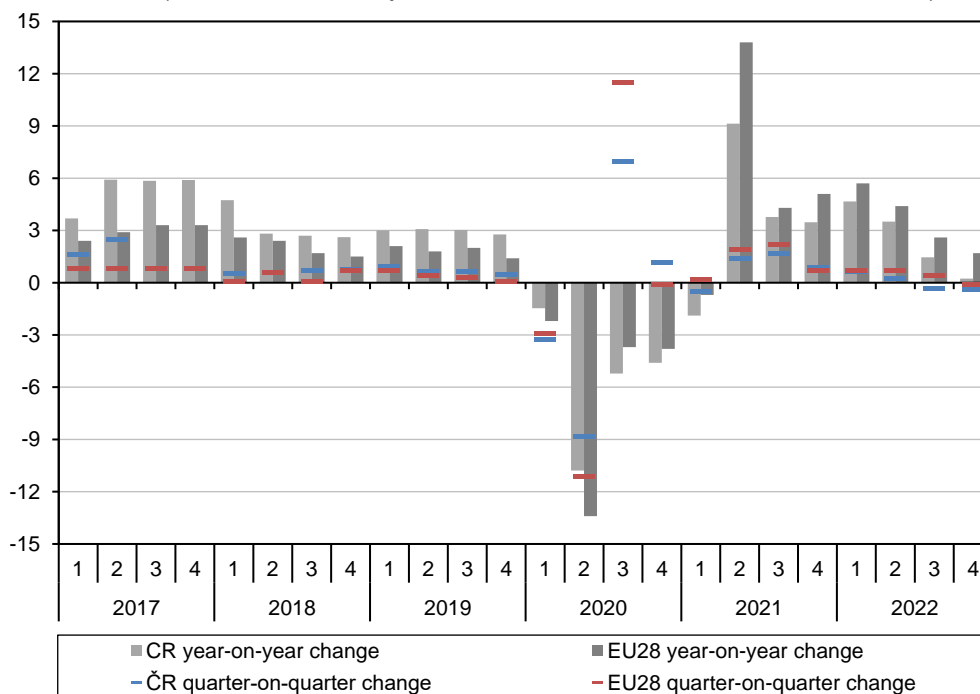


## 2. Overall Economic Performance

The Czech economy narrowly maintained its year-on-year growth in Q4, quarter-on-quarter however it fell for the second time in a row.

The Gross domestic product (GDP) increased by 2.4%<sup>1</sup> in year 2022, which represented a slowdown of the dynamics compared to year 2021. The gross capital formation and the foreign demand supported the GDP growth the most last year. In contrast, the domestic consumption hindered the economic growth. Because especially households reduced their expenditures in the environment of the sharp price growth. The real GDP level (expressed in prices of year 2015) slightly overtook the pre-pandemic year 2019 last year. The year-on-year GDP dynamics gradually slowed down during the year 2022 (additions 4.7%, 3.5% and 1.5% in Q1, Q2 and Q3) and the economy stagnated year-on-year in Q4 (0.2%). Compared to Q3 the GDP decreased by 0.4%, which was the second decrease in a row. The year-on-year GDP growth was based on the favourable development of the foreign demand at the end of the year. The addition of the capital expenditures however weakened and the domestic consumption strongly hindered the year-on-year GDP increase. The foreign demand also positively affected the quarter-on-quarter GDP dynamics, but the consumption as well as the capital expenditures were falling.

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



Source: CZSO, Eurostat

The economic growth also slowed down in the EU last year.

The year-on-year GDP growth slowed down in the European Union during the whole year 2022 and reached 1.7%<sup>2</sup> in Q4. The quarter-on-quarter dynamics also gradually stilled during the year and it fell by 0.1% compared to Q3 in the Union. Colling down of both consumption and capital expenditures was apparent in the EU countries towards the end of the year. The GDP grew the strongest in Ireland (13.1%), Greece (5.2%) and in Romania (4.9%) year-on-year in Q4. On the contrary, the economies of Estonia (-4.4%), Lithuania (-0.4%) and Sweden (-0.1%) registered decrease compared to the same period of year 2021. Apart from the CR (0.2%), the GDP remained close to year-on-year stagnation also in Finland (0.1%). The GDP in Greece (1.4%), Malta (1.2%) and Cyprus (1.1%) had the largest increase compared to Q3. The GDP slumped the most quarter-on-quarter in Poland (-2.4%) and it was also lower in Estonia (-1.6%), in

<sup>1</sup> 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 3rd March 2023.

<sup>2</sup> Data for Luxembourg were not available.

Finland (−0.6%), Sweden (−0.5%), Lithuania (−0.5%), Hungary (−0.4%), Germany (−0.4%), the Czech Republic (−0.4%) and Italy (−0.1%).

Wages and salaries plummeted in real terms last year.

The total volume of wages and salaries expanded by 8.8% given the growth of the total employment by 1.7%<sup>3</sup> in year 2022. The nominal addition to wages and salaries thus accelerated in comparison to year 2021 and it was also higher than in the pre-pandemic year 2019. Considering the sharp price hike however the household earnings dropped in real terms. Wages and salaries reduced by 6.4%<sup>4</sup> in real terms last year. Real estate activities recorded the highest increase of the volume of wages and salaries last year (19.5% given the employment growth of 4.3%), which continued in the sharp hike from year 2021. Further strengthening of growth was further observed for branches strongly hit by the pandemic slump. It was the case of trade, transportation, accommodation and food service (growth of wages and salaries by 16.1% given the simultaneous increase of employment by 2.1%) and of other activities<sup>5</sup> (wages and salaries by 14.9%, employment by 0.7%). The strengthening of the dynamics of wages and salaries accompanied by significant increase of employment affected information and communication (13.3% given the employment growth of 3.9%) and construction (10.5%, employment rose by 3.4%). The volume of paid out wages and salaries grew at an above average pace in professional, scientific, technical and administrative activities (9.6%, employment was higher by 1.1%) and also in financial and insurance activities (9.6%, employment grew by 0.5%). The growth of wages and salaries was below average in manufacturing (8.7%, employment growth 0.7%), agriculture, forestry and fishing (7.8%, employment 0.4%) and branches with the predominance of the government sector<sup>6</sup> (1.0%, employment grew by 2.3%) last year.

Pressure on the growth of nominal wages and salaries was apparent at the end of the year.

In Q4, the year-on-year growth of the volume of paid out wages and salaries slightly accelerated to 8.0%. The wages and salaries rose by 2.2% quarter-on-quarter. The year-on-year growth of employment slowed down to 1.3% and the employment fell by 0.4% quarter-on-quarter. The pressure on the growth of wages thus continued in the high-inflation environment despite the total economic slowdown. The wages and salaries however dived by 8.5% in real terms year-on-year. The wages and salaries grew the most in the real estate area year-on-year in Q4 (18.7% given the employment growth of 2.1%). The notable growth for information and communication continued (13.9% with the employment growth of 5.5%). The year-on-year increase was above average in case of financial and insurance activities (10.8%, employment grew by 0.7%), trade, transportation, accommodation and food service (10.3% given the simultaneous increase of employment by 0.8%), construction (9.8%, employment was higher by 3.2%), manufacturing (9.6%, employment of 0.4%), in professional, scientific, technical and administrative activities (9.6%, employment was higher by 1.6%) and in agriculture, forestry and fishing (8.5%, employment decreased by 2.0% year-on-year). In contrast the wages and salaries in branches with the predominant government sector (1.4% given the employment growth of 2.7%) and other activities (5.8%, employment fell by 1.8%) lagged behind the average growth.

Wages and salaries rose in all branches quarter-on-quarter.

The strengthening of the quarter-on-quarter dynamics of wages and salaries affected the majority of branches in Q4. The earnings rose the most in financial and insurance activities (6.2%), in professional, scientific, technical and administrative activities (5.0%), real estate activities (4.8%), other activities (4.2%), agriculture, forestry and fishing (4.0%) and information and communication (3.0%) quarter-on-quarter. The increase was milder

<sup>3</sup> Employment data in the national accounts conception (persons), figure seasonally adjusted.

<sup>4</sup> Converted into the real expression using the deflator of household consumption.

<sup>5</sup> This section includes activities of organisations uniting persons for the purpose of advancing their common interests, repairs of computers and personal and household goods and number of other personal services (hairdressing and other beauty treatment etc.).

<sup>6</sup> Public administration, education, health and social work.

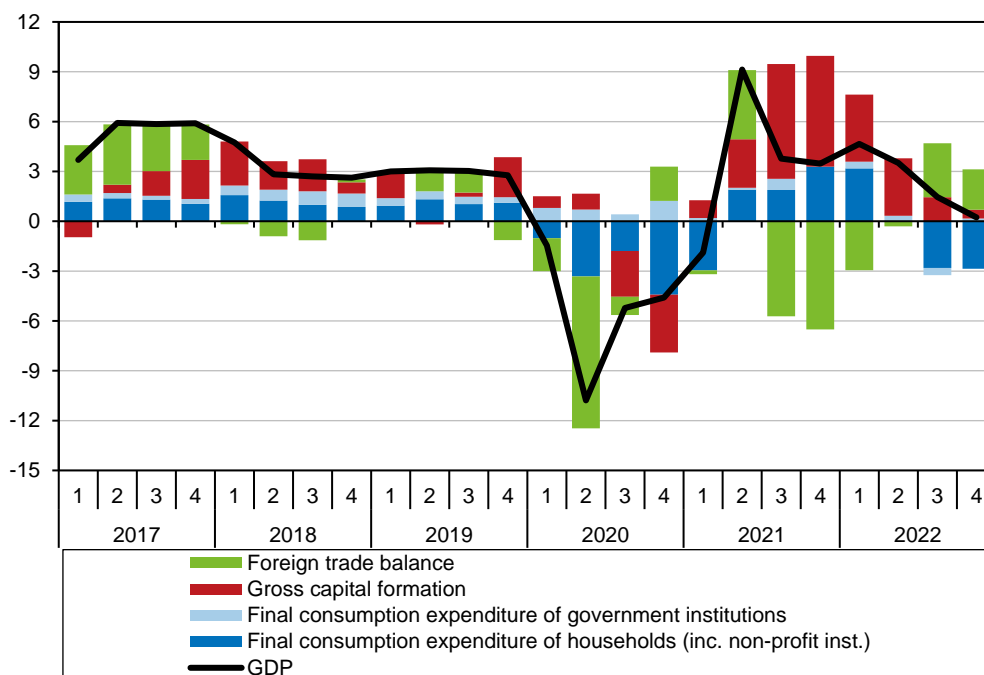


in division trade, transportation, accommodation and food service (2.5%), construction (2.1%) and in manufacturing (1.9%). Wages and salaries stagnated in branches with the predominant government sector (0.1%).

The household consumption plunged.

Domestic consumption decreased by 0.4% in year 2022. The real level of consumption (in prices of year 2019) thus still did not overtake the year 2019 following the pandemic slump in year 2020. The reduction of expenditures of households (-0.9%), who faced an unprecedented slump of real earnings was definitely the reason of the last year's decrease. The real level of the household consumption even lagged behind the year 2018. Consumption of the government sector was on the contrary higher by 0.7%. Expenditures on the final consumption worked in the direction of the GDP decrease 0.5 p. p.<sup>7</sup>. The consumption fell year-on-year for the second time in a row in Q4 2022 itself, specifically by 3.4%. In that the household consumption slumped by 5.5%, while the government institutions experienced a mild increase of 0.9%. Quarter-on-quarter, the consumption shrank by 0.6%, for the fifth time in a row. For households the decrease deepened to 2.8% compared to Q3, on the contrary the government institutions recorded a marked increase by 3.9%.

**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

Consumption of services maintained a year-on-year growth.

With regard to durability<sup>8</sup> the demand for durable goods dropped the most last year (-10.4%). It corresponds to the usual behaviour of consumers, who limit expenditures in just these areas in periods of uncertainty. However, the consumption of non-durable goods recorded the second largest decrease (-5.6%), which is very atypical and points to the restriction of expenditures in the area of essential goods, such as for instance food. Consumption of medium-term durability goods was lower by 1.6%. On the contrary, the increase of consumption strengthened to 7.1% for services last year. The expenditures on durable items lowered year-on-year by 16.4%, medium-term durability goods by 13.2% and short-term durability goods by 7.9% in Q4. Consumption of services

<sup>7</sup> Additions to the GDP change after exclusion of imports for final use.

<sup>8</sup> Data regarding consumption based on durability are in domestic conception.

maintained year-on-year growth throughout the whole year and it went up by 2.7% in Q4. Compared to Q3, only the consumption of non-durable goods was falling (−3.6%), while the slump was deepening. The consumption of services (2.3%) and further durable goods (1.7%) grew the most quarter-on-quarter. The medium-term consumption recorded stagnation (0.3%) following a series of four deep slumps.

Investment went up last year.

Expenditures on gross capital formation went up by 8.4% in real terms last year. In that expenditures on gross fixed capital formation (investment) were higher by 6.2%. In addition the inventory stock was also growing<sup>9</sup> – while it represented mainly the unfinished products in industry in year 2021, the natural gas supplies also had an effect last year. The gross capital formation added to the last year's GDP growth 2.3 p.p., in that fixed capital 1.4 p.p. Year-on-year growth of the expenditures on gross capital formation gradually weakened during the year – the addition reached 2.6% in Q4. In that however investment expanded by 4.6%. Quarter-on-quarter however, the gross capital formation reduced by 1.3% (second decrease in a row). Investment activity fell quarter-on-quarter for the first time since Q1, specifically by 1.1%.

Investment into housing were falling.

Type classification of gross fixed capital formation documents the concerns of households and downswing of the real estate market associated with the increase of the interest rates and worsened accessibility of mortgages. Because investment into housing decreased by 1.2% last year. On the other hand investment into transport equipment (14.9%), other buildings and structures (8.9%), intellectual property products (6.3%) as well as ICT and other machinery and equipment (5.9%) grew. Year-on-year development in Q4 resembled the year-round development – only investment into housing fell by 4.7%, but growth of the other investment items continues. Expenditures on intellectual property products were thus year-on-year by 9.7% higher, on ICT and other machinery and equipment by 7.6%, on other buildings and structures by 4.7% and on transport equipment by 2.6%. The quarter-on-quarter dynamics however shows that investment into other buildings and structures (−7.3%) as well as transport equipment (−4.0%) considerably slowed down towards the end of the year. Expenditures on housing were slightly lower (−0.7%). Investment into the intellectual property products (5.5%) and ICT and other machinery and equipment (0.6%) in contrast grew quarter-on-quarter.

Foreign demand contributed to the GDP growth last year.

Export of goods and services expanded by 5.7%<sup>10</sup> in real terms in year 2022. In that the export of goods rose by 3.8%, while services recorded a significant increase of 16.7%. Import was also by 5.7% higher in real terms last year. Addition to import of goods was moderate (2.6%), but services managed to be catching up the pandemic slump (26.9%). Foreign demand had a positive effect on the real GDP growth last year (contribution 0.6 p.p.). Total balance of foreign trade with goods and services in current prices deteriorated by 187.6 CZK bn last year and fell into the 8.3 bn deficit, the first since the year 2003. Mainly the trade with goods stood behind this development (total deficit 100.4 CZK bn, worsening by 170.6 bn), but the balance of trade with services also developed in the adverse direction (worsening of surplus by 17.0 CZK bn to 92.1 bn). Steep rise of the prices of oil and natural gas as well as other materials, which further transferred to prices of other goods, played a key role in the dramatic worsening.

Foreign trade balance worsened year-on-year.

The export of goods and services increased by 9.7% in real terms year-on-year in Q4. In that, the export of goods grew by 8.2% and services by 18.4%. The strong year-on-year real growth was also connected to the weak comparative basis from the second

<sup>9</sup> Change of inventories (in current prices and seasonally adjusted) attained 392.4 CZK bn last year and 104.9 bn in Q4 itself. The indicator in constant prices grew in total last year due to the development in H1. The change of the inventory stock was slightly lower in real terms year-on-year in Q4 2022.

<sup>10</sup> According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). Foreign trade balance in current prices and after seasonal adjustment.

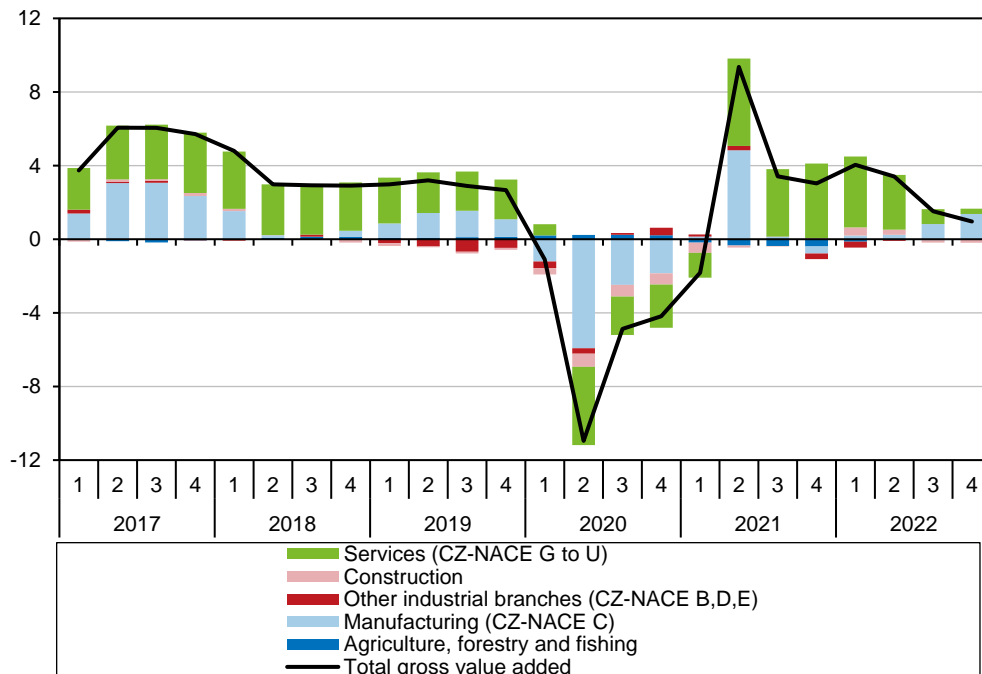


half of year 2021, when the culminating shortage of components complicated situation to exporters. Import increased by 7.6% year-on-year in Q4. Import of goods was by 3.7% in real terms, services featured a sharp jump of 33.3%. Foreign demand had a favourable effect on the year-on-year growth of GDP in Q4, the increase attained 2.4 p.p. Quarter-on-quarter, the export of goods and services rose by 0.5% in Q4 – it fell by 0.8% for goods, while services prospered (growth of 7.5%). Import stagnated quarter-on-quarter – import of goods fell by 1.5%, on the contrary the addition reached 8.1% for services. Total balance of foreign trade with goods and services in current prices deteriorated by 4.9 CZK bn year-on-year in Q4, it however remained in surplus (11.1 bn). Balance of trade with goods ended in deficit 4.4 CZK bn (year-on-year improvement of 10.6 bn). In case of services, the positive balance worsened by 15.6 CZK bn to 15.4 bn.

Gross value added grew mostly thanks to services last year.

The Gross value added (GVA) increased by 2.5% in year 2022. Mainly services contributed to growth, while various difficulties persisted in industry – disruption of supplies of components or the raised prices of energies and materials. The GVA increased the most in other activities (9.5%), where the increase was affected by the low comparative bases of the first half of the year 2021. Growth was considerable in information and communication (5.0%), professional, scientific, technical and administrative activities (3.6%) and in division trade, transportation, accommodation and food service (3.4%). Gross value added grew also in manufacturing (2.9%), industry as a whole grew slower (1.6%). Real estate activities also increased last year (2.9%) following two previous falls. GVA increase in construction (1.9%), financial and insurance activities (1.6%) and branches with the dominant government institutions (1.2%) was mild. Only agriculture, forestry and fishing recorded decrease (-2.4%).

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



Source: CZSO

GVA growth in manufacturing notably revived at the end of the year.

The GVA increased by 1.0% year-on-year in Q4 and it increased by 0.3% quarter-on-quarter. Relatively substantial difference between the dynamics of GDP and GVA in Q4 was caused by the real decrease of collected taxes on products, which was connected to the slump of household consumption. Increased subsidies also had an effect in the

similar direction. The GVA grew the most in manufacturing (6.0%), in real estate areas (5.1%), in other activities (2.7%) and in information and communication (2.5%) year-on-year in Q4. GVA grew only modestly in branches with the dominant government sector (0.7%) and in financial and insurance activities (0.6%) year-on-year. Division trade, accommodation and food service (-2.9%), construction (-2.8%), agriculture, forestry and fishing (-1.4%) and professional, scientific and administrative activities (-0.2%) recorded a year-on-year GVA decrease. GVA in financial and insurance activities (3.6%), real estate activities (2.4%), manufacturing (1.6%) and in branches with the dominant government sector (1.2%) achieved the largest GVA increase compared to Q3. Construction (0.9%) and agriculture, forestry and fishing (0.8%) also experienced a revival. Other activities slightly grew (0.3%). GVA was falling quarter-on-quarter in information and communication (-1.4%) for the first time since Q2 2020 and it was also lower in division trade, transportation, accommodation and food service (-0.3%).

