

# Economic and social development of the Czech Republic in the 4<sup>th</sup> quarter of 2005

(Preliminary figures)

**Gross domestic product** at constant prices<sup>1</sup> is preliminarily estimated to have grown by 6.9% y-o-y in Q4 2005 (+5.3% in Q1 2005, +5.8% in both Q2 and Q3 2005 according to a revised current estimate). This is the highest dynamics of growth since 1995. In comparison to the preceding quarter, seasonally adjusted (SA) and working days adjusted (WDA) GDP increased by 1.9%. External trade and final consumption expenditure contributed most to the growth of GDP. **External trade** contributed most to GDP growth; increase in exports of goods and services (+10.4%) more than doubled increase in corresponding imports (+4.4%) at constant prices. Of a favourable, albeit much lower, effect was also gross fixed capital formation and final household consumption expenditure.

Compared with Q4 2004, **gross fixed capital formation** rose by 4.2%. SA and WDA GFCF increased by 0.9% quarter-on-quarter. On the increase were especially investments in intangible assets, machinery equipment and cultivated assets; a drop was registered for housing construction investment (all at constant prices). Change in inventories, compared to Q3 2004, made up roughly a quarter. The traditional decrease in inventories at the end of the year did not actually affect the GDP growth.

**Total final consumption expenditure** rose by 1.6% at constant prices in Q4 2005, of which final household consumption expenditure increased by 2.6%. Households spent most money on non-durable goods and on services. General government expenditure was down by 0.6% at constant prices, while final non-profit institutions consumption expenditure rose by 0.8%.

Total **gross value added** grew by 7.6% y-o-y at constant prices. The best results were achieved manufacturing (+16.0%). A lesser share in GDP growth had electricity, gas and water supply (+11.4%), trade (+6.7%) and financial intermediation (+9.3%). Below the Q4 2004 level was gross value added in mining and quarrying and in hotels and restaurants.

The total current nominal income of the **household sector** rose by 5.0% and current expenditure by 6.3%. Gross disposable income grew by 4.4% y-o-y at current prices. Individual household consumption expenditure was up by 4.1%. Gross household saving grew by 8.6% in Q4 2005 and its rate 7.44% (percentage of gross saving in disposable income) was by 0.29 percentage points higher y-o-y.

**Total labour productivity** (GDP at constant prices per worker<sup>2</sup>) was up by 5.5% y-o-y in Q4 2005 and had a significant effect on GDP growth.

## Key economic characteristics

%

|   | Q4<br>2004 | Q1<br>2005 | Q2<br>2005 | Q3<br>2005 | Q4<br>2005 | Year<br>2004 | Q2 2004<br>to Q1<br>2005 | Q3 2004<br>to<br>Q2 2005 | Q4 2004<br>to<br>Q3 2005 | Year<br>2005 |
|---|------------|------------|------------|------------|------------|--------------|--------------------------|--------------------------|--------------------------|--------------|
| GDP, y-o-y change (constant prices)                     | 5.0        | 5.3        | 5.8        | 5.8        | 6.9        | 4.7          | 5.0                      | 5.3                      | 5.5                      | 6.0          |
| Final consumption, y-o-y change (constant prices)       | 0.7        | 1.0        | 2.2        | 3.3        | 1.6        | 1.5          | 1.2                      | 1.2                      | 1.8                      | 2.0          |
| Gross capital formation, y-o-y change (constant prices) | 2.8        | -0.4       | -2.5       | -0.4       | 4.5        | 7.9          | 5.3                      | 1.9                      | -0.3                     | 0.1          |
| Inflation rate, y-o-y, average                          | 3.1        | 1.6        | 1.6        | 1.9        | 2.4        | 2.8          | 2.6                      | 2.4                      | 2.0                      | 1.9          |
| Registered unemployment rate, average                   | 9.03       | 9.64       | 8.84       | 8.81       | 8.58       | 9.19         | 9.21                     | 9.17                     | 9.08                     | 8.97         |
| State budget balance / GDP ratio, % <sup>1)</sup>       | -7.6       | 1.2        | -0.6       | 2.9        | -11.0      | -3.4         | -2.8                     | -1.4                     | -0.9                     | -1.9         |
| Current account / GDP ratio, % <sup>1)</sup>            | -6.0       | 2.7        | -3.9       | -4.1       | -2.8       | -6.0         | -4.8                     | -4.2                     | -2.9                     | -2.1         |
| Financial account / GDP ratio, % <sup>1)</sup>          | 11.3       | -1.4       | 13.7       | 4.0        | 2.0        | 6.6          | 6.0                      | 7.9                      | 7.0                      | 4.7          |
| Net exports / GDP ratio, % <sup>1)</sup>                | -1.3       | 4.4        | 2.9        | 0.8        | 0.4        | -0.5         | 0.5                      | 1.3                      | 1.7                      | 2.1          |

<sup>1)</sup> At current prices

Sources: CZSO, Ministry of Finance, Ministry of Labour and Social Affairs, Czech National Bank; calculations by CZSO

**Industrial production** (measured by the product-based index according to a new methodology<sup>3</sup>) grew by 8.4% in comparison to Q4 2004. The fastest growth was recorded for consumer durables (by nearly a quarter). Within manufacturing, the highest rates of growth were reached in 'manufacture of transport equipment' (by more than a quarter), 'manufacture of electrical and optical equipment' and 'manufacture of basic metals and fabricated metal

<sup>1</sup> The GDP indices and GDP components indices are at average prices of preceding year; the sales indices in individual CZ-NACE activities are at constant prices of 2000.

<sup>2</sup> According to employment data from the national accounts.

<sup>3</sup> Description of the new methodology and the time series were published in the Press Release of 10 March 2006 ([http://www.czso.cz/csu/redakce.nsf/i/zmena\\_metodiky\\_indexu\\_prumyslove\\_produkce](http://www.czso.cz/csu/redakce.nsf/i/zmena_metodiky_indexu_prumyslove_produkce)).

products'. On the decrease were 'manufacture of food products, beverages and tobacco' and 'manufacture of textiles and textile products'.

**Sales** of own goods and services at constant prices rose by 8.3% y-o-y. Employment increased by 0.6%, only in foreign-controlled enterprises markedly (+5.9%). Labour productivity rose more than average wages, which resulted in lower unit wage costs by 2.5%. Book value added (at current prices) was up by 10.4%.

**Electricity** generation dropped by 3.4% y-o-y under a concurrent increase in domestic consumption. Electricity generation in nuclear power stations fell by 10%. In spite of that, exports in Q4 2005 were higher than imports, even though the total balance was by 31% lower y-o-y. Imports of **natural gas** (in cubic metres) were up by 18% and consumption decreased. Imports of **crude petroleum** (in tonnes) were by 22.4% higher than in Q4 2004.

*In January 2006, industrial production grew by 15.1% y-o-y.*

The volume of **construction output** rose by 9.7% y-o-y. Prevailing in the output was work on new construction, reconstruction and modernisation (mainly highway projects), on business centres, social hubs and dwellings. **Construction work carried out by own workers** (construction put in place in enterprises with 20+ employees) rose by nearly two-fifths y-o-y.

**Sales** of own goods and services (based predominantly on construction activity) were up by 6.0% y-o-y. The number of employees in construction continued growing (+1.8%), and their average wages grew less than labour productivity. Unit wage costs thus dropped by 2.8% y-o-y. Book value added rose by 12.4% at current prices.

The volume and number of **construction orders** were up y-o-y in Q4 2005, while their average size fell. The planning and building control authorities granted fewer **building permits** than in Q4 2004.

In **housing construction**, the number of started dwellings grew, but the number of completed dwellings was down. As a result, the number of dwellings under construction rose.

*In January 2006, construction output fell by 1.2% y-o-y.*

The sales of own goods and services in **agriculture** were down by 3.2% y-o-y at current prices and up by 2.8% at constant prices. These results were affected by lower harvest of plant products and particularly by the price development. The number of employees in holdings of agricultural primary production continued decreasing. As labour productivity rose more than average wages, unit wage costs decreased by 2.1%. As to financial data, the higher drop in outputs related to a decrease in production consumption caused a drop in book value added (-9.4%). The populations of all kinds of farm animals kept falling, especially of poultry, compared with the end of 2004. The sale of cattle for slaughter was down, and so were the sale of milk and the production of eggs. In comparison to 2004, the **harvest of agricultural crops in 2005** was worse; lower was the production of cereals (-12.8%), rape (-17.7%) and sugar beet (-2.3%). Only the production of potatoes was up (+16.4%).

Total **retail sales, incl. the automotive segment**, rose by 2.6% y-o-y at constant prices. Whereas sales in the automotive segment were by 0.2% lower y-o-y in Q4 2005, sales in retail trade grew by 3.9%. Retail sales were up in all size groups of enterprises. Foreign-controlled enterprises made up almost 85% of sales of large enterprises (with 250+ employees). Sales in **hotels and restaurants** dropped by 2.0% at constant prices. The number of employees and workers in **trade total** rose y-o-y. Book value added (at current prices) in trade was up by 7.3%.

*In January 2006, retail sales grew by 6.4% y-o-y at constant prices.*

In the framework of **international tourism**, arrivals of non-residents in the Czech Republic rose also in Q4 2005 (+4.8% y-o-y). By the same percentage grew the number of guests in collective accommodation establishments and the number of overnight stays (the latter was up by more than a fifth in 4 Star Hotels). Departures of Czech residents abroad dropped slightly (-0.3%). The active balance of international tourism stood at CZK 13.0 billion (CZK -0.3 billion y-o-y).

The sales of own goods and services in **transport** grew by 4.0% y-o-y, in particular thanks to a high rise in land transport and 'transport via pipelines' (+9.0%). On the other hand, sales in 'supporting and auxiliary transport activities' were down (-5.5%). The number of employees in transport dropped, their labour productivity grew faster than wages. Book value added (at current prices) increased by 3.2%. While goods carried in rail freight transport were up (+1.6%), road haulage registered a drop. The volume of goods in third countries' transport incl. transit over the territory of the Czech Republic grew by more than a quarter.

Sales in **communications** rose by 7.2%. Employment decreased and labour productivity increased by over 8%, i.e. faster than wages. Book value added (at current prices) grew by 3.2%, which was less than in Q4 2004.

**Financial intermediation** (excl. the CNB) reached by more than a third lower gross profit compared to Q4 2004. The highest fall of gross profit (nearly -60%) was recorded for insurance companies, followed by non-banking monetary institutions (-38%), and banks and saving banks excl. the CNB (-34%). Economic result of pension funds dropped by nearly 10%. The above figures only reduced the high growth of gross profit throughout the year.

Sales in **other market services** were up by 4.5% in Q4 2005, increases being in both business activities and services provided predominantly to the population. Among business activities, mainly 'renting of machinery and equipment' and

'computer and related services' grew. Among services provided predominantly to the population, sales in education and health increased considerably. Employment was up by 4.6%; growth of the average monthly nominal wage was markedly higher than increase in labour productivity (sales per worker). Book value added produced (at current prices) was by 11.5% higher y-o-y.

#### Trend of sales<sup>\*)</sup> in chosen CZ-NACE activities

|                               |                 | Y-o-y indices (%) |         |         |         |         |           |                    |                    |                    |           |
|-------------------------------|-----------------|-------------------|---------|---------|---------|---------|-----------|--------------------|--------------------|--------------------|-----------|
| CZ-NACE activity              |                 | Q4 2004           | Q1 2005 | Q2 2005 | Q3 2005 | Q4 2005 | Year 2004 | Q2 2004 to Q1 2005 | Q3 2004 to Q2 2005 | Q4 2004 to Q3 2005 | Year 2005 |
| Industry (CZ-NACE 10-41)      | Current prices  | 114.1             | 108.3   | 109.7   | 108.5   | 108.3   | 113.5     | 112.9              | 111.1              | 110.2              | 108.7     |
|                               | Constant prices | 105.4             | 101.3   | 105.4   | 107.1   | 108.3   | 107.4     | 105.6              | 104.1              | 104.8              | 105.6     |
| Construction                  | Current prices  | 105.1             | 103.7   | 102.0   | 110.6   | 108.6   | 108.3     | 107.7              | 103.5              | 105.7              | 106.7     |
|                               | Constant prices | 100.8             | 99.6    | 99.2    | 108.0   | 106.0   | 104.5     | 103.5              | 99.6               | 102.3              | 103.7     |
| Agriculture                   | Current prices  | 113.3             | 104.1   | 106.3   | 89.5    | 96.8    | 108.5     | 109.1              | 109.8              | 102.6              | 97.8      |
|                               | Constant prices | 110.0             | 116.8   | 123.8   | 98.2    | 102.8   | 100.0     | 105.5              | 112.8              | 110.3              | 108.0     |
| Retail trade (CZ-NACE 50, 52) | Current prices  | 106.6             | 104.4   | 105.0   | 105.3   | 103.5   | 105.1     | 105.7              | 105.4              | 105.4              | 104.5     |
|                               | Constant prices | 104.8             | 104.7   | 104.9   | 103.7   | 102.6   | 102.8     | 103.7              | 104.2              | 104.5              | 103.9     |
| Transport                     | Current prices  | 106.6             | 106.0   | 104.0   | 107.7   | 108.3   | 110.0     | 109.0              | 106.2              | 106.1              | 106.5     |
|                               | Constant prices | 103.1             | 103.1   | 100.8   | 103.7   | 104.0   | 107.5     | 106.3              | 103.2              | 102.7              | 102.9     |
| Communications                | Current prices  | 102.5             | 103.3   | 104.0   | 106.3   | 104.3   | 103.9     | 103.1              | 103.0              | 104.0              | 104.5     |
|                               | Constant prices | 102.7             | 107.6   | 109.2   | 109.8   | 107.2   | 103.4     | 104.0              | 105.4              | 107.2              | 108.4     |
| Other market services         | Current prices  | 102.8             | 103.9   | 103.5   | 108.6   | 107.5   | 107.0     | 105.6              | 103.8              | 104.6              | 105.9     |
|                               | Constant prices | 99.3              | 100.9   | 100.7   | 105.8   | 104.5   | 102.7     | 101.6              | 100.3              | 101.5              | 103.0     |

<sup>\*)</sup> The data on the industry, construction and agriculture refer to sales of own goods and services; data on other CZ-NACE activities refer to total sales.

The total **economic result** (i.e. gross profit or pre-tax profit) of **non-financial corporations with 100+ employees** was up by 15.3% y-o-y (all figures in this paragraph are at current prices). Unlike Q2 and Q3 2005, yields grew faster than costs. This development was accompanied by moderate increases in return on costs and return on equity capital. The number of loss-making enterprises dropped and made up 40.7% of the total number of enterprises. The highest increases in gross profit were achieved in 'manufacturing' (mainly 'manufacture of transport equipment'), 'electricity, gas and water supply' and 'manufacture of other non-metallic products'. Among activities other than CZ-NACE 10-41, in particular 'construction', 'real estate and renting activities' and 'wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods'. **Book value added** produced in large non-financial corporations was by 10.6% higher y-o-y. Its growth is mainly attributable to 'manufacture of transport equipment' and 'electricity, gas and water supply'. Nearly in all CZ-NACE activities other than 10-41, except for 'hotels and restaurants' and 'transport', book value added rose. The stock of total inventories grew by 4.3% y-o-y at the end of 2005. Overcapitalisation, i.e. negative value of equity capital, occurred in 4.7% of enterprises, and the total amount of overcapitalisation was up. The share of equity capital in the coverage of the balance sum is slightly above 50% in the long term. **Foreign-controlled enterprises** raised their book value added by 16.4% and gross profit by 34.7%, compared to Q4 2004.

In **Q4 2005**, the price level grew by 2.4% y-o-y, i.e. more than in the preceding three quarters. This increase was due to higher prices of housing incl. water and energy (+5.1%) and of 'post and telecommunications' (+14.1%). The prices of 'food and non-alcoholic beverages', 'clothing and footwear' and 'furnishings, household equipment and routine maintenance of the house' continued decreasing y-o-y. Prices of goods were up by 1.6% y-o-y in total and prices of services by 3.7%. The cost of living in households of employees and households of pensioners rose by 2.2% and 3.3%, respectively.

The average **annual inflation rate**, measured as increase in the consumer price index in 2005 over 2004, stood at 1.9%, i.e. by 0.9 percentage points lower than in 2004. Market prices grew by 0.7%, regulated prices by 5.8%.

*In January and February 2006, consumer prices rose by 2.9% and 2.8% y-o-y, respectively.*

**Agricultural producer prices** kept on falling in Q4 2005 (-5.9% y-o-y), but the rate was decreasing during the year. Prices of crop products were down by 10.1%, prices of animal products down by 3.7%, both y-o-y. **Industrial producer prices** remained constant y-o-y. In the course of the year the growth of prices of 'basic metals and fabricated metal products' and prices of 'coke and refined petroleum products' slowed down. On the other hand, the price growth of 'electrical energy, gas, steam and water' gained. Prices of **construction work** grew by 2.5% y-o-y. Among **market services** whose prices increased by 2.3%, particularly prices of 'post and telecommunication services' rose. Prices of **tangible investment** increased very moderately in Q4 2005.

*In January and February 2006, in terms of y-o-y comparison, prices in agriculture fell by 3.0% and 1.7%, respectively; industrial producer prices rose by 0.3% in both months; and construction work prices were higher by 2.5% and 2.4%, respectively.*

**Price development in external trade** continued its trend; import prices were up by 1.7% and export prices down by 2.7% y-o-y on average in Q4 2005. This trend was still affected by strengthening of the *koruna* against the main foreign currencies. The highest price increase was registered for mineral fuels, of which import prices were up by 36.3% and export prices up by 8.4%. Compared to Q4 2004, **terms of trade** deteriorated to 95.7%. The **world prices** of industrial raw materials and food measured by the CZSO index grew by 34.1% y-o-y on average in Q4 2005.

**External trade** turnover was also in Q4 2005 markedly higher y-o-y. The growth rates of exports stood at 8.7% at current prices, 12.7% at constant prices and of imports at 6.0% at current prices, 6.2% at constant prices. This resulted in a surplus of trade balance by CZK 0.5 billion, i.e. CZK 18.2 billion at constant prices. Compared to Q4 2004, the trade balance improved by CZK 11.5 billion. By group of countries, above-the-average growth was recorded for exports to and imports from CIS countries, European transition economies and 'other states', whereas trade with the EU25 states developed below the average. In terms of commodity structure, exports of 'machinery and transport equipment' rose considerably; imports of 'manufactured goods classified chiefly by material', 'chemicals and related products' and 'crude materials, inedible, and mineral fuels' grew above the average; exports of 'miscellaneous manufactured articles' increased; exports of 'agricultural and food crude materials and products' were up relatively highly.

*In January 2006, exports and imports at current prices rose by 11.2% and 12.8%, respectively, y-o-y. The balance of trade was active by CZK 11.2 billion.*

The current account of the **balance of payments** ended in a deficit of CZK 20.7 billion in Q4 2005, which was half the amount in Q4 2004. The financial account of the balance of payments reached a surplus of CZK 14.9 billion, which was by CZK 64.5 billion less y-o-y. The deficit of the current account made up 2.8% and the surplus of the financial account 2.0% of the nominal GDP volume. The improved result of the current account was mainly due to the favourable balance of trade (a y-o-y improvement of CZK 21.4 billion). Surplus of the balance of services grew to CZK 2.3 billion y-o-y, deficit of the balance of revenues lowered to CZK 28.6 billion, and the balance of current transfers improved and reached a surplus of CZK 5.2 billion. The markedly lower surplus of the financial account was affected by higher inward flows of foreign direct investment amounting to CZK 41.1 billion on the one hand, and by higher outward flows of portfolio investment of CZK 18.5 billion and especially lower inward flows of other investments amounting to CZK 0.6 billion. Foreign exchange reserves grew by CZK 3.3 billion in Q4 2005.

**Foreign exchange reserves of the CNB** reached CZK 726.7 billion at the end of Q4 2005, which would be enough to cover 4.2 months' imports of goods and services.

The average **exchange rate** of the Czech *koruna* against the euro strengthened to 29.3 CZK/EUR y-o-y and against the American dollar weakened to 24.7 CZK/USD in Q4 2005. The index of nominal effective exchange rate of the *koruna* was by 5.7 percentage points higher y-o-y on average. The index of real effective exchange rate of the *koruna* was by 5.0 percentage points higher, based on consumer prices, and by 0.2 percentage points lower, based on industrial producer prices.

The y-o-y growth of **money supply M2** speeded up in Q4 2005. It stood at 4.2% in September and nearly doubled in December (8%). At the end of the year, M2 relative to the annual GDP volume was 59.6%. The accelerating dynamics of money supply was contributed to by higher deposits of non-financial corporations and in particular by growth of the **monetary aggregate M1**. Within M1, dynamics of money in circulation rose by 11.4% and one-day deposits of enterprises grew too. The share of the monetary aggregate M1 in money supply thus rose by 54.6%. The higher growth of the monetary aggregate M2 in Q4 2005 was connected with a decrease in negative annual rate of growth of net loan to government and with a higher annual rate of growth of net external assets and domestic loans.

Total **loans** provided to enterprises and households rose by 14.6%, compared with the end of 2004. This development was supported by a decrease in the average interest rate. On the increase were loans granted both to non-financial corporations (+14.2%) and to households (+32.5%); two thirds of them went in housing.

The dynamics of total **deposits** at banks rose by 15.4% y-o-y at the end of 2005, of which *koruna* deposits grew by 12.3%.

In October the Czech National Bank raised the basic REPO rate by 0.25 percentage points to 2.00%. The average **interest rate** on total **deposits** and total **loans** reached 1.15% and 5.66%, respectively, at the end of Q4 2005. The **interest margin** between total rates on loans and total rates on deposits does not tend to fluctuate significantly and reached 4.51 percentage points in December: 5.95 percentage points in the household sector and 3.30 percentage points in the non-financial corporations sector.

**Employment** in businesses with 20+ employees of the business sphere (in financial intermediation irrespective of employment) and in all organisations of the non-business sphere increased by 0.9%. This is thanks to foreign-controlled enterprises where increase amounted to 12.5%. The highest decrease of employed persons continued in cooperatives and state-owned economic businesses. The average monthly gross **nominal wage** of employees grew by 4.8% and stood at CZK 20 841. Under a growth of consumer prices by 2.4%, the average **wage** rose by 2.3% in real terms. The average nominal wage in the business and non-business spheres grew by 4.9% and 4.5%, respectively. The wage differentiation between individual CZ-NACE activities has constantly been rising, albeit slightly (the variation coefficient was up by 1.6 percentage points y-o-y in Q4 2005 and reached 33.5%).

The estimated **number of workers in the whole economy of the Czech Republic**, compared to Q4 2004, grew by 0.8%, the **number of employees in the whole economy** rose by 0.8% as well. Their average wage increased by 4.9% and reached CZK 19 541.

The **registered unemployment rate** was 8.9% on 31 December. It grew by 0.1 percentage points quarter-on-quarter at the end of Q4 2005. The number of registered job applicants was 510.4 thousand, of which 481.1 thousand were available unemployed. The number of long-term unemployed persons dropped by 3.2% y-o-y, but their percentage in the total number of unemployed remains high and amounted to 41.7% at the end of December. Persons with basic education made up 30% of the unemployed and persons with university education 3.4%. The average number of unemployed school-leavers fell by 18.1% y-o-y. The vacancy rate was 1.2% in Q4 2005. On 31 December, there were 9.8 persons per vacancy on average nationwide, i.e. by 0.8 persons less than at the end of 2004. The highest unemployment rates persist in the districts of Most (21.2%), Karviná (18.6%) and Jeseník (16.9%).  
The registered unemployment rate was 9.2% at the end of January 2006 and 9.1% at the end of February.

**Net money expenditures** at constant prices grew in households of employees (+5.5%) and stagnated in households of pensioners. As to the structure of expenditures in Q4 2005, the share of expenditures on food was down in households of employees (-1.1%) and stagnated in households of pensioners. The share of indispensable expenditures, i.e. on food, beverages and housing, was 33.3% of the total expenditures in households of employees and 47.8% in households of pensioners.

In the framework of **social expenditures**, resources paid as pensions rose by 7.4% at current prices. As a result of the pensions adjustment on 1 January 2005, the average old-age pension was CZK 7 744 at the end of Q4 2005, i.e. by 6.5% higher y-o-y. As cost of living of pensioners was up by 3.3% y-o-y, the average old-age pension grew by 3.1% in real terms.

In the year 2005, the **state budget** recorded revenues CZK 866.5 billion and expenditures CZK 922.8 billion, i.e. a deficit of CZK 56.3 billion at the end of 2005 (compared to a deficit of CZK 93.6 billion in 2004). In relation to nominal GDP, the deficit was 1.9%. In particular tax revenues had a decisive share in the better result of the revenue side of the state budget. The development of revenues from social security insurance was worse. CZK 258.3 billion was collected for pensions and CZK 247.4 billion was paid as pensions.

At the end of 2005, the **Business Register** contained 2 388 490 businesses, of which private entrepreneurs incl. self-employed farmers made up three quarters. The rest were legal entities, of which mainly business companies. The share of foreign-controlled enterprises in the number of legal entities is constantly increasing and stood at 26.6% in 2005. According to an estimate, the share of really running businesses in the total number of businesses entered in the Business Register is 50-55%.

The **population** of the Czech Republic was 10 251.1 thousand on 31 December 2005, which was by 30.5 thousand more y-o-y. The population increase resulted from an active external migration balance (+36.2 thousand persons). The number of deaths slightly exceeded live births in 2005, the natural decrease was 5 727 persons. In 2005, 102.2 thousand children were born, i.e. by 4.5 thousand more than in 2004. The nuptiality level remains low, although the number of marriages moderately increased. Divorces dropped.

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#### Comparison of the development of the CR and the EU in 2005 according to selected harmonised indicators

| Harmonised indicator   | EU 25 | EU 15 | Germany | Slovakia | Czech Republic |
|--|-------|-------|---------|----------|----------------|
| Gross domestic product (constant prices) – y-o-y change in % | 101.6 | 101.4 | 100.9   | 106.0    | 106.0          |
| Harmonised index of consumer prices (HICP)                   | 102.2 | 102.1 | 101.9   | 102.8    | 101.6          |
| Harmonised unemployment rate in %                            | 8.7   | 7.9   | 9.5     | 16.4     | 7.9            |
| Industrial production index (working days adjusted) in %     | 101.1 | 100.8 | 103.5   | 103.8    | 106.7          |
| Construction output index (working days adjusted) in %       | 100.1 | 99.8  | 94.7    | 114.3    | 101.3          |
| Retail sales index (seasonally adjusted) in %                | 102.6 | 102.3 | 99.5    | 106.3    | 103.6          |

Source: Eurostat (20 March 2006), calculations by CZSO

## Year 2005 – main macroeconomic aspects

The development of the Czech economy in 2005 led to an extensive change, in value and volume, of basic economic proportions and commodity structures on demand and supply sides. Substantial features in comparison to 2004 were considerable acceleration of economic growth, lower inflation rate, higher employment and lower unemployment rate, considerably smaller deficits of the current account of the balance of payments and of the state budget. In total, all this viewed from mutual links and in relation to GDP represents an improvement of the overall economic position of the Czech Republic, which reduced the extent of internal and external disequilibria.

With respect to the **total economic performance** and GDP by kind of activity and by expenditure category, the year 2005 was characterised by higher increase in gross value added (+6.6% at constant prices) than in GDP (+6.0% at constant prices), which was quite a reverse tendency than a year before (+4.6% and +4.7%, respectively, in 2004). This change on the supply side was affected by a slowdown of faster increase in consumed intermediate product than in output of goods and services and on the demand side by a moderate rise in product taxes (+0.7%) and by higher increase in output subsidies (+3.1%); the proportion of their growth was reverse too in 2004 (+5.8% and +5.5%, respectively). **Gross value added** grew most in the secondary sector (+9.3% at constant prices, having effect 3.4 percentage points) and least in the primary sector (+1.2%). The total y-o-y increase in **labour productivity** of 5.6% (measured from GVA) is attributable most to the secondary sector (+8.2%) and least to the quaternary sector (+3.3%). **GVA demand for wages and salaries** in total decreased only slightly, but in the secondary sector considerably; in the quaternary sector it increased markedly (the total of wages paid rose by 8.3%).

The y-o-y growth of GDP at current prices was exclusively affected by increase in its physical volume because the overall price level measured by GDP deflator slightly dropped (-0.1%). This was a significant change in comparison to the long-term trend and to a y-o-y rise in the price level by 3.4% in 2004 arising from different developments of prices on the sides of inputs and outputs than in preceding years (double deflation) and from the development of external trade prices on the demand side.

The **structure of GDP** in relation between total consumption expenditure and gross capital formation expenditure saw a change; accumulation more than consumption tended to decrease. The share of gross capital formation expenditure in GDP at current prices (absolutely and relatively) decreased substantially more than the share of final consumption expenditure, and the share of net exports grew markedly. Net exports had a decisive effect (+4.5 percentage points, of which exports +7.9 percentage points and imports -3.4 percentage points) on y-o-y growth of GDP by 6.0% at constant prices (the decomposition made in the usual way, imports not excluded). The remaining 1.5 percentage points were due to final consumption expenditure, of which household expenditure made up 1.3 percentage points because the positive effect (+1.0 percentage point) of gross fixed capital formation expenditure was eliminated by a negative effect (-1.0% percentage point) of changes in inventories.

The **income structure of GDP** changed through a slight increase in the share of compensation of employees by 0.3 percentage points (to 43.7% in 2005), of which the share of wages and salaries rose very moderately (from 32.8% to 32.9%) and through a decrease in the share of gross operating surplus and mixed income by 0.6 percentage points (to 46.2%). The remaining share of 12.1% in 2004 and 12.5% in 2005 was due to net taxes (taxes on production and on imports after deduction of subsidies on production).

Of a decisive effect (5.05 percentage points) on the y-o-y increase in GDP by CZK 164.8 billion (at prices of 2004) was a rise in overall labour productivity, of which rise in the production effectiveness of fixed assets was a bigger influence (3.27 percentage points), whereas the effect of increase in the ratio of fixed capital cumulated from preceding years to GDP was lower (1.78 percentage points). The remaining effect of 0.95 percentage points was due to a higher number of workers. Unit labour costs were down by 0.7%, when the net primary income of workers grew slower than GDP by kind of activity.

**Aggregate demand and supply** rose by 6.1% y-o-y at constant prices and domestic effective supply already exceeded domestic aggregate demand by 3.9% at constant prices; in 2004 it was still lower by 0.5%. The growth of aggregate demand was less affected by domestic demand (1.5 percentage points) than external demand (4.6 percentage points) and the growth of aggregate supply was more affected by domestic supply (4.1 percentage points) than external supply (2.0 percentage points). The growth of resources produced in the national economy available for total final expenditure by 5.5% at constant prices was more affected by rise in GDP (3.5 percentage points) than rise in imports (2.0 percentage points) and their use was substantially more affected by exports (14.6 percentage points) than gross national final expenditure (0.9 percentage points). The structure of overall demand and supply and of disposable resources and total final expenditure saw considerable y-o-y changes.

**Gross disposable national income** at current prices was up by CZK 195.5 billion y-o-y, which was by CZK 32.1 billion more than increase in GDP (at current prices). This was a result of a joint effect of net primary income and net current transfers. Owing to the fact that increase in final consumption expenditure (CZK 85.6 billion) did not even reach half increase in national income, gross national savings grew markedly, yet they were not high enough to finance gross capital formation expenditure. The gross saving rate of 23.1% from 2004 rose to 25.4%, which resulted in a considerable decrease in the high overhang of gross investment rate over the saving rate. The passive balance of national current transfers with non-residents in relation to gross national income fell by 4.2 percentage points y-o-y to 2.1% in 2005.

The **overall price level**, measured by GDP implicit deflator, was very slightly lower (-0.1%) than a year earlier, which represents a marked change in comparison to a y-o-y increase of 3.4% in 2004. The decisive factors in play were a higher decrease in prices of total exports (2.5%) than of total imports (0.3%) and deterioration of real terms of trade by 2.2%. This led to a trading loss of CZK 47.7 billion on external markets, which resulted in a lower growth of gross domestic income (+4.2% at constant prices) than of GDP.