

Gross Domestic Product

- **Structural changes** The whole development of the Czech national economy in 2007 was characterised by significant structural changes both material - on the supply and the demand side - and broken by quarters over the year. These structural changes were impacted mainly by external economic relations and a significant contribution came also from price wobbles of individual resources available to cover total final expenditures.
- **GDP and GDI** The Czech economy entered the year 2007 after a robust economic growth recorded in two consecutive years when the volume of GDP in 2006 increased by 13.2% compared with 2004 (annually by 6.4%). However, the gross domestic income (GDI) due to unfavourable economic (price) impacts increased in the corresponding period only by 10.9% in real terms (in 2005 by 5.0% and in 2006 by 5.6%), i.e. by 2.3 p.p. less than the GDP. The relation between the growth of GDP and GDI changed markedly in 2007 since favourable development of terms of trade resulted into the GDI growth by 7.5% in real terms, i.e. by 1.0 p. p. compared with the GDP whose volume was higher in real terms by 6.5%, y-o-y. In comparison with the y-o-y development in 2006 the GDP growth speeded up in 2007 moderately (by 0.1 p.p.), however, the GDI growth accelerated markedly (by 1.9 p.p.).
- **GDP and GNDI** At the same time, the relation between the growth rate of GDP and gross national disposable income (GNDI) changed. The volume of GNDI in 2006 was bigger by 12.0% than in 2004 (by 7.0 % in 2005 and by 4.7 % in 2006) while in 2007 it increased by 5.2%, y-o-y, and its growth was slower than the growth of both aggregate economic indicators (GDP and GDI). This came from much bigger outflow of net primary income from the CR to abroad in 2007 compared to the previous year.
- **Strengthening of international economic position of the CR** High growth rate of the GDP of the CR in 2007 resulted into strengthening of aggregate economic position of the country. Compared with the average yearly growth of the Eurozone the GDP increase in the CR was by 3.9 p.p. higher. On the basis of extrapolation the CZSO estimates that in 2007 the Czech Republic reached in the GDP volume per capita in purchase power parity 82% of the EU27 level.
- **Decreased share of wages in GVA** In 2007 the gross value added (GVA) in the amount of CZK 3,210.6 billion at current prices was higher, y-o-y, by CZK 300.4 billion, i.e. by 10.3%. The total of paid out wages and salaries in relation to GVA in 2007 dropped, y-o-y, by 0.5 p.p. (from 35.9 % in 2006 to 35.4 % in 2007). In 2007, the decisive contribution to the GVA came again from secondary sector (38.4%). A moderate decrease was recorded for tertiary sector (CZ-NACE from G to I, by 25.0 %) while only in this sector the contribution of wages and salaries to GVA increased (from 31.6 % in 2006 to 32.6 % in 2007). The GVA in real terms in 2007 increased by 6.4%, y-o-y, most contributed to by the tertiary sector (2.5 p.p.) and an identical contribution (2.1 p.p.) came from the secondary and quaternary sectors (CZ-NACE from J to P). The growth of total employment by 1.8 % resulted into a 4.5% increase of labour productivity. Its contribution to the GVA growth, y-o-y, remains almost unchanged compared with 2006 (72%). The highest level of labour productivity in 2007 was reached in tertiary sector where it recorded the highest y-o-y growth (by 7.9%) and its contribution to the GVA growth in this sector (by 9.7% in real terms) made more than four fifths.
- **Increased share of external trade assets in GDP** The value of GDP amounting to CZK 3,557.7 billion in 2007 was higher, y-o-y, by CZK 326.1 billion, i.e. by 10.1 %. This increase was contributed to by the growth of physical volume (two thirds) and by increase of aggregate price level (one third) which proportion differs significantly, y-o-y. In 2006, the impact of changes in physical volume reached four fifths and the price level change one fifth. In 2007 the total GDP value was to smaller extent contributed to by the final consumption expenditures and mainly household consumer expenditures whose increase was bigger than that of the gross disposable household income which resulted into the drop of their gross savings rate. This was attributed to the acceleration of price growth and its bigger weight in the increase of value in household consumption expenditures when the contribution of a 28.9% price level increase recorded in 2006 grew to 32.9% in 2007

of which in Q4 up to 53.5%. Households paid in 2007 for the same physical volume of goods and services by CZK 46.6 billion more compared with 2006. The proportion of expenditures on gross capital formation to the GDP value increased moderately, which was, however, accompanied by the decrease of fixed capital contribution and increase of contribution coming from reserve formation. The share of active external trade balance in GDP increased notably. Marked structural changes are attested to the fact that the total increase of the GDP value was contributed to by final consumption (contribution only 50.4%), accumulation (contribution 29.3%) and external trade balance (contribution up to 20.3%).

Decisive impact of final consumption on the GDP growth

The y-o-y increase of the GDP in 2007 in real terms by 6.5% was most contributed to by the increase of final consumption expenditures by 6.5% (2.9 p. p.); their volume increased by 4.2 % and grew faster by 0.4 p. p. compared with the previous year. Household consumption expenditures grew by 5.7% (in Q4 by 4.0% which was a considerable slow-down) and contributed to the GDP growth by 2.7 p. p. Expenditures of the general government increased only by 0.9% (of which in Q4 by 3.1% showing a marked acceleration) and contributing a little to the GDP growth. The volume of expenditures contributed to the gross capital formation by their y-o-y growth (+9.2%) (the growth was slower by 1.8 p.p. compared with the previous year) contributing thus to a 2.5% increase of the GDP while bigger contribution came from the gross fixed capital formation (1.5 p.p.) compared to the stock formation (1.0 p.p.). Net exports contributed to the GDP growth by 1.1 p.p. when positive impact of exports (11.0 p.p.) exceeded the negative impact of imports (9.9 p. p.). Compared with the trade balance impact affecting the GDP growth in 2006 the contribution of net exports in 2007 was by 0.2 p.p. up.

• ***Considerable increase of gross national savings – in value***

The value of GNDI in the amount of CZK 3,295.8 billion in 2007 was higher, y-o-y, by CZK 267.3 billion which was, however, by a fifth less than the increase of the GDP value. This came mainly from the fact that negative impact of costs (expenditures) exceeded the impact of revenues (income) on the GNDI increase. Net primary income (CZK –253.8 billion) in proportion to GDP in 2007 reached already –7.1 %, i.e. by 1.4 p. p. more than a year ago. Even though, the increase of the GNDI value was bigger than that of final consumption value which induced the increase of gross national saving by CZK 103.2 billion (from CZK 766.1 billion in 2006 to CZK 869.3 billion) and its growth-rate to 26.4 % (from 25.3 % in 2006). Yet the above mentioned saving did not cover the funding of the gross capital formation expenditure and external resources in the amount of CZK 95.9 billion had to be used which was, however, by CZK 7.6 billion less than a year ago. The level of funding of capital expenditure from external resources decreased. This relatively favourable change was affected positively by the relation between the price level development of internal and external market since higher implicit deflator of GDP (103.4%) stands against a lower GDP deflator of expenditure on gross capital formation (101.6%) or gross national final expenditure (102.4%). The investment rate in the amount of 29.3% in 2007 slightly increased, y-o-y, however, its excess over the gross national saving level dropped from 3.4 p.p. in 2006 down to 2.9 p.p. in 2007.

• ***Moderate growth rate of GNDI – in real terms***

In real terms the development of income, expenditures and capital transactions was less favourable than in terms of value. The GNDI in 2007 increased, y-o-y, by 5.2% in real terms showing the growth rate by 0.5 p.p. higher than in 2006, however, significantly slower (by 1.3 p.p.) compared to the GDP growth. The above mentioned increase of GNDI was contributed to more markedly by the GDP growth (by 6.9 p.p.), however, the impact of net primary income and current transfers was negative (1.7 p.p.). Gross national saving increased more (by 8.3%) in real terms than the final consumption expenditure, i.e. in constant price terms the level of gross saving increased in both years (by 0.7 p.p.) to 26.5% in 2007 and, concurrently, so did the level of funding of gross capital formation expenditure from external resources - from 21.0% in 2006 to 21.7% in 2007.