



# Weekly Briefing

## **Czech Republic economy briefing:**


### **The Czech Republic - economic briefing: developments in 2018**

**Milan Kreuzzieger**

#### **China-CEE Institute**

Kiadó: Kína-KKE Intézet Nonprofit Kft.  
Szerkesztésért felelős személy: Chen Xin  
Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 [office@china-cee.eu](mailto:office@china-cee.eu)

 [china-cee.eu](http://china-cee.eu)

## **The Czech Republic - economic briefing: developments in 2018**

*The year 2018 could be summarised by those important economic characteristics:*

- *Programme priorities of the new Czech coalition government*
- *The Czech National Bank (ČNB): Estimation of economic growth and other indicators*
- *Rates of employment and unemployment on new levels*

### **Programme of economic priorities of the new Czech coalition government**

Changes in the Czech economic orientation and position on the issues of the EU's energy and climate policy are not expected. The minority government of Andrej Babiš, formed by his political movement ANO and the Czech Social Democratic Party (ČSSD), won a parliamentary vote of confidence on July 12, 2018 with the support of the Communist Party of Bohemia and Moravia (KSČM). The vote ended nearly 9-month period of complicated post-electoral coalition negotiations. The programme of the new Czech government should be realised in next 4 years. New cabinet approved a new government programme with three main economic points:

- 1) to implement pension's reform;
- 2) strategic investment programme – it means to increase government spending on infrastructure projects (e.g. building highways, railroads, a programme to expand municipal housing, digital infrastructure or homes for the elderly);
- 3) to reform public finances (a balanced budget with lower taxes and higher public sector wages);

These measures could further support household consumption, stimulate private and public investment, thus the real gross domestic product growth. Spending can be increased thanks to the good state of the economy (GDP rose by 4.4% in 2017 and 3% in 2018) and the state budget. To increases in pensions and, the government announced the launch of social programmes aimed in particular at the increasingly electorally important group of seniors, as well as at students and young families. As a demand of the ČSSD was included the introduction of payments of 60% of salary during the first three days of sick leave. ANO's preference is to improve the functioning of the state, among them the creation of a central website through which the citizen will be able to sort out administrative matters. The Czech government's response to the challenges of the shortage of skilled labour is a programme of digitalization and

the transformation of industry (known as Industry 4.0). The programme also includes prime minister Babiš's idea to build a new complex of buildings for state administration outside the centre of Prague, which would save on the high rental costs and expenditures on repairs in the often historic government buildings.

Concerning energy policy the long-term goal is to increase the role of nuclear energy and renewable energy sources and gradually reduce production from coal-fired plants. The priority is energy security and self-sufficiency in the production of electricity. Coal provides 40% of the Czech Republic's energy mix, and its consumption generates more than half of the country's electricity; 10% of the coal consumed comes from imports.

### **The Czech National Bank (ČNB): Estimation of economic growth and other indicators**

GDP in Eurozone dropped from 2,2% to 1,6% this year. It is uncertain to predict consequences of Brexit. 2018 was positive for BRIC countries. China faced slow economic performance (with low inflation), in India accelerated growth. The trend should continue this year. The future development in China will be the most sensitive for global economy. ECB will consolidate interest rates. Fed will be slowly finished consolidation and interest rates should go up. USD should be weakened towards most currencies, except renminbi and rupee. Brent Oil is expected cca 60 USD / barrel.

The Czech economy expanded 2.4 % year-on-year in the third quarter of 2018, the same as in the previous period and above the preliminary estimate of a 2.3 % growth. It remains the weakest pace of expansion since the last quarter of 2016.

As for the monetary policy, the Czech National Bank started to increase interest rates to 0.5 percent by the end of 2017 and continued in 2018. This tightening of monetary policy is necessary to keep inflationary expectations fixed. The Czech National Bank wants to raise interest rates gradually over time and normalise its policy. In 2019 the Czech National Bank is likely to increase the interest rates; however, they could remain stable during the rest of the year. The growth in interest rates in the Czech Republic (i.e. a rising interest rates differential between the Czech Republic and the Eurozone) could lead to further appreciation of the koruna with possible negative effects on Czech external competitiveness and foreign trade.

Private investments and public infrastructure spending will be supported by funds from the European Structural and Investment Funds awarded under the 2014-2020 programme.

According to Deloitte analysis (from January 7, 2019), Czech economy in 2019 will grow at 2.2%, owing to the ongoing shortage of workforce, salaries will keep rising (+6.5%) and will mark the fourth consecutive year when they will grow faster than work but growth should be only slightly slower than last year. Unemployment will remain low and inflation will be at above 2%. The 2019 should be, both locally and globally, marked by the advancing autumn in the economic cycle. Government debt should further decrease in 2019 to 28.9% of GDP, i. e. by 2.4% points year on year. The financial market volatility will be exacerbated by trade wars between the US and the world, Brexit, problematic public finances in Italy, parliamentary election in Greece and the European Parliament election. Main short-term risks to the above projections include developments in the labour market (ongoing labour shortages, wage growth) and inflation pressures.

**Conclusion:** From the perspective of economic growth in developed countries was the year 2018 less successful than the previous one, according to analysis of the Czech National Bank. On the other side the inflation was near ideal of 2% (like Japan, UK, USA, Eurozone). The outlooks for 2019 indicate that the Czech economy will continue to rise, which is related and depended to growth in the European Union countries and the entire global economy. The overall economic situation of the Czech Republic should be positive. The private investment and household consumption is expected to grow.

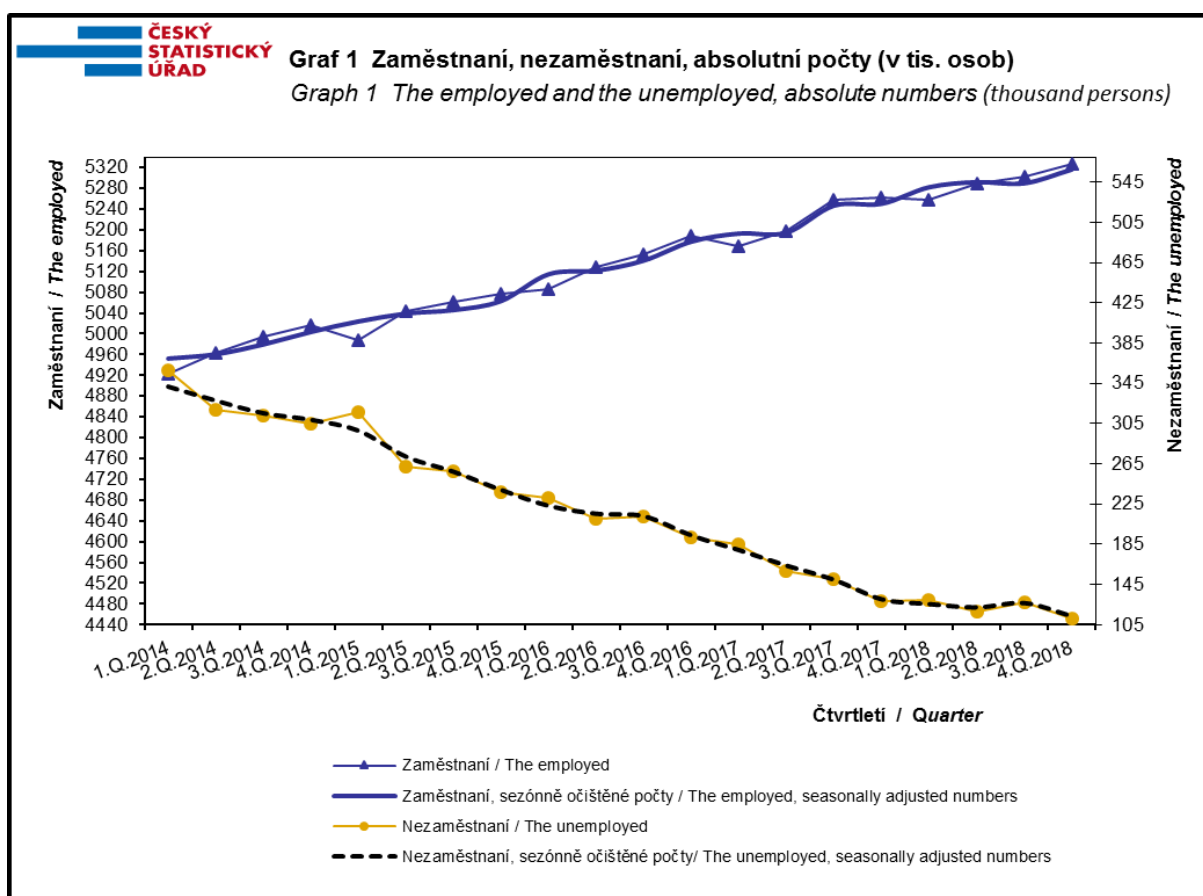
### **Rates of employment and unemployment**

Employment and unemployment rates are key economic indicators. In the Czech Republic, the unemployment rate measures the number of people actively looking for a job as a percentage of the labour force. The unemployment rate was very low in the Czech Republic in 2018. EU-28 unemployment was at 6.6% in December 2018, the lowest one since the start of the EU monthly unemployment series in January 2000 (Eurostat). The Czech Republic leads the Eurozone with job-vacancy rates registering at 5.4%. Belgium (3.5%), the Netherlands (3.1%) and Germany (2.9%) were top performers, while the lowest rates were seen in Greece (0.7%), Bulgaria, Spain, and Portugal (0.9% each). (Source: Eurostat, the second quarter).

According to the Czech Statistical Office the general unemployment rate of the aged 15–64 years (that means economically active persons, as percentage), seasonally adjusted, reached 1.9% in November 2018 and decreased by 0.5 p.p., year-on-year. The male unemployment rate, seasonally adjusted, attained 1.5%; the female unemployment rate reached 2.5%. The trend of increasing employment has not changed. At the end of the last year there were over three

quarters of the total number of persons in productive age working: the employment rate (persons in the age group 15–64 years), seasonally adjusted, reached 75.5% in November 2018 and increased by 1.1 percentage point (p.p.) compared to that in November 2017. The male employment rate was 82.0%; the female employment rate was 68.7%, both seasonally adjusted.

The chart below shows numbers of employed (blue) and unemployed (yellow) people since 2014:



Source: The Czech Statistical Office.

Eurostat in its press release publishes monthly unemployment rate, identical in terms of the methodology applied, but for the age group 15–74 years. In the Czech Republic, the general unemployment rate for 15–74 year olds in November 2018 was also 1.9%, (the data are based on the Labour Force Sample Survey results for the corresponding month).

## **Conclusion**

The unemployment rate is low for two main reasons. Firstly, jobs have been relatively easy to create because they are cheap and government incentives have made the Czech Republic attractive to global manufacturing companies (like Toyota, Peugeot, Citroën, Škoda, and Hyundai). Secondly, the Czech business cycle is closely connected to the economic health of the EU. According to the latest internationally comparable data, the Czech Republic still has the lowest unemployment rate not only among European Union countries but also among OECD states. A historically low unemployment rate in the Czech Republic and high number of vacancies on the local job market have been continuing trends in 2018.