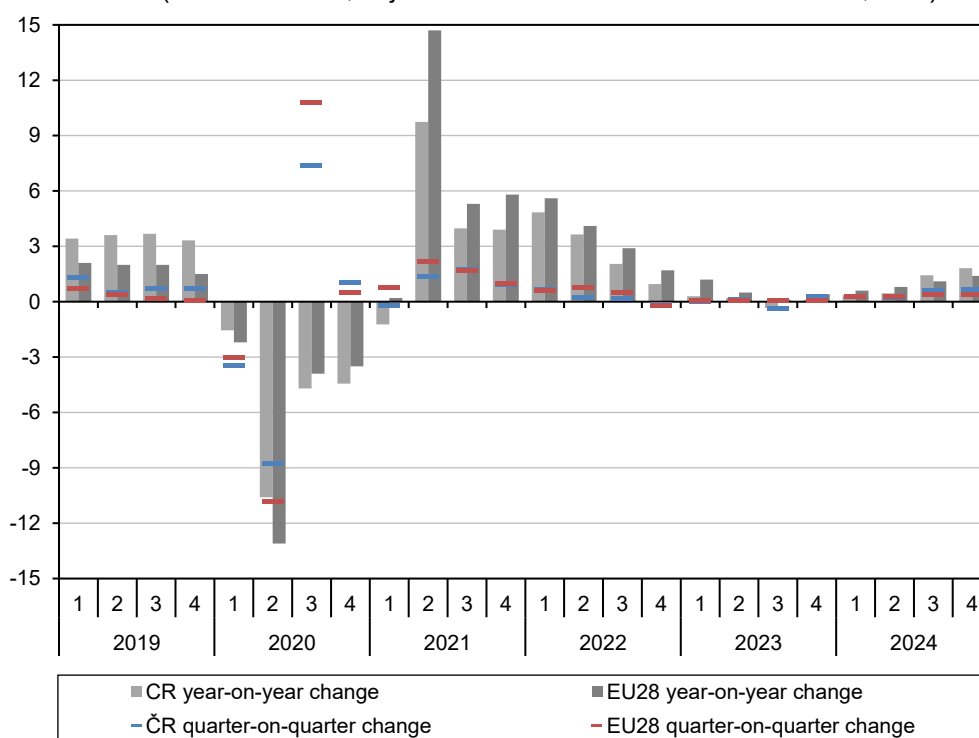


2. Overall Economic Performance

Czech economy expanded last year.

Gross domestic product (GDP) grew by 1.0% in 2024¹. The economy thus followed up on the stagnation of 2023 with moderate growth. The higher growth was mainly due to strengthening household and government consumption. By contrast, investment activity lagged behind the 2023 level, and GDP growth was also negatively affected by changes in inventories. The effect of external demand was slightly negative overall. During the year, the annual GDP growth gradually strengthened (0.3%, 0.5%, and 1.4% in Q1 to Q3) to 1.8% in Q4. The year-on-year growth of household consumption strengthened at the end of the year and the change in inventories started to have a positive effect. On the contrary, the investment activity and external demand had an adverse effect on the year-on-year GDP growth. Quarter-on-quarter GDP dynamics strengthened to 0.7% in Q4. Household consumption and change in inventories were higher. Investment and external demand had a slightly anti-growth effect.

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



Source: CZSO, Eurostat

Gross domestic product continued in mild growth in the EU.

The strengthening of the year-on-year GDP growth was also evident in the European Union in the second half of 2024. The GDP increased by 1.4%², year-on-year, in the EU in Q4. At the end of the year, the economic growth was supported mainly by consumption. In the vast majority of countries, the GDP grew, year-on-year, in Q4, the most in Ireland (9.2%), Denmark (4.1%) and Poland and Lithuania (both by 3.7%). In Q4, the GDP lagged behind the level of the same period of year 2023 in Austria (−1.2%), Latvia (−0.4%) and Germany (−0.2%). The year-on-year decline has been going on since Q3 2023 in Germany, and in Austria it has been one quarter longer. The GDP increased by 0.4% in the EU, quarter-on-quarter, and this was also mainly due to the development of consumption here. Most EU countries reported quarter-on-quarter GDP recovery, Ireland (3.6%), Denmark (1.6%) and Portugal (1.5%) the most. According to

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 February 2025.

² Figure was not available for Greece and Luxembourg.

available data, a decrease was recorded in Malta (−0.7%), Austria (−0.4%), Finland (−0.2%), Germany (−0.2%) and France (−0.1%). The GDP grew in total by 1.0% in the EU last year and the increase accelerated compared to 2023. According to the available data³, the GDP of Malta (6.0%), Croatia (3.8%) and Denmark (3.6%) grew the most last year. On the other hand, five economies declined, Austria (−1.2%), Latvia (−0.4%) and Estonia (−0.3%) the most.

Wages and salaries grew in real terms last year.

The volume of wages and salaries paid increased by 6.4% in 2024 while employment expanded by 0.3%⁴. The nominal increase of wages and salaries was the most modest since year 2020 (if we do not count this extraordinary covid year, then since 2016), but thanks to the slowdown of price growth, the real increase of wages and salaries reached 3.3%⁵, the highest since 2019. The growth of volume of wages and salaries was driven mainly by the services sector, which also contributed to the total slight increase of employment. Wages and salaries increased the most in real estate activities (23.5% with an increase of employment by 1.6%). Professional, scientific, technical and administrative activities (9.6%, employment increased by 0.9%), financial and insurance activities (7.2%, employment +0.5%), information and communication (7.0%, employment decreased by 0.3%) recorded an above-average increase. A significant increase of wages and salaries was evident in the weight significant division trade, transport, accommodation and food service activities (6.8%, employment +1.0%) and in other activities⁶ (6.8%, employment +2.0%). Within services, only the volume of wages and salaries in public administration and defence, education, health and social work increased at below average rate (5.8% with an increase of employment by 1.9%). Wages and salaries grew by 5.9% in construction (employment fell by 0.2%) and the volume of wages and salaries grew by only 4.9% in manufacturing, where the reduced employment by 2.0% was instrumental.

Growth of the total volume of wages and salaries paid was supported by the services sector.

The year-on-year growth of the volume of wages and salaries accelerated slightly to 7.1% amid employment growth of 0.2% in Q4. The real increase of wages and salaries amounted to 4.3%. The widening gap between industry and services was apparent in Q4. The year-on-year growth of the volume of wages and salaries slowed to 4.4% (employment fell by 1.6%) in manufacturing. Wages and salaries also grew more moderately in construction (4.7%, employment increased by 0.9%). The dynamics on the contrary accelerated in services. The highest increase of wages and salaries was recorded in real estate activities (37.4%, employment +3.0%), followed by professional, scientific, technical and administrative activities (11.6%, employment +0.3%), financial and insurance activities (8.1%, employment +0.5%) and information and communication (8.0%, employment decreased by 3.5%). The volume of wages and salaries increased by 7.7%, year-on-year, but employment fell by 0.2% in the group of economic activities trade, transport, accommodation and food service activities and a rise of 7.2% was recorded with an increase of employment by 2.5% in public administration and defence, education, health and social work. The quarter-on-quarter growth of wages and salaries also accelerated in Q4 (2.4%, employment decreased by 0.1%). The real increase of wages and salaries reached 1.4%. Wages and salaries increased again more sharply in services (real estate activities by 11.8%, information and communication by 3.3%, trade, transport, accommodation and food service

³ Without Bulgaria, Greece, Luxembourg, Romania and Slovakia.

⁴ Employment data in the national accounts conception (persons), figure seasonally adjusted.

⁵ Converted into the real expression using the deflator of household consumption.

⁶ 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.).

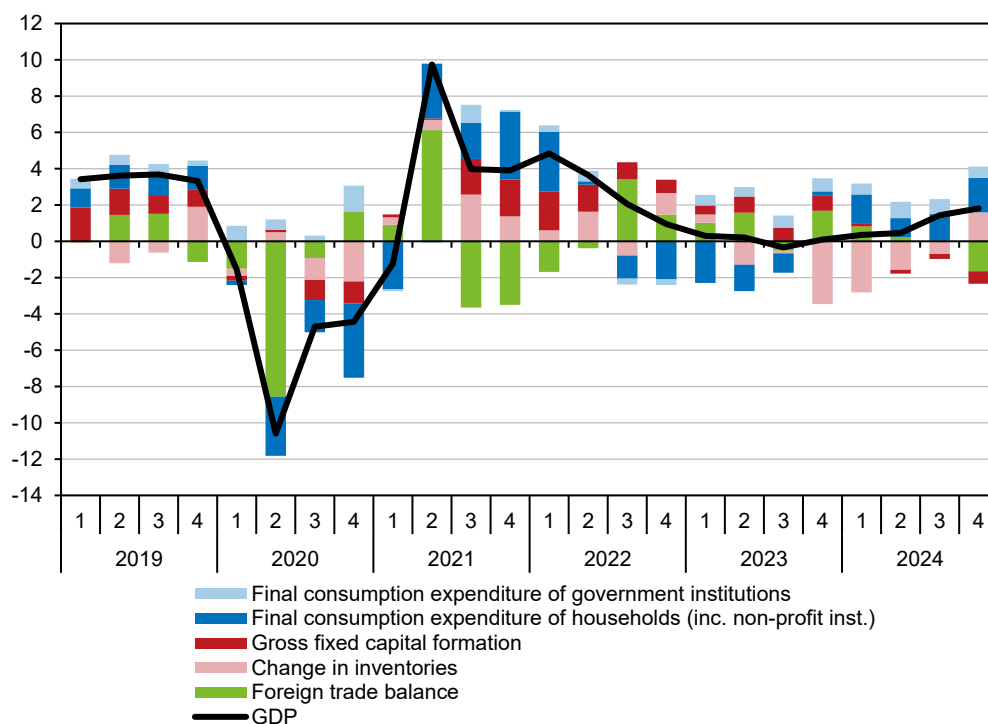


activities by 3.1%). Wages and salaries increased by 1.0%, quarter-on-quarter, in manufacturing and by 0.9% in construction.

Consumption substantially supported the GDP growth last year.

Total consumption increased by 2.6% last year. Growth of household consumption resumed (2.0%) and growth of general government consumption strengthened (3.8%). Total contribution of consumption to GDP growth was thus 2.3 p. p.⁷ last year. In terms of durability⁸, the expenditure on non-durable goods increased last year (4.5%) and consumption of services also grew for the fourth year in a row (1.7%). Expenditure on semi-durable goods stagnated and durable goods consumption fell for the third year in a row (−2.8%). In the second half of 2024, the year-on-year consumption growth strengthened, reaching 3.2% in Q4. Household and government consumption increased at the same pace. Consumption contributed 2.5 p. p. to the year-on-year GDP growth. The consumption of non-durable goods (6.1%), services as well as semi-durable goods (0.2%) was higher, year-on-year, in Q4. The decline of durables consumption moderated (−0.6%). In the quarter-on-quarter comparison, the consumption increased by 1.0%. This was solely due to households, while general government experienced a decrease of 0.3% for the first time since Q1 2022. There was a quarter-on-quarter recovery in all consumption segments in Q4 – mostly in semi-durable goods (8.0%), followed by services (2.0%), durable goods consumption (1.1%) and non-durable goods (0.6%).

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

Investment activity was shrinking last year.

Expenditure on gross capital formation fell for the second time in a row last year, specifically by 4.7%. In total, this component acted by 1.1 p. p. in the direction of a GDP decline. In that, the expenditure on gross fixed capital formation (investment) fell by 1.3% and inventory creation also decreased⁹. Expenditure on dwellings (−1.7%) and ICT and other machinery and equipment (−9.7%) decreased. On the other hand,

⁷ Additions to the GDP change after exclusion of imports for final use.

⁸ Data regarding consumption based on durability are in domestic conception.

⁹ Change in inventories (in current prices and not seasonally adjusted) attained in total -27.6 bn CZK last year and it was +45.5 bn in 2023. It arrived at -79.5 bn CZK in Q4 and it was -89.9 bn in the same period of year 2023.

investments in transport equipment (8.5%), other buildings and structures (1.5%) and intellectual property products (1.1%) were higher. Expenditure on gross capital formation increased, year-on-year, (3.1%) for the first time since the end of 2022 in Q4. This was the result of the effect of a change in inventories, as investment itself fell for the fourth time in a row (−2.4%). The drop of investment concerned ICT and other machinery and equipment (−10.5%), dwellings (−2.0%) and intellectual property products (−0.7%). On the contrary, expenditure on transport equipment (7.3%) and other buildings and structures (1.0%) was higher, year-on-year. The expenditure on gross capital formation decreased by 0.4%, quarter-on-quarter. Investment activity fell by 1.5%. Only expenditure on ICT and other machinery and equipment was higher in the quarter-on-quarter comparison (1.7%). Investment in transport equipment (−4.0%), dwellings (−2.8%), intellectual property products (−2.2%) and other buildings and structures (−1.8%) dropped the most.

External demand slowed GDP growth at the end of the year.

The effect of external demand on GDP growth was slightly unfavourable for the whole year (−0.1 p. p.). While the external demand supported the year-on-year GDP growth in the first half of the year, the combination of a recovery of domestic consumption and a deterioration in export-oriented industries was reflected in a negative effect of external demand on GDP growth towards the end of the year (−1.7 p. p. in Q4). The exports of goods and services¹⁰ increased by 1.5% in real terms for the whole year. Growth of goods exports weakened to 0.6%, while services maintained a solid pace (6.1%). In contrast, the imports of goods and services rose by 0.7%. While imports of goods decreased by 0.7%, imports of services were higher by 7.8%. The balance of international trade with goods and services reached a surplus of 525.6 bn CZK last year. The surplus increased by 141.2 bn CZK, mostly due to trade with goods (an increase of 121.2 bn CZK), but services also contributed (+20.0 bn).

International trade balance attained a substantial surplus.

In Q4 alone, the exports of goods and services increased by 1.3% in real terms, year-on-year. Increase of exports of goods weakened to 0.6% and services to 4.4%. The year-on-year growth rate of imports (3.1%) significantly exceeded the increase in exports in Q4, which was also the reason for the considerably negative effect of external demand on the GDP growth. Imports of goods were higher by 2.0% and services by 8.5%. Although both sides of international trade increased, year-on-year, in Q4, the end of the year brought a decline in exports (−1.5%) as well as imports (−1.8%) from a quarter-on-quarter perspective. The balance of international trade with goods and services reached a surplus of 129.2 bn CZK in Q4, which was a year-on-year improvement of 5.1 bn CZK. The balance of trade with goods and services contributed similarly to this modest improvement.

Gross value added mildly increased last year.

Gross value added (GVA) increased by 0.3%¹¹ in total in 2024. The development for the whole year featured a weak performance in manufacturing (total GVA decline by 1.6%), which was compensated by services branches boosted by revived consumer demand. The GVA was higher particularly in financial and insurance activities (4.7%), information and communication (2.1%), other activities (1.8%) and in group of economic activities trade, transport, accommodation and food service activities (1.4%), year-on-year.

Services thrived more in Q4.

The GVA increased by 1.1%, year-on-year, in Q4 alone. GVA growth was driven forward by services, while industry as a whole fell by 2.2% and manufacturing itself by

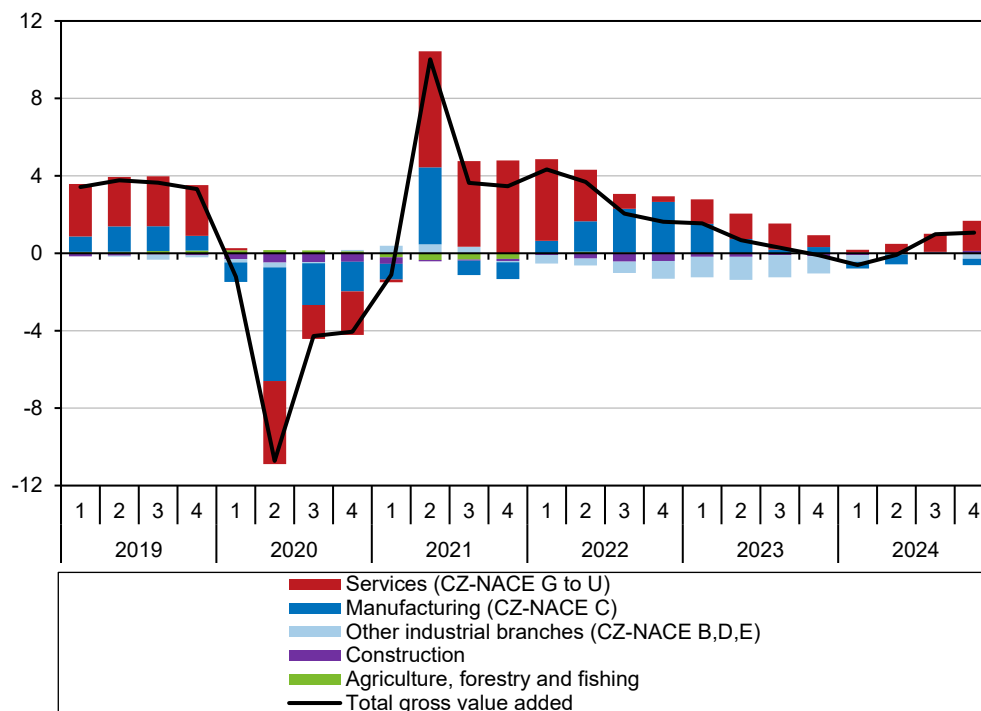
¹⁰ According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). International trade balance in current prices and seasonally adjusted.

¹¹ The difference between the GDP and GVA dynamics was deepened by rising tax revenues related to the recovery of consumption and a drop of subsidies on the other side, which reflected the electricity price caps in 2023.



1.5%. GVA was higher, year-on-year, in financial and insurance activities (6.1%), in other activities (3.4%), in division trade, transport, accommodation and food service activities (3.0%), information and communication (2.7%) or real estate activities (2.1%). Gross value added also increased in construction (2.4%), year-on-year. GVA increased only slightly, year-on-year, in public administration and defence, education, health and social work activities (1.3%) and professional, scientific, technical and administrative activities (1.2%). GVA stagnated in agriculture, forestry and fishing, year-on-year.

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



Source: CZSO

GVA grew, quarter-on-quarter, in manufacturing as well as several services.

Compared to the previous quarter, GVA did not change in real terms in Q4. The decline was mainly due to the development in industry as a whole (GVA decreased by -1.1% here – while manufacturing grew by 1.0%). GVA also decreased in financial and insurance activities (-1.8%), professional, scientific, technical and administrative activities (-0.3%), and information and communication (-0.1%). On the contrary, there was a significant recovery in real estate activities (2.2%) at the end of the year, GVA grew in other activities (1.1%), in agriculture, forestry and fishing (0.8%), in division trade, transport, accommodation and food service activities (0.4%) and in construction (0.2%). GVA stagnated, quarter-on-quarter, in public administration and defence, education, health and social care.