

I. Economic and social development of the Czech Republic in the first quarter of 2006

(Preliminary figures)

The real economy in Q1 2006 saw record-breaking growth rates, total output was up by 10.5%¹ y-o-y, intermediate consumption by 12.1% and gross value added by 7.8%. Among CZ-NACE activities, GVA grew most in manufacturing (+18.5%), mainly due to machine building, and fell heavily in construction (-9.2%). Albeit slowly, net taxes rose more than a year earlier (+3.9%) and GDP was up by 7.4%. This increase was most affected by the growth of gross national final expenditures by 6.3%, of which final consumption expenditure made up 2.0% and gross capital formation 16.7%. Rough calculations suggest that GDP growth was contributed to by an increase in gross capital formation expenditure, raising GDP by 4.7 percentage points, of which gross fixed capital formation expenditure made up 2.0 percentage points, and increase in final consumption expenditure, raising GDP by 1.3 percentage points, of which households made up 1.7 percentage points. The remaining 1.4 percentage points of GDP growth were due to net exports – total exports at constant prices were up by 17.0% (exports of services down by 3.3%) and total imports up by 15.3% (imports of services up by 1.8%). The year-on-year deterioration of terms of trade resulted in trading loss in external market transactions (CZK 6.1 billion, i.e. by CZK 4.5 billion more y-o-y); hence, gross domestic income rose by 5.5% at constant prices, i.e. by 1.9 percentage points less than GDP.

Total labour productivity (GDP at constant prices per worker²) was up by 7.1% y-o-y in Q1 2006 and from 95.7% contributed to GDP growth. The remaining 4.3% was due to higher number of workers by 0.3%. Unit labour costs dropped.

Gross domestic product at current prices – CZK 748.8 billion – was by CZK 57.7 billion up y-o-y, i.e. 8.3%. The decisive share (89.0%) in GDP growth had an increase in physical volume; the remaining 1% was due to an increase in overall price level. The gross disposable national income of CZK 722.7 billion was by 3.5% lower than GDP (in Q1 2005 lower by 1.6%). Its increase of CZK 42.4 billion (6.2%) was substantially more negatively affected by decrease in net current transfers from other countries (non-residents) than by increase in net primary incomes to other countries (non-residents).

Under a slower increase in final consumption expenditure than gross disposable national income, gross national saving was up by 7.6% (from CZK 193.1 billion in Q1 2005 to CZK 207.8 billion in Q1 2006). The saving rate thus rose by 0.4 percentage points y-o-y and reached 28.8%. A high growth of fixed capital formation expenditure of 17.5% caused a y-o-y decrease in the surplus of national current transfers with non-residents. Gross national saving nearly amounted to gross capital formation expenditure. The investment rate grew from 26.0% to 28.8% and in Q1 2006 was the same as the saving rate.

Key economic characteristics

%

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2004 to Q1 2005	Q3 2004 to Q2 2005	Q4 2004 to Q3 2005	Year 2005	Q2 2005 to Q1 2006
GDP, y-o-y change (constant prices)	5.4	6.1	5.9	6.9	7.4	4.6	5.1	5.5	6.1	6.6
Final consumption, y-o-y change (constant prices)	0.8	1.9	3.1	1.4	2.0	0.7	0.8	1.4	1.8	2.1
Gross capital formation, y-o-y change (constant prices)	1.9	0.6	1.9	7.3	16.7	6.2	3.8	2.3	2.9	6.3
Inflation rate, y-o-y, average	1.6	1.6	1.9	2.4	2.8	2.6	2.4	2.0	1.9	2.2
Registered unemployment rate, average	9.6	8.8	8.8	8.6	9.0	9.2	9.2	9.0	9.0	8.8
State budget balance / GDP ratio, % ¹⁾	1.2	-0.6	2.9	-10.6	2.1	-2.7	-1.4	-0.9	-1.9	-1.6
Current account / GDP ratio, % ¹⁾	2.7	-3.9	-4.1	-2.7	0.0	-4.7	-4.2	-2.8	-2.1	-2.6
Financial account / GDP ratio, % ¹⁾	-1.4	13.6	4.0	1.9	-0.2	6.0	7.8	6.9	4.6	4.8
Net exports / GDP ratio, % ¹⁾	3.9	2.7	0.8	0.5	3.5	0.3	1.1	1.5	1.9	1.9

¹⁾ At current prices

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

The year-on-year growth of **industrial production** (measured by the industrial production index³) accelerated. In Q1 2006 total industrial production was up by 15.3%. The fastest growth was recorded for consumer durables and capital goods. Within manufacturing, the highest rates of growth were reached in 'manufacture of transport equipment', 'manufacture of electrical and optical equipment' and 'manufacture of basic metals and fabricated metal products'. On the decrease were only 'manufacture of textiles and textile products' and 'manufacture of coke and refined petroleum products'.

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

² According to employment data from the national accounts.

³ Starting with data for January 2006, IPI calculation is governed by a new methodology, which was published in the Press Release of 10 March 2006 (http://www.czso.cz/csu/redakce.nsf/i/zmena_metodiky_indexu_prumyslove_produkce).

Sales of own goods and services at constant prices rose by 15.4% y-o-y; the share of sales in the ICT sector grew significantly. The differentiated increase in the number of employees in the industry continued, in particular thanks to foreign-controlled enterprises. Labour productivity rose more than average wages, unit wage costs dropped by 7.1%. Book value added (at current prices) was up by 11.2%.

Electricity generation increased by 2.1% y-o-y, domestic consumption grew faster. Like in preceding quarters, exports in Q1 2006 were higher than imports. Consumption of **natural gas** was up by 6.2%, under a decrease in imports. As a result, the stock level decreased. Imports of **crude petroleum** (in tonnes) were by 4.3% lower than in Q1 2005.

In April 2006, industrial production was up by 3.6 % y-o-y.

The volume of **construction output** rose by a mere 0.5% y-o-y; it decreased by 0.9% in enterprises with 20+ employees. Construction work was affected by unfavourable weather conditions. Better results were registered for **construction work carried out by own workers** (construction put in place in enterprises with 20+ employees), which rose by 3.9%.

Sales of own goods and services (predominantly from construction activity) were up by 2.1% y-o-y. The number of employees in construction remained at the same level y-o-y. A low growth of labour productivity in combination with high growth of wages caused an increase in unit wage costs of 6.6%. Book value added produced by construction enterprises was lower than in Q1 2005.

The volume and number of **construction orders** were up y-o-y, while their average size fell. The planning and building control authorities granted by 2 thousand fewer **building permits** than in Q1 2005, nevertheless the total value was higher.

In **housing construction**, the numbers of started and completed dwellings grew by 5.5% and 7.4%, respectively. The number of dwellings under construction rose by 5.7%.

In April 2006, construction output fell by 2.9% y-o-y due to a high comparable basis of Q1 2005.

The sales of own goods and services in **agriculture** were down by 1.0% y-o-y at current prices and up by 0.5% at constant prices. The number of employees in holdings of agricultural primary production continued decreasing. As labour productivity rose less than average wages, unit wage costs increased by 2.3%. As to financial data, agriculture reached worse results than a year earlier. Outputs and production consumption decreased, book value added fell by more than a tenth. According to a census taken on 1 April, the populations of all kinds of farm animals kept falling, with the exception of poultry, sheep and horses. The sale of cattle for slaughter remained at the same level y-o-y.

Retail sales, incl. sale, maintenance and repair of motor vehicles and motorcycles; retail of automotive fuel (CZ-NACE 50+52), rose by 7.0% y-o-y at constant prices, sales in retail trade, except of motor vehicles and motorcycles; repair of personal and household goods (CZ-NACE 52) grew by 6.7%, sale, maintenance and repair of motor vehicles, motorcycles; retail of automotive fuel (CZ-NACE 50) was up by 7.5%. Sales in **hotels and restaurants** dropped by 7.3% at constant prices, labour productivity decreased too. The number of employees and workers in **trade total** rose y-o-y, and so did their labour productivity. Book value added (at current prices) in trade was markedly up (+18.8%).

In the framework of **international tourism**, international visitor arrivals in the Czech Republic rose by 0.7% y-o-y (according to frontier statistics). Czech resident departures remained roughly at the same level y-o-y. Czech clients affected a positive development of guests at collective accommodation establishments (the numbers of both guests and overnight stays grew). The active balance of international tourism (as part of the balance of payments) stood at CZK 11.6 billion, which was less than in Q1 2005.

The sales of own goods and services and goods for resale in **transport** were by 9.7% lower y-o-y (the result is affected inter alia by a change in organisation). The number of employees in transport dropped, their labour productivity decreased, and average wages grew considerably; this applies to all modes of transport, except for water transport. Book value added (at current prices) decreased by 4.2%. In freight transport, the tonnage of goods carried was down and outputs were up y-o-y.

Sales in **communications** rose by 4.0%, in post and courier activities and in telecommunications alike. Employment decreased and labour productivity grew slower than wages. Book value added grew by 2.5%.

Financial intermediation (excl. the CNB) reached by 3.6% lower gross profit compared to Q1 2005. Only banks and saving banks raised their profit (+14.0%). Considering the aggregate of monetary institutions, the number of employees was moderately up, under dynamic growth of average wages by nearly a tenth. Employment in insurance companies and pension funds decreased and average wages rose by 5.0%.

Sales of **other market services** were up by 3.3% due to a growth of services predominantly to the population by 11.2% (inter alia transfer of several health establishments from the general government sector to the non-financial institutions sector). Employment was up by 6.1% y-o-y; growth of the average monthly nominal wage was faster than increase in labour productivity. Book value added produced was by 6.9% higher y-o-y. Nearly three quarters of total sales were made in enterprises with fewer than 100 employees.

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

Y-o-y indices (%)

CZ-NACE activity		Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2004 to Q1 2005	Q3 2004 to Q2 2005	Q4 2004 to Q3 2005	Year 2005	Q2 2004 to Q1 2005
Industry (CZ-NACE 10-41)	Current prices	108.2	109.4	107.9	107.5	115.8	113.6	111.5	110.2	108.2	110.1
	Constant prices	101.3	105.0	106.5	107.5	115.4	106.2	104.5	104.8	105.1	108.6
Construction	Current prices	103.7	102.0	110.6	108.6	104.6	107.7	103.5	105.7	106.7	106.9
	Constant prices	99.6	99.2	108.0	106.0	102.1	103.5	99.6	102.3	103.7	104.2
Agriculture	Current prices	104.1	106.3	89.5	96.8	99.0	109.1	109.8	102.6	97.8	96.9
	Constant prices	116.8	123.8	98.2	102.8	100.5	105.5	112.8	110.3	108.0	104.9
Retail trade (CZ-NACE 50, 52)	Current prices	104.7	105.2	105.5	103.5	107.7	105.0	104.7	104.9	104.7	105.4
	Constant prices	105.0	105.1	103.8	102.6	107.0	103.1	103.5	104.1	104.1	104.5
Transport	Current prices	106.8	104.5	108.4	109.1	92.6	110.1	107.4	107.0	107.2	103.9
	Constant prices	103.8	101.2	104.3	104.8	90.3	107.4	104.4	103.5	103.5	100.5
Communications	Current prices	103.1	103.7	105.8	103.9	104.2	104.0	103.5	104.0	104.1	104.4
	Constant prices	107.5	109.0	109.3	106.8	104.0	104.8	105.9	107.3	108.1	107.3
Other market services	Current prices	103.9	103.1	108.3	106.9	107.3	104.8	102.8	104.1	105.6	106.3
	Constant prices	100.7	100.2	105.5	104.0	103.3	100.8	99.3	100.9	102.6	103.2

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

The total **economic result** (i.e. gross profit or pre-tax profit) of **non-financial corporations with 100+ employees** was up by 30.5% y-o-y (all figures in this paragraph are at current prices). Total yields grew by 13.6% and costs by 12.5%. Return on costs increased simultaneously with return on equity capital. The number of loss-making enterprises dropped y-o-y and made up 32.3% of all enterprises. Gross profit rose y-o-y mainly due to the industry (except for 'manufacture of basic metals and fabricated metal products'), 'wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods' and 'real estate and renting activities'. The highest fall in profit was observed in 'construction' and in 'transport, storage and communication'. **Book value added** produced in large non-financial corporations was by 11.1% higher y-o-y. The growth/drop in book value added was recorded for the same CZ-NACE activities as growth/drop in gross profit. The stock of total inventories grew by 5.6% y-o-y at the end of Q1 2006. Overcapitalisation, i.e. negative value of equity capital, was registered in a lower number of enterprises than a year earlier. The share of equity capital in the coverage of the balance sum grew to 54%, the rest was covered by extramural resources. **Foreign-controlled enterprises** raised their book value added by 13.7% and gross profit by 34.9%, compared to Q1 2005.

In Q1 2006, the level of consumer prices grew by 2.8% y-o-y. This increase was mainly affected by growth of regulated prices of electricity, gas, heat and hot water, water and sewerage. Market prices rose by only 0.7%. Prices of goods were up by 2.2% y-o-y and prices of services by 3.8%.

The **inflation rate**, measured as increase in the average consumer price index for last 12 months over the average for preceding 12 months, stood at 2.2% in March, which implies an accelerating inflation rate.

In April and May 2006, prices rose by 2.8% and 3.1% y-o-y, respectively.

Agricultural producer prices had been falling for five quarters, their decrease slowed down to 1.5%. **Industrial producer prices** were up by a mere 0.3%, in particular due to price decreases in most of the commodity groups of 'basic metals and fabricated metal products'. Also the prices of 'food, beverages and tobacco products' dropped. On the other hand, high price increase was recorded for economic activities related to energy producing materials. **Construction work prices** grew by 2.4% and **prices of market services** by 3.6%; particularly prices of 'post and telecommunication services' rose. **Tangible investment prices** were by 0.7% higher y-o-y.

In April and May 2006, year-on-year, agricultural producer prices rose by 2.6% in both months, construction work prices by 2.3% in both months, industrial producer prices by 0.5% and 1.5%, respectively, and prices of market services by 3.9% and 4.3%, respectively.

External trade prices continued their trend of previous quarters; import prices were up by 3.0% and export prices down by 1.9% y-o-y in Q1 2006. This trend was still affected by strengthening of the *koruna* against the main foreign currencies, except for the *dollar*, and by higher prices of mineral fuels (import prices rose by 38.6% and export prices by 7.9%) and metals. Compared to Q1 2005, **terms of trade** deteriorated to 95.2% and the decrease continued for the fifth consecutive quarter. The **world prices** of industrial raw materials and food measured by the CZSO index grew by 34.5% y-o-y on average in Q1 2006.

Exports of goods at current prices rose by 17.5% y-o-y, imports by 18.2%; these increases at constant prices were 20.0% and 17.0%, respectively. This resulted in a surplus of the trade balance amounting to CZK 25.5 billion. Compared to Q1 2005, the trade balance was better by CZK 1.3 billion. Traditionally high contribution was made by trade in 'machinery and transport equipment' (surplus up by CZK 20.8 billion), counteracting was trade in 'mineral fuels,

lubricants and related materials' (deficit up by CZK 15.5 billion). As to territorial structure, above-the-average rates of growth were recorded for exports to and imports from all groups of countries, except for developed market economies and the EU 25. The share of HT items in exports grew to 12.9% and in imports to 14.2%. Deficit of external trade in HT items dropped markedly to CZK 2.9 billion.

In April 2006, exports and imports at current prices rose by 3.0% and 2.6%, respectively, y-o-y. The balance of trade was active by CZK 0.2 billion.

The current account of the **balance of payments** reached a surplus of CZK 0.2 billion in Q1 2006; the surplus of transactions of goods and balance of services was reduced by a deficit of the balance of revenues. The financial account of the balance of payments ended in a deficit of CZK 1.5 billion, capital outflow occurred in all items of the financial account except for direct investments. Surplus of the current account made up 0.0% and deficit of the financial account 0.2% of nominal GDP volume. Foreign exchange reserves grew by CZK 0.7 billion in Q1 2006, which was less than a year earlier. The growth in Q1 2006 was mainly affected by yields from foreign exchange investments and by the balance of other transactions.

Foreign exchange reserves of the CNB reached CZK 702.6 billion at the end of Q1 2006, which would have been enough to cover 3.9 months' imports of goods and services.

The average **exchange rate** of the Czech **koruna against the euro** strengthened to 28.6 CZK/EUR y-o-y and **against the American dollar** weakened to 23.8 CZK/USD in Q1 2006. The index of nominal effective exchange rate of the **koruna** was by 3.8% higher y-o-y on average.

The y-o-y growth of **money supply M2** speeded up in Q1 2006. It stood at 8.0% in December 2005 and 9% in March 2006. At the end of Q1 2006, M2 relative to the annualised GDP volume was 65.9%. Higher deposits of non-financial corporations and households contributed to the accelerating dynamics of money supply. The growth of the **monetary aggregate M1** slowed down in March owing to transfers of one-day deposits of non-financial corporations to deposits for which maturity not exceeding two years was agreed. However, throughout Q1 2006 the growth accelerated on average and kept on having a significant share in the growth of the monetary aggregate M2. The share of the monetary aggregate M1 in money supply M2 stood at 54.1% in March. The higher growth of the monetary aggregate M2 in Q1 2006 was connected with a decrease in negative annual rate of growth of net loan to general government and with the high annual rate of growth of domestic loans.

Total **loans** provided to enterprises and households rose by 14.7% y-o-y in March. This development was supported by a low level of interest rates and by loans offered by banks. On the increase were loans granted to non-financial corporations (+13.3%) and to households (+33.5%); two thirds of the latter were loans for housing.

The dynamics of total **deposits** at banks rose by 15.5% y-o-y at the end of Q1 2006, of which **koruna** deposits grew by 14.4%.

In Q1 2006 the Czech National Bank kept the basic REPO rate constant at 2.00%. The average **interest rate** on total **deposits** and total **loans** reached 1.17% and 5.58%, respectively, at the end of Q1 2006. The **interest margin** between total rates on loans and total rates on deposits does not tend to fluctuate significantly and reached 4.41 percentage points in March: 5.80 percentage points in the household sector and 3.16 percentage points in the non-financial corporations sector.

Employment in businesses with 20+ employees of the business sphere (in financial intermediation irrespective of employment) and in all organisations of the non-business sphere increased by 1.1%. This is mainly attributable to foreign-controlled enterprises where the increase amounted to 8.3%. The highest decrease of employed persons was apparent in international and state-owned economic businesses. The average monthly gross **nominal wage** of employees grew by 6.9% and stood at CZK 18 903. Consumer prices were up by 2.8%, the average **wage** rose by 4.0% **in real terms**; by 4.3% in the business sphere and by 3.1% in the non-business sphere. The wage differentiation between individual CZ-NACE activities moderately widened (the variation coefficient was up by 0.1 percentage points y-o-y in Q1 2006 and reached 39.7%).

The **number of workers in the whole economy of the Czech Republic** (estimate), compared to Q1 2005, grew by 0.6%, the **number of employees in the whole economy** rose by 0.9%. Their average wage increased by 6.8% and reached CZK 17 754.

The **registered unemployment rate** was 8.8% on 31 March and dropped by 0.1 percentage points quarter-on-quarter and by 0.6 percentage points year-on-year. The number of registered job applicants was 514.8 thousand, of which 480 thousand were available unemployed. The number of long-term unemployed persons dropped by 5.7% y-o-y, but their percentage in the total number of unemployed remains high and amounted to 40.7% at the end of March. Persons with basic education made up 30.5% of the unemployed and persons with university education 3.1%. The average number of unemployed school-leavers fell by 15.1% y-o-y. The job vacancy rate was 1.5% in Q1 2006. The highest unemployment rates persist in the districts of Most (20.8%), Karviná (18.6%) and Jeseník (18.3%).

The registered unemployment rate was 8.3% at the end of April 2006 and 7.9% at the end of May.

Per capita **net money expenditures** at constant prices grew in households of employees (+10.2%) and decreased in households of pensioners (-2.4%). The share of indispensable expenditures, i.e. on food, beverages and housing, made up 38.6% of total expenditures in households of employees and 54.2% in households of pensioners. The costs of housing itself increased y-o-y in both groups of households. The sample survey of household budget statistics saw a change of methodology and improvement of the quota sampling.

In the framework of **social expenditures**, resources paid as pensions rose by 8.5% at current prices. As a result of the pensions adjustment as of 1 January 2006, the average old-age pension was CZK 8 138 at the end of Q1 2006, i.e. by 5.7% higher y-o-y. As the cost of living of pensioners was up by 3.9% y-o-y, the average old-age pension grew by 1.7% in real terms.

In Q1 2006 the **state budget** registered revenues CZK 235.9 billion and expenditures CZK 220.2 billion, which resulted in a surplus of CZK 15.7 billion at the end of March (by CZK 7.5 billion more y-o-y). In relation to nominal GDP, the surplus was 2.1%. In particular tax revenues affected the better result of the revenue side of the state budget. CZK 65.1 billion was collected for pensions and CZK 71.7 billion was paid as pensions. Mainly capital expenditures were higher on the expenditure side of the budget.

The **population** of the Czech Republic was 10 259.0 thousand on 31 March 2006, which was by 36.4 thousand more y-o-y. The population increase resulted from an active external migration balance. Deaths slightly exceeded live births in Q1 2006, the natural decrease was 1 546 persons. In Q1 2006, 24.7 thousand children were born, i.e. by 447 more than a year earlier. The nuptiality level remains low, the number of marriages kept falling (by nearly a fifth). The number of divorces grew.

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Comparison of the development of the CR and the EU in Q1 2006: selected harmonised indicators

Harmonised indicator	EU 25	EU 15	Germany	Slovakia	Czech Republic
Gross domestic product (constant prices), y-o-y change in %	2.6	2.7	2.9	6.3	7.4
Harmonised index of consumer prices (HICP)	2.2	2.2	2.1	4.2	2.4
Harmonised unemployment rate in %	8.7	7.9	9.4	15.9	8.0
Industrial production index (working days adjusted) in %	3.3	2.8	5.1	9.1	13.8
Construction output index (working days adjusted) in %	0.6	0.5	-3.5	13.5	-2.8
Retail sales index (seasonally adjusted) in %	2.5	2.3	1.0	8.1	5.5

Source: Eurostat (20 June 2006), calculations by CZSO