

THE CZECH ECONOMY DEVELOPMENT

Year 2020

Summary Data on the Czech Republic

Prague, 16th April 2021

Publication Code: 320194-20

Reference No.: CSU: 002748/2021-01

Yearly Publication Code: 2

Prepared by: Office of the President of the CZSO

Director: Egor Sidorov, Ph.D.

Contact person: Karolína Zábojníková, e-mail: karolina.zabojnikova@czso.cz

Are you interested in the latest data connected with inflation, GDP, population, average wages and much more? You can find them on the CZSO web page: www.czso.cz

CONTACTS IN THE HEADQUARTERS

Czech Statistical Office | Na padesátém 81, 100 82 Praha 10, ph.: 274 051 111 | www.czso.cz

Information Services | ph.: 274 052 304, 274 052 451 | e-mail: infoservis@czso.cz

CZSO Publication Shop | ph.: 274 052 361 | e-mail: prodejna@czso.cz

European Data (ESDS), international comparison | ph.: 274 052 347 | e-mail: esds@czso.cz

Central Statistical Library | ph.: 274 052 361 | e-mail: knihovna@czso.cz

INFORMATION SERVICES IN THE REGIONS

Hl. m. Praha | Na padesátém 81, 100 82 Praha 10, ph.: 274 052 673, 274 054 223
e-mail: infoservispraha@czso.cz | www.praha.czso.cz

Středočeský kraj | Na padesátém 81, 100 82 Praha 10, ph.: 274 054 175
e-mail: infoservisstc@czso.cz | www.stredocesky.czso.cz

České Budějovice | Žižkova 1, 370 77 České Budějovice, ph.: 386 718 440
e-mail: infoserviscb@czso.cz | www.cbudejovice.czso.cz

Plzeň | Slovanská alej 36, 326 64 Plzeň, ph.: 377 612 108, 377 612 145
e-mail: infoservisplzen@czso.cz | www.plzen.czso.cz

Karlovy Vary | Závodní 360/94, 360 06 Karlovy Vary, ph.: 353 114 529, 353 114 525
e-mail: infoserviskv@czso.cz | www.kvary.czso.cz

Ústí nad Labem | Špálova 2684, 400 11 Ústí nad Labem, ph.: 472 706 176, 472 706 121
e-mail: infoservisul@czso.cz | www.ustinadlabem.czso.cz

Liberec | nám. Dr. Edvarda Beneše 585/26, 460 01 Liberec 1, ph.: 485 238 811
e-mail: infoservislb@czso.cz | www.liberec.czso.cz

Hradec Králové | Myslivečkova 914, 500 03 Hradec Králové 3, ph.: 495 762 322, 495 762 317
e-mail: infoservishk@czso.cz | www.hradeckralove.czso.cz

Pardubice | V Ráji 872, 531 53 Pardubice, ph.: 466 743 480, 466 743 418
e-mail: infoservispa@czso.cz | www.pardubice.czso.cz

Jihlava | Ke Skalce 30, 586 01 Jihlava, ph.: 567 109 062, 567 109 073
e-mail: infoservisvys@czso.cz | www.jihlava.czso.cz

Brno | Jezuitská 2, 601 59 Brno, ph.: 542 528 115, 542 528 200
e-mail: infoservisbrno@czso.cz | www.brno.czso.cz

Olomouc | Jeremenkova 1142/42, 772 11 Olomouc, ph.: 585 731 516, 585 731 511
e-mail: infoservisolom@czso.cz | www.olomouc.czso.cz

Zlín | tř. Tomáše Bati 1565, 761 76 Zlín, ph.: 577 004 932, 577 004 935
e-mail: infoservis-zl@czso.cz | www.zlin.czso.cz

Ostrava | Repinova 17, 702 03 Ostrava, ph.: 595 131 230, 595 131 232
e-mail: infoservis_ov@czso.cz | www.ostrava.czso.cz

Contents

1. Summary	4
2. Overall Economic Performance	6
3. Branches Performance	10
4. External Relations	18
5. Prices	21
6. Labour Market	27
7. Monetary Conditions	33
8. State Budget	36

Source of data in the whole analysis: Czech Statistical Office (CZSO), Ministry of Finance (MF CR), Czech National Bank (CNB), Ministry of Labour and Social Affairs (MLSA), Czech Social Security Administration (CSSA), Eurostat, CZSO calculations.

Latest information provided in this report has been dated the 15th March 2021.

Aggregated data for the EU used in this text contain 27 Union states without Great Britain.

1. Summary

- The Gross domestic product (GDP) of the Czech economy plunged by 5.6%¹ in real terms in year 2020, which represented the most severe downturn in the existence of the independent CR. All GDP components contributed to the slump last year, the domestic consumption and investment the most. Q4 2020 itself was affected by further wave of measures against the spread of covid-19. The foreign demand was not however hit to such a large extent in comparison to Q2. Resulting year-on-year decrease thus reduced to 4.7% and the GDP increased by 0.6% quarter-on-quarter. However, both the domestic consumption and investment markedly diminished in Q4. New wave of infections also compelled the rest of the EU to adopt measures. The Gross domestic product in the Union thus fell by 0.4% quarter-on-quarter and the year-on-year decrease deepened to -4.8%. Results were adversely impacted by the quarter-on-quarter downturn in large economies – France and Italy. Large number of European economies on the contrary mildly grew quarter-on-quarter.
- The Gross value added (GVA) fell by 5.5% last year and the slump hit majority of branches (with the exception of agriculture and forestry, information and communication, and also the segment of public administration, education, health, and social work). Grouping of trade, transportation, accommodation, and food service (-11.8%) as well as professional, scientific, technical, and administrative activities (-9.3%) recorded deep downswing. Export oriented manufacturing plummeted as well (-6.9%). The total GVA lagged behind the level of the preceding year by 4.7% in Q4, but it grew by 0.5% quarter-on-quarter. Other activities (especially personal services, such as hairdressing etc., year-on-year GVA decrease of 20.9%) and trade, transportation, accommodation, and food service (-14.7%) were again the most affected given the new wave of measures. In contrast, the year-on-year decline moderated to 1.1% in manufacturing.
- All-encompassing restriction of the economic operations during Q2 negatively affected the foreign trade and the exporters strived to make up for the losses in the second half of the year. Total export of goods and services dropped by 6.0%² and import by 6.1% in real terms last year. The balance reached surplus of 390.5 CZK bn, which was by 42.3 bn more year-on-year. Improvement concerned exclusively the trade with goods. Especially the trade with oil and natural gas influenced the increase of the positive surplus, in contrast the surplus of sale of motor vehicles decreased. In Q4, the foreign trade attained record results (surplus of 145.5 bn), in which just the sale of motor vehicles on the contrary participated to a large extent.
- The total growth of the price level according to the GDP deflator reached 4.1% last year, which is the most since year 2001. Both prices of consumption and capital goods significantly grew. Consumer price index increased by 3.2% last year, mainly under the effect of raised prices of food and non-alcoholic beverages, alcoholic beverages and tobacco and housing and energies. The growth of the consumer prices markedly slowed down to 2.6% in Q4, mainly due to the slower dynamics of prices of food. Slump of oil prices last year affected the majority of monitored prices indices, which dampened the year-on-year growth of industrial producer prices as well as import prices.
- Monetary policy-relevant rates were lowered in the first half of the year, which also affected other interest rates, especially the deposit interest rates. Decreased consumption subdued the dynamics of consumer credit for households, the volume of mortgages remained relatively unaffected.
- The economic downswing also affected the employment, which fell by 1.5%³ last year. In manufacturing, which contributed significantly to this fall, the situation rather improved in Q4 2020 and the decrease did not deepen further. On the contrary, the employment plummeted down to 5% in the segment of trade, transportation, accommodation, and food service in Q4. The substantial development of information and communication on the contrary continued (+3.5%). The general unemployment rate grew only slightly, which was connected to the governmental stabilisation programmes as well as relatively notable increase of the number of economically inactive persons. The average gross monthly wage grew by 4.4% to 35.6 CZK thousand last year. However, large differences in the wage dynamic among the individual branches prevailed.

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

² According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).

³ Employment data are in the national accounts conception. They are adjusted for seasonal effects.



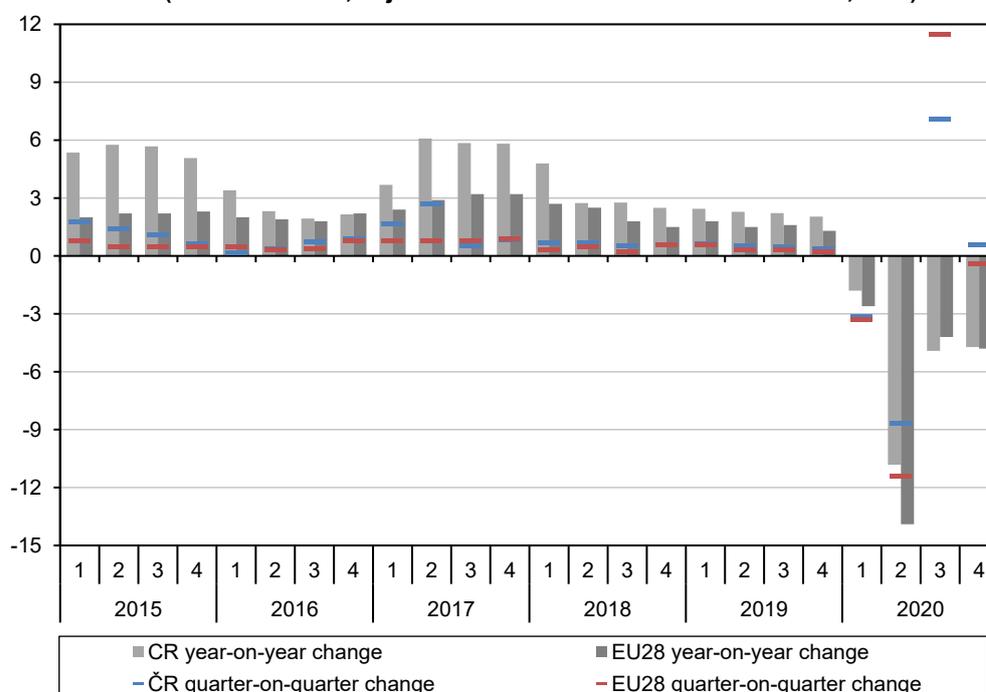
- The state budget reached a deficit in the amount of 367.4 CZK bn last year. The deficit deepened by nearly 340 bn year-on-year. The counter pandemic measures stood behind a decisive part of the budget deficit. On one hand they were major force behind the total budget costs growth (+18.8%), simultaneously it however led to the slump of total revenues (−3.1%). On the revenue side, considerable revenue fallout occurred both on the part of tax income and collection of social security insurance. Current outlays expanded, also including the compensation provisions to businesses, municipalities as well as households. The marked increase also included the social benefits (both pension and non-pension benefits).

2. Overall Economic Performance

The Gross domestic product experienced record downturn in year 2020.

Year 2020 was for the Czech economy the worst in the history of the independent state existence. The Gross domestic product (GDP) fell by 5.6%⁴ in real terms last year, which even overtook the deep slump of the crisis year 2009. The downturn affected all GDP components. The investment activity and the household consumption as well recorded a steep fall. Specifically, mainly the reaction of both domestic and foreign businesses to the spring wave of covid-19 infection impacted the foreign trade balance. Not even the massive improvement of the balance in the second half of the year offset the fallout and thus the foreign demand adversely affected the yearly result as well. Only the consumption of government institutions grew. The new wave of measures against the spread of infection partially manifested in Q4 itself. Those were however aimed especially at trade and services. The industry did not suspend the operations unlike in the spring period, which assisted to a marked improvement of the balance of foreign trade with goods. Consequently mainly the effect of the foreign demand thus aided the quarter-on-quarter growth of the GDP by 0.6% in Q4. The year-on-year slump thus shrank to 4.7%.

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



Source: CZSO, Eurostat

European economies were also struck by the measures against the coronavirus spread.

The second infection wave and subsequent measures hit majority of the EU countries in Q4, thus the Gross domestic product fell by 0.4%⁵ in the EU quarter-on-quarter. Nevertheless, most of the EU economies recorded increase compared to Q3 – Romania (5.3%), Croatia (2.7%) and Estonia (2.1%) the most, apart from the Czech Republic, a mild addition was also observed in Germany (0.3%) and Slovakia (0.2%). The downturn in some large economies – Italy (-2.0%) and France (-1.4%) adversely affected the aggregated result for the whole Union. The GDP fell the most in Austria (-4.3%) quarter-on-quarter. Year-on-year GDP fall deepened to -4.8% in the European Union. Based on the available data, only Luxembourg⁶ achieved a year-on-year growth

⁴ 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 2nd March 202.

⁵ Fresh data for Bulgaria, Ireland, Malta, Portugal, and Greece unavailable.

⁶ Even though the result was not available at the time of publication, Ireland most likely also maintained the year-on-year addition in Q4. Here, the GDP in Q3 grew by 11.1% quarter-on-quarter and by 8.1% year-on-year.

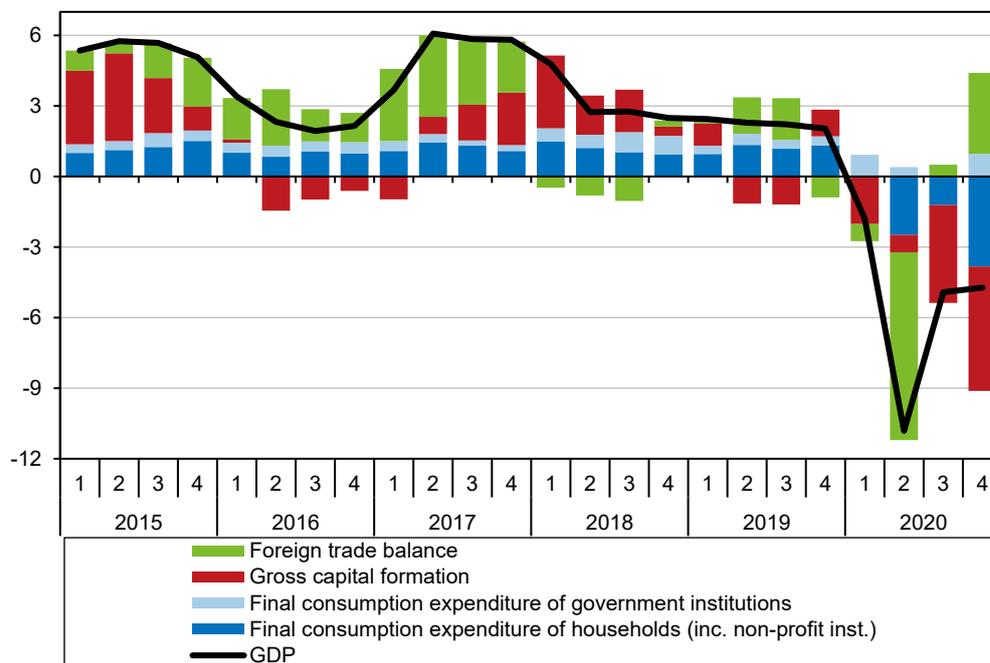


(1.4%). Spain (−9.1%), Austria (−7.8%) and Croatia (−7.1%) experienced the deepest downturn.

Volume of paid out wages and salaries diminished last year.

Total economic downturn also had an impact on the labour market. The volume of paid out wages and salaries shrank by 0.4% for the whole year 2020 given the simultaneous decrease of total employment by 1.5%⁷. In consideration of the significant growth of the price level, the real slump of the purchasing power of earnings was even more substantial (−3.1%⁸). Reduction of the total volume of paid out funds was influenced the most by the drop of the volume of paid out wages and salaries in manufacturing (−4.3%) and in grouping trade, transportation, accommodation, and food service (−6.2%). Wages and salaries also fell in other activities (−4.4%) and for professional, scientific, technical, and administrative activities (−4.3%). Apart from the other activities the decrease was for the mentioned branches also caused by notable decrease of employment. The volume of paid out funds on the contrary markedly increased in real estate activities (13.9%), information and communication (8.1%) and in branches with the dominance of the government institutions⁹ (7.2%) last year. The volume of paid out wages and salaries fell by 0.4% year-on-year in Q4 itself (accompanied by lowering of employment by 1.9%). Trade, transportation, accommodation, and food service (−10.5%), other activities (−6.7%) and professional, scientific, and administrative activities (−4.1%), that is branches often directly afflicted by the forced suspension of operations, featured the deepest slump. Year-on-year decline of wages and salaries slowed down to 1.4% in manufacturing. Notable rise of paid out funds was recorded in real estate activities (16.5%), information and communication activities (8.3%) and in branches with the predominance of the government institution sector (8.4%) in Q4.

Chart 2 Contribution of expenditure items to real GDP change* (volume indices, year-on-year growth, contributions in p.p., GDP in %)



Source: CZSO
* after exclusion of imports for final use

Given the restrictions, the household consumption

Expenditures on consumptions decreased by 2.8% last year, for the first time since year 2012. Restrictions especially affected the household consumption, which experienced a

⁷ Employment in the national accounts conception (persons), data adjusted for seasonal effects.

⁸ Converted into the real expression using the deflator of final consumption expenditure of households.

⁹ Public administration, education, health, and social work.

sharply fell, mostly for services and durable goods.

record slump (−5.2%) and pushed the total GDP growth down by 1.9 p.p.¹⁰ In contrast, the overall situation led to the increase of the government institutions consumption by 2.9%. It added 0.6 p.p. to the GDP growth. The year-on-year consumption decline deepened to 4.3% in Q4 itself. In that the depth of the year-on-year slump of the household consumption approached the level of Q2 (−8.3%). On the contrary, the government consumption expanded by 4.9%. The total consumption fell by 1.1% quarter-on-quarter. In that the household expenditures shrank by 4.2%, while the government consumption expanded by 5.5% compared to Q3. Classification according to the consumption based on durability proves, that the steep year-on-year downturn mainly impacted the consumption of durable goods¹¹ in Q4 (medium-term consumption fell by 29.1% and long-term by 7.6%) and services (−14.8%). Consumption of non-durable goods, which to a large extent includes the necessary goods, dropped by 3.2%. The consumption of services dived by 11.1% and goods of medium-term consumption by 18.7% for the whole year. Expenditures on durable goods declined by 5.5% and the consumption of non-durable goods recorded only negligible decrease (−0.8%).

Both households and businesses limited the investment activity.

Investment activity was also afflicted by the all-encompassing economic downturn. It was evident especially in the second half of the year, that the dynamics of the capital expenditures did not react to the economic recovery. Total expenditures on gross capital formation plummeted by 12.6% last year and contributed 3.1 p.p. to the GDP decrease. In that the expenditures on gross fixed capital (investment) plunged by 8.5%. Investment was falling year-on-year throughout the whole year and its fall further deepened to −12.3% in Q4. Compared to Q3, investment decreased by 0.3%. Type classification of gross fixed capital formation¹² shows, that nearly all types of investment slumped last year. Expenditures on transport equipment (−18.0%) and ICT and other machinery and equipment (−14.2%), which are both the domains of the non-financial businesses sector, decreased the most. The investment into housing mostly financed by households markedly decreased (−6.4%) following the six years of growth. Compared to this, the decrease of expenditures on other buildings and structures was weaker (−2.4%) thanks to the continuing infrastructure projects. Investment into products of intellectual property also declined for the first time since year 2013 (−4.7%). The year-on-year fall of investment into ICT and other machinery and equipment (−21.9%), into housing (−12.8%) as well as other buildings and structures (−6.9%) widened in Q4. The decrease of investment into transport equipment remained deep (−15.5%) and investment into products of intellectual property returned near the level of the previous year (−0.9%).

Foreign trade was trying to recover the spring losses in the second half of the year.

Export of goods and services slumped in real terms last year, for the first time since year 2009, specifically by 6.0%. The slide of import was slightly steeper (−6.1%). The balance of foreign trade with goods and services gained surplus of 390.5 CZK bn¹³ last year and in addition, the positive balance improved by 42.3 bn, the most since year 2016. However, the plunge of oil prices strongly assisted the balance in current prices. The improvement can be ascribed exclusively to the trade with goods (+43.4 CZK bn), the surplus in case of services reduced by 1.1 bn year-on-year. The considerable decrease of surplus from Q2 was successfully recovered in the second half of the year. Surplus reached 145.5 CZK bn in Q4 itself and increased by 69.3 bn year-on-year. In that the surplus of trade with goods grew by 73.2 bn. Surplus of trade with services dropped by 3.9 bn.

¹⁰ Additions to the GDP change after exclusion of imports for final use.

¹¹ Data regarding consumption based on durability are in domestic conception and not seasonally adjusted.

¹² Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.

¹³ According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).



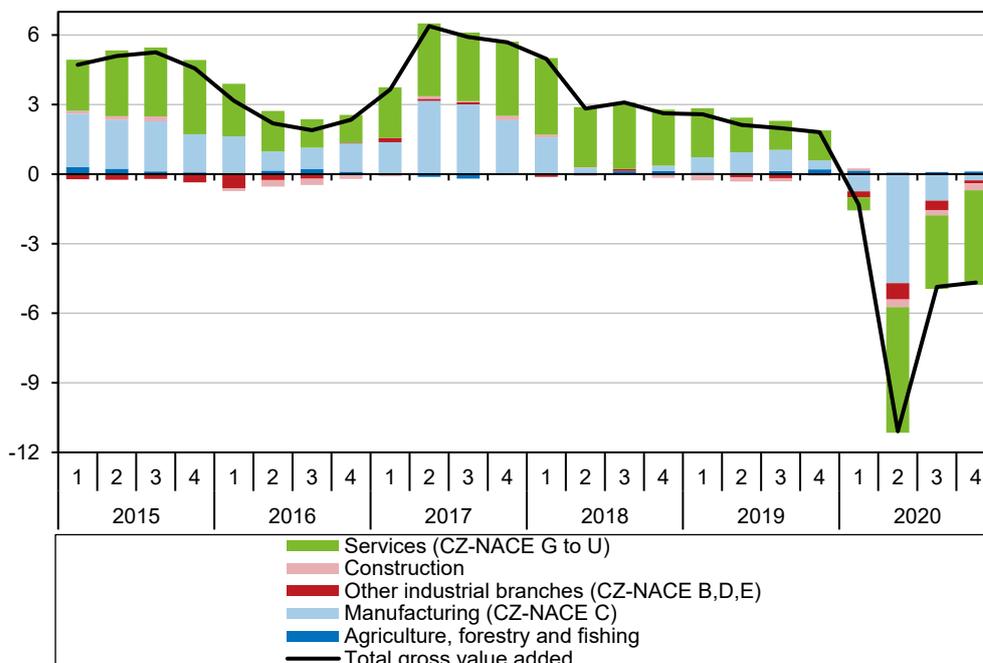
GVA slumped in the majority of branches last year.

The gross value added (GVA) shrank by 5.5% in real terms last year. Similarly to the GDP, it represents the steepest recorded fall in the history of the independent CR. The decrease was universal and only a fraction of branches managed to avoid it – agriculture (GVA increase of 4.8%), information and communication (+1.6%) and branches with the predominance of the government institutions sector (+0.9%). The grouping trade, transportation, accommodation, and food service (the GVA decreased by 11.8% here) and further manufacturing (–6.9%) contributed the most to the GVA decline. GVA of other activities, which also include the provision of personal services such as hairdressing and other beauty treatment (–12.1%) plunged deep. The economic downturn also hit the market services, such as professional, scientific, technical, and administrative activities (–9.3%) or financial and insurance activities (–2.8%). GVA reduced in the real estate activities (–3.1%) and construction also recorded a decrease second year in a row (–3.4%).

The slump afflicted mostly services in Q4.

The GVA decreased by 4.7% year-on-year in Q4 itself. New wave of measures affected especially the services branches – other activities (–20.9%), grouping trade, transportation, accommodation, and food service (–14.7%) and professional, scientific, technical, and administrative activities (–12.8%) the most. The year-on-year fall of GVA deepened in construction (–5.3%). By contrast the year-on-year decrease of GVA in manufacturing reduced to 1.1%. Agriculture (5.0%), public administration, education, health, and social work (1.8%) and information and communication (1.5%) reported year-on-year GVA increase. Compared to Q3, the GVA grew by 0.5%. It can be attributed mainly to the continued revival of manufacturing (2.3%) as well as part of services – professional, scientific, technical, and administrative activities (2.4%), financial and insurance activities (3.5%) or information and communication (2.2%). It even outweighed the quarter-on-quarter drop in other activities by 13.9%, grouping trade, transportation, accommodation, and food service by 6.6% and construction by 1.2%.

Chart 3 Contributions of branches to real change in GVA (volume indices, year-on-year contributions in p.p., GVA in %)



Source: CZSO

3. Branches Performance

Gross value added decreased by 5.5% last year and thus slightly exceeded the record slump from the crisis year 2009.

If the restrictive pandemic measures severely hit primarily the branches closely tied to tourism in Q1 2020, it already managed to paralyse a large part of the economy during the subsequent quarter. The gross value added (GVA)¹⁴ in Q2 thus dived by record 9.6% quarter-on-quarter and deepened its descend from Q1 (-2.4%). In Q3, the majority of significant restrictive measures were abolished and thus the economy could take a breath again. So 7.5% quarter-on-quarter GVA growth, which was also unique in the nearly 25 year available time series, proves fast resuscitation. Serious deterioration of the epidemic situation in Q4 2020 strongly stifled but did not halt the ongoing economic revival. Its impacts were compared to the spring period more selective, they affected especially the activities closely tied to the household consumption. Many economic branches demonstrated a solid capacity for adjustment, when they capitalised on more favourable development of the foreign demand as well as higher expenditures of the government institutions sector. The GVA decreased by 5.5% for the whole last year and it thus narrowly overtook the slump from year 2009, which was the highest in the history of the independent CR so far.

Many branches demonstrated a solid capacity for adjustment to the restrictive measures in Q4.

Manufacturing contributed the most to the lower economic output in both Q1 and Q2, the grouping trade, transportation, accommodation, and food service in the subsequent periods.

The last year's fall of the value added in whole economy was tightly bound to the decrease of the number of hours worked (-6.0%), three times higher compared to the crisis year 2009. At the same time, the composition of the most considerably affected branches was not identical and underwent significant changes during the last year. While the industry played a major role in all previous recession periods in the history of the CR so far, the sector of services left its mark the most on the decrease of economic output last year (contribution -3.3 p.p.), specifically the grouping trade, transportation, accommodation, and food service (-2.2 p.p.)¹⁵. GVA for the last year plunged in this branch the most in the modern history, similarly to the professional, scientific, technical, and administrative activities or the branch other services¹⁶. Industry contribution was -2.1 p.p. last year. It dragged down the whole economy the most in H1 when its output was affected by the April closure of operations of key export businesses. In contrast it benefited from the fast recovering of foreign demand, associated with the favourable development of important east Asian economies in the second half of the year. The industry contribution to the year-on-year GVA change in the economy was only -0.4 p.p. in Q4. Revived demand as well as the continued production in manufacturing also had a positive effect on energetics. Similar recovery did not eventuate in construction. Due to the inertial character of productions as well high stock of orders, the counter pandemic measures had smaller impact in this branch initially and manifested especially by the limited availability of foreign workers. Growing economic uncertainties of both businesses and households together with high administrative demands on the process of preparation as well as realisation of constructions gradually started to take its toll. So the GVA in construction, as in one of few of the main branches, recorded a quarter-on-quarter decrease in Q4 2020 (by 1.2%).

Some branches of services featured record slumps of GVA last year.

In contrast to manufacturing or energetics, construction did not experience recovery towards the end of the year.

GVA decrease in the economy was curbed the most by higher output of the public services.

The branches with the predominance of the government institution sector worked the most against the deeper fall of the GVA in the economy last year, especially in the second half of the year (+0.3 p.p.), when the demands on the outputs in health care grew as a consequence of the adverse epidemic situation¹⁷. The same was also valid for information and communication. Still, the GVA grew here the least in the last eight years last year (+1.6%)¹⁸. The GVA of agriculture, forestry and fishing climbed up by nearly 5% last year and similarly to year 2019, it represented

¹⁴ Data regarding the GVA are expressed in constant prices and adjusted for seasonal and calendar effects.

¹⁵ Not only the both spring and autumn closure of the significant part of retail shops had a negative effect here, but also the persisting deep plunge of arrival tourism. Final consumption expenditures of non-residents in the CR slumped by 51% year-on-year last year, in that even by unprecedented 64% in Q2 till Q4. Non-residents participated on the total household final consumption expenditures in the CR approximately 6%.

¹⁶ Includes cultural, entertainment and recreation activities and further especially provision of personal services (e.g. hairdressing, beauty treatment services, cleaning services or repairs of products for personal need – predominantly for households).

¹⁷ Hours worked increased by 0.9% year-on-year in the whole grouping Public administration, education, health, and social work in H2 last year. Among the main branches, information and communication recorded the highest growth (+3.6%).

¹⁸ Relatively weaker growth could have been related to the deep last year's downturn of the motion picture and music industry, to a lesser extent also to the development in the subbranch of publishing activities.



GVA grew the most in agriculture, forestry, and fishing. Solid harvest, stabilised animal production as well as strong roundwood removals took effect.

one of the most dynamic economic branches. Stabilised situation in the agricultural primary production, which was not directly affected by the state regulative measures (apart from stricter hygienic measures) in year 2020 was instrumental in this result. Production of meat slightly grew (+0.9%, year-on-year), due to the higher slaughter weight of the fattened beef cattle and pigs as well as long term growing consumer popularity of poultry. Domestic producers sold in-kind by 3.9% milk more. Plant production was supported by good last year's harvest, especially of cereals, potatoes or forage crops¹⁹. The continuing natural roundwood removals also likely had a pro-growth effect on the whole primary sector.

The largest year-on-year GVA slump struck the states of the euro area southern wing last year. Poland fared the best among the central European economies.

Total value added dived by 6.1% in the EU for the last year and by 6.5% in the euro area countries, i.e. more than in the CR²⁰. Still, the domestic downturn was the tenth largest among the EU states. The Union results were influenced by the output downswing in the significant economies especially on the southern wing of the euro area (Spain 10.8%, Italy 8.6%, Greece 8.1%, Portugal 6.4%) and also France (8.1%). Among the central European states, Poland (-2.8%) fared the best, Austria (-6.4%) the worst. Both Germany and Slovakia recorded comparable slump to the CR. Only Ireland registered the growth of the value added (+2.5%), North states or Baltic states also reported relatively favourable results. Differences between states primarily testify about the onset of the coronavirus infection across the EU, the speed and intensity of government restrictive measures and partially also about the varying sectoral structure of economies (larger proportion of activities tied to tourism had a negative effect, the role of public services but also manufacturing then for example a positive effect).

Despite strong summer recovery, the value of industrial production still remained below its „pre-pandemic“ peak.

Also more detailed data of enterprise statistics confirm that a significant revival of industrial production²¹ occurred during both May and June, following the steep spring descend²² accompanied by several-week closure of number of operations. Both fast renewal of demand in key export activities and persisting weaker koruna foreign exchange had a positive effect. It was also important, that the global production chains were not suspended more and the permeability of borders for the freight transport was not disrupted any more. The month-on-month industrial output grew until October, in the last months of the year it almost stagnated. Despite this development, even the December output level still did not reach its „pre-pandemic“ maximum²³. However, it was positive that the industry returned to growth in the year-on-year expression in Q4 (+2.0%). The industrial production declined by 7.2%²⁴ for the whole year 2020. While the motor vehicle production drove the whole branch down the most in both Q1 and Q2 (it was responsible for more than one third of the year-on-year slump of the total industrial output), machinery took over this role in the remaining part of the year. On the contrary, the motor vehicle industry proved to be the principal factor for the growth reestablishment in the whole industry in Q4 (contribution +1.9 p.p., together with the nearest subcontractor branches +2.5 p.p.). This revival, even though with smaller intensity, arrived in all significant manufacturing activities (apart for machinery).

Motor vehicle production stood behind the slump of the whole industry in H1, it was however also key for the renewal of its growth at the end of the year.

¹⁹ According to the preliminary data as of 15th September 2020, total last year's harvest is estimated in the size of 7.98 mil tons. It is the strongest in the last four years and by 4.0% higher than the ten-year average. Harvest was also higher for wine, legumes, potatoes, vegetables, rape and green maize and silage year-on-year. Contrary, the harvest of hops and sugar beet was lower. Preliminary results of the total agricultural account imply, that the output of the agricultural branch increased in real terms by even 4% during year 2020. Higher plant production contributed the most (+6.0%), supported mainly by the favourable development for forage, rape and grain maize. Higher animal output also had a favourable effect (+1.7%), fed for the major part by higher value of the output of milk, with a distance then also pigs.

²⁰ More favourable development in the public services and in the branch agriculture, forestry and fishing stood behind the milder decrease of GVA in the CR. Also the downswing of performance in the branch other services (NACE sections R to T) was weaker locally (-12%) compared to the EU (-18%).

²¹ Includes branches of mining and quarrying, manufacturing and also energetics (here as activities of production and distribution of electricity, gas, heat and air conditioning supply). All year-on-year rates of growth of output (at the level of branch sections as well as divisions) are adjusted for calendar effects, both quarter-on-quarter and month-on-month rates then also for seasonal effects.

²² Industrial output fell by 11.3% month-on-month in March 2020, in April the plunge deepened to record 24.1%.

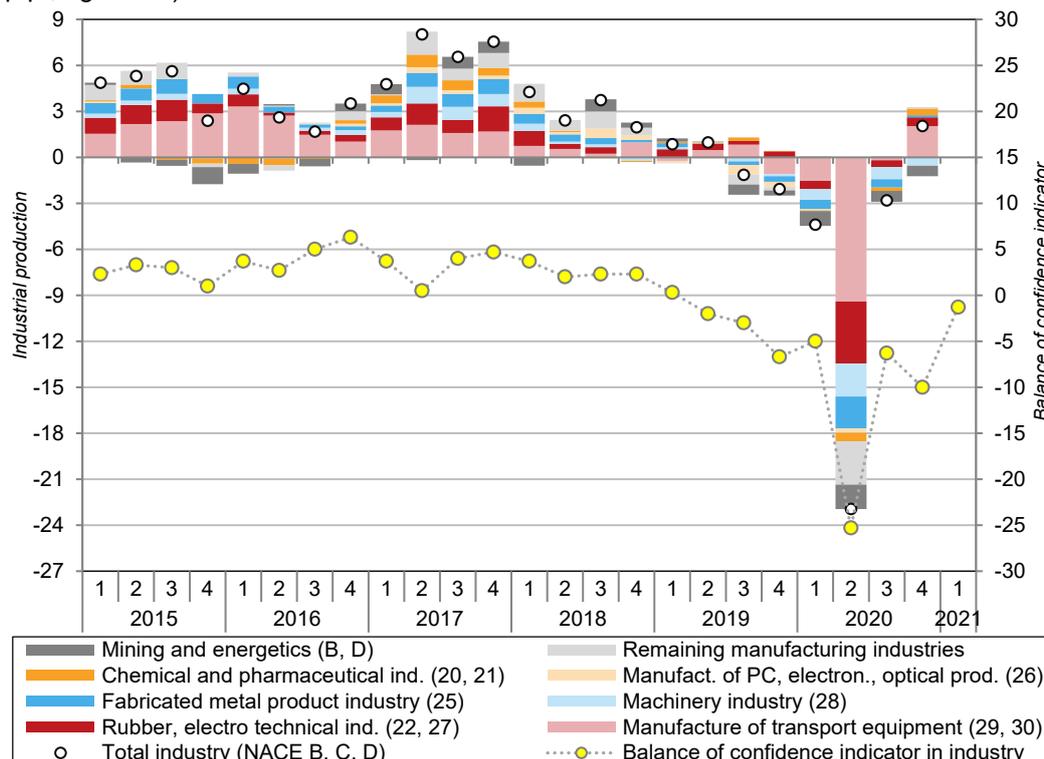
²³ This maximum was placed in May 2019 due to the cyclical downturn, which the domestic industry went through already during H2 2019. Production in December 2020 was by 3.2% lower compared to this level.

²⁴ During the global financial as well as economic crisis in year 2009, the output of the domestic industry fell however by nearly doubled rate of growth (by 13.0%).

Motor vehicle manufacturers strived to offset part of the spring losses in the second half of the year. Utilisation of production capacities returned to a high level.

Output of motor vehicle manufacturing declined by one eighth for the last year, that is slightly more in comparison to the crisis year 2009. Effectively closure of operations of key businesses as well as simultaneous paralysing of activity of many subcontractors led to the unprecedented fallout of production, export, and also new orders by more than 75%²⁵ in April 2020. The spring economic freeze was not manifested to such an extent in any other industrial activity. However, already during June and July, the motor vehicles manufacturers registered year-on-year growth of foreign orders, which they used to help to offset at least part of spring losses. The utilisation of production capacities exceeded 90% in this field in Q4 2020 and thus returned to the level usual in the previous peak period. The output thus grew by more than one tenth here year-on-year.

Chart 4 Contributions of sub-branches to the year-on-year change of the industrial production (in p.p., adjusted for calendar effects), confidence indicator in industry* (in p.p., right axis)



*The confidence indicator balance is seasonally adjusted and expresses the state in the second month of the given quarter.
Source: CZSO

Revival of machinery was obstructed by the lasting weak private investment activity in the economy.

One-eighth decrease of production also struck machinery last year, which thus contributed to the decline of the whole industry 1 p.p. (by one half less than the motor vehicle manufacturers). Machinery faced the reduced both domestic and foreign demand almost throughout the whole year, which was connected to the persisting slump of the investment activity in the economy. The output however fell the most in the long-term subdued mining industry last year (by record 16.5%, by nearly one quarter in the still dominant division – coal mining). However, given the proportion of this activity in the output of the whole industry, it only had a limited impact (-0.3 p.p.). Energetics, where record 6.3% year-on-year fall of output narrowly copied the pace of the electricity production, played a large role (-0.7 p.p.). Especially the decrease of demand in businesses due to the lowered or temporarily halted production activity was evident²⁶. Planned temporary shutdowns in the power stations also played a role.

Production fallouts in both mining and energetics were the largest in the two last decades.

²⁵ Data regarding the physical production also prove it. Based on the Automotive Industry Association, there was manufactured only less than 15 thousand motor vehicles during the last year's April in the CR (by 113 thousand less compared to April 2019). Year-on-year, the production of motor vehicles grew only the first two months of the year 2020 and also in October and December. Output of motor vehicle manufacturing was 1 160 thousand vehicles for the whole year, which was by 19% less year-on-year (resp. by 275 thousand). Annual decrease affected both the manufacturing of passenger cars and also other categories of motor vehicles.

²⁶ According to the data of the Energy Regulatory Office, the total gross electricity production reached 81.4 TWh in the CR last year (the least since year 2002). It reduced by 6.4% year-on-year. Gross electricity consumption dropped by 3.5% to 71.4 TWh (five year minimum).



Restrictions against pandemic considerably impacted the output of beverages manufacturing.

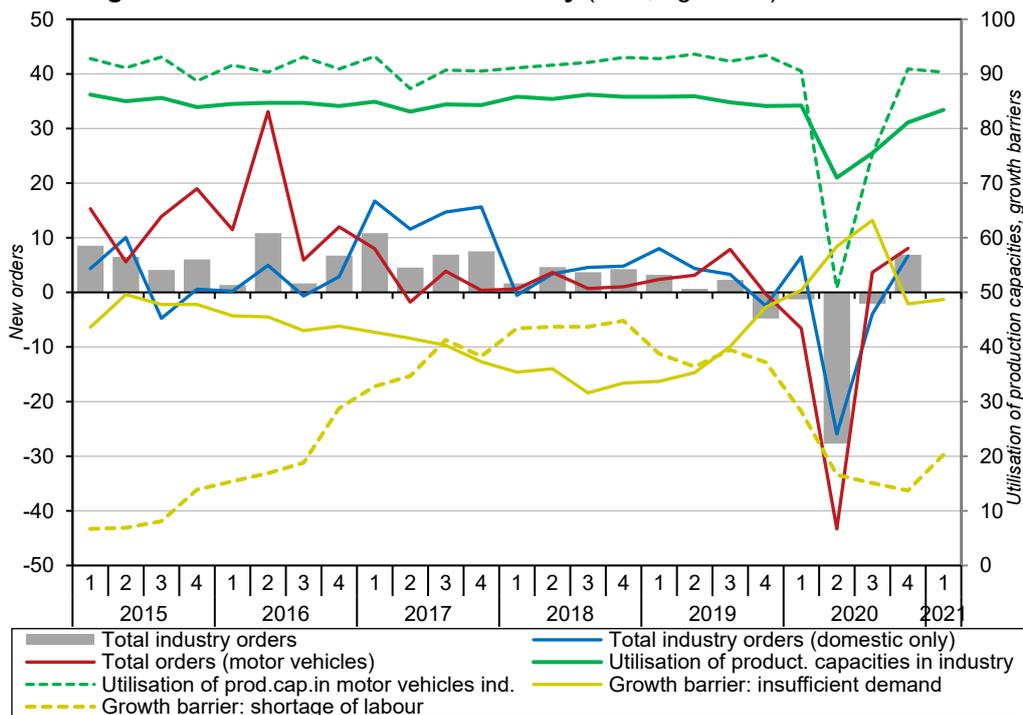
In the smallest manufacturing field – leather manufacturing – output fell by one seventh last year, mainly due to the weaker foreign demand. Manufacturing of beverages, which fared relatively well in the previous years, decreased output by one tenth last year. Major limitations of operations of the hospitality facilities accompanied by the fallout of the arrival tourism were negatively reflected in the domestic sales here. Export of beverages however also featured a decline. On the contrary, the relatively mild decrease of output (between 3 and 4%) affected the chemical industry, manufacturing of building materials or considerably export oriented manufacturing of computers, electronic and optical products.

Food industry capitalised on both the higher domestic demand and good harvest.

Even though the food industry recorded the weakest year-on-year rate of growth of production since the end of recession in year 2013 last year, it represented one of the few industrial activities, which recorded growth last year (+0.6%). Next to the relatively stable domestic demand, the good outcomes of this year’s agricultural primary production were also helpful in this result. Wood and paper industries are also characterised by a close connection to the primary sector. They achieved a similar growth of output of around 4%. Specific composition of demand during the coronavirus crisis was reflected in the mild growth of output of the pharmaceutical industry (+3.7%) or other manufacturing industry (+2.4%), which also includes the manufacturing of medical supplies or manufacturing of games and toys.

The specific supply composition during the coronavirus crisis was helpful to some smaller branches.

Chart 5 New orders in manufacture of motor vehicles and in the whole industry (in current prices, year-on-year change in %), **utilisation of production capacity*** and **selected growth barriers in the whole industry** (in %, right axis)



*Both utilisation of production capacities and growth barriers are seasonally adjusted and express the situation in the first (growth barriers), resp. second month of the given quarter (utilisation of capacities). Businesses could have stated more main barriers simultaneously.
Source: CZSO

The sales grew the most to the businesses in energetics,

Nominal sales of industrial businesses decreased by 6.1%²⁷ last year, for the first time since 2009. Drop of both local (domestic) sales and sales from direct export was nearly similar. Sales expanded the most in energetics (+5%). Manufacturers of wearing apparel earned more also

Entrepreneurs consumed at low voltage levels by 2.9% less year-on-year, the largest businesses then by 6.6% less. Mobility restrictions of the population, extended home office work as well as distance learning led to the accelerated growth pace of the electricity consumption in households (to +4.7%) last year. Their electricity consumption was the highest since the year 1996.

²⁷ In Q4 2020 however the sales of businesses from industrial activity recorded a growth (+4.2%) year-on-year, exclusively thanks to higher foreign demand.

exclusively due the effect of growing prices.	solely due the raised prices. On the contrary, despite higher output the sales did not grow in the paper industry. Price influence adversely also affected the sales in the chemical industry and metallurgy (the sales shrank by more than one tenth in both branches).
Value of new industrial orders increased at the end of the year.	Short term outlooks in industry improved towards the end of the year. Value of industrial orders ²⁸ grew thanks to the both foreign and domestic demand by 6.9% ²⁹ year-on-year in Q4 2020. Higher demand pervaded the overwhelming majority of monitored activities, however it missed the important machinery industry. Utilisation of production capacities in the whole industry already exceeded 83% at the beginning of year 2021, and closely thus approached the level from the last boom period ³⁰ . Insufficient demand remains the main growth barrier ³¹ . It was stated by nearly one half of industrial businesses at the beginning of year 2021, one fifth of them struggled with shortage of labour. Total balance of confidence indicator in industry at the turn of years 2020 and 2021 grew. In February 2021 it was the highest since April 2019. Anticipations of production activity in the subsequent three months were mildly positive and outlook in the area of employment changes neutral.
Inadequate demand still notably dominates among the barriers to growth.	
Impact of anti-pandemic measures on construction were initially mild, however lasted longer.	Impacts of anti-pandemic measures on construction were initially mild, nevertheless they endured longer. The deepest month-on-month fall of construction output ³² occurred last year as late as May (-3.9%). The restrictive measures gradually limited the collaboration of all participants of the “construction procedure” and thus further made the already demanding administrative process of the constructions preparations harder. Some tenders were suspended, which disrupted the continuity of construction output. As a consequence of restricted mobility, the problems with the availability of workers (especially those from abroad) deepened. In contrast to the vast majority of other market activities, the spring slump was weaker in construction, however it was not followed by subsequent recovery. The output thus decreased quarter on quarter in Q3, but also in Q4 (-2.9%, resp. -0.3%). For the whole last year, the output dropped by 6.2% ³³ , exclusively due to the weak output of building construction (-9.0%, minimum in the comparative time series starting from year 2000). Ongoing growth of public investments ³⁴ , had a positive effect on the civil engineering construction and its output thus went slightly up compared to year 2019 (+1.4%).
Output of building construction plunged the most in the last two decades. Civil engineering construction maintained a mild growth.	
Output of building construction hindered mainly by lower construction of non-residential buildings.	Repairs and upgrades thus helped the construction last year since the volume of building permits for “changes of completed structures” further grew (+0.5%). The plunge of the new construction can be assumed from the same source, especially non-residential buildings (-11%). Number of commenced flats fell by nearly 9% ³⁵ in comparison to the high last year’s basis. Still, the last year’s frequency of these flats (35.3 thousand) was the second highest in the last decade. Following five years of growth, the number of completed flats also decreased last year (by 5.4%), mainly due to the lower number of flats in the residential buildings. But yet the most flats in the last ten years (19.3 thousand) were created in the family houses. Reduced construction hit the majority of regions last year, number of completed flats rose in total year-on-year only in Olomouc region and Moravian-Silesian and Vysočina region.
Longer term growth of the residential construction halted last year.	

²⁸ Surveying of orders is ongoing only in twelve manufacturing branches, which manufacture mostly custom-made products, with longer production cycle and larger stocks of orders.

²⁹ Growth is partially affected by lower comparative basis since the industry was in the phase of mild cyclical downturn at the end of year 2019.

³⁰ Capacities were most utilised in the wood industry (93%). Motor vehicle, rubber, plastics, chemical and paper industry and also repairs of machinery and equipment moved close to the 90% level. On the contrary, level deep below their long term average and utilisation only around 70% registered some smaller branches (beverage, footwear, leather, printing as well as petrochemical industry).

³¹ Businesses could have stated more barriers simultaneously.

³² All year-on-year data regarding the construction output are adjusted for calendar effects, both quarter-on-quarter and month-on-month rates of growth also for the seasonality effect.

³³ Comparable downturn was also recorded in year 2016. However, short term fallout of public infrastructure investments associated with the transfer to new EU programme period, stood in its background at that time.

³⁴ Investment transfers to the State Fund for Transport Infrastructure from the state budget were by 41% higher year-on-year last year. The inflow of funds from the EU structural funds was also gaining pace (+21%, to 75.8 CZK bn).

³⁵ Last year’s decrease did not concern categories of flats created by the modification of existing residential buildings. There were commenced 3 244 flat in this category last year – the most after year 2004. It could have been connected to the in total lower administrative demands on the preparation of these constructions (building project design, cooperation with the building authorities).

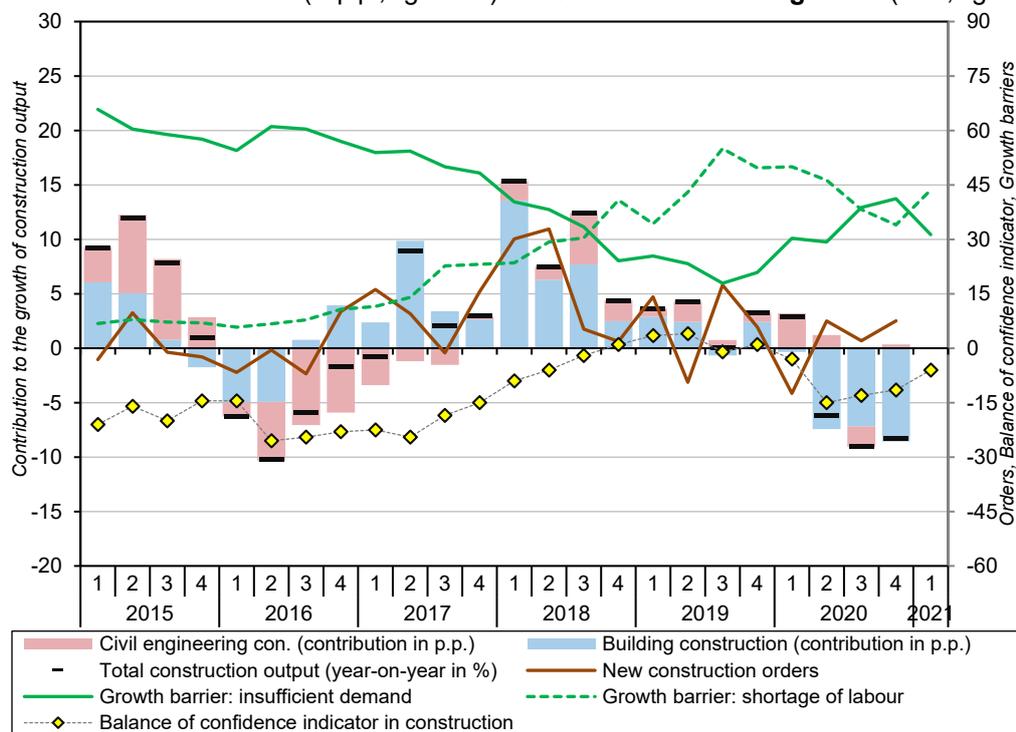


New orders grew in both the building and civil engineering construction. The stock of not yet realised orders expanded faster.

Confidence in construction strengthened. Significant output growth barriers however prevailed.

Value of newly concluded construction orders (in businesses with more than 50 employees) grew year-on-year in both building (by 8.1%) and civil engineering construction (7.0%) in Q4 2020. With the view to the fact, that it was happening also for the major part of year 2020, in combination with the lower last year's continuity of construction output it had a positive effect on the total stock of work (not yet realised orders). It was higher by one sixths year-on-year at the end of 2020, which was the merit of both public and private domestic orders by similar part. The volume of work contracted to realisation abroad, which domestic businesses often use to help out „in more difficult times“, enlarged for the first time since year 2014. Total entrepreneur confidence in construction improved since the half of the last year and it reached an 11th month maximum in February 2021. It was linked to the favourable development of orders as well as the mildly positive employment anticipations. Still, the inadequate demand limited nearly one third of businesses and the shortage of workers around 40% of them.

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



Data related to construction output are adjusted for calendar effects.

*Balance of confidence indicator as well as barriers to growth are seasonally adjusted and express the state in the second month of the given quarter. Businesses could have state more main barriers simultaneously.

Source: CZSO

Sales in services plunged by nearly one tenth month-on-month both in March and April.

Sales in selected services³⁶ were rather severely hit by the government restrictive measures last year. They plunged month-on-month by record pace during March as well as April (by 10 %). In the subsequent three months, a partial recovery eventuated (mainly in accommodation, food service and restaurants), it was however far from compensating the previous deep slump. The second epidemic wave led to the shortening of the summer tourist season. From August until the end of the last year the sales were again falling month-on-month³⁷, however by much lower paces than in the spring crisis. Some services managed to adjust to the compulsory limitation of interpersonal contact, certain segment of services also profited from the favourable development of industry.

³⁶ Without trade, financial and insurance activities, science, research and public services. All figures for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter as well as month-on-month data are seasonally adjusted (including the effect of number of working days).

³⁷ Mild decrease thus occurred also in December, when the part of restrictions was temporarily loosened. It however only benefited branch accommodation, food service and restaurants. Sales were falling month-on-month in other branch divisions.

Sales in services plunged deeper last year than in year 2009. They were the most affected by transporting and storage.

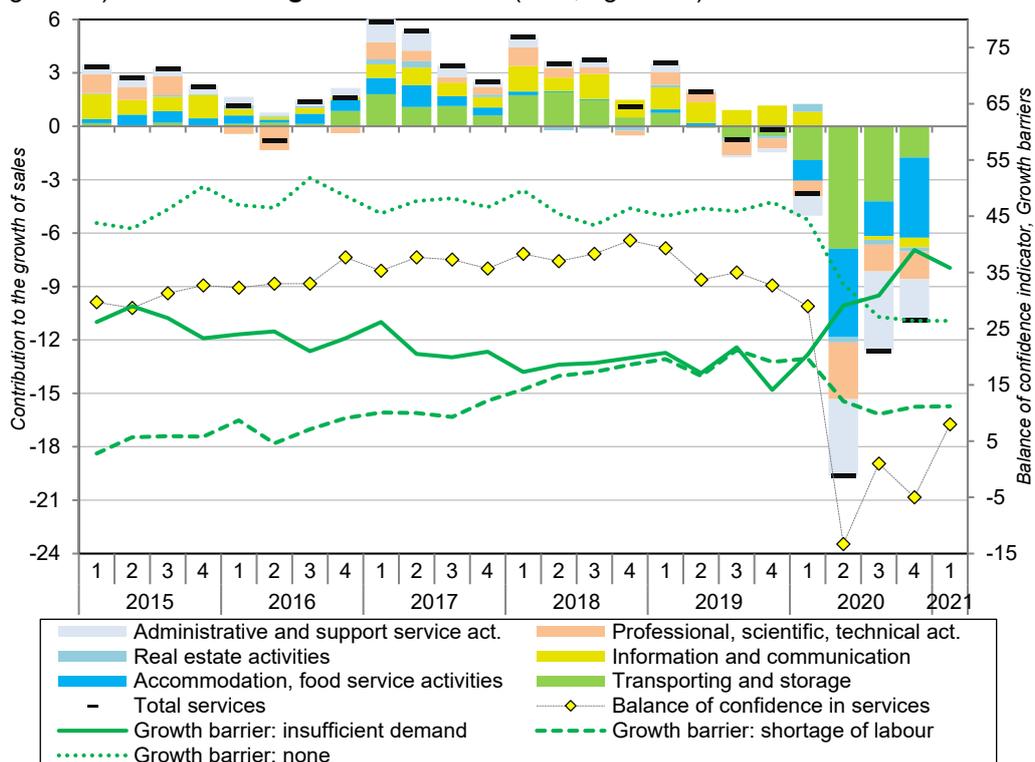
The sales in services plunged by 11.8% for the whole last year and slightly thus overtook their so far deepest slump from year 2009. Weight dominant transporting and storage shared by nearly one third in the last year's fall. Further branches exerted only weaker influence – administrative and support services activities, respectively accommodation, food service and restaurants, which were the decisive factor of adverse development of services in third, resp. fourth quarter 2020.

The areas of services tied to tourism or leisure activities were the most hit.

It is not surprising with the view to the nature of the restrictions, that the most severe slump in services affected areas closely tied to tourism and other leisure time activities. Sales of travel agencies dived compared to year 2019 by 75.0%, by 70.4% in the air transport, by 55.9% in accommodation and by 34.1%³⁸ in food service and restaurants. The output of motion picture and musical industry also slumped by nearly two fifths³⁹. Other branches of services, where the demand correlates to the business cycle fluctuations, also faced difficulties last year. It was especially job agencies, where the sales fell by nearly one fifth. They decreased by more than one tenth in land transport, warehousing and also in advertising. Rental and operative leasing activities or architectural and engineering activities registered 8% decline. Services areas tied to industry experienced revival in H2. In Q4 compared to the preceding quarter, sales thus rose in land transport (+1.9%), warehousing (+3.2%) as well as job agencies (+5.2%).

Services with ties to industry experienced a mild recovery in the second half of the year.

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



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

**Also includes also the financial sector. Balance of confidence as well as the barriers to growth are seasonally adjusted and express the state in the first (growth barriers), resp. second month of the given quarter (balance of confidence). Businesses could have stated more main barriers simultaneously.

Source: CZSO

³⁸ Last year's downturn of these branches, which was unprecedented in the history of independent CR, also depicts the comparison in current prices. While sales in food service and restaurants were placed at the level of year 2015 last year, sales in the air transport did not attain even three fifths of the level from year 2000 (they were even at only 39% level from the beginning of millennium for the travel agencies).

³⁹ According to the Union of Motion Picture Distributors, the number of cinema visitors fell by 65% year-on-year, to 6.4 mil (the lowest number in the history of the CR). Cinemas were in fact closed for nearly five months in the last year (only the operations of drive-in cinemas were permitted), they operated without any restrictions only 2.5 months in the year. The segment of the motion picture production, where the restrictions applied only during the spring pandemic wave, was hit less.



Demand for postal and courier activities, information activities or communication services substantially mounted up.

The role of some areas of services, which offered solution in the environment of limited social contact, on the contrary strengthened last year. Sales grew by 4.8% in telecommunication services (the most after year 2007). Information activities including e.g. data processing, web portals or hosting, also featured a swift pace (+5.5%). The demand for television programming and broadcasting activities grew for the third year in a row. Postal and courier activities experienced boom; the sales hiked up by double digit rate of growth for the second year in a row⁴⁰. Next to these, it is also possible to find some areas of services, which were not significantly impacted by the government restrictions and whose sales pace essentially did not change compared to year 2019 (real estate activities, legal and accounting activities or security and investigation activities).

Retail sales dropped in 2020 year-on-year for the first time in the last seven years.

Retail sales⁴¹ were majorly affected by spring and autumn wave of the anti-pandemic measures last year. In March, they plunged by 11.8% month-on-month, in November by 5.6%. For the whole year 2020, they decreased by 0.9%, and thus ended with the weakest rate of growth after year 2012. Sound condition of the labour market, being so far characterised by subdued unemployment as well as ongoing growth of real average wages (which accelerated at the end of the year) worked against any deeper descend of sales. On the other hand, the consumer confidence balance, which was very responsive to the government restrictions, remained in the negative band. Concerns of households about the growth of both prices and unemployment stayed high. Retail was also hindered by lower consumption expenditures of non-residents.

Mainly the slump of demand for fuels was pivotal to the decrease in retail.

Mainly the slump of sales for fuels (by 9.0%) stood behind the decrease of whole retail last year. Sales for food also slightly decreased (-0.3%), which was caused exclusively by specialised (usually small) shops. Growth of sales of non-food goods continued last year only thanks to the dynamic development of sales via internet and mail order (+27.3%), even though it represented the weakest growth in the last decade (+0.5%). Part of specialised shops was however struck by a double digit plunge of sales (wearing apparel, footwear and leather goods or cultural and recreation products). Shops with pharmaceutical and medical products (+3.5%), computer and communication equipment (+2.7%) or household goods (+1.2%) maintained a mild growth.

Segment of non-food goods grew only thanks to the sales via internet or mail order.

Record slump of sale and repair of motor vehicles.

Sales slumped by 15.2% in the motorist segment of trade last year – nearly by one half more than in year 2009. It was associated with the persisting downturn of private investment activity in the economy.

⁴⁰ Their role was enhanced last year also due to the suspension of part of retail trade, as well as the restrictions of food service and restaurants (partially offset by the food delivery).

⁴¹ All year-on-year rates of growth of retail sales are stated in the constant prices and adjusted for calendar effects, quarter-on-quarter as well as month-on-month paces are adjusted for seasonal effects (including the effect of the number of working days). Retail includes branches CZ-NACE 47.

4. External Relations

Value of export of goods dropped last year. Major part of this fall occurred in Q2.

Foreign trade underwent a considerably turbulent development in year 2020. Total value of export of goods reached 3 528.8 CZK bn and dropped by 163.0 bn year-on-year (−4.4%) last year. It was the smallest amount since year 2017. Main part of losses took place in Q2, when the both sides of the foreign trade were affected by suspension of production in large both domestic and foreign businesses as well as the closure of boundaries. Export was however also falling year-on-year in both Q1 and 3 (−4.1%, −22.4% and −0.9% in Q1 to 3). The exporters strived to compensate the losses at least partially in the second half of the year but reached year-on-year increase only in Q4. In the final quarter of 2020, the value of export of goods amounted to 1 013.6 CZK bn and rose by 96.5 bn year-on-year (10.5%), which is the most since Q3 2014 (it was due to extensive foreign exchange change at that time). The year-on-year comparison was partially aided by weaker basis of the end of year 2019, at the same time however the amount of export exceeded CZK one trillion in single quarter for the first time last year.

Especially the export of motor vehicles was sinking. Other important export branches also suffered losses.

Export downswing targeted the most key articles of the Czech export in Q2, that is motor vehicles and associated subcontractors. Simultaneously, these fields tried to catch up these losses very fast, so they on the contrary contributed the most to the export growth in the second half of the year. Spring situation affected the most export of motor vehicles, which went down by 100.2 CZK bn (−9.8%) to 920.0 bn for the whole year 2020, which is the least since year 2015. The export of machinery and equipment also strongly decreased (−30.9 CZK bn, −7.5%). The descend was gentler for metal products (−11.6 CZK bn, −5.1%), rubber and plastic products (−7.0 bn, −3.6%) and electrical equipment (−6.9 bn, −2.2%). Another factor, which affected both sides of the foreign trade, was the reduction of prices of materials. It became apparent in the export of basic metals (−12.2 CZK bn, −8.9%), but especially for coke and refined oil products (−14.2 bn, −35.6%). Export of computers, electronic and optical appliances (21.2 CZK bn, 5.5%) increased last year. This segment has been developing very dynamically in the last four years and only the year-on-year decrease in the period from Q3 2019 till Q2 2020 presented the exception. Export of food products grew by 7.5 CZK bn (6.6%), partially also due to price increases. Export of wearing apparel went up by 3.7 CZK bn (12.3%) and additions to other products of manufacturing (3.4 bn, 4.1%), furniture (2.8 bn, 10.0%) and basic pharmaceutical products (2.2 bn, 4.3%) were also robust.

Significant recovery, which should have at least partially compensated the spring losses, arose by the end of the year.

In Q4 2020 itself, export of motor vehicles grew the most year-on-year (39.6 CZK bn, 15.9%). Addition strengthened for computers, electrical and optical appliances (14.0 CZK bn, 13.2%) as well as electrical equipment (10.6 bn, 13.6%). Following a series of decreases, the export went up year-on-year for rubber and plastic products (5.9 CZK bn, 12.8%), chemicals and chemical products (5.9 bn, 14.4%), metal products (4.2 bn, 7.6%), machinery and equipment (3.5 bn, 3.4%) and basic metals (2.6 bn, 8.8%) in Q4. The export of paper and paper products (1.2 CZK bn, 8.2%) and basic pharmaceutical products (1.2 bn, 9.3%) significantly increased at the end of the year. Mainly the price decrease stood behind the continuing slump of export of coke and refined oil products (−3.7 CZK bn, −35.2%) and electricity, gas, steam and air conditioning (−2.0 bn, −24.6%).

Both export into the EU and outside the EU fell last year.

Export into the EU (−119.4 CZK bn, −4.1%) as well as outside of the EU (−41.7 bn, −5.5%) recorded a strong decline last year. The value of export to Germany (−31.6 CZK bn, −2.8%), Spain (−34.9 bn, −28.1%), Great Britain (−18.1 bn, −11.7%) and France (−18.8 bn, −10.0%) decreased the most. The export to other neighbours of the Czech Republic also fell notably – by 11.8 CZK bn to Austria (−7.6%), by 8.4 bn to Slovakia (−2.5%) and by 3.6 bn to Poland (−1.5%). On the contrary, the value of export to Turkey (9.8 CZK bn, 29.6%), the Netherlands (3.6 bn, 2.9%) and Republic of Korea (1.4 bn, 14.4%) expanded last year. The export into the EU grew strongly (91.3 CZK bn, 12.7%), export outside the EU slightly slower



(5.8 bn, 2.9%) in Q4. The largest addition was observed for export to Germany (43.3 CZK bn, 15.8%), Italy (8.4 bn, 27.4%), Slovakia (8.2 bn, 9.6%), France (7.2 bn, 15.6%) and to Poland (6.3 bn, 10.6%).

Import sank deeper than export. It was directly caused by the situation around the coronavirus, but also the lowered prices of some materials.

The import of goods also dived last year, by 201.8 CZK bn (−5.7%) to 3 344.3 bn. Import did not approach the pre-crisis level as fast as export in the second half of the year (year-on-year slumps reached −3.2%, −18.5% and −4.4% in Q1 to 3). In Q4, the import already rose by 29.0 CZK bn (3.2%) year-on-year to 933.2 bn. The slide of import was affected from two directions last year. For one thing, the domestic demand went down – partially the one from producers, who further process imported components. The uncertainty also disrupted the investment activity. It is apparent on the last year’s slump of import of motor vehicles (the division also includes parts and subcontractor works) by 74.7 CZK bn (−13.4%) and also machinery and equipment by 30.6 bn (−8.7%). Import of metal products (−13.4 CZK bn, −7.7%), other transport vehicles (−10.7 bn, −25.4%) and rubber and plastic products (−4.4 bn, −2.4%) also fell. And for another, the plunge of prices of some materials, mainly oil, was the second factor. The value of imported oil and natural gas dropped by 56.2 CZK bn (−43.2%), basic metals 35.1 bn (−13.4%), coke and refined oil products⁴² by 15.2 bn (−24.8%) and the decrease of the amount of imported chemicals and chemical products (−8.8 bn, −3.1%) was also connected to the cut of oil prices. The largest import increase was recorded for computers, electronic and optical appliances (41.6 CZK bn, 10.0%), electrical equipment (12.8 bn, 4.7%), basic pharmaceutical products (8.1 bn, 7.7%) and textiles (5.6 bn, 10.8%) last year. In Q4, electrical equipment (14.7 CZK bn, 21.2%), computers, electrical and optical appliances (11.1 bn, 8.8%) and motor vehicles (8.6 bn, 6.1%) the most supported the year-on-year import addition. By contrast, the slump of import of oil and natural gas (−14.2 CZK bn, −42.5%), coke and refined oil products (−5.2 bn, −33.1%) and other transport equipment (−2.9 bn, −28.7%) further continued.

Export from Germany slumped considerably.

Import from the EU was declining more notably than the import from countries outside the EU last year. Import from Germany recorded a very deep slump (−96.2 CZK bn, −10.5%), plunge of prices of oil and natural gas stood behind the drop of import from Russia by 47.8 bn (−41.5%) and the import from Slovakia (−14.8 bn, −8.5%), France (−11.7 bn, −9.9%) and Italy (−10.5 bn, −6.6%) also significantly decreased. On the contrary, the addition to the value of import from China was the largest from year 2010 (46.2 CZK bn, 11.9%). In Q4 2020, the fastest growing import was from China (13.9 CZK bn, 12.4%), Hungary (7.0 bn, 31.6%) and Poland (5.1 bn, 6.8%) in Q4 2020. Import from Russia (−11.7 bn, −38.2%) kept falling and import from Germany (−3.0 bn, −1.3%) and Austria (−1.1 bn, −3.9%) also further diminished.

Surplus of foreign trade with goods enlarged last year.

The substantial lagging of import dynamics behind export dynamics aided the balance of foreign trade with goods last year. Total surplus climbed to 184.5 CZK bn, which is by 38.8 bn more year-on-year. The year-on-year improvement was in fact achieved strictly in H2. The surplus deteriorated against the same period of the last year (amounted to 37.9 bn) already in Q1 and the downturn of foreign trade in Q2 led to the decrease of surplus by 47.7 bn to 9.3 bn. However, the renewal of the foreign trade was relatively fast and the surplus was already more than double of the amount from the previous year in Q3 (56.9 bn). The foreign trade surplus attained 80.4 CZK bn in Q4 and improved by 67.5 bn year-on-year. The recorded balance as well as its improvement was the highest for the whole available time series.

Moderation of the deficit of trade with oil and natural gas and basic

Moderation of the trade with oil and natural gas deficit by 55.7 CZK bn and further of basic metals by 22.9 bn the most contributed to the improvement of the trade with goods balance last year. The already mentioned reduced prices of these materials played a role in both

⁴² Especially for the fuels, apart from the cut price the lower imported volume also had a partial effect since the restrictions limited the movement of population.

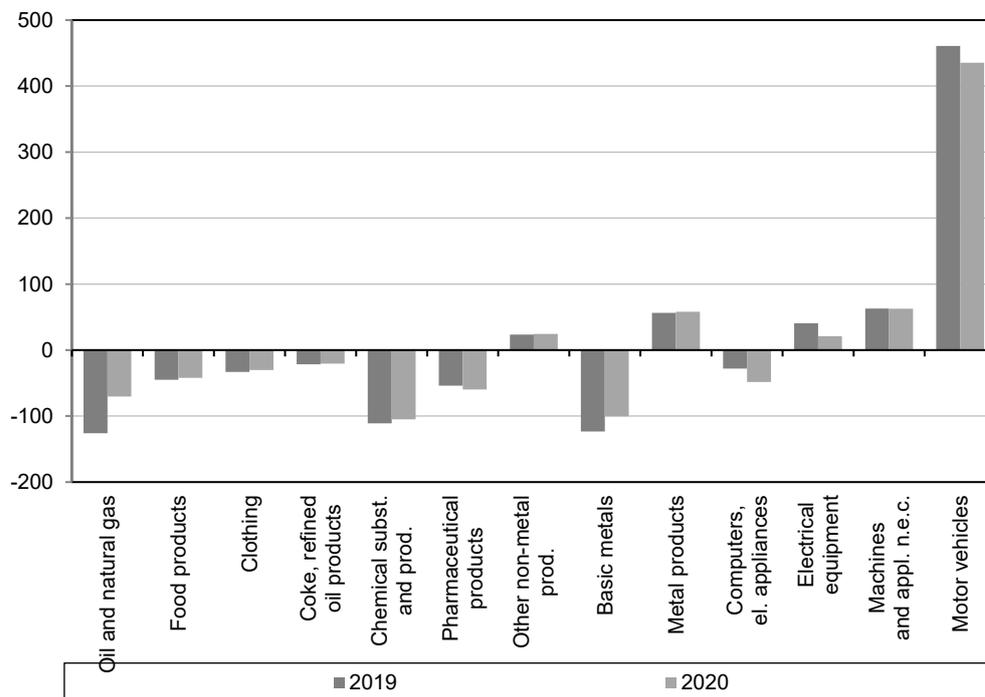
metals mainly caused the improvement.

cases. The balance for other transport equipment (+6.1 bn) and negative balance for chemicals and chemical products (+6.0 bn) also improved. Even though the export fields of activities tried their best to make up for the losses during the second half of the year, the resulting year-on-year downturn of motor vehicle surplus reached 25.4 CZK bn, 20.3 bn for computers, electronic and optical appliances and 19.7 bn in case of electrical equipment. Trade with textiles (-7.2 CZK bn) and with basic pharmaceutical products (-5.9 bn) also worsened the balance. The surplus of trade with motor vehicles (+31.0 CZK bn) experienced record improvement and the deficit of trade with oil and natural gas shrank by 13.9 bn in Q4 itself. The balance of trade with metal products (+4.6 CZK bn), with machinery and equipment (+3.2 bn), food products (+2.9 bn), computer, electric and optical appliances (+2.9 bn) and other transport vehicles (+2.9 bn) also slightly improved. More marked worsening was observed for electrical equipment (-4.2 CZK bn).

From the territorial view, the foreign trade balance with Germany and Russia improved the most.

Trade with Germany (+64.7 CZK bn), further with Russia (+47.0 bn, surplus with Russia was accomplished for the first time) and also with Turkey (+10.2 bn) the most contributed to the improved foreign trade balance last year. Deficit with Italy also diminished (+7.2 CZK bn), surplus with Slovakia (+6.4 bn) and also with Korea (+5.4 bn) improved. On the contrary, the trade with China (-46.0 CZK bn), Spain (-33.0 bn), Great Britain (-16.4 bn) and with Hungary (-9.5 bn) worked markedly in the direction of balance worsening. Massive increase of surplus with Germany (+46.2 CZK bn) and also further improvement of balance with Russia (+12.4 bn), Slovakia (+8.1 bn), Italy (+7.9 bn) and France (+7.0 bn.) occurred by the year's conclusion. Balance of trade with China (-12.5 CZK bn), Hungary (-5.1 bn), Korea (-3.5 bn) and Japan (-3.1 bn) worsened the most in Q4.

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



Source: CZSO



5. Prices

Total price level grew very strongly last year.

The total price level increased by 4.1% according to the gross domestic product deflator last year, which is the most since year 2001. The price growth of both consumption (3.4%) and capital goods (2.5%) was high. Positive terms of trade (101.6%) also supported the rise of the price level. The total price level climbed up by 4.2% year-on-year in Q4 itself. Prices of consumption goods went up by 3.1%, mainly because of the government institutions consumption (5.6%). Growth of prices of consumption goods of households slowed down to 1.8%. Prices of capital goods were raised by 2.8% in Q4. The terms of trade attained 102.0%, in that terms of trade with goods were 102.3% and with services 99.9%.

Total increase of consumer prices was 3.2% last year. The year-on-year dynamics markedly slowed down in Q4.

Growth of the consumer price index markedly slowed down in Q4 2020. The consumer prices reduced by 0.4% compared to Q3, which is the first decrease since Q4 2015. The halt of sharp increases of prices of alcoholic beverages and tobacco mainly took part in the quarter-on-quarter decrease. Prices of food and non-alcoholic beverages, housing and energies and recreation and culture also reduced. At the same time the quarter-on-quarter dynamics of prices of transport and food service and accommodation slowed down. Year-on-year addition to consumer prices significantly slowed down to 2.6% in Q4, the lowest value since Q4 2018. Development of prices of food and non-alcoholic beverages and housing and energies also influenced the most the slowdown of the total year-on-year dynamics. Average inflation amounted to 3.2% in 2020 and it was the highest since year 2012. Food and non-alcoholic beverages, alcoholic beverages and tobacco and housing and energies the most supported a price growth last year.

Food and non-alcoholic beverages were the main drivers of the price growth last year. Their influence notably weakened towards the end of the year.

Food and non-alcoholic beverages were one of the main driving forces of the year-on-year growth of the consumer prices for most of the year. In H1, food and non-alcoholic beverages became more expensive by an extraordinary fast pace (by 6.1% and 6.5% year-on-year in Q1 and 2). Prices of meat, which were influenced by the lack of pork on the world markets were the main reason. The lack was linked to the spread of the African swine fever. The year-on-year addition to prices of food and non-alcoholic beverages markedly slowed down (4.0%) in Q3 and the development continued similarly in Q4 (1.7%). Sharp slowdown was affected mainly by prices of meat (year-on-year addition 2.0% in Q4) and fruit (9.1%). The growth of prices of baking products and cereals was mild (1.0%). Prices of milk, cheese and eggs went down year-on-year (-1.3%). The prices of food and non-alcoholic beverages were raised by 4.5% for the whole year 2020.

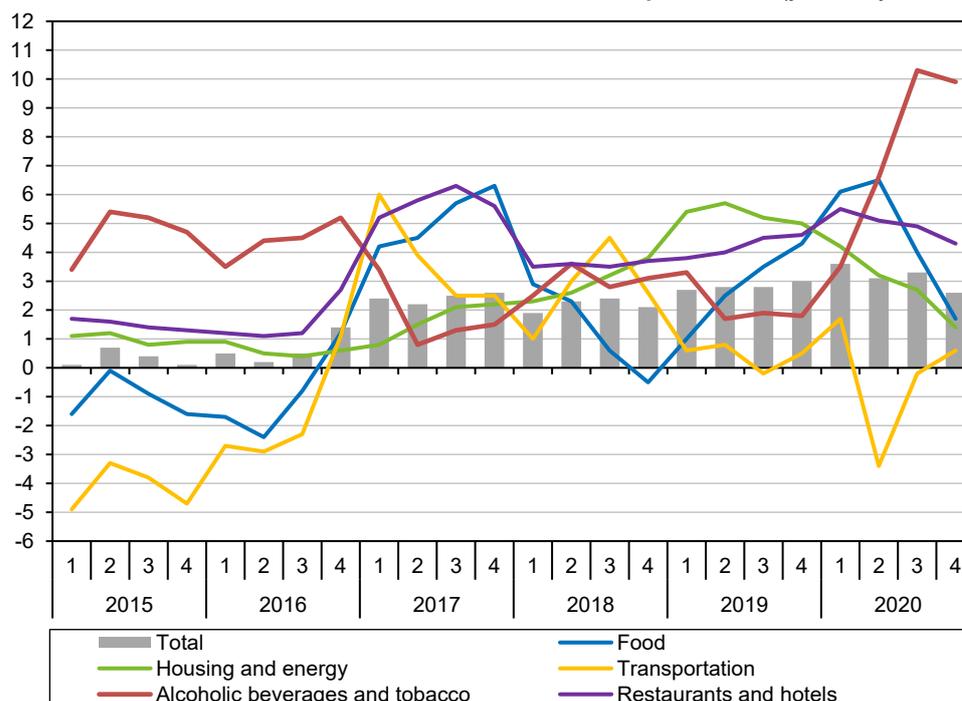
Growth of prices of housing and energies also subsided during the year.

Prices of housing, water, energies, and fuels were rising fast (5.3%) especially in year 2019, because simultaneously the prices of rent, costs of home ownership as well as prices of electricity were also growing. The year-on-year dynamics of prices of housing and energies moderated during the year (year-on-year additions 4.2%, 3.2%, 2.7% and 1.4% in individual quarters) last year. The additions to prices of rents were gradually falling (4.3% at the beginning of the year, 2.0% in Q4), the prices of imputed rent, which captures the costs of home ownership as well (from 3.7% in Q1 to 1.5% in Q4). Growth of prices of electrical energy and heating, gas and other fuels was relatively strong in Q1 to Q3 (4.7%, 3.7% and 3.5%), but it rapidly decreased in Q4 (0.4%). Prices of housing and energies rose by 2.9% compared to year 2019. Prices of rents were raised by 3.1%, imputed rents by 2.4% and energies by 3.1%. The year-on-year growth of prices of regular maintenance and small repairs (3.2%) and other services associated with housing (4.3%) remained relatively significant during the year.

By contrast the prices of alcohol and tobacco contributed the most to the year-on-year growth of consumer prices in Q4.

The increase of the consumption tax was evident for the dynamics of the prices of alcoholic beverages and tobacco immediately at the beginning of the year (acceleration of the year-on-year price increase by 3.5%), especially for the alcoholic beverages. However, due to pre-stocking the increase of the tax on tobacco manifested only in Q2 and prices in the division received another impulse (6.6%). During H2, the dynamics of the prices of alcoholic beverages and tobacco further strengthened to 10.3% in Q3 and 9.9% in Q4. Especially the year-on-year dynamics for tobacco was strengthening (2.6%, 7.5%, 14.0% and 15.1% in individual quarters). Prices of alcoholic beverages and tobacco rose by 7.6% for the whole year 2020 (the most since year 2008), in that prices of alcoholic beverages by 4.8% and tobacco by 9.8%.

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



Source: CZSO

Prices of transport were affected by the slump of oil prices, but also by the increase of prices of motor vehicles.

Division transport observed price turbulences connected first to the record spring slump of prices of oil and subsequently to the raised prices of motor vehicles⁴³ during the last year. Both influences worked in the opposite direction, thus the resulting decrease of prices of transport was only mild in 2020 (-0.4%). In that, prices of transport vehicles went up by 4.6% and on the contrary, prices of their operation dived by 5.7%. In Q4 itself prices of transport slightly increased year-on-year (0.6%), price of transport equipment hiked up by 8.3% and prices of transport vehicle operation remained in deep descend (-6.7%).

While the prices of food service maintained strong year-on-year growth, dynamics of the prices of accommodation weakened.

Food service and accommodation also relatively significantly added to the growth of consumer prices throughout the whole year. Year-on-year additions were stable at around 5% here throughout the most part of the year and weakened only at its end (4.3% in Q4). Prices rose by 4.9% for the whole year 2020. Large increases eventuated for prices of food service (year-on-year growth did not drop below 5.0%), while the growth of the price of accommodation services markedly slowed down from 4.9% in Q1 to 0.1% in Q4. Prices of wearing apparel and footwear climbed by 3.7% in year 2020 (in that by 3.4% in Q4). Increase of the prices of household equipment and appliances

⁴³ Reasons for raised prices were more. On one hand the spring suspension of production in the motor vehicle manufacturers resulted in shortage of new vehicles but import of used vehicles was also disrupted. Pricing also reflected the marked depreciation of koruna against euro. Tightening emission requirements are also a factor, which leads to raised prices in the longer term view.

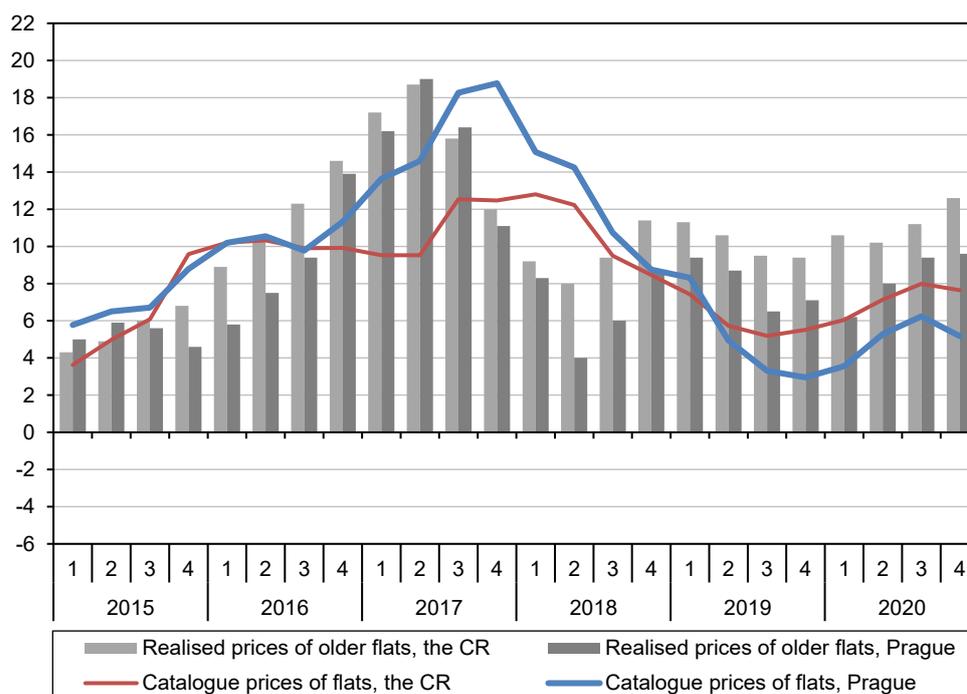


amounted to 2.9% last year (2.8% in Q4). Prices of recreation and culture were raised by 2.2% last year (2.5% in Q4). Postal services and telecommunications were the only part of the consumer basket, where the prices fell last year (-3.6%). However, the decrease has been a long-term trend here. The prices of postal services and telecommunications last increased in year 2006.

Consumer prices in the EU were raised the least since year 2016 last year.

The consumer prices increased by 0.7%⁴⁴ in the European Union last year, which is the least since year 2016, and their dynamics was gradually slowing down in the course of the year. Decline of transport prices (-2.2%), caused by the year-on-year slump of oil prices, but also the halt of growth of prices of housing and energies (-0.1%), which were affected by sharp hikes of electricity prices in the preceding years, drove the price dynamics down. Increase of prices of food and non-alcoholic beverages (2.5%) and alcoholic beverages and tobacco (3.9%) stayed strong. The consumer prices increased the most in Poland (3.7%), Hungary (3.4%) and the Czech Republic (3.3%) last year. Consumer prices decreased in total in eight countries, the most in Greece (-1.3%), Cyprus (-1.1%) and in Estonia (-0.6%). In Q4 itself, the consumer prices rose by 0.2% in the EU. Countries of the central Europe, especially Poland (3.6%), Hungary (2.9%) and the Czech Republic (2.7%) considerably defied the EU average. Prices fell in twelve countries, the most in Greece (-2.2%), Estonia (-1.3%) and in Ireland and Cyprus (similarly -1.1%).

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



Source: CZSO

Growth of prices of flats outside Prague further accelerates.

Year-on-year dynamics of the catalogue prices of flats slowed down after a longer period of time in Q4. Supply prices of flats in the CR rose in total rose by 7.6% year-on-year. At the same time, the pace slowdown only concerned prices of flats in Prague (5.2%), the increase of the supply prices increased to 11.0% in the rest of the Czech Republic. Possible reason is the extra pressure of demand, which shifted into the Prague surroundings, but also the ongoing sharp growth of prices in other large cities, which struggled with slow construction. Also for them, the growth of prices spills into

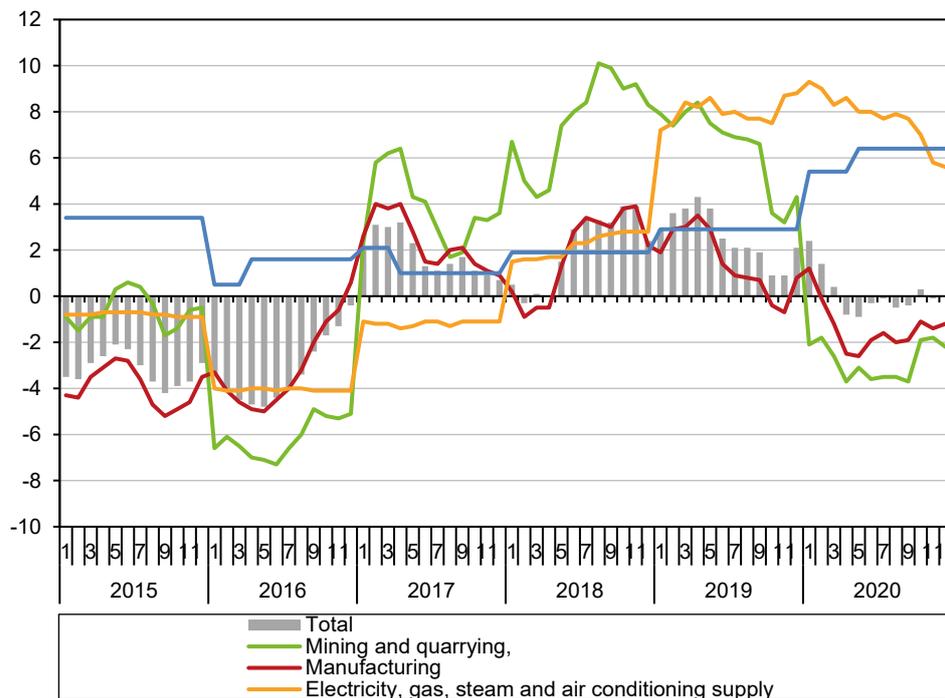
⁴⁴ According to the harmonised index of consumer prices. The index can methodically as well as numerically differ from published national results.

the near vicinity. Realised prices of older flats increased by 12.6% year-on-year in Q4, which is the most since Q3 2017. Prices of flats outside Prague were again the main drivers of growth (13.6%), but the addition to realised prices of older flats in Prague also slightly gained pace. The year-on-year growth of the realised prices of new flats in Prague, which attained 9.2% in Q4, was still kept at a high level.

Industrial producer prices were also impacted by the year-on-year slump of oil prices.

Year-on-year dynamics of the industrial producer prices was affected by the decrease of prices of oil for the most part of the year. The price level remained nearly the same for the whole year 2020 (0.1%) and the industrial producer prices experienced the same year-on-year development also in Q4. Prices of manufacturing products and services, which form majority of the total index, fell by 1.4% last year. Prices of coke and refined oil products⁴⁵ stood behind the majority of this decrease. Last year's decrease of prices of chemicals and chemical products is also linked to the development of oil prices (-8.3%). Prices of basic metals and metal products also went down (-1.6%). Furniture and other products of manufacturing worked in the direction of industrial producer price growth (4.5%, mainly repairs, maintenance and installation of machinery and equipment), transport equipment (2.2%) and food products, beverages, and tobacco (2.1%). Prices of manufacturing goods and services fell by 1.2% year-on-year in Q4 itself, again mainly due to the development of prices of coke and refined oil products. Only prices of chemicals and chemical products exerted downward pressure on prices in Q4 (-7.3%). Prices of transport equipment (year-on-year increase by 3.3%) and furniture and other manufacturing products (4.2%) contributed the most to the growth of industrial producer prices.

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



Source: CZSO

Prices of mining and quarrying were falling year-on-year.

Prices of mining and quarrying dropped in total by 2.8% in 2020 and were also affected by the decreased prices of oil. Since prices of oil and natural gas extraction plunged deeply (-24.2%), coal mining also recorded notable decrease (-5.0%). On the contrary, prices of other mining and quarrying of mineral resources grew by 4.9% (it mostly

⁴⁵ Individual data.



concerns building materials). In Q4 itself, the year-on-year decrease of prices of mining and quarrying moderated to 2.0%. Very strong growth of the prices of electricity continued last year (in total by 7.7%), it however slowed slightly down during the year. Still, the year-on-year addition ended marked 6.1% in Q4. Prices of water supply and wastewater management services rose by 6.1%, in that by 6.4% year-on-year in Q4.

Industrial producer prices were affected by the slump of oil prices in the whole EU.

Industrial producer prices dropped by 2.4% in the EU last year. The slump of oil prices had the main share, which influenced the prices of mining and quarrying (−8.7%), but also prices in manufacturing (−1.6%). Prices of electricity, gas, steam and air conditioning (−5.9%) were also falling. Industrial producer prices fell in the majority of EU countries last year. Ireland (−7.5%), Lithuania (−6.6%) and Denmark (−4.7%) recorded the largest decrease. Prices grew the most in Malta (1.6%), Slovakia and Hungary (similarly 0.8%). In Q4 itself, the prices of producers in the EU fell by 1.6%. Effect of the oil prices slump was evaporating only slowly, thus the decrease in the majority of the EU countries lingered on. The largest drop occurred in Lithuania (−6.7%), Cyprus (−5.9%) and Greece (−5.5%). Prices grew the most in Malta (1.7%), in Hungary (1.5%) and Ireland (1.2%) in Q4.

Year-on-year growth of prices of market services mildly weakened last year.

Dynamics of prices of market services slightly weakened last year compared to year 2019, when the marked growth was associated with the pressure on the labour market and the rise of wages. In total, the prices of market services grew by 2.1% in year 2020. Warehousing and support activities for transportation (increase by 5.2%) and services in the area of programming and consultancy (3.6%) contributed the most to the growth of prices. The effect of prices of services in real estate activities was also significant (2.9%). Addition to prices of services in the area of employment, which are to a large extent linked to the wage dynamics, weakened compared to year 2019, but still remained substantial (5.1%). Prices of advertising and market research fell last year for the first time since 2014 (−0.3 %) and prices of telecommunication services also registered a mild decrease (−0.1%).

Some services reflected the current economic situation.

Year-on-year addition to prices of market services was the highest in Q1 (2.5%), following a mild weakening, the growth kept a stable level for the rest of the year (2.1%, 2.0% and 2.0% in Q2 to 4). The structure of growth did not differ much from the numbers for the whole year. In Q4, warehousing and support activities for transportation (year-on-year addition of 4.9%), services in the area of programming and consultancy and related activities (3.6%) and services in the area of real estate (3.3%) contributed the most to the price growth. Current economic situation was likely reflected in the marked acceleration of the growth of prices for services in activities of head offices and management consultancy activities (7.9%) and on the contrary in the slowdown of services in the area of employment (1.3%). Prices of advertising and market research fell by 1.9% year-on-year in Q4.

Prices of agricultural production fell last year. However, the plunge moderated during the year.

Prices of agricultural production fell by 3.4% in year 2020. In that prices of plant production dived by 4.0% and prices of animal production by 2.4%. Especially prices of potatoes (−19.8%), vegetables and garden products (−9.7%), cereals (−4.9%), and feed crops (−3.4%) were falling in the plant production. In contrast the prices of fruit climbed up (16.5%). With the animal production, prices of farm animals decreased by 2.1% (to a large extent influenced by high basis of year 2019) and animal products by 2.7% (prices of milk dropped by 3.4%, while the prices of eggs went up by 4.0%). In Q4, prices of agricultural production decreased by 3.2%. Year-on-year downswing of prices of plant production weakened during the year and attained only 0.1% in Q4. Cereals (among them especially wheat), which from significant plunge at the beginning of the year moved into the year-on-year growth of 3.1% in Q4, stood behind it. Prices of industrial crop increased by 3.6% in Q4 and fruit by 9.4%. Towards the end of the year, prices of feed crops

(-9.9%), vegetables and garden products (-7.2%) and potatoes (-25.3%) were falling. Prices of animal production decreased by 8.0% year-on-year in Q4. In that plunge of prices of farm animals reached 13.9%, mainly due to the impact of development of prices of pigs and piglets (-25.0%). Prices of milk decreased by 2.8% year-on-year in Q4 and prices of eggs by 1.5%.

Export prices increased last year. Depreciation of koruna foreign exchange also had a share in it.

Development of prices of foreign trade was strongly affected by the depreciation in the value of koruna against the euro, which considerably subdued the pressures on the decrease of prices. Export prices thus increased by 1.1% in 2020. Food and live animals (increase 3.5%), beverages and tobacco (5.4%), machinery and transport equipment (2.8%) and industrial consumption goods (2.9%) worked in the direction of increase of prices. Prices of export of mineral fuels and grease (-15.8%) and other materials⁴⁶ (-6.4%) markedly slumped, but prices of chemicals (-2.6%) and semi-finished products⁴⁷ (-0.5%) also fell. In Q4 itself, the year-on-year growth of prices of export strengthened to 2.5%, especially under the influence of raised addition to prices of food and live animals (4.2%), machinery and transport equipment (3.9%) and industrial consumption goods (2.8%). Prices of other materials (3.6%) as well as semi-finished products (1.4%) transferred from year-on-year decrease into a solid growth. Already strong increase of prices of beverages and tobacco mildly strengthened (5.6%). Prices of mineral fuels remained in deep plunge (-10.2%).

Import prices fell last year, mainly due to the impact of prices of mineral fuels.

Prices of import fell by 1.1% in 2020. Because the prices of mineral fuels plunged deeply (-24.6%). Prices of other materials also decreased (-3.5%). Decrease was also registered for chemicals (-2.4%), beverages and tobacco (-1.1%) and semi-finished products (-0.9%). Similarly to the export, the prices of imported food also strongly grew (3.6%), prices of machinery and transport equipment (2.2%) and industrial consumption goods (1.8%) also increased. In Q4, the prices of import lowered by 0.3% year-on-year. Further prices of mineral fuels were also falling (-18.8%) and food and live animals also moved into decrease (-1.3%). On the contrary, after longer period of decreases the price of beverages and tobacco started to grow year-on-year (2.5%). Prices of import of semi-finished products rose by 1.3%, machinery and transport equipment by 1.6% and industrial consumption goods by 2.1%.

Substantial difference between the development of prices of export and import led to positive terms of trade.

Terms of trade of the foreign trade with goods attained 102.2% last year. Terms of trade with mineral fuels (111.7%), beverages and tobacco (106.6%), industrial consumption goods (101.1%) were positive. Mildly positive were also terms of trade with machinery and transport equipment (100.6%) and semi-finished products (100.4%). Terms of trade with other materials were negative last year (97.0%) and terms were also mildly negative with chemicals (99.8%) and food (99.9%). In Q4 itself, the terms of trade of the foreign trade reached 102.8%, especially due to the trade with mineral fuels (110.6%), food (105.6%), other materials (103.2%), beverages and tobacco (103.0%) and machinery and transport equipment (102.3%). Terms of trade with chemicals were negative (98.0%).

⁴⁶ SITC 2 – crude materials, inedible, except fuels

⁴⁷ SITC 6 – market products classified chiefly by material



6. Labour Market

Number of workers decreased last year the most since year 2009. Impacts of spring counter pandemic measures were larger than for restrictions introduced in the last part of the year.

Total employment⁴⁸ dropped by 1.5%⁴⁹ year-on-year last year. Deeper downturn afflicted domestic economy in the last two decades only in year 2009 (−1.8%). This result reflected impact of both spring and autumn waves of anti-pandemic measures when businesses as well as whole branches were suspended. During Q2 2020, the number of workers plunged by 1.5%, which represented the deepest quarter-on-quarter decline in the available time series (beginning by year 1995). Easing of majority of restrictions resulted in stabilisation in the subsequent quarter (+0.2%). The deterioration occurred again in the last part of the year. The depth of quarter-on-quarter reduction was however milder compared to the spring period here (−0.5%), because among other things, the continuity of production in manufacturing wasn't significantly disrupted any more.

Employment reduction was driven the most by manufacturing and branches tied to tourism last year.

Employment development on the branch level was considerably differentiated for the whole last year. Manufacturing, which lost 3.3% of employees in 2020, contributed to the decrease of the number of workers in the whole economy by nearly one half. Not even the motor vehicle manufacturers and their closest subcontractors were spared a notable reduction of employment⁵⁰. However, the economic situation in industry improved in Q4 and the growth of new orders caused the year-on-year decrease of employment did not deepen any more. Segment of trade, transport, accommodation, and food service was on the contrary hit by the autumn wave of government restrictive measures very severely. Employment plunged by precise 5% here and in Q4 already contributed to the reduction of jobs in the whole economy more than the whole industry itself. Branch professional, scientific, technical, and administrative and support service activities, which reduced workers by 4.6% last year - the most in the era of the independent CR – was also hit strongly. It contrasted with the development in the long-term evolving information and communication, whose significance was further strengthened (thanks to the measures adopted to limit personal contacts – home office work, distance learning). Last year's growth of employment compared to strong rates of growth from the last four years (4 to 5%) did not slacken much. Public services also did not divert from the longer term trends last year. Here, mainly education (and to a lesser extent also the health and social care) contributed to higher employment. Among branches outside the services sector, workers were added also in construction (+1.5%, the most in the last decade).

Growth in the area of ICT and public services on the contrary continued. Construction was also acquiring new workers.

Number of employees shrank relatively more than number of entrepreneurs last year.

In the year 2020, both the number of employees (−1.5%) and entrepreneurs (−1.2%) decreased⁵¹. Adverse development of self-employed in manufacturing or in activities tied to tourism was partially offset by higher entrepreneurial activity in construction or ICT. Fact, that the number of entrepreneurs did not fall even more does not mean, that this segment of the labour market was not considerably hit by the anti-pandemic measures. The average weekly number of worked hours of entrepreneurs (in main employment) during the both spring and autumn wave plunged by more than 10% year-on-year, in April only even by 31%. For the whole year, the reduction of number of hours worked by entrepreneurs was 10% – double the number for employees⁵². The total number of hours worked in the whole economy slumped by record 6% last year. It represented three times deeper decrease compared to the crisis year 2009.

Entrepreneurs worked by 10% hours less year-on-year last year, employees by 5%.

⁴⁸ Unless stated otherwise, data regarding employment used in this chapter are given in the national accounts conception and are adjusted for seasonal effects.

⁴⁹ Employment reduced similarly in the EU last year. The largest slump struck Spain (−4.2%), employment decreased between 2 and 3% in Italy, Latvia, Estonia or Hungary. Above average decrease was reported for instance by Slovakia (−1.9%) and Austria (−1.7%). Workers increased only in Malta (+2.6%), Luxembourg (+2.0%) and negligibly also in Poland (+0.1%).

⁵⁰ Based on the business statistic figures, the registered number of employees in the manufacturing of motor vehicles fell by 3.8% last year (and even by 5.7% in the electrotechnical industry). Strong reduction also hit machinery (5.6%). Some fields with products of short term consumption fared better (food industry, pharmacy).

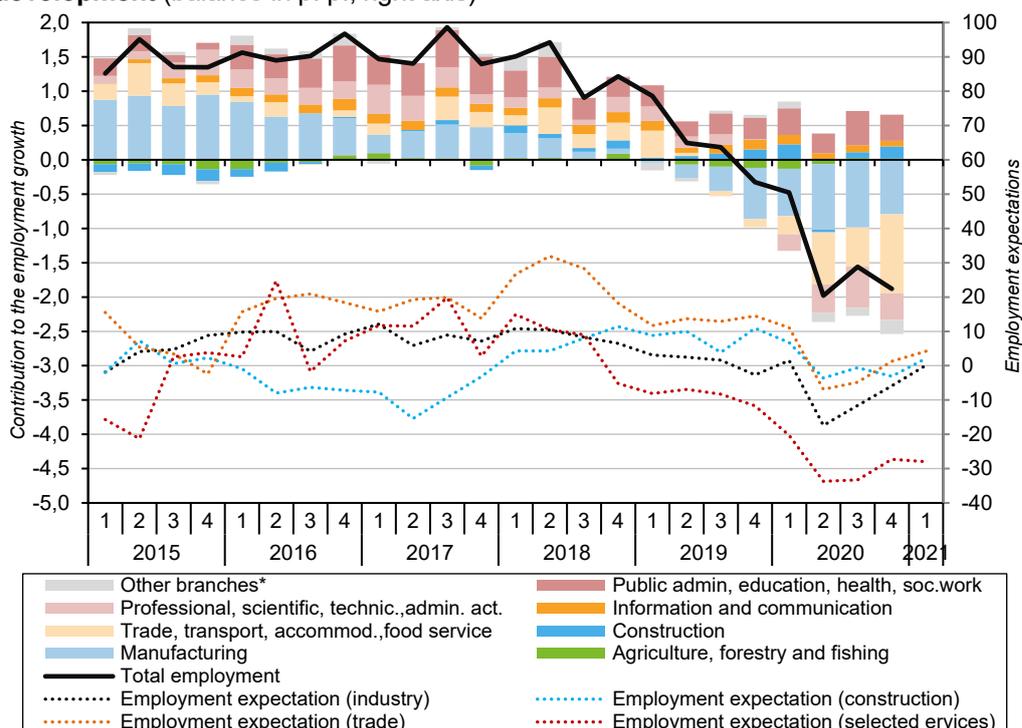
⁵¹ More detailed data from household surveys show, that decrease occurred for entrepreneurs with employees last year (−11 thousand persons), on the contrary for own-account workers or family workers significant shifts were not apparent.

⁵² Members of producers' cooperatives are also included. Data are sourced from the Labour Force Sample Survey (LFSS).

Negative employment expectations deepened in services during Q4. On the contrary the pessimism fast subsided in industry.

After the summer recovery, the short term expectations of businesses in the area of employment worsened in the majority of main branches during the last year's quarter (mainly in selected services). Still, they were more favourable compared to the peak of the spring crisis. Different situation occurred in industry, which was not directly affected by the autumn controlled slow down. The employment outlooks accompanied by simultaneous growth of new industrial orders improved here in Q4. Based on the business cycle survey from January 2021, one third of businesses in selected services⁵³ anticipated reduction of the number of employees in the subsequent three months⁵⁴. It was only 12 % in construction, similarly to both trade and industry – there even slightly prevailed the proportion of businesses anticipating an employment growth.

Chart 12 Total employment (year-on-year in %), contributions of branches to year-on-year change of employment (in p.p.) and expectations of employment development (balance in p. p., right axis)



*Mining and energetics; Financial and insurance activities; Real estate activities; Arts, entertainment and recreation activities.
 Note: Balance of expectations expresses the difference (in p.p.) between categories growth vs. decrease of employment in the nearest three months. Data are seasonally adjusted and relate to the second month of the given quarter.
 Source: CZSO (national accounts, business cycle surveys)

Unemployment rate went up only slightly during the year 2020. Faster grew the unemployment of females, situation of young persons on the labour market also worsened.

General unemployment rate⁵⁵, which was still in the near proximity of its historical minimum throughout the whole Q1 2020, was rising only slowly for the most part of the last year. It amounted to 2.8% for males, 3.8% for females in December 2020, by 1.0 p.p. year-on-year, resp. 1.4 p.p. more⁵⁶. The difference in dynamics between genders was apparent especially in Q4 2020. Larger losses of job positions, mainly in the areas connected to tourism and leisure time activities, generally weakened the position of young persons on the labour market. Unemployment rate of persons aged up to 25 years rose to 10.5% at the end of last year (in that to 12.7% for females). It represented more than double the level from the previous year and at the same time a maximum since October 2016. Proportion of young persons on

⁵³ Include all branches of services except for public services and also trade, which is monitored as a separate category.
⁵⁴ Data are not seasonally adjusted. Seasonal effect is however apparent among the observed branches only for construction.
⁵⁵ For persons aged 15–64 years, value after seasonal adjustment. Unless stated otherwise, all unemployment figures are from LFSS.
⁵⁶ The unemployment rate in the age group 15–74 years was 7.0% for males and 7.7% for females in the EU at the end of year 2020. Unemployment of males in the CR attained a minimum among the EU states (already for seven years), unemployment of Czech women was the second lowest in the Union (after Poland with 3.0%). In the EU (similarly to the CR) the negative impacts of the pandemic crisis on the labour market were mitigated by government intervention programmes. The total unemployment rate thus increased “only” by 0.8 p.p. in the Union compared to the end of year 2019, i.e. less than during years 2009 and 2012. Unemployment grew by more than 2 p.p. only in Lithuania, Estonia, Spain and Sweden last year.



total number of unemployed however did not increase much⁵⁷. It was also valid in case of long-term unemployed persons, who comprised only 21.5% of all unemployed in Q4 (one of the lowest values since half of the 90s). Unemployment rate among the Czech regions increased the most year-on-year in Karlovy Vary region (by 2.3 p.p., to 6.1%), where both the plunge of tourism and worsened conditions for cross-border workers became evident last year. Variations between regions however remained relatively small. Less than 2% unemployment rate persisted in the Pardubický and Zlínský regions, which are also characterised by milder specialisation on industry.

Government stabilisation programmes, the wider offer of jobs in the services sector or gradual revival of industry worked against a higher growth of unemployment.

Especially government stabilisation programmes (Antivirus⁵⁸, care benefits⁵⁹) functioned against more perceptible growth of unemployment. The fact, that part of the labour market was not affected too much by the adverse development last year also played a part. Some people, who lost job, could thus (at least temporarily) find employment in another field, especially in regions with wide range of positions in services (e.g. in Prague). Fast recovery of industry could however also have an effect. Concerns of households about the spike of unemployment sharply contrasted with the subdued growth of the real unemployment. Concerns reached the highest level since the beginning of year 2009 during Q4 2020⁶⁰.

Number of job vacancies was slightly falling year-on-year since April 2020.

Job offices in the CR were offering 319 thousand job vacancies at the end of year 2020. It was less than in both December 2018 and 2019. Number of vacancies was falling year-on-year already since April 2020, the strongest reduction occurred in September and October (by nearly 30 thousand.). From the view of educational requirements, mostly positions for apprentices shrank for the whole last year (by 25%), on the contrary positions for people with maximum primary education registered only a small decrease (by 3%, to 238 thousand.)⁶¹ for the whole last year. Among the main groups of employment, the supply of vacancies for service and sales workers went down (by 11%) as well as machine operators and assemblers (also by 11%). Reduction of number of vacancies was in effect all-encompassing, the only positions which grew were positions for qualified workers in agriculture and forestry. Total number of job vacancies in December 2020 was still higher than the number of registered applicants for work (292 thousand). For persons with higher than primary education however, already 2.6 applicants belonged to one corresponding position, the most in the last four years.

Job vacancies for apprentices reduced the most. Supply of vacancies for foreign workers however remained high.

Number of economically inactive expanded last year the most since year 2008. Increase was evident mainly in both outer age spectra of the productive age.

Changes on the labour market were rather than in the unemployment reflected in the expanding ranks of economically inactive in 2020. Their increase was the largest for the last decade last year (+1.8%)⁶². In Q4 itself, the growth was evident mainly for persons under the age of 30 years (also due to the limited supply of temporary and part-time jobs), partially also for persons in the age group above 60 years (especially males). It cannot be ruled out, that some of these persons withdrew from the labour market only temporarily. Number of inactive persons not seeking job, but wishing to work, ceased its decrease year-on-year for the first time after four years last year. This group contained nearly 100 thousand persons in Q4. Majority of them however was not able to immediately enter employment.

⁵⁷ Absolute numbers of unemployed aged up to 25 years stay low in the long term (it was 26 thousand persons in December 2020). Large majority of young persons of this age traditionally remains in the CR (as opposed to many countries of both western and northern Europe) economically inactive.

⁵⁸ Within the Antivirus A + B programme, 28.9 CZK bn was expended from the MLSA budget from March till December 2020. In total, 953 thousand job positions were partially supported this way. Majority of businesses asked for a contribution on the payment of wage compensations to employees in individual months repeatedly. Drawing on support weakened during summer (in Q3: 2.7 CZK bn), it however rose at the end of the year (Q4: 9.5 CZK bn).

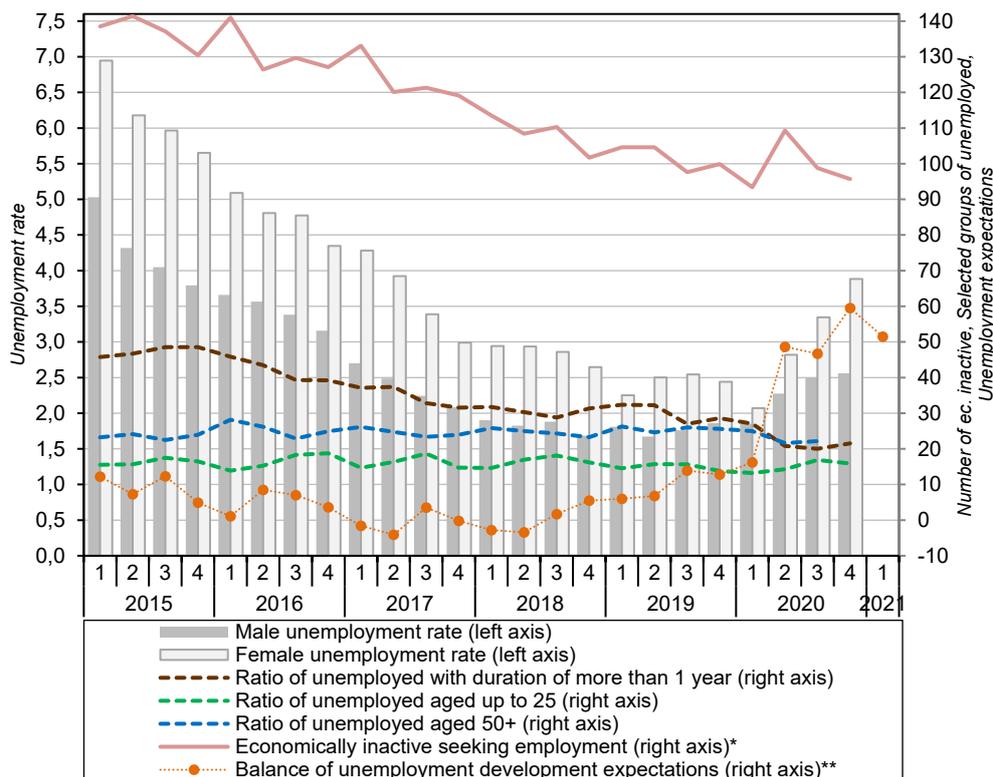
⁵⁹ Drawing on care benefits was (mainly for the reason of closed schools) 11.4 CZK bn for year 2020, but only 1.7 CZK bn in the previous year.

⁶⁰ Proportion of households expecting a growth of unemployment in the next 12 months was by 60 p.p. higher than the proportion of those, who anticipated decrease.

⁶¹ Employers aim these vacancies for the most part at foreign workers. Number of foreigners registered by labour offices in the CR following a short decline in the spring months (also caused by the suspension of issuance of majority of work permits) again grew in Q3 2020 and total 644 thousand persons with the permission to serve in the CR in the employee position (by 22 thousand more year-on-year) were registered at the end of year 2020.

⁶² Even though the number of inactive grew also during the major part of year 2019, significant pace acceleration occurred only last year. The year-on-year increase attained 59 thousand persons at the beginning of year 2020, already 86 thousand (the most in the history of the CR) in Q2 and the addition was also around 50 thousand for the remaining part of the year.

Chart 13 ILO unemployment rate (in %), ratio of long-term unemployed and persons up to 25 and above 50 years of age among unemployed (in %), economically inactive willing to work (in thousand)* and unemployment expectations of households (in %)**



Note: Figures regarding the unemployment rate are seasonally adjusted, other data are not.
 *Persons not in employment, not seeking work, but expressing the willingness to work.
 **Seasonally adjusted balance of expectations of unemployment in the next 12 months (difference between percentage frequency of answers of households “growth” and “decrease” expressed in percentage points. Data relate to the middle month of the given quarter.
 Source: CZSO (LFSS, business cycle surveys)

Wage development was affected both by the long-term factors and extraordinary anti-pandemic measures.

While for employment as well as unemployment, the last year was in the spirit of gradual milder changes, development in the wage area featured turbulent signs. For the reasons of quarantine measures as well as the longer term decrease of demand, many branches experienced restriction or complete closure of establishments, which was negatively mirrored in the real hours worked. Volume of paid out wages was also influenced by the government protection programmes⁶³. In addition, the wage development also reflected the long term factors, e.g. increase of the minimum wage or labour market rigidity (concluding longer term internal contracts regarding the growth of wages or “tariff compensation system” in the non-business sphere).

Impacts of restrictive measures on the wage development were in Q4 shadowed by the payment of bonuses in health care as well as the continuing recovery in industry.

While the average wage grew by mere 0.7% in the economy year-on-year in Q2 2020 (and compared to the previous quarter it dropped by unprecedented 3.1%), the pace fastened to 6.5% in Q4. Such diverse results arose in the periods of the year when the performances of businesses were most affected by the consequences of the government restrictive measures. Restrictions in Q4 however marked the wages in the whole economy less than in Q2, since the payment of extraordinary bonuses in the health care as well as the continuing recovery in industry (weight dominant branch) had a strong positive effect. The average monthly nominal wage of employee in the economy attained 35.6 thousand in the year 2020. It thus increased by 4.4% year-on-year, the least in the last four years. Largely uneven impact of anti-pandemic measures as well as varying adaptability

⁶³ State contributed to some extent to businesses affected by the impacts of the coronavirus crisis on employee wages (programme Antivirus) under fulfilment of certain conditions (e.g. preservation of job positions). People drew these compensations of wages on the basis of barriers to work connected to the pandemics. On the contrary, persons who didn’t work for the reasons of receiving care benefits or ordered quarantine, drew transfers from state, which are methodically not part of wages (their drawing thus worked against the growth of the average wages).



of different segments of the labour market (e.g. link of the volume of earnings to number of hours worked) was mirrored into a substantially differentiated development of wages on the level of individual branches last year.

Average wage fell and number of employees slumped in accommodation, food service and restaurants

In the last year, the average wage fell by 2.1% in the most considerably struck accommodation, food service and restaurants (the most in the 20-year time series) and its monthly level dropped below 20 thousand crowns. Fact, that this branch lost almost one seventh of all employee positions during year 2020 illustrates its difficulties. Limitation of leisure time activities was also adversely reflected in the wages of employees in the cultural, entertainment and recreation activities (+1.6%). Manufacturing also recorded only weak growth of average earnings last year (1.4%). Its position however improved in the second half of the year⁶⁴. Similar revival did not occur in transportation and warehousing, where the wages grew by 1.6% for the whole year. It also concerned trade, where the wages strengthened the least in the last seven years (+1.7%). Construction, which simultaneously did not lose large numbers of employees fared better (+3.1%). Earnings in professional, scientific, and technical activities grew below average last year (+3.3%), similarly to the preceding four years. The wage level here however in contrast to the all above mentioned branches still exceeded the level of the whole economy (42.1 CZK thousand).

In trade, manufacturing, transportation and warehousing wages grew the least since 2013.

Wage growth was driven by strong dynamics in the majority of branches of the non-business sphere for the whole year.

Core of the wage growth resided in the branches of the non-business sphere for the whole year 2020. Earnings grew on average by 13.8% in health and social care (by record 31% in Q4⁶⁵). Due to the increase of the wage tariffs, education also recorded a swift growth (+7.8%). Among branches outside the public services, the wages grew the most in administrative and support service activities (+9.5%), which was associated with large reduction of especially low income workers within the job agencies. The effect of the “employee structure shifts” influenced the average wages dynamics also in another „low income“ branch – real estate activities. Long-time growing significance of information and communication, further strengthened in the pandemic period⁶⁶, was also mirrored in average wages (+5.6%). Level of average wage was the highest among the branches here (62.1 CZK thousand). It thus deviated from financial and insurance activities (59.4 CZK thousand), where the wage dynamics remained low (+0.6%). Energetics also features high wage levels (52.2 CZK thousand). Its growth moved within limits of years 2018 as well as 2019 (around 6%), despite the fact, that performance of this branch was marked by the spring freeze of the economy.

Swift growth of earnings persisted in energetics and ICT area.

Wage median grew faster for females than males last year.

Wage median attained 35.1 CZK thousand for males, 30.3 CZK thousand for females in Q4 2020. Earnings of females strengthened relative more (similarly to the whole last year). It was connected to the swift wage growth in the public services. The fact that females were losing jobs more frequently last year (they are generally more represented among workers with low wage level) could have also played a role. Four fifths of all employees received average monthly wage between 16.4 CZK thousand and 63.8 CZK thousand in Q4. In Q4 earnings of low income workers grew slower compared to those high income (similarly to the Q2, affected by the anti-pandemic measures). Wage differences thus widened. In contrast, the wage range narrowed in the rest of the year (Q1, Q3).

Wage differences widened both in Q2 and Q4.

Real growth of average wages weakened to seven-year minimum last year.

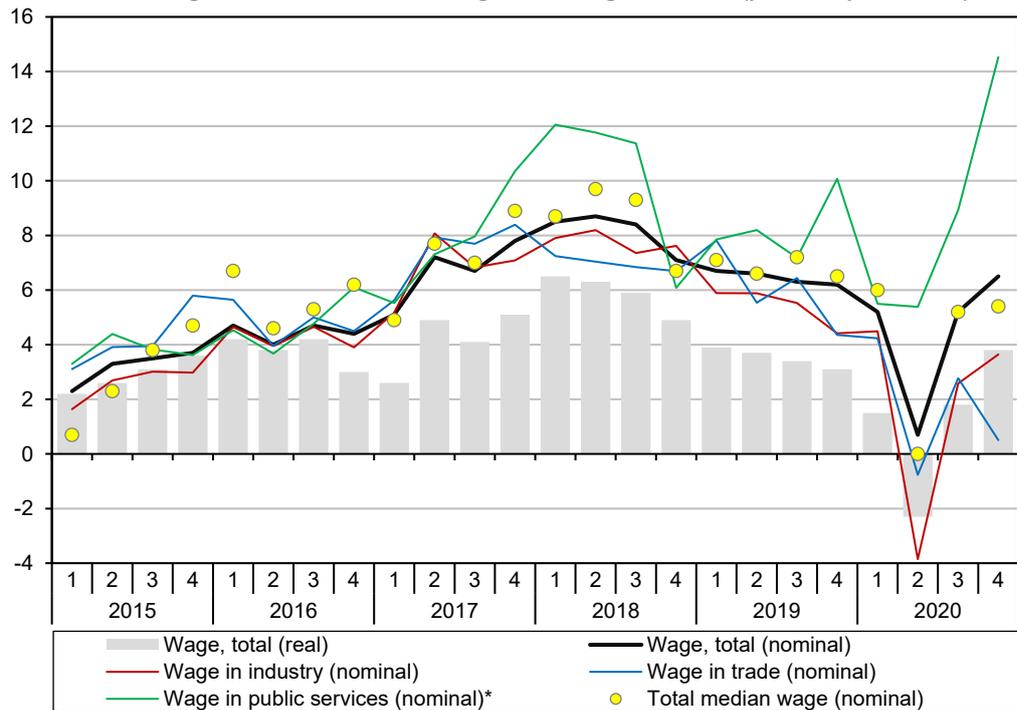
Real year-on-year growth of average wages following a temporary decline in Q2 (first after year 2013) renewed in the second half of the last year. It was also assisted by more significant of the rate of growth of the consumer prices in the last months of the year. Despite of this, the growth of purchasing power of average employee earnings ended on seven year minimum (+1.2%) in 2020.

⁶⁴ The wage growth accelerated to 5.9% in the segment of motor vehicle manufacturing in Q4 2020, earnings for the whole year however increased only by 0.3% here.

⁶⁵ Payment of extraordinary bonuses to medical staff in connection to higher performance during spring pandemic wave was apparent. Excluding this branch, the wage growth in the economy would oscillate only slightly above 4% in Q4.

⁶⁶ It represented one of few main economic branches, where the last year's number of hours worked by employees increased (+1.6%).

Chart 14 Average nominal and real wage and wage median (year-on-year, in %)



* Includes branches: Public administration, defence, social security; Education Human health and social work activities;
Source: CZSO



7. Monetary Conditions

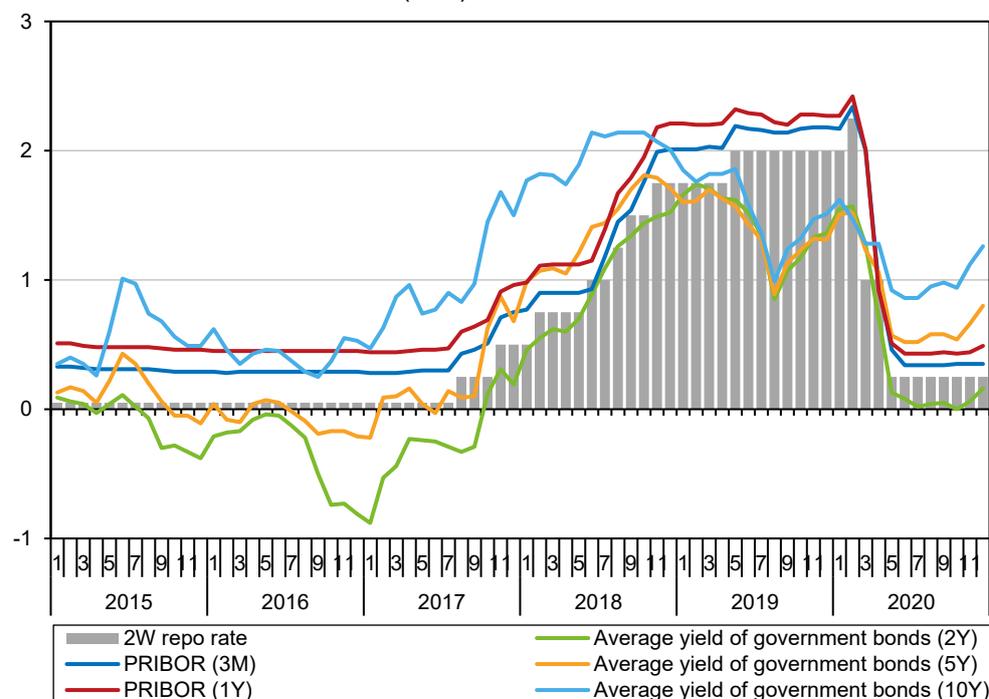
Repeated lowering of monetary policy-relevant rates occurred in year 2020.

Economic development was markedly turbulent in year 2020, which also left its mark on the development of main monetary policy-relevant rates. At the beginning of the year, the rates were raised still in reaction to the inflationary pressures in the economy (maximum was 2.25 for the 2W repo rate)⁶⁷. The arrival of the crisis however led to the fast easing of the monetary policy – repo rate was lowered to 1.00% in March and to 0.25% in May. Repo rate remained unchanged at this level until the end of the year. At the same time, the discount rate was set to 0.05% and Lombard rate to 1.0%. The economic situation also notably influenced the development of the koruna foreign exchange. Koruna sharply depreciated against both euro and dollar during March. In case of the dollar foreign exchange, the trend headed to the repeated strengthening and the koruna foreign exchange against dollar was already stronger year-on-year at the end of the year (foreign exchange reached 21.39 CZK/USD at the end of the year). Mild correction also took place in case of foreign exchange against euro; however the foreign exchange did not drop below the level of 26 CZK/EUR since 13th March 2020. It resulted in pressures on the growth of prices of goods traded in euros.

Government bond yields increased towards the end of year.

Interbank interest rate PRIBOR is closely tied to the monetary policy-relevant rates, and thus it practically did not change since June. Three-month PRIBOR rate was 0.36% at the end of year 2020 (it was 2.17% at the end of year 2019). The yields on domestic government bonds were comparatively strongly changing during the year. In January, the interest rate on short term bonds amounted to 1.55%, 1.51% on those with medium term maturity and 1.62% on long term bonds. Rates for all maturities were then falling during the year and hit the bottom in October (0%, 0.54% and 0.94% for individual maturities). Afterwards, rates relatively fast grew towards the end of the year. As of 31. 12. 2020, the average yield of short-term bonds reached 0.16%, medium term bonds 0.8% and long-term bonds 1.26%.

Chart 16 Market interest rates (in %)



Source: CNB

⁶⁷ Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. Values of foreign exchange rates are also sourced from the CNB.

Interest rates on term deposits markedly decreased.

The decline did not avoid even some client interest rates, especially those on the term deposits. On the deposits of households on current accounts, the rates practically did not have further space for decline (they are below 0.1% since the beginning of year 2016 and were on average 0.02% at the end of December 2020). On the other hand, the rates on deposits with agreed maturity grew during the years 2018 and 2019. They could thus be amended very fast last year in reaction to the decrease of the main economic rates (the average interest rate on deposits with agreed maturity was 1.43% at the end of March, it was already 0.6% at the end of June). The average interest on these deposits arrived at 0.59% at the end of the year. Rates for deposits with maturity up to 1 year were falling the most – the banks likely assumed, that the level of interest will go up in the nearest future. Non-financial businesses could only shortly benefit from the increase of rates on current accounts – they again dived nearly to zero during the last year. At the same time, the interest rates on deposits with agreed maturity of non-financial businesses considerably fell – even more than to households (the average interest reached 0.16% at the end of December, by 1.36 p.p. less year-on-year at the end of December). The change of rate manifestly affected the volume of terms deposits – they were shrinking year-on-year from Q2. The view of the household deposits is also interesting – substantial increase of their volume in line with the increased savings rate, which is connected to the limited opportunity of consumption by the adopted restrictions on the operations of retail and services, can be observed since Q2.

Credit financing for households became cheaper further.

Slight decrease was also apparent on the interest rates of credit for households during the year. Cut interest on consumption credit is long term and year 2020 followed in this trend. The average rate was 7.69% at the end of December, which is by 0.59 p.p. less year-on-year. Interest on mortgages were also cut last year. At the end of the year, it was on average 2.1%, which is by 0.39 p.p. less year-on-year. Dynamics of consumer credit substantially slowed down since Q2 as expected. Combination of limited consumption as well as considerable uncertainty of households slashed the year-on-year addition to the volume of consumer credit down to 2.6% at the end of the year. On the contrary, the year-on-year pace of the growth of volume of mortgages remained relatively high (it did not drop below 7.5% during the year and accelerated to 8% in H2). As a result, the indebtedness of households grew by a similar rate of growth as in the previous years (as of 31. December, it was by 6.1% higher year-on-year). Indebtedness for consumption was thus lower by 0.1% year-on-year at the end of the year and mortgage debt by 8.0% higher.

In many branches, the credit dynamics considerably stepped on the brakes.

Average interest rate of credit to non-financial businesses was falling during the year and hit the bottom in Q3. It however sharply increased at the year's end. This development was mostly influenced by the category of credit above 30 CZK mil. Here, the interest dropped down to 1.15% in Q3, but climbed up to 1.72% by the end of December. Credits between 7.5 and 30 mil also featured similar dynamics (interest rate fell to 2.3% here by the end of September but increased again up to 2.54%). On the contrary, the interest on credit up to 7.5 CZK mil was falling during the whole year. It was 3.26% by the end of December 2020 and lowered by 0.85 p.p. year-on-year. Total volume of credit and receivables of the non-financial businesses was gauged at 1 123.0 CZK bn at the end of 2020 and went up by 2.3% year-on-year. While the volume of credit and receivables in CZK was falling year-on-year since Q2, the volume of credit in foreign currencies again substantially accelerated, mainly the short term⁶⁸ and long-term credit. Volume of provided credit was lower year-on-year towards the end of 2020, especially in branches production and distribution of electricity, gas, heat, air, water (–20.8%), in cultural, amusement, recreational and other activities (–13.8%),

⁶⁸ Steep growth of the volume of short term credit in foreign currency was associated with anticipated appreciation of the foreign exchange (for instance before completion of interventions in 2017) in the past. In year 2020, the depreciation of foreign exchange against euro and dollar had rather temporary character, which enhanced speculations.



wholesale and retail, repairs and maintenance of motor vehicles (−4.5%) and information and communication (−4.3%). Growth of credit to manufacturing was markedly slowing down during the whole year (volume was by 0.9% higher year-on-year at the end of December). Pace in contrast strengthened for transportation and warehousing and accommodation (up to 11.0% at the end of year) and food service and restaurants (19.7%).

8. State Budget

Size of last year's state budget deficit as well as its year-on-year deepening was record in the history of the independent CR.

In 2020, the state budget (SB)⁶⁹ ended in deficit in the amount of 367.4 CZK bn, which was by nearly 340 bn deeper year-on-year. Its value as well as the year-on-year increase were unprecedented in the history of the modern CR. Even though the deficit was reached in all last year's months, its size was majorly determined by the anti-pandemic measures, which radically restricted the economic activity especially in the area of market services in both spring and autumn wave⁷⁰. Together with the reliefs to business entities, it led into a notable reduction of the tax collection. Simultaneously an acute need arose to strengthen the outlay transfers for the support of the hit branches as well as workers, but also for the compensation of higher claims especially in the area of health care.

State-wide tax collection decreased by 5.7% for the whole last year, mainly due to the slump in Q2.

Following two preceding years of strong growth, the total SB revenues decreased by 3.1% year-on-year in 2020. Substantial fallout of tax incomes (in the amount of 46.5 CZK bn) as well as collection of insurance on social security (–11.3 bn.) was evident. Total state-wide collection of taxes (without insurance) at the level of all public budgets fell by 5.7%⁷¹ year-on-year for the first time since 2009 last year. While in Q1 2020, this collection was still growing (+4.6%), in Q2 the slump already occurred (–12.6%). Certain stabilisation eventuated in the subsequent quarter (+1.3%), which despite repeated adoption of anti-pandemic measures continued in the remaining part of the year (+0.3%). Increasing inflow of funds from the EU budget and transfer of funds from the privatization account supported last year (similarly to year 2019) the SB revenue side.

State-wide collection of corporate tax fell by one eighth last year, the most since year 2009.

Fallout of the collection of corporate tax left the largest mark on the last year's decrease of the total SB revenues. It was lower by 15.1 CZK bn (contrary, it grew by 6.0 bn for year 2019). Waiver of the July tax advance payment as well as the option of individual setting of tax advance payment mainly had an impact (total effect –20.3 bn). State-wide collection of the corporate tax decreased by 12.2% year-on-year, that is more than in year 2013 (–5.7%), but at the same time much less than in the crisis year 2009 (–34.5%). Positive fact was, that the collection of tax grew year-on-year in Q4 2020 itself (+16%). It could have been linked to the recovery of industry. However, adverse results of the budgets of businesses in the branches of services the most hit by the anti-pandemic restrictions have not been fully reflected by far in the corporate tax collection⁷².

Collection of income tax of natural persons was mainly affected by the paid out compensation bonuses. Tax collection mildly grew in H2 of the year.

SB gained by 5.3% (resp. 7.5 CZK bn) less year-on-year on the income tax of natural persons (NO) from the taxpayers. State-wide collection of this tax was decreasing by a similar rate of growth and thus fell for the first time in the last eleven years⁷³. Direct support in the form of paid out compensation bonuses, especially to self-employed persons (in the total amount of 16.1 CZK bn) played a key negative role here. Higher number of persons caring for a child in the period of closed schools, reduced total employment as well as the lower dynamics of the average wage growth in the economy also had an effect. Annual collection was majorly affected by the slump in Q2 2020, the collection slightly increased year-on-year in the following two quarters (+4%). SB revenues from other taxes from NO reduced by one eighth in year 2020. Collection of taxes from tax returns (paid by taxpayers) was the lowest in the last four years (4.6 CZK bn), mainly due to waiving part of advance tax payments (alternatively their lowering) and also by the repeated increase of outlay flat rates. On the contrary, the SB acquired by 3%

⁶⁹ Unless stated otherwise, all figures related to the state budget stem from the data of the Ministry of Finance of the CR regarding the cash fulfilment.

⁷⁰ SB deficit deepened by 63.7 CZK bn during May only, by further 67.5 bn in November.

⁷¹ The depth of slump in 2009 was however compared to the last year more than double (–11.6%).

⁷² Small and medium businesses are more frequently represented in this segment, who with the view to the size of their sales often do not have to be regular payers of the tax advances. Their adverse economic results will thus be fully reflected in tax collection only in summer 2021 (at annual tax settlement).

⁷³ Deeper year-on-year plunge of the collection of this tax occurred last in year 2008 (by 8.9%). The introduction of even 15% tax from the super-gross wage had a major effect at that time.



more year-on-year⁷⁴ on the revenue tax of NO (withholding tax). Number of part time jobs (contracts for work) and also the total amount of household savings and change of client interest rates had effect on the size of this tax.

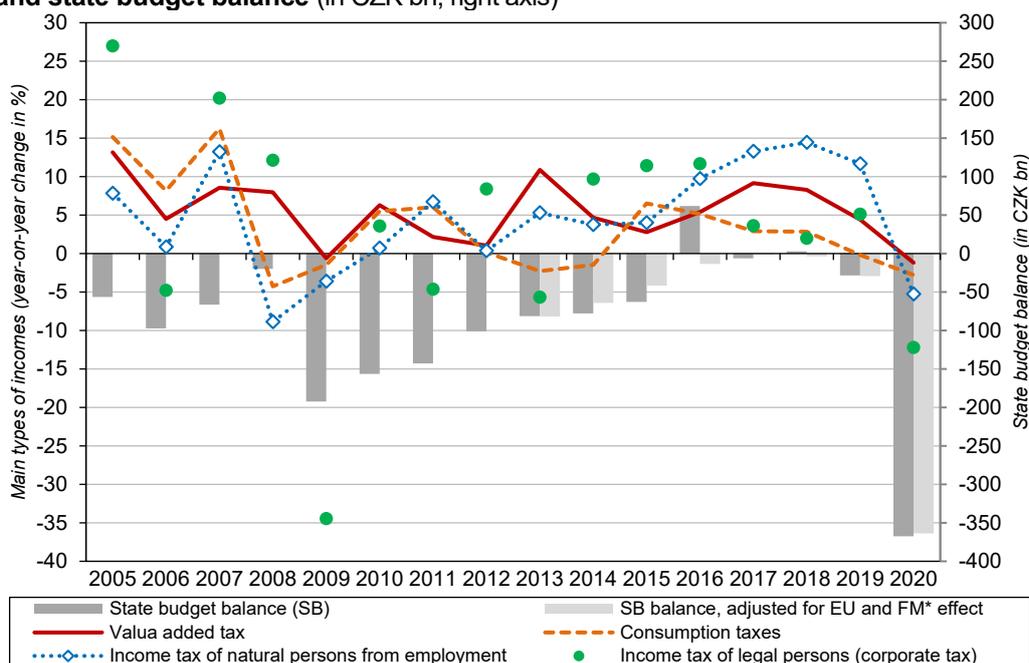
State wide collection of VAT mildly fell last year, for the first time since year 2009.

Total SB revenues were negatively affected also by the slump of the property tax collection (due to the cancelling of real estate transfer tax with the impact of -11 CZK bn) in year 2020. On the contrary, the influence of indirect taxes was smaller last year. From the weight dominant tax – VAT – by 1.2% less year-on-year (resp. by 3.5 CZK bn) flew into the SB. Annual reduction of the tax collection (at the level of all public budgets) occurred last in year 2009. Last year's VAT collection was apart from the restriction of establishments also affected by the cut of tax rate for some services (e.g. in food service). Retail sales in current prices slightly increased (+0.3%) compared to year 2019.

Lower transport works, downturn of tourism as well as repeated closures of restaurants stood behind the decrease of the consumption tax collection.

Total last year SB collection from the consumption taxes shrank by 2.5% (resp. by 4 CZK bn), due to the year-on-year fallout in both Q2 and Q4 (by 18.3%, resp. 3.2%). Substantial reduction of the transport work (including the transit traffic) for the whole year 2020 was reflected in the 8.2% slump of collection of tax on mineral oils. Decrease of this tax manifested for the first time since year 2013. Despite the increase of tax rate, the collection of tax on alcohol also fell last year (-5.7%). Repeated closures of hospitality establishments amplified by the subdued arrival tourism for the prevailing part of the year proved to be the key factor. Similar factors also had effect on the collection of tax on tobacco products, which grew (+6.4%), but still did not fulfil the budget anticipation last year.

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



*Balance adjusted for funds on programmes and projects from the EU budget (including financial mechanisms), which were pre-financed from the SB and are subsequently reimbursed from the EU budget and financial mechanisms.
Source: MF CR

Pace of SB outlays accelerated to record 18.8% last year.

Total SB outlays shot by 18.8% year-on-year (resp. 291 CZK bn), record rate of growth in the current millennium. Outlays exceeded the original budget anticipations by 225 CZK bn. Pace of outlays strengthened by a fourth year in a row. Mainly current outlays contributed to the growth last year (+258 bn). More than one half of their last year addition was attributed to the outlays associated with the compensation measures (to businesses, individuals as well as

⁷⁴ It was the only more significant by volume tax, whose collection exceeded the original budget anticipation in year 2020 (based on the State Budget Act approved on 4th December 2019 with budget deficit of 40 CZK bn).

More than one half of the year-on-year addition to current outlays was closely connected to the anti-pandemic measures.

Outlays on wages especially in the primary and secondary education grew swiftly. Their strengthening in health care also had an effect.

Growth pace of the outlays on social benefits strengthened. Their proportion on all SB outlays however fell for the fourth year in a row.

Outlays on pensions accelerated, revenues of the pension insurance in contrast fell for the first time since year 2009.

Payment of care benefits, increase of sickness and raised parental allowance contributed the most to the growth of “non-

municipalities) or support of the burdened both health and social system⁷⁵. Year-on-year rate of growth of the current outlays gained intensity during the year – from 12.4% in Q1 to 24.5% in the last quarter of the year. Non-investment transfers to business entities (+84%, resp. 49 CZK bn), which concentrated significant part of the anti-pandemic support measures (compensation of part of the wage to employees within the Antivirus programme, support of businesses in the most hit branches, extraordinary wage growth in the private hospitals) grew the most among the current outlays for the whole year 2020. Current transfers to regional budgets also increased (+40 bn), primarily thanks to the planned increase of the outlays on wages of primary and secondary education employees and also in the area of social care. Provision of extraordinary allowance to municipalities to mitigate the impacts of the reduced tax incomes also had an effect. By 25 CZK bn more were channelled into the funds of the state and public health insurance, mainly thanks to the increased payments per so called person with state medical insurance (e.g. children, students, old-age pensioners). Current outlays on state funds (mainly into the transport infrastructure and agriculture) and state funded organisations (debt relief of selected hospitals and also extraordinary increase of wage outlays in the inpatient hospital care) strengthened similarly by 15 bn. Higher outlays on non-investment purchases were also linked to the anti-pandemic measures⁷⁶ (+11 bn), primarily on the acquirement of protective aids. Higher outlays on the wages in the state organisation divisions (+6 bn) were partially associated with higher work performance in the selected areas (police, army, hygienic stations). Transfers of own SB resources into the EU budget grew by more than one fifth (to 54 CZK bn).

Social benefits, whose volume was by 14.2% (resp. 85.2 CZK bn) higher year-on-year, significantly contributed to the current SB outlays last year. Even though it represented a record pace in the current millennium, the proportion of social benefits on all SB outlays has been decreasing for the fourth year in a row (to 37.3%). While in both Q1 to Q3 2020, their growth was driven by the non-pension benefits, in the annual total the role of outlays on pensions proved dominant. It occurred due to the one-off benefit payment (paid out to pension benefits in December) in the amount of 15 CZK bn. Outlays on pensions thus with the view to the regular pension adjustment expanded by 10.2% last year, the most in the last fourteen years. Number of pension recipients lowered by 0.6% compared to the end of year 2019, partially presumably as a consequence of heightened mortality. The revenues of the pension insurance decreased last year (by 2.1%) – for the first time since year 2009, when the decrease amounted even to 3.0%. Measures to support the small entrepreneurs as well as employers played a major role here⁷⁷. Deteriorated situation on the labour market (employment reduction, slowdown of the average wage growth) also played a role. Pension account balance⁷⁸ thus following the three surplus preceding years returned to deficit (35.9 CZK bn), the highest in the last six years.

SB also expended more on almost all other more significant types of social benefits compared to year 2019 last year. Sickness benefits accelerated (+42%, resp. 55.4 CZK bn), primarily due to the payment of the care benefits provided for the reasons of closure of schools and other establishments. Growth of the total sickness⁷⁹ as well as higher number of reimbursed days due to the cancelled “waiting period” were also evident. Volume significant outlays on state

⁷⁵ It primarily concerned outlays on health care (54.8 CZK bn, especially purchase of protective aids in connection to covid-19, debt relief of selected hospitals, enhanced payment of the state per the state insured persons and increase of personal costs of workers in the health care), further programme Antivirus A + B (23.7 bn), care benefits for employees and self-employed (12.0 bn), one-off compensation for the income fallout for municipalities and cities (13.4 bn), increase of funds on wages and bonuses in social works and further selected areas of the public sector outside the health care (3.3 bn) or other programmes on direct support of hit businesses as well as branches – e.g. COVID Rent (4.1 bn) and COVID Accommodation (2.3 CZK bn).

⁷⁶ Total outlays on non-investment purchases (excluding outlays servicing the state debt) amounted to 78 CZK bn last year and overtook the so far record size from year 2008 (72 bn). These outlays were significantly reduced in ties to the austerity measures in the first half of the last decade.

⁷⁷ It concerned the cancellation of minimal advance payments for self-employed persons on social insurance with estimated budget impact of 7.4 CZK bn and further the waiver of insurance on social security and employment policy paid by the employer (13.3 bn).

⁷⁸ Expresses the difference between revenues and outlays on pensions from the SB. Outlays do not include the costs of the management of the pension insurance system.

⁷⁹ The CSSA data regarding the temporary inability to work show, that while in Q1 2020, the number of sickness days fell by 1.5% year-on-year, it grew by 15.8% in Q2 and by 13.4% in the subsequent quarter.



pension” social benefits.

social support (+36.5%) also expanded, nearly exclusively due to the regulatory increase of the parental allowance, since the drawing of income tested benefits (child allowance, housing allowance) fell further. Long term growing social care benefits also strengthened by one tenth last year, for the first time since year 2014 also due to the higher volume of paid out materiality deprivation benefits (+8.6%). State expended more on the unemployment benefits already second year in a row (in total by 2.4 CZK bn).

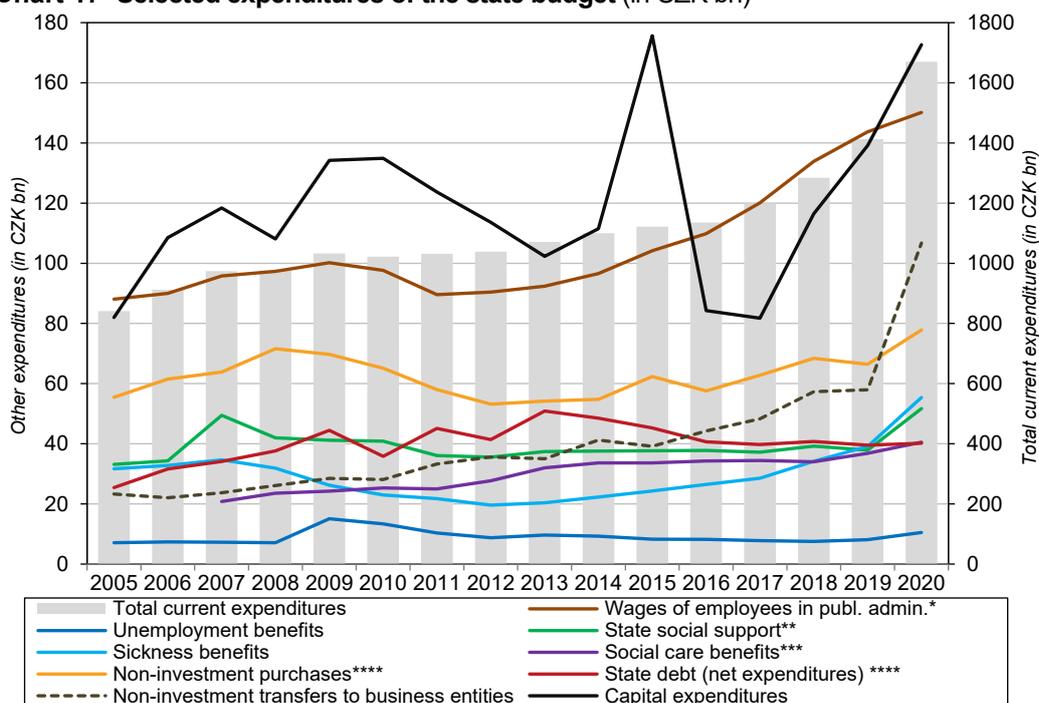
Higher investment from national resources stood mainly behind last year SB capital outlays growth.

SB capital outlays grew by nearly one quarter year-on-year. They amounted to 172.7 CZK bn and nearly matched the record size from year 2015, when the drawing (at the end of the EU programme period) culminated. Strengthening investment from national resources (to 101 CZK bn) contributed from nearly three quarters to the total last year’s growth. Higher outlays aimed at the transport infrastructure (+18 bn) held a key role.

Net position of the CR towards the EU budget increased to 86 CZK bn last year.

Share of total investment on all SB outlays increased for the third year in a row and attained 9.4%. It is also connected to the approaching end of the drawing on „European“ investment in the current programme period. Total SB revenues from the EU reached 145.9 CZK bn last year and strengthened by one fifth year-on-year. Higher allocation into the Structural funds (+13 bn) and also the Cohesion fund (+10 bn) stood behind it. Despite significant increase of payments into the Union budget, the total positive balance of the CR with the EU budget increased to 85.7 CZK bn, i.e. the highest value in the last four years.

Chart 17 Selected expenditures of the state budget (in CZK bn)



*Covers expenditures on salaries in central government institutions. Does not include e.g. wage costs of regional education.

**Also includes the foster care benefits.

***Includes Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits based on Act on State Social Support.

****Contains mainly expenditures on purchase of services, materials, energies or other services (e.g. expenditures on repairs and maintenance)

*****Expresses the balance of the budget chapter State debt. Consists of net interest outlays and also fees.

Source: MF CR, MLSA

State debt increased by one quarter last year, i.e. more than in years 2009 and 2010.

Strongly growing needed for financing linked to the necessity to cover the crisis SB deficit led to the acceleration of the amount of the state debt. It amounted to 2 050 CZK bn at the end of the last year, grew by one quarter year-on-year⁸⁰. Traditionally issued medium and long-term state bonds were the key debt instruments, last year attained record 600 CZK bn. More than

⁸⁰ The state debt expanded by 18% in the crisis year 2009, by 14% in the subsequent year.

Interest outlays on state debt stagnated in the last years.	three quarters of this issue were allotted only to H1 2020. Especially the domestic financial institutions created the demand for the bonds, and thus held already nearly two thirds of the total domestic state bonds at the end of the year. Almost 31% was attributed to non-residents, the least in the last four years. Borrowing need of the state was nearly exclusively focused on the domestic market last year. Koruna value of the external debt thus shrank already seventh year in a row (by 6% last year). External debt comprised only 8.2% of the total state debt at the end of Q4 2020. Net SB outlays to the state debt service amounted to 40.1 CZK bn last year and stagnated year-on-year (already for the fourth time in a row). The decline of the bond yields as well as lowering of the interest rates on the part of CNB also had an effect.
Central government institutions deficit substantially deepened. Regional government institutions and health insurance companies preserved a surplus.	Sector of government institutions (VI) recorded a deficit of 195 CZK bn in the CR during Q1 to Q3 2020. Revenues VI reduced by 2.8% year-on-year, growth of outlays hiked up to 10.7% (in both cases it presented a record paces for the last decade). Budget balance worsened year-on-year in all subsectors VI, the most however in central institutions VI, which bore the decisive part of the costs of anti-pandemic measures. Health insurance companies as well as local institutions VI preserved a surplus budget, partially thanks to lower investment activity. Seasonally adjusted balance of sector VI budget plunged to -4.5% HDP in period Q1 to Q3. It thus recorded a first deficit after five years and at the same time the worst result since year 2009 (-5.5%).
Both budget deficit and increase of indebtedness of the CR were among the smaller in the EU countries.	Still, it represented more positive value than in the EU (-6.6%) or all central European states (e.g. Germany -4.6%, Poland -8.5%). This deep budget must have been reflected in the debt acceleration. The indebtedness rate overtook the record level from year 2014 in the EU, at the end of Q3 2020, it closely approached the value of 90% of GDP. It increased in all Union countries year-on-year – by more than 15 p.p. in Cyprus, Italy, Greece, Spain and France. Growth in the CR (+6.9 p.p., to 38.4% of GDP) was weaker compared to the whole EU (+10.6 p.p.). Also thanks to this, the CR still belonged among the four less indebted countries of the EU.

