

March 21, 2006

Main Tendencies

The Czech economy development in 2005 can be characterised by high paces of the GDP growth attended by a considerable structural change in the GDP sources formation and its usage. Change of prevailing tendencies in relationship between consumption and accumulation resulted in a major balance of basic quotas. Growth of expenditures on gross capital formation slowed down noticeably in comparison to household consumption expenditures. Volume of exports exceeded that of imports; also the year-on-year net imports changed markedly.

Historically greatest growth of economy eventuated under low inflation conditions when inflation was lower coincidentally with a strengthening of foreign exchange rate of CZK as a result of effects of foreign trade in goods. The development of foreign economic relations was a crucial point of a high and accelerating growth of GDP and simultaneously acting as a factor of an improvement of overall economic position, which proved in extent lessening of internal and external imbalance.

There were some factors there, as follows: Increase in number of employees; dip in unemployment rate, a striking decline of the state budget deficit in connection to GDP, domestic effective supply prevailing domestic realised demand, growth in gross domestic savings and a considerable diminishing of financing rate of gross capital formation from external sources. A sizeable fall of current account deficit of balance of payments in proportion to GDP happened especially due to a surplus in goods operations, decline of net foreign loans as a result of domestic current non-resident transactions decrease and an enhancement of international position of the CR as an investor.

It was engineering industry what had an extraordinary important influence on a good economic performance in all main branches not only for formation of necessary export sources but also for satisfaction of growing households demand on durables and investment products.

The worsening of real exchange relation is accounted to be a negative phenomenon as caused substantial losses in foreign trade exchange, which resulted in a substantial lower growth of gross domestic product than GDP, thereby prices of exports decreased more than prices of imports; therefore it was necessary for a one material unit of import to export more tangibles. In spite of this fact the purchasing power of exports rose faster than demands of imports on sources volume produced by exports.

Fluctuation in prices of selected industrial commodities and foods on world markets especially soared prices of petrol and natural gas set up a new significantly higher level of prices of those products and contributed to the worsening of external conditions for the Czech economy development but neither it had an impact on the economy and fluctuation of internal prices nor in lower performance of processing industry.