

Economic and social development of the Czech Republic in the 1st-3rd quarters of 2004 (Preliminary Figures)

Gross domestic product at constant prices¹ grew by 3.7% y-o-y in the 1st-3rd quarters of 2004, which was a slightly faster growth than in the first three quarters of 2003 according to updated 2003 figures. The growth of GDP was 3.5% in the 1st quarter, 3.9% in the 2nd quarter, and 3.6% in the 3rd quarter of 2004. The first two quarters of 2004 had more working days than those of 2003, while the 3rd quarter had 3 working days fewer. Quarter-on-quarter rates of GDP growth in 2004 ranged between 0.8 and 1.0%, based on seasonally adjusted data.

Expenditure structure of GDP changed considerably against 2003. In particular **gross fixed capital formation** contributed to GDP rise. Over last years, **final household consumption expenditure** was the main driving force of GDP growth. Its effect was weakening in 2004; it grew less in the 1st-3rd quarters than GDP. Government expenditure fell due to cost-saving measures. As regards the **balance of external trade** in goods and services, both components, i.e. exports and imports of goods and services, developed dynamically. Exports grew faster than imports both at current and constant prices. The negative net exports / GDP ratio dropped considerably (at current prices). In terms of **gross value added produced**, the best results were achieved in industry (CZ-NACE 10-41) (+6.4%), financial intermediation (+17.9%), transport and communications (+4.0%), other services (+3.0%), trade (+2.8), and business services (+2.2%). Agriculture, construction and education remained below the 2003 level.

The y-o-y growth of **gross fixed capital formation** has accelerated since 2003 and became the main driving force of economic growth in 2004. Its y-o-y rise in individual quarters was high and relatively stable (+9.3% in Q1 2004, +10.5% in Q2 2004 and +9.7% in Q3 2004), reaching 9.9% in the 1st-3rd quarters of 2004. The reason was the continuing investment in transport infrastructure, manufacturing capacity of foreign investors, and housing construction.

Final consumption expenditure by households at constant prices rose by 2.6%, the rates of growth had a falling tendency (+3.3% in Q1 2004, +2.5% in Q2 2004 and +2.0% in Q3 2004). Total current nominal income of the household sector increased by 4.8% and current expenditure rose by 6.5%. Gross disposable income at current prices went up by 4.1% y-o-y. Individual consumption expenditure by households rose by 5.3%. The volume of gross household savings was down 10.7% and their rate dropped to 6.84% (the share of gross savings in disposable income).

Aggregate labour productivity (GDP per worker²) went up by 4.0% y-o-y in the 1st-3rd quarters, of which by 3.6% in the 3rd quarter. The increase in GDP was achieved exclusively by higher aggregate labour productivity. Faster growth of primary income of workers (per actual worker) than growth of labour productivity led to higher unit labour costs by 1.4%, of which by 1.7% in the 3rd quarter.

Key economic characteristics

%

	2003				2004		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Y-o-y change in GDP (constant prices)	3.2	3.7	4.0	4.0	3.5	3.9	3.6
Y-o-y change in final consumption (constant prices)	4.7	5.1	4.8	4.2	1.9	1.5	-0.3
Y-o-y change in gross capital formation (constant prices)	1.6	4.9	1.4	3.2	10.0	10.6	8.0
Y-o-y inflation rate (quarterly average)	-0.4	0.1	-0.1	0.8	2.3	2.6	3.2
Registered unemployment rate (quarterly average)	10.11	9.62	9.88	10.00	10.73	10.13	10.12
State budget balance / GDP ratio, % ¹⁾	-5.3	-3.3	-4.1	-4.5	-1.2	-5.9	1.3
Current account / GDP ratio, % ¹⁾	-1.3	-5.7	-7.4	-10.0	-2.3	-5.2	-7.7
Financial account / GDP ratio, % ¹⁾	5.7	2.9	6.4	10.6	0.5	5.1	9.1
Net exports / GDP ratio, % ¹⁾	-0.2	-1.4	-2.4	-4.8	0.4	-0.5	-0.1

¹⁾ At current prices

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

Non-financial enterprises with 100 or more employees reached by 24% higher gross profits (i.e. pre-tax profits) y-o-y at current prices. They raised their costs profitability and equity capital profitability. The number of loss-making enterprises went down y-o-y and accounted for a fifth of the total number. Predominantly manufacturing, trade and repair of motor vehicles and consumer goods, agriculture, hunting and related activities contributed to the y-o-y increase in gross profits. Transport, storage and communication, public administration and services grew slower. Construction reached the same profits as a year earlier. Value added according to the enterprise bookkeeping produced in large non-financial enterprises was by 12.2% higher y-o-y. Increases were recorded in all industrial and other CZ-NACE activities, with the exception of agriculture, hunting, forestry and fishing. Total inventories grew by 9.3% y-o-y at the end of the 3rd

¹ The GDP indices and GDP components indices are at average prices of preceding year, while the sales indices in individual CZ-NACE activities are at constant prices of 2000.

² According to corrected employment data from the Labour Force Sample Survey conducted in households in compliance with international definitions and recommendations of the International Labour Organisation; the corrections reflect especially second jobs, foreign workers (both employees and entrepreneurs) found from administrative data sources, and women on maternity leave, apprentices and residents working abroad who have no immediate share in GDP by kind of activity.

quarter (in particular goods and material). Overcapitalization, i.e. negative value of equity capital, was recorded in nearly 5% of enterprises, yet the situation of the total volume of overcapitalization improved, compared with the 1st-3rd quarters of 2003. The share of equity capital in the coverage of the balance sum moderately rose and reached 52%, other resources accounted for the rest. **Foreign-controlled enterprises** largely contributed to favourably financial data; they raised their value added according to the enterprise bookkeeping by 22.9% and gross profits by 42.7%. Having a 35-40% share in the number of employees and in fixed capital, foreign-controlled enterprises produced 47% of total value added and 53% of gross profits.

Trend of sales¹⁾ in chosen CZ-NACE activities

Y-o-y indices (%)

CZ-NACE activity		Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q1-Q3 2004	Year 2003	Q2 2003 to Q1 2004	Q3 2003 to Q2 2004	Q4 2003 to Q3 2004
Industry (CZ-NACE 10-41)	Current prices	108.1	107.4	109.7	116.7	112.7	113.1	106.4	107.6	110.5	111.6
	Constant prices	108.5	107.0	107.9	111.3	104.6	107.9	106.8	107.3	108.7	107.6
Construction	Current prices	119.3	115.8	107.5	119.8	103.2	109.8	113.6	114.1	116.5	111.5
	Constant prices	116.8	113.3	104.9	115.5	98.9	105.9	111.2	111.6	113.5	108.0
Agriculture	Current prices	90.5	97.1	100.9	103.2	110.8	105.7	91.1	94.6	97.0	103.1
	Constant prices	89.5	92.7	88.6	89.9	103.8	95.2	94.5	92.5	90.4	94.4
Retail trade (CZ- NACE 50, 52)	Current prices	108.1	103.9	101.8	105.7	105.1	104.3	104.7	104.5	104.9	104.2
	Constant prices	107.5	103.2	100.6	102.6	102.1	101.9	104.9	104.2	103.5	102.2
Transport	Current prices	113.4	113.4	110.0	115.7	107.5	111.1	110.5	111.1	113.2	111.6
	Constant prices	108.9	108.9	108.5	113.6	105.1	109.0	105.9	107.4	110.0	108.9
Communications	Current prices	105.7	103.8	106.4	104.4	102.1	104.3	106.2	105.8	105.0	104.1
	Constant prices	106.8	105.3	105.4	103.4	102.2	103.6	107.0	106.5	105.2	104.1
Other market services	Current prices	104.0	106.3	109.4	110.9	106.4	108.9	103.5	105.7	107.6	108.1
	Constant prices	101.1	104.7	105.5	106.0	101.5	104.3	100.9	102.8	104.4	104.5

¹⁾ Industry, construction and agriculture data refer to sales of own products and services; the other CZ-NACE activities data refer to total sales.

The long-term stable growth of **industrial production** slowed down in the 3rd quarter of 2004. Yet industrial production rose by 10.1% in the 1st-3rd quarters (+9.0% in Q1 2004, +12.6% in Q2 2004 and 8.7% in Q3 2004). The fastest growth was recorded for production of consumer durables, followed by production of intermediate goods and capital goods. Within manufacturing, the highest rates of growth were reached in manufacture of basic metals and fabricated metal products, manufacture of electrical and optical equipment and manufacture of transport equipment. Manufacture of leather and leather products, manufacture of food products, beverages and tobacco, and manufacture of textiles and textile products dropped slightly. **Sales** of own products and services grew by 7.9% y-o-y. Direct exports of industrial **enterprises with 20 or more employees** rose by 16.8% y-o-y. Three-quarters of their volume were made by **foreign-controlled enterprises**. The share of foreign-controlled enterprises in total sales slightly exceeds the half, but they employ 38% of employees in industry. The long-term trend of falling employment in industry continued also in the 3rd quarter. Increase in labour productivity (+9.5%) was higher than rise in wages and resulted in a decrease in unit wage costs (-1.8%). Value added according to the enterprise bookkeeping (at current prices) went up by 13.5%. Gross profits of large **enterprises (with 100 or more employees)** were by a quarter higher; also their costs profitability and equity capital profitability grew.

The nominal volume of **new orders** in total was by 22.8% higher; external orders rose even more.

In October, industrial production increased by 8.1% y-o-y and sales rose by 6.6%. After working days adjustment, industrial production grew by 12.6% and sales by 11.3%.

Electricity generation grew by 2.4% y-o-y, i.e. less than domestic consumption (+3.3%). The balance of imports and exports was active by 11.8 bn kWh, which was by 1.2% less y-o-y. Imports of **natural gas** (in cubic metres) increased by 2.6%, while consumption grew by only 0.3%. Imports of **petroleum** (in tonnes) were by 10.0% higher y-o-y.

In spite of a lower growth of **construction output** in the 3rd quarter, the volume of construction work rose by 11.5% in the 1st-3rd quarters (+16.1% in Q1 2004, +16.5% in Q2 2004 and +4.5% in Q3 2004). The slowdown in the 3rd quarter was affected inter alia by a high comparable base of the 3rd quarter of 2003. Construction work carried out by own workers (construction put in place – in enterprises with 20 or more employees) rose by 8.1%, i.e. markedly less than total construction output according to delivery contracts. The high total increase in construction output was predominantly concentrated on new developer projects of commercial and administrative centres and on continuing work on constructions in areas transport and housing. **Sales** of own products and services (based predominantly on construction activity) grew by 5.9% y-o-y, and slightly decreased in the 3rd quarter. Employment in construction fell by 1.1% y-o-y. Rise of labour productivity (+12.7%) caused, with respect to a lower growth of wages, a considerable decrease in unit wage costs (-4.2%). New construction, reconstruction and modernisation accounted for 86% of construction work in **enterprises with 20 or more employees**. Repair and maintenance work made up the rest. In terms of financial data, construction enterprises produced by 6.8% higher value added according to the enterprise bookkeeping y-o-y. **Enterprises with 100 or more employees** reached the same profits as a year earlier and their costs profitability and equity capital profitability slightly lowered.

October saw a y-o-y increase of 2.9% in construction output (+5.2% after working days adjustment).

The nominal volume of new **construction orders** at the end of September was highest since 1995 and represented construction work worth CZK 213.3 bn.

Planning and building control authorities issued by 4.7% more **building permits** than in the 1st-3rd quarters of 2003. In **housing construction**, the number of completed dwellings increased considerably (+18.3%) y-o-y; nearly 20 thousand dwellings were built. The numbers of started dwellings grew by 6.9% and dwellings in progress went up by 6.4%.

Sales in **agriculture** increased by 5.7% in the 1st-3rd quarters at current prices and dropped by 4.8% at constant prices due to higher prices paid to agricultural producers (sales do not yet reflect the favourable results of plant production). The number of employees in holdings of agricultural primary production continued falling. As labour productivity rose moderately and income increased more, unit wage costs grew by 5.9%. In terms of financial data, results in agriculture were very good. Higher outputs affected a considerable increase in value added according to the enterprise bookkeeping (+13.5%). Financial data of **holdings with 100 or more employees** (their share in total outputs made up almost a third) showed markedly higher profits, and costs profitability indicators improved. According to farm crop harvest estimates in compiling the **aggregate economic accounts for agriculture 2004** (according to EU methodology), the total agricultural output was up 14.3% (of which plant production grew by 35.1% and animal production dropped by 4.1%). Compared to 2003, production of basic cereals was by more than half higher, potatoes by more than a quarter higher, rape by 140% higher, and production of sugar beet was slightly lower. Populations of all kinds of farm animals fell y-o-y at the end of the 3rd quarter of 2004.

Retail sales, incl. sale and repair of motor vehicles and sale of automotive fuel, rose by 1.9% y-o-y at constant prices (+0.6% in Q1 2004, +2.6% in Q2 2004 and +2.1% in Q3 2004). While sales in retail trade (incl. repair of personal and household goods) grew by 2.5%, sale, repair and maintenance of motor vehicles and sale of automotive fuel increased moderately (+0.6%). Sale of new cars fell by 12.2% in the 1st-3rd quarters of 2004 (by 13.7 thousand new cars fewer were sold than a year earlier). Retail sales in large enterprises with 250 or more employees grew by 6.1%. They include particularly supermarkets and hypermarkets where foreign-controlled enterprises accounted for three-quarters of sales. Sales in **hotels and restaurants** fell by 0.6%. The number of employees and the number of workers in **retail trade total** rose slightly y-o-y. Labour productivity went up more than wages, which resulted in lower unit wage costs. Value added in trade according to the enterprise bookkeeping reached a growth rate of 11.8% y-o-y. Trade margin stood at 16.3% on average in total trade, of which 22% in retail trade.

In **international tourism**, arrivals of foreigners went up only slightly (+0.6%) in the 1st-3rd quarters of 2004. Whereas their number rose by 3.1% in the 1st and 2nd quarters, the 3rd quarter saw a fall of 3.4%. Departures of Czech residents abroad slowed down in the 3rd quarter (+0.3% y-o-y), but by 2.5% of people more went abroad from the beginning of the year than in the 1st-3rd quarters of 2003. Active balance of tourism rose by CZK 3 bn and amounted to CZK 36.5 bn in the 1st-3rd quarters of 2004.

Sales of own products, services and goods in **transport** increased by 9% (+8.5% in Q1 2004, +13.6% in Q2 2004 and +5.1% in Q3 2004). They were twice higher in supporting and auxiliary transport activities than in land transport and transport via pipelines. Sales grew most in air transport. The 3rd quarter saw a slowdown in all kinds of transport. Employment dropped by nearly 1% and labour productivity increased faster (+9.8%) than wages. The favourable development of value added according to the enterprise bookkeeping (+8.6% y-o-y) was predominantly due to land transport, which makes up 57% of total transport. As for goods transport, the volume of goods transported increased y-o-y in the 1st-3rd quarters of 2004 (due to transport by road and via pipelines). There were by 3.2% less goods transported via railways than a year earlier. Transport performances were below the 2003 level in all kinds of transport, with the exception of transport via pipelines. By 4.6% of persons less were conveyed by passengers transport, by 8.6% less in transport by road. On the other hand, air transport had by nearly a quarter of passengers more. **Enterprises with 100 or more employees** achieved by 7.5% higher gross profits.

Sales in **communications** rose by 3.6%, under a gradual slowdown of growth rates in telecommunications against preceding quarters. Employment decreased and labour productivity rose faster than wages. Value added according to the enterprise bookkeeping dropped by 1.2%, even though it grew in post activities. **Enterprises with 100 or more employees** produced gross profits at the same level as in 2003 (stagnating in telecommunications, falling by nearly 15% in post and courier activities).

Financial intermediation reached by 17.5% higher total gross profits than in the 1st-3rd quarters of 2003. The highest increase was recorded for insurance companies (profits more than doubled) and investment companies and funds (profits nearly doubled). Banking financial institutions (excl. the Czech National Bank) raised their economic results by a tenth and pension funds by almost 14%. Non-banking financial institutions with a fall in gross profits of 8% y-o-y were an exception.

Sales in **other market services** grew by 4.3%, the rate of growth slowed down in the 3rd quarter. Sales of services provided between enterprises (mainly in the areas of waste disposal, real estate activities and computers) rose by 4.7% and sales of services provided to the population increased by 3.0%. Among them, sales in education and health grew most, whereas sales in recreational and cultural activities and in other service activities continued falling in consequence of higher VAT rates. Employment in other market services increased by 3.9% y-o-y, the average monthly nominal wage went up faster than sales per employee (at constant prices). Value added according to the enterprise bookkeeping was by 7% higher than a year earlier. More than three-quarters of the total sales took place in enterprises with fewer than 100

employees. Large foreign-controlled **enterprises with 100 or more employees** (having a share of nearly 9% in total sales) raised their sales by a fifth y-o-y. Financial data of large enterprises showed higher gross profits in the 1st-3rd quarters, but costs profitability and equity capital profitability dropped y-o-y.

The average annual inflation rate, measured as increase in the average **consumer price** index in last 12 months related to the average of preceding 12 months, stood at 2.2% in September, i.e. inflation rate rose by 0.8 percentage points during the 3rd quarter of 2004. The level of consumer prices went up by 2.7% y-o-y in total in the 1st-3rd quarters, of which market prices grew by 2.0% and administered prices by 5.1%. Higher VAT and higher excise tax as from January 2003 (telecommunication services, automotive fuel, spirits and tobacco products) and changes of VAT (both up- and downwards) on services and goods as from May contributed substantially to the acceleration. Particularly prices of food and non-alcoholic beverages, prices of housing, prices in post and telecommunications, prices in hotels and restaurants, and prices of other goods and services pushed up the price level. Counteracting were prices of clothing and footwear and prices of household equipment. The price level in households of employees and households of pensioners rose by 2.6% and 3.2%, respectively, on average.

In terms of month-on-month comparison, prices in October and November grew by 0.5% and dropped by 0.1%, respectively; y-o-y prices rose by 3.5% and 2.9%, respectively.

Prices of producers, services and investment continued growing at a high rate. The highest intensity of y-o-y growth in the 3rd quarter was reported for **industrial** producer prices (+7.8%) and prices in **agriculture** (+6.7%), although growth in the 1st-3rd quarters was higher in agricultural producer prices (+10.7%) than in industrial producer prices (+4.8%). Higher industrial producer prices were particularly due to higher prices in manufacture of basic metals and fabricated metal products and manufacture of coke and refined petroleum products (prices of iron, steel and ferro-alloys grew by a third y-o-y in the 1st-3rd quarters). In comparison to the EU, industrial producer prices in the Czech Republic rose faster (by 8.0% y-o-y in September, as against 4.1% in the EU25). The high rise in prices of agricultural producers was affected by higher prices of cereals, potatoes, fruit and vegetables, cattle for slaughter, pigs, poultry, milk and eggs. Prices of **construction work** rose by 3.5% y-o-y, prices of construction material inputs by 5.0%. The only CZ-NACE activity where prices fell considerably was **forestry**. Among **market services**, whose prices rose by 2.4%, particularly prices of business services and prices of financial intermediation except insurance and pension funding grew. **Tangible investment** prices rose by 1.6%.

In October and November 2004, agricultural producer prices went up by 1.1% and 5.0%, respectively, industrial producer prices by 8.6% and 8.2%, respectively, and prices of construction work by 4.3% and 4.2%, respectively.

The relation between **import and export prices** developed favourably and resulted in good **terms of trade** (102.1% on average in the 1st-3rd quarters). Import prices rose by 1.5% y-o-y, export prices by 3.6%. Both import and export prices grew most for mineral fuels, particularly petroleum and petroleum products and coal. Terms of trade have reached positive figures since 2001, mainly due to terms of trade in machinery and transport equipment.

External trade turnover developed favourably, being affected by economic factors of various intensities in the long term on the one hand, and by new factors related to the Czech Republic's joining to the European Union on the other hand. Imports and exports at current prices grew by 21.2% and 24.2% y-o-y, respectively. The high growth rates of imports and exports and their mutual relation in favour of exports had a positive impact on external trade deficit. The trade gap decreased by CZK 21.8 bn in the 1st-3rd quarters and stood at CZK 14.1 bn. Higher imports and exports were reported for all main groups of countries. More than 80% of total imports and over 90% of total exports fell on developed market economies. As for commodity structure, exports of machinery and transport equipment rose significantly in terms of volume and imports of machinery and transport equipment grew below the average. The proportion of trade in manufactured goods classified chiefly by material in total imports increased and its proportion in exports fell. Surplus of trade in miscellaneous manufactured articles went down due to an above-the-average increase in their imports. Deficit of trade in chemicals and related products rose and reached the highest level (nearly CZK 68 bn). Also deficit of trade in agricultural and food crude materials rose as a result of an above-the-average growth of both imports and exports. The deficit of trade in inedible crude materials and mineral fuels partly deteriorated. Favourable trend of terms of trade affected positively the trade gap. After deflation to constant prices, imports rose by 19.4% and exports by 21.2%, all y-o-y.

In October, current price exports and imports increased by 16.6% and 15.1%, respectively, y-o-y; the trade balance was passive by CZK 4.1 bn.

The current account of the **balance of payments** ended in a deficit amounting to CZK 105.3 bn, i.e. by CZK 12.4 bn more than in the 1st-3rd quarters of 2003. The financial account of the balance of payments reached a surplus of CZK 103.1 bn, which represented an improvement of CZK 8 bn y-o-y. The deficit of the current account made up 5.1% and the surplus of the financial account 5.0% of the nominal GDP volume. Mainly the balance of revenues (deficit of CZK 108.9 bn, i.e. deterioration by CZK 30.7 bn y-o-y) contributed to the higher total deficit of the current account. The trade balance ran a low deficit of CZK 14.1 bn (i.e. by CZK 21.8 bn less y-o-y). Also the balance of services improved y-o-y, reaching a surplus of CZK 12.1 bn. The state of the financial account was affected by net inward flows of foreign direct investment amounting to CZK 89.8 bn (roughly the same as a year earlier) and by inward flows of portfolio investment amounting to CZK 62.7 bn (in contrast to outward flows of portfolio investment amounting to CZK 57.4 bn a year earlier). It was caused by issuances of long-term government and enterprise bonds in foreign capital markets. Direct investment in the Czech Republic reached CZK 92.2 bn, of which fixed capital investment was CZK 37.4 bn and reinvested profits CZK 49.7 bn. As regards other investment, capital outward flows amounting to CZK 52.2 bn occurred in the 1st-3rd quarters. The change in **foreign exchange reserves** (CZK 6.3 bn) was by CZK 4.1 bn lower than in the 1st-3rd quarters of 2003.

The state of **foreign exchange reserves of the Czech National Bank** reached CZK 683.6 bn at the end of September 2004. This volume would be enough to cover 4.3 months' imports of goods and services.

The level of nominal **exchange rate** of the Czech *koruna* against the *euro* was CZK 32.16 and against the *US dollar* CZK 26.25 in the 1st-3rd quarters of 2004. The index of nominal effective exchange rate of the *koruna* was by 0.5% lower on average y-o-y. The index of real effective exchange rate of the *koruna* was by 1.1% lower based on consumer prices and by 1.1% higher based on industrial producer prices.

Money supply M2 grew by 8.5% y-o-y on average at the end of September. The average annual level of M2 in relation to the annualised nominal GDP volume stood at 66.4%. The volume of transaction money grew substantially more than volume of quasi money. Monetary aggregate M1 (money in circulation and one-day deposits) rose by 11.7% y-o-y at the end of September and its share in M2 reached 52%. Particularly one-day deposits by non-financial enterprises were on the increase, which seems to have been due to transactions to revitalise investment. The growth of quasi money (i.e. deposits with agreed due date, time deposits, repo operations and foreign currency deposits) slowed down and stood at 5.2% in September.

The y-o-y rate of growth of **loans** granted to both non-financial enterprises and households accelerated in the 3rd quarter of 2004. Non-financial enterprises were granted by 9.1% loans more y-o-y at the end of September. It was connected with improving financial situation of enterprises. Loans provided to the household sector grew by a third. The demand of households for debt financing remains high, due to a low level of interest rates and high supply of loans by banks. Consumer loans (current accounts and loans to bridge temporary lack of resources) rose by 22.9% y-o-y in September.

The state of *koruna* **deposits** at commercial banks increased faster than the state of loans; they were by 9.5% higher y-o-y at the end of September, deposits of the population growing slower (+7.0%) than deposits of non-financial enterprises. This development reflected decelerating growth of gross disposable income of households and accelerating growth of gross profits produced by non-financial enterprises. In addition, different changes in the growth of interest rates joined.

The average **interest rate** on total **deposits** and total **loans** reached 1.31% and 6.11%, respectively, in September. The **interest margin** between total rates on loans and on deposits grew insignificantly, being 6.62 percentage points in the household sector and 3.56 percentage points in the non-financial enterprises sector in September.

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 1.1%. The most significant decreases were recorded for cooperatives (-8.5%), private businesses (-2.7%), state businesses (-2.8%), and for the municipal sector (-1.8%). The average monthly gross **nominal wage** of employees in businesses with 20 or more employees grew by 6.7% and amounted to CZK 17 418. As consumer prices rose by 2.7%, the average **wage** rose by 3.9% in real terms. Wages in the business sphere rose by 7.1% on average. Lower growth of wages in the non-business sphere (by 5.4% on average) was affected by a reduction of the 13th pay from 50% to 10%.

The estimated **number of workers in the whole Czech economy** (according to the business statistics), compared with the 1st-3rd quarters of 2003, dropped by 0.5%. The **number of employees in the whole economy** fell by 0.9%. Their average wage grew by 6.2% and reached CZK 16 351.

Registered unemployment rate was 10.1% as at 30 September, which was 9.1% according to the new methodology. It remained roughly at the same level y-o-y. The number of job applicants was over 530 thousand at the end of September, i.e. approximately the same figure as a year earlier. Highly alarming remains the situation of long-term unemployed people (those out of work for more than a year). They increased by 10 thousand, compared to September 2003, and reached 223.9 thousand at the end of September 2004; their share in the total number of unemployed exceeded 42%. In addition, the number of job applicants with reduced capacity for work has been permanently rising and supply of vacancies for them decreasing. Unemployment hit particularly persons with basic education who accounted for nearly a third of the unemployed; the share of people with university education in the unemployed was 3.7%. The proportion of school-leavers in the total number of job applicants reached 11%, which was less y-o-y. One in three unemployed people received unemployment benefits. Since vacancies grew by 4.8% y-o-y in the 1st-3rd quarters of 2004, there were less job applicants per vacancy (11.3 persons at the end of September). The situation on the labour market improved in half the regions, the highest unemployment rates remain in the districts of Most (23%), Karviná (19.5%) and Teplice (16.7%).

The registered unemployment rate stood at 9.9% at the end of October 2004 and did not change in November. According to the new methodology, registered unemployment rate was 8.9% in both months.

According to **family budget statistics**, net **money income** in households of employees rose by 4.5% and 1.2% in nominal and real terms, respectively. In households of pensioners, it was up 2.6% and down 0.6% in nominal and real terms, respectively. Net **money expenditures** of employees stagnated and of pensioners dropped by 0.7%, in real terms. The shares of individual expenditure groups in the net expenditure structure did not change markedly y-o-y: on average, households of employees spent 18.5% of their total expenditures on food and non-alcoholic beverages and 17.3% on housing, incl. energy and other services related to housing. Households of pensioners spent on these purposes 25.9% and 25.7%, respectively.

In the framework of **social expenditures**, most resources were paid as pensions. The average old-age pension as at 30 September 2004 was CZK 7 248, i.e. by 2.7% more y-o-y. As cost of living of pensioners went up by 3.2%, the pension's real value went down by 0.5%.

The **state budget** ran a deficit of CZK 40.5 bn at the end of September 2004, which was half than a year earlier. This favourable figure resulted from total revenues being exceeded (74.2%) and total expenditures being lower (69%) than the budgeted level. The deficit/GDP ratio reached 2.0%. As regards total **revenues**, most money was levied on tax revenues (72.9% of the annual budgeted level, i.e. 7.8% up y-o-y) and social security premiums (73.3% of the annual budgeted level, i.e. 7.5% up y-o-y). A prevailing part of total **expenditures** of the state budget was used for current expenditures (i.e. social benefits, wages and salaries, non-investment purchases, transfers to semi-budgetary organisations, non-investment subsidies etc.). They reached 71.2% of the annual budgeted level, with a growth of 1.5% y-o-y. Expenditures on pensions (74.8% of the annual budgeted level) were by 2.9% higher y-o-y. The balance of income from social security premiums and expenditures of the state budget on social benefits was in the red figures by CZK 23.5 bn in the 1st-3rd quarters, while the balance of the pension account was active by CZK 2.8 bn. Capital expenditures were met at 42% of the modified annual budgeted level, i.e. 1.2% up y-o-y.

State debt, amounting to CZK 589.3 bn at the end of September 2004, went up by 23.6% y-o-y and its ratio to the annualised GDP volume was 21.8% (19.0% at the end of September 2003).

The state budget ran a deficit of CZK 66.4 bn at the end of November 2004.

The **population** of the Czech Republic was 10 215.6 thousand as at 30 September 2004. The population size grew by 4.1 thousand in the 1st-3rd quarters. However, this increase resulted again from an active balance of external migration, which reached 8.4 thousand. On the other hand, natural increase (i.e. live births minus deaths) was negative by 4.3 thousand. Yet this figure was considerably lower y-o-y (natural increase in the 1st-3rd quarters of 2003 was -12 thousand). The number of live births – 74.5 thousand – was by 2.6 thousand higher than a year earlier. Nearly one in three these children were born out of wedlock. Birth rate in the Czech Republic still remains among the lowest across Europe. The number of marriages grew, just like the number of divorces. Among the positive aspects are the numbers of abortions that are falling in the long term.