

1. Summary

- The recovery of the Czech Republic economy – which started based on the year-on-year dynamics in the last quarter of 2013 and in the quarter-on-quarter comparison already in Q2 2013 – continued also in 2014 with the rate of GDP¹ growth already starting to weaken in trend year-on-year. The Czech GDP grew faster compared to the dynamics of the EU economy in the year-on-year comparison during the year 2014, quarter-on-quarter only in Q2 and Q3.
- The performance of the Czech economy grew even faster than GDP according to the gross value added dynamics practically in every quarter of 2014. The cause was the pre-stocking with tobacco products by the end of year 2013, which affected the resulting balance of the taxes on products and subsidies on products for the whole year of 2014. The economic growth occurred in the relatively stabilized environment – both external and internal imbalances were improving. The labour market also experienced a positive development. Easier monetary and fiscal conditions supported the growth as well.
- The GDP of the CR increased by 2 % in total for the whole year 2014, the gross value added increased by 2.6 %. The manufacturing industry contributed to the growth the most, being strongly oriented on the foreign demand (+1.5 p.p.). The remaining industries in total were slowing down the economic growth (-0.1 p. p.). The group of branches agriculture, forestry and fishing (+ 0.2 p.p.) and construction also for the first time since 2010 (+ 0.1 p.p.) participated on the growth of the gross value added compared to the preceding year. Services as a whole contributed to the growth already for the second time, their positive effect in addition strengthened from + 0.6 p. p. in 2013 to + 0.9 p. p. in 2014. While the gross value added has already overtaken its level from 2008 (+0.5 %), the GDP remained slightly lower (-0.2 %).
- The volume of the industrial production and retail sales exceeded the boom top from year 2008 for the first time. The consumer confidence was also higher against the year 2008. The construction production hiked up after five years. Despite the growth of newly commenced dwellings, which occurred for the first time after seven years, their number reached however roughly one half of their number in 2007. The stock of construction works on the public orders also increased after five years in construction firms.
- The fact that all main components of the domestic demand contributed to the growth of GDP was a positive feature of the economic development in 2014 (only exception was the change in inventories). Investment – which increased in the quarter-on-quarter comparison already for the sixth time in the last quarter of 2014 – contributed by 1.2 p. p. (based on classical decomposition), the total final consumption expenditure also participated on the economic growth with the same force. While the household consumption itself, positively influenced by the turn on the labour market, contributed to the GDP growth markedly more than in the previous year (+0.2 p. p. in 2013, +0.8 p. p. in 2014), the contribution of the government consumption mildly weakened (+0.4 p. p. in 2013, +0.3 p. p. in 2014). The change in inventories (-0.2 p. p.) hindered the growth of the Czech economy similarly to the two preceding years. The result of the foreign trade – which was in real terms adversely affected by the strength of the domestic demand being reflected in the higher rate of growth of imports (+ 9.6 %) compared to exports (+ 8.8 %) – also contributed negatively to the GDP growth (- 0.1 p. p.), in fact for the first time since 2007.
- The CR registered several historical improvements in the external relations – the surplus on the current account (just second since 1993), record trade balance or „salary balance“ with foreign countries. The outflow of dividends of direct investment was also historically the highest based on the balance of payments data, the amount of reinvested profits was the second highest. This development was enabled by the strong dynamics of sales, especially from exports, and profits, also generated by the weak koruna. The inflow of direct investment from abroad was below the average of the previous three as well as ten years.
- Total price level in the economy increased based on the implicit GDP deflator by 2.3 % in 2014, mostly thanks to the favourable development of prices in the foreign trade with goods. The prices in the industry crossed over into the deflation (- 0.8 %), the consumer price index moved up only by 0.4 %.
- The changes on the labour market were of a complex nature. The unemployment rate fell significantly (to 6.2 %), the total employment in the national account conception climbed up by 0.4 % accompanied by an increase of the number of job vacancies. The proportion of part-time jobs however already

¹ Unless stated otherwise, data regarding the GDP and its components are expressed in real terms and adjusted for seasonal and calendar effects.



decreased. The average nominal wage increased by 2.4 % following stagnation in 2013, the average real wage was higher by 2.0 % after two years of fall.

- The economic growth was recorded without a credit expansion, the companies probably utilized the funds accumulated from the favourable development of their profits to finance the gross fixed capital formation. The decrease of funds on the term deposits continued, since the deposit interest rates for clients including the rates on non-term deposits kept falling.
- The state budget deficit in the amount of 1.8 % of the nominal GDP was the most favourable since year 2008. Its reduction occurred already for the fifth time in a row. The economic revival assisted to the high growth of VAT as well as corporate tax collection, it also decreased the pension account deficit. Its balance recorded the largest positive year-on-year progress since 2007. The three years lasting decrease of state expenditure on investment also halted (+ 9.8 % year-on-year) due to the intensive drawing of resources from the European funds.