

Summary of Main Tendencies

1. The development of the Czech economy in the last three years has been characterised by acceleration of economic growth. In 2003 the gross domestic product increased by 3.2 %, in 2004 by 4.7 % and in 2005 by 6.1 %. The Czech Republic confirmed its position of a rapidly growing economy. Also the process of approximation of economic levels of the Czech Republic and the EU average has also accelerated. According to Eurostat the CR in 2005 reached 73.0 % of the average economic level of the EU Member States. With respect to the rate of this process the Czech economy has taken the leading position in Europe.
2. In a long-term view of the years 1996 to 2005 the largest contribution for the gross value added growth on the offer part of the economy derived mostly from industry and services. On the demand part the greatest contributions to the GDP growth were produced by gross fixed capital formation and household consumption, in 2005 by net exports. The households sector participated in the economic growth not only by expenses on common household consumption but also by increased housing investments.
3. Acceleration of the economic growth in the period 2001-2005 was in an increased extent supported by intensive growth sources, i.e. labour and capital productivity. Most of these results were achieved by companies under foreign control. The aggregate effect of their activities resulted in 2005 in a significant surplus of the balance of trade. This was supported not only by high export performance but also by replacement of imports with domestic production. Therefore another (this time indirect) effect of the companies under foreign control appeared, because these companies cooperated in an increasing extent with other Czech companies and became significant suppliers of intermediary products for export-oriented producers.
4. The base of improvement in the balance of trade in 2005 from the territorial point of view concentrated on the EU-25 and from the point of view of commodity structure on machinery, transport equipment and parts thereof. A new feature consisted in the decrease of imports of chemicals and materials. The balance of trade was positively influenced particularly by the continuing growth of industrial production. The surplus of foreign trade in manufactured products in 2005 exceeded the preceding year by more than CZK 100 billion.
5. The trade surplus in 2005 was achieved notwithstanding numerous negative factors influencing the balance. The key ones included a more rapid decrease of export prices compared to the import ones, which resulted in adverse movements of exchange relations. Price movements in foreign trade were influenced mostly by the price movements in the world commodity market, where oil and gas prices increased by 46 % (y-o-y), which resulted in an increase in the mineral oils balance deficit by almost one third. An adverse role in exports was played by the appreciation of the koruna to the euro by 7 %, because almost 70 % of exports are directed to the EU countries. Forces with an adverse impact on the foreign trade included also the slowdown of global economic growth, continuation of low GDP increase in Europe and from the territorial view the increase of deficits with China and Russia.
6. A new element in the economic development in 2005 consisted in the concurrent acceleration of the performance of economy and mitigation of the internal and external imbalances. Improvements included particularly reduction of the gap between savings and investments. Employment growth was resumed and unemployment decreased, which reduced the imbalance between offer and demand in the labour market. Macroeconomic balance was also improved by the government budgets, as well as by the current payment balance account.
7. Prevalence of equilibrium forces is evidenced also by the low and stable inflation rate and increase of the real gross domestic product close to the production potential of the economy. These results were achieved although the external economic terms were not so favourable. The economy had to adapt to the significant rise in oil prices, deceleration of the economic growth in the European Union and the rapid appreciation of the Czech koruna. The Czech economy has shown an increasing resistance to external economic shocks.
8. Strengthening of the Czech competitiveness was in the period 1996-2005 supported by the long-term favourable development trend of the exchange rate relations (except for 2000 and 2005) and lately also by the gradually increasing share of expenditures on research and development in GDP. On the other hand, competitiveness was weakened by appreciating tendencies of Czech koruna and by the increase in unit labour costs.
9. The share of government budgets deficits in GDP reached its peak in 2003 and since then it has been decreasing. This development was influenced not only by the growth phase of the business cycle but also by the turn in the budget of the National Property Fund and municipal budgets; both segments of government budgets showed surplus in 2005. In 2003 financing of government budget deficits moved to

issues of bonds in foreign markets. In the period concerned the government debt increased, although at a slower rate, the aggregate tax quote increased and the share of government expenses on infrastructure in scope of total expenses from government budgets dropped.

10. Indicators of the sustainable development economic pillar in the period 2001-2005 compared to the period 1996-2005 showed acceleration of the economic growth, productivity of factors of production and in 2005 also decrease of internal and external imbalance. The trend of decreasing rate of economic activity of population turned in 2005. Unemployment rate exceeds the long-term average, compared to the medium-term development the improvement is moderate. Expenses on proactive employment policy are still lagging behind the passive employment policy expenses. With respect to comparison of the economic growth sources the Czech Republic shows high energy intensiveness and below-average share of university graduates in population. Differences of the level indicators of economic level, labour productivity and price level still survive.

11. Regarding the social pillar the period 2001-2005 proved concordance of development of main living standard coefficients, i.e. GDP per capita, household consumption, real wages and salaries and of the development of economic performance. Indications of social cohesion showed counter movements. Relations between the development of economic performance and social expenses improved. Adverse development was shown by the long-term unemployment rate increase. Low differentiation among sectors and industrial branches prevailed. The average life expectancy increase slowed down and the share of health care expenses and pensions in GDP increased only slightly.

12. Indicators of the environmental pillar of sustainable development in the period 2000-2004 compared to the period 1995-2004 improved in most indications of air quality (nitrogen oxides, sulphur oxides, ammonium and solids) and show stagnation of greenhouse gases and primary energy sources. Deterioration has been recorded in freight transport and emissions from freight transport.