

THE CZECH ECONOMY DEVELOPMENT

First half of 2022

Summary Data on the Czech Republic

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Source of data in the whole analysis: Czech Statistical Office (CZSO), Ministry of Finance (MF CR), Czech National Bank (CNB), Ministry of Labour and Social Affairs (MLSA), Czech Social Security Administration (CSSA), Eurostat, CZSO calculations.

Latest information provided in this report has been dated the 7th September 2022.

1. Summary

- The year-on-year growth of the Gross domestic product (GDP) slowed to 3.7%¹ in Q2 2022. It is a consequence of significantly weaker year-on-year growth of the domestic consumption, which is currently being hindered by the real decline of household income. The influence of low comparative basis of the preceding year also stopped strengthening the year-on-year GDP dynamics, since the pandemic restrictions already ceased to be in place in the last year's Q2. The gross capital formation contributed to the year-on-year GDP growth the most, mainly thanks to the growth of the inventory stock. The foreign demand was in contrast crimping the GDP growth. Quarter-on-quarter, the GDP increased by 0.5% and again the gross capital formation supported the dynamics the most. The consumption mildly fell quarter-on-quarter. The CR ranked among the group of countries with below average growth of the GDP within the EU. The total year-on-year GDP increase reached 4.2% in the EU in Q2 and quarter-on-quarter the GDP went up by 0.7%.
- The Gross value added (GVA) rose by 3.4% in Q2 year-on-year. The GVA increased in the majority of branches except for agriculture, forestry and fishing compared to the last year. Especially the services thrived – the GVA grew for other service activities, in the group trade, transportation, accommodation and food service or in information and communication. Construction also markedly grew year-on-year. The GVA was again moderately rising in manufacturing following two year-on-year decreases. Quarter-on-quarter, the GVA went up in total by 0.5%. Many branches of services, especially professional, scientific, technical and administrative activities or information and communication recorded a considerable revival of the GVA. The GVA also slightly increased in manufacturing.
- Export of goods and services rose by 1.8%² in real terms year-on-year in Q2 2022. However, the import still grew faster and increased by 2.7%. The resulting balance fell into the deficit for the first time since Q2 2004, which amounted to 25.8 CZK bn. It represented a year-on-year worsening by 77.3 bn. Nevertheless, solely the balance of trade with goods was deteriorating, on the contrary the positive balance rose for services. The trade with oil and natural gas, basic metals and coke and refined oil products affected by the increased prices the most contributed to the year-on-year worsening of the trade with goods balance in Q2. The balance of trade with motor vehicles on the contrary again improved year-on-year after four quarters of slumps and the trade with electricity also had a favourable effect.
- The year-on-year growth of the total price level (based on the GDP deflator) accelerated to 6.6% in Q2. It is the most since Q3 1998. The price level increased by 2.0% quarter-on-quarter. Further, the year-on-year increase of the consumer prices sharply hiked up to 15.8%. The year-on-year price growth accelerated in the majority of consumer basket divisions, but food, non-alcoholic beverages, housing and energies had the largest effect on the acceleration of the total price growth. Those together with the prices of transportation shared the most on the total year-on-year addition. Industrial producer prices in the CR increased by 27.7% year-on-year in Q2 and by 7.8% quarter-on-quarter.
- Also the monetary policy-relevant rates were raised in Q2 2022. Subsequently the client rates on the term deposits increased and the credit financing became more expensive for both households and businesses. The notable spill over of funds from the current accounts to the term deposits thus continued.
- The recovery of the labour market continued in Q2. Total employment³ expanded by 2.5% year-on-year in Q2 and by 1.6% quarter-on-quarter. At the same time both employees and entrepreneurs participated on the employment growth. The expectations of entrepreneurs were gradually slightly worsening in the course of this year. The general unemployment rate arrived at 2.3% in this year's July. It mildly decreased and was falling more briskly for males rather than females. The average gross monthly nominal wage climbed up to 40 086 CZK in Q2. Its year-on-year growth eased pace to 4.4%, but it can be for the large part ascribed to the slump in the branch health and social care, whose development fundamentally reflected the pay out of extraordinary bonuses last year in spring. The wage increased after seasonal adjustment by 1.3% quarter-on-quarter. In real terms, the average wage was by 9.8% lower year-on-year and the purchasing power fell for employees in all branches.

¹ Data regarding the GDP, gross value added and their components are expressed in constant prices and adjusted for seasonal and calendar effects.

² According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).

³ Employment data are in the national accounts conception and adjusted for seasonal effects.



- State budget ended in deficit of 183 CZK bn in H1 2022. The negative balance was lower in comparison to the same period of both years 2020 and 2021. The pressure on the extraordinary expenditures connected to the termination of counter pandemic restrictions loosened and simultaneously the economy kept further recovering. The unprecedented strong price growth as well as the need for unforeseen expenditures associated with the refugee wave from Ukraine however led to a significant quarter-on-quarter deepening of the budget deficit. The total tax income exceeded the level of the comparable period before the onset of pandemics this year in H1.

Selected Key Indicators of the Economic Development*

Indicator	Unit	2021			2022		Whole year	
		2q	3q	4q	1q	2q	2020	2021
Economic Performance								
Gross Domestic Product in the CR ¹	y/y, in %	9,1	3,8	3,5	4,6	3,7	-5,5	3,5
	q/q, in %	1,4	1,7	0,8	0,6	0,5	x	x
Gross Domestic Product in the EU ¹	y/y, in %	14,0	4,1	5,0	5,5	4,0	-5,9	5,4
Final consumption expenditure ¹	y/y, in %	6,4	4,9	5,5	6,1	0,7	-3,9	3,2
Gross fixed capital formation ¹	y/y, in %	-0,3	3,1	3,9	6,9	6,2	-6,0	0,6
Exports of goods and services ^{1,3}	y/y, in %	33,1	-0,2	-3,9	0,4	1,8	-8,1	6,8
Imports of goods and services ^{1,3}	y/y, in %	34,5	10,3	6,0	5,1	2,7	-8,2	13,2
Balance of foreign trade ^{2,3}	in CZK bn	51,4	16,6	16,1	2,9	-25,8	385,6	179,3
Balance of economic sentiment indicator ⁴	in p.p.	12,4	4,5	3,3	4,4	6,3	-3,4	3,3
Performance in Main Branches								
Industrial production ⁴	y/y, in %	28,3	-0,1	-1,9	-0,4	-0,1	-7,2	6,6
Construction production ⁴	y/y, in %	4,3	2,7	5,2	9,9	3,0	-6,2	2,4
Sales in services ⁴	y/y, in %	14,8	9,8	12,7	13,1	12,1	-11,8	7,5
Sales in retail trade ⁴	y/y, in %	7,3	3,9	6,2	6,4	-3,0	-0,9	4,4
Prices								
Consumer price index	y/y, in %	2,9	4,1	6,1	11,2	15,8	3,2	3,8
HICP in the CR	y/y, in %	2,8	3,3	5,0	10,2	15,0	3,3	3,3
HICP in the EU	y/y, in %	2,2	3,1	4,9	6,5	8,8	0,7	2,9
Agricultural producer prices	y/y, in %	3,8	7,1	15,7	23,9	39,0	-3,3	6,3
Industrial producer prices	y/y, in %	5,3	9,0	12,8	21,8	27,7	0,2	7,2
Service producer prices in the bus. sph.	y/y, in %	1,0	1,3	1,8	4,2	5,8	2,2	1,4
Terms of trade in trade with goods	in %	99,5	99,3	97,9	96,4	95,9	102,2	99,7
Labour Market								
Total employed in the CR ³	y/y, in %	0,4	0,9	1,7	1,5	2,5	-1,7	0,4
General unemployment rate in the CR ⁵	in %	3,0	2,7	2,3	2,4	2,5	2,6	2,8
General unemployment rate in the EU ⁵	in %	7,2	6,9	6,5	6,2	6,1	7,2	7,0
Average employee wage (nominal)	y/y, in %	10,1	4,4	2,9	7,3	4,4	4,6	4,8
Average employee wage (real)	y/y, in %	7,0	0,3	-3,0	-3,5	-9,8	1,4	1,0
Monetary Conditions								
Two week repo rate ⁶	in %	0,50	0,75	3,75	4,50	7,00	0,25	3,75
Exchange rate CZK/EUR		25,6	25,5	25,4	24,7	24,6	26,4	25,6
Exchange rate CZK/USD		21,3	21,6	22,2	22,0	23,2	23,2	21,7
State Budget⁷								
State budget balance in the CR	in CZK bn	-140	-61	-93	-59	-124	-367	-420
State debt ⁶	in CZK bn	2 416	2 334	2 466	2 594	2 708	2 050	2 466

Data source: CZSO, CNB, MF, Eurostat

* Unless stated otherwise, data relate to the CR.

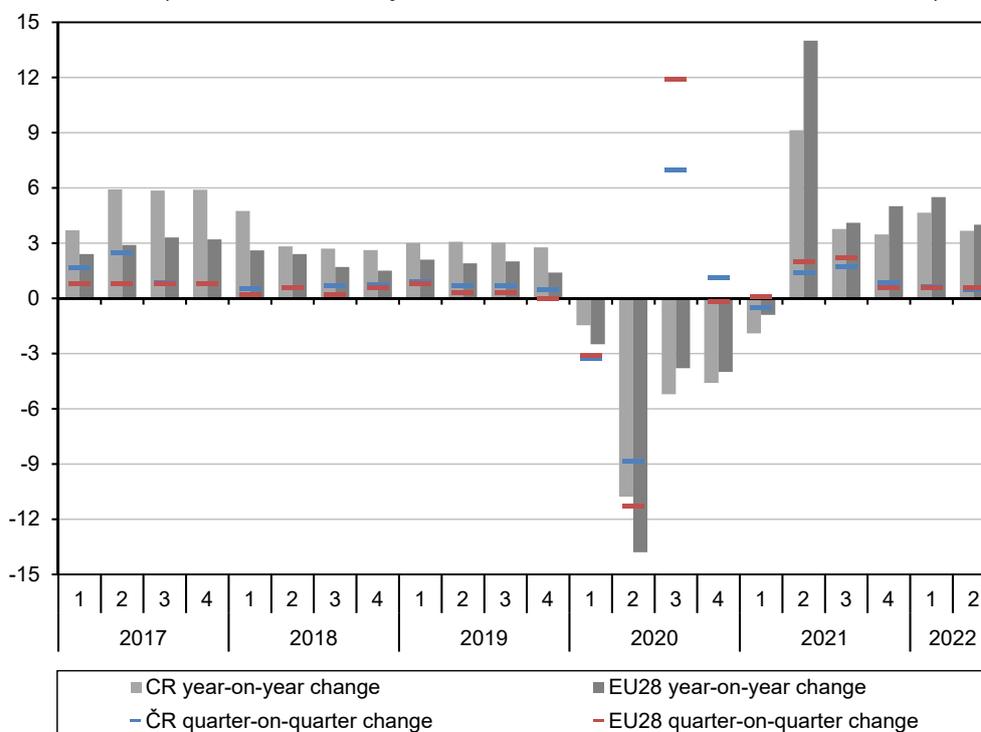
¹ data adjusted for seasonal and calendar effects in constant prices² data adjusted for seasonal and calendar effects in current prices³ in the national account conception, in natural persons⁴ adjusted for seasonal effects⁵ seasonally adjusted, age group 15 – 74 years⁶ balance at the end of period⁷ based on treasury fulfilment

2. Overall Economic Performance

The Czech economy has continued growing.

The Gross domestic product (GDP) sustained growth in Q2 2022 and increased by 0.5%⁴ in real terms quarter-on-quarter. The economic development was marked by widespread uncertainty. Thus mainly the gross capital formation contributed to the quarter-on-quarter GDP growth, especially the change of the inventory stock. On the contrary, the domestic consumption again slightly fell quarter-on-quarter. The favourable effect of the foreign demand, which boosted the GDP growth in the last two quarters also ceased. The year-on-year addition to Gross domestic product slowed down to 3.7%. The effect of the weak comparative basis, which was reflected in the year-on-year GDP development in the last year also dissipated after a longer time period. The gross capital formation also favourably affected the year-on-year GDP dynamics. The consumption, especially the government consumption, also weakly contributed. The foreign demand had exerted a negative influence. According to the data in constant prices, the GDP overtook in real terms the level of the same period of year 2019 by 0.9% in Q2 and it moved close to the total pre-pandemic peak from Q4 2019.

Chart 1 GDP (volume indices, adjusted for seasonal and calendar effects, in %)



Source: CZSO, Eurostat

Mainly the EU economies with a large share of industry face difficulties.

The year-on-year GDP growth in the EU slowed down to 4.2%⁵ in Q2. Counter growth factors, such as shortage of components or rising prices of energies, mostly hit the countries featuring a large share of industry. Estonia (0.3%), Slovakia (1.7%) and Germany (1.7%) thus recorded the smallest year-on-year GDP addition. The Czech Republic also ranked below the Europe-wide average. The GDP on the other hand grew the most in Ireland (10.8%), Malta (8.9%) and Slovenia (8.3%) and the large economies of the South, such as Spain (6.3%) and Italy (4.7%) were also above the Europe-wide average. Quarter-on-quarter, the GDP expanded by 0.7% in the EU and it thus maintained a stable pace already third quarter in a row. The Polish (-2.1%), Estonian (-1.3%), Latvian (-1.0%) and Lithuanian (-0.5%) economies decreased

⁴ The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 30th August 2022.

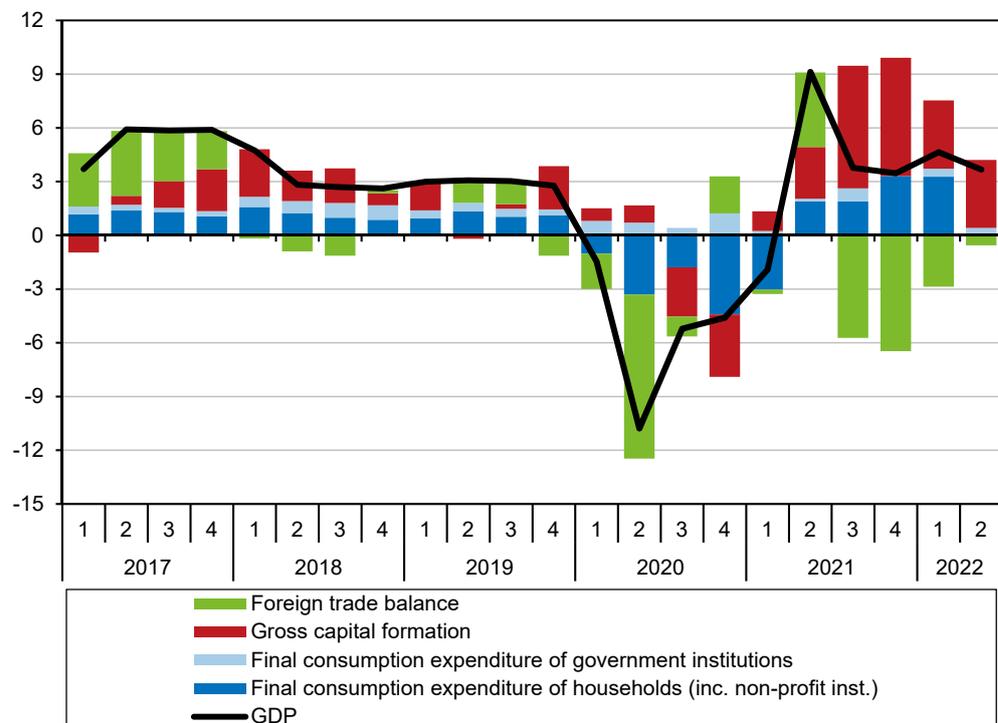
⁵ Data for Luxembourg were not available.

quarter-on-quarter. Portugal stagnated and the GDP grew only slightly in Germany (0.1%). The largest quarter-on-quarter GDP increase occurred in the Netherlands (2.6%), Romania (2.1%) and in Croatia (2.0%).

Even the relatively strong rise of wages and salaries did not cover the jump in prices.

The volume of paid out wages and salaries expanded by 8.5% in Q2 2022 year-on-year. Total employment was by 2.5% higher year-on-year⁶. Even though the nominal increase of wages and salaries was relatively high, it did not suffice to cover the sharply hiking price level and thus the volume of wages and salaries fell by 6.7%⁷ in real terms. With the exception of branches with the dominant government sector⁸, where under the influence of high comparative basis⁹ the paid out wages fell by 4.9% year-on-year, compensations to employees grew in the whole economy. The expanded volume of wages and salaries was also supported by hiring in some branches, mostly in services. The wages and salaries recorded the largest year-on-year addition in other service activities (24.1% given the employment growth of 2.9%), in group trade, transportation, accommodation and food service (21.3% with employment increase by 4.1%), real estate activities (18.3%, employment addition by 6.4%) and in information and communication (16.0% given the employment growth of 3.3%). The volume of paid out wages and salaries also grew strongly in professional, scientific, technical and administrative activities (10.9% with employment growth by 0.5%), in construction (10.6%, employment increased by 3.8%) and in manufacturing (9.3%, employment growth 1.6%). The addition to wages and salaries ended below the overall average in agriculture, forestry and fishing (8.3% with employment growth of 3.0%) and in financial and insurance activities (6.7%). Financial and insurance activities was also the only branch, where the employment dropped year-on-year (-1.4%).

Chart 2 Contribution of expenditure items to real GDP change* (volume indices, year-on-year growth, contributions in p.p., GDP in %)



Source: CZSO
*after exclusion of imports for final use

⁶ Employment data are in the national accounts conception (persons), figure seasonally adjusted.
⁷ Converted into the real expression using the deflator of final consumption expenditure of households.
⁸ Public administration, education, health and social work.
⁹ Payment of covid bonuses to medical professionals.



Domestic consumption grew only negligibly year-on-year.

The domestic consumption was by 0.7% higher year-on-year in Q2. It represented a marked weakening compared to the previous four quarters, which were affected by a weak comparative basis. The abolition of restrictions and opening of retail and services was also joined by massive realisation of the postponed household consumption in the last year's Q2. The household consumption stagnated year-on-year in Q2 (0.2%) and the consumption of government institutions slightly increased (1.8%). The total contribution of consumption¹⁰ to the year-on-year GDP growth attained 0.4 p.p. The domestic consumption fell by 0.2% quarter-on-quarter, for the third time in a row. The concerns of households regarding the growth of prices and further economic development turned into a real slump of their income, which naturally adversely affected the consumption. Still, the quarter-on-quarter decrease narrowed compared to the preceding two quarters. The household consumption was lower by 0.1%, while the government expenditures lagged by 0.4%. From the view of the durability, the consumption of durable items fell the most year-on-year (-9.6%)¹¹. The strong quarter-on-quarter downswing (-12.1%) for this category also signals the concerns of households in relation to further development. Consumption of non-durable goods was by 7.5% lower year-on-year and medium term durability goods by 4.2%. By contrast the considerable year-on-year rise of consumption of services continued (12.2%). Despite the uncertainty of households, the slump has so far avoided the services.

Investment into other buildings and structures and also machinery and equipment grew.

The expenditures on gross capital formation expanded by 12.8% year-on-year in Q2. In that, the gross fixed capital formation increased by 6.2%. The gross capital formation added 3.8 p.p. to the year-on-year GDP growth. The inventory stock creation¹² thus substantially influenced the growth of both the gross capital and total GDP. It is already strengthened for more than one year in connection to the shortage of components in industry. The businesses thus accumulated final products awaiting supplies and completion. This situation partially improved, but the businesses newly feel the need to stock up with material in the event of further shortages and also due to sharply rising prices. Quarter-on-quarter, the expenditures on gross capital formation went up by 3.0%. While the gross fixed capital formation increased by 0.7%. The quarter-on-quarter comparison was thus also strongly assisted by the creation of the inventory stock. Based on the data of the type classification of gross fixed capital formation, year-on-year the investment into transport equipment (17.5%), further other buildings and structures (7.4%) and ICT and other machinery and equipment (4.7%) increased the most. Investments into dwellings were by 4.6% higher and the expenditures on intellectual property products rose by 3.7%. The year-on-year dynamics was however in some cases aided by the comparison with the weak last year's Q2. Since the quarter-on-quarter development showed considerable decrease of expenditures on dwellings (-2.5%) and lowering of investment into transport equipment (-0.3%). The investment into other buildings and structures (3.1%) and ICT and other machinery and equipment (1.6%) grew notably quarter-on-quarter.

Balance of foreign trade with goods and services slumped into deficit.

Export of goods and services went up in real terms by 1.8%¹³ year-on-year. Strictly the export of services was growing (15.7%), which is steadily recovering from the pandemic downturn in the past year. On the other hand the export of goods kept falling year-on-year (-0.6%). The year-on-year addition to import of goods and services reached 2.7% and again thus exceeded the dynamics of export. The export of goods and services rose by 1.2% in real terms quarter-on-quarter. Export of goods moderately increased (0.5%), however the services fared much better (4.9%). Import was by 1.8% higher

¹⁰ Additions to the GDP change after exclusion of imports for final use.

¹¹ Data regarding consumption based on durability are in domestic conception.

¹² Change of inventories (in current prices and seasonally adjusted) attained 92.8 CZK bn in Q2.

¹³ According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). Foreign trade balance in current prices and after seasonal adjustment.

quarter-on-quarter, in that the import of goods increased by 1.1% and services by 5.7%. The resulting balance of trade with goods and services worsened by 77.3 CZK bn year-on-year and thus dropped into the deficit of 25.8 bn. It represents the first balance deficit since Q2 2004. The balance of trade with goods was in deficit (-55.7 CZK bn), on the contrary the trade with services amounted to surplus of 29.9 bn.

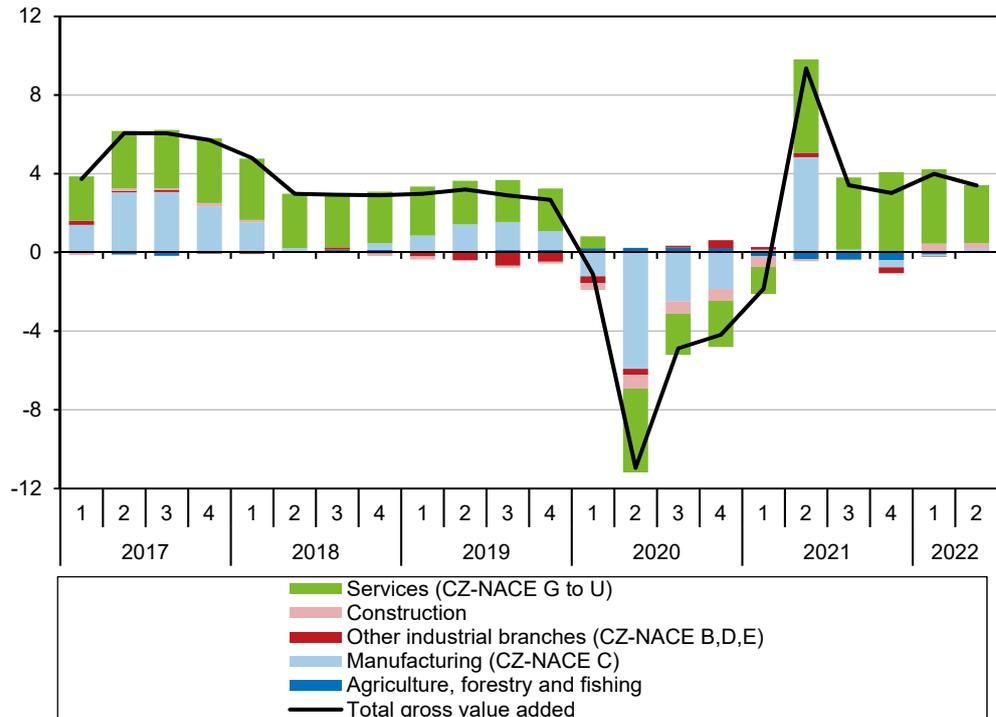
The GVA was rising in the majority of branches year-on-year.

The Gross value added (GVA) mildly grew by 3.4% year-on-year in Q2. The year-on-year comparison is not affected by the low comparative basis to such an extent as in the preceding quarters. Apart from agriculture, forestry and fishing (-0.7%), the GVA increased for all branches year-on-year. Mainly services prospered. The effect of the low comparative basis is apparent mainly for other activities (17.1%) since the branch started to revive from the pandemic downturn only last year. The GVA significantly grew in group trade, transportation, accommodation and food service (7.7%), in information and communication (6.6%), in professional, scientific, technical and administrative activities (5.7%) and in construction (5.1%) this year in Q2. The GVA went up by 3.2% in financial and insurance activities year-on-year and by 1.1% in branches with prevalence of government institutions. The GVA in real estate activities (0.8%) mildly increased year-on-year after more than two years of decreases. Manufacturing again slightly increased (0.8%) after two decreases.

Part of services reported significant quarter-on-quarter GVA recovery.

In comparison to the previous quarter, the GVA increased by 0.5%. The majority of branches was expanding except for construction (-1.1%), real estate activities (-0.5%) and branches with dominance of the government institutions (-0.3%). Professional, scientific, technical and administrative activities (3.5%), information and communication (2.4%), other service activities (2.4%) and agriculture, forestry and fishing (2.3%) reported a notable revival of the GVA. The GVA grew moderately in financial and insurance activities (0.5%), in group trade, transportation, accommodation and food service (0.4%) and also in manufacturing (0.3%).

Chart 3 Contributions of branches to real change in GVA (volume indices, year-on-year contributions in p.p., GVA in %)



Source: CZSO



3. Branches Performance

The industrial output kept further growing quarter-on-quarter in spite of significant growth barriers, rising cost pressures as well as uncertainties connected to the future accessibility of gas.

Data from the business statistics confirm, that the trend of moderate recovery of the domestic industry also continued during this year's H1. Its output¹⁴ increased by 1.2% quarter-on-quarter in Q1, by 0.8% in Q2. Even though it does not concern staggering rates of growths, it presents more favourable results than observed for the whole last year. Manufacturing of motor vehicles, where the difficulties with supplies of some production components eased somewhat this year in spring, played a large part. If in Q1 the majority of other more significant manufacturing activities prospered, the output growth generally halted in these in the subsequent time period. Additional substantial growth barriers also limited the industry already for more than two years, at the same time some of them strengthening this year. The ignition of the Russia-Ukraine war conflict also substantially contributed to the escalation of the price growth of energies as well as other material inputs, which could have already adversely affected the performance of some energy more consuming branches. Output in the whole industry was thus still below its pre-pandemic peak this year in Q2¹⁵.

Industrial production stagnated in H1. Manufacturing of electrical appliances and also some smaller industries, which struggled as a consequence of involuntary shutdown of shops last year, had a pro-growth effect.

This year's industrial output in fact only stagnated in the year-on-year comparison this year in both Q1 and 2. The disruption of the global supply chains was not yet too evident in the domestic industry at the beginning of the last year and that is why especially the manufacturers of motor vehicles relatively quickly erased their losses from the previous "covid" year at that time. In total for the whole H1 2022, the performance of branches, which were deeply hit by the slump of demand related to the enforced shutdown of operations in the critical periods of the pandemics, increased the most. Manufacturers of beverages thus recorded 12% output growth this year, other smaller industries recorded even large revival – manufacturing of wearing apparel (+13%) and leather products (+23%). Pharmaceutical industry (+11%), which together with manufacturing of paper products belonged to the only industrial branches, whose output growth was not disrupted for the whole pandemic period still flourished thanks to the still strong domestic as well as foreign demand. The weight significant manufacturing of electrical equipment worked the most in the direction of growth of the whole industry in H1 (+0.3 p.p.), despite its relatively modest year-on-year addition (3.7%). Some other more significant industries also strengthened by a similar pace – chemical industry or manufacturing of construction materials (sound domestic demand also had a favourable effect here). The production of construction, which benefited from the revived investment activity both in the domestic economy and the euro area last year, only increased by 2.8% this year. In branches heavy on energy consumption of metallurgical and metalworking industry, the output even lowered (similarly around 3%).

Industry growth was the most hindered by manufacturing of motor vehicles, the situation however improved in Q2 here and the number of manufactured vehicles approached the level

The production in the key branch manufacturing of motor vehicles declined by 4.3% year-on-year in this year's half year and worked by -0.8 p.p. (the most out of all branches) against the output of the whole industry. The manufacturing of motor vehicles faced serious supply difficulties, further intensified by the freeze of production in some source components in China as well as Ukraine at the beginning of this year. The situation of supply of both chips and wire harnesses however gradually improved and thus the output was already slightly growing in this branch in Q2, specifically by 2.5%¹⁶. The utilisation of production capacities was however at

¹⁴ Includes branches of mining and quarrying, manufacturing and also energetics (here as activities of production and distribution of electricity, gas, heat and air conditioning supply). All year-on-year rates of growth of output (at the level of branch sections as well as divisions) are adjusted for calendar effects, quarter-on-quarter rates then also for seasonal effects.

¹⁵ Industrial output was by 1.5% below the level of so far record period (Q2 2019). Full two thirds of all (nearly thirty) key industrial branches stayed behind their peak from the pre-pandemic boom era so far (years 2014 till 2019). It was mainly mining and processing of coal (by 37%), leatherworking industry (27%), manufacturing of computers, electronic and optical appliances (14%) and energetics (11%). On the contrary, manufacturers of electrical equipment (by 5%) or building materials (4%) and food (3%) already overtook the pre-crisis level. From the smaller activities mainly paper industry (15%), pharmaceutical industry (11%), manufacturing of furniture (9%) and other manufacturing industry (14%), including for instance manufacturing of medical instruments, sport equipment, games and toys belonged into this category.

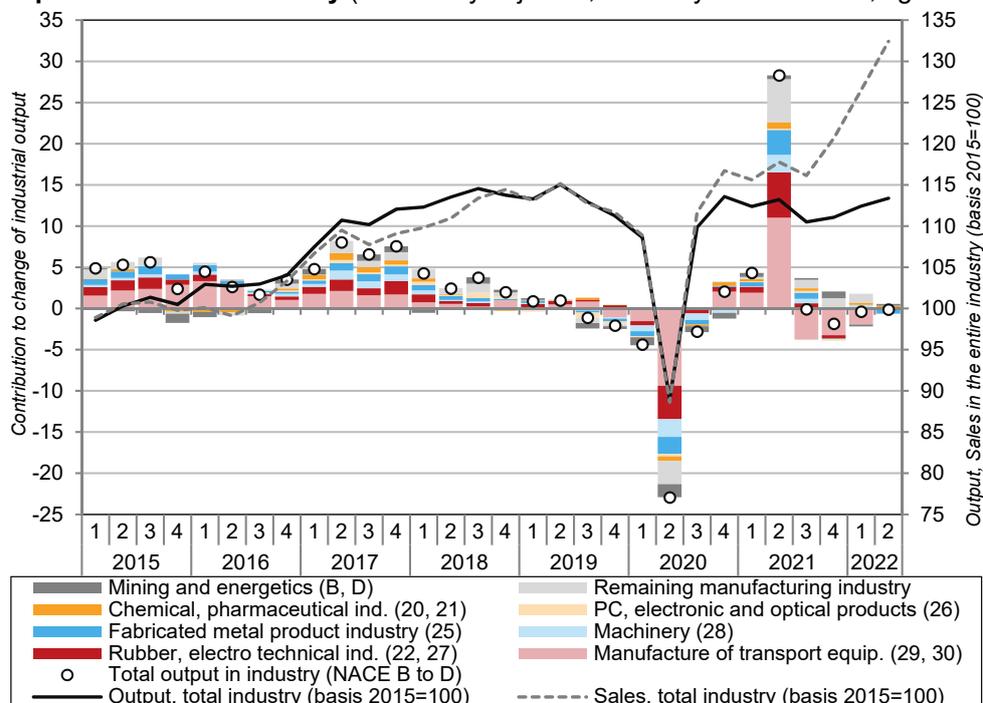
¹⁶ Data of the Automotive Industry Association also depict this. There were over 120 thousand personal vehicles manufactured in the CR both in May and June this year, which made these months approach the level from the same period of years 2017 till 2019, when the manufacturing of motor vehicles peaked locally. The manufacturing of personal vehicles reached 607 thousand in total for H1 2022 (by 8% less year-on-year, at the same time it was the third lowest value after year 2010).

from before the pandemics.

Weaker demand for gas as well as heat due to the effect of both weather and savings in households and businesses pressed down the output in energy industry.

the level substantially below the long-term average here already fourth quarter in a row¹⁷. 86% of businesses in the branch of motor vehicle manufacturing (record 53% in the whole industry) indicated the shortage of materials and equipment this year in July¹⁸. Difficulties of the motor vehicle manufacturing were also reflected in the tied manufacturing of rubber and plastic products, where the output dropped by even 3% year-on-year in H1. The production of electricity outside the manufacturing branches lowered (by 1.0%), even though the marked restriction of operations of the number of retail shops and services was connected to the lower consumption of electricity last year from January till April. This year's lower production was mirrored in the decrease of consumption of both gas and distributed heat (due to the above average temperatures in the winter months as well as savings in households and businesses)¹⁹. The amount of the generated electricity on the contrary slightly increased²⁰. The production in the long-term subdued branch of mining and quarrying grew by 5.5% (and continued in the growth from H2 2021). The revival is connected to the heightened demand for construction materials and newly also for coal.

Chart 4 Contributions of sub-branches to the year-on-year change of the total industrial output (in p.p., adjusted for calendar effects, real, in p.p.) and sales* and output in the entire industry (seasonally adjusted, level of year 2015=100, right axis)



Note: Sales are given in current prices.

Source: CZSO

Growth of sales of businesses from industrial activity strengthened mainly due to higher prices of

Nominal sales of industrial businesses²¹ exceeded the last year's level by 10.9% in H1 2022 (in that even by 12.5% in Q2 itself). The dynamics of development of sales and industrial production is more and more differentiated in the last two years impacted by

¹⁷ It was slightly below 80% at the beginning of both Q2 and Q3 2022. It however slightly exceeded 90% in the last boom period.

¹⁸ Businesses could have indicated more barriers simultaneously.

¹⁹ Consumption of gas reduced by 19.7% in the CR in H1 year-on-year (after adjustment for warmer winter by 14.7%). Wholesale customers had the largest share on this result, nevertheless households also reduced their consumption considerably (by 19%). Based on the fresh data, the total gross manufacturing of heat fell by 7.7% in Q1 this year, mainly thanks to the lower utilisation of the natural gas. Similarly the quantity of consumed heat also decreased, compared with the beginning of year 2020 (when similar temperature conditions arose as this year) the decrease was 3% (in that 4% in households).

²⁰ The gross domestic generated electricity totalled 42.2 TWh in H1 2022 (by 2.2% more year-on-year, but by 4.2% less compared to year 2019). The steam power plants contributed the most to the year-on-year growth of production even despite the decrease of their installed performance, specifically mainly thanks to higher utilisation of coal. The generation of electricity in nuclear power plants also mildly strengthened. In contrast the output plunged by 60% in combined gas/steam plants and by nearly one fifth also in water and pumping stations. Total gross domestic consumption of electricity mildly fell (by 1.5%, nearly solely thanks to households) to 36.8 TWh – i.e. to the lowest value in the last six years.

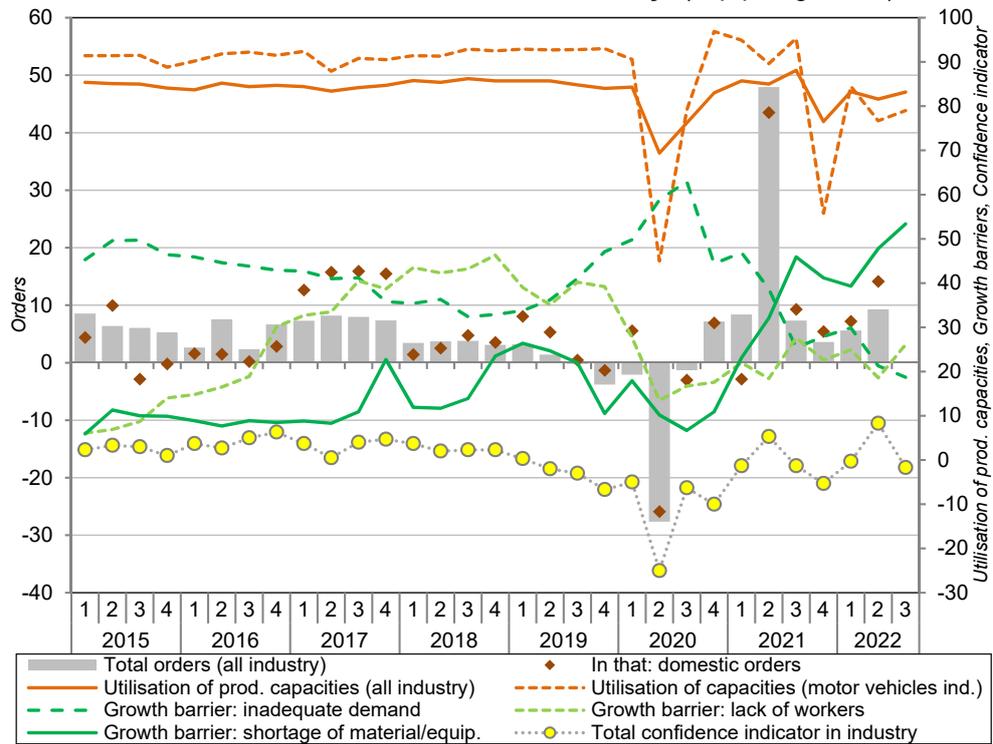
²¹ Year-on-year rates of sales are adjusted for calendar effects.



energies, materials and other semi-finished products. Only manufacturers of motor vehicles earned less year-on-year.

rising costs, which businesses reflect in their final products²². Domestic sales (including also indirect export²³) expanded by 17.9%, by nearly triple pace compared to sales from direct export. It can be explained by strong price growth in branches producing products for the domestic market mainly (mining and quarrying, wood, paper and print industry, metalworking or food industry) and at the same time still relatively low price shift of some traditional export articles (motor vehicles, computers, electronic and optical appliances). The total sales boosted the most to businesses in coal mining (by 43%) and metallurgy and foundry industry or chemical industry (similarly by 35%) this year compared to the last year's first half year. More than two thirds of main branches however recorded double digit growth of sales. Only manufacturers of motor vehicles – for both domestic sales (by 1%) and direct export (6%) - experienced a mild decrease.

Chart 5 New orders in industry (nominal, year-on-year change in %), utilisation of production capacities in industry, selected growth barriers* (in %, right axis) and balance of business confidence indicator in industry* (in p.p., right axis)



* Both utilisation of production capacities and growth barriers express the level in the first month of the given quarter, business confidence balance relates to the second month in the quarter. Orders are adjusted for calendar effects; other indicators are seasonally adjusted. Businesses could have indicated more key growth barriers simultaneously. Source: CZSO, Eurostat

Growth of the volume of new orders reflected mainly the effect of strengthening prices of production costs in the majority of industrial branches.

Although the growth of the value of new orders in selected industrial branches²⁴ gained pace to 9.3% year-on-year in Q2, it lagged behind this year's dynamics of both sales and growth of prices of industrial producers. Manufacturing of metal structures and fabricated metal products, where the value of contracted works was raised by nearly one fifth, contributed the most to the larger volume of orders. Still no real growth of demand can be reported since the high price growth of inputs in this branch significantly enters into the value of orders. With respect to the dynamics of the production costs as well as the last year basis, the current growth of orders in manufacturing of electrical appliances (11%), pharmacy (15%), textile industry (18%) and clothing (14%, mainly domestic demand here)

²² While the sales from industrial activity in current prices exceeded the highest level from the pre-pandemic period already in Q4 2020, it has not manifested in case of industrial production (which is standardly adjusted for price effects) so far.

²³ It concerns export via businesses classified in other branches than industry.

²⁴ Survey on orders is ongoing only in twelve manufacturing branches producing mostly custom-made products, with longer production cycle and larger stocks of orders. Year-on-year growth rates of orders are adjusted for calendar effects.

<p>Growth of demand prevailed in the electrical engineering; improvement manifested for motor vehicle manufacturers.</p>	<p>can be assessed positively. This is in contrast with the three quarters lasting moderate decrease of orders in manufacturing of computers, electronic and optical appliances. The manufacturing of motor vehicle contented with even deeper slump of demand since half of the last year, nevertheless the situation improved in this year's Q2 and the volume of orders very mildly increased here (even despite high last year basis).</p>
<p>The spring optimism of industrial businesses cooled down in July. Both production and employment anticipations were however mildly positive.</p>	<p>Business confidence in industry more significantly declined in July following the growth in Q2 2022 and returned to the level from the beginning of this year (nevertheless the economic sentiment was slightly more favourable than before the onset of the pandemics). The evaluation of the current demand worsened, businesses indicating growth of inventory stock of finished products increased in number and the concerns regarding the overall economic situation (mainly in the nearest three months) also heightened. At the same time however, nearly every third business presumed the growth of output in this time period (only one tenth expected decrease), which also corresponded to the mild optimism in the area of hiring new workers²⁵. Due to more intense stage of completion of current orders the businesses' stock of work shrank at the same time²⁶. The whole branch was limited by significant barriers – shortage of material and equipment afflicted already one half of businesses (mostly in larger traditional export branches²⁷), lack of workers already more than one quarter of businesses²⁸ and the inadequate demand then nearly one fifth²⁹. The shortage of material together with the sharply rising prices of energies as well as other inputs were reflected in the notably high expectations of businesses in the area of raising prices of own production³⁰.</p>
<p>Significant growth barriers remained, anticipation of growth of prices of own production moderated only slightly.</p>	<p>The industrial production has continued its insignificant growth in the EU so far this year. It strengthened by 1.1% compared to the previous quarter in Q2. Year-on-year, it was by 1.4% higher for the whole half-year, primarily thanks to the increased output of branches production both short-term consumption and durable goods and also activities associated with power. On the contrary, the output of branches aimed at products of investment nature went down (-1.9%), especially due to the persisting difficulties of the motor vehicle manufacturers (-6.3%). While the production of the whole industry in the EU exceeded its pre-pandemic level already at the beginning of this year, it was not achieved in the euro area countries even in Q2 (-1.3%). Compared to H1 2021, the output increased the most mainly in the newer member states this year (e.g. by 14.3% in Poland), the decline affected eight states – among more significant industrial countries it was apart from the CR (-0.3%) Slovakia (-3.2), Romania (-1.6%) and Germany (-1.2%). The EU industrial businesses face identical growth barriers (and with similar intensity) as those in the CR this year.</p>
<p>The EU industry continued in slow recovery. It was similarly to the local economy markedly hampered mainly by the shortage of production components</p>	<p>Following the considerable acceleration of the construction output growth³¹ in Q1 2022 (to 3.8% quarter-on-quarter) caused by warm winter³² and large stock of public as well as private orders, a correction occurred in the subsequent time period (especially in the civil engineering construction) and the volume of construction output thus dropped tightly below the level of Q2 2019. The construction output expanded by 5.6% year-on-year for the whole H1 this year, mainly</p>
<p>Growth of construction output markedly accelerated at the beginning of the year; however the pace did not hold in the next time period.</p>	<p>Following the considerable acceleration of the construction output growth³¹ in Q1 2022 (to 3.8% quarter-on-quarter) caused by warm winter³² and large stock of public as well as private orders, a correction occurred in the subsequent time period (especially in the civil engineering construction) and the volume of construction output thus dropped tightly below the level of Q2 2019. The construction output expanded by 5.6% year-on-year for the whole H1 this year, mainly</p>

²⁵ The average registered number of employees in industry stagnated year-on-year this year in H1 (as well as in June itself).

²⁶ According to the July survey, the current stock of orders provided companies with work in average on further 8.4 months. It was the least since the end of year 2017. Still the domestic industrial businesses had at their disposal the largest stock of work among all EU states.

²⁷ Next to the manufacturing of motor vehicles (together with the main tied sub-branches) it was mainly manufacturing of computers, electronic and optical appliances (92% of businesses indicated it as one of the barriers), chemical industry (71%) and machinery (55%) this year in July.

²⁸ It represented the key growth barrier in manufacturing of beverages (49%), leatherworking industry (65%) and metalworking industry (43%), manufacturing of other (especially rail) transport equipment (73%) and repairs of machinery of equipment (41%). The branch manufacturing of rubber and plastic products (69%) and machinery (41%) than held an important role.

²⁹ It formed the key barrier growth in food industry (35%), textile industry (52%), manufacturing of wearing apparel (75%), wood industry (63%) and printing industry (27%), pharmaceutical industry (74%), manufacturing of building materials (28%) and metallurgy and foundry industry (44%).

³⁰ Compared to the record size from April 2022 it decreased only negligibly. 53% of industrial businesses planned to raise their own sale prices in the next three months in July.

³¹ Data related to the construction output are in constant prices, year-on-year rates are adjusted for calendar effects, quarter-on-quarter also for the seasonal effects.

³² Based on data of the Czech Hydrometeorological Institute, the average air temperature was gauged at +2.2 degree this year in Q1, i.e. by 1.7 degree more than the average from period of years 1991 till 2020. The temperature was slightly below the long-term norm (by 0.2°C) in the same period last year.



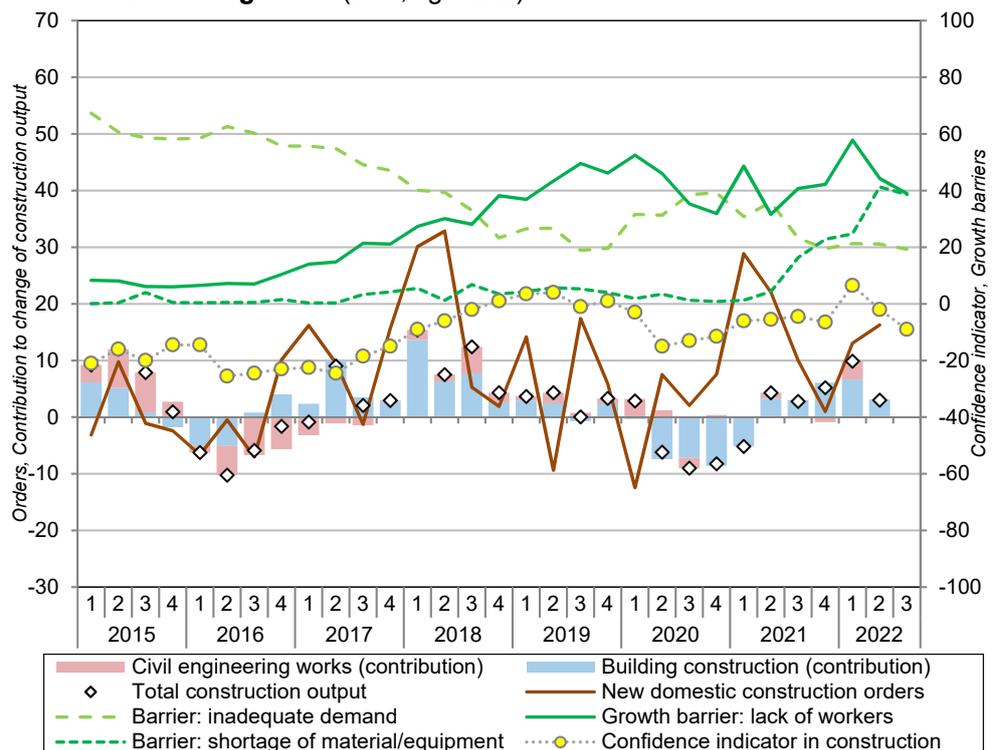
thanks to the building construction (it added 4.5 p.p. to the growth). The pace however slackened in Q2 itself (to 3.0%, to a large extent because the last year's comparative basis already had the usual level³³). The performance of the civil engineering construction even fell year-on-year (-0.4%). The hastened drawing of capital expenditures from the state budget (after termination of the interim budget) accompanied by the large volume of planned investment in the area of transport structures for the whole year 2022 should provide this segment of construction with growth impulses.

Record number of flats was commenced as well as finished within H1.

The number of started but not yet finished structures probably also increased, especially of family houses.

The building construction further also profited from the flat construction. The number of commenced flats climbed up to 22.7 thousand in H1 and it was by nearly one tenth higher year-on-year (it strengthened in all main forms of construction, the most for the family houses). Number of flats in both family houses and residential buildings slightly overtook the record level from H1 2008. Near one third of commenced flats was concentrated in the Central Bohemia region, alternatively in Prague, where however the construction lagged behind the last year's level as well as the record level from year 2006. The total number of finished flats in the CR (17.4 thousand) was also unprecedented, it however increased only slightly year-on-year (+2.6%), which was likely connected to the prolongation of the construction time (mainly of family houses) due to the high growth of the material prices and considerable utilisation of the construction companies.

Chart 6 Contributions of sub-branches to year-on-year change of the total construction output (real, in p.p.), new construction orders (nominal, year-on-year in %), balance of business confidence indicator in construction* (in p.p., right axis) and selected barriers to growth* (in %, right axis)



Note: Data related to construction output are adjusted for calendar effects.

* Balance of business confidence as well as barriers to growth are seasonally adjusted and express the level in the second month of the given quarter. Businesses could have indicated more main barriers simultaneously.

Source: CZSO, Eurostat

³³ Construction was partially in downturn still in Q1 2021, since the pandemics culminated at that time. Heightened sickness, difficult movement of workers across the borders, domestic restriction on the total mobility of population as well as restrained performance of the construction offices substantially limited the production possibilities of construction. The economy swiftly commenced to return to normal during spring, which was also reflected in the more perceptible revival of construction.

Raising of the value of new construction orders reflected mostly the growing price of construction works. Growth of the total stock of work moderated, mainly due to the private orders.

The nominal value of newly closed domestic construction orders (in businesses with more than 50 employees) hiked up by 16.3% in Q2 year-on-year (it achieved only slightly lower pace also at the beginning of the year). Only orders of the civil engineering construction contributed to the growth. The total stock of work including all so far not yet finished construction orders was by 8.1% higher year-on-year at the end of June this year. Nevertheless growth of the stock of private orders in effect halted for the first time since year 2017, which is also associated to the lower inflow of new orders in the building construction. Businesses recorded smaller demand also for works abroad. Ongoing swift growth of the approximate value of one granted building permit (by 20.7% year-on-year for H1) satiated mainly by new construction of both residential and non-residential structures, signals more positive outlooks for the whole branch. The rate of growth of the nominal value of the permit thus still slightly exceeded the dynamics of prices of construction works³⁴.

Business confidence in construction remained noticeably above the long-term average despite a mild worsening.

Favourable results of construction at the beginning of this year boosted the optimism of entrepreneurs in this branch and the February balance of the business confidence indicator thus evened out with the absolute maximum (from January 2019). The sentiment slightly subsided in the branch later on, however it was still at the level of the period shortly before the onset of pandemics (and simultaneously notably above the long-term average) in July. Businesses perceived their current economic situation favourably, however worsened the outlooks for the upcoming half-year (into a slightly negative band). Still they planned recruitment of new workers (the registered number of employees rose by 1% year-on-year in H1). Just under one fifth of companies anticipated growth and similarly decline of the construction activity in the nearest quarter. Slowing down of the price growth of construction materials was expressed only negligibly in the inflationary expectations of businesses so far³⁵. Businesses are still significantly limited by the barriers to growth. The lack of workers remains the main limit for already nearly four years (even though it seems that the war in Ukraine did not deteriorate this issue significantly). In addition, the proportion of businesses troubled by the shortage of materials was rising (nearly four out of ten businesses claimed it as one of the barriers, it afflicted more companies in the area of building of structures). One fifth of the businesses responded sensitively to the inadequate demand (more often in the area of engineering structures).

The businesses planned to continue in recruitment of employees in spite of mounting concerns about worsening of own economic situation.

Sales in services strengthened and overtook the level from year 2019. The growth of demand afflicted all main branches in Q2 this year

Demand for services kept rising. The quarter-on-quarter sales in services³⁶ grew continuously since the beginning of the last year and they hiked up to the level of the peak of the pre-pandemic boom for the first time in Q1 2022. They strengthened by 2.6% in the subsequent quarters. The positive fact was, that all main branches participated on this growth. The last counter pandemic restriction (consisting mainly in regulating the number of visitors from some mass indoor activities³⁷) were abolished during this year's Q1 and households thus could have continued in the realization of their "postponed consumption". Sales in services expanded year-on-year for the whole H1 (by 12.6%), specifically thanks to all main branches. The transportation and warehousing, which played the main role in the revival of services last year, contributed the most (+4.8 p.p.).

Growth of sales in land transport also due to weaker dynamics of export of goods eased

The sales in the branch transport and storage surpassed the last year's level by 15.7% in Q2 2022. Mainly the growth of sales for land and pipe transportation had a positive

³⁴ It cannot be ruled out, that in the environment of strengthening cost prices (material, energy, wage) the invoice prices after the structure completion can significantly diverge from the prices anticipated at permitting the constructions. It can happen, that businesses or capital weaker public investors terminate the construction work contract in the end and postpone the realisation of the order to times, when the price development is more stable and predictable.

³⁵ 56% of construction firms planned to raise their sale prices in July (higher share was in the long-term time series dating back to 2003 observed only in the previous this year's months).

³⁶ Without trade, financial and insurance activities, science, research and public services. All data for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter data are adjusted for seasonal effects (including the effect of the number of working days).

³⁷ E.g. restrictions on the number of visitors per cinema show ended as of 1st March 2022, duty to wear respirator during shows as of 14th March.



its pace in Q2. Demand remained high in storage.

Demand for accommodation on the part of domestic visitors slightly exceeded the level from year 2019, for foreign visitors it lagged behind it by more than one third.

Demand for administrative and support service activities more strongly recovered, mainly thanks to travel agencies.

Growth of sales in information and communication slowed down.

Demand for activities in the real estate area was growing, mainly in the segment of real estate offices.

effect here (11.5%)³⁸, its pace nevertheless slowed down compared to the beginning of the year, which was also impacted by weaker results of domestic importers of goods. Demand for storage however remained strong and it was by more than one quarter higher in comparison to the same period of year 2019. Both air and water transportation markedly revived this year, their sales however were far from reaching their pre-crisis level. The year-on-year decrease of sales of postal and courier activities deepened this year (down to 6.6%), which was also linked to the weaker performance of the internet sellers. Branch accommodation, food service and restaurants recorded the anticipated recovery in this year's Q2 and its sales were by more than one half higher year-on-year³⁹. While the number of overnight stays of domestic guests in mass accommodation facilities mildly exceeded the level from the "regular" year 2019 already fourth quarter in a row, for foreign clientele it still substantially lagged behind (by 36 %)⁴⁰. The formerly significant clientele from Russia or Asians states (except for Israel) was still practically absent. More than 30% slump of demand however also persisted for visitors from Italy, France, Spain, the USA or the Latin America states. Non-residents from the Central European states were partially saving the situation – number of overnight stays of Slovaks overtook the height from the pre-crisis year 2019 by 20% and the demand of weight dominant German clientele was lower already only by 15%.

Boost of tourism fundamentally improved the situation also for travel agencies and offices, which showed to be pivotal for the year-on-year growth of the whole branch of administrative and support services activities (21.4%). Other activities also signal higher demand here, except for the job agencies. Sales in the whole branch however stayed below the level from year 2019 so far (by 8%). This is not valid for the branch professional, scientific and technical activities (+2%), which generally provides more sophisticated services for business and demand for many of them was not overly disrupted during the pandemic period (legal and accounting activities, management consultancy activities). Architectural and engineering activities capitalising on the development in construction contributed the most to the year-on-year growth of the whole above mention branch in Q2 (7.0%). Advertising and market research (where sales fell behind by 5.4% and by 12% compared to year 2019) had an opposite effect. Growth of sales in the long time strengthening branch information and communication slowed down to 2.5% in Q2. The high demand especially for activities in the area of information technologies (e.g. programming, computer facilities management activities) still drove the performance of the branch. The growth of demand in information activities nevertheless halted after the strong last year⁴¹. In addition the decrease of sales for radio and television programming and broadcasting activities deepened when it perceptibly fell also behind year 2019. Brisk recovery of the motion picture and musical industry braked slightly in this year's Q2⁴². Demand in the real estate area, which was not significantly disrupted during the pandemic period, strengthened by 2.8% year-on-year in Q2. Demand for intermediary activities of real estate agencies kept swiftly rising, while the sales for buying and selling of own real estate or their renting as well as operating were increasing by lower pace.

³⁸ Rail transportation, where the transport of persons plays a large part, thrived more than the road transport (the development of the domestic tourism had also likely a favourable effect here).

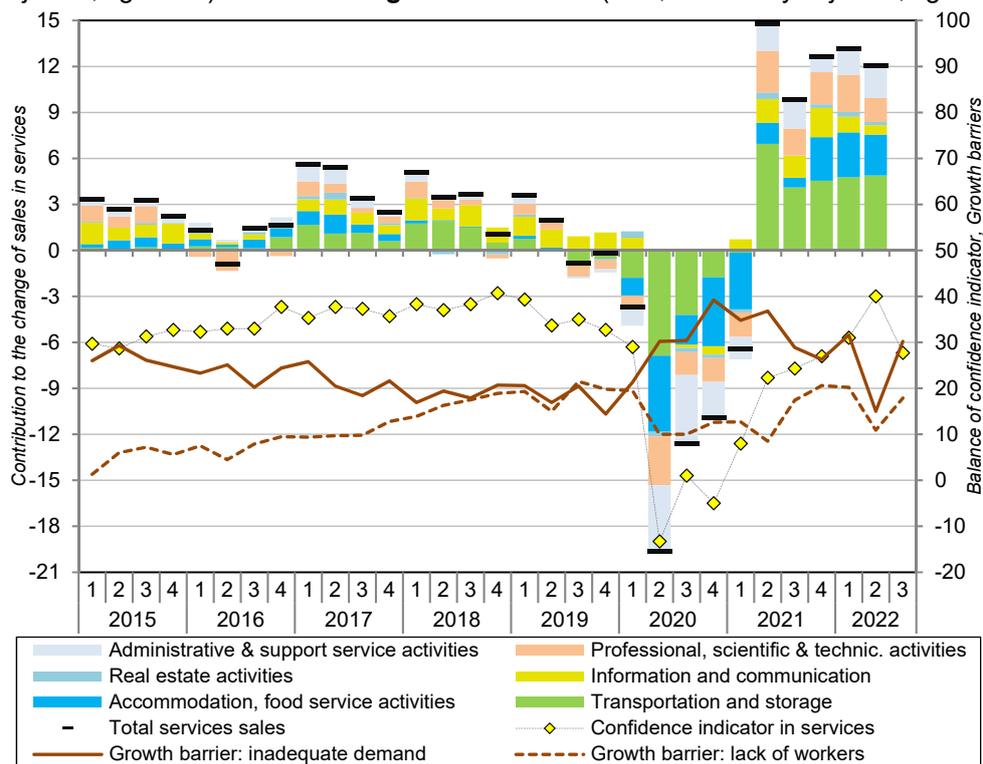
³⁹ Even though the most essential restrictive measures were not in place in Europe last year in spring any more, the across border tourism was still complicated by the inadequate vaccination coverage of population in the number of countries (together with other administrative procedures). This year's revival of tourism in the CR did not manage to offset the losses from the previous years so far. Accommodation providers earned by 31% less compared to Q2 2019, restaurant and food service operators by 9%.

⁴⁰ Total demand in mass accommodation facilities already in ten regions nearly restored or even mildly surpassed the level from Q2 2019. Number of overnight stays fell behind more only in Prague (by 29%), Karlovy Vary region (24%), South Bohemia region (15%) and Ústí nad Labem region (14%).

⁴¹ These consist of activities linked to the data processing and hosting, area of web portals and news press offices as well as agencies.

⁴² Segment of motion picture distribution prospered more since no restrictive measures for the cinema visitors were in place this year in spring for the first time since the commencement of pandemics. Based on data from the Union of Motion Picture Distributors, this was reflected in the April attendance (1.67 mil persons, record number in this month in the comparable time series since year 2000). 6.4 mil persons found way to the domestic cinemas for the entire H1. It represented 27% decrease compared to the record number from year 2019 (analogically, the number of shows dropped only by 5%). Higher half-yearly attendance compared to this year was observed besides other things also in years 2007 and 2010.

Chart 7 Contributions of branches to year-on-year change of sales in services* (real, in p.p.), balance of business confidence indicator in services (in p.p., seasonally adjusted, right axis) and selected growth barriers** (in %, seasonally adjusted, right axis)**



* Without branches trade, financial activities, insurance activities, science, research and public services. Sales are adjusted for calendar effects.

**Also includes the financial sector. Balance of business confidence indicator as well as the barriers to growth express the level in the first and in the second month of the given quarter (growth barriers and balance of confidence, respectively). Businesses could have indicated more key barriers simultaneously.

Source: CZSO, Eurostat

Trend of mild lowering of sales in retail lasted already nearly one year. Pessimism of consumers was at a record high in July. Business confidence was however scaled down only negligibly. Businesses maintained an optimistic outlook for H2.

Retail sales⁴³ were after the steep boost in the last year's May⁴⁴ largely slightly falling month-on-month in the subsequent period and their volume attained a comparable level to November 2019. Sales for the whole Q2 2022 fell behind the preceding quarter by significant 2.3% since the decline manifested across virtually all areas of retail. This development was closely related to the gradual deterioration of the consumer confidence down to a historical minimum (in July 2022). The repeated year-on-year decrease of the average wages turned into the lower real disposable household income as well in Q1 2021 (-2%). The financial situation of households, as well as their outlook on the nearest 12 months worsened. Concerns of people regarding the growth of prices, which were at a record high at the beginning of spring, slightly dropped in summer. Nevertheless, the growth of consumer prices of food or fuels kept further accelerating. In these circumstances, large part of households apparently started to limit their non-essential expenditures, but also regular purchases of goods hit by high price growth. Yet the sentiment of entrepreneurs themselves stayed despite mild deterioration positive⁴⁵. They relied also on certain inertia in the consumption behaviour of domestic households (including their utilisation of remaining part of "withheld" savings from years 2020 and 2021 to current purchases) and on higher

⁴³ All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter as well as month-on-month rates are adjusted for seasonal effects (including the number of working days). Retail includes branch CZ-NACE 47.

⁴⁴ On 11th May 2021, larger shop operations were reopened (outside of shopping centres) as well as all shops in the shopping centres (except for food services) and the last more essential regulative measure terminated in retail. Further only partial restrictions were used as needed (number of customers per shopping area, cancelling of Christmas markets), which did not have a significant effect on the performance of the whole retail.

⁴⁵ Business confidence balance in the trade branch was comparable to the level from time period just before the onset of pandemics this year in July. Despite mild deterioration since the beginning of the year, businesses perceived their current economic situation still positively and the outlooks to the nearest half-year were also favourable (35% of businesses expected improvement, 13% worsening). It is also substantiated by the fact, that traders also planned the recruitment of new employees.



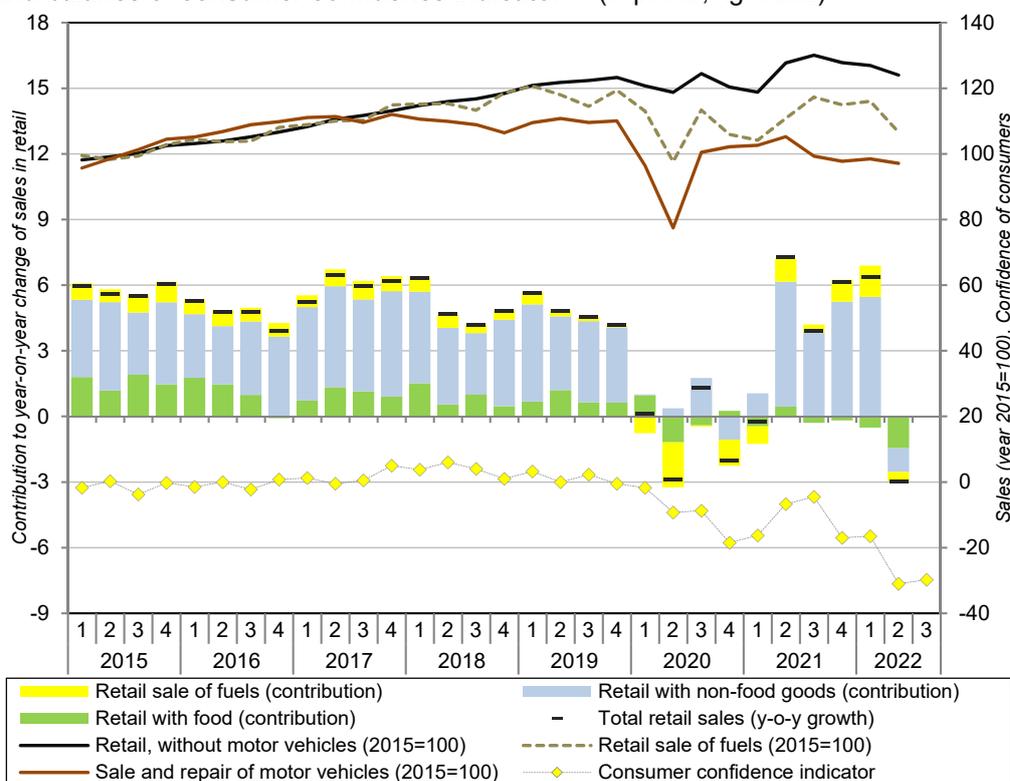
expenditures of non-residents associated with the revival of tourism as well as the refugee flow from Ukraine.

Lower sales of food were mainly behind the year-on-year drop of the retail trade in Q2. Reduction of demand occurred more or less across the board within the retail trade.

Record prices at the petrol stations likely also participated on the lower consumption of motor fuels.

The retail sales dropped by 3.0%⁴⁶ year-on-year in Q2 (even by 6.9% in June). Mostly the sales in the retail trade of food stood behind the decrease of sales and also the retail sales via internet – these were by 8.0% lower against the extraordinary last year basis, when they still partially substituted the shut brick and mortar stores. Substantial majority of other specialised shops with non-food goods was also afflicted by milder decrease. People demanded more than last year only the wearing apparel, footwear, leather goods, pharmaceutical and medical goods or cosmetics and toiletries. Decrease of sales for food deepened to 4.0% (larger downturn occurred only in Q1 2012). Large chains recorded deeper slump, real spending rather stagnated in smaller stores. Sellers of fuels experienced lower sales by even 4%⁴⁷. The demand shrank here by approximately one tenth compared to Q4 2019. It was also valid for the motorist segment of trade, where the decrease of sales deepened to 7.7% in Q2. Dive of demand in the area of sale of motor vehicles was more than double in comparison to the maintenance and repair of motor vehicles.

Chart 8 Contributions of sub-branches to year-on-year change of retail sales* (real, in p.p.), retail sales and sales of motor vehicles (real, level of year 2015=100, right axis) and balance of consumer confidence indicator*** (in points, right axis)**



* Sales are adjusted for calendar effects. ** Sales are adjusted for both seasonal and calendar effects. *** Consumer confidence indicator is seasonally adjusted and expresses the position in the second month of the given quarter. Source: CZSO

⁴⁶ Retail faced weaker consumer demand also in the EU this year. Retail sales rose by 1.3% in Q2 year-on-year, the least since half of year 2020. Euro area lone was in a worse position, where mostly the newer members from Central and Eastern Europe contributed to the mild growth (0.5%). The decrease of sales afflicted 11 states of the EU – the most Denmark (-5.0%) and Finland (-4.0%), where a mild quarter-on-quarter downturn occurred already since half of the last year. Within the Central Europe, the lower output of retail in Germany (-3.7% year-on-year), the CR (-3.0%) and Austria (-2.3%) contrasted with the brisk pace of Poland (+12.7%), Hungary (+7.9%) and Slovakia (+5.4%). Sales for food went down by 2.3% in the EU, in contrast non-food products (+2.8%) and sale of motor fuels (+7.8%) recorded considerably faster rates than in the CR. It belonged together with German, Denmark and Belgium to the only Union states, where the sales fell in all the above mentioned key retail segments in this year's Q2.

⁴⁷ Lower consumption of motor fuels was linked to the price escalation aided by the war in Ukraine. Sales for motor fuels increased by 38.1% in current prices year-on-year.

4. External Relations

Export of goods grew year-on-year in both H1 and Q2 itself.

The value of exports of goods amounted to 2 197.5 CZK bn in H1 2022. Export expanded by 192.3 bn (9.6%) compared to the same period of the last year. Relatively strong addition can be ascribed to the growth of prices, mainly of various materials. In Q2 individually, the export of goods rose by 114.6 CZK bn (11.2%) year-on-year to 1 137.2 bn. The year-on-year dynamics accelerated against Q1, where the strengthened price growth played a role and partially also the improvement of situation regarding the supplies of components in some branches.

Export into the EU stands nearly exclusively behind the export growth.

Solely the export into the European Union was growing in H1 (+194.8 CZK bn, 12.1%). In contrast, the export outside the EU was by 2.6 CZK bn (-0.7%) lower year-on-year. Export into the EU increased by 113.7 bn (13.8%) year-on-year in Q2 itself, which presented a faster pace compared to the previous quarter. Export outside the EU stagnated (+0.8 CZK bn, 0.4%). The value of export to Germany (+35.1 CZK bn, 11.1%) and Slovakia (+24.6 bn, 26.4%) grew the most year-on-year in Q2, which was similarly to Q1 linked to a large extent to the sharp hike of the value of exported electricity⁴⁸. The year-on-year increase of export to Poland (+10.6 CZK bn, 14.9%), the United States (+8.1 bn, 36.5%), Austria (+7.8 bn, 17.4%), Italy (+7.6 bn, 18.9%) or Spain (+5.9 bn, 21.8%) was also significant. The value of export of goods grew into the majority of countries year-on-year. Russia (-17.0 CZK bn, -72.8%), Ukraine (-2.7 bn, -30.8%) or Ireland (-1.9 bn, -25.6%) belonged for instance among the exceptions, where the export fell year-on-year.

Export of motor vehicles again grew after three quarters of declines.

The value of export of electricity, gas, steam and air conditioning (+35.3 CZK bn, 284.0%), basic metals (+25.9 bn, 30.9%) and chemical substances and products (+24.0 bn, 23.1%) increased the most year-on-year in H1. The increase in prices plays a considerable part for all mentioned export items. Only few types of goods experienced decrease of export year-on-year, only export of motor vehicles (-12.1 CZK bn, -2.3%) and computers, electronic and optical appliances (-6.1 bn, -3.0%) was markedly lower year-on-year. The export of electricity, gas, steam and air conditioning (+14.3 CZK bn, 207.2%) increased the most year-on-year in Q2 itself, however the addition moderated compared to the preceding quarter. Export of basic metals (+13.0 CZK bn, 29.6%), chemical substances and products (+11.5 bn, 21.3%), electrical appliances (+11.3 bn, 12.5%) and metalworking products (+10.3 bn, 16.0%) also strongly grew year-on-year. Following three quarters of year-on-year drops, the export of motor vehicles again started to growth in Q2 (+12.8 CZK bn, 4.8%). The value of export of food (+6.9 CZK bn, 21.8%), oil and natural gas (+5.2 bn⁴⁹), paper and paper products (+5.2 bn, 30.2%), coke and refined oil products (+4.9 bn, 47.1%) or products of agriculture and hunting (+4.3 bn, 42.8%) and machinery and equipment (+4.2 bn, 3.8%) was also higher. Only the export of computers, electrical and optical appliances and equipment (-5.0 CZK bn, -4.9%) was notably lower year-on-year in Q2.

Import steeply grew under the influence of rising prices of materials.

Goods in the value of 2 274.7 CZK bn was imported into the CR in H1. It is by 344.4 bn (17.8%) more year-on-year. Substantial excess of rate of growth compared to the export increase is connected to the steep hike of prices of materials (mainly oil and natural gas). The import of goods reached 1 203.3 CZK bn in Q2 itself and it rose by 194.6 bn (19.3%) year-on-year. The territorial structure of imports differed from exports. Even though the year-on-year addition to the import from the EU was relatively strong in H1 (+161.1 CZK bn, 13.0%), it lagged behind the growth of imports from countries outside the EU (+180.9 bn, 26.7%). It was just the year-on-year increase of imports from outside the EU that considerably strengthened in Q2 (+110.9 CZK bn, 31.3%), while the imports from the EU grew at a similar pace as in the preceding quarters (+82.6 bn, 12.7%). The imports from

⁴⁸ Year-on-year increase of the value of export of electricity, gas, steam and air conditioning to Slovakia reached 6.2 CZK bn and 7.4 bn to Germany.

⁴⁹ The export of oil and natural gas totalled 16 CZK mil in Q2 2021, it was 5.2 bn this year.



Russia (+65.5 CZK bn, 209.9%) increased the most year-on-year in Q2. It mirrored the sharp jump of prices of gas as well as the expanded volume of its import in the effort to fill the gas storage. The increase of imports from Poland (+19.7 CZK bn, 21.7%) and Germany (+19.9 bn, 8.2%), China (+15.2 bn, 13.8%), Slovakia (+10.0 bn, 19.7%), Austria (+8.8 bn, 29.6%), Italy (+7.3 bn, 15.6%) and the United States (+5.9 bn, 24.6%) was also strong. Imports from France (+4.3 CZK bn, 13.8%), Azerbaijan (+3.9 bn, 72.4%) or the Netherlands (+3.7 bn, 13.9%) grew as well. Stronger decrease of imports was recorded only for Hungary (-1.1 CZK bn, -3.5%).

Growth of the value of imports of oil and natural gas was massive.

Branch structure of the import confirms the important role of the price rise in the development of the foreign trade. The import of oil and natural gas (+106.5 CZK bn, 202.1%), basic metals (+59.2 bn, 39.3%) and chemical substances and products (+34.0 bn, 20.0%) was boosted the most year-on-year in H1. The increase of the import of coke and refined oil products was also significant (+23.5 CZK bn, 80.5%) and electrical appliances (+22.6 bn, 12.8%). Import of computers, electronic and optical appliances and equipment (-10.3 CZK bn, -4.7%) and motor vehicles (-9.9 bn, -3.3%) considerably decreased year-on-year in H1. Import of oil and natural gas (+74.9 CZK bn, 241.6%, increase markedly strengthened compared to the previous quarter), basic metals (+27.0 bn, 32.9%), chemical substances and products (+15.3 bn, 17.1%) and coke and refined oil products (+14.1 bn, 85.6%) grew the most year-on-year in Q2 alone. Import of electrical equipment (+9.7 CZK bn, 10.4%), food products (+9.7 bn, 23.0%), black and brown coal and lignite (+6.7 bn, 224.0%) and electricity, gas, steam and air conditioning (+6.2 bn, 159.1%) also grew strongly. Notable year-on-year decrease was reported for computers, electronic and optical appliances (-5.1 CZK bn, -4.6%) and basic pharmaceutical products (-2.3 bn, -6.7%).

Balance of foreign trade ended in deficit in both H1 and Q2.

The balance of foreign trade with goods ended in the deficit of 77.2 CZK bn in H1 2022. The balance thus deteriorated by 152.1 bn year-on-year. The majority of this deficit can be attributed to the development in Q2. The negative balance worsened by 80.0 CZK bn to -66.1 bn year-on-year in Q2. The series of deficits lasting since Q3 2021 then continued. Although Q2 is usually the period within a year, when the foreign trade with goods amounts to surplus⁵⁰. Total negative balance was caused by major deterioration of the balance of trade with countries outside the EU in H1. Since the usual deficit sank by 183.5 CZK bn year-on-year. The surplus of trade with the EU improved by 33.7 CZK bn year-on-year for the same time period. The surplus of trade with the EU expanded by 31.1 CZK bn year-on-year in Q2 itself, while the deficit with countries outside the EU dived by 110.0 bn. Trade with Russia, whose balance worsened by 82.5 CZK bn year-on-year and further trade with China (-16.2 bn), Poland (-9.1 bn) and Azerbaijan (-3.8 bn.) worked the most in the direction of deficit. On the contrary, the balance of trade with Germany (+15.2 CZK bn) and Slovakia (+14.6 bn) markedly enhanced year-on-year. The balance of trade with Hungary (+5.1 CZK bn), Spain (+3.5 bn), the United Kingdom (+2.5 bn) or the United States (+2.1 bn) also recorded improvement.

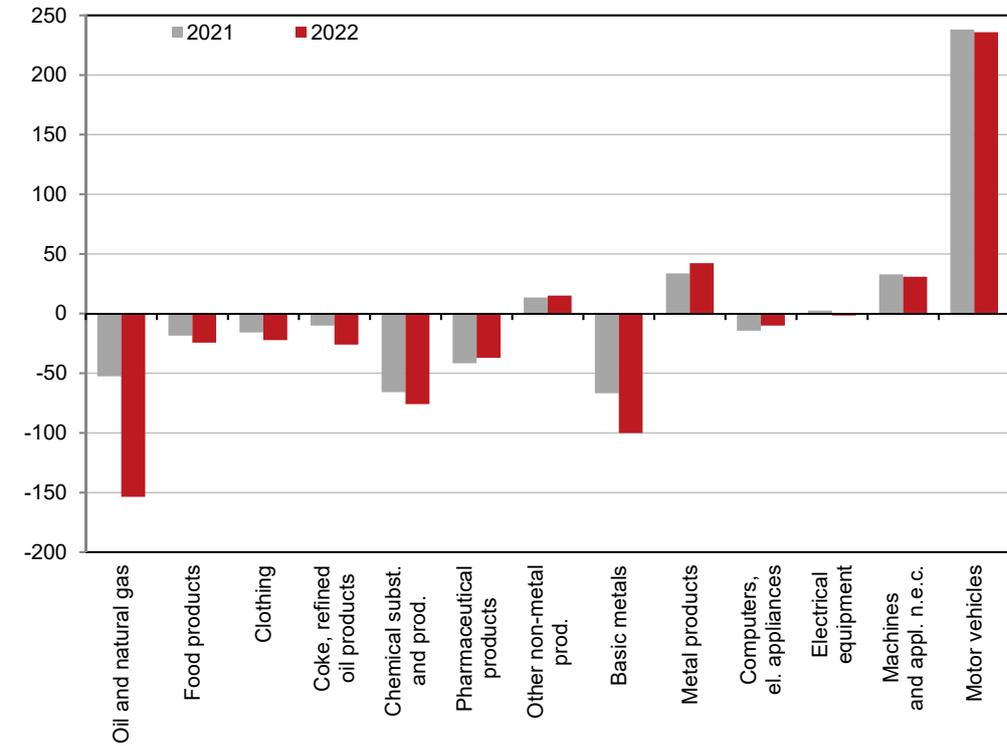
Mainly the rapid worsening of the balance of foreign trade with materials stood behind the deficit.

The foreign trade with materials the most affected the balance development. Result of the steep jump of prices was massive year-on-year deterioration of the balance of trade with oil and natural gas (-101.1 CZK bn), basic metals (-33.3 bn), coke and refined oil products (-15.9 bn), chemical substances and products (-10.0 bn) or black and brown coal and lignite (-8.2 bn) in H1. Balance was however declining for the majority of goods categories. In contrast the growth of prices led to the marked improvement of the balance of trade with electricity, gas, steam and air conditioning (+23.6 CZK bn) in H1. The trade with fabricated metal products (+8.5 CZK bn), products of agriculture and hunting (+4.9 bn), basic pharmaceutical products (+4.5 bn) and computers, electronic and optical appliances and equipment (+4.2 bn) also significantly operated in the direction of year-on-year improvement. The deficit of trade with oil and natural gas (-69.7 CZK bn), basic metals

⁵⁰ Within the bounds of second quarter of the year, the foreign trade with goods finished in deficit last in year 2007 (-1.9 CZK bn).

(-14.0 bn) and coke and refined oil products (-9.3 bn) sank the most year-on-year in Q2. The balance of trade with black and brown coal and lignite was also worse (-5.5 CZK bn). Motor vehicles (+12.3 CZK bn), where the balance improved for the first time since last year's Q2 was the most directed towards the year-on-year improvement of the trade with goods balance. Further, the balance of trade with electricity, gas, steam and air conditioning (+8.1 bn), fabricated metal products (+5.2 bn), agricultural and hunting products (+2.8 bn) and basic pharmaceutical products (+2.7 bn) improved.

Chart 9 Balance of foreign trade with goods in foreign trade statistics (cumulation of H1, in CZK bn, selected divisions of the CPA classification)



Source: CZSO



5. Prices

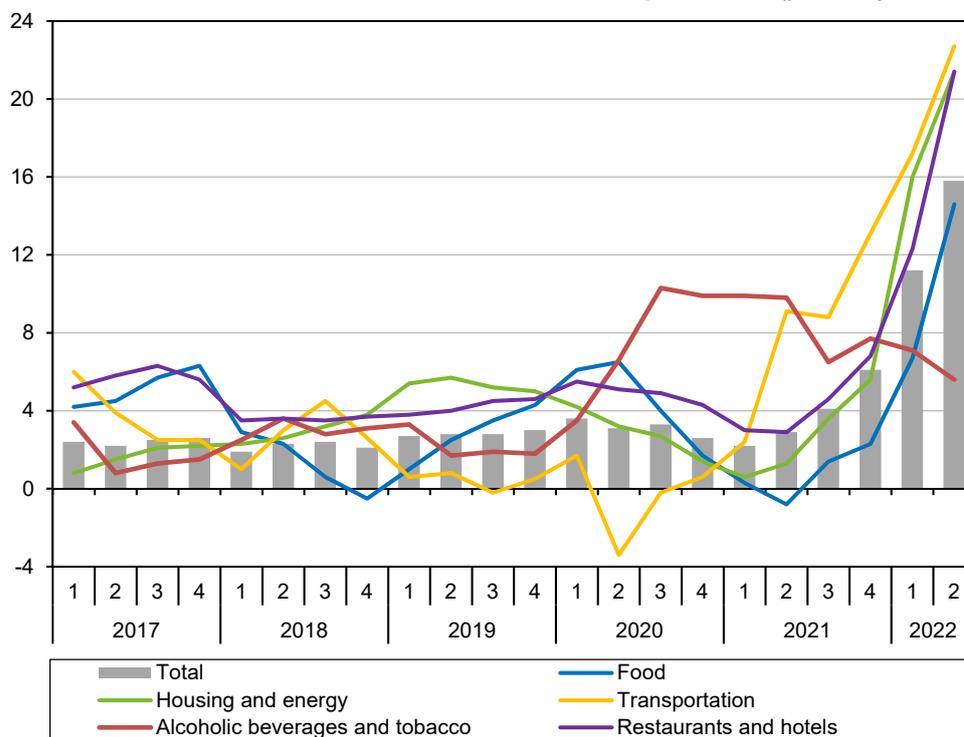
Year-on-year growth of the total price level was the highest since Q3 2008.

Total year-on-year increase of the price level (gauged by the GDP deflator) reached 6.6% in Q2 2022. The gain thus accelerated compared to the previous quarter and it was the highest since Q3 1998. Prices of consumption goods rose sharply (11.2%), especially those consumed by households (16.3%). Prices of government institutions consumption grew only slightly (1.3%). Prices of capital goods increased by 11.6% year-on-year. Terms of trade remained negative fourth quarter in a row and deepened to 94.3%. In that, terms of trade with goods were 93.2%, while there were strongly positive for services (103.0%). The total price level increased by 2.0% quarter-on-quarter. Prices of consumption went up by 3.4% (in that household consumption by 5.2%) and capital goods by 3.2%.

Year-on-year growth of consumer prices further sharply accelerated.

The consumer price index hiked up by 15.8% year-on-year in Q2 2022. The growth pace thus substantially strengthened against the preceding quarter (the year-on-year increase attained 11.2% in Q1). Prices of goods were by 17.4% higher year-on-year and prices of services by 13.1%. The year-on-year growth of prices was accelerating in most of the consumption basket divisions, but food and non-alcoholic beverages and housing and energies had the largest impact on the acceleration of the total price growth. Together with the prices of transportation, they also had the largest share on the total year-on-year increase. The consumer prices rose by 5.1% quarter-on-quarter (it was 6.3% in Q1). Prices of restaurants and hotels, transportation, food and non-alcoholic beverages or housing and energies had a very strong quarter-on-quarter increase. Consumer prices rose by 13.5% year-on-year for the whole H1.

Chart 10 Prices in the selected divisions of the consumer price index (year-on-year in %)



Source: CZSO

Prices of housing and energies the most contributed to the total increase of prices.

Prices of housing and energies jumped by 21.4% year-on-year in Q2. The pace thus accelerated excessively, specifically mainly under the influence of prices of electricity, gas and other fuels, whose year-on-year gain went up to 34.1%, and also due to the

imputed rent⁵¹ (19.0%). Prices of rentals for housing were by 4.6% higher year-on-year, prices of regular maintenance and repairs by 20.3% and other services relating to the dwelling by 4.7%. Compared to Q1, the prices of housing and energies increased by 5.5% (by 10.6% in Q1).

Prices of food and non-alcoholic beverages rose steeply.

Prices of food and non-alcoholic beverages were raised by 14.6% year-on-year. Severe strengthening of the year-on-year dynamics was mostly linked to the increase of prices of cereals and cereal products (20.1%), meat (16.2%), milk, cheese and eggs (17.5%), which corresponded to the similar increase of prices in the production sphere. The addition to prices of oils and fats was also very strong (33.4%). Prices of food and non-alcoholic beverages increased by 7.7% quarter-on-quarter. The year-on-year addition to prices of transport also gained pace (22.7%). Costs of operating a personal transport equipment played the main role on the growth of prices of transportation (they increased by 32.1% year-on-year), when they mirrored the raised prices of motor fuels. Strengthening of the year-on-year dynamics of the prices of purchases of motor vehicles, motorcycles and bicycles however also continued (13.9%). Reduction of the student fare discounts also led to the year-on-year increase of prices of transport services by 16.7%. Prices of transport increased by 8.0% compared to Q1.

Prices grew in the absolute majority of consumption basket divisions.

Year-on-year growth of prices of restaurants and hotels sharply accelerated to 21.4% in Q2 (it was 12.3% in Q1). The addition increased for both restaurants (21.9%) and hotels (17.9%). Prices of restaurants and hotels were by 8.9% higher quarter-on-quarter, which was the most among all consumption basket divisions. Prices of recreation and culture grew by 11.3% year-on-year. Prices of other items for recreation and leisure time were raised by 16.3%, audio-visual and photographic equipment by 11.9%. Prices of package holidays increased by 10.2%, prices of recreational and cultural services by 8.9% and in case of newspapers, books and paper goods the increase was 11.1%. Items which with the view to their low weight usually are not reflected in the index so notably recorded marked contribution to the year-on-year growth of the consumer prices. It involves wearing apparel and footwear, whose prices were by 20.0% higher year-on-year, and household equipment, goods and repairs, whose prices went up by 11.7%. Year-on-year addition to prices of other goods and services accelerated to 9.7% and health to 8.4%. In contrast the growth of prices of alcoholic beverages and tobacco moderated to 5.6%.

Growth of consumer prices in the EU also accelerated.

Year-on-year growth of the Harmonised Index of Consumer Prices (HICP)⁵² in the EU quickened to 8.8% in Q2 (it reached 6.5% in Q1). The price growth strengthened in all EU countries and was affected mainly by the development of prices of food, housing and energies and transportation, but the acceleration of the year-on-year dynamics was apparent for the majority of divisions of the consumption basket also in Europe. The consumer prices grew the most in Estonia (20.4%), Lithuania (18.5%) and Latvia (16.4%), where the prices of energies increased steeply, year-on-year in Q2. The Czech Republic ranked immediately behind them with the year-on-year increase in the amount of 15.0%. It thus considerably also exceeded its Central European neighbours – Poland (12.8%), Slovakia (11.8%) and mainly Germany (8.3%) and Austria (7.9%). Consumer prices grew the least in Malta (5.8%), France (5.9%) and Finland (7.0%) year-on-year.

⁵¹ Imputed rent expresses the cost of owner living. Apart from prices of housing themselves, it also contains the cost of construction and renovation and further fees. More at: <https://www.czso.cz/csu/czso/metodicka-poznamka-k-indexu-spotrebitelskych-cen-imputovane-najemne>.

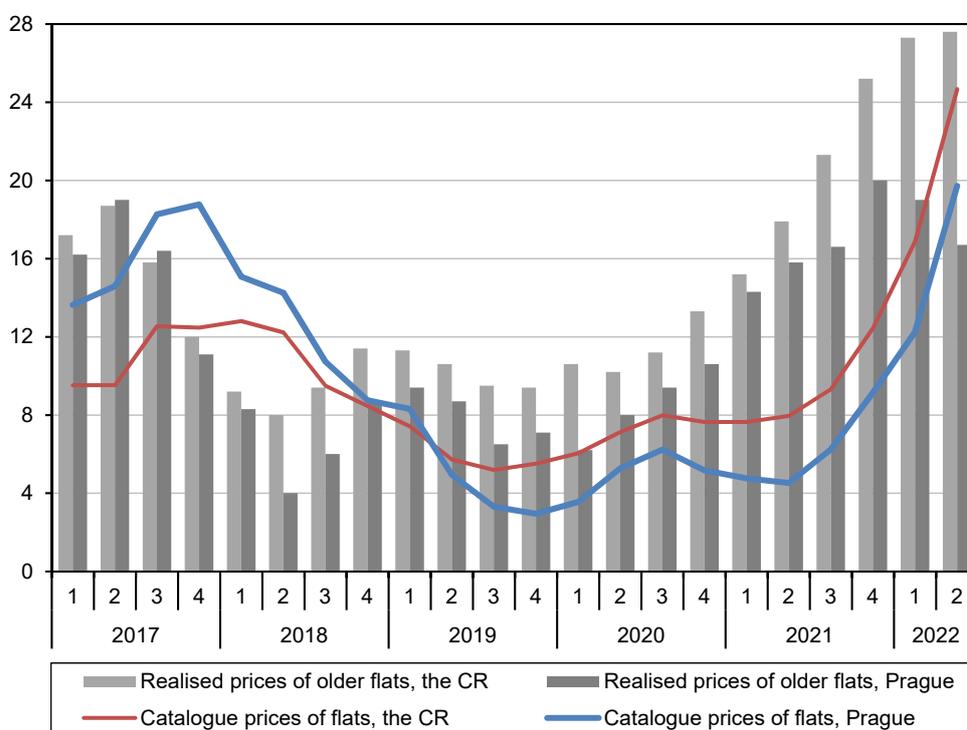
⁵² Contrary to the consumer price index, which is compiled by the CZSO for the Czech economy, HICP does not consist of imputed rent, which is the main reason for the difference between the gauged growth rates of prices.



Catalogue prices of flats sharply increased.

The year-on-year growth of the catalogue prices of flats further accelerated in the CR and it amounted to 24.7% in Q2. While the increase of catalogue prices of flats in the CR outside of Prague strengthened to 30.6% and in Prague it accelerated to 19.7%. Quarter-on-quarter growth of the catalogue prices of flats strengthened to 8.7% in the CR, it reached 9.5% in the CR apart from Prague and by 8.0% in Prague. Realised prices of older flats were by 27.6% higher in the CR year-on-year in Q2. At the same time the year-on-year pace strengthened only slightly after the period of substantial acceleration. The year-on-year growth of realised prices of older flats even weakened in Prague for the second time in a row (16.7%). The dynamics mildly strengthened to 30.8% in the whole CR without Prague. Quarter-on-quarter, the realised prices of older flats increased by 5.3% in the CR, by 6.2% in the CR without Prague and by 1.8% in Prague. Realised prices of new flats increased by 26.3% in Prague year-on-year, but only by 0.5% quarter-on-quarter, which represented the smallest increase since the end of year 2017.

Chart 11 Prices of real estate (year-on-year change, in %)



Source: CZSO

Continuing growth of prices of materials drove the year-on-year dynamics of the industrial producer prices.

Industrial producer prices increased by 27.7% year-on-year in Q2. Quarter-on-quarter, they went up by 7.8%. The year-on-year thus further accelerated, mainly under the influence of growing prices of oil and natural gas and also electricity. Manufacturing, whose prices year-on-year increase strengthened to 24.2%, had an essential share on the growth of prices of industrial producers. The development of prices of coke and refined oil products⁵³ contributed the most. Prices of basic metals and fabricated metal products grew massively (33.4%) and year-on-year increases of prices of food products, beverages and tobacco (18.6%), rubber and plastic products (20.7%), chemical substances and products (42.8%), wood, paper and print (32.7%) also had a strong impact. Prices of textile, wearing apparel and leather (13.8%), machinery and equipment (12.6%), furniture and other manufacturing products (9.4%), computers, electronic and optical appliances (7.6%), electrical appliances (7.6%) and basic pharmaceutical products (7.1%) also grew strongly. Prices of transport equipment

⁵³ Exact values of the indicator are not provided to due to the protection of individual data.

(2.1%), which did not join the growth trend observed in the rest of industry in the previous quarters, also features a mild year-on-year increase.

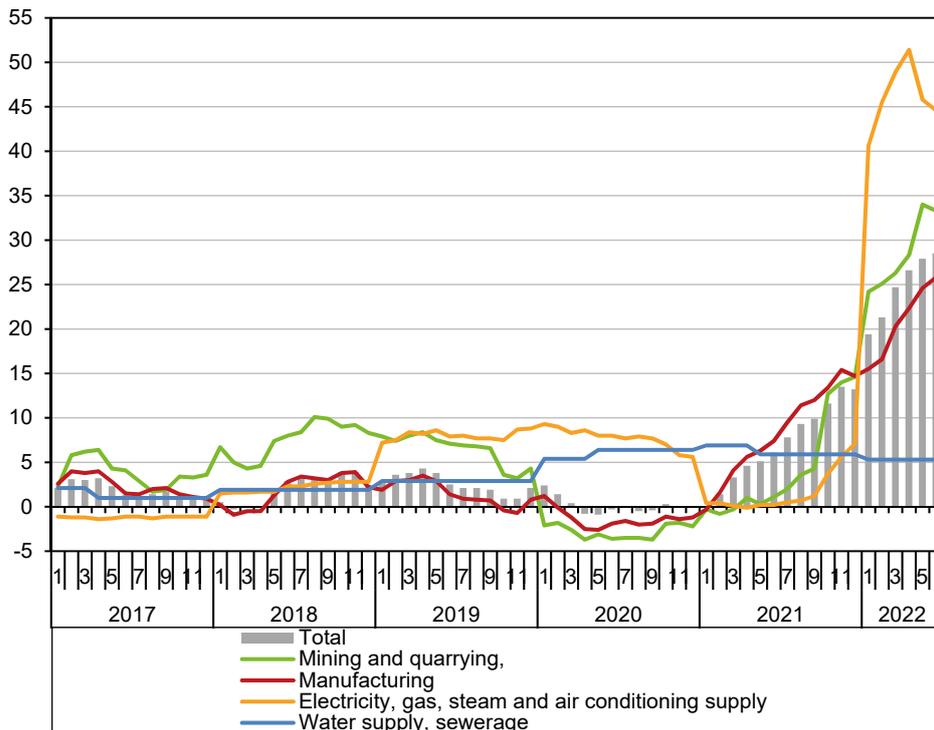
Electricity prices substantially contributed to the increase of industrial producer prices.

Electricity, gas, steam and air conditioning also considerably contributed to the industrial producer price growth. The year-on-year increase of their prices slightly strengthened to 47.2% in Q2. Year-on-year growth of prices of mining and quarrying was also strengthening (31.9%). Prices of extraction of oil and natural gas and coal featured immense growth, but prices of other mining, where for instance building materials belong, also kept growing strongly. Prices of water supply, sewerage and waste management were raised by 5.3%.

Industrial producer prices continued strongly growing in the EU.

Year-on-year increase of industrial producer prices in the EU⁵⁴ amounted to 36.5% in Q2 2022. The increase quickened, however its strengthening was milder compared to the preceding quarters. Producer prices rose by 6.2% quarter-on-quarter, which presents a slower pace than in the previous two quarters. The prices of electricity, gas, steam and air conditioning grew the most in the EU (100.8%), the acceleration of their dynamics nevertheless halted. Prices of mining and quarrying were by 81.7% higher year-on-year in Q2, which represented substantial strengthening of the pace. Prices were higher by 20.8% in manufacturing. The industrial producer prices increased the most in Romania (60.4%), Denmark (59.2%) and in Belgium (51.9%). The addition to prices in Estonia also overtook the 50% level (50.5%). Prices of industrial producers increased the least in Malta (9.5%), Sweden (23.3%) and Cyprus (24.5%) year-on-year.

Chart 12 Prices of main groups of industrial producers (year-on-year change, in %, based on CPA classification)



Source: CZSO

Year-on-year dynamics of prices of construction works also strengthened.

Prices of construction works increased by 3.8% as estimated quarter-on-quarter in Q2. It was significantly added by the development of prices of materials and productions consumed in construction, which increased by 9.1%. Year-on-year growth of prices of

⁵⁴ Without prices of water distribution and services associated with wastewaters.



construction works strengthened to 13.1%. In that prices of materials and products used in construction were by 25.9% higher in comparison to the same period of year 2021.

Growth of prices of market services was stronger.

Year-on-year growth of prices of market services further quickened to 5.8%. They were by 2.3% compared to Q1. Prices of storage and support services in transportation added the most to the year-on-year growth (15.4%). Prices of advertising services and market research, which increased by 19.5% and contributed the most to the acceleration of the total growth of prices of market services, also had a notable influence. Prices of land and pipe transportation (year-on-year increase of 5.8%), services in the area of programming and related consultancy activities (4.5%), services in the area of employment (14.5%), architectural and engineering services and technical testing and analysis (5.0%), services in the real estate area (3.2%) also significantly shared in the growth. Only prices of telecommunication services were lower year-on-year (-1.1%).

Increase of costs of energies and production inputs was reflected in the development of prices of agricultural production.

Prices of agricultural production hiked up by 39.0% year-on-year in Q2. Compared to Q1, they grew by 18.9%. Their year-on-year growth sharply accelerated and development of both plant and animal production participated. Prices of plant production increased by 54.4% year-on-year. It also mirrored the increase of prices of crops on the global market (e.g. wheat), but also the marked heightening of costs – fuels or for instance fertilisers. Prices of cereals grew steeply (60.0%), in that price of wheat by 64.3%, rye by 80.7%, barley by 53.4%, oat by 42.5% and corn by 44.2%. Prices of industrial crop went up by 59.6%, in that oil plants by 59.6% (seed of the oilseed rape were by 64.1% more expensive year-on-year) and legumes by 56.7%. Prices of forage plants were higher by 5.9% and prices of vegetables and garden products by 18.2%. Year-on-year growth of prices of potatoes markedly strengthened (30.0%). Prices of fruit grew moderately (2.4%). Prices of agricultural production were by 21.2% higher in Q2. The dynamics of prices of farm animals strengthened (20.9%), in that prices of cattle increased by 29.5%, pigs and piglets by 20.0% and prices of poultry by 13.0%. Year-on-year increase of prices of animal products accelerated to 21.4%. Prices of milk were raised by 21.6% and eggs by 18.8%.

Export prices grew strongly.

Prices of exports of goods were by 15.1% higher year-on-year in Q2. Exchange rate development had in total an anti-inflationary effect. Since in the end the year-on-year stronger koruna foreign exchange per euro outweighed its depreciation towards dollar⁵⁵. Prices of export of mineral fuels and lubricants (151.3%), other materials⁵⁶ (36.6%), food and live animals (26.0%), semi-finished products⁵⁷ (24.8%), chemicals and related products (17.3%) increased the most year-on-year. Prices of exports of miscellaneous manufactured articles (6.5%), beverages and tobacco (3.8%), machinery and transport equipment (2.0%) were also higher. Prices of exports of goods increased by 5.9% quarter-on-quarter. Prices of mineral fuels (19.8%), other materials (13.8%) and food (12.6%) grew the most.

Terms of trade of foreign trade with goods were strongly negative.

Prices of export of goods increased by 20.0% year-on-year in Q2. Prices of mineral fuels and lubricants (134.0%), semi-finished products (23.0%), other materials (17.5%), chemicals and related products (15.8%), beverages and tobacco (15.7%), food and live animals (11.8%) increased the most. Prices of imports of miscellaneous manufactured articles (8.0%), machinery and transportation equipment (2.8%) went also up. Quarter-on-quarter, the prices of exports were by 6.8% higher. Similarly to exports, the prices of mineral fuels (20.9%), other materials (14.8%) and food (7.6%) grew the most. Year-

⁵⁵ Based on the CNB data, the average koruna foreign exchange per euro reached 24.644 CZK/EUR in Q2 2022. Koruna foreign exchange per dollar markedly depreciated year-on-year. The average was 21.265 CZK/USD in Q2 2021 and 23.165 CZK/USD this year.

⁵⁶ SITC 6 – manufactured goods classified chiefly by material.

⁵⁷ SITC 2 – crude materials inedible, except fuels.

on-year terms of trade were negative in Q2 and deepened to the value of 95.9%. The terms of trade were negative for trade with beverages and tobacco (89.7%), miscellaneous manufactured articles (98.6%), machinery and transport equipment (99.2%). On the contrary, terms of trade were positive in trade with other materials (116.3%), food and live animals (112.7%), mineral fuels (107.4%), semi-finished products (101.5%), chemicals and related products (101.3%). The terms of trade reached value of 99.2% quarter-on-quarter.



6. Labour Market

Labour market was further developing in the CR in Q2, demand for workers remained high.

Unprecedented high growth of prices pervading whole economy essentially influenced the economic situation of business as well as purchasing power of wages.

Employment grew swiftly in both year-on-year and quarter-on-quarter view. There was record number of workers in Q2.

New job positions were created the most in services, mainly in trade and activities associated with tourism and with real estate.

Employment increased more gradually in manufacturing; situation varied at the levels of sub-branches.

Domestic labour market was further developing in Q2 2022. Ongoing recovery of the part of services hit by the slump of consumption during the pandemic period played a role, in addition the difficulties with the supplies of production components in part of industry were mitigated during spring. The large refugee wave from Ukraine undoubtedly also contributed to the revival of the labour market, even though the integration of these persons into the working processes took place more gradually. Demand of businesses for workers remained high also at the beginning of summer, their shortage presented a substantial growth barrier in the number of branches. The unemployment was thus around its historical minimum, especially for males. In contrast to the pre-pandemic period however, a substantial drop of the purchasing power of wages manifested this year. In Q1, it already attained the fastest pace in the current millennium, due to the impact of the sharp acceleration of the consumer inflation it reached such an intensity in the subsequent quarter, which is completely unprecedented in the history of the independent CR. Thus not only the entire main branches of the economy were afflicted by lowered purchasing power of wages, but likely also the vast majority of their employees.

The employment growth⁵⁸ accelerated in Q2 2022, it reached swift 1.6% quarter-on-quarter. The group trade, transportation, accommodation and restaurants was the most instrumental in this result, manufacturing also contributed significantly. But practically all main branches revived. Total number of workers reached 5.48 mil in the whole economy and exceeded the record level from year 2019 for the first time. 2.5% persons more thus worked compared to last year's Q2. It is positive, that both employees and self-employed persons participated on this growth, self-employed persons increased in number for the first time since year 2017.

New job positions were created mainly in services, 90 thousand persons more worked here year-on-year in Q2 – partially it was an expected effect of the post crisis revival. Activities in the real estate area thrived the most (+6.4%) similarly to the total for the whole last year. The vigorous recovery in the area of trade, transportation, accommodation and restaurant, where the levels of employed elevated by 4.1% and mildly also surpassed the so far highest value from the pre-crisis period, was however decisive for the whole tertiary sector. Growth of employment slightly quickened in the long-time growing public services⁵⁹ (to even 2%). The state reacted here to the heightened demand especially in the area of education and health and social work similarly to the previous years. 3.3% persons more worked in the long-term flourishing information and communication year-on-year, nevertheless only exclusively due to the higher number of employees this year. Progressing digitalisation levies a tax on the employment in the financial activities in the past years, positions diminish relative more for the small entrepreneurs here. Outside the tertiary sector, construction thrived the most, the large stock of public orders was also reflected in the higher employment here in Q2 (+3.8%), also supported by the increase of the number of self-employed. Number of workers was expanding in manufacturing already since half of the last year, but only by a slower pace, which was also valid for Q2 (+1.6%). Situation varied in the individual industrial activities, next to the current demand for output, the energy performance of the production as well as the business strategy of individual businesses in the area of securing supplies of energies also likely played a role. Businesses in industry, construction as well as some “low-income” branches of services to a significant extent

⁵⁸ Data regarding employment stem from the national accounts' conception. They are expressed in physical persons and adjusted for seasonal effects.

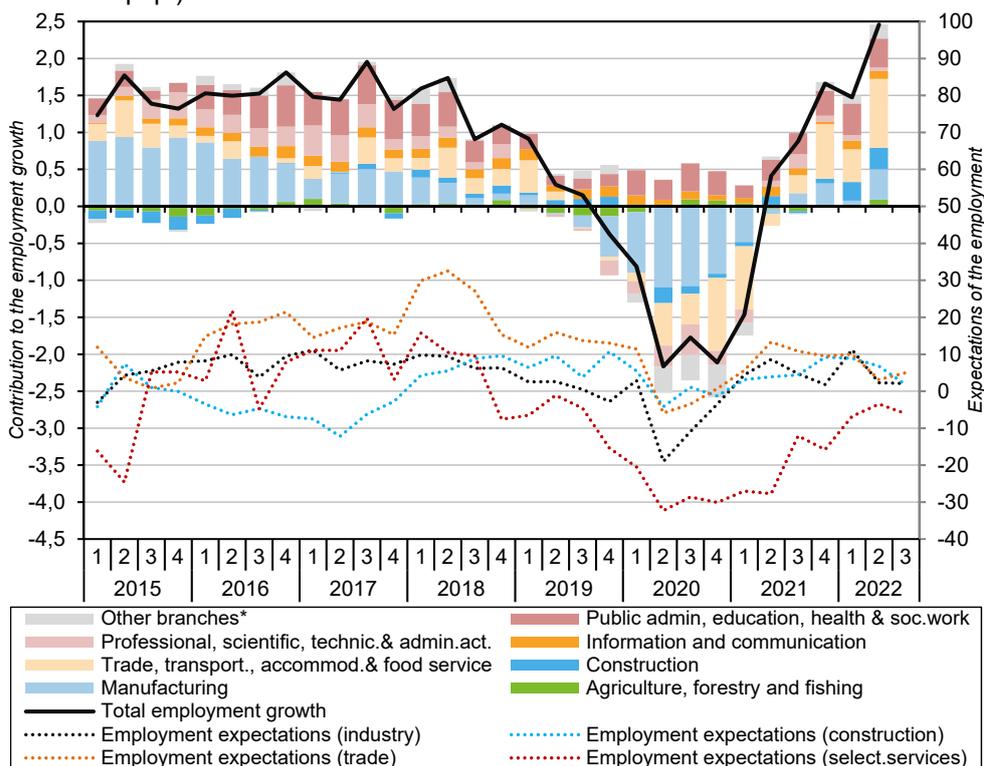
⁵⁹ Branches with the prevalent public services, including public administration and social security and also education and health and social work, had the most pro-growth effect on the employment out of all key branches also for the whole period of years 2020 and 2021.

saturated the demand for available labour force by recruitment⁶⁰, since the reservoir of the local potential labour force was nearly exhausted⁶¹.

Number of hours worked only stagnated compared to the beginning of the year.

Number of hours worked compared to the previous quarter only stagnated in the whole economy in Q2 2022. The employment growth (for natural persons) thus presumably came about via higher supply of part-time contracts, alternatively other forms (e.g. contract for work), which could have been linked to the integration of refugees into the labour market. The growth of the hours worked was compared to employment nearly double (4.8%) in the year-on-year comparison, since part of services was still troubled last year in spring, due to the aftermath of the counter pandemic measures, by a weak demand⁶².

Chart 13 Total employment (year-on-year in %), contributions of branches to year-on-year change of employment (in p.p.) and expectations of employment development (balance in p. p.)



* Mining and energetics; Financial and insurance activities; Real estate activities; Arts, entertainment and recreation activities.
 Note: Balance of expectations expresses the difference in p.p. between categories growth vs. decrease of employment in the nearest three months. Data are seasonally adjusted and relate to the second month of the given quarter.
 Source: CZSO, Eurostat (LFSS, business cycle surveys)

Employment grew similarly to the CR in the EU in Q2 2022, it

Renewed economic growth accompanied by high demand of businesses for labour force was favourably reflected in the employment also in the EU. It increased by 0.5% quarter-on-quarter in Q2 and by 2.2% compared to the same period of the last year. Year-on-year, in

⁶⁰ Growth of the number of foreigners working in the CR distinctly accelerated this year during spring. It was assisted by the beginning integration of the refugees from Ukraine, ongoing economic migration from the economically weaker regions of the EU as well as countries outside the EU had an effect of a smaller magnitude. The labour offices (LO) registered 767 thousand foreign nationals in the employee status on the territory of the CR this year in July. It was by 9% more than at the end of year 2021 (and by 12% more than last year in July). In addition also foreigners, which are holders of the trade licence were active in the CR (106 thousand). These were increasing slower year-on-year (+6%), because it primarily concerns foreigners settled in the long-term (largely from Ukraine, Slovakia and Vietnam). Workers from Ukraine added to the growth of the number of foreigners in the employee positions from more than 80% from January till July 2022, their number expanded by more than one quarter (to 249 thousand, where females only negligibly prevailed). Slovaks, comprising the second most numerous group, rather stagnated with respect to numbers (211 thousand), similarly to Poles (48 thousand) and Romanians (47 thousand). Number of Bulgarian or Belarussian employees even slightly decreased (to 37 thousand and 6 thousand, respectively). Among more significant groups of foreigners, those from Moldavia (to 6 thousand) and Kazakhstan (5 thousand) strengthened relatively the most. 31% of all foreigners in the employee status in the CR were registered in Prague, 17% in the Central Bohemian region. Their numbers increased "only" by 5% in these regions so far this year, on the contrary by 22% in the regions of Central Moravia.

⁶¹ As also evidenced by the number of economically inactive persons stating willingness to work, which did not reach even 60 thousand in Q2.

⁶² In branch other service activities, which include mainly culture, amusement and recreational activities or personal services mainly for households, the hours worked increased by 14.5% year-on-year in this year's Q2. It still however fell by nearly one tenth behind the corresponding level from year 2019.



<p>however recovered faster for the whole pandemic period.</p>	<p>rose the most in Ireland (8.8%), Lithuania (6.6%) and Estonia (5.6%), among more significant economics then in Spain (3.8%), the least on contrary in Poland (1.0%), Latvia (1.2%) and Germany (1.5%). Despite relatively low weight of services, the Czech economy belonged to a distinctive minority within the EU, where the precrisis level of employment (from year 2019) was overcome only this year (only Slovakia, Latvia and Bulgaria did not manage to do that yet). Still the CR preserved a front position in the EU from the view of the participation of population on the labour market⁶³.</p>
<p>Expectations of businesses in the area of own employment gradually mildly deteriorated this year. Businesses in trade maintained the highest optimism.</p>	<p>Short term expectations of businesses in the whole economy in the area of employment later mildly deteriorated following the optimistic outlooks from the beginning of this year. Still it stayed more positive in August compared to the period just before the onset of pandemics. The businesses in trade maintained the highest optimism. 15% of them planned to create new job positions in the next 3 months, 10% then lowering of the employee levels. The share of both above-mentioned categories was comparable in industry as well as construction (it always slightly exceeded 10%)⁶⁴. The last year's pessimism perceptibly shrank in services, still the anticipations of further reduction prevailed here (16%) over growth (10%)⁶⁵. Both in spring and summer this year, in connection with the worsening of the overall economic outlooks, the proportion of businesses where the shortage of labour force presents one of the important growth barriers slightly decreased. This problem however kept playing a key role in construction, since it still limited around 40% of businesses. It did not even evade some sub-branches in industry or services, especially those with low level of earnings.</p>
<p>Unemployment rate slightly lowered year-on-year, it was falling faster for males. Number of long-term unemployed however mildly increased.</p>	<p>The general unemployment rate⁶⁶ (persons aged 15 to 64 years) arrived at 2.3% this year in July. It mildly decreased year-on-year, mainly thanks to the more favourable development in H2 2021. It was falling faster for males (by 0.5 p.p. to 1.8%) than females (by 0.1 p.p. to 3.0%). Data regarding the registered job applicants also confirmed this development. The unemployment rate of females still remained slightly above the level of peak of the pre-pandemic boom, which was linked to the slower recovery of employment in some services activities strongly hit by the slump of demand during the pandemics and further also to the inadequate supply of short-term jobs. The number of long-term unemployed mildly increased year-on-year. 40% of all unemployed thus was more than one year without a job in Q2, i.e. approximately by 10 p.p. more than in year 2019. Number of households expecting worsening of the economic situation in the CR in the upcoming 12 months considerably increased during this year's spring, which was also mirrored in the mild increase of concerns of people about the rise of unemployment. They were stronger compared to year 2019 this year in August but were far from reaching the intensity from the acute phase of the pandemics or the previous periods of economic recession so far.</p>
<p>Concerns of people regarding the unemployment slowly started to heighten.</p>	
<p>Supply of job vacancies for persons with lower qualification started decreasing at LO since spring.</p>	<p>Growth of the number of job vacancies offered by the LO ceased in May this year. It amounted to 319 thousand⁶⁷ in June and it was already by one tenth lower year-on-year. While the number of positions requiring tertiary education stagnated (to 16 thousand) and the offer for secondary school graduates went slightly up (+5%, to 25 thousand), number of</p>

⁶³ According to the up-to-date data from Q1 2022, only the Netherlands (82.4), Estonia (82%) and Sweden (80.9%) recorded higher employment rate (of population aged 20 to 64 years) than in the CR (80.8%). The CR already holds a Union primacy in the employment of males, or rather all persons in the age group 45 to 59 years, participation of females and of persons above 60 years exceeds the EU level only mildly. Employment remains below average for young up to 25 years of age and also in the group 30 to 34 years of age (here solely for females). The employment rate for youth stayed still below the level of year 2019 in the CR as opposed to the EU.

⁶⁴ Mainly businesses in textile and clothing industry, metallurgy and rubber industry, petrochemical industry and also in repairs of machinery and equipment anticipated lowering of employment.

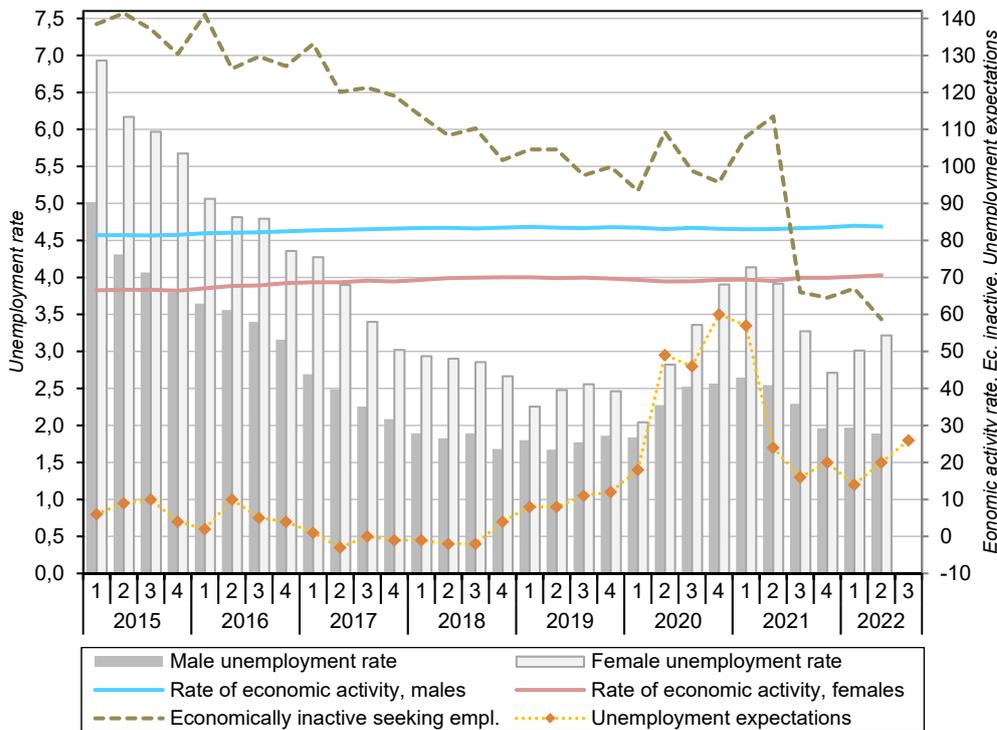
⁶⁵ Negative expectations for employment prevailed in the air transportation, postal and courier activities, publishing activities and also in financial activities.

⁶⁶ Unless stated otherwise, all data regarding the unemployment rates are sourced from the LFSS (based on the ILO methodology) and are adjusted for seasonal effects.

⁶⁷ Significant part of vacancies however cannot be considered active for various reasons. It e.g. constitutes positions offered by companies, which terminated their operations, further positions, which are outdated, but were not removed from the offer or positions substantially unattractive (combination of very low earnings and relatively higher demands on the applicant) remaining vacant for a long time. Only part of the entire offer of job vacancies can thus be considered truly active. Number of positions, which were offered less than half a year, totalled only 163 thousand at the end of Q2s.

positions for secondary school leavers without certificate shrank by 5% and the least qualified positions even by 13% (still they formed more than 70% of total offer of LO vacancies). It can be assumed, that part of the less qualified positions could have been accepted by the refugees from Ukraine during the spring. The excess of all supply of job vacancies over the number of registered job applications manifested in nearly two thirds of the CR regions and in more than one half of municipalities this year in July⁶⁸.

Chart 14 General unemployment rate (in %, age 15 to 64 years), rate of economic activity (in %, age 15 to 64 years), economically inactive willing to work (in thousand persons)* and unemployment expectations of households (in p. p.)**



Note: Figures regarding the unemployment rate as well as economic activity are seasonally adjusted.
 *Persons not in employment, not seeking work, but expressing the willingness to work.
 **Seasonally adjusted balance of expectations of unemployment in the next 12 months (difference between percentage frequency of answers of households “growth” and “decrease” expressed in percentage points). Data relates to the middle month of the given quarter.
 Source: CZSO (LFSS, business cycle surveys)

The effect of the last year’ high basis caused by the pay out of extraordinary bonuses in health care stood behind the slowdown of year-on-year growth of wages.

The average gross monthly nominal wage (per employee, with the view to the length of the job contract) ascended narrowly below the 40 CZK thousand level in Q2 2022. Its year-on-year pace decelerated to 4.4% (from 7.3% in Q1). Nevertheless, after exclusion of the branch health and social works, where its development was essentially influenced by the pay out of extraordinary cumulative “covid” bonuses last year in spring, the wage growth was at the level slightly above 7.5% – that is at a similar level as at the beginning of this year. Wage after adjustment for seasonal effect increased by 1.3% quarter-on-quarter in Q2 and also this pace was not notably deviating from the development of the recent period.

Mainly market branches were behind the wage growth. The effect of saving measures was evident in branches with the dominance of state.

Year-on-year rate of growth of wages reflected the ongoing recovery of the economy in Q2 (mainly of some services) also expressed by the swift growth of the number of hours worked. Tension on the labour market connected to the low unemployment, still high number of job vacancies as well as fact, that the lack of employees limited production in the number of significant branches, also had a pro-growth effect. The continuing rise of the minimum wage had an impact mostly in branches with low level of earnings. On the contrary, the arrival of Ukrainian refugees did not affect the level of average wages practically even in these

⁶⁸ More than 2.5 of applicants per job vacancies were accounted only in regions Karviná (9.6), Ústí nad Labem (4.4), Most (4.0), Bruntál (3.8), Děčín (2.8), Sokolov (2.7) and Opava (2.6). The whole Moravia-Silesian region (2.8) featured similar numbers.



Fast and difficult to predict for the future expansion of production costs narrowed room for larger increase of wages to the businesses.

branches so far since these persons joined the labour market gradually and often apparently via shortened job contracts or only in the form of various contracts. Growth of wages in the whole economy was inhibited mainly by the setting of the wage tariffs in the budget sphere (freeze or only a very small growth for the majority of employee groups). High inflationary anticipations showed ambiguously in the wage area so far. It did lead to the increasing pressure of employees on fast wage growth, it however collided with the difficult situation of employers. Pressure on the growth on non-wage production costs due to the significant increase of practically or intermediate inputs considerably intensified in the last quarters and was even amplified by the marked uncertainties related to the future development of both prices and the availability of energies itself. Situation of businesses however varied widely, even within individual branches.

Deep real decrease of average wage continued third quarter in a row.

Real decrease of average wages continued a third quarter in a row. Due to the acceleration of the growth of consumer prices, this decrease deepened in Q2 (to 9.8%). Even though it was the deepest in the current millennium already in the preceding quarter (3.5%) and afflicted vast majority of branches. Simultaneously it had a major effect on the reduction of the total purchasing power of domestic households⁶⁹.

Average wages grew the fastest in accommodation, food service and restaurants. Vast majority of other market services also attained a swift growth.

In Q2, the average wages grew at the highest year-on-year pace in the branch accommodation, food service and restaurants (11.3%). This size did not reach even three fifths of the level of the whole economy and thus it still represented a branch with the lowest level of wages. Weight significant branches of trade or transportation and storage, where earnings strengthened by nearly 9%, also benefited from the post crisis revival of demand also associated with the realisation of the postponed private consumption. It was also valid about the cultural, amusement and recreational activities (9.6%), where the wage growth was however hampered by the development in the segment of public cultural institutions. Budget savings measures also stood behind lower growth in education (2.6%) and also in the branch public administration, health and social work (3.8%), where in addition the earnings grew at below average pace throughout the whole last year as well. The thriving branch information and communication in contrast continued in swift growth (11.0%) and the average monthly wage approached the 70 thousand boundary here. Employees in financial activities could have also counted on similar average earnings, the wage growth nevertheless notably lagged behind compared to the information and communication area here in both years 2020 and 2021. Wage growth accelerated to even 8% in the key branch – manufacturing – in Q2, specifically mainly due to the production of motor vehicles, where monthly earnings reached on average nearly 51 thousand CZK. The whole branch did fare well also last year in spring, which was also positively reflected in the wage area at that time. Despite of this fact, the average wages remained still below the level of the national economy in the whole industry (by 1 %) also this year. The same was valid to an even larger extent also for construction (–14%), which was recovering from the pandemic recession gradually. The wage growth however accelerated here this year and it was 7.8% in Q2.

Wage growth was accelerating in both industry and construction during H1. The size of average earnings however did not reach the level of the whole economy here.

Above average wage growth reflected the revival of majority of market services in Prague.

Regarding the average wage, employees in Prague improved their position the most year-on-year in Q2 (by 5.7%), the least in Ústí nad Labem region (1.6%). The higher wage pace likely mirrored the improved economic situation in branches of market services in the metropolis (concentrated here more than in other regions). The wage growth was traditionally supported by more favourable development of employment in Prague. The ongoing downturn of the mining industry was evident in Moravia-Silesian region and Karlovy Vary region, even though less than last year. Size of average wages in the Karlovy Vary region belonged to the lowest

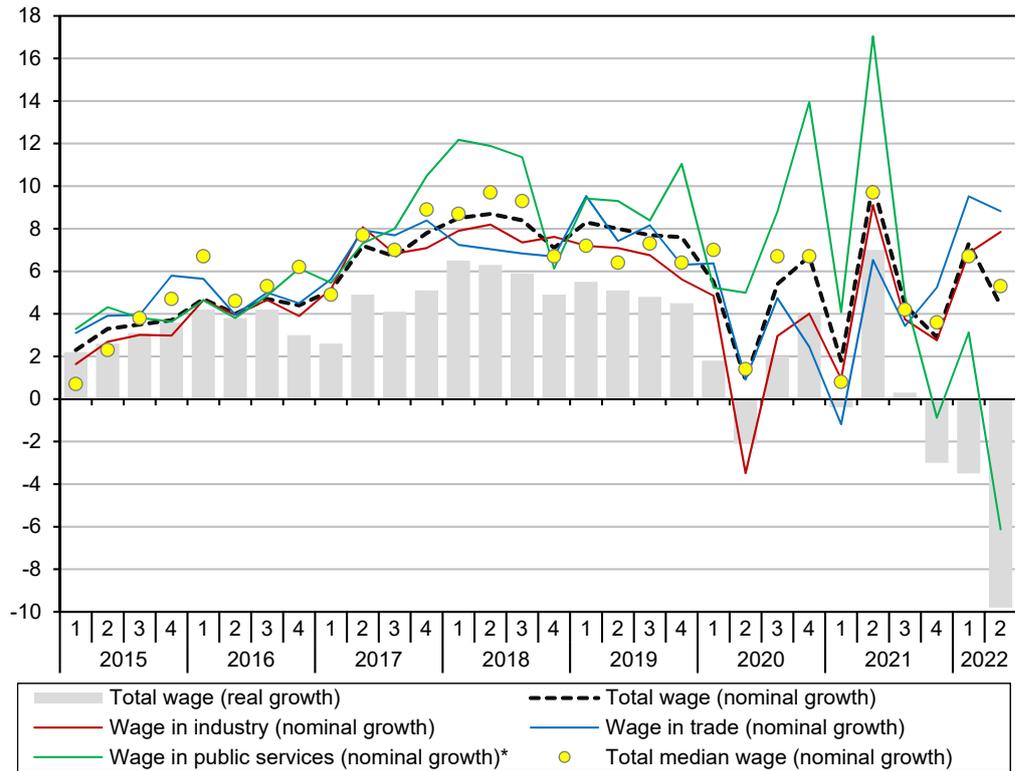
⁶⁹ The gross disposable income of households lowered by 2% in real expression year-on-year in Q1 2022. It at the same time takes into account apart from wages and salaries also other factors (grey economy, possible increase of economic activity of population, e.g. in the form of second employments, work agreements, further also income flowing from running a business or ownership of capital and also social transfers from state including the retirement pensions).

among regions, since it lagged by 13% behind the state-wide level. The wages in Prague in contrast exceeded it by 23%. The situation was similar in the pre-pandemic year 2019.

The wage differentiation narrowed this year.

The wage median climbed up to 36.9 CZK thousand for males, 31.2 CZK thousand for females in Q2 2022. Unlike the previous years, it increased more for males (7.3%) than females (3.7%). The wage distribution for males did not change year-on-year. Growth of earnings of females was in the large extent driven by strengthening of below average wages (in connection to the revival of the majority of market services branches), while the average and above average wages were increasing relatively slower (mainly because of perceptible slowdown of growth in education and health and social works). Total wage distribution narrowed in both Q1 and 2 this year compared to the last year.

Chart 15 Average nominal and real wage and wage median (year-on-year, in %)



Note: Date are given for individual half-years.

* Includes branches with a significant state involvement: Public administration, defence, social security; Education; Human health and social work activities; Cultural, amusement and recreational activities.

Source: CZSO



7. Monetary Conditions

Monetary policy-relevant interest rates were changed three times during Q2.

In the environment of significantly accelerating inflation, the monetary policy-relevant interest rates were raised three times during Q2. At first, the two-week repo rate was increased by 0.50 p.p. to 5.00% in April⁷⁰, another increase to 5.75 % took place in May and another one to 7.00% in June. The discount rate reached 6.00 % at the end of Q2 and the Lombard rate 8.0%. Koruna foreign exchange per euro attained an average value of 24.64 CZK/EUR in Q2. The CNB forex intervention played a major role, which following the steep depreciation, which manifested in the half of May returned the koruna foreign exchange to the previous level and were preventing further depreciation. The koruna foreign exchange per euro was stronger by 3.9% compared to last year's Q2 and it nearly did not change quarter-on-quarter. Koruna foreign exchange per dollar fluctuated more substantially during Q2. The average reached 23.16 CZK/USD for the whole Q2, the koruna foreign exchange per dollar however depreciated from the level of 22.06 CZK per dollar at the beginning of April up to 23.82 CZK at the end of June. The jump depreciation, which was common to all countries of the Central Europe with own currencies, occurred in the second half of April in connection to the interruption of supplies of gas to Europe and the timing of May as well as June shift of the koruna foreign exchange coincided with the period of inflation data publishing. Koruna foreign exchange per dollar was weaker by 8.9% year-on-year in Q2 and by 5.3% quarter-on-quarter.

Yields of government bonds went up.

The interbank rates reacted to the increase of the monetary policy-relevant interest rates by analogous increase. The three-month PRIBOR rate rose by 1.78 p.p.⁷¹ to 6.64% in Q2 and the interest rates of other maturities also behaved similarly. The yields of government bonds continued growing in Q2, which lasts since the second half of year 2020. Bonds with short-term maturity thus bore interest on average of 6.26% at the end of June 2022 (increase by 1.72 p.p.), with medium-term maturity 5.49% (+1.64 p.p.) and with long-term maturity 5.12% (+1.59 p.p.).

Strong inflow of funds to term deposits continued.

Interest rates on client deposits also generally moved upwards. In case of current accounts of households⁷² the interest rates stayed at a very low level (0.08%), but the average interest on one-day deposits went up by 0.26 p.p. to 0.77% in Q2. Deposits with agreed maturity recorded a large shift (by 1.86 p.p. to 5.37%). Current accounts of non-financial businesses bore interest of 0.7% on average at the end of Q2, which represents an increase of 0.33 p.p. The average interest rate on their deposits with agreed maturity rose by 1.9 p.p. to 5.8%. The development of the volume of deposits reflected the growing inflation and shift of interest rates. In Q2, the decrease of volume of non-term deposits atypical from the long-term point of view further continued (by 261.6 CZK bn year-on-year, by 54.9 bn quarter-on-quarter). This decrease was evidently absorbed by term deposits, which bear much better interest currently. They expanded by 746.9 CZK bn year-on-year and by 223.2 bn quarter-on-quarter. The dynamics of the total volume of deposits did not alter significantly.

Increase of interest rates on credit for households was accompanied by cooling of their provision.

The growth of interest rates on credit for households also continued. The average interest on consumer credit increased by 0.64 p.p. to 8.84% during Q2, which is the most since the end of Q3 2017. The average interest rate on credit to purchase residential real estate also had another large increase (by 0.59 p.p. to 4.43%). Expansion of the volume of credit provided to households markedly slowed down in Q2. The year-on-year increase of consumer credit slowed down to 7.1% in Q2. The still

⁷⁰ Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. Values of foreign exchange rates also stem from the CNB.

⁷¹ Unless stated otherwise, as the change of interest rates is meant the difference between value as of 30th June 2022 and 31st March 2022.

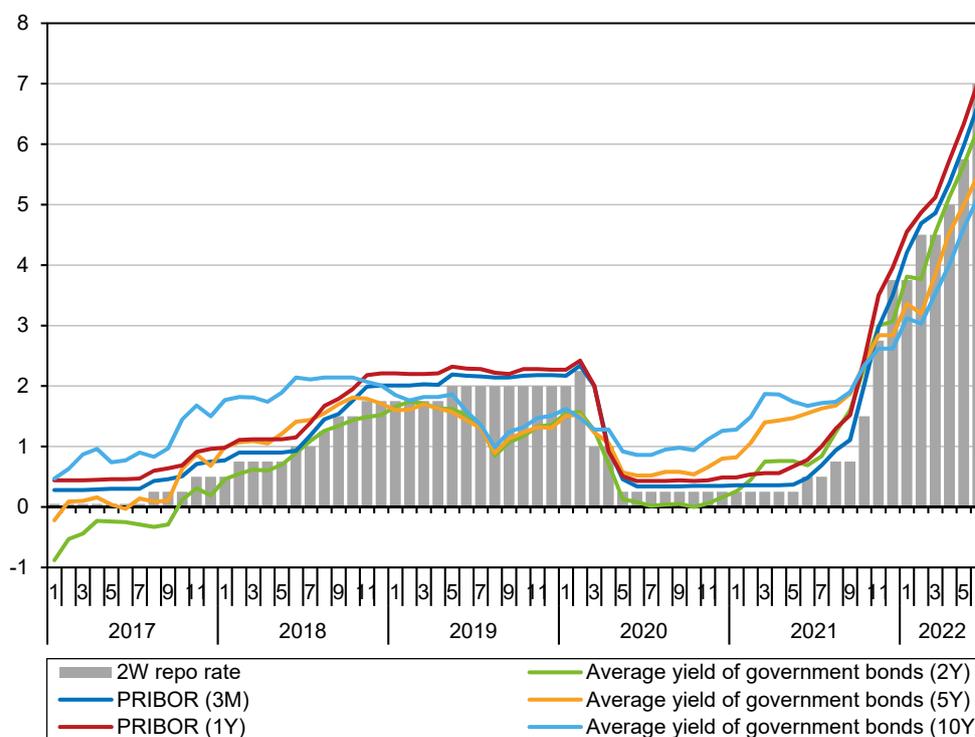
⁷² Population including self-employed persons.

relatively strong increase was assisted by the weaker comparative basis of last year's Q2, when the retail trade set in motion after the pandemic's shutdown. The quarter-on-quarter increase however slowed down to 0.4%, while it was more than 2% in the previous four quarters. Volume of provided mortgages was by 8.8% higher year-on-year at the end of June 2022. Their expansion nevertheless slowed down to 0.7% between the end of June and March, which was the least since Q1 2014. The sharp hike of rates put further brakes on the provision of new mortgages. The volume of new mortgage credits attained 28.2 CZK bn, which was the least since the end of year 2019. Mainly the pure new loans dropped⁷³. Total indebtedness of households went up by 8.1% year-on-year, but quarter-on-quarter addition slowed down to 0.7%.

Volume of credit and liabilities of non-financial businesses in foreign currencies sharply increased.

The cost of credit financing was raised also to non-financial businesses. The interest on loans with volume above 30 CZK mil went up the most in Q2 (by 1.92 p.p. to 8.14%). The medium category of credit between 7.5 and 30 mil the interest rate was raised by 0.78 p.p. to 6.56% and by 0.63 p.p. to 6.9% in case of credit up to 7.5 mil. The total volume of credit and liabilities of non-financial businesses was by 7.7% year-on-year in Q2. Mainly short term credit expanded (17.6%). At the same time the volume of credit provided in CZK was lower year-on-year (-5.7%), while those denominated in foreign currencies increased by 36.2% and their proportion in total volume of provided credit climbed above 40%. From the view of individual branches, the volume of credit was growing the most year-on-year in wholesale, retail and repairs and maintenance of motor vehicles (20.4%), in transportation and storage (17.1%) and the pace briskly accelerated in financial and insurance activities (12.6%). The year-on-year increase of the volume of credit in real estate activities (7.9%) also strengthened. Apart from the usual slump of credit for mining and quarrying (-45.0%), credit in public administration, mandatory social security, education, health and social works (-27.9%) also shrank markedly. The volume of credit for production and distribution of electricity, gas, heat, air, water and waste water shrank by 7.2%.

Chart 16 Market interest rates (in %)



Source: CNB

⁷³ New contracts also include the refinanced credit and other agreements (mainly the suspension of payments in the last two years).



8. State Budget

Half-yearly state budget deficit remained deep, it however moderated in comparison to years 2020 as well as 2021.

The domestic state budget (SB)⁷⁴ recorded a deficit in the amount of 183 CZK bn for H1 2022, deficit was observed in this time period for the fifth year in a row. This year's deficit was however lower than the result from the first half of years 2020 and 2021. The easing of pressures on the extraordinary expenditures had an effect here (in connection with the ending of counter-pandemic restrictions) with simultaneous advancing recovery of the economy. It was yet with the contribution of the heightened geopolitical tension accompanied by unusually strong prices growth as well the need for unexpected expenditures linked to the refugee inflow from Ukraine. Despite the spring revival of a number of services (incl. tourism) the deficit significantly deepened in Q2 2022 compared to the previous quarter. The termination of the interim budget at the end of this year's March also played a role⁷⁵. On the other hand, the economic revival as well as growth of prices caused the total tax collection⁷⁶ to overtake the record level from the comparable period before the onset of pandemics⁷⁷ for the first time this year in H1.

Total tax income overtook the pre-pandemic level for the first time.

Tax income grew mainly thanks to the VAT collection. Revenues from the EU budget dropped and stayed also behind the budget anticipations.

Total SB revenues exceeded the last year's level by one tenth (i.e. 74 CZK bn) in this year's H1. The considerable strengthening of all significant tax revenues contributed (mainly VAT and social security insurance), on the contrary the non-tax and capital revenues slightly decreased (by 6.3%, i.e. 6.2 CZK bn). Primarily the lower funds from the EU budget, whose volume did not reach even one third of the yearlong size anticipated by this year's budget⁷⁸, stood behind it. In addition last year's extraordinary yields from the frequency auction (in telecommunication) were not repeated any more (5.6 CZK bn).

Dynamic year-on-year growth of the VAT collection reflected the revived consumption as well as the notable acceleration of the growth of consumer prices.

162.6 CZK bn flowed in to the SB from the weight dominant tax – VAT – in H1, by 23% more year-on-year (the collection grew by similar pace also in Q1 2022 itself). It was connected to lower basis (the household consumption was still subdued by restrictions at the beginning of the last year) as well as the substantial price acceleration. The markedly revived consumption of non-residents could have already started to be evident (to a lesser extent), specifically due to the effect of spring recovery of arrival tourism as well as inflow of refugees from Ukraine. Waiver of value added tax on selected commodities (energies, vaccines, tests, respirators) in contrast affected the tax collection adversely.

Despite swift year-on-year growth, the state-wide collection of consumption taxes did not attain the level from H1 2019.

SB acquired by 16% more on consumption taxes year-on-year this year and the collection growth exceeded the budget anticipations so far. State wide collection of this tax however still slightly lagged behind (by 3%) the pre-pandemic period (H1 2019). Already only by 4.8% more of this tax flew into the SB year-on-year in June 2022 itself, since the collection of the most significant tax by volume – tax on mineral oils – stagnated. It could have been associated to the sharp spring rise of prices of motor fuels at petrol stations, to which both households and businesses presumably reacted by limiting their consumption (this was already indicated in May data related to retail sales for motor fuels). On the contrary the impact of temporary cut down of the tax rate⁷⁹ was not shown in the treasury fulfilment of the collection yet. Nevertheless the collection of tax on mineral oils went up by 12% in total for the whole this year's half-year, mainly due to the effect of low comparative basis (the counter-pandemic measures were culminating during Q1 2021 and the substantial restriction of the mobility of population between regions was reflected in the lowest collection of this tax in the

Tax on tobacco products contributed the most to the growth of collection.

⁷⁴ Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance regarding the treasury fulfilment.

⁷⁵ It affected mainly the drawing of investment as well as possibilities to pre-finance some current transfers and also restricted further sources of funding at the beginning of the year (e.g. extra-budgetary resources – mainly the claims from the unused expenditures from the previous years).

⁷⁶ Here it is considered the tax collection at the level of all public budgets and not including the social security insurance.

⁷⁷ While the comparison with the beginning of year 2020 was by 2.9% lower still in Q1 2022, it already surpassed in total by 9.9% the level from H1 2019 in this year's half-year.

⁷⁸ Based on Act No. 57/2022 Coll., on the state budget, approved by the Chamber of Deputies of the Parliament of the CR on 10th March 2022.

⁷⁹ Effective as of 1st June until 30th September 2022, the consumer tax rate on petrol and diesel fuels is temporarily lowered by 1.50 CZK per litre.

last eight years at that time). Collection of tax on tobacco products, which expanded by one fifth besides other things thanks to the increase of the tax rate, contributed the most to higher collection of all consumption taxes this year. Growing collection of less significant categories of tax by weight also had a favourable effect, especially the tax on alcohol and also beer (its collection however still fell by more than 5% behind the peak from year 2019).

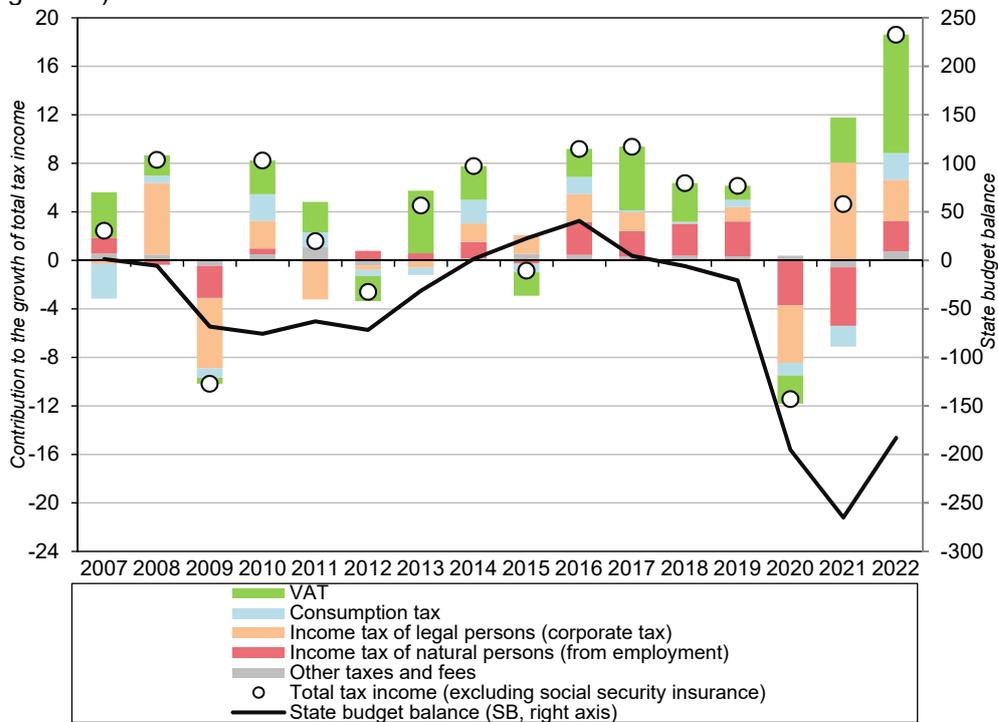
Collection of income tax of legal persons notably increased year-on-year thanks to high June payment.

SB revenue from the corporate tax briskly grew year-on-year (+16.8%), mainly thanks to the high June collection (including both quarter and half-yearly tax advance payments and part of the payment of tax for year 2021⁸⁰). Collection for H1 appreciably exceeded the budget anticipations, because it reached nearly three quarters of the anticipated year-long volume and proved relatively good economic results of some large businesses (e.g. in the area of energetics or trade). Legislative amendments however also affected the size of the collection⁸¹.

Swift growth of the collection of income tax of natural persons mirrored the fast recovery of the labour market. The collection however considerably fell behind the pre-pandemic level, mainly due to the influence of legislative amendments.

Collection of income tax of natural persons (ITNP) grew by similar pace as the corporate tax collection year-on-year. It reflected the employment growth as well as the brisk nominal rise of average wages. The pay out of the compensatory bonus (to aid small businesses) still did influence the collection of ITNP adversely, but to a lesser extent than last year. In contrast other legislative amendments (ongoing increasing of tax rebate per taxpayer or higher tax deduction on children) curbed the pace of collection growth more intensively this year. While the state-wide collection of the corporate tax overtook the pre-pandemic level already last year, collection of this year's ITNP did not reach even the level from H1 2017. Last year's abolition of the "super gross wage" leading to a substantial lowering of the tax burden on labour played an essential role here. On the contrary the growth of the collection of ITNP levied by deduction (from capital gains) accelerated and was not significantly affected by the pandemic situation.

Chart 17 Contribution of constituent revenues to the growth of the state wide tax collection* (year-on-year in p. p.) and state budget balance within H1 (in CZK bn, right axis)



* Includes tax income without the social security insurance.

Source: MF CR

⁸⁰ It is the payment for payers, which have mandatory audit, or their tax return is processed and submitted by tax advisor.

⁸¹ High year-on-year growth of the collection of the corporate tax was partially influenced by last year's shift of term for the payment of tax advance (based on the individual requests of companies) with negative impact on the income of this tax into the SB in the amount of 6.4 CZK bn (for H1 2021). Further it also contained the change in the taxation of the reserves of the health insurance companies.



Total SB outlays grew substantially in Q2 2022 compared to the beginning of the year. Termination of the interim budget as well as the need for exceptional expenditures related to high inflation and also the war in Ukraine had an effect.

Total SB outlays amounted to 970 CZK bn for H1 this year and mildly dropped year-on-year (by 0.8%), solely due to the effect of current expenditures. Their development however was more uneven during this year so far. If the regime of the interim budget⁸² limited the expenditures in Q1, they were fundamentally influenced by the impacts of the racing inflation, which resulted in the need for the pension adjustment as well as other social benefits in the subsequent period. In addition, the need for extraordinary expenditures arose in connection to the war conflict in Ukraine (foreign aid, expenditures on the integration of refugees in the CR, crisis management in the area of state material reserves). In the opposite direction went the further reduction of the financial assistance related to the pandemics⁸³. The total size of the SB current expenditures thus increased by 5.4% year-on-year in Q2 2022 itself, while it plummeted by 9.5% in the previous quarter.

Volume of current transfers to business entities returned to the level from year 2019.

The development of non-investment transfers to business entities, which attained only 40% of last year's level and plunged by 51 CZK bn, was decisive for the year-on-year fall of the current expenditures. It primarily reflected the decline of the emergency programmes for the affected businesses as well as whole branches, partially also the reduction of advance subsidies on renewable resources of energy (-3.8 CZK bn). Lower transfers to contributory as well as non-profit organisations were also connected to the decrease of the counter-pandemic help, their impact on current expenditures was however of smaller magnitude. Significant by volume current transfers towards regions and municipalities stagnated, because the mild growth of wage tariffs of teachers of primary and secondary schools (+2%) was compensated by reduction of funds in the area of social services or inpatient care (associated with the last year's extraordinary bonuses). Expenditures on wages in the organisational units of the state practically stagnated for the third year in a row. More funds were in contrast expended on the non-investment purchases year-on-year (+22.6%, i.e. 7.3 CZK bn), where the higher expenditures to bolsters up the state material reserves, growing prices consumed energies or higher need to purchase medicine and medical material were evident. The temporarily augmented payments for the so called state insured persons (+8.2 CZK bn)⁸⁴ also burdened the SB more this year. Expenditures on servicing the state debt also enlarged (to 23 CZK bn⁸⁵, nearly twofold in the last two years). The marked growth of interest rates on the bond marked as well as continuing strong growth of the size of the debt stood behind it. State debt totalled 2 708 CZK bn at the end of June this year by 12.1% more year-on-year. The debt climbed up by 242 bn since the beginning of this year, which was nevertheless less than in the preceding two years.

More expenditures were directed to the non-investment purchases, the cost of servicing the growing state debt was however also rising.

Growth of SB current expenditures was driven mostly by the paid out pensions, whose level was raised two times in H1. Pension account deficit deepened.

Expenditures on social benefits traditionally form part of the SB current expenditures – it presented 41.4% in H1 2022. Their weight strengthened year-on-year for the first time in the comparable period in the last six years (+3 p.p.) and these benefits at the same time had the most pro-growth effect on the development of all current expenditures (+21.3 CZK bn) so far this year. This year's expanded volume of social benefits was from more than 85% driven by higher expenditures on pensions – these strengthened by 6.8% year-on-year thanks to January adjustment as well as the exceptional June one. The number of pension recipients worked in the opposite direction, significantly affected by higher mortality. It shrank by 1.7% compared to June 2020. Good condition of the labour market was reflected in the ongoing

⁸² Total of the monthly expenditures of all organisational units of the state thus could reach maximum of one twelfth of total SB expenditures set according to the approved Act on SB from year 2021. This led among other things to the postponement of the non-essential operating expenditures as well as investment.

⁸³ This aid culminated last year in Q2 when it comprised of 64 CZK bn (101 bn in total for the entire H1). It mainly consisted of compensation of part of wages and mandatory transfers (within the Antivirus A, A+ and B programme), special programmes to directly support the hit sectors of the economy (e.g. COVID Rent, COVID Uncovered costs), higher outlays in healthcare (especially increase of the state payment per so called state insured person, raised personal costs of employees in health and social works, purchases of protective equipment) and finally also the increased expenditures on some social benefits (care benefits, extraordinary contribution for employee in quarantine or isolation).

⁸⁴ Monthly payments by state increased from 1767 CZK to 1967 CZK per person as of 1st January 2022. According to the amendment to the Act on public health insurance approved later however the payment fell to 1567 CZK as of 1st July 2022. The average monthly payment for the whole year 2022 will total 1 767 CZK and it will thus be maintained at the level from year 2021.

⁸⁵ It corresponds to the balance of the budget chapter State debt.

growth of pension insurance revenues (+5.9%). Pension account deficit⁸⁶ however still deepened to 8.6 CZK bn year-on-year and recorded a deficit for a third year in a row.

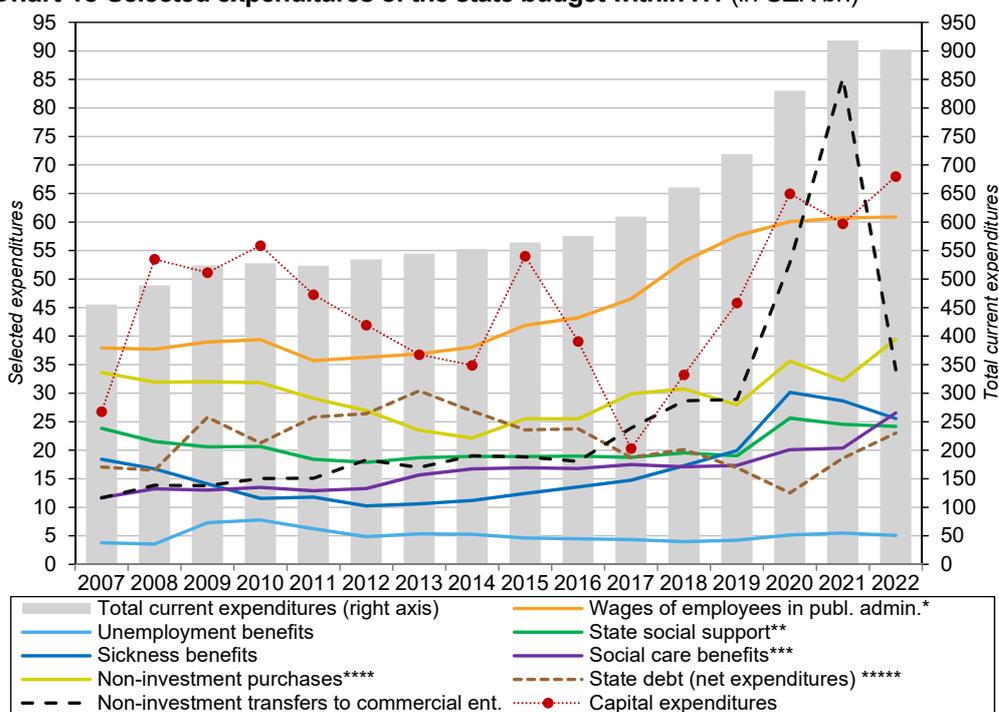
Volume of majority of non-pension social benefits fell due to the retreat of pandemics as well as good condition of the labour market. The payment of the humanitarian benefit however was significant, expenditures on care also strengthened.

“Non-pension” social benefits, considerably expanded during the pandemics, grew slower in H1 (by 3.6% year-on-year). Had there not been the exceptional immediate aid (consisting mainly of the humanitarian assistance to refugees from Ukraine in the amount of 4.3 CZK bn), the total volume of non-pension benefits would decrease. Since due to the major improvement of the epidemic situation, significant savings manifested in the pay out of care benefits in comparison to the last year’s H1 (by 40%, i.e. 2.7 CZK bn), the volume of sickness benefits also reduced for the first time after year 2012 (by 4%, 0.7 bn). Lowering of the disbursed unemployment support (–7.6%) or state social support benefits including foster care (–1.5%)⁸⁷ had a smaller impact. On the contrary, the SB expended by one tenth more (+1.7 CZK bn) on care benefits (long-term sickness benefit).

Half-yearly volume of investment hiked up to record level thanks to the spring acceleration in spending.

Even though this year’s drawing of capital outlays notably accelerated following the ending of the interim budget in Q2, SB spent only one third of the annual anticipated volume for the whole half year⁸⁸. The investment amount still expanded by considerable 13.9% year-on-year (to record 68 CZK bn), from the major part due to the strengthening of flows into the state funds (on transport infrastructure as well as the environment). Total investment formed even 7% of all budget expenditures, which corresponded to the long-term average.

Chart 18 Selected expenditures of the state budget within H1 (in CZK bn)



* Covers expenditures on salaries in central government institutions. Does not include e.g. wage costs of regional education.
 Also includes the foster care benefits. *Includes Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits based on Act on State Social Support. Humanitarian aid provided for citizens of Ukraine are also included here.
 ****Contains mainly expenditures on purchase of services, materials, energies or other services (e.g. expenditures on repairs and maintenance). *****Corresponds to the balance of the budget chapter State debt.
 Source: MF CR, MLSA

⁸⁶ It is expressed as the difference between revenues and expenditure on pensions from the SB. Expenditures do not contain the costs of administration of the pension insurance system.

⁸⁷ Lower expenditures on the weight significant parental allowances (–7.2%) mainly stood in the background, in contrast the income tested benefit experienced growth – housing allowance (+10.2%) and child allowance (+56.5%). For the last mentioned item, the impact of legislative changes in force since last year’s July (especially increase of the limit of the relevant income establishing the right to the child allowance from 2.7 to 3.4 multiple of the minimum subsistence amount and increase of the child allowance amount by 26%).

⁸⁸ Similar half-yearly “run-up” of investment was however apparent also last year or in years 2018 and 2019.



Half-yearly positive SB balance towards the EU budget was under the effect of weaker revenues the lowest in the last four years.

Despite stronger year-on-year decrease of the majority of revenue types the CR remained towards the EU budget the net recipient in H1 2022. The structural funds preserved the position of the most significant revenue channel (17.7 CZK bn), even though these flows into the CR reduced by more than one half against H1 2020 (the similar was also valid for the cohesion funds). The volume of otherwise fairly stable in the long-term direct payments in agriculture decreased substantially slower (to 17.1 bn). 6.1 CZK bn was allocated to the rural development (incl. the area of fishing). It represented the only revenue title, where the CR gained more year-on-year. Half-yearly total domestic payments into the Union budget practically stagnated similarly to the previous two years (32.5 CZK bn). The CR thus acquired from the EU budget net 15.9 CZK bn so far this year (the least since H1 2018). If revenue from the EU tool Recovery and Resilience Facility⁸⁹ were also included, the positive balance would be 23.5 bn.

Budget deficit of the government institutions sector shrank nearly by one half in the CR year-on-year, still it remained deep.

Government institution sector (VI) budget in the CR ended in deficit of 75.3 CZK bn in Q1 2022⁹⁰. Even though it represented a deficit by nearly one half lower year-on-year, it was simultaneously the second worse result achieved within Q1 in the history of the independent CR. Substantial slowdown of growth of total expenditures VI (to 1.2% year-on-year), which was mainly associated with the termination of majority of support programmes for the entities impacted by the plunge of demand during the pandemics, contributed to the deficit moderation in Q1. Parallely, the acceleration of the revenue growth occurred (to 13.6%) – both under the influence of the total revival of the economy and impact of the high price growth. Revenue VI from the product taxes (+27 CZK bn, i.e. +20%) as well as from net social contributions of both employers and workers themselves (+21 bn, +9%) thus grew swiftly. In both cases it concerned revenues substantially exceeding their pre-crisis maximum. Budget deficit fell solely to the central VI, since regional VI as well as health insurance companies recorded mild budget surplus (similarly to the beginning of last year). Gross consolidated debt of the sector VI rose to 2 683 CZK bn, year-on-year by 6.8% this year in March. The size of the debt grew continuously since half of year 2019, this year's increase was however the lowest since the beginning of pandemics so far.

Growth of the consolidated government institution debt slowed down in the CR.

Budget deficit of the government institution sector in the EU dropped for the fifth quarter in a row, specifically to the lowest value since the onset of pandemics.

Post crisis revival of the economy together with strong reduction of the extraordinary public expenditures tied to the pandemics are gradually reflected in the improved budget of the government institutions sector in the EU countries. Sector VI budget deficit⁹¹ decreased for the fifth time in a row in the Union quarter-on-quarter and it amounted to 2.2% of GDP at the beginning of this year (the least since the end of year 2019). The relative deficit was thus lower than in the CR (-3.5% of GDP) or Spain (-4.4%) and France (-3.8%), the deepest deficits troubled Italy and Malta. Hungary (-6.9% of GDP) and Slovakia (-3.7%) were hit the most within the Central Europe (similarly to the whole last year), in contrast Poland (-1.2%) and Germany (-0.4%) headed towards the balanced budget this year so far. In comparison to Q1 2021, when a number of states proceeded with counter pandemic restriction, the balance of sector VI budget improved in the vast majority of Union members this year. Only Bulgaria and also Denmark (whose budget still ended in mild surplus) experienced an apparent deterioration.

The indebtedness rate in the EU started mildly decreasing following the last year's absolute peak.

The indebtedness of sector VI, which ascended to the historically highest level at the beginning of the last year, arrived at 87.8% of GDP (res. 95.6% in the euro area) in the EU at the end of Q1 2022. All member states reported a year-on-year reduction of the indebtedness (whole EU by 4.5 p.p., the CR by 1.1 p.p.), apart from Romania, Slovakia

⁸⁹ It funds mainly the investment and reform projects of the EU member states via the national restoration plans. The CR started to draw on it for the first time this year.

⁹⁰ Data regarding the budget of government institutions for Q2 2022 will be published by the CZSO on 3rd October 2022, Eurostat then on 21st October 2022. More detailed assessment of the development for this year's Q1 is contained in the publication Analysis of the sector accounts:

<https://www.czso.cz/csu/czso/cr/analyza-ctvrtletnich-sektorovych-uctu-1-ctvrtleti-2022>

⁹¹ Unless stated otherwise, data given below regarding the budget of sector VI are expressed after seasonal adjustment.

Nearly all member states recorded a positive shift.

and Malta (where a mild increase manifested). The debt in the Union was nevertheless higher by 10 p.p. compared to the lowest indebtedness level from the year of the pre-pandemic boom (period 2014 till 2019), by nearly 20 p. p. (+13 p.p. in the CR) in the most affected states (Greece, Italy, Spain, France). On the contrary only Ireland fared considerably better than before the pandemics (-4 p.p.). This year's indebtedness corresponded to the level from the end of year 2019 in Denmark and Sweden and both countries thus solidified their position among the least indebted economies. The indebtedness rate arrived at 42.8% of GDP in the CR, which marked the eighth lowest value in the Union and at the same time still sovereign best position among the Central European states.

