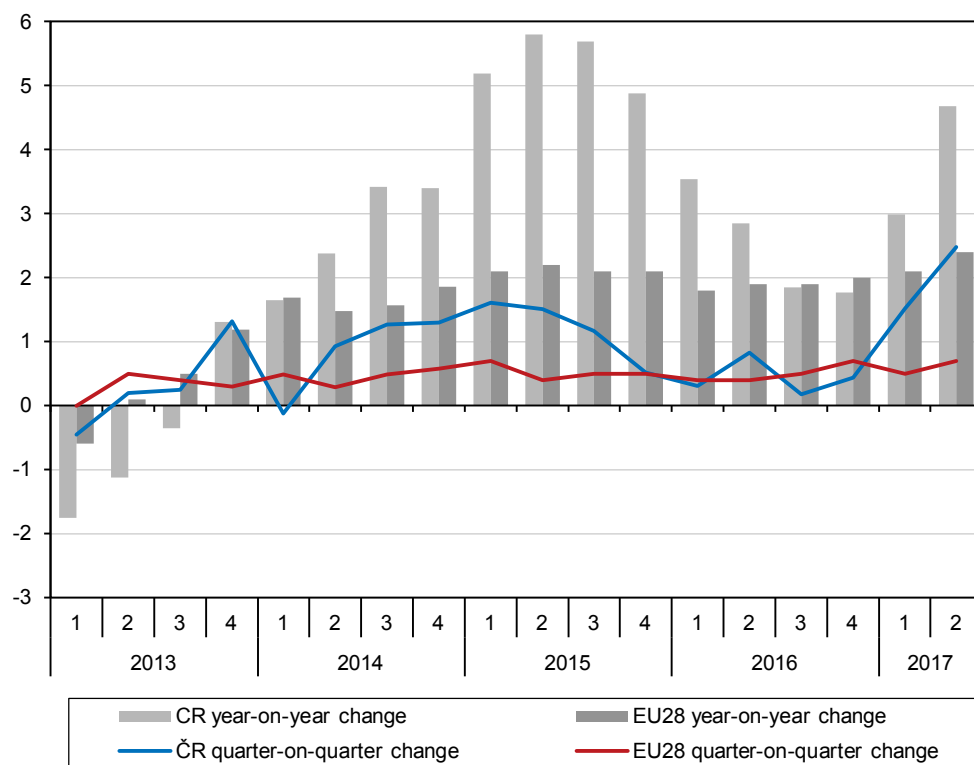


2. Overall Economic Performance

Both year-on-year and quarter-on-quarter growth notably gained pace in Q2.

Acceleration of the year-on-year dynamics of the growth of the gross domestic product (GDP), which was registered in Q1 2017, continued also in Q2. The GDP increased by 4.7%¹ year-on-year in the second quarter of the year. Such pace approaches the extraordinary year 2015, when the factor of finalising the drawing on the European funds had a major effect. The growing consumption as well as the foreign trade balance together contributed to growth already in Q1. The newly growing investment expenditure joined these factors in Q2. The gross value added (GVA) expanded by the same rate of growth as the GDP year-on-year. Most industrial activities as well as services supported its growth. The quarter-on-quarter growth of the GDP amounted to 2.5% and it was thus the highest in the whole available time series of the national accounts. Comparably strong quarter-on-quarter growth was recorded at the beginning of year 2006 (2.2%). With respect to the additions to the quarter-on-quarter growth, the increase of the final consumption expenditure of households and very strong acceleration of the growth of expenditure on gross fixed capital formation were essential in Q2 2017. The contribution of the foreign trade was weaker compared to the preceding quarter.

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



Source: CZSO, Eurostat

The economic growth also mildly quickened in the EU.

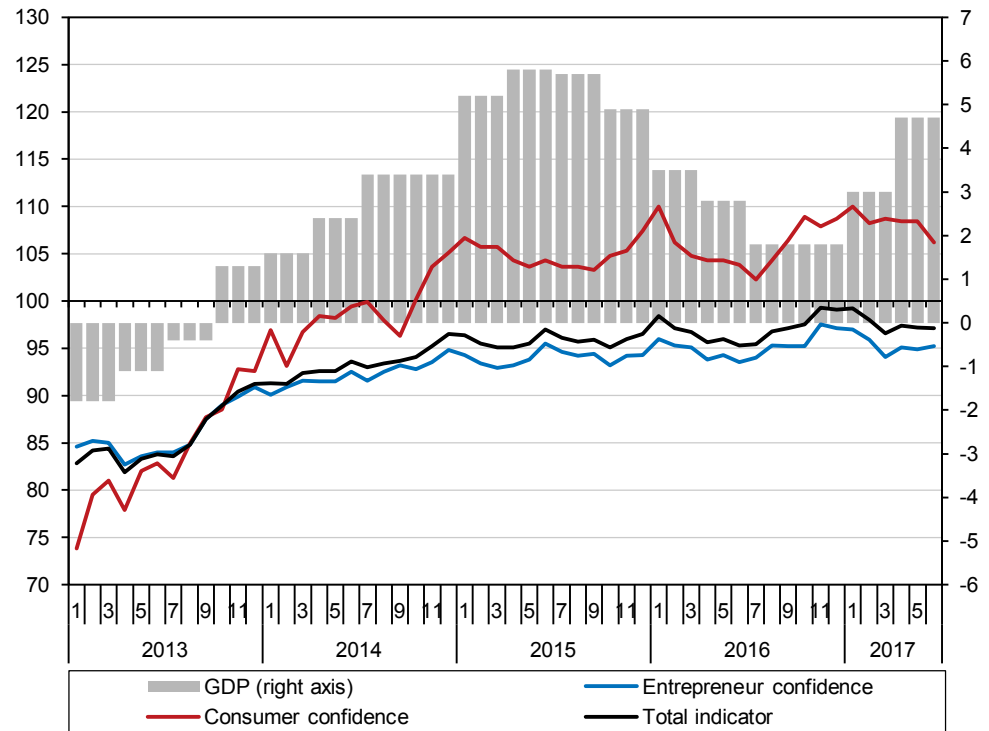
The year-on-year growth reached the value of 2.4%² in the EU in Q2 and it was the fastest since Q1 2011. The quarter-on-quarter GDP change was 0.7% in the EU and it was by 0.2 p. p. higher compared to the previous quarter. The growth in the EU was favourably impacted by both the growing consumption and the expenditure on gross fixed capital formation. The increase of year-on-year as well as quarter-on-quarter dynamics then moved the Czech Republic among the fastest growing EU countries. The quarter-on-quarter addition to the Czech economy was the highest in the EU. With a relatively large distance, Sweden ranked immediately behind the CR (1.7%), then Romania (1.6%) and Netherlands (1.5%). The year-on-year growth was the

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 were published on 1. 9. 2017 and the revised data will be published on 3. 10. 2017.

² Data for Ireland and Luxembourg not available.

highest in Malta (6.2%), Romania (5.7%), Estonia (5.2%) and Slovenia (5.2%). The nearest business partners of the Czech Republic also fared well. Slovakia attained the year-on-year addition amounting to 3.1%³, the same as in Q1. The German economy slightly quickened (from 1.9% in Q1 to 2.1%), as well as the Polish economy (from 4.2% to 4.4%). Austria also quickened its pace (from 2.1% to 2.9%).

Chart 2 **GDP** (volume indices, adjusted for seasonal and calendar effects, year-on-year in %, right axis) and **confidence indicators** (2005=100, left axis)



Source: CZSO

GDP growth was supported by all its components.

All the GDP components participated on its year-on-year growth in Q2 2017. Expenditure on gross fixed capital formation played an important role in the acceleration of the year-on-year dynamics. It contributed to the GDP growth 1.7 p. p.⁴, which is the most since Q4 2015. The addition of the final consumption expenditure however also mildly increased, it has been the stable basis of the economic growth since the end of year 2014. Household consumption, which contributed 1.5 p. p. again had a more significant effect. The addition of the government institutions consumption arrived at 0.3 p. p. The strong growth of the foreign demand, which led to the contribution of the foreign trade balance to the GDP in the size of 2.1 p. p., also continued in Q2.

Growth of the household consumption significantly quickened, ...

Year-on-year growth of the household final consumption expenditure increased its pace in Q2 and reached 4.4%. It is the largest value since the beginning of year 2007. Only the dynamics at the turn of years 2015 and 2016 approaches it in the last five years. The acceleration of the quarter-on-quarter dynamics also has not been negligible. Contribution of 1.8% was twice as large as in the preceding quarter. It was also the largest since Q2 2008. All segments of consumption grew strongly year-on-year. Expenditure on durable goods increased by 5.7%, in case of goods of medium term consumption by 6.8%. Short term consumption goods, which usually feature milder dynamics, increased by 3.6%. Growing purchasing power of households was reflected in the growth of the expenditure on services, which increased to 3.1%. Year-on-year growth of the final consumption expenditure of government institutions slowed down by 0.5 p. p. compared to the

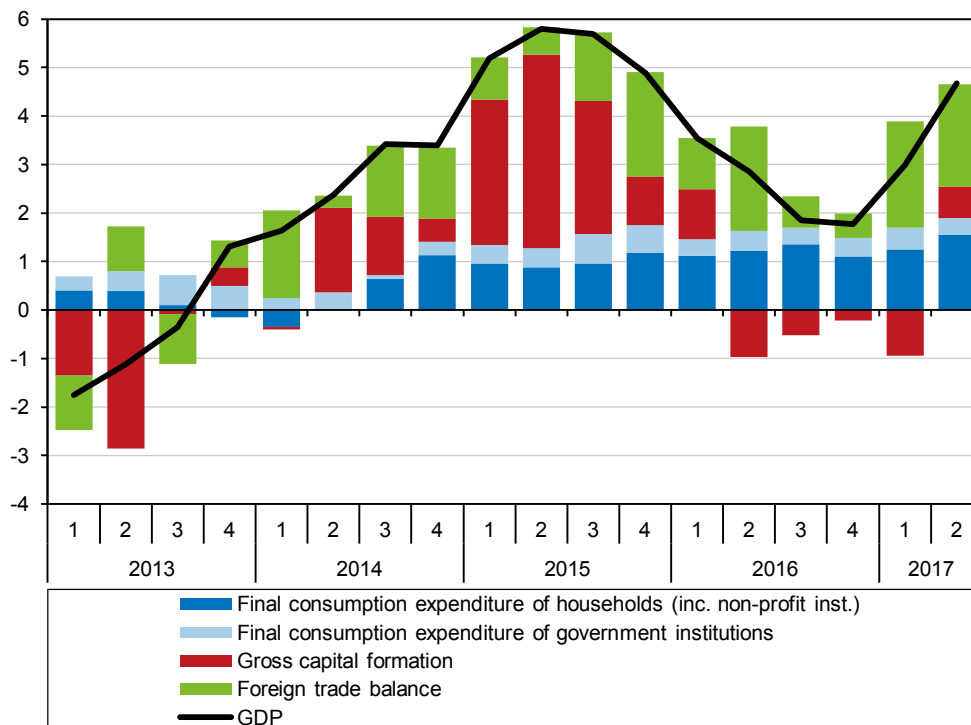
³ Slovakian data are not adjusted for calendar effects. Slovakia had similarly to the Czech Republic four working days less compared to the previous years, which can quite significantly influence the size of the year-on-year rate of growth.

⁴ Additions to the GDP change after exclusion of imports for final.



previous quarter and attained 1.9%. Growth of the government consumption thus remains at the level of the last year. The quarter-on-quarter dynamics did not bring any significant fluctuations either. Consumption of government institutions increased by 0.4% in Q2, slightly more than in the preceding quarter.

Chart 3 **Contributions of expenditure items to real GDP change *** (volume indices, year-on-year growth, contributions in p. p., GDP in %)



*Contributions to GDP change after exclusion of imports for final use.

Source: CZSO

...supported by strong raising of salaries and wages.

Growth of the household consumption expenditure was the consequence of the growing wages. The volume of salaries and wages paid out in Q2 2017 increased by 8.2% year-on-year (by 5.7% in real terms⁵). The rate of growth quickened by 1.4 p. p. compared to the previous quarter. Year-on-year growth of the number of employees reached 1.2%⁶ in the same time period, so the increase of the volume of paid out salaries and wages was reflected in the size of earnings. The volume of paid out wages in manufacturing, which employees the highest number of persons, played a key role. It reached 8.9% and it increased its pace by 2.1 p. p. compared to the previous quarter. The increase was then caused especially by the growth of the base wages, not by the paid-out benefits. However, the paid-out wages increased significantly in all monitored branches in Q2. The growth, already notable in the previous quarters, increased in information and communication (9.8% in Q1, 10.3% in Q2), which partially resulted from the rising number of employees (3.2% in Q2, the most among all branches). The volume of paid-out wages rose markedly in the trade, transportation, accommodation and food service (8.9%), to some extent as a result of the minimum wage increase. The volume of paid-out wages quickened in the real estate activities area (from 7.6% to 9.4%), it was however also accompanied by the increase of the number of employees by 2.9% (given that the total employment in the branch increased by 2.0%, the number of self-employed, which holds a large weight in this branch, did not practically change year-on-year). The volume of paid-out wages (8.4%) as well as employment (4.8%) occurred for the professional, scientific, technical and administrative activities. Similarly, high growth of wages (8.0%) accompanied by nearly constant number of employees was apparent in the branches with the dominance of state.

⁵ Converted into the real expression using the deflator of final consumption expenditure of households.

⁶ In the national accounts conception, seasonally adjusted.

Investment expenditure increased year-on-year following four quarters of decline. The quarter-on-quarter increase was also very strong.

The year-on-year growth of the expenditure on the gross fixed capital formation attained 7.7% in Q2, and it was the highest since Q4 2015. It presented the first increase after 4 quarters of declines. This result however cannot be definitely assigned to the low comparative basis of the previous year. The quarter-on-quarter dynamics also experienced a notable revival and the investment activity grew by 6.3% during Q2. From the point of view of the type classification of the investment activity, the most significant shift occurred for other buildings and structures, which are the second most important investment category and investments were falling in this area year-on-year in the previous four quarters. They increased by 3.1%⁷ in Q2 (they still fell by 10.3% in Q1). The year-on-year growth of the most significant category with respect to the weight it holds, that is the ICT, other machinery and equipment and defence systems accelerated (from 4.0% in Q1 to 5.4%), and also for the investment into the products of the intellectual property (from 4.3% to 5.2%). The growth for expenditure on housing (5.9%), transportation equipment (7.9%) stayed strong despite slightly slowing down.

Increase of the surplus of the foreign trade balance was driven by the expansion of the trade with services. Terms of trade remained negative.

The surplus of the foreign trade balance (in current prices) reached 92.9 CZK bn⁸ in Q2 and it expanded by 1.3 bn year-on-year. The year-on-year growth of the surplus was then driven by the increase of the positive balance of the trade with services, which hit 29.8 CZK bn and increased by 3.9 bn. Trade with goods, whose surplus grew in the preceding five quarters and reached the amount of 63.0 CZK bn in Q2 however decreased by 2.6 bn year-on-year. The terms of trade were negative both in Q1 and Q2. They reached the value of 98.3% this time period. The trade with goods, whose terms of trade were 98.0% in Q2, were mainly behind this result. The growth of prices of imported goods slowed down, but it kept at the level of 2.0%⁹, while the prices of export were stagnating. The terms of trade with services were positive similarly to the previous quarter and they mildly increased to 100.3%. The loss from the terms of trade, which is indirectly depicted by the real gross domestic income, reached 12.7 CZK bn in Q2 and it slightly decreased compared to the preceding quarter.

GVA growth was supported by favourable development both in manufacturing and services sector.

The year-on-year GVA growth reached 4.7% in Q2 and it accelerated by 1.7 p. p. compared to the previous quarter. The increased pace was assisted mostly by the strengthening of the services sector, which together contributed 2.2 p. p. to the GVA growth. The front position was then held by the trade, transportation, accommodation and restaurants among the services activities, which contributed 0.8 p.p. (after three quarters of negative contributions). The GVA of these divisions increased by 4.1% year-on-year. The strong growth of the GVA also continued in financial and insurance activities (8.3%), which belong to the smallest branch by volume, however contributed 0.3 p. p. to the growth. The contribution of the real estate activities increased in Q2 and reached 0.4 p. Manufacturing however still stays the main pillar of the growth of the value added, with its GVA growing by 7.9% year-on-year, which suggests a contribution in the amount of 2.1 p.p. The revival arrived in construction after four quarters of fall, whose GVA rose by 3.1% (contribution to the total growth at the level of 0.2 p. p. was the highest since Q3 2015). The contribution of agriculture, forestry and fishing reached the same result. The branch remains at this level already 3.5 years. Other industrial activities were the only part of the economy, which neither contributed to the growth of the GVA nor did it dampen it.

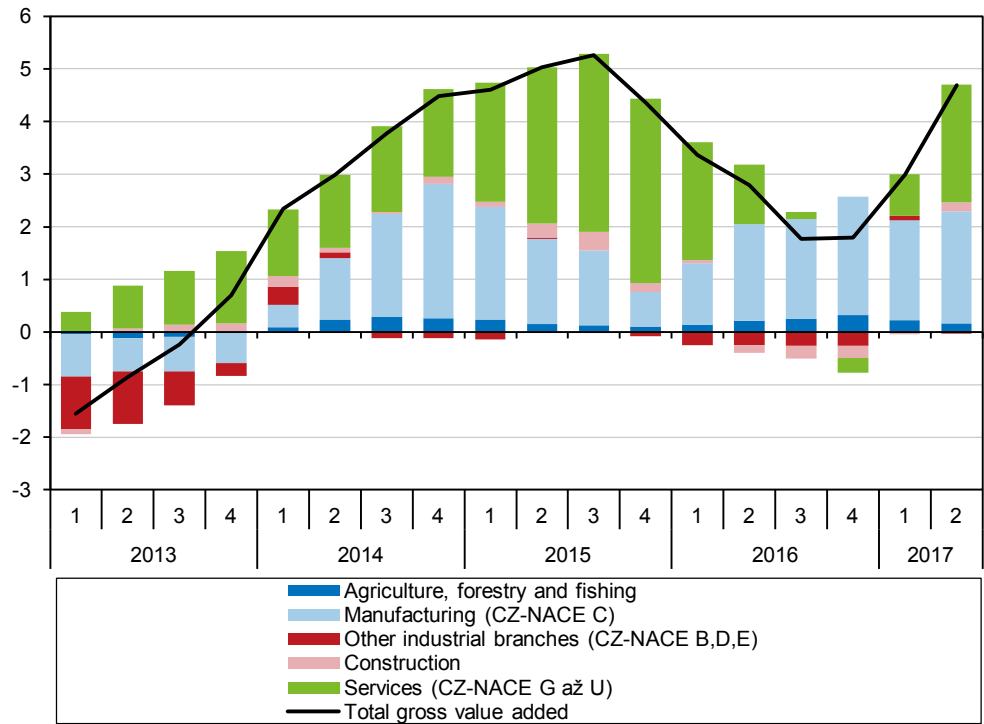
⁷ Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.

⁸ Based on the methodology of the quarterly national accounts (export and import in FOB/FOB prices).

⁹ Based on the deflator.



Chart 4 **Contributions of branches to real change in GVA** (volume indices, year-on-year contributions in p.p., GVA in %)



Source: CZSO