

FOCUS ON INTERNATIONAL TRADE

CZECH REPUBLIC

THE REPUBLIC OF CZECH REPUBLIC TODAY

Location	The Czech Republic lies in central Europe. It comprises the Czech Lands of Bohemia and Moravia and part of Silesia. Its neighbours are Poland to the north, Germany to the northwest and west, Austria to the south and Slovakia to the east.
Size	78,866 Sq. K.M. (30,450 Sq. miles)
Population	10,706,242 (estimated for 2023).
Birth rate	8.43 births/1000 population.(2023 estt.)
Death rate	10.77 deaths /1000 population (estt. 2023)
Population growth rate	0.00% (estt.2023)
Net migration rate	2.32 migrants/1000 population (estt. 2023)
Literacy rate	99% in 2011. Male 99%, Female 99%.
Capital City	Prague
Other Large Cities	Brno, Ostrava, Pizen, Olomouc, Liberec, Hradec, Kralove, Ceske Budejovice, Usti nad Labem, Pardubice, Havirov, Zlin.
Religion	The major religion is Christianity.
Language	The official language is Czech, a member of the west Slavonic group. There is a sizeable Slovak minority and also small polish, German, Silesian, Romany, Hungarian and other minorities.
Climate	The climate is continental, with warm summers and cold winters. The average mean temperature is 9°C (49°F).
International Relations	<p>In 1974 the German Federal Republic and the then Czechoslovakia annulled the Munich agreement of 1938. On 14 February 1997 the Czech parliament ratified a declaration of German Czech reconciliation, with particular reference to the Sudeten German problems.</p> <p>The Czech Republic is a member of the UN, WTO, BIS, NATO, OECD, Council of Europe, OSCE, CEFTA, CERN, CEI, IOM, and the Antarctic Treaty, and is an associate member of the EU and an associate partner of the WEU. The Czech Republic became a member of NATO on 12 March 1999. In January 1996 the Czech Republic applied to join the EU and is expected to become a member by 2004. In 2000 a visa requirement for Russians entering the country was introduced as one of the conditions for EU membership.</p>
Currency	The unit of currency is the karuna (CZK).

NATIONAL ECONOMY

Russia's war in Ukraine has stifled the Czech Republic's nascent recovery from the pandemic. Inflation is well above target, the labor market remains tight and vulnerabilities from a heated property market persist. Growth is projected to slow to 2.5 percent in 2022 and turn negative to around -0.5 percent in 2023 as households' purchasing power weakens, and firms rein in investment amidst higher uncertainty and falling consumer sentiment. Labor market tightness is expected to ease as the economy cools and Ukrainian refugees integrate into the labor force. Growth is projected to significantly rebound by end 2024 mainly driven by consumption and exports. In the near term, inflationary pressures are expected to be driven by external and domestic factors. Barring additional shocks, headline inflation is projected to achieve the policy target range during 2024, as the contractionary monetary policy actions taken by the CNB take effect.

Uncertainty is high due to the war with risks to economic activity tilted to the downside and risks to inflation tilted to the upside. The economy remains vulnerable to the availability of and further increases in energy and commodity prices. In the unlikely event of a disorderly house price correction, financial disruptions could impair banks' and households' balance sheets, potentially suppressing aggregate demand. The risk of inflation expectations becoming untethered or wage-price spirals forming are high. Depreciation pressures on the koruna could arise if the interest rate differential versus major central banks narrows as they tighten their monetary policies. On the other hand, an unexpected significant fall in global demand could cause a fall in external inflationary pressures.

Executive Board Assessment

In the course of Article IV consultation between IMF and Czech Republic, directors of the IMF commended as follows;-

The recovery from the pandemic is being hindered by the fallout from Russia's war in Ukraine, likely turning 2023 into a recession year. Uncertainty around the outlook is very high with risks to economic activity tilted to the downside and those for inflation to the upside.

Staff recommends further hikes to the policy rate in the short term to above the current level of the policy rate. While a careful balance between high inflation and weakening economic activity needs to be taken, priority should be given to decisively quell inflation. If inflation expectations become untethered, this would require a significantly higher tightening to restore price stability and thus entail more costly economic adjustments.

The contractionary fiscal stance is appropriate against the backdrop of high inflation and low unemployment, but previously-adopted untargeted support measures should be unwound to enhance policy space. The contractionary stance supports the overall policy mix by avoiding compounding inflationary pressures by adding to aggregate demand. While support for households and firms amidst the cost-of living crisis is justified, measures should be targeted, temporary, and preserve price signals. The PIT regime as well as the property transfer tax should be reinstated to pre-pandemic levels as soon as conditions allow, as untargeted policy support is unwarranted in the high-inflation environment. If increasing taxes in the current environment is not feasible, once the acute cost of living crisis wanes, the reintroduction of taxes could be undertaken in phases, while increasing the progressivity of the PIT and stepping up transfers for the vulnerable. The windfall tax can help offset the cost-of-energy relief measures, but its ad-hoc nature could disincentives investment by undermining tax certainty.

The retightening of borrower-based measures is welcome as these have helped to tame risk taking, but debt servicing capacity should be monitored. While retightened borrower-based measures are increasingly binding for a growing number of borrowers, close monitoring of debt-servicing is warranted, especially if further increases in interest rates materialize or continued increases in the cost of living further limit the ability to service debt. Further loosening or tightening of macro prudential measures may be needed conditional on market developments and risk-taking behavior.

Improvements in risk measurement across the cycle and for individual exposures should be considered. Staff welcomes the CNB's retightening of the countercyclical capital buffer rate and the development of

models to assess sectoral risk weights. However, leveraging information for corporates, staff recommends to further enhance models to improve the measurement of risk at the individual exposure level.

Structural policies should enhance labor supply while facilitating the green-digital transition and preserving long-term fiscal sustainability. The employment prospects for disadvantaged groups should be stepped up, while further integrating migrants, and Ukrainian refugees. Spending on Active Labor Market Policies (ALMPs), including reskilling and vocational training should be increased to facilitate job matching, and the cross-sectoral reallocation of workers. The implementation of the RRP would help build digital skills, while supporting the green transition, which would bolster energy security by increasing energy efficiency and the supply of renewables. Streamlining the business regulatory framework and simplifying construction permitting remain essential. Streamlining the business regulatory framework and simplifying construction permitting remain essential. Strengthening long-term fiscal sustainability hinges on linking the retirement age to life expectancy.

Czech Republic: Selected Economic Indicators, 2019–2027									
	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Staff projections					
National Accounts									
Real GDP (expenditure)	3.0	-5.5	3.5	2.5	-0.5	2.5	3.4	2.8	2.5
Domestic demand	3.2	-5.6	7.8	3.1	-4.4	1.2	3.2	2.6	2.5
Consumption	2.6	-4.1	3.3	-0.7	-1.4	3.8	2.6	2.2	2.2
Public	2.5	4.2	1.5	0.4	1.1	2.0	2.0	2.0	2.0
Private	2.7	-7.2	4.1	-1.2	-2.4	4.5	2.8	2.3	2.3
Investment	4.5	-9.3	19.0	11.5	-10.2	-4.0	4.5	3.5	3.0
Exports	1.5	-8.0	6.9	5.1	4.7	6.4	2.9	2.8	2.6
Imports	1.5	-8.2	13.3	4.4	1.1	5.2	2.6	2.6	2.6
Contribution to GDP									
Domestic demand	3.0	-5.1	7.9	1.9	-3.6	1.2	2.9	2.4	2.3
Net exports	0.0	-0.4	-4.3	0.6	3.1	1.4	0.5	0.4	0.2
Investment (percent of GDP)	27.1	26.5	26.0	24.4	25.1	25.3	25.3	25.4	25.6
Gross domestic investments (percent of GDP)	27.6	26.2	30.2	33.6	29.1	26.8	26.7	26.8	27.0
Gross national savings (percent of GDP)	27.9	28.1	29.3	29.6	28.2	28.0	29.0	29.2	29.5
Output gap (percent of potential output)	2.8	-0.6	1.0	0.5	-1.0	-0.4	0.0	0.0	0.0
Potential growth	2.2	-2.2	1.9	3.0	0.7	2.0	3.0	2.8	2.5
Labor Market									
Employment	0.2	-1.3	-0.6	0.5	-0.5	0.6	0.2	0.0	0.0
Total labor compensation	7.8	1.5	6.1	7.9	6.4	5.7	5.6	4.9	4.5
Unemployment rate (average, in percent)	2.0	2.5	2.8	2.5	3.1	2.5	2.3	2.3	2.3
Prices									
Consumer prices (average)	2.8	3.2	3.8	16.0	9.3	2.5	2.0	2.0	2.0
Consumer prices (end-of-period)	3.2	2.3	6.6	19.0	4.5	2.0	2.0	2.0	2.0

Producer price index (average)	2.6	0.1	7.2	...	...	...	...	...	...
GDP deflator (average)	3.9	4.3	3.3	9.7	8.4	3.2	2.6	1.8	1.5
Macro-Financial									
Money and credit (end of year, percent change)									
Broad money (M3)	6.4	10.0	6.8	...	...	...	...	...	...
Private sector credit	4.9	3.6	8.9	...	...	...	...	...	...
Interest rates (in percent, year average)									
Three-month interbank rate	2.1	0.9	1.1	...	...	...	...	...	...
Ten-year government bond	1.5	1.1	1.9	...	...	...	...	...	...
Exchange rate									
Nominal effective exchange rate (index, 2005=100)	100.9	99.7	103.6	...	...	...	...	...	...
Real effective exchange rate (index, CPI-based; 2005=100)	99.4	100.0	104.6	...	...	...	...	...	...
Public Finance (percent of GDP)									
General government revenue	41.3	41.5	41.4	41.7	42.9	41.5	40.8	40.7	40.7
General government expenditure	41.1	47.2	46.5	46.0	47.2	44.2	43.2	43.2	43.2
Net lending / Overall balance	0.3	-5.8	-5.1	-4.3	-4.3	-2.7	-2.5	-2.5	-2.5
Primary balance	0.8	-5.2	-4.5	-3.6	-3.4	-1.5	-1.3	-1.3	-1.3
Structural balance (percent of potential GDP)	-0.8	-5.5	-5.5	-4.5	-3.9	-2.5	-2.5	-2.5	-2.5
General government debt	30.0	37.7	42.0	41.8	43.7	44.1	44.2	44.9	45.9
Balance of Payments (percent of GDP)									
Trade balance (goods and services)	6.0	6.7	3.0	-1.9	2.4	4.4	5.5	5.8	5.4
Current account balance	0.3	2.0	-0.8	-4.0	-0.9	1.2	2.3	2.5	2.5
Gross international reserves (billions of euros)	133.4	135.4	153.3	151.3	160.3	169.3	178.3	186.3	192.3
(in months of imports of goods and services)	10.5	11.9	11.1	8.7	9.1	9.1	9.3	9.4	9.3
(in percent of short term debt, remaining maturity)	129.9	142.8	139.7	128.7	129.5	133.6	139.6	145.1	150.3
Memorandum Items									
Nominal GDP (USD billions)	252.5	246.0	281.8	293.08	309.08	325.81	339.00	346.89	350.65
Population (millions)	10.6	10.7	10.5	10.5	10.5	10.6	10.6	10.6	10.5
Real GDP per capita	2.6	-5.9	5.5	2.3	-0.7	2.2	3.4	2.8	2.5

GDP per capita (USD thousands)	23.71	23.00	26.85	27.85	29.32	30.88	32.12	32.87	33.24
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 and energy price-related one-offs are however included.									

“NATIONAL ECONOMY” is based on IMF Executive Board Concludes 2022 Article IV Consultation with the Czech Republic January 20, 2023.

FOREIGN TRADE

Czech Republic’s total exports in 2016 were of the order of US\$ 162,716 million. It increased to US\$ 192,566 million in 2020. Exports during the period from 2016 to 2020, in terms of percentage, grew highest (12.00%) in 2017 and fell maximum (-3.56%) in 2020 in comparison with 2016 and 2019 respectively. The annual average compound growth rate worked out at 4.30%.

Imports, on the other hand, were of the order of US\$ 170,992 million in 2020 while in 2016 it was US\$ 143,041 million. Imports during the period from 2016 to 2020, in terms of percentage, grew highest (14.21%) in 2017 and fell maximum (-4.78%) in 2020 as compared to 2016 and 2019 respectively. The annual average compound growth rate worked out at 4.56%.

Volume of trade registered an annual average (compound) rate of growth of 4.42% from US\$ 305,757 million in 2016 to US\$ 363,558 million in 2020.

Czech Republic enjoyed a surplus balance of trade payment during the said period.

Czech Republic’s export and import, volume and balance of trade between 2016 and 2020 along with their growth rates are given in **Table-I**.

A memorandum envisaging a customs union and close economic co-operation was signed with Slovakia in October 1992. An agreement of December 1992 with Hungary, Poland and Slovakia abolished Tariffs on raw materials and goods; where exports do not compete directly with locally produced items, and envisages tariff reductions on agricultural and industrial goods in 1995-97.

Major trading commodities in 2004 were food and live animals, crude materials (inedible) except fuels, mineral fuels, lubricants etc., chemicals and related products, basic manufactures, machinery and transport equipment, miscellaneous manufactured articles etc. and the main trading partners were Austria, China PR, France, Germany, Hungary, Italy, Japan, Russia, Slovakia, UK, USA etc.

There are main civil airports at Prague (Ruzyne), Brno, Karlovy Vary and Ostrava, operated by the Czech Airport Administration. The opening of a new terminal at Ruzyne in November 1997 increased the airport’s capacity from 2.3m passengers to 4.8m. The national carrier is Czech Airlines, which is 68.1% state-owned.

Since August 1997 no ships have operated under the Czech flag. All Czech-owned ships operate under the Maltese and Cypriot flags.

BILATERAL TRADE WITH INDIA

Indo-Czech Republic bilateral trade in 2017-18 was of the order of Rs.6,928.42 crores. It increased to Rs.9,098 crores in 2021-22. The annual compound growth rate of volume of trade during the period from 2017-18 to 2021-22 was 7.05%. India faced a deficit balance of trade in 2017-18 of the said period (**see table II**). The average annual compound growth rates of exports and imports worked out at 15.73% and 0.54% respectively.

India's exports to, and imports from Czech Republic of Merchandise Goods between 2017-18 and 2021-22 with their growth rates are presented in **Table II**.

India's top ten merchandise goods exported to and imported from Czech Republic, during 2017-18 to 2021-22, along with their growth rates are depicted in **Table III & IV** respectively.

Some Important Links

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Names and addresses of the organizations engaged in Foreign Trade in Czech Republic are:-

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Sources

**The Statesman Year Book, the Europa World Year Book,
ITC, Monthly Bulletin on Statistics UN Publication, IMF,
the World Fact Book, Visa HQ, World Development Indicator,
MEA and D.G.C.I & S etc.**

NOTICE

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TABLE - I**CZECH REPUBLIC'S TOTAL EXPORTS AND IMPORTS, VOLUME AND BALANCE OF TRADE****BETWEEN 2016 TO 2020.**

(Figures in US MILLION DOLLARS)

<i>Year</i>	<i>Exports</i>	<i>Percentage Growth in Exports</i>	<i>Import</i>	<i>Percentage Growth in Imports</i>	<i>Volume of Trade</i>	<i>Percentage Growth in Vol. of Trade</i>	<i>Balance of Trade</i>
2016	162716		143041		3,05,757		19675
2017	182237	12.00	163370	14.21	3,45,607	13.03	18867
2018	202749	11.26	185099	13.30	3,87,848	12.22	17650
2019	199677	-1.52	179569	-2.99	3,79,246	-2.22	20108
2020	192566	-3.56	170992	-4.78	3,63,558	-4.14	21574
Annual Compound Growth Rate	4.30		4.56		4.42		
NOTE :	Figures relate to calendar year, January to December.						
SOURCE :	UN COMTRADE PUBLICATION						

TABLE - II**INDIA'S EXPORT TO AND IMPORT FROM CZECH REPUBLIC MERCHANDISE****GOODS DURING 2017-2018 TO 2021-2022****(Value in Rs. CRORES)**

Year	Exports	Percentage Growth in Exports	Import	Percentage Growth in Imports	Volume of Trade	Percentage Growth in Vol. of Trade	Balance of Trade
2017-18	2613.02		4315.40		6928.42		-1702.38
2018-19	3003.26	14.93	1807.71	-58.11	4810.97	-30.56	1195.55
2019-20	3519.92	17.20	2127.48	17.69	5647.40	17.39	1392.44
2020-21	3593.56	2.09	2906.22	36.60	6499.78	15.09	687.34
2021-22	4688.14	30.46	4409.90	51.74	9098.04	39.97	278.24
Annual Compound Growth Rate	15.73		0.54		7.05		
NOTE :	Figures relate to Financial Year April to March.						
SOURCE :	Directorate General of Commercial Intelligence & Statistics, Ministry of Commerce & Industry, Kolkata 700 107.						

TABLE -III										
INDIA'S MAJOR MERCHANDISE EXPORT TO CZECH REPUBLIC										
2017-2018 TO 2021-2022 AND THEIR GROWTH RATES										
(Value in Rs. CRORES)										
Sl. No.	Name of the Merchandise Commodities	Value of Exports					Annual Growth Rates			
		2017-18	2018-19	2019-20	2020-21	2021-22	18-19 over 2017-18	19-20 over 2018-19	20-21 over 2019-20	21-22 over 2020-21
1	Telecom Instruments	4.40	32.39	368.08	390.09	799.73	636.14	1036.40	5.98	105.01
	Share in total export	0.17	1.08	10.46	10.86	17.06				
2	Products Of Iron And Steel	418.60	440.79	403.47	340.89	423.24	5.30	-8.47	-15.51	24.16
	Share in total export	16.02	14.68	11.46	9.49	9.03				
3	Auto Components/Parts	101.91	154.38	241.36	325.69	421.70	51.49	56.34	34.94	29.48
	Share in total export	3.90	5.14	6.86	9.06	9.00				
4	Drugs Formulations, biologicals	260.40	307.83	419.71	404.05	352.33	18.21	36.34	-3.73	-12.80
	Share in total export	9.97	10.25	11.92	11.24	7.52				
5	Electric Machinery And Equipments	220.16	264.69	203.78	175.50	335.15	20.23	-23.01	-13.88	90.97
	Share in total export	8.43	8.81	5.79	4.88	7.15				
6	RMG Cotton Incl. Accessiries	294.63	291.38	304.05	264.86	272.44	-1.10	4.35	-12.89	2.86
	Share in total export	11.28	9.70	8.64	7.37	5.81				
7	Indl. Machinery For Dairy Etc.	52.97	67.11	152.13	140.20	201.29	26.69	126.69	-7.84	43.57
	Share in total export	2.03	2.23	4.32	3.90	4.29				
8	Electronic Instruments	68.87	86.36	80.94	90.77	126.43	25.40	-6.28	12.14	39.29
	Share in total export	2.64	2.88	2.30	2.53	2.70				
9	Residual Chemicals And Alld. Prodct.	144.86	163.95	195.33	148.01	122.44	13.18	19.14	-24.23	-17.28
	Share in total export	5.54	5.46	5.55	4.12	2.61				
10	Electronic Components	51.98	59.17	50.00	51.01	121.65	13.83	-15.50	2.02	138.48
	Share in total export	1.99	1.97	1.42	1.42	2.59				
	Total export to CZECH REPUBLIC	2613.02	3003.26	3519.92	3593.56	4688.14	14.93	17.20	2.09	30.46
NOTE : Figures relate to Financial Year, April to March.										
SOURCE : Directorate General of Commercial Intelligence & Statistics, Ministry of Commerce & Industry, Kolkata : 700 107.										

TABLE -IV										
INDIA'S MAJOR MERCHANDISE IMPORT FROM CZECH REPUBLIC										
2017-2018 TO 2021-2022 AND THEIR GROWTH RATES										
(Value in Rs. CRORES)										
Sl. No.	Name of the Merchandise Commodities	Value of Imports					Annual Growth Rates			
		2017-18	2018-19	2019-20	2020-21	2021-22	18-19 over 2017-18	19-20 over 2018-19	20-21 over 2019-20	21-22 over 2020-21
1	Auto Components/Parts	876.97	81.90	229.28	444.93	1422.61	-90.66	179.95	94.06	219.74
	Share in total imports	20.32	4.53	10.78	15.31	32.26				
2	Indl. Machinery For Dairy Etc.	545.80	205.27	178.82	193.32	311.89	-62.39	-12.89	8.11	61.33
	Share in total imports	12.65	11.36	8.41	6.65	7.07				
3	Electric Machinery & Equipments	251.04	149.91	161.42	133.37	238.33	-40.28	7.68	-17.38	78.70
	Share in total imports.	5.82	8.29	7.59	4.59	5.40				
4	IC Engine And Parts	426.98	105.27	107.93	295.41	231.24	-75.35	2.53	173.71	-21.72
	Share in total import	9.89	5.82	5.07	10.16	5.24				
5	Pump Of All Types	96.10	101.28	109.20	347.15	207.39	5.39	7.82	217.90	-40.26
	Share in total import	2.23	5.60	5.13	11.95	4.70				
6	Other Misc.Engineering Items	197.18	76.47	67.14	98.14	155.85	-61.22	-12.20	46.17	58.80
	Share in total import	4.57	4.23	3.16	3.38	3.53				
7	Rubber Prods. Excpt. Footwr.	86.01	61.58	50.00	76.75	152.43	-28.40	-18.80	53.50	98.61
	Share in total import	1.99	3.41	2.35	2.64	3.46				
8	Railway Transport Equipments	43.62	37.31	85.28	112.45	148.14	-14.47	128.57	31.86	31.74
	Share in total import	1.01	2.06	4.01	3.87	3.36				
9	Project goods	83.56	25.14	107.74	3.82	145.64	-69.91	328.56	-96.45	3712.57
	Share in total import	1.94	1.39	5.06	0.13	3.30				
10	Bulk Drugs/Drugs Intermediates	43.46	53.95	81.52	98.55	120.09	24.14	51.10	20.89	21.86
	Share in total import	1.01	2.98	3.83	3.39	2.72				
	Total import from CZECH REPUBLIC	4315.40	1807.71	2127.48	2906.22	4409.90	-58.11	17.69	36.60	51.74
	NOTE	: Figures relate to Financial Year, April to March.								
	SOURCE	: Directorate General of Commercial Intelligence & Statistics, Ministry of Commerce & Industry, Kolkata : 700 107.								