

# THE CZECH ECONOMY DEVELOPMENT

First half of 2021

Summary Data on the Czech Republic

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## Contents

1. Summary .....	4
2. Overall Economic Performance.....	6
3. Branches Performance.....	10
4. External Relations.....	18
5. Prices.....	20
6. Labour Market.....	25
7. Monetary Conditions.....	31
8. State Budget.....	33

Source of data in the whole analysis: Czech Statistical Office (CZSO), Ministry of Finance (MF CR), Czech National Bank (CNB), Ministry of Labour and Social Affairs (MLSA), Czech Social Security Administration (CSSA), Eurostat, CZSO calculations.

Latest information provided in this report has been dated the 6<sup>th</sup> September 2021.

## 1. Summary

- Easing of epidemic measures had a favourable effect on the economic development in Q2 2021. The Gross domestic product (GDP) thus grew by 1.0% quarter-on-quarter<sup>1</sup> and it was by 8.2% higher year-on-year. Strong growth of the domestic consumption and also the investment activity mainly influenced the positive shift in relation to Q1. In contrast, the foreign demand had an adverse effect. Strong year-on-year GDP increase is for a large part impacted by the low comparative basis of the last year's Q2. Foreign demand recorded the largest contribution to the year-on-year growth, domestic consumption and investment however also grew. Within the European comparison, the CR belonged to countries with below average year-on-year GDP increase. The total GDP went up by 1.9% quarter-on-quarter in the EU and by 13.2% year-on-year. Despite current strong dynamics the GDP level nevertheless lagged in the majority of Union countries in real terms behind the pre-crisis Q2 2019 for now.
- The Gross value added (GVA) increased by 0.7% quarter-on-quarter in Q2 and by 8.4% year-on-year. Compared to Q1, the performance of majority of branches improved. Thanks to loosening of the counter pandemic restrictions, the group of activities trade, transportation, accommodation and food service (3.5%) recorded significant quarter-on-quarter revival. Increases were milder for other branches of services. Manufacturing, which faces difficulties connected to the disruption of the supply chains currently, increased by 1.1% quarter-on-quarter in the end. GVA in construction also featured a moderate growth (0.5%). Strong year-on-year GVA growth was influenced by low comparative basis, which was also reason for 23.2% GVA increase in manufacturing. The GVA of group of activities trade, transportation, accommodation and food service (9.4%) was also notably higher compared to last year.
- Export of goods and services expanded by 0.6% in real terms quarter-on-quarter in Q2 and it was by 30.6%<sup>2</sup> higher year-on-year. Import dynamics was however stronger – import grew by 4.9% quarter-on-quarter and by 31.3% year-on-year. Resulting balance of foreign trade attained a surplus of 56.3 CZK bn, which was by 15.0 bn more year-on-year, but with the exception of the last year it represented the weakest result for Q2 since year 2015. Mainly the trade with motor vehicles contributed to the year-on-year balance improvement.
- The year-on-year increase of the price level accelerated to 4.3% according to the GDP deflator in Q2. The price level rose by 1.5% compare to Q1. Growth of prices of both consumer and capital goods was strong. Consumer prices grew by 2.9% year-on-year. Their dynamics was influenced the most by prices of transportation. These reflected the sharp growth of prices of fuels as well as the ongoing growth of prices of motor vehicles. The growth of prices of alcohol and tobacco was still substantial and the dynamics of prices of housing and energies was also strengthening. Strong year-on-year increase of prices of oil impacted the prices of industrial producers both in the CR and abroad. Year-on-year growth of prices of industrial producers in the CR thus accelerated to 5.3%.
- The monetary policy-relevant rates were raised towards the end of Q2. However, interest rates on client deposits have not changed so far and remained at the very low level. Interest rates of credit for households were rising, in case of both consumer credit and mortgages. The volume of provided mortgages kept sharply growing.
- Total employment grew by 0.3%<sup>3</sup> year-on-year in Q2. Compared to Q1, the employment increased even by 0.7%. Employees, whose quantities expanded by 52 thousand year-on-year, the most since the end of year 2018, exclusively partook on this favourable development. On the contrary, the number of entrepreneurs fell by almost 36 thousand and their number decreased also in comparison to Q1 2021. Economic revival was positively also mirrored in the number of workers in the vast majority of main branches. The general unemployment rate started to decrease following the March four-year maximum and it arrived at 2.9% in June. Subduing of government stabilisation programmes also did not have an adverse effect. The unemployment of

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

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

<sup>3</sup> Employment data are in the national accounts conception adjusted for seasonal effects.



females grew more compared to the level immediately before the pandemics. It was (3.5%), for males only (2.4%). The average wage expanded by 1.2% quarter-on-quarter and reached 38 275 CZK.

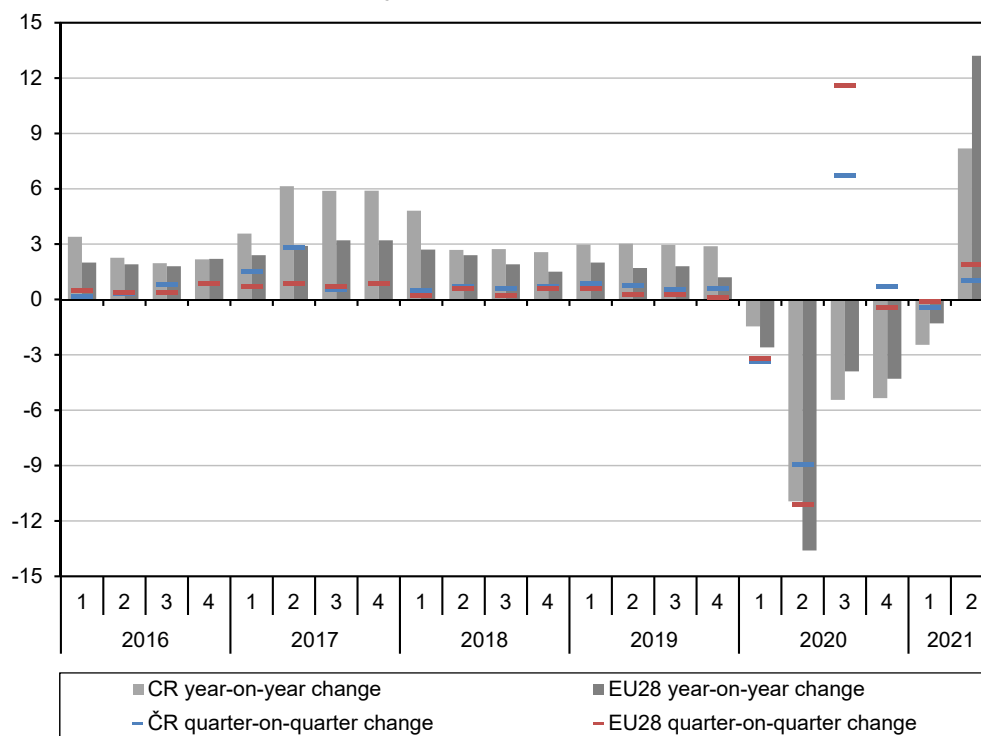
- State budget ended in deficit of 265.1 CZK bn in H1, which is by nearly 70 bn worse result compared to the last year's deficit. Total revenues increased by 1.9% in H1. The SB was fundamentally affected by lower economic activity, concessions to entrepreneur subjects, lowering of tax burden on labour as well as property and change of budget appropriations of taxes to the benefit of regional budgets. It all hampered the growth of tax revenues. Costs strengthened by 10.2%. Outlay transfers for the support of affected branches and workers, as well as the compensation of heightened needs in the area of the health care were strengthening .

## 2. Overall Economic Performance

The Gross domestic product substantially expanded year-on-year in Q2.

The counter pandemic measures, which were restricting trade and services and stood behind the downturn of the domestic consumption in the last year were eased during Q2 2021. The Gross domestic product thus increased by 1.0%<sup>4</sup> compared to Q1. Mainly the domestic consumption and also investment activity contributed to the increase. On the contrary, the foreign demand had a negative influence. The increase thus lagged behind the EU average and also behind the market outlook, which was caused especially by the obstacles, which the industry faced due to shortage of some components. This year's GDP was by 8.2% higher compared to last year's Q2, which was hit by the deepest GDP slump in the history of independent CR. All expenditure components with the foreign demand, which suffered an extraordinary shock just in the last year's Q2 in the lead, contributed to this outcome. Domestic consumption (of both households and government institutions) and investment also grew. Large part of the strong increase can be ascribed to the weak basis – comparison with data in year 2015 prices shows, that the GDP still slightly lagged behind the precrisis Q2 2019 and even the same period of year 2018 in this year's Q2.

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



Source: CZSO, Eurostat

European economies are also gradually recovering.

The GDP in the EU expanded by 1.9%<sup>5</sup> compared to Q1. Quarter-on-quarter addition followed after two quarters of decreases and it was influenced mainly by the strengthening domestic demand. Apart from Malta and Croatia, the GDP grew in all EU countries quarter-on-quarter. The economies of Portugal (4.9%), Latvia (4.4%) and Estonia (4.3%) grew the strongest. Development of neighbouring Austria was also however favourable, Polish and Slovakian economies were also improving at above average rate. The CR (1.0%) but also large economies France (1.1%) and Germany (1.6%) counted among countries with the lowest quarter-on-quarter increase. Total GDP in the European Union was by 13.2% higher year-on-year in Q2, which was of

<sup>4</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 31<sup>st</sup> August 2021.

<sup>5</sup> Data for Bulgaria, Ireland, Luxembourg and Greece were not available.

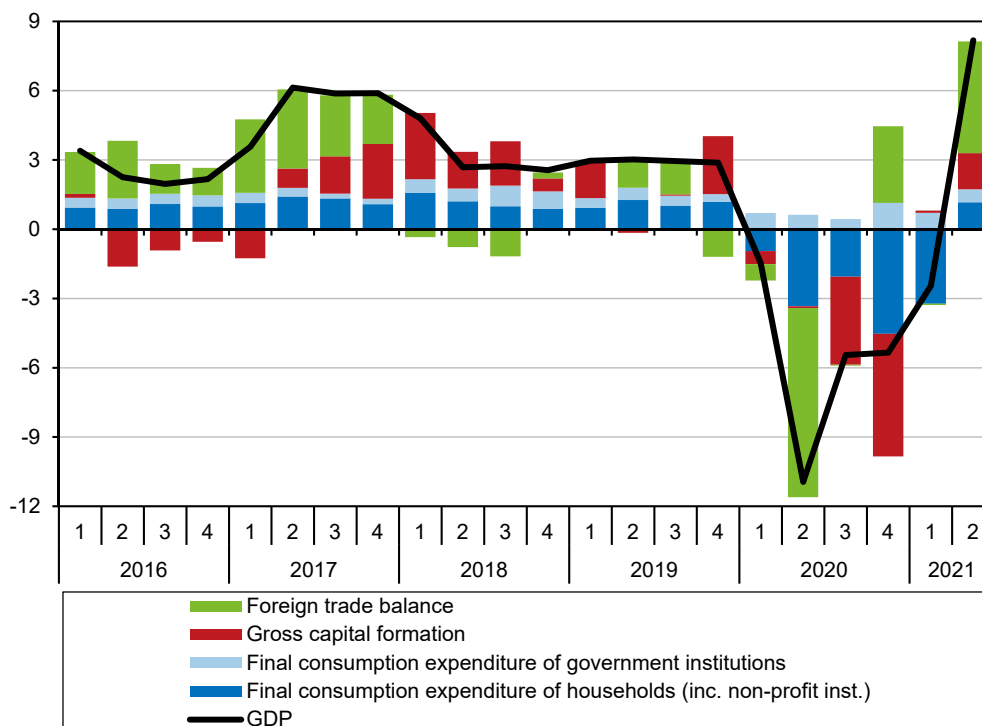


course similarly to the CR to a large part affected by the low basis of the last year's Q2. All EU countries were thus economically growing year-on-year. Look on the precrisis period however shows, that the real GDP in the EU falls behind the level of year 2019 by 2.3%<sup>6</sup>. The real GDP was lower in the majority of countries than in Q2 2019, while Spain (-6.1%) and Italy (-4.0%) lagged behind the most. However the CR also ranked high in this comparison (-3.7%) and France (-3.4%), Germany (-2.9%) or Austria (-2.7%), often countries with strong motor vehicle industry, also dived by an above average rate compared to Q2 2019. Baltic states, Ireland, Romania, Slovenia, Poland, Hungary, Denmark and Sweden belonged to countries, which manage returning to the precrisis level.

Volume of paid out wages and salaries sharply hiked up in Q2.

Volume of paid out wages and salaries expanded by 17.7% year-on-year in Q2. Compared to Q1, the volume of paid out wages and salaries increased by 7.4%. Extraordinarily high year-on-year increase was affected by the low basis of the last year's Q2. It was linked to the markedly lower number of hours worked. In addition, more bonuses were paid out in this year's Q2. Wages and salaries grew by 15.3%<sup>7</sup> in real terms year-on-year. The volume of wages and salaries grew the most in real estate activities (25.4%), in branches with the prevalence of government institutions<sup>8</sup> (23.1%), in manufacturing (21.6%), in other activities and in trading group, transportation, accommodations and food service (17.3%). Nevertheless also construction (11.3%) and information and communication (8.0%), where the growth was also supported by increased employment to a large extent and also agriculture, forestry and fishing (7.0%) also recorded strong rates of growth. The only branch experiencing decrease was financial and insurance services (-2.7%).

**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

<sup>6</sup> GDP comparison in 2015 prices.

<sup>7</sup> Converted into the real expression using the deflator of final consumption expenditure of households.

<sup>8</sup> Public administration, education, health and social work.

Domestic consumption started to rise thanks to easing of restrictions.

The domestic consumption increased by 4.2% quarter-on-quarter in Q2. Mainly the consumption of households, which had more purchasing possibilities compared to Q1, was growing (6.5%). The addition was at the same time stronger compared to Q3 of the last year when the restrictions were also loosened. The current development however shows the realisation of delayed consumption of households. On the contrary, the consumption of government institutions stagnated (-0.2%). The consumption increased by 6.0% year-on-year and it contributed 1.8 p.p.<sup>9</sup> to the GDP growth. Addition of the household consumption was again substantial (7.4%), in case of government institutions it attained 3.0%. The segments of durable goods and services left behind in the preceding quarters of course gained a major growth impulse – the consumption of goods of medium term durability<sup>10</sup> jumped up by 26.5%<sup>11</sup> quarter-on-quarter, goods with long-term durability by 6.4% and services by 7.6%. Consumption of non-durable goods also strongly grew quarter-on-quarter (4.3%).

Investment expenditures recorded considerable revival.

Gross fixed capital expenditures rose by 4.3% quarter-on-quarter and by 13.0% year-on-year in Q2. Contribution of gross capital formation to the year-on-year GDP growth reached 1.6 p.p. The change of inventories played a significant role especially in the year-on-year comparison. Increase of inventories of unfinished production and finished products of industrial businesses thus notably contributed to the year-on-year increase of gross capital formation<sup>12</sup>. Expenditures on gross fixed capital formation increased by 4.2% quarter-on-quarter and year-on-year rise attained 1.5%. Investment went up at the same time for the first time since Q4 2019. Comparison of data adjusted for price effects indicates, that investment lag behind the period before the arrival of pandemics in this year's Q2 so far. Type classification of gross fixed capital formation indirectly proves the boost of investment of non-financial businesses – expenditures on transport equipment (10.2%) Strongly grew quarter-on-quarter and the increase of investment into ICT and other machinery and equipment (4.8%) also accelerated. Investment into products of intellectual property rose by 1.0%. The addition to investments into dwellings, dominated by households, was also very strong (9.9%). Investment into buildings and structures also mildly grew quarter-on-quarter (0.3%). Investment into other buildings and structures (-4.2%) as well as products of intellectual property (-0.5%) however still lagged behind in comparison to the last year's Q2. In contrast, the expenditures on dwellings were by 9.7% higher, on ICT and other machinery and equipment by 2.7% and on transport equipment by 1.9%.

Foreign trade balance contributed to the year-on-year GDP growth, its surplus was however among the lowest for the last years.

Industry and consequently also foreign trade was not restricted during the Autumn and Winter wave of epidemics anymore. Quarter-on-quarter real increase of export of goods and services thus arrived at 0.6%<sup>13</sup>. In that the export of goods dropped by 0.7%, while the export of services rose by 8.7%. On the contrary, the import lifted by substantial 4.9% quarter-on-quarter and it can be assumed, that part of this increase is connected also to the heightened investment activity of businesses. This notable difference between the dynamics of export and import led to the quarter-on-quarter worsening of the balance of foreign trade, which made the foreign demand to be the only factor operating in the direction of quarter-on-quarter GDP decrease. Export increased by 30.6% year-on-year, which is however affected by weak comparative period and similarly import expanded by 31.3%. The foreign trade balance was gauged at surplus of 56.3 CZK bn in Q2, which is by 15.0 bn better result year-on-year, thus the resulting contribution of foreign demand to the year-on-year GDP growth reached 4.8 p.p. With the exception of the last year's Q2, it represents the weakest surplus since Q2 2015.

<sup>9</sup> Additions to the GDP change after exclusion of imports for final use.

<sup>10</sup> Large part of the restricted retail belongs to the medium term category – wearing apparel, recreational and sports goods etc.

<sup>11</sup> Data regarding consumption based on durability are in domestic conception.

<sup>12</sup> Change of inventories (in current prices and seasonally adjusted) attained +58.9 CZK bn in Q2.

<sup>13</sup> According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).





Surplus of trade with goods (+10.8 CZK bn) as well as services (+4.2 bn) improved, but the value of 30.2 bn for the trade balance with goods was apart from the last year's Q2 the worst since Q4 2012.

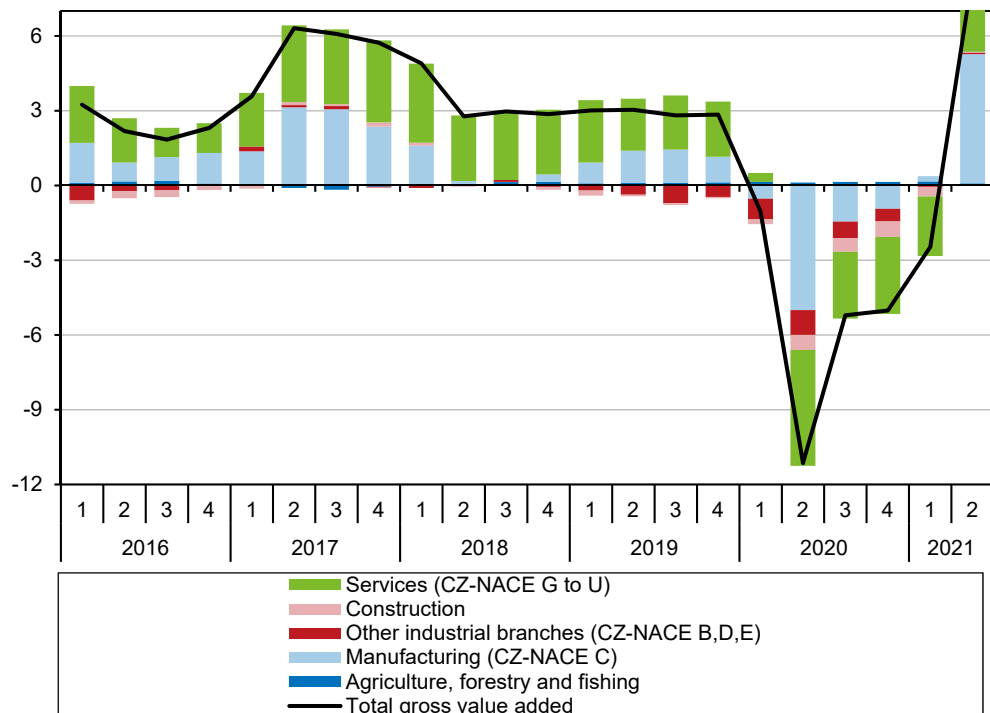
Easing of restrictions in trade and services aided the quarter-on-quarter growth of the gross value added.

The Gross value added (GVA) increased by 0.7% quarter-on-quarter in Q2. The performance of majority of branches improved compared to Q1, except for agriculture (-3.1%), financial and insurance activities (-2.2%) and real estate activities (-1.2%). Group of activities trade, transportation, accommodation and food service (3.5%) in contrast recorded marked quarter-on-quarter revival, benefiting notably from loosening of the counter pandemic restrictions. Other services branches attained smaller additions – professional, scientific, technical and administrative activities and branches with the dominance of the government sector increased similarly by 0.8%, information and communication mildly grew (0.3%) and other activities stagnated (0.1%). Manufacturing, which faced difficulties resulting from the disruption of the supply chains, increased by 1.1% in the end. The GVA also moderately grew in construction (0.5%).

Year-on-year GVA increase was affected mainly by the low comparative basis of the last year.

The gross value added was by 8.4% year-on-year. Strong increase was of course affected by the low comparative basis and was also valid for individual branches. Year-on-year GVA increase in manufacturing of 23.2% is thus to a large part connected to the last year's halt of operations in part of industry, the branch however lagged behind for example level of Q2 2019. Group of activities trade, transportation, accommodation and food service, whose GVA was by 9.4% higher, is in a similar situation. Financial and insurance activities (6.6%), other activities (4.8%), information and communication (4.3%), public administration, education, health and social work (4.2%) and agriculture (4.1%) also attained a solid year-on-year GVA increases. Real estate activities (0.7%), construction (0.4%) and professional, scientific, technical and administrative activities (0.2%) in contrast only mildly exceeded the level of the 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

### 3. Branches Performance

Gross value added mildly increased quarter-on-quarter in Q2, mainly thanks to the trade, transportation, accommodation and food service activities.

Considerable improvement of the pandemic situation in this year's second quarter joined by the gradual loosening of restrictions having part of the economy in clutches led to the expected revival, mainly thanks to the higher household consumption as well as total investment activity. If in Q1 2021 the gross value added (GVA)<sup>14</sup> fell quarter-on-quarter by 0.4% in the domestic economy, it already recorded 0.7 growth in the subsequent period. Similarly to the whole EU, where however the recovery was more dynamic during Q2 (1.9%), the wider industry group of activities trade, transportation, accommodation and food service also played a key role in the CR in this turnaround. Even though the vast majority of main activities registered at least a slow growth, the total GVA still significantly fell behind (by 3.6%)<sup>15</sup> its pre-crisis maximum (from Q4 2019) for now.

The GVA was placed nearly 4% lower this year compared to H1 2019.

The GVA went up by 2.7% year-on-year in H1 2021, in that by 8.4% in Q2 itself. For the large part however it is the effect of low last year basis, primarily due to the slump of output in branch trade, activities tied to tourism and also in manufacturing. The total GVA thus lost nearly 4% compared to H1 2019 this year, nearly twice as much then in the branch professional, scientific, technical and administrative activities itself. Construction was hit by even larger slump (-10.1%) and especially the group of activities trade, transportation, accommodation and food service (-14.1%), whose output returned down to the level of year 2016. Some branches were not nevertheless immediately greatly affected during the pandemics, eventually their role was even strengthened in this time period<sup>16</sup>. The GVA thus increased by one eighth in agriculture, forestry and fishing for the two years, nearly by one tenth in financial and insurance activities. Growth was substantial also in industries with strong role of the public sector<sup>17</sup> (3.9%) and also in information and communication (6.5%) – these belonged to the most occupied during the pandemics, as also evident by the number of hours worked<sup>18</sup>, which hiked up by 12.1% here for the two years. In contrast was for example the development in industry of other services<sup>19</sup>, where the time worked plunged by 22.8%. Considerable slump of output or rather sales was here apparently partially compensated also by lower intermediate consumption. Because the GVA lowered “only” by 4.5% in this branch for comparable period. The situation was different in the primary sector of the economy or in financial service, where the growth of value added occurred even when accompanied by decrease of hours worked in the last two years (by 1.4% and 5.3%, respectively).

Branches, which were practically unaffected by the pandemic situation, produced nearly one third of the output of the total economy.

Production dived more than the value added in some branches for two years.

Industrial output increased by 0.9% in Q2, when it benefited from the fast revival of demand in developed economies.

Industry also contributed to the total economic revival in the CR in Q2 this year, as also confirmed by the more detailed data from the business statistics. Industrial output<sup>20</sup> went up by 0.9% quarter-on-quarter and signalled, that the cooling down during Q1 2021 (-1.4%) was likely only short term. Markedly export oriented domestic industry capitalised on the favourable economic development of key export territories in spring – Germany or more precisely the whole EU<sup>21</sup>. On the other hand, the fast recovery of the world economy and especially the most developed economies formed likely temporary, but strong tension in the production and supplier chains, which gradually also transmitted into the CR. Mainly the shortage of some supplies and components (besides other things in motor vehicle industry and associated fields of activity) disrupted the continuity of the production process, led to

It however simultaneously led to the overstraining of production and supplier chains with an adverse

<sup>14</sup> Data regarding the GVA are expressed in constant prices and adjusted for seasonal and calendar effects.

<sup>15</sup> It was also analogically valid for the EU (-2.2%), including all their most significant economies. On the contrary, the Baltic states, majority of the Nordic states, but also e.g. Poland, Hungary, Slovenia or Romania – i.e. states, where the services tied to tourism play a relatively smaller roles in their economies, overcame their pre-crisis maximum from the view of the GVA during this year so far.

<sup>16</sup> Less growing branches created just under 30% of the national economy GVA in H1 2021.

<sup>17</sup> Contain public administration, education, health and social work.

<sup>18</sup> Data are derived from the national accounts and are adjusted for seasonal and calendar effects.

<sup>19</sup> Include cultural, amusement and recreation activities and further especially provision of personal services (e.g. hairdressing, beauty treatment, cleaning services or repairs of products and equipment for personal need and predominantly for households).

<sup>20</sup> 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 (at the level of branch sections as well as divisions) are adjusted for calendar effects, both quarter-on-quarter and month-on-month rates then also for seasonal effects.

<sup>21</sup> 30.8% of the total domestic export of the industrial goods headed into Germany in Q2, exactly 80% then into the EU.



impact on the continuity of production as well as the development of prices of production.

the unplanned creation of stock of unfinished production and was putting pressures on the price growth of producers. Apart from this, the domestic industry was still also limited by the lack of mainly qualified labour force, even though with respect to the decreased employment in industry during the pandemics, this problem was not so pressing as in years 2018 and 2019 this year so far.

Industrial production increased by 14.7% year-on-year in H1, which was heavily influenced by the comparison with a very low basis during the last year's April and May (also due to the de facto halting of production in significant business establishments of motor vehicle industry<sup>22</sup>). The industry as a whole thus still slightly lagged behind its absolute pre-pandemic maximum<sup>23</sup>.

Motor vehicle manufacturing secured more than one third of the year-on-year growth of industrial output this year. Gradually however it hit the growth barriers.

Motor vehicle manufacturing contributed to the year-on-year growth of the industrial production from more than one third this half-year, the nearest subcontractors then added one fifth. Output of the motor vehicle manufacturing however fell quarter-on-quarter by 1.9%<sup>24</sup> in Q2 itself. On the contrary, no indications of slowdown were apparent in the manufacture of electrical appliances as well as both plastic and rubber industries since the problem with shortage of production components did not directly concern them. Significant metalworking industry contributed to the year-on-year industry growth by more than one tenth in H1. Output in metallurgy also featured slightly above average rate of growth (+16.7%). Among smaller industries, manufacturing of other (especially rail) transport equipment (+23.2%) fared the best, mainly thanks to the very good Spring results.

Only several industries with marginal weight lagged behind the outputs from last year's H1.

On the contrary, the output lagged behind the level from last year's H1 only in minimum of industries. There belonged manufacturing of clothing (−7.0%) and also the production of beverages (−1.3%). These industries are fundamentally dependent on the household consumption and thus suffered hardship as a result of repeated forced closures of their traditional domestic outlets as well as due to the slump of arrival tourism. Downturn of investment activity of businesses during the pandemic recession was evident in the lower output in industry repair and installation of machinery and equipment (−1.8%). In mining and quarrying, lower performance was associated with long-term transformation of the energetic mix of the economy also accelerated by swift growth of prices of emission permits in the last quarters. Output fell by 0.9% here following the last year's deep slump<sup>25</sup>. However, these four above mention industries also thanks to their low weight as well as slower rates of growth exerted only a minimal influence on the year-on-year development of output in the whole industry this year (−0.1 p.p.).

Industrial output already nearly balanced out the level from Q2 2019. Some both weight and strategically significant industries however haven't attained this mark yet.

Output in the whole industry already only slightly lagged behind the same period of year 2019 (by 1.6%) in the second this year's quarter. It is the result of not only effect of the whole pandemic period, but also of the short cyclical industry downturn preceding it. One half of manufacturing activities recorded growth in this two-year period. Next to the manufacturing of rail transport equipment (where the production is characterised by partial volatility), it was mainly wood industry (+12.6%), paper (+10.9%) and other industry<sup>26</sup> (+10.6%), further pharmaceutical industry (+4.9%) and out of large industries electrical engineering (+2.8%), metalworking (+2.5%) and food industry (+1.7%). In contrast, even some key activities – manufacturing of motor vehicles (−5.5%) and machinery (−6.0%) and also the energy industry (−9.6%) were losing.

<sup>22</sup> The output increased by 54% in the whole industry year-on-year in this year's April itself, in that by 445% in the manufacture of motor vehicles.

<sup>23</sup> It was situated due to the cyclical downturn, which the domestic industry experienced already in the second half of the year before the last in May 2019. The output was by 4.0% lower compared to this level in June 2021. Since the favourable industry development also continued this year in July, this distance already shrank to only 2.0%.

<sup>24</sup> At the same time, the decrease compared to the very strong finish of year 2020 already occurred in the preceding quarter.

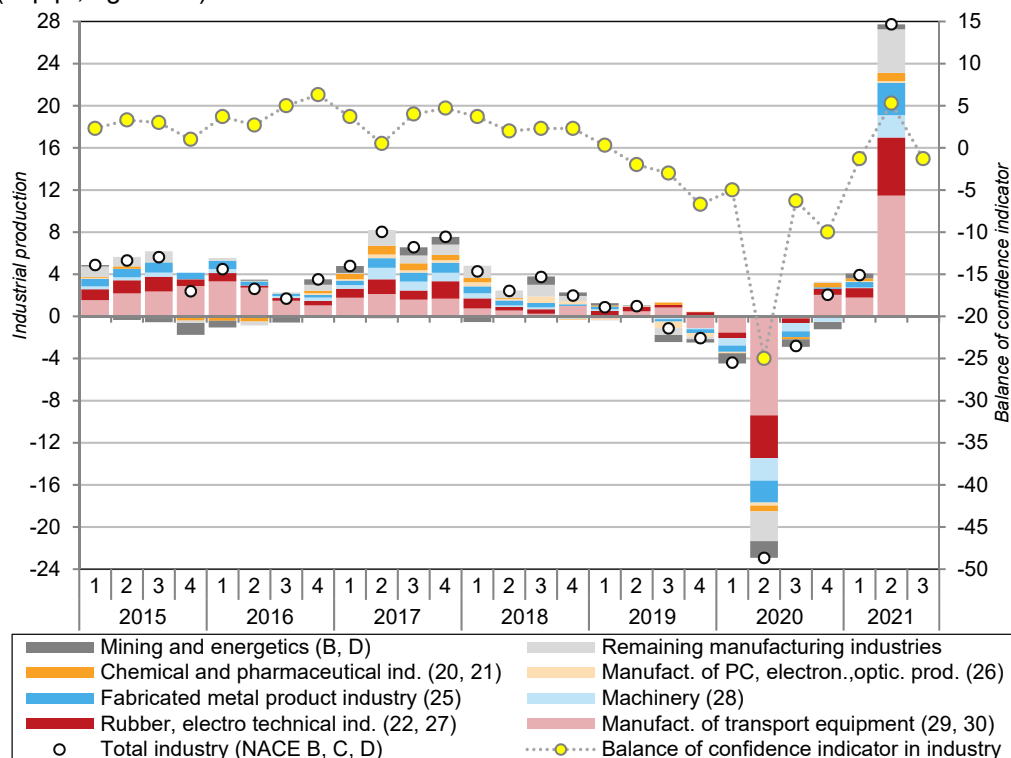
<sup>25</sup> The production plunged by one sixth for the whole year 2020, i.e. the most in the comparative time series since year 2000.

<sup>26</sup> Includes diverse spectrum of activities – manufacture of medical and sports goods, games and toys, musical instruments as well as bijouterie.

Sales from direct export kept growing more briskly than domestic sales. In chemical, metallurgy and wood industry, the growth of sales was also driven by significantly higher prices.

Nominal sales of industrial businesses<sup>27</sup> grew by 4.1% quarter-on-quarter in Q2 2021 and offset the mild decrease from the beginning of the year. Sales from direct export were by 38.1% higher, domestic sales by 26.9%. Foreign demand was thus growing faster compared to the domestic demand already fourth quarter in a row<sup>28</sup>. Total sales grew the most in manufacturing of motor vehicles (73.3%), still it was not adequate to fully cover the deeper slump from Q2 2020. Manufacture of rubber and plastic products reported more than 50% increase in sales, as well as chemical industry and metallurgy, where however the price growth played a notable role. It supported the sales in wood industry as well (43.2%, even 50.3% for direct export). Only manufacturers of clothing, pharmaceutical industry and manufacturers of computers, electrical and optical appliances registered a mild lowering of sales (up to 5%) – in all cases exclusively due to the adverse price impact.

**Chart 4 Contributions of sub-branches to the year-on-year change of the industrial production (in p.p., adjusted for calendar effects), confidence indicator in industry\* (in p.p., right axis)**



\*Balance of confidence indicator is seasonally adjusted and expresses the level in the second month of the given quarter. Source: CZSO

Growth of both domestic and foreign demand continued during H1 as well as in July itself. It was true for vast majority of monitored industries.

Short term outlook of industry was improving during H1. Following the strong recovery in the second half of the last year, the total demand kept further growing this year. The value of industrial orders<sup>29</sup> increased by 1.8% quarter-on-quarter in Q1 2021, by 3.2% in the subsequent period. The favourable trend also spread into the beginning of holiday period, since the orders were higher by 3.1% in July compared to the preceding month and by 18.9%<sup>30</sup> year-on-year (without substantial differences between domestic and foreign demand). Both chemical industry and metallurgy reported strong growth, higher demand was however signalled by overwhelming majority of monitored industries. The utilisation of

<sup>27</sup> Year-on-year rates of growth of sales are adjusted for calendar effects, quarter-on-quarter rates then also for seasonal effects.  
<sup>28</sup> It was however partially affected by less favourable development of the foreign demand in the period of the cyclical downturn of the European economy at the turn of years 2019 and 2020 and also during the first pandemic wave. In the two year comparison (with Q2 2019), the sales from direct export increased by 2.6% in the domestic industry, domestic sales then by 1.9%.  
<sup>29</sup> Surveying of orders is ongoing only in twelve manufacturing branches, which manufacture mostly custom-made products, with longer production cycle and larger stocks of orders. Year-on-year rates of growth of orders are adjusted for calendar effects, quarter-on-quarter rates also for seasonal effects.  
<sup>30</sup> They exceeded the value of orders from June 2019 by 15%, they also stayed in positive numbers in all preceding this year's months.

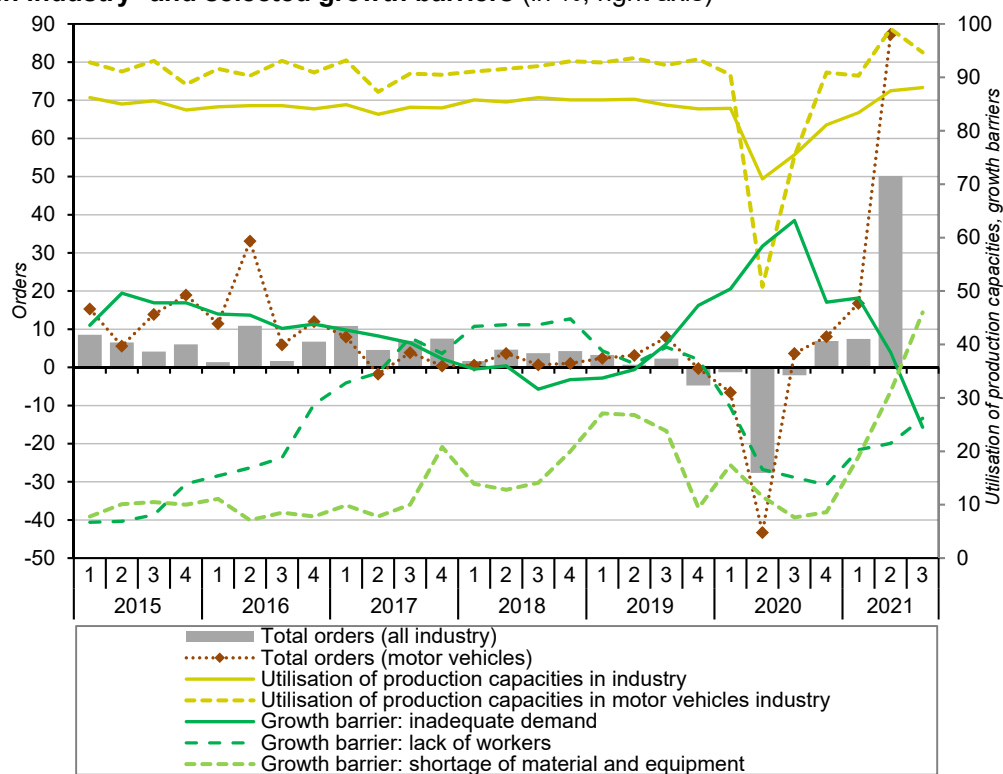


The entrepreneur confidence in industry grew and culminated in June. Consequently it went slightly down, mainly due to the shortage of production components.

production capacities in industry climbed up to 88%, i.e. mildly above the level of boom period of the past decade. Only in Austria it was higher among the EU states.

Entrepreneur confidence in industry climbed up to ten year maximum in June. It did weaken because of partial correction of high short term expectations of the production growth during the holiday period, still it exceeded the level from the period just before the pandemics commencement. Short term outlook in the area of employment also remained mildly positive. One quarter of businesses considered their current economic situation as good, more than two thirds as satisfactory. Shortage of material and equipment, which record 46% of domestic industrial businesses<sup>31</sup> struggled with, became the main growth barrier<sup>32</sup> in the CR (but also in the EU) at the beginning of Q3. Role of inadequate demand considerably stepped into the background<sup>33</sup> (from 49% to 25%) during this year's half-year, on the contrary the difficulty with hiring labour force was slightly enhanced (to 26%) and represented the most significant barrier in more than one third of manufacturing activities<sup>34</sup>.

**Chart 5 New orders in manufacture of motor vehicles and in industry in total (in current prices, year-on-year change in %) and utilisation of production capacities in industry\* and selected growth barriers (in %, right axis)**



\* Both utilisation of production capacities and growth barriers are seasonally adjusted and express the level in the first month of the given quarter. Businesses could have stated more main barriers simultaneously.  
Source: CZSO, Eurostat

Dynamics of growth of the construction output was to a large extent dampened so far this year.

Construction belongs (together with industry) to branches, which were not impacted by the measures against the spread of coronavirus to any large extent anymore this year. In spite of that, the recovery was relatively slow here so far and the growth trend is not fully apparent,

<sup>31</sup> Even though this problem was the most obvious in the motor vehicle industry (96%) and associated fields of activity, it also did not evade metalworking industry, metallurgy, machinery, electrical engineering or the chemical industry.

<sup>32</sup> Businesses could have stated more barriers simultaneously.

<sup>33</sup> The weak demand however still comprised the most significant limiting development factor in some mostly smaller fields of activity. It consisted of manufacturing of wearing apparel (90%), manufacturing of beverages (79%), leatherworking industry (68%), textile and printing industry (similarly 57%), manufacturing of construction materials (53%), pharmaceutical industry (52%), manufacturing of computers, electronic and optical appliances (51%) and food industry (42%).

<sup>34</sup> Specifically in rubber and plastic industry (64%), manufacturing of other transport equipment (61%), electrical engineering (53%), repair of machinery and equipment (47%), machinery and metalworking industry (similarly 40%), paper industry (31%) and other industry (30%).

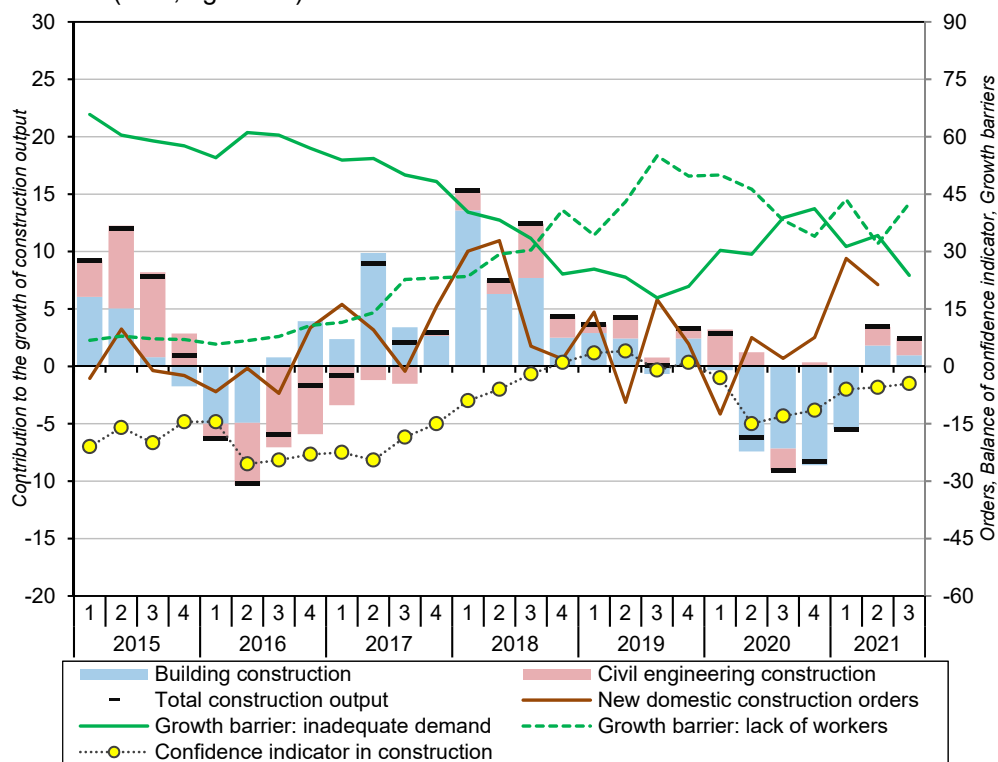
It was related to the administrative influences as well as varying development in both main construction segments.

Civil engineering construction benefited from public structural investment.

especially in the building construction this year. Total construction output<sup>35</sup> fell behind by 5.5% in real terms year-on-year in Q1, compared to Q4 2020 it increased by 2.4%. In Q2 the output of this branch already overtook the level from the same period of the last year by 2.4%, quarter-on-quarter it however strengthened only by negligible 0.9%<sup>36</sup>. Slow revival of construction can be also connected for a large part to the administrative influences. Last year's restrictive measures limited the current cooperation of all participants of the construction proceedings and further complicated the already demanding administrative process of construction preparation. Some competitive tenders were halted, which disrupted the continuity of construction. Despite improvement of the epidemic situation during this year's Spring, the mobility of foreign labour still remains difficult, which presumably impacts more small and medium construction firms, more often operating in the building construction segment.

Civil engineering construction, whose output increased by 3.4% year-on-year in H1 2021 (even by 12.1% for the two years), fared much better. It is assisted by the ongoing construction as well as modernization of the transport network supported especially by the funds from the EU budget in the long term. Even though the total capital expenditures of the state budget, as well as the investment transfers to the State Fund for Transport Infrastructure were by more than one tenth lower for the first eight months of this year year-on-year, total stock of work in the area of engineering structures remains high.

**Chart 6 Contributions of branches to year-on-year change of construction output (in p.p.), new construction orders (year-on-year in %, right axis), balance of confidence indicator in construction\* (in p.p., right axis) and selected growth barriers\* (in %, right axis)**



Data related to construction output are adjusted for calendar effects  
 \* Balance of 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 state more main barriers simultaneously.  
 Source: CZSO, Eurostat

<sup>35</sup> Data regarding the construction production are in constant prices, year-on-year rates of growth are adjusted for calendar effects, quarter-on-quarter also for seasonal effects.  
<sup>36</sup> Somewhat unsure this year's development of construction is also supported by fresh July data. Based on these data, the construction output dropped by 2.6% month-on-month (given lower performance in both its main segments). Compared to lower last year basis the construction only stagnated and its output was lower by whole one tenth compared to Q2 2019.

<p>Construction of residential buildings assisted in moderating the weaker outputs of building construction.</p>	<p>Half yearly output in the weight dominant segment of the building construction was by 2.3% lower year-on-year this year (even by 8.2% for the two years). The residential constructions partially help to subdue the difficulties here. There were nearly 20 thousand flats completed from January till July of this year, i.e. slightly more than in the same period of the until recently record year 2009. Mostly the construction of family houses, continually strengthening in the last years, contributed. Number of commenced flats reached by analogy 23.9 thousand and exceeded last year's level roughly by one eighth. It however lagged behind the same period of the boom year 2008 by nearly one tenth. Higher construction in Prague contributed the most to the year-on-year rise of the number of commenced (12%) as well as finished flats (11%) this year.</p>
<p>The approximate value of building permits briskly grew even without the effect of large structures.</p>	<p>Short term expectations of construction remain largely positive. The approximate value of issued building permits was in total for the seven this year's months roughly by one third higher – both in year-on-year and two-year comparison. The value briskly grew even after deduction of the large structures (above 1 CZK bn), which can be a good signal even for smaller construction firms. The volume of newly concluded construction orders (in businesses with more than 50 employees) grows already fifth year in a row and it was nearly by one fifth higher year-on-year for the first this year's half year (in that by nearly one third in civil engineering construction). All not yet realised orders provided work to businesses on average for the next nine months at the beginning of Q3. Total order stock was towards the end of this year's half-year by one fifth higher year-on-year. If in years 2018 to 2020 the growth of stock of work was driven primarily by the public orders, the private domestic orders took over this role this year.</p>
<p>Total stock of work increased mainly thanks to domestic private orders this year.</p>	<p>Short term expectations of construction remain largely positive. The approximate value of issued building permits was in total for the seven this year's months roughly by one third higher – both in year-on-year and two-year comparison. The value briskly grew even after deduction of the large structures (above 1 CZK bn), which can be a good signal even for smaller construction firms. The volume of newly concluded construction orders (in businesses with more than 50 employees) grows already fifth year in a row and it was nearly by one fifth higher year-on-year for the first this year's half year (in that by nearly one third in civil engineering construction). All not yet realised orders provided work to businesses on average for the next nine months at the beginning of Q3. Total order stock was towards the end of this year's half-year by one fifth higher year-on-year. If in years 2018 to 2020 the growth of stock of work was driven primarily by the public orders, the private domestic orders took over this role this year.</p>
<p>Confidence of entrepreneurs in construction remained in the slightly negative band. The branch faced a variety of growth barriers.</p>	<p>Balance of entrepreneur confidence in construction mildly fluctuated this year and still remained in the negative band slightly below the level from the period immediately before the start of the pandemics. Short term expectations of both production activity and employment stayed moderately positive. The fewest number of businesses in the last two years experienced the weak demand as a growth barrier. In contrast, the shortage of employees steadily afflicted approximately 40% of businesses since the half of last year. The firms were more and more limited by the shortage of material since the end of this year's Spring, which exacerbated the price pressures in the whole industry. More than 40% of businesses expected growth of construction works in the nearest three months, similarly to the boom period in 2008.</p>
<p>Gradual loosening of the counter pandemic restrictions was reflected in the acceleration of the quarter-on-quarter growth of sales in services.</p>	<p>Even though the strong impact of counter pandemic measures into part of services prevailed for the whole Q1 2021, sales in selected services<sup>37</sup> moderately increased (+1.9%) in comparison to the level of Q4 2020. Gradual loosening of restrictions in Q2 was as anticipated associated with a considerable revival of wide spectrum of services. Sales in services strengthened by even 4% quarter-on-quarter, from more than one third thanks to „awakening“ of branch accommodation, food service and restaurants. Growth of sales was nevertheless apparent in all main industries. Sales in services grew year-on-year by 3.0% in H1 2021, by 14.2% then in Q2 itself mainly due to the very low comparative basis. Sales were approximately at the level of year 2016 this year and still lagged notably behind the precrisis peak. Sales increased in all main industries year-on-year in Q2, the most in those, that were in effect paralyzed during the first pandemic wave last year – they increased by nearly one third in accommodation, food service and restaurants, by nearly one quarter in transportation and storage and by nearly one fifth in administrative and support service activities.</p>
<p>Year-on-year comparison was fundamentally affected by the last year's slump of sales in Q2.</p>	<p>Even though the strong impact of counter pandemic measures into part of services prevailed for the whole Q1 2021, sales in selected services<sup>37</sup> moderately increased (+1.9%) in comparison to the level of Q4 2020. Gradual loosening of restrictions in Q2 was as anticipated associated with a considerable revival of wide spectrum of services. Sales in services strengthened by even 4% quarter-on-quarter, from more than one third thanks to „awakening“ of branch accommodation, food service and restaurants. Growth of sales was nevertheless apparent in all main industries. Sales in services grew year-on-year by 3.0% in H1 2021, by 14.2% then in Q2 itself mainly due to the very low comparative basis. Sales were approximately at the level of year 2016 this year and still lagged notably behind the precrisis peak. Sales increased in all main industries year-on-year in Q2, the most in those, that were in effect paralyzed during the first pandemic wave last year – they increased by nearly one third in accommodation, food service and restaurants, by nearly one quarter in transportation and storage and by nearly one fifth in administrative and support service activities.</p>

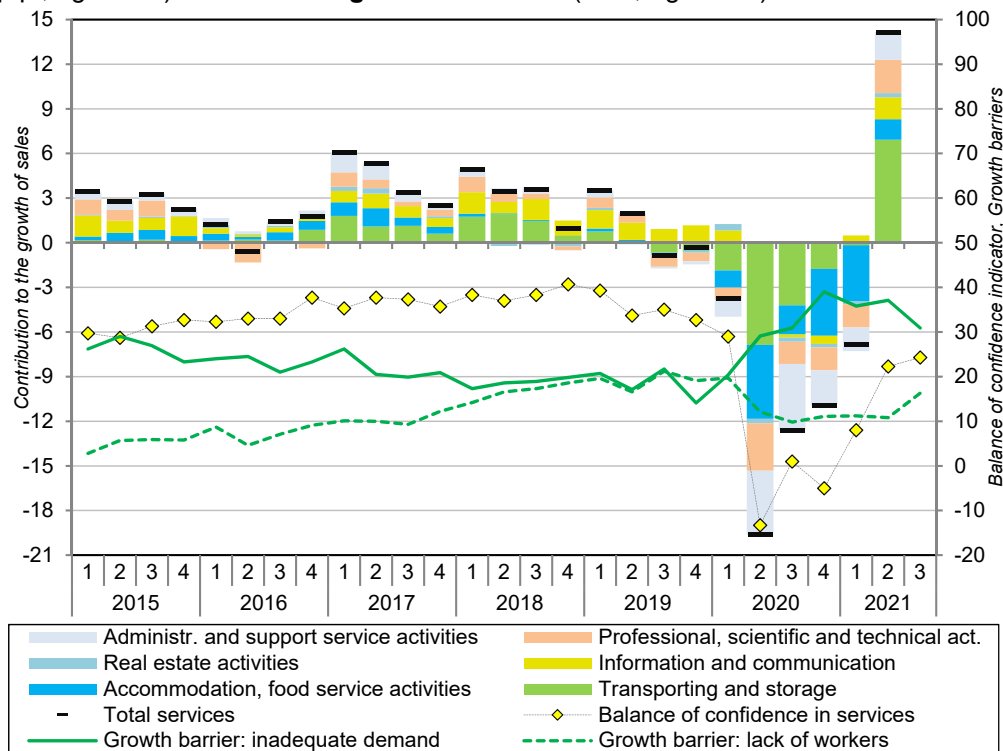
<sup>37</sup> Without branches trade, financial activities, insurance activities, science, research and public services. All data for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter as well as month-on-month are adjusted for seasonal effects (including the effect of the number of working days).

Sales in services fell by 8.3% compared to Q2 2019.

Pandemic period strengthened the role of information and communication. Postal and courier services capitalised on development of sales via internet.

Two-year comparison has a larger explanatory power, among other things also because the total output of services was on its boom maximum in Q2 2019. Sales in services dropped by 8.3% in this period. Information and communication were the only main branch, which grew in this time period (+6.1%). It was supported the most by the brisk growth in the weight significant telecommunication segment (9.1%), nevertheless the demand for data processing, web portals and hosting was also gaining strength, similarly to the IT area (data processing, consultancy activities, computer facilities management services). Growth in the publishing activities (3.4%) is also connected to the IT area, significantly supported by software publishing activities. Postal and courier activities profited from the reduced purchasing opportunities of population during the individual pandemic waves, where the sales grew the most out of all services subbranches (30.9%) for the two years. Storage activities also fared well (+4.4%), assisted also by the fast recovery of industry in the second half of the last year. Demand for legal and accounting activities expanded within the services for business.

**Chart 7 Contributions of branches to year-on-year change of sales in services\*** (in p.p., adjusted for calendar effects), **balance of confidence indicator in services\*\*** (in p.p., right axis) and **selected growth barriers\*\*** (in %, right axis)



\* Without branches trade, financial activities, insurance activities, science, research and public services.  
 \*\*Also includes the financial sector. Balance of confidence as well as the barriers to growth are seasonally adjusted and express the level in the first (growth barriers) or second month of the given quarter (balance of confidence). Businesses could have stated more main barriers simultaneously  
 Source: CZSO, Eurostat

Sales slumped the most in the subbranches tied to tourism for the two years.

Impact of restrictions at some leisure time activities or cyclical

It is evident, that the situation in the subbranches of services with a strong link to tourism remained very serious even despite the current revival. In travel agencies, air transport as well as accommodation<sup>38</sup> sales slumped similarly by roughly 70%, in food service and restaurants by 34.3%. Other services<sup>39</sup> (e.g. hairdressing and other beauty treatments) earned one half less for the two years. Self-employed persons prevail among workers in this area. They also have strong representation in other professional, scientific and technical activities (including e.g. photographic, specialised design or translation activities), where

<sup>38</sup> The number of overnight stays of domestic guests in mass accommodation facilities dived by 47% in the CR in the above given two year period, for non-resident tourists even by 92%.  
<sup>39</sup> Data for this services section are not seasonally adjusted.





<p>decrease of demand at other specialised office support activities also manifested.</p>	<p>sales dropped by nearly one quarter. The economic recession together with the outflow of part of foreign workers left its mark on the sales of job agencies (−18.3%) and also impacted the weight significant branch of land transportation (−9.0%). Majority of specialised office support activities, e.g. activities of head offices, management consultancy activities (−7.4%), advertising and market research (−6.5%) also reacted to the business cycle fluctuations. So called motion picture and music industry (−13.3%)<sup>40</sup> was strongly hit among the leisure time activities.</p>
<p>Entrepreneur confidence in services was rising during Q2, however did not catch up the pre-pandemic level yet.</p>	<p>Total entrepreneur confidence in selected services was improving during summer, which culminated in June and July (however it did not reach the high levels from the turn of years 2019 and 2020). August brought, similarly to traders, a moderate downward correction, which was mainly connected to the downgrade of evaluation of the current economic situation as well as total demand. Outlooks to growth of business activity at the beginning of this year's Autumn worsened. More than one quarter of businesses still contemplated the reduction of the number of employees. State in subbranches of services from the view of total confidence, demand as well as employment was very varied. Difficulties persisted in activities interwoven with tourism and also in those tied to industry in the last months. Inadequate demand limited nearly one third of businesses in services.</p>
<p>Situation in services subbranches was very diverse.</p>	<p>Retail sales were affected by the closure of portion of businesses throughout the whole Q2 this year, which affected mainly the specialised shops with non-food goods. In March, when the coronavirus pandemic was culminating in the CR, further government restrictions in the area of population mobility were put in place, which strongly stifled the demand for fuels. Gradual easing of restrictions caused the retail operating practically without restrictions in the second half of May. Spring mode of loosening was from the time point of view to a considerable extent similar to year 2020<sup>41</sup>.</p>
<p>Development of retail sales was determined not only by the mode of easing during the pandemic decline, but also the more general macroeconomic factors.</p>	<p>Retail sales<sup>42</sup> rose by 7.8% quarter-on-quarter in Q2 and thus offset the decrease from the previous two quarters. Especially the sales for non-food goods, where the effect of the delayed consumption also manifested, went strongly up. Retail strengthened by 7.1% year-on-year, partially also due to the weaker last year's sales<sup>43</sup>. Mainly the sale of non-food goods prospered (+11%), being assisted by still developing sale via internet (+12.3%, +56.7% for the two years) as well as higher sales in specialised shops – mainly with wearing apparel, footwear and leather goods (+29.2%) and computer and communication appliances (+20.1%). Sales of food grew much more moderately, both in the usually large non-specialised shops (+1.0%), and specialised (+3.3%) – where the sale was last year in addition also strongly subdued. It was also valid regarding the sale of fuels, where this year's growth (9.6%) was far from compensating the slump from last year's Spring. In the motorist segment of trade the situation was similar as well, with sales growing by 36.7% year-on-year this year in Q2, in total for the two-year period were still however by 4.0% lower.</p>
<p>Year-on-year growth of retail sales was driven especially by higher selling of non-food goods and fuels in Q2.</p>	<p>Retail sales<sup>42</sup> rose by 7.8% quarter-on-quarter in Q2 and thus offset the decrease from the previous two quarters. Especially the sales for non-food goods, where the effect of the delayed consumption also manifested, went strongly up. Retail strengthened by 7.1% year-on-year, partially also due to the weaker last year's sales<sup>43</sup>. Mainly the sale of non-food goods prospered (+11%), being assisted by still developing sale via internet (+12.3%, +56.7% for the two years) as well as higher sales in specialised shops – mainly with wearing apparel, footwear and leather goods (+29.2%) and computer and communication appliances (+20.1%). Sales of food grew much more moderately, both in the usually large non-specialised shops (+1.0%), and specialised (+3.3%) – where the sale was last year in addition also strongly subdued. It was also valid regarding the sale of fuels, where this year's growth (9.6%) was far from compensating the slump from last year's Spring. In the motorist segment of trade the situation was similar as well, with sales growing by 36.7% year-on-year this year in Q2, in total for the two-year period were still however by 4.0% lower.</p>

<sup>40</sup> In this year's H1, only 464 thousand visitors arrived into the domestic cinemas (with the exception of June, the operations of cinemas were practically paralyzed), 3.8 mil the year before (cinemas were closed between the 13th March and 10th May), and in the first half of the record visitor turnout year 2019 even 8.8 mil persons.

<sup>41</sup> Next to the effect of loosening, the robust growth of the volume of paid out wages in the economy and related higher purchasing power of households (also supported by lower taxes on earnings) also affected the buying appetite of people. Consumer confidence was the highest in June for the last one year and half. Growing concerns of people regarding the increasing prices, which were also anchored in the real development of the economy, however could have worked against the faster realisation of the delayed consumption.

<sup>42</sup> All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects (including the number of working days). Retail includes branches CZ-NACE 47.

<sup>43</sup> Compared to the „unbiased“ Q2 2019, the sales were precisely by 4% higher this year. Retail thus to a considerable extent followed in the paces from the era of the ending boom period (+5.0% for the whole year 2018, +4.8% 2019) this year in Q2.

## 4. External Relations

Export jumped up significantly in H1, which was mainly the result of comparison with the crisis period of last year's Spring.

The value of exported goods attained 1 995.2 CZK bn in H1 2021, which was by 390.1 CZK bn (24.3%) more year-on-year. The robust year-on-year increase was to a large extent caused by the comparison of last year's Spring months, when the operations of large part of domestic and foreign industry halted, which was also accompanied by the downturn of foreign trade. Also for this reason the majority of the recorded increase occurred in Q2 of the year, which was hit the most by the reaction to the pandemics last year. Value of export thus arrived at 1 016.2 CZK bn in Q2 2021 and its year-on-year increase climbed up to 293.0 bn (40.5%).

The renewal of industrial activity suspended last year provided impulse especially to the export into the EU.

Robust increase of export for major part consisted of export into the European Union (+328.3 CZK bn, 25.7%) in H1. The increase of export outside the EU was relatively smaller, but still substantial (+61.9 CZK bn, 19.0%). Export to Germany (+113.7 CZK bn, 22.5%), Poland (+36.9 bn, 35.9%), Slovakia (+29.6 bn, 20.0%) and France (+26.3 bn, 35.4%) grew the most year-on-year. With a view to the character of the last year downturn however the export grew robustly into nearly all monitored destinations apart from the Korean republic, where the last year's large increase was not repeated. Q2 itself contributed to the increase of the whole half-year to a large extent, thus the quarterly results very much resemble the half-yearly results. Export into the EU thus increased by 241.1 CZK bn (41.9%) year-on-year in Q2 and by 51.7 bn (35.0%) outside the EU. Export to Germany (+84.9 CZK bn, 37.3%), Poland (+25.2 bn, 55.6%), Slovakia (+23.8 bn, 34.4%) and France (+21.2 bn, 70.0%) recorded the largest additions.

Export of motor vehicles the most contributed to the growth.

With respect to the branch structure, motor vehicles (+152.0 CZK bn, 39.1%) contributed to the year-on-year increase of export the most in H1 2021, while the majority of this increase pertained to Q2 (+117.9 bn, 79.0%). The comparison with the last year's deep slump also influenced the results of other important export articles for H1 – export of electrical equipment (+40.4 CZK bn, 29.4%), machinery and equipment (+32.6 bn, 17.9%), rubber and plastic products (+20.5 bn, 24.0%) and fabricated metal products (+19.5 bn, 18.7%) considerably hiked up. The value of export of chemical products and substances often fluctuates together with prices of oil, so a large part of this year's increase can also be linked to it (+24.6 CZK bn, 31.2%). Export of computers, electronic and optical appliances also expanded notably (+21.4 CZK bn, 12.3%), even though this segment was not hit by the pandemics so strongly like other articles last year. The export markedly accelerated for the majority of mentioned types of goods (except for computers, electronic and optical appliances) also in Q2.

Import also strongly grew year-on-year.

The value of import rose strongly similarly to export. It arrived at 1 910.4 CZK bn in H1 and increased by 350.8 bn (22.5%) year-on-year. The dynamics of import considerably lagged behind the export in Q2 2020. The paces however started to gradually balance out this year. The value of import was 997.2 CZK bn in Q2, which represents a year-on-year increase by 283.3 bn (39.7%). Import from the EU went up by 241.3 CZK bn (24.3%) in H1 year-on-year, while by 106.8 bn (19.1%) from countries outside of the EU. Import from Germany (+86.4 CZK bn, 22.5%) and Poland (+36.7 bn, 27.5%) grew the most. Raised prices of oil and natural gas as well as the heightened demand for oil led to a sharp increase of import from Russia (+22.7 CZK bn, 73.1%). Similarly to export, the development of import in Q2 had a large impact on the whole half-year. The import from the EU thus increased by 202.6 CZK bn (46.0%), while the import from countries outside the EU grew by 78.8 bn (29.3%).

Raised prices of oil and other commodities strongly influenced the value of import.

Apart from the renewal after the pandemic downturn, raised prices of some commodities also had an effect on the value of import in H1. It is apparent especially for the increase of import of basic metals (+42.5 CZK bn, 37.9%), which substantially exceeded the pandemic slump as well as oil and natural gas (+17.2 CZK bn, 48.6%). Together with prices of oil the import of chemical substances and products also jumped up (+39.9 CZK bn, 30.8%). The



main proportion of increase occurred for all of them in Q2. Otherwise import of (+81.9 CZK bn, 38.8%), electrical equipment (+46.3 bn, 36.1%) and machinery and equipment (+26.6 bn, 17.3%) had the largest year-on-year increase in H1.

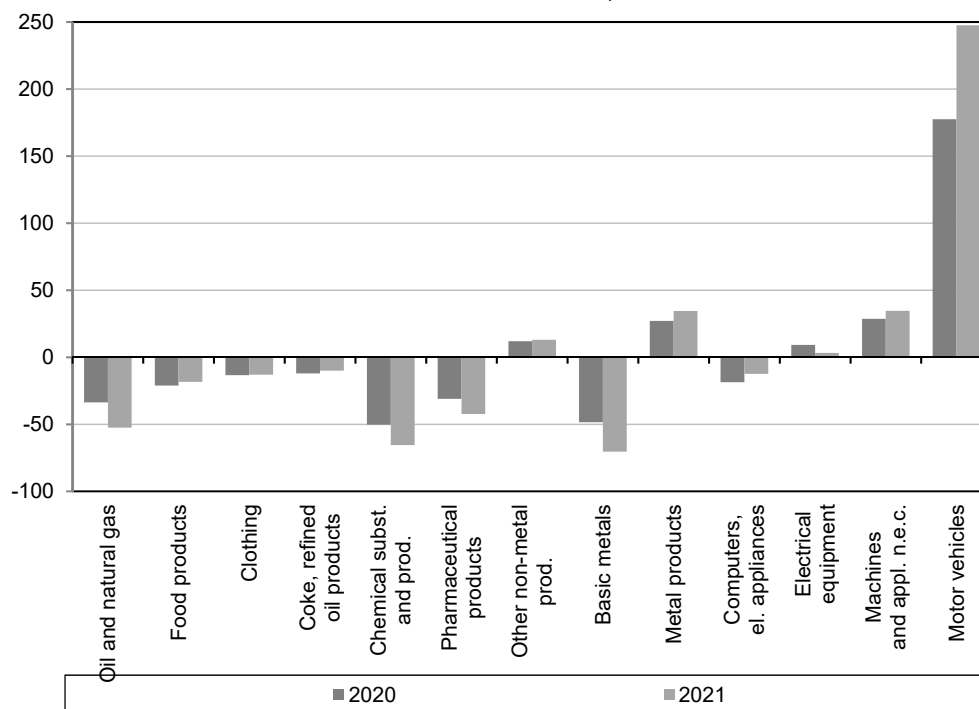
Foreign trade balance markedly improved year-on-year in H1, however the Q2 surplus alone was relatively weak.

Balance of foreign trade with goods reached a surplus of 84.8 CZK bn for the whole H1, which is by 36.4 bn better result year-on-year. Large part of this improvement however occurred in Q1. The surplus arrived at 19.0 CZK bn in Q2. It is by 9.7 bn larger surplus compared to last year's Q2, however except for this quarter, it represents the worse Q2 result since year 2012<sup>44</sup>. The relatively weak result was affected mainly by the development in June, when the balance plunged into the deficit, out of character for this month. May result was however also weaker than usual. The surplus of trade with the EU countries grew massively for the whole H1 (+87.0 CZK bn). In contrast, the usual deficit with countries outside the EU notably deepened under the influence of raised prices of some commodities (-44.9 CZK bn). In H1, the trade with Germany (+27.3 CZK bn) and France (+15.8 bn) worked the most in the direction of the balance improvement. On the contrary, the deficit of trade with China (-20.5 CZK bn) and Russia (-17.2 bn) further deepened. The surplus with the EU countries improved by 38.5 CZK bn in Q2 itself, on the contrary the deficit with the non-Union countries deepened by 27.1 CZK bn. The balance of trade improved the most with France (+11.5 CZK bn), Germany (+9.2 bn) and Slovakia (+7.9 bn). Balance of trade worsened especially with Russia (-13.7 CZK bn), Japan (-8.3 bn) and Poland (-5.6 bn).

Sale of motor vehicles contributed the most to the balance improvement.

Sale of motor vehicles worked the most in the direction of balance improvement (+70.1 CZK bn), further then fabricated metal products (+7.5 bn) and computers, electronic and optical appliances (+6.2 bn). On the contrary, the trade with basic metals (-22.0 CZK bn), oil and natural gas (-18.9 bn), chemical substances and products (-15.3 bn) and basic pharmaceutical products (-11.4 bn) recorded a large balance worsening. The balance composition was similar in Q2 – sale of motor vehicles (+51.8 CZK bn) had the largest share on its improvement. Worsening on the other hand concerned oil and natural gas (-19.3 CZK bn), basic metals (-18.8 bn) and chemical substances and products (-13.1 bn).

**Chart 8 Balance of foreign trade in foreign trade statistics** (cumulation of H1, in CZK bn, selected divisions of the CPA classification)



Source: CZSO

<sup>44</sup> Surplus in Q2 was in the latest years either the largest or second largest for the whole year.

## 5. Prices

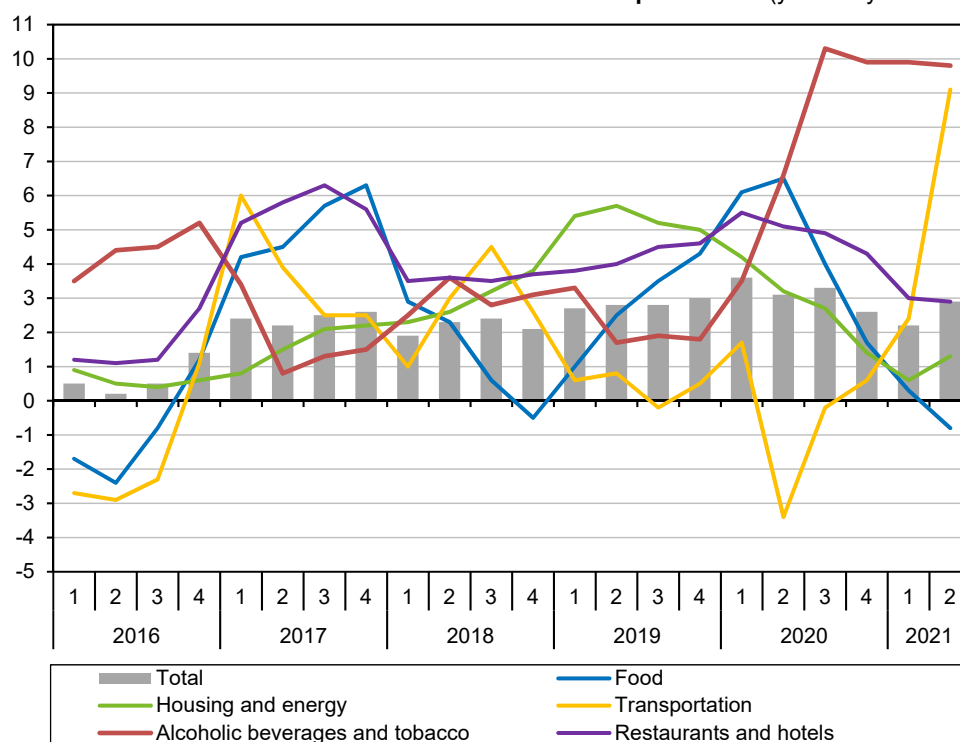
Growth of the price level accelerated.

Total year-on-year increase of the price level in the economy reached 4.3% according to the GDP deflator in Q2. It represents an acceleration compared to Q1. Quarter-on-quarter increase of the price level went up to 1.5%. Year-on-year rate of growth of prices of consumer goods markedly gained pace (3.9%), both of those consumed by households (2.1%), but mainly in case of government institutions (7.4%). Prices of capital goods were raised by 3.5% year-on-year. Terms of trade weakened to 100.7%. Weakening related to the terms of trade with goods (100.9%), but also with services (99.0%).

The year-on-year growth of consumer prices notably gained pace in Q2.

Year-on-year increase of consumer prices attained 2.9% in Q2 2021. Following a weaker year-on-year pace from Q1, a significant strengthening manifested in the course of Q2. Mainly the acceleration of the year-on-year growth of prices of transportation participated on this result (under the influence of prices of fuels), which also moved to a position on the consumption basket, which affected the total year-on-year increase of prices the most. Prices of alcoholic beverages and tobacco represented the second largest increase. The influence of increase in prices of housing and energies also strengthened. For the whole H1, the consumer prices rose by 2.5% year-on-year. Compared to Q1 2021, the consumer prices grew by 1.0%, which was also the result of strengthened price growth of transportation. Increase of prices of housing and alcoholic beverages and tobacco were also instrument in the quarter-on-quarter growth.

**Chart 9 Prices in the selected divisions of the consumer price index (year-on-year in %)**



Source: CZSO

Mainly the prices of fuels shared the most in the strengthened dynamics.

Prices of transportation were raised by 9.1% year-on-year in Q2. It is substantially more than in the previous quarter (2.4%) and it represents the record increase in the whole time series since year 2005. Operation of private motor vehicles, especially the fuels were the main driver of the growth of prices of transportation. Because the prices of oil in comparison to the record low level of the same period of the last year considerably



increased<sup>45</sup>. The cost of operating a transport vehicle climbed up by 13.9% year-on-year. The dynamics fluctuations of oil prices are relatively common, this time however their growth also coincided with more than one year lasting strong year-on-year growth of prices of motor vehicle, motorcycle and bicycle purchases (7.1% in Q2). Increase of prices of transportation services also gained pace up to 1.5% in Q2.

Prices of tobacco products kept strongly growing.

Prices of alcoholic beverages and tobacco also strongly grew year-on-year in Q2 (9.8%). Increases moved above the 9% level since the last year's June until this year's May. The prices of tobacco were raised by 14.8% year-on-year in Q2, while the prices of tobacco beverages by 3.2%. Strengthening of the year-on-year increase of prices of housing and energies to 1.3% also left its mark on the total growth of prices. With the exception of prices of electricity and heating, gas and other fuels (decrease by 2.8%), the growth of prices accelerated in the whole division. Residential rents went up by 1.8% year-on-year, the imputed rent even by 3.6%. Regular maintenance and repairs put prices up by 3.4% and other services associated with housing by 4.0%.

Prices of majority of consumer basket divisions were growing.

Food service and accommodation further contributed to a large extent to the growth of consumer prices (year-on-year increase of 2.9%). In that prices of food services were raised by 3.4%. Prices of accommodation services were by 0.7% lower year-on-year, however the year-on-year slump gradually weakened during Q2, as the restrictions limiting this branch were loosened. The majority of other consumer basket divisions shew year-on-year increase. Year-on-year increase for other goods and services (2.8%) was mainly affected by the prices of financial services. Prices of recreation and culture went up by 2.0% and the increase strengthened especially for other items for recreation and leisure time including gardening and household pets (4.2%). Prices of wearing apparel and footwear grew by 2.9%, household equipment and goods by 2.1%, health by 3.5% and education by 2.8%.

Prices of good and non-alcoholic beverages were falling year-on-year.

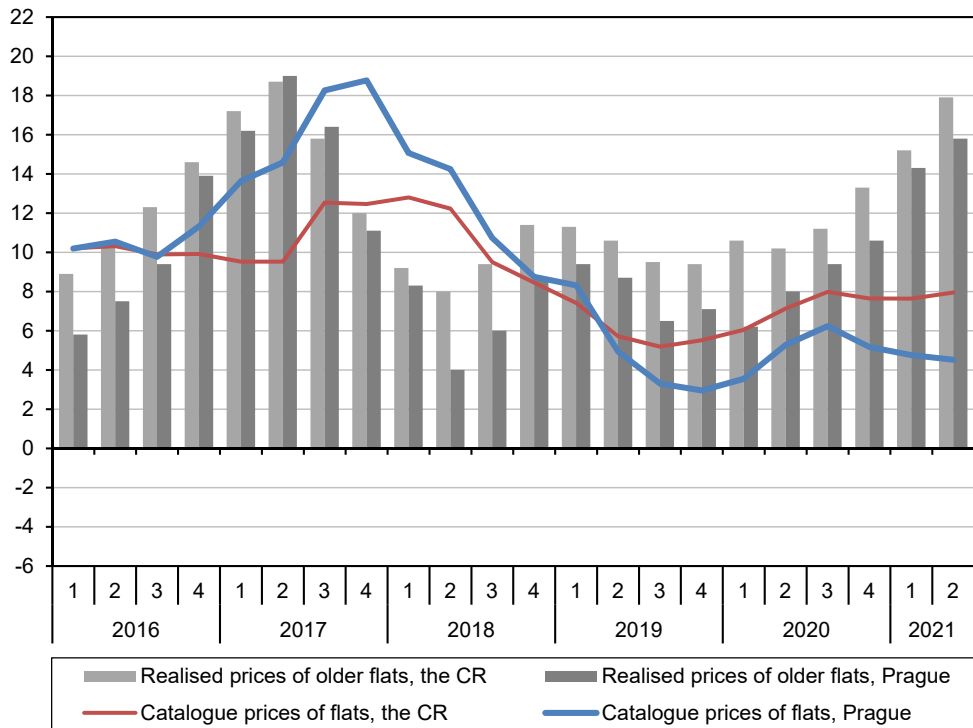
Only food and non-alcoholic beverages worked to larger extent in the direction of year-on-year decrease of consumer prices. Their prices fell by 0.8% year-on-year. Especially the decline of prices of meat by 2.6% and further fruit (-4.2%) as well as vegetables (-5.8%) had an effect. Strong growth for oils and fats (11.6%) on the contrary contributed to the growth of prices of food. Prices of baking products and cereals grew only moderately (0.7%). Prices of postal and telecommunication services also decreased (-0.3%).

Growth of prices of flats further accelerated.

Pressures in the direction of price increases further gained strength on the market with real estate. Catalogue prices of flats rose 8.0% year-on-year in Q2, which is slightly more than in the preceding quarter. At the same time the dynamics of catalogue prices of flats outside Prague was gaining pace (12.4%), while prices grew much slower (4.5%) in Prague. With respect to the realised prices of older flats, further acceleration manifested here, bringing the year-on-year increases to the level of previous peak from year 2017. Realised prices of older flats were by 17.9% higher in the CZ year-on-year in Q2. In that the increase reached 15.8% in Prague, while it was 18.5% outside of Prague. Realised prices of new flats grew by 11.9% in Prague year-on-year. Significant excess of dynamics of the realised prices over the supply prices indicates a very small bargaining power of buyers in the environment of strong excess of demand over supply, which already lasts in some areas several years.

<sup>45</sup> As a consequence of the slump of demand as well as breakdown of cartel agreements, the average price of the barrel of oil BRENT fell according to the U.S. Energy Information Administration to 18.38 dollar in April and 29.38 dollar in May. The prices were thus even more than doubled this year (64.81, 68.53 and 73.16 dollar in April, May and June).

**Chart 10 Prices of real estate (year-on-year change, in %)**



Source: CZSO

Year-on-year growth of consumer prices strengthened in the EU.

Year-on-year growth of consumer prices also gradually accelerates in the European Union. The index increased by 2.2% year-on-year in Q2 (it was 1.4% in Q1). The faster pace is mainly influenced by the year-on-year increase of prices of transportation, a shift upwards however is also apparent for the dynamics of prices of housing and energies in the EU. The growth of prices of food on the contrary reduced. The consumer prices were raised the most in Hungary (5.3%), Poland (4.6%) and Luxembourg (3.6%) in Q2. Prices however also grew at significantly above average pace in Lithuania and Estonia, Romania and the CR. Greece (-0.6%) and Portugal (-0.1%) were the only two economies, where a year-on-year decrease occurred in Q2. Consumer prices stagnated in Malta (0.1%).

The industrial producer prices jumped up the most year-on-year since year 2011.

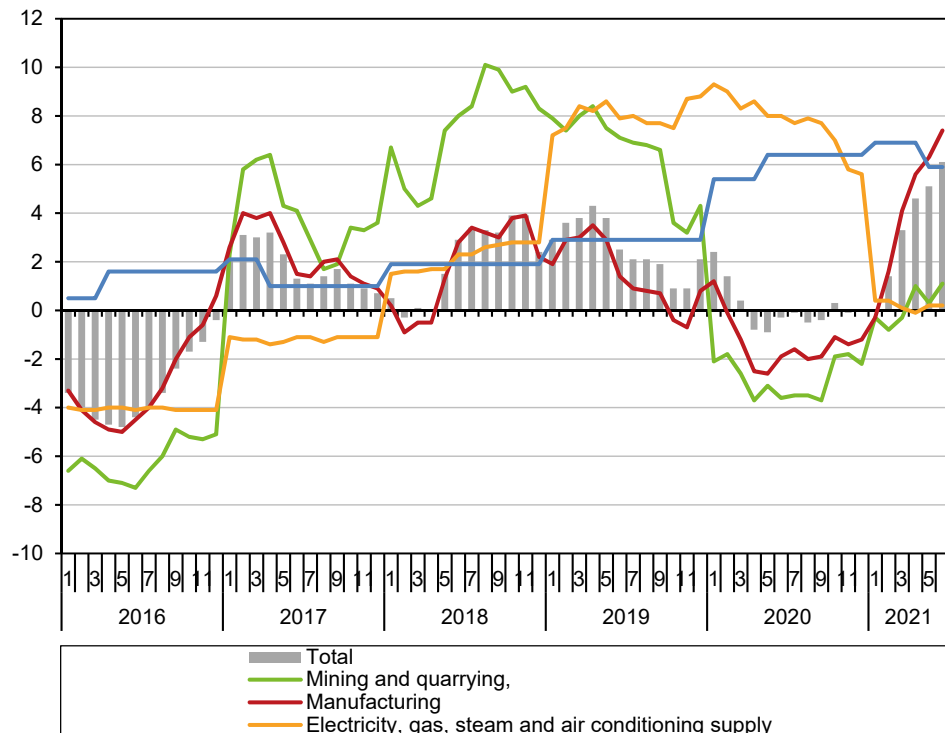
Notable acceleration also concerned the year-on-year increase of prices of industrial producers. It attained 5.3% in Q2 (1.5% in Q1), which is the most since Q3 2011. Prices thus increased by 3.4% year-on-year for the whole H1. Also in case of industrial producers, the impact of sharp year-on-year hike of prices of oil can be mentioned. It was evident for the prices of mining and quarrying, which went up by 0.8% year-on-year following more than one year lasting series of decreases. The dynamics of prices of products and services of manufacturing accelerated to 6.5% and the prices of coke and refined oil products<sup>46</sup> contributed the most. Prices of chemical substances and products (38.4%) displayed an extraordinary increase and also the prices of basic metals and fabricated metal products (10.7%). Wood, paper and print (5.4%) and rubber and plastic products (2.7%) also significantly contributed to the year-on-year growth of prices industrial producers. The addition to prices of electrical appliances (4.1%), textile, wearing apparel and leather (3.1%) and furniture and other products of manufacturing (2.9%) was also significant. Prices of transport equipment and computers, electronic and optical appliances (similarly by 2.6%) and then food products, beverages and tobacco (-0.6%) fell year-on-year. Prices of electricity, gas,

<sup>46</sup> Individual data



steam and air conditioning stagnated year-on-year (0.1%). On the contrary, the increase stayed strong for water supply and wastewater management services (6.2%).

**Chart 11 Prices of main groups of industrial producers** (year-on-year change, in %, based on CPA classification)



Source: CZSO

Industrial producer prices grew by extraordinary pace in the EU year-on-year.

Industrial producer prices rose by 9.2% in the EU year-on-year in Q2. It represents a massive acceleration compared to Q1 (2.2%). Growing prices of oil strongly affected the heightened year-on-year increase of prices of mining and quarrying (22.5%) as well as prices in manufacturing (7.0%). The year-on-year dynamics of prices of electricity, gas, steam and air conditioning also accelerated year-on-year (18.4%). Industrial producer prices grew in the whole Union year-on-year and total 10 countries of the EU recorded more than 10% increase. Prices of producers grew the most in Ireland (40.5%), Belgium (17.9%) and Denmark (16.6%) year-on-year. The increase was more moderate in case of Malta (1.1%), Slovakia (2.6%) and Slovenia (4.2%). Even the CR despite considerable increase belonged to countries with dynamics below the EU average.

Year-on-year pace of prices of market services further slowed down.

General economic deceleration affected the price index of market services, whose dynamics again moderated. Prices of market services increased by 1.0% year-on-year in Q2, which is the least since Q1 2017. The prices of services in the area of programming and related consultancy, which grew by 3.1% year-on-year contributed to the year-on-year growth despite slow down the most. Prices of land and pipe transportation (1.4%), real estate services (1.5%) and services of job agencies (6.1%, marked acceleration compared to previous three quarters) also showed more notable addition. Contribution of other branches was only minor – warehousing and support services for transportation (1.0%), postal and courier services (2.0%), legal and accounting services (2.0%), activities of head offices, management consultancy activities (2.4%) and security and investigation services (3.5%). Information services (-4.8%), architectural and engineering activities and technical testing and analysis (-1.2%) and

advertising and market research (−1.8%) worked more significantly in the direction of decrease of prices.

Prices of agricultural production increased.

Prices of agricultural production rose by 3.8% year-on-year. It constitutes the first increase since Q3 2019. The increase of plant production grew markedly (8.9%). The increase of prices of cereals by 12.0% contributed, where the prices of both wheat (16.2%) and corn (22.2%) went up notably. Strengthened dynamics was also observed for industrial crop (10.8%), in that prices of oil plants were raised by 11.0% (mainly the oilseed rape). Prices of forage plants increased by 2.1%. In contrast the prices of vegetables and garden products dropped by 4.4%, potatoes by 15.5% and fruit by 5.2%. Prices of animal production were further falling, but their year-on-year plunge moderated to 1.6% in Q2. Mainly due to the prices of pigs the deep plunge for farm animals reduced (−7.3%). Prices of animal products grew by 3.1%, in that prices of milk by 2.9% and eggs by 4.6%.

Growth of export prices weakened.

Export prices grew by 1.8% year-on-year in Q2 2021. The marked deceleration of rate of growth compared to Q1 can be ascribed especially to the large year-on-year appreciation of the koruna foreign exchange<sup>47</sup>, which has strong anti-inflationary effect currently. Prices of export of mineral fuels and lubricants (47.2%) and other materials<sup>48</sup> (37.6%) grew the most year-on-year in Q2. Increase for chemicals and related products was also strong (9.5%). The year-on-year increase of prices of semi-finished products<sup>49</sup> (2.7%) and food and live animals (1.0%) on the contrary weakened. Year-on-year dynamics of export prices of beverages and tobacco (−6.2%) and miscellaneous manufactured articles (−4.1%) plunged deeply. Prices of machinery and transport equipment also decreased year-on-year (−1.5%), even though they sharply grew in the previous four quarters and absorbed the most the koruna appreciation.

Terms of trade were negative for the first time after more than two years.

Import prices were by 2.3% higher year-on-year in Q2. Prices of mineral fuels (71.8%) and other materials (21.6%) increased the most. Prices of chemicals and related products (6.0%) grew as well and prices of imported semi-finished products increased (4.3%). The decrease of prices of machinery and transport equipment (−5.4%) and miscellaneous manufactured articles (−4.8%) significantly deepened. Prices of food and live animals (−3.6%) and beverages and tobacco (−1.7%) went also down. The terms of trade were negative in Q2 (99.5%), for the first time since Q4 2018. Terms of trade with mineral fuels (85.7%), beverages and tobacco (95.4%) and semi-finished products (98.5%) were negative. On the contrary, terms of trade with other materials (113.2%), food and live animals (104.8%), machinery and transport equipment (104.1%), chemicals (103.3%) and miscellaneous manufactured articles (100.7%) attained positive terms of trade in Q2.

<sup>47</sup> In Q2 2020, the average koruna foreign exchange per euro reached 27.054 CZK/EUR. This year it was 25.638 CZK/EUR. Appreciation of the exchange rate per dollar was even more significant. The average was 24.569 CZK/USD last year in Q2, 21.265 CZK/EUR this year.

<sup>48</sup> SITC 2 – crude materials inedible, except fuels.

<sup>49</sup> SITC 6 – manufactured goods classified chiefly by material.





## 6. Labour Market

The number of employees increased the most in Q2 year-on-year since the end of year 2018. Losses of working entrepreneurs however continued.

Progressive loosening of strict counter pandemic measures accompanied by larger reduction of state support programmes (Antivirus, care benefits) at the turn of this year's Spring and Summer period brought the anticipated recovery to the domestic labour market. Total employment<sup>50</sup> went up in Q2 year-on-year (by 0.3%, for the first time in the last seven quarters) and strengthened by significant 0.7%<sup>51</sup> compared to the previous quarter. This positive development was however solely the result of the number of employees, whose levels expanded by 52 thousand year-on-year, the most since the end of year 2018. The number of entrepreneurs on the contrary dropped by nearly 5% (or 36 thousand, respectively) and their numbers also decreased compared to Q1 2021 (by 1.6%). Difficulties of entrepreneurs could have been associated with a more guarded realisation of the delayed consumption of the domestic households in some branches and could have been also amplified by the persisting restrictions in the arrival tourism. This was also mirrored in the number of hours worked<sup>52</sup>.

Higher employment was driven especially by the public services and information and communication year-on-year. Strong demand for workers manifested also in construction.

Economic revival was favourably reflected also in the number of workers in the vast majority of main branches in the second this year's quarter. Professional, scientific, technical and administrative activities (+12 thousand) and industry (+11 thousand) the most contributed to the quarter-on-quarter growth of employment. In both cases it represents a branch, whose relative employment declines were deeper in comparison to the whole economy last year. The branch public administration, education, health and social work (+30 thousand) helped the most the year-on-year growth of total employment in Q2 (similarly as throughout the whole pandemic period). However information and communication prospering in the long-term grew relatively the strongest (5.2%) and as one of few branches also recorded increased number of entrepreneurs. Construction, where the moderate last year's employment growth continued (+2.0%) also fared well. Long-term high demand for labour force was here to considerable extent saturated by recruitment from abroad. Number of foreigners working in the CR in the employment position despite still administratively demanding visa procedure grew in the last months. It attained record 682 thousand this year and it was by 13% higher year-on-year, for the overwhelming part due to the employees from Ukraine<sup>53</sup>.

Despite partial improvement, the group of activities trade, transportation, accommodation and food service still contributed the most to the decline of total employment.

In spite of partial improvement the group trade, transportation, accommodation and food service struggled with marked decreases of workers (–27 thousand)<sup>54</sup> year-on-year in Q2 as well. The decrease occurred for both entrepreneurs (–11.6%) and employees (–0.7%). Industry was also still slightly losing workers (–0.5% and –8 thousand), strictly due to the decline of entrepreneurs. The situation differed in the individual industry divisions – manufacturers of motor vehicles (including tied fields of activity), energetics or metalworking fared better, e.g. machinery or structurally hit mining industry fared worse. Agriculture, forestry and fishing keeps stable employment in the latest years.

<sup>50</sup> Unless stated otherwise, data regarding employment are given in the national accounts' conception after adjustment for seasonal effects in this chapter.

<sup>51</sup> Compared to the so far record level of employment from Q2 2019 (5.45 mil person) it was still by nearly 2% less. Among the main branches, manufacturing (5.2%) and group trade, transportation, accommodation and restaurants (6.2%) held the deepest two year decrease. On the contrary, the number of workers in information of communication enlarged by more than one tenth compared to the pre pandemic level.

<sup>52</sup> The average weekly number of hours worked in the main employment was similarly for both entrepreneurs and employees by 1% higher according to the data of the Labour Force Sample Survey this year in June, however compared to June 2019, entrepreneurs worked by 5% less, while for employees the time spent in the main employment remained practically unchanged.

<sup>53</sup> Number of registered workers from Ukraine thus increased from 133.1 thousand to 191.6 thousand, mainly thanks to higher number of persons with the work permit (+43.7 thousand) and holders of the employee cards (+10.7 thousand). However, Slovaks remain the most significant employee group of foreigners in the CR (204.5 thousand), despite the fact, that their number expanded by only slightly over 5 thousand compared to last year's June.

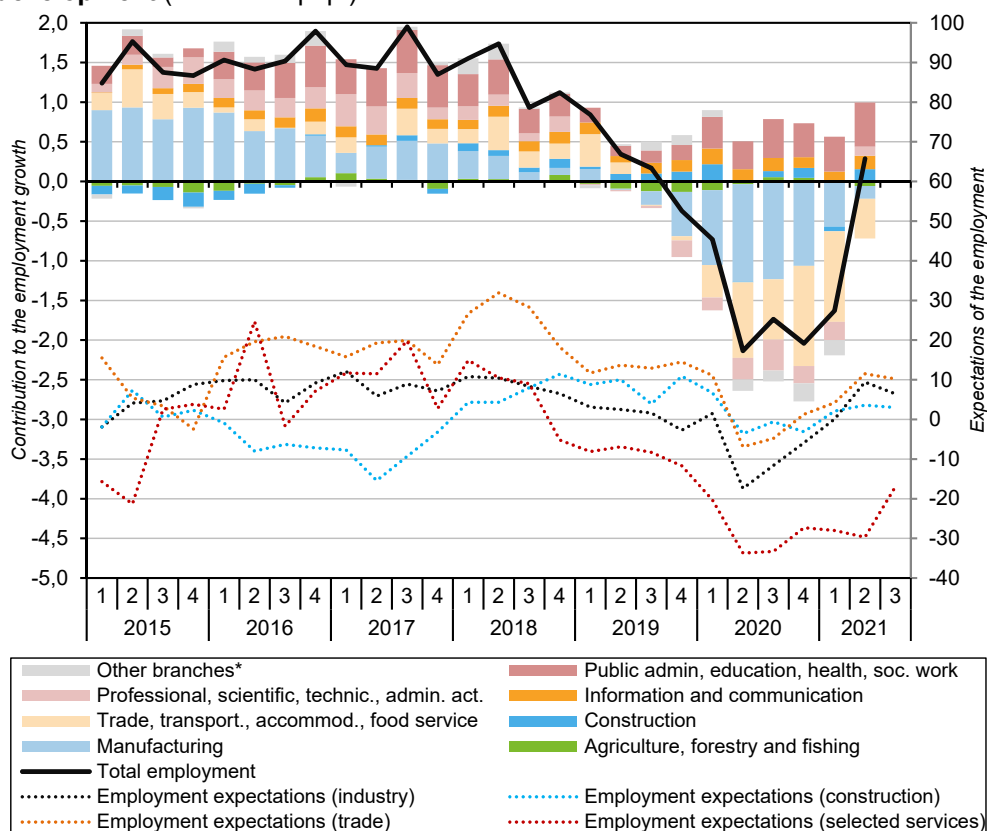
<sup>54</sup> Mainly activities tightly associated with tourism pull the whole group down. On the contrary, the number of employees in trade itself increased by 1.5% based on the data of the business statistics compared to Q2 2020.

Proportion of businesses expecting increase of their number of employees was growing during H1.

Difficulty with recruitment of labour force troubled mainly construction, it was increasing also in industry in the last months.

The short term employment expectations (seen by businesses) climbed the highest based on the business cycle surveys in June 2021 since the beginning of pandemics. They were positive in the majority of branches apart from some areas of services – e.g. air transportation, publishing activities as well as financial activities. Similarly around 15% of respondents in industry, construction or trade planned the increase of number of employees for the Q3 period. The shortage of employees limits especially the businesses in construction, where it remains the most significant barrier to growth for the last three years. Since the beginning of this year, industry also faces larger difficulties with the recruitment of workers<sup>55</sup>. In contrast the number of branches still struggled mainly with the weaker demand for services in the tertiary sector. Thus only companies in administrative and support service activities, land transportation or courier activities experienced difficulties with the shortage of employees to a large extent – always with lower intensity than before the commencement of pandemics.

**Chart 12 Total employment (year-on-year in %), contributions of branches to year-on-year change of employment (in p.p.) and expectations of employment development (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 (LFSS, business cycle surveys)

Unemployment decreased with simultaneous reduction of government

General unemployment rate<sup>56</sup> (aged 15 till 64 years of age) moderately increased at the beginning of the year and hit the nearly four year maximum (3.5%) this year in March. A positive turnaround occurred at economy reopening in Q2 and only 2.4% of economically active males and 3.5% females<sup>57</sup> were out of work in June. Considerable reduction of

<sup>55</sup> More than one quarter of industrial businesses mentioned the shortage of workers as one of the main limited factors at the beginning of July 2021. It was the most pressing in rubber industry, plastic industry, electrical engineering, machinery, manufacturing of transport equipment (excluding the motor vehicle industry), manufacturing of construction materials and also in some small activities with lower wage level (textile and leather working industry).

<sup>56</sup> Unless stated otherwise, all data regarding the unemployment rates are sourced from the LFSS and are adjusted for seasonal effects.

<sup>57</sup> It ranked the CR to the forefront of the EU states with the lowest unemployment. It was lower than in the CR only for females in Germany and the Netherlands (similarly 3.3%, in wider age group 15 to 74 years). The unemployment rate was 7.5% for females, 6.7% for males

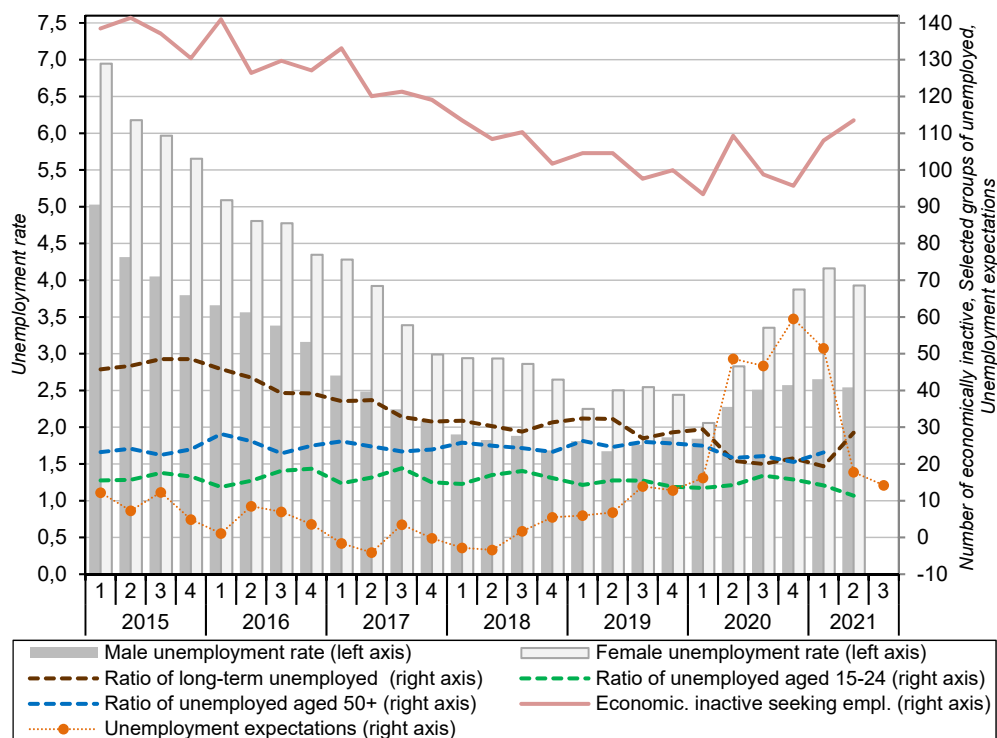


stabilisation programmes in Q2.

Number as well as proportion of long-term unemployed however increased.

government stabilisation programmes<sup>58</sup> thus was not negatively reflected in the unemployment area in this time period. The position of females (+1.6 p.p.) worsened more than position of males (+0.6 p.p.) compared to the level immediately before the pandemic (from February 2020). Position of females is complicated by the fact, that number of branches strongly hit by the demand slump during the pandemic recovers slowly and does not plan to recruit new workers for now. The supply of part time job positions also likely has not reached to level from year 2019 so far<sup>59</sup>. Unemployment rate among young up to 25 years of age nevertheless dropped to 7.0% (similarly for both males and females) and it was thus the lowest since last year's April. Number of long-term unemployed however went up year-on-year, their share in the total unemployment approached 30% in Q2, i.e. common values from the boom year 2019. Among regions, the unemployment troubled the most the Karlovy Vary region (5.6%), which was valid throughout the whole pandemic period.

**Chart 13 General unemployment rate (in %), ratio of long-term unemployed and persons up to 25 and above 50 years of age among unemployed (in %), economically inactive willing to work (in thousand)\* and unemployment expectations of households (in p. p.)\*\***



Note.: Figures regarding the unemployment rate are seasonally adjusted, other data are not.  
 \*Persons not in employment, not seeking work, but expressing the willingness to work.  
 \*\*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 relate to the middle month of the given quarter.  
 Source: CZSO (LFSS, business cycle surveys)

Concerns of people regarding the growth of unemployment declined to the level observed in the

Concerns of households regarding unemployment growth (in the nearest twelve months) sharply retreated during Q2 and returned to the low level from the second half of year 2019. This year's Summer period only confirmed this status. Rising number of job vacancies also proves the recovery on the labour market. The job offices in the CR offered 385 thousand

in the whole Union. During May and June in connection to the gradual loosening of the counter pandemic measures and general revival of economic activity, the unemployment decreased in the majority of the Union states month-on-month.

<sup>58</sup> E.g. the programme Antivirus was practically ended towards the end of May 2021. The programme was finishing in a limited regime in June, when the contribution to employers on the compensation of the wage costs was provided only for the reasons of mandatory employee quarantine or isolation. Also the drawing of care benefits (on the childcare for the reason of extraordinary closure of schools) had a declining tendency during Q2.

<sup>59</sup> While in Q1 2019, 12.3% of females aged 15 and more worked on part time contracts, only 10.8% two years later. Among females in the age group 15 to 29 years, the decrease was even more pronounced in this time period (from 15.0 to 11.0%).

<p>period before the pandemics in Q2.</p> <p>Larger excess of job applicants over job vacancies was reported usually only by regions affected by the winding down of coal mining.</p>	<p>vacancies at the end of July 2021, by 24 thousand more year-on-year (or by 12 thousand<sup>60</sup> more compared to the same month of year 2019). Even though the number of job positions vacant in the long term stays high, their share on the total supply of jobs was the lowest in the last eleven quarters<sup>61</sup>. The proportion of vacancies with minimum qualification demands kept further rising, primary education was thus adequate to applicants already for 74% of offered job vacancies<sup>62</sup>. It was connected with the fast post crisis revival in industry<sup>63</sup>. Compared to the last year's July, the offer for applicants with school leaving certificate and higher education (+2.5 thousand positions) also however slightly expanded. The excess of offered vacancies over the number of registered job applicants prevailed in the majority of regions. On the contrary, the position of unemployed was worsened mainly in the Moravian-Silesian and Ustecky regions, especially in areas with coal mining winding down<sup>64</sup>.</p>
<p>Strong last year's growth of the number of economically inactive halted this year.</p>	<p>Growth of the number of economically inactive persons halted after the strong last year's surge<sup>65</sup>. Their number stagnated year-on-year in both Q1 and Q2. Larger offer of more flexible forms of job contracts would assist the return to the precrisis level aimed especially on the potential workers in both outer age spectra of the productive age. Number of all inactive not seeking employment, but willing to work arrived at 114 thousand persons<sup>66</sup> in Q2 and it moderately increased for the second time in a row year-on-year.</p>
<p>Year-on-year growth of the average wage due to extraordinary factors accelerated in Q2.</p>	<p>Wage growth was variable in the economy during the pandemic period, mainly due to the differing number of hours worked. While in Q1 2021, the average wage increased in nominal terms by 3.3% in comparison to still standard last year's basis, its pace fastened to 11.3% in Q2. The gross monthly average wage thus reached 38 275 CZK. Even when taking into consideration the brisk growth of the consumer prices the wage hiked up in real terms by record 8.2%. Registered number of employees increased at the same time (by 0.7%, i.e. 29 thousand), for the first time since the beginning of year 2019. Largely uneven impact of the pandemic crisis, varying speed of subsequent economic revival, as well as the form of remuneration in the budgetary sphere resulted in that the wage differential between branches and likely also inside many of them widened.</p>
<p>Quarter-on-quarter growth of the average wage slightly increased.</p>	<p>The average wage adjusted for seasonal effects increased by 1.2% against Q1 2021, i.e. slightly more than in the preceding two quarters (0.9%, 1.1%). The effect of receding pandemics and return of majority of shops as well as other services to regular regime partially manifested. Number of hours worked for employees however still lagged behind the precrisis level (from Q2 2019) by 3.5%<sup>67</sup> in Q2. It was especially apparent in the branch closely tied to tourism – in trade, transportation, food service and accommodation (10%), further in the so called other services (e.g. hairdressing, repairs of products for households (18%) and to a lesser extent in financial services or manufacturing.</p>
<p>Pace of wages was influenced by a mix of opposing factors.</p>	<p>The tension on the labour market associated with low unemployment and high number of long-term job vacancies had a pro-growth effect on the size of wages. Shortage of employees thus limited production in the number of significant branches. Lowering of</p>

<sup>60</sup> The addition was driven especially by Prague (+22 thousand) and the Central Bohemia (+9 thousand), on the contrary Plzensky and Pardubicky regions were losing the positions the most (both similarly by 6 thousand) for the last two years and also the majority of Moravian regions to a lesser extent.

<sup>61</sup> 43% of all offered job positions in the CR were vacant for more than six months (the most in the Central Bohemia and Kralovehradecky region, the least in Prague) at the end of Q2 2021. It was even nearly one half of vacancies at the turn of years 2019 and 2020.

<sup>62</sup> Only Moravskoslezsky and Olomoucky region (similarly 54%) and also Karlovarsky region (63%) reported notably lower representation of these positions.

<sup>63</sup> The job offer increased the most in the category of servicing machinery and equipment, assemblers (+14.5 thousand, to 115.2 thousand) year-on-year, compared to July 2019 then for craftsmen and repairmen (by 5.2 thousand, to 75.0 thousand).

<sup>64</sup> More than 10 applicants accounted for 1 vacancy in the Karvina district this year. Higher excess pressure was here last time in the first half of year 2017.

<sup>65</sup> The number of inactive expanded by 1.7% for the whole year 2020 (by similar pace for both males and females), which was the most in the last twelve years.

<sup>66</sup> However only less than one half was able to join employment no later than within two weeks.

<sup>67</sup> Lower given figures regarding the hours worked stem from the national accounts and are adjusted for seasonal and calendar effects.



effective taxes for workers, which enabled companies to maintain high employment with lower pressures on cost of labour growth, had likely the opposite effect. Part of employers especially in the market branches thus allowed for the fact, that the net earnings of people will rise even without increasing the gross wages. In addition the wage level was still influenced by the loss of wage for employees receiving care benefits or wage substitution during the quarantine.

Unprecedented wage growth in health and social care was connected with the pay out of extraordinary bonuses.

The low comparative basis of wages manifested in the year-on-year comparison in Q2, specifically because of last year's closure of part of economy and slump of the total number of hours worked of employees – by even 10% year-on-year. This year's pay out of exceptional bonuses to medical staff is also closely tied to the pandemics and led to the unprecedented growth of the average nominal wage in the branch health and social care by 43.8%. Without this branch the wages would strengthen „only“ by 8.5% in the remaining part of the economy year-on-year in Q2.

Outside of health care the average wages grew the most in branches, which were strongly hit by impacts of the first pandemic wave last year.

Outside of healthcare, the average wages grew the most mainly in branches, which were the most hit by the onsetting pandemics last year – accommodation, food service and restaurants (+17.3%), other activities (+19.2%), administrative and support service activities (+12.3%) and manufacturing (+11.3%) year-on-year this year in Q2. Cultural, amusement and recreation activities, where the below average wage pace endured, comprised an exception. The situation in the majority of branches interconnected with tourism is however still difficult, as reflected in the continuing decrease of the number of employees as well as cut down increase of wages compared to the pre-pandemics level<sup>68</sup>. The attained wage level is also still considerably below the level of the whole economy in these branches and it is only at one third level e.g. in accommodation, food service and restaurants compared to financial activities.

Thanks to brisk pace of the wage growth their level slightly overtook the level of the whole economy in education.

The growth of wage tariffs from the last years continued in education. The average wage rose by one tenth here year-on-year and tightly exceeded the level of earnings in the whole economy. On the contrary, the wage growth practically ceased in public administration, education, health and social work. While the economic revival was reflected in the wage area (+9.4%) as well as employment (+1.5%) in trade in Q2, only average wages increased in transportation and warehousing (+7.6%). Financial and insurance activities on the other hand recorded small decrease in both areas, still it with the size of the average monthly wages (63.5 CZK thousand) overtook all main branches of the economy. Information and communication followed in short distance (62.7 CZK thousand), being among the busiest branches during the pandemics, which is also reflected in the ceaseless employment growth. Neither construction suffers from inadequate demand. The growth of average wages was however rather mild for the whole pandemic period here, similarly to industry, transportation as well as storage.

Growth of average wages in industry, construction, transportation and warehousing was moderate in total for the last two years.

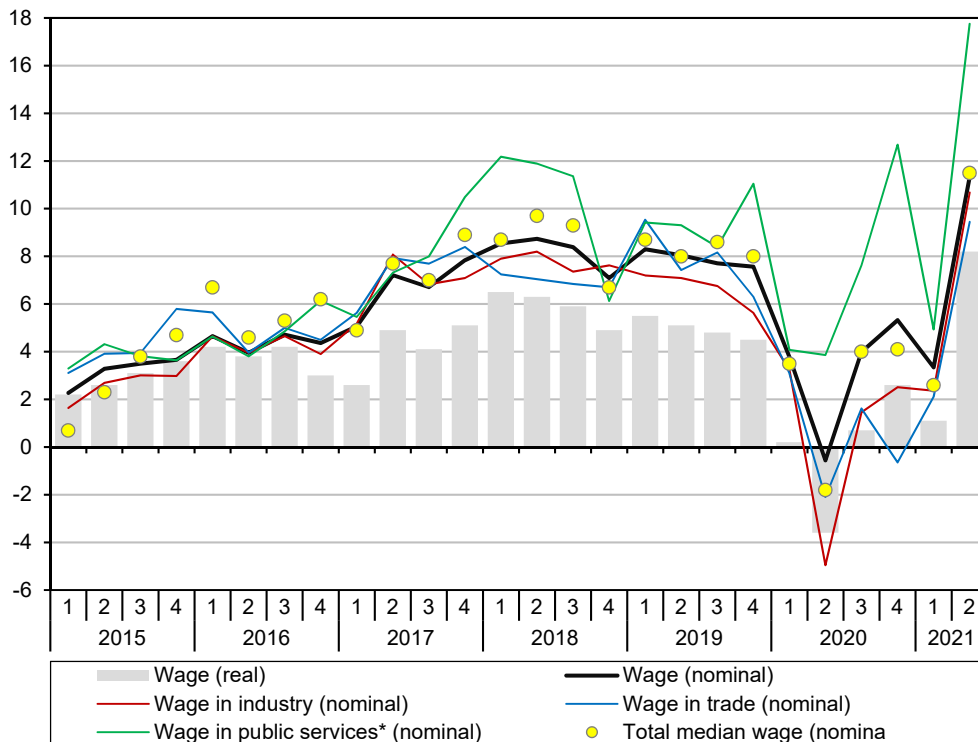
Prague labour market still features lower percentage growth of average wages in combination with higher creation of new job positions.

The average wages grew the most in Karlovarsky, Liberecky and Kralovehradecky regions (always slightly above 14%), the least then in Prague (8.0%) and central Bohemia (9.6%) year-on-year in Q2, i.e. in regions, which simultaneously experienced the relative highest increase of employees for the same time period. Lower relative wage growth in Prague offset by higher creation of job positions was also typical in the boom period before the pandemics. Larger regional inequalities in the wage rates of growth could have been affected by the layout of the health facilities (payment of extraordinary bonuses) this year, variations in the employment dynamics and then by the representation of mining industry and associated fields of activity as well, which is

<sup>68</sup> Compared to Q2 2019, the growth of average wages in accommodation, food service and restaurants was only 0.9%. Not even one half of the pace against the whole economy (10.7%) was reported by manufacturing or transportation and storage.

signalled by the fact, that the number of employees decreased compared to Q2 2020 only in Karlovarsky, Ustecky and Moravian-Silesian regions.

**Chart 14 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; Cultural, amusement and recreational activities (NACE O, P, Q, ,R)  
Source: CZSO

Wages of females continued rising faster than wages of males.

Wage median comprised of 34.5 CZK thousand for males, 30.0 CZK thousand for females in Q2. Earnings of females were strengthening more year-on-year (13.2%) than earnings of males (10.1%), mainly due to the fast growth in the area of education, health and social care. Earnings of high income employees grew relatively faster than incomes of low income employees similarly to the preceding two quarters. Total wage differentiation thus somewhat further deepened.



## 7. Monetary Conditions

Basic monetary policy-relevant rates were increased at the end of Q2.

Growing inflationary pressures as well as the progressing recovery of the Czech economy compelled the CNB to the new increase of basic monetary policy-relevant rates, which eventuated at the end of June and it was the first since last year's February. Two-week repo rate was from 0.25% raised to 0.5% and Lombard rate from 1.00% to 1.25%. Koruna foreign exchange per euro gradually depreciated in the course of the whole quarter and moved below the level of 26 CZK/EUR<sup>69</sup>. July koruna foreign exchange ended on the value of 25.485 CZK/EUR and the average for the whole quarter (25.638 CZK/EUR) was already slightly stronger than the average of year 2019 (25.672 CZK/EUR). The koruna foreign exchange was stronger by 5.2% year-on-year. Koruna foreign exchange per dollar also featured a strengthening trend, the end of quarter however saw a mild weakening and the foreign exchange reached 21.439 CZK/USD. The average for the whole Q2 2021 was 21.3 CZK/USD, which is by 13.4% stronger value than in the last year's Q2.

Yields of government bonds did not grow as fast as in Q1 anymore.

Rates on the interbank market were falling together with the monetary policy-relevant interest rates last year, but subsequently remained nearly the same for nearly one year. Changes in the setup of the monetary policy affected them and the three month PRIBOR rate increased by 0.11 p.p. to 0.48% in July. Interest rates on the government bonds experienced less dramatic development compared to the preceding months. After the significant increase in Q1, they changed only negligibly. Rate for bonds with the shortest, two year maturity were at 0.69% at the end of June, for medium term bonds it went slightly up to 1.55% and interest on bonds with long term maturity dropped to 1.67%.

Low interest on the client term deposits still results in the outflow of funds to current accounts.

Situation for rates on the client deposits remained practically unchanged. Current accounts of households held on average the interest of 0.04% at the end of June and deposits with agreed maturity 0.55%, which represents a quarter-on-quarter increase by 0.1 p.p. Especially interests on deposits with maturity above two years were rising. Current accounts of non—financial businesses had also nearly zero interest (0.03% at the end of June). The average interest rate of their deposits with agreed maturity went up by 0.09 p.p. to 0.21%. Generally low interest rates stood behind the continuation of trend, where the increase of the volume of deposits was still fuelled mainly by the non-term deposits. Their growth maintained strong year-on-year dynamics (13.9%), even though the increase already included the high basis of the last year's Q2.

Prices of credit for households went up.

Interest rates of credit for households grew in Q2. By 0.34 p.p. to 7.31%, the average interest on consumer credit also grew quarter-on-quarter, which comprised the first rise since the end of year and the highest since Q4 2012. In case of mortgages, the interest rates were also raised. Interest on mortgages was on average 2.2% at the end of June, which is 0.14 p.p. more compared to March. Increase was recorded for all fixation periods. The dynamics of the volume of credit provided to households accelerated together with the loosening of trade and services. It is apparent mainly on the consumer credit, which grew by 2.7% year-on-year following the previous stagnation. It still consists of a very mild growth, which can be connected to the lower need of credit financing in situation, when part of households managed to accumulate cash in the last year. The growth of the volume of mortgages also increased its pace – the year-on-year addition of 9.5% was the highest since Q2 2017. At the same time more detail data suggest, that while the so called other new contracts associated with the credit moratorium played an important role in the increase last year in Q2<sup>70</sup>, mainly net new credit gains importance very fast now. Total household indebtedness grew by 7.7%

Growth of volume of mortgages markedly accelerated.

<sup>69</sup> Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. Values of foreign exchange rates are also sourced from the CNB.

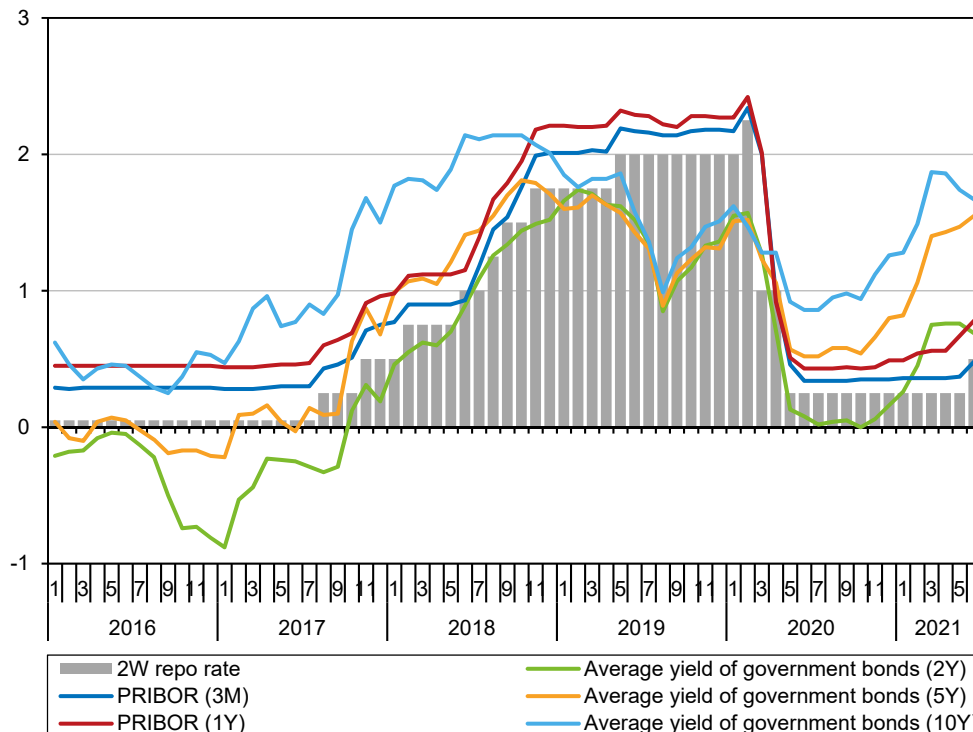
<sup>70</sup> Possibility of suspension of payments.

year-on-year, the most since Q3 2009. In that mortgages expanded by 9.5% (the most since Q1 2010) and consumption debt by 1.9%.

Interest rates of credit for non-financial businesses on the other hand decreased.

Credit financing for non-financial businesses on the contrary went down in price during Q2, specifically for all volumes of credit. Reduction of the average interest in case of the smallest volumes up to 7.5 CZK mil (by 0.05 p.p. to 3.43%) was the most moderate quarter-on-quarter. Interest rate for credits between 7.5 and 30 CZK mil dropped by 0.12 p.p. to 2.35%. The average rate in case of credit above 30 CZK mil decreased by 0.65 p.p. to 1.19%, which is a record low amount. The volume of credit and receivables of non-financial businesses (both in CZK and foreign currency) fell by 1.9% year-on-year. It constituted especially the effect of koruna appreciation per other currencies, which had a significant effect on the credit portfolio, since credit in foreign currency comprises approximately one third from the total volume of credit and receivables of the non-financial businesses. Just their volume fell by 13.4% year-on-year, while the loans in CZK increased by 4.6%. With respect to the time view, credit with medium term maturity expanded the most in Q2 (7.4%). The volume of credit in information and communication deeply shrank year-on-year (-11.5%) and lowering for cultural, amusement and other activities was also strong (-8.1%). Slump in the volume of credit provided in construction (-4.8%), manufacturing (-4.7%) as well as wholesale and retail and repair and maintenance of motor vehicles (-4.4%) still continued. For all of them it was the effect of koruna foreign exchange appreciation, the credit in CZK itself stagnated in these fields of activity, grew by 2.6% in construction. Loans in accommodation, food service and restaurants were also falling (-3.8%). Loans for transportation and warehousing (31.8%), professional, scientific and administrative activities (11.8%) on the other hand showed a large increase. Loans for financial and insurance activities mildly grew year-on-year (1.7%).

**Chart 15 Market interest rates (in %)**



Source: CNB





## 8. State Budget

Development in both Q1 and Q2 2021 contributed to the half-yearly state budget deficit nearly equally.

The state budget (SR)<sup>71</sup> was characterised by deep deficit in the amount of 265.1 CZK bn in H1 2021. Compared to the so far record deficit from the first half of the last year, it was by nearly 70 bn deeper. The development in both quarters equally contributed to the present this year's deficit. The deficit however deepened „only“ by 10 CZK bn also thanks to wider loosening of the counter pandemic measures during June 2021. In total for the whole half-year however, the SB was still decisively affected by lower economic activity. Together with the concessions to entrepreneur subjects, lowering of tax burden on labour as well as property and change of budget appropriations of taxes to the benefit of regional budgets<sup>72</sup>, it hampered the growth of the tax income. Apart from this, the need to strengthen the outlay transfers for the support of the affected branches and employees themselves endured, but also on the compensation of the heightened demands especially in the area of health care.

State-wide tax collection slightly grew mainly thanks to weaker last year basis in H1. However, it was higher compared to year 2019 only in this year's June.

Total SB revenues moderately increased by 1.9% (i.e. 13 CZK bn) year-on-year in H1 2021. It however also resulted from the lower last year's basis since the revenues have not reached the pre coronavirus level this year so far<sup>73</sup>. The year on year growth was mostly influenced by the higher collection of social security insurance (thanks to good condition of the labour market as well as the pay out of extraordinary bonuses especially to health care workers) and stronger collection of the corporate tax. Total state-wide of taxes (excluding insurance premium) at the level of all public budgets has grown by 4.4% in H1 2021 year-on-year, nevertheless only in June it slightly also exceeded the corresponding pre coronavirus level (from June 2019). Non-tax and capital revenues and transfers from the SB decreased (by 7.8%) for the first time since year 2017 in this year's half year, both because of mildly lower revenues from the EU budget and especially because the planned transfer of funds from the privatization account into the SB (10 CZK bn) has not as opposed to last year materialised yet this year<sup>74</sup>.

Revival of consumption this year in June majorly assisted the higher collection of VAT.

From the weight dominant tax – VAT – by 3.9% (i.e. by 5 CZK bn) more flew into the SB year-on-year in H1. Collection even strengthened by 9.1% at the level of all public budgets. Year-on-year comparison is however affected by the weaker last year basis as a result of considerable suspension of trade and other services operations. In comparison to the pre pandemic period (H1 2019), the state-wide collection was by 2.5% higher, mainly thanks to the stronger revival of the private consumption this year in June. The reduction of the tax rates for some services (especially in food service)<sup>75</sup> also had a partial impact on the collection of VAT.

Collection of consumption taxes sank by more than one tenth year-on-year and sizeably lagged behind the budget anticipation.

Total SB revenues from consumption taxes slumped by more than one tenth in H1 (even by one sixth for the two years). Their collection thus considerably as opposed to the VAT lagged behind the budget anticipations this year. Notable reduction of the collection of tax on mineral oils manifested (by one fifth year-on-year), as a consequence of weaker transport work especially in the passenger transportation amplified by the newly introduced reduction of tax rate for the diesel fuel<sup>76</sup>. Nearly one half of the year-on-year decrease of the collection of all consumption taxes was attributed to the weaker collection from tobacco products this year (–14%). In Q2 itself, the collection copied the last year's level since the impact of the growth of the tax rate and likely also the revival of cross-border purchases started to show more.

<sup>71</sup> Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance regarding the cash fulfilment.

<sup>72</sup> The SB thus collected by 12.4 CZK bn less on the shared taxes (VAT, income tax) in H1 this year.

<sup>73</sup> This year's SB revenues lagged behind the amount from H1 2019 by 4.2%.

<sup>74</sup> This discrepancy was partially compensated by this year's extraordinary yields from the frequency auction (+5.6 bn).

<sup>75</sup> Lower tariff on food service and other services was introduced last year from May until July. This year's VAT collection was also mildly subdued by temporary waiving of the tax on protective aids (e.g. respirators) and on both tests and vaccines connected to the covid-19 epidemics.

<sup>76</sup> Reduction of the tariff by 1 CZK started to be negatively reflected in the tax collection due to the time delay only in March this year. According to the MF estimates, it led to the lowering of this tax collection at the SB level by 1.9 CZK bn for this year's H1.

Collection of the tax on beer, holding less weight, was falling in both this year's quarters, on the contrary, the tax on alcohol recorded a positive turn during Q2. The favourable effect of the reopening of restaurants, as well as the gradual recovery of tourism should be fully reflected in the collection of consumption taxes only during the summer period.

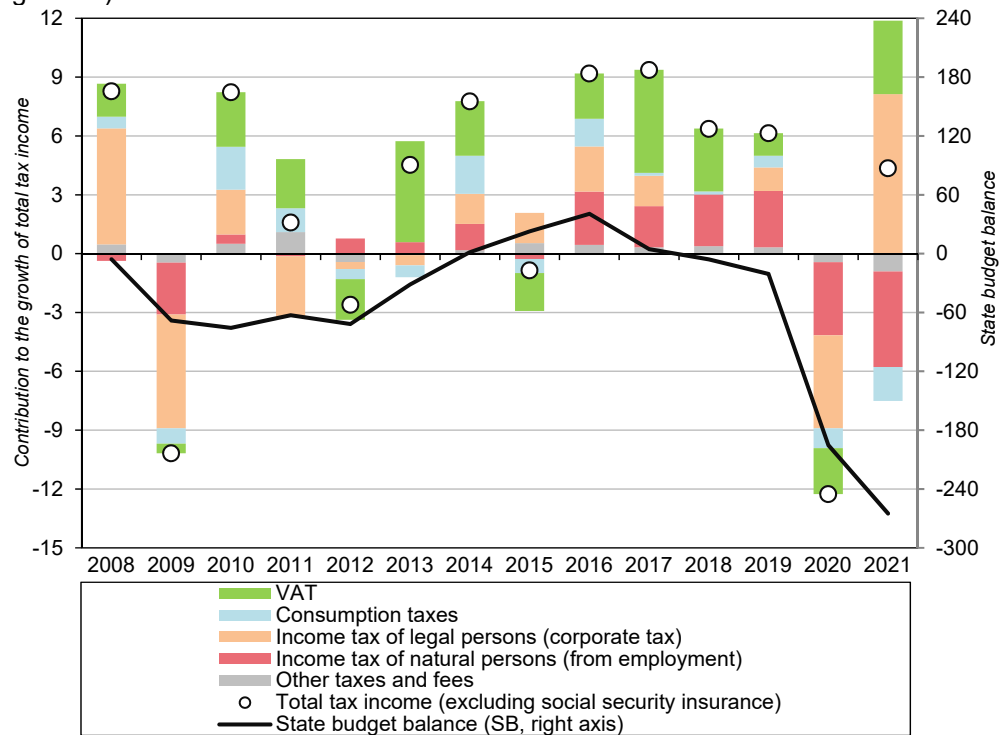
Collection of the corporate tax already overtook the pre-pandemic level.

The SB acquired by 45% (+23 CZK bn) more on the corporate tax year-on-year in H1. Over one half of this addition can be ascribed to the low last year basis (mainly due to the waiver of June advance tax payment). The year-on-year comparison is also blurred by the change of the budgetary tax determination and individual requests of companies for modification of advance tax payments<sup>77</sup>. State-wide collection of the corporate tax exceeded the level from H1 2019 by 8.5% this year.

Collection of tax on income of NP from dependent activity was influenced by lowering tax burden as well as ongoing payments of compensation bonuses.

Lowering of the tax burden on labour<sup>78</sup> constituted a key factor leading the state-wide collection of income tax of natural persons from dependent activity to plunge by nearly one third year-on-year and reaching the lowest half-yearly level in the last nine years (58.3 CZK bn). Paid out compensation bonuses also continued to affect the size of the collection (especially self-employed persons), their negative budget impact was however by nearly one half weaker this year compared to H1 2020.

**Chart 16 Contribution of constituent revenues to the growth of the total state wide tax collection\* (year-on-year in p. p.) and state budget balance within H1 (in CZK bn, right axis)**



\* Includes total tax income (without the social security insurance).  
Source: MF CR

Fiscal expansion was conducted exclusively by the current outlays of the SB. These were fundamentally affected by higher outlays in health care and on

Total SB outlays strengthened by 10.2% year-on-year in Q1, by 8.5% in the subsequent quarter. In total, they exceeded the pre-pandemic level from H1 2019 even 27.9% (+213 CZK bn). Fiscal expansion was driven exclusively by current outlays so far this year, whose year-on-year growth (by 88.3 bn) can be for the major part directly linked to the measures offsetting the adverse effects of the pandemics (on businesses, individuals as well as municipalities) or

<sup>77</sup> According to the estimates of the MF, this factor led to the decrease of income from the corporate tax into the SB by 6.4 CZK bn in H1 2021.  
<sup>78</sup> After the abolition of the "super-gross salary", a basic 15% tax rate (and supplementary 23%) was introduced from the 1<sup>st</sup> January 2021 and the annual tax rebate per the tax payer increased (+3 CZK thousand). These changes should have according to the MF estimates deprived the public budget on the above mentioned tax for as much as 90 CZK bn this year. The state wide collection of the ITNP from dependent activity fell by 27.8 CZK bn for H1 2021.



<p>support programmes for businesses and organizations.</p>	<p>to the support of the overloaded healthcare system<sup>79</sup>. It can be explained by the fact, that while in the first half of the last year the large part of the swiftly adopted counter pandemic measures was focused on the tax area including insurance (tax suspension, abolition or individual amendment of the size of advance payments, refunds in the form of compensation bonuses), this year it primarily constituted the outlays on the health care (bonuses to workers, higher payments for state insured persons) as well as wide spectrum of support programmes for both afflicted businesses and organisations.</p>
<p>Growth of outlays on wages of workers in education continued.</p>	<p>From current outlays, non-investment transfers to business entities the most increased (+61%, to 85.3 CZK bn) concentrating the vital part of support measures (Antivirus programme, support of business in the most hit areas, care benefits for self-employed persons) and non-investment transfers to the funds of social public health insurance (+55%). On the contrary, higher current transfers to regional budgets (+14%, +18.8 bn) related mainly to the ongoing growth of average wages in the regional education<sup>80</sup> and boosting of resources on social services. The growth pace of outlays on wages in the central government institutions was in contrast weakening for the third year in a row (to 1.1%, the least growth in the last ten years). The SB expended approximately by 3 CZK bn less on both the current transfers to contributory organisations (last year's expenditures on the elimination of debt of part of hospitals were not repeated) and non-investment purchases<sup>81</sup>, where the lower this year's need for protective aids as well as medical materials was only partially offset by the increase of outlays on the purchases of vaccines year-on-year in H1.</p>
<p>Outlays on non-investment purchases weakened compared to last year's record amount.</p>	<p>Even though the social benefits traditionally account for the weight dominant SB outlay, growth of their drawing remained in the shadow of outlays directly associated with the pandemics<sup>82</sup> this year. Only by 3.7% (12.6 CZK bn) more wandered on these benefits year-on-year in H1. In contrast to a major part of the last year, outlays on pensions recorded faster pace in this year's H1 (+5.7%) than outlays on other social benefits (−2.0%)<sup>83</sup>. The sickness benefits were mostly behind the fall of their drawing (−5.0%)<sup>84</sup>. This result manifested in spite of the outlays on the majority of sickness benefits increasing year-on-year. The Spring reopening of schools proved key this year, damping the need for the care benefits, whose drawing culminated last year in Q2. SB spent less also on the state social care benefits year-on-year this year, specifically thanks to the favourable development of nearly all types of benefits, including those income tested. Higher drawing on material deprivation assistance benefits, which was observed already fifth quarter in a row, signals worsened income situation of some households. Improvement of the total situation on the labour market in connection to the decline of the pandemics was mirrored in the paid out unemployment benefits. Their volume dropped by nearly one fifth year-on-year in the period from May to June this year<sup>85</sup>.</p>
<p>Drawing of non-pension social benefits went down year-on-year. It was however considerably higher compared to the pre-pandemic level.</p>	
<p>Growth of the volume of material deprivation assistance benefits continued, it however ceased for the unemployment benefits in Q2.</p>	

<sup>79</sup> It was especially the compensation of part of wages and mandatory payments with the Antivirus Programme A, A+ and B (24.0 CZK bn paid out from the SB in H1 2021), special programmes on the direct support of the afflicted sectors of the economy, e.g. in the area of restaurants, tourism, culture, education, sport, agriculture and food industry (including the programmes COVID Rent, COVID Not covered costs) in the total amount of 27.1 bn, further higher outlays in the health care, mainly the increased payment of the state per "state insured persons" (mainly children, students, pensioners, 25.1 bn), heightened personal costs of workers in the health care and social works (16.3 bn), purchases of protective aids (3.1 bn) and finally also the increased outlays on some social benefits – care benefits, extraordinary contributions for employees in the quarantine or isolation (5.1 bn). Majority of the above mentioned outlays substantially increased compared to H1 2020, except for care benefits, purchases of protective aids and hospital debt eliminations.

<sup>80</sup> It reflects the approved this year's year-on-year growth for educational as well as non-educational workers (by 9%, resp. 4.3%).

<sup>81</sup> Does not include the outlays on the state debt servicing.

<sup>82</sup> Proportion of social benefits on all SB outlays narrowed within H1 for the fourth time in a row (to 36.0%, minimum in the ten year comparative time series).

<sup>83</sup> 84.2 CZK bn were directed on the non-pension benefits from the SB. Compared to the pre pandemic level (H1 2019) it was however by 19.4 CZK bn more.

<sup>84</sup> Even though they were the main driver of the growth of non-pension benefits in years 2015 till 2020.

<sup>85</sup> Drawing of benefits last dropped before year-on-year in August 2018. Until the last year's onset of the pandemics, their growth was not accompanied by more significant increase of the unemployment rate, and thus reflected primarily the strengthening of the average wage in the economy.

Pension account balance returned to mild surplus in Q2 2021.

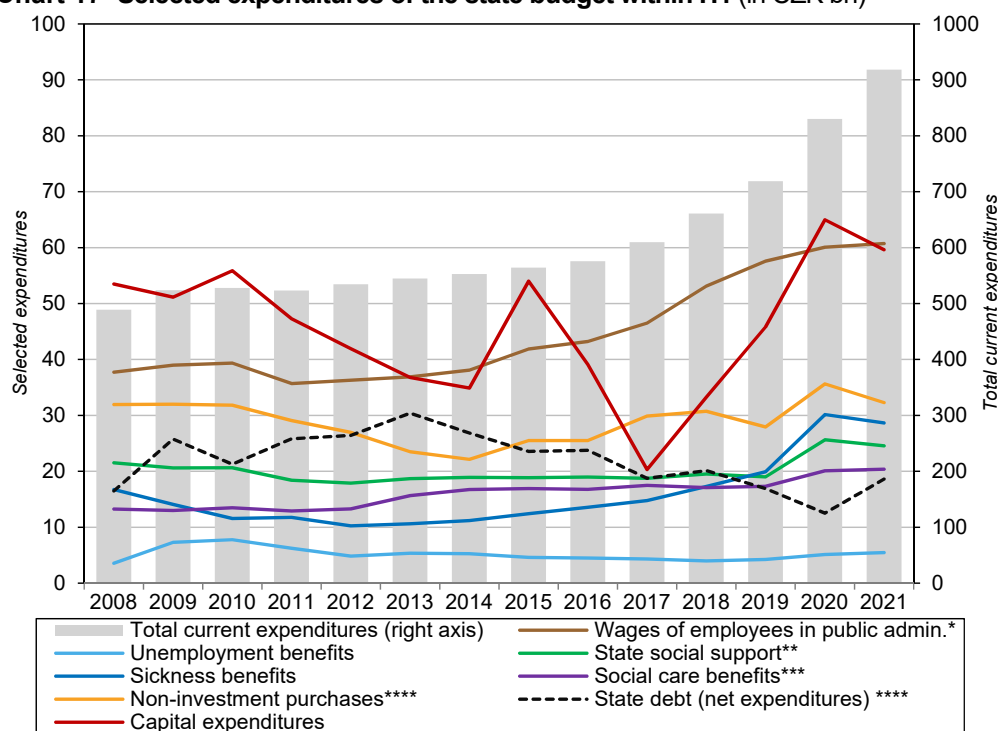
Growth of outlays on pensions was subdued by the decrease of the number of their recipients. Their number decreased by significant 1.2% year-on-year at the end of H1, primarily due to heightened mortality in the pandemic period. Revenues of the pension insurance expanded by 7.4% against the weaker last year basis<sup>86</sup>. Half-yearly pension account balance<sup>87</sup> recorded moderate year-on-year improvement (to -7 CZK bn). In Q2 2021, it returned into a mild surplus (+2 bn) thanks to the revival of economic activity (powered by the payment of extraordinary bonuses in health care) for the first time since the end of year 2019.

Steep growth of investment from the SB halted after three years.

Capital outlays comprised 60 CZK bn in H1, i.e. less than one third of the annual budgetary objective. They decreased by 8.7% in H1 2021 after three years of strong year-on-year growth. This item however shared more than 6% on all SB outlays. Within all H1s, it still comprised the second highest value in the last five years. The largest share of so far realised investment traditionally aimed at the transport infrastructure, mainly the projects co-financed from the European funds. Total revenues of the CR from the EU budget arrived at 71.5 CZK bn in H1, they fell by 8% year-on-year. Lower revenues from the structural funds (-18%) and less significant by volume revenues on the rural development (-19%) mostly contributed to this result. All other main programme areas nevertheless also experienced smaller decreases. After taking into account the slight increase of the payments of the CR into the EU budget (+3%), the total net position of the CR against the Union attained 38.7 CZK bn, which represented the second highest first half-yearly balance in the last five years.

Revenues of the CR from the EU budget were even despite year-on-year decrease the second highest in the last five years.

**Chart 17 Selected expenditures of the state budget within H1 (in CZK bn)**



\*Covers expenditures on salaries in central government institutions. Does not include e.g. wage costs of regional education.  
 \*\*Also includes the foster care benefits.  
 \*\*\*Includes Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits based on Act on State Social Support.  
 \*\*\*\*Contains mainly expenditures on purchase of services, materials, energies or other services (e.g. expenditures on repairs and maintenance).  
 \*\*\*\*\*Corresponds to the balance of the budget chapter State debt.  
 Source: MF CR, MLSA

Dynamic growth of the state debt continued. It

Strongly growing need for finances tied to the necessity to cover the crisis SB deficit caused the acceleration of the state debt. It climbed up to record 2 416 CZK bn at the end of June

<sup>86</sup> The volume of collected insurance was negatively impacted by the abolition of the minimal advance payments for the self-employed persons and also the waiving of the insurance paid by the employer (programme Antivirus C) in H1 last year.

<sup>87</sup> It is expressed as the difference between revenues and expenditures on pensions from the SB. Expenditures on administration of the pension insurance system are not included in the expenditures.



however increased less in H1 than in the same period of the last year.

Outlays on the state debt servicing again grew after the favourable development in both years 2019 and 2020.

Weak growth of revenues as well as acceleration of outlays resulted in record budget deficit of the government institutions sector in Q1.

Budget deficit of the government institutions mildly decreased in the EU compared to the end of year 2020, it increased in the CR.

The indebtedness rate grew the most compared to the pre-pandemic level in the countries of South Europe. Growth in the CR was in the context of countries with lower level of indebtedness relatively strong.

and strengthened by one eighth year-on-year. Since the beginning of this year, it expanded by 366.5 bn, which was however less than the unprecedented jump in the same period of the last year (+516.7 bn). Traditionally strong issue activity in the area of state bonds<sup>88</sup> also manifested this year, focused primarily into the first quarter of the year, which enabled to fully cover the debt payments planned for this year. The koruna value of the external debt fell due to the payments by more than one quarter year-on-year at the end of the half-year and it participated from only 6.6% on the total indebtedness. Net outlays on the state debt servicing<sup>89</sup> reached 18.6 CZK bn in the first half-year, by nearly one half year-on-year. Trend of decreasing outlays on the state debt observed in years 2019 as well as 2020 halted. It was connected both to the increase of the total indebtedness and higher yields of the state bonds, detected already at the end of the last year.

Government institution sector (VI) budgeted with deficit of 136.3 CZK bn in the CR in Q1 2021<sup>90</sup>. It constituted the deepest recorded deficit for Q1 and second worse result in general (after Q4 2020). Weak growth of revenues (+0.8% year-on-year) was notably affected by the decrease of collected taxes on income and wealth, especially due to the tax changes. Growth of outlays accelerated (+14.1%), mainly under the lead of the social benefits and natural transfers and also strong increase of paid out subsidies. Seasonally adjusted state budget VI amounted to -8.8% of GDP, which represented worsening in both year-on-year (by 6.1 p.p.), but also quarter-on-quarter expression (by 0.7 p.p.). The nominal debt VI reached 2 519.1 CZK bn. this year at the end of Q1. The indebtedness rate rose year-on-year – from 32.4% to 44.1% of GDP. Falling nominal GDP also left its mark on the record growth of indebtedness, dominantly (from nearly 95%) it however also mirrored the acceleration of the absolute amount of debt.

Budget deficit of the sector of government institutions in the EU countries (after seasonal adjustment) partially stabilised following the record downturn in the beginning phase of the pandemics (to -11.8% of GDP in Q2 2020). It was -6.8% of GDP in the first quarter of this year and in contrast to the CR it registered a positive shift compared to the last last year's quarter. Poland and Germany for instance also recorded a quarter-on-quarter deepening of the deficit this year, the size of their deficit was however smaller compared to the CR (-2.6% and -6.0% of GDP, respectively). Deep deficits (at the level of the CR) also afflicted Spain, France, Hungary or Romania at the beginning of this year. On the contrary, only Denmark and Luxembourg achieved budget surpluses. Adverse development of the public budgets was logically reflected in the area of debt. The indebtedness rate VI increased in the Union already at the beginning of the last year and following a significant acceleration in Q2 (above the level of the maximum from the economic recession in 2013), it continued in slower growth up to 92.9% of GDP (in Q1 2021). The indebtedness expanded in all Union states this year compared to the end of year 2019, the most in the countries of the euro area South wing, which belonged to the most afflicted in this respect already before the pandemics outbreak. Slovenia experienced the less favourable development (from 65.6% to 86.0% of GDP) among the "medium indebted economies". Among the states fulfilling the Maastricht debt criterion, Malta (+17.0 p.p., to 59.0% of GDP) and the CR (+14.1 p.p.) fared the worst.

<sup>88</sup> In H1 state bonds for 390.8 CZK bn with average annual yield of 1.3% and maturity period of 8 years were issued on the domestic financial market. Domestic banks and other domestic financial institutions, which thus held already 64% from the total domestic state bonds at the end of June 2021, demanded the bonds the most. Non-residents shared 32%, by 3 p.p. less year-on-year and by even 10 p. p. less for two years. Among other debt instruments employed this year, the loans from the European Commission (52.3 CZK bn) to assist in the moderation of the unemployment risks due to the spread of the covid-19 pandemics cannot be omitted. The role of short-term loans and credit to strengthen the liquidity of the state public treasury also grew.

<sup>89</sup> Corresponds to the balance of the budgetary chapter State debt.

<sup>90</sup> More detailed assessment of the development for Q1 2021 is contained in the publication Analysis of the sector accounts: <https://www.czso.cz/csu/czso/cr/analyza-ctvrtletnich-sektorovych-uctu-1-ctvrtleti-2021>