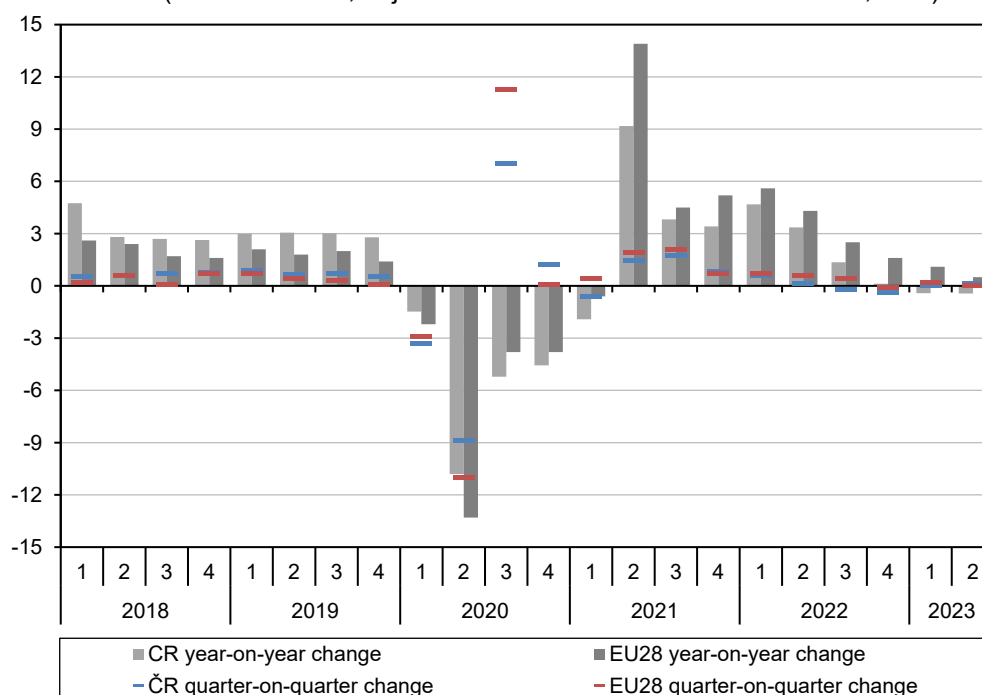


2. Overall Economic Performance

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%¹. 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%². 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

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 29th August 2023.

² 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%³. 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%⁴ 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 activities⁵ (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.⁶ 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 consumption⁷, 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%

³ Employment data are in the national accounts conception (persons), figure seasonally adjusted.

⁴ Converted into the real expression using the deflator of household consumption.

⁵ 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.).

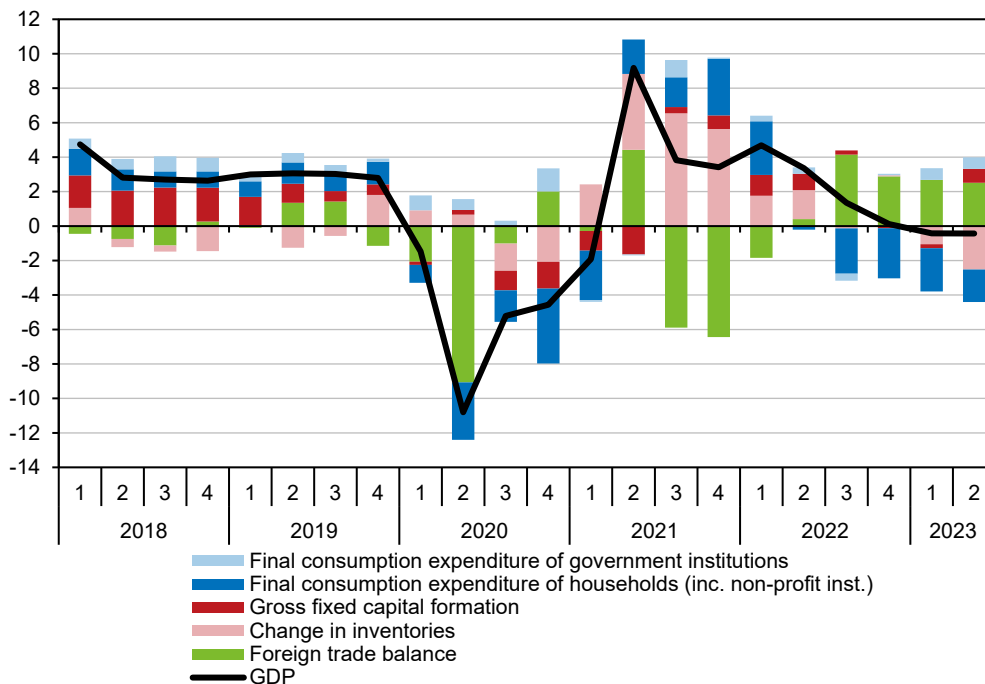
⁶ Additions to the GDP change after exclusion of imports for final use.

⁷ 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 continued⁸. 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

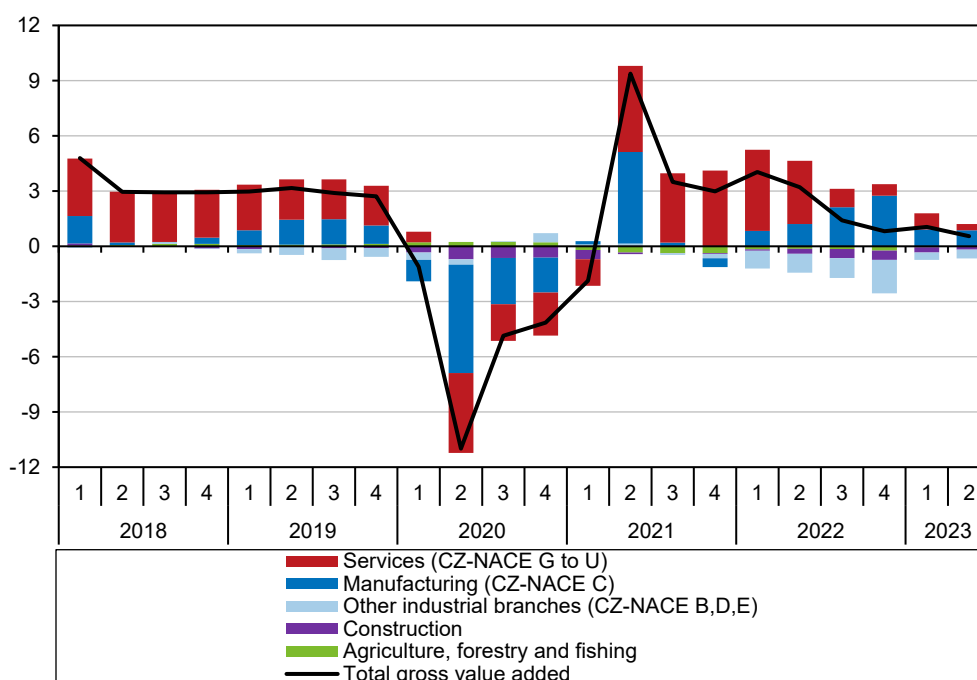
⁸ Change of the inventory stock (in current prices and not seasonally adjusted) reached 108.5 CZK bn last year in Q2. Inventory stock were expanding under the influence of rising stock of unfinished production and components for the industrial production, gas distribution as well as inventory stock in 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 services⁹ 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%¹⁰ 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

⁹ According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). Foreign trade balance in current prices and seasonally adjusted.

¹⁰ 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%).