

1. Summary

- The Czech economy experienced the deepest downturn in Q2 2020 in its history. Gross domestic product (GDP) decreased by 11.0% in real terms year-on-year¹ and by 8.7% quarter-on-quarter. Lowering of the foreign trade with goods and services balance surplus mainly contributed to the very deep economic slump. This was linked to the suspension of operations in some domestic as well as foreign businesses. Apart from the halt of export, demand on the part of buyers abroad also decreased. Expenditure on gross capital formation also had an adverse effect on the GDP growth. The investment activity itself fell by 4.8% in Q2 year-on-year. The domestic consumption, especially the household consumption, which decreased by 7.6% year-on-year also shared in the GDP decrease. The economic downturn was also very substantial in the European Union. Year-on-year decline amounted to 13.9%, the GDP fell by 11.4% quarter-on-quarter.
- Gross value added (GVA) plunged by 10.9% year-on-year and by 9.4% quarter-on-quarter. Given the broad impact of the measures, the GVA fell in majority of branches. The year-on-year slump was very strong in manufacturing. Especially the manufacturing of motor vehicles as well as its associated branches were hit hard. Activity in some branches of services was often directly restricted, which was mostly apparent in the grouping trade, transportation, accommodation and food service (GVA decreased by 20.5%). Despite universal decline, information and communication managed to maintain mild year-on-year rise (1.1%). GVA decrease did not spare construction (−6.2%).
- The value of export of goods slumped by 215.1 CZK bn year-on-year in Q2. Value of imported goods fell by 169.5 CZK bn (19.0%). Resulting balance achieved surplus of 11.4 CZK bn, it however worsened by 45.6 bn year-on-year. Sale of motor vehicles, which was the main reason of the surplus growth in the recent years, affected the worsened balance the most. The balance worsened by 49.6 CZK bn in Q2 here. The usual deficit of trade with oil and natural gas on the contrary eased by 19.8 CZK bn in connection with the slump of their prices.
- Year-on-year dynamics of the consumer prices reached 3.1% in Q2 and slowed down slightly compared to Q1. Food and non-alcoholic beverages, whose year-on-year additions accelerated to 6.5% contributed the most to the growth of the consumer prices. In contrast, the growth of prices of housing and energies slowed down to 3.2% in Q2. Impact of increased consumption tax only took full effect in Q2 and the prices of alcoholic beverages and tobacco were raised by 6.6%. Prices of accommodation and food service also kept notable dynamics (5.1%). While prices of food service rose by 5.5%, addition to prices of accommodation slowed sharply down in Q2 (2.5%). Only prices of transportation reduced the total growth of consumer prices (−3.4%).
- Setting of basic monetary policy-relevant rates changed downwards during Q2. Rates on client deposits also reacted relatively fast to this development, especially rates on deposits with agreed maturity. Interest rates on credit for households as well as businesses were also cut. However, in the uncertain economic environment, both households and businesses were more restrained in utilising credit financing.
- The measures associated with pandemic manifested on the labour market mainly as the downturn of economic activity in Q2. Total employment dropped by 1.4%² quarter-on-quarter and it was decreasing especially in manufacturing and in part of services. General unemployment rate however went up only slightly (it was 2.7% in June), among other things due to large share of persons, who left the labour market in the crisis (foreigners, working seniors). The average wage grew only by 0.5% year-on-year in Q2. The development was also considerably diversified. The average wage fell the most in the strongly hit branch of accommodation, food service and restaurants, wages were nevertheless falling also in other services. Wages also plunged in manufacturing. In contrast, the average wage rose in information, communication and in energy as well as in services with predominance of the public sector. Given the strong growth of consumer prices however, the average wage in the economy fell by 2.5% in real terms.
- State budget shortfall reached 195.2 CZK bn in H1. Impacts of the pandemic measures were apparent on both revenue and cost side of the budget especially in Q2. Total revenues dropped by 5.9% year-on-year in H1. On

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

² Employment data are in the national accounts conception adjusted for seasonal effects.



the revenue side, the main occurrence was the evaporation of tax collections resulting from the hampered economic activity as well as measures to strengthen the liquidity of businesses affected by downswing in sales. Costs on the contrary increased by 17.0%. More than one third of current expenditures increase was connected to the counter pandemic measures, higher drawing on social benefits however also contributed by similar rate.