3. Contexts of economic and social development

Compared to economic topics, questions of standard of living are not such a frequent subject of speculations and analyses. Probably it is because the growth of economic performance is at the same time considered as an indication of the growth of standard of living. It is also suggested by the current demographic development, which shows only an insignificant change in the population size, therefore the growth rate of gross domestic product is similar as the growth per capita.

For a more concrete idea about the standard of living development it is, however, necessary to take in to consideration a wider complex of indicators. These include particularly the standard macroeconomic set of indicators expressing GDP/inhabitant, real wages, savings of the population, population consumption, housing investments, living costs, unemployment and employment. Complementary indications can be their structures pointing on e.g. wage differentiation between the business and non-business sphere, divisions, groups of population according to income size or unemployment structure.

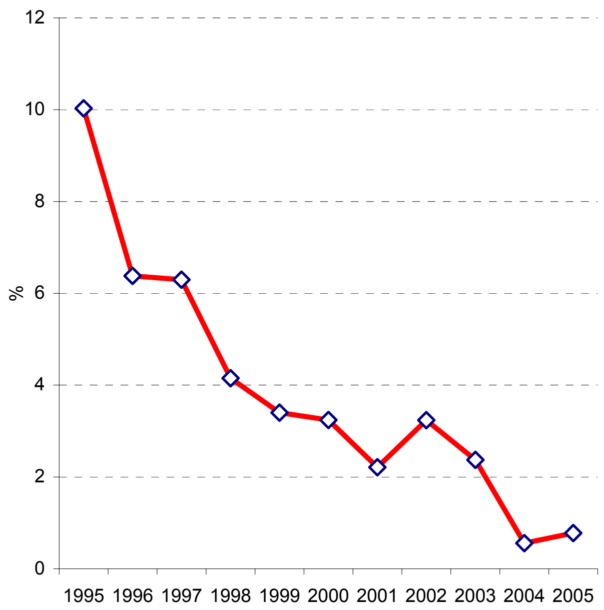
3.1. Proportion of economic development and standard of living components

- ***Growth of household consumption was affected by several factors***

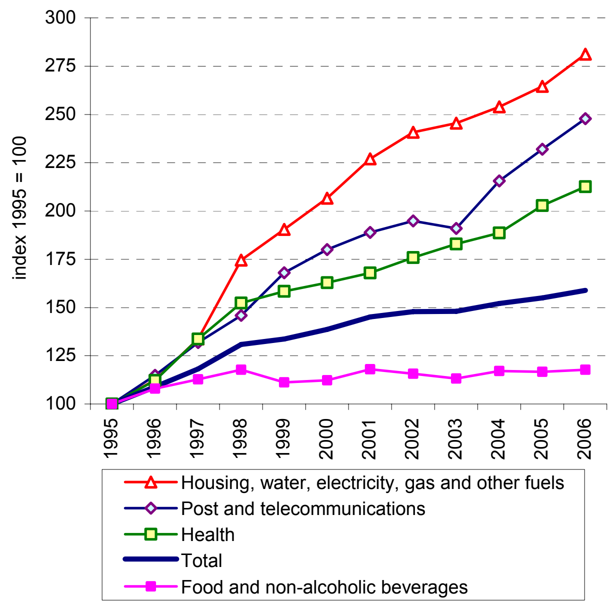
The growth of the key indicator of standard of living – household consumption – developed in 1995-2006 in accordance with the growth of economic performance. It was affected not only by real disposable income of households, rate of saving usage, loans and credits but also the extent of household equity. The Czech households have in the last ten years significantly limited their tendency to save. While in 1995 they saved more than 14% of their gross disposable income, in 2006 it was only 5.1%. For their consumption expenditures households used also their savings made in the previous periods. The consumption growth since 2000 was also supported by a strong growth of household loans. Consumption credits increased from CZK 30 billion in 2001 to CZK 109 billion in 2006, the annual growth rate kept rising.

Rate of household net savings, which takes into account also indebtedness, recorded a very marked drop from 10% in 1995 to 0.8% in 2005, which is also from the international comparison point of view a very low level (Germany 10.5% and Austria 8.3%). On the other hand, the state of net worth of households in 1996-2004 reached an average growth of 6.3% a year.

Graph 63 Rate of household net savings



Graph 64 Consumer price development



- ***In the current decade the index of living costs had a low dynamics***

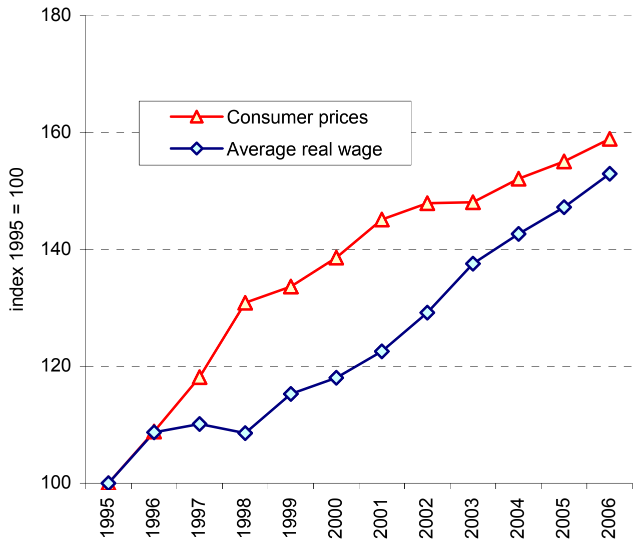
The index of living costs went through two significantly different stages in 1995-2006. While during 1995-1998 the annual growth rate of inflation moved in the range close to a two-digit number, during the other years actually low and relatively stable inflation prevailed. During the whole observed period, consumer prices increased by 58.9%. The highest price growth was recorded in commodity group – housing, water, electricity, gas and other fuel – in total by 181.2%. A high growth was recorded also in health (+112.6%), post and telecommunications (+147.8%) and education (+92%). Initially an increasing stage of the growth and later decreasing approximately till the 1995 level was distinguished in the development of clothing and footwear. A specific periodicity was distinguished in food, beverages and tobacco; 2006 prices were approximately on the 1998 level.

- ***Occasional discrepancies between GDP and real wage development***

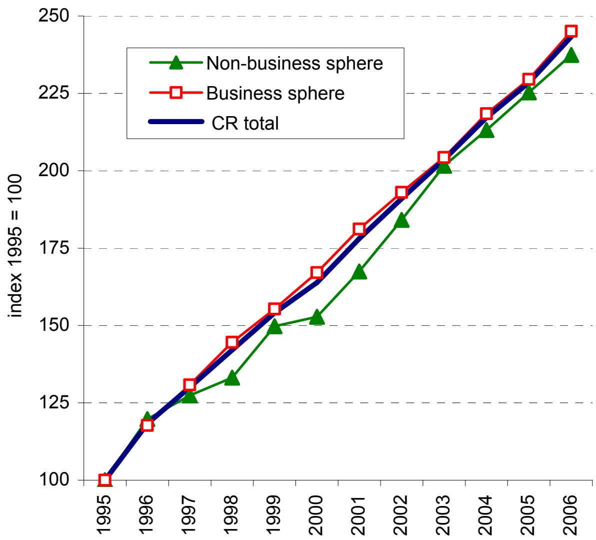
One of the key indicators, which characterizes the development of standard of living, is the growth of real wages, which reflects the purchasing power of the population. The level of real wages is determined by more factors, which include primarily nominal wages, inflation level, performance and labour productivity. Difficulties with estimates of expected movements of the above malestioned factors often led to discrepancies between the wage development and labour productivity.

In 1995-2006 real wages sometimes fell behind the development of economic performance and labour productivity. An increased gap between these two quantities was recorded e.g. in 1997, when the contraction of economic performance as a consequence of monetary and bank crisis enforced itself in an unexpectedly fast manner and further in 2002, when the economic output slowed down due to the floods. In 2005 and 2006 an inverted discrepancy was recorded, when the rate of economic performance overtook the wage development. The reason was this time an unexpected acceleration of the economic growth. In 1995-2006 GDP increased on average by 2.6% and real wages by 4.3%. In 2004-2006 a drop of wage demandingness of GDP prevailed.

Graph 65 Consumer price and real wage development



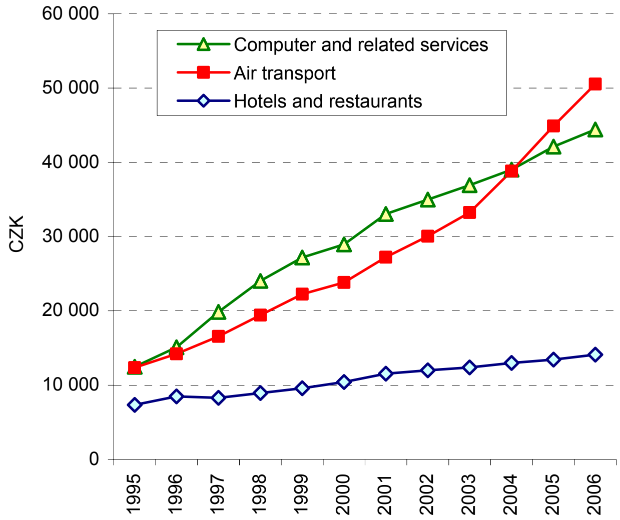
Graph 66 Nominal wage



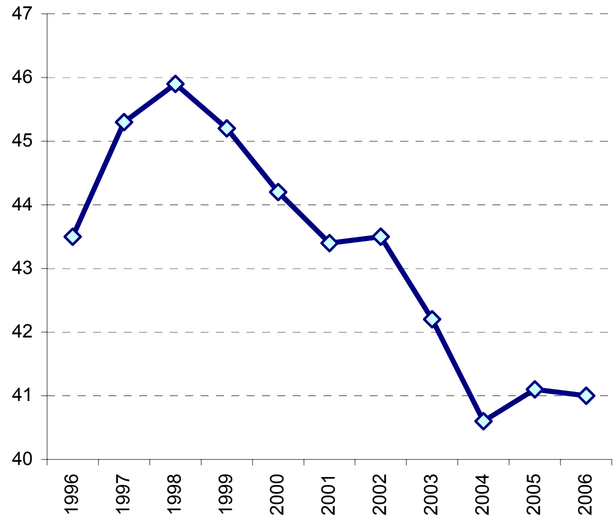
- ***The Czech Republic belongs among countries with low wage differentiation***

Data on wage development in the CR show a different differentiation rate. Almost similar wage level is reached in the business and non-business sector. A relatively low wage differentiation exists between individual divisions except the finance sector, where approximately a double of the average wage is reached. Highly above-the-average wages are in enterprises with rental and computing services (above CZK 40 thousand a month). Wage differentiation is the highest within the individual enterprises, where multiples of wages are reached by persons in owner or managerial positions. A view on the wage structure in 2005 showed that the share of the middle-income group delimited by the range from CZK 15 thousand to CZK 25 thousand per month made up almost 50% of employees. More than CZK 26 thousand per month has almost 20% of employees and less than CZK 14 thousand approximately 30% of employees. The dominance of the middle-income group is pushing itself forward. From the international comparison point of view, according to the OECD the Czech Republic belongs among the four countries with the lowest wage differentiation (Sweden, Norway, Slovenia and the Czech Republic).

Graph 67 **Average gross monthly wage – selected divisions**



Graph 68 **Proportion of average old-age pension to average gross wage** (nominal, %)



- ***The CR has got a very low poverty rate***

Within the international comparison the CR takes a first position in the long-term in the poverty rate indicator. The share of persons with income below the poverty rate (60% medians of incomes after social transfers) makes up 10.4%, while the average of EU25 member states reaches 1.6 multiple. Another indicator of long-term unemployment has in the CR the same level as the average of EU25 member states, i.e. 4.2% from the economically active persons. Compared to EU15 countries, which have a higher average economic level, the CR however has got the long-term unemployment rate higher.

- ***Dynamic growth of housing investments continued***

The period 2000-2006 was distinguished by an increased interest of the population in investments into housing. It is proved by the growth of production of gross fixed capital in housing, which in 2003-2006 ranged between CZK 75 and 85 billion a year. The number of completed dwellings in 1996-2006 increased more than two times and exceeded 30 thousand in 2006. The range of credits for housing of the population kept increasing in the last years. The value of credits for the financing of housing through saving in a building society increased in the end of 2006 almost three times compared to the end of 2003 and according to MF CR it made up CZK 135 billion. This was 37.6% of the saved amount in savings in a building society. Mortage loans increased even faster, their state in the end of 2006 was CZK 238 billion. The development was affected by a very active policy of banks toward households, interest of the population to solve their housing problems during the period of favourable interest rates for mortage loans and by a positive expectation of future development.

Graph 69 **House building**