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The Czech Economy Development - 1st Half-year of 2017

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Latest information provided in this report has been dated the 13th September 2017.

1. Summary

- Gross domestic product (GDP) grew by 4.7% year-on-year in Q2 2017¹. Strong growth of the household consumption as well as the foreign trade balance supported quickening of the pace compared both to the previous quarter and the whole year 2016. The growth of the gross fixed capital expenditure also contributed. Quarter-on-quarter growth of the GDP attained 2.5%. Household consumption was supported by markedly expanding volume of paid out wages and it increased by 4.4% year-on-year. Growth of investment expenditure was concentrated into the sector of non-financial businesses. Year-on-year revival of expenditure on infrastructure projects also assisted the total growth of investment expenditure, however the investment activity of the government sector remained weak.
- Year-on-year growth of the gross value added (GVA) reached 4.7% in Q2 and increased by 1.7 p. p. compared to the preceding quarter. The strengthening of the services sector assisted this acceleration, with total contribution to the GVA growth of 2.2 p. p. The role of manufacturing also kept staying strong. The manufacturing of motor vehicles incl. the subcontractor fields prospered. Output of machinery also increased, the renewal of production capacities of the chemical industry also had a positive effect. Expanding disposable incomes of households was reflected in the strong growth of retail sales for non-food goods (+9.4%) in Q2, which was the fourth largest among the EU states.
- Current account of the balance of payments was in surplus also in H1 2017, especially thanks to the marked surplus of the balance with goods and services. The significant outflow of incomes from investment worked in the direction of deficit, reaching 143.7 bn in H1. The value of export in the national conception increased by 111.0 CZK bn year-on-year and reached 1 796.9 CZK bn. Traditionally, motor vehicles participated to the major extent on the export, the export of machinery and equipment however also fared well. The value of import, which expanded by 118.1 CZK bn year-on-year, was also affected by raised price of oil and natural gas year-on-year. This was mirrored in the results of trade with countries outside the EU, mostly Russia.
- Despite not experiencing further acceleration, the price growth continued in Q2. Consumer prices were thus raised by 2.2% year-on-year. Acceleration of the prices of food was the main contributor on the contrary the prices of oil and transportation did not feature such fast growth as in the previous quarter. Prices of housing and energies went also mildly up year-on-year. Year-on-year producer prices also slowed down in Q2. Prices of agricultural prices represented the exception, growing by 11.3% year-on-year in Q2. It constituted the first year-on-year growth since the end of year 2015. Especially the animal production was behind this growth, nevertheless the prices of plant production, having been falling since Q2 2016, also increased.
- A significant change occurred in the area of the monetary policy in Q2, specifically the ending of the exchange rate commitment. As expected, the gradual strengthening of the koruna exchange rate followed. It did now however break through the limit of 26 crowns per euro. Monetary-policy rates have remained at constant level so far. The fall of the interbank rates however halted and partially also that of the government bonds' yields. Low interest rates continued to motivate the households as well as firms to the credit financing.
- The situation kept further improving on the labour market. The pace of growth of the total employment² did not ease up, the number of workers increased by 1.4% year-on-year. The tertiary sector was contributing still more to the higher employment, where especially the professional, scientific, technical and administrative activities fared well. The self-employed also contributed to the growth of the total number of workers similarly to year 2016. The creation of new jobs markedly accelerated during H1, the job offices registered 183.5 thousand vacancies at the end of June. 1.6 job applicants were assigned to one vacancy – the least since the half of nineties. The general unemployment rate lowered to record 2.9% based on the seasonally adjusted data in June. Favourable financial situation of firms as well as the rising difficulties to find new workers pushed further the raising of wages. Those accelerated to 7.6% in Q2, their nominal year-on-year growth neared the dynamics of the peak phase in the last decade. The slight fall of the wage differentiation continued. The purchasing power of wages grew despite the strengthening inflation. Real wages rose to 5.3% in Q2, the most since the beginning of year 2007.

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

² Seasonally adjusted data in the national accounts conception.



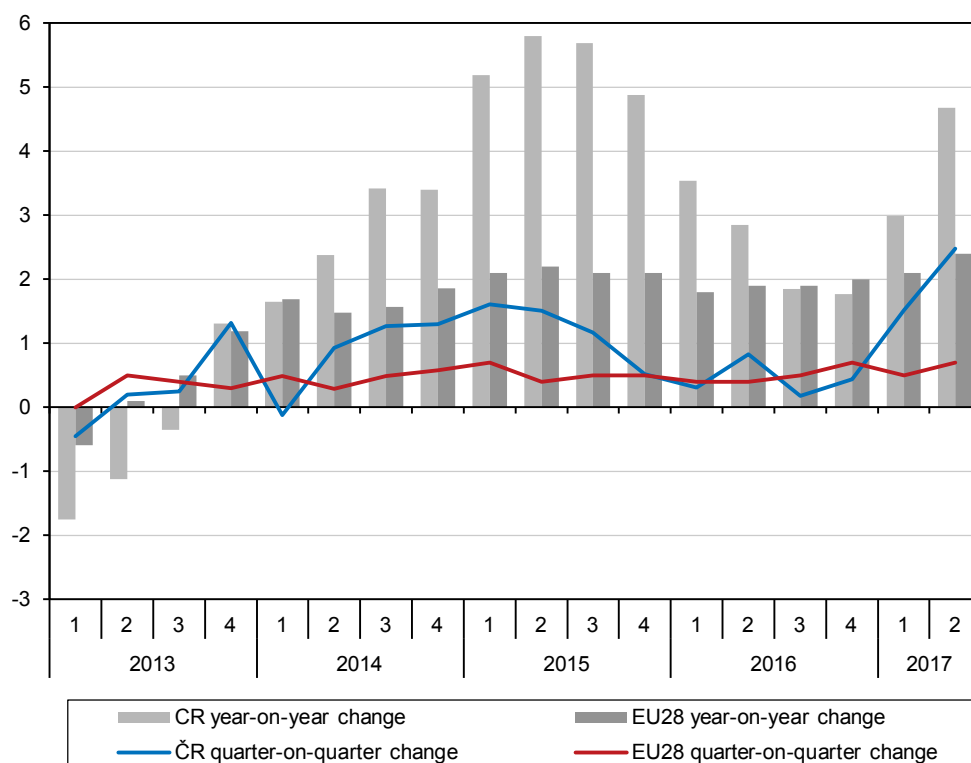
- The state budget (SB) ended (based on the data of the MF on the cash fulfilment) in mild surplus in the amount of 4.6 CZK bn in H1. Income as well expenditure of the SB were notably affected by the irregularities in the drawing on the funds from the EU budget similarly as in the whole previous year. Income from the EU budget dropped by nearly 60%. The slow run up of the drawing on European funds was reflected in the low volume of all capital expenditure, whose proportion on the total SB expenditure amounted only to 3.2%. The total tax revenues (incl. insurance) of the SB strengthened mostly thanks to the economic growth by 8.2%. The pension account deficit has been shrinking for the sixth year in a row, and it reached 6.8 CZK bn in H1. The total size of the state debt stabilized following a strong increase in Q1 (by 10.9%) in the subsequent quarter of the year.

2. Overall Economic Performance

Both year-on-year and quarter-on-quarter growth notably gained pace in Q2.

Acceleration of the year-on-year dynamics of the growth of the gross domestic product (GDP), which was registered in Q1 2017, continued also in Q2. The GDP increased by 4.7%³ year-on-year in the second quarter of the year. Such pace approaches the extraordinary year 2015, when the factor of finalising the drawing on the European funds had a major effect. The growing consumption as well as the foreign trade balance together contributed to growth already in Q1. The newly growing investment expenditure joined these factors in Q2. The gross value added (GVA) expanded by the same rate of growth as the GDP year-on-year. Most industrial activities as well as services supported its growth. The quarter-on-quarter growth of the GDP amounted to 2.5% and it was thus the highest in the whole available time series of the national accounts. Comparably strong quarter-on-quarter growth was recorded at the beginning of year 2006 (2.2%). With respect to the additions to the quarter-on-quarter growth, the increase of the final consumption expenditure of households and very strong acceleration of the growth of expenditure on gross fixed capital formation were essential in Q2 2017. The contribution of the foreign trade was weaker compared to the preceding quarter.

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



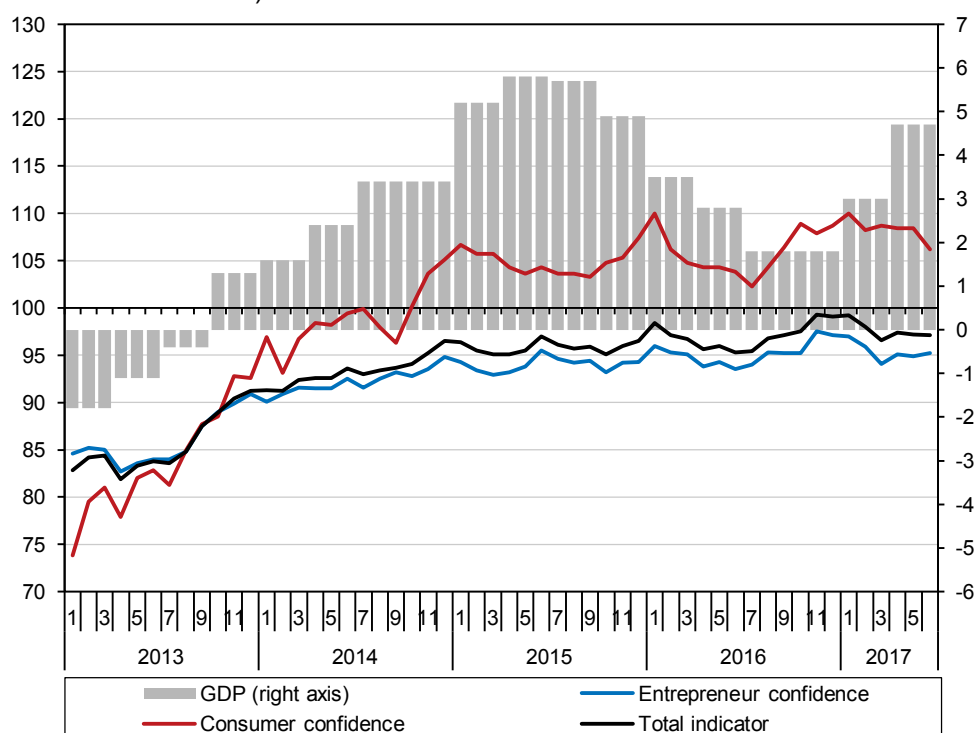
Source: CZSO, Eurostat

³ 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 were published on 1. 9. 2017 and the revised data will be published on 3. 10. 2017.

The economic growth also mildly quickened in the EU.

The year-on-year growth reached the value of 2.4%⁴ in the EU in Q2 and it was the fastest since Q1 2011. The quarter-on-quarter GDP change was 0.7% in the EU and it was by 0.2 p. p. higher compared to the previous quarter. The growth in the EU was favourably impacted by both the growing consumption and the expenditure on gross fixed capital formation. The increase of year-on-year as well as quarter-on-quarter dynamics then moved the Czech Republic among the fastest growing EU countries. The quarter-on-quarter addition to the Czech economy was the highest in the EU. With a relatively large distance, Sweden ranked immediately behind the CR (1.7%), then Romania (1.6%) and Netherlands (1.5%). The year-on-year growth was the highest in Malta (6.2%), Romania (5.7%), Estonia (5.2%) and Slovenia (5.2%). The nearest business partners of the Czech Republic also fared well. Slovakia attained the year-on-year addition amounting to 3.1%⁵, the same as in Q1. The German economy slightly quickened (from 1.9% in Q1 to 2.1%), as well as the Polish economy (from 4.2% to 4.4%). Austria also quickened its pace (from 2.1% to 2.9%).

Chart 2 **GDP** (volume indices, adjusted for seasonal and calendar effects, year-on-year in %, right axis) **and confidence indicators** (2005=100, left axis)



Source: CZSO

GDP growth was supported by all its components.

All the GDP components participated on its year-on-year growth in Q2 2017. Expenditure on gross fixed capital formation played an important role in the acceleration of the year-on-year dynamics. It contributed to the GDP growth 1.7 p. p.⁶, which is the most since Q4 2015. The addition of the final consumption expenditure however also mildly increased, it has been the stable basis of the economic growth since the end of year 2014. Household consumption, which contributed 1.5 p. p. again had a more significant effect. The addition of the government institutions consumption arrived at 0.3 p. p. The strong growth of the foreign demand, which led to the contribution of the foreign trade balance to the GDP in the size of 2.1 p. p., also continued in Q2.

Growth of the household consumption significantly quickened,

Year-on-year growth of the household final consumption expenditure increased its pace in Q2 and reached 4.4%. It is the largest value since the beginning of year 2007. Only the dynamics at the turn of years 2015 and 2016 approaches it in the

⁴ Data for Ireland and Luxembourg not available.

⁵ Slovakian data are not adjusted for calendar effects. Slovakia had similarly to the Czech Republic four working days less compared to the previous years, which can quite significantly influence the size of the year-on-year rate of growth.

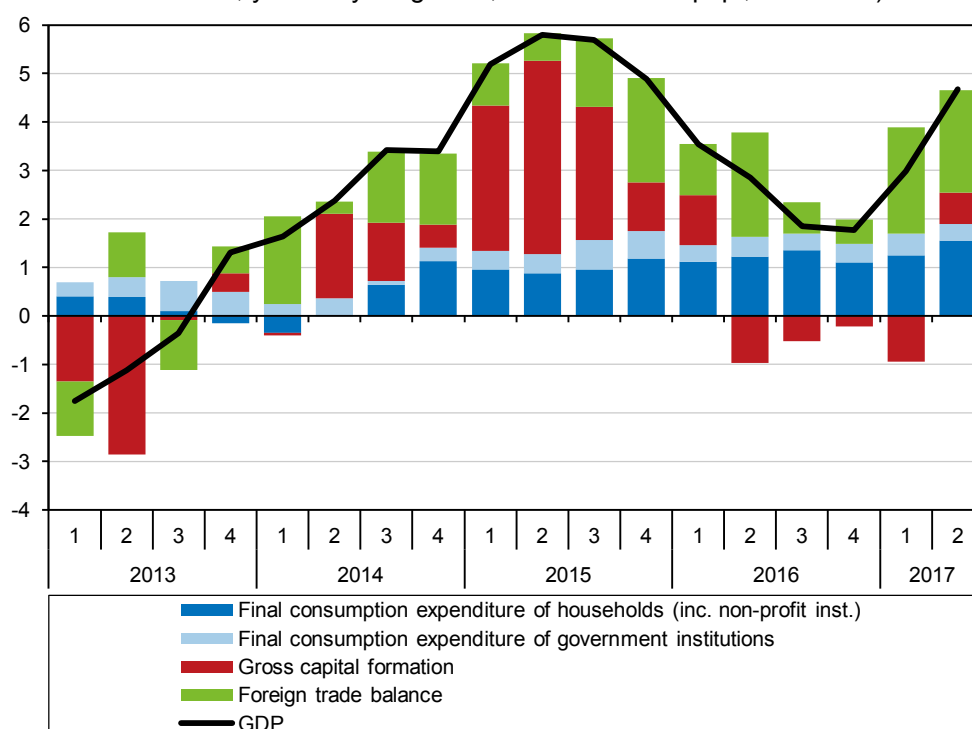
⁶ Additions to the GDP change after exclusion of imports for final.



...

last five years. The acceleration of the quarter-on-quarter dynamics also has not been negligible. Contribution of 1.8% was twice as large as in the preceding quarter. It was also the largest since Q2 2008. All segments of consumption grew strongly year-on-year. Expenditure on durable goods increased by 5.7%, in case of goods of medium term consumption by 6.8%. Short term consumption goods, which usually feature milder dynamics, increased by 3.6%. Growing purchasing power of households was reflected in the growth of the expenditure on services, which increased to 3.1%. Year-on-year growth of the final consumption expenditure of government institutions slowed down by 0.5 p. p. compared to the previous quarter and attained 1.9%. Growth of the government consumption thus remains at the level of the last year. The quarter-on-quarter dynamics did not bring any significant fluctuations either. Consumption of government institutions increased by 0.4% in Q2, slightly more than in the preceding quarter.

Chart 3 **Contributions of expenditure items to real GDP change *** (volume indices, year-on-year growth, contributions in p. p., GDP in %)



*Contributions to GDP change after exclusion of imports for final use.

Source: CZSO

...supported by strong raising of salaries and wages.

Growth of the household consumption expenditure was the consequence of the growing wages. The volume of salaries and wages paid out in Q2 2017 increased by 8.2% year-on-year (by 5.7% in real terms⁷). The rate of growth quickened by 1.4 p. p. compared to the previous quarter. Year-on-year growth of the number of employees reached 1.2%⁸ in the same time period, so the increase of the volume of paid out salaries and wages was reflected in the size of earnings. The volume of paid out wages in manufacturing, which employees the highest number of persons, played a key role. It reached 8.9% and it increased its pace by 2.1 p. p. compared to the previous quarter. The increase was then caused especially by the growth of the base wages, not by the paid-out benefits. However, the paid-out wages increased significantly in all monitored branches in Q2. The growth, already notable in the previous quarters, increased in information and communication (9.8% in Q1, 10.3% in Q2), which partially resulted from the rising number of employees (3.2% in Q2, the most among all branches). The volume of paid-out wages rose markedly in the trade, transportation, accommodation and food service (8.9%), to some extent as a result of the minimum wage increase. The volume of paid-out wages quickened in the real estate activities area (from 7.6% to 9.4%), it was however also accompanied by the

⁷ Converted into the real expression using the deflator of final consumption expenditure of households.

⁸ In the national accounts conception, seasonally adjusted.

increase of the number of employees by 2.9% (given that the total employment in the branch increased by 2.0%, the number of self-employed, which holds a large weight in this branch, did not practically change year-on-year). The volume of paid-out wages (8.4%) as well as employment (4.8%) occurred for the professional, scientific, technical and administrative activities. Similarly, high growth of wages (8.0%) accompanied by nearly constant number of employees was apparent in the branches with the dominance of state.

Investment expenditure increased year-on-year following four quarters of decline. The quarter-on-quarter increase was also very strong.

The year-on-year growth of the expenditure on the gross fixed capital formation attained 7.7% in Q2, and it was the highest since Q4 2015. It presented the first increase after 4 quarters of declines. This result however cannot be definitely assigned to the low comparative basis of the previous year. The quarter-on-quarter dynamics also experienced a notable revival and the investment activity grew by 6.3% during Q2. From the point of view of the type classification of the investment activity, the most significant shift occurred for other buildings and structures, which are the second most important investment category and investments were falling in this area year-on-year in the previous four quarters. They increased by 3.1%⁹ in Q2 (they still fell by 10.3% in Q1). The year-on-year growth of the most significant category with respect to the weight it holds, that is the ICT, other machinery and equipment and defence systems accelerated (from 4.0% in Q1 to 5.4%), and also for the investment into the products of the intellectual property (from 4.3% to 5.2%). The growth for expenditure on housing (5.9%), transportation equipment (7.9%) stayed strong despite slightly slowing down.

Increase of the surplus of the foreign trade balance was driven by the expansion of the trade with services. Terms of trade remained negative.

The surplus of the foreign trade balance (in current prices) reached 92.9 CZK bn¹⁰ in Q2 and it expanded by 1.3 bn year-on-year. The year-on-year growth of the surplus was then driven by the increase of the positive balance of the trade with services, which hit 29.8 CZK bn and increased by 3.9 bn. Trade with goods, whose surplus grew in the preceding five quarters and reached the amount of 63.0 CZK bn in Q2 however decreased by 2.6 bn year-on-year. The terms of trade were negative both in Q1 and Q2. They reached the value of 98.3% this time period. The trade with goods, whose terms of trade were 98.0% in Q2, were mainly behind this result. The growth of prices of imported goods slowed down, but it kept at the level of 2.0%¹¹, while the prices of export were stagnating. The terms of trade with services were positive similarly to the previous quarter and they mildly increased to 100.3%. The loss from the terms of trade, which is indirectly depicted by the real gross domestic income, reached 12.7 CZK bn in Q2 and it slightly decreased compared to the preceding quarter.

GVA growth was supported by favourable development both in manufacturing and services sector.

The year-on-year GVA growth reached 4.7% in Q2 and it accelerated by 1.7 p. p. compared to the previous quarter. The increased pace was assisted mostly by the strengthening of the services sector, which together contributed 2.2 p. p. to the GVA growth. The front position was then held by the trade, transportation, accommodation and restaurants among the services activities, which contributed 0.8 p.p. (after three quarters of negative contributions). The GVA of these divisions increased by 4.1% year-on-year. The strong growth of the GVA also continued in financial and insurance activities (8.3%), which belong to the smallest branch by volume, however contributed 0.3 p. p. to the growth. The contribution of the real estate activities increased in Q2 and reached 0.4 p. Manufacturing however still stays the main pillar of the growth of the value added, with its GVA growing by 7.9% year-on-year, which suggests a contribution in the amount of 2.1 p.p. The revival arrived in construction after four quarters of fall, whose GVA rose by 3.1% (contribution to the total growth at the level of 0.2 p. p. was the highest since Q3 2015). The contribution of agriculture, forestry and fishing reached the same result. The branch remains at this level already 3.5 years. Other industrial activities were the only part of the economy, which neither contributed to the growth of the GVA nor did it dampen it.

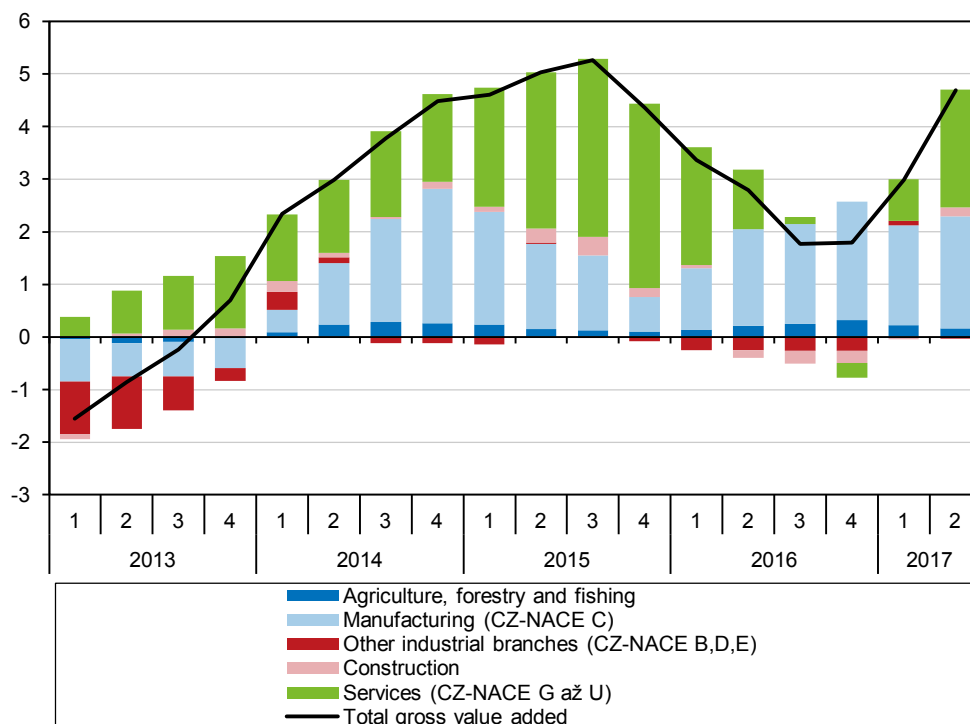
⁹ Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.

¹⁰ Based on the methodology of the quarterly national accounts (export and import in FOB/FOB prices).

¹¹ Based on the deflator.



Chart 4 **Contributions of branches to real change in GVA** (volume indices, year-on-year contributions in p.p., GVA in %)



Source: CZSO

3. Branches Performance

Rate of growth of the GVA markedly accelerated in the first half of the year. All main branches prospered – agriculture, forestry and fishing the most and also manufacturing.

Gross value added (GVA)¹² strengthened by 3.8% in all economic branches year-on-year in H1. The quarter-on-quarter rates of growth illustrated the acceleration of performance. While a growth of 0.5% was registered towards the end of the last year, it was then 1.6% in Q1 2017 and already 2.3% in the following three months (the largest quarter-on-quarter addition in more than twenty years' history of monitoring). The GVA was expanding already the seventeenth quarter in a row – the performance of all branches in total thus strengthened by whole one sixth. All ten main branch groupings held a merit on the year-on-year growth of the GVA in H1. Traditionally, manufacturing contributed by the highest extent (2.0 p. p.). The GVA was increasing the most dynamically this year, similarly to the whole last year, in the branch agriculture, forestry and fishing (by +7.9% year-on-year in H1, even by 31% in total for the last four years).

Favourable economic situation in the main export territories together with growing domestic demand contributed to nearly 7% growth of the industrial production in Q2.

More detail data from the business statistics provided evidence of a very good condition of the industry. Its performance (based on the index of the industrial production)¹³ strengthened by further 1.8% during Q2, following the strong quarter-on-quarter growth at the beginning of the year (+3.4%, the highest since the end of year 2014). It thus grew by nearly doubled pace than in the EU and it also mildly overtook the strengthening industry in Germany (+ 1.7%). Year-on-year performance¹⁴ of industry in the CR thus climbed from 4.9% in Q1 to 6.8% in the subsequent quarter and thus achieved the best rate of growth since half of year 2011, when it was „recuperating“ from the aftermath of deep recession. Good economic situation in the main export territories, but also the strengthening domestic demand stood behind these results.

¹² Data regarding the GVA are expressed in constant prices and adjusted for seasonal and calendar effects.

¹³ Included branches: Mining and quarrying, Manufacturing, Energetics. All year-on-year rates of growth of output (at the level of activity sections as well as divisions) are adjusted for calendar effects.

¹⁴ The calendar influences were mirrored significantly in the output of industry in both this year's quarters. There were three working days more in year-on-year in Q1, on the contrary four days less in Q2. The growth of industry was 7.5% at the beginning of the year 2017 when not adjusted for these effects, only 3.2% in the subsequent quarter. The difference between adjusted and non-adjusted output was the highest in the history of monitoring (since year 2001) in Q2 2017 (3.6 p. p.).

Strong growth of the motor vehicle industry as well as its main subcontractors persisted.

The traditional “driving branches” of the Czech industry still maintained their key role – the manufacture of motor vehicles together with the nearest associated fields. Output of the motor vehicle industry was by one tenth higher in both this year’s quarters. It can be derived from the data about sales as well as orders, that the foreign demand grew faster. The growth of the physical amount of manufactured motor vehicles¹⁵ grew further. The manufacture of electrical appliances (+8.4%), as well as the manufacture of plastic and rubber products (+9.2%) were riding the wave of the development of the motor vehicle industry in H1. The rate of growth of output markedly increased in the manufacture of computers, electronic and optical products (from 7.5% from the beginning of the year to 18.1% in the following quarter). The revival of the domestic demand also assisted this result (the value of domestic orders increased by 22% year-on-year in Q2).

Output of machinery quickened to the highest pace in the last six years. Fully renewed capacities of the chemical industry enabled to exceed the level of output before the accidents.

It was favourable for the whole economy, that the significant industrial branches, which are to a higher extent interconnected also to the domestic demand, revived this year. Output of machinery increased by the highest rate of growth in H1 (7.7%) in the last six years. Essential was also the full renewal of production capacities in the chemical industry, which was reflected both in orders (+25%) and in the increased output (21%), which already exceeded the level before the crashes (Q2 2015). Increase of the temporarily limited production capacities as well as the relatively colder winter were reflected in the higher output of energetics (by 2.6%). The second most significant branch with regards to the weight of the output – manufacture of metal products – grew by 5.4% this year (the output increased by more than 8% in Q2 itself). Among the smaller branches, especially the export oriented pharmaceutical industry, whose output increased by one tenth year-on-year and by more than one quarter in four years, fared well. The paper, furniture and textile industries also continuously grow since the last recession.

Output in the mining industry fell quarter-on-quarter already for the seventh time in a row, the performance decreased in metallurgy and foundry industry after the last year’s mild revival.

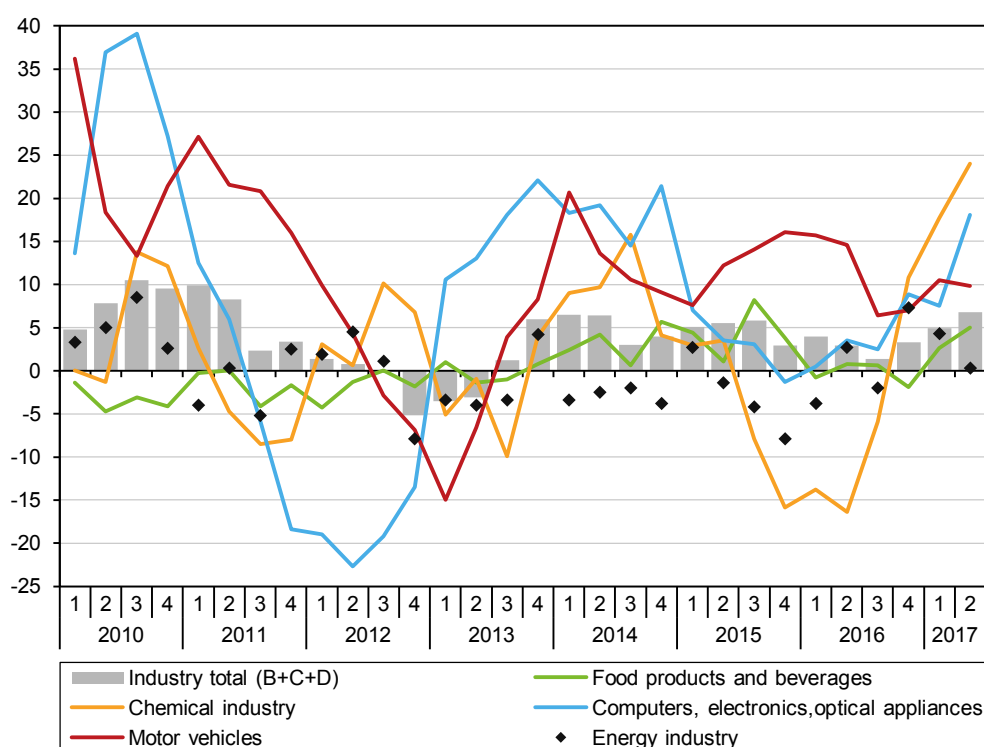
Despite favourable development of industry as a whole, branches which showed negative tendencies still existed. The output was decreasing quarter-on-quarter in the mining industry, impacted by the slump of the mining of the black coal, already for the seventh time in a row. It thus reduced in total by nearly 20% under two years. Partial stabilisation occurred in metallurgy and foundry industry during the last year (also due to the introduction of the anti-dumping duty on the import of some products from steel from China into the EU). The output was however again decreasing quarter-on-quarter in the CR this year (in contrast to the EU), the employment also kept slightly declining. Following a short recovery in years 2015 and 2016, the output again fell in the manufacture of clothes this year (by 4.5% year-on-year). While the domestic demand still kept growing, the volume of foreign orders as well as the sales from the direct exports to clothing business was falling. The repair and installation of machinery and equipment recorded by 7% lower output. At the same time, it represented the only manufacturing activity, whose output was compared to the end of the last recession (H1 2013) lower. The output of manufacturers of other (mostly rail) transportation vehicles also decreased by one tenth this year. It is however traditionally given the character of the orders considerably volatile. The lower volume of domestic orders affected the result.

The drop of the volume of domestic orders mirrored the lower performance of manufacturers of other (mostly rail) transport vehicles.

¹⁵ Based on the data of the Automotive industry association, there were 823 thousand private vehicles manufactured in the CR in the first seven months of year 2017, by 6.2% more year-on-year. Majority of manufacturers of other types of motor vehicles also registered a growth.



Chart 5 Production in industry and selected manufacturing branches
(real, adjusted for calendar effects, in %)



Source: CZSO

The growth of volume of new orders continued in most monitored industrial branches. The renewal of production capacities manifested in the chemical industry.

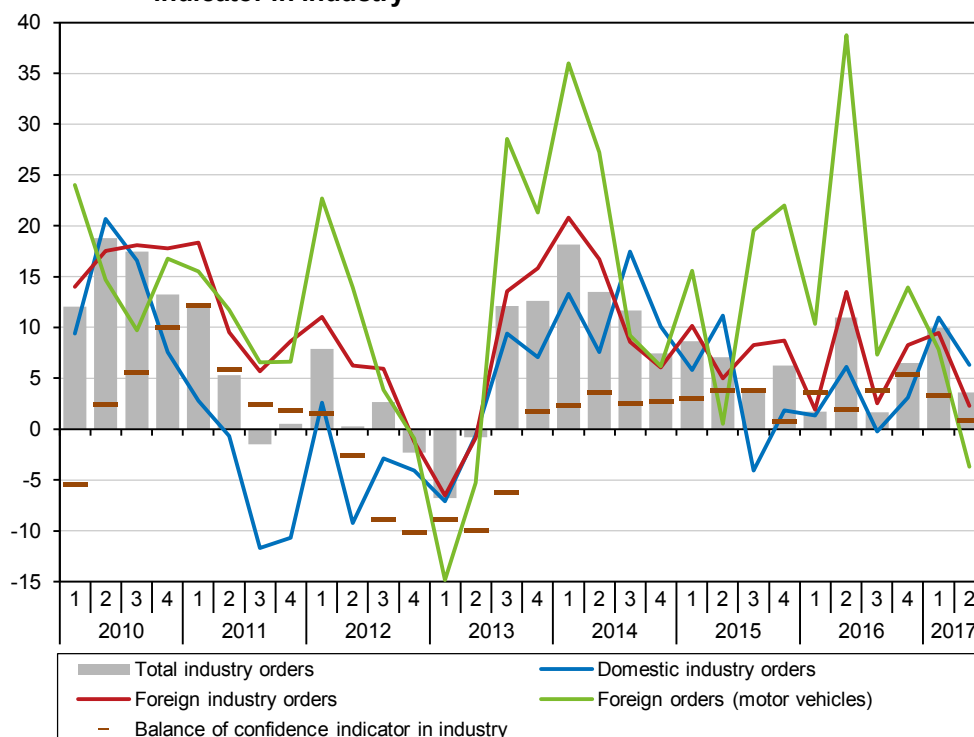
Stock of work in the form of new industrial orders¹⁶ kept growing. Its year-on-year dynamics was for the whole half-year comparable with the pace reached in the first half of year 2016. While the number of orders increased by one tenth at the beginning of this year, it was by 3.6% in the subsequent quarter. The majority of the twelve monitored branches recorded year-on-year growth in both quarters. Manufacture of textiles as well as the manufacturers of transportation vehicles experienced worse results. Mild decrease in the manufacture of motor vehicle in Q2 (by 2%) was connected to the very high last year's basis (growth by 32%). The rate of growth of the domestic orders exceeded similar rates for the foreign demand in both this year's quarters. The full renewal of the production capacities of the chemical industry manifested here, as the industry could again accept the growing demand of the domestic businesses to higher extent.

Business confidence in industry remained despite slight worsening still positive in the last six months.

Business confidence in industry (according to the seasonally adjusted balance of the confidence indicator) still remained slightly positive. However, it mildly dropped during the year 2017 and it reached the lowest value for the past nineteen months in May. The growth of the production activity within the upcoming three months anticipated 24% of industrial businesses during August (40% in energetics itself). The proportion of businesses contemplating the increase of employment within the same time horizon slightly rose year-on-year (from 16% to 20%), specifically mostly in manufacturing. Businesses in the mining industry signalled possible higher stabilization of employment. The share of businesses considering the lack of labour force to be the barrier to their growth climbed to record 41% at the beginning of Q3. It overtook the impact of the inadequate demand for the first time since Q1 2008 and thus it became the most significant limiting factor of further development of industrial businesses.

¹⁶ Industrial orders are monitored only in the selected CZ-NACE divisions (13, 14, 17, 20 to 21, 24 to 30), which manufacture mostly to contracts, with longer term production cycle and larger stocks of orders.

Chart 6 New orders in manufacture of motor vehicles, in industry in total (in current prices, year-on-year in %) and balance of confidence indicator in industry



Source: CZSO

Construction production revived in Q2. It strengthened quarter-on-quarter the most since the beginning of year 2015.

Civil engineering construction has not contributed to the revival of construction so far. Its output is limited by the low volume of public investment.

Mild revival of the commenced residential building construction at the turn of years 2016 and 2017 however has not affected the growing tension between supply and demand much so far.

The value of new domestic orders strengthened year-on-

The construction output mildly improved following the last year's strong slump, caused by the drop out of the extraordinary growth factors mildly improved in the first half of 2017. The construction output stagnated in the quarter-on-quarter expression at the beginning of the year, however it already strengthened by 3.6% in Q2 (the most since the beginning of year 2015). The year-on-year fall of the production halted after five quarters, with its pace increasing by 7.7%¹⁷ in Q2. However, it was the result of contribution by only the more significant by weight building construction (with growth by 13.4%), since the performance of civil engineering construction kept further falling (-4.5%). Compared to Q2 2013, when the whole construction accomplished the lowest performance since the accession of the CR into the EU, this year's production was by 14.1% higher. It still lagged behind the absolute peak (Q4 2007) by nearly one fifth. The recovery of the residential buildings construction also assisted the more favourable results of building construction in the first half of the year. The number of commenced flats increased by one fifth year-on-year, with the highest share of family houses (+1.3 thousand). The number of flats in the residential buildings (RB) increased more notably against the very low last year basis. Their number (3.6 thousand) however did not significantly differ against H1 of both years 2014 and 2015 and did not reach even one half in relation to the record level (H1 2008) so far. Mostly the construction in the Olomouc region and also in Prague participated on the higher number of RB year-on-year, when the number of RB grew from 522 to 1022 in Prague (it still represented the second lowest number of commenced flats after year 2001 in this period). The prevailing low volume of construction further escalated the tension between the supply and demand (strengthened by the growing incomes of households as well as the still low interest rates on mortgages) and contributed to the strong growth of the prices of residential real estate in Prague, but also in other regions.

The demand for construction works revived. The value of new domestic orders¹⁸ increased already for the third quarter in a row. It strengthened in total by one eighth year-on-year in H1 2017. Important fact was, that both the building (+5.3%) and civil

¹⁷ The year-on-year data related to the construction output are corrected for the calendar effects. Without this adjustment, the production would grow only by 5.4% in Q2 2017.

¹⁸ Figure includes only construction businesses with 50 and more employees.



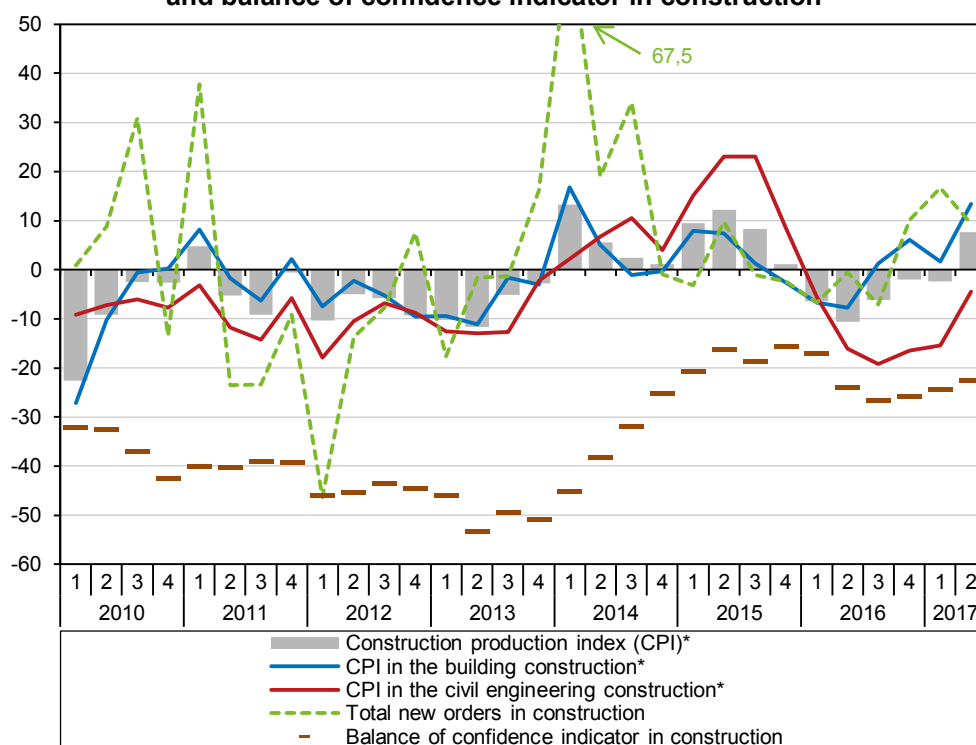
year for already third quarter in a row. The civil engineering construction also contributed.

However, construction still lacked larger orders. Business confidence in construction has been mildly increasing since the end of year 2016, it still however moved in the deeply negative range.

Perception of the lack of demand as a barrier to growth decreased for the last year. The factor of the lack of employees on the contrary strengthened threefold.

engineering (+18.9%) construction signalled positive development. Half-yearly growth was in both main construction fields last recorded in year 2014. Despite partial recovery, the construction still lacked larger constructions. The average value of newly closed orders did increase by one tenth to 3.2 mil crowns against the very low last year basis (it neared however 4 mils in 2014). The total stock of work including all so far not yet realised orders amounted to 142 CZK bn at the end of Q2. Its year-on-year fall (by 3.6%) was nearly exclusively affected by the orders abroad, whose weight in the total stock of work of construction firms dropped to lower value (12.4%) in the past four years during 2017. The growth of the indicative value of granted building permits continued already four half-years in a row – the new construction of non-residential buildings reached the highest rates of growth this year, similarly to last year. The seasonally adjusted balance of business confidence was mildly improving in construction during the first half of the year and it reached the best result since February 2016 in June, when the extraordinary influence of the finalisation of drawing on the European funds on the infrastructure projects was still felt. The confidence indicator balance still however stayed deep in the negative range. Based on the latest August data, nearly one sixth of businesses anticipated growth of the production activity in the upcoming three months and only a slightly smaller proportion predicted fall. One tenth of businesses planned to acquire employees. The anticipations of the total demand, construction activity as well as the employment did not change considerably in comparison to the last August. One half of construction businesses indicated the inadequate demand as the barrier for growth (the least since April 2009). On the other hand, the factor of the lack of employees was mentioned three times more often in August 2017 compared to the previous year (8%).

Chart 7 **Construction output*, value of new orders (year-on-year in %) and balance of confidence indicator in construction**



*Adjusted for the effect of the number of working days.

Source: ČZSO

Growth of sales markedly accelerated in the selected services. All main activities prospered.

The growth of sales in the selected services¹⁹ markedly accelerated at the beginning of the year. While the year-on-year growth of sales amounted "only" to 1.6% in the last quarter of the last year, it hiked to 5.3% (the most since the end of year 2007) at the beginning of year 2017. The subsequent quarter confirmed this positive development (+5.7%). All monitored sections of services contributed to growth in both this year's quarters. The services were driven mostly by the activities, that hold the largest weight

¹⁹Excluding trade, financial and insurance activities, science, research and public services. All data for services are adjusted for calendar effects in constant prices.

– transportation and warehousing (with nearly one third addition to the total growth) at the beginning of the year. The role of this branch weakened to the benefit of the information and communication and also accommodation, food service activities and restaurants in Q2.

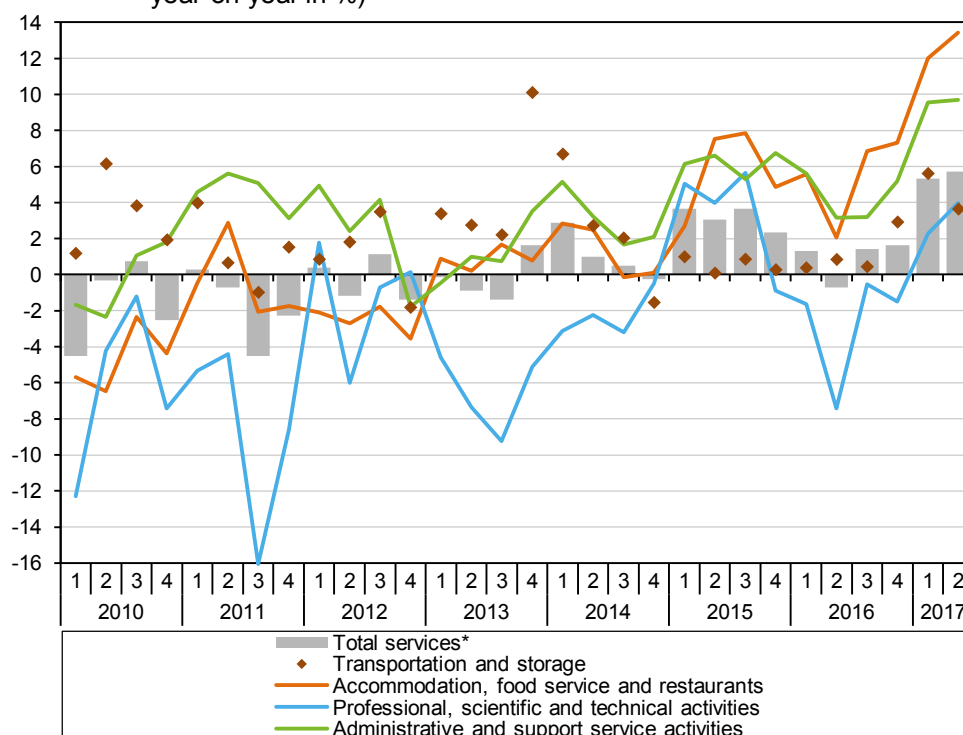
Sales markedly revived in the air transportation, they grew the fastest after year 2005.

Development of tourism was also reflected in the high growth of sales in accommodation, food service activities and restaurants. Demand for information and communication was growing. Job agencies also fared well in the long term.

Growth of orders in construction was also mirrored in the higher demand for the project activities. Sales for the architectural and engineering activities again increased after six quarters.

Sales in transportation and warehousing grew by 4.6% this year compared to H1 2016. All kinds of transport reached more favourable result. The air transportation strongly hit by the prolonged recession stood out among them, when it recorded the best result (+14.9%) after year 2005. Warehousing and support activities for transportation also fared well (+5.3%), belonging thanks to the narrow connection to industry to the most dynamic area of services in the long term. Accommodation also experienced strong growth (+11.9%) together with food service activities and restaurants (13.2%). Both branches benefited from the growing consumption of households complemented by the development of the arrival tourism. The number of overnight stays of non-residents in the mass accommodation facilities increased by 15.6% in Q2 itself. The information and communication also strengthened by 4.4% in H1, where the demand especially for the processing of data, web portals and hosting, programming and advisory in the IT area grows in the long-term. The film and music industry, where the sales decreased by one eighth this year, was in the opposite situation. Sales in the professional, scientific and technical activities strengthened by 3.2% and also recorded only their second year-on-year growth within the frame of the first half years after year 2008. Architectural and engineering activities strongly interconnected with construction contributed to this year's growth in this branch, they revived after six quarters of adverse development. The demand for photographic, design, translation and interpretation activities (+8.5%) also notably increased in H1. The dynamic growth of sales for market research and public opinion polling continued, on the contrary the advertising activities were rather stagnating. Sales in the administrative and support activities rose by nearly one tenth, where especially the job agencies traditionally prospered (+17.3%). The travel agencies, offices and other reservation and connected activities considerably recovered and reached the best result (13.2%) for the last ten years. However, their sales were still by more than one quarter weaker in comparison to the peak of the business cycle (H1 2008) this year.

Chart 8 Sales in services and their selected branch sections
(in real terms, adjusted for the effect of the number of working days, year-on-year in %)



*Excluding trade, financial and insurance activities, science, research and public services.

Source: CZSO

Growth of the retail sales was stable in the last two and half years, it mildly fluctuated just below the 6% level.

Rate of growth of sales for the non-food goods climbed the highest in the last ten years. The dynamic growth of the internet sale also continued.

From the viewpoint of employees, the very favourable situation on the labour market was reflected in the swift pace of growth of the disposable incomes of households. This factor together with the more than two years lasting optimistic confidence indicator of consumers led to the high rates of growth of the retail sales. They grew by 5.7% year-on-year in Q1, by 6.5%²⁰ in Q2. The internet sellers earned by nearly one quarter more. The sales for the non-food goods the most significant by weight traditionally drove the retail, their growth climbed up to 9.4% (in Q2) during the year and attained the highest rate of growth since the end of year 2007. Mainly the retail sales of computer and communication equipment, cultural and recreation goods fared the best in H1. The retail with clothes, footwear and leather goods (10.6%) also considerably revived. Sales for food decreased compared to the rates of growth from the first half of the last year (to +2.4%), the same was also valid for the sellers of fuels (+4.8%, from last year's +7.2%). The total retail sales grew by more than double pace in the CR in H1 compared to the EU (+2.7%). The CR thus ranked on the sixth position among countries (fourth for the non-food goods). The core of growth was in the EU located in countries of Central and Eastern Europe. Retail grew slightly above 3% in Germany as well as France, Belgium, Denmark, Italy and Spain recorded growth below 1.5%.

4. External Economic Relations

The current account of the balance of payments again attained a surplus.

The balance of the current account of the balance of payments reached 90.0 CZK bn in H1 2017 and lowered by 8.3 CZK bn year-on-year. The surplus of trade with goods remained practically unchanged and reached 165.5 bn, surplus of the trade with services increased by 7.6 CZK bn. The balance of primary incomes worked in the direction of the deficit (reached 102.1 CZK bn, year-on-year it lowered by 9.5 bn), the outflow of income from investment participated the most on this result. This outflow amounted to 143.7 CZK bn in H1. The deficit of the secondary incomes deepened by 25.7 bn. The financial account balance ended in surplus of 123.6 CZK bn in H1 (96.3 bn in Q1 and 27.3 bn in Q2). The April end of the regime of intervention however created a break between Q1 and Q2. The flows on the financial account, whose size several times increased the long-term average in Q1, halted in Q2. The increase of the reserve assets still worked in the direction of surplus, however it was one tenth compared to Q1. The net inflow of portfolio investment decreased and amounted to 353.8 bn in Q1. The net inflow in the amount of 45.9 CZK bn manifested in Q2. The net inflow of other investment also reduced to less than one thirtieth quarter-on-quarter.

Exports from the CR increased year-on-year.

There were goods exported from the CR in the value of 1 796.9 CZK bn²¹ during first half of the year 2017 and the same period of the preceding year was exceeded by 111.0 CZK bn (6.6%). A large part of the relatively strong year-on-year increase was achieved mainly thanks to the extraordinary Q1 (75.4 CZK bn). The second quarter overtook the same period of the last year by 35.6 CZK bn, at the same time however it had four working days less.

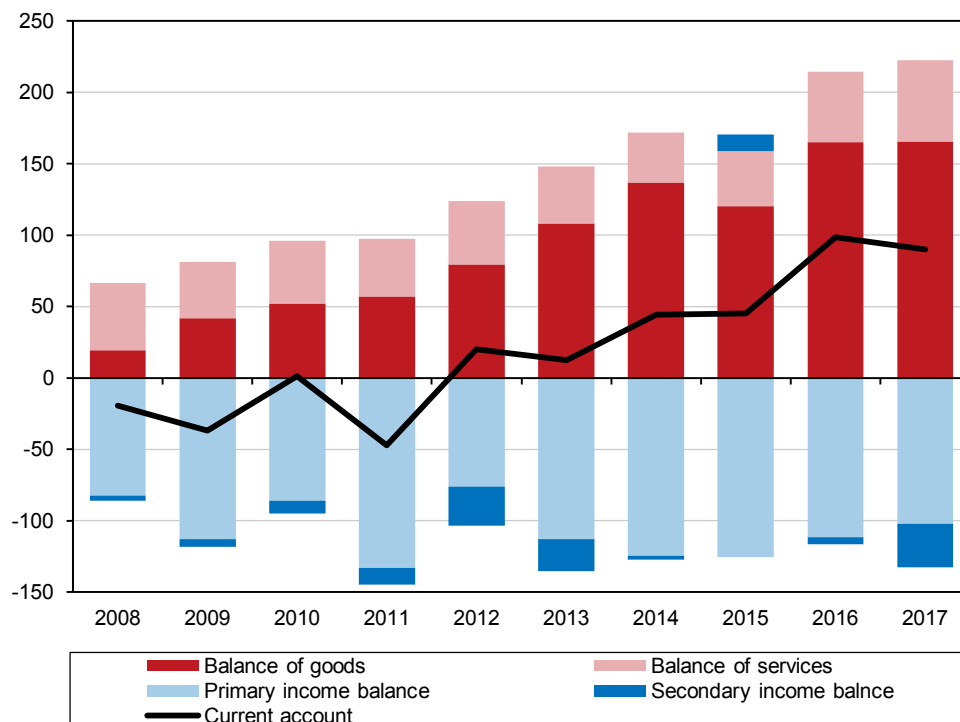
Exports grew into the majority of the main export destinations.

The territorial structure of the Czech export did not practically differ in Q1 and Q2 2017 from the same period of the preceding year. 83.9% of exports headed to the EU and its value increased by 82.3 bn (5.8%) year-on-year. Apart from Slovakia, where it was exported by 6.7% less in H1 compared to the last year, the exports grew into the all main export destinations. The exports to Germany increased by 7.7% year-on-year, to Poland by 8.7% and to France by 9.2%. The smaller export destinations did not stay behind either. The exports grew strongly to Austria (12.1%) as well as the Netherlands (14.2%). The exports also strengthened into countries outside the EU. It reached 287.2 CZK bn in H1 and increased by 10.9% year-on-year. The export into the United States arrived at 39.7 bn and went up by 6.1%. Exports into the Russian Federation reached twenty percent year-on-year addition, 20.6% more was exported to China. For Russia, it meant an increase of 5.8 CZK bn, 3.5 bn for China.

²⁰ Data do not include the motorist segment. Retail data are adjusted for calendar effects in constant prices.

²¹ Statistical data of the foreign trade in the national conception in the nominal terms including only the trade with goods. The value of exports is captured in the FOB prices, i.e. including the costs connected with the transport to the CR boundaries. Import depicted lower in this chapter is in CIF prices, i.e. including costs associated with the transportation abroad, up all the way to the CR boundaries. Data valid as of 6. 9. 2017.

Chart 9 **Current account of balance of payments**
(cumulation of Q1 and Q2 in CZK bn)



Source: CNB

The foreign trade with both motor vehicles and machinery thrived.

Motor vehicles, which comprised 29.4% of exports in H1, again reinforced their position a bit more. The value of their exports increased by 8.6% in comparison to the same period of the last year and reached 528.5 CZK bn. Other divisions significant for the Czech exports also recorded strong increase of exports. Export of machinery and equipment increased by 8.9%, computers, electronic and optical appliances by 5.5%. Electrical appliances were exported more by 7.7%. Positive trends of the exports of the chemicals and chemical products also continued and increased by 15.2% year-on-year. At the same time, it reached the level, which it held in 2014, that is before the crash of the production capacities, which were renewed at the end of 2016. The manufacture of metal products (-6.3%) and food products (-3.7%) were the only two divisions, which recorded a year-on-year decline in H1.

The value of imports also grew, among other things due to the increase of the prices of oil.

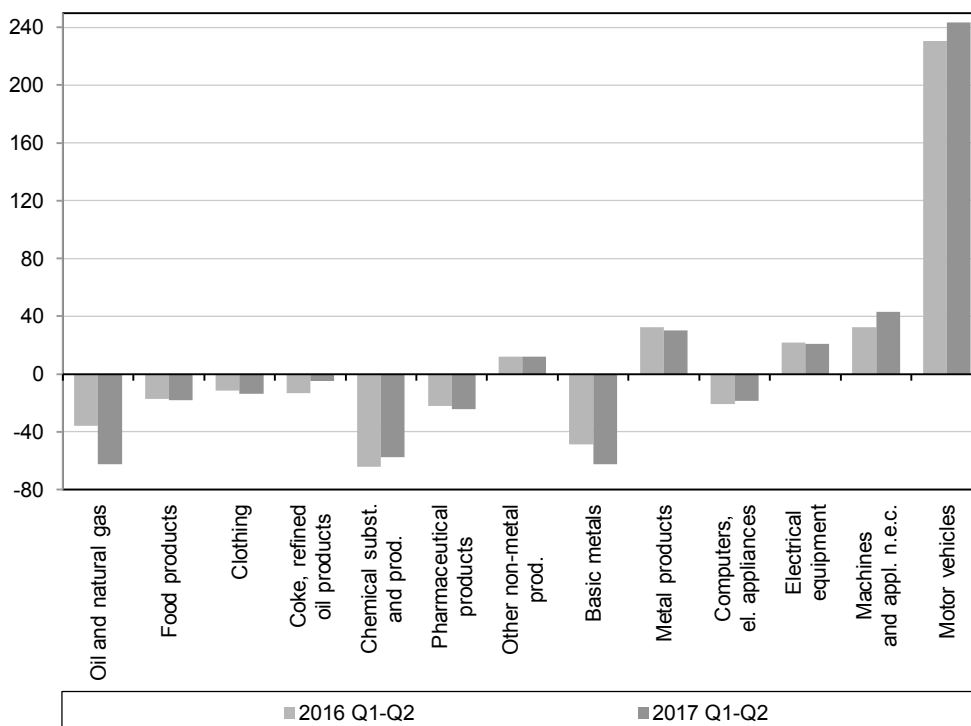
The goods worth 1 681.6 CZK bn were imported into the CR in H1, which is by 7.6% more in relation to the same period of the last year. Mostly the imports from countries outside the EU grew, where the oil and gas dominates, and whose growing prices also affected the nominal value of imports. The value of the imported oil and natural gas itself rose by 20.1 CZK bn (45.7%) year-on-year. The import from Russia, which is the majority source of this commodity, went up by 22.0 CZK bn (55.3%). The imports of basic metals markedly grew (19.5%, 22.2 CZK bn), motor vehicles experienced strong growth (11.2%, 28.7 bn) as well as the electrical equipment (10.0%, 11.6 bn). The value of imports of the metalworking products decreased by 6.2% (5.5 bn), for coke and refined oil products by 10.3% (2.7 bn) and slightly for the food products (-1.6%, 1.2 bn).

Foreign trade balance remains positive, even though slightly lower compared to the last year.

The foreign trade balance ended in surplus of 115.3 CZK bn in H1. This corresponds to the year-on-year decline of 7.2 bn. The deepening of the deficit of trade with countries outside the EU by 36.6 CZK bn stands behind this development, specifically mostly with Russia (deficit 27.0 bn, deepened by 16.2 CZK bn). The deficit with China also mildly deepened. The raising of oil prices is one of the reasons. The deficit of trade with oil and natural gas widened by 26.5 CZK bn, with basic metals by 13.8 bn. The long-term surplus of the trade with the motor vehicles or machinery on the contrary increased (by 13.1 bn and 10.6 CZK bn).



Chart 10 **Balance of foreign trade* in foreign trade statistics** (accumulation Q1 and Q2, in CZK bn, selected divisions of the CZ-CPA classification)



*in the national conception

Source: CZSO

5. Prices

The total price level increased.

The total price level gauged by the GDP deflator increased by 1.0% in Q2. This is by 0.5 p. p. more than in Q1, but still below the level of 2016. Mainly the negative terms of trade had an impact on the slowdown of the price growth (98.3%). Prices of goods consumed by the households increased by 2.4%, similarly to the preceding quarter. The growth of prices of the capital goods reached 1.6%.

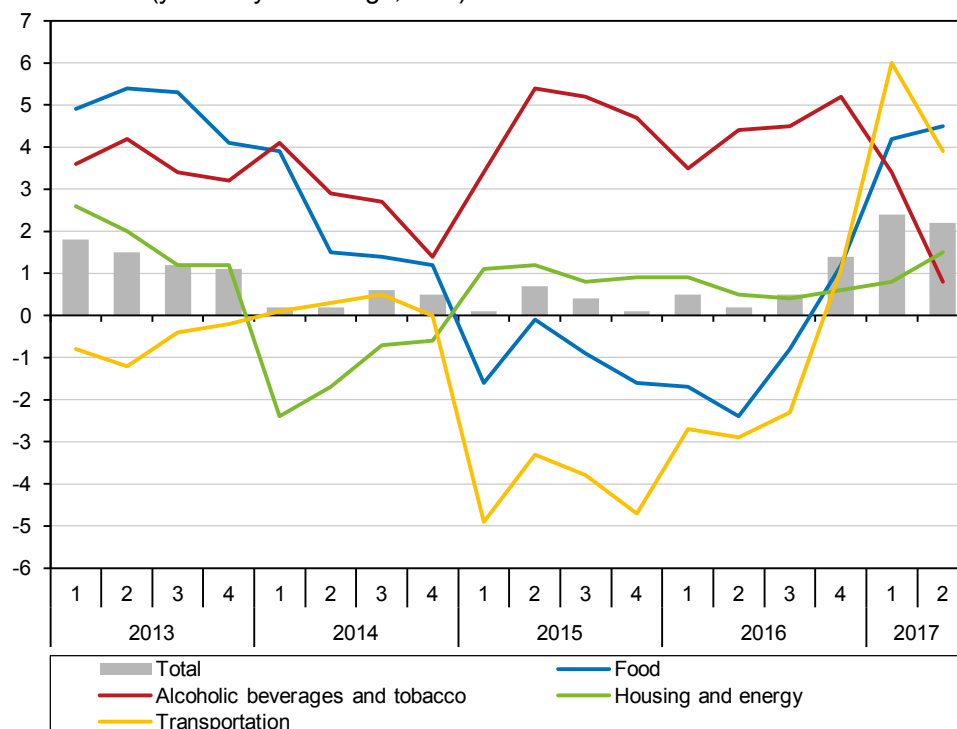
The growth of consumer prices crossed the 2% level, but did not accelerate further.

The consumer prices increased by 2.3% year-on-year in the first half of the year 2017. The price growth experienced a more moderate dynamic in Q1, when it reached 2.4%. The year-on-year addition to consumer prices was 2.2% in Q2. The acceleration of the price growth, which was connected to the year-on-year increase of the prices of transportation, halted in Q2 and the consumer inflation only mildly exceeded the 2% inflation target. The core of the price growth shifted into the item food and non-alcoholic beverages. The stagnation of prices of alcoholic beverages also influenced the mild slowdown of the dynamics, these prices worked in the inflationary direction in the preceding two years.

The year-on-year dynamics of the prices of oil was one of the reasons. Prices of transport did not grow as fast as in the preceding quarter in Q2.

Prices of oil sharply dropped at the turn of years 2015 and 2016 (from 44.3 dollars per barrel in November 2015 to 30.7 in January 2016) and they returned back above the level of 45 dollars per barrel already in April 2016. These shifts were consequently reflected in the year-on-year dynamics of the prices of oil and transportation in the first half of year 2017. The average price of oil reached 53.7 dollars per barrel in Q1, which was by 59.3% more compared to the same period of the previous year. The crown depreciation against the dollar also affected the increase of the prices of oil. The prices of transportation thus increased by 6.0% in Q1 year-on-year (in that prices of the operation of private motor vehicles by 10.7%). It was not possible to maintain the weak price growth commenced in the autumn 2016 in the second quarter and the average price for the barrel of oil slightly lowered to 49.7 dollars, which meant the year-on-year increase of 9.1%. This was also the reason, why the growth of the prices of transportation slowed down to 3.9% (in that the growth of the cost of transport vehicle operations was 5.8%). However, despite the slowdown, the prices of transportation contributed to the total inflation of the consumer prices 0.4 p. p. in Q2.

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



Source: CZSO

The raising of the prices of food continued strongly.

The prices of food and non-alcoholic beverages increased by 4.5% year-on-year and they mildly accelerated compared to the preceding quarter. They added 0.8 p. p. to the total growth of the consumer prices. The prices of oils and fats grew the fastest (11.0%), the butter is placed here, whose prices rose by 21.7% year-on-year and milk, cheese and eggs (9.8%). The price growth was quickening for both these items in comparison to the previous quarter. The year-on-year growth of the prices of the bakery products also gained pace (from 3.5% to 5.2%) and meat (from 2.2% to 5.1%). The vegetable was the only product, which was lowering prices year-on-year in the second quarter (by 4.8%). Non-alcoholic beverages raised prices by moderate 1.1%. The development of the price of coffee, that rose by 5.4% year-on-year (while the prices of tea were stagnating) is also worth mentioning. Here it is possible to observe an association with the reports of the shortage of coffee beans due to the poor harvest in the main plant growing destinations as well as the possible depletion of coffee as a result of the global climate change.

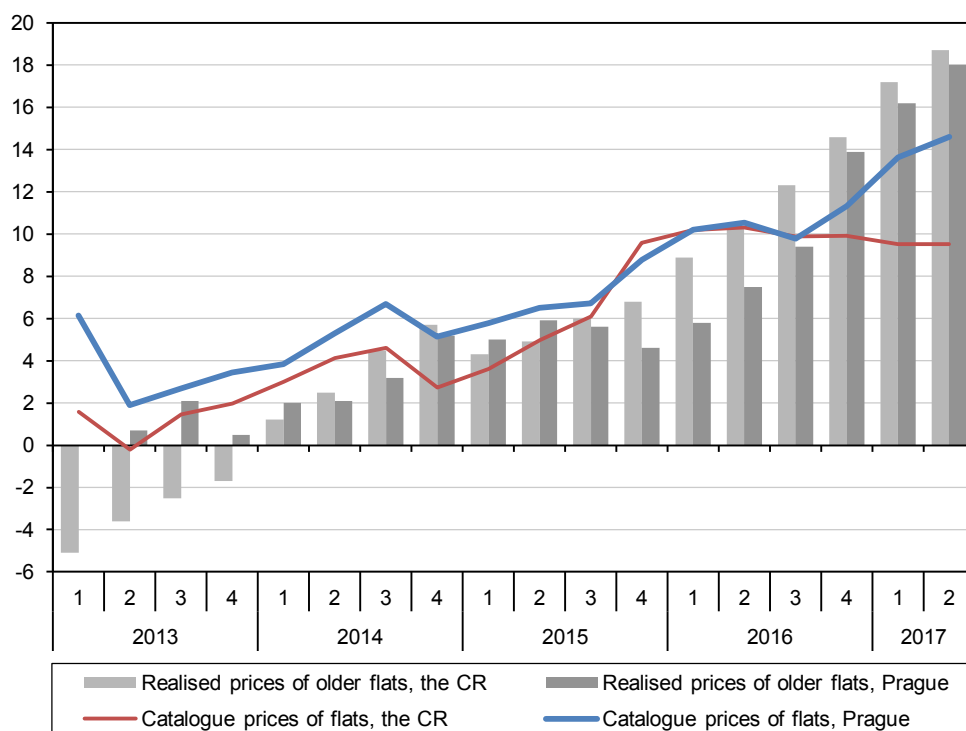
The prices of housing and energies also accelerated.

Housing, water, energies and fuels represent the most significant item in the Czech consumption basket and especially their growth quickened markedly in May and June compared to the previous period. The total cost of housing and energies went up year-on-year by 1.5% in Q2, which is by 0.7 p.p. more than in the previous quarter. The prices of imputed rent, which accelerated their growth since the beginning of the year and grew by 3.9% in Q2 influenced this movement. The prices of rents from flats mildly quickened the growth, they increased by 2.1%. On the contrary, the prices of the electrical energy and heating, gas and other fuels (by 0.7% in Q2) kept decreasing (to a lower extent than before).

The prices of real estate keep growing and the increase of their prices is accelerating.

The growth of the supply prices of real estate reached 9.5% in the CR in Q2 compared to the same period of the previous year and it did not change in comparison to the preceding quarter. The growth of the supply prices again quickened in Prague (from 13.6% to 14.6%). On the contrary, the growth of the supply prices of real estate outside Prague lowered to 3.6% in Q2. Realised prices of older flats accelerated their growth quite markedly in Q2. They increased by 18.7% in the whole CR year-on-year, by 18.0% in Prague.

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



Source: CZSO

Moderation of the year-on-year growth of the consumer prices was common to the most of the EU.

Acceleration of the year-on-year price growth in the EU, which occurred in Q1 of the year (year-on-year increase of the harmonised index of consumer prices by 1.8%) did not remain and the year-on-year growth slowed down to 1.6% in Q2. The stated slowdown was common to the majority of the Union states; however, it did not cross 0.6 p. p. Consumer prices grew the fastest in Estonia (3.4%), Lithuania (3.4%) and Latvia (3.0%) in Q2. The Czech Republic in this respect also ranked among the countries with the fastest price growth. The growth of consumer prices ceased in Ireland in Q2 and it stayed below one percent in Romania (0.6%, however a slowdown occurred compared to the previous quarter), Denmark (0.7%) and Finland (0.9%).

Prices of industrial producers grew year-on-year in Q2.

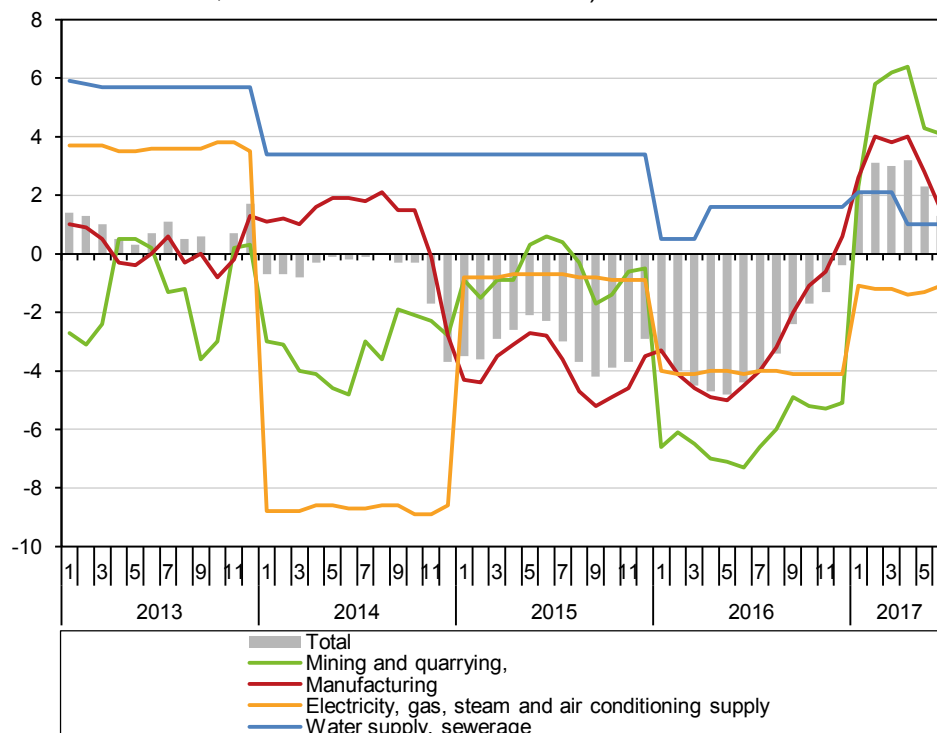
Year-on-year growth of the industrial producer prices, which was renewed in Q1 (2.7%), again slowed down following the April peak. The industrial producer prices thus increased by 2.3% in Q2 compared to the same period of the past year. The described dynamics was markedly affected by the development of the prices of coke and refined oil products. These significantly grew in Q1 and the growth subsequently slowed down. Prices of mining and quarrying grew constantly since the beginning of the year (year-on-year growth was 4.9% in Q2). The year-on-year price growth slowed down in the most significant industry by weight, manufacturing, and reached 2.8% in Q2 (by 0.6 p.p. less compared to the preceding quarter). Prices of food products, beverages and tobacco were raised by 3.3% (acceleration of 2.4 p. p.). Among the other weight significant sections, the prices of rubber and plastic products and other non-metal mineral products mildly increased (0.8%) and the year-on-year increase of the prices of the general metals and metal products accelerated to 7.1%. Prices of transport equipment were slightly falling (by 1.8%). The prices of chemicals and chemical products grew markedly (5.3%, mild slowdown compared to the previous quarter). The prices of electricity, steam and air conditioning supply keep decreasing (by 1.3% in Q2), however the drop shrank compared to the previous year.

Growth of prices of producers in the EU was faster than in the CR.

Prices of industrial producers in the EU rose faster in the EU year-on-year than in the CR (3.7%), however the slowdown by 1.0 p. p. compared to the preceding quarter manifested also here. Apart from Luxembourg, where the industrial producer prices fell by 2.9% year-on-year in Q2, the prices at least slightly rose in the individual EU countries. The CR ranked in this respect within the range of a more moderate dynamics. Prices grew slower than in our country only in Austria (1.9%), Croatia (1.9%), Slovenia (1.4%) and Malta (0.8%). Very strong growth of the industrial producer prices

continued in Belgium (9.3%), placed behind was the Great Britain (6.0%) and the Netherlands (5.5%).

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



Source: CZSO

The agricultural producer prices increased year-on-year for the first time since 2013.

Agricultural producer prices (incl. fish) were raised year-on-year in Q2 for the first time since Q3 2013 (except for Q4 2015) and specifically by 11.3%. Mostly the animal production contributed to the growth of the total index, whose prices grew by 16.9%, the prices of the plant production however also increased after more than one year (6.7%). The raised prices of cereals (2.6%, first growth since Q4 2015), especially wheat (5.3%) was reflected here. The estimated lowering of yields compared to the above average year 2016 can also be one of the reasons. Industrial plants were another significant group of plants, whose prices rose (7.2%), especially oil plants, where the oilseed rape holds the largest share (year-on-year growth of 10.2%). The year-on-year increase of the prices of vegetables and garden products by 23.7% also had a notable share. The prices of animal production grew already second quarter in a row (16.9%). The prices of live animals were raised (10.5%, the prices of pigs, whose growth is accelerating already one year and reached 27.6% in Q2, had the main impact). The poultry offset the mentioned growth, its prices fell by 5.1%. The growth of the prices of milk also gained pace (26.1%), it has the highest weight among the animal products, whose prices went up by 24.5%.

The growth of prices of market services, stagnating in the long-term, gained pace.

Prices of market services continued with their dynamics in the development from previous quarters and their year-on-year growth accelerated to 1.0%. The division insurance and pension financing, whose prices went up by 5.3% and further the advertising services and market research, whose prices were raised by 2.0% especially supported the growth of the total index. The strong growth of the prices of postal and courier services as well (4.5%). Even the mild growth of the two most significant components by weight, that is land and pipe transport and architectural and engineering services revived (0.4%). Both services renewed their price growth after a period of mild decreased.

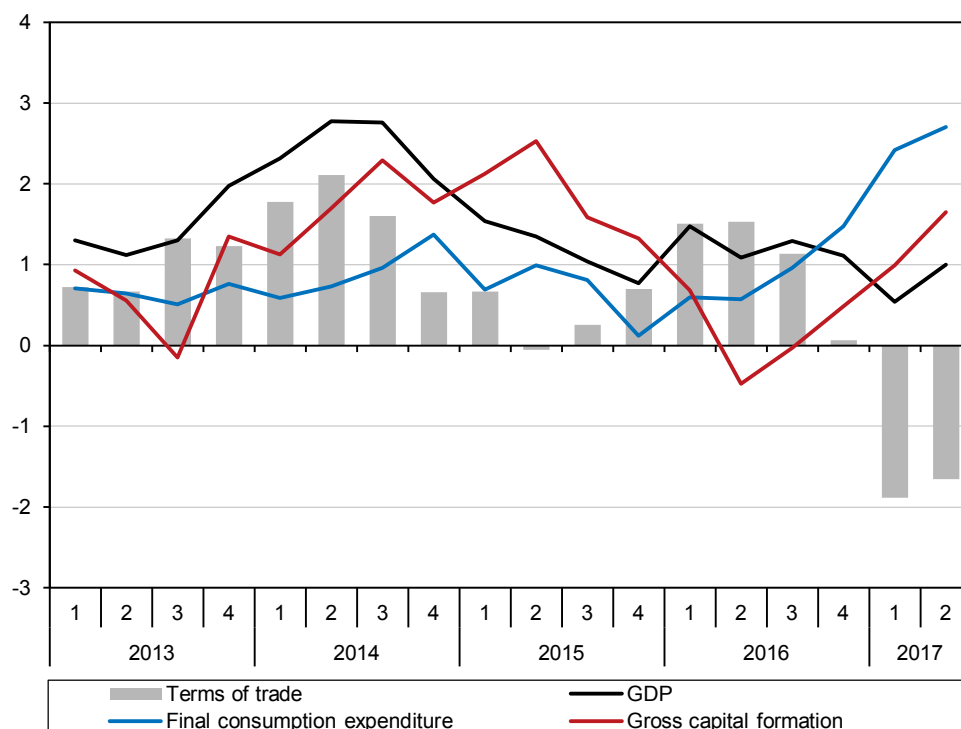
Development of prices of foreign trade was markedly affected by the loosening of the exchange rate commitment and appreciation of crown

The growth of prices of export and import again slowed down in Q2 2017, following the acceleration of the year-on-year dynamics in the first quarter of the year. The export prices increased by 1.0% during Q2 (slowdown against Q1 by 1.2 p. p.) and the import prices increased by 2.9% (slowdown of 2.2 p. p.). Mineral fuels and semi-finished

towards euro.

products similarly added to the growth of export prices by 0.5 p. p. in Q2. The contribution of other materials of 0.3 p. p. was also not negligible. Machinery and transport vehicles had an opposite effect, their prices lowered by 1.3. Their effect on the total index reached -0.7 p.p. The growth of import prices was supported by similar factors as in export. The mineral fuels have larger weight in import than in export. That is also why their addition to the growth of import prices achieved 1.2 p. p. The addition of the semi-finished products had the same value. Other materials contributed 0.5 p. p. to the growth. Similarly, to the export prices, machinery and transport vehicles had a negative effect (-0.6 p.p.). The terms of trade were negative in Q2, however they moderated by 1.0 p. p. compared to the previous period and attained 98.2%. It was the merit of the mineral fuels, where the negative terms of trade were lessening throughout the whole quarter. The terms of trade of machinery as well as the industrial consumption goods went in the similar direction. The crown appreciated towards both euro and dollar and thus dampened the growth of the foreign trade prices. Given the territorial and type structure of the foreign trade, the crown appreciation was more manifested in export, which is dominated by machinery and transport vehicles. In their case, the crown appreciation was the reason for the decrease of their prices. The difference between the published and adjusted value of import price inflation arrived at 1.3 p. p. in Q2. The difference between published and adjusted value of the import prices was 1.0 p.p.

Chart 14 **Deflators** (adjusted for seas. and calendar effects, year-on-year change, in %)



Source: CZSO

6. Labour Market

Rate of growth of the total employment did not ease up markedly. The highest number of people held a job in Q2 in the history of the independent CR.

More than four years lasting economic growth spilled over fully also into the labour market. Rate of growth of the total employment²² did not ease up, it increased by 1.4% year-on-year in H1 (by similar pace as for the whole year 2015 as well as 2016). The number of workers expanded by 0.4% quarter-on-quarter in Q2 2017. 5.32 million people thus held a job, the most in the history of the independent CR. Nevertheless, the rate of growth of employment was not at all unique in the European context. The number of workers increased by 1.5% year-on-year in the EU

²² Unless stated otherwise, data regarding employment are in the conception of the national accounts adjusted for seasonal effects in this chapter.

Swift growth of employment was apparent also in the EU this year, as well as in all the states neighbouring with the CR.

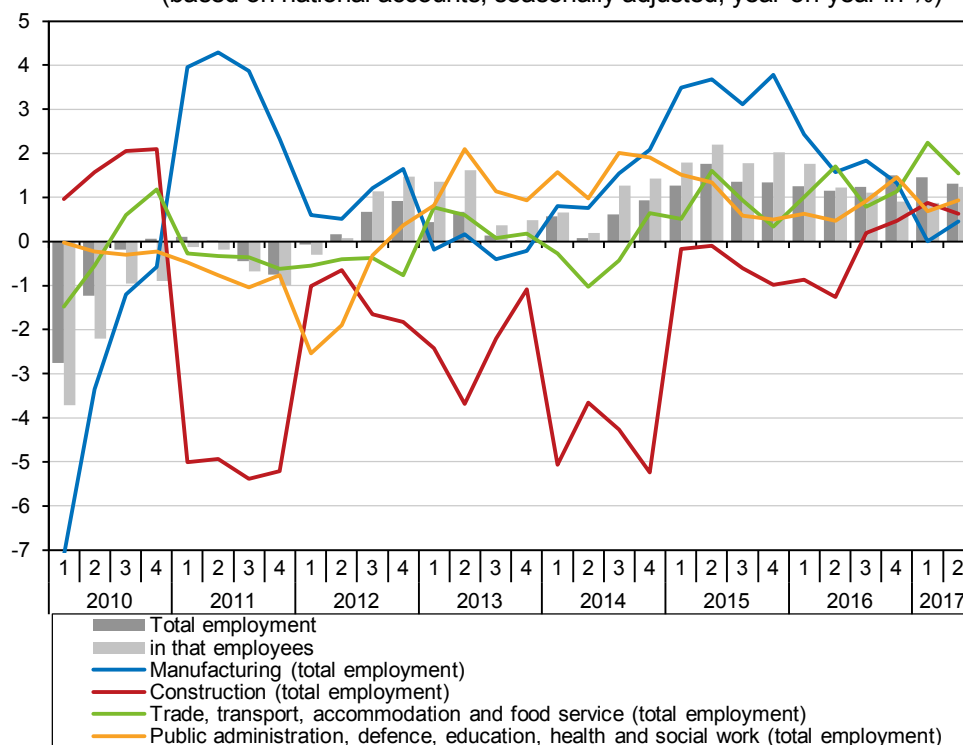
The core of the creation of new job positions gradually moved from manufacturing into the services sector.

The self-employed also contributed to higher year-on-year employment for the fifth quarter in a row.

in H1. All the other neighbouring states of the CR however also recorded slightly higher rates of growth (Slovakia the most +2.2%). The Czech Republic held a much more favourable position in the EU with respect to the high rate of employment. It was mostly thanks to males, whose employment rate reached the highest value among the Union states at the beginning of the year. Total employment rate for all persons aged 15 – 64 years was 73.3% in Q2 2017, it was by 1.6 p.p. more year-on-year – without larger difference between genders. However, in the longer term view the employment rate of females grew more dynamically than in case of males – partially due to the effect of a faster shift of the pension age boundary.

Not only employees, but also the self-employed, whose numbers were expanding already fifth quarter in a row, contributed to the year-on-year growth of the total employment. From the branches point of view the reality was such, that the core of the growth of employment was more and more located in services. This tendency has been apparent already in year 2016. The weakening growth rates of employment in manufacturing do not signal worsening economic outlook of this branch, but they rather give evidence about growing difficulties to find qualified employees. Mainly the professional, scientific, technical and administrative activities, where the employment growth quickened to 5.1% (from last year's 3.2%) in H1, created new job positions in the tertiary sector. The weight dominant services activity – trade, transportation, accommodation and restaurants, which employed by 1.9% persons more, contributed to a similar extent to the higher employment in the whole economy. The long-term demand for workers persisted in information and communication, whose numbers increased by nearly 15% in the last five years. On the contrary, the employment did not change markedly in financial and insurance activities for the same time period and it even fell by 1.3% compared to the first half of year 2016 (mainly due to the effect of the reduction in self-employed).

Chart 15 Number of workers in selected branches and total employment
(based on national accounts, seasonally adjusted, year-on-year in %)



Source: CZSO

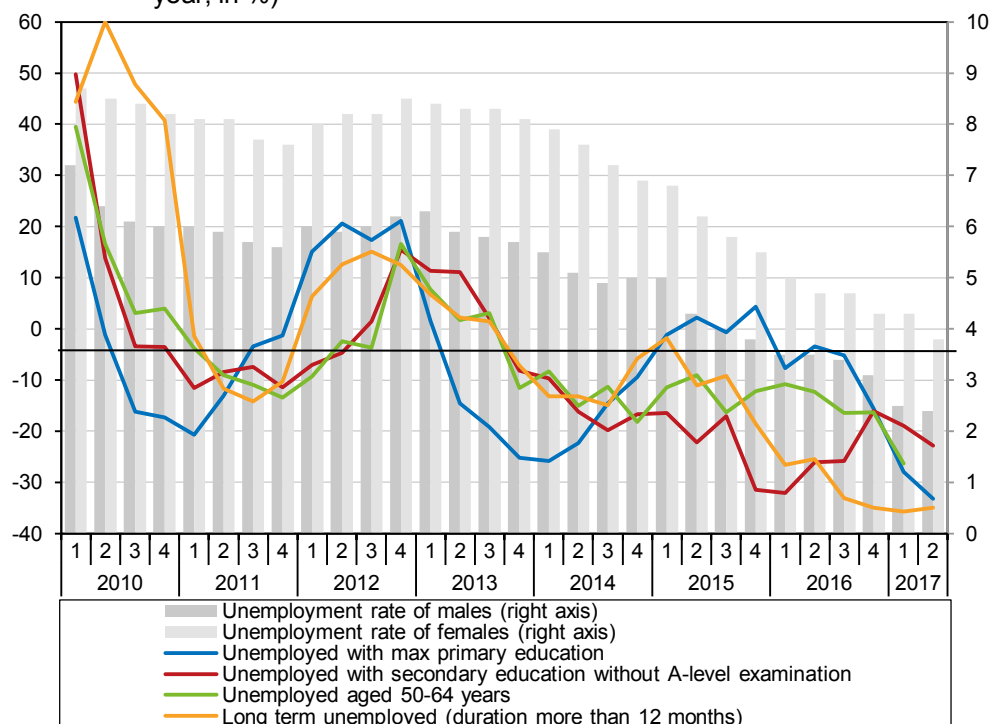
Higher numbers of self-employed contributed to the stabilisation of the total employment in construction.

Employment in branches with the state dominance grew relatively moderately in H1²³ (+0.8% year-on-year), this status persisted already for the fifth year in a row. The number of workers in construction ceased falling since half of year 2016. It was the result of higher number of entrepreneurs. On the contrary, the number of employees in

²³ Includes branches: Public administration and defence, education, health and social work.

the construction firms was further decreasing (there were by 18% less against H1 2009). The numbers of self-employed persons grew accompanied simultaneously by the reduction of the levels of employees also in the primary sector.

Chart 16 General unemployment rate of males and females (in %, seasonally adjusted, right axis) and selected groups of unemployed (year-on-year, in %)



Source: CZSO

General unemployment rate kept further falling down to the new absolute minimum, new vacancies increased the most in the history of the CR in H1.

There was the lowest number of job applicants per one vacancy since half of 90s. The supply of vacancies even exceeded the number of job applicants in more than one quarter of districts.

Nearly three quarters from the year-on-year addition of vacancies consisted of positions with very low demands for qualification.

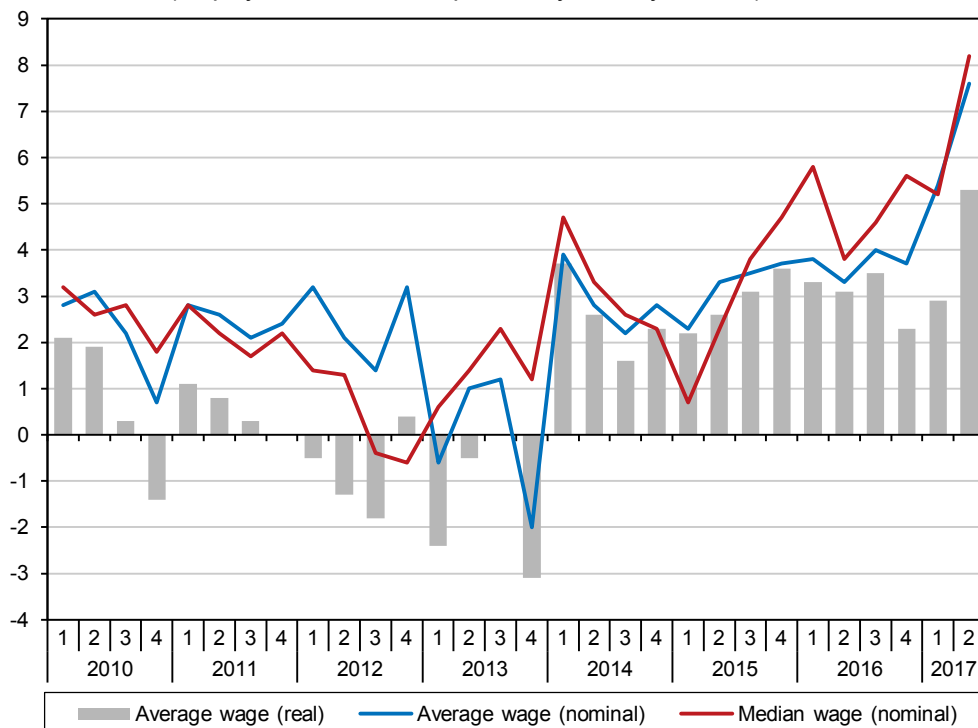
General unemployment rate further fell since the beginning of the year and it reached based on the seasonally adjusted data the so far record value in the history of the CR in June 2017: 2.4% (for males), resp. 3.5% (for females). The number of all unemployed decreased by nearly one quarter year-on-year and it amounted to 159 thousand persons in Q2. This positive development was associated this year (similarly to last year) with the reduction of the number of unemployed, who were out of job for more than 1 year. Their levels shrank by one third compared to Q2 2016 (by 32 thousand persons in absolute terms). The unemployment rate fell in all main education groups. The situation improved markedly in the small, but generally disadvantaged group of persons with the primary education at most²⁴. The reduction of the unemployment was accompanied by the constantly expanding supply of job vacancies. Their number in the evidence of the labour offices (LO) markedly accelerated at the beginning of the year. This year's increase of job vacancies was the highest within the first half-years since the start of monitoring. The supply contained 183.5 thousand job vacancies at the end of June. Thus, there were 1.6 job applicants per one vacancy, the least since the half of 90s. The chance for employment nearly doubled on average year-on-year. The supply of vacancies even overtook the number of registered job applicants in more than one quarter of districts. On the contrary, more than three job applicants pertained to one vacancy only in twelve districts (from all 77 districts) – mainly in the Ustecký and Moravian-Silesian region. Nearly three quarters of the year-on-year addition to vacancies (50 thousand) included jobs with a minimum qualification (where the primary education was adequate). They constituted already slightly more than one half of the total number of job vacancies in June 2017. It remained valid, that the qualified manual works found employment the easiest – craft and repairmen and assemblers and machine and equipment operators – where already the supply of jobs exceeded the demand. On the contrary, for job applicants

²⁴ The unemployment rate in this group came to 14.4% in Q2 2017, 21.4% a year ago. The participation of persons with the primary education among economically active aged 15 – 64 years ended below 5% in the CR. It represented the second lowest proportion among the all EU countries.

with the tertiary education only 9.1 thousand vacancies were available from the supply of LO. The number of these positions increased only by 2.5 thousand compared to last year's June.

Continuing fall of unemployment further reduced the sources of the usable labour force. The number of economically inactive persons, who stated that they want to work, however were not actively seeking a job also decreased year-on-year (to 120 thousand persons in Q2)²⁵. The businesses thus had to solve their need for further human resources by headhunting current employees on the labour market more and more often. This had to echo in the more frequent utilisation of the recruiting benefits, but mostly in the growth of the average wages.

Chart 17 Average gross monthly wage and wage median
(employees in full-time equivalent, year-on-year in %)



Source: CZSO

Growth of the average nominal wages accelerated year-on-year during the first half of 2017 and approached the pace from years 2007 – 2008.

Inter-branch differences in the size of wages slightly shrank. Average earnings rose relatively the fastest in branches with the lowest level of wages in the long-term.

Year-on-year rate of growth of average nominal wages fluctuated tightly below 4% during the last year. It gradually accelerated in the following two quarters (up to 7.6%²⁶ in Q2 2017) and approached the dynamics common in years 2007 and 2008. The wages rose by 6.5% in total for H1 2017 and they grew in all sections of activities. They increased by 7.1% in the weight dominant manufacturing. Still, the size of wages remained only negligibly above the level of the national economy in this activity. The highest growth was attained in the relatively small activities with low wage level – accommodation, food service activities and restaurants (+13.8%) and administrative and support services activities (+8.7%). High rates of growth reflected the January increase of the minimum wage in the economy (from 9 900 to 11 000 crowns). Financial and insurance activities maintained the position of activity with the highest level of wages also thanks to the traditional pay out of half-yearly benefits, the wages however grew only by 3.7% in this activity compared to last year's H1²⁷. The employees are better off in both absolute and relative terms in energetics and information and communication. The growth of volume of paid out wages was more

²⁵ However, it was mostly persons, which could not enter the employment immediately for various reasons. Only 35 thousand persons could start a job within two weeks. Similarly, low numbers were last recorded in the period of the business cycle peak of the last decade.

²⁶ The effect of the wage acceleration was even magnified by the fact, that there were four working days less in Q2 2017 year-on-year. This was reflected in the lower number of hours worked (for employees, it presented a reduction of 2.8% based on the national accounts data).

²⁷ It presented the only case within the all nineteen branch sections of the economy, when this year's year-on-year growth of the average wages (+3.7%) lagged behind the similar pace from H1 2016 (+4.0%).

The purchasing power of wages grew in Q2 the most since the beginning of year 2007 despite the strengthening inflation.

than double compared to the financial sector (especially thanks to the brisk pace of growth of employment). The average wage rate of growth (+4.0%) mildly lagged behind the growth of the registered number of employees also in the professional, scientific and technical activities. The wages increased in the activities with the dominant participation of state – the most in the health care and social care (+7.5%). Despite a marked quickening of the rate of growth (from last year's +2.0% to 5.1%), the wage growth remained below the level of the whole economy in education also this year.

Despite the strengthening growth of the consumer prices, the real wages improved by significant 4.1% in the whole economy in H1, even by 5.3% in Q2 (the highest year-on-year rate of growth since Q1 2007).

7. Monetary Conditions

The most important change was the ending of the exchange rate commitment in the area of the monetary policy in Q2.

The ending of the regime of forex interventions of the CNB was the most important event in relation to the monetary policy in Q2 2017, it occurred on 6th of April. After the period of pressure on the break of the commitment (the value of the foreign exchange rate stayed at 27.02²⁸ per euro for every day since 1. 1. 2017) the crown mildly depreciated in the first April days. Following the exit from the commitment, it immediately appreciated and the foreign exchange rate against euro fell to 26.53 within 10th April. However, the koruna did not maintain this value and it fluctuated around an average value 26.86 crowns per euro in the second half of April. Consequently, it started consistently appreciate. With the exception of a short depreciation on 18th May, the rate was strengthening throughout the whole May and the first half of June. It reached the minimum for Q2 on 13th June (26.15). Until the end of the quarter, it already only oscillated in a narrow range between 26.20 and 26.30.

Exit from the exchange rate commitment also meant the halting of purchases of foreign currencies.

The exchange rate commitment requiring the purchase of foreign currencies lasted still till the 5th April. The CNB purchased forex valued 0.7 bn euro. This is only a tiny fraction in comparison to the previous month, when the purchases of foreign currency attained 19.3 bn euro. Monetary policy rates, which represent the main instrument of the execution of the monetary policy did not change in Q2 and remained at the so called technical zero.

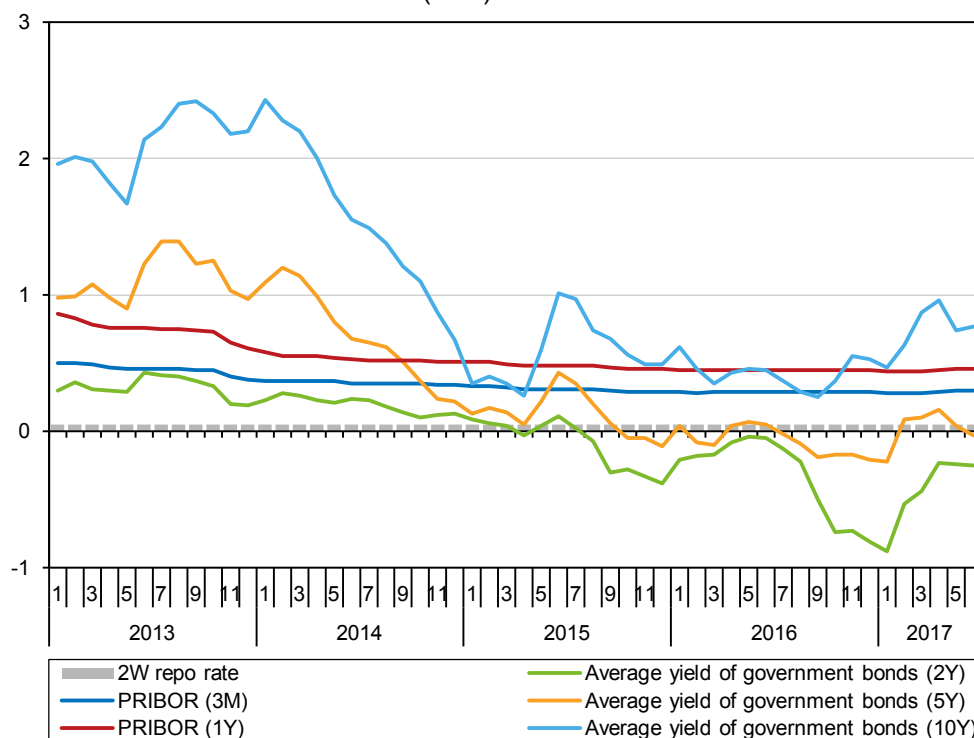
The interbank rates ceased falling further.

Despite the constant monetary policy rates (both Czech and European), the trend shifted for the interbank interest rates, which started to slightly grow after more than four-year period of fall. The three-month rate PRIBOR increased by 0.01 p.p. to 0.29% in April and subsequently to value 0.30% in May, where it remained. The annual PRIBOR increased from the March 0.44% to 0.45% and then to 0.46%. The yields of government bonds, which grew mildly during Q1 still slightly increased in April, then they however kept falling (medium term and short-term bonds) or stayed nearly the same (short term bonds). The yield on two-year bonds still remains negative, the interest rate for the medium-term bonds again moved narrowly below zero in June.

The growth of the amount of money in the economy accelerated.

Year-on-year growth of the amount of money in the economy accelerated during the first half of the year and crossed 10.0%. In Q2, the money stock increased by 12.5% year-on-year. One-day deposits, which grew by 14.7% were the main factor behind the growth. The volume of repo operations and participation certificates grew sharply, they however form only a small fraction of the total volume of money. On the contrary, the fall of the volume of deposits with agreed maturity, which notably decreased in 2016, mildly weakened.

²⁸ The CNB data. Unless stated otherwise, all data in this chapter have been taken over from the ARAD database of the Czech National Bank.

Chart 18 **Market interest rates (in %)**

Source: CNB

Deposit interest rates remain very low.

The situation remained practically the same for the deposit interest rates. The current accounts of households held nearly zero interest – the average rate was 0.04% in May and June. The short-term oscillation for deposits with agreed maturity in February to April, when the interest grew, returned to the long-term trend – the average rates fell by 0.34 p. p. from April till June and ended on 0.64%. However, in contrast to the previous two years, the low interests were not accompanied by nearly zero price growth. The deposits are thus losing the real value. Entrepreneurs did not have many options, how to keep the value of their money either. The rates on all types of accounts nearly unified and fluctuated between 0.03% and 0.05%.

Both households and businesses made use of lasting low rates on credit...

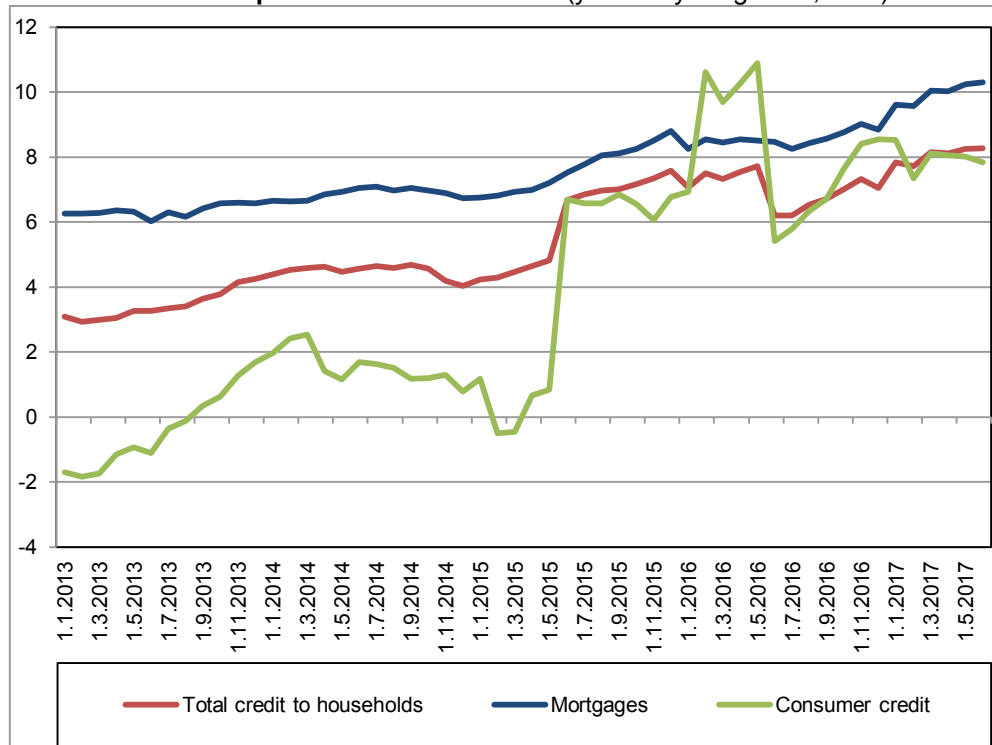
The rates for credit to households developed in a varied manner depending on the type and term of the fixed rate credit, nonetheless the several years lasting fall halted at the turn of years 2016 and 2017 and the rates were rather stagnating. The mild drop continued for interests on the consumer credit, which fell for the first time on average below 10.0% in the past quarter. Their average interest was 9.32% in June 2017. The rates started to slightly grow for the thoroughly watched mortgages already in December of the last year. Very mild growth continued also this year. The rates on fixed rate credits with terms between 1 and 5 years increased from 2.18% in March to 2.22% in June 2017. They increased for terms of the fixed rate credit between 5 and 10 years from 2.11% to 2.18% for the same time period. The interest rates on credit to non-financial business also ceased falling, but they were mildly fluctuating above the level from the end of year 2016.

...the volume of both the provided mortgages and credit to non-financial businesses increased.

The volume of credit provided to households expanded by 32.4 CZK bn during Q2. The mortgages were forming most of this increase. The volume of the provided mortgages expanded by 25.7 bn and followed thus in the extraordinarily strong increase from the previous quarter. The volume of credit and liabilities of the non-financial businesses expanded by 17.9 bn during Q2. At the same time the growth of the volume of credit provided in foreign currency, which accelerated in the second half of the last year and in Q1 2017, halted. The volume of this credit still increased in April, however it was already falling both in May and June.



Chart 19 Credit provided to households (year-on-year growth, in %)



Source: CNB

8. State Budget

State budget was staying in surplus within H1 already for the fourth time in a row, its size was however lower year-on-year.

The marked decline of income flowing from the European funds anticipated by budget was only partially offset by growing tax revenues.

Year-on-year rate of growth of the VAT collection accelerated during the first six months of year 2017.

State budget (SB) was most influenced by the strengthening economic growth together with the irregular cycle of the drawing of resources from the European funds in the course of the first half of the year. The SB achieved a moderate surplus of 4.6 CZK bn in H1 2017 (based on the data of the Ministry of Finance on cash fulfilment). The positive balance was in this period attained already for the fourth time in a row, this year's result was however at the same time the weakest after year 2014. The narrowing surplus mirrored the effect of the notable irregularities in the flows of the resources from the EU budget²⁹. Revenues of the SB from the EU were by nearly 60% lower this year. This slump was connected with the fact, that the vast majority of the last year's revenues was still linked to the programme period 2007 till 2013 and also with the slow last as well as this year's onset of the drawing of funds in the new programme period. The favourable economic development further stimulated the growth of the total tax revenues, whose state-wide collection thus accelerated to 8.7% (the best result in the first half of the year after year 2005). The SB balance forming the key component of the deficit or surplus of the government institution sector arrived at +0.2% in relation to the nominal GDP (+1.7% a year ago).

The rate of growth of the state-wide collection of the weight dominant tax – VAT – more than doubled year-on-year – to 14.1% (it increased by 13.1% at the level of the SB)³⁰ primarily due to the pace acceleration in Q2 2017. The recent transfer of some activities from the grey economy due to the effect of the recent measures, introduced on the side of the tax collection, likely also partially contributed to this result. The long term favourable development of the economy, which was manifested also by the swift growth of final consumption expenditure in H1 (in nominal terms by 6.1% for households, by 5.5% for the government institutions³¹) had also positive effect. This

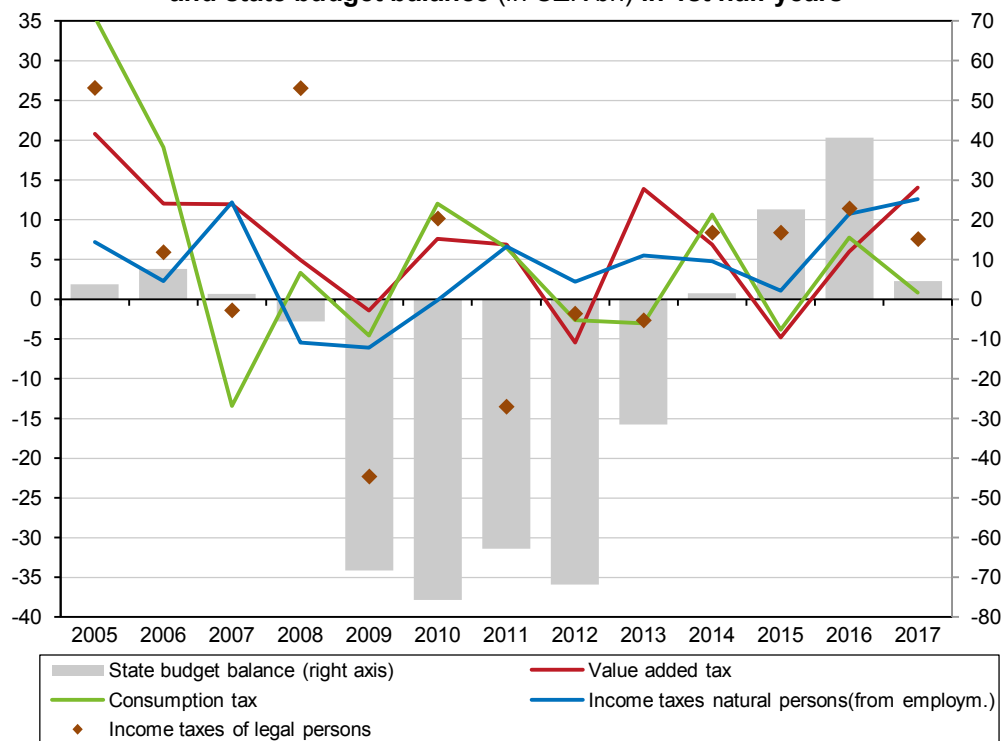
²⁹ According to the calculations of the MF, the SB adjusted on both income and expenditure side for the resources from the EU budget (and financial mechanisms) ended in deficit of 13.2 CZK bn this year (such adjusted result would represent a deficit of 30.8 bn in H1 2016).

³⁰ The proportion of the SB on the state-wide VAT revenue fell from 70.25% to 69.68% due to the change of the budget appropriations of taxes starting 1. 1. 2017. Reciprocally, the percentage share of the tax revenue – from the tax returns on income taxes of natural persons was amended, specifically for the benefit of the SB.

³¹ Data are not adjusted for the seasonal and calendar effects. There were 4 working days less both year-on-year and quarter-on-quarter in Q2 itself. The year-on-year rate of growth of the total nominal final consumption expenditure stagnated during the first half of year 2017 (6.0% in Q1, 5.9% in Q2), after the adjustment it on the contrary increased (it was 5.4% in Q1, 6.4% in Q2).

year's growth of the VAT collection is also affected by the fact, that its last year's collection (in contrast to other taxes important by volume) did not tightly fulfil the budget anticipations. On the contrary the lowering of the VAT rate for the food service activities as well as for newspapers and magazines had a partial negative impact on this year's collection of the tax.

Chart 20 State wide collection of tax income (year-on-year in %) and state budget balance (in CZK bn) in 1st half-years



Source: MF CR

The mild growth of the collection of the consumption taxes was affected by short term lowering of the collection of tax on tobacco products in the first half of the year.

The growth of the collection of all consumption taxes (against the rates from year 2016) was slowing down this year. The SB acquired by 2.3% more year-on-year in Q1, the revenue in effect stagnated in Q2. This development was mainly affected by the drop of collection of taxes on the tobacco products (by 2.4% in H1). The administrative influences having a short term negative effect³² thus exceeded the impact of the increase of rates of the consumption tax on tobacco products³³. On the contrary, the collection of the weight dominant consumption tax – on mineral oils – has been so far fulfilling this year's budget anticipations. It was higher by 2.5% compared to H1 2016, it was driven mostly by the higher consumption of the diesel fuel and jet fuel. The introduction of the so called green fuel also into the animal primary production had the opposite negative effect.

Growth of the collection of the corporate taxes lagged behind the last year's record pace. Rising wage costs were still more reflected in the growing costs of wages.

Even though the state-wide collection of corporate tax increased by brisk 7.6% in H1, it presented the weakest result in the last four years. The slightly falling profitability of businesses from years 2016 (and partially also 2017) due to the growing wage costs already starts to be reflected in this year's collection³⁴. The year-on-year rate of growth of the collection of income tax of natural persons (ITNP) from dependent activity kept further quickening and it strengthened by 12.6% for the whole half year. It thus tightly overtook the up-to-date record growth from the first half of year 2007. The collection was positively affected by the favourable situation on the labour market (high growth of employment, raising of average wages both in the business sector and the activities with the dominance of state) as well as the administrative measures of the state (repeated growth of the minimum wage limit,

On the contrary the collection of the income

³² The taxes for cigarettes with old covers, which had to be withdrawn from the circulation, were returned. The withdrawal of cigarettes was connected to the introduction of new products burdened by a higher tax rate and containing more thorough health warning.

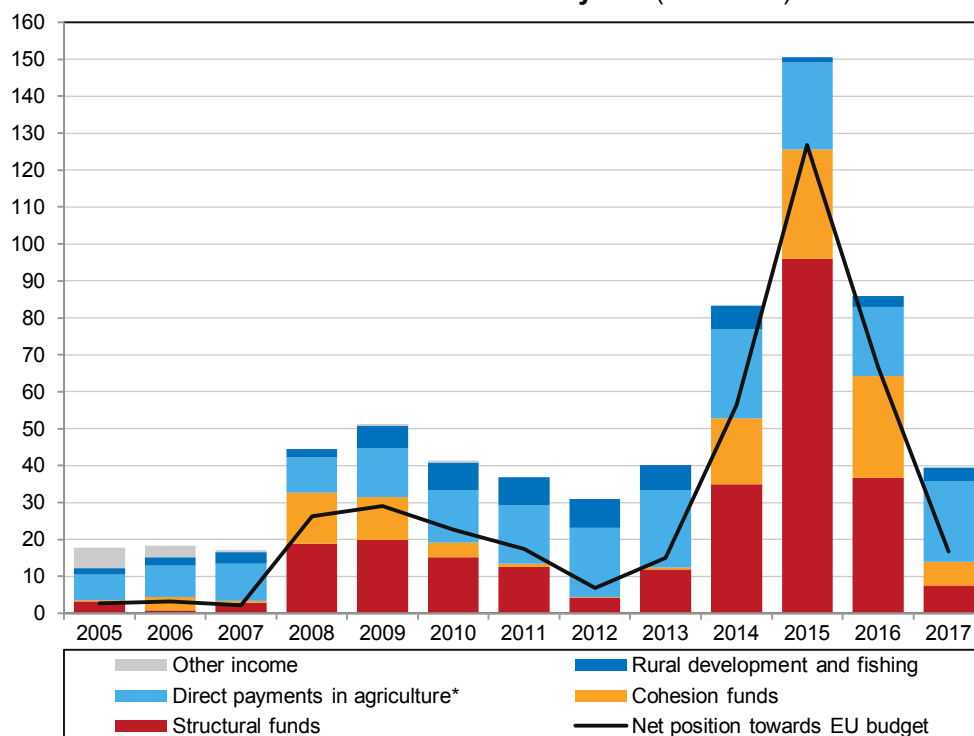
³³ The effect of the increased rates for the first eight months of year 2017 was already stronger and the collection of taxes on tobacco products was already by 0.8% higher year-on-year.

³⁴ This fact is even more supported by the data from the first eight months of the year (which already take fully into consideration the payments of all large taxpayers for year 2016), when the year-on-year increase of the corporate tax collection lowered below 2%.

tax of natural persons from employment further gained pace, since it benefited from the favourable situation on the labour market.

instruments to limit the grey economy). The state-wide collection of the ITNP from the self-employment activity was also more favourable year-on-year this year, it reflected not only the financial situation of the small entrepreneurs, but also their increasing number. On the contrary, the collection of ITNP from the capital revenues reduced by nearly 4%. The weaker rates among other things reflected also the prevailing low interest rates on deposits. The tax exemption for the retirement entitlement of the defence forces also had a negative effect.

Chart 21 Structure of the CR income from the EU budget and net position of the CR towards EU in 1st half-years (in CZK bn)



*Includes also the market operations and veterinary measures.

Source: MF CR

High growth rates of total tax revenues markedly exceeded the budget anticipations and contrasted with low revenues from the EU budget.

All SB tax revenues (including social security insurance) grew by 8.2% in the first half of the year and significantly overtook the annual budget anticipations (3.9%). In contrast the total SB revenues were by nearly 21 bn lower compared to H1 2016 and their rate of growth (-3.2%) slightly lagged behind the budget anticipations so far. This result was influenced by strong fall of the revenues from the EU sources. The CR acquired in total 39.5 CZK bn³⁵ from the EU budget in H1 2017. It presented only one quarter of the amount from the first half of year 2015, when the drawing of the funds from the EU budget reached the peak. Apart from the volume of finances, their structure also changed. Especially the break of the more project demanding structural actions (e.g. transportation constructions financed from the structural funds) stood behind the weaker drawing at the beginning of the new programme period. On the contrary, the volume of the direct payments in agriculture did not practically change in the last five years (it even slightly rose against H1 2016).

Low drawing of investment continued during 2017.

Total SB outlays strengthened by 2.5% year-on-year from January till June 2017. The growth of the current outlays (5.9%) was in contrast to the slump of investment (by 48%) in accordance with the budget anticipations. The capital expenditure only negligibly crossed 20 CZK bn. Nearly one half of that headed to the financing of the common CR and EU programmes (all expenditure, i.e. the non-investment as well on these projects arrived at 34 bn, by 16 bn less year-on-year). The drawing of investment did not improve much even during the summer holidays³⁶. The share of investment on all SB expenditure lowered to 3.2% (the lowest value after year 2000).

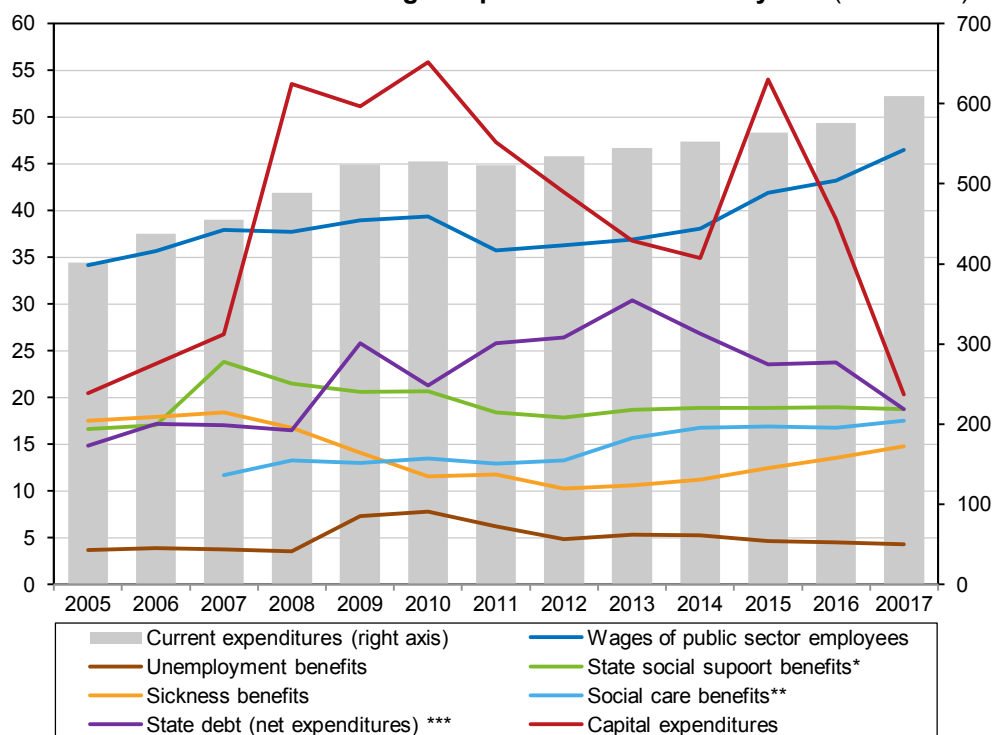
³⁵ According to the more detailed data published by the MF CR at the beginning of August 2017.

³⁶ Total capital expenditure of the SB attained 34.4 CZK bn since January till August 2017, it comprised nearly one third of the yearly value anticipated by the budget. Expenditure to cover the common programmes of the CR and the EU from the programme period 2014-2020 mildly increased to 16.6 CZK bn.

Especially the higher social benefits and expenditure on wages to public sector employees contributed to the growth of the current expenditure.

Mainly the weight dominant item of the social benefits (+13.5 bn) was behind the higher current expenditure (+34 CZK bn) in H1. The non-investment outlays to the business subjects also notably contributed, they were nearly by one third higher year-on-year. The expenditure on the salaries of state employees rose by 7.6% (it was a higher pace compared both to the previous year and Q1 2017). The growth of earnings of employees in the regional education manifested in the higher non-investment transfers to the public budgets on the regional level (+9.1%, +4.6% for the whole last year). Less funds were on the contrary expended on the non-investment transfers to state funds (-5.5 bn). The more long-term trend of the reduction of net expenditure on state debt further continued (5 bn).

Chart 22 Selected state budget expenditures in 1st half-years (in CZK bn)



* including the foster care benefits

** Material deprivation assistance benefits, Benefits for people with disabilities, Care benefits (based on Act on State Social Support)

***Net expenditures also include the income of the chapter State debt.

Source: MF CR, MLSA

The increase of the total social benefit expenditure was primarily impacted by the resources on pension. These grew the most dynamically within the last six years in the first half year.

Year-on-year rate of growth of the expenditure on social benefits increased already for the fourth time in a row within H1 and achieved 5.3% in year 2017. It was driven mainly by the weight dominant expenditure on pensions (+6.0%), since the new legislation, which enables to increase pensions above the framework of the standard adjustment was utilised. 2.89 million persons were receiving the pensions from the state at the end of June. Their number stagnated year-on-year (slight growth of the number of paid out pensions by 0.7% was offset by the reduction in all other pension categories). Even though the growth of expenditure on pensions was the highest in the last six years this year, the pension account deficit³⁷ was further reduced (down to 6.8 CZK bn in H1 2017). The strengthening growth of the insurance collection, whose pace (+7.3%) approached the values from the peak of the business cycle in the preceding decade, had a positive effect.

The growth of the sickness benefits insurance continued, the social care benefits strengthened via the legislative amendment.

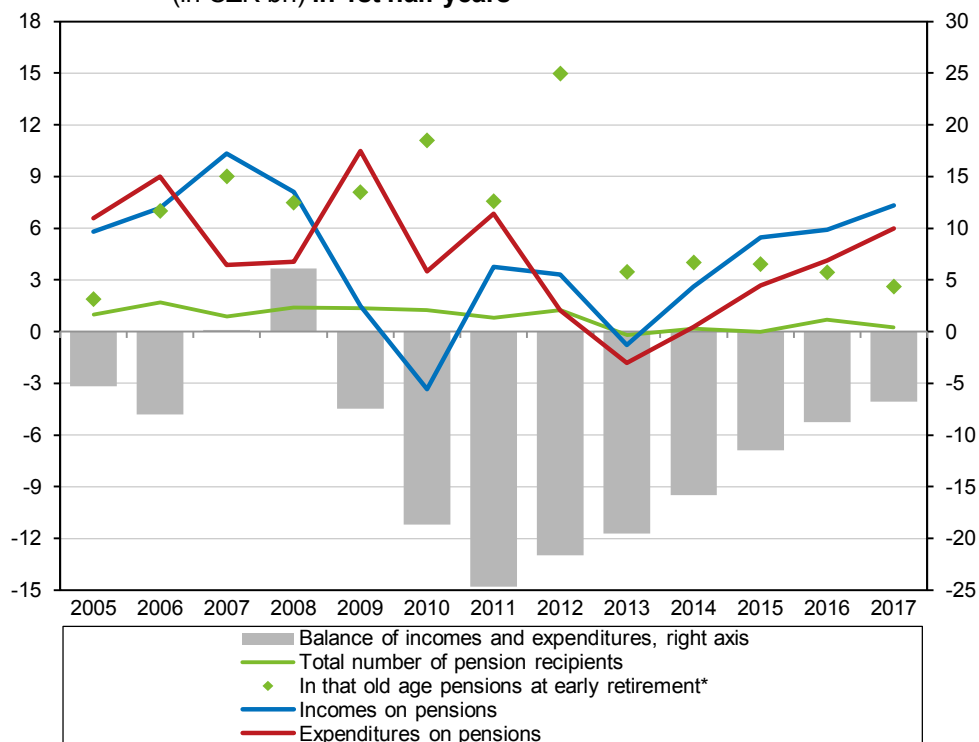
Expenditure on other social benefits (apart from pensions) was by 3.0% higher. Their year-on-year rate of growth was growing already second year in a row. Higher expenditure on sickness insurance benefits stood behind this result (already for the fifth time in a row, by 4.5 bn more in total) due to the growing sickness rate, but also higher drawing of the maternity benefits. The assistance to care to persons in long-term sickness also grew by 1.5 CZK bn (as a result of 10% across-the-board adjustment in August 2016). The growth of the foster care benefits also continued in

³⁷ It is expressed as the difference between revenues and expenditure on the pensions from the SB (based on preliminary data).

The more favourable financial situation of households was reflected in the reduction of volume of the material deprivation assistance benefits as well as the state social support.

growth by a milder pace. The state paid out less on the unemployment benefits (-3.4%), which were paid out to one quarter of all registered job applicants. Improved financial situation of households was reflected in the lower volume of paid out benefits of the state social support (-1.5%) and especially in the deepening of the fall of the expenditure on material deprivation assistance benefits (to -17%, the drop amounted to 30% in the last three years).

Chart 23 Pension recipients, income and expenditure on pensions from the state budget (year-on-year in %) and pension account balance (in CZK bn) in 1st half-years



* Old age pension income awarded before the pension age is reached and shortened for the earliness is for the whole time period of the drawing the benefit. Source: MF CR, CSSA

The size of the state debt stabilised following the one-off increase in Q1 in the subsequent months.

The proportion of foreign investors on the total possession of the Czech state bonds still remained high.

Relative indebtedness of government institutions in the CR did not attain even one half of the EU level despite the

The state debt reached the so far record size of 1 789 CZK bn at the end of June. The more significant growth of the indebtedness (by 10.9%) occurred during Q1, its level stabilised in the next quarter. Sharp increase of the debt was associated to the large volume of issued medium and long-term state bonds (LSB), aimed to cover the LSB repayments, that is expected in the remaining part of this year. More intensive issue of government treasury bills realised for the reasons of utilisation of negative yields manifested throughout the whole half-year³⁸. These operations led to the growth of the internal indebtedness. In contrast the crown value of the external debt slightly shrank since the beginning of the year (by 2.6%). The share of the external debt fell below 15% for the first time since the beginning of year 2008. The inflow of the speculative capital into the CR in connection with the expected exit from the regime of forex interventions peaked in the first third of the year. It was also evidenced by the strong growth of the volume of the Czech bonds held by foreign investors. While they owned crown bonds worth 424 CZK bn at the end of year 2016, it was already 718 CZK bn at the end of this year's April (47% of the value of all crown bonds). This volume in effect did not change in the course of Q2.

The debt of the whole sector of the government institutions (reflecting also the budget of the regional municipalities or health insurance companies) attained according to the up-to-date data of the CZSO the amount of 1 925 CZK bn at the end of Q1 2017³⁹ and it was 39.9% in relation to the GDP. The absolute size of debt increased by 9.7%

³⁸ The proportion of the short-term debt increased due to these operations. The share of the value of bonds with maturity within 18 months on all bonds arrived at more than 30% at the end of June 2017, by 5 p. p. less a year ago.

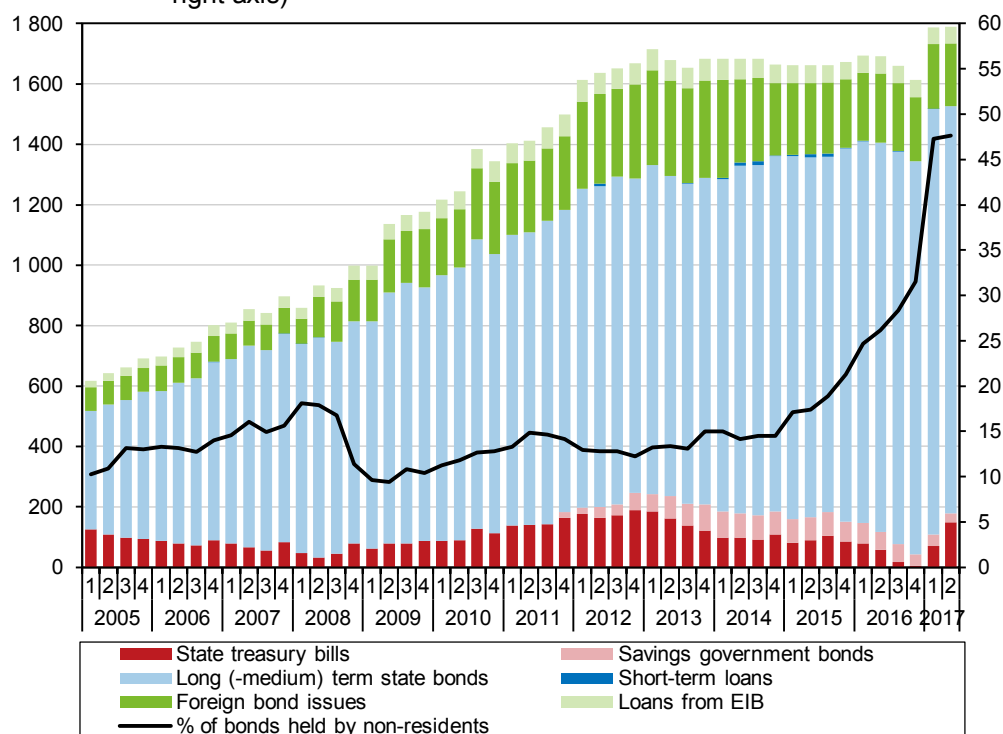
³⁹ The CZSO publish the preliminary data regarding to debt and deficit of the government institutions sector for Q2 2017 on 4th October 2017, Eurostat then on 24th October 2017.

increase in Q1.

The position of the most indebted countries of the Union did not improve in the last year.

during the first months of year 2017. It presented the largest quarter-on-quarter addition since year 2010, when the impact of the economic recession fully took effect. Nevertheless, this year's debt enlargement was connected to the specific situation on the bond market reflecting the expectation of the nearing end of the forex intervention regime. The central government institutions nearly exclusively participated on the growth of the debt, since the indebtedness of the local government institutions lowered both year-on-year and quarter-on-quarter. The CR was the eight relatively the least indebted country at the end of Q1 (only Estonia, Luxembourg and Bulgaria had a notably lower debt than the CR) and in spite of mild worsening of the position at the beginning of the year its indebtedness did not reach even half the level of the EU (84.1%). The indebtedness of the EU shrank year-on-year only by 0.2 p. p., since the situation did not improve in the most hit countries.

Chart 24 **Structure of the CR state debt (balance at the end of quarter, in CZK bn) and share of CZK bonds held by non-residents (in %, right axis)**



Source: MF CR