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Latest information provided in this report has been dated the 3rd April 2019.

1. Summary

- The Gross domestic product grew by 2.9%[1] in 2018. The year-on-year dynamics thus contracted in comparison to the preceding year. The domestic demand was the main driver of GDP growth, in that especially consumption, which grew by 3.3%. Simultaneously, the investment activity of households, non-financial businesses as well as the government institutions increased. Total gross fixed capital expenditure grew by 10.4% last year. Foreign demand contributed to the growth less than in the previous year, mostly due to the weakened growth dynamics of some of the important business partners. GDP grew by 2.6% year-on-year and by 0.8% quarter-on-quarter in Q4.
- The Gross value added increased by 3.0% in 2018. Domestic demand supported especially the services sector. The weight dominant grouping of trade, transportation, accommodation and restaurants contributed the most to the GVA growth last year. GVA growth reached a five-year maximum (6.9%) in financial and insurance activities. Value added expanded by a similar rate also in information and communication. On the other hand, the export-oriented manufacturing contributed to the GVA growth much less compared to the previous years.
- The value of exported goods grew by 3.4% last year. Contraction of the year-on-year dynamics can be associated with the lower growth of export to Germany and also with the first fall of the value of motor vehicle exports since 2009. In contrast, the export into smaller destinations, as for example Netherlands, Spain or Sweden increased. Export of computers, electronic and optical appliances experienced a very strong growth (15.7%). Value of imported goods grew by 4.7%. The resulting surplus of the trade balance also due to the higher import dynamics shrank by 41.2 CZK bn year-on-year to 122.3 CZK bn. Domestic economy attained a negative balance of the primary income with the non-residents in the amount of 270.8 CZK bn. This deficit was affected the most by the outflow of direct investment profits of the foreign owners in total 414.6 CZK bn (7.8% of GDP).
- Consumer prices increased by 2.1% year-on-year last year. Prices of housing and energies played the key role. Because the prices of rents (3.0%) as well as electricity, gas and energies (2.1%) increased. The higher oil prices also resulted in higher growth of cost of transport vehicle operation (5.3%). Prices of food grew by 1.3% last year. Prices of industrial producers also pressed the oil prices up both in the domestic economy and abroad. Smaller harvest left its mark on the dynamics of plant production prices, especially grain (7.4%).
- Number of employees[2] increased by 1.6% year-on-year last year, similarly to the previous three years. Still a certain slowdown of the quarter-on-quarter dynamics was apparent in the second half of the year. In Q4, 5.45 mil persons worked in the CR, the most in the contemporary history. Higher engagement of formerly economically inactive persons especially contributed to the year-on-year growth of employment (by 83 thousand). General unemployment rate was approaching 2%, however it dropped only negligibly during the year 2018. Still the CR remained a country with the lowest unemployment in the EU; it held primacy also thanks to high rate of job vacancies. Unmet demand for workers led to further growth of the wage costs in the economy. Growth of the average wage strengthened already fifth year in a row (up to 8.1%), the rate slightly weakened in Q4 2018 (6.9%). It was connected mainly to the development in branches with the predominance of the public sector, slowing the pace occurred also in the sector of non-financial businesses.
- The two-week repo rate increased five times last year (from 0.5% to 1.75%). This impulse apart from the interbank rates led to the movement also of some interest rates on the client accounts. Interest rates on both credit to households and businesses were growing.
- Even though the state budget (SB) balance achieved in the cash fulfilment only a mild surplus (+2.9 CZK bn) last year, it depicted the second best result after year 1995. Balance significantly exceeded the budget anticipations similarly to years 2016 and 2017. State wide collection of tax revenues, driven mainly by the higher collection of social security insurance, grew the fastest since the business cycle peak year 2007.

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[1] Data regarding the GDP, gross value added and their components are expressed in constant prices and adjusted for seasonal and calendar effects.
[2] Employment data are in the national accounts conception adjusted for seasonal effects.

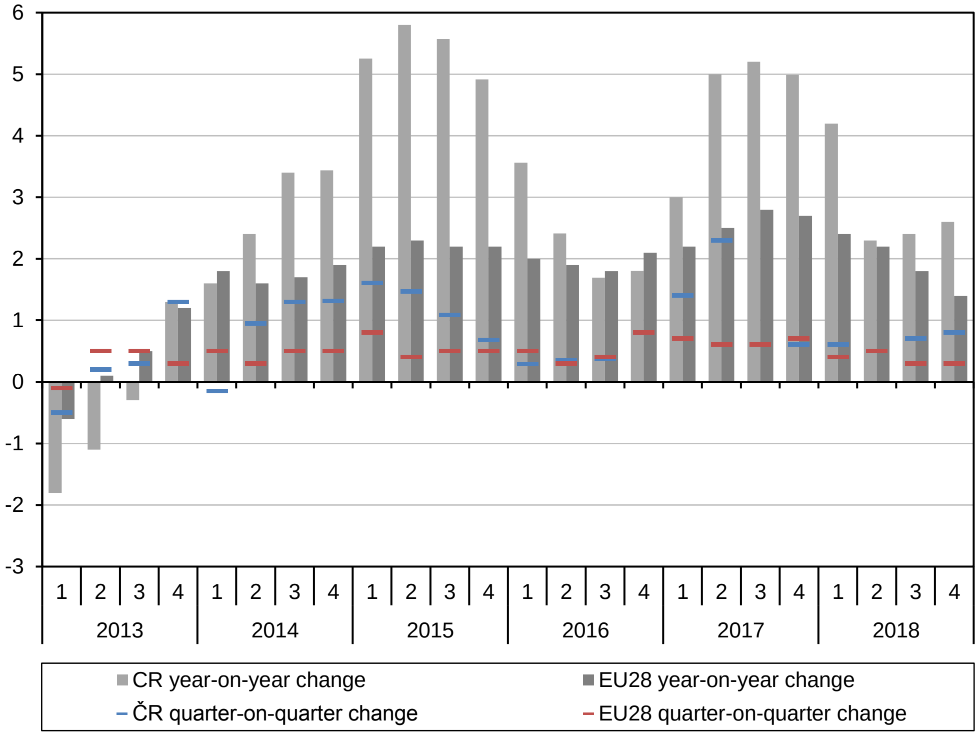
Total SB expenditures however also sharply increased (+9.5%), supported in contrast to the previous two years also by stronger investments. Drawing of funds from the EU budget accelerated, nevertheless the expenditures on exclusively national projects, which were subdued in the first half of the year, also increased. Expenditures on pensions rose the most in the last seven years (+4.7%), still the pension account balance finished in surplus for the first time after year 2008. Government institutions sector recorded a positive budget balance (0.89% of GDP), nevertheless nearly one half lower compared to year 2017.

2. Overall Economic Performance

Growth of Gross domestic product contracted last year…

Gross domestic product (GDP) grew by 2.9%[3] last year. That is by 1.6 p.p. less than in year 2017. It represented the third largest addition in the last ten years. Year-on-year dynamics during the year contracted at first (4.2%, 2.3%, 2.4% in Q1, 2 and 3), the growth slightly increased again in Q4 (2.6%). All its components supported the GDP growth relatively equally in 2018. The domestic demand represented by the final consumption expenditure (1.7 p.p.)[4] and gross capital formation (0.8 p.p.) dominated. The effect of the foreign demand strengthened especially at the end of the year. The foreign trade balance contributed 0.4 p.p. to the GDP growth. The quarter-on-quarter dynamics of GDP attained rather solid levels during the year and accelerated in its second half (0.6%, 0.5%, 0.7% and 0.8% in individual quarters). Gross value added (GVA) grew by 3.0% last year. Especially the services sector, benefiting from the strong domestic demand, supported the growth. Weight dominant manufacturing further prospered, however its contribution to the GVA growth was lower compared to the preceding year. The year-on-year addition of GVA was 2.9% in Q4.

Chart 1 GDP (volume indices, adjusted for seasonal and calendar effects, in %)



Source: CZSO, Eurostat

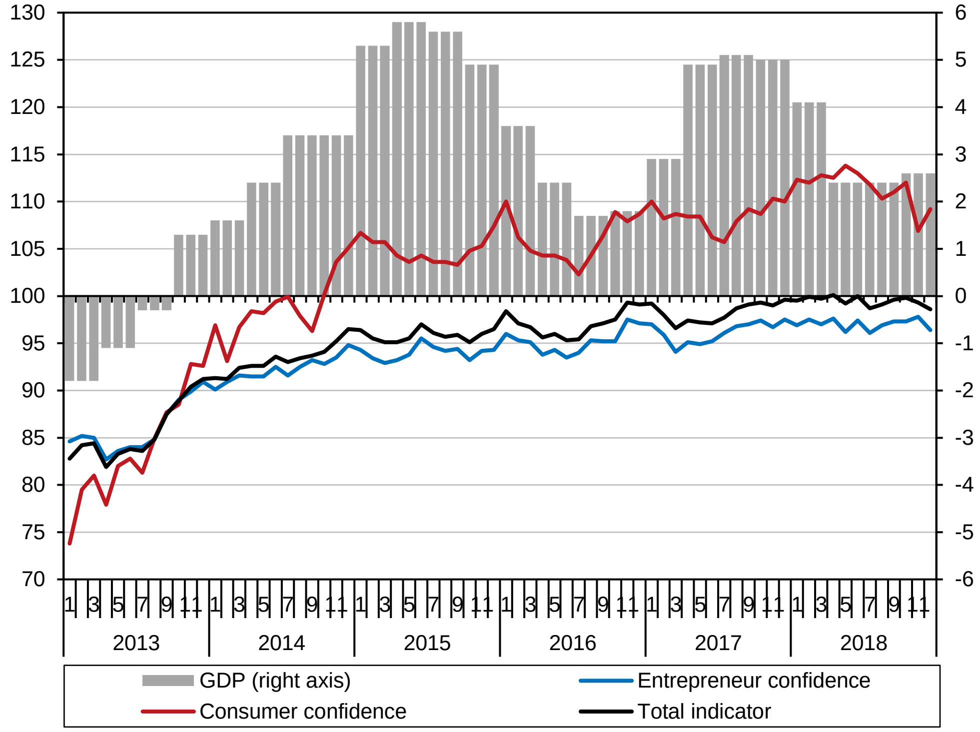
… similarly to the EU.

Total GDP growth in the European Union arrived at 1.9% in 2018 and it slowed down

[3] 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 2.4.2019.
[4] Additions to the GDP change after exclusion of imports for final use.

by 0.5 p.p. compared to year 2017. While the dynamics of the final consumption expenditure in the EU (1.5%) was weaker than the total GDP growth, growth of the capital expenditure was relatively strong (3.8%). Investment activity was especially significant at the newer Union members. Combination of strong growth of investments and consumption expenditure caused, that only new members were placed on the second to thirteenth positions of the fastest growing EU economies. Ireland (6.7%) ranked the first similarly to year 2017, followed by Malta (6.6%) and Poland (5.1%). The GDP of the Union increased by 0.3% in Q4 compared to the previous quarter. Year-on-year addition reached 1.4%. Relatively marked fall of the year-on-year rate of growth can also be linked to the stagnation of the largest EU economy – Germany. Here, the year-on-year dynamics was 0.6%, economic growth was the second lowest in the Union. The GDP of Italy remained the same year-on-year, the economy of France expanded by 1.0%. Malta (7.4%), Latvia (5.6%) and Hungary (4.9%) recorded the highest year-on-year addition in Q4.

Chart 2 GDP (volume indices, adjusted for seasonal and calendar effects, year-on-year in %, right axis) **and confidence indicators** (2005 = 100, left axis)



Source: CZSO

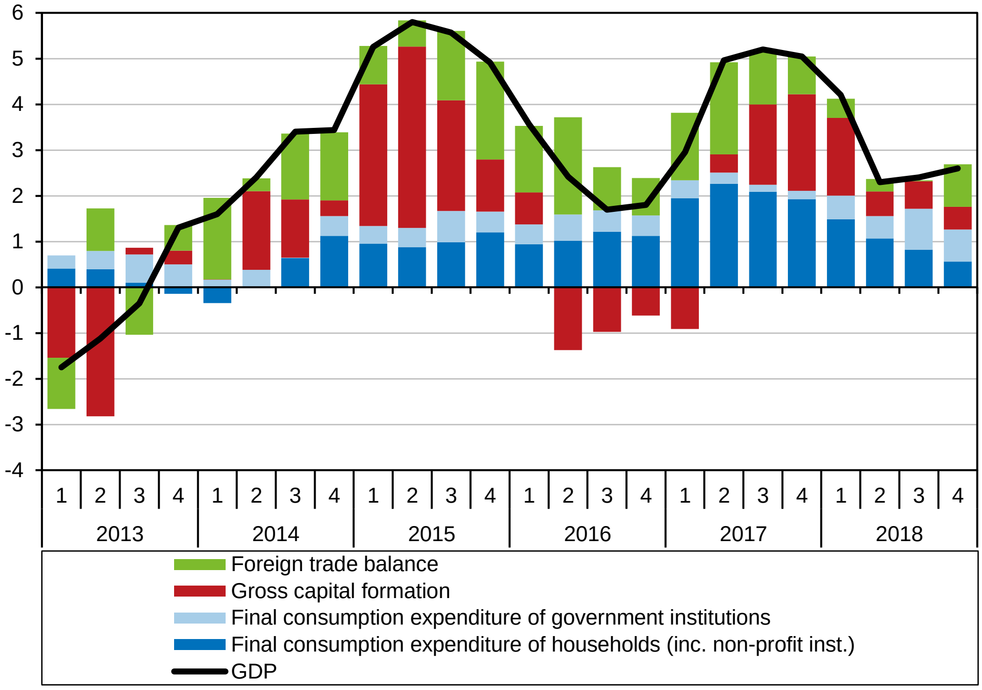
Increase of the volume of paid out salaries and wages hit the highest value in the last twenty years last year.

The volume of paid out salaries and wages increased by 9.3% last year compared to the year before. That is the most since year 1996. Simultaneously, the employment increased by 1.6%[5], the increase of the volume of paid out funds was thus reflected in the average wage. The volume of salaries and wages grew by 6.6%[6] in real terms last year. The year-on-year addition to the volume of salaries and wages amounted to 7.5% in Q4 only, which is the least since Q1 2017. Growth in real terms formed still solid 4.8%. Strong growth of salaries and wages was experienced across the branches last year. Volume of wage resources increased by 8.1% in manufacturing, by 9.1% in trade, transportation, accommodation and restaurants; information and communication services experienced an acceleration to 10.6% (accompanied by simultaneous increase of employment by 4.6%). Real estate activities waited to see a

[5] Employment in the national accounts conception, data regarding persons as well as hours worked are seasonally adjusted.
[6] Converted into the real expression using the deflator of final consumption expenditure of households.

double-digit growth of salaries and wages (12.3%) and the branches with the predominant public sector[7] continued in the strong year 2017 (12.0%). The volume of paid out wages climbed to 6.9% in construction (given the fall of employment by 0.4%). Salaries and wages grew the slowest in financial and insurance activities (5.9 %), the employment did not grow here at all in contrast to the rest of the economy. The year-on-year dynamics of the volume of salaries and wages slowed down across the branches (the most for the real estate activities to 8.1%, to 7.4% for branches with the predominance of the public sector) in Q4. The grouping trade, transportation, accommodation and food service activities presented an exception, with the rate of growth accelerating to 9.0%. Record rate of growth of the volume of salaries and wages did not do without partial changes in the structure of distribution of created gross value added. Also for this reason, the profitability of non-financial businesses[8] fell to 47.0% last year, the lowest point in the available time series. Nevertheless, this indicator remains above average compared to the EU average (it fluctuates around 40% in the long-term).

Chart 3 Contribution of expenditure items to real GDP change* (volume indices, year-on-year growth, contributions in p.p., GDP in %)



Source: CZSO
*after exclusion of imports for final use

Consumption remained the key pro-growth factor. Its year-on-year dynamics slowed down in case of households towards the end of the year.

Total growth of final consumption expenditure attained 3.3% in 2018. The dynamics managed to stay above the 3% boundary already four years in a row. Household consumption grew by 3.1% and government institutions by 3.7% (the most since 2003). Total consumption increased by 2.6% year-on-year in Q4 only (the dynamics slid below 3% after 14 quarters). The smaller addition of household expenditure was mainly behind the weaker growth (2.2%, the least since Q3 2014), resulting also in a lower addition to the GDP growth (0.6 p.p.). On the contrary, the government institutions expended on consumption by 3.6% more year-on-year, which contributed 0.7 p.p. to the growth.

[7] Public administration, education, health and social care.
[8] Profitability rate of the non-financial businesses is defined as the share of the gross operating surplus relative to the gross value added (B.2g/B.1g). This indicator represents the profitability of the production factors from the production process.

Households put more money aside last year.

Slower dynamics of household consumption emerged despite the record average wage growth last year. Households in fact saved a notable part of income. The savings rate[9] arrived at 10.8% last year. Even though it presents a relatively low number in the long-term view (the savings rate generally exceeds 11%), it is a considerable increase compared to the record low value of year 2017 (9.5%). Average monthly household income per capita[10] was 26 389 CZK last year and it grew by 1 810 CZK year-on-year, which is the largest nominal increase in the whole available time series. Household income growth per capita in real terms attained 4.7% last year (adjusted by the deflator of household final consumption expenditure for year 2018). Social transfers in kind[11] are also part of these incomes. Their average monthly value per capita amounted to 4 689 CZK last year and it participated by 17.8% on total household income.

Investment expenditure grew strongly for households, government institutions as well as non-financial businesses last year.

Gross fixed capital expenditure increased by 5.7% last year. Fixed capital expenditure, which is represented by investments in the national accounts, grew by 10.4% (and their contribution to the GDP growth totalled 2.0 p.p.). Change of stock of inventories had an adverse effect[12] (-1.2 p.p.). Investment expenditure grew by 10.4% in Q4. At the same time, the quarter-on-quarter decrease of 0.2% occurred for the first time since Q2 2016. Quarter-on-quarter dynamics of the gross fixed capital formation nevertheless reached a very high level in Q1 to 3 (4.6%, 2.7% and 2.9%). From the point of view of individual sectors, non-financial businesses contributed to the growth of the gross fixed capital formation by more than one half last year and its investment grew by 9.7% in nominal terms. Investment rate[13] of non-financial businesses thus grew by 1.5 p.p. year-on-year to 29.6% (the most since year 2013). Government institution sector provided the second largest contribution. Its investment activity (nominal increase of 27.7%) was among other things influenced by the cycle of European funds drawing (necessity to finalise drawing before the end of the year). Households also provided a relatively high contribution, they invested by 9.5% funds more compared to year 2017. Their investment rate[14] grew for the fifth year in a row and arrived at 9.4% (the most since year 2010). In contrast the financial institutions, which were considerably boosting their fixed capital formation expenditure during years 2015 to 2017, did not continue in this trend last year (slump of 15.3%).

Heightened activity of the government institution sector affected investment into other

Investment into other buildings and structures[15] grew the most in the last year (14.4%). Dynamics of component, where the government institution sector plays a significant role was accelerating since the beginning of the year. Mild slow down to

[9] The household saving rate is defined as the share of gross savings and gross disposable income with the inclusion of adjustment for net share of households on pension funds reserves B.8g/(B.6g+D.8). Gross savings represent the part of gross disposable income, which was not consumed in the form of final consumption expenditure.

[10] Average monthly household income per capita in the nominal expression is defined as the share of adjusted disposable household income and mean population.

[11] Social transfers in kind (D.63) include the value of individual services and goods provided by government institutions and non-profit institutions serving households (NPISH), and also material benefits provided by municipalities (including reimbursement of approved household expenditure for certain types of goods and services) and all values of non-market services of government institutions and NPISH provided for individual consumption. Individual services and goods provided 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, housing etc. These are especially in-kind benefits associated with the health insurance (payments for medical aids, medical, dental treatment, surgery etc.) covered by the health insurance companies to those, who provide these goods and services.

[12] High comparative basis of the last year is the main reason. Inventory stock grew fast throughout the whole year 2017 year-on-year and the total change amounted to +49.0 CZK bn. In the last year, the inventory stock grew only in Q1 and in total it decreased by 10.4 bn. Last year´s fall did moderated in the course of the year, nevertheless it stumbled when compared to year 2017, when the increase featured an upward tendency towards the end of the year. This difference thus dampened the contribution of capital outlays to the GDP growth for the most part of the year.

[13] Investment rate of the non-financial businesses is defined as the share of gross fixed capital formation relative to the gross value added (P.51g/B.1g). This indicator expresses the proportion of investment into the non-financial assets (buildings, machinery etc.) and value created during the production process.

[14] Household investment rate is defined as the share of gross fixed capital relative to the gross disposable income with the inclusion of adjustment for net share of households on pension funds reserves (P.51g/B.6g-D.8).

[15] Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.

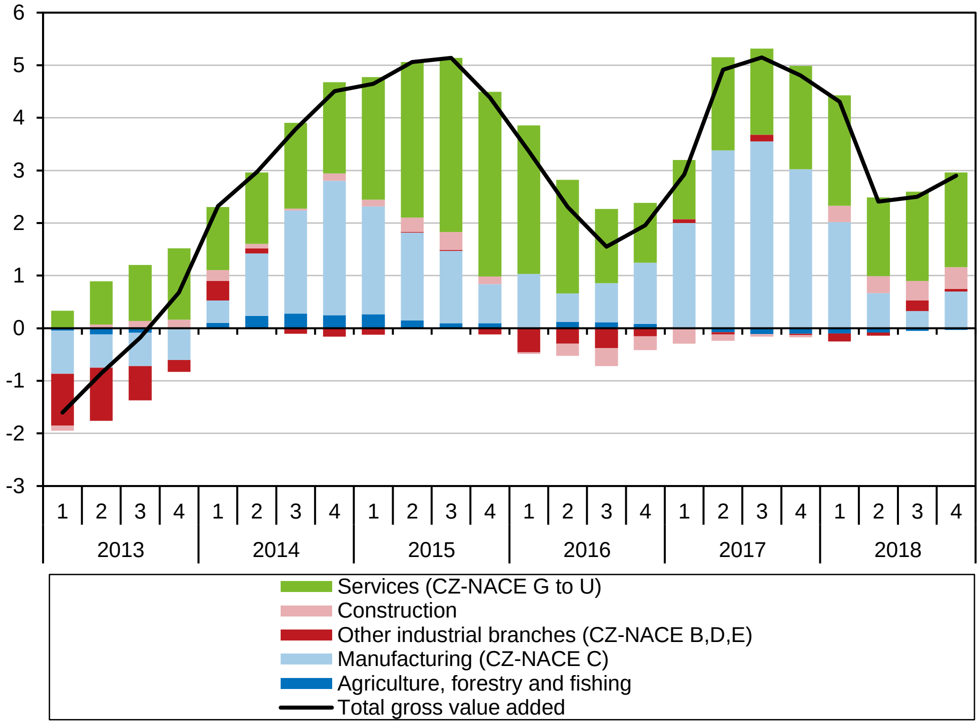
buildings and structures

13.1% was recorded in Q4; where especially the high basis from the last year is behind this. The results were mostly affected by the accelerated drawing of European funds. Double digit growth of investment into housing continued (12.8%). The dynamics held up throughout the whole year. In Q4, investment into housing increased by 12.1% year-on-year. Strengthened investment activity involved the businesses as well. It is apparent especially on the increase of investment into ICT and other machinery and equipment by 10.1% (it was 3.3% in 2017). The acceleration was 14.4% in Q4. Last year, the growth of expenditure on transportation vehicles accelerated as well to 8.8%. Investments into the products of intellectual property increased by 4.8%.

Contribution of the foreign trade balance to the GDP growth became stronger especially in the end of the year.

Foreign trade balance with goods and services reached 331.9 CZK bn[16] in 2018. It is by 49.8 bn less compared to the previous year. The slump occurred nearly exclusively for the trade with goods (surplus of 205.4 bn). Surplus of the trade with services remained practically unchanged (126.6 bn). Surplus amounted to 87.4 bn in Q4 and it fell by 8.8 bn year-on-year. Addition of the foreign trade balance to growth nevertheless strengthened towards the end of the year to 0.9 p.p. Both export and import increased year-on-year last year. Resulting balance was however marked by the fact, that the higher demand was to a large extent saturated by imports. It was valid both for the household consumption (contribution to the GDP growth 1.5 p.p. without exclusion of import for final use, 1.0 p.p. after exclusion) and the investment activity (2.6 p.p. without exclusion, 2.0 p.p. after exclusion).

Chart 4 Contributions of branches to real change in GVA (volume indices, year-on-year contributions in p.p., GVA in %)



Source: CZSO

Domestic demand favourably boosted mainly the services sector. Impact of

Growth of the gross value added was mostly supported by the services sector in year 2018 (1.8 p.p.). Services had the strong effect to the same degree in Q4. Among them, the weight dominant grouping trade, transportation, accommodation and

[16] According to the methodology of quarterly national accounts (import and export in CIF/FOB prices).

manufacturing on the GVA growth was milder this time.

restaurants recorded the most significant results last year (0.8 p.p., growth by 4.1%) last year. Information and communication, which experienced an above average GVA growth in the last two years (6.7% last year) and grow already six years in a row, recorded the second largest contribution (0.4 p.p.). Financial and insurance activities had a contribution in the size of 0.3 p.p. Manufacturing, which was the main driving force in the previous years, was more in the background (contribution 0.9 p.p., growth 3.4%). Construction had a favourable effect on the GVA dynamics throughout the whole year (0.4 p.p.). Its GVA increased by 6.7%, which is the most since year 2004. Only this year it was possible to exceed the nominal level of GVA from year 2010[17].

[17] Value expressed in 2010 constant prices has not been exceeded yet.

3. Branches Performance

Growth rate of GVA contracted by one third year-on-year. However, the economy did not slow down quarter-on-quarter in trend last year.

Performance of all economic branches viewed via the optics of the gross value added (GVA)[18] grew by 3.0% last year and contracted by one third in comparison to the pace achieved in the previous year. More detailed quarter-on-quarter comparison shows, that both the high basis of the first half of year 2017 (when the domestic economy benefited mainly from the swift growth of the foreign demand) and the temporary slowdown in Q2 2018 (when the quarter-on-quarter growth of GVA fell down to 0.3%, to the two-year minimum) stood behind the relatively weaker last year´s result. Quarter-on-quarter growth persisted in the domestic economy already twenty two quarters in a row, the GVA increased in total by 21.2% during this time period.

Manufacturing contributed the most to the growth of the value added last year. However, its pace was the fastest in construction, financial activities and information and communication.

Weaker harvest of main crops marred the output of agriculture already second year in a row.

Even though the value added grew in manufacturing at the slowest pace for the last five years last year (+3.4%), this branch added to the growth of GVA in the whole economy 0.9 p.p. – still the most out of all the main eleven monitored branches. The weight significant manufacturing of motor vehicles as well as dynamically growing manufacturing of computers and electronic and optical products had an effect. Among the services, the weight dominant grouping trade, transportation, accommodation and restaurants contributed the most (+0.8 p.p.) last year. The majority of other branches of the tertiary sphere also benefited from the more stable domestic demand. GVA growth achieved a five year maximum (6.9%) in financial and insurance activities. The value added increased by a similar pace also in information and communication (the cumulated growth arrived at nearly 40% in the last five years). On the contrary, only a moderate growth was typical for the real estate activities in the last years and also for branches with the predominant public sector. GVA growth in professional, scientific, technical and administrative activities slackened already third year in a row, it lowered down to eight-year minimum (+1.0%) last year. Construction recorded a major turnaround. If the GVA dropped here by 2.3% in 2017, its growth hiked up to 6.7% last year (stronger yearly rate of growth was last recorded in year 2004). On the contrary, the fall in agriculture, forestry and fishing from the year 2017 continued by a similar rate of growth also in year 2018 (-2.8%). It was the consequence of lower outputs of the plant production impacted by the below average harvest of the majority of the main crops (except for oilseed rape, dry and warm weather also benefited the fruit farming)[19].

Growth rate of industrial output slowed down by one half in the CR last year compared to year 2017…

Business statistics provide a more detailed overview of the sub-branches. Industry did not fully continue in the very strong year 2017 last year. Industrial production index[20] grew by 3.2% year-on-year (by not even half pace relative to 2017 – similarly to the whole EU), by 2.3% in Q4 itself. This development resulted mostly from the worsening situation in key export territories. Industrial output in the EU fell for the first time since the end of recession year-on-year in Q4 2018 (by 0.8%), it also decreased in all the five largest EU economies (both year-on-year and quarter-on-quarter). Domestic factors also influenced the last year´s slowdown of industry in the CR – mostly the slowdown of growth in the weight significant branch energetics[21] and in the chemical industry[22]. In

[18] Data regarding the GVA are expressed in constant prices and adjusted for seasonal and calendar effects.
[19] The total harvest of cereals was 6.97 mil of tons in 2018. It was by 11% lower compared to the average of years 2008 till 2017.
[20] Included branches: Mining and quarrying, Manufacturing, Energetics. All year-on-year rates of growth of output (at the level of activity sections as well as divisions) are adjusted for calendar effects, quarter-on-quarter rates are then also seasonally adjusted.
[21] Even though the performance of the branch slowed down (to +1.4%, from +4.8% in 2017), output grew already third year in a row. According to the data of the Energy Regulatory Office, majority of the last year´s year-on-year growth of the total gross electricity production in the CR (by 1.1%) was due to the higher production of the nuclear power plants (+5.6% to 29.92 TWh – value close to the so far record output from period 2012 to 2014). Dry and hot weather positively affected the yearly output of photovoltaic power plants (+6.6%), it had an opposite effect on the hydroelectric and pumping power plants (-11.9%, where the output level slumped to the ten year minimum: 2.68 TWh).
[22] Output in this branch rose only by 0.8% year-on-year, however by 19.3% in 2017. High growth rate in 2017 was connected to the full renewal of the production capacities (following accidents, which restricted the output of the whole branch in both years 2015 and 2016). Output in the chemical industry exceeded level before the accidents (Q2 2015) already at the beginning of year 2017. Lower last year´s

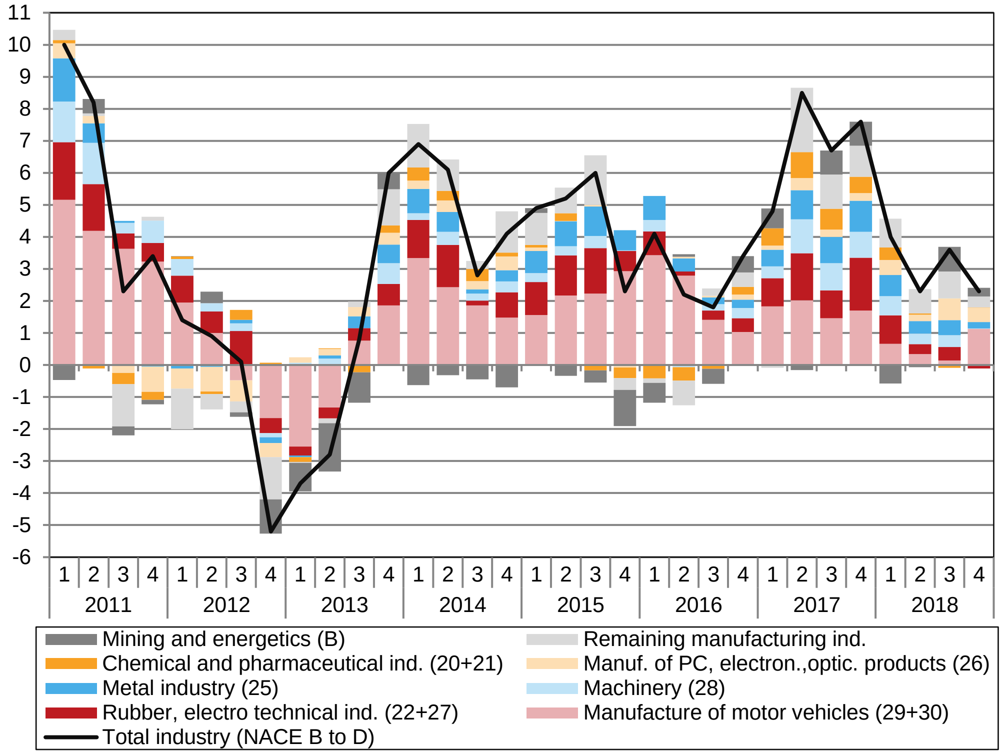
…however only three sub-branches faced lower output in the CR.

spite of less favourable development of the foreign demand, only three industrial branches recorded the fall of output in year 2018 (out of nearly 30 monitored branches) – coal mining (-4.2%)[23], textile industry (-5.6%) and leatherworking industry (-21.9%).

Growing manufacturing of computers and electronic and optical products pushed the growth of industrial output last year. Addition of the manufacturing of motor vehicles in contrast significantly contracted compared to 2017.

Manufacturing of computers, electronic and optical products presented the fastest growing industrial field so far (+12.1%) and contributed to the year-on-year growth of the whole industry (+0.40 p.p.) last year. Influence of the manufacturing of motor vehicles on the contrary notably weakened (to 0.41 p.p.). Although this branch secured nearly one third of growth of the whole industry on its own in year 2017 (contribution 1.82 p.p.). Regulative measures also affected the development of this branch in the second half of the last year (introduction of stricter emission standards). The data related to the physical production[24] also provide evidence of a mild growth in the motor vehicle industry last year. The closest sub-branches also recorded a considerable slowdown – especially the manufacture of rubber and plastic products – where the production only stagnated last year following the swift growth in year 2017 (+8.3%).

Chart 5 Contributions of sub-branches to the year-on-year change of the whole industrial production (in percentage points-p.p., adjusted for calendar effects)



Source: CZSO

Manufacture of metal products or machinery prospered. Thanks to the domestic demand, recovery continued in metallurgy as well as construction materials.

Weight significant branch manufacturing of metal products also supported the growth of industry last year (contribution 0.45 p.p.), its production grew faster than the whole manufacturing already the fourth year in a row. In machinery, where the strong impulse in the form of domestic demand acceleration in 2017 already dissipated for the most part, the production growth slowed down to 3.0%. Still it represented the third best result after year 2011. In metallurgy and foundry industry, the revival of mainly the domestic demand from

growth was also the consequence of the temporary shutdowns of the production facilities at the end of summer. The quarter-on-quarter output fell by 4.5% in Q3 2018, the most since the end of year 2015.

[23] On the contrary, in another segment of the branch mining and quarrying, so far peripheral by weight – mining of construction materials (mainly buildings stone, sand, clays) – output grew swiftly already second year in a row (+9.0 resp. by 6.9% in 2017).

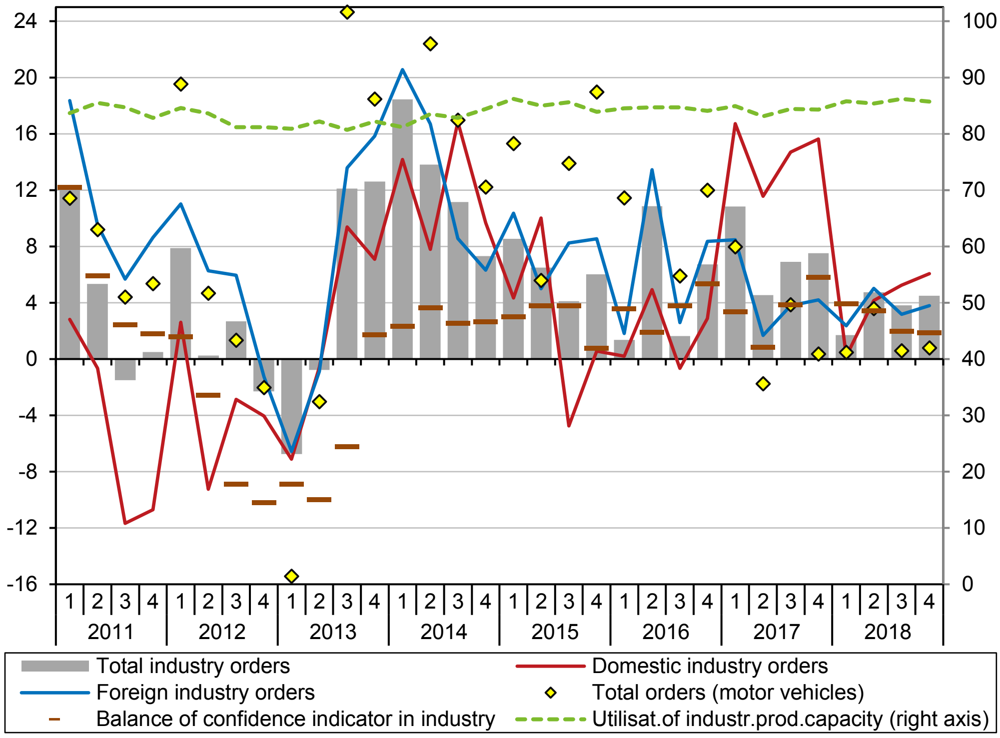
[24] Based on data from the Automotive Industry Association, the number of produced motor vehicles increased by 1.7% in the CR year-on-year in 2018 (while achieving the record number of vehicles 1.437 mil). Manufacture of majority of other types of motor vehicles grew even faster last year.

the year before the last prevailed also in 2018 and the industry output thus increased by 2.7% last year (the most in the last four years)[25]. Similar situation rules also in the manufacture of construction materials. Even though the rate of growth of production even strengthened in the food industry as one of the few more significant industrial branches last year, it still ended below 3.5%. The traditionally weaker performance here is connected to the deepening negative balance of the foreign trade with the food products[26].

Among smaller manufacturing industries, a swift growth continued in the pharmaceutical industry, warm weather also assisted to manufacturers of beverages.

Last year´s slowdown of growth of the majority of weight significant industrial branches was partially offset by the dynamical development of some of the smaller industries. It concerned mainly the largely export oriented pharmaceutical industry (+5.7%) and manufacturing of other – especially rail – transport equipment (where the growth fully compensated the nearly 10% fall of production from year 2017). Higher domestic demand was also favourably reflected in the output of the manufacture of furniture or manufacture of other products[27]. Manufacture of wood, wearing apparel (with the production growth of more than one third in the last four years) as well as the manufacture of beverages, where the growth of 5.1% (supported by the long hot weather period as well as the export revival) represented the best result after year 2007, also fared well.

Chart 6 New orders in manufacture of motor vehicles, in industry in total (in current prices, year-on-year in %), **balance of confidence indicator in industry *** (in p.p.) **and utilisation of production capacities in industry *** (in %)



*Data are seasonally adjusted. Source: CZSO

Balance of confidence indicator in industry in the second half of 2018 weakened, however it still remained slightly

Even though the year-on-year growth of production as well as sales in industry slumped approximately by one half last year in comparison to the rate of growth attained in year 2017, short term outlook for the whole branch remains slightly positive. Value of new orders was by 4.5% higher in Q4 (by 3.7% for the whole year). Even though the demand in

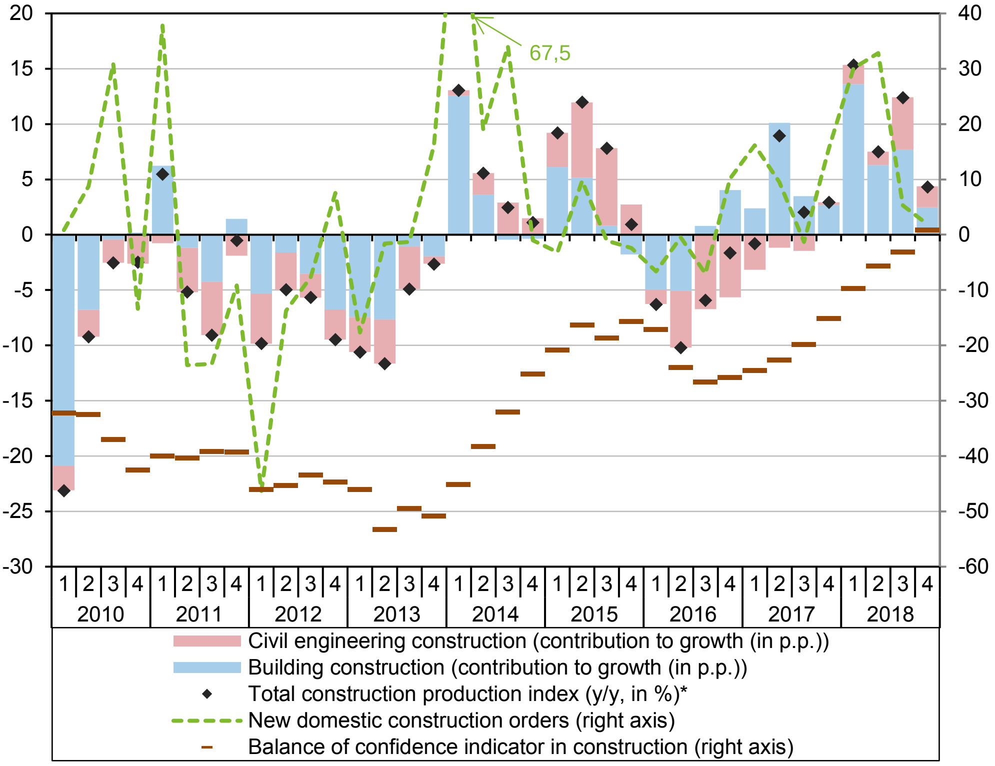
[25] Compared to the business cycle peak year 2007 however, the last year´s output still lagged behind (by 9%) in this branch. The same was valid however for nearly one half (especially smaller) of manufacturing branches. Among the more significant branches, manufacturing of other non-metal mineral products – i.e. especially construction materials (by 10%) – and food industry (by 2%) still lagged behind. The whole section of manufacturing however exceeded this level by 27% and industry in total then by 21%.
[26] It reached the value of -39.2 CZK bn in the national conception in 2018, „only“ -31.4 bn five years earlier.
[27] This branch includes e.g. manufacturing of sport equipment, toys, musical instruments or bijouterie.

positive.

the motor vehicle industry as well as the associated branch manufacture of electrical equipment in fact stagnated, in the overwhelming of other monitored branches the orders grew (especially due to the stronger foreign demand). It included mainly the manufacture of rail equipment, computers, both electronic and optical equipment, pharmaceutical industry and manufacture of metal products. Seasonally adjusted balance of confidence indicator in industry maintained in the positive band – following the stagnation from the first half year of 2018 it slightly decreased in its remaining part (to December +0.3, a five-year minimum). The weaker assessment of the total demand as well as the short term expectations of the production activity stood behind this result. The lack of employees[28] stays as the main barrier to growth of industry already since the half of year 2017, which was apparent in the higher investment in the area of machinery equipment as well as the growing utilisation of the industry production capacities. Inadequate demand limited one third of businesses at the beginning of year 2019 (similarly to the year before). Since the half of last year, they also experience more intensively the lack of materials (the most in the chemical and motor vehicle industry).

Businesses were still limited the most by the tense situation on the labour market. This influence however mildly weakened at the beginning of year 2019.

Chart 7 Contribution of sub-branches to year-on-year change of construction output* (in p.p.), **new orders** (year-on-year in %) **and balance of confidence indicator in construction****



*Data are adjusted for calendar effects.
**Data are seasonally adjusted.

Source: CZSO

Construction output grew the fastest last year after year 2003. Both building

Construction output accelerated as a consequence of rising both public and private investment last year. Very favourable weather conditions[29] also assisted this branch. Construction output[30] grew already second year in a row, last year´s +9.1%[31] comprised

[28] At the beginning of year 2019, the proportion of businesses stating this barrier however mildly fell to 39% (from 45% in Q4 2018), which was likely associated with the more intensive perception of the external risks in the area of the total economic development in 2019. Short term positive expectations of the employment growth in the industrial businesses started slightly falling during the second half of the year and this development continued also at the beginning of year 2019.

[29] Average air temperature was 9.6 °C in the CR in 2018 (1.7 degrees above the long-term standard from period 1981-2010). It stayed more than 1 degree above its normal however in all months of the year, apart from February and March (when it was by 2.6, resp. 2.1°C lower).

[30] All year-on-year data related to the construction output are adjusted for calendar effects, quarter-on-quarter rates of growth then also for the seasonal effects.

construction and civil engineering construction prospered.

the strongest pace in the last fifteen years. It is credited to the development in Q1 to Q3 of the year, a slowdown occurred in the last quarter (to +4.3%). In the quarter-on-quarter expression it even fell by 1.8%[32]. While only the building construction drove the output of the whole industry in year 2017, last year also the civil engineering construction was able to keep the pace.

Number of commenced dwellings grew already fifth year in a row up to a nine-year maximum.

While the civil engineering construction greatly benefited from the progress in drawing on the European funds (apparent in comparison to year 2017, but also during the last year itself), weight dominant buildings construction capitalised on the growing demand for commercial as well as residential real estate. In spite of the fact, that the number of commenced flat reached the nine-year maximum last year (33.1 thousand) and grew already fifth year in a row (in total by nearly 50%), it still lagged by nearly one fourth behind in comparison to the average of the peak period (2006 till 2008). Higher number of commenced flats in non-residential buildings, in the family houses and also in reconstructed non-residential premises (the highest number after year 2005) contributed the most to the last year´s growth. On the contrary the volume of commenced construction of flats in the residential buildings stagnated year-on-year and did not reach even one half of year 2007. Given the regional view, the construction in Prague contributed the most to the growth in the CR, still the number of commenced (and also completed) flats there notably lagged behind the total population growth also here already fifth year in a row. Only gradual revival of the flat construction together with the efficiency of using the existing flat stock in the capital city is reflected in the sharp growth of realised prices of both new flats and rents[33].

Raise of value of new domestic construction orders continued already second year in a row. The pace however slackened towards the end of the year.

Construction still enjoyed a positive outlook towards the end of year 2018 in the CR. Year-on-year growth of the value of new domestic orders (for businesses with 50 employees and more) continued already second year in a row. It was strong in the first half of the last year, both in buildings construction (28.1%) and in the civil engineering construction (34.6%). Despite the rate of growth slackening in the remaining part of the year, a moderate growth persisted in the whole branch also in the last quarter (+1.9%). As a positive observation, large projects became more frequent – the average size of the new order was rising second year in a row (it amounted to 3.7 CZK mil in 2018). Total stock of work in the form of all so far not-completed orders summed up to 153 CZK bn at the end of the year (+15% year-on-year). Growth of the stock of work was driven primarily by the public domestic orders. On the contrary, the volume of contracted work abroad, which had in the last years rather anti-cycle effect, reduced for the fourth year in a row[34]. Confidence indicator of the managers of the construction companies grew already two and a half years and left the negative band in November 2018 (for the first time since September 2008). The proportion of construction businesses considering the lack of labour force for the growth barrier nearly doubled during the year 2018 (to December 41%), it already comprised the main barrier in the last third of the year in the whole branch. In contrast the factor of inadequate demand was weakening (as far as 24% – mildly below the level reached in the peak of the last decade).

Confidence indicator in construction significantly improved. However, construction businesses were considerably limited by the lack of available labour force.

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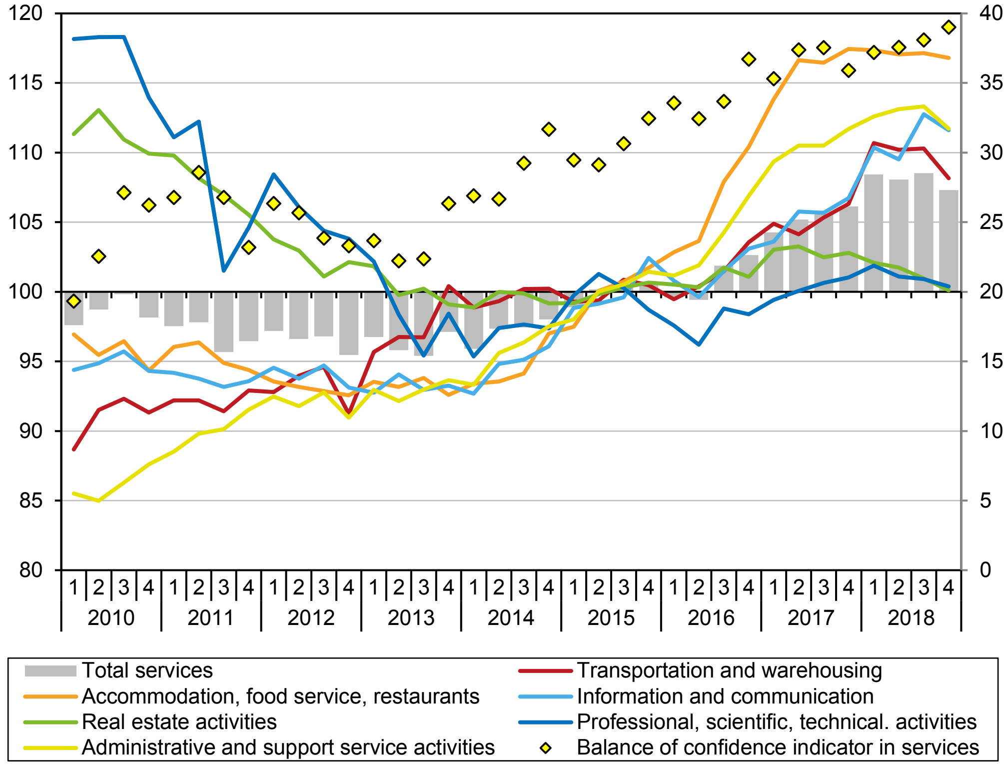
[31] Growth of construction was above average even in the European context last year. It was only 2.1% in the whole EU. The CR ranked ninth among the countries. Among the older EU (15) members, only Ireland achieved higher growth than the CR. Primarily countries from central and eastern Europe fared well (e.g. Hungary +22%, Poland +20%), where the strong construction dynamics was assisted not only by swift economic growth but also the drawing on the funds from the EU budget.

[32] Investment (gross fixed capital formation) also experienced a slight quarter-on-quarter decrease in the whole economy towards the end of year 2018.

[33] The year-on-year growth of rents on flats in Prague was 6.2% in H2 2018, nearly double the pace recorded in the whole CR.

[34] Proportion of foreign orders on the total stock of work of construction businesses (with 50 and more employees) lowered last year below the 10% level. Still it was nearly double compared to the level of the business cycle peak in the last decade (2006 till 2008).

Chart 8 Sales in selected services divisions (in real terms, seasonally adjusted, level of year 2015 = 100) **and confidence indicator balance in selected services*** (in points)



*Data are seasonally adjusted, includes also the financial sector.
Source: CZSO

Even though the growth of sales in selected services slowed down last year, it reached nearly 3%.

Sales in selected services[35] grew by 2.8% last year. Even though the rate of growth eased by more than one third compared to year 2017, it still constituted the third best result after year 2007. Last year´s slowdown was for the most part influenced by a weaker Q4, when the output of services grew only by 0.6% (it dropped even by 0.7% in quarter-on-quarter expression). Despite all branch sections recording a strengthening sales last year (except for real estate activities, where they fell by 1.6%), only two main branches contributed significantly to the services growth – transportation and warehousing and also information and communication.

Development of industry, trade as well as higher mobility of population led to swift growth of sales in transportation and warehousing. Long-term strong demand persisted in information and communication.

Sales strengthened by 4.6% in transportation and warehousing year-on-year, their growth was expanding for the third year in a row. The branch was pulled (similarly to years 2016 and 2017) mainly by the brisk growth in the division warehousing and support activities for transportation (+6.3%). All other types of transportation also prospered, apart from the postal and courier activities (-2.1%). Both land transportation and warehousing profited from the development of industry as well as domestic and foreign trade. Growth of services (especially in the domestic transportation) was associated with higher mobility of population propelled by the record employment size and in the last third of the year also by the widening discounts on the prices of fare in the public transport.

Growth in the long-term dynamic branch of information and communication gained pace (from 4.0% in 2017 to last year´s 5.4%). Even though the information activities[36] remained its most dynamic field in the last four years, activities in the area of information technologies[37] contributed the most to the growth of the whole branch last year. Only the

[35]Excluding trade, financial and insurance activities, science, research and public services. All data for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter data are adjusted for seasonal effects (including the effect of the number of working days).
[36] Including mainly the data processing and hosting, web portals and news agency and information service activities.
[37] Include mostly computer programing, computer facilities management activities and also consultancy in the IT area.

peripheral segment of motion picture and sound recording and music publishing activities faces weak results in the long term[38].

The sales in the branch accommodation, food service activities and restaurants faster nearly double digit growth in 2017 strengthened only by 0.8% last year (they even slightly fell in the accommodation segment). It was linked with the slower dynamics of the arrival tourism industry[39]. The possible impact of the jump in the prices of food services in 2017 cannot be also excluded, it could have affected the demand (especially domestic) in the subsequent period.

Strong recovery in construction so far did not manifest in the architectural and engineering activities much.

In the branch of professional, scientific and technical activities the sales grew only by 0.8% lastly year, mostly due to the effect of weak growth of architectural and engineering activities (despite the development of construction) as well as fall of sales for advertising (already third year in a row). On the contrary, the advisory in the area of management, accounting and auditing activities, tax consultancy or market research and public opinion polling prospered. Sales growth in the branch administrative and support service activities (+2.3%) was driven by the long term strong demand in the area of renting and leasing (especially transport vehicles, but also machinery) and operating lease. The unceasing demand for agency employees also played a role, mainly in the secondary sector.

Growth of retail sales continued for the fifth year in a row. They were driven by the dynamic development of non-food products and also sales via internet.

Dynamic growth of earnings accompanied by positive balance of the consumer confidence indicator (which hit the historical peak in the half of the year) was reflected in the 4.8% year-on-year growth of retail sales last year[40]. Even though their pace slowed down somewhat in comparison to year 2017 (similarly to the EU), sales growth prevailed for the fifth year in a row and at the same time, it ranked among the highest also within the frame of the Union states[41]. Traditionally the sales of non-food products contributed the most to the year-on-year strengthening of the retail in the CR (with the growth of 7.4%). Especially the sales of computer and communication equipment thrived, growing by double digit rate of growth already second year in a row. Expansion of the sales via internet continued (+19.8%). Sales grew in all the main groups of specialised stores, except for stores with food (-0.4%) last year. Despite rising prices for the most part of the year, the demand for automotive fuels remained high (growth of sales by 4.0%, by 5.7% in 2017). However, the same did not occur for the sales of motor vehicles, where the sales fell for the first time (by 2.2%) last year following the five growth years.

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[38] Lower sales in the film and music industry (0.3%, in year 2017 -14.9%) were linked to the more frequent irregularities in orders and invoicing. The segment of the motion picture distribution itself however thrived much better. According to the Union of motion picture distributors, the sales from entrance fees in cinemas increased by 13.2%, number of visitors by 7.3% (to 16.3 mil, the largest number after year 1993) in the CR in 2018.

[39] Number of overnight stays of foreign visitors in the mass accommodation facilities increased year-on-year by 1.9% (but by 8.2% in year 2017) in the CR last year.

[40] All year-on-year rates of growth and sales for retail are given in constant prices and adjusted for calendar effects.

[41] Growth was only 2.1% in the EU last year. Retail grew faster than in the CR in six states (in that: Lithuania, Hungary, Ireland and Poland – between 6.4 and 6.6%).

4. External Relations

Value of exports slightly increased last year, mainly due to the strong second half of the year.

Value of exports of goods amounted to 3 630.8 CZK bn[42] in 2018. It constitutes a year-on-year increase in value of 117.9 CZK bn (3.4%). Exports of goods thus grew for the ninth year in a row. Development of year-on-year dynamics was especially in H1 affected by high comparative basis of year 2017 as well as the worsened situation in the area of motor vehicle exports (-1.0%, +1.7% in Q1 and 2). Second half of the year was however more successful with respect to exports (+5.4% in Q3). The value of exports of goods reached 952.7 CZK bn in Q4 and it increased by 68.3 CZK bn year-on-year (7.7%). It constituted the highest increase since Q1 2017.

Growth of the value of exports to Germany notably weakened last year. On the contrary, the exports to Netherlands, Spain and Sweden grew fast.

The territorial structure of export with respect to the main features remained practically the same last year. 83.9% of the whole exports of goods was destined into the EU countries. Nearly one third of the Czech export kept being directed to Germany. Relative increase of exports into EU (3.5%) was slightly higher than outside the Union (2.6%). Growth of exports to Germany weakened markedly (1.6%) compared to year 2017. Only the Q4 pulled up the yearly dynamics (+16.3 CZK bn, 6.0%). The value of exports to Germany stagnated during Q1 to 3. Smaller export destinations thus played a more significant role last year. The value of exports to Netherlands experienced a spike (13.9 CZK bn, 12.2%) last year and continued in the more than 40% increase from the previous year. Export to Spain (16.7 CZK bn, 16.3%) and Sweden (8.4 CZK bn, 15.6%) also had a strong addition. Export to Romania also reached a relatively high increase (10.3%, 5.2 CZK bn). Export to our nearest neighbours grew slower (Poland +3.7%, Slovakia +2.6%, Austria +4.3%). Export to Slovakia escaped the two year period of slumps last year. The slide of the value of export to Great Britain continued last year (-4.0%, -6.7 CZK bn). Increase of export outside the EU was impacted the most by Russia (+7.7 CZK bn, 11.0%). Export to Japan experienced a strong addition (+2.2 CZK bn, 19.5%).

Value of export of motor vehicles dropped for the first time since year 2009 last year.

Compensation however arrived on the part of computers, optical and electronic products. They managed to reach the second most significant position of export articles last year.

Motor vehicles remained the key article of the Czech export (27.1% of total value of export). Nevertheless, the value of export of motor vehicles sank for the first time since year 2009 last year year-on-year (-5.7 CZK bn, 0.6%). Year-on-year fall manifested during Q1 to 3. In contrast, the final quarter brought an increase of 23.2 CZK bn (9.8%, the most since Q1 2017). Export of computers, electronic and optical products grew strongly throughout the whole year (value increased by 53.7 CZK bn for year 2018, 15.7%). Last year´s increase, which followed the year 2017, was so large, that this article in volume approached the second most significant export article – machinery and equipment. Their export also grew moderately last year (+13.1 CZK bn, 3.3%). Export of electrical equipment also maintained its growth (+11.9 CZK bn, 4.0%), dynamics of export of basic metals accelerated (+11.5 bn, 8.3%). Notable increase of the electricity prices also raised the increase of value of exported electricity, gas, steam and air conditioning supply by 7.9 CZK bn (31.4%). Products of agriculture and forestry faced slump of 4.3 CZK bn (10.8%) last year. The whole decrease was however created in the first half of the year, mainly due to the fall of prices of some products. A mild growth of the value of export in Q2 manifested despite the lower harvest. It was because the prices of related crops were raised significantly.

Import driven by strong domestic demand grew more than export during the year. Turn occurred only in Q4.

Continuing growth of the domestic demand was among other things saturated by import. The value of imported goods attained 3 508.5 CZK bn in 2018 and expanded by 159.1 bn (4.7%). Import dynamics exceeded export during Q1 till 3. The additions shrank slightly only in Q4 (63.2 CZK bn, 7.3%). In total, goods in the value of 930.9 CZK bn were

[42] Statistical data of the foreign trade in the national conception in the 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 valid as of 11.3.2019.

imported by the end of the year (900 bn boundary was overtook for the first time). Import grew both from the EU countries (+74.5 CZK bn, 3.3%) and countries outside the EU (+84.9 CZK bn, 8.1%). Especially China affected the improved dynamics of import from countries outside the EU last year (+39.2 CZK bn, 11.9%), experiencing marked acceleration of the year-on-year growth in the second half of the year (17.8% and 18.4%, resp. +13.9 CZK bn and +17.5 CZK bn in Q3 and 4). The value of import from the United States grew relatively fast (+7.4 CZK bn, 8.7%). Import form Russia increased (+6.9 CZK bn, 6.0%). Even in this case a considerable acceleration occurred in the second half of the year. Mostly Germany was behind the weaker last year´s dynamic of imports from the EU (+19.7 CZK bn, 2.2%). Import from Poland (4.5%) and Slovakia (4.3%) maintained a mild growth. Import from France markedly accelerated (+7.0 CZK bn, 6.4%).

Raised prices of some commodities significantly influenced the development of import last year.

Import development according to the individual divisions of the production classification shared many similar features with the export described above. Value of import of motor vehicles fell for the first time since year (-2.6 CZK bn, -0.5%). Raised prices sharply increased the value of import of electricity, gas, steam and air conditioning supply (+7.5 CZK bn, 37.7%). Massive acceleration led to the increase of value of imported computers, electronic and optical products by 34.7 CZK bn in the end in the second half of the year (9.3%, increase can be linked to the accelerated import from China). Raised oil prices were mirrored in the increased value of import of coke and refined oil products by 15.5 CZK bn (29.0%), oil and natural gas by 14.8 CZK bn (12.3%) and indirectly by acceleration of dynamics for chemical products to +15.5 CZK bn (5.7%). There were by 10.6 CZK bn more of other motor vehicles imported (30.5%) than in year 2017. Value of import of food products fell (-3.9 CZK bn, -2.6%).

Surplus of the foreign trade balance shrank by 42.2 CZK bn last year.

Balance of foreign trade with goods attained a surplus of 122.3 CZK bn last year. Surplus was 41.2 CZK bn lower compared to year 2017 and it was the lowest since year 2013. Year-on-year slump was recorded in Q1 till 3. Surplus comprised 21.7 CZK bn in Q4 and it grew by 5.0 bn year-on-year. Shrinking of the last year´s surplus was the consequence especially of the deepening of trade deficit of countries outside the EU by 70.2 CZK bn (the most since 2010). Worsening balance with China by 37.4 CZK bn had the largest effect, lower surplus with Turkey by 8.1 bn and deepening of the deficit with the United States by 5.3 bn was also significant. On the contrary, the trade with the European Union improved the balance by 28.5 CZK bn year-on-year. Balance surplus with the Netherlands grew by 9.7 bn, similarly with Spain it expanded by 16.9 bn and by 6.4 CZK bn with Sweden. Weaker results of the foreign trade with Germany were also visible on the balance – the surplus shrank by 2.2 CZK bn. Trade deficit with Poland deepened by 4.5 CZK bn.

For countries outside the EU, the deepening of the deficit was the strongest since year 2010.

Balance worsening originated among other things in raised oil prices.

Look at the balance development from the view of the classification of production suggests, that among other things the raised prices of oil stand behind the worsening – for oil and natural gas the deficit worsened by 13.3 CZK bn, for coke and refined oil products by 12.0 bn, chemical products also recorded a larger deepening (-9.0 bn). Notable increase of import of other transport equipment resulted in worsening of the balance surplus by 12.4 CZK bn. Computers, electronic and optical products had the largest positive influence on the balance (+18.9 CZK bn). Subsequent deficit of 13.8 CZK bn was the best result of this classification division in the whole available time series.

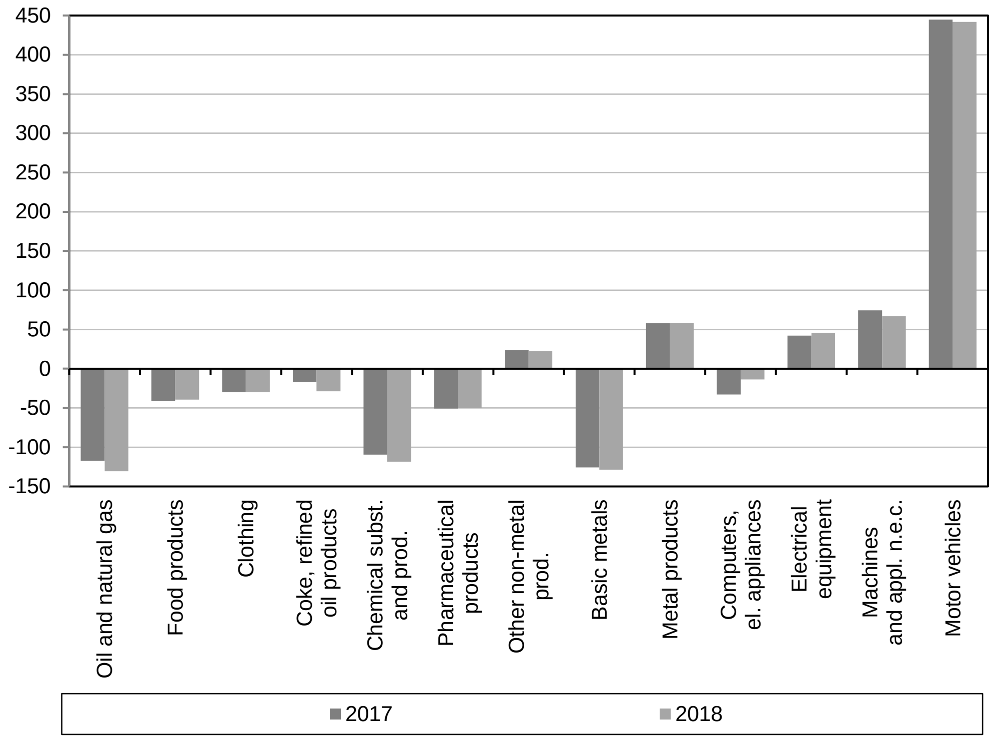
Deficit of primary income with non-residents moderated by 39.9 CZK bn year-on-year last year.

Total balance of primary income flows between residents and non-residents arrived at -270.8 CZK bn in 2017. The deficit shrank by 39.9 bn compared to year 2017. The negative balance of property income (-325.2 CZK bn) became the largest source of deficit. This balance improved by 46.5 bn year-on-year. Profits from foreign direct investment of foreign owners reached 414.6 CZK bn last year, which presented 7.8% of GDP and year-on-year decrease of 37.8 bn. In that 293.9 CZK bn flew out abroad in the form of dividends and 120.6 bn was reinvested. The volume of paid out funds increased by 18.0 bn compared to the preceding year specifically to the detriment of reinvestment, where the slump was 55.8 CZK bn. Profits of residents from foreign direct investment attained 65.0 CZK bn last year and 49.7 bn was reinvested. The volume of funds, which flew in the form of employee compensations in the direction from non-residents[43] to residents, increased only mildly (by 2.1 CZK bn to 66.5 bn) in 2018. On the contrary, non-residents added 36.0 CZK bn in the form of compensations (+9.3 bn). Resulting balance reached 30.5 CZK bn and decreased by 7.2 bn year-on-year.

Volume of investment subsidies from abroad markedly increased.

The non-residents added 131.4 CZK bn to their accounts via the other transfers (taxes, social contributions and benefits and other current transfers), 76.2 bn in the opposite direction. The resulting balance thus worked in the direction of deficit of current transfers of residents with non-residents. Due to the significant surplus of the trade with goods and services, the final balance of current transactions remained positive and amounted to 3.9 CZK bn. The capital transfers balance also ended positive and arrived at 60.8 CZK bn. Because 63.7 CZK bn poured in from abroad (mainly in the form of heightened volume of investment subsidies). Also due to the increased income of capital transfers, the net borrowings (sum of the current and capital transfers balance adjusted for net non-financial asset acquisition) increased by 13.3 CZK bn and reached 54.9 bn.

Chart 9 Balance of foreign trade* in foreign trade statistics (accumulation of the whole year, in CZK bn, selected divisions of the CZ-CPA classification)



Source: CZSO
*in national conception

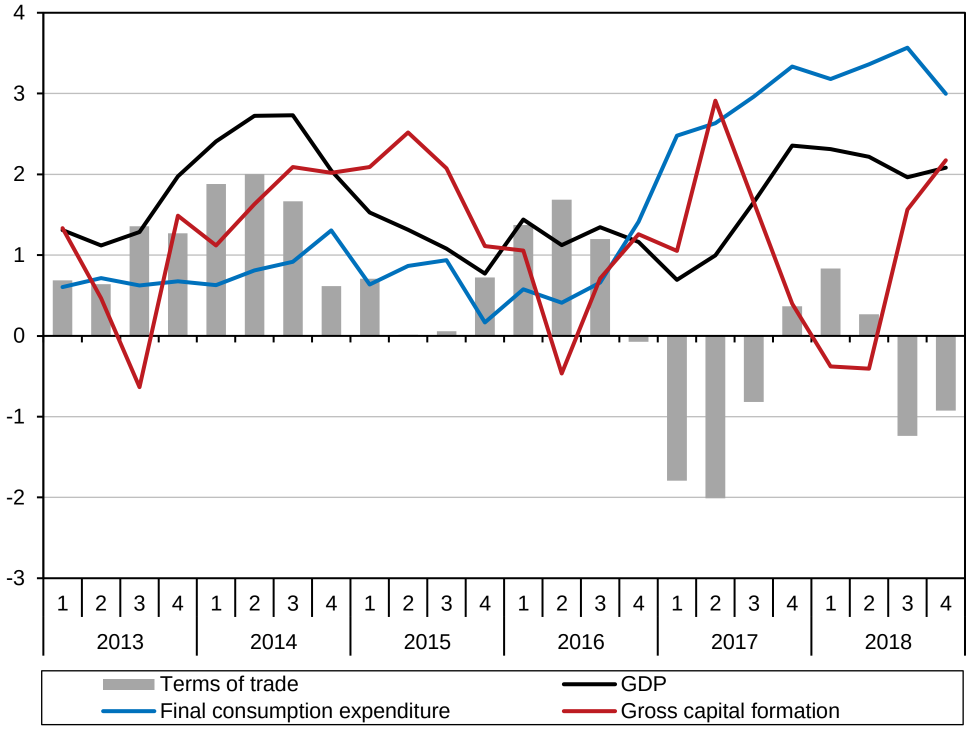
[43] Non-residents represent a grouping of units regardless of the attributes of their roles and resources. These are for example representative bodies of foreign countries or international organizations, which were established and operate on the basis of the international agreements or detached parts of parent company (e.g. branches of manufacturing businesses, banks and insurance companies).

5. Prices

Total price level grew last year.

Total price level (gauged by the GDP deflator) grew by 2.3% last year. Especially the prices of consumption goods had a prominent effect (3.5%). In that the deflator of the household consumption expanded by 2.5% and for the sector of government institutions by 6.0%. Prices of investment goods stagnated (0.8%). Terms of trade ended negative (99.7%). The situation in Q4 copied the yearly results. Price level increased by 2.3%, in that prices of consumption goods by 3.4%. Growth of the price level of investment goods accelerated in the second half of the year and ended in 2.2% in the final quarter. Terms of trade were 99.1% at the end of the year.

Chart 10 Deflators (adjusted for seasonal and calendar effects, year-on-year in %)



Source: CZSO, national accounts

Consumer prices grew slower last year compared to year 2017.

Total year-on-year increase of the consumer price index reached 2.1% in 2018. It is by 0.4 p.p. less than in year 2017. However, in more long-term context, it represents an above average value (third highest additions in the last 10 years). The division housing, water, energies, fuels had the key influence on the raised prices last year (0.7 p.p.). Prices of transportation and alcoholic beverages and tobacco notably contributed to the rising consumer inflation (similarly by 0.3 p.p.). Food and non-alcoholic beverages, which were the main factor behind the price growth in 2017 contributed 0.3 p.p. last year. Year-on-year growth of prices hit 2.1% in Q4 only. The prices dynamics moderated compared to Q3, mostly due to the fall of prices of food as well as the slowdown of growth of prices of transportation. Prices of housing and energies had a dominant effect on the price level growth. Price development was more differentiated for various groups of population in 2018 than in other years. Consumer price index for households in Prague thus increased by 2.3%, while for the households of pensioners by 1.9%. Differences arise especially due to the varying weight structure of the consumer basket of both groups. It was likely the most apparent on the item housing and energies last year. This division contributed to the growth of the index 1.1 p.p. for households in Prague, it was 0.4 p.p. in case of pensioners. On the other hand, consumers in household of pensioners felt more strongly the effect of prices of food and non-alcoholic beverages, which contributed

0.3 p.p. to the total growth of prices for them, while they did not contribute to the year-on-year dynamics for households in Prague.

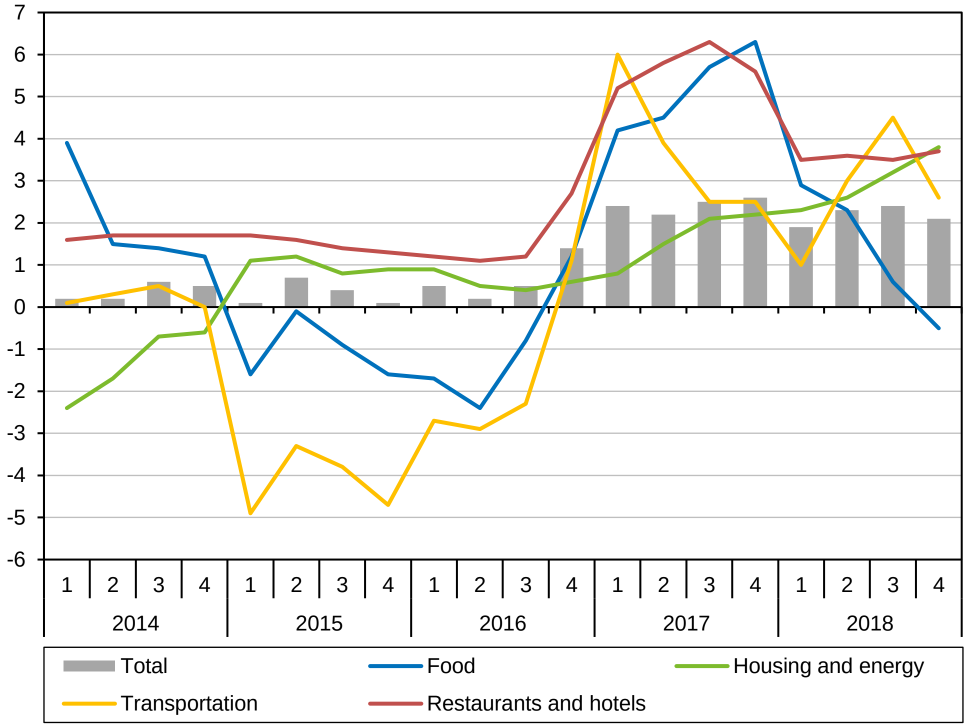
Prices of housing and energies were accelerating their year-on-year growth during the year.

Prices of housing, water, energies and fuels rose by 3.0% in 2018. The year-on-year dynamics gained intensity during the year (2.3%, 2.6%, 3.2% and 3.8% in individual quarters). The imputed rent for housing (cost of ownership living) added the strongest to the growth of prices. It grew by 4.3% last year and added one half to the growth of prices in the whole division. Renting for flats also notably increased last year (3.0%). Prices of electricity and heating, gas and other fuels also joined the rising cost of housing after a longer period of stagnation in 2018. They increased by 2.1%, the most since year 2012. The prices of common maintenance and repair of household goods also grew relatively strongly (3.7%). In Q4, the year-on-year growth of imputed rents (5.4%), electricity, gas and energies (2.8%) as well as common maintenance and repairs (4.1%) strengthened. The year-on-year addition to the prices of rents from flats remained on the strong level (3.3%).

Year-on-year increase of the oil prices affected the cost of transportation for consumers.

Prices of transportation increased by 2.8% last year, which is less than in year 2017. While the cost of operating transport vehicles, which are dependent on the oil prices, kept the dynamics from the preceding year (5.3%), prices of purchases of motor vehicles, motorcycles and bicycles grew slower (1.9%). The average price of oil Brent was rising till October[44]. However, it sank notably in the last two months of the year. It was reflected also in the dynamics of prices of transportation in Q4. It weakened to 2.6%. Apart from the smaller growth of prices of operating the transport vehicles (7.6%), the addition to prices of their purchase considerably decreased (0.8%). Cost of transportation services fell markedly year-on-year towards the end of the year (-7.6%). Discounts for students and seniors were mostly reflected here.

Chart 11 Prices in the selected divisions of the consumer price index (y/y in %)



Source: CZSO

[44] Based on the data from the U.S. Energy Information Administration, it reached a maximum of 81.03 USD a barrel at that time.

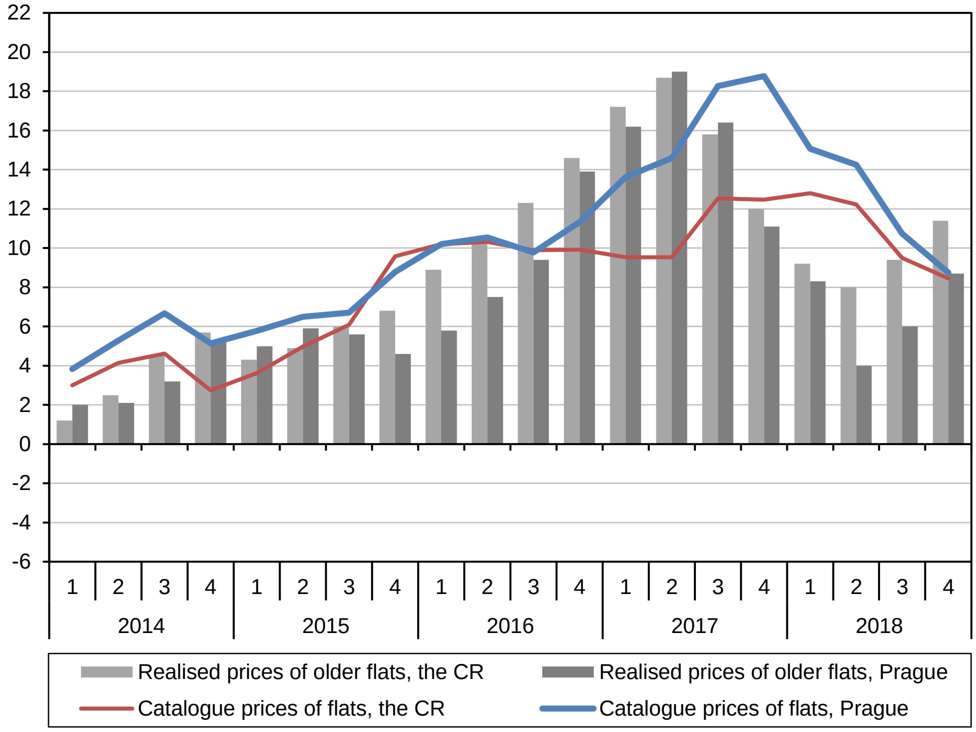
Prices of food and non-alcoholic product grew milder last year compared to 2017. They recorded year-on-year decrease at the end of the year.

Prices of food and non-alcoholic beverages grew by 1.3% in 2018. It comprises a significantly lower level compared to year 2017 (5.2%). Prices of baking products and cereals remained nearly the same in comparison to year 2017 (0.3%), increase of prices of meat notably mitigated (1.2%). Prices of milk, cheese and eggs had stronger dynamics (3.8%, however much less compared to year 2017) and also prices of oils and fats (4.0%). Year-on-year dynamics of prices of food and non-alcoholic beverages featured a downward tendency during the year. Thus the prices of this division fell for the first time since Q3 2016 in Q4 (-0.5%). All classes of consumption classification shared the decrease apart for the vegetables and other food products. Prices of alcoholic beverages and tobacco increased by 3.0% last year. Prices of food service activities and accommodation increased by 3.6%. Raised prices of household equipment and (1.5%) and costs of health (3.7%) also contributed to the growth of the total index. Prices of wearing apparel and footwear in contrast fell last year (-1.1%).

Consumer prices in the EU maintained a stable growth around 2.0%.

Total increase of consumer prices in the EU attained 1.9% last year. The year-on-year dynamics accelerated during the first three quarters and mildly slowed down towards the end of the year (2.0% in Q4). Growth of prices was relatively even among individual divisions of the consumption classification. Mainly the increase of prices of energies and fuels led to the acceleration of dynamics for prices of housing and energies (2.5% for the whole year, 3.2% in Q4). Prices of transportation grew by 3.5% last year (3.8% in Q4). Larger decrease of prices was recorded only for the prices of postal services and telecommunications (-0.8% for the whole year, -1.4% in Q4). Especially the considerable slump of prices of phones and fax equipment had a large effect. Level of consumer prices grew across all EU member states last year. Prices increased the most in Romania (4.1%), Estonia (3.4%) and Hungary (2.9%). Growth was less than 1.0% in Denmark (0.7%), Ireland (0.7%), Greece (0.8%) and Cyprus (0.8%). The trio of countries, which dominated the prices growth in Q4, is the same as for the results of the whole year (Estonia 3.7%, Romania 3.5%, Hungary 3.3%). Prices grew negligibly at the end of the year in Denmark (0.7%), Portugal (0.9%) and Ireland (0.9%).

Chart 12 Prices of real estate (year-on-year change, in %)



Source: CZSO

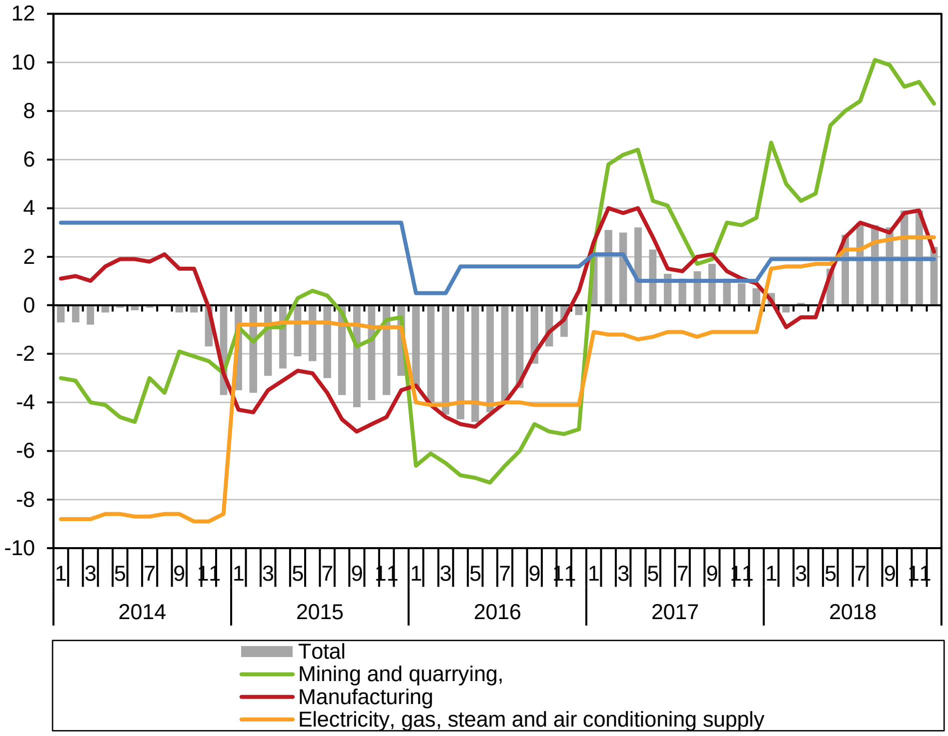
Prices of flats continued in the relative strong growth.

The dynamics of prices of flats started losing strength at the turn of years 2017 and 2018 and it seemed, that its peak already passed. It was valid for supply prices of flats, whose year-on-year growth was continually slackening, still it kept a fast pace. The supply prices of flats in the CR increased in total by 10.7% last year compared to year 2017, it was 12.1% in Prague (16.4% for year 2017). In contrast, the growth of the supply prices of flats outside of Prague considerably increased pace last year (from 4.7% in 2017 to 8.8%), which was likely the consequence of the situation in other large cities (mainly Brno). Supply prices increased year-on-year by 8.5% in the CR in Q4 and by 8.8% in Prague. Year-on-year dynamics of realised prices of second hand flats on the contrary started to accelerate again in H2. Prices increased by 9.5% in the whole CR last year (by 11.4% in Q4 itself). Total growth was 6.7% in Prague last year, which can be linked to a certain ceiling, that the demand can still bear (total level of prices of flats in Prague is considerably higher compared to the rest of the CR, high relative increase thus hit the interested parties more strongly). Realised prices of second hand flats outside Prague were also rising more strongly compared to the previous (10.4% for the whole year, by 12.2% in Q4).

Development of prices of oil was the main factor affecting the prices of industrial producers.

Prices of industrial producers increased by 2.0% last year. The main factor behind their year-on-year dynamics was then the development of the oil prices. Prices in manufacturing grew by 1.8%. It was mostly due to the contribution of prices of coke and refined oil products. Prices of basic metals and metal products also significantly grew (3.4%). Prices of chemical products (1.5%), basic pharmaceutical products (2.7%) or furniture (2.3%) also mildly grew. Drop for transportation vehicles of 1.7% had a negative impact on the size of index of industrial producer prices. Strong year-on-year growth occurred for the prices of mining and quarrying (7.6%) for the whole year. Growth of prices of electricity, gas, steam and air conditioning supply (2.2%) also accelerated during the whole year. Prices of water supply and sewerage increased by 1.9%.

Chart 13 Prices of main groups of industrial producers (year-on-year change, in %, based on CZ-CPA classification)



Source: CZSO

Growth of the industrial producer prices peaked in Q4.

The growth of industrial producer prices peaked in Q4 (3.4%). Impact of the raised oil prices year-on-year again played a key role (the year-end slump was apparent only in the December result and did not manage to affect the whole quarter markedly). Prices increased by 3.3% in manufacturing at the end of the year, they were mostly impacted by the prices of coke and refined oil products and metals and metal product (4.0%). Also in Q4, the 14 quarters lasting series of year-on-year falls of prices of transportation vehicles was interrupted (0.5%). Prices of mining and quarrying rose by 8.8%. Acceleration of the dynamics of prices of electricity, gas, steam and air conditioning supply continued also in the monitored period (2.8%).

Prices of oil and electricity significantly impacted the development of producer prices in the EU.

Global influence of the prices of oil was also apparent in the dynamics of prices of industrial producers in the EU. The index grew by 3.5% in total last year, by 4.2% in Q4. Similarly to the CR, prices of mining and quarrying grew by a very strong rate of growth in the EU (14.4% for the whole year, 10.6% in Q4). Prices in manufacturing increased by 2.7% in the Union last year (by the same pace as in Q4). Year-on-year dynamics of prices of electricity, gas, steam and air conditioning supply were accelerating during the whole year (6.7% for the whole year, 10.6% in Q4). Producer prices grew the most in 2018 in Estonia (7.1%) and Belgium (7.1%). Both countries featured a large increase of prices in the section of electricity, gas, steam and air-conditioning supply. In Belgium, prices of manufacturing also displayed a strong growth. Producer prices recorded 6.4% growth in Denmark. The addition to prices of mining and quarrying (especially energies) was significant here. Producer prices experienced a fall only in Ireland last year (-1.9%, prices in mining and quarrying were sinking here). Producer prices reached a weak growth in Luxembourg (0.6%) and in Malta (0.9%). In both countries, the prices of electricity, gas, steam and air conditioning supply stagnated in contrast to the European trend.

Index of prices of construction works went up the most in the last 10 years last year.

Index of construction work prices grew by 3.2% in 2018, which is the most since year 2008. Prices of materials and products used in construction went up by 3.5% The year-on-year dynamics of construction work prices accelerated in the course of the year. The year-on-year addition thus reached 4.0% in Q4. For the prices of materials and products used in construction it comprised of 4.8%. Prices of buildings increased by 3.3%, prices of engineering works grew by 3.1%. In Q4, the growth for both categories of construction works aligned on 4.0%.

Year-on-year dynamics of prices of market services strengthened towards the end of last year.

Prices of markets services grew by 1.8% last year, which is by 0.5 p.p. more than in the preceding year. Heightened demand connected to the economic growth as well as raised wages, which traditionally belong to the largest cost in services, were affecting the dynamics. The last year´s growth of prices of market services was the most influenced by the development in services in the area of employment (10.5%), by prices of insurance, reinsurance and pension funding (4.6%) and services in the real estate area (2.8%). Additions to the prices of architectural and engineering services (2.7%) and land and pipe transportation (1.2%) were also important. Prices of security and investigation activities (8.9%), cleaning activities (7.2%) or postal and courier services (5.1%) were also raised significantly. On the contrary, the prices fell by 2.3% in warehousing and support services activities in transportation. In Q4 only, the prices of market services grew by 2.0%. Development in the last quarter did not differ much from the whole year. Prices of land and pipe transportation grew by 1.6%, prices of postal and courier services by 6.1%, services in the area of real estate by 3.1%, services in the employment area by 7.4%. Growth of prices of advertising services and market research (5.3%) as well as insurance (6.4%) strengthened at the end of the year. Prices of warehousing and support service activities in transportation continued falling (-2.3%).

Prices of agricultural producers stagnated following strong year of 2017.

Addition to prices of agricultural producers was only 0.1% in 2018. While the prices of the plant production grew by 2.5% and the growth strengthened, the animal production experienced a fall of 2.8%. Growth of prices of cereals markedly accelerated (7.4%). It was valid especially for wheat (7.1%), rye (8.8%) and barley (8.8%). It was the consequence especially of the low last year´s harvest, which was common to most European producers. Prices of industrial crops were falling (-3.8%), especially of oil plants (-5.5%). Prices of vegetables and garden products considerably increased (13.0%). Prices of potatoes grew mildly (3.2%). Prices of fruit sharply decreased thanks to good harvest (-26.3%, the price level returned to the value before year 2017, when prices increased by one third). Prices of animal production were influenced by the drop of the prices of live animals by 7.5% (mainly pigs and piglets -15.8%). Animal products maintained the price level following its spike from year 2017. They grew by 1.0% last year. Prices of milk increased by 2.1% and prices of eggs dropped by 9.6%. Final quarter of the year saw the year-on-year addition to prices of agricultural producers rise by 1.6%. It was mostly thanks to the plant production (6.9%), which fully reflected the lower harvest (prices of wheat +15.7%, barley +16.0%, poppy seed +82.6%). Animal production recorded deepening fall (-6.7%).

Prices of export grew in Q4.

Export prices fell by 0.3% for the whole year 2018. The presence of foreign exchange rate differences compared to year 2017 was the factor the most affecting the year-on-year dynamics during the year. The year-on-year appreciation of koruna against euro as well as dollar thus pushed the price growth down in the first half year (-4.4% and -1.6% in Q1 and 2). Effect of the exchange rate considerably weakened in H2 and the prices of export started to grow year-on-year. Prices of exported machinery and transport equipment fell by -1.7%, prices of industrial consumption goods by -1.5% and food and live animals by -1.4% in 2018. Prices of semi-finished products (2.6%), beverages and tobacco (2.7%) and mineral fuels and grease (7.6%). Export prices rose by 3.4% in Q4. Simultaneously some items experienced a developmental turn – from year-on-year declines they got into growth. That is the case of the prices of food and live animals (2.7%), machinery and transport (1.8%, first growth from Q2 2015) as well as industrial consumption goods (3.5%).

Terms of trade were positive in 2018.

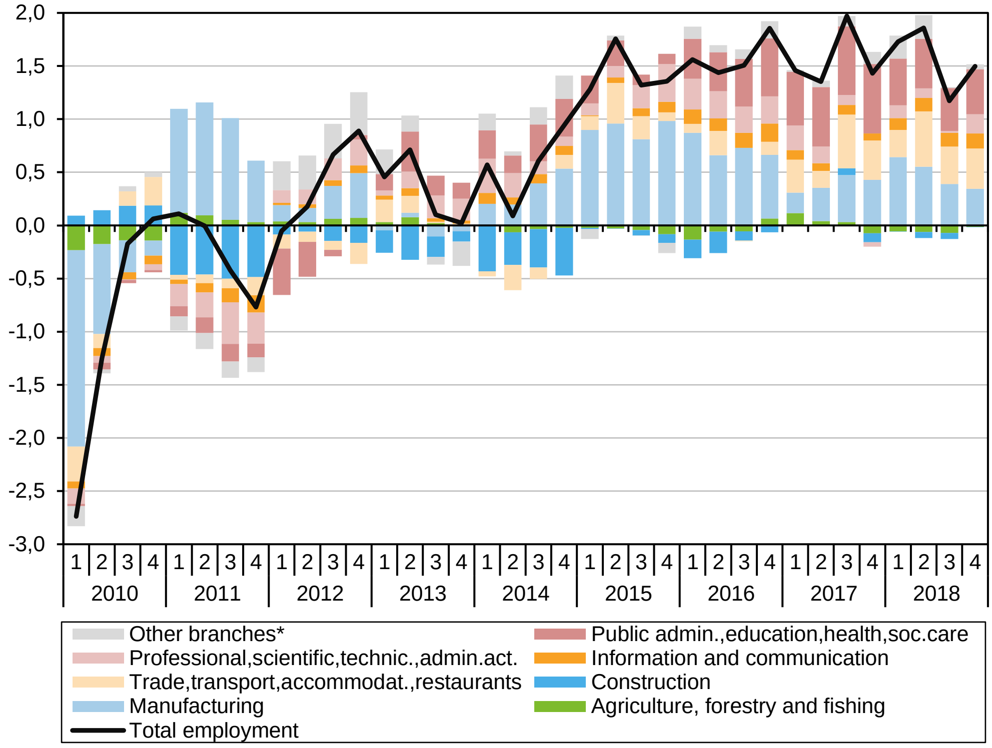
Year-on-year dynamics of the import prices resembled the case of export prices. The prices of import decreased by -0.7% in 2018, which was the consequence of especially H1, when significant year-on-year falls occurred also due to the koruna appreciation. In the second half of the year, the prices started to grow. Prices of imported machinery and transport equipment fell last year by -3.1%, industrial consumption goods by -3.3%, food and live animals by -5.2% and other materials by -5.6% fell last year. Prices of mineral fuels grew markedly (16.8%). Terms of trade arrived at 100.4% in 2018. Trade with machinery and transport equipment (101.4%), industrial consumption goods (101.9%), semi-finished products (102.4%) and other materials (106.1%) achieved positive terms of trade. On the other hand, trade with mineral fuels and grease (92.1%) and chemical products (98.4%) had negative terms of trade.

6. Labour Market

Swift growth of employment continued already fourth year in a row. It was however slowing down in the course of the last year.

The domestic labour market experienced a peak period in 2018. Number of workers[45] grew by 1.6% compared to year 2017, at the same time it grew by similar rate of growth also in the previous three years. However, a reduction of pace was apparent in the course of the last year. While the total employment strengthened by 0.6% in Q1 and 2 quarter-on-quarter, it already stagnated in Q3 and reached a growth of 0.4% in the remaining part of the year. Under the influence of contraction of the economy in the CR and EU as well as growing uncertainties on the foreign markets, businesses gradually corrected their optimistic expectations of further employment growth from the beginning of the year 2018 – this was valid especially for industry and selected services, the further strengthening positive outlooks in construction went in contrast in the opposite direction[46]. It could have contributed to a moderate easing of a strong tension on the labour market stemming from the lack of easily accessible resources of available labour force[47].

Chart 14 Total employment (year-on-year in %) **and contributions of main branches to year-on-year employment change** (in percentage points)



*Includes branches: Mining and energetics, Financial and insurance activities, Real estate activities, Culture, amusement and recreation activities, Other services. Source: CZSO (national accounts)

Employment increased last year mostly due to the higher engagement of the economically inactive persons and growing foreign migration last year.

Almost 5.45 mil persons were employed in the CR in Q4 2018, the most in the contemporary history. Given the fact, that the levels of unemployed persons did not change markedly during the last year, mainly the higher engagement of the formerly economically inactive persons and further also the growing foreign migration contributed to the year-on-year growth of employment (+83 thousand) last year[48]. Important

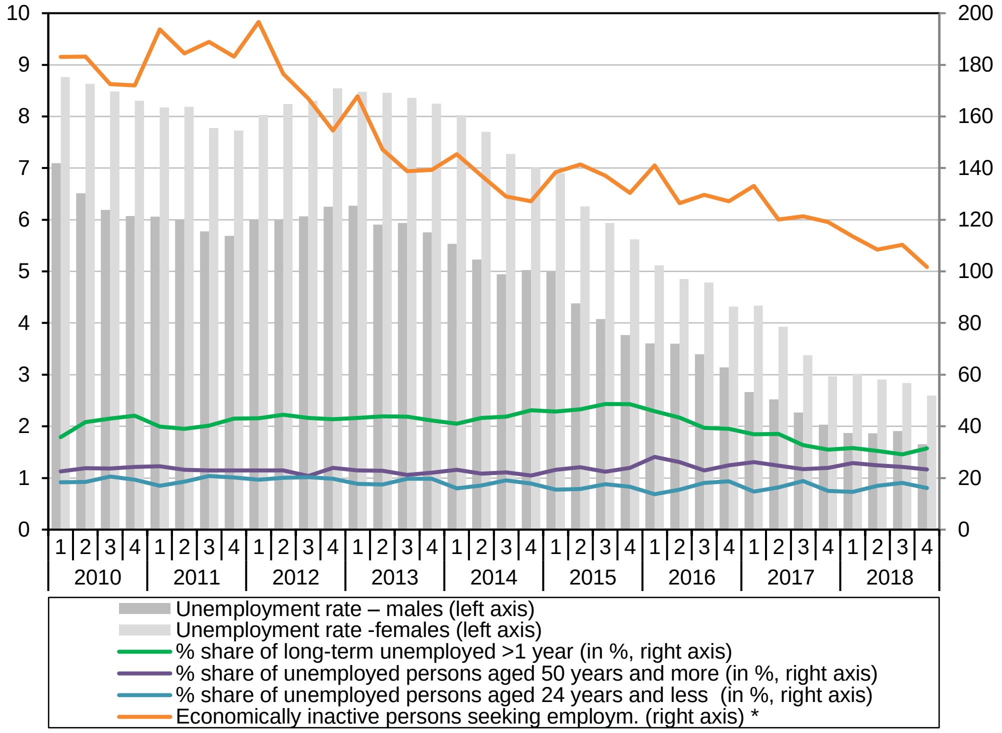
[45] Unless stated otherwise, employment data in this chapter are in the national accounts conception adjusted for seasonal effects.
[46] According to the seasonally adjusted data from the business cycle surveys, the balance of short-term expectations of employment in construction achieved +15 points at the end of year 2018, however the share of businesses expecting growth resp. fall of employment (in the nearest three months) was comparable in the preceding year.
[47] Proportion of businesses considering the lack of available labour force as the barrier of their growth reached a historical maximum in the main branches of economy in Q2 2018 (45% in industry, 41% in construction, 19% in selected services). At the beginning of year 2019, this proportion lowered to 39% in industry.
[48] There is also an indirect evidence in the form of growing addition to the number of foreigners. According to Alien Police Inspectorate there were legally 567 thousand foreigners in the CR at the end of year 2018, by 40 thousand more year-on-year. During years 2016 and 2017,

structural changes continued – people from the strong population cohorts (form the 70s) were moving into the age with the largest rate of economic participation. Decline of the number of employed in the youngest age groups was fully offset by higher activity of persons close to the end of the productive age due to the effect of lengthening both legal and real age of retirement.

Mostly employees contributed to the year-on-year growth of the number of workers. Among branches, the services thrived, on the contrary employment still was not rising in construction.

Mainly employees contributed to the growth of the total employment in 2018. Number of self-employed was growing for the third year in a row, but only by a slow pace (by 0.4% last year)[49]. From the view of branches, the services sector shared in the growth of the total employment by nearly three quarters, mainly information and communication (+4.6%) as well as branches with the predominant public sector (+2.4%) flourished. However, manufacturing still also maintained the important role, with the employment growth rate not losing pace mainly thanks to the agency workers last year (1.8%). In construction the other way around, despite swiftly growing output and orders the employment growth was not launched yet (–0.4%)[50]. Number of workers was also slightly reduced in the primary sector last year.

Chart 15 General unemployment rate of males and females, share of selected groups of persons on all unemployed (in %) **and economically inactive wanting to work** (in thousand) *



Note: all data related to unemployment are seasonally adjusted. *
*Persons who are not part of the labour force, are not actively seeking employment (and thus do not meet the conditions of ILO for unemployed), however state that they would like to work.
Source: CZSO (LFSS – Labour Force Sample Survey)

Fall of the general unemployment rate almost halted during the year 2018.

Seasonally adjusted general unemployment rate fell already only negligibly in year 2018. In December, only 1.9% of economically active males aged 15 to 64 years, resp. 2.7% females, year-on-year by 0.1, resp. 0.3 p.p. less, were without a job. Persons, who were

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the addition to the number of foreigners was „only“ 30 thousand persons. More than one third from the last year´s addition to foreigners comprised of citizens of Ukraine only.

[49]The more detailed data of the labour force sample survey (LFSS) suggest, that the number of entrepreneurs without employees (corresponding to the category of self-employed in the national accounts conception) did not change year-on-year last year (706 thousand). Number of entrepreneurs with employees slightly increased (+1.1%, to 166 thousand) in the same time period.

[50] It is also evident from the LFSS data. Working in construction was by 3.4% less year-on-year in Q4 2018 (2% then for the whole year).

without a job for more than one year, contributed from more than one half to the reduction of the total unemployment in the last three years. However, their contribution notably shrank in Q4 2018 only and the proportion of long-term unemployed in total unemployment even mildly increased quarter-on-quarter (to 31.4%). Still it does not alter the fact, that the total unemployment consists predominantly of the natural frictional component already several quarters and possibilities for its further reduction were thus already exhausted for the most part.

The unemployment rate fell to historical minimum in most of the newer member EU states.

The CR further kept the position of a country with the lowest unemployment rate among the EU states – it was valid six quarters in a row for the employment of females and even nineteen for males. Also the proportion of the long-term component on the total unemployment was by more than 10 p.p. lower compared to the average in the Union in the CR at the end of the last year. Total unemployment rate fell to historical minima in majority of newer member countries (except for Slovenia, Cyprus and the Baltic states), but also for instance in Germany or Great Britain (in comparable time series since the beginning of 90s). On the contrary, it stayed without notable fluctuations near the 10% boundary (it decreased only within the range of 1 to 2 p.p. in the last five years) in some of the significant states of the euro area (France or Italy). Also for this reason the unemployment rate in the euro area lingered nearly 1 p.p. above the level of the local minimum from the business cycle peak of the last decade, while it exceeded this own level in the whole EU already in Q2 of the last year.

Month-on-month growth of the number of job vacancies prevailed already for full two years. There were record 324 thousand vacancies in the supply of LO at the end of the year.

Demand for employees still stays strong in the domestic economy. Number of job vacancies in the supply of the labour offices (LO) grew month-on-month continuously (despite seasonal effects) since the end of year 2016[51]. It contained record 324 thousand vacancies at the end of December 2018, it presented more than double of the number during the business cycle peak of the last decade. Year-on-year addition of vacancies (+107.8 thousand) was nevertheless from the view of the demand for qualifications as well as regions[52] substantially imbalanced. Positions with very low declared demands for qualifications (primary education at most) shared already in 87% of this number. Based on the more detailed data of the LFSS from the previous years it can be assumed, that it concerned for the most part relatively unattractive positions primarily aimed at foreign workers[53]. In contrast the supply for persons with secondary education with the school leaving certificate or higher education (which prevail on the domestic labour market) increased only by 4.8 thousand (to 36.6 thousand) in the CR last year and it even moderately decreased in six regions.

Excess of job vacancies over job applicants lasts since spring 2018. This ratio remained already stable in the second half of the year.

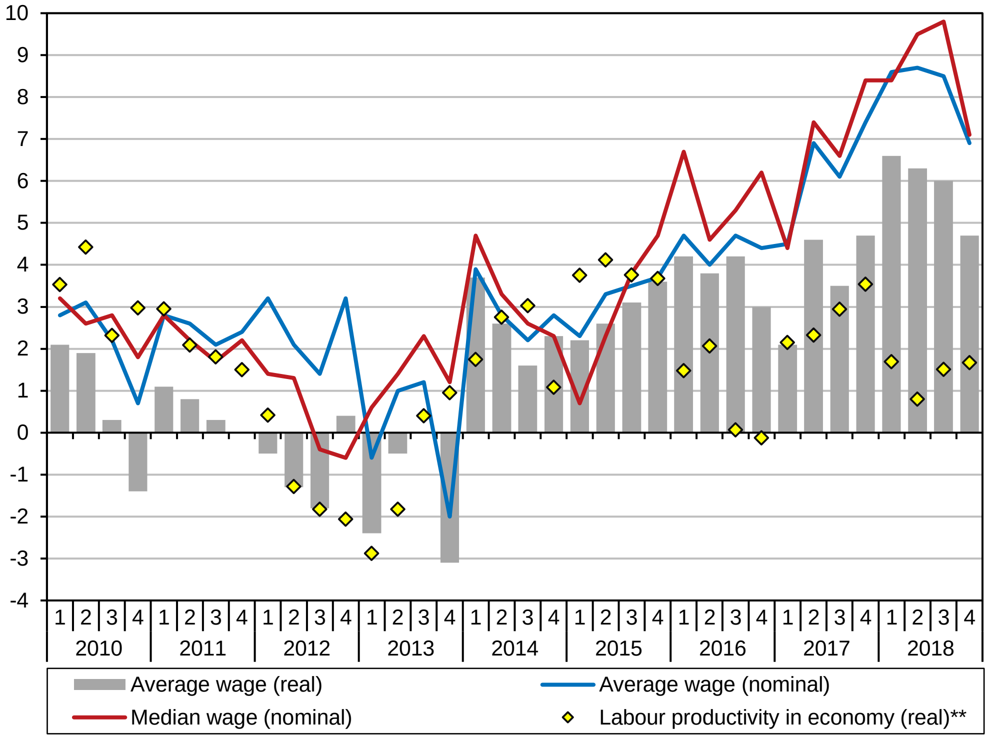
Beginning April 2018, the number of job applicants registered with the LO started to lag behind the number of job vacancies. This ratio was 0.7 at the end of December and it was not falling much anymore in the second half of the last year (due to the slowdown of the rate of growth of new vacancies as well as the seasonal increase of job applicants at the end of the year). Two thirds of regions and more than half of municipalities in the CR[54] signalled excess demand over supply of labour force at the end of the year. From the view of the qualification classes the same was also valid for specialists (0.7), craftsmen and repairmen (0.4), machine operators (0.2) and supporting and non-qualified staff (0.9).

[51] This growth transferred also into the beginning of year 2019. Further 8.7 thousand positions were added during January and February 2019, LO offered in total 333.1 thousand positions.
[52] More than one quarter of countrywide additions of vacancies belonged only to the Plzen and Pardubice regions for year 2018.
[53] Positions filed under qualification classes. Supporting and non-qualified staff shared only below 30% on the total growth of job vacancies in year 2018. On the contrary positions, where typically persons with lower secondary education (apprentices) work in the CR – Machine and equipment operators, assemblers, resp. Craftsmen and repairmen – shared in the growth of job vacancies 42%, resp. 18%.
[54] More than 2.5 job applicants per job vacancy was only in six regions (Karviná, Jeseník, Ústí nad Labem, Bruntál, Znojmo and Hodonín).

Rate of growth of average wages slightly weakened in Q4. It was connected mostly to the development in the branches with the predominant public sector, business sphere however also experienced a mild slowdown.

The gross average nominal wage of employee grew (according to the business statistics) by 8.1% in the economy in 2018. Annual rate of growth grew already fifth year in a row and slightly exceeded the growth from the last decade´s business cycle peak. Q4 2018 saw a slowdown to 6.9% (quarter-on-quarter pace also lowered to 1.5%, in the preceding part of the year it attained 2.0 to 2.2%). Mainly the education and also public administration (incl. defence and compulsory social security)[55] stood behind this contraction. It was however also apparent in the lesser extent in the majority of branches with the dominance of non-financial businesses[56]. It could have been related to the more prudent outlook (especially of export oriented) businesses into year 2019, drop of their profitability rate as well as the widening scissors between the dynamics of wage costs and the labour productivity (which was happening in the last three years). On the other hand, the still strong demand for employees, which could not have been adequately satiated[57] given the factual exhaustion of domestic job vacancies, prevented larger slowdown of the wage growth in the business sphere.

Chart 16 Average gross monthly wage, wage median and labour productivity* (year-on-year, in %)



**Share of seasonally non-adjusted GDP and employment (in the national accounts conception)
Source: CZSO (national accounts)

Average earnings grew the fastest in education, it was the opposite in financial and insurance activities.

While the year-on-year growth of wages did not differ much between the main economic branches in Q4 2018 (it moved between 5 and 8%, only the peripheral by weight mining and quarrying recorded weaker 3.7%), the development in branches varied more in the yearly perspective. Gross earnings rose the most in education last

[55] The average wage grew year-on-year by 12.8% in education during Q1 to Q3 2018, by 6.0% in Q4. Analogous rates of growth in the branch of public administration were 11.8% and 5.1%. These differences were connected to the large comparative basis of 2017 year end (from November, the wages of teachers as well as public administration employees rose by 15%). Further increase in the following year was implemented only as of 1st January 2019.

[56] In the most weight significant branch of services – Wholesale and retail, repairs and maintenance of motor vehicles – the average wages grew by 8.4% in Q1 2018, in the next part of the year they started losing pace and arrived at 7.6% in Q4. Earnings grew in manufacturing by 7.8% in H1, by 7.1% then in the remaining part of the year.

[57] As also evidenced by the continuing fall of the number of economically inactive persons, which do not work, do not actively seek employment, however state, that they are interested in working. In Q4 2018 there were 102 thousand of these persons according to the LFSS (year-on-year decrease by one seventh). This number was even by one half lower compared to the business cycle peak years of the last decade.

Volume of paid out wages in manufacturing slightly lagged behind the pace in the whole economy.

year (10.7%), however their average monthly size (31.4 CZK thousand) still mildly lagged behind the level in the national economy. Employees in further branches with the dominance of public sector also gained by a slightly weaker rate of growth. Among other branches, real estate activities, where the growth of average earrings (8.2%) was also accompanied by rising employment, thrived the most and volume of paid out wages thus grew the most in the whole economy (together with energy industry and education activities). Earnings increased by 7.4% in manufacturing and the volume of paid out wages lagged behind the rate of growth in the whole economy here for the first time in the last seven years. Earnings were still stimulated by the increase of the legal minimum wage in accommodation, food service activities and restaurants. Rate of growth of wages (7.6%) here still for the first time after three years lagged behind the development in the whole economy and their absolute size (18.7 CZK thousand) reached only one third of the level of information and communication branch. Financial and insurance activities ascribed the weakest growth among branches last year (5.2%), average earnings grew here by a lower rate of growth compared to the whole economy already fourth year in a row. From the view of the regions, the wage rates of growth did not differ much last year – it was the highest in the Central Bohemia region, Kralovehradecky region and Olomouc region (+8.8%), the lowest in Prague (7.2%). Below average wage growth given the simultaneous above average growth of the number of employees prevails in the capital city already since the end of the last recession.

Moderate decrease of the wage differentiation continued. Purchasing power of wages increased the most in the last sixteen years.

Wage differentiation between both branches and region kept further shrinking slightly. Lead of the growth of the median wage ahead of the rate of growth of the average wage endures with slight fluctuations already three and a half years. It is connected both with the repeated shift of the size of the minimum wage (with the impact on the bands of the guaranteed wage) and the increase of salaries in the sphere regulated by state (especially education, culture or social services). The median wage of employee in the economy grew by 7.1% in Q4 2018, by 8.7% for the whole year. Strong growth of purchasing power of wages represented a positive trend. It grew by 5.9% last year, the most after year 2002.

7. Monetary Conditions

Monetary policy-relevant interest rates were increased five times during the year.

A gradual return to standard instruments of the monetary policy occurred in the area of the monetary conditions in 2018. The main monetary policy-relevant rate (two-week repo rate) increased five times during the year (in February, June, August, September and November). Interest rate grew from January 0.5% to 1.75%, and consequently it was the highest in the Central Europe by the end of the year 2018. Among the countries outside the euro area, only Romania featured a higher rate. Development of the koruna foreign exchange against euro was not characterised by any larger fluctuations. It balanced between 25 and 26 CZK per euro for the whole year, while it overtook the 26 CZK boundary only shortly at the beginning of July and then in November. Koruna foreign exchange against dollar markedly weakened during May (it was on 20.58 CZK per dollar on the 20th April, 22.41 CZK on 29th May). Further depreciation was observed in Q4. It shortly overtook the boundary 23 CZK per dollar in the middle of November, the year 2018 ended on 22.47 CZK.

ČNB continued in application of some instruments of macro-prudential policy.

The announced increase of the countercyclical capital buffer occurred during the year (starting 1. 7. from 0.5% to 1.0%). Growth to 1.5% was newly introduced from 1. 7. 2019 (from 1.25% from 1. 1. of this year) and 1.75% from 1. 1. 2020. CNB executed the macro-prudential policy also using recommendations for the provision of mortgages (issued in June 2018). Newly loans above 90% of the value of the real estate purchased (LTV) should not be provided. At the same time, the banks should limit the proportion of loans with LTV between 80 and 90% to 15% of all provided loans. Further, it was accompanied by a recommendation, that the total indebtedness of a client does not exceed the nine fold of their yearly income and the yearly cost of serving the loan were not higher than 40% of their annual income.

Gradually the interbank rates also grew.

Every increase of the monetary policy-relevant interest rate also led to the growth of the interest rates on financial markets. The three-month PRIBOR rate rose by 1.26 p.p. in the course of the last year (to 2.01% as of 31. 12.). Yields of the Czech state bonds also recorded a growth, mostly the short-term (+1.33 p.p.). Bonds with ten-year maturity featured yields by 0.51 p.p. higher at the end of year 2018 than in December 2017. Rates however peaked in Q3 and gradually plummeted in Q4. Described development was valid for all bonds in the euro area. Even here however the December level of yields was higher than in the previous year.

Interest rates on current accounts bounced back especially towards the end of the year.

Relatively fast growth of the monetary policy-relevant interest rates was with various intensity mirrored also in the client interest rates last year. For current accounts, the rates remained at a very low level, even though a negligible growth of the average level in the order of hundredths did manifest (the most between Q3 and 4). For households it posed the first rise since year 2012, in case of non-financial businesses it was similar (a series of falls was interrupted in Q1 2014). Interest rates on deposits with agreed maturity grew more noticeably. For households they increased by 0.69 p.p. during the year to 1.35% as of 31. 12., for non-financial businesses they increased to 1.23% towards the end of the year. Both sectors recorded a larger addition only in the second half of the year. Growth of rates on the term deposits also altered the dynamics of the money stock. The year-on-year growth of the volume of currency and current deposits markedly slowed down last year. On the other hand, the volume of deposits with agreed maturity rose sharply (by 51.3 bn between Q1 2018 and Q4 2017, 32.2%). The new level was more or less maintained during the year. Considerable growth of the volume of tradeable instruments continued (while this item reached volume of 17.3 CZK bn at the end of year 2016, it was 120.1 bn in December 2018).

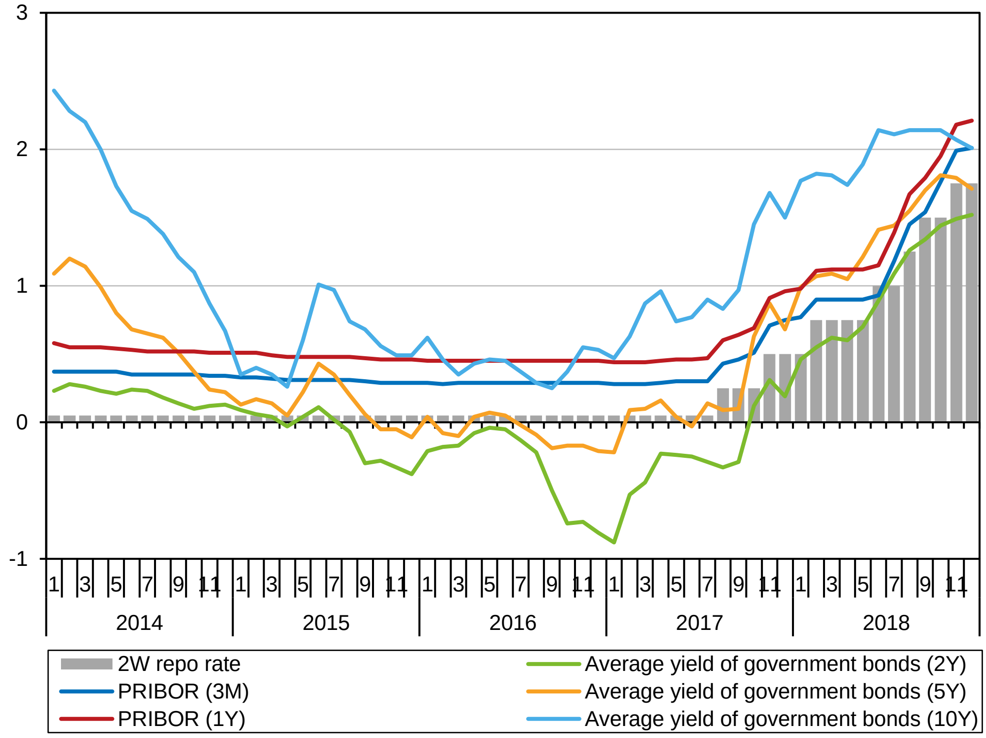
Interest rates on credit for households and non-financial businesses did not avoid growth.

Average interest rate of credit for households settled at 4.27% at the end of the last year. Consumer credit had on average assigned interest of 8.63% as of 31. 12., their rate grew for the first time since 2014 (decrease continued only for loans with rates fixed up to one year). Average interest on loans for purchasing a new housing real estate climbed to 2.92% at the end of the year. During the year, the rate was expanding relatively slowly, larger increase manifested only in Q4, specifically for all terms of fixed rate. The loans for non-financial businesses went up in price quite vigorously. Interest on loans up to 7.5 mil was 4.13% towards the end of year 2018 (year-on-year growth by 0.81 p.p.), loans between 7.5 and 30 mil had 3.55% (+1.14 p.p., difference between Q3 and 4 was +0.71 p.p.). Loans above 30 mil were charged interest 3.22% as of 31. 12. (+1.0 p.p.).

Volume of credit provided to households kept further growing. Mainly in branches which economically prospered last year, the interest in credit financing picked up.

Volume of credit provided to households totalled 1 645.8 CZK bn towards the end of the last year, which is a year-on-year increase of 116.0 bn (7.6%). The dynamics of the consumer credit remained below this level. Mortgages were expanding by a slower pace compared to year 2017, year-on-year growth nevertheless exceeded 8.0%. In that, the year-on-year dynamics of mortgages was crossing the 9% boundary except for Q3 (8.9%). On the other hand, the number of new mortgage contracts shrank year-on-year by 13.2 thousand. Year-on-year growth of credit and amounts receivables of non-financial businesses was accelerating during the last year, specifically thanks to credit denominated in foreign currency, where the dynamics reached double digit values in H2. Credit in foreign currency constituted 31.1% of the volume of credit and amount receivables of the non-financial businesses at the end of the year. Increases were mostly related to credit and amounts receivables with medium and long- term maturity. The dynamics rather precisely followed the economic development. Credit provided in construction grew by 5.5 CZK bn during the year (12.7%), by 6.7 bn in transportation and warehousing (14.0%), by 8.4 bn in information and communication (23.4%). By 38.8 bn in financial and insurance activities (14.9%). Dive continued in section mining and quarrying (-2.8 bn, -25.0%) and also in the manufacture and distribution of electricity, gas, heat, air and water (-12.4 bn, -8.9%).

Chart 17 Market interest rates (in %)



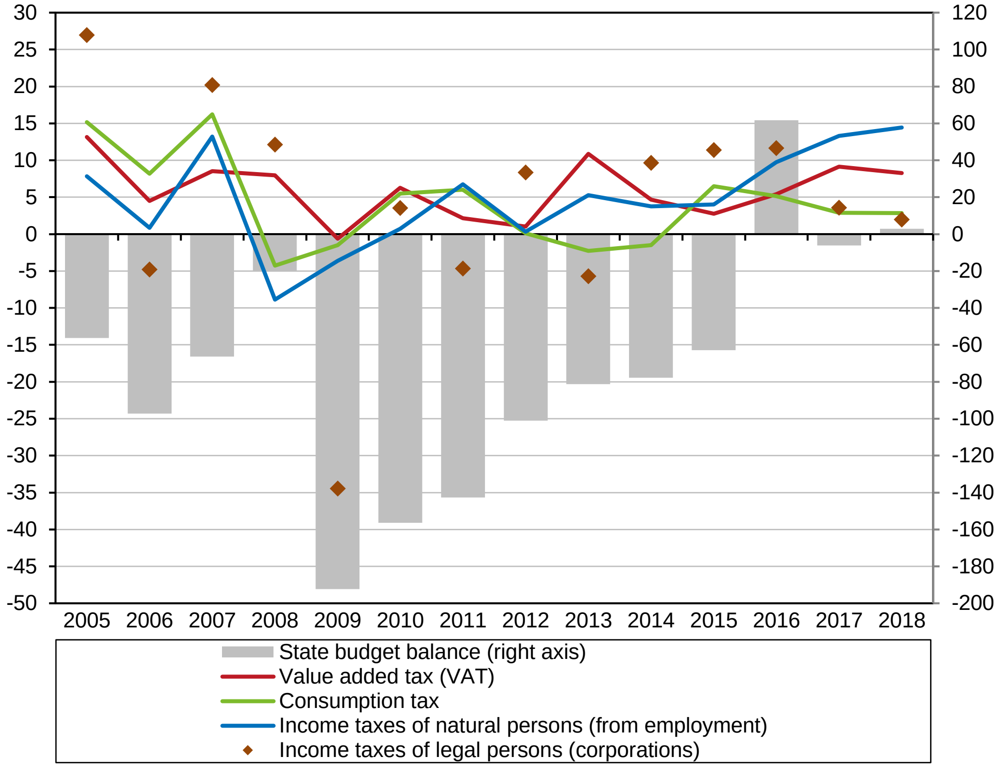
Source: CNB

8. State Budget

State budget ended in yearly surplus only for the second time since 1995.

Balance of the state budget (SB)[58] attained the size of +2.9 CZK bn in 2018. It comprised the second best result after year 1995 and at the same time the fifth yearly surplus in the history of the independent CR. Resulting balance last year – similarly to years 2016 and 2017 – considerably exceeded the budget expectations (by more than 50 CZK bn). Despite signs of contraction, the economic growth still played a key role in the state budget, the importance of public investment (at first directed mainly on the European projects, towards the end of the year more also on the exclusively national projects) also increased in the second half of the year. Total SB revenues strengthened by 130 CZK bn last year compared to year 2017, expenditures by 121 bn – both budget items grew swifter than was their budget anticipation (by 5.8 p.p., resp. by 1.8 p.p.). SB balance, which represents a dominant item of the budget deficit or surplus of government sector institutions budget amounted to +0.1% in relation to the nominal GDP for the first three quarters.

Chart 18 State wide collection of selected tax incomes (year-on-year in %) **and state budget balance** (in CZK bn)



Source: MF CR

State wide collection of all tax income grew the fastest since the expansion year 2007.

Non-tax and capital revenues and received transfers (+47 CZK bn[59]) contributed to the year-on-year growth of the SB revenues from more than one third. Nevertheless, the tax revenues, which increased by 7.2% year-on-year (excluding social security insurance by 5.8%) had a dominant effect. With respect to the change of the budget allocation of taxes, which re-directed further part of total collection (for VAT) to the local government budgets to the detriment of the SB, the state-wide rate of growth provides a better picture regarding the real dynamics of tax collection. It shows that the total tax collection

[58] Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance regarding the cash fulfilment.

[59] It concerned mainly the final payments related to the completed programme period of 2007 – 2013 (in the amount of 23.9 CZK bn). The revival of drawing tied to the current programme period also partially contributed to the growth in the previous months. Stronger income from the sale of the emission allowance, which reached nearly 15.0 CZK bn also had an effect (by 9.0 CZK bn more than in the approved budget).

Collection of majority main tax revenues copied the budget anticipation, it exceeded it more for collection of social security insurance.

strengthened by 8.2%, the most since the business cycle peak year 2007. The good condition of the local economy in the long-term bore its fruit (mirrored on the labour market), for a lesser part likely also the efficiency of the tax collection. Higher collection of social security insurance (+46.9 CZK bn), income tax of natural persons (+17.9 bn) and VAT (+13.0 bn) contributed the most to the growth of the SB budget revenues last year. While the collection of tax incomes (excluding social security insurance) finished according to the budget anticipation, collection of social security insurance surpassed it by 16.2 CZK bn 3.3 p.p.

Year-on-year increase of the VAT collection slightly surpassed the rate of growth of final consumption expenditure in the whole economy.

In case of VAT, which holds dominant weight, the year-on-year growth of the state-wide collection arrived at 8.3% last year (4.9% at the level of SB). Even though the pace eased compared to year 2017, it still slightly surpassed the dynamics of final consumption expenditure in the economy, which strengthened by 6.7% nominally in 2018. Rate of growth of the collection of consumption taxes remained last year (similarly to the preceding year) tightly below the 3% boundary. Mainly the swiftly growing collection of taxes on tobacco products (+6%) contributed to larger collection. Negative impact of the anti-smoking regulation (in force since June 2017) anticipated by the budget proved less significant than the effect of the repeated increase of rates on tobacco products (since January 2018). Collection of weight dominant group – tax on mineral oils – increased only by 1.2%[60] and attained the weakest growth in the last five years. Influence of the favourable impact of the economic growth on private as well as freight transport was dampened by the negative effect linked with administrative and price impacts[61].

Higher collection of consumption taxes was driven mainly by the collection of tax on tobacco products.

Pace of collection of income tax of natural persons (ITNP) from employment further quickened.

All main types of direct taxes contributed to the growth of their state wide collection last year – income tax of natural persons (ITNP) from employment the most. Its year-on-year growth climbed up to 14.4% (despite high basis of year 2017) and achieved faster rate of growth than in the business cycle peak in the last decade. Even though the collection of this tax reached double digit pace already eight quarters in a row, its dynamics slightly weakened in the last quarter of the last year (to +12.8%). It was apparently connected to the slowing pace of employment growth. While the annual collection of ITNP from employment strengthened already fourth year in a row, growth rate of corporate tax contracted to a five-year minimum last year (+2.0%). It copied the declining profitability of businesses mainly through the work of growing wage costs in years 2017 as well as 2018. Collection of ITNP from independent activity grew by 2.9% last year (by 11.2% the year before that). In spite of moderate strengthening of the number of self-employed persons as well as measures leading to higher efficiency of the tax collection, the last year´s collection (in contrast to year 2017) was behind the budget anticipation. Changes in the possibilities of tax deductions worked against higher growth of collection (rebates on the second spouse and tax benefits on dependent children). Collection of ITNP from capital yields on the contrary recorded a favourable development, growing by 15.1% last year – the fastest in the last four years.

On the contrary, the growth of collection of ITNP from independent activity as well as the corporate tax contracted and did not fulfil the budget anticipations.

Net position of the CR towards the EU budget slumped to seven-year minimum last year. Incomes from both structural funds and on rural development

Public finances of the CR are also significantly affected by the financial relations with the EU. The CR gained from the EU budget (based on MF data) 94.8 CZK bn in 2018. This volume did not change much in the year-on-year comparison (-3.5%), but the structure shifted. The volume of resources from structural funds (+8.3 CZK bn) and on rural development (+1.6 bn) increased, the role of the cohesion funds on the contrary weakened

[60] Data CZSO also prove the slowdown of the year-on-year rate of growth. Consumption increased in the weight dominant category – diesel fuel – by 1.1% in 2018 (while it strengthened by 3.5% in year 2017). Consumption of the jet kerosene also recorded a slower pace last year (+8.6%, resp.+15.1%). Consumption of the petrol in fact stagnated last year the same way as in year 2017.

[61] It is so called green fuel enabling the refund of this tax in the area of animal primary production. This deduction is already fully manifesting in year 2018 (contrary to previous year). Rising prices could have also partially negatively affected the consumption of petrol and diesel fuel. While the consumer prices of fuels were falling in the first half of year 2017 (and rather stagnated in Q3), the situation was the opposite for the most of the year 2018.

increased.

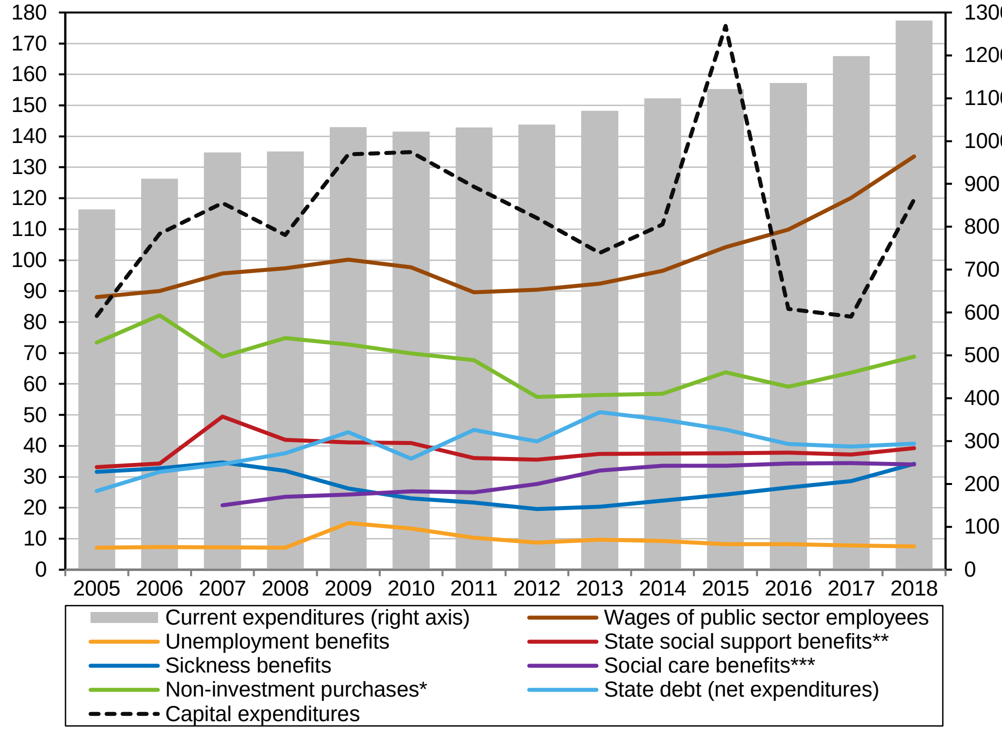
(-12.3 bn). Net position of the CR towards the EU budget decreased fell to a seven year minimum last year (+45.3 CZK bn). It was connected to the speed of drawing on funds, their relatively lower total volume (in comparison to preceding programme period 2007–2013) as well as growing contributions of the CR into the EU budget (49.6 CZK bn last year, by one sixth more year-on-year).

Swift growth of the SB outlays was driven by both current outlays and investment last year.

Growth of total SB outlays reached 9.5% year-on-year last year and accelerated already second year in a row. It was from more than two thirds driven by current outlays, in contrast to years 2016 and 2017 however, there was also an effect of higher capital outlays. State budget used 119.6 CZK bn for investment last year, by nearly one half more year-on-year. Similarly to year 2017, a marked irregularity in the drawing of investment during the year was apparent, since one half of their annual volume was allocated to Q4. Contrary to years 2016 and 2017, last year´s volume of investment surpassed the budget anticipation (by more than one quarter). Slightly more than half of all investment (64.7 CZK bn) was directed to the advanced financing of common CR and EU programmes[62] (by 27.3 CZK bn more year-on-year). While the acceleration of SB investment was driven by boosted drawing on European funds in Q3 2018, larger expenditure on exclusive national projects mainly contributed in the last part of the year (unrelated to the EU)[63]. Despite this improvement, the share of investment on total SB outlays was „only“ 8.5% in 2018. It constituted the highest value in the last three years, but also the third lowest in the last 14 years.

Investment significantly surpassed the budget anticipations only due to the accelerated advanced financing of „European projects“ last year.

Chart 19 Selected state budget expenditures (in CZK bn)



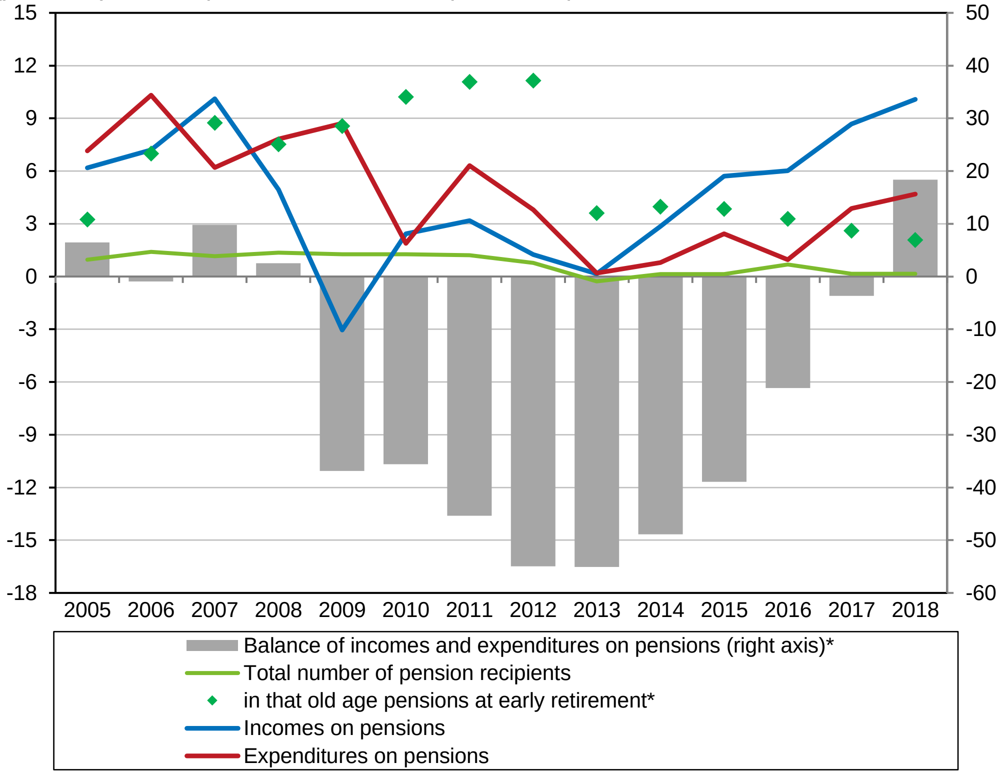
* Excluding the expenditure on servicing the state debt and expenditure on realisation of guarantees.
**Also includes the foster care benefits.
*** Includes Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits (based on Act on State Social Support).
Note: Net outlays on state debt also include receipts of the chapter State debt.
Source: MF CR, MLSA

[62] There were in total nearly 127 CZK bn expended on the common CR and EU projects last year, which was also assisted by the higher engagement of claims from non-consumed outlays from the past years (beyond the approved budget for year 2018). In years 2016 and 2017, slightly over 90 bn were usually directed to these projects (when including both investment and current outlays).
[63] SB investment realised exclusively via the national resources amounted to only 23.2 CZK bn during Q1 to 3 2018 (mildly above 40% of the annual amount anticipated by the budget). In Q4 only, there were nearly 32 bn allocated this way. In spite of this, the yearly drawing of this group of investment remained slightly below the budget anticipation last year.

Current outlays grew the fastest after year 2006. More than one half consisted of larger expenditure on wages and pensions.

SB current outlays strengthened by 7.0% year-on-year last year, the fastest pace after year 2006. Still their drawing remained closely behind the budget anticipation[64]. Growth of total outlays (+83 CZK bn) was associated from more than one half with the strengthening of the average size of pensions and also the increase of wages of employees working in fields with the dominance of state. Expenditure on salaries in central bodies of the state administration (primarily tied to the increase of the wage tariffs, not growing employment) went up by 11%. Non-investment transfers to local government budgets increased (+13%, similarly to year 2017), allocated in the first place to direct subsidies of basic and secondary schools and also to transfers to municipalities and regions according to the Social Services Act. Both the non-investment transfers to business entities (+9 CZK bn), where it comprised of especially the funds for the support of renewal sources of energy, and higher compulsory payments of the CR into the EU budget (+7.4 CZK bn) contributed to the growth of the current outlays significantly.

Chart 20: Pension recipients, income and expenditure on pensions from the SB (year-on-year in %) **and their balance** (in CZK bn)



* Expresses the difference between incomes and expenditures on pensions from the state budget. The balance of incomes and expenditures includes also the cost of administrating the pension insurance system.
** Old age pension income awarded before the pension age is reached and shortened for the earliness for the whole time period of the drawing the benefit. Source: MF, MLSA

Non-pension social benefits grew the fastest in the last five years …

Even though the expenditure on social benefits expanded year-on-year by notable 26.6 CZK bn, their share in the total SB outlays shrank already second year in a row (to 39.7%). Despite the strengthening of the social benefit is traditionally pushed by the weight dominant item of expenditure on pensions, the non-pension social benefits also shared in their growth from more than one quarter last year. Their growth significantly accelerated (from 1.2% in 2017 to last year´s 6.2% – the highest rate of growth in the last five years and reached a higher rate than expenditure on pensions.

…mainly due to the acceleration of the

Sickness benefits, whose rate of growth considerably increased last year (to 19.8%), added the most to the growth of the expenditure on non-pension social benefits in 2018

[64] This would be among the all main types of outlays more notably exceeded only for non-investment transfers to non-profit or contributory organizations (by 8.5, resp. 4.5 p.p.) last year.

growth of expenditure on sickness benefits. Lower expenditure on material deprivation benefits and unemployment benefits worked in the opposite direction.

(similarly to the preceding five years). It was associated with the continuing growth of the temporary work incapacity as well as higher average daily sickness (derived from the level of earnings in the previous months). Stronger drawing of maternity benefits (due to higher natality) exerted much lower level of impact as well as this year´s introduction of new benefits (long-term care benefits, father post-natal care). SB expended more also on some social care benefits – for health disabilities as well as the care benefits (for persons on long-term sickness leave). Drawing on other types of social benefits was positively affected by the favourable situation on the labour market (continuing reduction of unemployed, higher engagement of formerly economically inactive as well as strengthening growth of average wages). Drop of expenditure on material deprivation benefits was deepening already fourth year in a row (down to -27%)[65]. The state „saved" considerably less on the support of unemployed (-3.9%) last year, among other things also due to the high proportion of the frictional component of the unemployment as well as the growth of the average monthly unemployment benefit. On the state social support benefits, which are paid out in relation to the household income (child allowance, allowance for living, birth allowance), the SB spent by 8.3% less year-on-year. However, the volume of weight significant parent benefits expanded (+8.6%). By more than one quarter more now travelled to the so far relatively marginal foster care benefits.

Growth of expenditures on pensions accelerated, still the pension account balance finished in record surplus.

Expenditure on pensions expanded already second year in a row and their last year´s rate of growth (+4.7%) was the highest since year 2011. Given the stagnation of the number of persons receiving pension[66], this acceleration resulted from the new setting of their adjustment[67]. Extraordinarily favourable situation on the labour market stimulated the growth of the collection of insurance on pensions (+10.1%, equal to the so far record pace from year 2007). Pension account balance[68] thus for the first time in the last ten years ended in surplus (in the record amount of 18.4 CZK bn).

Fall of net expenditures on state debt halted last year. The size of state debt remained stabilised. State continued to cover its borrowing needs primarily on the domestic market.

Four years lasting slump of the net expenditure on state debt[69] halted in year 2018, when these expenditures hit 40.7 CZK bn last year (by 2.4% more year-on-year). Swiftly growing interest rates on state bonds affected the last year´s development. State debt amounted to 1 622.0 CZK bn at the end of year 2018 and remained nearly the same year-on-year (-0.2%). Differently from year 2017, the fluctuation of debt within the calendar year was significantly curtailed. The fall of the koruna value of the foreign debt continued already for the fifth year in a row. It thus shared 14.5% on the total state debt at the end of year 2018 (the least in this part of the year for the last eleven years). Debt securities remain the dominant instrument despite slight decrease of their weight. Financial institutions stay as the most significant owner of koruna state bonds, decrease of the role of non-residents ceased falling during the last year and their proportion arrived at 41.8% at the end of the last year. Households possessed only 0.5% of state bonds, the least in the last eleven years.

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[65] According to the MLSA data, 11.3 CZK bn was drawn for this purpose in year 2014, only 5.4 bn already last year. Number of recipients of material deprivation benefits fell from 240 thousand to 111 thousand persons in the same time period (based on December data).

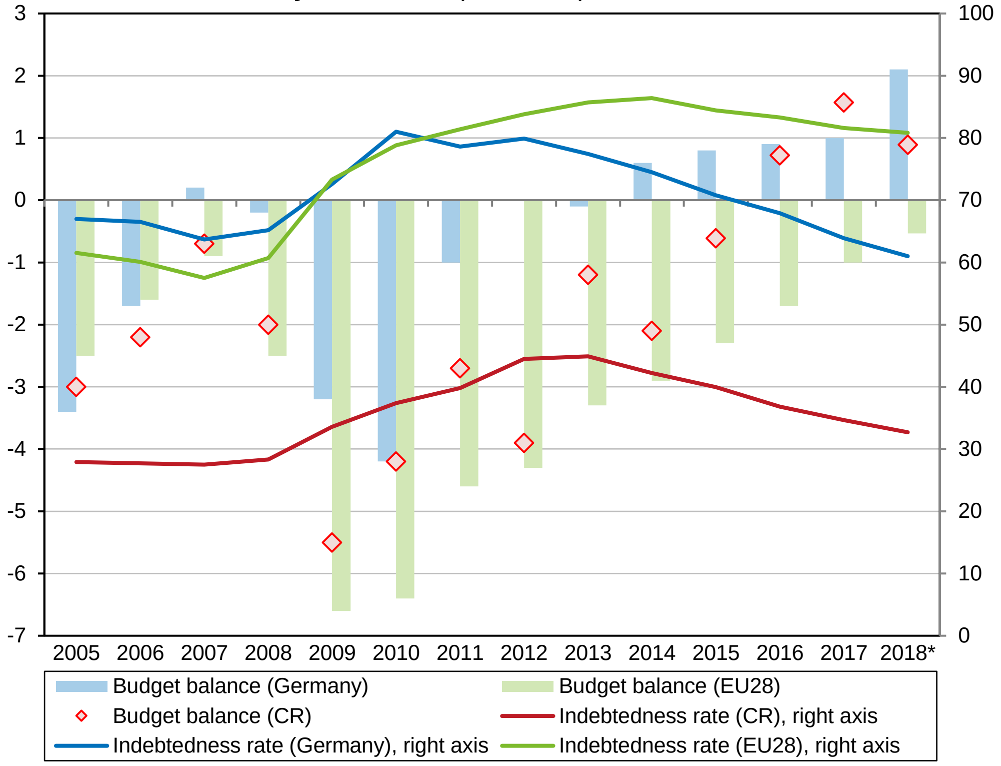
[66] Total 2.89 mil persons were receiving some form of pension according to the data of the Czech Social Security Administration in December 2018. Mild year-on-year growth of the frequency of old-age pensioners (+0.3%) was offset by the reduction of persons on disability pension (-0.6%) last year.

[67] Starting January 2018, the basic pension assessment was raised by 150 CZK and the percentage assessment by 3.5% (i.e. on average by 475 CZK per month).

[68] It is expressed as the difference between revenues and expenditures on the pensions from the SB. It also includes the expenditure on administration of the pension insurance system, which based on the preliminary data of the MF achieved the size 6.4 CZK bn in 2018. The system of pension insurance would have surplus already in year 2017 if expenditures on administration would be excluded.

[69] It is the balance of the budget chapter 396 – State debt.

Chart 21: Budget balance and indebtedness rate of the government institutions sector in the CR, Germany and the EU (% of GDP)



*Budget balance for year 2018 for Germany and the EU expresses the average from quarterly seasonally adjusted data (for Q1 to Q3). Indebtedness rate for Germany and EU depicts the state at the end of Q3 2018. Indicator for the CR expresses the state as of 31.12. in the whole time series (in case of indebtedness rate) and the actual state for the whole year (in case of budget balance).
Source: CZSO, Eurostat

Government institution sector achieved surplus last year already third year in a row. It contracted by nearly one half compared to year 2017, primarily due to the dive of surplus of local government institutions.

Consolidated debt of the whole sector of government institutions (taking into account also the budget of municipalities or health insurance companies) reached according to the CZSO the value 1 735.1 CZK bn at the end of Q4 2018. Absolute size of the debt remains stabilised already sixth year in a row. The indebtedness rate was 32.71% of GDP and in comparison to year 2017 it fell by 1.95 p.p. It fell primarily due to the strengthening of the nominal GDP, the year-on-year debt decrease itself (by 14.5 CZK bn) shared only less than one seventh. The government institution sector achieved budget surplus in the amount of +47.4 CZK bn in the CR in 2018, annual positive result prevailed already third year in a row. All subsectors of government institutions achieved surplus last year – similarly to year 2017. Only social security funds managed to improve the last year´s result (by 8.2 bn). The surplus of the whole sector was 0.89% in relation to the GDP last year, it presented the second largest value in the comparable time series since year 1995 (balance hiked up to +1.57% in the record year 2017). Weaker year-on-year result was influenced especially by the lower budget surplus of the local government institutions (by 22.9 CZK bn) with swift growth of investment in its background[70] last year .

Tendency to lower the indebtedness rate is apparent at the level of the whole EU since the half of year 2015, so far however was

The CR was based on up-to-data data at the end of Q3 2018 (33.9% of GDP)[71] the fourth relatively least indebted EU country (with larger distance behind Estonia, Luxembourg and Bulgaria). Indebtedness rate fell year-on-year both in the EU and the euro area already fourth year in a row, the rate of reduction however is not successful at accelerating despite long-term economic growth. The indebtedness rate fell only by 4.8 p.p. to 80.8% in the

[70] Gross fixed capital formation here increased by 39% year-on-year last year to 113.5 CZK bn and in contrast to the central government institutions, it already nearly reached record size from year 2015 (influenced by an accelerated drawing on funds from the EU budgets at the end of the programme period).
[71] Preliminary data regarding the debt and deficit of the government institution sector for the whole year 2018 will be published by Eurostat on 23rd April 2019.

implemented only very gradually.

Union for the last five years to 80.8%, since the position of the most indebted economies improved only negligibly. 24 Union states signalled a year-on-year decrease of indebtedness in Q3 2018, however among the most indebted economies only Portugal recorded a more significant shift. Indebtedness rate grew in Greece and Cyprus. Less than half of the euro area members showed indebtedness below 60% of GDP, in that from the core countries (EU15) only Luxembourg, Netherlands and Finland. Only Germany and Malta succeeded in lowering their indebtedness rate below the level close to the pre-crisis year 2008 (further only Sweden and Estonia were approaching this level).