

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

(Preliminary figures)

In Q3 2007¹ the Czech economy maintained the high rate of GDP growth and proved a high level stabilisation despite a slight slowdown on the supply and demand side of the economy. GDP increased by 6.0%². The pro-growth stimuli in resources were supported by manufacturing (in particular by exports of machinery goods) and by market services. The uses were affected mainly by increasing final household consumption expenditure.

Higher rate of economic growth in the Czech Republic than in developed European economies further narrowed the gap between the Czech Republic GDP and the total EU27 GDP per capita average in purchasing power standards (PPS).

Labour productivity increased by 4.2% y-o-y and contributed by 73.6% to GVA growth. Higher number of persons employed by 1.5% made up the remaining 26.4%, which was more than a year earlier. Labour productivity grew the most in the sector of services, but the biggest contribution to GVA growth was registered in manufacturing.

The favourable terms of trade figure increased trade profit and markedly improved the value of Czech products in the external markets. As a result, gross domestic income grew by 6.8% in Q3 2007, i.e. by 0.8 p.p. more than GDP.

Gross national saving rose y-o-y and its rate 25.7% was by 0.7 p.p. higher than in Q3 2006. Gross capital formation expenditure grew more than gross national saving and the investment rate 31.4% exceeded the rate of saving. Due to the increasing balance of national current transactions with the rest of the world, the rate of funding gross capital formation expenditure from external sources rose from 17.8% in Q3 2006 to 18.4% in Q3 2007.

Basic economic characteristics

In %

	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 05 to Q3 06	Year 2006	Q2 06 to Q1 07	Q3 06 to Q2 07	Q4 06 to Q3 07
GDP, y-o-y change (constant prices)	6.3	6.2	6.4	6.3	6.0	6.6	6.4	6.3	6.3	6.2
Final consumption, y-o-y change (constant prices)	2.8	4.7	5.0	4.2	3.7	3.2	3.8	4.0	4.2	4.4
Gross capital formation, y-o-y change (constant prices)	13.5	9.8	8.3	10.2	9.4	8.8	11.0	11.2	10.5	9.4
Inflation rate, y-o-y, average	2.9	1.5	1.5	2.4	2.5	2.8	2.5	2.2	2.1	2.0
Registered unemployment rate, average	7.9	7.5	7.7	6.7	6.3	8.4	8.1	7.8	7.4	7.0
State budget balance / GDP ratio, % ^{1/}	-0.7	-11.7	1.4	-1.1	3.9	-2.5	-3.0	-3.1	-3.1	-1.8
Current account / GDP ratio, % ¹⁾	-4.8	-5.4	2.0	-4.7	-5.3	-2.3	-3.1	-3.1	-3.3	-3.5
Financial account / GDP ratio, % ¹⁾	5.8	5.3	-0.4	2.5	4.5	2.9	3.5	3.6	3.3	3.0
Net exports / GDP ratio, % ¹⁾	2.4	2.1	6.9	4.5	3.6	3.0	3.1	3.6	4.0	4.3

¹⁾ at current prices

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

The y-o-y growth of **industrial production** (measured by the industrial production index) reached 6.1%. This was the lowest year-on-year increase in 2007. Essential contribution to the growth was made by manufacturing (6.0 p.p.). Within manufacturing, the manufacture of transport equipment, manufacture of electrical and optical equipment, manufacture of machinery and equipment and manufacture of rubber and plastic products contributed the most.

Sales of own goods and services increased by 3.4% y-o-y, contribution of the ICT sales to total sales in manufacturing at current prices increased by 0.1 p.p. y-o-y. The **number of employees** in industry kept growing, mainly thanks to foreign-controlled enterprises. The **average wage** increased by 7.2 %. **Book value added** (at current prices) rose by 10.9%.

Electricity generation grew by 3.7% y-o-y. Domestic consumption rose by only 1.7%, increase was observed in all groups of consumers except other consumption; the most rapid consumption increase was recorded for households (+5.2%). **Natural gas** consumption increased by 12.2% and natural gas imports dropped by 19.3%. Import was down due to high reserves. Import of **crude petroleum** (in tonnes) was by more than fifth down compared with Q3 2006.

In October industrial production increased by 8.4 % y-o-y.

¹ Unless otherwise stated, the data refer to the third quarter of 2007.

² Indices of GDP and GDP components are calculated at average prices of the previous year. Sales indices in individual industries are at constant prices of 2000, unless otherwise stated.

The volume of **construction output** decreased by 0.3% compared with Q3 2006, in enterprises with 20+ employees by 1.0%. In addition to the shortage of certain building materials and skilled workers there was also unfavourable situation in preparation and financing of building projects. The volume of **construction work carried out by own workers** in enterprises with 20+ employees decreased by 1.4%.

Sales of own goods and services (predominantly from construction activity) were slightly up (0.6%). The number of employees in construction dropped by 0.8% and their productivity grew by 0.5%. Faster growth of the average wage (by 6.3% in nominal terms) increased the unit wage costs by 5.8%. As to financial data, book value added produced by construction enterprises was higher in comparison with Q3 2006.

As to **construction orders**, order books were full for over 8 months ahead at the end of September. The number of **building permits and notifications** granted by planning and building control authorities as well as the corresponding approximate value were lower compared with Q3 2006.

In **housing construction** the numbers of started and completed dwellings grew by 7.5% and 44.3% respectively. The number of dwellings under construction was still high.

In October, construction output rose by 3.5% y-o-y.

The sales of own goods and services in **agriculture** rose by 8.4% y-o-y; sales at current prices were up by nearly a fourth. The number of employees in holdings of agricultural primary production continued decreasing. As labour productivity rose more than average wages, unit wage costs decreased. Book value added increased by almost half due to higher outputs; increase in production consumption was not substantial.

According to final **harvest estimates** as at 15 October 2007, total production of basic cereals should be around the **average of the previous five year**, production of potatoes and sugar beet will be lower by 7.1% and 23.5% respectively. An increase is expected for rape as a result of both larger area under rape and higher yield per hectare.

According to the first estimate **output of agriculture** in 2007 will be by 2.7% higher (constant prices) in comparison to 2006. Crop production should grow by 5.2% and animal production decrease by 0.4%.

Retail sales (incl. sale, maintenance and repair of motor vehicles and motorcycles and retail of automotive fuel) increased by 6.4% y-o-y (constant prices); growth in retail sales (incl. repair of personal and household goods) and in sale, maintenance and repair of motor vehicles and motorcycles and retail of automotive fuel was not much different. The number of employees in retail trade total increased faster y-o-y than the number of workers; the former made up nearly three quarters of the latter. Book value added (current prices) decreased by 3.1%.

Collective tourist accommodation establishments put up the total of 4.6 million guests which was by 0.2% less y-o-y. Both the number of resident and non-resident guests decreased. As usual Prague was the most visited place, in the tourist season followed by the *Jihočeský* Region. The number of overnight stays dropped more rapidly and made up 3.4 per tourist. Four-star hotels registered the highest guest increases, while camping sites lost the most non-resident guests. Visitors from the Russian Federation increased dramatically and so did the number of their overnight stays. The active balance of tourism (as part of the balance of payments) stood at CZK 11.5 billion, which was down by 18.3% on Q3 2006.

A 7.1% growth of sales of own goods and services and goods for resale in **transport** was mainly contributed to by supporting and auxiliary transport activities and air transport. The number of employees in transport rose by 1.6%. Labour productivity (including self-employed workers and family workers) grew faster than the average wage. Book value added at current prices increased by 11.5%; outputs grew more than production consumption.

Sales in **communications** rose by 7.8%, which was markedly higher increase in comparison to the previous quarters. Employment decreased and labour productivity grew slower than the average wage. Book value added fell by 9.9% due to a high increase of production consumption (28.5%).

Financial intermediation (excl. the CNB) reached by 17.0% lower gross profit, compared with Q3 2006. Unlike the previous quarters, profit increased only in (savings) banks and dropped elsewhere. This corresponded with the average wage growth: by 7.6% in financial intermediation in total, of which by 8.6% in banking monetary institutions.

Sales of **other market services** were up by 6.9% owing to the high growth in inter-company service activities. The rate of growth in services provided predominantly to the population was by two thirds lower; the highest rate was recorded in education. The sales increase is attributable to a higher number of employees; labour productivity stagnated. The average wage grew by 7.1%. Book value added produced was by 9.3% higher y-o-y; outputs and production consumption grew by the same rate. Almost three quarters of total sales were made in enterprises up to 99 employees.

Sales^{*)} in selected CZ-NACE activities

Y-o-y indices in %

CZ-NACE activity		Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2005 to Q3 2006	Year 2006	Q2 2006 to Q1 2007	Q3 2006 to Q2 2007	Q4 2006 to Q3 2007
Industry	Current prices	116.1	117.9	107.8	108.9	107.5	114.9	117.6	113.7	112.5	110.4
	Constant prices	113.3	115.4	104.5	104.5	103.4	113.8	115.7	111.1	109.2	106.8
Construction	Current prices	111.7	121.5	131.0	108.5	104.5	109.1	113.0	117.1	116.7	114.3
	Constant prices	108.3	117.7	126.7	104.8	100.6	106.1	109.8	113.5	113.0	110.6
Agriculture	Current prices	99.8	99.0	98.0	100.1	123.9	97.6	98.3	98.3	99.3	106.1
	Constant prices	97.2	96.7	87.6	92.6	108.4	98.1	96.3	93.9	94.2	97.2
Retail trade (CZ-NACE 50, 52)	Current prices	106.3	105.8	109.2	108.1	107.1	106.4	106.6	106.9	107.3	107.5
	Constant prices	106.3	106.8	109.9	108.0	106.4	105.7	106.5	107.2	107.7	107.7
Transport	Current prices	93.3	95.6	114.3	112.1	108.4	96.0	93.0	97.4	102.8	107.0
	Constant prices	91.7	96.0	112.5	110.0	107.1	93.6	91.6	96.1	101.4	105.8
Communications	Current prices	101.1	104.7	105.0	104.0	107.4	103.4	103.5	103.7	103.7	105.3
	Constant prices	100.8	104.6	104.7	103.4	107.8	103.9	103.0	103.3	103.4	105.1
Other market services	Current prices	106.1	107.8	106.0	106.9	109.7	108.4	107.1	106.9	106.8	107.7
	Constant prices	101.9	103.6	102.7	103.7	106.9	104.9	103.2	103.0	103.0	104.2

^{*)} The data on industry, construction and agriculture refer to sales of own goods and services; data on other CZ-NACE activities refer to total sales.

The level of consumer prices grew by 2.5% y-o-y in Q3, which was by 0.1 p.p. more than in Q2. This increase was affected mainly by growth of regulated prices by 10.2%, especially prices of tobacco products, net rentals, natural gas and heat and hot water supply. Market prices rose by only 1.0%. Prices of goods were up by 2.5% and prices of services by 2.6%.

Inflation rate, measured as increase in the average consumer price index for last 12 months over the average CPI for preceding 12 months, stood at 2.0% in September, i.e. inflation decelerated by 0.1 p.p. compared with June 2007.

Consumer prices grew by 4.0% in October and 5.0% in November, y-o-y.

Prices of agricultural producers were up by 15.0% and two-digit growth rates were recorded in the third quarter in a row. This was due to an intensive growth in prices of crop products: for example, prices of cereals and potatoes were by half higher, prices of fruits by nearly a third compared with Q3 2006. Prices of animal products rose by only 2.2%. **Industrial producer prices** rose by 3.9%, which was less than in Q2. Rising were especially prices of 'coal and lignite; peat', 'crude petroleum and natural gas', 'electrical energy, gas, steam and water' and 'basic metals and fabricated metal products'. **Construction work prices** grew by 4.2% and **prices of market services** by 1.1%; especially prices of 'freight transportation services by road' and 'real estate, renting and business services' were on the increase.

In October and November 2007, year-on-year, agricultural producer prices grew by 24.4% and 26.9% respectively, construction work prices by 4.3% and 4.4% respectively, industrial producer prices by 4.4% and 5.4% respectively. The smallest growth was recorded for prices of market services in the business sphere (by 2.0% and 1.9% respectively).

External trade prices followed in Q3 the trends of the previous two quarters, i.e. import prices decreased y-o-y and export prices increased. The **terms of trade** figure reached 102.4 on average and has been shrinking throughout the year. **World prices** of industrial raw materials and food measured by the CZSO index grew by 3.6% y-o-y on average in Q3 2007.

Exports and imports of goods at current prices rose by 16.2% and 14.8% y-o-y respectively (at constant prices by 14.5% and 15.6%³, respectively). 'Machinery and transport equipment' accounted for over half of the increase. Trade balance surplus in the amount of CZK 10.9 billion improved by CZK 8.0 billion y-o-y and favourable terms of trade resulted in a trading profit of CZK 13.0 billion. The contribution of 'machinery and transport equipment' was traditionally high (surplus up by CZK 7.3 billion) and trade deficit in 'crude materials, inedible and mineral fuels' fell by CZK 6.8 billion. Trade in 'manufactured goods classified chiefly by material' developed conversely (balance deteriorated by CZK 4.2 billion), and so did the trade in 'chemicals and related products' (deficit up by CZK 3.1 billion). By group of countries, an increase in trade surplus was recorded with EU27 states while the trade deficit with non-EU countries increased. Contribution of HT items to imports and exports dropped and the deficit increased to CZK 9.4 billion.

In October 2007 exports and imports of goods at current prices increased by 13.6% and 11.5% respectively, y-o-y. The trade balance reached an all-time October high of CZK 8.6 billion.

³ Deflators are calculated using export price indices and import price indices by 67 groups of the SITC, Rev. 4, two-digit level.

The current account of the **balance of payments** ended in a deficit of CZK 47.8 billion in Q3 2007. The surplus of transactions in goods and balance of services stood against the balance of revenues and current transfers deficit. Compared with Q3 2006, the surplus of transactions in goods was by CZK 8.9 billion higher and the surplus of the balance of services grew by CZK 2.3 billion. The balance of payments financial account reached a surplus of CZK 40.1 due to foreign direct investments and due to change of short-term positions of the banking sector as part of other investments. Portfolio investments incl. financial derivatives showed outward flows. The current account deficit made up 5.3% and financial account surplus 4.5% of nominal volume of GDP. Foreign exchange reserves in Q3 were higher by CZK 5.2 billion.

Foreign exchange reserves of the CNB reached CZK 640 billion at the end of Q3, which would be enough to cover 3 months' imports of goods and services.

The average **exchange rate of the koruna strengthened against the euro** to 27.9 CZK/EUR and **against the US dollar** to 20.3 CZK/USD y-o-y. The index of nominal effective exchange rate of CZK (the year 2005 = 100) reached 106.0% in Q3 and strengthened by 0.7 p.p. y-o-y. The index of real effective exchange rate of CZK (in industrial producers' prices) strengthened from 102.4% to 105.0% y-o-y.

The y-o-y growth of **money supply M2** decelerated in Q3 and stood at 11.0% in September. The high growth responded to the increased loans provided to corporations and households. The driving force of monetary supply was the monetary aggregate **M1**, albeit its rate was also down against the end of June due to increased interest rates. The growth of quasi-money accelerated. The share of monetary aggregate M1 in monetary aggregate M2 stood at 57.5% in September.

Total **loans** provided to corporations, households, government and non-residents increased by 25.2% y-o-y in September. Loans in *korunas* made up roughly 86% of total loans. Loans provided to non-financial corporations and households grew (by 21.6% and 31.7% respectively); the growth of loans to both sectors speeded up, despite increasing interest rates. Housing loans increased by 33.9% and consumer loans by 27.8%.

Dynamics of total **deposits** at banks increased to 12.3% y-o-y at the end of Q3 2007, of which *koruna* deposits grew by 11.2% and foreign exchange deposits by nearly a quarter.

In Q3 the Czech National Bank increased its basic repo rate to 3.25%. The average **interest rate** on total **deposits** and total **loans** reached 1.4% and 5.9% respectively at the end of Q3. The **interest margin** between total rates on loans and total rates on deposits does not tend to fluctuate significantly and reached 4.5 percentage points in September: 5.3 p.p. in the household sector and 3.5 p.p. in the sector of non-financial corporations.

On 30 September 2007 the population of the Czech Republic was 10 349.4 thousand **inhabitants**, i.e. by 70.9 thousand more than a year earlier. Despite of a marked growth through natural increase, the population growth was mainly due to an active balance of external migration. In Q1–Q3 the number of live births exceeded the number of deaths and natural increase was 9.8 thousand. 86.4 thousand children were born, i.e. by 6.3 thousand more than a year earlier. Over one third of children were born out of wedlock. The number of marriages increased, which was affected among other things by the attractive date of 7 July 2007. On 30 September 2007, 376.2 thousand foreigners were registered in the Czech Republic, i.e. 3.6% of the population.

As the unemployment rate according to ILO data dropped rapidly and the employment rate grew slower y-o-y, the **participation rate** in Q3 2007 (58.8%) was by 0.4 p.p. lower in comparison to Q3 2006. The number of the only (main) jobholders rose by 2.1%; growth among the male population was higher.

The **number of employees** in enterprises with **20+ employees** of business sphere (in financial intermediation irrespective of employment) and in all organisations of non-business sphere increased by 1.2%. The average monthly gross **nominal wage** of employees grew by 7.6% and stood at CZK 21 470. Consumer prices were up by 2.5% and the average **wage** rose by 5.0% **at constant prices**; by 5.0% in business sphere and by 4.9% in non-business sphere. The wage differentiation among individual CZ-NACE activities widened (the variation coefficient grew by 0.9 percentage points y-o-y in Q3 and reached 35.9%).

The **number of employed persons in the national economy** (estimate) grew by 1.5% in comparison with Q3 2006. The **number of employees in the national economy** increased by 1.2% and their average wage was up by 7.4% and reached CZK 20 130. At the end of Q3 222.8 thousand foreign nationals were employed in the Czech Republic.

The **registered unemployment rate** was 6.2% on 30 September, i.e. a decrease of 1.6 p.p. y-o-y. There were 365.0 thousand registered job applicants, i.e. by 89.2 thousand less than a year earlier, of which 340.4 thousand were available unemployed job applicants. The number of long-term unemployed persons dropped by 23.3% y-o-y; their percentage in the total number of unemployed remained high and oscillated around 41% in the quarter. The average number of unemployed school-leavers fell by over a quarter compared with Q3 2006. The job vacancy rate was 3.0% in Q3. The highest unemployment rates persist in the districts of Most (16.6%), Karviná (14.3%) and Teplice (12.0%).

The registered unemployment rate at the end of October was 5.8% and at the end of November 5.6%.

Per capita **net money expenditures** at constant prices grew in employee households by 1.7% and in pensioner households by 3.3%. The share of indispensable expenditures, i.e. expenditures on food, beverages and housing, made in employee households 35.7% and in pensioner households 53.7% of their total expenditures. Both shares were lower than a year earlier. Housing expenditures (excl. current maintenance and repair of dwelling) were around the same level as in Q3 2006 in both household groups.

The volume of **social expenditure** increased by 14.8% compared to Q3 2006 by 12.3%, of which state social support benefits grew by 47.5% (especially due to the increase of birth grants and parental benefits), social care benefits by 64.1% and pensions by 9.1%. As a result of the pensions adjustment as of 1 January 2007, the average **old-age pension** grew by 6.9% in Q3 2007. As cost of living of pensioners was up by 3.3% y-o-y, the average old-age pension grew by 3.5% in real terms.

In Q1–Q3 2007 the **state budget** recorded **revenues** CZK 748.5 billion and **expenditures** CZK 712.2 billion (expenditures grew faster than revenues), at the end of September the state budget recorded a surplus of CZK 36.3 billion (by CZK 34.8 billion more than a year earlier). The surplus relative to nominal GDP was 1.4% and was higher compared to Q1–Q3 2006. Among key items on the revenue side, the highest increases were recorded for the levy of corporate income taxes (by more than a fifth); income taxes of the self-employed as well as VAT grew by over 10%. Revenues from social security insurance rose by 10% but expenditures on social benefits were by CZK 19.7 billion higher. Revenues from the EU and transfers from the National Fund grew by CZK 3.0 billion to CZK 24.4 billion.

On the expenditure side, current expenditures grew slower and capital expenditures grew more rapidly. Among current expenditures, social benefits and non-investment transfers to public territorial budgets grew the fastest. Payments to the European Union budget made up CZK 18.6 billion, i.e. by 4.5% less y-o-y.

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Comparison of development in the CR and the EU in Q3 2007: selected harmonised indicators

Harmonised indicator	EU27	Euro area	Germany	Slovakia	Czech Republic
Gross domestic product (constant prices), y-o-y change in %	2.5	2.6	2.4	9.4	6.0
Harmonised index of consumer prices (HICP)	102.1	101.9	102.2	101.4	102.7
Harmonised unemployment rate in %	6.9	7.1	8.2	11.1	5.1
Industrial production index (working days adjusted) in %	103.6	103.9	105.9	112.7	105.9
Construction output index (working days adjusted) in %	102.2	101.5	97.0	101.6	99.0
Retail sales index (seasonally adjusted) in %	109.2	102.4	99.8	105.4	109.4

Source: Eurostat (19 December 2007); calculations by CZSO