

## 2.21. CZECHIA

Czechia's economy grew more moderately in 2019 than in previous years. Real GDP is estimated to have grown by 2.5% in 2019, mainly supported by domestic demand. As in 2018, private consumption increased strongly, bolstered by high wage growth, which is in turn a result of a persistently tight labour market. By contrast, industrial orders and production fell substantially, particularly in the second half of 2019, due to the slump in manufacturing activity in the main trading partners. This weighed on firms' profits, and, coupled with an uncertain external outlook, dragged down investment. Driven by the slowdown in investment and industrial production, imports — particularly of intermediate and capital goods — fell in the second half of 2019. In parallel, despite a drop in industrial production, exports continued to grow at a more moderate pace than 2018, as inventories declined. Consequently, net exports are expected to have contributed positively to GDP growth in 2019.

Real GDP growth is forecast to slow to 2.1% in 2020 and to reach 2.2% in 2021. Private consumption growth is forecast to weaken mildly in both 2020 and 2021, as wage growth moderates in view of a slightly less tight labour market. Moreover, weakened consumer confidence in recent months suggests a more subdued outlook for private consumption in the coming quarters. Government spending is expected to be strong, influenced by the approaching end of the current programming period of EU funds. Imports will likely remain weak in 2020 before recovering in 2021, in line with improved investment activity and prospects for the external environment. Meanwhile, export growth is also expected to moderate further in 2020 before picking up again in 2021. Thus, net trade will likely contribute positively to GDP growth over the forecast horizon.

HICP inflation picked up in the last months of 2019, reaching more than 3% in both November and December. This was the result of higher prices for services, energy and food, which raised the annual inflation rate to 2.6% in 2019. Inflation is expected to remain elevated in early 2020, driven by increases in administered prices and the impact of changes to indirect taxes. Nevertheless, inflation is likely to move towards the Czech National Bank's target in 2020 and 2021, reaching 2.4% and 2.0% respectively, as domestic demand slows, labour shortages ease, and the koruna appreciates.

