

2. Overall Economic Performance

Gross Domestic Product increased by 2.3% in 2016. The growth slowed down compared to the year 2015, mostly due to the year-on-year fall of the investment activity.

Quarter-on-quarter growth of the GDP was strongest in Q2. Economic growth was supported by exceptionally favourable results in both industry and foreign trade.

Year-on-year pace of the Czech economic growth aligned with the EU average in the second half of the year. The year 2016 was successful for most European countries. Strong growth continued in Slovakia, the German economy expanded by a stable rate of growth.

Growth of the final consumption expenditure of households shared significantly in the GDP growth in 2016. Growth of the trade balance surplus also manifested notably. Gross fixed capital formation lagged behind the year 2015.

The Gross Domestic Product (GDP) increased by 2.3% in 2016¹. The Czech economy enlarged by a halved pace in 2016 in comparison to the year 2015, when the significant growth was supported by an extraordinary combination of factors, which did not recur in the year 2016. Moderation of the growth dynamics started already in the final quarter of 2015 and the year-on-year additions recorded further fall (3.0%, 2.6%, 1.8%). The year-on-year growth went up somewhat to 1.9% at the end of the year. The year-on-year growth of the gross value added (GVA) corresponded to the GDP and it was decreasing during the year (2.7%, 2.6%, 1.6% and 1.6% in the individual quarters). In total, the GVA rose by 2.1%. The domestic demand (final consumption expenditure of households), whose significance was strengthening for throughout the whole year as well as the growing surplus of the foreign trade balance, which held key meaning for the economic growth especially in the first half of 2016, supported the GDP growth. On the contrary, the investment activity, which stood behind the exceptional results of the year 2015, was subdued the whole last year. A number of indicators signalled a favourable development of the economy.

The quarter-on-quarter dynamics of the GDP growth lagged behind the two preceding years. The quarter-on-quarter additions to the GDP arrived at 0.4% and 0.9%. Notable slowdown manifested in Q3 (0.2%). The growth gained pace to 0.4% at the end of the year. The quarter-on-quarter additions to the GVA amounted to 0.4%, 0.7%, 0.2% and 0.3% in individual quarters.

Year-on-year rate of growth of the economic growth in the Czech Republic moved closer from above to the growth in the EU and they were equal in the second half of the year. Growth of the EU economy quarter-on-quarter fluctuates quite stably around 0.5% in the last three years and the Czech Republic (except for Q2) did not overtake it in 2016. The year 2016 was from the view of the economic development favourable for most of the European countries². The GDP fell only in Greece year-on-year; other economies experienced at least a mild year-on-year growth. The largest GDP growth was recorded in Romania (4.8%) in 2016, followed by Spain (3.3%). Neighbours of the Czech Republic and its nearest economic partners also prospered. The German economy expanded by 1.8% year-on-year, the Austrian GDP rose by 1.5%. The year-on-year growth decreased its pace somewhat in Slovakia during the year, still the Slovak economy expanded by 3.3% for the year 2016 and ranked among the fastest growing in the EU. The growth of the Polish economy accelerated in the last quarter and increased by 2.9% for the whole year.

The year-on-year GDP growth was driven by the final consumption expenditure of households through the whole last year. Their contribution to the total GDP³ growth amounted to +1.1 p.p. and their importance grew in the course of the year. It attained +0.9 p.p. and +1.0 p.p. in the first half of the year and it strengthened to +1.3 p.p. and +1.4 p.p. in Q3 and Q4. On the contrary, the contribution of final consumption expenditure of government institutions, which reached +0.4 p.p. and +0.5 p.p., in the first two quarters weakened to +0.2 in the third quarter and it was zero in the final quarter. The export and import balance contributed more strongly and substantially to the GDP growth than in the preceding year (in total +1.2 p.p.). Its addition even exceeded the above-mentioned household consumption in the first half of the year, when it reached +1.2 p.p. and +2.0 p.p. It lowered to +0.5 p.p. in the third quarter, which was from the view of the foreign trade results less successful and increased to +0.9 p.p. at the end of the year. The positive addition of changes in inventories to the growth strengthened especially in the second half of the year (+0.9 p.p. and +1.0 p.p. in Q3 and Q4). The contribution of the already mentioned investment activity represented by gross fixed capital

¹ Data regarding the GDP, gross value added and their components are expressed in constant prices and adjusted for seasonal and calendar effects. Data were published on 3rd March 2017 and more precise values will be published on 31st March 2017.

² Data for Ireland and Luxembourg not available. Data for Slovakia not adjusted for calendar effects.

³ Contributions to GDP change excluding the import for final use.

Households acquired durable assets in a larger extent in 2016.	formation was negative (in total -0.9 p.p.).
Favourable economic situation led to the enlarged volume of paid wages, however the real wage growth subdued towards the end of the year.	Growth of the household consumption was 2.9% in 2016 and was driven mainly by the large increase in the category of durable goods (6.2%). The year-on-year growth of expenditure on consumption of these goods slowed down to 3.4% in the final quarter of the year, but it was replaced by a relatively strong year-on-year rise for semi-durable goods (8.4%). In the last quarter of 2016, the growth of expenditure on non-durable goods also accelerated to 3.1%. Expenditure on services grew more notably compared to the preceding years (total year-on-year growth of 2.5%).
Year-on-year growth of government final consumption expenditure slowed down during the year.	The growth of consumption was supported by the positive expectations of consumers as well as the growth of earnings. The increase of the volume of paid out wages fastened compared to the year 2015 and attained 5.5%. The growth was stronger in the first three quarters of the year (6.0%, 5.4% and 5.7%) and it mildly eased up to 5.0% in the final quarter. The increase of the price level manifested especially at the end of the year and the volume of paid out wages declined in the real terms (5.9%, 5.4%, 4.8% and 3.6% in individual quarters) ⁴ . The continuous increase of the minimal wages, which is apparent mostly by rise of 6.2% in branch trade, transportation, accommodation and restaurants, was partially projected into the growth of the volume of paid out salaries and wages. The volume of paid out wages significantly rose also in manufacturing (6.6%). Compared to the previous year, the dynamics fastened in branch information and communication activities (7.6%) or professional, scientific, technical and administrative activities (6.5%), partially also due to the rise of employment. The volume of paid out wages grew less than in the previous year in real estate activities (3.2%). The volume of paid out wages grew by 2.1% accompanied by a simultaneous fall of employment of 0.8% in construction, which experiences a long-term downturn.
Expenditure on gross fixed capital formation decreased year-on-year. It was caused mainly by the slump of investment into other buildings and structures.	Total year-on-year growth of consumption expenditure of government institutions amounted to 1.5%, which was by 0.5 p.p. less compared to the year 2015. The growth was concentrated especially into the first two quarters, when it reached 2.3% and 2.7%. Such high rate of growth was not sustained in the second half of the year. The year-on-year increase arrived at 1.0% in Q3 and the value of final consumption expenditure of government institutions did not differ from the level of the same period of the previous year in the final quarter.
Investment into transport equipment and projects of intellectual property increased.	Expenditure on gross fixed capital formation, which represents the investment activity in the economy, fell by 3.6% in 2016. This decrease is the result of combination of finalisation of drawing on the European funds in the year 2015 and a slow pace of preparation as well as realization of projects for the subsequent programme period. The investment activity was rising still by 1.8% in Q1 year-on-year, but a decline occurred in the three following quarters, which deepened down to -5.0% in Q4. Year-on-year slump was caused especially by the cut of investment into other buildings and structures by 13.4%. This category includes large infrastructure projects often financed by the help of subsidies (investment rose markedly in this area in the previous year). Investments into the ICT, machinery and equipment and weapon systems, which recorded year-on-year decrease of 5.4%, had a similar development.
Foreign trade balance was positive in 2016 and exceeded the preceding year by 67.4 bn.	Aforementioned investment categories present more than one half of the gross fixed capital formation volume, that is why even the strong growth of investment into transport equipment, which followed in the year 2015 and attained 7.2%, did not offset their decrease. Investment into the projects of intellectual property markedly increased (8.1% in 2016, 4.0% in 2015). Investment into dwellings weakened compared to the previous year (2.5% in 2016, 8.4% in 2015).
Foreign trade balance was positive in 2016 and exceeded the preceding year by 67.4 bn.	Surplus of the foreign trade with goods and surplus balance (in current prices) arrived at 347.2 CZK bn in 2016, resulting in excess over the year 2015 of 67.4 bn. Positive balance of the trade with goods reached 248 CZK bn (year-on-year

⁴ Converted into the real expression using the deflator of final consumption expenditure of households.



increase by 43 bn) and 99.3 CZK bn for services (increase of 24.3 bn). The terms of trade had a value of 100.9 for the year 2016. They were positive in the first three quarters of the year, however they fell into negative values (99.8) in the last quarter for the first time since Q2 2015.

Profits from terms of trade were decreasing during the year.

Real gross domestic income (RGDI), which in contrast to the GDP reflects the additional profits or losses from the development of prices in the foreign trade, respectively the profits or losses from the terms of trade, rose by 3.1% in 2016 (before adjustment for seasonal and calendar effects). The RGDI exceeded the GDP growth during the first three quarters, however its dynamics weakened and it lagged by 0.6 p.p. behind the GDP growth in Q4. Profit from the terms of trade was shrinking during the year and a mild loss occurred in the last quarter.

Manufacturing contributed to the overall GVA growth by more than half and it is thus the most significant source of growth.

Manufacturing shared the most on the GDP growth in the year 2016. Even though its gross value added did not increase as much as in the two previous years (4.8%, it was 8.2% in 2015), its additions to the total GVA growth was +1.3 p.p., that is more than one half (similarly to 2015). Manufacturing contributed to the GVA evenly in all quarters of the year. Real estate activities was another branch that grew more markedly (increase by 3.2%), growing slower compared to 2015, nevertheless its additions to the GVA arrived at +0.3 p.p. and it was also stable throughout the year.

The contribution of branch trade, transportation, accommodation and food service reduced year-on-year. The GVA fell notably in construction.

The growth slowed down in branch trade, transportation, accommodation and food service during the year 2016, its contribution to the GVA was +0.7 p.p. in 2015. The mentioned branch still added +0.5 p.p. in Q1 2016, but the additions subsequently shrank to -0.1 p.p. at the end of the year. The total contribution was +0.2 p.p. in 2016. Another branches, which did not sustain the growth from the previous year are information and communication and professional, scientific, technical and administrative activities. Both branches contributed to the GVA increase similarly only by 0.1 p.p. in 2016. The year 2016 was not successful for construction, whose GVA fell by 5.8%. The negative impact on the total growth of the GVA on the part of this branch deepened during the year and it arrived in total at -0.3 p.p.

Chart 1 GDP (constant prices adjusted for seasonal and calendar effects, in %)

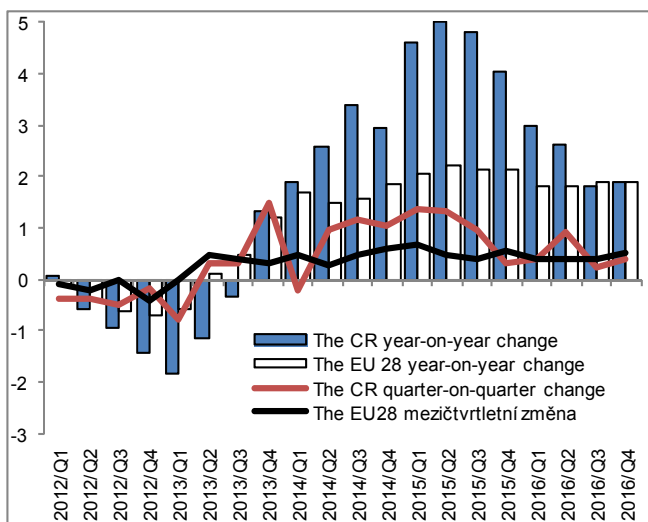


Chart 2 GDP (constant prices, adjusted for seasonal and calendar effects, y/y in %, right axis and confidence indicators (2005=100, left axis)

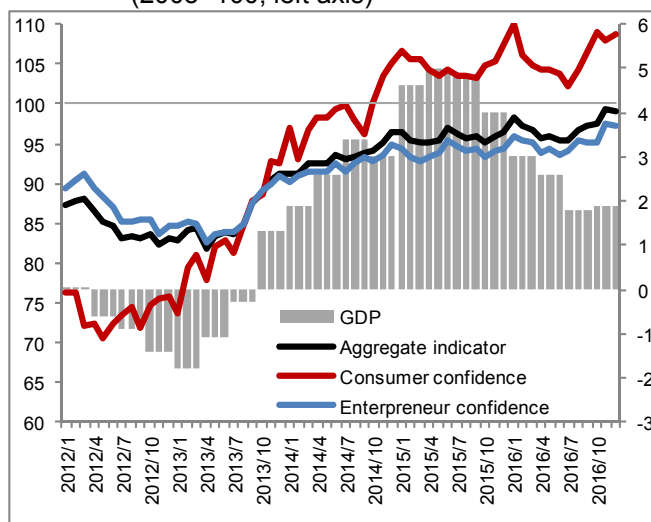


Chart 3 Contributions of expenditure items to GDP change * (constant prices, y/y,

Chart 4 Contributions of branches to change in GVA (constant prices, y/y, additions in

