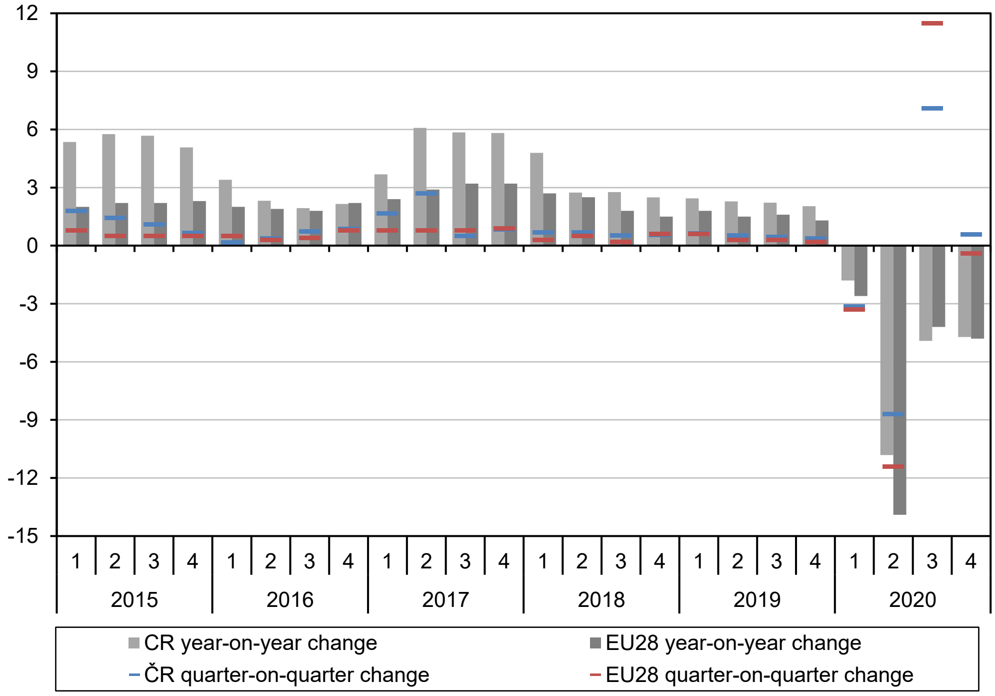
2. Overall Economic Performance

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%[1] 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%[2] 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 Luxembourg[3] achieved a year-on-year growth

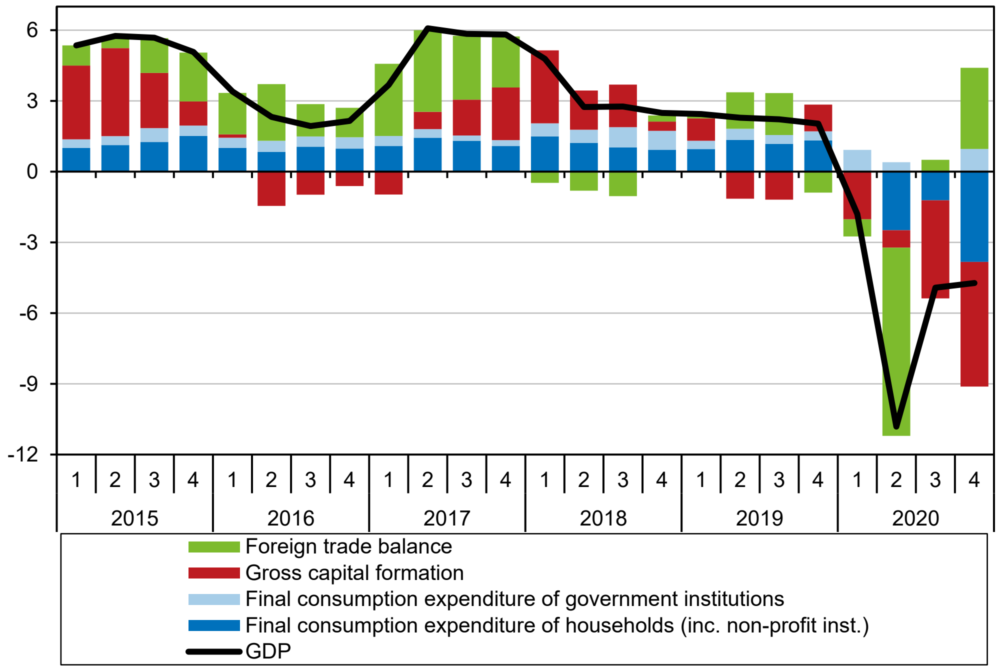
[1] The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 2nd March 202.
[2] Fresh data for Bulgaria, Ireland, Malta, Portugal, and Greece unavailable.
[3] 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%[4]. 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%[5]). 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 institutions[6] (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

[4] Employment in the national accounts conception (persons), data adjusted for seasonal effects.
[5] Converted into the real expression using the deflator of final consumption expenditure of households.
[6] 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.[7] 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 goods[8] 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 formation[9] 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 bn[10] 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.

[7] Additions to the GDP change after exclusion of imports for final use.
[8] Data regarding consumption based on durability are in domestic conception and not seasonally adjusted.
[9] Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.
[10] According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).

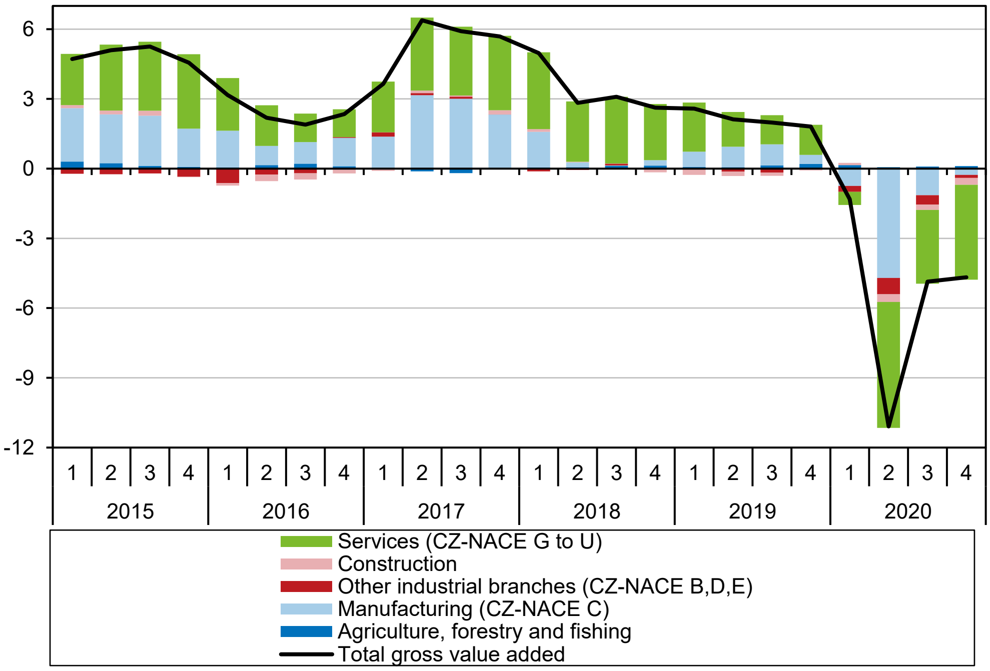
GVA slumped in the majority of branches last year.

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