

**EXECUTIVE
BOARD
MEETING**

SM/21/215
Supplement 2

January 14, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Czech Republic—Staff Report for the 2021 Article IV Consultation—Draft Press Release**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Monday, January 24, 2022**

Publication: Yes*

Questions: Mr. Segoviano, EUR (ext. 38558)
Mr. Tudyka, EUR (ext. 34767)
Mr. Ayerst, EUR (ext. 39509)

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.**



IMF Executive Board Concludes 2021 Article IV Consultation with Czech Republic

FOR IMMEDIATE RELEASE

Washington, DC – [January xx, 2022]: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Czech Republic.

The Czech Republic entered the pandemic on a solid economic footing with significant policy space. Real GDP declined by 5.8 percent in 2020 and is estimated to have rebounded by about 3 percent in 2021. Strong and swift policy support softened the downturn and helped protect people, businesses, and jobs. Inflation in 2021 reached elevated levels on the back of high energy prices, supply chain disruptions, and tight labor and housing markets. Macro-financial vulnerabilities stem largely from record house price and mortgage credit growth.

The risks to the outlook are tilted to the downside and clouded by unusually high uncertainty due to the ongoing spread of the Omicron variant and high infection rates. Nevertheless, the economy is projected to recover further in the coming years and growth is estimated to converge to about 2½ percent in the medium term. After significantly increasing in the first half of 2022, inflation is projected to converge back to the Czech National Bank's (CNB) 2 percent target by late 2023, assuming energy prices stabilize, supply disruptions ease, and higher policy rates reduce demand pressures.

Executive Board Assessment²

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¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Czech Republic: Selected Economic Indicators, 2018–26
(Annual percent change, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Staff projections								
NATIONAL ACCOUNTS									
Real GDP (expenditure)	3.2	3.0	-5.8	2.9	3.6	4.4	3.5	3.1	2.5
Domestic demand	4.8	3.2	-5.8	6.7	-0.3	4.0	3.6	3.2	2.6
Consumption	3.6	2.6	-4.0	4.4	3.6	2.8	2.6	2.6	2.2
Public	3.8	2.5	3.4	3.2	2.7	2.2	2.2	2.2	2.0
Private	3.5	2.7	-6.8	4.9	4.0	3.1	2.8	2.8	2.3
Investment	7.7	4.5	-10.2	12.6	-9.4	7.0	6.0	4.5	3.5
Exports	3.7	1.5	-6.9	5.2	9.3	3.2	2.6	2.6	2.5
Imports	5.8	1.5	-6.9	10.3	4.4	2.6	2.6	2.6	2.6
Contribution to GDP									
Domestic demand	4.5	3.0	-5.3	6.4	-0.6	3.7	3.3	2.9	2.4
Net exports	-1.3	0.0	-0.5	-3.5	4.2	0.7	0.2	0.2	0.1
Investment (percent of GDP)	26.3	27.1	26.2	28.9	25.3	25.8	26.2	26.5	26.6
Gross domestic investments (percent of GDP)	27.2	27.6	25.9	28.6	25.0	25.6	26.0	26.3	26.4
Gross national savings (percent of GDP)	27.6	27.9	29.5	28.4	25.9	26.4	26.8	27.1	27.2
Output gap (percent of potential output)	2.0	2.8	-1.0	0.0	0.3	0.2	0.1	0.0	0.0
Potential growth	3.1	2.2	(2.3)	1.9	3.3	4.6	3.6	3.3	2.5
LABOR MARKET									
Employment	1.4	0.2	-1.3	0.0	0.5	0.3	0.0	0.0	0.0
Total labor compensation	9.8	7.8	1.4	5.6	9.7	7.0	5.5	5.1	4.5
Unemployment rate (average, in percent)	2.2	2.0	2.5	2.9	2.5	2.3	2.3	2.3	2.3
PRICES									
Consumer prices (average)	2.1	2.8	3.2	3.6	5.6	2.3	2.0	2.0	2.0
Consumer prices (end-of-period)	2.0	3.2	2.3	5.3	4.1	2.0	2.0	2.0	2.0
Producer price index (average)	2.0	2.6	0.1	...	...	...	...	...	...
GDP deflator (average)	2.6	3.9	4.4	3.4	4.1	1.7	1.7	1.7	2.0
MACRO-FINANCIAL									
Money and credit (end of year, percent change)									
Broad money (M3)	6.3	6.4	10.0	...	...	...	...	...	...
Private sector credit	6.9	4.9	3.6	...	...	...	...	...	...
Interest rates (in percent, year average)									
Three-month interbank rate	1.3	2.1	0.9	...	...	...	...	...	...
Ten-year government bond	2.0	1.5	1.1	...	...	...	...	...	...
Exchange rate									
Nominal effective exchange rate (index, 2005=100)	101.5	100.9	99.7	...	...	...	...	...	...
Real effective exchange rate (index, CPI-based; 2005=100)	99.1	99.4	100.0	...	...	...	...	...	...
PUBLIC FINANCE (percent of GDP)									
General government revenue	41.5	41.4	41.6	40.2	40.3	40.3	39.8	39.5	39.4
General government expenditure	40.6	41.1	47.2	47.4	44.6	44.3	43.3	42.5	41.9
Net lending / Overall balance	0.9	0.3	-5.6	-7.2	-4.4	-3.9	-3.5	-3.0	-2.5
Primary balance	1.5	0.8	-5.0	-6.5	-3.6	-3.2	-2.7	-2.2	-1.8
Structural balance (percent of potential GDP)	0.2	-0.8	-5.1	-7.2	-4.5	-4.0	-3.5	-3.0	-2.5
General government debt	32.1	30.0	37.7	43.5	45.0	46.6	48.0	48.7	49.1
BALANCE OF PAYMENTS (percent of GDP)									
Trade balance (goods and services)	5.9	6.0	6.8	3.1	5.7	5.8	5.8	5.8	5.8
Current account balance	0.4	0.3	3.6	-0.2	0.8	0.8	0.8	0.8	0.8
Gross international reserves (billions of euros)	124.5	133.4	135.4	142.9	154.9	163.9	172.9	181.9	190.9
(in months of imports of goods and services)	10.0	10.5	11.8	10.3	10.3	10.5	10.7	10.7	10.9
(in percent of short term debt, remaining maturity)	118.9	129.9	141.1	140.9	144.6	150.2	154.0	156.8	158.4
MEMORANDUM ITEMS									
Nominal GDP (USD billions)	249.0	252.5	245.3	281.90	310.00	334.20	356.00	378.30	398.50
Population (millions)	10.6	10.6	10.7	10.7	10.8	10.8	10.8	10.8	10.8
Real GDP per capita	2.9	2.6	-6.2	2.5	3.3	4.3	3.4	3.1	2.5
GDP per capita (USD)	23,464	23,709	22,943	26,271	28,816.56	31,006.45	33,001.00	35,062.62	36,932.12

Sources: Czech National Bank; Czech Statistical Office; Ministry of Finance; Haver Analytics, and IMF staff estimates and projections. Structural balances are net of temporary fluctuations in some revenues and one-offs. COVID-related one-offs are however included.