

# THE CZECH ECONOMY DEVELOPMENT

YEAR 2019

Summary Data on the Czech Republic

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Source of data in the whole analysis: Czech Statistical Office (CZSO), Ministry of Finance (MF CR), Czech National Bank (CNB), Ministry of Labour and Social Affairs (MLSA), Eurostat, CZSO calculations.  
Latest information provided in this report has been dated the 1st April 2020.

Aggregated data for the EU used in this text and falling into the reference period ending with year 2019 contain all 28 Union states including Great Britain.

## 1. Summary

- Gross domestic product (GDP) increased by 2.5%<sup>1</sup> in 2019. The year-on-year rate of growth notably slowed in Q4 and decreased to 2.0%. Domestic demand provided a stable and strong support to the GDP growth throughout the whole year and increased by 2.8% year-on-year in Q4. In contrast the foreign trade balance, which strongly contributed to the GDP growth in Q2 and Q3, dropped towards the end of the year. The investment activity recovered in Q4. Gross fixed capital expenditures grew by 4.6% year-on-year and by 4.1% quarter-on-quarter.
- Gross value added (GVA) increased by 2.4% in 2019, its year-on-year rate of growth slowed to 1.8% in Q4. Year-on-year GVA growth was in four fifths driven by the services sector last year, where the dynamic development of information and communication (7.6%) continued. Construction followed in the revival from year 2018 supported by the Euro funds (3.4%). On the contrary the weakened foreign demand sank the GVA in industry to a six-year minimum (0.7%). Positive consumer confidence was reflected in the swift 4.8% growth of the retail services, the fifth highest among the EU states.
- Surplus of the foreign trade balance with goods and services attained 345.7 CZK bn<sup>2</sup> last year. The surplus of trade with goods increased, but the slump of services caused that the foreign trade balance did not contribute much to the total GDP growth last year. Because the favourable development in Q2 and Q3 effectively nullified the downswing at the end of the year. Mostly the motor vehicles, where the positive balance increased, contributed to the surplus of traded with goods. The resulting balance was also positively affected by the improvement of the existing deficit of trade with oil and natural gas.
- Total price level according to the GDP deflator grew by 3.5% in year 2019, mainly due to the effect of prices of consumer goods. Consumer price index expanded by 2.8% last year, the most in the last seven years. Prices of housing and energies contributed the most to this development, followed by food and non-alcoholic beverages. The addition to consumer prices was 3.0% in Q4. The dynamics remained strong in case of prices of housing and energies (5.0%), but the growth of prices of food also accelerated (4.3%). Development in the CR was the opposite to the average growth of consumer prices in the EU, which settled on mild 1.3% in H2. Year-on-year growth of producer prices was slowing down in the course of the year and it reached growth of 1.3% in Q4.
- Year-on-year growth of total employment<sup>3</sup> reached 0.7% in 2019, but it only already stagnated in Q4 due to the influence of the export activities. The lack of labour force still constituted a significant barrier to growth in some branches (especially in construction). General unemployment rate featured only minimal changes during the last year. In December 2019, it was 1.8% for males and 2.3% for females. The average gross nominal monthly wage increased by 7.1% last year (to 34 125 CZK). It represented the second largest year-on-year rate of growth in the last eleven years. The average earnings in education grew the most in relative terms already second year in a row.
- Set up of basic monetary policy-relevant rates changed only once last year, specifically by the increase in May. From January till September, the average interest rates on deposits with agreed maturity for households were rising, nevertheless a mild decline occurred in Q4. Households however experienced falling credit costs – both for consumer credit and mortgages. Growth of the volume of mortgages was however slowing down since the beginning of the year.
- The State Budget (SB) deficit arrived at 28.5 CZK bn for year 2019. Mainly the brisk growth of both the current and investment expenditure and further also the moderate slowdown of collection dynamics of some weight-significant taxes due to the slackened economic growth stood behind deepening of the deficit compared to year 2018. Stronger inflow of funds from the EU budget, planned one-time transfer from the privatization account as well as higher income from the sale of the emission allowances had effect on the year-on-year growth of the SB income by 8.5% last year. Collection of social security insurance contributed by one third to the larger total revenues, tax incomes played only slightly smaller role. Current expenditures

<sup>1</sup> Data regarding the GDP, gross value added and their components are expressed in constant prices and adjusted for seasonal and calendar effects.

<sup>2</sup> In the national accounts conception.

<sup>3</sup> Employment data are in the national accounts conception adjusted for seasonal effects.



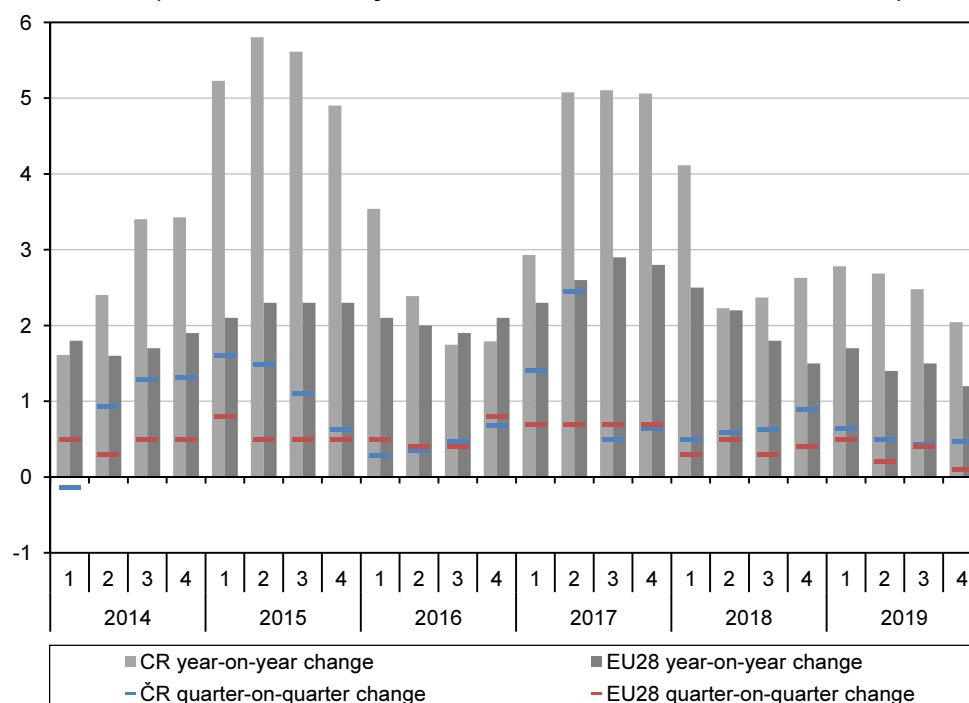
of the SB strengthened by one tenth year-on-year last year, especially due to higher expenditures on social benefits as well as the growth of expenditure on regional education and wages of public administration employees at the central level. Budget balance of the government institutions sector remained positive for the fourth year in a row, but the size of the surplus shrank to 0.3% of GDP last year. Indebtedness rate attained level of 30.8% of GDP at the end of year 2019, it fell by 1.8 p.p. year-on-year.

## 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)<sup>4</sup>. 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.<sup>5</sup> 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%),

<sup>4</sup> 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.

<sup>5</sup> 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 employment<sup>6</sup> 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%<sup>7</sup> 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 corporations<sup>8</sup> 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 sector<sup>9</sup> (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

<sup>6</sup> Employment in the national accounts conception, data adjusted for seasonal effects.

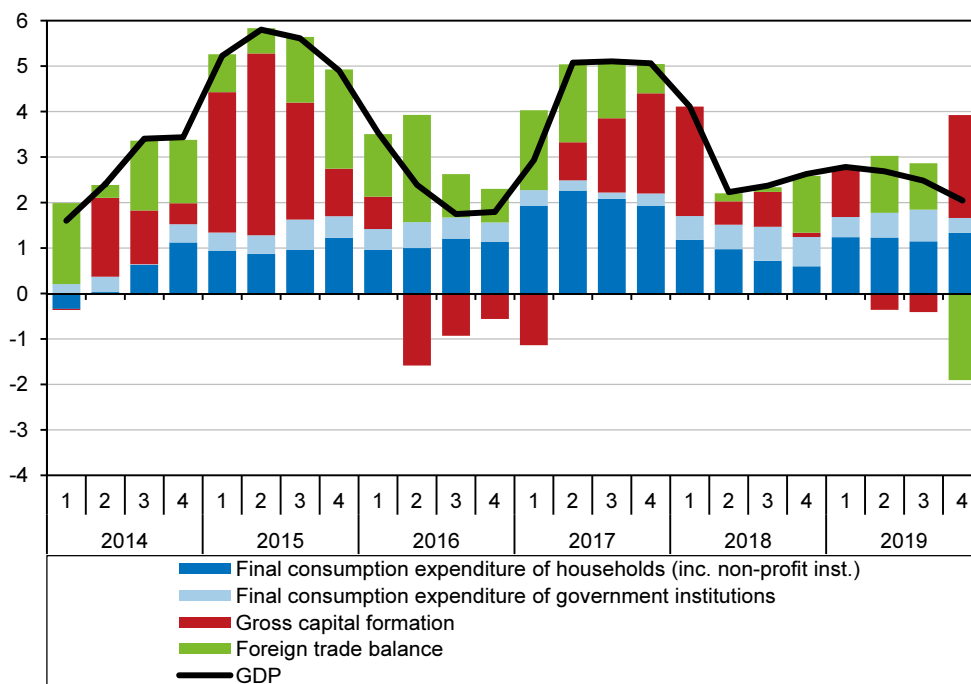
<sup>7</sup> Converted into the real expression using the deflator of final consumption expenditure of households.

<sup>8</sup> 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.

<sup>9</sup> 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%)<sup>10</sup> 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 increased<sup>11</sup> 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 person<sup>12</sup> 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 kind<sup>13</sup>, which are part of

<sup>10</sup> Data regarding consumption based on durability are in domestic conception and not seasonally adjusted.

<sup>11</sup> 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.

<sup>12</sup> 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.

<sup>13</sup> 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,





the households' 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%<sup>14</sup> 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 stocks<sup>15</sup>. 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 rate<sup>16</sup> 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%<sup>17</sup> 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 categories<sup>18</sup> 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.

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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.

<sup>14</sup> Adjusted by the deflator of final household consumption expenditure of households for year 2019.

<sup>15</sup> 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.

<sup>16</sup> 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.

<sup>17</sup> 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)).

<sup>18</sup> Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.

Investment into transport equipment notably fell year-on-year in Q4 (-7.1%).

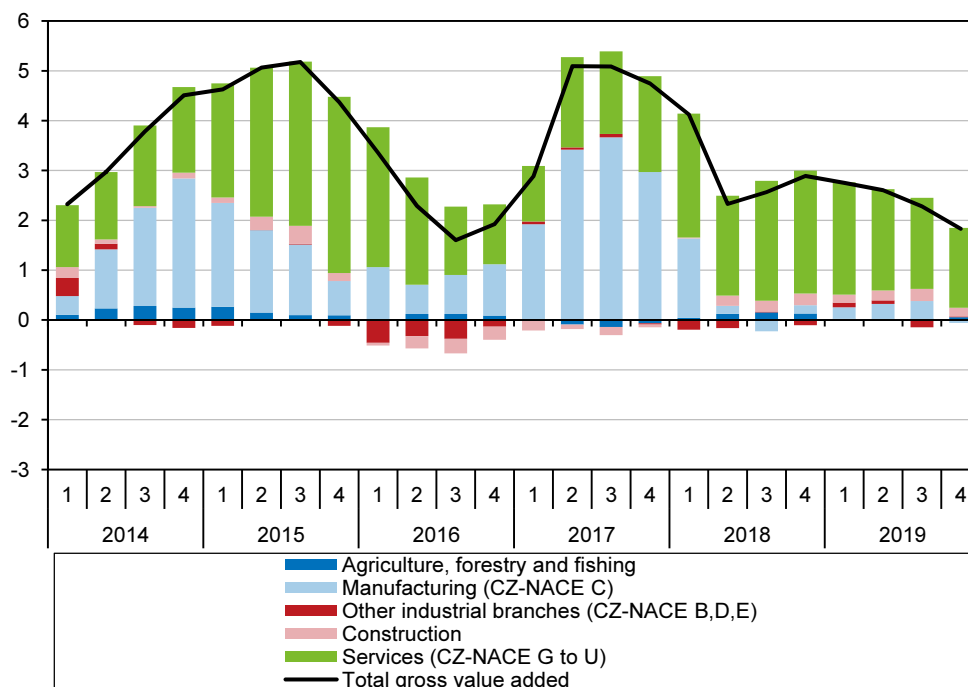
The foreign trade surplus plunged in Q4 following strong Q2 and Q3.

Foreign trade balance with goods and services surplus amounted to 345.7 bn last year<sup>19</sup>. 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

<sup>19</sup> According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).



Dynamic development of information and communication continued.

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.), 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.

### 3. Branches Performance

Dynamics of the gross value added eased pace in the CR economy during year 2019.

Performance of all branches of the economy captured by the created gross value added (GVA)<sup>20</sup> increased by 2.4% for the whole last year 2019 – pace weakened for the second year in a row. Last year’s slow down mirrored mostly the development in the second half of the year, when the domestic economy was gradually losing resilience towards the persisting adverse external factors<sup>21</sup>. In Q3, the quarter-on-quarter GVA growth reduced to 0.3% (minimum since half of year 2016) and the end of year did not bring a more significant shift either (+0.4%). Nevertheless, the pace still remained in the CR higher than in the neighbouring states (apart from Poland) as well as the whole EU for the most part of the year.

The services sector ensured four fifths of the growth of value added last year. All its main branches contributed to this result.

All primary eleven branch groupings contributed to the year-on-year GVA growth last year. The services sector was the key driver of the whole economy (similarly to year 2018), since it ensured four fifths of the total GVA growth. Within this sector, a long-term dynamic growth of information and communication continued (+7.6%, +54% in the last six years since the end of recession), which benefited from the development of digitization in the business sphere as well as the public sector. The professional, scientific, technical and administrative activities also recorded a smaller but more long-term growth (4.0% last year) thanks to the growing demand for support service activities for businesses (incl. labour force hiring). Real estate activities also prospered; their growth accelerated for the second year in a row (to 3.3%). In contrast, after the dynamic period of years 2015 till 2017, GVA kept losing pace in the financial sector (to 2.8%). Weight-significant grouping trade, transportation, accommodation and food service did not fully build on the strong year 2018 (+2.6%) – since the GVA pace was easing during the last year (+4.0% in Q1, +1.1% in Q4). Both slower dynamics of the arrival tourism and weakening growth of household consumption in the CR (both from Q1 to Q3) had an effect. Among other factors, the slowdown in the transportation branch connected to the development of foreign trade as well as industry (especially in the second half of the year) played a role. With respect to services, the GVA grew by the slowest pace in the grouping public administration, health and social care (by 1.7%), its dynamics however did not defy trends from the last four years.

Information and communication benefited from the development of digitization; support service activities also fared well.

Public services belong to the least dynamic branches of the tertiary sphere from the view of the GVA in the long term.

GVA growth slowed down in industry during the year and it hit the minimum since last recession in Q4.

In alignment with the economic development of Germany as well as the euro area<sup>22</sup>, the slowdown of the domestic industry continued. Its year-on-year GVA shrank to 0.7% (six year minimum) in 2019. Quarter-on-quarter GVA dropped already in Q2 2019 (-0.2%) and following a stagnation in the next quarter it sank deeper by the end of the year (-0.5%, the deepest fall since the end of the last recession in year 2013). Performance of the non-manufacturing industrial branches stagnated from the annual point of view, mainly due to the weaker results in Q3 itself. The value added increased by 3.4% (also thanks to strengthening inflow of funds from the EU budget) in construction, the branch thus built on the more visible recovery from year 2018 (+4.0%). Still the performance of construction as one of the few main branches further lagged behind its business cycle peak from year 2007 (by 2%)<sup>23</sup>. In the primary sector, the GVA increased by 1.5% last year. In plant production a shift in the volume of total harvests nearing the ten-year average occurred (mainly due to the impact of year-on-

Construction continued in the recover from year 2018 last year. Primary sector profited from larger harvest of cereals, moderate strengthening of animal production and intensive wood logging.

<sup>20</sup> GVA data are expressed in constant prices and adjusted for seasonal and calendar effects.

<sup>21</sup> It concerned especially the notable slowdown of economic growth in key export territories, further strengthened by piling regulatory measures in the international trade as well as persisting uncertainty regarding the future organisation of relations between Great Britain and the EU.

<sup>22</sup> Year-on-year growth of the total value added in these territorial units markedly slowed down already during the whole year 2018. Its level was low 1.2% in the euro area countries in its last quarter, even only 0.5% in Germany. The similar rates of growth dropped to 1.0% and 0.3% resp. in Q4 2019, worse results were last observed in year 2013.

<sup>23</sup> It was also valid for non-manufacturing industrial fields, where the GVA reached only three fifths of the 2008 level last year (mainly due to the slump of work in the coal mining).

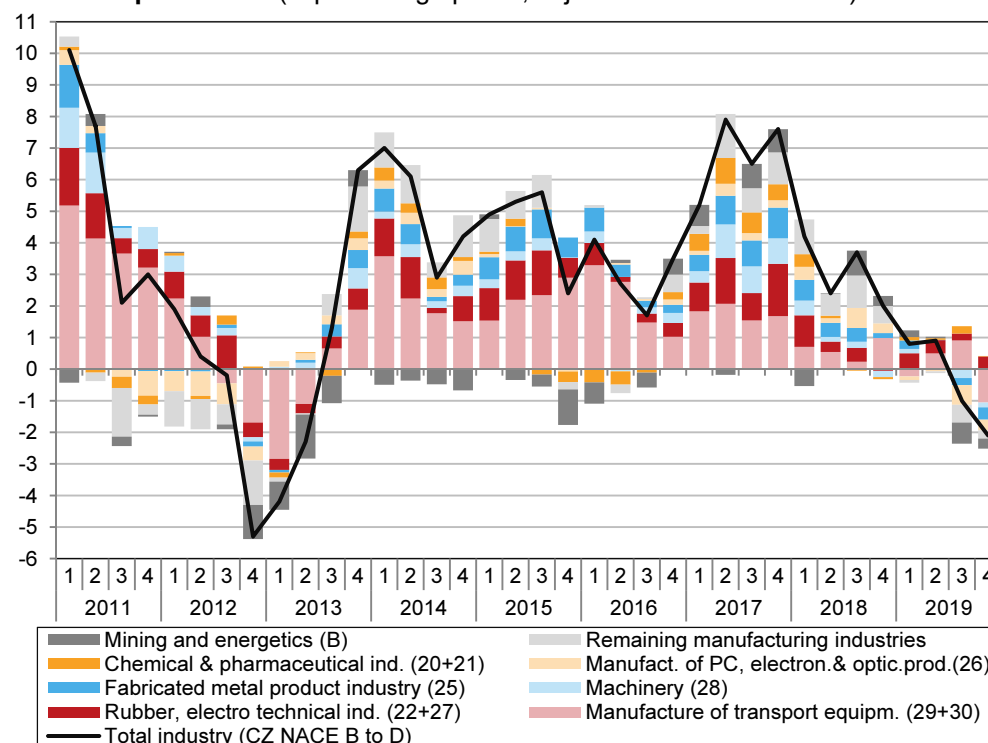


year growth of the per hectare yields nearing the ten-year average). This was the case of cereals and forage crops, on the contrary situation was less favourable for technical crop). Larger volume of logging of bark beetle wood as well as moderate growth of meat production (+0.8%) and volume of milk purchased from domestic producers (+1.3%) also had a favourable effect.

Industrial production fell by 0.4% due to adverse development in main export territories last year. It presented the weakest result since year 2012.

More detailed data from business statistics also provide evidence of considerable cooling of outputs of the domestic industry in 2019. While the value of industrial production<sup>24</sup> grew by 3.1% in year 2018, it decreased by 0.4% last year. Last year-on-year decrease dates back to year 2012 (-0.9%). Even though the industry growth in the quarter-on-quarter comparison halted already at turn of years 2018 and 2019<sup>25</sup>, this branch sector fell into the technical recession only at the end of the last year (production dropped by 1.6% in H2 2019). Exporters were negatively affected by weaker demand dynamics in Asian countries as well as a stronger recession of the German industry, which overtook the length (however not intensity) of the slump from the turn of years 2008 and 2009<sup>26</sup>. Difficulties of the domestic industry intensified during the year, the production output decreased by 2.2% in Q4 2019, because the key branch manufacturing of motor vehicles ceased to contribute to the growth of the whole industry.

**Chart 4 Contributions of sub-branches to the year-on-year change of the industrial production** (in percentage points, adjusted for calendar effects)



Source: CZSO

Manufacture of electrical equipment and

Results of the manufacture of electrical equipment worked the most in the direction of

<sup>24</sup> Includes branches of mining and quarrying, manufacturing and also energetics (here as activities of production and distribution of electricity, gas, heat and air conditioning supply). All year-on-year rates of growth of output (at the level of branch sections as well as divisions) are adjusted for calendar effects, quarter-on-quarter rates then also for seasonal effects.

<sup>25</sup> Industry in the CR reacted with a delay to the cooling of demand in the euro area, where the industrial production in the quarter-on-quarter expression fell already at the beginning of year 2018 (-1.3%) and revival did not manifest even during the year (e.g. it was -0.8% in Q4).

<sup>26</sup> Quarter-on-quarter decrease of the industrial production of Germany, commenced in the second half of year 2018, lasted already sixth quarter in a row. The industry output shrank by 7.8% in this period (cumulative decrease was however 20.7% in the period of years 2008 and 2009). The industrial production fell in eleven EU states for the whole year 2019 (by 0.9% in the whole Union). The deepest dive was recorded in Germany (-4.7%). Mild growth was maintained especially in the newer member states of Central and Eastern Europe (Hungary +5.4%, Poland +4.4%) with the exception of Romania (-3.2%) and Estonia (-1.9%).

pharmaceutical industry worked the most in the direction of growth of total industrial production last year.

Performance of manufacturers of transport equipment stagnated.

Branch manufacture of computers, electronic and optical products added the most to the lower total industry performance. Metallurgy and mining industry also had a negative effect.

Thanks to continuing growth of the domestic demand the output of manufacture of metal products and machinery declined only moderately.

While the sales of industrial businesses were moderately but stably growing in Q1 to Q3, they were affected by considerable decline of the foreign demand at the end of the year.

industrial production growth in 2019 (contribution +0.32 p.p.). Higher output in this branch (+4.8%) was supported especially by the strengthened domestic demand. Among other branches, only pharmaceutical industry recorded more significant contribution (+0.20 p.p.), output of this marginal in terms of share, but growing in the long-term field increased by 18%<sup>27</sup>. In the principal branch – manufacturing of motor vehicles – output only stagnated last year, as also evident from data regarding the physical production<sup>28</sup>. It was also valid regarding the associated branches – manufacture of rubber as well as plastic products, and also for manufacture of other transport equipment (rail, but also air or army equipment) where the growth impulse induced by the heightened domestic demand in year 2018 already evaporated. Food industry affirmed its higher resistance towards the cyclical demand fluctuations last year (+1.0%), benefiting from the still positive total confidence of domestic consumers.

Branch manufacture of computers, electronic and optical products pulled down the industrial production the most last year (industry drop of 7.9%, contribution -0.28 p.p.), strong growth of foreign demand from both years 2017 and 2018 did not repeat here anymore<sup>29</sup>. Reduction of foreign, but also domestic demand adversely affected the output of metallurgy (-5.8%, -0.17 p.p.), one of the few industrial branches, whose output was below the level of the last recession last year<sup>30</sup>. Mining industry faced prolonged structural difficulties (-6.2%, -0.13 p.p.). Output of the weight-dominant coal mining dropped to a six-year minimum (-8.1%), simultaneously however the mining of building materials strengthened (stone, sand and clay +1.8%, in the last three years +17.6%). Some small export-oriented activities, e.g. manufacture of textiles (-3.5%) and leather manufacturing (-9.8%) also showed weaker output. Development in significant branches of manufacture of metal products (-0.8%) and machinery (-1.0%, first decline since year 2009) affected the performance of the whole industry more. These branches owe for only a shallow decrease to the continuing growth of the domestic demand (in machinery prevailing also in Q4 2019). Chemical industry decreased output nearly by 3%, manufacture of other non-metal mineral products also signalled similar pace (despite still growing domestic demand, especially in construction). Output of energetics fell by 0.4% last year after three last growth years, which was aligned with the dynamics of the domestic manufacture of both electricity and heat<sup>31</sup>. Larger annual consumption of gas prevented deeper fall of energetics year-on-year (+4.7%, in spite of higher temperatures in the winter period of year 2019), since the fall for households (-4.5%) was offset by growth in companies.

Nominal sales of businesses also prove a major change in the demand for industrial products during the year 2019. While they grew within the range of 2 to 3% year-on-year during Q1 to Q3, a downturn appeared (-3.6%) at the end of the year, which was especially apparent in metallurgy, manufacture of computers, electronic and optical products, in chemical industry and also mining and quarrying (where, however, it was a frequent occurrence in the last years). Mainly the lower sales from direct exports stood behind the negative development in Q4 (-5.6%), weakening of the domestic

<sup>27</sup> Exceptionally fast pace (second highest after year 2000) also reflected the organizational changes on the enterprise level, which strengthened the segment of production of generic medicinal products. Higher demand for freely available medicines (thanks to growing incomes of households in developed economies) as well as higher consumption in health care facilities (due to the impact of aging of population and development of modern forms of treatment) had on the contrary more long-term effect.

<sup>28</sup> Based on the data from the Automotive Industry Association, there was 1.434 mil passenger cars manufactured in the CR in 2019.

<sup>29</sup> Nominal sales from direct export declined by 15% in this branch in 2019, the most among all manufacturing activities.

<sup>30</sup> Production was by 3% lower here compared to year 2013. Manufacture of wood and wood products (given the strongly growing logging, but also export of raw timber) was in a similar situation. Manufacture of leather products (-28%) and coal mining (-24%) then recorded deeper slump in the last six years.

<sup>31</sup> According to the preliminary data of the Energy Regulatory Office of the CR, the total gross electricity production reached 86 981 GWh in 2019. Weaker outputs of steam power stations (with decrease of 8.2%) nearly exclusively shared in its year-on-year decrease (by 1.2%). Mainly the production in the combined cycle power stations (+49.5%), water (+23.3%) and nuclear power stations (+1.1%) worked in the opposite direction. Production of heat decreased by 0.5% year-on-year last year (to 160 708 TJ) and moderated its decline from year 2018 (-4.7%).



demand was less striking (-1.0%). Businesses received in sales by 1% more for the whole year 2019. At the same time the domestic sales featured higher dynamics than the sales from direct export already third year in a row. The sales growth mirrored the gradual raising of prices in the economy due to higher prices of energies as well as human capital. It was apparent especially in energetics (growth of sales by nearly 9%), manufacturing of leather products and wearing apparel, manufacture of buildings materials, food industry, repair of machinery and equipment or manufacture of motor vehicles last year. On the contrary, lower output prices adversely impacted the finances of businesses e.g. in mining of coal, manufacture of wood and chemical industry and metallurgy.

Value of new industrial orders from abroad as well as domestic decreased in Q4.

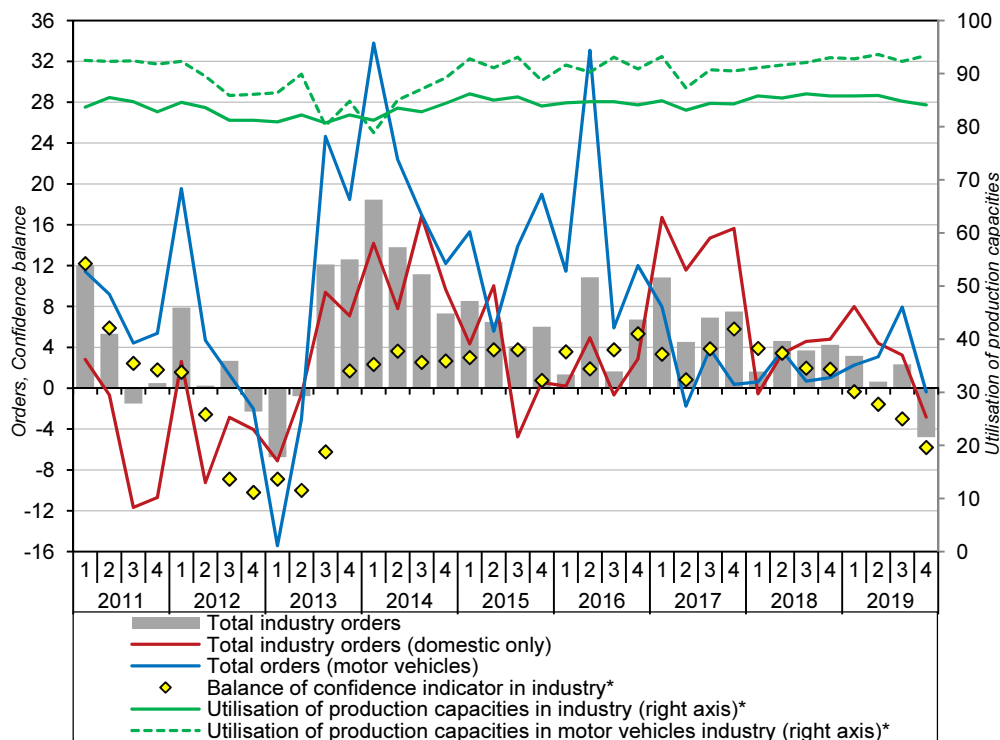
Entrepreneur confidence was weakening in industry during the year. It descended to the lowest level after August 2013 in November.

The value of industrial orders<sup>32</sup> from abroad fell by 5.7% year-on-year in Q4, value of domestic orders by 2.8%. Only manufacturing of electronic equipment, pharmaceutical industry and manufacturing of wearing apparel signalled growth of total orders among the monitored economic activities. Weaker demand was reflected in the mild decrease of utilisation of production capacities in the whole industry (by 2 p.p. for H2), it still remained high also at the end of the year (84%, after seasonal adjustment), mainly thanks to the motor vehicle (93%), chemical, wood processing and paper industries. Seasonally adjusted balance of the confidence indicator in industry descended into the negative band after more than five years in March 2019 and the light pessimism further deepened at the beginning of Q4 (to -6.7 p. p. in November, minimum after August 2013). Inadequate demand again became the most significant barrier to growth of industrial businesses since the half of year 2019 – 50% signalled it at the beginning of Q1 2020, the most since half of year 2014. In contrast the role of the lack of labour force shrank year-on-year from 39% to 28% – to the lowest level in the last three and a half years. Expectations of businesses regarding the short-term employment development remained at the turn of years 2019 and 2020 mildly negative<sup>33</sup>.

**Chart 5 New orders in manufacture of motor vehicles, in whole industry (in current prices, year-on-year change in %), balance of confidence indicator in industry\* (in points) and utilisation of production capacities in industry\* (in %)**

<sup>32</sup> Surveying of orders is ongoing only in selected CZ-NACE sections (13, 14, 17, 20, 21, 24, 25, 26, 27, 28, 29, 30), which manufacture mostly custom-made products, with longer production cycle and larger stocks of orders.

<sup>33</sup> According to the business statistics, the total employment was falling in almost two thirds of industrial sub-branches year-on-year in Q4 2019. Among those holding larger weight, the growth was recorded only in manufacture of electrical equipment, metalworking, energetics and food industry.



\* Data are seasonally adjusted  
Source: CZSO

Construction production growth continued already third year in a row. It was driven especially by the building construction.

Construction output<sup>34</sup> increased by 2.6%<sup>35</sup> year-on-year last year, it was strengthening for a third year in a row. Compared to the pace from year 2018 (+9.1%) it represented however a notable slow down. Construction was supported by a marked acceleration of drawing of European funds at that time, this factor was evident to a smaller extent last year. Unlike the industry, the situation in construction was stable throughout the whole year 2019 – from the point of view of both performance and anticipated demand. Civil engineering construction grew by 4.0%, the whole branch was however driven similarly to the year 2018 mainly by the building construction (+2.1%, contribution +1.5 p.p.).

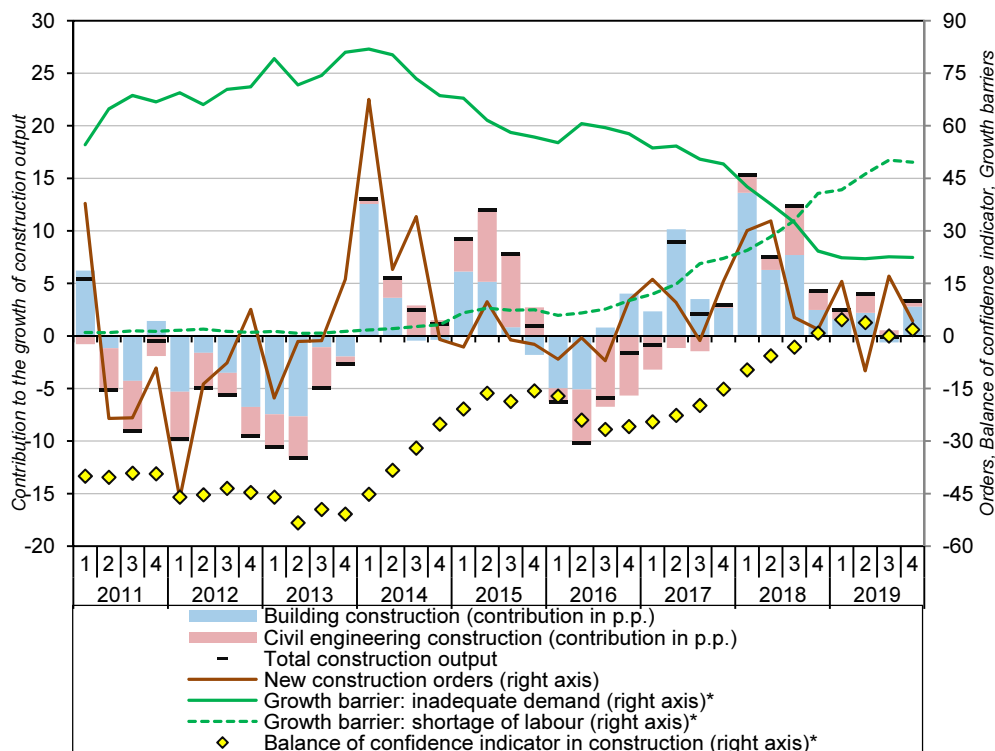
**Chart 6 Contributions of branches to year-on-year change of construction output (in p.p.), new construction orders (year-on-year in %), balance of confidence indicator in construction\* (in p.p.), selected barriers to growth\* (in %)**

<sup>34</sup> All year-on-year data regarding the construction output are adjusted for calendar effects, quarter-on-quarter rates of growth also for the seasonality effect.

<sup>35</sup> The output also increased by an identical rate of growth in the EU last year (by 2.6%, by 1.7% in 2018). The construction grew the most dynamically in majority of newer EU member states drawing on the assistance from the euro funds – in Romania (+27%), Hungary (+22%, +92% in three years), it strengthened by a slower pace in other newer member states apart from Slovakia (-3.3%). The brisk growth of construction partially offset the decrease of output in industry in some older EU states (Austria, Netherlands, Germany, Portugal or Great Britain).







Data related to construction output are adjusted for calendar effects.

\*Data are seasonally adjusted.

Source: CZSO

Flats in the residential buildings nearly exclusively contributed to the acceleration of the total residential construction last year.

The performance of building construction reflected the continuing development of residential construction. In 2019 38.7 thousand flats were commenced, growth of construction prevailed already sixth year in a row (yearly supply of new flats expanded by 75% in this time period, nevertheless it was still by one eighth lower compared to the business cycle peak form 2007-8). For the dominant part it was due to the higher number of flats in the residential buildings (+5.2 thousand), whose construction stagnated in 2018. More “less administratively demanding” forms of constructions also prevailed last year – reconstruction of non-residential premises started the most flats after year 2005 (1154). On the other hand, the least flats were created in the retirement homes in the contemporary history (301). Prague held the largest share in growth of all commenced flats in 2019<sup>36</sup>, Liberecky and Moravian Silesian regions also contributed significantly.

Value of new orders in the buildings as well as civil engineering construction grew. Trend of larger projects gaining weight continued.

The value of new domestic orders (for firms with 50 and more employees) was by 5.8% higher year-on-year in Q4. The demand grew by a similar pace in both building and civil engineering construction. Thanks to both the development of more complex infrastructural projects and effect of sharp growth of construction prices, the average size of new orders rose (it was 4.0 CZK mil for the whole year 2019, 3.0 mil three years ago.). The statistics of construction permits also confirmed this trend<sup>37</sup>. Total stock of work (in the form of not yet realised construction orders) amounted to 171 CZK bn at the end of Q4 and it strengthened by 11.5% year-on-year – primarily due to the growth of the domestic public orders (increase by one fifth), private orders also strengthened significantly in the CR (by one tenth). Confidence indicator of managers of construction firms stayed mildly positive for the most part of year 2019, it hit a maximum in January (+5.5 points), when it overtook the so far record optimism from year 2005. The lack of labour force remained the main growth barrier in construction

Confidence indicator in construction remained mildly positive for the majority of the year. Half of businesses were troubled by shortage of labour.

<sup>36</sup> Number of commenced flats was 6.5 thousand in Prague last year (it increased by more than one half year-on-year). Comparable volume of construction was last achieved in year 2008. Even despite a positive shift in the supply of flats, their frequency further lagged behind the increase of job opportunities as well as total number of population (the increase of inhabitants reached 15.6 thousand last year) in the metropolis.

<sup>37</sup> The approximate value per one building permit arrived at 4.8 CZK mil in 2019 (4.4 mil the year before). It grew the fastest for new construction of residential buildings year-on-year (from 4.7 to 5.8 CZK mil).

already for five quarters. It concerned 48% of businesses at the beginning of year 2020 (so far record 55% in August 2019). 29% of firms tackled inadequate demand, its weight however grew only moderately last year.

Year-on-year rate of growth of sales in services slowed to three year minimum. The positive values lasted only thanks to the ICT last year.

Sales in selected services<sup>38</sup> strengthened only by 1.1% last year after the brisk growth in years 2017 as well as 2018. It represented the weakest year-on-year growth in the last three years. Performance of services weakened in the course of the last year – while 3.7% growth was recorded in Q1, the pace slowed to -0.8% in Q3 and services also concluded the year in a mild decline. Development in the long-term dynamic section information and communication (ICT) sharply contrasted with other segments of services. The downward trend was not observed in ICT during the last year. Without the ICT division the sales in services would only stagnated last year. Sales in the ICT section rose by 5.9% in year 2019, primarily thanks to the activities in the field of information technologies (containing programming, computer facilities management or IT consultancy). Information activities, telecommunications and especially publishing activities also prospered, their sales shot up to record +10.0% (owing to sale of software, which offset the sales decline of publishers of newspapers and journals). Only motion picture and music industry recorded decline (by 1.6%) due to the unfavourable development at the end of the year<sup>39</sup>. In the division transportation and storage, the sales fell by 0.5% last year, for the first time after the crisis year 2009.

Sales of publishers surged by record 10%.

Weaker industry was evident in lower sales of both land transport and storage. On the contrary, the postal and courier services joined on the surge of sales via internet.

The output decline in industry was especially apparent in the second half of the year accompanied by falling dynamics of the volume of foreign trade. Lower sales in storage the most contributed to the decline of the whole division (also due to a very large comparative basis of year 2018). In contrast, the postal and courier activities fared well (benefiting from fast development of sales via internet) as well as the water transport for second year in a row (resulting from the growth of output of domestic operators abroad). The sales rose only around 1% in the division accommodation, food service and restaurants, similarly to year 2018. Lower pace was associated with the weakening dynamics of the arrival tourism<sup>40</sup>. Sales went down only mildly (-0.2%) in the division professional, scientific and technical activities last year, equally in the real estate area. Administrative and support service activities improved, even though they recorded the weakest growth in the last nine years (+0.5%). Demand for administrative as well as office support activities grew fast (arrangement via telephone, organisation of exhibitions and conventions). On the contrary, the growth slowed down to six year minimum (+1.6%) in the area of rental and operative leasing activities due to decreased demand for machinery, equipment and trucks. The yearly drop of sales of employment placement agencies (-5.3%), which occurred for the first time after year 2009 was also linked to the industry slowdown.

Growth of arrival tourism slowed down last year.

Demand for renting of machinery and equipment fell, performance of employment placement agencies was also lower.

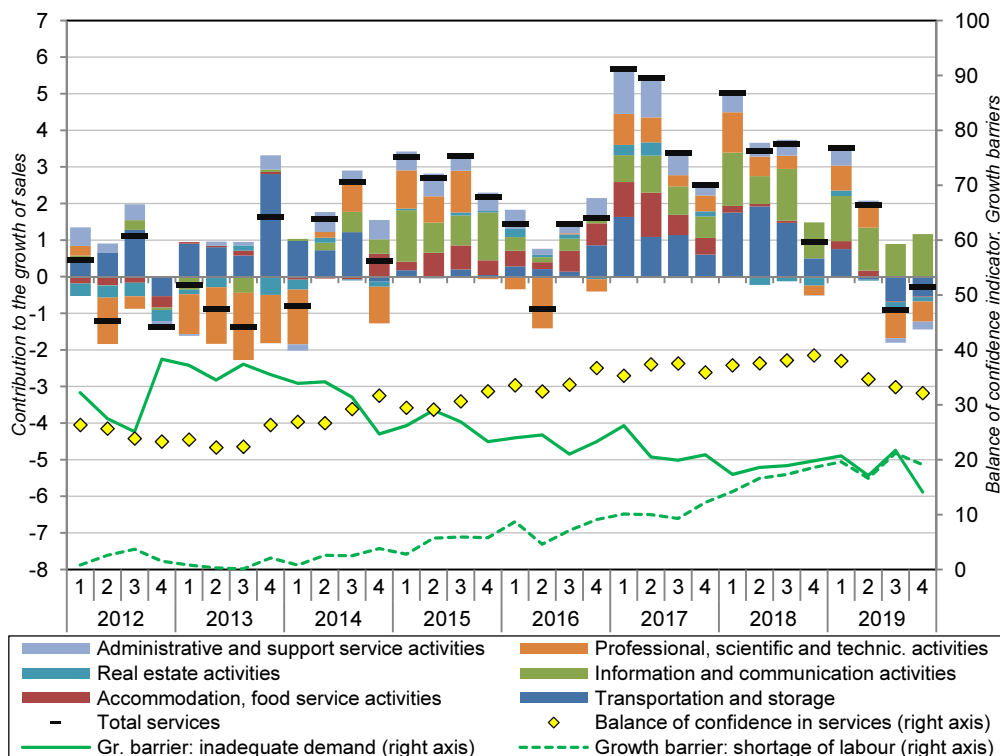
**Chart 7 Contributions of branches to year-on-year change of sales in services\* (in p.p., adjusted for calendar effects), balance of confidence indicator in selected services\*\* (in p.p.) and selected growth barriers\*\* (in %)**

<sup>38</sup> Without trade, financial industry, insurance industry, science, research and public services. All figures for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter data are seasonally adjusted (including the effect of number of working days).

<sup>39</sup> Segment of motion picture distribution on the other hand prospered. According to the Union of motion picture distributors, the sales from entrance fees in the cinemas in the CR increased by 15.3% year-on-year in 2019. Despite lower number of performances (-1.9%) the number of visitors increased by one eighth – to 18.3 mil. – (higher value was last achieved in year 1993).

<sup>40</sup> The number of overnight stays of non-residents in mass accommodation facilities increased by 1.6% in the CR in year 2019 (1.9% the year before), by 3.8% for domestic visitors (6.6% resp.). Especially visitors from Germany, Ukraine, Poland, France and the USA contributed to the growth of non-resident tourists.





\* Without branches trade, financial activities, insurance activities, science, research and public services.

\*\*Data are seasonally adjusted, includes also the financial sector.

Source: CZSO

Rate of growth of retail sales slightly weakened in alignment with the consumer confidence during the year.

Growth of sales for food or fuels shrank to five year minimum. Sharp rise of sales via internet continued.

Retail sales<sup>41</sup> increased by 4.8% in year 2019. Even though their rate of growth was mildly slowing for the second year in a row, it was nearly double compared to the EU last year (+2.6%) and simultaneously the fifth highest among the member states. The sales dynamics weakened during the year (by +4.2% in Q4), which corresponded to the development of the consumer confidence. While the growth of retail with food slowed to five year minimum (+2.0%), the weight-dominant retail with non-food products maintained the fast growth from year 2018 last year (+7.6%). It was assisted by the sales via internet and mail order (+18.1%, sales quadrupled compared to year 2012). Among specialised stores, those with computer and communication equipment prospered the most also thanks to sales offers already third year in a row (+8.5%). Stores with products for culture and recreation followed very closely. Only sales for fuels (+2.3%, five year minimum) and food (-1.3%, first decrease after year 2014) showed weaker rates of growth among specialised shops. Sales in the motoring segment slightly revived last year (+1.2%) following the moderate downturn in 2018, which was supported as well by higher outputs of the seller of motor vehicles. Decline of sales for repair and maintenance of motor vehicles on the contrary continued.

#### 4. External Relations

Total value of exported goods increased in 2019. Q4 however brought a slump.

Value of export of goods attained 3 687.5 CZK bn<sup>42</sup> in 2019. Export of goods has been growing continuously for the last ten years and even the economic slowdown of major business partners did not prevent this growth last year. Value of export expanded by 71.3 CZK bn (2.0%) last year, the least since year 2016. Yearly result deteriorated mainly by Q4, when the export amounted to value of 912.2 CZK bn and it sank by 34.8 bn (-3.7%) year-on-year. Year-on-year decrease manifested for the first time

<sup>41</sup> All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter rates are seasonally adjusted (including the effect of number of working days).

<sup>42</sup> Statistical data of the foreign trade in nominal terms including only the trade with goods. The value of exports is captured in the FOB prices, i.e. including the costs connected with the transport to the CR boundaries. Import depicted lower in this chapter is in CIF prices, i.e. including costs associated with the transportation abroad, up all the way to the CR boundaries. Data are valid as of 9.3.2020.

since Q1 2018, partially it was however the consequence of high comparative basis<sup>43</sup>. Last year's Q4 also featured one working day less compared to year 2018.

Export into the EU grew slower than export outside the EU.

Structure of Czech export also slightly featured the slowdown of economic growth in the European Union last year. Value of exports directed to the EU<sup>44</sup> as well as outside of the EU went up, the increase of exports to the EU was however smaller (1.4%, 41.8 CZK bn). Export outside the EU expanded by 5.1% (29.5 bn). Export to Germany (1.1%, 12.0 CZK bn), Netherlands (1.1%, 1.4 bn) and Poland (1.3%, 2.9 bn) recorded weak increase last year. While the two preceding years were exceptionally successful from the view of the Czech export in case of Netherlands (increases by 34.0 and 12.7 CZK bn in years 2017 and 2018), export to Germany experienced a weak increase already in year 2018. Value of export to Sweden (-5.9%, -3.7 CZK bn), Italy (-3.6%, -4.9 bn), Great Britain (-2.1%, -3.4 bn) or Austria (-1.2%, -1.9 bn) decreased last year. Export to Hungary experienced the opposite and increased considerably (10.4%, 11.5 CZK bn) and the rates of growth remained robust for Romania (6.3%, 3.5 bn), Spain (4.4%, 5.2 bn), Slovakia (3.9%, 12.6 bn) and France (3.3%, 5.9 bn). Value of export to Russia as well as the United States went up by 10.5% (over 8.0 CZK bn). Export to Switzerland recorded increase in the size of 8.7% (4.2 bn). Export growth was relatively significant in case of Japan (11.4%, 1.5 bn). In Q4 itself, export into the EU countries fell year-on-year by 5.0% (-39.8 CZK bn), while the growth of export into the countries outside the EU was kept at 3.2% (5.0 bn). Export into the majority of EU countries, that have a significant business relationship with the CR, sank year-on-year in this quarter. Hungary (+9.8%) and Romania (+7.0%) formed the exception. Strong growth of export into Russia was maintained in Q4 (9.3%).

Export of motor vehicles contributed the most to total increase. Export of other products grew slower.

Motor vehicles contributed the most to the growth of the value of export last year (+38.3 CZK bn, 3.9%, the value of their export overtook 1 CZK trillion for the first time). Increase of export of other transport equipment (+6.8 bn, 13.1%), food products (+6.6 bn, 6.1%, partially due to strong growth of prices) and basic pharmaceutical products (4.8 bn, 10.3%) was also strong. Calamitous bark beetle situation also led to sharp increase of export of products of forestry and wood logging (+4.4 bn, 32.0%). Increase of export of chemicals and chemical products was substantial (+5.2 bn, 3.1%). Among the smaller branches, for instance the export of wearing apparel (+2.9 CZK bn, 10.8%) or paper and paper products (+3.9 bn, 6.8%) fared well. Decline manifested for some significant export goods. Export of machinery and equipment rose by 8.6 CZK bn last year (2.1%) which is the least since decrease in year 2013. Export of electrical appliances rose only by 2.3 bn (0.7%) and the export of metal products by 2.1 bn (0.9%). Export of basic metals dived strongly (-11.3 CZK bn, -7.6%). Export of computers, electronic and optical products<sup>45</sup> dropped by 2.5 bn (-0.6%) following an extraordinary spike in years 2017 and 2018. Value of export of electricity, gas, steam and air conditioning supply (-2.9 CZK bn, -8.7%), black and brown coal and lignite (-1.9 bn, -24.3%) and wood and wooden products (-1.6 bn, -3.9%, first decrease since year 2009) also markedly decreased. Computers, electronic and optical products (-9.2 CZK bn, -8.3%), further motor vehicles (-7.1 bn, -2.8%), basic metals (-5.6 bn, -16.0%), machinery and equipment (-3.1 bn, -3.0%) and electricity, gas, steam and air conditioning (-3.0 bn, -27.3%) contributed the most to the total year-on-year decline in Q4.

Import grew slower than export last year and its

Total import reached value of 3 542.0 CZK bn in 2019. Regarding the tight relations of import to production in the domestic economy, the development attributes of both

<sup>43</sup> From the view of export, Q4 2018 was the best quarter of the relevant year, but also of the whole preceding time series, only Q2 of this year, which is regularly the strongest time period of the year, exceeded it.

<sup>44</sup> EU28 including Great Britain.

<sup>45</sup> Apart from the high comparative basis, the transfer of some parts of production from the category of goods into the category of services was evident in the branch.



slump was also more evident towards the end of the year.

import and export are similar. Total year-on-year increase of the value of import attained 24.2 CZK bn (0.7%) last year, again the least since year 2016. Similarly to export, a year-on-year slump of the value of import occurred in Q4 (-34.3 CZK bn, -3.7%) and import thus reached value of 900.9 CZK bn. In 2019, value of import from the EU fell year-on-year (-0.8%, -18.3 CZK bn) and import from other destinations grew (3.4%, 38.5 bn), however at slower pace than in the previous year. Mainly Slovakia stood behind the decline of import from the EU (-9.0%, -17.3 CZK bn), decreases for Great Britain (-7.4%, -4.5 bn, import has been falling for third year) and Germany (-0.4%, -3.9 bn, first decrease since year 2009) were also appreciable. Import from Russia sank significantly (-10.5%, -13.4 CZK bn). However, value of import from China (5.2%, 19.0 bn), the United States (5.6%, 5.1 bn) or Japan (4.9%, 3.0 bn) increased markedly. Q4 itself brought a downfall of import from majority of significant business partner countries apart from the United States (+10.2%), Spain (+2.8%), Netherlands (+2.5%) and Japan (+1.8%).

Raised prices strengthened the value of import of food products.

Motor vehicles (+13.1 CZK bn, 2.4%), food products (+11.4 bn, 7.8%, partially because of the raised prices) and basic pharmaceutical products (+8.5 bn, 8.8%) contributed the most positively to the relatively low increase of value of import last year. Increase for wearing apparel was also quite high (5.9 CZK bn, 10.3%). Growth of import of some significant articles sharply reduced – machinery and equipment (5.6 bn, 1.6%), computers, electronic and optical products (4.1 bn, 1.0%) or chemicals and chemical products (0.2 bn, 0.1%). Basic metals (-16.5 CZK bn, -5.9%), electricity, gas, steam and air conditioning supply (-9.1 bn, -33.1%), coke and refined oil (-7.9 bn, -11.5%), oil and natural gas (-5.9 bn, -4.4%) or other transport equipment (-5.4 bn, -11.5%) recorded strong decreases. Basic metals (-8.4 CZK bn, -12.3%), oil and natural gas (-7.0 bn, -17.2%), machinery and equipment (-6.9 bn, -7.5%) and electricity, gas, steam and air conditioning supply (-4.1 bn, -49.8%) contributed the most to the strong year-on-year slump of the import value experienced in Q4. Import of food products (3.2 bn, 8.0%) and basic pharmaceutical products (1.9 bn, 7.6%) grew the most year-on-year in Q4.

Traditional surplus of trade with goods rose the most since year 2012 last year.

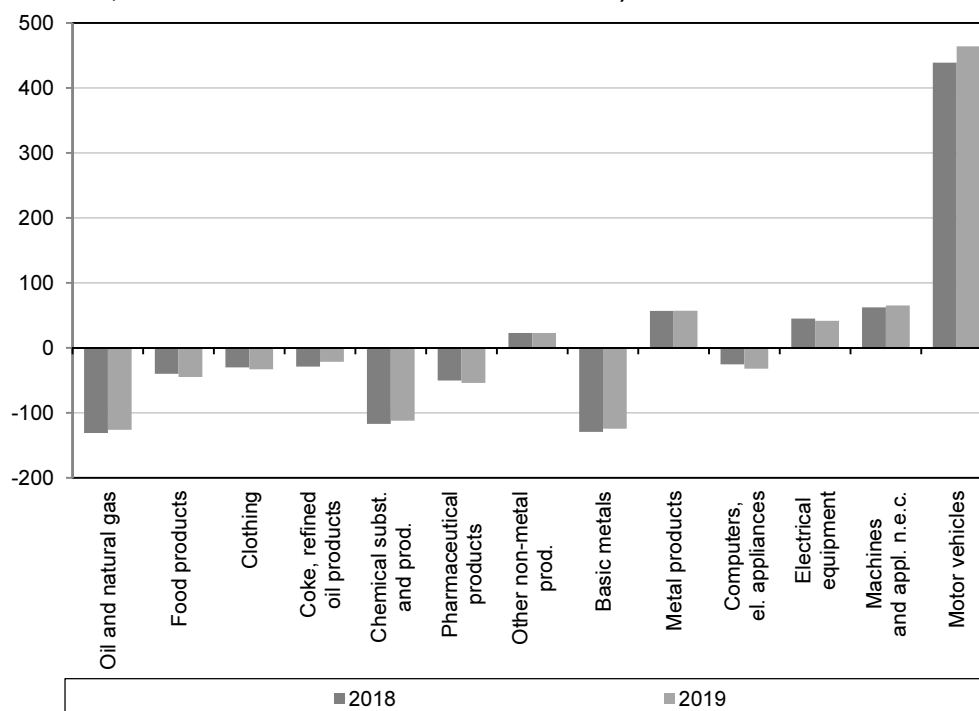
Foreign trade balance with goods reached a surplus of 145.6 CZK bn last year. At the same time, the positive balance increased by 47.1 CZK bn last year, the most since year 2012 (affected by the CNB forex intervention and depreciation of the foreign exchange). Result was mostly impacted by weakening of import. Described increase of surplus originated especially in Q2 and Q3. Surplus totalled 11.3 CZK bn in Q4 and fell by 0.5 CZK bn year-on-year. Last year's increase of surplus was exclusively caused by the positive balance of trade with the EU (+60.1 CZK bn), in contrast the existing deficit with rest of the world deepened by 9.0 bn. Especially the balance with Slovakia (+30.0 CZK bn), Germany (+15.9 bn) and Hungary (+13.0 bn) improved. Trade with Russia achieved marked moderation of the deficit (by 21.5 CZK bn). China mostly had the effect in the direction of deficit of trade with goods last year (-18.0 CZK bn). The situation was reversed compared to the cumulation for the whole year in Q4. Surplus of the trade with the EU sank by 12.5 CZK bn year-on-year and on the contrary the deficit with countries outside the EU reduced by 12.3 bn. Trade balance with the EU was adversely affected mostly by the fall of surplus for Germany (-7.7 bn), Netherlands (-4.0 bn), Spain (-2.8 bn) and Austria (-2.9 bn) in the last quarter. Trade balance with Russia improved towards the end of the year (+7.2 bn).

Motor vehicles supported improvement of the balance the most.

Sale of motor vehicles (+25.2 CZK bn) and other transport equipment (+12.2bn) were the most instrumental in the last year's surplus in the year-on-year comparison. Improvement of balance for coke and refined oil products (+7.4 CZK bn), electricity, gas, steam and air conditioning supply (+6.1 bn), oil and natural gas (+5.0 bn) and chemicals and chemical products (+4.9 bn) was also significant. Surplus strongly

expanded for trade with products of forestry and timber logging (+4.8 CZK bn) and the trade with paper and paper products shifted from deficit into the surplus thanks to improvement by 4.8 bn for the first time in the available time series. Trade balance with computers, electronic and optical products (-6.6 CZK bn) and basic pharmaceutical products (-3.7 bn) worsened more markedly last year. Specifically, in Q4, trade with oil and natural gas (+6.2 CZK bn), machinery and equipment (+3.8 bn), basic metals (+2.8 bn) and chemicals and chemical products (+2.6 bn) contributed the most in the direction of surplus. Mostly computers, electronic and optical products (-8.3 bn), motor vehicles (-7.1 CZK bn) and food products (-1.9 bn) had a deficit effect.

**Chart 8 Balance of foreign trade in foreign trade statistics (cumulation of the whole year, in CZK bn, selected divisions of the CPA classification)**



Source: CZSO

Surplus of foreign trade with services notably declined last year.

Based on the CNB data regarding the balance of payments, the surplus of trade with services decreased by 18.3 CZK bn year-on-year last year and attained 103.7 bn. More detailed data show a marked deepening of the deficit for other business services<sup>46</sup> (by 16.7 CZK bn). Deficit deepened here due to sharp spike in import. Surplus slumped also for services in transportation (decrease by 12.5 CZK bn to 22.3 bn). Parallely, the value of export fell here last year and their import increased. Trade with telecommunications services and services in the field of computers and information services (surplus growth of 10.5 CZK bn to 50.3 bn) exerted on the contrary favourable influence. The value of their export markedly increased last year and these services also constituted the largest part from the total surplus. Surplus of trade with production services at foreign physical inputs<sup>47</sup> (42.0 CZK bn) and tourism (32.7 bn) remained practically unchanged.

Primary income deficit reduced by 37.6 CZK bn last year.

Balance of flows of primary incomes between residents and non-residents summed -254.0 CZK bn last year. Traditional deficit shrank by 37.6 bn last year. Negative balance of property income was the main source of deficit, it totalled -293.1 CZK bn.

<sup>46</sup> It concerns heterogeneous grouping consisting of services of research and development, professional and administrative consultancy services, services associated with waste and pollution, agricultural and mining support service activities, operational leasing and services linked to the transportation of water, gas, steam, oil products and air condition supply.

<sup>47</sup> It is the assembly of products from supplied components.



Its improvement by 50.1 bn arose mainly by the increase of property income of residents abroad by 40.7 CZK bn (practically the whole addition was passed to reinvested profits of residents from foreign direct investment, which rose to 91.7 bn). Property incomes of non-residents in the domestic economy arrived at 485.9 CZK bn last year, in that nearly 401 bn (7.1% of GDP) presented the profits from direct investment. From that, 82.0 CZK bn was reinvested (by 52.4 bn less than in year 2018) and 321.2 bn left abroad in the form of distributed incomes of corporations (by 15.7 bn more year-on-year). Counterweight to the property incomes deficit is the positive balance of employee compensation, which reached 17.4 CZK bn last year and lowered by 13.3 bn year-on-year. Only moderate increase of funds, which was credited to residents in the form of compensations from non-residents (68.1 CZK bn, +1.4 bn) was accompanied by increase of compensations paid out to non-residents by 14.7 bn to 50.8 bn.

Volume of investment subsidies from abroad reached 61.3 CZK bn last year.

Non-residents credited themselves 138.6 CZK bn via the other transfers<sup>48</sup>, it was 89.2 bn in the opposite direction. Resulting balance was thus reduced by 6.3 CZK bn to 49.4 bn. Together with the deficit of primary incomes it worked in the direction of the deficit of current transactions of residents with non-residents, still the foreign trade surplus was adequately high for the final balance to be positive in the amount of 40.8 CZK bn (improvement by 48.0 bn). Surplus of capital transfers balance was 53.9 CZK bn last year, especially thanks to notable inflow of funds from abroad (63.3 CZK bn, in that 61.3 bn in the form of investment subsidies). Net borrowing<sup>49</sup> thus rose by 20.7 CZK bn last year and arrived at the amount of 62.1 bn.

<sup>48</sup> Taxes, social contributions and benefits and other current transfers.

<sup>49</sup> Sum of balance of current and capital transfers adjusted for net non-financial assets.

## 5. Prices

The price level grew the most since year 2004 last year.

Total price level increased by 3.5%<sup>50</sup> in year 2019. It is the most since year 2004 (the additions were the same in year 2007). Prices of consumer goods grew the most (3.7%), those acquired by households by 2.9%, government institutions faced more than 5% growth already for the second year (5.4% in year 2019, consumption of the government institutions for the larger part consists of services, whose prices are more affected by growth of wages). Prices of capital goods were raised by 2.6% last year. Terms of trade were positive last year (100.4%), both for goods (100.2%) as well as services (101.4%). Export prices of services grew the most in the last five years. The price level went up by 3.7% year-on-year in Q4, in that by 3.7% for consumption expenditure – 3.0% for households, the price level increased by 5.5% for government institutions. Growth of prices of capital goods reached 2.3% Terms of trade were positive (100.8%).

Year-on-year dynamics of consumer prices accelerated by the end of the year.

End of the year brought acceleration of the year-on-year dynamics of consumer prices. They increased by 3.0% in Q4, which was the largest increase since Q3 2012. Prices of food contributed the most to the strengthening of the overall pace. Halting of the slumping prices of transportation also had an effect. The key impact of housing and energies persisted in the year-on-year growth of prices also in Q4. Year-on-year dynamics of consumer prices has been strengthening in the course of the whole year and the final increase for year 2019 was 2.8%, which represented the highest value in the last seven years. Approximately one half of the last year's increase belonged to the prices of housing and energies. Following the weak contribution in 2018, the influence of food and non-alcoholic beverages again strengthened. Division other goods and services held the third largest addition to growth. Minor contributions of prices of alcoholic beverages and tobacco, food service and accommodation, recreation and culture, health, home equipment and household appliances also shifted the dynamics near the 3% boundary. Prices of wearing apparel and footwear had anti-inflationary effect.

Housing retained the position of main driver of year-on-year growth of prices.

Year-on-year growth of prices of housing and energies slightly weakened to 5.0% in Q4. Despite mild slowdown, the relatively high growth of prices of rents (3.8%) and imputed rents (4.0%) prevailed. Prices of electrical energy and heating, gas and water hiked by 7.2%. Individual quarters did not differ much from the view of development of prices of housing and energies and only small adjustments manifested. The prices of housing and energies were raised in total by 5.3% last year. The very category of energies grew the most significantly – prices of electrical energy and heating, gas and water jumped by 7.0% and their acceleration represented the main impulse, which caused the strengthening of the total dynamics. Rents increased by 3.7% and imputed rents by 5.1%. Dynamics of both items was however already relatively strong in year 2018, consequently the cost of housing alone markedly jumped for households in the last two years. Prices of common maintenance and repair of household goods also grew strongly (4.9%). Prices of other services grew slower (2.0%).

Growth of prices of food gained pace by the end of the year, mainly due to the prices of meat.

Year conclusion delivered the acceleration of the year-on-year growth of prices of food and non-alcoholic beverages. These increased by 4.3% in Q4, mainly because of strengthened year-on-year growth of prices of meat (7.6%) and fruit (10.7%). Contrastingly the so far very strong growth of prices of vegetables weakened in Q4 (from 26.1% in Q3 to 6.0%), mainly because of high comparative basis. The year-on-year growth of prices of food and non-alcoholic beverages gradually accelerated

<sup>50</sup> Gauged by the GDP deflator.



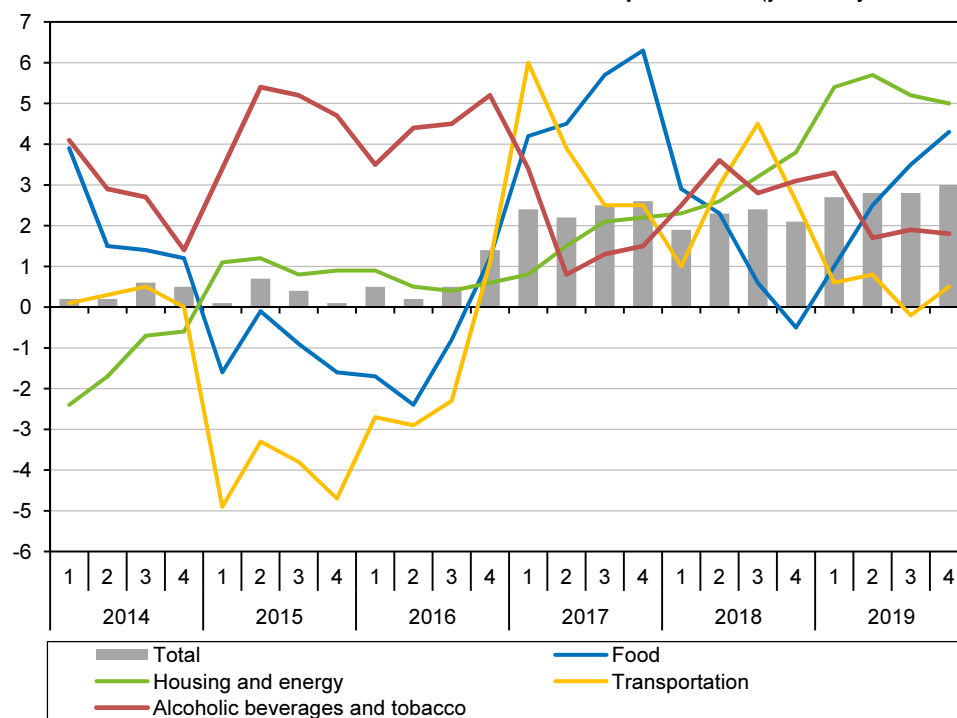


during the year. Total increase reached 2.8% last year. Prices of vegetables (19.6%), meat (3.6%) and baking products and cereals (3.5%) hiked up the most. These three items also exerted the largest influence on the development of prices of the whole division. Oils and fats (3.2%) and fruit (3.9%) recorded decline.

The influence of the comparative basis on the prices of transportation services dissipated in Q4.

The year-on-year growth of prices of transportation was only very moderate throughout the whole year 2019 (prices even fell by 0.2% in Q3). Increase reached 0.5% in Q4, especially due to evaporation of the effect of low comparative basis of prices of transportation services, which have been negatively impacting the prices of transportation already since Autumn 2018. The dynamics of prices of purchases of motor vehicles, motorcycles and bicycles weakened during the year and the cost of operation of motor vehicles also stagnated especially in H2. Prices of transportation went up by 0.4% for the whole year 2019, in that prices of purchase of motor vehicles by 0.9%, operating the motor vehicles by 1.5% and prices of transportation services fell by 4.7%. Dynamics of prices of food service and accommodation (total increase reached 4.2% last year) and other goods and services (3.8%) was very strong year-on-year for the whole year. Generally, the prices of services grew more last year (3.7%) than prices of goods (2.3%), which is linked to the continuing above average wage dynamics. Mild strengthening of the growth of prices manifested only in Q4 (2.7% goods, 3.7% services).

**Chart 9 Prices in the selected divisions of the consumer price index (year-on-year in %)**



Source: CZSO

Year-on-year growth of consumer prices remained moderate in the EU in Q4.

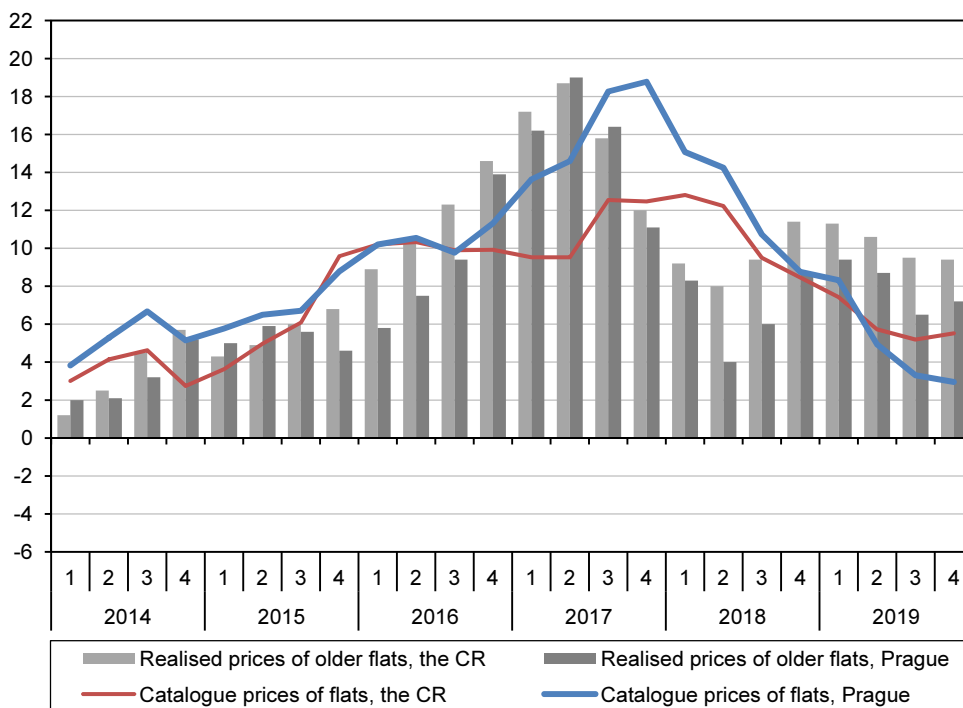
Year-on-year growth of consumer prices weakened in majority of EU countries between Q2 and Q3 2019. The deceleration then continued further in some states in Q4. Total consumer prices were raised by 1.5% in the EU and the increase attained 1.3% in Q4. Prices increased the most in Romania (3.9%), Hungary (3.4%) and Slovakia (2.8%) in 2019. Food and non-alcoholic beverages presented the common factor, that pushed the price dynamic up. In Romania and Hungary, alcohol and tobacco also had a strong effect. Slovakia faced similarly to the Czech Republic a significant growth of prices of housing and energies (the prices of housing and energies grew the most in the whole EU in the CR last year, Slovakia was third). Consumer prices went up in all Union countries last year, by less than 1% in eight

cases. The lowest increase was recorded in Portugal (0.3%), Greece (0.5%) and Cyprus (0.5%). The ranking of countries with prices growing the most year-o-year was in Q4 the same as for the annual results – Romania (3.7%), Hungary (3.5%), Slovakia (3.1%). The CR with its 3.0% increase ranked immediately behind these countries. The prices stagnated in the South Europe towards the end of the year – the growth was only 0.2% in Portugal and Cyprus, 0.3% in Italy similarly to the previous quarter. The growth reached 0.4% in Greece and 0.5% in Spain.

Catalogue prices of flats grew stronger also outside the capital city last year.

Year-on-year growth of the catalogue prices of flats weakened last year compared to the previous three years. The catalogue prices of flats were raised in total by 5.9% in the CR, in that by 4.8% in Prague. Faster pace of growth outside Prague can be explained partly by inclusion of other large cities (especially Brno, Ostrava etc.), but also by the excess demand outside of the area of the capital city. The catalogue prices of flats were raised by 5.5% year-on-year in Q4, in that by 3.0% in Prague. The growth fastened to 8.9% outside Prague. Realised prices of older flats increased by 10.1% last year and even though their year-on-year dynamics was slowing down during the year, the increase reached 9.4% in Q4. Prices thus grew faster than in year 2018, when the so far staggering year-on-year pace markedly slowed down. Dynamics of realised prices of older flats in Prague stayed below the republic average (7.9% for the whole year, 7.2% in Q4).

Chart 10 Prices of real estate (year-on-year change, in %)



Source: CZSO

Industrial producer prices grew by slower pace compared to the rest of the year in Q4.

Industrial producer prices increased by 1.3% year-on-year in Q4. It is considerably less than in the preceding quarter (2.0%) and H1 2019 (3.5%). The year-on-year slump of the rate of growth was among other caused by year-on-year fall of prices of manufacturing (-0.1%), which especially in H1 formed the basis of the whole index. Prices of coke and refined oil products<sup>51</sup>, further chemicals and chemical products (decrease by 6.0%), basic metals and metal products (-1.6%) and transport equipment (-1.0%) worked the most in the direction of decrease. On the other hand, food products, beverages and tobacco (year-on-year increase 3.7%) and further

<sup>51</sup> Individual figures.

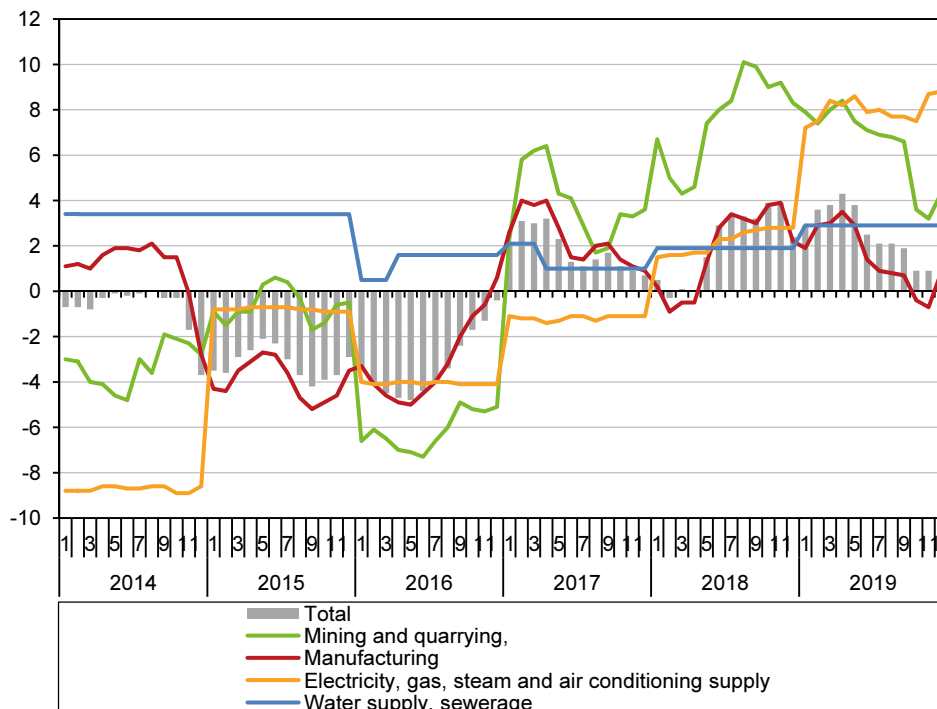


furniture and other products of manufacturing (4.6%) had a strong pro-growth effect. Growth of prices of textile, wearing apparel and leathers was also relatively strong (3.4%). Year-on-year increase of the prices of mining and quarrying also slowed down in Q4 (to 3.7%). On the contrary, the dynamics of prices of electricity, gas, steam and air conditioning supply strengthened (8.3%).

Industrial producer prices were influenced by rising prices of electricity last year.

Increase of industrial producer prices totalled 2.6% in year 2019. It was the highest value since year 2011. Two divisions added to the growth to an identical extent. The first were products and services of manufacturing, which form a large majority of domestic production. Their prices were raised by 1.5%. Prices of electricity, gas, steam and air conditioning supply were another major driver of producer price index development, their lower weight in the Czech industry being superseded by a very high growth (8.0%). Prices of mining and quarrying increased by 6.4%, mainly under the influence of black and brown coal and lignite (8.5%), but also prices of stone, sand and clay (5.1%). Prices of electricity, gas, steam and air conditioning supply were completely affected by the sharp growth for electricity (22.7%), while the cost of electricity transportation and distribution itself mildly fell (-1.1%). Prices of water supply and wastewater management increased by 2.9%.

**Chart 11 Prices of main groups of industrial producers** (year-on-year change, in %, based on CPA classification)



Source: CZSO

Food products were among the groups, where the prices grew the fastest.

Among the manufacturing products, prices of food product, beverages and tobacco (in total by 3.5%), especially processed and tinned meat and meat products (7.0%), grain mill and farinaceous products (6.4%) and bakery, pastry and other flour products (5.1%) significantly grew throughout the whole year. Prices of textile, clothing and leather (3.7%) were raised relatively strongly, mainly because of the wearing apparel (6.5%). Prices of wood, paper and print went up only by 0.7%. Prices of wood and wood products stagnated (0.4%), prices of paper and paper products decreased (-0.4%). Printing and reproduction of recorded media however experienced growth (2.8%). Under the influence of falling prices of oil, the prices of chemicals and chemical products decreased (by 1.6%). Prices of basic pharmaceutical products rose by 2.1%. Rubber and plastic products and other non-

metal materials had prices increased by 2.9%, at the same time the rubber and plastic products only recorded a decrease of 0.2%. Especially prices of other non-metal mineral products (6.7%) grew, mainly products used in construction<sup>52</sup>. Prices of basic metals and metal products (0.8%), computers, electronic and optical products (1.9%) grew only moderately and prices of electrical appliances stagnated (0.2%). Prices of machinery and equipment rose by 2.0%. Transport equipment however recorded only small increase (0.2%). Prices of furniture and other products of manufacturing were raised in total by 4.3%. Prices of furniture grew by 1.7%, but prices of repair, maintenance and installation of machinery and equipment by 4.9%.

Prices of oil had an adverse effect on the development of producer prices in the EU.

Industrial producer prices rose by 0.9% in the EU in 2019. Relatively low increase was caused by the year-on-year slump of prices in H2, especially under the influence of prices of oil, which stayed significantly below the level of the previous year in the given period. It affected the last year's dive of the prices of mining and quarrying by 2.8% and further the prices of manufacturing, which increased only by 0.9%, mainly because of stagnation in H2. Prices of electricity, gas, steam and air conditioning supply increased by 2.4%. Following the strong year-on-year increase in H1 the dynamics did not keep and prices in this section sank (unlike the CR, where a very strong growth remained). Producer prices increased the most in Romania (5.0%), Hungary (3.9%) and Bulgaria (3.8%) last year. Decrease occurred for producer prices in Portugal (-0.9%), Denmark (-0.6%) and Spain (-0.5%).

Prices of market services were affected by high dynamics of wage costs.

Prices of market services increased by 2.3% year-on-year in Q4. Their dynamics thus mildly slowed down compared to Q1 to Q3 of the year. Prices of services in the area of programming and consultancy the most contributed to the growth (year-on-year growth of 4.9%), further land transportation and transportation via pipelines (2.2%) and insurance, reinsurance and pension funding (5.6%). Total growth slowdown resulted from the pace reduction in some important services – for instance prices of advertising services and market research (from 5.5% in Q3 to 3.6% in Q4) or architectural and engineering activities (from 1.6% to -0.2%). For the whole year 2019, the prices of market services increased by 2.6%, the most since year 2008. The dynamics acceleration was linked mainly to the still strongly growing wage costs, which was reflected in the prices of services across the whole economy. It is apparent directly on the services in the area of employment, whose prices increased by 9.2% last year (slowdown compared to year 2018 was only negligible). Prices of land transportation and transportation via pipelines (increased by 2.4%, mainly because of prices of freight rail transport), further services in the area of programming (4.2%), insurance, reinsurance and pension funding (6.5%) the most contributed to the total growth last year. Advertising services and market research also featured a notable increase (4.5%). Decrease of prices happened only for storage and support service activities in transportation (-1.5%).

Agricultural producer prices fell in Q4. Growth of prices of pigs accelerated.

Agricultural producer prices decreased by 1.6% year-on-year in Q4 2019. Prices of plant production fell by 5.6%. Slump occurred for cereals (-9.5%), specifically across all types (wheat -10.9%, barley -6.0%, grain maize -9.5%). Partially it is caused by high comparative basis from year 2018, last year's better harvest also led to the decrease of prices to a lower level. Prices of industrial crops also decreased (-8.7%), in that oil plants by 4.5% (due to poppy seeds, whose prices went down by 30.9%) and sugar beet by 18.5%. Growth of prices of potatoes eased pace to 9.4%. Prices of fruit (48.3%), especially apples (49.3%) and pears (43.6%) again went up after the slump in the 2018 season. Prices of animal production increased by 5.6% year-on-year in Q4, mostly as a result of accelerating dynamics of prices of pigs (30.9% in Q4). Prices of

<sup>52</sup> Building products from clay materials, cement, lime, plaster and their products and cut, shaped and finished stone.



milk stagnated (0.1%) and prices of eggs slightly grew (3.4%). Prices of agricultural production went up by 4.9% for the whole year 2019. Both plant (5.9%) and animal productions (3.9%) recorded increase. Effect of the harvest results from year 2018 was subsiding for the plant production, which were worse in comparison to the preceding years. Prices of majority of crops were raised – cereals by 6.4%, industrial crops by 1.7%, feed crops by 2.0%, vegetables and horticulture products by 6.8%. Prices of potatoes experienced the most striking increase (37.3%), in that prices of consumption potatoes by 51.8% and planting stock by 16.5%. Veterinary situation<sup>53</sup>, which was mirrored in the prices of pigs and piglets (increase by 16.2%) mainly directed the prices of animal production. Prices of milk were raised by 2.7% and prices of eggs lowered by 6.6%.

Year-on-year growth of export prices gradually slowed down during the year.

Prices of export increased by 0.9% last year. Year-on-year dynamics however gradually slowed down during the year and a slump of 1.4% manifested in Q4. Prices of export of industrial consumption goods (3.4%), beverages and tobacco (2.1%), food and live animals (1.7%), machinery and transport equipment (1.2%) and semi-finished products<sup>54</sup> (0.4%) increased in 2019. Prices of materials – mineral fuels (-2.0%) as well as other materials<sup>55</sup> (-5.6%) and also chemicals and chemical products (-1.0%) decreased. Prices of majority product groups were lowering year-on-year in Q4. Other materials (-13.4%), mineral fuels (-8.5%) and chemicals and chemical products (-3.5%) recorded the largest slump. Prices of beverages and tobacco (1.5%) and industrial consumption goods (1.1%) were raised the most year-on-year. Prices of machinery and transport equipment stagnated (0.1%).

Import prices grew relatively little last year and the terms of trade were thus positive.

Total import prices also increased (0.3%). Prices of import of other materials (6.9%), food and live animals (2.7%), machinery and transport equipment (1.6%) and industrial consumption goods (0.2%) went up. Prices of beverages and tobacco fell markedly last year (-5.2%) as well as prices of mineral fuels (-4.7%). Prices of chemicals and chemical products (-0.9%) and semi-finished products (-0.6%) moderately decreased. In Q4 itself, the prices of import sank by 1.8% year-on-year. Mineral fuels (-11.8%), beverages and tobacco (-7.7%) and chemicals and chemical products (-5.8%) recorded the strongest decrease. Prices of imported food and live animals grew relatively fast (5.4%). Terms of trade were in total positive in year 2019 (100.6%). Terms of trade of beverages and tobacco (107.7%), industrial consumption goods (103.2%), mineral fuels (102.8%) and semi-finished products (101.0%) had positive effect. Contrastingly, the terms of trade of other materials (88.3%), food and live animals (99.0%), machinery and transport equipment (99.6%) and chemicals and chemical products (99.9%) were negative. Terms of trade were 100.4% in Q4. Mainly beverages and tobacco (110.0%), mineral fuels (103.7%) and chemicals and chemical products (102.4%) had a positive effect. Especially terms of trade of trade with other materials (85.5%) impacted the total index negatively.

<sup>53</sup> African swine fever. According to data of the State Veterinary Administration, occurrence was reported in Ukraine, Serbia and 10 EU member countries: Belgium, Bulgaria, Estonia, Italy (only in Sardinia), Lithuania, Latvia, Hungary, Poland, Romania and Slovakia as of 13.8.2019.

<sup>54</sup> SITC 6 – manufactured goods classified chiefly by material.

<sup>55</sup> SITC 2 – crude materials, inedible, except fuels.

## 6. Labour Market

Labour market in the CR started to display the first symptoms of the economic slowdown in the second half of the year. Demand for employees however still even despite corrections remained high.

Mild easing of economic growth pace in the CR, perceptible in the second half of year 2019, gradually started to have effect also on the labour market. Growth of employment halted primarily due to the development in the export branches, number of job vacancies also ceased to increase and the number of working foreigners slightly decreased after a long time at the very end of the year. Even though the unemployment rate still hovered around record low values, with minimal fluctuations during the year, the tension between the supply and demand on the labour market slightly abated. If we leave aside the situation in construction and trade, the shortage of labour force stopped dominating among the barriers to growth and on the contrary the role of inadequate demand became more highlighted (in industry, but to a lesser extent also in construction). Dynamics of the average wages during the last year continuously slowed down, the development was however differentiated at the level of branches. Growth of real employee earnings moderated more markedly, still it remained comparable to the business cycle peak of the last decade.

Year-on-year growth of employment halted at the end of the year, for the first time after six years. The dynamics has not more noticeably slowed neither in Germany nor in the EU so far.

Number of all employed<sup>56</sup> expanded year-on-year by 0.7% in 2019, however it only stagnated in Q4; the same phenomenon occurred last at the end of year 2013. In the quarter-on-quarter expression, employment mildly decreased already for the second time in a row (-0.3% and -0.2% resp. in Q3 2019), although it recorded a swift growth in the first quarter of the year (0.5%). Year-on-year employment dynamics in the CR for the first time after more than five years more notably lagged behind the rates of growth of the whole EU as well as Germany (1.0% and 0.7% in Q4 resp.). Situation in the CR was mostly impacted by the development in industry, where the employment reduced already since the half of the year<sup>57</sup>. Number of workers also diminished in the primary sector last year. In contrast the growth was strengthening in construction during the year 2019 (up to 2.4%, the ten-year maximum). Services, mainly information and communication fared well (+4.5% last year). Activities connected to tourism also increased the number of workers. Number of employees also increased in branches with the predominant public sector, mainly thanks to education as well as health care. Branch shifts were for the major part influenced by employees in Q4 as well as the whole last year, since the number of self-employed (entrepreneurs without employees) did not change significantly<sup>58</sup>.

Employees in industry were dwindling, on the contrary construction and majority of branches of services generated growth.

Short-term expectations concerning employment stayed positive in both trade and construction at the turn of years 2019 and 2020.

Short term expectations of employment, expressed by businesses in the business cycle surveys<sup>59</sup>, stayed positive in the branches of trade and construction also at the turn of years 2019 and 2020. Mild reduction of employment was on the contrary foresaw in industry (because of the development in Q4) an in the selected branches of market services (already more than one year). Within these weight important branches however the situation was relatively varied<sup>60</sup>.

<sup>56</sup> Unless stated otherwise, data regarding employment used in this chapter are given in the national accounts conception after adjustment for seasonal effects.

<sup>57</sup> It is also confirmed by business statistics figures. The number of employees in industry dropped by 1.5% year-on-year in Q4 (by 0.8% for the whole year 2019). However, in this conception agency workers are not included into industry and the effect of the shadow economy is not allowed for.

<sup>58</sup> Mild decrease of the number of self-employed in the primary sector, industry and grouping trade, transportation, accommodation and restaurants was to a large extent compensated by their increase in construction and majority of services activities (especially in information and communication).

<sup>59</sup> They are expressed with the help of seasonally adjusted figures as differences (in p.p.) between the ratio of businesses expecting the employment increase in the next three months and businesses on the contrary foreseeing the reduction of level of their workers.

<sup>60</sup> Within industry, mainly branches of leather, footwear and textile industry had negative expectations regarding the employment. Among the larger branches then especially rubber and plastic activities, machinery, manufacture of metal products, metallurgy and foundry industry. Moderately negative expectations were also in automotive industry (for the major part of the year 2019). On the contrary, positive anticipations prevailed in paper, printing, chemical or pharmaceutical industry and also in branch other manufacturing (including mainly manufacturing of medical and dental instruments and supplies and further also toys or sporting equipment).

Within the market services, the negative balance of employment expectations was apparent in transportation, telecommunication, financial activities, real estate activities, in the area of renting and operational leasing or travel agencies. On the contrary, anticipated employment



Number of legally working foreigners in the CR was expanding especially in the 1<sup>st</sup> half of the year 2019. It grew by the half rate than in both years 2017 and 2018 for the last year.

Even though the factor of shortage of labour force as a barrier to growth of businesses gradually weakened during the last year, its role was still not negligible at the beginning of year 2020 (48% in construction, 28% in industry, 20% in the tertiary sector – except for trade and public services). Given the factual exhaustion of vacant domestic labour force, the inflow of labour force from abroad continued. Number of foreigners holding employee positions was according to the MLSA data 622 thousand at the end of the year, year-on-year increase was however only one half compared to both years 2017 and 2018 last year (+53 thousand)<sup>61</sup>. Worsened situation in the industry in the second half of the year was reflected in the weaker demand for workers – number of persons with valid work permit dropped from 57 to 31 thousand during December, especially due to the reduction of citizens of Ukraine<sup>62</sup>.

Employment rate of persons in the productive age stagnated in 2019. In the context of the EU however it still ranked among the significantly above average, mainly thanks to males.

Employment rate of persons aged 15 to 64 years reached (based on the seasonally adjusted data from the LFSS) 82.1% for males, 68.2% for females in Q4 2019. Its long-term growth was interrupted at the end of year 2018 (employment has been stagnated since then). Higher economic activity towards the end as well as after the end of the productive age (due to strong demand for workers, especially in services as well as the lengthening of the legal retirement age), and also the continuing foreign work migration affected the rate positively. Employment rate in the CR stays significantly above average in the European context, especially thanks to males, whose position was exceeded in the EU only by Netherlands (82.3%) and Malta (83.4%). Employment of females was also above average in the CR (by 3.9 p.p. higher than in the Union), however distinctly below the level of the best placed Sweden (75.2%), but also the Baltic States (71–73%).

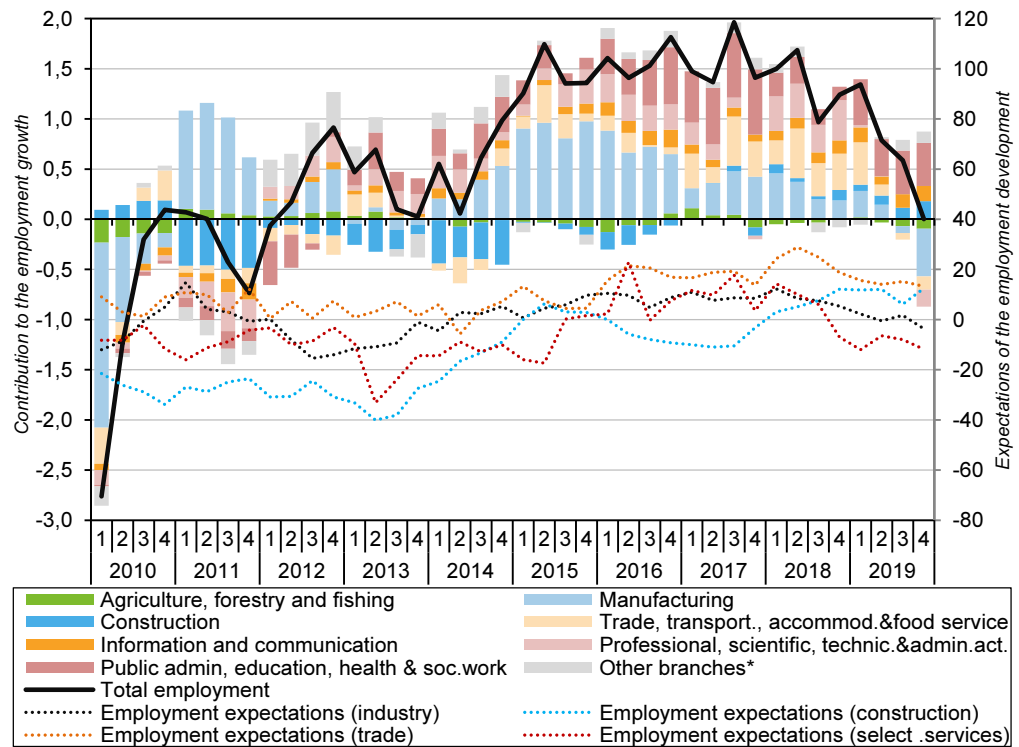
**Chart 12 Total employment (year-on-year in %), contributions of main branches to year-on-year employment change (in p.p.) and expectations of employment development in the next quarter (balance in p.p., seasonally adjusted)**

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increase was indicated traditionally especially by employment placement agencies, food service and restaurants, storage, legal and accounting activities, science and research and IT activities.

<sup>61</sup> Mostly citizens of Ukraine (+23 thousand), Slovakia (+10.1), Russia (+2.3), Poland (+1.5), Vietnam (+1.4), Bulgaria and Belarus shared in it.

<sup>62</sup> Below one half of citizens of Ukraine as well as all citizens from so called “third countries” working in the CR on employee positions do not need working permit for this reason (mostly foreigners with residence permit on the CR territory, asylum seekers or persons, who were granted a subsidiary protection, and further people residing on the CR territory based on long-term stay permit for the purpose of family reunification).



\*Mining and energetics; Financial and insurance activities; Real estate activities; Arts, entertainment and recreation activities; Other services.

Note: Balance of expectations expresses the difference in p.p. between categories (growth vs. decrease of employment in the following quarter)

Source: CZSO (national accounts, business cycle surveys)

Unemployment rate as well as the number of long-term unemployed stagnated during year 2019. Concerns of households related to the growth of unemployment in contrast slightly increased.

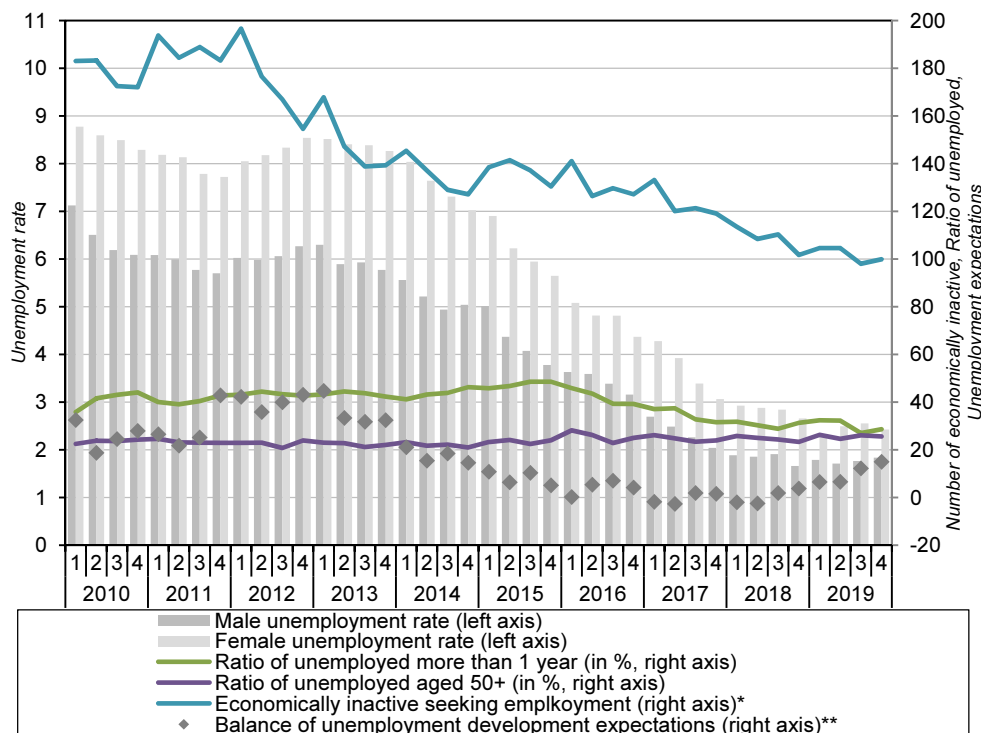
General unemployment rate<sup>63</sup> went only through minimal changes during the last year. In December 2019, it was 1.8% for males and 2.3% in case of females. Proportion of persons unemployed for more than one year mildly fluctuated (around 30%) and was placed near the historical minimums in the era of the independent CR (similarly to the total unemployment or number of economically inactive persons willing to work). These data lightly contrasted to the growing concerns of households regarding the growth of unemployment expressed in the business cycle survey (it cannot be ruled out though, that households more sensitively reacted also to the worsening economic development of the euro area).

**Chart 13 General unemployment rate (in %), ratio of long-term unemployed (in %), economically inactive willing to work (in thousand) and share of persons concerned about unemployment growth (in %)**

<sup>63</sup> All given unemployment rates are sourced from the data of Labour Force Sample Survey and express the reality after seasonal adjustment.







Note.: Figures regarding the unemployment rate are seasonally adjusted, other data are not.  
 \*Persons not in employment, not seeking work, but expressing the willingness to work.  
 \*\*Expectations in the next 12 months (for consumers). Expresses the difference in p.p. between the categories (growth vs. decrease of unemployment).  
 Source: CZSO (LFSS, business cycle surveys)

Labour offices offered the record number of vacant positions in May. The second half of the year brought only negligible decrease.

Excess number of job applicants over vacant positions was registered only in one third of the CR regions.

Rate of growth of average wages mildly slowed last year compared to year 2018, still it counted to the highest in the last decade.

One of the reasons why the slight economic slowdown in the CR has not so far manifested on the “hard” data regarding unemployment is the fact, that part of the persons, who lost their employment, already did not have to strive for return on the domestic labour market (working seniors, alternatively foreigners, whose work permit in the CR expires). Demographic influences also work against the unemployment increase in the last years (natural departure of populous cohorts born in the 50s blended with the onset of historically weakest cohorts from the end of 90s of the last century) and also the fact, that the demand for workers still stays high. In June 2019, labour offices (LO) in the CR had available the historically largest supply of job vacancies (351 thousand), it was 341 thousand at the end of the year (by 5% more year-on-year). During the last year again mainly the number of the least qualified positions requiring only primary education grew (+28 thousand), aiming in the first place on the foreign workers. Number of job vacancies for apprentices decreased (-11 thousand) and the supply of positions with higher qualification requirements, forming only one tenth of all positions, stagnated. Already one third of all job vacancies stayed in the LO for more than one year in the CR. Ratio of one job vacancy to number of applicants was 0.6 at the end of the last year. Only one third of regions reported excess of applicants over offered number of job vacancies (only Karviná, Jeseník and Sokolov more than 3 applicants per vacancy).

The average gross nominal monthly wage of employee grew (based on business statistics) by 7.1% (to 34 125 CZK) in 2019. It represented the second highest year-on-year rate of growth in the last eleven years (after year 2018: +7.5%). The dynamics of the average earnings however gradually slightly weakened during the last year (+7.5% in Q1, +6.7% in Q4<sup>64</sup>). Decline was apparent in the majority of market branches (in key branches – manufacturing and trade, but also in construction). High demand for employees in majority of branches, very low unemployment as well as gradually diminishing reservoir of domestic

<sup>64</sup> The lower number of hours worked year-on-year (there was one working day less in Q4 compared to the same period of the previous year), lower volume of overtime work as well as small decrease of the role of special bonuses (evident e.g. in mining and quarrying) impacted this slow down as well. On the contrary, the volume of paid not worked time increased, especially due to higher sickness.

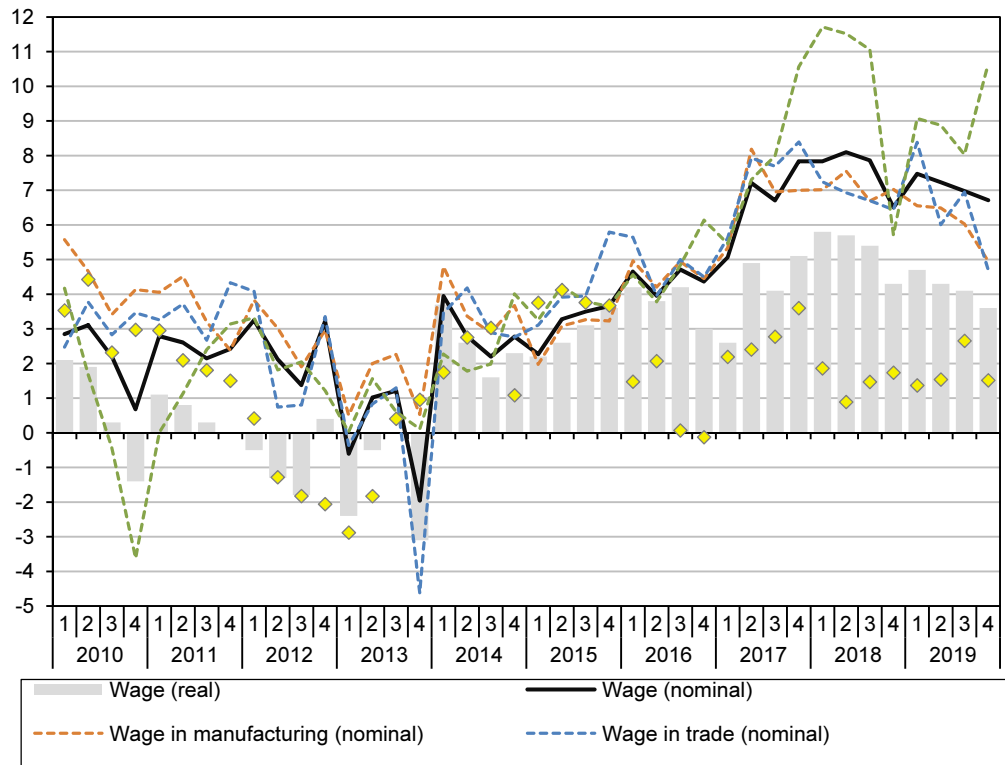
<p>Factors acting against dynamic wage growth gained in importance during the last year.</p>	<p>labour force from ranks of economically inactive assisted in keeping the relatively brisk wage dynamics – similarly to years 2017 and 2018. Slightly decreasing (even though still high) profitability of businesses related apart from cost pressures (wages, energies) also to the weakening of the foreign demand for industrial products worked in the opposite direction. In addition, expanding supply of workers from economically less developed countries dampened faster growth of earnings in some “low-income” branches (e.g. in the area of tourism).</p>
<p>The average earnings grew relatively the most in education already second year in a row.</p>	<p>Varying resilience of branches towards the fluctuations of the foreign demand together with a more selective approach to increase in remuneration in the public sector (mainly with employees in education) was reflected in wider inter-branch differentiation of the wage growth last year. The average earnings grew the fastest in education, for the second year in a row (+12.5%, +10.7% in year 2018). Their annual size overtook the level of the national economy last year (by 3.5%, for the first time since year 2009)<sup>65</sup>. Earnings in cultural, amusement and recreational activities increased by one tenth, branch health and social care in effect also maintained the pace from year 2018 last year (+8.5%). Among the market services, financial and insurance activities recorded the largest improvement in absolute (4 471 CZK) as well as relative terms (+8.2%, the highest annual rate of growth after year 2002)<sup>66</sup> last year. On the contrary, professional, scientific and technical activities showed the lowest pace within the services sector (+5.0%), still the wage level here exceeded the whole economy by one fifth. Principal branch of trade recorded weaker growth also due to considerable slowdown at the end of the year (6.4%). Despite solid increase of the minimum wage, the earnings in accommodation, food service activities and restaurants grew by below-average 6.6% and in the annual total stayed narrowly below the 20thousand boundary last year (only on one third of the financial sector or IT area level). Wages strengthened by even 6% in manufacturing. Rate of growth as well as the level of wages thus stayed slightly below the level of the whole economy, identically to year 2018. More humble wage growth despite strengthening of production as well as orders was typical for construction last year (+6.1%). Total wage differentiation in the economy already presumably did not decrease in contrast to the last three years last year anymore. Wage median increased by 6.9%. It was growing faster for females than males already fourth year in a row (also due to the influence of strengthening wages in education). Even though the year-on-year growth of the purchasing power of wages mildly weakened mainly because of the impact of strengthening inflation (down to 3.6% in Q4 2019, the least in nearly three years), in total from the beginning of the last year it was 4.2%, which still meant the second highest rate of growth for the last twelve years.</p>
<p>Wages were raised by below average pace in industry, trade or construction. Slowdown was evident during the year</p>	
<p>Total wage differentiation did not decline any more, since the acceleration of earnings in finance and insurance activities occurred and also due its weaker growth in branches linked to tourism.</p>	

**Chart 14 Average nominal and real wage, labour productivity (year-on-year, in %)**

<sup>65</sup> Year-on-year growth of wages in education accelerated also thanks to payment of bonuses at the end of the year to 16.2% in Q4. The size of average gross monthly earnings (41 674 CZK) already neared here close to the level of best positioned branch in the long-term with the dominant public sector (public administration and social work) and it exceeded the level of national economy by record 15%.

<sup>66</sup> Dynamic wage growth was enabled by very good economic results of the financial sector merged with strong pressure on the productivity growth (number of employees according to business statistics shrank by 1.9% year-on-year and also in previous years their growth was rather restrained). In addition, the relative growth rate of averages wages was placed considerably below the level of the nation economy here in the period of 2015 to 2018.





\* Includes branches: Public administration, defence, social security; Education Human health and social work activities; Arts, entertainment and recreation activities.

\*\*Share of seasonally non-adjusted GDP and total employment (in the national accounts conception).

Source: CZSO

## 7. Monetary Conditions

Monetary policy-relevant interest rates were changed only once last year.

Set up of basic monetary policy-relevant rates of the CNB was last year adjusted only once, concretely in May. Thus, repo rate was 2%, discount rate 1% and Lombard rate 3% till the end of the year. Koruna foreign exchange against euro moved in the range between 25.40 and 25.90 koruna per euro<sup>67</sup> for the whole year. Average value of the foreign exchange attained 25.68 koruna in Q1 and Q2 and 25.74 koruna in Q3 and 25.58 koruna in Q4. Neither the year-on-year nor the quarter-on-quarter movement of the exchange rate thus were not very significant. Koruna foreign exchange against dollar was characterised by a tendency to depreciate in Q1 to 3 (with the exception of short appreciation during June, average foreign exchange was 22.61, 22.86 and 23.15 koruna in Q1., 2. and 3). Koruna foreign exchange mildly appreciated in Q4 (average 23.11 koruna per dollar). Compared to year 2018, the foreign exchange rate against dollar was markedly weaker (annual average was 21.74 CZK/USD in 2018, it was 22.93 CZK/USD last year).

Yields of government bonds have been growing since September.

Interbank interest rates essentially copy the development of those monetary policy-relevant rates, so the PRIBOR interest rate (all types) did not change much following the May increase. Three-month rate PRIBOR came up to 2.18% towards the end of the year. The development of yields of government bonds was more interesting last year. Average rate of all bond maturities (short-term, medium-term and long-term) slightly oscillated (around 1.65% for short-term, 1.60% for medium-term and 1.80% for long-term) from January till May, but did not change much. Nevertheless, the yields considerably declined during June to August (averages of all bond types fell below 1% in August). The government bond yields then kept growing till the end of the year and amounted to 1.36% for short-term, 1.31% for medium-term and 1.51% for long-term as of 31.12.

Interests on deposits with agreed maturity were growing last year, which attracted relatively large volume of funds.

Even though the interests on current accounts for households remained on the same (nearly zero) level for the whole year, deposits with agreed maturity had their average rates changed during the year. More notable upward shift was captured already in H2 2018 and last year's Q1 to 3 built on this development. The average interest rate on deposits with agreed maturity increased by 0.25 p.p. to 1.6% from January till September 2019. But the interest rates decreased in Q4 (average amounted to 1.52% as of 31.12.). Non-financial businesses enjoyed slightly better terms on the current accounts than households last year – the average interest rate went up to 0.22% during H1 2019 and stayed at this level till the end of the year (0.21% as of 31. 12.). Average interest on deposits with agreed maturity for non-financial businesses followed similar development as for households – it grew during Q1 to 3 and slightly fell in Q4 (it was 1.52% as of 31.12.). Described development of the interest rates also affected the structure of the money stock. Its year-on-year growth notably moderated in years 2018 and 2019, mainly under the influence of currency and one day deposits. But the volume of funds in the form of deposits with agreed maturity sharply hiked up (it expanded by 128.7 CZK bn during the year 2019, 59.2%).

Year-on-year growth of volume of mortgages provided to households slowed down last year.

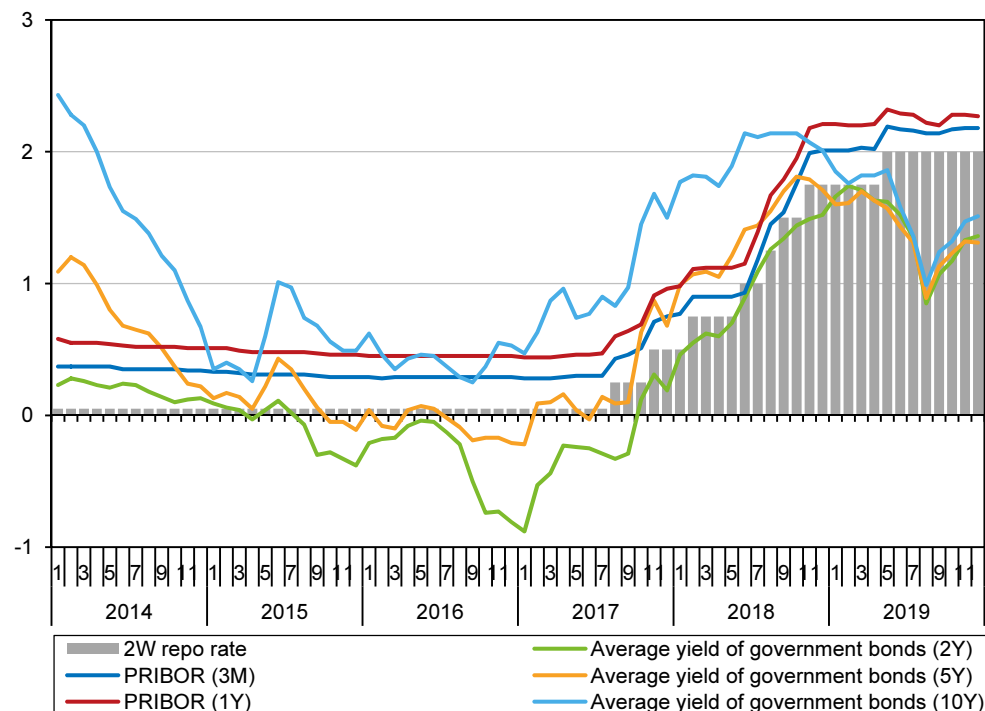
Level of interest rates of credit for households was decreasing during the last year. Average interest on consumer credit went down (it was 8.28% as of 31.12., it decreased by 0.35 p.p. year-on-year). The average interest on mortgages fell even more markedly. The rate did slightly increase in Q1 (to 2.97% as of 31.3.), however a large cut occurred during following quarters down to 2.49% towards the end of year 2019. Described cut was evident for all types of fixation of the rate. Year-on-year growth of the volume of consumer credit accelerated to 8.9% towards the end of the

<sup>67</sup> Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD.



last year and the volume of provided credit totalled 234.4 CZK bn as of 31.12. (year-on-year increase of 19.1 bn). Year-on-year growth of the volume of mortgages has been gradually slowing down since the beginning of the year. In Q4, their volume expanded by 6.7% (for the first time since Q2 2015 the pace dropped below 7%). Number of new mortgage contracts reached 154.2 thousand last year and it thus sank by 29.3 thousand year-on-year. Total indebtedness of households arrived at 1 816.4 CZK bn at the end of year 2019 and it enlarged by 103.3 CZK bn year-on-year (6.0%). Mortgages comprised the majority of this debt (82.1 bn).

**Chart 15 Market interest rates (in %)**



Source: CNB

Credit denominated in foreign currencies formed a large part of credit provided to non-financial corporations.

Terms of credit provision for non-financial businesses were changing depending on the volume of provided funds in 2019. The average interest grew to 4.33% in Q1 and 4.42% in Q3 for credit category up to 7.5 CZK mil, but decrease emerged to 4.11% at the end of the year. Rates for the medium category of credit (7.5–30 CZK mil) fluctuated throughout the whole year (3.32%, 3.45% and 3.39% at the end of Q1., 2. and 3) and climbed up to 3.53% at the end of the year. Interest on credit over 30 mil oscillated the least last year – only in the order of hundredths p.p. – and amounted to 3.76% as of 31. 12. Following relatively strong year-on-year increase in Q1 (6.2%), the pace of volume of credit and receivables of non-financial businesses moderated. As of 31. 12., the balance was by 3.7% year-on-year higher. Volume of medium term (5.8%) and long-term credit (5.0%) was expanding. Credit financing denominated in foreign currencies became the standard. It comprised 33.3% of all credit and receivables as of 31.12. and the year-on-year increase of the total volume of credit (39.7 CZK bn) consisted for the absolute majority of those denominated in foreign currency (37.2 bn). The year-on-year rate of growth of the volume of credit considerably sank in some branches in the past year. Reason was however among other things the high comparative basis of year 2018<sup>68</sup>. Volume of provided credit decreased year-on-year in transportation and storage as of 31. 12. (-9.5%, increase was 14.0% in 2018), accommodation, food service and restaurants (-5.5%, 15.4% in

<sup>68</sup> Construction, where the cycle of financing from European funds is often obvious, represents the primary example. Volume of provided credit increased by 12.7% here during year 2018.

2018) or information and communication (-5.1%, 15.4% in 2018). Increase of credit in manufacturing was only small (1.6%). In spite of slowdown in comparison to the previous year, the favourable development of the situation in the branch was reflected in the increase of credit provided in construction (8.8%). The volume of credit also solidly grew in the area of real estate activities (7.5%).



## 8. State Budget

State Budget returned to deficit last year. Its balance was the worst in the last four years, but better than in the business cycle peak in the last decade.

State Budget (SB)<sup>69</sup> recorded a deficit of 28.5 CZK bn in year 2019 and thus achieved the weakest result in the last four years. The depth of the deficit was however at the same time considerably lower (by 56 bn) in comparison to the average for the business cycle peak period in the previous decade (2003 till 2007). Mainly the swift growth of both the current and investment outlays and further also the mild slowdown of dynamics of collection of some weight-significant taxes due to the easing of economic growth stood behind the fall of the balance from year 2018 (by 31.5 bn). Balance of flows in relation to the EU budget<sup>70</sup> also had an effect to a lower extent.

Mostly non-tax and capital income drove the growth of total SB revenues. The total tax collection including insurance gradually reflected the slowdown of economic growth.

Year-on-year growth of the SB revenues (by 8.5% and by 119.3 CZK bn resp.) was from more than one third saturated by higher non-tax and capital incomes and transfers last year, which was the result of stronger inflow of funds from the EU budget (+6.7 CZK bn), planned one-off transfer from the privatisation account (18.0 bn) as well as higher incomes from the sale of emission allowances. Collection of insurance on social security also contributed to the larger total budget revenues by one third (+7.5%), tax incomes played nearly similar role (+4.9%). Collection of both these components however slightly lagged behind the budget anticipations, because the economic slowdown became evident especially in the second part of the year. The tax collection increased at the level of all public budgets (without insurance) by the weakest pace in the last four years (by 5.4% year-on-year, by 5.0% in H2 itself).

Rate of growth of the state-wide VAT collection markedly slowed down and ended behind the budgetary target.

SB revenues from the tax holding the largest weight – VAT – increased by 4.4% last year and similarly to year 2018 it did not meet the budgetary target. It follows from the state-wide collection, which eliminates the effect of changes in budgetary determination of the tax, that the growth rate of the VAT collection was falling last year already second year in a row and it also lagged behind the dynamics of growth of the nominal final consumption expenditures of both households and government institution.

Lower collection of the consumption tax on the tobacco products was for the major part offset by higher collection of tax on mineral oils.

Collection of all consumption taxes in line with the budgetary target decreased only very little year-on-year in 2019 (by 0.2%). This decrease was nearly exclusively affected by weaker collection of tax on the tobacco products (-4.9%), whose collection was except for fluctuations due to the pre-stocking adversely affected mainly by the fact, that the tariff of this tax was not increased last year for the first time since year 2011. Collection of the consumption tax holding the most significant weight – on mineral oils – went up by 2.7%. Higher transport work manifested especially in the passenger transport, which resulted in higher consumption of the diesel fuel, petrol and especially the kerosene<sup>71</sup>.

Dynamics of the collection of income tax of natural persons still featured double digit figures despite a mild slowdown.

Growth of collection of direct taxes was driven the most by the income tax of natural persons already third year in a row. Its collection at the level of all public budgets rose by 11.7% year-on-year (the rates moved between 13 and 15% in both years 2017 and 2018). This slowdown is linked to the weaker dynamics of employment as well as mild moderation of growth of averages wages, which were observed especially in the second half of the last year. Other direct taxes also recorded a brisk double-digit growth in 2019 – for natural persons from tax return declaration or capital gains. The strong domestic demand associated mainly with the higher purchasing power of households still played a role here. Statewide collection of corporate tax, following the weaker dynamics influence

Volume of collection of corporate tax overtook the level from the

<sup>69</sup> Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance regarding the cash fulfilment.

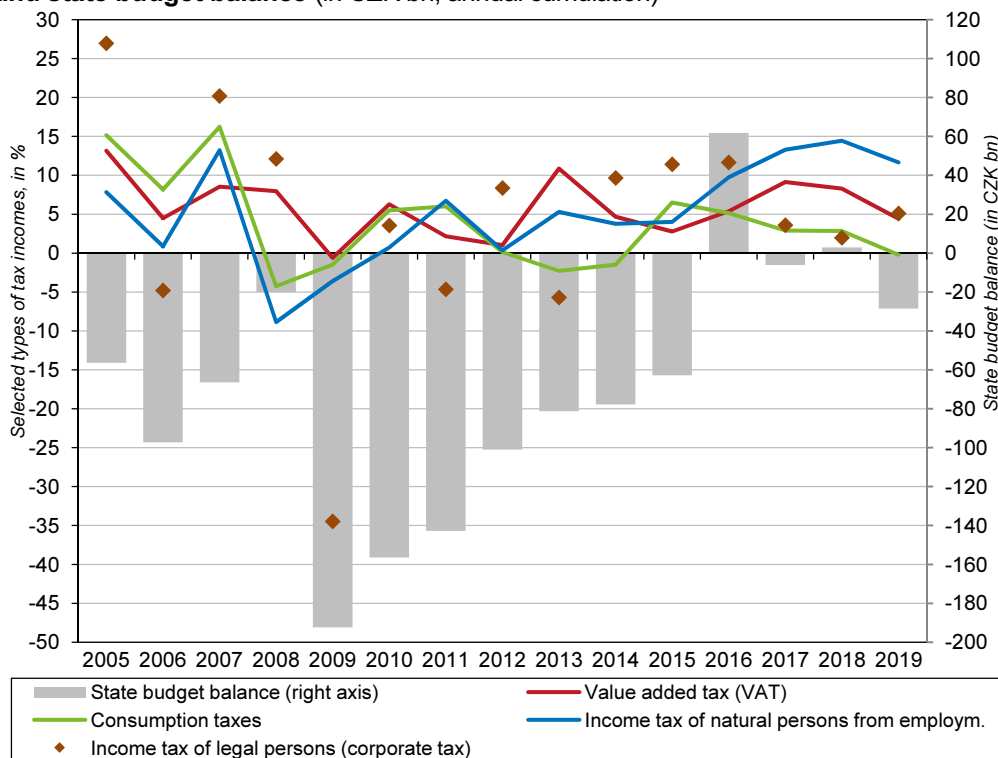
<sup>70</sup> According to the MF calculations, the SB adjusted for funds on programmes and projects from the EU budget and Financial mechanisms (EEA and Norway Funds, Swiss – Czech Cooperation Programme), which were pre-financed from the SB and subsequently paid for from the EU budget and financial mechanisms, ended in 27.7 CZK bn in 2019, by 24.2 bn deeper year-on-year.

<sup>71</sup> According to the CZSO data, the consumption of diesel (including biofuels) increased by 0.7% year-on-year, diesel fuel by 1.5% and kerosene by 3.9% in 2019. The consumption pace was weaker, in case of both diesel and petrol a very mild year-on-year decrease was recorded (by 0.2% and by 0.5% resp.) in Q4 itself.

business cycle peak in the last decade for the first time.

mostly by strengthening wage costs in years 2017 and 2018, increased by 5.1% year-on-year last year. The absolute size of the collection exceeded the pre-crisis level for the first time (year 2008)<sup>72</sup>. Still the last year's collection stayed slightly behind the budgetary target, similarly as the total income tax of natural persons.

**Chart 16 State wide collection of selected tax incomes (year-on-year in %) and state budget balance (in CZK bn, annual cumulation)**



Source: MF CR

Growth rate of the SB expenditures was further rising and climbed up to 10.8%.

Rate of growth of total SB expenditures has been expanding already third year in a row and it hiked up to 10.8%<sup>73</sup> in 2019, which was maximum for the last two decades. Both current (+128 CZK bn) and capital (+23 bn) expenditures contributed to the growth last year similarly to year 2018. Strengthening of investment (by 19.6%) was from more than one half connected to higher transfer to the state fund of the transport infrastructure. Half of all SB investment was directed on the common CR and EU projects (68.5 CZK bn)<sup>74</sup>. Their year-on-year growth was relatively small (+8.5%), since considerable acceleration of drawing of euro funds already occurred during the year 2018. In contrast, investment realised without the participation of the EU funds and the financial mechanisms strengthened nearly by one third last year (to 70.8 CZK bn), still they slightly fell behind the budgetary target (unlike the “European investment”). Proportion of investment on total SB expenditures mildly rose to 9.0% and arrived at four-year maximum. Nevertheless, their weight was oscillating between 10 and 12% in years 2006 to 2011.

Volume of capital expenditures increased by one fifth, mainly thanks to investments on projects without the EU participation.

Current expenditures were stimulated by higher expenditures on social benefits as well as wages of public sector

Current expenditures of the SB strengthened by one tenth year-on-year last year. Traditionally mainly the higher expenditures on social benefits stood behind this development (+8.2% and +46 CZK bn resp.). Purchasing power of households was also stimulated by strengthening expenditures on the regional education (+20 bn), especially

<sup>72</sup> For income taxes of natural persons, the pre-crisis maximum (from year 2007) was exceeded already in year 2015.

<sup>73</sup> This above-standard high rate of growth of expenditure growth also reflected the (neutral from the view of the total budget) transfer of 18.6 CZK bn connected to the budget surplus of the pension insurance system for year 2018 (from chapter General Treasury Administration Chapter into chapter Operation of State Financial Assets). Without this transfer, the year-on-year rate of growth of expenditures would be 9.4%.

<sup>74</sup> Total expenditures to finance common EU and CR programmes totalled 140.4 CZK bn last year and strengthened by one eighth year-on-year. This item also includes the non-investment expenditures (e.g. on direct payments to farmers).





employees. Expenditures on non-investment purchases and the state debt had the opposite effect.

on the wages of employees<sup>75</sup>. Higher expenditures on wages of public administration employees at the central level had a similar effect (+7.1% and +10 bn resp.). Transfers to state funds recorded double-digit growth (especially into the area of agriculture and transportation), non-profit and similar organisations. On the contrary the funds of non-investment purchases and connected outlays decreased by 3% (purchase of services, material, water, energies etc.), net expenditures on the state debt also decreased by an identical pace (to 39.6 CZK bn)<sup>76</sup>.

Rate of growth of expenditures on pension insurance benefits rose the most after year 2009.

Share of SB expenditures aimed at all social benefits has been falling for a third year in a row. It amounted to 38.8% last year (42.1% in year 2016). Nearly four fifths of these expenditures were allocated on pensions. Their growth rate nearly doubled last year compared to year 2018 (to 8.7%), higher rate was last recorded in year 2009. Given the stagnation of the total number of persons receiving pension (including old-age pensioners), the effect of legislative amendments was fully evident<sup>77</sup>.

Rate of growth of collection of contributions on pension insurance fell year-on-year. Balance of the pension account remained in mild surplus for a second year in a row.

Still very favourable situation on the labour market led among other things to the growth of the economic activity of persons near the end of the productive age as well as seniors. It was also positively reflected in the growth of incomes flowing into the system of pension insurance contributions or lower use of early retirement<sup>78</sup>. Despite of this development the year-on-year rate of growth of collected insurance on pensions for the first time after year 2013 slackened year-on-year last year (to 7.8%, from 10.1% in year 2018). It corresponded to the more notable slowdown of the employment growth in the economy as well as the mild decrease of dynamics of the average wages. Pension account balance<sup>79</sup> thus very mildly worsened year-on-year in 2019 and remained positive already second year in a row (+16.4 CZK bn).

Mainly higher drawing of sickness insurance benefits and also strengthening of expenditures for citizens with disabilities contributed to the growth of non-pension social benefits.

Growth of expenditures on other social benefits (excluding pensions) accelerated last year for second year in a row and hit a six-year maximum (+6.4%). Higher state expenditures were for the overwhelming part connected to the sickness insurance benefits (+14.5%<sup>80</sup>, the drawing doubled in the last eight years) and also to the benefits for persons with disabilities including care benefits (higher by one eighth year-on-year, by one half in six years). Expenditures on state social support on the contrary decreased by 3.3%, these expenditures rather stagnated so far since the end of the last recession. Only peripheral by volume foster care support strengthened last year among the partial benefits of the state social support. Both volume of all income-tested benefits, e.g. child allowances or housing benefits (by 10% and by 8% resp.) and weight dominant parental allowances (by 2%) decreased. The volume of material deprivation assistance benefits went also down due to the improved financial situation of households (by 18% year-on-year, by 61% in the five years). The fall of unemployment benefits halted after five years last year (+8.0%). Effect of the growth of the average size of support manifested (thanks to recent wage acceleration in the economy), number of unemployed eligible for support however stagnated year-on-year.

<sup>75</sup> It was mainly related to the year-on-year rise of the volume of resource on the wages of pedagogical (+15%) and non-pedagogical employees (+10%).

<sup>76</sup> It is the budget balance of the chapter State debt. These expenditures increased year-on-year for the last six years only in year 2018 (by 2.4%).

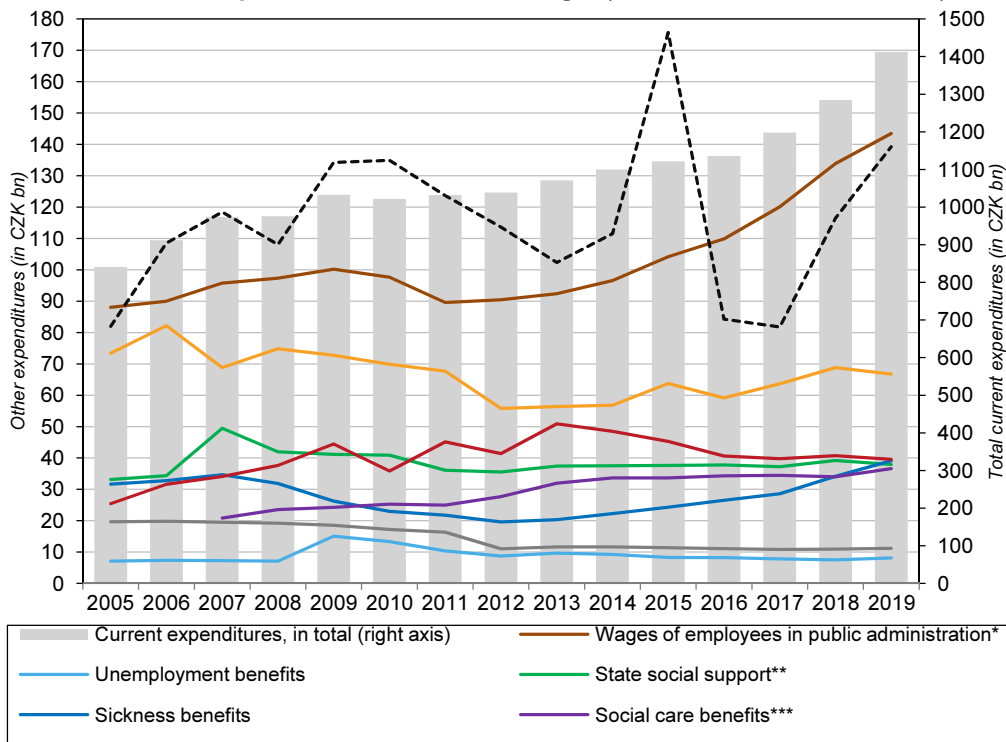
<sup>77</sup> It concerned the increase of the basic pension assessment from 9% to 10% of the average wage, percentage pension assessment by 3.4% and further the increase of 1 000 CZK for pension recipients, who reached the age of 85 years. Pension adjustment mechanism further since year 2018 fully reflects the impact of the consumer price growth (altern. the growth of the living costs of pensioners) and one half of the growth of real wages in the economy is also taken into account.

<sup>78</sup> Year-on-year growth of the number of recipients of permanently reduced pension (due to its earlier acquisition) amounted to 1.9% in Q4 2019, this rate continuously decreases after year 2014. Ratio of early pensioners to all old-age pension recipients reached 26.6% in the CR (with significant regional variations).

<sup>79</sup> Expressed as the difference between revenues and expenditures on pensions from the SB. Expenditures on administration of the pension insurance system are included in the expenditures (they arrived at 6.3 CZK bn based on the MF data in 2019).

<sup>80</sup> Prevailing growth of the temporary incapacity for work stood behind it. Daily assessment basis of this benefit was also raised (derived among other things from the size of previous earnings). Growth of the volume of paid out sickness benefits was also partially affected by higher drawing of maternity benefits last year (+7.4%).

**Chart 17 Selected expenditures of the state budget (in CZK bn, annual cumulation)**



\*Covers expenditures on salaries in central government institutions. Does not include e.g. wage costs of regional education.  
 \*\*Also includes the foster care benefits.  
 \*\*\*Includes Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits based on Act on State Social Support.  
 \*\*\*\*Contains mainly expenditures on purchase of services, materials, energies or other services (e.g. expenditures on repairs and maintenance).  
 \*\*\*\*\*Corresponds to the balance of the budget chapter State debt.  
 Source: MF CR, MLSA

Size of debt remains stabilised already the seventh year. Medium- and long-term state bonds issued on the domestic market prevail as the dominant debt instrument.

At the end of year 2019, the state debt reached 1 640 CZK bn, its growth only negligible year-on-year (by 1.1%). The size of the debt stays stable already seventh year. In the last four years, certain seasonal development is repeated – the value of debt rises at the beginning of the year and a gradual reduction occurs under the effect of repayments in its second half. State practiced its borrowing operations only on the domestic market last year, which was reflected in further decrease of the koruna value of the foreign debt (by 13.9%). It shared in the total state debt by 12.4%, the least since the end of year 2004. Medium and long-term state bonds (issued on the domestic market) comprised more than six seventh of the total debt. Financial institutions remain the key holder of the koruna state bonds – with mild dominance of insurance companies and pension funds (29.5%) over other entities formed mainly by banks and investment funds (25,2%). Non-residents held 40.5% of the debt, their proportion in contrast to previous years remained stable during the year. Weight of households thanks to the new product offer to citizens (Bond of the Republic) strengthened, it was still below average compared to the EU states (1.1%).

Indebtedness rate of the government institution sector fell to ten-year minimum.

Debt of the whole sector of government institutions (including apart from central local government institutions or health insurance companies as well) totalled according to the CZSO data size of 1 740 CZK bn at the end of year 2019 and the indebtedness rates summed 30.8% of GDP (ten-year minimum). It decreased by 14.1 p.p. in the last six years, only in year 2019 then by 1.8 p.p. (exclusively due to the growing nominal GDP, since the absolute size of the debt rose by 5.8 CZK bn). Budget balance of the government institution sector was 15.4 CZK bn and +0.3% resp. of GDP last year. Surplus was achieved already for the fourth time in a row, its size was however only one third compared to year 2018. Primarily the worsening at central government institutions manifested, where the balance fell by 40.7 CZK bn (to -31.7 bn, four-year minimum). Health insurance companies lowered the budget surplus by one third year-on-year, on the contrary the local government institutions

Budget balance remained positive for the fourth year in a row, the size of surplus however narrowed.



The economic slowdown during the year 2019 was also mirrored in the dynamics of some significant tax incomes.

(formed mainly by regions and municipalities) improved their positive result by one half (to 36.0 bn). The surplus on the local level was achieved with simultaneous growth of investment, which was a positive factor<sup>81</sup>. Decelerated economic growth during the year 2019 manifested on the fiscal level by weakening dynamics of the tax incomes (mainly the current taxes on income and social contributions). It led to the worsening budget balance of the whole sector of government institutions – while in Q1 it amounted to +1.0% of GDP seasonally adjusted, it dived to -0.3% at the end of the year and presented the first deficit in the last five years.

The CR kept the position of the fourth relatively least indebted economy of the EU.

Debt of the whole sector of government institutions was 32.0% of GDP in the CR according to the latest data at the end of Q3 2019<sup>82</sup>. The CR thus held a position of the fourth the relatively least indebted EU country – with a larger distance behind Estonia (9.2%), Luxembourg (20.2%) and Bulgaria (20.6%) and simultaneously with a minimal lead ahead of further five states (Denmark, Sweden, Romania, Lithuania and Latvia). The indebtedness rate dropped by 1.9 p.p. year-on-year exclusively due to the nominal GDP growth in the CR year-on-year, more than in the euro area (-1.0) as well as the EU (-1,3). Indebtedness rate has been shrinking in the EU as well as the euro area already fifth year in a row, the reduction pace however failed to accelerate despite long-term economic growth. This is mainly connected to the fact, that the government institutions sector in the EU countries was still showing negative budget balance, which was not declining in the last quarters anymore<sup>83</sup>. Indebtedness rate lowered in three quarters of Union states in Q3 2019 year-on-year, a moderate increase however manifested among others also in some highly indebted economies (to 137.3% of GDP in Italy and to 100.5% in France). Indebtedness below 60% of GDP was observed only in near one half of the euro area members, in that out of core countries (EU15) only in Luxembourg, Netherlands and Finland. Only Germany and Malta succeeded in decreasing their indebtedness rate below the level from the business cycle peak period of 2006 to 2008 so far. Only Sweden was also approaching tightly this level, the CR was still exceeding it by more than 5 p.p.

Gradual trend of lowering the indebtedness rate is apparent in the EU after year 2014. Situation in the most hit economies however was not improving much.

<sup>81</sup> Gross fixed capital formation climbed by 3.4% in year 2019 to record 120.4 CZK bn. Volume of investment enlarged third year in a row.

<sup>82</sup> Preliminary data regarding the debt and deficit of the sector of government institutions for the whole year 2019 for all EU states will be published by Eurostat on 3<sup>rd</sup> April 2020.

<sup>83</sup> Balance was moving in the range of -0.7% to -0.9% of GDP (after seasonal adjustment) during the three quarters of 2019. The balance at the same time reduced down to -0.5% in Q2 2018, which was the level close to the best result from the business cycle peak of the last decade. Among larger Union economies, only Germany (+1.7% of GDP) and Netherlands (+2.1%) succeeded in having surplus in Q1-Q 3 2019.