

## 2. Overall Economic Performance

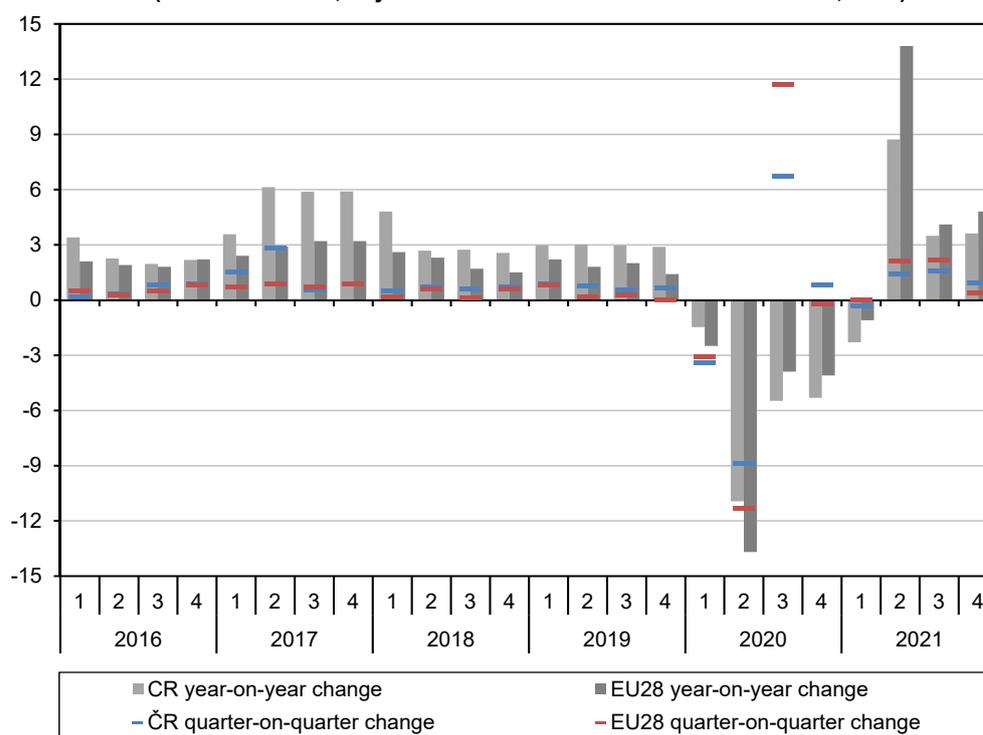
Gross domestic product expanded last year, however it still lagged behind the 2019 level in real terms.

The Gross domestic product (GDP) increased by 3.3%<sup>1</sup> in real terms in year 2021. Following the deep slump in year 2020, the domestic economy thus gradually revived. In total nevertheless, the GDP expressed in constant prices fell behind the level of year 2019 for now. The gross capital formation supported the last year's GDP growth the most, mainly the increase of inventory stock. The household consumption also grew strongly. On the contrary, the foreign demand significantly decelerated the growth of GDP, even more compared to year 2020, when the production in some export oriented businesses halted for some time.

In Q4, the GDP grew both year-on-year and quarter-on-quarter.

Year-on-year GDP dynamics was notably affected by the low comparative basis of year 2020 in the course of the last year – it was apparent the most in Q2. The rules in place in Q4 2021 were not as restrictive as in the same period of year 2020<sup>2</sup>, however they were more severe compared to Q3 2021. Year-on-year GDP addition thus reached 3.6% in Q4. The domestic demand strongly supported its growth – both consumption and capital expenditure. The foreign trade balance on the contrary had a negative effect, which was influenced also by the comparison with the strong ending of 2020, when the export grew significantly and the foreign trade balance reached record levels. The quarter-on-quarter GDP addition was 0.9% in Q4 2021 and slowed down compared to the dynamics of both Q2 and 3. Simultaneously the domestic consumption as well as expenditures on gross capital formation fell. Only the foreign demand thus contributed to the GDP growth. The Gross domestic product expressed in 2015 prices failed to reach the level of the same period of year 2019 in Q4 2021.

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



Source: CZSO, Eurostat

<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 1st March 2022.

<sup>2</sup> Retail operations were maintained. In services the entrance into shops was at first restricted to persons, who do not prove absence of infection. Subsequently the ban shifted to persons without completed vaccination.



European economies managed to recover and many already overcame the pre-crisis level.

The total year-on-year growth of GDP in the European Union slightly accelerated to 4.8%<sup>3</sup> in Q4 2021. The gradual revival of European economies thus continued and majority of them also exceeded the level from the same period of year 2019<sup>4</sup>. The GDP grew in all EU economies year-on-year and based on the available data, Slovenia (10.5%), Croatia (9.9%) and Estonia (8.8%) recorded the largest increase. GDP grew only slightly in Slovakia (1.1%), Germany (1.8%) and Romania (2.7%). The GDP increased by 0.4% in the EU compared to Q3 2021. Relatively low total increase was mainly affected by the difficult development of the German economy, which fell by 0.3% quarter-on-quarter. The GDP was also lower in Austria (−2.2%), Romania (−0.5%), in Latvia (−0.1%) and in Croatia (−0.1%). Slovenia (5.4%), Spain (2.0%) and Hungary (2.0%) on the contrary attained a very strong quarter-on-quarter increase of GDP.

Wages and salaries faced the strong price growth last year, which dampened their real growth.

In 2021, the total volume of paid out wages and salaries expanded by 6.8% given the simultaneous increase of the total employment by 0.1%<sup>5</sup>. However, strengthening of the price growth caused, that the real increase of the volume of wages ended at 3.7%<sup>6</sup> last year. The volume of paid out wages expanded the most in real estate activities (14.1% given the employment stagnation) and further in branches with the dominant government sector activities<sup>7</sup> (8.9%, employment growth of 2.8%), where the payment of bonuses to health care professionals and other forces participating on tackling the pandemics. The volume of earnings also grew at above average pace (7.7%) in professional, scientific, technical and administrative activities and continuing growth of employment<sup>8</sup> (3.4%) supported the growth of wages and salaries in information and communication (6.9%). Wages and salaries were by 6.3% higher in manufacturing, while the employment dropped by 0.5%. The division trade, transportation, accommodation and food service (5.7% given the fall of employment by 1.7%), construction (5.5%), other activities (5.4%), agriculture, forestry and fishing (4.9%) and financial and insurance activities (2.2%) also featured below average increase.

Both wages and employment expanded year-on-year in Q4.

In Q4, the volume of paid out wages and salaries increased by 7.6% year-on-year and the total employment was by 1.3% higher. Real growth of the volume of wages was 2.8%, which is with the exception of periods of year 2020 and last year's Q1, hit by the pandemics, the least since Q3 2014. Quarter-on-quarter, the volume of wages and salaries grew by 1.5% and employment by 0.1%. Wages and salaries in real estate activities achieve the strongest year-on-year increase (21.8%). Increase in other activities (20.5%) and in trade, transportation, accommodation and food service (18.2%) was to a large extent affected by low comparative basis of Q4 2020. Volume of wages and salaries also expanded at above average pace in professional, scientific, technical and administrative activities (9.7%). The wage resources were growing slower in the remaining part of the economy. It was by 6.4% in communication, by 6.1% in agriculture, forestry and fishing, by 5.5% in construction, by 5.4% in financial and insurance activities. Their year-on-year growth markedly slowed down to 4.6% in manufacturing and it also moderated under the influence of high comparative basis in branches with the dominance of the government sector to 2.1%<sup>9</sup>.

Consumption significantly contributed to the GDP growth last year.

The domestic consumption increased by 3.5% in 2021. It contributed 1.4 p.p.<sup>10</sup> to the GDP growth. Especially the household consumption was growing (4.3%), the increase was smaller in case of government institutions (1.6%). The structure of consumption

<sup>3</sup> Data for Bulgaria, Ireland, Greece and Malta were not available.

<sup>4</sup> GDP comparison in prices of year 2015.

<sup>5</sup> Employment in the national accounts conception (persons), figure is seasonally adjusted. The volume of hours worked expanded by 2.9% last year.

<sup>6</sup> Converted into the real expression using the deflator of final consumption expenditure of households.

<sup>7</sup> Public administration, education, health and social work.

<sup>8</sup> Employment grew here for the tenth year in a row and it expanded by more than 40% in this period (more than 50 thousand persons).

<sup>9</sup> Especially the high basis of Q4 2020 manifested, when the extraordinary bonuses were paid out to the medical staff.

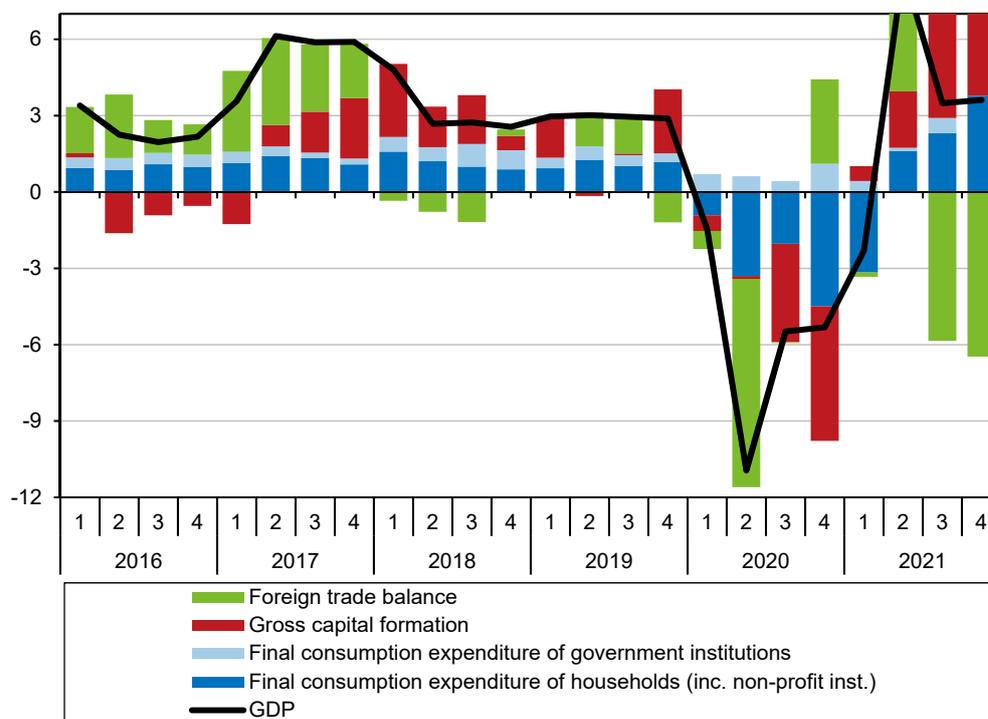
<sup>10</sup> Additions to the GDP change after exclusion of imports for final use.

according to the durability<sup>11</sup> partially reflected the comparison with year 2020, when the sale of part of retail products<sup>12</sup> and the operations of services was restricted for a given period of time. The consumption of durable goods thus increased by 5.0%, medium-term goods by 4.8% and services by 4.0% last year. Consumption of non-durable goods was higher by 3.0%.

Household consumption lowered compared to Q3.

In Q4 2021, the total consumption increased by 6.2% year-on-year and contributed 3.8 p.p. to the GDP growth. While the government consumption stagnated (0.1%), the household consumption was by 9.3% higher year-on-year, which is a record increase, however affected by the comparison with the end of year 2020, when both the retail and services were restricted. The consumption of medium-term durability goods thus deepened very strongly year-on-year in the last year's Q4 (30.0%). Nevertheless, the consumption of durable goods (9.4%) and services (13.5%) also recorded strong increases. Consumption of non-durable goods was higher by 2.8%. In total, the consumption plunged by 1.1% compared to Q3. Household consumption lowered (-1.8%), the government consumption was slightly higher (0.2%). It mirrored the uncertainty and growing pessimism as well, expressed by households in the business cycle surveys towards the end of the year, mainly in connection to the growth of prices.

**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 import for final use

The inventory stock strongly grew last year.

Expenditures on gross capital formation increased by 18.2% in 2021. In that the expenditures on fixed capital were by 0.9% higher. Following the deep slump in 2020, especially the businesses in unsteady situation kept avoiding the strengthening of investment activity. The inventory stock expanded on the contrary<sup>13</sup>, mainly of the unfinished production. In real terms investment lagged behind the levels of both year

<sup>11</sup> Data regarding consumption based on durability are in the domestic conception.  
<sup>12</sup> Large part of the restricted retail belongs to the category of goods of medium term consumption – clothing, recreation and sport equipment and the like.  
<sup>13</sup> The inventory stock (in current prices and seasonally adjusted) amounted to +275.1 CZK bn in year 2021. In Q4 itself, the inventory stock expanded by 82.5 CZK bn.



2018 and 2019 last year. The development of expenditures on gross fixed capital formation according to the type classification indirectly signals the continuing downturn of the investment activity of the non-financial businesses. After the deep slump in year 2020, investment into ICT and other machinery and equipment (−0.5%) kept further falling last year. Expenditures on other buildings and structures (−2.0%) were also lower. Investment into transport equipment did increase by 5.7%, however they dived by nearly one quarter in the previous year, thus the last year's expenditures in real terms fell deeply behind the level from years 2016–2019. Investment into the products of intellectual property went up by 1.5% and also lagged behind the level from year 2019 in real terms. The only area, where the investment activity has been growing already eighth year in row, were the expenditures on housing, which increased by 4.1% last year. Expenditures on housing are the domain of the household sector.

Investment grew in Q4.

Expenditures on gross capital increased by 26.9% year-on-year in Q4. In that, the investment only increased by 3.5% and the rest can be attributed to the increase of the inventory stock. Compared to Q3, the capital expenditures went down by 0.2%. However, the investment alone grew by 0.5%. Based on the data of type classification of gross fixed capital formation, the expenditures on transport equipment (20.1%) and housing (7.5%) grew the most year-on-year in Q4. Investment into other buildings and structures (1.3%), ICT and other machinery and equipment (0.9%) and products of intellectual property (0.2%) were only slightly higher. Investment into the products of intellectual property (5.6%) and other buildings and structures (3.4%) considerably increased in comparison to Q3 2021. Expenditures on housing grew moderately (0.2%) and investment into transport equipment stagnated. Expenditures on ICT and other machinery and equipment were markedly lower quarter-on-quarter (−4.9%).

The foreign trade balance experienced record worsening last year.

The export of goods and services in real terms expanded by 5.0%<sup>14</sup> in year 2021. In that, the export of goods was by 5.1% and services 4.6% higher. The export of goods in real terms lagged behind the level of year 2019 by 0.2% and services by 13.2%. Part of the domestic exporters however faced difficulties with supplies of some components. The import of goods and services thus grew at a faster pace compared to export last year and increased by 11.4% in total. Import of goods increased more (12.5%) than the import of services (4.6%). The balance of foreign trade in total reached surplus of 185.2 CZK bn. It is by 204.1 bn<sup>15</sup> worse result than in year 2020. For this reason also, the foreign trade balance worked strongly in the direction of GDP decrease (−2.0 p.p.). Solely the positive balance of trade with goods was worsening (−211.6 CZK bn). On the contrary, the surplus of trade with services improved by 7.5 CZK bn last year.

In Q4, the foreign trade balance was in deficit.

In Q4, the export of goods and services dropped by 5.7% in real terms year-on-year, while the export of goods went down (−8.9%), while it grew strongly for services (15.3%). The import was on the contrary expanding (4.0%). Import of goods was by 3.5% and services by 7.6% higher year-on-year. Compared to Q3, the export increased by 2.2% in real terms, both export of goods (1.2%) as well as services (7.7%) was growing. On the other hand, the import decreased by 0.4% quarter-on-quarter. The foreign trade balance reached total surplus of 22.5 CZK bn last year, which is by 122.6 bn worse result year-on-year. The year-on-year comparison was apart from the situation in industry also affected by the high comparative basis of Q4 2020. The balance of trade with goods fell by 137.1 CZK bn year-on-year into the deficit of −12.2 bn, while the surplus of trade with services improved by 14.5 bn. Quarter-on-quarter, the total surplus improved.

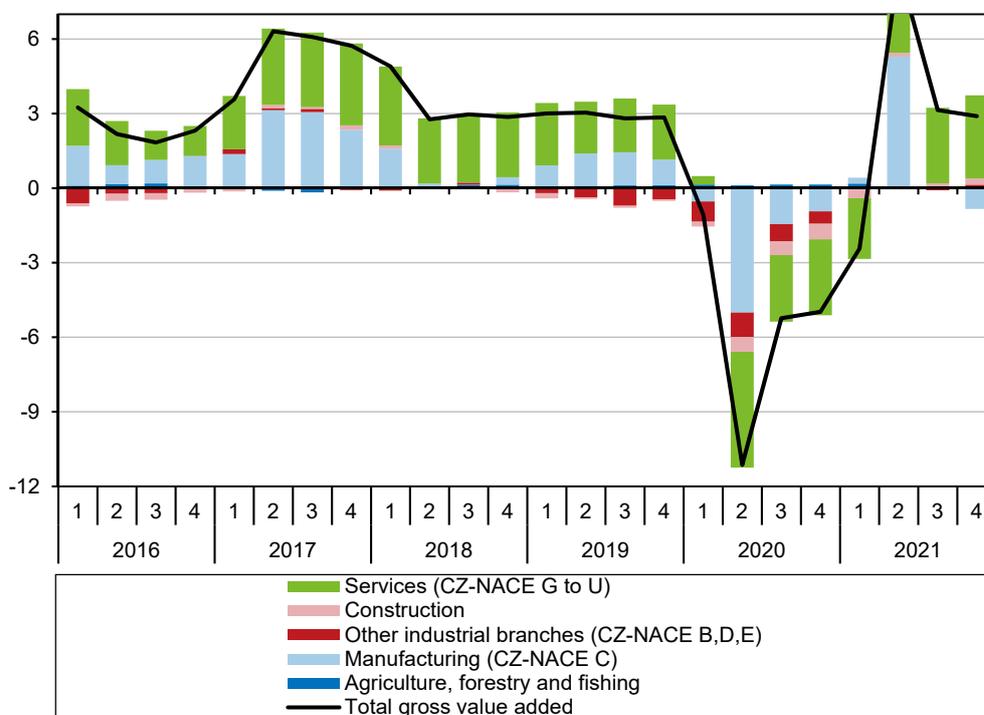
<sup>14</sup> According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). Foreign trade balance in current prices and after seasonal adjustment.

<sup>15</sup> It represents the largest recorded worsening.

The gross value added grew last year but did not exceed the level from year 2019 in real terms.

The Gross value added (GVA) increased by 3.0% in 2021. Still in Q1, some economic activities were significantly hit by the counter pandemic restrictions, the Autumn worsening of the epidemic situation however did not lead to such strict measures as in 2020. The increase was however not sufficient to offset the slump from year 2020 and the total GVA in real terms lagged behind the level from year 2019. Among the individual branches, only agriculture, forestry and fishing, information and communication, financial and insurance activities and branches with the dominant government sector managed to climb above the level from year 2019. Compared to year 2020, the GVA was lower only in other activities (-1.4%). These were strongly hit by the government restrictions since they include for instance personal care services. In other branches, the GVA increased, the most in financial and insurance activities (9.4%), in manufacturing (4.5%), in information and communication (4.3%). The GVA in branches with the dominant government sector (2.9%), agriculture, forestry and fishing (2.8%) in division trade, transportation, accommodation and food service (2.5%), in professional, scientific, technical and administrative activities (2.3%), in construction (0.9%) and in real estate activities (0.5%) featured below average growth pace.

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



Source: CZSO

In Q4, the GVA fell in manufacturing both year-on-year and quarter-on-quarter.

The gross value added increased by 2.9% year-on-year in Q4. It presents a relatively moderate increase, also due to the low comparative basis of Q4 2020 (GVA fell by 5.0% at that time). The GVA thus lagged behind the same time period of the year 2019. Lasting difficulties with supplies led to the year-on-year GVA decrease in manufacturing (-3.3%). The GVA stagnated in agriculture, forestry and fishing, but in the remaining part of the economy, it grew. The GVA in in trade, transportation, accommodation and food service (10.7%), in financial and insurance activities (8.6%), other activities (6.5%), construction (4.7%), professional, scientific, technical and administrative activities (4.6%) and information and communication (3.2%) had the largest year-on-year addition in Q4. GVA in branches with the predominance of government sector (2.6%) and in real estate activities (1.0%). Compared to Q3 2021, the GVA increased in total by 0.7%. Even though “hard” restrictive measures were not introduced in Q4, the GVA



fell quarter-on-quarter in the previously affected other activities (–8.0%) and the growth markedly slowed down in case of trade, transportation, accommodation and food service (0.5%). Gross value added was also falling in manufacturing quarter-on-quarter (–1.6%) and construction (–0.3%). GVA recorded notable quarter-on-quarter increase in agriculture, forestry and fishing (3.4%), real estate activities (2.7%), financial and insurance activities (2.2%) and branches with the predominance of the government sector (1.9%). The GVA grew only moderately in information and communication (0.7%) and professional, scientific, technical and administrative activities (0.5%).