

# THE CZECH ECONOMY DEVELOPMENT

First half of 2023

Summary Data on the Czech Republic

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Main sources of data in the whole analysis: CZSO, MF CR, CNB, MLSA, CSSA, Eurostat, CZSO calculations.  
Latest information provided in this report has been dated the 7<sup>th</sup> September 2023.

## 1. Summary

- The Gross domestic product (GDP) fell by 0.4%<sup>1</sup> year-on-year in Q2 2023. It constituted the second year-on-year decrease in a row. Mainly the creation of the inventory stock and household consumption contributed to the year-on-year decrease. In contrast, the foreign demand still exerted a positive impact and both investment activity and government consumption grew. The quarter-on-quarter GDP increased by 0.1%, thus the dynamics has lain in the range of stagnation for more than one year. The inventor stock creation contributed to the fall similarly to the year-on-year comparison. However, other GDP components grew – the foreign demand, investment, government consumption and the household consumption also increased quarter-on-quarter for the first time in six quarters. The Czech economy was among the minority of countries within the EU, where the GDP dropped year-on-year. The Gross domestic product went up by 0.5% year-on-year and stagnated quarter-on-quarter in the EU in Q2.
- The Gross value added (GVA) went up by 0.6% year-on-year. Mainly manufacturing, where the GVA increased by 3.8% added to the growth. In addition, the GVA significantly grew year-on-year in information and communication and it was also higher in professional, scientific, technical and administrative activities tied to the business demand. Mostly the group trade, transportation, accommodation and food service, which recorded 1.3% year-on-year decrease, had an adverse effect. The GVA lowered by 0.2% quarter-on-quarter. The quarter-on-quarter GVA growth was markedly supported by the development in manufacturing (growth of 1.0%). The group trade, transportation, accommodation and food service (–1.0%) however worked in the direction of decrease.
- Export of goods and services expanded by 4.5%<sup>2</sup> in real terms year-on-year in Q2 and fell by 0.5% quarter-on-quarter. The import dynamics was milder – import was by 0.8% higher in real terms year-on-year and it shrank by 1.2% quarter-on-quarter. The balance of foreign trade with goods and services amounted in current prices to the surplus of 100.9 CZK bn in Q2 and thus improved by 101.0 bn year-on-year. Milder deficit of trade with oil and natural gas and enhanced surplus of the foreign trade with motor vehicles the most contributed to the year-on-year improvement of the balance of trade with goods. On the contrary, the lower prices led to the year-on-year deterioration of the balance of trade with electricity, gas, steam and air-conditioning.
- The total price level (gauged by the GDP deflator) hiked up by 10.2% year-on-year and it was by 1.1% higher quarter-on-quarter in Q2. The year-on-year growth of the consumer prices slowed to 11.1% in Q2 and the prices were by 0.3% higher quarter-on-quarter. Prices of housing and energies and food and non-alcoholic beverages still contributed the most to the year-on-year growth of consumer prices. Simultaneously, these were the items affecting the most the slowdown of the total growth. The prices however still grew year-on-year for the majority of consumer basket divisions and the transportation prices presented the only exception. Both catalogue as well as realised prices of flats were falling. The year-on-year growth of the prices of industrial producers went down (3.9%) and prices of agricultural producers were falling (–8.1%). In contrast, the prices of market services experienced strengthening of the year-on-year growth (6.3%).
- In Q2, the monetary policy-relevant interest rates remained at the same level they had since the beginning of the second half of year 2022. This led to the ongoing stability of the market rates. Interest rates on consumer credit were invariable, while they kept growing further in case of mortgages.
- The total employment<sup>3</sup> rose by 0.8% year-on-year in Q2 and by 1.0% quarter-on-quarter. The general unemployment rate displayed only a moderate tendency to growth and it was 2.8% in July. The average monthly nominal wage increased by 7.7% year-on-year in Q2 and it totalled 43 193 CZK. The real slump mitigated to 3.1%. The average wage was falling in real terms in the majority of industries. Quarter-on-quarter nominal growth of the average wage was 1.5%.

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

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

<sup>3</sup> Employment data are in the national accounts conception and adjusted for seasonal effects.



- The deficit of the state budget increased to 215.4 CZK bn in H1. The total revenues grew swiftly as a result of the high price rise in the economy year-on-year (16.5%), however they did not completely fulfil the budget anticipations. The dynamics of the total expenditures, which increased by 16.8% year-on-year in H1, on the other hand surpassed them. Weaker growth of the tax income was influenced by the continuing decrease of the real household consumption. The strong growth of expenditures was affected by the assistance in connection to high prices of energies as well as the reaction to the prevailing inflation (pension adjustment, larger volume of paid out social benefits, growing repayments of the state debt).

## Selected Key Indicators of the Economic Development\*

Indicator	Unit	2022			2023		Whole year	
		2q	3q	4q	1q	2q	2021	2022
<b>Economic Performance</b>								
Gross Domestic Product in the CR <sup>1</sup>	y/y, in %	3,4	1,4	0,1	-0,4	-0,4	3,6	2,4
	q/q, in %	0,2	-0,2	-0,4	0,0	0,1	x	x
Gross Domestic Product in the EU <sup>1</sup>	y/y, in %	4,3	2,5	1,6	1,1	0,5	5,4	3,5
Final consumption expenditure <sup>1</sup>	y/y, in %	0,5	-3,6	-3,4	-2,7	-2,0	3,2	-0,3
Gross fixed capital formation <sup>1</sup>	y/y, in %	3,7	2,2	0,8	-0,8	2,5	0,8	3,0
Exports of goods and services <sup>1,3</sup>	y/y, in %	3,3	12,7	10,9	6,4	4,5	6,9	7,2
Imports of goods and services <sup>1,3</sup>	y/y, in %	3,0	8,1	8,3	3,0	0,8	13,3	6,3
Balance of foreign trade <sup>2,3</sup>	in CZK bn	6,9	5,6	2,5	100,1	110,7	180,9	65,8
Balance of economic sentiment indicator <sup>6</sup>	in p.p.	6,3	-2,6	-3,3	1,2	-2,6	3,3	-3,3
<b>Performance in Main Branches</b>								
Industrial production <sup>4</sup>	y/y, in %	0,7	6,1	3,2	1,2	1,1	6,6	2,5
Construction production <sup>4</sup>	y/y, in %	4,0	-0,8	-0,1	-1,2	-3,0	2,3	2,6
Sales in services <sup>4</sup>	y/y, in %	12,3	7,2	1,6	-0,3	-3,3	7,5	8,5
Sales in retail trade <sup>4</sup>	y/y, in %	-3,0	-7,5	-9,2	-7,8	-6,2	4,4	-3,8
<b>Prices</b>								
Consumer price index	y/y, in %	15,8	17,6	15,7	16,4	11,1	3,8	15,1
HICP in the CR	y/y, in %	15,0	17,4	16,5	18,0	12,6	3,3	14,8
HICP in the EU	y/y, in %	8,8	10,3	11,0	9,4	7,2	2,9	9,2
Agricultural producer prices	y/y, in %	39,0	37,0	28,0	19,4	-8,1	6,3	31,8
Industrial producer prices	y/y, in %	27,7	25,9	21,8	15,0	3,9	7,2	24,3
Service producer prices in the bus. sph.	y/y, in %	5,8	6,5	6,7	5,8	6,3	1,3	5,8
Terms of trade in trade with goods	in %	95,9	94,3	98,2	103,0	106,3	99,7	96,2
<b>Labour Market</b>								
Total employed in the CR <sup>3</sup>	y/y, in %	2,2	1,4	1,2	1,3	0,8	0,4	1,5
General unemployment rate in the CR <sup>5</sup>	in %	2,2	2,2	2,3	2,5	2,6	2,8	2,2
General unemployment rate in the EU <sup>5</sup>	in %	6,1	6,2	6,1	6,0	5,9	7,1	6,2
Average employee wage (nominal)	y/y, in %	3,4	5,2	6,6	8,7	7,7	5,8	5,3
Average employee wage (real)	y/y, in %	-10,7	-10,5	-7,9	-6,6	-3,1	1,9	-8,5
<b>Monetary Conditions</b>								
Two week repo rate <sup>6</sup>	in %	7,00	7,00	7,00	7,00	7,00	3,75	7,00
Exchange rate CZK/EUR		24,6	24,6	24,4	23,8	23,6	25,6	24,6
Exchange rate CZK/USD		23,2	24,4	23,9	22,2	21,7	21,7	23,4
<b>State Budget<sup>7</sup></b>								
State budget balance in the CR	in CZK bn	-124	-88	-90	-166	-49	-420	-360
State debt <sup>6</sup>	in CZK bn	2708	2890	2895	2997	3044	2466	2895

Data source: CZSO, CNB, MF, Eurostat

\* Unless stated otherwise, data relate to the CR.

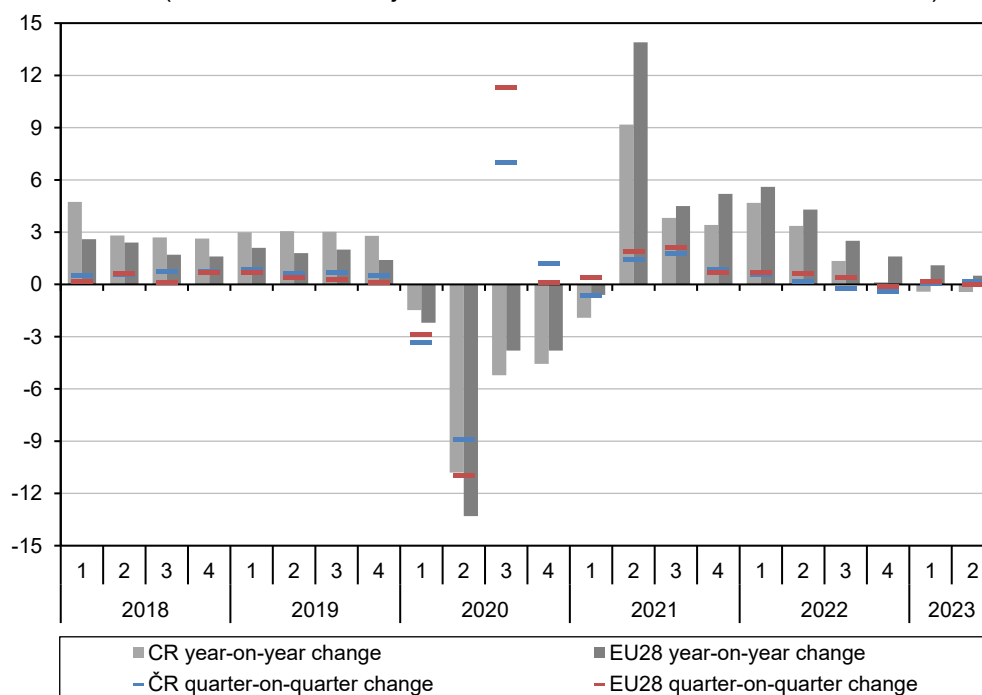
<sup>1</sup> data adjusted for seasonal and calendar effects in constant prices<sup>2</sup> data adjusted for seasonal and calendar effects in current prices<sup>3</sup> in the national account conception, in natural persons<sup>4</sup> adjusted for seasonal effects<sup>5</sup> seasonally adjusted, age group 15 – 74 years<sup>6</sup> balance at the end of period<sup>7</sup> based on treasury fulfilment

## 2. Overall Economic Performance

The Czech economy stayed near the quarter-on-quarter stagnation.

The quarter-on-quarter stagnation of the Gross domestic product (GDP) continued in Q2 2023, when the Czech economy grew only by 0.1%<sup>4</sup>. The quarter-on-quarter pace has thus stayed near zero for already five quarters. The described addition is the result of effect of two opposing factors. The change of the inventory stock had a strongly negative impact on the quarter-on-quarter GDP dynamics. On the other hand, the positive effect of the foreign demand, government consumption continued and the investment activity revived, mainly the activity linked to the investments of businesses. The household consumption also increased quarter-on-quarter following six decreases. The GDP lowered by 0.4% year-on-year in Q2 and thus decreased for the second time in a row. Household consumption and inventory stock were shrinking. The foreign demand, investment activity and government consumption on the contrary had a favourable effect.

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



Source: CZSO, Eurostat

Gross domestic product stagnated in the EU quarter-on-quarter.

The GDP of the whole European Union stagnated quarter-on-quarter in Q2 and the year-on-year growth slowed down to 0.4%<sup>5</sup>. The majority of EU economies based on the available data grew year-on-year as well as quarter-on-quarter. The GDP increased the most in Malta (3.9%), in Greece (2.7%) and in Romania (2.7%) year-on-year. The CR was among the minority of countries featuring year-on-year GDP decrease. The GDP dropped the most in Estonia (-3.0%), Hungary (-2.3%) and in Poland (-1.4%). From the view of the quarter-on-quarter development, the CR ranged within the EU average. The GDP increased the most quarter-on-quarter in Lithuania (2.9%), Slovenia (1.4%) and Greece (1.3%). In contrast, the GDP notably fell in Poland (-2.2%), Sweden (-0.8%) or in Austria (-0.7%). Depiction of the area of Central Europe shows an overall slowdown in the region. Except for Poland, the CR and Austria, the GDP also mildly decreased in Germany year-on-year (-0.1%, the German economy stagnated quarter-on-quarter). In contrast, Slovakia attained year-on-year growth of 1.3% and quarter-on-quarter of 0.4%. With respect to the large European economies, the development

<sup>4</sup> 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 29th August 2023.

<sup>5</sup> Data for Luxembourg were not available.

varied in Q2. The GDP grew quarter-on-quarter in France (0.5%) and in Spain (0.4%). On the contrary the German economy stagnated (and fell in the two preceding quarters) quarter-on-quarter and Italy decreased by 0.4%.

Wages and salaries decreased in real terms year-on-year.

The volume of wages and salaries paid out to employees in Q2 went up in nominal terms by 8.0% year-on-year given the total employment growth of 0.8%<sup>6</sup>. The dynamics thus slightly slowed down compared to the preceding quarter. With the view to the ongoing price growth however the wages and salaries dropped by 1.9%<sup>7</sup> in real terms. The wages and salaries rose the most year-on-year in the area of real estate (18.2% given the employment growth of 0.6%), in financial and insurance activities (10.1%, employment of 1.8%), in professional, scientific, technical and administrative activities (9.6%, employment of 1.6%), in public administration, education, health and social work (8.3%, employment was by 2.2% higher), in information and communication (8.1%, employment by 2.6%) and in construction (8.1%, employment by 2.7%). The year-on-year growth of the volume of wages and salaries was below-average in industry (7.8%, the only branch where the employment fell year-on-year by 0.6%), in group trade, transportation, accommodation and food service (6.7%, employment by 0.2%), in other activities<sup>8</sup> (6.4%, employment grew by 1.0%) and in agriculture, forestry and fishing (5.9%, employment by 0.7%).

Nominal wages and salaries fell quarter-on-quarter in agriculture, forestry and fishing and in other activities.

Wages and salaries increased by 1.0% quarter-on-quarter given the same growth of employment. In real terms, wages and salaries increased by 1.2% quarter-on-quarter. The most significant revival of the volume of wages and salaries occurred in Q2 in financial and insurance activities (5.4% accompanied by the employment stagnation), in public administration, education, health and social work (1.6% given the employment decrease of 0.1%), and in information and communication (1.4% with employment decrease of 1.9%). The addition to the volume of wages and salaries in professional, scientific, technical and administrative activities (1.1% with the employment growth of 0.5%) was also above the total average. Wages and salaries recorded a milder growth in industry (0.9% given the employment growth of 1.2%), in construction (0.3%, employment by 0.1%) and in group trade, transportation, accommodation and food service (0.1% accompanied a marked employment growth of 2.7%). Wages and salaries stagnated in real estate activities, where the employment grew by 1.0% and decreased in agriculture, forestry and fishing (−0.3% given the employment growth of 0.8%) and in other activities (−1.8% with employment growth of 2.5%).

Domestic consumption grew for the first time after six quarters of decreases.

Consumption dropped by 2.0% year-on-year and the slump thus moderated. Consumption contributed in total −1.2 p. p.<sup>9</sup> in the direction of the year-on-year GDP decrease. The decline can be thus attributed solely to the household consumption, which was by 4.5% lower. In contrast, the government consumption went up by 3.3% year-on-year. Quarter-on-quarter consumption increase by 0.3% manifested following six quarters of continuous decreases. Both household (0.2%) and government (0.3%) consumption went up. Expenditures on short-term consumption<sup>10</sup>, which were by 1.0% higher quarter-on-quarter, worked the most in the direction of quarter-on-quarter growth of household consumption. The year-on-year downswing shrank, but the short-term consumption still deeply lagged behind (−6.1%). The consumption of services in effect stagnated in Q2 (+0.2% quarter-on-quarter) and it was by 1.6% lower year-on-year. It represented the first year-on-year decrease since the beginning of year 2021. The consumption of durable goods both medium and long-term durability) fell quarter-on-quarter in Q2 2023 (by 3.6%

<sup>6</sup> Employment data are in the national accounts conception (persons), figure seasonally adjusted.

<sup>7</sup> Converted into the real expression using the deflator of household consumption.

<sup>8</sup> This section contains activities of common interests organisations, repairs of computers and personal and household goods and a number of other personal services (beauty, hairdressing treatment etc.).

<sup>9</sup> Additions to the GDP change after exclusion of imports for final use.

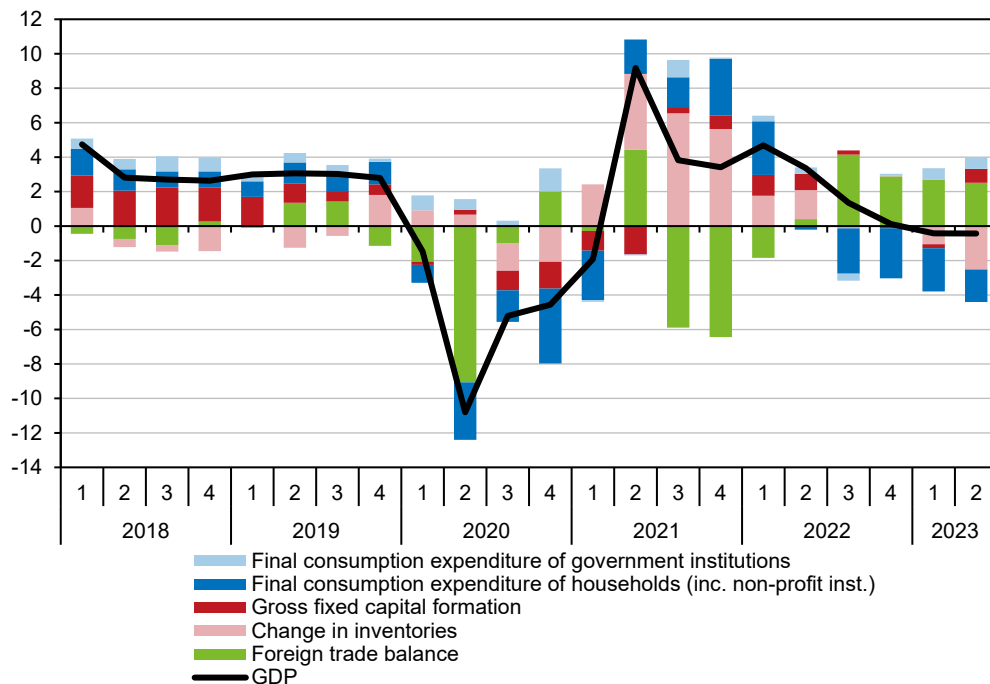
<sup>10</sup> Data regarding consumption based on durability are in domestic conception.





for long-term durability and by 2.0% for medium durability). Expenditure on long-term durability goods fell by 3.6% year-on-year, while for the consumption of the medium durability goods it reached 7.3%.

**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

Development of investment indirectly indicated a heightened investment activity of businesses.

Expenditure on gross capital formation were lower by 5.8% year-on-year in Q2, which represents deepening of the dive compared to the previous quarter. Gross capital formation contributed in total -1.7 p.p. to the GDP decrease. Quarter-on-quarter, expenditures on gross capital formation decreased by 1.9%. Expenditures on gross fixed capital formation itself (investment activity) however expanded by 2.5% year-on-year and the quarter-on-quarter revival achieved 3.4%. The total decrease of the gross capital formation was thus caused by the change of the inventory stock as the gradual depletion of the inventory stock apparent already at the end of the last year continued<sup>11</sup>. Expenditures on ICT and other machinery and equipment (growth of 8.8%) and further raised investment into transport equipment (14.5%) supported for the major part the quarter-on-quarter recovery of the investment activity in Q2. The revival of investment activity of non-financial business, which dominate these items can thus be indirectly derived. These two categories also grew very strongly year-on-year (ICT and machinery by 13.5% and transport equipment by 16.2%). Expenditures on products of intellectual property were also higher year-on-year (2.8%). Nevertheless, in the year-on-year view they lagged behind by 1.5%, which is the result of quarter-on-quarter plunge in the last quarter as well as the high comparative basis of the last year. The adverse situation in the area of investment into buildings continued in Q2. Investments into housing was by 3.0% lower quarter-on-quarter. Decrease thus again followed two revivals. The real level of investments into housing thus due to the effect of caution, weakening purchasing power of households and the interest rate environment hit the level of year 2016. Year-on-year, investments into housing were by 9.1% lower. Investment into other buildings and structures (-1.9%), which include government

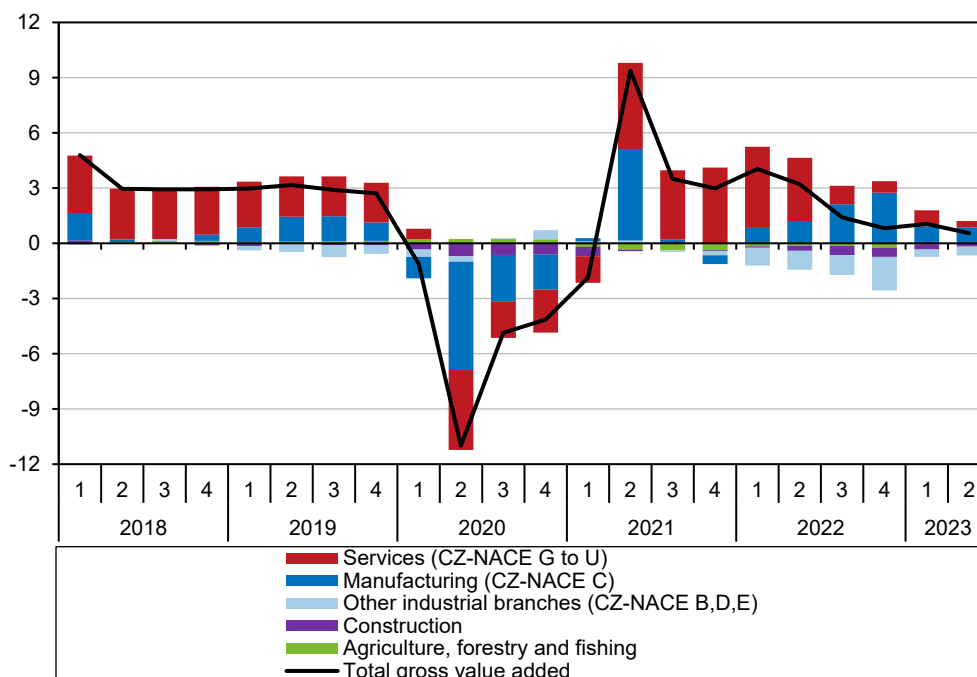
<sup>11</sup> Change of the inventory stock (in current prices and not seasonally adjusted) reached 108.5 CZK bn last year in Q2. Inventory stock were expanding under the influence of rising stock of unfinished production and components for the industrial production, gas distribution as well as inventory stock in retail. The change of inventory stock totalled 57.1 CZK bn this year in Q2.

infrastructure investment as well as business investment into buildings for production purposes etc. were also lower for the third time in a row in Q2. Investment fell by 3.0% here year-on-year.

Foreign trade balance markedly improved year-on-year.

Export of goods and services<sup>12</sup> decreased quarter-on-quarter (-0.5%) for the first time since Q3 2021 in Q2. While the export of goods recorded stagnation for the third time in a row, export of services plummeted by 2.9%. The import dynamics has lagged behind export already for more than one year and similarly import experienced larger slump in Q2 (-1.2%), in cases of both goods and service. Falling import is partially linked to the lower domestic consumption demand. At the same time however, the cooling in part of the domestic industry cannot be omitted. Year-on-year rise of the export of goods and services nevertheless continued (4.5%) and their import was also slightly higher (0.8%). The balance of foreign trade with goods and services (seasonally adjusted) attained surplus of 100.9 CZK bn in Q2 2023. The positive balance markedly improved by 101.0 bn year-on-year, in effect completely due to the growing surplus of trade with goods. The year-on-year improvement of the balance contributed in total 2.5 p. p. to the GDP growth. Balance of foreign trade with goods and services also improved quarter-on-quarter, for the second time in a row.

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



Source: CZSO

Gross value added fell quarter-on-quarter and increased year-on-year.

The Gross value added (GVA) decreased by 0.2% quarter-on-quarter in Q2 2023 and it was by 0.6%<sup>13</sup> higher year-on-year. Industry as a total strongly contributed to the GVA growth year-on-year (growth of GVA by 1.5%), but it is evident for a closer look, that good performance in manufacturing stands exclusive behind it (3.8%). It is strongly interconnected to the foreign demand and especially manufacturing of motor vehicles

<sup>12</sup> According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). Foreign trade balance in current prices and seasonally adjusted.

<sup>13</sup> Considerable difference between the GDP and GVA dynamics was caused by the effect of varying evaluation of the GDP and GVA. Gross value added is evaluated in basic prices, while the GDP is expressed in real prices. Currently these differences reflect the subsidies capturing the electricity price ceilings. These were higher year-on-year in Q2 (thus they subdued the year-on-year GDP growth compared to the GVA), but their volume fell quarter-on-quarter (and with it the GDP dynamics overtook the GVA). Falling tax income connected to the slumped consumption also contributed to the year-on-year difference between the GDP and GVA.



and tied sub branches contributed to its favourable development. Development in services was also diverse. In group trade, transportation, accommodation and food service, which is strongly linked to the domestic consumption, the GVA fell by 1.3% year-on-year. The decline also concerned financial and insurance activities (-1.1%), real estate activities (-0.2%) and other activities (-0.4%). On the other side the GVA considerably grew in information and communication (5.6%) and it was also higher in professional, scientific, technical and administrative activities (1.6%) tied to the business sphere. The GVA fell in construction year-on-year (-2.7%) for the seventh time in a row. Manufacturing also worked considerably in the direction of the total quarter-on-quarter GVA growth (increase by 1.0%). In total industry nevertheless the GVA rose only by 0.2% quarter-on-quarter. Small quarter-on-quarter increase of GVA by 0.2% occurred in construction. Among services, the GVA grew quarter-on-quarter only in financial and insurance activities (2.5%) and slightly also in professional, scientific, technical and administrative activities (0.3%) and in other activities (0.4%). The GVA decreased in group trade, transportation, accommodation and food service quarter-on-quarter (-1.0%) and real estate activities (-1.0%). The GVA basically stagnated in case of information and communication (-0.1%).

### 3. Branches Performance

Manufacturing was a key factor of the year-on-year growth of GVA in economy.

Performance of the domestic economy still teetered on the brink of recession<sup>14</sup>. While the total gross value added (GVA)<sup>15</sup> increased by 0.5% quarter-on-quarter at the beginning of this year (and thus grew swifter compared to any of the last year's quarters), it declined by 0.2% in Q2. Weight-significant branches of services (incl. public) mostly participated on this slowdown, easing of performance in otherwise long-term dynamic branch of information and communication also played a role here. The total GVA grew by 0.8% year-on-year for the whole H1 2023. Manufacturing, whose performance strengthened by 3.8% and contributed +0.9 p. p. to the total GVA, had a significant impact here. Mainly mining and energetics (-0.4 p. p.), construction (-0.2 p. p.) and also trade, transportation, accommodation and food service (-0.3 p. p.) worked in the opposite direction.

Mainly pork stood behind the decrease of production of meat in H1, similarly to the last year. Mild growth of milk production continued.

Difficult situation of some primary producers associated with the considerable rise of prices of inputs (feed, energy), fluctuating development of prices paid to producers for meat as well as its declining domestic consumption persisted in the animal production. Decrease of the physical production of meat, perceptible on the domestic slaughterhouses throughout the whole last year, continued. In H1 2023 2.5% the total meat production declined by 2.5% year-on-year. Recovery of production of beef (+2.0%) and stagnation of output of poultry could not offset the deeper slump of pork output (-5.8%)<sup>16</sup>. Decrease of the overall domestic output of pork was in fact nearly double (-11.2%), since the export of live pigs for slaughter abroad dived (by more than 50%) compared to the last year. Dairy farming remained a stabilizing segment for the whole animal production in the CR. The long-term trend of milk production growth, also supported by high milk yield continued this year. Domestic producers sold by 1.6% litres of milk more year-on-year in H1.

Based on the August estimation of harvest, crop slightly exceeding the average of the last five-year period can be expected for both cereals and oilseed rape.

According to the progress of harvests so far, a stabilised situation can also be expected in the domestic plant production. Based on the third estimation of harvests (CZSO, as of 15.8.) the cereal crop (also calculating the grain maize) is expected in the size of 7.905 million tonnes, for rape then 1.274 million tonnes<sup>17</sup> so far this year. Harvest of cereals is lower year-on-year (by 3.7%), however it still exceeds the level from the last five-year period (+1.0%) and only minimally lags behind the average from the period of years 2013–2022 (-0.8%, solely due to the reduction of sowing area). Similar is also valid for rape, whose harvest however exceeded the five-year average more distinctly (by 6.1%) and also grew faster year-on-year (+9.2%, exclusively due to the enlarged area under crop). However, current estimations of harvest are less favourable for some other plants<sup>18</sup>.

Quarter-on-quarter growth of the industrial output renewed following the shallow recession from the turn of years 2022 and 2023.

The domestic industry thanks to the sound investment activity in the CR<sup>19</sup> as well as branch diversification has fairly well coped with the challenging internal and external economic and political conditions so far. Equally to the Czech economy its industry also found itself in a shallow recession at the turn of years 2022 and 2023, which is also confirmed by the fact, that unlike number of other branches it was simultaneously afflicted by the reduction of

<sup>14</sup> Performance of all branches of the economy corresponded to the peak of the boom from the past decade (Q4 2019) this year.

<sup>15</sup> Figures related to GVA are expressed in constant prices and adjusted for seasonal and calendar effects.

<sup>16</sup> It was connected to the low prices of slaughter pigs in 2021 and subsequent reduction of pig holdings. Even despite strong year-on-year growth of import of animals for slaughter (not however of significant volume), the amount of produced pork meat in slaughter houses in the CR in Q2 2023 fell below 50 thousand tonnes for the first time in history. Under the influence of raised prices paid to producers for slaughter pigs since last year's spring, numbers of sows gradually steadied and the export of piglets cut down as well, which indicates a stabilisation of the level of domestic production of pork in the near future.

<sup>17</sup> Against the 1<sup>st</sup> CZSO estimation (as of 10.6), a mild increase of expected harvest arose for the overwhelming majority of basic cereals (in total by 415 thousand tonnes or by 6.0%).

<sup>18</sup> Expected harvest of other oil plants (except for rape) is lower year-on-year. Sunflower harvest will be 50 thousand tonnes (-16.2%) and soya 60 thousand tonnes (-8.0%). Expected harvest of root crop is mainly as a result of declined per hectare yields weaker year-on-year. Potatoes harvest is to be 522 thousand tonnes, by one fifth less in the year-on-year (-20.3%) as well as the comparison with the average of harvest for the last five years (-19.2%). Harvest of sugar beet could be 3.635 million tonnes (-10.4% year-on-year; compared to five-year average -5.6%). Harvest of fodder crops is also estimated to be lower year-on-year, harvest of green maize should be 6.308 million tonnes (-17.2%) and lucerne 395 thousand tonnes (-24.7%).

<sup>19</sup> The volume of fixed investment expanded by 0.8% year-on-year in Q1 2023, in that by 2.5% in Q2 itself (by 3.4% quarter-on-quarter).



Majority of industrial activities however still struggled both with lowered demand and raised production costs.

employment as well. The quarter-on-quarter growth of the industrial production<sup>20</sup> renewed in Q2 2023 (+0.8%) and the industrial output thus again tightly climbed up above the level from the peak of the pre-pandemic boom. Nevertheless only its manufacturing part and there essentially only the manufacturing of motor vehicles (including some tied sub-branches) together with small, but dynamic field – pharmaceuticals stood behind this year's recovery of industry. These branches thus softened the impact of the reduced output of several energy intensive activities as well as other industry segments struck by the cyclical contraction in the demand.

Without motor vehicle manufacturing the industrial output would considerably fall year-on-year, since the performance of more than two thirds of industrial branches was declining.

In the year-on-year view the moderate growth of industrial production continued (+1.1% in H1 2023). Manufacturers of motor vehicles (contribution +4.5 p. p.), whose sales swiftly grew both abroad and locally played a key role here. In contrast, the output of more than two thirds of industrial branches remained below the last year's level. Production in the manufacturing of motor vehicles was on the other hand nearly by one quarter higher, specifically thanks to the manufacturers of motor vehicles as well as parts and accessories. For the most part it however represented a compensation of lower production from the period at the beginning of last year (when the difficulties in the supplier chains escalated due to frozen production of some source components in China as well as Ukraine). Data related to the physical production<sup>21</sup> also substantiate the expansion of motor vehicle manufacturing. The improvement of the formerly stranded supplies of some production components was reflected in the considerably heightened utilisation of the production capacities of the motor vehicle industry. It exceeded 92% at the beginning of both Q2 and Q3 2023 (together with petrochemicals it was the highest among all main manufacturing branches) and returned to its pre-crisis level. Mainly due to the effect of domestic demand the activity of manufacturing of other (mainly rail) transport vehicles also thrived, the production increased nearly by one fifth thanks to the completion of significant long-term production orders year-on-year in H1 here (it added "only" 0.4 p. p. to the growth of the total industry).

Swift growth of manufacturing of other transport vehicles was mainly stimulated by the domestic demand.

Output slightly grew in machinery or electrical engineering, among small branches then especially in the field of pharmacy.

Development of motor vehicle manufacturing also supported the attached branch of the electrical engineering, where mainly the foreign demand assisted the mild growth of output in H1 2023 (+5.1% year-on-year). On the contrary larger domestic sales stood primarily behind the strengthened production in other weight significant activities – machinery (+4.2%) as well as manufacturing of computers, electronic and optical appliances (+3.5%), where the effect of dynamically growing market in the area of photovoltaics was also felt positively. Among smaller branches the long-term growing and considerably pro-export pharmaceutical industry thrived (+11.7%, +31.5% against H1 2019). Foreign sales greatly assisted the revival of leather manufacturing and footwear industry (+7.4% year-on-year). All above-mentioned activities contributed even +1 p. p. to the industry performance growth this year.

Output of the most energy intensive manufacturing branches was still subdued. Output plunged by nearly one fifth in metallurgy.

Significant and energy-intensive branches of chemical and metallurgical industry or manufacturing of construction materials (non-metallic mineral products) encountered persisting serious difficulties. Sharp hike of prices of inputs in the last year together with the ongoing weak domestic as well as foreign demand resulted in double digit year-on-year output downturn in H1 2023, which e.g. in metallurgy (including foundry industry) arrived at 18% (the output of this branch also lagged similarly behind the pre-crisis year 2019). Above stated activities also considerably marked the performance of the whole industry (contribution –1.9 p. p.). Diversified branch of the fabricated metal products, where the decrease was much smaller (–2.4%) fared notably better. Downturn of the energy intensive segments could have

<sup>20</sup> 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 are adjusted for calendar effects, quarter-on-quarter rates as well as the seasonal effects.

<sup>21</sup> According to the Automotive Industry Association, there were 738 thousand personal vehicles manufactured in the CR in H1 2023 (the most in this time period for the last four years and only by 3% less compared to the record H1 2018). Production strengthened by 22% year-on-year. Production in March (139 thousand cars) as well as in June (143 thousand) was the largest in history (within the same months). Already more than one eighth of all locally manufactured motor vehicles were electrical vehicles (including electric-hybrid vehicles) in H1 this year. On the contrary manufacturers of other types of motor vehicles (buses and motorcycles) recorded lower production year-on-year.

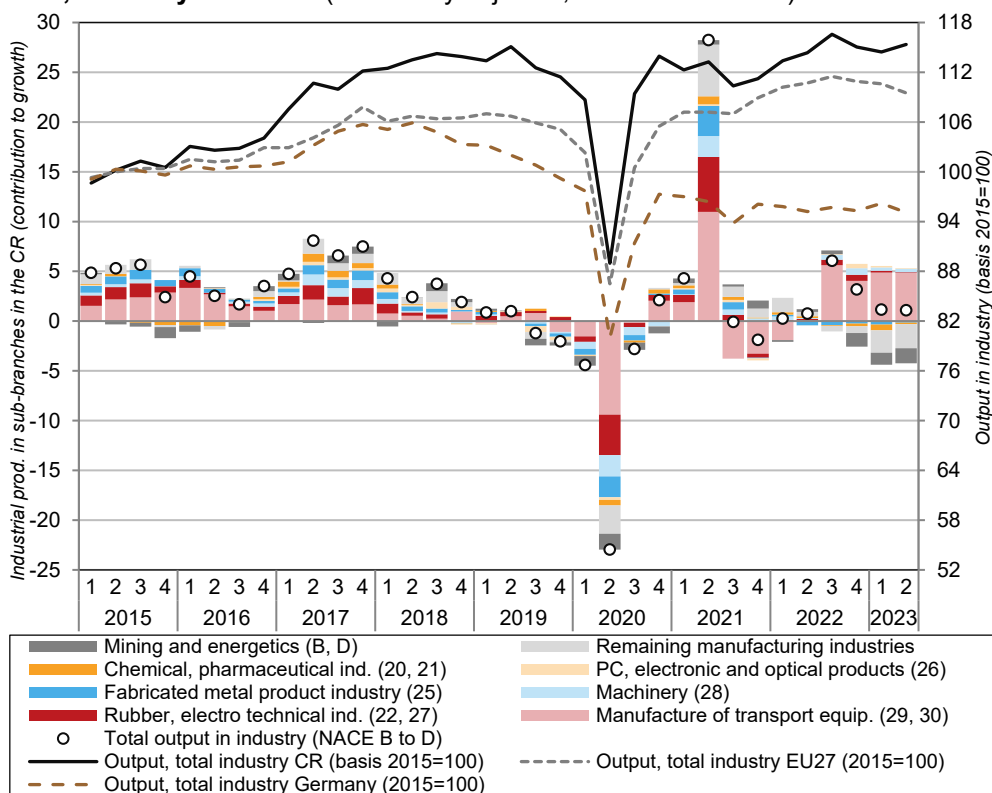
been partially offset by the development of production of military equipment here. Manufacture of rubber and plastic products (-3.7%), which partially benefited from demand in the associated manufacturing of motor vehicles also attained a milder slump of production.

Double-digit decrease of production afflicted printing industry, manufacture of textiles or furniture.

Falling purchasing power of domestic households led to lower production in both food and beverage industry.

The majority of smaller manufacturing activities also faced the reduced demand in H1. The output thus plummeted by 18.4% year-on-year in the printing industry, by 11.7% in manufacturing of textile products. Approximately 10% production slump (commenced last year) continued in the wood industry. The effect of the lower wood logging due to gradual decline of the bark beetle calamity outweighed the impact of the rising demand for wood ignited by the energy crisis. Also in the attached manufacturing of paper products the performance dived by nearly one tenth year-on-year this year, in manufacturing of furniture hit mainly by weak sales abroad then by entire one sixth. High growth of production costs together with falling consumption of domestic households led to lower production of both beverages (-2.7%) or food industry (-3.6%, the worst half-yearly result since the end of year 2011).

**Chart 4 Contributions of sub-branches to the year-on-year change of the industrial production (adjusted for calendar effects, real, in p.p.), production in the whole industry of CR, Germany and EU27 (seasonally adjusted, base of 2015=100)**



Note: Sales are given in current prices  
Source: CZSO, Eurostat

Output downturn in mining of coals as well as construction materials, similarly to the energetics branch deepened in H1.

Output in the non-manufacturing segment of the industry, which consists of largely only energy highly intensive fields, continued in downturn, whose indications were already apparent towards the end of the last year. Year-on-year plunge of production attained double-digit figures here in H1 2023 and thus reduced the output growth in the whole industry in total by 1.4 p. p. Weight significant branch of energetics played a key part here, with the output falling by 9.3% in Q1 this year and by 14.1% in Q2. Deeper slump at the steam power plants and combined gas/steam plants stood for the major part behind the lower electricity generation (on the contrary the production of the nuclear power plants moderately grew). Next to regular shutdowns of the production facilities, the output of the whole energy industry was connected to the anticipated decrease of the domestic demand (impact of savings in the consumption of



<p>Weaker demand of both households and businesses, which reacted to the turbulent price development in this area stood behind it.</p>	<p>electricity, natural gas as well as heat in both households and businesses<sup>22</sup> was amplified by the above-average temperatures of the winter season). Downturn of production was also deepening in the mining industry during H1 this year. It was especially apparent in the mining of coal, where the performance slumped by nearly 23.3%<sup>23</sup> in Q2, in lesser extent also in the mining of construction materials (-16.3%), which was associated with weakening of the demand on the part of builders as well as higher energy intensity of this branch.</p>
<p>Industrial businesses recorded higher growth of domestic sales than sales from direct export. Sales swiftly grew in mining or food industry, in spite of the decline of real demand.</p>	<p>Nominal sales of the industrial businesses<sup>24</sup> increased by 8.2% year-on-year in H1 2023 (in that already only by 5.4% in Q2). Weakening pace of sales can be for the large part attributed to the gradually subsiding price growth on the side of producers, especially in manufacturing itself. Domestic sales strengthened by 9.9% and thus grew more dynamically compared to sales from direct export for already two years<sup>25</sup>. Total sales increased the most to the manufacturers of motor vehicles (+27.5%) and manufacturers of other transport vehicles (31.2%). On the other hand, they fell in one half of the main industrial branches (even by 22.6% in metallurgy). Sales however briskly grew in some branches affected by the decline of real demand thanks to prevailing price influences (in mining of coal and construction materials, in food or beverage industry). By contrast the sales slightly stayed behind the level from H1 2022 in the manufacturing of computers and electronic and optical appliances (-1.3%), even despite the output growing in this branch this year.</p>
<p>Value of new industrial orders decreased year-on-year in Q2 2023.</p>	<p>The dynamics of new industrial orders featured signs of weakening demand. While in Q1 2023 the nominal value of orders (in the monitored industrial branches)<sup>26</sup> rose by 2.1% year-on-year, it already recorded a decrease of 2.6%<sup>27</sup> in Q2 (the first since the pandemic shutdowns of production in year 2020). The foreign demand signalled faster cooling. Orders from abroad dropped by 3.5% for the whole H1 2023, while the domestic ones increased by 6.9% year-on-year. Total volume of orders sank by approximately one fifth in the chemical industry and metallurgy. They however grew (also due to the weaker last year's basis) in the motor vehicle manufacturing (+6.5%, in that domestic by 26.9%). The growth was just below 3% in machinery as well as electrical engineering. If we take into account the last year's basis as well as the growth of prices of intermediate inputs, only the increase of orders in the pharmaceutical industry (+16.9%) can be assessed as a clear positive signal.</p>
<p>Only the pharmaceutical industry was sending clear positive signals of expected higher demand.</p>	<p>Business confidence in industry was gradually rising (after subsiding of the "hot phase" of the energy crisis) during this year's Spring (it was the highest since the last summer). The trend however turned around later on and also under the influence of deteriorating economic outlooks in key export destinations the confidence in the domestic industry descended down to three-year minimum. Rising pessimism was closely connected to the worsened assessment of demand, short-term anticipations of own production or economic situation of the company, but also employment<sup>28</sup>. Mild pessimism regarding current demand prevails in industry for already virtually whole year, which already nearly 45% of businesses<sup>29</sup> perceived</p>
<p>Pessimism of businesses in industry grew to the three-year minimum during Q2 this year.</p>	<p>Business confidence in industry was gradually rising (after subsiding of the "hot phase" of the energy crisis) during this year's Spring (it was the highest since the last summer). The trend however turned around later on and also under the influence of deteriorating economic outlooks in key export destinations the confidence in the domestic industry descended down to three-year minimum. Rising pessimism was closely connected to the worsened assessment of demand, short-term anticipations of own production or economic situation of the company, but also employment<sup>28</sup>. Mild pessimism regarding current demand prevails in industry for already virtually whole year, which already nearly 45% of businesses<sup>29</sup> perceived</p>

<sup>22</sup> The gross domestic electricity consumption shrank by 6.4% year-on-year in H1 2023 and deepened its fall from the previous year (-1.5%). All main categories recorded a saving this year – the most at retail customers (e.g. small businesses), specifically by 5.6%, the least at the most significant wholesale customers (-2.2%). Consumption dropped by 4.4% at households (the decrease was however deeper in H1 2022 – 10.3%). The total consumption of gas also fell appreciably (even though less than last year) in the CR in H1 2023 – by 12.3% year-on-year (after adjustment to long-term temperature norm by 11.7%). The decrease of consumption was comparable for all main types of consumers. Households took by 12.9% gas less, their decrease was however 19.2% in H1 2022.

<sup>23</sup> Due to the effect of the temporary period of coal mining revival in the preceding two years, the output fell "only" by 11.2% compared to H1 2020 this year.

<sup>24</sup> It concerns sales from industrial activity. Year-on-year rates of growth of sales are adjusted for calendar effects.

<sup>25</sup> This discrepancy is connected to the sharp price hike in branches, whose production is traditionally directed to the domestic market (energetics, mining and quarrying or food industry).

<sup>26</sup> Survey of 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, quarter-on-quarter rates also for the seasonal effects.

<sup>27</sup> In the quarter-on-quarter comparison orders stagnated in Q2, decrease was however registered in the first this year's quarter (by 3.8%).

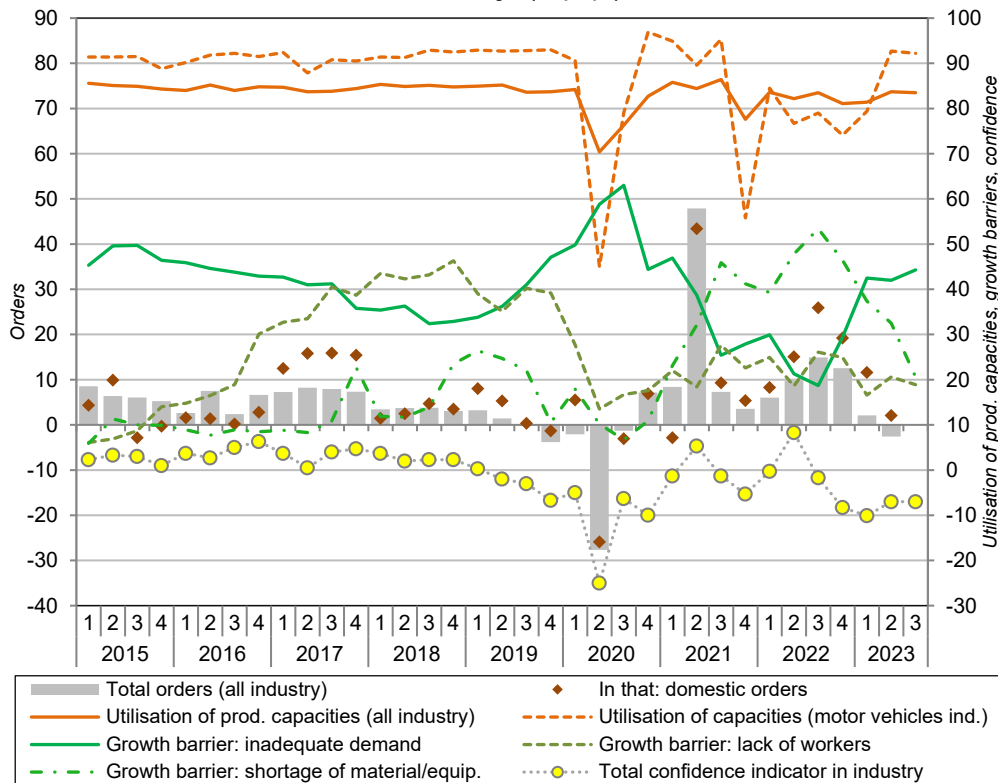
<sup>28</sup> These prevailed since the end of the last October. That already started to permeate the "hard" data – the number of registered employees in industry fell by 0.7% year-on-year in Q1 2023, already by 1.3% in the subsequent quarter.

<sup>29</sup> Businesses could have stated more barriers simultaneously. Barriers are adjusted for the seasonality effect. Weak demand presented the major growth limit mainly for the majority of energy intensive industrial branches (metallurgy, production of construction materials,

Inadequate demand has been the key growth barrier since the beginning of the year.

as a significant growth barrier in July this year. Sluggish sales are mirrored in higher level of inventory stock. Shortage of labour, similarly to material and equipment limited already “only” one fifth of businesses. Nevertheless, in some industrial branches it still presented a key growth barrier<sup>30</sup>.

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



\*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

Performance of construction was still affected by significant cost pressures as well as weakening private investment activity.

Construction was still influenced by the rising cost pressures as well as weakening investment activity in the business sphere in H1 2023. Even though the year-on-year growth of prices of construction materials mitigated (it was already even falling month-on-month during Q2), swift growth of labour cost (affected by long-term shortage of qualified labour force) prevented larger decrease of realised as well as expected prices of construction production<sup>31</sup>. Weakening of the investment activity was related to the shallow recession or stagnation of the total economic performance. Deteriorated financial situation of households together with notably sunken accessibility of mortgages fundamentally cooled last year’s boom of the real estate market. Intensified flow of funds from the EU budget intended for the construction as well as upgrade of the transport infrastructure or reduction of the energy performance of buildings (in the area of housing) on the contrary operated against deeper slump of the construction performance.

manufacturing of rubber and plastic products, wood and paper industries), further for textiles or beverage industry. High proportion of businesses in the manufacturing of electrical appliances also stated this barrier.

<sup>30</sup> For shortage of labour force it concerned machinery, manufacture of both leather products and footwear or manufacturing of transport equipment (except for motor vehicles).

<sup>31</sup> Based on the business cycle surveys from this year’s August, more than 40% of domestic construction businesses expected rise of prices of own production (in the three-month horizon). Despite gradual decrease (which is nevertheless milder than in industry or retail trade) it represented by far the largest share among all main branches in the CR.





Construction output dropped both year-on-year and quarter-on-quarter in Q2. The reduction of demand was distinctly imprinted in the commenced residential construction, namely across the regions.

Total construction output<sup>32</sup> has fluctuated this year since the beginning of this year. It expanded by 2.2% quarter-on-quarter in Q1 (partially thanks to the very mild winter). In the subsequent period, it nevertheless fell by entire 3%, when both the building and civil engineering construction recorded a weaker performance. Construction output mildly decreased year-on-year in H1 (by 2.3%, for the major part under the influence of the civil engineering construction, where the output plunged by 7.2%). The effect of higher last year's basis was also evident here (the output of the whole industry was at the highest level since the end of year 2009). In building construction, the current cooling of demand is the most realistically captured in the area of commenced residential construction. Number of flats dropped by one fifth<sup>33</sup> year-on-year in H1 2023 (to 18.1 thousand, it constituted the lowest level within this part of the year in the last five-year period). The decrease was widespread (also in the regional glance), growth trend prevailed only in the peripheral segments (additional storeys of residential buildings, reconstructions of non-residential buildings). Number of completed flats owing to high quantity of started constructions from the preceding years still continued to slightly grow by means of inertia (+2.9%, to 17.9 thousand).

Fall of the value of new construction orders deepened during the year. The size of total stock of work narrowed year-on-year, for the first time in the last five and a half years.

Growth of the nominal value of new domestic construction orders (for construction companies with above 50 employees) following nearly three years of growth ceased this year. The orders plummeted by 15.8% year-on-year for the whole half-year (the most after the crisis year 2012). In addition the fall deepened since the beginning of this year (solely due to the civil engineering construction). The value of all orders thus returned approximately to the level of the year before the last. Total stock of work (in the form of value of not yet completed construction orders) was by 2.6% lower year-on-year at the end of Q2 2023, when it fell for the first time in the last five and a half years. Mainly the private domestic demand shrank, moreover the rather supplementary segment of foreign orders was also falling. Stock of domestic public orders did still mildly grow (+1.1%), but much less than at the end of Q1 2023 (+16.0%). The approximate value of granted building permits also recorded a fading growth during this year. They indicate investment activity in the medium time horizon. It was by 6.7% higher year-on-year for the whole half-year, thereby it slightly lagged behind the growth of prices of construction works. Higher expected activities of firms in the area of modifications to completed buildings (in all key directions of construction) and also new construction of engineering (primarily transport) structures was reflected in the growth of the value of permits. In contrast, the value of permits for new residential construction sank by nearly one quarter (to 62 CZK bn – the lowest level in the last two years).

Reconstructions or modernisations mainly contributed to the growth of the value of permitted buildings.

Pessimism of businesses in construction further deepened this year. Businesses anticipated the decrease of both construction activity and employment.

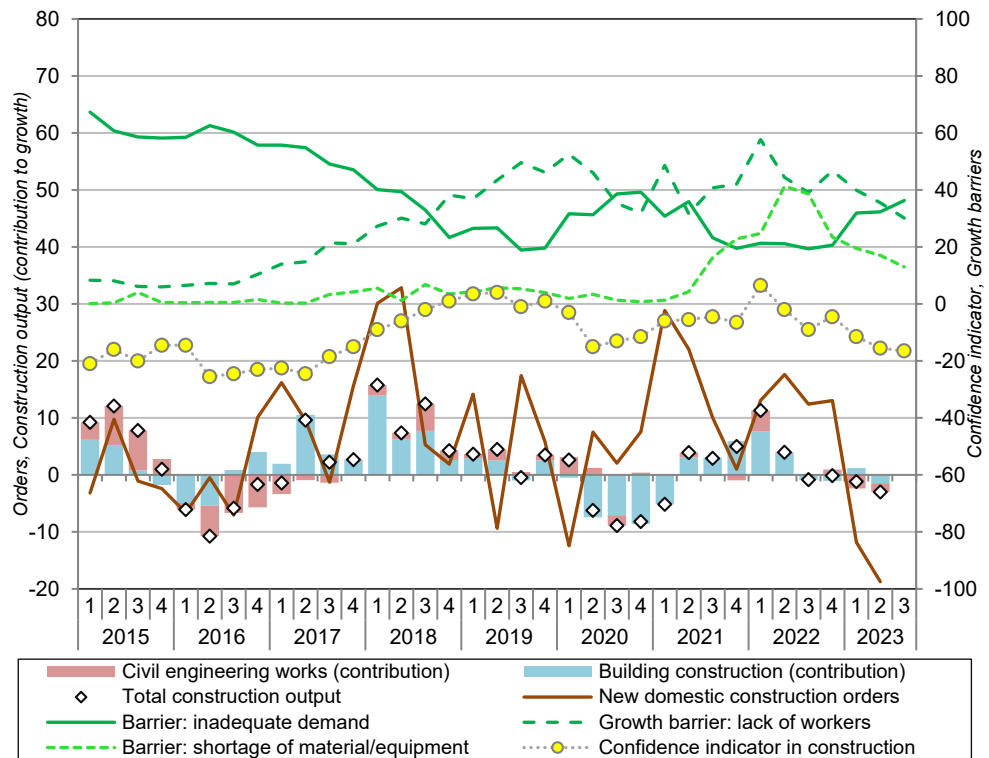
Total business confidence in construction dropped below long-term average (2003–2022) and at the same time, pessimism attained nearly six-year maximum in July. Despite prevailing adverse view of the current demand, the construction businesses assessed their current economic situation still slightly positively, the half-year outlook however still brought prevalent pessimism. Negative outlooks deepened in the construction activity this year. In August more than one quarter of businesses anticipated (in the three-month outlook) a decrease of own production (on the contrary one-eighth anticipated growth) and every sixth company in addition planned to cut employment. The share of businesses, which are limited by inadequate demand grew by one half year-on-year (to 36%<sup>34</sup>), the weak demand thus again became the key growth barrier of the whole branch (after more than two years). The role of the shortage of material and to a lower extent also labour force by contrast decreased. Still the matter of human resources remains an important barrier (it was pressing mainly in the segment of specialised construction activities - small and medium businesses play significant role here).

<sup>32</sup> Figures regarding the construction output are in constant prices, year-on-year rates of growth are adjusted for calendar effects, quarter-on-quarter also for seasonal effects.

<sup>33</sup> Number of commenced flats was, however, relatively high in the CR in H1 2022, when it climbed up to the level comparable with the boom period 2006 till 2008.

<sup>34</sup> Businesses could have indicated more barriers simultaneously.

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



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.

Mildly growing segment of engineering construction saved the construction output in the EU from year-on-year decrease. This year's construction output was above the level from year 2019 already in two thirds of the Union states.

The impacts of the total economic contraction were negatively mirrored in the construction not only in the CR, but also in the vast majority of significant European economies. The construction output in the EU and the euro area increased, year-on-year, only by negligible 0.1% and 0.2%, respectively, in H1. Accompanied by actual stagnation of the building construction the mild growth of civil engineering construction continued (3.2% and 2.4%, respectively). Total construction output increased the most in Slovenia (+24%), double-digit pace was also recorded in Greece, Romania and Latvia. On the contrary, it decreased the most in Estonia, Finland and Hungary – i.e. in states, which also experience a total economic recession. Output mildly decreased in Germany (by 1.4%), it however attained more favourable dynamics than in this country at all our neighbours (e.g. +1.3% in Poland). In comparison to H1 2019, the construction performance was in approximately two thirds of member countries higher this year – the most in Romania and Slovenia (by nearly one half), by 1.7% in the CR, by 5.2% in the EU. Spain (-22%) and Slovakia (-12%) considerably lagged behind the pre-crisis level.

Mild quarter-on-quarter decrease of sales in services started in H2 last year persisted.

Halting of the economic growth tightly accompanied by the decrease of private consumption must have been logically manifested in the performance of the services sector. Quarter-on-quarter growth of their sales<sup>35</sup>, which lasted since the beginning of year 2021, did not continue in the second half of the last year anymore and recovery has not shown even this year so far (-0.7% in Q2, -1.3% in Q2). The dominant branch of transport and storage stood behind this development of services for this entire period. On the contrary, the stably growing demand in the area of professional, scientific and technical activities, which typically consists of more sophisticated services for businesses worked against deeper slump of services. Sales in

<sup>35</sup> 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).



services thus slightly fell in total this year in Q2 (by 0.9%) below the level from the peak of the last pre-crisis boom (Q2 2019). The “effect of the post-pandemic revival” of demand presumably already exhausted itself in the majority of services branches and on the contrary the fact, that part of households limited their “non-essential” expenditures started to be more evident now. Impacts of high pick-up of prices in the economy also afflicted the business sphere, among other things in the form of heightened need for the optimization of production costs.

Year-on-year decline of sales in services deepened during H1, mostly as a result of subdued demand in transport and storage.

In Q1 2023, sales in services went slightly down (by 0.3%), when they decreased for the first time in the last two years. The reduction of sales deepened in the following quarter, as gradually the majority of other branches joined the weak demand in transport and storage. Sales in services thus decreased by 1.8% in the whole H1. The deepest slump of demand affected the branch transportation and storage, where the sales dived by even 8% year-on-year (and contributed –2.5 p. p. to the decrease of all services). Downturn in the segment of warehousing and support activities for transportation (–11.5%, comparably with the whole year 2020) played an essential role here. Sales markedly fell also in the land transport and transport via pipeline (–6.9%), which was also influenced by weaker performance of transport via pipeline (after extraordinary last year affected by the energy crisis). Decrease of demand was nevertheless apparent also in the road transport (also due to lower dynamics of foreign trade, mainly import) as well as rail transport. Postal and courier activities recorded more moderate but longer-term year-on-year decrease of sales (–2.9%), which was closely linked to the deeper decrease of demand in the area of sales via internet or mail order houses. Still the sales of these activities remained by one fifth above the level from H1 2019 this year. On the contrary sales in the marginal segments of air and water transport has still stayed (despite swift this year’s growth) below the pre-crisis level (by 22.5% and 18.7%, respectively).

Swift growth of sales in accommodation was associated with the ongoing revival of tourism. Food service and restaurants were more affected by the impacts of the falling purchasing power of domestic households.

Sales dynamics in the sub-branches of the division accommodation, food service and restaurants significantly differed this year. Entities earned by 13.5% more in accommodation itself year-on-year in H1, because the post crisis recovery of the arrival tourism continued<sup>36</sup>. Only 1.8% increase of sales was recorded in food service and restaurants. Subdued growth of demand was connected to the ongoing considerable decrease of the purchasing power of domestic households here, which led to the cut of their non-essential expenditures. Sales in food service and restaurants fell by 0.9% in the quarter-on-quarter expression in Q2. Sales still significantly lagged behind the year 2019, mainly in accommodation.

Sales in the area of ICT dropped year-on-year in Q2, nearly across all sub-branches.

Long- term developing information and communication also felt the signals of stifled demand this year. The sales here in effect rather stagnated year-on-year in H1 (+0.6%), in that they even slightly dropped in Q2 (–1.0%), when the decrease of demand hit nearly all sub-branches. Sales mildly increased in computer programming or consultancy in IT and also in telecommunications in total for the whole H1. In contrast, the sales were by 4.8% lower in information and communication<sup>37</sup> and registered the deepest decrease since H2 2012. Sales for the radio and television programming and broadcasting activities dropped for the second

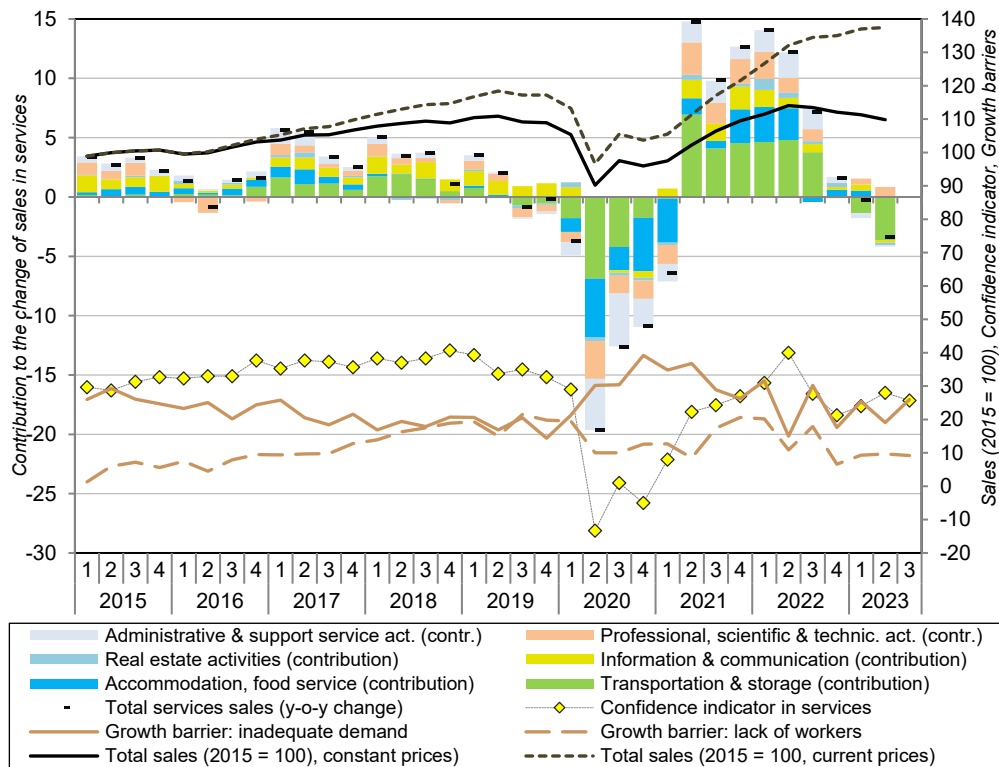
<sup>36</sup> Number of guests as well as their overnight stays in mass accommodation facilities (MAF) was rising in the CR year-on-year for the ninth quarter in a row. 21.9% more guests thus arrived and there were by 19.2% more of their overnight stays in H1 2023. Foreign tourists were for the vast majority instrumental this year (the same as for the whole H2 2022) since the overnight stays of residents increased only by 3.8% (of non-residents by 47.8%). In Q2 itself this year, the performance of tourism markedly approached the level from the similar period of year 2019 for the first time – number of all overnight stays was lower only by just below 2%, for foreign guests however still by significant 15% (domestic tourism recovered from the “covid shock” already in summer 2021). Number of guests at taking up accommodation expanded in all regions against Q2 2022 – the most in Prague, Karlovy Vary region (similarly by approximately one fifth), the least in Vysocina (+5%) and the Pilsen region (+7%). Foreigners primarily contributed to the growth of number of visits in the majority of regions (apart from the Kralovehradecky, Pardubicky and Olomouc regions). Number of domestic guests even only stagnated in Prague and the Jihomoravsky region year-on-year.

Guests from Germany (+116 thousand), South Korea (+52 thousand), Poland (+47 thousand) and the USA (+37 thousand) added the most to the year-on-year growth of visits in Q2 2023. Preparations or rather opening of new direct flights to Prague (from Seoul, Taipei) assisted to the restoration of ties to the more distant states. On the contrary, only minimal relations in tourism prevailed in Russia, deteriorated geopolitical situation was presumably reflected also in the year-on-year decrease of the number of guests at accommodation from Israel (–10%). Compared to Q2 2019, notably more guests arrived in the CR from all neighbouring states (even nearly by 20% from Slovakia), among other more significant partner countries (top 30 from year 2019) nevertheless only from the Netherlands.

<sup>37</sup> These consist of activities linked to the data processing and hosting, area of web portals and further news press offices as well as agencies.

year in a row, the so called motion picture and music industry also experienced lower demand year-on-year (-8.7%)<sup>38</sup>, it was particularly severely hit by the restrictions in the pandemic period (this year's sales lagged by more than one fifth here compared to year 2019).

**Chart 7 Contributions of branches to year-on-year change of sales in services\* (real, in p. p), total sales in services\* (2015=100), balance of business confidence indicator in services\*\* (in p. p.), barriers to growth in services\*\* (in %)**



Note: all data are seasonally adjusted, only contributions of sub-branches to the growth of sales are adjusted solely for calendar effects. \*Without branches trade, financial activities, insurance activities, science, research and public services. \*\*Also involves the financial sector. Balance of business confidence as well as the Barrier to growth express the level in the first month of the given quarter, balance of business confidence than in the second month of the given quarter. Businesses could have indicated more key barriers simultaneously. Source: CZSO, Eurostat

Majority of services within administrative and support service activities faced a cyclical downturn of demand.

Demand for more sophisticated business services has stayed relatively stable so far.

The branch of administrative and support service activities also wrestled with weaker demand, where the sales dropped by 2.4% this year compared to H1 2022. Mainly employment placement agencies, where the sales slumped by 12.1% (even by 21.8% for two years) stood behind it. The demand also fell in other activities sensitively reacting to the business cycle (e.g. for lease and operative lease – mainly of machinery and equipment), firms in the area of security and investigation activities also earned less. Travel agencies and offices, where the sales (thanks to favourable development in the spring months) went mildly up for the whole half-year (+3.5%) fared better. Part of business support service activities, especially those characterised by higher requirements on qualified labour force however still enjoyed relatively stable demand. Thus the sales increased by 3.2% in the group of professional, scientific and technical activities year-on-year in H1. They were driven mainly by legal and accounting activities (+6.4%), followed in short distance then by architectural and engineering activities (+3.3%). Demand for management consultancy activities grew for the third year in a row. After the last year decrease the sales slightly strengthened in the area of advertising this year, however the demand slump continued for market research and public opinion polling.

<sup>38</sup> Segment of motion picture distribution thrived slightly more. According to the figures from the Union of Motion Picture Distributors the gross nominal sales of the domestic cinema operators increased by 2% year-on-year in H1 2023. Total attendance however owing to weaker this year's results in Q2 fell by 6.1% for the entire H1. Nearly one third of audience was missing and the sales lagged by nearly one fifth this year (however the number of shows was lower only by less than 7%) in comparison to record year 2019.



Quarter-on-quarter decrease of retail sales continued for the seventh quarter in a row.

Retail sales<sup>39</sup> continued in the longer-term downward trend. They fell by 0.4% quarter-on-quarter at the beginning of this year, the decrease subsequently deepened to 1.1% in Q2. Quarter-on-quarter downturn of demand in retail thus continued for the seventh quarter in a row and to a large extent copied the trend of the total expenditure of households on final consumption. The only significant segment of retail, where the decrease of demand did not manifest in the last quarters was the sale of fuels. The favourable development of prices for motorists aided this result (also supported by the temporarily introduced lower rate of consumption tax on diesel fuel). The development of the whole retail was closely related to the prevailing negative sentiment of the domestic consumers. Nevertheless, partial retreat of pessimism of households can be observed in the past months<sup>40</sup>. Concerns of people about the price growth for the major part dissipated during the spring this year and simultaneously the fear of unemployment already did not significantly overtake the long-term average anymore. The majority of households still however expected that their financial situation, similarly to the total economic situation in the CR, will deteriorate in the upcoming twelve months. That is why people still remained rather cautious in the area of planning of large purchases (especially goods of long-term durability or investment). Business in trade also did not abound with larger optimism anymore. While their confidence was placed near the long-term average this year in Spring, their confidence markedly weakened in August<sup>41</sup>. Rising number of consumers (owing to the arrival of refugees from Ukraine as well as the continuing recovery of tourism) has a partial positive effect on the development of retail, in contrast the still more frequent trips of domestic households for cross border shopping likely have a negative effect.

Pessimism of the domestic households decreased since last year's August, people however remained very cautious regarding planning of large purchases.

Lower sales for non-food goods stood behind the deep year-on-year decrease of the whole retail. Virtually the whole range of products experienced weaker demand.

The retail sales plunged by even 7% year-on-year for H1 2023. Especially the segment of non-food goods (-8.8%, contribution -4.6 p. p.) pulled down the whole branch. There the more than 16% slump of sales for products mostly for households (containing mainly metal hardware, paints, glass, DIY supplies, electro supplies, furniture and lighting equipment) became the most evident. Demand, however, sank in virtually all assortment groups, except for a very small segment of other retail sale in non-specialised stores (consisting of typically smaller shops oriented at sale of miscellaneous smallware, usually as discount offers). Only minimum decrease of sales in specialised shops occurred for pharmaceutical and medical products (-0.1%), cosmetic and toilet articles (-1.8%) or computer and communication equipment (-0.8%). In these areas as the one of the few segments of retail at the same time the demand in this year's H1 exceeded the level from year 2019. This was still valid also for the sales via internet or courier activities (+34.3%), in spite of the sales continuously falling here quarter-on-quarter in the last nine quarters. The sale of food goods also records a persisting decrease of demand in the last quarters. The sales here dived by 7.9% here year-on-year in H1 (they fell by similar pace in both large chains and smaller specialised shops) and were by one tenth lower compared to the pre-crisis year 2019. On the contrary, the sales for non-food goods were still closely above the pre-crisis level this year (+1.7%).

Sales in the motorist segment revived, they were driven by higher demand in the area of purchases of motor vehicles.

Sales in the motorist segment of trade went up year-on-year this year after two years. They were by 3.3% higher year-on-year in H1. Growth was driven by sale of motor vehicles, which was connected to the relatively favourable situation of the whole motor vehicle industry in the CR as well as the EU. In contrast the sales for trade with motor vehicle parts and accessories decreased, the demand for trade, repair and maintenance of motorcycles went down.

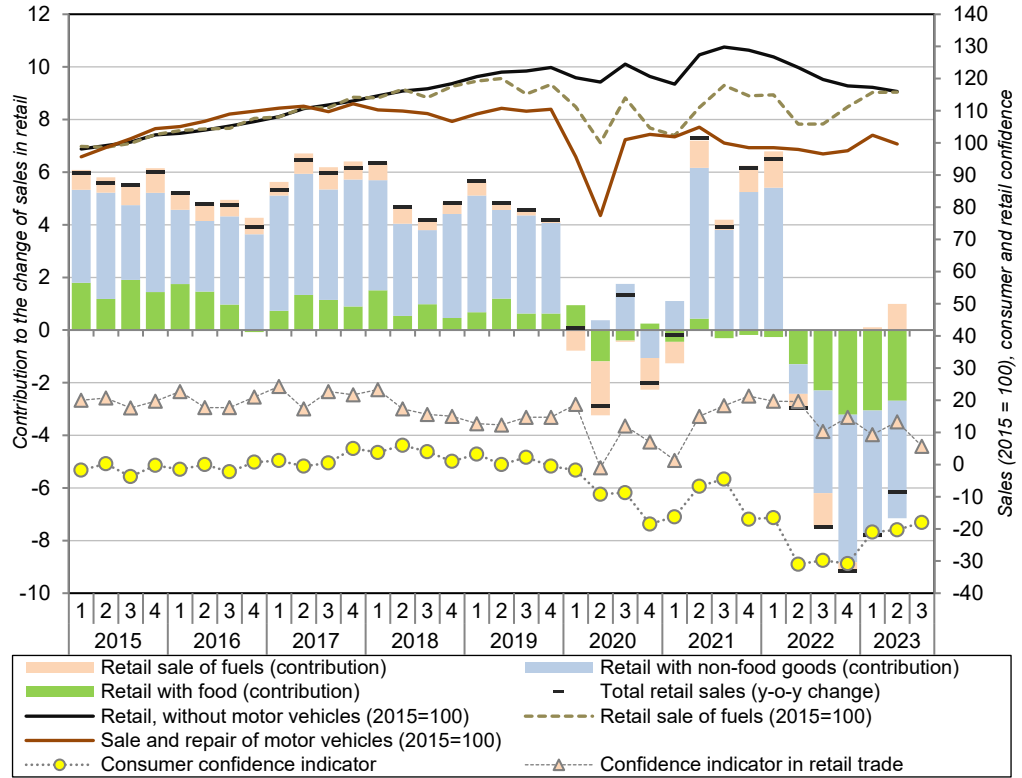
<sup>39</sup> All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter as well as month-on-month rates are adjusted for seasonal effects (including the number of working days). Retail includes branch CZ-NACE 47.

<sup>40</sup> It reached the highest value since the crisis year last year in October. The household confidence gradually increased in the subsequent months also in connection to the improvement of accessibility and price development of key energy commodities in Europe. The pessimism of consumers thus attained practically the lowest level since the beginning of the Russian invasion to Ukraine this year in July.

<sup>41</sup> If we do not regard the period of pandemic economic shutdowns, the current confidence in trade was the lowest since the half of year 2013.

Compared to H1 2019, the sales in the whole motorist segment were still slightly lower (by 6.1%) this year, at the same time they lagged approximately comparably in all its sub-branches.

**Chart 8 Contributions of sub-branches to year-on-year change of sales in retail trade\*** (real, in p.p.), **sales in retail trade, sales for sale of automotive fuel and for sale/repair of motor vehicles\*\*** (real, 2015=100), **balance of business confidence indicator in retail trade, consumer confidence indicator\*\*\*** (in p. p.)



\* Sales are adjusted for calendar effects.

\*\* Sales are adjusted for both seasonal and calendar effects.

\*\*\* Consumer confidence indicator balance is seasonally adjusted and expresses the position in the second month of the given quarter.

Source: CZSO



## 4. External Relations

Value of export grew in H1. The year-on-year export dynamics however considerably weakened in Q2 itself.

The value of export of goods<sup>42</sup> attained 2 282.0 CZK bn in H1 2023 and increased by 114.3 bn (5.3%) year-on-year. The effect of the price growth, which provided impulse for the rise of export in the last year evaporated this year and the prices are on the contrary falling<sup>43</sup>. The main portion of the half-yearly year-on-year increase however played out in Q1, because the export of goods expanded only by 10.0 CZK bn (0.9%) year-on-year to 1 133.0 bn in Q2 2023 itself. The increase also under the influence of a strong basis of the last year markedly weakened in comparison to the double-digit values from the preceding four quarters. Seasonally adjusted data show, that the export of goods again slightly increased by 0.7% quarter-on-quarter following two decreases in Q2 2023.

The value of export into the EU fell year-on-year in Q2.

In the territorial view, the export of goods into the European Union (+92.5 CZK bn, 5.3%) as well as outside the EU (+21.6 bn, 5.3%) expanded by a similar rate in H1. Development in the individual quarters however varied. Following the robust growth from Q1 the value of export of goods into the EU stagnated in Q2 (+2.7 CZK bn, 0.3%) and the increase of export outside the Union weakened to 7.2 bn (3.4%). The value of export to Germany grew the most in Q2 (+7.9 CZK bn, 2.4%), but the growth sharply weakened. The increase of export to Turkey (+5.9 CZK bn, 52.5%), France (+5.1 bn, 9.1%), Italy (+4.8 bn, 9.9%), Great Britain (+2.6 bn, 6.3%) or Belgium (+2.2 bn, 8.3%) was also large. The export rather stagnated or fell for the remaining countries. The export was shrinking the most to Slovakia (−14.8 CZK bn, −12.7%)<sup>44</sup>, Austria (−4.9 bn, −9.5%), the United States (−3.3 bn, −10.6%) and Russia (−2.9 bn, −45.5%).

Mainly the sale of motor vehicles supported the growth of export.

The sale of motor vehicles (+126.9 CZK bn, 24.8%), electrical equipment (+40.7 bn, 20.7%), machinery and equipment (+27.0 bn, 11.1%) and food products (+12.0 bn, 17.3%) contributed the most to the total year-on-year growth of the value of export of goods in H1. On the contrary resulting from the decrease of prices, the value of export of electricity, gas, steam and air conditioning (−20.7 CZK bn, −43.3%), basic metals (−20.1 bn, −18.6%) as well as chemical substances and products (−17.8 bn, −14.6%) registered decline. The individual view of Q2 indicates, that the development of export confirms the similar trend in industry – the export of motor vehicles (+55.7 CZK bn, 20.5%) and limited group of sub-branches such as electrical appliances (+14.2 bn, 14.0%), or machinery and equipment (+9.4 bn, 7.5%) worked significantly in the direction of growth. Due to rising prices only export of food products kept further growing (+3.8 CZK bn, 10.5%). The rest of export showed stagnation or decrease. The value of export of basic metals (−14.0 CZK bn, −24.9%), chemical substances and products (−12.4 bn, −19.7%) and electricity, gas, steam and air conditioning (−11.9 bn, −56.1%) was falling the most year-on-year in Q2. The export of wood and wood products (−5.5 CZK bn, −31.9%), metalworking products (−5.1 bn, −7.0%), oil and natural gas (−5.1 bn, −99.2%), computers, electronic and optical appliances (−4.0 bn, −4.2%), activities of waste collection (−4.1 bn, −27.8%) or products of forestry, wood logging and associated services (−3.8 bn, −52.3%) went also down.

Import was dwindling as a result of falling prices.

Import of goods attained the value of 2 202.6 CZK bn in H1 2023 and thus fell by 51.0 bn (2.3%) year-on-year. Especially fall of prices of number of materials<sup>45</sup> as well as the lower volume of import of oil and natural gas left its mark on the decrease and it presented the

<sup>42</sup> Data for foreign trade with goods are recalculated using the updated method based on higher rate of detail since year 2020, see <https://www.czso.cz/csu/czso/aktualizace-metody-propoctu-zahranicni-obchod-se-zbozim>. Unless stated otherwise, all figures are without seasonal adjustment and in current prices.

<sup>43</sup> Prices of export of goods were raised by 1.8% year-on-year in Q2 2023 and fell by 22% quarter-on-quarter.

<sup>44</sup> Export to our nearest neighbours was considerably influenced by the decrease of price of electricity. In case of Germany, the value of export of electricity, gas, steam and air conditioning slumped by 4.8 CZK bn and the export of products associated with waste collection was by 2.1 bn lower in Q2. Export of electricity to Slovakia slumped by 8.0 CZK bn and it was joined by the lowering of export of oil and natural gas by 5.1 bn.

<sup>45</sup> Prices of import of goods fell by 7.6% year-on-year in Q2 and plunged by 4.5% quarter-on-quarter. Prices of mineral fuels were lower by 32.0% (mainly oil and oil products, gas and electricity), other materials by 15.8% (mainly metalliferous ores and metallic waste) and chemicals by 10.9% (especially plastics).

result of the development mainly in Q2. The value of import of goods went down by 102.7 CZK bn (−8.6%) to 1 093.5 bn year-on-year in Q2. The seasonally adjusted import of goods decreased quarter-on-quarter for the third time in a row, specifically by 1.3%. The decrease of import concerned the EU countries (−20.1 CZK bn, −1.4%) as well as the countries outside the EU (−33.9 bn, −4.0%) in H1. The import was still growing year-on-year at the beginning of the year, consequently the total decrease for the half-year can be attributed to Q2, when the import from the EU fell by 46.2 CZK bn (−6.3%) and plunged by 57.7 bn (−12.6%) outside the EU. The import from Russia slumped the most year-on-year in Q2 (−81.3 CZK bn, −84.0%), which proves the significant role of the decrease of prices of oil and natural gas in the total development of the foreign trade. The import from Germany (−14.4 CZK bn, −5.5%), Poland (−11.4 bn, −10.3%), Austria (−7.0 bn, −18.4%), Italy (−6.0 bn, −11.0%), Slovakia (−4.7 bn, −7.6%) or Azerbaijan (−3.4 bn, −36.1%) was also lower. Import grew from the minority of countries, the most from Norway (+24.4 CZK bn, 953.9%)<sup>46</sup>, China (+7.8 bn, 6.3%), Great Britain (+2.9 bn, 17.4%) and Korea (+2.1 bn, 9.0%).

Mainly the import of oil and natural gas plunged.

Import was falling year-on-year in H1 mainly under the influence of lower prices of various materials. It can be observed on the largest decreases – oil and natural gas (−71.1 CZK bn, −44.6%), basic metals (−39.2 bn, −18.8%) and chemical substances and products (−24.0 bn, −12.0%). On the contrary the import of motor vehicles (+55.7 CZK bn, 19.7%), electrical appliances (+48.3 bn, 25.0%) and machinery and equipment (+12.5 bn, 6.4%) was significantly higher. The import of oil and natural gas plunged by 60.7 CZK bn (−57.3%), basic metals by 28.1 bn (−25.7%), chemical substances and products by 16.0 bn (−15.5%) and coke and refined oil products by 10.9 bn (−35.4%) year-on-year in Q2 itself. Marked decreases also affected the value of import of electricity, gas, steam and air conditioning (−4.6 CZK bn, −45.2%), paper and paper products (−4.1 bn, −20.9%), computers, electronic and optical appliances and equipment (−3.9 bn, −3.4%), black and brown coal and lignite (−3.7 bn, −37.4%) or wood and wood products (−3.2 bn, −32.6%). Import was falling across the board in Q2 and among scarce exceptions the value of import of motor vehicles including parts (+26.2 CZK bn, 17.6%) and electrical appliances (+19.7 bn, 19.7%) grew the most year-on-year.

Balance of foreign trade with goods ended in surplus.

Balance of foreign trade with goods attained a surplus of 79.4 CZK bn in H1 and improved by 165.3 bn year-on-year. This year's surplus presented the best result of the balance in the given period for the last four years but lagged behind the level from the same period of years 2014–2019. The positive balance of foreign trade with goods amounted to 39.5 CZK bn in Q2 itself and the balance was improved by 112.7 bn year-on-year. Based on the seasonally adjusted data the balance improved by notable 22.6 CZK bn quarter-on-quarter. The year-on-year balance improvement concerned trade with the EU (+112.6 CZK bn) as well as the countries outside the EU (+55.6 bn) in H1. The balance of foreign trade with goods with the EU improved by 48.9 CZK bn year-on-year and outside the EU by 64.8 bn in Q2 itself. Trade with Russia (+78.5 CZK bn), Germany (+22.3 bn), Poland (+11.2 bn) and Italy (+10.8 bn) worked the most in the direction of year-on-year balance improvement in Q2. The balance of trade with Turkey (+7.3 CZK bn), France (+5.2 bn), Azerbaijan (+3.6 bn), Belgium (+3.6 bn), Ukraine (+3.3 bn), Kazakhstan (+3.1 bn), Switzerland (+2.4 bn), Austria (+2.1 bn) or Bulgaria (+2.1 bn) was also improving. In contrast the most pronounced balance deteriorations were related to foreign trade with Norway (−26.0 CZK bn), Slovakia (−10.1 bn), China (−8.2 bn), the United States (−5.1 bn) and South Korea (−2.6 bn).

Especially the trade with motor vehicles and also oil and natural gas contributed to the balance improvement.

Surplus improvement of trade with motor vehicles (+71.2 CZK bn) and deficit moderation for oil and natural gas (+65.7 bn) worked in the direction of balance improvement in H1. Balance of trade with basic metals (+19.1 CZK bn) and machinery and equipment (+14.5 bn) also developed favourably. The balance of trade with electricity, gas, steam and air conditioning (−13.3 CZK bn), electrical appliances (−7.6 bn) and products of forestry, wood logging and

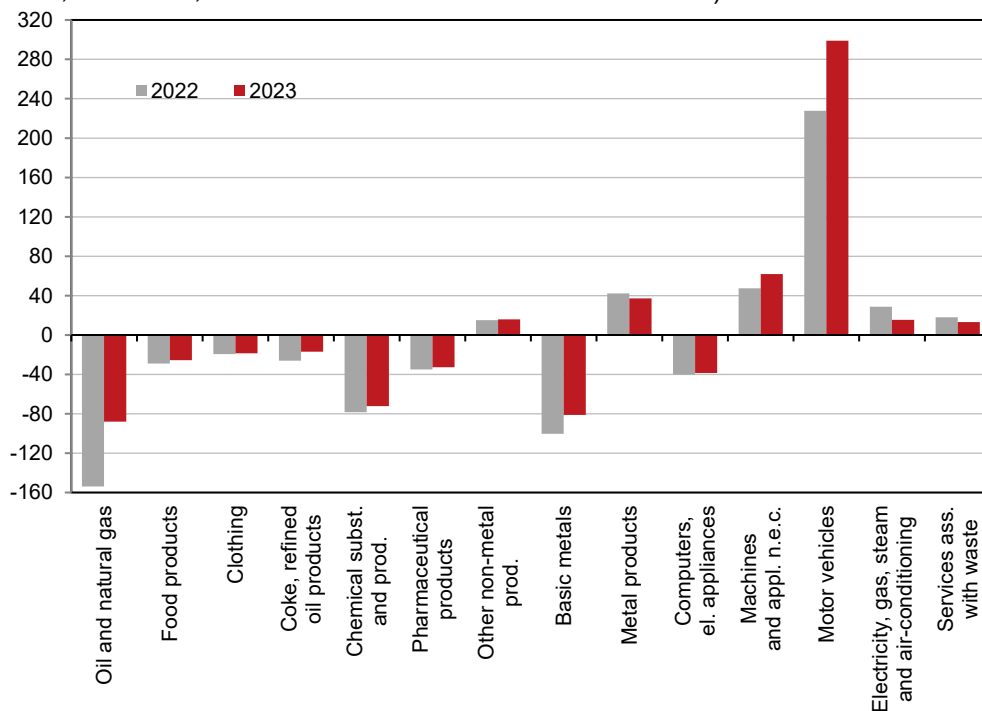
<sup>46</sup> Norway represents a "new" source of natural gas and substitute for the outage of import of this commodity from Russia.





associated services (-5.8 bn) worsened the most. The balance of trade with oil and natural gas (+55.6 CZK bn) and further with motor vehicles (+29.4 bn), basic metals (+14.1 bn) and coke and refined oil products (+8.6 bn) improved the most year-on-year in Q2 itself. Trade with machinery and equipment (+7.6 CZK bn), chemical substances and products (+3.7 bn) or black and brown coal and lignite (+3.2 bn) also recorded more notable balance improvement. The worst balance deterioration affected the trade with electricity, gas, steam and air conditioning (-7.3 CZK bn), electrical equipment (-5.5 bn), metalworking products (-4.2 bn) and products of forestry, wood logging and associated services (-3.8 bn).

**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

Total price level grew in Q2.	Total price level gauged by the GDP deflator increased by 10.2% year-on-year in Q2. The pace thus slightly slowed down compared to the previous quarter. The year-on-year rate of growth of prices of consumption considerably slowed down (from 12.2% to 9.0%), mainly the household consumption (10.0%). Prices of capital goods increased by 3.3% year-on-year, which represents a rapid deceleration (prices rose by 10.2% in Q1). Year-on-year terms of trade amounted to substantial 104.6% and they were markedly positive in case of goods (104.7%) as well as services (103.1%). The total price level went up by 1.1% quarter-on-quarter in Q2. Prices of consumption goods (−0.2%) as well as capital goods (−1.9%) fell. Quarter-on-quarter terms of trade totalled 102.9%. In that the terms of trade with goods were 102.7% and with services 103.5%.
Year-on-year growth of consumer prices slowed down.	The consumer price index hiked up by 11.1% year-on-year in Q2 2023. This represents a notable deceleration of the pace compared to Q1 (16.4%). Mostly the high comparative basis of the last year has a large share in the decrease. Since the view on the index with the basis in year 2015 shows more clearly, that following this year's January sharp acceleration the level of consumer prices rose already only mildly <sup>47</sup> . The development of prices of food and non-alcoholic beverages, housing and energy and transport, which dominated the price growth in the last year's H1, the most contributed to the weakening of the year-on-year pace in Q2. Despite notable slow down however the housing and energy as well as the food and non-alcoholic beverages remained a driver and contribute from more than one half to the year-on-year increase of the consumer prices. Consumer prices increased by 0.3% quarter-on-quarter in Q2.
Increase of prices of housing and energy moderated.	Prices of housing and energy jumped by 16.0% year-on-year in Q2. The growth thus slowed down from the previous 22.2% but remained relatively high and with respect to the large weight of housing and energy in the consumer basket contributed from more than one third to the total year-on-year increase of consumer prices. Prices of housing and energy grew by 0.2% quarter-on-quarter. Slowdown of the year-on-year pace affected the most prices of electricity, gas and other fuels, which were by 33.8% higher year-on-year. For other services associated with dwelling the increase was retained at considerable 15.9% and prices of maintenance and repair of dwelling increased by 12.2%. The year-on-year increase on the actual rentals for housing slightly increased to 6.9%, but further slow down to 3.1% manifested for the imputed rentals <sup>48</sup> .
Prices of food and non-alcoholic beverages decreased quarter-on-quarter.	The significant deceleration of the year-on-year growth also concerned the prices of food and non-alcoholic beverages in Q2, where the increase amounted to 14.6%. Quarter-on-quarter prices of good and non-alcoholic beverages fell by 0.6%. The weakening of year-on-year dynamics was especially substantial in case of oils and fats (from 23.5% in Q1 to 2.4% in Q2), meat (from 24.4% to 8.6%), milk, cheese and eggs (from 32.7% to 17.4%) and bread and cereals (from 26.5% to 16.8%). Strong growth of prices prevailed for vegetables (22.6%), sugar, jam, honey, chocolate, confectionary (20.0%) and other food products (17.4%). Growth of prices of fruit strengthened to 14.4%.
Prices of various services kept strongly growing.	Year-on-year growth of prices of many services remained extensive. Prices of recreation and culture, which picked up by 11.7% contributed notably to the total year-on-year growth of consumer prices. Mainly prices of package holidays (17.3%),

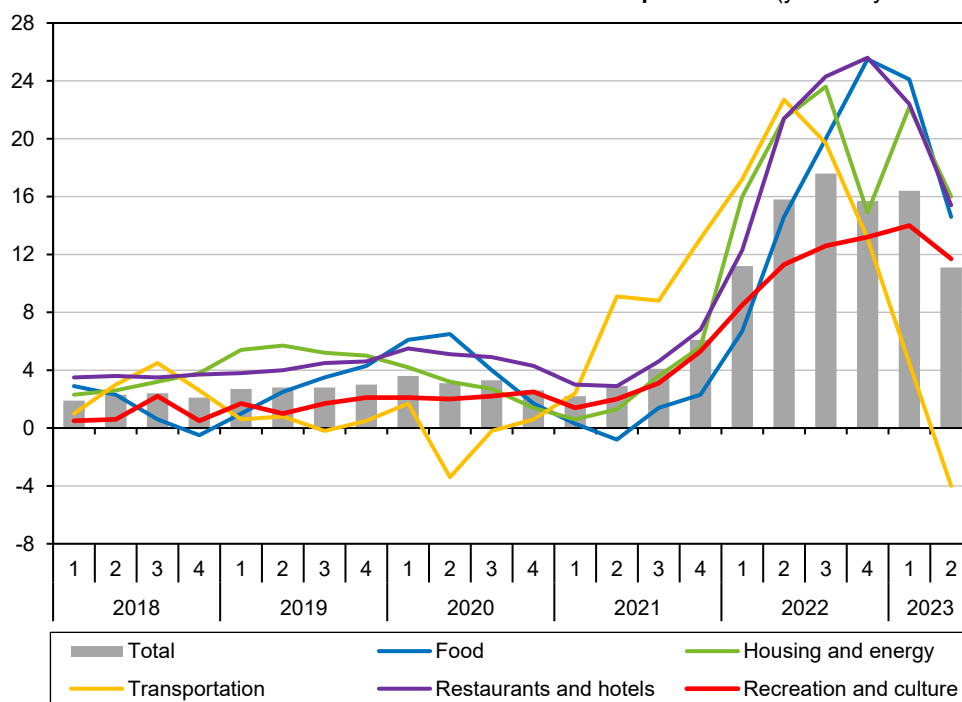
<sup>47</sup> Consumer prices increased by 7.2% between June 2023 and December 2022. In that the majority of the shift can be attributed to January, when the price lists are usually changed and the increase also covered the abolition of the energy tariff this year – the increase of prices was only 1.2% between this year's June and January. The increase totalled nevertheless 13.2% between June 2022 and December 2021 and in that prices increased by 8.3% between June and January.

<sup>48</sup> 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/methodological-note-to-consumer-price-index-imputed-rentals>.



recreational and cultural services (10.8%) and other items for recreation and leisure time (13.9%) had a significant effect. Quarter-on-quarter the prices of recreation and culture lowered by 0.3%. Despite the weakening of the year-on-year growth the increase of prices of restaurants and hotels, which were by 15.4% higher year-on-year, also remained considerable. At the same time the prices of catering services grew by 15.5% and accommodation services by 15.1% year-on-year. Prices of restaurants and hotels had one the highest quarter-on-quarter increases (2.7%) in the whole consumer basket. Prices of miscellaneous goods and services<sup>49</sup> rose by 11.2% year-on-year and were by 1.4% higher quarter-on-quarter.

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



Source: CZSO-

Year-on-year rate of growth of prices of clothing and footwear as well as household equipment remained significant.

Significant year-on-year pace of prices of clothing and footwear (12.2%) as well as household equipment, goods and repairs (10.4%) persisted in Q2. Prices in both divisions also strongly grew quarter-on-quarter – prices of wearing apparel and footwear were raised by 2.2% and furnishings, households equipment and maintenance by 1.6%. The year-on-year rate of growth of prices of alcoholic beverages and tobacco remained relatively stable in Q2 (6.5%, prices grew by 0.4% here quarter-on-quarter). The year-on-year increase of prices in the area of health care did not change (9.5%, 3.1% quarter-on-quarter) and the pace was stable for prices of education (7.2%, 0.2% quarter-on-quarter). The year-on-year growth of prices of post and telecommunication strengthened year-on-year (3.9%; 1.4% quarter-on-quarter).

Only the prices of transport were falling year-on-year.

Transport was the only division of the consumer prices, where the prices decreased year-on-year. Prices went down by 4.0% here and the decrease of costs of operation of personal transport equipment by 10.3% stood solely behind it. The year-on-year growth of prices of purchase of vehicles considerably shrank (1.0%). The prices of transport services ceased to be affected by the last year's restrictions of student discounts on fare, thus the pace markedly decelerated against the preceding quarter.

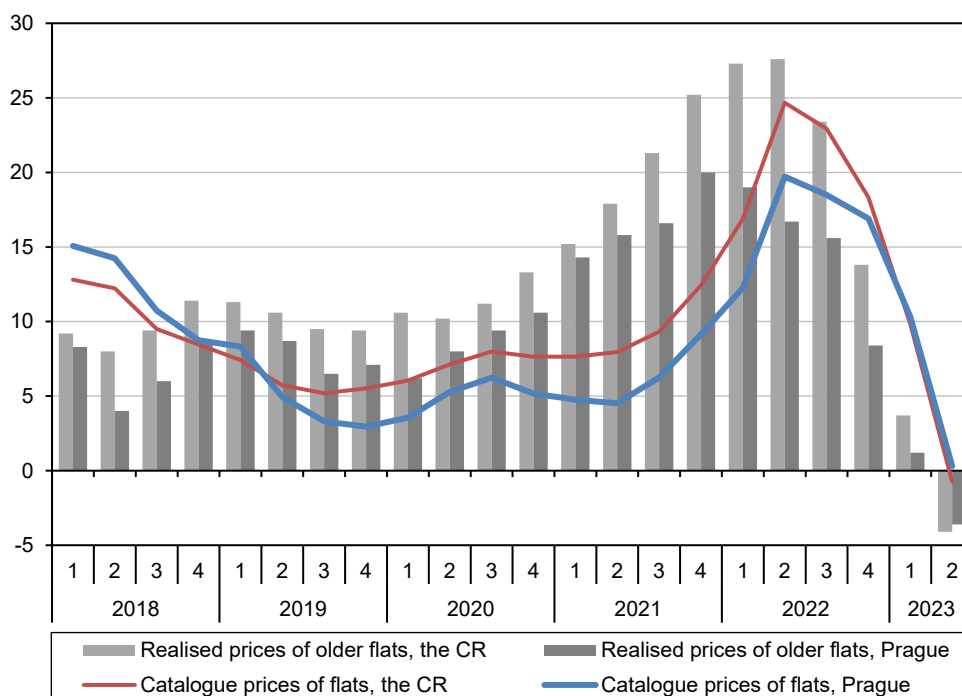
<sup>49</sup> Comprises services of personal care and personal needs and accessories, social care, insurance and further financial services etc.

Still the prices of transport services went up by substantial 11.3% year-on-year. Prices of transport also fell quarter-on-quarter for the third time in a row, specifically by 0.8%.

Growth of consumer prices slowed down in the EU.

Harmonized index of consumer prices (HICP)<sup>50</sup> increased by 7.2% in the European Union year-on-year in Q2. The year-on-year dynamics of consumer prices in the EU similarly to the domestic economy decelerates since the beginning of the year, mainly under the influence of falling prices of energy and fuels. On the other hand, the growth of prices of food remained strong throughout H1. According to the HICP, the prices increased the most year-on-year in Q2 in Hungary (22.1%), where mainly the prices of food, food service and accommodation and housing and energy grew massively. Nevertheless, double-digit year-on-year increases had a majority of divisions in the Hungarian consumer basket. The subsequent countries in the ranking – the CR (12.6%), Slovakia (12.5%) and Poland (12.5%) were placed behind Hungary with a considerable distance. The consumer prices were growing year-on-year in the whole EU, but the inflation already returned into a moderate band in some countries – the prices increased year-on-year by 1.9% in Luxembourg, by 2.6% in Belgium and by 2.8% in Spain. Quarter-on-quarter, the consumer prices increased by 1.6% in the EU in Q2. Prices in Malta (6.0%), Estonia (2.9%) and Greece (2.9%) featured the largest quarter-on-quarter increase. Consumer prices fell quarter-on-quarter in Belgium (-0.9%) and Denmark (-0.5%).

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



Source: CZSO

Catalogue prices of flats went down year-on-year.

Catalogue prices of flats peaked at the end of the last year and two quarter-on-quarter decreases occurred in both Q1 and Q2 of 2023 (-1.9% and -1.7%). The catalogue prices fell year-on-year in Q2 for the first time since Q2 2013, specifically by 0.7%. The decrease related mainly to flats in the CR outside of Prague year-on-year (-1.8%), the catalogue prices in Prague were still by 0.3% higher. However, quarter-on-quarter the catalogue prices were falling both in Prague (-1.8%) and outside of Prague (-1.6%). The dynamics of realised prices of older flats slows down even faster than the catalogue prices, which practically proves the cooling on the real estate market. Realised prices

<sup>50</sup> 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 HICP and Consumer price index.

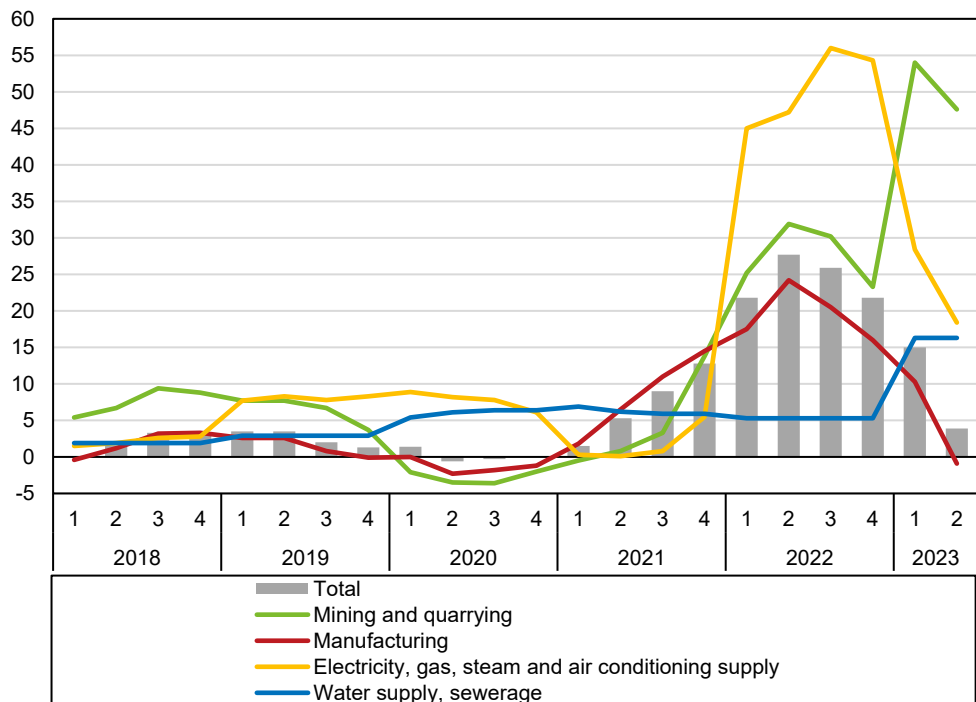


of older flats fell quarter-on-quarter for the third time in a row (−2.6%) in the CR in Q2. They were by 4.1% lower compared to the same period of the last year, for the first time since Q4 2013. At the same time the realised prices of older flats in Prague fell by 3.6% year-on-year and by 4.2% outside of Prague. The realised prices of new flats in Prague also deeply dived for the second time in a row year-on-year (−6.9%). Realised prices of new flats fell in Prague quarter-on-quarter for the fourth time in a row (−0.5%).

Growth of prices of industrial producers markedly slowed down.

Industrial producer prices went up by 3.9% year-on-year in Q2 2023. The increase thus considerably slowed down in comparison to Q1. The prices of industrial producers lowered by 2.6% quarter-on-quarter. Mostly the development of prices manufactured products, which were by 0.9% lower year-on-year (the first decrease since Q4 2020) stood behind the slowdown of the year-on-year growth. The high comparative basis of the last year had an impact. Mainly prices of various materials or associated products were falling year-on-year, but the dynamics was decelerating for the majority of types of products. The year-on-year slump of prices of coke and refined oil products<sup>51</sup> had a significant effect on the prices of industrial producers. Prices of chemical substances and products (−13.5%), which are bound with the development of prices of oil, wood and wood products (−13.3%), basic metals (−11.5%), metalworking products (−1.7%) or paper and paper products (−0.8%) were lower. The year-on-year growth of prices of food products (11.4%) markedly weakened, but on the contrary the dynamics of prices of beverages (14.1%) slightly strengthened. Growth of prices of machinery and equipment (8.1%) remained relatively strong similarly to the prices of their repairs and installation (9.4%). Prices of motor vehicles (3.3%) as well as other transport equipment (7.7%), basic pharmaceutical products (4.3%), computers, electronic and optical appliances (3.4%), electrical equipment (1.9%) or rubber and plastic products were higher. Prices fell for the third time in a row quarter-on-quarter in manufacturing, specifically by 1.6%.

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



Source: CZSO

<sup>51</sup> Exact values of the indicator are not provided due to the protection of individual data.

Prices of mining and quarrying were raised the strongest.

Year-on-year growth of prices of electricity, gas, steam and air conditioning notably weakened to 18.4% and the prices decreased by 6.3% in this section quarter-on-quarter. On the contrary, for the prices of mining and quarrying the year-on-year increase hovered at substantial 47.6%, which was assisted by the development of black and brown coal and lignite mining (71.4%) as well as other mining (24.7%, mainly construction materials). Only the growth of prices of oil and natural gas extraction weakened more notably (38.6%). Quarter-on-quarter, the prices of mining and quarrying grew by 1.7%. Prices of water supply and services associated with waste water management were by 16.3% higher year-on-year.

Year-on-year growth of prices of industrial producers further slowed down in the EU.

Prices of industrial producers in the EU<sup>52</sup> dropped by 0.3% year-on-year in Q2. Prices of mining and quarrying (−11.8%) as well as electricity, gas, steam and air conditioning (−7.8%) were significantly lower year-on-year. In contrast the prices in manufacturing in spite of ongoing slow down still slightly grew year-on-year (0.8%). The prices of industrial producers grew the most in Q2 year-on-year in Hungary (35.7%), Slovakia (19.1%) and in Latvia (11.5%). On the contrary the strongest year-on-year plunge occurred in Ireland (−16.5%), Greece (−10.4%) and Belgium (−9.6%). Prices of industrial producers fell for the third time in a row quarter-on-quarter in the EU (−5.5%). The prices of mining and quarrying (−20.6%) as well as electricity, gas, steam and air conditioning (−17.4%) sharply plummeted and prices in manufacturing were also lower compared to the preceding quarter (−1.0%). Prices of industrial producers were falling in all EU countries quarter-on-quarter with the exception of Slovenia (growth of 0.5%). Prices in Cyprus and Malta ranged in the band of stagnation (they fell similarly by 0.1% quarter-on-quarter), the decreases were more pronounced elsewhere. Prices in Ireland (−12.9%), Belgium (−12.3%) and Italy (−10.2%) featured the strongest quarter-on-quarter slumps in Q2.

The growth of prices of construction works slowed down.

Dynamics of prices of construction works was also weakening, even though less intensively compared to other indices, since the labour presents a significant item in the costs of construction. Prices of construction works were based on estimates higher by 0.8% quarter-on-quarter in Q2 and grew by 6.9% year-on-year. As estimated, materials and products used in construction experienced a mild quarter-on-quarter decrease by 0.1% and the year-on-year growth moderated to 3.2% here.

Year-on-year growth of prices of market services strengthened.

Prices of market services were raised by 6.3% year-on-year in Q2. The pace of growth thus accelerated compared to the previous quarter. Prices of market services increased by 2.8% quarter-on-quarter. The development of services was influenced by strengthening wages, which represent a significant cost item here. The development of prices of services in the area of programming and associated consultancy, which went up by 9.5% contributed the most to the year-on-year growth. The effect of prices of land transport and transport via pipeline (year-on-year increase 5.3%), services in the area of real estate (7.1%) and services in the area of employment (25.2%) was also strong. Strengthening of the year-on-year increase of the prices of advertising and market research (6.4%) also had a notable effect on the prices of market services and raised prices of services associated with services to buildings and landscape activities (13.7%), information services (12.8%), postal and courier services (8.0%), services in the area of lease and operative lease (5.6%), architectural and engineering services, technical testing and analysis (4.1%), warehousing and support activities for transportation (3.6%) or insurance, reinsurance and pension funding (2.9%) had an impact.

<sup>52</sup> Without prices of water distribution and services associated with wastewaters.



Prices of agricultural products were falling. Mainly prices of the crop products were falling.

Prices of agricultural products including fishes slumped by 8.1% year-on-year in Q2. It was the first year-on-year decrease since the end of year 2020. Only prices of the crop products were falling year-on-year (-20.8%) but the increase slowed down for the animals and animal products to 12.4%. Quarter-on-quarter, the prices of agricultural products lowered by marked 9.1% and prices of both the crop (-11.2%) and animal (-6.6%) products fell. The year-on-year decrease of prices of crop products was mainly affected by the slump of prices of cereals (-22.3%), in that the prices of wheat plunged by 28.0%, barley by 13.0% and corn by 9.1%, on the contrary the prices of oat grew by 4.1%. Prices of industrial crops were by 34.0% lower year-on-year, mainly owing to the oil seeds, where the dive arrived at -35.1%. Prices of forage plants decreased by 1.9% year-on-year. On the contrary the year-on-year increase of prices of vegetables and horticultural products strengthened to 23.9%. Prices of potatoes hiked up by 29.0% and they decreased for fruit by 5.9%. The year-on-year increase of prices of animals weakened to 14.2% year-on-year in the animal production, the growth of prices of pigs and piglets (24.1%), poultry (17.0%) as well as cattle (0.9%) was lower. The increase of prices of milk also decreased to 7.8% and eggs to 42.1%.

Year-on-year growth of the prices of foreign trade further slowed down in Q2. The koruna foreign exchange per euro as well as dollar strengthened year-on-year<sup>53</sup> and thus had an anti-inflationary effect, however the high comparative basis of the last year, mainly the notable level of prices of materials played a main role. Prices of export of goods fell by 1.8% year-on-year in Q2 and were by 2.2% lower quarter-on-quarter. Prices of export of other materials<sup>54</sup> (-25.5%) and chemicals (-9.4%) plummeted the most year-on-year and prices of food and live animals (-4.7%) and semi-finished products<sup>55</sup> (-4.3%) were also lower. On the contrary the prices of beverages and tobacco (18.4%) considerably increased year-on-year, prices were higher for mineral fuels and lubricants (2.3%), miscellaneous manufactured articles (1.1%) and machinery and transport equipment (1.0%).

In case of prices of export the year-on-year (-7.6%) as well as quarter-on-quarter (-4.5%) slump also eventuated. Mainly prices of import of mineral fuels and lubricants (-32.0%) and other materials (-15.8%) were falling year-on-year. Prices of chemicals (-10.9%), semi-finished products (-7.9%) and machinery and transport equipment (-1.6%) were lower. In contrast the prices of import of beverages and tobacco (22.2%), food and live products (6.4%) and miscellaneous manufactured articles (5.9%) strongly grew year-on-year. Year-on-year terms of trade climbed up to record 106.3% in Q2. The terms of trade reached the highest value in trade with mineral fuels and lubricants (150.4%) and further the terms of trade were positive in trade with semi-finished products (103.9%), machinery and transport equipment (102.6%) and chemicals (101.7%). Terms of trade fell to significant negative figures on the contrary in case of other materials (88.5%), food and live animals (89.6%), miscellaneous manufactured articles (95.5%) and beverages and tobacco (96.9%).

<sup>53</sup> Based on the CNB data, the average koruna foreign exchange per euro reached 23.588 CZK/EUR in Q2 2023. It was 24.644 CZK/EUR in the year 2022. Koruna foreign exchange per dollar markedly strengthened year-on-year. The average was 23.156 CZK/USD in Q2 2022 and 21.673 CZK/USD this year.

<sup>54</sup> SITC 2 – crude materials inedible, except fuels.

<sup>55</sup> SITC 6 – manufactured goods classified chiefly by material.

## 6. Labour Market

Partial cooling manifested on the labour market, the imbalance between supply and demand narrowed. Situation however significantly differed in the individual segments of the economy.

Despite ongoing stagnation of the performance of the domestic economy, the cooling of the previously strongly overheated labour market has been only partially evident in the CR this year so far. This can be next to the traditional lag of the labour market in relation to the business cycle also explained by the markedly differentiated impact of the preceding shocks (pandemic restrictions, energy crisis) on the various segments of the economy. Cooling of the labour market was more notable in subjective stances of the employers (ascertained with the business cycle surveys). Thus the short-term anticipations of businesses in the area of employment were further deteriorating in the course of H1 and at the same time the number of businesses stating shortage of labour force as a barrier to their growth diminished during H1. Still the employment considerably grew in the economy, even though not at all across the board, and also under specific circumstance (gradual integration of the refugees from Ukraine). The number of job vacancies slightly shrank while accompanied simultaneously by negligible increase of unemployment in the economy. Advantageous position of the employees on the labour market accompanied by persisting strong growth of the cost of living of households heightened the pressure on the wage growth. Despite disinflationary tendencies the year-on-year loss of the purchasing power of wages still remains significant in the economy.

Total employment climbed up to record level. It was also aided by the revival of small business, which manifested across all main branches.

Total employment<sup>56</sup> was considerably expanding this year. It was by 0.8%, i.e. by 45 thousand persons, higher year-on-year in Q2 and quarter-on-quarter it strengthened even by 1%. Number of workers reached a record level (5.51 mil), it was by 68 thousand higher compared to year 2019. The revival of the entrepreneurial activity significantly contributed to the year-on-year growth of employment. Quantity of self-employed<sup>57</sup> widened by 2.4%, mainly thanks to construction (+7 thousand), information and communication (+10%) and financial activities (+6%) then experienced the relatively highest growth. At least a mild increase of the number of small businesses occurred in all main branches. Still the number of self-employed remained considerably below the level from year 2019 (-4%, 30 thousand persons)<sup>58</sup> in Q2 this year.

Number of employees grew solely thanks to services, where they increased across all main branches.

Growth of total employment was however driven mainly by employees also this year. Their quantity however increased only by 28 thousand (+0.6%, the least since the peak of the pandemics at the beginning of year 2021) year-on-year in Q2. In spite of the previous period however, the increase of the job positions occurred only in the tertiary sector in Q2 this year (where it however had for the vast part an across the board character). The more than 2% strengthening of employment in public services was clearly evident there, when new positions in the areas typically linked with high participation of females (education, health and social care) were created for the reasons of heightened society-wide demand<sup>59</sup>. New employee positions were also created, even less intensively, also in the traditionally dynamic information and communication. Branch professional, scientific, technical and administrative activities, providing services for businesses also signalled a more stable growth of demand for workers. By contrast the traditional branches of production due to the effect of strong growth of production costs as well as sluggish foreign demand struggled with growing difficulties. Thus the growth of the number of employees halted in manufacturing in Q2 for the first time in two years

On the contrary, the number of employees shrank in manufacturing for the first time after two years.

<sup>56</sup> Data regarding employment stem from the national accounts conception. They are expressed in physical persons and adjusted for seasonal effects. Contrary to the data from the business statistics or the labour force sample survey (LFSS), they take into account e.g. the estimation of the impact of grey economy.

<sup>57</sup> It follows from the more detail data of the LFSS, that the number of employers (entrepreneurs with employees) only stagnated year-on-year in Q2 (after preceding four years of decreases). This group of businesses is in the methodology of the national accounts classed into the category of employees.

<sup>58</sup> Their quantity was in the most weight significant segments of the economy – manufacturing or group trade, transportation, accommodation and restaurants – lower by 11% and 7%, respectively, this year compared to the beginning of year 2019. In contrast, self-employed mainly in information and communication (+12%) and in construction (+3%) stayed above their pre-crisis numbers.

<sup>59</sup> For instance the number of students in school year 2022/2023 expanded unusually on all stages of education simultaneously year-on-year (the most at primary schools – by 4.5%).



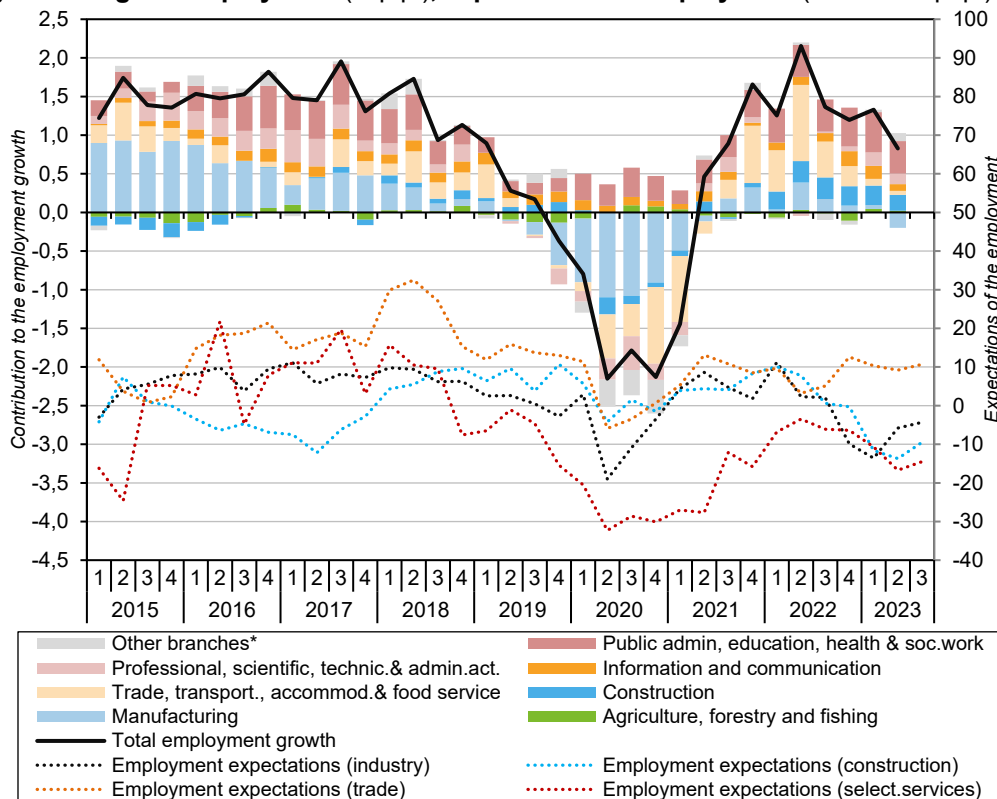


(-0.9%)<sup>60</sup>, mild growth continued in the primary sector of the economy, even though at a slower pace than last year.

More frequent use of part-time job contracts prevented faster growth of hours worked in services.

Total number of hours worked increased by 0.9% in the economy year-on-year in Q2 and similarly to the beginning of this year it grew comparably to the total employment (although the hours worked were significantly ahead of the rate of growth of the employment for the whole last year). Expansion of the part-time job contracts (connected with the growing employment of females supported by the refugee wave as well as newly introduced tax relief to support part-time jobs) prevented swifter growth of the hours worked this year. Growth of the hours worked more notably overtook the employment dynamics only in industry.

**Chart 13 Total employment (year-on-year in %), contributions of branches to year-on-year change of employment (in p.p.), expectations of employment (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 (national accounts), Eurostat (business cycle surveys).

Number of foreigners in the employee position crossed 800 thousand in the CR. Its growth was traditionally driven by citizens of Ukraine.

With respect to the greatly limited source of available labour force in the CR as well as the strong pressure on the optimisation of the production, the domestic employers further intensively demanded new workers from abroad. Legislative amendments lowering the administrative demands in this area helped to ease the employment of foreigners. Following the temporary slowdown of the inflow of foreign workers into the CR at the beginning of this year, the number of registrations again increased more in Q2. Record 803 thousand of foreigners worked in the employee position in the CR at the end of July this year (based on the records of labour offices), by 105 thousand more compared to January 2022 (for Ukrainians the number increased from 198 thousand to 273 thousand, driven from nearly

<sup>60</sup> More detailed data of the business statistics show that the year-on-year decrease of the registered number of employees occurred in all more weight significant industrial branches (manufacturing of motor vehicles was no exception) in Q2.

80% by females<sup>61</sup>). Increase of other groups of foreigners was of a lower order for the same time period<sup>62</sup>.

Anticipations of businesses in the area of employment deteriorated in H1. Trade kept mild optimism.

Short-term anticipations of businesses in the whole economy in the area of employment further weakened in H1 2023 and reached the lowest level since the peak of pandemics (March 2021) in May. Signs of stabilisation however occurred during this year's summer months since the pessimism of businesses in this area did not deepen further in any of the main branches. Based on the data from August 2023, 12% of business in industry, 18% in construction and 25% in services planned to reduce the numbers of employees in the nearest three months, but only 6% in trade (where the businesses keep positive outlook even despite the falling household consumption). Situation at the level of sub-branches differed within both industry and services<sup>63</sup>. Resulting from the deterioration of the total economic outlooks as well as the strong inflow of persons from Ukraine on the domestic labour market, the proportion of businesses, which consider the shortage of labour force to be one of the significant growth barriers was falling in the majority of main branches – it was the most apparent in construction (where the difficulty with human resources did not represent a main barrier this year in August after more than two years).

General unemployment rate as well as the number of long-term unemployed grew only slightly. Larger movement occurred for the working reserve; its size is however still low.

General unemployment rate<sup>64</sup>, which stagnated near historical minimum for a major part of the last year, has started to slightly grow since the beginning of this year. Thus there were 2.3% of economically active males (aged 15 till 64 years) and 3.4% females<sup>65</sup> without a job in July. The year-on-year increase was only small in both cases (0.3 to 0.4 p. p.). Figures regarding the job applicants registered at labour offices (LO) also correspond to this development, their course agreed with the common seasonal effects<sup>66</sup>. The long-term unemployment has not risen much either and persons, who were without a job for more than one year, still comprised only slightly over one quarter of all unemployed. The size of the potential working reserve however considerably increased for the second quarter in a row – the number of economically inactive not seeking work but stating willingness to work was the highest in the last two years (87 thousand)<sup>67</sup>. Quantity of job vacancies in the offer of LO was mildly lower year-on-year in all months this year, but already only by 28 thousand in July (just below one tenth). Mainly the low qualification positions stood behind the decrease –

<sup>61</sup> From the citizens of Ukraine registered at labour offices females already comprised 52%. The absolute majority of females among the more numerous groups of foreigners existed already for the citizens of Russia, Kazakhstan and Thailand. Already nearly three quarters of the registered workers from Ukraine in the CR did not need a special work permit (e.g. the employee card). This way they differ from the majority of other employees from the so called "third countries".

<sup>62</sup> For the citizens of Slovakia it arrived at 7.5 thousand, the Philippines (+3.0 thousand), Poland (+2.4 thousand), Russia and Vietnam (+1.9 thousand), India (+1.8 thousand), Hungary and Turkey (similarly +1.2%), Kazakhstan (+1.0 thousand). From the more significant groups of foreigners in the CR, only the number of employees from Belarus (-0.3 thousand) and Bulgaria (-0.1 thousand) fell in the last 1.5 years.

<sup>63</sup> Businesses in the vast majority of industrial branches anticipated the reduction of the number of employees (according to the survey from July 2023) – both energy intensive (metallurgy, metalworking industry, manufacturing of construction materials, chemical industry or food industry) and sub-supplier fields for the manufacturing of motor vehicles (electrical engineering, manufacturing of rubber and plastic products) or in the number of smaller branches (beverage, textiles, wearing apparel, wood and paper industry). On the contrary, mildly positive outlooks prevailed in manufacturing of motor vehicles, computers, electronic and optical appliances, among smaller branches then in the pharmaceuticals, printing activities, manufacturing of footwear or repairs and installation of machinery and equipment.

In services, the negative anticipations were the most obvious in the land transport, in financial activities, in telecommunications, in publishing activities, at travel offices and agencies, repairs of computers and products for personal need for household or in administrative, office or other support service activities for businesses. In contrast, for a number of other business services (legal and accounting activities, architectural and engineering activities, services of employment agencies) or in insurance activities, programming, courier activities, restaurants and warehousing, the businesses assumed rather higher employment.

<sup>64</sup> 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.

<sup>65</sup> The CR still occupied a significant position among the EU states. Only Malta (2.5%) recorded lower total unemployment (of persons aged 15–74 years) than this country. Among the central European countries, Poland as well as Germany maintained the unemployment below 3%, it was higher in Slovakia (5.8%) and Austria (5.6%). Traditionally, Spain (11.6%) and Greece (10.8%) faced the biggest difficulties in the whole EU. The unemployment stayed on very low values both in the EU (5.9%) and the euro area (6.4%). It stagnated compared to this year's June and it was by more than 1 p. p. lower in comparison to the boom year 2008.

<sup>66</sup> Based on the LFSS data, the seasonally unadjusted proportion of the reachable job applicants aged 15 to 64 years of the population of the same age arrived at 3.6% last year in January, 3.3% in July and 3.7% in December. It climbed to 3.9% in January (the highest since May 2021), it fell to 3.5% in July.

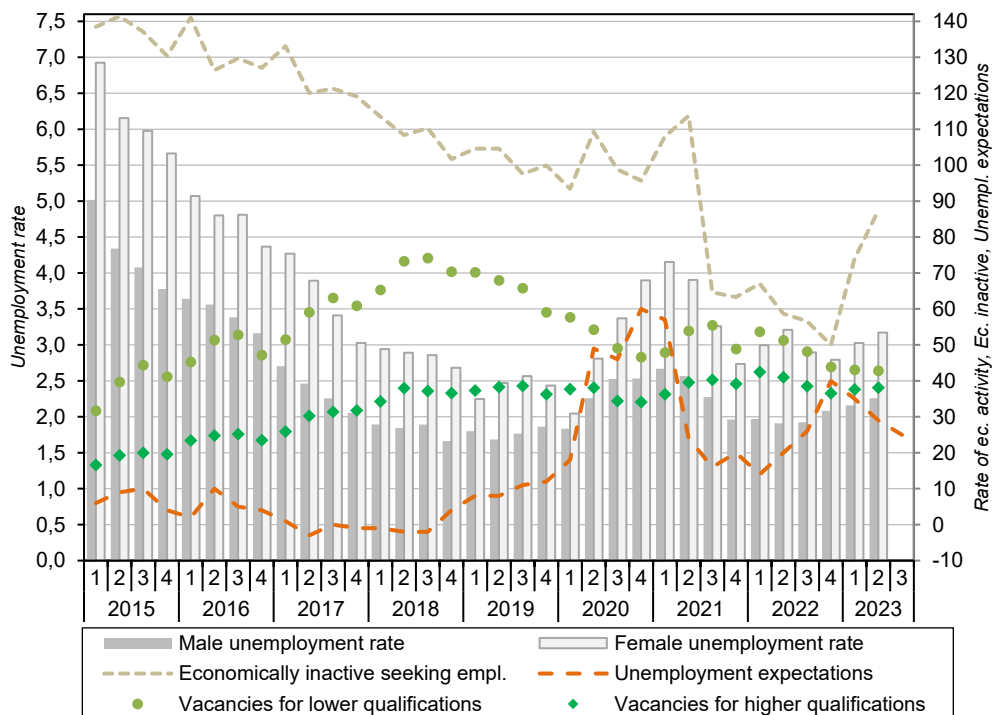
<sup>67</sup> Only a fraction of this quantity is however able to join the workforce immediately, since a significant part of working reserves consists of students and females on the parental leave.



Concerns of people about the growth of unemployment weakened, still they remained above the long-term average.

nevertheless they still form the core of the supply of jobs. Number of registered positions is still higher than the number of registered applicants in the CR (more distinct excess of job applicants over the job positions prevails only in the structurally affected regions – the Ustecky and Moravia-Silesian regions). Concerns of people regarding the growth of unemployment were gradually falling since the beginning of this year. For households, negative outlooks of the total economic situation of the CR were falling simultaneously and pessimism was also subsiding on the anticipated own financial condition. Still the number of persons expecting growth of unemployment in the upcoming twelve months is considerably higher than in the whole boom period at the end of the last decade

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



Note: Figures regarding the unemployment rate as well as economic activity are seasonally adjusted. Job vacancies express balance at the end of quarter.  
 \*Persons not in employment, not seeking work, but expressing the willingness to work.  
 \*\*Vacancies for lower qualifications include jobs for people with secondary education with apprenticeship certificate and for those with secondary education without A-level examination. Vacancies for higher qualifications comprise jobs for people with secondary education with A-level examination, graduates from higher professional schools or from universities.  
 \*\*\*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 survey), MLSA (job vacancies registered at labour offices in the CR)

Both year-on-year and quarter-on-quarter growth of wages slackened in Q2.

The average gross wage (per employee, reflecting the type of job contract) strengthened by nominal 7.7% year-on-year in Q2 this year. Compared to the pace from the beginning of the year (+8.7%), the growth slightly slowed down. It was also apparent on the quarter-on-quarter dynamics of the seasonally adjusted wages this year (+2.2% in Q1, +1.5% in Q2). Even in spite of the disinflationary tendencies in the economy, the year-on-year decrease of the purchasing power of the average wage still remains significant, when it amounted to 3.1%<sup>68</sup> in Q2. Decline of the purchasing power of the employee earnings thus continued for the seventh quarter in a row, which was the longest in the history of the independent CR and at the same time the total depth of the decrease for the whole period was unprecedented. The size of the real wage (after seasonal adjustment) in this year’s Q2 thus corresponded to the level from Q3 2017, the same can also be said about the analogical comparison of the

The decrease of the real wage was unique due to both its depth and length. The size of real wage

<sup>68</sup> Current decrease was however the weakest in a row since the beginning of last year.

corresponded to the level from Q3 2017.

real labour productivity (when expressed per employed person). The year-on-year decrease of the real wage afflicted nearly all branch sections (apart from the energetics) as well as the main industrial branches (apart from the electrical engineering and the motor vehicle manufacturing) this year in Q2 and set in across all the regions of the CR. The wage development thus likely still represented the key factor in the lowering of the total purchasing power of the domestic households in Q2 2023<sup>69</sup>.

Pressures on the wage growth in the business sphere remained relatively strong.

Relatively high demand of business for labour force as well as the heightened pressure of employees (often springing from tight familial budgets resulting from the sharp hike of prices of basic items of the consumer basket) still works in the direction of growth of the nominal wage. Room for further swift increase of wages exists in the market sphere also thanks to the high and in the last quarters still growing rate of profit of the non-financial businesses. The growing need for savings in the budgetary sphere<sup>70</sup>, more austere increase of the minimal wages<sup>71</sup> as well as the rising number of foreign workers from “third countries”<sup>72</sup> on the contrary dampened the wage growth in the whole economy.

Wages were rising by above average pace in the secondary sector of the economy. Different economic results of the sub-branches were evident within manufacturing.

The wage rose on average the most between the main branches in the small and ambitious on qualification requirements field of energetics<sup>73</sup> (+18.7%) for H1 2023. The record wage pace especially reflected the extraordinary bonuses paid out at the beginning of the year. The average monthly size of earnings surpassed 71 CZK thousand here and approached the level of the best paid branches of the economy (financial activities and ICT areas). Favourable economic results of year 2022 are still being mirrored in the brisk wage pace in mining and quarrying (+11%). Earnings in manufacturing were raised by slightly above average pace this year, similarly to the majority of the last year. However the situation was rather differentiated in the sub-branches depending on the economic shape of businesses here (the wage rate of growth in the electrical engineering or manufacturing of motor vehicles was nearly double in comparison to the manufacturing of construction materials).

Among the market branches of services the wages rose relatively the most in the real estate area and in accommodation, food services and restaurants activities.

Within the market branches of services, the half-yearly average wages increased the most in the weight small branch of real estate activities this year (+10.7% year-on-year<sup>74</sup>) and their size approached the 40 CZK thousand boundary. On the contrary, it did not reach even 25 CZK thousand in accommodation, food services and restaurants even despite faster wage rate of growth (+9.8%) also reflecting the continuing recovery of the arrival tourism. The wage dynamics in the significant branches of trades or transportation and warehousing copied the situation in the whole economy, at the same time it was one of the few areas of services, where the number of employees did not grow (the interconnectedness to the weakening manufacturing had an effect). On the contrary the branch of administrative and support service activities hired new employees (mostly the agency workers for the positions of lower

<sup>69</sup> The Gross disposable income (GDI) of households in real expression lowered by 3.4% year-on-year in Q1 2023, in that the volume of wages and salaries in the national accounts conception slumped by 3.8% in real terms for the same time period (according to the preliminary data, this volume also fell in Q2, specifically by 1.9%). Wages and salaries also reflect (unlike the business statistics) other factors, e.g. the grey economy, possible increase of economic activity of population, for instance in the form of second employments or work agreements. GDI includes next to wages and salaries also income flowing from running a business or ownership of capital and also social transfers from state, incl. the until recently fully adjusted retirement pensions (effect of the amendment of the adjustment scheme for the reason of saving measures occurred for the first time in June 2023).

<sup>70</sup> The branch public administration and social work was an exception. As of 1<sup>st</sup> September 2022, 10% raise of the pay tariffs for employees falling under the Act on civil service was put in place. The pay tariffs of armed forces and public security forces were also raised (by 10%) as of January 2023.

<sup>71</sup> Minimum wage was raised by 6.8% (comparably to the previous year) as of January 2023. Unlike the practice from past years however the shift of the minimum wage was not accompanied by increase of the boundary for the so called guaranteed wages (it increased this year only in the eighth – category of jobs with the highest qualification –, where however only a fraction of employees receives wage).

<sup>72</sup> For instance the median of wage of citizens of Ukraine rose the least among all more significant foreigner groups of employees according to the preliminary data in H1 – by 6.2% year-on-year (to less than 30 CZK thousand), even though the mean value of wage increased by 7.2% on the whole labour market.

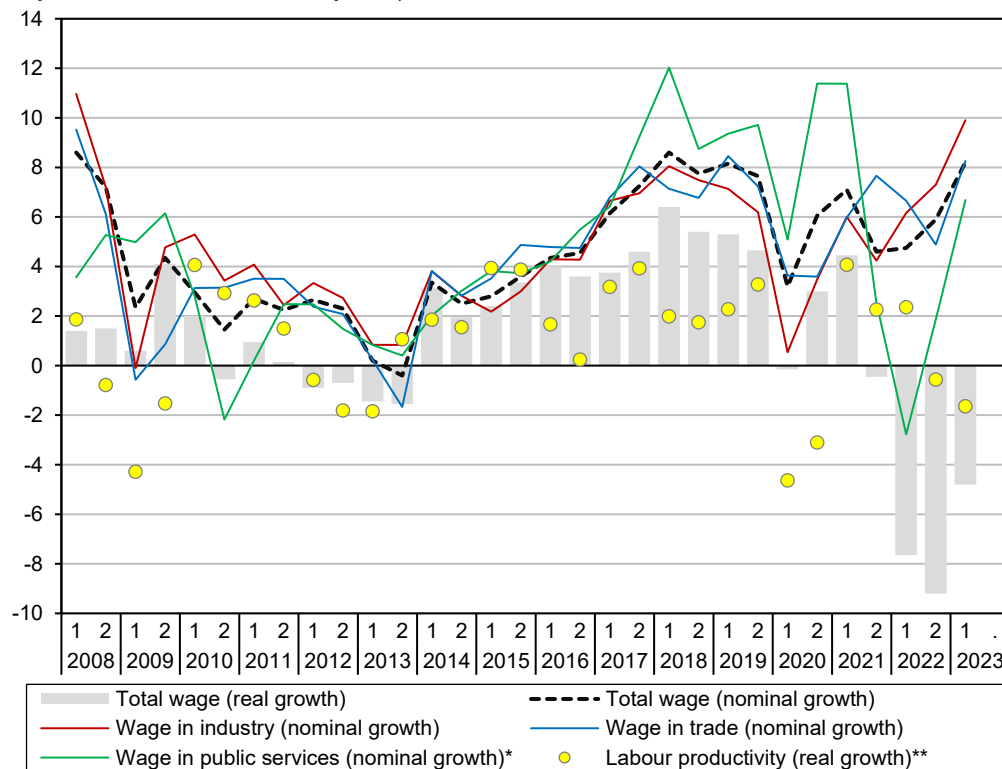
<sup>73</sup> Includes generation and distribution of electricity, gas, heat and air conditioning.

<sup>74</sup> After allowing for the swift growth of employment here the volume of paid out wages increased by nearly one fifth and matched thus the branch of energetics.



qualification), which led to the weaker growth of the average earnings (7.1%), whose monthly size did not exceed 30 CZK thousand. The branch of other activities recorded the lowest wage pace<sup>75</sup> (+3.8%), only 1 158 CZK in absolute terms (i.e. mere one tenth of the increase achieved in energetics). The low pace can be explained by the significant boost of employment (+5.4%), which occurred for the first time since the onset of the pandemics.

**Chart 15 Average nominal and real wage, wage median, labour productivity (year-on-year, in %, 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.  
 \*\*Expresses real GDP related to 1 worker (in natural persons)  
 Source: CZSO

Total wage growth in branches with a significant role of the state still lagged behind the level of the whole economy.

Wages in the branches with significant role of the state<sup>76</sup> grew year-on-year in H1 as well as for the whole last year by a below average pace (+6.7%) and contributed thus negatively to the growth of wage in the whole economy (-0.5 p. p.). The highest level as well as the dynamics of earnings (+9.7%) was registered by the public administration (incl. defence and mandatory social security), where however the wage level was practically frozen in the previous two years. Education was in the opposite situation, when after strong wage growth in the previous period (2018 till 2021), a considerable deceleration of pace manifested (+4.3%<sup>77</sup>) this year and the half-yearly wage level has not reached even 40 CZK thousand per month. Earnings in the area of health and social care and also in the cultural, amusement and recreational activities declared higher, but still below average rates of growth this year.

Total wage differentiation slightly widened this year.

Wage median went up by 7.8% in the whole economy year-on-year in Q2 2023. Median of wages of males thus arrived at 39.8 CZK thousand per month, for females it reached 33.9 CZK thousand. If the earnings of males grew in percentage faster in Q1 2023 (similarly to the whole last year), the situation reversed in the subsequent quarter. Gap of the median

<sup>75</sup> It is with regards to employment relatively small branch consisting of diverse spectrum of activities. It concerns mainly the professional bodies, trade unions, associations and citizen initiatives, but also repairs of computers and products for personal needs and further personal services for household (e.g. cosmetic, hairdressing, cleaners of clothing and others).

<sup>76</sup> For simplification includes branch Public administration, mandatory social security; Education; Health and social work; Cultural, amusement and recreational activities.

<sup>77</sup> The raise of pay tariffs of non-educational staff by 10% implemented since the last year's September was reflected in the growth of the average wages here.

wages between both genders attained even 15% in Q2. Total wage differentiations slightly increased year-on-year. As the value of the highest wage decile grew faster than the bottom decile in both this year's quarters. The wage median of highly qualified workers strengthened thanks to swift growth of earnings of chief and management workers (+8.3% year-on-year in H1), at the same time it was however subdued by weaker dynamics of the wages of specialists (+5.3%), which was to a larger extent affected by more moderate growth of earnings in the budgetary sphere.



## 7. Monetary Conditions

Koruna foreign exchange per both dollar and euro was appreciating in Q2.

The set up of the monetary policy-relevant rates remained at constant level in Q2. Two-week repo rate thus reached 7.00%<sup>78</sup> already for one year, the discount rate kept being set at 6.00% and the Lombard rate at 8.00%. Koruna foreign exchange per euro fluctuated during Q2. Koruna started at the level of 23.43 CZK/EUR at the beginning of March, but it depreciated as far as 24.02 CZK/EUR by the half of the month. Koruna was then again appreciated until half of April (as far as 23.28 CZK/EUR), but then the rate had slightly depreciating trend until the end of June (the rate was 23.73 CZK/EUR as of 30.6.). The total average per quarter attained the value of 23.59 CZK/EUR, which represented relatively notable year-on-year appreciation (by more than 1 koruna, 4.3%) and the rate was by 0.8% stronger even quarter-on-quarter. Koruna foreign exchange per dollar oscillated in wider band from 22.66 CZK/USD till the strongest levels close above 21 CZK during the quarter. The rate reached on average 21.67 CZK/USD, thus it appreciated by 6.4% year-on-year and by 2.2% quarter-on-quarter. Development of the koruna foreign exchange per both euro and dollar had anti-inflationary effect in the prices of the foreign trade.

Yields of government bonds with medium term and long term maturity were falling.

Invariable level of the monetary policy-relevant rates also provided the stability of the interest rates on the interbank market. Three-month PRIBOR rate similarly to other maturities only slightly decreased during Q2<sup>79</sup> (by 0.05 p. p. to 7.15% towards the end of June). The average yields of the government bonds were also slightly falling in case of medium- and long-term maturities during Q2. The yield fell by 0.25 p. p. to 4.64% for medium term bonds and by 0.32 p. p. to 4.35% for long-term bonds. The Czech government bonds with short-term maturity reached the average interest rate in the size of 5.37% at the end of June, which represented a small increase by 0.08 p. p.

Interests on deposits did not grow much anymore.

Client interest rates on deposits peaked after one year of gradual increase in Q1 and remained nearly unchanged in Q2. The average interest rate of one-day deposits of households was 1.52% (-0.02 p. p.) at the end of June and it was 0.28% on current accounts (+0.04 p. p.). The increase of the average interest on the deposits with agreed maturity was also a merely cosmetic in Q2 (+0.07 p. p.) to 6.11%. The interest on current accounts of non-financial businesses also grew only moderately (+0.09 p. p. to 1.10% at the end of June). Deposits with agreed maturity bore interest on average of 6.53% there (+0.04 p. p.). Total volume of client deposits was by 7.7% higher year-on-year towards the end of Q2 and the pace thus slightly strengthened. Growth of deposits of non-financial businesses markedly accelerated (13.7%) as well as financial institutions (40.8%). The year-on-year growth of deposits also strengthened (5.7%) in case of households<sup>80</sup>.

Households still faced rising interest rates of mortgages.

Consumer credit of household has on average interest of 9.51% at the end of June, which is nearly unchanged level compared to the end of March (+0.02 p. p.). The volume of consumer credit, which were provided to households in Q2 jumped up by 10.2% year-on-year, which represents a significant acceleration of the pace. The average interest on mortgages went up by 0.21 p. p. to 5.4% in Q2. The volume of provided mortgages was by 4.8% higher year-on-year at the end of June and the pace thus slightly accelerated compared to the record low level of the preceding quarter. Vast majority of provided credit for housing comprise mortgages (they increased by 4.8%), but steep expansion of the volume of standard credit from construction savings is evident in the last year. These were by 24.3% higher year-on-year at the end of June.

<sup>78</sup> 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.

<sup>79</sup> Unless stated otherwise, as the change of interest rates is meant the difference between value as of 30<sup>th</sup> June 2023 and 31<sup>st</sup> March 2023.

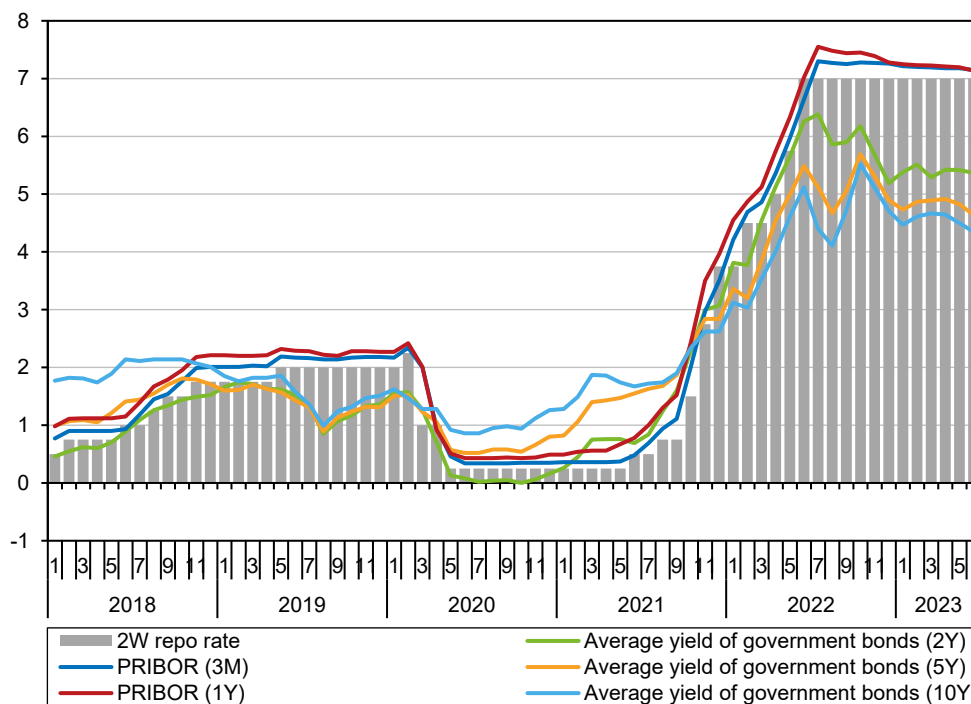
<sup>80</sup> Population including self-employed persons.

The volume of new mortgages<sup>81</sup> for Q2 (21.8 CZK bn) was similar as in Q1. In that the pure new loans including extension constituted 10.5 CZK bn and other renegotiated loans 9.7 bn. The process of negotiation of expiring loan fixations created during the last years of the mortgage boom thus continues. Refinanced credit formed only fraction of new contracts (1.6 CZK bn).

On the contrary the interest rates to non-financial businesses slightly decreased.

The price of credit financing slightly fell to non-financial businesses in Q2. The average interest rate of credit went slightly down. The average interest rate on credits in the volume up to 7.5 CZK mil inclusive was lowered by 0.63 p. p. to 8.03%, for volumes between 7.5 and 30 mil it lowered by 0.20 p. p. to 8.94% and in the highest category of credit over 30 mil the interest lowered only little by 0.09 p. p. to 9.11%. Credits and liabilities of non-financial businesses in total increased by 5.9% year-on-year. The rate of growth thus strengthened. The slump of the volume of credit denominated in CZK continued (-7.4%), which however reduced in comparison to the three preceding quarters. Credit in foreign currency were in contrast higher by 25.3% year-on-year<sup>82</sup>. The increase reached double digit pace for the fifth quarter in a row and the proportion of credit in foreign currency in the total volume climbed up to 47.9% at the end of June. Credit provided in financial and insurance services (20.7%), generation and distribution of electricity, gas, heat, water and sewerage (13.3%) and in construction (12.6%) notably grew year-on-year. On the contrary the credit in information and communication (-20.7%) and also in transport and storage (-11.4%) plunged.

**Chart 16 Market interest rates (in %)**



Source: ARAD, CNB

<sup>81</sup> New contracts also include the refinanced credit and other renegotiated loans. Refinanced credit includes current contracts concluded newly at other bank, while other renegotiated loans are current contracts concluded with new conditions at the same bank.

<sup>82</sup> Credit in foreign currency started to rise steeply following the commencement of the repeated increase of the monetary policy-relevant rates in June 2021.





## 8. State Budget

Deficit of the SB considerably deepened year-on-year, which even the swift growth of revenues from the EU budget did not prevent.

State budget (SB)<sup>83</sup> showed a deficit of 215.4 CZK bn in H1 2023, which already represented nearly three quarters of the yearly planned deficit<sup>84</sup>. SB attains deep deficit already for the fourth year in a row, only H1 2021 (when the pandemics of covid-19 was culminating as well as its perceptible impacts on both the revenue and outlay side of the SB) brought more pronounced deficit than deficit this year. This year's deficit was in addition mitigated by the revenues from the National recovery plan. Half-yearly SB balance after adjustment for all revenues and outlays associated with the common CR and EU projects mildly exceeded 250 CZK bn and deepened by 68.6 CZK bn year-on-year (balance without this adjustment then analogically by 32.4 bn).

Growth of SB revenues was the most driven by total tax collection. Its dynamics nevertheless weakened. SB balance was supported by the stable growth of revenues from the social security insurance, rising revenues from the EU budget also had a favourable effect.

Total SB revenues also as a result of high price growth in the economy swiftly grew (16.5%) year-on-year in H1, however did not completely fulfilled the budget anticipations<sup>85</sup>. Especially the higher collection of taxes without insurance (+51.4 CZK bn) stood behind the revenue strengthening. Rate of growth of the state-wide tax collection however weakened during H1 this year (+15.4% in Q1, +12.5% in Q2) and remained in the shadow of the record pace from H1 2022 (+18.7%). This development was influenced by the ongoing decrease of the household consumption, which adversely impacted the collection of indirect taxes. On the contrary the revenues from the social security insurance (also including the contributions on the state employment policy) have not lagged behind the budget anticipations so far and increased by 29 CZK bn year-on-year. The non-tax revenues then strengthened by nearly 50 bn (incl. capital income and received transfers). It was primarily thanks to its weight dominant item, i.e. revenues from the EU and Financial mechanisms<sup>86</sup> (+44.6 CZK bn), where the essential June increase of revenues owing to the funds from the EU Recovery Instrument had an effect (implemented locally via the National recovery plan).

Collection of income taxes of legal persons continued at brisk pace and above the level of budget anticipations.

Corporate tax whose collection strengthened by nearly one quarter year-on-year (+20.9 CZK bn) the most contributed to the growth of the total SB tax income in H1 2023. The high profit rate of the non-financial businesses in the CR (it has been rising continuously since the beginning of the last year) is also reflected in the swiftly growing collection of this tax, which exceeds the budget anticipations. Businesses in the area of the financial sector also participated on the high collection. Beyond the standard corporate tax the SB also acquired the levy on excess income from the energy companies<sup>87</sup> (12.8 CZK bn) in H1. On the contrary for another extraordinary income – windfall tax<sup>88</sup> – the first payments of businesses are presumed only this year in September<sup>89</sup>.

Brisk growth of the collection of income taxes of natural persons sprang from the favourable position of employees on the labour market as well

SB revenues from the income taxes of natural persons (ITNP) also grew briskly when it was by 25.2%, i.e. by 13.3 CZK bn, higher year-on-year. It was mainly thanks to the key income taxes paid by payers (from dependent activity)<sup>90</sup>, which reflected the persisting growth of employment as well as the slightly accelerating growth of the average wage. The effect of tax changes also had an effect to a lesser extent here (continuing increase of the tax

<sup>83</sup> Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance regarding the treasury fulfilment.

<sup>84</sup> Based on Act No. 449/2023 Coll., on the state budget for year 2023, approved on 30th November 2022.

<sup>85</sup> Collections of the "sector" tax from businesses from the unexpected profits and levies from the excess income (primarily estimated on 100 CZK bn, currently 64.5 bn), further for instance increase of the anticipated revenues from the emission allowances (to 82.5 bn) and significantly strengthened transfer from the so called privatisation account (to 45 bn) should fundamentally participate on the anticipated growth of the total SB revenues for year 2023 (+19.5%).

<sup>86</sup> Contain revenues from the budget of the European Union and from the Financial mechanisms of EEA/Norway/Switzerland.

<sup>87</sup> This levy (taxed by 90% rate) presents a difference between real income and ceiling of the market income from the sale of electricity above the given limit (for the time period from 1<sup>st</sup> December 2022 till the end of year 2023).

<sup>88</sup> It applies to energy, petrochemical and mining companies and also involves large banks.

<sup>89</sup> Nevertheless the original budget estimate of this annual collection was already vigorously revised in April this year (from 85 CZK bn to 28 CZK bn), partial correction of the anticipated revenue upward was then performed in August (to 46 CZK bn).

<sup>90</sup> State-wide collection of ITNP from dependent activity (at the level of all public budgets) however still lagged by whole one fifth behind the level from H1 2019 this year. The shifting of the tax burden from labour since year 2021 (in connection with the abolition of the so called super gross wage) played a key role here.

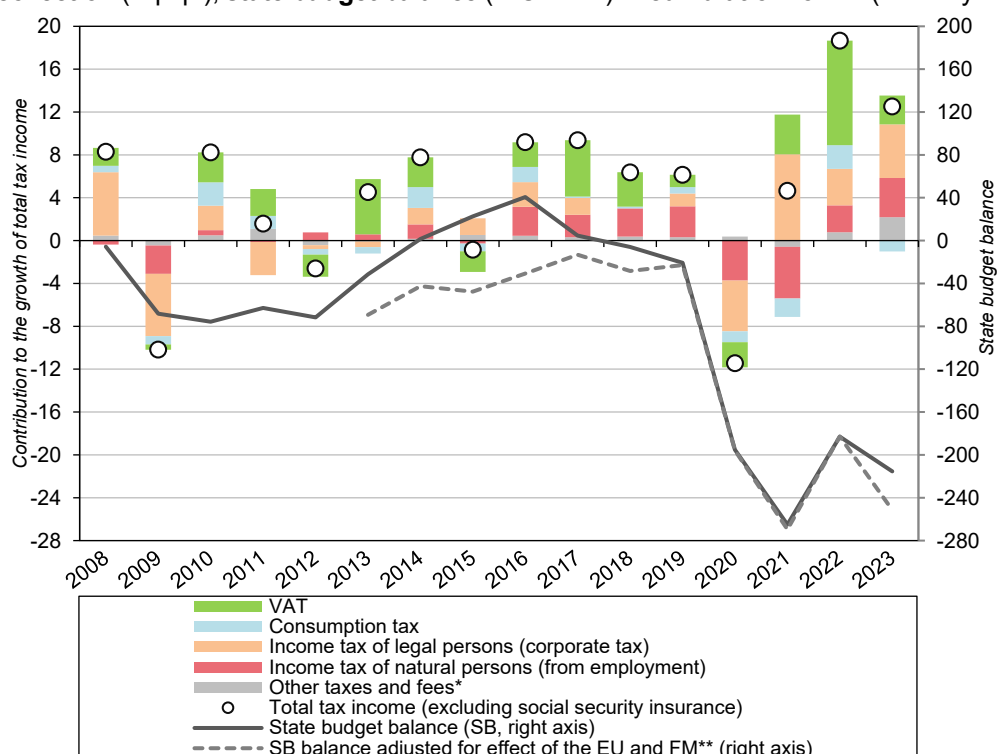
as the growth of the interest rates on deposits.

Rate of growth of the VAT still weakened during H1.

discount per the taxpayer, abolition of the compensation bonus to aid small businesses during the pandemics). Collection of the ITNP collected by deduction, where the state collected by 45% more year-on-year (thanks to the growth of the interest rates or larger number of persons with job agreement contracts as well) also flourished. On the contrary collection of the weight less significant tax ITNP paid by payers, which mainly aims at small entrepreneurs, lowered by nearly one fifth year-on-year<sup>91</sup>.

The VAT remains the most significant tax income for the SB. Its collection strengthened by 6.1% year-on-year in H1 2023 (the pace of collection further weakened during the half-year, it totalled only 3.2% in Q2 itself). From the view of the collection of tax the positive effect of the high growth of consumer prices was corrected by the adverse effect of the decrease of the household consumption (it lasted in the year-on-year perception six quarters in a row<sup>92</sup>). Growth of collection was in a lesser order subdued also by the increase of limit of sales for the VAT registration<sup>93</sup>.

**Chart 17 Contribution of constituent revenues to the growth of the state wide tax collection (in p. p.), state budget balance (in CZK bn) in cumulation for H1 (1<sup>st</sup> half-year)**



\*Other taxes and fees include mainly tax from real estate, tax on gambling winnings, toll and in year 2023 also newly the levy from excess income.  
 \*\*Data adjusted for the effect of funds from the EU and Financial mechanisms are available since year 2013.  
 Source: MF CR

Year-on-year decrease of the collection of the consumer tax occurred for all significant commodities. Total collection considerably lagged behind the pre-crisis year 2019.

By 7.6% (i.e. 5.6 CZK bn) less flowed from the consumer tax (including the ecological tax and internet tax) to the SB year-on-year in H1. The size of collection thus clearly has not fulfilled the budget anticipations for now (similarly as the VAT). Collection of the tax has already been falling from the half of the last year and its size was one tenth below the level from H1 2019 this year so far. The collection of all weight more significant items of the consumer tax shrank year-on-year this year. Decrease of the collection of tax on mineral oils (-7.2%), notably influenced by the temporary decrease of the tax rate of the diesel fuel<sup>94</sup>

<sup>91</sup> Payment of the compensation for the tax period of year 2022 had a positive effect on the collection of this tax in July. Collection of tax lagged behind the last year's level already only by 3% from January till July. The approved state budget counts with the annual decrease of the collection of this tax for this year.

<sup>92</sup> Quarter-on-quarter descend of the expenditures on final consumption of households however halted in Q2 2023 (+0.2%).

<sup>93</sup> It relates to the increase from 1 to 2 CZK mil, which became effective as of January 2023.

<sup>94</sup> The rate of the consumer tax on petrol and diesel by 1.5 CZK to 8.45 CZK per litre from June till the end of September 2022. This measure was prolonged for diesel until the end of July 2023.



played a key role. Impact of the decrease of volume of the freight transport due to the lower turnover of the goods foreign trade likely also had an effect. The collection of the tax on tobacco products also fell (−8.3%), despite the ongoing increase of the tax rate. Since the change of the purchasing preferences of households impacted the collection more (the transfer of consumption to alternative products, less taxed locally, strengthening of the cross border purchases). SB received less year-on-year also on the tax on specific commodities (alcohol, wine, beer), presumably as a result of curbing the not-essential expenditures by the domestic households. Saving behaviour of both households and businesses led into vigorous decrease of the ecological tax collection.

Need for extraordinary transfers reflected in the swift growth of total SB outlays, whose rate of growth outpaced the budget anticipations.

Total SB outlays expanded by 16.8% (+162.6 CZK bn) year-on-year in H1 2023, their pace has surpassed the annual budget anticipations so far (by 4 p. p.). Both the state assistance connected to high prices of energies (not yet adequately offset by the extraordinary revenues from the taxation of the selected sector of the economy) and the impacts of the prevailing runaway inflation (pension adjustment, higher volume of paid out social benefits, growing repayments of the state debt) were reflected in the strong growth of SB outlays. Unlike H1 2022, not only investment but also current outlays contributed to the year-on-year growth of the SB outlays this year.

Fiscal expansion was linked primarily to the legal pension adjustment in H1.

Current outlays of the SB strengthened by 16.8% (+151.7 CZK bn) year-on-year in H1, which represented the highest pace in the current millennium<sup>95</sup>. Outlays on social benefits, whose volume rose by one sixth (i.e. 62.5 CZK bn) presented the main source of the fiscal expansion. Expenditures on pensions, which hiked up to 342.2 CZK bn and overtook the level from H1 by record 19.8%<sup>96</sup> traditionally played a key role there. Apart from the last year's increase also the due legal adjustment from January 2023 (+4.7%) and extraordinary increase from June (by 3.9%, under already amended conditions) is reflected in their dynamics and further also the newly introduced regular allowance per every raised child (500 CZK). Number of retirement pension recipients went down, even though by a slower pace (−0.3% year-on-year) than in the previous two years despite higher interest in early retirement pensions<sup>97</sup>. Even though the good old condition of the domestic labour market supported the continuing solid growth of the pension insurance revenues, its year-on-year pace was not even one half of the expenditures on pensions this year (+8.9%)<sup>98</sup>. Balance of the pension insurance system<sup>99</sup> thus dived into record deficit in H1 (−40.3 CZK bn), four-times higher year-on-year.

Decrease of the number of pension recipients continued in spite of higher interest in early retirement pensions.

Higher drawing on housing allowance contributed the most to the year-on-year acceleration of the growth

93.3 CZK bn aimed at the non-pension social benefits from the SB in H1 and the year-on-year growth of outlays accelerated to 6.9% (nearly doubled pace compared to the year before). Outlays on state social support (SSP, +5.3 CZK bn), which experienced a marked increase of the volume of paid out housing allowances<sup>100</sup> (+113%, mainly as a result of high prices of energies and rise of costs eligible for the payment, further the spread of awareness

<sup>95</sup> In H1 2020 and 2021, respectively, when the current outlays of the SB were energetically raised by the transfers associated with the pandemics, their growth rate was "only" 15.5% and 10.6%, respectively.

<sup>96</sup> The average monthly retirement pension (without concurrence with other pensions) thus crossed the boundary of 20 CZK thousand for the first time in June this year. It reached 21 520 CZK for males, 19 038 CZK for females. Thanks to the introduction of "child-raising" the difference in the level of pensions between males and females narrowed significantly. Solo retirement pension of females lagged behind the level of males by 11.5% (by 16.5% one year ago). The relative difference of pensions between gender was thus already slightly lower than in case of the average wages this year.

<sup>97</sup> Growth of the number of all recipients of permanently reduced retirement pensions gained pace this year (to 3.5% in Q2 year-on-year, the most in the last seven years). This number does not include persons, which lodged an application for the early pension, but deferred the commencement of its payment. Heightened interest in early pensions primarily sprang from the advantageousness of the adjustment mechanism, in contrast the effect of possible worsened position of persons in the pre-retirement age on the labour market likely played only supplementary role.

<sup>98</sup> This year's introduction of the discount on levies for employers providing part-time jobs to parents of smaller children, persons caring for their relatives or persons above 55 years had only marginal negative effect on the size of insurance collection. From February till July, firms used these discounts for 86 thousand employees, specifically in the total amount of 416 CZK mil.

<sup>99</sup> It expresses the difference between the income from insurance on pensions and outlays on the pension insurance benefits (including the costs of its administration).

<sup>100</sup> 8.2 CZK bn more was paid out on this benefit since the beginning of the year, the number of its recipients was also at a record level (it concerned 267 thousand households with average amount of the benefit of 6134 CZK only for this year's June).

of outlays on non-pension social benefits.

regarding the possibility to draw on this assistance in population, as well as the simplification of the procedure to lodge an application for the benefit) essentially contributed to this year's growth. The volume of paid out child allowances also grew (+62%, mainly as a result of their across the board increase as well as the rise of the subsistence wage). The drop of drawing of the still weight dominant item of SSP – parental allowances (–5.7%) had an opposing effect. It manifested (after jump increase in year 2020) for the third year in a row. Among other benefits the social care benefits increased (+1 CZK bn). While mostly the newly introduced humanitarian benefit for the refugees from Ukraine stood behind their steep growth last year, it was living supplements this year (+30%), which help to individuals or families in situations of inadequate income (drawing of humanitarian benefits slightly declined at the same time – by 6%). The less significant by volume disability benefits also grew swiftly, mainly due to the higher mobility allowance. The volume of paid out unemployment benefits mildly grew this year in H1 after the last year's decrease (+6.7%), while the quantities of registered job applicants stagnated<sup>101</sup>. Outlays on the sickness insurance benefits lowered owing to the improvement of the epidemic situation year-on-year (–4.9%), specifically for the third year in a row. Nevertheless they still exceeded the level from H1 2019 by more than one fifth and thus represented not negligible outlay for the SB (24.2 CZK bn). Despite swift growth of insurance these benefits exceeded the revenues from insurance also this year, this deficit however reduced to one half year-on-year (by 3 CZK bn).

Outlays on parental allowance, similarly to the sickness benefits fell for the third year in a row.

Sharp growth of the non-investment subsidies to businesses was connected to the cap on prices of energies for customers. The need for these extraordinary outlays was however weakening in Q2.

Next to the social transfers the non-investment outlays to businesses, whose year-on-year growth accelerated up to 128% in H1 (+43.7 CZK bn) and already reached more than 90% of the annual budgeted amount, also significantly participated on the strong growth of total current outlays of the SB. Mainly the extraordinary outlays are included here – mostly compensations for the supplies of electricity and gas to customers and the losses due to the cap on their prices (32.6 CZK bn, in that +23.9 CZK bn were allotted to Q1 2023)<sup>102</sup>, further subsidies to the operators of the transmission system (7.2 bn) or assistance to firms in the energy intensive branches (4.6 bn). Higher advance subsidies on renewable sources of energy or the decrease of SB outlays on the solution of impacts related to the pandemics had a smaller effect on the development of transfers to businesses.

Wide spectrum of factors had their share on the swift growth of the current transfers to regional budgets.

Weight significant current transfers to regional budgets, which were higher by one sixth compared to H1 2022 (+26.0 CZK bn) also notably strengthened. It was connected to the strengthening of outlays into the area of regional education (+9.2 CZK bn, primarily on the raise of the wage tariffs of both teachers and other staff), social services or compensation allowance on the housing of refugees from Ukraine. The outlays on the co-financing of programmes in the area of education, supported from the EU budget also grew. Anticipated sharply growing outlays on the servicing of the state debt also notably burdened the SB (+14.5 CZK bn)<sup>103</sup>. The half-yearly size of these outlays attained 37.5 CZK bn (and by nearly one quarter exceeded the record debt outlays from year 2013). Payments of the anti-inflationary state debts to citizens had an essential influence here, rising interest rates of other instruments of the debt financing partial role then. Last item, which more notably supported the fiscal expansion this year, were the outlays on the wages in the central government institutions. These increased by one tenth year-on-year in H1 this year (+6.2 CZK bn) following previous two years of stagnation, which was connected mainly to the January raise of the pay tariffs of the public security forces and armed forces and last year's September increase for employees in the civil service. In addition after the freeze during the

In contrast the growth of outlays on servicing the state debt to the record level was clearly based in the pay-out of the anti-inflationary bonds.

<sup>101</sup> 70 thousand of registered job applicants (28% of their total number) were entitled to the unemployment benefit in June this year.

<sup>102</sup> The July data also prove, that the need for this extraordinary assistance gradually decreases during this year (in connection to the favourable trend of the development of prices of gas, electricity on the world markets). 36.4 CZK bn was paid out on the compensation to businesses from the SB due to the capped prices since the beginning of the year. In addition the assistance payment to businesses in the energy intensive branches in fact halted in Q2. On the contrary subsidies to the operator of the transmission system were in the significant amount also paid out in July and in cumulation arrived at already 10.1 CZK bn since January.

<sup>103</sup> Net outlays correspond to the balance of the budget chapter State debt (No. 396).



pandemics, the outlays on the wages of constitutional authorities also considerably increased.

Outlays on the non-investment purchases of the state reduced due to the lower need of extraordinary outlays in healthcare or the material reserves.

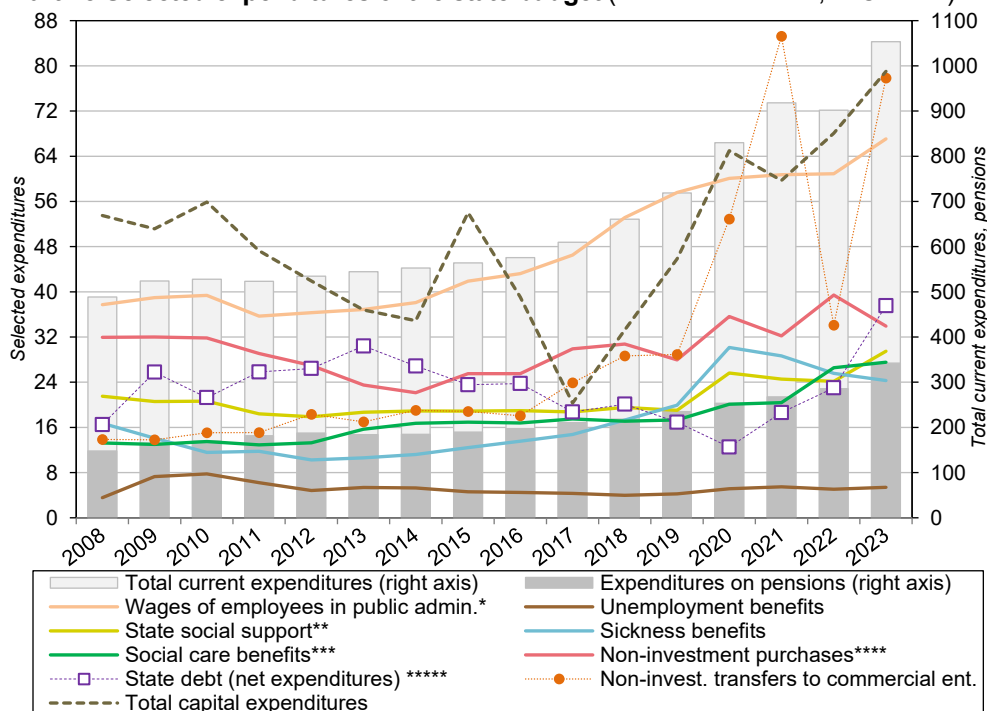
Even despite the above mentioned areas, areas which subdued the sharp growth of the SB current outlays still existed. They contained mainly non-investment purchases, whose volume cut year-on-year mainly the outlays on the acquisition of vaccines (-5.0 CZK bn) or area of state material reserves (-5.6 CZK bn). On the other hand the high price growth still made some common operating outlays more expensive here (for instance for purchases of water, fuels, energies or services). Current transfers to state funds also mildly decreased, mainly into the area of agriculture.

Capital outlays markedly increased, mainly thanks to the implementation of the National recovery plan.

Capital outlays of the SR increased by considerable 16.1% (to 79 CZK bn) year-on-year in H1. The brisk pace partially reflects the effect of the weaker last year's basis (the SB functioned in the interim regime in Q1 2022<sup>104</sup>). 38.1% of the yearly budget size of the capital outlays has been invested so far this year (33.5% last year at the end of half-year, however 46.3% in year 2022). The largest volume of investment was aimed traditionally at the area of transport infrastructure (25.5 CZK bn), the New Green Savings Programme within the National recovery programme (where 8.9 bn was allocated, nearly double year-on-year) however mainly contributed to their growth and also the implementation of the projects within the Operational Programme Enterprise and Innovation for Competitiveness 2014+ or Integrated Regional Operational Programme 2014+. Total investment has shared even 7% on all SB outlays so far this year (similarly to H1 2022), it presents an average value from the long-term perspective. Slightly above average volume of so far released investment from the SB was associated with the common CR and EU projects this year.

The proportion of investment on total SB outlays reached an average 7%.

**Chart 18 Selected expenditures of the state budget (cumulation for 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

<sup>104</sup> Total of the monthly outlays in all central government institutions thus could have attained maximum of one twelfth of the total SB outlays determined in accordance with the approved Act on SB from year 2021. It led among other things to the postponement of the non-essential operational outlays as well as investment at the beginning of the year.

<p>Net positive position of the CR in relation to the EU budget strengthened year-on-year.</p>	<p>The CR further remains in the position of the net recipient in relation to the EU budget. The CR received from the EU budget 54.6 CZK bn (+13.0% year-on-year) in H1 2023, 33.9 CZK bn (+4.2%) travelled in the opposite direction. The CR has thus so far received by 20.8 CZK bn more, than it transferred to the EU budget. When including the sharply growing income from the EU instrument Recovery plan for Europe (+225%), the total positive balance arrives at 45.6 CZK bn (the second largest half-yearly value in the last seven years). Larger funds in the area of Structural funds, Cohesion fund as well as the direct payments in agriculture contributed by similar shares to the year-on-year growth of revenues. Funds on the rural development on the contrary slightly decreased (-0.9 CZK bn).</p>
<p>State debt conquered the limit of 3 CZK trillion for the first time in history at the end of H1.</p>	<p>Persisting deep budget deficits together with planned debt repayments were reflected in the high need of the state for credit. The state debt thus hiked up to record 3 044 CZK bn at the end of this year's June and increased by 337 bn (12.4%). Year-on-year percentage rate of growth was similar as last year at the end of June, however the debt growth for the first this year's half-year itself (+150 CZK bn) eased pace compared to H1 (+242 bn). Mainly the issue of medium and long-term state bonds stood behind the debt increase at the beginning of the year<sup>105</sup>, however increased volume of short-term loans was also added in the same period of the last year. Mostly due to the above stated, a severe increase of the internal state debt occurred (by 352 CZK bn year-on-year, in that by 257 bn since the beginning of this year). On the contrary the koruna value of the external debt slightly shrank year-on-year and mainly owing to the repayment of short-term loans dropped by more than one third during Q1 2023<sup>106</sup>.</p>
<p>Exclusively the internal indebtedness was growing, the koruna value of the external debt was shrinking.</p>	<p>The whole sector of the government institutions (VI) had a budget with deficit in the amount of 100.9 CZK bn<sup>107</sup> in Q1 2023<sup>108</sup>. The deficit deepened nearly by one half year-on-year and represented the second highest deficit within first quarters in the contemporary history of the CR (after year 2021, when the pandemics culminated). Considerable year-on-year increase of deficit was connected to the growth of outlays (to 16%), which reflected solving of the energy crisis as well as other, mainly mandatory obligations. Deepening of the deficit was nearly solely attributed to the central government institutions (which reached deficit 137 CZK bn), in contrast the regional government institutions registered surplus of 35 bn (higher by 30 bn year-on-year) and the health insurance companies also maintained a mildly positive budget balance. Based on the seasonally adjusted data, the deficit of the whole sector VI 4.2% of GDP deepened by 1.3 p. p. year-on-year, however signs of stabilisation can be observed compared to the last year's second half-year.</p>
<p>Budget deficit of the government institution sector increased by 32 CZK bn year-on-year in Q1.</p>	<p>The whole sector of the government institutions (VI) had a budget with deficit in the amount of 100.9 CZK bn<sup>107</sup> in Q1 2023<sup>108</sup>. The deficit deepened nearly by one half year-on-year and represented the second highest deficit within first quarters in the contemporary history of the CR (after year 2021, when the pandemics culminated). Considerable year-on-year increase of deficit was connected to the growth of outlays (to 16%), which reflected solving of the energy crisis as well as other, mainly mandatory obligations. Deepening of the deficit was nearly solely attributed to the central government institutions (which reached deficit 137 CZK bn), in contrast the regional government institutions registered surplus of 35 bn (higher by 30 bn year-on-year) and the health insurance companies also maintained a mildly positive budget balance. Based on the seasonally adjusted data, the deficit of the whole sector VI 4.2% of GDP deepened by 1.3 p. p. year-on-year, however signs of stabilisation can be observed compared to the last year's second half-year.</p>
<p>Seasonally adjusted deficit was 4.2% of GDP, it has not deepened compared to H2 2022 so far.</p>	<p>The whole sector of the government institutions (VI) had a budget with deficit in the amount of 100.9 CZK bn<sup>107</sup> in Q1 2023<sup>108</sup>. The deficit deepened nearly by one half year-on-year and represented the second highest deficit within first quarters in the contemporary history of the CR (after year 2021, when the pandemics culminated). Considerable year-on-year increase of deficit was connected to the growth of outlays (to 16%), which reflected solving of the energy crisis as well as other, mainly mandatory obligations. Deepening of the deficit was nearly solely attributed to the central government institutions (which reached deficit 137 CZK bn), in contrast the regional government institutions registered surplus of 35 bn (higher by 30 bn year-on-year) and the health insurance companies also maintained a mildly positive budget balance. Based on the seasonally adjusted data, the deficit of the whole sector VI 4.2% of GDP deepened by 1.3 p. p. year-on-year, however signs of stabilisation can be observed compared to the last year's second half-year.</p>
<p>Growth of revenues of sector VI was driven mainly by the common taxes on income. Nominal growth of the collection of taxes tied to consumption lagged behind inflation.</p>	<p>Taxes on income and capital (+29.0 bn), received net social contributions (+22.4 bn) and taxes from production and import (+14.2 bn), which were strengthened by extraordinary item (tax on excess income) the most contributed to the growth of revenues of sector VI (+78.0 CZK bn) in Q1. Contribution of taxes tied to consumption was weaker since their yield lagged behind the inflation. Social benefits and natural social transfers (+38.0 CZK bn) and also paid subsidies (+30.2 CZK bn), which mostly included compensations for the supplies of electricity and gas, mainly participated on the growth of the total outlays of the sector VI (+109.9 CZK bn). The year-on-year growth of intermediate consumption (+14.5 CZK bn) and compensations to employees (+13.9 bn) also strengthened. High level of interest rates</p>

<sup>105</sup> Koruna state debts were issued during H1 2023 (with maturity above 1 year) in the size of 287 CZK bn (approximately by one tenth more year-on-year, but notably less compared to both years 2020 and 2021). In that 253 CZK bn formed bonds with fixed interest (with average residual time of the maturity of 8.7 years and the average yield 4.6% p. p.). Net issue of medium term and long term bonds (after deduction of realised repayments) totalled 142 CZK bn so far this year. The value of all domestic state bonds in circulation (also including state treasury bills) climbed up to 2 868 CZK bn this year at the end of June. In that 27.9% was held by non-residents, 65.9% belonged to domestic financial institutions (mainly banks and pension funds), households further owned more significant share (3.7%).

<sup>106</sup> The external indebtedness shared on the total state debt from only 5.9% at the end of this year's June.

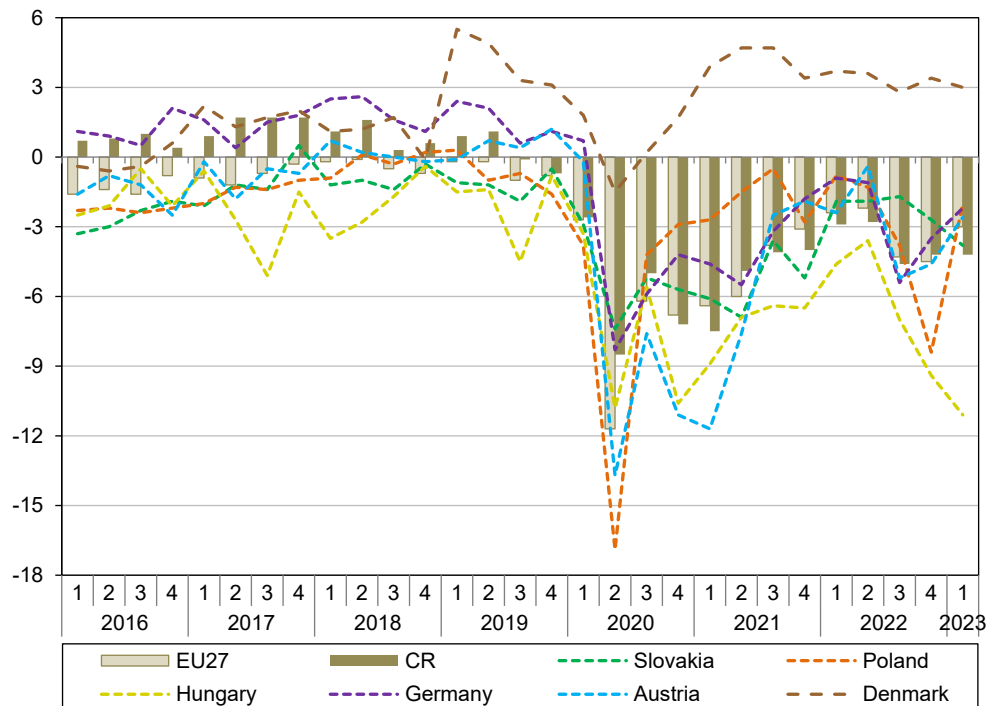
<sup>107</sup> Unless stated otherwise, data given below regarding the budget of sector VI are expressed without seasonal adjustment.

<sup>108</sup> Data regarding the budget of government institutions for Q2 2023 will be published by the CZSO on 2<sup>nd</sup> October 2023, Eurostat then on 23<sup>rd</sup> October 2023. More detailed assessment of the domestic development for Q1 2023 is contained in the publication *Analysis of the sector accounts*: <https://www.czso.cz/csu/czso/cris/analyza-ctvrtletnich-sektorovych-uctu-1-ctvrtleti-2023>



further affected the increase of the paid income from capital (+8.9 CZK bn). Paid capital transfers were markedly lower year-on-year (-7.4 CZK bn).

**Chart 19 Budget balance of government institution sector in the CR, EU and its selected member states** (individual quarters, in % of GDP, seasonally adjusted)



Source: Eurostat

Rate of indebtedness of sector VI further grew.

Debt of the sector of government institutions attained 3 099.4 CZK bn in Q1 2023 and expanded by 415.3 bn year-on-year. The indebtedness rate of the government institutions was by 1.7 p. p. higher year-on-year to 44.5% of GDP. Increase of the nominal debt contributed 6.0 p. p. to the growth of the relative indebtedness and on the contrary the GDP growth added 4.3 p. p. to the decrease.