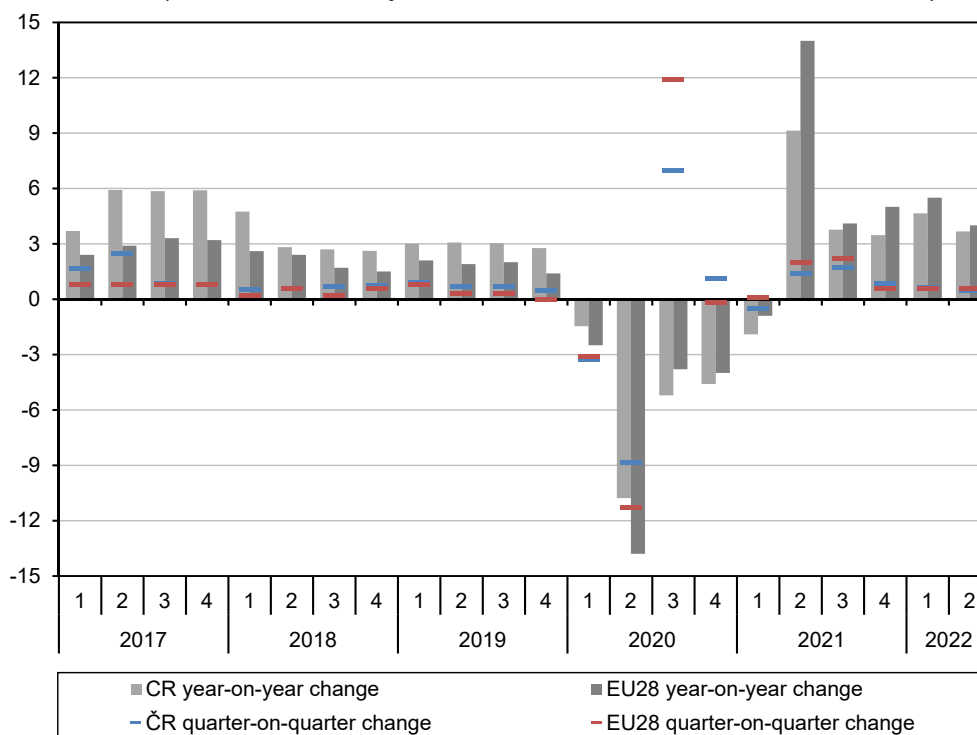


2. Overall Economic Performance

The Czech economy has continued growing.

The Gross domestic product (GDP) sustained growth in Q2 2022 and increased by 0.5%¹ 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%² 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

¹ 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.

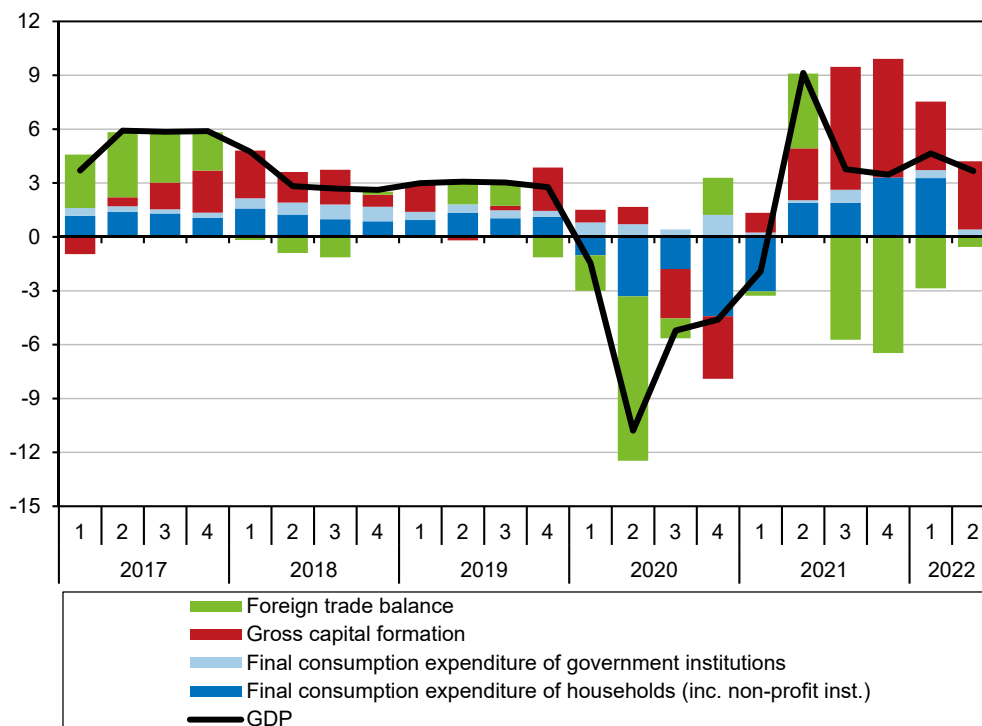
² Data for Luxembourg were not available.

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-year³. 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%⁴ in real terms. With the exception of branches with the dominant government sector⁵, where under the influence of high comparative basis⁶ 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

³ Employment data are in the national accounts conception (persons), figure seasonally adjusted.
⁴ Converted into the real expression using the deflator of final consumption expenditure of households.
⁵ Public administration, education, health and social work.
⁶ 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 consumption⁷ 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%)⁸. 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 creation⁹ 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%¹⁰ 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

⁷ Additions to the GDP change after exclusion of imports for final use.

⁸ Data regarding consumption based on durability are in domestic conception.

⁹ Change of inventories (in current prices and seasonally adjusted) attained 92.8 CZK bn in Q2.

¹⁰ 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.

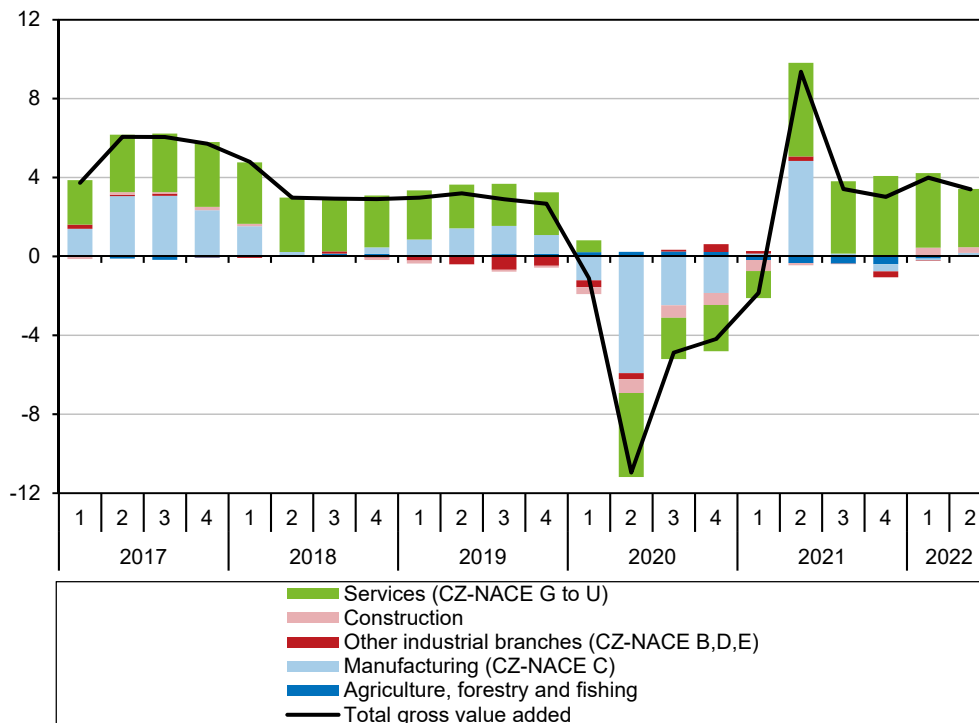
The GVA was rising in the majority of branches year-on-year.

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

