

Economic and Social Development of the Czech Republic in the year of 2003¹

(Preliminary Figures)

The economy of the Czech Republic kept on growing in 2003. Gross domestic product speeded up its y-o-y growth rate, and other important economic figures (production of industry, construction, sales, transport and other services, external trade imports and exports) rose considerably too. These results were achieved in the conditions of ending stagnation or very moderate recovery in advanced EU member states. Compared with them, the Czech Republic reached faster dynamics of growth. Nevertheless, comparison with the countries of Central and Eastern Europe, also accessing the EU, is not that favourable; the dynamics of economic development in the Czech Republic is among the slowest ones. The year 2003 was characterised by a low inflation rate, but the falling inflation trend was gradually replaced by stagnation and growth, particularly in the 4th quarter. This applied, though at various intensity, to both producer and consumer prices. The strain on the labour market, which represents a long-term macroeconomic problem, increased. Registered unemployment rate reached the highest level ever recorded of 10.3% at the end of the year. Increasing deficit of the state budget, generating a pressure on growing imbalance, is another long-term economic problem. Particularly internal imbalance rises. External imbalance deteriorated slightly too.

Gross domestic product grew by 2.9% at constant prices² in 2003 (as against +2.0% in 2002). The growth in the first six months of the year was by 0.6 percentage points lower than in the second half of the year. The highest increase (+3.4%) was recorded in the 3rd quarter; the 4th quarter of the year saw 3.1%. The quarter-on-quarter growth of seasonally adjusted data was decreasing in the course of the year (1.1% in the first quarter, 0.8% in the second, and 0.7% in both third and fourth quarters). On the **supply side** of the economy, **gross value added**³ was up 2.6% at constant prices. Its formation at basic prices was mainly due to services (accounting for 57%, i.e. slightly more than in 2002), manufacturing (27%) and construction (7%). On part of services, trade and repair of motor vehicles made up 14.6% of gross value added, transport, storage and communication 9.5%, and market and non-market services nearly 30%. On the side of **expenditures**, final household consumption expenditures rose fastest (by 5.5% at constant prices), final government consumption expenditures stagnated, and gross fixed capital formation grew by 3.7%. Owing to aggravating balance of services, external trade balance ended with a deficit higher by CZK 3.6 bn (at current prices). The change of inventories stood at CZK 51.3 bn. The overall price level, measured by the implicit deflator of GDP, went up by 2.9% in 2003.

There were some peculiarities in GDP growth in individual quarters. Changes seen in the 4th quarter – the falling dynamics of growth of final household consumption expenditures – were among the most important. **Gross fixed capital** formation rose at moderate rates at the beginning of the year; the y-o-y increases gradually accelerated and reached 4.8% in the 4th quarter, i.e. more than the growth rate of final consumption. Investments recovered with the end of the year. As for the structure of gross fixed capital, investments in buildings and constructions rose twice as fast as investments in machinery and equipment.

The rapidly growing **final household consumption** was fuelled by rising real incomes of the population, increasing hire or leasing purchases, low interest rates on loans, and abundant supply of consumer goods incl. cars. Growing incomes were primarily affected by higher total payroll of employees (+5.8%). Total current nominal household incomes grew less (+5.6%) than current expenditures (+6.7%), which resulted in a lower increase in gross disposable income (+5.0%). Higher growth of individual consumption expenditures (+5.6%) led to a lower nominal volume of gross household saving (-2.8%). Gross saving rate fell by 0.5 percentage points y-o-y and stood at 5.6% in 2003.

Aggregate labour productivity (GDP per worker⁴) went up by 3.6% y-o-y in 2003 and by 4.3% in the 4th quarter, contributing exclusively to GDP growth. As primary income per worker rose faster than labour productivity, unit labour costs grew by 3.3%.

¹ Unless otherwise stated, data refer to January-September 2003.

² Unless otherwise stated, the GDP indices and GDP components indices are based on constant prices of 1995, while the sales indices in individual CZ-NACE activities are based on constant prices of 2000.

³ Gross value added by CZ-NACE activity reduced by FISIM represents gross value added at basic prices. After its adjustment by tax on products (+) and subsidies on products (-), GDP at purchasing prices is the outcome.

⁴ According to corrected employment figures from the Labour Force Sample Survey conducted in households in compliance with international definitions and recommendations issued by the International Labour Organisation; the corrections reflect especially second jobs, foreign workers (both employees and entrepreneurs) found using administrative data sources, and women on maternity leave, apprentices, and residents working abroad who have no immediate share in GDP by kind of activity.

Key economic characteristics

%

	2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Y-o-y change in GDP (constant prices)	2.6	2.1	1.7	1.5	2.5	2.6	3.4	3.1
Y-o-y change in final consumption (constant prices)	4.5	4.2	4.3	4.7	4.0	4.4	4.2	3.7
Y-o-y change in gross capital formation (constant prices)	-5.2	-1.1	6.8	5.4	0.7	6.0	3.4	6.2
Y-o-y inflation rate (quarterly average)	3.7	2.3	0.7	0.5	-0.4	0.1	-0.1	0.8
Registered unemployment rate (quarterly average)	9.25	8.76	9.21	9.41	10.11	9.62	9.88	10.00
State budget balance / GDP ratio, % ¹⁾	-2.9	2.5	-3.6	-4.1	-5.7	-3.5	-4.4	-4.6
Current account / GDP ratio, % ¹⁾	-4.0	-4.4	-7.9	-7.5	-1.4	-6.0	-7.9	-10.2
Financial account / GDP ratio, % ¹⁾	10.2	31.1	15.4	5.4	6.2	3.1	6.8	10.9
Net exports / GDP ratio, % ¹⁾	0.0	-0.4	-3.1	-5.6	-0.2	-1.5	-2.6	-4.9

¹⁾ At current prices

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

Non-financial corporations with 100 or more employees reported gross profits (i.e. pre-tax profits) CZK 193.7 bn, which was by 15.3% (CZK 25.7 bn) more than in 2002 (all at current prices). They raised costs profitability and equity capital profitability at the same time. The number of loss-making enterprises went slightly down. Predominantly electricity, gas and water supply and mining and quarrying contributed to the increase in gross profits. Gross profits in manufacturing stagnated (slightly dropped). Transport, storage and communication, construction, education, health and social care, hotels and restaurants, other community and personal service activities reported higher gross profits. On the other hand, gross profits in trade and repair of motor vehicles and in agriculture went down. Book value added produced in large non-financial corporations was by 8.2% higher y-o-y (the y-o-y growth of outputs was faster than the growth of intermediate consumption). Increases were recorded in all industrial and non-industrial CZ-NACE activities, with the exception of agriculture, manufacture of textiles and textile products, and manufacture of leather and leather products. Total inventories slightly fell at the end of the year, but inventories in trade grew considerably. Foreign-controlled enterprises used their resources more efficiently – their book value added rose by 18.4% and gross profits went up by 27.7%. Having a third of employees, foreign-controlled enterprises produced half of gross profits made at large enterprises.

Trend of sales* in chosen CZ-NACE activities

Y-o-y indices (%)

CZ-NACE activity		Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Year 2002	Q2 2002 to Q1 2003	Q3 2002 to Q2 2003	Q4 2002 to Q3 2003	Year 2003
Industry	Current prices	98.9	104.8	105.0	108.2	107.5	99.5	100.6	102.1	104.1	106.4
	Constant prices	99.7	105.4	105.8	108.5	107.1	100.0	101.3	103.0	104.7	106.7
Construction	Current prices	99.0	104.5	110.1	119.3	115.8	99.1	99.5	102.5	108.5	113.6
	Constant prices	96.8	102.3	107.7	116.8	113.3	96.5	97.1	100.1	106.1	111.2
Agriculture	Current prices	88.1	83.8	91.3	90.5	97.1	93.3	89.5	89.1	88.5	91.1
	Constant prices	101.8	98.5	100.5	89.5	92.7	102.5	102.4	102.7	97.1	94.5
Retail trade (CZ-NACE 50, 52)	Current prices	102.5	102.9	104.4	108.1	104.1	100.5	101.1	102.9	104.5	104.9
	Constant prices	103.9	103.4	105.9	107.5	103.5	101.6	102.3	104.4	105.2	105.1
Transport	Current prices	97.4	105.0	109.2	115.5	113.1	97.4	98.1	101.2	106.6	110.9
	Constant prices	96.1	100.1	105.0	110.8	109.0	95.9	96.0	98.4	102.9	106.6
Communications	Current prices	104.6	108.0	107.9	105.4	104.1	100.9	103.4	105.6	106.4	106.2
	Constant prices	103.6	107.7	108.7	106.5	105.6	103.8	104.2	105.8	106.5	107.1
Other market services	Current prices	102.4	103.0	104.6	105.4	106.2	102.8	102.7	103.2	103.8	104.9
	Constant prices	97.8	99.2	101.9	102.5	104.2	98.2	98.6	98.8	99.6	102.2

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

Industrial production rose by 5.8% in 2003, the growth in individual quarters being relatively stable. Output of investment products went up most (+7.6%), whereas output of consumer durables fell (-1.0%). Output of manufacturing, having a share of 82% in the total, grew at the same rate as the total industrial production. Within manufacturing, manufacture of rubber and plastic products and manufacture of transport equipment reached traditionally the highest growth rates. In the long term, manufacture of leather and leather products and manufacture of textiles and textile products decrease. Electricity, gas and water supply rose by 8.9%. **Sales of own products and services** grew by 6.7% y-o-y. The growing sales were strongly affected by direct exports, in which the participation of **foreign-controlled enterprises** was over 70%. These enterprises, having a third of employees, accounted for nearly half of the total sales. They already attained the decisive weight in manufacture of transport equipment, manufacture of electrical and optical equipment, manufacture of rubber and plastic products, manufacture of pulp, paper and paper products, publishing and printing, and manufacture of other non-metallic mineral products. The total employment in industry dropped by 2.7%, most in mining and quarrying. A high increase in labour productivity of 9.7% was faster than rise in wages and resulted in lower unit wage costs by 3.4%. Also financial data of industrial enterprises were highly commendable in 2003. Book value added produced by them went up by 7.0% (at current prices). Gross profits of large **enterprises (with 100 or more employees)** were by 12% higher than in 2002; also their costs profitability and equity capital profitability grew. Two thirds of the total number of large enterprises were profit making.

The volume of **new orders** in selected CZ-NACE activities was by 8.1% higher than in 2002, of which orders from abroad rose by 8.8%.

In January 2004 industrial production increased by 3.8% y-o-y, sales rose by 2.0%. Labour productivity went up by 4.6% y-o-y.

Electricity generation grew by 8.9% y-o-y (in nuclear power stations +39%, in hydroelectric power stations -37%). Domestic electricity consumption rose by only 2.4%, which resulted in a growing balance of imports and exports representing more than 16 billion kWh in favour of exports (i.e. by a third more than in 2002). Imports of **natural gas** (in cubic metres) fell, while consumption increased. Imports of **petroleum** were by 4.3% above the 2002 level, which significantly raised reserves at the end of the year.

Construction output grew by high rates in 2003, particularly in the second six months of the year. The volume of construction work rose by 8.9% y-o-y at constant prices (by 11.7% in the 4th quarter). **Sales of own products and services** (predominantly construction activity) went up by 11.2% (by 13.3% in the 4th quarter). The favourable development was affected by high concentration of work on large constructions of building and civil engineering, housing construction (fuelled by saving for building purposes or purchase of a house and low interest rates) and by expected changes (particularly VAT) related to the accession of the Czech Republic to the EU. The biggest share in the total volume of construction work and sales had large enterprises with 250 or more employees. In spite of intense construction activity, employment in construction fell by 2.9%. Labour productivity rose by 12.2% and unit wage costs fell by 4.7%, due to slower growth of wages. New construction, reconstruction and modernisation accounted for 85% of construction work **in enterprises with 20 or more employees**, and repair and maintenance work made up over 14% of the total. The volume of construction work abroad is low in the long term. Construction work carried out by enterprises' own workers went up by 7.9%. High output of construction enterprises was accompanied by a considerably higher book value added. **Enterprises with 100 or more employees** reached, compared with the year 2002, profits that were by nearly a quarter higher; the profitability of their revenues, costs and equity capital rose too.

The high growth rate of construction in January 2004 continued; construction output grew by 15.0% and labour productivity increased by 12.3%.

The growth of volume and average size of **construction orders** developed favourably, albeit their number slightly reduced. Order books contained work in the Czech Republic and abroad worth CZK 158.5 bn at the end of the year, which was by 16.1% more y-o-y.

Planning and building control authorities issued by 6% more **building permits** than in 2002. In **housing construction**, started dwellings rose by 8.6% (more than 36 thousand dwellings, which was most since 1990), the number of dwellings in progress grew considerably too (+7.3%); the number of completed dwellings slightly dropped.

According to the preliminary results of economic accounts for agriculture 2003, **agricultural production** at constant prices fell by 5.4%, of which plant production -13.3% and animal production +2.4%. Primarily cereals affected the decrease. **Sales** in agriculture dropped by 8.9% at current prices and by 5.5% at constant prices. Employment in holdings of agricultural primary production dropped by 5.7% and labour productivity went down by 1.3%. Output and book value added decreased markedly. Financial data of **holdings with 100 or more employees** show a very low loss. Compared with 2002, the number of profit-making holdings went down to 45.5% at the end of 2003. As for farm animals, particularly the population of sows shrank during the year; the population of poultry grew.

Retail sales, incl. sale and repair of motor vehicles and sale of automotive fuel, rose by 5.1% y-o-y at constant prices, of which by only 3.5% in the 4th quarter. From 1st to 3rd quarters, the rate of growth was on the increase; a surprising drop took place in the 4th quarter, mainly due to lower sales of cars and automotive fuel. Retail sales, excl. sales of cars and automotive fuel, rose by 4.1% in 2003 (by 10.7% in enterprises with 250 or more employees), sale and repair of motor vehicles and sale of automotive fuel increased by 7.1%. Nearly 150 thousand new cars were sold, i.e. by

1.2% more than in 2002. Sales in hotels and restaurants grew by 1.9%, the decreasing trend changed for the better in the 3rd quarter. The total employment in **trade** remained constant y-o-y. Wages went up slightly faster than labour productivity. Book value added rose by 6.2% in trade and by 7.2% in hotels and restaurants. Trade margin made up 15.5% on average. Foreign-controlled enterprises accounted for 70% of sales produced by the largest trading businesses with 250 or more employees.

Arrivals of foreigners, which tend to decrease, were by 2.7% lower than in 2002 and by 7.8% lower than in 2001. Departures of Czech residents abroad went up by 5.2%. The active balance of **tourism** amounted to CZK 45.9 bn, i.e. by CZK 1.1 bn more y-o-y.

The accelerating dynamics of sales in **transport** during the year resulted in an increase of 6.5% y-o-y. Sales grew fastest in supporting and auxiliary transport activities (incl. travel agencies), whereas air transport did not reach the 2002 level. Employment stagnated and labour productivity increased at the same rate as wages. Book value added produced by transport enterprises was considerably higher (+11.1%) than in 2002. Tonne-kilometres in transport by rail fell, although the volume of goods in tonnes rose y-o-y; the contrary holds for transport by road where tonne-kilometres grew and volume dropped. Public passenger transport conveyed the same number of people as in 2002, except for transport by rail where a decrease was reported. On the other hand, air transport raised the number of passengers considerably. Very favourable financial data of **enterprises with 100 or more employees** resulted in gross profits higher by nearly 40% and increases in costs profitability and equity capital profitability. These large enterprises accounted for more than two thirds of sales in transport.

Sales in **communications** rose by 7.1%, of which in telecommunications +8.7% and post and courier activities -4.4%. Employment decreased particularly in telecommunications. Book value added grew by 7.1%. Enterprises with 100 or more employees, mainly in the area of telecommunications, produced gross profits that were by 65% higher.

Financial intermediation reached by 41% higher total gross profits y-o-y. The highest increases were reported for non-banking businesses, i.e. non-banking financial institutions (low interest rates and favourable development on the stock markets led the population towards allocating their savings in unit trusts) and insurance companies.

Sales in **other market services** were gaining ground in the course of the year and reached 4.2% in the 4th quarter. Sales grew by 2.2% in the year 2003. Services provided to the population sold better (+2.7%, which was more than in the past) and made up nearly a quarter of the total sales. Sales of services provided between enterprises rose by 2.1%. Employment in services increased y-o-y, the average monthly nominal wage went up faster than sales per employee (at constant prices). Book value added grew by 6.5%. Almost three quarters of the total sales took place in enterprises with fewer than 100 employees; nevertheless, their sales stagnated. On the other hand, large foreign-controlled **enterprises with 100 or more employees** (having a share of 9% in the total sales) raised their sales by 12.8% y-o-y.

Average annual inflation rate, measured as increase in the average **consumer price** index of 2003 related to the average of 2002, stood at 0.1%, as against 1.8% in 2002. The y-o-y inflation rate was thus at the lowest level since 1990. In total, prices of goods decreased by 1.4% and prices of services rose by 2.9%. Market prices were stable, while regulated prices went up by 0.6%. Predominantly prices of food and non-alcoholic beverages affected changes in the price level in 2003. Their decreases were gradually smaller in the course of the year and turned into a growth in the 4th quarter (mainly prices of pork, poultry, grain mill products and cereals). Prices of housing went up, yet at a considerably lower rate than in preceding years (there was no increase in net rent in July, prices of electricity decreased and prices of natural gas partly rose; on the other hand, prices of water and sewerage and prices of waste disposal were on the increase). The highest rise was recorded in health where prices of balneological stays, pharmaceuticals and outpatient medical care grew. In the division miscellaneous goods and services, prices of financial services and prices of insurance grew most. Besides food, also prices of clothing and footwear and prices of household appliances and mobile phones went down in total.

In terms of m-o-m comparison, prices in January and February 2004 grew by 1.8% and 0.2%, respectively, y-o-y prices rose by 2.3% in both months.

Prices of **agricultural producers** fell by 2.9% y-o-y, but they started to grow in the second six months of 2003 (particularly prices of plant products). **Forestry** prices decreased by 10.0% from the beginning of the year. **Industrial producer** prices virtually stagnated in 2003 (-0.3% y-o-y); their deflationary trend was decreasing and turned into a growth in the 4th quarter. Of a decisive influence on the price fall were mainly producers of food, electricity, and rubber and plastic products; conversely, prices of manufacture of coke and refined petroleum products rose y-o-y. Higher prices of **construction work** (+2.2%), under a simultaneous decrease in prices of construction material inputs (-0.9%), were primarily affected by prices of water engineering constructions. Among **market services**, whose prices rose by 1.6%, mainly prices of real estate, renting and business activities and prices of financial intermediation increased. Prices of **tangible investments** grew by 0.6% y-o-y.

The relation between **import and export prices** developed favourably in 2003, resulting in terms of trade being 101.2% on average. Import prices dropped by 0.3%, export prices rose by 0.9%. Compared with 2002, prices moved far less (inter alia owing to a different trend of CZK/EUR exchange rate – CZK strengthened by 10.6% in 2002 and depreciated by 3.2% in 2003). As for imports, the highest price decreases on average in 2003 were observed for food and machinery and transport equipment; on top of this, these products experienced the most favourable terms of trade in the long term. The rise in export prices was largely influenced by higher prices of mineral raw materials.

External trade in goods was affected by a strong domestic consumer demand, high growth of industrial production, and development of external trade prices incl. exchange rates. Other factors were the slow economic growth in the EU member states and the decreasing inflow of foreign direct investments. The dynamics of growing exports (+9.3%) was higher than that of imports (+8.7%). A trade gap of CZK 69.4 bn was among the lowest in the long term. Growth rates of both imports and exports were higher in the second half of the year. Measured in EUR, the dynamics of imports and exports were lower than in CZK; on the other hand, imports and exports in terms of USD were higher (due to depreciation of CZK against EUR and appreciation against USD in 2003). As for groups of countries, the share of advanced market economies (particularly the EU-15) grew in exports and went down in imports. As for commodity structure, the proportion of machinery and equipment in total external trade strengthened and the position of manufactured goods classified chiefly by material weakened. Imports of miscellaneous manufactured articles rose faster than their exports. Imports of chemicals and related products grew considerably; increases were reported for imports and exports of 'crude materials, inedible, and mineral fuels'. Exports rose faster than imports of agricultural and food crude materials and products. The importance of processing in external trade went slightly down, its share in total imports and exports was 18.6% and 26.9%, respectively. The positive effect of exchange rate on external trade was lower than in 2002; imports at constant prices (after calculation, using the price deflator) rose by 9.2% and exports grew by 8.6%, all y-o-y.

In January 2004, exports and imports increased by 0.7% and 1.0%, respectively, y-o-y; the trade balance was passive by CZK 0.2 bn. In February, exports and imports rose by 18.4% and 12.8%, respectively, y-o-y; the trade balance achieved a surplus of CZK 3.6 bn.

The **balance of payments** in 2003 was affected by a lower inflow of foreign direct investments, paying dividends (or reinvested profits) outside the Czech Republic, and one-off transactions (such as Český Telecom's purchase of a share in Eurotel). The current account of the balance of payments ended in a deficit of CZK 157.2 bn, which was by nearly CZK 21 bn higher y-o-y. The financial account reached a surplus of CZK 163.9 bn, i.e. by CZK 184 bn lower than in 2002. The deficit of the current account made up 6.5%, the surplus of the financial account 6.8% of the nominal GDP volume. The y-o-y increase in current account deficit was attributable to a CZK 13 bn decline in the balance of current transfers and a CZK 8.6 bn fall in the balance of services. The results of the financial account were affected by foreign direct investments, which plummeted to a quarter of the 2002 level. At the same time, the outflow of capital in form of portfolio investments continued and the net inflow of capital from abroad as other investments rose. Increase in **foreign exchange reserves**, leaving aside exchange rate fluctuations, stood at CZK 12.9 bn (compared to CZK 216.9 bn in 2002).

The state of foreign exchange reserves of the Czech National Bank amounted to CZK 691.5 bn at the end of the year. This volume could cover roughly 5 months' imports of goods and services.

The average nominal exchange rate of the **Czech koruna against the euro** was CZK 31.84 and **against the US dollar** CZK 28.23. The index of nominal effective exchange rate of the *koruna* was by 0.4% lower on average in 2003. The index of real effective exchange rate of the *koruna* was by 3.8% lower based on consumer prices, and by 4.0% lower based on industrial producer prices.

In 2003, the average rate of y-o-y increases in **money supply** was below the 2002 level. Increases in the first six months of the year were very low, grew in the second half of the year, and y-o-y growth in December amounted to 7.0%. The lower rate of growth of money supply was predominantly affected by a lower inflow of capital from abroad. Contrary to this, credit emission (net credit to government and credits granted to enterprises and households) was in favour of growing money supply. Within the structure of money supply, the volume of transaction money (i.e. money in circulation and sight deposits) continued growing considerably faster, whereas the volume of quasi money (i.e. time deposits and deposits in foreign currencies) stagnated. Sight deposits remained the main actor of growing transaction money (y-o-y increase at the end of the year was 18.9%); the growth of money in circulation was slower (a y-o-y increase of 11.9%). The tendency of falling time deposits was cushioned by a marked growth of deposits at building societies. In terms of the sector structure of money supply, deposits of the business sector rose by 7.5% and deposits of the household sector went up by 4.4% (in both sectors particularly due to sight deposits), all y-o-y at the end of 2003.

The total volume of client **deposits** at banks slightly rose (+1.1%); deposits in *korunas* grew and deposits in foreign currencies slightly dropped. The total state of **loans** granted to banks' clients went up by 5.9% y-o-y, of which loans in foreign currencies fell. Loans granted to the business sector decreased, while loans provided to households rose sharply (particularly those to finance housing). The average interest rate on deposits and loans went down to 1.17% and dropped to 5.07%, respectively, in December.

Employment in businesses with 20 or more employees of the business sphere (in financial intermediation irrespective of employment) and in all organisations of the non-business sphere fell by 0.9%. The average monthly gross **nominal wage** grew by 6.8% and amounted to CZK 16 917. As consumer prices rose by 0.1%, the average **wage** rose by 6.7% **in real terms**. Wages increased by 9.8% on average in the non-business sphere and by only 6.0% in the business sphere (as a result of an across-the-board wage increase as from 1 January 2003). Businesses and organisations where employment is counted were enlarged in 2003 by the Ministry of Defence and Ministry of the Interior – all employees, i.e. roughly 100 thousand people more.

The estimated **number of workers in the Czech economy** (according to the business statistics), compared with 2002, dropped by 0.5%. The **number of employees** fell by 0.8%, of which -6.0% in the primary sphere, -2.6% in the secondary sphere, and +0.9% in the tertiary sphere. The average wage in the total economy grew by 6.4% and reached CZK 15 838.

Registered unemployment rate on 31 December 2003 was at the highest level ever recorded – 10.3%, which was by 0.5 percentage points more y-o-y. This figure was affected by a pressure on higher efficiency of enterprises (particularly in the industry), insufficiently flexible labour market, and reduced absorption ability of service industry. The number of job applicants rose by 28 thousand and made up over 542 thousand. Alarming is especially an increasing number of long-term unemployed people (218 thousand persons were out of work for more than a year on 31 December 2003) and their share in the total number of unemployed (over 40%). Unemployment hits particularly lower age groups, but also the number of unemployed aged 55 and more rose in last year. Compared with 2002, unemployed school-leavers were fewer (54 thousand at the end of 2003). The share of unemployed receiving unemployment benefit stood at 35% of the total unemployed and was on the increase. Higher unemployment is accompanied by falling vacancies, whose average number went down by 12.5% during the year, with 13.5 job applicants falling on one vacancy. The situation on the labour market deteriorated in all regions, the districts of Most (23.5%), Karviná (20.4%) and Teplice (19.9%) reported the highest unemployment rates.

Registered unemployment rate grew to 10.8% and 10.9% at the end of January and February 2004, respectively.

According to **family budget statistics**, net **money incomes** rose by 5.7% in households of employees and by 4.7% in households of pensioners. Net **money expenditures** of employees grew roughly at the same rate as their incomes, those of pensioners by 2.8%. A decrease in the proportion of expenditures on food and non-alcoholic beverages, and stagnating (or moderately decreasing) share of costs of housing were recorded for both types of households. The costs of food and housing (the necessary costs) made up 35.3% and 51.1% of the total expenditures for employees and pensioners, respectively.

In the framework of **social expenditures**, most resources were paid as pensions. The average old-age pension in 2003 was CZK 7 071, i.e. by 3.5% more y-o-y. As cost of living of pensioners went up by 0.4%, the pension's real value grew by 3.1%.

The **state budget** ran a deficit of CZK 109.1 bn (the 2002 deficit was CZK 45.7 bn). Its ratio to GDP reached 4.5%. Total **revenues** were by 2% higher than the adjusted budgeted level, yet by 0.8% lower y-o-y. The levying of taxes, fees and charges, being by 3.2% higher than the budgeted level, was of a decisive influence. Revenues from social security insurance premiums were not met by 1.1%. The balance of revenues from social security premiums and expenditures of the state budget on social security was CZK -32.7 bn, of which deficit of the income account amounted to CZK 16.2 bn. Total **expenditures** of the 2003 state budget were by 1.1% lower than the adjusted budgeted level, growing by 7.7% y-o-y. Social expenditures (particularly expenditures on pensions that were by 5.7% higher y-o-y) were the most important among them. Capital expenditures were 0.9% below the adjusted budgeted level, yet by 14.5% higher y-o-y. As district authorities ceased to exist at the end of 2002, transfers to public budgets at local level went up by 62.6% y-o-y. Overall financial data of the **self-government units** (regions, municipalities and unions of municipalities) ended in a deficit of CZK 3.0 bn. Regions report a CZK 1.5 bn surplus and municipalities a CZK 4.5 bn deficit.

The state budget ran a deficit of CZK 2.8 bn at the end of February.

The **Business Register** encompassed 2 325 977 businesses (natural persons with business licence, all legal entities and, since 2001, also government departments) at the end of 2003. The figure included 1 771 945 private entrepreneurs, i.e. 76.2% of the total. Their number increased by nearly 64 thousand, compared with 2002. Comparisons with other administrative registers and with the results of statistical surveys taken among newly born business suggest that roughly three fifths of all the businesses are active. The number of foreign-controlled businesses grew and made up approx. a quarter of the total number of legal entities.

The basic tendencies of population development continued in 2003, with low birth rate being the main problem. The **population** of the Czech Republic was 10 211 thousand at the end of the year, which was by 8.2 thousand more y-o-y. This increase was due to external migration balance; immigrants exceeded people leaving the country by 25.8 thousand. On the other hand, the negative natural increase continued and stood at 17.6 thousand in 2003 (affected predominantly by a higher number of deaths). Although there were 93.7 thousand live births – the most since 1996, gross birth rate and total fertility rate in the Czech Republic remains one of the lowest across Europe. The proportion of children born out of wedlock increases (28.5% of all live births in 2003). The number of new marriages was lower, while divorces grew. Among the positive developments are the numbers of abortions that fall in the long run.