

## Gross domestic product

- ***Growth of GDP continued without bigger economic wobbles***

In Q1 and Q2 2007 the Czech economy sustained its relatively rapid growth. From acceleration started up in 2004 no unfavourable fluctuations took place to date. The GDP growth in Q1 and Q2 2007 (in real terms + 6.4 % and +6.0%, respectively) was higher compared to the EU 27, where, under Eurostat estimates the growth in Q1 and Q2 was 3.2 % and 2.8% up, respectively. The Czech Republic thus strengthened its overall economic position among the EU member states.

The GDP growth was driven especially by gross value added in manufacturing industry on the supply side and the demand side mainly by household consumption expenditure. Net exports began to show less positive influence. Covering of imports by exports decreased slightly. The GDP growth is not still covered from domestic sources although the gross national savings rate increased. More than a year ago the funding of expenditure on gross capital formation from external sources increased.

- ***A 6.3% growth of GVA in real terms was significantly contributed to by manufacturing industry***

Gross value added (GVA) formed in Q1 and Q2 2007 reached at current prices the amount of CZK 1 552.0 billion and at constant prices its volume increased y-o-y by 6.3%. This increase was most affected by manufacturing industry (contribution +3.6 percentage points, astounding growth +10.9%). GVA also recorded a marked growth in wholesale and retail trade; repair of motor vehicles (+16.5%) and in business activities (+9,9 %). On the other hand a significant decrease was recorded for GVA in electricity, gas and water supply (-42.3%) due to the drop of natural gas consumption in Q1 2007. A 35.0% contribution of paid-out wages and salaries to GVA at current prices was 0.3 p.p. down, y-o-y. 70% of the above mentioned increase of GVA was contributed to by labour productivity growth and almost 30 % by the growth of employment. A 9.3% increase of total wages and salaries was in one fifth due to the growth of the number of employees (+1.9%) and remaining four fifths were made by the average wage increase (+7.2%).

- ***Y-o-y growth of GDP in real terms by 6.2% was due to gross national final expenditure***

Upon adding the tax on products in the amount of CZK 182.3 billion to gross value added and upon subtracting product subsidies accounting for CZK 16.9 billion from GVA, GDP reached in Q1 2007 CZK 1 717.4 billion which was in real terms by 6.2% more, y-o-y. The GDP increase was contributed to by final consumption expenditure and by gross capital formation expenditure (contribution +3.0 p.p. and +2.9 p.p., respectively). Prevailing impact was attributed to the household consumption expenditure (+3.2 p.p.) which volume increased by 6.8% and stock formation (+1.9 p.p.). Net exports showed positive influence (+0.3 p.p.).

- ***More marked increase of household consumption expenditure compared to their disposable income***

In Q1 and Q2 2007 households spent on final consumption CZK 791.6 billion (current prices) which was by CZK 61.5 billion more than a year ago. This increase of household expenditure was higher than the growth of their disposable income due to which the gross saving rate was lower, y-o-y. Household consumption expenditure increased simultaneously with growing differentiation of monetary income and increasing differences in the standard of living. Total expenditure on gross fixed capital formation in the amount of CZK 408.9 billion at current prices were y-o-y higher in real terms by 4.1%. From the above value the proportion of 52.4% fed into buildings and constructions of which expenditure on other buildings and constructions grew in real terms by 7.8% and on dwellings only by 2.2%. Deceleration of investment to transport machinery and equipment continued and so did investment to other machinery and equipment.

***Gross domestic income 8.0% up in real terms***

An extremely sound improvement of the national labour valuation in external markets in Q1 and Q2 2007 induced business profit from favourable development of terms of trade in the amount of CZK 22.1 billion,. This happened more than a year ago when a significant loss of CZK 36.1 billion was recorded. These external business transactions resulted in gross domestic income increase, y-o-y, by 8.0% which was by 3.0 p.p. more than in Q1 and Q2 2006.

- **Cover of domestic demand by domestic supply slightly lowered, in real terms**

The value of aggregate supply and demand in Q1 and Q2 2007 reached CZK 2 914.0 billion and their volume increased, y-o-y, in real terms by 9.5 %. Yet, in terms of value, the share of domestic effective supply in the aggregate supply decreased, more marked decrease was recorded for the share of domestic realised demand in aggregate demand and thus the advance of domestic supply over domestic demand grew, although the stock formation had a negative impact on structural movement. In real terms, y-o-y, the volume of domestic demand increased by 4.5% and contributed by 2.3 p.p. to the increase of aggregate demand. A 4.2% growth of domestic supply contributed to the increase of aggregate supply by 2.2 p.p. Remaining contributions of impacts were attributed to external demand and external supply.

- **Increased level of gross national savings**

Gross disposable national income in the amount of CZK 1 594.2 billion for Q1 and Q2 2007 was higher, y-o-y, by CZK 113.7 billion, however, at the same time, lower by CZK 44.6 billion than the GDP growth. This was due to the increased outflow of net primary income and transfers to non-residents. In the view of lower growth of final consumption compared to growth of gross disposable national income, gross national savings accounting for CZK 455.8 billion were in Q1 and Q2 2007 higher, y-o-y, by CZK 42.5 billion and the rate of savings was 28.6%, i.e. 0.7 p.p. up. More marked increase of expenditure on gross capital formation resulted also in the growth of investment rate by 1.4% p.p. to 30.3% so that its advance over the rate of gross national savings increased. Negative balance of national current transactions with non-residents in the amount of CZK 27.8 billion was, y-o-y, CZK 12.8 billion up and resulted into the growth of the rate of funding of gross capital formation from external sources.

- **Significant growth of GVA and GDP aggregate price level t**

The Czech economy shows in long-run a different development of price levels of internal and external trade. This year the trend reflected very strongly in a change of parities of individual components of produced and used resources. In Q1 and Q2 2007 on the income side the price level of production increased by 2.2% and of intermediate goods by 1.5%. This implicitly resulted into the growth of GVA deflator by 3.5% which represents a certain type of success rate for those manufacturing enterprises in the domestic market whose profit resulted from lower price growth of inputs and higher price growth of outputs. On the demand side the aggregate price level of GDP was 3.7% up which meant a significant acceleration of its y-o-y growth. Internal price level of gross national final expenditure increased by 2.0% and thus the main drive of marked growth of GDP implicit deflator was the increase of export prices by 0.5 % and drop of import prices by 1.6% with positive impact on terms of trade. Price development of external trade caused that the purchasing power of exports (17.1%) grew markedly less than the need of resources produced by exports to buy imports (12.6%). In total, changes in price parities resulted into an overall y-o-y growth of the GDP value amounting to CZK 158.3 billion which was contributed to in the first half of 2007 by impact of the aggregate price level growth (+37.6%) while the remaining 62.4% was assigned to the increase of physical volume which is a marked y-o-y change of these proportions.