



CONFEDERATION OF INDUSTRY
OF THE CZECH REPUBLIC

REPRESENTING THOSE WHO CREATE VALUE

STRONGER TOGETHER

10 Years Anniversary
CEE Initiative Meeting - Split
28 – 29 May 2015

CZ economic recovery is continuing

- Over the past year, real GDP has increased by 2.0 %, solely due to the growth in domestic demand. **This year the expected economic growth is 2.7 %, in the coming years real GDP growth could slow down slightly to 2.3 % in 2017 and 2018.**
- **The main driver** of growth in the prediction horizon and outlook should be domestic demand, **both consumption and investment.**
- The balance of foreign trade at constant prices should, however, slightly slow down the GDP growth in 2015; however for the next years we anticipate a neutral effect of net exports on GDP growth.
- The average inflation rate in 2014 reached 0.4 %. Also in the current year the consumer prices are expected to rise very slowly, mainly due to the significant drop in oil prices. **The average inflation rate this year could thus be further reduced to 0.3 %.** Growth in consumer prices is therefore expected to accelerate, but the inflation should be in the lower half of the tolerance band of 2 % inflation target. In 2017 and 2018, inflation should be already close to the CNB's inflation target.
- The labour market situation should also gradually improve. **The unemployment rate could fall to 5.3 % in 2018,** while employment within the forecast horizon should grow very slightly. Growth in wages and salaries in the years 2015 - 2018 should be around 4 %.

CZ Main Macroeconomic Indicators

| | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------------------------|-------|-------|-------|-------|----------|----------|---------|---------|
| | | | | | | Forecast | Forecast | Outlook | Outlook |
| Gross domestic product | <i>bill. CZK</i> | 4 022 | 4 048 | 4 086 | 4 266 | 4 467 | 4 644 | 4 816 | 5 002 |
| Gross domestic product | <i>growth in %, const.pr.</i> | 2,0 | -0,8 | -0,7 | 2,0 | 2,7 | 2,5 | 2,3 | 2,3 |
| Consumption of households | <i>growth in %, const.pr.</i> | 0,2 | -1,8 | 0,4 | 1,7 | 2,8 | 2,3 | 2,2 | 2,1 |
| Consumption of government | <i>growth in %, const.pr.</i> | -2,9 | -1,0 | 2,3 | 2,3 | 1,7 | 1,6 | 1,5 | 1,3 |
| Gross fixed capital formation | <i>growth in %, const.pr.</i> | 1,1 | -2,9 | -4,4 | 4,5 | 5,3 | 4,2 | 3,2 | 3,2 |
| Contr. of foreign trade to GDP growth | <i>p.p., const.pr.</i> | 1,9 | 1,3 | 0,0 | -0,1 | -0,3 | 0,0 | 0,1 | 0,1 |
| Contr. of increase in stocks to GDP growth | <i>p.p., const.pr.</i> | 0,2 | -0,2 | -0,2 | -0,3 | 0,0 | 0,0 | 0,0 | 0,0 |
| GDP deflator | <i>growth in %</i> | -0,2 | 1,4 | 1,7 | 2,4 | 1,9 | 1,4 | 1,4 | 1,5 |
| Average inflation rate | <i>%</i> | 1,9 | 3,3 | 1,4 | 0,4 | 0,3 | 1,5 | 1,8 | 1,9 |
| Employment (LFS) | <i>growth in %</i> | 0,4 | 0,4 | 1,0 | 0,8 | 0,7 | 0,2 | 0,1 | 0,1 |
| Unemployment rate (LFS) | <i>average in %</i> | 6,7 | 7,0 | 7,0 | 6,1 | 5,7 | 5,5 | 5,4 | 5,3 |
| Wage bill (domestic concept) | <i>growth in %, curr.pr.</i> | 2,2 | 2,1 | -0,4 | 3,1 | 4,0 | 4,1 | 4,1 | 4,1 |
| Current account / GDP | <i>%</i> | -2,1 | -1,6 | -0,5 | 0,6 | 1,3 | 0,9 | 0,4 | 0,0 |
| <u>Assumptions:</u> | | | | | | | | | |
| Exchange rate CZK/EUR | | 24,6 | 25,1 | 26,0 | 27,5 | 27,5 | 27,5 | 27,2 | 26,8 |
| Long-term interest rates (10 years) | <i>% p.a.</i> | 3,7 | 2,8 | 2,1 | 1,6 | 0,6 | 0,8 | 1,2 | 1,8 |
| Crude oil Brent | <i>USD/barrel</i> | 111 | 112 | 109 | 99 | 60 | 68 | 74 | 77 |
| GDP in Eurozone (EA-12) | <i>growth in %, const.pr.</i> | 1,6 | -0,8 | -0,4 | 0,9 | 1,4 | 1,8 | 1,9 | 2,1 |

EC specific recommendations for CZ

- **Achieve a fiscal adjustment of 0,5 % of GDP in 2015 and 2016.** Further improve the cost-effectiveness and governance of the health sector.
- **Fight tax evasion, simplify the tax system** and implement the anti-corruption plan. Take measures **to increase transparency and efficiency of public procurement** and strengthening guidance and supervision.
- **Reduce the high level of taxation levied on low-income earners,** by shifting taxation to other areas. To improve the availability of affordable childcare.
- **Adopt the higher education reform.** Ensure adequate training for teachers, support poor performing schools, to make education more inclusive.

What we are missing: A further support for VET and technical education and focus on better labour market matching.

SP welcomes EC's commitment to better and fair regulation

- The national **Regulatory Impact Assessment Board** (only RIAB) established in November 2011 as a body entitled to quality review of submitted RIA reports, functioning **within the Government Legislative Council (GLC)**.
- RIAB's role is to check whether the draft laws are:
 - **In compliance with the Constitution and constitutional laws;**
 - **In conformity with EU legislation and**
 - **Whether the draft legislation was prepared in accordance with RIA principles of draft legislation.**
- **RIAB consists of 16 independent members** (economists/lawyers) mostly from academic and business world (**including a SP's representative**).
- CZ is a member of the like-minded group in the area of better regulation: A common paper **„Momentum for Better Regulation“** addressed to VP F. Timmermans (*Targets and REFIT-scoreboard*), better and greater independent regulatory scrutiny, further proof legislation: fit for SMEs, (digital) competitiveness and innovation, improving of consultations with member states, stakeholders, end-users.
- The published **Better Regulation Package is a good step in the right direction** (Commission open to scrutiny, shared commitment for EU institutions, more targeted, quantitative and targeted REFIT, independent RSB).

CZ calls for a complex and ambitious TTIP

- **SP's approach is positive and pragmatic** based both on interests and concerns of its companies.
- The Czech business calls particularly for predictability and legal certainty of the trade and economic relations between the EU and the USA.
- **The SP calls member states to be more constructive and offensive** equipping the Commission with a stronger mandate.
- **The SP is supporting Czech Government in its positive campaign and debate** with all national stakeholders facing many times unjustified arguments of the trade unions.
- The Ministry of Trade and Industry is preparing **an impact study for CZ**.
- On 15 May the business community met relevant Czech MEPs and delivered **a common statement on TTIP** before a voting in INTA and EP Plenary.
- The SP appreciates very much **the BUSINESSEUROPE's effort** in guiding and representing the European business during the whole negotiation process.