

## **Summary**

After an acceleration of production growth in main industrial branches in 2004 a certain slowdown appeared in Q1 2005 that was however markedly different in individual branches, as monthly data showed. In addition to a high level of sales in Q1 2004, also one less working day affected this slowdown. The y-o-y growth in industrial production was considerably lower; construction (ordinarily signalling total prosperity changes in advance) even lessened. Volume of market services also diminished. Development of both gross added value (GAV) and gross domestic product (GDP) did not reflect it as growth of intermediate consumption appreciably slackened. On the sources side of GDP in main branches GAV markedly went up in the tertiary sector. On the side of the GDP use final consumption expenditures slightly reduced and a growth of investments slacked up. Net exports influenced the GDP growth very positively – internal factors like non-drawing from a source of foreign savings for domestic use, increase of volume of gross domestic savings, reduce of money price and unemployment growth had a strong affirmative bearing on it so that averted a negative influence of a weak prosperity in economically advanced EU member states what led to a growth delay of external demand. The GDP keeping up resulted in improvement of both internal and external imbalance.

In Q1 2005 the y-o-y GDP increased by 4.4% in real terms what was by 0.3 p. p. more than a year ago and less by 0.2 p. p. in Q2 2004. This growth was faster by 3.1 p. p. than in Euro-zone. On the supply side a positive causal effect on the GDP development supported the GAV growth in sales and servicing of motor vehicles, finance and insurance sector (by 2.9 p. p.); on the demand side an asset of net exports to it was extremely high (by 3.8 p. p.). In real terms household expenditures increased by 1.3% and its growth was lower. The gross fixed capital formatting enlarged less by 5.5% than last year. It was recorded general government outlays diminished by 3.8%.

In real terms the y-o-y total demand and supply raise by 7.9% was influenced most by an expansion of both external demand (by 17.9%) and external supply (by 12.1%). After a long time period the domestic effective supply swelled substantially faster (by 5.2%) than the domestic realised demand (by 1.3%).

A striking change arrived at the GDP growth in relation to the gross disposable domestic income (GDDI). Negative influence of net primary incomes and net current transfers from preceding time period has been changed to positive one so that the GDDI gain enlarged nominally and outstripped the GDP growth what influenced positively gross domestic savings rate and domestic current transactions balance. Volume of outlays for gross capital formation was lower than gross domestic savings volume, i.e. less investments than savings, so that excess of savings rate over investments rate occurred.

After a long period of time the situation turned; balance of payments has been distinguished on a surplus of current account and a deficit of financial account this year. As a result in proportion of two mentioned accounts to GDP the y-o-y change from –2.1 % to 2.1 % or from 0.8% to –2.2 %, respectively, took place. Foreign trade of goods had a considerably positive influence on current account. Drain of portfolio investments had a very negative impact on financial account.

Increase in price of petrol predisposed movements of prices level, which was weakened by revaluating of CZK to USD. The increase of consumer prices by 1.6% was by 0.7 p. p. less y-o-y and by 1.5 p. p. less q-o-q. Mass of goods and services reflected this slowdown. Jump of prices of plant products (by 39.2 %) had a decisive bearing on drop of prices of agriculture products by 10.8 %. Prices of industrial manufacturers rose by 6.9 % at markedly speedup and predominating influence of prices growth of metallurgical products. In construction input prices jumped by 8.0%. Improvement of exchange relations by 1.3% resulted in revaluating of Czech domestic labour; for an equal amount of imported goods a smaller volume of domestic production has been exported.

Demand on work of non-financial institutions increased, total unemployment went up by 0.6%. The y-o-y unemployment rate 8.4% dropped by 0.3 p. p., as a result a certain cut back of imbalance at the labour market surfaced. Increase of average monthly wages by 5.8% was substantially lower than a year ago, despite it rose faster than labour productivity, neither affected an inflation negatively, nor other relevant quantities; on the contrary had a positive effect on gross domestic savings formation. In terms of y-o-y comparison average monthly wages increased by 4.1% really, what is less by 2.3 p. p.

Average stock enlargement of money reserve in the course of twelve months was slightly lower than the annual GDP growth. Income rate of money in circulation and a period of money reserve return did not change, what means that one unit of money enabled the same amount of income operations. On the demand side increase in domestic loans especially in institutions and households had a decisive effect on the  $M_2$  growth, on the supply side augmentation of one-day deposits. Financial position of bank clients seems to be propitious and to some extent improved.

The Q1 2005 surplus of state budget amounted of CZK 8.3 bln transformed into a deficit of CZK 27.1 bln after five months that was substantially lesser in terms of y-o-y comparison. The Q1 2005 surplus in proportion to GDP 1.2% was higher by 2.4 p. p. than a year ago.