

7th May, 2012

## Summary

- The Czech economy was gradually slowing down quarter-by-quarter in 2011 both in year-on-year and quarter-on-quarter comparisons. Quarter-on-quarter slowdown occurred sooner than in the EU economy. The loss of dynamics was affected only partially by the external demand and more significantly only in the 4<sup>th</sup> quarter. Major cause of the adverse development of the Czech economy lay in the inner environment, since full seven tenths of the Czech GDP in real as well as nominal terms is comprised of final consumption expenditure of households and general government, which were falling in real terms in each quarter. Investment was also decreasing for major part of the year. Foreign trade thus represented the only growth impulse in 2011.
- GDP<sup>1</sup> grew in 2011 year-on-year by 1.7 % compared to 2.6 % in 2010. Slowing down of the growth rate was gradual throughout the year, similarly to the European Union economy. However, the year-on-year slowdown of GDP was in the CR in the second half of the year faster – while the union as a whole slowed down in the 3<sup>rd</sup> and 4<sup>th</sup> quarter to year-on-year rates of growth of 1.4 % and 0.9 %, Czech economy slowed down to 1.2 % and the GDP grew in the last three months of the year by 0.6 % only.
- Quarter-on-quarter the Czech economy in the last two quarters of 2011 fell, by the same rate of 0.1 %.
- According to the Eurostat data, the decrease of the final consumption expenditure of households as well as government was in the Czech Republic in individual quarters of 2011 one of the deepest in the European Union. Contrary to continuing growth of investment reported for EU 27, the CR experienced its fall.
- Gross value added formed in the industries of the Czech economy rose compared to 2010 by one half (+1.5 % as opposed to +3.2 %), with the largest dynamics in the manufacturing (+9.8 %). Its addition was smaller than addition of GDP. It is an evidence of progressing slowing down of activity in the economy. In 4<sup>th</sup> quarter the gross value added did not grow anymore.
- Firms in the industry increased their production in real terms by 6.9 % with a significant slowing down of the rate of growth during the year. Manufacturing of motor vehicles formed half of this growth. Falling rate of growth of new orders revived by the end of the year due to foreign countries. Construction has remained in decline for a third year, receipts from retail sales excluding sales of motor vehicles stagnated, sales in the services sector have been decreasing since the end of 2008.
- The weight of motor vehicles on total export out of CR further increased, proportion of EU 27 countries shrank moderately.
- Labour market revived only slightly due to higher numbers of entrepreneurs and simultaneous drop in numbers of employees. Growth of the real wage was the slowest in the decade and it already decreased in the 4<sup>th</sup> quarter. Public sector features year-on-year decreases for six quarters already.
- Consumer prices went up by 1.9 % ranging significantly in growth rates for individual consumption items (prices of food went up by 4.6 %). Growth of industrial prices was the

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

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second largest in a decade, the fall of prices of construction works deepened. Adverse development of terms of trade caused lowering of the aggregate price level in the economy.

- Loans to businesses and households rose year-on-year by 5.5 % compared to 3 % in 2010. People are mostly repaying their liabilities. Balance of consumption loans decreased in year-on-year terms. The proportion of risky loans shrank for both businesses and households.
- Given the growth of tax receipts and stagnation of expenditure, the budget deficit improved.