

Gross Domestic Product

- **Positive and negative impacts of structural changes upon stable high GDP growth**

The increase in formation of GDP sources and use thereof in Q1 2007 confirmed the stabilization of the Czech economy on a higher level. The development was accompanied by stronger structural changes in material processes and income flows compared to the preceding period, which positively influenced the aggregate economic relations. Significant positive features included an accelerated growth of gross domestic income and an increase in gross national savings rate, which resulted in a surplus of internal funds to finance gross capital formation. Negative elements included adverse impacts of net exports on GDP and domestic effective offer growth lagging behind the growth of domestic effective demand.
- **Equal contribution of manufacturing and trade to GVA**

The volume of the gross value added in Q1 2007 recorded a year-on-year increase by 6.3% and the increase was mostly helped by the tertiary sector (3.5 p.p.), particularly trade, motor vehicles and consumer goods repair and maintenance (2.6 p.p.). In the secondary sector the highest impact was produced by manufacturing (2.6 p.p.), the GVA of which increased by 9.4%. Services strengthened their position within the economy with the share in GVA reaching almost 59%. The relatively low increase of net taxes volume (3.6%) resulted in a lower increase in GDP compared to GVA. The gross domestic product at current purchase prices in Q1 2007 increased by 9.9% (year-on-year) and by 6.1% in real terms. After seasonal adjustment the GDP volume recorded a quarter-on-quarter increase by 1.5%. The high implicate GDP deflator (103.6%) meant that the contribution of the physical GDP volume to its value increase amounted to less than two thirds. The GDP increase occurred upon a substantially changed structure of sources utilization and namely upon completely different impacts of internal and external price levels on the economy compared to the situation in the last year.
- **Negative impact of net exports on GDP growth**

The gross national final expenditures volume in Q1 2007 increased by 7.3% (year-on-year) and its contribution to the GDP increment (7.6 p.p.) exceeded its growth rate. Within the expenditures on final consumption a huge increase was shown by household consumption (by 6.7%), contributing with 3.4 p.p. to GDP. Its increase was supported by an increase in the gross disposable household income upon a stable gross household savings rate. Among capital expenditures the stock formation influenced the GDP development more positively than the expenditures on fixed capital, the volume of which due to the considerable growth of the gross operating surplus and combined income of non-financial corporations increased slightly (by 1.5%). The negative influence of net exports (-1.5 p.p.) on the GDP growth resulted from the advance of the imports growth (with negative influence of 16.3 p.p.) over exports (with positive influence of 14.8 p.p.). The exports purchasing power increase rate exceeded the rate of imports demand on sources produced by exports.
- **Further decrease of labour productivity influence on GDP growth**

More than two thirds of the aggregate year-on-year GDP increment in Q1 2007 derived from an increase in the aggregate labour productivity by 4.1% and less than one third derived from the employment growth by 1.9%. Unit wage expenditures increased by 3.4%.
- **Positive turn in exchange relations resulting in considerable GDI**

The developments of exchange relations in the foreign trade in merchandise and services had very favourable impacts on the economy. Trading profits amounting to CZK 13.2 billion in Q1 2007 resulted from stable export prices and imports cheaper by 2.3% contributed to a significant year-on-year GDI growth (by 8.0% in real terms).
- **Continued increase of influence of the external sector on economy**

The aggregate demand and offer structure in Q1 2007 continued its change for the benefit of the external sector. The value coverage of domestic effective demand by domestic effective offer increased upon the more rapidly growing coverage of external offer by external demand, however, in real terms the domestic offer growth by 2.6% lagged behind the domestic demand growth by 1.2 p.p., which was a consequence of the considerably higher stock formation.

- ***Increase in gross national savings rate***

The value of gross disposable national income amounting to CZK 782.0 billion in Q1 2007 showed a year-on-year increase by 8.3% and its volume increased by 6.6%. The value increment of disposable income was lower than the GDP increment resulting from the negative impact of net primary income and current transfers. Although the increment in expenditures on final consumption exceeded one half of the disposable income increment the gross national savings grew considerably. They were by 6.6% higher than the gross capital formation expenditures. The achieved gross savings rate of 30.2% exceeded the investment rate by 1.8 p.p. Due to the above stated development the balance of national current transactions with non-residents was positive, although the assets compared to the disposable income decreased.