

Economic and social development of the Czech Republic in the 1st quarter of 2005

(Preliminary figures)

Gross domestic product at constant prices¹ is estimated to have grown by 4.4% y-o-y in the 1st quarter of 2005. In comparison to the preceding quarter, seasonally adjusted (SA) and working days adjusted (WDA) GDP increased by 1.1%. GDP has been growing q-o-q for six and half years. **Gross domestic income** at constant prices rose by 3.6% y-o-y (in contrast to GDP, GDI includes effects of exchange rates on external trade).

Unlike in the past, the main driving force of GDP growth was external trade. Both components of **external trade in goods and services**, i.e. exports and imports, developed dynamically. Exports grew faster (by 15.6% at current prices and 17.9% at constant prices) than imports (by 11.1% at current prices and 12.1% at constant prices). The surplus of external trade balance (CZK 27.3 billion at average prices of previous year) was an all-time high.

Compared to 2004, the dynamics of growth of **gross fixed capital formation** decreased, growing by 5.5% y-o-y at constant prices. The deceleration was affected by high comparative base in 2004. In terms of GFCF broken down by type of goods, mainly growth of investment in buildings and constructions slowed down, but investment in transport equipment and other machinery and equipment grew faster. SA and WDA GFCF rose by 0.9% q-o-q.

Total final consumption expenditure decreased y-o-y and did not contribute to GDP growth. Dynamics of growth of household expenditure on final consumption slowed down to 1.3% at constant prices (influence of this expenditure in relation to GDP weakened) on the one hand, and general government sector expenditure decreased by 3.8% at constant prices on the other hand.

Gross value added in individual CZ-NACE activities characterises their contributions to GDP by kind of activity. Total gross value added grew by 4.7% y-o-y at constant prices. CZ-NACE activities with the best results (by their weight) were trade (+22.1%), agriculture (+32.1%) and financial intermediation (+26.7%). Industry (CZ-NACE 10-41) recorded lower growth (+2.8%) than in the preceding quarters. Construction (-3.7%) was below the 2004 level.

Total current nominal income of the **household sector** rose by 4.0% and current expenditures by 3.9%. Gross disposable income grew by 4.0% y-o-y at current prices. Individual household consumption expenditure went up by 2.5%. Gross household savings increased by 23.7% and their rate 9.60% (share of gross savings in disposable income) was by 1.53 percentage points higher y-o-y. .

Total labour productivity (GDP at constant prices per worker²) went up by 4.1% y-o-y in the 1st quarter of 2005 and decisively affected GDP growth.

Key economic characteristics

%

| | Q1 2004 | Q2 2004 | Q3 2004 | Q4 2004 | Q1 2005 | Q2 2003 to Q1 2004 | Q3 2003 to Q2 2004 | Q4 2003 to Q3 2004 | Year 2004 | Q2 2004 to Q1 2005 |
|---|------------|------------|------------|------------|------------|--------------------------|--------------------------|--------------------------|--------------|--------------------------|
| GDP, y-o-y change (constant prices) | 4.1 | 4.5 | 4.6 | 4.6 | 4.4 | 3.6 | 4.0 | 4.2 | 4.4 | 4.5 |
| Final consumption, y-o-y change (constant prices) | 1.8 | 1.4 | 0.3 | -0.1 | -0.2 | 3.6 | 2.8 | 1.9 | 0.8 | 0.3 |
| Gross capital formation, y-o-y change (constant prices) | 11.2 | 10.1 | 8.1 | 1.2 | 2.6 | 4.5 | 6.3 | 8.0 | 7.8 | 5.7 |
| Inflation rate, y-o-y, average | 2.3 | 2.6 | 3.2 | 3.1 | 1.6 | 0.8 | 1.4 | 2.2 | 2.8 | 2.6 |
| Registered unemployment rate, average – current methodology | 9.59 | 9.02 | 9.14 | 9.03 | 9.64 | . | . | . | 9.19 | 9.29 |
| Registered unemployment rate, average – former methodology | 10.73 | 10.13 | 10.12 | 9.99 | 10.54 | 10.08 | 10.23 | 10.26 | 10.24 | 10.17 |
| State budget balance / GDP ratio, % ¹⁾ | -1.2 | -5.9 | 1.3 | -7.6 | 1.2 | -3.3 | -4.0 | -2.6 | -3.4 | -2.8 |
| Current account / GDP ratio, % ¹⁾ | -2.1 | -5.4 | -7.9 | -5.2 | 2.1 | -6.4 | -6.3 | -6.4 | -5.2 | -4.1 |
| Financial account / GDP ratio, % ¹⁾ | 0.8 | 6.4 | 7.7 | 10.9 | -2.2 | 4.9 | 5.7 | 6.4 | 6.6 | 5.8 |
| Net exports / GDP ratio, % ¹⁾ | 0.5 | -0.4 | -0.5 | -0.9 | 3.3 | -2.0 | -1.7 | -1.3 | -0.3 | 0.4 |

¹⁾ At current prices

Sources: CZSO, Ministry of Finance, Ministry of Labour and Social Affairs, Czech National Bank; calculations by CZSO

Rates of y-o-y growth of **industrial production** (measured by the product-based index) gradually decreased. Total industrial production rose by 4.0% in the 1st quarter of 2005. The fastest growth was recorded for production of intermediate goods, while production of consumer durables dropped. Within manufacturing, the highest rates of growth

¹ 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.

were reached in manufacture and repair of machinery and equipment, manufacture of coke and refined petroleum products and manufacture of transport equipment. On the decrease were particularly manufacture of leather and leather products and manufacture of wood and wood products.

Sales of own products and services at constant prices grew by 1.0% y-o-y at constant prices. The long-term trend of falling employment in the industry (CZ-NACE 10-41) stopped and moderately grew predominantly due to foreign-controlled enterprises. Low increase in labour productivity did not reach the growth of average wages, unit wage costs thus rose by 3.0%. Value added according to the enterprise bookkeeping (at current prices) went up by only 1.7%.

Electricity generation dropped by 1.5% y-o-y, while domestic consumption grew by 1.2%. Like in preceding quarters, exports were higher than imports. Consumption of **natural gas** remained at the 2004 level. Imports of **petroleum** (in tonnes) were by 22.2% higher than in the 1st quarter of 2004.

In April, industrial production was up by 5.7% y-o-y.

After two years of growth (last decrease reported for the 1st quarter of 2003), the volume of **construction output** decreased y-o-y (-3.2%). This figure was affected by the high comparative base in 2004 due to expected increase in VAT and by bad weather conditions in 2005. Prevailing was work on new construction, reconstruction and modernisation. More favourable development occurred in **construction work carried out by own workers** (construction put in place in enterprises with 20 or more employees), which rose by 2.6%, while total construction output according to delivery contracts dropped by 1.2%.

Sales of own products and services (based predominantly on construction activity) were down by 0.7% y-o-y. The number of persons employed in construction was roughly the same y-o-y. A fall in labour productivity combined with increasing wages caused a considerable rise in unit wage costs (+8.1%). In terms of financial data, construction enterprises produced by 6.9% lower value added according to the enterprise bookkeeping than in the 1st quarter of 2004.

The number, volume and average size of **construction orders** were up y-o-y. Planning and building control authorities issued by 2 thousand fewer **building permits** than in the 1st quarter of 2004, but the total value was higher.

In **housing construction**, total numbers of started and completed dwellings grew by 6.1% and 5.8%, respectively. The number of dwellings under construction went up by 5.5%.

In April, construction output was by 29.5% lower y-o-y due to the high comparative base in 2004.

Sales of own products and services in **agriculture** grew by 4.9% y-o-y at current prices and by 17.9% at constant prices. The higher sales were affected by increased sales of commodities of plant production. The number of employees in holdings of agricultural primary production continued falling. As labour productivity rose considerably more than average wages, unit wage costs dropped by 14.2%. In terms of financial data, results in agriculture were very good; value added according to the enterprise bookkeeping grew by 15.1%. Populations of all kinds of farm animals (with the exception of sheep and horses) kept on falling. Sale of cattle for slaughter was down by as much as a fifth. The impacts of the accession to the EU on agriculture are marked.

Retail sales, incl. sale and repair of motor vehicles and sale of automotive fuel, rose by 4.7% y-o-y at constant prices. The dynamics of growing sales in retail trade (incl. repair of personal and household goods) were roughly half (3.5%) those in trade, repair and maintenance of motor vehicles and retail sale of automotive fuel (7.1%). Retail sales in large foreign-controlled enterprises with 250 or more employees grew by more than a quarter (mainly in supermarkets and hypermarkets). Sales in **hotels and restaurants** dropped by 8.7% at constant prices, particularly in consequence of the change in VAT rate in restaurants. The number of employees and workers in **trade total** rose y-o-y, and so did their labour productivity. Value added in trade according to the enterprise bookkeeping (at current prices) grew by only 1.7%.

According to the border statistics, foreign visitors coming to the CR in the framework of **international tourism** grew by 3.2% y-o-y. Departures of Czech residents abroad slightly decreased. The numbers of guests and overnight stays at collective accommodation establishments rose. The active balance of international tourism stood at CZK 11.1 billion (by CZK 0.5 billion more y-o-y).

The growth of sales of own products, goods and services in **transport** slowed down, sales even slightly decreased y-o-y in the 1st quarter of 2005 (-0.6%). Sales in supporting and auxiliary transport activities, compared to land transport and transport via pipelines, fell more markedly (-3.4%). Employment in transport dropped and labour productivity grew only moderately, less than wages. Growth of wages varied considerably from one kind of transport to another. Value added according to the enterprise bookkeeping dropped by 6.4%. As to goods transport, volume of goods transported increased y-o-y and so did volume of transport outputs mainly due to road transport (volume of goods transported was by 4.6% higher), while volume in transport by rail fell.

² Data on total employment (i.e. employees and the self-employed together) are numbers of **actual persons in main job**, which is either the only job or job with the highest number of hours worked if person in question is a multiple jobholder.

Sales in **communications** rose by 6.3%, both in post and courier activities and in telecommunications. Employment decreased and labour productivity rose faster than wages. The value added according to the enterprise bookkeeping rose by 3.7%.

Financial intermediation (excl. the Czech National Bank) reached by 15.6% higher gross profits than in the 1st quarter of 2004. The highest increase was recorded for pension funds (+138.8%). Banks and savings banks (excl. the CNB) raised their economic result by 14.2% and non-banking financial institutions by 30.7%. Profits decreased only in insurance companies (-6.2%).

Sales in **other market services** grew by 1.1%. Sales of inter-enterprise services (mainly in the areas of computers and renting of machinery and equipment) grew more markedly, only sales in the area of health reported an increase among services provided predominantly to the population. Employment in other market services was up by 1.9% y-o-y, the average monthly nominal wage rose faster than sales Labour productivity slightly dropped. Value added according to the enterprise bookkeeping was by 6.0% higher y-o-y. More than three-quarters of total sales took place in enterprises with fewer than 100 employees.

Trend of sales^{*)} in chosen CZ-NACE activities

Y-o-y indices (%)

| CZ-NACE activity | | Q1 2004 | Q2 2004 | Q3 2004 | Q4 2004 | Q1 2005 | Q2 2003 to Q1 2004 | Q3 2003 to Q2 2004 | Q4 2003 to Q3 2004 | Year 2004 | Q2 2004 to Q1 2005 |
|-------------------------------|-----------------|---------|---------|---------|---------|---------|--------------------|--------------------|--------------------|-----------|--------------------|
| Industry (CZ-NACE 10-41) | Current prices | 110.2 | 117.0 | 112.6 | 114.1 | 107.9 | 107.8 | 110.8 | 111.8 | 113.5 | 112.8 |
| | Constant prices | 108.4 | 111.5 | 104.5 | 105.4 | 101.0 | 107.5 | 108.9 | 107.8 | 107.4 | 105.5 |
| Construction | Current prices | 107.5 | 119.8 | 103.2 | 105.1 | 103.4 | 114.1 | 116.5 | 111.5 | 108.3 | 107.7 |
| | Constant prices | 104.9 | 115.5 | 98.9 | 100.8 | 99.3 | 111.6 | 113.5 | 108.0 | 104.5 | 103.4 |
| Agriculture | Current prices | 101.0 | 102.8 | 112.9 | 113.3 | 104.9 | 94.6 | 97.0 | 103.6 | 108.5 | 109.3 |
| | Constant prices | 88.7 | 89.6 | 105.7 | 110.0 | 117.9 | 92.5 | 90.3 | 94.9 | 100.0 | 105.7 |
| Retail trade (CZ-NACE 50, 52) | Current prices | 101.7 | 100.6 | 105.4 | 106.6 | 104.3 | 104.5 | 104.9 | 103.3 | 105.1 | 105.6 |
| | Constant prices | 100.4 | 102.9 | 102.4 | 104.9 | 104.7 | 104.2 | 103.4 | 101.4 | 102.8 | 103.7 |
| Transport | Current prices | 110.3 | 115.0 | 108.4 | 106.6 | 102.1 | 114.2 | 115.2 | 112.6 | 110.0 | 108.1 |
| | Constant prices | 108.8 | 112.9 | 106.0 | 103.1 | 99.4 | 110.5 | 112.1 | 109.9 | 107.5 | 105.4 |
| Communications | Current prices | 106.5 | 104.3 | 102.3 | 102.5 | 103.9 | 105.5 | 104.8 | 104.1 | 103.9 | 103.3 |
| | Constant prices | 105.5 | 103.4 | 102.3 | 102.6 | 106.3 | 106.1 | 104.9 | 104.0 | 103.4 | 103.6 |
| Other market services | Current prices | 110.2 | 110.7 | 105.5 | 102.8 | 104.0 | 108.9 | 109.4 | 108.0 | 107.0 | 105.6 |
| | Constant prices | 106.4 | 105.9 | 100.5 | 99.3 | 101.1 | 106.0 | 106.1 | 104.3 | 102.7 | 101.6 |

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

The total **economic result** (i.e. gross profits or pre-tax profits) of **non-financial corporations with 100 or more employees** grew by 0.6% y-o-y (at current prices). Total yields rose by 9.7% and costs by 10.3%. Their costs profitability and equity capital profitability fell. The number of loss-making enterprises went up y-o-y and accounted for 37% of the total number. Predominantly the industry (except manufacturing) and real estate, renting and business activities contributed to the y-o-y growth of gross profits. All the other CZ-NACE activities recorded decreases, loss making were trade, agriculture, and hotels and restaurants. Construction and transport, storage and communications saw the highest decreases in profits. **Value added according to the enterprise bookkeeping** produced in large non-financial corporations was by 2.7% higher y-o-y. It increased in the industry (CZ-NACE 10-41) (+3.2%) and among non-industrial activities in real estate and renting and in transport, storage and communications. The sections of trade and repair of motor vehicles, construction, and hotels and restaurants reported y-o-y decreases. Total inventories grew by 10.1% y-o-y at the end of the 1st quarter of 2005. Overcapitalisation, i.e. negative value of equity capital, occurred in 4.4% of enterprises, and the total amount of overcapitalisation was up. 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** raised their value added according to the enterprise bookkeeping by 4.1%, and their gross profits fell by 10.0%, compared to the 1st quarter of 2004.

The average annual inflation rate, measured as increase in the **consumer price** index in last 12 months over the average for preceding 12 months, stood at 2.6%. The growth of inflation slowed down during the 1st quarter of 2005 and rose by 1.6% y-o-y. Prices of services were up by 4.2% and prices of goods by 0.1%. Both market prices and regulated prices decelerated the growth of prices. Market prices rose by only 0.6% (on the decrease were prices of food and non-alcoholic beverages, clothing, textiles and footwear, prices of household equipment and automotive fuel). Regulated prices grew by 4.7% (increases slowed down in prices of telecommunications due to a lower VAT rate and in prices of housing due to lower growth of natural gas prices). Markedly grew prices in hotels and restaurants (in consequence of a higher VAT rate) and prices of medicaments. Higher VAT hit also prices of other goods and services (higher prices of personal services and financial services). Price level (cost of living) in households of employees and households of pensioners rose by 1.5% and 1.8%, respectively, on average.

In April, prices rose by 1.6%, and in May by 1.3%, all y-o-y.

Agricultural producer prices fell sharply (-10.8%) within **prices of producers, services and investment**. Crop product prices plummeted by 38.2% and animal product prices grew by 10.9%. **Industrial producer prices** rose by 6.9%. Prices of coke and refined petroleum products (+31.9%) and prices of basic metals, metallurgic and fabricated metal products (+26.2%) rose most. Prices of **construction work** grew by 4.1% y-o-y, prices of construction material inputs by 8.0%. Among **market services** whose prices increased by 1.3%, prices grew particularly in the area of financial intermediation except insurance and pension funding grew. **Tangible investment** prices were up by 0.5% in the reference period (increase in prices of buildings was accompanied by decreasing prices of machinery, apparatus and equipment).

In April and May, y-o-y prices in agriculture fell by 17.6% and 15.4%, respectively; industrial producer prices rose by 5.6% and 4.0%, respectively; and construction work prices were higher by 3.6% and 2.7%, respectively.

Relation between **import and export prices** of goods remained favourable, albeit slightly less than in 2004. Import and export prices were down by 1.2% and up by 0.1% y-o-y, respectively. **Terms of trade** have been favourable since 2001 and reached 101.3% on average in the 1st quarter of 2005 (i.e. by 0.8 percentage points less than in the preceding quarter). **World prices** of industrial raw materials and food measured by the CZSO index were up by 37.2% y-o-y on average in the 1st quarter of 2005.

Development of **external trade** in goods was affected by external trade prices, incl. development of CZK/EUR and CZK/USD exchange rates, lower growth of domestic investment and consumer demand, slowdown of growth in the states of the Euro-zone, and high comparative base in 2004. The 1st quarter of 2005 was characterised by lower growth rates of exports and imports (exports rose by 16.6% at current prices and 19.6% y-o-y at constant prices, imports increased by 11.8% at current prices and 13.4% at constant prices), faster growth of exports than imports, and high external trade surplus (CZK 19.4 billion). Reported were higher exports to all the main groups of countries. The biggest part of exports went to the EU25 states. As to commodity structure, exports of machinery and transport equipment rose significantly. The highest growth rate of imports was recorded for crude materials, inedible, and mineral fuels. Growth rate of imports of miscellaneous manufactured articles increased.

In April 2005, exports and imports at current prices were up by 2.8% and down by 7.5%, respectively, y-o-y. Trade balance was active by CZK 5.1 billion.

The current account of the **balance of payments** ended in a surplus amounting to CZK 14.6 billion, which represented a y-o-y improvement of CZK 28.3 billion. The financial account of the balance of payments ran a deficit of CZK 14.9 billion, which was a deterioration of CZK 20.2 billion y-o-y. The surplus of the current account made up 2.1% and the deficit of the financial account 2.2% of nominal GDP volume. Besides the favourable trade balance, also balance of current transfers contributed to the improvement of the current account. The surplus of the balance of services slightly decreased y-o-y and the balance of yields recorded a slight growth of deficit. Net outward flows of resources from the financial account outside the Czech Republic were affected by growing investment by Czech residents in purchases of securities and by paying short-term liabilities of the banking sector. Net inward flows of foreign direct investment worth CZK 28.6 billion were as high as a year earlier. In the area of portfolio investment, there were net outward flows amounting to CZK 20.5 billion (domestic demand of banking and non-banking businesses for foreign securities reached CZK 31.4 billion). As to other investment, capital amounting to CZK 22.4 billion flew out of the CR. Change in foreign exchange reserves made up CZK 3.2 billion and was by CZK 3.6 billion lower than in the 1st quarter of 2004.

The state of **foreign exchange reserves of the CNB** reached CZK 636.2 billion at the end of the 1st quarter of 2005, which would be enough to cover 3.8 months' imports of goods and services.

The level of nominal **exchange rate** of the Czech **koruna against the euro** and against the American **dollar** strengthened by 9.5% and 14.9%, respectively, on average y-o-y. The index of nominal effective exchange rate of the **koruna** was by 8.4% higher on average y-o-y. The index of real effective exchange rate of the **koruna** was by 8.1% higher based on consumer prices and by 12.1% higher based on industrial producer prices.

Money supply³ M2 was by 5.3% higher y-o-y at the end of the 1st quarter of 2005, although its average growth continued decreasing. The average annual level of M2 in relation to annualised GDP volume stood at 65.7%. The share of the monetary aggregate M1 (money in circulation and one-day deposits) in money supply M2 was 52.7%. Its y-o-y dynamics increased to 8.9%, albeit the average growth stagnated. The growth of volume of quasi money (deposits with agreed due date, time deposits and repo transactions) lowered to 1.6% y-o-y at the end of the 1st quarter of 2005. In particular time deposits of households grew, increase of deposits with agreed due date and of deposits connected with repo transactions slowed down. The growth of the monetary aggregate M2 in 2004 was mainly fuelled by a loan emission provided to enterprises and households. Further, net external assets grew in particular. Their growth was roughly offset by a fall in net loan to government.

Total **loans** raised their y-o-y growth in the 1st quarter of 2005. Growth of loans granted to enterprises and households was 16.4%. Loans provided to foreign-controlled enterprises were mainly related to a sizeable growth of investment. Loans granted to households rose by 32.6% y-o-y (mortgage loans had a decisive share). Y-o-y growth of consumer loans stood at 27.6%. The development was affected by the low level of interest rates and by increased supply of loans by banks.

³ According to banking statistics.

Dynamics of total **deposits** at banks slightly dropped to 5.2% y-o-y at the end of the 1st quarter of 2005, of which *koruna* deposits grew by 5.4%.

The average **interest rate** on total **deposits** and total **loans** reached 1.28% and 5.98%, respectively, at the end of the 1st quarter of 2005. The **interest margin** between total rates on loans and total rates on deposits does not tend to fluctuate significantly and reached 4.71 percentage points in March: 6.46 percentage points in the household sector and 3.39 percentage points in the non-financial corporations 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 increased (+0.3%) for the first time since the end of 2001. This increase was mainly thanks to foreign-controlled enterprises where the growth amounted to 11.3% (i.e. nearly 53 thousand people). The highest decrease of employed persons continued in cooperatives (-6.1%). The average monthly gross **nominal wage** of employees grew by 5.8% and stood at CZK 17 678. Under a growth of consumer prices by 1.6%, the average **wage** rose by 4.1% **in real terms**. Wages in the business sphere grew by 4.9% on average and in the non-business sphere by 8.9%. Wage differentiation between individual CZ-NACE activities, measured by the variation coefficient, rose by 3.4 percentage points and reached 39.8% in the 1st quarter of 2005.

The estimated **number of workers in the whole Czech economy**, compared to the 1st quarter of 2004, grew by 0.2%, the **number of employees in the whole economy** rose by 0.3%. Their average wage increased by 5.7% and reached CZK 16 596.

Results of the sample survey say that the **general unemployment rate (ILO)** was 8.4%, i.e. by 0.3 percentage points less according to a comparable methodology than in the 1st quarter of 2004. The **registered unemployment rate**, according to the current methodology, was 9.4% on 31 March. The number of job applicants was 540.5 thousand, of which 505.2 thousand were available unemployed. The average age of job applicants grew and reached 38.5. The number of long-term unemployed persons is one of the worst figures. Their share in the total number of unemployed exceeded 40%. Constantly rising is the number of job applicants with reduced capacity for work, although supply of appropriate vacancies increased y-o-y. Persons with basic education accounted for more than 30% of the unemployed at the end of March and persons with university education for 3.6%. The average number of unemployed school-leavers dropped considerably, compared to the 1st quarter of 2004. The situation between demand for work and supply of vacancies is characterised by a new indicator called the **vacancy rate**. This rate was 1.3% in the 1st quarter of 2005, which was by 0.2 percentage points more y-o-y. The situation on the labour market improved in ten regions; the highest unemployment rates persist in the districts of Most (22.8%), Karviná (19.5%) and Jeseník (19.3%).

The registered unemployment rate according to the current methodology was 8.9% at the end of April and 8.6% at the end of May.

Net money expenditures at constant prices slightly grew in both households of employees (+0.5%) and households of pensioners (+0.4%). The share of necessary expenditures, i.e. on food, beverages and housing, was 37.6% of total expenditures in households of employees and 51.8% in households of pensioners.

In the framework of **social expenditures**, nearly three-quarters of resources were paid as pensions. There was a pensions adjustment on 1 January 2005. The average old-age pension at the end of the 1st quarter of 2005 was CZK 7 698, i.e. by 6.5% more y-o-y. As cost of living of pensioners was up by 1.8% y-o-y, the pension's real value grew by 4.6%.

The **state budget** recorded total revenues CZK 206.8 billion (25.1% of the annual budgeted level) and total expenditures CZK 198.6 billion (21.9% of the annual budgeted level) in the 1st quarter of 2005. Higher revenues than expenditures resulted in a surplus of CZK 8.3 billion, which was 1.2% in relation to nominal GDP. Among total **revenues**, most money was levied on tax revenues in total (22.3% of the annual budgeted level), social security premiums (23.4% of the annual budgeted level) and other revenues (62.5% of the annual budgeted level). Among total **expenditures** of the state budget, a prevailing part was used as current expenditures (i.e. social benefits, wages, non-investment purchases, transfers to semi-budgetary organisations, non-investment subsidies etc.). They reached 23.0% of the annual budgeted level. Out of them, expenditures on pensions were CZK 63.6 billion (25.9% of the annual budgeted level).

Deficit of the state budget amounted to CZK 27.1 billion on 31 May 2005.

The **population** of the Czech Republic was 10 224 thousand on 31 March 2005, which was by 18 thousand more y-o-y and by 3 thousand more q-o-q. . The population increase resulted from low natural decrease and from active balance of external migration. The number of live births grew by 724 y-o-y, the number of deaths increased by 664. The active balance of external migration stood at over 8 thousand persons, i.e. by nearly 9 thousand more than in the 1st quarter of 2004. Divorces fell considerably. The number of extramarital births kept on increasing; their share in total births was 31.4% in the 1st quarter of 2005.

The rate of GDP growth in the Czech Republic (like in the Slovak Republic) was highly above the averages achieved in the EU25 and EU15 in the 1st quarter of 2005. Development of all the other indicators did not significantly deviate from the average for these countries. Where some slight deviations occurred, they were mostly favourable, also in relation to Germany. To mention just a few of them, the CR reported lower y-o-y growth rate of consumer prices, lower unemployment rate (against both the Slovak Republic and Germany) and higher growth rate of industrial production.

**Comparison of the development in the CR and the EU in the 1st quarter of 2005
according to selected harmonised indicators**

| Harmonised indicators | EU 25 | EU 15 | Germany | Slovakia | Czech Republic |
|--|-------|-------|---------|----------|----------------|
| Gross domestic product (constant prices) – y-o-y change in % | 1.7 | 1.4 | . | 5.1 | 4.4 |
| Index of consumer prices (HICP) | 102.0 | 101.9 | 101.7 | 102.6 | 101.4 |
| Index of industrial producer prices | 105.0 | 104.9 | 104.9 | 102.5 | 106.9 |
| Unemployment rate in the 4th quarter of 2004 in % | 63.6 | 65.0 | 65.9 | 57.5 | 64.5 |
| Harmonised unemployment rate (SA) in % | 8.9 | 8.1 | 9.7 | 16.2 | 8.3 |
| Industrial production index (WDA) in % | 100.6 | 100.5 | 103.5 | 100.9 | 104.9 |
| Construction output index (WDA) in % | 97.0 | 96.8 | 84.2 | 113.7 | 96.3 |
| Retail sales index (SA) in % | 102.1 | 101.9 | . | 108.5 | 102.6 |

Source: Eurostat (as at 20 June 2005), calculations by CZSO