

1. Summary

- The CR economy continued in the successful development of the last quarters also in Q2 2016. The gross domestic product (further also “GDP”¹) as well as the gross value added (further also “GVA”) increased by 0.9% in the quarter-on-quarter comparison, which represents the acceleration of 0.4 p.p. for both indicators compared to Q1 (from +0.4%). In the view of the whole first half-year of 2016, the GDP increased by 2.8% year-on-year.
- The high comparative basis of the year 2015 had an effect in case of the year-on-year rate of growth, again as in Q1. The year-on-year growth of GDP arrived at 2.6% and GVA 2.7%. The economy was driven by the extraordinarily successful foreign trade and the stable household consumption. On the contrary, investment which significantly supported the growth in 2015, impacted the GDP growth negatively. The Czech economy grew faster compared to the EU28 in Q2 – by 0.8 p.p. year-on-year and by 0.5 p.p. quarter-on-quarter. The EU growth was 1.8% year-on-year and 0.4% quarter-on-quarter.
- The continuing year-on-year growth of the household consumption, which reached 2.2% in Q2, was supported by the growing average wage, record employment and also the persisting high consumer confidence. In the view of the quarter-on-quarter development, the household consumption stayed at the level of the Q1 (it grew by 0.1 p.p. compared to this quarter). In case of investment, the slump of the investment subsidies already fully manifested in contrast to Q1, which led especially to the fall of investment into other buildings and structures (compared to the exceptionally high year 2015, when a finalisation of drawing of funds occurred for the European funds of the programming period 2007–2014). Investment fell by 4.4% year-on-year and by 4.1% quarter-on-quarter. The foreign trade balance reached record level in Q2 as well as in the whole H1 2016 (+94.2 CZK bn).
- The good condition especially of the manufacturing (GVA increased by 4,8 % in Q2) was apparent in the growth of the economy on the supply side. Services also prospered. On the contrary, the construction faced a falling demand mainly after the investment into other buildings and structures and dropped by 5.5% year-on-year.
- The surplus of the current account of the balance of payments increased by 44.7 CZK bn year-on-year in H1 2016 and attained the level of 107 CZK bn. For the most part, the growing surplus on the income balance stands behind the improvement as well as the weaker outflow of the primary income (especially in the form of dividends), which fell by 20 CZK bn year-on-year. The demand of foreign investors for Czech government bonds went up significantly year-on-year. The purchases rose from the last year's 39 CZK bn to current 114.2 CZK bn.
- The price level gauged by the implicit GDP deflator rose by 0.8% year-on-year in Q2, mostly due to the positive terms of trade. The growth of the consumer prices was approaching stagnation (+0.2%). The deflation development further deepened in industry and agriculture. A price stagnation persisted in the business support service activities and prices slowed down its weak growth in the construction. The deflation pressures leaked into the Czech economy via the foreign trade prices. Prices of the housing real estate were however accelerating their growth dynamics in the environment of the record low interest rates on mortgages, which affected mostly the current flats sold among households.
- The monetary conditions remained loose also in June 2016. A fast growth of the harmonised monetary aggregate M3 occurred (by 9.7% year-on-year). The volume of one-day deposits enlarged by 340 CZK bn year-on-year and currency by 41 bn. So called quasi-money decreased by 80 CZK bn in Q2 and by 52 CZK bn in Q1. The credit to households increased by 6.4% in Q2 (82 CZK bn) and loans to businesses by 11% (112 CZK bn).
- The labour market still enjoyed a favourable development. The rate of growth of employment gained pace markedly in H1 (to 1.7% year-on-year), mostly thanks to manufacturing. The number of employed reached a historical maximum (5.26 mil persons). Unemployment kept shrinking further, if already by a slower pace. The position on labour market improved especially for the qualified manual workers. The qualification mismatch between the unemployed persons and vacancies and the subsequent long-term unemployment remains a big difficulty on the labour market. The low unemployment accompanied by a

¹ Data related to the GDP, gross value added and their components are expressed in constant prices and adjusted for seasonal and calendar effects. Data were published on 2nd September 2016 and accuracy improvement on 30th September 2016.

growing lack of labour force pressures on the growth of wages. The average wages grew in real terms by 3.8% in H1, which presented the highest growth since the end of the year 2009.

- The state budget reached a surplus in H1 (40.6 CZK bn), which was the best result in the history of the independent CR. The irregularities in the drawing of the funds from the EU budget, but also the strengthened collection (especially of the direct taxes) connected to the brisk growth of the economy were reflected considerably in the result of the state budget.

