**	**710**	**699**	**716**	**677**	**720**	**720**	**735**
	growth in %	-4.4	-3.3	-3.1	-0.4	1.2	1.4	3.0	2.8
Government consumption exp.	*bill. CZK 2020*	**311**	**319**	**321**	**367**	**321**	**327**	**326**	**373**
	growth in %	3.7	3.0	3.7	3.7	3.4	2.4	1.6	1.7
Gross capital formation	*bill. CZK 2020*	**387**	**459**	**499**	**413**	**337**	**423**	**485**	**431**
	growth in %	-1.7	-6.3	-3.0	-14.5	-13.1	-8.0	-2.7	4.3
Gross fixed capital formation	*bill. CZK 2020*	372	430	438	491	359	428	443	494
	growth in %	0.5	1.6	2.8	4.7	-3.5	-0.4	1.0	0.5
Change in stocks and valuables	*bill. CZK 2020*	15	30	60	-78	-22	-5	42	-63
Exports of goods and services	*bill. CZK 2020*	**1 174**	**1 178**	**1 069**	**1 192**	**1 171**	**1 208**	**1 128**	**1 229**
	growth in %	7.2	3.9	-1.0	0.8	-0.2	2.5	5.5	3.1
Imports of goods and services	*bill. CZK 2020*	**1 062**	**1 084**	**1 013**	**1 087**	**1 029**	**1 082**	**1 049**	**1 143**
	growth in %	3.9	0.1	-2.5	-4.8	-3.0	-0.2	3.6	5.1
Gross domestic expenditure	*bill. CZK 2020*	**1 366**	**1 489**	**1 518**	**1 492**	**1 335**	**1 470**	**1 530**	**1 537**
	growth in %	-2.0	-3.0	-1.7	-4.0	-2.2	-1.3	0.8	3.0
Real gross domestic income	*bill. CZK 2020*	**1 458**	**1 583**	**1 572**	**1 583**	**1 471**	**1 597**	**1 608**	**1 608**
	growth in %	1.4	3.1	1.8	1.5	0.9	0.9	2.3	1.6
Gross value added	*bill. CZK 2020*	**1 369**	**1 447**	**1 442**	**1 452**	**1 351**	**.**	**.**	**.**
	growth in %	1.8	0.1	0.0	-0.1	-1.3	.	.	.
	growth in % [1]	1.5	0.6	0.3	-0.2	-0.8	.	.	.
	QoQ in % [1]	0.4	-0.2	-0.2	-0.1	-0.2	.	.	.
Net taxes and subsidies on products	*bill. CZK 2020*	**107**	**135**	**136**	**144**	**121**	**.**	**.**	**.**

[1] *From seasonally and working day adjusted data*
[2] *Including consumption of non-profit institutions serving households (NPISH).*
Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.3: Nominal GDP by Type of Expenditure – yearly

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Gross domestic product	*bill. CZK*	**5 476**	**5 889**	**5 828**	**6 308**	**7 050**	**7 619**	**7 960**	**8 393**	**8 804**	**9 217**
	growth in %	5.7	7.5	-1.0	8.2	11.8	8.1	4.5	5.4	4.9	4.7
Private consumption expenditure [1)]	*bill. CZK*	**2 685**	**2 848**	**2 745**	**2 980**	**3 424**	**3 599**	**3 792**	**4 042**	**4 256**	**4 452**
	growth in %	6.5	6.1	-3.6	8.6	14.9	5.1	5.4	6.6	5.3	4.6
Government consumption exp.	*bill. CZK*	**1 054**	**1 141**	**1 250**	**1 319**	**1 381**	**1 506**	**1 591**	**1 683**	**1 762**	**1 842**
	growth in %	9.2	8.2	9.5	5.5	4.8	9.0	5.7	5.8	4.7	4.5
Gross capital formation	*bill. CZK*	**1 404**	**1 541**	**1 441**	**1 774**	**2 188**	**2 133**	**2 089**	**2 275**	**2 428**	**2 571**
	growth in %	8.1	9.8	-6.5	23.1	23.3	-2.5	-2.0	8.9	6.7	5.9
Gross fixed capital formation	*bill. CZK*	1 360	1 518	1 488	1 655	1 952	2 080	2 117	2 239	2 358	2 474
	growth in %	10.7	11.6	-1.9	11.2	17.9	6.6	1.8	5.7	5.3	4.9
Change in stocks and valuables	*bill. CZK*	44	24	-47	119	236	53	-28	36	69	98
External balance	*bill. CZK*	**333**	**359**	**393**	**235**	**57**	**381**	**488**	**393**	**358**	**353**
Exports of goods and services	*bill. CZK*	4 140	4 247	3 949	4 450	5 105	5 255	5 513	5 766	5 994	6 204
	growth in %	2.9	2.6	-7.0	12.7	14.7	2.9	4.9	4.6	4.0	3.5
Imports of goods and services	*bill. CZK*	3 807	3 888	3 556	4 215	5 048	4 874	5 026	5 373	5 636	5 851
	growth in %	4.9	2.1	-8.5	18.5	19.7	-3.4	3.1	6.9	4.9	3.8
Gross national income	*bill. CZK*	**5 163**	**5 525**	**5 528**	**6 123**	**6 763**	**7 510**	**7 838**	**8 255**	**8 644**	**9 035**
	growth in %	6.4	7.0	0.0	10.8	10.4	11.1	4.4	5.3	4.7	4.5
Primary income balance	*bill. CZK*	**-313**	**-364**	**-301**	**-185**	**-287**	**-108**	**-123**	**-138**	**-161**	**-182**

[1)] 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

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	*Forecast*	*Forecast*
Gross domestic product	*bill. CZK*	**1 773**	**1 929**	**1 933**	**1 984**	**1 841**	**2 009**	**2 031**	**2 080**
	growth in %	10.9	9.3	6.5	5.9	3.8	4.1	5.1	4.9
Private consumption expenditure [1]	*bill. CZK*	**854**	**912**	**902**	**931**	**893**	**955**	**955**	**988**
	growth in %	7.4	4.8	3.3	5.2	4.5	4.8	5.9	6.1
Government consumption exp.	*bill. CZK*	**342**	**359**	**364**	**441**	**365**	**379**	**380**	**467**
	growth in %	11.4	9.4	9.4	6.7	6.8	5.5	4.4	6.0
Gross capital formation	*bill. CZK*	**470**	**551**	**605**	**507**	**419**	**522**	**605**	**543**
	growth in %	5.7	-2.3	-0.7	-11.0	-10.9	-5.2	0.1	7.1
Gross fixed capital formation	*bill. CZK*	444	513	527	595	437	524	545	612
	growth in %	7.5	6.2	5.7	6.9	-1.8	2.1	3.5	2.8
Change in stocks and valuables	*bill. CZK*	26	37	78	-88	-18	-2	60	-69
External balance	*bill. CZK*	**107**	**107**	**61**	**105**	**164**	**152**	**90**	**82**
Exports of goods and services	*bill. CZK*	1 342	1 328	1 218	1 366	1 360	1 404	1 317	1 432
	growth in %	12.6	2.9	-3.9	1.0	1.3	5.7	8.1	4.9
Imports of goods and services	*bill. CZK*	1 235	1 221	1 157	1 261	1 196	1 252	1 227	1 350
	growth in %	8.3	-5.3	-8.9	-6.5	-3.1	2.5	6.1	7.1

[1)] 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

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
GDP	*bill. CZK*	**5 476**	**5 889**	**5 828**	**6 308**	**7 050**	**7 619**	**7 960**	**8 393**	**8 804**	**9 217**
	growth in %	5.7	7.5	-1.0	8.2	11.8	8.1	4.5	5.4	4.9	4.7
Balance of taxes and subsidies	*bill. CZK*	**504**	**534**	**449**	**478**	**592**	**582**	**682**	**722**	**771**	**793**
	% of GDP	9.2	9.1	7.7	7.6	8.4	7.6	8.6	8.6	8.8	8.6
	growth in %	2.2	6.0	-16.0	6.5	23.8	-1.7	17.3	5.8	6.7	2.8
Taxes on production and imports	*bill. CZK*	656	696	660	716	780	821	.	.	.	.
	growth in %	3.3	6.2	-5.3	8.5	9.0	5.2	.	.	.	.
Subsidies on production	*bill. CZK*	152	162	211	238	189	239	.	.	.	.
	growth in %	7.2	6.7	30.3	12.6	-20.5	26.5	.	.	.	.
Compensation of employees	*bill. CZK*	**2 393**	**2 580**	**2 624**	**2 813**	**3 031**	**3 265**	**3 498**	**3 720**	**3 912**	**4 095**
(domestic concept)	*% of GDP*	43.7	43.8	45.0	44.6	43.0	42.9	43.9	44.3	44.4	44.4
	growth in %	9.7	7.8	1.7	7.2	7.7	7.7	7.1	6.4	5.2	4.7
Wages and salaries	*bill. CZK*	1 836	1 980	1 988	2 132	2 326	2 504	2 683	2 853	3 001	3 141
	growth in %	9.6	7.9	0.4	7.2	9.1	7.7	7.1	6.4	5.2	4.7
Social security contributions	*bill. CZK*	557	599	636	682	706	761	815	867	911	954
	growth in %	10.3	7.6	6.2	7.1	3.5	7.8	7.1	6.4	5.2	4.7
Gross operating surplus	*bill. CZK*	**2 579**	**2 775**	**2 756**	**3 016**	**3 427**	**3 772**	**3 780**	**3 951**	**4 121**	**4 329**
and mixed income	*% of GDP*	47.1	47.1	47.3	47.8	48.6	49.5	47.5	47.1	46.8	47.0
	growth in %	2.9	7.6	-0.7	9.5	13.6	10.1	0.2	4.5	4.3	5.0
Consumption of capital	*bill. CZK*	1 117	1 201	1 294	1 413	1 577	1 675	1 778	1 932	2 077	2 184
	growth in %	5.1	7.5	7.7	9.2	11.6	6.2	6.1	8.7	7.5	5.2
Net operating surplus	*bill. CZK*	1 462	1 574	1 462	1 604	1 850	2 097	2 003	2 018	2 045	2 145
	growth in %	1.3	7.7	-7.1	9.7	15.4	13.3	-4.5	0.8	1.3	4.9

Source: CZSO. Calculations and forecast of the MoF.

Table 3.1.6: GDP by Type of Income – quarterly

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	*Forecast*	*Forecast*
GDP	*bill. CZK*	**1 773**	**1 929**	**1 933**	**1 984**	**1 841**	**2 009**	**2 031**	**2 080**
	growth in %	10.9	9.3	6.5	5.9	3.8	4.1	5.1	4.9
Balance of taxes and subsidies	*bill. CZK*	**112**	**158**	**162**	**149**	**143**	**182**	**180**	**178**
	growth in %	-10.3	1.9	-2.4	2.9	27.8	14.6	10.8	19.4
Compensation of employees	*bill. CZK*	**780**	**815**	**802**	**867**	**827**	**876**	**863**	**932**
(domestic concept)	*growth in %*	9.7	8.3	7.0	6.1	6.0	7.4	7.6	7.5
Wages and salaries	*bill. CZK*	597	625	616	667	635	672	662	715
	growth in %	9.7	8.3	7.0	6.1	6.4	7.5	7.4	7.2
Social security contributions	*bill. CZK*	184	191	186	200	193	204	201	217
	growth in %	9.7	8.4	7.2	6.1	4.9	6.9	8.2	8.4
Gross operating surplus	*bill. CZK*	**881**	**955**	**968**	**967**	**870**	**952**	**988**	**970**
and mixed income	*growth in %*	15.6	11.6	7.8	6.3	-1.2	-0.4	2.1	0.3

Source: CZSO. Calculations and forecast of the MoF.

3.2 Prices

The annual **consumer price** inflation was 2.2% (*vs. 2.6%*) in July 2024, with mainly stronger decline in food and fuel prices contributing to the forecast error. In terms of the consumer basket divisions, the main driver of annual inflation in July was the housing division (0.8pp contribution), primarily due to a 6.8% increase in rentals for housing or an 8.9% rise in electricity prices. In contrast, natural gas prices fell by 6.7%. The contributions of the restaurants and hotels (0.5pp), alcoholic beverages, tobacco (0.4pp) and transport (0.4pp) divisions were also high. Food and non-alcoholic beverages (−0.6pp) contributed to the year-on-year decrease in the price level. Administrative measures added 0.9pp to inflation, of which regulated prices (especially electricity prices) 0.8pp and tax changes 0.1pp. Within tax changes, the year-on-year increase in excise duties on alcohol, tobacco and diesel was offset by changes in VAT rates.

The higher dynamics of annual inflation in July as measured by the **HICP** (2.5%) compared with inflation according to the national CPI was due to a significant slowdown in imputed rent growth, which is not included in the HICP. Imputed rents are largely determined by the market prices of new flats and houses. Their very high prices in relation to average wages (Graph 3.2.8) and more expensive and previously regulatory restricted mortgage lending have led – through lower demand for owner-occupied housing – to a significant slowdown in property price dynamics and, hence, imputed rents.

This year, inflationary pressures are significantly lower than in the past two years. The persistently strong growth in services prices continues to pose certain upside risks to inflation. The contribution of regulated prices to the average inflation rate remains elevated. While the non-regulated part of both electricity and gas is getting cheaper, the very strong increase in the regulated component of total electricity and gas prices at the beginning of the year is offsetting this. Other regulated prices have been affected mainly by the increase in the annual motorway vignette or the rise in water and sewerage charges. Indirect taxes are affected by the fiscal consolidation package. Increases in excise duties on alcohol and tobacco products are boosting inflation this year, while the contribution of changes in value added tax rates reported in the price statistics is negative[1]. The first-round effects of changes in indirect taxes could increase this year's inflation by only 0.1pp (*unchanged*). The contribution of administrative measures to the average inflation rate in 2024 could be 0.9pp (*vs. 0.7pp*).

The restrictive effect of monetary policy is amplified by the income effect of the fiscal consolidation package, and together they moderate domestic demand inflation pressures. A slight decline in the dollar oil price could also act in the direction of lower inflation. On the other hand, nominal wage growth and strong depreciation of the koruna represent inflationary factors.

In 2025, inflationary pressures will be shaped almost exclusively by market factors. The base effect of this year's cheaper commodity components of electricity and gas should counteract the expected moderate growth in prices of regulated energy components and the increase in television and radio licence fees. Increases in excise duties on alcohol and tobacco products should account for the slightly positive contribution of indirect taxes. Overall, the administrative measures could thus add 0.2pp (*unchanged*) to the average inflation rate in 2025.

The fall in oil prices and the renewed appreciation of the koruna should have an anti-inflationary effect next year. Monetary policy will continue to moderate inflationary pressures through interest rates due to the length of transmission. Sustained higher wage growth should be an inflationary factor. Price dynamics in services could remain elevated next year, and the market component of inflation should thus rise slightly after the current anti-inflationary effect of the decline in prices of many production inputs has partially dissipated.

In line with the above, we expect the **average inflation rate** to fall significantly to 2.4% (*vs. 2.7%*) in 2024 and further to 2.3% (*vs. 2.4%*) in 2025. Annual inflation should remain within the tolerance band around the CNB's target this year, and could approach 3% by the end of the year, as the effect of the significant month-on-month price declines at the end of last year disappears.

In Q1 2024, **GDP deflator** increased by 4.0% (*vs. 2.8%*), with gross domestic expenditure deflator rising by 3.0% (*vs. 2.0%*) and the terms of trade improving by 1.9% (*vs. 1.2%*). Growth in the gross domestic expenditure deflator was driven mainly by deflators of household and government consumption, while investment price developments dampened the dynamics. The marked improvement in the terms of trade was driven in particular by lower prices of mineral fuels or chemicals and a rise in prices of machinery and transport equipment.

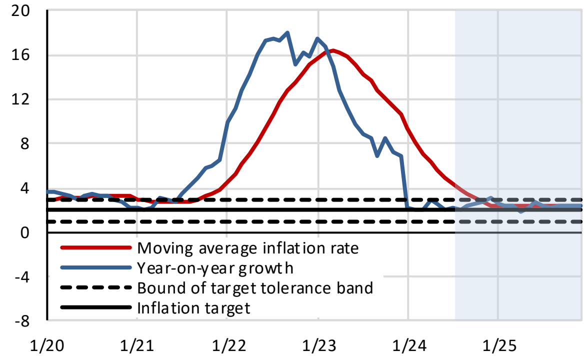
This year, GDP deflator growth could slow to 3.4% (*vs. 2.9%*) thanks to lower price dynamics across all components of domestic demand and only a slight improvement in the terms of trade. In 2025 it could fall further to 2.7% (*vs. 2.2%*), mainly due to a virtual stagnation in the terms of trade and slower growth in the household consumption deflator.

The year-on-year decline in mineral fuel prices should have a positive effect on the terms of trade this year, while prices in foreign trade should more or less stabilise in 2025. As a result, the terms of trade could improve by 0.5% (*vs. 0.3%*) in 2024 and by 0.1% (*unchanged*) in 2025.

[1] The primary impact of the VAT change is fully captured by the CZSO in the administrative component, while the secondary impact of the expected incomplete pass-through to consumer prices is recorded in the market component of inflation.

Graph 3.2.1: Consumer Prices

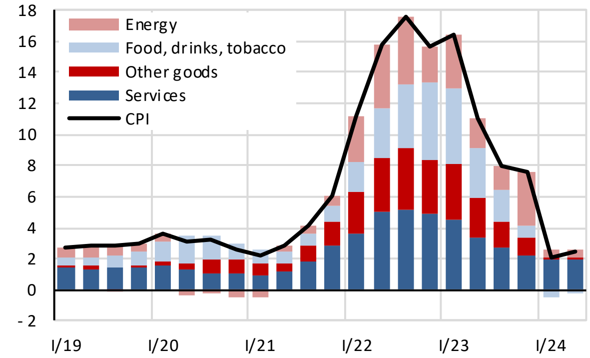
YoY growth rate in %



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

Graph 3.2.2: Consumer Prices in Main Divisions

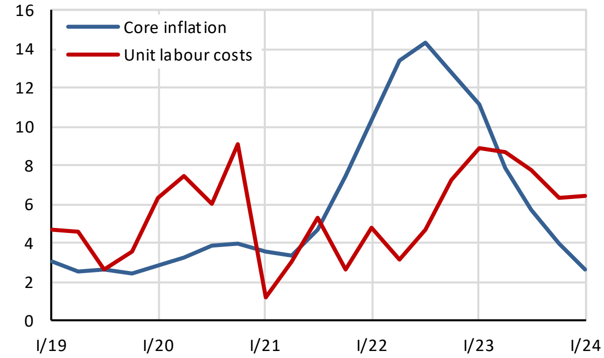
YoY growth of consumer price index in %, contributions in pp



Source: CZSO. Calculations of the MoF.

Graph 3.2.3: Core Inflation and Unit Labour Costs

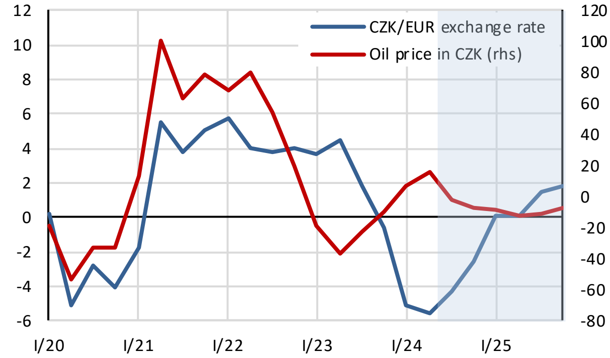
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.2.4: CZK/EUR and Koruna Price of Oil

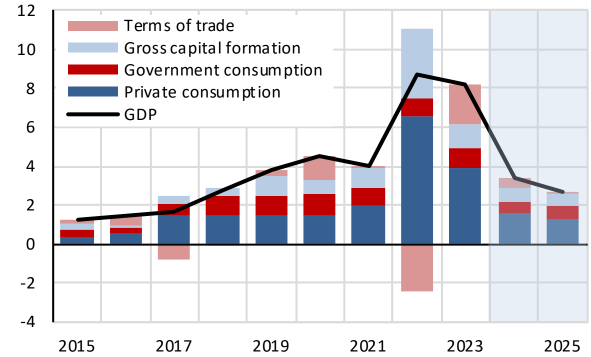
CZK/EUR appreciation, YoY change in CZK price of oil, in %



Source: CNB, U.S. EIA. Calculations and forecast of the MoF.

Graph 3.2.5: Gross Domestic Product Deflator

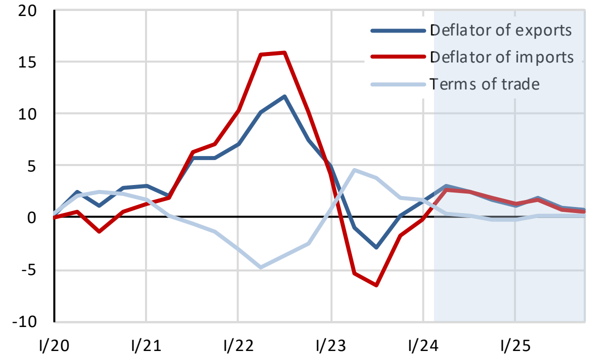
growth rate in %, contributions in percentage points



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.2.6: Terms of Trade

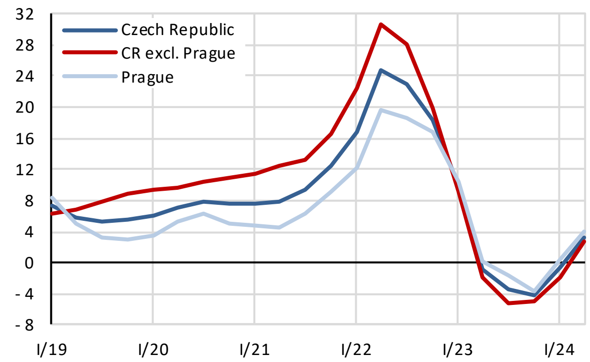
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.2.7: Offering Prices of Flats

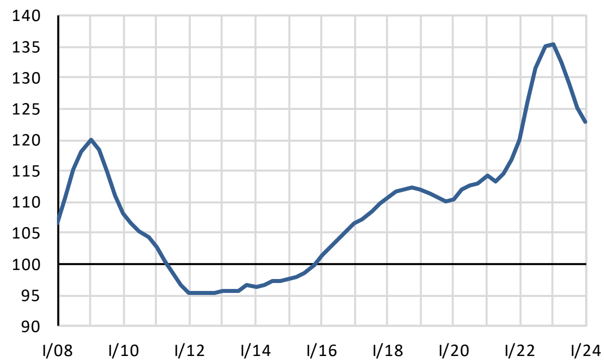
YoY growth rate in %



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, 2015=100



Source: CZSO. Calculations and forecast of the MoF.

Table 3.2.1: Prices – yearly

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
Consumer Price Index											
Level	*average 2015=100*	**105.3**	**108.3**	**111.8**	**116.1**	**133.6**	**147.8**	**151.3**	**154.9**	**158.2**	**161.4**
Average inflation rate	*%*	**2.1**	**2.8**	**3.2**	**3.8**	**15.1**	**10.7**	**2.4**	**2.3**	**2.1**	**2.0**
Administrative measures [1]	*percentage points*	0.3	0.6	0.5	0.0	2.8	4.3	0.9	0.2	0.3	0.3
Market increase	*percentage points*	1.8	2.2	2.7	3.8	12.3	6.4	1.5	2.1	1.8	1.7
Harmonized index of consumer prices											
Level	*average 2015=100*	**105.1**	**107.8**	**111.4**	**115.1**	**132.1**	**147.9**	**151.8**	**155.3**	**158.6**	**161.8**
Average inflation rate	*growth in %*	**2.0**	**2.6**	**3.3**	**3.3**	**14.8**	**12.0**	**2.6**	**2.3**	**2.1**	**2.0**
Deflators											
GDP	*average 2015=100*	**92.1**	**95.7**	**100.0**	**104.0**	**113.1**	**122.3**	**126.4**	**129.8**	**132.6**	**135.4**
	growth in %	2.8	3.8	4.5	4.0	8.7	8.2	3.4	2.7	2.2	2.1
Gross domestic expenditure	*average 2015=100*	**93.2**	**96.6**	**100.0**	**104.1**	**116.0**	**123.4**	**127.3**	**130.6**	**133.5**	**136.2**
	growth in %	3.1	3.7	3.5	4.1	11.5	6.4	3.1	2.7	2.2	2.0
Consumption of households	*average 2015=100*	**94.3**	**97.1**	**100.0**	**104.2**	**119.1**	**128.8**	**132.9**	**136.4**	**139.4**	**142.2**
	growth in %	2.9	2.9	3.0	4.2	14.3	8.2	3.2	2.6	2.2	2.1
Consumption of government	*average 2015=100*	**90.2**	**95.1**	**100.0**	**104.0**	**108.5**	**114.3**	**118.1**	**122.3**	**125.5**	**128.8**
	growth in %	5.5	5.4	5.2	4.0	4.4	5.3	3.3	3.5	2.6	2.7
Fixed capital formation	*average 2015=100*	**93.6**	**97.1**	**100.0**	**104.2**	**115.6**	**120.1**	**122.9**	**125.3**	**127.5**	**129.5**
	growth in %	1.6	3.8	3.0	4.2	10.9	3.9	2.3	2.0	1.7	1.6
Exports of goods and services	*average 2015=100*	**97.2**	**98.4**	**100.0**	**104.2**	**113.7**	**113.9**	**116.4**	**117.8**	**118.4**	**118.8**
	growth in %	-0.6	1.3	1.6	4.2	9.1	0.2	2.2	1.2	0.5	0.3
Imports of goods and services	*average 2015=100*	**99.3**	**100.1**	**100.0**	**104.3**	**117.8**	**114.8**	**116.8**	**118.0**	**118.4**	**118.6**
	growth in %	-0.6	0.8	-0.1	4.3	13.0	-2.6	1.7	1.1	0.3	0.2
Terms of trade	*average 2015=100*	**97.9**	**98.3**	**100.0**	**99.9**	**96.5**	**99.2**	**99.7**	**99.8**	**100.0**	**100.1**
	growth in %	0.0	0.4	1.7	-0.1	-3.5	2.9	0.5	0.1	0.2	0.1

[1] *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

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	*Forecast*	*Forecast*
Consumer Price Index	*average 2015=100*	**147.1**	**147.6**	**148.6**	**148.0**	**150.1**	**151.3**	**151.9**	**152.1**
	growth in %	16.4	11.1	8.0	7.6	2.1	2.5	2.2	2.8
Administrative measures [1]	*percentage points*	4.9	4.0	3.4	4.9	0.9	0.9	0.8	0.8
Market increase	*percentage points*	11.5	7.1	4.6	2.7	1.2	1.6	1.4	1.9
Harmonized index of consumer prices	*average 2015=100*	**147.1**	**147.9**	**148.8**	**147.9**	**150.5**	**151.9**	**152.4**	**152.2**
	growth in %	18.0	12.6	9.5	8.4	2.4	2.7	2.4	2.9
Deflators									
GDP	*average 2015=100*	**120.2**	**121.9**	**122.5**	**124.3**	**125.1**	**126.1**	**126.1**	**128.2**
	growth in %	10.3	9.6	7.2	5.9	4.0	3.4	2.9	3.1
Gross domestic expenditure	*average 2015=100*	**122.0**	**122.4**	**123.3**	**125.9**	**125.6**	**126.3**	**126.8**	**130.0**
	growth in %	9.9	6.6	4.9	4.8	3.0	3.2	2.9	3.3
Consumption of households	*average 2015=100*	**127.8**	**128.4**	**129.0**	**130.1**	**131.9**	**132.7**	**132.7**	**134.4**
	growth in %	12.4	8.4	6.7	5.6	3.2	3.4	2.9	3.3
Consumption of government	*average 2015=100*	**110.0**	**112.6**	**113.6**	**120.1**	**113.6**	**115.9**	**116.7**	**125.1**
	growth in %	7.5	6.2	5.5	2.9	3.2	3.0	2.7	4.2
Fixed capital formation	*average 2015=100*	**119.5**	**119.4**	**120.2**	**121.1**	**121.7**	**122.4**	**123.1**	**123.9**
	growth in %	7.0	4.6	2.9	2.0	1.8	2.5	2.4	2.3
Exports of goods and services	*average 2015=100*	**114.3**	**112.7**	**113.9**	**114.6**	**116.1**	**116.2**	**116.8**	**116.5**
	growth in %	5.0	-1.0	-2.9	0.2	1.6	3.1	2.5	1.7
Imports of goods and services	*average 2015=100*	**116.3**	**112.7**	**114.2**	**116.0**	**116.2**	**115.7**	**117.0**	**118.2**
	growth in %	4.2	-5.4	-6.5	-1.8	-0.1	2.7	2.4	1.9
Terms of trade	*average 2015=100*	**98.3**	**100.0**	**99.7**	**98.8**	**99.9**	**100.4**	**99.8**	**98.6**
	growth in %	0.8	4.6	3.9	2.0	1.7	0.4	0.1	-0.2

[1] *The contribution of change in regulated prices and indirect taxes.*
Source: CZSO, Eurostat. Calculations and forecast of the MoF.

3.3 Labour Market

Employment (national accounts) increased by 0.3% YoY (*in line with the estimate*) in Q1 2024. Growth was driven by both market and non-market services, while another year-on-year decline in the number of workers in manufacturing dampened it. Employment increased by 0.2% YoY in Q2, according to the preliminary estimate, and is expected to increase further over the forecast horizon, thanks to the expected economic growth.

According to the MoLSA data, the number of registered unemployed exceeded the number of job vacancies in Q2 2024. This mismatch between supply and demand on the labour market was last recorded in Q1 2018, but the situation varies considerably from region to region. At the end of July 2024, the number of job vacancies exceeded the number of registered unemployed in 30 districts and 4 regions. However, far from all vacancies registered by the labour offices can be considered active. Of the job vacancies offered on the websites of the labour offices, approx. 38% were active at the forecast cut-off date (offers with the last change after 1 February 2024 and the start date on or after 1 May 2024). According to the CZSO's business cycle survey, the shortage of employees remains the main barrier to output growth in the construction sector and is also significant in industry. However, this problem is mitigated by refugees from Ukraine.

Demand for foreign workers remains strong. According to the MoLSA data, the number of foreign employees rose by 36 thousand year-on-year to 820 thousand in Q2 2024. Workers from Ukraine and Slovakia have dominated in the long term. The number of Ukrainian workers increased by 20 thousand year-on-year to 282 thousand in Q2 2024.

The **unemployment rate** rose to 2.8% (*vs. 2.9%*) in Q1 2024. The seasonally adjusted unemployment rate for the 15–64 age group increased to 2.9% in June, but the development of this indicator is quite volatile. We believe that the lagged effects of the weaker economic activity of the previous year were showing up in the labour market in H1 2024. Over the forecast horizon, however, the unemployment rate should already be falling gradually, albeit very slowly, thanks to the economic recovery. On average, it could rise to 2.8% (*unchanged*) this year and we forecast a fall to 2.7% (*unchanged*) in 2025.

The **share of unemployed persons** (MoLSA) in the labour office registers is slightly increasing year-on-year. This year, it could increase to 3.8% on average (*unchanged*). The following year it could be 3.7% (*unchanged*).

The **participation rate** (20–64 years) increased by 0.8pp to 84.1% (*vs. 83.1%*) in Q1 2024. The significant improvement compared to the April forecast is due to strong labour force growth outpacing population growth. Over the forecast horizon, the main driver of the increase in the participation rate will be the extension of the statutory retirement age, while the demographic effect of the declining share of age groups with a naturally high participation rate will have a negative impact. The participation rate could thus be 84.8% (*vs. 84.0%*) this year and rise slightly to 84.9% next year.

The **volume of wages and salaries** increased by 6.4% in Q1 2024 (*vs. 6.5%*). In the most macroeconomically important sector, manufacturing, wages and salaries increased by 5.6% (with a 2.4% decrease in the number of employees).

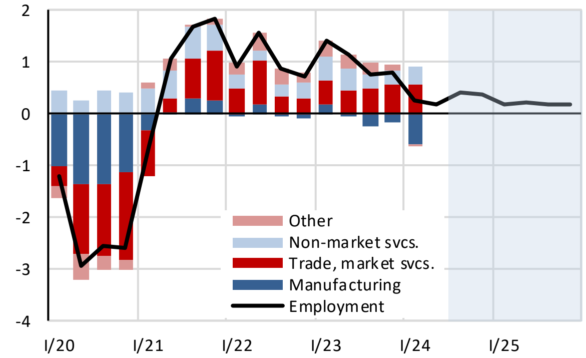
Nominal earnings growth is positively affected by the tight labour market situation, which is manifested by a noticeable shortage of workers in many sectors and occupations. Employee wage demands are supported by high consumer price inflation and strong corporate profitability in recent years. The minimum wage has increased by 9.2% to CZK 18,900 as of 1 January 2024. The guaranteed wage has been raised by CZK 1,600 in the second and third job group, while in the eighth group it has increased to twice the minimum wage, as required by law. The other grades remained unchanged. The amendment to the Labour Code, effective from 1 August 2024, introduces a mechanism for indexation of the minimum wage based on the expected level of the average wage according to the MoF forecast and the ratio of the minimum wage to the average wage set by the government. The ratio of the minimum to average wage should increase steadily to 47% in 2029. The system of guaranteed wages will apply only to the public sector.

As a result of the consolidation measures, the contribution of the public sector to wage and salary growth will be significantly reduced this year. The main driver of earnings growth in the public sector over the forecast horizon should be the automatic indexation of teachers' salaries. In addition to the expected acceleration in minimum wage growth, the next year's momentum of wages and salaries will be supported by stronger labour demand. In aggregate, wages and salaries could increase by 7.1% (*vs. 6.8%*) this year, with growth slowing to 6.4% (*vs. 5.5%*) in 2025.

The **average wage** (full-time equivalent) increased by 7.0% (*vs. 6.1%*) in Q1 2024, with the largest contributions coming from an 8.1% increase in manufacturing (1.6pp contribution) and 11.1% rise in health and social care (1.1pp contribution). Taking the above factors into account, the average wage could go up by 7.2% (*vs. 6.4%*) this year and by 6.5% (*vs. 5.5%*) next year.

Graph 3.3.1: Employment

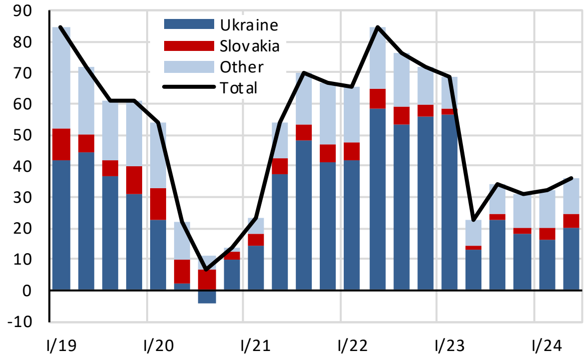
YoY growth rate in %, contributions in pp, national accounts



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.2: Number of Foreign Employees in the CR

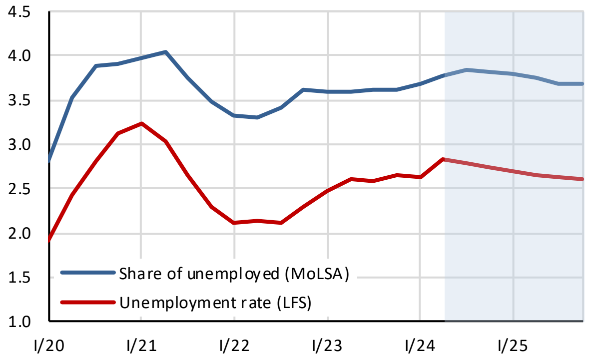
YoY change in thousands of persons



Source: MoLSA. Calculations of the MoF.

Graph 3.3.3: Indicators of Unemployment

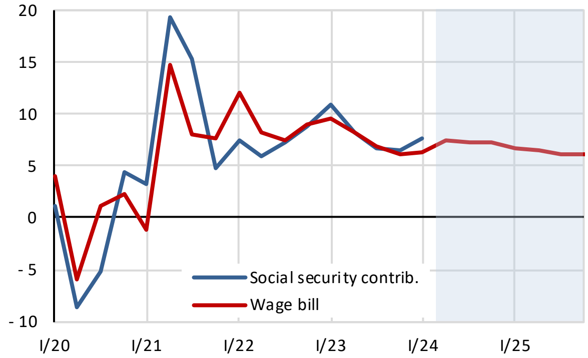
seasonally adjusted data, in %



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

Graph 3.3.4: Social Security Contributions and Earnings

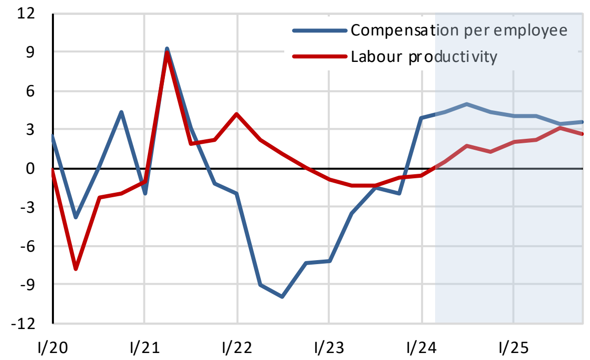
YoY growth rate in %



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

Graph 3.3.5: Compens. per Employee and Productivity

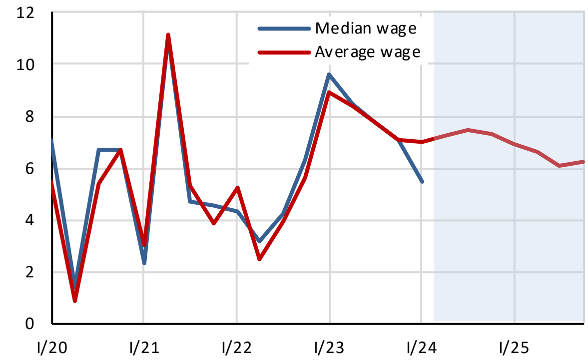
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.6: Nominal Monthly Wages

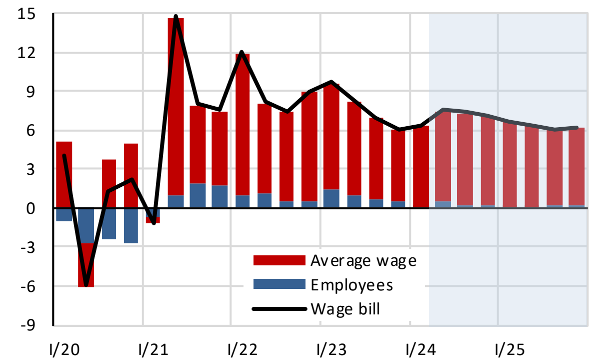
YoY growth rate in %



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.3.7: Nominal Wage Bill

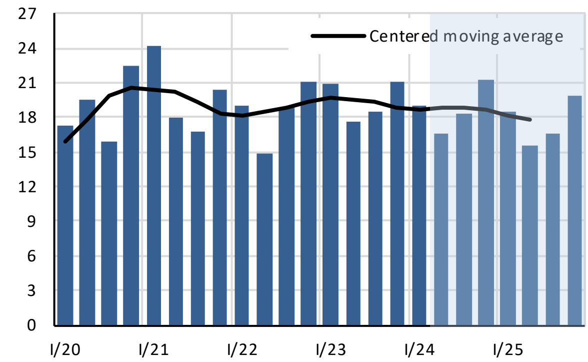
YoY growth rate in %, domestic concept of the wage bill



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

		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
								Forecast	*Forecast*	*Outlook*	*Outlook*
National accounts											
Employment	*av. in thous. persons*	**5 359**	**5 351**	**5 227**	**5 279**	**5 333**	**5 388**	**5 405**	**5 415**	**5 420**	**5 411**
	growth in %	1.2	-0.1	-2.3	1.0	1.0	1.0	0.3	0.2	0.1	-0.2
Employees	*av. in thous. persons*	4 594	4 598	4 496	4 541	4 578	4 621	4 633	4 641	4 643	4 636
	growth in %	1.4	0.1	-2.2	1.0	0.8	0.9	0.3	0.2	0.1	-0.2
Self-employed persons	*av. in thous. persons*	765	753	731	738	755	767	772	774	777	776
	growth in %	-0.1	-1.5	-3.0	1.0	2.3	1.6	0.6	0.4	0.3	-0.1
Wage bill	*growth in %*	**9.6**	**7.9**	**0.4**	**7.2**	**9.1**	**7.7**	**7.1**	**6.4**	**5.2**	**4.7**
Labour productivity	*growth in %*	**1.7**	**3.7**	**-3.1**	**3.0**	**1.8**	**-1.1**	**0.8**	**2.5**	**2.6**	**2.7**
Unit labour costs [6)]	*growth in %*	**6.5**	**3.9**	**7.3**	**3.1**	**5.0**	**7.9**	**6.0**	**3.6**	**2.5**	**2.1**
Compensation of employees	*% of GDP*	**43.7**	**43.8**	**45.0**	**44.6**	**43.0**	**42.9**	**43.9**	**44.3**	**44.4**	**44.4**
Labour Force Survey											
Unemployment rate	*average in %*	**2.2**	**2.0**	**2.6**	**2.8**	**2.2**	**2.6**	**2.8**	**2.7**	**2.6**	**2.5**
Employment rate 20–64	*average in %*	**79.9**	**80.3**	**79.7**	**80.0**	**81.0**	**81.7**	**82.5**	**82.7**	**83.2**	**83.5**
Participation rate 20–64	*average in %*	**81.7**	**81.9**	**81.8**	**82.2**	**82.7**	**83.8**	**84.8**	**84.9**	**85.3**	**85.6**
Registered unemployment											
Unemployment	*av. in thous. persons*	**242**	**212**	**259**	**280**	**252**	**266**	**283**	**273**	**263**	**255**
Share of unemployed [1)]	*average in %*	**3.2**	**2.8**	**3.5**	**3.8**	**3.4**	**3.6**	**3.8**	**3.7**	**3.6**	**3.5**
Job vacancies	*av. in thousands*	**285**	**340**	**332**	**346**	**326**	**283**	**.**	**.**	**.**	**.**
Business statistics											
Average monthly wage											
Nominal	*CZK monthly*	32 051	34 578	36 176	38 277	39 932	43 120	46 246	49 233	51 761	54 179
	growth in %	8.1	7.9	4.6	5.8	4.3	8.0	7.2	6.5	5.1	4.7
Real	*CZK 2015*	30 438	31 928	32 358	32 969	29 889	29 175	30 558	31 787	32 729	33 576
	growth in %	5.9	4.9	1.3	1.9	-9.3	-2.4	4.7	4.0	3.0	2.6
Median monthly wage	*CZK monthly*	**27 561**	**29 439**	**31 049**	**32 795**	**34 283**	**37 086**	**.**	**.**	**.**	**.**
	growth in %	8.5	6.8	5.5	5.6	4.5	8.2	.	.	.	.

Note: Following the 2021 Census, new demographic weights have been applied in the LFS since Q1 2022; a new weighting methodology (weighting to the population in private households) is also applied in the data from 2022 onwards. There is therefore a break in the time series between 2021 and 2022.

[1)] Share of available job seekers aged 15 to 64 years in the population of the same age.

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

Table 3.3.2: Labour Market – quarterly

		2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2 *Estimate*	2024 Q3 *Forecast*	2024 Q4 *Forecast*
National accounts									
Employment	*av. in thous. persons*	**5 358**	**5 381**	**5 412**	**5 401**	**5 373**	**5 392**	**5 434**	**5 421**
	YoY growth in %	1.4	1.1	0.8	0.8	0.3	0.2	0.4	0.4
	QoQ growth in %	0.3	0.6	-0.2	0.1	-0.2	0.5	0.1	-0.2
Wages and salaries	*growth in %*	**9.7**	**8.3**	**7.0**	**6.1**	**6.4**	**7.5**	**7.4**	**7.2**
Labour Force Survey									
Unemployment rate	*average in %*	**2.6**	**2.5**	**2.6**	**2.6**	**2.8**	**2.8**	**2.8**	**2.6**
Employment rate 20–64	*average in %*	**81.1**	**81.9**	**81.8**	**82.0**	**81.8**	**82.5**	**82.9**	**82.9**
	increase over a year	0.6	1.0	0.6	0.7	0.6	0.7	1.1	0.9
Participation rate 20–64	*average in %*	**83.2**	**83.9**	**84.0**	**84.1**	**84.1**	**84.9**	**85.3**	**85.1**
	increase over a year	0.6	1.4	1.0	1.0	0.8	0.9	1.3	1.0
Registered unemployment									
Unemployment	*av. in thous. persons*	**279**	**259**	**259**	**265**	**292**	**278**	**282**	**280**
Share of unemployed [1)]	*average in %*	**3.8**	**3.5**	**3.5**	**3.5**	**3.9**	**3.7**	**3.7**	**3.7**
Job vacancies	*av. in thousands*	**284**	**285**	**284**	**279**	**269**	**267**	**.**	**.**
Business statistics									
Average monthly wage									
Nominal	*CZK monthly*	41 058	43 057	42 439	45 907	43 941	46 173	45 618	49 252
	growth in %	8.9	8.4	7.8	7.1	7.0	7.2	7.5	7.3
Real	*CZK 2015*	27 912	29 171	28 559	31 018	29 274	30 517	30 036	32 385
	growth in %	-6.4	-2.5	-0.2	-0.5	4.9	4.6	5.2	4.4
Median monthly wage	*CZK monthly*	**34 752**	**36 700**	**37 299**	**39 594**	**36 651**	**.**	**.**	**.**
	growth in %	9.6	8.4	7.8	7.1	5.5	.	.	.

1) Share of available job seekers aged 15 to 64 years in the population of the same age.
Source: CZSO, MoLSA. Calculations and forecast of the MoF.

Table 3.3.3: Income and Expenditures of Households – yearly

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
										Forecast	*Forecast*
Current income											
Compensation of employees	*bill.CZK*	**2 018**	**2 196**	**2 399**	**2 571**	**2 636**	**2 827**	**3 022**	**3 268**	**3 485**	**3 709**
	growth in %	5.9	8.8	9.2	7.2	2.5	7.2	6.9	8.1	6.6	6.4
Gross operating surplus	*bill.CZK*	**767**	**828**	**904**	**965**	**996**	**1 088**	**1 261**	**1 313**	**1 319**	**1 382**
and mixed income	*growth in %*	3.8	7.9	9.2	6.8	3.1	9.3	15.8	4.1	0.5	4.7
Property income received	*bill.CZK*	**136**	**165**	**166**	**167**	**137**	**183**	**304**	**346**	**407**	**425**
	growth in %	3.4	21.9	0.6	0.3	-17.8	33.3	66.1	13.9	17.7	4.5
Social benefits not-in-kind	*bill.CZK*	**632**	**654**	**690**	**743**	**891**	**934**	**1 008**	**1 154**	**1 217**	**1 247**
	growth in %	3.0	3.5	5.4	7.7	20.0	4.8	7.9	14.5	5.5	2.5
Other current transfers received	*bill.CZK*	**217**	**244**	**281**	**339**	**363**	**487**	**675**	**709**	**776**	**800**
	growth in %	19.5	12.7	15.1	20.4	7.3	34.0	38.7	5.1	9.4	3.1
Current expenditure											
Property income paid	*bill.CZK*	**23**	**25**	**26**	**34**	**32**	**30**	**60**	**84**	**92**	**96**
	growth in %	-6.2	10.1	5.6	28.0	-4.5	-5.5	98.0	40.0	9.5	4.7
Curr. taxes on income and property	*bill.CZK*	**224**	**247**	**277**	**302**	**315**	**247**	**258**	**297**	**332**	**348**
	growth in %	10.7	10.0	12.3	9.1	4.2	-21.6	4.6	15.1	11.7	4.8
Social contributions	*bill.CZK*	**772**	**832**	**908**	**971**	**1029**	**1143**	**1186**	**1292**	**1 407**	**1 493**
	growth in %	5.7	7.8	9.2	6.9	6.0	11.0	3.8	8.9	8.9	6.1
Other current transfers paid	*bill.CZK*	**207**	**240**	**283**	**341**	**371**	**499**	**673**	**729**	**796**	**824**
	growth in %	22.5	16.0	17.8	20.7	8.6	34.5	35.0	8.4	9.1	3.6
Gross disposable income	*bill.CZK*	**2 544**	**2 744**	**2 946**	**3 137**	**3 277**	**3 601**	**4 093**	**4 387**	**4 578**	**4 802**
	growth in %	4.1	7.9	7.4	6.5	4.5	9.9	13.7	7.2	4.3	4.9
Final consumption	*bill.CZK*	**2 309**	**2 483**	**2 640**	**2 799**	**2 692**	**2 921**	**3 358**	**3 529**	**3 709**	**3 949**
	growth in %	4.6	7.5	6.3	6.0	-3.8	8.5	15.0	5.1	5.1	6.5
Change in share in pension funds	*bill.CZK*	**33**	**33**	**36**	**38**	**40**	**41**	**27**	**1**	**-8**	**-4**
Gross savings	*bill.CZK*	**267**	**294**	**342**	**376**	**625**	**720**	**761**	**859**	**861**	**849**
Capital transfers											
(income (-) / expenditure (+))	*bill.CZK*	**-15**	**-12**	**-17**	**-20**	**-44**	**-43**	**-31**	**-47**	**-37**	**-33**
Gross capital formation	*bill.CZK*	**267**	**254**	**317**	**358**	**364**	**404**	**484**	**497**	**504**	**517**
	growth in %	9.6	-4.9	24.5	12.9	1.7	11.1	19.7	2.8	1.4	2.7
Change in financial assets and liab.	*bill.CZK*	**14**	**52**	**42**	**35**	**304**	**356**	**310**	**412**	**398**	**368**
Real disposable income	*growth in %*	**3.0**	**4.7**	**4.4**	**3.5**	**1.5**	**5.4**	**-0.8**	**-1.0**	**1.4**	**2.4**
Gross savings rate	*%*	**10.4**	**10.6**	**11.5**	**11.8**	**18.8**	**19.8**	**18.5**	**19.6**	**18.8**	**17.7**

Source: CZSO. Calculations of the MoF.

3.4 External Relations

Export markets declined by 2.9% YoY (*vs. 2.2%*) in Q1 2024. While GDP of our main trading partners developed more favourably, import intensity, on the other hand, showed a more significant decline. Thus, for this year, given the evolution of the import intensity of trading partners, we forecast a decline of 0.7% (vs. *growth of 0.7%*) in export markets, but in 2025 they could grow by 3.5% (vs. *3.6%*) thanks to the recovery of the economies of the main trading partners.

Export performance rose by 3.3% (*vs. 0.7%*) in Q1 2024. Increased production in the automotive industry and further inventory reductions contributed to the strong growth[2]. As a result of these factors, we expect export performance to grow by 2.4% (*vs. a decline of 0.3%*) this year. Next year, performance could increase by 0.3% (*vs. 0.4%*) amid the expected improvement in manufacturing conditions, but the growth will be limited by the year-on-year appreciation of the koruna against the euro (Chapter 1.4).

The **current account of the balance of payments** reached a surplus of 1.3% of GDP in Q1 2024[3] (*vs. 0.4% of GDP*). The 5.6% of GDP year-on-year improvement in the balance was driven by an increase in the merchandise trade surplus and a reduction in the primary and secondary income deficit.

The **balance of goods** improved by 4.0% of GDP year-on-year in Q1 2024, reaching a surplus of 4.4% of GDP (*vs. 4.2% of GDP*). This mainly reflects cheaper imported energy commodities and, to a lesser extent, the growth in production and export of motor vehicles.

Mineral fuel prices continue to be an important factor influencing the **terms of trade**. The deficit on the fuel part of the balance in Q1 2024 was 2.8% of GDP (*in line with the estimate*). Taking into account the evolution of oil prices (Chapter 1.2) and other energy commodities, in particular natural gas, we expect the deficit to narrow to 2.7% of GDP (*vs. 2.8% of GDP*) in 2024 and further to 2.3% of GDP (*vs. 2.5% of GDP*) in 2025.

We expect the balance of goods to reach a surplus of 4.7% of GDP (*vs. 4.1% of GDP*) this year, which will narrow to 3.2% of GDP (*vs. 4.2% of GDP*) next year. This year, the trade balance will be positively affected by rising export prices of machinery and transport equipment, as well as increasing production and exports of motor vehicles. The import side will be constrained by weaker investment activity. The narrowing of the positive balance of foreign trade in goods in 2025 reflects a rise in imports as investment activity recovers.

The **balance of services** showed a surplus of 1.3% of GDP (*in line with the estimate*) in Q1 2024, the same as in Q1 2023. Lower imports of services in the transport sector were offset by a deterioration in the tourism balance due to increased demand for foreign holidays. Given the services balance data for Q2 and the expected recovery in domestic and external demand, the services balance surplus could reach 1.4% of GDP (*vs. 1.5% of GDP*) this year and rise slightly to 1.5% of GDP (*vs. 1.6% of GDP*) in 2025.

The **primary income** deficit declined by 1.3% of GDP year-on-year to 4.3% of GDP (*vs. 4.5% of GDP*) in Q1 2024 due to lower outflows of direct investment income (mainly dividends). The significant reduction in the deficit was also caused by a record-high dividend payout in Q3 2022, boosted by the payment of retained profits of the domestic banking sector from 2019 and 2020. In view of the projected evolution of economic performance and the gross operating surplus, we expect the primary income deficit to reach 4.3% of GDP this year and next (*vs 4.4% of GDP in both years*).

Against this background, we expect the **current account** surplus to rise to 1.6% of GDP (*vs. 0.6% of GDP*) this year, but the positive balance could decline to 0.1% of GDP (*vs. 0.7% of GDP*) in 2025.

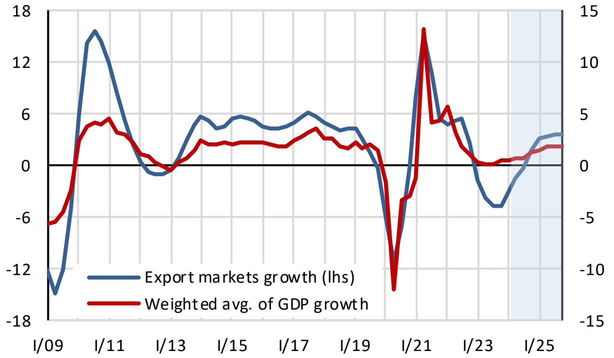
The **current external balance** (national accounts methodology) reached a surplus of 3.3% of GDP in Q1 2024 (Graph 3.4.8). From the sectoral perspective, this was driven by households and non-financial corporations, whose savings exceeded investment by 4.6% and 2.2% of GDP, respectively. In the general government sector, however, the relationship between savings and investment was reversed, with gross capital formation exceeding gross savings by 3.2% of GDP.

[2] At the same time, it is necessary to point out the methodological bias of the decomposition used. Export performance is calculated as the ratio of total exports of goods to export markets. It is therefore based on the principle that faster growth of exports compared to imports by trading partners leads to a higher share of Czech goods on those markets at the expense of other countries and thus to a higher growth of this indicator. However, in the case of a significant decline in imports from our trading partners and therefore in export markets compared to Czech exports, the performance indicator is then improved without any real increase in exports from the Czech Republic.

[3] All quarterly data relative to GDP are reported in annual moving 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.

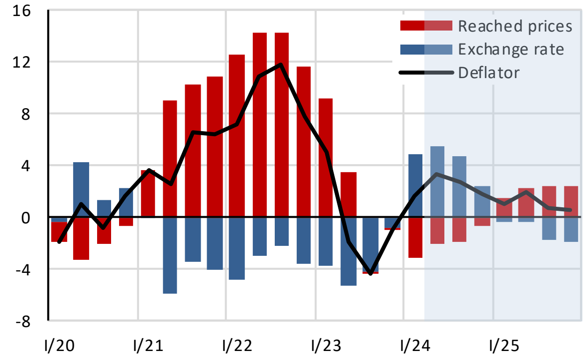
Graph 3.4.2: Real Exports of Goods

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

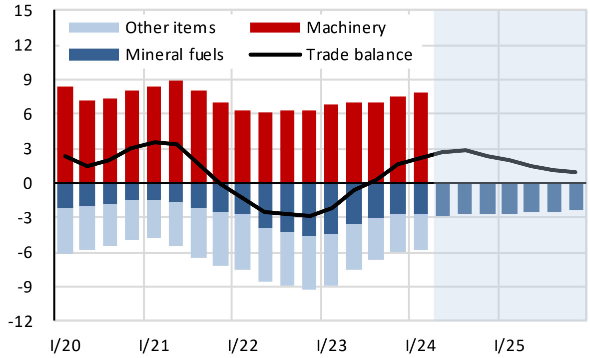
YoY growth in %, contributions in percentage points



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

Graph 3.4.4: Balance of Trade

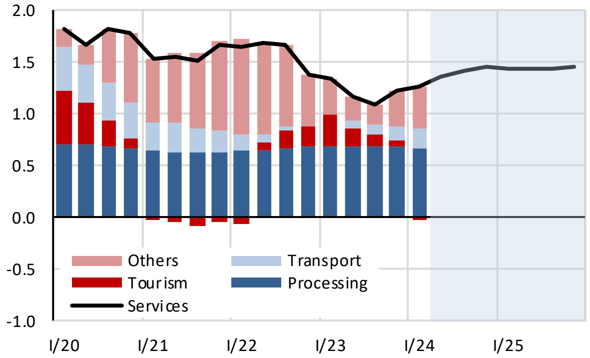
four-quarter moving totals, in % of GDP, change of ownership concept



Source: CZSO. Calculations and forecast of the MoF.

Graph 3.4.5: Balance of Services

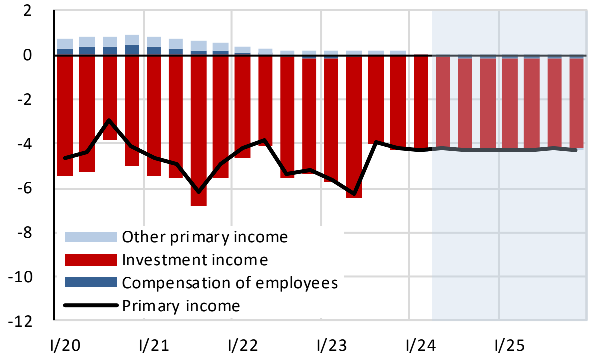
four-quarter moving totals, in % of GDP



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

Graph 3.4.6: Balance of Primary Income

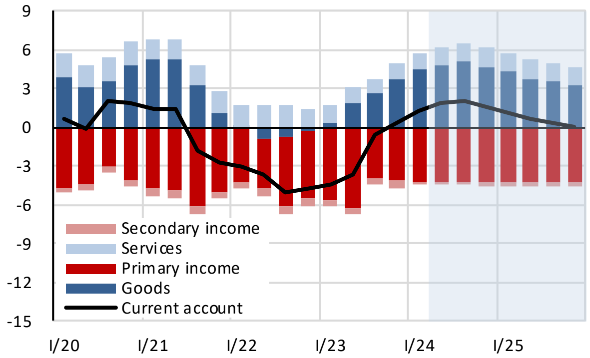
four-quarter moving totals, in % of GDP



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

Graph 3.4.7: Current Account

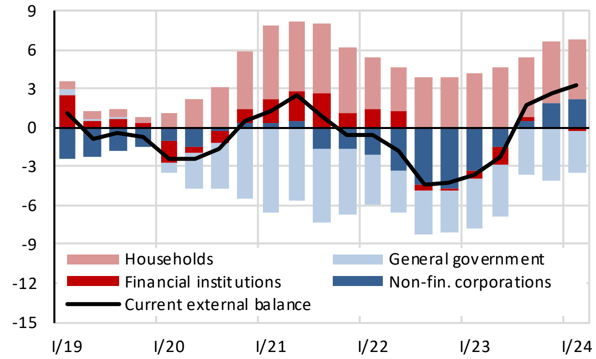
four-quarter moving totals, in % of GDP, BoP methodology



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

		2016	2017	2018	2019	2020	2021	2022	2023	2024 *Forecast*	2025 *Forecast*
GDP [1]	*average of 2010=100*	**111.5**	**114.9**	**117.4**	**119.6**	**113.7**	**119.4**	**122.9**	**123.3**	**124**	**127**
	growth in %	2.0	3.1	2.2	1.9	-4.9	5.0	3.0	0.3	0.9	1.8
Import intensity [2]	*average of 2010=100*	**112.6**	**115.4**	**118.1**	**118.5**	**117.1**	**122.4**	**124.3**	**119.3**	**117**	**119**
	growth in %	2.3	2.5	2.3	0.3	-1.2	4.5	1.6	-4.0	-1.6	1.6
Export markets [3]	*average of 2010=100*	**125.5**	**132.6**	**138.7**	**141.7**	**133.1**	**146.1**	**152.8**	**147.2**	**146**	**151**
	growth in %	4.4	5.6	4.6	2.2	-6.1	9.7	4.6	-3.7	-0.7	3.5
Export performance	*average of 2010=100*	**110.1**	**111.8**	**110.5**	**109.1**	**108.3**	**106.5**	**106.0**	**112.6**	**115**	**116**
	growth in %	-0.5	1.6	-1.2	-1.2	-0.8	-1.7	-0.4	6.2	2.4	0.3
Real exports	*average of 2010=100*	**138.2**	**148.3**	**153.2**	**154.7**	**144.1**	**155.6**	**162.0**	**165.7**	**169**	**175**
	growth in %	3.9	7.3	3.3	1.0	-6.8	7.9	4.2	2.3	1.7	3.8
1 / NEER	*average of 2010=100*	**106.9**	**103.9**	**100.2**	**100.5**	**102.4**	**99.1**	**95.7**	**92.4**	**96**	**95**
	growth in %	-2.1	-2.8	-3.6	0.3	1.9	-3.3	-3.3	-3.5	4.4	-1.1
Prices on foreign markets	*average of 2010=100*	**98.7**	**101.0**	**104.2**	**105.1**	**103.2**	**111.9**	**126.7**	**130.5**	**128**	**131**
	growth in %	-0.5	2.3	3.2	0.9	-1.8	8.4	13.2	3.0	-1.9	2.2
Exports deflator	*average of 2010=100*	**105.5**	**105.0**	**104.4**	**105.7**	**105.7**	**110.8**	**121.3**	**120.6**	**124**	**125**
	growth in %	-2.6	-0.5	-0.5	1.2	0.0	4.8	9.4	-0.6	2.4	1.1
Nominal exports	*average of 2010=100*	**145.7**	**155.6**	**159.9**	**163.5**	**152.3**	**172.4**	**196.6**	**199.8**	**208**	**218**
	growth in %	1.2	6.8	2.8	2.2	-6.9	13.2	14.1	1.7	4.2	4.9

[1] *Weighted average of GDP of eight most important partners – Germany, Slovakia, Austria, the United Kingdom, Poland, France, Italy and Hungary.*
[2] *Index of ratio of real imports of goods to real GDP.*
[3] *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

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2 *Estimate*	Q3 *Forecast*	Q4 *Forecast*
GDP [1]	*average of 2010=100*	**123.2**	**123.2**	**123.6**	**123.4**	**123.9**	**124**	**125**	**125**
	growth in %	0.3	0.2	0.3	0.5	0.6	0.7	0.8	1.4
Import intensity [2]	*average of 2010=100*	**121.0**	**119.8**	**118.7**	**117.7**	**116.8**	**117**	**118**	**118**
	growth in %	-2.0	-3.9	-5.0	-5.0	-3.5	-2.1	-0.9	0.4
Export markets [3]	*average of 2010=100*	**149.1**	**147.6**	**146.7**	**145.3**	**144.7**	**145**	**146**	**148**
	growth in %	-1.6	-3.7	-4.7	-4.6	-2.9	-1.4	-0.2	1.8
Export performance	*average of 2010=100*	**111.8**	**113.3**	**111.6**	**113.7**	**115.5**	**116**	**115**	**115**
	growth in %	7.2	9.1	3.4	5.3	3.3	2.3	3.2	1.0
Real exports	*average of 2010=100*	**166.7**	**167.2**	**163.7**	**165.2**	**167.2**	**169**	**169**	**170**
	growth in %	5.4	5.0	-1.5	0.5	0.3	0.8	3.0	2.8
1 / NEER	*average of 2010=100*	**92.0**	**90.9**	**92.4**	**94.2**	**96.5**	**96**	**97**	**97**
	growth in %	-3.7	-5.2	-4.2	-0.8	4.9	5.5	4.7	2.5
Prices on foreign markets	*average of 2010=100*	**132.5**	**131.6**	**128.9**	**128.9**	**128.5**	**129**	**127**	**128**
	growth in %	9.2	3.5	-0.1	-0.1	-3.1	-2.0	-1.8	-0.6
Exports deflator	*average of 2010=100*	**121.9**	**119.7**	**119.2**	**121.5**	**124.0**	**124**	**123**	**124**
	growth in %	5.1	-1.9	-4.3	-0.9	1.7	3.4	2.8	1.9
Nominal exports	*average of 2010=100*	**203.2**	**200.1**	**195.2**	**200.8**	**207.3**	**209**	**207**	**210**
	growth in %	10.8	3.0	-5.7	-0.4	2.0	4.2	5.9	4.7

[1] *Weighted average of GDP of eight most important partners – Germany, Slovakia, Austria, the United Kingdom, Poland, France, Italy and Hungary.*
[2] *Index of ratio of real imports of goods to real GDP.*
[3] *Weighted average of imports of goods of main partners.*
Source: CNB, CZSO, Eurostat. Calculations and forecast of the MoF.

Table 3.4.3: Balance of Payments – yearly

international investment position and gross external debt – end of period

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
										Forecast	*Forecast*
Goods and services	*bill.CZK*	**365**	**384**	**321**	**346**	**384**	**174**	**75**	**384**	**488**	**394**
	% GDP	7.5	7.4	5.9	5.9	6.6	2.8	1.1	5.0	6.1	4.7
Goods	*bill.CZK*	259	259	201	240	280	69	-23	290	373	271
	% GDP	5.3	5.0	3.7	4.1	4.8	1.1	-0.3	3.8	4.7	3.2
Services	*bill.CZK*	107	125	120	106	104	105	97	93	115	122
	% GDP	2.2	2.4	2.2	1.8	1.8	1.7	1.4	1.2	1.4	1.5
Primary income	*bill.CZK*	**-253**	**-255**	**-260**	**-292**	**-242**	**-312**	**-367**	**-317**	**-342**	**-357**
	% GDP	-5.2	-4.9	-4.8	-5.0	-4.2	-4.9	-5.2	-4.2	-4.3	-4.3
Secondary income	*bill.CZK*	**-27**	**-50**	**-37**	**-34**	**-28**	**-33**	**-40**	**-37**	**-20**	**-32**
	% GDP	-0.6	-1.0	-0.7	-0.6	-0.5	-0.5	-0.6	-0.5	-0.3	-0.4
Current account	*bill.CZK*	**85**	**79**	**24**	**19**	**114**	**-168**	**-333**	**29**	**127**	**5**
	% GDP	1.8	1.5	0.4	0.3	2.0	-2.7	-4.7	0.4	1.6	0.1
Capital account	*bill.CZK*	**52**	**45**	**13**	**24**	**67**	**104**	**48**	**88**	**55**	**63**
	% GDP	1.1	0.9	0.2	0.4	1.1	1.6	0.7	1.2	0.7	0.8
Net lending/borrowing	*bill.CZK*	**137**	**124**	**37**	**44**	**180**	**-64**	**-285**	**118**	**182**	**68**
	% GDP	2.8	2.4	0.7	0.7	3.1	-1.0	-4.0	1.5	2.3	0.8
Financial account	*bill.CZK*	**122**	**116**	**61**	**8**	**163**	**-40**	**-294**	**144**	**.**	**.**
Direct investments	*bill.CZK*	-187	-46	-51	-137	-149	-29	-83	-16	.	.
Portfolio investments	*bill.CZK*	-170	-268	30	-105	-136	75	331	90	.	.
Financial derivatives	*bill.CZK*	11	-14	-15	1	11	-58	-45	1	.	.
Other investments	*bill.CZK*	-97	-802	47	139	389	-325	-190	33	.	.
Reserve assets	*bill.CZK*	564	1 246	50	110	48	296	-307	36	.	.
International investment position	*bill.CZK*	**-1 304**	**-1 273**	**-1 320**	**-1 147**	**-929**	**-883**	**-1 270**	**-967**	**.**	**.**
	% GDP	-26.9	-24.6	-24.1	-19.5	-15.9	-14.0	-18.0	-12.7	.	.
Gross external debt	*bill.CZK*	**3 499**	**4 370**	**4 413**	**4 384**	**4 321**	**4 519**	**4 493**	**4 622**	**.**	**.**
	% GDP	72.2	84.4	80.6	74.4	74.1	71.6	63.7	60.7	.	.

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

		2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	*Forecast*	*Forecast*
Goods and services	*bill.CZK*	**128**	**225**	**281**	**384**	**438**	**483**	**511**	**488**
	% GDP	1.8	3.0	3.7	5.0	5.7	6.2	6.5	6.1
Goods	*bill.CZK*	31	139	199	290	341	377	400	373
	% GDP	0.4	1.9	2.6	3.8	4.4	4.8	5.1	4.7
Services	*bill.CZK*	97	86	82	93	97	106	112	115
	% GDP	1.3	1.2	1.1	1.2	1.3	1.4	1.4	1.4
Primary income	*bill.CZK*	**-406**	**-463**	**-294**	**-317**	**-329**	**-326**	**-335**	**-342**
	% GDP	-5.6	-6.3	-3.9	-4.2	-4.3	-4.2	-4.3	-4.3
Secondary income	*bill.CZK*	**-38**	**-34**	**-34**	**-37**	**-11**	**-14**	**-17**	**-20**
	% GDP	-0.5	-0.5	-0.5	-0.5	-0.1	-0.2	-0.2	-0.3
Current account	*bill.CZK*	**-315**	**-271**	**-47**	**29**	**97**	**143**	**159**	**127**
	% GDP	-4.4	-3.7	-0.6	0.4	1.3	1.8	2.0	1.6
Capital account	*bill.CZK*	**66**	**88**	**74**	**88**	**80**	**72**	**64**	**55**
	% GDP	0.9	1.2	1.0	1.2	1.0	0.9	0.8	0.7
Net lending/borrowing	*bill.CZK*	**-250**	**-183**	**26**	**118**	**178**	**215**	**223**	**182**
	% GDP	-3.5	-2.5	0.4	1.5	2.3	2.8	2.8	2.3
Financial account	*bill.CZK*	**-242**	**-158**	**59**	**144**	**170**	**.**	**.**	**.**
Direct investments	*bill.CZK*	-125	-122	-76	-16	-11	.	.	.
Portfolio investments	*bill.CZK*	239	-46	-119	90	104	.	.	.
Financial derivatives	*bill.CZK*	-7	16	11	1	-26	.	.	.
Other investments	*bill.CZK*	174	419	330	33	-62	.	.	.
Reserve assets	*bill.CZK*	-523	-425	-86	36	165	.	.	.
International investment position	*stock in bill.CZK*	**-1 312**	**-1 176**	**-1 015**	**-967**	**-716**	**.**	**.**	**.**
	% GDP	-18.2	-15.9	-13.5	-12.7	-9.3	.	.	.
Gross external debt	*stock in bill.CZK*	**4 334**	**4 393**	**4 455**	**4 622**	**4 853**	**.**	**.**	**.**
	% GDP	60.0	59.4	59.3	60.7	63.1	.	.	.

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

4 Survey of Other Institutions' Forecasts

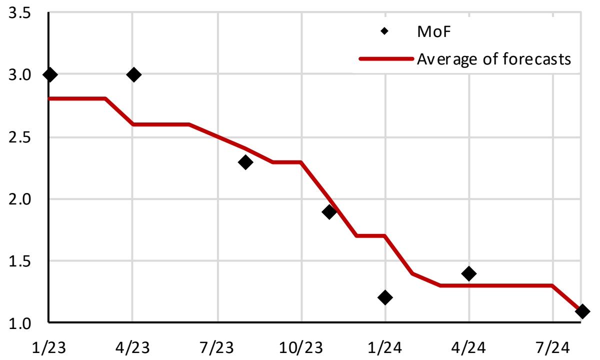
On average, the institutions surveyed expect the Czech economy to grow by 1.1% in 2024 and 2.6% in 2025. According to their estimates, the average inflation rate could reach 2.3% this year and fall slightly to 2.2% next year. Average wage growth could be 7.1% this year and slow to 5.8% in 2025. The current account of the balance of payments should be in surplus. The balance should be 0.7% of GDP this year and 0.8% of GDP in 2025.

When assessing the differences between the current macroeconomic forecast of the MoF and the average of the estimates of individual institutions, it is necessary to take into account the date when the forecasts were prepared and the information available to their authors.

The expected GDP growth of the Czech economy is almost identical to the average of the monitored forecasts, as is the case of the average inflation rate. Expected growth of the average wage in 2025 is slightly stronger in the MoF forecast. For 2024, the MoF expects a larger current account surplus than the average of the forecasts of the monitored institutions, while for 2025 it expects a more or less balanced current account.

Graph 4.1: Forecasts for Real GDP Growth in 2024

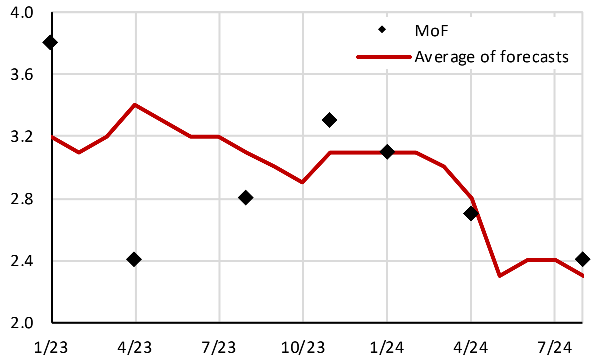
in %; the month, in which the survey was made on the horizontal axis



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

Graph 4.2: Forecasts for Average Inflation Rate in 2024

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 2024			August 2024
		min.	*max.*	*average*	*MoF forecast*
Gross domestic product (2024)	*growth in %, const.pr.*	**0.7**	**1.5**	**1.1**	**1.1**
Gross domestic product (2025)	*growth in %, const.pr.*	**1.9**	**3.1**	**2.6**	**2.7**
Average inflation rate (2024)	*%*	**1.9**	**2.8**	**2.3**	**2.4**
Average inflation rate (2025)	*%*	**1.7**	**2.6**	**2.2**	**2.3**
Average monthly wage (2024)	*growth in %*	**6.5**	**7.4**	**7.1**	**7.2**
Average monthly wage (2025)	*growth in %*	**5.1**	**6.5**	**5.8**	**6.5**
Current account / GDP (2024)	*%*	**0.2**	**1.4**	**0.7**	**1.6**
Current account / GDP (2025)	*%*	**0.1**	**1.4**	**0.8**	**0.1**

Note: The survey is based on publicly available forecasts of 11 institutions, of which 7 institutions are domestic (Czech Banking Association, CNB, Ministry of Labour and Social Affairs, domestic banks) and the remaining are foreign entities (European Commission, OECD, IMF, The Economist). In the case of GDP, no difference is being made between working-day adjusted and unadjusted forecasts.

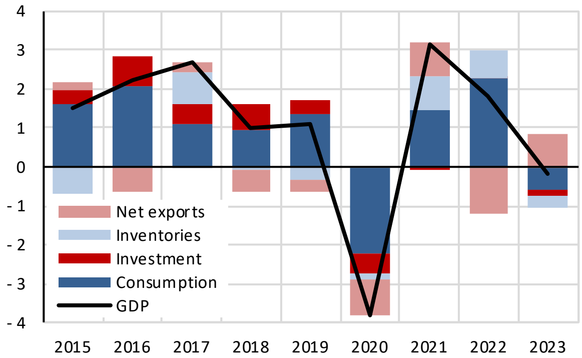
Source: Forecasts of individual institutions. Calculations and forecast of the MoF.

5 Structural Problems of the German Economy

The German economy has been teetering on the brink of recession over the past year. Households have struggled with high inflation which has restrained their real consumer spending, while investment has also contributed negatively to overall economic dynamics (Graph 5.1). Although at first glance the development of the German economy does not appear dramatic in the context of the series of crises that Europe has gone through in recent years, Germany's economic growth has long lagged behind other Western European countries (Graph 5.2). Consequently, in the context of these developments, the expression from the 1990s, when the German economy was growing at an average annual rate of 1% at the turn of the millennium, has come to be used again for Germany: the "sick man of Europe" (e.g. Erencin et al., 2024). This text aims to identify the weaknesses of the German economy, the barriers to its development and to highlight the reasons for its slower growth.

Graph 5.1: Real GDP of Germany

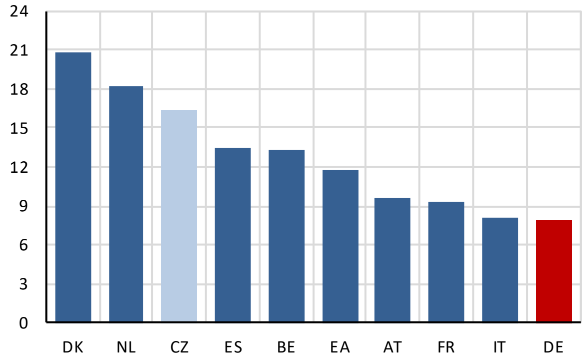
YoY growth in %, contributions in percentage points



Source: Eurostat. Calculations of the MoF.

Graph 5.2: GDP in Selected EU Countries

change in real GDP between 2015 and 2023, in %



Source: Eurostat. Calculations of the MoF.

5.1 GDP and Gross Value Added

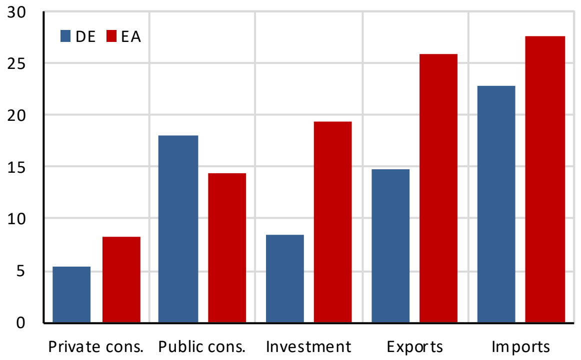
The analysis of expenditure components of GDP shows that between 2015 and 2023, household consumption increased the least (5.4% growth), followed by gross fixed capital formation (8.4% growth), while imports of goods and services grew the most (22.8% growth). With the exception of general government consumption, the individual expenditure components in Germany increased less than in the euro area over this period (Graph 5.3). The largest difference is seen in the case of investment, which rose cumulatively by 11.0pp more in the euro area than in Germany, and in the case of exports (11.2 pp difference). Last year, the volume of German exports and investment was at the 2019 level and 2017–18 level, respectively.

A look at the sources side of GDP (Graph 5.4) shows that construction (gross value added fell by 6.3%) and industry underperformed between 2015 and 2023. Although gross value added in industry increased by 6.0% over the period, it was 2.4% lower in 2023 compared to 2019.

The weak growth dynamics of the German economy can therefore be linked to developments in the construction and industrial sectors. These sectors are significantly related to investment and exports.

Graph 5.3: Expenditure Components of GDP

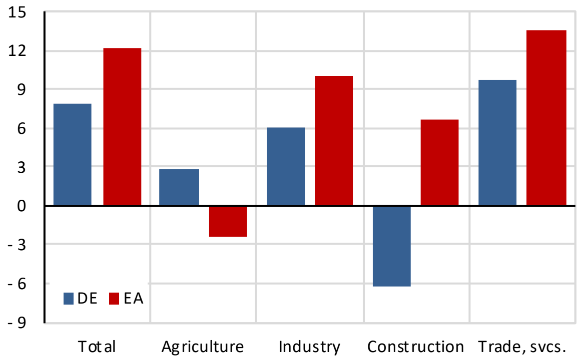
change in real aggregates between 2015 and 2023, in %



Source: Eurostat. Calculations of the MoF.

Graph 5.4: Gross Value Added

change in real aggregates between 2015 and 2023, in %



Source: Eurostat. Calculations of the MoF.

5.2 Investment Activity

A gradual and steady decline in investment spending has been evident since 2019. While investment in machinery and equipment (accounting for 34.9% of total investment in 2023) is slowly returning to pre-pandemic levels, investment in dwellings and other buildings and structures, which accounts for 46.6% of total investment, continues to decline (Graph 5.5).

The segment of dwellings and other buildings and structures in the German economy is not negligible. This sector, which is an important part of construction, accounted for 6.2% of gross value added in 2023 and employed 5.8% of the workforce.

Investment in residential and non-residential construction has been declining over the past three years. The unfavourable situation is illustrated by the evolution of the volume of new orders in the construction sector (Graph 5.6), which is characterised by a decline in demand for residential construction, building construction and road construction. According to the German Institute for Economic Research (DIW, 2024), unfavourable circumstances that lead to rising house prices and weakened the demand for owner-occupied housing, such as the shortage of building materials due to disruptions in supply chains and their significant increase in prices, or the obligation to implement new technologies in construction to improve energy efficiency and lower the emissions of buildings, have contributed to this.

Even housing construction financed by the state is not being implemented. Although the government committed in its programme declaration to building 400,000 flats a year, only 245,000 flats were built in 2023, as the German Ifo Institute points out. This development, together with lower public infrastructure procurement, underlines the fact that government investment in Germany is among the lowest in the major EU economies (Graph 5.7), despite the fact that it has grown slightly as a share of GDP in recent years. At the same time, the development of government investment may also be related to the so-called debt brake (structural government deficit must not exceed 0.35% of GDP), which has been in place at the federal level since 2016.

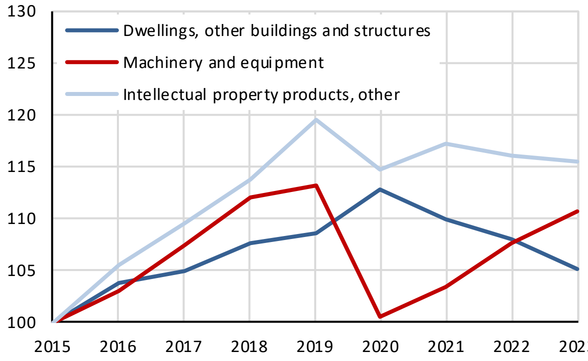
German firms are also among the less active when it comes to investment (Graph 5.8). While their share of GDP was still rising until 2019, the opposite trend prevailed in the following years, with the exception of 2022. Meanwhile, firms' invest primarily in buildings, housing and machinery and equipment, and to a lesser extent in intellectual property products. The negative development thus corresponds to the dynamics of orders in the construction sector. In the case of investment in machinery and equipment, the sentiment among firms or the development of interest rates also plays a role. The low investment activity in this sector in recent years may thus reflect global economic problems, geopolitical tensions or tight monetary conditions.

When analysing investment and its impact on economic growth, it is necessary to take into account not only gross fixed capital formation itself, but also the depreciation (consumption) of fixed capital and the total stock of capital in the economy. Consumption of fixed capital in Germany is the highest among the countries under consideration (20.6% of GDP in 2023, euro area average 18.6%). Thus, 93.9% of investment in 2023 is for the repair of existing capital. Moreover, this share has increased by 4.3pp since 2015, while it has fallen by 4.6pp in the euro area. Germany thus has the lowest net fixed capital formation of the countries surveyed (Graph 5.9). This situation is common to both firms and the general government sector.

The high consumption of fixed capital may reflect Germany's high capital stock resulting from its industrial nature or complexity of its transport infrastructure. The capital stock amounts to almost 400% of GDP (Graph 5.10), its servicing thus consumes a significant part of the resources spent on investment. However, the high rate of depreciation may also be related to the current transformation of the economy and the modernisation of industrial capacity. It may thus be only a temporary phenomenon.

Graph 5.5: Main Components of Investment

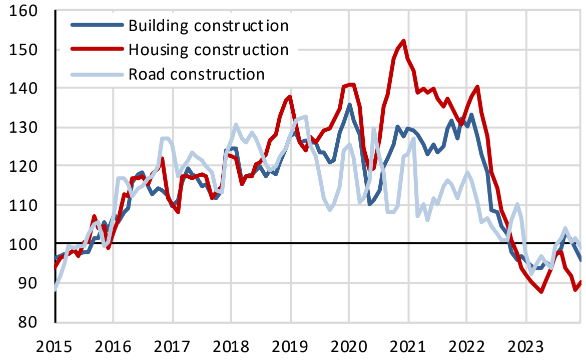
2015 = 100, in constant prices



Source: Eurostat. Calculations of the MoF.

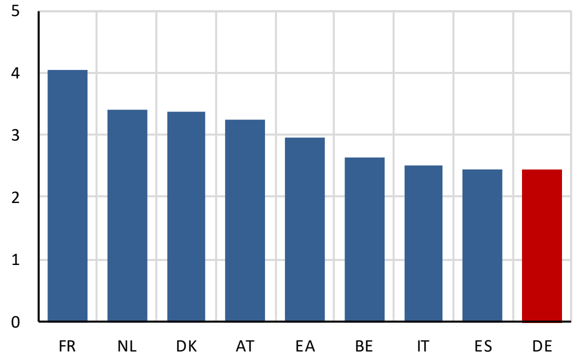
Graph 5.6: Volume of Orders in Contruction

2015 = 100, 3M average, adjusted for seasonal and calendar effects



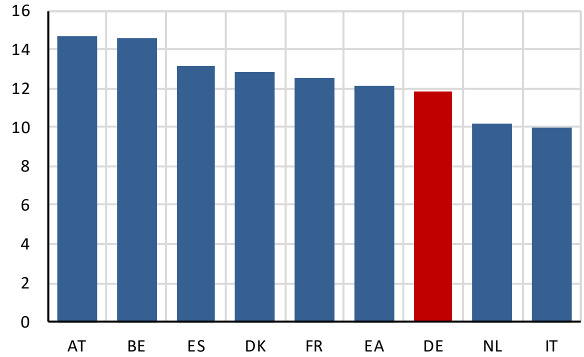
Source: Destatis. Calculations of the MoF.

Graph 5.7: Investment of the General Government
in % of GDP, current prices, 2015–2023 average



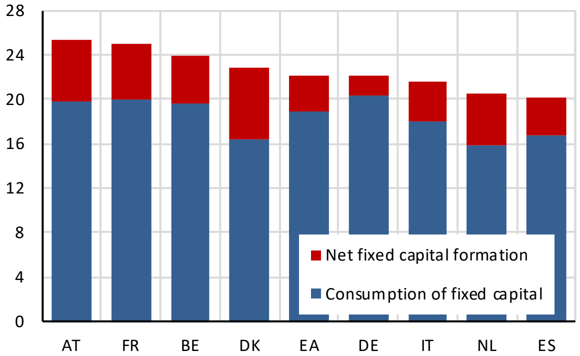
Source: Eurostat. Calculations of the MoF.

Graph 5.8: Investment of Non-financial Corporations
in % of GDP, current prices, 2015–2023 average



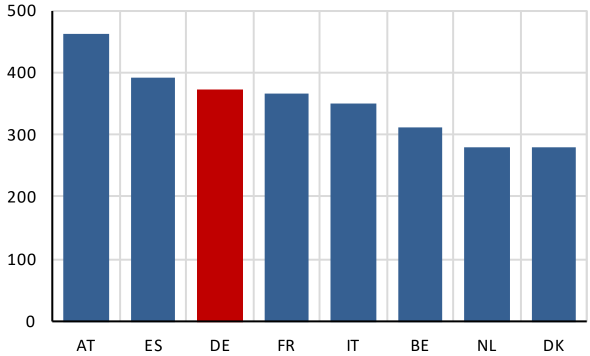
Source: Eurostat. Calculations of the MoF.

Graph 5.9: Gross Fixed Capital Formation
in % of GDP, current prices, 2022



Source: Eurostat. Calculations of the MoF.

Graph 5.10: Capital Stock
in % of GDP, current prices, 2022



Source: Eurostat. Calculations of the MoF.

5.3 Energy Strategy and Loss of Competitiveness

Germany, with its large industrial base, has a high energy demand, accounting for 23.6% of EU27 industrial consumption in 2023. German industry is among the most energy-intensive in Western Europe (Graph 5.11). The pressure for reliable and competitively priced energy sources is therefore considerable.

From today's perspective, the German energy strategy may also appear problematic for German industry in the long term. The nuclear energy phase-out (last units shut down in 2023) should have been followed by the gradual phase-out of coal power plants (by 2030) and their replacement with natural gas from Russia and an increase in the share of renewable sources of energy. However, in view of the Russian military invasion of Ukraine, this strategy was partially revised and natural gas from the Russian Federation was replaced with imports of natural gas and LNG from Norway and the United States.

At the same time, German industry is being hit by a significant increase in the price of emission allowances (that is very high in international comparison, Graph 5.12), which, together with additional taxes and other charges, is contributing to higher energy prices for business customers. These prices increased by 48.6% on average to €243.9 per MWh between 2015 and 2023 (Graph 5.13). Although the 2022 energy crisis in Europe contributed to the rise in electricity prices, prices in Germany were still €33.6 higher compared with the euro area average last year (there are, however, large differences within the euro area, e.g. the average price in 2023 was €280.2 in the Netherlands, €215.2 in France and €158.8 per MWh in Spain).

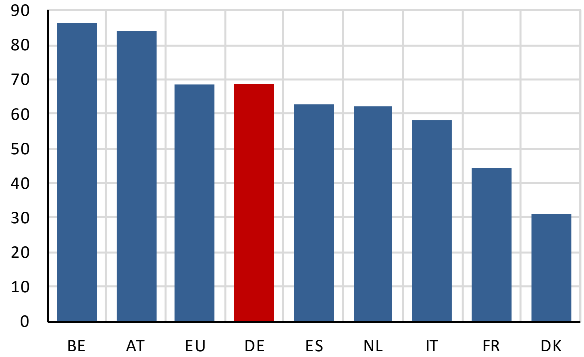
In any case, high energy costs reduce the international competitiveness of German companies. Increased costs combined with weak demand are affecting virtually all major industries, which are producing well below their 2015 levels (Graph 5.14). Moreover, no other sector seems to be able to fill the gap.

On the other hand, Fletcher et al. (2024) argue that German producers have adapted to the energy crisis and disrupted supply chains to the extent that they have shifted to higher value-added products. Consequently, while the volume of industrial production declined, value added remained stable for some time (Graph 5.15). In 2023, gross value added was 6% higher than in 2015, but while it grew 7% before the pandemic, it has decreased by 1% since 2019. All major industrial sectors contributed to the increase in gross value added, with electronic equipment, pharmaceuticals and motor vehicles contributing the most. It was motor vehicle production that was behind the decline in gross value added in the post-

2020 period (Graph 5.16). Even so, the above suggests that changes in the energy sector and high energy prices may put Germany at a disadvantage against its global competitors. This is also indicated by the development of gross value added in industry in the surrounding Western European countries. Compared to 2020, it increased by 5.2% in Germany, while the euro area average was 7.5%. In France it increased by 6.2% and in Italy by 11.8%. Only Belgium was worse than Germany (down 0.1%).

Graph 5.11: Energy Consumption in Industry (2022)

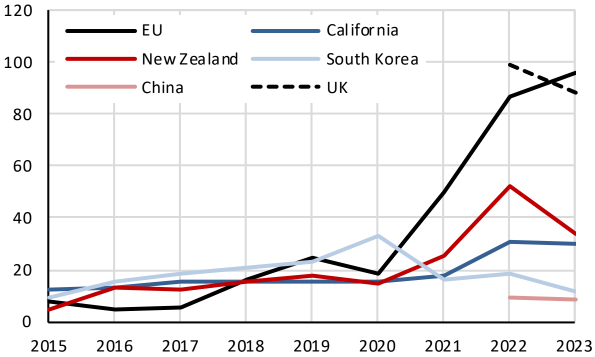
in terajoules (TJ) needed for production worth EUR 1 million



Source: Eurostat.

Graph 5.12: The Price of Emission Allowances

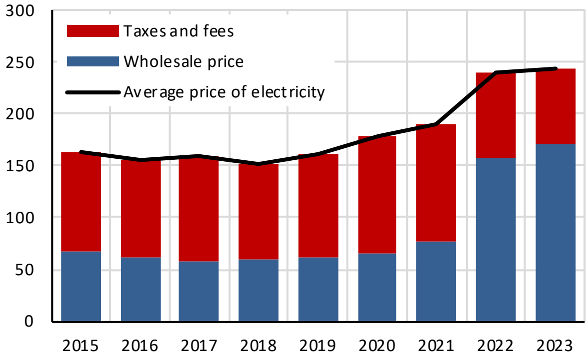
selected countries, USD/t CO_2



Source: World Bank.

Graph 5.13: Average Price of Electricity for Firms

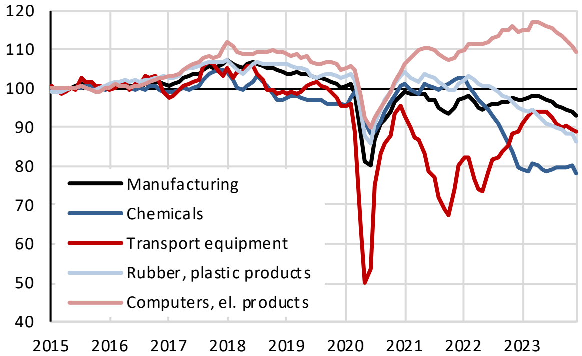
EUR/MWh



Source: Eurostat. Calculations of the MoF.

Graph 5.14: Industrial Production

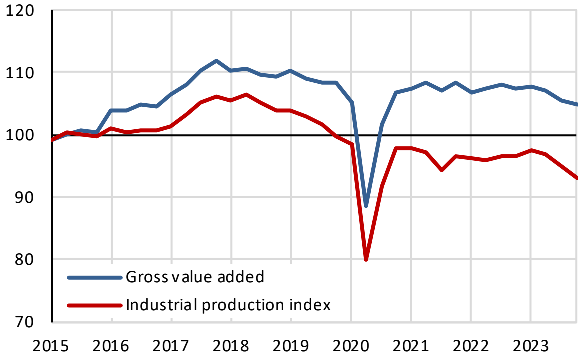
2015 = 100, 3M totals, adjusted for seasonal and calendar effects



Source: Eurostat. Calculations of the MoF.

Graph 5.15: GVA and Production in Industry

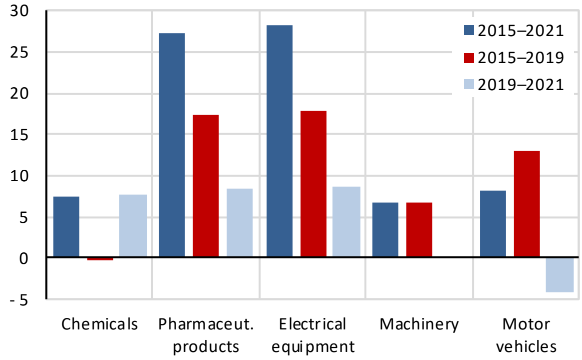
2015 = 100, adjusted for seasonal and calendar effects



Source: Eurostat. Calculations of the MoF.

Graph 5.16: GVA in Selected Industries

change in gross value added, in %



Source: Eurostat. Calculations of the MoF.

5.4 Impact on Export

The energy intensity of industry and energy prices affect the German economy more than other countries, also because of its strong export orientation. The production of machinery and transport equipment, chemicals and pharmaceutical products is energy-intensive, yet these goods account for a significant share of exports (Graph 5.17). Machinery and transport equipment accounts for 14.0% of total energy consumption, while chemicals account for 22.8%.

Moreover, Germany is heavily oriented towards non-EU markets, in particular the United States, China and the United Kingdom (Graph 5.18). Last year, the share of nominal exports of goods outside the EU was 44.9% (44.7% for France and 48.4% for Italy), and 53.0% for the main export class of road vehicles (12.7pp more than for Italy) The difference in exports to China and the United States is also significant, with 16.0% of German exports going to China last year (only 13.8% for Italy, with a large part going to the US). German exports (especially in the motor vehicle segment) are thus more exposed to possible external shocks and potentially more global competition.

The price factor is apparently beginning to play a significant role in the demand for products in the face of growing international competition, which is particularly evident in the main export commodity – motor vehicles. A combination of rising costs (including energy costs) and EU regulations (e.g. mandatory vehicle homologation from September 2018 and fees for exceeding emission limits from 2020) have translated into rising prices for exported road vehicles (Graph 5.19). The average price of a car exported from Germany rose by more than 64% over the period under review, but this may be partly due to a change in the structure of exports (a greater focus on exporting more expensive cars). The loss of competitiveness is also amplified by the evolution of the real effective exchange rate (Graph 5.20). During the period under review, price competitiveness increased in China, while it declined in the United States and Germany.

The loss of competitiveness and the resulting economic impact may also be implied by the development of exports from Germany to the main markets (Graph 5.21). Here, it is necessary to draw attention to possible biases in the data sources. Due to the absence of real variables for individual commodity classes of exports, their share in nominal GDP is used and then transformed into the form of a base index. The method used should thus indicate the improvement or deterioration of exports and their sub-items in the case of changes in the shares of GDP. However, in periods of high price fluctuations, such as in 2021 and 2022, if export prices rise faster than the GDP deflator, exports to individual countries may be overestimated.

The data show that exports in 2023 were roughly at the 2015 level, although the changes in individual years were often not small. While exports to the euro area were relatively stable, except during the pandemic, exports to China grew until 2021, but then declined sharply. In the case of the United States, the situation was quite the opposite. The decline in exports to China is mainly related to the evolution of exports of transport equipment (Graph 5.22).

Exports to China and the United States have declined in recent years, with only motor vehicles exports to the euro area slightly higher. This development can be attributed to both demand and supply factors, including the transition to new emission standards, the fall in demand for German cars, the disruption of supply chains, the rise in car selling prices or the shift towards electromobility, which is also linked to the growing preference for more affordable Chinese brands, not only on the domestic market.

In the case of the United States, this may be a consequence of the September 2015 dieselgate scandal, where Volkswagen used special software to artificially reduce the emissions emitted by its cars. Ruzic (2019) reports that in the first year alone since the scandal broke, sales of selected German automakers in the US (excluding Volkswagen) fell by USD 5.2 billion, or almost 25%.

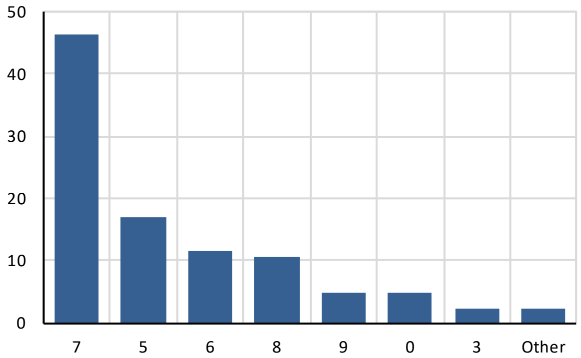
Germany is also starting to lose its position in the Chinese market in the motor vehicle segment. According to the CPCA (China Passenger Car Association), the market share of German carmakers in China is declining. While in 2020, German carmakers accounted for a quarter of the market (25.7%), in 2023 this share was 20.4%. In contrast, domestic carmakers strengthened from 35.0% to 51.9% in the same period. As a result of the above factors, Germany has thus lost some of its position in the world. Between 2015 and 2023, Germany's share of world automotive production fell by 2.3pp to 6.0% (Graph 5.23).

Germany is also failing to compete with China and the United States in the field of electromobility. According to the International Council on Clean Transportation (ICCT), German-based manufacturers in China have a share of only 7.0% of new car registrations in the electric vehicles sector (17.0% for all cars). Chinese car companies are more dominant in terms of popularity in the domestic market for electric vehicles (67.0%) than for the overall car industry (53.0%). The share of US electric cars is also higher, namely 24.0% (Graph 5.24). The unfavourable trend is also illustrated by the development of sales of electric cars by the Volkswagen Group. According to Counterpoint's statistics (2024), their share of the electric car market has fallen from 10.0% in 2021 to 7.3% in 2023. This shows that, in the case of battery cars, German carmakers are lagging behind their Chinese and American competitors.

It is the developments in China that are most often mentioned in relation to the problems of German exports, whether in the form of slower growth of the local economy or due to changes in the structure of the Chinese economy, as pointed out by McKinsey Global Institute (2019) or OECD Economic Surveys – China (2019). Moreover, the educational attainment of China's population and the technological and quality level of its industry have increased with economic growth. According to Baldwin (2024), China's demand for the output of its own manufacturing industry has been growing since 2004. The space for German goods has thus shrunk in the Chinese market and China has gone from being a "buyer" of German manufactured products to a direct competitor.

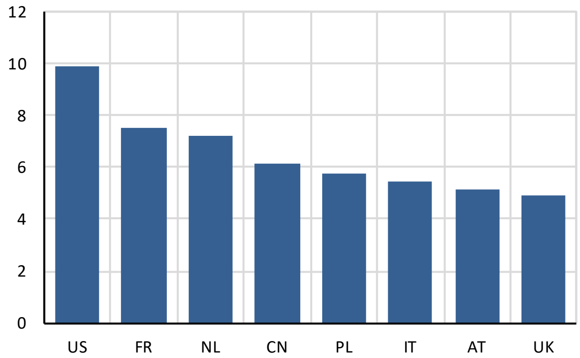
The decline in exports may also be related to rising protectionism and a certain shift away from globalisation towards regional trade, known as nearshoring. Di Sano et al. (2023) report that more trade cooperation with geographically close countries has been observed over the last decade. In addition to the growth of trade barriers, this trend is driven by a sequence of several crises in recent years that have highlighted the vulnerability of European countries to imports of strategic raw materials and commodities (e.g. semiconductors or energy raw materials). Although this is still a marginal phenomenon in international trade, it cannot be ruled out that the fragmentation of world trade will intensify in the future. On the one hand, the authors of the study point to the benefits of better control of inputs and production processes, but the negative consequence is the loss of comparative advantages in foreign trade, which may increase costs and consequently prices for final consumers. For example, Fuest (2022) estimated that an extreme case of nearshoring (a one-off transfer of all production inputs to neighbouring countries of Germany) would lead to a one-off decline in real GDP of 4.2%.

Graph 5.17: Structure of Export of Goods (2023)
in % of goods exports, SITC classification



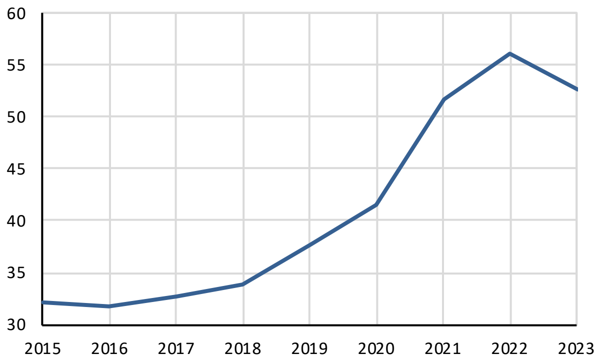
Note: 0 – Food and live animals; 3 – Mineral fuels, lubricants; 5 – Chemicals and related products; 6 – Manufactured goods by material; 7 – Machinery and transport equipment; 8 – Manufactured articles; Other – Beverages and tobacco, Crude materials, Animal and vegetable oils, Commodities not classified.
Source: Destatis. Calculations of the MoF.

Graph 5.18: Main Export Markets of Germany (2023)
in % of goods exports



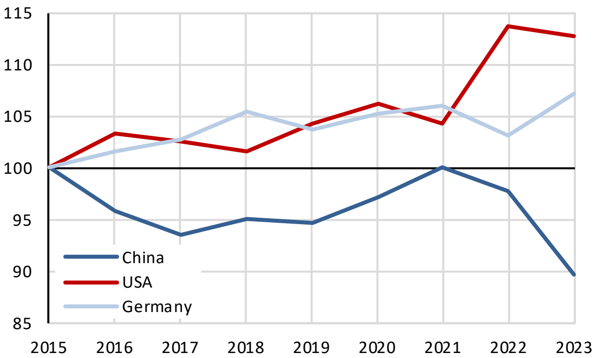
Source: Destatis. Calculations of the MoF.

Graph 5.19: Average Price of Exported Car
in thousands EUR



Source: Eurostat, VDA. Calculations of the MoF.

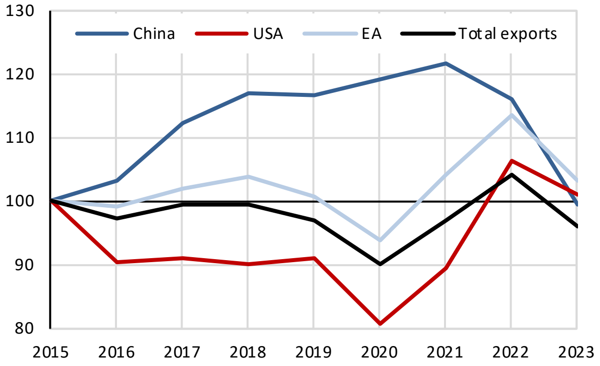
Graph 5.20: Real Effective Exchange Rate
2015 = 100, deflated by CPI, against 42 countries



Source: Eurostat. Calculations of the MoF.

Graph 5.21: Export of Goods to Main Export Markets

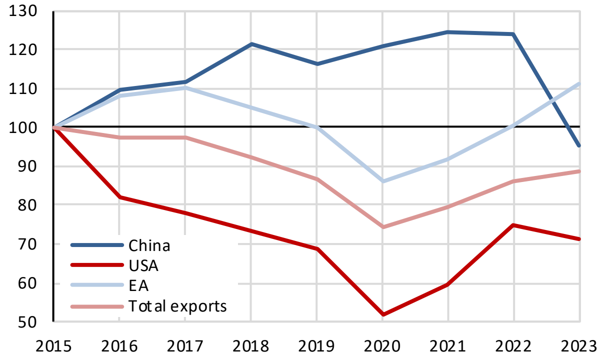
2015 = 100, ratio of nominal exports to GDP



Source: Destatis, Eurostat. Calculations of the MoF.

Graph 5.22: Exports of Motor Vehicles

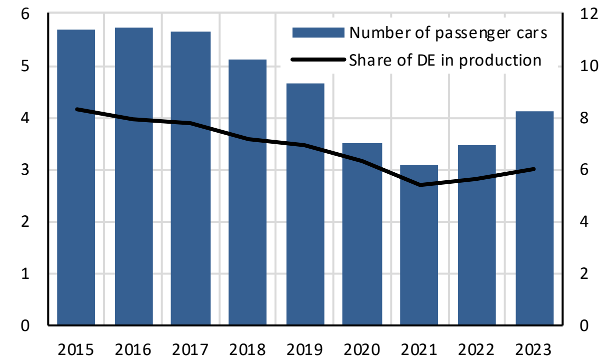
2015 = 100, ratio of nominal exports to GDP



Source: Destatis, Eurostat. Calculations of the MoF.

Graph 5.23: Car Production

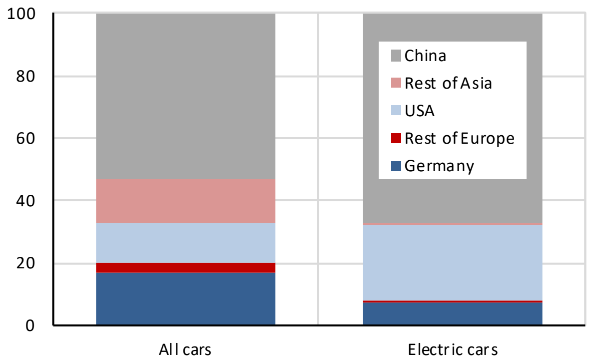
millions, share of Germany in global car production (rhs) in %



Source: VDA, OICA. Calculations of the MoF.

Graph 5.24: New Passenger Car Registrations in China

2023, share in %



Source: ICCT.

5.5 Labour Market and Demographics

The performance of the German economy is also affected by demographic and labour market developments in the form of rising costs, labour shortages and lower labour market participation of non-EU citizens.

As mentioned above, Germany is facing rising costs, including labour costs. Moreover, since 2018, these have not been supported by labour productivity (in hourly and per worker terms), which on the contrary has rather stagnated in recent years (Graph 5.25). Labour market developments are also problematic. While the number of people in employment has increased by around 2.7 million (6.3%) since 2015, this has in fact largely been offset by a decline in average hours worked or a higher use of part-time work (Graph 5.26). Despite the decline in hours worked, German firms managed to increase real hourly productivity (real productivity rose by 10.3% in industry in particular, while it fell significantly by 8.2% in construction) to compensate for the decline.

Despite labour productivity growth, labour shortages have long remained one of the main barriers to growth, both in industry and construction. In the European Commission (2024a) survey, 23.5% of firms in industry and 20.0% in construction faced staff shortages last year (Graph 5.27).

According to the Association of the German Chambers of Industry and Commerce, 1.8 million unfilled jobs will result in a loss of added value of more than EUR 90 billion (2.2% of GDP) in 2023 alone. The labour shortage is most visible in the industrial and construction sectors, which are currently the sectors most affected by the problems described above. In some sectors, there is not only a shortage of skilled labour, but a general shortage of workers.

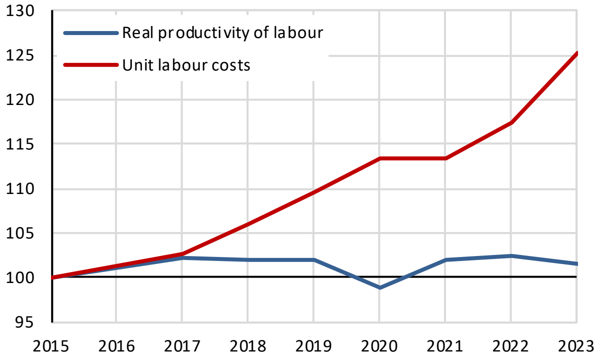
Labour market shortages are also noted by the IMF (2023) and Fletcher et al. (2024). To increase productivity and employment, these studies recommend reducing the bureaucratic burden on firms, investing in infrastructure, or incentives for highly skilled workers from abroad.

The future prospects in this area are not optimistic. The gradual rise in the average age of the German population and the associated increased costs for the health and social systems, as well as the gradual reduction in the workforce, will have a clearly negative impact on the German economy, provided that there is no corresponding increase in labour productivity. Moreover, this problem is projected by the European Commission (2024b) to worsen over time (Graph 5.28).

A problematic area of the German labour market, also highlighted by the EC (2024b), is the lower labour market participation of non-EU-born citizens, both among men and women (Graphs 5.29 and 5.30). While the labour force participation rate (20–64 years) of men in Germany in 2023 was 87.7%, the rate for non-EU citizens was only 82.6%. The imbalance is more pronounced among women, where only 60.4% of non-EU born women are active (compared to 79.4% of women in Germany being active overall). Only Belgium and Italy perform worse, ranking among the countries with the lowest female participation across all groups surveyed.

Graph 5.25: Productivity and Labour Costs

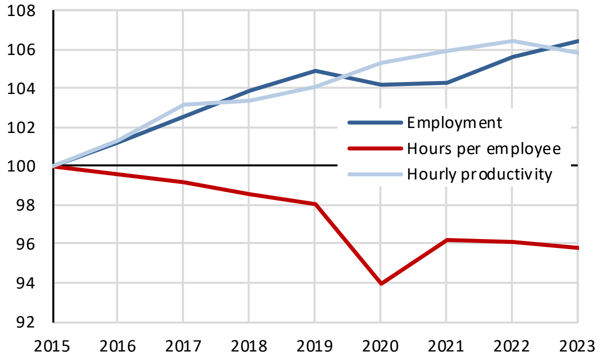
2015 = 100



Source: Eurostat. Calculations of the MoF.

Graph 5.26: Employment and Hours Worked

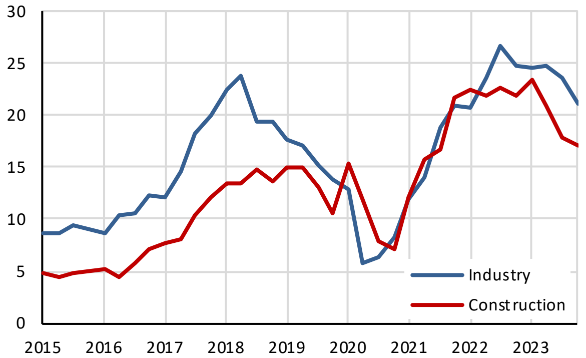
2015 = 100



Source: Eurostat. Calculations of the MoF.

Graph 5.27: Lack of Employees

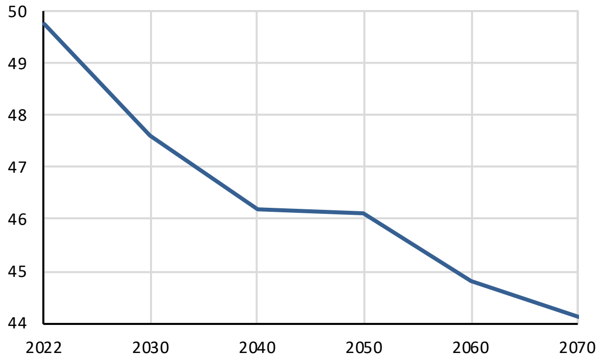
share of firms that view lack of employees as the main barrier to production growth, in %



Source: European Commission. Calculations of the MoF.

Graph 5.28: Working-age population

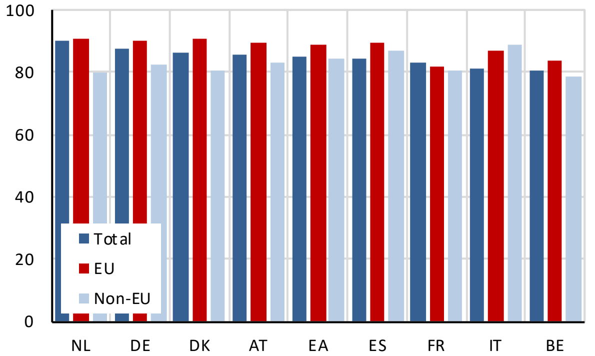
population aged 20–64 years, in million



Source: European Commission.

Graph 5.29: Participation Rate – Men

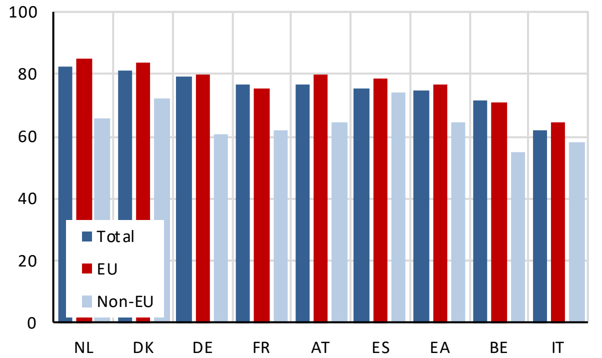
in %, by country of birth



Source: Eurostat.

Graph 5.30: Participation Rate – Women

in %, by country of birth



Source: Eurostat.

5.6 Conclusions

In the 1990s, Germany relied on a growth model based mainly on exports of high-quality manufactured goods and benefited from relatively low energy prices. This economic model worked very well in "calm" times, but the combination of a series of negative exogenous shocks in recent years and long-term structural problems in the economy have led to a slowdown in German growth.

Germany is experiencing lower investment activity, particularly in the construction sector (housing and transport infrastructure). This sector is also affected by environmental and energy policies which also put energy-intensive German industry at a cost disadvantage. The high rate of capital depreciation is also a problem for the German economy. A further barrier to growth is the unfavourable labour market situation, which is reflected in the shortage of workers in the main industries and the low participation rate of non-EU-born people, especially among women. Given the unfavourable demographic development of the German population (ageing), this problem will continue to worsen.

Rising labour costs, together with additional production costs (emission allowances, production and operation restrictions due to drought, etc.), are worsening the competitiveness of a key export commodity, automobiles. The German car industry is lagging behind its US and Chinese competitors in the transition to electromobility. China's shift in supply and demand chains towards the production of its own cars points to a more fundamental problem for German exporters, who will struggle to keep up with new players in international trade in the future.

Although the German economy is expected to recover slightly in 2024, according to the current economic data and forecasts, it should still grow at the slowest rate in the EU. The factors mentioned above are largely structural in nature (economic transformation, deindustrialisation, demographic development), so it can be expected that Germany will continue to encounter barriers to growth in the coming years and without the necessary reforms (such as the removal of government investment from the debt brake, a change in the energy mix and greater labour market participation of non-EU citizens) the growth of economic output will continue to lag behind other countries in the region. Given that around a third of Czech exports go to Germany, such an outlook is particularly significant for the Czech economy.

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ISSN 2533-5588