

Prices

- **Only a mild increase of inflation pressures**

The average year-on-year inflation rate in 2006 reached 2.5 %, which meant a value by 0.6 p.p. higher than in 2005. This acceleration was affected particularly by administratively influenced prices, which increased by 7.8 %, and by prices of food. Prices of goods grew by 2.0 % and prices of services by 3.5 %. Similarly as in the preceding years prices of goods increased more slowly than the prices of services, which reflected the higher intensity of competitive forces present on international goods markets. The growth of inflation pressures was driven mostly by prices of energy raw materials, namely gas by 19.1 % and electricity by 9.0 %. In a certain extent the inflation growth could have been influenced also by the double increase in interest rates. On the other hand, anti-inflation effects resulted from the decrease among prices of clothing and footwear and furnishings and household equipment, which reflected the increased purchasing power of CZK, which made imports cheaper.
- **Gap between price levels in the Czech Republic and EU average almost unchanged**

In terms of international comparison with the harmonized index of consumer prices the inflation development in the Czech Republic in course of the year usually approximated the EU average (higher by 2 %). The Czech Republic recorded a lower inflation rate only during Q4 2006. Therefore the difference of the price level in the Czech Republic and the average price level in EU did not change much.
- **Low growth of prices of industrial producers**

Prices of industrial producers in 2006 increased only by 1.6 % year-on-year. In the third year in a row already the trend of slower increase in prices of industrial products occurred. The low price increase of industrial products was undoubtedly influenced also by deflation pressures generated by appreciation of CZK. Higher increases were recorded by electricity, gas and water, where prices were higher by 7.5 %. Specific features of the producer prices development in 2006 included the counter-development of prices for crop and animal products. The two-digit growth rate of crop products was caused by low per hectare yields due to adverse weather conditions.
- **Import prices increased, export prices dropped**

Import prices in 2006 increased in year-on-year average by 0.8 %, while in 2005 only by 0.3 %. The highest increase belonged to prices of mineral fuels, by 12.8 %, particularly in case of natural gas, oil and oil products. Prices of machinery and transport equipment fell by 2 %. On the other hand, export prices in 2006 dropped in year-on-year average by 0.8 % compared to 1.4 % in 2005.
- **Exchange relations improved gradually**

In course of all months of 2006 the depreciation of *koruna* reduced significantly the amount of price indices for exports and imports. After elimination of exchange rate influence the export prices as well as import prices would have shown increasing trends in all months of 2006. The year-on-year exchange relations reached in aggregate in 2006 the negative value of 98.4 %, by 0.1 point more than in 2005. However, an improving trend appeared during the year. The lowest exchange relations were recorded in the group of mineral fuels, 88.5 %. While in the period 2001 - 2004 the exchange relations development had a positive impact on the development of nominal domestic income, in 2005 and 2006 the effect was reversed. Characteristic features of external trade prices in 2006 included price turbulences influenced by developments of world commodities markets. Import prices reacted more sensitively, therefore upon increase of commodities prices the exchange relations usually decreased and upon a decrease of commodities prices the exchange relations grew.