

**EXECUTIVE
BOARD
MEETING**

SM/21/215
Supplement 3

January 14, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Czech Republic—Staff Report for the 2021 Article IV Consultation—
Supplementary Information**

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)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Forthwith—European Central Bank, European Commission After Board Consideration—European Bank for Reconstruction and Development, European Investment Bank, Food and Agriculture Organization, Organisation for Economic Cooperation and Development, United Nations Development Programme, World Trade Organization

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



CZECH REPUBLIC

January 14, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By

European Department

This supplement provides information that became available after the staff report was issued to the Executive Board on December 17, 2021. This supplementary information does not alter the thrust of the staff appraisal.

The new government was confirmed on January 12, 2022.

- 1. COVID infections have begun to slow down after peaking in late December 2021.** New infections peaked at over 20,000 average daily cases in early December and remained elevated throughout the holiday period. However, cases declined to about 6,000 average daily cases by January 10, 2022. While the level of recent infections dwarfs the previous maximum peak of around 12,000 average daily cases in Spring 2021, resurgent cases are accompanied by a much lower death rate, peaking at just over 100 average daily deaths, compared to previous infection waves, peaking at over 200 average daily deaths in Spring 2021.
- 2. Amid the high uncertainty brought by the Omicron variant, recent developments and data releases are in line with staff expectations regarding the outlook and balance of risks.** New data confirm a continued rebound in economic activity amid sustained inflation pressures. 2021:Q3 GDP growth was revised up slightly to 1.57 percent from 1.50 percent. Headline and core inflation increased further to 6.6 percent and 8.6 percent respectively in December 2021. Average headline and core inflation rates for 2021 were to 3.8 and 4.4 respectively and were driven mainly by rising imputed rents, service and energy prices. The general government fiscal deficit continued to decline and reached about 0.7 percent of GDP in 2021:Q3. While staff expects that stringent lock down measures that could impact the recovery will not be taken, a larger scale outbreak of infections due to the new Omicron variant continues to present risks to the downside.
- 3. On the back of persistently high inflation, the CNB undertook another sizeable increase in the policy rate.** The CNB increased the policy rate in December by 100 basis points to 3.75 percent and continued signaling further increases as needed.