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ECONOMIC AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW

Covid-19 weighed on the fundamentals of the Czech economy that had supported growth: domestic demand, tax, revenues and exports. To date, the Czech Republic is the only European Union country with economic performance below 2019 levels. After growing by 2.3% in 2022, GDP stagnated in 2023 (+0.2%), as high inflation and stringent financial conditions resulted in a reduction of real household income and a rise in precautionary savings, thereby suppressing private consumption. Net exports, buoyed by reduced imports of energy and the reduction of accumulated inventories, made a positive contribution. According to the IMF, growth is set to gradually pick up in 2024 (2.3%) and 2025 (2.9%), fueled by decreasing inflation, which boosts real disposable income. Furthermore, the gradual easing of financing conditions and a high savings rate are poised to provide additional support for consumption. Conversely, the implementation of a fiscal consolidation package and the conclusion of energy-related measures are projected to exert a contractionary influence.

In 2023, the budget deficit remained stable at 3.8% of GDP, driven by expenditures outpacing GDP growth, attributed to the automatic indexation of pensions to inflation and initiatives aimed at alleviating the effects of elevated energy prices: the total net budgetary cost of these energy-related measures was estimated to amount to 1.2% of GDP. The projected scenario indicates a decline in the budget deficit to 2.2% of GDP in 2024 (IMF), due to the expiration of measures aimed at alleviating the impact of elevated energy prices, coupled with the government's implementation of a consolidation package. Public debt is still low compared to the EU average despite its high pace of growth in 2020-2022. The public debt-to-GDP ratio increased from 44.2% in 2022 to 45.4% last year but is expected to resume a downward trend over the forecast horizon (to around 44% by 2025 - IMF). Following a peak in headline inflation at 18% in the first quarter of 2023, the rate has substantially decreased, primarily influenced by a reduced growth rate in energy and food prices. The overall inflation rate was estimated at 10.9% in 2023 by the IMF. Due to salary hikes, inflation, excluding unprocessed food and energy, is anticipated to decrease at a rate less pronounced than headline inflation but is expected to stay at a moderate level.

Czechia has a tight labour market and a low share of temporary contracts, with one of the lowest ratios of unemployment in Europe, at 2.8% in 2023 (from 2.1% one year earlier). Market conditions may get tighter as Ukrainian refugees join the labour market, but the unemployment rate is expected to remain low this year and the next (2.6% and 2.3%, respectively - IMF). The IMF estimated the country's GDP per capita (PPP) at USD 49,025 in 2023, 14% below the EU average, although nominal wage growth lagged behind inflation last year, reducing real disposable income.

| Main Indicators | 2022 | 2023 (E) | 2024 (E) | 2025 (E) | 2026 (E) |
|-------------------------------------------------|--------|----------|----------|----------|----------|
| GDP <i>(billions USD)</i> | 290.53 | 335.24 | 359.11 | 381.02 | 402.59 |
| GDP <i>(Constant Prices, Annual % Change)</i> | 2.3 | 0.2 | 2.3 | 2.9 | 2.7 |
| GDP per Capita <i>(USD)</i> | 26,832 | 30,475 | 32,391 | 34,467 | 36,530 |
| General Government Balance <i>(in % of GDP)</i> | -3.8 | -3.8 | -2.2 | -2.0 | -1.9 |

| Main Indicators | 2022 | 2023 (E) | 2024 (E) | 2025 (E) | 2026 (E) |
|-----------------------------------------------------------|--------|----------|----------|----------|----------|
| General Government Gross Debt <i>(in % of GDP)</i> | 44.2 | 45.4 | 44.4 | 44.1 | 43.8 |
| Inflation Rate <i>(%)</i> | n/a | 10.9 | 4.6 | 2.1 | 2.0 |
| Unemployment Rate <i>(% of the Labour Force)</i> | 2.1 | 2.8 | 2.6 | 2.3 | 2.2 |
| Current Account <i>(billions USD)</i> | -17.78 | 1.67 | 6.13 | 6.97 | 7.53 |
| Current Account <i>(in % of GDP)</i> | -6.1 | 0.5 | 1.7 | 1.8 | 1.9 |

Source: IMF – World Economic Outlook Database , October 2021

Country Risk

See the country [risk analysis](#) provided by [La Coface](#).

MAIN SECTORS OF INDUSTRY

The Czech agricultural sector went through a serious crisis in the 1990s and remains highly subsidised. Nowadays, it accounts for 1.9% of the country's GDP and employs 3% of the labour force (World Bank, latest data available). Czechia has an agricultural area of 3.5 million ha and a forest area of 2.65 million ha (FAO). The main agricultural products are sugar beet, potatoes, wheat, barley and poultry. Organic farming in the country is characterized mainly by the extensive breeding of cattle, goats and sheep in less favourable agricultural areas. According to the first estimates from the Czech Statistical Office, cereals production decreased by 3.4% year-on-year in 2023 reaching CZK 25.1 billion; whereas that of animal products increased to CZK 27.9 billion (+3,3% y-o-y).

Industry accounts for 29.6% of GDP and employs 37% of the labour force. Growth in performance has been accompanied by an increase in the productivity of the labour force. The automotive sector is by far the largest industry, with companies like Skoda (owned by Volkswagen). Since 2005, foreign investors such as Toyota and PSA have also started producing cars in the Czech Republic. The Czech automotive industry now employs more than 150,000 people and accounts for more than 20% of both Czech manufacturing output and Czech exports. The Czech electronics and electrical engineering sector accounts for more than 14% of total manufacturing output, which makes it the second-largest sector in the economy (over 17,000 companies employ more than 180,000 workers in the sector). Overall, the manufacturing industry contributes 21% of GDP.

Services account for 59.2% of GDP and employ nearly 61% of the active population. The tourism sector recorded a pace of sustained growth in recent years, which was partially hampered by the COVID-19 pandemic. Nevertheless, the sector started its recovery in 2022 and continued in 2023 when the overall guest count during the summer season surpassed the figures recorded in the pre-COVID year 2019 for the first time. The increase in arrivals stood at 4.3%, and the number of overnight stays exceeded the 2019 levels by 2.4%. Notably, the year witnessed an almost 15% rise in the accommodation of Czech visitors. However, there remains an absence of about one-tenth of foreign guests, indicating a potential area for improvement or exploration in attracting international visitors. In 2021, there were 46 licensed banks operating in the Czech Republic: four large banks, five medium-sized banks, nine small banks, 23 branches of foreign banks and five building societies. 37 entities were controlled by foreign owners, of which 12 were banks and 25 were branches (data European Banking Federation, latest data available). As of January 31, 2023, the total assets of commercial banks stood at approximately USD 438 billion (data U.S. Department of State).

| Breakdown of Economic Activity By Sector | Agriculture | Industry | Services |
|---------------------------------------------------------------|-------------|----------|----------|
| Employment By Sector <i>(in % of Total Employment)</i> | 2.5 | 36.9 | 60.6 |

| Breakdown of Economic Activity By Sector | Agriculture | Industry | Services |
|---------------------------------------------|-------------|----------|----------|
| Value Added <i>(in % of GDP)</i> | 2.1 | 30.7 | 57.9 |
| Value Added <i>(Annual % Change)</i> | -2.4 | 1.6 | 3.1 |

Source: World Bank - Latest available data.

| Monetary Indicators | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------------------------------------------|-------|-------|-------|-------|-------|
| Czech Crown (CZK) - Average Annual Exchange Rate For 1 USD | 24.44 | 23.38 | 21.73 | 22.90 | 23.21 |

Source: World Bank - Latest available data.

FOREIGN TRADE

The Czech Republic's economy is very open to the outside world: according to the World Bank, external trade accounts for 152% of the GDP. The automobile industry is the backbone of trade, both for imports and exports. Data from the CZSO show that the main exports in 2022 were motor vehicles (23.6%), machinery and equipment (11.2%), electrical equipment (9.4%), computer, electronic and optical products (9.3%), fabricated metal products (6.2%); whereas imports were led by motor vehicles (12.6%), computer, electronic and optical products (10.6%), electrical equipment (9.4%), machinery and equipment (8.6%), chemicals and chemical products (8.5%).

As a medium-sized, open, export-driven economy, the Czech market is strongly dependent on foreign demand, especially from EU partners. In 2022, Germany was the Czech Republic's major trading partner, receiving 32.8% of its exports and supplying 19.8% of its imports. Slovakia was the second top destination for Czech exports (8.4%), followed by Poland (7.1%), France (4.6%) and Austria (4.4%). China (18.8%) was the second-largest supplier of goods and services to the Czech Republic after Germany, followed by Poland (8%), Russia (4.8%), and Slovakia (4.2% – data Comtrade).

Czechia recorded a structurally positive trade balance since entering the EU. In 2022, the country's trade balance was estimated to be positive by 1% of GDP by the World Bank (from 3% one year earlier, with a declining trend recorded in recent years). In the same year, exports of goods totalled USD 241.9 billion (+6.7% year-on-year) whereas imports stood at USD 236.2 billion (+11.4% y-o-y). Concerning trade in services, exports increased to USD 33.6 billion against USD 29.8 billion in imports (+13.3% and +21.1%, respectively). According to the latest figures from the Czech Statistical Office, in the first three quarters of 2023, the current-price international trade balance for goods and services reached CZK 91.5 billion, representing a significant increase of CZK 60.1 billion compared to the same period in the previous year.

| Foreign Trade Values | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------------------------------|---------|---------|---------|---------|---------|
| Imports of Goods <i>(million USD)</i> | 184,659 | 179,039 | 171,100 | 211,972 | 236,276 |
| Exports of Goods <i>(million USD)</i> | 202,238 | 199,128 | 191,911 | 226,564 | 241,931 |
| Imports of Services <i>(million USD)</i> | 25,106 | 25,829 | 21,539 | 24,602 | 29,799 |
| Exports of Services <i>(million USD)</i> | 30,627 | 30,449 | 26,000 | 29,682 | 33,641 |

Source: World Trade Organisation (WTO) ; Latest available data

| Foreign Trade Indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------------------------------------|--------|--------|--------|-------|--------|
| Foreign Trade <i>(in % of GDP)</i> | 147.9 | 141.8 | 133.1 | 142.5 | 149.8 |
| Trade Balance <i>(million USD)</i> | 9,379 | 10,482 | 12,266 | 3,258 | -4,140 |
| Trade Balance (Including Service) <i>(million USD)</i> | 14,919 | 15,116 | 16,709 | 8,111 | -271 |

| Foreign Trade Indicators | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------------------------------------|------|------|------|------|------|
| Imports of Goods and Services <i>(Annual % Change)</i> | 5.8 | 1.5 | -8.2 | 13.3 | 5.7 |
| Exports of Goods and Services <i>(Annual % Change)</i> | 3.7 | 1.5 | -8.0 | 6.9 | 5.7 |
| Imports of Goods and Services <i>(in % of GDP)</i> | 71.0 | 67.9 | 63.2 | 69.8 | 74.9 |
| Exports of Goods and Services <i>(in % of GDP)</i> | 76.9 | 73.9 | 69.9 | 72.7 | 74.8 |

Source: World Bank ; Latest available data

| Foreign Trade Forecasts | 2023 | 2024 (e) | 2025 (e) | 2026 (e) | 2027 (e) |
|------------------------------------------------------------------|------|----------|----------|----------|----------|
| Volume of exports of goods and services (Annual % change) | 5.9 | 4.6 | 2.6 | 2.6 | 2.6 |
| Volume of imports of goods and services (Annual % change) | 2.8 | 4.7 | 2.5 | 2.4 | 2.6 |

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

International Economic Cooperation

Czech Republic is a member of the following international economic organisations: IMF, European Union, ICC, Central European Initiative (CEI), WTO, OECD, Schengen Convention, among others. For the full list of economic and other international organisations in which participates Czech Republic click [here](#). International organisation membership of Czech Republic is also outlined [here](#).

Free Trade Agreements

The complete and up-to-date list of Free Trade Agreements signed by Czech Republic can be consulted [here](#).

Main Partner Countries

| Main Customers <i>(% of Exports)</i> | 2022 |
|-------------------------------------------|-------|
| Germany | 32.8% |
| Slovakia | 8.4% |
| Poland | 7.1% |
| France | 4.6% |
| Austria | 4.4% |
| See More Countries | 42.7% |

| Main Suppliers <i>(% of Imports)</i> | 2022 |
|-----------------------------------------|-------|
| Germany | 19.8% |
| China | 18.8% |

| Main Suppliers (% of Imports) | 2022 |
|----------------------------------|-------|
| Poland | 8.0% |
| Slovakia | 4.2% |
| Italy | 3.8% |
| See More Countries | 45.4% |

Source: Comtrade, Latest Available Data

POLITICAL OUTLINE

Current Political Leaders

President: Petr Pavel (since 8 March 2023) - Independent

Prime Minister: Petr Fiala (since 17 December 2021) - ODS

Next Election Dates

Presidential: no later than January 2028

Senate: October 2024

Chamber of Deputies: October 2025

Current Political Context

Following the parliamentary elections in October 2021, a coalition comprised of five parties has been governing the country, with Prime Minister Petr Fiala - the leader of the conservative Civic Democratic Party (ODS) - heading this coalition. The ODS, in collaboration with the Christian Democratic Union-Czechoslovak People's Party (KDU-CSL) and Top 09 within the Spolu coalition, has joined forces with the progressive Pirate Party and the centrist Mayors Party. Collectively, they hold sway over 108 out of the 200 seats in the Chamber of Deputies. On the opposing side, the ANO party led by former Prime Minister Andrej Babis commands 72 seats, and the radical right-wing Freedom and Direct Democracy party (SPD) has 20 seats.

Presidential elections took place in January 2023. While incumbent president Miloš Zeman was not eligible to run due to the two-term limit, former army chief Petr Pavel won the presidential election after a campaign featuring strong backing for NATO and the European Union and support for aid to Ukraine, and was sworn in on 9 March 2023.

Even before the conflict in Ukraine, Czech-Russian relations were under tension, and the Russian invasion significantly influenced the foreign policy of the Czech Republic. The newly elected Petr Pavel has raised defence spending to meet the NATO target of 2% of GDP, marking an increase from 1.4% in early 2022. Furthermore, the Czech Republic has actively supported Ukraine by hosting a large number of refugees and offering substantial humanitarian and military assistance.

Main Political Parties

Parties need to secure 5% of the vote in order to obtain parliamentary representation. The country's main political parties are:

- **Civic Democratic Party (ODS)**: centre-right, supports economic liberalism; defends the principles of personal freedom and individual responsibility, entrepreneurship and private ownership
- **Christian Democratic Union-Czechoslovak People's Party (KDU-ČSL)**: centre, draws its main support from rural areas
- **ANO 2011**: centre-right, populist

- **TOP 09** (Tradition Responsibility Prosperity): centre-right, supports a free market and the European Union
- **Czech Social Democratic Party** (CSSD): centre-left
- **Czech Pirate Party** (CSP): independent
- **Senator 21**: liberalism, pro-European
- **Freedom and Direct Democracy** (SPD): right-wing
- **Communist Party of Bohemia & Moravia** (KSCM): left-wing
- **Green Party** (SZ): environmentalist
- **Mayors and Independents** (STAN): liberal
- **Přísaha**: populist, anti-corruption
- **Party of Civic Rights** (SPO): centre-left

Executive Power

The **President** is the chief of state and is elected by direct public vote for a five-year term. The President has limited specific powers, the most important of which are to return enacted laws to the Parliament and to dissolve the Parliament under specific constitutionally outlined conditions. The President appoints the **Prime Minister** and the Cabinet based on the recommendation of the Prime Minister. The Prime Minister is the head of the government and holds executive powers, including the right to set the agenda for most foreign policies and to choose governmental ministers. The Prime Minister is generally the head of the majority party or coalition in the Parliament and carries considerable political power.

Legislative Power

The legislature is bicameral. The Parliament consists of: the **Senate** (the upper house), its 81 members elected by popular vote to serve six-year terms (with one-third of its members elected every two years) and the **Chamber of Deputies** (the lower house) with its 200 members elected by popular vote to serve four-year terms. The executive branch is dependent on parliamentary support. The Prime Minister cannot dissolve the parliament without the approval of both the President and the members of the Parliament.

COVID-19 COUNTRY RESPONSE

Travel restrictions

Regularly updated travel information for all countries with regards to Covid-19 related entry regulations, flight bans, test and vaccines requirements is available on [TravelDoc Infopage](#).

To find information about the current travel regulations, including health requirements, it is also advised to consult Travel Regulations Map provided and updated on a daily basis by [IATA](#).

Import & export restrictions

A general overview of trade restrictions which were adopted by different countries during the COVID-19 pandemic is available on the [International Trade Centre's COVID-19 Temporary Trade Measures](#) webpage.

Economic recovery plan

The summary of the EU's economic response to the COVID-19 pandemic is available on the website of the

[European Council](#).

For the general overview of the key economic policy responses to the COVID-19 outbreak (fiscal, monetary and macroeconomic) in Czech Republic, please consult the country's dedicated section in the [IMF's Policy Tracker platform](#).

Support plan for businesses

For an evaluation of impact of the Covid pandemic on SMEs and an inventory of country responses to foster SME resilience, refer to the OECD's [SME Covid-19 Policy Responses](#) document.

You can also consult the World Bank's [Map of SME-Support Measures in Response to COVID-19](#).