

## 1. Summary

- The year-on-year rate of growth of the Gross Domestic Product (GDP) slowed down to 2.4% in Q2<sup>1</sup>. The high level of the growth of expenditure on individual GDP components did not hold up any more. Both final consumption expenditure and investment activity grew strongly, even though slower compared to the previous year. Change in the inventory stock had however an adverse effect. The foreign trade balance impacted positively, but considerably less compared to the preceding year. Quarterly addition to GDP reached 0.7%. From the year-on-year perspective, the Czech Republic ranked tightly above the EU average, which arrived at 2.2%.
- The Gross Value Added (GVA) increased year-on-year by 2.4% in Q2. In quarter-on-quarter terms, the GVA rose by 0.5% and it mildly exceeded the pace of the EU as well as the neighbouring Germany. The role of manufacturing, which supported the growth of the GVA in the CR in the past year, weakened this time. Contribution of the services sector played a key role. This sector was supported by demand in areas associated with the expansion (transport, warehousing) as well as the still growing household consumption. Both information and communication and the financial sector also prospered. Construction experienced a marked turnaround, its year-on-year GVA growth of 5.3% presented the best half-yearly result since year 2007.
- The value of export of goods slightly increased (0.3%) in H1 2018 compared to the same period of the preceding year. The export of motor vehicles however hindered the growth, since it decreased. Other branches on the contrary flourished. Especially export of computers, optical and electronic equipment attained exceptional results, IT increased year-on-year by 21.9 CZK bn. The value of imports rose by 1.5%. This development resulted in the drop of the balance surplus by 19.4 CZK bn to 105.7 bn.
- Growth of the consumer prices remained above the 2% level in Q2. The dynamics of food prices, which considerably influenced the price level in the previous year, further moderated. The prices of housing and energies thus had the largest impact on the price growth. They were raised by 2.6% in Q2. It was the consequence of the increase of rents and imputed rent on the one hand, however the prices of energies, which again started to grow this year following a nearly two-year period of fall, also had an effect. Mainly the prices of oil then affected the turn in the dynamics of the producer prices, which rose by 1.5% in Q2. Acceleration of the producer prices dynamics also involved the EU countries, which were affected by the global shift in the oil prices as well.
- Tension continued on the labour market also in H1 2018. Demand for labour force did not decline and the available sources of labour force were not adequate to saturate it, which presented a barrier to growth for businesses across the economic branches. The number of employed reached a new maximum of 5.44 mil<sup>2</sup> in Q2, which is mostly the result of strengthening economic participation. The general unemployment rate did not lower too much further any more in the 1<sup>st</sup> half year. The number of vacancies in contrast accelerated, which created a situation, when the number of vacancies exceeded the number of unemployed job applicants. The pressure on the labour market resulted in year-on-year growth of the average nominal wage by 8.6% both in Q1 and 2. Real purchasing power of wages rose by 6.4% in H1, which was the best result in the last 15 years.
- Rising of the monetary policy-relevant interest rates continued in the area of the monetary development. They then directly affected the increase of the interbank interest rates, however the impact on the client rates was not significant. Interest rates remained technically zero on the current accounts and mild shifts were observed only for some types of deposits with maturity. Interest rates on consumer credit to households were falling and mortgage rates experienced stagnation in Q2.
- The state budget (SB) ended in mild deficit of 5.9 CZK bn in the first half of this year. It represented the first deficit within this time frame in the last five years. Continuing economic growth was reflected in the year-on-year increase of the state-wide tax revenues (incl. insurance) by 7.9%. Total SB expenditures however grew

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

<sup>2</sup> Employment data are in the national accounts conception adjusted for seasonal effects.



faster (10.2%), especially under the pressure of rising wage costs and larger expenditures on pensions. At the same time the capital outlays also grew, since the drawing on funds from the EU budget gained pace. Despite this, the proportion of investment on total SB expenditures arrived at only 4.8% in H1. It was the second lowest share in the last 14 years. Half-yearly balance of the pension account finished in surplus for the first time in the last ten years.