

# Economic and social development of the Czech Republic in the 1st half of 2004<sup>1</sup> (Preliminary Figures)

**Gross domestic product** at constant prices<sup>2</sup> grew by 3.8% y-o-y in the 1st half of the year (by 3.5% and 4.1% in the 1st and 2nd quarters, respectively), which was up 0.9 percentage points on the 1st half of 2003. The growth of GDP was highest since 2000. The acceleration was partly due to a higher number of working days (+3), compared to the 1st half of 2003. Quarter-on-quarter seasonally adjusted GDP increases accelerated in both the 1st and 2nd quarters.

On the side of expenditures, **gross capital formation** rose fastest (+13.5%), of which gross fixed capital formation (GFCF) by 11.3%. Unlike 2003, GFCF became the most important source of GDP growth. Constant price **final consumption expenditure** increased by 2.1% (the same in both quarters), of which final household consumption expenditure by 3.7%. Final consumption expenditure by government reflected the cost-saving measures: it was down 1.5%. As regards the **balance of external trade** in goods and services, both components, i.e. exports and imports, developed dynamically. At constant prices, however, i.e. at average prices of 2003, net exports affected GDP unfavourably. In terms of gross value added formation, industry, trade, transport and construction contributed most to its growth. Agriculture and selected non-market services recorded decreases.

The y-o-y growth of **gross fixed capital formation** accelerated since the beginning of 2003. It reached 8.5% in Q4 2003, 9.6% in Q1 2004 and 12.8% in Q2 2004. This favourable development and the marked recovery of investment were adequate to economic results achieved in virtually all production activities. Also the pressure of expected changes in VAT from 5% to 19% is assumed to have had an effect. As for the commodity structure of gross fixed capital, investment in buildings and constructions grew faster than investment in machinery and equipment.

**Final consumption** expenditure by households at constant prices rose by 3.7%. Household consumption was fuelled by increasing nominal income of the population (albeit less than in 2003), but the level of consumer prices started to grow again, following two years of a relatively stable price development. Unemployment increased too and affected household consumption in a rather negative way, just like growing inflation. Total current nominal income and current expenditure of the household sector rose by 6.1% and 7.4%, respectively, which resulted in higher gross disposable income by 5.4%. Individual consumption expenditure by households rose by 5.2%. The volume of gross household savings was up 7.0%, their rate grew to 9.03% (share of gross savings in disposable income).

**Aggregate labour productivity** (GDP per worker<sup>3</sup>) went up by 4.3% y-o-y, i.e. more than in the preceding period. The increase in GDP was achieved exclusively by higher aggregate labour productivity. As compensation to employees per worker rose faster than labour productivity, unit labour costs grew by 1.6%.

## Key economic characteristics

%

	2003				2004	
	Q1	Q2	Q3	Q4	Q1	Q2
Y-o-y change in GDP (constant prices)	2.8	3.0	3.3	3.3	3.5	4.1
Y-o-y change in final consumption (constant prices)	4.4	4.7	3.9	3.3	2.1	2.1
Y-o-y change in gross capital formation (constant prices)	2.7	6.3	4.5	9.5	13.1	13.9
Y-o-y inflation rate (quarterly average)	-0.4	0.1	-0.1	0.8	2.3	2.6
Registered unemployment rate (quarterly average)	10.11	9.62	9.88	10.00	10.73	10.13
State budget balance / GDP ratio, % <sup>1)</sup>	-5.4	-3.3	-4.2	-4.5	-1.2	-6.0
Current account / GDP ratio, % <sup>1)</sup>	-1.4	-5.6	-7.5	-10.0	-2.4	-5.8
Financial account / GDP ratio, % <sup>1)</sup>	5.8	2.9	6.5	10.7	0.6	5.5
Net exports / GDP ratio, % <sup>1)</sup>	-0.2	-1.4	-2.4	-4.7	0.4	-0.7

<sup>1)</sup> At current prices

Sources: CZSO, Ministry of Finance, Ministry of Labour and Social Affairs,  
Czech National Bank; calculations by CZSO

**Non-financial enterprises with 100 or more employees** reached by 18.8% higher gross profits (i.e. pre-tax profits) y-o-y at current prices. They raised their costs profitability and equity capital profitability on average. The number of loss-making enterprises went down y-o-y and accounted for more than a fifth of the total number. Predominantly manufacturing, trade and repair of motor vehicles and consumer goods, transport, construction and public administration and services contributed to the y-o-y increase in gross profits. Book value added produced in large non-financial enterprises was by 12.9% higher y-o-y. Increases were recorded in all industrial and other CZ-NACE activities, with the exception of agriculture, hunting, forestry and fishing. Total inventories, which were at a constant level since 2003, grew by 4.1% y-o-y in the 2nd quarter, more in foreign-controlled enterprises. Overcapitalization, i.e. negative value of equity

<sup>1</sup> Unless otherwise stated, data refer to the 1st half of 2004.

<sup>2</sup> The GDP indices and GDP components indices are at average prices of preceding year, while the sales indices in individual CZ-NACE activities are at constant prices of 2000.

<sup>3</sup> According to corrected employment data from the Labour Force Sample Survey conducted in households in compliance with international definitions and recommendations issued by the International Labour Organisation; the corrections reflect especially second jobs, foreign workers (both employees and entrepreneurs) found from administrative data sources, and women on maternity leave, apprentices and residents working abroad who have no immediate share in GDP by kind of activity.

capital, was recorded in 5% of enterprises, yet the situation of the total volume of overcapitalization improved, compared with 1st half of 2003. **Foreign-controlled enterprises** raised their book value added by 22.5% and gross profits by 43.7%. Having a third of employees, foreign-controlled enterprises produced more than half of gross profits made at large enterprises.

#### Trend of sales<sup>\*)</sup> in chosen CZ-NACE activities

		Y-o-y indices (%)								
CZ-NACE activity		Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	1st half of 2004	Year 2003	Q2 2003 to Q1 2004	Q3 2003 to Q2 2004
Industry	Current prices	105.0	108.1	107.4	110.0	116.8	113.4	106.4	107.7	110.6
	Constant prices	105.9	108.5	107.0	108.1	111.3	109.8	106.8	107.4	108.8
Construction	Current prices	110.1	119.3	115.8	107.5	119.8	115.1	113.6	114.1	116.5
	Constant prices	107.7	116.8	113.3	104.9	115.5	111.4	111.2	111.6	113.5
Agriculture	Current prices	91.3	90.5	97.1	100.9	103.2	102.1	91.1	94.6	97.0
	Constant prices	100.5	89.5	92.7	88.6	89.9	89.3	94.5	92.5	90.4
Retail trade (CZ-NACE 50, 52)	Current prices	104.3	108.1	103.9	101.8	105.6	103.8	104.7	104.5	104.9
	Constant prices	105.7	107.5	103.2	100.5	102.6	101.6	104.9	104.2	103.4
Transport	Current prices	107.7	113.1	114.2	110.0	115.4	112.9	110.5	111.2	113.3
	Constant prices	103.2	108.7	109.8	108.5	113.3	111.0	105.9	107.5	110.1
Communications	Current prices	107.8	105.7	103.8	106.4	104.4	105.4	106.2	105.8	105.0
	Constant prices	108.6	106.8	105.3	105.5	103.4	104.4	107.0	106.5	105.2
Other market services	Current prices	103.2	104.0	106.3	109.4	111.7	110.7	103.5	105.7	107.8
	Constant prices	99.4	101.1	104.8	105.6	106.9	106.3	100.4	102.8	104.6

<sup>\*)</sup> The industry, construction and agriculture data refer to sales of own products and services; the other CZ-NACE activities data refer to total sales.

The growth rate of **industrial production** was on the increase in the 1st half of 2004, rising by 10.8% y-o-y (of which by 12.6% in the 2nd quarter). After working days adjustment, it was up 9.7% (11.1% in the 2nd quarter). Output of consumer durables, intermediate goods and capital goods grew fastest. Within manufacturing, the highest growth rates were reported for manufacture of basic metals and fabricated metal products, manufacture of electrical and optical equipment, and manufacture of transport equipment. Manufacture of leather and leather products and manufacture of food products, beverages and tobacco decreased only moderately. **Sales** of own products and services grew by 9.8% y-o-y, affected particularly by strong direct exports (+17.5% y-o-y). **Foreign-controlled enterprises** contributed significantly to the growth. These enterprises gained the decisive weight in manufacture of transport equipment, manufacture of electrical and optical equipment, manufacture of rubber and plastic products, manufacture of pulp, paper and paper products, publishing and printing, and manufacture of other non-metallic mineral products. Employment in industry dropped by 1.5%; on the other hand, employment in manufacture of rubber and plastic products and manufacture of electrical and optical equipment rose considerably. A high increase in labour productivity (+11.5%) was faster than rise in wages and resulted in a sizeable decrease in unit wage costs. The considerable growth of outputs raised book value added produced (at current prices) by 14.2%. Gross profits of large **enterprises (with 100 or more employees)** were by 14.8% higher y-o-y; also their costs profitability and equity capital profitability grew. Among the total number of large enterprises, 80% were profit making.

The volume of **new orders** was by nearly a quarter higher, external orders rose even more.

*In July, industrial production increased by 11.0% y-o-y, sales rose by 5.1%. After working days adjustment (July 2004 had 3 working days more than July 2003), industrial production grew by 18% and sales by 12%.*

**Electricity** generation grew by 2.5% y-o-y, i.e. less than domestic consumption (+3.3%). The balance of imports and exports was active by 7.3 billion kWh, which was roughly the same figure as a year earlier. Imports of **natural gas** (in cubic metres) increased by 8.3%, while consumption slightly fell. Imports of **petroleum** were by 3.8% higher y-o-y.

The total volume of **construction output** was up 16.4% y-o-y. Construction work carried out by own workers (construction put in place – in enterprises with 20 or more employees) rose by 9.8%, i.e. markedly less than total construction output according to delivery contracts. Adjusted for working days, the volume of construction output grew by 15.9%. Exceptional growth of quarter-on-quarter seasonally adjusted data by 16.4% (2nd quarter over the 1st quarter) resulted from the expected rise in the VAT rate as from May 2004. Construction output was predominantly concentrated on new developer projects of commercial and administrative centres and on continuing work on constructions in transport and housing. Also **sales** of own products and services (based predominantly on construction activity) developed favourably and rose by 11.4% y-o-y. The decrease of employment in construction slowed down to 1.4% y-o-y. The high rise of labour productivity in construction (+18.1%) caused, with respect to a lower growth of wages, a considerable decrease of unit wage costs. New construction, reconstruction and modernisation accounted for 86% of construction work in **enterprises with 20 or more employees**. Repair and maintenance work made up the rest. In terms of financial data, construction enterprises produced by 16.2% higher book value added y-o-y. **Enterprises with 100 or more employees** reached profits that were by two thirds higher than a year earlier and their costs profitability and equity capital profitability rose too.

*July saw a moderate y-o-y increase of 0.3% in construction (+3.9% after working days adjustment).*

The volume of new **construction orders** was highest since 1995. At the end of the 1st half of 2004, order books contained work in the Czech Republic and abroad worth CZK 193.7 bn. Nearly three in four were public orders.

Planning and building control authorities issued by 11.8% more **building permits** than a year earlier. In **housing construction**, the number of completed dwellings increased considerably (+23.6%) y-o-y; more than 12 thousand dwellings were built. Started dwellings grew by 14.6% and dwellings in progress went up by 7.6%.

Sales in **agriculture** increased by 2.1% y-o-y at current prices and dropped by 10.7% at constant prices (affected by a considerable increase in prices paid to agricultural producers). The number of employees in holdings of agricultural primary production dropped again and labour productivity per worker went down. Under higher output, book value added decreased. Financial data of **holdings with 100 or more employees** (their number fell by a fifth) showed slight profits, compared to loss making in the 1st half of 2003; roughly half of the holdings were profit making. Indicators of profitability improved. According to farm crop **harvest estimates** as at 15 August, the harvest will be good. Compared to 2003, production of basic cereals is expected by a half higher, potatoes by a third higher, rape by 128% higher, while production of sugar beet should be lower. Populations of all kinds of farm animals fell y-o-y at the end of the 1st half of 2004.

**Retail sales, incl. sale and repair of motor vehicles and sale of automotive fuel**, rose by 1.6% y-o-y at constant prices, of which sale, repair and maintenance of motor vehicles and sale of automotive fuel slightly dropped. Sale of new cars fell by more than a tenth (67 774 new cars were sold, of which nearly a half were Skoda make). Retail sales (incl. repair of personal and household goods) grew by 2.6%, in enterprises with 250 or more employees by 5.6%. Foreign-controlled enterprises, i.e. hypermarkets and supermarkets, accounted for 70% of sales by enterprises with 250 or more employees. **Hotels and restaurants** raised their sales by 4.8%. The number of employees in **retail trade total** rose moderately y-o-y. Labour productivity went up more than wages, which resulted in lower unit wage costs. Book value added in trade reached a growth rate of 10.2% y-o-y. Trade margin stood at 16.4% on average and 22% in retail trade.

In **tourism**, arrivals of foreigners started to rise in the 2nd half of 2003. A year later, they were up 3.1% y-o-y. Departures of Czech residents abroad have been growing too (+4.0% y-o-y). This affected the active balance of **tourism** (+CZK 1.9 bn y-o-y), which amounted to CZK 23.3 bn in the 1st half of 2004.

The dynamics of growing sales in **transport** accelerated throughout the 1st half of 2004 and reached 11.0% y-o-y. They were twice higher in supporting and auxiliary transport activities than in land transport and transport via pipelines. Sales grew fastest in air transport. The trend was partly influenced by a change in VAT rate of some transport activities. Employment dropped by 1.0% and labour productivity increased faster (+11.9%) than wages. Book value added developed favourably (+14.0% y-o-y), predominantly due to land transport, which makes up 60% of total transport. As for goods transport, both the volume of goods transported and outputs decreased, compared to the 1st half of 2003. Transport via pipelines remained an exception (volume +6.0%, tonne-kilometres +8.8%). Passengers transported by rail increased by 5.5%, by road dropped and by air rose by 24.2%. Very favourable financial data of **enterprises with 100 or more employees** resulted in higher gross profits (+80%) and higher costs profitability and equity capital profitability.

Sales in **communications** rose by 4.4%, under gradually slowing down growth rates in telecommunications against preceding periods. Employment decreased and labour productivity rose faster than wages. Book value added slightly dropped, even though it grew by 6.7% in post activities. **Enterprises with 100 or more employees** produced gross profits that were by 7% lower, although falling profits were reported only for telecommunications; post and courier activities reached a slightly better economic result.

**Financial intermediation** reached by 45.2% higher total gross profits y-o-y. The highest increase was recorded for insurance companies (profits more than tripled), highly profitable were also banking financial institutions (excl. the Czech National Bank) and non-banking financial institutions. Pension funds reached profits that were by more than a fifth lower y-o-y.

Sales in **other market services** grew by 6.3%. The growth of sales of services provided between enterprises (mainly in the areas of waste disposal, real estate activities and computers) accelerated and sales of services provided to the population slowed down (predominantly in personal services, which became more expensive due to a higher VAT rate). Employment in other market services increased by 3.4% y-o-y, the average monthly nominal wage went up faster than sales per employee (at constant prices). Book value added grew by 9.4%, under growing outputs. More than three quarters of total sales took place in enterprises with fewer than 100 employees; their sales rose by 5.1%. On the other hand, large foreign-controlled **enterprises with 100 or more employees** (having a share of more than 8% in the total sales) raised their sales by nearly a quarter y-o-y. Financial data of large enterprises showed higher gross profits and higher costs profitability and equity capital profitability.

The average annual inflation rate, measured as increase in the average **consumer price** index over last 12 months related to the average of preceding 12 months, stood at 1.4% in June, i.e. inflation rate accelerated by 1.3 percentage points during the 1st half of 2004 (compared with December 2003). The level of consumer prices rose by 2.5% y-o-y in total, of which market prices went up by 1.7% and administered prices by 4.9%. Higher VAT and higher excise tax from January and changes of VAT (both up- and downwards) on services and goods from May contributed substantially to the acceleration. The price level was pushed up particularly by prices of food and non-alcoholic beverages, prices of housing, prices of post and telecommunications, prices of hotels and restaurants, and prices of other goods and services. Counteracting were prices of clothing and footwear, household equipment, and slightly prices of recreation and culture. The price level in households of employees and households of pensioners rose by 2.3% and 3.2%, respectively, on average.

*In terms of m-o-m comparison, prices in July and August grew by 0.4% and stagnated, respectively; y-o-y prices rose by 3.2% and 3.4%, respectively.*

**Producer prices** continued growing, higher intensity was in the 2nd quarter. In terms of y-o-y comparison, prices in **agriculture** rose most (+14.3%, as against -12.2% in the 1st half of 2003). The high rise in prices of plant products was affected by prices of cereals, potatoes, fruit and vegetables. **Industrial** producer prices grew by 3.3% (by 1.7% and 4.9% in the 1st and 2nd quarters, respectively), of which most prices in manufacture of basic metals and fabricated metal products and manufacture of coke and refined petroleum products. Prices of **construction work** rose by 3.1% y-o-y, prices of construction material inputs by 3.4%. The only CZ-NACE activity where prices fell considerably was **forestry**. Among **market services**, whose prices rose by 2.3%, particularly prices of real estate and renting activities and prices of business services grew. Prices of **tangible investments** increased moderately.

The relation between **import and export prices** developed favourably in the 2nd quarter too. Terms of trade in the 1st half of 2004 reached 102.3% on average. Import prices rose by 1.1% y-o-y, export prices by 3.4%. As for imports, the highest price increases applied to other raw materials and mineral fuels, export prices grew most for mineral fuels and semi-finished products. Particularly terms of trade in machinery and transport equipment are favourable in the long term.

**External trade**<sup>4</sup> turnover at current prices grew by as much as a fifth y-o-y. Joining the European Union opened way to many new economic and administrative factors affecting external trade, which was characterised by high rates of both imports and exports and favourable development of the balance. Y-o-y dynamics of growth at current prices were 21.5% for exports and 19.9% for imports. The higher share of exports than imports in the increase of external trade turnover caused a decrease in the trade gap to CZK 10.7 bn, i.e. by CZK 7.1 bn less y-o-y. Higher imports and exports were reported for all main groups of countries. More than four fifths of the increase in imports fell on developed market economies, which at the same time received over 90% of the increase in Czech exports. As for commodity structure, the position of machinery and transport equipment strengthened in total exports and weakened in imports. The proportion of trade in semi-finished products and materials grew in total imports and dropped in exports. The surplus of trade in miscellaneous manufactured articles went down due to a higher increase in their imports. A similar situation occurred in trade in chemicals and related products where the highest deficit (CZK 50 bn) was reached. Deficit of trade in agricultural and food crude materials rose as a result of above-the-average growth of imports and under-the-average growth of exports. Deficit of trade in inedible crude materials and mineral fuels remained at the same level y-o-y. The share of inward and outward processing in external trade continued to weaken slightly. The favourable trend of terms of trade affected positively the trade gap; yet, after deflation to constant prices, imports rose by 18.3% and exports by 17.9%, all y-o-y.

*In July, current price exports and imports increased by 27.0% and 18.8%, respectively, y-o-y; the trade balance was passive by CZK 4.9 bn.*

The current account of the **balance of payments** raised its deficit, which reached CZK 56.2 bn, i.e. by CZK 1.1 bn more y-o-y. The financial account of the balance of payments reached a surplus of CZK 42 bn, which was by CZK 11.7 bn less y-o-y. The deficit of the current account made up 4.2% and the surplus of the financial account 3.1% of the nominal GDP volume. The higher deficit of the current account was primarily contributed to by the balance of revenues, which increased its deficit by CZK 17.3 bn: lower surplus occurred in the balance of one-way transfers (by CZK 1.1 bn), lower deficit in the trade balance (by CZK 6.8 bn) and higher surplus in the balance of services (by CZK 0.5 bn). The state of the financial account was affected by inward flow of portfolio investments amounting to CZK 64.1 bn (due to emissions of treasury bonds and bonds by the Sazka company issued on external capital markets) and net foreign direct investment inward flows totalling CZK 58.1 bn. Direct investment in the Czech Republic reached CZK 59.9 bn, of which fixed capital investment was CZK 21.6 bn and reinvested profits CZK 36.3 bn. As regards other investment, capital outward flows amounting to CZK 84.1 bn occurred. Increase in **foreign exchange reserves**, leaving aside exchange rate fluctuations, stood at CZK 5.7 bn (compared to CZK 9.7 bn in the 1st half of 2003).

The state of foreign exchange reserves of the Czech National Bank reached CZK 691.9 bn at the end of the first half of 2004. This volume would cover 4.4 months' imports of goods and services.

In June, nominal **exchange rate** of the Czech **koruna against the euro** was CZK 31.61 and **against the US dollar** CZK 26.05. The index of nominal effective exchange rate of the **koruna** was by 1.7% lower on average y-o-y. The index of real effective exchange rate of the **koruna** was by 2.8% lower based on consumer prices and by 1.5% lower based on industrial producer prices.

**Money supply** M2 grew by 10.2% on average y-o-y. The average annual state of M2 in relation to the annualised nominal GDP volume stood at 66.4%, i.e. it actually did not change y-o-y. On the side of assets, net domestic assets rose faster (+12.6%) than net external assets (+8.4%); on the side of liabilities, the volume of transaction money grew substantially more than quasi money. Monetary aggregate M1 (money in circulation and sight deposits) rose by 15% at the end of the 1st half of 2004 and its share in M2 reached 52%. Particularly one-day deposits by non-financial enterprises were on the increase, which seems to have been due to transactions to revitalise investment. Quasi money (i.e. time deposits and foreign currency deposits) grew by 5.5% y-o-y at the end of the 1st half of 2004.

In the 2nd quarter of 2004, the y-o-y rate of growth of **loans** granted to both non-financial enterprises and households accelerated. It was connected with the recovery of effective demand for loans caused by a better financial situation of enterprises. Y-o-y increase in loans granted to non-financial enterprises was 3% in June, of which loans provided to foreign-controlled enterprises dropped by 8.3% and loans to other enterprises grew by 8.4%. Y-o-y increase in loans granted to households stood at 32.8% in June. The demand of households for debt financing remains high (investments

<sup>4</sup> External trade results refer to 27 August 2004 closing day.

in housing, low level of real interest rates, and supply of new loan products). Consumer loans (current accounts and loans to bridge temporary lack of resources) rose by 24.8% y-o-y in June.

The average **interest rate** on total deposits and total loans reached 1.26% and 6.00%, respectively, in June. **Interest margin** between the total rates on loans and deposits grew insignificantly, being in June 6.78 percentage points in the household sector and 3.32 percentage points in the non-financial enterprises sector. The real interest rate on household deposits was negative (-1.2%) in the 1st half of 2004, which was by 2.9 percentage points down y-o-y.

**Employment** in businesses with 20 or more employees of the business sphere (in financial intermediation irrespective of employment) and in all organisations of the non-business sphere fell by 1.3%. The most significant decreases were recorded for cooperatives (-8.6%), private businesses (-3.0%), state businesses (-2.8%) and for the municipal sector (-1.3%). The average monthly gross **nominal wage** of employees in businesses with 20 or more employees grew by 6.4% and amounted to CZK 17 267. As consumer prices rose by 2.5%, the average **wage** rose by 3.8% **in real terms**. A lower growth of wages in the non-business sphere by 4.0% on average was affected by a reduction of the 13th pay from 50% to 10%. Wages in the business sphere rose by 7.2% on average.

The estimated **number of workers in the entire Czech economy** (according to the business statistics), compared with the 1st half of 2003, dropped by 0.6%. The **number of employees in the entire economy** fell by 1%. Their average wage grew by 6.0% and reached CZK 16 187.

The **registered unemployment rate** on 30 June made up 9.9%, which was 0.4 percentage points up y-o-y. As a result of its seasonal character, unemployment in the 2nd quarter went down against the 1st quarter: decreases were reported in April, May and June. The number of job applicants rose by 16 thousand y-o-y and made up 517 thousand at the end of the 1st half of 2004. Highly alarming is the increasing number of long-term unemployed people (nearly 219 thousand persons were out of work for more than a year as at 30 June); their share in the total number of unemployed exceeded 42%, i.e. 9% up y-o-y. In addition, the number of job applicants with reduced capacity for work has been permanently rising and supply of vacancies for them decreasing. Unemployment hit particularly persons with basic education who accounted for nearly a third of the unemployed; on the other hand, the share of people with higher education in the unemployed was only 3.5%. The proportion of school-leavers in the total number of job applicants reached 7.4%, which was less y-o-y. One in three unemployed people received unemployment benefits. Since vacancies grew by 4.4% y-o-y, there were less job applicants per vacancy (11.4 persons at the end of the 1st half of 2004). The situation on the labour market deteriorated almost in all regions, the districts of Most (24.2%), Karviná (21%) and Teplice (18.4%) saw the highest unemployment rates.

According to **family budget statistics**, net **money income** in households of employees rose by 4.0% and 1.7% in nominal and real terms, respectively. In households of pensioners, it was up 2.5% and down 0.7% in nominal and real terms, respectively. Net **money expenditures** of employees stagnated and of pensioners dropped by 1.2%, all in real terms. The share of expenditures in the structure of net expenditures did not change markedly y-o-y: households of employees spent 18.7% on food and non-alcoholic beverages on average and 17.4% on housing, incl. energy, water and fuel, while households of pensioners spent on these purposes 25.9% and 25.6%, respectively.

In the framework of **social expenditures**, most resources were paid as pensions. The average old-age pension on 30 June 2004 was CZK 7 257, i.e. by 2.6% more y-o-y. As cost of living of pensioners went up by 3.2%, the pension's real value went down by 0.6%.

The **state budget** ran a deficit of CZK 49.7 bn in the 1st half of the year, which was by CZK 3.7 bn less y-o-y. This favourable figure resulted from total revenues being exceeded (48.6%) and total expenditures being lower (47.9%) than the budgeted level. The deficit/GDP ratio reached 3.7%. As regards total **revenues**, most money was levied on tax revenues and social security premiums (38.7%, i.e. 7.6% up y-o-y). VAT made up 15.7%, income tax of natural persons 12.8%, income tax of legal persons 12.4% and excise tax 10% of total revenues. Prevailing part of total **expenditures** of the state budget (81%) was used for current expenditures (social benefits, wages and salaries, non-investment purchases, transfers to semi-budgetary organisations, non-investment subsidies etc.). Transfers to regional budgets made up 16% and capital expenditures 3% of total expenditures.

**Budgets of territorial self-governing units** met their revenues at 51.3% and expenditures at 48.1% of the budgeted level. Regions and municipalities recorded a surplus of CZK 3.5 bn and CZK 2.8 bn, respectively.

**State debt**, amounting to CZK 599.8 bn at the end of the 1st half of 2004, went up by nearly a third y-o-y and its ratio to the annualised GDP volume was 22.8%.

*The state budget ran a deficit of CZK 50.7 bn at the end of August 2004.*

The **population** of the Czech Republic was 10 213 thousand at the end of the 1st half of the year. The population grew by more than 2 thousand in the reference period. However, this increase resulted again from the positive balance of external migration, which reached 6.3 thousand (predominantly long-term stays of foreigners). On the other hand, natural increase was negative by 4.3 thousand (difference between live births and deaths). Yet this figure was considerably lower y-o-y (natural increase in the 1st half of 2003 was -11 thousand). The number of live births – 48.9 thousand – was by 2.2 thousand higher than a year earlier. Over 30% of these children were born out of wedlock. Birth rate in the Czech Republic still remains among the lowest across Europe. The number of marriages remained roughly constant y-o-y, while divorces grew. Among the positive aspects are the numbers of abortions that are falling in the long term.