

I. Economic and social development in the Czech Republic in the fourth quarter of 2007

(Preliminary figures)

Fast growth of the Czech economy continued in Q4 2007 when the GDP increased by 6.6%, y-o-y, in real terms, i.e. the increase was by 0.4 p.p. higher than a year ago. On the supply side the GDP was boosted mainly by manufacturing and on the demand side an upward contribution came from final consumption expenditure.

In Q4 2007 the GVA at current prices increased by 10.5%, y-o-y, and it rose by 6.8% in real terms, i.e. its increase in value came from physical volume (66.1%) and from price increase (33.9%). Compared to Q4 2006 these proportions changed markedly. The above-mentioned GVA growth came from manufacturing (2.5 p.p.), sale, maintenance and repair of motor vehicles and consumer goods (2.3 p.p.). In Q4 2007 the GDP increased by 9.9%, y-o-y, and by 6.6% in real terms, i.e. its increase in value came from the growth of physical volume (67.8%) and the remaining 32.2% came from the aggregate price level increase. The biggest contribution to the GDP growth (2.6 p.p.) came from the increase of final consumer expenditure followed by the impact of the gross capital formation expenditure and the impact of net exports.

Total employment in Q4 2007 increased, y-o-y, by 1.9% when the number of employees rose by 2.0% and wages and salaries by 8.2%. The contribution of wages and salaries to GVA in current prices decreased. Labour productivity rose by 4.8% contributing thus to the GVA growth by more than 70%.

In Q4 2007 the GDI grew, y-o-y, by 6.6%, in real terms, which increase was by 2.2 p.p. slower than a year ago when it showed a marked speed-up owing to higher y-o-y evaluation of national labour in foreign markets.

The value of gross national disposable income was in Q4 2007 higher, y-o-y, by 9.5% which given the slower growth rate of final consumption expenditure resulted into the increase of gross national saving from 21.8% in Q4 2006 to 22.9% in Q4 2007. The rate of funding of gross capital formation expenditure from external sources dropped in Q4 2007, y-o-y, by 4.7 p.p. to 15.0%.

Key economic indicators

in %

	Q 4 2006	Q 1 2007	Q 2 2007	Q 3 2007	Q 4 2007	Year 2006	Q2 2006 to Q1 2007	Q3 2006 to Q2 2007	Q4 2006 to Q3 2007	Year 2007
GDP, y-o-y change (constant prices)	6.2	6.5	6.5	6.3	6.6	6.4	6.3	6.4	6.4	6.5
Final consumption, y-o-y change (constant prices)	4.7	4.9	4.3	3.9	3.7	3.8	3.9	4.2	4.5	4.2
Gross capital formation, y-o-y change (constant prices)	9.8	9.1	10.4	10.1	7.1	11.0	11.4	10.7	9.9	9.2
Inflation rate, y-o-y, average	1.5	1.5	2.4	2.5	4.8	2.5	2.2	2.1	2.0	2.8
Registered unemployment rate, average	7.5	7.7	6.7	6.3	5.8	8.1	7.8	7.4	7.0	6.6
State budget balance / GDP ratio, % ¹⁾	-11.7	1.4	-1.1	3.9	-11.0	-3.0	-3.1	-3.1	-1.8	-1.9
Current account / GDP ratio, % ¹⁾	-4.7	2.7	-4.0	-4.7	-3.5	-3.1	-2.8	-2.7	-2.8	-2.5
Financial account / GDP ratio, % ¹⁾	5.2	-0.7	1.2	4.2	6.5	3.2	3.2	2.6	2.5	2.9
Net exports / GDP ratio, % ¹⁾	2.1	6.9	4.7	3.6	3.7	3.1	3.6	4.0	4.3	4.7

¹⁾ at current prices

Source: CZSO, Ministry of Finance, Ministry of Labour and Social Affairs, CNB, calculations by CZSO

Industrial production (measured by industrial production index) reached 6.2 % to record the smallest y-o-y increase in 2007. The growth was most contributed to by manufacturing (5.9 p.p.) where the biggest contribution came from manufacture of transport equipment, manufacture of electrical and optical equipment and manufacture of machinery and equipment and manufacture of rubber and plastic products.

Sales of own goods and services increased by 4.1%, y-o-y, and the share of sales in the ICT sector in total sales in manufacturing at current prices rose by 0.1 p.p., y-o-y. The **number of employees** in industry continued to increase by 1.1% mainly thanks to foreign-controlled enterprises. The **average wage** increased by 6.9%. **Book value added** (at current prices) increased by 10.6%.

Electricity generation increased by 4.6 %, y-o-y. Domestic consumption rose by 5.3 %, and so did the consumption in all groups of users. The most rapid growth was recorded for the consumption of major users (by 8.3%). Consumption of **natural gas** increased by 17.3% whereas its imports increased by 13.0%. Imports of **crude petroleum** (in tonnes) were by almost a fifth down, compared to Q4 2006.

In January 2008 industrial production grew by 9.3 %, year-on-year.

Volume of **construction output** compared to Q4 2006 increased by 5.3 %, in enterprises with 20+ employees. by 5.1%. The growth in Q4 came mainly from civil engineering which was impacted by an inflow of financial means to the construction of road and high way infrastructure. The volume of **construction work carried out by own employees** (Basic Construction Output – in enterprises with 20+ employees) increased by 3.6 %.

Sales of own goods and services (predominantly from construction activity) declined by 2.4%. The number of employees in the industry dropped by 0.9% and their productivity increased by 6.3 %. Due to smaller growth of the average wage (by 5.5 % in nominal terms) unit wage costs fell by 0.7%. From the aspect of financial results construction companies produced higher book value compared to Q4 2006.

The value of **construction orders** at the end of 2007, order books were full for almost the next 7 months. The number of granted **construction notices and permits** was lower compared to Q4 2006 and their approximate value increased by 5.1%.

In **housing construction** the number of started dwellings increased only modestly, y-o-y, and the number of completed dwellings reached its record high – 48.2%. By the year-end the number of dwellings under construction recorded the smallest increase, y-o-y, for the last 13 years.

In January 2008 construction output increased by 1.0%, y-o-y.

The sales of own goods and services in **agriculture** dropped by 16.5 %, y-o-y, at current prices by 6.2 %. The number of employees in holdings of agricultural primary production continued to decline. As average wages grew and labour productivity dropped, unit wage costs increased considerably. Book value added increased by 15.8% at current prices due to the outputs exceeding the production consumption.

Compared to **the previous five years average** the total production of cereals increased by 1.1 % like the harvest of potatoes. While the harvest of rape was 40.1 % up, harvest of sugar beet dropped by 17.6 %. Compared to **2006** harvest of crops, potatoes and rape was markedly higher while harvest of sugar beet dropped.

Retail sales incl. automotive segment increased by 6.7 %, y-o-y, in real terms. The growth in automotive segment (10.1 %) doubled, compared to the growth in retail trade (incl. repair of personal and household goods). In **hotels and restaurants** sales in real terms remained on the level reached in Q4 2006. The number of persons employed in trade grew slower in the year-on-year comparison than the number of employees. Book value added (at current prices) in trade dropped by 0.5 %.

At **collective tourist accommodation establishments** the total of 2.7 million guests were registered, i.e. by 8.5 % more than a year ago. The number of both foreign and resident guests increased. As usual, Prague recorded the highest visiting rates followed by the Jihomoravský and Královéhradecký regions. The number of overnight stays grew more slowly and the average duration of overnight stays dropped. The highest increases in the number of guests were recorded by five and four-star hotels for which the highest net use of rooms was reached. The number of clients from Russia grew dramatically and so did the number of their overnight stays. The active balance of tourism (as part of the balance of payment) stood at CZK 14.5 billion and compared to Q4 2006 it was 4.2% down.

The growth of sales of own products and services in **transport** by 3.4 % was contributed to by supporting and auxiliary transport activities. Quarterly growth of sales was the smallest in 2007. The number of employees in transport increased by 1.8%. Labour productivity in transport (incl. company owners and assisting family members) grew more slowly compared to the average wage. Book value added at current prices increased by 4.0% when outputs grew more slowly than production consumption.

Sales in **communications** increased by 5.1 %. As the number of employees dropped the labour productivity grew faster than the average wage. Book value added increased by 8.3% due to the increase of outputs and drop of production consumption.

In **financial intermediation** (excl. the CNB) compared to Q4 2006 the gross profits was 0.9% down. An outstanding high growth of profit in banks and saving banks failed to offset significant drops of profit in other groups of institutions. Average wage in the industry increased by mere 2.4% to CZK 41,032.

Sales in **other market services** were 5.7 % up due to the high growth in inter-company services. Sales in services provided predominantly to the population grew by 50% slower rate, an increase was recorded only in health care. The sales growth was secured by the increasing number of employees as their labour productivity stagnated. Average wage per employee increased by 5.2%. Book value added was 7.1 % up compared to the previous year as the production consumption grew faster than outputs. Almost three quarters of total sales were realized in enterprises with fewer than 100 employees.

Sales*) in selected CZ-NACE activities

y-o-y indices in %

CZ-NACE activity		Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	2006	Q2 2006 to Q1 2007	Q3 2006 to Q2 2007	Q4 2006 to Q3 2007	2007
Industry	Current prices	117.9	107.8	109.0	107.7	109.3	117.6	113.7	112.5	110.5	108.5
	Constant prices	115.4	104.5	104.6	103.7	104.1	115.7	111.1	109.2	106.9	104.2
Construction	Current prices	120.7	126.2	108.7	104.0	101.8	117.2	120.2	117.8	113.7	108.0
	Constant prices	116.9	122.1	105.0	100.1	97.6	113.8	116.6	114.1	109.9	104.1
Agriculture	Current prices	99.0	98.0	100.2	124.3	106.2	98.3	98.3	99.3	106.2	108.4
	Constant prices	96.7	87.5	92.6	108.7	83.5	96.3	93.9	94.2	97.3	93.4
Retail trade (CZ-NACE 50, 52)	Current prices	105.8	109.2	108.1	107.1	110.4	106.6	106.9	107.3	107.5	108.7
	Constant prices	106.8	109.9	108.0	106.5	106.7	106.5	107.2	107.7	107.7	107.7
Transport	Current prices	95.6	114.2	112.1	108.4	107.6	93.0	97.4	102.8	107.0	110.4
	Constant prices	96.0	112.4	110.0	107.1	103.4	91.6	96.1	101.4	105.8	107.9
Communications	Current prices	104.7	105.0	104.0	107.4	103.9	103.5	103.7	103.7	105.2	105.0
	Constant prices	104.6	104.7	103.4	107.8	105.1	103.0	103.3	103.3	105.1	105.2
Other market services	Current prices	107.8	106.0	106.8	109.6	109.3	107.1	106.9	106.8	107.6	108.0
	Constant prices	103.6	102.7	103.6	106.7	105.7	103.2	103.0	103.0	104.2	104.8

¹ The data on the industry, construction and agriculture refer to sales of own goods and services; the data on other CZ-NACE activities refer to total sales.

The level of consumer prices in Q4 increased, y-o-y, by 4.8% showing thus a double growth compared with Q3. The price growth came mainly from the regulated price increase by 13.0 %; higher were mainly prices of tobacco manufacturers, prices of net rentals, natural gas and heat and hot water. Market prices increased by 3.2 % especially due to the food price increase. Prices of goods rose by 5.7 % and prices of services by 3.4 %.

Inflation rate in 2007 stood at 2.8 % which is a 0.3 p.p. speed-up compared with 2006.

In January and February consumer prices grew by 7.5 %, y-o-y.

Prices of agricultural producers were up 26.1 % showing the biggest growth in 2007. This was due to an intensified growth of prices for crops which were, for example, in cereals and fruit by almost three quarters higher than a year ago. Prices of stock-farming products were 10.8 % up. **Prices of industrial producers** went up by 5.0% which was more than in Q3. Higher were mainly prices of coke, refined petroleum products, coal, lignite, thorpe, crude oil and prices of food. **Construction work prices** increased by 4.5 % and **prices of market services** by 1.8 %. The most significant growth was recorded mainly in prices of inland road freight transport, prices of business services and prices of real estate and renting activities and for system analyses and programming.

In January and February 2008 in the month on month comparison prices in agriculture increased by 26.9 % and 27.1 %, respectively. Construction work prices were higher by 4.6 % and 4.5 %. Industrial producer prices increased in January by 6.0 % and in February by 5.6 %. The smallest growth rate was recorded for prices of market services for the entrepreneurs (by 2.9 % and 3.4 %, respectively).

In Q4 the **export price development** came nearer to the **development of import prices**. In Q4. Export prices dropped by 1.2% and import prices by 1.5%. **Terms of trade** in Q4 stood at 100.3 % on average which was the smallest quarterly positive value in 2007. **World prices** of industrial raw materials and food measured by the CZSO index increased in Q4 by almost one forth, on average, showing significantly faster growth than in the previous quarters.

Exports and imports at current prices grew, y-o-y, by 10.9% and 8.8%, respectively (at constant prices by 12.6% and 11.2%, respectively¹). Both increases at current prices were the smallest in 2007. The growth of exports and imports was contributed to by machinery and transport equipment (contribution two thirds). The trade balance surplus in the amount of CZK 17.9 billion improved compared with Q4 2006 by CZK 12.8 billion and favourable terms of trade resulted into business profit in the amount of CZK 4.6 billion. The balance of payment surplus and its improvement came from the retail trade of machinery and transport equipment (surplus in the amount of CZK 78.1 billion and its improvement by CZK 13.4 billion). From the aspect of territorial structure of external trade the surplus with the EU 27 advanced that with the states outside the EU. Share of HT items in exports weakened and in imports it did not change as the deficit grew to CZK 8.4 billion.

In January 2008 the exports increased, y-o-y, by 11.0% at current prices and imports by 10.3%. Trade balance showed a record surplus in the amount of CZK 12.2 billion in January.

The balance of payment current account in Q4 ended up in a deficit of CZK 32.9 billion, the surplus of transactions in goods and balance of services and current transfers stood against large deficit of the balance of revenues. Compared with Q4 2006 the surplus of transactions in goods was higher by CZK 14.2 billion and balance of services was higher by

¹ Calculations of deflators are made by export and import price indices in compliance with 67 SITC groups, to two decimal places.

CZK 2.6 billion. The balance of payment financial account ended in a surplus of CZK 60.9 billion mainly due of the impact of direct foreign investment whose volume almost doubled, y-o-y. The current account deficit was 3.5 % and the financial account surplus was 6.5 % of the nominal quarterly volume of GDP. Foreign exchange reserves over Q4 increased to reach CZK 18.1 billion.

Foreign exchange reserves of the CNB reached CZK 631 billion by the end of 2007 which would be enough to cover approximately 2.9 months' imports of goods and services.

The **average exchange rate of the Czech koruna** in Q4 strengthened against the euro to 26.8 CZK/EUR **and against the US dollar** to 18.5 CZK/USD. The index of nominal effective exchange rate of koruna (year 2005 = 100) reached in Q4 110.9 % and strengthened by 5.2 p.p. y-o-y. The index of real effective exchange rate of the koruna (in industrial producer prices) strengthened by 6.7 p.p., y-o-y.

The y-o-y growth of **money supply M2** speeded up in Q4 to reach 13.2% in December. High dynamics came from the growth of credits provided to non-financial corporations and households and the net foreign assets increase. The main contribution to the growth of M2 came again from M1 monetary aggregate. However, the y-o-y growth-rate of M1 slowed down on average, in Q4 2007. In contrast, the dynamics of quasi-money increased. The share of monetary aggregate M1 in monetary aggregate M2 made 58% in December.

Total **loans** granted to households, government and non-residents increased in December by 26.4%, y-o-y. Loans in CZK made 87% of total loans and their growth was faster. Growing were loans to non-financial corporations (by 17.3%) and also to households (by 34.3%). Housing loans increased, y-o-y, by 40.1% in December and consumer loans by 26%.

Dynamics of total **deposits** at banks increased by the end of Q4 by 17.0 %, y-o-y, of which deposits in CZK increased by 16.7% and deposits in foreign currency by 19%.

In Q4 the CNB raised its basic 2T REPO rate to 3.5 %. The average **interest rate** on total **deposits** reached 1.5% at the end of Q4 and made 6.1% of total **deposits**. The **interest margin** between total rates on loans and total rates on deposits did not show any significant wobbles and reached in December 4.6 p.p. – 5.2 p.p. in the household sector 3.9 p.p. in the sector of non-financial corporations.

At 31 December 2007 the population of the Czech Republic was 10,381.1 thousand **inhabitants**, i.e. by 93,9 thousand more than a year ago. Despite a significant growth by natural population change, the increase of inhabitants was attributed especially to active balance of foreign migration. In 2007 the number of live-born children exceeded the number of deaths, and natural population increase was 10 thousand persons. 114.6 thousand children were born which was by 8.8 thousand more than a year earlier. More than a third of children were born out of wedlock. The number of marriages increased also due to the attractive date 7 July.2007. At the year-end 392,1 thousand foreigners were registered in the CR which makes 3.8 % of the population.

As the rate of unemployment according to ILO data dropped rapidly and the employment rate grew more slowly the **rate of economic activity** in Q4 2007 (58.8%) decreased compared with Q4 2006 by 0.3 p.p. The number of persons with one principal employment increased by 2.2%. Among men it grew faster.

The number of employees in businesses with **20+ employees** of business sphere (in financial intermediation irrespective of employment) and in all organisations of non-business spheres increased by 1.4%. Average monthly gross **nominal wage** of employees increased by 6.8% and accounted for CZK 23,435. As the consumer prices grew by 4.8% the average **wage** increased **in real terms** by 1.9%, in business sphere by 1.8% and in non- business sphere by 2.2%. The wage differentiation among individual CZ-NACE activities shrank moderately, y-o-y (the variation coefficient in Q4 dropped y-o-y by 0.5 p.p. to 33.8%).

The number of workers in the economy of the CR (estimate) increased by 1.5% compared with Q4 2006. **The number of employees registered in the whole economy** increased by 1.4 % and their average wage increased by 6.6% to CZK 22,001. At the end of 2007 309.0 foreign nationals were employed in the CR of which 240.2 thousand were employees.

The registered employment rate was 6.0% at the end of 2007 and fell by 1.7 p.p., y-o-y. There were 354,9 thousand job applicants registered. Compared with the end of 2006 the number of applicants decreased by more than one fifth of which 331.7 thousand were available unemployed job applicants. The number of long-term unemployed persons dropped by 26.0%, y-o-y and their percentage in the total number of the unemployed dropped to 38.6%. The average number of unemployed school-leavers fell by more than a fourth compared with Q4 2006. The job vacancy rate in Q4 was 3.2% and was by 0.9 p.p. higher than a year ago. The highest unemployment rates persist in the districts of Most (15.5%), Karviná (13.4 %) and Teplice (11.7 %).

The registered unemployment rate was 6.1 by the end of January 2008 and 5.9 at the end of February.

Net money expenditures per capita reached in households of employees by 7.3%, in households of pensioners by 1.4%, in real terms. The share of expenditures on food and health care increased in both types of households, expenditure on transport decreased. The share of indispensable expenditures, i.e. expenditures on food, beverages and housing was 36.7% in households of employees, 52.7% in households of pensioners of their total expenditures. Both shares were higher than a year ago. Expenditures on housing (exc. current maintenance and repairs of dwelling) increased in households of employees by 2.1% and in households of pensioners by 1.7% compared with Q4 2006.

Total expenditures on **social security** increased compared to Q4 2006 by 14.3% of which expenditures on state social security benefits by 46.1% (especially due to the increase of birth grants and parental benefits), on social care benefits by 68.9% and on pensions by 10.8%. Due to the pension adjustment as of 1 January 2007 the average **old-age pensions** increased by 6.8%, y-o-y, in Q4. As the costs of living of pensioners was up by 5.8%, the average old-age pension increased by 0.9 % in real terms.

The economic boom in CR had a positive effect on internal balance of the Czech economy. **The state budget revenues** accounted for CZK 1, 025.9 billion in 2007 and **expenditures** CZK 1,092.3 billion. Faster growth of revenues came from the big growth of the tax on income of legal persons and the self-employed. Budget expenditures slowed down to 7.0% of which expenditures on pensions increased by 6.2% and social benefit expenditures by 9.2 %. At the year end the state budget showed a deficit in the amount of CZK 66.4 billion (by CZK 31.1 billion less than a year ago). The deficit in proportion to the nominal GDP was 1.9%; in 2006 the deficit was 3.0%.

At the end of January 2008 the state budget showed a surplus of CZK 9.7 billion and at the end of February a deficit of CZK 5.0 billion was recorded.

Regions, municipalities, voluntary unions of municipalities and regional councils of cohesions were allocated CZK 371.5 billion to their budgets. Their total expenditures accounted for CZK 326.1 billion and territorial budgets ended in a surplus of CZK 9.4 billion. Decisive part of the surplus (CZK 8.3 billion) came from business results of municipalities and voluntary unions of municipalities. Regions produced a surplus of CZK 1.1 billion.

At the end of 2007 in **Business Register** 2 481 863 businesses were registered of which almost three quarters were private entrepreneurs including those in agriculture. The rest were legal entities of which mainly business companies. The share of foreign-controlled enterprises in the number of legal entities is increasing continuously, in 2007 the share was 27.9%. It is estimated that 50% of the total number of businesses entered in the Register perform activity in the long run.

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Comparison of development in the CR and the EU in Q4 2007: selected harmonised indicators

Harmonised indicator	EU 27	Euro area	Germany	Slovakia	Czech Republic
Gross domestic product (constant prices), y-o-y change in %	102.5	102.1	101.6	114.3	106.6
Harmonised index of consumer prices (HICP)	103.0	102.9	103.1	102.4	104.9
Harmonised unemployment rate in %	6.9	7.3	7.9	10.9	4.8
Industrial production index (working days adjusted) in %	102.9	103.1	105.8	110.9	105.4
Construction output index (working days adjusted) in %	101.1	99.8	96.0	97.8	104.5
Retail sales index (seasonally adjusted) in %	103.8	101.9	97.7	108.3	108.2

Source: Eurostat (19 March 2008), calculations by CZSO