I. Economic and social development in the Czech Republic in the first quarter of 2007

(Preliminary figures)

The growth of **GDP** resources and uses in Q1 2007 proved the high-level stabilisation of the economy. The volume of **gross value added** (GVA) rose by 6.3%[1] y-o-y; its growth was contributed to by ‘manufacturing’ and ‘wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods’ (both 2.6 p.p.). The GDP volume increased by 6.1%; its growth was supported by final consumption expenditure (3.3 p.p.), of which household consumption expenditure made up 3.1 p.p., and by gross capital formation expenditure (3.4 p.p.), of which gross fixed capital formation expenditure a mere 0.3 p.p. On the other hand, negative effect was recorded for net exports (-0.6 p.p.) because positive contribution of exports was lower than negative contribution of imports.

The exceptionally high **GDP implicit deflator** (103.6%) was decisively influenced by favourable terms of trade (102.4%), since the implicit deflator of gross national final expenditures was relatively low (101.6%). This resulted into a different affect of internal and external price level on aggregate demand and supply and considerable difference in measurements of the impact of external sector on the Czech economy on the basis of current realization prices and in real terms. Highly favourable influence of the terms of trade of the external trade was reflected in considerable growth of **gross domestic product** (in real terms by 8.0%).

Total labour productivity expressed as the ratio of GDP and total employment[2] was up by 4.1% y-o-y in Q1 2007 and contributed with two-thirds to the GDP growth. The remaining incomplete third was due to a 1.9% growth of employment. Unit labour costs rose by 3.4%.

The value structure of **aggregate demand and supply** changed for the benefit of external sector, more at the demand than supply side. In real terms the growth of domestic effective supply fell behind the growth of domestic realized demand and so did the external demand compared to external supply. As a result, the excess of domestic supply over domestic demand was reduced by 1.2% and that of the external demand over external supply by 1.6%.

Gross disposable income increased in nominal terms by 8.3%, i.e. it grew slower than GDP mainly due to the outflow of net primary income of non-residents. Despite this its increase in value was higher than the increase of expenditures on final consumption which resulted into high formation of **gross national saving.** Its value of CZK 236 billion was by CZK 13.7 billion higher than the value of gross capital formation expenditure. The attained rate of gross national saving 30.2% increased y-o-y by 1.1 p.p. and exceeded, at the same time, the investment rate by 1.8 p.p.

Key economic indicators

Per cent

	Q1 2006	Q2. 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2005 to Q1 2006	Q3 2005 to Q2 2006	Q4 2005 to Q3 2006	Year 2006	Q2 2006 to Q1 2007
GDP, y-o-y change (constant prices)	6.6	6.5	6.3	6.1	6.1	6.7	6.6	6.6	6.4	6.3
Final consumption, y-o-y change (constant prices)	3.8	2.7	2.4	4.6	4.7	3.1	3.1	2.9	3.4	3.6
Gross capital formation, y-o-y change (constant prices)	7.5	15.0	13.8	10.2	13.4	1.5	6.3	9.5	11.7	13.1
Inflation rate, y-o-y, average	2.8	2.9	2.9	1.5	1.5	2.2	2.5	2.8	2.5	2.2
Registered unemployment rate, average	9.0	8.2	7.9	7.5	7.7	8.8	8.6	8.4	8.1	7.8
State budget balance / GDP ratio, %[1)]	2.1	-1.0	-0.8	-11.8	1.4	-1.6	-1.7	-2.6	-3.0	-3.1
Current account / GDP ratio, %[1)]	2.4	-4.0	-4.8	-5.4	1.6	0.0	-0.2	-2.3	-3.1	-3.2
Financial account / GDP ratio, %[1)]	-1.4	3.7	5.8	5.3	-1.8	5.3	2.8	2.9	3.5	3.3
Net exports / GDP ratio, %[1)]	5.1	3.1	2.6	2.2	5.9	3.1	2.9	3.1	3.2	3.4

[1)] At current prices

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

The y-o-y growth of **industrial production** (measured by the industrial production index) reached 11.6% of which the contribution of manufacturing industry was 11.9 p.p. where the fastest increases were recorded in ‘manufacture of transport equipment’, ‘manufacture of electrical and optical equipment’ (both by 2.6 p.p.) and ‘manufacture of rubber and plastic products’ and ‘manufacture of machinery and equipment’ (both by 1.5 p.p.).

Number of employees in industry increased mainly in foreign-controlled companies. The average wage increased by 7.7%. The book value added (at current prices) raised by 8.8%.

[1] The GDP indices and GDP component indices are at average prices of previous year; the sales indices in individual CZ-NACE activities are at constant prices of 2000, unless otherwise stated.
[2] According to the employment data from the national accounts

Electricity generation grew by 1.5% y-o-y, domestic consumption decreased by 6.7% due to warm winter. Like in preceding quarters, exports increased by 16.1% and were higher than imports. The **natural gas** consumption fell by over a quarter and so did its imports. Imports of **crude petroleum** (in tonnes) were higher compared to Q1 2006 by 9.4%.

In April, industrial production was up by 14.0 % y-o-y.

Construction output grew by 28.8% compared with Q1 2006; a 28.0% increase was recorded in enterprises with 20+ employees. Construction work was affected by favourable weather conditions and companies were able to perform all kinds of work. **Construction work carried out by own workers** (construction put in place by enterprises with 20+ employees) rose by more than a fourth.

Sales of own goods and services (predominantly from construction activity) were up by 26.2% y-o-y. The number of persons employed in construction rose by a mere 1.0% and their productivity increased by 27.5%. This enabled despite high growth of average wages (at constant price by more than one tenth) to reduce unit wage costs by 11.7%. As to financial data, book value added at current prices produced by construction enterprises was higher than in Q1 2006.

By the end of March, the value of **construction orders** secured the work for more than 8 months. Construction authorities granted by 0.7 thousand of **building permits** more than a year ago and their value increased by more than a fourth.

In **housing construction**, the total number of started dwellings moderately exceeded the level of Q1 2006; the number of completed dwellings increased by 20.3%; the number of dwellings under construction increased by 7.8%.

In April 2006, construction output grew by 17.6 % y-o-y.

The sales of own goods and services in **agriculture** were down by 2.6% y-o-y at current prices. The number of employees in holdings of agricultural primary production continued decreasing. As labour productivity dropped by more than 10 %, the average wages grew by 9.4%. Faster growth of output consumption compared to output resulted into the decrease of book value by 4.8%. Numbers of cattle, sheep and horses increased in compliance with census data as of 1. April. Sale of fatstock increased compared to Q1 2006 by 2.5 %.

Retail sales, incl. sale, maintenance and repair of motor vehicles and motorcycles and retail of automotive fuel, increased by 9.4% y-o-y at constant prices; sales in retail trade (incl. repair of personal and household goods) grew by 8.9%; and sale, maintenance and repair of motor vehicles and motorcycles and retail of automotive fuel was up by 10.3%. Sales in **hotels and restaurants** rose by 2.0% at constant prices. The number of employees and workers in **trade total** grew y-o-y, and so did their labour productivity. Book value added (current prices) in trade grew by 6.4%.

According to the frontier statistics on **international tourism**, in collective accommodation establishments the total of 2.3 million of clients checked in which was by 1.9% more than the previous year. The increase was offset only by foreign guests; the number of domestic clients decreased, y-o-y, due to unfavourable snow conditions. As a rule, the highest visiting rate was recorded for Prague. In particular four and five-star hotels were successful in having clients. The number of overnight stays dropped and the average time of overnight stays fell to 3.3 nights. The active balance of tourism (as part of the balance of payments) stood at CZK 12.1 billion, which was 3.4% up compared to Q1 2006.

A 12.5% growth of sales of own goods and services and goods for resale in **transport** was contributed to by all modes of transport except for inland water transport. The number of persons employed in transport increased by 1.4% and labour productivity grew faster that the average wage. Book value added (current prices) increased by almost a fifth.

Sales in **communications** rose by 4.8%. Employment decreased and labour productivity grew slowed than wages. Book value added grew by 7.1% (current prices).

Financial intermediation (excl. the CNB) showed a 7.7% increase of gross profit compared to Q1 2006. The profit fell only in banks and savings banks by 3.7%. By contrast, the profit of insurance companies increased by 50% and of investment companies and funds by more than two thirds. Supplementary pension insurance developed dynamically. The number of employees in the aggregate of financial institutions increased by 3.6% and the average wage grew by 7.5% reaching CZK 52 190.

Sales in **other market services** were up by 2.6% due to the increase in intercompany service. Among services provided predominantly to the population the sales dropped in all branches except for education. The employment of the sector increased y-o-y by 7.2%. The labour productivity dropped and the average wage increased by 9.1%. Book value added produced was by 6.8% higher y-o-y. Nearly three-quarters of total sales were made in enterprises with fewer than 100 employees.

Sales*) in selected CZ-NACE activities

Y-o-y indices in per cent

CZ-NACE activity		Q1 2006	Q2. 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2005 to Q1 2006	Q3 2005 to Q2 2006	Q4 2005 to Q3 2006	Year 2006	Q2 2006 to Q1 2007
Industry (CZ-NACE 10-41)	Current prices	123.0	113.5	116.1	117.9	107.2	111.9	113.0	114.9	117.6	113.5
	Constant prices	122.7	112.1	113.3	115.4	103.8	110.4	112.2	113.8	115.7	111.0
Construction	Current prices	103.7	109.4	111.7	121.5	130.5	106.7	108.7	109.1	113.0	117.1.
	Constant prices	101.2	106.5	108.3	117.7	126.2	104.1	106.0	106.1	109.8	113.5.
Agriculture	Current prices	98.0	95.6	99.8	99.0	97.4	96.7	94.6	97.6	98.3	98.2
	Constant prices	99.5	91.4	97.2	96.7	87.1	104.6	98.4	98.1	96.3	93.7
Retail trade (CZ-NACE 50, 52)	Current prices	107.6	106.7	106.4	105.8	108.8	105.7	105.9	106.4	106.6	106.8
	Constant prices	106.8	106.0	106.3	106.8	109.4	105.0	104.9	105.7	106.5	107.1
Transport	Current prices	92.3	90.6	93.3	95.6	114.2	103.7	99.9	96.0	93.0	97.4
	Constant prices	90.0	88.6	91.7	96.0	112.5	100.3	97.0	93.6	91.7	96.1
Communications	Current prices	104.0	104.0	101.1	104.7	105.1	104.8	104.7	103.4	103.5	103.7
	Constant prices	103.9	103.1	100.7	104.6	104.8	107.8	106.2	103.9	103.0	103.3
Other market services	Current prices	107.5	107.7	106.6	108.3	106.2	109.4	110.6	108.7	107.6	107.3
	Constant prices	104.2	103.9	102.3	104.0	102.6	106.5	107.5	105.3	103.6	103.3

*) 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 level of consumer prices in Q1 grew by 1.5% y-o-y. This increase was mainly affected by growth of regulated prices by 4.9%, the prices of electricity, net rentals, heat and hot water, water supply and sewerage water rose. Market prices rose by only 1.1%. Prices of goods were up by 0.5% and prices of services by 3.2%.

Inflation rate, measured as increase in the average index of consumer prices for last 12 months over the average for preceding 12 months was 2.2% in March which produces the slow-down of inflation compared with December 2006 by 0.3 p.p.

In April, consumer prices grew by only 2.5% y-o-y and in May they grew by 2.4%.

Prices of agricultural producers were up by 13.3% y-o-y. This was due to an accelerated growth of products of the soil which were by a third higher than a year ago. Prices of animal products continued to drop. **Prices of industrial producers** rose by 3.2% especially duel to the growth of prices in 'basic metals and fabricated metal products', in 'electricity, natural gas and water supply and in food, beverages and tobacco products. **Construction work prices** grew by 3.8% and **prices of market services** by 1.8%; especially prices of business services and prices of real estate and renting activities rose, a significant increase was recorded for inland road freight transport.

In April and May, year-on-year, agricultural producer prices grew by 12.5% and 12.1% respectively, construction work prices by 3.6% and 3.5% respectively, industrial producer prices by 3.7% and 4.1% respectively. Prices of market services for business sphere recorded the slowest growth (by 1.5% and 2.0% respectively).

Prices of external trade in goods were characterised by similar trends as in the previous quarter, import prices decreased by 1.7%, while the export prices increased by 1.9%. This trend was continuously affected by strengthening of CZK and by drop of mineral fuel prices (in imports by 9 .4%). Compared to Q1 2006, **terms of trade** improved to 103.7% and the growth of favourable ratio of import/export prices continued for the fourth quarter. **World prices** of industrial raw materials and food measured by the CZSO index grew by only 2.8% y-o-y on average in Q1 2007.

Exports and imports at current prices rose by 16.7% and 15.7% y-o-y respectively (at constant prices by 14.9% and 17.7%, respectively [3]). Trade balance surplus, which grew by CZK 9.1 billion y-o-y and reached CZK 34.5 billion and thanks to favourable terms of trade the surplus reached CZK 19.2 billion. Traditionally high trade surplus in machinery and transport equipment (increase of surplus by CZK 8.5 billion) by CZK 10.0 billion decreased the trade deficit in crude materials, inedible and mineral fuels. The trade in manufactured goods classified chiefly by material showed an opposite trend (the surplus was reduced by CZK 5.3 billion) and in chemicals and related products (increase of deficit by CZK 4.4 billion). As to the territorial structure of external trade, the surplus of external trade increased in trade with EU27 while the deficit with countries outside the EU increased. The contribution of HT items to the imports and exports dropped and the deficit was reduced to CZK 1.6 billion.

In April 2007 exports at current prices increased by 19.7 % y-o-y and imports by 16.8%. The trade balance was active by CZK 3.0 billion.

[3] Calculations of deflators are made by import price and exports price indices in compliance with 67 sections of SITS, rev. 4 to two decimal places

The current account of the **balance of payments** ended in a surplus of CZK 13.4 billion in Q1 2007. The surplus of transactions in goods and balance of services stood against the deficit of the balance of revenues and current transfers. The surplus of transactions in goods was higher by CZK 11.2 billion compared to Q1 2006 and surplus of transactions in services was lower by CZK 2.0 billion. The financial account of the balance of payments showed a deficit of CZK 14.5 billion, with the exception of direct investment and financial derivates the outward flows of net portfolio investments was recorded. Deficit of the financial account made up 1.8% and surplus of the current account 1.6% relative to GDP value. Foreign exchange reserves grew by CZK 0.8 billion in Q1 2007.

Foreign exchange reserves of the CNB reached CZK 667.1 billion at the end of Q1 2007, which would be enough to cover 3.3 months' imports of goods and services.

The average **exchange rate** of the Czech ***koruna*** strengthened **against the euro** to 21.39 CZK/EUR and **against the US dollar** to 21.39 CZK/USD y-o-y in Q1 2007. The index of nominal effective exchange rate of the *koruna* was by 2 p.p. up y-o-y in Q1 2007 and shows the trend of decreasing international competitiveness of the CR.

The y-o-y growth of **money supply M2** accelerated due to low interest rates and economic growth in Q1 2007. While in December 2006 it made up 9.9%, in March it was 10.6%. Its growth reflected mainly the growth of loans granted to non-financial corporations and households. The **monetary aggregate M1** stagnated, the growth of money in circulation and overnight deposits with the agreed due date accelerated. The share of monetary aggregate M1 in money supply M2 was 55.8% in March.

The average annual money supply (M2) relative to the annualised value of the output of goods and services decreased. Its demand for money service decreased. The speed of money supply circulation increased, y-o-y.

Total **loans** awarded to companies, households, government and non-residents increased in March by 20.3%, y-o-y. The development was supported mainly by low level or interest rates, robust growth of economy and loans offered by monetary financial institutions The loans to non-financial corporations grew (by 19.4%) and to households (by 30.5%). Housing loans increased, y-o-y, by 32.7% and consumer loans by 24.4%. The dynamics of housing loans were in line with the real estate market development.

By the end of Q1 2007dynamics of total **deposits** with banks increased to 9.7% of which deposits in *koruna* increased by 9.6% and foreign exchange deposits by 10.8%. The higher growth rate of foreign exchange deposits reflected mainly the growth of external trade.

In Q1 the Czech National Bank repo rate was fixed at 2.5%. At the end of Q1, the average **interest rate** on total **deposits** and total **loans** reached 1.27% and 5.66%, respectively. The **interest margin** between total rates on loans and total rates on deposits does not tend to fluctuate significantly and reached 4.4 percentage points from the beginning of 2007 - 5.43 p.p. in the household sector and 3.26 p.p. in the non-financial corporations sector.

The **number of employees** 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 1.2%. The average monthly gross **nominal wage** of employees grew by 7.8% and stood at CZK 20.399. Consumer prices were up by 1.5% and the average **wage** rose by 6.2% **in real terms** - by 6.7% in the business sphere and by 4.5% in the non-business sphere. The wage differentiation among individual CZ-NACE activities slightly decreased (the variation coefficient was down by 0.6 percentage point y-o-y in Q1 2007 and reached 39.1%).

The **number of workers** in the economy of the CR (estimate) rose by 1.9% in comparison with Q1 2005. The number of employees in the economy grew by 1.6% and their average wage was up by 8.1% and reached CZK 19,287. Nearly 194.4 thousand foreign nationals were employed in the Czech Republic at the end of Q1 2007.

The **registered unemployment rate** was 7.3% on 31 March, i.e. a decrease of 1.5 p.p. y-o-y. There were 430.5 thousand registered job applicants, of which 399.6 thousand were available unemployed job applicants. The number of long-term unemployed persons dropped by 15.7% y-o-y; their percentage in the total number of the unemployed remained high and was about 41% over the quarter. The average number of unemployed school-leavers fell by almost a fifth compared to Q1 2006. The job vacancy rate was 2.4% in Q1 2007. The highest unemployment rates persist in the districts of Most (18.3%), Karviná (16.2%) and Teplice (14.6%).

The registered unemployment rate was 6-8% at the end of April and 6.4% at the end of May.

Per capita **net money expenditures** at constant prices grew by 11.0% in households of employees and by 7.9% in households of pensioners. The share of indispensable expenditures, i.e. expenditures on food, beverages and housing, made up 38.3% of total expenditures in households of employees and 53.4% in households of pensioners. Housing expenditures (excl. current maintenance and repair of dwelling) increased in both groups of households at slower rate than total expenditures.

Total expenditures on **social security** increased by one tenth compared to Q1 2006 of which expenditures on state social support by a third (especially due to the increase of birth grant and parent allowance) and on social care allowances by 25.5% and pensions by 7.3%. As a result of the pensions adjustment as of 1 January 2007, the average **old-age pension** paid out in March amounted to CZK 8 714 and compared with March 2006, it was higher by 6.9%. As the cost of living of pensioners was up by 2.8% y-o-y, the average old-age pension grew by 4.0% in real terms.

In Q1, the **state budget** recorded revenues CZK 242.0 billion and a surplus of CZK 11.3 billion at the end of March (by CZK 4.5 billion less than in the previous year). The surplus in relation to nominal GDP was 1.4%. At the revenue side the non-taxable and capital income and received transfers dropped and so did revenues from taxes on income of the self-employed. The swift growth of expenditures is mainly attributable to state social support, non-investment grants to the state funds and non-investment transfers to the budgets of regions, municipalities and voluntary associations of municipalities. The amount of CZK 71.4 billion was collected for pensions and CZK 71.9 billion was paid out.

The **population** of the Czech Republic was 10,306.7 thousand on 31 March 2007, which was by 48.8 thousand more y-o-y. Of a decisive effect was still the active balance of external migration, while natural increase was negligible. In Q1 the number of live-born children exceeded the number of deaths and made up 325 children. 26.9 thousand of children were born which was by 2.2 thousand more than a year earlier. In Q1 the nuptiality level remains low.

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Comparison of development in the CR and the EU in Q1 2007: selected harmonised indicators

Harmonised indicator	EU27	Euro area	Germany	Slovakia	Czech Republic
Gross domestic product (constant prices), y-o-y change in %	3.2	3.0	3.3	9.0	6.1
Harmonised index of consumer prices (HICP)	102.2	101.9	101.9	102.1	101.7
Harmonised unemployment rate in %	7.3	7.3	7.2	11.1	6.3
Industrial production index (working days adjusted) in %	103.7	103.7	106.6	114.9	112.2
Construction output index (working days adjusted) in %	110.1	110.9	129.4	120.6	128.5
Retail sales index (seasonally adjusted) in %	106.7	102.6	99.2	106.9	108.0

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