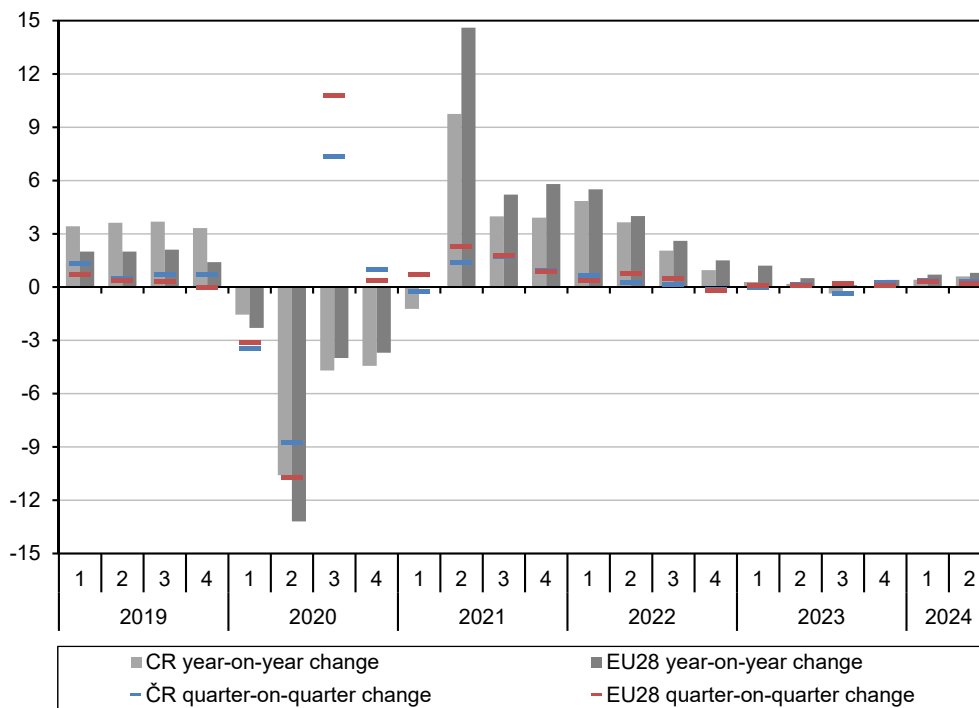


## 2. Overall Economic Performance

The Czech economy continued to grow weakly.

The lacklustre growth of the Czech economy also continued in Q2 2024. Gross domestic product (GDP) increased in real terms by 0.3%, quarter-on-quarter, and by 0.6%, year-on-year<sup>1</sup>. The quarter-on-quarter GDP growth was slightly supported by investment activity, consumption expenditure as well as external demand. Consumption was dominated mainly by the general government sector, while in case of households, the increase of consumption moderated. By contrast, the inventories significantly slowed the quarter-on-quarter GDP growth. The domestic consumption had a large share in the year-on-year growth of the Czech economy. The effect of growth of expenditure on gross fixed capital formation and external demand was weaker, but also positive. On the contrary, the year-on-year decrease of inventory creation continued.

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



Source: CZSO, Eurostat

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

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

<sup>1</sup> The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 31<sup>st</sup> May 2024.

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

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

The volume of wages and salaries paid out in the Czech Republic in Q2 increased by 0.9%, quarter-on-quarter, while employment increased by 0.5%<sup>2</sup>. Price growth weakened, thus the wages and salaries went up by 0.5%<sup>3</sup>, quarter on quarter, in real terms. The volume of wages and salaries increased the most in real estate activities (7.0% with an increase of employment by 2.5%), in financial and insurance activities (2.8% with a decrease of employment by 1.2%) and in other activities<sup>4</sup> (2.5%, however employment increased by 3.0%) in Q2. A quarter-on-quarter increase was also recorded in professional, scientific, technical and administrative activities (1.9%, employment -0.6%), information and communication (1.3%, employment -3.3%), in manufacturing (1.0%, employment -0.1%), and public administration, education, health and social work activities (0.5%, employment +0.3%). In the quarter-on-quarter comparison, wages and salaries decreased similarly by 0.2% in construction (employment +0.8%) and in group trade, transport, accommodation and food service (employment +1.4%).

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

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

Consumption growth continued.

The quarter-on-quarter increase of consumption weakened only slightly to 0.6% in Q2. This is mainly due to a strengthening of government expenditure (1.5%), as the growth of the household consumption following two solid increases slowed down again (0.2%). In total, the consumption contributed 0.4 p. p. to the quarter-on-quarter GDP growth<sup>5</sup> and general government consumption accounted for 0.3 p. p. A view of the consumption classified by durability<sup>6</sup> shows that medium-term (2.9%) as well as long-term (3.6%) consumption grew in real terms, quarter-on-quarter, but the growth of the short-term consumption recorded in the previous quarter did not persist (-3.0%). On the contrary, there was a significant recovery in services (2.2%). The year-on-year consumption growth reached 2.0% in Q2. And similarly to the quarter-on-quarter dynamics, for households the growth slowed to 1.0%, while the government consumption grew by 4.3%, year on year, the highest since the end of 2020. Still the contribution of household consumption to GDP growth (1.2 p.p.) was stronger than the contribution of general government consumption (0.8 p.p.). The consumption of services increased,

<sup>2</sup> Employment data are in the national accounts conception (persons), figure seasonally adjusted.

<sup>3</sup> Converted into the real expression using the deflator of household consumption.

<sup>4</sup> This section contains activities of common interests organisations, repairs of computers and mainly personal and household goods and a number of other personal services (beauty, hairdressing treatment etc.).

<sup>5</sup> Additions to the GDP change after exclusion of imports for final use.

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

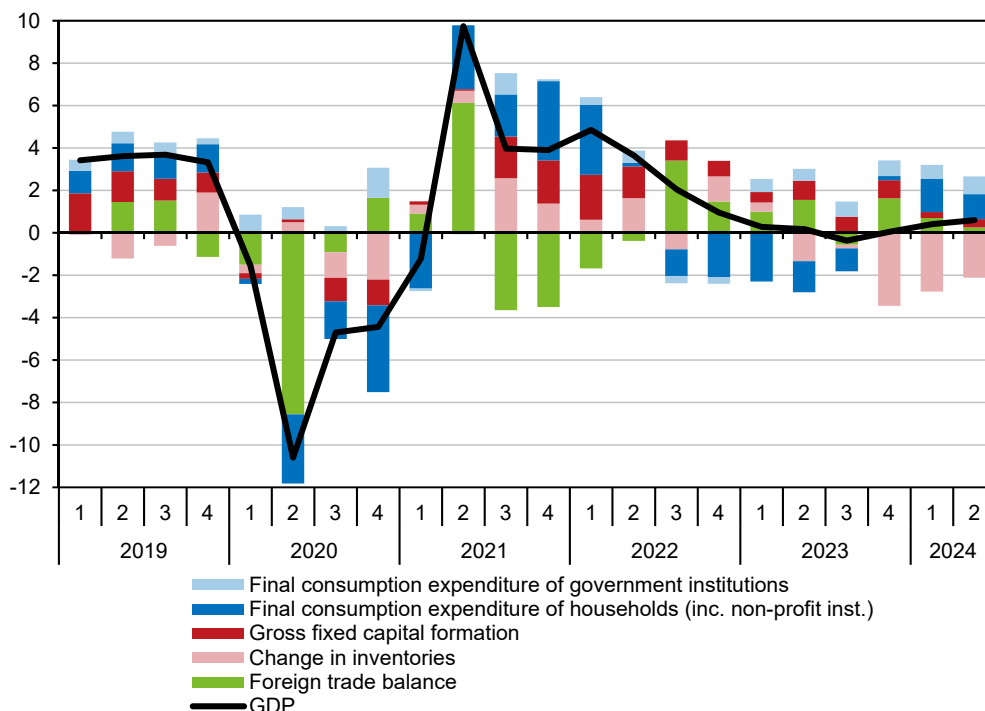


year-on-year (2.2%), and a year-on-year increase in short-term consumption (1.5%) was also recorded mainly due to the low comparative basis. Nevertheless, the medium-term (-0.5%) and long-term (-1.8%) consumption lagged behind the last year's level.

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

Expenditure on gross capital formation decreased by 0.3%, quarter on quarter, in real terms. It mainly resulted from the development of inventory creation. On the contrary, expenditure on gross fixed capital formation (investment activity) expanded by 1.9%, quarter on quarter. Investments into intellectual property products (4.4%), dwellings (4.3%), ICT and other machinery and equipment (0.9%) and transport equipment (0.3%) increased, quarter-on-quarter. A decrease was recorded for investment in other buildings and structures (-0.7%). The change in inventories also had a key effect on the year-on-year decline of the capital expenditure (-7.2%)<sup>7</sup>. The investment activity featured only a modest year-on-year increase (0.7%). Investment into transport equipment increased significantly, year-on-year (8.7%). Growth was more moderate for investment in other buildings and structures (2.0%), dwellings (1.1%) and intellectual property products (0.8%). A drop was on the contrary recorded for investment in ICT and other machinery and equipment (-3.8%).

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



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

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

Exports of goods and services increased by 0.6%, quarter-on-quarter, in real terms in Q2<sup>8</sup>. Exports of services increased more significantly (2.1%), while the dynamics remained low (0.3%) in case of goods. The quarter-on-quarter growth of imports of goods and services was only slightly higher than the increase of exports (0.7%). Exports of goods and services increased by 0.4%, year-on-year. Again, this was mainly due to services (6.8%), while exports of goods lagged by 0.8%, year-on-year. Imports recorded a year-on-year decrease (-1.5%) for the fourth time in a row. In imports as

<sup>7</sup> Change of the inventory stock (in current prices and not seasonally adjusted) attained 8.1 bn CZK in Q2 2024, while it was 35.2 bn in year 2023.

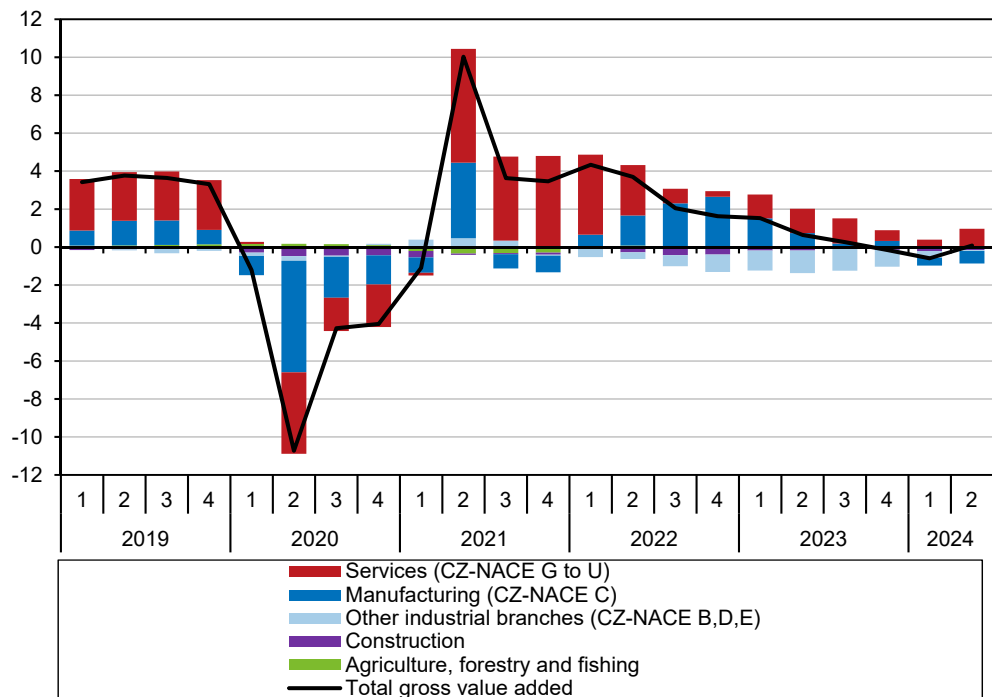
<sup>8</sup> According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). International trade balance in current prices and seasonally adjusted.

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

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

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

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



Source: CZSO

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

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

