

# EEAG Report Czech Perspective

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# Outline of the Presentation

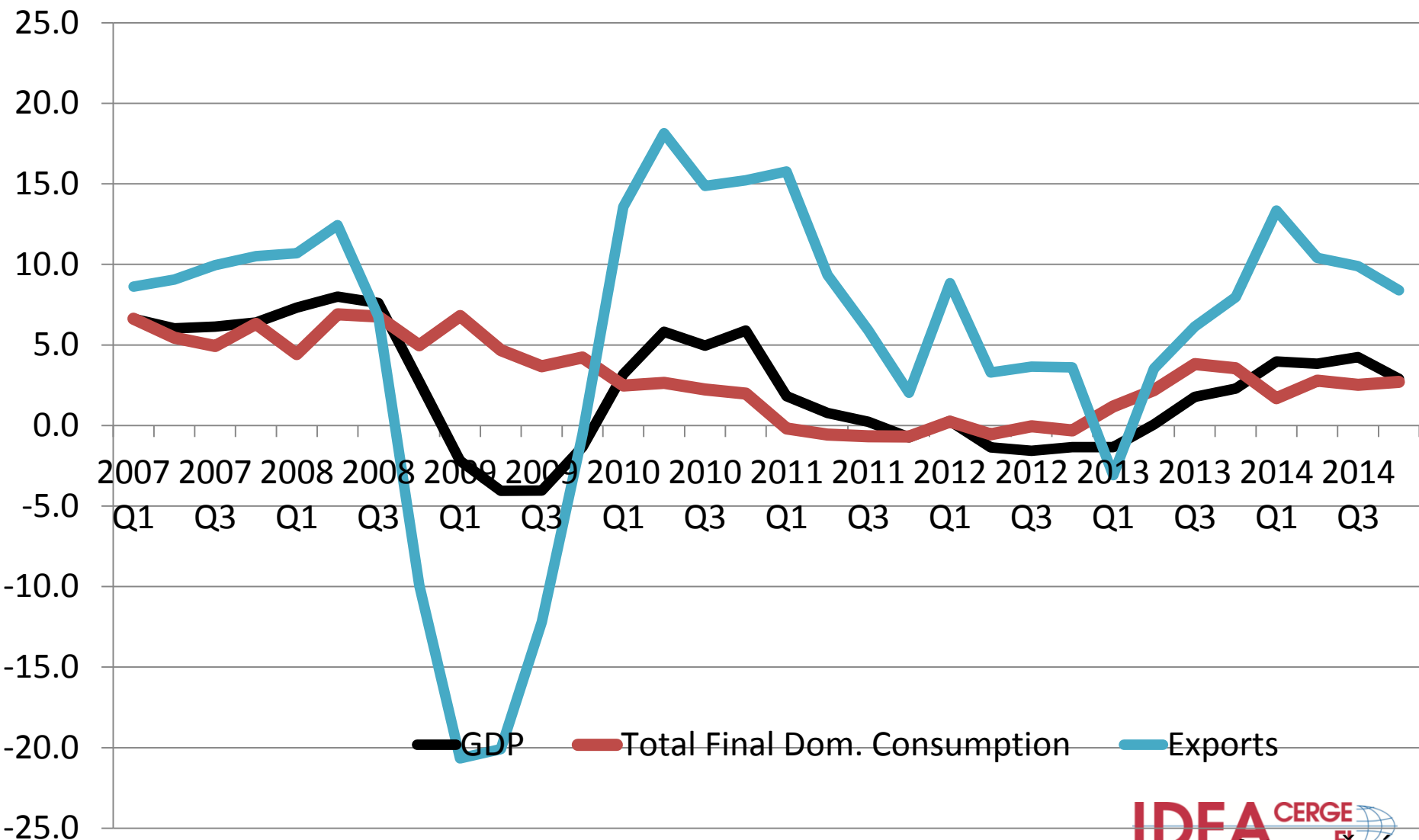
- Current outlook
  - Economic growth
  - Russian troubles
- Energy policies and energy union
- Regional disparities
  - Subnational level
  - Visegrad

# Czech Economy in 2015

- Short run perspective
  - Economy:
    - 2014: return to growth confirmed
      - Growth of both final consumption and fixed capital formation
      - Positive development in the labor market
    - Financial stability
      - Stable banking sector
      - Stabilization of public debt
    - Positive outlook: economic growth and stability
      - but with risks related to the EMU stability and Ukrainian crisis
- Long run perspective
  - Lack of competitiveness?
  - Institutional weakness & corruption
  - Slow convergence

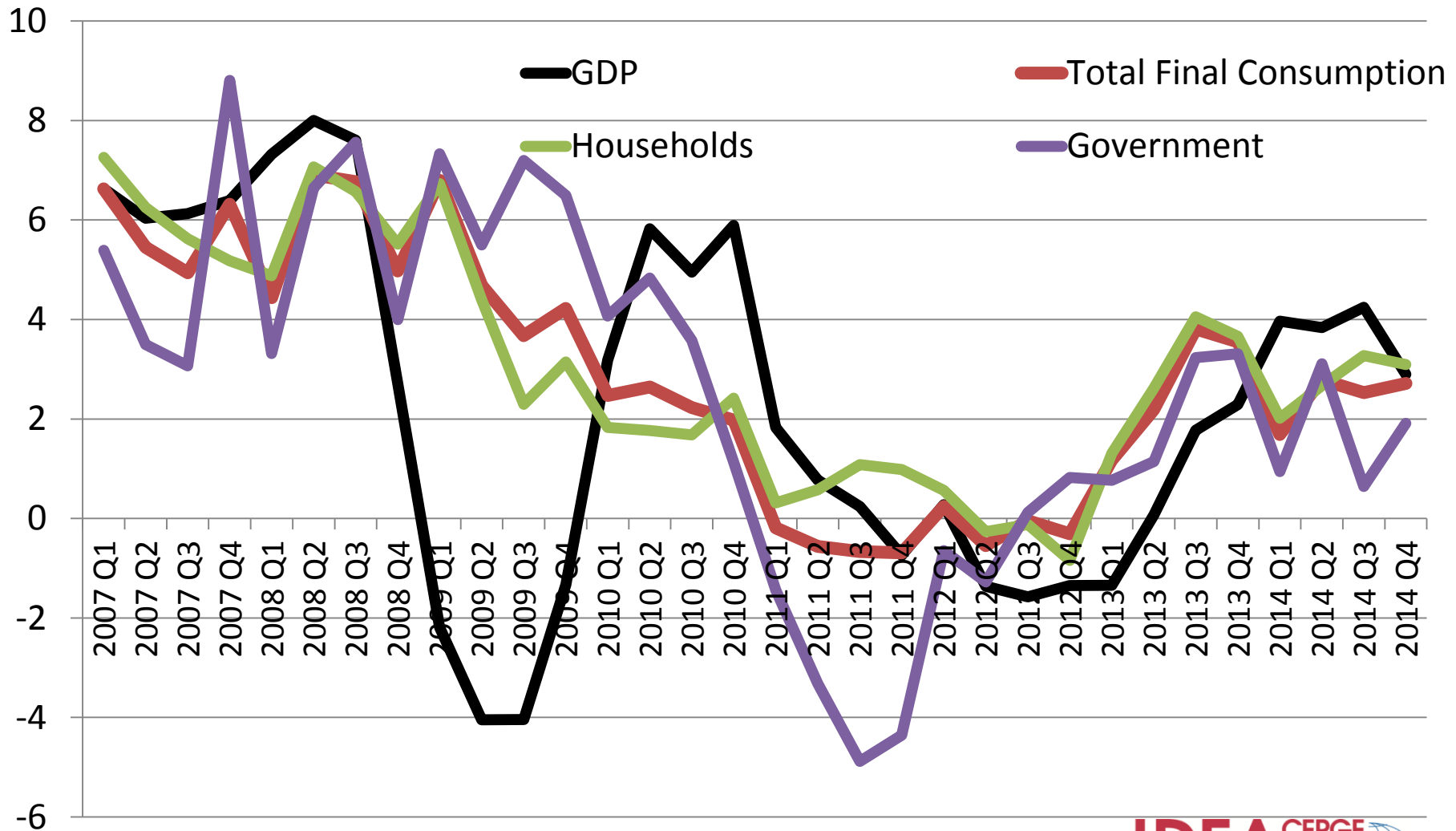
# CR: Final Consumption v. Exports

## Y-o-y change, fixed prices (%)



# CR: Final Dom. Consumption - Components

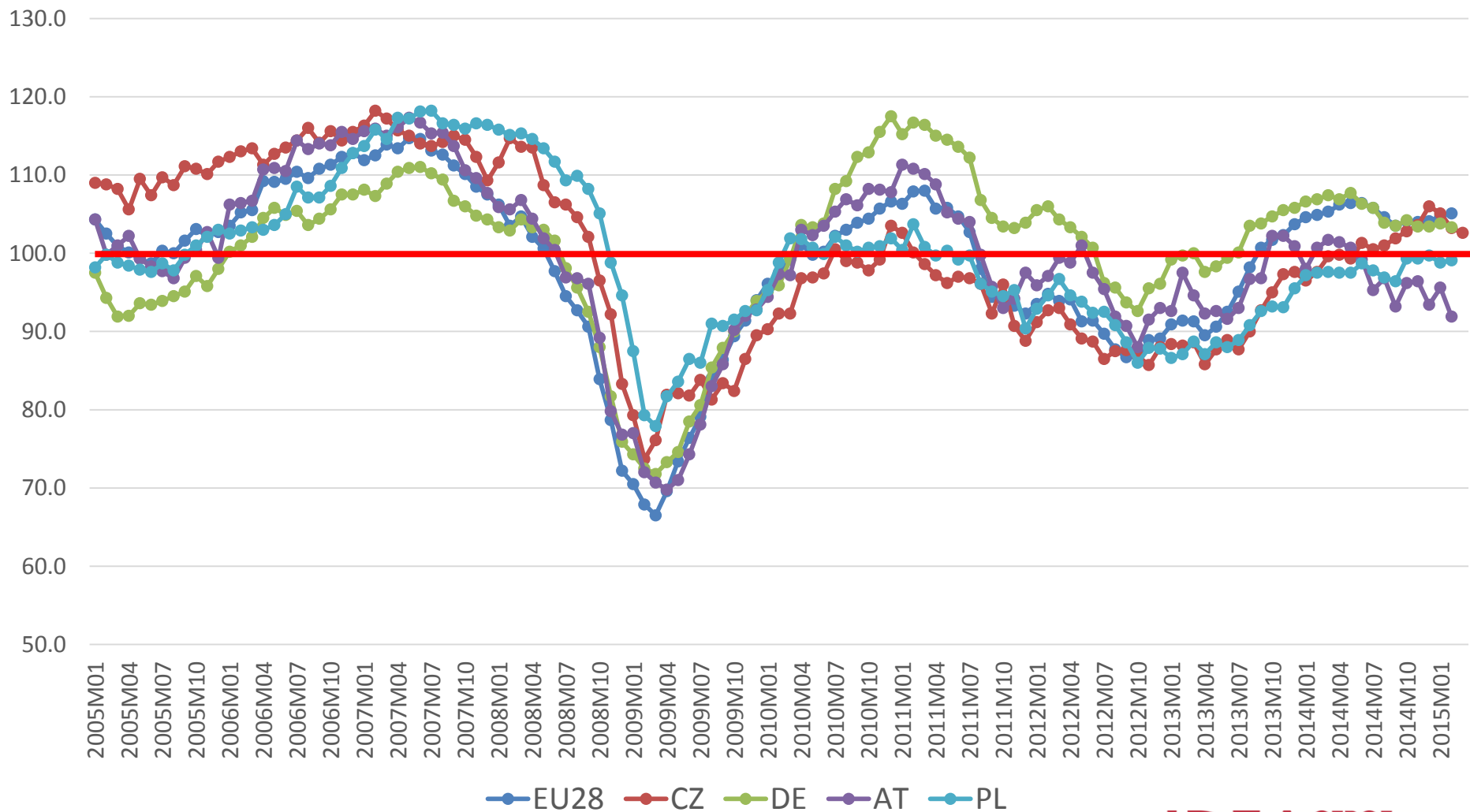
## Y-o-y change, fixed prices (%)



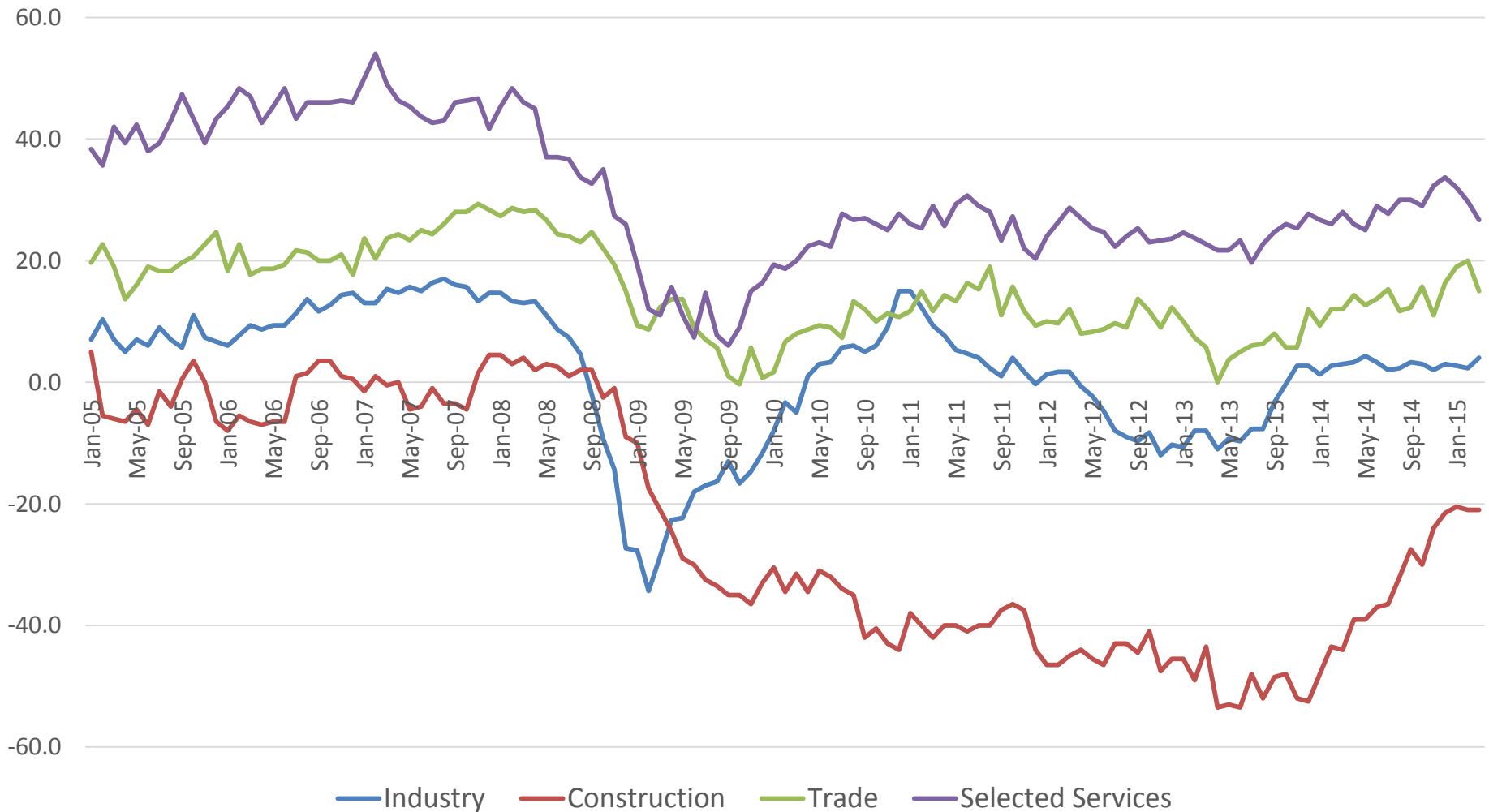
Source of data: ČSÚ

# Economic Sentiment in International Perspective

LR average = 100, monthly data



# Economic Sentiment: Sectors



# Czech R.: Forecasts, GDP (%)

Source	2012	2013	2014*	2015	2016
MFČR (1/2015)	-0.8	-0.7	2.0	2.7	<b>2.5</b>
ČNB (2/2015)				2.6	<b>3.0</b>
EU (2/2015)				2.5	<b>2.6</b>
EEAG				1.8	<b>xxx</b>



# Czech R.: Forecasts, Consumer Prices (%)

Source	2012	2013	2014	2015	2016
MFČR (2/2015)	3.3	1.4	0.4	0.3	<b>1.4</b>
ČNB (2/2015) Cons. Prices				-0.1	<b>1.8</b>
EU (2/2015)				0.8	<b>1.4</b>
EEAG				1.3	<b>xxx</b>

# Czech R.: Forecasts, Unemployment (%)

Source	2012	2013	2014	2015	2016
MFČR (1/2015)	7.0	7.0	6.1	5.7	5.6
ČNB (2/2015) Cons. Prices				5.7	5.6
EU (2/2015)				6.0	5.9
EEAG				5.4	xxx

# Estimates of Output Shocks related to Russia: Food (15+16)

Type of Shock	Not Compensated	Compensated by China	Compensated by the ROW
Only Czech exports	-0.03%	xxx	xxx
All EU exports	-0.04%	xxx	xxx
All EU and US exports	-0.04%	-0.04%	-0.04%

## Overall Comparison: Complete Exports

Type of Shock	Not Compensated	If Compensated by China	If Compensated by the ROW
Only Czech exports	-0.91%	xxx	xxx
All EU exports	-1.14%	xxx	xxx
All EU and US exports	-1.14%	-1.12%	-1.09%

Source: own simulations

# Energy Security and Energy Union

# Czech Republic and Energy Policy

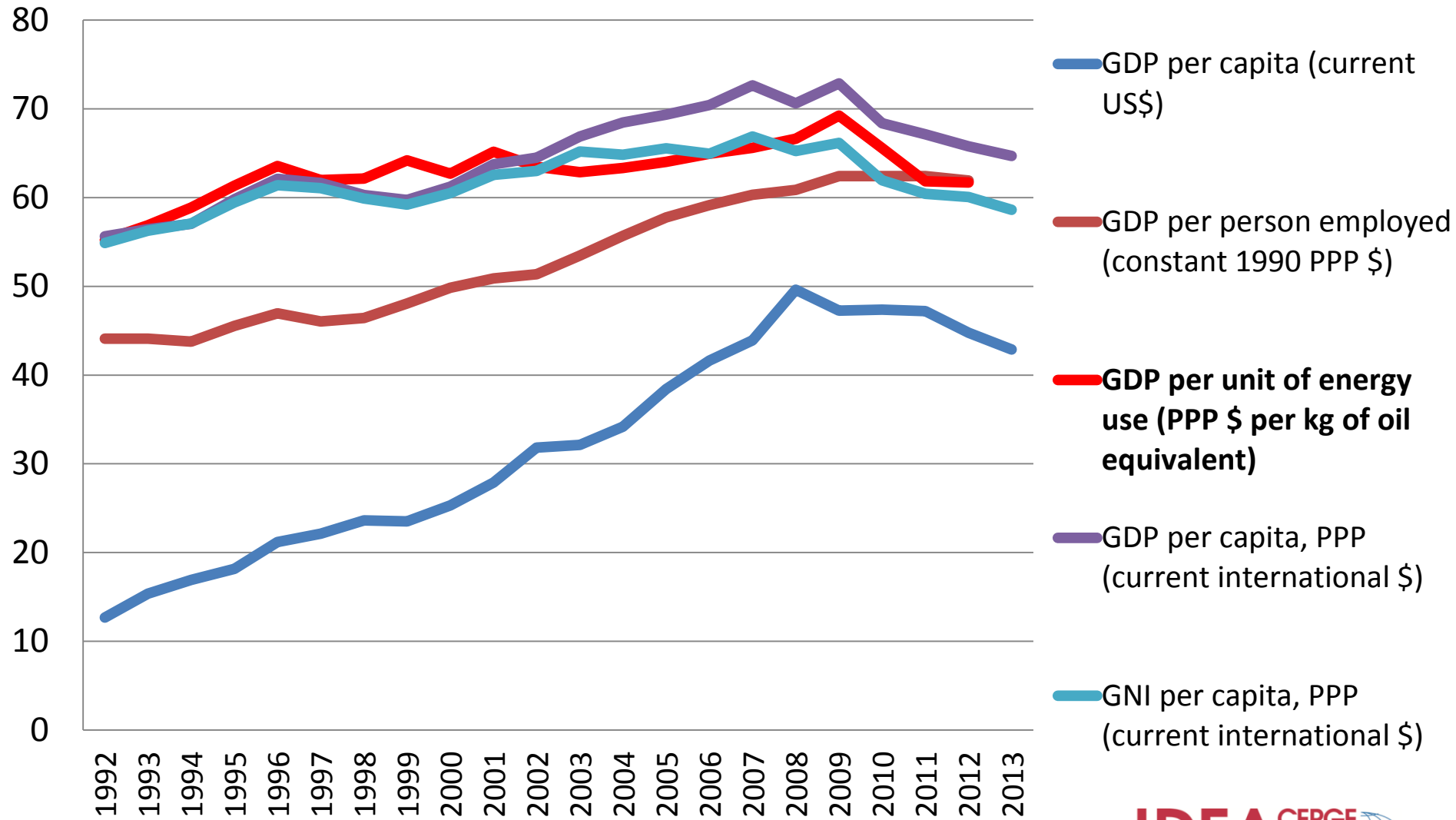
- Czech EU Presidency in 2009
  - Energy security and policies one of the three priorities:
    - *Energy security is a basic prerequisite for the functioning of the EU economies. In light of the EU's increasing dependence on energy imports from the surrounding world, it acquires a special urgency. The EU's goal in this regard is to achieve a greater territorial diversification of suppliers, a broader range of utilised sources, an enhancement of the range of renewable resources and the creation of a truly unified internal energy market in the EU which would allow for solidarity in crisis situations.*
- Czech Republic and Poland warned about political risks of e.g. Nord Stream project

# Specific Features of Czech Position

- Economy with still relative high consumption of energy and CO<sub>2</sub> emissions
  - High share of industry in GDP, lower productivity
- Importer of gas, exporter of electric energy
- Usefulness of alternative & renewable resources constrained by geographical conditions and relatively small territory
- Concerns about vulnerability of Eastern Europe (further development of Putin's regime)
- Public support for renewable resources rather discouraged by the fiasco of support for solar power (too high feed-in tariffs)
- **The most logical solution (further development of nuclear energy and reduction of the sector's dependence on Russia) under pressure from neighboring countries**

# Czech Convergence: CR v. Germany

Germany = 100 in every year



Zdroj dat: WDI

# Energy Policy: 4 Different Perception of Risks (EEAG Report)

1. Risks caused by CO<sub>2</sub> emissions
2. Environmental risks of nuclear energy
  - German phase-out of nuclear energy
3. Geopolitical blackmail - risks related to dependence on imported energy, particularly on gas from the Russian Federation.
4. Vulnerability of electricity supply networks to systemic breakdowns
  - Overloads, which in many cases can be caused by random development of output of some types of sources
    - E.g. Problems caused to Czech network by German wind energy



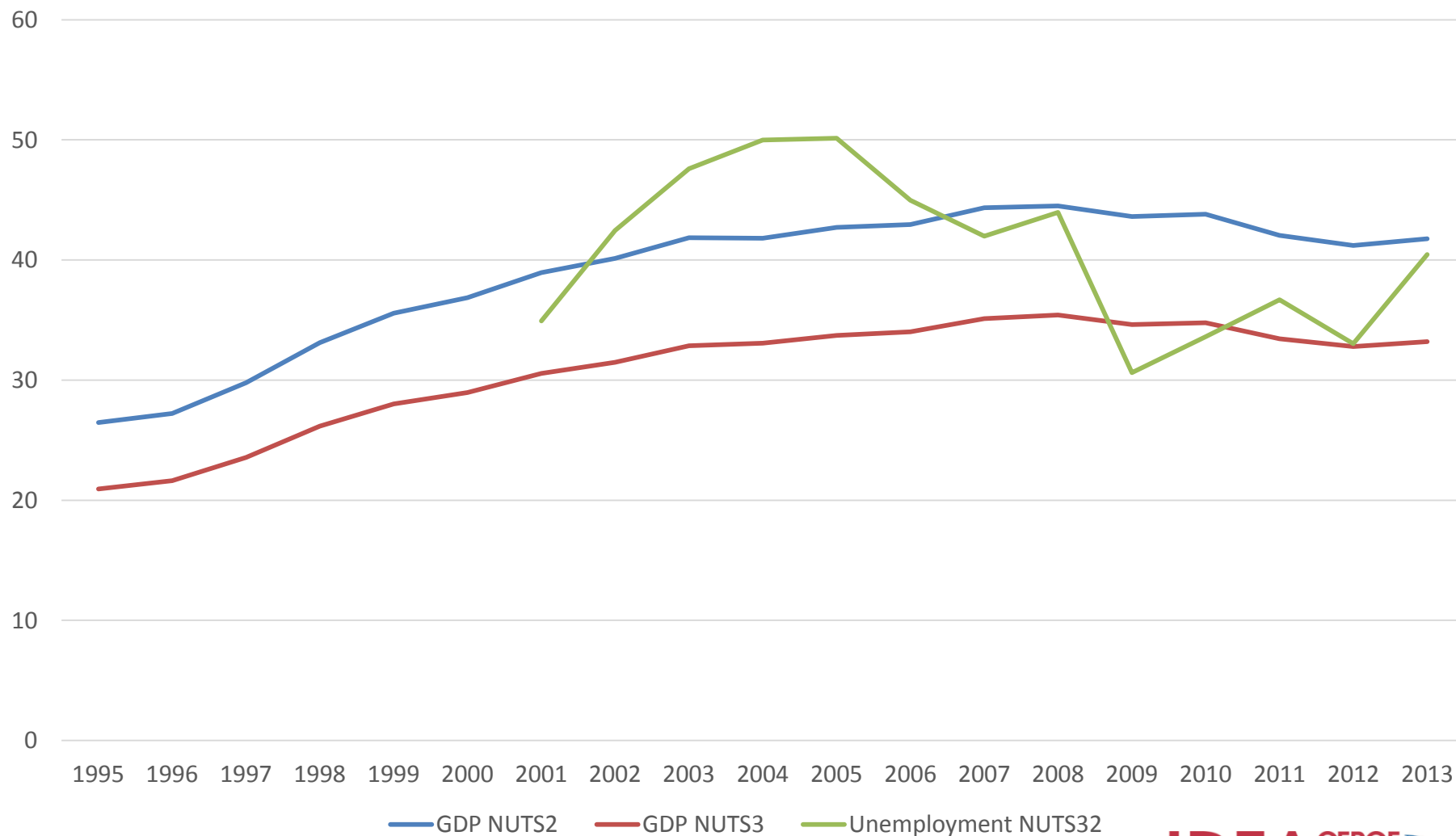
# Regional Disparities

# CR and Regional Disparities

- Two levels of concern:
  - Convergence of the whole CR to the EU levels
  - Intra-country divergence/convergence patterns
- Empirical aspects:
  - Some new member countries (incl. the Czech Republic) seem to be converging relatively slowly
- Theoretical aspects:
  - New economic geography perspective: is convergence the most likely scenario?

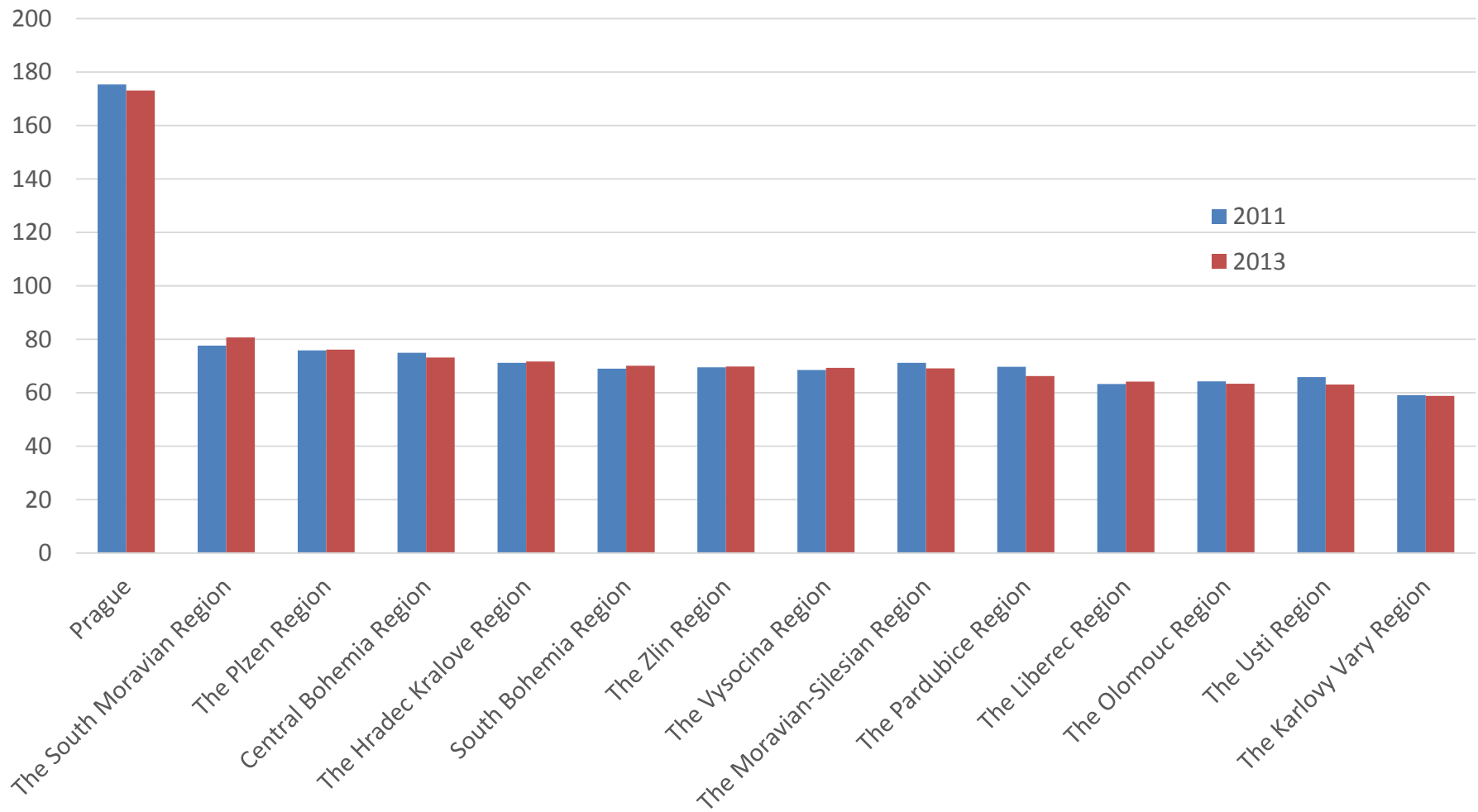
# Dispersion of Regional GDP p.c. and Unemployment

Coef. of variation based on nom. data



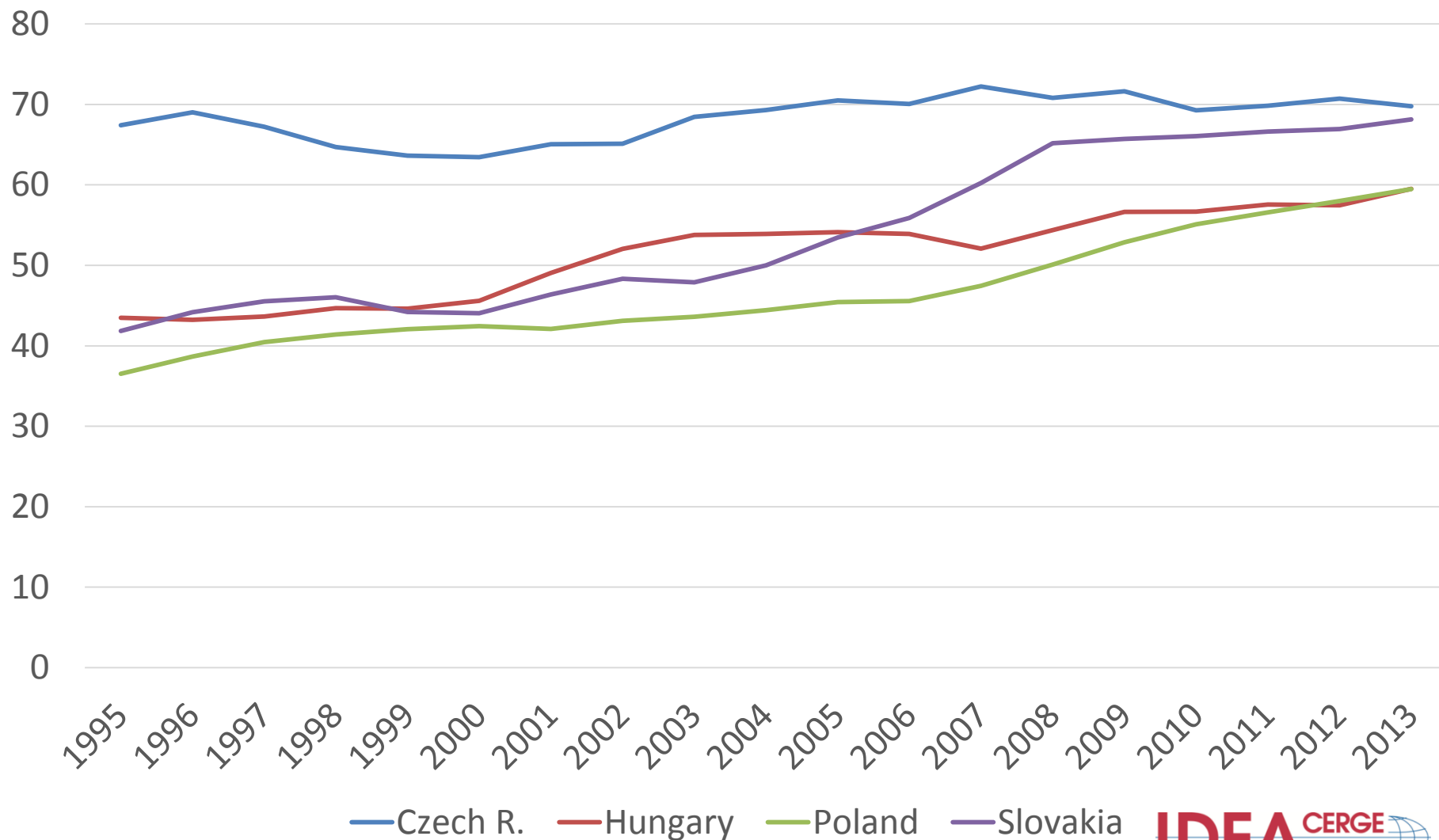
# Regional Differences: NUTS3

EU28 = 100, PPP adjusted data



# Visegrad: Catching up with the Eurozone 1995-2013

GNI p.c. PPP, Euro = 100



# Catching up with Austria?

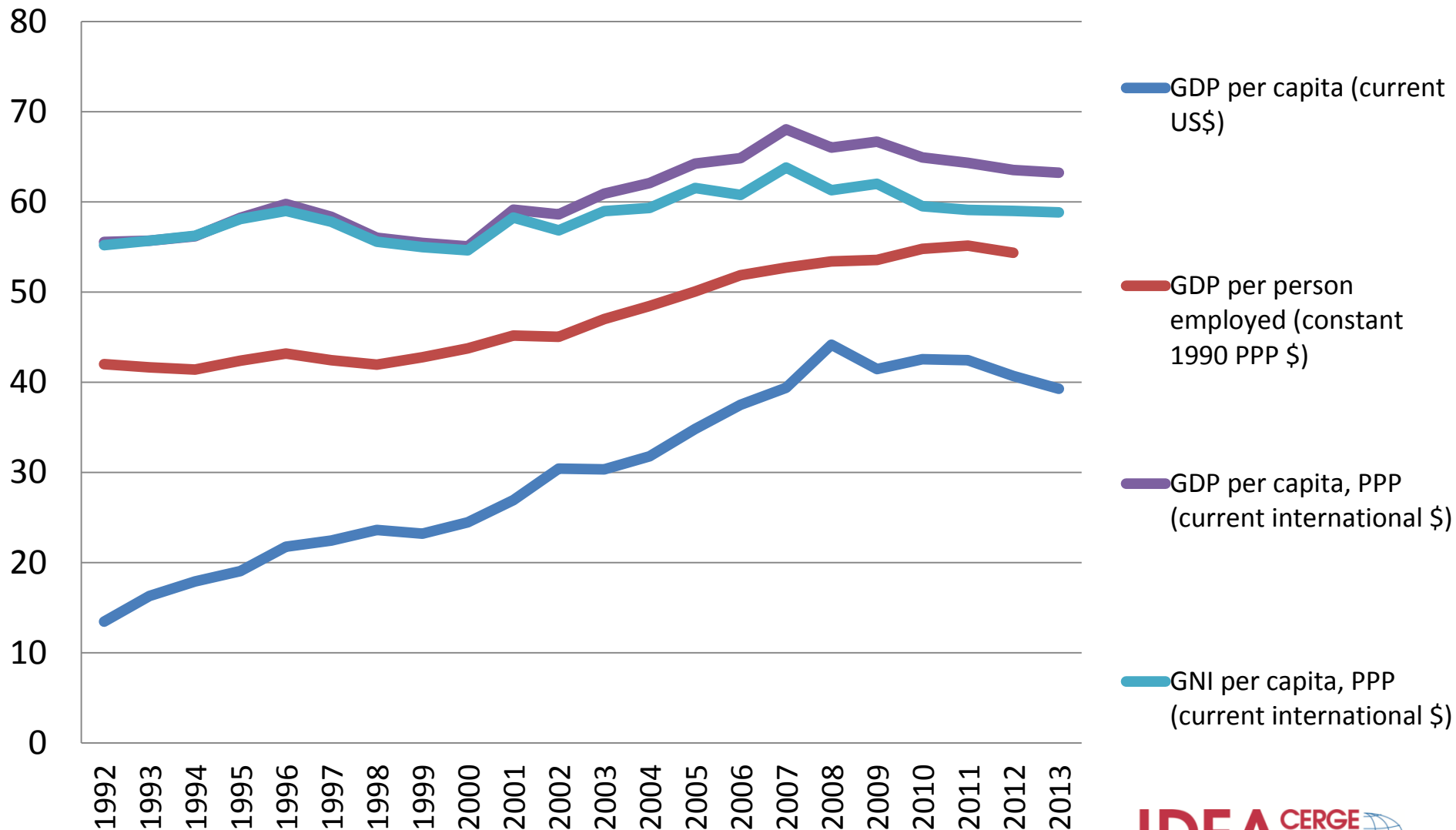
Convergence extrapolations based on GNI p.c., PPP

Period	Initial level (Austria = 100)	Level at the end of the period (Austria = 100)	How many years (relative to 2013) needed to catch up with Austria?
1992 - 2013	55.2	56.8	174
2002 – 2007	56.2	63.8	19
2007 – 2013	62.8	58.8	$\infty$

Own calculations from the WDI data.

# Czech Convergence: CR v. Austria

Austria = 100 in every year



Source of data: WDI

# Catching up with the Eurozone - Visegrad

Based on GNI p.c. in PPP

	1995-2013	2002-2007	2007-2013
Czech Republic	187	17	xxx
Hungary	30	3082	xxx
Poland	19	27	14
Slovakia	14	9	19

Notes:  
Simple extrapolations based on WDI data.  
The number shows how many extra years (since 2013) would be needed for the country to fully converge to the GNI p.c. (PPP) of the Eurozone



# Thank you for Your Attention!

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