

THE CZECH ECONOMY DEVELOPMENT

Year 2021

Summary Data on the Czech Republic

Prague, 22nd April 2022

Publication Code: 320194-21

Reference No.: CSU-003482/2022-01

Yearly Publication Code: 2

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Contents

| | |
|--------------------------------------|----|
| 1. Summary | 4 |
| 2. Overall Economic Performance..... | 6 |
| 3. Branches Performance..... | 12 |
| 4. External Relations..... | 21 |
| 5. Prices..... | 25 |
| 6. Labour Market..... | 32 |
| 7. Monetary Conditions..... | 38 |
| 8. State Budget..... | 40 |

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 14th March 2022.

1. Summary

- The Gross domestic product (GDP) went up by 3.3%¹ in 2021. The domestic demand contributed the most, especially the capital expenditure and household consumption. In contrast, the foreign demand decelerated the GDP growth, which was associated with the disruption of global supply chains and consequent slowdown of domestic export oriented industrial production. The domestic economy was lagging behind the year 2019 in real terms despite the growth. In Q4 2021 itself, the GDP grew by 3.6% year-on-year. It was again solely thanks to the domestic demand. The GDP grew by 0.9% compared to Q3 2021. Both consumption and capital expenditure however featured negative development and only the development of the foreign demand contributed to the growth. The Czech Republic ranked among the countries with below average year-on-year GDP growth within the EU states in Q4. The GDP grew by 4.8% in the EU year-on-year. Quarter-on-quarter, the GDP increased by 0.4% in the EU.
- The Gross value-added (GVA) increased by 3.0% in year 2021. It was for the main part due to services, especially public administration, education, health and social work and gradually recovering trade, transportation, accommodation and food service, further finance and insurance activities. Manufacturing also shared markedly on the GVA growth. Large part of branches of services as well as industry however still lagged in real terms behind the level from year 2019. The GVA increased by 2.9% year-on-year in Q4 2021 itself. While the GVA of services grew towards the end of the year – the most the division trade, transportation, accommodation and food service and also in other activities–, manufacturing curbed the total GVA growth for the reason of prevailing difficulties with the supplies of components. GVA grew by 0.7% quarter-on-quarter in Q4.
- Export of goods and services went up by 5.0%² in real terms in 2021 and import by 11.4%. Resulting balance reached surplus of 185.2 CZK bn, which represented worsening by 204.1 bn. The export slumped by 5.7% year-on-year in Q4 itself, while import was higher by 4.0%. Resulting balance attained surplus of 22.5 CZK bn, which was by 122.6 bn year-on-year worse result. Trade with oil and natural gas, basic metals and motor vehicles contributed the most to worsening of the balance of trade with goods in Q4. On the contrary, the trade with electricity had a favourable effect.
- Price level (according to the GDP deflator) increased in total by 4.1% in year 2021. In Q4 itself, the price grew by 3.3% year-on-year and it fell by 0.6% quarter-on-quarter. The year-on-year growth of the consumer prices accelerated throughout the whole year. They increased by 3.8% in total last year, the most since year 2008. Mainly the prices of transportation and housing and energies affected the sharp hike. The consumer prices grew by 6.1% year-on-year in Q4 and apart from prices of transportation and housing and energies the growing prices of food also contributed. The domestic and European industrial producers also strongly experienced the increase of prices of both oil and electricity last year. Industrial producer prices rose by 7.1% in the CR last year, the most since year 1995. They increased by 12.8% year-on-year in Q4.
- In Q4, several increases of the monetary policy-relevant rates occurred, which was significantly reflected on the size of the interest rates of credit for both households as well as businesses. The interest rates on term deposits were also raised. Interest rates on government bonds were also higher.
- The labour market was gradually returning to the state before the pandemics in the CR last year. The total employment, which reached 5.37 mil persons³ in Q4, was growing for a major part of the year. Especially the number of employees was expanding, in contrast the decrease in the number of entrepreneurs deepened. The general unemployment rate reached its maximum of 3.4% in March 2021, but it subsequently fell down to December 2.2%. This development alleviated the concerns of households regarding the unemployment growth. The average gross monthly wage increased in total by 6.1% to 37 839 CZK in 2021. In real terms it grew by 2.2%. The average wage reached 40 135 CZK in Q4 and it was by 4.0% higher year-on-year. However, with a view to the strong price growth the average real wage fell by 2.0% year-on-year in this period.

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

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

³ Data regarding employment are given in the conception of national accounts and adjusted for seasonal effects.



- State budget ended in deficit of 419.7 CZK bn in 2021, which is by 52.2 bn worse result compared to the year 2020. Growth of current expenditures, especially the payments for state insured persons and also the non-investment transfers to business entities were mainly behind the deeper deficit. Especially in the second half of the year, the partially loosened pressure on the expenditure side as well as the gradual recovery of the economy assisted the higher tax collection. Reduction of tax burden on labour, capital and property and also the change of the budget allocation of taxes (to the benefit of regional budgets) were negatively reflected in the budget revenues.

2. Overall Economic Performance

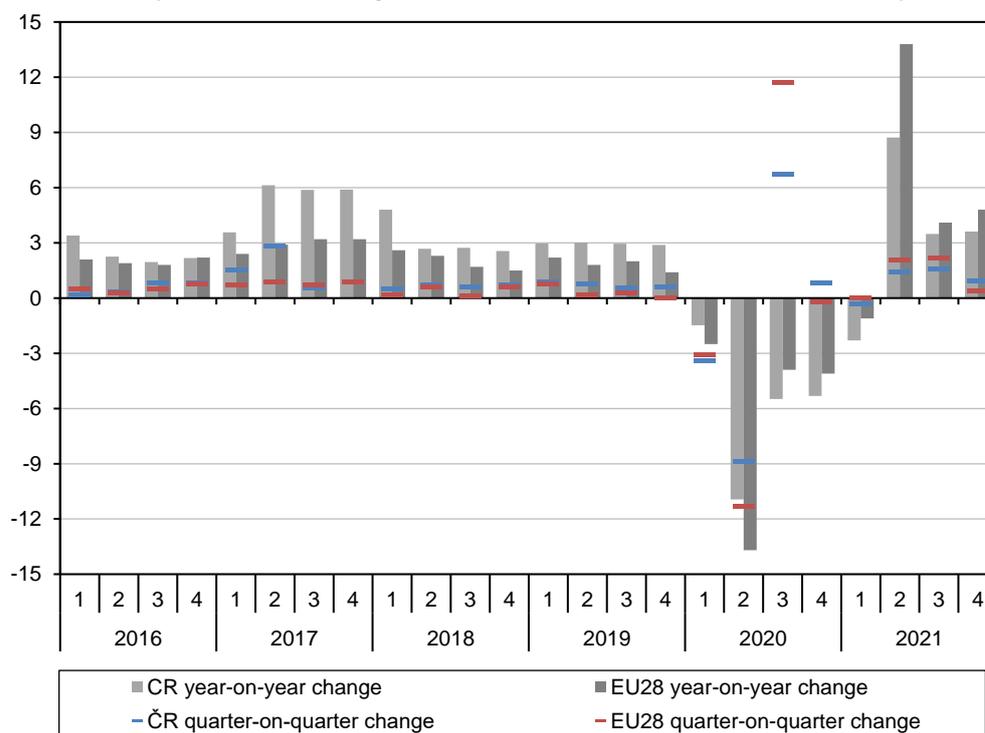
Gross domestic product expanded last year, however it still lagged behind the 2019 level in real terms.

The Gross domestic product (GDP) increased by 3.3%⁴ in real terms in year 2021. Following the deep slump in year 2020, the domestic economy thus gradually revived. In total nevertheless, the GDP expressed in constant prices fell behind the level of year 2019 for now. The gross capital formation supported the last year's GDP growth the most, mainly the increase of inventory stock. The household consumption also grew strongly. On the contrary, the foreign demand significantly decelerated the growth of GDP, even more compared to year 2020, when the production in some export oriented businesses halted for some time.

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

Year-on-year GDP dynamics was notably affected by the low comparative basis of year 2020 in the course of the last year – it was apparent the most in Q2. The rules in place in Q4 2021 were not as restrictive as in the same period of year 2020⁵, however they were more severe compared to Q3 2021. Year-on-year GDP addition thus reached 3.6% in Q4. The domestic demand strongly supported its growth – both consumption and capital expenditure. The foreign trade balance on the contrary had a negative effect, which was influenced also by the comparison with the strong ending of 2020, when the export grew significantly and the foreign trade balance reached record levels. The quarter-on-quarter GDP addition was 0.9% in Q4 2021 and slowed down compared to the dynamics of both Q2 and 3. Simultaneously the domestic consumption as well as expenditures on gross capital formation fell. Only the foreign demand thus contributed to the GDP growth. The Gross domestic product expressed in 2015 prices failed to reach the level of the same period of year 2019 in Q4 2021.

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



Source: CZSO, Eurostat

⁴ The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 1st March 2022.

⁵ Retail operations were maintained. In services the entrance into shops was at first restricted to persons, who do not prove absence of infection. Subsequently the ban shifted to persons without completed vaccination.



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

The total year-on-year growth of GDP in the European Union slightly accelerated to 4.8%⁶ in Q4 2021. The gradual revival of European economies thus continued and majority of them also exceeded the level from the same period of year 2019⁷. The GDP grew in all EU economies year-on-year and based on the available data, Slovenia (10.5%), Croatia (9.9%) and Estonia (8.8%) recorded the largest increase. GDP grew only slightly in Slovakia (1.1%), Germany (1.8%) and Romania (2.7%). The GDP increased by 0.4% in the EU compared to Q3 2021. Relatively low total increase was mainly affected by the difficult development of the German economy, which fell by 0.3% quarter-on-quarter. The GDP was also lower in Austria (−2.2%), Romania (−0.5%), in Latvia (−0.1%) and in Croatia (−0.1%). Slovenia (5.4%), Spain (2.0%) and Hungary (2.0%) on the contrary attained a very strong quarter-on-quarter increase of GDP.

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

In 2021, the total volume of paid out wages and salaries expanded by 6.8% given the simultaneous increase of the total employment by 0.1%⁸. However, strengthening of the price growth caused, that the real increase of the volume of wages ended at 3.7%⁹ last year. The volume of paid out wages expanded the most in real estate activities (14.1% given the employment stagnation) and further in branches with the dominant government sector activities¹⁰ (8.9%, employment growth of 2.8%), where the payment of bonuses to health care professionals and other forces participating on tackling the pandemics. The volume of earnings also grew at above average pace (7.7%) in professional, scientific, technical and administrative activities and continuing growth of employment¹¹ (3.4%) supported the growth of wages and salaries in information and communication (6.9%). Wages and salaries were by 6.3% higher in manufacturing, while the employment dropped by 0.5%. The division trade, transportation, accommodation and food service (5.7% given the fall of employment by 1.7%), construction (5.5%), other activities (5.4%), agriculture, forestry and fishing (4.9%) and financial and insurance activities (2.2%) also featured below average increase.

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

In Q4, the volume of paid out wages and salaries increased by 7.6% year-on-year and the total employment was by 1.3% higher. Real growth of the volume of wages was 2.8%, which is with the exception of periods of year 2020 and last year's Q1, hit by the pandemics, the least since Q3 2014. Quarter-on-quarter, the volume of wages and salaries grew by 1.5% and employment by 0.1%. Wages and salaries in real estate activities achieve the strongest year-on-year increase (21.8%). Increase in other activities (20.5%) and in trade, transportation, accommodation and food service (18.2%) was to a large extent affected by low comparative basis of Q4 2020. Volume of wages and salaries also expanded at above average pace in professional, scientific, technical and administrative activities (9.7%). The wage resources were growing slower in the remaining part of the economy. It was by 6.4% in communication, by 6.1% in agriculture, forestry and fishing, by 5.5% in construction, by 5.4% in financial and insurance activities. Their year-on-year growth markedly slowed down to 4.6% in manufacturing and it also moderated under the influence of high comparative basis in branches with the dominance of the government sector to 2.1%¹².

Consumption significantly contributed to the GDP growth last year.

The domestic consumption increased by 3.5% in 2021. It contributed 1.4 p.p.¹³ to the GDP growth. Especially the household consumption was growing (4.3%), the increase was smaller in case of government institutions (1.6%). The structure of consumption

⁶ Data for Bulgaria, Ireland, Greece and Malta were not available.

⁷ GDP comparison in prices of year 2015.

⁸ Employment in the national accounts conception (persons), figure is seasonally adjusted. The volume of hours worked expanded by 2.9% last year.

⁹ Converted into the real expression using the deflator of final consumption expenditure of households.

¹⁰ Public administration, education, health and social work.

¹¹ Employment grew here for the tenth year in a row and it expanded by more than 40% in this period (more than 50 thousand persons).

¹² Especially the high basis of Q4 2020 manifested, when the extraordinary bonuses were paid out to the medical staff.

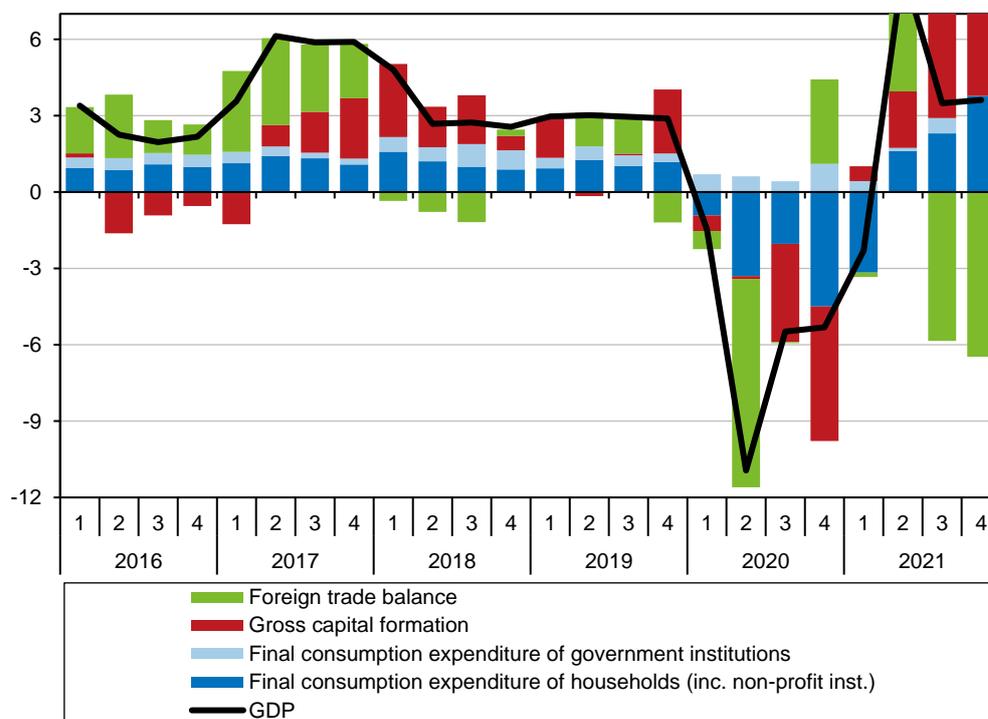
¹³ Additions to the GDP change after exclusion of imports for final use.

according to the durability¹⁴ partially reflected the comparison with year 2020, when the sale of part of retail products¹⁵ and the operations of services was restricted for a given period of time. The consumption of durable goods thus increased by 5.0%, medium-term goods by 4.8% and services by 4.0% last year. Consumption of non-durable goods was higher by 3.0%.

Household consumption lowered compared to Q3.

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

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



Source: CZSO
* after exclusion of import for final use

The inventory stock strongly grew last year.

Expenditures on gross capital formation increased by 18.2% in 2021. In that the expenditures on fixed capital were by 0.9% higher. Following the deep slump in 2020, especially the businesses in unsteady situation kept avoiding the strengthening of investment activity. The inventory stock expanded on the contrary¹⁶, mainly of the unfinished production. In real terms investment lagged behind the levels of both year

¹⁴ Data regarding consumption based on durability are in the domestic conception.
¹⁵ Large part of the restricted retail belongs to the category of goods of medium term consumption – clothing, recreation and sport equipment and the like.
¹⁶ The inventory stock (in current prices and seasonally adjusted) amounted to +275.1 CZK bn in year 2021. In Q4 itself, the inventory stock expanded by 82.5 CZK bn.

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

Investment grew in Q4.

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

The foreign trade balance experienced record worsening last year.

The export of goods and services in real terms expanded by 5.0%¹⁷ in year 2021. In that, the export of goods was by 5.1% and services 4.6% higher. The export of goods in real terms lagged behind the level of year 2019 by 0.2% and services by 13.2%. Part of the domestic exporters however faced difficulties with supplies of some components. The import of goods and services thus grew at a faster pace compared to export last year and increased by 11.4% in total. Import of goods increased more (12.5%) than the import of services (4.6%). The balance of foreign trade in total reached surplus of 185.2 CZK bn. It is by 204.1 bn¹⁸ worse result than in year 2020. For this reason also, the foreign trade balance worked strongly in the direction of GDP decrease (−2.0 p.p.). Solely the positive balance of trade with goods was worsening (−211.6 CZK bn). On the contrary, the surplus of trade with services improved by 7.5 CZK bn last year.

In Q4, the foreign trade balance was in deficit.

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

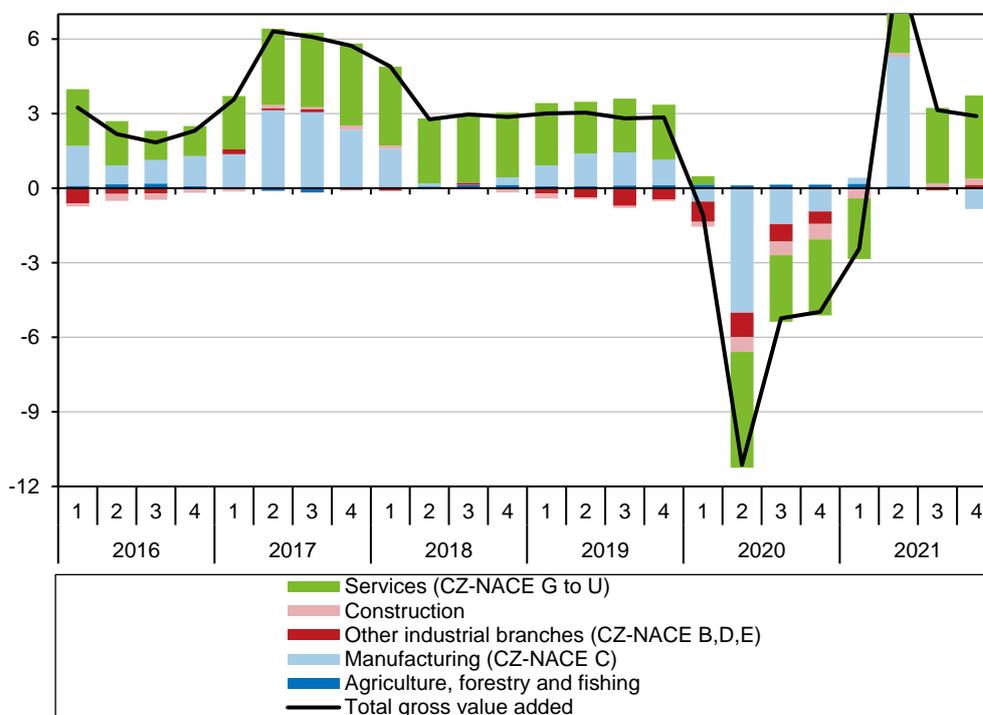
¹⁷ According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). Foreign trade balance in current prices and after seasonal adjustment.

¹⁸ It represents the largest recorded worsening.

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

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

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



Source: CZSO

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

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



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

3. Branches Performance

The after crisis recovery continued in services for a major part of the last year. It was not significantly disrupted during the worsening of epidemic situation in Q4.

From the view of the whole year, manufacturing still contributed the most to the GVA growth. Agriculture kept reaching good results, majority of services, especially the public services also prospered.

After-crisis recovery of industry displayed uneven development last year.

The domestic economy continued in recovery in the second half of the year, which had been started already during the Spring period, when the epidemic situation substantially improved, and the restrictive measures clutching part of the economy were thus gradually abolished. Quarter-on-quarter growth of the gross value added (GVA)¹⁹ recorded 1.0% in Q2 and it accelerated to 1.5% in the subsequent period. Mainly trade, transportation and further activities linked to tourism assisted this result, public services also had a stimulating effect²⁰. The total growth of performance of all branches slowed down to 0.7% in Q4. Deepening supplier difficulties subdued the output of manufacturing (−1.6%), the growth also ceased in construction. The unexpected substantial deterioration of the epidemic situation however did not lead to the shutdown of shops anymore and all key branches of services continued to grow – especially the financial sector and real estate activities fared well. The GVA in the whole economy still lagged behind its pre-crisis maximum (by 2.2%)²¹, number of branches of services nevertheless already overtook their record performance from year 2019²².

In year 2021, the GVA increased by 3.0% in the whole economy year-on-year. Manufacturing contributed to the growth the most (+1.1 p.p.) even despite growing logistic difficulties. Branch agriculture, forestry and fishing, experiencing increasing labour productivity and rising value added for the fourth year in a row, fared well. Last year's harvest of agricultural crops was comparable to the good harvest of year 2020²³, definitely above average then in the context of the last decade²⁴. Mild growth of meat production (+2.6%) continued in the animal production for the fourth year in a row, the direct purchase of milk from domestic producers however lowered by 2.0% in comparison to the record level from year 2020. In addition, the weakening bark beetle outbreak had also likely had an effect on the output of the whole primary sector (record natural wood harvesting from year 2020 did not repeat last year any more). Among services, the GVA grew the most in financial activities last year and it contributed to the growth of the whole economy by 0.4 p.p. The recovering branch trade, transportation, accommodation and food service also had a similar effect and also public services, where the higher number of hours worked significantly contributed to the GVA growth (by 2.9%).

Next to the data regarding the value added, the more detailed data from the business statistics also evidence the ongoing recovery of industry in year 2021. This recovery however followed an uneven path, both from the view of individual parts of the year and the branches. The motor vehicle industry faced supplier difficulties throughout the whole year, stemming from the fast revival of the most developed world economies accompanied by production as well as logistic struggles in Asian regions. In addition, some types of economic activities strongly hit during the pandemics (e.g. manufacture of clothing, beverages) still experienced inadequate demand.

¹⁹ Data regarding the GDP, gross value added and their components are expressed in constant prices and adjusted for seasonal and calendar effects.

²⁰ Include public administration, education, health and social work.

²¹ On the contrary, the GVA already returned to the level from the peak of the pre-crisis expansion in the EU, specifically in Q3 2021. It then overtook this level in Q4 (by mild 0.4%), which was also valid in two thirds of the Union members (e.g. in Poland by 4.1%, in Hungary by 3.0%). In the euro area countries however it still slightly lagged behind this height, as a result of slower recovery of some large economies – France (+0.1%), Italy (−1.0%), Germany (−2.1%) or Spain (−4.0%).

²² The GVA was already by 10% higher in financial and insurance activities last year in Q4 compared to the end of year 2019, analogically by 6% in the public services, by 5% in information and communication and by 1% in the real estate activities. Performance of all services branches was comparable to the pre-pandemic maximum (+0.1%), on the contrary the industry lagged behind by notable 7.5%.

²³ Harvest of cereals was higher by 1.2% year-on-year last year, on the contrary it fell for potatoes by 3.5% and oilseed rape by 17.7% (in the absolute amount it represented the weakest harvest since year 2006). Other oil plants however fared well (mainly thanks to the expansion of the sowing area), legumes, sugar beet, hop plant, majority of forage crops and it was harvested more of all types of vegetables as well. Fruit farming experienced mild decrease, mainly due to the lower harvest of plums.

²⁴ Last year's harvest of cereals (including corn) was 8.23 million of tons (the sixth largest harvest in the era of the independent CR). Compared to the average from years 2011 till 2020, it was by 5.3% higher, solely thanks to the increase of the yield per hectare. The harvest of potatoes (+3.4%), technical sugar beet (+6.5%), green maize and silage (+3.4%) also slightly exceeded the long-term average, more notably then for perennial forage crops (+21.4%) or the hop plant (+39.6%). Among the more significant plants, only the rape plan did not thrive (−19.4%), as a result of the significant decrease of the sowing area, partially also the lowering of the yield per hectare.



In Q2, the industry performance was on its last year's peak, when it benefited from the overall revival of the economy in the euro area.

After the fast restart of industry in the second half of year 2020, with participation apart from the key export branches from wide spectrum of sub-branches, the output of the whole industry temporarily dropped at the beginning of year 2021. The industrial production²⁵ decreased by 1.1% quarter-on-quarter in Q1, since the swift after crisis recovery of motor vehicle producers (including their closest domestic sub-suppliers) and of the chemical industry halted. In the subsequent quarter, the mild growth of the industrial production renewed (0.9%). „Reopening“ of the economy after the retreat of the pandemic wage returns part of the lost consumer and entrepreneur confidence both in the CR and in the EU, which led to the revival of consumption and investment activity. Strongly export oriented domestic industry benefited mainly from the favourable economic development of the key export territories – Germany, resp. the whole EU²⁶ in Spring.

In H2, the industry was hindered by growing difficulties with availability of components for the manufacturing of motor vehicles and also the strong growth of prices of energies and material inputs in the whole industry just at the end of the year.

This promising development was nevertheless in the second half of the year overshadowed by the deepening difficulties in the global supplier chains, which considerably disrupted the continuity of production, mainly in the dominant motor vehicle manufacturing branch. Output in the whole industry thus dropped by 2.2% quarter-on-quarter in Q3. Difficulties with the shortage production components slightly eased up at the end of the last year, the majority of industrial businesses however had to face a strong price growth of material inputs augmented by the unexpected escalation of the energy prices. Compared to Q3, the volume of the industrial production thus stagnated at the end of the year, and it even slightly decreased in the majority of significant branches (except for energy and chemical industries). In comparison to the pre-pandemic maximum from May 2019, the industrial production was still significantly falling behind in the last month of the last year (by 6.1%).

Without including the manufacture of motor vehicles, the year-on-year growth of the industrial production would also continue in H2 2021.

The industrial production went up by 6.6% year-on-year for the whole last year (it slumped by 7.2% mainly due to the Spring temporary shutdowns for year 2020). The industry performance however slightly shrank (by 0.1%, resp. 1.9%) in both Q3 and 4. It was to a large extent due to the effect of motor vehicle industry, whose dynamics was except for the above stated factors also affected by the high last year's comparative basis. Excluding this branch, the industry would thus continue to grow in the second half of the last year (+4.1%, resp. +1.8%)²⁷.

Manufacture of metal products contributed the most to the last year's growth of the industrial output. Metallurgy, chemical industry, machinery or electrotechnical engineering also prospered.

The industry growth was driven the most by the manufacture of metal constructions and metal products for the whole year 2021 (contribution +0.9 p.p., branch growth +9.1%). It was also associated with the revival of both domestic and foreign demand in the long-term subdued branch of metallurgy, whose performance expanded last year the most after year 2010 (+11.4%). Machinery strengthened by roughly one tenth last year, but also branches partially linked to the manufacture of transport equipment – manufacture of rubber and plastic product or electrotechnical engineering industry²⁸. Among other more significant activities, the chemical industry prospered (+8.3%), benefiting from the expansion of its production capacities. More than 10% growth was achieved by the manufacture of construction materials, which tried to respond to the surging demand especially on the domestic market. Output of food industry (+4.7%) as well as manufacturing of computers, electronic and optical appliances (+1.8 %) grew slower. While the food industry could rely on the relatively stable domestic demand, which was not more significantly affected even by the pandemics, the second mentioned branch had to overcome more long-term fluctuations of the foreign demand, which did not revive more even in the second “pandemic” year. The traditional

Recovery of the motor vehicle industry was subdued by the difficulties with the availability of production components during the whole year.

²⁵ 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.

²⁶ 30.8% of the value of total domestic export of the industrial goods headed to Germany last year in Q2, 80% then into the EU.

²⁷ The output increased in approximately two thirds of the main industrial branches year-on-year in Q4 2021.

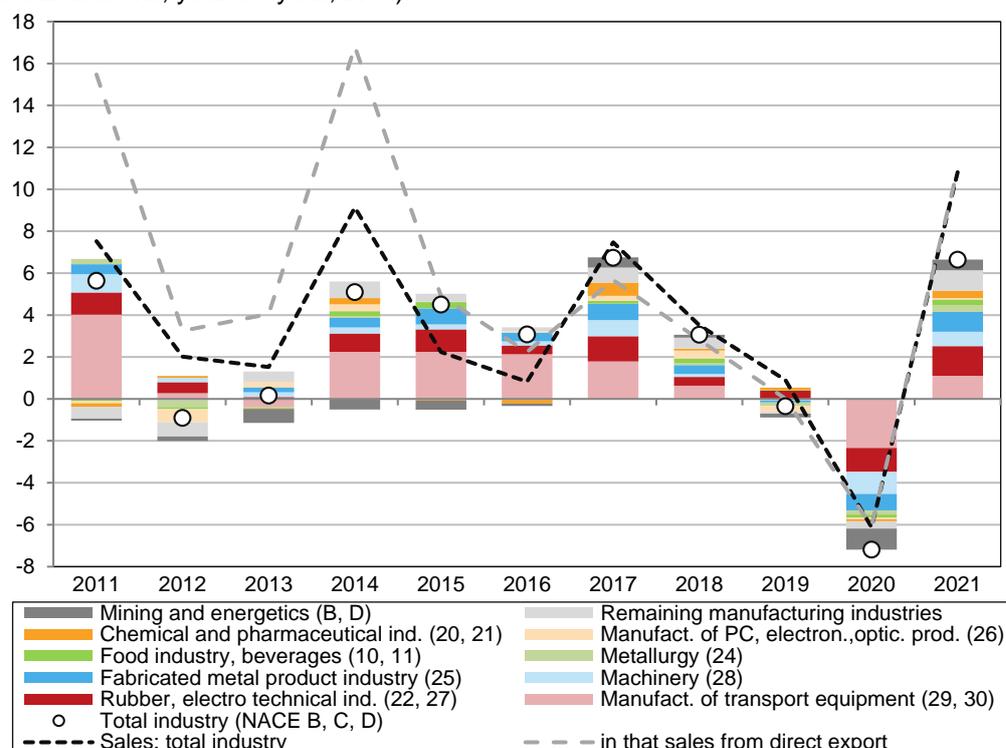
²⁸ Difficulties with the involuntary shutdowns of production in the motor vehicle industry, which occurred last year both in Summer and Autumn, however started to be evident in these sub-branches in Q4 2021. The output fell by 4.4% in manufacturing of rubber and plastic products year-on-year in Q4, the decrease in the more diversified branch of manufacturing of electrical appliances was milder (1.3%).

industry driver – manufacture of motor vehicles²⁹ – recorded due to the variable production³⁰ only 3.9% production growth last year (after 12% slump in year 2020) and it lagged behind the pre-pandemic peak (from May 2019) by nearly one fifth at the end of the last year.

Manufacturing of paper, pharmaceutical, furniture products or rail transport equipment thrived further and their output exceeded the level from year 2019.

Some smaller manufacturing subbranches flourished last year and their production already exceeded the level from year 2019. The example is manufacturing of other (especially rail) transport equipment (+21.4% year-on-year, the most after year 2011), where the high volume of domestic orders negotiated in year 2020 was apparent. Both domestic and foreign demand assisted the manufacturers of furniture, whose output increased by more than one tenth last year and continued thus in the swift growth during the period of pre-pandemic business cycle peak. Pharmaceutical, paper and other manufacturing industry (including for instance manufacturing of medical instruments, sports equipment, games and toys) belong to the long-time growth branches, where the demand was expanding also during the pandemics. Manufacture of clothing, which was limited by the persisting weaker foreign demand, on the contrary still faced difficulties. Output of wood industry also decreased last year (by 5.5%), which was connected to the retreat of the bark beetle outbreak.

Chart 4 Contributions of sub-branches to the year-on-year change of the industrial production (in percentage points, in real terms) and sales in the whole industry (in nominal terms, year-on-year, in %)



Note: Both industrial output and sales are adjusted for calendar effects.

Source: CZSO

In both mining and energy industry the output mildly increased last year, however it was far from offsetting the

In mining and quarrying, the production expanded by even 4% year-on-year in 2021 after the record slump of the year before last³¹. While the still dominant activity of coal mining continued to decline for the tenth year in a row (the production decreased by 53% in total for this time period), output in mining of construction materials went up by 11.1% last year and it mildly

²⁹ This field concentrated approximately one sixth of total industrial production in the CR in the last years.

³⁰ This is also confirmed by data related to the physical production. According to the date of the Automotive Industry Association, there was manufactured locally 1.105 mil of personal vehicles in the CR last year, which was by 4% less year-on-year and less compared to record year 2018 even by 23%. Only 318 thousand manufactured motor vehicles - i.e. only 29% of last year's annual production - pertained to the five months of year 2021, affected by the involuntary shutdowns of production or prolonged vacation leaves (December and period from July till October).

³¹ The production slumped by one sixth for the whole year 2021, i.e. the most in the comparable time series since year 2000. It was connected to the long-term transformation of the energetic mix of the economy, also accelerated by the swift growth of prices of emission allowances.



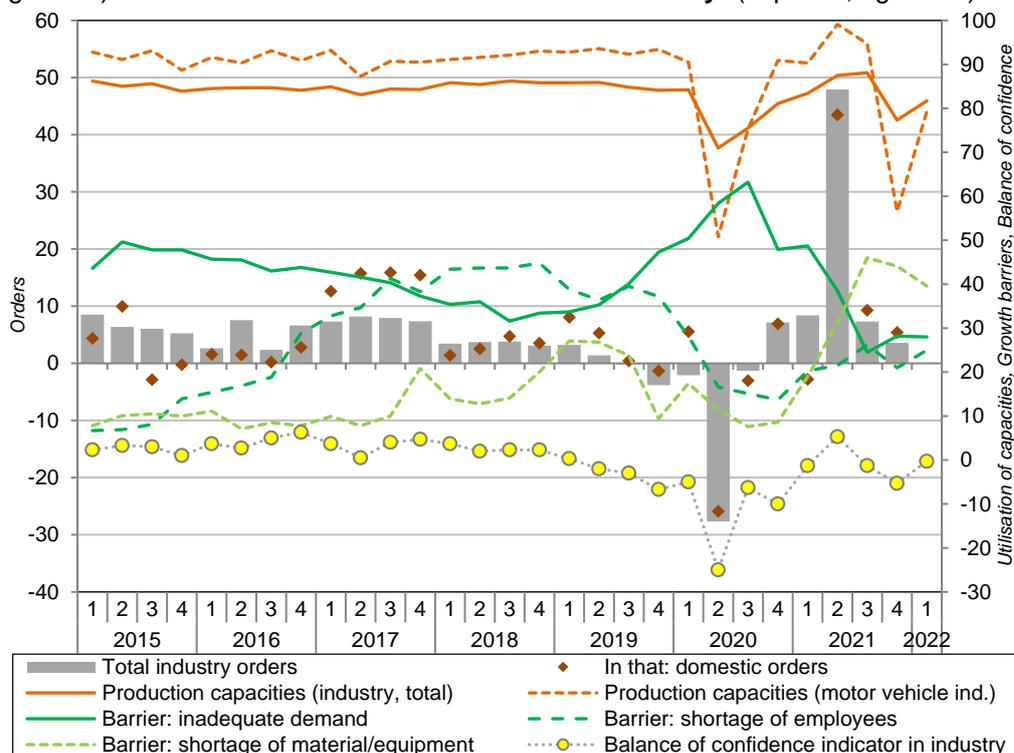
slump from year 2020 yet.

Strong growth of sales in coal mining, metallurgy, wood industry or manufacture of metal products was result exclusively of price growth in Q4.

exceeded the dive from year 2020. The same on the contrary did not succeed in the energy industry, even though its production increased by even 4% last year³². Restrictions of shops in trade and services at the beginning of year 2021 as well as the fluctuation of year-round development of manufacturing of motor vehicles prevented the return to pre-pandemic level.

The nominal sales of industrial businesses³³ rose by 10.8% year-on-year in 2021. In Q4 itself, they grew only by 3.1%, i.e. considerably less than the production costs expressed via prices of industrial producers. Sales from direct export even ended slightly below the level from the end of year 2020, partially also for the reason that the weakening of the manufacturers of motor vehicles was more apparent here. Total sales grew the most in metallurgy (by 41.0%) in Q4, but similarly to the mining of coal (+26.3%), wood industry (+21.8%) as well as manufacturing of metal products (+13.1%) it was strictly the result of sharp price growth. It also considerably influenced the high rates of growth of sales in the chemical and paper industries. In contrast, the nearly 20% growth of sales for rail transport equipment as well as manufacturing of beverages accurately copied the growth of volume of production at the end of the last year. It was also valid in case of slump of sales of motor vehicle manufacturers, which reached nearly one fifth.

Chart 5 New orders in industry (in nominal terms, year-on-year change in %), **utilisation of production capacities in industry, selected growth barriers*** (in %, right axis) **and balance of confidence indicator in industry*** (in points, right axis)



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

³² According to the preliminary data of the Energy Regulatory Office of the CR, the total gross electricity production reached 84,9 TWh last year and increased by 4.2% year-on-year (it however dropped by 6.4% in year 2020). The gross domestic electricity consumption also slightly lagged behind the level from year 2019 last year, when it arrived at 73.7 TWh and increased by 3.2% year-on-year. Households (+8.1%) and wholesale customers within businesses (+4.4%) played a key role. By contrast retail consumers from the ranks of entrepreneurs consumed by 0.9% less year-on-year, by 3.4% for the two years. The total consumption of gas increased by 8.5% year-on-year in the CR last year, after taking into account the effect of the colder weather, the growth of the consumption was (after adjustment for thermal standard) only 3.5%. In year 2020, the recalculated consumption fell by 0.5% also due to the decrease of economic activity.

³³ Year-on-year rates of growth of sales are adjusted for calendar effects.

| | |
|---|--|
| <p>Growth of new orders in construction presented a positive signal indicating a possible increase of production volume in Q4.</p> | <p>Value of new industrial orders³⁴ increased by 3.6% year-on-year in Q4 2021, the domestic demand was rising slightly faster compared to the foreign demand. The swift growth of orders in metallurgy (36.5%), chemical (46.0%) as well as manufacturing of paper products (18.0%) will be swallowed to a large extent by the growing production costs of businesses. The more modest 13.2% increase of orders in machinery, with in addition a large share of domestic businesses, is thus a bigger promise with respect to the future growth of the production volume. Deteriorated short-term outlooks are on the contrary connected to the manufacturing of motor vehicles, where the lower volume of contracted orders (by 9.8%, resp. by 2.1% compared to Q4 2019) reflects the persisting doubts regarding the increase of production capacities to the standard level. Utilisation of production capacities thus stayed below 80% in this branch also in January 2022 (while it reached 93% for the whole year 2019)³⁵.</p> |
| <p>Entrepreneur confidence in industry weakened during Q2 and 3, a positive turnaround however occurred at the end of the year.</p> | <p>Entrepreneur confidence in industry was changing significantly during the year 2021. It continuously weakened after the June maximum (with the highest value in the last ten years) until October, when the pessimism was the deepest since last year's Spring. Subsequently a revival occurred due to the partial renewal of production in the motor vehicle industry and the total confidence in industry returned to the average level for year 2021 (and slightly higher than before the onset of pandemics). The expectations of the production activity in the next months improved. 27% of businesses in the whole industry anticipated its growth in January 15% then decrease. The outlook of the overall economic situation of businesses in industry for the upcoming six months remained similarly to the expectations in the area of employment mildly positive. Number of employees registered in industry lowered by 1.2% for the whole last year, however its year-on-year reduction halted in Q4 itself. The shortage of material and equipment remains the main barrier growth³⁶ since the half of the last year, it limited 40% of domestic industrial businesses (51% in the EU) in January 2022. Approximately one quarter of businesses faced inadequate demand similarly to the shortage of labour.</p> |
| <p>Shortage of material and equipment troubled already 40% of businesses in January 2022.</p> | <p>Construction despite some growth supporting conditions (e.g. planned public investment into the transportation infrastructure³⁷) revived slowly. Quarter-on-quarter rate of growth of the construction output³⁸ exceeded 2% in both Q1 and 2 of year 2021, however the output of the whole branch dropped by 1.0% in Q3. Civil engineering construction, impacted by slower drawing of public investment in the first two thirds of the year, primarily stood behind it. In Q4, a positive turn occurred in construction (+2.2%), caused mainly by the building construction benefiting from the favourable development of residential construction.</p> |
| <p>Quarter-on-quarter growth of the construction output halted in Q3, however it experienced a turnaround also thanks to the building construction towards the end of the year.</p> | <p>Also thanks to the development in the last months the construction output mildly grew for the whole last year, however exclusively due to the building construction, which strengthened by 3.5%. In contrast, the three years lasting growth of the civil engineering construction, supported by rising drawing on the European funds, halted last year (-0.2%). Building construction however continued in slump from year 2020 (-9.0%), which was the deepest in the comparable 20year time series.</p> |
| <p>Three years lasting growth of the civil engineering construction did not continue last year any more. Building construction was gradually regenerating.</p> | <p>Even though whole construction was not immediately hit by the counter pandemic restrictions in year 2021, the impacts of the measures from two years ago still had an effect (in administrative complexity of construction preparation or mobility of foreign workers). However, after the retreat of Spring pandemic wave, the conditions for construction</p> |
| <p>Number of commenced flats slightly exceeded the so far record construction from year 2007. Especially the</p> | <p>Even though whole construction was not immediately hit by the counter pandemic restrictions in year 2021, the impacts of the measures from two years ago still had an effect (in administrative complexity of construction preparation or mobility of foreign workers). However, after the retreat of Spring pandemic wave, the conditions for construction</p> |

³⁴ Survey of orders is ongoing only in 12 manufacturing branches producing mostly custom-made products, with longer production cycle and larger stocks of orders. Year-on-year growth rates of orders are adjusted for calendar effects.

³⁵ Largest utilisation of capacities had among the bigger industrial branches the manufacturing of construction materials or rubber and plastic products (similarly 90%) and also the chemical industry (84%) at the beginning of year 2022. Among smaller branches it was then analogically e.g. manufacturing of furniture (92%), wood industry (93%) and manufacturing of paper products (89%) or pharmaceutical products (87%). On the contrary, the manufacturers of beverages displayed the least utilised production capacities (67%), where this value also considerably fell behind the long-term average.

³⁶ Businesses could have stated more barriers simultaneously.

³⁷ For instance the budget of the State Fund for Transport Infrastructure calculated (based on the first approved version of the state budget) with investment transfers from the state budget in record size of 80.4 CZK bn in year 2021.

³⁸ Data regarding the construction output are in constant prices, year-on-year rates of growth are adjusted for calendar effects, quarter-on-quarter then also for seasonal effect.

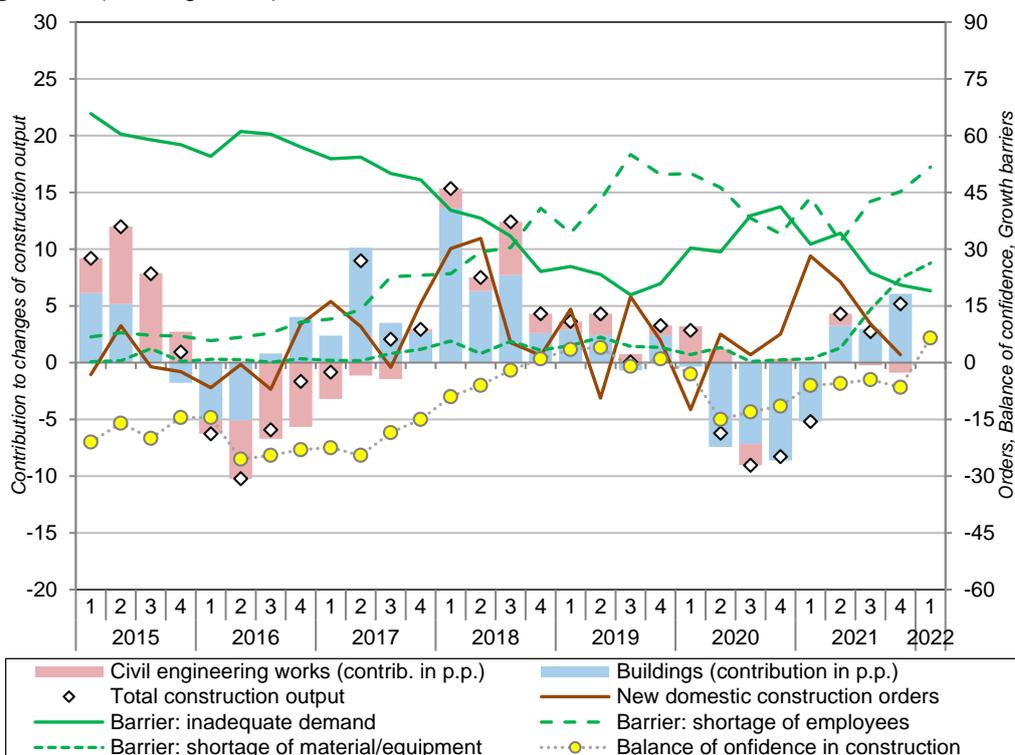


construction of flats in the residential buildings grew in Prague and Central Bohemia.

Number of completed flats stagnated year-on-year.

improved, which was for instance evident in the commenced residential construction. Mostly thanks to the unusually strong Q2, the number of commenced flats thus reached the record in the contemporary history of the CR of 45.0 thousand for the whole last year. The year-on-year strengthening of construction (by 28%) was also unprecedented, mainly thanks to the flats in the residential buildings. Even though the total construction expanded in 12 from 14 regions, Prague and Central Bohemia were behind the growth for the major part last year. Number of finished dwellings only stagnated in the CR last year (to 34.6 thousand) and it lagged by one sixth behind the year 2007. There were even the least flats in the family houses created for the last four years. Sharply raised prices of construction materials as well as work could have contributed to the large number of not completed constructions and thus also prolongation of the average time of construction.

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



Note: 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 state in the second month of the given quarter. Businesses could have state more main barriers simultaneously.

Source: CZSO, Eurostat

Growth of the value of new construction orders slowed down in Q4.

Entrepreneur confidence in construction did not change much last year, January and February 2022 brought a positive shift. Shortage of labour

Growth of the nominal value of newly contracted domestic construction orders (in businesses with more than 50 employees) after swift year-on-year pace in the first three quarters (in total by one fifth) slowed down in the remaining part of the last year (to 1.0%) and was thus overshadowed by the growth of construction works (7.9%) as well as prices of materials (17.0%)³⁹. Total stock of work including all so far not yet realised orders was by 13.1% higher year-on-year in December 2021 (it grew similarly for both domestic public and private orders). The approximate value per one building permit exceeded the similar level from year 2020 by 30% in Q4, in two year comparison however it was higher "only" by 16%. The new construction of residential buildings contributed the most to the growth. Entrepreneur confidence in construction was slightly fluctuating throughout the

³⁹ Already 55% of entrepreneurs in construction expected continuing growth of the sale prices in the next three months in February 2022. It was negligibly more than in the so far record year 2008.

remains the key barrier to growth.

whole last year and remained slightly below the level from the period just before the onset of pandemics. At the beginning of year 2022, improvement was recorded thanks to the more favourable evaluation of the current demand as well as employment anticipations. Already only 19% of businesses indicated inadequate demand as a barrier to growth, in contrast record 26% of businesses faced shortage of material and equipment. Shortage of labour remains in practice the key barrier to growth in construction for more than three years - it already limited 52% of businesses this year in February.

Mainly activities tied to tourism contributed to the quarter-on-quarter growth of sales in services last year in Q2 and 3, transportation and warehousing then at the end of the year.

Considerable improvement of the epidemic situation during the last year's Spring together with the progressing vaccination of population enabled practically complete loosening of restrictions. Opposed to the Summer months of year 2020, procedures for the cross border movement of persons were also simplified. This led to the swift quarter-on-quarter growth of sales in selected services⁴⁰, which represented 5.3% in Q2 2021 and 3.0% in the subsequent period. This revival was naturally driven by the activities tied to tourism, all main services branches however participated to a lesser extent. The recovery of services continued in Q4 (+2.2%), mainly thanks to the branch transportation and warehousing, whose sales overtook the peak from the pre-pandemic period for the first time. This has not been valid so far for services as a whole since their total output still lagged by 2.5% behind the level from Q2 2019.

Transportation and warehousing ensured more than one half of the year-on-year growth of sales in services last year.

The sales in branch transportation and warehousing increased by full 12.8% year-on-year for the whole last year and contributed by more than one half to the growth of all services performance (+7.5%). The strong demand in warehousing, where the sales overtook the level from year 2019 already by nearly one tenth, was a decisive factor. The fast advancement of the postal and courier services continued, they benefited from the growth of the sales via internet, which further surged during the pandemics. Sales from land and pipeline transportation did increase by 5.7% year-on-year last year, in reality they however were placed only near to the value from years 2015 and 2016. Lowered transport demands of population stemming from more frequent utilisation of home office as well as distance learning and also from the slower recovery of the arrival tourism⁴¹ prevented the return to the standard level of mobility. This was fully mirrored in sales of accommodation, which mildly increased year-on-year (by 2.3%), however they were by 55% weaker compared to year 2019. The two-year slump in food service and restaurants amounted to "only" 30% thanks to the faster revival of consumption of domestic households.

Sales in accommodation, food service and restaurants still deeply lagged behind year 2019.

Growth of sales in information and communication continued for the eighth year in a row.

Year-on-year growth of sales in information and communication (ICT) markedly accelerated last year (to 5.8%). Sales were hiked up here for the eighth year in a row. All subbranches contributed to the last year's growth, activities in the area of information technologies (for instance programming) the most. Motion picture and music industry were fast recovering⁴², however the slump of sales from year 2020 (by 39%) was not fully compensated yet. Sales

⁴⁰ Without trade, financial industry, insurance industry, science, research and public services. All figures for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter data are seasonally adjusted (including the effect of number of working days).

⁴¹ 11.4 mil of visitors arrived at the mass accommodation facilities in the CR in year 2021. The number of their overnight stays slightly increased year-on-year (+1.8%), for guests from abroad however it fell by 11.4% and reached only one quarter of the size from year 2019. One half of all overnight stays of non-residents pertained to guests from neighbouring countries with the CR last year. Due to the worsened epidemic situation as well as administrative obstacles in travelling, the extremely low portion of overnight stays from Russia persisted (3% of the number from year 2019), Great Britain (12%), distant Asian countries, especially China (2%) and Taiwan (1%), South Korea (3%) and Japan (6%), or for instance from the USA (16%). Among the more significant source countries, the numbers of overnight stays dropped the least for Slovakia (by 50%), for clients from the CR the two-year decrease was only 15%.

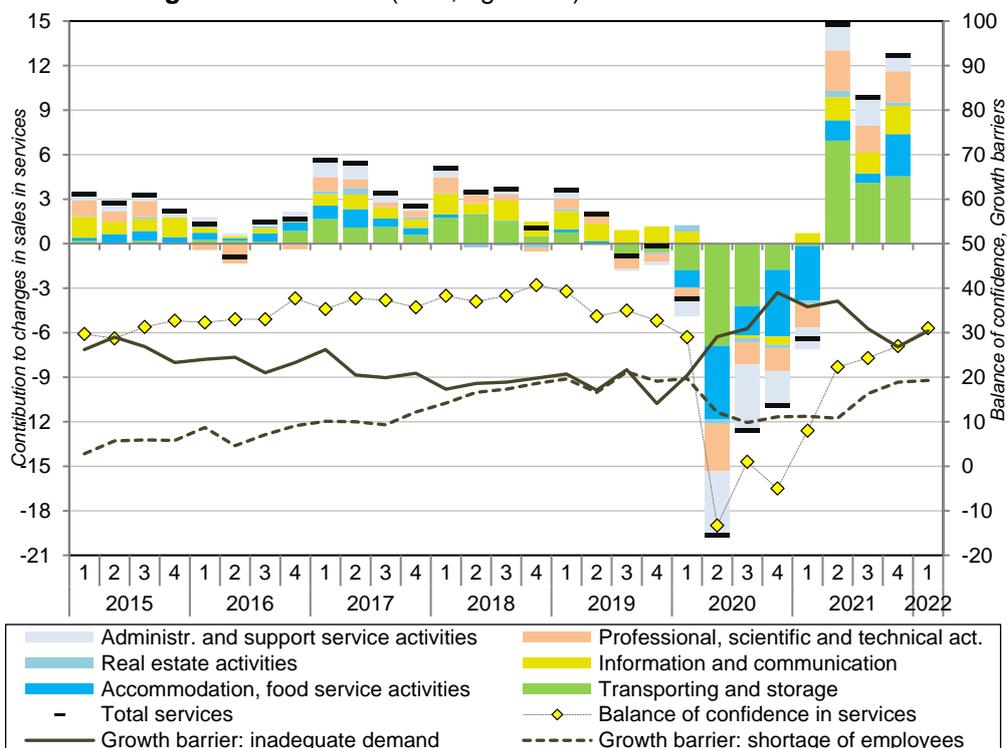
⁴² Data from the segment of motion picture distribution also prove it. The operations of cinemas were gradually renewed at the turn of May and June last year. As of July, when the possibility of refreshment was also allowed in the cinema theatre, the number of visitors started to return to the pre pandemic level. Already 3.5 mil of visitors arrived at the cinemas in the CR in Q3, by one half more year-on-year and compared to the same period in year 2019 by 17% less. Reintroduction of partial restrictions at the end of November (admission only to vaccinated and persons who went through the disease covid-19) inhibited the return to normal. The attendance climbed up to 7.14 mil persons for the whole last year, which was by 12% more year-on-year, but compared to the record year 2019, it represented a decrease of 61%.



Some specialised services for businesses faced decline of demand in years 2020 and 2021.

in branch professional, scientific and technical activities, dependent to a large extent on the business demand, increased by 5.4% year-on-year last year. The architectural and engineering services played the largest role. Demand for activities for head office (including management consultancy activities) was strengthening, similarly to legal and accounting activities already overcoming the level of sales from the period shortly before the pandemic period. On the contrary, some specialised services (for example translation, photographic, design activities) faced a decrease of demand in both pandemic years. Last year's growth of services in the administrative and support services activities (by 7.5%) was for a major part influenced by the revival of demand in the area of travel agencies, where however the sales still hasn't reached even 40% of level from year 2019. Other subbranches haven't overcome the slump from year 2020 yet – especially then employment placement agencies, which featured apparent weaker demand during the last year.

Chart 7 Contributions of branches to year-on-year change of sales in services* (in p.p., real), balance of confidence indicator in selected 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. Sales are adjusted for calendar effect.

**Also includes the financial sector. Balance of confidence as well as the barriers to growth are seasonally adjusted and express the state in the first (growth barriers), resp. second month of the given quarter (balance of confidence). Businesses could have stated more main barriers simultaneously.

Source: CZSO, Eurostat

Last year's retail performance was marked by restrictions in Q1. Month-on-month decrease of sales was also recorded at the end of the last year.

Last year's retail sales⁴³ were considerably affected by restrictions in Q1, which culminated by a substantial limitation of population mobility in March. Sales reacted to the Spring easing of restrictions by strong May growth (by 9.0% year-on-year, in that by 13.9% in the segment of non-food goods). Simultaneously the value of the consumer confidence considerably strengthened but did not reach the height from the period shortly before the onset of the pandemic even during the Summer⁴⁴. Even though the worsening of the epidemic situation

⁴³ All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter or month-on-month growth rates are adjusted for seasonal effects (including the number of working days). Retail includes branches CZ-NACE 47.

⁴⁴ Growing consumer confidence was linked to the low unemployment also for the most part of the year continuing real growth of wages (supported by the payment of extraordinary bonuses in parts of the public sector as well as lower taxation on income). Unparalleled high worries of people regarding the growth of prices could have worked against faster realisation of delayed consumption at the end of the year, which were also grounded in the real economy.

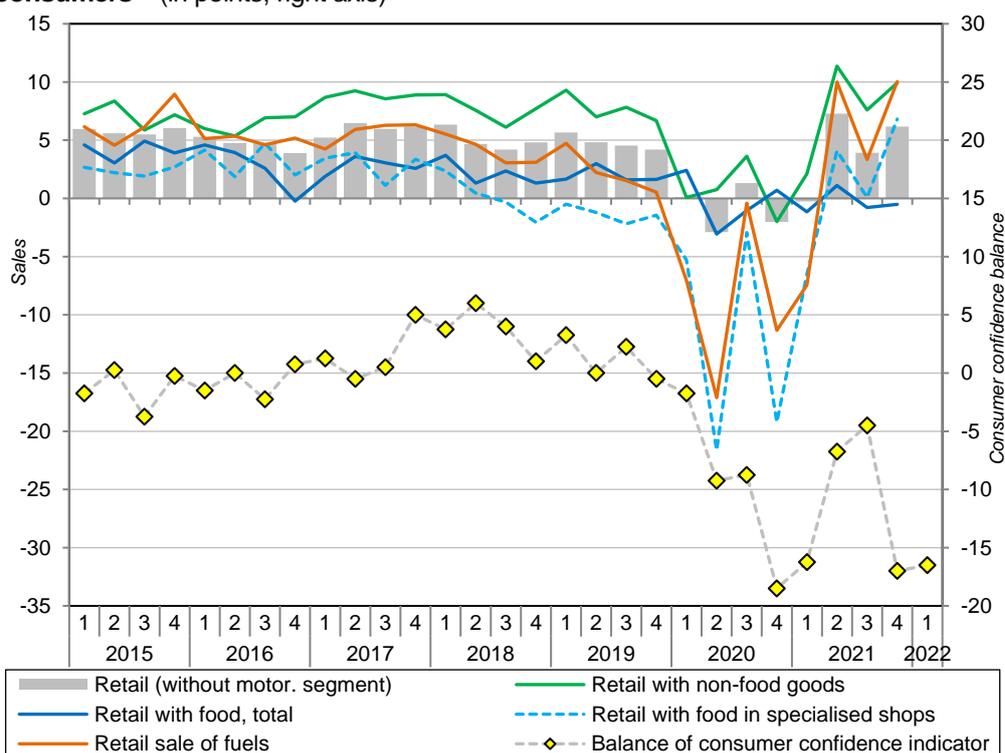
was not connected to the restriction on the purchase options in the last third of the year any more, retail sales fell both in November and December (in total by 3.4% for both months). They increased by 4.4%⁴⁵ for the whole last year and after small decrease in year 2020 (by 0.9%) they neared the pace from the period just before the onset of the pandemics.

Sales for non-food goods were significantly driven by the sales via internet.

Last year's growth of the whole retail was driven the most by higher sales for non-food goods (8.0% year-on-year), which could have been the result of postponed consumption as well as the popularity of purchases via internet, which apparently became the dominant purchasing channel for a part of the consumers during the pandemic. Within the specialised shops, apart from the sales via internet the sales in shops with computer and communication equipment (6.8%) and in shops with cosmetic and toilet requisites (5.8%) grew the most. Demand for shops with clothing, footwear and leather goods and also for products for culture and recreation grew slower – the sales nevertheless still in both cases notably lagged behind the year 2019. Sales for food shrank last year for the second year in a row (equally by 0.3%), they fell in non-specialised shops, where the large business chains dominate, for the first time after seven years of growth. Sellers of fuels earned by 4.0% more year-on-year, however they were far from offsetting the slump from year 2020⁴⁶. The motorist segment was in similar situation, their sales lagged by 8% behind the level of year 2019 despite the last year's revival. It was valid for this whole segment apart from trade, repairs and motorcycles maintenance (with long time growing demand, largely not disrupted during the pandemics).

Sales for food fell for the second year in a row. Large chains apparently also participated on this result in 2021.

Chart 8 Retail sales* (real, year-on-year in %) and balance of confidence indicator of consumers (in points, right axis)**



* Sales are adjusted for calendar effects.

** Consumer confidence balance is seasonally adjusted and expresses the position in the second month of the given quarter.

Source::CZSO

⁴⁵ Similarly to year 2020 thus also recorded slightly weaker pace compared to both the EU and euro area. The retail sales rose by 5.5% in the EU and 5.0% in the euro area last year. The sales strengthened the most in Slovenia (+18.9%), Lithuania (+12.9%) and Bulgaria (+12.2%), among larger economies then in France (+9.7%), Poland (+9.3%) and Italy (+8.2%). The sales grew less in Slovakia (+1.3%) and also Germany (+0.9%), where they however showed unusually strong growth in year 2020 (+4.4%) – the highest in the whole Union. Sales for food decreased apart from the CR only in other five Union countries last year (for instance in both Poland and Germany). On the contrary the domestic growth of sales for non-food goods moved closed to the level of the EU (8.3%).

⁴⁶ Rising consumer prices of fuels could have also worked against the growth of consumption at the end of the last year. For example Natural 95 was sold on average for approximately 37 CZK per litre at petrol stations in November, which was the highest value since October 2012.



4. External Relations

The strong increase of export was influenced mainly by the first half of the year and low comparative basis in year 2021.

The export reached value 3 936.4 CZK bn in 2021 and it was thus by 453.3 bn (13.0%) higher year-on-year. This exceptionally high addition (the highest since year 2014) was also affected by the comparison with year 2020 (export decline by 5.7%), when the foreign trade was strongly influenced by the interruption of production in large industrial businesses in both the CR and Europe, especially in motor vehicle factories. Development in Q2, which was affected by the low comparative basis of the same time period of year 2020 (export was by 40.8% higher year-on-year), contributed the most to the strong increase. The export of goods was however growing year-on-year in all quarters. In Q4 itself, the value of export amounted to 1 030.0 CZK bn. It represents year-on-year increase of 27.5 CZK bn (2.7%). The relatively moderate dynamics was apart from difficulties with the supply of components in industry also affected by the comparison with very strong Q4 2020, when the impulse of exports to catch up to the losses from Spring of the same year culminated.

Export into the European Union grew stronger than export outside the EU last year.

From the territorial viewpoint, export into the European Union played a major part in the export increase last year, it was 398.4 CZK bn (14.4%) higher. Export outside the EU was by 54.3 CZK bn higher (7.7%). The year-on-year dynamics of export into the EU was higher compared to the export outside the EU in all quarters of year 2021. Export grew into the majority of individual countries, which was also given by low comparative basis. Export to Germany (+125.9 CZK bn, 11.5%), Slovakia (+57.5 bn, 17.7%) and Poland (+51.4 bn, 22.5 %) grew the most in 2021. Export to Austria (+36.4 CZK bn, 25.6%), Italy (+23.5 bn, 18.7%) and France (+18.3 bn, 10.9%) nevertheless also recorded significant increases. Only several countries reported decrease of export. Export to Russia (−4.6 CZK bn, −5.5%), Kazakhstan (−3.6 bn, −46.8%), Indonesia (−2.2 bn, −52.5%) and Turkey (−2.1 bn, −4.9%) fell the most last year.

Export outside the EU was falling in Q4.

In Q4 itself, the export into the EU grew year-on-year (+30.0 CZK bn, 3.7%), while the export outside the EU dropped for the second time in a row (−2.8 bn, −1.4%). Export to Slovakia (+18.7 CZK bn, 20.0%), Austria (+8.3 bn, 21.5%) and Poland (+7.7 bn, 11.7%) increased the most. Year-on-year increase of export to Germany (+4.0 CZK bn, 1.3%) was relatively weak. Growth of export to our nearest neighbours (mainly to Germany and Slovakia) was significantly supported by sharp increase of electricity prices. In Q4, the largest year-on-year decrease was recorded by export to France (−7.2 CZK bn, −13.7%), Russia (−6.1 bn, −25.9%) and Spain (−4.3 bn, −15.4%).

Export of absolute majority of types of goods grew last year.

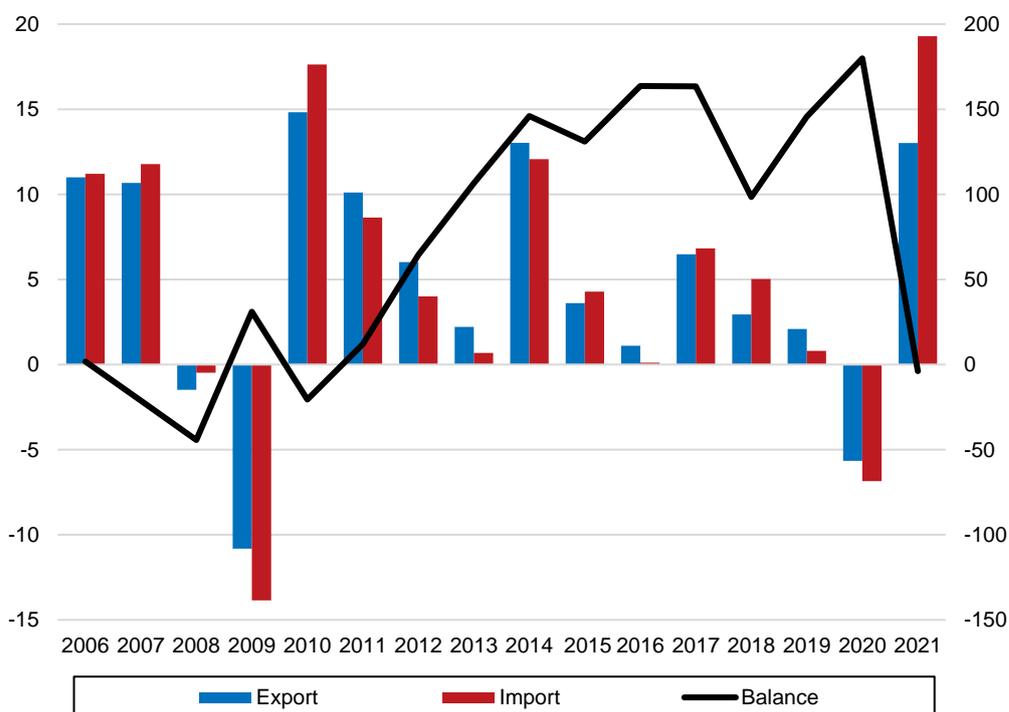
Electrical appliances contributed the most to the total increase of export of goods in 2021 (+51.1 CZK bn, 17.0%), followed by chemical substances and products (+48.4 bn, 29.5%), motor vehicles (+47.4 bn, 5.2%) and basic metals (+46.7 bn, 37.3%). Higher prices strongly assisted the growth of chemical products and metals. It was also behind the record increase of export of electricity, gas, steam and air conditioning supply (+39.7 CZK bn, 191.6%). Export of machinery and equipment (+39.3 CZK bn, 10.3%), metal products (+31.6 bn, 14.6%) and rubber and plastic products (+24.3 bn, 13.3%) recovered after the slump in 2020 and grew significantly. Products associated with waste (+18.5 CZK bn, 66.2%)⁴⁷, coke and refined oil products (+17.3 bn, 67.7%) and wood and wood products (+15.8 bn, 38.3%) recorded exceptionally strong export increase last year. Export of food products (+9.7 bn, 8.1%), computer, electronic and optical appliances (+8.7 CZK bn, 2.3%), other non-metal mineral products (+8.6 bn, 12.2%), other products of manufacturing (+7.8 bn, 9.2%), clothing (+7.2 bn, 21.1%) or paper and paper products (+6.5 bn, 10.4%) also grew solidly. Only the export of some relatively smaller items was lower year-on-year, export of oil and natural gas (−2.9 CZK bn, −85.3%) and motion pictures, video production and sound recording activities (−1.5 bn, −14.4%) went down the most.

⁴⁷ Especially the increase of the value of export of metallic waste had an effect.

In Q4, the export of motor vehicles sank deeply.

Large deceleration of the export dynamics, which occurred in the second half of year 2021, can be for the major part connected to the difficulties in manufacturing of motor vehicles. In Q4 itself, the export of motor vehicles lowered by 50.0 CZK bn year-on-year (-17.4%). Only exporters of computer, electronic and optical appliances (-13.7 CZK bn, -11.8%) then recorded considerable decrease. Electricity, gas, steam and air conditioning supply (+27.4 CZK bn, 450.9%) played a key role in the resulting total year-on-year increase of the value of export of goods in Q4, but also the majority of other branches preserved at least a moderate growth. Towards the end of the year, export of basic metals (+13.1 CZK bn, 41.0%), chemical substances and products (+11.2 bn, 24.1%), coke and refined oil products (+6.1 bn, 89.7%), metalworking products (+5.2 bn, 8.8%), products associated with waste (+3.8 bn, 47.4%), electrical appliances (+3.2 bn, 3.7%), food products (+3.2 bn, 10.2%) or wood and wood products (+3.1 bn, 28.3%) was higher year-on-year.

Chart 9 Export and import of goods (year-on-year change, in %) and balance of foreign trade with goods (in CZK bn, right axis)



Source: CZSO

Import very strongly increased during the whole last year.

Import of goods attained value of 3 940.3 CZK bn in 2021 and expanded by 637.1 bn (19.3%) year-on-year. Comparison with weak year 2020 contributed to the sharp increase of import, but the development of prices of many raw materials also had an effect. Increase of prices of oil and natural gas, basic metals as well as other materials was reflected in the very strong import dynamics during the whole year. In Q4 itself, the value of import arrived at 1 057.4 CZK bn and it was by 133.9 bn (14.5%) higher year-on-year. Significant growth of prices of materials was reflected on the development of import from the territorial view, which the CR largely imports from countries outside the EU. Import from the European Union thus expanded in total by 366.4 CZK bn (17.3%) last year, while the import from the non-EU countries was by 265.2 bn (22.7%) higher. Import from Germany (+117.1 CZK bn, 14.3%), Russia (+69.8 bn, 103.0%), Poland (+60.8 bn, 21.2%) and China (+60.2 bn, 14.6%) grew the most last year. Increase of import from Slovakia (+41.5 bn, 25.8%), Italy (+29.0 bn, 19.5%), Japan (+23.4 bn, 38.6%) and Austria (+23.1 bn, 23.7%) was also strong. In Q4 itself, the year-on-year growth of import from the countries outside the EU (+75.7 CZK bn, 23.0%) notably exceeded the increase of import from the Union (+56.9 bn, 9.7%). The dynamics of import from Russia (+26.4 CZK bn, 136.6%) as well as China (+22.2 bn, 18.5%)



further strengthened. The increase was significant for Poland (+12.9 CZK bn, 16.2%), Germany (+10.9 bn, 4.8%), Slovakia (+9.6 bn, 20.9%), Italy (+6.3 bn, 15.6%) or Austria (+6.2 bn, 23.6%). The import was falling the most from South Korea (-2.6 CZK bn, -11.2%) and Hungary (-2.1 bn, -7.4%) in Q4 year-on-year.

Growth of import was mostly affected by the increase of prices of some materials last year.

Sharp growth of import was recorded for a number of articles last year. Import of basic metals (+103.1 CZK bn, 45.6%), oil and natural gas (+80.5 bn, 109.0%) and chemical substances and products (+73.9 bn, 27.3%) recorded the largest increase. The increase of import of electrical appliances (+70.8 CZK bn, 25.1%), machinery and appliances (+44.0 bn, 13.8%) and motor vehicles (41.8 bn, 8.6%) was also very strong. Further, growth of import of rubber and plastic products (+26.1 CZK bn, 14.8%), coke and refined oil products (+23.5 bn, 51.3%), computer, electronic and optical appliances (+22.4 bn, 5.3%), metal products (+20.1 bn, 12.5%), basic pharmaceutical products (+17.6 bn, 15.5%), other products of manufacturing (+15.3 bn, 20.7%), electricity, gas, steam and air conditioning supply (+12.7 bn, 107.8%), food products (+10.6 bn, 6.6%) or ores (+10.0 bn, 70.1%) was very strong. Only import of textiles (-5.3 CZK bn, -9.1%) and motion pictures, video production and sound recording activities (-1.0 bn, -18.6%) experienced a more notable decrease.

In Q4, only import of motor vehicles was strongly falling year-on-year.

In Q4 2021 itself, only import of motor vehicles strongly fell year-on-year (-25.0 CZK bn, -16.4%), import of other goods was generally growing. Again the value of import of materials was rising the most – oil and natural gas (+35.6 CZK bn, 184.6%) and basic metals (+28.4 bn, 46.7%). The increase of import of chemical substances and products (+15.9 bn, 21.3%), coke and refined oil products (+10.3 bn, 98.0%) and electricity, gas, steam and air conditioning supply (+6.3 bn, 187.4%) can also be associated with the increase of prices. The import of machinery and equipment (+7.2 bn, 8.4%), electrical appliances (+6.9 CZK bn, 8.3%), other manufacturing products (+5.6 bn, 26.8%) or food products (+5.7 bn, 13.7%) was also higher.

The foreign trade balance with goods ended in deficit for the first time since year 2010.

Balance of the foreign trade with goods fell into the deficit of 3.9 CZK bn in year 2021. It represents the first deficit since year 2010. The balance thus dropped by 183.8 CZK bn year-on-year. Especially the development in the second half of the year contributed to the deterioration, when the difficulties with the supplies of components in manufacturing of motor vehicles became fully evident and were also joined by the worsening of balance resulting from the growth of prices of materials. Last year's drop of foreign trade balance with goods can be fully ascribed to the trade with countries outside the EU (deepening of deficit by -210.9 CZK bn). In contrast the surplus of trade with the EU countries improved by 32.0 CZK bn. The trade with Russia (-74.4 CZK bn), China (-58.2 bn), Japan (-21.9 bn), Turkey (-14.0 bn), Ukraine (-13.5 bn), Kazakhstan (-13.0 bn) and Poland (-9.3 bn) worked the most in the direction of balance worsening. The balance of trade with the South Korea (-7.5 CZK bn), the Netherlands (-6.2 bn), Italy (-5.5 bn), the United States (-3.0 bn), Romania (-2.7 bn) or Belgium (-2.5 bn) also worsened. On the contrary, the trade with Slovakia (+16.0 CZK bn), Austria (+13.4 bn) and Germany (+8.8 bn) had significantly favourable effect and the balance with Sweden (+4.8 bn), France (+3.6 bn), Spain (+3.0 bn) or the Great Britain (+2.4 bn) also improved.

Deficit balance was in Q4 the worst since year 2008.

In Q4, the balance deficit amounted to 27.4 CZK bn. It represented the worst result since year 2008 and the first deficit in this period since year 2010⁴⁸. Compared to Q4 2020, the balanced deteriorated by 106.4 CZK bn⁴⁹. Trade with the majority of monitored countries worked in the direction of deficit. The surplus of trade with the EU sank by 26.9 CZK bn year-on-year and the deficit with countries outside the EU deepened by 78.5 bn. The trade with Russia (-32.5 CZK bn) and China (-21.8 bn) pushed in the direction of deficit the most.

⁴⁸ Within Q4s of the year, the foreign trade ended in deficit in years 2005–2008 and 2010.

⁴⁹ Surplus reached 79.0 CZK bn in Q4 2020, which was the largest recorded result.

Balance of foreign trade with France (−10.2 CZK bn), Germany (−6.8 bn), Poland (−5.2 bn), Italy (−5.0 bn), Turkey (−4.0 bn) or Spain (−4.0 bn) was also significantly worse. In contrast, the balance of trade with Slovakia (+9.2 CZK bn), Austria (+2.1 bn), South Korea (+1.7 bn) or Hungary (+0.9 bn) improved.

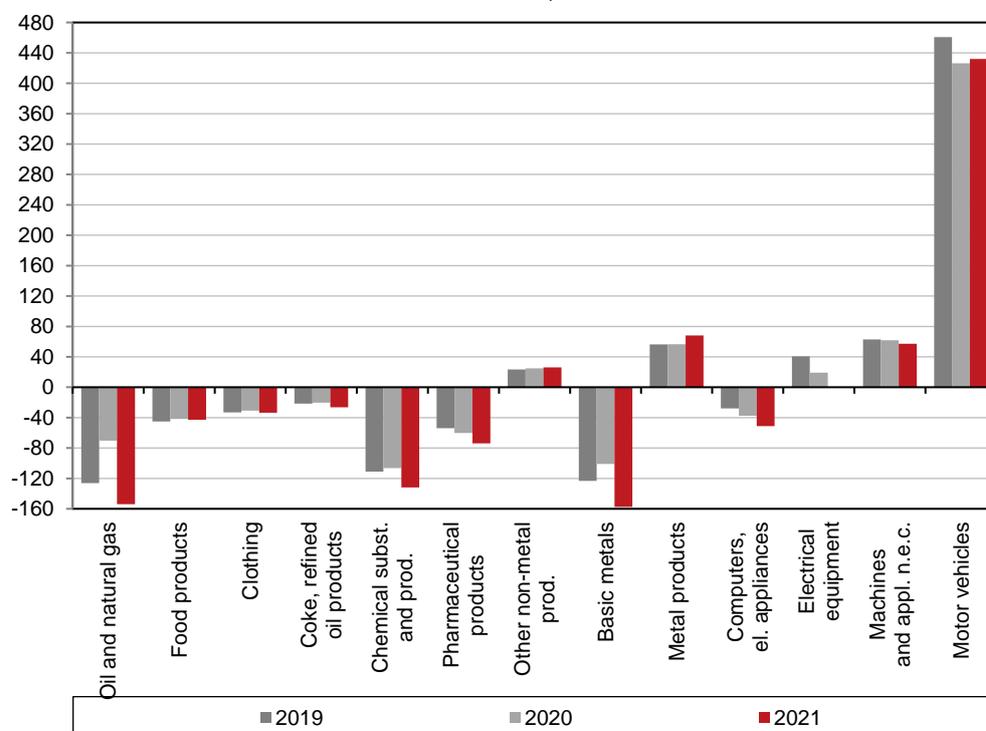
Trade with oil and natural gas contributed the most to the balance decrease last year.

Given the structure of goods, the trade with oil and natural gas (−83.4 CZK bn), basic metals (−56.4 bn) and chemical substances and products (−25.5 bn) held the largest share on the last year's balance deterioration. Balance of trade with electrical equipment (−19.7 CZK bn), basic pharmaceutical products (−13.8 bn), computers, electronic and optical appliances (−13.7 bn) and ores (−10.0 bn) also strongly worsened last year. The balance of trade with other products of manufacturing (−7.5 CZK bn), coke and refined oil products (−6.2 bn), other transportation equipment (−5.0 bn) or machinery and equipment (−4.7 bn) was also worse. On the contrary, the trade with electricity, gas, steam and air conditioning supply (+27.0 CZK bn), products connected to waste (+14.0 bn), metal products (+11.5 bn), wood and wood products (+8.7 bn), textiles (+7.0 bn) and motor vehicles (+5.6 bn) had a strong effect in the direction of balance improvement.

In Q4, the balance deteriorated across the majority of types of goods year-on-year.

Trade with the majority of goods types worked in the direction of deficit in Q4 2021. Only balance of trade with electricity, gas, steam and air conditioning supply (+21.0 CZK bn), products associated with waste (+2.9 bn), metal products (+1.9 bn), textiles (+1.7 bn) and wood and wood products (+1.3 bn) developed favourably year-on-year. Deficit of trade with oil and natural gas (−35.4 CZK bn), basic metals (−15.2 bn) and computers, electronic and optical appliances (−14.4 bn) deepened strongly further year-on-year. Surplus of trade with motor vehicles fell steep (−25.0 CZK bn). Balance of trade with machinery and equipment further worsened (−7.9 CZK bn), chemical substances and products (−4.8 bn), coke and refined oil products (−4.2 bn), other products of manufacturing (−4.1 bn), electrical equipment (−3.8 bn) or basic pharmaceutical products (−3.5 bn).

Chart 10 Balance of foreign trade in foreign trade statistics (cumulation of year 2021, in CZK bn, selected divisions of the CPA classification)



Source: CZSO



5. Prices

Total price level in the economy was markedly higher year-on-year.

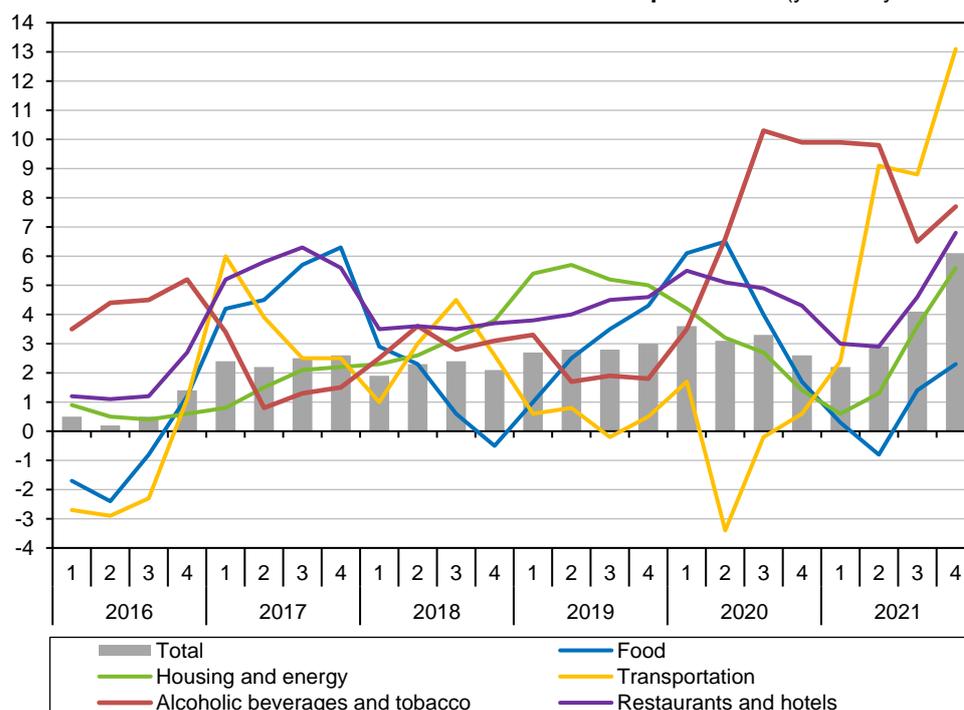
Consumer prices increased the strongest since year 2008 last year.

Year-on-year growth of the consumer prices accelerated during the year.

Total growth of the price level in the domestic economy according to the GDP deflator reached 4.1% in 2021. The price level of both consumption (3.4%) and capital goods (5.6%) grew. The terms of trade of the foreign trade achieved 100.1% last year. Year-on-year growth of the price level in total rose to 3.3% in Q4 2021. In that, the prices of consumer goods were raised by 4.0%, mainly due to the strengthening dynamics of the prices of household consumption (4.7%). Prices of capital goods increased by 6.0%. The terms of trade were negative (98.0%), especially due to the trade with goods (97.7%), where the sharp growth of import prices had an effect. The price level decreased by 0.6% compared to Q3 2021. Prices of consumption grew by 1.0% quarter-on-quarter, but prices of the capital goods went down by 0.1% and the terms of trade were negative (98.2%).

Consumer price index increased by 3.8% in total compared to year 2020. It represented the largest increase since year 2008. The development of prices of transportation, alcoholic beverages and tobacco and housing, water, energies and fuels (further housing and energies) contributed the most to this increase. The prices were however higher in nearly all divisions of the consumer basket (except for prices of post offices and telecommunication). The development of prices of clothing and footwear or household equipment and appliances, which were items affected by the counter pandemic measures in retail and at the same time by disruption of the international supplier chains, were reflected in the price growth more than usually especially in Q2. The growth of prices of some services also accelerated. The year-on-year growth of the consumer prices gained pace during the whole year 2021 and it reached 6.1% in Q4 (the most since Q3 2008). Increase of prices of transportation, housing and energies and alcoholic beverages and tobacco contributed the most. Housing and transportation were also the main factors in the sharp acceleration of the total year-on-year dynamics. The contribution of prices of clothing and footwear, recreation and culture, food and non-alcoholic beverages and food service and accommodation was however also very significant. Prices increased by 1.6% compared to Q3.

Chart 11 Prices in the selected divisions of the consumer price index (year-on-year in %)



Source: CZSO

Especially the imputed rent stood behind the significant increase of prices of housing and energies.

Prices of housing and energies increased by 2.8% in year 2021. Items of imputed rentals⁵⁰ (7.0%), prices of common maintenance and small repairs (5.6%) and other services associated with housing (4.0%) grew the most. Then rentals paid for the flat were raised by 2.4% last year. By contrast the prices of electricity, gas and fuels dropped by 3.2% last year. This was partially also assisted by the temporary waiver of VAT on energies, which was put in place towards the end of the year as a reaction on the sharp hike of prices of electricity on the world markets. In Q4 itself, the prices of housing and energies increased by 5.6% year-on-year and their growth swiftly accelerated compared to the preceding quarter. It mainly resulted from the sharp rise of imputed rentals (13.9%). Prices of common maintenance and repairs were by 9.6% higher, other services associated with housing by 4.7% and rentals paid for the flat by 3.7%. Prices of electricity, gas and fuels decreased by 4.9% year-on-year in Q4 and their decrease deepened thanks to the above mentioned VAT waiver.

Prices of purchases of transportation equipment as well as the cost of their operation grew strongly.

Prices of transport increased by 8.4% in total in year 2021. Strong growth of cost of operating a personal transport equipment (11.2%) contributed the most, reflecting the high jump of oil prices. Prices of purchase of vehicles (7.5%) rose also significantly. Their year-on-year increases accelerated already in year 2020, when the temporary suspension of foreign trade and industry occurred and also the weakening of the foreign exchange specifically in the Czech case, which raised the prices of import. Difficulties with shortage of components further deepened in the motor vehicle manufacturing and logistics last year, which pushed the prices of transportation equipment further up. Prices of transport services rose by 2.4% last year. The year-on-year growth of prices of transport sharply accelerated towards the end of the year and it attained 13.1% in Q4. At the same time, the cost of operating the personal transport equipment were by 20.9% higher in Q4 and prices of purchase of vehicles grew by 8.2%. Prices of transport services expanded by 5.2%.

Prices of tobacco further maintained a strong growth.

Prices of alcoholic beverages and tobacco were by 8.4% higher last year. The majority of this increase was ascribed to the prices of tobacco (13.1%), while the prices of alcoholic beverages grew slower (2.3%). In Q4, prices of alcoholic beverages and tobacco rose by 7.7% year-on-year. In that the prices of tobacco were by 11.9% higher and alcohol by 1.9%. Prices of food and non-alcoholic beverages increased by 0.8% and mainly prices of oils and fats contributed to this result (12.3%), bread and cereals (1.9%) and milk, cheese and eggs (1.1%) contributed to this result. By contrast, the prices of meat were by 1.8% lower. The growth of prices of food and non-alcoholic beverages however grew stronger towards the end of the year and it attained 2.3% in Q4. The year-on-year increase of bread and cereals accelerated 4.4%, milk, cheese and eggs to 3.9% and oils and fats to 21.2%. The decrease of prices of meat, which were by 1.8% lower in Q4, continued.

Prices in majority of consumer basket divisions were growing.

In the majority of other divisions of the consumer basket the price growth strengthened last year and to the large extent it concerned goods, which were affected by the disruption of the world transportation, alternatively items, which were impacted by the counter pandemic measures in retail and services. Prices of clothing and footwear were thus raised by 6.5%, furnishings, households equipment and maintenance by 3.5%, prices of recreation and culture by 3.0%, restaurants and hotels by 4.3% and miscellaneous goods and services by 3.5%. At the same time the acceleration of the price growth for these items eventuated especially in the second half of the year. In Q4, the year-on-year increase of the prices of clothing and footwear attained 12.6%, households equipment and maintenance 6.1%, recreation and culture 5.3%,

⁵⁰ Imputed rent expresses the cost of owner housing. Apart from the prices of housing themselves, it also consists of costs of construction and renovation and further fees. More at: <https://www.czso.cz/csu/czso/metodicka-poznamka-k-indexu-spotrebitelskych-cen-imputovane-najemne>



restaurants and hotels 6.8% and miscellaneous goods and services 4.5%. Only prices of post and telecommunication decreased by 0.6% last year and were falling during the whole year – in Q4 they were lower by 0.5%.

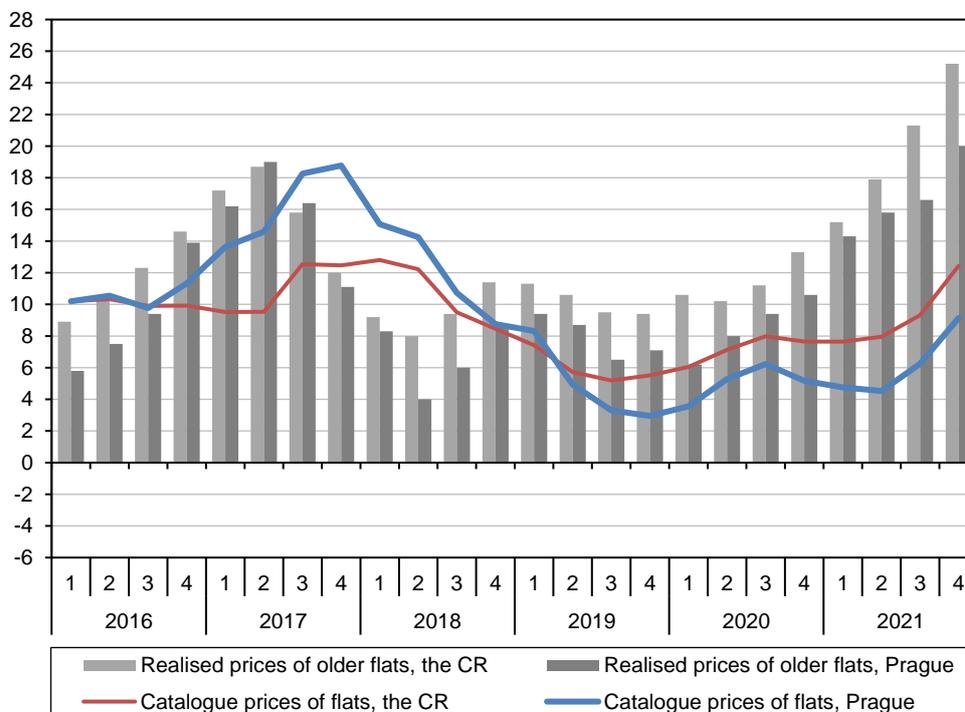
Year-on-year growth of the consumer prices was strengthening in the EU during the last year.

The harmonised index of consumer prices (HICP)⁵¹ increased 2.9% in the EU in year 2021, the most since year 2008. The relatively significant increase was affected mainly by the strengthening of prices of transport (6.8%) and housing and energies (4.8%). HICP rose the most in Poland (5.2%), Hungary (5.2%) and Lithuania (4.6%). Newer EU members including the CR (3.3%) prevail in the list of countries with the above average HICP growth. Prices in Greece (0.6%), Malta (0.7%) and Portugal (0.9%) grew the least last year. Year-on-year growth of HICP strengthened in the EU throughout the whole year 2021 and it reached 4.9% in Q4. Mainly the sharply growing prices of transport and housing and energies influenced the acceleration. Prices in Lithuania (9.4%), Estonia (9.1%) and Poland (7.3%) went up the most. Malta (2.1%), Portugal (2.4%) and Finland (3.1%) recorded the smallest year-on-year increases in Q4.

Prices of flats grew by exceptionally fast paces.

Tension on the real estate market deepened further and with it also accelerated the growth of real estate prices in the whole CR. The surplus of free cash in households as well as the pressure on the securing more advantageous financing in the anticipation of further increase of interest rates supported the excess demand over supply. Year-on-year growth of the catalogue prices of flats in the CR reached 12.4% in the CR in Q4, which was the most since Q1 2018. Growth of catalogue prices of flats outside Prague strengthened to 16.5%, which was the most since the end of year 2008. Catalogue prices of flats grew by 9.1% in Prague year-on-year. The realised prices of older flats were by 25.2% higher in the CR in Q4 year-on-year. In that flats outside Prague were by 26.7% more costly, while the prices of flats in Prague went up by one fifth. Realised prices of new flats in Prague increased by 26.5% year-on-year in Q4.

Chart 12 Real estate prices (year-on-year change, in %)



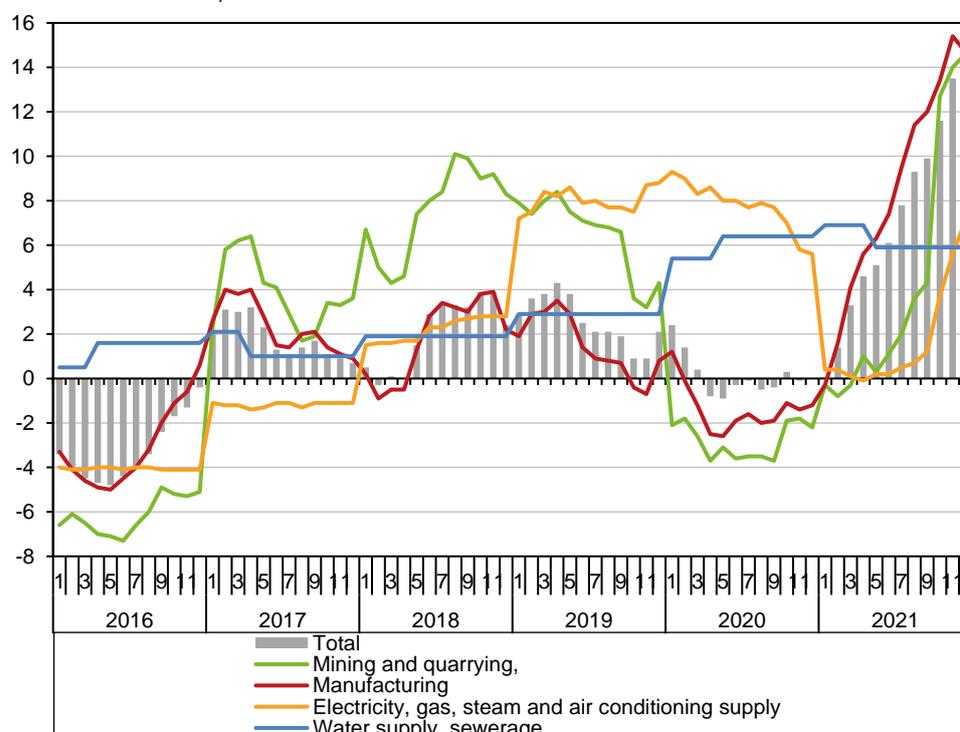
Source: CZSO

⁵¹ HICP does not contain the imputed rent.

Prices of industrial producers grew by record pace last year.

Industrial producer prices increased by 7.1% in year 2021, which was the most since year 1995. The majority of this increase was affected by the prices of manufactured products, which went up by 8.4%. Increase of prices of basic metals and fabricated metal products (17.2%) and coke and refined petroleum products⁵² mainly contributed. The strong increase of prices of chemicals and chemical products (31.8%) with development of prices of oil and the marked price increase also affected wood, paper and printing (13.4%). Prices of rubber and plastic products (4.6%), electrical equipment (4.6%), textiles, clothes and leather (4.4%), furniture and other manufactured products (3.6%) and machinery and equipment (3.1%) also grew robustly. Prices of basic pharmaceutical products (2.0%), food products, beverages and tobacco (0.8%) and computers, electronic and optical products (0.4%) went up moderately. Only prices of transport equipment were lower last year (-0.9%). Prices of electricity, gas, steam and air conditioning supply grew in total by 1.7%, mining and quarrying by 4.3% and water supply and associated services by 6.2% last year.

Chart 13 Prices of main groups of industrial producers (year-on-year change, in %, based on CPA classification)



Source: CZSO

Year-on-year increase of prices of industrial producers strengthened during the year 2021.

Similarly to consumer prices, the year-on-year growth of the prices industrial producers sharply accelerated during the year and reached 12.8% in Q4. The price growth accelerated in majority of divisions at the end of the year. Manufactured products were by 14.5% year-on-year more expensive and the strengthening of the dynamics was mainly supported by the development of various materials. The increase of prices of coke and refined petroleum products, chemicals and chemical products (51.4%), basic metals and fabricated metal products (26.5%) and wood, paper and printing (25.1%) was exceptionally high. Apart from the transport equipment (decrease by 1.4%) however the prices increased in all divisions of industrial production and the growth accelerate for majority of them, since they were to some extent affected by the difficulties with the disruption of global transportation and supply chains. Year-on-year increase of prices of electricity, gas, steam and air conditioning supply sharply

⁵² Data are not given due to the protection of individual data.



accelerated to 5.5% in Q4. Growth of prices of mining and quarrying similarly strengthened to 13.8%. Prices of water supply and associated services were by 5.9% higher.

Industrial producer prices in the EU featured record growth.

Industrial producer prices increased in total by 12.4%⁵³ in the EU in 2021. It represents a completely record level of increase. Prices of electricity, gas, steam and air conditioning supply (31.9%) and mining and quarrying (30.3%) grew very strongly last year, but also the prices manufactured products (7.7%). The industrial producer prices grew the most in Ireland (55.8%), Denmark (25.2%) and Belgium (21.1%). Malta (1.9%) and further Slovakia (5.5%), Slovenia (6.1%) and the CR (7.1%) recorded the mildest increase. The year-on-year growth of the industrial producer prices accelerated during the year and it reached 23.9% in Q4. Prices grew the most in Ireland (92.6%), Denmark (50.3%) and Romania (38.4%). Malta (3.8%) followed by Slovenia (10.1%), Czechia (12.8%) and Slovakia (13.4%) again reported the lowest increase.

Extraordinarily raised prices of materials manifested in the price of construction works.

Increase of prices of construction works notably strengthened last year and in total reached 5.1%. Raised prices of materials and products consumed in construction (10.9%) shared in this considerably. Year-on-year growth of construction works index accelerated during the whole year 2021 and it attained 7.9% in Q4. At the same time, the prices of materials and products consumed in construction were by 17.0% higher year-on-year. Compared to Q3, the prices of construction works increased by 2.0% and prices of materials and products by 2.5%.

Increase of prices of market services slowed down last year.

Prices of market services increased by 1.3% in 2021. The increase was thus the mildest since year 2016 and involved the difficult situation in some branches. The development of prices of warehousing and support services for transportation, whose increase shrank to 1.1% last year the most contributed to the slow down. Prices of services in the area of computer programming and associated consultancy (2.9%), insurance, reinsurance and pension funding (0.6%) and real estate services (1.7%) for instance also grew at slower pace. Prices of architectural and engineering services and technical testing and analyses stagnated, prices of information services were lower (−2.9%). In contrast, the growth of prices of advertising and market research gained pace up to 1.6% last year and the increase of prices of employment services (6.1%) also strengthened.

The growth of prices of market services strengthened at the end of year 2021.

Year-on-year growth of prices of market services strengthened in the second half of year 2021 and reached 1.8% in Q4. Sharp hike of prices of advertising services and market research (6.6%), prices of employment services (9.8%), land transport and transport via pipelines (1.6%), services in the area of computer programming and related consultancy (2.0%) and real estate services (1.9%) the most contributed to the total increase. Prices of activities of head offices and management consultancy activities (2.7%), services in the area of rental and leasing activities (2.0%), postal and courier services (2.0%), warehousing and support activities for transportation (1.5%) and insurance, reinsurance and pension funding (1.0%) also contributed moderately. Especially the prices of telecommunication services (−0.7%) worked in the direction of decrease in Q4.

Mainly prices of plant production were growing strongly last year.

Prices of agricultural products increased by 6.9% in year 2021. Only prices of crop products were higher (12.4%). Prices of cereals went significantly up (16.3%, mainly under the influence of prices of wheat, which were higher by 19.3%) as did the prices of industrial crops (12.8%, in that the prices of oil seeds were raised by 14.8%, protein crops by 13.9% and sugar beet by 9.7%). Prices of forage plants increased by 1.1% and

⁵³ Excluding prices of water supply and waste management.

vegetables and horticultural products by 11.6%. In contrast, the prices of potatoes were notably lower (−12.6%) and also the prices of fruits (−5.0%). Prices of animals and animal products stagnated (−0.2%). Prices of animals were lower (−5.8%), especially pigs and piglets (−16.2%). On the contrary cattle was by 4.3% more expensive and poultry by 1.3%. Prices of animal products increased by 4.5% last year, in that milk by 4.7% and eggs by 2.1%.

Prices of both plant and animal production were higher year-on-year in Q4 2021.

Year-on-year growth of prices of agricultural products accelerated during the last year and it climbed up to 15.7% in Q4. At the same time the prices of crop products were by 21.5% higher. Year-on-year increase of prices of cereals gained pace up to 28.0%. Mainly the development of prices of wheat shared in this result (increase 29.4% in Q4), however prices of many other cereals behaved similarly (rye 24.0%, barley 21.2%, oats 9.9%, grain maize 40.8%). Prices of industrial crops increased by 21.6% year-on-year, in that oil seeds by 32.3%, protein crops by 23.1% and sugar beet by 10.4%. Prices of forage plants went up by 7.4% year-on-year and vegetables and horticultural products by 18.9%. Prices of potatoes got out of seven quarters lasting series of year-on-year decreases in Q4 (1.8%). Fruit was cheaper by 1.2% year-on-year. Prices of animals and animal products increased by 5.9% year-on-year. Prices of animals were by 1.6% higher. While the slump of prices of pigs and piglets moderated to 5.9%, the growth of prices of cattle accelerated to 10.8% and poultry to 3.2%. Prices of animal products were however by 9.0% higher, in that the prices of milk went up by 9.5% and eggs by 3.3%.

Prices of export grew in year 2021.

Import prices expanded by 5.8% in year 2021. Their dynamics thus considerably strengthened. Development of koruna foreign exchange (especially appreciation against euro) at the same time subdued the growth of prices of foreign trade⁵⁴. Development of prices of export of mineral fuels (57.9%) and other materials⁵⁵ (45.2%) had a large share on this result. Prices of export of chemicals and related products also grew strongly (10.4%). Prices of semi-finished products⁵⁶ (9.1%) or food and live animals (4.6%) also grew substantially. Prices of beverages and tobacco (−3.2%) and miscellaneous manufactured articles (−0.5%) were lower last year. Year-on-year growth of prices of export strengthened during the year and reached 9.8% in Q4 2021. Prices of export of mineral fuels (119.2%) and other materials (55.6%) grew the most year-on-year. Prices of semi-finished products were by 16.2% higher, chemicals by 15.7% and food and live animals by 8.9%. Prices of export of machinery and transportation equipment (0.9%) and miscellaneous manufactured articles (0.9%) slightly grew. Only prices of beverages and tobacco decreased (−3.6%).

Prices of import were also considerably higher.

Import prices expanded by 6.1% in year 2021. Prices of import of mineral fuels (68.8%), other materials (24.5%), semi-finished products (9.0%) and chemicals (8.3%) grew the most. Prices of beverages and tobacco (0.4%) were also mildly higher. By contrast import prices of miscellaneous manufactured articles (−2.3%), food and live animals (−1.7%) and machinery and transportation equipment (−1.6%) decreased last year. Import prices increased by 12.2% in Q4 2021. Prices of import of mineral fuels then increased by 123.1% and other materials by 23.1% year-on-year. Prices of semi-finished products were higher by 14.6% and chemicals by 14.3%. Prices of food and live animals and beverages and tobacco grew slowly (similarly by 0.5%). In contrast, prices of import of miscellaneous manufactured articles (−1.4%) and machinery and transportation equipment (−0.1%) were lower year-on-year.

⁵⁴ According to the CNB data, the average koruna foreign attained 26.444 CZK/EUR in 2020. Last year it was 25.645 CZK/EUR. The koruna foreign exchange was also stronger against dollar. The average was 23.196 CZK/USD in 2020, 21.682 CZK/USD last year.

⁵⁵ SITC 2 – crude materials, inedible, except fuels.

⁵⁶ SITC 6 – manufactured goods classified chiefly by material.



Terms of trade were negative last year.

Terms of trade attained 99.7% in year 2021 (they were positive in year 2020). They were substantially negative in trade with mineral fuels (93.5%), beverages and tobacco (96.4%). On the contrary, the terms of trade were positive with other materials (116.6%), food and live animals (106.4%), machinery and transport equipment (102.8%), chemicals (101.9%), miscellaneous manufactured articles (101.8%) and semi-finished goods (100.1%). In Q4, the terms of trade were 97.9%. Negative terms of trade were in trade with beverages and tobacco (95.9%) and mineral fuels (98.3%). Terms of trade were positive for other materials (126.4%), food and live animals (108.4%), miscellaneous manufactured articles (102.3%), semi-finished goods (101.4%), chemicals (101.2%) and machinery and transportation equipment (101.0%).

6. Labour Market

Labour market in the CR benefited from renewed economic growth during year 2021, termination of the majority of support programmers did not have an adverse effect.

Labour market in the CR gradually returned to the state of the period of the pre pandemic expansion characterised by strong tension between the demand for labour on the part of businesses and substantially limited domestic sources of potential labour force. In continuity on last year's Spring loosening of counter pandemic measures, gradual termination of decisive part of the government supportive programmes aimed at employment stabilization as well as the overall financial situation of businesses took place. The consequences of cessation of this support were outweighed by the positive influences stemming from the launch of the economic growth saturated by higher private as well as public consumption and also the restoring investment activity. Revival on the labour market continued also in Q4 2021, since the deterioration of the epidemic situation intensified by the escalation of the supplier difficulties in industry did not notably show in the employment area (both real and from the view of short-term anticipations). This is to a considerable extent also valid for the area of average wages in the market branches. However, through the fault of the significant acceleration of consumer prices at the end of the year the average employee earnings dropped in real terms in the majority of branches year-on-year, in some even in total for the whole year 2021.

Number of employees already nearly evened up to the level from year 2019. Decrease of entrepreneurs on the contrary deepened.

Total employment⁵⁷ mildly grew quarter-on-quarter throughout the whole last year. In H2, the growth rate slightly weakened due to the situation in industry (down to +0.1% in the last quarter), the vast majority of main branches presented at least a mild growth. In Q4 thus there were in total 5.37 mil persons working in the domestic economy, by 1.3% more year-on-year (compared to the peak of the pre pandemic period however, the number of employees still lagged by nearly 80 thousand persons). Exclusively employees participated on the year-on-year growth, their levels expanded by 107 thousand in Q4 (2.3%) and they already nearly evened up the record size from year 2019. On the contrary the decrease of the number of entrepreneurs⁵⁸ deepened to 40 thousand (5.4%) and their number shrank also in comparison to Q3 2021 (by 0.2%). The year-on-year decrease occurred primarily due to the development in manufacturing, the number of self-employed however declined in nearly all main branches. It cannot be ruled out, that part of the decrease of self-employed persons was connected to their transfer into the employee position⁵⁹.

Public services exerted a pro-growth effect on the total employment in Q4 2021 even during the whole pandemic period.

Movements in services were determining for the year-on-year growth of employment in the second half of the last year. 1.8% employees (58 thousand) were added in the whole tertiary sector in Q4. Even though the real estate activities recorded the highest dynamics (+4.3%), it was public services that contributed the most to the employment growth in the whole economy⁶⁰ (+32 thousand persons), mainly thanks to the developing education also the health and social care, intensely strained during the pandemics. Contribution of division trade, transportation, accommodation and restaurants (14 thousand) was also significant, year-on-year employment increased for the first time here since the half of year 2019⁶¹. Slow after crisis revival was also apparent in branch other services activities⁶², including especially culture, amusement and recreational activities or personal services mainly for household. The trend of moderate decline of employment continued in connection to the development in digitalisation in financial and insurance activities, specifically already the fifth year in a row. On the contrary,

⁵⁷ Data regarding employment in this chapter stem from the national accounts conception. They are expressed in physical persons and adjusted for seasonal effects.

⁵⁸ The more detailed data from the Labour Force Sample Survey (LFSS) show, that next to the entrepreneurs without employees the number of entrepreneurs with employees and assisting family members also fell year-on-year in Q4 2021 (by 11 thousand and 8 thousand respectively). Both these categories are within the national accounts conception placed into the employee group.

⁵⁹ Mild decrease of the number of self-employed manifested for example in the period of after crisis expansion of the domestic economy in years 2014 and 2015.

⁶⁰ Branches with the predominance of the public services, containing apart from the above mentioned activities also public administration, education, health and social work, had a pro-growth effect on the total employment the most out of all branches also for the whole period of years 2020 and 2021.

⁶¹ It however remained by more than 5% (resp. 67 thousand persons) behind its pre-pandemic peak.

⁶² More than 35% of all workers in these branches consisted of self-employed persons in year 2021. They also had more than doubled representation compared to the whole economy in construction (33%), real estate activities (31%) and agriculture and forestry (29%).

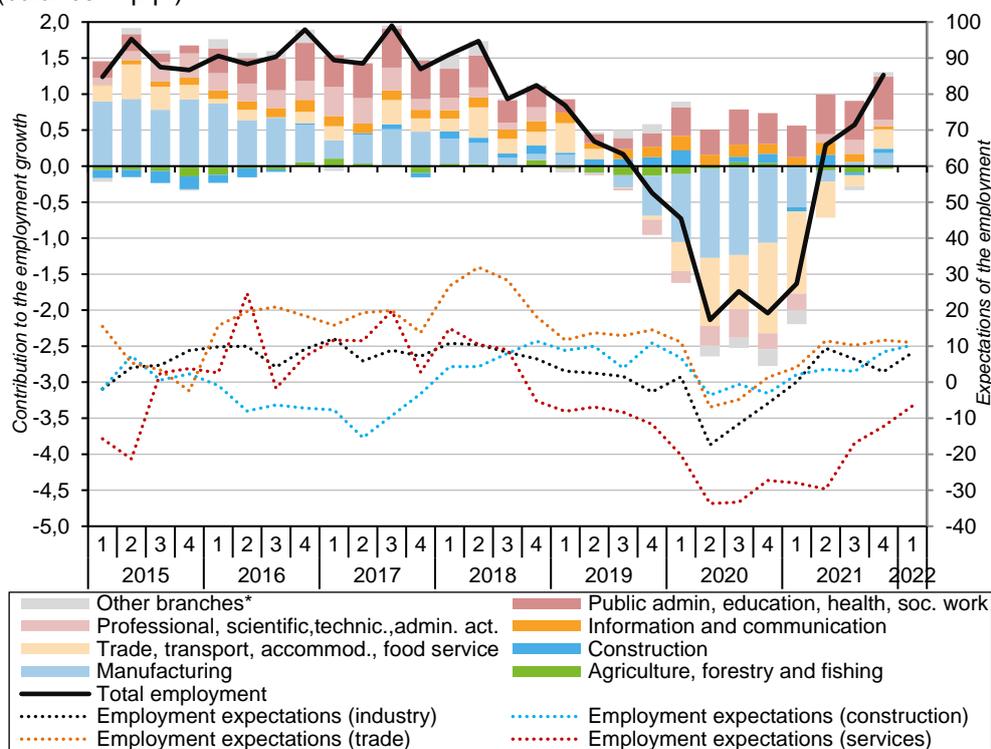


information and communication maintained long term growth, the dynamics of total employment however weakened due to the decrease of entrepreneurs here during the year 2021. The year-on-year growth of employment in industry, similarly to construction, did not exceed 1% last year in Q4. Number of employee positions grew swifter, which was also connected to the recruitment of persons from abroad⁶³.

The employment in total for year 2021 stagnated. Number of hours worked increased by 2.9% after the preceding slump.

The total employment stagnated in total for year 2021. The continuing decline of number of employees in the division trade, transportation, accommodation and restaurants (-1.7%) and in industry (-0.5%) was offset by their increase in information and communication (+3.4%) and in public services (+2.8%, the most in the history of individual CR). Number of hours worked in the whole economy increased by 2.9% (following the record slump of 6.3% in year 2020). Except for agriculture and forestry it increased in all main branches, it however surpassed the pre pandemic level only in public services, in ICT area and in real estate activities and in construction. On the contrary, it substantially fell behind in the division of trade, accommodation and restaurants (by 10%) and in branch other services activities (14%).

Chart 14 Total employment (year-on-year in %), contributions of branches to year-on-year employment change (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 (national accounts, business cycle surveys).

The employment rate of persons aged 16 to 64 years hiked up to record level.

Already 75.4 persons out of one hundred persons aged 15 till 64 years worked in Q4. The employment rate thus overtook the so far record value from the end of year 2019 for the first time. For males it was 82.1% (with year-on-year growth of 0.8 p.p.), for females 68.3% (+1.3 p.p.). More favourable development for females is the result of swift recovery of demand for work in some branches of services strongly hit by pandemics. The faster

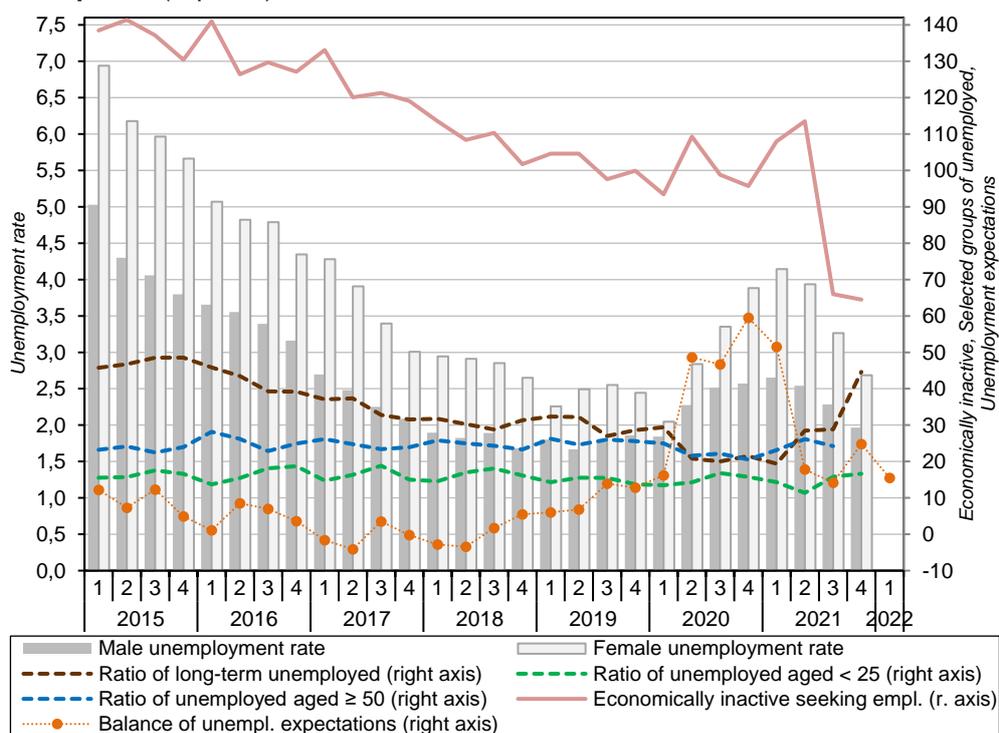
⁶³ Number of all foreigners working in the CR in the employee position strongly grew for a major part of the last year. In September the labour offices registered record 720 thousand of them. Their number mildly fell just at the end of the year (to 702 thousand), still it was by nearly one tenth higher year-on-year. This increase was from nearly two thirds the result of the strong inflow of workers from Ukraine, whose number (195 thousand) approached the long-term dominant group of workers from Slovakia (209 thousand). Nearly one half of all registered employees from Ukraine did not need a work permit in the CR, the most often due to granted permanent residency. 37% of Ukrainians had at their disposal the residency permit, thanks to the employee cards further 70 thousand were working here. 58% of all employees from Ukraine were males, slightly less than for all foreign employees in the CR (62%).

increase of the pension age for females compared to males is also having an effect in the long term. Based on the up to date data from Q3 2021, the employment rate for males was 74.3% and females 64.3%⁶⁴ in the EU.

Apart from industry, expectations of businesses in the area of employment strengthened for a major part of the last year. Mild pessimism lingered only in some areas of services at the beginning of year 2022.

According to the business cycle surveys, the short term positive expectations of businesses in the area of employment climbed up the highest in September 2021 since the Autumn 2019. Mild cool down manifested as a result of difficulties in manufacturing during Q4, the optimism however again strengthened at the beginning of year 2022. The expectations were positive mainly in trade and construction, but also in industry. Businesses planning job terminations still slightly outweighed in services, this was nevertheless valid also in the period immediately before the onset of pandemics. Negative expectations endured e.g. in the air transport and in the financial sector. At the same time however, the proportion of businesses, which considered the shortage of labour one of the growth barriers, increased – it was already 45% in construction in February 2022 (here it was the most significant growth barrier already the fourth year in a row), in industry as well as in services approximately by 20%⁶⁵. With the exception of industry, the difficulties with the labour force already climbed up to the level from year 2019 and thus prove the strong tension on the labour market.

Chart 15 General unemployment rate (in %), ratio of long-term unemployed and persons aged up to 25 and above 50 years among unemployed (in %), economically inactive willing to work (in thousand)* household expectations for unemployment development (in points)**



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)

⁶⁴ Employment rate for males in the productive age was in the CR the third highest among the Union members – after Netherlands (84.8%) and Malta (83%). For females thirteen countries reached higher rate – next to the Netherlands (78.3%) also for example all Baltic states, Hungary or Slovenia. The majority of states of the South Europe traditionally presented low employment – mainly Italy (males 68.5%, females 49.9%). The total employment rate of persons aged 55 till 64 years in the CR (70.8%) was within the EU states the sixth highest, it was placed above the level of the Union also for persons aged 65 till 74 years, on the contrary for young people up to 25 years (25.8%) it considerably lagged behind the level of the EU (34.5%).

⁶⁵ In industry this difficulty was especially pressing in the manufacturing of construction materials and also in many smaller manufacturing activities. In services analogically mainly in the land transport, warehousing, postal and courier services, architectural and engineering activities and activities associated with buildings and landscape activities.



The general unemployment rate was shrinking for a major part of the last year, primarily due to females.

The General unemployment rate⁶⁶ (persons aged 15 to 64 years) culminated during the pandemic period last year in March, when it reached the four-year maximum (3.4%). Favourable development in the remaining part of the year was completed in December 2021, when the unemployment closely approached 2%, i.e. the level for the last phase of expansion. The effect of significant last year's reduction of government stabilization programs (Antivirus, care benefits) was compensated by the positive impacts connected to the full „opening“ of the economy. The unemployment of females was falling faster (to 2.5%), still the level from the turn of years 2019 and 2020 slightly exceeded. The supply of part-time jobs, which would „pull“ even higher number of women on the labour market, apparently has not reached the level from year 2019 so far⁶⁷. The position of job applicants younger 25 years, again mainly females, improved last year – drop of the unemployment rate from 15.6% (January) to 6.6% (December). On the other hand, the number of long term unemployed expanded year-on-year in the second part of year 2021. These formed already 45% of all unemployed in Q4. Regional range of total unemployment rates (not seasonally adjusted) were relatively narrow last year in Q4 (from 1.1% in the Jihocesky region till even 4 % in the Moravskoslezsky region). Prague (by 1.8 p.p.) and Karlovarsky region (2.4 p.p.) recorded the highest year-on-year drop of unemployment. It represents the regions the most specialised on tourism in the CR (and specifically on the foreign customer base).

Number of long-term unemployed expanded in the second part of the year, however.

Concerns of households from unemployment abated, number of job vacancies was growing.

Household concerns regarding the unemployment growth (in the nearest twelve months) sharply weakened during Q2 and returned to the lower level from the second half of year 2019⁶⁸. Number of job vacancies in the supply of labour offices arrived at 343 thousand in December last year⁶⁹. It was thus comparable with the end of year 2019. There were 0.8 job applicants per one job vacancy. Approximately 60% of municipalities⁷⁰ as well as regions in the CR signalled the excess of number of job vacancies over the registered applicants. Nearly two thirds from the total year-on-year increase represented the positions with very low qualification requirements. Supply for applicants with at least school leaving certificate however also mildly increased. Total supply of vacancies in the CR expanded mainly in Prague and Plzensky region last year.

The average gross monthly wage broke the 40 CZK thousand boundary in Q4.

The average gross monthly nominal wage (per employee considering the time of the job) rose by even 4% year-on-year last year in Q4 and for the first time in history, it crossed the boundary of 40 CZK thousand. Wage after adjustment for seasonal effects (e.g. also the paid out regular bonuses) increased by 0.9% quarter-on-quarter, i.e. at slightly lower pace compared to Q2 and Q3 2021. The heighten tension on the labour market connected both to the low employment and high and further growing number of job vacancies exerted a pro-growth influence on the size of wage for a major part of the last year. The shortage of employees limited the output in the majority of significant branches. The government measures also had some, even though opposite effect. While the continuing increase of the minimum wage (and derived system of guaranteed wages) had a stimulating effect mainly in branches with lower level of earnings, the decrease of the effective taxation of workers, which enabled to firms to maintain high employment with lower pressure on the increase of labour costs, likely had an opposite effect. Proportion of employers especially in market branches thus took into consideration the fact,

Pace of wages was affected by mixture of contradictory factors.

⁶⁶ Unless stated otherwise, all date regarding the unemployment rate stem from the LFSS (based on the ILO methodology) and are adjusted for seasonal effects.

⁶⁷ While 12.3% of females aged 15 and over worked part-time in Q1 2019, only 10.7% in Q3 2021. The situation of females aged 15 to 29 years improved during the last year's Summer, the proportion of part-time jobs reached 14.1% here (the level closed to years 2018 and 2019). It also led to the increase of the employment rate of young women during the year 2021. By contrast the employment rate for both males and females aged 65 till 74 years stagnated year-on-year and the percentage share of part-time jobs among the employed was decreasing.

⁶⁸ However they again increased in connection with the dynamic worsening of the epidemic situation for a short time in November, they were however far from reaching the level from the beginning of the year.

⁶⁹ Significant part of the positions however remains vacant in the long-term, they cannot be actively considered. Among the job vacancies offered on the internet website of the labour office in January 2022, only approximate one half was active (offers, where last change occurred after 1st July 2021 and the starting date was 1st October 2021 or later).

⁷⁰ It generally concerned the districts of the Central, South and West CR. The largest number of job applicants per one job vacancy was reported from the Karviná district (10), Bruntál, Ústí nad Labem and Most (similarly 5).

that people's earnings will rise even without the increase of gross wages. In addition, many businesses in branches strongly hit by the pandemics faced financial difficulties despite the government stabilization programmes, which limited their options to improve their appraisal of both new and current workers.

The wage growth was below average in manufacturing as well as construction during the whole year.

The average wages increased by 3.9% in the weight most significant branch of manufacturing in Q4 2021 (the below average wage was recorded for the twelve quarter in a row). In motor vehicle itself, the wages only stagnated, which could have been connected to the lower number of hours worked due to the unplanned production shutdown in October (the wage growth mildly lagged behind the whole industry here last year also in the yearly view). In non-manufacturing industrial branches, the earnings grew by a faster pace. In case of mining and quarrying (+9.1%) it was however accompanied by unprecedented deep drop of employment. Wages rose only by 3.7% in construction in Q4 (similarly to the rate for the whole year 2021), despite strong demand for work accompanied by difficulties when searching for new employees.

Wage growth was further noticeably differentiated in the public services.

In the whole services sector, the average wage grew by a similar pace to manufacturing with its value (41.6 CZK thousand monthly) in Q4 2021, however it exceeded this branch by nearly one tenth. The development was extraordinarily varied among services and oscillated considerably during the year. The segment of services with a significant role of state illustrates this well. If the wage growth was 6.2% in education thanks to the increase of the wage tariffs and paid out bonuses, in health and social care the average wages due to the high basis from the end of the year before the last⁷¹ dropped by 8.1% (they however increased by 12.2% for the whole last year, mainly thanks to the extraordinary Spring bonuses). The wages rose by 1.4% in public administration, education, health and social work, the least in the last eight years.

Wages significantly strengthened after the decrease in the first year of the pandemics in trade, accommodation, food service and restaurants last year.

Real estate activities stood out among the services branches in Q4 (and also during the whole last year) and their year-on-year growth of sales attained double digit values⁷². Swift wage growth in the key branch of trade (+8.9%) was associated with the lowered basis from year 2020 as a result of considerable limitation of sale due to the government restrictions. The effect of the post crisis revival was even more visible in accommodation, food service and restaurants (+9.7%), the level of average wages was the lower from all branches here, when it reached only one third of earnings of branch information and communication (where it was 66 CZK thousand monthly). Wages in financial and insurance activities remained tightly below 60 CZK thousand. It is apparent especially from the annual view, that both by the level of earnings and especially creation of new job positions, this branch rather lags behind the dynamically developing ICT area. Wages of employees in administrative and support services activities improved on average by 8.5% year-on-year, the size of their earnings however reached only two thirds of the level of the national economy.

The real wage decreased in the majority of significant branches in Q4.

The average nominal wage increased by 6.1% in total for the last year (doubled pace in comparison to the first year of pandemics), which was sufficient to its return to real growth. Nevertheless due to the accelerating consumer inflation the last year's real growth was the lowest after year 2013. The purchasing power of average employee earnings however decreased by even 2% year-on-year in Q4 2021 itself. Among the more significant branches⁷³ thus only employees in trade, transportation and warehousing and also in education had at their disposal higher purchasing power.

Wage median grew faster than the average wage in Q4.

Wage median attained 36.8 CZK thousand for males, 31.7 CZK thousand for females in Q4. In contrast to the previous part of the last year it increased more for males year-on-year (5.4%)

⁷¹ Reason was the payment of extraordinary bonuses for the first pandemic wave (from the Spring 2020).

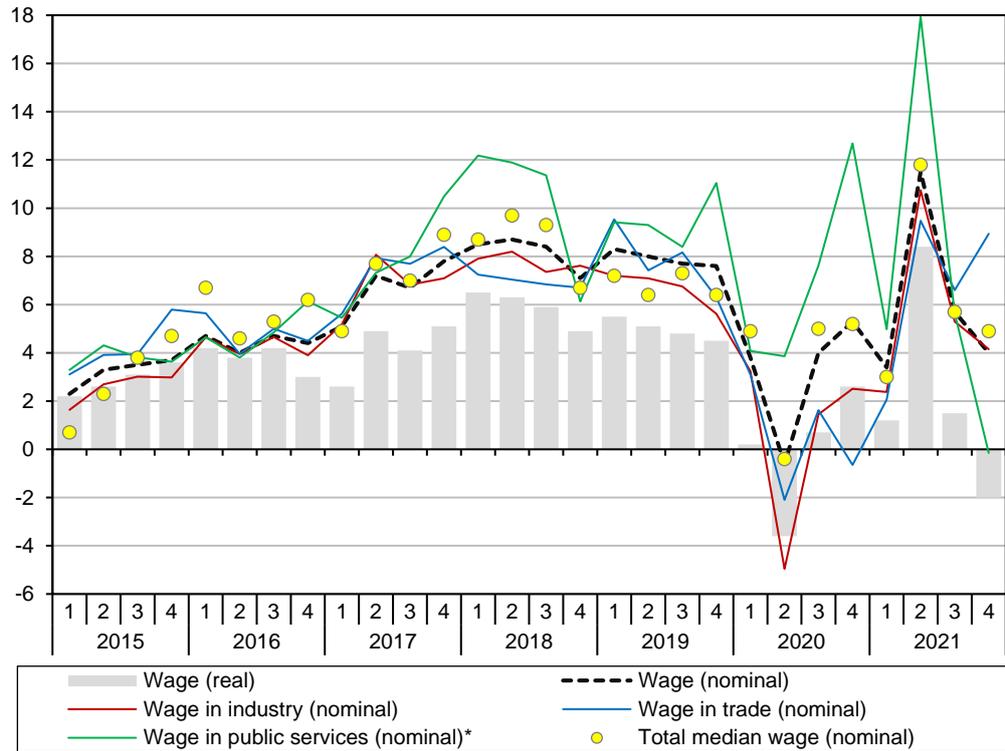
⁷² In this small branch, the development of both wages and employment is usually volatile. The size of earnings was affected (mainly in Q4) by the swift growth of the number of hours worked.

⁷³ With more than 200 thousand employees.



than females (4.6%). Moderate widening of the wage differentiation signal in the preceding part of the year thus presumably halted.

Chart 16 Average nominal and real wage and wage median (year-on-year, in %)



* Includes branches with significant state role: Public administration, defence, social security; Education; Human health and social work activities; Cultural, entertainment and recreational activities.

Source: CZSO

7. Monetary Conditions

Multiple increase of monetary policy-relevant interest rates occurred towards the end of year 2021.

During Q4 2021, significant increase of the basic monetary policy-relevant rates eventuated in reaction to the price growth acceleration. The first increase occurred already at the end of October (two-week repo rate was raised by 0.75 p.p. to 1.50%⁷⁴) and the next followed in November (+1.25 p.p. to 2.75%). The repo rate was raised for another 1 p.p. to 3.75% at the end of the year, which was the most since year 2008. For the whole year 2021, the two-week repo rate increased by 3.25 p.p. The discount rate was 2.75% and Lombard rate 4.75% towards the end of year 2021. Koruna foreign exchange against euro reached an average of 25.38 CZK/EUR in Q4 and it strengthened by 4.8% year-on-year (it corresponds to 1.29 CZK). Compared to Q3, the koruna foreign exchange was stronger by 0.5% (0.12 CZK). The koruna foreign exchange strengthened especially during December 2021 and it also broke the 25 CZK boundary for the first time since February 2020. Year 2021 was closing the koruna foreign exchange against euro at 24.86 CZK/EUR. Koruna foreign exchange against dollar attained an average of 22.19 CZK/USD in Q4 and it was by 0.8% stronger year-on-year (0.17 CZK). Compared to Q3 2021, the koruna foreign exchange against dollar weakened by 2.6% (0.56 CZK). The koruna also strengthened against dollar during the December. As of 31. 12. 2021, the koruna foreign exchange against dollar reached 21.95 CZK/USD.

The interbank market rates as well as the government bond yields also hiked up sharply.

Interest rates of the interbank market reacted to the steep increase of the monetary policy-relevant rates by strong increases. The three-month PRIBOR rate went up by 2.39 p.p.⁷⁵ during Q4 and it reached 3.5% towards the end of year 2021. The rising of yields on domestic government bonds of all maturities also further continued. As of 31. 12., the interest rate attained 3.07% on bonds with short-term maturity (increase by 1.47 p.p.), which is the most since April 2009. Yields of medium-term bonds rose by 0.97 p.p. to 2.84% and the long-term by 0.72 p.p. to 2.62%. Yields of the bonds also mildly grew in the euro area. Those with ten-year maturity were having interest of 0.28% (+0.08 p.p.) towards the end of year 2021.

The interest on term deposits of households and non-financial businesses grew.

The average interest on the current accounts of households very slightly increased, but it was still practically at a zero level (0.06%) towards the end of year 2021. The situation was different in case of deposits with agreed maturity. There the interest rates gradually increased during the whole year and it was the most just in Q4. The average interest on the deposits of households with agreed maturity was 2.32% (increase from 30. September by 1.59%) at the end of year 2021. The interest on current accounts of non-financial businesses went up by 0.15 p.p. to 0.2% in Q4. The average interest rates of deposits with agreed maturity of non-financial businesses were 2.47% at the end of the year, which was by 1.91 p.p. more than at the end of September. The total volume of non-term deposits of clients was year-on-year higher by 5.9% at the end of year 2021, which signified a considerable slowdown of growth. Compared to the end of Q3, it dropped by 202.1 CZK bn, which is relatively atypical for non-term deposits. Mostly the non-term deposits of households⁷⁶ (−59.6 CZK bn) and government (−110.5 bn) participated on this decrease. Volume of term deposits was by 10.1% higher year-on-year at the end of the year, mainly thanks to the increase of short-term and long-term deposits.

Both credit financing and consumption became more expansive for households.

The interest rates on credit for households also reacted to the general growth of interest rates in the economy. The average interest on consumer credit as of 31. 12. Reached 7.91%, which was by 0.32 p.p. more than at the end of September. The gradual increase of rates, which lasted for the whole last year, thus continued. The average

⁷⁴ Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. The values of exchange rates are also taken over from the CNB.

⁷⁵ Unless stated otherwise, the change of the interest rates is meant the difference between the value as of 31. 12. and 30. 9.

⁷⁶ Population including entrepreneurs.

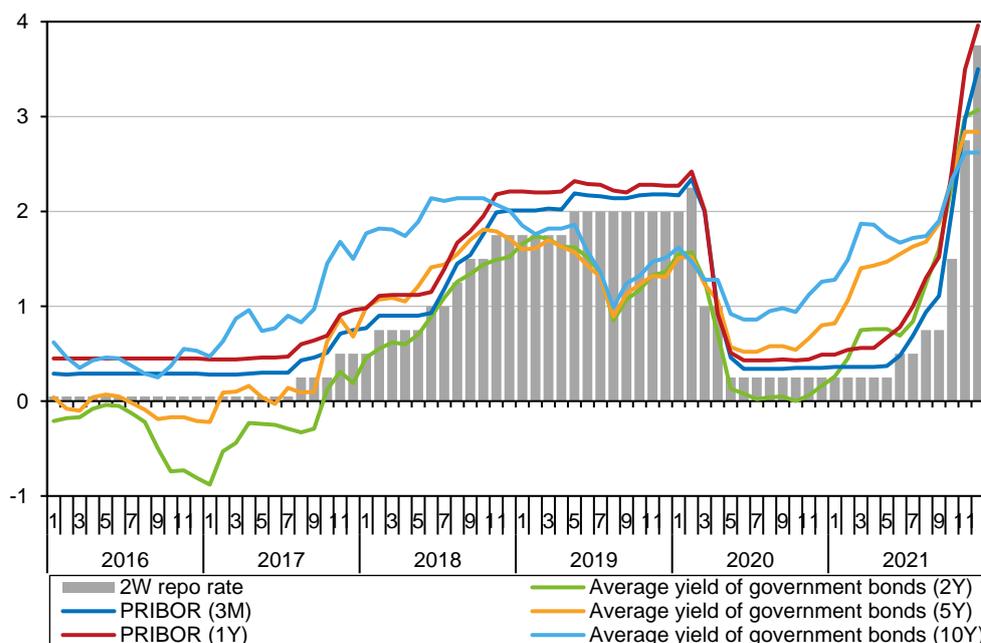


interest rate on mortgages was also higher. It increased by 0.47% to 2.92% in Q4. The interest on credit with the shortest fixation of the rate (up to 1 year). During the last year, the year-on-year growth of the volume of credit provided on consumption gradually accelerated. There were by 6.5% more of it at the end of year 2021. Mainly the restriction of retail trade and subsequent slump of households consumption halted their growth in 2020. On the contrary, the growth of mortgages further accelerated. The year-on-year increase of their volume arrived at record 11.1% at the end of year 2021. With respect to new mortgages⁷⁷, a further growth manifested following the preceding slump of the volume of net new credit. The volume of refinanced credit and other new contracts was also higher. The household indebtedness reached 2 108.8 CZK bn at the end of December and increased by 9.5% year-on-year, the most since September 2009.

Sharp increase of interest rates also concerned the credit for businesses.

The cost of credit financing to non-financial businesses also jumped up. The average interest of credit with volume up to 7.5 CZK mil increased by 1.09 p.p. to 4.86% in Q4. For the medium category of credit with volume between 7.5 and 30 CZK mil the interest rates were raised by 1.77 p.p. to 4.71%. The rates increased the most (by 2.61 p.p.) for rates on credit above 30 CZK mil, which reached 4.35%. The year-on-year growth of volume of credit provided to non-financial businesses sharply accelerated to 6.0% at the end of the year. At the same time the volume of short-term credit increased the most (13.9%), especially those denominated in foreign currency. The increase of the volume of medium term (6.7%) and long-term (2.9 %) also strengthened. The volume of provided credit expanded year-on-year the most in transportation and warehousing (34.2%; the additions exceeded the 30% level in both Q2 and Q3), in professional, scientific, technical and administrative activities (15.2%) and wholesale, retail, repairs and maintenance of motor vehicles (11.1%). Apart from the long-term declining credit in mining and quarrying (-20.3%) the volume of credit slumped in accommodation, food service and restaurants (-10.3%, mainly the comparison with the sharp increases in year 2020 had an effect), manufacturing (-3.8%), production and distribution of electricity, gas, heat and waste management (-3.1%) and information and communication (-2.5%).

Chart 17 Market interest rates (in %)



Source: CNB

⁷⁷ The refinanced credit and other provisions are included in the new contracts (mainly the suspensions of payments in the last year).

8. State Budget

State budget ended in record deficit in year 2021, which was however lower than the budget anticipations.

State budget (SR)⁷⁸ ended in deep deficit in the amount of 419.7 CZK bn in 2021, which was by 52.2 bn higher⁷⁹ compared to the previously record deficit from year 2020. Mainly the growth of current expenditures contributed to the deepening of the deficit. Even though the budget deficit was achieved in all last year's months, the measures realised during the Spring pandemic wave, which put a major strain on the budget expenditures⁸⁰ fundamentally participated on the total deficit size. Partial loosening of pressure on some current budget expenditures occurred and gradual recovery started to be favourably reflected in total tax collection in the remaining part of the year.

Continuing revival of economy as well as the absence of more significant restrictions during the Autumn pandemic wave led to the situation, when the state-wide tax collection already evened up the pre pandemic level at the end of the year.

The total SR revenues increased by 0.8% (+11.8 CZK bn) year-on-year last year. Mild increase was associated with higher tax income here (including insurance), since both the non-tax and capital income and received transfers did not reach the level from year 2020. Mainly the low comparative bases were reflected in the strengthened tax revenues (+35.4 CZK bn) since an exceptional deferral of legal deadlines on the due date of weight significant taxes as well as insurance on social security (SS) was put in place in Q2 2020. Lowering of tax burden on labour and property and also the change of the budgetary determination of the tax to the benefit of the regional budgets⁸¹ had an adverse effect on the SB revenues for year 2021. The total state wide collection of taxes (without the insurance on SS) at the level of all public budgets did strengthen by 1.2% year-on-year last year, nevertheless it still lagged behind the level from year 2019 (by 4.2%). In the course of the last year the collection however gradually improved. The revival of economy was not even majorly disrupted by the Autumn pandemic wave, which was not anymore accompanied by more significant restrictions of the economic activity in services. The state wide collection of taxes thus lagged behind only by 0.7% behind the same period of year 2019 and it was comparable with this level in Q4.

Growing VAT collection reflected the impact of fast recovery of private consumption as well as the acceleration of prices in the economy.

From the VAT, which traditionally represents the significantly weight dominant tax, flew by 3.7% more (+10.7 CZK bn) into the SB year-on-year last year. The collection at the level of all public budgets strengthened by 8.7% (by 7.4% in two years). The effect of fast revival of private consumption (supported by swift growth of volume of paid out wages and salaries in the economy) overshadowed the impact of lowering of rate of this tax for some services⁸². Especially at the end of the last year, the large collection of tax more and more reflected the accelerating price growth pervading the whole economy. State wide VAT collection thus exceeded the corresponding level from year 2019 by more than 15% in both November and December.

Collection of consumption tax on mineral oils and tobacco fell year-on-year and did not fulfil the budget anticipations.

SB revenues from all consumption taxes decreased by even 3% last year and slightly deepened their decrease from the first year of the pandemics. The lower collection of tax on tobacco products was the most evident last year (-5.5%), despite the 10% increase of the tax rate. By contrast, for mineral oils the decrease of the tax rate (by 1 CZK for diesel fuels) had a visible impact, since the collection of tax would grow without it⁸³, as suggested by (so

⁷⁸ Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance regarding the cash fulfilment.

⁷⁹ Compared to the budget anticipations (anchored in the amendment of the Act on the state budget for year 2021, effective as of 1st March 2021) it represented deficit lower by 80 CZK bn. Mainly the higher than anticipated growth of the collection of direct taxes (especially the corporate tax) stood behind it.

⁸⁰ The cumulated SB deficit for the first five months of year 2021 arrived at 255 CZK bn.

⁸¹ Since January 2021, the ratio of municipalities on the state-wide collection of shared taxes increased from 23.58% to 25.84% and regions from 8.92% to 9.78%. This increase represented according to the MF estimations an adverse impact on the annual SB tax collection in the amount of 27.4 CZK bn.

⁸² Lowered rate (from 15% to 10%) on food and accommodation and services, cultural and sport events, further also for example on water rate, sewer rate, drinking water or draught beer, was introduced starting May last year, resp. July. The VAT collection for year 2021 was also mildly subdued by the temporary tax waiver for protective equipment (e.g. respirators) and for tests as well as vaccines associated with the covid-19 epidemic.

⁸³ SB collection of this tax fell by 2.3 CZK bn (-3.0%) year-on-year last year, the lowering of the tariff itself led based on the MF estimation to decreased collection by 4.7 bn.



far incomplete) data regarding the consumption of oil products⁸⁴. In Q4, the collection of this tax was higher year-on-year (+5.1%), however it still slightly lagged behind the level from the pre pandemic year. Despite revival at the end of the last year, the collection of both above mentioned consumption taxes, in contrast to all other weight more significant taxes, behind the budget anticipations.

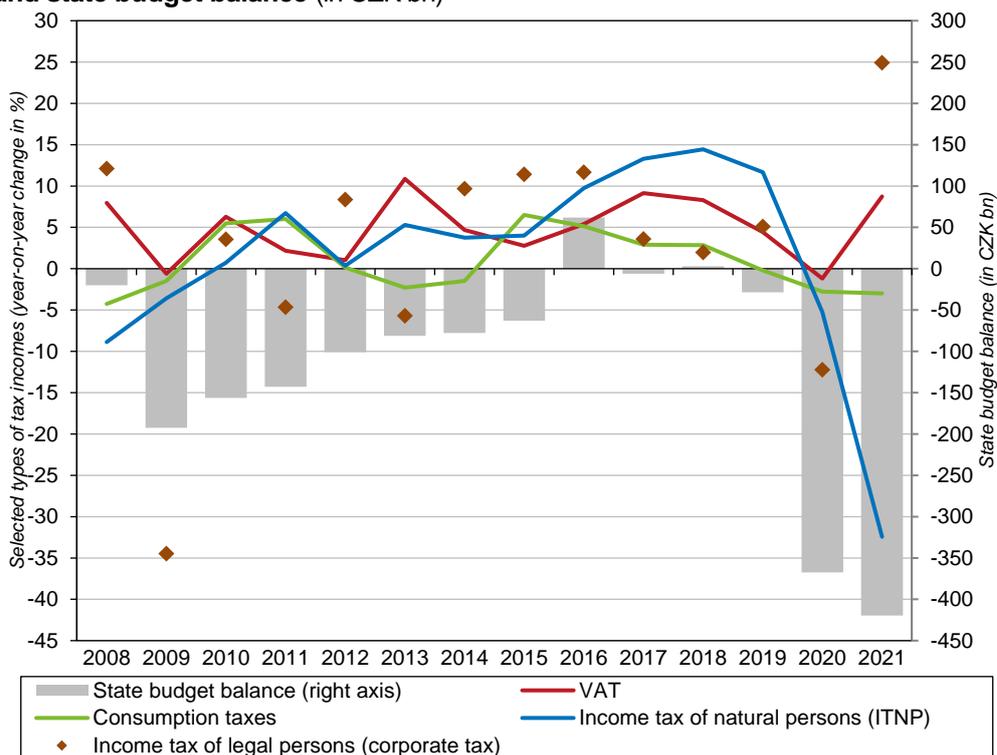
Collection of consumption tax on alcohol grew from tax on beer it fell

Collection of other, less significant by weight consumption taxes slightly grew last year, mainly due to the newly introduced tax on digital services and higher collection of tax on alcohol (also thanks to increased rate). On the contrary, the collection of tax on beer fell (by 5.5%) since some administrative measures affecting the attendance of restaurant facilities as well as the arrival tourism were in place also in the last months of year 2021.

Swift growth of the collection of corporate tax was significantly affected by the transfer of part of payments from year 2020 to year 2021.

SB acquired by 19% (20.8 CZK bn) more on the corporate tax. Together with higher collection of insurance on SS (+55 bn) it concerned the items, which contributed to the growth of the total SB revenue the most. Swift growth of the corporate tax collection was significantly affected by the transfer of part of payments from year 2020 into the subsequent year⁸⁵. Collection of this tax adversely affected the individual requests of firms for adjustment of the advance payments⁸⁶ in both pandemic years. The comparison of state wide collection of the corporate tax (at the level of all public budgets) presents a relatively non-distorted picture for H2 2021 with the same period of year 2019 (+6.2%).

Chart 18 State wide collection of selected tax incomes (year-on-year in %) and state budget balance (in CZK bn)



Source: MF CR

Extraordinary budget slump for income tax of

The lowering of the tax burden on labour was next to the change of the budget determination of taxes the most reflected in the extraordinary last year's slump of SB revenues (by 29.2%,

⁸⁴ According to the CZSO data, the year-on-year consumption of diesel fuel increased in the CR from January till October 2021 year-on-year (+7.1%) and also the petrol by slower rate (+0.9%). Following the sharp dive during the year 2020, the consumption of kerosene in fact stagnated for the first ten months of the last year (-0.7%). In comparison to the pre-pandemic year 2019 however, the consumption of all main oil products still considerably lagged behind, except for diesel (+1.8%).

⁸⁵ It presented mainly the waiver of the June advance payment for this tax (with negative impact on the SB level collection in the amount of 13.5 CZK bn in year 2020). Part of the cancelled and unpaid June advance payment of year 2020 was paid last year in the tax realignment.

⁸⁶ They react to the worsened financial situation of businesses. According to the MF estimations, these requests led to the decrease of the revenues from corporate tax into the SB by 6.9 bn in year 2020, by 22.1 bn in year 2021.

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| <p>natural persons was completely caused by the legislative amendments.</p> | <p>resp. 45 CZK bn)⁸⁷. The rescue programmes also still affected the size of collection (compensatory bonuses – especially self-employed persons), their negative budget impact was however weaker last year compared to year 2020⁸⁸. The slump of collection was subdued by the growing employment, further increase of the minimum wage, as well as the Spring payment of extraordinary bonuses to workers of the public sector standing in the front line of fight with the pandemics.</p> |
| <p>Year-on-year growth of revenues from the EU budget halted in year 2021.</p> | <p>Swift growth of the non-tax and capital revenues and SB transfer after year 2017 halted last year. Their year-on-year decrease (by 23.7 CZK bn) was from nearly one half affected by lower revenues from the EU budget (serving to cover the expenditures previously already prefunded by the state)⁸⁹. Planned year-on-year decrease of the volume of transfer of funds of the privatisation account into the SB was broadly compensated by extraordinary last year's revenues from the auction of radio frequencies (+5.6 bn).</p> |
| <p>Lower need for support programmes and measures thanks to the improved epidemic situation was reflected in the considerable slowdown of growth of the SB current expenditures in H2.</p> | <p>Total SB expenditures slightly increased by 3.5% (+64 CZK bn) in line with the budget anticipations in year 2021. Compared to the sharp increase in the first pandemic year (+291.2 bn) it represented a significant moderation of the fiscal expansion. The pace of expenditures also slowed down during the last year – while it was compared to the same period of the „common“ year 2019 higher by 31% in Q2 2021, it was already „only“ by 17% in Q4. It was associated with the loosening of the counter pandemic measures. Out of the wide spectrum of the support programmes and measures⁹⁰ thus some of them were in effect suspended at the beginning of Summer, alternatively significantly reduced (e.g. care benefits or the Antivirus programme). In H2, the drawing of special programmes on the direct support of the afflicted branches of the economy also fell. Only increased payments per state insured persons and also the purchases of protective equipment (e.g. vaccines) burdened the SB evenly throughout the whole last year.</p> |
| <p>Increase of the SB current expenditures mirrored especially the heightened payments into the health care per state insured persons and also the higher transfers to entrepreneur entities.</p> | <p>Raised payments per state insured persons (with growth of 30%) and further the non-investment transfers to commercial entities (+18%), whose drawing significantly overtook the budget anticipations (+19 CZK bn), were instrumental in the last year's strengthening of the total current expenditures (+59.2 CZK bn) year-on-year. These transfers concentrate the decisive part of the support measures (programme Antivirus, support of companies in the most hit branches, care benefits for the self-employed). Even despite milder growth (+5.9%), the current transfers to regional budgets significant by volume also had substantial impact, which was associated with the continuing growth of wages in the regional education⁹¹, with increased financing of the social services and to a lesser extent also with the extraordinary bonuses to employees in the hospital bed care. These bonuses were also reflected in the transfers to the state cofinanced organisations, which however slightly fell in total (by 3.5%), since the expenditures on the debt elimination realised in year 2020 did not repeat last year.</p> |

⁸⁷ SB revenue from this tax arrived at 109.1 CZK bn last year, which was the least in the last six years. Still it presented result considerably exceeding the last year's budget anticipation (by more than 21 bn).

⁸⁸ Based on the MF calculations, it concerned at the SB level 16.1 CZK bn in year 2020, 12.1 bn one year later.

⁸⁹ Total net revenues of the CR from the EU budget were gauged at 131.7 CZK bn last year and went down by nearly one tenth year-on-year. Weaker revenues from the Cohesion funds (-5.8 CZK bn, resp. -19%) and from structural funds (-5.6 bn, -7 %) contributed the most. Received direct payments into agriculture, which reached 21.8 CZK bn and dropped only by 4% year-on-year, remained on the contrary relatively stable. The CR stayed in the position of significant net recipient from the EU funds (+65.3 CZK bn), despite the fact that the payments of the CR into the EU budget increased by one tenth against the year 2020 (besides other things also due to the expansion of volume of the EU budget as well as due to the covid crisis). After adding the revenues from the new EU tool to the support of recovery, which the CR utilises in the National recovery plan, the net positive position of the CR towards the EU would approach 90 CZK bn last year and slightly thus overtook the value from year 2019, which was the second highest in the history of the CR membership in the Union.

⁹⁰ It concerned mainly the compensation of part of wages and compulsory payments withing the program Antivirus A, A+ and B (25.8 CZK bn paid out from the SB in year 2021) and special programs on the direct support of affected sectors of the economy, e.g. in the area of food services, tourism, culture, education, sport, transportation, agriculture and food industry (including newer programs COVID 2021, COVID Rent, COVID costs not covered), in the total amount of 38.5 bn. Further, it was higher expenditures in health care, especially strengthened payments of the state per so called state insured person (50.0 bn), heightened personal costs of workers in health and social care (16.8 bn), purchases of protective equipment including vaccines (7.9 bn) and finally also the heightened expenditures on some social benefits – care benefits, extraordinary benefit for employees in the quarantine or isolation (5.9 bn).

Majority from the given data increased compared to year 2020. Care benefits, purchases of protective equipment and hospital debt elimination.

⁹¹ It reflects the approved increase of pedagogical as well as non-pedagogical workers year-on-year last year (by 9%, resp. 4.3%).



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| <p>Sharp growth for the non-investment purchases in the year before the last markedly dampened in year 2021.</p> | <p>The expenditures on non-investment purchases were also linked to the pandemics⁹². Compared to their record size from year 2020 (77.9 CZK bn), they increased only slightly (+1.6%). Lower need of protective equipment and medical goods was to a large part substituted by higher expenditures on purchases of vaccines. The rate of growth of expenditures on wages (and related expenditures) in the organisational units of the state eased pace for the third year in a row. These expenditures increased by 1.3% year-on-year last year, the least in the last nine years. The majority of growth was associated to the agendas more intensively employed in the fight with the pandemics (e.g. police, army, sanitary services).</p> |
| <p>Proportion of SB expenditures allocated on the social benefits kept falling further. The pension account returned into a mild surplus.</p> | <p>Resources on social benefits, which represent the weight dominant SB expenditure⁹³ in the long-term, increased by 0.8% year-on-year last year, when they escalated to 14.2%⁹⁴ in year 2020. In contrast to year 2020, the last year's growth was saturated exclusively by higher expenditure on pensions (+2.1%). Weaker pace of the growth of pensions is connected to the pay out of one-off allowance to all pensioners in December 2020⁹⁵. The decline of the number of pension recipients (by nearly 1%) also had an effect to a lesser extent. Revenues of the pension insurance compared to weaker basis of year 2020⁹⁶ increased by 9.8% last year. The pension account balance⁹⁷ thus following a mild slump in the first pandemic year (-34 CZK bn) returned to a mild surplus last year (+2 bn).</p> |
| <p>Drawing of majority of non-pension social benefits went down thanks to the economic revival in year 2021.</p> | <p>162 CZK bn was directed on the non-pension social benefits last year, by 5.7% less year-on-year (however expenditures rose by nearly one third compared to year 2019). Primarily the lower drawing of care benefits became evident, which compared to the record level from year 2020 (11.5 CZK bn) slumped by more than one half. Monetary benefits (+6.9%) as well as the more significant by volume sickness benefits continued in growth last year (+3.1%), even though in the second case by markedly weaker pace than in the previous years. The growth of the volume of state social support benefits after the jump increase two years ago halted (-5.5%), because the key expenditures on parental allowances with simultaneous higher drawing of the child allowance (due to legislative amendment as of 1. 7. 2021)⁹⁸ decreased. Improvement of the situation on the labour market thanks to the retreat of pandemics led to the lower volume of paid out unemployment benefits (-5.2%). The higher drawing of material deprivation benefits however signals a worsened income situation of some households, apparent throughout the whole pandemic period. By one tenth more year-on-year was directed on these benefits for year 2021, the extraordinary help to persons damaged by natural disaster (June tornado).</p> |
| <p>Growth of expenditures on sickness benefits, maternity benefits as well as material deprivation benefits however continued.</p> | <p>162 CZK bn was directed on the non-pension social benefits last year, by 5.7% less year-on-year (however expenditures rose by nearly one third compared to year 2019). Primarily the lower drawing of care benefits became evident, which compared to the record level from year 2020 (11.5 CZK bn) slumped by more than one half. Monetary benefits (+6.9%) as well as the more significant by volume sickness benefits continued in growth last year (+3.1%), even though in the second case by markedly weaker pace than in the previous years. The growth of the volume of state social support benefits after the jump increase two years ago halted (-5.5%), because the key expenditures on parental allowances with simultaneous higher drawing of the child allowance (due to legislative amendment as of 1. 7. 2021)⁹⁸ decreased. Improvement of the situation on the labour market thanks to the retreat of pandemics led to the lower volume of paid out unemployment benefits (-5.2%). The higher drawing of material deprivation benefits however signals a worsened income situation of some households, apparent throughout the whole pandemic period. By one tenth more year-on-year was directed on these benefits for year 2021, the extraordinary help to persons damaged by natural disaster (June tornado).</p> |
| <p>Investment expenditures lagged behind the budget anticipations despite mild year-on-year growth.</p> | <p>Capital expenditures achieved record 177.4 CZK bn last year and it strengthened by 2.8% year-on-year. Even in spite of fast drawing, they remained around 6% behind the budget anticipations towards the end of the year. It is connected to the slower realisation of projects in the area of transportation, regional development, sport and culture. More than one third of investment were aimed at the State Fund for Transport Infrastructure. Its budget was strengthened by 3.5 CZK bn this way year-on-year, which together with higher own revenues (from collection of tolls) led to a mild strengthening of expenditures</p> |

⁹² These expenditures do not contain expenditures on servicing the state debt and also in the latest years marginal item of expenditures on implementing the guarantees.

⁹³ The proportion of social benefits on all SB expenditures decreased for the fifth year in a row year-on-year (to 36.3%, minimum in the comparable series after year 2011).

⁹⁴ Introduction of crisis care benefit (associated with the home care for the children for the reason of forced shutdown of schools or the quarantine), increase of the parental allowance and faster rate of the pension adjustment were mainly reflected in the high growth.

⁹⁵ The contribution was 5 CZK thousand and meant increase of total expenditures for the SB by nearly 15 CZK bn. From January till November 2021, the year-on-year growth of expenditures on pensions equalled 5.4% and reflected for the major part the effect of the commons pensions adjustment.

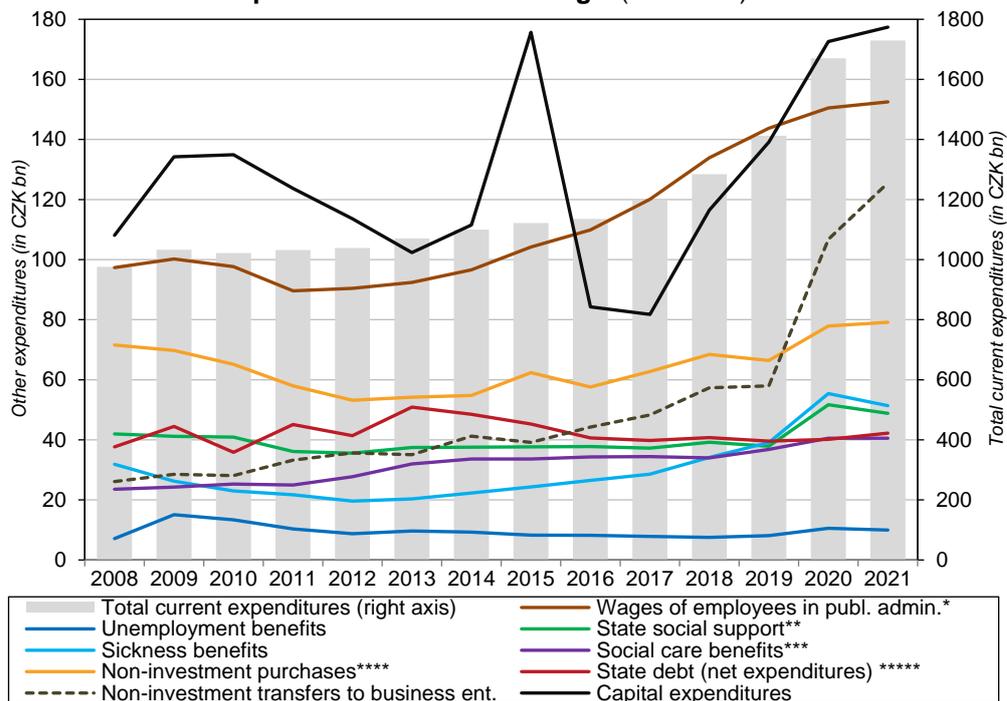
⁹⁶ The volume of collected insurance was negatively marked by the cancellation of minimal advance payments for self-employed persons in both Q2 and Q3 and also by the waiver of insurance paid by the employer (program Antivirus C).

⁹⁷ It is expressed as a difference between revenues and expenditures on pensions from the SB budget. Costs of management of the pension insurance system are not included in the expenditures.

⁹⁸ From 1st July 2021, the limit of the determinate income for drawing was raised (from 2.7- to 3.4times of the family minimum subsistence level) as well as the adjustment of the size of the allowance (by 26%).

of the Transportation Fund. The share of investment on total SB expenditures stayed last year at similar size to year 2020 (9.3%) and it also did not significantly deflect from the long-term average.

Chart 19 Selected expenditures of the state budget (in CZK bn)



* They cover expenditure on wages in organisational units of the state. They exclude, for example, wage expenditure on regional education.
 ** It also includes foster care benefits and substitute child support (maintenance).
 *** They include benefits of assistance in material need, benefits for people with disabilities, care benefit pursuant to the Act on Social Services.
 **** They mainly include expenditure on purchase of services, material, energies, or other services (for example, expenditure on repairs and maintenance).
 ***** It corresponds to the balance of the "State debt" budget chapter.
 Source: Ministry of Finance of the Czech Republic, Ministry of Labour and Social Affairs

Dynamic growth of the state debt continued for the second year in a row. Expenditures on servicing the debt however have not grown significantly so far.

Strongly growing need for funding tied to the necessity to cover the crisis SB deficit resulted in the acceleration of the state debt during the pandemic period. It arrived at 2 466 CZK bn at the end of last year's December and it hiked up by 416 bn from January 2021, i.e. comparably to year 2020. Total increase of debt for both pandemic years was by nearly 40 CZK bn higher than the budget deficits. The debt increase was for the major part financed by means of domestic bonds. Their total volume increased by 22% for year 2021 (by 60% in two years), it was 2 292 CZK bn at the end of December. The domestic financial institutions still more dominated among the bond holders, the proportion of non-residents on the contrary decreased from 40.6% to 26.5% between years 2019 and 2021. Ratio of external debt on the total indebtedness was further falling, mainly thanks to the repayments of foreign bonds. Net expenditures on servicing the state debt⁹⁹ rose also due to the growing interest rates of the domestic state bonds slightly increased year-on-year (by 5.2%) to 42.2 CZK bn last year. Expenditures oscillated around 40 CZK bn in the last six years.

Budget of the government institutions sector (VI) ended in deficit 246 CZK bn for the three quarters.

Budget of the government institution sector (VI) in the CR ended in deficit of 245.9 CZK bn in total for the three quarters 2021¹⁰⁰, deeper by 61.7 bn year-on-year. Growth of total revenues VI (6.0%) was essentially influenced by the received net social contribution (+89.5 CZK bn), since thanks to the government stabilisation support of the economy during the

⁹⁹ It corresponds to the balance of the budget chapter State debt.

¹⁰⁰ Data regarding the budget of the government institutions in the CR for Q4 2021 as well as the whole last year will be published by the CZSO on 1st April 2022, Eurostat for its member states subsequently on 22nd April. More detailed assessment of the domestic development for Q3 is contained in the publication Sector Account Analysis: <https://www.czso.cz/csu/czso/cr/analyza-ctvrtletnich-sektorovych-uctu-3-ctvrtleti-2021>



pandemics the employment did not decrease significantly. Revenues from the tax on production and import also increased year-on-year (+6.1%) and already caught up to the level from Q1 to Q3 2019. The year-on-year growth of the total expenditures VI was for the three last year's quarters despite the brisk pace (8.7%) lowest for the last four years. Last year's growth was driven mainly by higher social benefits and social transfers in-kind (+57.5 CZK bn), even though their growth slowed down compared to pace from Q1 till Q3 2020 (to 7.8%). The contribution of paid out subsidies was also significant (+40.0 bn, it was mainly the assistance to afflicted businesses during the pandemics) and compensations to employees (+43.1 bn), where the payment of bonuses to medical staff and other forces participating on solving the pandemics was substantially reflected.

Budget balance VI in the EU unlike in the CR shrank in Q3 both year-on-year and quarter-on-quarter.

Seasonally adjusted budget balance VI in the CR amounted to -6.0% of GDP in Q3 last year, which meant mild worsening in relation to the preceding quarter and also in the year-on-year comparison (similarly by 0.6 p.p.). On the contrary, the last year's improvement of the pandemic situation was already reflected in the deficit VI positively in the EU. While it arrived at 7.3% of GDP in Q4 2020, it was "only" 3.7% of GDP in Q3 the following year, when only Belgium, Romania, Spain and Malta recorded the deeper deficit compared to the CR (within range 6.6% to 8.1% of GDP)¹⁰¹. By contrast the government sector ended in surplus only in Denmark last year in Q3 (2.7% of GDP), where it however presented even more significant surpluses in the pre-crisis year 2019.

Year-on-year growth of the indebtedness rate VI was considerably moderated by the nominal increase of GDP in the CR.

The nominal debt VI reached 2 432.9 CZK bn in the CR at the end of Q3, by 260.0 bn more year-on-year. The indebtedness rate grew analogously from 38.1% to 40.5% of GDP for the last year. The growth of indebtedness was subdued by the swift nominal strengthening of the GDP (contribution -1.9 p.p.). The indebtedness rate VI was 90.1% of GDP in the EU in Q3, it mildly decreased however in the quarter-on-quarter view for the second time in a row. The indebtedness rate rose in all Union states compared to the end of year 2019, the most in countries of the South wing of the euro area (e.g. in Spain from 95.5% to 121.8% of GDP), which except for Malta belonged in this respect to the most affected already before the onset of the pandemics. This increase was 12.9 p.p. in the EU, by 10.5 p.p. in the CR – similarly to Germany or Poland. Only Ireland (by 0.4 p.p.) and Sweden (by 1.2 p.p.) reported a minimum worsening and together with other eleven EU states kept their indebtedness below 60% of GDP.

Compared to the end of year 2019, the cumulative increase of the indebtedness in the CR was comparable to Poland of Germany.

¹⁰¹ Without Italy, Croatia and Cyprus, where the seasonally data were not available.