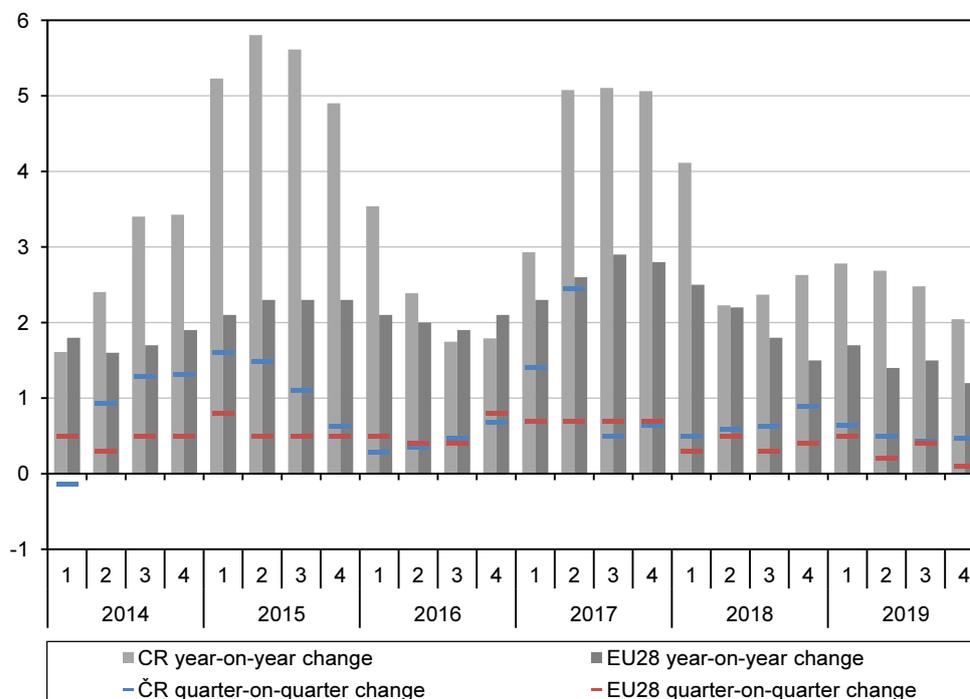


2. Overall Economic Performance

Gross domestic product increased by 2.5% in 2019. Year-on-year dynamics slowed notably at the end of the year.

Year-on-year growth of the gross domestic product (GDP) featured downward tendency since the beginning of the year, it however stayed around the 2.5% boundary from Q1 to Q3 (2.8%, 2.7% and 2.5% in Q1, 2 and 3)¹. Finish of the year brought stronger pace slowdown and the year-on-year GDP increase was 2.0% in Q4 (the least since Q4 2016). Quarter-on-quarter additions were weakening during Q1 to Q3 (0.6%, 0.5% and 0.4% in individual quarters), but the GDP rose by 0.5% in Q4. The GDP increased by 2.5% in real terms for the whole year 2019. The domestic consumption was the key driver of the economic growth throughout the whole year. It contributed 1.8 p.p.² to the yearly addition to GDP. The impact of the gross capital formation (0.6 p.p.) and foreign trade balance (0.1 p.p.) was notably weaker. The gross capital formation exerted extraordinarily strong influence on the GDP growth in Q4 itself (2.3 p.p.), supplemented by the effect of consumption expenditures (1.7 p.p.). The contribution of the foreign trade balance was however strongly negative (-1.9 p.p.). It represents the worst contribution of the balance since Q2 2009.

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



Source: CZSO, Eurostat

Economic growth eased pace across the whole EU last year.

The Gross domestic product grew by 1.5% in real terms in the European Union last year. It is the least since year 2013. The consumption growth remained moderate (1.6%), dynamics of expenditures on gross capital fell (2.6%) and the foreign trade balance surplus decreased. The GDP dynamics slowed down in majority of EU countries in comparison to year 2018. The GDP increased the most in Ireland (5.5%), Hungary (4.9%) and Malta (4.4%) last year. The addition was positive in all member countries last year, the least in Italy (0.3%), Germany (0.6%) and Finland (1.0%). Year-on-year GDP growth declined to 1.2% in the EU in Q4 and the quarter-on-quarter addition was only 0.1%. All EU countries attained an addition in Q4 in the end, Ireland (6.3%), Hungary (4.6%) and Malta (4.3%) the most. Italy narrowly avoided the slump (0.1%), year-on-year addition fell below 1% in Germany (0.5%),

¹ The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 31st March 2020.

² Additions to the GDP change after exclusion of imports for final use.



Finland (0.6%), Sweden (0.8%), Austria and France (identically 0.9%). GDP declined in four countries quarter-on-quarter towards the end of the year – in Greece (-0.7%), in Finland (-0.6%), in Italy (-0.3%) and France (-0.1%). GDP did not change quarter-on-quarter in Germany and Great Britain.

Slowdown of pace of growth of volume of paid out wages and salaries continued.

The volume of paid out wages and salaries expanded by 7.1% last year. It is a lower addition than in years 2017 and 2018, but it still comprises a very strong growth (it is the third largest growth in the period 2009 till 2019). Total employment³ went up by 0.7% last year, the least since year 2014, so the growth of wages and salaries was in the absolute majority of cases manifested in the raised level of earnings. Growth of the total price level however had a stronger impact than before. Thus, in real terms, the wages and salaries grew by 4.1%⁴ last year. The fast pace of growth of the volume of paid out compensations to employees is reflected in the falling profit rate of the non-financial corporations⁵ already several years. This indicator fell slightly further to 46.5% last year. From the view of the rate of profit the CR thus still stays above the European average. Year-on-year increase of the volume of wages and salaries reached 6.5% in Q4 itself and the gradual deceleration apparent in the course of the whole year continued. Simultaneously, the total employment did not increase year-on-year towards the end of the year. Strong growth of the price level however led to significant reduction of the real earning dynamics (3.4%, the least since Q3 2014).

Branches of the services sector more dominated the growth of wages and salaries.

The volume of paid out wages and salaries grew the most for real estate activities (11.0%), in branches with the predominant government sector⁶ (10.3%) and in information and communication (8.3%, here the volume of wages and salaries supported the growth of total employment of 4.5%). Real estate activities achieved the highest year-on-year growth of the paid-out wages and salaries (11.3%) in Q4, the branch also enjoyed a significant growth of employment (4.7%). Branches with predominant business sector also recorded high dynamics (10.7%, employment growth 2.4%). Addition to wages and salaries paid out in information and communication accelerated (9.4%, partially influenced by faster growth of employment to 5.2%). Growth of wages and salaries was below the total average in trade, transportation, accommodation and food service (6.1%), where the employment also decreased by 0.6% and further in construction (5.8% given the employment growth of 2.4%). Year-on-year employment decrease occurred in agriculture, forestry and fishing (employment shrank year-on-year by 3.2%, wage growth reached 5.4%) in Q4, in professional, scientific, technical and administrative activities (employment drop of 1.9%, increase of paid out wages and salaries by 5.5%) and in finance and insurance activities (-0.2%, wage and salary increase of 5.2%). Development of the volume of wages and salaries in manufacturing mirrored the slowdown, which the branch experienced in Q4. Employment fell by 1.8% and the volume of paid out wages and salaries grew the least in the whole economy (3.2%).

Households raised their final consumption expenditures more markedly in Q4.

Domestic consumption expenditures increased by 2.9% last year and despite a slight slowdown compared to the preceding year, remained a key component contributing to the GDP growth. The annual increases in domestic consumption dropped below the 3% boundary after four years. Dynamics of household consumption (3.0%) was moderately higher compared to government institutions (2.6%). Total consumption rose year-on-year by 2.8% in Q4. Small deceleration compared to the preceding quarter resulted from the slump of the year-on-year rate of consumption of

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

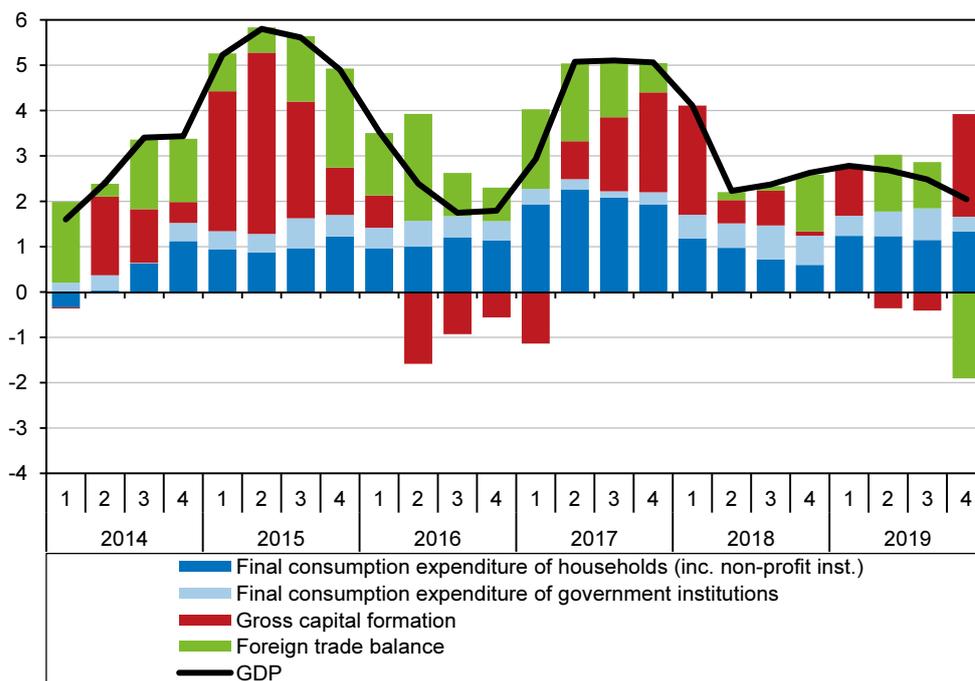
⁴ Converted into the real expression using the deflator of final consumption expenditure of households.

⁵ The profit rate of non-financial corporations is defined as the gross operating surplus divided by the gross value added (B.2g/B.1g). The indicator refers to profitability of production factors from the production process.

⁶ Public administration, education, health and social work.

government institutions (1.7%). In contrast, the households did not completely follow the concerns expressed in the business cycle surveys and the year-on-year increase of their consumption accelerated to 3.2%, the most since Q2 2018. Quarter-on-quarter increase of consumption was the weakest since the end of year 2013 (0.3%) in Q4. While the household expenditures strengthened by 1.0%, government institutions decreased their consumption quarter-on-quarter by 1.3% following two quarters of massive increases. More detailed view of the consumption composition shows, that the year-on-year dynamics strengthened in case of services (3.6%)⁷ at the end of the year. Growth of consumption of durable goods weakened, even though the pace for long-term consumption goods (2.9%) as well as medium-term consumption goods (3.8%) remained relatively solid.

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 exports for final use

Household saving rate significantly increased last year.

Gross disposable income of households expanded by 244.7 CZK bn in nominal terms last year, considerably more than in the previous year, consequently the saving rate increased⁸ to 13.2% (+2.3 p.p.), the most since year 2009, accompanied by a relatively stable rate of growth of consumption expenditures. The average monthly household income per person⁹ totaled 28 648 CZK last year and it grew by 2 292 CZK year-on-year, which is the most striking nominal increase in the whole available time series. It is the result of the already mentioned strong growth of disposable income, but also the increase of social benefits in kind¹⁰, which are part of the households'

⁷ Data regarding consumption based on durability are in domestic conception and not seasonally adjusted.

⁸ The household saving rate is defined as gross saving divided by gross disposable income, with the latter including the change in the net equity of households in pension funds reserves ($B.8g/(B.6g+D.8)$). Gross saving is the part of the gross disposable income that has not been spent as final consumption expenditure.

⁹ Average monthly income of households per person in nominal terms is defined as a ratio of adjusted household disposable income and median value of population.

¹⁰ Social benefits in kind (D.63) include the value of individual services and goods provided by government institutions and non-profit institutions serving households (NISH) and also material benefits provided by municipalities (including refunds of approved household expenditures for various types of products and services) and all values of non-market services of government institutions and NISH provided for individual consumption. Individual services and goods granted to households by government institutions and non-profit institutions serving households represent a value of goods and services provided in the form of health and social care, education,



incomes. Their average monthly value per capita achieved 5 171 CZK last year and it shared 18.1% in total household incomes last year. Growth of the social benefits in kind can be besides other things explained by a substantial wage growth in included services. Household income per capita in real terms reached 5.6%¹¹ last year.

Investment activity markedly boosted both quarter-on-quarter and year-on-year in Q4.

Expenditures on gross capital formation went up by 3.3% in year 2019. It is less than in the preceding two years. Expenditures on gross fixed capital formation increased by 2.7%. In Q4 2019, the gross fixed capital formation went up by 9.2% year-on-year, the most since Q1 2018. The substantial increases partially resulted from the increase in stocks¹². Expenditures on the gross fixed capital formation also increased year-on-year, specifically by 4.6%. Investment activity thus after weak Q2 and Q3 again supported the GDP (gross capital formation 2.3 p.p., in that gross fixed capital 1.0 p.p.). Quarter-on-quarter increases corresponded to the considerable acceleration of the year-on-year dynamics in Q4. Expenditures on gross capital formation grew by 8.6% and on gross fixed capital formation by 4.1% compared to Q3. Last year's nominal increase of expenditures on gross fixed capital formation (76.0 CZK bn) from nearly one half pertained to the sector of the non-financial businesses (36.6 bn, 4.3%). The investment activity of non-financial businesses intensified less last year than in year 2018, their savings rate¹³ mildly fell also for this reason. It was 28.5% and declined by 0.5 p.p. Government institutions sector heightened the investment activity by 24.2 CZK bn (10.8%), which was also less than in the previous year, which was affected by the cycle of drawing on European subsidies. In the case of households, a significant increase of investments was also observed, specifically by 18.5 bn (7.7%). Investment rate of households still slightly decreased to 8.5%¹⁴ last year. Expenditures on gross fixed capital formation of the financial institutions sank by 3.5 CZK bn (9.5%), for the second year in a row.

Investments into housing maintained stable year-on-year growth.

Based on the type classification of gross fixed capital formation, the year-on-year rate of growth weakened in all important investment categories¹⁵ last year. Despite slower pace compared to year 2018, investment into housing (5.5%) recorded the strongest increase. Increase of expenditures on products of intellectual property was also significant (5.4%), the dynamics has remained strong here already six years (the category contains apart from research and development also expenditures on software and databases, which grew in importance in the latest years). After the strong year 2018 the dynamics of expenditures on other buildings and structures did not persist, however the increase still arrived at 4.0% last year. Investments into ICT and other machinery and equipment (1.0%) grew only slightly. Expenditures on transport equipment decreased last year (-1.9%, the high basis of the previous year also partially had an effect). Expenditures on both housing (8.6%) and other buildings and structures (8.2%) grew relatively high year-on-year in Q4. Growth gained pace in case of products of the intellectual property (5.2%) and investment into ICT and other machinery and equipment also increased by 2.7% following two quarters of declines. Investment into transport equipment notably fell year-on-year in Q4 (-7.1%).

housing etc. These are mainly in-kind benefits associated with the health insurance (payments for health aids, medical, dental treatment, surgeries and the like) paid by the health insurance companies to those, who provide these goods and services.

¹¹ Adjusted by the deflator of final household consumption expenditure of households for year 2019.

¹² The change in the inventory stock amounted to +19.9 CZK bn, which is by 16.2 bn more than in the same period of the preceding year. Quarter-on-quarter comparison also reveals, that the change in the inventory stock substantially supported the growth of expenditures on gross capital formation.

¹³ The investment rate of non-financial corporations is defined as the gross fixed capital formation divided by the gross value added (P.51g/B.1g). The indicator refers to the investments in non-financial assets (buildings, machinery etc.) divided by the value created during the production process.

¹⁴ The investment rate of households is defined as the gross fixed capital formation divided by the gross disposable income including the adjustment for net share of households in pension funds reserves (P.51g/(B.6g+D.8)).

¹⁵ Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.

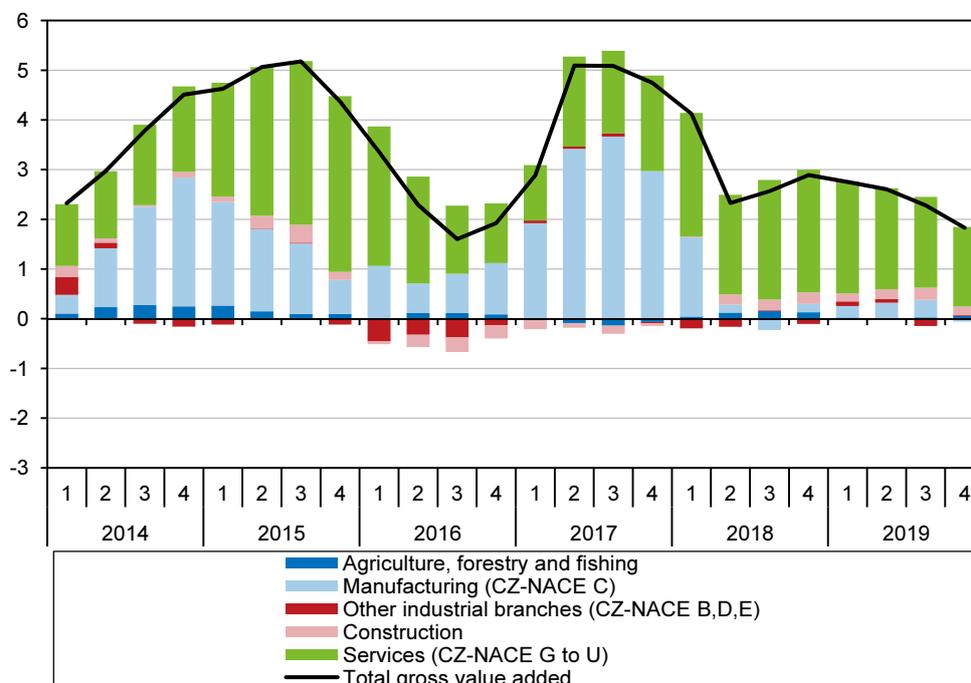
The foreign trade surplus plunged in Q4 following strong Q2 and Q3.

Foreign trade balance with goods and services surplus amounted to 345.7 bn last year¹⁶. Positive balance increased by 3.7 bn compared to year 2018. Balance of trade with goods recorded a surplus increase by 15.0 CZK bn, but in case of services a decline of 11.4 bn occurred. Foreign trade balance substantially contributed to the year-on-year growth of GDP in Q2 and Q3 (1.3 and 1.0 p.p. in Q2 and Q3). The surplus totalled however 70.8 CZK bn in Q4 (the worst result for Q4 since year 2014) and it shrank by 22.8 bn year-on-year (the largest slump since Q3 2010). The balance thus put a brake on the year-on-year GDP growth by 1.9 p.p. While in the preceding quarters the surplus growth was caused by a mild growth of import, which did not overtake export, imports fell by 1.5% in real terms year-on-year in Q4 (import maintained a mild growth of 1.4%). The surplus of trade with goods thus decreased (by 7.7 CZK bn), but especially the positive balance of trade with services (by 15.0 bn, the largest decrease since the beginning of year 2005).

Services the most supported the growth of the gross value added last year.

Gross value added (GVA) increased by 1.8% year-on-year in Q4 2019, less than the GDP. The increase of dynamics for the whole year 2019 was also slightly lower (2.4%). Quarter-on-quarter addition was 0.4% in Q4 and it thus slightly gained pace compared to the preceding quarter. Majority of the year-on-year GVA growth was thanks to the services sector in the course of the whole year (contribution of 1.9 p.p. to the increase in year 2019). Among services, the contribution of weight-significant group trade, transportation, accommodation and food service (contribution 0.5 p.p., GVA increase 2.6%) and especially information and communication (0.4 p.p., 7.6%), whose dynamic development considerably strengthened their significance for the domestic economy in the last seven years, stood out last year. Construction and manufacturing than played a smaller role last year (identically 0.2 p.p.).

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



Source: CZSO

Dynamic development of information and communication

In Q4 itself, services almost exclusively contributed to the year-on-year growth (1.6 p.p.). Public administration, education, health and social work the most (0.4 p.p.),

¹⁶ According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).



continued.

when the year-on-year dynamics accelerated to 2.3% towards the end of the year. Information and communication (year-on-year GVA addition 6.1%), real estate activities (3.6%) and professional, scientific, technical and administrative activities (3.7%) identically contributed 0.3 p.p. to the growth. Contribution of trade, transportation, accommodation and food service (0.2 p.p., GVA increase 1.1%) on the contrary weakened. In the last two years, the year-on-year GVA growth in construction was relatively solid (3.1% in Q4 2019), however preceding slumps caused the weight to shrink and consequently also to lower the contribution of the branch to the total growth (0.2 p.p.). GVA in manufacturing dropped by 0.3% year-on-year in Q4 and it thus hindered the total growth by 0.1 p.p.