

Press Release

The Czech economy will continue to flourish; growth, however, will slow down

Prague, 14 January 2016 – In 2016, the Czech economy will keep growing, although it will likely not keep up with last year's pace. Following the expected GDP increase of 4.7 percent in 2015, growth will slow down to 2.5 percent this year. In the 2017-2021 period, the average growth pace of the Czech economy will reach 2.2 percent. With respect to the strong economic link between the Czech Republic and the Eurozone, which is likely to keep growing at a rather slow pace, it will be difficult to achieve a markedly faster growth rate. Those are the conclusions shown by the new economic analysis by Deloitte.

"A moderate growth in the Eurozone, low global commodity prices, continuous very relaxed pricing policy of the Czech National Bank and slightly positive fiscal impulse considering the approved 2016 state budget parameters should be the main GDP development factors next year," said Miroslav Svoboda, Partner in Charge of the Financial Advisory function of Deloitte Czech Republic.

"The situation will not deteriorate dramatically; only that no special factors which supported last year's acceleration will contribute to the 2016 GDP growth. Given the importance of 2015's special factors, it is more appropriate to consider the years 2015 and 2016 as a whole, because the extraordinarily fast GDP growth of 2015 sets a high standard for 2016 and therefore, as a result, the 2016 GDP growth will be lower than it might have been," said David Marek, Deloitte's Chief Economist, and added that *"the average 2015-2016 GDP growth pace should achieve 3.6 percent. This figure is comparable to the outcome of other Central European economies."*

Short-term 2016 predictions in the Eurozone

- The economic situation in the Eurozone has stabilised; growth, however, will be sluggish;
- The risk is the impact of increasing Fed interest rates on developing markets and increased volatility on financial markets;
- Low commodity prices will provide stimulus for the global economy;
- In 2015-2016, the average GDP growth pace should reach 3.6 percent; and
- The average unemployment rate should decrease to 4.9 percent.

"Even though the economy has revived, inflation is still dormant. Low commodity prices are keeping inflation rates at close to zero. At the end of 2015, the overall inflation rate almost equalled zero, core inflation (excluding food and fuel prices, regulated prices and impacts of indirect tax rate changes) amounted to a little bit more than one percent," said David Marek.

The situation regarding fiscal policy will (for the time being) be very simple. Interest rates will change no sooner than 2017, more precisely, it is unrealistic to expect an increase of interest rates when the exchange-rate obligation announced by the Czech National Bank in November 2013 is still valid. The Czech National Bank's obligation to keep the Czech Crown

exchange rate at the level of at least 27 Crowns per Euro will be effective for the whole year, and the moment of exiting the exchange-rate obligation is likely to be postponed.

From a fiscal policy point of view, the debt of the government sector should stay at 40 percent of GDP, because the negative impact of the budget deficit will be offset by the positive influence of nominal GDP growth.

“It should also be added that the development of the debt is considerably encouraged by low interest rates. However, it is not possible to rely on extremely low interest rates or fast economic growth endlessly; in order to reach a sustainable state of public finance, in terms of stabilisation of the debt-to-GDP ratio, it will be necessary to keep lowering the state budget deficit,” added Miroslav Svoboda.

A relatively low indebtedness, planned decreasing of the government sector’s deficits and macroeconomic stability help maintain the Czech Republic’s stable rating. In order to achieve a better rating, fiscal discipline and increased economic productivity of the Czech Republic will be necessary.

Medium-term outlook (2017-2021)

- In 2017-2021, the global economy will grow at a pace of 3.9 percent;
- The 2017-2021 average GDP growth pace in the Czech Republic: 2.2 percent;
- GDP per capita in purchasing power parity in 2021: 88 percent of the EU average.

In the 2017-2021 period, the unemployment rate should on average amount to 5.3 percent. The total employment in absolute terms should, on average, represent 4.99 million persons, provided the slowly decreasing number of people in productive age will be compensated with increasing economic activity and employment. Average wages will keep growing by 4.5 percent nominally or by 2.7 percent in real terms.

The complete study entitled ‘**Czech Economic Outlook for 2016**’ is available at edu.deloitte.cz.

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