

2.21. CZECHIA

The strong second wave of the pandemic and related containment measures brought further disruptions to the economy in the first months of this year, leading to a 0.3% quarter-on-quarter GDP decline in the first quarter of 2021. Household consumption slightly declined and together with decreasing government consumption became the most important negative factors behind the decrease in economic activity. On the contrary, investment expenditure provided a positive surprise, growing by 1.6% quarter-on-quarter. Foreign demand developments remained favourable, however, the overall contribution of net exports was lower compared to the previous quarter mainly due to increased imports.

Czechia's economy has been recovering since the second half of April. Positive developments in the public health situation and rising foreign demand are reflected in the sentiment indicators for both households and firms. Private consumption is expected to remain the main driver of Czechia's economic recovery over the forecast horizon, reflecting the stable situation on the labour market, pent-up demand and the drawing down of accumulated excess savings. At the same time, supply chain disruptions due to the ongoing shortage of semi-conductors are weighing on Czechia's automotive sector production and exports. However, these disruptions are expected to be only temporary.

The country's Recovery and Resilience Plan is also set to strengthen private and public investment and thereby boost the economic recovery. In 2022, GDP growth will also be supported by the new EU funding cycle. Overall, GDP is forecast to increase by 3.9% in 2021 and by 4.5% in 2022. Towards the end of the forecast horizon, economic growth in Czechia is expected to reach its potential level.

Graph 2.21: Czechia-Real GDP growth and contributions

