IV. Key macroeconomic indicators in 2006

Main tendencies

The Czech Republic entered the year 2006 following a strong and accelerated economic growth in 2005 when favourable conditions for further stable development of production were created. In 2006, GDP recorded the same growth as a year earlier; the Czech economy further strengthened due to significant changes in the relations between production, income formation, final consumption and accumulation. The breakdown of economic activity by type and industry and the movements in income and capital transactions were rather different in 2006 compared to 2005, all accompanied by both positive and negative aspects. The structure of the growth of gross GDP, especially on the demand side, changed markedly and the impact of individual expenditure items on the y-o-y increase of GDP in 2006 was substantially different from that in 2005; final expenditure created a bigger market y-o-y for the domestic product. The growth of final consumption expenditure and gross capital formation expenditure accelerated, but because increase in total imports speeded up considerably faster than increase in total imports, the favourable impact of net exports on GDP growth dramatically decreased. The movement in the formation of resources by activity – gross value added (GVA) – strengthened the industry (CZ-NACE 10-41) and weakened services. GVA demand for intermediate product consumption increased considerably, which was related to the increase of the proportion of materials and other imported products in manufacturing. The income structure of GDP changed for the benefit of gross operating surplus including mixed income and to the detriment of employees´ compensation. Development of income, expenditure and capital transactions led to a slower growth of disposable national income compared with GDP and to a considerable increase of passive balance of national current transactions with non-residents, which resulted in the worsening of external imbalance.

Real increase of GDP by 6.1% in 2006, compared with the average annual rate in previous ten as well as five years, was significantly higher. Over the past four years, i.e. since 2003 when the increase of GDP began to correspond with the economic potential and its growth rate accelerated, the average annual growth of GDP was 5.0%. This is especially due to (i) increase in final consumption expenditure, (ii) rise in gross capital formation expenditure and (iii) positive impact of exports being higher than negative impact of imports. The contributions of these components to GDP increase in 2006 were relatively balanced.

As a result, the gap in aggregate economic performance between the CR and EU member states narrowed and the international economic position of the CR improved. The year-on-year real growth of EU25 GDP by 2.9% in 2006 was by 3.2 p.p. slower than in the Czech Republic. Converted to the official rates of exchange, the Czech Republic's nominal GDP reached EUR 113.05 billion and USD 141.72 billion in 2006. In purchasing power parity related to the EU25 average, GDP per capita increased to 76.8%.

Gross value added

Gross value added (GVA) at current basic prices reached CZK 2 884.8 billion in 2006, which was by CZK 222.6 billion more than in 2005. This increase was substantially more affected by growth of physical volume (77.6 %) than by growth of the price level. Real increase of GVA was 6.4% y-o-y, which was by only 0.1 p.p. less than in 2005.

By CZ-NACE activity, of the most positive influence on the above increase was the industry (4.0 p.p.) where GVA grew by 12.7% y-o-y, which was less than in 2005. A high rate of increase was recorded in manufacturing (14.0 %). Above-the-average growth with a high share in GVA was registered for 'wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods' (8.9%). GVA in construction grew less than the average (1.9%) and its rate was lower than in 2005. GVA in agriculture, hunting and forestry dropped by 7.2 %.

Economic activities broken down by spheres, GVA grew the most in the secondary sphere (10.9%) with a positive impact of 4.1 p.p., which was by 0.9 p.p. less than in 2005. The growth of GVA in the tertiary sphere (5.5%) was faster than in 2005 and also its contribution to the overall GVA increase (1.4 p.p.) was higher. The impact of the primary sphere was negative.

Gross value added

	2005	2006	Change	2005	2006	Impact in p.p.		Change 2006/2005 in p.p.
	CZK billion			Prev. year=100, const. pr.		2005	2006	
Gross value added	2 662.2	2 884.8	222.6	106.5	106.4	6.5	6.4	-0.1
Sphere I	77.1	78.1	1.0	103.0	92.7	0.1	-0.2	-0.3
Sphere II	1 019.4	1 132.9	113.5	113.2	110.9	5.0	4.1	-0.9
Sphere III	658.0	699.5	41.5	103.6	105.5	0.9	1.4	0.5
Sphere IV	907.7	974.3	66.6	101.6	103.2	0.5	1.1	0.6

Sphere I Agriculture, hunting, forestry, fishing, fish farming
Sphere II Industry (CZ-NACE 10-41), construction
Sphere III Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants, transport and communications
Sphere IV Financial intermediation, real estate, renting and business activities, research, public administration, education

The total **employment** of 5 087.5 thousand persons on average in 2006 was up by 78.6 thousand y-o-y (+1.6%); the growth in individual industries varied. The highest share in employment had manufacturing (27.2 %) where the number of persons increased by 0.9% y-o-y. Employment rose significantly in real estate, renting and business activities, research and development (6.9%) and made up 10.9% of the total. Above-the-average growth of employment was also recorded in other community, social and personal service activities (3.6%) and in wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods (3.4%). Employment decreased in agriculture (-4.7%), electricity, gas and water supply (-5.6%), construction (-1.1%) and hotels and restaurants (-1.0%).

Labour productivity related to the total number of employed persons (measured by GVA at constant prices) increased by 4.8% y-o-y and contributed with three quarters to the GVA growth. The remaining quarter was due to increase in employment. The differences in the growth rates of labour productivity broken down by industry and sphere of economic activity were significant. The highest average level of labour productivity in 2006 was in the secondary sphere where also the highest growth (10.7%) was recorded. Labour productivity grew markedly less in the tertiary sphere (3.1%), stagnated in the quaternary sphere and decreased in the primary sphere (-2.7%).

Employment and labour productivity

	Total employment				Labour productivity			
	Structure in %		Index 2005/2004	Index 2006/2005	Relation of spheres to total		Index 2005/2004	Index 2006/2005
	2005	2006			2005	2006		
Total	100.0	100.0	101.6	101.6	100.0	100.0	104.8	104.8
Sphere I	4.0	3.7	101.2	95.3	73.0	67.8	101.8	97.3
Sphere II	38.1	37.6	100.9	100.1	100.4	106.1	112.2	110.7
Sphere III	25.1	25.3	100.5	102.3	98.5	97.0	103.1	103.1
Sphere IV	32.8	33.4	103.4	103.4	103.9	98.3	98.3	99.8

The average number of employees 4 170.1 thousand persons in 2006 increased by 1.8% y-o-y and their **gross average nominal wage** rose by 5.6 % and in real terms by 3.0 %, which was by 0.8 p.p. more than in 2005. The highest average wage was reached in the quaternary sphere (13.8% above the overall average), but recorded the lowest y-o-y growth (only 2.2%). The highest increase of the average wage was observed in the secondary sector (10.3%), yet the wage was 4.5% below the average. The total of wages and salaries paid out in relation to GVA at current prices reached 36.1% (i.e. CZK 361 per CZK 1 000 of GVA) in 2006, which was by 0.8% down y-o-y. Except for the primary sphere, the wages/GVA ratio decreased in the other spheres, the most significant decrease being recorded in the quaternary sphere; however, it was highly above the average (CZK 410 per CZK 1000 of GVA).

Wages/GVA ratio

	GVA at current prices.		Wages total		Wages/GVA ratio in % (current prices)		Average wage	
	Index 2005/2004	Index 2006/2005	Index 2005/2004	Index 2006/2005	2005	2006	Index 2005/2004	Index 2006/2005
Total	106.7	108.4	106.6	107.5	36.4	36.1	104.1	105.6
Sphere I	93.9	101.3	100.8	102.6	34.6	35.1	96.3	104.7
Sphere II	109.2	111.1	101.2	110.9	34.1	34.0	100.0	110.3
Sphere III	104.3	106.3	106.8	106.3	32.7	32.7	104.0	103.5
Sphere IV	106.8	107.3	112.5	105.4	41.8	41.8	108.8	102.2

Gross domestic product

Taxes on products minus subsidies on products (net taxes) amounted to CZK 319.3 billion at current prices in 2006. The share of net taxes in GDP slightly dropped; y-o-y increase in net taxes by 3.2% at constant prices caused that GDP grew less than GVA.

GDP in 2005 reached CZK 3 204.1 billion and the y-o-y growth of CZK 233.8 billion was due to increase in physical volume (impact nearly four fifths) and growth of the overall price level (the remaining fifth). This combination of two impacts was rather different in comparison to 2005 when the implicit deflator of GDP was very low. Also different was the combination of the decomposition of y-o-y increases in the value of basic expenditure components in both years. The positive impact of the change in physical volume on the increase in the value of final consumption moderately exceeded a half and highly contributed to the increase in the value of gross capital formation (effect of more than nine tenths), being nearly the same in 2005 and 2006. The negative impact of decrease in the price level on the increase in the value of imports and exports significantly lowered y-o-y.

Decomposition of value increases into volume and price impacts

CZK billions

	GDP		Final consumption		Gross capital formation		Net exports	
	2005	2006	2005	2006	2005	2006	2005	2006
Value	189.3	233.8	103.8	132.1	12.6	101.7	72.9	0.0
Volume impact	170.2	182.5	46.6	70.3	12.3	95.8	105.4	13.6
Price impact	19.1	51.3	57.2	61.8	0.3	5.9	-32.5	-13.6

The expenditure structure of GDP, especially relation between total final consumption expenditure and gross capital formation expenditure, changed considerably and the tendency of accumulation grew more than the tendency of consumption. The share of final consumption expenditure in GDP decreased and the share of gross capital formation expenditure rose; as exports exceeded imports less than in 2005, the share of net exports dropped insignificantly.

The balance of GDP increases shows best the marked structural changes. The use of y-o-y GDP increases for final consumption, accumulation and external trade balance (net exports) changed markedly between 2005 and 2006. While the share of consumption expenditure in GDP changed relatively little, the share of gross capital formation expenditure grew sharply at the expense of net exports.

Structure of GDP and GDP increases

%, nominal GDP = 100

	Structure of GDP			Structure of GDP increases		
	2005	2006	Change (p.p.)	2005	2006	Change (p.p.)
Final consumption expenditure	71.9	70.8	-1.1	54.8	56.5	1.7
Households	48.9	48.6	-0.3	33.4	43.4	10.0
Gross capital formation	26.2	27.4	1.2	6.7	43.5	36.8
Fixed gross capital formation	25.0	25.1	0.1	6.2	26.6	20.4
External trade balance	1.9	1.8	-0.1	38.5	0.0	-38.5

Y-o-y increase of real GDP in 2006 was more affected by the growth of gross capital formation expenditure than by the growth of final consumption expenditure; the contribution of net exports was the lowest. In comparison to the impact of these three basic components on GDP in 2005, the distribution of their impacts in 2006 was substantially different. GDP increase being the same in both years (6.1% in real terms), the impact of basic components on the demand side was completely different. The growth of final consumption expenditure speeded up to 0.9 p.p. and its contribution to GDP rose by 0.6 p.p. Marked acceleration of gross capital formation expenditure (10.6 p.p.) increased its contribution by 2.8 p.p. The substantially higher acceleration of total imports (9.4 p.p.) than of total exports (4.2 p.p.) decreased the positive impact of net exports on GDP by 3.4 p.p.

The current price **final consumption expenditure** of CZK 2 268.9 billion, of which household consumption expenditure CZK 1 555.9 billion, were by 3.2% and 4.6% respectively higher in real terms, and contributed to GDP growth with 2.3 p.p. and 2.2 p.p. respectively. Consumption expenditure of government and non-profit institutions grew only by 0.5%, which was by 0.6 p.p. less than in 2005. Domestic demand was driven by purchases of households made in a situation when the marginal rate of gross household saving was below zero. As the growth of household current expenditure accelerated more than the growth of household current income, the growth of household gross disposable income fell behind. That was accompanied by a faster increase of individual consumption expenditure, which resulted in a marked fall of gross household saving while its share in pension fund reserves grew considerably. The spending of households is widely differentiated by type of goods and by social group.

Gross fixed capital formation was a GDP expenditure component with a high impact; its volume increased by 7.3% y-o-y, which was up 6.0 p.p. on 2005. This increase was most affected by tangible investments in transport equipment (+25.1%) and in machinery and equipment (+8.5%). The acceleration of gross fixed capital formation expenditure was supported by a favourable investment climate; low interest rates on loans, high profit margin in non-financial corporations and high profit of banking institutions. Gross fixed capital formation expenditure grew faster than costs of labour; intensification of capital in production strengthens. The contribution of increase in inventories to GDP reached 1.4 p.p.

The biggest structural movement affecting GDP was observed in external economic relations. In 2005 the highly predominating component of GDP increase was **net exports**; the positive impact of exports (7.4 p.p.) exceeded the negative impact of imports (-3.4 p.p.). The year 2006 saw a turning and the positive impact of net exports lowered to 0.6 p.p. because imports speeded up substantially more (9.4 p.p.) than exports (4.2 p.p.); the overhang of the positive impact of exports (10.5 p.p.) over the negative impact of imports (9.9 p.p.) was low. This change was unfavourably affected by the change of the balance of services. While the coverage of total imports by total exports slightly increased, it fell considerably in transactions in services; the difference between increase in 2005 and decrease in 2006 reached 6.5 p.p. Also comparison of income and expenditure on services at current and constant prices shows the negative impact of the balance of services. Whereas in commodity transactions the purchasing power of exports grew faster than demands of imports for resources produced by exports by 1.2%, transactions in services saw a contrary tendency (-0.4%).

Impact of expenditure components on GDP

	2005	2006	Change	2005	2006	Impact in p.p.		Change 2006/2005 in p.p.
	CZK bn, current prices			Prev.year=100, const.pr.		2005	2006	
GDP	2 970.3	3 204.1	233.8	106.1	106.1	6.1	6.1	0.0
Final consumption	2 136.8	2 268.9	132.1	102.3	103.2	1.7	2.3	0.6
Gross capital formation	776.6	878.3	101.7	101.6	112.2	0.4	3.2	2.8
Net exports	56.9	56.9	0.0	x	x	4.0	0.6	-3.4

Aggregate demand and supply

The value of **aggregate demand and supply** (CZK 5 485.2 billion) in 2006 was by CZK 476.9 billion higher y-o-y. More than nine tenths of this increase was due to growth of physical volume, which was thanks to the external sector, because implicit deflators of both external demand and external supply resulted in a decrease of the price level. A real increase of 8.7% in aggregate demand was contributed to by domestic realised demand (impact 2.5 p.p.) and external demand (the remaining 6.2 p.p.). Increase in aggregate supply was affected by domestic effective supply (impact 2.8 p.p.) and external supply (5.9 p.p.). Compared to 2005, the impact of domestic demand strengthened and the impact of domestic supply weakened. Domestic supply kept on exceeding domestic demand (in both value and real terms) whose coverage by domestic resources slightly dropped in real terms and by external resources grew significantly.

Impact of components on aggregate demand and supply

	2005	2006	Change	2005	2006	Impact in p.p.		Change 2006/2005 in p.p.
	CZK bn, current prices			Prev.year=100, const.pr.		2005	2006	
Aggregate demand and supply	5 008.3	5 485.2	476.9	105.5	108.7	5.5	8.7	3.2
Domestic demand	2 877.7	3 071.9	194.2	102.0	104.3	1.2	2.5	1.3
External demand	2 130.6	2 413.3	282.7	110.4	114.6	4.3	6.2	1.9
Domestic supply	2 934.6	3 128.8	194.2	106.1	104.8	3.5	2.8	-0.7
External supply	2 073.7	2 356.4	282.7	104.8	114.2	2.0	5.9	3.9

Gross domestic income

In 2006 **terms of trade** affected GDP less unfavourably than in 2005 and their impact on real gross domestic income (GDI) was distinctly different in individual years and particularly in individual quarters. In contrast to the y-o-y rates of GDP growth, which slowed down during the year 2006 (from acceleration by 1.0 p.p. in Q1 to slowdown by 0.9 p.p. in Q4), the y-o-y rates of GDI growth gradually accelerated (from slowdown by 0.4 p.p. in Q1 to acceleration 2.0 p.p. in Q4), which was due to improving terms of trade. In 2006 real GDI increased by 5.5% y-o-y, which was by 0.8 p.p. more than in 2005.

The trading loss of CZK 15.4 billion in 2006 caused by higher decrease of export prices (-1.1%) than of import prices (-0.5%) was by CZK 21.7 billion lower than in 2005 when the loss of CZK 45.1 billion resulted from a decrease of 2.3% in export prices while import prices dropped by only 0.6%. The terms of trade figure, which was 98.3% in 2005, was less unfavourable in 2006 (99.4%).

Real gross domestic income

	Gross domestic product		Profit (+), loss (-) from T/T in CZK bn, previous year prices	Gross domestic income
	CZK bn, previous year prices	Prev. year=100, const. prices		Prev. year=100, const. prices
2004	2 685.7	104.2	2 693.7	104.5
2005	2 950.1	106.1	2 913.0	104.7
2006	3 150.4	106.1	3 135.0	105.5

Gross disposable national income and gross national saving

The value of **gross disposable national income (**CZK 3 013.5 billion) in 2006 was by CZK 190.6 billion lower than the value of GDP, which resulted from negative impacts of net primary income and net current transfers. In comparison to 2005, the ratio between disposable national income and GDP went down by 1.4 p.p., so that increase in disposable income contributed to the GDP increase with three quarters. Gross national saving CZK 744.6 billion grew by CZK 47.1 billion y-o-y and the saving rate of 24.7% was insignificantly higher. However, it was not enough to finance gross capital formation expenditure, so that external resources amounting to CZK 133.7 billion were used, which was 15.2% of the total coverage of capital accumulation. The rate of investments (the ratio between gross capital formation expenditure and GDNI) 29.1% was 4.4 p.p. above the rate of saving; in 2005 this difference was lower (2.8 p.p.). Marginally the saving rate reached 26.3%, but the rate of investments was considerably higher (56.7%). The marginal rate of financing gross capital formation expenditure was extraordinarily high (53.7%). This corroborates a certain sort of disproportions between material processes and financial flows.

Gross national saving

Current prices

	2005		2006		Changes in CZK bn	
	CZK bn	Structure in %	CZK bn	Structure in %	2005	2006
Gross disposable national income	2 834.3	100.0	3 013.5	100.0	206.8	179.2
Final consumption	2 136.8	75.4	2 268.9	75.3	103.8	132.1
Gross national saving	697.5	24.6	744.6	24.7	103.0	47.1
Gross capital formation	776.6	27.4	878.3	29.1	12.6	101.7
Balance of national current transactions	-79.1	-2.8	-133.7	-4.4	90.4	-54.6

Summary

The year 2006 proved a stable development of the Czech Republic’s national economy at a relatively high level over the past four years, which was free from unfavourable cyclical fluctuations in material processes. In consequence of development of external economic relations, especially because the trend of exports growing faster than imports weakened and the increase of gross fixed capital formation expenditure highly accelerated, there was a marked change in the structure of GDP growth, predominantly on the demand side, in comparison with 2005. The substantially higher increase in household consumption expenditure than in 2005 and its rate that is higher than the growth rate of disposable income implied a higher marginal tendency towards consumption and a decrease in gross household saving. The coverage of total imports by total exports was slightly lower exclusively owing to transactions in services. The overhang of domestic effective supply over domestic realised demand dropped insignificantly. Also gross national final expenditure related to available resources lowered. The rate of gross national saving was nearly as high as in 2005, but the overhang of investment rate over saving rate rose considerably. The funding of gross capital formation from external resources assumed substantially larger proportions than in 2005.