

Economic and social development of the Czech Republic in the year 2004¹

(Preliminary figures)

In 2004 the Czech Republic joined the European Union. The wider international cooperation and closer involvement of the Czech economy in the European and global economy affected development of the Czech economy, directly or indirectly. Also moving world prices of petroleum and metals were of influence.

Gross domestic product at constant prices² is estimated to have grown by 4.0% in 2004, rising by 3.8% in the 1st quarter, by 4.0% in both the 3rd and 4th quarters and by 4.3% in the 4th quarter. The steady growth during the year is corroborated by quarter-on-quarter growth rates of GDP derived from seasonally adjusted data. These data actually prove in agreement a regular 1% increase.

The quality of GDP growth changed considerably in 2004. Whereas final household consumption expenditure was the main driving force of economic growth in the preceding years, the main "initiative" in 2004 was taken over by grossed fixed capital formation and in the second half of the year also by external trade.

Gross fixed capital formation rose by 9.1%, but its dynamics slowed down during the year (+9.9% in the 1st quarter, +9.4% in the 2nd quarter, +9.6% in the 3rd quarter and +7.5% in the 4th quarter, all y-o-y). The high growth, which accelerated from 2003, was due to continuing investment in transport infrastructure, in manufacturing capacity of foreign investors and in housing construction.

In **external trade in goods and services**, both components, i.e. exports and imports, developed dynamically. Exports grew faster (+23.4% at current prices and +20.9% at constant prices) than imports (+19.8% at current prices, +18.5% at constant prices). A marked improvement in the balance of trade in goods and services turned the previously negative contribution of external trade to GDP into a positive contribution.

Final household consumption expenditure increased by 2.4% y-o-y in 2004, but its growth during the year had a falling trend (+3.3%, +2.5%, +2.0% and 1.9% in the 1st-4th quarters, respectively). The influence of household expenditure on final consumption in relation to GDP weakened. Compared to 2003, its growth rate roughly halved. Expenditures of the **general government sector**, where a fall of 3.2% occurred, were affected by the cost-saving measures.

Gross value added (excl. FISIM³) grew by 3.7%. Among individual CZ-NACE activities, the best results were achieved in industry (CZ-NACE 10-41) (+6.7%), financial intermediation (+24.0%), transport and communications (+3.6%) and trade (+3.1%). Construction, restaurants and education were below the 2003 level.

Total current nominal income of the **household sector** rose by 4.9% and current expenditures by 6.5%. Gross disposable income grew by 4.2% y-o-y at current prices. Individual household consumption expenditure went up by 5.2%. Gross household saving fell by 4.6% and its rate 7.79% (share of gross saving in disposable income) continued declining.

Total labour productivity (GDP at constant prices per worker⁴) went up by 4.2% y-o-y in 2004, of which by 4.1% in the 4th quarter. The increase in GDP was achieved exclusively by higher total labour productivity. Faster growth of primary income of workers (per actual worker) than growth of labour productivity led to higher unit labour costs by 1.3%; in real terms, unit labour costs dropped by 1.4%.

Key economic characteristics

%

	2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP, y-o-y change (constant prices)	3.2	3.7	4.0	4.0	3.8	4.0	4.0	4.3
Final consumption, y-o-y change (constant prices)	4.7	5.1	4.8	4.2	1.8	1.4	0.2	-0.6
Gross capital formation, y-o-y change (constant prices)	1.6	4.9	1.4	3.2	11.0	10.9	8.9	5.0
Inflation rate, y-o-y, quarterly average	-0.4	0.1	-0.1	0.8	2.3	2.6	3.2	3.1
Registered unemployment rate, quarterly average	10.11	9.62	9.88	10.00	10.73	10.13	10.12	9.99
State budget balance / GDP ratio, % ¹⁾	-5.3	-3.3	-4.1	-4.5	-1.2	-6.0	1.3	-7.6
Current account / GDP ratio, % ¹⁾	-1.1	-5.8	-7.6	-10.2	-2.1	-5.4	-7.9	-5.2
Financial account / GDP ratio, % ¹⁾	5.7	3.5	5.1	10.4	0.8	6.4	7.8	10.9
Net exports / GDP ratio, % ¹⁾	-0.2	-1.4	-2.4	-4.8	0.5	-0.5	-0.4	-0.9

¹⁾ At current prices

Sources: CZSO, Ministry of Finance, Ministry of Labour and Social Affairs,

¹ Unless otherwise stated all the data refer to the year 2004.

² 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.

³ FISIM are Financial Intermediation Services Indirectly Measured.

⁴ According to corrected employment data from the Labour Force Sample Survey taken in households in compliance with international definitions and recommendations of the International Labour Organisation. The corrections reflect especially second jobs, foreign workers (both employees and self-employed) found out from administrative data sources, and categories of women on maternity leave, apprentices and residents working abroad that have no immediate share in GDP by kind of activity.

Non-financial enterprises with 100 or more employees reached by 33.5% higher gross profits (i.e. pre-tax profits) than in 2003 (at current prices). They also raised their costs profitability and equity capital profitability. The number of loss-making enterprises went down y-o-y and accounted for less than a fifth of the total number. Predominantly manufacturing, trade and repair of motor vehicles and consumer goods, agriculture, hunting and related activities contributed to the y-o-y growth of gross profits. Other CZ-NACE activities saw lower increases in profits. Value added according to the enterprise bookkeeping produced in large non-financial enterprises was by 11.2% higher y-o-y. Its increases were recorded in all industrial and other CZ-NACE activities, with the exception of manufacture of textiles and textile products and mining and quarrying except of energy producing materials. Total inventories grew by 8.9% y-o-y at the end of the year (in particular inventories of own products and materials). Overcapitalisation, i.e. negative value of equity capital, was recorded in 4.7% of enterprises, yet the total volume of overcapitalisation lowered against 2003. The share of equity capital in the coverage of the balance sum moderately rose and reached 53%, other resources accounted for the rest. **Foreign-controlled enterprises** largely contributed to favourable financial data; they raised their value added according to the enterprise bookkeeping by 20.3% and gross profits by 32.5%. Having a 35% share in employment, foreign-controlled enterprises produced 47% of total usable value added and 51% of gross profits.

Trend of sales* in chosen CZ-NACE activities

Y-o-y indices (%)

CZ-NACE activity		Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Year 2003	Q2 2003 to Q1 2004	Q3 2003 to Q2 2004	Q4 2003 to Q3 2004	Year 2004
Industry (CZ-NACE 10-41)	Current prices	107.4	109.7	116.6	112.5	114.2	106.4	107.6	110.5	111.5	113.3
	Constant prices	107.0	107.9	111.2	104.4	105.5	106.8	107.3	108.7	107.5	107.2
Construction	Current prices	115.8	107.5	119.8	103.2	105.1	113.6	114.1	116.5	111.5	108.3
	Constant prices	113.3	104.9	115.5	98.9	100.8	111.2	111.6	113.5	108.0	104.5
Agriculture	Current prices	97.1	101.0	102.8	112.9	113.3	91.1	94.6	97.0	103.6	108.5
	Constant prices	92.7	88.7	89.6	105.7	110.0	94.5	92.5	90.3	94.9	100.0
Retail trade (CZ-NACE 50, 52)	Current prices	103.9	101.8	105.7	105.3	106.7	104.7	104.5	104.9	104.2	105.0
	Constant prices	103.3	100.7	102.6	102.3	104.8	104.9	104.2	103.5	102.2	102.7
Transport	Current prices	113.4	110.0	115.7	107.9	106.0	110.5	111.1	113.2	111.7	109.8
	Constant prices	108.9	108.5	113.6	105.5	102.6	105.9	107.4	110.0	109.1	107.3
Communications	Current prices	103.8	106.4	104.4	102.2	102.3	106.2	105.8	105.0	104.2	103.8
	Constant prices	105.3	105.4	103.4	102.3	102.5	107.0	106.5	105.2	104.1	103.3
Other market services	Current prices	106.3	109.4	110.9	105.6	102.6	103.5	105.7	107.6	107.9	106.8
	Constant prices	104.7	105.5	106.1	100.6	98.9	100.9	102.8	104.4	104.3	102.5

* The data on industry, construction and agriculture refer to sales of own products and services; data on other CZ-NACE activities refer to total sales.

Industrial production (measured by the product-based index) has been growing y-o-y since 2000. Total industrial production rose by 9.9% (+9.0% in the 1st quarter, +12.6% in 2nd quarter, +8.7% in the 3rd quarter and +9.1% in the 4th quarter). The fastest growth was recorded for production of investment nature and production of intermediate goods. Within manufacturing, the highest rates of growth were reached in 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, manufacture of textiles and textile products and mining and quarrying dropped.

Sales of own products and services at constant prices grew by 7.2% y-o-y. Three-quarters of direct exports by industrial enterprises with 20 or more employees were produced by **foreign-controlled enterprises**. Their share in total sales slightly exceeded the half, but they employed less than 38% of all employees in industry. The long-term trend of falling employment in industry continued and slowed down during the year. Increase in labour productivity (+8.2%) was higher than rise in average wages and resulted in a decrease of unit wage costs (-1%). Value added according to the enterprise bookkeeping (at current prices) went up by 13.4%. Gross profits of large enterprises (with 100 or more employees) were by more than a third higher; also costs profitability and equity capital profitability of these enterprises improved.

The nominal volume of contracted **new orders** grew by 22.6%, of which new external orders rose by more than a quarter.

Electricity generation grew by 1.6% y-o-y, i.e. less than domestic consumption (+2.9%). The balance of exports and imports was active by 15.7 bn kWh (16.2 bn kWh in 2003). Consumption of **natural gas** (in cubic metres) decreased by 0.9%. Imports of **petroleum** (in tonnes) were by 1.3% higher than in 2003.

Increase in the **harmonised index of industrial production** of the **EU25** reached 2.1% y-o-y in 2004, the Czech Republic recorded a rise of 9.2%.

In January, industrial production was up by 7.2% y-o-y and sales rose by 9.4%, seasonally adjusted industrial production was by 1.3% higher m-o-m.

The volume of **construction output** grew by 9.7% (+16.1% in the 1st quarter, +16.5% in the 2nd quarter, +4.5% in the 3rd quarter and +5.0% in the 4th quarter). The development in 2004 was rather unsteady; the high growth in the 1st half of the year was affected by the transfer of construction work into a higher tax bracket starting from May 2004. The overall high increase in construction output was mainly concentrated on work on large sites of civil engineering and building (transport and housing structures) and on implementation of new developer projects of shopping and administrative centres. **Construction work carried out by own workers** (construction put in place in enterprises with 20 or more employees) rose by 5.9%, i.e. less than total construction output according to delivery contracts.

Sales of own products and services (based predominantly on construction activity) grew by 4.5% y-o-y in 2004, and slightly decreased in the 3rd quarter. Employment in construction slightly fell. The rise of labour productivity (+10.7%) caused, with respect to a lower growth of wages, a considerable decrease in unit wage costs (-3.5%). New construction, reconstruction and modernisation accounted for a prevailing part of construction work in **enterprises with 20 or more employees**, repair and maintenance work lagged behind. In terms of financial data, construction enterprises produced by 5.5% higher value added according to the enterprise bookkeeping than in 2003. **Enterprises with 100 or more employees** reached by 8.2% higher profits and their costs profitability and equity capital profitability slightly lowered.

Construction orders worth CZK 212.5 bn were contracted at the end of the year (CZK 158.5 bn at the end of 2003). Planning and building control authorities issued by 2.9% more **building permits** than in 2003.

In **housing construction**, 32 thousand dwellings were completed, which was by 19% more than in 2003 and most since 1992. The number of started dwellings grew by 7.0%; dwellings under construction went up by 5.5% (reaching over 146 thousand at the end of 2004).

A y-o-y increase in the **harmonised index of construction output of the CR** of 7.2% in 2004 was among the highest ones in the EU25 (+0.7%).

In January, construction output grew by 14.2% y-o-y and by 2.3% m-o-m at constant prices (seasonally adjusted).

According to the **aggregate economic accounts for agriculture**, total production at constant prices rose by 13.7% (of which plant production was up by 33.1% and animal production down by 3.1%). The high increase in plant production was due to an unusually high harvest of cereals and high volume of subsidies on products. Sale of own products and services grew by 8.5% against 2003 at current prices and stagnated at constant prices. The number of employees in holdings of agricultural primary production continued falling. As labour productivity rose less than growth of average wages, unit wage costs grew by 3.0%. In terms of financial data, results in agriculture were very good. Higher outputs affected a considerable increase in value added according to the enterprise bookkeeping (+17.2%). Financial data of **holdings with 100 or more employees** showed markedly higher profits, and costs profitability indicators improved. Compared to 2003, production of basic cereals was by more than half higher, production of potatoes by 18% higher, production of rape by 141% higher, and production of sugar beet was slightly higher. Populations of all kinds of farm animals (with the exception of poultry) fell, compared to the end of 2003.

Retail sales, incl. sale and repair of motor vehicles and sale of automotive fuel, rose by 2.7% y-o-y at constant prices (+0.7% in the 1st quarter, +2.6% in the 2nd quarter, +2.3% in the 3rd quarter and +4.8% in the 4th quarter). Dynamics of growing sales in retail trade (incl. repair of personal and household goods) was slightly higher than in sale, repair and maintenance of motor vehicles and sale of automotive fuel. Sale of new cars fell by 11.1% in 2004 (nearly 133 thousand cars were sold). Retail sales in large enterprises with 250 or more employees grew by 6.5%. They include particularly supermarkets and hypermarkets where foreign-controlled enterprises accounted for three-quarters of sales. Sales in **hotels and restaurants** dropped by 2.2% at constant prices. The number of employees in **total trade** rose moderately y-o-y. Labour productivity went up more than wages, which resulted in lower unit wage costs. Value added in trade according to the enterprise bookkeeping (at current prices) grew by 8.8% y-o-y. Trade enterprises with 100 or more employees more than doubled their profits, under concurrent increases of costs profitability and equity capital profitability. Trade margin stood at 16.2% on average in total trade, of which at 22% in retail trade.

According to information from border statistics, the number of persons who crossed the border increased by 1.0%, compared to 2003. Departures of Czech residents abroad rose by 1.6%. Active financial **balance of tourism** increased by CZK 2.9 bn and amounted to CZK 48.8 bn.

Sales of own products, services and goods in **transport** grew by 7.3% (+8.5%, +13.6%, +5.5% and +2.6% in the 1st-4th quarters, respectively). The highest increase was recorded in the 2nd quarter, while their dynamics slowed down in the 2nd half of the year. Compared to land transport and transport via pipelines, sales in supporting and auxiliary transport activities rose faster. The highest growth was reached in air transport. Employment in transport dropped by 1.0% and labour productivity went up faster than wages. Development of value added according to the enterprise bookkeeping was favourable (+7.6% y-o-y). As for goods transport, volume of goods transported increased y-o-y mainly due to transport by road and transport via pipelines. However, outputs in transport by road were lower than in 2003. Goods transport via railways saw both lower volumes of goods transported and lower outputs. By 1% of persons less were transported in passenger transport (excl. mass municipal transport), of which the numbers of passengers in railway transport grew and in transport by road dropped. On the other hand, air transport had by a fifth higher number of passengers. **Enterprises with 100 or more employees** achieved roughly the same gross profits as in 2003.

Sales in **communications** rose by 3.3%, under a gradual slowdown of growth rates in telecommunications. From among total sales, telecommunications accounted for 89% and post and courier activities for 11%. Employment decreased and labour productivity rose faster than wages. Value added according to the enterprise bookkeeping

dropped by 1.4%, albeit it grew in post activities. **Enterprises with 100 or more employees** produced by nearly a quarter higher gross profits than in 2003 (+27% in telecommunications, -30% in post and courier activities).

Financial intermediation (excl. the Czech National Bank) reached by 27.2% higher gross profits than in 2003. The highest increases were recorded for insurance companies (+145.5%), investment companies and funds (+62.5%) and pension funds (+46.2%). Banks (excl. the Czech National Bank) raised their economic result by 9.1% and non-banking financial institutions by 28.9%.

Sales in **other market services** grew by 2.5% (+5.5%, +6.1%, +0.6% and -1.1% in the 1st-4th quarters of 2004, respectively). The falling trend was obvious during the year and was caused by the high comparing base of 2003 on the one hand and by a rise in prices of services resulting from higher VAT rate on the other hand. Sales of services provided between enterprises (mainly in the areas of waste disposal, real estate activities, labour recruitment, legal and bookkeeping activities and tax consultancy) were up most. Among services provided to the population, only sales in education and health increased. Employment in other market services increased by 4.2% y-o-y, the average monthly nominal wage rose faster than sales per employee (at constant prices). Value added according to the enterprise bookkeeping was by 5.3% higher than in 2003. More than three-quarters of total sales took place in enterprises with fewer than 100 employees. Financial data of large **enterprises with 100 or more employees** showed lower profits and costs profitability and equity capital profitability dropped too.

The average annual inflation rate, measured as increase in the **consumer price** index in 2004 over 2003, stood at 2.8% (inflation in 2003 was close to zero). Prices of services were up by 5.3% and prices of goods by 1.3%. Price development was mainly affected by a higher rise of regulated prices (+5.7%) and lower growth of market prices (+2.0%). VAT on telecommunication services and excise tax on automotive fuel, spirits and tobacco products was increased as from January 2004. From May 2004, VAT on many services rose from 5% to 19% and VAT on most non-food goods and public telecommunication services dropped from 22% to 19%. Among the most important impacts were higher prices of catering and personal services and lower prices of electricity, natural gas and public telecommunications services. Higher market prices were affected by higher prices of food and non-alcoholic beverages (although their growth slowed down considerably in the 4th quarter), automotive fuel, financial services and insurance. On the other hand, prices of clothing, textiles and footwear and prices of household equipment fall in the long run. Price level (cost of living) in households of employees and households of pensioners rose by 2.7% and 3.2%, respectively, on average.

According to preliminary data, average y-o-y increase in the **harmonised index** of consumer prices (**HICP**) of the **EU25** was 2.1% in 2004. Y-o-y increase in HICP in the CR was 2.6%.

In January, prices rose by 0.7% m-o-m and by 1.7% y-o-y. In February, the price level grew by 0.2% m-o-m and by 1.7% y-o-y.

Agricultural producer prices were up most within **producer prices and prices of services and investment**; they were by 8.1% higher than in 2003 (of which crop product prices grew by 11.6% and animal product prices by 6.2%). Their growth was uneven during the year; the y-o-y growth rate was highest in the 1st half of 2004, and markedly fell in the 2nd half of the year. **Industrial producer prices** rose by 5.7%. This was the highest rise over last nine years, after deflationary development in 2002 and 2003. Prices of basic metals, metallurgic and fabricated metal products (+18.5%) and prices of coke and refined petroleum products (+27.0%) grew most. Prices of **construction work** rose by 3.7% y-o-y, prices of construction material inputs by 5.8%. The only branch where prices fell considerably was **forestry**. Among **market services** whose prices rose by 2.3%, particularly prices in the areas of real estate and renting, prices of business services and prices of financial intermediation except insurance and pension funding grew. **Tangible investment** prices rose by 1.4% in 2004.

In 2004, industrial producer prices in the CR grew faster (+5.7%) than in the **EU25** (+2.8%).

In January (February), y-o-y prices in agriculture fell by 5.2% (-11.4%, respectively), industrial producer prices rose by 7.2% (+7.1%) and construction work prices grew by 4.2% (+4.1%).

Relation between **import and export prices** of goods developed favourably. Import and export prices were up by 1.6% and 3.7% y-o-y, respectively. **Terms of trade** have been positive since 2001 and reached 102.1% on average in 2004 (i.e. by 0.9 percentage points more than in 2003). This was affected particularly by terms of trade in mineral fuels and chemicals, also machinery and transport equipment showed a positive figure. **World prices** of industrial raw materials and food measured by the CZSO index were up by 18.9% y-o-y on average in 2004.

Development of **external trade** in goods was exceptionally dynamic in 2004. Besides economic factors that affect external trade with various intensities in the long run, of principal importance for the good results of external trade was the accession of the Czech Republic to the European Union. Imports and exports at current prices grew by 20.5% and 25.0% y-o-y, respectively. The high growth rates of imports and exports and their mutual relation positively influenced external trade deficit, which decreased by CZK 47.5 bn y-o-y and stood at CZK 22.3 bn. Higher imports and exports were reported for all main groups of countries. The biggest part of increases in exports (nearly 85%) and imports (almost 74%) took place in trade with the EU25. The most important improvement of trade balance occurred in trade with the EU25. The highest deficits were run in external trade with China, Japan and Russia. As to commodity structure, exports of machinery and transport equipment rose significantly (surplus CZK 134 bn). Surplus of trade in miscellaneous manufactured articles went down. The highest deficit was in trade in chemicals and related products (nearly CZK 88 bn). Deficit of trade in agricultural and food crude materials, inedible crude materials and mineral fuels rose.

In January 2005, current price exports and imports increased by 30.0% and 26.9%, respectively, y-o-y; trade balance was active by CZK 3.4 bn.

The current account of the **balance of payments** ended in a deficit amounting to CZK 143.3 bn, i.e. by CZK 17.4 bn less y-o-y. The financial account of the balance of payments reached a surplus of CZK 180.9 bn, which represented an improvement of CZK 23.8 bn y-o-y. The coverage of the deficit of the current account by the surplus of the financial account grew considerably y-o-y. Deficit of the current account made up 5.2% and surplus of the financial account 6.6% of nominal GDP volume. Besides the considerable decrease in external trade deficit, also surplus of the balance of services (predominantly in tourism and transport) contributed to the improvement of the current account. Counteracting were the balance of other services (deficit by CZK 10.5 bn higher y-o-y) and the yield balance (deficit by CZK 19.7 bn higher y-o-y). High inward flows of foreign direct investment worth CZK 114.7 bn were by CZK 55.4 bn higher than in 2003. Nearly half of this investment was targeted at manufacturing. Inward flows of portfolio investment amounting to CZK 62.2 bn contributed to the surplus of the balance of the financial account, so did other investment where net inward capital flows stood at CZK 19.6 bn. Change in **foreign exchange reserves** made up CZK 6.8 bn and was by CZK 6.1 bn lower than in 2003.

The state of **foreign exchange reserves of the Czech National Bank** reached CZK 636.2 bn at the end of 2004, which was by CZK 55.3 bn less than a year earlier. This volume would be enough to cover 3.9 months' imports of goods and services.

The level of nominal **exchange rate** of the Czech *koruna* against the *euro* was CZK 31.9 and against the *US dollar* CZK 25.7 on average in 2004. The index of nominal effective exchange rate of the *koruna* was by 0.3% higher on average y-o-y. The index of real effective exchange rate of the *koruna* was by 0.2% higher based on consumer prices and by 2.7% higher based on industrial producer prices.

Money supply M2 grew by 4.4% y-o-y at the end of 2004 and its increase slowed down. The average annual level of M2 in relation to nominal GDP volume stood at 65.8%. Monetary aggregate M1 (money in circulation and one-day deposits) had a share of more than a half in money supply and its y-o-y dynamics decreased to 6.6%. This was in compliance with the lower consumption rate. Volume of money in circulation grew by 7.0% y-o-y and one-day deposits by 6.5%. Volume of quasi money (deposits with agreed due date, time deposits and repo operations) rose by 2.1% y-o-y at the end of 2004. In particular time deposits of households went up. The growth of monetary aggregate M2 in 2004 was mainly fuelled by loan emission provided to enterprises and households and by increasing dynamics of net external assets. Net loan to government dropped.

Total **loans** rose by 5.8% in 2004. The growth of loans granted to non-financial enterprises was related to growth of investment. Loans to households rose by nearly 33% y-o-y in 2004 (mortgage loans had a decisive share). Demand of households for debt financing remains high due to the low level of interest rates and high supply of loans by banks. Consumer loans rose by 23.8% y-o-y in 2004.

Total **deposits** of clients at banks grew by 5.5% y-o-y in 2004 (+1.1% in 2003). *Koruna* deposits (with a decisive share of sight deposits) were up by 5.5% (+2.3% in 2003) and foreign exchange deposits rose by 5.1% (-7.8% in 2003).

The average **interest rate** on total **deposits** and total **loans** reached 1.35% and 6.20%, respectively, at the end of 2004. The **interest margin** between total rates on loans and on deposits did not fluctuate significantly and reached 4.85 percentage points at the end of the year: 6.55 percentage points in the household sector and 3.54 percentage points in the non-financial enterprises sector.

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 0.8%. The most significant decreases were recorded for cooperatives (-8.2%), state businesses (-2.8%), private businesses (-2.3%), and for the municipal sector (-1.8%). The average monthly gross **nominal wage** of employees in businesses with 20 or more employees grew by 6.6% and amounted to CZK 18 035. As consumer prices rose by 2.8%, the average **wage** rose by 3.7% in real terms. Wages in the business sphere rose by 6.9% on average, in the non-business sphere by 5.7%. Wage development in the non-business sphere was positively affected by the switch from the 12-class pay scale to a 16-class scale and negatively affected by the reduction of the 13th pay from 50% to 10% in the 2nd quarter and to 25% in the 4th quarter.

The estimated **number of workers in the whole Czech economy**, compared to 2003, dropped by 0.4%. The **number of employees in the whole economy** fell by 0.6%. Their average wage grew by 6.2% and reached CZK 16 931.

The **registered unemployment rate** was 10.3% on 31 December according to the **original methodology** and remained at the same level y-o-y. The number of job applicants was nearly 542 thousand at the end of the year, of which under 510 thousand were available unemployed. The average age of job applicants was 37. Highly alarming is still the situation of long-term unemployed people (those out of work for more than a year). Their number increased moderately, compared to the end of 2003, and reached almost 220 thousand at the end of 2004, their share in the total number of unemployed was nearly 41%. Another unfavourable indicator is the permanently rising number of job applicants with reduced capacity for work and at the same time decreasing supply of vacancies for them. Persons with basic education accounted for nearly a third of the unemployed at the end of the year; the share of people with university education in the unemployed was 3.8%. The average number of unemployed school-leavers dropped considerably, compared to 2003. Since the average number of vacancies grew by 7.3% y-o-y, there were fewer job applicants per vacancy (10.6 persons at the end of 2004). The situation on the labour market improved in eleven regions; the highest unemployment rates persist in the districts of Most (22.7%), Karviná (19.6%) and Jeseník (18.3%).

The registered unemployment rate according to the **new methodology** (i.e. based only on the available unemployed) stood at 9.5% (of which 10.9% among women and 8.3% among men) on 31 December. The registered unemployment rate according to the new methodology was 9.8% at the end of January 2005 and 9.6% at the end of February.

In 2004, **net money income** in households of employees rose by 4.5% and 1.8% in nominal and real terms, respectively. In households of pensioners, it was up 2.3% and down 0.9% in nominal and real terms, respectively. **Net money expenditures** of employees stagnated and of pensioners were closely above the 2003 level, in real terms. The structure of expenditures hardly changed y-o-y in 2004, the growth of expenditures on housing (excl. costs of routine maintenance) slowed down slightly. On average, households of employees spent 18.4% of their total expenditures on food and non-alcoholic beverages and 16.7% on housing incl. energy and other services related to housing. Households of pensioners spent on these purposes 25.5% and 24.9%, respectively.

In the framework of **social expenditures**, nearly three-quarters of resources were paid as pensions. The average old-age pension at the end of 2004 was CZK 7 270, i.e. by 2.8% more y-o-y. As cost of living of pensioners went up by 3.0% (at the end of 2004), the pension's real value went down by 0.2%.

The year 2004 saw a faster y-o-y growth of revenues than expenditures by 3.2 percentage points, while the **state budget** 2004 expected this figure to be only 0.2 percentage points. State budget deficit CZK 93.7 bn was by CZK 21.3 bn lower than the annual budgeted level. The deficit / nominal GDP ratio dropped from 4.3% in 2003 to 3.4% in 2004. The better result than expected was affected in two-thirds by higher revenues (102%) and in one-third by lower expenditures (98.7%) than the annual budgeted levels.

As regards total **revenues**, most money was levied on tax revenues in total (100.5% of the annual budgeted level, 7.4% up y-o-y) and social security premiums (100.3% of the annual budgeted level, 7.7% up y-o-y). Significant 29% above the annual budgeted level saw non-tax and capital revenues and subsidies received accounting for 6.7% of total revenues (4.5% in 2003). Increase in state budget **expenditures** (6.7%) was the lowest since 2002. Prevailing part of total expenditures was used for current expenditures (i.e. social benefits, wages and salaries, non-investment purchases, transfers to semi-budgetary organisations, non-investment subsidies etc.). They reached 99.2% of the annual budgeted level and grew by 6.7% y-o-y. Expenditures on pensions (100.0% of the annual budgeted level) were by 2.2% higher than in 2003.

The balance of revenues from social security premiums and state budget expenditures on social benefits was in the red figures by CZK 19.8 bn in 2004, while the balance of the pension account was active by CZK 12.3 bn.

State debt, amounting to CZK 592.9 bn at the end of 2004, went up by almost CZK 100 bn and its ratio to nominal GDP volume reached 21.6%, i.e. 2.3 percentage points up.

The Business Register embraced 2 352 601 businesses at the end of 2004. Out of this number, three-quarters were self-employed persons incl. private farmers. The number of self-employed entered in the Business Register is continually growing. Another constantly rising group are legal persons, particularly trading companies. Foreign-controlled enterprises, whose number is also steadily increasing, account for more than a quarter of the total number of legal persons. Data on actually active businesses can only be estimated on the basis of comparison with other administrative registers and on the basis of results of statistical surveys among newborn businesses. This estimate ranges between 50 and 55% of the total number of businesses entered in the Business Register.

The **population** of the Czech Republic was 10 220.6 thousand on 31 December 2004. The population grew by 9.1 thousand during the year. The active balance of external migration reached 18.6 thousand; natural increase (i.e. live births minus deaths) was negative by 9.5 thousand. However, the latter figure almost halved, compared to 2003. This considerable improvement in natural increase was affected by more births and fewer deaths. The number of live births in 2004 (97.7 thousand) was the highest since 1995, yet birth rate in the CR remains among the lowest across Europe. The number of marriages was higher than in 2003, so was the number of divorces. Among the positive aspects is development of abortions, the numbers of which have been falling for a long time.