

## 1. Summary

- The Czech Republic economy found itself in the phase of a solid recovery in the first half of the year 2014, which arrived after two years lasting recession. The GDP<sup>1</sup> grew more than twice as fast as its addition for the EU 28 in both quarters of 2014 year-on-year. The economies of Poland and Hungary grew compared to the CR faster, however compared to Slovakia, the GDP of the Czech Republic developed more favourably, which was last observed in the last quarter of 2009 (higher recorded growth was nevertheless also influenced by the lowered comparative basis in the CR in 2014). According to the half-yearly data, external economic relations, state budget as well as the labour market enjoyed a favourable development.
- Still there was a clear pattern for most of the significant monitored parameters describing the economy of a distinctly more favourable development in Q1 2014 compared to Q2. There the Czech economy already only stagnated in the quarter-on-quarter comparison, the GDP growth prevailed still markedly higher in the year-on-year comparison (+2.7 %, in Q1 +2.9%). For the whole first half year, the performance of the domestic economy expanded by 2.8% year-on-year.
- All the main components of demand with the exception of the foreign trade result strengthened in Q2. The increased expenditure on investment, whose year-on-year addition (+6.9 %) was three times higher compared to the growth of investment in the EU 28 and overtook the dynamics in the euro area nearly five times, brings especially hope from the view of the future growth of the economy. However, the overall gross capital formation increased even faster than investment, which proves the notably slower decline of stock of inventories year-on-year. As starts to be apparent in the Q2 itself based on numbers regarding the structure of the GDP estimate, despite the higher intensity of the positive effect of household final consumption expenditure (+1.9 %) year-on-year, their quarter-on-quarter growth arrived at only 0.2 %, similarly to the government sector (+2.3 %, but -0.3 % quarter-on-quarter).
- In the aggregate, the final consumption expenditure contributed to the GDP growth 1.5 p.p. in Q2 (1.1 p.p. in Q1), expenditure on investment 1.5 p.p., i.e. nearly the same comparing to the preceding three months (+1.4 p.p.) and the change in the inventory stock (+0.8 p.p. against -0.6 p.p. from Q1) also worked towards the growth of GDP. On the contrary, the foreign trade result decreased the growth of GDP (-1.1 p.p.) compared to its positive contribution in Q1 (+0.9 p.p.).
- Performance of all sectors of economy increased by 3.3 % in Q2 year-on-year, which was the highest growth of the gross value added for the past three and a half years. The manufacturing industry contributed two thirds (+2.2 p.p.), its influence being the strongest, similarly to the two previous quarters. For the half year, a positive contribution of construction and services to the growth of gross value added was also recorded, which was before last apparent in Q1 2011.
- Output development in construction indicates a rebound (+8.3 % year-on-year in Q1, +3.9 % in Q2 2014), while the repeated year-on-year growth occurred in the two in a row quarters in this industry for the first time since the turn of years 2007 and 2008.
- Prices rose according to the overall level by 2.5 % in the economy year-on-year. It was however mostly due to the movement of prices in the foreign trade, since the consumer prices in fact stagnated year-on-year (+0.2%) and prices decreased by 0.2% as a result of lowered energy prices in the industry (they rose by 1.8 % in the manufacturing industry).
- Foreign direct investment inflow was markedly lower in the half year compared to the previous two years (by 21.5 bn to 56.2 bn crowns year-on-year), since the investors left significantly less of their profits in the CR, their repatriation on the contrary heightened. Nevertheless, it did not worsen the result of external economic relations, as all three components of balance of payments showed surpluses. Especially the positive influence of trade in goods was strong given the continuing high growth of motor vehicle export.
- Aggregate employment (5 145.5 thousand persons) was the highest in the economy since Q1 2009. Still, it only stagnated in Q2 itself (+3.9 thousand persons), which shows a weakening effect of part-time jobs and temporary work, which on the contrary pushed up the aggregate number of employed persons in the years of recession. The average nominal wage increased by 2.8 % year-on-year for the half year, real wage by 2.6 % (by 2.3 % and 2.1 % resp. in Q2).
- Economic recovery has not been projected into a more marked growth of domestic credit for now. Decline of firm deposits proves that the companies most likely finance their fixed investment for the

<sup>1</sup> The data regarding GDP and its components expressed in in real terms and adjusted for seasonal and calendar effects, unless stated otherwise.

most part from their own resources. People continue to withdraw funds from their term-deposits, which is accompanied by the growth of deposits on the savings accounts. Both the bank and non-bank consumption credit grows for the second quarter in a row.

- After six years of deficits, the half-year state budget ended in a surplus. The collection of corporate tax (+8.4 %) and VAT (+7%) increased significantly due to the economic recovery. The CR recorded the highest net position towards the EU budget (56 bn crowns) historically. State debt did not increase also due to the lowering cost of its servicing.