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Department director: Egor Sidorov, Ph.D.

Authors of publication: Bc. Jiří Kamenický, Ing. Lukáš Kučera

Contact person: Ing. Lukáš Kučera

e-mail: lukas.kucera@czso.cz, ph. no.: (+420) 274 052 254

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Ústí nad Labem | Špálova 2684, 400 11 Ústí nad Labem | ph.: 472 706 176, 472 706 121
e-mail: infoservisul@czso.cz | www.ustinadlabem.czso.cz

Liberec | Nám. Dr. Edvarda Beneše 585/26, 460 01 Liberec 1 | ph.: 485 238 811
e-mail: infoservislbc@czso.cz | www.liberec.czso.cz

Hradec Králové | Myslivečkova 914, 500 03 Hradec Králové 3 | ph.: 495 762 322, 495 762 317
e-mail: infoservis hk@czso.cz | www.hrdeckralove.czso.cz

Pardubice | V Ráji 872, 531 53 Pardubice | ph.: 466 743 480, 466 743 418
e-mail: infoservispa@czso.cz | www.pardubice.czso.cz

Jihlava | Ke Skalce 30, 586 01 Jihlava | ph.: 567 109 062, 567 109 080
e-mail: infoservisvys@czso.cz | www.jihlava.czso.cz

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e-mail: infoservisbrno@czso.cz | www.brno.czso.cz

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e-mail: infoservisolom@czso.cz | www.olomouc.czso.cz

Ostrava | Repinova 17, 702 03 Ostrava | ph.: 595 131 230, 595 131 232
e-mail: infoservis_ov@czso.cz | www.ostrava.czso.cz

Zlín | tř. Tomáše Bati 1565, 761 76 Zlín | ph.: 577 004 931, 577 004 935
e-mail: infoservis-zl@czso.cz | www.zlin.czso.cz

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Chapters prepared:

Jiří Kamenický	Summary (Chap. 1), Chap. 3, Chap. 6, Chap. 8
Lukáš Kučera	Summary (Chap. 1), Chap. 2, Chap. 4, Chap. 5, Chap. 7

1. Summary

- Low price of oil and an accelerated drawing on the EU funds accompanied by easy monetary and fiscal policy assisted the GDP¹ growth by 4.3% in 2015, while it grew by 2% in the previous year. The economy prospered the most in the last eight years, the development of the Czech economy was extraordinary also in comparison to Europe. The performance rose by more than double rate of growth compared to the EU (+1.8%) and nearly the triple against the euro area (+1.5%). Based on the data available so far, only Malta exceeded the GDP dynamics of the CR among the EU countries. Especially the domestic demand and in that mostly investment (gross fixed capital formation) contributed to the growth of the economy, manufacturing and services then participated on the economic growth on the supply side to an equal extent. The growth was of the non-inflationary nature, it was supported by a higher dynamics of loans to households and businesses and it was accompanied by the improvement of external economic relations as well as the balance of state budget.
- By the end of the year, a slowdown of the Czech economy occurred, contrary to the strong growth of GDP throughout the whole year 2015 and high year-on-year dynamics in individual quarters, which presented at least 4% in each of them. GDP stagnated in the quarter-on-quarter comparison (being nevertheless negatively affected by the seasonal adjustment), gross value added increased by mere 0.5% (the least since the last quarter of 2013). Investment most likely reached the peak in Q3 following a nine quarters lasting quarter-on-quarter growth, since it already fell by 0.9% in the last quarter. Extraordinary influences working towards the growth of the Czech economy started to evaporate and the economy began to lose pace.
- Investment rose by 7.5% in the last year and shared in the GDP growth by +1.9 p.p.² It was heightened by non-financial corporations, government completing drawing of the EU money as well as households strengthening investment into the real estate. Final consumption expenditure of households increased by 2.9% (+1.4 p.p.), the addition to the final consumption expenditure of government was even the largest since 2003 (+3.4%, +0.7 p.p.). Change in inventories also affected the economy favourably (+0.6 p.p.), only the foreign trade balance worsened (-0.2 p.p.).
- Total branch performance based on the gross value added increased by 3.8% in 2015. Dynamically expanding manufacturing (+7.3%) contributed +1.9 p.p., services +1.8 p.p. Construction added +0.2 p.p., similarly to the preceding year, however agriculture, forestry and fishing not so, as their total contribution was zero. Mining and quarrying, energetics and water supply worked slightly against the growth of the Czech economy (in total -0.1 p.p.).
- Current account of balance of payments showed further improvement of external economic relations, despite worsening trade balance. It reached record levels and ended in surplus of 41.4 CZK bn (0.9% GDP). Direct investment inflow into the CR fell to 60.7 bn and it was the weakest since 2003. However, huge inflow of portfolio investment contrasted with it. Foreign investors purchased only government bonds themselves for 117.7 bn in the last year.
- Implicit GDP deflator fell to +0.7% in 2015, inflation gauged by the consumer price index development arrived at +0.3% and it was the lowest since 2003. Slump of the oil price on the world market and deflation in the manufacturing in the euro area affected the CR via the prices of imported goods (-1.9%) and impacted the industrial producer prices, which were lowered the most markedly in history (-3.2%). Agricultural producer prices declined by 6%, prices of market services stagnated. Only the prices of construction work were raised (+1.2%).
- The growth of the economy was improving the situation on the labour market. Employment in the concept of the national accounts was higher by 1.2% year-on-year, it reached in absolute terms together with year 2008 the highest level in history of the independent CR. Number of job vacancies climbed up already above 100 thousand during the summer. General unemployment rate was decreasing throughout the whole year and in December 2015, it ended on the lowest level (4.6%) since November 2008. The structural imbalance between demand for employees and supply on the part of job applicants was transferred into the lack of skilled workers and led into an accelerating growth of the average wage. It rose already by 3.9% year-on-year in Q4. In real terms, the average wage, thanks to the low inflation rate, increased by 3.8%, which represented the highest growth since the end of year 2009.

¹ The data regarding GDP, gross value added and their components are expressed in real terms and adjusted for seasonal and calendar effects.

² Contributions to GDP change not excluding the import for final use.



- Money supply in the economy expanded according to the monetary aggregate M2 by 6.9% year-on-year at the end of the year 2015 and it was caused only by the increase of the liquid funds. The rates of growth of long term loans to non-financial corporations, i.e. especially the loans for investment, were at least 10% in the whole H2, dynamics of the loans for house purchase to households in December (+8%) was the strongest since summer 2010. Enlarged demand of households for these types of loans arises from the low interest rates and is reflected in a marked rise of the real estate prices.
- Strengthening growth of the economy supported by a record drawing of resources from the EU funds assisted the state budget to the lowest deficit after year 2008. It amounted to 1.4% in relation to GDP and improved by 0.4 p.p. year-on-year. The share of investment in total expenditures of the state budget achieved a record 13.6%.

2. Overall Economic Performance

The growth of the economy was significantly supported by extraordinary influences in 2015. They however already weakened in the last quarter, ...

The Czech economy flourished in 2015 and its performance rose the most in the last eight years, i.e. since the peak of the business cycle in 2007.³ Gross domestic product (GDP) increased by 4.3%, while its dynamics reached at least 4% in each of the quarters. Gross value added grew by 3.8%. Especially the domestic demand shared the most in the economic growth on the expenditure side, mostly the manufacturing and private and public services then had a favourable effect on the supply side. The economy grew in the year-on-year comparison already nine quarters in a row, its dynamics was supported by extraordinary influences in 2015. It was the slump of the oil price on the world market, which lowered the cost of inputs for companies and expenditures on purchases of fuels for households, and also the completion of drawing of finances from the EU funds at the end of the programme period 2007–2013.

... GDP stagnated in quarter-on-quarter comparison and gross value added increased only by 0.5%, the slowest since Q4 2013

The GDP expanded gradually by 2.4%, 1% and 0.7% in the first three quarters of the last year in quarter-on-quarter comparison and the economy was thus slowing down. It even went into stagnation in the last quarter, since the GDP did not change compared to Q3. Even though this development was partially caused by the seasonal adjustment,⁴ it was still apparent, that the economy started to decrease its pace. The development of the gross value added also confirmed this conclusion. Its quarter-on-quarter additions were stable in Q1 till Q3, with a range of +1% to +1.2%. The gross value added nevertheless increased only by 0.5% in the last quarter, the least since the end of 2013.

All V4 countries prospered in the last year, the CR fared the best

The Czech Republic was among the fastest growing countries in the EU in the last year. Only Malta achieved a higher addition (+6.3%) based on the available data.⁵ Year 2015 was successful also for the other countries of the Visegrad group. Poland increased together with Slovakia by 3.6%, Hungary by 2.9%. The lowering number of countries registering a GDP fall was a positive occurrence in a wider context. There were eleven of these countries in 2013, four in 2014 and only one (Greece, -0.3%) in the last year.

Addition to GDP more than double in the CR compared to the EU and nearly triple compared to the euro area

The GDP increased more than twice as fast in the CR compared to the EU (+1.8%) in 2015. Compared to the euro area (+1.5%), the domestic growth was nearly triple. The situation from year 2014 was repeated, nevertheless the difference between the rates of growth in the CR compared to the EU and euro area expanded. The domestic economy thus further converged towards these groups in 2015, the pace of its convergence in addition most likely fastened.

³ Unless stated otherwise, data related to the GDP and its components are expressed in real terms and adjusted for seasonal and calendar effects. The same is valid for the gross value added.

⁴ Seasonal adjustment affected the quarter-on-quarter rates of growth of balance of taxes on products and subsidies on products at the beginning and at the end of the year. The quarter-on-quarter dynamics was affected favourably in Q1 2015 and negatively in Q4. This was reflected in the GDP dynamics, where this balance is included. The dynamics of gross value added was not affected.

⁵ Yearly data are not available for Ireland and Luxembourg, however these countries also grew faster than the CR based on data for first three quarters of 2015. GDP dynamics for Ireland and Slovakia is not adjusted for calendar effects.

Especially the domestic demand was the source of the economic growth in the last year. Investment contributed +1.9 p.p. and consumption of households +1.4 p.p. ...

All components of demand contributed positively to the growth of the economy in 2015, apart from the foreign trade balance.⁶ It worsened due to the impact of stronger pace of imports (+8.1%) compared to exports (+7.2%) and worked towards the decrease of the economic performance of the CR (-0.2 p.p.). Investment (gross fixed capital formation) contributing +1.9 p.p. and final consumption expenditure of households (+1.4 p.p.) were the main sources of growth. Investment had a pro-growth effect on the economy already nine quarters in a row, household consumption eleven. The addition of final consumption expenditure of government was weaker compared to investment and household consumption (+0.7 p.p.), this however occurred due to a lower weight of this demand component. The dynamics of the government consumption itself was the highest since 2003, while the strong growth occurred mostly in Q3, when the transport infrastructure was quite extensively – utilising the EU funds – repaired. Change in inventories stimulating the economy especially at the beginning of the year added +0.6 p.p.

... but after exclusion of import for final use only by +1.4 p.p. and +0.8 p.p.

If the import for final use is excluded from the total volume of import into the CR, in other words import, which is not directed to further utilisation in the production process, the additions of final consumption expenditure of households (+0.8 p.p.) and investment (+1.4 p.p.) are significantly smaller. It is because the increase of household consumption and investment was for a large part satisfied from abroad, i.e. by import. It followed especially from higher purchases of motor vehicles and machinery equipment, which it was not possible with respect to variety and specific requests satisfy from the local sources. The contribution of final consumption expenditure of government is lower compared to the classical concept only negligibly (+0.6 p.p.), similarly the change in inventories (+0.5 p.p.). Foreign trade balance, after exclusion of import meant for final use, contributed to the economic growth by +1 p.p.

Higher income of households and high consumer confidence were reflected in the increase of household consumption, ...

Final consumption expenditure of households increased by 2.9% in 2015, featuring equal year-on-year dynamics in individual quarters (+2.7%, +2.9%, +3%, +2.9%) and fast quarter-on-quarter growth at the beginning and end of the year (+1.1%, +0.5%, +0.4%, +0.9%). They mirrored the increasing nominal household income in the low-inflationary environment. The high consumer confidence also had a favourable effect. In December 2015, it was the highest on the available time series tracing back from 1998 (nevertheless, it was overtaken immediately in January 2016).

... it increased throughout its whole structure for the first time since 2007

Household consumption grew in its entire structure last year for the first time since 2007. Addition to expenditure on durable goods (e.g. motor vehicles) lowered from +10.7% to +7.9%, still it remained very high.⁷ The dynamics of expenditure on semi-durable goods went up from +2.9% to +4.2%, the dynamics of expenditure on non-durable goods also increased (from +0.8% to +2.9%). Demand for services, which was weaker in 2014 (-0.5%), already recovered (+1.4%).

The growth of the dynamics of the final consumption expenditure of government in Q3 was the result of extensive infrastructure repairs and maintenance

Expansive fiscal policy was mirrored in the large addition of final consumption expenditure of government (+3.4%). In Q3 itself, these expenditure increased even by 4.7% year-on-year. Annual consumption volume exceeded the level from year 2010 (by 2.7%) for the first time. Data for the first nine months show that the expenditure on individual consumption grew faster than those on collective consumption in Q1 and Q2. The relation turned in Q3 and the dynamics of expenditure on collective consumption – with the view to the extensive transport infrastructure repairs and maintenance – dominated.

Nine quarters lasting quarter-on-quarter growth of investment already halted at the end of the last year

Investment was the main source of growth of the Czech economy in the last year. Its dynamics was growing till Q3, when it reached +9.6% year-on-year and it was the highest since the end of 2007. Investment increased by 7.5% in total for the whole last year and it was connected to a higher investment activity of non-

⁶ Contributions to GDP change not excluding the import for final use.

⁷ Structure of expenditure is in the domestic concept and is not adjusted for seasonal and calendar effects.



financial corporations, government as well as households. The dynamics already mildly weakened (to +7.9%) in the last quarter year-on-year, investment even decreased quarter-on-quarter (-0.9%).

Investment into buildings and structures increased by nearly one tenth in the last year. They grew faster last time in 1995

Based on the type classification of gross fixed capital formation⁸, mostly the purchases of transport equipment (+14.9%) increased in 2015, however also higher investment into ICT, machinery and equipment (+5.9%) and two years not monitored growth of investment into the intellectual property products framed the growth of investment of non-financial corporations. Accelerated drawing of money from the EU funds was very strongly reflected in investment into buildings and structures (+9.2%), while its addition was the highest – similarly to the final consumption expenditure of government – in Q3 (+13.6% year-on-year). Households were also very active in the last year and the low interest rates on loans for house purchase assisted this development – investment into buildings for housing grew by 7%.

Surplus of foreign trade with goods and services expanded only by 2.1 CZK bn in nominal terms in 2015, ...

Surplus of foreign trade with goods and services reached in the concept of national accounts 288.6 CZK bn in nominal terms. The surplus enlarged only by 2.1 CZK bn in comparison to year 2014, the slowest in the last five years. Only the trade with services (+21.3 CZK bn) shared in its growth quite surprisingly, the surplus of trade with goods was lower by 19.2 bn. With respect to individual quarters, the surpluses in the foreign trade were even weaker year-on-year (-9.1 CZK bn) in Q1 to Q3, only the last quarter improved the yearly result (+11.3 bn).

... only thanks to the prevailing positive terms of trade

Real gross domestic income,⁸ which reflects on the contrary from the GDP the additional profits or losses from the development of prices in foreign trade, or rather profits or losses from the terms of trade, increased by 4.5% in the last year. It thus increased by 0.3 p.p. faster than the GDP. A significant change occurred in comparison to years 2013 and 2014, since the dynamics of real gross domestic income relative to the GDP was by 0.9 p.p. and 1.2 p.p. higher at that time. While the terms of trade amounted to 101.2% and 101.5% in years 2013 and 2014, they were only 100.4% in the last year.

Manufacturing as well as services both equally contributed to the economic growth last year. They added +1.9 p.p. and +1.8 p.p., ...

The economic growth was equally distributed between the manufacturing and the services sector on the supply side. Gross value added of the industry as a whole increased by 5.6% in the last year and participated on the economic growth +1.8 p.p., the manufacturing itself recorded +7.3% and added +1.9 p.p. Other industrial branches – mining and quarrying, energetics, water supply – were declining (-0.1 p.p.). Services hiked up by 3% and contributed +1.8 p.p. to the growth, with the important fact, that a wider spectrum of branches prospered in comparison to 2014. Trade, transportation, accommodation and food service added together +0.4 p.p., the branches with a dominance of public sector (CZ-NACE O to Q) also participated by an equal share on the economic growth. Fast growing information and communication (+7%) contributed +0.3 p.p., the same as the professional, scientific, technical and administrative activities, that are more significant by weight.

... the contribution of construction remained the same as in the preceding year (+0.2 p.p.)

The inflow of finances into construction from the EU funds ensured, that this branch was growing by a solid pace also in the last year. The contribution to the total growth did not change and stayed the same as in year 2014 (+0.2 p.p.). Agriculture, forestry and fishing however slowed down due to the high basis associated with a very good harvest and did not share in the growth.

⁸ Not adjusted for seasonal and calendar effects.

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

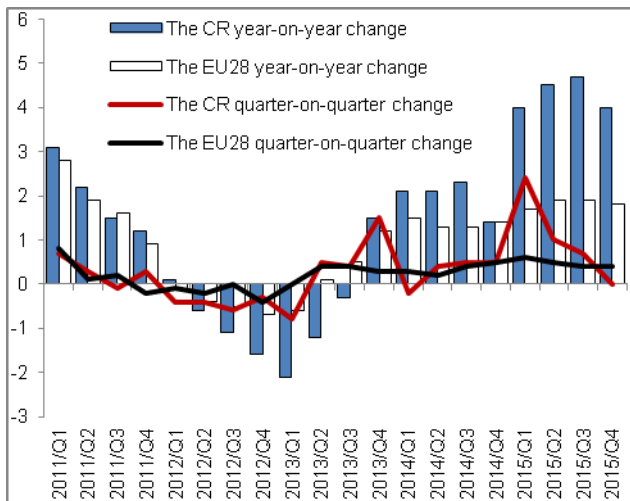
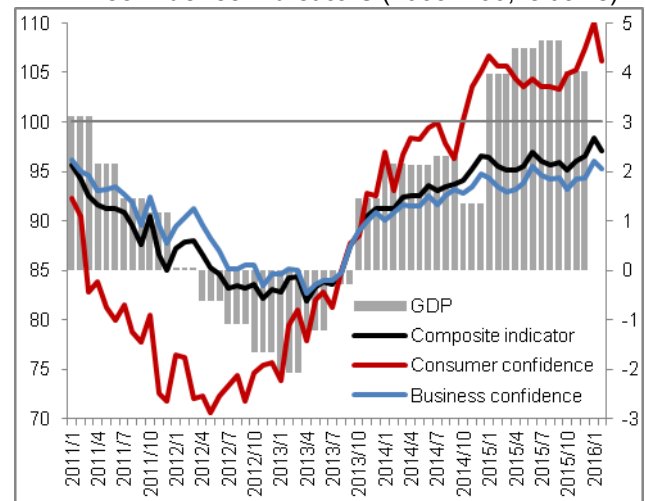
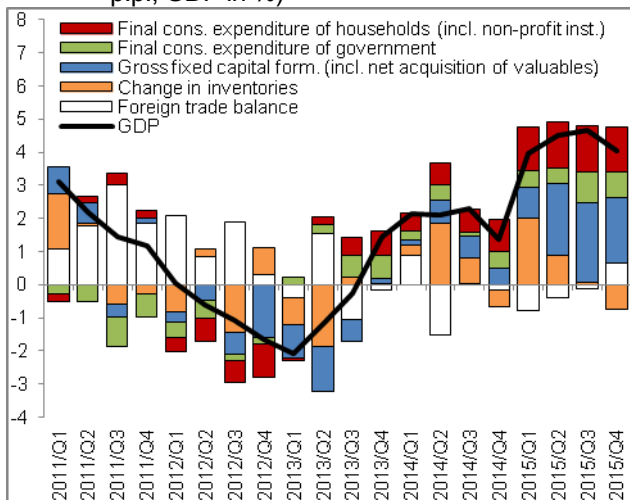


Chart 2 GDP (constant prices, adjusted for seasonal and calendar effects, y/y in %, right axis) and confidence indicators (2005=100, left axis)



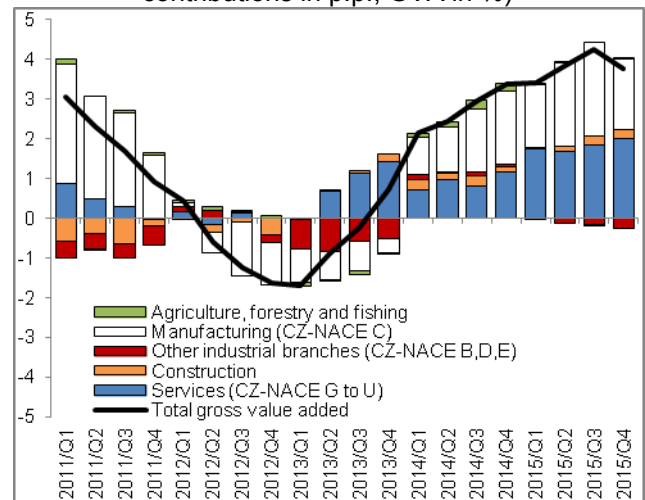
Source: CZSO, Eurostat

Chart 3 Contributions of expenditure items to GDP change* (constant prices, y/y, contributions in p.p., GDP in %)



*contributions to GDP change not excluding the import for final use

Chart 4 Contributions of branches to change in GVA (constant prices, y/y, contributions in p.p., GVA in %)



Source: CZSO

3. Branches Performance

Year-on-year dynamics of GVA was the highest in the last eight year in 2015

Manufacturing pulled the GVA growth in the CR, however the cluster of branches "trade, transportation, accommodation and food service activities" fulfils this role in the EU

Value added grew compared to the whole economy by a nearly double pace in the mostly export-oriented manufacturing (similarly to last year)

Very good condition of the CR was permeating into all key branches in 2015. Gross value added (GVA)⁹ continued in its quarter-on-quarter growth already eleven quarters in a row (longer than in the period of short-term revival following the deep recession in 2009). Year-on-year GVA dynamics (+3.8%) was the highest since 2007. Manufacturing kept the key role similarly to the preceding year, contributing one half to the total GVA growth, all main groups of services then contributed quite equally (with a mild dominance of the branch trade, transportation, accommodation and food service activities).

The value added further accelerated up to 8.9% in the manufacturing in the first three quarters of the year, it grew by 6.6% at the end of the year (against a high last year's basis). Total employment was by nearly 2% higher in 2015, similar dynamics occurred in the previous year. However, the rate of growth of the hours

⁹ Unless stated otherwise, data are in real terms and seasonally adjusted.



worked doubled – to 4% (in addition there was worked even by 8.2% hours more year-on-year in Q4 itself). Construction also continued in the success from the previous year, its GVA accelerated during 2015 (up to 4.7% in Q4), similarly to the hours worked of its employees. The GVA in fact stagnated after the high last year's growth (+5.9%) in the grouping of agriculture, forestry and fishing. The long lasting droughts lowered especially the harvest of fodder crops, potatoes or vegetables.

Among services, GVA grew the most in information and communication activities

The GVA increased by a more modest 2.5% in the branch trade, transportation, accommodation and food service activities in 2015, still it represented the best result in the last five years. The branch profited from the positive sentiments of the consumers supported by the growth of employment as well as real wages, more frequent arrivals of both domestic and foreign guests as well as higher demand for freight transportation. On the contrary, the growth of the professional, scientific, technical and administrative activities (lastly by 4.3%) already lasted for five years, supported by higher performance of job agencies as well as rising demand for the project activities (in relation to construction). Information and communication activities also prosper in the long-term, the GVA jumped to the highest rate of growth since 2007 here. The GVA increased by 4% in the financial sector, the total employment however fell already second year in a row. The GVA increased its pace after three years of stagnation in the public services¹⁰ to 2.6%, the most since 2002 (the gradually growing employment across all branches together with the increase of the wage tariffs at the end of 2014 contributed to this development).

Cost pressures due to strong competition most likely prevent creation of new job vacancies in the financial sector

Industrial production maintained the high growth rates thanks to the dominant manufacturing benefiting especially from the so far strong domestic as well as foreign demand for the transportation vehicles and their components

Industry performance (measured by the industrial producer index)¹¹ continued in the successful preceding year in 2015, when it strengthened by 4.6%. Nevertheless, its year-on-year growth already slumped 2.7% (after calendar adjustment) in Q4 itself and it stagnated in the quarter-on-quarter measurement already second time in a row. Manufacturing exclusively pushed the whole industry similarly to the two preceding years. The production kept further falling in mining and quarrying marked by the long-term decline of especially the black coal mining, even though by a slower pace (by 1.7%, compared by an average of more than 6% for the 2012–14 period). The unexpected lowering of production capacities in the nuclear plants was considerably reflected in the lower production in energetics (weaker by nearly 6% year-on-year), however this branch deals with mild falls of production in the long run.

Manufacturing of motor vehicles returned into the position of the strongest growing manufacturing activity. Manufacture of plastic and rubber products also drove on the wave of strong foreign as well as domestic demand, its production increased year-on-year the most since 2007

Manufacturing of motor vehicles played a dominant role (similarly to years of the strongest business cycle peak) when it contributed by nearly one half to the year-on-year growth in the whole industry in 2015 (main sub-supplier activities then added a quarter in the sum – manufacturing of electrical appliances and manufacturing of rubber and plastic products). The production of motor vehicle manufacturers grew the most dynamically (+11.5%) among specialized manufacturing branches. The record of the number of manufactured passenger vehicles was exceeded, but manufacturers of buses and trucks also fared well. On the contrary, the production of computers, electronic and optical appliances, which represented the most dynamic industrial activity in the two preceding years, slowed down during the year (from 8.4% in Q1 to stagnation at the end of the year). Metallurgy and especially the chemical industry also faced adverse tendencies during 2015, when their production weakened by more than 4% and 13% resp. year-on-year in H2. The production grew by mild but stable pace in the branches significant by weight and internally diversified – machinery and also the food industry (where the growth of 4.6% presented the highest dynamics after year 2001).

The yearly production was falling only in metallurgy (due to the surplus of steel on the European markets) and the chemical industry (because of the accidents in the production facilities)

Higher demand from abroad assisted the first recovery of the clothing industry after ten years

The majority of smaller, mostly branches in decline in the long-run also achieved a higher production in 2015. And it was the first growth (by 10.7%) after ten years for the producers of clothing, who benefited from the foreign demand. The

¹⁰ Consisting of constituent branches: Public administration, education, health and social care.

¹¹ Including branches according to CZ-NACE: B (Mining and quarrying), C (Manufacturing), D (Energetics).

<p>Nearly half of manufacturing activities still did not reach the level of real production from the peak of the business cycle, however it was already by nearly two thirds higher for motor vehicle producers</p>	<p>development of some specialised segments of this activity could contribute to this turn (e.g. the work or sport clothing). The recovery in the textile, paper or furniture industry lasts for nearly three years. On the contrary, the production did not increase in the printing and wood industry as the only manufacturing activities since the end of the last recession in the economy (it was similarly by nearly 5% lower compared to year 2013). Even though the production of the whole industry exceeded the level reached seven years ago by nearly 8% in 2015, almost one half of manufacturing activities have not reached the level of the business cycle peak yet (manufacturing of beverages, clothing and printing industry were one quarter below this level, among the larger activities it was the chemical industry, metallurgy and manufacturing of other non-metal minerals products).</p>
<p>High year-on-year dynamics of foreign industrial orders prevailed also towards the end of the year, especially for the manufacturers of motor vehicles</p>	<p>A stable growth of the foreign orders as well as the results of the business cycle surveys suggest a continuing favourable outlook of the industry in the short-term horizon at least. The value of new orders was year-on-year higher in all months of the year, in spite of their rates of growth not usually reaching the last year's double digit values. The dynamics did not abate in case of the foreign orders even in Q4 (+9.2% for whole industry, it strengthened even to 21.5% for the manufacturers of motor vehicles). The value of domestic orders was on the contrary mildly falling due to the development in metallurgy, machinery and especially the sharp slumps in the chemical industry in H2. A mildly positive entrepreneur confidence prevails in the industry, the seasonally adjusted balances of the confidence indicator reach stable values already for two years (following a slight decrease in Q4 2015, they again returned to the level typical for the previous year at the beginning of 2016). The significant effect of the inadequate demand falls somewhat with respect to the barriers of growth, the role of lack of material or equipment and especially of employees grows (already 15.4% for businesses at the beginning of 2016, only 6.7% a year ago). However, the favourable development of foreign demand in industry spills into the strengthening rates of growth of both employment and wages. The average number of registered employees in industry (for businesses with 50 and more employees) increased already by 3% year-on-year in Q4 itself (with the highest dynamics in the manufacture of rubber and plastic products, manufacture of computers as well as motor vehicle industry). Businesses were transferring the "proven" agency workers into the category of primary employees to a higher extent.</p>
<p>The proportion of businesses, which stated the lack of employees as the barrier to growth (15.4%) was the highest in the last 4.5 years towards the end of 2015</p>	<p>The CR belongs to countries with the above average dynamics of the industrial production within EU in the long-term. It was growing by the fifth fastest rate among all EU countries in 2015 (the fourth the year ago). For example Hungary (+7.3%) and Slovakia (+5.9%) reached even a higher dynamics. Ireland (with the less significant and much specialised industry regarding the activities) recorded a considerable growth (in the range of 18 to 21%) already second year in a row, on the contrary it oscillated only around 1% in Germany in the same time period. The activities focused on the production of capital goods strengthened the most in the EU (2.2%) similarly to the CR (6.7%). The CR belongs to the group of twelve countries, which already exceeded the pre-crisis level (year 2008) of the industrial production. These are mostly the converging economies (incl. the CR), Ireland (by 40%) also passed this mark and Austria or Germany also tightly. Italy, Contrary to it, Spain or Finland still remained one quarter below this level.</p>
<p>The highest of growth of the industrial production is concentrated in the strategically placed converging (mostly Central European) economies in the EU in the long-term, mainly thanks to the activities producing capital goods</p>	<p>The acceleration of public investment into the civil engineering works (driven by the finalisation of drawing of resources from the EU budget) was a key factor behind the results in construction in 2015. The impact of the notable economic revival still on the contrary manifests less clearly (e.g. the production of the building construction increased only by 6% compared to its bottom from year 2013). The construction firms also generate new job positions carefully, due to the experience from the pro-longed recession of the branch and remaining uncertainty linked to the subsiding of the "doping" effect of the strong drawing on the European subsidies.</p>
<p>The construction was in the major part determined by the completion of drawing on the European funds, especially on transport infrastructure in 2015</p>	<p>Year-on-year rate of growth of the construction production mildly accelerated to 7.1% (from 4.3% from year 2014) in 2015. Civil engineering construction (less</p>
<p>Mounting pressure on the completion of drawing on</p>	



funds from the EU budget allocated to the development of the transport infrastructure led to sharp year-on-year growth of the civil engineering construction production, the highest in the last twelve years

significant by weight) contributed to the growth of the whole branch from three quarters (its performance was by one sixth higher year-on-year). The whole construction however started to lose the dynamics in the second half of the year, when it rose by 1.1% year-on-year (after calendar adjustment) in Q4 (and simultaneously recorded already second quarter-on-quarter decrease in a row). Even though the construction production for the whole year increased the most since year 2007, it was still by nearly 15% lower in comparison to the level of the business cycle peak in 2008.

The stock of all not yet realised construction orders narrowed down by a whole one quarter during 2015

Good results in construction throughout most of year 2015 were partially the reflection of implementation of a high stock of last year's new orders for civil engineering works (in the value of 117 CZK bn, the highest since 2008). The value of new orders (in businesses with 50 and more employees) fell by 1.7% year-on-year in H2. The heightened pressure to complete especially the transport constructions transferred into a considerable drop of the stock of all not yet finished orders (by 38.3 CZK bn) year-on-year at the end of the year, mainly due to the effect of drawing of domestic public orders and also orders from abroad. At the same time, the estimated value of issued construction permits was increasing (by 14.9% year-on-year in Q4), however not for new construction, but for renovations of existing structures. The floor area within new buildings (permitted in 2015) enlarged for the first time since 2008 year-on-year, especially thanks to the non-residential structures. It can present a signal that the fastened growth of the economy starts to lead businesses (in industry or services) to expand their capacities.

Marked growth of the floor area within new permitted non-residential buildings

The number of commenced flats in the residential buildings grew already three years in a row, it was however by 55% weaker relative to the "peak year" 2007

The residential construction bounces from its bottom (year 2013) only slowly despite the growth of the disposable income of households and prevailing historically low interest rates (mortgages). The number of commenced dwellings increased by 8.3% in 2015 (by a similar pace as in the previous year), there were more flats in all forms of construction year-on-year except for the retirement homes, where the mere 476 flats represented the lowest value in the modern history. Almost 58% of the number of commenced dwellings in the residential buildings across the country belonged to Prague (under 40%, however, in the period of the business cycle peak).

The territorial disproportion in the commenced residential construction deepens

Improvement of the confidence indicators in construction, short-term outlook more favourable especially for the largest firms, who carried the decisive part of the responsibility to realise the investment into the transport infrastructure

The total balance of the entrepreneur confidence in construction improves already since the beginning of year 2014 and it was the highest in November 2015 since January 2009. The proportion of businesses considering inadequate demand as the barrier to higher output lowered by more than 10 p.p. within year 2015 (to 56%), still it represented a high value within the European context (EU 35%, Germany 17%). The share of businesses in the CR, who are prevented in further growth by the lack of labour force on the contrary increased during the H1 (up to 8.5% in June 2015, which was the most since December 2008). The construction businesses reacted to the higher demand by a more intensive utilisation of the current labour force this year (e.g. in the form of an overtime work). The average wage thus increased by high 5.3% (given the still lower number of registered employees), which was considerably more than in the manufacturing (3.7%) or the whole economy (3.8%).

Sales in services accelerated the dynamics (given the current decrease of prices), they grew the most year-on-year since 2007

Sales in selected services¹² increased in 2015 in the second time in a row, when they accelerated year-on-year up to 2.6%. The sales in fact stagnated in transportation and warehousing, when the land and pipe transport dominant by weight (+3.9%) only managed to compensate the notable fall of the real sales in the air transport (-3.6%) and warehousing (whose result was also influenced by high year-on-year basis). Professional, scientific and technical activities enjoyed a first growth (by 2.1%) after six years, with the turn occurring in all constituent activities in 2015 (a mild growth already even two years in a row lasted only in advertising). The accelerated growth of the economy was reflected also in information and communication (+5.5%). The sales were also increasing by the same rate in administrative and support service activities, whose development was to a large extent influenced by job agencies (where the growth of sales

Strong growth of industry as well as foreign trade well reflected also in the higher sales of the land transport

¹² Do not include the branches trade, financial and insurance activities, research and development and also all public services.

The slump of sales in the travel agencies continued already thirteen quarters in a row

fastened by one fifth). All activities across the whole branch in fact prospered, apart from the travel agencies (-7.9%), whose sales were already declining the third year in a row. More frequent arrivals of both domestic and foreign guests (especially in the summer period) catapulted the sales in accommodation (+7.5%) to the highest year-on-year growth after year 2005. The sales were record also in restaurants and food service activities (+4.1%), these however have not yet exceeded the level from the business cycle peak of 2008 (in contrast to the accommodation).

Stable consumer confidence supported by a very favourable development on the labour market led to the highest growth of retail sales after 2007

The year-on-year growth of sales¹³ accelerated up to 5.9% even in the retail trade itself in line with the trends in other services and thus moved closer to the values from the business cycle peak in years 2005–2007. The sales dynamics did not feature any significant changes during 2015, similarly to the favourable sentiment of the consumers. The sale of non-food products traditionally drove the whole branch (+6.8%). The sale of food however also fared well (3.9%), even in specialised stores (+3.0%, which thus halted the nine years lasting drop of real sales). Within other specialised stores, the strong development of sales of computer and communication appliances continued (+10%), the rate of growth of sales of products for culture and recreation nearly doubled compared to year 2014. The dynamic growth of sales at petrol stations lasted already thirteen months, they were by 10.6% higher year-on-year in Q4 2015 (still they remained in real terms 5% below the level of the end of year 2008). The demand was stimulated by low prices of automotive fuel (also when compared to the neighbouring states), partially also by the higher transport demands connected to the growth of the economy as well as the foreign trade. Sales of motor vehicles increased by one eighth (similarly to the preceding year).

Favourable price development stimulated the demand especially for automotive fuels and also the computer as well as communication appliances, it assisted the internet sellers in keeping the high rate of sales growth

Growth of retail sales in the CR was the fourth highest among the EU countries in 2015, the CR exceeded the EU dynamics in the long term (except for 2010)

Retail sales dynamics¹⁴ was double in the CR compared to the EU in 2015. Only Romania (+8.8%), Poland (+6.6%) and Ireland (+6.3%) achieved better results. Sixteen member states overtook the pre-crisis level of sales (year 2008), Poland (by one fifth) the most significantly among the larger economies, the Great Britain and France (similarly by one tenth), also the CR (6.3%), Germany (4.1%), Austria (3.7%).

Chart 5 Production in industry and selected manufacturing branches (constant prices, y/y, in %)

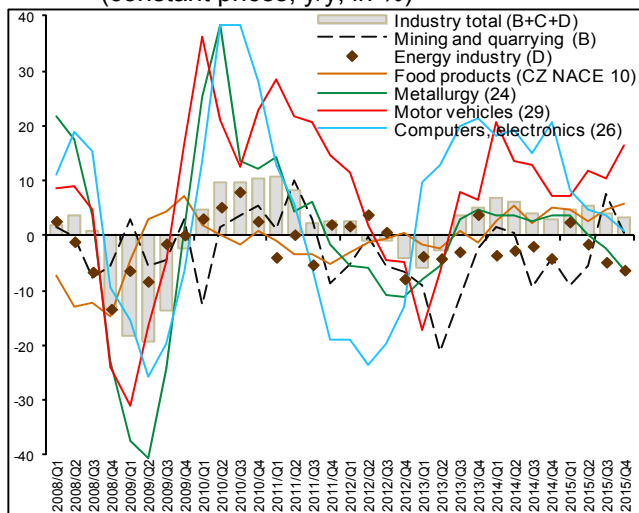
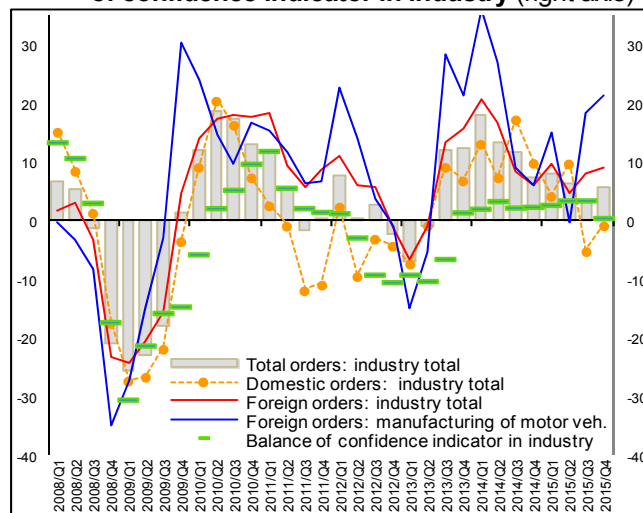


Chart 6 New orders in manufacture of motor vehicles, industry in total (cur.p., y/y, in %) and balance of confidence indicator in industry (right axis)



Source: CZSO

¹³ Retail excluding Sale, maintenance & repair of motor vehicles (CZ-NACE 45), data adjusted for calendar effects.

¹⁴ Retail excluding Sale, maintenance & repair of motor vehicles (CZ-NACE 45), data adjusted for calendar effects.



Chart 7 Construction production, value of new orders (y/y, in %) and balance of confidence indicator in construction (right axis)

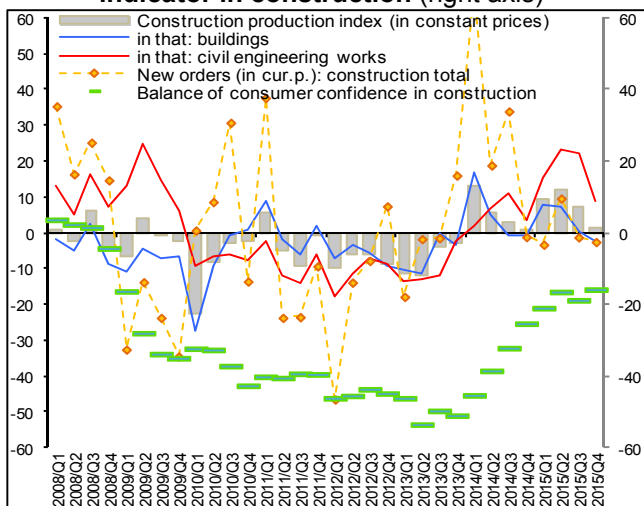
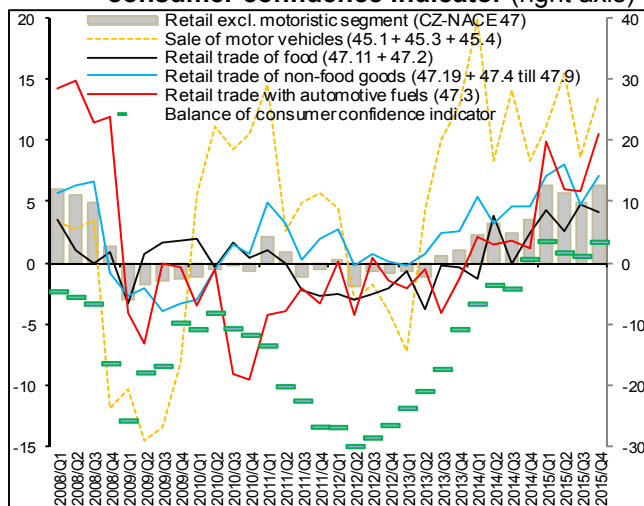


Chart 8 Retail sales incl. motorist segment (constant prices, y/y in %) %, balance of consumer confidence indicator (right axis)



Source: CZSO

4. External Economic Relations

Current account surplus more than quintupled in the last year and was historically the highest, ...

The current account of the balance of payments ended in surplus a second year in a row. The excess of revenues over outlays in addition more than quintupled on this account compared to year 2014 and reached a record level. The surplus of the current account amounted to 7.5 CZK bn in 2014 (0.2% of GDP) and 41.4 bn in the last year (0.9% of GDP). The surplus of the capital account was also historically the highest, it overtook the 100 bn boundary for the first time (106.1 CZK bn) thanks to the completion of drawing on the EU funds. Some transactions on the financial account also eluded the historical contexts – net outflow of direct investment, excess of portfolio investment inflow over its outflow or the growth of the reserve assets, these are the further records captured in the balance of payments statement.

...all partial balances participated on its improvement with the exception of the trade balance

The lower deficit of both primary and secondary incomes (+17.3 CZK bn and +6 bn resp.) and also the more notable surplus of the foreign trade with services (+19.4 bn) worked in the direction of further improvement of the current account. However, the trade balance worsened in the last year, due to a faster increase of imports of goods (+193 CZK bn) against its exports (+184.2 bn), by 8.8 bn. The trends typical for years 2012, 2013 and 2014 – i.e. the continual increase of the primary incomes deficit and lowering of the surplus of the foreign trade with services accompanied by simultaneous increase of the trade balance surplus – thus completely reversed in the last year.

Direct investment inflow into the CR was the weakest since 2003. Its trend in addition weakens already ten years

The transactions with abroad recorded on the financial account led to a deficit, similarly to years 2012–2014. The size of this deficit was however completely extraordinary, since it reached 193.8 CZK bn. The Czech companies strengthened their direct investment abroad by 87.3 bn in the last year, investment in the CR were nevertheless less attractive, since foreign direct investors spent only 60.7 bn in the CR. The growth of the foreign investors' capital in the CR was the smallest since 2003, its trend in addition weakens already since 2006. The financial account deficit was thus caused by the net outflow of direct investment, especially however by the dramatic increase of the reserve assets in the amount of 351.3 CZK bn. These were increased for once due to the continuing interventions of the CNB against the strengthening crown, then also because of the accelerated drawing of finances from the EU funds, which were exchanged into crowns outside the market and thus increased the foreign exchange reserves of the CNB.

Foreign investors purchased securities worth 236.4 CZK bn in the CR in the last year. In that, 117.7 bn was assigned to the purchases of the government bonds

The Czech economy received 164.1 CZK bn in the form of portfolio investment balance in 2015. The residents increased the holding of foreign securities by 72.2 CZK bn, the exposure of foreign investors in portfolio investment towards the CR rose by 236.4 bn. The effort of the domestic banks to optimise the structure of the balances at the end of the year was reflected in the investment of foreign investors into their bonds for 148.7 CZK bn, the foreign investors however also purchased massively the government bonds (for 117.7 bn). They preferred a low risk and speculated likely also on the further appreciation of the Czech crown, which could bring them additional yields.

Exports of goods rose based on the data in the national concept by 5.9% in the last year. The drop of goods exports by one third into the Russian Federation however also decreased the total exports into countries outside the EU (-0.4%)

The exports of goods increased based on the national concept data¹⁵ by 5.9% in 2015 and reached the value of 3 336 CZK bn. Its dynamics was stronger in H1, when it rose by 7.1%, compared to H2, when it was by 4.7% higher year-on-year. The exporters succeeded to expand especially to the EU markets in the last year, similarly to years 2013 and 2014. The exports of goods into the Union went up by 7.2%, by 7.4% into Germany itself and even by 14.4% to Slovakia. Regarding the value of goods exports into the countries outside the EU, it fell (-0.4%) for the first time since 2009. This decrease was for once connected to the restriction of exports into the Russian Federation, for second to the economic difficulties of this country. The export of goods into Russia slumped by 32.8% year-on-year in the last year and it was already lower by 37.3% compared to year 2012.

Rate of growth of exports into China higher than the dynamics of total exports in years 2009–2013. In the last two years it was however already below average

The exports of goods heading to China increased by 20.6% despite the generally weak demand in 2009. It was developing favourably also in years 2010–2013, since it grew much faster than the total exports of goods from the CR. Nonetheless, the Czech exporters did not progress as much on the Chinese market in the last two years – the exports into China increased by 8.7% in 2014 and by 4.4% in 2015, less than was the corresponding additions to total exports of goods in both years.

Exports of motor vehicles rose by 12.7% and by 38% in accumulation for years 2014 and 2015. It was nearly double compared to year 2007 (+87.3%)

The dynamic increase of the exports of motor vehicles from year 2014 (+22.5%) did not repeat in the last year. Nevertheless, it remained strong (+12.7%) and roughly double compared to the total increase of the exports of goods. Year 2015 was also favourable for exporters of fabricated metal products (+9.4%), electrical equipment (+6.9%) and rubber and plastic products (+6.6%). From the remaining divisions, whose value of exports exceeds the boundary of 100 CZK bn a year in the long-term, there was only chemicals (-6.8%) and basic metals (-5.5%) exported less in the last year. A slump of the value of exports in case of chemicals occurred due to the effect of a forced shutdown of the part of the production capacities, lower prices of oil however also contributed. It is nevertheless interesting, that the exports of the oil itself and natural gas doubled (+126.1%).

Strong domestic demand was mirrored in the more notable increase of imports over exports

Prices of oil and natural gas dropped on the world market in 2015 and were significantly reflected in the value of imports of this good into the Czech Republic (-20.3%). Even so, the total imports of goods into the CR increased by 6.5 %. It rose faster than exports. At the same time, it is apparent from the quarterly data, that it was the consequence of the development in Q1 to Q3, since the rate of growth of imports already lagged behind in Q4. Strong domestic demand, given by the fast growing consumption and investment, pushed up especially the imports from Poland (+11.4%), China (+11.1%) and Germany (+8.3%). The value of goods originating from countries outside the EU increased by 2.9%, the imports from Russia fell by 18.4%.

Interconnectedness of the Czech economy with the EU further increased in the last year

The orientation of the CR towards the EU strengthened in 2015. While 83% of total exports of goods from the CR ended in the Union countries in 2014, it was already 84% last year. The weight of goods imported from the EU on total imported goods expanded from 68.1% to 68.9%.

¹⁵ Data in the national concept are expressed in nominal terms. The value of exports is captured in FOB prices, i.e. including the costs connected with the transport to the CR boundaries. Import is in CIF prices, i.e. including costs associated with the transportation abroad, up all the way to the CR boundaries.



Surplus of foreign trade with goods in the national concept lowered by 7.3 CZK bn in 2015. At the same time, the deficit of the trade with oil and natural gas shrank by 55.5 bn

The surplus of the foreign trade with goods in the national concept, i.e. the difference between the exports in the FOB prices and imports in the CIF prices, arrived at 138.7 CZK bn in the last year. Excess of exports over imports shrank by 7.3 CZK bn and the trend of a continual growth of surplus from 2011–2014 halted. The surplus of the trade with the Union expanded to 597.1 CZK bn (by 28.6 bn), the deficit with countries outside the EU increased to 437.7 bn (by 29.3 bn).¹⁶ Oil and natural gas (deficit narrowed by 55.5 bn), motor vehicles (growth of surplus by 27.9 bn) and other transport equipment (growth of surplus by 10.8 bn) experienced the most significant improvement of the balance. Mainly the trade with the tobacco products recorded a worse result than in 2014, moving from the surplus into the deficit. The deficit worsened by 26.8 bn and 15 bn in case of chemicals and basic metals, surplus in machinery and equipment fell by 10.1 bn.

Chart 9 Current account of balance of payments (in CZK bn)

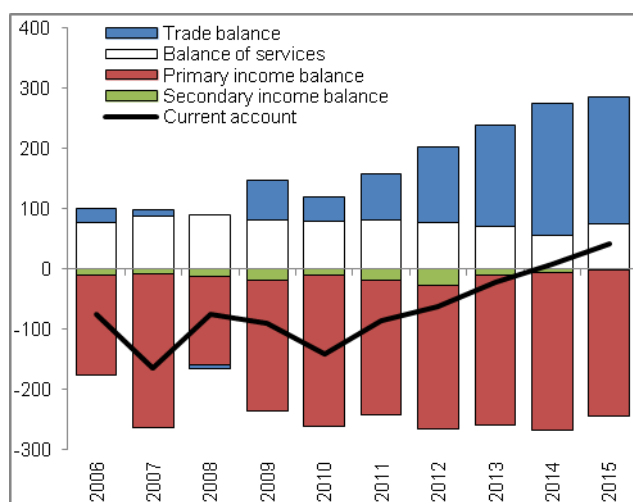
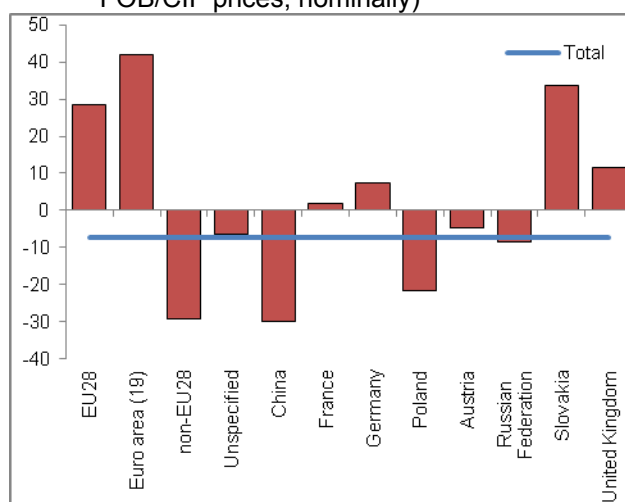


Chart 10 Balance of foreign trade with goods in national concept in 2015 (y–y in CZK bn, in FOB/CIF prices, nominally)



Source: CZSO, CNB

5. Prices

Total price level increased only by 0.7% in 2015. The dynamics of all demand components lowered

The total price level increased based on the implicit GDP deflator¹⁷ only by 0.7% in 2015. It slowed down considerably, since it rose by 2.5% in 2014. The dynamics of all components of the domestic demand lowered and the terms of trade were also lower. Consumption was from the view of households more expensive only by 0.1%, goods and services paid by government by 1.2%. Although the prices of these products grew by 0.5% and 1.5% still in 2014. The addition to prices of investment shrank by 1 p.p. to +0.9%. The terms of trade in foreign trade with goods and services remained positive, already third year in a row, however their value fell to 100.4%. They were positive in case of goods, in case of services they did not reach the value of 100% already for four years.

Inflation rate fell to +0.3% in the last year and it was the lowest in the last twelve years (the prices grew by 0.1% in 2003), ...

The inflation rate expressed by the year-on-year change of the consumer price index dropped to mere +0.3% in 2015 and it was the lowest since 2003 (+0.1%). It was falling already for a third year and its long-term development was thus apparent. The price dynamics during the year 2015 with respect to the individual quarters was nevertheless fluctuating. The consumer prices grew by 0.7% and 0.4% in the year-on-year comparison in Q2 and Q3. In Q1 and Q4 the Czech economy, however, balanced on the verge of deflation (prices grew equally only by 0.1%).

... supply side factors were mainly the cause

The dampened price development in 2015 was caused mainly by the supply side factors. The key factor was the slide of the oil price on the world commodity market, when the average price of the barrel of the Brent oil lowered from 99 US

¹⁶ Deficit of trade with unspecified entities increased to 20.7 CZK bn (by 6.6 bn).

¹⁷ Not adjusted for seasonal and calendar effects.

dollars in 2014 to 52.3 dollars in 2015. The lowering prices in manufacturing in the euro area affecting the prices of imports into the CR and also the falling prices of animals and animal products impacting the prices of food nevertheless also contributed to the disinflation. The dramatically weakening crown against the US dollar and growing demand of households for goods and services were hampering the established trend, nevertheless they did not manage to reverse it.

Prices of tobacco hiked by 7.6% in the last year and ensured, that the Czech economy did not descend into deflation

The price dynamics worsened (with respect to the most significant divisions of the consumer basket by weight) in case of food and non-alcoholic beverages (from +2% to -1.1%) and expenditure on transport (from +0.2 % to -4.2 %). Nevertheless, the deep fall of the prices of expenditure on health (deepened from -1.8% to -7.1%), which was linked to the cancelling of the regulation fees on dispensing of medicine on receipts and fees at the visit of a doctor, also contributed to the slowdown of the price development. The weaker growth of the prices of restaurants and hotels and prices of education also participated. Mostly the prices of tobacco worked in the direction of growth of consumer prices in 2015. They increased by 7.6%, thanks to the raising of the excise duty, and thus they contributed to a large extent to the fact, that the Czech economy remained in the positive inflation range and did not descend into deflation.

The price development in the last two years worked mildly in the direction of straightening of social inequalities

It is positive from the point of view of social inequality development, that the dynamics of prices for households of pensioners (+0.1%) was weaker compared to households in total (+0.3%) in the last year. The situation from the previous year was repeated. The long term increase of the social inequalities was thus slightly mitigated during the last two years, even though they still remained considerable. If the prices rose by 23.6% from the view of households in total in the last ten years, the cost of living for households of pensioners expanded by 32.4% in this period.

The prices of real estate dramatically increase in the environment of low interest rates. The size of rentals however does not change much

A fast growth of the real estate prices occurs in the Czech economy. The realised prices of new flats hiked up by 5.2% in Prague in Q4 2015 year-on-year, prices of second-hand flats were raised up by 4.6%. The development of prices was even faster in other regions, since the realised prices of second-hand flats outside Prague increased by 7.4% in the last quarter 2015. This development was supported by low interest rates transforming in the enlarged volume of loans for house purchase. It is however surprising, that the prices of rentals do not react to the strong growth of real estate prices so far. The prices of actual rentals for housing increased only by 0.8% year-on-year in the last quarter of the last year and prices of imputed rentals by 0.9%.

Consumer prices fall mainly in the less developed economies of the EU

The slump of the oil price, initiated in summer 2014, affected all European Union countries. The harmonised index of consumer prices lowered only in Greece in 2013. Already six Union countries faced deflation in 2014, however, and even eleven in the last year. In addition it is interesting, that the deflation was apparent especially in the less developed countries of the EU. Only Finland among the above average developed economies based on GDP per capita in PPS faced deflation (-0.2%). The prices moved despite ongoing quantitative easing from a mild growth into stagnation in the euro area, the same occurred in the whole EU.

Industrial producer prices fell the fastest in history. They decreased by 3.2%, ...

The industrial producer prices fell by 3.2% in 2015, the fastest in the history of the Czech Republic. The prices were falling faster in Q3 and Q4 with respect to the renewed slump of the prices of oil starting in the half of the year. The prices fell by 3.3% and 2.3% in the year-on-year comparison in Q1 and Q2, however already by 3.6% and 3.5% in Q3 and Q4. The development of industrial producer prices was also similar in the EU. The fall of prices deepened during the year 2015 in all member countries apart from Belgium, Poland, United Kingdom, Ireland and Hungary.

... even by 3.9% in manufacturing itself

The prices fell by 3.9% in manufacturing in the last year, that is faster than in the industry as a whole. The deflation was the strongest in case of producers of coke and refined petroleum products and producers of chemicals and chemical products. However, neither mining and quarrying (-0.6%), where the prices fell already for the fourth time in the last year, nor energetics (-0.8%), contributed positively to the development of industrial producer prices either.



Good harvest the cause of the fall of prices of the crop products, restriction on imports to Russia and cancelling of milk quotas the cause of lower prices of animals and animal products

Prices of agricultural producers (incl. fish) declined by 6% in the last year and thus followed the development of 2014, when they decreased by 3.7%. Nevertheless, the causes of this development changed. The prices of the crop products fell – thanks to a very good harvest – by 10.3% in 2014. On the contrary, the animals and animal products became slightly more expensive (+4.9%). The harvest of agricultural plants was also good (especially for cereals) in 2015, the prices of crop products however fell already only by 2.2%. The purchase prices of the animals and animal products nevertheless slumped by 10.5%. It was connected for once to the ban on imports of agricultural products and food into the Russian federation, for second to the cancelling of the milk quotas, which became effective at the beginning of April. Prices of pigs for slaughter decreased by 12% in the year-on-year comparison, milk was purchased from the agriculturiers for 17.2% less than a year ago.

Prices of construction work rose by 1.2% in the last year

Construction was considerably affected by the finalisation of drawing of resources from the EU funds in the last year. 41.4 CZK bn, by 27.9 bn more than in 2014, reached the construction companies only via the Operational Programme Transport itself. Narrowly focused demand of the public sector, especially for the infrastructure structures, limited number of companies capable to satisfy this demand and upcoming deadline, to which the funds from the programme period 2007–2013 could have been drawn – this was a combination, which resulted in the growth of construction work prices by 1.2%. It presented the fastest growth of prices in the last six years.

Drop of the prices of oil lowered the costs for the transporters and they went down by 1.4%

Prices of the market services did not change in the last year, however the development in individual quarters suggested, that also this segment of economy gradually descends into the deflation. The prices of market services were higher by 0.3% and 0.2% in the year-on-year comparison in Q1 and Q2 2015, however they were already falling (-0.2%, -0.1%) in Q3 and Q4. While the high growth of prices of postal and courier services (+6.4%) and financial services (+3%) put some inflationary pressures in the last year, the prices fell by 1.4% in the weight significant land transport services and transport services via pipelines. The turn in the development of prices of employment services, after two years lasting growth, also contributed negatively to the price development. They fell by 7.5%.

Prices of imported goods decreased by 1.9% in 2015 and fell already for the fifth time in the last ten years

Import of goods became cheaper by 1.9% in 2015, despite the crown foreign exchange development. The crown did strengthen mildly against the euro (by 0.9%), which worked in the direction of decrease of prices, however it weakened against the US dollar by extraordinary 18.5%. The fall of import prices was the consequence of the lower price of oil and decreasing prices in manufacturing in the euro area. Prices of mineral fuels decreased by nearly one quarter (-23.8%), crude materials by 9.2% and chemicals by 3.1%. The beverages and tobacco (-0.7%) and manufactured goods (-0.4%) were also imported for lower prices into the CR than in 2014. It was the fall of the import prices that was the primary source of deflation in industry (and “leaked” also into the consumer prices). The dynamics in individual quarters also suggests this, since it was worse in the second half of the year, similarly to the industrial producer prices. The prices of imported goods into the CR decreased year-on-year by 1.5% in Q1 2015 and stagnated in Q2. However, they decreased by 2.6% in Q3 and even by 3.8% in Q4.

The price level lowered also on the side of exports, however slightly slower compared to imports ...

The prices of exports of goods fell by 1.7% in the last year. All SITC sections were exported abroad for lower prices except for beverages and tobacco (+3.1%), which hold low weight in the total. Prices of machinery and transport equipment decreased by 0.4%, manufactured goods were cheaper by 1.6% and miscellaneous manufactured articles by 0.3%. The drop of prices of mineral fuels was deep (-12.6%), however not as much as on the import side. It is logical, as the weight of the trade with oil and oil products has a lower share on exports than on imports and thus the fall of prices of this commodity affected more the import side.

... and terms of trade remained positive for a third year in a row

Terms of trade in the foreign trade with goods remained positive. The size of additional profits of the Czech economy flowing from the favourable development of prices however considerably shrank compared to years 2013 and 2014, since

the value of terms of trade fell from 101.4% and 101.6% to mere 100.2%. Given the individual SITC sections, the terms of trade were highly positive for the mineral fuels (114.7%) in the last year, further however only in case of beverages and tobacco (103.8%) and crude materials (101.5%).

Chart 11 Consumer prices for individual types of households (y/y in %)

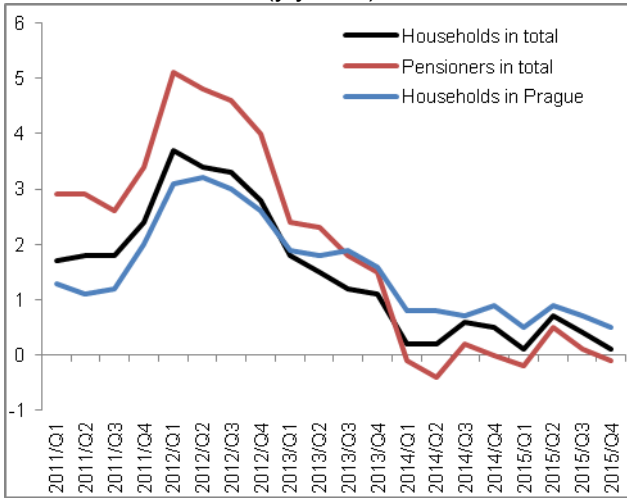
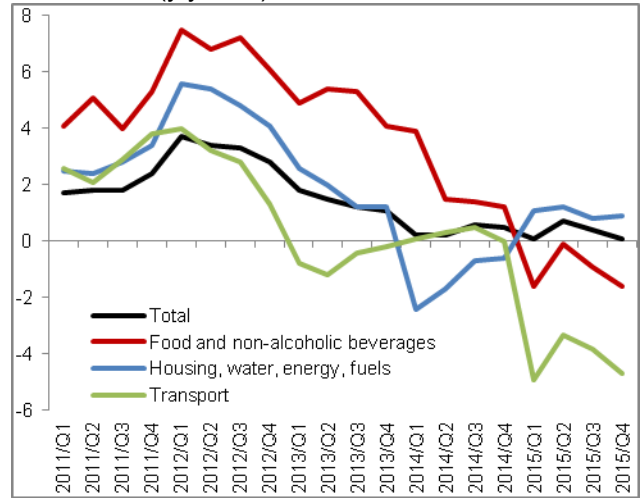


Chart 12 Prices in selected CPI divisions (y/y in %)



Source: CZSO

Chart 13 Deflators (not adjusted for seasonal and calendar effects, y/y in %)

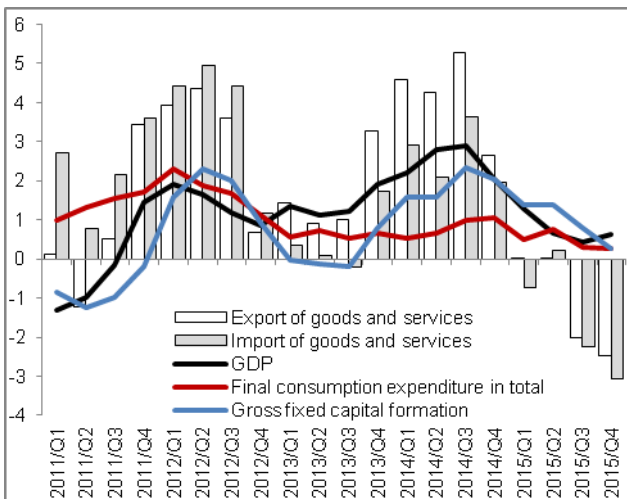
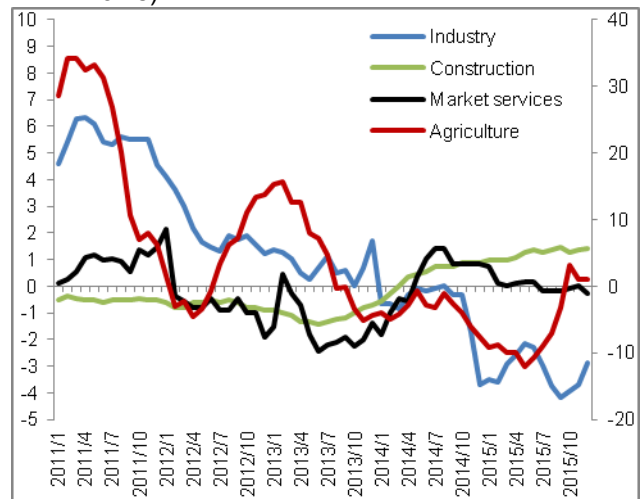


Chart 14 Producer prices (y/y in %, prices in the agriculture on the right axis, other on left axis)



Source: CZSO

6. Labour Market

The renewal of confidence in the economy and persisting inflow of orders in key branches led to the fastest growth of the number of workers after 2008 during the year 2015

Brisk growth of the economy was reflected in the strengthening pace of the total employment¹⁸. This was 1.2% above the level of the previous year in 2015. High year-on-year additions to employment were recorded in all quarters. There were 5.2 mil persons in the position of employed at the end of the year, which was together with year 2008 the most in the history of the independent CR. The demographic factors also have an effect on the employment in the longer term horizon apart from the effect of the business cycle, mainly the increasing age of retiring and higher participation – especially of women – in the tertiary education.

While manufacturing was creating positions to a

While the addition to employment occurred mostly in manufacturing in 2014, services also started to generate job positions to a greater extent a year later. It

¹⁸ Unless stated otherwise, seasonally adjusted national accounts data were used.



higher extent in 2014, the majority of other branches mainly in services also contributed more the year later

was mainly the branch (significant by weight) including trade, transportation, accommodation and food service activities, where 20 thousand more persons found employment year-on-year (25 thousand persons in comparison in manufacturing). However, it is important to take into account, that especially the larger companies cover the short term demand fluctuations by hiring agency workers. The still high growth of the number of workers in professional, scientific, technical and administrative activities (by 3.9% in 2015) indirectly suggests, that their role is still significant currently¹⁹.

Prolonged fall of employment in the mining industry continued, more intensive utilisation of the current workforce in the form of overtime work assisted in covering the higher demand in construction

Despite the overall favourable tendencies, branches still existed also in 2015, which were losing the job positions. It was especially construction, where the deep decreases of employment persisted already the fifth year in a row (lastly by 2.4%). Non-manufacturing industrial branches also face difficulties (-0.8%), mainly the long-time declining mining activities. Employment was falling two years in a row also in the financial and insurance activities (saving measures were most likely motivated by the effort to keep the high profitability in a very competitive environment here).

Shifts in structure of employment - to the benefit of employees. Their numbers grow, the self-employed are on the decrease

The structure of workforce from the point of status in employment also changes. The numbers of self-employed have declined since Q3 2014, accompanied by a simultaneous year-on-year growth in the employee category. This discrepancy further strengthened during the year 2015 and was well apparent in construction, manufacturing or in specialised services (information and communication altern. the professional, scientific, technical and administrative activities). The transfer of part of the self-employed persons into the employee position is characteristic for the Czech labour market in times of business cycle peak, when the businesses pull workers among their primary employees, which they used within the "švarc-system" in "worse times". Employers represent an important category from the view of the job creation potential. More detailed data from the LFSS indicate that the number of entrepreneurs with employees grew continuously since Q3 2013 year-on-year (excluding the end of year 2015).

Labour productivity already grew second year in a row and it reached the highest rate of growth in the last five years in 2015

The growth of the labour productivity was another positive feature in the last two years. It increased by nearly 2% in 2015, when the 3.8% real growth of the gross value added was achieved with the simultaneous 1.8% year-on-year growth of the hours worked. The productivity growth could have been even higher, if it was not for the considerable increase of the hours worked in Q4 (especially in manufacturing, trade and transportation). Information and communication, construction as well as financial and insurance activities achieved more than 5% productivity growth in 2015.

It was falling only in the primary sector and in the branch trade, transportation, accommodation and food service activities

Number of vacancies (offered by employment offices) grows already two years, they reached the highest level since November 2008 in December 2015

The intensity of creation of vacancies accelerated. While the job offices offered 59 thousand vacancies towards the end of 2014 (mere 35 thousand a year before), it was already 103 thousand vacancies twelve months later. The significant territorial as well as educational (resp. qualification) mismatch between the offered vacancies and registered job applicants persisted. It is valid for already two years, that the highest chance of employment belongs to applicants in the group of "plant and machine operators, assemblers", where there were only two applicants per vacancy towards the end of the year (the numbers of applicants and vacancies almost equaled in the Plzeňský, Pardubický and Liberecký region). Craft and related trade workers (2.9) were in a very similar situation, the professionals as well as technical and specialised workers followed with a little distance. On the contrary, already seven applicants aspired for one vacancy for unskilled workers i.e. elementary occupations (which constituted 40% of applicants. in the Karlovarský region) and already nearly eleven applicants for the clerical and support workers (22 persons then in the Central Bohemian region).

General unemployment rate dropped to the lowest level since November 2008

General unemployment rate²⁰ was decreasing throughout the whole year. It hit the 5% boundary during summer and ended on the lowest level (4.6%) since November

¹⁹ Agency workers have contracts of employment within services – e.g. in Employment activities (CZ-NACE 78.2), which on higher aggregation belong to Professional, scientific, technical and administrative activities.

²⁰ Based on ILO methodology, constructed as a % of number of unemployed persons to the total labour force (aged 15-64), seasonally adjusted.

2008 in December 2015. It decreased by 1.3 p.p., against the beginning of the year, regardless of the gender. The favourable development in industry helped to push down to lowest levels the unemployment of males (3.8%), similarly to the populated group of persons with secondary education without the school leaving certificate, incl. apprentices (4.6%). On the other hand, a high unemployment persists in the group of persons with primary education (22.8%), as well as the high share of long-term unemployed among all job applicants (48.5%).

The CR was together with Germany among the countries with the lowest unemployment rate within the whole EU

The proportion of unemployed persons on the total labour force keeps falling also in the EU (faster among the younger member states), still it remains high (on the level of 9% in Q4 2015). The CR was together with Germany among the countries with the lowest unemployment rate at the end of 2015. The situation was less favourable for females, where already four countries achieved better results (Germany, Austria, Great Britain and Malta), even nine countries in case of the long-term unemployment rate (with duration of unemployment over 12 months).

Marked acceleration of the rate of growth of wages year-on-year during 2015

The rising demand for labour force was gradually reflected in wages as well. The rate of growth of wages (per full-time equivalent employee) was the highest in the last seven years in 2015 and accelerated during the year (from 2.3% in Q1 to nearly 4% at the end of the year). The wages were growing relatively faster in the business sphere than in the non-business sphere in the second half of the year. The higher growth of wages in the dominant (by weight) business sphere was among other things also enabled by the growth of profitability of businesses, especially those under foreign control. The development in the non-business sphere also presented a significant impulse, with the growth of the wage tariffs at the end of 2014. The employees in accommodation, restaurants and food service activities (6.6%) experienced the biggest relative improvement in 2015, however it is a branch with a long-term low wage level. The wages in manufacturing grew at the same speed as on the level of the whole economy, however the employment grew significantly here. The growth was much more modest in the branches with the highest wage level (information and communication, financial and insurance activities, energy industry). The important fact was, that the wage median (5.4%) grew by much faster rate than the average wage (3.9%) in Q4. The growth of the wage differentiation thus halted. The increase of the minimum wage level also most likely contributed.

Raise of the minimum wage contributed to the halt of further wage differentiation deepening

Low inflationary conditions assist the growth of the purchasing power of employees

Low rate of inflation and accelerating growth of the average wage were beneficially reflected in the development of the purchasing power of employees. While the average wage was raised by 2.2% in real expression in Q1 2015, it grew already by 3.8% at the end of the year. It represented the highest increase since the end of year 2009.

Chart 15 Number of employed persons and employees (nat. accounts data, seasonally adjusted, y/y in %)

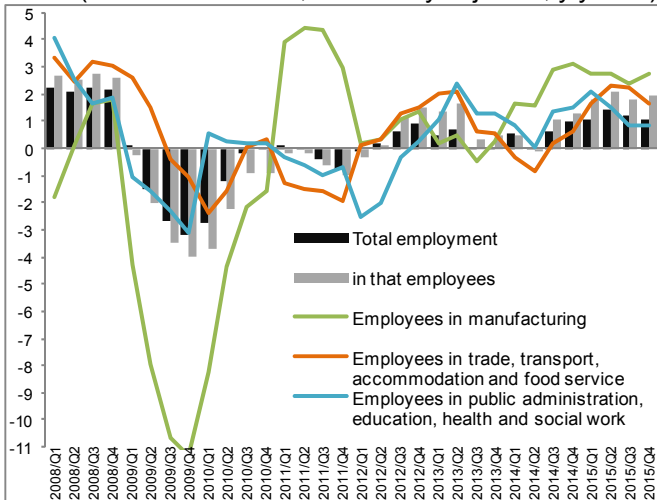
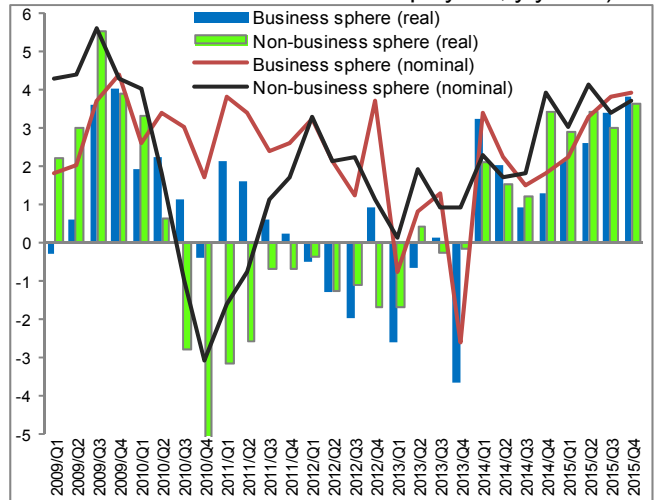


Chart 16 Average gross nominal and real wage (per recalculated numbers of employees, y/y in %)



Source: CZSO



7. Monetary Conditions

Key interest rates still close to zero, crown foreign exchange still kept above the level of 27 crowns per euro

Monetary conditions remained easy throughout the whole year 2015 and thus worked in the direction of growth of both the performance of the Czech economy and the price level. Key interest rates are practically zero since the end of year 2012, the crown foreign exchange is kept above the level of 27 crowns per euro since November 2013. A weaker economic growth of the euro area against the USA together with the quantitative easing of the ECB created pressure on the depreciation of euro against the US dollar. It depreciated significantly, however the Czech crown also lost with it. While it appreciated by 0.9% against the euro, it lost 18.5% of its value against the dollar. The money supply expressed by the monetary aggregate M2 increased by 6.9% year-on-year in December 2015. Even though it mildly slowed down, it grew faster than would correspond to the average for the whole year and also faster than in each month of years 2010–2014.

Velocity of money started to decrease in the second half of 2015

The year-on-year dynamics of the monetary aggregate M2 is higher than the dynamics of the nominal GDP roughly since the half of year 2015. The growth of the harmonised aggregate M3 is also faster. Velocity of money is thus decreasing and the effectivity of easy monetary conditions is falling, the same way as in the recession years of 2012 and 2013.

Interest rates are low and households and businesses transform term deposits into the most liquid money, especially the overnight deposits

The money supply arrived at 3 668 CZK bn in the concept of the monetary aggregate M2 by the end of the last year. In that, 2 952 bn was assigned to the most liquid money (currency in circulation and overnight deposits) and 716 bn to quasi-money (deposits with agreed maturity, deposits redeemable at notice, repurchase agreements). Money supply rose by 238 CZK bn against December 2014, however only thanks to the increase in volume of the overnight deposits (+263 CZK bn) and currency in circulation (+35 bn). The volume of quasi-money is shrinking continuously since September 2012, it fell by 60 bn between December 2014 and 2015. It is the consequence of low interest rates, when the households and businesses are not motivated to hold these types of deposits and transform them in to the most liquid money, especially the overnight deposits. Households negotiated deposits with agreed maturity with an interest rate of 1.6% and deposits redeemable at notice with the rate of 1.37% in December 2015. The interest rates to non-financial corporations amounted to 0.21% and 0.78%.

Share of currency in circulation on the monetary aggregate M2 is stable in the CR. It oscillates between 12% and 14%

The share of currency in circulation on the monetary aggregate M2 is stable in the CR and oscillates only negligibly in time. It moves between 12% and 14% in the long-term. It jumped up only in the second half of year 2008, in connection with the difficulties of the banking sector of the USA, when also the Czech society started to worry about its money in banks. The volume of currency in circulation reached 467 CZK bn in December 2015 and arrived at 12.7% relative to the aggregate M2.

Total deposits of businesses grew always by more than 10% year-on-year during H2 2015. Businesses increased mainly the overnight deposits

Total volume of household deposits was higher by 5.7% year-on-year at the end of the last year, even by 10.3% in case of businesses. The rate of growth of household deposits gradually rises, for businesses it exceeded 10% level throughout the whole H2. Businesses strengthened mainly the overnight deposits significant by volume, they had 952 CZK bn in them in December, by 111 bn more than a year ago. The robust increase of the liquid resources of the businesses – given by high profits from own activity and growing loans to businesses – provides hope, that investment and volume of paid out wages will also grow in the future. They hide the potential of future growth of the economy of the Czech Republic.

Net credit to the government sector (incl. securities) fell by one fifth year-on-year in December 2015

Loans to households and businesses increase faster than the total domestic credit. It occurs since August 2015. The difference in year-on-year rates was already marked in December. While the volume of loans to households and businesses increased by 6.5% year-on-year, the volume of domestic credit was higher only by 1.8% against the end of year 2014. It was caused by the notable drop of the net credit to the government sector (incl. securities), by one fifth year-on-year (-21.1%). This development was most likely associated for once with the fact, that the

domestic banks were selling government bonds abroad, for second with the accelerated drawing from the European Union funds at the end of the year.

Share of non-performing loans in the CR does not decrease due to worsening payment morals of non-residents. Loans repayment on the part of residents however improves, in December 2015 it was even the best since the crisis

It is key from the view of the banking sector stability, how the share of non-performing loans is developing. It was the lowest in November 2007, when it constituted 2.61%. Nevertheless, it climbed up to the level of 6% due to the worsening of economic situation in the CR in years 2008 and 2009, where it basically remained till today. The share of non-performing loans did not decrease even in 2014 and 2015, when the economy was evidently flourishing. If we however study the detailed structure more, it becomes apparent, that a high proportion of non-performing loans is caused by the non-residents, whose payment morals is continuously worsening. On the other hand, the repayment of loans on the part of residents is improving already since the end of the year 2010. The proportion of non-performing loans for the non-residents amounted to 16.59% in December 2015. In case of residents, the banks had only 4.36% of total exposure in default and it was the best result since crisis. Not surprisingly, the households repaid their obligations better (4.07%) than the non-financial corporations (5.72%). However, especially the business sphere recorded the improvement with respect to the payment morals during the year 2015 – the proportion of non-performing loans of households decreased by 0,66 p.p. and by 0.99 p.p. for non-financial corporations.

Interest rates on loans for house purchase are very low and the households contract debts, ...

Very low interest rates on loans for house purchase – in the environment of growing household income and low unemployment rate – motivated the households to acquire their own housing resp. to secure future income by a purchase of real estate for rent. The rates were low throughout the whole year 2015, regardless of the fixation period. Nevertheless, those who negotiated the loan in June with the fixation of the interest rate over 1 and up to 5 years (2.32%), reached the most advantageous conditions, even historically.

... mortgages rose by 8.8% year-on-year in December. The interest to finance real estates via consumer credit is also increasing

The volume of loans provided to households for the purchase of flat or house increased by 8% year-on-year at the end of 2015, the fastest since July 2010. The most often utilised mortgage loans increased by 8.8%, deviation from the standard credit from construction savings however continued (-9.6%) and the bridging credit were not convincing in their dynamics either (+3.2%). A higher interest of households to finance the real estate with the use of the consumer credit is apparent since Q2.

Non-financial corporations incur further debt, however only on longer time horizons

The increase of loans to non-financial corporations follows from the higher demand for longer-term financing. The volume of medium term loans grew at least by one tenth year-on-year in September to December, the volume of long term loans throughout the whole H2. Since these are commonly the investment loans, it can be assumed, that the high dynamics of these loans is associated with higher investment activity. However, the non-financial corporations likely start to prefer their own resources when financing the operational matters – the year-on-year additions to short term loans to non-financial corporations were weak for the whole year 2015, even negative at the end of the year.

Total debt of households increased by 76 CZK bn year-on-year to 1 391 bn at the end of the last year. It arrived at 31.1% of GDP

Total indebtedness of the Czech households rose by 76 CZK bn year-on-year at the end of 2015 and the households owed 1 391 bn. Mainly the debts originating from the house purchase (978 bn) represent a burden. Households owe approximately one quarter of a trillion (262 bn) in the form of consumer credit, 151 bn belongs to the other credit. Banks and credit unions are logically the biggest creditors of households, they hold 95.8% of the total household debt. The rest belongs to other financial institutions. The role of these institutions is zero in case of provision of loans for house purchase, the complete majority of these types of liabilities of households are held by banks and credit unions. However, the other financial institutions already cut a considerable slice from the consumer and other credit. Households owe to other financial institutions 18.6% from the consumer credit, 6.1% for other liabilities.



Chart 17 **Monetary aggregates and gross domestic product (y/y in %)**

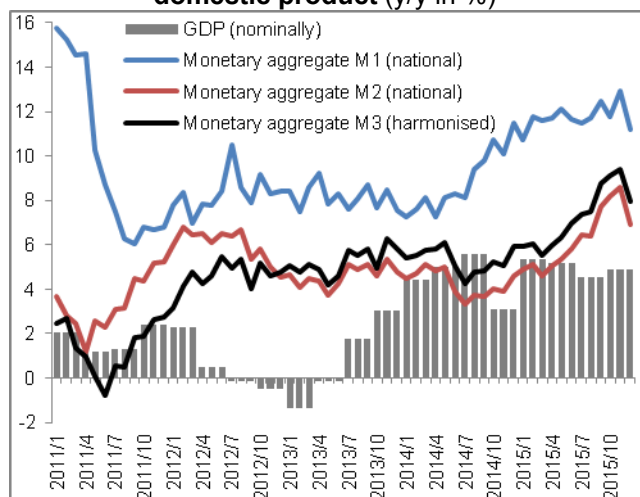
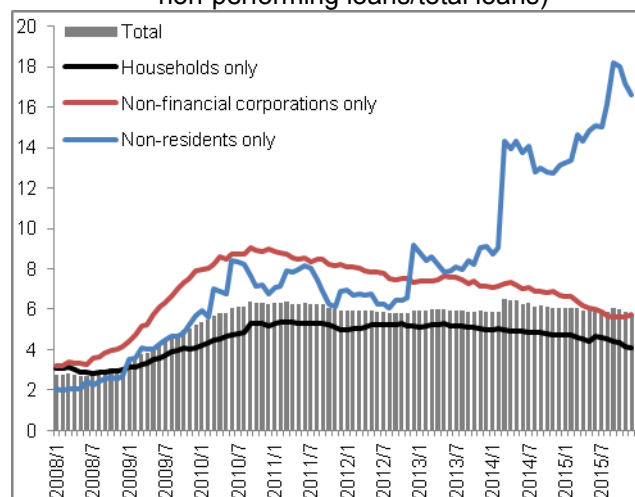


Chart 18 **Share of non-performing loans (in %, non-performing loans/total loans)**



Source: CZSO, CNB

8. State Budget

Strengthening economic growth supported by a record drawing of resources from the European funds catapulted the state budget to the lowest deficit after year 2008

The strengthening economic growth accompanied by the intensive finalisation of drawing of funds from the EU budget helped to keep the trend of declining state budget (SB) deficits in 2015. It ended (based on cash fulfilment) in deficit of 62.8 CZK bn, which was the fourth best result after 2000. The actual deficit was visibly better than the budget anticipations (similarly to the previous two years). Deepening irregularities on both the revenue and outlay side caused, that the SB fell into a more notable deficits only in the last quarter of the year. The SB balance (forming the key part of a deficit or surplus of the government institution sector) amounted to -1.4% in relation to nominal GDP in 2015 (-1.8% a year ago) and it belonged (together with year 2008) to the lowest in the new millennium.

Even though the year-on-year dynamics of the state-wide VAT collection (+2.8%) was also due to the effect of the legislative measures the lowest in the last three years, still it exceeded the budget anticipations

Both transfers from the EU and all tax revenues (higher by nearly 50 CZK bn) contributed to the growth of the total SB revenues (by 8.9% year-on-year) by an equal amount. The swift pace of the economy was to a growing extent reflected in the tax revenue collection, including the indirect taxes, whose year-on-year dynamics was blurred by an artificially raised basis at the beginning of the year.²¹ The collection of the weight dominant VAT increased by 2.8% for the whole year 2015. The effect of the strong final consumption expenditure throughout the economy was partly dampened by the introduction of the second lowered VAT rate, falling prices of fuels and also by the payment of the temporarily excessive VAT deductions.

The year-on-year dynamics of consumption tax collection the fastest in the last eight years, especially thanks to the growing rates of taxes on tobacco products

The state-wide collection of all consumption taxes grew the fastest (+6.5%) after year 2007, thanks to the tax on the tobacco products, whose collection increased by one seventh higher year-on-year and (according to the cash fulfilment) returned to a continual course for the first time after year 2011. The collection of the dominant (by weight) tax on mineral oils strengthened by 3.3% in 2015, mainly the consumption of diesel oil expanded. Low prices of automotive fuel stimulated the demand (incl. the transit transport), the strengthening economy was also accompanied by the growth of private as well as freight transportation. On the contrary the re-introduction of tax reliefs (so called green fuel) had a slight negative effect.

²¹ With respect to the consumption tax on tobacco products, the higher collection from the beginning of year 2014 was connected with the intensive pre-stocking of traders at the end of year 2013 for the reason of subsequent increase of rates. As of 1.12.2014, another increase of the consumer tax rates occurred for the tobacco products, but was supplemented also by the regulation of the pre-stocking. Higher VAT basis was associated with the temporary deferring of payment of the part of excessive deductions at the beginning of year 2014 (in the amount of 8.7 CZK bn) for the "non-settled" VAT payers. Amount of 1.8 CZK bn was still being deferred (by government authorities) at the end of December 2014.

State-wide collection of the corporate taxes grew the most since the business cycle peak in 2008

Rising profits of the businesses were gradually transformed into increasing growth rates of corporate tax collection (+9.7% in 2014, +11.4% a year later). On the contrary, the collection of income taxes of natural persons remained (similarly to years 2013 and 2014) below the level of budget anticipations, when it grew by 4% (similar rate as in 2014). The legislative measures (increase of the tax relief on second and further child, “kindergarten fee”, re-introduction the basic tax relief for working pensioners) partially subdued the positive impact of higher employment as well as gradual wage growth acceleration. Even though the state-wide collection of corporate taxes grew the fastest in last seven years in 2015 (+11,4 %), it still lagged by nearly one fifth against its pre-crisis peak (year 2008). Apart from the impacts of the recession on the tax collection (the highest in 2009, but also in years 2011 and 2013), the lowering of the tax rates also played a role. The collection of taxes from employees was already by 7.7% higher compared to its pre-crisis peak (year 2007).

Larger collection of taxes from employees was prevented by the widening of tax reliefs and partially also the modest wage growth especially in the first half of the year

More than one fifth of the CR revenues from the EU budget eventuated in the last year during the period 2007–2015

The expected intensive finalisation of drawing of resources from the EU budget fundamentally influenced both the revenue as well as outlay side of the budget. The CR gained in total nearly 194 CZK bn in 2015, which represented more than one fifth of the received funds for the period 2007–2015. Nearly 57% of revenues were associated with the structural funds in 2015, which also participated the most on the fastened drawing completion (they were by 53 CZK bn higher year-on-year, by 23 CZK bn for the cohesion funds). After accounting for the payments into the EU budget, the net position of the CR arrived at nearly 152 CZK bn, twice as much as in 2014.

Dynamics of the SB expenditure growth increased its pace to the highest level after 2006

Total expenditures of the SB accelerated to 7.1% year-on-year, they grew by nearly double pace compared to year 2014. Especially the investment expenditure caused it, by 58% higher year-on-year. 83% of SB capital outlays were direct to co-financing of common CR and EU programmes. It was especially the Transport Operational Programme (41.4 CZK bn, by 27.9 CZK bn more year-on-year) and further the domains of entrepreneurship, innovations, environment and also the regional operation programmes. Investment constituted a record 13.6% of all SB outlays, when its share oscillated only slightly above 10% in years of the business cycle peak.

Nearly one seventh of the state budget outlays directed to investment in 2015

Pension account deficit lowered already second time in a row and achieved its best result in the last five years in 2015

The growing social benefits (by 10.5 CZK bn) participated from one half on the higher current expenditures (by 1.9%). Nearly four fifths of social outlays were expended on pensions, whose size was influenced by a repeated transfer to a previous indexation scheme and to partly also by intergenerational exchange of the pensioners. The number of pension recipients was moderately increasing (from 0.2% in 2014 to 0.4% in the following year), exclusively due to the higher number of old-age pensioners. Even though the growth of the expenditure on pensions was the highest in the last three years (by 2.4% year-on-year) this year, the pension account deficit (the difference between revenues and expenditure on pensions from the SB) kept declining (to 35 CZK bn) thanks to the dynamic growth of the collection of the insurance (by 5.2%, the highest after 2008).

Sickness benefits expenditure reached the highest absolute amount after year 2009, still they were by more than 3 CZK bn lower than the volume of collected insurance

Especially the outlays on sickness insurance (by 9%) were increasing among the social benefits (other than pensions). It was caused by the legislative measures (renewed payment of sickness benefits already from the 15th day) and also the growth of sickness rate. The weight most dominant state social support benefits in total stagnated. Only the foster care benefits (by one eighth year-on-year), maternity grant and housing benefits (by 3.6%) grew within this sector. Social care benefits also stagnated, when a higher expenditure on care (based on the Social Services Act) was compensated by 7% drop of the material need benefits. The favourable situation on the labour market also led to a marked fall of the size of paid out unemployment benefits (by one tenth compared to year 2014, they fell even by 45% against the year of the deepest recession). Only one quarter of persons registered in the labour offices was receiving the unemployment benefits in December 2015 (their share slightly increased by 2.5 p.p. year-on-year). Simultaneously, the outlays on the active policy of employment markedly strengthened (thanks to the EU funds), they were by more than one half higher for Q1 to Q3 2015 year-on year and they even exceeded the resources on the passive employment policy after a long time.

State social support benefits in total stagnated year-on-year, similarly to the social care benefits



Expenditure on wages and other payments for work fastened to 7.8%, they were however only by 4% higher against the year 2009

The retreat from the former restrictive measures stood also behind the rise of the current SB expenditures. This was also reflected in the higher non-investment transfers to regional budgets (e.g. on teachers' wages or contribution to state administration in municipalities) as well as in the growth of expenditure on wages of state employees (by 7.8%, partially also due to the preparation for the new Public Servants Act, but also due to higher wages in defence or the judiciary). Expenditure on non-investment purchases was also higher year-on-year.

Expenditure on state debt were declining already second year in a row, in accumulation by 8%

The SB saved on the payments to the EU budget as well as the expenditure on state debt (-2.7 CZK bn) similarly to the last year. The state managed to sell its medium term bonds on the primary market with negative interest rates by the end of summer for the first time in history.

Size of the state debt was stabilised in the last nine quarters

The stabilisation of the state debt continued. Its size reached even 1 673 CZK bn according to the MF at the end of the year 2015 and increased by 0.6% year-on-year (after fall in the preceding year by 1.2%). It happened due to the development in Q4 itself, when the total debt rose by 10 CZK bn. State utilised the favourable situation on the financial markets, when it borrowed with a negative yield. The external debt share on the total indebtedness was 17% at the end of 2015 (the least since the beginning of 2008). The volume of the Czech bonds kept by foreign investors increased by nearly one half during the year 2015 and amounted to 295 CZK bn at the end of Q4.

Debt of the government institution sector relative to GDP lowered during the first three quarters of 2015, similarly to the majority of EU countries

The debt of the whole government institution sector (accounting for among other things also the budget of regions or social security funds) reached according to the up-to-date data of the CZSO the size of 1831.3 CZK bn at the end of Q3 2015²² and it was 41.4% in relation to GDP (42.7% then at the end of 2014). The drop of the relative level of the government institution debt is the result of both the growth of the nominal GDP and the stabilisation of the nominal level of the state debt, which comprises the dominant part of the total debt of the government institutions. The relative size of the government institution sector debt was the seventh lowest among the EU countries in the CR at the end of Q3 2015 (e.g. Denmark or Sweden also had a similar position to the CR). The relative indebtedness lowered in most EU countries since the beginning of 2015 (the most in Ireland – from 107.5% to 99.4%), on the contrary it increased by more than 3 p.p. in Slovenia (to 84.1%).

Chart 19 State-wide collections of tax revenues (y/y, in %) and state budget balance (in CZK bn)

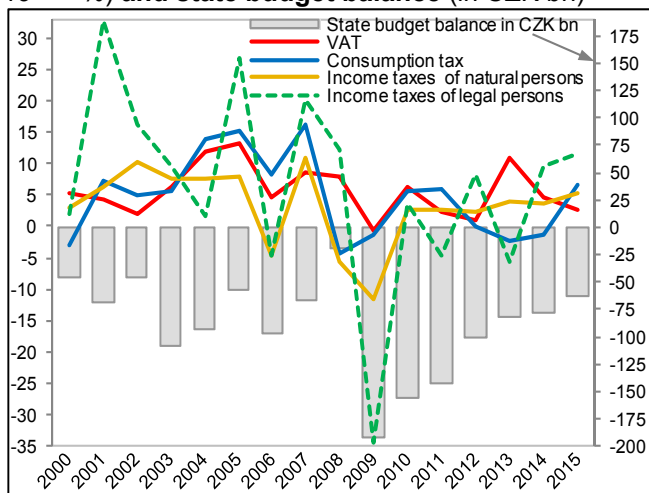
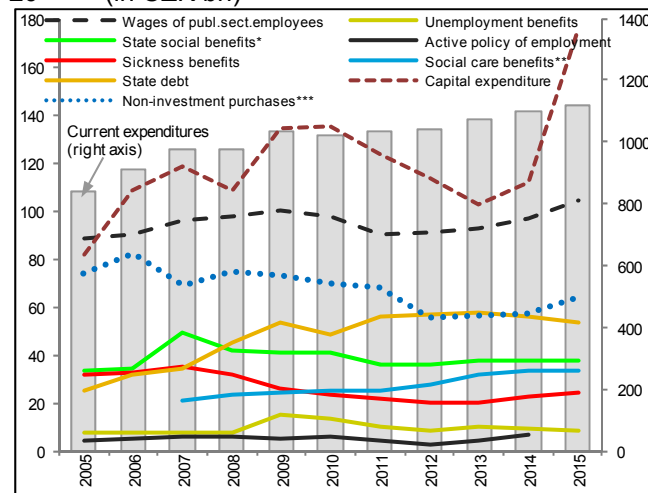


Chart 20 Selected state budget expenditures (in CZK bn)



*including the foster care benefits

** material deprivation assistance benefits, disability benefits, contribution to care based on Act on State Social Support

*** excluding interest and other Financial costs

Source: MF, MLSA

²² The data regarding the debt and deficit of the government institution sector for Q4 2015 will be published by the CZSO on 1st April 2016. Simultaneously, the previous data will also be revised.

Chart 21 **Structure of the CR revenues from the EU budget, total net position (in CZK bn)**

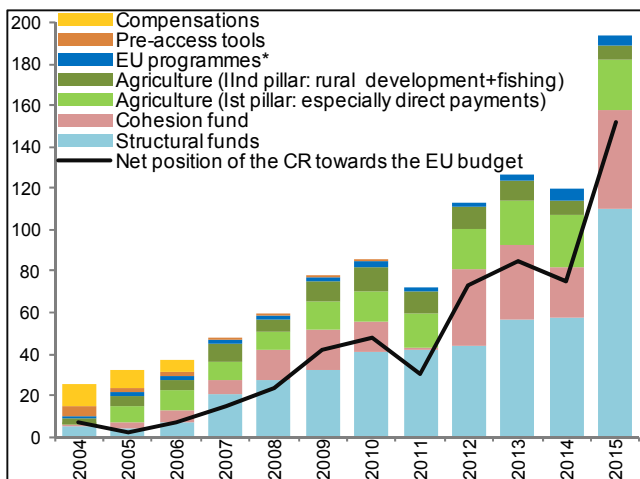
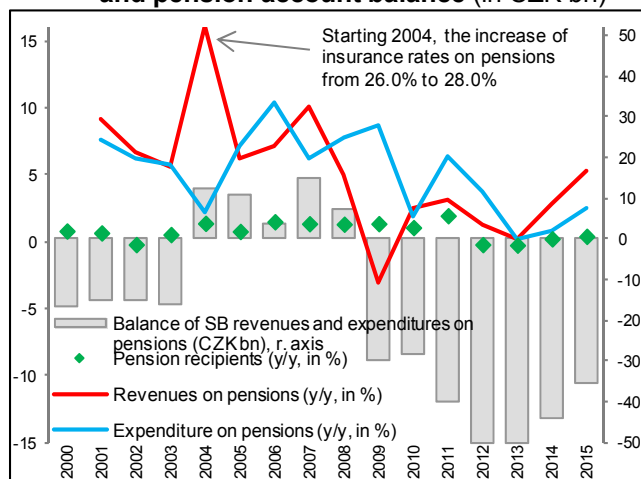


Chart 22 **Revenues and expenditures on pensions from the State budget (y/y, in %) and pension account balance (in CZK bn)**



*include programmes directly governed by the Commission (Horizon 2020, Tool for interconnection of Europe, Erasmus+)

Source: MF, CSSA

Sources of data in the whole analysis: CZSO, Ministry of Finance (MF CR), Czech National Bank (CNB), Ministry of Labour and Social Affairs (MLSA), Czech Social Security Administration (CSSA), Eurostat, CZSO calculations.

Latest information provided in this report has been dated the 15th March 2016.

