

## Gross Domestic Product

- ***Growth of GDP decelerated, its components developed differentially***

In terms of real comparison, the y-o-y economic growth in Q2 2006 stunted to 6.2%, after eight quarters when GDP growth accelerated (except Q3 2005). The development of demand components differed. The Q2 gross fixed capital formation enlarged by 5.3% and, compared to preceding quarter, slowed down. Volume of both total exports and imports that enlarged by the same gain paces – by 10.2% – also slowed down. On the other hand household consumption accelerated by 3.8%, however that growth was slower than the GDP growth. The gross capital formation increased by 17.8% having been the most dynamic component of the gross domestic product use can be distinguished on a growth tendency. On the supply side of the economy manufacturing industry whose gross added value increase by 18.6% demonstrated a high growth.
- ***Changes in both internal and external conditions affected the growth dynamics most***

Changes of nature in both internal and external conditions of the growth process were main reasons of the Q2 economic growth slowdown, in comparison to Q1. Trait of the macroeconomic development for first months 2006 could indicate overheated economy. The real GDP according to the CNB estimation surpassed potential product and prices growth acceleration in all main price groupings enforced. Appreciation of the Czech *koruna* against EUR and USD as well as a dynamic prices increase of energy raw materials that lessened performance of exports of the Czech economy fell into main traits of external conditions.
- ***Economic growth in the CR was faster than in EU-25***

An international comparison of the y-o-y GDP growth in Q2 2006 demonstrated that the Czech Republic is taking up one of leading positions as for the economy growth in the EU. Lithuania (9.0%), Slovakia (6.6%), CR (6.2%), Poland (5.6%) and Sweden (5.0%) belonged to the countries can be characterized by a dynamic growth. The average GDP growth in EU-25 countries was 2.8%, in Euro-zone 2.6%. In spite of the GDP acceleration in EU countries, the high growth potential between the CR and an EU-25 average amounted on 3.4 p. p. has been carried on.
- ***More aspects affected growth of households consumption***

A progressive growth of expenditures volume of household consumption that begun in Q1 2006 continued in Q2 as well and was linked with an increase of nominal wages (an average wage increased by 7.0% in H1) and relatively low interests rate of consumers' loans, which reduces by 0.7 p. p. during H1. Expectancy of consumer prices growth in the future, then employment growth and drop of joblessness could support a volume enlargement of household consumption. Trends of consumption increase of population during H1 signalled both data on retail turnover and economic information on development of consumers' trust.
- ***Moderate slowdown of gross fixed capital growth***

After four quarters when the y-o-y gross capital formation accelerated, in Q2 2006 a slowdown occurred was caused by both, large amount of unfinished construction projects (confirmed by collected data on construction) and import of investment goods. The prices progress in energy markets that caused an increase on the supply side of the economy and hereby extended uncertainty on future economic development was the next relevant aspect. A higher amount of unfinished construction projects supported an extent rise of gross capital formation whose amount was influenced also by the process of new balance formation on the stock market.
- ***Weakening of positive influence of foreign trade on GDP***

Prices of goods fluctuation in foreign trade in H1 2006 led to further worsening of exchange relations having concurrently a negative consequence for the Czech economy development. In average in H1 2006 the y-o-y export prices reduced by 1.9% and import prices increased by 2.1% what led to a drop in exchange relations by 3.9% with a negative influence on trade balance (according to approximate calculations by means of total prices index amounted on CZK 26 milliard). Acceleration of both export prices drop and a growth of import prices resulted not only in worsening of exchange relations but also in lower growth of exports purchase power (10.6%) against demandingness of imports on exports (16.0%).