

Summary performance of the economy

- **Strengthening of the Czech Republic's position among EU27** The GDP growth in 2008 was by 3.2% faster, in real terms, compared to the West European countries where a significant economic slump was recorded and also compared to EU27 (by 2.3 p.p.). The Czech Republic's position among the EU countries continued to improve. According to preliminary estimate of the CZSO the GDP in the Czech Republic per capita in PPS in 2008 reached 82% of level of the EU 27 countries.
- **Change of the structure of industries contributing to GVA** Gross value added (GVA) at current prices in the amount of CZK 3,318.6 billion was by CZK 136.8 billion bigger, y-o-y, due to the decrease of GVA/used intermediate product ratio, which was a decisive factor showing positive effect. The GVA increase was mostly contributed to by the growth of physical volume. The structure of industries contributing to GVA showed significant changes; the contribution of industry was smaller than a year ago and the contribution of trade, hotels, restaurants and transport increased.
- **Acceleration of the GVA growth in the sale and repair of motor vehicles** GVA increased by 3.6% in real terms, y-o-y. The biggest growth was recorded in Q1 (by 4.9%) and the smallest in Q4 (by 0.5%). The biggest contribution to the total growth of GVA came from trade, restaurants and transport (1.9 p.p.) whose volume increased by 7.6% followed by industry (1.7 p.p.) whose volume increased by 5.4% mainly due to the electricity gas and water supply. A marked growth of GVA was recorded in primary sector (+16.6%) especially due to agriculture. In construction and other services GVA decreased.
- **Contribution of labour productivity to the GVA growth increased** Labour productivity measured by GVA at constant prices per one worker increased by 2.4%, y-o-y. The labour productivity growth contributed to the GVA increase by 67.5%. The contribution of labour productivity to GDP increased, y-o-y, and the contribution of employment decreased.
- **Change of the GDP structure** The GDP structure in 2008 changed, y-o-y, for the benefit of final consumption expenditure whose contribution increased from 68.5% in 2007 to 70.0% in 2008, of which consumer expenses of households increased from 47.3% to 48.9%. The contribution of expenditure to the gross capital formation decreased from 26.5% to 25.0%, which came largely from stock creation compared to expenses on fixed assets. Upon relatively big contribution of net exports to GDP in 2007 (5.0%), in 2008 this contribution was retained when the same drop of contribution of total exports and total imports to GDP occurred (by 3.4 p.p.).
- **Deceleration of the GDP growth** GDP increased in 2008 by 3.2%, y-o-y, in real terms. The biggest growths were recorded in Q1 and Q2 (by 4.4% in both quarters) while the smallest increase was reported for Q4 (only by 0.2%). Significant change was reported for the relation between GDP growth and its components. Final consumption expenditure increased in 2008 by 2.2%, y-o-y, in real terms and its contribution to the GDP increase reached 1.5 p.p. Faster growth was recorded for household consumption (2.9%) which was, however, much smaller than a year ago (by 2.3 p.p.). Total expenses on gross capital formation decreased by 1.4% in real terms. Expenses on gross fixed assets formation increased by 3.1% in real terms and their contribution to the GDP increase was 0.7 p.p. Net exports contributed to the GDP increase by 2.1 p.p. when positive influence of exports (5.5 p.p.) was bigger than the negative impact of imports (3.4 p.p.).
- **Significant slowdown of the GDI growth** In 2008 the Czech national labour was depreciated in product operations and transactions in foreign markets. It resulted into a trade loss coming from unfavourable development of terms of trade in the amount of CZK 55.0 billion, which, compared to the profit from favourable terms of trade amounting to CZK 33.9 billion in 2007 means a marked change. While in 2007 the GDP increased y-o-y in real terms by 6.0% the GDI rose more (by 7.0% in real terms). In 2008 the GDP increased by 3.2% in real terms while GDI grew markedly less (by 1.7% in real terms).

- **Increased coverage of domestic demand by domestic supply**

Structure of aggregate demand and supply has changed in favour of external sector showing an entirely different trend compared to that in 2007. The share of external demand and external supply in aggregate demand and supply dropped to 45.0% and 42.1%, respectively. Slightly greater change on the demand side compared to supply side resulted into an increased coverage of external supply by external demand (by 0.3 p.p. up to 107.0%). Domestic effective supply exceeded domestic realized demand by 5.3%, which was less than a year ago.

- **Markedly bigger growth of domestic supply compared to domestic demand**

Aggregate demand and supply increased in 2008 y-o-y by 4.5% in real terms and grew more slowly compared to 2007. The slowdown of the aggregate demand growth was more contributed to by external economic relations than the domestic market operations. Domestic realized demand increased by only 2.5% in real terms contributing thus to the growth of aggregate demand by 1.3 p.p., which was much more than in 2007. The increase of external demand by 6.9% contributed by 3.2 p. p. to the growth of aggregate demand. Domestic effective supply showed a relative strong increase (by 4.4%) mainly due to the reduced stock creation and contributed to the growth of aggregate supply by 2.5 p.p. The remaining 2.0 p.p. of the contribution to the growth of aggregate supply came from external supply which increased by 4.6%.

- **Drop of gross national savings**

The value of gross disposable national income (GDNI) CZK 3,406.8 billion in 2008 was higher y-o-y by CZK 165.1 billion and lower by CZK 299.1 billion than GDP, which represents the outflow of net payment to production facilities abroad as a result of the y-o-y increase of primary income of non-residents and reduction of primary income from non-residents. Almost equal growth of GDP and GDNI at significant value increase of final consumption expenses resulted into the drop of gross national savings (GNS). The rate of savings (23.9%) was lower than a year ago (by 1.6 p.p.) and lower than the investment rate (by 3.3 p.p.). Expenses on gross capital formation exceeded the GNS by 14.0% (by 13.4% a year ago) and the rate of funding of capital expenses from external sources increased from 11.8% in 2007 to 12.3% in 2008.