Investment activity in the Czech Republic

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Investment – general picture

- Investment-to-GDP ratio has been decreasing over time reflecting the shift of the economy’s structure to less capital-intensive productions amid gradual real and price-level convergence of the country to western standards (prices of imported capital goods declining relatively vis-a-vis prices of domestically produced value added).
- Capital stock increases have been generating a relatively stable contribution to $Y^*$ growth when identified by a standard Cobb-Douglas production function. Variations in $\Delta Y^*$ are rather caused (explained) by total factor productivity and labor force contributions.
Business cycle has been in last decade usually tightly synchronized with investment cycle regardless various shocks hitting the economy (foreign demand drop, domestic fiscal consolidation etc.).

However, in 2015 and 2016 investment cycle diverged significantly from the business cycle due to the end/start of respective EU funds program periods.
• Investment activity of government and (surprisingly?) also corporate sector was strongly influenced by EU funds cycle in 2015-2016 (end/start of the old/new program period).
• Investment growth recovered in corporate sector in the end of 2016 amid an increasing positive contribution of investment of households into dwellings in recent quarters.
• The sectoral breakdown corresponds with the material structure with boom/bust cycle in investment in other buildings and structures, and ICT, transport and other machinery.
Although investment in firms is mostly financed from „own“ resources, the share of EU co-financing in 2015 temporarily sharply increased followed by its subsequent drop. This effect is especially well pronounced when converting the figures into y-o-y changes.

This indicates sensitivity to the end/start of EU funds program periods even in corporate sector (2015 efforts to draw down previous program, 2016 only very gradual onset of the new program period).
Private investment records the biggest positive response to an increase in external demand with "standard" effects of MP and crowding-out effect of public investment.
Government investment partially crowds out private investment, especially in manufacturing and agriculture, but supports investment in construction and to a lesser extent also in trade and services including tourism (not shown in the graph).
In 2016, a huge drop in government investment is connected with slow drawdown of EU funds from the new program period and problems with environmental impact assessment (EIA) + plus a base-effect of the previous year’s fighter jets contract.

In 2017-2018 the growth of government investment will rebound with improved drawdown of European funds from the new program period.
The bulk of public procurement is investment-type and consists largely of procurement of construction and supplies.

Investment-type public procurement leads public investment by around 3 quarters and is currently indicating quite a sharp increase in public investment this year (note: new public procurement law may have caused some frontloading of procurements with authorities’ intention to sign respective contracts/run projects under the previous law).
Thank you for your attention

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