

Gross Domestic Product, Demand and Supply

- **Grow of the Czech economy quickened markedly**

After a relatively weak performance of economy in 2002 three years of gradual swelling of the gross domestic product (GDP) growth followed. The 2005 GDP increase was the biggest one not only during of a period of its speedup demonstrates the growing phase top of the Czech economy but also it is the utmost one since the independent Czech Republic was established. That is why the Czech Republic was ranked with the EU-25 states with the fastest growing economy. The Czech Republic enhanced its economic position among an international association; preliminary results of the GDP calculation per capita in purchasing power parity demonstrate a shift towards to a front position in the ladder.
- **Striking structural shifts**

The GDP development in the course of 2005 can be characterised by accelerating paces of growth from 5.3% in Q1 to distinct 6.9% in Q4. Striking structural shifts are connected with the GDP growth; on the demand side a larger volume of exports of goods and services than imports logically led to push of domestic realized demand and a slowdown of final consumption and tangible accumulation, respectively. The fact that on the supply side it has been less consumed and accumulated than it has been formatted, stands for not only a crucial factor of a marked growth of GDP, but also considerable structural shifts in aggregate demand and supply, even disposable sources for final expenditures and its usage.
- **Quicker growth of GAV than GDP**

In 2005 a relationship between a slower growth of production and faster growth of expended intermediate product significantly changed, which had a positive influence on gross added value (GAV). In 2005 it amounted to CZK 2 612.0 bln year-on-year at current basic prices, which was up by 6.6% in real terms; hence it rose quicker than GDP. Product taxes after deduction of subsidies went up negligibly in real terms. GAV grew most in processing industry (by 10.8%) among branches with substantial weight; in trade, repairs of motor vehicles and consumer durables went up by 10.6%. On the other hand GAV came down in hotels and restaurants (by 5.9%).
- **The greatest influence of net exports on the year-on year GDP increase**

The 2005 analysis of the year-on-year GDP gain is indicating that on the side of outlays foreign trade in goods had a prevailing power having coincidently a highly positive impact not only due to its expansion, but also as a result of lessening of gain paces of imports. Impact of expenditures of households on final consumption and expenditures for gross fixed capital formation at a negative influence on supplies production was less intensive. On the side of sources processing industry, sales and servicing of motor vehicles had really positive influence on the development of gross added value.

In 2005 GDP at current purchasing prices amounted to CZK 2 931.1 bln; in Q4 it was CZK 745.8 bln that was year-on-year in real terms by 6.0% more and 6.9%, respectively. The seasonally adjusted GDP increased in Q4 compared to Q3 by 1.9% in real terms. Final consumption expenditures jumped substantially less than GDP (by 2.0% in real terms) and expenditures for gross capital formation stagnated. In terms of real comparison volume of household consumption expenditures amounted to CZK 1 421.9 bln at current prices enlarged by 2.6%; expenditures for gross fixed capital formation amounted to CZK 773.9 bln at current prices swelled by 3.7%. The following items of household consumption increased most: purchases of housing equipment and expenditures for public transport. Among outcome components for fixed capital formation volume of expenditures for machinery and equipment rose quicker than that for buildings and constructions. Drop in outcomes for housing (by 2.2% in real terms) and the year-on-year speedup by 5.8 p. p. presented considerable structural shifts in gross fixed capital formation. Net exports had a dominant positive weight on the GDP growth, when volume of net exports shared almost three quarters in the GDP gain. The year-on-year total volume of exports increased by 11.1% really and rose quicker than that of imports. In terms of real comparison unfavourable exchange relations caused distinct advance on exports grew against imports at constant prices than at current prices; thereby losses in trade in foreign markets amounted to CZK 47.7 bln a substantial lower growth of gross

domestic product (only 4.2%) than GDP appeared.

- **Slowdown in growth of disposable income of households**

Consumption of households accounts for more than two thirds of final consumption expenditures. Its year-on-year change depends on gross disposable income of households, whose year-on-year amount of CZK 1 521.6 bln was by 3.8% higher, however its growth slowed down markedly (by 2.1 p. p.). Primary incomes (mainly wages and salaries) that rose by 4.4% had an exceptional influence on its increase. Income from enterprise and properties went up slower than a year ago. Income from relocations dwindled owing to lower increase in incomes than outcomes. On the side of usage outcomes for individual consumption slightly went up (3.6%), which led to noticeable enlargement of gross household savings (by 7.2%), which also contributed a change in proportion of households in pension funds reserves. Gross savings rate of households increased from 7.54% in 2004 to 7.79% in 2005. That was decisive reason for growth change of household properties affected by savings and capital transfers. Coincidentally volume of net non-financial assets (accumulation of tangible assets) and net loans (financial accumulation) swelled by more than one third, as growth of financial assets overhauled that of financial liabilities.

- **Gross household savings increase**

Share of outcomes for individual household consumption in its disposable incomes mildly reduced (from 93.6% to 93.4%). Increase in gross savings of households arose by a considerable increase of share change in pension funds reserves. Increase of rates of households' gross savings contributed to curtail of total financing of outcomes for gross capital formation from external sources.

- **Unit labour costs lessened**

Raise of total labour productivity including an important influence of production effect growth of fixes assets (3.27 p. p.) had an prevailing upshot (5.05 p. p.) on the 2005 year-on-year GDP gain amounted to CZK 164.8 bln (in 2004 prices) while an effect of facility growth of labour by accumulated fixed capital from previous years was lower (1.78 p. p.) Remained 0.95 p. p. was allotted for number of employees increase. Unit labour costs shrank by 0.7% when net primary labour incomes of employees rose slower than GDP formatted.

In 2005 labour productivity measured by the gross added value (without FISIM) enlarged by 5.6% year-on-year and demand of GAV on wages and salaries negligibly decreased. Labour productivity was at the highest level; it rose most in the secondary sector (by 8.2%) where demand on wages dipped (by 3.1%). Labour productivity in quaternary sector increased least (by 3.3%) at the demand of wages by 3.1 %.

- **Drop of share of gross domestic final expenditures in disposable sources**

In 2005 formatted economic sources for final outcomes at current prices amounted to CZK 5 004.5 bln were up by 5.5% year-on-year in real terms and rose slower than GDP. On the side of usage gross domestic final outcomes amounted to CZK 2 869.7 bln CZK at current prices, which was only by 0.9% more year-on-year in real terms, thereby it went up slower than GDP. Increase in outcomes for final consumption had a prevailing influence on such a development. The GDP growth overtook gross domestic final outcomes for final consumption in real terms and its share in total final outcomes dipped.

- **Domestic supply overtook domestic demand**

In 2005 the aggregate demand and supply at current prices amounted to CZK 5 005.5 bln extended by 6.1% in real terms year-on-year. While in the last year the domestic realised supply at current prices was imperceptibly lower (by 0.5%) than domestic realised demand, in 2005 overtook by 2.1%. Domestic supply arrived at 58.6% of the total supply was more than 0.6 p. p. on a year before. The year-on-year domestic demand (only by 2.5% in real terms) was more sluggish in comparison to domestic supply increase (by 7.0% in real terms), when fall in supplies formation had a dominant influence. External demand did not run to the external supply level (all at current prices) by 0.7%, whilst in 2005 it overtook by 3.0%.

- **Rise in gross domestic savings rate**

In 2005 the year-on-year gross disposable domestic income at current prices amounted to CZK 2 809.7 bln was higher by CZK 195.5 bln. This difference between that gain and those of GDP was influenced by net primary incomes and net current

transfers. Gross domestic savings amounted to CZK 712.9 bln in 2005 were by CZK 118.2 bln higher year-on-year, what means that rate of gross savings jumped from 23.1% to 25.4%, therefore excess of gross investment rate over gross savings rate diminished. On that account a negative balance of domestic current transactions was much lower and together with it rate of financing of outcomes for gross capital formation from external sources also sank.

- ***Implicit deflator almost stable*** In 2005 the total price level measured by an implicit deflator was imperceptibly lower on a year before (by 0.1%), however it presents a distinct change in comparison to the year-on-year growth 3.4% in 2004. A significant drop in prices of exported goods (by 2.5%) in comparison to imported goods and services (by 0.3%) is the main reason. Total price level of final consumption expenditures jumped by 2.3%; general government outlays rose by 4.9% and outcomes for gross capital formation by 0.3 %.