

**19th March 2013**

## **Summary**

- During the beginning months of 2012 began the decline of the Czech economy, which gradually deepened in the subsequent periods. Gross domestic product (GDP<sup>1</sup>) in Q1 year-on-year decreased by 0.4 %, in following quarters the drop became faster (-1.1 % and -1.5 %) and in the last three months, the performance of the Czech economy fell compared to the same period of year 2011 by 1.7 %. Year 2012 was thus for the economy of the Czech Republic the year of recession, GDP decreased by 1.2 %.
- The development of the Czech economy was the most affected by the household final consumption expenditure, which were in the last quarter lower year-on-year by 4.1 %. It was so far the deepest slump of the Czech households consumption. Their expenditure lowered for the whole year by 3.5 % in real terms, also in nominal terms they were lower in each quarter of 2012.
- Starting Q2, when also the performance of the EU economy went down year-on-year, the economic fall in the CR was in comparison to this formation deeper.
- Expenditure of the government sector experienced more favourable development during the year and following mitigating year-on-year drops they already rose in the last quarter. Still, for the whole year they decreased the rate of growth of GDP by 0.2 p. p., gross capital formation by 0.8 p. p. and household final consumption expenditure by 1.8 p.p. Positive contribution to the rate of growth of GDP in 2012 recorded only the result of foreign trade (+1.5 p.p.).
- Quarter-on-quarter development displayed moderation of the decreases noticeable from the second half of the year, mostly for the government consumption, which rose in the last three months compared to the previous period by 1 % and household consumption by 0.9 %. Final consumption expenditure thus evidenced in Q4 already quarter-on-quarter growth by 0.9 %. Capital formation also rose significantly in the last quarter (+4.8 %), however, not due to the influence of investment (-3.8 %).
- Gross value added in industries fell by 1.1 %. Only industry showed growth (+0.6 % with stagnating manufacturing industry) and the section of professional, scientific, technical and administrative activities (+4.9 %).
- External economic relations improved accompanied by high inflow of foreign direct investment and strong trade balance.
- Labour market recorded the growth of employment as well as the rate of unemployment. The cause was most likely also the shifts in types of employment (part-time jobs, contract jobs, helping family members, illicit work). Real wage in the economy fell by 0.9 %, in the non-business sector for already ten quarters in a row.

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<sup>1</sup> Unless stated otherwise, data related to GDP and its components are considered in real terms and adjusted for seasonal and calendar effects.

- Consumer inflation rose by 3.3 % as a result of the growth of prices of food and the cost of housing. The industrial producer as well as market services price dynamics was influenced by the economic slump, adverse effect of the terms of trade grew milder.
- The rate of growth of loans markedly weakened. Inflation lead to the household deposit depreciation according to the CZSO calculations in the amount of CZK 38.1 bn crowns.
- State budget deficit shrank to 2.6 % of nominal GDP from 3.7 % in 2011. Anticipated size of the deficit was successfully reached by the binding of expenditures, renewal of the inflows from EU and improved tax receipts in the second half of the year also helped.