

## Gross Domestic Product

- **Stable economic development**

The year 2006 confirmed the relatively high stability of the Czech national economy development. However, compared to positive facts recorded by formation and utilization of sources including related impacts on material processes the adverse developments of income and capital flows strengthened, with negative implications for the balance of financial assets and liabilities of the Czech economy.

The external economic relations development, particularly the slowdown of the advance of exports growth rate over imports, as well as the impact of the considerable acceleration of expenditures on gross fixed capital formation resulted in a significant change of the GDP growth structure, particularly on the demand part. The substantially higher increase of household consumer expenditures than in the preceding year and its advance over the growth of disposable income led to a drop in gross household savings. Due to operations in the services sector the coverage of total imports by total exports slightly decreased. The excess of domestic effective offer over the domestic effective demand slightly decreased. Also the gross national final expenditures compared to disposable sources decreased. The gross national savings rate was almost the same as in 2005 but the excess of the investment rate over the savings rate grew substantially. Financing of gross capital formation from external sources reached a significantly higher extent than a year ago.

- **Strengthening of international position of the Czech Republic**

The year-on-year increase of GDP in 2006 by 6.1 % in real terms highly exceeded the average growth rate of the EU-25 states. The general economic position of the Czech Republic measured by GDP volume per capita in relation to the Community improved further. Simultaneously the standard of living improved as a reflection of the increased final household consumer expenditures per capita in real terms.

Due to deterioration of exchange relations the year-on-year improvement of gross domestic income (GDI) by 5.5 % in real terms was lower than the GDP growth but the loss of national labour on foreign markets in 2006 was substantially lower than a year ago, the GDI growth accelerated by 0.8 p.p.

- **Structural changes in GAV creation**

The produced gross added value (GAV) in current basic prices for 2006 amounted to CZK 2 884.8 billion and recorded a year-on-year increase by 6.4 % in real terms, which was only slightly more than in 2005. The biggest positive impact on the stated increase derived from the industry (4.0 p.p.), the GAV of which increased by 12.7 % year-on-year, however, this value was by 2.4 p.p. lower than in the last year. A high increment pace was shown by processing industry (14.0 %). An above-average increase rate with a high share in GAV was further recorded by trade, repair and maintenance of vehicles and consumer goods (8.9 %). A below-average increase was shown by GAV in construction industry (by 1.9 %) and the increment rate was by 2.1 p.p. lower than a year ago. GAV in agriculture, gamekeeping and forestry decreased.

The influence of the secondary sector on GAV increase amounted to 4.1 p.p. and of the entire tertiary sector to 2.5 p.p. On the other hand, GAV in primary sector decreased and showed a negative impact.

- **Decrease of wage intensiveness of GAV**

Three quarters of the above stated GAV increase in 2006 resulted from the growth of aggregate labour productivity, which increased by 4.8 % year-on-year. The remaining one quarter referred to employment growth by 1.6 %. The contribution of the mentioned elements was the same as in 2005. The aggregate of employees' wages and salaries increased by 7.5 %, its proportion to GAV at current prices reached 36.1 %, i.e. by 0.3 p.p. less than a year ago.

- **Change in GDP expenditures structure**

The expenditures structure of GDP, particularly the relation between the expenditures on final consumption and expenditures on gross capital formation, changed and a tendency to accumulate rather than to consume increased. The share of expenditures on final consumption in GDP value decreased and the share of gross

capital formation expenditures increased, provided that due to the lower excess of exports and imports the share of net exports dropped slightly.

The year-on-year increase of GDP in 2006 by 6.1 % in real terms was influenced mostly (2.2 p.p.) by the increase of expenditures on final household consumption by 4.2 % with growth acceleration by 1.8 p.p. The higher acceleration of increase in current expenditures than in current income of households resulted in deceleration of increase in their gross disposable income. This was accompanied by a higher growth rate of expenditures on individual consumption, which resulted in a significant drop of gross savings of households. Another element with a significant influence on GDP development (1.8 p.p.) consisted in expenditures on gross fixed capital formation, the volume of which increased in year-on-year comparison by 7.3 %, i.e. by 6.0 p.p. more than in 2005. The increase was mostly influenced by capital investments into transport means (increase by 25.1 %) and machinery and equipment (increase by 8.5 %). The increase of expenditures on gross fixed capital formation was accelerated by the favourable investment climate. The growth rate of expenditures on gross fixed capital formation was higher than the growth rate of expenditures on labour. The share of stock formation increase in GDP reached 1.4 p.p. In 2005 the GDP increase was predominantly influenced by net exports (4.0 p.p.), its positive impact in 2006 amounted only to 0.6 p.p., because the positive influence of exports (10.5 p.p.) exceeded the adverse impacts of imports (9.9 p.p.).

- ***Growth of domestic offer higher than growth of domestic demand***

2.5 p.p. of the growth of aggregate demand by 8.7 % in real terms derived from domestic effective demand and the remaining 6.2 p.p. related to external demand. 2.8 p.p. of the growth of aggregate offer were influenced by an increase of domestic effective offer and 5.9 p.p. of the influence derived from the external offer. Compared to the development in 2005 the impact of domestic offer increased and the impact of domestic offer decreased. The domestic offer continued to exceed the domestic demand, the coverage of which by domestic sources slightly decreased in real terms and the coverage by external sources significantly increased.

- ***Reduction of share of national final expenditures in sources utilization***

The structure of produced national sources available for total final expenditures and utilization thereof has changed more on the offer part than on the part of the demand. The share of imports in disposable sources increased from 41.1 % to 42.4 % and the share of exports in total final expenditures increased from 42.2 % to 43.4 %. The structure of gross national final expenditures changed to such a significant extent that the share of expenditures on gross capital formation in the total increment of the mentioned expenditures reached as much as 43.5 %. In real terms the disposable sources in 2006 grew by 9.4 %, upon which the contribution of GDP growth amounted to 3.6 p.p. and the contribution of imports to 5.8 p.p. on the offer part and the relevant contribution of the gross national final expenditures growth reached 3.3 p.p. and of exports 6.1 p.p. on the demand part.

- ***Significant excess of investment rate over rate of savings***

The value of gross disposable income amounting to CZK 3 013.5 bn. in 2006 was by CZK 190.6 bn. lower than the GDP value, as a result of the combined adverse impact of net primary income and net current transfers. Compared to 2005 the ratio of the lower national income and the higher GDP dropped, therefore the share of disposable income increment in the GDP increment amounted to more than three quarters. Gross national savings of CZK 744.6 bn. were in year-on-year comparison by CZK 47.1 bn. higher and the savings rate of 24.7 % increased slightly; however, this was not sufficient to cover expenditures on gross capital formation, therefore external sources amounting to CZK 133.7 bn. were used. The investment rate of 29.1 % exceeded the savings rate by 4.4 p.p.

- ***Acceleration of aggregate price level growth***

The difference between the increase of the price level of gross national final expenditures and the decrease of foreign trade prices diminished in 2006, which resulted in an accelerated growth of the aggregate price level measured by GDP implicit deflator from 0.7 % in 2005 to 1.7 % in 2006. The growth of prices for aggregate consumer expenditures was almost equal in 2005 and 2006 and the intensity of impact of the increase of prices for gross capital formation on the price level was not material. The increase of the aggregate price level in 2006 was

determined mostly by the substantial decrease of export prices compared to 2005 upon almost the same decrease of import prices; this resulted in a substantially lesser deterioration of exchange relations in 2006 than a year ago.