

THE CZECH ECONOMY DEVELOPMENT

First half of 2024

Summary Data on the Czech Republic

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Contents

1. Summary	4
2. Overall Economic Performance.....	7
3. Branches Performance.....	11
4. External Relations.....	22
5. Prices.....	26
6. Labour Market.....	32
7. Monetary Conditions.....	39
8. State Budget.....	41

Main sources of data in the whole analysis: CZSO, MF CR, CNB, MLSA, CSSA, Eurostat, CZSO calculations.
Latest information provided in this report has been dated the 6th September 2024.

1. Summary

- The Gross domestic product (GDP) increased by 0.3%, quarter-on-quarter, in Q2 2024¹. The quarter-on-quarter recovery of the domestic consumption continued, investment activity grew, and external demand had a slightly positive effect on the GDP growth. On the contrary, quarter-on-quarter GDP growth was hampered by a change in the inventories. The GDP was by 0.6% higher in the year-on-year comparison. Both the household and government consumption were higher, and the external demand and investment activity exerted a mild positive effect. The GDP growth was significantly negatively affected by changes in inventories. Gross domestic product grew by 0.8%, year-on-year, and by 0.2%, quarter-on-quarter, in the EU in Q2. The German economy stagnated and the GDP of Austria and Hungary slumped within the Central European region. Slovakia grew slightly. Poland represents the exception in the stagnating Central Europe, growing the most in the EU in Q2.
- The Gross value added (GVA) increased by 0.5%, quarter-on-quarter, in Q2 and stagnated, year-on-year, (0.1%). The positive effect of services, which drew on the recovery of domestic consumption, was evident in both year-on-year and quarter-on-quarter comparison. In contrast, the GVA dropped by 0.6% in the industry, quarter-on-quarter, and by 2.5%, year-on-year. The decline was even deeper compared to total industry in manufacturing itself (-1.7%, quarter-on-quarter, and -3.0%, year-on-year). Even the Q2 did not bring a turnaround in the long-term stagnating construction industry, where the GVA fell by 0.3%, quarter-on-quarter, and year-on-year declines have been ongoing continuously for six years. Among the services, the financial and insurance activities and the group trade, transport, accommodation and food service were particularly successful.
- Exports of goods and services increased by 0.4%², year-on-year, in real terms in Q2 2024, and imports decreased by 0.8%, year-on-year. Total balance of international trade with goods and services reached a surplus of 143.0 bn CZK in current prices in Q2, which thus increased by 45.4 bn CZK, year-on-year, mainly due to an increase in the surplus of trade with goods. Sale of motor vehicles, electrical equipment and oil and natural gas contributed most to this improvement. In Q2, the balance of trade in coke and refined petroleum products, computers, electronic and optical appliances and equipment, and basic metals deteriorated the most, year-on-year.
- The total price level (according to the GDP deflator) increased by 4.2%, year on year, in Q2 and by 1.4%, quarter on quarter. Consumer prices were by 2.5% higher, year-on-year, in Q2 and increased by 0.8%, quarter-on-quarter. The acceleration of year-on-year consumer price growth was due to stronger growth of transport prices and further a moderation of the decline of prices of food and non-alcoholic beverages. The year-on-year growth of consumer prices was mostly due to the increase of housing and energy prices. Only prices of food and non-alcoholic beverages and home furnishings and household equipment decreased, year-on-year. Industrial producer prices rose by 1.1%, year-on-year, in Q2. The deep decline of agricultural producer prices moderated.
- Key monetary policy-relevant interest rates continued to fall, and interest rates on most types of client deposits fell along with them. A recovery of demand for mortgage loans was evident as well as a greater volume of negotiations regarding the new terms and conditions of existing contracts.
- Total employment³ was 0.2% higher, year-on-year, in Q2 and 0.5%, quarter-on-quarter. The total unemployment rate still fluctuates below 3%. The average gross monthly nominal wage increased by 6.5%, year-on-year, in Q2 and reached 45,854 CZK. In real terms, the average wage increased by 3.9%. The quarter-on-quarter nominal increase of the average wage was 1.4%.

¹ Data regarding the GDP, gross value added and their components are expressed in constant prices and adjusted for seasonal and calendar effects.

² According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).

³ Employment data are in the national accounts conception and adjusted for seasonal effects.



- The state budget deficit reached 178.6 bn CZK at the end of the first half of the year. The deficit decreased by 37 bn CZK, year-on-year. This is mainly related to fading of the need for extraordinary expenditure for households and companies impacted by high inflation. The revenue side was still favourably affected by the collection of extraordinary taxes temporarily imposed on selected sectors of the economy. A revival of household consumption and the first effects of the approved consolidation package also began to manifest. There is also a noticeable change in the budgetary allocation of taxes, which increases the share of the revenue of some taxes of significant weight in favour of the state budget.

Selected Key Indicators of the Economic Development*

Indicator	Unit	2023			2024		Whole year	
		2q	3q	4q	1q	2q	2022	2023
Economic Performance								
Gross Domestic Product in the CR ¹	y/y, in %	0,2	-0,4	0,0	0,4	0,6	2,9	0,0
	q/q, in %	0,1	-0,4	0,3	0,4	0,3	x	x
Gross Domestic Product in the EU ¹	y/y, in %	0,5	0,1	0,4	0,7	0,8	3,4	0,4
Final consumption expenditure ¹	y/y, in %	-1,4	-0,9	0,8	2,2	2,0	0,5	-0,9
Gross fixed capital formation ¹	y/y, in %	3,6	2,4	2,2	-0,1	0,7	6,3	2,7
Exports of goods and services ^{1,3}	y/y, in %	5,0	-1,5	0,5	-0,8	-0,8	5,2	3,0
Imports of goods and services ^{1,3}	y/y, in %	1,0	-2,2	-4,6	-2,9	-1,5	6,0	-0,6
Balance of foreign trade ^{2,3}	in CZK bn	97,6	91,9	123,5	136,8	143,0	56,0	384,1
Balance of economic sentiment indicator ⁴	in p.p.	-2,6	-3,8	0,8	1,2	5,3	-3,3	0,8
Performance in Main Branches								
Industrial production ⁴	y/y, in %	0,3	-3,4	-0,7	-0,9	-2,2	2,1	-0,8
Construction production ⁴	y/y, in %	-4,1	-0,6	-2,9	-4,3	-6,0	3,3	-2,4
Sales in services ⁴	y/y, in %	-1,6	-3,8	-2,2	1,0	2,5	8,7	-1,6
Sales in retail trade ⁴	y/y, in %	-6,3	-3,1	-0,1	3,9	4,1	-3,9	-4,2
Prices								
Consumer price index	y/y, in %	11,1	8,0	7,6	2,1	2,5	15,1	10,7
HICP in the CR	y/y, in %	12,6	9,5	8,4	2,4	2,7	14,8	12,0
HICP in the EU	y/y, in %	7,2	5,7	3,4	2,8	2,6	9,2	6,4
Agricultural producer prices	y/y, in %	-8,1	-14,7	-14,6	-17,2	-10,4	31,8	-6,0
Industrial producer prices	y/y, in %	3,9	1,3	0,8	-0,9	1,1	24,3	5,0
Service producer prices in the bus. sph.	y/y, in %	6,3	5,3	4,9	4,5	3,4	5,8	5,6
Terms of trade in trade with goods	in %	106,3	107,7	104,2	102,5	100,6	96,2	105,3
Labour Market								
Total employed in the CR ³	y/y, in %	1,1	0,7	0,8	0,3	0,2	1,0	1,0
General unemployment rate in the CR ⁵	in %	2,6	2,6	2,6	2,7	2,7	2,2	2,6
General unemployment rate in the EU ⁵	in %	6,0	6,1	6,1	6,1	6,0	6,2	6,1
Average employee wage (nominal)	y/y, in %	8,4	7,8	7,1	7,2	6,5	4,3	8,0
Average employee wage (real)	y/y, in %	-2,4	-0,2	-0,5	5,0	3,9	-9,4	-2,4
Monetary Conditions								
Two week repo rate ⁶	in %	7,00	7,00	6,75	5,75	4,75	7,00	6,75
Exchange rate CZK/EUR		23,6	24,1	24,5	25,1	25,0	24,6	24,0
Exchange rate CZK/USD		21,7	22,2	22,8	23,1	23,2	23,4	22,2
State Budget⁷								
State budget balance in the CR	in CZK bn	-49	35	-108	-105	-74	-360	-289
State debt ⁶	in CZK bn	3044	3115	3111	3221	3207	2895	3111

Data source: CZSO, CNB, MF, Eurostat

* Unless stated otherwise, data relate to the CR.

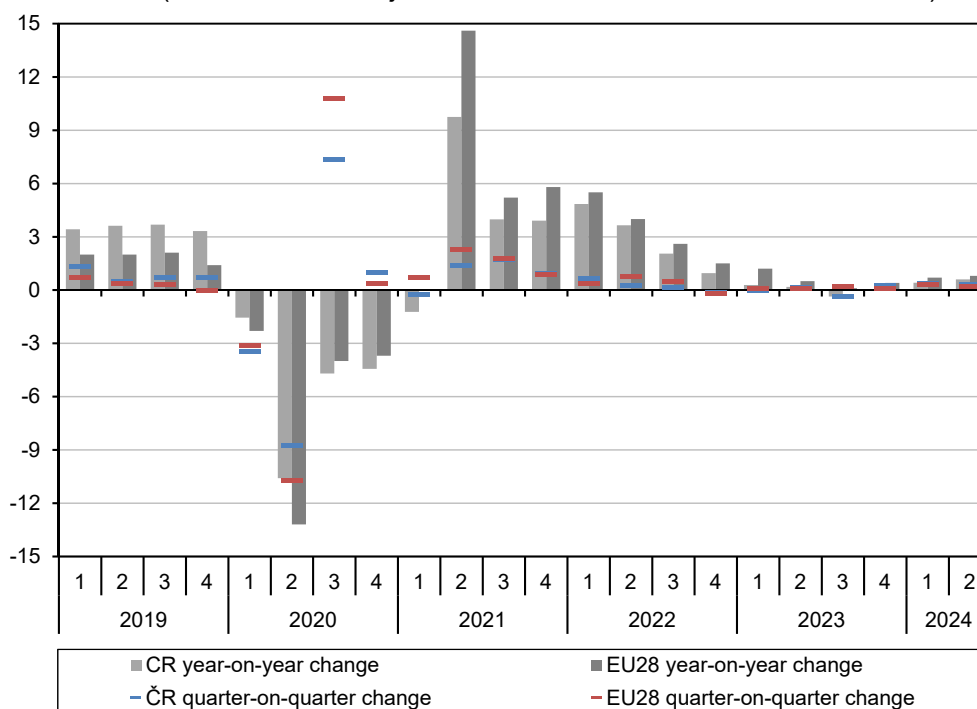
⁴ adjusted for seasonal effects¹ data adjusted for seasonal and calendar effects in constant prices⁵ seasonally adjusted, age group 15 – 74 years² data adjusted for seasonal and calendar effects in current prices⁶ balance at the end of period³ in the national account conception, in natural persons⁷ based on treasury fulfilment

2. Overall Economic Performance

The Czech economy continued to grow weakly.

The lacklustre growth of the Czech economy also continued in Q2 2024. Gross domestic product (GDP) increased in real terms by 0.3%, quarter-on-quarter, and by 0.6%, year-on-year⁴. The quarter-on-quarter GDP growth was slightly supported by investment activity, consumption expenditure as well as external demand. Consumption was dominated mainly by the general government sector, while in case of households, the increase of consumption moderated. By contrast, the inventories significantly slowed the quarter-on-quarter GDP growth. The domestic consumption had a large share in the year-on-year growth of the Czech economy. The effect of growth of expenditure on gross fixed capital formation and external demand was weaker, but also positive. On the contrary, the year-on-year decrease of inventory creation continued.

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



Source: CZSO, Eurostat

Central European economies generally remained in a zone of weak growth and stagnation.

The Gross domestic product increased by 0.2%, quarter-on-quarter, in the EU in Q2 and was 0.8% higher, year-on-year. In Q2, the GDP grew in most EU countries, quarter-on-quarter. Ireland (-1.0%), Latvia (-0.9%), Austria (-0.4%), Sweden (-0.3%), Hungary (-0.2%) and Germany (-0.1%) represented the exceptions. On the contrary, a significant recovery of growth was recorded in Poland (1.5%), the Netherlands (1.0%) and similarly by 0.8% in Spain and Croatia. The economic performance was rather weak within the Central Europe. Declines were recorded in Hungary and Germany, and Austria, which, together with Germany, is experiencing a period of decrease and stagnation, also plunged. Moderate growth continued in the Czech Republic and Slovakia, which was the only Central European economy not to experience a contraction in the period since the beginning of 2022, fared a little better. The strongly growing Poland was the exception in the region. The quarter-on-quarter growth was also mild in other large economies – France and Italy (both by 0.2%). In the year-on-year comparison, the GDP lagged behind in Ireland (-4.1%), Estonia (-1.3%), Finland

⁴ 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 31st May 2024.

(-1.3%), Austria (-0.6%) and Latvia (-0.1%). The most significant year-on-year GDP growth was recorded in Poland (4.0%), Cyprus (3.7%) and Croatia (3.0%) in Q2.

Wages grew, quarter-on-quarter, in real terms.

The volume of wages and salaries paid out in the Czech Republic in Q2 increased by 0.9%, quarter-on-quarter, while employment increased by 0.5%⁵. Price growth weakened, thus the wages and salaries went up by 0.5%⁶, quarter on quarter, in real terms. The volume of wages and salaries increased the most in real estate activities (7.0% with an increase of employment by 2.5%), in financial and insurance activities (2.8% with a decrease of employment by 1.2%) and in other activities⁷ (2.5%, however employment increased by 3.0%) in Q2. A quarter-on-quarter increase was also recorded in professional, scientific, technical and administrative activities (1.9%, employment -0.6%), information and communication (1.3%, employment -3.3%), in manufacturing (1.0%, employment -0.1%), and public administration, education, health and social work activities (0.5%, employment +0.3%). In the quarter-on-quarter comparison, wages and salaries decreased similarly by 0.2% in construction (employment +0.8%) and in group trade, transport, accommodation and food service (employment +1.4%).

Wages and salaries grew in all sections of the Classification of economic activities, year-on-year.

The volume of wages and salaries paid out increased by 5.7%, year-on-year, in Q2, which is a slight slowdown and represents the slowest growth in more than three years. Employment was higher by 0.2%, year-on-year. In real terms, the volume of wages and salaries increased by 2.3%, year-on-year. Wages and salaries were nominally higher in all sections in Q2, year-on-year. However, the highest increase in earnings was recorded in real estate activities (17.8% with an increase of employment by 2.7%), professional, scientific, technical and administrative activities (7.8%, employment +0.8%) and other activities (7.2%, employment increased by 2.9%). An increase above the average of the total economy was also recorded in financial and insurance activities (6.9% with a decrease of employment by 0.9%), in information and communication (6.6%, employment +0.4%) and in the group trade, transport, accommodation and food service (6.0%, employment +1.7%). The volume of wages and salaries paid out in manufacturing (5.1%, employment -2.6%), construction (4.8%, employment -0.8%), public administration, education, health and social work (4.3%, employment +1.4%) and agriculture, forestry and fishing (2.1% with an increase of employment by 1.6%) increased at below average pace, year-on-year.

Consumption growth continued.

The quarter-on-quarter increase of consumption weakened only slightly to 0.6% in Q2. This is mainly due to a strengthening of government expenditure (1.5%), as the growth of the household consumption following two solid increases slowed down again (0.2%). In total, the consumption contributed 0.4 p. p. to the quarter-on-quarter GDP growth⁸ and general government consumption accounted for 0.3 p. p. A view of the consumption classified by durability⁹ shows that medium-term (2.9%) as well as long-term (3.6%) consumption grew in real terms, quarter-on-quarter, but the growth of the short-term consumption recorded in the previous quarter did not persist (-3.0%). On the contrary, there was a significant recovery in services (2.2%). The year-on-year consumption growth reached 2.0% in Q2. And similarly to the quarter-on-quarter dynamics, for households the growth slowed to 1.0%, while the government consumption grew by 4.3%, year on year, the highest since the end of 2020. Still the contribution of household consumption to GDP growth (1.2 p.p.) was stronger than the contribution of general government consumption (0.8 p.p.). The consumption of services increased,

⁵ Employment data are in the national accounts conception (persons), figure seasonally adjusted.

⁶ Converted into the real expression using the deflator of household consumption.

⁷ This section contains activities of common interests organisations, repairs of computers and mainly personal and household goods and a number of other personal services (beauty, hairdressing treatment etc.).

⁸ Additions to the GDP change after exclusion of imports for final use.

⁹ Data regarding consumption based on durability are in domestic conception.

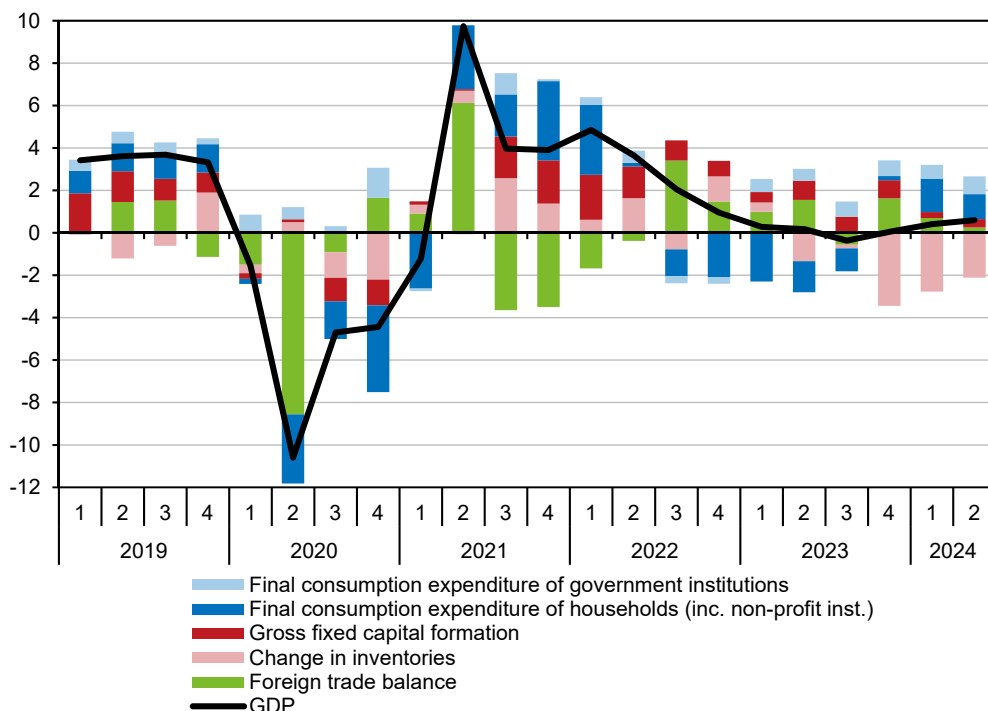


year-on-year (2.2%), and a year-on-year increase in short-term consumption (1.5%) was also recorded mainly due to the low comparative basis. Nevertheless, the medium-term (-0.5%) and long-term (-1.8%) consumption lagged behind the last year's level.

Investment activity heightened. However, inventories had a significant effect on both quarter-on-quarter and year-on-year decline of the GDP.

Expenditure on gross capital formation decreased by 0.3%, quarter on quarter, in real terms. It mainly resulted from the development of inventory creation. On the contrary, expenditure on gross fixed capital formation (investment activity) expanded by 1.9%, quarter on quarter. Investments into intellectual property products (4.4%), dwellings (4.3%), ICT and other machinery and equipment (0.9%) and transport equipment (0.3%) increased, quarter-on-quarter. A decrease was recorded for investment in other buildings and structures (-0.7%). The change in inventories also had a key effect on the year-on-year decline of the capital expenditure (-7.2%)¹⁰. The investment activity featured only a modest year-on-year increase (0.7%). Investment into transport equipment increased significantly, year-on-year (8.7%). Growth was more moderate for investment in other buildings and structures (2.0%), dwellings (1.1%) and intellectual property products (0.8%). A drop was on the contrary recorded for investment in ICT and other machinery and equipment (-3.8%).

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 exports for final use

Balance of international trade with goods and services achieved a significant surplus.

Exports of goods and services increased by 0.6%, quarter-on-quarter, in real terms in Q2¹¹. Exports of services increased more significantly (2.1%), while the dynamics remained low (0.3%) in case of goods. The quarter-on-quarter growth of imports of goods and services was only slightly higher than the increase of exports (0.7%). Exports of goods and services increased by 0.4%, year-on-year. Again, this was mainly due to services (6.8%), while exports of goods lagged by 0.8%, year-on-year. Imports recorded a year-on-year decrease (-1.5%) for the fourth time in a row. In imports as

¹⁰ Change of the inventory stock (in current prices and not seasonally adjusted) attained 8.1 bn CZK in Q2 2024, while it was 35.2 bn in year 2023.

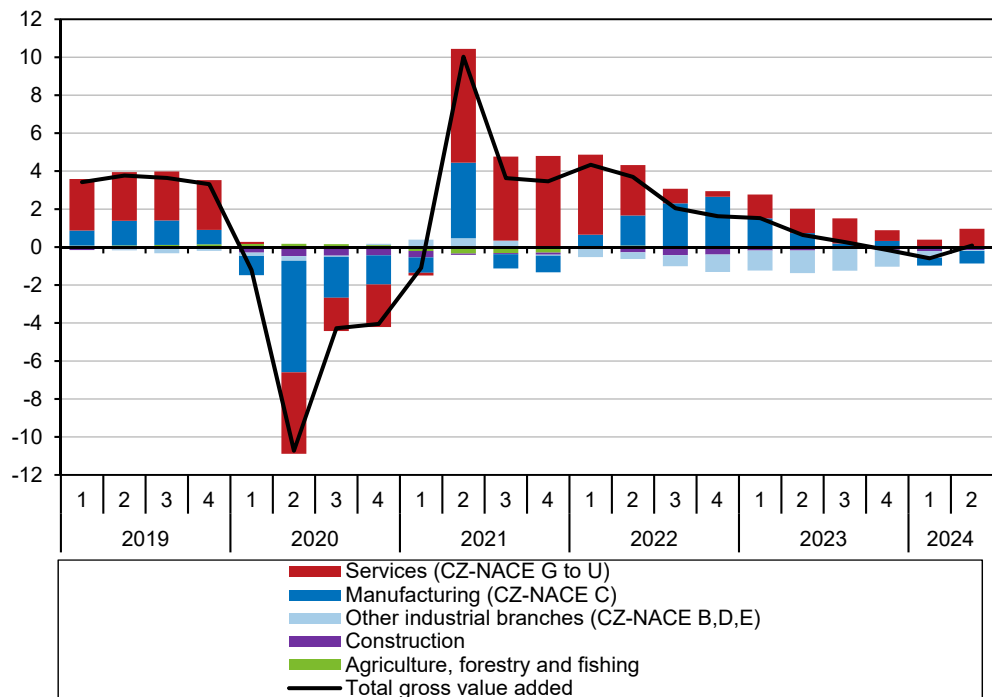
¹¹ According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). International trade balance in current prices and seasonally adjusted.

well as exports, there has been a disproportion between strong real growth of international trade in services and, conversely, a decline or only a low real increase in trade with goods. The balance of international trade with goods and services at current prices reached a surplus of 143.0 bn CZK in Q2, which was a year-on-year improvement of 45.4 bn CZK. The surplus in trade with goods constituted 114.9 bn CZK (year-on-year increase of 35.3 bn CZK) and 28.0 bn CZK in services (+10.0 bn).

Gross value added grew slightly, quarter-on-quarter.

The Gross value added (GVA) increased by 0.5%, quarter-on-quarter, in Q2. The quarter-on-quarter GVA growth was mainly due to services branches, which were supported by recovered domestic consumer demand. GVA increased mainly in financial and insurance activities (3.4%), in professional, scientific, technical and administrative activities (2.4%) and in trade, transport, accommodation and food service activities (2.3%). A slight quarter-on-quarter increase was registered for other activities (0.3%), real estate activities (0.3%) and information and communication (0.1%). In industry, the GVA fell by 0.6%, quarter-on-quarter, and only Q4 2023 interrupted the series of quarter-on-quarter declines lasting since the end of 2022. In manufacturing, the GVA declined even more sharply than total industry in Q2. Q2 did not bring a turnaround in the long-term subdued construction industry (-0.3%) either.

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



Source: CZSO

While the GVA mostly grew for services, industry did not fare well.

Similarly to quarter-on-quarter dynamics, especially services also contributed to the year-on-year GVA growth. GVA grew strongly in financial and insurance activities (7.3%), year-on-year, and more moderate increases were also recorded in trade, transport, accommodation and food service activities (2.3%), information and communication (1.1%), real estate activities (0.9%), and public administration, education, health and social work activities (0.7%). Other activities and professional, scientific, technical and administrative activities stagnated (-0.1%), year-on-year. The GVA declined in industry as a whole (-2.5%), year-on-year, of which the decrease reached 3.0% in manufacturing. The decrease of GVA in construction by 2.4% extended the continuous time series of year-on-year declines to six years in construction.



3. Branches Performance

The quarter-on-quarter decrease of GVA ceased in Q2. Services thrived, benefiting from stronger domestic demand. On the contrary, weak external demand continued to keep industry in recession.

The total performance of the branches of the national economy captured by the created Gross value added (GVA)¹² continued to decline slightly, quarter-on-quarter, at the beginning of this year and thus followed in the last year's unfavourable development. It was only in Q2 2024 that there was a slight recovery (+0.5%¹³), to which, however, only the services sector contributed¹⁴. It benefited from higher consumption expenditures of both households and government institutions or from the ongoing development of inbound tourism. For the entire H1 2024, the GVA decreased by 0.3%, year-on-year (at the same time the last half-yearly decline occurred in 2020). The sectoral profile of development is again similar – industry contributed the most to the lower output (–0.7 p.p.), where the recession continued in manufacturing and in total also in mining and energy industries. The weight-dominant group of services – trade, transport, accommodation, and food service activities (+0.4 p.p.) had an opposite effect (as for most of the previous year).

This year's anticipated harvest of both basic cereals and rapeseed is lower in a year-on-year but also in the long term comparison. The decrease in sowing areas and sharp weather fluctuations at the beginning of Spring had a significant impact.

The above summary view is further developed by much more detailed business statistics. According to this year's 3rd harvest estimate (as of 15. 8.), the harvest of basic cereals is expected to be 6,835 thousand tonnes and oilseed rape 940 thousand tonnes. The estimate of the cereal harvest is by 8.6% lower, year-on-year, and lags behind the average of the last five-year period by 6.6% (it presents the second lowest harvest in the last decade). The rapeseed harvest is down by 28.3%, year-on-year, and is one fifth behind the last five-year average (the harvest is the lowest since 2006). Weaker yields per hectare play a key role in both cases this year, nevertheless the decrease in the sowing area also had a significant impact. The harvest of wheat, rye and winter barley is weaker, year-on-year. On the contrary, due to sufficient rainfall throughout the growing season, a larger harvest is expected for spring cereals (spring barley, oats, and triticale). With respect to the other crops, grain maize (+15.3%), potatoes (+11.1%, mainly thanks to the enlargement of the sowing area), soybean (+10.9%), sugar beet (+13.5%) and green maize (+16.4%) should also be harvested more, year-on-year. In contrast, a decrease is expected for instance for the sunflower for seed (–10.7%) or lucerne (–7.7%). In general, the April frosts had a considerable effect on this year's harvest. In addition to rapeseed, they also substantially afflicted the harvest of fruit and some types of vegetables.

Gross domestic meat production increased, year-on-year, mainly due to a recovery in pork production.

The two-year-long year-on-year decrease of the physical volume of meat production in slaughterhouses in the Czech Republic halted in Q4 last year and this year's development confirmed this turn so far. The mild growth of production thus continued in Q2 2024 (+1.9%). It was driven (similarly to the beginning of this year) by the recovery of the weight-dominant pork meat segment (+5.6%, nevertheless the production was almost 4% lower compared to 2021). However, there was a decrease in beef (–4.6%¹⁵) and its production this year is at a seven-year low so far. Poultry production stagnated but grows in the longer-term view. An even more pronounced growth trend is evident in the dairy sector. The direct milk purchases from domestic producers increased by 3.7%, year-on-year, and grew twice as

¹² Figures related to GVA are expressed in constant prices and adjusted for seasonal and calendar effects.

¹³ GVA increased at a slower quarter-on-quarter pace (+0.2%) in the whole EU, but unlike in the Czech Republic, weak growth persisted there throughout the last year. GVA increased by 0.9%, year-on-year, in the Union in H1 2024. Compared to the Czech Republic, the across-the-board growth of the services performance was sufficient to compensate the decrease in both industry and construction here (which, moreover, was not as deep in the EU as in the Czech Republic or Germany). The total GVA increased the most in Cyprus (+3.5%) and Croatia (+3.3%), among the larger economies then in Poland (+3.1%), Spain (+2.8%), Romania (2.0%) and France (+1.5%). GVA fell only in six countries – the most in Ireland (–4.7%, mainly due to industry and financial activities) and Estonia (–2.6%). Within the Central European region, GVA decreased only in Austria (–1.1%) and the Czech Republic (–0.3%), in Germany it grew by 0.4%, and in Slovakia by 2.4%.

¹⁴ The GVA of the total economy was thus currently 1% above the level of the peak of the last boom (Q4 2019), of which the performance of the services sector was even 7% higher in this comparison – the situation in industry was the exact opposite (–7%), and construction (–18%) and the primary sector of the economy (–12%) featured an even deeper distance.

¹⁵ However, the gross domestic beef production corresponding to the total deliveries from Czech farms to slaughterhouses (both in the Czech Republic and abroad) decreased only slightly (–0.2%), as increased exports of live animals for slaughter were reflected (a quarter of domestically fattened cattle travelled abroad for slaughter). A similar phenomenon was also observed for pigmeat (exports were by a third higher, year-on-year), thanks to which its domestic production increased by 7.4%.

Consumption of all major types of meat grew, mainly due to a strengthened import.

fast as in the same period of the last year. Including the balance of meat imports and exports, the preliminarily calculated meat consumption expanded, year-on-year, for all three types in the CR in Q2 2024: beef (+2.5%), pork (+2.0%) and poultry (+5.2%). It was also affected by more than one tenth higher imports – both of beef and poultry. Meat consumption is also influenced by the long-term preferences of domestic consumers as well as shorter-term fluctuations due to, for instance, reaction of households on the development of consumer prices of these goods.

Industrial production has been falling, quarter-on-quarter, this year. Weak demand and the subsiding effect of heightened production costs from the energy crisis are evident.

The domestic industry was in recession in H1 2024, weighed down mainly by the persisting weak external demand. The economies of the Czech Republic's key trading partners in the euro area (especially Germany, France, Italy, the Netherlands, or Austria) faced cyclical as well as structural difficulties. These are also reflected in the Czech Republic. Most energy-intensive industries are still facing the effects of raised input prices. A reduction in the total investment activity related to the continued weakened business as well as consumer confidence in the economy or the worsened possibilities of credit financing of investments is also having a negative effect. After a short-term revival at the end of 2023, which was primarily driven by the production of transport equipment, the industrial production¹⁶ decreased by 0.7%, quarter-on-quarter, in Czechia in Q1 2024. Its decrease deepened (to -1.0%) in the subsequent period, since the downturn affected the key investment-oriented branches (engineering, manufacture of motor vehicles) and also a part of areas specialised in the manufacturing of intermediate products (electrical engineering, metallurgy and foundry). The above-mentioned factors led to the production of total industry lagging slightly behind its peak from the pre-pandemic boom (Q2 2019) in Q2 this year (by 2.7%)¹⁷.

The year-on-year decline in industry was mainly due to engineering, where the problem of weak demand deepened.

The industrial production has been slightly decreasing, year-on-year, already since the middle of the last year. It thus fell by 1.6% in H1 2024¹⁸. This was mainly due to a deepening output decrease of the important engineering sector (a decrease of production by 12.9%, a contribution to the development of the entire industry of -1.1 p.p.) caused by weak demand, especially from abroad. The downturn concerns, for instance, the production of pumps, agricultural or metalworking machinery here, nevertheless lower production can be traced across the entire branch. The manufacturing of motor vehicles also had a considerable effect on the recession of the total industry this year (contribution -0.3 p. p., a decrease by 1.6%). It no longer maintained the very high production pace of the previous two years, which stemmed in part from the finalization of a larger volume of orders accumulated from a period affected by the supply chain disruptions. This was also reflected in the subdued results of the closest related industries this year – especially manufacturing of electrical equipment (-0.9%). The production capacity utilisation fell below 90% in the motor vehicle manufacturing alone at the beginning of Q3 2024 (the lowest for the last year and a half). However, it was still relatively high compared to the majority of industrial branches¹⁹. Manufacturers of motor vehicles still benefited from the robust growth of

The manufacturing of motor vehicles did not maintain the high pace of production from previous years, which also had an impact on the nearest subcontractors.

¹⁶ Includes branches of mining and quarrying, manufacturing and also energetics (here as activities of production and distribution of electricity, gas, heat and air conditioning supply). All year-on-year rates of growth of output are adjusted for calendar effects, quarter-on-quarter rates as well for the seasonal effects.

¹⁷ 17 out of 25 main industrial branches lagged behind their peak from years 2015 to 2019 this year in Q2 – coal mining (by 53%), manufacturing of basic metals, metallurgical processing and foundry (-33%), leather manufacturing (-22%), textile industry (-21%), energy and mining of building materials (both -20%) the most. Among larger branches further engineering (-14%), chemistry (-13%), production of building materials (-12%), rubber and plastic industries (-7%) and metalworking industry (-5%). On the contrary, especially the manufacturing of other transport equipment (+25%), pharmaceutical industry (22%), paper industry and manufacturing of motor vehicles (similarly +13%), other manufacturing (+12%), electrical engineering (+9%) and further for instance food industry (+4%) were currently situated above the pre-crisis level of output.

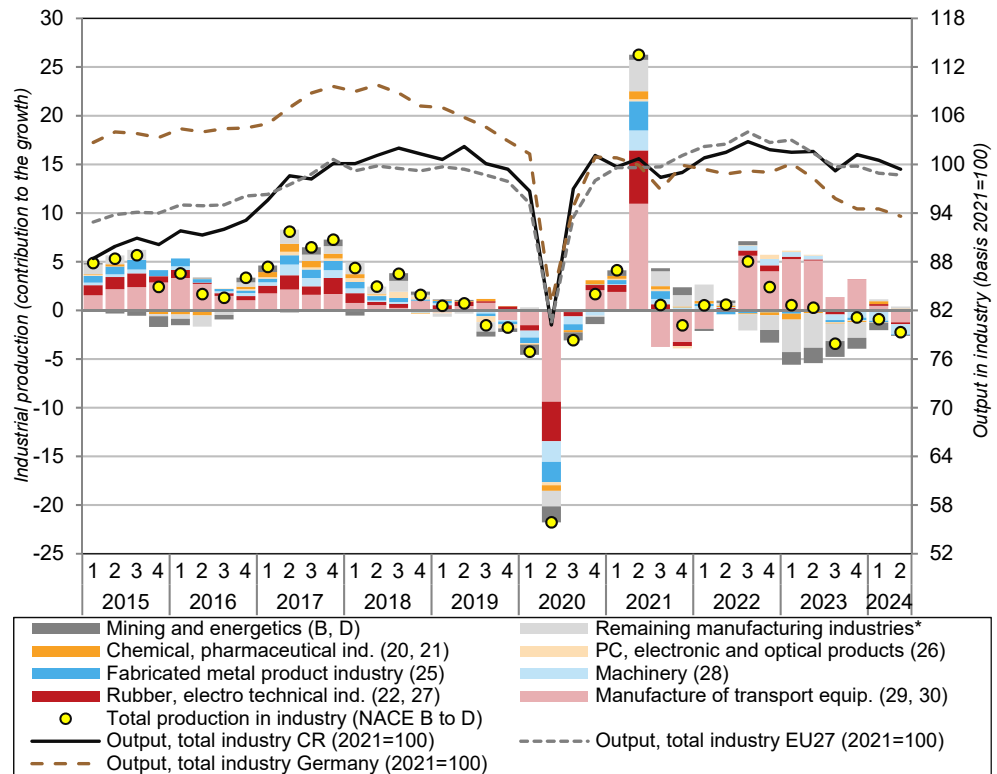
¹⁸ Industry experienced a downturn also in the EU since Spring in 2023. In H1 2024, its production decreased by 3.4% in the Union (in that by 5.3% in Germany). The performance of economic activities focused on the production of investment products (by 5.7%) and durable goods (by 4.6%) decreased the most.

¹⁹ Data from the Automotive Industry Association of the Czech Republic also prove the still good current condition of the entire branch. According to them, there were 774 thousand personal vehicles manufactured locally for the whole half of this year (5% more, year-on-year, and 2% more than in the record year 2018). In contrast to previous years, the current production was characterised by unprecedented uniformity (production exceeded 120,000 vehicles in all months), which indicates a significant calming in the area of the supply chains. Manufacturing of electric vehicles (including electric-hybrid vehicles), which accounted for flat 8% of the total production of personal vehicles



domestic as well as external demand²⁰. The production of other (especially rail) transport equipment was also in good condition despite the current lowered performance. The output dropped due to the high comparative basis here, year-on-year, this year (-4.6%), nevertheless it has traditionally featured quite a volatile character. The positive outlooks of this branch stems from the strong domestic demand associated with the development of transport infrastructure as well as the upgrade of the army.

Chart 4 Contributions of sub-branches to the year-on-year growth of the industrial production in the CR (adjusted for calendar effects, real, in p.p.), production (output) in the whole industry of CR, Germany and EU27 (seasonally adj., real, base of 2021=100)



*Contribution of the remaining manufacturing industry also includes the effect of the total methodical discrepancy stemming from the change of the weights in 2023.
Source: CZSO, Eurostat

Deep slump of production continued in metallurgy. Difficulties persisted in most other energy-intensive industries as well. However, the chemical industry recorded a positive turnaround, caused by a recovery in domestic demand.

Most energy-intensive industries faced weak demand and still raised production costs (in relation to both 2020 and 2021) also at the beginning of this year. In basic metal production, metallurgy and foundry, the output decreased for the third year in a row, year-on-year, falling by 8.5% in H1 2024²¹. Even the development of new orders in this field does not yet indicate any sign of a positive turnaround. Companies lack the external demand the most, which is related to the unfavourable development of metallurgy throughout the EU²². There has been a decline in demand for steel in the long term, especially from construction, manufacturing of motor vehicles or engineering. The persistent, but orders of magnitude smaller decline in production also afflicted the metalworking industry and the production of building materials. In both cases, it is currently mainly due to weaker domestic demand. On

so far this year (12.4% a year earlier) on the contrary recorded a year-on-year decrease. In contrast, most manufacturers of other types of road motor vehicles have strengthened their production this year.

²⁰ According to the European Automobile Manufacturers' Association, the number of registrations of new personal vehicles increased by 4.5%, year-on-year, in the EU in H1 2024 (to 5.7 million). The market growth was driven mainly by the electric-hybrid vehicles, which already accounted for nearly 30% of total sales. Except for the Benelux and Scandinavian countries, the total demand expanded in all major countries. Even though the number of registrations has been increasing, year-on-year, already for nearly two years in a row, they still lagged behind the peak of the pre-pandemic period about approximately one fifth in H1 2024.

²¹ The output was by more than a quarter lower in this branch compared to H1 2021 this year.

²² The production has been falling in this field in the EU states, year-on-year, already for two and a half years in a row (by 2% in H1 this year).

the contrary, in the energy-intensive chemical industry, the production strengthened by 3.7%, year-on-year (after last year's slump) thanks to the recovery on the domestic market in H1 2024. Chemistry together with the food industry, dampened the decline in the performance of the total industry the most of all its branches (both branches in total +0.4 p.p.).

The food and beverage industries benefited from the revived household consumption. However, for some items, people still tended to postpone consumption, which was reflected in the performance of the furniture industry.

Majority of the smaller manufacturing branches revived this year following the last year's downturn. The output of paper industry strengthened by almost 8% in H1 2024, and the diverse field of other manufacturing²³ also achieved a similar growth. The recovery of consumption of the domestic households as well as the development of inbound tourism resulted in higher production of both the food industry (+4.6%) and manufacturing of beverages (+6.0%). The strengthening external demand contributed to the growth of the clothing industry (+5.3%). In contrast, thanks to the development of the domestic market, the long-term growth of the footwear and pharmaceutical industries continued this year. However, the textile industry (-2.0%) and manufacturing of furniture (-3.9%) still did not prosper, the year-on-year decline of production persisted for the eighth quarter in a row here. These branches are plagued by weak domestic demand – in the case of textile production, especially from the related construction industry (technical textiles), and in the furniture industry then a persisting lower willingness of households to buy “non-essential” goods.

The continuing downturn of demand in the energy sector was mainly related to the very warm winter, and to a lesser extent also to austerity measures by households and firms, as well as to weaker economic activity in both industry and construction.

Similarly to the whole last year, the performance of industry was significantly hampered by its non-manufacturing branches (-0.4 p.p.) also in H1 2024. Output fell by 3.1%, year-on-year, in the energy sector this year (it plunged by a record 11.1% for the whole last year). All key sources were responsible for lower electricity production this year²⁴. Electricity²⁵ and natural gas²⁶ consumption also continued to decline, but unlike in the past, this was primarily caused by warmer weather during the heating season²⁷. The fact that households and companies continued with their austerity measures was also evident. Slowed economic activity in industry and construction also contributed to the lower consumption. The development in the energy sector is connected to the ongoing controlled downturn in the mining industry. The deep decline of production continued for the second year in a row here, amounting to 9.6%, year-on-year, in H1 2024. Mainly the slump in the increasingly unprofitable coal mining (-14.7%) has had a negative effect, but weak domestic demand has also limited the output in the mining of building materials (-4.0%) for more than two years.

The decrease of coal and building materials mining continued.

Value of new orders in the manufacturing of transport equipment grew rapidly.

The dynamics of new industrial orders have confirmed this year's slight recovery so far. While the nominal value of orders in the monitored industrial branches²⁸ was decreasing, year-on-year, for most of the last year, it increased by 3.4% in H1 2024 (it increased similarly in both quarters of this year). It can be seen with respect to the stagnation of industrial producer prices as an indication of a future moderate economic recovery in the entire sector. Both domestic orders (+2.6%) and foreign orders (+3.8%) signalled growth.

²³ It consists of mainly the manufacturing of medical instruments and supplies, but also, for instance, the manufacturing of games, toys, sports goods or jewellery and bijouterie.

²⁴ According to the data of the Energy Regulatory Office, the gross domestic electricity production amounted to 36.1 TWh (by 5.6%, year-on-year, less) in H1 2024. Mostly steam power plants (with output lower by 10.8%) and nuclear power sources (-4.6%) were behind the decrease. In contrast mainly the developing renewable sources dampened the total output decrease – photovoltaic power stations generated by 28% more (to a vast part due to the rapid growth of the installed capacity of the smallest sources – up to 10 kW), wind power plants (+9%), and pumping stations also supplied more electricity (+15%).

²⁵ The domestic consumption of electricity arrived at 34.0 TWh in H1 2024, by 2.1% less, year-on-year. Of the key consumer categories, households contributed the most to the decrease (their consumption decreased by 2.3%), and to a lesser extent also entrepreneurs and majority of companies. Only the consumption of the largest enterprises within the group of wholesale customers increased slightly (+1.8%). Compared to H1 2019, the consumption of wholesale customers (-8.5%) and small entrepreneurs (-7.7%) was the lowest this year, while the decrease in households was only 0.8%, also due to the spread of working from home.

²⁶ It was -7.9%, year-on-year, for H1 2024. Similarly to electricity, households saved the most gas (-12.6%) and wholesale customers the least (-4.9%). However, converted to the thermal standard, the total consumption fell only by 0.7%, year-on-year, but by 25% in three last years (real consumption even by 35%).

²⁷ Based on the Czech Hydrometeorological Institute, the average air temperature in the Czech Republic was 9.3 degrees Celsius in H1 this year (it was 2.5 degrees higher than the long-term average from years 1991–2020), “only” 7.6 degrees at the same time last year. Above-normal temperatures have occurred in all months so far this year – especially in February (with a deviation of +6.0 degrees) and March (+3.7).

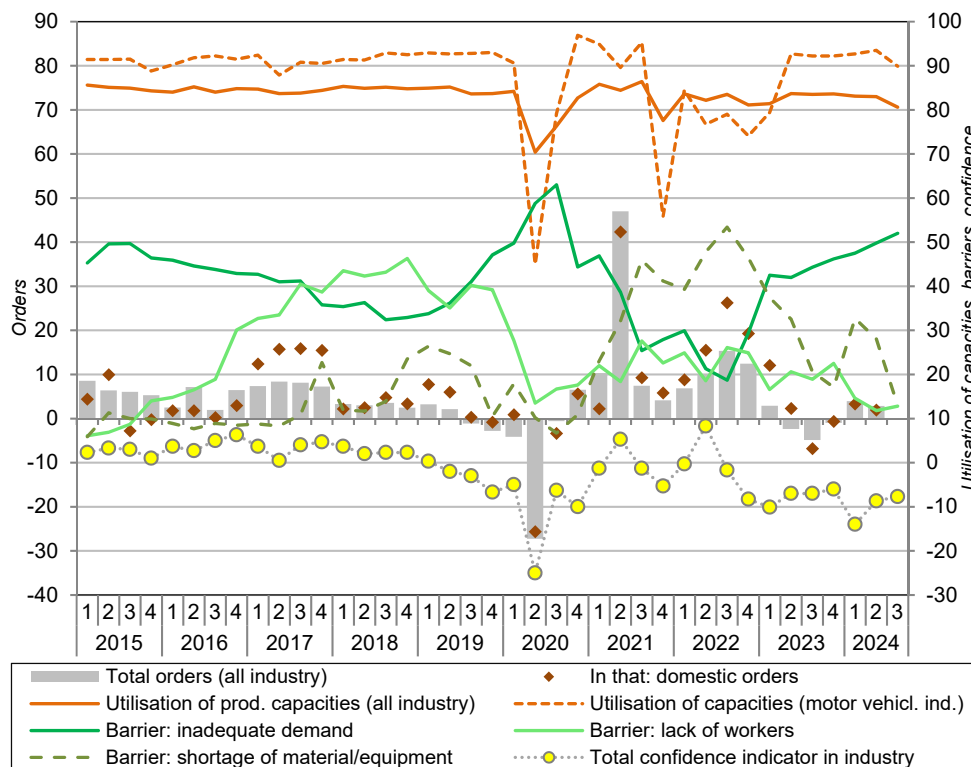
²⁸ Survey of orders is performed only in twelve manufacturing branches producing mostly custom-made products, with longer production cycle and larger order stocks. Year-on-year growth rates of orders are adjusted for calendar effects, quarter-on-quarter rates also for seasonality effects.



Weak demand however persisted in metallurgy, engineering and metalworking industry.

The growth of total orders was mainly caused (similarly to the whole last year) by higher demand for motor vehicles (+10%), followed by near sub-branch of the manufacturing of electrical equipment (+5%). Thanks to the domestic demand, positive prospects were also evident in manufacturing of other transport vehicles or electronics. A further revival of some smaller branches is heralded by higher contracted orders in the clothing and paper industries. However, a number of key manufacturing branches were still limited by weak demand. It fell by 15%, year-on-year, in metallurgy, by 6% in engineering, and the number of total orders only stagnated due to the still weak domestic demand in the metalworking industry.

Chart 5 New orders in industry (nominal, year-on-year change in %), utilisation of production capacities in industry, selected growth barriers* (in %) and balance of business confidence indicator in industry* (in p.p.)



* Both utilisation of production capacities and growth barriers express the level in the first month of the given quarter, business confidence balance relates to the second month in the quarter. Orders are adjusted for calendar effects; other indicators are seasonally adjusted. Businesses could have indicated more key growth barriers simultaneously.
Source: CZSO, Eurostat

Business confidence in industry stayed low. Growing number of companies suffer from insufficient demand. Current as well as expected employment development remains unfavourable.

Cautious optimism prevailed in terms of expectations in the area

Business confidence in industry has remained in the negative band for nearly two years already. In February this year, it dropped almost to the lowest level since the anti-pandemic shutdowns of production (in the Spring of 2020). There was a slight recovery subsequently, nevertheless the confidence remained notably below its long-term average (by 8.5 percentage points) still in August and remained virtually unchanged in the year-on-year view. Even though the cost pressures have stabilised (already only a sixth of companies plan to raise the prices of their production in the short-term horizon) and the volume of inventories has also returned to normal, companies across most branches are still limited by insufficient demand. Its role as a key growth barrier has been rising since the middle of last year (it currently limits already 52% of companies²⁹). On the contrary, a lack of employees troubled one eighth of companies (the least in the last four years³⁰). In addition, companies plan to lay off people (16%) rather than hire (6%) in the nearest quarter, which also corresponds to the real development in recent months (the registered

²⁹ Businesses could have indicated more barriers simultaneously. Apart from a short period at the onset of the covid-19 pandemics, the current urgency of the insufficient demand in industry is the highest in the last 10 years.

³⁰ However, it still represented a significant barrier in some, especially smaller, branches (food, beverage and leatherworking industries), exceptionally also a dominant growth restraint (manufacture of other transport equipment, repair and installation of machinery and equipment).

of production and own economic situation of companies in August 2024.

number of employees in industry decreased by 2%, year-on-year, in H1 2024). Nevertheless, a very slight optimism in the short-term expectations of production as well as own overall economic situation set in among companies in August (unlike at the beginning of the year).

Considerable cost pressures as well as weaker private investment activity still affected the construction output.

The construction industry was affected by weak demand as well as persistent price pressures at the beginning of this year. Although the prices of building materials have started to fall slightly, year-on-year, after a three-year increase since last autumn, the reduction of both realised and expected prices of construction production³¹ was hindered by rapid growth in labour costs influenced by a chronic shortage mainly of skilled labour force. Subdued investment activity in the private sector was also still reflected owing to weaker confidence of firms and households in the economy and worsened access to credit financing of investments. This was compounded by an expected decrease of public investment related to the transition to the new EU programming period³².

The year-on-year decline in construction output deepened this year. The biggest decrease affected the specialized construction activities.

Construction output³³ increased by 0.8%, quarter-on-quarter, at the beginning of 2024 and thus halted the decline that filled most of the last year. This recovery was largely a consequence of the unusually warm winter period, which led to a sharp increase in civil engineering construction (and to a lesser extent in other segments of the total industry), especially in February. However, the performance of the construction decreased by 3.3% during Q2, when a notable slump occurred with comparable intensity in all its main segments. In Q2 2024, the performance of the total construction thus lagged behind the peak of the last boom (Q3 2019) by 8.4%. The year-on-year fall of production deepened this year and reached 5.3% for the whole H1. Construction of buildings and also specialised construction activities (in which the output fell the most – by 8.1%) contributed the most. These activities include, for example, assembling, finishing electrical installation or plumbing work and are more the domain of smaller construction companies. A more moderate decrease was recorded in civil engineering construction (–1.1%).

The number of started dwellings continued to decrease, the volume of construction was the lowest in the last six years. A partial recovery occurred in the category of residential buildings.

The subdued housing construction was adversely reflected in the performance of building construction in H1 2024 as well as throughout the whole last year. The number of dwellings started decreased by 4.9%, year-on-year, when it only amounted to 17.2 thousand dwellings (the lowest for the first half-year in the last six years). This year's decrease was mainly caused by the dwellings created by modifications of existing residential buildings and also by category of apartments in family houses. However, the construction of new residential buildings revived significantly, especially in the Spring (with almost one quarter more commenced, year-on-year, in H1 2024). The volume of total construction decreased in the majority of regions, absolutely the most in the *Jihomoravský* Region, while it grew especially in *Prague* and the *Plzeňský* Region. The number of all completed dwellings in the Czech Republic also decreased. However, due to the higher number of ongoing construction activities from previous years, the decrease was relatively insignificant so far compared to the construction started (–1.9%).

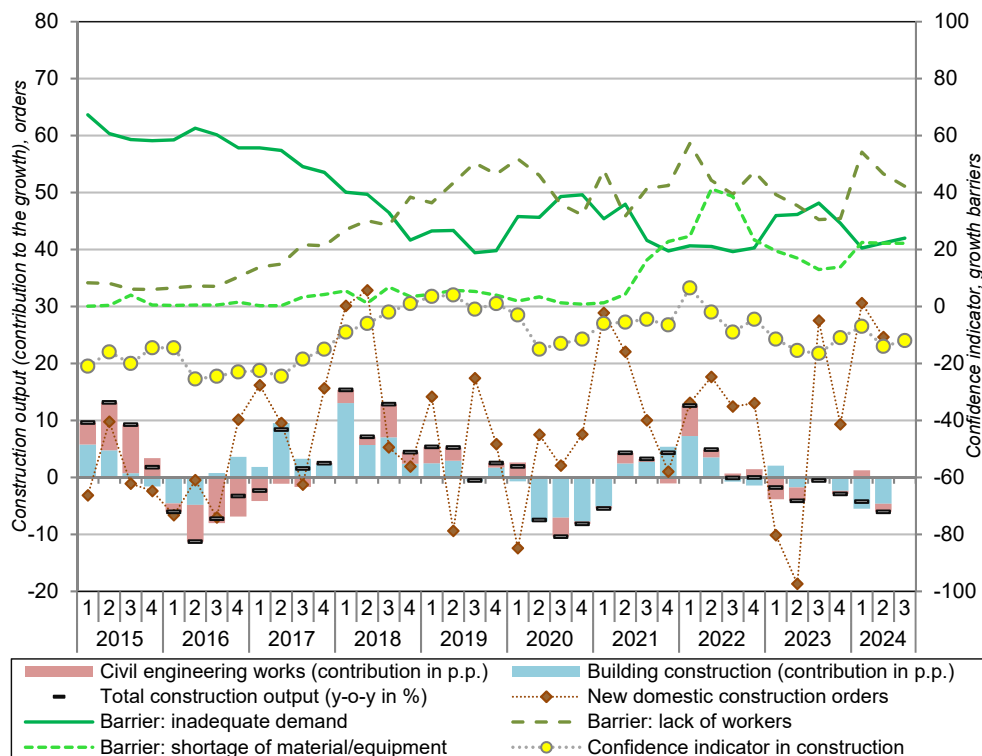
³¹ According to business cycle surveys from August 2024, still nearly a third of domestic construction companies anticipated the growth of prices of own production (within three months horizon). It unequivocally presented the largest share among all major industries. While inflation pressures have largely evaporated in other branches, higher inertia is manifested in the construction sector due to a longer production cycle.

³² However, this effect is not nearly as pronounced as in 2016. In H1 2024, capital expenditure of the state budget of the Czech Republic fell by 3.3%, year-on-year. The State Fund for Transport Infrastructure expects total expenditure of 150 bn CZK for the whole this year (given the model of multi-source financing continues), which is only slightly less than in the record last year (151 bn CZK). In the future, the construction industry should also benefit still more intensively from the funds of the National Recovery Plan intended for example to reduce the energy performance of buildings.

³³ Data regarding the construction output are in constant prices, year-on-year rates of growth are adjusted for calendar effects, quarter-on-quarter rates also for seasonality effects.



Chart 6 Contributions of sub-branches to year-on-year growth of construction output (real, in p. p.), new construction orders (nominal, year-on-year, in %), balance of business confidence indicator in construction* (in p. p.) and selected barriers to growth in construction* (in %)



Note: Data related to construction output are adjusted for calendar effects.
 * Balance of business confidence as well as barriers to growth are seasonally adjusted and express the level in the second month of the given quarter. Businesses could have indicated more main barriers simultaneously.
 Source: CZSO, Eurostat

Growth of the value of permitted buildings ceased in Q2. A decrease was recorded for transport constructions.

The growth of new construction orders on the contrary continued, specifically across the main segments of the total industry.

The pessimism of entrepreneurs in the construction industry persists. It is also reflected in the area of employment.

The year-on-year growth of the nominal value of permitted buildings, lasting five quarters in a row, ceased in Q2 this year, when mainly the number of large constructions (over 1 bn CZK) shrank. This total value decreased by 2.5% for the whole H1 2024, primarily due to traffic-engineering constructions (new construction as well as reconstructions). In contrast, slight revival occurred for permitted buildings of new residential construction. The development of new domestic construction orders (for companies with more than 50 employees) was still favourable. They grew briskly, year-on-year, for the fourth quarter in a row – being nominally higher by 25% in Q2 2024, both building construction (+27%) and civil engineering construction (+22%) signalled larger demand. Also the total stock of work (orders to be realised) was significantly higher (by 21%), year-on-year, at the end of Q2. The domestic private orders also contributed notably to the growth after two years (they currently accounted for one third of the total stock of work of medium and larger construction companies). On the contrary, the continuous decline of foreign orders has lasted for nearly three years already.

The business confidence in the construction sector had remained (with the exception of a brief recovery at the beginning of this year) unchanged in the negative band for already one and a half year (but at the same time slightly above its long-term average). Approximately one quarter of companies steadily assess the current demand as insufficient, short-term outlooks in the area of construction activities, employment and own economic situation of companies remained slightly negative also in August this year. The registered number of employees (in construction companies with 50 and more employees) decreased by 1.5%, year-on-year, in H1. Despite a slight decrease in weight since the beginning of this year, the lack of (qualified) employees remains a key growth barrier, which has lasted with minor interruptions for already about six years.

The quarter-on-quarter decline of sales in services stopped at the end of 2023. Demand has recovered in almost all major services branches this year.

Demand for services has also thanks to the improved condition of the domestic economy gradually recovered this year. The stabilisation of the consumer price level assisted in launching the growth of the real wages of employees after longer time period, which was mirrored in a more favourable financial situation of households. Services were also positively affected by slightly growing business demand this year, which was still rather subdued for most of the last year. Sales in services³⁴ increased by 0.6%, quarter-on-quarter, in Q4 2023 and thus recorded the first strengthening since Q3 2022. Sales growth markedly accelerated (to 2.4%) in Q1 2024 and the revival also continued with less intensity in the subsequent quarter (+0.3%). This year's recovery in services manifested broadly across all major branches, nevertheless the recovery in transportation and warehousing has played a key role. Total sales in services were slightly above the level from the peak of the last boom in the pre-pandemic period in Q2 this year (they were by 3.3% higher compared to Q2 2019³⁵).

The growth of sales in accommodation, food service and restaurants was supported by the recovering consumption of domestic households as well as the developing inbound tourism. There a significant revival of demand of guests from Asian countries manifested.

The positive turnaround in demand for services is also evident in the year-on-year perspective. Sales again slightly increased here after the last year's recession (by 1.8% in H1 2024), the recovery manifested across all major branches. The highest increase was in accommodation, food service and restaurants (+2.9%), where the growth of demand was driven almost exclusively by food service and restaurants. In addition to the gradually recovering consumption of domestic households, it also benefited from the rapidly developing inbound tourism. In Q2 2024, the total number of guest arrivals to collective accommodation facilities in Czechia increased by 3.3%, year-on-year, and their overnight stays grew up by 0.9%³⁶. The growth of inbound tourism continued for the fourth year in a row, however the dynamics (for both arrivals and overnight stays) were the weakest since the removal of anti-pandemic restrictions (Spring 2021). Only non-residents³⁷ supported the growth, as the number of domestic guests decreased, year-on-year, by 1.4% (the number of their overnight stays dropped by 3.5%). Foreign guests' data showed a significant recovery in the number of visitors from China³⁸ (to a lesser extent also from other Asian countries), further the organization of major sporting events in the Czech Republic (especially the Ice Hockey World Championship in Prague and Ostrava) had a positive impact³⁹. On the contrary, the number of overnight stays of guests from Germany decreased by 2.7% (it presented the first decline in the last 11 quarters). In spite of this, they still comprised more than one quarter of the accommodation demand from all non-residents in the Czech Republic in Q2.

Growth of the number of overnight stays of guests from Germany halted after nearly three years.

All sub-branches of transport and warehousing recorded at least a mild increase in sales this year.

In transport and warehousing, the most important branch by weight, the sales increased by 2.8% in H1 2024 and contributed the most of all major branches to the year-on-year growth of the entire services sector (+0.7 p.p.). Thanks to the development of tourism, particularly the sales of air transport grew briskly (+20.6%), nevertheless they still lagged behind the maximum level of the boom period between 2015 and 2019. This also applies to water transport, which has also experienced a rapid demand growth (+8.8%) this year. The sales increased more modestly in the land transport (+2.2%), as a decline in rail transport was

³⁴ Without trade, financial and insurance activities, science, research and public services. All data for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter data are adjusted for seasonal effects (including the effect of the number of working days).

³⁵ Among the main branches, the sales lagged the most behind the level of Q2 2019 in accommodation, food service and restaurants (-10.7%) and in administrative and support service activities (-6.4%) this year. On the other hand mainly information and communication (+12.4%) and real estate activities (+6.6%) overtook this level.

³⁶ While the number of guests was higher by 3.1% compared to Q2 2019, the number of overnight stays still slightly lagged behind (by 0.8%).

³⁷ The year-on-year increase in the number of arrivals of foreign guests to the Czech Republic was 9.3% in Q2 and their overnight stays 6.6%. All categories of accommodation facilities and at the same time all regions except for the *Ústecký* region experienced greater demand.

³⁸ The number of these guest accommodated in the Czech Republic increased by 126%, year-on-year, in Q2 and the number of their overnight stays increased by 77% (these represent the maximums among all almost 60 monitored groups of foreigners in both cases). The high growth resulted from a very low comparative base. In addition, a direct airline between Prague and Beijing was reinstated on June 25, 2024, with the aim to promote mutual trade relations (a similar step was taken in case of Seoul a year earlier).

³⁹ The number of overnight stays of non-residents increased by 29.5%, year-on-year, in the *Moravskoslezský* region in Q2 2024. The number of accommodated guests also considerably increased with respect to the states, who were the participants of the Ice Hockey World Championship.

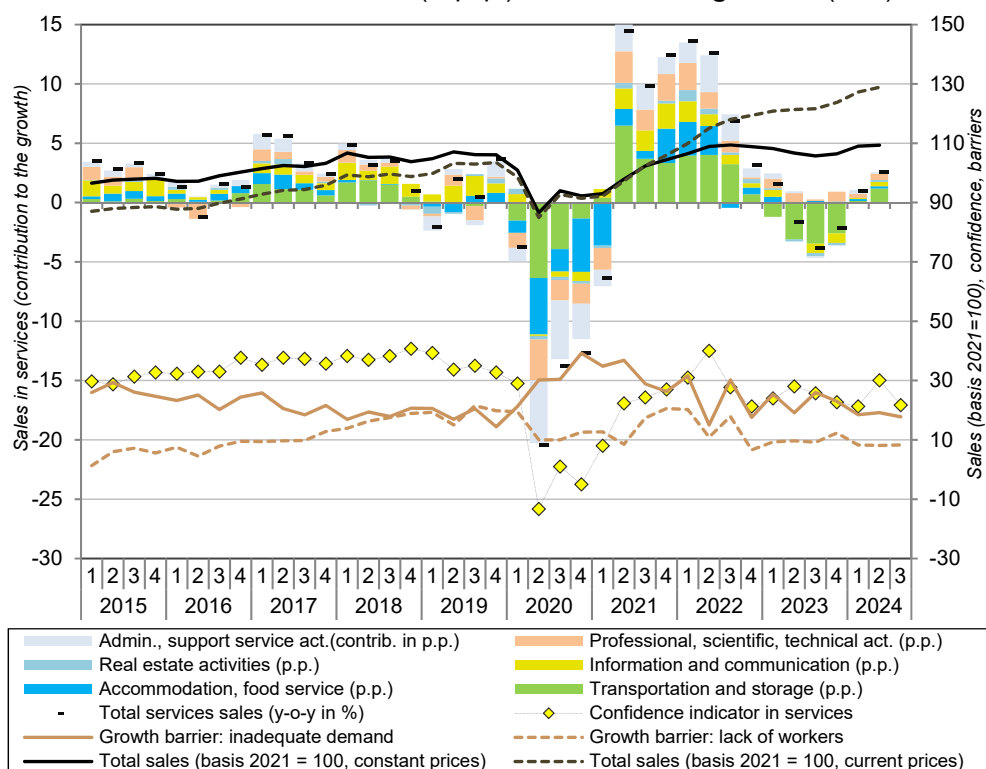


offset by higher performance in road freight as well as passenger transport. Sales increased at a similar rate also in warehousing and in postal and courier activities, which was likely related mainly to the development of trade. At the same time, they were more than one tenth higher in both cases compared to H1 2019.

Mostly the architectural and engineering activities drove the demand for more sophisticated business services.

The year-on-year sales growth slowed to one half in H1 this year (+2.0%) compared to the preceding year, but at the same time it persisted for more than three years in professional, scientific and technical activities, which typically concentrate more sophisticated services for businesses. Despite the difficulties in construction, the architectural and engineering activities contributed the most to the growth of the total branch this year (sales increased by 4.9%). Demand for management as well as legal and accounting activities continued to expand.

Chart 7 Contributions of branches to year-on-year growth of sales in services* (real, in p. p), total sales in services* (real, base of 2021=100), balance of business confidence indicator in services (in p. p.) and barriers to growth** (in %)**



Note: All data are seasonally adjusted, only contributions of branches to the growth of sales are adjusted solely for calendar effects.
 *Without branches trade, financial activities, insurance activities, science, research and public services.
 **Also involves the financial sector. Balance of business confidence express the level in the second month of the given quarter, growth barriers then in the first month. Businesses could have indicated more key barriers simultaneously.
 Source: CZSO, Eurostat

The longer-term decline in sales of employment placement agencies continued.

The sales exceeded the level of H1 2023 by 1.6% in administrative and support service activities this year. Further, particularly the travel agencies and offices also prospered, the sales already closely overtook the 2019 level here. In contrast, a continuous marked decline of demand for employment placement agency activities can be observed for a third year in a row (sales decreased by 10.9%, year-on-year, this year⁴⁰). Cost pressures as well as the development of digitization resulted in a continued slight decrease of demand for security and investigation activities. On the contrary, the sales in the rental and operating leasing

⁴⁰ The decline in sales occurred here while the number of working foreigners was rising swiftly in the Czech Republic. Refugees from Ukraine have played a significant role in this growth over the past two years. With respect to the Temporary protected status, which was granted to these persons, their employment in the CR is administratively easier (compared to other groups of migrants from the so-called third countries) and thus they can seek employment more easily “directly” (without intermediary). In addition to the above stated, the reduced demand of employment placement agencies due to manufacturing branches undergoing recession (industry and construction) can also play a role.

developing procyclically revived this year (+5.2%), higher demand manifested in all segments except for the rental of passenger vehicles and other light motor vehicles.

Demand for programming services continued to grow, sales nevertheless decreased in the motion picture and music publishing industries, as well as in information activities.

Sales increased only very slightly, year-on-year, in the traditionally dynamic sector of information and communication (+1.1%) in H1 2024 and thus followed in the insignificant results of last year. Demand increased the most in the radio and television programming and broadcasting (+8.2%) here, however specially the higher sales in the key long-term developing segment of IT activities (+4.8%, including e.g. programming or computer facilities management activities) contributed to the growth of the whole branch. Mainly the drop of sales of the so-called motion picture and music industry (-35.4%⁴¹.) had the opposite effect. It reached a comparable depth as in year 2020 and this year it was primarily related to irregular invoicing⁴². Information activities⁴³ also coped with lower demand, sales fell for the seventh quarter in a row here (by 2.6% for the whole H1).

Price stabilisation in the economy led to a rapid improvement of consumer confidence. Retailers' confidence also strengthened.

Retail also experienced a positive turnaround in recent quarters. Its precondition was the return of consumer prices to regular growth bands coupled with likely a temporary, however relatively significant decrease of food prices. This, together with the good condition of the labour market, swiftly launched the growth of the purchasing power of households and improved their overall confidence in the economy. It consequently climbed up highest in the last two and half years in April 2024. Although there was a slight deterioration subsequently, the consumer pessimism was still lower in August than in any month from the period 2022 to 2023. However, people still declare a higher intention to save and simultaneously still do not consider the current time to be very suitable for large purchases (investments or durable goods). To a certain extent, this fact counteracts a faster recovery in demand for certain assortment groups of non-food products. At the same time, however, the traders' optimism also strengthened, the level of their confidence in the economy hiked up the highest in the last fourteen months in July this year. The development of inbound tourism also contributed to the recovery of retail. Retail sales⁴⁴ showed a slight quarter-on-quarter growth (+0.5%) already in Q3 2023 (after seven quarters of adverse development), which consequently strengthened and attained 2.0% at the beginning of this year (it then moderated to 0.6% in Q2). Nevertheless, the current level of sales still lagged behind its pre-crisis peak (from Q4 2019) by 3.4%⁴⁵.

Retail sales increased, quarter-on-quarter, for the fourth time in a row, nevertheless have not attained the level of 2019 yet.

The year-on-year growth of retail sales was driven from one half by a sharp recovery of sales via internet.

Retail sales increased by 3.9%, year-on-year, in Q1 2024 and thus halted the fall lasting nearly two years. The sales increased by 4.0% for the whole H1 2024. All major retail segments contributed to the growth. Higher sales of non-food goods (+5.3%, contribution +2.6 p.p.), driven primarily by a sharp recovery of sales via internet and mail order houses (+16.9%) played a key role. It likely also absorbs a part of the demand of specialised brick-and-mortar stores (e.g. sales for trade with computer and communication equipment decreased by 2.2% in these stores in H1). Sales for household equipment also fell even slightly further⁴⁶. Stores with products for arts, sports and recreation and also wearing

⁴¹ The segment of motion picture distribution performed better. According to data from the Union of Motion Picture Distributors the gross nominal sales of the domestic cinema operators fell by 4.3%, year-on-year, from January to July this year. The total attendance decreased by 7.5% analogously, on the contrary the number of shows went up by 3.3%. The very weak demand in the Spring period was partially offset by the July attendance (1.64 million, a record figure in the comparable period after year 2000). Nevertheless, nearly one third of audience and nearly one sixth of sales were still missing this year in comparison to the first seven months of the record-breaking year 2019.

⁴² This year's development in the Czech Republic could also have been influenced by the indirect impacts of a longer strike in Hollywood at the end of last year.

⁴³ They include, in particular, the activities of web portals, news agencies or data processing and hosting.

⁴⁴ All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter rates are adjusted for seasonal effects (including the number of working days). Retail includes branch CZ NACE 47.

⁴⁵ It primarily relates to decreased sales for food (-9.3%), while the current demand for non-food goods is slightly above the level from the end of 2019 (+0.3%), mainly due to sales via internet (+38.8%). The development rather varied at the level of different specialised stores, e.g. household equipment (-14%) vs. cosmetic and toilet articles (+26%).

⁴⁶ These contain metal hardware, building materials, paints, glass, DIY supplies, electro supplies, furniture, lighting, carpets or home textiles.

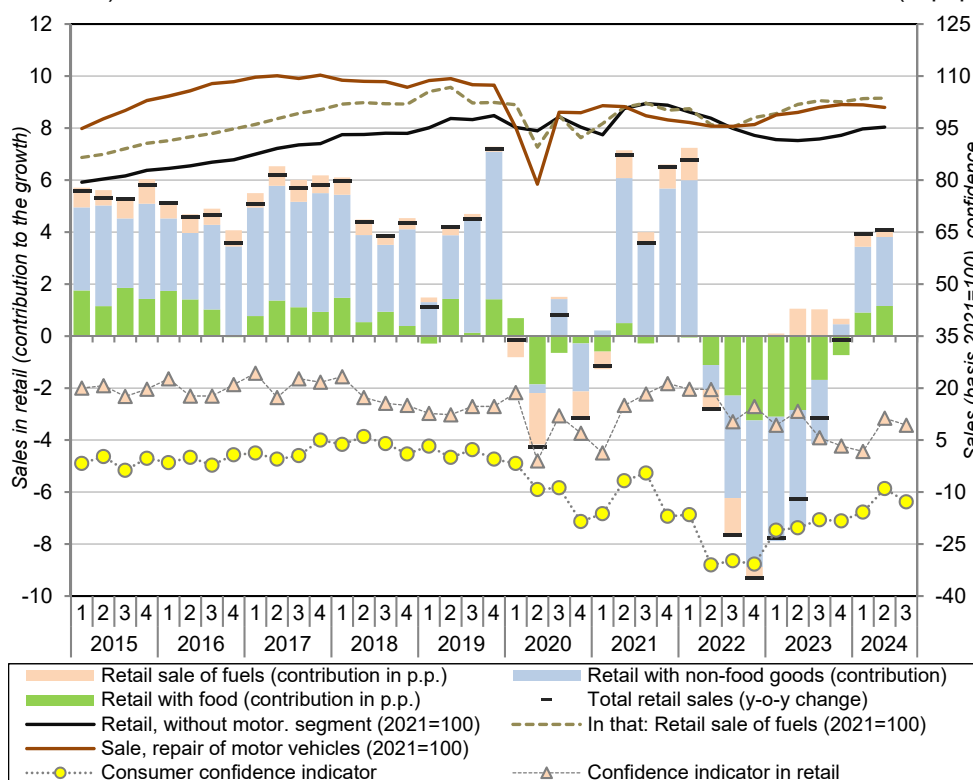


The interest for cosmetic and toilet articles grew the most within the specialised stores.

Growth of sales for food was concentrated into large retail chains.

apparel, footwear and leather goods⁴⁷ also registered a mild drop of demand. Within the specialised stores⁴⁸, sales grew the most for cosmetic and toilet articles (+18.3%) and further pharmaceutical and medical products (+6.5%), both of which represent products for which demand did not decrease significantly even during the pandemic period. Sales for food increased more modestly (+2.7%, contribution to the growth of total retail was +1.0 p.p.), nevertheless it still presented the highest pace since H2 2017. The growth of demand was concentrated in large chains here, since the sales of smaller specialised stores with food (of which tobacco products are the most important assortment group in terms of weight) decreased by 2.2% and have been declining continuously since Spring 2022. On the contrary, the demand for fuels after last year's recovery, partly stimulated by a more favourable consumer price, continued to grow (fuels – sales strengthened by 3.1% in H1 2024 here and contributed +0.4 p.p. to the growth of the total retail trade).

Chart 8 Contributions of sub-branches to year-on-year growth of sales in retail trade* (real, in p.p.), sales in retail trade and motorist segment of trade (real, base of 2021=100) and balance of business and consumer confidence indicator*** (in p. p.)**



* Sales are adjusted for calendar effects.
 ** Sales are adjusted for both seasonal and calendar effects.
 *** Consumer confidence indicator balance is seasonally adjusted and expresses the position in the second month of the given quarter.
 Source: CZSO

A slight increase of sales occurred in all parts of the motor vehicle segment of trade, except for the sale of parts and accessories.

Sales in the motor vehicle segment (trade, repairs and maintenance of motor vehicles) of trade increased by 1.7%, year-on-year, in H1 and, similarly to fuels continued in their last year's recovery. A slight increase in demand manifested in all parts of this segment this year (except for the sale of parts and accessories). Compared to Q4 2017, when this segment of trade was at its peak, its sales were by 8.5% lower in Q2 this year.

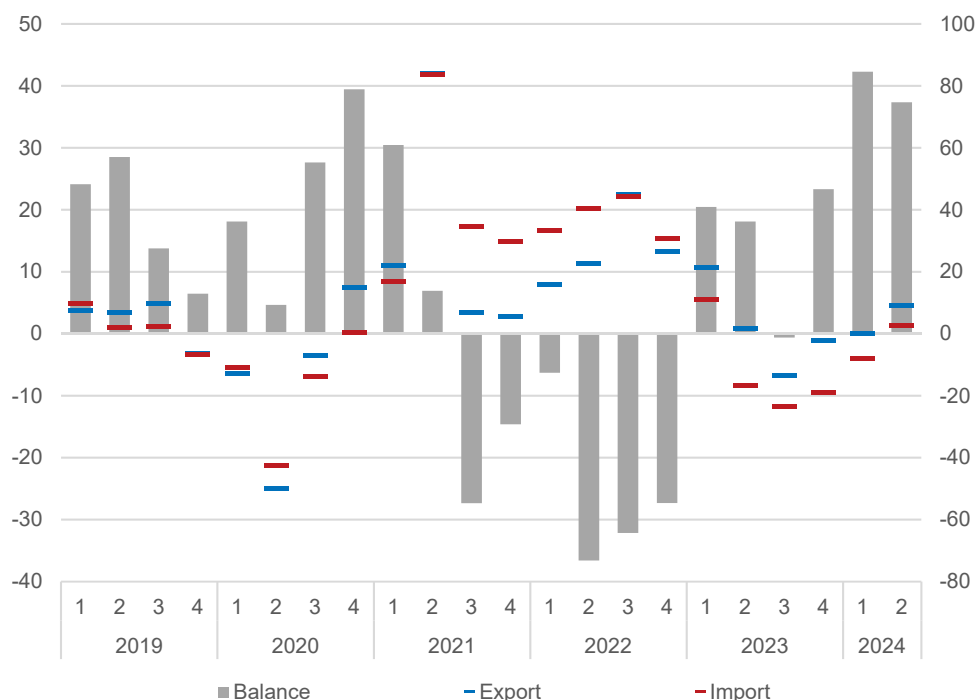
⁴⁷ Demand in both of these categories of specialised stores was strongly impacted by the restrictions during the pandemic period. Compared to the beginning of 2019, for example, the current sales for wearing apparel, footwear and leather goods were still almost one quarter lower.
⁴⁸ Apart from the specialised stores, sales grew briskly in the small segment of other retail trade with a predominance of non-food goods (by one sixth this year) for the third year in a row (apart from a short-term decrease in Q2 last year). This typically includes smaller stores focused on the sale of various small goods, usually in discount events.

4. External Relations

Year-on-year growth of export strengthened in Q2.

In H1 2024, the value of total exports of goods⁴⁹ increased by 52.2 bn CZK (2.3%), year-on-year, to 2,341.8 bn CZK in H1 2024. The development in Q2, when exports increased by 52.3 bn CZK (4.6%), year-on-year, to 1,185.5 bn CZK, stands solely behind the total half-yearly increase. The strengthening of export price growth partially manifested⁵⁰. According to the seasonally adjusted data, the value of exports increased by 0.5%, quarter-on-quarter, in Q2 2024 and the rate of growth thus slowed down in comparison to the previous two quarters.

Chart 9 Export and import of goods (y-o-y change, in %) and balance of international trade with goods (in bn CZK, right axis)



Source: CZSO

Mostly export outside the EU grew.

The value of exports into the EU countries decreased, year-on-year, in H1 (-5.4 bn CZK, -0.3%), which was significantly driven by the development of exports to Germany (-6.7 bn CZK, -0.9%), Austria (-6.7 bn, -6.9%) and the Netherlands (-6.3 bn, -7.9%). On the contrary, the exports to countries outside the EU increased by 57.4 bn CZK (13.2%), year-on-year, in H1. Strengthening of exports to Great Britain (+19.7 bn CZK, 22.0%) played a major role in this development. Exports to the EU grew slightly in Q2 alone (+15.3 bn CZK, 1.7%), however mainly the exports outside the EU (+37.0 bn, 16.9%) contributed to the total year-on-year growth of exports. Exports to Great Britain grew the most, year-on-year⁵¹ (see Table 2). With some margin, the increase for Germany and the United States of America followed. Exports to China, Slovakia, Turkey, Ukraine, Spain, Singapore or Romania also contributed notably to the growth of exports. There was a significant minority of countries where exports fell, year-on-year, in Q2. Exports to Belgium, Italy and Austria decreased the most.

⁴⁹ Data for foreign trade with goods are recalculated using the updated method based on higher rate of detail since year 2020, see <https://csu.gov.cz/update-of-the-compilation-method-international-trade-in-goods-change-of-ownership>. Unless stated otherwise, all figures are without seasonal adjustment and in current prices.

⁵⁰ Prices of exports of goods were by 3.7% higher, year-on-year, in Q2. Quarter-on-quarter, they increased by 0.6%. Prices of other materials plunged by 18.6% last year and mineral fuels by 0.9%. But prices of mineral fuels decreased by 13.7%, year-on-year, in Q4.

⁵¹ Mainly the export of motor vehicles grew sharply.



Motor vehicles continued to be at the forefront of the export growth.

The exports of motor vehicles (+43.2 bn CZK, 6.8%) and computers, electronic and optical appliances and equipment (+16.0 bn CZK, 8.8%) increased the most in H1. On the other hand, the exports of machinery and equipment (-12.8 bn CZK, -4.7%), electricity, gas, steam and air conditioning (-10.6 bn, -37.4%) and basic metals (-10.6 bn, -11.9%) plunged. Exports of a number of goods started to grow, year-on-year, in Q2 itself and strengthened for other goods compared to the previous quarter. Exports of motor vehicles (see Table 1) and computers, electronic and optical appliances and equipment increased the most. Exports of rubber and plastic products, food products and chemicals and chemical products also grew considerably. A decrease in the value of exports was recorded for a minority of good types, the most for machinery and equipment, basic metals and coke, and refined petroleum products.

Table 1 Sections of CPA classification with highest impact on goods exports development in Q2 (year-on-year) **Table 2 Countries with largest impact on exports of goods in Q2 2024 (year-on-year)**

	bn CZK	%		bn CZK	%
Motor vehicles (excl. motorcycles) and parts	+20.7	+6.4	Great Britain	+12.8	+28.8
Computers, electron. and opt. appliances and equipment	+11.6	+13.2	Germany	+12.5	+3.6
Rubber and plastic products	+5.7	+10.3	United States of America	+5.3	+18.6
Food products	+5.7	+14.0	Poland	+4.5	+5.7
Chemicals and chemical products	+4.9	+9.5	China	+3.6	+32.1
Collection, treatment, management and disposal of waste	+2.6	+24.9	Slovakia	+3.3	+3.2
Electric equipment	+2.6	+2.3	Turkey	+2.9	+17.3
Paper and paper products	+2.5	+13.0	Ukraine	+2.0	+25.7
Other manufacturing products	+1.8	+6.9	Spain	+1.8	+5.5
Basic pharmaceutical products	+1.7	+9.8	Singapore	+1.7	+76.4
Wearing apparel	+1.5	+29.6	Romania	+1.5	+8.3
Electricity, gas, steam and air conditioning	-1.7	-17.2	Sweden	-1.4	-7.3
Coke and refined petroleum products	-3.0	-23.4	Austria	-2.1	-4.6
Basic metals	-3.8	-8.9	Italy	-2.5	-5.0
Machinery and equipment, n.c.e.	-4.2	-3.1	Belgium	-3.5	-12.8

Source: CZSO

Source: CZSO

Import strongly grew, year-on-year, in Q2.

The value of imports of goods totalled 2,182.6 bn CZK in H1 2024 and it was lower by 30.0 bn CZK (1.4%), year-on-year. The decline mainly resulted from a strong plunge that occurred in Q1. The value of imports already increased by CZK 13.8 billion (1.3%), year-on-year, in Q2 2024 and thus reached 1,110.8 bn CZK. Nevertheless, the increase in import prices was higher than the given nominal increase of its value⁵². According to the seasonally adjusted data, the value of exports decreased by 0.4%, quarter-on-quarter. Imports from the EU (-13.5 bn CZK, -1.0%) as well as from non-EU countries (-17.4 bn, -2.2%) were lower, year-on-year, in H1. Imports from China (-23.6 bn, -8.7%) and Norway (-20.8 bn, -41.3%) shrank notably, while imports from Taiwan (+11.3 bn, 76.3%) had a strong increase. Imports from the EU grew slightly (+2.6 bn CZK, 0.4%) already in Q2, as did imports from countries outside the EU (+12.6 bn CZK, 3.2%). Taiwan also contributed the most to the increase in imports in Q2 (see Table 4) and the sharp surge of dynamics evident also in the previous quarter continued⁵³. Trade with Azerbaijan, Germany or Poland also contributed significantly to the growth of imports. On the contrary, imports from Norway, Hungary or Slovakia fell significantly.

Import of electrical equipment was falling.

The largest increase in imports was recorded for computers, electronic and optical appliances (+25.1 bn CZK, 11.2%), food products (+11.1 bn, 10.4%) and coke and refined

⁵² Prices of imports of goods were by 3.0% higher, year-on-year, in Q2 and by 0.1%, quarter-on-quarter.

⁵³ The increase for Taiwan was related to an increase in imports of computers and electronic and optical appliances.

petroleum products (+10.8 bn, 25.8%) in the cumulation for the whole H1. On the contrary, the value of imports of electrical equipment⁵⁴ (-36.3 bn CZK, -15.0%), machinery and equipment (-17.4 bn, -8.3%) and oil and natural gas (-11.3 bn, -12.8%) fell significantly. The imports of computers, electronic and optical appliances grew the most in Q2 alone (see Table 3) and further the value of imports of coke and refined petroleum products, food products and chemical products increased significantly. On the contrary, considerable declines were recorded for imports of electrical equipment, oil and natural gas, as well as machinery and equipment.

Table 3 Sections of CPA classification with highest impact on goods imports development in Q2 (year-on-year)

	bn CZK	%
Computers, electr. and opt. appliances and equipment	+20.1	+18.6
Coke and refined petroleum products	+8.5	+42.7
Food products	+7.0	+13.1
Chemicals and chemical products	+4.4	+5.0
Rubber and plastic products	+1.9	+3.7
Basic pharmaceutical products	+1.7	+5.2
Paper and paper products	+1.4	+9.3
Furniture	+1.2	+17.7
Other transport equipment	-1.6	-9.3
Metalworking products except for machinery and equipment	-1.7	-3.4
Electricity, gas, steam and air conditioning	-2.3	-40.9
Black and brown coal and lignite	-2.7	-43.8
Machinery and equipment, n.c.e.	-6.3	-6.0
Oil and natural gas	-10.6	-23.4
Electric equipment	-13.0	-10.8

Table 4 Countries with largest impact on imports of goods in Q2 2024 (year-on-year)

	bn CZK	%
Taiwan	+7.1	+96.0
Azerbaijan	+4.6	+77.3
Germany	+3.6	+1.4
Poland	+3.4	+3.4
United States of America	+2.6	+8.1
Bulgaria	+1.7	+35.0
Spain	+1.4	+6.0
India	+1.3	+15.3
Kazakhstan	+1.3	+61.1
France	-1.5	-4.3
Great Britain	-1.7	-8.9
Russia	-2.1	-13.7
Slovakia	-3.1	-5.0
Hungary	-4.4	-15.2
Norway	-10.8	-39.8

Source: CZSO

Source: CZSO

Surplus of the balance of international trade with goods jumped to historical maximum in H1.

The balance of international trade with goods reached a surplus of 159.2 bn CZK for the whole H1 2024, which is according to the available data the highest recorded value in the given period of the year. The positive balance improved markedly, year-on-year, in both quarters of the year. The international trade surplus attained 74.7 bn CZK in Q2, up by 38.5 bn CZK, year-on-year. Surplus of the seasonally adjusted balance also improved quarter-on-quarter.

Especially the balance of trade with countries outside the EU was improving.

The year-on-year balance improvement can be ascribed completely to the trade with the non-EU countries in H1, where the traditional deficit narrowed by 74.8 bn CZK. The surplus of trade with EU countries improved only by 8.1 bn CZK, year-on-year. The balance of international trade with goods with China (+29.2 bn CZK), Great Britain (+24.6 bn CZK) and Norway (+22.9 bn CZK) improved the most, year-on-year, in H1. In contrast, a significant drop in the surplus was recorded for trade with Taiwan (-10.5 bn CZK), the Netherlands (-5.7 bn), Azerbaijan (-5.7 bn) and Germany (-5.2 bn). In Q2 alone, the balance of trade with EU countries improved by 12.7 bn CZK, year-on-year, and with non-EU countries by 24.4 bn CZK. Trade with Great Britain (see Table 6) and Norway contributed the most significantly to the year-on-year improvement of the balance and the trade balance with Germany, Slovakia, Hungary, Turkey or China also improved. Trade with the United Kingdom (see Table 6) and Norway contributed most significantly to the year-on-year improvement of the balance, and the trade balance with Germany, Slovakia, Hungary, Turkey and China also improved. Trade with Taiwan, Azerbaijan, Belgium and Italy acted the most in the direction of the year-on-year deterioration of the balance.

⁵⁴ This year's decrease is connected to the last year's high comparative base for products needed to install photovoltaic power plants (especially batteries). Imports peaked in the first half of 2023 and subsequently started to fall.



Table 5 Sections of CPA classification with highest Table 6 Countries with largest impact on international impact on international trade with goods balance trade with goods development in Q2 2024 (year-on-year) development in Q2 2024 (year-on-year)

	bn CZK		bn CZK
Motor vehicles (except for motorcycles) and parts	+20.4	Great Britain	+14.5
Electric equipment	+15.6	Norway	+11.9
Oil and natural gas	+10.7	Germany	+8.9
Rubber and plastic products	+3.8	Slovakia	+6.4
Black and brown coal and lignite	+3.0	Hungary	+4.9
Other transport equipment	+2.7	Turkey	+3.4
Metalworking products except for machinery and equipment	+2.5	China	+3.3
Collection, treatment, management and disposal of waste	+2.1	United States of America	+2.7
Machinery and equipment n.c.e.	+2.1	Russia	+2.5
Paper and paper products	+1.1	France	+2.5
Food products	+1.1	Bulgaria	-2.4
Furniture	-1.3	Italy	-3.3
Basic metals	-1.6	Belgium	-3.5
Computers, electr. and opt. appliances and equipment	-4.7	Azerbaijan	-4.5
Coke and refined petroleum products	-8.5	Taiwan	-7.3
	-11.5		
	Source: CZSO		Source: CZSO

Trade with motor vehicles contributed the most to the balance improvement.

Trade with motor vehicles (+37.3 bn CZK), electrical equipment (+32.0 bn) and oil and natural gas (+11.7 bn) influenced the most the year-on-year improvement of the international trade balance in H1. The most significant balance deterioration was recorded for coke and refined petroleum products (-14.4 bn CZK) in H1. In Q2 alone, the balance of trade with motor vehicles (see Table 5), electrical equipment and oil and natural gas improved the most, by a significant margin. A significant improvement also played out in trade with rubber and plastic products, black and brown coal and lignite, other transport equipment and fabricated metal products. The balance of trade with coke and refined petroleum products, computers, electronic and optical appliances and basic metals deteriorated the most, year-on-year, in Q2.

5. Prices

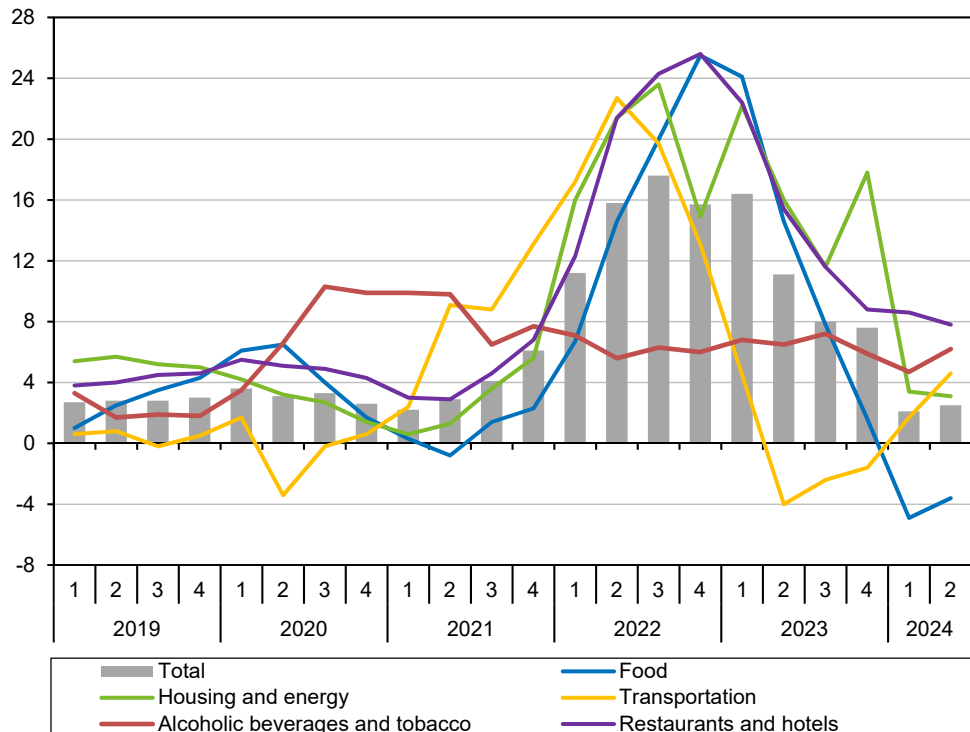
Year-on-year growth of the price level remained stable in Q2.

Total year-on-year growth of the price level gauged by the implicit deflator amounted to 4.2% in Q2. It thus did not change much compared to the previous quarter. Year-on-year growth of consumption prices remained solid (3.2%), while the increase of household consumption prices (3.3%) as well as of general government (3.0%) was similar. The price level of capital outlays increased, year-on-year, by 3.5%, in that the increase for gross fixed capital formation was only 0.4%. The year-on-year terms of trade of the international trade with goods and services weakened to 101.3% in Q2. Of this, the terms of trade with goods and services attained 101.0% and 102.9% respectively. The quarter-on-quarter increase of the price level weakened slightly to 1.4% in Q2. The quarter-on-quarter growth of consumer prices slowed markedly (0.2%) compared to the previous quarter, in contrast the increase for capital expenditure strengthened to 3.7% (in that the investment price level rose by 2.9%). Quarter-on-quarter terms of international trade with goods and services weakened to 100.4%.

Year-on-year growth of consumer prices slightly strengthened in Q2.

The year-on-year growth of consumer prices following a significant slowdown in Q1 (2.1%) again slightly strengthened in Q2 to reach 2.5%. The strengthening of year-on-year dynamics was mainly caused by faster growth of transport prices and further a moderation of the decline of prices of food and non-alcoholic beverages. The increase of prices of housing and energies, alcoholic beverages and tobacco, transport and restaurants and hotels contributed the most to the total year-on-year growth of consumer prices. Only prices of food and non-alcoholic beverages and home furnishings and household equipment decreased, year-on-year. Consumer prices rose by 0.8%, quarter on quarter, in Q2, owing to prices in all divisions of the consumer basket except for prices of housing and energies and recreation and arts.

Chart 10 Prices in the selected divisions of the consumer price index (year-on-year in %)



Source: CZSO

Costs of housing continued to contribute the most to the total

Prices of housing and energies rose by 3.1%, year-on-year, in Q2 and the increase thus slightly weakened to Q1. Nevertheless, housing retained the largest contribution to the total growth of consumer prices thanks to its weight in the consumer basket. Prices of



increase of consumer prices.	other housing-related services (8.2%) and rented dwellings (7.1%) grew the most, year-on-year, in Q2. At the same time, their relatively strong pace in comparison to the previous quarter did not change. Prices of maintenance and minor repairs of dwellings increased by 4.6%, year-on-year, and the increase of prices of electricity, heat, gas and other fuels weakened to 3.8%. The imputed rentals (0.9%) grew the slowest ⁵⁵ . Prices of housing and energies were essentially stagnating (-0.1%), quarter-on-quarter.
Growth of transport prices accelerated.	The year-on-year growth of transport prices strengthened to 4.6% in Q2. This change was mainly driven by the cost of operating a personal transport equipment, which increased by 9.5%, year-on-year. In that, prices of fuels and oils were higher by 8.4%. Prices of transport services went up by 4.7%, year-on-year. Prices of purchase of vehicles themselves continued to decline (-1.4%). Transport prices rose by 2.0%, quarter-on-quarter, which represents a significant increase compared to the pace in the first quarter of the year.
Prices of restaurants and hotels retained a considerable year-on-year increase.	The substantial effect of prices of restaurants and hotels on the year-on-year growth of consumer prices persisted in Q2. Their year-on-year increase slightly weakened to 7.8%. Prices of accommodation services rose more markedly (9.2%) than the prices of catering service (7.6%). The quarter-on-quarter increase of prices of restaurants and hotels remained strong in Q2 (1.9%). Prices of alcoholic beverages and tobacco increased by 6.2%, year-on-year, in Q2, which represented a significant strengthening compared to the previous quarter. Prices of alcohol and tobacco went up by 1.9%, quarter-on-quarter.
Prices of recreation and arts dropped, quarter-on-quarter.	Prices of recreation and culture rose by 3.8%, year-on-year, and the increase thus moderated. The price growth of newspapers, books and paper goods slowed down the most (2.3%) and the pace for recreation and cultural services was also more moderate (6.3%). On the contrary, prices of package holidays increased more sharply, year-on-year (5.1%). The prices of recreation and culture followed the strong quarter-on-quarter increase from Q1 with a drop of 0.8%. The year-on-year growth of prices of clothing and footwear moderated to 3.3% and stagnated, quarter-on-quarter. Prices of other goods and services ⁵⁶ went up by 3.0%, year-on-year, and by 1.0%, quarter-on-quarter. Prices of health were higher by 4.0%, year-on-year, and by 2.2%, quarter-on-quarter, which was the largest increase in the whole consumer basket. Prices of education rose by 6.5%, year-on-year, in Q2 and increased by 0.1%, quarter-on-quarter.
The year-on-year decline of prices of food and non-alcoholic beverages moderated.	Only prices of food and non-alcoholic beverages, which were lower by 3.6%, worked in the direction of total year-on-year consumer price decrease. Their plunge however moderated compared to Q1. This was mainly due to a strengthening growth of prices of non-alcoholic beverages (3.6%) and a moderation of the fall of prices of milk, cheese and eggs (-9.0%). The decrease of prices of meat and fish (both -4.9%) and sugar and related products (-0.5%) was also less pronounced and prices of oils and fats (1.0%) turned from decline to growth. By contrast, the decrease of prices of bread and cereals remained unchanged (-4.5%), the decline of prices of fruit deepened (-5.3%) and the rise of prices of vegetables diminished (1.0%). Prices of food and non-alcoholic beverages went up by 0.8%, quarter-on-quarter. Prices of home furnishings and household equipment decreased by 0.1%, year-on-year, mainly under the influence of goods and services for household maintenance, where the drop deepened to -6.9%. However, prices of home equipment and furnishings were by 0.8% higher, quarter-on-quarter.

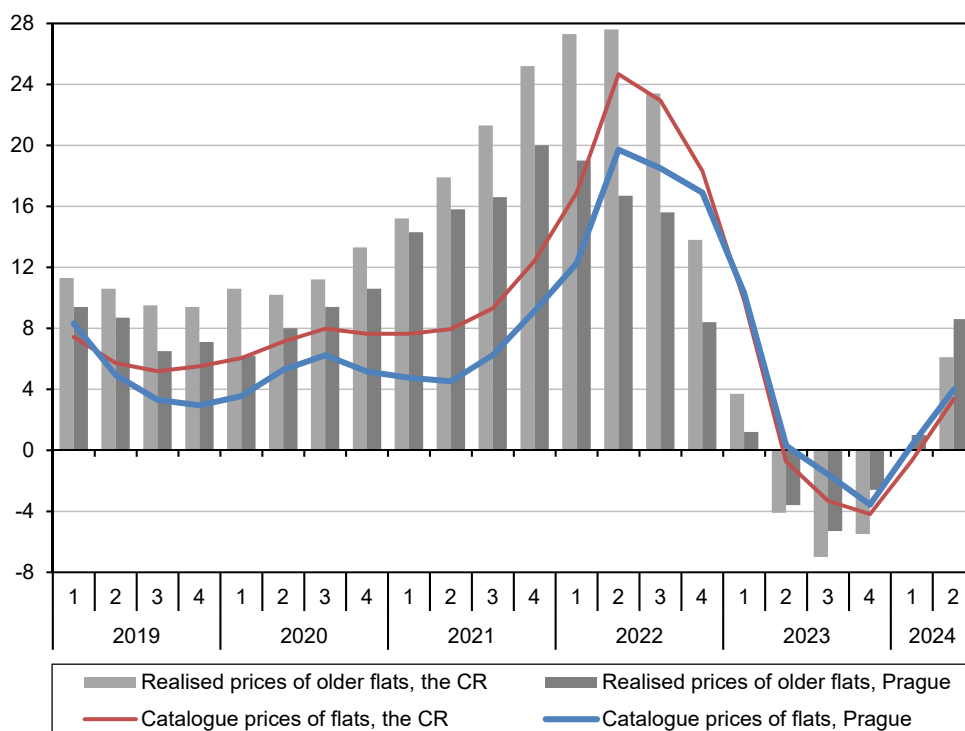
⁵⁵ Imputed rent expresses the cost of owner living. Apart from prices of housing themselves, it also contains the cost of construction and renovation and further fees. For more see: <https://csu.gov.cz/methodological-note-to-consumer-price-index-imputed-rentals>.

⁵⁶ Contains services of personal care and personal needs and accessories, social care, insurance and further financial services etc

Year-on-year growth of consumer prices slightly slowed down in the EU.

Harmonized index of consumer prices (HICP)⁵⁷ rose by 2.6% in the EU, year-on-year, and by 1.4%, quarter-on-quarter, in Q2. The year-on-year increase of the HICP slowed slightly compared to Q1. Prices of alcoholic beverages and tobacco (5.2%) and restaurants and hotels (5.3%) rose strongly, year-on-year. Growth of transport prices (2.2%) and housing and energy prices (1.4%) strengthened. Growth of prices of food and non-alcoholic beverages weakened (1.7%). Only telecommunications prices were lower in the EU (-1.1%), year-on-year. The highest year-on-year HICP increase was recorded in Romania (5.8%), Belgium (5.1%) and Croatia (4.2%). In Q2, the year-on-year price increase was below 1% in Finland (0.5%), Lithuania (0.8%), Latvia (0.9%) and Italy (0.9%). The highest quarter-on-quarter increase of consumer prices was recorded in Malta (5.1%), Portugal (3.3%) and Cyprus (3.1%) in Q2. Prices similarly rose by only 0.2%, quarter-on-quarter, in Finland, Denmark and Bulgaria.

Chart 11 Prices of real estate (year-on-year change, in %)



Source: CZSO

Prices of flats again grew.

Catalogue prices of flats in the Czech Republic increased by 2.3%, quarter-on-quarter in Q2, building on the increase from Q1 by strengthening the dynamics. The value of the index shows that catalogue prices have practically erased the decline that occurred last year and are at the level of the end of year 2022. The year-on-year decline did not continue either and the catalogue prices of flats rose by 3.4% in Q2. The catalogue prices of flats increased by 4.0%, year-on-year, in Prague, while the prices of flats outside Prague were higher by 2.7%. In the case of realised prices of older flats, the acceleration of dynamics is even more pronounced. The realised prices of older flats in the Czech Republic increased by 3.3%, quarter-on-quarter (by -4.2% in Prague). The year-on-year increase of the realised prices of older flats in the Czech Republic reached 6.1% in Q2, 8.6% in Prague and 5.5% outside Prague. Realised prices of new flats in Prague increased by 3.7%, quarter-on-quarter, and after five decreases also increased year-on-year, specifically by 1.0%. The fact that the dynamics of realised dwelling prices

⁵⁷ Contrary to the consumer price index, which the CZSO compiles for the Czech economy, HICP does not contain imputed rent, which is the main reason for the difference between the HICP and Consumer price index.



are ahead of catalogue prices indicates a renewed tightening of the real estate market and excess of demand over supply.

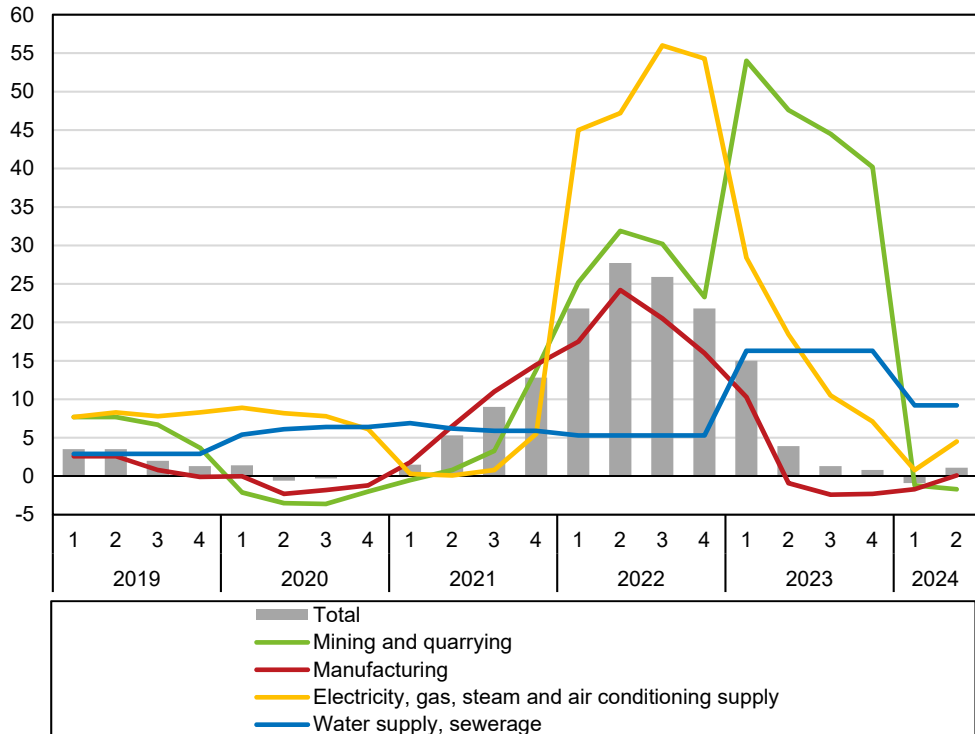
Industrial producer prices again increased, year-on-year.

Industrial producer prices followed the year-on-year decline (-0.9%) from Q1 with an increase of 1.1% in Q2. Quarter-on-quarter, the industrial producer prices decreased by 0.5%. Prices of electricity, gas, steam and air conditioning, whose year-on-year increase strengthened to 4.5% in Q2, mainly participated on this increase, nevertheless there was also a quarter-on-quarter decrease of 2.9%. Prices of goods and services in manufacturing turned from a year-on-year decline to a small increase (0.1%) and were 0.2% higher, quarter-on-quarter. The year-on-year decrease of prices of mining and quarrying on the contrary deepened to 1.7%, but prices were higher here by 1.2%, quarter-on-quarter. Prices of water distribution and services associated with wastewaters were higher by 9.2%, year-on-year.

Moderation of the decline of prices of various raw materials was apparent in manufacturing.

Strengthening of year-on-year price dynamics in manufacturing was related, besides other things, to a moderation of declines in several divisions, often those processing basic raw materials. Prices of basic metals (-7.9%), wood and wood products (-7.9%), paper and paper products (-7.4%), food products (-4.0%) or textiles (-1.6%) thus decreased slower. Prices of chemicals and chemical products rose slightly (0.3%) and the growth of prices of motor vehicles strengthened (3.9%). On the contrary, the growth of prices of wearing apparel (5.1%), computers, electronic and optical appliances (4.5%), beverages (3.5%), machinery and equipment (3.2%), other products of manufacturing (2.2%) or basic pharmaceutical products (1.5%) moderated in Q2. The year-on-year decline for fabricated metal products deepened (-1.8%) and prices of electrical equipment started to fall (-0.3%).

Chart 12 Prices of main groups of industrial producers (year-on-year change, in %, based on CPA classification)



Source: CZSO

<p>Industrial producer prices remained in the year-on-year slump in the EU.</p>	<p>Industrial producer prices in the EU⁵⁸ decreased by 4.1%, year-on-year, in Q2. The increase reduced compared to the previous quarter. The year-on-year decrease of prices of electricity, gas, steam and air conditioning (−14.3%), as well as prices of mining and quarrying (−1.3%) and manufacturing products and services (−0.4%) was less deep. The industrial producer prices increased the most, year-on-year, in the Czech Republic (1.1%) in Q2, followed by Portugal (0.6%), Sweden (0.6%) and Malta (0.5%). The industrial producer prices were falling, year-on-year, in other EU countries, the most in Slovakia (−20.8%), Luxembourg (−10.8%) and Poland (−6.9%). Industrial producer prices in the EU fell by 1.4%, quarter-on-quarter. This was caused solely by a decrease in prices of electricity, gas, steam and air conditioning (−7.0%). Prices of mining and quarrying were raised by 1.4%, quarter-on-quarter, and prices of manufacturing products and services by 0.3%.</p>
<p>Prices of construction works went up.</p>	<p>Prices of construction work were, based on estimates, by 2.1% higher, year-on-year, in Q2 2024, while the prices of materials and products used in construction fell by 1.2%. Quarter-on-quarter, the prices of construction work were estimated to have risen by 0.8% and prices of materials and products used in construction went up by 0.3%. Prices of construction work were, based on estimates, by 2.1% higher, year-on-year, in Q2 2024, while prices of materials and products used in construction fell by 1.2%. Quarter-on-quarter, the prices of construction work were estimated to have risen by 0.8% and prices of materials and products used in construction went up by 0.3%.</p>
<p>Year-on-year growth of market services slowed down markedly.</p>	<p>Prices of market services increased by 3.4%, year-on-year, in Q2. The growth thus slowed down significantly compared to the previous quarter and was the slowest since Q4 2021. The development of prices of programming, consultancy and related activities (pace slowed to 3.2%), prices of land transport and transport via pipelines (0.6%) and prices of advertising and market research (6.7%) affected the most the pace deceleration. The prices of real estate services (7.6%) contributed the most to the total year-on-year increase of prices of market services. Prices of security and investigation activities (8.9%), postal and courier activities (7.7%), employment placement activities (6.8%), legal and accounting services (6.0%) or services to buildings and landscape activities (5.4%) also featured a solid growth. Only prices of warehousing and support activities for transportation decreased, year-on-year (−0.3%). Prices of market services were higher by 1.6%, quarter-on-quarter, in Q2.</p>
<p>Prices of agricultural production continued to fall, year-on-year, but the decline moderated.</p>	<p>The year-on-year plunge of the agricultural producer prices (including fish) moderated to −10.4% in Q2. The decrease of prices of both crop and animal products was less pronounced. Prices of crop production were by 15.7% lower, year-on-year. The drop of prices of cereals was smaller, nevertheless still deep (−23.8%, in that prices of wheat went down by 24.4%, rye by 17.1%, barley by 20.4%, oats by 7.4% and maize by 30.2%). Prices of industrial crops lagged by 8.3%, year-on-year, and prices of oil seeds (−7.9%) as well as protein crops (−14.7%) decreased. Prices of vegetables and horticultural products (−7.4%) as well as potatoes (−0.6%) fell into a year-on-year decrease in Q2. On the contrary, the prices of forage plants (12.8%) and fruit (13.0%) were higher, year-on-year. Prices of animal production decelerated their decrease, year-on-year, to −4.4%. The prices of pigs and piglets (−1.3%) and poultry (−8.1%) stood behind the total decrease of prices of live animals by 1.5%. In contrast, the prices of cattle were higher by 5.3%. Prices of milk were lower by 4.7% and eggs by 18.5%, year-on-year, in Q2.</p>

⁵⁸ Without prices of water distribution and services associated with wastewaters.



Prices of international trade were affected by the foreign exchange changes.

Prices of exports increased by 3.7%, year-on-year, in Q2. The increase accelerated significantly compared to the previous quarter. Export prices rose by 0.6%, quarter-on-quarter. The koruna foreign exchange per euro as well as the dollar fostered stronger year-on-year dynamics of the international trade prices⁵⁹. Products of the manufacturing industry, for which the increase accelerated to 4.6% in Q2, had the main share on the total year-on-year growth of export prices. Export prices of other transport equipment (14.9%) and furniture (14.8%) rose the most, year-on-year. The increase was also strong for motor vehicles (7.8%) and prices of exports of coke and refined petroleum products (7.8%) went from a decline to a significant year-on-year growth. Prices of exports of electrical equipment (6.3%), machinery and equipment (5.5%) and computer, electronic and optical appliances (5.2%) strengthened their growth. Only a minority of manufacturing products saw prices fall. The drop of prices of exports of basic metals slowed down (-2.8%), while the prices of exports of textiles (-2.4%), wood and wood products (-2.2%) and leather (-1.7%) were lower. Export prices for water distribution and services associated with wastewaters increased (9.4%). On the contrary, prices of exports of electricity, gas, steam and air conditioning continued to plunge, year-on-year (but slowed to -10.2%). The decline of exports of agriculture, forestry and fishing products also moderated (-4.1%). The year-on-year decrease of export prices of mining and quarrying deepened (-14.5%).

Terms of trade of the international trade with goods were positive.

Import prices increased by 3.0%, year-on-year, in Q2 and were by 0.1% higher, quarter-on-quarter. Import prices of mining and quarrying (5.1%) and also in case of manufactured products (3.4%) went up year-on-year. The largest price increase was recorded for imports of other transport equipment (13.3%), followed by beverages (10.7%) and coke and refined petroleum products (8.1%). However, import prices rose for most divisions and the dynamics also strengthened. Nevertheless, the decrease lasted only for imports of wood and products (-3.3%), leather (-1.6%) or other products of the manufacturing industry (-1.7%). Prices of imports of electricity, gas, steam and air conditioning fell by 18.2%, year-on-year, in Q2 and the decrease for agriculture, forestry and fishery products deepened to -13.2%. The year-on-year terms of trade of the international trade with goods reached 100.6% in Q2. The quarter-on-quarter terms of trade reached 100.5%. The year-on-year terms of trade were markedly positive for products of agriculture, forestry and fishing (110.5%) and electricity, gas, steam and air conditioning (109.8%). The terms of trade for manufactured goods reached 101.2%. The total positive result was subdued significantly by negative terms of trade in mining and quarrying products (81.3%).

⁵⁹ Based on the CNB data, the average koruna foreign exchange per euro was 24.958 CZK/EUR in Q2 2024. It was 23.588 CZK/EUR in Q2 2023. Koruna foreign exchange per dollar also weakened. The average was 23.179 CZK/USD in Q2 2024. It was 21.673 CZK/USD in the same period of year 2023.

6. Labour Market

The situation on the labour market was stabilised in H1. Especially in case of employment, the effects of last year's economic stagnation were still reflected retrospectively.

Growth of the purchasing power of wages has resumed, and wages have thus gradually begun to eliminate their deep losses from 2022 and 2023.

Total employment slightly increased, quarter-on-quarter, in Q2, mainly due to the development of small businesses.

The year-on-year growth was driven by public services for employees, and by trade and tourism-related activities for the self-employed.

Most services sectors contributed to the very

The effects of last year's stagnation of economic performance continued to be reflected on the labour market with a delay this year. Employment growth remained rather weak. Despite the recovery of most services and small and medium businesses in general, the unfavourable situation persisted in industry and construction. Entrepreneurs in most key sectors also remain cautious regarding their short-term expectations of their own employment. However, in spite of the uncertain economic outlook, companies still increasingly demanded a cheaper labour force from abroad, and in addition, the integration of Ukrainian refugees into the labour market in the Czech Republic gradually continued, which partly addressed the longer-term shortage of available labour force in the country. Unemployment, including its long-term component, remained at a very low level without any significant changes. The specific situation in individual economic activities was reflected in heterogeneous wage growth, nevertheless its nominal year-on-year pace overall slightly weakened. This was also due to the fact that wage growth was subdued in most areas of the public sector as a result of the fiscal consolidation efforts. However, thanks to the stabilisation of the price level in the economy, the year-on-year decrease of the purchasing power of wages has stopped in all regions as well as main sectors (except for education). The purchasing power of average wages nevertheless still reached only the 2018 level.

While the total employment⁶⁰ in Czechia was only stagnating, quarter-on-quarter, at the beginning of this year (as in the second half of last year), it increased by 0.5% during Q2 2024. This recovery was mainly driven by some sectors of market services (trade, tourism-related activities, real estate) as well as construction. Rather than an increase of employee positions, the development of small businesses manifested. The number of persons working in the national economy has already reached 5.41 million. Compared to the maximum value from the last boom (Q4 2018), it was higher by 0.7%, mainly due to the development of public services. Total employment has grown, year-on-year, for more than three years in a row, but the current pace in Q2 2024 was the weakest for the entire period (+0.2%⁶¹). The delayed effect of last year's stagnation of the total economic performance was reflected in this project. The number of employees grew negligibly (+0.1%), which is related to persistent difficulties in the mining as well as manufacturing industries and the related transport branch. In contrast, most services prospered. Only the financial sector has significantly reduced the number of employees here, where this decline has a longer-term character and is mainly connected to the development of digitization. The number of self-employed persons in the total economy increased by 0.7%. Their numbers have thus grown more rapidly than in the case of employees, specifically for more than two years. The branch trade, transport, accommodation and food service, and to a lesser extent the public sector and also financial activities (where there could be "spillovers" from employee status) were behind the growing number of small entrepreneurs currently. The number of self-employed decreased due to the persisting recession and weakened demand in both industry and construction.

The year-on-year growth of total employment (+0.3%) was driven by public services⁶² (+1.6%) in H1 2024, which gradually responded to the rising demand related mainly to

⁶⁰ Data regarding employment stem from the national accounts' conception. They are expressed in physical persons and adjusted for seasonal effects. Unlike the data from the business statistics or the labour force sample survey (LFSS) also include for instance the estimation of the grey economy impact.

⁶¹ Employment in the Czech Republic has been growing more slowly than in the EU in the long-term. The number of working persons increased by 1.0%, year-on-year, in the whole Union in Q2 2024 (similarly to the domestic pace, this was one of the lowest rates since Spring 2021). The key role in employment growth played services also in the EU – it grew the most in information and communication and in financial activities. Industry only stagnated. Among the individual countries, the total number of employees increased the most in Lithuania (by 2.8%) and Croatia (+2.6%), and among the major economies in Spain (+2.2%) and Italy (+1.4%). The number of employees decreased only in five mostly smaller countries – especially in Finland (–1.5%), but also in Poland (–0.8%) or in Slovakia (–0.2%). In Germany, as in the Czech Republic, the very modest total growth (+0.4%) reflected the difficulties of industry as well as construction, which were losing employees. The number of employees in the EU increased by a similar percentage as the number of self-employed.

⁶² Include here branch public administration, education, health and social work.



modest year-on-year growth of employment, however both industry and construction were losing workers.

longer-term changes in the age structure of the population (in the area of education, health and social care). Moreover nearly all major branches of the tertiary sector⁶³ registered only slightly lower growth. On the contrary, industry, where the employment fell by more than 2% this year (after stagnating in the previous three years) did not fare well. It was associated with the recession of the total branch accompanied by the heightened cost pressures as well as weakened demand in a number of traditional export branches⁶⁴. The number of workers also decreased (–1.0%) in construction, specifically for the first time after 2020.

The number of hours worked in the economy decreased slightly for the first time in three years. Part-time work has expanded.

The total number of hours worked in the economy, which returned to the 2019 level for the first-time last year, fell by 1.2%, year-on-year, in Q1 this year (falling for the first time after Q1 2021) and the subsequent quarter confirmed this development. Employment (gauged in number of persons) grew faster than the number of hours worked not only this year, but also for most of the last year. Lower need for overtime work in some sectors affected by the recession, the expansion of part-time work⁶⁵ (related to the growing employment of women supported by the refugee wave from Ukraine as well as the tax relief of part-time work introduced last year) or a decrease in the number of persons working on agreements⁶⁶ (due to legislative changes reducing the financial benefits of these forms of work for employees and, conversely, increasing administrative burdens for companies) could have been reflected here. The highest decrease of the number of hours worked occurred in manufacturing (–4.3%) in H1 2024 and a significant year-on-year decrease was also recorded e.g. in public services (–1.7%).

The number of foreigners in employment status rose to a record 828 thousand. Ukrainians formed more than half of its year-on-year increase. The influx of workers from some Asian countries has accelerated.

The long-term limited pool of available labour force in the Czech Republic together with the heightened pressure on companies to optimise the production costs stimulated the growing demand of domestic employers for workers from abroad. Legislative changes reducing the administrative burden in this area aid the easier employment of foreigners. This applies both to citizens of Ukraine⁶⁷ and foreigners from other, not only economically less developed countries outside the EU⁶⁸. The long-term growth of the influx of foreign workers to the Czech Republic thus continued. The number of working foreigners in the Czech Republic grew at a similar pace as last year, e.g. there were a record 828 thousand persons in employee positions (+32 thousand, year-on-year)⁶⁹ at the end of June this year. Ukrainians, of whom 286 thousand worked as employees in the Czech Republic (their increase was evenly distributed among men and women unlike in the previous years) comprised more than one half of the increase. The percentage share of citizens of India, the Philippines, China and Turkey also increased rapidly. On the other hand, the number of Poles, Hungarians and Bulgarians slightly reduced. From the regional point of view, the year-on-year increase in the number of foreigners in the employment status was highest in Prague (+6.5%) and in the *Vysočina* Region (+6.4%) – i.e. at the same time in the regions currently the least affected

⁶³ The increase of employment was the highest in the group of other services (+2.0%), which includes, in addition to arts, entertainment and recreation activities for example various household services (repairs of goods, hairdressing and other beauty treatment, etc.). Nevertheless, the employment in this group, which was severely affected during the period of anti-pandemic restrictions, still lagged slightly behind the 2019 level.

⁶⁴ In contrast, the number of workers expanded in some small sub-branches (energy industry, water and waste management, food industry).

⁶⁵ Based on the LFSS data, the proportion of females aged 15 years and more working part-time jobs increased from 12.0% to record 13.9% between Q4 2022 and Q1 2024. Together with Slovakia, it represents one of the most substantial increases within the EU. Share of these job contracts in the CR is however still low within the European context. It achieved 29.6% in the EU, in that 34.5% in the euro area. However, only Estonia (21%) and Malta (19%) had currently a larger share of females working this way among the states, which acceded the EU after year 2000.

⁶⁶ Based on the experimental statistics of the CZSO, the number of persons working under agreements (on work performed outside an employment relationship) fell by 10%, year-on-year, in H1 2024, the number of their hours worked decreased accordingly. Note: persons working on agreements concurrently for more employers are included multiple times (i.e. separately for each employer).

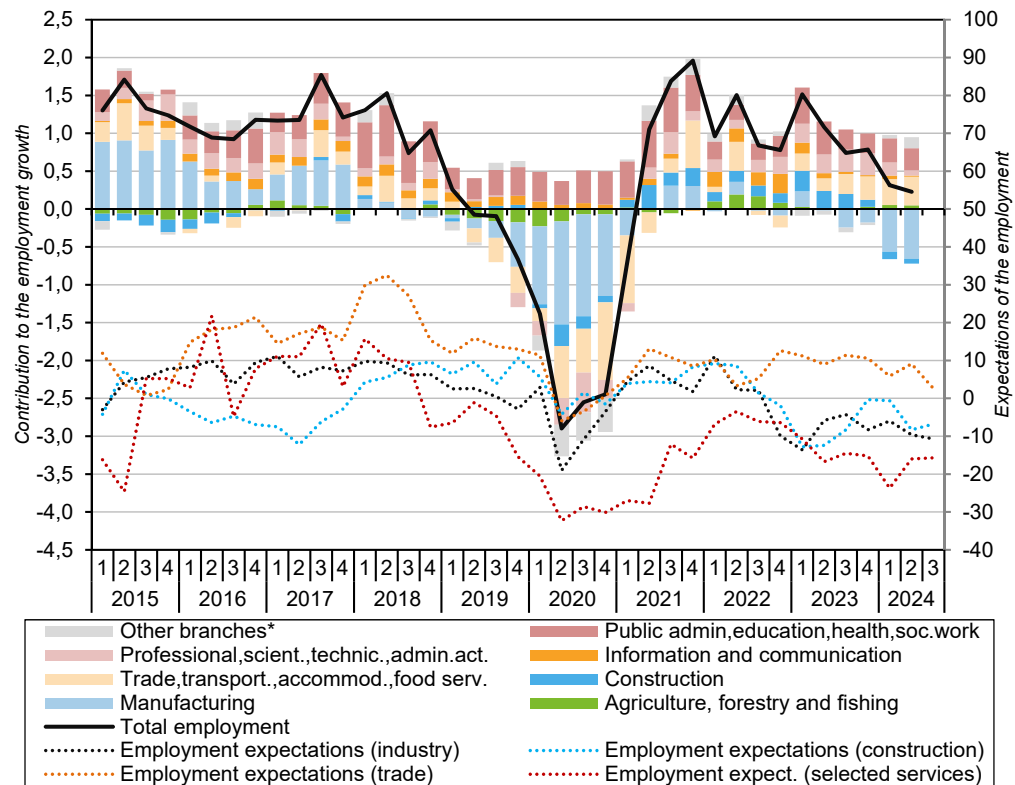
⁶⁷ More than 76% of all citizens of Ukraine staying in the CR in the employee position did not need a special work permit at the end of Q2 2024 (work permit, the employee card or blue cards).

⁶⁸ As of 1st July 2024, foreigners from some economically developed countries outside the EU (USA, Great Britain, Canada, Australia, New Zealand, Japan, South Korea, Israel and Singapore) newly do not need a work permit or employee card in the CR.

⁶⁹ In addition, the Ministry of Industry and Trade registered 124.5 thousand foreign nationals with a trade license in the Czech Republic in the same time period. Ukrainians contributed almost 60% to their year-on-year growth (+9.3%). Unlike foreigners in the employee position, people settled in the CR for the long-term (e.g. Vietnamese) are more frequently among foreigners entrepreneurs.

by unemployment. Labour offices in Prague registered more than 30% of all employed foreigners in the Czech Republic and further 17% then in the Central Bohemia.

Chart 13 Total employment (year-on-year in %), contributions of branches to year-on-year growth of employment (in p.p.) and expectations of employment (balance in p. p.)



* Mining and energetics; Financial and insurance activities; Real estate activities; Arts, entertainment and recreation activities.
 Note: Balance of expectations expresses the difference in p.p. between categories growth vs. decrease of employment in the nearest three months. Data are seasonally adjusted and relate to the second month of the given quarter.
 Source: CZSO (national accounts), Eurostat (business cycle surveys).

The mild recovery of the economy has not been accompanied by a reduction in negative outlooks of businesses regarding employment so far this year.

The role of lack of labour force as a significant growth barrier of businesses is slightly shrinking this year.

Short-term expectations of businesses in the area of their own employment remain slightly negative in the domestic economy (the same as throughout the last year). Despite a modest increase of the economic output, they stayed close to a three-year low in August this year. Among the main sectors, optimism persisted only in trade. The proportion of businesses that want to hire people (10%) exceeded those that want to lay off (9%) here. Negative expectations prevailed especially in services, where over 30% of businesses were considering laying off workers in the three-month horizon (but 15% want to on the contrary hire), while it was around 16% in industry as well as construction. The situation at the level of sub-branches within both industry and services naturally differed⁷⁰. Construction was the only major sector in which expectations improved slightly, year-on-year. Since the beginning of this year, the share of companies for which the labour shortages represent one of the significant growth barriers⁷¹ has slightly decreased in industry (to 13% in August), services (8%) and also in construction (42%), where, however, it has been a key barrier for more than five years, with minor interruptions.

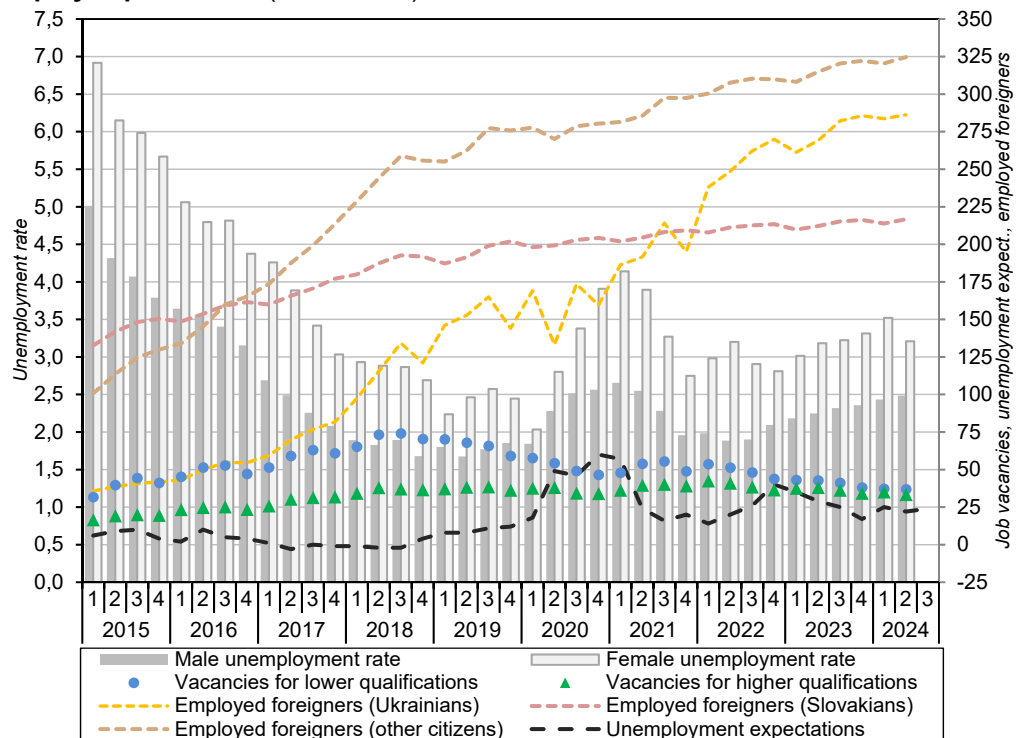
⁷⁰ Businesses in two thirds of manufacturing industrial branches – both in the energy intensive (metallurgy, production of construction materials, chemical industry) and in machinery, electronics industry and supplier sub-branches tied to manufacturing of motor vehicles or in a number of mostly smaller branches, whose sales depend to a large part on the household consumption (furniture, textile, clothing and beverage industry) expressed prevailing negative expectations of employment (based on survey from August 2024). On the contrary, positive outlooks lasted mainly in manufacturing of rail transport equipment, with a margin then further in the pharmaceutical industry, other industry or repairs and installation of machinery and equipment. Signs of a positive turnaround occurred in the metalworking industry, which also contains the small segment of weapon industry.

Negative expectations prevailed in one half of sub-branches in services. It was the most apparent in financial industry, further in arts, entertainment and recreation activities, in majority of administrative and support service activities or in advertising. In contrast, businesses anticipated rather higher employment in several other business services (architectural and engineering activities, employment agencies) or in the area of programming, telecommunications, courier activities, food service or accommodation.

⁷¹ Businesses could have indicated more barriers simultaneously.



Chart 14 General unemployment rate (in %, age 15 to 64 years), unemployment expectations of households* (in p.p.), job vacancies and working foreigners in employee positions (in thousand)**



Note: Figures regarding the unemployment rate are seasonally adjusted. Job vacancies: balance at the end of quarter. Vacancies for higher qualifications include positions requiring at least secondary education with A-level or higher education. *Seasonally adjusted balance of expectations of unemployment in the next 12 months (difference between percentage frequency of answers of households “growth” and “decrease” expressed in percentage points). Data relates to the middle month of the given quarter. **Number of foreigners in the employee position registered at labour offices in the CR at the end of relevant quarter. Source: CZSO (LFSS, business cycle survey), MLSA (job vacancies registered at labour offices in the CR, employed foreigners)

The general unemployment rate did not increase significantly. From a historical and international perspective, it remains very low.

Despite the ongoing difficulties of some businesses in various industrial branches, the general unemployment rate⁷² has not increased significantly over the past year, rather it can be considered fluctuating – especially for females. The adjusted unemployment rate (persons aged 15–64 years) reached 2.7% in August (2.3% for males, 3.2% for females)⁷³. In fact, the number of long-term unemployed did not increase either – they accounted for 30% of the total number of persons without work, which is below an average figure from both a long-term and international perspective. The size of the potential labour reserve (i.e. economically inactive persons not seeking employment but stating their willingness to work) has not changed significantly recently and remains low in the long-time view (82 thousand persons in Q2)⁷⁴. On the one hand, this represents a

⁷² Unless stated otherwise, all data regarding the unemployment rates are sourced from the LFSS (based on the ILO methodology) and are adjusted for seasonal effects.
⁷³ Unemployment also remains low in the EU - reaching flat 6% in the group of persons aged 15 to 74 years in July this year (6.4% in the euro area). It was unchanged month-on-month as well as year-on-year. The unemployment has thus been virtually stagnating already for approximately 2 years. It is close to a historical low and is 1 p. p. lower compared to year 2008 (in both the EU and the euro area). Unemployment in the Czech Republic (2.7%) continued to be the lowest among the EU states, mainly due to males (2.5%). For females, where the unemployment traditionally fluctuates more, it has currently reached a slightly lower level in Poland and Malta than in the Czech Republic (3.1%). Spain has suffered the highest unemployment rate within the EU already for more than 3 years, it currently stands at 11.5% (it is the highest among both males and females). This is followed by Greece (9.9%), whose position is affected by high female unemployment (12.5%). On the contrary, mainly males drive the total more than 8% unemployment up (8.9%, 10.1% and 8.4%, respectively) in Sweden, Finland and Lithuania. A year-on-year decrease of total unemployment occurred in 12 EU countries in July 2024– nevertheless it was more notable only in Italy (by 1.3 p.p.), Greece (-1.2) and Croatia (-1.1). The unemployment worsened in contrast by more than 1 p. p. in the Northern Europe – in Sweden, Lithuania and Finland. The unemployment grew only gradually (+0.4 p.p.) in Germany, however it is currently at a three-year high (3.4%). The Czech Republic also ranks favourably in terms of unemployment of persons under 25 years of age, as it belongs to the one third of the EU countries with the lowest youth unemployment in the long-term. It currently stood at 11.6% (14.5% in the EU, and already seven member states – especially Spain and Sweden – about 25% - were afflicted by unemployment of more than 20%).
⁷⁴ Only less than one fifth of this quantity is however able to join the workforce immediately. Since a significant part of working reserves consists of students and females on the parental leave.

significant problem for many employers, but from another point of view, it is also a positive signal indicating that the extent of hidden unemployment (in the form of an “escape” into economic inactivity) is currently not significant on the domestic labour market.

The number of registered job vacancies at LO slightly decreased, year-on-year, specifically across all qualification categories.

Data from the labour offices (LO) also confirm the stable state of the domestic labour market. The seasonally unadjusted share of the unemployed (available job seekers to the total population aged 15–64 years) was 3.8% (males: 3.3%, females: 4.2%) at the end of July. Although it was the highest July value in the last 4 years, the year-on-year increase of unemployment has been very mild in all months of this year so far (0.1 to 0.3 p.p.). Males are troubled by the highest unemployment in the *Most* district (10.0%), females in the *Karviná* region (8.4%). Despite the development of seasonal work, the number of registered job vacancies at the LO has been slightly decreasing, month-on-month, since April this year (in total by 6 thousand to 262 thousand⁷⁵ since July, it still grew slightly last year during H1). The number of vacancies thus lagged slightly behind the total number of job seekers (now 283 thousand) for the eighth month in a row. The number of vacancies also decreased slightly year-on-year, mostly across all qualification categories. Concerns of people regarding the growth of unemployment (expressed within the business surveys) fell to the lowest level since the onset of the pandemic in April this year. They did strengthen slightly subsequently, but did not significantly exceed their long-term average even in the summer months.

Year-on-year average wage growth slowed down. With a delay, it reflected the stagnation of performance of economy evident in the previous quarters.

The average gross monthly nominal wage of an employee in the national economy reached 45,854 CZK in Q2 2024, up by 6.5%, year-on-year. This pace slowed slightly compared to Q1 (+7.2%) of this year (moderation of growth was also evident throughout the whole last year). A slowdown of the wage dynamics can also be observed in a quarter-on-quarter comparison – the adjusted average wage growth was “only” 1.4% in Q2 2024 (the least since Spring 2022). The registered number of employees (in full-time equivalent) stagnated, year-on-year, in both quarters of this year. The growing need for savings in the budgetary sphere as well as the rising number of foreign workers from “third countries” dampened the wage growth in the economy. They often work in low-skilled positions and their earnings thus usually do not reach the level of Czech citizens. By contrast, the still relatively high demand of firms for labour force in some branches or an increased pressure from employees, also stemming from tight family budgets due to the fading high price growth of some consumer basket items still fostered the nominal wage growth. More dynamic wage growth in a number of branches was also enabled due to the ongoing high corporate profit rate.

The decrease of real wage in the economy has ceased for the first time in nine quarters this year. The purchasing power of the average wage corresponded to year 2018 only.

Thanks to the calming of the price level in the economy, the expected growth of real wage continued. It amounted to 3.9%, year-on-year, in Q2 (4.5% for the entire H1 2024). The real wage growth is gradually erasing the significant drop of the real purchasing power of employees from both years 2022 and 2023 this year (in real terms, however, the average wage is still situated at the 2018 level). The wage purchasing power growth is subdued by a slight increase of the tax burden on labour this year (e.g. by the reintroduction of employee health insurance premiums approved as part of the government's consolidation package).

⁷⁵ Only a smaller proportion of vacancies can be considered active – only 122,000 jobs were advertised at the LO for less than half a year. According to the experimental statistics of the CZSO (survey of companies since year 2020), the offer of domestic companies was estimated at 111 thousand vacancies in Q2 2024 (these are only jobs in an employment relationship, not temporary jobs, e.g. various types of agreements). The number of vacancies increased by 10%, year-on-year (they grew in Q1, while it on the contrary decreased or stagnated during the last year). Currently, especially the supply of vacancies in public services increased (mainly in health and social care), further in trade, tourism, administrative and support service activities as well as in agriculture. In contrast, the number of vacancies decreased especially in industry, the same as last year.



Wages in health and social care increased relatively the most. However, the growth was significantly below average in other branches of the non-business sphere.

The growth rate of the average wage masks traditionally a very diverse development at the level of individual branches of enterprises or organisations. The wages in health and social care achieved the highest year-on-year growth in Q2 this year – 11.1%⁷⁶, employees' wages improved on average monthly nominally by 5.1 thousand CZK here (i.e. also the most among branches). However, the wage growth was subdued in other areas dominated by the public sector. It was 2.9% in public administration and social security, only 2.1% in education (the least of all main branches). The absolute increase of wage (+849 CZK) did not comprise even one third in comparison to the total economy. Moreover, education is the only sector that remains in a continuous decline of real wages for the third year in a row. Nominal earnings increased by 5.2% in arts, entertainment, and recreational activities, which are also partly affected by state activities, but the weaker growth is also due to a higher last year's base. The wage level lagged by one-sixth of the total economy level here in 2024 Q2.

The continuing slightly above-average wage growth in both industry and construction was "redeemed" by a reduction of employment.

Wages continued to grow at a slightly above-average rate in industry, by 7.5% in Q2. This is connected to both the reduction of the registered number of employees (–1.7%) and the fact that there are still few available workers on the market and the lack of labour force still represents a significant barrier in many industrial branches. The same applies to the construction industry. The manufacturing of motor vehicles (with an increase in earnings by 10.5% to 62.7 thousand CZK) together with the closest related branches contributed the most to the strengthening of wages in industry. The wage growth was below the average of total economy in branches going through recession (metalworking, building materials, engineering, mining and quarrying) and employment fell deeper here. Of the market branches, the wage increased the least in agriculture, forestry and fishing (+4.9%).

Within market services, the total volume of wages paid grew relatively the most in accommodation, food service and restaurants.

Within market services, the wages grew the most in transportation and storage (+7.3%), nevertheless their level (41.3 thousand CZK) was still one tenth lower than in the total economy. In addition, the number of employees was also declining here, as only in few of the services branches. This also applies to administrative and support service activities. Professional, scientific and technical activities, with employment and wages growing slightly at an above average pace prospered, as well as accommodation, food service and restaurants (wages: +6.8%, employees: +7.0%). The level of wages is traditionally the lowest here and does not reach even 60% of the total economy level. The situation was almost identical in the branches with the highest wage level (financial activities, information and communication) in Q2 – year-on-year stagnation of the number of employees, less than 6% wage growth and wage levels of just over 80 thousand CZK.

Wage growth was relatively lower in Prague, however the employment grew more rapidly here.

Wage growth in the regions ranged from 5.5% (*Prague*) and 5.7% (*Vysočina*) to 8.1% (*Ústecký* region) in Q2 2024. From the point of view of the average wage level, the range of regions has been unchanged for a long time – the average wage in Prague (56.1 thousand CZK) currently exceeds the wage in the *Karlovarský* region (39.0 thousand) by 44%. The recovery of tourism likely has not assisted the *Karlovarský* region much so far, the total wage increased by only 6.0%, year-on-year, here. On the contrary, the acceleration of the pace of earnings in the motor vehicle industry is partly reflected in the faster growth in Central Bohemia (+7.9%).

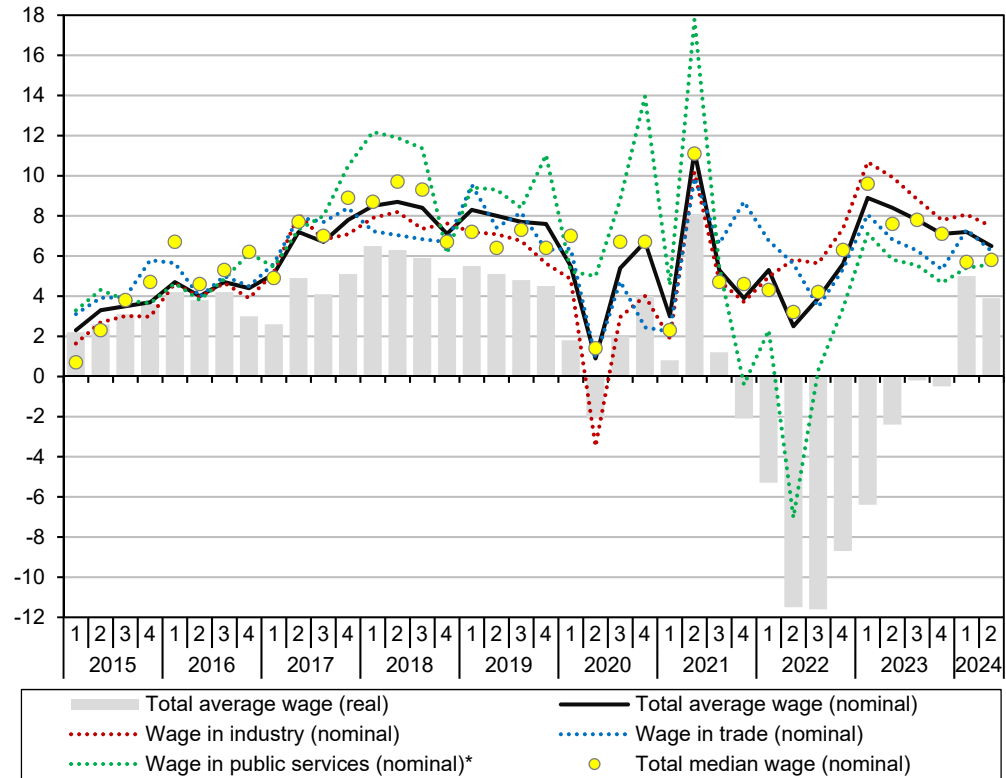
Nominal growth of the median wage remained below 6% this year. It continued to increase at a slightly higher rate for females.

The wage median increased by 5.8% in Q2 (to 38.5 thousand CZK per month). It grew at a slightly higher rate for females as for most of the last year (also due to the situation in health and social care or in tourism). The gap of the earnings middle value between genders thus decreased by 0.4 p. p., year-on-year, nevertheless still to a significant 14.4% (however, females earned "only" 6.5% less than males – in the lowest decile - in case of low-earning workers). The wage distribution in the economy in total widened slightly (the opposite was

⁷⁶ Tariff adjustments were performed here from January 2024 and personal allowances increased for many employees.

true in Q1 2024). Since the upper wage decile increased by 8.9%, year-on-year, in Q2, but the lower decile only by 6.2%. This is also related to the fact that the median earnings grew the least to workers in agriculture, forestry and fishing (+4.4%) and also to unskilled and support workers (+4.8%) for the whole H1. Median earnings grew the most to the office workers (+6.7%). In this category, workers in the business sphere are significantly predominant in the long-term (especially in trade, transport and storage).

Chart 15 Average nominal and real wage and wage median (year-on-year in %)



* Includes branches with a significant state involvement: Public administration, defence, social security; Education; Human health and social work activities; Arts, entertainment and recreational activities.
Source: CZSO

The level of wages for most of the main groups of foreigners in the Czech Republic is below average in the long-term. Nevertheless in percentage terms it grew more rapidly than in the case of domestic citizens this year.

Data from the Information system on average earnings of the MLSA confirm the continuing trend of increasing participation of foreigners on the domestic labour market. The number of employed Ukrainians in the sample increased by 12.5%, year-on-year, in H1, nevertheless their median wage was only 31.3 thousand CZK (22% lower than that of Czech citizens). Other significant groups of foreigners with employment status also traditionally attained a below-average level of earnings (except for Slovaks with 46.0 thousand CZK), nevertheless their wages grew relatively faster than those of domestic citizens (Ukrainians +7%, Poles, Romanians, Bulgarians – around 10%).



7. Monetary Conditions

Monetary policy-relevant rates continued to decrease in Q2.

The process of a gradual decrease of monetary policy-relevant rates continued in Q2. There were two half-point cuts (in May and June) and the two-week repo rate thus attained 4.75%, the discount rate 3.75% and the Lombard rate 5.75%⁷⁷ at the end of June. The koruna foreign exchange per euro reached an average value of 24.96 CZK/EUR for the whole Q2 and thus weakened 1.37 CZK (5.81%), year-on-year. Quarter-on-quarter, the koruna foreign exchange per euro strengthened slightly by 0.11 CZK (0.45%). During Q2, the exchange rate gradually strengthened from the level of 25.31 CZK/EUR to the value of 24.70 CZK/EUR during Q2, however weakened again during June and closed the quarter at 25.03 CZK/EUR. The koruna foreign exchange per dollar also strengthened to 22.56 CZK/USD until the beginning of June, but subsequently weakened and reached 23.39 CZK/USD at the end of June. The average for the whole quarter was 23.18 CZK/USD and meant a year-on-year weakening of 1.51 CZK (6.95%) and a quarter-on-quarter weakening of 0.09 CZK (0.39%).

Interest rates on government bonds were rising.

Interest rates on the interbank market also reacted by decrease to the lowering of the monetary policy-relevant rates. Rates on deposits with shorter maturities fell the most significantly. The three-month PRIBOR rate thus decreased by 0.81⁷⁸ p. p. to 5.03% during Q2, while the annual PRIBOR decreased by 0.23 p. p. to 4.57%. The interest rate on government bonds grew in Q2. The average interest rate on bonds with a maturity of up to two years increased by 0.49 p. p. to 4.22% at the end of June, medium-term bonds had an average interest rate of 4.12% (+0.56 p. p.) at the end of June, and interest on long-term bonds increased by 0.39 p. p. 4.21%.

The growth of term deposit volume slowed down.

Interest rates on client deposits also fell in Q2. Rates on overnight deposits of households were still increasing in Q1, nevertheless fell by 0.27 p. p. to 1.43% during Q2. For current accounts, the average interest rate fell below the 0.2% level after six quarters. Deposits with agreed maturity were remunerated at an average of 4.30% (-0.87 p.p.) at the end of June. Non-financial businesses also faced an across-the-board decreases of interest rates on their accounts - current accounts experienced decrease of 0.17 p. p. to 0.81% and the average rate on deposits with agreed maturity fell by 0.83 p. p. to 4.56%. The total volume of deposits was by 6.5% higher, year-on-year, at the end of Q2 (445.5 bn CZK), which was the slowest pace since the end of year 2022. At the same time, both term and non-term deposits grew at a similar pace. Mainly households⁷⁹ contributed to the year-on-year increase of deposits (+293.0 bn), followed by the general government (+113.3 bn).

Interest rates on household consumer credit did not fall. A recovery in new mortgage loan agreements as well as a greater volume of renegotiations on new terms of existing contracts from previous years was evident.

The reduction of interest rates on household credit was significantly milder compared to deposit rates. Consumer credit had an average interest rate of 8.90% at the end of June and the rate thus increased slightly during Q2 (+0.07 p.p.). The volume of consumer credit provided went up by 8.7%, year on year. The average interest rate on mortgages fell slightly (-0.16 p. p.) and the rate reached 5.00% at the end of June. The interest rate decreased the most for mortgages with the shortest fixation period (-0.26 p.p.) and for fixation periods between 5 and 10 years (-0.24 p.p.). The volume of mortgages provided rose by 3.5%, year on year, slowing down. The slowdown was mainly due to mortgage loans (3.2% was the slightest increase in the entire time series available since year 1997). The volume of credit from building society accounts

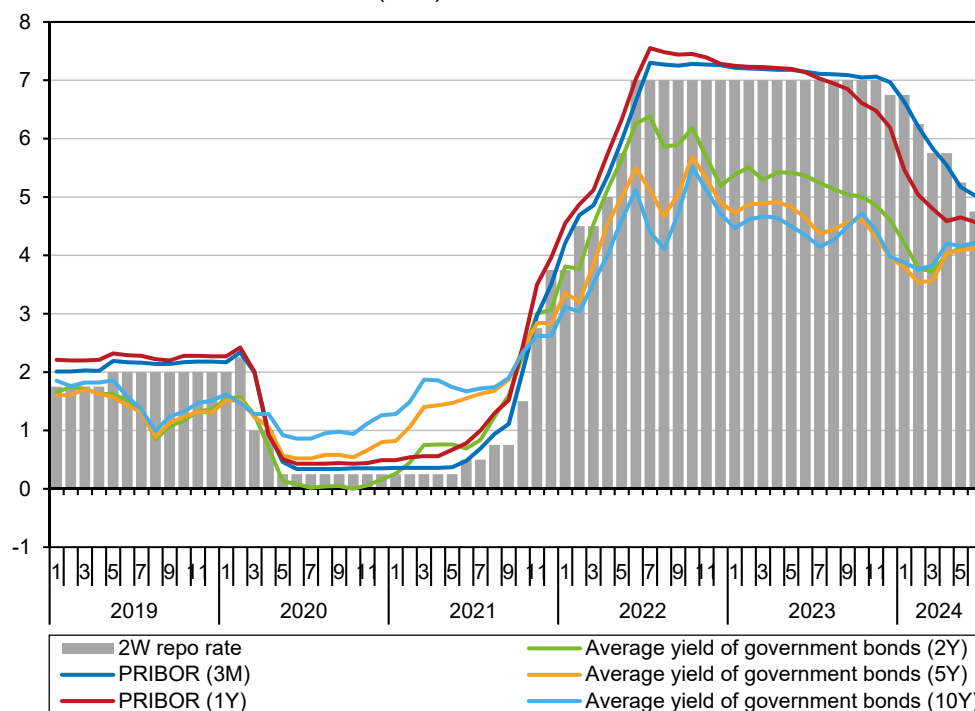
⁷⁷ Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. Values of foreign exchange rates also stem from the CNB.

⁷⁸ Unless stated otherwise, as the change of interest rates is meant the difference between value as of 30rd June and 31st March 2024.

⁷⁹ Population including self-employed persons.

continued to grow at a double-digit rate (30.9%)⁸⁰, year on year. Recurred recovery could be observed in new mortgage loans⁸¹, driven mainly by net new loans. The value of new contracts concluded in Q2 amounted to 116.6 bn CZK. In that, net new loans, including extension comprised 54.5 bn CZK (+26.5 bn, year-on-year, 19.7 bn CZK, quarter-on-quarter) and other new contracts attained the volume of 54.2 bn CZK (+9.2 bn CZK, year-on-year, +13.1 bn, quarter-on-quarter). Refinanced loans accounted for 7.9 bn CZK from new contracts, up by 3.7 bn CZK, year-on-year, and 2.1 bn CZK, quarter-on-quarter. Apart from the revival of the mortgage market, it is apparent that credit concluded during the period of peak interest in 2021, when interest rates were significantly lower than at present, have reached the stage of negotiating new fixations.

Chart 16 Market interest rates (in %)



Source: ARAD, CNB

Interest in foreign currency credit diminished at non-financial businesses.

Interest rates on credit to non-financial businesses fell the most sharply in the category of credit over 30 million CZK (-0.83 p. p. to 6.92%). At the end of June, credit between 7.5 million CZK and 30 million CZK had an average interest rate of 6.96% (-0.68 p.p.) and those up to 7.5 million CZK 6.94% (-0.52 p.p.). The total volume of credit and liabilities of non-financial businesses was 7.2% higher, year on year, at the end of June. The fast growth of credit provided in foreign currency⁸² slowed down (14.8%) and the year-on-year slump of credit in CZK halted (0.1%). The share of credit denominated in foreign currency to the total volume of credit decreased slightly to 51.7%. At the end of the quarter, the volume of credit increased the most, year-on-year, in information and communication (18.9%), professional, scientific, technical and administrative activities (15.1%), real estate activities (12.3%), financial and insurance activities (12.2%) and in accommodation, food service and restaurants (11.1%). The volume of credit provided in mining and quarrying (-6.1%) and in the generation and distribution of electricity, gas, heat, air, water and wastewater (-5.8%) was lower, year-on-year.

⁸⁰ Building savings loans have maintained a double-digit pace since the end of 2022, the increase is more than 30% for the third time in a row. Credit from the building society accounts, for which the maximum interest rate is restricted by law, have become a more advantageous financing instrument for borrowers compared to mortgage loans.

⁸¹ The new contracts also include the refinanced credit and other arrangements. Refinanced credit includes current contracts concluded newly at other bank, while other renegotiated loans are current contracts concluded with new conditions at the same bank.

⁸² Credit in foreign currency started to rise steeply following the commencement of the repeated increase of the monetary policy-relevant rates in June 2021.



8. State Budget

The deep budget deficit persisted for the fifth year in a row. Thanks to the lower need for extraordinary expenditure, the deficit decreased slightly, year-on-year.

The Czech Republic state budget (SB)⁸³ performance resulted in a deficit of 178.6 bn CZK⁸⁴ at the end of H1 2024. The deep deficit weighed down on state finances for the fifth time in a row during this period of the year, however this year's deficit was the lowest in this comparison and fell by 37 bn CZK, year-on-year⁸⁵. This is mainly related to the subsiding of the need for extraordinary expenditure for households as well as companies hit by the effects of high inflation. It still also affects the revenue side of the budget, including the extraordinary taxes temporarily imposed on selected sectors of the economy. In addition, the positive effects of the moderately recovering household consumption are slowly starting to manifest thanks to their improving financial situation and overall confidence in the economy. Apart from that, the first effects of the approved consolidation package to restore public finances can be traced in the collection of some income taxes already at the beginning of the year (e.g. an increase of the collection of some consumption taxes due to the frontloading motivated by the imminent increase of the tax rate). The legislative changes are also related to a change in the budgetary allocation of taxes, which increases the share of the revenue of some weight-significant taxes in favour of the SB from January 2024⁸⁶.

Higher tax collection as well as collection of social security premiums contributed to the total revenue growth.

The total SB revenues increased by 4.2%, year-on-year, in H1 and have so far exceeded the anticipated annual rate (+1.4%). Higher tax collection (+36 bn CZK) and revenues from the mandatory social security insurance⁸⁷ (+30 bn CZK) contributed the most to the growth. State-wide tax collection (taking into account revenues at the level of all public budgets) increased by 7.7% and its pace slowed down for the second year in a row. While mainly the collection of corporate tax and also VAT stood behind its growth in years 2021 till 2023, other incomes appear to be the most important growth factor so far this year. These are driven primarily by extraordinary revenues temporarily introduced to regulate the unstable development on the energy price market (windfall tax). This also reflects the growth of the real estate tax collection (+7 bn CZK)⁸⁸ related to the increase of statutory rates (+80%) and the collection of gambling tax was also higher due to legislative changes. State-wide tax collection (excluding extraordinary revenues) increased by 7%, year-on-year, in H1 (but by 10.3% in the same period last year). Mandatory insurance income increased by 9.0% (of which by 9.9% in Q2 2024). Not only the current recovery of the labour market (due to a slightly improved economic performance), but also the impacts of legislative changes⁸⁹ had an effect here.

Despite recovering household consumption, the growth rate of VAT collection slowed down and did not fully meet the budget anticipations in the

The SB gained 4.8% more on the weight-dominant tax – VAT – in H1 (+8.3 bn CZK, year-on-year). The growth rate lagged slightly behind the budget plan, albeit less significantly than last year. The growth attained 3.1% at the level of all public budgets (in that it only stagnated in Q2 2024), i.e. one half compared to the same period last year. The pace slowdown reflects the stabilisation of the price level in the economy. The slowly recovering

⁸³ Unless stated otherwise, all data related to the state budget stem from the data of the CR Ministry of Finance (MF) regarding the treasury fulfilment.

⁸⁴ This represents more than 70% of the planned annual deficit (according to the State Budget Act for 2024, approved at the end of November 2023). In previous years, however, the development of SB income and expenditure was more uneven during the year (e.g. the planned annual deficit was even 56% fulfilled in Q1 2023, but it was still met at the end of the year).

⁸⁵ The year-on-year decrease of the deficit was even more apparent after adjustment for funds from the EU budget, including Financial Mechanisms (FM). These are funds for programmes from the EU and FM budgets, which were pre-financed from the SB and subsequently gradually reimbursed from the EU and FM budget. Excluding these funds, which are included in the approved SB with a neutral impact, this year's half-year deficit amounted to 190.2 bn CZK, down by almost a quarter year-on-year.

⁸⁶ Thanks to this adjustment, the increase of the annual SB collection of 5.6 bn CZK from VAT, 2.3 bn CZK from personal income tax and 2.9 bn CZK from corporate tax is anticipated based on the MF estimate this year.

⁸⁷ It relates to the social security insurance and active employment policy.

⁸⁸ The yield from this tax remains the exclusive income of municipalities.

⁸⁹ This includes in particular the reintroduction of the payment of sickness insurance premiums paid by employees (0.6% of the assessment base, this rate was 1.1% until 2008). The increase in the assessment base for self-employed persons and the setting of limits for participation in insurance scheme for employees working on the basis of an agreement to complete a job is less important from the budgetary point of view. According to the MF's estimates, the annual increase of SB collection by 18 bn CZK is expected due to these adjustments this year.

<p>middle of the year similarly to the last year.</p>	<p>household consumption⁹⁰ is gradually positively mirrored in the collection. In addition, the impacts of the tax rate adjustment⁹¹ in relation to the effectiveness of the consolidation package have started to manifest since the beginning of the year.</p>
<p>The rapid growth of consumer tax collection was primarily connected to an increase in the rate on key products.</p>	<p>Consumer tax collection (including energy tax) increased by 9.8%, year-on-year, in H1 and has so far lagged slightly behind budget anticipations. The pace of collection slowed slightly in Q2, as the effect of a temporary surge in demand caused by frontloading due to a rise in the tax rate (alcohol) evaporated for some items. However, the total development of half-year collection was the most affected by the key tax on mineral oils, the collection of which grew (+15.8%), mainly due to the return of the diesel tax rate to the level before the energy crisis erupted⁹². A mild increase of the tobacco products tax collection continued (+5.1%), reflecting a further increase in the rate as well as the expansion of the range of taxed products (newly e-cigarette refills, nicopods).</p>
<p>The growth of collection of regular corporate tax nearly halted. On the contrary, 5 bn CZK more was collected, year-on-year, on extraordinary corporate taxes in H1.</p>	<p>State-wide corporate tax collection (excluding extraordinary taxes) slowed down noticeably after double-digit growth in the previous three years in line with budget anticipations in H1 2024 (to 1.4%, and collection was even only stagnant at the SB level). In addition to the flow of regular corporate tax revenues, the irregular revenues also continued this year. The collection of windfall tax⁹³ has reached 18.2 bn CZK thanks to two quarterly advance payments so far this year (due to levies in H2 2023, the SB acquired 39.1 bn CZK in advances for the whole last year, substantially less than the original MF estimate). Budget anticipations have been significantly reduced for this tax this year and so already the current half-year collection fulfilled the annual plan. Unlike last year, the SB practically no longer counts on revenues from excess income tax⁹⁴, from which it received 18.5 bn CZK for the whole year (in that 12.8 bn CZK in H1).</p>
<p>The rapid growth of the tax on dependent activities of natural persons reflected the good condition of the labour market as well as legislative changes approved as part of the consolidation of public finances.</p>	<p>The SB received 18.0% more, year-on-year, from income tax of natural persons (ITNP) in H1, the growth rate is still located above the budget anticipations (which applies to all main types of ITNP). Mainly the key income tax from dependent activities contributed to the growth of collection (+17.6%)⁹⁵ contributed to the growth of collections. It favourably reflected both the persisting good condition of the labour market (higher employment as well as rapid nominal growth of the average wage in the business sphere) and legislative changes (in particular a reduction in the band for the second increased rate of this tax, and to a lesser extent also an adjustment in the taxation of selected non-monetary benefits or the abolition of some tax credits). The collection of ITNP collected by deduction also exceeded expectations. The persisting higher interest rates on deposits were behind the more than 20% growth of its collection, newly the reduction of the limit for the exemption of income from raffles and gambling was also reflected.</p>
<p>Non-tax and capital revenues were negatively affected by a deeper decline of revenues from the EU budget.</p>	<p>The non-tax and capital revenues of the SB fell in line with the budget anticipations, year-on-year, when they were lower by one fifth in H1 (-28 bn CZK). The effect of last year's record-high base, enhanced by the June reimbursement of funds from the National Recovery Programme (44 bn CZK, similar payments have reached only half the level so far</p>

⁹⁰ Real expenditure on the final household consumption rose by 1.5% after adjustment, year-on-year, in Q1 2024 (it increased for the first time after six quarters). According to the first GDP estimate, these expenditures also grew in Q2. Government consumption expenditure grew even faster.

⁹¹ This concerns the unification of two reduced rates (10% and 15%) into one of 12%. Thus many goods and services are now subject to lower taxation. At the same time, the negative budgetary impact is dampened by the transfer of some items of no demonstrable social or health significance to the basic tax rate of 21%.

⁹² This increase eventuated last year since August (by 1.5 CZK per litre). The excise duty rate on diesel fuel thus returned to the original level (9.95 CZK per litre) valid until May 2022.

⁹³ It applies to energy, petrochemical and mining companies (in the area of fossil fuels) and also involves large banks. Vast majority of the collection of this tax however flowed into the SB from the energy industry. It serves as 60% tax surcharge applied to excess profit of these firms established as the difference between the tax base in years 2023–2025 and the average of tax bases for years 2018 till 2021 plus 20%.

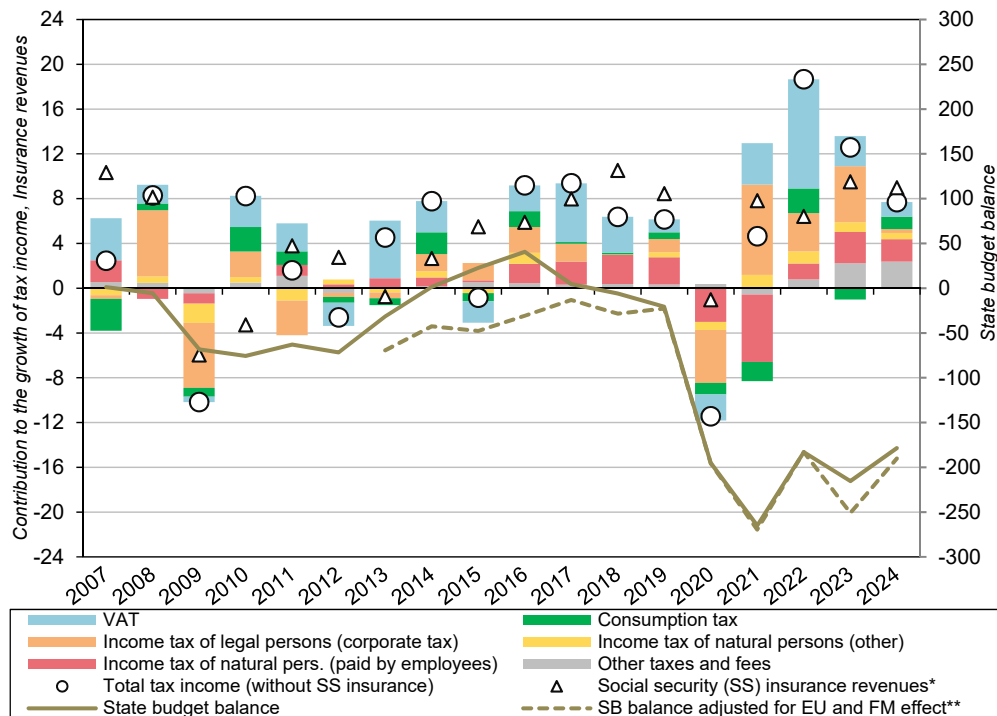
⁹⁴ This levy (taxed by 90% rate) presents a difference between real income and ceiling of the market income from the sale of electricity above the given limit (for the period from 1st December 2022 till the end of year 2023).

⁹⁵ Still the state-wide ITNP collection from dependent activities (at the level of all public budgets) was situated slightly below the level of the record year 2019 in H1 2024 (by almost 8% or 8 bn CZK respective). The abolition of the so-called super-gross salary played a key role here.



this year) became apparent. The expected slower onset of drawing during the transition to the new programming period (2021 to 2027) is also evident in the decrease of revenues from the EU budget.

Chart 17 Contribution of constituent revenues to the year-on-year growth of the total state-wide tax collection (in p. p.), social security insurance revenues (year-on-year in %) and state budget balance (in bn CZK) within H1 (1st half of the year)



*Include also contributions on state Active employment policy.
 ** Balance adjusted for funds on programmes/projects from the EU budget and Financial mechanisms, which were pre-financed from the SB and subsequently reimbursed from the budget of EU and FM. Yearly data are available starting year 2013.
 NP = natural persons, LP = legal persons. Other taxes from the incomes of NP include taxes paid by the payers (mainly from small businesses) and further taxes collected by deduction.
 Other taxes and fees contain mainly property tax, gambling tax, motorway and other tolls, and levy from excess income and unexpected profit also since year 2023.
 Source: MF CR

Growth of current expenditure slowed significantly. The expected decline of extraordinary subsidies in the energy sector has become apparent.

Total expenditure of the SB stagnated in H1 (+0.2%) and have not deviated significantly from the annual budget anticipations so far (-0.5%). Current expenditure increased by only 0.5% this year (+4.9 bn CZK) after double-digit growth last year. This sharp easing of pace is mainly associated with the expected reduction of support in the energy sector (-35.5 bn CZK) enabled by favourable development of energy prices on world markets. The calming of price growth in the economy was also mirrored in lower pressure on the adjustment of a wide spectrum of social benefits. This has been further mitigated in pensions by legislative amendments to both the regular and extraordinary adjustment or by tightening the conditions for granting early retirement.

Expenditure on pensions increased relatively the least in the last six years. The half-year deficit of the pension account fell by one quarter, year-on-year.

The subsidies to state funds (up by almost two-thirds, year-on-year, or 17.3 bn CZK) have contributed the most to the growth of current expenditure so far this year, especially into the transport infrastructure area and, to a lesser extent, also into agriculture. The weight-important item of social benefits also had a significant effect (+17.2 bn CZK), which even despite slowing its growth, accounted for 39.9% of all SB expenditures – the most in the last six years⁹⁶. Most of this year's increase of social benefits was traditionally related to expenditures on pensions. After the last year's record growth, they have increased by 4.3% so far this year. However, it presented the lowest percentage growth in the last six years due to the retreat of inflation and

⁹⁶ This year's share of social benefits on all expenditures however counts among the average in the long-term view.

a change of the adjustment mechanism⁹⁷. On the other hand, the number of pension recipients increased again after a decline in the previous three years – by 0.6%, year-on-year, at the end of June 2024 (the most since the end of 2016). The number of persons receiving early pensions continues to grow significantly⁹⁸. The pension expenditure grew more slowly than pension insurance income for the first time in three years. The half-yearly balance of the pension insurance system⁹⁹ thus decreased from last year's –38 bn CZK to –29 bn.

Growth of expenditure on non-pension social benefits also slowed. There was a lower drawing of parental allowances as well as humanitarian benefits for Ukrainian refugees.

Mainly the housing allowances and unemployment benefits stood behind the increase in the drawing of non-pension benefits.

Despite higher expenditures, the half-yearly balance of sickness insurance ended in a slight surplus.

The sharper growth of expenditure on current purchases was connected to strengthening of defence and security.

The year-on-year growth of expenditure on other social benefits, as well as on pension benefits, slowed sharply in H1 2024 (to 2.7%). This was related to a decline of the volume of weight-important parental allowances (–1.0 bn and –6% respectively), which continued for the fourth year in a row. This year's decrease in drawing occurred despite the fact that the value of allowances for newly born children was increased¹⁰⁰. Mainly due to greater targeting, the volume of humanitarian benefits for refugees from Ukraine decreased (by 0.4 bn CZK, 10%)¹⁰¹. On the contrary, the SB was more burdened mainly by higher expenditure on housing allowance (+21%, +1.7 bn CZK¹⁰²), with a relatively slight increase in the number of its recipients by 5%. The impact of high energy prices and the increase of costs eligible for payment is still evident here, nevertheless also the growth of awareness of the possibility regarding the drawing this assistance in the population and the simplification of the procedure to apply for this benefit. Expenditure on other income-tested benefits (child allowance, allowance for living) increased only negligibly, year-on-year. In contrast, the growth of unemployment benefit expenditure accelerated (+21%, +1.1 bn CZK), and unlike last year, the higher number of job applicants entitled to benefits significantly contributed to the growth. Sickness insurance benefits were also drawn more this year (+2.7%, +0.7 bn CZK), thus the decline lasting the previous three years halted. The higher morbidity contributed to the growth this year, while the drawing of maternity benefits continued to decrease due to the falling birth rate this year. The balance of sickness insurance¹⁰³ was thanks to the strengthening of its revenue side in H1 positive again for the first time after 2017 (+3 bn CZK). Among the non-insurance benefits, the volume-significant care benefits (close to 19 bn CZK)¹⁰⁴ in fact stagnated, year-on-year, already for the second year in a row.

In addition to social benefits, the non-investment purchases and related expenditure (excluding debt service) supported the growth of SB expenditure, which increased by one sixth, year-on-year (+5.9 bn CZK). Their drawing in H1 (40 bn CZK) exceeded even the high expenditures from the pandemic period (purchases of medical supplies) or the era of the energy crisis (gas purchases). This year's budget-anticipated increase of expenditure is closely related to the higher need for public spending on defence and security. In accordance

⁹⁷ In particular, newly not one half, but only one third of the real wage increase is considered during the increase of pension. From January 2024, only the basic assessment of all pensions was raised (by 360 CZK), the percentage assessment did not increase. The average old-age pension increased by 2.1% and reached (without concurrence with other pensions) 21.9 thousand CZK per month for males and 19.5 thousand CZK for females at the end of June 2024.

⁹⁸ Growth of the number of all recipients of permanently reduced old age pensions (SOP) accelerated during the last year and this development also continued at the beginning of year 2024 (to 8.5%, year-on-year, in Q1, the most since year 2012). Nevertheless, the pace slightly slowed in Q2 (to 8.3%). Number of SOP do not include persons, which lodged the request for early retirement, but postponed the commencement of its payout.

⁹⁹ It expresses the difference between the income from insurance on pensions and outlays on the pension insurance benefits according to the CSSA accounting balance.

¹⁰⁰ From January 2024, the basic contribution has been increased from 300 thousand to 350 thousand CZK. At the same time, the maximum period for receiving the allowance up to 3 years of age has been reduced (from the previous 4 years).

¹⁰¹ Admissible cost of housing is considered during the calculation of the benefit amount (determined by the government regulation) since July 2023, whose size is dependent on the number of persons and the form of housing. 49 thousand recipients drew the humanitarian benefits this year in June, almost 60% less, year-on-year.

¹⁰² Expenditure increased for the third year in a row, but its growth rate slowed down noticeably compared to last year. The volume of contributions has almost tripled this year compared to H1 2022 (to 9.9 bn CZK) and the number of recipients has increased by almost three quarters (it was 281 thousand in June).

¹⁰³ This expresses the difference between revenues from sickness insurance premiums and expenditure on benefits from this insurance according to the CSSA balance sheet.

¹⁰⁴ Expenditure on these benefits increased by 12.7% compared to H1 2020 and the average monthly number of their recipients remained almost unchanged (around 370 thousand persons). The population of the Czech Republic aged over 65 increased by 5% between years 2020 and 2023, of which 80 years and older by 11.5%.



The adjustment of expenditure on payments for state insured persons also eventuated.

with the approved SB, the expenditure on public health insurance payments for the so-called state insured persons also increased – they increased due to automatic adjustment¹⁰⁵ by one tenth, year-on-year, in H1 (+6.7 bn CZK). The weight-significant expenditures on current transfers to non-profit organisations (universities, public research institutions) stagnated in line with the budget anticipations. The same applies to expenditures on salaries in the central government institutions, where an across-the-board reduction of 2% related to the implementation of the consolidation package is reflected.

Current transfers to businesses fell to the second lowest level in the last five years.

The expected reduction of support in the energy sector is reflected in the deep decline of current transfers to entrepreneurs in H1 this year (by 48%, year-on-year, 37 bn CZK). These are mainly compensations for the supply of electricity and gas to customers and for losses due to the capping of their prices, as well as subsidies to the transmission system operator. In addition, aid to companies in energy-intensive industries has been completely stopped this year. On the contrary, there was a relatively slight decrease in advance subsidies for renewable energy sources. The total amount of transfers to businesses in H1 2024 (40.6 bn CZK) was the second lowest in the last five years in the same period of the year. Volume-significant current transfers to local budgets lagged behind the level from H1 2023 this year in line with the budget anticipations (–4.5%, –8 bn CZK). Lower expenditure on European projects, together with a decrease in the compensation allowance for emergency accommodation of refugees from Ukraine, outweighed the impact of a slight increase in subsidies for regional education (+2.6%) intended primarily for the salaries of its staff.

Current subsidies to local budgets decreased overall, despite a slight increase in expenditure on the salaries of workers in regional education.

Investment expenditures of the SB after rapid growth in the previous two years fell slightly this year. This is related to the transition to the new EU Programming period.

SB capital expenditure decreased slightly, year-on-year, this year (by 3.3%, 2.6 bn CZK) after double-digit growth in H1 of both 2022 and 2023. The approved SB expects a more than 10% year-round decrease in total capital expenditure due to the traditionally slower launch of investment in the new EU programming period. Slightly more than half of the investments implemented so far this year have been directed to joint projects of the CR and the EU (40 bn CZK). Lower expenditure on state funds – especially on transport infrastructure, the environment and agriculture played a role in the total decrease of investment. In contrast, the investment purchases grew briskly (+47%, +5.6 bn CZK), especially for the defence of the CR. The transfers to territorial budgets, universities or entrepreneurs, allocated mainly on the National Recovery Programme and the Integrated Regional Operational Programme, increased more modestly in absolute terms. The total investment of the SB accounted for 6.7% of all budget expenditures so far this year. It constitutes an average share for this period of the year in the context of the last decade (and at the same time higher than in years 2017 and 2018, when the transition to the new EU Programming period took place).

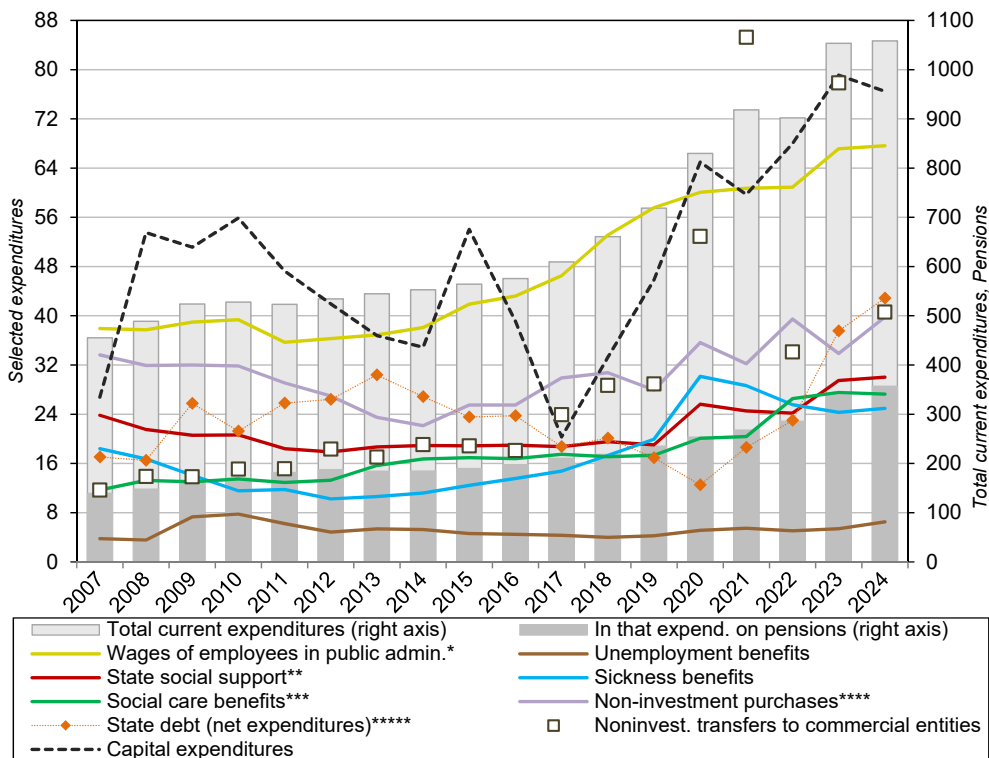
Growth in expenditure on investment purchases accelerated thanks to military contracts.

The CR revenues from the EU budget (excluding the Recovery Instrument) fell by almost one half, year-on-year. The CR net position vis-à-vis the EU was slightly negative.

The total revenues of the CR from the EU budget (excluding the European Recovery Instrument or the National Recovery Plan – NRP, respectively) fell by almost one half (to 28.5 bn CZK), year-on-year, in H1 this year. Revenues from the Cohesion Fund (–94%) and the Structural Funds (–49%) were reduced the most, among the less weight-important sources then the rural development funds (–64%). Direct payments to agriculture, which are traditionally quite stable, decreased less (–22%). Nevertheless, there was also a slight decrease in total payments of the CR to the EU budget (–12%). The net position of the CR towards the EU budget (excluding NRP) thus amounted to –1.2 bn CZK this year, which represented the first negative balance for H1 since the CR's accession to the EU. If we also include the funds from the NRP that the CR has received since year 2021, the total balance with the EU would continue to be substantially positive. The CR has received 34.9 bn CZK from this instrument so far this year, up 41%, year-on-year.

¹⁰⁵ The monthly payment per person went up from 1900 CZK to 2085 CZK as of January this year.

Chart 18 Selected expenditures of the state budget within H1



* Covers expenditures on salaries in central government institutions. Do not include e.g. wage costs of regional education.
 **Also includes the foster care benefits.
 ***Include Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits based on Act on State Social Support. Humanitarian aid provided for citizens of Ukraine is also included here.
 ****Contains mainly expenditures on purchase of services, materials, energies or other services (e.g. expenditures on repairs and maintenance).
 *****Net expenditures correspond to the balance of the budget chapter State debt (no. 396).
 Source: MF CR

The year-on-year growth rate of the state debt was the lowest since Spring 2020.

The debt increase was almost exclusively related to the internal indebtedness.

The slowdown of the growth of expenditure on state debt was mainly due to last year's high payout of government anti-inflationary bonds.

The ongoing deficit results of the SB was reflected in the state debt. It rose to 3,207 bn CZK at the end of Q2 2024. It increased by 5.3%, year-on-year, and grew for already twenty quarters in a row. However, the growth rate was the lowest since the onset of the covid-19 pandemic. The debt increased by 96 bn CZK since the beginning of year 2024. Traditionally, mostly the internal indebtedness grew, mainly due to the issue of medium- and long-term government bonds¹⁰⁶ and, to a lesser extent, the issue of treasury bills. The external debt remained unchanged in H1 (it continued to decrease, year-on-year) and comprised less than 5% of the total state debt at the end of June this year. The issuing activity was sufficient to cover the total annual repayments of the CZK state debt in H1. Financial institutions dominated among holders of all domestic bonds in circulation at the end of June 2024 (62.1%, mainly banks, but also insurance companies and investment and pension funds), while non-residents owned 30.8% of bonds and their share decreased by less than 5 p.p. since the beginning of the year (simultaneously, the value of their bonds holdings also fell). Net expenditure on servicing the state debt reached 42.9 bn CZK in H1 and continued to increase rapidly for the fourth year in a row (+14%, year-on-year). However, this has slowed down compared to the record pace of the same period last year (+63%, +14.5 bn). This development was associated with the stabilisation of the price level in the economy, which was reflected in lower payments of anti-inflationary government bonds to citizens this year and a slight decline of interest rate on other debt financing instruments.

¹⁰⁶ In H1 2024, government bonds (with maturity over 1 year) were sold with a total value of 161.4 bn CZK, in that the fixed-interest bonds worth 144 bn CZK with an average annual yield of 4.0% and an average residual time to maturity of 10.1 years. The total issue of medium- and long-term CZK denominated government bonds amounted to 287 bn CZK in H1 2023, of which the fixed-interest bonds amounted to 253 bn CZK with an average annual yield of 4.6% and a time to maturity 8.7 years.



Government expenditure grew the least in the last eight quarters. It resulted from the reduction of subsidies, but also a slowdown of the growth of intermediate consumption or wages paid. Revenue grew at a steady pace.

The general government (VI) sector in Czechia ran a deficit of 59 bn CZK¹⁰⁷ in Q1 2024,¹⁰⁸ which was almost one half lower, year-on-year. It presented the smallest deficit within the first quarters in the last four years. The year-on-year reduction in the deficit (-49 bn CZK) was due to a noticeable easing of pace of the expenditure growth (to 1.7%, the least in the last eight quarters) while maintaining a stable revenue growth (9.2%). Income growth was influenced by the strengthening collection of current taxes on income and wealth (to 20%) and steadily growing net social contributions (8.6%). Mainly the higher social benefits (including social transfers in kind) were reflected in the expenditure dynamics, nevertheless their growth slowed down (to 6.3%, to 13.3% a year earlier). Both the growth of intermediate consumption (to 6.2%) and compensation paid to employees (3.9%) significantly moderated. The expected deep slump of subsidies (-38%, -24 bn CZK), whose nominal level roughly returned to the level of early 2022 represented the most significant change. Fixed investment formation (-3.8%) also decreased, year on year, for the first time since the end of 2016.

The general government deficit shrank in the EU in Q1 2024. It fell by one half in the CR, year-on-year, and its level was lower than in the EU for the second quarter in a row.

The adverse trend related to slower growth of total sector VI revenues in the EU compared to their expenditure (relative to GDP)¹⁰⁹, which was evident for most of the last year, did not continue in Q1 2024. These revenues fell, quarter-on-quarter, due to weak economic growth in the Union (to 45.9% of GDP), however the reduction of expenditure was more drastic. The budget balance attained -3.0% of GDP (-3.2% in the euro area), the lowest deficit since the middle of year 2022. The deficit also reduced in the CR (by 1.2 p. p., quarter-on-quarter, by 2.1 p. p., year-on-year) to -2.0% of GDP (the best result since the end of 2019). Romania (-7.0% of GDP), Hungary (-6.0%), Bulgaria (-5.6%), Slovakia (-5.0%) and also the highly indebted economies of France (-5.6%) or Belgium (-4.5%) are currently suffering from deep deficits. Poland's deficit decreased noticeably (to -1.8%), but it deepened slightly in Germany (to -2.8%). Lithuania and Portugal reported a slight surplus, while more positive balances persevered in Ireland (+1.6%) and Denmark (+3.8%). The trend of a quarter-on-quarter decline of the debt ratio of sector VI in the EU (and the euro area), lasting almost three years, ceased in Q1 2024. The debt ratio amounted to 82.0% of GDP (or 88.7%) at the end of the year and increased by 0.5 p. p., quarter-on-quarter. The year-on-year decrease of the debt occurred in 14 countries – the highest in Portugal (from 112% of GDP to 100%) and also in Greece (from 169% of GDP to 160%), which has long been the most indebted country in the EU. Most above-average indebted countries recorded a more modest decline (except for Belgium). On the contrary, most countries with lower debt levels have seen a deterioration compared to last year (except for Sweden, the Netherlands and Luxembourg) – especially in those affected by the economic recession (Estonia¹¹⁰ and Finland). The debt ratio in the CR was the eighth lowest in the EU (43.4% of GDP), increasing by 0.5 p. p., year-on-year. However, compared to the minimum from the boom period (2015–2019), it strengthened by almost one half (or 13.8 p.p.), and by “only” 4.2 p. p. in the whole EU. Only Romania (+18.1 p. p.), Estonia (+15.7) and France (+13.9) had worse results in this respect. On the contrary, eight Union countries currently reported debt levels below the above-mentioned minimum (e.g. Denmark, Sweden, Ireland, the Netherlands and Croatia).

The quarter-on-quarter descend of the debt ratio in the EU halted after three years.

The CR's debt ratio was the eighth lowest in the EU, but compared to its minimum from 2015 to 2019, its increase was one of the highest among EU countries.

¹⁰⁷ Unless stated otherwise, data regarding the budget balance of sector VI in the CR are expressed without seasonal adjustment.

¹⁰⁸ Data regarding the budget of government institutions for Q2 2024 will be published by the CZSO on 2nd October 2024, Eurostat subsequently on behalf of the Union member states on 22nd October. More detailed assessment of the domestic development for Q1 2024 is offered in the publication Analysis of the sector accounts: [Analýza sektorových účtů](#)

¹⁰⁹ All below stated figures related to revenues, expenditures and balance are adjusted for seasonality as well as calendar effects.

¹¹⁰ The debt ratio of sector VI increased from 17% of GDP to 24%, year-on-year, in Estonia, and thus the country left its position as the least indebted economy in the EU (in favour of Bulgaria) for the first time since its accession to the EU.