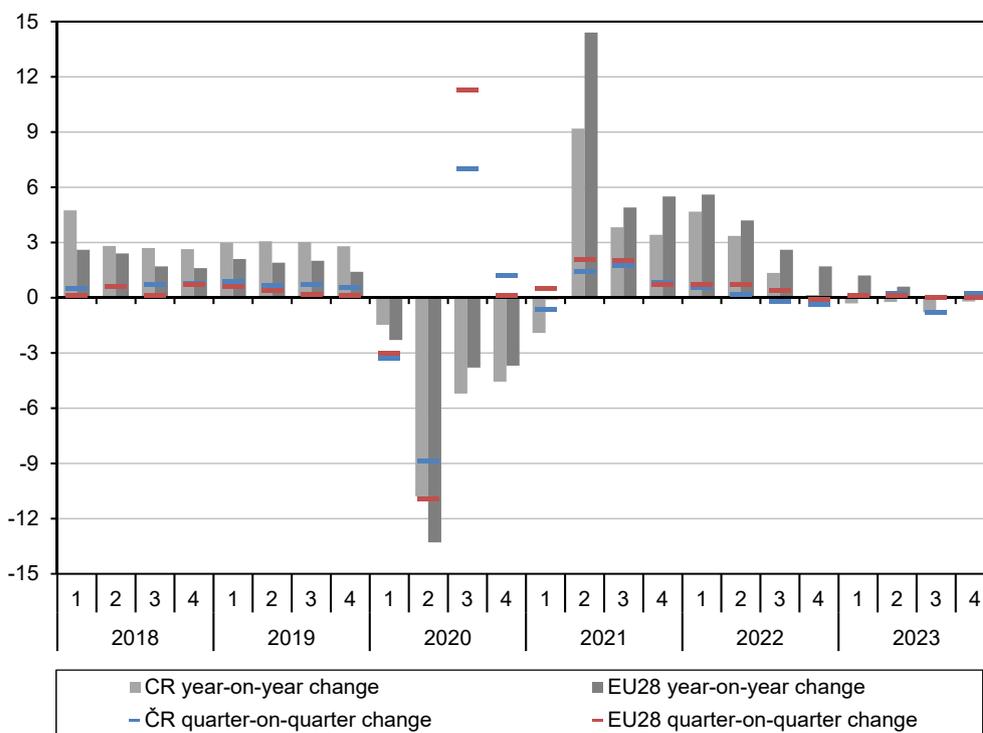


## 2. Overall Economic Performance

The Czech economy was on a decline last year.

The Czech economy contended with a mixture of effect of growing foreign demand, domestic investment activity and government consumption and ongoing slump of the household consumption and negative influence of the change in inventories in year 2023. It resulted in fluctuation of the economy within the stagnation range. Total gross domestic product (GDP) decreased by 0.4% last year<sup>1</sup>. The GDP was falling year-on-year in individual quarters (gradually -0.3%, -0.2%, -0.8% and -0.2%). At the very end of the year, the change in inventories worked in the direction of year-on-year GDP decrease and its impact completely exceeded the positive contribution of consumption<sup>2</sup>, investment as well as the external demand. Recovery occurred last year (0.1% and 0.2% in Q1 and Q2 2023) following two quarter-on-quarter GDP declines from the second half of 2022. The GDP again decreased by 0.8% in Q3 2023 and increased quarter-on-quarter in Q4 (0.2%) with the contribution from the development of household consumption, investment as well as foreign demand. Consumption of general government and also the change in inventories was however crimping the GDP recovery. The Gross domestic product in constant prices year-on-year however also lagged behind the level from the pre-pandemic year 2019 last year, which was slightly overtaken in year 2022.

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



Source: CZSO, Eurostat

The Central European region economically stagnated in Q4.

The Gross domestic product went up by 0.2% year-on-year in the EU in Q4 and the increase thus slightly strengthened. The year-on-year dynamics of the GDP displayed relatively wide range for the individual countries at the end of the year. The GDP decreased year-on-year in nine countries in Q4, the most in Ireland (-9.1%), Estonia (-2.5%) and Finland (-1.6%), however also the German economy, important for the Czech exports fell behind (-0.2%). In contrast, the strongest year-on-year GDP increase was recorded in Croatia (4.3%), Malta (4.3%) and in Denmark (3.1%) in Q4. Quarter-on-quarter GDP development has been oscillating closely near stagnation in

<sup>1</sup> The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 1<sup>st</sup> March 2024.

<sup>2</sup> Additions to the GDP change after exclusion of imports for final use.

the EU for more than one year and the GDP also did not change in real terms in Q2 compared to the previous quarter. The GDP increased quarter-on-quarter for more than one half of the EU countries. The total GDP stagnation in the EU was firstly affected by the sharp decline in Ireland (-3.4%) and further by the decrease of Germany (-0.3%) and weak growth of France (0.1%). Large group of countries recorded only a weak growth at the end of year 2023, also including the entire Central European region (Hungary, Austria, Poland stagnated, the Czech Republic featured weak growth and the GDP increased by 0.3% in Slovakia). The GDP grew the most quarter-on-quarter in Denmark (2.0%), Croatia (1.3%) and in Slovenia (1.1%).

Nominal growth of wages and salaries remained high.

Total volume of paid out wages and salaries expanded in nominal terms by 8.0% last year given the simultaneous increase of total employment<sup>3</sup> by 0.8%. However, with respect to the continuing growth of the price level the earnings dropped in real terms by 1.2%<sup>4</sup>. The volume of wages and salaries increased the most in real estate activities (15.6%), in other activities<sup>5</sup> (10.3%) and in section of professional, scientific, technical and administrative activities (9.9%) last year. On the contrary, the increase of wages and salaries was significantly below average in agriculture, forestry and fishing (4.8%), in financial and insurance activities (6.2%) and in manufacturing (6.9%). The wage dynamics slowed down during the year and the year-on-year volume of wages and salaries reached 6.6% in Q4 with parallel total employment growth of 0.4%. Total price growth was weakening last year faster than the nominal increase of wages and salaries, thus the real year-on-year increase of the volume of wages and salaries slightly strengthened to 0.5% in Q4. Wages and salaries grew the most year-on-year in other activities (12.9% with the employment growth of 2.9%), closely followed by the real estate activities (12.5% with the employment growth of 0.8%). The increase of the volume of wages and salaries was above average in professional, scientific, technical and administrative activities (8.6%, employment by 2.5%) and in information and communication (7.5%, employment by 1.0%). Wages grew markedly slower compared to the rest of the economy in manufacturing (5.1%), where the employment simultaneously decreased by 1.3% year-on-year, and in financial and insurance activities (5.0% given the drop of employment by 1.2%).

Quarter-on-quarter growth of wages and salaries strengthened at the end of year 2023.

Quarter-on-quarter growth of wages and salaries strengthened to 1.7% in Q4, while the total employment in fact stagnated (-0.1%). Wages and salaries grew in real terms by 0.7%. The revival of the wage dynamics involved the whole economy. The volume of wages and salaries increased the most quarter-on-quarter in other activities (6.2%), where the employment also grew strongly (2.4%). Wages and salaries also grew strongly in division trade, transport, accommodation and food service (3.1, employment fell by 1.1%), in financial and insurance activities (2.4%, employment -1.1%) and in construction (2.0%, employment -1.0%). On the contrary, the quarter-on-quarter increase of wages and salaries weakened to 0.5% in the public administration, education, health and social work accompanied by the employment growth of 1.0%. The wage dynamics was below the average of the total economy also in manufacturing (1.2%, employment -0.3%).

Household consumption strongly slumped last year.

Domestic consumption decreased in total by 1.2% last year. The development of household consumption, which was lower by 3.1% stood exclusively behind it. Except for the pandemic year 2020, it was the deepest recorded plunge of the household consumption in the history of the independent CR. General government consumption on the other hand increased by 3.0% last year. Regarding the structure of household

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

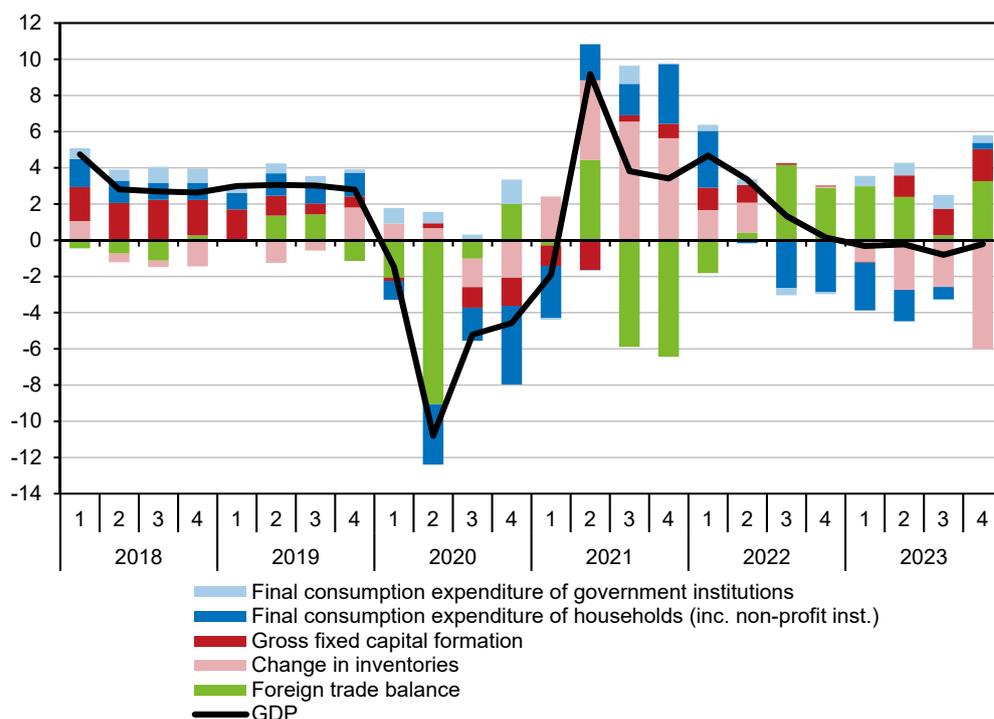
<sup>4</sup> Converted into the real expression using the deflator of household consumption.

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



consumption according to the durability<sup>6</sup>, all its types were falling last year. The consumption of medium-term durability (-6.3%) and long-term durability (-4.4%) goods dived the most. Households considerably reduced their expenditures also on the short-term durability goods consumption (-4.1%). This consumption slumped three times in real terms during the last four years and thus fell below the level of year 2015. Consumption of services went down by 0.4% last year. Total consumption increased year-on-year by 0.3% in Q4, for the first time since Q2 2022. The year-on-year decrease of household consumption was curbed to -0.5% and the government consumption increased by 1.9% year-on-year. The two quarter-on-quarter increases from Q2 and Q3 were followed by stagnating consumption in Q4. Household consumption was quarter-on-quarter higher by 0.5%, while the government consumption decreased by 1.3%. In Q4 itself, the long-term durability goods (2.0 %, for the first time since Q1 2022) as well as short-term durability goods (0.9%, for the first time since the end of year 2021) consumption increased year-on-year and the consumption of services stagnated. Year-on-year plunge of the medium-term durability goods consumption nevertheless continued (-4.8%). Consumption of both long-term durability (2.7%) and medium-term durability (3.2%) goods as well as services (2.1%) was higher quarter-on-quarter. However, the household consumption for non-durable goods shrank by 1.8% quarter-on-quarter in Q4.

**Chart 2 Contribution of expenditure items to real GDP change\*** (volume indices, year-on-year growth, contributions in p.p., GDP in %)



Source: CZSO  
\* after exclusion of imports for final use

Investment activity expanded last year, but the change in inventories worked strongly in the direction of GDP decrease.

Expenditures on gross capital formation decreased in real terms by 7.0% last year. However, the gross fixed capital formation (investment) as such continued in the favourable development in year 2022 and increased by 3.3% last year. Total decrease was thus caused by the change in inventories<sup>7</sup>, which considerably affects the economic development dynamics in the last years. Its contribution in the direction of GDP decrease was -3.1 p.p last year. Significant rise of investments in transport

<sup>6</sup> Data regarding consumption based on durability are in domestic conception.

<sup>7</sup> Change in inventories (in current prices and not seasonally adjusted) attained 133.9 bn CZK last year, which it was 346.5 bn in year 2022. Change in inventories arrived at -54.8 bn CZK in Q4.

equipment (15.7%) and in ICT and other machinery and equipment (15.5%) contributed to the last year's increase of expenditures on gross fixed capital formation. Situation in the area of investment into structures corresponded with the adverse development in construction. Investments in dwellings (-6.7%) fell for the third year in a row and investments in other buildings and structures (-1.5%) did not continue in the strong increase from year 2022. Expenditures on intellectual property products were also lower last year (-3.5%). Expenditures on gross capital formation fell by 14.9% year-on-year due to the inventories dissolution in Q4 itself. Nevertheless, investment still featured a robust growth (4.7%). The situation was similar from the view of the quarter-on-quarter dynamics. Expenditures on gross capital formation decreased by 10.5%, but the investment activity recorded a recovery of 1.1%. The investment growth displayed the same structure in Q4 itself as for the whole year. Investment in transport equipment (20.3%) and in ICT and other machinery and equipment (17.0%) grew very strongly year-on-year. Expenditures on dwellings dropped for the seventh time in a row (-2.3%) and investments in other buildings and structures were also lower (-1.6%). Investment in intellectual property products dropped by 4.0% year-on-year. The quarter-on-quarter comparison of investment activity looked slightly more favourable at the end of year 2023. Investment in dwellings (2.9%) as well as other buildings and structures (3.5%) were higher and the expenditures on intellectual property products also increased (3.2%). Investments in transport equipment (-1.6%) and ICT and other machinery and equipment (-2.2%) dropped quarter-on-quarter in Q4.

The international trade balance of goods and services reached a surplus last year.

Favourable influence of the external demand on the GDP growth flowed from the opposing development of export and import in year 2023. While the export of goods and services<sup>8</sup> expanded in real terms by 3.1% last year, import fell by 0.4%. Exports of goods and services increased year-on-year by 1.0% and imports on the contrary plunged by notable 4.7% in Q4. Exports of goods grew relatively mildly (0.4%), the increase for services was stronger (4.7%). Following the two preceding decreases the export increased by 2.2% quarter-on-quarter in Q4. In that, the export of goods rose by 1.6% and services by 5.1%. The quarter-on-quarter decrease of imports (-2.4%) continued for the fourth quarter in a row. The international trade balance of goods and services attained a surplus of 378.0 CZK bn, which was by 312.4 bn better result year-on-year. Trade balance of goods improved significantly (by 308.6 CZK bn), the surplus of international trade of services was also slightly larger (+3.7 bn). The international trade balance achieved a surplus of 128.0 CZK bn in Q4 and improved by 106.4 bn year-on-year. Positive balance of trade of goods (+90.7 CZK bn) as well as services (+15.7 bn) rose sharply year-on-year.

Gross value added increased last year.

The Gross value added (GVA) increased in total by 0.5% last year. Large difference thus emerged between the GVA and GDP dynamics<sup>9</sup>. GVA development in individual branches partially corresponded to the demand structure. Favourable development of external demand was thus reflected in the GVA growth of export-oriented manufacturing (2.2%). It was balancing the decreases in the remaining part of industry, which was apparent on the weak increase of GVA in the industry as a whole (0.5%). Among services, information and communication fared the best (6.2%). GVA recorded a moderate increase (similarly 1.1%) in real estate activities, public administration, education, health and social work and in other activities last year. Professional, scientific, technical and administrative activities tied to the business demand showed GVA growth of 0.8% last year. Plunge of the household consumption was on the

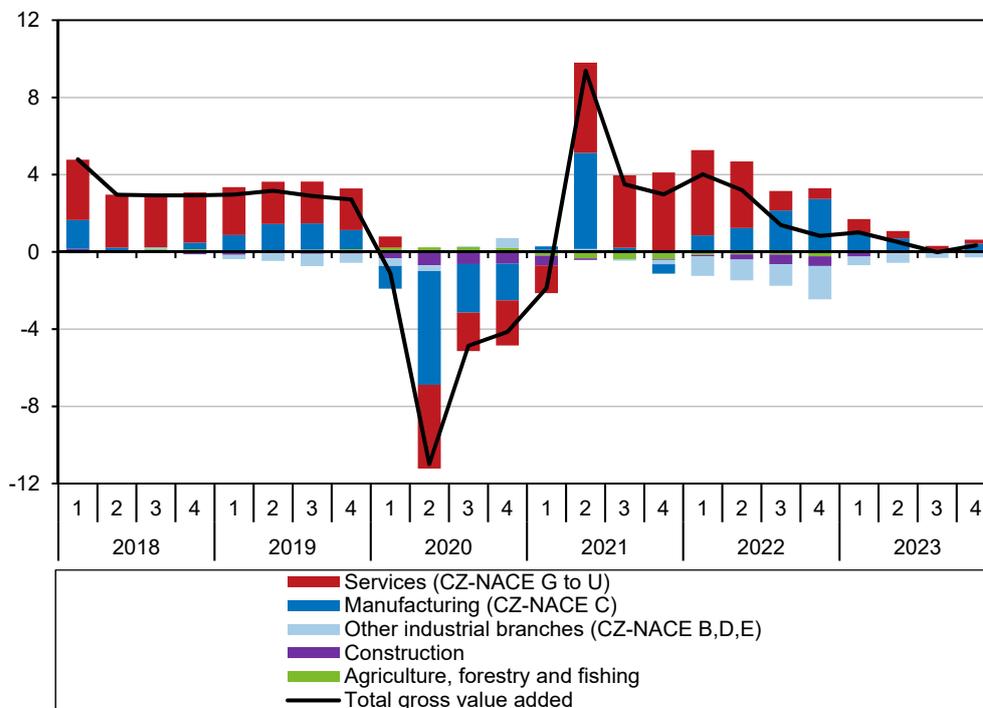
<sup>8</sup> According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). International trade balance in current prices and after seasonal adjustment.

<sup>9</sup> Huge gap between the GDP and GVA dynamics was caused by the effect of varying of GDP and GVA evaluation. Gross value added is appraised in basic prices, while the GDP is expressed in real prices. These differences reflected on one side the tax yields connected to the plummeting consumption. Subsidies capturing the electricity price caps were also a factor especially at the beginning of the year.



contrary mirrored in the GVA decreased in division trade, transport, accommodation and food service (-1.8%). Weak investment activities in the area of structures are observed on the GVA decrease in construction (-1.2%), where the GVA decreased for the fifth time in a row. Gross value added in construction thus by one fifth lagged behind the peak in year 2018 last year.

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



Source: CZSO

GVA increased both year-on-year and quarter-on-quarter in Q4.

The gross value added grew by 0.3% year-on-year in Q4 itself. Development in manufacturing contributed the most to the growth (GVA growth of 1.7%). Similarly to the rest of the year the remaining industrial branches did not thrive much and the substantial performance in manufacturing thus managed to drive the whole industry to the GVA increase of only 0.4 %. In Q4, the GVA grew strongly year-on-year in information and communication (4.0%) and among service real estate activities (1.6%), other service activities (1.4%), professional, scientific, technical and administrative activities (0.9%) and public administration, education, health and social work (0.6%) attained an above average GVA. The division trade, transport, accommodation and restaurants (-1.8%) the most inhibited the total year-on-year GVA growth, GVA decreased also in financial and insurance activities (-1.8%) and also in construction (-0.4%). Following the two preceding decreases in Q4 the gross value added increased by 0.6% quarter-on-quarter. Revival in manufacturing was very strong (3.0%) and the GVA increased markedly in real estate activities (1.9%). Growth in professional, scientific, technical and administrative activities (0.9%) also revived. GVA went down quarter-on-quarter in construction (-2.5%), other activities (-2.0%) and in financial and insurance activities (-0.9%).