

THE CZECH ECONOMY DEVELOPMENT

Year 2023

Summary Data on the Czech Republic

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Main 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), Ministry of Industry and Trade (MIT), Czech Social Security Administration (CSSA), Eurostat, CZSO calculations.
Latest information provided in this report has been dated the 15th March 2024.

1. Contents

- The Gross domestic product (GDP) decreased by 0.4%¹ in year 2023. The household consumption was falling, and the change in inventories exerted a negative effect. The foreign demand, investment and government consumption on the contrary contributed to the GDP growth. The GDP fell by 0.2% year-on-year in Q4, mainly as a result of the negative effect of the inventory stock, which outweighed the other GDP components. The GDP went up by 0.2% quarter-on-quarter. Development of household consumption, investment as well as foreign demand contributed. Consumption of general government and the change in inventories prevented a larger GDP revival. The Gross domestic product grew by 0.2% year-on-year in the EU in Q4 and it stagnated quarter-on-quarter. The economies stagnated quarter-on-quarter in the whole central European region.
- The Gross value added (GVA) grew by 0.5% last year. Development in manufacturing and information and communication were contributing the most. On the other hand, the GVA in group of economic activities of trade, transport, accommodation, and food service activities and in construction dropped. In Q4 itself, the GVA increased by 0.3% year-on-year. Manufacturing and information and communication activities had a favourable effect again. The total year-on-year GVA growth was hampered the most by the group of economic activities of trade, transport, accommodation, and food service activities. Following the two preceding decreases the Gross value added rose by 0.6% quarter-on-quarter in Q4. The revival was strong in manufacturing, but the GVA slumped in construction, other activities and in financial and insurance activities.
- Exports of goods and services increased in real terms by 3.1%² year-on-year in year 2023 and imports decreased by 0.4%. In Q4 itself, the exports grew by 1.0% year-on-year and by 2.2% quarter-on-quarter. Imports in contrast fell by 4.7% year-on-year and by 2.4% quarter-on-quarter. The balance of international trade with goods and services reached in total in current prices the surplus of 378.0 CZK bn last year and it expanded by 312.4 bn year-on-year. Moderation of the deficit of the crude petroleum and natural gas trade and improvement of the trade surplus in motor vehicles mainly contributed to the improvement of the trade balance of goods. The trade balance of electricity, gas, steam and air conditioning on the contrary deteriorated.
- Total price level (gauged by the GDP deflator) increased by 8.6% last year. It rose by 6.0% year-on-year in Q4 and stagnated quarter-on-quarter. Consumer prices jumped up by 10.7% last year. Their year-on-year growth gradually slowed down during the year and the consumer prices increased by 7.6% in Q4. Quarter-on-quarter they fell by 0.4%. Year-on-year pace of prices of the majority of consumer basket divisions weakened their growth apart from housing and energies. Prices of industrial producers, construction work and service producer prices in the business sphere also grew slower in Q4. Agricultural producer prices remained in deep decline.
- The monetary policy-relevant interest rates were lowered at the end of the year. The anticipated decrease was apparent on the interbank offered interest rates with longer maturity already during autumn, short-term rates responded only in December. Interest rates on term deposits as well as credit for households and corporations went down.
- Total employment³ increased by 0.8% last year. In Q4 itself, it was by 0.4% higher year-on-year, while quarter-on-quarter it decreased by 0.1%. Mild growth trend of the general unemployment rate was evident during the year, the rate thus arriving at 3.0% in January. The average gross monthly nominal wage grew by 6.3% year-on-year in Q4 and reached 46 013 CZK. The real average wage dropped by 1.2%. Quarter-on-quarter nominal rise of the average wage was 1.5%.

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 Employment data are in the national accounts conception and adjusted for seasonal effects.



- State budget deficit for year 2023 amounted to 288.5 CZK bn. The deficit shrank year-on-year for the second time in a row and decreased by 71.9 CZK bn compared to year 2022. Total revenues rose by even 23% year-on-year and slightly exceeded the budget anticipations. Both tax income without insurance and non-tax and capital income as well as received transfers contributed to the growth. Total expenditures thus increased by 12.4% year-on-year since the beginning of the year. Their growth reflected the state aid associated with high prices of energies as well as the impacts of the slowly subsiding high inflation.

Selected Key Indicators of the Economic Development*

Indicator	Unit	2022		2023			Whole year	
		4q	1q	2q	3q	4q	2022	2023
Economic Performance								
Gross Domestic Product in the CR ¹	y/y, in %	0,1	-0,3	-0,2	-0,8	-0,2	2,4	-0,4
	q/q, in %	-0,4	0,1	0,1	-0,5	-0,5	x	x
Gross Domestic Product in the EU ¹	y/y, in %	1,7	1,2	0,6	0,1	0,2	3,4	0,4
Final consumption expenditure ¹	y/y, in %	-3,4	-3,0	-1,7	-0,4	0,3	-0,3	-1,2
Gross fixed capital formation ¹	y/y, in %	1,5	-0,1	4,1	4,4	4,7	3,1	3,3
Exports of goods and services ^{1,3}	y/y, in %	10,9	7,2	4,9	-0,5	1,0	7,2	3,1
Imports of goods and services ^{1,3}	y/y, in %	8,3	3,4	1,6	-1,8	-4,7	3,7	-2,2
Balance of foreign trade ^{2,3}	in CZK bn	21,5	62,7	98,1	89,3	128,0	65,7	378,0
Balance of economic sentiment indicator ^f	in p.p.	-3,3	1,2	-2,6	-3,8	0,8	3,3	-3,3
Performance in Main Branches								
Industrial production ⁴	y/y, in %	2,4	0,5	0,3	-3,5	-0,8	2,1	-0,8
Construction production ⁴	y/y, in %	-0,1	-1,7	-4,2	-0,6	-2,9	3,3	-2,4
Sales in services ⁴	y/y, in %	3,1	1,6	-1,7	-3,8	-2,2	8,7	-1,6
Sales in retail trade ⁴	y/y, in %	-9,3	-7,8	-6,3	-3,1	-0,1	-3,9	-4,2
Prices								
Consumer price index	y/y, in %	15,7	16,4	11,1	8,0	7,6	15,1	10,7
HICP in the CR	y/y, in %	16,5	18,0	12,6	9,5	8,4	14,8	12,0
HICP in the EU	y/y, in %	11,0	9,4	7,2	5,7	3,4	9,2	6,4
Agricultural producer prices	y/y, in %	28,0	19,4	-8,1	-14,7	-14,6	31,8	-6,0
Industrial producer prices	y/y, in %	21,8	15,0	3,9	1,3	0,8	24,3	5,0
Service producer prices in the bus. sph.	y/y, in %	6,7	5,8	6,3	5,3	4,9	5,8	5,6
Terms of trade in trade with goods	in %	98,2	103,0	106,3	107,7	104,2	96,2	105,3
Labour Market								
Total employed in the CR ³	y/y, in %	1,2	1,3	0,8	0,4	0,4	1,5	0,8
General unemployment rate in the CR ⁵	in %	2,3	2,5	2,6	2,6	2,6	2,2	2,6
General unemployment rate in the EU ⁵	in %	6,1	6,0	6,0	6,0	6,0	6,2	6,0
Average employee wage (nominal)	y/y, in %	6,6	8,8	8,0	7,1	6,3	5,3	7,5
Average employee wage (real)	y/y, in %	-7,9	-6,5	-2,8	-0,8	-1,2	-8,5	-2,9
Monetary Conditions								
Two week repo rate ⁶	in %	7,00	7,00	7,00	7,00	6,75	7,00	6,75
Exchange rate CZK/EUR		24,4	23,8	23,6	24,1	24,5	24,6	24,0
Exchange rate CZK/USD		23,9	22,2	21,7	22,2	22,8	23,4	22,2
State Budget⁷								
State budget balance in the CR	in CZK bn	-90	-166	-49	35	-108	-360	-289
State debt ⁶	in CZK bn	2 895	2 997	3 044	3 115	3 111	2 895	3 111

Data source: CZSO, CNB, MF, Eurostat

* Unless stated otherwise, data relate to the CR.

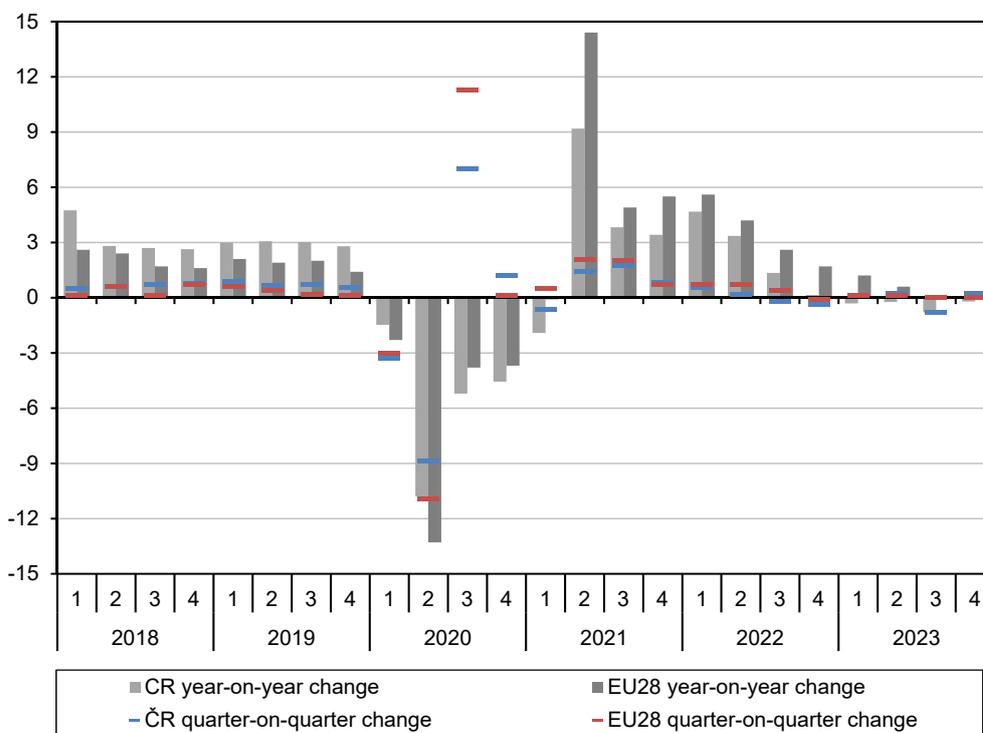
⁴ adjusted for seasonal effects¹ data adjusted for seasonal and calendar effects in constant prices⁵ seasonally adjusted, age group 15 – 74 years² data adjusted for seasonal and calendar effects in current prices⁶ balance at the end of period³ in the national account conception, in natural persons⁷ based on treasury fulfilment

2. Overall Economic Performance

The Czech economy was on a decline last year.

The Czech economy contended with a mixture of effect of growing foreign demand, domestic investment activity and government consumption and ongoing slump of the household consumption and negative influence of the change in inventories in year 2023. It resulted in fluctuation of the economy within the stagnation range. Total gross domestic product (GDP) decreased by 0.4% last year⁴. The GDP was falling year-on-year in individual quarters (gradually -0.3%, -0.2%, -0.8% and -0.2%). At the very end of the year, the change in inventories worked in the direction of year-on-year GDP decrease and its impact completely exceeded the positive contribution of consumption⁵, investment as well as the external demand. Recovery occurred last year (0.1% and 0.2% in Q1 and Q2 2023) following two quarter-on-quarter GDP declines from the second half of 2022. The GDP again decreased by 0.8% in Q3 2023 and increased quarter-on-quarter in Q4 (0.2%) with the contribution from the development of household consumption, investment as well as foreign demand. Consumption of general government and also the change in inventories was however crimping the GDP recovery. The Gross domestic product in constant prices year-on-year however also lagged behind the level from the pre-pandemic year 2019 last year, which was slightly overtaken in year 2022.

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



Source: CZSO, Eurostat

The Central European region economically stagnated in Q4.

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

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 2024.

⁵ Additions to the GDP change after exclusion of imports for final use.

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

Nominal growth of wages and salaries remained high.

Total volume of paid out wages and salaries expanded in nominal terms by 8.0% last year given the simultaneous increase of total employment⁶ by 0.8%. However, with respect to the continuing growth of the price level the earnings dropped in real terms by 1.2%⁷. The volume of wages and salaries increased the most in real estate activities (15.6%), in other activities⁸ (10.3%) and in section of professional, scientific, technical and administrative activities (9.9%) last year. On the contrary, the increase of wages and salaries was significantly below average in agriculture, forestry and fishing (4.8%), in financial and insurance activities (6.2%) and in manufacturing (6.9%). The wage dynamics slowed down during the year and the year-on-year volume of wages and salaries reached 6.6% in Q4 with parallel total employment growth of 0.4%. Total price growth was weakening last year faster than the nominal increase of wages and salaries, thus the real year-on-year increase of the volume of wages and salaries slightly strengthened to 0.5% in Q4. Wages and salaries grew the most year-on-year in other activities (12.9% with the employment growth of 2.9%), closely followed by the real estate activities (12.5% with the employment growth of 0.8%). The increase of the volume of wages and salaries was above average in professional, scientific, technical and administrative activities (8.6%, employment by 2.5%) and in information and communication (7.5%, employment by 1.0%). Wages grew markedly slower compared to the rest of the economy in manufacturing (5.1%), where the employment simultaneously decreased by 1.3% year-on-year, and in financial and insurance activities (5.0% given the drop of employment by 1.2%).

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

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

Household consumption strongly slumped last year.

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

⁶ Employment data in the national accounts conception (persons), figure seasonally adjusted.

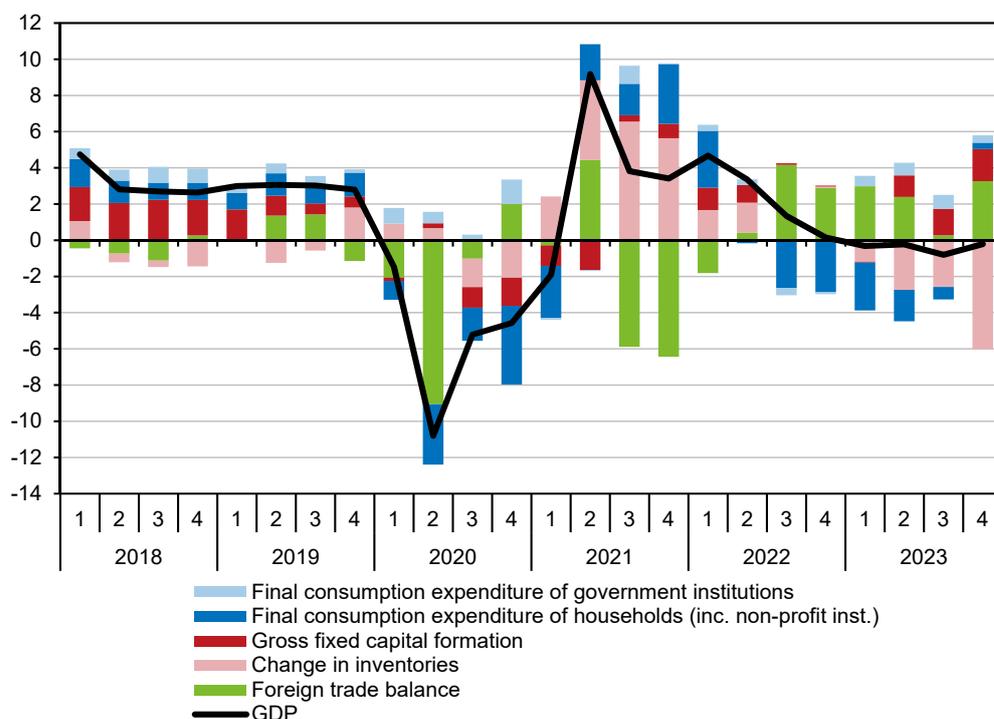
⁷ Converted into the real expression using the deflator of household consumption.

⁸ This section includes activities of organisations uniting persons for the purpose of advancing their common interests, repairs of computers and personal and household goods and number of other personal services (hairdressing and other beauty treatment etc.).



consumption according to the durability⁹, all its types were falling last year. The consumption of medium-term durability (-6.3%) and long-term durability (-4.4%) goods dived the most. Households considerably reduced their expenditures also on the short-term durability goods consumption (-4.1%). This consumption slumped three times in real terms during the last four years and thus fell below the level of year 2015. Consumption of services went down by 0.4% last year. Total consumption increased year-on-year by 0.3% in Q4, for the first time since Q2 2022. The year-on-year decrease of household consumption was curbed to -0.5% and the government consumption increased by 1.9% year-on-year. The two quarter-on-quarter increases from Q2 and Q3 were followed by stagnating consumption in Q4. Household consumption was quarter-on-quarter higher by 0.5%, while the government consumption decreased by 1.3%. In Q4 itself, the long-term durability goods (2.0 %, for the first time since Q1 2022) as well as short-term durability goods (0.9%, for the first time since the end of year 2021) consumption increased year-on-year and the consumption of services stagnated. Year-on-year plunge of the medium-term durability goods consumption nevertheless continued (-4.8%). Consumption of both long-term durability (2.7%) and medium-term durability (3.2%) goods as well as services (2.1%) was higher quarter-on-quarter. However, the household consumption for non-durable goods shrank by 1.8% quarter-on-quarter in Q4.

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



Source: CZSO
* after exclusion of imports for final use

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

Expenditures on gross capital formation decreased in real terms by 7.0% last year. However, the gross fixed capital formation (investment) as such continued in the favourable development in year 2022 and increased by 3.3% last year. Total decrease was thus caused by the change in inventories¹⁰, which considerably affects the economic development dynamics in the last years. Its contribution in the direction of GDP decrease was -3.1 p.p last year. Significant rise of investments in transport

⁹ Data regarding consumption based on durability are in domestic conception.

¹⁰ Change in inventories (in current prices and not seasonally adjusted) attained 133.9 bn CZK last year, which it was 346.5 bn in year 2022. Change in inventories arrived at -54.8 bn CZK in Q4.

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

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

Favourable influence of the external demand on the GDP growth flowed from the opposing development of export and import in year 2023. While the export of goods and services¹¹ expanded in real terms by 3.1% last year, import fell by 0.4%. Exports of goods and services increased year-on-year by 1.0% and imports on the contrary plunged by notable 4.7% in Q4. Exports of goods grew relatively mildly (0.4%), the increase for services was stronger (4.7%). Following the two preceding decreases the export increased by 2.2% quarter-on-quarter in Q4. In that, the export of goods rose by 1.6% and services by 5.1%. The quarter-on-quarter decrease of imports (-2.4%) continued for the fourth quarter in a row. The international trade balance of goods and services attained a surplus of 378.0 CZK bn, which was by 312.4 bn better result year-on-year. Trade balance of goods improved significantly (by 308.6 CZK bn), the surplus of international trade of services was also slightly larger (+3.7 bn). The international trade balance achieved a surplus of 128.0 CZK bn in Q4 and improved by 106.4 bn year-on-year. Positive balance of trade of goods (+90.7 CZK bn) as well as services (+15.7 bn) rose sharply year-on-year.

Gross value added increased last year.

The Gross value added (GVA) increased in total by 0.5% last year. Large difference thus emerged between the GVA and GDP dynamics¹². GVA development in individual branches partially corresponded to the demand structure. Favourable development of external demand was thus reflected in the GVA growth of export-oriented manufacturing (2.2%). It was balancing the decreases in the remaining part of industry, which was apparent on the weak increase of GVA in the industry as a whole (0.5%). Among services, information and communication fared the best (6.2%). GVA recorded a moderate increase (similarly 1.1%) in real estate activities, public administration, education, health and social work and in other activities last year. Professional, scientific, technical and administrative activities tied to the business demand showed GVA growth of 0.8% last year. Plunge of the household consumption was on the

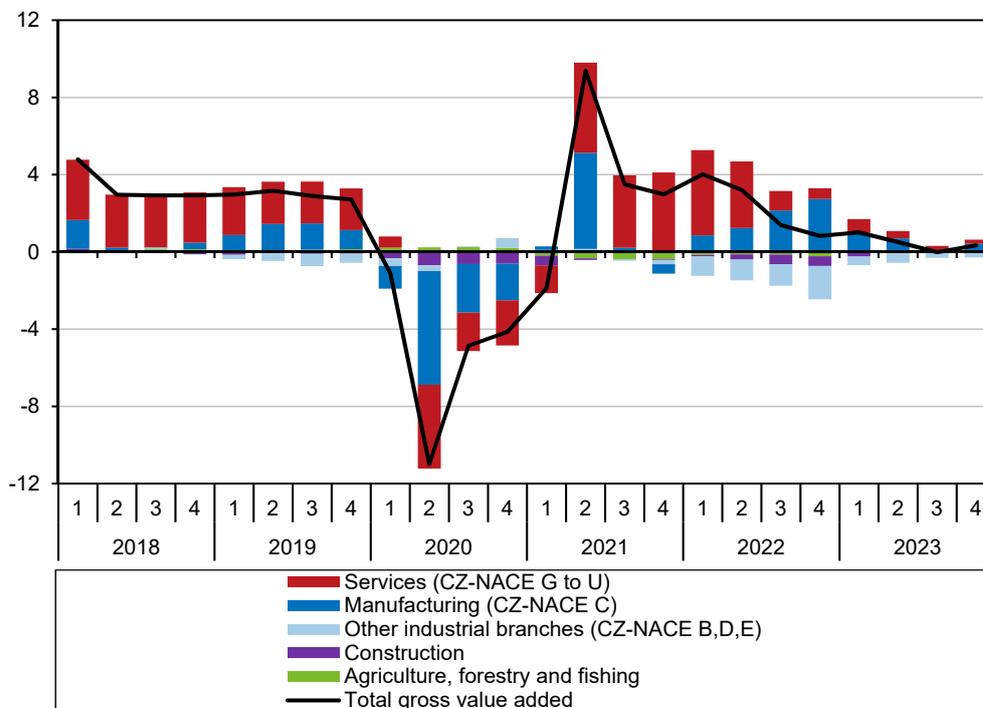
¹¹ According to the methodology of quarterly national accounts (export and import in FOB/FOB prices). International trade balance in current prices and after seasonal adjustment.

¹² Huge gap between the GDP and GVA dynamics was caused by the effect of varying of GDP and GVA evaluation. Gross value added is appraised in basic prices, while the GDP is expressed in real prices. These differences reflected on one side the tax yields connected to the plummeting consumption. Subsidies capturing the electricity price caps were also a factor especially at the beginning of the year.



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

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



Source: CZSO

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

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

3. Branches Performance

Gross value added fell during both Q2 and Q3. Economic performance still did not reach the record level from year 2019 even at the end of the last year.

Data from the supply side of the economy confirm the weak economic dynamics evident for the whole last year. In Q1 2023, when the national economy extricated itself from mild recession, the gross value added (GVA)¹³ mildly rose quarter-on-quarter (+0.5%), specifically mainly thanks to public services¹⁴, IT, but also construction, which revived due to unusually warm winter. The GVA growth halted during the two subsequent quarters. The weak both internal and external demand had still negative impact on industry and construction performance. In addition, the ongoing slump of household consumption also weakened the key branch of services. Consequently, a partial recovery occurred at the end of the year and the total GVA increased by 0.6% compared to Q3 2023. However, only manufacturing pulled by the growth of the pro-export production of motor vehicles essentially contributed to this result, since the performance in the majority of services activities rather stagnated. Also for this reason, the total economy GVA still slightly stayed behind its peak from the period of the pre-pandemic expansion (by 0.1%, compared with Q4 2019).

Manufacturing and IT contributed the most to the year-on-year GVA growth in 2023. The slump of mainly the mining and energy industry performance had the opposite effect.

Total GVA increased by 0.5% for the whole year 2023, when the year-on-year growth eased its pace for the second year in a row. Manufacturing (+0.5 p.p.), whose output increased by 2.2% last year, contributed to the growth the most for the third time in a row. Long-term developing information and communication activities (IT), where the GVA rose the most among all the main branches (6.2%), had almost the same effect. Public services also played an appreciable role (+0.2 p.p.), even though their performance increased the least in the last eight years (1.1%). On the contrary, mainly mining and quarrying, where the GVA dived by nearly one fifth year-on-year and exerted strength against the growth of the whole economy (-0.4 p.p.)¹⁵, had a negative effect. The grouping of trade, transport, accommodation and restaurants, whose performance lowered by 1.8% for the last year, also had a comparable effect on the GVA development. The impact of the considerable drop of consumption of the domestic households (for both basic and “non-essential” goods) was to some extent softened by the rising demand of non-residents in tourism. The GVA in construction fell for the fifth year in a row, nevertheless the last year’s decrease was the least pronounced for this time period (-1.2%) and its macroeconomic impact thus remained overshadowed by other branches.

The decrease of wood logging moderated. Production of meat kept further declining. Last year’s harvest was good for most main crops.

In the primary sector, the GVA nearly did not change last year (+0.3%), following two more notable decreases in years 2021 and 2022. The decline of the bark beetle wood logging prevailed, but at a slower pace compared to the preceding two years. The volume of total logging gradually approaches the level from before the onset of the bark beetle outbreak (year 2017). Production of meat in slaughterhouses decreased last year in agriculture (-2.6%), however less than in year 2022 (-4.2%). In contrast the long-term trend of mild strengthening of the milk production persisted¹⁶. Even though the majority of main crops experienced year-on-year decrease of harvest¹⁷, still the

¹³ Data regarding GVA are expressed in constant prices and adjusted for both seasonal and calendar effects.

¹⁴ Include public administration, education, health and social work.

¹⁵ At the same time, mining and energy industry were crimping the GVA growth in the whole economy the most among all main branches already in year 2022 (-1.2 p.p.). Value added created achieved in this industry last year only one half of the level from year 2019.

¹⁶ Direct purchase of milk from the producers expanded (in the physical quantity - litres) by 1.6% year-on-year last year. Last year’s production of meat in slaughterhouses reached 435.9 thousand tons (the least in the history of the independent CR). The decline was driven mainly by the lower production of the pork meat last year (similarly to year 2022), on the contrary a mild increase occurred for the beef meat in year 2023. Gross domestic production (i.e. the total supplies from the Czech farms to slaughterhouses - both local and abroad) plunged by 7.6% for the pork meat year-on-year last year (it fell by 5.6% in year 2022). On the contrary for the beef meat it increased by 3.2% (it however fell by 1.6% the year before last) and for the poultry it stagnated (the same in year 2022).

¹⁷ The harvest of all cereals attained 7.996 mil tons last year (with yield per hectare 6.07 t/ha). The harvest is lower year-on-year by 2.7%, it however exceeds the 5-year average (+2.0%, in that wheat +8.4%). The year-on-year decrease of harvest was also recorded for the grain legumes (-9.9%), potatoes (-12.4%), sugar beet (-5.5%), forage crops (-6.3%), grape (-16.1%) as well as fruit (-22.7%). The harvest of oil plants (+9.4%), vegetable (+15.4%) and hops (+57.2%). In comparison to the 2018-2022 average, the last year’s harvest can be assessed good for oil plants, legumes, oilseed rape or hops. On the contrary, it was below-average for forage crops, grape and also potatoes (first of all as a result of historically the smallest area planted).



harvest in 2023 can be considered good (even above-average for some cereals or oil plants).

Industry went through a cyclical downturn. It faced high price level of inputs as well as weak internal and external demand for the whole last year.

Industry in the CR, similarly to most of the EU states, was situated in the cyclical downturn last year, whose beginning can be traced already to the half of year 2022. The cost pressures linked to the sharp hike of prices of energies and other inputs (as well as uncertainty regarding their development) were magnified by the weakening demand in the key export territories. Beside this, the slump of both household consumption and private investment activity had also negative effect. Even though the prices of energies became stable last year, they still lay significantly above the level from year 2021. It naturally affected especially the energy-intensive industrial branches. The adverse development was mitigated by the revival in the motor vehicle manufacturing, which gradually finalised larger volume of orders accumulated from the period, when the continuity of production was slackened due to the disrupted supply chains. The total industrial output¹⁸ rather stagnated quarter-on-quarter in the first half of year 2023, it decreased by 2.3% in Q3 (the most in the last three years), mainly due to the motor vehicle manufacturing, whose continuity was disrupted by difficulties with supplies of some components shortly. Partial revival occurred in Q4, since the production increased by 1.9%, especially thanks to the manufacturing of transport equipment (which also processed some large, extraordinary orders) and their main supplier branches. Still the output of the whole industry mildly fell behind its peak from the period of the pre-pandemic expansion (Q2 2019) at the end of 2023 (by 1.1%)¹⁹

Adverse development of industry was mitigated by higher production of motor vehicle manufacturing. Neither this industry however avoided short-term outages.

Despite the fast growth of output in the manufacturing of motor vehicles, the performance of the whole industry slightly decreased in 2023.

The industrial output decreased by 0.8% for the whole last year, it thus fell after two years of post-crisis recovery. Manufacturing of transport equipment, where the production growth accelerated to 16.6% last year (the most in the last 12 years) considerably influenced the development of industry²⁰. Both manufacturing of personal transport equipment²¹ (benefiting from the growing of both internal as well as external demand²²) and other transport equipment (driven by significant domestic orders for the army and also the railway) thrived. In spite of occasional partial outage in supplies of some production components, the utilisation of the production capacities in the motor vehicle manufacturing remained above 92% throughout a major part of the last year and belonged to the highest within the industry²³.

The largest slump afflicted the manufacturing of construction materials. The output fell in the majority of energy-intensive manufacturing activities in both years 2022 and 2023.

The sub-branch of the electrotechnical industry profited from the development of motor vehicle manufacturing. It however grew slower (+4.2%) and contributed to the growth of the whole industry only by 0.3 p.p. Output in the next sub-branch – rubber and plastic industries – even slightly decreased (–4.5%), partially likely also for the reason, that compared to the above mentioned this features higher energy-intensity. This intensity, together with the decreased demand on the part of construction, markedly affected the branch of other non-metal mineral product, where the output plunged by 17.1% last year (the most after year 2009), the most among all industrial branches. The drop in demand for technical textiles is

¹⁸ 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 are adjusted for calendar effects, quarter-on-quarter rates then also for seasonal effects.

¹⁹ Two thirds of industrial branches stayed behind their peak from the period of years 2015–2019 in Q4 last year – coal mining (by 59%), leatherworking (–29%), metallurgy (–28%), textile industry (–24%), printing industry (–22%) and energy industry (–19%) the most.

²⁰ Excluding contribution of this branch, the year-on-year industry decline in 2023 would approach 4%.

²¹ Based on the Automotive Industry Association, there were 1.398 mil personal vehicles manufactured in the CR in 2023 (the most in the last four years and only by near 3% less than in the record year 2018). Production increased by 14.8% year-on-year. The March, June, July and October production were within the same months even the largest in history. Electrical vehicles (incl. vehicles hybrid cars) constituted so far already 12.9% of all domestically manufactured personal vehicles last year. Producers of most other types of road motor vehicles on the contrary recorded lower output year-on-year.

²² According to the European Automobile Manufacturers's Association, the numbers of registrations of new personal vehicles increased year-on-year by 13.9% in the EU in year 2023. They were growing continually 16 months in a row until the last year's December, when a mild year-on-year decrease occurred mainly as a result of weaker demand on the German market. Also thanks to the growing imports of more affordable models from Asia, the demand for electrical vehicles (incl. vehicles hybrid cars) was swiftly expanding, these thus comprised already 48% of all new motor vehicle registrations in the EU last year.

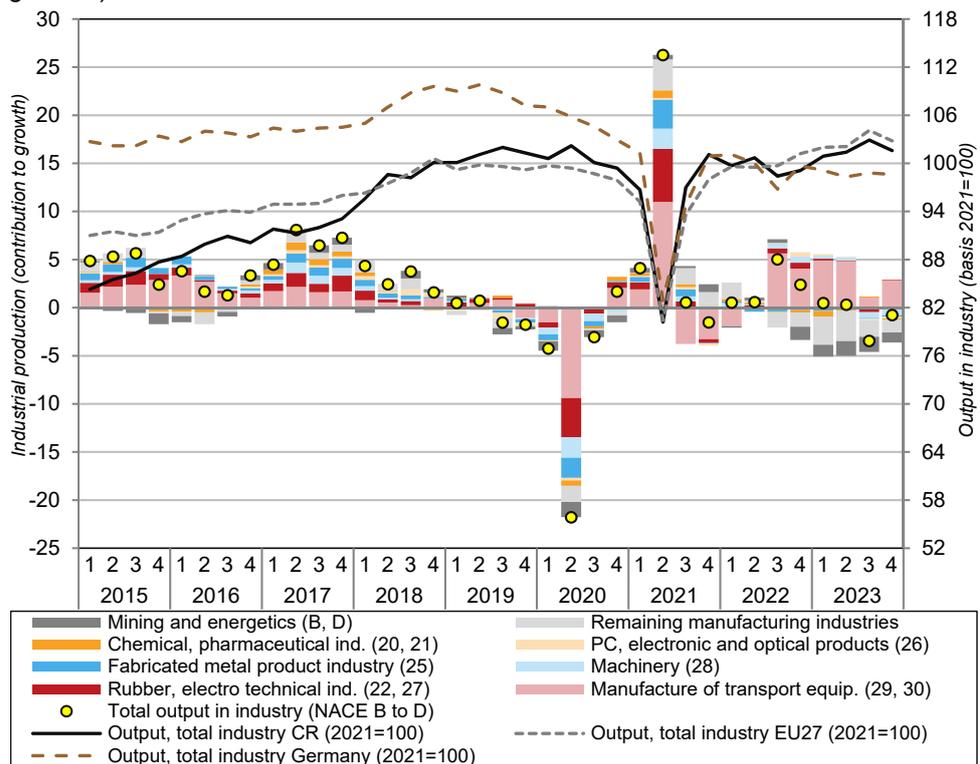
²³ Manufacturing of other transport equipment, petrochemical, pharmaceutical, textile, leatherworking, footwear industries and repairs of machinery and equipment also recorded high utilisation of capacities (above 85%) last year.

also associated with weaker performance of construction, which was reflected in the 11% decrease of production in the whole textile industry. Weak internal and external demand led to the more than 14% downturn in metallurgy and foundry industry (where production decreased for the second year in a row, nearly by one quarter in the last five years). Similarly, also the chemical industry struggled with the sharp growth of prices of inputs for the second year in a row and at the same time with the decrease of demand for output. It decreased by 9.4% last year. Some smaller branches with energy-intensive production also suffered, in case of wood and paper industries it was however also considerably aided by lower wood logging.

Among branches producing investment products, the output decreased the most in machinery. The weaker external demand had the most adverse effect.

Persisting weaker business confidence in the economy together with deteriorated accessibility of credit financing (due to high interest rates) inhibits the growth of private investment activity. It negatively impacts most industrial branches oriented on the production of investment products. The output in machinery belonged to the fastest growing within industry in years 2021 as well as 2022, it however lowered by 1.6% last year, first of all due to the weaker external demand. It also stood behind the mild last year's decrease of the fabricated metal product industry (-1.1%), where the internal demand prevented larger downturn (state orders in defence and security). Domestic demand (among other things in the form of photovoltaics) development also supported the electronic industry, where the output slightly increased for the third year in a row (+1.3% last year).

Chart 4 Contributions of sub-branches to the year-on-year change of the industrial output in the CR (adjusted for calendar effects, real, in p.p.) and output in the entire industry in the CR, Germany and EU27 (seasonally adjusted, level of year 2021=100, right axis)



Note: Sales are given in current prices.
Source: CZSO, Eurostat

The reduction the non-essential as well as common household expenditures led to the decrease of the food,

Even the majority of typically smaller manufacturing branches focused largely on non-durable products did not avoid the decrease of output last year. Output of food industry slightly lowered for the second year in a row, by 1.5% last year²⁴. Manufactures of beverages also experienced similar decrease in year 2023. The production dropped even

²⁴ Even this shallow decrease of output in 2023 resulted in the worst performance in the last 12 years in this traditionally stable branch.



<p>beverage or furniture industry.</p>	<p>more markedly in the significantly export-oriented manufacturing of clothing (−4.3%), which did not follow up on the recovery from the previous year. The reduction of “non-essential” expenditures of households in reaction to the slump of real earnings likely halted the long-term developing other manufacturing last year²⁵. Its output dropped by 3.6% – the most after year 2009. Similar factors also influenced manufacturing of furniture last year, its significant downturn (by 11.1%) is however first of all the result of weak external demand. Among smaller branches the long-time growing substantially pro-export oriented pharmaceutical industry diverged, where the output increased by 6.1% last year (by 42.9% in the last five years). Next to the stable external demand, it was also assisted by the last year’s growth of the domestic orders. Thanks to the external demand the leatherworking and footwear industries, which recorded higher output for the third year in a row, also prospered.</p>
<p>The external demand supported the ongoing growth of the pharmaceutical as well as leatherworking industries.</p>	
<p>Energy industry mainly stood behind the lower output in industry.</p>	<p>Energetics the most hindered the output of the whole industry last year, its production plunged by record 11.1% (“only” by 2.3% in year 2022) and contributed 1.1 p.p. to the total industry decrease. Deeper slump at the steam power plants and combined gas/steam plants (−18%) stood for the major part behind the lower electricity generation, the impact of the weaker production of the nuclear power plants was in the smaller (−2.0%). Next to the regular temporary shutdowns of the production facilities, the output of the whole energetics was connected to the further anticipated decrease of the internal demand²⁶. There the impacts of the measures aimed at savings of electricity, natural gas as well as heat in both households and firms were evident last year (similarly to year 2022). Additionally compared to year 2022, the effect of lower demand for energies in businesses due to the decrease of the production activity was more evident²⁷, as well as the impact of favourable climatic conditions in winter season²⁸. Following the temporary recovery in both years 2021 and 2022, the output in the very energy-intensive branch of mining and quarrying plummeted by one sixth last year. The long-term controlled downturn of still less profitable coal mining, only interrupted by mild growth in year 2022, especially contributed to it. In addition, the decrease of output in the extraction of building materials deepened (to −16.4%) last year, even though it enjoyed a promising development before the onset of the energy crisis.</p>
<p>Decrease of the electricity, gas and heat consumption in both businesses and households continued.</p>	
<p>Output in mining industry again slumped after two-year recovery. Less coal as well as building materials was extracted.</p>	
<p>Value of new industrial orders was slightly falling for a major part of the last year.</p>	<p>The dynamics of the new industrial orders confirmed the persisting weak demand. The nominal value of orders in the monitored industrial branches²⁹ was falling for a major part of the last year and in total decreased by 1.3% year-on-year. Non-domestic orders (in comparison to domestic) indicated less favourable development for the second year in a row. The total orders dropped only by 1.0% in Q4 2023, the majority of branches however indicated a lower demand – metallurgy (−21%) and chemical industry (−18%) the most, but also the electronic industry (−12%), although it belongs to the less energy-intensive industrial branches. Orders fell slower in machinery (−5%) and in fabricated metal products industry (−2%). Contrary to it, orders grew throughout the whole year in manufacturing of motor vehicles, by 9% in Q4 (both internal and external demand was expanding). Mild growth of</p>
<p>Unfavourable outlook still concerned mainly the energy-intensive branches. Mild growth of demand prevailed in manufacturing of motor</p>	

²⁵ This branch consists of (next to the weight dominant group of manufacturing of medical and dental instruments and supplies) also the manufacturing of games, toys, musical instruments, sports goods or jewellery and bijouterie.

²⁶ According to the data of the Energy Regulatory Office, the gross domestic electricity consumption shrank by 4.2% year-on-year in 2023 (similar decline occurred in the year of 2022). Savings eventuated for all main consumption categories last year – the most in households (by 4.0%, even by 12.7% for the last two years), the least in wholesale customers with electricity consumption at the level of very high electrical voltage (−1.4%). Substantially, even though by half the pace of year 2022, the total gas consumption also fell (expressed in m³) in the CR last year – by 12.4% year-on-year (after adjustment for long-term thermal standard by 8.1%). Considerable decrease of consumption occurred for all main categories of customers, it was the highest for households, which took by 11.6% gas less year-on-year (by even 30% less for the two years), the smallest decrease then for wholesale customers (by 9.6%).

Up-to-date data for Q1 to Q3 2023 also show the all-encompassing year-on-year decrease of heat consumption (expressed in TJ) – by even 9% (by 10.3% in 2022), in that by 4.9% in households, in trade, services, education, health care in total by 8.3%, in industry by 13.7%.

²⁷ The year-on-year output reduction afflicted nearly three quarters of all industrial branches in 2023.

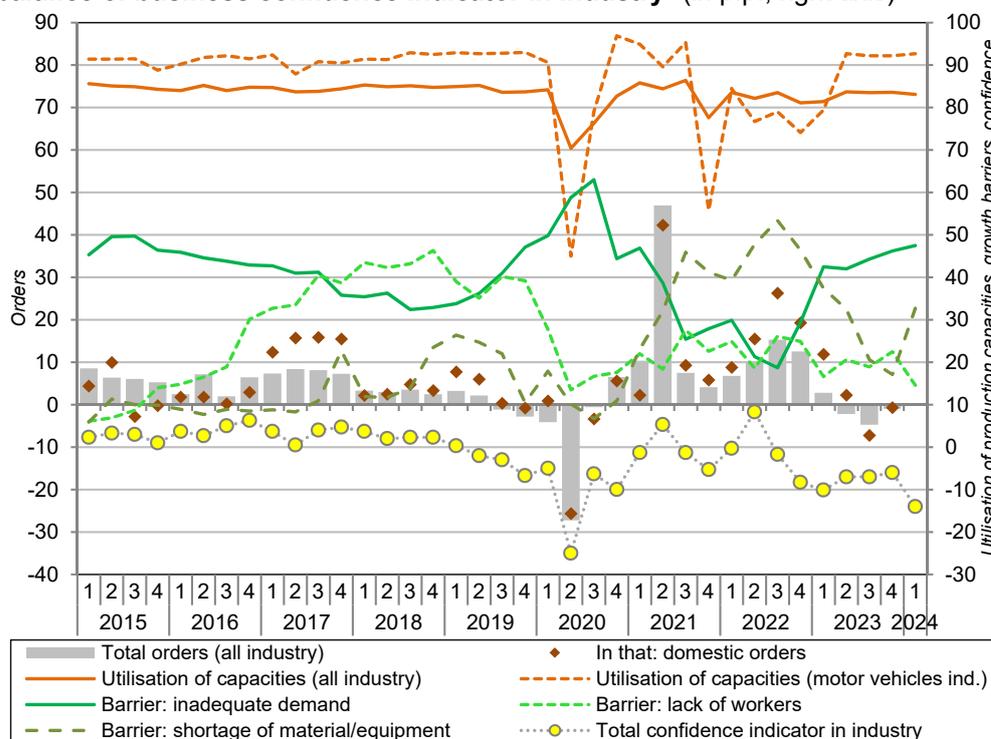
²⁸ The average air temperature in the CR climbed up above the long-term thermal standard by 3.4 degrees Celsius in both January and September last year, by 2.9 degrees in October, by 2.6 degrees in December, in February and March by 1.5 degrees. In contrast, only April with temperature by two degrees below the standard can be considered colder. The average air temperature attained 9.9 degrees in the CR for the whole last year, 9.4 degrees in the previous year.

²⁹ Survey of orders is performed only in twelve 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, quarter-on-quarter rates also for seasonal effects.

vehicles and electrical engineering.

the total demand also occurred the manufacturing of electrical appliances, among the small branches then in manufacturing of clothing.

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



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

Business confidence in industry remained in slightly negative band for the whole year 2023. It even deteriorated at the beginning of 2024.

Business confidence in industry remained in the mildly negative band for the whole last year. It was falling due to the deteriorating economic outlooks in the key export territories mainly in H1 2023. It hit the three-year minimum in September. More favourable development (supported by the strengthening of optimism of motor vehicle manufacturers) evident in Q4 2023 ceased with the arrival of 2024. Growing pessimism at the beginning of this year is connected to the worse assessment of demand (mainly external), short-term expectations of own production, economic situation of businesses as well as the mild growth of inventories of finished products. Already nearly one half of businesses (the most in the last three and a half years) stated inadequate demand as one of the growth barriers in February 2024³⁰. In contrast, the shortage of labour limited less than 15% of businesses³¹. Following the favourable development in H2 2023 the inaccessibility of material and equipment again becomes more acute currently, which restricts nearly one third of businesses³². That is however still less than at the beginning of the year 2023.

Current assessment of the present demand is the worst in the last three and a half years.

Construction output was still affected by significant cost pressures as well as

Persisting cost pressures as well as weak demand activity in the private sphere affected construction last year. Even though the year-on-year growth of prices of building materials slowed down (the prices went even slightly down in September after more than three years),

³⁰ Businesses could have indicated more barriers simultaneously. Barriers are adjusted for the seasonality effects. Weak demand represented a substantial growth limit especially for most energy-intensive industrial branches (metallurgy, manufacturing of building materials, rubber and plastic industry, wood and paper industry), further for print, textile or beverage industry. Surprising high proportion of businesses in manufacturing of electrical appliances (above 70%) also mentioned this barrier. The inadequate demand represented main growth barrier for two thirds of all manufacturing branches.

³¹ It substantiated bigger problem especially in rubber and plastic industry, in transport equipment manufacturing (except for motor vehicles), in manufacturing of electrical appliances and then in clothing and leather industry.

³² This barrier limited especially businesses in motor vehicle and electronic industry.



weakening private investment activity.	brisk growth of labour costs influenced by chronic shortage of (especially qualified) labour force prevented more pronounced decrease of both realised and expected prices of construction output ³³ . Deteriorated financial situation of households together with decreased accessibility of mortgages ³⁴ essentially cooled down the last year's boom of the real estate market. Public investment ³⁵ , i.e. strengthening inflow of funds from the EU budget designed on the construction as well as upgrading of the transport infrastructure or reduction of the energy-intensity in the area of housing on the other hand worked against the deeper downturn of the construction output.
Construction output lowered last year after mild recovery in years 2021 and 2022, both building construction and civil engineering construction decreased.	Construction output ³⁶ increased by 1.8% quarter-on-quarter at the beginning of year 2023 (partially thanks to very mild winter, which mainly assisted the building construction), however it decreased more significantly in the subsequent quarter (by 2.8%). The downward trend of production continued in H2, although at slower pace. Thus, the output of the whole branch lagged behind the peak of the last expansion (Q3 2019) by nearly 6% towards the end of the year (in that building construction by 8.3%). In comparison to the same period of the preceding year, the construction output fell in all last year's quarters and by 2.4% then for the whole year 2023, with contribution mainly from the building construction (-0.9 p.p.).
Decrease of demand was distinctly imprinted in the started residential construction, where the number of dwellings in the family houses considerably slumped.	"Freezing" of the real estate market was still more distinctly reflected in the low intensity of started construction, mainly of family houses. Decrease of construction commenced in year 2022 deepened last year (to 15.5% year-on-year). Construction of family houses decreased the most, the number of started dwellings was due to high financial costs as well as shortage of labour (mainly in smaller building companies) the lowest in the last eight years (14.6 thousand), decrease however occurred also in all other construction segments (apart from reconstructions of existing residential houses). Number of completed dwellings fell only slightly (by 3.4%) due to large number of unfinished works from the previous years, again contributed by weaker construction of family houses. On the contrary, the number of dwellings in the category of residential buildings increased year-on-year for the third time in a row and arrived at 14.2 thousand (larger construction was in the era of independent CR achieved only in year 2007, specifically 18.2 thousand). More than one third of the total number of all completed dwellings in the CR is in Prague and the Central Bohemia in the long-term.
Number of completed dwellings in residential buildings still competed with the extent of construction from the expansion years of the zero decade.	
The approximate value of one granted building permit grew more notably in Q4. The volume of orders also increased more slowly, however the private demand still slackened.	Some leading indicators can evoke a mild optimism in construction. The approximate value of one granted building permit increased by 35% year-on-year in Q4, by 62% in December itself – i.e., to 84 CZK bn (the second largest value in history – behind July 2021, when the construction of the underground line D was permitted in Prague). The December growth had nearly an across-the-board character, after deduction of large structures (above 1 CZK bn) it was 20% in nominal terms (17% in real terms). Value of new orders was by 9.3% higher year-on-year in Q4 (it grew for the second quarter in a row), it reflected the revival of building construction. Total stock of work (balance of orders to be realised) was by even 7% higher year-on-year at the end of December, but only thanks to higher demand from public contracting authority for now. According to the business cycle survey (January 2024), construction businesses also anticipate a mild growth of demand, construction activity as well
Pessimism of businesses in construction lowered at the beginning of this year.	

³³ Based on the business cycle surveys from last year's November, still nearly 40% of domestic construction businesses expected the growth of prices of own production (within a period of the next three months). Even despite a gradual descend, which is however slower compared to industry, it presented the largest share among all main branches.

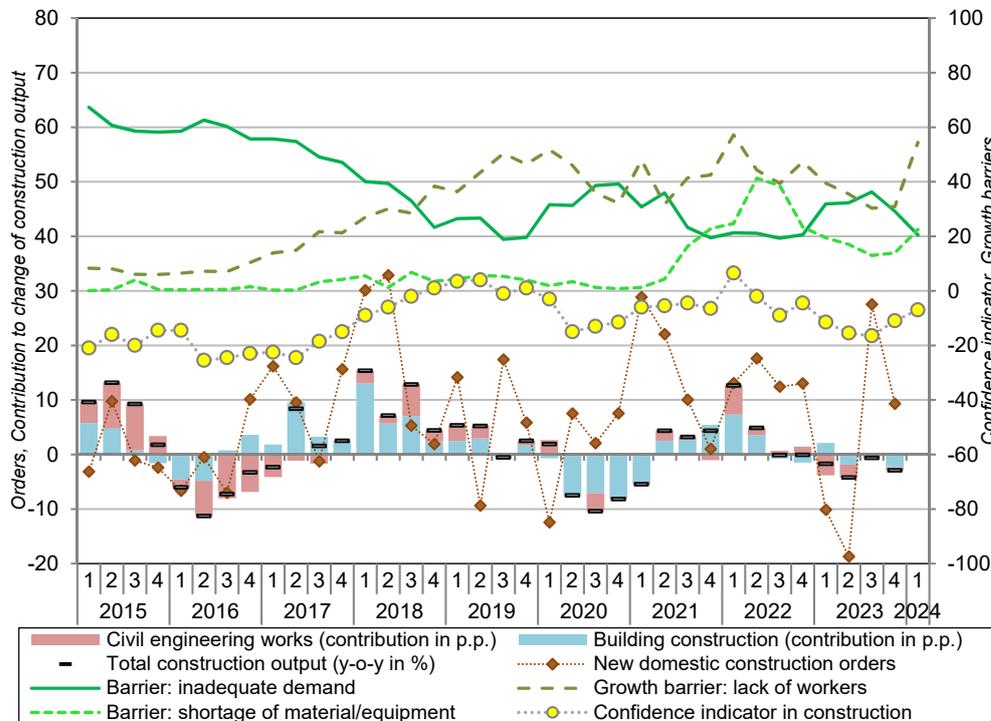
³⁴ It was connected to the decrease of real household incomes as well as high interest rates on mortgages (whose level did not change much during the last year). Situation could be improved by reduction of regulation in the nearest time. As of January 2024, the CNB proceeded to the deactivation of some limits for the provision of mortgages (relation of the total size of debt, i.e. the size of the debt service to the annual net household income).

³⁵ E.g. capital outlays of the CR state budget increased by 14% year-on-year, or 25.4 bn CZK from January till December last year.

³⁶ Data regarding the construction output are in constant prices, year-on-year rates of growth are adjusted for calendar effects, quarter-on-quarter rates also for seasonality effects.

as employment. Their confidence balance was the highest this year in February in the last 15 months.

Chart 6 Contributions of sub-branches to year-on-year change of the total construction output (real, in p.p.), new construction orders (nominal, year-on-year in %), balance of business 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 business confidence as well as barriers to growth are seasonally adjusted and express the level in the second month of the given quarter. Businesses could have indicated more main barriers simultaneously.
 Source: CZSO, Eurostat

Quarter-on-quarter decrease of sales in services prevailed for the most part of the year. The size of sales again dropped below the pre-crisis level.

Demand for services was subdued throughout the whole last year. Although the potential of its revival after subsiding of the pandemics has not got completely exhausted in some segment of services (e.g. in tourism) yet, more significant factor was, that for a number of areas the tendency of domestic households to restrict “non-essential” expenditures became evident. Impacts of the high growth of prices as well as the economic stagnation also hit the business sphere, which led to the heightened need for production cost optimisation (e.g., at administrative and support service activities). Sales in services³⁷ grew by 0.3% quarter-on-quarter at the beginning of the last year, subsequently they decreased by further 1.5% in both Q2 and Q3, i.e. 1.1%. Transporting and storage had a major effect on the decrease of sales, which started already in Q4 2022 and ended in Q4 2023. Demand was however also shrinking in the majority of other services activities. Stabilisation manifested at the end of year 2023, when the quarter-on-quarter fall halted (+0.4%), nevertheless in the transportation and storage alone, the demand further weakened. Total sales in services slightly lagged behind their peak from the period of the pre-pandemic expansion (Q2 2019) for the most part of the last year, by near 1% in Q4³⁸.

Transportation and storage mainly stood behind the year-round

Sales in services decreased (following the swift growth in the two preceding years) by 1.6% in year 2023 (they were falling since Q2 2023 year-on-year). The weak demand in the key

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

³⁸ Among the main branches, the sales lagged behind their pre-crisis maximum the most in accommodation, food service and restaurants (-9.4%) and in administrative and support service activities (-12.3%) in Q4 2023. In contrast mainly information and communication (+5.5%) and professional, scientific and technical activities (+1.8%) exceeded this level.



<p>decrease of sales in services.</p>	<p>transportation and storage played an essential role in this result (year-round decrease of 8.4%, contribution to the development of services -2.6 p.p.). In that in storage (incl. the sub activities in transportation), the sales slumped by record 11.4%³⁹. Deep decrease also occurred in the land transport and transport via pipelines (-8.0%). Recession in industry, construction as well as trade accompanied by the fall of the international trade turnover⁴⁰ was reflected in lower transport work of both land and rail freight transport⁴¹. The mild growth of the transport works of the passenger rail transport, associated with the more pronounced strengthening of the cross-border transport, but also the development of the regional transport (upgrade of railways, including new areas into the integrated transport system) had on the contrary a positive effect on the sales in land transport. Transport works of the regular public bus transportation also increased year-on-year (the same as in other types of passenger transport they however stayed behind the “pre-covid” level). Ongoing recovery of the arrival tourism supported the sales in air transportation (+5.1%). Sales in the water transportation also slightly increased. On the contrary, the postal and courier activities earned by 3.3% less year-on-year. The output lowered here partially also due to the weaker demand for sales via internet for the second time in a year, it was however by nearly one eighth higher compared to year 2019.</p>
<p>Transport works of passenger transport grew; it fell in the freight transport.</p>	<p>transportation and storage played an essential role in this result (year-round decrease of 8.4%, contribution to the development of services -2.6 p.p.). In that in storage (incl. the sub activities in transportation), the sales slumped by record 11.4%³⁹. Deep decrease also occurred in the land transport and transport via pipelines (-8.0%). Recession in industry, construction as well as trade accompanied by the fall of the international trade turnover⁴⁰ was reflected in lower transport work of both land and rail freight transport⁴¹. The mild growth of the transport works of the passenger rail transport, associated with the more pronounced strengthening of the cross-border transport, but also the development of the regional transport (upgrade of railways, including new areas into the integrated transport system) had on the contrary a positive effect on the sales in land transport. Transport works of the regular public bus transportation also increased year-on-year (the same as in other types of passenger transport they however stayed behind the “pre-covid” level). Ongoing recovery of the arrival tourism supported the sales in air transportation (+5.1%). Sales in the water transportation also slightly increased. On the contrary, the postal and courier activities earned by 3.3% less year-on-year. The output lowered here partially also due to the weaker demand for sales via internet for the second time in a year, it was however by nearly one eighth higher compared to year 2019.</p>
<p>Slump of sales of employment placement agencies continued, the cyclical downturn also occurred in the majority of other business services.</p>	<p>Sales very mildly grew in the administrative and support service activities for the last year (+0.8%). Travel agencies whose sales expanded by even 16% (and for the first time without difficulty overtook the level from year 2019) for the last year, played a key role here and thus offset the falling sales in other sub-branches (primarily tied to the demand on the part of businesses). There mainly the lower output of the employment placement agencies was evident (-13.8%, -22.4% for two years)⁴². Milder cyclical downturn of demand then occurred in the area of rental and leasing activities (-3.5%), where the sales shrank the most for machinery, equipment and trucks, but also goods for personal need and mainly for households. Pressure to reduce costs as well as the advancement of digitization resulted in weaker demand for cleaning activities or for security and investigation activities.</p>
<p>Sales further grew in accommodation last year; the yearly demand in the domestic tourism still has not fully attained the level from year 2019.</p>	<p>Developing tourism was also mirrored in the performance of accommodation, food service and restaurants, where the sales increased by 2.5% last year. Similarly, to year 2022, the demand for accommodation (+3.0%), where it benefited from the more frequent arrivals of foreign guests also grew faster last year. Mainly thanks to them, the total demand in domestic tourism dynamically grew for the second year in a row. The year-round number of all overnight stays in mass accommodation facilities in the CR however still has not fully restored the record level from year 2019 even last year (by 1.8%, in that for non-residents it lagged by even 14%)⁴³, partially also due to the shortening length of stays. Segment food service and restaurants was more affected by the still weakening purchasing power of domestic households and sales strengthened only by 2.3% year-on-year here last year.</p>

³⁹ Sales were still considerably higher here (by 8.3%) compared to year 2019.

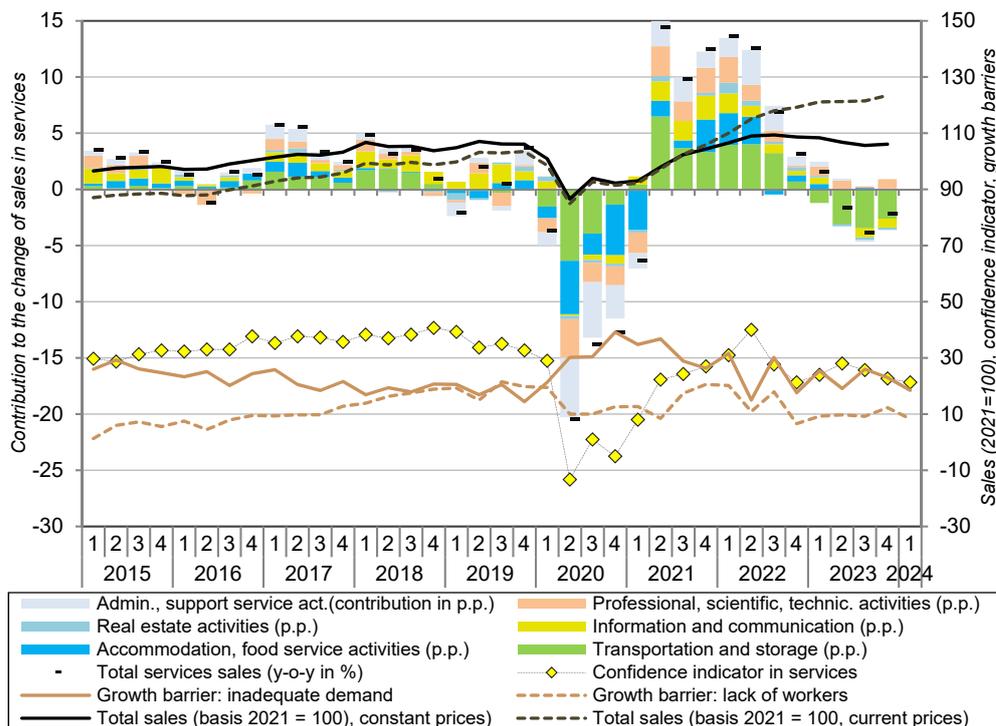
⁴⁰ The turnover of the international trade of goods in constant prices (based on the national accounts methodology) decreased by 2.3% year-on-year last year in Q3, it deepened to 2.7% in the subsequent quarter.

⁴¹ Based on the latest data, the transport works (in tkm) decreased in the freight rail transport by 5.1%, road transport by 1.5% year-on-year in year 2023. The decrease of demand for domestic transportation proved to be key in both cases.

⁴² The decrease of sales eventuated here even despite high growth of number of working foreigners in the CR. Refugees from Ukraine significantly participated in this number in the last two years. With respect to the Temporary protected status, which was granted to these persons, their employment in the CR is administratively easier (compared to other groups of migrants from the so-called third countries) and thus they can seek employment more easily “directly” (without intermediary). Apart from the above stated, the reduced demand for the agency workers on the part of key manufacturing branches undergoing recession (e.g. industry) can also share in the decrease of sales.

⁴³ In that in Q4 2023, the number of overnight stays was by 3.4% lower compared to the level from year 2019 (even by 11.3% lower for foreign tourists, it was on the contrary by 6.9% higher for households). Among regions only five surpassed in the number of overnight stays this level (the most in *Vysočina* +9%), other stayed behind (the *Ústecký* by 12%, *Karlovarský* and Prague identically by 5%). The number of overnight stays fell behind the most in the CR related to guests from countries involved in war conflicts (Russia by 95%, Izrael by 63%), from distant Asian states, mainly China (-74%), Japan (-51%), South Korea (-29%) and among the EU countries the most from the Scandinavian states (e.g. Sweden -38%). On the other hand, the demand in the CR exceeded the pre-pandemic level for citizens of all neighbouring states (Slovakia +13%, Poland +12%, Austria 11% and Germany +2%), among further significant countries it grew the most for citizens of Spain (+26%), among countries outside Europe relatively the most from the United Arab Emirates and Saudi Arabia.

Chart 7 Contributions of branches to year-on-year change of sales in services* (real, in p. p), total sales in services* (2021=100, right axis), balance of business confidence indicator in services (in p. p., right axis), barriers to growth** (in %, right axis)**



Note: All data are seasonally adjusted, only contributions of sub-branches to the growth of sales are adjusted solely for calendar effects.
 *Without branches trade, financial activities, insurance activities, science, research and public services.
 **Also involves the financial sector. Balance of business confidence as well as the barrier to growth express the level in the first and in the second month of the given quarter (growth barriers and balance of confidence, respectively). Businesses could have indicated more key barriers simultaneously.
 Source: CZSO, Eurostat

Mainly architectural and engineering services still drove the rising demand for professional, technical and scientific activities.

Even though the year-on-year growth of sales in professional, scientific and technical activities slowed down last year for the second year (to 3.1%), it worked the most against the decrease of total sales in services among all branches (+0.7 p.p.). Despite difficulties in construction, the architectural and engineering activities contributed the most to the growth of sales of the whole branch (with growth of 2.8%). Other more sophisticated services for businesses also registered a moderate growth of sales (legal and accounting activities, activities of head offices and management consultancy activities). Following weaker year 2022, demand in the area of advertising slightly revived last year (+4%), in contrast the decrease in the area of market research and public opinion polling continued (-4%). Other professional, scientific and technical activities⁴⁴ (+1.5%) recorded a very mild growth of sales last year, nevertheless they lagged behind the year 2019 by 5.8%.

Sales growth in the long time prospering information and communication halted.

Sales lowered by 1.2% year-on-year in the traditionally dynamic information and communication last year (the most since year 2009). Especially lower sales for publishing activities contributed to the growth (-5.0%), however the performance of the so-called motion picture and music industries dropped the most (-9.4%)⁴⁵. Sales in the IT area (including e.g. programming or computer facilities management activities) unusually decreased for the last year, specifically by 0.1%, and mainly then in information and communication⁴⁶ (by 6.8%). Sales grew by mere 1% in the long-time growing

⁴⁴ This sub-branch with significant share of small businesses mainly includes brokering activities, design, translation and photographic activities or activities of construction supervision.
⁴⁵ Segment of motion picture distribution fared better. According to the figures from the Union of Motion Picture Distributors the gross nominal sales of the domestic cinema operators increased by 7.6% year-on-year last year. Total attendance, similarly, to the number of shows, decreased approximately by 1%. However, nearly one quarter of audience was still missing against the record year 2019 last year.
⁴⁶ They consist mainly of activities linked to the activities of web portals, news press offices and agencies or data processing and hosting.



telecommunications, which was the least in the last nine years. After weaker year 2022 sales recovered in programming and broadcasting activities (+4.9%) last year and were by more than one tenth higher against year 2019.

Slump of the retail sales culminated in the half of the last year. Subsequently the sales already slightly grew quarter-on-quarter.

Retail faced a subdued demand throughout the whole last year, which stemmed from the continuing year-on-year decrease of real household income as well as weak consumer confidence in the economy⁴⁷. Rising number of consumers (due to the arrival of refugees from Ukraine as well as gradual recovery of tourism) had a partial positive effect; on the contrary, the more frequent purchases of the domestic households abroad influenced it negatively⁴⁸. Retail sales⁴⁹ decreased by 0.4% quarter-on-quarter in Q2 2023 and thus continued in the decrease for the seventh time in a row (they largely copied the trend of total final consumption expenditure of households). Length as well as depth of the sales slump⁵⁰ were unprecedented in the comparable time series (after year 2000). The quarter-on-quarter fall of sales did not continue in Q2 anymore, consumers partially adjusted to the raised price level of goods, their total demand however remained weak (also as a result of persisting enhanced household saving rate). Retail sales were in real terms approximately at the level of Q4 2018 at the end of the last year (in that for food even at the level of year 2014).

Household consumption remained subdued and their confidence in the economy low.

Demand for food and non-food products displayed a record decline for the whole last year.

Retail sales decreased by 4.2% year-on-year for the whole last year and thus negligibly deepened the fall from the previous year. Non-food goods, where the sales shrank by unparalleled 5.1% the most participated on the demand downturn (contribution to the decrease of entire retail -2.6 p.p.). Sellers of food also experienced comparable and also deepest fall in the contemporary history (-5.8%). Among more significant retail segments, only sales for fuels were rising (+5.4%, contribution +0.6 p.p.).

Year-on-year decrease of retail sales nearly stopped in Q4. Higher demand of non-food goods, especially within the sale via internet, had a favourable effect.

Q4 2023, when the retail sales in fact stagnated year-on-year (-0.1%), provides more optimistic view. Growth for non-food goods was a positive factor (+0.8%), appearing for the first time in the last seven quarters. It was driven by more distinct revival of sales via internet (+6.4%)⁵¹. Within specialised stores⁵², demand for cosmetic and toilet articles (+10.0%) and for pharmaceutical and medical products (+5.1%)⁵³ grew the most. Mild growth of sales also manifested in stores with computer and communication equipment (+1.9%), demand increased here year-on-year for the first time in the last seven quarters. On the contrary, people still postpone purchases of a number of "non-essential" goods. Sellers of goods mostly for households (containing mainly metal hardware, building materials, paints, glass, DIY supplies, electro supplies, furniture and lighting equipment) thus earned by 5.3% less year-on-year, clothing, footwear and leather goods recorded decrease of 4.7%⁵⁴, for products for culture and recreation the decrease was 0.3%. Retail trade of food was by 2.2% lower year-on-year (decrease lasted already

Decrease of sales for food continued for the eight quarter in a row.

⁴⁷ Pessimisms of domestic consumers did moderate at the beginning of the last year against Autumn 2022 (when it was the highest since the end of 90s), it however fluctuated in the still considerably negative band for the most part of the year (household confidence lay approximate one tenth below the long-time average from years 2003–2023). Concerns of people regarding the price growth dissolved to a large extent last year during Spring, majority of households still however expected, that their financial situation (as the overall economic situation in the CR) will worsen in the nearest 12 months. People thus stayed cautious in the area of planning large purchases (especially long-time durable goods or investments).

⁴⁸ Last year's spring offered particularly opportune conditions for these purchases, thanks to the concurrence of decrease of prices of fuels and very fitting koruna foreign exchange against euro as well polish zloty and also the zero VAT rate on some basic food in Poland.

⁴⁹ All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter rates are adjusted for seasonal effects (including the number of working days). Retail includes branch CZ-NACE 47.

⁵⁰ Against Q3 2021, when the volume of sales hit the absolute maximum, their level was by more than 10% lower in Q2 2023. Purchasing power of average wages also decreased comparably in the same period.

⁵¹ Sales for this type of trade returned to growth in the quarter-on-quarter comparison already in Spring last year.

⁵² Outside of specialised shores, the sales grew the most in the small segment of other retail with the predominance of non-food goods (+9.6%). It typically consists of smaller shops oriented at sale of miscellaneous smallware, usually as discount offers.

⁵³ They together with cosmetic and toilet articles represented the only area of retail, where the sales climbed up in real terms to maximum for the whole monitored time series (since year 2000) last year in Q4.

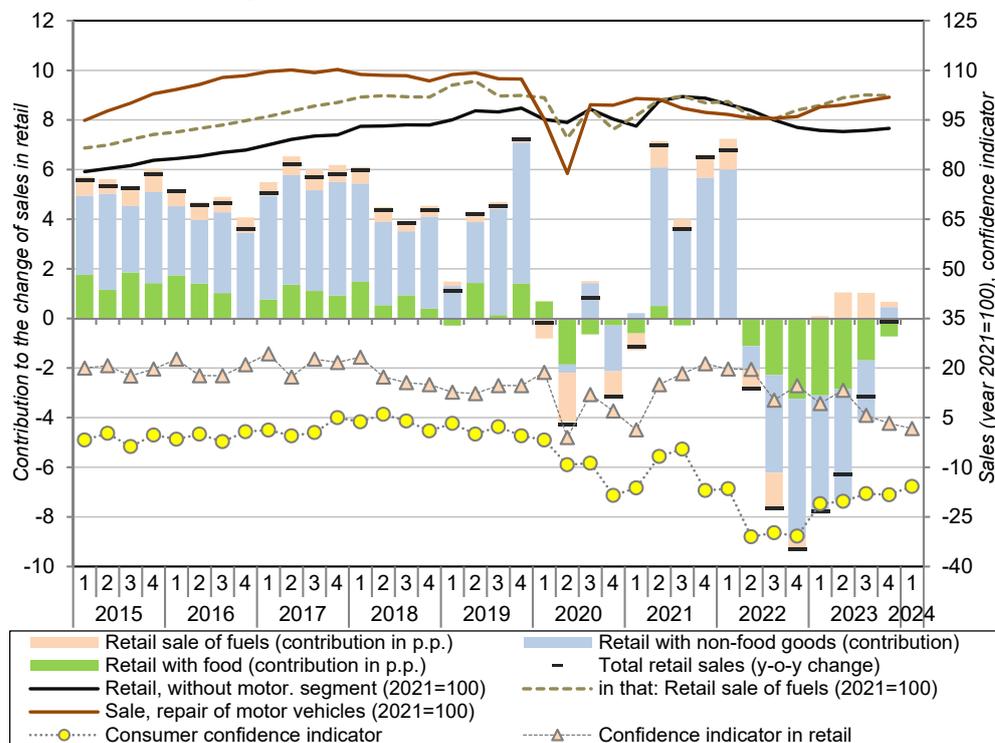
⁵⁴ The subdued consumer demand for clothing, footwear and leather goods was likely also caused by the persisting brisk price growth of this assortment of goods (it was around 7% year-on-year in Q4 and reached maximum among all monitored retail segments). Sales for this range of products were in real terms by whole one quarter lower against Q4 2019.

two years). Demand was shrinking comparably for both large chains and small specialised stores (where the largest share among the range of products is held by the tobacco products). The same as for the whole last year, sales for automotive fuel (+2.0%) contributed positively to the retail development also in its Q4. More keenly priced automotive fuels likely partially stimulated their higher consumption, their price has been falling year-on-year since March 2023.

Growth of sales in the motorist segment of trade was mainly driven by higher demand for motor vehicles.

Especially higher demand for motor vehicles, which was connected to the relatively favourable situation of the whole motor vehicle industry in the CR as well as the EU, participated on the year-on-year growth of sales in the motorist segment in Q4 by 7.4% (by 5.6% for the whole last year). Sales for trade with motor vehicle parts and accessories in contrast grew only slowly (they even lowered by 4.5% for the whole year 2023) and for trade, repair and maintenance of motorcycles dropped nearly by 7% (they were falling for the seventh quarter in a row). Sales were still by nearly one tenth lower in the whole motorist segment of trade last year against the end of year 2019 and lagged in all its sub-branches (the most in the trade with motor vehicle parts and accessories).

Chart 8 Contributions of sub-branches to year-on-year change of sales in retail trade* (real, in p.p.), **sales in retail trade and motorist segment of trade**** (real, level from year 2021=100, right axis), **balance of business and consumer confidence indicator***** (in p. p, right axis.)



Note: Motorist segment of trade include branch: Wholesale and retail trade and repair of motor vehicles (incl. motorcycles).
 * Sales are adjusted for calendar effects.
 ** Sales are adjusted for both seasonal and calendar effects.
 *** Consumer confidence indicator balance is seasonally adjusted and expresses the position in the second month of the given quarter.
 Source: CZSO



4. External Relations

Value of exports of goods grew only slightly last year.

Total value of exports of goods⁵⁵ attained 4 452.7 CZK bn in year 2023, which represented increase against year 2022 of 45.4 bn (1.0%). Development in individual quarters however varied considerably and was affected by the comparative basis of year 2022 as well as the development of prices⁵⁶. Total mild increase of the value of exports of goods is the result of the favourable development in the first half of the year (mainly growth of 10.8% in Q1 and mild increase by 1.0% in Q2). Nevertheless, the exports of goods fell year-on-year by 6.6% in Q3. The decrease reduced to 0.6% in Q4 2023. Value of exports decreased by 7.4 CZK bn and attained 1 138.7 bn. Based on the seasonally adjusted data, the value of exports increased by 1.6% quarter-on-quarter in Q4.

Export to the EU stagnated last year. Export outside the EU slightly increased.

Value of exports into the EU countries basically stagnated for the whole year 2023 (growth of 3.2 CZK bn, 0.1%), because the exports started after the strong increase in the first quarter of the year falling year-on-year and the slump further deepened in H2. The dynamics of exports into the EU thus did not follow up in the two significant increases from years 2021 and 2022. Exports to countries outside the EU rose in total by 41.7 CZK bn (4.9%). The total exports increased only slightly or stagnated in several countries last year. Changes of electricity influenced the export development especially at our geographic neighbours⁵⁷. The value of exports of goods increased the most to Turkey (+17.4 CZK bn, 34.1%), Great Britain (+15.1 bn, 9.1%), France (+11.4 bn, 5.3%), Germany (+13.8 bn, 1.0%), Poland (+10.0 bn, 3.2%), Ukraine (+9.7 bn, 38.1%), to Switzerland (+7.0 bn, 9.4%) and to Hungary (+5.1 bn, 3.9%) last year. On the other hand, exports of goods sank to Slovakia (-32.3 CZK bn, -7.2%), to Austria (-22.3 bn, -11.1%) or to Russia (-16.9 bn, -52.3%). More detailed view of smaller business partners shows the ongoing sharp growth of exports to Azerbaijan (+1.4 CZK bn, 49.7%) and marked increase of exports to Indonesia (+1.6 bn, 74.0%). The exports into the European Union slumped by 20.0 CZK bn year-on-year (-2.2%) in Q4 2023 itself. On the contrary, the value of goods exported outside the EU expanded (+12.4 CZK bn, 5.4%). The value of exports decreased the most year-on-year to Germany (-15.2 CZK bn, -4.5%) and to Austria (-7.5 bn, -15.2%). The decrease was recorded also for the exports to Spain (-3.4 CZK bn, -10.0%), to Slovakia (-2.9 bn, -2.5%), to Italy (-2.4 bn, -5.0%), to Russia (-2.2 bn, -36.0%) or the Netherlands (-2.0 bn, -5.2%). On the contrary, exports to Turkey (+4.9 bn, 32.3%), Poland (+4.6 CZK bn, 5.8%), Great Britain (+4.1 bn, 9.6%) or France (+2.5 bn, 4.4%) increased year-on-year.

Exports of majority types of goods decreased last year. Total increase was the result of favourable development of some industrial commodities significant for export.

Relatively mild increase of the value of exports was influenced by opposing forces of development of many articles, whose prices plummeted and whose export thus decreased, and on the contrary revival of number of industrial commodities significant for export. Value of export of motor vehicles (+183.8 CZK bn, 17.6%), electrical equipment (+42.4 bn, 10.2%), machinery and equipment (+25.9 bn, 5.2%) and food products (+18.4 bn, 12.4%) increased the most last year. Exporters of other transport equipment also prospered (+8.2 CZK bn, 12.5%). Export of majority of types of goods however decreased last year, the exports electricity, gas, steam and air conditioning (-67.4 CZK bn, -56.5%), basic metals (-35.4 bn, -18.2%), chemical substances and products (-29.2 bn, -12.4%), wood and wood products (-15.4 bn, -25.6%), petroleum and natural gas (-13.2 bn, -98.5%) and products of forestry and wood logging (-10.9 bn, -43.8%) went down the most last year together with prices. The export of computers, electrical and optical appliances (-24.4 bn, -5.9%) and strongly

⁵⁵ Data for foreign trade with goods are recalculated using the updated method based on higher rate of detail since year 2020, see <https://www.czso.cz/csu/czso/update-of-the-compilation-method-international-trade-in-goods-change-of-ownership>. Unless stated otherwise, all figures are without seasonal adjustment and in current prices.

⁵⁶ Prices of exports of goods fell by 0.7% last year and were by 2.2% lower year-on-year in Q4 itself. Quarter-on-quarter, the export prices increased by 0.6%. Prices of other materials plunged by 18.6% last year and mineral fuels by 0.9%. But prices of mineral fuels decreased by 13.7% year-on-year in Q4.

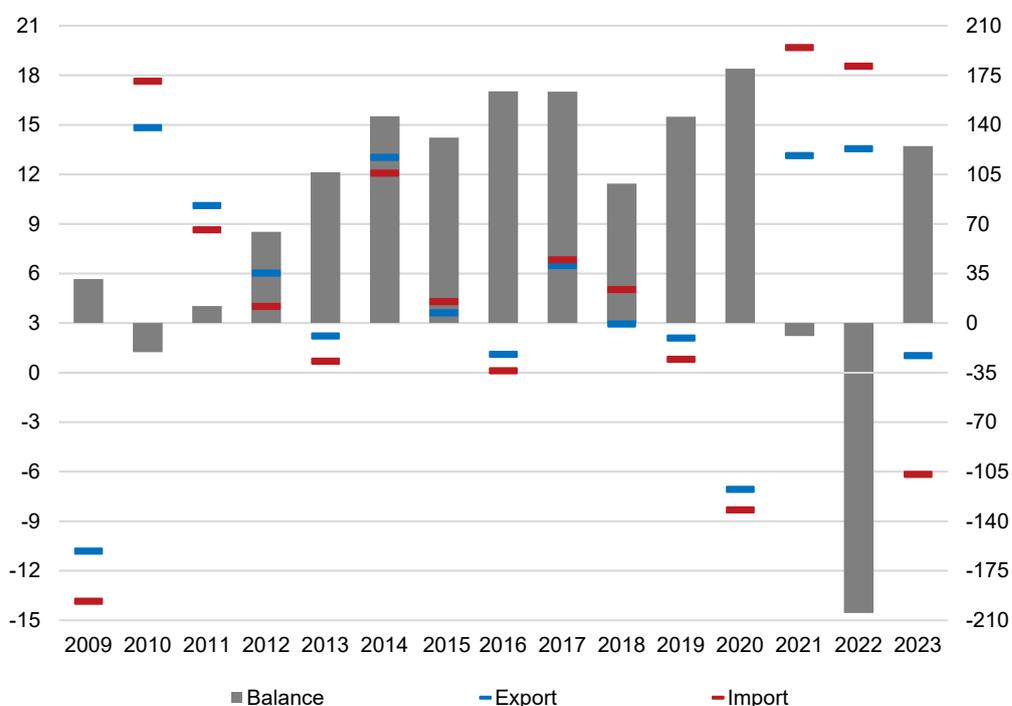
⁵⁷ In connection with the sharp hike of prices in year 2022, the value of exports of electricity, gas, steam and air conditioning to Germany increased by 38.7 bn CZK and it plunged by 30.8 bn last year. In case of Slovakia, following an increase of 15.6 bn CZK a plunge of 30.9 bn followed last year. Similarly, the export of electricity into Austria increased by 8.9 bn CZK in year 2022 and it fell by 9.1 bn last year.

decreased and more distinct decrease was also recorded at the export of activities of waste collection (-8.0 bn, -17.0%), coke and refined petroleum products (-7.3 bn, -12.5%), products of agriculture and hunting (-6.3 bn, -10.2%), metalworking products (-6.2 bn, -2.3%), or other non-metal mineral products (-6.1 bn, -6.8%).

The export of majority types of goods decreased in Q4.

The export of majority of commodities decreased year-on-year in Q4. The slump of value of exports of electricity, gas, steam and air conditioning (-16.7 CZK bn, -56.7%), computers, electrical and optical appliances (-10.2 bn, -8.8%) and basic metals (-5.9 bn, -14.2%) contributed the most to the total year-on-year decrease of exports. The value of exports of electrical appliances (-4.7 CZK bn, -4.0%), petroleum and natural gas (-4.3 bn, -98.8%), chemical substances and products (-3.5 bn, -6.2%), machinery and equipment (-3.4 bn, -2.6%), coke and refined petroleum products (-2.4 bn, -15.8%), products of forestry and wood logging (-2.4 bn, -44.0%), wood and wood products (-2.3 bn, -18.0%) or other non-metal mineral products (-2.2 bn, -10.0%) was also lower. Among the few types of goods, where the exports increased, it grew the most for motor vehicles (+48.5 CZK bn, 17.6%) year-on-year. Exports of food products also recorded a more notable increase (+3.3 CZK bn, 8.1%).

Chart 9 Export and import of goods (y-o-y change, in %) and balance of international trade with goods (in CZK bn, right axis)



Source: CZSO

Import sharply plunged last year, to a large extent due to the slump of prices.

Import of goods slumped by 284.3 CZK bn (-6.2%) to 4 327.8 bn in year 2023. Development of prices of materials and fuels participated on the decrease to a large extent⁵⁸, but also the local subdued both consumer and industrial demand. Similarly to export, the import increased year-on-year in Q1 2023 (5.7%). However, the imports of goods significantly plunged (-8.2% and -11.8% in Q2 and Q3) in the rest of the year. The value of imports attained 1 089.8 CZK bn in Q4 and it was by 110.9 bn (-9.2%) lower year-on-year. Seasonally adjusted data show, that the value of imports dropped by 0.9% quarter-on-quarter in Q4, for the fifth time in a row. Imports from the EU decreased by 68.8 CZK bn last year (-2.5%). Imports of goods from countries outside the EU slumped by 218.5 CZK bn

⁵⁸ Prices of imports of goods were lower by 5.7% last year. In Q4, they fell by 6.1% year-on-year and increased by 1.5% quarter-on-quarter. Prices of imports of mineral fuels dropped by 27.7% last year, other materials by 10.7% and chemicals by 7.9%.



(−12.0%), which was largely influenced by the decrease of prices of a number of materials, mainly petroleum and natural gas. The strongest decrease of imports was recorded for Russia (−189.5 CZK bn, −71.3%), China (−49.5 bn, −8.5%), Poland (−23.2 bn, −5.7%), Germany (−19.7 bn, −2.0%) and Austria (−18.0 bn, −13.1%) last year. The only considerable increase of imports was recorded in case of Norway (+37.0 CZK bn, 75.5%), which assumed the role of the main natural gas supplier instead of Russia since the last year. The import from the EU fell by 16.7 CZK bn year-on-year (−2.4%) in Q4 2023 itself. Import from the countries outside the EU kept falling more markedly (−94.3 CZK bn, −18.8%). Import from China (−49.6 CZK bn, −27.4%) and Norway (−21.7 bn, −53.2%) sank the most year-on-year. The value of imports from the United States (−5.3 bn, −14.3%), from Poland (−5.0 CZK bn, −5.0%), Russia (−4.4 bn, −15.9%), Austria (−4.2 bn, −13.0%) or Germany (−3.9 bn, −1.5%) was also lower. Imports from the majority of observed countries was falling and more notable year-on-year increase was recorded only for Kazakhstan (+2.9 CZK bn, 76.3%, especially the imports of petroleum and natural gas increased).

Import of petroleum and natural gas slumped the most last year.

Import of petroleum and natural gas (−161.4 CZK bn, −46.9%) and further basic metals (−61.8 bn, −16.3%), chemical substances and products (−48.0 bn, −12.2%) and computers, electronic and optical appliances (−21.1 bn, −4.3%) participated to a major extent on the last year's slump of import. Significant decrease of the value of imports of coke and refined petroleum products (−17.1 CZK bn, −15.9%) electricity, gas, steam and air conditioning (−15.4 CZK bn, −42.1%) or black and brown coal and lignite (−10.1 bn, −31.5%) also confirms the effect of falling material prices. Decrease of imports of other manufacturing products (−12.5 CZK bn, −12.2%) was also substantial. Motor vehicles (+71.2 CZK bn, 12.2%), electrical appliances (+22.5 bn, 5.2%), other transport equipment (+12.4 bn, 24.6%) or food products (+11.3 bn, 5.4 %) belong among the minority of products, whose import increased last year. Decrease of petroleum and natural gas (−32.4 CZK bn, −38.7%) and electrical equipment (−23.9 bn, −17.9%) contributed the most to the year-on-year slump of value of import in Q4 itself. More notable decrease was also recorded for imports of machinery and equipment (−10.4 CZK bn, −9.7%), basic metals (−10.1 bn, −12.4%), computers, electronic and optical appliances (−9.2 bn, −6.8%), chemical substances and products (−8.1 bn, −8.5%), coke and refined petroleum products (−4.1 bn, −15.3%), clothing (−3.8 bn, −19.6%), black and brown coal and lignite (−3.4 bn, −48.1%) or other manufacturing products (−3.4 bn, −12.0%). Only the import of motor vehicles increased considerably year-on-year in Q4 (+14.8 CZK bn, 9.4%) in Q4.

Trade with countries outside the EU contributed the most to the improvement of international trade balance.

International balance of goods ended in surplus of 124.9 CZK bn⁵⁹ last year. That is year-on-year by 329.7 CZK bn better result, which was impacted mainly by the plunge of prices of fuels and basic materials. Balance reached surplus in the first half of the year (39.8 CZK bn and 36.4 bn in Q1 and Q2) and ended in small deficit in the third quarter of the year (−0.2 bn). International balance of trade of goods attained surplus of 48.9 CZK bn in Q4 2023 and thus improved by 103.5 bn year-on-year. Seasonally adjusted data confirm that the balance markedly improved after mild quarter-on-quarter deterioration in Q3. Balance of international trade balance of goods improved last year both with the EU (+72.1 CZK bn) and countries outside the Union (+260.2 bn). The trade with (+172.7 CZK bn), China (+47.1 bn), Poland (+33.2 bn), Germany (+33.4 bn), Turkey (+18.5 bn), France (+17.6 bn), Ukraine (+14.1 bn), Great Britain (+11.5 bn), Belgium (+10.3 bn) and Italy (+10.2 bn) worked the most in the direction of balance improvement last year. The balance of trade with Norway (−39.6 CZK bn) and with Slovakia (−36.6 bn) on the contrary sharply worsened.

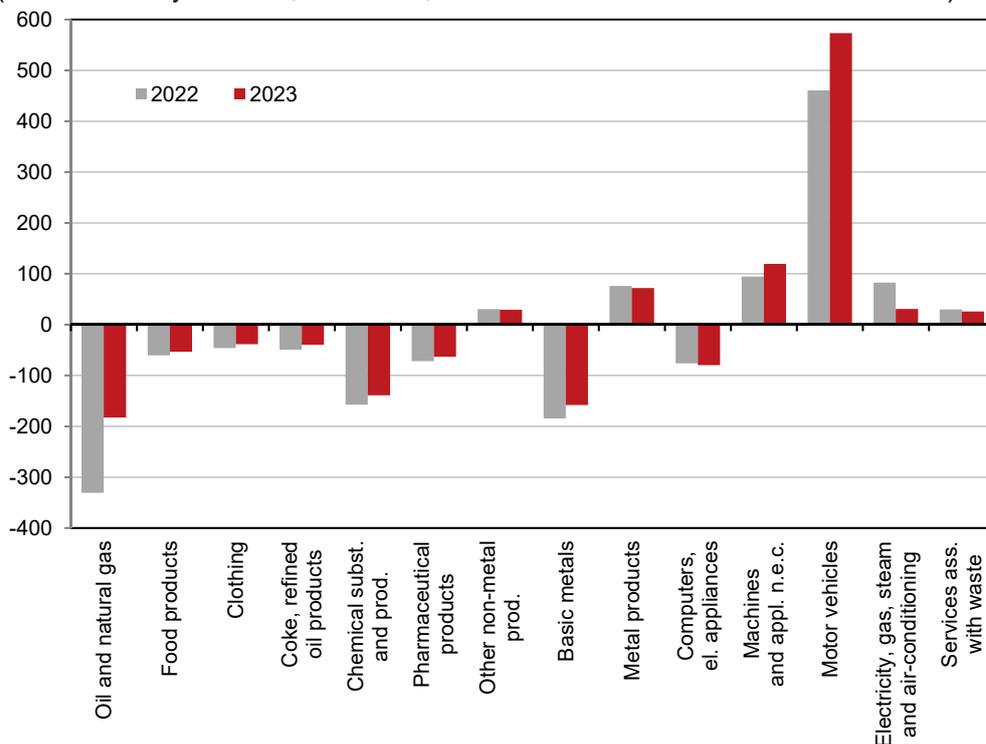
Surplus of balance of trade with the EU countries improved only slightly in Q4.

Trade with the countries outside the EU (+106.6 CZK bn) participated to a major extent on the year-on-year improvement of the international trade balance in Q4, while in case of trade with the European Union the positive balance slightly shrank (−3.3 bn). Balance of trade with

⁵⁹ View on the development in the last ten years shows, that the positive balance of the international trade of goods was higher in years 2014–2017 and 2019–2020.

China (+49.9 CZK bn, Norway (+20.7 bn) and Poland (+9.7 bn) improved year-on-year the most. International trade result was also better in case of Great Britain (+6.5 bn), Turkey (+5.9 bn), France (+4.6 bn), Ukraine (+4.4 bn), the United States (+4.3 bn) or Japan (+3.2 bn). Above stated development of balance with the EU was affected by the international worsening of positive balance of trade with Germany (-11.4 CZK bn), Slovakia (-4.6 bn), Spain (-4.3 bn) or Austria (-3.3 bn). Among the countries outside the Union, mainly trade with Kazakhstan (-2.8 CZK bn) had more notable contribution in the direction of total balance worsening.

Chart 10 Balance of international trade with goods in international trade statistics
(cumulation of year 2023, in CZK bn, selected divisions of the CPA classification)



Source: CZSO

Balance of trade with petroleum and natural gas and motor vehicles improved the most last year.

Moderation of the deficit in the trade with petroleum and natural gas (+148.2 CZK bn) influenced by the decrease of prices and improvement of the surplus of trade with motor vehicles (+112.6 bn) associated with the continuing revival in the branch, had the largest share on the last year's massive balance improvement. Balance of trade with basic metals (+26.4 CZK bn), machinery and equipment (+24.7 bn), chemical substances and products (+18.8 bn), electrical equipment (+20.0 bn), other manufacturing products (+12.2 bn), coke and refined petroleum products (+9.8 bn), basic pharmaceutical products (+8.6 bn), rubber and plastic products (+7.7 bn), clothing (+7.5 bn), black and brown coal and lignite (+7.3 bn), food products (+7.1 bn), paper and paper products (+7.1 bn) or ores (+6.3 bn) also worked strongly in the direction of improvement last year. The balance was improving year-on-year for a major part of commodities. Trade with electricity, gas, steam and air conditioning (-51.9 CZK bn), products of forestry and wood logging (-11.1 bn), products of agriculture and hunting (-10.1 bn) and wood and wood products (-7.9 bn) were strong exceptions. Balance of trade with motor vehicles (+33.7 CZK bn), petroleum and natural gas (+28.1 bn) and electrical appliances (+19.2 bn) improved the most year-on-year in Q4 itself. Trade with machinery and equipment (+7.0 CZK bn), clothing (+4.6 bn), chemical substances and products (+4.5 bn), basic metals (+4.3 bn), basic pharmaceutical products (+4.1 bn) or other manufacturing products (+3.2 bn) also had a favourable effect on the balance. Worsening of balance for electricity, gas, steam and air conditioning (-13.7 CZK bn) was the largest factor in the year-on-year worsening of balance in Q4.

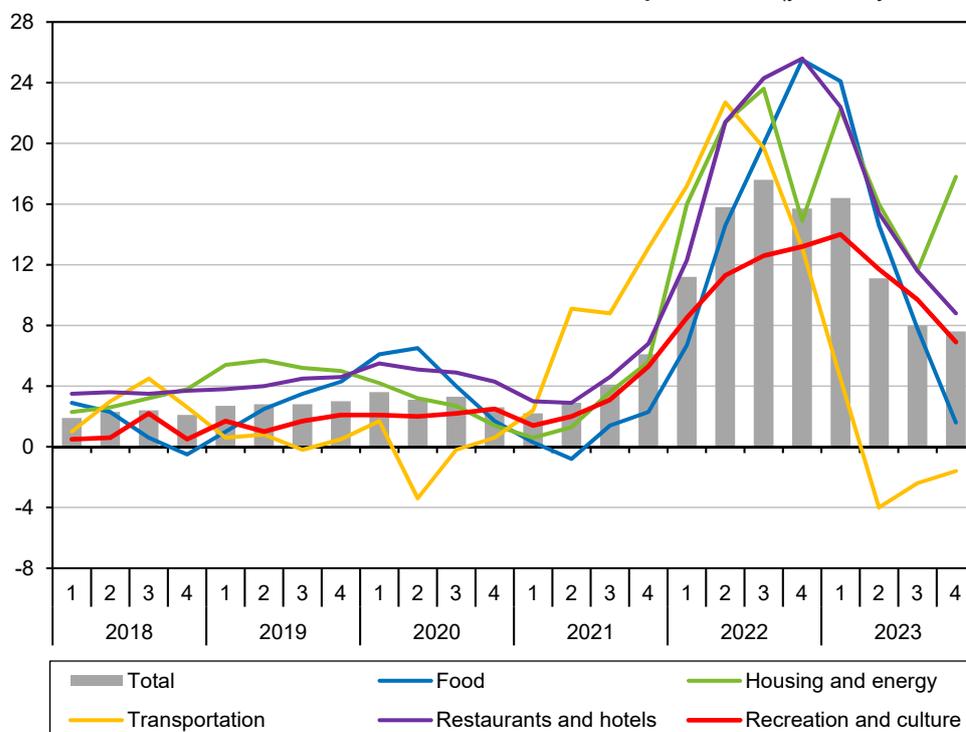


5. Prices

Total price level strongly grew last year.

Total price level gauged by the GDP deflator increased by 8.6% in the economy for the whole year 2023. Prices of consumption were by 8.2% higher, while the growth weakened to 9.3% for the household consumption and price level of goods consumed by the sector of general government increased by 5.8%. Prices of capital goods (4.2%) grew slower against the whole economy. Import prices of goods and services slumped more markedly than prices of export last year, which led to considerably positive terms of trade, which arrived at 102.7%. The price level climbed up by 6.0% year-on-year in Q4 2023, the slowest since the end of year 2021. Consumer prices were by 5.0% higher year-on-year, in that by 6.0% for households and by 2.5% for government. Growth of prices of capital goods strengthened to 3.5% in Q4. Terms of trade remained positive and reached 102.5%. Terms of trade of the international trade with goods reached 102.0%, while it was 105.2% for services. Quarter-on-quarter, the total price level did not change in Q4. Consumption experienced growth of 0.4% and prices of capital goods were raised by 3.6%. Quarter-on-quarter terms of trade were however negative and reached 98.4%.

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



Source: CZSO

Year-on-year growth of consumer prices slowed its pace during the year.

Year-on-year growth of the consumer prices gradually slowed down during the year 2023 (16.4%, 11.1% and 8.0% in Q1, Q2 and Q3) and the end of the year was not an exception. The consumer price index increased by 7.6% year-on-year in Q4 2023. The year-on-year dynamics of the absolute majority of consumer basket divisions slowed down against Q3. Housing, water, energies and fuels formed the exception, the comparative basis from the end of year 2022, where the inflation calculation included the saving tariff and the prices of energies thus suddenly fell, was evident there. The slump of prices of transport also moderated. Housing and energies, recreation and culture, restaurants and hotels and alcoholic beverages and tobacco the most contributed to the year-on-year growth of the consumer prices in Q4 2023. The effect of food and non-alcoholic beverages, which stimulated the price growth in the previous quarters, sharply fell. Only prices of transport were falling year-on-year. Consumer

prices decreased quarter-on-quarter by 0.4% in Q4. The increase of consumer prices reached 10.7% for the whole year 2023. Compared to year 2022, the increase moderated by 4.4 p.p. Development of prices of housing and energies, food and non-alcoholic beverages, recreation and culture and restaurants and hotels contributed the most to the total increase of prices. Only prices of transport decreased last year.

In contrast to the rest of prices in the consumer basket, housing and energies recorded acceleration of the year-on-year growth towards the end of the year.

As already mentioned, prices of housing and energies were the only division of the consumer basket in Q4, which experienced the acceleration of the year-on-year price growth. The increase surged to 17.8%. Year-on-year increase of rentals for housing (7.5%), common maintenance and repairs (6.2%), imputed rentals⁶⁰ (0.3%) was milder and the increase of prices for other services associated with dwelling (15.3%) stayed the same. The increase of prices of electrical and heating energy, gas and other fuels nevertheless surged last year in Q4 (47.1%) due to the comparative basis of the end of year 2022. Quarter-on-quarter, the prices of housing, water, energy and fuels lowered by 0.4%. The price increased for the whole year 2023 in this division arrived at 16.8%. The increase of prices of energies and fuels (37.2%) stood behind it to a major part, nevertheless prices of other items were also higher.

Year-on-year growth of prices of food markedly slowed down in Q4.

The growth of prices of food and non-alcoholic beverages further slowed down considerably year-on-year in Q4 (decrease occurred already in December), and the increase reached 1.6% for the whole quarter. Year-on-year increase of prices of bread and cereals (3.0%), vegetables (16.6%), fruit (8.2%), sugar and associated products (4.4%) as well as other food products (7.0%) was milder. Development of prices of meat (-1.5%) and milk, cheese and eggs (-7.0%) got from growth into decrease in Q4. Prices of oils and fats remained in deep decline (-10.0%). Prices of food and non-alcoholic beverages decreased by 1.4% quarter-on-quarter. Prices of food and non-alcoholic beverages rose by 11.5% for the whole year 2023 and the increase thus reduced by 5.2 p.p. against year 2022. Prices in this division thus surged by 30.1% in the last two years. Prices of bread (13.6%), meat (7.7%), milk, cheese and eggs (10.6%) and vegetables (21.5%) influenced the most last year's increase of prices of food and non-alcoholic beverages.

Increase of prices of various services remained robust.

Recreation and culture, whose prices increased by 6.9% year-on-year belonged among consumer basket divisions, which contributed the most to the total growth of consumer prices in Q4. Prices of recreation with complex services (9.7%) and recreation and cultural services (8.6%) held the largest proportion of this increase. Prices of recreation and culture decreased by notable 3.6% quarter-on-quarter. This division belonged to the significant drives of the price growth also from the view of the whole year 2023. Prices increased in total by 10.5% here last year, mainly under the influence of recreation with complex services (15.3%). Also, the prices of restaurants and hotels significantly spoke into the year-on-year consumer inflation in Q4 as well as for the whole year 2023. Their year-on-year increase slowed to 8.8% in Q4 but kept further growing relatively substantially quarter-on-quarter (1.1%). Prices of restaurants and hotels increased by 14.2% for the whole year 2023. Prices of alcoholic beverages and tobacco held steadily strong influence over the year-on-year growth of the consumer prices. They increased by 5.9% year-on-year in Q4, decreased by 0.3% quarter-on-quarter and were by 6.6% higher for the whole year.

Year-on-year dynamics of prices of clothing and footwear slowed down.

Prices of clothing and footwear as well as the furnishings, household equipment and maintenance experienced sharp surge in year driven by the renewed consumer demand. A gradual decline of the year-on-year price dynamics however occurred here

⁶⁰ Imputed rent expresses the cost of owner living. Apart from prices of housing themselves, it also contains the cost of construction and renovation and further fees. <https://www.czso.cz/csu/czso/methodological-note-to-consumer-price-index-imputed-rentals>.



during the last year. Prices of clothing and footwear were raised by 7.1% year-on-year in Q4 and by 3.9% quarter-on-quarter and prices of furnishings, household equipment and maintenance were by 2.7% higher year-on-year and stagnated quarter-on-quarter. Prices of clothing and footwear rose by 11.1% for the whole year 2023 (moderation against year 2022 by 7.5 p.p.) and prices of furnishings, household equipment and maintenance by 7.6% (-4.4 p.p.). Prices of other goods and services⁶¹ also considerably grew in the last two years in connection to the post-pandemic revival of demand and their year-on-year dynamics weakened to 5.5% in Q4 2023. They were by 0.3% higher quarter-on-quarter and increased by 9.4% for the whole year 2023. Less weight significant items maintained a considerable price growth for the whole year 2023 – post and telecommunications (3.6% for the whole year), health (8.8%) and education (7.0%).

Prices of transport in total decreased last year.

Prices of transport were falling year-on-year except for the first quarter of the year. Their fall slowed down to 1.6% in Q4. The only item in the division, where the prices grew year-on-year were the transport services (7.9%). The year-on-year decrease of prices of purchase of vehicles deepened (-3.8%). The decrease however slowed down in case of costs of their operations (-1.5%), in that decrease of prices of fuels reached 6.5%. Prices of transport lowered by 0.3% quarter-on-quarter. Prices of transport fell by 4.1% for the whole year 2023. In that, prices of operation of personal transport equipment dropped by 4.1% (fuels -12.0%), prices of purchase of vehicles itself practically stagnated (0.1%) and prices of transport services were by 12.0% higher.

Year-on-year growth of consumer prices in the EU gradually slowed down.

Harmonized index of consumer prices (HICP) in the EU⁶² increased by 6.4% in year 2023. The increase against year 2022 slowed down (from 9.2%), mainly under the effect of weaker growth of prices of energies and fuels, which was mirrored in the milder growth of prices of housing and energies (from 18.0% to 3.4%) and transport (from 12.1% to 2.5%). Growth of prices of food and non-alcoholic beverages (12.6%), hotels and restaurants (8.4%) mildly strengthened last year and prices of alcoholic beverage and tobacco (7.8%) and recreation and culture (6.1%) also grew stronger. Based on the HICP, the consumer prices grew the most in Hungary (17.0%), the CR (12.0%) and Slovakia (11.0%) and the dynamics of prices crossed the 10% boundary also in Poland (10.9%) last year. Consumer prices increased the least in Belgium (2.3%), Luxembourg (2.9%) and similarly by 3.4% in Denmark and Spain last year. The year-on-year growth of prices gradually slowed down during the year to 3.4% in the EU in Q4. Prices grew the most in the CR (8.4%), Hungary (7.6%) and in Romania (7.4%). Belgium was the only country, where HICP fell year-on-year in Q4 (-0.6%). Consumer prices grew the slowest year-on-year in Denmark (0.1%) and in the Netherlands (0.4%). HICP in the EU increased by 0.2% quarter-on-quarter in Q4.

Prices of flats decreased year-on-year.

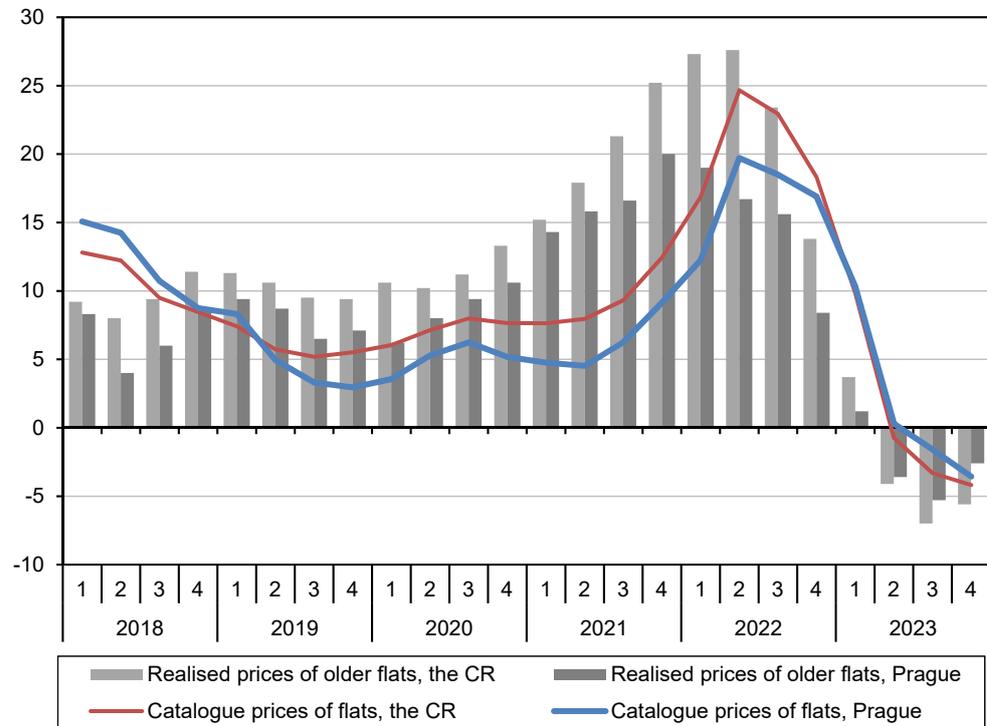
Catalogue prices of flats continued in their year-on-year decrease in the CR in Q4, which lasted already the third quarter and deepened to -4.2%. Catalogue prices of flats in the CR lowered by 0.4% quarter-on-quarter, for the fourth time in a row. Prices of flats outside Prague sank more notably year-on-year in Q4 (-4.9%), which also fell quarter-on-quarter for the fifth time in a row, specifically by 0.9%. Catalogue prices of flats fell by 3.6% in Prague year-on-year and did not change quarter-on-quarter. Realised prices of older flats in the CR fell by 5.6% year-on-year in Q4 and the decrease thus moderated compared to the previous quarter. At the same time, the realised prices again increased quarter-on-quarter (0.4%) towards the end of year 2023 following four quarters of decreases. Realised prices of flats outside Prague fell by 6.4% year-on-year and their quarter-on-quarter decrease also lasted (-0.3%). Situation in Prague differed

⁶¹ Contains services of personal care and personal needs and accessories, social care, insurance and further financial services etc.

⁶² Contrary to the consumer price index, which is compiled by the CZSO for the Czech economy, HICP does not include imputed rent, which is the main reason for the difference between the HICP and Consumer price index.

from the rest of the country in Q4 2023. Realized prices of older flats grew by 3.2% quarter-on-quarter here and their year-on-year decrease thus reduced to -2.6%. Realised prices of new flats, which are survey only for Prague, decreased by 3.3% year-on-year in Q4 and by 1.9% quarter-on-quarter.

Chart 12 Prices of real estate (year-on-year change, in %)



Source: CZSO

Industrial producer prices grew year-on-year for the whole year, the increase nevertheless slowed down during the year.

Industrial producer prices increased by 0.8% year-on-year in Q4. Their growth markedly slowed down during the last year (15.0%, 3.9% and 1.3% in Q1, Q2 and Q3). Quarter-on-quarter, the industrial producer prices decreased by 0.3% in Q4. Industrial producer prices increased by 5.0% for the whole year 2023. Year-on-year growth of the prices of mining and quarrying (40.2%) stayed at a very high level in Q4 itself. Year-on-year growth of prices of petroleum and natural gas strengthened (40.6%), the increase for black and brown coal and lignite weakened to 61.9% and the dynamics for other mining and quarrying of mineral resources was still substantial (18.6%), including mainly building materials. Strong year-on-year growth of prices of mining and quarrying for the whole year 2023 (in total by 46.4%) was the result of mainly sharp quarter-on-quarter increase in the first quarter of the year. Prices increased by 0.8% in this division quarter-on-quarter in Q4. Also, for the prices of electricity, gas, steam and air conditioning, the year-on-year growth slowed during the year down to 7.1% in Q4. Prices lowered here by 0.5% quarter-on-quarter. Their increase was 15.8% for the whole year 2023. Prices of water distribution and services associated with wastewaters rose by 16.3% in Q4, the same as for the whole last year.

Mainly prices of materials were falling in manufacturing.

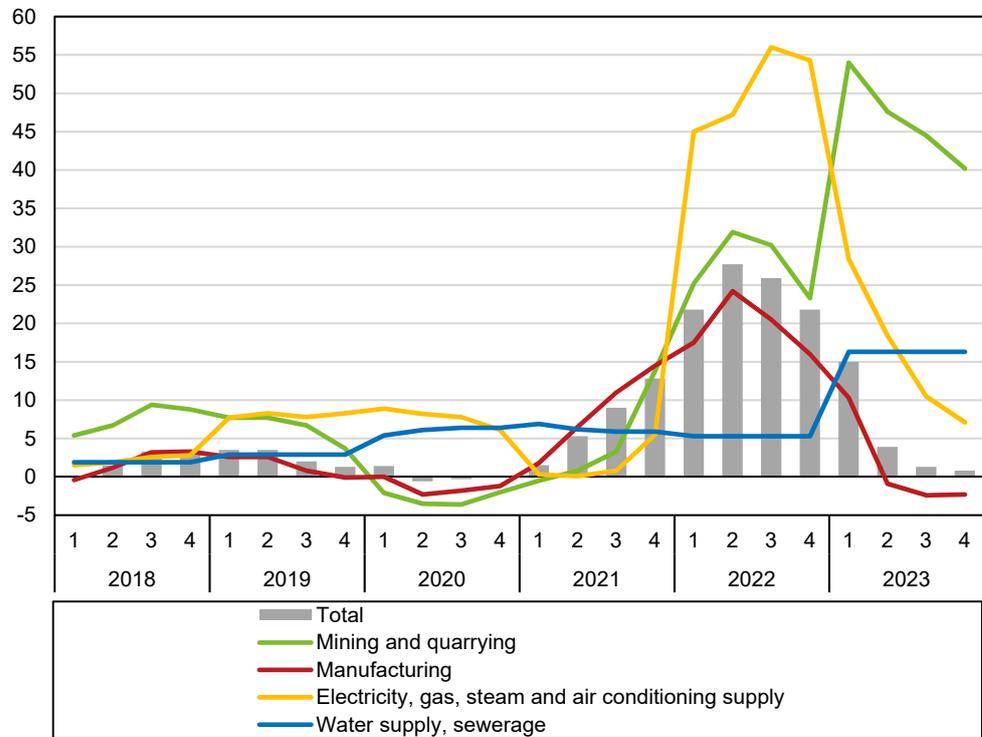
Prices of manufacturing decreased (-2.3%) year-on-year in Q4. Quarter-on-quarter, the prices dropped by 0.3% in Q4. Prices of products associated with basic materials, such as wood and wood products (apart from furniture, -22.9%), paper and paper products (-14.5%), basic metals (-14.5%) or chemical substances and products (-9.2%) were in deep year-on-year decline in Q4. Prices of coke and refined petroleum products were also lower⁶³. Year-on-year decrease was also recorded for food products

⁶³ Precise values of the indicator are not provided due to the protection of individual data.



(-3.1%), rubber and plastic products (-3.0%) or metalworking products (-0.5%). Strong year-on-year increase stayed for prices of repairs, maintenance and installation of machinery and equipment (9.6%) and prices of weight significant types of goods, such machinery and equipment (6.1%), computers, electronic and optical appliances (4.8%), motor vehicles (3.3%) or electrical appliances (0.8%) also increased year-on-year.

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



Source: CZSO

Prices of manufacturing in total increased last year.

Following the strong increase at the beginning of the year (10.3% in Q1), the year-on-year dynamics of prices fell into decrease in manufacturing (-0.9% and -2.4% in Q2 and Q3) and prices in this division increased by 0.9% in total for the whole year. Yearly result in the direction of downturn affected especially the development of prices of materials and associated products, where the high comparative basis of year 2022 played a role – wood and wood products (apart from furniture, -12.7%), basic metals (-9.4%), chemical substances and products (-9.0%), paper and paper products (-4.2%) or prices of coke and refined petroleum products. On the contrary, the prices of beverages considerably increased (12.2%) as well as food products (8.6%), repairs, maintenance and installation of machinery and equipment (9.5%), machinery and equipment (8.0%), computers, electronic and optical appliances (4.0%) or motor vehicles (3.7%).

Industrial producer prices decreased in the EU last year.

Development of industrial producer prices in the EU⁶⁴ was rather varied last year. After the sharp surge from year 2022 (34.4%), industrial producer prices fell in total by 2.1% in the EU last year. While the prices still grew strongly despite pace weakening in some countries – by 21.5% in Hungary, by 17.2% in Luxembourg and by 16.9% in Slovakia, 14 countries observed decrease, the most in Ireland (-25.6%), Bulgaria (-12.5%) and Belgium (-9.3%). In total prices of mining and quarrying (-6.9%) and electricity, gas, steam and air conditioning (-12.7%) sank in the EU last year. On the contrary, prices of manufacturing slightly grew in the EU last year (1.9%). Industrial producer prices fell

⁶⁴ Without prices of water distribution and services associated with wastewaters.

by 8.9% year-on-year in the EU in Q4 itself, while they slightly grew quarter-on-quarter (0.2%). Year-on-year decrease of the industrial producer prices affected all divisions – prices of mining and quarrying were lower by 10.0%, prices of manufacturing by 1.6% and prices of electricity, gas, steam and air conditioning by 26.0%. Industrial producer prices were falling in the majority of EU countries year-on-year in Q4 except for Luxembourg (19.1%), Slovakia (8.1%), Slovenia (2.4%), the CR (0.8%) and Malta (0.8%). In contrast, the industrial producer prices plunged the most year-on-year in Ireland (-22.0%), Bulgaria (-20.3%) and Belgium (-19.2%).

Prices of materials and goods used in construction grew markedly slower last year than in year 2022.

Year-on-year growth of prices of construction work gradually slowed down during year 2023 and according to estimates reached 3.2% in Q4. Quarter-on-quarter, the price of construction work went up by 0.6%. Prices of construction works then increased by 6.0% for the whole year 2023 (more accurate figure after revision in year 2022 by 12.4%). Prices of material inputs of construction output in contrast fell by 0.3% year-on-year in Q4 and were by 0.7% lower quarter-on-quarter. Prices of material inputs of construction output increased on average by 3.8% for the whole year 2023. It represents sharp deceleration in comparison to year 2022, when prices of material inputs of construction output were raised by 20.7% and the material costs were thus a substantial break on the construction output development.

Growth of prices of market services stayed at high level for the whole year.

Prices of market services increased by 4.9% year-on-year in Q4 and the increase was thus the mildest for the whole year 2023. The prices increased by 1.2% quarter-on-quarter in Q4. Prices of services in the area of real estate (year-on-year increase of 6.7%), services in programming and associated consultancy (6.5%), land transport and transport via pipelines (3.1%) and employment activities (15.6%) worked the most in the direction of the year-on-year growth. Development of prices of cleaning activities (12.9%), postal and courier services (11.7%), information (10.0%), legal and accounting activities (6.8%), advertising and market research (4.3%), warehousing and support activities for transport (3.6%) or architectural and engineering activities and technical testing and analysis (2.6%) also had a significant contribution. Year-on-year dynamics of prices of market services remained high and unlike the rest of the economy did not decelerate notably during the year. It manifested the persisting strong nominal growth of wages, which form a key part of costs for services. Prices of market services increased by 5.6% for the whole year 2023. Prices of services in the area of programming and associated consultancy (growth of 8.2%), real estate (6.5%), land transport and transport via pipelines (4.2%) and employment activities (22.1%) contributed the most.

Prices of agricultural producers markedly sank year-on-year in Q4.

Agricultural producer prices (including fishes) fell by 14.5% year-on-year in Q4 2023 and the depth of the slump thus nearly did not change against Q3. Prices of both crop (-16.5%) and animal (-10.9%) production were lower year-on-year. Prices of cereals deeply lagged behind the level of the same period of year 2022 (-36.0%). Prices of wheat, rye, barley, oats as well as corn plummeted by tens of percentages year-on-year. Prices of industrial crops were by 16.7% lower, in that oil seeds by more than one third. On the contrary, prices of sugar beet went up by 14.8%. Prices of forage plants were however raised by 17.9% year-on-year, vegetables and horticultural products by 12.5%, potatoes by 34.7% and fruits by 32.8% (mainly apples had an effect with more than one third price increase). Within animal production, prices of live animals stagnated year-on-year in Q4 (0.1%), in that however prices of poultry (-6.9%) and beef cattle (-3.1%) were falling and on the contrary prices of pigs and piglets grew (8.7%). Animal products were on the contrary in deep decline (-17.8%). Milk was cheaper year-on-year by 18.7% and eggs by 10.8%.



Prices of plant production decreased last year, while the animal production in total recorded an increase.

Prices of agricultural production including fishes still grew year-on-year in Q1 (19.4%) and subsequently went down (-8.1% and -14.7% in Q2 and Q3). Prices of agricultural production were by 6.0% lower for the whole year. The decrease was mainly supported by the development of prices of the crop products, which fell by 13.7%. The comparison with year 2022, when the geopolitical affairs led to sharp hike of prices of key plants, was an important factor. Also for this reason, the prices of cereals (-20.4%, in that wheat by 24.0%) as well as industrial crops (-21.8%, in that oil seeds by 28.8%) plunged last year. On the contrary, the prices of vegetables and horticultural products were by 15.4% larger last year, potatoes by 39.4% and fruit by 10.4%. Prices of animal production on the contrary increased in total by 7.0% in year 2023. Prices of live animals were higher by 12.6%, in that pigs by 25.0%. Prices of animal products increased by 3.3%. While the prices of milk rather stagnated last year (0.5%), eggs recorded an increase of 28.6%.

Prices of export fell year-on-year last year.

Prices of exports of goods in total fell by 0.7% last year. Prices of exports of other materials⁶⁵ (-18.6%) and chemicals (-7.2%) dropped the most. On the contrary, prices of beverages sharply increased (16.0%). After year-on-year increase in Q1, the prices of exports were falling in the rest of the year 2023. Prices of exports were by 2.2% lower in Q4 2023. The effect of koruna foreign exchange on the year-on-year development of prices of the international trade weakened towards the end of the year⁶⁶. Prices of exports increased by 0.6% quarter-on-quarter in Q4. Prices of other materials (-14.7%) and mineral fuels (-13.7%) decreased the most year-on-year in Q4. Prices of exports of chemicals (-7.7%), food and live animals (-7.3%) and semi-finished products⁶⁷ (-6.8%) were also lower. Similarly to the previous quarters, the prices of beverages also sharply grew in Q4 (11.1%). Year-on-year increase of prices of exports of the miscellaneous manufactured articles (4.1%) and machinery and transport equipment (2.8%) strengthened.

Terms of trade were markedly positive last year.

Import prices of goods fell in total by 5.7% last year. The decrease was mainly the result of development of prices of mineral fuels (-27.7%) and other materials (-10.7%). Prices of imports of chemical products were also in deep decrease (-7.9%). On the contrary, prices of beverages and tobacco increased by more than one fifth (22.7%). In Q4 2023 itself, the prices of import fell by 6.1% year-on-year, while they grew by 1.5% quarter-on-quarter. Prices of imports of mineral fuels (-28.7%), other materials (-9.6%), chemical products (-8.0%) and semi-finished products (-5.9%) increased the most year-on-year in Q4. On the contrary, prices of imports of beverages and tobacco (23.9%), miscellaneous manufactured articles (2.3%), food and live animals (1.7%), machinery and transport equipment (0.3%) were higher year-on-year. Year-on-year terms of trade of international trade of goods remained in greatly positive band. Total terms of trade reached 105.3% for year 2023. Terms of trade were 104.2% year-on-year in Q4 itself. Trade with mineral fuels (121.0%), machinery and transport equipment (102.4%), miscellaneous manufactured articles (101.8%) and chemicals (100.3%) had positive terms of trade. In contrast, trade with beverages and tobacco (89.7%), food and live animals (91.2%), other materials (94.4%) and semi-finished products (99.0%) featured negative terms of trade.

⁶⁵ SITC 2 – crude materials inedible, except fuels.

⁶⁶ Based on the CNB data, the average koruna foreign exchange per euro reached 2.521 CZK/EUR in Q4 2023. It was 24.387 CZK/EUR in the year 2022. Koruna foreign exchange per dollar markedly strengthened year-on-year. The average was 23.923 CZK/USD in Q4 2022 and 22.820 CZK/USD this year.

⁶⁷ SITC 6 – manufactured goods classified chiefly by material.

6. Labour Market

Labour market gradually cooled down partially, the imbalance between supply and demand narrowed. Situation at the level of individual branches or businesses however varied.

Lasting stagnation of the domestic economy gradually manifested also on the labour market with a certain lag during the last year. The employment started to decrease quarter-on-quarter in H2, especially industry faced difficulties. Unemployment including the long-term unemployment slightly grew and at the same time the supply of job vacancies, mainly less qualified, slightly decreased. The size of the potential work resources (currently inactive persons willing to work) slightly expanded, nevertheless still remained limited. Gradual integration of the Ukrainian refugees represented a positive impulse for the labour market, even though quite a few of them operate on positions, where they do not fully utilise their qualification. Business in their effort to optimise the production costs still intensively demanded foreign workers also from other countries outside Europe. Number of branches especially in services were still developing and created new job positions also for workers with higher qualification. Different situation in individual branches manifests in the varying growth of wages. Its pace however slightly weakened in total during the last year. Thanks to considerable disinflationary tendency in the economy however the year-on-year decrease of purchasing power of wages considerably shrank and year-on-year growth of real earnings was already registered in several significant branches in Q4 2023.

Quarter-on-quarter growth of employment halted in the second half of the last year.

Total employment⁶⁸ quarter-on-quarter still slightly grew in the domestic economy in H1 2023 and the physical number of workers climbed up to record level (5.51 mil). Mild slowdown occurred in the remaining part of the year – employment was gradually falling in both subsequent quarters (by 0.7%, resp. by 0.1%)⁶⁹, number of both employees and self-employed decreased. Mainly industry and weight significant branches of services – trade and transport participated on the cooling of the labour market, in addition the growth of demand for workers ceased in construction. Still the total number of employed remained distinctly above the level from the end of the expansion period of year 2019 (+61 thousand), to a large extent thanks to the development of public services.

Employment mildly increased for the whole year. Number of both of employees and self-employed rose.

Employment expanded by 0.8%⁷⁰ for the whole year (in that by 0.4% in Q4 2023). New job positions were traditionally created mainly in the employee positions, especially in the areas with higher demands regarding the employee qualification. The largest increase was recorded in public services (+20 thousand)⁷¹, which gradually reacted to the growth of demand linked mostly to the longer-term changes in the age structure of population. Professional, scientific, technical and administrative activities (2.2%) however attained relatively the highest growth, 8 thousand employees were added here in absolute terms against year 2022. The growth of employees moderated to 1.7% in information and communication (it in fact only stagnated at the end of the last year), which belonged to the fastest growing area of services in the last decade. The division trade, transport, accommodation and food service experienced only minimal growth (0.3%), still the levels of employees slightly exceeded the level from year 2019 here. Development of digitalisation is reflected in the gradual reduction of job positions in financial and insurance activities, levels of employees were thus falling here for the fourth year in a row. Outside services, relatively demand for workers was maintained for

Number of employees increased the most in education, health and social care, majority of other services also fared well.

⁶⁸ Data regarding employment stem from the national accounts' conception. They are expressed in physical persons and adjusted for seasonal effects. Unlike the data from the business statistics or the labour force sample survey (LFSS) also include for instance the estimation of the grey economy impact.

⁶⁹ Mild growth of total employment however continued in the EU as well as the euro area itself last year (it was +0.2% quarter-on-quarter in Q3, +0.3% in Q4). Services offset the worse results of industry – mainly information and communication, financial activities as well as business and public services.

⁷⁰ Employment thus again grew slower in the CR than in the EU. Number of workers increased by 1.2% year-on-year in the whole Union last year, among individual states then the most in Malta (by 6.5%), in Ireland (5.4%), Estonia and Spain (identically by 3.2%). Germany recorded similar growth as the CR (0.7%). Other central European economies also registered a relatively weak growth – Slovakia (0.3%), Hungary (0.2%) and also Poland (+0.1%), where however the number of workers swiftly grew in year 2022 (+3.9%). The employment decreased in Romania last year (by 0.9%), as the only member country.

⁷¹ Include branch public administration, education, health and social work.



On the contrary, all significant branches of manufacturing recorded decrease.

the most part of the last year in construction. Number of employees increased by 2.1% here last year, their number grew for the third year in a row faster than in the whole economy. On the contrary, gradual worsening of employee position became evident in manufacturing. Which were under the strong pressures of costs as well as the slackening external demand. Especially the energy-intensive branches more frequently reduced job positions⁷² (1.1% of them disappeared in the whole last year).

Small business revived across all main branches.

Revival of the entrepreneur activity had favourable effect on the employment development after longer time. Levels of self-employed⁷³ increased by 2.4% last year (the most after year 2010), especially due to professional, scientific, technical and administrative activities (+2 thousand). Their number increased relatively the most in information and communication (+8%) and financial activities (+5%) last year, to some extent as a result of the lower last year's basis or possible "transfer" from the employee position. At least mild growth of small entrepreneurs nevertheless occurred in all main branches. Still their number remained considerably below the level of year 2019 (-5%, -36 thousand persons) in Q4 2023⁷⁴.

Number of specialists grew, number of employed females increased.

Above-mentioned branch shifts were reflected in the shifts in the occupational structure of all working persons. According to the LFSS data, the number of specialists (+69 thousand), but also craft and repairmen (+33 thousand) more notably increased year-on-year in Q4 2023. Mainly the number of clerical support positions reduced (-62 thousand), which can be connected to the advancing digitalisation in financial industry, trade and also the public sphere. Some other structural characteristics were also changing – females benefited to larger extent from the development of services. Their employment rate (aged 15 to 64 years) increased by 0.7 p.p. year-on-year (to 68.8%), it on the contrary decreased for males by 0.8 p.p. (to 81.5%). Still the employment of males in the CR belonged together with the Netherlands (85.9%) and Malta (85.5%) to the highest within the EU countries.

Number of foreigners in the employee position climbed up to 824 thousand at the end of the last year. Its year-on-year increase was from one half formed by Ukrainians. Inflow of workers from some Asian states accelerated.

Long-time limited reserves of available labour force in the CR as well as the rising pressure of firms to optimise the production costs fed the growing demand of domestic employers for foreign workers. Legislative amendments lowering the administrative demands in this area help to ease the employment of foreigners. Long-term growth of the influx of foreign workers into the CR thus also continued in year 2023. At its end, 824 thousand foreigners with the employee status were registered at the MLSA (by 31 thousand more year-on-year). In addition MIT registered 118 thousand (+6 thousand) foreign state nationals' trade licences in the CR⁷⁵. In both cases, a notable slowdown occurred in comparison to year 2022, however it can be for the most part ascribed to the unprecedented refugee wave from Ukraine, which culminated just in the year of 2022⁷⁶. In spite of this, Ukrainians comprised one half of the higher number of foreigners in the employee position for the last year (+15.7 thousand, in that females +9.2 thousand), among other non-European countries then Filipinos (+2.4 thousand, whose number increased by one half year-on-year), Indians (+1.2 thousand) and Turks (+1.1 thousand). Only number of Slovaks increased significantly among the EU states (+2.8 thousand, relatively however only by 1.3%), on the contrary number of citizens of Romania and Bulgaria slightly decreased for the second year in a row.

⁷² Data from the business statistics confirm that the registered number of employees in manufacturing of other non-metallic mineral products decreased by 3.4% year-on-year in 2023. Milder decrease occurred also in all other weight important industrial branches, including manufacturing of motor vehicles (-0.4%).

⁷³ More detailed LFSS data show, that the number of employers (entrepreneurs with employees) registered minor decrease year-on-year last year (and thus continued in the adverse trend lasting since year 2019). This less numerous group of entrepreneurs is in the methodology of the national accounts classified into the category of employees.

⁷⁴ Almost one tenth of them disappeared in manufacturing and also in division trade, transport, accommodation and food service in the last four years. On the contrary, numbers of self-employed were substantially above their pre-crisis level only in information and communication (+10%), slightly (up to 2%) then in construction and in real estate activity.

⁷⁵ Persons settled in the CR for the long-time (e.g., Vietnamese) can be more frequently found among them (in comparison to the foreigners with the employee status).

⁷⁶ After the deduction of all Ukrainian citizens, the number of foreigners in the employee status expanded by 15.0 thousand for the last year (in years 2022 and 2021 then by 16.7 thousand and 22.0 thousand respectively). Growth of entrepreneurs was analogically 3.2 thousand for year 2023 and it oscillated around 3 to 4 thousand also in the previous two years.

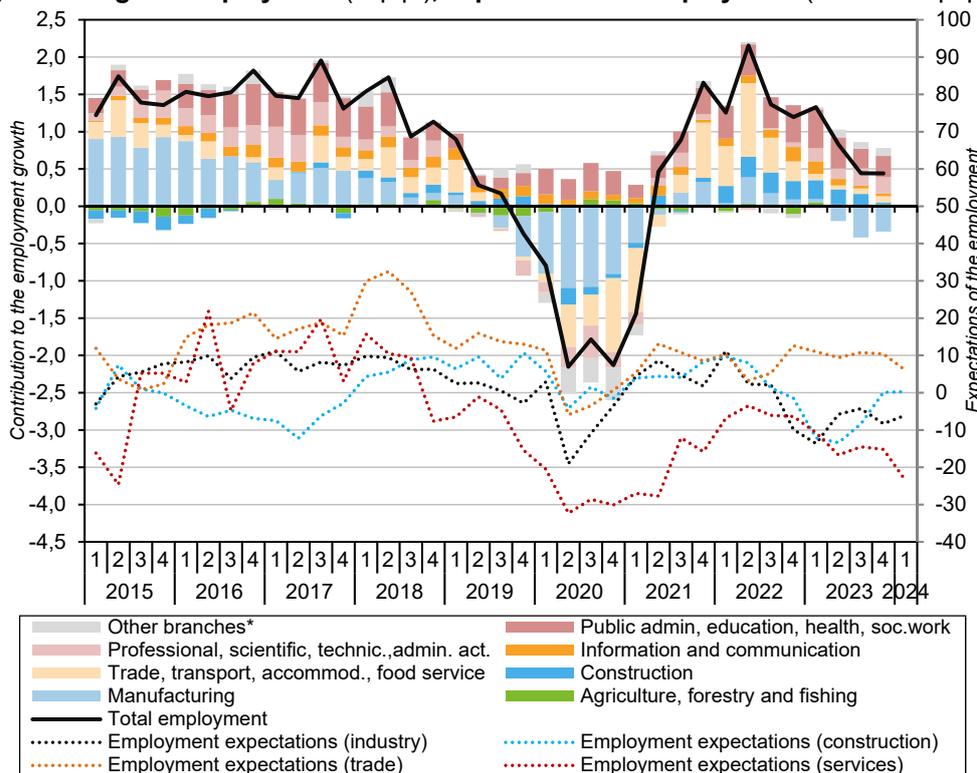
More frequent use of part-time job contracts worked against faster growth of hours worked in economy, especially in services.

Total number of hours worked nearly returned to the level from year 2019 in the economy last year. It increased by 0.6% year-on-year (comparably to the growth of total employment in physical persons, the hours worked were nevertheless substantially overtaking the employment growth for the whole 2022). More frequent use of the part-time job contracts (nourished by rising employment of females which was connected also to the refugee wave as well the newly adopted tax relief to support part time jobs)⁷⁷ worked against more brisk growth of the hours worked last year. Growth of the hours worked was considerably overtaking the employment dynamics only in manufacturing, it was the opposite in most services activities.

Hourly labour productivity slightly reduced year-on-year for the second time in a row. Nevertheless, it did not lag behind the level from year 2019.

Hourly labour productivity⁷⁸ slightly declined in the whole economy year-on-year last year (by 1.0%) and was falling for the second year in row. The productivity in mining industry and energetics stood behind the adverse development in both cases, it dropped nearly by one fifth only for the last year. The productivity slightly fell in the weight significant division trade, transport, accommodation and restaurants (-1.6%), slight decrease however occurred in most branches of services. On the contrary, the productivity was rising in manufacturing for the third year in a row (by 2.2% last year), positive development then lasted even longer in information and communication – last year’s growth arrived at 3.8% and was the highest out of all main branches. Despite adverse development in the last two years, last year’s labour productivity in the domestic economy practically did not lag behind the level from the expansion year 2019 (-0.1%). Productivity growth in manufacturing (+7%), information and communication (+17%) and financial activities (+21%) thus offset the declines in this period in the whole primary sector of the economy, construction or real estate activities.

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

⁷⁷ Based on the LFSS data for Q4 2023, record 13.7% of females aged 15+ worked part time in the CR. That is by 1.7 p.p. more year-on-year (together with Slovakia, it represents the most significant growth within the EU). The share of these contracts in the CR is still however low in the European context. It reached 29.6% in the EU, in that 34.4% in the euro area.

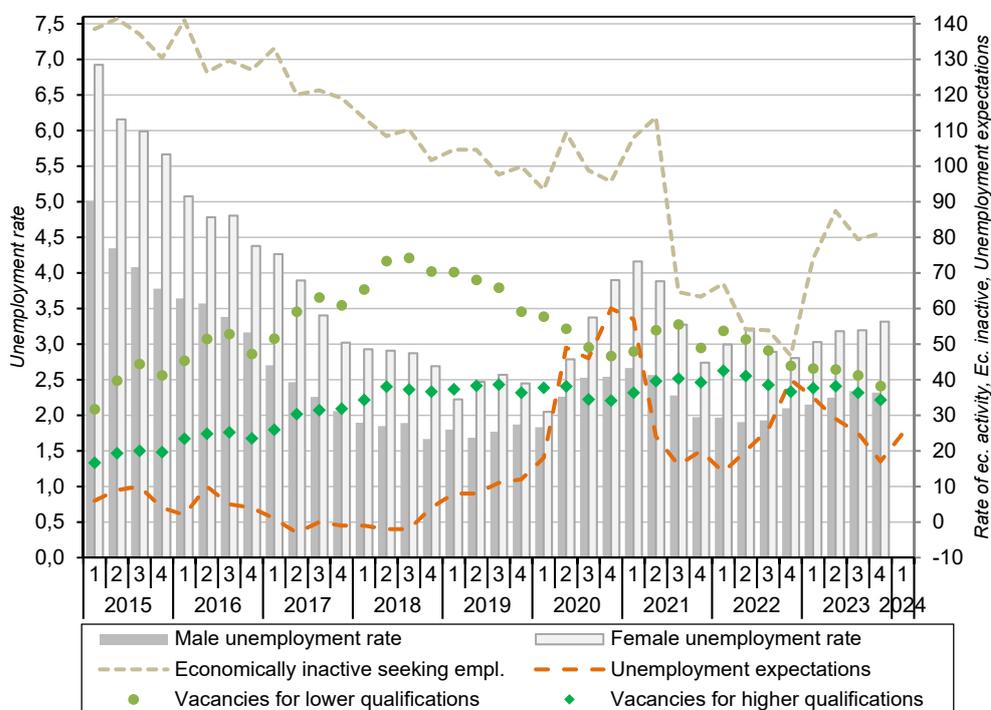
⁷⁸ It is the gross domestic product (in constant prices of year 2015) per 1 hour worked by employed persons in the whole economy. Gross value added is used instead of GDP at the level of main branches.



Expectations of businesses concerning employment worsened at the turn of years 2023 and 2024. Trade and construction kept mild optimism.

Short-term expectations of businesses in the employment in the whole economy temporarily stagnated since last year's February (when it fell to two-year minimum). With the approaching end of year 2023 it unfortunately again started to worsen, especially in both services and trade. The expectations were the weakest since the peak of the pandemics (March 2021) in February 2024. Pessimism prevailed mainly in services, where 35% of businesses considered laying off staff within a three-month time horizon, identically 13% in trade and industry. Situation differed at the level of sub-branches within both industry and services⁷⁹. The only main branch, when the expectations improved year-on-year was construction – 8% of firms were contemplating laying off staff (the least in the last 1.5 years), 12% of businesses on the contrary planned to increase employment. The proportion of businesses where the lack of labour force represents one of important growth barriers was decreasing in some key branches (mainly in industry) due to the worsening of total economic outlooks as well as the strong inflow of persons from Ukraine to the domestic labour market. On the other hand, it still represented the most significant barrier in construction, limiting approximately one half of companies here.

Chart 15 General unemployment rate (in %, age 15 to 64 years), economically inactive willing to work* (in thousand persons), job vacancies (in thousand) and unemployment expectations of households (in p. p.)**



Note: Figures regarding the unemployment rate are seasonally adjusted. Job vacancies: balance at the end of quarter.
 *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 relates to the middle month of the given quarter.
 Source: CZSO (LFSS, business cycle survey), MLSA (job vacancies registered at labour offices in the CR)

⁷⁹ Businesses in two thirds of industrial branches – both in the energy intensive (metallurgy, production of construction materials, metalworking, chemical and paper industry) and in machinery and supplier sub-branches tied to manufacturing of motor vehicles (electrical engineering, rubber and plastic products) or in a number of mostly smaller branches, whose sales depend to a large part on the household consumption (furniture, clothing, beverage and food industry) expressed prevailing negative expectations of employment (based on survey from February 2024). On the contrary, mildly positive outlooks lasted in manufacturing of motor vehicles, further in the pharmaceutical industry, other industry or repairs and installation of machinery and equipment.

Negative expectations prevailed in one half of sub-branches in services. It was the most apparent in financial industry, telecommunications and land transport, further in majority of administrative and support service activities, in publishing activities or advertising. In contrast, businesses anticipated rather higher employment in several other business services (legal and accounting activities, architectural and engineering activities, employment agencies) or in the area of programming, insurance and other financial activities, courier activities, food service, accommodation, air transport and warehousing.

<p>General unemployment rate slightly increased. It attained the highest value in the last two and a half years in January 2024.</p>	<p>General unemployment rate⁸⁰, which stagnated near the historical minimum for a major part of year 2022, started to slowly rise last year. This trend also continued at the beginning of this year. Unemployment was even 3%⁸¹ in February (the most in the last two and a half years), 2.5% for males and 3.6% for females. Unemployment slightly increased month-on-month (+0.2 p.p.) as well as year-on-year (+0.4 p.p.), comparably for both males and females. The number of long-term unemployed grew faster (it shared by more than one half on the year-on-year increase of all unemployed persons in Q4 2023), specifically males, which can be associated with the difficult situation in industry. Persons who were without a job more than one year however still formed less than one third (comparably to year 2019) out of total number of unemployed (133 thousand). Also data regarding the job applicants registered at labour offices (LO) suggest mild cooling on the labour market⁸². It is also confirmed by the fact, that the size of potential work reserve was growing year-on-year for the whole last year – number of economically inactive not seeking employment, but willing to work exceeded 80 thousand in Q4⁸³.</p>
<p>Number of job vacancies in the economy slightly decreased.</p>	<p>Number of job vacancies in the offer of LO is decreasing already more than 1.5 years. 267 thousand positions⁸⁴ were in evidence at the end of January, by 5% less year-on-year (supply of vacancies exceeded the number of registered job applicants for the second month in a row). Mainly the low qualification positions stood behind the decrease, however number of positions for persons with secondary education both without A-level examination (by 13.4%) and with A-level examination (by 11.7%) decreased relatively the most. On the contrary, the number of positions for the applicants with tertiary education stagnated year-on-year (to 14.9 thousand). In the view of the qualification classes of employment, the decrease of job vacancies had rather general character. Concerns of persons regarding the growth of unemployment (expressed within the business cycle surveys) were abating despite the weak performance of the economy since the beginning of the last year. They increased only at the turn of years 2023 and 2024, however remained approximately at the level of long-term average.</p>
<p>Concerns of people regarding the unemployment development weakened throughout the most part of the last year.</p>	
<p>Growth of average wages slowed down during the year, which was connected to the prevailing weak performance of the economy.</p>	<p>The average gross nominal wage (per employee, reflecting the type of job contract) climbed up to 46.0 thousand CZK last year in Q4. It rose by 6.3% year-on-year, the wage pace continuously mildly weakened during the last year (it was 8.8% in Q1). Seasonally adjusted wage was by 1.5% higher quarter-on-quarter, light slowdown connected to the ongoing weak performance of the economy accompanied by the increase of unemployment was also evident here during the last year. Wage growth in the economy was subdued also by the strengthening need for savings in the public sphere⁸⁵, moderate increase of the minimum</p>

⁸⁰ Unless stated otherwise, all data regarding the unemployment rates are sourced from the LFSS (based on the ILO methodology) and are adjusted for seasonal effects.

⁸¹ Only Malta (2.6%), comparable Poland (2.9%) and Germany (3.1%) recorded lower total unemployment rate (persons aged 15 – 74 years) than this country (3.0%) in January 2024. Unemployment increased year-on-year in two thirds of the member states – the most in Estonia (from 5.2 to 7.0%), further in Denmark, Lithuania, and Sweden (identically approximately by 1 p.p.). On the contrary decrease occurred mainly in countries with traditionally higher unemployment – in Spain (from 13.0 to 11.6%), in Greece (from 11.3 to 10.4%) and Italy (from 7.9 to 7.2%), slower (by 0.5 p.p.) it decreased in Portugal, Croatia and Slovakia. Unemployment rate of young (up to 25 years) followed rather slightly upward trend in the EU last year since Spring, it then fluctuated at the end of the year. It was 14.9% in the Union in January 2024 (+0.8 p.p. year-on-year), 8.1% in the CR, which was the third lowest value after Germany (5.7%), Malta (7.8%). The opposite situation was in Spain (28.6%), over 20% of unemployed among youth was reported by Sweden, Portugal, Greece, Italy and Luxembourg. Year-on-year, the situation slightly improved mainly in Greece (decrease by 4 p.p.), it then worsened mainly in Bulgaria (+7 p.p.), Lithuania (+4 p.p.) or Sweden and Finland.

⁸² Based on the LFSS data, the seasonally unadjusted proportion of the reachable job applicants aged 15 to 64 years of the population of the same age arrived at 4.0% at the end of February (males 3.7%, females 4.2%). January unemployment is at a three-year maximum, nevertheless the increase is only negligible (+0.4 p.p. in cumulation). The highest unemployment troubled the regions *Karviná* (8.2%), it was also high in *Bruntálsko* (7.9%) and also *Mostecko* (7.6%), where it increased the most of all regions year-on-year (+0.7 p.p.).

⁸³ Only less than one fifth of this quantity is however able to join the workforce immediately. Significant part of working reserves consists of students and females on the parental leave.

⁸⁴ Not all offers of vacant job positions in the records of the LO can however be considered still current. Only 45% of total number of vacancies (272 thousand) were advertised less than half year at the end of Q4 2023. CZSO also ascertains the number of job vacancies (based on the survey in businesses) on an experimental basis since year 2000. The number of job vacancies was this way estimated to 91.5 thousand in the CR in Q4 2023. Their number decreased by 6% year-on-year when it fell for a third quarter in a row. Manufacturing participated the most in this decrease.

⁸⁵ The branch public administration and social work was an exception. As of 1st September 2022, 10% raise of the pay tariffs for employees falling under the Act on civil service was put in place. The pay tariffs of armed forces and public security forces were also raised (by 10%) as of January 2023.



wages⁸⁶ as well as rising number of foreign workers from “third countries”. These often work on low qualified positions and their earnings thus usually do not reach the level of the CR citizens. In contrast the so far relatively high demand of businesses for labour force in some branches or heightened pressure of employees (stemming also from the tight household budgets due to the still felt high growth of prices of some basic items of the consumer basket) were factors in the direction of growth of the nominal wage.

Decrease of the real wage was unique with respect to its depth as well as length. The current size of the wage corresponded to the real wage from Q1 2018.

With respect to the disinflationary tendencies in the economy, the year-on-year decrease of the purchasing power of the average wage was shrinking during the last year, when it was only 1.2% in Q4. Purchasing power of earnings however decreased year-on-year already the ninth quarter in a row. Apart from the length, the total debt of the decline is also unprecedented for this period (it approached 10%). In the quarter-on-quarter view however the purchasing power of wages already started to grow for the most part of the last year, since the price level already stabilized in this respect. Still the size of the real wage (after seasonal adjustment) corresponded only to the level from Q1 2018 in Q4 2023, similar can be however claimed for the analogous comparison of the real labour productivity (when expressed per employed person)⁸⁷. Wage development represented a decisive factor in lowering of the total purchasing power of domestic households for majority of year 2023⁸⁸.

Wages grew the most relatively in accommodation, food service and restaurants, absolutely the most then in IT in Q4.

Employees in division accommodation, food service and restaurants (+10.1% year-on-year) improved their situation relatively the most on average last year in Q4, nevertheless their wages in absolute expression nominally increased slower against the whole economy. Briskly, above the inflation level, increased the earnings also in information and communication (+8.7%), transport and warehousing (+8.1%), in some non-manufacturing branches – mainly in mining and quarrying (+10.3%) and within larger manufacturing activities only in manufacturing of electrical appliances (+10.7%). Wages grew below average (from 3.9 to 6.1%) in branches of public services, in administrative and support service activities, in real estate area, in construction and in the primary sector of agriculture and forestry. The average earnings increased the least (by 0.3%) in small diverse branch of other services (including mainly professional associations and trade unions, but also personal services for households), but the employment expanded relative swiftly here. The wage median increased precisely by 6% in Q4 (to 39.7 thousand CZK monthly). The bottom wage decile increased by 5.5% year-on-year, the top decile by 6.6%. The wage distribution thus slightly worsened, which was also valid in the previous part of the last year.

Wage distribution was slightly widening for the whole last year.

Wage increased the most in both absolute and relative terms in energetics last year, specifically thanks to the payout of extraordinary bonuses at the beginning of the year.

The average monthly wage reached 43.3 thousand CZK for the whole year 2023. Even though its year-on-year growth was the highest in the last four years (+7.5%), in real terms the employees earned less by 2.9%. Wage growth managed to “defeat” inflation only in small and highly specialised branch of energetics⁸⁹ (nominally it was 14.1%⁹⁰). The attained size of wages at the same time exceeded the level of the whole economy by 57% here. Wages grew slightly above 10% in the motor vehicle and electrical engineering industry, only slightly less in mining and quarrying and in accommodation, food service and restaurants. Earnings gained more than 8% growth in transport and warehousing, in the real estate area and also in information and communication – these then confirmed

⁸⁶ Minimum wage was raised by 6.8% (comparably to the previous year) as of January 2023. Unlike the practice from past years however the shift of the minimum wage was not accompanied by increase of the boundary for the so-called guaranteed wages (it increased last year only in the eighth – category of jobs with the highest qualification – where however only a fraction of employees likely receives wage).

⁸⁷ Real labour productivity per 1 employee was higher only by 3.3% in the whole economy at the end of year 2023 against Q1 2018.

⁸⁸ The Gross disposable income (GDI) of households in real expression decreased based on the up-to-date data by 2.8% year-on-year in Q1 2023, already only by 0.2% in the subsequent quarter and by 0.9% in Q3. In that the volume of wages and salaries (in the national accounts conception) analogically decreased in real terms by 3.7% and 1.8%, in Q3 it then stagnated. In Q4 (based on preliminary data) this volume already increased only negligibly (+0.7%), it represented the first year-on-year increase in the last seven quarters. Wages and salaries reflect (unlike the business statistics) also other factors, e.g. the grey economy, possible increase of economic activity of population, for instance in the form of second employments or work agreements. GDI includes next to wages and salaries also income flowing from running a business or ownership of capital and also social transfers from state, incl. the until recently fully adjusted retirement pensions (effect of the amendment of the adjustment scheme for the reason of saving measures occurred for the first time in June 2023).

⁸⁹ Includes generation and distribution of electricity, gas, heat and air conditioning.

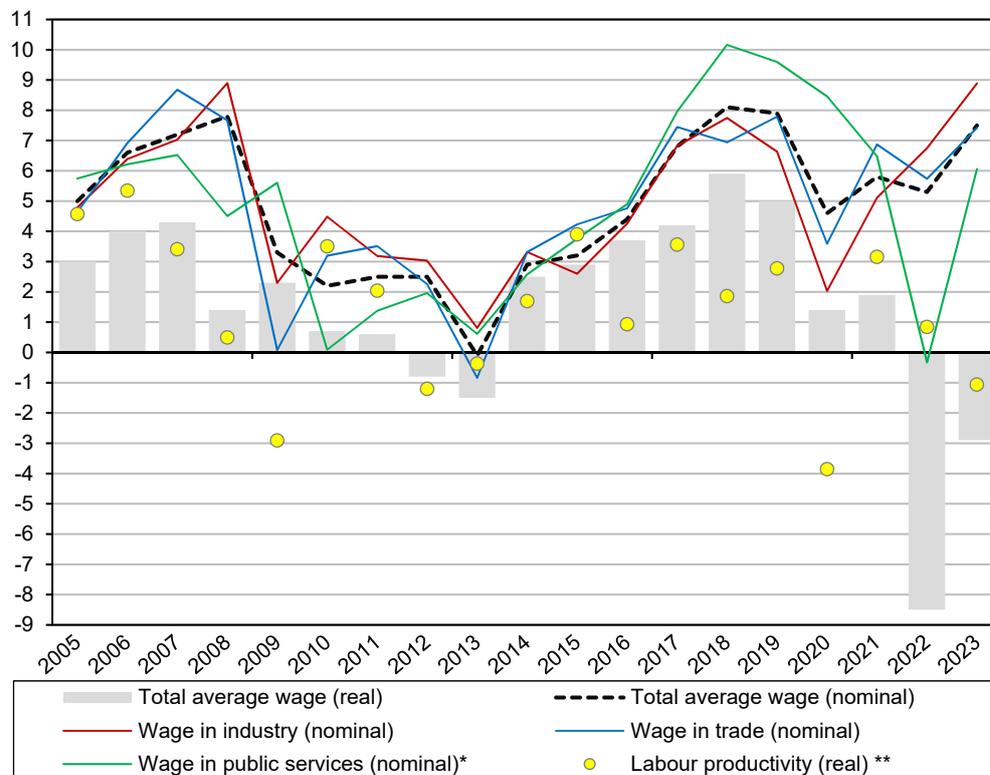
⁹⁰ Fast pace of wages mainly reflected the extraordinary bonuses paid out at the beginning of the year here.

Below average growth of wages manifested in trade, construction as well as some manufacturing activities.

Very low wage growth continued in education for the second year in a row.

their usual position in the last years of branch with the highest level of wages (77.9 thousand CZK). Construction (+6.7%), some energy-intensive manufacturing activities – e.g. manufacturing of building materials (+6.1%), further trade (+7.4%), but also financial activities (+6.5%) recorded slightly below average wage growth. Among branches with significant state participation⁹¹ earnings grew the most in the public administration and defence (+7.5%), the least in education (+4.3%, while they practically stagnated here in year 2022). The size of wages thus in this branch (43.2 thousand CZK)⁹² only attained the level of the national economy. Workers in other services had the smallest improvement on average (+3 %), lower wage pace can be explained by the notable revival of employment (+6.9%), which occurred for the first time since the onset of pandemics here last year. Among regions, the total wage increased the least in Prague (+6.6%). Still, it maintained the highest level among regions (53.3 thousand CZK). On the contrary, the earnings increased the most in the Ústecký regions (+8.3%). They grew mildly below average in Karlovarský region (+7.3%), whose wage level belongs to the long-term lowest (it arrived at 37.5 thousand CZK last year).

Chart 16 Average nominal and real wage and labour productivity
(annual sums, year-on-year change in %)



* Includes branches with a significant state involvement: Public administration, defence, social security; Education; Human health and social work activities; Cultural, amusement and recreational activities.
**Expresses GDP (in constant prices) related to 1 worker (in natural persons)
Source: CZSO

Relatively higher growth of median wage occurred for management employees last year, but also for craft and repairmen.

Wage median increased based on the preliminary data by 6.4% for the whole last year (without significant differences between males and females⁹³). It grew more for the management workers (+7.2%), but also in categories craft and repairment or machine operators (identically by 7.1%). Wages of specialists were raised by 5.2%, also due to the

⁹¹ For simplification includes branch Public administration, mandatory social security; Education; Health and social work; Cultural, amusement and recreational activities.

⁹² According to the MEYS data, the average monthly wage of teachers (including management workers) reached in the regional education (in facilities established by regions or municipalities) 49.9 thousand CZK last year and increased by 3.5% year-on-year (by 0.8% in year 2022). In that, qualified teachers (including assistants and school psychologists) received 46.5 thousand (+3.0% year-on-year), non-teaching staff then 29.1 thousand CZK (+9.7%).

⁹³ Attained median size of earnings of females was by 13% lower against males in Q4 2023 (resp. 5.5 thousand CZK monthly).



below-average growth in activities with large participation of state. Slovaks had traditionally the highest median wage among the more numerous groups of foreigners working in the CR last year (43.9 thousand CZK monthly), Ukrainians received only 30.3 thousand CZK, but their wage increased more year-on-year (+8.6%). Employees with the Czech citizenship then earned 39.8 thousand CZK.

7. Monetary Conditions

Monetary policy-relevant interest rates were lowered after one year and half in December.

Monetary policy-relevant rates changed for the first time since June 2022 at the end of Q4 2023. Two-week repo rate was decreased from the level of 7.00% to 6.75%⁹⁴ on 21st December and the discount rate fell similarly to 5.75% and Lombard to 7.75%. Koruna foreign exchange per euro reacted to the change in the setup of rates by mild weakening down to 24.73 CZK/EUR towards the end of December, while the exchange per dollar stagnated and considerably weakened only on the last December day to 22.38 CZK/USD. Koruna foreign exchange per euro was on average 24.52 CZK/EUR for the whole Q4 and was thus weaker by 0.39 CZK quarter-on-quarter and weakened by 0.13 CZK year-on-year. Koruna foreign exchange per euro fluctuated around the level of 24.50 CZK/EUR during the quarter. Exchange per dollar started the quarter at 23.23 CZK/USD and strengthened by nearly one koruna to 22.38 CZK/USD. The koruna foreign exchange per dollar however reached on average 22.82 CZK/USD in Q4 and thus was by 0.65 CZK weaker than in Q3. Compared to the level of Q4 2022, the koruna foreign exchange per dollar was by 1.10 CZK stronger.

Interbank interest rates on deposits with longer maturity started to decrease in advance.

Decrease of the monetary policy-relevant rates also manifested on the interest rates on the interbank market in Q4. Monthly PRIBOR rate dropped by 0.10 p.p.⁹⁵ to 6.98% and three-month by 0.12 p.p. to 6.97%. While the rates on deposits with short maturity however changed only in December in reaction to the loosening of the monetary conditions, rates of deposits with longer maturity were gradually falling in the anticipation of the change of monetary policy-relevant rates set up during the whole quarter. Six-month PRIBOR (-0.35 p.p. to 6.71%) started to decrease in October more notably. Annual PRIBOR (-0.66 p.p. to 6.19%) featured a downward movement already in the summer months. Yields on all government bonds of all types of maturities fell in Q4. Interest rate on short-term bonds thus ended the year 2023 4.61% (-0.44 p.p.), it was 3.96% for medium-term bonds (-0.61 p.p.) and 3.97% for long-term bonds (-0.52 p.p.)

Interest rates on term deposits decreased.

Impact of changes on the set-up of the monetary conditions on rates of the client accounts was mixed in Q4. While one-day deposits and current accounts of households did not experience any larger shift, term deposits had their interest on average markedly decreased. In total, the deposits with agreed maturity bore interest on average 5.72% (-0.29 p.p.) and interest on deposits with maturity above one year was falling faster. The average interest of one-day deposits relatively substantially fell for the non-financial businesses (-0.49 p.p. to 1.57%) and the average interest rate on deposits with agreed maturity was also lower (-0.19 p.p. to 1.03%). Total volume of deposits attained 6 701.2 CZK bn at the end of year 2023 and it was by 842.3 bn higher year-on-year (14.4%). After slowdown, which occurred in Q2 and Q3, the year-on-year increase of the volume of term deposits again gained pace (42.7%), likely also in connection to the effort to close contracts before the anticipated decrease of interest rates. The volume of non-term deposits (3.3%) was also slightly expanding at the end of the year. Their downfall, apparent since the beginning of year 2022, when in connection to strong inflation the funds were transferred to term deposits, thus halted. From the view of sectors, the government institutions contributed to the increase of volume of deposits the most (+325.2 CZK bn) followed by households⁹⁶ (+254.7 bn) and financial institutions (+151.0 bn). Deposits of non-financial businesses went also up (+103.2 CZK bn).

⁹⁴ Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. Values of foreign exchange rates also stem from the CNB.

⁹⁵ Unless stated otherwise, as the change of interest rates is meant the difference between value as of 31st December 2023 and 30th September 2023.

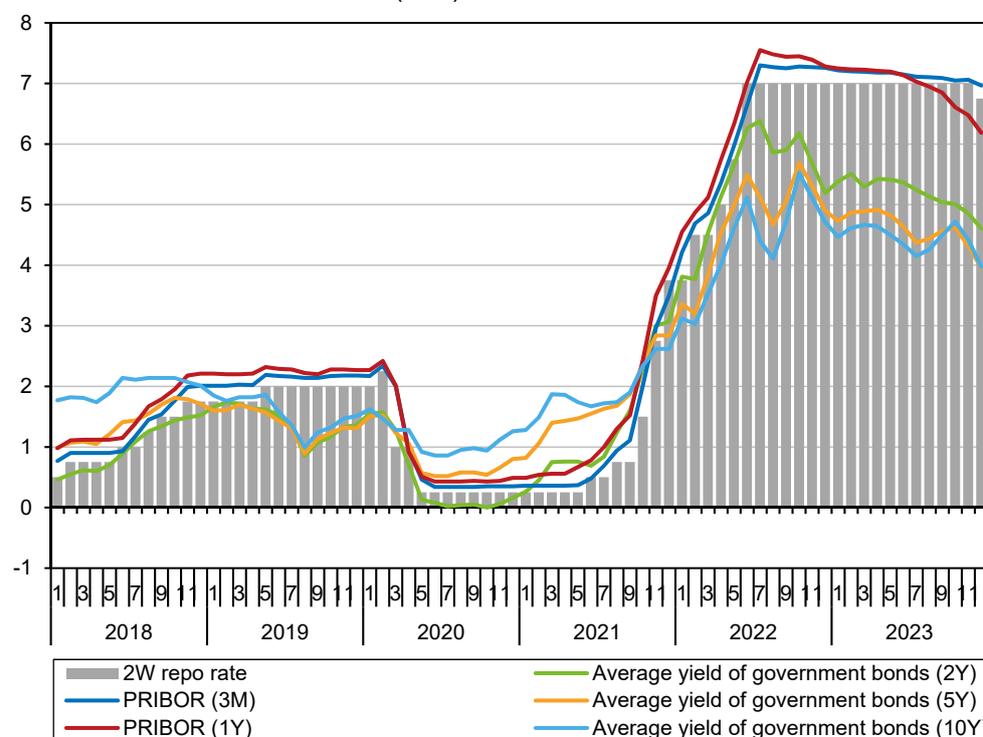
⁹⁶ Population including self-employed persons.



Interest rates on consumer credit as well as mortgages started to fall.

Expected change of the monetary conditions set-up also partially manifested in the interest rates of credit for households. The average interest on consumer credit slightly decreased (by 0.23 p.p. to 9.29% as of 31.12.) in Q4. From the peak reached in Q3 2023, the interest rates on mortgages also descended lower (total average arrived at 5.41% and fell by 0.09 p.p.). The interest rates for all fixations of the interest rate fell, the most for fixations between 5 and 10 years, where the interest was at the same time the lowest (-0.29 p.p. to 4.14%). Total household indebtedness was 2 315.9 CZK bn towards the end of year 2023 and it was thus by 4.7% higher year-on-year. The volume of provided consumer credit was by 8.5% higher and the pace again decreased below 10% after two quarters. The volume of credit provided for housing further grew only slightly (4.1%). While the mortgages were by 3.9% higher, the growth of credit from the building society accounts strengthened to substantial 32.1%⁹⁷. Number of new mortgages⁹⁸ expanded more in Q4 than in the preceding quarters. Amount of net new credit including extension was in fact the same and other new contracts, mainly renegotiated credit after the end of the fixation were the source of growth.

Chart 17 Market interest rates (in %)



Source: ARAD, CNB

Interest rates of credit for businesses also dropped at the end of the year.

Businesses also felt the loosening of the monetary conditions via the lowering of interest rates at the end of year 2023. Credit in the volume up to 7.5 mil thus bore interest on average 7.76% (-0.54 p.p.), credit between 7.5 and 30 mil 8.60% (-0.37 p.p.) and the highest category of credit over 30 mil had on average interest rate 8.52% (-0.30 p.p.). Total volume of credit of businesses reached 4 356.5 CZK bn towards the end of year 2023 and it was by 7.0% higher year-on-year. The largest year-on-year increase of credit was recorded in professional, scientific, technical and administrative activities (36.8%), generation and distribution of electricity, gas, heat, air, water and sewerage (16.9%) and real estate activities (13.2%). Volume of provided credit was in

⁹⁷ The credit from the building society accounts expanded by double digit pace since the end of year 2022. Credit from the building society account, where the maximum interest is restricted by the law, became more advantageous financing instrument for the debtors thanks to the substantial increase of interest rates on mortgages.

⁹⁸ New contracts also include the refinanced credit and other renegotiated loans. Refinanced credit includes current contracts concluded newly at other bank, while other renegotiated loans are current contracts concluded with new conditions at the same bank.

contrast falling for entities in the area of transport and warehousing (−5.7%), wholesale, retail and repairs and maintenance of motor vehicles (−0.8%) and in manufacturing (−0.7%). Trend of growing number of credits in foreign currency, which overtook the boundary of one half of total credit and claims of the non-financial businesses (51.1%⁹⁹) for the first time towards the end of year 2023, remained the same.

⁹⁹ Credit in foreign currency started to rise steeply following the commencement of the repeated increase of the monetary policy-relevant rates in June 2021.



8. State Budget

Deep budget deficit persisted, nevertheless it decreased for the second year in a row.

State budget¹⁰⁰ of the CR continued with deep deficit for the fourth year in a row and consequently still presented one of the most important macroeconomic imbalances. The deficit equalled 288.5 CZK bn in year 2023 and in fact fulfilled the budget anticipations¹⁰¹. Budget lowered year-on-year for the second time in a row, it fell by one fifth against year 2022 (71.9 CZK bn). This positive trend was also apparent after adjustment for the effect of funds from the EU budget (including Financial mechanisms)¹⁰². Budget deficit development was very unevenly distributed during the last year¹⁰³, which was caused by extraordinary, however largely planned revenues (dividends, proceeds from the exceptional business taxes, especially in the area of energetics), swift growth of collection of “common” business taxes, as well as inclusion of funds from the national recovery plan (these significantly expanded the total revenues of the CR from the EU last year from June).

Growth of SB revenues markedly accelerated last year compared to year 2022, still it did not completely fulfil the budget anticipations.

Even though the growth of total SB revenues arrived at record 289.7 CZK bn, i.e. 17.8% for the last year (nearly the double the pace against year 2022), it did not completely fulfil the budget anticipations (-2.1%). Strong growth of prices in the economy, which also pushed on higher dynamics of wages in the private sphere and simultaneously subdued the adverse impacts of the ongoing weak household consumption of the collection of indirect taxes, participated on the development of revenues apart from the above-mentioned items. More than one half of the last year's increase of total SB revenues flowed from the higher tax collection, nearly one third from the non-tax and capital revenues and the rest from the mandatory insurance¹⁰⁴. Pace of insurance collection however weakened due to cooling on the labour market¹⁰⁵ during the year (Q1: 10.5%, Q4: +6.4%). In contrast, the growth of the state-wide tax collection did not slow down – it was 15.4% for the whole last year (resp. 12.2% after deduction of extraordinary business taxes (from excessive income or unexpected profits).

Newly introduced extraordinary business taxes the most contributed to the growth of the tax collection.

Mainly the funds from the extraordinary taxes of companies stood behind the last year's growth of the total SB tax income (57.7 CZK bn), regardless of the fact, that their total collection was far from fulfilling the original budget anticipations¹⁰⁶. This is valid for its key item – tax on unexpected profit¹⁰⁷ – whose advanced payments already brought 39.1 CZK bn to the SB. On the contrary, energetic companies paid to state 18.5 CZK bn on the tax on excess income¹⁰⁸ and the planned annual revenues were achieved already last year in September here.

High yield of the corporate tax is linked to the growth of the profit rate of businesses,

Among common taxes, the income tax of legal persons, whose collection strengthened by one third year-on-year (+52 CZK bn) and whose annual planned size was exceeded by more than one quarter (also thanks to the higher collection in the area of financial activities

¹⁰⁰ Unless stated otherwise, all data related to the state budget stem from the data of the Ministry of Finance regarding the treasury fulfilment.

¹⁰¹ Based on Act No. 449/2023 Coll., on the state budget for year 2023 (from 30th November 2022) anticipating deficit of 295 bn CZK for the last year.

¹⁰² It relates to funds on programmes/projects from the EU and FM budget, which were pre-financed from the SB and consequently gradually reimbursed from the EU and FM budget. Without these funds, which are included in the approved budget with neutral impact, the last year's deficit was 299.4 bn CZK (by 17.3 bn less year-on-year).

¹⁰³ From January till May, in total the record deficit was reported in the amount of 271.4 bn CZK. On the contrary the surplus reached 90.6 bn from June till September.

¹⁰⁴ It relates to the social security insurance and active employment policy.

¹⁰⁵ It manifested via the weakening growth pace of employment as well as nominal average wages. In addition, the introduction of relief for employers enabling shorter job contracts to selected group of employees (e.g. parents of smaller children, persons caring for relatives or persons above 55 years of age) or increase of levy rates for hazardous occupations also impacted the collection of insurance.

¹⁰⁶ Annual collections of these temporarily introduced “sector” taxes from businesses from the unexpected profits and levies from the excess income was primarily estimated on 100 bn CZK. For its key component – tax on unexpected profits – the original budget estimate of the annual collection was revised already last year in April (from 85 bn CZK to 28 bn), partial correction of the anticipated yield was made in August (to 46 bn CZK).

¹⁰⁷ It applies to energy, petrochemical and mining companies and also involves large banks. Vast majority of the collection of this tax however (88%) flowed into the SB only from the energy industry.

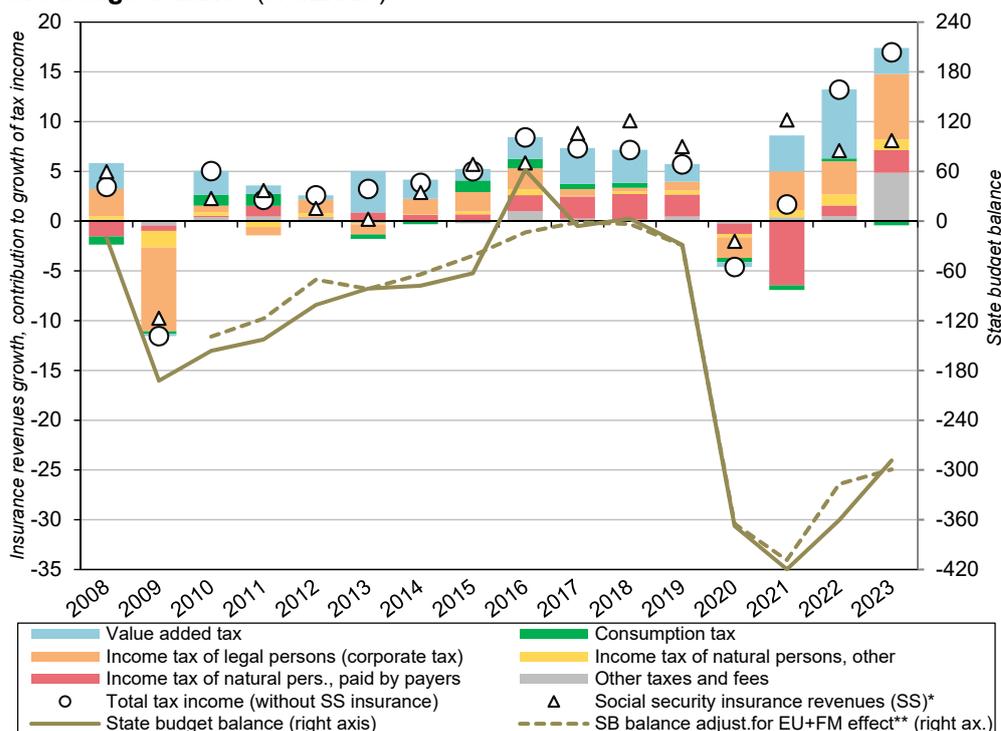
¹⁰⁸ This levy (taxed by 90% rate) presents a difference between real income and ceiling of the market income from the sale of electricity above the given limit (for the time period from 1st December 2022 till the end of year 2023).

mainly in financial activities and energy industry.

Collection of all types of income tax of natural persons significantly exceeded the budget anticipations. Year-on-year growth of the collection however weakened during the year.

and energy industry) supported the growth of the SB revenues the most last year. Yield of the corporate tax is connected to the relatively high and still growing rate of profit of businesses¹⁰⁹. Collection of income tax of natural persons (ITNP) also grew briskly last year – by one fifth (resp. 25.2 CZK bn). Despite slower growth of collection during the year, it was mainly thanks to the key income tax from dependent activity (+17 CZK bn)¹¹⁰. It favourably reflected the higher employment as well as the brisk growth of the nominal average wage in the business sphere. On the contrary, the tax changes had an adverse effect to a lesser extent (especially the higher tax deduction on second and third child). Collection of the weight less significant tax ITNP paid by payers (aimed mainly at small entrepreneurs) grew slower year-on-year (+7.5%), nevertheless exceeded the planned collection by more than one third. It was assisted by the ongoing recovery of a number of services afflicted in the pandemic era as well as the rising number of entrepreneurs. Some tax changes (increase of the tax discount per taxpayer, increase of the income limit for the possibility of access to the flat rate scheme) had the opposite effect. Collection of ITNP collected by deduction still thrived. Even though its year-on-year growth gradually weakened during the year, collection widened by more than one third for the whole last year (+7.5 CZK bn). It was driven by the persisting higher interest rates on deposits and to a lesser extent also by the higher number of persons with job agreement contracts.

Chart 18 Contribution of constituent revenues to the growth of the state wide tax collection (in p. p.), year-on-year growth of social security insurance revenues (%) and state budget balance (in CZK bn)



*Include also contributions on state Active employment policy.
 ** Balance adjusted for funds on programmes/projects from the EU budget and Financial mechanisms, which were pre-financed from the SB and subsequently reimbursed from the budget of EU and FM. Yearly data are available starting year 2010.
 NP = natural persons, LP = legal persons. Other taxes from the incomes of NP include taxes paid by the payers (mainly from small businesses) and further taxes collected by deduction.
 Other taxes and fees contain mainly property tax, gambling tax, motorway and other tolls, and levy form excess income and unexpected profit also in year 2023.
 Source: MF CR

¹⁰⁹ Gross operational surplus of the non-financial businesses increased by 16% year-on-year in year 2022 (it also increased similarly in Q1 to Q3 2023), rate of profit of these businesses equalled 47% in year 2022, 48.7% then in Q1 to Q3 2023%.
¹¹⁰ State-wide collection of ITNP from dependent activity (at the level of all public budgets) hovered only slightly above the level of year 2017 last year and lagged by 18% behind the record size from year 2019. Reducing the tax burden on labour since year 2021 played a key role here (abolition of the so called super gross wage).



Positive effect of the high growth of prices in the economy on the VAT collection was subdued by the decrease of household consumption. Anticipated collection thus was not fulfilled.

5.8% more year-on-year flowed into the SB from the VAT collection last year, however the originally budgeted size of collection was not again fulfilled (by 4.4%, resp. 16.7 CZK bn). Growth of the VAT collection weakened under the influence of subsiding high inflation during H1, mild increase of collection in Q4 (+6.5% year-on-year) was linked to the light revival of household consumption¹¹¹. Increasing of tax collection was mildly suppressed by the impact of the shifted sales threshold for VAT registration¹¹² for the whole year.

Collection of the consumption tax decreased and stayed behind the budget anticipation. Collection of tax on tobacco products dropped to the eight-year minimum.

Collection of the consumption tax¹¹³ decreased year-on-year last year (-3.4%) and it lagged behind the budget anticipation for the third time in a row (last time by 5.8%, 9.1 CZK bn). Weak collection from tobacco products, which slumped by one tenth year-on-year, to the lowest level in the last eight years was a factor. It occurs even despite continuing growth of the tax rate, since the change of the buying preference of the CR citizens had a stronger influence of the collection (shift of consumption to alternative, less taxed products locally¹¹⁴, rise of purchases across the board). But the collection increased for the key tax on mineral oils last year (+3%) and fulfilled the budget anticipations for the first time in the last three years. Return of the tax rate on diesel fuel to the level before the onset of the energy crisis had a positive effect¹¹⁵. Consumption of majority types of petroleum products grew in the CR last year, for the key item – diesel fuel – however only slightly due to the weaker demand for freight transport¹¹⁶. Collection of tax on specific commodities (alcohol, beer, sparkling wine as well as intermediate products) decreased as a result of limiting non-essential expenditures of domestic households. Economical behaviours of both households and businesses led to the general decrease of the collection of all energetic taxes (the most on solid fuels).

Collection of tax from mineral oils went up due to the increase of tax rate on diesel fuel.

Non-tax and capital revenues swiftly grew thanks to funds from the EU as well as transfers from businesses with state participation.

Non-tax and capital revenues expanded by nearly one half for the last year, still they stayed behind the planned size by one tenth for the reason of weaker yield from the emission allowances. Dividends and other transfers of funds from the state businesses (+30.6 CZK bn) and also the revenues from the EU budget substantially enhanced by the received payments from the National recovery plan (primarily into the area of transport and environment) shared the most on the year-on-year growth. Net position of the CR towards the EU budget was +49.9 CZK bn last year and slightly decreased year-on-year (-7%)¹¹⁷, partially also due to the effect of long-term mildly growing payments of the CR into the EU budget. After calculating the revenues within the National recovery plan however the positive balance of the CR virtually doubled (89.5 CZK bn) and strengthened by 25.2 bn against year 2022.

Growth of total SB outlays markedly accelerated against the preceding years, the year-on-year pace however slowed in H2 2023.

Year-on-year growth of the total SB outlays hiked up to 11.0% and markedly accelerated against years 2021 and 2022. Due to the slower pension adjustment as well as lower need to aid both businesses and households (enabled by the favourable development of prices of energies on the world markets), the rate of growth of total SB outlays weakened in H2 2023 and their annual amount was thus slightly lower compared to the planned budget (by 2.2%, i.e. 48.5 CZK bn). Strong last year's growth of outlays reflected both the assistance of state related to the high prices of energies (inadequately compensated by the extraordinary revenues from the selected sectors of the economy) and the impacts of the gradually subsiding

¹¹¹ Real expenditures on the final consumption of domestic households slightly increased at the end of the last year against Q3 and the decrease of expenditures in the year-on-year comparison (lasting continuously nearly two years) practically halted.

¹¹² It relates to the increase from 1 to 2 mil CZK, which became effective as of January 2023. Together with the widening of the flat rate scheme it reflected in the year-on-year reduction of the number of VAT payers.

¹¹³ It also includes the energy taxes and the digital services tax.

¹¹⁴ Collection of the consumption tax on heated tobacco products increased by 8.3% year-on-year for the three quarters last year.

¹¹⁵ This increase occurred from August last year (by 1.5 CZK per litre). Consumption tax rate on diesel fuel thus returned to the original size (9.95 CZK/l) valid until May 2022. From 1st June 2022 till 30th September 2022 the consumption tax on unleaded petrol was also lowered.

¹¹⁶ According to the CZSO figures, the consumption of diesel fuel increased by 1.3%, petrol by 6.0% and jet kerosene by 25% from January till November 2023. Decreased occurred for other petroleum products (including e.g. refinery gas, air, technical petrol, paraffin and waxes, petroleum coke).

¹¹⁷ Vast majority of last year's revenues related to the previous programme period (2014+). The most weight significant revenues from the structural funds attained 51.0 bn CZK (they fell year-on-year for the third time in a row, last time by 18.6%). Resources on rural development decreased by more than one tenth (to 7.2 bn), on the contrary direct wages in agriculture remained traditionally stable (20.5 bn). The CR acquired 30 bn CZK from the cohesion fund last year, by nearly one half more year-on-year.

high inflation (pension adjustment, higher volume of paid out social benefits, growing repayments of the state debt) or higher expenditures in the direct consequence of the war in Ukraine (humanitarian aid, expenditures on defence and security). Even though mainly current expenditures (+192.4 CZK bn) traditionally contributed to the fiscal expansion last year, higher investment (+25.4 bn) also played an important role similarly to the preceding years.

Despite amendment of adjustment, expenditures on pensions contributed the most to the fiscal expansion last year. Pension insurance balance deepened to record 73 CZK bn.

Social benefits essentially spoke into the last year's year-on-year growth of the current expenditures (+100 CZK bn). Their proportion on all SB outlays was the highest in the last five years (39.4%). Nearly all growth of social benefits was covered by expenditures on pensions, which reached 685.2 CZK bn (+16.5%). Their drawing was, similarly to year 2022, fundamentally affected both due January adjustment and extraordinary increase during the year¹¹⁸. As a result of considerably higher interest in early pensions¹¹⁹, the more than three years lasting decrease of the number of persons, who are recipients of some of the pensions halted. Even though still good condition of the domestic labour market supported brisk growth of pension insurance revenues, its year-on-year pace was not even one half compared to expenditures on pensions last year. Balance of the pension insurance system¹²⁰ thus dived into a record deficit last year (72.8 CZK bn), more than triple year-on-year.

Growth of outlays on non-pension social benefits slowed down. Expenditures on child allowances, humanitarian benefit for the refugees, parental allowance as well as sickness benefits decreased.

Growth of expenditures on other social benefits, unlike the pension benefits, vigorously slowed down last year (+1.7%, to 182.9 CZK bn) after the fast pace in year 2022 (+11.2%), even above the scope of the budget anticipation. Decrease of the child allowance (-4.8 CZK bn, i.e. -45%) caused by the pay out of single benefit to majority of households with children during the summer 2022 (5 thousand per child) significantly participated on the year-on-year slowdown of the rate of growth. The volume of humanitarian benefits for refugees from Ukraine (-20%, -1.7 CZK bn) reduced mainly due to the stronger targeting¹²¹. Lower drawing on weight significant parental allowances (-5.7%, -1.9 CZK bn last year) occurred for the third year in a row. Decrease of expenditures on sickness benefits (-4.6%) last similar time, still their last year amount (45.9 CZK bn¹²²) was distinctly above the level of year 2019 (+17%). Housing allowance, whose volume more than doubled year-on-year (to 17.9 CZK bn), worked the most in the direction of growth of non-pension benefits last year. The impact of high prices of energies and increase of costs admitted for payout, but also growth of the awareness regarding the possibility to draw on this assistance in the population, or simplification of the procedure of claiming this benefit manifested here. One order lower effect on the total growth of benefits had the higher volume of benefits for persons with disabilities (+40.9%)¹²³, long-term care benefits (+2.2%) or growth of expenditures of the unemployment benefits (+6.2%)¹²⁴, which renewed last year after two preceding years. Cooling of the labour market was reflected in mild growth of the number of long-term unemployed, which also supported the higher drawing of allowances for living (+16%, +0.6 CZK bn).

Drawing of housing allowance dramatically increased.

Sharp growth of the non-investment subsidies to entrepreneurs was

Non-investment subsidies to entrepreneurs presented as expected the fastest growing current outlays of the SB last year when they expanded by 54.6% year-on-year and achieved 137.8

¹¹⁸ The average retirement pension increased by 4.7% during due adjustment last year in January, by 3.9% in June during the extraordinary increase (under already amended legislative conditions moderating the rate of growth of adjustment). The level of pensions (especially of females) was also elevated by the newly introduced regular allowance per every raised child, child-rearing allowance (500 CZK). The average monthly old age pension (without overlap with other pensions) was 21 454 CZK for males, 19 063 CZK for females last year in December. Resulting from the introduction of "child-raising" the difference in the level of pensions markedly narrowed between males and females.

¹¹⁹ Growth of the number of all recipients of permanently reduced old age pensions (SOP) accelerated last year (to 7.7% year-on-year in Q4, the most since year 2012) and their share on all old age pension recipients crossed the 30% threshold. Number of SOP do not include persons, which lodged the request for early retirement, but postponed the commencement of its payout.

¹²⁰ It expresses the difference between the income from insurance on pensions and outlays on the pension insurance benefits (including the costs of its administration).

¹²¹ Admissible cost of housing is considered during the calculation of the benefit amount (determined by the government regulation) since July 2023, whose size is dependent on the number of persons and the form of housing.

¹²² Expenditures on these benefits exceeded the revenues from the insurance also last year (despite their fast growth), this deficit nevertheless decreased from 8.0 bn CZK in year 2022 to last year's 2.7 bn.

¹²³ Higher growth is connected to the raising of limit of benefits on special aid and on mobility. Number of recipients of these benefits was higher only by 2% year-on-year.

¹²⁴ 86 thousand of registered job applicants (30.9% of their total number) were entitled to the unemployment benefit in December last year.



<p>closely connected to the energy price ceilings for customers.</p>	<p>CZK bn¹²⁵. Because they contain the extraordinary outlays on the assistance with high prices of energies – mainly compensations for the supplies of electricity and gas to customers and losses due to the ceilings on their prices (52.8 CZK bn), further subsidies to the operators of the transmission system (18.7 bn) or assistance to firms in energy-intensive branches (4.6 bn). More than 40% of these expenditures were released already in Q1 last year. Year-on-year growth of the transfers to entrepreneurs was subdued by the decrease of the advance subsidies on renewable sources of energy (also containing the impacts of the temporary waiving of the fees), smaller saving was also attained for expenditures on solutions of impacts connected to the pandemics.</p>
<p>Expenditures on wages of employees in the regional education grew.</p>	<p>Weight significant non-investment transfers to regional budgets increased by 9.6% year-on-year to 266.2 CZK bn. More than one half of the last year's increase related to the raised wages of workers in primary and secondary schools¹²⁶. Strengthening of outlays on social services, compensation allowance on the housing of refugees from Ukraine or co-financing of programmes in the area of education, supported from the EU budget, also had an effect. Among other areas, SB was also notably burdened by anticipated expenditures on servicing the state debt, whose year-on-year growth substantially accelerated to record 37.4% last year (+18.6 CZK bn)¹²⁷. 7.4%¹²⁸ more (+11.4 CZK bn) was directed to the wages in the central government institutions last year. It was connected to the increase of wage tariffs of the public security forces and armed forces (since January 2023) and employees in the civil service (since September 2022). After the freeze during the pandemics, outlays on the wages of constitutional authorities also increased last year. Payments of the public health insurance for the so-called state insured person, which grew by 7.2% (+9.3 CZK bn) primarily due to the increase of the assessment base for payment represented the last chapter sharing more notably on the growth of current expenditures.</p>
<p>Expenditures on servicing the state debt accelerated to record pace.</p>	<p>Growth of SB current expenditures was mainly subdued by lower subsidies to the State agricultural intervention fund, which slumped by nearly 30% (–12.9 CZK bn) year-on-year. Non-investment purchases, where was directed by one tenth less (–9.6 CZK bn) against year 2022, also recorded savings. Mainly lower price of natural gas acquired into the state material reserves, decrease of purchases of vaccination as well as lower compensation to the Czech Post stood behind it. Increase of expenditures on the contrary arose for purchases associated with the area of defence and internal security last year.</p>
<p>Size of current subsidies to agriculture or non-investment purchases went down.</p>	<p>Rate of growth of the SB capital outlays accelerated to 13.6% last year, by 25.4 CZK bn more was invested year-on-year. Still the size of investment remained slightly behind the budget anticipations (–2.6%). Not only resources on common programmes of the CR from the EU, but also investment solely from the national resources (these formed more than one half of all capital expenditures last year) participated on the growth of investment unlike in year 2022. Subsidies to regional budgets (+8.4 CZK bn) shared the most on the increase of total investment from the SB, all categories of investment however recorded higher increase. Subsidies into the transport infrastructure were the exception (–8.7 CZK bn)¹²⁹, still they formed one third of all SB investment (68.1 bn). Opposed to year 2022, investment purchases also participated on the growth of capital outlays last year (+6.9 CZK bn), it concerned especially military equipment and transport equipment. Total investment</p>
<p>Expenditures on environment, defence and security contributed to the fast growth of investment.</p>	<p>Proportion of investment on total SB expenditures was the highest in the last eight years.</p>

¹²⁵ Thus, they exceeded the so far record transfers from year 2021, which mainly consisted of support programmes for entrepreneurs in the peak period of the covid-19 pandemics, by one tenth.

¹²⁶ The volume of resource on the wages of qualified teachers increased by 4% since January 2023, the increase for non-teaching workers occurred already since September 2022 (+8%).

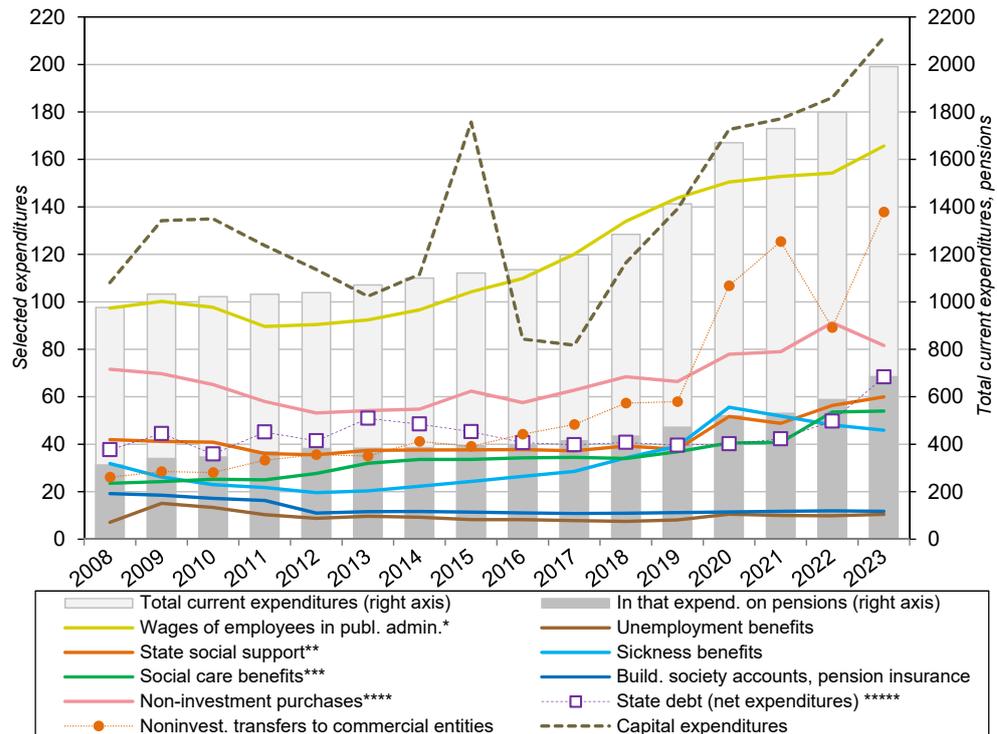
¹²⁷ Net expenditures correspond to the balance of the budget chapter State debt (no. 396). Payments of counter-inflationary state bonds to citizens had a major effect on the growth of expenditures here, rising interest rates of other instruments of debt financing and overall trend of growth of indebtedness from the preceding years had a partial role then.

¹²⁸ It represented the highest growth in the last five-year period. Still the last year's increase mildly stayed behind the volume of paid out wages and salaries in the whole economy.

¹²⁹ Approved budget of the State fund for transport infrastructure counted thanks to the reinforcement of the principle of multi-source financing (including new instruments of debt financing) with record revenues in the amount of 150.9 bn CZK in year 2023.

participated 9.6% on all SB expenditures last year, the most in the last eight years. From the long-time view however (last two decades) it still concerns rather an average value.

Chart 19 Selected expenditures of the state budget



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

State debt ascended to record size, the indebtedness growth rate was however the lowest in the last four years.

State debt ascended to record 3 111 CZK bn at the end of year 2023. It increased by 216 CZK bn year-on-year, i.e., approximately one half less than during years 2020, 2021 and 2022. Indebtedness pace moderations is linked to the decrease of the above adopted short-term foreign loans and at the same time to the increase of repaid loans. Consequently, the external debt shrank by 47.4% during the last year (to 152 CZK bn). The internal debt however increased by 13.5%, mainly because of continuing high issue of medium and long-term state bonds, higher volume of state treasury bills also had a partial effect.

Budget deficit of the government sector stayed the same for Q1 till Q3 year-on-year.

Sector of government institutions (VI) in the CR managed a deficit of 117 CZK bn¹³⁰ in the CR in Q1 to Q3 2023¹³¹, nearly identical as in the same period of the previous year. Given the stagnation of the deep deficit of central government institutions (which financed key extraordinary expenditures connected to the solution of the impact of higher inflation or integration of refugees from Ukraine) mild increase of the surplus of local government institutions arose (to record 93 bn), on the contrary the positive balance of budget of health insurance companies slightly worsened (from 15 bn to 4 bn). Revenues of the whole sector VI increased by 10.8% year-on-year last year for the three quarters, mainly due to the current taxes on income (+72 CZK bn), received social contributions (+61 bn) or growing importance of received dividends. In contrast, the influence of VAT and consumer taxes weakened. Total expenditures VI analogically increased by 10.2%, which was the result of mostly social

¹³⁰ Unless stated otherwise, data regarding the budget balance of sector VI in the CR are expressed without seasonal adjustment.
¹³¹ Data regarding the budget of government institutions for Q4 as well as the whole year 2023 will be published by the CZSO on 2nd April 2024, Eurostat then on 22nd April. More detailed assessment of the development for Q3 2023 is contained in the publication Analysis of the sector accounts: [Analýza sektorových účtů](#).



Year-on-year growth of the absolute size of debt again exceeded the budget deficit. Thanks to brisk nominal growth of GDP, the indebtedness rate dropped year-on-year.

benefits and natural social transfers (+96 CZK bn), paid out subsidies (+40 bn) and compensations to employees (+40 bn), whose pro-growth role however strengthened against year 2022. Seasonally adjusted budget deficit VI attained the size of 3.1% of GDP in Q3 2023 and nearly did not change since the beginning of the year. Nominal debt VI reached 3 214 CZK bn at the end of Q3 2023 and increased by 231 bn year-on-year. The growth of debt significantly exceeded the attained budget deficit VI similarly to the period of years 2020–2022. The rate of indebtedness of sector VI reached 44.5% of GDP in Q3 (45.2% one year earlier). Year-on-year decrease of indebtedness¹³² occurred for the first time in the last one and a half years.

After increase of public finance imbalance in H2 2022, the budget deficits gradually stabilized in the majority of EU states.

The shape of public finances stabilized in the EU last year following the sharp deterioration during year 2022. After subsiding of the last year price acceleration for energies, the need for extraordinary public expenditures partially mitigated. On the other side the continuing very weak economic growth of the majority of European economies adversely left its mark also on the revenues of sector VI (these in relation to GDP remained below the level from year 2022 last year). The budget deficit (after seasonal adjustment) VI was 2.8% of GDP in the EU in Q3 2023, which was by 0.2 p.p. less than in the previous quarter and by whole 1 p.p. better result in comparison to the same period of the preceding year. Hungary (−7.3% of GDP), Italy (−7.1%), Romania (−5.7%) and Slovakia (−5.5%) was hit by the relatively highest deficit in Q1 to Q3 2023. On the contrary, only Denmark, Ireland, Portugal and Cyprus achieved more significant surplus (above 1% of GDP). The deficit deepened in the majority of states year-on-year (since the situation was still stabilised in the area of public deficits in H1 2022). It dropped the most in Slovakia (from −1.7% to −5.5% of GDP), with mild distance then in Poland, Sweden, Hungary, Estonia and Finland. The deficit remained near 3% of GDP in the EU in both years, similarly to the CR.

The deficit of the sector of government institutions deepened in the number of states of Central and North Europe.

Decrease of the rate of indebtedness continues in the EU countries last year, even though at a slower pace.

The rate of indebtedness of the sector VI was 82.6% of GDP in the EU, in that 89.9% of GDP in the euro area at the end of Q3. Quarter-on-quarter decrease of indebtedness thus lasted 2.5 years, even though it took place at a slower pace last year. Compared to Q3 2022, the current indebtedness was lower in two thirds of the Union states (by precise 2 p.p. in the whole EU), the most in some highly indebted states – in Greece, Portugal, Cyprus (by more than 10 p.p.), but also e.g., in Ireland (−4.9 p.p.) and Sweden (−4.0 p.p.). In contrast, the indebtedness heightened especially in Belgium (from 105.6% to 108.0% of GDP). The indebtedness rate in the CR was still “only” one half against the euro area and the ninth lowest among the EU states (in that the fifth between its newest members – after Estonia, Bulgaria, Lithuania and Latvia). It however increased by 14.5 p.p. against the end of year 2019 (together with France the most in the EU), nearly three times more than in Germany or the average for the Union. On the contrary, eight countries managed to decrease the indebtedness for this period – by more than 13 p.p. Greece, Cyprus and Ireland, milder also Sweden, Denmark and the Netherlands. Poland, where the indebtedness increased from 45.7% to 48.7% of GDP fared relatively the best among the Central European states.

The CR indebtedness rate was the ninth lowest in the Union, but its total increase was the highest among the states since the end of year 2019.

¹³² Swiftly growing nominal GDP contributed to the year-on-year decrease of indebtedness −3.9 p.p. in Q3, on the contrary the effect of the nominal change of the debt arrived at + 3.2 p.p.