

26 March, 2007

Main Tendencies ¹

In 2006 the economy's real performance measured by the GDP macro-aggregate coefficient or by GAV in main branches, particularly industry, retained its positive development. However, unlike in 2005 the most dynamic element of sources utilization consisted in expenditures on gross capital formation. A higher growth rate was also shown by household expenditures upon decrease of gross household savings.

The performance growth was in addition to labour productivity increase driven also by employment rate growth, approximately within the same extent as in the preceding year. Compared to 2005 the employment rate increased and remained above the EU average.

However, the positive development of real economy had contradictory impacts on income flows and monetary transactions. The financial account of the payment balance was not sufficient to cover the debit of the current account, partial balances of which – except for the balance of trade – recorded adverse developments. The financing rate of expenditures on gross capital formation from external sources increased further. But above all, the state budget deficit increased substantially. Currency developments in 2006 recorded the fastest growth of money stock since the mid-2004.

The continuing appreciation of *koruna*, unlike in 2005, could not cover the influence of increasing prices for imported raw materials (oil), which together with certain changes in regulated prices (and possibly also due to inflation expectations) resulted in an inflation rate growth.

Generally we may note positive aspects on the part of the real economy and risks consisting in the relatively slow growth of the sector of services, as well as in the adverse development of the current account of the balance of payment and particularly in the increase of the state budget deficit increase.

¹ The latest information stated in this report date back to 9 March, 2007. The report is based on monthly statistical data from branch statistics and quarterly GDP estimates. In accordance with the revisions policy the data are subject to amendments.