

2. Overall Economic Performance

The growth of the economy of the Czech Republic continued also in Q2 2016, in addition it even mildly accelerated compared to Q1. Both GDP and GVA increased by 0.9% year-on-year...

The stable economic growth of the Czech economy from the last years continued also in Q2 2016.¹ It is evidenced by the development of the gross domestic product (GDP) as well as the gross value added (GVA). Both GDP and GVA increased by 0.9% in comparison to Q1. This development signals mild growth acceleration, since the quarter-on-quarter growth of GDP and GVA fluctuated around 0.4% in Q1. It is apparent, that despite of the subsiding of the exceptional factors supporting the economic growth in the last year (finalisation of drawing of resources from the European funds or the marked drop of the prices of oil), the economic situation remains favourable and above-average in the context of the latest years.

... and the performance of the economy increased according to these indicators by 2.6% and 2.7% compared to the same quarter of the year 2015

The GDP was higher by 2.6% and GVA by 2.7% in comparison to the same quarter of the preceding year. The dynamics of the GDP growth mildly decreased in Q2 compared to Q1 (GDP grew by 3.0%), nevertheless it was caused especially by the higher comparative basis of Q2 2015. The last year's significant economic growth peaked just in Q2 and thus the year-on-year comparison of the year 2016 is also affected by this development.

The GDP increased by 2.8% year-on-year in total for the whole H1

The view of the whole H1 2016 confirms that the Czech economy flourished. The performance of the economy gauged by GDP increased by 1.0% compared to H2 2015 and by 2.8% in comparison to the first six months of the year 2015. If we omit the extraordinary last year, it still represented the highest rate of growth since year 2008.

The economy of the CR keeps expanding faster than the European Union both in the year-on-year and quarter-on-quarter comparison

The year-on-year growth of the GDP in the CR remains despite its slow-down still stronger compared to the European Union. The domestic economy grows faster practically since stepping out of recession in 2013. Its dynamics was by 0.8 p.p. higher compared to the EU28 in Q2 of this year, since the growth of the EU28 arrived at 1.8%. The Czech economy was faster also from the view of the quarter-on-quarter rate of growth, specifically by 0.5 p.p. (given the growth of the EU28 economy by 0.4 p.p.).

Only the Great Britain keeps growing by the above-average pace among the three largest economies of the EU

Based on the available data for the individual countries of the EU, the GDP grew the fastest in Romania, Slovakia² and Spain year-on-year in Q2 2016. The Czech Republic ranked the eighth. The Great Britain grew the fastest (+2.2%) among the largest EU28 economies. Romania and Hungary grew the fastest quarter-on-quarter, the Czech Republic together with Poland and Slovakia shared the third place.

A foreign trade was the main source of the year-on-year growth of the Czech economy in Q2 2016

Similarly to Q1, the three pillars which supported the growth most in the last year were reduced to two. Only the household consumption and foreign demand participated on the year-on-year growth of the CR economy. The domestic demand was driven only by the final consumption expenditure of households in Q2 2016, fuelled by the good situation on the labour market, and the government expenditure. Rising foreign demand, resp. the surplus of the foreign trade were the most significant factors behind the economic growth in Q2.³ The household consumption more significant by weight contributed to the GDP growth of 2.6% by 0.8 p.p., consumption of the government institutions added 0.5 p.p. And the foreign trade 2.5 p.p. On the contrary, the cooling down of the total investment activity (gross fixed capital formation) induced especially by the drop of investment of the government institutions sector was reflected in the negative effect of this demand component on GDP (-1.1 p.p.). The increasing household consumption was partially satiated by the rising imports, nonetheless it stimulated the domestic production rather than imports.

¹Unless stated otherwise, data related to the GDP and its components are expressed in real terms and adjusted for seasonal and calendar effects. The same is also valid for the gross value added. The GDP time series in the period of Q1 2014 has been seasonally adjusted by using a new model. This model takes into account a change of the seasonal behaviour of GDP after 2013, associated with the newly more even collection of taxes on products, especially tobacco products.

²Data for Ireland and Luxembourg are not available. Dynamics for Slovakia not adjusted for calendar effects.

³Contributions to the GDP change after exclusion of imports for final use.

The year-on-year growth of the household consumption was still significant in spite of the strong last year

The continuing year-on-year growth of the household consumption, which reached 2.2% in Q2, was supported by the rising average wage, record employment and of course also the persisting high consumer confidence. It can be stated based on the quarter-on-quarter development, that the household consumption remains stable at the relatively high level of Q1. It did rise compared to this quarter, but only by 0.1 p.p. The final consumption expenditure of households was in total for the whole H1 2016 by 2.4% higher year-on-year. The development in Q1 participated on this result to a higher extent, since the household consumption expenditure rose by 2.7% year-on-year in this quarter. The willingness of households to spend was favourably influenced by the rising real average wage and rising employment in first half of the year. The total volume of paid out wages and salaries⁴ was by 5.7% higher in nominal terms in Q2, in real terms then⁵ it was by 5.3% higher. The trend from Q1 that the beginning of the year 2016 represents the strongest raise of the wage resources since Q3 2008, in real terms even since the beginning of the year 2007, is thus validated. The year-on-year increase of the wage resources moved around 5.7% for the whole H1.

Year-on-year dynamics of the final consumption expenditure of government institutions approximately on the level of the last year, similarly as in Q1

Final consumption expenditure of government institutions including the expenditure on the individual consumption (benefiting exclusively households) and the collective consumption (benefiting all sectors) increased by 2.8% year-on-year in Q2 of this year – similarly to the preceding quarter. The quarter-on-quarter growth was somewhat faster compared to Q1, specifically 0.8%. The picture of the development for the whole half-year is very similar. The government consumption increased by 2.8% year-on-year in the first six months and by 0.8% compared to the second half of the year 2015.

The quarter-on-quarter slump of investment considerably strengthened. Investment was falling not only year-on-year, but also quarter-on-quarter

The impulse in the form of completion of drawing on the European funds from the programming period 2007–2014 was reflected in the growing year-on-year dynamics of investment, reaching the value of 9.1%, during the whole last year. Investment increased also quarter-on-quarter in all periods in 2015, even though in a decelerating fashion. Thus it can be stated, that the high investment activity persisted during the whole year. The quarter-on-quarter slump eventuated in Q1 2016, even though the formation of investment was still higher (by 2.6%) when compared to the beginning of the year 2015. In Q2 the fall of investment activities was evident both in quarter-on-quarter and year-on-year expression. The overall development was to a large extent affected by the drop of investment into other buildings and structures, resp. high comparative basis of the year 2015. Fixed capital formation was by 4.4% lower year-on-year, it fell by 4.1% quarter-on-quarter.

The low investment into other buildings and structures, whose growth was supported by the funds from the programme period 2007 – 2014 in the last year, was the main cause behind the fall of the total volume of investment

The type classification of gross fixed capital formation (not adjusted for seasonal and calendar effects) reveals that only the investment into housing (2.5%), reflecting the low cost of financing of the residential real estate on credit, and investment into the transportation equipment (6.6%), associated with the renewal and expansion of the company car park increased in year-on-year comparison in Q2 of this year. The purchases of the groups most significant by weight ICT, other machinery and equipment were mildly decreasing, which could be partially associated with the fact, that not only other buildings and structures, but also other assets were linked to the end of the programming period in the last year. Investment into other buildings and structures, which was significantly supported by the investment subsidies from the EU funds, fell by 18.4% in the year-on-year comparison.

Higher year-on-year growth of exports (5.7%) over imports (3.1%) together with the positive terms of trade led to a high surplus in the foreign

From the view of the foreign trade, the Czech economy was very successful in Q2. The foreign trade balance in the current prices (94.2 CZK bn) was higher by 34.2 CZK bn year-on-year in Q2. Both the trade with goods as well as the trade with services participated on the record foreign trade balance. The growth of exports noticeably exceeded the growth of imports in both cases. Exports, which

⁴ Not adjusted for seasonal and calendar effects.

⁵ Wages expressed in real terms using the deflators of final consumption expenditure of households.



trade

rose by 5.7% in real terms year-on-year, were driven especially by the trade with the transport equipment in goods and by the land transport or information and communication activities in services. The growth of imports by 3.1% was supported significantly by the sub-supplies for the motor vehicles and the production of electrical appliances and equipment. In the view of the whole H1, the foreign trade surplus also reached a record level. The gain of the foreign trade for the Czech economy in the form of a positive balance has never been so large in the history of the CR, as at the beginning of this year. The positive terms of trade also affected the foreign trade favourably, since the prices of imports kept decreasing faster year-on-year than the prices of exports. Nevertheless, this phenomenon has already started to change quarter-on-quarter and the prices of imports were falling slower compared to prices of exports especially for the reason of the quarter-on-quarter growth of the prices of oil.

Real gross domestic income rose by 4.3%

Real gross domestic income (RGDI), which unlike the GDP takes into consideration the additional profits or losses from the development of prices in the foreign trade, resp. profits or losses from the terms of trade, increased by 4.3% year-on-year in Q2 2016 (not adjusted for seasonal or calendar effects).

Manufacturing mostly participated on the year-on-year growth of the economy on the supply side in Q2 2016, services also participated significantly,...

On the supply side, the majority of the main branches participated on the year-on-year growth of the economy in Q2, similarly to Q1. Manufacturing sustained its dominant position, with the gross value added growing by 4.8% and contributing to the total growth 1.3 p.p. Most branches thrived from the view of dynamics within the services sector. The grouping trade, transportation, accommodation and food service activities increased by 2.5%, financial and insurance activities by 3.8%, professional, scientific, technical and administrative activities by 3.4% and activities in the area of real estate by 2.1%. Agriculture, forestry and fishing expanded by 5.6%.

... construction however sank in comparison from the exceptional year 2015

Lower investment into other buildings and structures compared to the last year, which was boosted by the extraordinary finalisation of drawing of funds from the programming period 2007 to 2014, was reflected in the notable year-on-year as well as quarter-on-quarter fall of the gross value added of construction (by -5.5%, resp. 5.7% in Q2).

Chart 1 **GDP** (constant prices adjusted for seasonal and calendar effects, in %)

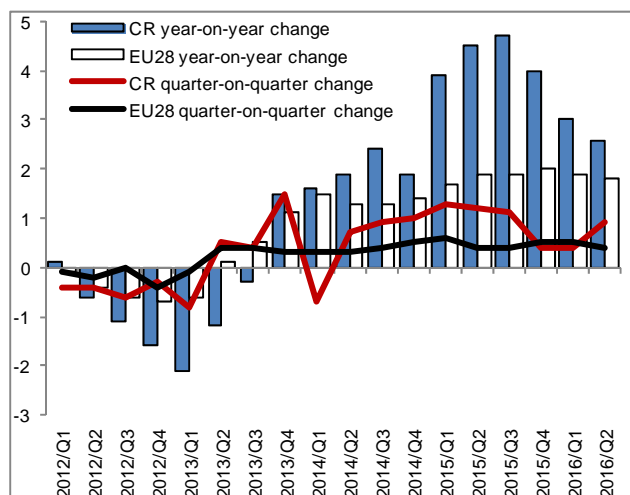
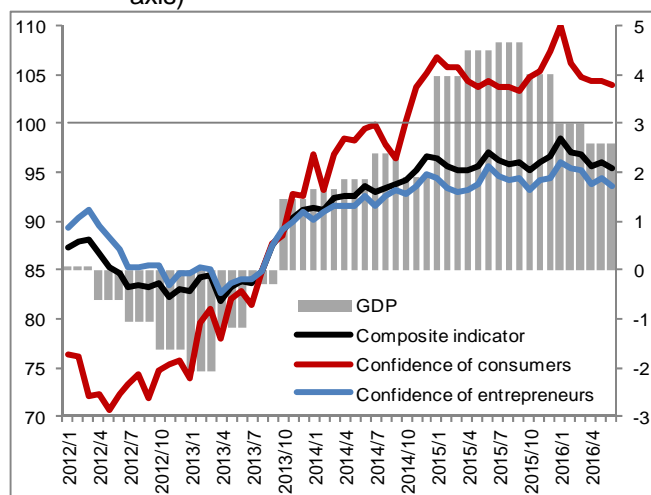
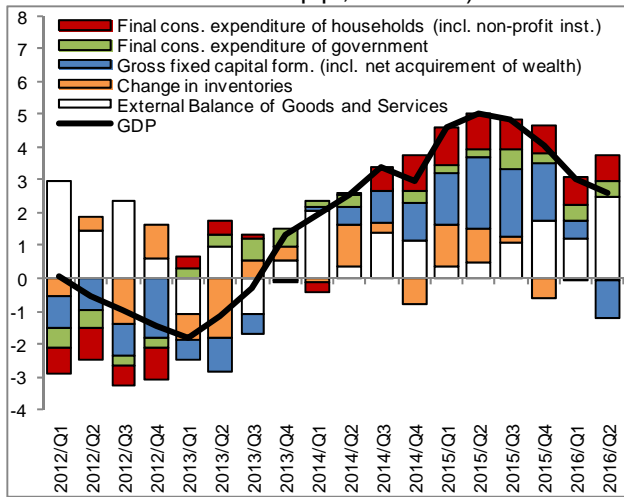


Chart 2 **GDP** (constant prices, adjusted for seasonal and calendar effects, y/y in %, right axis) and confidence indicators (2005=100, left axis)



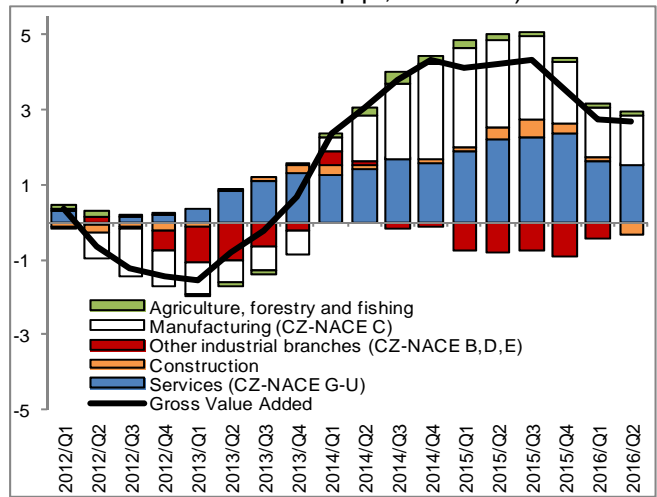
Source: CZSO, Eurostat

Chart 3 Contributions of expenditure items to GDP change* (constant prices, y/y, contributions in p.p., GDP in %)



* Contributions to GDP change after exclusion of imports for final use.

Chart 4 Contributions of branches to change in GVA (constant prices, y/y, contributions in p.p., GVA in %)



Source: CZSO

