



# OECD ECONOMIC SURVEY OF THE CZECH REPUBLIC

*04 December 2020, Prague and Paris*

## Advancing reforms to boost the recovery

[www.oecd.org/economy/czech-republic-economic-snapshot/](http://www.oecd.org/economy/czech-republic-economic-snapshot/)



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## Key messages

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Continue to support households and businesses.  
Gradually shift towards facilitating resource reallocation.

Improve the business environment and boost R&D investment to foster productivity growth.

Raise labour-market participation of mothers with young children and improve education and training of the disadvantaged.

Make local government less fragmented to deliver public services more effectively.

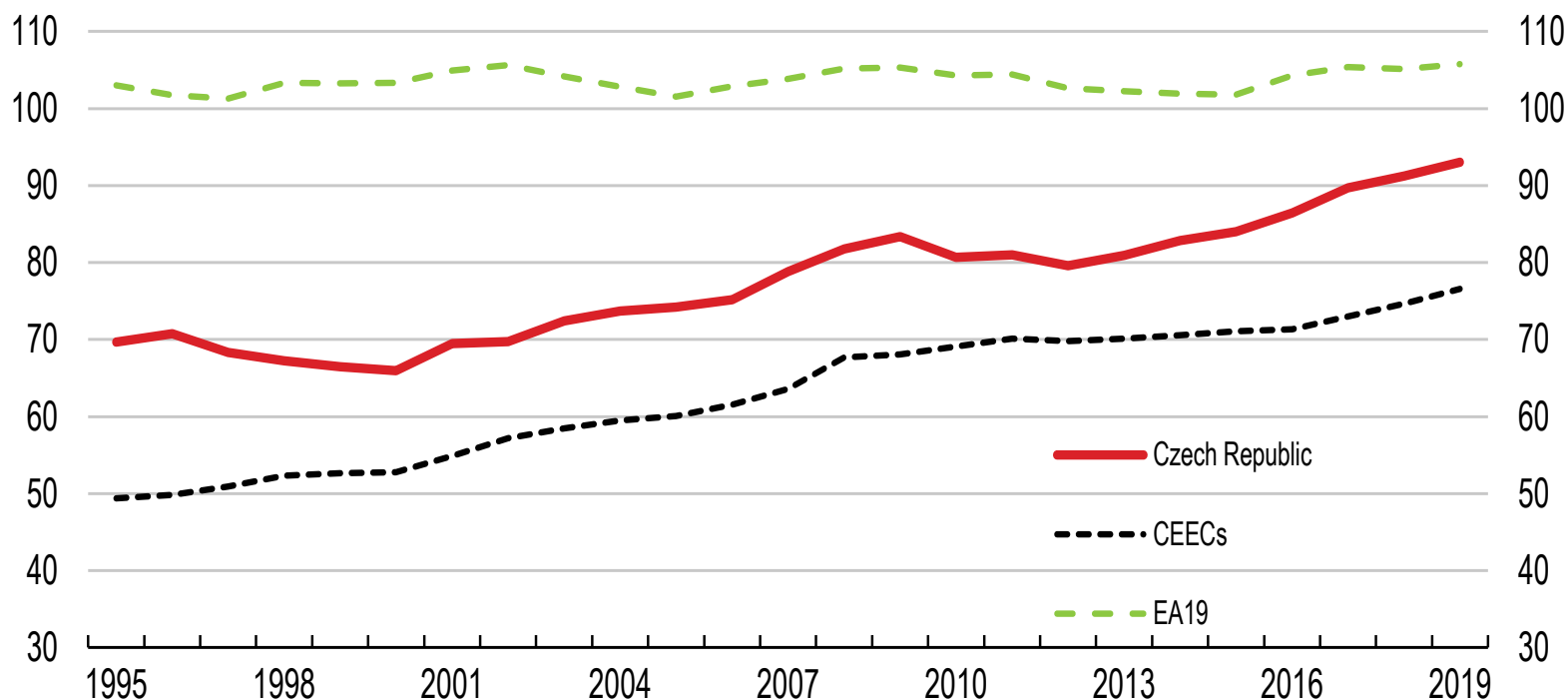


# **Supporting the economy to exit the crisis**



# The crisis interrupted an impressive convergence

**GDP per capita**  
USD, current prices, current PPPs, OECD = 100



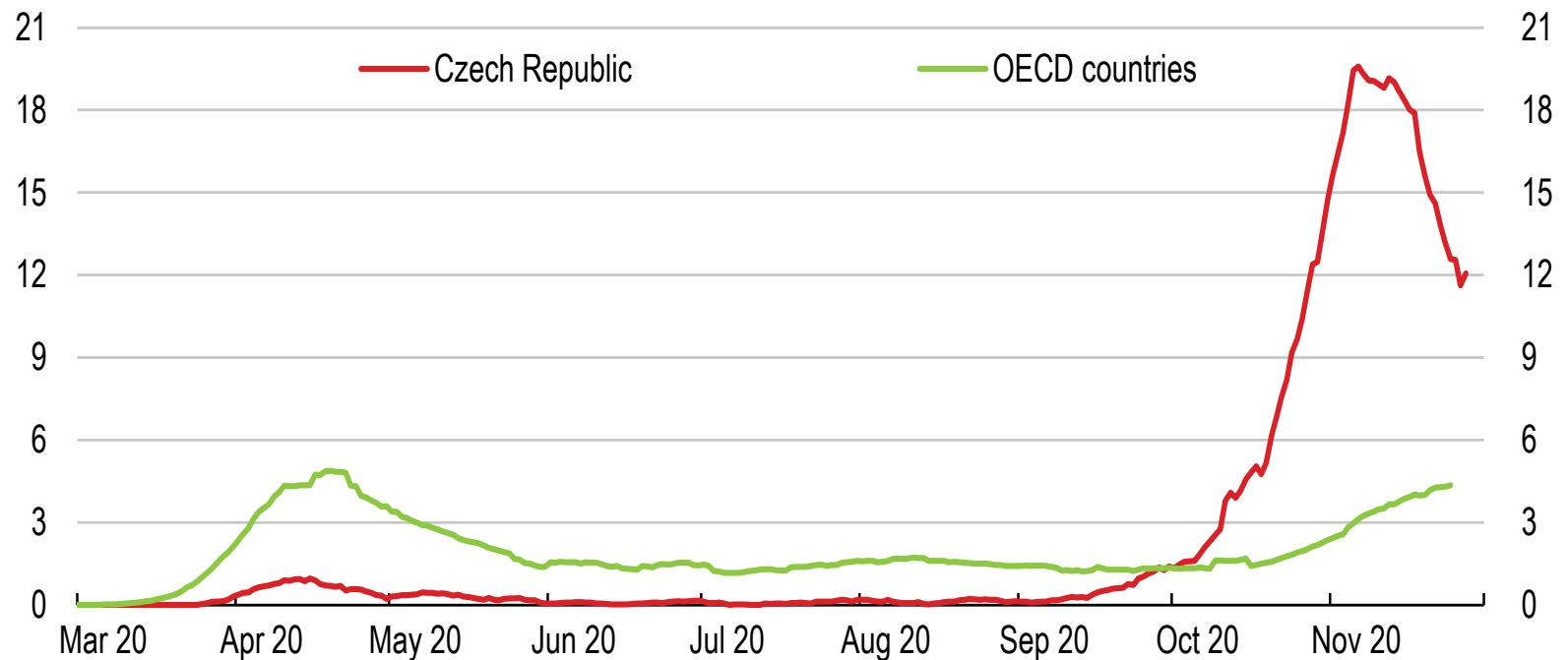
Note: CEECs include Hungary, Poland, Slovak Republic and Slovenia.

Source: OECD Productivity database.



# The Czech Republic has experienced a strong second wave

## Daily COVID-19 related deaths Per million inhabitants, 7-day moving average

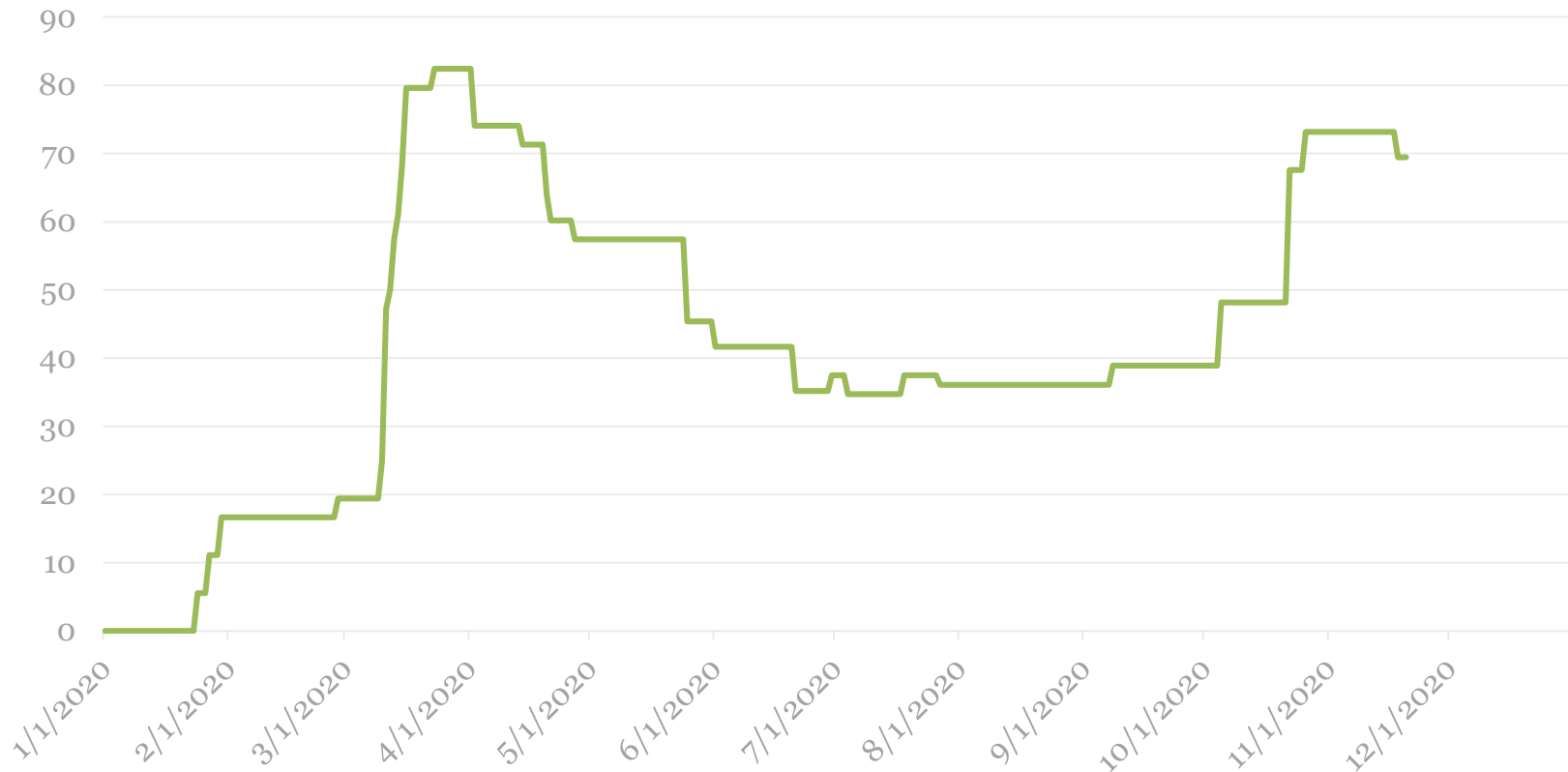


Source: OECD calculations based on European Centre for Disease Prevention and Control (ECDC).



# Strict containment measures were reintroduced

## The Oxford stringency index

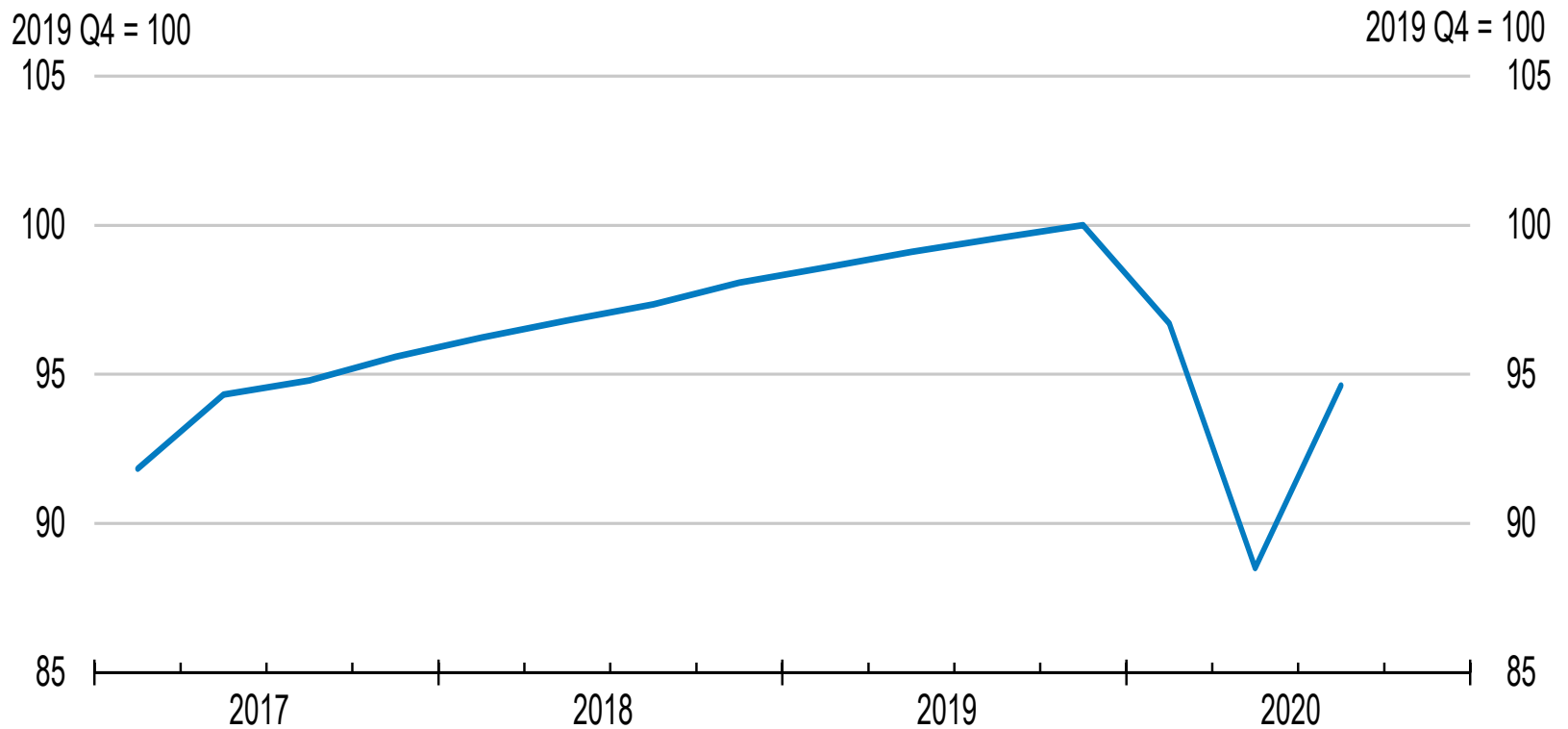


Note: The aggregate stringency index produced by the Oxford Blavatnik School of Government records the strictness of containment measures.



# The economy contracted sharply

## Real GDP



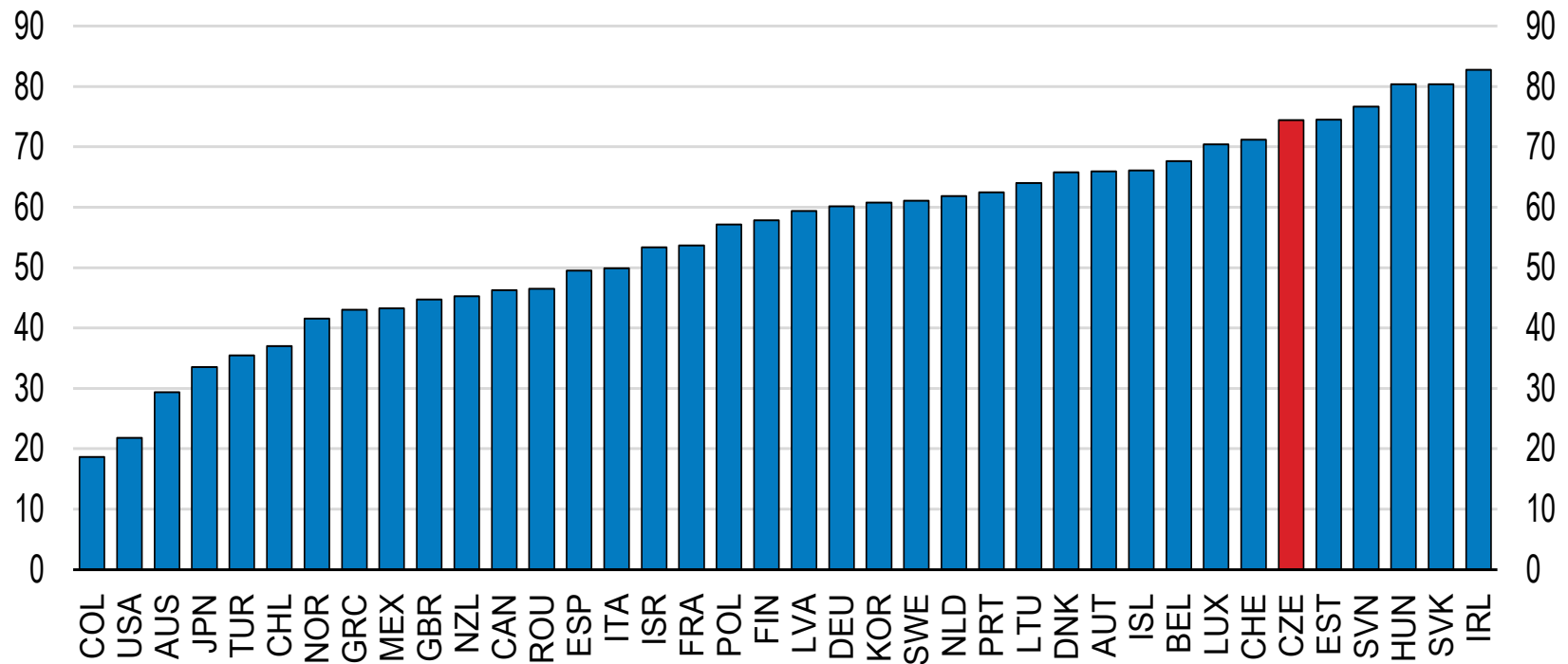
Source: OECD QNA database.



# The economy is exposed to global shocks

## Vulnerability to foreign demand

Share of domestic value added in foreign final demand, %, 2015

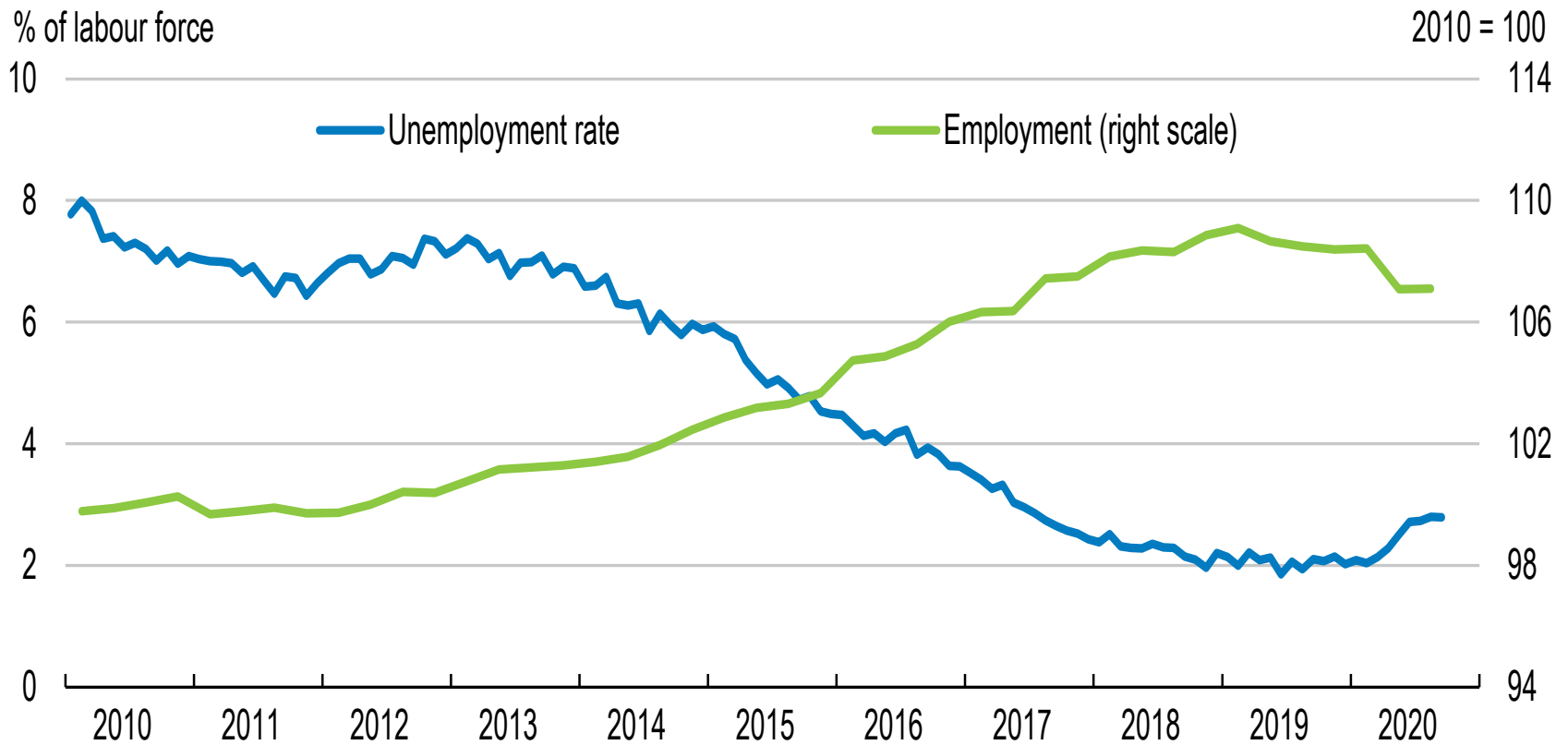


Source: OECD Trade in Value Added (TiVA) database.





# Unemployment is rising

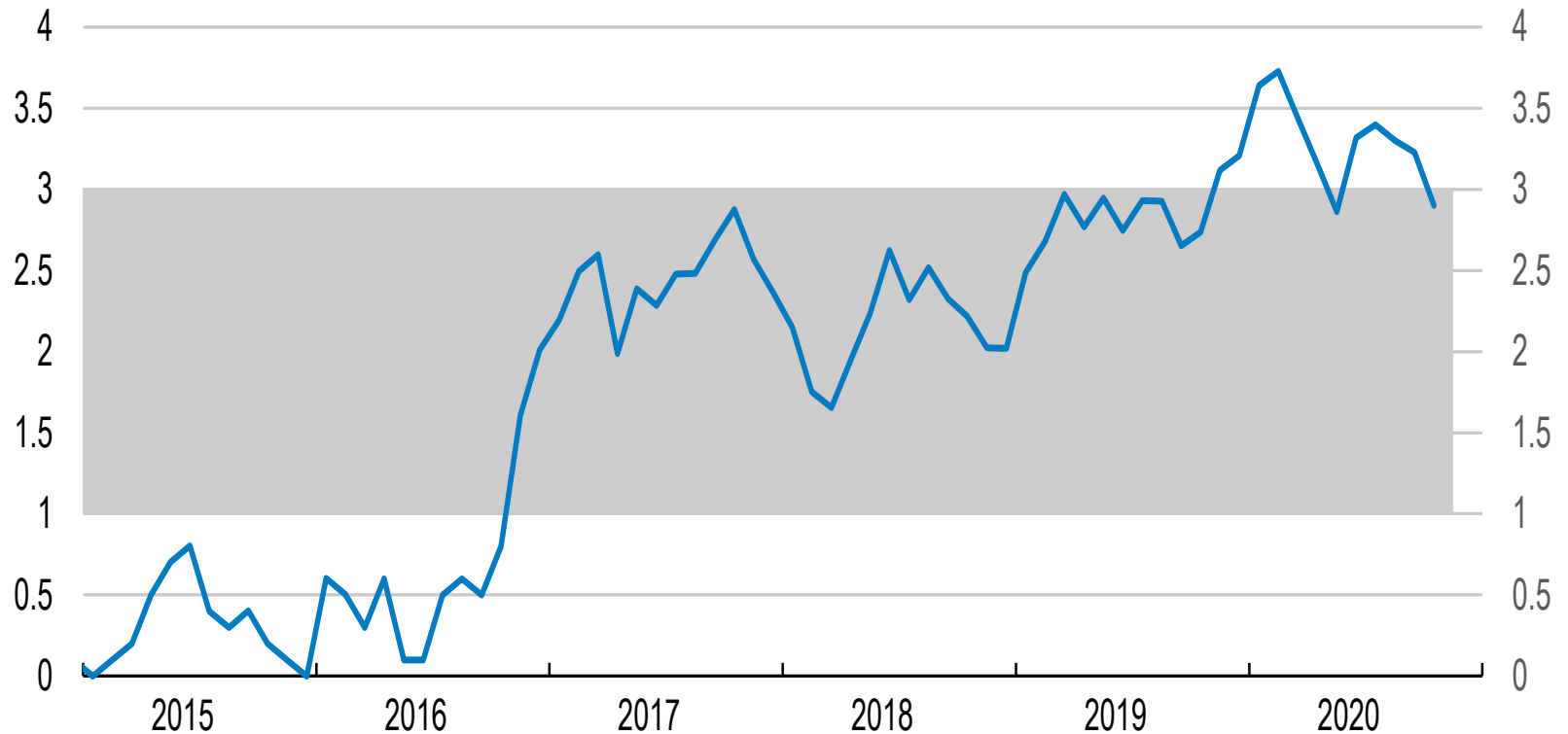


Source: OECD Economic Outlook database; Czech Statistical Office.



# Inflation remains elevated

## Headline CPI Y-o-y % change

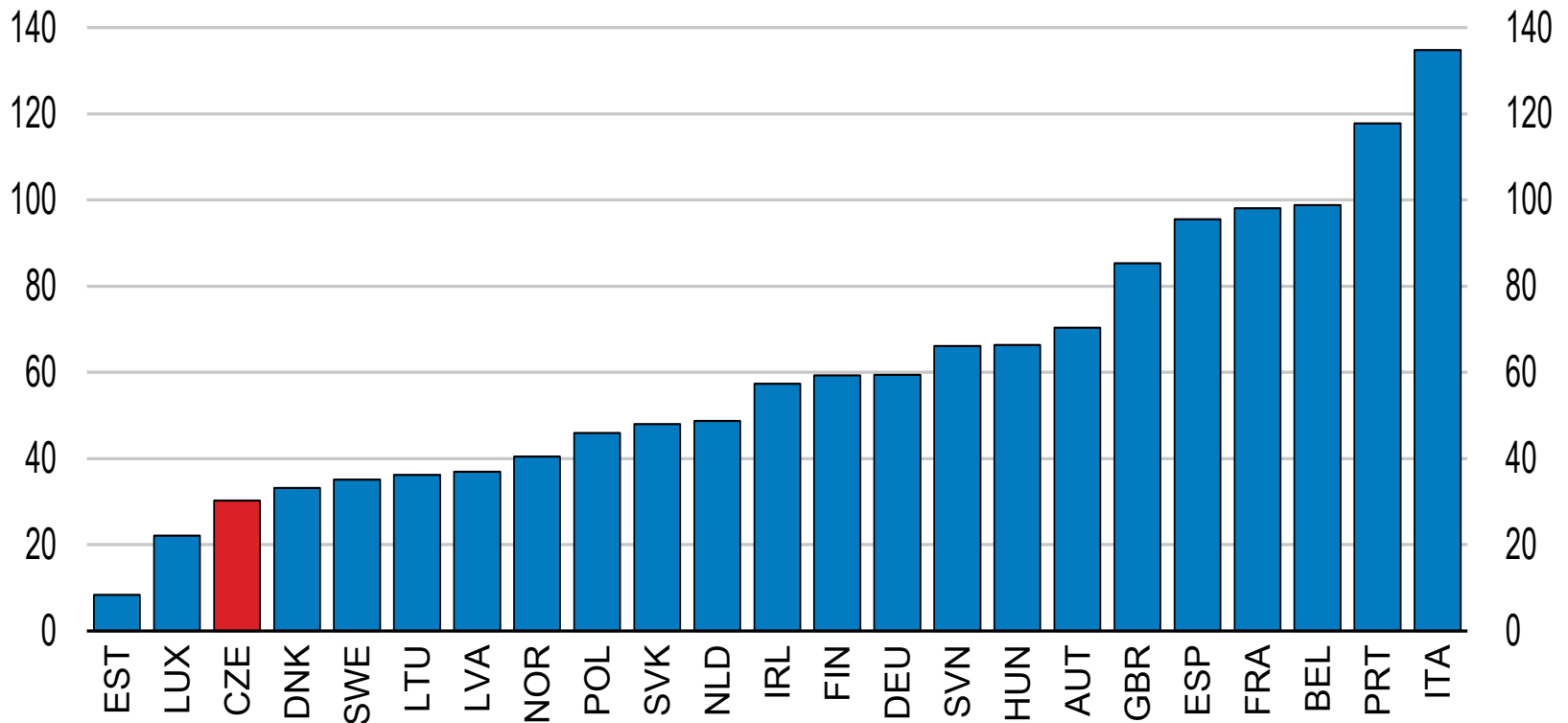


Source: OECD Economic Outlook database.



# There is ample fiscal space to tackle the crisis

## Public debt Maastricht definition, % of GDP, 2019

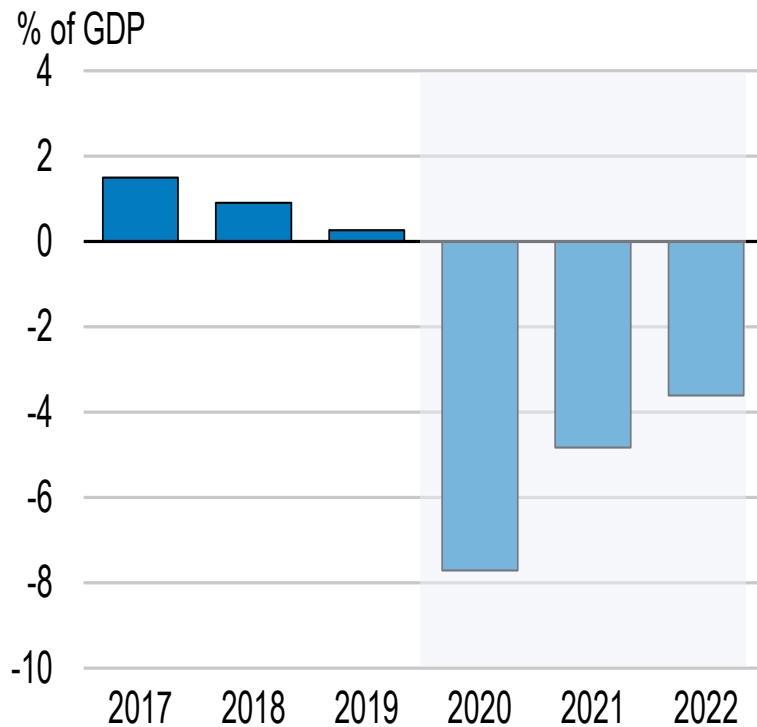


Source: OECD Economic Outlook 108 database.

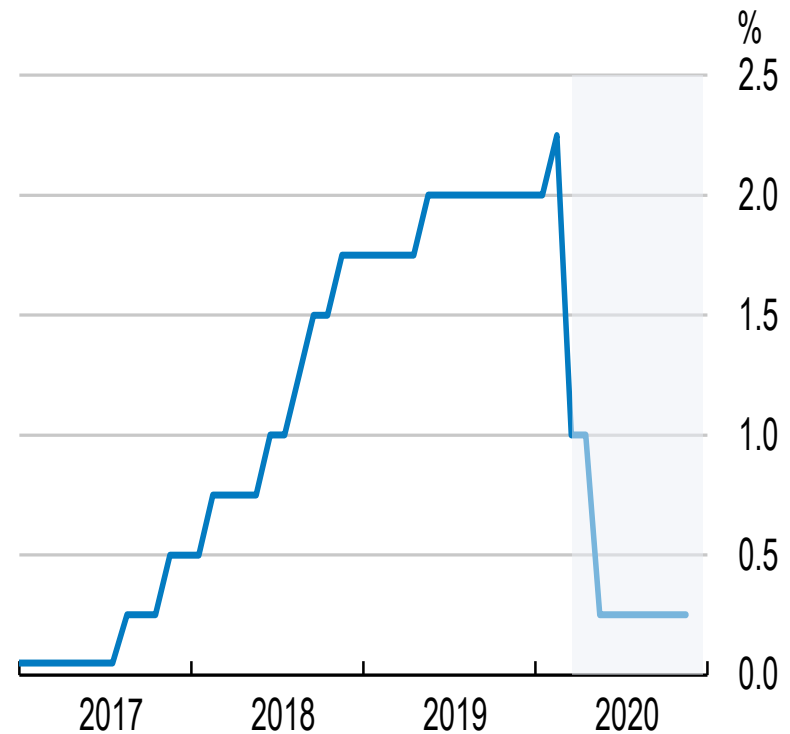


# Fiscal and monetary policies eased markedly

## General government financial balance



## Two weeks repo rate

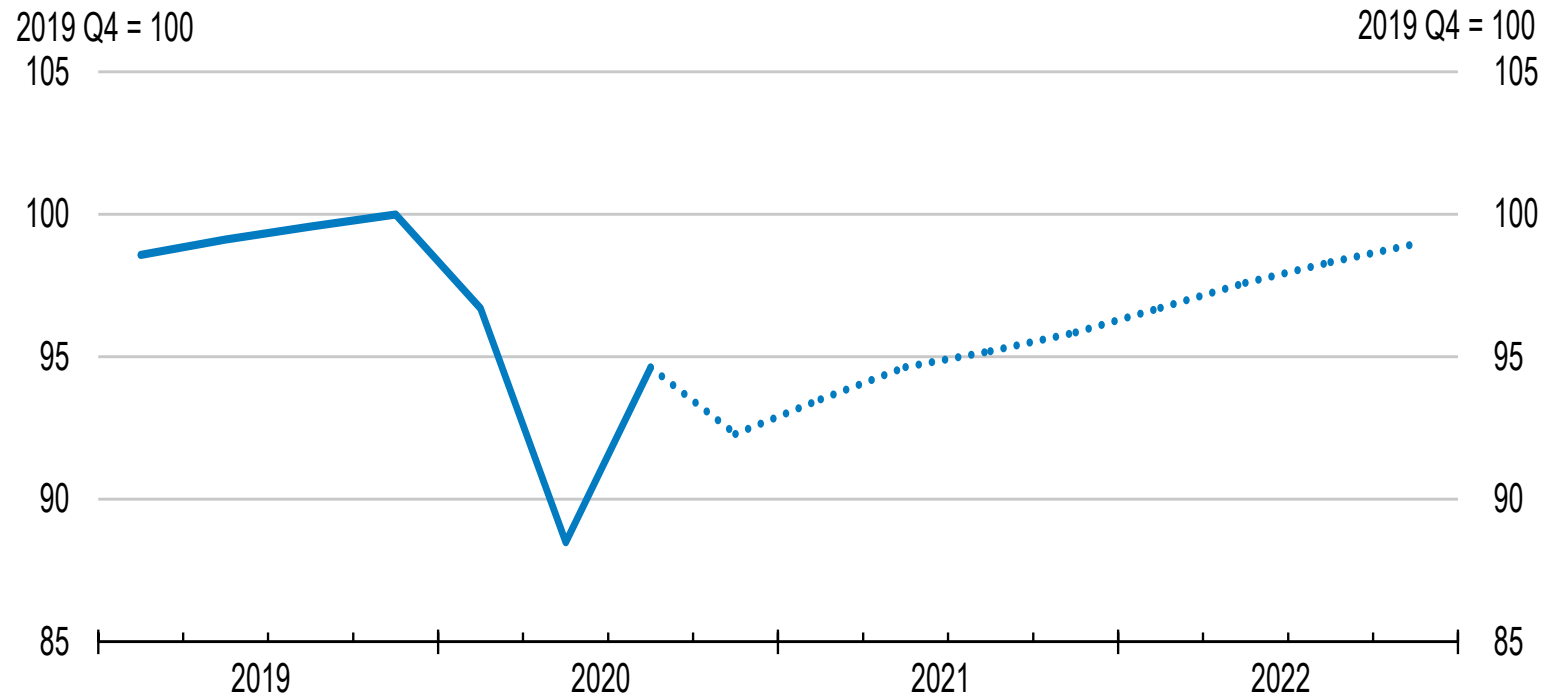


Note: OECD estimates and projections for the 2020-22 period.



# The recovery is expected to be slow

## Real GDP

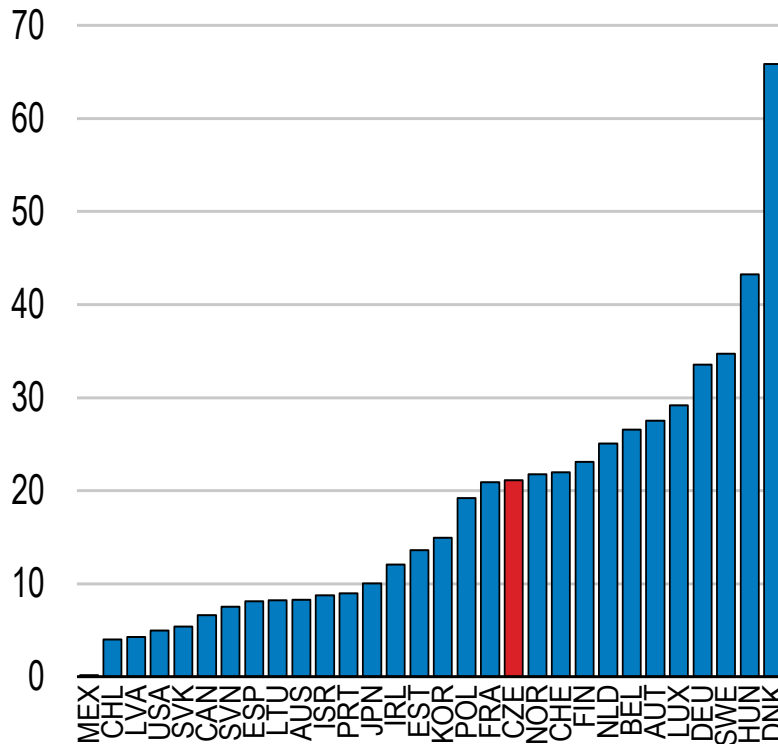


Source: OECD Economic Outlook 108 database (updated with available information as of December 1st).

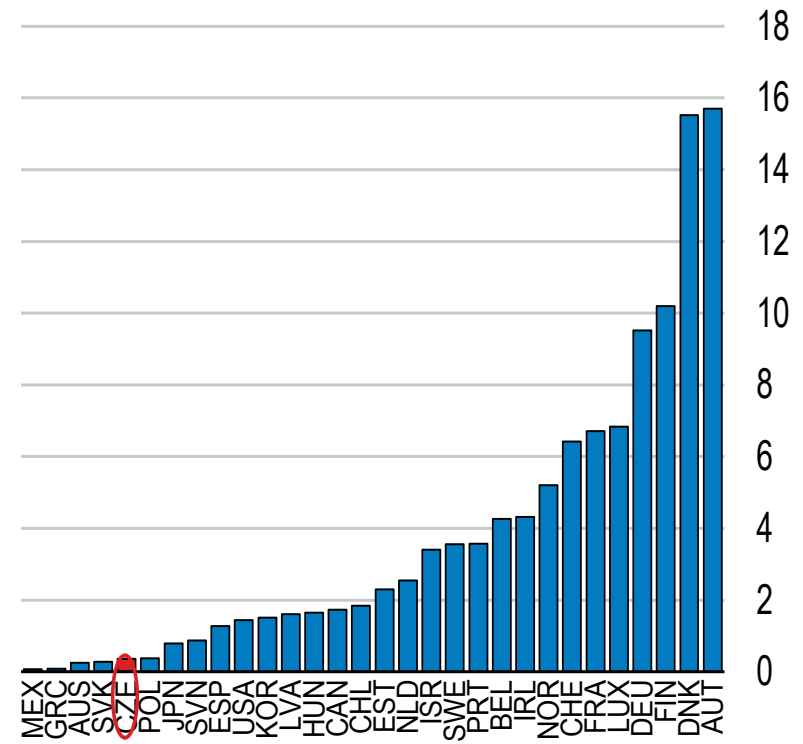


# Spending on training and job support can be increased

**Active Labour Market Policies -  
spending per unemployed  
% of GDP per capita, 2017**



**Training programmes – spending per  
unemployed  
% of GDP per capita, 2017**



Source: OECD Labour Force Statistics; OECD Key Short-Term Economic Indicators; OECD Economic Outlook database.



## Main policy recommendations to promote economic stability

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- If weakness persists and inflation pressures are low, **further reduce interest rates and the countercyclical capital buffer. Consider undertaking asset purchases.**
- **Be ready to continue providing fiscal support** until the economic recovery fully sets in. Allow for flexibility in the planned fiscal consolidation given economic conditions.
- **Boost well-targeted active labour market policies** while phasing out job retention schemes in a timely manner.



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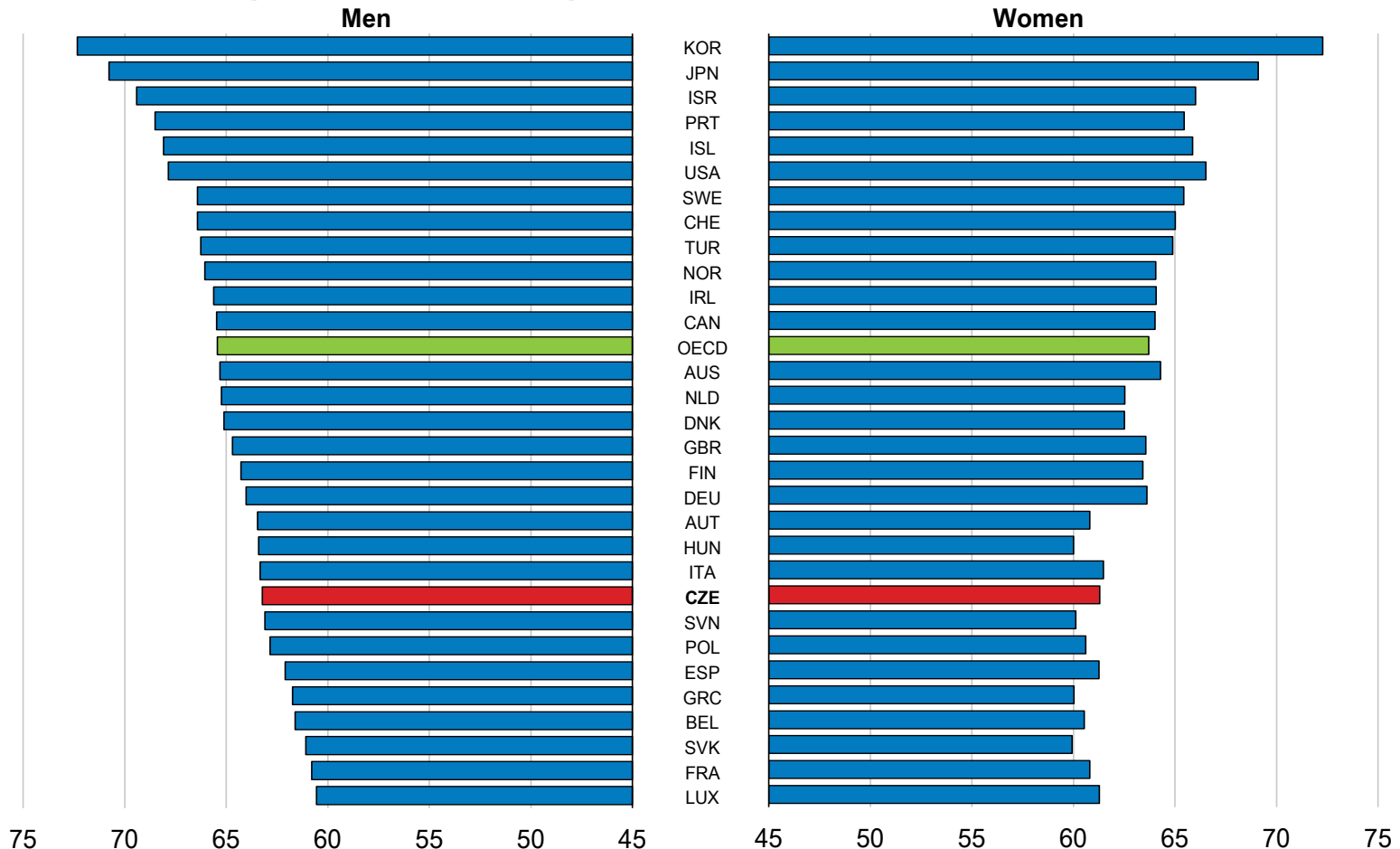
# **Addressing long-term fiscal sustainability challenges**





# Czech workers retire early

## Average effective age of labour-market exit, 2018



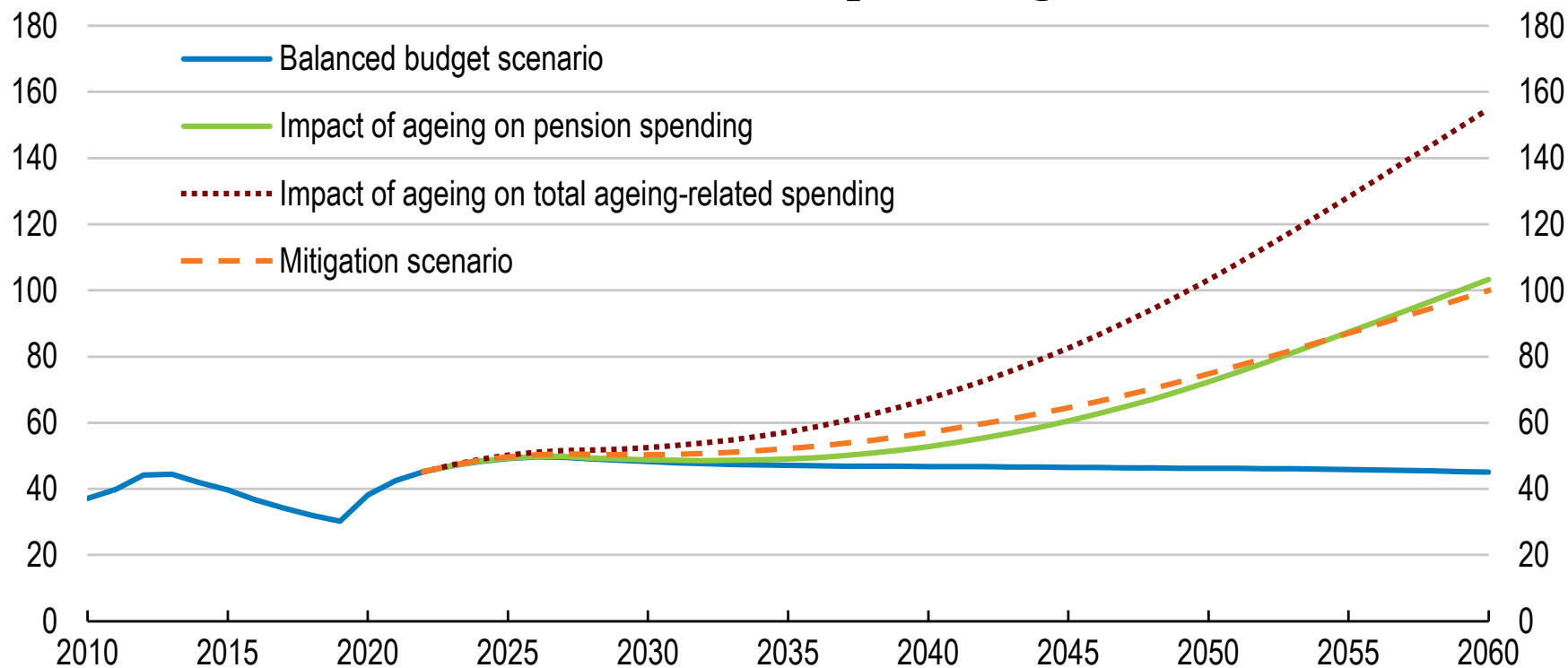
Note: Effective retirement age shown is for five-year period 2013-18

Source: OECD (2019), Pensions at a Glance 2019.



# Ageing will exert strong pressures on public finances

## General government debt Maastricht definition, as a percentage of GDP



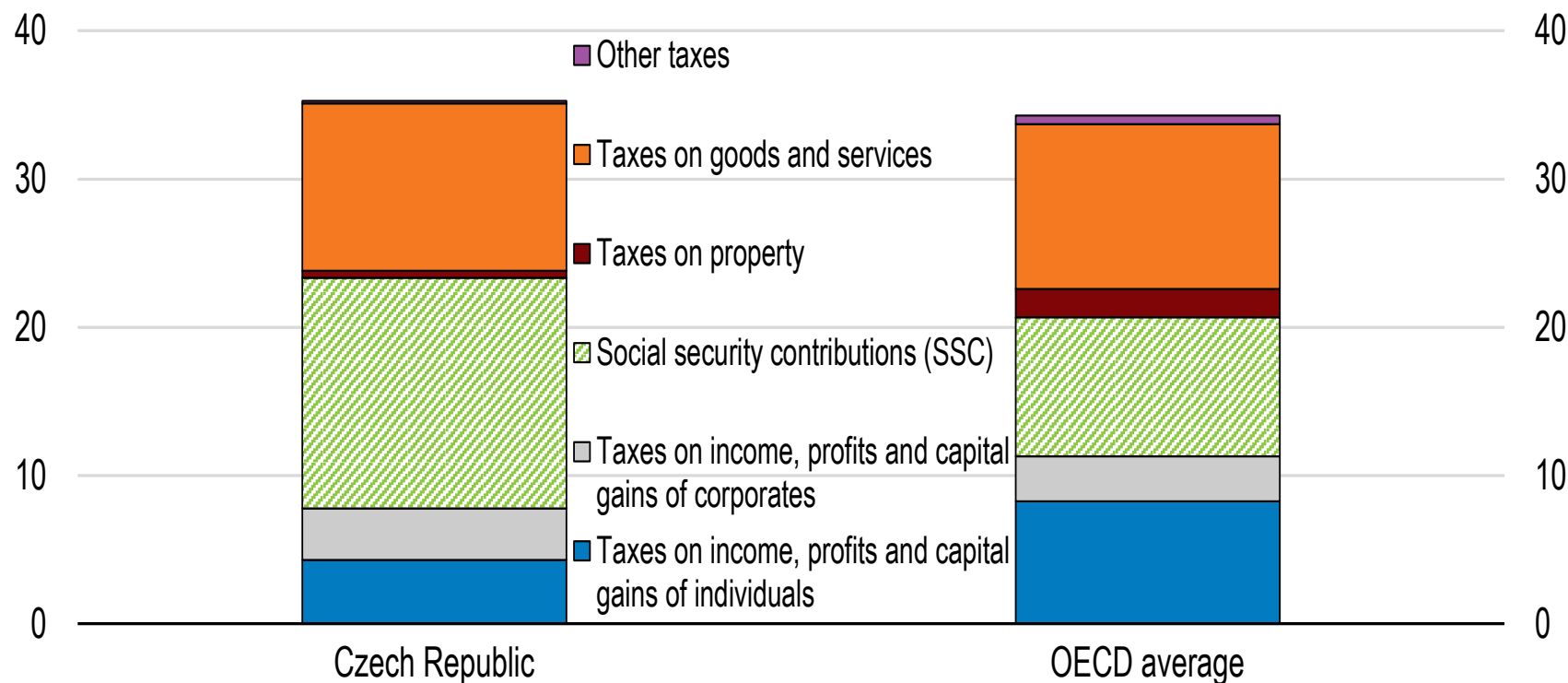
Note: Scenarios consist of projections for the Economic Outlook until 2022, after which the economy is assumed to grow as projected in the OECD Long-term model. In the Balanced budget scenario, the primary balance is assumed to reach a balance in 2028 and remain at zero thereafter. The “impact of ageing on pension spending” scenario assumes that increases in pension spending are financed through deficits. The “impact of ageing on total ageing-related spending” scenario adds together the impact of ageing on pensions, health and long-term care. These scenarios are based on the 2018 Ageing Report by the European Commission combined with the economic developments in the OECD Long-term model. The “mitigation” scenario assumes that half of the ageing-related spending is financed by increasing revenues and limiting spending increases.

Source: Calculations based on the 2018 Ageing Report of the European Commission, the OECD Long-term model and OECD Economic Outlook database.



# The tax mix could be more growth-friendly

## General government tax revenues % of GDP, 2018



Source: OECD Revenue Statistics database.



## **Main policy recommendations on fiscal sustainability**

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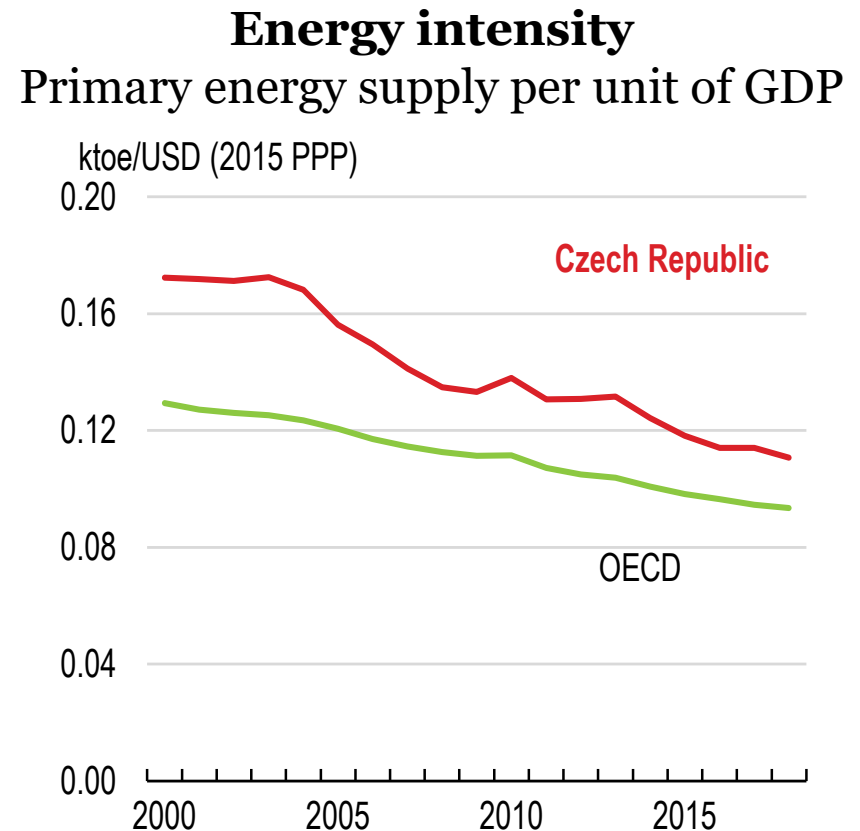
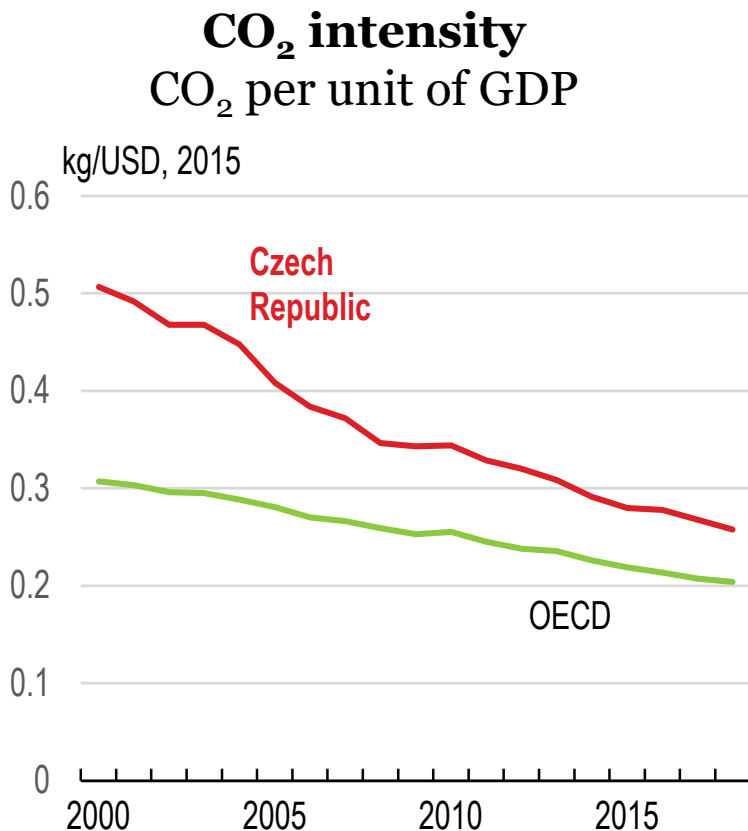
- **Continue to raise the retirement age and link it more tightly to increases in longevity.**
- **Shift taxation from labour towards real estate, consumption and environmental taxes.**
- **Reduce tax advantages for the self-employed, including by increasing the assessment base for social security contributions.**



# **Restarting investment and raising productivity**



# The recovery is an opportunity to decrease energy and carbon dependency

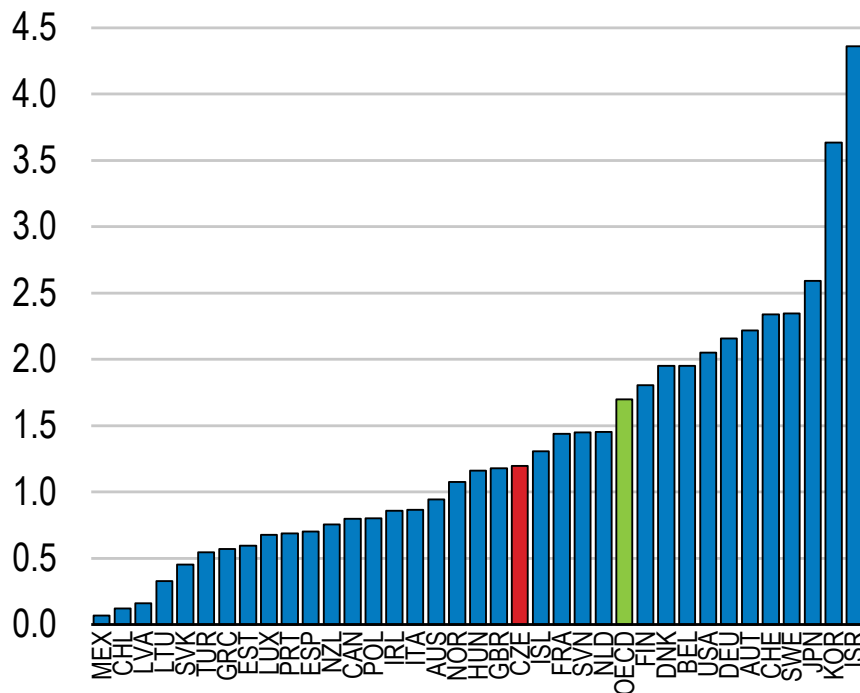


Source: OECD (2020), Green Growth Indicators, OECD Environment Statistics (database).



# R&D and innovation activity is below par

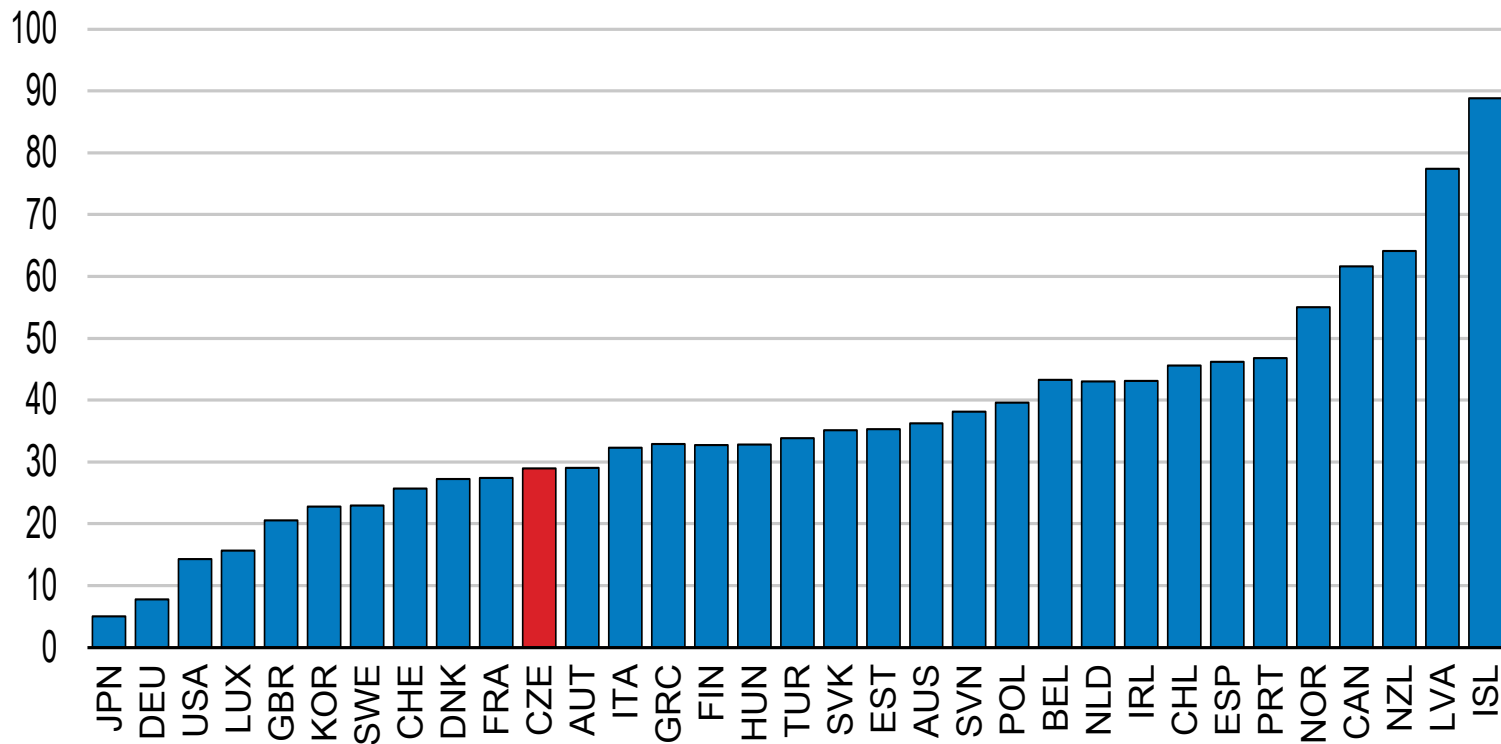
**Business enterprise expenditure  
on R&D, % of GDP, 2018**





# SMEs invest little in R&D

## SME share of business R&D expenditure %, 2016



Source: OECD SME and Entrepreneurship Outlook 2019.

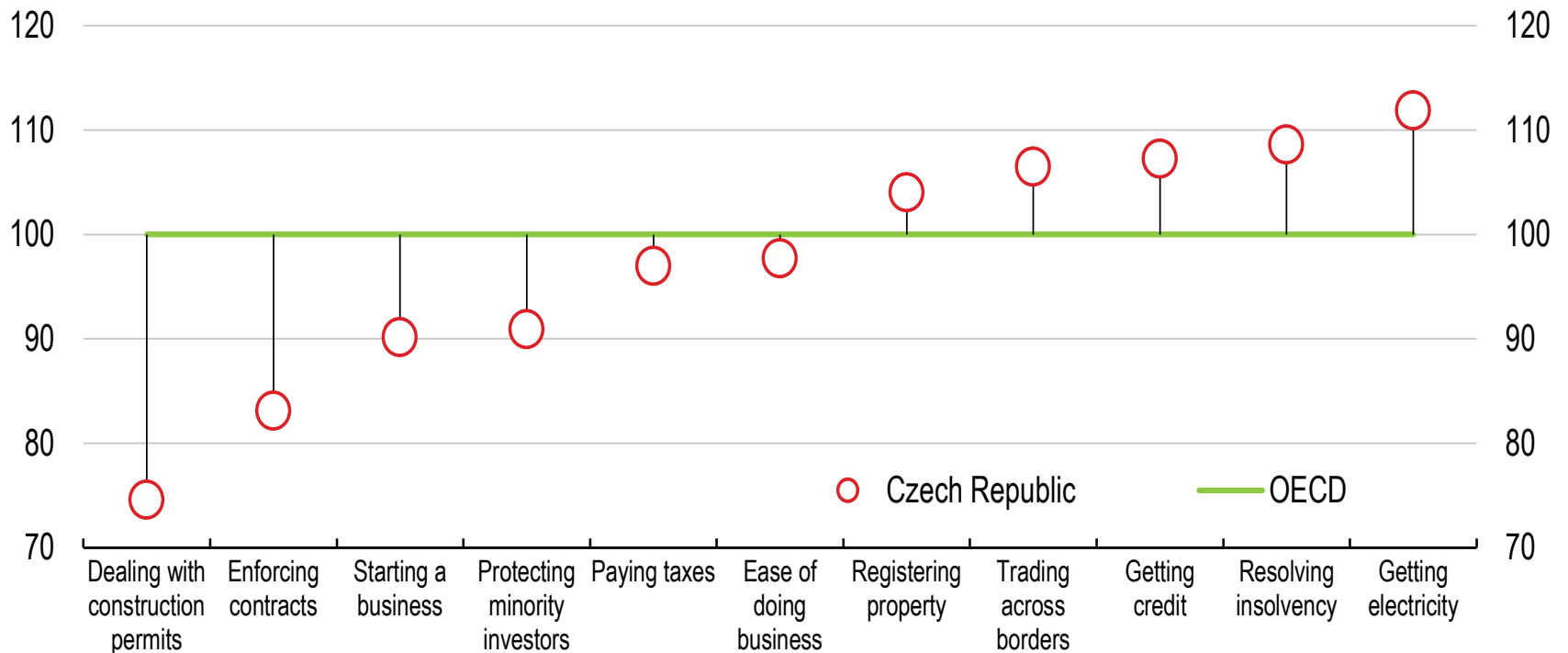




# The business environment can be further improved

## Doing Business indicators 2020

Ease of doing business scores, from low to high, OECD average = 100



Source: World Bank Doing Business indicators 2020.



# Main recommendations on productivity and investment

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- **Better target R&D support** to small and young dynamic firms.
- **Adopt the new Building Act and reduce the time and number of procedures for starting a business.**
- **Promote investment to facilitate the transition to low-emission technologies and increase energy efficiency.**

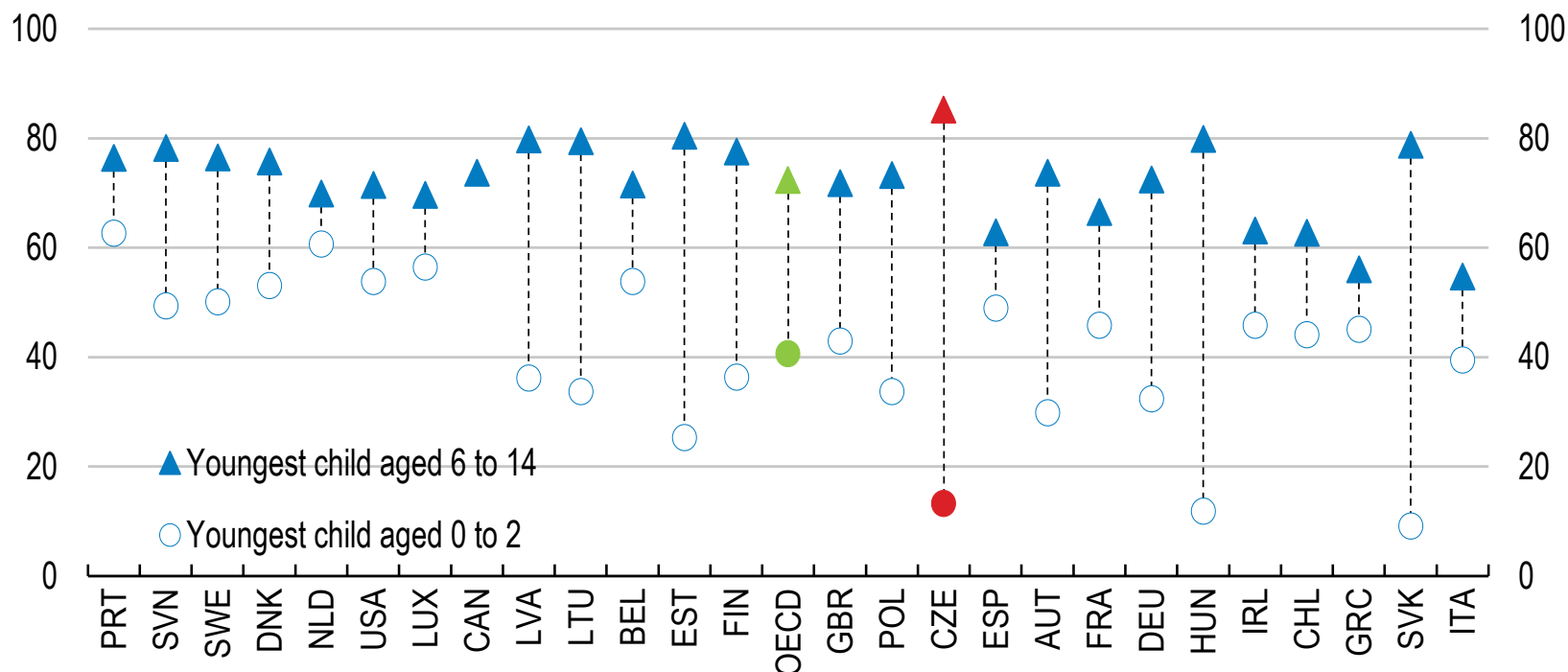


# **Increasing labour market participation of mothers and building skills**



# Having children has a big effect on labour market activity of women

## At-work rates for women with children (aged 0-14) By age of the youngest child, %, 2018

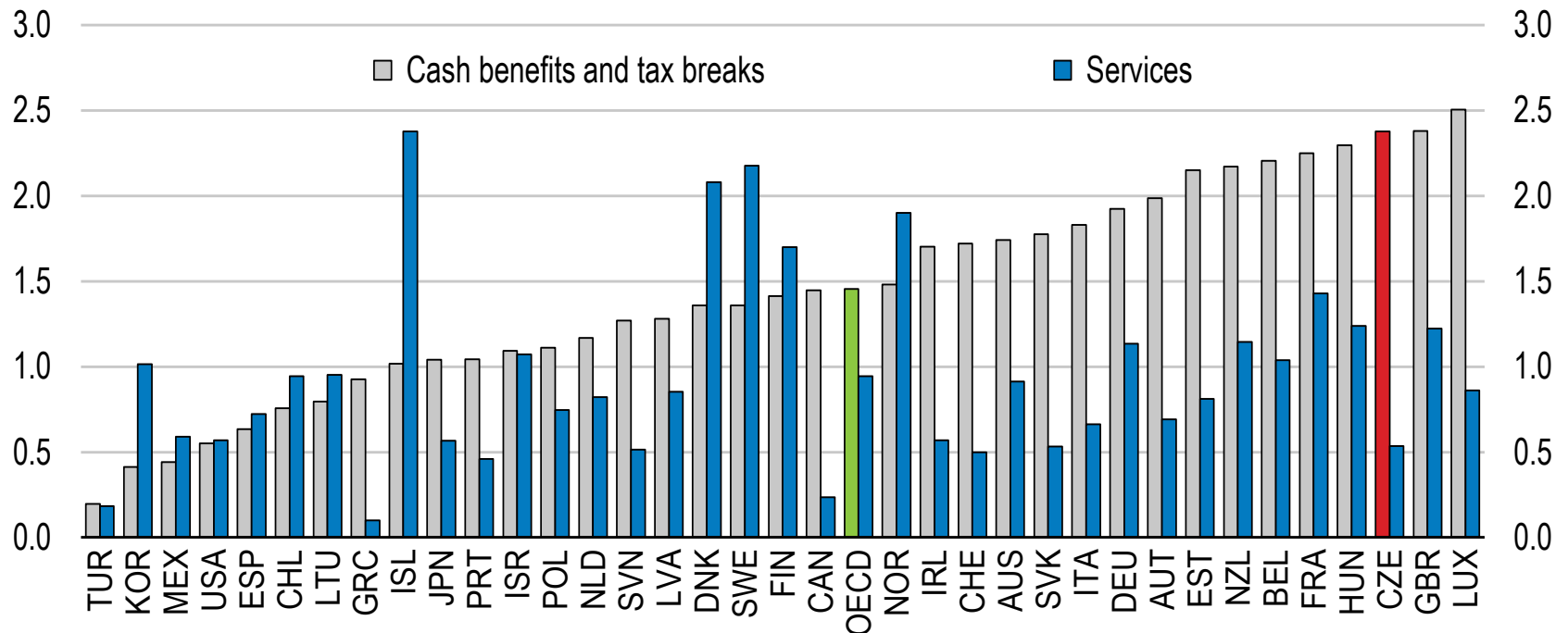


Source: OECD estimates.



# Generous cash benefits and lack of childcare places discourage mothers from resuming work

## Public expenditure on family benefits % of GDP, 2015 and latest available year

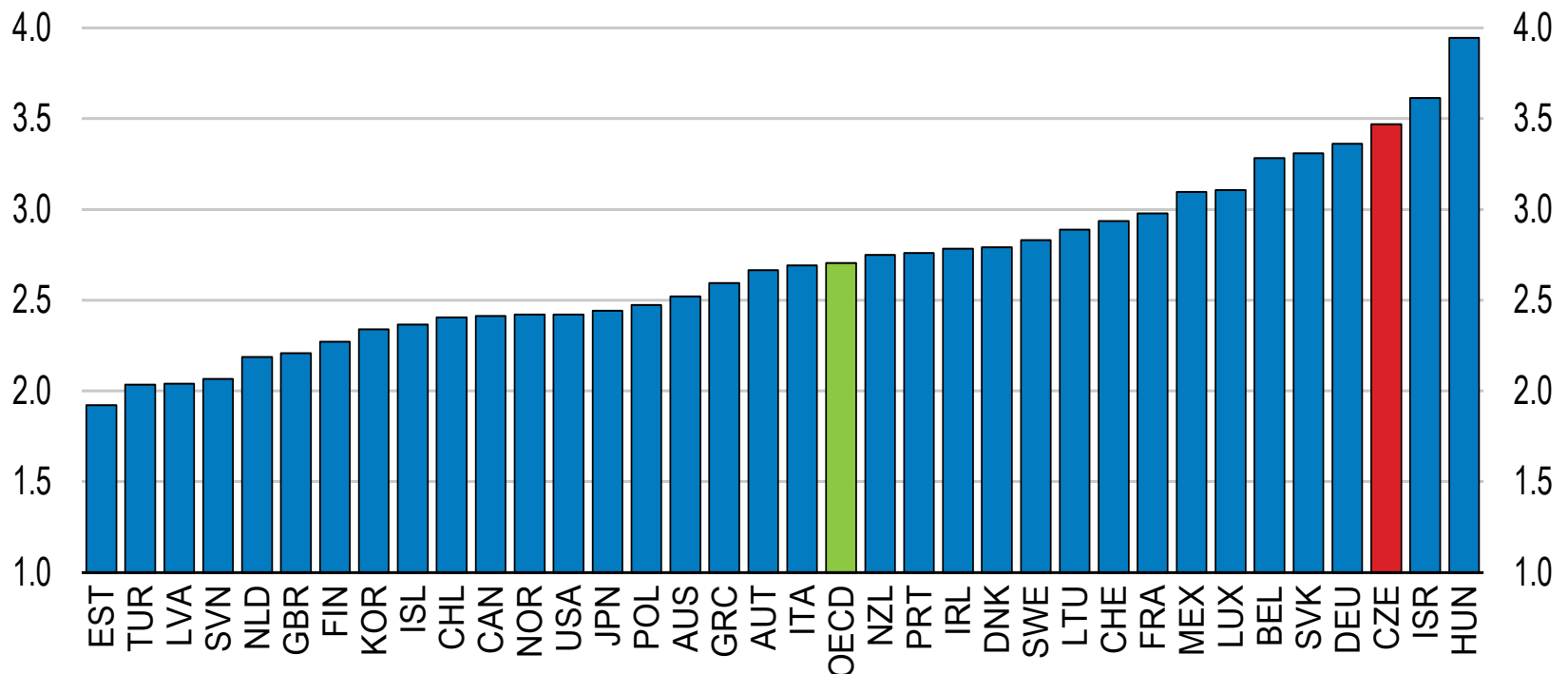


Source: OECD Social Expenditure Database, <http://www.oecd.org/social/expenditure.htm>



# Disadvantage should be better targeted in schools

## Likelihood of low performance among disadvantaged students Relative to non-disadvantaged students, odds ratio

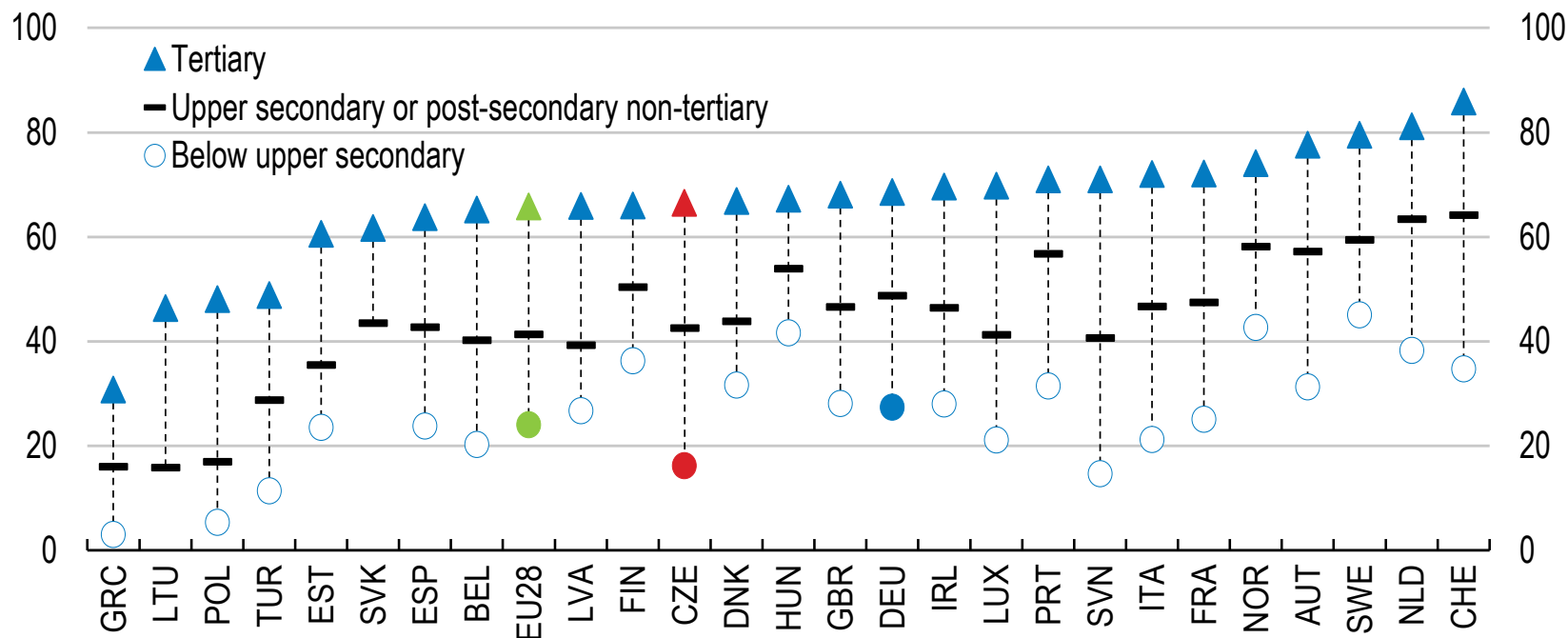


Source: OECD (2019), PISA 2018 Results (Volume II): Where All Students Can Succeed, PISA, OECD Publishing, Paris, <https://doi.org/10.1787/b5fd1b8f-en>.



# Adult education should reach those that need it most

## Participation in formal and non-formal education and training Adult Education Survey (AES), 25-64 year-olds, %, 2016



Source: Eurostat database.



## **Main policy recommendations on labour market participation and skills**

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- **Keep expanding the supply of** affordable and high-quality **childcare facilities.**
- **Shorten parental leave** and incentivise fathers to take more of the parental leave.
- **Better target disadvantage in the school-funding formula.**
- **Consolidate the school network** to ensure quality of education in all schools and encourage small schools to cooperate and share administrative resources.
- **Better target adult education to low-skilled workers.**





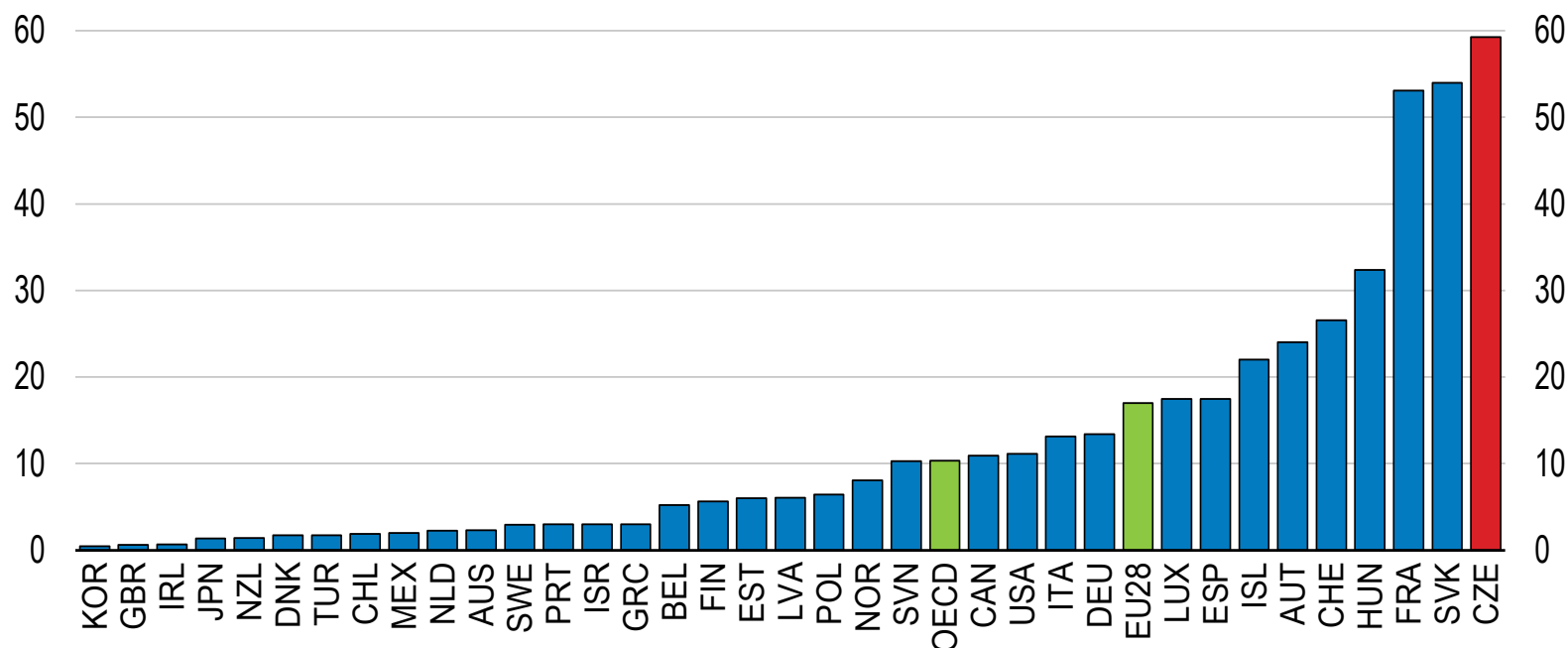
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# **Enhancing administrative and fiscal decentralisation**



# The Czech Republic has the highest number of municipalities per capita in the OECD

## Number of municipalities per million inhabitants 2016



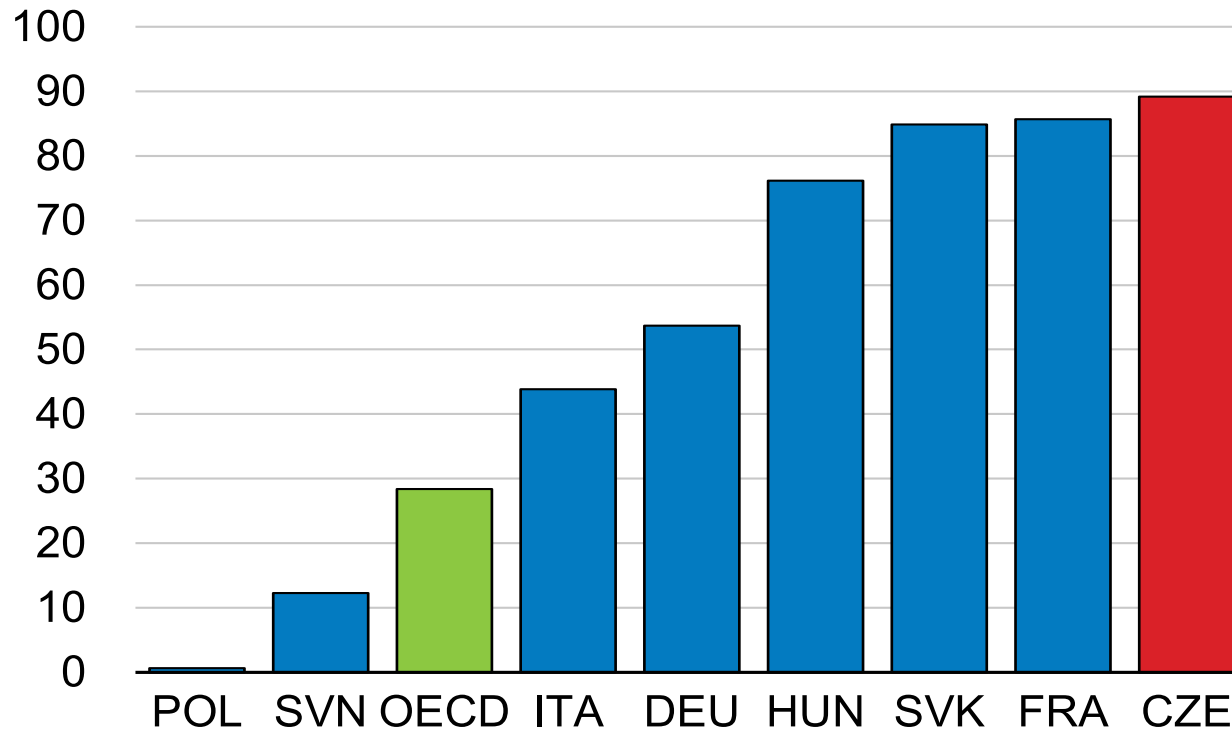
Source: OECD Subnational Government Structure and Finance database.



# Czech municipalities are very small

## Size distribution

% of municipalities with less than 2 000 inhabitants, 2016



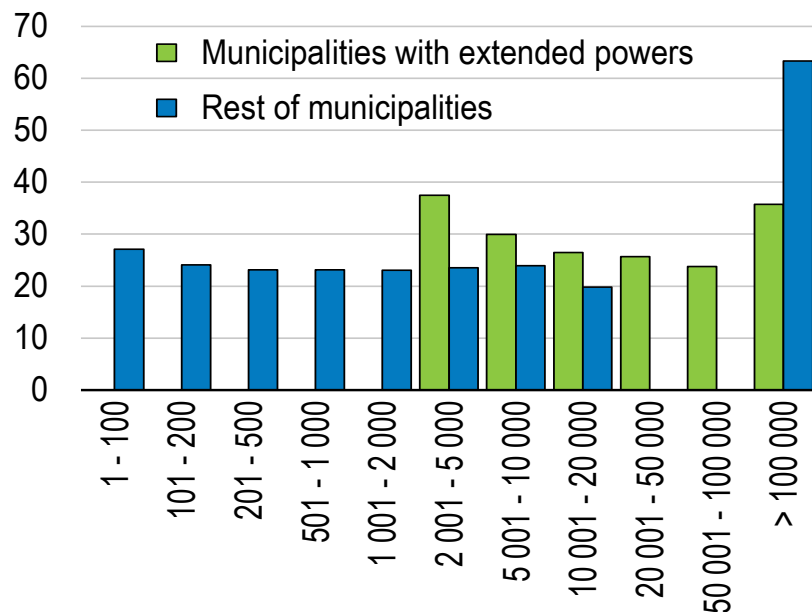
Source: OECD Subnational Government Structure and Finance database.



# Small size impacts the efficiency and effectiveness of local government

## Expenditure per capita is higher in small municipalities

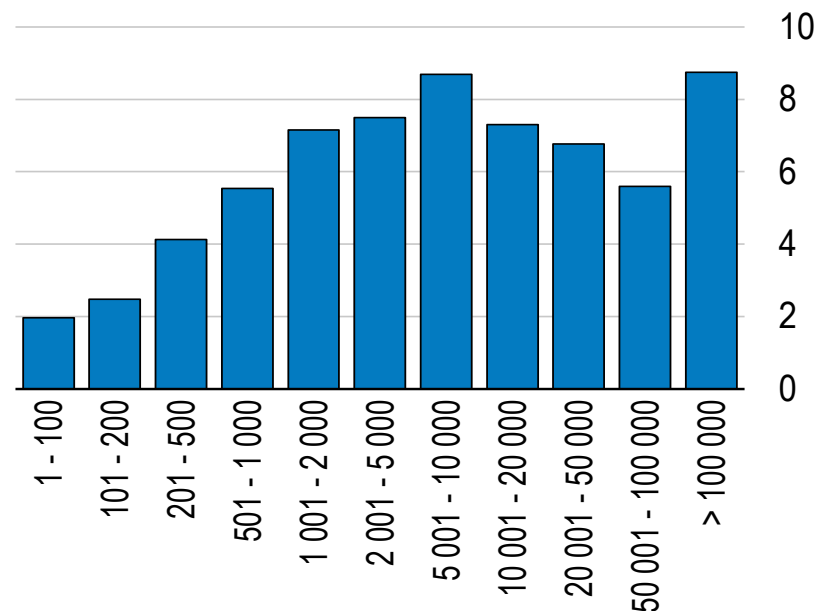
Average, CZK thousand, 2018



Municipal population

## Small municipalities invest comparatively less per capita

Median, CZK thousand, 2018



Municipal population

Source: Ministry of Finance of the Czech Republic.



# Main policy recommendations on enhancing administrative and fiscal decentralisation

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- Introduce financial and non-financial **incentives for municipal mergers**.
- **Make inter-municipal co-operation mandatory** and multi-purpose at the level of micro-regions with clearly specified tasks.
- **Encourage self-funding of inter-municipal co-operation** (from own tax sources and by member municipalities).
- **Gather information on the quality of services provided at the local level** to increase understanding of best practices and allow the use of benchmarking.



# For more information

**Disclaimers:**

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