Summary of main tendencies

1.   Development of main parameters of external economic environment in 2007 showed a slowdown of economic growth, upsurge in of price levels, increasing number of financial turbulences and deepening of economic imbalance between the world regions. The growth of the world economy slowed down to 5.2% in 2006 and in 2007 to 4.9%. The global growth was contributed to by almost a half by three countries, i.e. China, India and Russia.

2.   The upsurge of inflation wave affected both the world commodity market prices and producer and consumer prices. The speed up of inflation rate was contributed to by mainly oil and food prices. The exchange rate development of the leading world currencies followed the trend of the previous years. American dollar continued to weaken and appreciating were EUR and the Czech koruna.

3.   In 2007, financial instability affected by credit crisis in the USA began to deepen in the rest of the world. Losses coming from outstanding credits reached record highs, squeezed the capacity for granting credits and led to decline in security markets by more than a fifth. Despite negative changes in the external environment the growth of GDP in the Czech Republic accelerated. The resistance of the economy against changes reducing its potential became obvious.

4.   In 2007, the Czech economy recorded the biggest growth (+6.5%) in its modern history. Compared with the average in the period 2001-2006 the growth was qualified as above-average. The Czech Republic thus reconfirmed the position of fast growing economy and reached according to the preliminary CZSO estimates 82% of the EU 27 average. Thanks to positive development of terms of trade the growth of gross domestic income also recorded as remarkable speed up which advanced after the two previous years the growth of GDP.

5.   From the aspect of the demand side the economic growth was pulled by household consumption and the gross capital formation. The household consumption, i.e. household expenditures on final consumption speeded up to 5.7% in 2007 and markedly exceeded the average reached in 2001-2006, however, at a price of gross saving decrease and the increase of consumer loans. The gross fixed capital formation also accelerated to 6.1% and markedly advanced the average of the observed period 2001-2006.

6.   On the supply side a change was recorded in the structure of the gross value added formation (at current prices). The increase of contribution of the secondary factor (industry and construction) in the observed period owed to the decrease the share of services and agriculture. International comparison with advanced countries showed that the decreased share of services and increased share of industry was rather uncommon. The gross value added growth in real terms by 6.4% in 2007 was most contributed to by tertiary sector, by less than a half by secondary sector and primary sector made a negative contribution. The economic growth speed-up in 2007 was markedly contributed to by intensive production factors. Contributions coming from extensive production factors – employment, net fixed capital stock) in 2007 stagnated.

7.   External imbalance of the Czech economy in 2007 improved due to the economic growth rather than to the balance of payment current account nominal deficit reduction. The deficit was sufficiently covered by the financial account surplus.

8.   Internal imbalance measured by the public finance deficit to the nominal GDP dropped markedly below the limit required by convergence criterion as the proportional deficit of the state finance expanded. In the medium term perspective sustainability of public budgets remains risky.

9.   In 2007 a significant drop of general rate of unemployment was recorded. However, the more important fact is that also the rate of long-term unemployment which after the year 2000 reached in international comparison high values decreased. The income differentiation of households deepened but in the international comparison it was still low. The most striking indicator of this development was relatively low number of persons threatened by income poverty in compliance with the EU definition.

10.   Price development in the Czech Republic was in 2007 affected besides external influence, i.e. increasing prices of crude materials, crude petroleum and food in the world markets and the exchange rate development also by administrative measures. An acceleration of producer and consumer prices showed especially at the year-end. Consumer prices measured by HCPI increased in total by 3.0% while in the EU 27 by only 2.3% and in the Eurozone by 2.1%.

11.   The implicit deflator of production increased more than the intermediate consumption which resulted into a big growth of the gross value added aggregate price level. Development of price levels of internal and external market varied. Along with the change of contributions of household supply and demand and external supply and demand to the aggregate supply and demand it significantly affected the change of price parities, i.e. proportions of implicit deflators of separate components of resources formed and used.

12.   International position of the Czech Republic in housing improved. The specific feature of this improvement was fast growth of constitution of living in own homes.

13.   Along with the extension of life expectancy a marked expansion of the age group 65+ i.e. retired persons was recorded. According to the population project an increasing share of persons above 65 and older will result to problems how to cover the old-age pension expenditure. Similarly in health care the increase of expenditure is to be expected since the biggest expenditures are recorded for age groups 50+ and also for women of the age group 25-34 with respect to motherhood.