

Survey of the Czech Economy and MIT Sectors in 2004



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Note: The material includes data as on 31st March 2005.

LIST OF ABBREVIATIONS

bln.	Billion, one billion = 1 000 000 000
BUX	Hungarian Stock Market Index
CAC 40	French Stock Market Index
CPI	Consumer Price Index
CKA	Czech Consolidation Agency
const. pr.	constant prices
curr. pr.	current prices
ČP	Czech Insurance Company
CZSO	Czech Statistical Office
CZK	Czech currency (called „Koruna“ or Crown)
DAX	German Stock Market Index
ECB	European Central Bank
EFTA	European Free trade Agreement
EIB	European Investment Bank
EMU	European Monetary Union
Fed US	Federal Reserve Office
FTSE	British Stock Market Index
HICP	Harmonised Index of Consumer Prices
HI-TECH	Technically very advanced products
ILO	International Labor Organization
IMF	International Monetary Fund
mil.	Millions, one million = 1 000 000
PPI	Producer Price Index
KoB	Consolidation Bank
M ₁	money in circulation + money on current account
M ₂	M ₁ + treasury bills + bills of the CNB in the portfolios of Czech non-banking enterprises
Nasdaq Composite	National Association of Securities Dealers Automated Quotes, a US non-stock market shares index
NACE	Industrial classification of economic activities (an international standardized system)

OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PK 30	RM-System index (with the base of max. 30 issues)
p.p.	percentage point
PX 50	The main securities index of the Prague Stock Exchange (with the base of max. 50 issues)
PX-GLOB	The total index of Prague Stock Exchange
RM-S	RM-System
SAX	Slovak stock market index
S&P 500	US Stock Market Index
SITC	Standard International Trade Classification
SNA	System of National Accounts
SPAD	System supporting the share and debentures market
WIG	Polish Stock Market Index
y/y	Year on year. Comparison to the same period of the previous year

INTRODUCTION

Considering the achieved economic results year 2004 was one of the most successful in the modern Czech history. **The economy increased the rate of growth to 4 %**, which was the highest pace in the last 8 years. In addition to a gradual acceleration of the growth dynamics (to 4,3 % in the 4th quarter) the development of expenditure structure of the GDP improved also, compared to previous year. **In particular** investments expenditure increased. Dynamics of international trade was high and simultaneously **export was growing faster than import**. The concerns about fast price growth after joining the EU didn't come true and even the labor market situation improved slightly.

Looking at the **external conditions** the major positive impulse was given by joining the EU. It led to broader involvement in international exchange, which showed in fast growth of foreign trade turnover. In comparison with the previous period the world economy got better, although the global boom was harmed by several fluctuations because of the high price of oil and other raw materials. In the other hand the expectations about more favorable development weren't fulfilled in the case of the advanced Europe. The economy of the Euro-area, whose export performance was brought down by the strong Euro, increased by 2,0 % y/y. In the fourth quarter the Euro-area grew just by 1,6 %, albeit the 2,4 % EU commission forecast from the autumn. Just an under average growth was reached in Germany, whose economy (struggling with budget deficits and high level of unemployment) grew only by 1,6 %. The structure of the GDP of the Western Europe, where investment and consumption accelerated, wakes moderate optimism about the future.

Central European economies have had a faster growth than Western Europe in the long run. On top of that the EU enlargement led to further acceleration of growth dynamics. The fastest growing country was **Slovakia** (5,5 %), where households were the main driving force of total domestic demand. Also investment expenditure grew, but as the acquisition of machines and equipment usually realized by import, this led to worsening of the trade balance, with a negative impact on the national economy. The growth of **the Polish economy** (5,1 %) was investment-driven and the slower growth of the consumer demand was caused by low wage growth and higher inflation. Just like in Slovakia, the worse results of the external balance harmed the growth. In **Hungary** the GDP grew at the same pace as in the Czech Republic (4,0 %) and its structure was also similar. As for domestic demand, investments were the main driving force. Also the contribution of the external sector to the growth was positive.

Domestic economic environment was in principle stabilized. The **price level increased by 2,8 % y/y**, but no significant inflation pressure appeared. On the contrary the hard competition on the domestic market worked against the price growth. Also the appreciation of the exchange rate against USD dampened the influence of the high prices of energy and metal raw materials on the domestic price level. The price growth was to a great degree influenced by administrative price movements (due to harmonization of indirect taxes) and by the low base of the previous year.

During the year there occurred a partial **restriction of monetary policy**. For one thing the central bank increased its reference interest rates twice by 0,25 p.p., which brought the repo rate to 2,5 % (so that the price differential with the European Central Bank increased to 0,5 p.p.). Another restrictive factor was the appreciation of the exchange rate, since the losses from previous periods were compensated in the second half of 2004 (the average annual depreciation decreased to 0,2 % y/y). Against the USD a long run appreciation trend was reconfirmed, as the CZK appreciated by 8,9 %.

The higher inflation had an impact on **household consumption**, which **slowed down its annual growth to 2,4 %** (i.e. almost halved its growth rate compared to the previous year), owing to slower growth of

real disposable income. Within the total income the average nominal wage sustained its year-on-year dynamics (6,6 %), but the real increase was just 3,7 %. A similar development was registered in **retail sales**, as their dynamics dropped to 2,5 %.

While the influence of final consumption on product growth weakened, investments and the external trade became the new driving forces of further development. **Expenditures on creation of gross fixed capital accelerated its year-on-year growth to 9,1 %**. The main destinations were transport infrastructure, development of foreign investors' capacities and building of apartments. In the 4th quarter the growth of expenditure on creation of fixed capital decelerated, owing to relatively lower machinery imports in this period.

Besides the domestic demand the improved results of the foreign trade had also a positive influence on the economic growth. **Growth of export and import of goods and services accelerated to 20,9 % and 18,5 %** respectively. This development reflected on the significant decrease of foreign trade deficit. According to MIT's calculations the share of foreign sector on the growth was one fourth. The positive growth contribution was realized in trade in goods.

The attained results reflect the **increasing competitiveness of domestic production**, which we see chiefly in the industries that obtained significant volume of foreign investments in previous years. Manufacture of transport vehicles, telecommunications equipment and consumer electronics and IT are the main cases. Advantages following from joining of the EU are also a non-negligible factor of the acceleration.

The total **balance of payment was in surplus** (0,3 bln. USD), but the inflow of foreign currency reserves was the lowest since 1993, save for the 1996–1997 period when the balance was financed by foreign currency reserves. As for the current account (which closed at a deficit of 5,2 % of the GDP) the greatest burden was the balance of income, where the repatriation and reinvestment of profits manifests itself. On the other hand the previously dominant deficit of the balance of trade (22,3 bln. CZK) ceased being a problem, as its current low level is nearly completely covered by the surplus of the balance of services and current transfers.

On the supply side of the economy the **industrial production** has been growing reliably for four years. Its growth further accelerated (compared to previous two years) to 9,9 %. The production development was mainly influenced by good performance of foreign-owned companies, which had more than half share in total sales and a strong foreign market orientation sales (from foreign export grew by 17 %). **Structural changes**, which lied in strengthening of industries with high inflow of foreign capital (manufacture of electric technology, accurate machinery, manufacture of deliveries for motor vehicle industry), **continued in manufacturing**. But also the traditional industries, like manufacture of machinery and metallurgy (due to a boom on the world market of steel and iron), went through a recovery. On the other hand, the cuts in leather and (partially) textile industry continued, owing to cheap imports from South East Asia.

A dynamic increase of orders from abroad led to expansion of production and employment of new workers (in the second half of 2004 the employment in manufacturing increased). **The labor productivity growth (10,4 %) exceeded the real wage growth (1,1 %)**, which reflects in a decrease of nominal and real unit labor costs.

Construction grew by 9,7 % y/y (highest growth since 1993), but the development varied a lot within the year. The growth culminated in April (more than 60 %), when firms adjusted their invoicing behavior in order to bill maximum of construction work before it'd be transferred to a higher VAT zone. This was confirmed by numbers from following months, where year-on-year decreases (almost 4 % in May and June) were registered. As for the structure of construction, **the share of new buildings reached nearly 73 %** (engineering buildings and production buildings grew fastest, followed by dwellings). The share of repairs and maintenance was 25 %, which is under the European average.

The development on the **labor market** remains one of the major problems in the economy, because of the low flexibility and mobility of work force. The outcome of this situation is the **continuing tendency to unemployment decreases** (0,6 % y/y) at a high level of unemployment. The annual growth of unemployment rate reached its maximum in February (10,9 %), it increased in 2nd and 3rd quarter and since September it has been on the 2003 level. **At the end of the year the level of registered unemployment**

reached 10,3 % (9,5 % according to the new ILO methodology). In the long run the situation on the labor market improves, as proved by for example the increase of the number of vacancies (from 40,2 thousands in December 2003 to 51,2 thousands around the end of 2004).

SURVEY OF ECONOMIC DEVELOPMENT IN 2004

I. Macroeconomic development

- The trend of fast growth of the economy continued, as the **gross domestic product grew by 4,0 %** (in constant prices, comp. to 3,7 % in 2003). The growth accelerated during the year, attaining 4,3 % in the fourth quarter.
- The fast growth of the product was accompanied by a favorable development of its expenditure structure. The expenditure on creation of gross fixed capital accelerated its annual growth to 9,1 % y/y (4,8 % in 2003). The increased investment activity demonstrated itself chiefly in transport infrastructure, production and non-production capacities of foreign investors and building of dwellings.
- The **final consumption grew** just by 0,7 % (4,7 % in 2003), at a variable development of its components. The main cause of the **deceleration of household consumption down to 2,4 %** (compared with 4,9 % in 2003) was the development of real incomes, which was in its turn affected by reductions of 13th and 14th wages in the government sector and by higher inflation. The economic measures in the government sector led to a **3,2 % y/y decrease of expenditures** (4,2 % growth in 2003).
- The change of conditions, connected to the EU enlargement, had a major influence on the external sector. **Export of goods and services (in constant prices) increased the year-on-year growth to 20,9 %** (7,3 % in 2003), which was higher dynamics than that of imports (18,5 %, 7,9 % in 2003). This advance of export growth before import growth concerned only trade in goods. In services the exports grew slower than imports.
- **In the industrial structure of the GDP** (in current prices) the share of industry increased to 32,6 % (from 32,2 % in 2003), while the shares of services and agriculture stagnated on the 60,1 % and 2,8 % level. The share of construction decreased from 6,7 % to 6,3 %.
- The GDP growth was secured solely by **labor productivity growth** (GDP per employee), which grew by 4,2 % y/y (4,4 % in 2003). In the fourth quarter, when employment grew slightly by 0,2 %, the growth of the productivity was 4,1 %.
- At the end of 2004 the population of the Czech Republic reached 10220,6 thousand people, which is a year-on-year increase by 9,1 thousand. The surplus of immigration (18,6 thousand people) was higher than the decrement following from the higher number of dead than born (9,5 thousand people).
- **The number of employees in the national economy** in one (main) employment, **according to the CZSO survey, decreased** year-on-year by 26,6 thousand, i.e. by 0,6 % down to 4706,6 thousand people. The employment decreased in primary and secondary sector and increased slightly in the tertiary sector.
- The total **number of foreign passport holders** employed in the Czech Republic on 31.12.2004 **grew** by 2,2 thousands y/y to almost 108 thousand people. In the structure, in coherence with the new legislation on employing foreigners after joining the EU, the **share of registered people increased**, while the **number of foreigners working on the basis of a working permit decreased**.
- The **level of registered unemployment** reached its maximum (10,9 %) in February 2004. Since then

it was decreasing and **stabilized on the 2003 level in September**. At the end of the year it reached 10,3 %, or 9,5 % according to the new methodology. The **number of job seekers** as of 31/12 dropped slightly year-on-year (by 0,7 thousand to 541,7 thousand). The **supply of vacancies increased** by 11 thousand y/y to 51,2 thousand at the end of the year. There were 10,6 job seekers per one vacancy (13,5 a year ago). In the structure of the unemployment the share of handicapped seekers, seekers older than 50 years and low-skilled seekers increased. Furthermore the **share of long run unemployed** (i.e. longer than 1 year) **grew** by 1,4 thousand to 219,7 thousand, which is 40,5 % of the total pool of job seekers.

- The **highest unemployment** as of the end of 2004 was registered in Ústecký region (15,8 %) and Moravskoslezský region (15,7 %). The expenditures on **active employment policy** reached (according to the final fulfillment of the state budget) 4,37 bln. CZK, i.e. 33,6 % more than in the year before. The expenditures on **passive employment policy**, i.e. unemployment benefits, reached 7,34 bln. CZK in 2004, which is a 5,6 % y/y growth.
- **The average nominal wage of employees in enterprises with 20 or more employees** (in financial and insurance sector without regard to the number of employees) and in all non-business organizations increased by 6,6 % to 18035 CZK and the real wage increased by 3,7 %. The real wage growth decreased by 2,8 p.p. y/y due to higher growth of consumer prices. Cuts of additional salaries in the state administration led to a worsening of the relation between wages in non-business and business spheres (by 1,1 p.p. y/y to 98 %).
- The average **nominal wage of employees in the national economy** (including the estimate for small firms) **grew** by 6,2 % y/y to 16931 CZK. The real wage increased by 3,3 %. The **wage intensity of the GDP** decreased by 0,6 p.p. to 29,3 % (real wage growth was by 0,9 p.p. lower than the growth rate of the GDP-based labor productivity).
- **Consumer prices** accelerated, their rate of growth culminated in October (3,5 %). The slowdown in the last two months of 2004 and in the beginning of 2005 (to 2,8 % in December and 1,7 % in January and February) was triggered by a change of trend in food prices. Apart from cost factors of price development there were also administrative measures, whose influence equaled 1,3 p.p.
- The **inflation rate** (12 months moving average) held its growing trend till December (from 0,1 % in December 2003 to 2,8 %). The results in January and February 2005 (2,8 % and 2,7 %) show that there is no inflation pressure in the Czech economy so far.
- **Industrial producer prices accelerated their rate of growth** dynamically (from 0,9 % in December 2003 till 7,7 % in December 2004) and their level in the second half reached the highest levels recorded in 1995 (in the first place October with 8,6 %). The sharp increase of prices in manufacturing of basic metals and metallurgy (by 28,9 % in December), manufacturing of coke and refineries (by 46,2 %), but also in the raw material section reflected the global trend of raw material price growth. This in its turn influenced the prices of manufacturing products (8,2 %).
- **Prices of construction work** kept reflecting the favorable situation in the sector. After the year-on-year growth accelerated (from 2,3 % in December 2003) the prices started oscillating around 4,3 % y/y from June (4,4 % in December). This trend had much to do with the high demand for construction work and with growing prices of material and products consumed in construction.
- **Agricultural producer prices were slowing down their dynamics** from half 2004 (highest in April; 20,1 y/y growth). In December it reached 2,4 %. The main cause was the decline of prices of vegetal products, owing to an over average harvest both in the Czech Republic and in Europe.
- The **budget of the treasury** was (cumulatively) since February in deficit. The deficit reached 93,7 bln. CZK (i.e. 3,4 % of the GDP) in December, which is an annual decrease by 15,4 bln. CZK. The deficit decreased mainly because of higher income (two thirds of the decrease), less because of expenditure savings.
- The **budget balance of regions and municipalities** was negative, and reached 8,9 bln. CZK after consolidation. Municipalities and their voluntary unions generated the main part of the deficit. The regions' budgets closed at a moderate surplus of 0,8 bln. CZK. The municipalities' share in income was 80,4 %, in expenditure 81,3 %.

- The **public budgets** (including net borrowing) reached the total deficit of 90,4 bln. CZK (i.e. 3,3 % of the GDP). This is a year-on-year decrease by 39 bln. CZK.
- The **public debt** increased by 99,7 bln. CZK (which is by 20,2 % y/y) to 592,9 bln. CZK in 2004. The debt to GDP rate grew from 19,2 % to 21,6 %. Unlike in previous years the foreign debt was growing markedly from the beginning of the year. It reached 57 bln. CZK annual growth, which is an enormous rate of growth.
- The **gross consolidated public debt** amounted to 659,3 bln. CZK (24 % of GDP) at the end of 2004. That is a 19,2 % y/y growth.
- The **money supply** was growing quite fast since the end of 2003. In the **last months of 2004** this pace of growth has reduced (4,4 %, i.e. 1844,1 bln. CZK in December, while it was 6,9 % in December 2003). Roughly one half of the inflow of money to the economy is secured by foreign capital (863,3 bln. CZK, i.e. 5,1 % y/y as of the end of December 2004). But its share was fluctuating during the year and it reached 46,8 % in the end of December, which is roughly the same as in the end of December 2003.
- The **credit issue developed dynamically** in the low interest rates environment. This prolonged the trend (started in April 2003) of year-on-year total credit growth (by 12,4 %, i.e. 889,4 bln. CZK at the end of December 2004). Within the bounds of credit issue the share of **credit to households** grew and its dynamics accelerated slightly to 32,7 % (315,2 bln. CZK at the end of December 2004). Also the trend of the growth of volume of credit to businesses continued (to 3,6 %, i.e. 574,2 bln. CZK at the end of December 2004 from 2,1 % at the end of 2003). On the other hand the trend of a **decrease of the volume of net lending to government** was reestablished in the second half of 2004. In December it reached 27,2 %, i.e. 257,5 bln. CZK from 64 % in December 2003. This trend has much to do with growth of deposits and securities in the hands of the government.
- In the second half of 2004 the **Czech crown inverted** the previous **depreciation** trend, so it appreciated by 5,2 % in December (in December 2003 it had depreciated by 3,6 %). Against USD the CZK appreciated by 13,1 % since the beginning of the year (in December 2003 it was an 3,6 % depreciation). In the year-long average the Czech crowns depreciation against the Euro decreased to 0,2 % and it appreciated against USD by 8,9 %.
- The **total balance of payments** was positive in 2004 (6,8 bln. CZK, i.e. 0,3 bln. USD), but this is the lowest positive inflow of foreign currency reserves since 1993. Apart from the deficit of the current account (143,3 bln. CZK; 5,6 bln. USD and 5,2 % of the GDP) the deficit of the **capital account** (14 bln. CZK, i.e. 0,5 bln. USD) and exchange rate changes, errors and omissions (16,9 bln. CZK and 0,7 bln. USD) participated on the deficit of the balance of payments. The resources from the **financial account** (180,9 bln. CZK; 7 bln. USD and 6,6 % of the GDP) were, in contrast to 2003, enough to cover the deficit of the current account. Within the bounds of the financial accounts the income from foreign investments covered 80 % of the current account deficit.
- The foreign currency reserves of the central bank were predominantly decreasing after a growth period in the first quarter. At the end of 2004 they amounted to 636,2 bln. CZK (from 691,5 bln. CZK in December 2003). Expressed in USD the reserves grew from 27 bln. USD to 28,4 bln. USD, due to exchange rate changes. The reserves covered 3,9 months of import of goods and services.
- The development of **gross foreign indebtedness** reconfirmed the long run growth trend. At the end of December 2004 the indebtedness got across the 1000 bln. border (1013,2 bln. CZK, i.e. 45,3 bln. USD). The indebtedness grew by 118,1 bln. CZK, i.e. 13,2 % y/y. The level of foreign debt reached 36,8 % of the GDP (35,1 % at the end of 2003), which is still below the generally accepted „dangerous“ 40 % level.
- The **inflow of foreign direct investments doubled** in 2004, reaching 114,7 bln (4,46 bln. USD). The Czech Republic is still one of the new EU countries with the highest volume of investment per head.
- The **majority** of foreign direct investments (79,5 %) **originated from EU-25**. The biggest investors were the Netherlands (23,6 %), Germany (19,5 %) and Austria (10,0 %). As for non-European territories the best represented one was the USA (6,3 %). Most of the investments were **oriented to manufacturing** (48 %).
- The **Czech stock exchange index PX50 has been growing for three years** (this trend continues in

the beginning of 2005) and it was reaching new historical maximums. The previous maximum from April 1994 was passed on November 24, when the index closed at 1012,9 points. At the end of the year the index closed at 1032 points, which is an all-time year-on-year growth by 56,6 %. The share issues by CEZ, Erste Bank and Komerční banka had the greatest share in the increment of the index. In the beginning of March 2005 the index exceeded 1200 points (1262,7 points as of March 10).

- **Financial indicators of the non-financial sector in organizations with 100 and more employees improved year-on-year:**
 - **The accounting value added** (in current prices) accelerated from 8,6 % growth in 2003 to 11,2 % growth. In the industry structure it was increasing as follows: 18,9 % in trade, 13,7 % in industry, 16 % in hotels and restaurants, 9,9 % in services, 6 % in construction and by just 0,5 % in warehousing and communication. In agriculture, forestry and fishing the accounting value added decreased by 2,3 %. The output (including the trade margin) was growing slower than the intermediate consumption (14,4 %).
 - **Labor productivity based on the accounting value added** (in cur.p.) reached 615,5 thousand CZK, which is a year-to-year growth by 11,4 %. The highest growth rates were registered in hotels and restaurants (15,7 %), industry (14,9 %) and trade (13,9 %).
 - **The gross profit** grew by 33,5 % (by 23 % in 2003) to 267,2 bln. CZK. The main driving force of the profit growth were industry (36,1 %; annual increment amounted to 47,9 bln. CZK) and trade (132,8 %; annual increment equaled 12,6 bln. CZK). The gross profit increased also in other industries, namely: in hotels and restaurants by 47,4 %, in transport, warehousing and communication by 12,9 %, in agriculture, forestry and fishing by 377,6 % and in construction by 8,2 %. The gross profit declined by 12,2 % in services.
 - **The number of profit making organizations** increased by 5,7 % to 3406 enterprises. Their gross profit rose by 23 % to 298,2 bln. CZK. The **total loss** declined by 26,7 % (11,3 bln. CZK) to 31 bln. CZK. The **number of loss making organizations** decreased by 20,8 % to 840 businesses (almost 20 % of the total number of non-financial organizations).
 - **Total revenues** were increasing faster (12,1 %) than **total costs** (11,0 %). As for composition of costs the growth of intermediate consumption accelerated to 14,4 %, followed by growth of other costs (7,9 %) and personnel costs (7,3 %). The least growing part of costs was depreciation. Total revenues and total costs were growing mostly in industry and trade. As far as the cost structure is concerned the share of intermediate consumption was the only one that increased (by 1,6 p.p. to 53,2 %). The share of personnel costs decreased by 0,4 p.p. to 11,2 %, the share of depreciation from 5 % to 4,7 % and that of other costs by 0,9 p.p. to 31 %.
 - **Total liabilities** increased by 5,2 %, thereof equity by 7,4 %. The **return on equity** increased by 2,7 p.p. to 14 %. It grew mostly in trade (by 8,5 p.p. to 17,2 %) and in industry (by 3 p.p. to 15,4 %).
 - **Total stocks** rose by 8,9 % to 383,8 bln. CZK. Thereof material stocks by 12,8 %, stocks of own production by 11,3 % and stocks of goods just by 0,4 %. An over-average growth of stocks was registered in industry (11,5 %) and trade (14,2 %). **Turnover of stocks** increased by nearly 2 days, from 44,8 days down to 43 days.
- The number of **bankruptcy motions** decreased by 7 % y/y. Totally 3643 motions were filed. The **number of declared bankruptcies decreased** again faster than the number of motions, namely by 16,6 % y/y to 1441. The increase of processed bankruptcies (by 3 %) and the decrease of the number of new motions showed in the year-on-year drop in the total number of bankruptcies in progress by 868 (from 9744 to 8876).

II. Industry

- **Main production features of organizations with 20 and more employees:**
 - The **industrial production** was influenced by the moderate economic recovery in the Western Europe and by accession of the Czech Republic to the EU. It grew by 9,9 % year-on-year. Virtually the same growth rate was registered in **revenues from sale of own goods and services** (9,8 % in const.p.). **Revenues from direct export** increased by 17 % (their share in the total revenues was 52,6 %).
 - As for the production structure according to main industrial groups a high growth was registered by **investment products** (by 15,2 %), **intermediate products** (12,9 %) and product for long-run consumption (by 11,2 %). Only a slight increase occurred in short run consumption goods (by 2,5 %) and energy production (by 1,6 %).
 - In **manufacturing** both production and revenues increased by 10,8 % in constant prices. Revenues from direct export (whose share in total revenues is 57,2 %) grew by 17,7 % in constant prices. The greatest growth happened in metallurgy (by 23 %), manufacture of electrical and optical equipment (by 15,3 %) and manufacture of transport vehicles (by 14,3 %). Two subsections – leather and textile industry – underwent a decrease of production by 4,5 % and 0,8 %.
 - A moderate growth of production and revenues in constant prices (by 0,9 % and 1,8 %) was reached in **supply of energy**. Its revenues from direct export in constant prices decreased by 35,3 %. Production and revenues in constant prices decreased by 0,9 % and 1,3 % in mining and quarrying. Its revenues from direct export decreased by 3,6 % in constant prices.
 - The development of **new orders** (monitored just in selected industries) was dynamic, their value rose by 22,6 %, thereof foreign ones by 25,9 %. Revenues of these selected industries increased by 14,6 %. This shows further positive development.
 - The **total employment in industry decreased** by 0,5 %, growth of industrial production was reflected in a slower decrease of employment (there was even an increment in 3rd and 4th quarter). As for the individual industries the employment decreased in mining and quarrying (by 4,9 %), energy supply (by 3,9 %) and in manufacturing by only 0,1 %. Within the bounds of manufacturing a higher employment was registered in five subsections: manufacture of rubber and plastic products (by 5,7 %), manufacture of electrical and optical equipment (5,4 %), manufacture of transport vehicles (by 3 %), manufacture of wood and paper including printing and publishing (0,9 %) and manufacture of basic metals and metallurgy (by 0,8 %).
 - **Revenue based labor productivity** in constant prices **increased** by 10,4 %, thereof by 10,9 % in manufacturing, by 5,8 % in energy supply, and by 3,8 % in mining and quarrying. Within manufacturing decline was registered just in manufacture of coke and refineries (by 8,7 %). This was a consequence of the transformation of Ceska rafinerska a.s. to a transport unit, which reflected on the revenues.
 - The **average nominal wage** grew by 6,9 %, the **real wage** by 4 % (using the consumer price index), or by 1,1 % (using the industrial producers price index). **Labor productivity was increasing** faster than the wages.
 - **Unit labor costs** decreased nominally by 3,2 % and in real terms by 8,4 %. Nominal ULC growth was recorded in five subsections, a real one in one.
- **Gross tangible investments in industry** grew by 8,7 % year-on-year in constant prices. Thereof the investments in machinery and equipment increased by 16,7 % and investments in buildings decreased by 6,2 %.
- **Investments in manufacturing** increased by 16,3 %. The fastest growing industry was manufacture of wood products, where investments increased by 85,2 % (but the share in investment of industry was just 1,4 %). There was also a high growth of investments made by manufacture of transport vehicles (by 47,9 %; 21,3 % share) and manufacture of coke and refineries (by 39,5 %; 0,8 % share).

- **In industry as a whole** (including estimate for small firms with 19 or less employees) the year-on-year growth of **accounting value added** accelerated from 7,6 % in 2003 to 13,4 %. The growth of **intermediate consumption** (14,3 %) slightly exceeded that of output (14,1 %).
- **Financial results** of selected financial indicators in **organizations with 100 and more employees** had the following year-on-year development:
 - The **accounting value added** (in current prices) grew by 13,7 % (by 7,8 % in the comparable period). In manufacturing it increased by 14,2 %, in mining and quarrying by 10,1 % and in energy supply by 9,6 %. The growth of output (14,7 %) was by 0,4 p.p. slower than that of intermediate consumption (15,1 %).
 - The **labor productivity based on accounting value added** increased by 14,9 % to 681,3 thousand CZK/employee (in current prices). In mining and quarrying it grew by 24,5 % to 764,2 thousand per employee, in manufacturing by 14,8 % to 608,2 thousand CZK per employee and in energy supply by 14,6 % to 1670,6 thousand CZK/employee.
 - The **gross profit** (pre-tax operation result) increased by 36,1 % (by 24,2 % in 2003) to 180,5 bln. CZK. Thereof in mining and quarrying by 172,6 % to 11,3 bln. CZK, in manufacturing by 43,5 % to 129,1 bln. CZK and in energy supply by 4,2 % to 40 bln. CZK.
 - The **gross profit in profitable organizations** increased by 26,9 % to 198,3 bln. CZK. Their number rose by 4 % to 1872 enterprises (79 % of the total number of industrial businesses). The total loss decreased by 24,6 % to 17,9 bln. CZK and the number of loss-making organizations decreased by 16,6 % to 503.
 - **Total revenues** were increasing faster (14,2 %) than **costs** (12,9 %). Costs were increasing just in manufacturing (15,9 %). Within costs the intermediate consumption was growing fastest (15,1 %), followed by other costs (10,9 %), personnel costs (6,6 %) and depreciation (5 %). As for the structure of costs, the share of intermediate consumption was the only one that increased, specifically by 1,3 p.p. to 68,2 %.
 - **Total liabilities** rose by 6,9 % to 2202,2 bln. CZK. Thereof **equity** by 10,1 % to 1170 bln. CZK. The growth of liabilities and equity was driven by manufacturing.
 - **Return on equity** increased by approx. 3 p.p. y/y to 15,4 %, thereof in manufacturing by 3,7 p.p. to 17,9 %.
 - **Stocks** increased by 11,5 % to 255 bln. CZK. All components of stocks were growing, most of all stocks of material (by 13,6 %). Stocks of own production and goods increased at nearly the same pace (by 9,5 % and 9,8 %). **Stock turnover** quickened by 1 day to 40 days.
 - Financial results improved in all sectors, but the improvement was most pronounced in foreign owned enterprises.

III. Construction

- **Construction production accelerated by 0,8 % to 9,7 % y/y** in constant prices. The main source of this growth was the big volume of state orders in transport infrastructure, progress of investment projects connected to the previous massive foreign direct investment inflow, building of supermarkets and logistic centers, but also expansion of housing development.
- From the production features of construction **companies with more than 20 employees** it follows that:
 - **Building operations** (in constant prices) **achieved a 8,9 % year-on-year growth**. New building,

reconstructions and modernizations grew by 10,0 %, while repairs and maintenance declined by 1,3 %.

- **Building operations abroad increased** by 49,5 %. Their share in the total volume of building operations was 1,5 %.
- **Employment growth accelerated year-on-year** by 2,2 p.p. to 3,4 % owing to growing construction production.
- **Labor productivity** increased by 5,3 % y/y and exceeded thereby the growth of **average monthly real wage**, which (using the price index of building operations) rose by 2,5 %. The average nominal wage increased by 6,2 %. This development manifested itself in the **decrease of real unit labor costs** by 2,4 % and **increase of nominal unit labor costs** by 0,9 %.
- The **number of granted building permits grew** by 2,9 % to 153622. The **approximate value of the buildings increased** by 10,1 % to 315,1 bln. CZK.
- The **number of started flats** grew by 7,0 % y/y to 39 thousand. The number of flats in adjusted non-residential areas increased by 82,7 %, in blocks of flats by 18,5 % and in detached houses by 1,4 %. The **number of finished flats increased** by 19,0 % to 32,3 thousand flats. Also activities connected to modernization grew, the registered year-on-year growth was 21,2 %. The **number of semi-finished flats** increased by 5,6 % to 146,8 thousand flats.
- **Financial results of construction as a whole** (including organization with 19 or less employees) show a **slowdown of growth dynamics** of accounting value added from 10,2 % to 5,5 %. The growth of intermediate consumption (11,2 %) exceeded the growth of output (10,0 %).
- **Construction organizations with 100 and more employees** comprise 46 % of the total outputs of construction. Their financial results showed the following development:
 - The **accounting value added** reached 39,3 bln. CZK, which is 6,0 % y/y growth (compared to 9,8 % in 2003). The outputs grew by 10,2 % and the intermediate consumption by 1 p.p. faster (its advance dates from the second half of the year).
 - The **accounting value added per employee** (in current prices) **decelerated its growth rate** from 16,3 % to 7,4 % and reached 538 thousand CZK per employee, while the number of employees decreased by 1,4 %.
 - The **pre-tax profit's** growth slowed down from 23,8 % by 8,2 p.p. to 9,8 bln. CZK. The share of loss-making organizations stagnated around 16,5 %, i.e. 44 firms. The volume of their loss declined by 9,5 % to 574 mil. CZK.
 - The **stock kept declining**, but the descent slowed down from 32,2 % to 3,1 %. While stock of own production went down by 7 %, stock of material and goods increased by 15,3 % and 2,4 %. The duration of stock turnover shortened by 3 days to 22 days.
 - A faster growth of value added and gross profit was shown by **foreign controlled enterprises**, whose labor productivity level was by 41 % higher than that of private national enterprises.

IV. Foreign trade

- **Foreign trade in goods** was characterized by high dynamics of all basic indicators. The **turnover** reached 3449,7 bln. CZK because of a 22,7 % y/y growth (its growth was 9 % in 2003). **Export** was rising faster (25 %) than **import** (y 4,5 p.p. slower). An advance of export before import distinguished all quarters. The greatest rates of growth were attained in the 2nd quarter (influenced by EU accession). The 22,3 bln. CZK **deficit** was by more than two thirds lower than in 2003 (69,8 bln. CZK). The main improvement of the deficit occurred in the last quarter (26 bln. CZK y/y drop of the deficit).

- **The terms of trade** improved by 1 p.p. year-on-year to 102,1. The **export prices** were increasing faster than the import prices (3,7 % and 1,6 %). The total positive influence of these price indices on the balance of trade was roughly 10 bln. CZK. After conversion to constant prices the rates of growth decline to 22,3 % export growth and 18,8 % import growth. The dynamics difference in constant prices is 3,5 p.p. compared to 4,5 p.p. difference in current prices.
- Owing to the year-on-year appreciation of the Czech crown against the USD (12 months average) by 8,9 % the growth of export and import expressed in USD were higher than in CZK (increased by 37,2 % and 32,2 %). Export reached 66,8 bln. USD and import 67,7 bln. USD. The deficit was 0,9 bln. USD, which is nearly one third of the value in the previous year. As the CZK depreciated just slightly against Euro (by 0,2 %), the dynamics expressed in Euro was more or less the same as in CZK, namely 24,9 % export growth and 20,5 % import growth. Export amounted to 53,8 bln. EUR, import to 54,5 bln. EUR and the deficit reached 0,7 bln. EUR.
- **Total export** increased by one fourth and reached 1713,7 bln. CZK. Export to all territory groups was growing, most that to CIS (48 %), least that to the so called extra-European countries (3,4 %). **The EU members had a 84 % share in the 342,8 bln. CZK increment of export and a 73,9 % share in the 295,3 bln. CZK increment of import.** The share of **developed market economies in the import** was 88 %.
- The **year-on-year decrease of the deficit by 47,5 bln. CZK** to 22,3 bln. CZK was positively influenced by both improvement of the surplus with developed market economies by roughly 50 % to 148,5 bln. CZK (225,8 bln. CZK surplus with the EU) and by a decline of deficit with developing economies by 11,4 bln. CZK to 55,1 bln. CZK. This covered the y/y increase of deficit with other countries by 14,8 bln. CZK to 84 bln. CZK.
- **After the EU enlargement** the EU-25 had a 85,9 % share in our export and 71,8 % share in imports, mainly because of export growth by 24,5% and import growth by 21,2 %. **The trade balance surplus with the EU exceeded 200 bln. CZK** and its increase by 71,4 % was caused by surpluses with Germany, Slovakia, Hungary, Belgium and Austria.
- As for the **commodity structure of export**, the **share of machinery and transport vehicles increased** to 50,6 %, because the export grew by more than one fourth. On the other hand the share of the same group in import dropped by 0,6 p.p. to 42,2 %. The surplus of the balance of trade almost doubled to 133,9 bln. CZK. **A deepening of deficit of trade in chemical products** (by 3,8 bln. CZK to 87,7 bln. CZK) works against an even better total result. So does trade in **mineral fuels** (by 0,4 bln. CZK to 68,7 bln. CZK) and food (by 2,8 bln. CZK to 23,5 bln. CZK).
- Looking at the structure of import according to use the share of import for personal use increased most, by 0,6 p.p. to 21,7 %. The lowest growth was registered in import for investment (by 19,3 %), and its share declined slightly to 29 %. The share of intermediate import dropped by 0,4 p.p. to 49,3 %.
- From the point of view of the **level of processing** the share of product with lower level of processing **in exports** increased (by 12,6 %) at the expense of products with higher level of processing (87,4 %). In **import** the share of machinery and electrical equipment increased to 80,2 % at the expense of food, raw materials and semi-finished goods (19,8 %).
- The **share of high-tech products in imports and export declined** (by 0,5 p.p. and 0,9 p.p. to 11,9 % and 15 %). The deficit of this group decreased by 1,4 bln. CZK to 56,7 bln. CZK. Its export grew by 19,3 % y/y and import by 13,7 % y/y. The dominating export item was IT, in import telecommunication and electrical products prevailed.

V. Internal trade and household consumption

- **Total revenues** from sales of goods and services reached 2668,7 bln. CZK in current prices without VAT. This is a 9,3 % y/y increase. The revenues grew year-on-year in all subsections of trade, most of all in **wholesale trade** (by 12,6 %). The dynamic growth of its revenues reflects the total economic recovery, but is also closely connected to import growth.
- The **average trade margin** in trade decreased by 0,2 p.p. to 16,2 % (16 % in the fourth quarter). The lowest level of margin was registered by car, motor equipment and fuel retailers (decrease by 0,2 p.p. to 10,5 %). Also in wholesale trade a decrease of margins was registered, namely by 0,3 p.p. to 14,7 %. The highest margin (22,0 %; 0,2 p.p. y/y growth) had the retail trade (NACE 52).
- Big businesses with 100 and more employees **increase their shares in revenues**. Within the bounds of big enterprises the most dynamic ones are **multinationals**, where the share of big firms was increasing heavily from 1998 to 2002 and eventually exceeded one half. In 2003 and 2004 this trend slowed down notably.
- **The concentration of sale progressed most in retail trade**, where the market share of big enterprises attained almost 39 %.
- The **physical volume of retail sales** including the motor segment increased just by 2,5 % year-on-year. This is a deceleration of growth to almost one half.
- The **current income** of the household sector increased by 4,9 % (100,6 bln. CZK) y/y in nominal terms. After covering the **current expenses** (chiefly taxes and insurance), which increased by 6,5 % (42 bln. CZK) y/y, the households retain the so-called **disposable income**. Its level was 1446,5 bln. CZK, which is a 4,2 % nominal and 1,5 % real annual growth. This dynamics is by 1,7 p.p. lower than that of 2003.
- The higher growth of consumption expenditure than disposable income is connected to the decline of **savings rate** from 8,5 % to 7,8 %. The savings rate is an important indicator of consumer well being and development of other sources of financing.

I. MAIN TENDENCIES OF MACROECONOMIC DEVELOPMENT

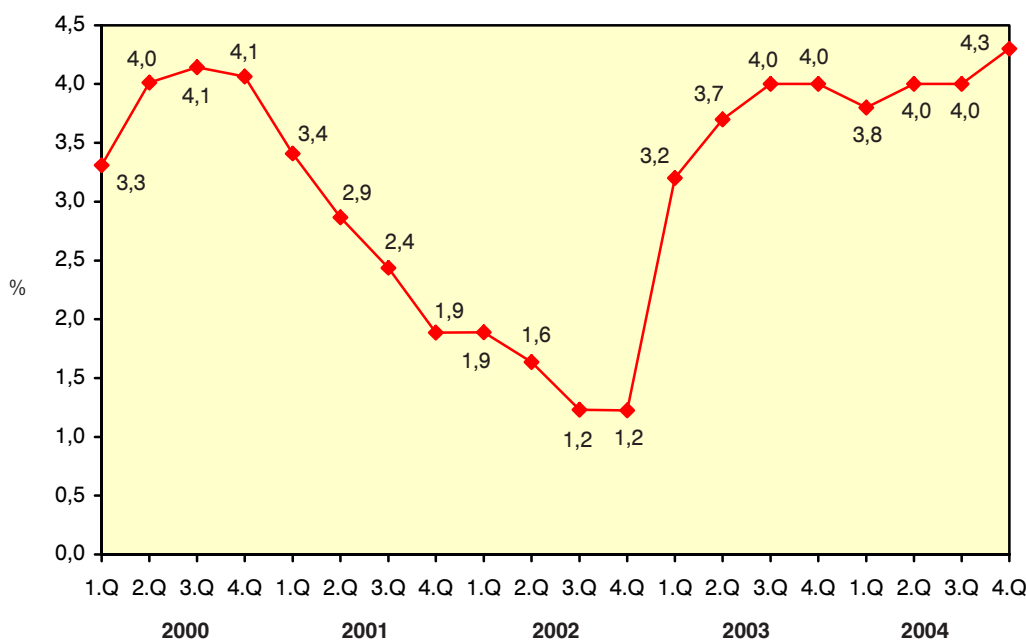
I.1. Performance of the economy

In 2004 the trend of fast economic growth continued, as the GDP (in constant prices) increased by 4,0 % (by 3,7 % in 2003). During the year the GDP growth accelerated and in the fourth quarter it reached 4,3 %. Compared to the third quarter this is a 1,0 % increase (excluding seasonality and the influence of the number of working days).

The growth of the economy accelerated in real terms ...

The Czech economy has been growing since the beginning of year 1999. The first peak was reached in the second half of 2000, when the year-on-year growth of the GDP attained 4,1 %. During the following two years the economic development slowed down gradually and the lowest growth rates were reached in third and fourth quarter of 2002 (1,2 % in both cases). In 2003 the trend changed in favor of accelerating dynamics, which (so far) culminated in the fourth quarter of 2004.

Figure I.1.1 Gross domestic product (y/y change in %, constant prices)



Source: CZSO, figure by MIT

In current prices the produced GDP amounted to 2751,1 bln. CZK, i.e. higher by 7,9 % y/y (by 5,6 % y/y in 2003). Not only the accelerated growth of the economy, but also the year-on-year increase of the total price level by 3,7 % (1,9 % in 2003) participated in this development. On the other hand the deceleration of the price

... and also nominally

development at the end of the year led to a slower growth dynamics of the nominal product in the fourth quarter (7,8 % at a 3,3 % price growth).

Within the domestic demand...

The fast product growth was accompanied by a favorable development of the structure of its expenditure items. **Mainly investment expenditures were growing and exports were increasing faster than imports at a high foreign trade turnover dynamics.** On the contrary the growth of final consumption slowed down, thereof the government consumption even decreased. This development created conditions for future economic stabilization.

... the investment wave went on ...

The expenditures on **creation of gross fixed capital** accelerated its year-on-year growth to 9,1 % (from 4,8 % in 2003). The intensified investment activity showed mainly in transport infrastructure, production and non-production capacities of foreign investors and housing development.

... while the growth of final consumption slowed down

At a variable development of different items the **final consumption** increased just by 0,7 % (by 4,7 % in 2003). The main cause of the reduced growth of **household consumption** (2,4 %, comp. with 4,9 % in 2003) was the development of real wages, which were influenced by cutting 13th and 14th salaries in the **government sector** and by higher inflation. The cost cuts in the government sector led to a year-on-year drop in expenditures by 3,2 % (compared with 4,2 % growth in 2003).

Faster growth of export than import improved the foreign trade balance

The change in conditions, related to the entrance into the EU, influenced the working of the external sector considerably. The **export of goods and services** (in constant prices) increased its annual growth from 7,3 % in 2003 to 20,9 % in 2004. Its dynamics was higher than that of **import** (from 7,9 % to 18,5 %). This advance of export before import was reached just in trade in goods, in the service sector import was growing faster than export.

Some effects of an acceleration of export growth, quantified in the basis of model calculations, are given in the following box:

Box: Model calculations of accelerated export growth

The significance of export in the economy has been growing, export has a high share in the GDP and in 2004 it contributed significantly to its growth. Therefore the MIT carried out a model calculation of the context of export growth. Following conclusions follow from the calculation.

An impulse of 1 CZK on top of the standard growth rate induces:

- additional production growth by 1,49 CZK, i.e. 0,49 CZK extra
- increase of import by 0,53 CZK, that's to say the import intensity of export is roughly 53 %.

In relative terms an export impulse of 1% of the total export value causes:

- growth of employment by at about 0,26 %, which is 12,4 thousand people
- rather strong growth of production of services, although the export impulse concerns mainly manufacturing (95 % of the impulse)

The foreign trade deficit in goods and services decreased by 46,3 bln. CZK y/y to 9,9 bln. CZK (in current prices). The balance improved mainly in the fourth quarter (by 24,6 bln. CZK in current prices), when export grew by 22,2 % y/y and the import growth decelerated to 15,8 %. The relatively lower import of machinery in the last quarter showed in the slow down of creation of fixed capital (to 7,5 %).

Table I.1.1 Agregate demand and its components in 2004

	current prices bln. CZK	y/y change in % (constant prices)		
		2003	2004	4 th Q. 2004
Final consumption	1995.1	4.7	0.7	-0.6
– households	1349.3	4.9	2.4	1.9
– government	628.6	4.2	-3.2	-5.8
– non-profit organizations	17.2	3.5	11.1	7.1
Creation of gross capital	765.8	2.8	9.0	5.0
– fixed capital	747.1	4.8	9.1	7.5
Export of goods and services	1962.1	7.3	20.9	22.2
Import of goods and services	1972.0	7.9	18.5	15.8
Gross domestic product	2751.1	3.7	4.0	4.3

Source: CZSO

Note: due to rounding the sums don't necessarily add up to 100 %

On the supply side of the economy the **gross value added increased by 3,7 % y/y** (in constant prices), thereof in the fourth quarter by 4,1 %. As for essential industries the fastest growth was registered by **manufacturing (7,3 %), transport, communication and telecommunication (3,6 %) and trade (3,1 %)**. Manufacturing covered more than one half of the annual increment of gross value added.

As for the main industries, manufacturing was doing very well ...

In the industrial structure of the GDP (current prices) the share of industry increased to 32,6 % (from 32,2 % in 2003), thereof the share of manufacturing from 26,7 % to 27 %. The shares of **services and agriculture** stagnated on the 60,1 % and 2,8 % level. The share of construction decreased from 6,7 % to 6,3 %.

... and its share in total gross value added was growing

The GDP growth was caused solely by labor productivity growth (GDP per employee), which increased by 4,2 % y/y (4,4 % in 2003). In the fourth quarter, when employment increased slightly (by 0,2 %), the labor productivity growth reached 4,1 %.

The labor productivity was growing faster than the product

I.2. Labor market

After a decade of decrease the **population** began to grow in 2003. In the end of 2004 it reached 10 220,6 thousand people, which is a 9,1 thousand **year-on-year growth**. The surplus of foreign migration (18,6 thousand) was higher than the population decrement as a result of higher number of dead than born (9,5 thousand).

The growth of population was influenced by immigration

According to the CZSO labor force survey, the **long lasting decrease of the labor force stopped in 2004**. Unlike 2003, when the year-on-year decline of employment exceeded the increment of unemployment (by 6,7 thousand people), the two opposite changes were nearly equal in 2004, see Table I.2.1. The **economic activity rate**, i.e. the share of economically active people in the total (15+ years) population **decreased** by 0,2 p.p. to 59,2 % and was the lowest since 1993. This decrease has much to do with the lasting increase of the number of 15+ years olds. The **general unemployment rate** (based on Labor force survey and used in international comparisons), i.e. the share of the number of the unemployed in the total labor force, **increased** by 0,5 p.p. to 8,3 %. The number of economically inactive people increased mainly due to the rising number of university students.

In 2004 the decrease of the number of economically active persons ceased

Table I.2.1 Economic activity of population (thousands of persons)

	2002	2003	2004	Share in % 2004	Change (2004–2003)	
					absol.	in %
Population, 15 years or older	8 599.1	8 636.9	8673.3	100.0	36.4	0.4
– labor force	5 139.0	5 132.3	5132.5	59.2	0.2	0.0
– employed	4 764.9	4 733.2	4706.6	54.3	–26.6	–0.6
– unemployed	374.1	399.1	425.9	4.9	26.8	6.7
– econ. inactive	3460.1	3 504.6	3540.8	40.8	36.2	1.0
– thereof: old-age pensioners	1818.0	1 804.5	1818.8	21.0	14.3	0.8
disability pensioners	269.6	296.3	308.1	3.5	11.8	4.0
apprentices	143.2	138.5	129.7	1.5	–8.8	–6.4
secondary school students	356.8	365.8	378.5	4.4	12.7	3.5
students of universities	208.8	216.7	239.1	2.7	22.4	10.3
persons staying at home	332.8	327.8	326.3	3.8	–1.5	–0.5
other	330.9	355.0	340.3	3.9	–14.7	–4.1

Source: CZSO – labor survey

... but the number of workers kept declining

According to the labor survey the **number of workers declined** by 26,6 thousand people year-on-year, i.e. by 0,6 %, to 4706,6 thousand people (see Table I.2.2). Thereof 43,4 % were women. The employment decreased in the primary and secondary sector, and increased slightly in tertiary sector. The share of services in the total employment increased by 0,4 p.p. to 56,5 %. However, the level of employment in services is still much lower than in the EU, where it reached 69,1 % in 2002.

Table I.2.2 Development of employment in the national economy by industries (thousands of persons) in one main occupation

	2002	2003	2004	Share in %		Change (2004–2003)	
				2003	2004	absol.	in %
Total employment	4 764.9	4 733.2	4 706.6	100.0	100.0	–26.6	–0.6
I. sector (agriculture, forestry, fishing)	227.9	213.2	202.3	4.5	4.3	–10.9	–5.1
II. sector (industry and construction)	1 888.3	1 863.4	1 844.6	39.4	39.2	–18.8	–1.0
Industry total	1463.1	1 424.7	1 409.0	30.1	29.9	–15.7	–1.1
– mining and quarrying	61.1	53.3	58.6	1.1	1.2	5.3	10.0
– manufacturing	1318.2	1 294.3	1 274.2	27.4	27.1	–20.1	–1.5
– electricity, water and gas	83.8	77.1	76.2	1.6	1.6	–0.9	–1.2
Construction	425.2	438.7	435.6	9.3	9.3	–3.1	–0.7
III. sector (services)	2648.7	2656.6	2659.7	56.1	56.5	3.1	0.1
– trade, repair of motor vehicles and consumer goods	619.8	627.8	630.9	13.3	13.4	3.1	0.5
– hotels and restaurants	170.5	170.7	174.8	3.6	3.7	4.1	2.4
– transport, warehousing and communic.	367.6	358.8	364.0	7.6	7.7	5.2	1.5
– financial intermediation	95.2	96.3	93.6	2.0	2.0	–2.7	–2.8
– real estates and hiring, business activ.	269.1	284.9	281.5	6.0	6.0	–3.4	–1.2
– public admin., defense and social secur.	325.7	331.9	322.5	7.0	6.9	–9.4	–2.8
– education	309.1	287.8	279.0	6.1	5.9	–8.8	–3.1
– health and social care, veterinary servic.	304.2	306.9	323.6	6.5	6.9	16.7	5.4
– other public, social and personal servic.	179.4	185.1	184.4	3.9	3.9	–0.7	–0.4
– other activities	4.4	5.2	4.3	0.1	0.1	–0.9	–17.3
– unidentified	3.7	1.2	1.1	0.0	0.0	–0.1	–8.3

Source: CZSO – Labor force survey

The decrement of the number of workers **by the position in main occupation** was highest in the **entrepreneur group** (incl. family members). The size of this group decreased by 19,3 thousand to 791,3 thousand persons, i.e. to 16,8 % of all workers. This shrinkage is considered to be connected with the changes of entrepreneurs' conditions that has been realized as one part of the reform of public budgets.

The number of entrepreneurs decreased most

The only group of firms, where the employment was growing significantly, are the foreign firms (by 57,1 thousand to 478,5 thousand people). The number of employees in foreign and multinational firms reached 26 % of total employment. The number of employees decreased in 8 regions, thereof most in Prague (11,6 thousand).

The employment in foreign firms increased

The total number of **foreign nationals** employed in the Czech Republic as of 31.12.2004 **increased** by 2,2 thousand to 108 thousand people, see Table I.2.3. In the structure, the share of registered foreign workers increased and the share of the ones having a working permit decreased. This has much to do with the new foreign employees legislation accepted after the EU enlargement.

Number of foreign workers was growing

Note: According to the Employment Act, valid since 1.10.2004, the employment offices register employees from EU countries that started to work in the Czech Republic. This includes both those who don't need a working permit (which are mainly those who have a permanent residence permit) and the ones who have got a working permit.

Table I.2.3 Employment of foreign nationals

	State as of 31.12.			Share in %	Change (2004–2003)	
	2002	2003	2004	2004	absolutely	in %
Registered foreign workers	56 558	58 034	73 587	68.1	15 553	26.8
Foreign pers. with a working permit	44 621	47 704	34 397	31.9	–13 307	–27.9
Total	101 179	105 738	107 984	100.0	2 246	2.1

Source: Ministry of Labor and Social Affairs

As a consequence of the restructuring of the economy, the rate of registered unemployment was increasing and reached its maximum – 10,9 % – in February 2004. Thereafter the year-on-year growth rates were decreasing and **since September the unemployment stabilized on the level of 2003** (see Figure I.2.1). One of the causes of the turn of the trend was the accelerated economic growth and the subsequent creation of new working places. **The rate of registered unemployment** reached 9,5 % at the end of 2004 (or 10,3 % according to the methodology used in previous years).

The economic growth starts to have a positive influence on unemployment

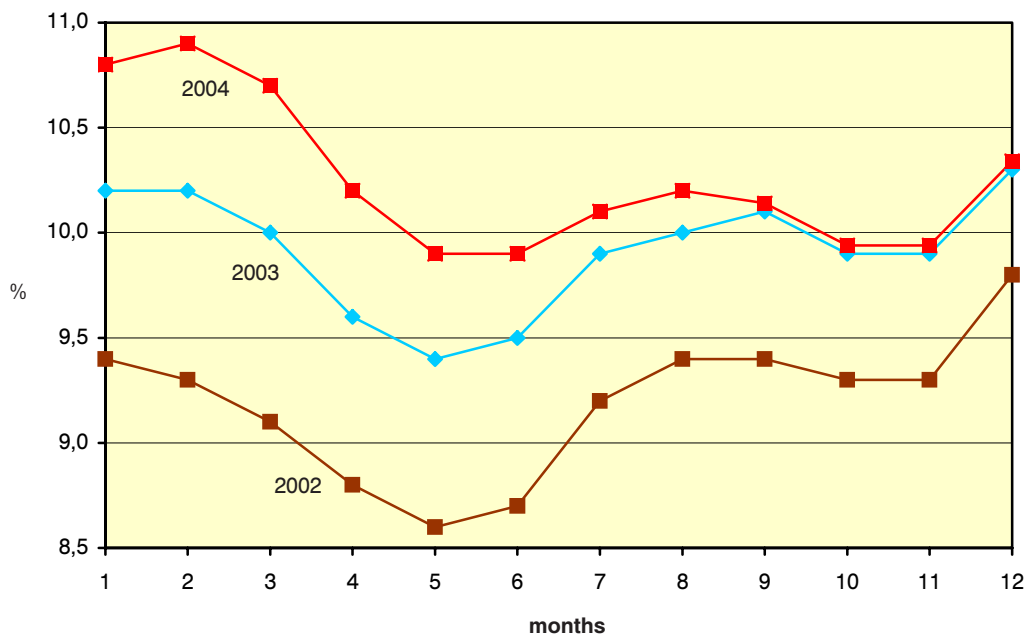
*Note: Since July 2004 the Ministry of Labor and Social Affairs publishes the **rate of registered unemployment according to the new ILO methodology**, which is based on the **number of accessible job seekers that can start working immediately**. The reason is mainly the harmonization of statistics in the EU.*

The **average rate of registered unemployment** was 10,2 % in 2004 according to the original methodology. This is by 0,3 p.p. more than in 2003.

The employment offices registered 541,7 thousand **job seekers**, i.e. 700 less than year before. From this total 509,5 thousand were **accessible job seekers**. There were 276,3 thousand women (51 % of the total) in the register (0,8 p.p. y/y increase).

As of 31.12., 143,2 thousand job seekers were drawing unemployment benefits. That is 26,4 % of all registered unemployed. One year ago this was 189,5 thousand persons, which is 34,9 % of job seekers. The decrease of the number of job seekers drawing benefits was influenced by novelization of Employment Act (valid since

Figure I.2.1 Development of registered unemployment (in %) according to original methodology



Source: Ministry of Labor and Soc. Affairs, figure by MIT

October 2004) that tightened the rules for granting the unemployment benefits. The average monthly benefit was 4002 CZK in the fourth quarter of 2004 (3331 CZK a year ago).

In 2004 totally 674,4 thousand job seekers **registered newly** as unemployed (8,1 thousand more than previous year). In the same period 675,1 people were **removed from the registry** (36,8 thousand more than previous year). From the total number of job-seekers removed from the registry, 478,4 thousand were placed to work. That is 70,9 % of the total number (71 % previous year).

The number of vacancies increased year-on-year

Since the end of 2003, when 40,2 thousand **vacancies** were registered, their number **increased** to 51,2 thousand (as on 31.12.2004). In all months of 2004 the number of vacancies was higher than in the same month of 2003. By regions, the greatest year-on-year increment of vacancies occurred in Plzensky region (by 73,2 %) and in Prague (by 72,1 %). **There were 10,6 candidates per one vacancy in the Czech Republic in the end of the year** (13,5 previous year).

The number of unemployed school-leavers declined y/y...

As of 31.12.2004, 47,3 thousand school-leavers and minors were registered by the employment offices. This is 7 thousand fewer than in 2003. Their share in unemployment was 8,7 %. The development of the number of school-leavers entering the labor market is strongly seasonal. The fewest school-leavers was registered in June (38,4 thousand) and most in September (58,3 thousand).

... and on the other hand the number of handicapped job seekers, job seeker older than 50 years and those with low skills increased

The number of handicapped job seekers increased by 5,9 thousand y/y to 74,7 thousand persons on 31.12.2004. Their share in total number of job seekers grew from 13,5 % to 13,8 %. The supply of vacancies for this group of workers is low and there were 43,8 applicants per one vacancy in this segment (45,2 previous year).

In the structure of unemployed **by age**, the number of older job seekers increased (see the appendix, Table I). The highest growth of the number of applicants was registered in the age group 50+ (by 7,7 %, which is 8,7 thousand to 121,3 thousand). Their share in the total unemployment increased to 22,4 %. The number of unemployed persons older than fifty years has been increasing in the last years. The average age of a job seeker increased from 36,3 to 37,1 years as of 31.12. **By**

qualification the biggest annual growth (by 1,9 thousand to 240,2 thousand) was registered by those who have learned a trade or have secondary education without final examination (44,3 % of all job seekers). In spite of the y/y decrease (by 4,5 thousand to 162,3 thousand) the job seekers with basic education remain the second largest group (30 % of the unemployed). The share of university educated people in the total unemployment is 3,3 %.

By the **duration of unemployment**, the most numerous group are long run unemployed job seekers, i.e. longer than one year. This group increased by 0,2 % y/y as of 31.12., i.e. by 1,4 thousand to 219,7 thousand persons (40,5 % of all job seekers).

The **development of unemployment** is uneven **by region**. The unemployment rate grew y/y in 8 regions, decreased in 3 regions and stagnated in 3 regions (see Table I in the appendix). The highest unemployment rate was registered in Ustecky and Moravskoslezsky regions (15,8 % and 15,7 %).

The expenditures for **active employment policy** were drawn to the amount of 4,37 bln. CZK, which is 33,6 % more than in the previous year. The expenditures were used to create 17,7 thousand new welfare service positions, 22,7 thousand publicly purposeful positions, 7,3 thousand training positions for school leavers and 1,2 thousand positions for handicapped citizens in sheltered workshops.

The expenditures for **passive employment policy**, i.e. for unemployment benefits, reached 7,34 bln. CZK, which is a growth of 5,6 % y/y.

The **average monthly nominal wage in enterprises with 20 or more employees** in the business sphere (in financial intermediation sector without respect to the number of employees) and in all organizations of non-business sector increased by 6,6 % y/y to 18035 CZK in 2004. The **real wage** increased by 3,7 % (see Table I.2.4). The growth of the nominal equaled the one in the previous year, but the price level growth made the real wage increase slower. The increment of the real wages was the lowest one in the last 4 years.

The number of long run unemployed has been increasing

Regional differences in employment stay high

Higher drawings for employment policy

Slowdown of real wage growth

Table I.2.4 Development of real wages in 1.-4. quarter²

	2002		2003		2004		(y/y increment in %) aver. monthly wage in 1st to 4th quarter of 2004, in CZK
	nominal	real	nominal	real	nominal	real	
Total:	7.3	5.4	6.6	6.5	6.6	3.7	18 035
thereof:							
– business sector	6.5	4.6	5.9	5.8	6.9	4.0	18 116
– non-business sector	9.9	8.0	9.5	9.4	5.7	2.8	17 761

Source: CZSO

The average **nominal wage in the whole national economy** (including the estimate for small firms) increased by 6,2 % to 16 931 CZK and the real wage grew by 3,3 %. The real growth of the volume of wage resources (without other personal costs) paid to households (this influences the purchasing power) was 2,6 %.

The slower growth of wages in non-business sector was influenced mainly by cuts of extra wages in public administration, which led to a year-on-year worse-

The wage growth was slower in non-business sphere

² In enterprises with 20 or more employees in the business sphere (in financial intermediation sector without respect to the number of employees) and in all organizations of non-business sector.

ning of the relation of average wages in non-business to those in non-business sector by 1,1 p.p. to 98 %.

The highest wages were paid in IT, by multinationals and in Prague

The highest wages by industry (NACE 1 letter) were paid out in financial intermediation, the lowest in hotels and restaurants (See Table I.2.5). The inter-industrial wage differentiation, expressed as a quotient of standard deviation and the nominal wage, nearly didn't change (according to MIT calculation it increased by 0,1 p.p. to 28,9 %). Using **more detailed disaggregation** (NACE 2 digit) the highest wages were paid to workers in IT (39309 CZK) and the lowest in manufacture of clothes, processing and dyeing of leather (10276 CZK, which is 26,1 % of the best paid industry). The difference between the best and the worst paying industry increased by 1465 CZK y/y to 29033 CZK.

Table I.2.5 Ranking according to the average wage level² (NACE 1 letter, in CZK)

Rank in 2004		Kat. NACE	2003	2004	Growth 2004–2003	
			1.– 4. Q.	1.– 4. Q.	in CZK	in %
1	Financial intermediation	J	33 200	35 446	2 246	6.8
2	Electricity, water and gas production	E	21 217	22 614	1 397	6.6
3	Mining and quarrying	C	19 692	21 128	1 436	7.3
4	Public administration, defense, social care	L	19 484	20 489	1 005	5.2
5	Real estate activities, business activities	K	18 385	19 564	1 179	6.4
6	Transport, warehousing and communication	I	18 281	19 396	1 115	6.1
7	Trade and reparation	G	17 144	18 383	1 239	7.2
8	Construction	F	16 852	18 102	1 250	7.4
9	Manufacturing	D	15 832	17 022	1 190	7.5
10	Health and social services	N	16 311	16 758	447	2.7
11	Education	M	15 312	16 417	1 105	7.2
12	Fishing	B	14 474	15 368	894	6.2
13	Other public, social and personal services	O	13 937	14 728	791	5.7
14	Agriculture and forestry	A	12 014	13 131	1 117	9.3
15	Hotels and restaurants	H	12 405	13 006	601	4.8
	Czech Republic total		16 919	18 035	1 116	6.6

Source: CZSO

According to the **ownership** the highest average wages were paid by multinational firms (22540 CZK) and the lowest by cooperatives (12164 CZK). Year-on-year difference increased by 31 CZK to 10379 CZK. The wages increased fastest by mixed companies (9,9 % y/y) and slowest by associations and political parties (by 3,5 %).

By **region** the highest wages were paid out in Prague (22433 CZK) and the lowest in Karlovarsky region (15415 CZK). The difference between these two increased by 400 CZK y/y to 7018 CZK. The fastest rate of growth was registered in Olomoucky region, where the wages increased by 8 %. The slowest in Jihocesky region (by 6 %).

The wage intensity of the GDP decreased

The quotient of nominal volume of the wage funds and the GDP in current prices was 29,3 %. Because of the significant GDP growth, **the wage intensity of the GDP decreased** by 0,6 p.p. y/y.

I.3. Price and fiscal policy

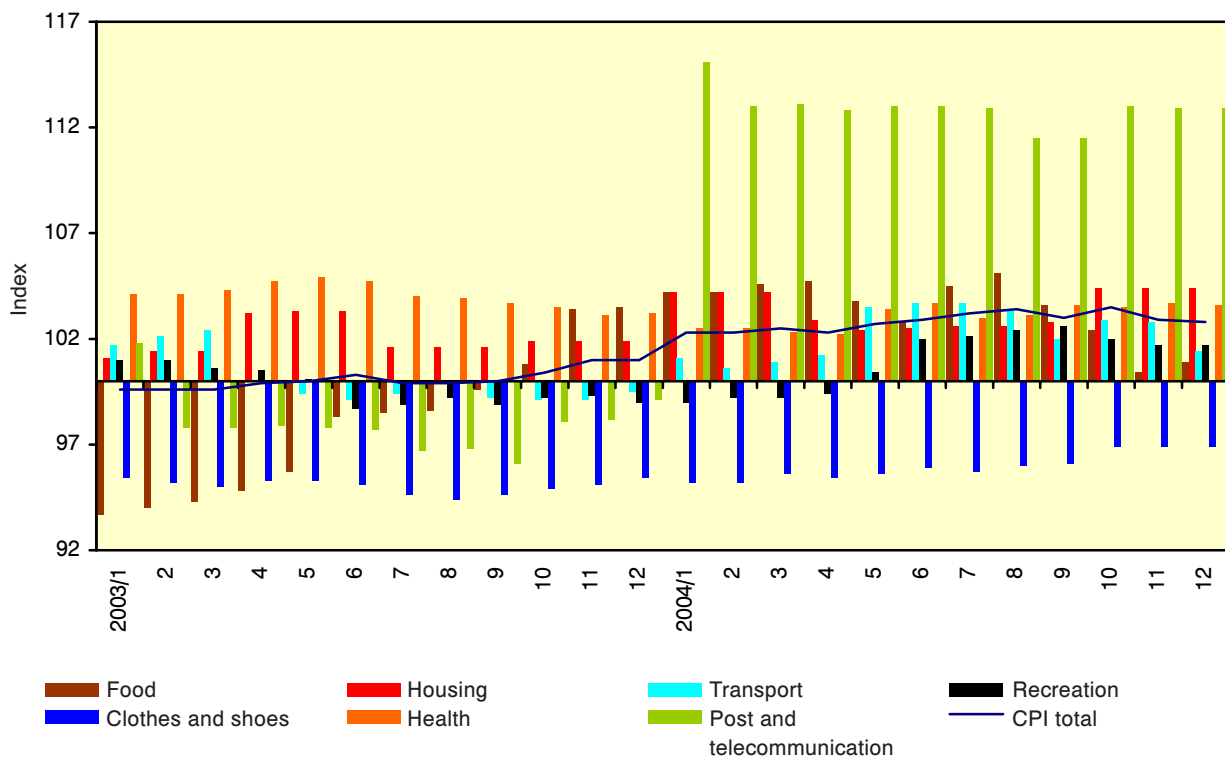
I.3.1. Price policy

The return to growth was characteristic for the price development in 2004. While in 2003 the prices fluctuated around zero and were even decreasing for six months (annual growth of 1 % in 2003 and 0,6 % in 2002), **during 2004 they chiefly accelerated their year-on-year growth**, which reached its peak in the last quarter of 2004 (by 3,5 % growth in October). The subsequent **deceleration of the growth rate** of consumer prices **during the last two years of the year** (2,8 % in December) **was caused by a change of trend in food prices**, as the high energy and metal prices on the world market were dampened by appreciation of the CZK against USD. Apart from these factors the pace of growth was strengthened mainly by administrative price measures (owing to harmonizations of indirect taxes) and the low 2003 base. The price growth was on the other hand dampened by for example very competitive environment on the domestic market.

The growth of consumer prices slowed down in the end of the year

Price inflation in individual commodity groups in 2004 and its comparison with 2003 figures are depicted in Figure I.3.1.1.

Figure I.3.1.1 Development of consumer prices of selected commodity groups
(%, the same period of previous year = 100)



Source: CZSO, figure by MIT

The **inflation rate** (12 months moving average) **maintained its growing trend**, reaching 2,8 % in December 2004, although it didn't exceed 0,1 % in 2003 and 1,8 % in 2002.

Average inflation kept growing

There were several factors influencing the price growth in 2004. The influence of market prices caused 1,5 p.p., administrative measures 1,3 p.p., thereof consumption taxes 0,3 p.p. and VAT 0,5 p.p.

The dynamics of price growth was very variable with respect to main price groups, see Table I.3.1.1.

Industrial producers' prices kept growing fast

Industrial producers' prices accelerated their year-on-year rate of growth significantly, namely from 0.9 % in December 2003 to 7,7 % in December 2004. Their level in the second half of 2004 attained the highest values of 1995. As for the structure of the price development, the fastest growing prices were those of raw materials (14,2 % y/y in December) and products of manufacturing (8,2 % y/y in December). A survey of price development according to industrial structure is given by Table I.3.1.2.

The price growth in **manufacture of basic metals and metallurgy** (by 28,9 % in December 2004 after uninterrupted growth since July 2003) dominated the price growth of domestic producers. Within this group, prices of iron, steel and iron alloys reached the maximum growth rate of 40,3 % y/y in year-long average (60 % in the last quarter). This helped the steel industry, where the burdensome situation of the last years ceased. As for internal factors, the step seasonal increase of electricity, water and gas prices induced a rise of industrial producers' prices.

Prices of raw materials raised prices in manufacturing

Since the domestic industry is sensitive to prices of raw materials, the price growth of energy commodities on the world market exerted pressure on domestic prices in manufacturing and connected industries. The high demand for raw materials drove up **coal prices** (18,8 % y/y in December), which immediately appeared in the fast growing prices of **coke production and refineries** that inverted the trend in April, attained annual growth of 55,1 % in October and thereafter were slowly decelerating to 46,2 % y/y growth in December.

Import price growth was dampened by the weak dollar

The import price growth, started in March, **culminated in October** (3,3 % y/y growth). In the end of the year the growth decelerated down to 0,1 % y/y in December, among others due to strong CZK against USD, which dampened the impact of foreign price growth on domestic prices. In year-long average the import prices increased by 1,6 %, thereof the most the prices of mineral products (by 8,7 %), chiefly iron ores (by 56,2 %), mineral fuels (by 6,5 %), but also organic chemical products (by 11,8 %).

The world prices of industrial raw materials and food accelerated the annual growth

Prices of industrial raw materials and food on the world market, which increased from 5,8 % in January to 24,8 % in December and culminated in the fourth quarter (by 37,7 % in October), **had the main influence on annual growth of the import prices**. The main cause of the development on the world market was the high growth of energy raw materials prices, first of all the oil (culminated y/y in October, 70,3 % and closed at 35,8 % y/y in December) and to a lower degree also gas (y/y peak in November, 27,2 %, closed at 26,2 % in December), in spite of the all-time highest output in both OPEC and Russia. Also the very fast growth of metal prices continued (culminated in April, 43,7 % y/y and closed at 21,5 % in December), as the world's steel producers couldn't keep up with the Chinese demand.

Prices of building operations keep growing

Prices of building operations still reflected both the favorable situation of the industry and the development of the prices of steel. After an acceleration of the year-on-year growth in the second quarter (from 2,3 % in December 2003) the growth of prices stabilized around the 4,3 % y/y level from June till the end of the year (closed at 4,4 % in December). The year-long average was 3,7 %, compared with 2,2 % in 2003. This development wasn't related only to the growing demand for building operations, but also to the high world prices of steel, which were in their turn projected into prices of materials and products used in construction. Prices of these inputs in the second half nearly doubled compared to the prices of outputs (the y/y growth amounted to 8 % in the third quarter and 8,3 % in fourth quarter. The annual average was 5,8 %, compared to 0,9 % average annual decrease in 2003).

Table I.3.1.1 Price development in the main price groups (y/y change in %)

	1998		1999		2000		2001		2002		2003		2004	
	Decem.	Average	Decem.	Average	Decem.c	Average	Decem.	Average	Decem.	Average	Decem.	Average	Decem.c	Average
Prices – CPI	6.8	10.7	2.5	2.1	4.0	3.9	4.1	4.7	0.6	1.8	1.0	0.1	2.8	2.8
– industrial producers'	2.2	4.9	3.4	1.0	5.0	4.9	0.8	2.9	-0.7	-0.5	0.9	-0.3	7.7	5.7
– of construction works	7.0	9.4	3.5	4.8	4.7	4.0	3.4	4.1	2.1	2.7	2.3	2.2	4.4	3.7
– agricultural producers'	-9.5	2.3	0.6	-11.7	9.0	9.2	1.8	8.4	-15.6	-9.5	8.0	-2.9	2.4	8.1
– of market services	7.8	8.8	3.4	4.1	4.9	3.4	1.7	3.9	3.9	3.2	0.4	1.6	2.8	2.3
– of import	-10.1	-2.7	13.6	1.8	6.8	12.0	-7.0	-1.5	-4.4	-8.5	-0.3	-0.3	0.1	1.6

Source: CZSO

Table I.3.1.2 Price index of industrial producers in 1993 to 2004 (y/y indices of average values)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Industry as a whole	113.1	105.3	107.6	104.8	104.9	104.9	101.0	104.9	102.9	99.5	99.7	105.7
C Products from mining and quarrying	110.1	100.1	102.1	104.2	108.2	106.1	106.5	96.3	102.0	100.4	100.6	104.1
CA Coal and lignite, peat	108.7	97.5	100.6	104.0	107.6	105.6	106.9	95.4	102.1	99.7	100.3	105.5
CB Other mining and quarrying products	120.6	118.4	111.3	106.0	111.5	109.0	104.8	101.5	101.2	102.5	101.6	100.1
D Manufactured products	114.1	105.4	108.4	104.9	104.8	104.5	100.1	105.7	102.6	98.7	99.7	106.0
DA Food products, beverages and tobacco	118.0	105.6	106.6	108.6	107.7	105.7	97.1	103.4	106.3	99.0	98.9	104.8
DB Textiles and textile products	114.1	104.4	106.2	104.4	104.1	105.7	101.8	100.8	102.7	98.6	99.0	100.3
DC Leather and leather products	105.0	101.4	111.8	104.1	101.9	106.3	102.4	99.9	103.7	102.0	100.1	99.7
DD Wood and wood products	114.8	104.1	114.3	104.8	106.0	106.8	99.9	100.6	100.0	101.7	100.8	101.1
DE Pulp, paper, paper products, printing	101.1	103.2	123.0	98.5	95.2	105.8	99.5	111.5	103.8	98.3	99.0	100.0
DF Coke, refined petroleum products	148.4	97.7	99.2	106.2	114.5	88.9	112.6	150.0	89.3	86.6	102.6	127.0
DG Chemicals, chem. products, man-made fibers	105.6	103.0	116.3	99.5	104.2	99.8	100.1	114.9	100.6	95.5	101.4	106.7
DH Rubber and plastic products	109.2	105.7	112.2	106.4	103.9	104.9	100.6	103.4	101.0	98.2	97.3	99.8
DI Other non metallic mineral products	121.5	105.5	106.3	107.4	106.3	107.3	104.7	102.8	104.4	102.5	99.1	101.0
DJ Basic metals and fabricated metal products	107.6	104.5	109.8	103.1	103.5	108.5	96.9	102.2	102.5	97.4	99.9	118.5
DK Machinery and equipment n.e.c.	115.4	111.7	106.2	107.5	105.2	104.7	102.1	101.6	101.6	101.7	100.4	101.5
DL Electrical and optical equipment	116.4	106.4	106.0	103.5	105.1	103.5	102.2	103.0	101.4	99.7	99.4	99.5
DM Transport equipment	111.3	107.8	105.9	105.4	101.8	103.3	100.1	101.0	104.9	100.7	99.7	99.7
DN Other manufactured goods n.e.c.	110.2	113.5	108.1	102.3	102.5	102.9	102.3	104.2	103.9	101.0	103.7	109.5
E Electrical energy, gas, steam and hot water	104.2	108.4	102.9	103.8	104.2	106.7	105.3	104.2	105.4	104.6	99.3	103.9

Source: CZSO

Table I.3.1.3 Comparison of price development in Czech Republic, EU, selected Euro-land countries and the USA (y/y change in %, based on harmonized indices)

	2003													2004												
	1	2	3	4	5	6	7	8	9	10	11	12	Aver.	1	2	3	4	5	6	7	8	9	10	11	12	Aver.
Belgium	1.2	1.6	1.7	1.4	0.9	1.5	1.4	1.6	1.7	1.4	1.8	1.7	1.5	1.4	1.2	1.0	1.7	2.4	2.0	2.1	2.0	1.8	2.7	2.3	1.9	1.9
Estonia	2.5	2.2	2.2	1.1	0.7	0.4	0.9	1.4	1.5	1.2	1.2	1.2	1.4	0.6	0.6	0.7	1.5	3.7	4.4	4.0	3.9	3.8	4.0	4.4	4.8	3.0
Ireland	4.7	5.1	4.9	4.6	3.9	3.8	3.9	3.9	3.8	3.3	3.3	2.9	4.0	2.3	2.2	1.8	1.7	2.1	2.5	2.5	2.5	2.4	2.5	2.8	2.4	2.3
Hungary	4.8	4.6	4.8	3.9	3.5	4.4	4.7	4.7	4.6	4.8	5.6	5.6	4.7	6.7	7.0	6.6	7.0	7.8	7.5	7.2	7.2	6.7	6.4	5.7	5.5	6.8
Germany	0.9	1.2	1.2	1.0	0.6	0.9	0.8	1.1	1.1	1.1	1.3	1.1	1.0	1.2	0.8	1.1	1.7	2.1	1.9	2.0	2.1	1.9	2.2	2.0	2.2	1.8
Poland	0.4	0.4	0.4	0.1	0.3	0.6	0.7	0.6	0.7	1.0	1.5	1.6	0.7	1.8	1.8	1.8	2.3	3.5	4.3	4.7	4.9	4.7	4.6	4.5	4.4	3.6
Portugal	4.0	4.1	3.8	3.7	3.7	3.4	2.9	2.9	3.2	2.8	2.3	2.3	3.3	2.2	2.1	2.2	2.4	2.4	3.7	2.9	2.4	2.1	2.4	2.6	2.6	2.5
Austria	1.7	1.8	1.8	1.3	0.9	1.0	1.0	1.0	1.4	1.1	1.3	1.3	1.3	1.2	1.5	1.5	1.5	2.1	2.3	2.1	2.2	1.8	2.4	2.4	2.5	2.0
Greece	3.3	4.2	3.9	3.3	3.5	3.6	3.5	3.3	3.3	3.2	3.2	3.1	3.4	3.1	2.6	2.9	3.1	3.1	3.0	3.1	2.8	2.9	3.3	3.2	3.1	3.0
Slovakia	7.1	7.4	8.1	7.7	7.7	8.4	8.5	9.0	9.3	9.5	9.5	9.3	8.5	8.2	8.4	7.9	7.8	8.2	8.1	8.3	7.0	6.4	6.3	6.0	5.8	7.4
Slovenia	6.7	6.4	6.3	5.4	5.6	6.2	6.1	5.7	5.1	4.9	5.3	4.7	5.7	4.0	3.6	3.5	3.6	3.9	3.9	3.7	3.7	3.4	3.4	3.8	3.3	3.6
Spain	3.8	3.8	3.7	3.2	2.7	2.8	2.9	3.1	3.0	2.7	2.9	2.7	3.1	2.3	2.2	2.2	2.7	3.4	3.5	3.3	3.3	3.2	3.6	3.5	3.3	3.1
EU 15	2.0	2.3	2.3	2.0	1.7	1.8	1.8	2.0	2.0	1.9	2.0	1.8	2.0	1.8	1.5	1.5	1.8	2.3	2.2	2.1	2.1	1.9	2.1	2.0	2.2	2.0
EU 25	2.0	2.2	2.3	1.9	1.7	1.8	1.8	1.9	2.0	1.9	2.1	1.9	1.9	1.9	1.6	1.7	2.0	2.4	2.4	2.3	2.3	2.1	2.3	2.2	2.4	2.1
Euro-land	2.1	2.4	2.4	2.1	1.8	1.9	1.9	2.1	2.2	2.0	2.2	2.0	2.1	1.9	1.6	1.7	2.0	2.5	2.4	2.3	2.3	2.1	2.4	2.2	2.4	2.1
USA	2.6	3.0	3.0	2.2	2.1	2.1	2.1	2.2	2.3	2.0	1.8	1.9	2.3	1.9	1.7	1.7	2.3	3.1	3.3	3.0	2.7	2.5	3.2	3.5	3.3	2.7
Czech Rep.	-0.7	-0.6	-0.6	-0.5	-0.3	0.0	-0.3	-0.3	0.0	0.5	0.9	1.0	-0.1	2.0	2.0	2.1	2.0	2.6	2.7	3.1	3.2	2.8	3.1	2.6	2.5	2.6

Source: Eurostat, BLS USA

Note: Harmonized indices of consumer prices (HICP) are comparable indices of consumer prices of EU member countries, but they don't replace national indices. The difference from the national indices are in the structure of the consumer basket and weights HICP, where revenues from sales to foreigners are included in the HICP and hypothetical rent isn't.

Agricultural prices underwent a very volatile development in 2004. In spite of the high dynamics of year-on-year growth in the first months (culminated at 20,1 % y/y in April) the price growth gradually decelerated from May and reached 1 % y/y growth in September. In December the price growth was 2,4 % year-on-year. The main cause was the significant slow down of annual growth and subsequent price drop of vegetal products, that accelerated in April (growth by 45,9 %), but since September stayed under the level of the previous year, and closed at 12,8 % y/y decrease in December. This was due to an over average harvest in both the Czech Republic and Europe.

Annual price growth in agriculture significantly decelerated in December

From the point of view of **international comparison** the consumer price inflation – measured by HICP (harmonized index of consumer prices) – lied slightly above the level of price growth in the EU25. After two years of extremely low values inflation was growing during 2004, but in the end of the year it approached the „European“ values again. The advance of the Czech inflation before the European one is chiefly given by domestic factors. More than one third of the increase is due to adjustments of the VAT, consumption taxes and changes in energy prices. An even higher price growth was prevented by appreciation against USD, which dampened the impact of high prices of raw materials.

After two years domestic prices exceeded price growth in the EU

Also in the EU and Euro-land inflation growth accelerated due, but EU15 remained on 2 % annual level in 2004. EU25 and Euro-land reached 2,1 % annual inflation, which is slightly more than the 2 %, which is considered the upper limit of price stability by ECB. The main reason of the growth were the high oil prices. Also the high Asian demand for metal and energy contributed to this increase. The comparison of the price developments in selected countries is given in Table I.3.1.3.

Inflation in EU and Euro-land was endangered by rising oil prices on world markets

I.3.2. Fiscal policy

The state budget has been in deficit since 1996, mainly due to structural disequilibrium. **A certain slow down of the deepening deficit occurred in 2002 and subsequently in 2004**(see Figure I.3.2.1), when the acceleration of economic growth, good results of the foreign trade, investment inflow and growing efficiency of taxation **led to a decrease of the deficit to 93,7 bln. CZK** (15,4 bln. CZK y/y decrease). The share of the deficit in the GDP in current prices was 3,4 %, which is 0,9 p.p. less than in 2003.

The deficit of the state budget decreased

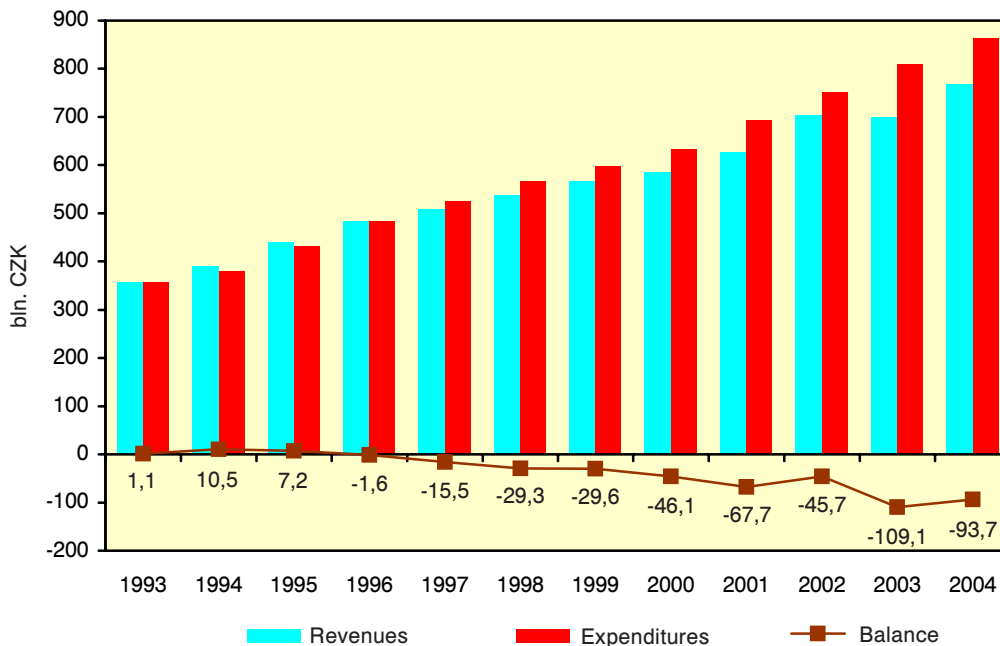
The state budget for year 2004 was approved with a deficit of 114,97 bln. CZK (a 3,7 bln. CZK deficit growth compared to 2003), concretely with revenues equal to 754,08 bln. CZK and expenditures amounting to 869,05 bln. CZK. Compared to the state in 2003 it meant 7,8 % and 7,5 % growth of revenues and expenditures. For the first time the state budget also involved financial relations with the budget of the European Union. By later **budgetary adjustments the expenditures of the state budget increased** to 869,75 bln. CZK (increase by 701 mil. CZK) and at unchanged level of revenues the **deficit deepened to 115,67 bln. CZK.**

The approved deficit was adjusted by legal norms during the year

The cumulative balance of the state budget was negative since February and in April the deficit started growing. In spite of a minor slow down in July (48,8 bln. CZK) and September (40,5 bln. CZK) the deficit kept worsening and closed at **93,7 bln. CZK in December.** The real deficit was by 22 bln. CZK lower than the planned one. The **deficit of the state budget decreased mainly due to higher public revenues,** which exceeded the planned level by 15,1 bln. CZK, less so due to savings in expenditures, which were lower by 6,9 bln. CZK compared to the adjusted budget. The surplus of the public pension system is a part of the budget deficit in 2004, but shall be transferred to a special account of pension insurance in the states financial assets since 2005.

The budget balance improved

Figure I.3.2.1 Development of the state budget since 1993



Source: Min. of Finance, figure by MIT

The total growth of revenues was determined by income from taxes

The year-on-year increase of total income of the state budget in 2004 (by 9,9 % to 769,2 bln. CZK, 102,0 fulfillment) related to the year-on-year growth of both income from taxes and non-tax and capital revenues. Apart from the novelizations of tax legislation, the received compensation transfers from the budget of the EU and repayments for the UMTS licenses by mobile phone operators participated on the development of the revenues of the state budget.

The development of revenues from taxation was primarily determined by the following tendencies:

- **A more favorable collection of the VAT** (105,2 % fulfillment, a 11,7 % y/y growth, against 6,1 % in 2003), which was connected firstly to a novelization of the VAT Act (which moved some items from the reduced to the standard rate) and later to a completely new VAT Act, which reduced the standard VAT rate from 22 % to 19 % and adapted the VAT on imports for the situation after EU enlargement. This had an influence on the VAT collection, which was supported by a high purchaser demand (both households and enterprises) in the fourth quarter.
- **Sound collection of the corporate income tax** (101,1 % fulfillment) and annual growth by 1,5 %, caused by production activities of domestic firms and their steadily improving economic results (although the dynamics of the collection of this tax slowed down compared to previous years).
- **Positive development of personal income tax** (100,0 % fulfillment, 7,4 % y/y growth). Thereof the revenue from wage-earning tax increased by 8,4 % y/y and revenues from the tax on independent income rose by 8,6 %. A decrease was registered by tax on capital revenues (by 8,2 %), caused among others by low interest rates.
- **Low collection of consumption taxes** (98,3 %, i.e. by 1,4 bln. CZK less than expected in the approved budget). The year-on-year growth by 13,8 % was caused by new consumption tax act, which increased the tax rates on tobacco, alcohol and fuels.

- **Improved growth of the dynamics of growth and collection of social insurance**, including the contributions to employment policy (7,7 % y/y growth and 100,3 % fulfillment, compared to 5,7 % growth in 2003 and 98,9 % fulfillment). Within the scope of the social insurance, the pension insurance increased by 16,1 %, i.e. by 33,6 bln. CZK. The increment was mainly a result of an increase of the insurance rate from 26 % to 28 % and the related decrease of the rate of employment policy insurance contribution, realized by a change of Insurance and Social security Act (no. 425/2003 Sb.)

Revenues from tariffs, which were stipulated by tariff authorities, became since May 1 one of the own resources of the EU budget, so the Czech Republic gets only 25 % of the stipulated tariff (before the EU accession all the tariffs belonged to the state budget). The 25 % part serves to cover the collection costs.

The **fulfillment of non-tax and other revenues** reached 51,2 bln. CZK in 2004, which is 29,1 % more than the planned amount and **asignificant year-on-year increment** (by 63,4 %). Non-tax revenues attained 31,5 bln. CZK, which is 6,3 bln. CZK (24,9 %) over the budgeted level. The year-on-year growth of the non-tax revenues was 34,9 %. The fulfillment of capital revenues reached 951 mil. CZK, i.e. 79,1 % of the budget (86,1 % y/y growth). The approved budget of received subsidies amounted to 13,3 bln. CZK, and in fact these revenues reached 18,8 bln. CZK (141,3 % of the plan) at the end of the year. The high year-on-year increase (150,2 %) was influenced by the EU enlargement and the subsequent compensation payments from the EU budget (10,5 bln. CZK).

The total expenditures of the state budget reached 862,9 bln. CZK in 2004 (6,7 % y/y growth and 99,2 % fulfillment). The **drawing of current expenditure**, which is **strongly dependent on mandatory expenditures** (53,1 % of all expenses), was **higher than drawing of capital expenditures**, which on the other hand attained a higher annual dynamics. As for current expenditures the greatest volume was spent for social affairs. In the structure of the expenditure for social benefits (313,26 bln. CZK, i.e. a 2,7 % growth y/y) the pension costs dominated (230,90 bln. CZK, i.e. growth by 2,2 % y/y). A significant part of total expenditures was formed by transfers to regional budgets, which drew 111,01 bln. CZK (99,6 % fulfillment with a 0,2 % y/y decrease).

The trend of advance of current expenditures before capital expenditures persisted

For the first time the contributions to the EU budget were quoted (16,1 bln. CZK) as a part of the expenditures, which follows from the accession of the Czech Republic to the EU.

The financial year of districts (regions, municipalities and their voluntary unions) **closed at a deficit of more than 8,9 bln. CZK** (after consolidation) in 2004, which is by 2,6 bln. CZK more than in the approved budgets. **The deficit was mainly registered in budgets of municipalities and their voluntary unions** (9,8 bln. CZK), the operations of regions reached a moderate surplus (0,8 bln. CZK). Total revenues reached 308,87 bln. CZK (101,6 bln. CZK fulfillment, 2,3 % y/y growth) and the municipalities' share therein was 80,4 %. The total drawn expenditures were 317,81 bln. CZK (102,4 bln. CZK fulfillment, 4,2 % y/y growth) and the share of municipalities in these expenditures was 81,3 %.

Both the regional ...

The **balance of public budgets** (including net borrowing) **reached a 90,4 bln. CZK total deficit in 2004**. This equals 3,3 % of the GDP and means a 39 bln. CZK y/y decrease. Excluding the net borrowing the deficit would be 96 bln. CZK (3,5 % of the GDP). The decrease of the deficit of the state budget (by 21,4 bln. CZK) participated significantly on this result and so did the major improvement of the result of operations of FNM (National Property Fond). The result was therefore influenced by higher fulfillment (2/3 of the result) and savings in expenditures (1/3 of the result).

... and public budgets had a deficit

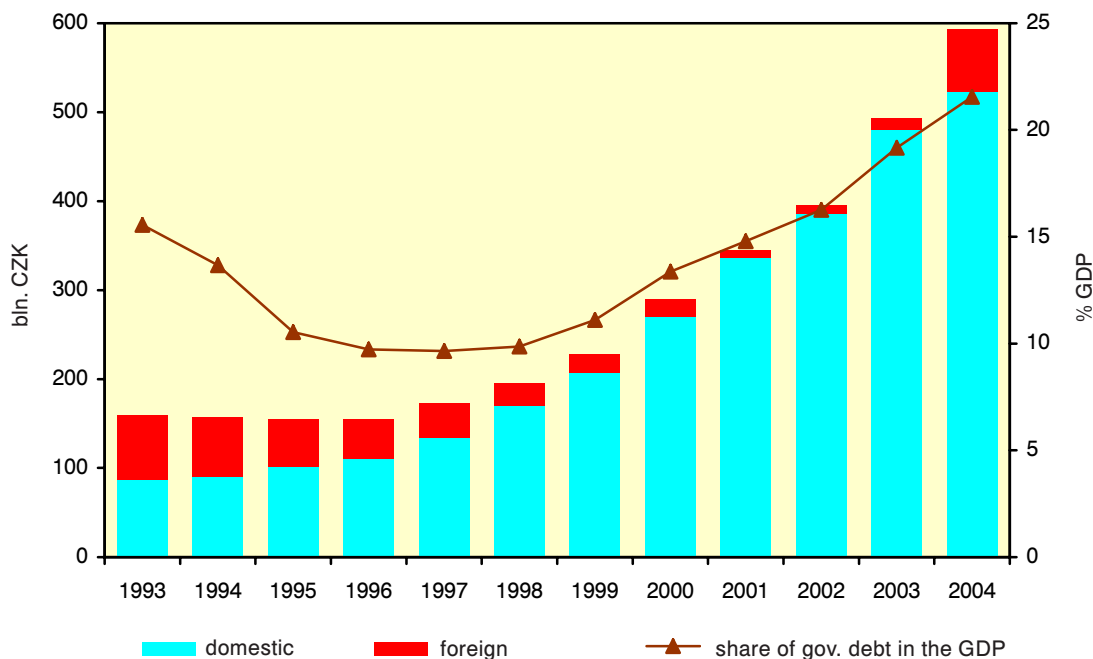
The development of the state debt can be characterized as a continuation of a long

The balance of state debt

run trend, begun already in 1997. **The balance of the state debt worsened by 99,7 bln. CZK in 2004** (i.e. by 20,2 % y/y to 592,9 bln. CZK). Although it is the highest absolute value of nominal debt increment in the twelve years of the existence of the Czech Republic, the rate of growth was lower by 4,4 p.p. On the other hand the share of the debt in GDP grew from 19,2 % to 21,6 % year-on-year.

Both main components of the state budget were increasing. Unlike the previous period, the external debt was growing faster from the beginning of the year (to 70,3 bln. CZK). It reached an absolute annual increment of 57 bln. CZK, and thereby an enormous growth rate. The internal debt (522,6 bln. CZK, by 42,7 bln. CZK) was increasing much slower. The increase of foreign debt related mainly to the government eurobond issue amounting to 1,5 bln. EUR at the end of June and to further drawing from the EIB. The share of foreign ownership of government bonds increased also, at the expense of their placement by domestic banks.

Figure I.3.3.2 Development of government debt of the Czech Republic since 1993 (bln. CZK, % GDP)



Source: Min. of Finance, figure by MIT

The public debt reflects the development of public budgets

The development of public debt follows the evolution of public budgets. Apart from the state debt (with 89,1 % share) the public debt comprises also the debt of extra-budgetary funds, debt of public health insurance and that of districts. **Gross consolidated public debt** (based on GFS 1986 methodology of governmental financial statistics) at the end of 2004 reached 659,3 bln. CZK and thereby 24 % of the GDP (19,2 % y/y growth). The main cause of the state debt is the persistent deficit trend of the state budget, to whose growth the districts contributed also (8,7 % increment of the debt, to 77,8 bln. CZK).

I.4. Monetary policy and foreign direct investments

I.4.1. Monetary policy

In the environment of continuing economic growth and moderate inflation, without demand inflation pressure, the **Czech national bank (CNB) finished the two-year period of relaxing of the domestic monetary policy, by two succeeding key interest rate increases.** The July (25/6) increase by 0,25 p.p. was the first movement after 11 months and the interest rates thereby left their historical minimum. The other tightening came into force on August 27, when the discount rate was augmented to 1,5 %, the 2 week repo rate to 2,5 % and the lombard rate to 3,5 %.

The Czech national bank tightened its monetary policy in the second half of 2004

The differentiated movement of key interest rates in the USA (up to 2,25 % in December), stagnation in Euro-zone (1 % discount rate and 2 % repo rate) and on the domestic interbank market showed in a different development of interest rate differential. **The CZK money market became more attractive in the second half of 2004,** because the differential against the Euro rates became positive again in the end of the first half. In the end of the year it reached 0,3 p.p. or 0,4 p.p. depending on the maturity (-0,1 p.p. in December 2003, -0.2 till -0.3 p.p. in December 2002). The interest differential developed **the other way against USD interest rates.** The originally positive differential slowly diminished and finally reached negative values of -0,1 p.p. till -0,4 p.p. depending on maturity (0,8 p.p. in December 2003, 1 till 1,3 p.p. in December 2002).

The interest rate differential shifted

The client interest rates³ reflected the movement of rates on the interbank market, but were also influenced by the expectation about key rate lifts. **The adjustments of key interest rates by the central bank showed differently in the client interest rates.** Whereas the **average interest rates on credit for households have been decreasing slightly for three years** (by 0,2 p.p. y/y in December, down to 8%. Compare with 0,6 p.p. in December 2003), the development of **rates for non-financial enterprises** was ambiguous. **In July they started growing** and reached 0,2 p.p. y/y annual increase and 4,7 % level in December, while in December 2003 they had decreased by 0,7 p.p. y/y. The interest rate on new credit fluctuated in both directions, in December 2004 it came to 11,6 % for households and 4,4 % for enterprises.

Credit and deposit interest rates didn't have an unambiguous trend

Interest rates on deposits shifted the trend during 2004, as those for households increased in August after two and a half year of decline (till December the stagnated around 1,4 %) and those for enterprises increased in January, but were volatile (reached 1,2 % in December).

The growth of inflation at low and stable interest rates caused, that the real interest rates (compared to consumer prices) on credit were significantly more favorable year-on-year. In December 2004 by 2 p.p. more favorable for households (to 5,2 %) and for enterprises by 1,6 p.p. (to 1,9 %). Simultaneously the **devaluation of deposits deepened,** reinstated after an almost two years long break in the end of 2003, when the negative real interest rate for households was 1,4 % in December (+0,3 % in December 2003) for non-financial enterprises it was 1,6 % (-0,1 % in 2003).

In real terms credit was more advantageous, deposits devaluated

³ On the basis of the ECB methodology the way of measuring the client interest rates changed in the beginning of 2004. The rates are followed separately for households and for the non-financial sector. Their weights are based on the credit volume in the two categories. As for new deposits and credit the negotiated rates are recalculated to yearly basis (formerly nominal). Data in this segmentation are available since 2001.

The dynamics of M₁ growth started decreasing in the second half

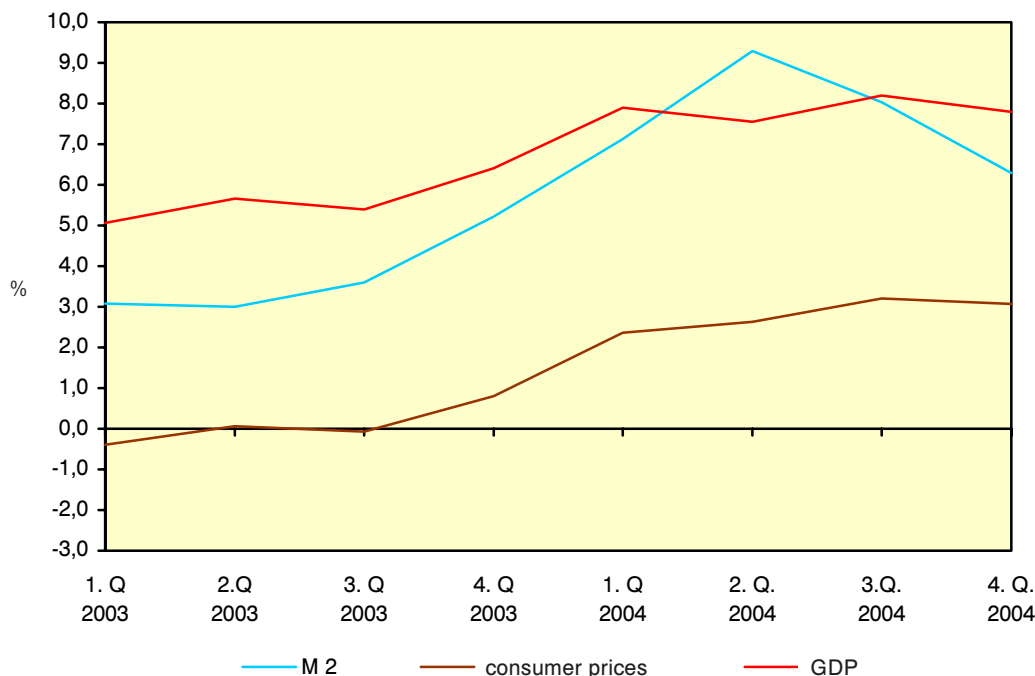
The negative valorization of money showed in further deviation from standard form of saving and in high demand for liquidity. **The dynamics of transaction money growth**, renewed in the beginning of 1999, remained **rather high most of the year**, although it started decelerating in the second half and closed at 6,6 % and 962,3 bln. CZK in December 2004 (compared with 14,6 % in December 2003). This corresponded to the growth of one-day deposits (by 6,5 % y/y to 725,6 bln. CZK in December 2004. Compared with 15,5 % in December 2003). **The pace of growth of liquidity decreased too**, namely from two-digit increments in 2003 and in the beginning of 2004 to 7 % in December (i.e. 236,8 bln. CZK), which is consistent with the deceleration of household consumption, with the unemployment level, but also with the base from previous years. **The share of liquid funds in money supply was growing and reached 52,2 % in the end of 2004** (from the lowest level of 32,5 % in the end of 1998 and from 51,1 % in the end of 2003).

The growth money supply decelerated significantly

The **money supply M₂** was growing fast since the end of 2003 (culminated in June 2004 with 10,3 % y/y growth). In the **last months of the year it slowed down considerably** (to 4,4 % in December, i.e. 1844,1 bln. CZK, while in December 2003 it was 6,9 %). **Roughly one half of the money inflow to the economy was ensured by foreign capital** (5,1 % y/y growth at the end of December 2004, i.e. 863,3 bln. CZK). However, its share was fluctuating during the year and decreased from 53,9 % at the end of July gradually to 46,8 % at the end of December, which corresponds to the end of 2003 (but it is by nearly 10 p.p. lower than the 2002 figure).

The development of money supply compared to the GDP and inflation is depicted in Figure I.4.1.1.

Figure I.4.1.1 Development of money supply, GDP and inflation (y/y change in %)



Source: CNB, CZSO, figure by MIT

Credit to households increased ...

In the low interest rate environment the credit issue developed dynamically. This was a continuation of a trend (started in April 2003) of growing volume of total credit (from 9,3 %, i.e. 791,6 bln. CZK in the end of December 2003 to 12,4 %, i.e. 889,4 bln. CZK in the end of December 2004). Within its bounds the **volume of**

credit lent to households kept growing and the dynamics of its annual growth slightly increased (to 32,7 %, i.e. 315,2 bln. CZK in the end of December 2004) and **its share in all client credit reached more than one third** in the end of 2004 (compared with the 13 % in the base year 1993). The mortgages kept the major share, at a moderate growth of consumption credit. Apart from the attractive interest rates, the high credit supply of the banks was a reason for the high household credit demand.

Although the dynamics of running into debts is relatively high, people in some other new EU member states run into debts even faster. Also in developed countries the indebtedness of the population is much higher than in the Czech Republic. The structure of debts improved last year, because the interest for consumer credit was growing slower and people borrowed less for consumption and more for housing.

The volume of credit to business continued also. This had much to do with the general economic growth, pulled by accelerating investments and improving financial situation of firms. **The recovery of credit demand**, supported by low interest rates and competition of banks, **increased the year-on-year dynamics** (to 3,6 % in December, i.e. 574,2 bln. CZK. From 2,1 % in the end of 2003). The demand was concentrated in credit for investment, but also current account credit for financing of operational needs increased. The credit growth showed by both domestic and foreign owned firms, but it varied across industries (as we can see on page 5 of the table appendix).

... and so did credit to business

The volume of classified credit increased slightly in the end of 2004 (by 4,1 % y/y, i.e. by 4,7 bln. CZK to 118,7 bln. CZK), after four years of declining. However, their share in total credit volume, and their relation to the GDP kept decreasing. Within the bounds of classified credit the share of loss-making credit has been declining since 1998. In December 2004 this share reached 16,7 % (culminated during 1997 by 57,3 %).

The monetary policy was, apart from interest rate adjustments, tightened by appreciation of the CZK against both world currencies in the second half of 2004. **Thereby the Czech crown lessened its previous year-on-year depreciation against Euro** to 0,2 % in average for 2004 (from 3,3 % in 2003 and 9,5 % appreciation in 2002). **Against USD the CZK confirmed the long run appreciation trend**, when it appreciated by further 8,9 % y/y in year-long average (13,8 % in 2003 and 13,9 % in 2002). The development of CZK against EUR (resp. XEU) and dollar since the beginning of the transformation is depicted in Figure I.4.1.2.

The development of the Czech crown caused tightening of monetary policy

During the second, but mainly the third quarter of 2004 the CZK managed to correct for the losses against Euro from the previous periods. **In July the previous depreciation trend was shifted and in December the CZK had appreciated by 5,2 % y/y** (in 2003 it had depreciated by 3,6 %). The annual maximum against EUR was attained **on December 30** (30,4 CZK/EUR) and annual minimum in February 3 (33,333 CZK/ EUR).

During the year the CZK shifted its trend of year-on-year development against Euro

The exchange rate against USD appreciated by 13,1 % since the beginning of they year (in December 2003 it was 14,1 %), after it got over a period of depreciation in the turn of first and second quarter. CZK was at its strongest **on December 30** (22,344 CZK/USD; the maximum since the beginning of the transformation) and was weakest **on April 29** (27,655 CZK/USD).

... and the appreciation against Euro moved CZK to its historical maximum...

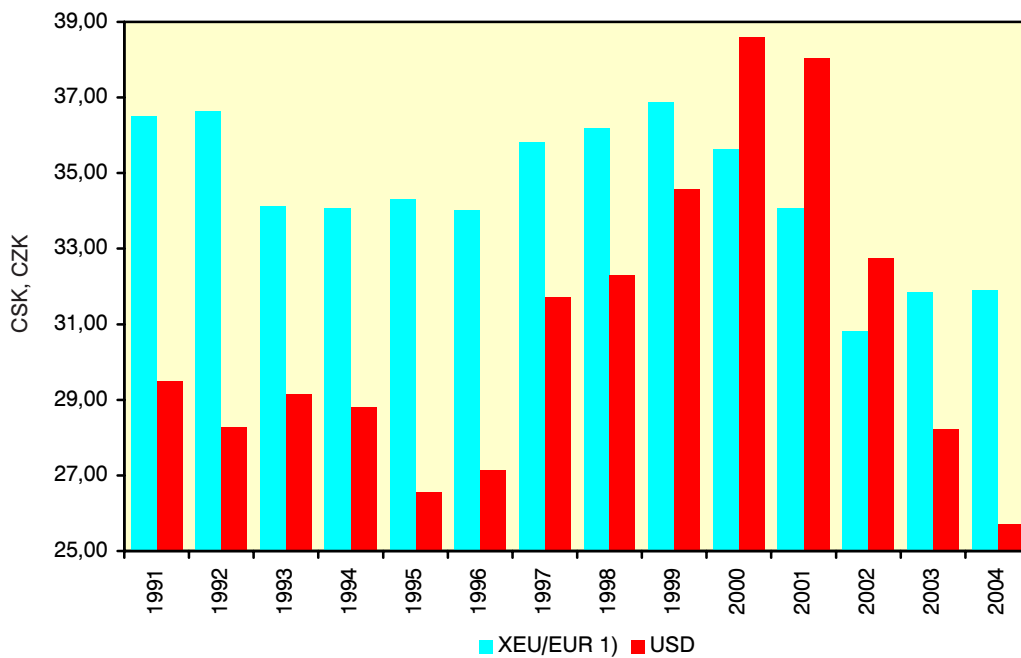
The Czech crown was influenced (apart from the primary determinant, the Eurodollar market) also by other regional currencies, mainly owing to the interest of foreign investors (German banks and American hedge funds), who were buying CZK against the weakening Dollar. The development of the exchange rate also absorbed the high outflow of money from the country, in form of dividends and payments of profit shares. The appreciation of CZK was also supported by the good performance of domestic industry, growth of exports and higher interest rates on CZK in the second half.

... and the Euro-dollar market development still had the decisive impact on its exchange rate

The development of the real exchange rate of the CZK was under the influence

In real terms the CZK

Figure I.4.1.2 Development of nominal exchange rate of the CZK against EUR and USD (annual average)



Source: CNB, figure by MIT
1) Till 1998 XEU

appreciated against the EUR again and confirmed the appreciation against USD

of the nominal development and the faster growth of domestic price level in the first half of the year 2004. The slow down of the domestic price growth in the second quarter eliminated the positive inflation differential against the USA completely, against the Euro-zone it significantly revised the higher growth of domestic prices during the second half. The competitiveness of Czech products was gradually decreasing on dollar markets and their position on the Euro markets worsened in the second half, when CZK stopped the real depreciation against Euro in July after 18 months.

Table I.4.1.2 demonstrates the real exchange rate development since 1990. It's evident that the transformation exchange rate „cushion“ (created during 1990) was used up within three or four years, depending on the currency and in the following years the CZK kept appreciating.

Balance of payment closed at the lowest annual surplus

The total balance of payments was positive in 2004 (6,8 bln. CZK, i.e. 0,3 bln. USD) but the value of the surplus was the lowest one since 1993, except for the period 1996-7, when the balance was financed from foreign currency reserves. **Apart from the current account deficit** (143,3 bln. CZK which is 5,6 bln. USD and 5,2 % of the GDP), **the deficits of capital account** (14 bln. CZK or 0,5 bln. USD) **and exchange rate differences** (+errors and omissions; 16,9 bln. CZK or 0,7 bln. USD) **item also participated on the balance of payment result.** Unlike the previous year, the current account deficit was fully covered by the resources on the financial account (180,9 bln. CZK or 7 bln. USD, which is 6,6 % of the GDP) this year. Actually 80 % of the current account deficit was covered by the foreign direct investment inflow to the domestic economy.

The formerly unimportant **capital account balance was determined by remission of a part of government's claims** (in connection with intergovernmental treaties on settlement of a part of assets from the central planning economy period) and by the contributions from the EU budget. The development of the main accounts during the last five years is shown in Table I.4.1.3.

Table I.4.1.2 Development of the real exchange rate

Period	Real exchange rate					
	December 1989 = 100			Dec.r of the previous year = 100		
	DEM	USD	EUR ^{*)}	DEM	USD	EUR
1990	67.00	67.88	.	66.99	67.88	.
1991	74.00	84.51	.	110.78	124.94	.
1992	80.50	92.48	.	108.85	109.38	.
1993	95.50	102.10	.	118.67	110.44	.
1994	99.40	115.62	.	103.53	112.67	.
1995	102.20	128.88	.	102.73	111.50	.
1996	115.00	132.21	.	112.42	102.47	.
1997	112.10	112.56	.	97.53	85.15	.
1998	129.30	136.55	.	115.43	121.41	.
1999	127.90	115.04	99.58	98.89	84.24	99.58
2000	134.70	105.94	104.61	105.25	92.10	105.05
2001	147.40	116.00	113.85	109.34	109.20	108.83
2002	.	135.61	116.44	.	116.36	102.27
2003	.	156.74	111.28	.	115.41	95.57
2004	.	179.61	117.53	.	114.28	105.62

Source: MIT calculations based on CNB, CZSO, Eurostat and BLS USA figures.
 *) December 1998 = 100

Table I.4.1.3 Development of main accounts of the balance of payments (bln. CZK)

	2000	2001	2002	2003	2004	Change in % 2004/2003
Current account	-104.9	-124.5	-136.4	-160.6	-143.3	-10.8
Balance of trade	-120.8	-116.7	-71.3	-69.8	-22.3	-68.0
Balance of services	54.6	58.0	21.9	13.2	12.5	-5.8
Balance of yields	-53.0	-83.5	-115.6	-119.9	-139.5	16.4
Current transfers	14.4	17.8	28.7	15.8	6.1	-61.2
% GDP	-4.9	-5.4	-5.6	-6.3	-5.2	-17.3
Financial account	148.0	172.8	347.8	157.1	180.9	15.2
Direct investments	190.8	208.3	270.9	53.5	100.7	88.2
Portfolio investments	-68.2	34.9	-46.7	-35.7	62.2	X
Other investments	26.9	-67.1	127.9	135.5	19.6	-85.5
% GDP	6.9	7.5	14.4	6.2	6.6	6.8

Source: CNB, CZSO

The **current account deficit declined by 10,8 % year-on-year** (i.e. by 17,3 bln. CZK) and simultaneously its structure changed. The balance of yields constituted the greatest burden for the current account, as it comprises repatriation and reinvestments of profits of foreign investors (excluding reinvestments the deficit decreases to 83,7 bln. CZK, which is 3 % of the GDP). On the other hand the formerly troublesome balance of trade stopped being a financing problem, as it was nearly covered by the positive balance of services and current transfers.

But the current account deficit improved owing to decreasing balance of trade deficit

The following showed mostly in the development of the current account:

- A significant decrease of the trade deficit (by 68 % y/y, i.e. by 47,5 bln. CZK down to 22,3 bln. CZK, i.e. 0,9 bln. CZK and 0,8 % of the GDP) **down to the lowest level of 1994** (In 1993 the deficit reached 15,3 bln. CZK). The analysis of the balance of trade is dealt with in chapter IV;

- **further decrease of the surplus of the balance of services** (by 5,8 % y/y to 12,5 bln. CZK and 0,5 bln. USD) **to the lowest annual value since 1993**. The expenditures increased faster (14,6 %) than revenues (13,4 %);

Growing surpluses of the balance of transport (25,6 % y/y to 33,7 bln. CZK) and tourism (by 6,3 % y/y to 48,8 bln. CZK) weren't high enough to eliminate the deepening deficit of other services (17,7 % y/y to 70 bln. CZK). The deepening deficit was caused by increasing demand for foreign services (for example financial services, telecommunication, intermediation, lease of machines and equipment, legal services and consultancy). The revenues from financial services and services connected to FDI increased.

- **The fast growing deficit of the balance of yields, to the highest level since 1993** (139,5 bln. CZK, i.e. 16,4 % y/y). The deficit of the balance of yields **generated the slump of the current account** and constituted 97,4 % of its deficit. Whereas the revenues decreased by 7 % y/y, the expenditures increased by 7,4 % y/y. The outflow revenues from investment amounted to nearly 84 % of the volume of the balance of yields (116,8 bln. CZK). Reinvested profits comprised 51 % of this outflow.

The increment of deficit was connected both to growth of revenues from investments, resp. dividend payments and volume of reinvested profits⁴ (balance of reinvested profits amounted to 59,6 bln. CZK, i.e. nearly 43 % of the balance of yields) and to the high increase of compensation to workers, i.e. growth of the volume of wages paid to foreign workers in the Czech Republic (at a simultaneous decrease of revenues from wages of Czech workers abroad). Also the interest costs from foreign obligations of commercial banks and business sector increased and the revenues from assets of the banking sector decreased.

- **significant decline of the surplus of current transfers** (by 61,2 % y/y to 6,1 bln. CZK or 0,2 bln. USD), as the revenues decreased by 2 % and the expenditures increased by 28 %.

The revenues were influenced by termination of securing payments, by limiting the extent of foreign help received in connection to the consequences of floods in previous years and by revenues from taxes. The expenditures were increasing thanks to (a) the growing transfers abroad carried out by non-profit organizations and households, (b) current payments of taxes and social contributions for foreign workers in the Czech Republic and (c) payment of fines, penalties, fees, heritages a so on. Both the revenue and expenditure side were influenced by transactions with the EU budget.

Increment of resources on the financial account

The **surplus of the financial account returned back to growth in 2004** (after a decrease in 2003). It grew by 15,2 % y/y, that's to say by 23,8 bln. CZK to 180,9 bln CZK or 7 bln. USD. The net capital inflow was determined by direct and portfolio investments at a very low influence of other kinds of investments.

The development of the financial account was influenced by:

- **an increase of the inflow of direct investments, which nearly doubled year-on-year** (by 47,2 bln. CZK to 100,7 bln. CZK, i.e. 3,9 bln. CZK) and that at a situation of no major privatizations and a high outflow of foreign investments abroad (14 bln. CZK, 0,5 bln. USD), which among others had to do with an acquisition in energy sector in Bulgaria;
- **the all-time highest inflow of portfolio investments** (after an outflow in 2003) amounting to 62,2 bln. CZK, i.e. 2,4 bln. USD. This related mainly to the issue of governmental Euro bonds on foreign capital markets, a bond issue by Sazka

⁴ Foreign direct investments are included in the balance of yields within the current account. This comprises not only dividends, but also reinvested profits, which form a credit item both on the financial account and on the account of the FDI. The growth of reinvested profits shows both in an increase of deficit of current account (although the money doesn't leave the Czech Republic) and in the increased inflow of foreign direct investments.

in order to cover the building costs of Sazka Arena, bond issues of the regional administration and to a significant business issue in telecommunication.

- **decrease of the surplus of other investments** (by 85,5 % y/y to 19,6 bln. CZK, i.e. 0,8 bln. USD). The high outflow in the first half was replaced by growth from the third quarter on. This development was determined by the net capital outflow through the banking sector (49,8 bln. CZK) at a simultaneous inflow in the business sector (37,2 bln. CZK) and governmental sector (32,1 bln. CZK).

The **foreign currency reserves of the central bank were largely decreasing**, after positive growth in the first quarter, so in the end of 2004 they amounted to 636,2 bln. CZK (from 691,5 bln. CZK in the end of 2003). Expressed in USD, the reserves grew from 27 USD in the end of 2003 to 28,4 bln. USD in December 2004. The different trend is caused by the exchange rate development. The reserves covered 3,9 months of import of goods and services. Three months' coverage is considered safe. Apart from the results of balance of payments in 2004 (6,8 bln. CZK) and influence of exchange rate differences, the reserves also reflected yields from foreign deposits and securities, transactions of the central bank, installments of the CNB's share of the ECB's equity and settlement of client operations.

The **development of gross foreign indebtedness confirmed a long-lasting growth trend**, when the debt reached 1013,2 bln. CZK in December 2004 (45,3 bln. CZK). This is the highest level since 1993. The growth rate was 13,2 % y/y, i.e. the foreign debt increased by 118,1 bln. CZK. **The level of foreign debt equaled 36,8 % of the HDP** (35,1 % in the end of 2003) and stayed under the „dangerous“ 40 % level. **The growth of indebtedness concentrated in the long-run liabilities** (by 95,7 bln. CZK to 631,7 bln. CZK, i.e. 28,2 bln. USD), which thereby increased their share in the total indebtedness to 62,3 % (from 59,5 % in the end of 2003). The short run indebtedness increased less (by 22,4 bln. CZK to 381,5 bln. CZK, i.e. 17,1 bln. USD), so its share decreased by 2,5 p.p. compared with year 2003.

Foreign debt of the Czech Republic exceeded 1000 bln. CZK for the first time

The **liabilities of business sector had a decisive share (60 %) in total indebtedness in the end of 2004**. The indebtedness of the business sector increased to 607,8 bln. CZK (by 65,8 bln. CZK, i.e. 12,1 %), thereof 419,5 bln. CZK was the long-run indebtedness and 188,3 bln. CZK was the short-run indebtedness. **The indebtedness of the government sector nearly doubled** (by 81,3 bln. CZK to 151,1 bln. CZK), mainly due to the issue of long run government bonds in EUR and drawing of EIB credit for development of infrastructure, recovering after floods and other anti-flood measures. The share of government in the total indebtedness increased from 7,8 % (end of 2003) to 14,9 % in December 2004. On the other hand the **indebtedness of banking sector decreased** (by 29,9 bln. CZK to 253,4 bln. CZK) and its share in the total debt decreased from 31,6 % (end of 2003) to 25,1 % in the end of 2004.

The indebtedness of governmental sector increased most

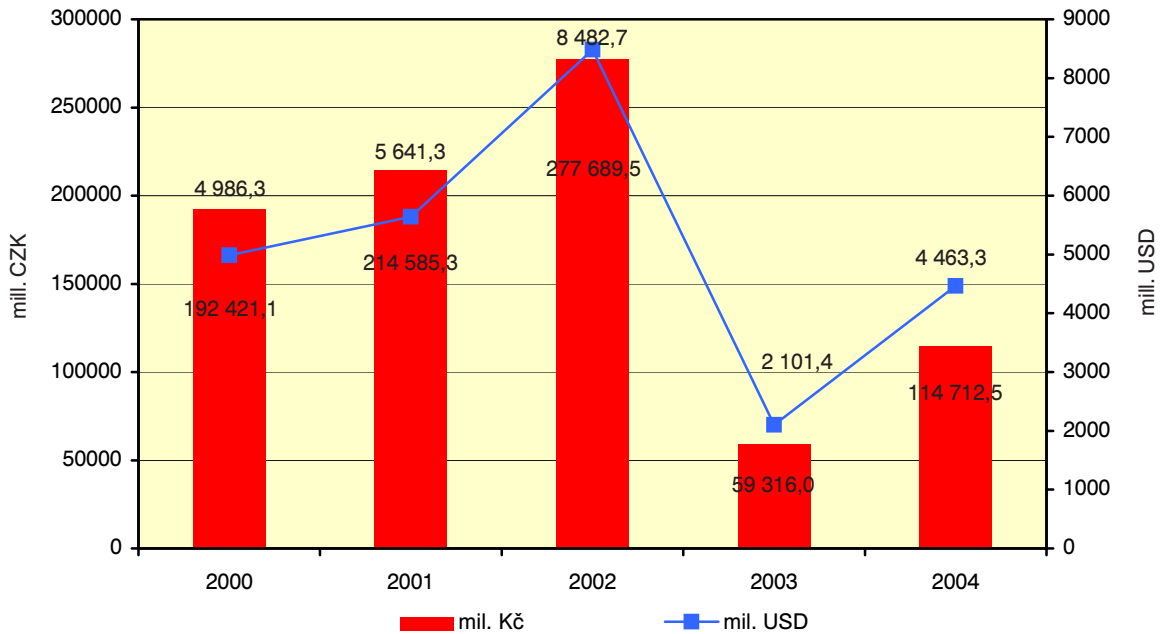
I.4.2. Foreign direct investments

The foreign direct investments are one of the main factors of the economic and competitiveness growth in the Czech Republic, mainly because of the emphasis on growing technological level of production and the multiplicative effect on subcontractors. It's positive that the **inflow of foreign direct investments to the Czech Republic nearly doubled** (reached 114,7 bln. CZK, which is roughly 4463 mil. USD) **in 2004**. This was caused both by the investment incentive system, the favorable location, cheap and quality labor force, low inflation level and satisfactory infrastructure.

Inflow of foreign direct investments doubled in 2004

From the accessing countries of Central and Eastern Europe the Czech Republic ranked one of the first places in investment volume per capita (11,2 thousand CZK) in 2004.

Figure I.4.2.1 Foreign direct investments in Czech Republic in 2000–2004 (mil. CZK, mil. USD)

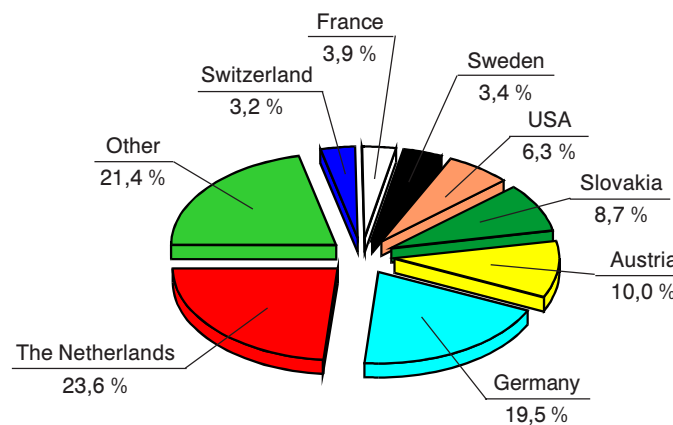


Source: CNB, figure by MIT

Equity and reinvested profit were the main way to finance investments

Till 2002 the main source of the investment inflow growth were major privatizations. For example the sale of the state's share in Transgas corp. in 2002. In 2003 the foreign direct investments decreased, but in 2004 the decrease was replaced by a renewed boom, whose structure nevertheless changed. **The main form of foreign direct investments was equity and reinvested profit (104,4 bln. CZK, i.e. 91 % of the total inflow).**

Figure I.4.2.2A Territorial structure of foreign direct investments in 2004

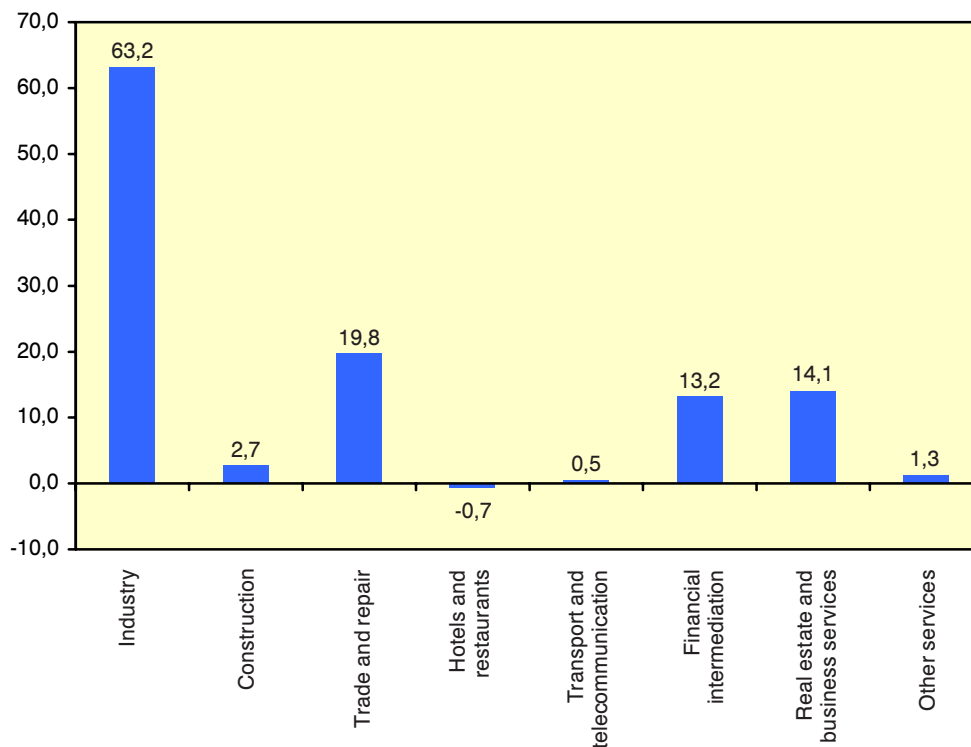


Source: CNB, figure by MIT

The most of the foreign direct investments originated from EU-25 countries in 2004 (79,5 %). The main investors were the Netherlands (23,6 %), Germany (19,5 %) and Austria (10,0 %). As of other territories, most investments came from USA (6,3 %), Asian countries (6,0 %) and Japan (5,9 %).

EU-25 countries dominated the FDI inflow

Figure I.4.2.2B Industrial structure of foreign direct investments in 2004



Source: CNB, figure by MIT

Most of investments headed to industry (63,2 %), mainly to manufacturing (48 %). The share of investments related to development, innovation and strategic services increased.

Most of investments headed to manufacturing

In the first period the most of foreign direct investments headed to big corporations, mainly by means of purchase of the state's shares and focused on buying and extending of existing production (for example Volkswagen group). The new phase is characteristic by investment to manufacture of electronics and electrical machinery, and most of the investment are green field investments. Typical examples are corporations Foxconn, Panasonic, Mobile Auto, Panasonic AVC Plzen, FIC CZ Rudna, LG and Phillips Displays.

Many businesses gradually consolidate their positions, increase performance and productivity and thereby their capital growths. That allows them to expand abroad. Such activities aggregate into outflow of foreign direct investments and their aim is to gain foreign markets and many other advantages (for example lower labor costs). The outflow of foreign direct investments increased by 141,4 % y/y to 14 bln. CZK (roughly 546 mil. USD). The greatest part of the outflow went to Bulgaria, because of the purchase of three Bulgarian distribution companies by CEZ Corporation.

Outflow of foreign direct investments

I.5. Capital market

World securities markets consolidated...

The world securities markets were influenced by many negative news, mainly all-time price growth of commodities (chiefly oil) that has impact on firms' financial results, reports about profits from business sector, inflation growth expectations with subsequent interest rates growth in USA and slow down of world economic recovery, but also lasting geopolitical risks. Whereas in 2003 the main stock market indices strengthened, **in the first half of 2004 their development was very volatile**, so they closed the year at values just slightly higher than the opening ones. Since August the stock market indices fluctuated slightly around a stable level and **in the end of the year the fast decrease of the oil price helped the stock market**. The American technological index Nasdaq Composite increased by 8,4 % since the beginning of the year. S&P 500 grew by 9,4 %, German DAX by 7,3 %, Paris index CAC by 8,4 % and London FTSE by 7,8 %.

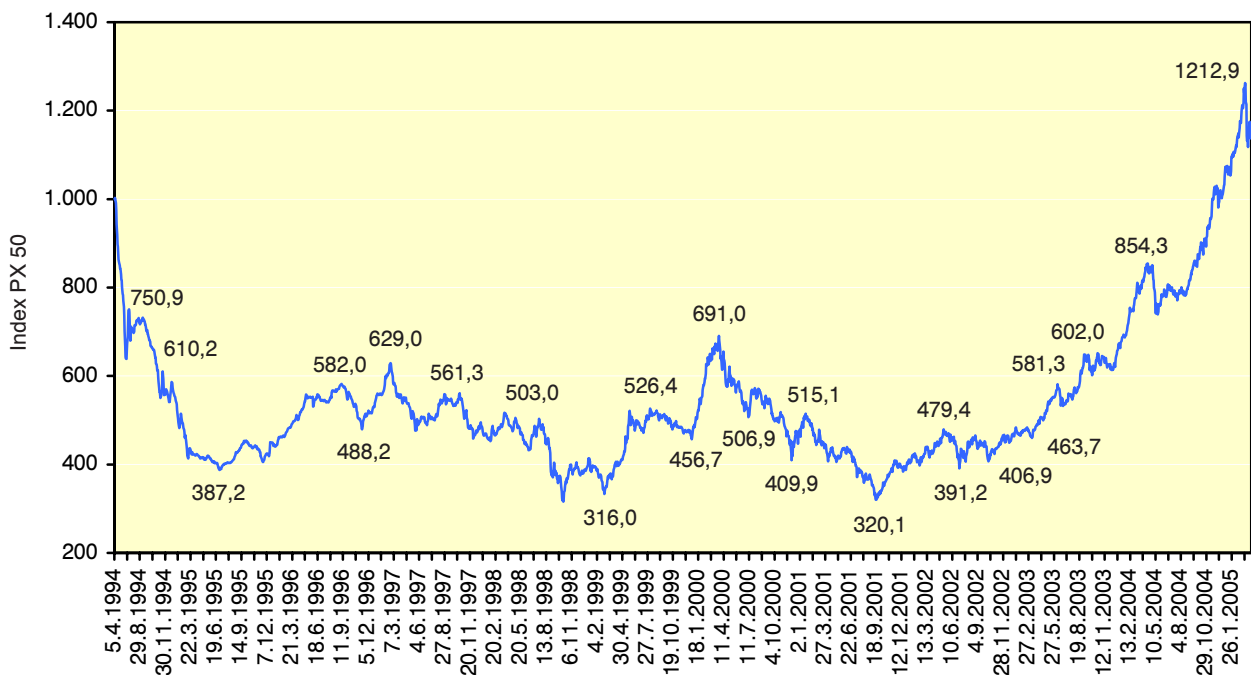
... and the Central European ones were rising significantly

On the other hand the **Central European stock markets**, which became attractive for investors due to the EU membership and faster economic growth, **were growing significantly**. Hungarian BUX gained 54,7 %, Slovak SAX by 783,9 %, Polish WIG by 27,2 %. In 2005 further growth of these regional markets is expected.

Czech stock market index PX50 reached all-time values

Also the Czech stock market have been developing very well in the last years. In 2004 the Czech stock market had been growing fast for three years in a row and this trend continued in the beginning of 2005. **The main index PX50 was growing very fast in the beginning of the year**, thereafter it fell in May and was growing again from September. The trend of growth started already in 2001. The existing maximum from April 1994 (when the index started to be calculated) was passed on November 24, when it closed at 1012,9 points. **The index closed the year at 1032 points, which is a all-time 56,6 % y/y growth**. Owing to mainly foreign buyers,

Figure I.5.1 Index PX 50 (April 5, 1994 till March 31, 2005)



Source: BCPP – Prague Stock Exchange, figure by MIT

Note: The number of stocks included in the base of the main index of the Prague Stock Exchange PX 50, which monitors the prices on the domestic stock market, amounted to 16 from January 2004 and 15 from January 2005.

the CEZ issue had the greatest share in the growth. Its rate increased by 133,8 % y/y (Erste bank by 48,7 %, Komerční banka by 35,3 %).

As of May 1 several laws adjusting business conditions on capital markets came into force. The new laws (Business on capital market Act, Act on Bonds and Act on collective investment) were meant to make the legislation compatible to that of the EU. The main change is the introduction of European passport that allows investment corporations to work within the whole European market. Furthermore the system of registration of securities and capital market supervision changed and the scope of products for collective investment broadened.

The year 2004 was also the third year in a row when the volume of transactions on the domestic market decreased (after an all-time value of 2010,7 bln. CZK in 2001) and reached 1195,3 bln. CZK. This means a 13,6 % y/y decline, which corresponds to values reached for the last time in 1996. The Prague Stock Market (which has a dominant position on the Czech capital market) secured 98,1 % of all transactions. The rest was secured by third market subjects, that's to say RM-system and Center for Securities (Stredisko cennych papiru).

The y/y decrease of trade turnover couldn't endanger the strong position of the Prague Stock Exchange

The **total volume of trade on the Prague Stock Exchange decreased** by 14,3 % year-on-year and the **structure changed significantly**. The annual decrease of the volume of trade was mainly due to trade in bonds (37,6 % y/y decrease to 692,5 bln. CZK). Although bonds keep dominating the trading (59,1 %), their share therein was decreasing gradually in favor of trade in stocks and trust shares. The trade in stocks and trust shares increased a lot during the year and the volume of this trade reached 479,7 bln. CZK (86,4 % y/y growth), which is a historical maximum, and it was growing steeply in the beginning of 2005. **From the point of view of the stock market, the year 2004 was the most successful one ever.** The volumes of trade increased in average more in a month, than they did in a quarter in 2001.

Stocks and trust shares increase their share in the total volume of trade significantly

The ranking of the three most liquid issues didn't change during the year. The first place was defended by Komerční banka, thereafter Cesky Telecom and CEZ. The Prague Stock Market still doesn't have enough issues and is threatened by further decline of their number in connection with the privatization of the state share in Cesky Telecom and Unipetrol (if their issues stop being tradable). On the other hand, new issues keep appearing. Erste bank replaced Ceska Sporitelna and in the second half of 2004 trading of the first Czech primary issue of Zentiva was started. In the beginning of 2005 Orco Property Group entered the market.

Zentiva stock issue gave a new impulse to the Czech capital market

Table I.5.1 Development of trading on Prague Stock Exchange since 1994

Year	Total volume of trade (bln. CZK)	Number of issues (state as of the end of the period)	Market capitalization (bln. CZK, state as of the end of the period)	
			Stocks+Trust sh.	bonds
1994	62.0	1055	353.1	50.0
1995	195.4	1764	478.6	87.8
1996	393.2	1750	539.2	136.9
1997	679.5	412	495.7	174.0
1998	860.2	402	416.2	198.1
1999	1187.5	290	479.6	231.1
2000	1222.8	245	442.9	280.1
2001	1987.2	186	340.3	319.4
2002	1793.1	153	478.0	372.5
2003	1367.5	146	644.5	505.5
2004	1172.1	134	975.8	577.0

Source: Prague Stock Exchange

There are 27 members or persons licensed to trade on the stock market. Patria-finance was the biggest trader in stocks on the PSE in 2004. It traded for 258 bln. CZK. It kept its first rank also in January.

Interest for RM-System faded

The volume of trade realized through the RM-System dropped significantly in 2004 (by 47,9 % y/y to 4,9 bln. CZK). The **main causes were both the significant decrease of trade in bonds** (by 90,2 % y/y to 0,3 bln. CZK, i.e. 6,1 % of the total volume of trade) and (unlike on Prague Stock Exchange) the **simultaneous decline of trade in stocks and trust shares** (by 27,5 % y/y to 4,6 bln. CZK, i.e. to 93,9 % of the total trade).

On the other hand the **PX30 index**, which surveys the price movements of the 30 biggest enterprises, kept beating existing records and closed at 1443,5 points in the end of December 2004, which is a **52,3 % year-on-year growth**. This development corresponds to that of main stock exchange index PX 50.

...but on the other hand the Center for Securities increased the volume of trade significantly

Although the Center for Securities has a very low share in the volume of the domestic capital market, the **volume of trade in stocks, trust shares and bonds realized over-the-counter by Cfs tripled**, i.e. it increased to 18,3 bln. CZK.

All monitored stock market industrial indices were increasing

Also the **stock market industrial indices were influenced by the EU entry and to a lower degree also by privatization expectations**. The long run tendency of the market is based on the sound growth of the Czech economy and a steep growth of profits of traded firms (unlike in Western Europe). Therefore the prices of stocks and the volume of trade keeps growing so fast on the Prague Stock Exchange. Geopolitically the Central Europe is considered a safe region and that attracts investors from abroad. Another positive factor that contributes to the growth is the real under-valuation of most issues in previous period. The **stock market indices of selected industries developed as follows in 2004:**

- the best performing index was the index of **energy supply**, which increased by 82,9 % y/y, owing to the growing interest in stocks of the CEZ corporation (electricity supply, 133,8 % y/y growth). The strengthening of this stock was caused by outstanding economic results, successful privatization of three Bulgarian and one Romanian distribution companies, growing wholesale prices of electricity, higher volumes of domestic demand compensating for decreasing export, positive rating from foreign investment houses and last but not least by the investment plans and interesting dividends of the firm. In the following period the stocks of CEZ are going to be positively influenced by the expansive strategy (the firm is interested in buying distribution firms and power plants in Bulgaria, Poland and Romania) and development on electricity market;
- index of **mining and processing of minerals and ores** increased by 66 %, which resulted from global boom of the industry, acquisitions and privatizations of coal companies and from the composition of the index, which consists of stable companies, that generate reliable profit. Also the favorable coal prices development has a positive influence;
- index of **financial sector** increased by 46,1 %. Apart from the high profitability of the domestic banking sector, this was caused by Erste Bank stocks. This stock increased by 48,75 % y/y, also because of the splitting of the security into quarters, in order to enhance the interest of small investors and defend itself against hostile takeover. Erste bank also reported outstanding economic results and the forecast is also very good. also in the future the development of bank stock(Komerčni banka + Erste bank) shall be positively influenced by growing interest for credit products, mainly mortgages, consumer credits and business credits. System of payment fees are going to remain one of the significant revenues, because the volume of financial transactions grows and the banks keep the transaction prices high.
- the index of **chemical an pharmaceutical industry** was also growing signifi-

Table I.5.2 Development of stock market indices

INDEX	Value as of											y/y change in %	
	31. 12. 1994	31.12. 1995	31. 12. 1996	31. 12. 1997	31. 12. 1998	31. 12. 1999	31.12. 2000	31. 12. 2001	31. 12. 2002	31. 12. 2003	31. 12. 2004	2003/ 2002	2004/ 2003
PX 50	557,2	425,9	539,6	495,3	394,2	489,7	478,5	394,6	460,7	659,1	1032,0	43,1	56,6
PX-GLOB	820,8	595,6	655,6	599,1	478,3	587,9	570,6	492,9	576,8	816,9	1232,7	41,6	50,9
Mining and quarrying	996,2	473,0	820,5	901,6	456,4	436,4	322,1	350,3	553,8	1262,1	2095,5	127,9	66,0
Chem.products, med. drugs, rubber	859,7	400,0	318,5	255,2	138,0	140,3	154,3	118,0	110,7	206,9	327,7	86,9	58,4
Construction operations & material	879,8	695,2	619,1	465,5	417,4	538,0	718,5	863,7	1332,6	1666,2	2353,4	25,0	41,2
Machinery	877,8	630,7	665,3	548,4	140,8	92,9	72,3	47,5	62,1	94,7	.	52,5	.
Electronics, electric machines	903,2	521,4	415,2	373,9	234,9	262,9	344,4	285,3	359,3	494,4	.	37,6	.
Energy supply	829,2	588,7	728,7	736,7	414,6	555,6	536,1	451,5	590,0	835,6	1528,2	41,6	82,9
Transport and communication	913,0	854,9	1140,7	1228,7	1569,9	1966,3	1779,5	1084,8	730,5	900,9	1142,5	23,3	26,8
Trade	889,4	778,4	338,5	197,6	106,6	75,8	82,4	59,4	76,2	73,8	105,5	-3,1	43,0
Financial sector	716,4	566,2	803,5	505,4	345,3	498,4	571,4	674,4	1042,5	1491,6	2178,8	43,1	46,1
Services	837,8	628,0	610,2	465,9	383,3	518,9	446,5	404,0	455,2	597,6	580,8	31,3	-2,8

Source: Prague Stock Market

Note: Due to low number of traded stocks the following industrial indices were canceled: electro in 9/2004, machinery in 12/2004 and transport& communication in 2/2005.

cantly, namely by 58,4 %. The results of the index were influenced by trading of Zentiva primary issue on the Prague Stock Exchange. The liquidity of its stocks has been very good since the beginning of the trading and since the entrance to the stock exchange the stocks appreciated by 50 %. This relates to the results of the company, which were influenced by lower interest costs after cuts of indebtedness and refinancing of some loans. The growth of the company was supported by revenues from branded drugs (the firm concentrates on the so called generic drugs, that's to say cheaper copies of drugs, whose patent protection expired. This delivers high margins.) and business expansion to Poland and Russia. Also the stocks of Unipetrol performed very good (47,8 % y/y growth), owing to the good economic results of subsidiaries and sale of government's share in the Polish company PKN Orlen. The annual improvement of profit and revenues reflects both restructuring (including the new operating model of Ceska Rafinerska) and favorable market conditions;

- index of **construction and construction material** increased by 41,2 % y/y, driven by the long-lasting positive development of the industry and the low interest rates. The performance is supported by the arrival of foreign investors, building of administrative centers and flats and building of infrastructure. The rise of VAT in May had a positive influence also, because investors sped up a lot of building operations;
- index of **transport and communication** increased by 26,8 %. This increase correlated mainly with the information about the preparation of privatization of 51 % of the government's share in Cesky Telecom. Cesky Telecom is (after it took over Eurotel and dominated the telecommunication sector) in much better shape than at the previous attempt for sale.

Table I.5.2 offers a survey of price development in the individual industries.

I.6. Results of financial operations of non-financial sector

The favorable development of financial indicators continued

The total **financial results** of organizations from non-financial sector (with 100 or more employees) **improved significantly year-on-year**, mainly in case of some flow indicators. First of all the development of **accounting value added** and **gross profit** was very dynamic, as the rates of growth were the highest in the last five years. As for individual industries, the strengthened importance of industry and trade, which had almost 75% share in the accounting value added of the non-financial sector, had a positive impact.

Seen in context of overall economic development, the **high growth of export** (at improving terms of trade) had a strong **positive impact** on the level and dynamics of financial indicators. The growth of raw material prices projected (via costs) to domestic prices, which made intermediate consumption grow faster than outputs and slowed down the dynamics of accounting value added. These effects on financial results were very variable among industries.

The most of the **financial results worsened** in agriculture, forestry and fishing. Some indices declined in transport, communication and warehousing.

The financial results were influenced both by the mentioned external conditions (growth of foreign demand) and by internal conditions, which means extending the existing production capacities and putting of new investments into operation. The finishing of fundamental restructuring projects and strengthening of the position of

foreign owned enterprises participated on the total financial results. The most of the industries improved their performance, due to increasing labor productivity and better technical equipment of the firms. **The development of individual indicators was as follows:**

The **accounting value added** (in current prices) **accelerated its growth** from 8,6 % y/y in 2003 to 11,2 % y/y, which is the highest rate since 1999. As for industrial decomposition,⁵ the industry determined the results of non-financial sector. Its share in the accounting value added was nearly two thirds, at a 13,8 % y/y growth. A higher growth was recorded in trade (18,9 %), hotels and restaurants (16 %) and not-elsewhere-classified services (14,6 %), see Table I.6.1.

Fast growth of accounting value added in industry and trade

Table I.6.1 Accounting value added, labor productivity based on value added in 2004

	Accounting value added (cur.pr.)			Acc. value added per employee (cur.pr.)	
	bln. CZK	y/y change in %	share	thous.	y/y change
				CZK	in %
Non-financial sector	940.6	11.2	100.0	615.5	11.4
thereof:					
Industry	595.1	13.8	63.3	681.3	14.9
Construction	39.3	6.0	4.2	538.3	7.4
Trade	82.8	18.9	8.8	568.8	13.9
Hotels and restaurants	9.8	16.0	1.0	482.3	15.7
Transport, warehousing and telecommun.	130.8	0.5	13.9	610.8	3.7
Hiring of real estate, business serv., res.	39.8	7.1	4.2	441.4	-0.7
Agriculture, forestry, fishing	18.1	-2.3	1.9	312.8	14.9
Other services	24.9	14.6	2.6	465.1	-10.0

Source: CZSO

In transport, warehousing and communication the accounting value added was stagnating, at a maximum advance of intermediate consumption growth before the growth of outputs (9,2 % against 5,1 %). In warehousing (NACE 63) and telecommunication (NACE 64) the accounting value added decreased by 4,6 % and 1,3 % y/y.

The labor productivity based on accounting value added (in cur.pr.) reached 615,5 thousand CZK per employee at a similar annual growth like a year ago (11,4 % versus 11,5 % in 2003). Simultaneously the **employment decrease almost stopped** (0,1 % decrease), whereas employment decreased by 2,6 % y/y in 2003. The growth of labor productivity was different by industry. In connection to the high employment increase in services (by more than 14 %), the labor productivity decreased by 3,7 % there. **The highest level was again attained in industry**, where it exceeded the non-financial sector's average by 11 % (7 % in 2003). While in 2003 the labor productivity level (based on value added) in transport and industry were almost equal (593 thousand CZK/employee versus 589 thousand CZK per employee), in 2004 the difference deepened by 11 %.

One of the main competitiveness indicators is the **quotient of personal costs to accounting value added**, which decreased by 1,9 p.p. to 50,8 %, thanks to industry and trade (decrease by more than 3 p.p.).

⁵ The year-on-year comparison of industry and trade was influenced by the transfer of Ceska Rafinerska refinery to the so-called transport regime (since 1.8. 2003). The financial results of the company reflect just the transport fee. The import of oil and sale of oil products are realized by the company's shareholders (Shell, ConocoPhillips, Agip), which are (according to the main economic activity methodology) registered in NACE G (trade).

The **gross profit** (pre-tax operations result) of the non-financial sector **increased by more than one third** year-on-year to 267,2 bln. CZK (by 23 % in 2003). The volume of gross profit increased nearly fivefold since 1999, due to extensive structural changes of the economy, growing influence of foreign investments and liquidation of overextended organizations.

Profit was increasing, the loss decreasing

The profit growth was mainly driven by industry and trade in 2004, as follows from Table I.6.2.

Table I.6.2. Pre-tax profit in 2004

	Pre-tax profit			y/y increment/ decrement in bln. CZK	Impact on the y/y change in bln. CZK	
	bln. CZK	y/y change in %	share		production factor	non-product. factor
	Non-financial sector	267.2	33.5	100.0	67.1	56.1
Thereof:						
Industry	180.5	36.1	67.5	47.9	49.0	-1.1
Construction	9.8	8.2	3.7	0.7	0.2	0.6
Trade	22.1	132.8	8.3	12.6	7.2	5.4
Hotels and restaurants	3.0	47.4	1.1	1.0	1.1	-0.2
Transport, warehousing and telecommun.	36.9	12.9	13.8	4.2	0.3	4.0
Hiring of real estate, business serv., res.	6.2	-10.0	2.3	-0.7	-1.7	1.1
Agriculture, forestry, fishing	3.0	377.6	1.1	2.4	1.2	1.2
Other services	5.8	-14.4	2.2	-1.0	-1.2	0.2

Source: CZSO

The annual profit increase reached 67,1 bln. CZK, thereof industry and trade (90,5 %, ie 60,5 bln. CZK) created the greatest part. The highest dynamics was registered in agriculture, forestry and fishing (377,6 %), owing to the fact that outputs were decreasing slower than costs. A worsening by 12,2 % y/y occurred in services as a whole (hiring of real estate + business services + other market services).

The **production factor**⁶ (net operation surplus, which grew by 27,1 % y/y to 56,1 bln. CZK) **determined** the year-on-year growth of profit. The non-production factor⁷ had a positive influence too, namely its volume was 10,9 bln. CZK.

The **decrease of loss making** was the favorable quality of the development of financial indicators in 2004. The **volume of loss decreased** by 26,7 % to 31 bln. CZK. The number of loss-making organizations decreased by 20,8 % to 840 firms, which is slightly less than 20 % of the total number of organizations. The volume of loss decreased significantly in trade and industry (mainly in wholesale trade, NACE 51), namely by 5,8 bln. CZK in both. The **volume of gross profit of profit-making organizations increased** by 23 % to 298,2 bln. CZK. Their number rose by 5,7 % to 3406 units.

Total revenues accelerated from 5,6 % (in 2003) to 12,1 % y/y growth. **Total costs were growing slower** (11,0 %). In 2003 their annual growth amounted to 4,8 %. **The intermediate consumption was the fastest growing** part of costs (14,5 % against 6,8 % in the comparable period). It was increasing fastest in industry (15,1 %) and in trade (33,4 % - influence of processors).⁸ Moreover the costs not-

Revenues kept growing faster than costs

⁶ Production factor = net operation result = value added - depreciation - personal costs.

⁷ Non-production factor = balance of other revenues and other costs.

⁸ Processors = shareholders of Ceska rafinerska corporation. They realize import of oil and sale of oil products.

elsewhere-classified increased by 7,9 % y/y (2,6 % in 2003), personal costs by 7,3 % and depreciation by 3,3 %. As for the structure of costs, just the share of intermediate consumption increased, namely by 1,6 p.p. to 53,2 %. This share increased in most industries, apart from services, agriculture, forestry and fishing. **The share of intermediate consumption in costs has been growing in the long run.** From 1994 to 2001 it was fluctuating under 50 % and since 2002 it has been exceeding 50 %. The highest level was reached in 2004 (influence of industry). The personal costs' share has been decreasing slightly (from 1994 to 1999 a bit more than 12 %). In 2004 it decreased significantly by 0,4 p.p. to 11,2 %, which is a positive signal for competitiveness. A similar trend was registered by the share of depreciation in total costs, which reached 4,7 % in 2004 (compared to 5 % in 2003). Also the share of other costs has been decreasing since 1999. It decreased by 0,9 p.p. to 31 % in 2004.

Year 2004 was characterized by rather significant annual increase of total liabilities, in the first place equity. **The total liabilities** of the non-financial sector increased by 5,2 % y/y (0,5 % y/y decrease in 2003) to 3601,3 bln. CZK. Thereof **equity** increased by 7,4 % (2,1 % in 2003). **Foreign resources** (difference between total liabilities and equity) reached 1689,1 bln. CZK, at a 2,8 % y/y growth. As for the structure of foreign resources, the share of obligations (5,5 %), bonds and drafts (2,1 %) and reserves (1,3 %) were increasing most of all, while bank credits, accepted loans and allowances decreased by 1,6 %.

*Compared to 2003
the growth of
liabilities and equity
accelerated*

The **return on equity**⁹ increased by 2,7 p.p. to 14 %. It improved most in trade (by 8,5 p.p. to 17,2 %) and industry (by 3 p.p. to 15,4 %). It worsened in services, hotels and restaurants and slightly also in construction.

After stagnation during 2003 the development of **stocks turned in 2004**. The state as of the end of 2004 was by 8,9 % higher (amounted to 383,3 bln. CZK) than at the end of the previous year. **Stocks of material** were growing fastest (12,8 %) and **stocks of own production** took the second place (by 11,3 %). The stocks of goods stagnated at 96 bln. CZK. Just like in the case of other financial indicators, the stocks were **influenced mainly by development of industry** (11,5 %) **and trade** (14,2 %). The industry had a 84 % share in the total increment of stocks in the non-financial sector (26,2 bln. of 31,3 bln. CZK). Trade had a 30 % share (9,5 bln. CZK). Stocks decreased in transport, warehousing and communication (by 20,4 %), in construction (by 3,1 %) and in agriculture, forestry and fishing (by 5,4 %).

*The stocks grew,
most of all stocks of
material*

The **turnover of stocks** (related to outputs incl. trade margins) increased by 2 days to 43 days.

Investments (including acquisition of land) reached 259,8 bln. CZK in the non-financial sector, as they increased by 5,3 % y/y. **Industry and trade were the biggest investors**, and in the contrary they decreased in transport, warehousing and communication (by 14,2 %). Enterprises invested more than they amortized. Thereby the net investments¹⁰ increased by 12,9 % y/y to 59,9 bln. CZK.

*Greatest investments
in industry and trade*

The growing performance of the economy and improvement of the financial situation in business sector showed in the **number of bankruptcy procedures, which decreased again in 2004**. The number of bankruptcies culminated in 2000 and since then it has been decreasing. However, the bankruptcy legislation still has a negative influence on the course of bankruptcy procedures, so there's still room for improvement of the laws.

*The number of
proposed and
processed bankruptcy
procedures kept
declining*

In 2004 totally 3643 **bankruptcy proposals were filed**, thereof in 16 cases a settlement proposal was filed. The year-on-year decrease in 7 %. The **number of declared bankruptcies decreased also**, namely by 16,6 % to 1441.

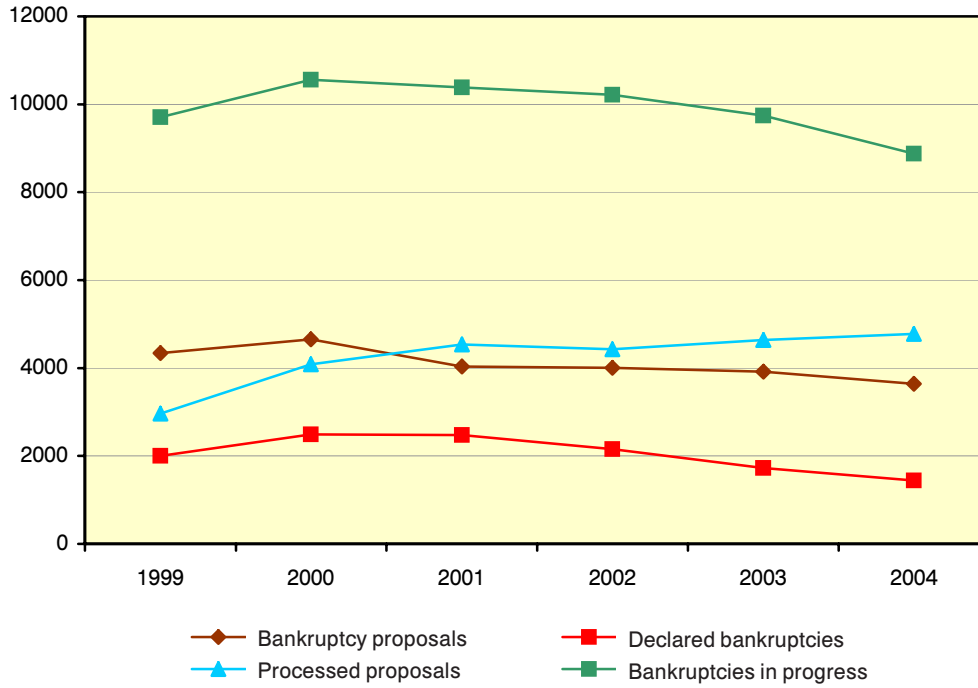
⁹ ROE = pre-tax profit/equity at the end of the period.

¹⁰ Net investments = acquisition of long run property incl. land minus depreciation

Number of processed bankruptcy proposals increased

The number of processed bankruptcy procedures reached 4778 in 2004, which is by 3 % more than in 2003. The fall in the number of new proposals and increase of the number of progressed ones showed in the number of bankruptcy procedures in progress, which decreased below 9 thousand (8876) for the first time since 1999. By region the most cases in progress exist in Prague, Brno, Usti nad Labem and Ostrava.

Figure I.6.1 Development of bankruptcies since 1999



Source: Ministry of Justice, figure by MIT

II. INDUSTRY

II.1. Production, employment and productivity

The moderate recovery in the Western European economies, the accession of the Czech Republic to the EU and the growing competitiveness (which shows in higher demand for Czech products) showed in a **significant year-on-year acceleration of the industrial production** from 5,8 % to 9,9 %.

Industrial production accelerated significantly

The good performance of **foreign owned companies** kept having a positive impact. Their share in total revenues is higher than one half and three quarters of its sales are aimed abroad. The share of foreign owned companies in employment is just one third. During the year structural changes, lying in improving performance of subsections with high share of foreign capital and subsections producing goods with high value added, were going on. Many new capacities were made operational, particularly in electric engineering, engineering and manufacture of motor vehicle components. Metallurgy recovered also, owing to the steel and iron market boom (most of all in Asia).

The revenues in constant prices kept almost the same rate of growth (9,8 %). The growing interest for our products showed in the increment of revenues from direct exports by 17 % y/y (const.pr.; from 9,2 % y/y in 2003). The share of direct exports in total revenues from sale of own products and services reached 52,6 %.

In the structure by **main industrial groupings** the growing investment activities showed in the fast growth of **products for investment purposes** (by 15,2 %; 23,6 % share). The **production of intermediate goods** (40,7 % share) rose by 12,9 %, mainly thanks to foreign companies that migrated here in order to utilize the lower costs. Also production of **goods for long-run consumption** increased rather fast (11,2 %; 3,1 % share). A slight increase occurred in other groupings, namely by 2,5 % in goods for short-run consumption (17,5 % share) and by 1,6 % in energy supply (15,1 % share).

In the **raw material section** the development was influenced by the antagonistic development of the lower demand for energy raw materials due to stagnation of production of electricity in steam power plants on one hand and the dynamic development of construction on the other hand. The production decreased by 0,9 %, the revenues in constant prices decreased by 1,3 % and revenues from direct export (const.pr.) by 3,6 %. In mining of energy raw materials production decreased by 9,1 % and mining of other minerals increased by 9,3 %. The share of direct exports in total revenues from sales of own production equaled 8,6 %.

Both production and revenues decreased in the raw material section

The mining of brown coal declined by 3,5 % in physical units. Thereof the energetic brown coal by 2,8 % (91,9 % share in total output). The mining of black coal for consumption decreased by 2,5 % thereof mining of coal suitable for manufacture of coke by 7 % (55 % share) and mining of energetic black coal increased by 3,6 %.

Table II.1.1. Development of industrial production and revenues in 2004
(organizations with 20 and more employees, y/y change in %)

	1. Q.	2. Q.	3. Q.	October	Novemb.	Decemb.	4.Q.	Year 2004
Industrial production index								
Industry as a whole	9.0	12.6	8.7	8.1	10.9	8.3	9.1	9.9
C Mining and quarrying	-2.3	1.0	0.3	-5.6	-0.3	-1.1	-2.4	-0.9
D Manufacturing	9.9	13.6	9.3	9.3	11.6	9.1	10.1	10.8
E Production and distribution of electricity, water and gas	1.2	1.5	2.6	-6.1	2.3	0.6	-1.0	0.9
Revenues for sale of own goods and services (in const.pr.)								
Industry as a whole	8.8	12.8	8.0	6.5	13.9	8.6	9.7	9.8
C Mining and quarrying	-5.4	3.8	3.3	-6.2	-5.6	-7.0	-6.2	-1.3
D Manufacturing	9.9	13.7	8.5	7.9	15.5	9.5	11.0	10.8
E Production and distribution of electricity, water and gas	2.2	2.9	2.8	-6.9	1.8	3.3	-0.3	1.8
Revenues from direct exports (const. pr.)								
Industry as a whole	13.5	20.0	16.3	14.5	21.4	18.4	18.1	17.0
C Mining and quarrying	-15.6	4.6	-3.5	-5.2	-2.6	13.1	0.7	-3.6
D Manufacturing	13.8	20.8	17.1	15.3	22.5	19.3	19.0	17.7
E Production and distribution of electricity, water and gas	-7.4	-37.9	-40.1	-48.3	-55.6	-47.6	-50.7	-35.3
Share of revenues from direct exports (const. pr.) in total revenues of the section (in %)								
Industry as a whole	52.3	52.8	52.9	53.7	53.7	49.5	52.5	52.6
C Mining and quarrying	8.2	9.2	8.7	8.2	7.7	8.5	8.1	8.6
D Manufacturing	57.6	56.8	57.0	58.1	58.4	55.0	57.0	57.2
E Production and distribution of electricity, water and gas	5.5	5.4	5.7	4.2	3.8	3.4	3.8	5.1

Source: CZSO

Mining of **other mineral raw materials** increased by 3,4 %, because of the favorable development of construction. Thereof mining of limestone increased by 4,1 % and mining of natural sand by 2,6 % in physical units.

Production and revenues of energy section increased slightly

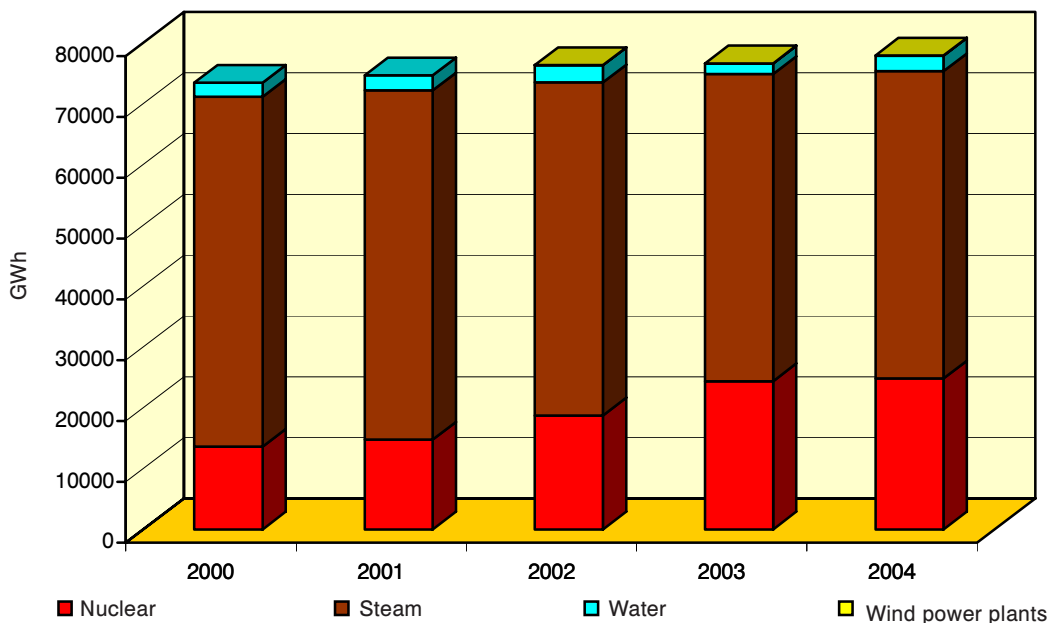
In **energy section** production increased by 0,9 % y/y in constant prices and revenues grew by 1,8 %. Revenues from direct export declined by 35,3 % (5,1 % share in total revenues from sale of own production). The development was affected by a temporary interruption of production in the nuclear power plant Temelin (in second quarter), which showed in a lower growth rate of net electricity production (just by 1,7 % y/y in comparison with 8,9 % y/y in 2003).

As for structure of electricity **production the production in steam power plants stagnated** and its share decreased by 1 p.p. to 61,6 %. In other kinds of power plants the production increased. However, this must be assessed in context of previous years and the share of a given technology in total production. The net production of electricity in **nuclear power plants** increased by 1,9 % and its share stayed on 31,8 % (in 2003 the growth was 38,6 %, because the second block of Temelin had been put into operation). The net production of water power plants rose by 44,7 % and its share by 1 p.p. to 3,3 % (resources repaired after floods in 2002 were put back into operation). The production of other kinds of power plants (wind, solar, geothermal, other alternative) more than doubled, which is a result of production growth in wind power plants. The share of these resources in total pro-

duction is negligible (0,02 %) and the share in production of water plants (the main renewable source in the Czech Republic) reaches only 0,76 %. The export of electricity including transport (in GWh) decreased by 3,1 % (27,6 % growth in 2003) and reached 32,7 % of net electricity production.

Due to the growth of the economy, domestic consumption of electricity increased by 2,9 % (from 2,1 %), thereof by 4,9 % by major customers (3,2 % in 2003) and by 1,1 % by small customers (from 2,9 %). As for the structure of demand of small customers, the small businesses' demand rose by 3 % (35,3 % share in demand of small customers) and demand of households increased by 0,1 %.

Figure II.1.1 Production of electricity



Source: CZSO, figure by MIT

The performance of **manufacturing** was affected by the continuing **growth of industries with high share of foreign capital** and export oriented production. The industrial production and revenues both increased by 10,8 %, revenues from direct export in constant prices by 17,7 % (57,2 % of total revenues in industry).

Fast growth of manufacturing influenced by foreign owned enterprises

Within manufacturing, the highest growth was registered in **production of basic metals and metallurgy**, namely by 23 %. Revenues (const.pr.) increased by 9,2 %, thereof revenues from direct export by 8,4 % (43,2 % share in revenues of bas. met. and metallurgy; 5,2 % share in revenues of industry). **Growing demand on the steel and iron market** had a positive effect on the development. Production (measured by product-based industrial production index) increased by 24,6 % in case of steel and by 8,5 % in case of iron. The dynamic development of construction showed in the growth of production of semi-finished metal components for construction (27 %) and manufacture of metal constructs (18,3 %). The favourable development of demand showed in the growth of the number of placed orders in manufacture of basic metals and metallurgy by 39,7 %. Thereof the number of foreign orders increased by 40,6 %. As for manufacture of metal constructs and products, the number of new orders increased by 24 %, thereof foreign ones by 39 %.

Boom on steel and iron market affected production of metallurgy

The production of **electric and optical equipment** increased by 15,3 %, revenues by 31,4 % in constant prices. Production of this subsection is mainly export

High growth of revenues from direct

export in electric engineering

oriented, which is evident from the steep increase of revenues from direct export by 37,9 % (its share in revenues from sale of own production of the subsection was 84,6 % and the share in total revenues of industry was 12,6 %). Production of vacuum valve tubes and other electronic components rose sharply (by 30,3 %). Manufacture of measurement, control and navigation equipment increased by 28 %. Production of cables and conductors grew by 26,7 %. The volume of new orders soared, primarily in manufacture of office equipment and computers (by 46,3 % thereof by 45,9 % from abroad) and in manufacture of electric equipment and machines not elsewhere classified (by 28,5 %, thereof by 39,8 % from abroad).

Manufacture of transport vehicles keeps growing steadily and has the highest volume of new orders

The most important subsection is **manufacture of transport vehicles**, where the production increased by 14,3 %, revenues (const.pr.) by 12,4 %, revenues from direct export by 12,9 % in const.pr. (81,5 % share in revenues from sale of own production; 13,7 % in total revenues of industry). A high increase was registered in manufacture of components of motor vehicles (by 24,4 %; 51,5 % share). Production of two-track vehicles increased just slightly, by 2,1 % (42,2 % share). In this subsection the greatest volume of new orders are placed. In manufacture of motor vehicles, trailers and semi-trailers the new orders increased by 21,3 %, thereof those from abroad by one fourth. In manufacture of other motor vehicles and equipment new orders rose by 46,1 % and those from abroad stagnated. The favourable development of motor industry shall continue because of the new assembly line in Kolin.

The dynamic development of manufacture of motor vehicles and electric machinery affected manufacture of rubber and plastic products

In **manufacture of rubber and plastic products** production increased by 10 % and revenues in constant prices grew by 11,8 %. The positive development was influenced by the continuing **inflow of foreign capital** mainly to enterprises that produce components for production of motor vehicles and electric machinery and whose production is heavily exported. This showed in the growth of revenues from direct export by 16,6 % in constant prices (53,5 % share in total revenues from sale of own production of the subsection). In connection with the favorable development of construction, the production of plastic products for construction increased by 31,1 % (9,7 % share). A higher growth was registered in manufacture of other plastic products (plastic components and equipment for motor vehicles and isolation components for electric machinery), namely by 20,1 % (18 % share). In manufacture of tires the growth was just moderate (by 5,7 %; 29,7 % share).

Production increased in manufacture of furniture

Production of **manufacturing not elsewhere classified** increased by 8,7 % after a year of stagnation. Revenues in constant prices increased by 7,6 %. Revenues from direct export rose by 12,2 % (const.pr.) and had a 59,8 % share in revenues from sale of own production. Both increase of demand (mainly export demand) and the boom of construction backed the growth. As for sub-industries, manufacture of furniture increased by 8,9 % (71,4 % share). Manufacture of sport equipment and toys was growing faster (more than 25 %), but its share remained low (from 4,3 % to 6,4 %).

High production growth in manufacture of paper and carton

The **manufacture of fiber, paper products and printing** was growing slightly for some time, but already for two years it has been growing fast, in 2004 by 8,6 %. Revenues in constant prices increased by 7,7 % and revenues from direct export by 13 %. The share of revenues from direct exports in total revenues from sales of own production of the subsection is 37,8 %. As for individual branches, manufacture of paper and carton increased most, namely by 13 % (16,1 % share). New orders increased by 6,6 % in manufacture of fiber, paper and paper products, thereof orders from abroad by 5,1 %.

Growing demand for chemical products

Growth of both domestic and foreign demand, rising trade margins and new production capacities put into operation had a positive impact on **manufacture of chemicals, drugs and chemical fibers**, where production increased by 7,3 %. Revenues in constant prices increased by 10 % and revenues from direct export by 16,1 % (their share in the industry's revenues from sale of own production was

53,5 %). As for individual product groups, a high growth was reached by manufacture of raw plastics (by 26,1 %) and a slower growth was registered in manufacture of other basic inorganic and organic chemicals (by 1,1 % and 8,5 %). In manufacture of soap, detergents and cleaning and polishing agents the production increased by 7,1 %, which is distorted by organizational changes in Procter and Gamble Rakona, which led to reporting of just one half of the factory's revenues. The favorable development of demand showed in the increasing number of new orders (by 17,7 %, thereof orders from abroad by 22,2 %).

In **wood processing and manufacture of wooden products** production increased by 6,5 % and revenues in constant prices were rising at the same pace. Revenues from direct export in constant prices increased by 9,3 % (52,4 % share in total revenues from sales of own production). In this subsection the dynamics was dampened by slower than expected growth of domestic consumption (above all in construction). At the end of the previous year problems in provisions of the raw material started to appear. These problems endure in the beginning of 2005.

Slower growth of consumption of wood products

From the structural point of view, the **production decreased** just in two subsections of manufacturing. These two subsections have besides rather low share in total revenues (2,9 %). Apart from the long run decline of **manufacture of leather and hides**, a slight decrease of production occurred in **manufacture of textile, textile products and clothes**.

Decline of production and revenues in two subsections

A significant decrease of production was registered in **manufacture of hides and products made of hides** (by 4,5 %). The decline of revenues in constant prices declined by 0,4 %. Revenues from direct exports increased slightly by 1,7 % (54,9 % share in the industry's revenues from sales of own production). The development of this subsection with low share of foreign capital was **negatively affected by high imports** of cheap production from South-East Asia, which the domestic producers can't compete with (as far as prices are concerned). The industry reacts slowly to changes in consumer demand, insufficient supply of demanded kinds of goods and low competitiveness. Manufacture of shoes decreased by 10,6 % in physical units (it has 63,2 % share in the industry's revenues).

Long lasting decline in manufacture of leather and leather products influenced by cheap imports

A slight decline of production (by 0,8 %) was registered in **manufacture of textile, textile products and clothes**. The revenues in constant prices declined by 0,6 % and revenues from direct export increased moderately by 1,1 % (66,3 % share in revenues from sale of own production). Manufacture of textile and textile products was growing a bit (by 0,4 p.p.), while in manufacture of clothing and in processing and dyeing of leather the revenues decreased by 4,8 % (19,5 % share in revenues of the subsection). The development of production was negatively influenced by problems with sale of the produced goods, owing to the cheap production from China. This resulted in decline of new orders by 10,7 % in clothing industry as a whole, thereof orders from abroad declined by 5,9 %. As for textile, the new orders increased by 1,9 %, thereof those from abroad by 3,2 %.

Products of textile industry sell badly

The volume of new orders gives an indication of development potential of individual subsections. The new orders as a whole (monitored just in some subsections) **increased** by 22,6 % in 2004 (acceleration by 13,7 p.p.), those from abroad increased by 25,9 % (acceleration by 16,4 p.p.) and their share in total orders was 63,5 %. The revenues increased by 14,7 % (from 6,3 %) in these subsections. A high increase of placed orders was registered in manufacture of basic metals and metallurgy (by 39,5 %), manufacture of office machines and computers (by 36,9 %) and in manufacture of other transport vehicles (by 35,1 %). As for orders from abroad, foreign orders in manufacture of medical, accurate, optical and time-measuring equipment increased by 46 % and foreign orders in manufacture of electric machines and equipment not elsewhere classified grew by 39,8 % and in manufacture of basic metals and metallurgy it increased by 38,7 %. A decline of new orders from abroad (by 11,8 %) occurred in manufacture of other transport vehicles.

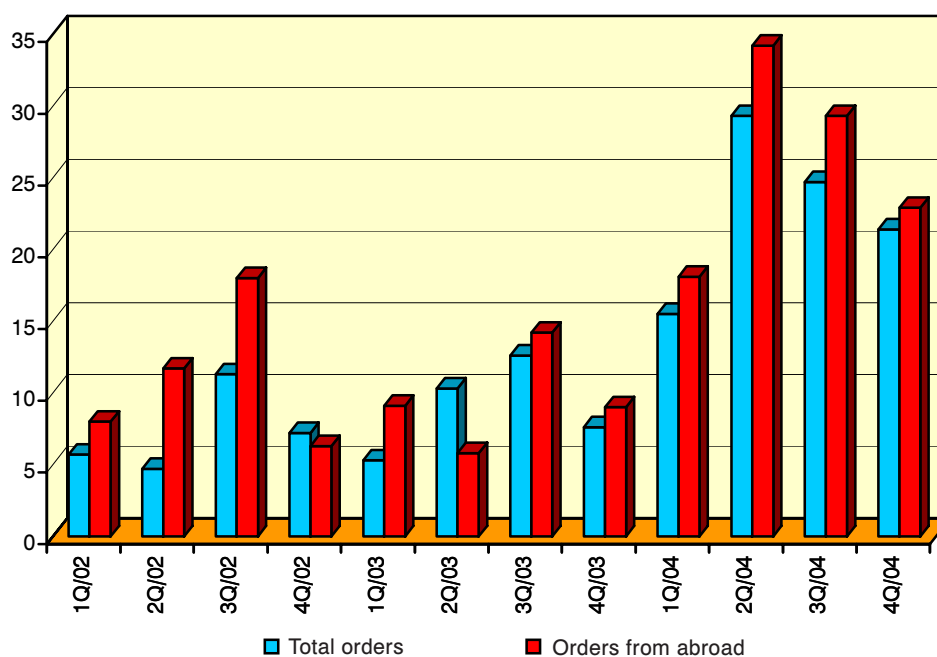
Dynamic growth of new orders in industry

Table II.1.2 Development of industrial production by economic activity
(Organizations with 20 and more employees, y/y change in %)

	2002	2003	2004				rok
			1. Q.	2. Q.	3. Q.	4. Q.	
Industry as a whole	4.8	5.8	9.0	12.6	8.7	9.1	9.9
Mining and quarrying	0.3	0.5	-2.3	1.0	0.3	-2.4	-0.9
thereof:							
Mining of energetic raw materials	-2.0	-0.4	-3.7	0.8	-0.3	-6.3	-2.5
Mining of other raw materials	7.2	2.9	2.6	1.5	1.4	8.4	3.4
Prod. and distrib. of electr., gas and water	0.2	8.9	1.2	1.5	2.6	-1.0	0.9
Manufacturing	5.4	5.8	9.9	13.6	9.3	10.1	10.8
thereof:							
Man. of food, beverages and tobacco	3.5	2.8	1.0	-1.1	-1.1	1.7	0.1
Man. of textile, textile products and clothes	-1.4	-2.8	-0.5	1.6	-2.5	-1.2	-0.8
Man. of leather and leather products	-27.3	-19.3	1.9	-3.9	-7.4	-8.5	-4.5
Proc. of wood, wooden pr. except of furniture	6.1	5.7	7.7	9.4	4.3	4.7	6.5
Man. of fiber, paper and paper products	2.8	9.5	9.4	8.8	9.2	7.2	8.6
Man. of coke, refining of oil	3.8	.6	1.5	6.1	1.8	6.6	4.1
Man. of chemicals and fibers	0.3	7.0	10.0	9.5	3.7	5.1	7.3
Man. of plastic and rubber products	18.6	13.8	11.8	10.0	4.8	13.1	10.0
Man. of other non-metal mineral products	4.0	5.7	8.0	7.5	3.9	2.3	5.3
Man. of basic metals	-1.0	4.5	22.2	27.6	23.9	18.1	23.0
Man. and repair of other machinery and equip.	2.6	6.4	1.8	4.2	4.7	7.1	3.6
Man. of electric and optical machines	27.5	2.9	14.4	23.8	12.0	11.1	15.3
Man. of transport vehicles	3.3	12.4	10.1	18.4	10.9	17.6	14.3
Man. not elsewhere classified	2.6	-0.1	8.0	9.4	7.9	9.3	8.7

Source: CZSO

Figure II.1.2 Development of new orders and orders from abroad in selected industries(y/y change in %, current prices)



Source: CZSO, figure by MIT
Note: selected NACE sections: 17,18,21,24,27-35

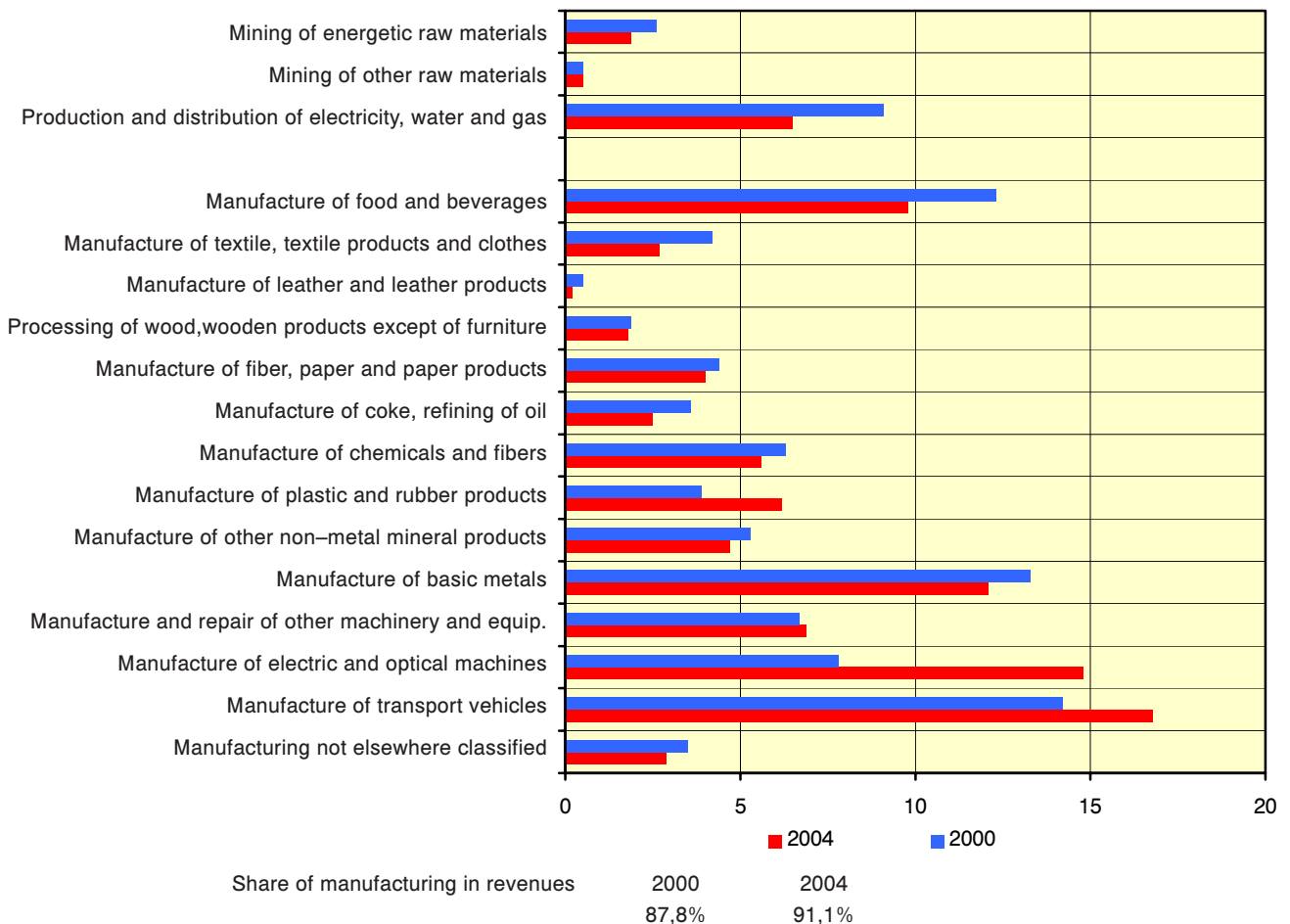
Manufacturing has a dominating share of 91,9 % (0,8 p.p. y/y growth) in the total revenues of industry. The share of energy supply decreased by 0,5 p.p. y/y to 6,5 % and that of mining and quarrying by 0,3 p.p. to 2,4 %.

The shares of hi-tech industries and industries with higher value added are increasing

The **continuing inflow of foreign capital** to manufacturing induced structural changes, leading to **growing weight of industries with high value added and high technology**. As for individual sections, the share of manufacture of electric and optical equipment increased most (by 2,4 p.p. to 14,8 %), the share of manufacture of transport vehicles increased by 0,4 p.p. to 16,8 %, the share of manufacture and repair of machines and equipment by 0,2 p.p. to 6,9 % and manufacture of rubber and plastic products by 0,1 p.p. to 6,2 %. A decrease of the share was registered in eight sections, thereof in manufacture of food and beverages by 1,1 p.p. to 9,8 % and manufacture of coke and refining of oil by 0,6 p.p. to 2,5 %.

During the last five years the share of manufacturing increased by 3,3 % at the expense of energy supply (down by 2,6 p.p.) and raw materials (down by 0,7 p.p.). See figure II.1.3. for details. Within manufacturing the share of four subsections increased, most of all that of manufacture of electric and optical equipment (by 7 points), less so the share of manufacture of transport vehicles (by 2,6 p.p.) and also in manufacture of rubber and plastic products (2,3 p.p.) and manufacture of machines and equipment (by 0,2 p.p.). The share of other subsections of manufacturing declined.

Figure II.1.3 Structure of revenues from sale of own goods and services (Organizations with 20 and more employees, shares in %, constant prices)



Source: CZSO, figure by MIT

Table II.1.3 Selected indicators of industrial organizations with 20 and more employees

Indicator	Index 2004/2003									Average wage in CZK
	IPP	Revenues from sale of own production in const.pr.	Revenues from direct export in const. pr.	Number of employees	Labor productivity based on revenues	Average nominal wage	Real wage based on producers price index	Unit labor costs		
								nominal	real	
Mining	99.1	98.7	96.4	95.1	103.8	107.3	103.1	103.4	99.3	21169
thereof:										
Mining of energetic raw materials	97.5	97.6	90.9	94.8	102.9	107.5	101.9	104.5	99.0	21382
Mining of other raw materials	103.4	103.5	109.3	97.1	106.6	105.7	105.6	99.2	99.1	19736
Prod. and distr. of electricity, water and gas	100.9	101.8	64.7	96.1	105.8	106.5	102.5	100.7	96.9	22567
Manufacturing	110.8	110.8	117.7	99.9	110.9	107.1	101.0	96.6	91.1	16987
thereof:										
Man. of food and beverages	100.1	98.9	111.1	97.6	101.4	105.3	100.5	103.8	99.1	15688
Man. of textile, textile products and clothes	99.2	99.4	101.1	92.0	108.0	106.8	106.5	98.9	98.6	11634
Manu. of leather and leather products	95.5	99.6	101.7	92.6	107.6	108.6	108.9	100.9	101.2	10908
Proc. of wood, wooden prod. ex. of furniture	106.5	106.5	109.3	99.5	107.1	107.5	106.3	100.4	99.3	14150
Man. of fiber, paper and paper products	108.6	107.7	113.0	100.9	106.7	105.5	105.5	98.9	98.9	19317
Man. of coke, refining of oil	104.1	89.5	88.0	98.0	91.3	104.9	82.6	114.9	90.5	25245
Man. of chemicals and fibers	107.3	110.0	116.1	96.4	114.1	106.6	99.9	93.4	87.6	20456
Man. of plastic and rubber products	110.0	111.8	116.6	105.7	105.7	105.3	105.5	99.6	99.8	16979
Man. of other non-metal mineral products	105.3	107.5	116.1	98.0	109.7	107.2	106.1	97.7	96.8	17983
Man. of basic metals, metallurgy	123.0	109.2	108.4	100.8	108.4	107.2	90.5	98.9	83.5	17746
Man. and repair of other machin. and equip.	103.6	112.9	118.9	98.7	114.3	107.1	105.5	93.7	92.3	17608
Man. of electric and optical machines	115.3	131.4	137.9	105.4	124.6	107.0	107.5	85.9	86.3	16901
Man. of transport vehicles	114.3	112.4	112.9	103.0	109.1	107.1	107.4	98.2	98.5	20061
Man. not elsewhere classified	108.7	107.6	112.2	96.6	111.3	107.6	98.3	96.7	88.3	13900
Industry total	109.9	109.8	117.0	99.5	110.4	106.9	101.1	96.8	91.6	17460

Source: CZSO, calculations by MIT

Note: Labor productivity is calculated as a quotient of index of revenues from own production in const. pr. and the index of average number of registered employees.

Although the production was growing, the employment decreased slightly because of modernization and productivity increases. However, the fall of employment was much smaller than in 2003. The **total employment** in industrial enterprises with 20 and more employees **decreased** by 0,5 % (3,4 % in 2003) and the pace decrease was slowing down during the year (just 0,1 % y/y in 3rd and 4th quarter). Manufacturing influence the result positively, its yearlong average decrease reached 0,1 % and in 3rd and 4th quarter the employment even increased by 0,4 %. Employment growth occurred in the following five subsections. The highest employment growth was registered in manufacture of plastic and rubber products (by 5,7 %), in manufacture of electric and optical equipment (5,4 %) and in manufacture of transport vehicles (by 3 %). A modest employment growth was recorded in manufacture of fibers and paper products and printing (by 0,9 %) and in manufacture of basic metals and metallurgy (by 0,7 %), both mainly thanks to new production capacities.

Decline in employment was just moderate

The greatest employment decline was in mining (by 4,9 %; 6,5 % in 2003) and energy supply (by 3,9 %; 4 % in 2003).

The continuing favourable dynamics of the growth of revenues (at decelerating decrease of employment) resulted in a **high labor productivity growth** in 2004 (by 10,4 % in const.pr. compared with 9,5 % in 2003). As of individual industrial sections, the **most growing one** was **manufacturing**, where labor productivity increased by 10,9 % (owing to high growth of revenues and stagnating employment). Moderate productivity growth was registered in energy supply (by 5,8 %) and mining (by 3,8 % at a high employment decrease). Within the bounds of manufacturing, the labor productivity increased most in manufacture of electric and optical equipment (by 24,6 %) and in three subsections – manufacture and repair of machines, manufacture of chemicals and drugs and manufacturing n.e.c. – the labor productivity growth was two digit (14,3 %; 14,1 % and 11,3 %).

Labor productivity was growing faster than real wages

Only in manufacture of coke and oil refining, the productivity decreased by 8,7 %, because of Ceska rafinerska refinery, which became a reprocessing unit, which led to a significant decrease of revenues.

The 10,4 % growth of labor productivity exceeded the 1,1 % real wage growth (using IPP index) by 9,3 p.p. Thereof by 9,9 p.p. in manufacturing, by 3,3 p.p. in energy supply and by 0,7 p.p. in mining. The only manufacturing industry, where the labor productivity increased slower than the real wages, was manufacture of leather and leather products (difference of 1,3 p.p.). For details see Table II.1.3.

The **average nominal wage increased** by 6,9 % y/y (5,7 % y/y in 2003), which means that it increased by 1130 CZK per month. The highest increase was reached in manufacture of leather and leather products (by 8,6 %). This industry has the lowest nominal wage level and the increment amounted to 864 CZK per month. The lowest rate of growth was registered in manufacture of coke and oil refining (by 4,9 %), where on the contrary the level of nominal wages is highest and the increment equaled 1181 CZK.

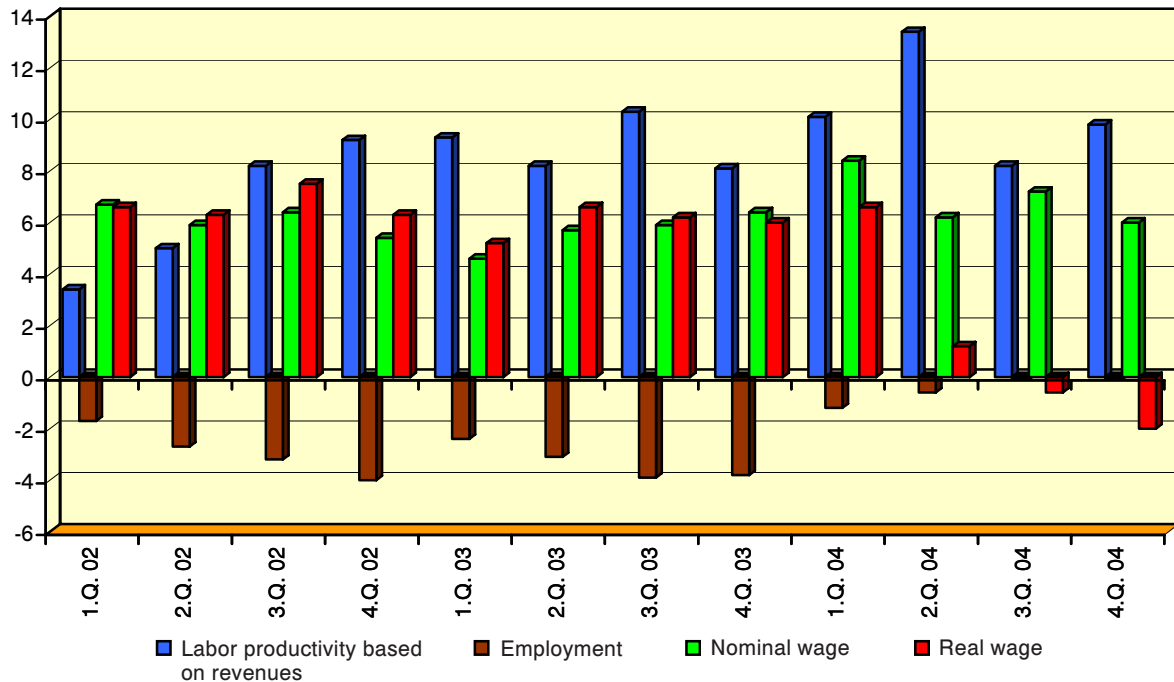
Nominal wage increased by 6,9 %, the real one by 4 %

The **real wage** (using CPI) increased by 4 % in industry, thereof by 4,4 % in mining, 4,2 % in manufacturing and 3,6 % in energy supply. The highest growth within manufacturing was registered in manufacture of leather and leather products (by 5,6 %) and in manufacturing not elsewhere classified (by 4,7 %). The real wage didn't decrease in any subsection.

The high labor productivity growth, which exceeded the growth of nominal wages, and the accelerating growth of industrial producers' prices contributed to the **decrease** of both real and nominal **unit labor costs**. In manufacturing the unit labor costs increased in four subsections. Most of all the unit labor costs were increasing in manufacture of coke and refining of oil (by 14,9 %). The growth was moderate in manufacture of food and beverages, in manufacture of leather and

High labor productivity growth influenced the decrease of unit labor costs

Figure II.1.4 Labor productivity, employment and wage development in industry
(Organizations with 20 and more employees, y/y change in %)



Source: CZSO, figure by MIT

leather products (where both real and nominal ULC increased) and in processing of wood and manufacture of wooden products.

Table II.1.4 Development of the wage versus labor productivity relation (y/y change in %)

	Row number	year				2004				
		2000	2001	2002	2003	1. Q.	2. Q.	3. Q.	4. Q.	year
Average nominal wage	1	6.2	6.3	6.0	5.7	8.4	6.2	7.2	6.0	6.9
Average nominal wage using IPP index	2	1.2	3.3	6.5	6.0	6.6	1.2	-0.6	-2.0	1.1
Average real wage	3	10.7	5.5	6.4	9.5	10.1	13.4	8.2	9.8	10.4
Unit labor costs										
Nominal	1/3	-4.1	0.8	-0.4	-3.5	-1.5	-6.3	-0.9	-3.5	-3.2
Real	2/3	-8.6	-2.1	0.1	-3.2	-3.2	-10.8	-8.1	-10.7	-8.4

Source: MIT calculation from CZSO sources

High growth of revenues by organizations with 2000–3999 employees

By size structure of industrial enterprises with 20 and more employees, the highest increase of revenues was attained in organizations with 2000–2999 employees (by 22,3 %) and in organizations with 3000–3999 employees (by 20,9 %). Their joint share in total revenues was 8,3 %. These groups contain primarily foreign controlled enterprises with good export potential, which shows in high growth of revenues from direct export (roughly by one third). The development of revenues was favourable also in other groups (250–499, 1000–1999 and 4000–4999), where they increased by more than 10 % and revenues from direct export by roughly 20 %. In no size group the revenues decreased. A high growth of employment (17,5 %) was registered in enterprises with 3000 to 3999 employees, because of the foundation of Lasselsberger Plzen corp., which arose from three smaller firms. Also in other four groups the employment slightly increased (50–99 employees by

Table II.1.5 Survey of basic indicators by size in 2004

Ukazatel	Average number of firms	Revenues from sale of own production in const. pr.			Revenues from direct export in const.pr.	Number of employees			Average monthly				
		bln. CZK curr. pr.	share in %	y/y index const. pr.		thous. of persons	share in %	y/y index	revenue/employment			wage	
									in CZK const. pr.	y/y index const. pr.	level average	in CZK	y/y index
Podn. s 20 a více zaměst. celkem	8184	2371.5	100.0	109.8	117.0	1129.6	100.0	99.5	170699	110.4	100.0	17460	106.9
20 – 49	3944	144.0	6.1	100.1	106.2	118.7	10.5	95.2	97681	105.1	57.2	14677	106.1
50 – 99	1892	173.0	7.3	108.5	117.3	132.8	11.8	100.9	105319	107.5	61.7	15301	107.0
100 – 249	1431	339.0	14.3	106.9	112.7	221.1	19.6	99.8	122739	107.1	71.9	16094	106.8
250 – 499	530	380.7	16.1	113.6	121.7	184.1	16.3	100.8	169700	112.6	99.4	17096	106.4
500 – 999	249	388.4	16.4	106.1	114.6	170.6	15.1	99.4	187415	106.7	109.8	18021	106.9
1000 – 1999	104	373.0	15.7	113.4	126.0	141.2	12.5	99.0	215217	114.6	126.1	19826	106.6
2000 – 2999	16	150.1	6.3	122.3	131.1	39.4	3.5	100.1	321052	122.2	188.1	18499	108.4
3000 – 3999	7	47.0	2.0	120.9	135.8	22.1	2.0	117.5	174996	102.8	102.5	20638	107.5
4000 – 4999	6	60.9	2.6	111.4	118.8	27.8	2.5	100.2	187890	111.2	110.1	19735	107.0
5000 – 9999	4	103.0	4.3	107.4	84.0	24.7	2.2	96.6	303205	111.1	177.6	23367	109.6
10000 and more	3	212.3	9.0	107.7	104.2	47.1	4.2	95.9	366805	112.3	214.9	23675	107.4

Source: CZSO

0,9 %, 250–499 employees by 0,8 %, 4000–4999 employees by 0,2 % and 2000–2999 employees by 0,1 %).

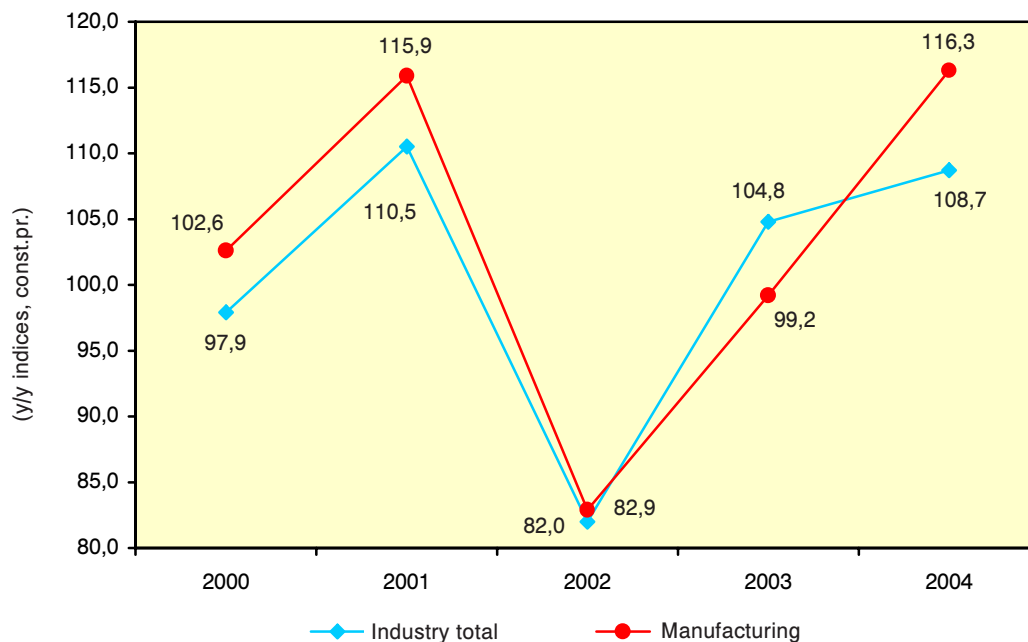
Only in one group, namely enterprises with 3000–3999 employees, the growth of labor productivity based on revenues in current prices didn't exceed the growth of nominal wages.

High growth of industrial production continued in the beginning of 2005

Industrial production kept **growing fast in January 2005** (7,2 % y/y). Revenues in constant prices increased by 9,4 % and revenues from direct export (const.pr.) by 18,8 %. By main industrial groupings, production of intermediate goods increased significantly by 17,5 %, while production for long run consumption and for investment decelerated to 2,6 % resp. 2,3 % y/y growth. In other main groupings the production declined. Production for short run consumption decreased by 1,8 % and production of energy by 0,8 %. The favorable development was driven by manufacturing, which increased by 7,8 %. In other sections production decreased. In energy supply, production decreased by 6,8 %, in mining by 0,9 %. Within the bounds of manufacturing, manufacture of coke and refining of oil reached the highest growth, namely 20,6 %. Production in manufacture of rubber and plastic products grew by 15,9 % and that of transport vehicles by 14,4 %. Three subsections decreased: processing of wood and manufacture of wooden products, manufacture of leather and leather products and manufacture of food and beverages. Employment improved by 0,9 % y/y, chiefly in manufacturing, where the growth reached 1,6 % y/y. New orders increased by 3,4 % (from 2,6 % in January 2004), thereof foreign ones increased by 12 % (2,3 % in Jan. 2004).

II.2. Investments in industry

Figure II.2.1 Development of gross tangible investments in 2000-2004 (y/y changes in constant prices)



Source: CZSO, figure by MIT

Table II.2.1 Gross domestic investments in industry in 2004

Section and subsection (organizations with 20 or more employees)	Tangible investments								Share in industrial investments (in %, curr.pr.)				Intangible investments	
	in mil. CZK, curr. pr.				index 2004/2003 const. pr..				total	buildin.	machi- nery	other	bil. CZK curr. pr.	Index 04/03
	total	buildin.	machi- nery	other	total	buildin.	machi- nery	other						
Industry total	171798	53759	114431	3608	108,7	93,8	116,7	133,3	100,0	100,0	100,0	100,0	8900	107,4
C Mining and quarrying	6855	2698	3991	167	90,1	82,5	95,5	103,6	4,0	5,0	3,5	4,6	159	100,0
E Prod. and distr. of electricity, gas and water	28337	17304	10634	399	81,8	67,1	104,2	-28,9	16,5	32,2	9,3	11,1	1965	101,3
D Manufacturing	136606	33758	99806	3042	116,3	119,6	119,2	55,4	79,5	62,8	87,2	84,3	6776	109,5
thereof:														
DA Man. of food and beverages	17194	5642	11117	435	117,7	121,0	121,1	56,7	10,0	10,5	9,7	12,1	719	125,6
DB Man. of textile, textile products and clothes	3329	630	2595	105	88,8	70,7	94,2	100,5	1,9	1,2	2,3	2,9	101	147,9
DC Man. of leather and leather products	170	35	131	4	52,6	110,4	48,4	17,3	0,1	0,1	0,1	0,1	3	77,7
DD Proc. of wood, wooden prod. except of furniture	2321	634	1565	122	185,2	172,1	193,2	162,8	1,4	1,2	1,4	3,4	47	131,3
DE Man. of fibers, paper and paper products	5866	1144	4640	82	114,3	102,6	122,7	34,6	3,4	2,1	4,1	2,3	306	101,3
DF Man. of coke, refining of oil	1370	210	1149	11	139,5	94,8	149,1	-110,0	0,8	0,4	1,0	0,3	23	70,0
DG Man. of chemical products and fibers	8568	3066	5354	148	79,5	133,2	71,1	15,6	5,0	5,7	4,7	4,1	555	61,8
DH Man. of rubber and plastic products	10533	2066	8357	111	128,0	116,1	134,1	51,7	6,1	3,8	7,3	3,1	664	153,6
DI Man. of other non-metal mineral products	8245	1530	6472	242	93,5	53,6	107,6	-418,3	4,8	2,8	5,7	6,7	218	131,0
DJ Man. of basic metals and metal products	14963	3295	11157	512	119,9	109,3	124,6	101,1	8,7	6,1	9,8	14,2	333	107,8
DK Man. and repair of machines and equipment	9770	2567	7021	183	99,7	95,3	107,2	33,3	5,7	4,8	6,1	5,1	656	129,0
DL Man. of electric and optical mach. and equip.	13997	3059	10767	170	101,9	105,6	105,3	27,8	8,1	5,7	9,4	4,7	933	206,2
DM Man. of motor vehicles	36538	8215	27538	785	147,9	187,1	144,8	60,6	21,3	15,3	24,1	21,8	2077	90,2
DN Man. not elsewhere classified	3743	1665	1944	134	124,7	164,5	120,8	35,2	2,2	3,1	1,7	3,7	142	139,3

Source: CZSO – P3-04 survey and MIT calculations

Overall investment activity in industry increased...

Well aimed investments are fundamental for further development and progress of industry, as they allow for further growth of its promising parts. **In 2004 the gross tangible investments in industry increased by 8,7 % (const. pr.)**, see Figure II.2.1. Within the scope of investments, the highest growing parts were investment into machines and equipment (by 16,7 % y/y), while on the other hand the investments into buildings decreased by 6,2 %.

... mainly thanks to manufacturing

Investments into manufacturing have the highest share (79,5 %) in total investments to industry. They were also growing fastest (by 16,3 % y/y). The paces of investments in construction (19,6 %) and in equipment (19,2 %) were comparable. The total dynamics was dampened by other investments that decreased by 44,6 %.

Investments in wood processing were growing fastest

Within the **scope of manufacturing**, investments in processing of wood (for example Kronospan, Stora Enso Timber) rose by 85,2 %, which is a very high growth (see Table II.2.1). A high growth rate (by 47,9 %; 21,3 % share in total industrial investments; for example TPCA) was registered in manufacture of transport vehicles, the most important Czech industry in the sense of volume, and also in manufacture of coke and oil refining (by 39,5 %).

Gross intangible investments decelerated

The **annual growth rate of intangible investments decreased** by 10,1 p.p. to **7,4 %**. This decrease occurred in **manufacturing** (by 18,9 p.p.) as well as in **energy supply** (by 18,9 p.p.). Mining stagnated around 159 mil. CZK after a sharp decline in 2003. The reason of this decline was probably the lower demand for new software products (no radically new operating systems introduced to the market) and lowered demand for new project solutions.

II.3. Financial situation of industrial enterprises

Growth of production and export had a positive impact on financial results

The **very favorable development of financial results was determined by the export-driven dynamics of production**. Capacities were used better and fixed costs decreased. The better financial results were also influenced by the improved position of **foreign owned enterprises, finalizing of fundamental restructuring projects, cost optimization** and last but not least by **better management**.

These results are driven by developing industries, namely: manufacture of electric machines and electronics, manufacture of cars and engineering, manufacture of chemicals and refining of oil, manufacture of rubber and plastic products and (thanks to the boom) also metallurgy.

Import prices increased slower (1,6 %) than export prices (3,7 %). The improving terms of trade had a positive impact on foreign trade. Prices of some imported raw materials increased, but the appreciating CZK dampened a part of this increase. The industrial producers' prices accelerated from 1,7 % y/y in 1st quarter to 8,2 % y/y in 4th quarter, averaging 5,7 % annually. That influenced the financial results. These price effects boosted both revenues from own production and intermediate consumption, though the final effect depended on the type of industry.

The following three indices give evidence about the good shape of **industry as a whole**:¹¹ the **accounting value added** increased by 13,4 % (7,6 % in 2003),

¹¹ Industry as a whole - includes estimate for small subjects with 0 to 19 employees. The y/y comparison is partly influenced by the switch of Ceska rafinerska corp. to the so-called reprocessing regime (since 1.8.2003), which means that its revenues consist just of reprocessing fees. Import of oil and export of oil

outputs incl. trade margin by 14,1 % (6,7 % in 2003) and intermediate consumption by 14,3 % (by 6,4 % in 2003). The year-on-year growth of accounting value added was inhibited the growth of **intermediate consumption** (15,3 %) since the half of the year, since its growth rate was higher than that of outputs (14,7 %).

The **y/y dynamics and level of individual financial indicators was affected by enterprises with 100 or more employees**, which keep having a stable high share in the total results of industry, namely: 78 % of total outputs and intermediate consumption, 77 % in accounting value added and 66 % of employment.

The development of financial indicators of enterprises with 100 or more employees was as follows:

The rate of growth of **accounting value added** accelerated from 7,8 % y/y to 13,7 % y/y, as one can see in Table II.3.1. This is the highest growth in the last five years. Compared to 1999 the accounting value added increased by 46 %, thereof by more than 50 % in manufacturing, by 32 % in energy supply and by 24 % in mining.

Manufacturing determined the acc. value added growth

During 2004 its year-on-year growth was slowing down slightly from 14 % y/y in 1st half to 13,5 % y/y in 2nd half.

Most of manufacturing industries (20 of 22; manufacture of tobacco and manufacture of food and beverages merged) experienced a **very variable growth of accounting value added**. The average growth was 14,2 %. The weighty industries with high share of foreign capital lied above this average: manufacture of motor vehicles, trailers and semi trailers (by 14 %), manufacture of basic metals and metallurgy (by 49,7 %), manufacture of chemical products and drugs (19,6 %), manufacture of machines and equipment (by 16,4 %), manufacture of computers (147,3 %) and manufacture of coke and refining of oil (by 62,7 %). The lowest growth occurred in manufacture of textile and textile products (by 0,2 %) and in manufacture of leather and leather products (0,6 %). The accounting value added decreased by 6 % y/y in manufacture of clothes and by 0,6 % y/y in manufacture of other transport vehicles.

Over average growth of acc. value added registered in industries with high representation of foreign capital

Labor productivity based on accounting value added accelerated from 11,8 % to 14,9 % year-on-year (curr.pr.) and reached 681,3 thousand CZK per employee at 1 % y/y decrease of employment (3,6 % decrease in 2003). Labor productivity based on accounting value added has been growing in the long run. In figure II.3.2. one can see its acceleration in 2004, even in all three sections of industry.

Acceleration of labor productivity growth

The **labor productivity increased in all 22 industries of manufacturing**, most of all in manufacture of computers (by 120,2 % to 537,6 thousand CZK per employee), but also in manufacture of coke and refining of oil (by 64,8 % to 1950 thousand CZK per employee) and in manufacture of basic metals and metallurgy (by 49,6 % to 819,6 thousand CZK per employee).

From the point of view of competitiveness the **share of personal costs in accounting value added developed positively**. In industry it decreased by 3 p.p. to 45,4 %. Yet, there are still enterprises, where the volume of personal costs exceeds the accounting value added. In 2004 there were 302 such enterprises (344 in 2003) with almost 85 thousand employees (nearly 10 % of all employees of bigger firms).

The **gross profit** (pre-tax income from operations) in industry **increased** by 36,1 % y/y to 180,5 bln. CZK (24,2 % in 2003). **Manufacturing had a dominant share** in this, year-on-year as well as in the long run. The year-on-year growth dynamics of industry accelerated significantly in 3rd quarter (115,1 %; 130 % in

High growth of profits in manufacturing

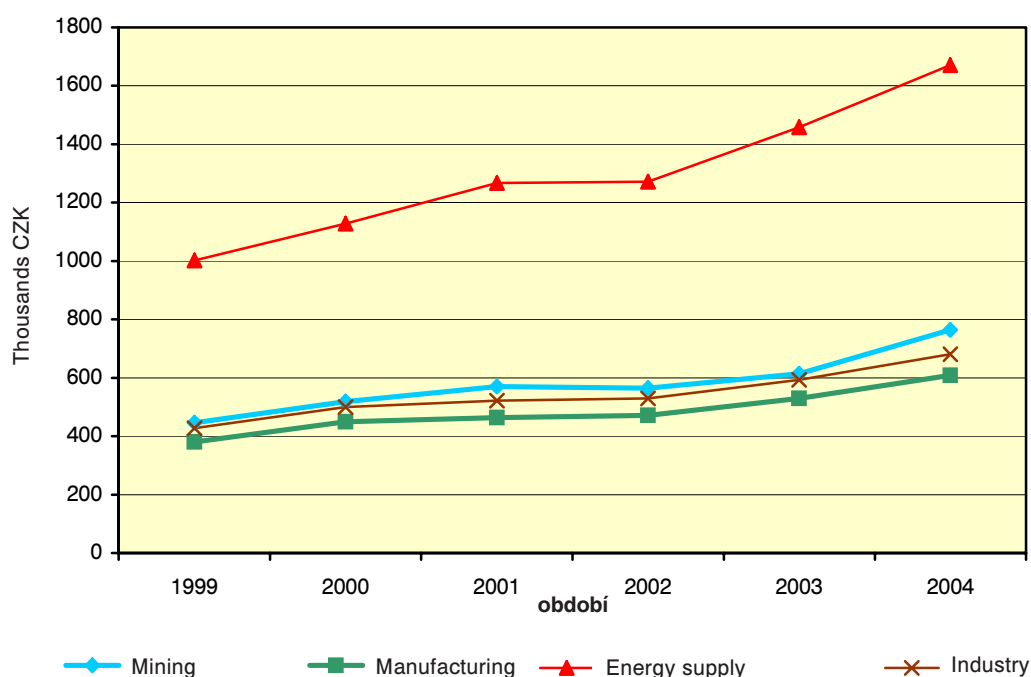
products are conducted by the shareholders of the company, of which only Uniteprol corp. is classified as industry. The rest (Agip, Shell, Conoco) are classified as trade (NACE subsection G).

Table II.3.1 Development of accounting value added and labor productivity based on value added in industry in 2004 (Organizations with 100 and more employees)

	Outputs incl. trade margins		Intermediate consumption		Accounting value added		Labor prod. based on value add.	
	bln. CZK	y/y change in %	bln. CZK	y/y change in %	bln. CZK	y/y change in %	per employee thous. CZK	y/y change in %
Industry	2298.5	14.7	1703.3	15.1	595.1	13.7	681.3	14.9
thereof:								
Mining and quarrying	63.3	10.8	30.0	2.9	33.2	19.1	764.2	24.5
Manufacturing	1939.0	16.3	1466.8	17.0	472.2	14.2	608.2	14.8
Production and distribution of electricity, water and gas	296.2	6.1	206.4	4.7	89.7	9.6	1670.6	14.6

Source: MIT calculation from CZSO sources

Figure II.3.2 Development of labor productivity based on accounting value added (curr.pr.) in industry and its sections



Source: CZSO, figure by MITP

manufacturing, and in mining from 352 mil. CZK to 5,3 bln. CZK). The year-on-year growth is given in Table II.3.3.

Table II.3.3 Pre-tax profits in 2004 (Organizations with 100 and more employees)

	Pre-tax profit			thereof			
	bln. CZK	y/y chan. in %	increment bln. CZK	Change of profit		Change of loss	
				bln. CZK	y/y chan. in %	bln. CZK	y/y chan. in %
Industry	180.5	36.1	47.9	42.1	26.9	5.8	-24.6
thereof:							
Mining and quarrying	11.3	172.6	7.2	7.1	152.3	0.1	-21.3
Manufacturing	129.1	43.5	39.1	33.3	29.5	5.8	-25.1
Prod. and distr. of electricity, water and gas	40.0	4.2	1.6	1.7	4.3	-0.1	26.8

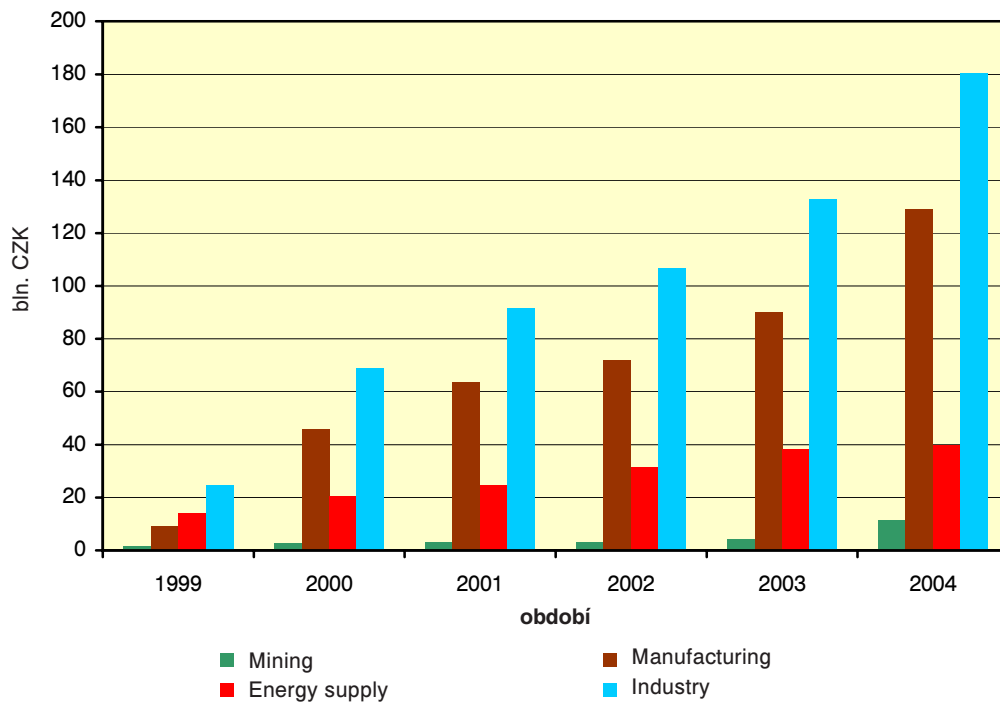
Source: MIT calculations based on CZSO data

Manufacturing has had dominant share in creation and dynamics of pre-tax profits in the long run. See Figure II.3.4 for details.

The increment of the gross profit was mainly a consequence of **the production factor** (net income from operations), which equaled 49 bln. CZK. The **non-production factor** (change of balance of other revenues and costs) had a negative influence of just 1,1 bln. CZK. The influence of production factor dominated in manufacturing (94 %) and mining (72 %). In supply of energy the low profit growth was influenced by worsening balance of other revenues and costs¹² (decrease by 5,4 bln. CZK).

¹² Because of a high base of extraordinary revenues of CEZ corp. in 2003

Figure II.3.4 Development of gross profit



Source: CZSO, figure by MIT

All-time growth of gross profits in some industries of manufacturing

The development of gross profits was always very differentiated by industry in manufacturing and in 2004 these differences just deepened.

Using 2 digit NACE classification to analyze gross profits in industrial detail, one can see that:

- The gross profit was increasing in 17 of 22 industries, most of all in the big ones, namely: manufacture of coke and refining of oil (by 882,1 %), manufacture of chemicals and drugs (by 299 %), manufacture of radios, TVs and communication equipment (by 174,5 %), manufacture of basic metals and metallurgy (by 130,3 %), manufacture of machines and equipment (by 98,2 %) and manufacture of motor vehicles (by 54,3 %). The lowest gross profit growth was registered in manufacture of food, beverages and tobacco (by 4,5 %).
- A y/y decrease of profits occurred in 3 industries, namely: manufacture of medical, optical and time-measuring equipment (by 22,6 %), in manufacture of constructs and metal products (by 6,6 %) and surprisingly in manufacture of rubber and plastic products (by 0,6 % – this industry has been performing very well and the dynamics of profits probably reflects the long run high efficiency and also price increase of inputs).
- An aggregate loss was registered in manufacture of computers (0,3 bln. CZK; 0,6 bln. CZK in 2003) and in manufacture of leather and leather products (49 mil. CZK compared with 68 mil. CZK in 2003).

The number of loss-making enterprises and volume of their loss both decreased

The volume of aggregate loss decreased by 24,6 % (by 5,8 bln. CZK) to 17,9 bln. CZK. The number of loss making organizations declined by 16,6 % to 503 (i.e. 21 % of all bigger industrial enterprises). The volume of gross profit of profit making organizations increased dramatically (by 26,9 % or 42,1 bln. CZK) to 198,3 bln. CZK. The number of profit making firms increased by 4 % to 1872. 82 % of all employees in industry were working in profit making businesses.

Costs were decreasing slower...

Total costs increased by 12,9 % y/y. This growth was driven just by manufacturing, where they increased by 15,9 %, while total costs in mining and energy supply decreased by 5,3 % and 1,1 % y/y. Intermediate consumption was increasing in all three sections, most of all in manufacturing (by 17 %), averaging 15,1 % in

industry as a whole. **Personal costs increased** in average by 6,7 % and they were increasing in all three sections, thereof by 7,5 % in manufacturing. **Depreciation** grew by 5 % in average over industry, and the growth was positive in manufacturing and energy supply. **Other costs** increased just in manufacturing (by 20 %).

As for cost structure, the share of intermediate consumption has been growing in the long run. In 2004 it increased by 1,3 % and reached the highest level in the last five years, namely 68,2 %. The share grew by 9,5 p.p. since 1999. A slow decreasing trend is evident in case of the share of personal costs, which decreased by 0,6 p.p. y/y to 10,8 %. In 1999 this share was 11,9 %. The share of depreciations decreased by 0,4 p.p. to 5,1 % and it was 5,6 % in 1999. Also other costs suffered a drop of its share, specifically by 0,3 p.p. y/y to 15,9 %, at a very high share (nearly 24 %) in 1999 .

Total revenues in industry were increasing faster (14,1 %) than costs, thereof by 17,2 % in manufacturing by 17,2 %, in mining by 3,8 % and in energy supply the decreased by 0,5 %.

... than revenues

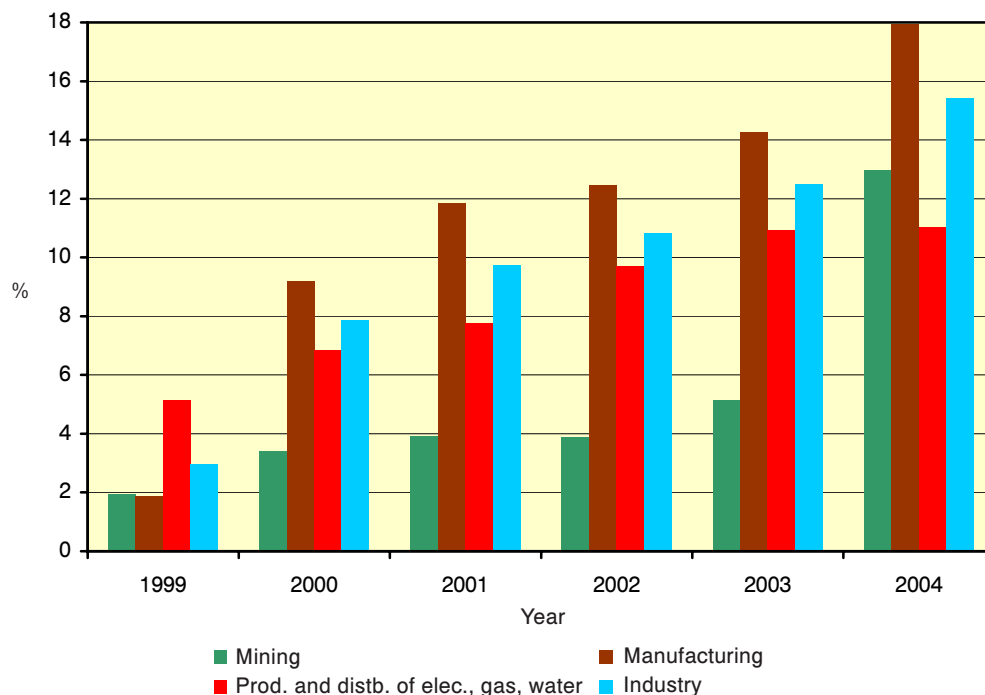
Total liabilities increased by 6,9 % (by 9,2 % in manufacturing), thereof **equity** by 10,1 % (14,2 % in manufacturing). The growth was most significant in manufacture of transport vehicles (NACE 34; by roughly 30 %), mainly thanks to the new production capacity - TPCA Kolin.

Growth of liabilities and equity was driven by manufacturing

Foreign resources (difference between total liabilities and equity) increased by 3,4 %, and therein other obligations by 6,9 % and bank credit, received loans and aid by 2,6 %. The stock of reserves, bonds and bills of exchange decreased by 3,1 % y/y, resp. by 15,3 % y/y.

Return on equity¹³ reached a high level (15,4 %), which means a year-on-year growth by roughly 3 p.p. The favorable development of return on equity is depicted in Figure II.3.5.

Figure II.3.5 Development of return on equity in industry by section



Source: CZSO, figure by MIT

¹³ ROE = pre-tax profit in the period divided by equity at the end of the period. In %.

Stocks were increasing

Stocks increased by 11,5 % y/y to **255 bln. CZK**. Thereof in manufacturing by 13,1 %, in mining by 13,8 % and in energy supply they decreased by 8,9 %. All kinds of stocks were growing, most of all stocks of material (13,6 %), stocks of goods (by 9,8 %) and stocks of own production (9,5 %). In most of industries within manufacturing the stocks increased. A higher increase was registered in: manufacture of computers (by 80,7 %), manufacture of basic metals and metallurgy (by 38,5 %), manufacture of radios, TVs and communication equipment (by 35,3 %) and in refining of oil (by 25,8 %). Turnover of stocks shortened by 1 day to 40 days in industry.

Financial results of all sectors improved

From the point of view of **institutional sectors**,¹⁴ enterprises under foreign control reached faster annual growth rates in most of financial indicators. The **sector of enterprises under foreign control keeps increasing its weight in industry**. The share in employment reached 45 %, the share in costs and revenues reached 57 %, 55 % in accounting value added and 58 % in pre-tax profit. The year-on-year changes of main financial indicators by main institutional sectors are documented in Table II.3.6.

Labor productivity based on accounting value added was growing slowest in foreign controlled enterprises, owing to its already high level and increasing number of employees. The difference of labor productivity level between foreign owned and private national enterprises decreased by 4 p.p. from 55 % to 59 %.

A closer look at the distribution of labor productivity in national private enterprises sector and sector of enterprises under foreign control is given by quartile graphs available in the appendix. From the graphs it follows that even when the labor productivity is in average higher in foreign controlled firms, there existed five industries in 2004, where top domestic firms exceeded or at least reached the level of foreign firms. These industries are manufacture of textile, manufacture of clothes, publishing, manufacture of machines and equipment and manufacture of electric machines and equipment. The higher variance of foreign controlled enterprises is also visible from the graphs.

Liabilities and equity were driven by foreign owned enterprises

Total liabilities increased by 12 % in the foreign controlled sector and formed almost one half (49 %) of all liabilities in industry. In public enterprises and private national enterprises liabilities grew by 2 %. Also the high growth of **equity** occurred mainly in foreign controlled firms (by 17 %). The improving financial situation of private national businesses made equity grow by 5,6 %. The long-run property subject to depreciation increased annually just in foreign controlled sector (by 8 %), mainly thanks to the high investment activity in this sector. The **acquisition of long-run tangible property** increased by 21,6 % y/y to 90,2 bln. CZK in foreign controlled firms and just by 1,6 % y/y to 49,2 bln. CZK in private national firms. The investment activity decreased in public enterprises, namely by 38,7 % to 10,2 bln. CZK.

High increase of stocks in foreign controlled sector

In connection with the high growth dynamics of the foreign controlled sector, this sector also registered a faster growth of stocks (by 16,5 %) in comparison to private national enterprises (by 9,6 %). Also the dynamics of their components was different: whereas stocks of goods were increasing fastest in private national firms (by 21,2 %), in foreign controlled sector these stocks were growing slowest (4,7 %). On the other hand stocks of material and own production were growing fastest in foreign controlled businesses (by 19,8 % and 15,3 %). The overall efficiency of stocks was higher in foreign controlled sector, because the turnover of stocks accelerated by 1 day to 35,6 days, whereas in private national enterprises the stocks turnover slowed down by 0,2 days to 44,9 days.

¹⁴ Institutional sector classification of a firm is stable within 2003 and 2004, because the registry of economic agents as of the end of 2004 is used. These results may differ from those of CZSO.

Table II.3.6 Year-on-year changes pf indicators by institutional sector (Organizations with 100 and more employees)

yea 2003	Shares of sectors in output of industry (in %)		y/y changed in %					Lab. prod. bas. on value add.		
	yea 2004	of units	number of empl.	number added	acc. value margin	outputs incl. consump.	interm. profit	pre-tax CZK	thousands in %	y/y change
Průmysl	100.0	100.0	-1.2	-1.0	13.7	14.7	15.1	36.1	681.3	14.9
thereof:										
11001 – public	6.0	6.2	-2.4	-0.9	19.2	18.2	17.7	-4.4	1456.0	20.3
11002 – private national	37.3	35.4	-3.3	-5.0	11.9	9.0	8.0	103.8	487.5	17.8
11003 – private foreign controlled	56.6	58.3	2.5	3.9	14.1	18.1	19.5	26.3	827.0	9.8

Source: MIT calculations based on CZSO figures

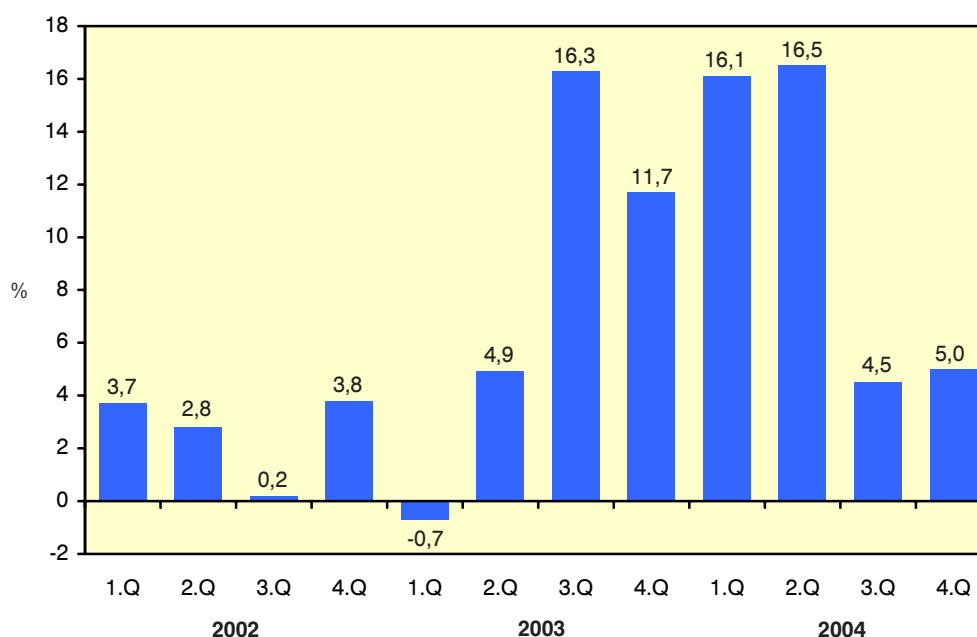
III. CONSTRUCTION

III.1. Production, employment and productivity

Construction has been growing solidly for five years, except for 2002, when the growth was lowest (2,5 %) due to the floods. In 2004 the **dynamics of construction was highest**, reaching 9,7 % y/y (394,3 bln. CZK - construction as a whole). The sources of the dynamics were the high volume of government orders in transport infrastructure (building of railway corridors, public transport in Prague and so on), previous high foreign direct investments and development of their projects, building of trade and business centers and boom of housing development (stimulated by low interest rates).

Construction further accelerated in 2004

Figure III.1.1 Development of quarterly growth rate of construction work in 2002–2004 (y/y changes in constant prices)



Source: CZSO, figure by MIT

The **development of construction wasn't even** during the year. In the first half it grew very fast (16,4 % y/y), because of the expectation of increase of VAT rate on building operations (from 5 to 19 %). In the second half the rate of growth decelerated to 4,8 % y/y (see Figure III.1.1 and on page 8 of appendix III).

And the growth culminated before the EU accession

Small firms (max. 19 employees) **reached higher rates of growth** (11,4 %) than firms with 20 and more employees (8,9 %). Production of small firms formed one third of the whole volume of building operations.

The production growth was faster in small firms...

... than in bigger ones

The **growth of** volume of building operations performed by **big firms** (20 or more employees), which form the base of the industry, was **driven by the high scope of orders** in transport infrastructure, continuing of housing development and building of trade and administrative centers.

Table III.1.1 Year-on-year dynamics of construction work
(change in %, mil. CZK in const.pr., organizations with 20 and more employees)

	Change in %				2004		
	2000	2001	2002	2003	volume in mil. CZK const. pr..	share in %	y/y change in %
Building operations as a whole according to closed contracts thereof:	9.3	9.6	2.5	9.0	278 207	100.0	8.9
– domestic	5.0	9.0	3.2	9.1	274 071	98.5	8.4
new building, reconstr. and modernization	6.9	8.9	1.5	7.9	234 697	84.4	10.0
repair and maintenance	-0.6	8.3	8.5	12.9	36 088	13.0	-1.3
other work	5.2	42.2	13.9	6.4 3	286	1.2	18.0
– abroad	31.6	48.6	-32.7	-2.8	4 136	1.5	49.5

Source: CZSO

New construction increased, repair and maintenance decreased

In construction enterprises with 20 and more employees new construction increased by 10,0 %, while repair and maintenance decreased by 1,3 % (see Table III.1.1.). In previous two years the dynamics of repair and maintenance was faster (after the floods) than that of new building. Repair and construction work has lower share in building operations than they have in the EU states. The share of engineering is on the other hand rather high.

Export of construction work increased

Export of construction work **grew significantly** by 49,5 %, but at a low share in total volume of building operations (just 1,5 %).

Table II.1.2 Development of relationship between wages and labor productivity (y/y change in %, organizations with 20 and more employees)

	Row numb.	Year				2004				
		2000	2001	2002	2003	1. Q.	2. Q.	3. Q.	4. Q.	Year
Average nominal wage	1	4.9	7.0	6.4	6.1	8.7	6.4	5.8	4.2	6.2
Average adjusted real wage										
construction work price index	2	0.9	2.8	3.7	3.8	6.0	2.5	1.5	0.1	2.8
Labor productivity in constant prices	3	10.8	8.5	0.7	7.8	13.2	12.0	0.4	0.8	5.3
Unit labor costs										
– nominal	1/3	-5.3	-1.4	5.7	-1.6	-4.0	-5.0	5.4	3.4	0.9
– real	2/3	-8.9	-5.3	3.0	-3.7	-6.2	-8.5	1.1	-0.7	-2.4

Source: CZSO

Labor productivity growth exceeded the real wages, nominal wages were fastest

The **labor productivity growth** by 5,3 % y/y **exceeded that of real wages** by 2,5 p.p. Nominal wages increased by 6,2 %, nominal unit labor costs by 0,9 % and real unit labor costs decreased by 2,4 % (see Table II.1.2).

Lab. productivity in domestic firms was growing faster, but

A **more favorable development occurred in private national construction firms**, whose labor productivity was increasing faster (6,3 %) than nominal wages (6,2 %), whereas in foreign controlled enterprises the dynamics of labor producti-

vity growth was lower (3,3 %) than that of nominal wages (6,7 %). However, enterprises under foreign control dominate by their labor productivity level, which is by 41 % higher than in private national enterprises. The difference decreased by 1,7 p.p. y/y. Private national firms cover 79,6 % of the volume of building operations. Their production was growing faster (by 9,8 %) than in foreign controlled businesses (6,1 %). Foreign controlled firms produce 16,9 % of all building operations. For details see Table III.1.3.

the level doesn't reach that of foreign firms

Table III.1.3 Basic indicators of construction firms by institutional sector in 2004

Indicator	Number of firms.	Building operations acc. to close contracts			Average number of employees			Average nominal wage		Labor productivity	
		Total mil. CZK (cur.pr.)	share in %	index (con.pr.)	thous. person.	share in %	index	CZK	index	thous. CZK (cur.pr.)	index (con.pr.)
Construction firms with 20 or more employees	2404	278207	100.0	108.9	157.8	100.0	103.4	18125	106.2	1761	105.3
thereof by sector:											
11001 – public	6	3668	1.3	97.6	3.2	2.1	97.5	18362	106.6	1123	100.1
11002 – private national	2058	221187	79.6	109.8	131.0	83.0	103.2	17560	106.2	1688	106.3
11003 – private foreign. owned	114	47129	16.9	106.1	16.3	10.3	102.7	24954	106.7	2880	103.3
14000 – self employed*)	226	6223	2.2	108.5	7.3	4.6	111.4	12849	106.3	853	97.4

*) Physical persons not registered in business register
Source: CZSO

The number of building permits increased by 2,9 % y/y to 153622. The approximate value of the buildings increased by 10,1 % to 315,1 bln. CZK. A high volume was registered in case of non-housing construction, mainly in transport infrastructure (3,7 % y/y growth), while the number of permits in house development was decreasing (by 0,9 % y/y). The average value per building permit increased by 7 %, thereof by 9,9 % in housing development and 2,7 % in non-housing building.

Building permits

III.2. Housing development

In 2004 the positive trend in housing development continued, see Table III.2.1. For the first time since 1992 the number of finished flats didn't decrease and the number of initiated ones was the highest since 1990. In spite of this the trend doesn't fulfill the plans. The recovery of housing development was driven by continuing development of mortgages. According to CZSO the number of closed mortgage deals reached 41815, which is 10 thousand more than in 2003. Other determinants were the growing volume of credit from building saving banks and development of project oriented building of blocks of flats. More flats were finished than started.

The positive trend continued

Tabulka č. III.2.1 Housing development in Czech Republic in 2000–2004 (in constant prices)

Year	Completed flats		Initiated flats		Modernized flats		Flats in progress ¹⁾	
	absolute	index	absolute	index	absolute	index	absolute	index
2000	25 207	106.2	32 377	98.4	10 725	122.5	118 785	105.6
2001	24 759	98.2	28 983	89.5	13 435	125.3	121 705	102.5
2002	27 292	108.3	33 606	103.8	13 599	101.2	129 609	109.1
2003	27 127	99.4	36 496	108.6	12 761	93.8	139 132	107.3
2004	32 268	119.0	39 037	107.0	15 469	121.2	146 801	105.5

Source? CZSO

¹⁾ As of 31. 12. 2004

III.3. Financial results of construction

Financial indicators decelerated

Construction reached the highest dynamics in the last five years, which however didn't show in the financial results of construction enterprises. Financial indicators decelerated and profitability slightly decreased.

Accounting value added growth slowed down

The **growth of accounting value added in construction** (including estimate for firms with 0 to 19 employees) **decelerated** from 10,2 % to 5,5 % y/y, when growth of intermediate consumption (11,2 %) exceeded that of outputs (10,0 %). The results varied during the year. Whereas in first half the output growth exceeded the growth of intermediate consumption, in 3rd quarter intermediate consumption started growing faster, which also showed in annual decrease of value added. Firms reached the best results in 2nd quarter, thanks to intensified invoicing in April (before switch to basic VAT rate on May 1).

Small firms with less than 20 employees formed roughly one quarter of all outputs and accounting value added tax in 2004 and thereby they reached **the highest growth rates** of these indicators (see Table II.3.1).

Table III.3.1 Outputs and value added by number of employees in 2004

	Outputs			Accounting value added		
	bln. CZK	index 04/03	share	bln. CZK	index 04/03	share
0–19	113.2	115.2	24.4	23.5	113.0	24.6
20–99	137.1	105.7	29.5	32.8	100.3	34.3
100 a více	214.0	110.2	46.1	39.3	106.0	41.1
celkem	464.3	110.0	100.0	95.6	105.5	100.0

Source: MIT calculations from CZSO figures

The growth of acc. value added slowed down

More detailed financial results are given for firms with 100 and more employees. This group had 46,1 % share in outputs and 41,1 % share in value added in 2004.

In this size group the **growth of accounting value added decelerated** (in curr.pr.) from 9,8 % in 2003 to 6,0 % in 2004. Outputs increased by 10,2 % y/y, intermediate consumption by 1 p.p. faster. The faster growth of personal costs resulted in an increase of their share in value added by 1,2 points y/y, i.e. to 65,4 %.

Labor productivity

The **accounting value added per employee** (in curr.pr.) **slowed down** from 16,3 %

y/y growth in 2003 to 7,4 % y/y. Its absolute value amounted to 538 thousand CZK against 501 thousand CZK in 2003.

based on value added increased

The **pre-tax profit has been increasing** for 4 years. The rate of growth was lowest in 2002 (6,8 %), due to floods. The highest growth was registered in 2001 (by 53 %) due to high growth of production. In 2004 the pace of growth slowed down from 23,8 % to 8,2 % and the gross profit amounted to 9,8 bln. CZK. Profit growth was influenced by both production and non-production factors. Non-production factor (balance of other costs and other revenues) caused three fourths of the annual change of profit. Production factor (net income from operations) had one quarter share. Both total costs and total revenues were rising by 9,9 %.

Gross profit has been increasing for four years

The **share of profit making organizations stagnated** around 83,5 % (222 organizations). Their gross profit increased by 7 % y/y to 10,4 bln. CZK. Their share in employment was 87,4 %. The number of loss making organizations equaled 44 (16,5 %) and the volume of their loss decreased by 9,5 % to 574 mil. CZK.

Higher growth of intermediate consumption (11,2 %) affected the growth of total costs (in relation to output growth) negatively. The share of intermediate consumption in outputs (79,7 %) proves the high share of interm. consumption in construction. This has important consequences. **Profitability of costs** stagnated around 4,5 %.

Total costs were increasing

Apart from 2002, **stocks were decreasing** in recent years. In 2004 this trend continued, but the rate of growth decreased from 33,2 % to 3,1 % and the volume of stocks reached 13,3 bln. CZK. **The turnover of stocks** shortened by 3 days to 22 days.

The decrease of stocks decelerated

Enterprises declared 136 bln. CZK of liabilities, which is a 16,7 % y/y growth. Equity increased by 9,5 % and its share in liabilities decreased slightly (to 34,2 %). Foreign resources were growing faster (by 20,9 %). The **return on equity** decreased somewhat (by 0,3 p.p. to 21,2 %).

Private national firms dominate construction, with a 77 % share in employment. **Firms under foreign control** employed 18,5 % of all employees, but their share in outputs was 26,3 %, share in value added was 24,4 % and share in profit was 22,7 %.

In private national businesses the intermediate consumption was growing faster than outputs, which led to a low rate of growth of value added. Although their labor productivity based on value added (503 thousand CZK) was growing a bit faster, they reached just 71 % of the labor productivity level in foreign owned enterprises (710 thousand CZK).

Labor productivity was higher in firms under foreign control

Table III.3.2 Annual changes of selected indicators by institutional sectors in % (Organizations with 100 and more employees)

	Private national enterprises	Enterprises under foreign control
Value added	4.8	5.7
Pre-tax profit	1.8	22.0
Outputs	11.6	5.3
Intermediate consumption	13.3	5.2
Value added per employee	6.9	6.1
Stocks	5.4	-27.0
Equity	8.0	10.6

Source: CZSO, calculations by MIT

IV. FOREIGN TRADE

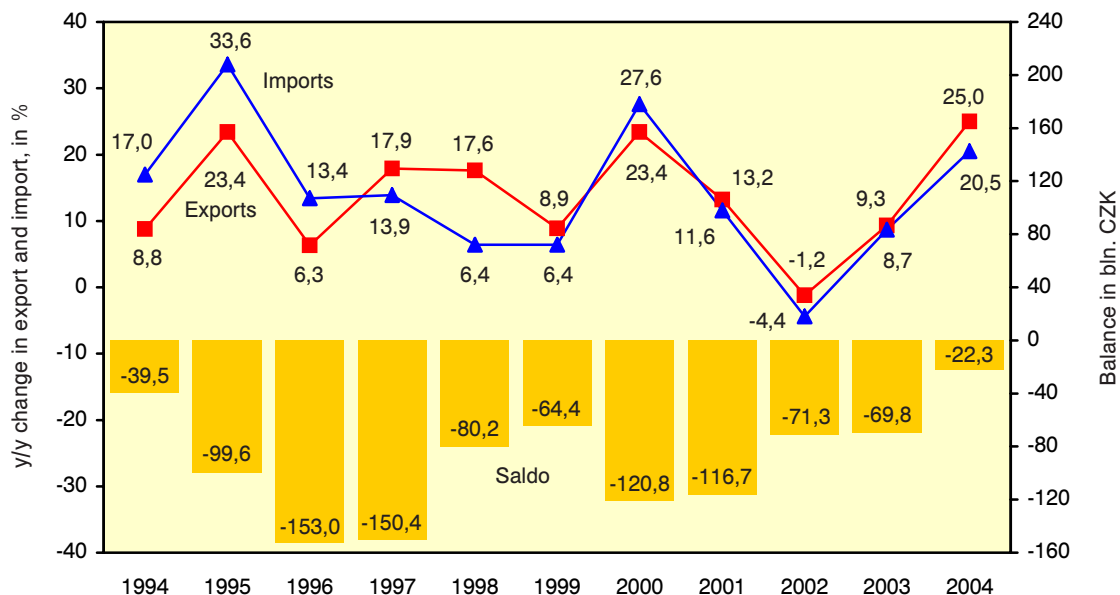
IV.1. Total results

Performance of foreign trade in goods has a major impact on total economic development. Very good results in 2004 command a deserved respect. The competitiveness of our production, which penetrates demanding foreign markets more and more, still grows. The export grows faster than import, the negative trade balance decreased considerably. The rate of growth of both imports and exports was double-digit. The share of Czech foreign trade in total world turnover reached 0,7 %, which is nearly a twofold increase during the last decade (our share in world population is 0,2 %). The fundamental **importance of foreign trade** for our small, but widely open economy **follows from a high share of the value of export in the GDP** (62,3 % in current prices; 63,1 % by import, which is an y/y improvement by 8,5 p.p. resp. 6,6 p.p.).

Performance of foreign trade commands respect

The development of basic indicators of foreign trade in the last five years was positive, as we may see from figure IV.1.1.

Figure IV.1.1 Foreign trade development in 1994–2004
(y/y change in export and import, in %, balance in bln. CZK) Pramen: ČSÚ, graf MPO



Source: CZSO, figure by MIT

The foreign trade turnover amounted to 3449,7 bln. CZK, i.e. grew by 22,7 % (in 2003 its growth was 9 % and in 2002 it even declined by 2,9 %). The dynamics of export outperformed the dynamics of import by 4,5 p.p. The coverage of import by export improved by 3,5 % to 98,7 %.

Foreign trade turnover has hit record level

All-time value of export achieved

In 2004 all basic indicators of foreign trade accelerated. Export went up fastest, by 25 % in current prices, and hit its all-time value 1713,7 bln. CZK. Import grew by 20,5 % to 1736 bln. CZK. **The acceleration started in May when we entered the EU.** By joining the EU we entered the biggest free-trade area in the world. That improved conditions of both trade and physical flow of goods.

FDI had a strong impact on the fast growth of export

Apart from the effects connected to the joining of the EU several other economic factors influenced the results of 2004. The industries, to which **a significant volume of foreign direct investment** was allocated, have been asserting themselves better and better. The industries in question are manufacturing of vehicles, telecommunication equipment, consumer electronics and information technology. Even the small recovery in Western Europe has led to growing foreign demand for products of these industries, which shows prospect for further export development. The fast economic growth of our neighbors (Poland, Slovakia and Hungary) also stimulates the export of the Czech Republic.

Foreign investments are import intensive

The inflow of foreign capital to the Czech Republic is connected to one-off increase of imports, mainly of machines and technology. The higher need for imports follows also from the derived total economic growth that stimulates demand of households.

The high trade surplus with the EU influenced the decrease of total trade deficit

The greatest success of year 2004 is the year on year decrease of total deficit by more than two thirds. The deficit decreased from 69,8 bln. CZK in 2003 to 2,3 bln. CZK. The credit is mainly due to trade with developed market economies, notably with the EU countries, where the surplus for the first time exceeded 200 bln. CZK and nearly covered the losses in trade with developing countries, Commonwealth of Independent States and notably other so-called extra-European economies, with which the deficit further deepened by 14,8 bln. CZK to 84 bln. CZK.

The surplus of trade in machines doubled...

As for the commodity structure of export the share of machines and transport vehicles further increased by 0,5 p.p. to 50,6 %, since the export grew by more than a quarter. The trade surplus more or less doubled and reached 134 bln. CZK.

...and the deficit in chemicals, fuels and food deepened

Even better total performance of foreign trade was inhibited by the deepening trade deficit in chemicals (by 3,8 bln. CZK to 87,7 bln. CZK), mineral fuels (by 0,4 bln. CZK to 68,7 bln. CZK) and food (by 2,8 bln. CZK to 23,5 bln. CZK).

The development of prices was favorable

In 2004 the results of foreign trade were influenced by favorable price development, as the **export prices** grew faster year-on-year than the **import prices** (by 3,7 % resp. 1,6 %). The development of the terms of trade was therefore positive, namely 102,1. In 2003 the **terms of trade** were 101,1 and that means that in 2004 the prices had a greater impact on the positive development of the balance of trade. Last time the balance of trade was negative in 2000, when it reached 97,2. The price indices of import and export are influenced by price development abroad. Their positive influence on the balance of trade is at about 10 bln. CZK. After recalculation to **constant prices** the rate of growth decreased. The difference in the dynamics was 3,5 p.p., as the export grew by 22,3 % and the import by 18,8 % (the difference in current prices was 4,5 p.p)

The CZK appreciated against USD and remained weak against the euro

Due to the year-on-year **appreciation of CZK against USD** by 8,9 % in average over last 12 months the growth of export and import was greater when **expressed in USD** than when expressed in CZK (by 37,2 %, resp. 32,2 %). The export reached 66,8 bln. USD and the import 67,7 bln. USD. The negative balance of trade was 0,9 bln. USD, which is nearly a third compared to the year before. **The crown even depreciated slightly against euro** (by 0,2 %) so that the dynamics of the import was the same like in CZK and that of the export was lightly lower than in CZK (24,9 %). The export amounted to 53,8 bln. EUR and the import to 54,5 bln. EUR. The balance of trade deficit didn't even reach one third of its value from 2003.

All quarters of 2004 were characteristic of the advance of the rate of growth of export before the rate of growth of import. The highest dynamics was reached in the 2nd quarter, owing to the joining of the EU. Totally the growth of both export and import was more than twice as high as in 2003, when export increased by 9,3 % and import by 8,7 %. As follows from table IV.1.1, the greatest improvement was attained in the 4th quarter when the deficit was lower by 26 bln. CZK y/y. The total deficit of the balance of trade was only 22,3 bln. CZK, which is by 47,5 bln. CZK less than in the previous year.

Export exceeded import in all quarters

Table IV.1.1 Development of foreign trade in individual quarters of 2004

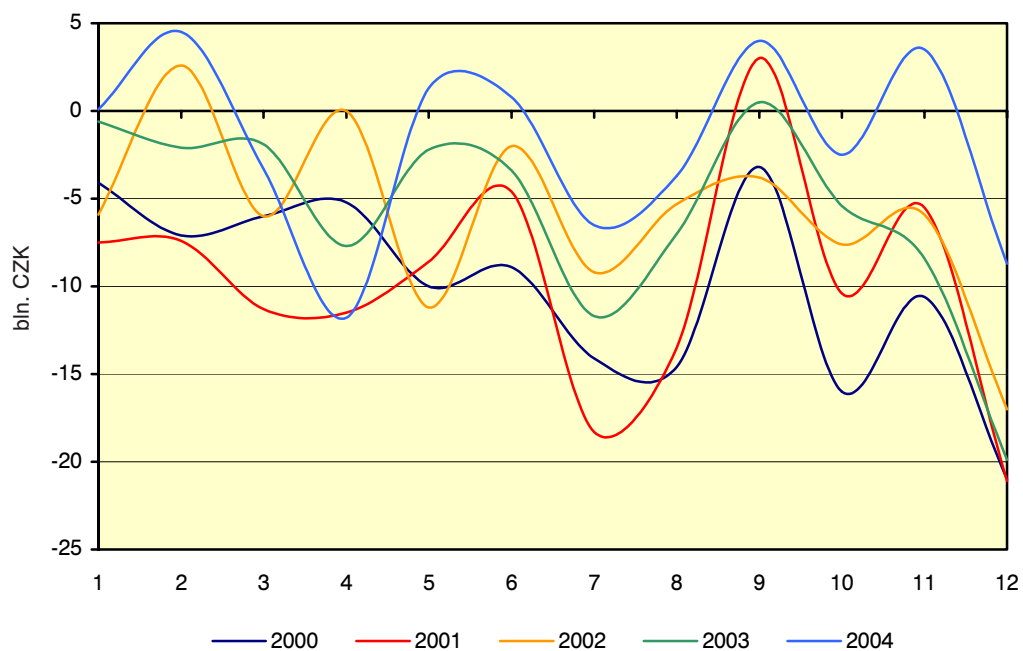
	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	2004
Export (in %) in current prices	13.0	33.1	28.2	25.5	25.0
Import (in %) in current prices	11.1	30.8	23.3	16.8	20.5
Balance in 2003 (bln. CZK)	-4.5	-13.3	-18.3	-33.7	-69.8
Balance in 2004 (bln. CZK)	1.2	-9.7	-6.2	-7.7	-22.3
Change of balance y/y (bln. CZK)	5.7	3.6	12.1	26.0	47.5
Export (in %) in constant prices	11.1	29.0	25.4	24.0	22.3
Import (in %) in constant prices	10.6	28.1	20.8	15.6	18.8

Source: CZSO

The monthly development of the trade balance in 2000 to 2004 shows a pattern, which we can see in Figure IV.1.2. The pattern concerns mainly the deepening of the balance in summer months and in December, as well as the positive fluctuations in September. November 2004 was the first November since 1994 to reach a positive balance of trade. That's an essential difference from the previous years, when imports increased in the last months of the years mainly due to increasing of stocks before the Christmas sale.

Trade balance positive for six months

Figure IV.1.2 Development of the balance of trade in individual months of years 2000 till 2004



Source: CZSO, figure by MIT

IV.2. Territorial structure

86,7 % of trade was realized with developed market economies

We have the most active trade **with developed market economies**, which we realized **86,7 % of total trade turnover** with. The greatest share (78,8 % of the total trade) have the countries of the EU.¹⁸ The share of other territorial groups is lower than 5 %. As we can see in Table IV.2.1 **export** to all main territorial groups (except of other non-European countries, where the dynamics was 3,4 %) had a **two digit growth rate**. The export to the Community of Independent States increased by nearly 50 % and to developing economies and European transitive economies by one third. **The EU's share in the increase of export by 342,8 bln. CZK was 84 %.**

The value of import from all areas increased, mostly from European transitive economies (by 37,5 %) and least from developing economies (by 2,8 %). **Developed market economies had a 88 % share in the 295,3 bln. CZK increase of imports** (thereof EU had 73,9 %).

Detailed numbers about turnover, export, import and balance in territorial decomposition are given in **appendix** (Table IV.1).

The decrease of total deficit was influenced by high surplus with the EU

The year-on-year drop of the deficit by 47,5 bln. CZK was **positively influenced** by improvement of the positive balance with developed market economies by at about 50 % to 148,5 bln. CZK (surplus with EU reached 225,8 bln. CZK) as well as by decrease of the deficit with developing economies by 11,4 bln. CZK to 55,1 bln. CZK. That covered the 14,8 bln. CZK deepening of the deficit with other countries to 84 bln. CZK.

Table IV.2.1 Territorial structure of the foreign trade in 2004

	Export			Import			Balance bln. CZK	y-o-y change
	bln. CZK	share in %	04/03 index	bln. CZK	share in %	04/03 index		
Czech Rep. total	1 713.7	100.0	125.0	1 736.0	100.0	120.5	-22.3	47.5
Developed market economies	1 569.3	91.6	124.3	1 420.8	81.8	122.4	148.5	46.8
Thereof EU	1 472.5	85.9	124.5	1 246.7	71.8	121.2	225.8	71.4
Thereof Germany	620.5	36.2	122.4	549.8	31.7	117.2	70.7	32.9
Slovakia	145.5	8.5	133.4	93.1	5.4	124.7	52.4	18.0
Developing economies	54.2	3.2	135.8	109.3	6.3	102.8	-55.1	11.4
European transitive economies	38.8	2.3	136.0	11.1	0.6	137.5	27.7	7.2
Community of Independent States	41.8	2.4	148.0	99.7	5.7	115.0	-57.9	0.6
Thereof Russia	24.0	1.4	146.2	71.5	4.1	108.6	-47.5	1.9
Other*)	8.0	0.5	103.4	92.0	5.3	119.6	-84.0	-14.8
Thereof China	7.0	0.4	102.4	89.6	5.2	119.1	-82.6	-14.2
For information: OECD	1 546.4	90.2	124.5	1 418.9	81.7	122.5	127.5	43.6

*) China, North Korea, Cuba, Laos, Mongolia, Vietnam
Source: CZSO, MIT calculations

Positive balance with EU exceeded 225 bln. CZK, which is mainly caused by trade with ...

After EU enlargement the share of EU25 in our export was 85,9 % and in our import 71,8 %. The main reason is the 24,5 % export growth and 21,2 % import growth. **The trade surplus with the EU increased to 225,8 bln. CZK.** Mainly

¹⁸ The enlargement from EU15 to EU25 on 1/5/04 led to transfer of member states between groups. Data from the corresponding periods of 2003 were recalculated to include the new member states in order to preserve comparability.

trade with the closest countries, i.e. Germany, Slovakia, Hungary, Belgium and Austria, caused this increase as follows from the survey of countries with highest surplus in Table IV.2.2.

Table IV.2.2 Survey of countries with highest trade surplus in 2004

Country	Surplus in bln. CZK	y-o-y change bln. CZK	SITC commodity group with the highest share in the total result of the given country in bln. CZK			
			mach. and trans. veh.		manuf. cons. goods	
CR total			133.9	25.7	6.5	
Germany	70.7	32.9	67.1	27.9	10.0	
Slovakia	52.4	18.0	32.1	6.9	5.6	
Austria	34.9	11.0	21.3	8.4	6.9	
G. Britain	28.8	-6.1	24.6	7.6	2.1	
The Netherl.	23.5	-1.7	32.9	2.9	0.4	
Hungary	12.4	10.4	5.2	2.7	2.6	
Belgium	9.9	8.6	13.3	3.2	0.4	
Poland	7.3	1.4	21.7	2.3	2.1	

Source: CZSO

The Federal Republic of Germany still dominates the Czech trade, although its share in both export and import decreased to 36,2 % (by 0,8 p.p.) and 31,7 % (by 0,9 p.p.) respectively. We attained a 22,4 % year-on-year increase of our export to Germany and our imports grew by 17,2 %. The trade surplus almost doubled (to 70,7 bln. CZK).

... *Germany,*

Due to the high export growth (by 33,4 %) accompanied by a slower import growth (24,7 %, i.e. lower by 8,7 p.p.) the surplus with our one but most important trade partner, the **Slovak Republic**, increased from 34,4 bln. CZK to 52,4 bln. CZK. The balance of trade in machines and transport vehicles improved by 7,3 bln. CZK, due to a 31,9 % growth of export and 37 % growth of imports (the value of export was almost three times as high as that of import).

... *Slovakia,*

Austria strengthened its position of the third most important trade partner, since export to Austria grew by 22,7 % at a under average import growth by 13,6 %. The shares in export and import decreased slightly (by 0,1 p.p. to 6,1 %, respective by 0,3 p.p. to 4 %). The trade surplus increased by 11 bln. CZK to 34,9 bln. CZK. Thereby Austria beat Great Britain and the Netherlands and attained the third place according to the value of trade surplus, right after Germany and Slovakia. Approx. 43 % of export to Austria was machines and transport vehicles, whose surplus increased by close to 10 bln. CZK to 21,3 bln. CZK.

... *Austria,*

The trade surplus with **Hungary** reached 12,4 bln. CZK, which is six times the 2003 value. Similarly the trade surplus with **Belgium** grew seven times to 9,9 bln. CZK.

... *Hungary and Belgium*

The trade surplus with the **Great Britain** decreased by 6,1 bln. CZK y-o-y down to 28,8 bln. CZK. This was caused mainly by decreasing surplus of trade in machines. The surplus with the **Netherlands** decreased by 1,7 bln. CZK y-o-y down to 23,5 bln. CZK, in particular due to increase of the deficit in chemicals and food.

The surplus with UK and the Netherlands decreased

Trade with **Japan** and the **USA** form three fourths of our trade with **other developed economies**. The import from Japan increased by more than 75 %, which is ten times the growth of export. The deficit deepened from 28,2 bln. CZK to 52,7 bln. CZK. Japan has become number two on the list of countries with the highest deficit (see Table IV.2.3). The deficit with the USA worsened by 3,5 bln. CZK to 14,9 bln. CZK. The USA share on export and import are 2,3 % and 3,1 %.

The results of other developed economies had a negative impact

Table IV.2.3 Survey of countries with the highest trade deficit in 2004

Country	Total deficit in bln. CZK	y-o-y change in bln. CZK	SITC commodity group with the highest share in the total result of the given country in bln. CZK			
			chemicals	mineral fuels	food	
CR total	-22.3	47.5	chemicals -87.7	mineral fuels -68.7	food -23.5	
China	-82.6	-14.2	mach. and trans. veh. -55.0	manuf. cons. goods -18.5	market goods -5.4	
Japan	-52.7	-24.4	mach. and trans. veh. -44.2	market goods -4.0	manuf. cons. goods -3.9	
Russia	-47.5	1.9	mineral fuels -52.2	raw materials -6.1	market goods -3.0	
Italy	-17.8	-2.0	chemicals -5.3	mach. and trans. veh. -4.7	manuf. cons. goods -3.9	
Taiwan	-15.9	-0.5	mach. and trans. veh. -12.5	manuf. cons. goods -1.5	market goods -1.4	
USA	-14.9	-3.5	mach. and trans. veh. -14.2	chemicals -2.9	manuf. cons. goods -2.1	
Malaysian	-13.7	4.1	mach. and trans. veh. -10.6	raw materials -1.2	manuf. cons. goods -1.1	
South Korea	-12.8	-3.3	mach. and trans. veh. -10.8	manuf. cons. goods -0.7	market goods -0.5	

Source: CZSO

Improved results with European transitive economies

The trade surplus with **European transitive economies** increased by 20,5 bln. CZK year-on-year to 27,7 bln. CZK. The export covered more than 70 % of the import. The deficit with the **Community of Independent States** reached almost 58 bln. CZK, although export grew by nearly 50 %. Trade with Russia forms more than two thirds of the trade turnover with CIS.

Slight improvement of the deficit with Russia

The deficit with **Russia** was the third biggest after those with China and Japan. It decreased by 1,9 bln. CZK year-on-year down to 47,5 bln. CZK. The decrease was chiefly caused by increase of surplus of trade in machines by 2,7 bln. CZK to 9 bln. CZK.

The reduction of the deficit with developing countries ...

The trade with **developing economies** was developing more favorably. The deficit decreased by 11,4 bln. CZK y/y down to 55,1 bln. CZK. The import from this area increased just slightly (by 2,8 %), while export grew by more than a third. The drop of the deficit was influenced by trade in machines and transport vehicles, where the negative balance decreased from 52,2 bln. CZK down to 38,4 bln. CZK. Roughly three fourths of the trade is provided by the **Asian countries**, where the deficit decreased by 10,5 bln. CZK to 46,1 bln. CZK. The main improvement of the balance occurred in trade with Malaysia (by 4,1 bln. CZK), Costa Rica (by 1,9 bln. CZK), Singapore (by 1,6 bln. CZK) and the Philippines (by 1,3 bln. CZK). On the contrary the deficit with South Korea deepened (by 3,3 bln. CZK).

... and on the other hand increase with other countries

The worst balance of all territorial groups appears in trade with **other countries**, the so-called extra-European countries (China, North Korea, Cuba, Laos, Mongolia and Vietnam), where it reached 84 bln. CZK, which is 14,8 bln. CZK more than in 2003. Export grew just slightly (by 3,4 %) while import increased by 19,6 %. The worsening occurred mainly in trade in machines and manufactured consumer goods (by 8,3 bln. CZK resp. 5,3 bln. CZK). The most important country in this group is China that has a 97 % share in import from this area and 87 % share in export.

The biggest deficit with China even worsened

The worst year-on-year worsening of deficit happened with China. The deficit reached 82,6 bln. CZK, an y/y increase by 14,2 bln. CZK. Export covered not even 85 of import and its value increased just slightly (by 2,4 %). The growth of import (by 19,1 %) was mainly caused by machines and transport vehicles, which formed two thirds of imports from China. Import of manufactured goods grew by more than a third. The deficits of both groups further worsened, the machines by 8,2 bln. CZK, consumer goods by 5 bln. CZK.

IV.3. Commodity structure

Machines and transport vehicles further increased (within the commodity framework) their already more than 50 % share in export by 0,5 p.p. to 50,6 %. In imports their share decreased by 0,6 p.p. to 42,2 %. **The surplus in this group increased markedly**, roughly to the double, i.e. 133,9 bln. CZK. This happened mainly due to the favorable development of trade with the EU, where the positive balance reached 248,1 bln. CZK. As follows from Table IV.3.1, in other commodity groups the results of trade worsened, mostly by chemicals and food. The worsening in these groups was compensated by improvements by machines.

Machines and transport vehicles further strengthened their already more than 50 % share in export

Table IV.3.1 Commodity structure of foreign trade in 2004 according to SITC

	Total	0	1	2	3	4	5	6	7	8	9
Export (in %)	100.0	2.8	0.5	2.9	3.1	0.1	6.2	22.5	50.6	11.4	0.1
Import (in %)	100.0	4.1	0.6	3.0	7.0	0.2	11.1	20.8	42.2	10.8	0.0
Balance 2003 (in bln. CZK)	-69.8	-20.7	0.7	-2.5	-68.3	-2.8	-83.9	26.6	70.9	8.8	1.4
Balance 2004 (in bln. CZK)	-22.3	-23.5	-1.8	-3.7	-68.7	-3.0	-87.7	25.7	133.9	6.5	0.0
y-o-y change in balance (in bln. CZK)	47.5	-2.8	-2.5	-1.2	-0.4	-0.2	-3.8	-0.9	63.0	-2.3	-1.4

0– food
1– beverages and tobacco
2– raw materials
3– mineral fuels
4– animal and vegetable fats
5– chemicals

6– market products sorted mainly according to material, unsorted goods this concerns mainly paper, goods made of paper, textile products except clothes, cement, glass, porcelain, pottery, iron and steel, nonferrous metals, metal products
7– machines and transport vehicles
8– manufactured consumer goods
This concerns mainly prefabricated buildings, medical and installation technology, furniture, haberdashery, clothing, shoes, equipment, guns, ammunition, sport equipment and toys
9– unclassified

Source: CZSO

The jump increase of surplus of the biggest commodity group SITC 7 was caused particularly by:

- **Road vehicles**, whose surplus exceeded 100 bln. CZK (increase by 16,7 bln. CZK). The value of export attained 255,5 bln. CZK and had thereby 30 % share in the total export of SITC 7.

The item road vehicles is dominated by cars and their parts and equipment. The share of cars in total export decreased by 0,3 p.p. to 6,9 % and their share in total import increased by 0,4 p.p. to 3,1 %. Yet still the trade surplus increased by 4,8 bln. CZK to 64,2 bln. CZK. The share of part and equipment of cars in import decreased by 0,4 p.p. to 3,7 %, while it remained stable (7 %) in export. The surplus of the trade balance increased by 17 bln. CZK to 54,8 bln. CZK.

- **Equipment for telecommunication, recording and reproduction of sound**, where export grew by more than two thirds and the 2,9 bln. CZK deficit evolved to a surplus of 11,3 bln. CZK.
- **Machines and equipment used in industry** more than doubled their trade surplus to 16 bln. CZK. The dynamics of export exceeded that of import by 8,2 p.p. (26,8 % resp. 18,6 %).
- **Electrical equipment, devices and appliances**, which halved the deficit, i.e. to 15,1 bln. CZK, as the rate of growth of export was twice as high as the rate of growth of import (32,2 % resp. 16,7 %).

The surplus in road vehicles exceeded 100 bln. CZK

Table IV.3.2 Machinery and transport equipment in 2004

	Export		Import		Balance	
	bln. CZK	y-o-y index	bln. CZK	y-o-y index	bln. CZK	change in bln. CZK
SITC 7 total	867.2	126.2	733.2	119.0	133.9	63.0
71 Power-generating machinery and equipment	50.4	116.9	43.9	110.8	6.5	3.0
72 Machinery specialized for particular industries	53.5	116.5	53.1	113.7	0.4	1.2
73 Metalworking machinery	16.2	115.7	22.4	119.9	-6.2	-1.5
74 General industrial machinery and equipment, n.e.s., and machine parts, n.e.s.	116.8	126.8	100.8	118.6	16.0	8.9
75 Office machines and automatic dataprocessing mach.	101.9	117.2	85.0	122.4	16.9	-0.6
76 Telecommunications and sound-recording and reproducing apparatus and equipment	72.9	170.7	61.6	134.8	11.3	14.3
77 Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof	183.2	132.2	198.3	116.7	-15.1	16.2
78 Road vehicles (including air-cushion vehicles)	255.5	122.2	155.2	123.7	100.3	16.7
79 Other transport equipment	16.5	114.0	12.8	82.0	3.7	4.8

Source: CZSO

Surplus in market products decreased just slightly...

The second biggest commodity group **manufactured goods classified chiefly by material** decreased its surplus by almost a billion down to 25,7 bln. CZK, as export increased by 22 % and import by 24,3 %. Its share in export fell by 0,6 p.p. to 22,5 % and the share in import increased by 0,7 p.p. to 20,8 %.

...while the surplus in manufactured consumer goods dropped by a fourth

In consequence of the higher rate of growth of import than of export (23,3 % resp. 20,6 %) the surplus of the trade balance in **manufactured consumer goods** dropped from 8,8 bln. CZK to 6,5 bln. CZK.

This result was influenced by trade in **other goods** (the deficit decreased by 5,1 bln. CZK to 12,4 bln. CZK) and by trade in **clothes** (from surplus of 2,3 bln. CZK to a deficit of 1,3 bln. CZK).

Chemical products have been demonstrating the highest deficit for three years

Chemicals and similar products are the commodity group that in the long run demonstrates a worsening balance of trade and which have been attaining the greatest deficit for three years. The deficit reached 87,7 bln. CZK (a 3,8 bln. CZK y/y increase). Export grew by 30,8 % year-on-year and import by 17,4 %. 54,6 % of import was covered by export. This is an improvement by 5,6 p.p.

Deficit in fuels influenced by import prices

The value of import of **mineral fuels, fats and similar materials** grew by 13,1 % y/y, while export grew by 34,7 %. The 68,7 bln. CZK deficit increased just slightly (by 0,4 bln. CZK). The deficit in **oil and oil products** worsened by 10,4 bln. CZK to 60,7 bln. CZK and on the other hand the deficit in **heating gas, natural or artificial** declined by 4,4 bln. CZK to 32,1 bln. CZK. The surplus in **electric power** increased by 4,8 bln. CZK to 13,6 bln. CZK due to the more than 20 % export growth.

Growing import prices influenced the growth of the value of import of mineral fuels. In the 1st quarter the prices dropped by 10,9 %, but since the 2nd quarter they were growing (by 7,7 %, 12,7 % and 18,4 % in 2nd, 3rd and 4th quarter) and in a year-round average the increase was 6,5 %.

Increasing import of meat worsened the trade deficit in food

Food and living animals is the group, whose deficit (23,5 bln. CZK) is the third highest. At over average export growth the coverage of import by export improved by 3 p.p. to 66,8 %. The year-on-year deficit increased by 2,8 bln. CZK was mainly caused by growing deficit of meat and declining surplus in cereals.

Deficit worsened in raw materials, beverages, tobacco and fats

Raw materials, uneatable, except for fuels increased their deficit from 2,5 bln. CZK to 3,7 bln. CZK due to an over average growth import (by 29,1 %). A signi-

ficant growth of export, but also import was attained mainly by metal ores and metal waste. The one but smallest commodity group, **food and tobacco** (its turnover share is lower than 1 %) switched from 0,7 bln. CZK surplus to 1,8 bln. CZK deficit, because of import growth by 42,4 % and export growth by only 8,5 %. By the smallest commodity group, **animal and vegetable oils, fats and wax** (0,1 % and 0,2 % share in export and import) the deficit worsened from 2,8 bln. CZK to 3,1 bln. CZK.

As for the structure of **imports according to use** the share of imports for personal consumption increased b 0,6 p.p. to 21,7 % (see Table IV.3.3). The lowest growth was registered by import for investment (by 19,3 %), where the share declined slightly to 29 %. The share of import for production decreased by 0,4 p.p. to 49,3 %.

Growing share of imports for personal consumption

Table IV.3.3 Structure of import according to use 2002–2004

	2002 Share in %	2003 Share in %	2004 Share in %	2004/2003 y-o-y index
Imports for:	100.0	100.0	100.0	120.5
Personal consump.	20.8	21.1	21.7	123.8
Investment	28.6	29.2	29.0	119.3
Production	50.6	49.7	49.3	119.7

Source: MIT

Export after inward processing decreased by 27,8 % year-on-year down to 266,7 bln. CZK. Its share in total export fell by 11,2 p.p. to 15,6 % (it has been decreasing since 2001. The share was highest in 2000, namely 31,3 %). The share of **import for inward processing** decreased by 6,9 p.p. to 11,7 %, as its value decreased by 24,3 % to 203,3 bln. CZK. Inward processing created a trade surplus of 63,4 bln. CZK (in 2003 this surplus exceeded 100 bln. CZK).

Inward processing decreased by one-fourth y/y

The share of high-tech products in exports and imports decreased slightly (by 0,5 p.p. down to 11,9 %, resp. by 0,9 p.p. down to 15 %). The deficit in these product decreased by 1,4 bln. CZK to 56,7 bln. CZK. Export of electronics and scientific equipment increased significantly. The biggest export item, the information technology, reached value 100,2 bln. CZK and its highest surplus was 18,3 bln. CZK. As for **import** the biggest item were products of electronics and telecommunication devices (import value was 100,2 bln. CZK). They also created the greatest deficit in the group, namely 47,7 bln. CZK.

In the high-tech group IT dominates exports and electronics and telecommunication dominate imports

Table IV.3.4 Structure of export and import according to the level of processing in 2003 and 2004

	Share in %			
	Export		Import	
	2003	2004	2003	2004
A. Products with low level of processing	12.2	12.6	20.0	19.8
– Food and raw materials for food production	3.5	3.5	4.9	5.1
– Fuels, incl. power fuels and secondary waste	2.4	2.6	7.0	6.6
– Semi-finished products	6.3	6.5	8.1	8.1
B. Products with high level of processing	87.8	87.4	80.0	80.2
– Machinery and electric products	57.7	58.3	49.1	48.4
– Other final products	30.1	29.1	30.9	31.8

Source: MIT

In the level of processing structure there are no significant changes

From the point of view of **level of processing of export** the share of products with lower level of processing increased to 12,6 % at the expense of products with high level of processing (reached 87,4 %). As for **import** the share of machinery and electric devices strengthened (to 80,2 %) at the expense of food, fuels and semi-finished products (19,8 %), as follows from Table IV.3.4.

V. INTERNAL TRADE AND FINAL CONSUMPTION OF HOUSEHOLDS

V.1. The trade sector

The greatest part of needs of final consumers and business and public sector is accommodated by means of buying on the internal market. Internal trade is a **intermediary in transferring demand signals** that influence the general economic development. **The trade's share in the total number of business units** in the national economy is almost one third and trade has 13 % share in **total employment** and 14 % share in the **GDP**.

Revenues of trade sector indicate demand signals

The trade sector (NACE G) comprises sale and reparation of motor vehicles and sale of motor fuels (NACE 50), wholesale trade (NACE 51) and retail trade (NACE 52).

The total revenues from sale of goods and services reached 2668,7 bln. CZK in current prices (without VAT) in 2004, which is a y/y growth by 9,3 %. The revenues grew y/y in all part of the sector, **mostly in wholesale** (by 12,6 %, which is much more than the 5,8 % in 2003). In addition to the connection to the retail trade the wholesale trade also provides for business activities. The dynamic growth of its revenues reflects the economic recovery and is closely connected to the growing value of import.

The growth of revenues was mainly caused by wholesale

Numerical data about the development of revenues in individual trade sub-sectors are given in Table V.1.1.

Table V.1.1 Revenues of trade sector (current prices without VAT)

	bln. CZK		growth in %	share in %	
	2003	2004	04/03	2003	2004
Trade sector (G=NACE 50.51.52)	2 441.2	2 668.7	9.3	100.0	100.0
Motor vehicles and fuels (NACE 50)	357.2	386.0	8.1	14.6	14.5
Wholesale trade (NACE 51)	1 379.9	1 554.4	12.6	56.5	58.2
Retail trade (NACE 52)	704.1	728.4	3.4	28.8	27.3
Thereof: big enterprises ^{*)}	262.9	283.7	7.9	10.7	10.6
other enterprises	441.2	444.7	0.8	18.1	16.7

Source: CZSO

^{*)} Enterprises with 100 or more employees including supermarkets

The growth of revenues in **sale and repair of motor vehicles and sale of fuel** is chiefly driven by increasing revenues from fuels, which is in its turn mainly influenced by growing prices of gas and gasoline and diesel oil. The growth of revenues from sale and repair of cars and motor equipment was very low.

The development of revenues is differential within trade

As for **the retail trade** (NACE 52) the fast growth continued just by big enterprises with 100 or more employees including supermarkets (y/y growth by 7,9 %). Revenues of smaller enterprises grew just by 0,8 %.

Trade margins increased just in retail trade

The **average trade margin** of the whole trade sector decrease by 0,2 p.p. to 16,2 % (in the 4th quarter it was 16,0 %). The lowest level of the margin (decrease by 0,2 p.p. to 10,5 %) was registered by sale of cars, motor equipment and fuels. Also in wholesale trade the margins decreased by 0,3 p.p. to 14,7 %. The highest margin (22 %, an 0,2 p.p. y/y increase) was achieved in retail trade (NACE 52).

The concentration of trade continues

The tough competition and the excessive supply lead to a growing **share** of big enterprises (100 or more employees) **in revenues** in all areas of trade. Within the big enterprises the **multinational** ones had a dynamic development. Their share in revenues of big firms was increasing quickly from 1998 to 2002 and finally exceeded 50 %. This trend slowed down considerably in 2003 and 2004 (see Table V.1.2).

Table V.1.2 Development of the market share of trade firms with 100 or more employees in total revenues in % (current prices without VAT)

	1998	2000	2002	2003	2004
– Motor vehicles, fuels (NACE 50)	17.0	23.8	24.2	27.6	28.8
– Wholesale trade (NACE 51)	24.3	23.6	23.4	28.0	31.0
– Retail trade (NACE 52)	27.8	31.5	36.0	37.3	38.9
Total trade (50,51,52)	24.2	25.5	26.9	30.6	32.8
Thereof: domestic firms	73.0	57.0	45.9	46.2	44.9
multinational firms	27.0	43.0	54.1	53.8	55.1

Source: CZSO

The concentration has come furthest in retail trade, where the market share of the big firms reached nearly 39 %.

The share of multinationals greatest in retail trade

Multinational organizations (that gain ground in all parts of trade) have the strongest position in retail trade, where their share in the revenues of big enterprises with 100 or more employees is already 70 %.

The domination of multinationals is mainly caused by the financial strength and business experience, which then shows in the high labor productivity and negotiations with suppliers. Table V.1.3 gives details.

Table V.1.3 Domestic and multinational retail trade businesses with 100 and more employees (NACE 52)

		2003	2004	Change in %	Share in the total in %	
				04/03	2003	2004
Number of firms	total	172	179	4.5	100.0	100.0
	domestic	115	121	5.2	67.1	67.5
	multinational	57	58	3.1	32.9	32.5
Number of employees (thousands)	total	94.8	97.8	3.1	100.0	100.0
	domestic	36.2	37.0	2.3	38.1	37.8
	multinational	58.6	60.8	3.7	61.9	62.2
Revenues from sales of goods in cur. prices without VAT (bln.CZK)	total	252.6	272.8	8.0	100.0	100.0
	domestic	79.0	80.1	1.4	31.3	29.4
	multinational	173.6	192.7	11.0	68.7	70.6
No. employees per firm	domestic	314	306	-2.8	x	x
	multinational	1038	1044	0.6	x	x
Revenues from sales of goods per employee (mil. CZK)	domestic	2.18	2.17	-0.8	x	x
	multinational	2.96	3.17	7.0	x	x
Trade margin in %	domestic	20.4	20.1	x	x	x
	multinational	21.4	21.7	x	x	x

Source: CZSO, MIT calculations

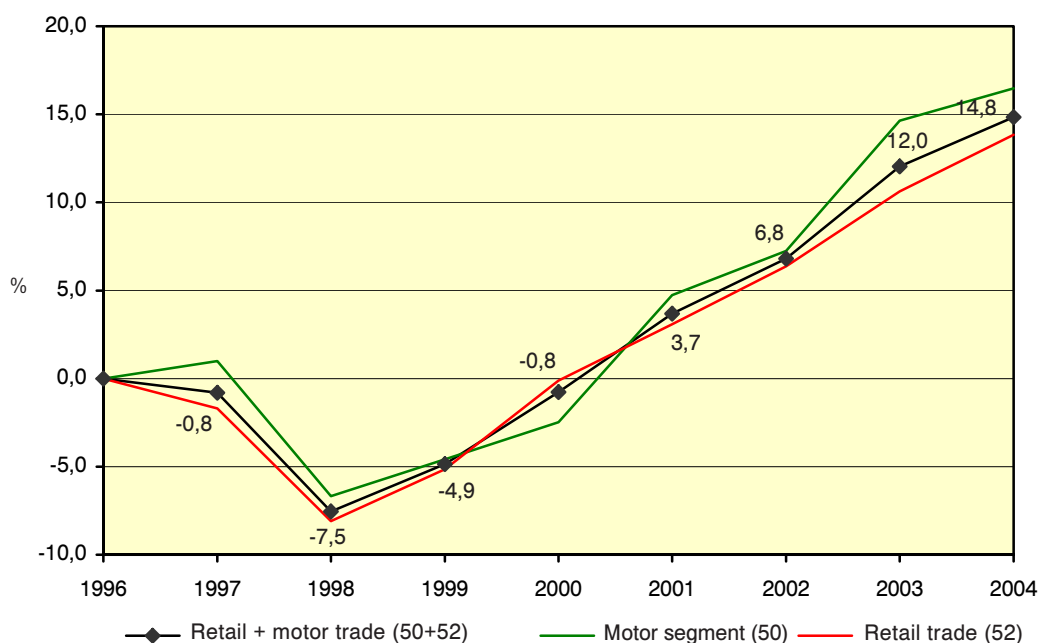
V.2. Final consumption of households

The consumers demand on the internal market is mostly characterized by the development of the physical volume of sales (i.e. in constant prices) in retail trade (including the motorist segment – NACE 52). The households' share in the total revenues of retail trade is approximately two thirds. An inverse relationship can be seen by revenues of the motorist segment, where two thirds of the demand are created by other sectors than households, i.e. public, business and foreign sector.

The **volume of sales** has been **growing for six years** in a row (see Figure V.2.1). The intensity of growth, its structure and determinants were changing within the period.

Physical volume of trade has been increasing for six years

Figure V.2.1 Long run development of retail and motor sales, NACE 50 and 52
Constant prices incl. VAT, 1996=100



Source: CZSO, figure by MIT

In 2004 the **physical volume of sales** of retail sector (incl. motor trade) grew just by 2,5 % y/y which is a **slowdown of growth** by almost 50 % compared to 2003. This relates to the slower growth of real wages and total disposable income of households. Both slowdown of the growth of sale and repair (by 4,7 p.p.) and the

After an intensive period the growth was moderate in 2004...

Table V.2.1 Development of retail sales, including motor segment – y/y changes in % (const. prices incl. VAT)

	2000	2001	2002	2003	2004				
					I. Q.	II. Q.	III. Q.	IV.Q.	rok
Retail trade, motor vehicles and fuel (NACE 50 and 52)	4,3	4,5	3,0	4,9	1,2	2,5	1,8	4,3	2,5
– Retail trade (NACE 52)	5,3	3,2	3,2	4,0	2,9	3,0	2,3	3,6	3,0
– Motor vehicles and fuel (NACE 50)	2,2	7,4	2,4	6,9	-2,5	1,5	0,8	5,8	1,6
Thereof: motor vehicles (NACE 50.1–50.4)	3,7	8,9	-1,0	5,6	-4,5	1,6	-1,0	6,5	0,9
Fuel (NACE 50.5)	-0,6	4,5	8,9	9,1	1,0	1,4	3,5	4,6	2,7

Source: CZSO, monthly survey

significant y/y deceleration of fuel sales (by 6,4 p.p) participate on the total slowdown. Retail trade itself registered a y/y deceleration from 4 % to 3 % annual growth, see Table V.2.1.

... but the sales of non-food products didn't loose their dynamics

In retail stores with a **great share of food products** a significant year-on-year slowdown occurred, namely from 4,3 % to 2,6 %. This follows from the satiation of the food market and from changes in the structure of consumption. In **non-food stores** the pace of growth declined just slightly, from 3,5 % to 3,4 %.

Equipment of households has been improving in the long run

The long run growth of sales of manufactured (non-food) goods is reflected in **the improvements in equipment of households**. Not only the quantity, but in the first place the quality grows. The survey of development of equipment in the last 8 years (Table V.2.2) proves this.

Table V.2.2 Equipment of households with long run consumption goods (Number of items per 100 households)

	1995	1997	1999	2001	2003
Dishwasher	–	–	4.3	7.9	11.8
Microwave	10.8	20.4	38.5	50.6	59.7
Monochrome TV	42.2	36.4	16.4	11.0	7.9
Color TV	93.0	103.8	111.2	116.2	122.4
VCR	24.7	32.3	42.9	50.8	58.3
Hi-fi set	11.3	18.1	28.9	36.3	41.4
CD player	5.1	7.0	11.5	17.9	28.3
Videotape recorder	–	–	4.5	7.9	9.2
PC	7.4	11.5	17.5	25.2	34.2
Phone	44.0	58.7	76.9	76.0	72.4
Mobile phone	–	–	10.9	74.4	122.1
Internet	–	–	–	5.8	11.0
Cable TV	–	–	21.1	27.0	27.1
Car	54.4	59.0	62.8	66.4	68.3

Source: CZSO

Many of items that are quite common today weren't even monitored ten years ago, because they practically didn't appear in the households' equipment. The survey covers not only the products that are being gradually replaced by cheaper ones of higher quality, but also those products and areas, where the equipment of households is low, but where we can expect **fast development** (for example PCs, internet).

Slowdown of sales influences in addition to prices also by other factors

The significant slowdown of growth of physical volume of sales wasn't influenced only by lower growth of real income, but also by concern of consumers about the development in 2004. Impact of the public finance reform, renewal of price growth, slower wage growth and further increase of unemployment were all announced for 2004. This lead to stocking up in 2003.

Table V.2.3 Disposable income, consumption and saving rate of households

		1997	1998	1999	2000	2001	2002	2003	2004
Disposable income (y/y growth in %)	nominal	12.6	5.8	3.5	4.1	5.3	5.6	3.4	4.2
	real	3.7	-2.6	0.9	1.1	1.8	4.8	3.2	1.5
Consum. expendit. (y/y growth in %)	nominal	10.1	7.0	4.8	6.0	6.4	3.5	5.1	5.2
	real	1.4	-1.5	2.2	2.9	2.9	2.7	4.9	2.4
Saving rate in %	nominal	12.9	11.6	10.3	8.8	7.9	9.9	8.5	7.8

Source: CZSO

Note: Saving rate equals the quotient of gross savings and disposable income

The consumption expenditure growth was higher than growth of disposable income in 2004. This is connected to a 8,5 % to 7,8 % year-on-year decrease of **saving rate**. Saving rate is an important indicator that gives evidence about consumers' well being and also about development of other sources of financing.

ANNEX

Tables

- I. Macroeconomic indicators
- II. Industry
- III. Construction and dwelling construction
- VI. External trade
- V. Domestic market
- VI. Financial conditions

Graphs

Manufacturing industry by sectors (SNA)
Value added per employee in quartiles in 2001 by SNA sectors

I. MACROECONOMIC INDICATORS

(per cent, the corresponding period of previous year = 100)

Indicator	Unit	2003	2004												2004			
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.		Oct.	Nov.	Dec.
GDP (constant prices 1995)	bln CZK	1703.0				422.3				875.9				1328.8				1771.7
	%	103.7				103.8				103.9				103.9				104.0
consumption of households	bln CZK	917.6				220.0				454.5				695.6				939.4
	%	104.9				103.3				102.9				102.6				102.4
consumption of government	bln CZK	387.3				88.5				182.0				272.9				374.9
	%	104.2				98.2				98.6				97.8				96.8
consumption of non-profit institutions	bln CZK	9.8				2.7				5.4				8.2				10.9
	%	103.5				115.7				112.9				112.5				111.1
gross fixed capital formation	bln CZK	550.4				134.5				287.6				442.5				600.3
	%	104.8				109.9				109.6				109.6				109.1
changes in stocks and reserves	bln CZK	17.9				14.2				32.0				40.4				19.4
exports of goods and services	bln CZK	1411.2				374.0				821.7				1247.9				1706.1
	%	107.3				110.6				119.2				120.4				120.9
imports of goods and services	bln CZK	1640.0				421.3				933.7				1418.8				1943.7
	%	107.9				111.3				119.4				119.5				118.5
Inflation rate (annual rolling average)	%	100.1	100.3	100.5	100.8		101.0	101.2	101.4		101.7	102.0	102.2		102.5	102.7	102.8	102.8
Consumer prices																		
Total	%	101.1	102.3	102.3	102.5		102.3	102.7	102.9		103.2	103.4	103.0		103.5	102.9	102.8	102.8
Including:																		
food and non-alcoholic beverages	%	97.8	104.2	104.2	104.6		104.7	103.8	102.8		104.5	105.1	103.6		102.4	100.4	100.9	103.4
alcoholic beverages, tobacco	%	100.9	100.8	100.8	100.9		101.6	103.1	103.9		104.2	104.4	104.1		104.2	103.8	103.5	102.9
clothing and footwear	%	95.0	95.2	95.2	95.6		95.4	95.6	95.9		95.7	96.0	96.1		96.9	96.9	96.9	96.0
housing, water, energy and other fuels	%	102.0	104.2	104.2	104.2		102.9	102.4	102.5		102.6	102.6	102.8		104.4	104.4	104.4	103.5
furnishings, households equipment and maintenance	%	98.4	98.0	97.9	98.0		98.2	97.9	98.2		98.1	98.2	98.2		98.1	98.1	98.0	98.1
health	%	104.0	102.5	102.5	102.3		102.2	103.4	103.7		103.0	103.1	103.6		103.5	103.7	103.6	103.1
transport	%	100.1	101.1	100.6	100.9		101.2	103.5	103.7		103.7	103.3	102.0		102.9	102.8	101.4	102.2
postal services and telecommunications	%	98.0	115.1	113.0	113.1		112.8	113.0	113.0		112.9	111.5	111.5		113.0	112.9	112.9	112.9
recreation and culture	%	99.7	99.0	99.2	99.2		99.4	100.4	102.0		102.1	102.4	102.6		102.0	101.7	101.7	101.0
education	%	103.0	100.8	101.1	100.9		100.9	101.3	101.1		101.1	101.1	106.2		105.4	105.4	105.4	102.6
restaurants and hotels	%	101.8	102.4	102.4	102.7		102.8	106.8	107.2		107.1	107.1	107.7		108.0	107.9	107.9	105.9
miscellaneous goods and services	%	102.9	103.0	103.2	103.6		103.5	104.6	105.0		105.2	104.9	104.6		104.1	104.3	104.4	104.2

Source: Czech Statistical Office

I. MACROECONOMIC INDICATORS

(per cent, the corresponding period of previous year = 100)

Indicator	Unit	2003	2004														2004	
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.		Dec.
Producer prices (annual rolling average)																		
industrial	%	99.7	99.9	100.1	100.3		100.6	101.1	101.7		102.3	103.0	103.7		104.4	105.1	105.7	105.7
construction work	%	102.2	102.2	102.2	102.2		102.3	102.4	102.6		102.8	103.0	103.2		103.4	103.5	103.7	103.7
agricultural	%	97.1	98.5	100.3	102.5		104.6	106.1	107.0		108.1	108.7	108.7		108.5	108.6	108.1	108.1
Producer prices																		
industrial	%	100.9	101.6	101.5	102.1		103.7	104.9	106.2		107.3	108.1	108.0		108.6	108.2	107.7	105.7
construction work	%	102.3	102.4	102.5	102.5		103.1	103.9	104.3		104.3	104.4	104.3		104.3	104.3	104.4	103.7
agricultural	%	108.0	109.2	113.4	118.7		120.1	114.2	110.6		113.5	105.9	101.0		101.1	105.0	102.4	108.1
Rate of unemployment (end of period)	%	10.3	10.8	10.9	10.7		10.2	9.9	9.9		10.1	10.2	10.1		9.9	9.9	10.3	
Real money income of households	%	103.2				102.4				102.2				101.9				101.5
Nominal wages ^{x/}	%	106.4				108.0				106.0				106.2				106.2
Real wages ^{x/}	%	106.3				105.6				103.4				103.4				103.3
State budget balance (end of period)	bln CZK	-109.1	7.3	-10.2	-5.0	-7.8	-30.3	-7.3	-4.3	-49.7	0.9	-1.9	10.2	-40.5	-18.9	-6.9	-27.2	-93.7

x) including estimate of small organisations

Source: Czech Statistical Office, Ministry of Finance, Ministry of Labour and Social Affairs, Czech National Bank

I. MACROECONOMIC INDICATORS

(per cent, the corresponding period of previous year = 100)

Indicator	Unit	2003	2004												2004		
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.		Oct.	Nov.
Monetary supply M2	bln CZK	1766.1	1753.8	1760.8	1751.6		1797.7	1814.0	1817.9		1821.3	1835.5	1841.1		1841.0	1840.5	1844.1
(increase to December of previous year)	%	6.9	-0.7	-0.3	-0.8		1.8	2.7	2.9		3.1	3.9	4.2		4.2	4.2	4.4
Deposits (CZK without NPF*)	bln CZK	1500.3	1507.5	1507.3	1516.1		1523.6	1530.9	1588.0		1600.8	1611.6	1602.8		1597.1	1590.8	1583.2
(increase to December of previous year)	%	2.3	0.5	0.5	1.0		1.6	2.0	5.8		6.7	7.4	6.8		6.4	6.0	5.5
households	bln CZK	210.4	216.4	216.4	220.6		226.2	232.3	239.3		242.8	249.6	256.3		263.6	271.2	282.9
	%	34.4	2.8	2.8	4.8		7.5	10.4	13.7		15.4	18.6	21.8		25.2	28.9	34.4
enterprises	bln CZK	652.7	646.8	651.2	644.5		651.8	656.1	645.4		641.3	643.6	651.7		657.6	658.2	636.8
	%	1.4	-0.9	-0.2	-1.2		-0.1	0.5	-1.1		-1.7	-1.4	-0.2		0.8	0.9	-2.4
Credits (CZK without NPF*)	bln CZK	863.1	863.2	867.6	865.2		878.1	888.4	884.7		884.1	893.2	908.0		921.2	929.4	919.7
	%	7.8	0.0	0.5	0.2		1.7	2.9	2.5		2.4	3.5	5.2		6.7	7.7	6.6
households	bln CZK	828.2	837.5	842.8	839.7		856.1	855.8	861.2		864.4	868.2	869.7		869.7	872.0	889.0
	%	5.3	1.1	1.8	1.4		3.4	3.3	4.0		4.4	4.8	5.0		5.0	5.3	7.3
enterprises	bln CZK	672.1	670.0	664.6	676.4		667.6	675.1	726.8		736.4	743.4	733.1		727.3	718.8	694.2
	%	-1.2	-0.3	-1.1	0.6		-0.7	0.4	8.1		9.6	10.6	9.1		8.2	6.9	3.3
Balance of payments																	
Current account	mil. USD	-5690.1					-522.7				-1952.2				-4083.4		-5574.0
Trade balance	mil. USD	-2472.6					47.3				-320.4				-558.5		-868.6
Balance of services	mil. USD	469.0					68.6				305.0				424.6		485.3
Balance of incomes	mil. USD	-4246.3					-683.0				-2089.7				-4158.6		-5429.2
Financial account	mil. USD	5565.4					200.7				1899.9				3989.2		7039.5
Direct investment	mil. USD	1895.4					1067.7				2123.7				3358.5		3917.1
FDI in the Czech Republic	mil. USD	2101.4					1112.1				2213.4				3479.3		4463.3
Portfolio investment	mil. USD	-1265.4					973.8				2422.4				2386.6		2420.5
Long-term capital	mil. USD	974.3					356.8				825.9				1059.9		1958.3
Short-term capital	mil. USD	-3824.3					-2185.7				-3621.3				-2922.0		-1196.5
International reserves of the CNB	bln. USD	27.0	26.6	26.8	27.0		26.3	26.6	26.5		26.3	26.5	26.8		27.3	28.1	28.4
External debt	bln. USD	34.9			32.4				35.6				37.5				45.3

* NPF = National Property Fund

Source: Czech National Bank

I. MACROECONOMIC INDICATORS

Structure of registered job applicants (31 December)

	2003		2004		Change 2004-2003	
	Total	% of total	Total	% of total	Total	% of total
Age groups:						
Up to 24 let	129 419	23,8	115 790	21,4	-13 629	-2,4
Including: up to 19 let	37 179	6,9	32 158	6,0	-5 021	-0,9
25-34	134 493	24,8	134 364	24,8	-129	0,0
35-49	165 833	30,6	170 177	31,4	4 344	0,8
50 and over	112 675	20,8	121 344	22,4	8 669	1,6
Education:						
No education	3 457	0,6	3 512	0,6	55	0,0
Basic	166 813	30,8	162 349	30,0	-4 464	-0,8
Secondary vocational and Secondary (without GCSE)	238 281	43,9	240 167	44,3	1 886	0,4
Secondary vocational and Secondary (with GCSE)	113 790	21,0	114 850	21,2	1 060	0,2
Higher	2 975	0,5	3 044	0,6	69	0,1
University	17 104	3,2	17 753	3,3	649	0,1
Duration of unemployment:						
Up to 3 month	122 945	22,7	140 632	26,0	17 687	3,3
Over 3 months to 6	101 040	18,6	93 124	17,2	-7 916	-1,4
Over 6 months to 12	100 099	18,4	88 189	16,3	-11 910	-2,1
Over 12 months	218 336	40,3	219 730	40,5	1 394	0,2
Total Czech republic	542 420	100,0	541 675	100,0	-745	0,0

Unemployment by region

Region	on 31. 12. 2003			on 31. 12. 2004			
	Number of registered job applicants	Number of vacancies	Rate of unemployment %	Number of registered job applicants	Number of vacancies	Rate of unemployment %	Rate of unemployment % ^{*)}
- Praha	25 448	8 482	4,0	26 727	14 598	4,2	3,6
- Středočeský	43 937	5 970	7,4	44 012	6 475	7,5	6,8
- Jihočeský	22 158	2 203	7,0	23 021	3 239	7,2	6,6
- Plzeňský	21 650	2 550	7,6	21 051	4 416	7,4	6,7
- Karlovarský	17 362	1 147	10,6	18 726	1 196	11,6	10,7
- Ústecký	76 499	2 745	17,9	73 493	2 948	16,9	15,8
- Liberecký	21 065	1 785	9,5	20 299	2 547	9,1	8,2
- Královéhradecký	22 146	2 298	7,9	22 526	2 075	8,3	7,7
- Pardubický	24 165	2 448	9,4	24 399	2 039	9,6	8,9
- Vysočina	23 841	1 317	9,2	24 531	1 273	9,4	8,8
- Jihomoravský	65 454	3 128	11,5	66 207	3 448	11,6	10,7
- Olomoucký	40 770	2 493	12,5	39 591	2 513	12,5	11,7
- Zlínský	31 621	1 219	10,6	31 606	1 762	10,6	9,5
- Moravskoslezský	106 304	2 403	16,8	105 486	2 674	16,8	15,7
Total Czech republic	542 420	40 188	10,3	541 675	51 203	10,3	9,5

^{*)} Since July 2004 according to the new methodology.

Source: Ministry of Labour and Social Affairs

I. MACROECONOMIC INDICATORS

Industrial structure of credits in CZK (as of the end of the year)

Indicator	Unit	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Money supply - M2	bln. CZK	671.5	810.3	1002.4	1078.1	1177.8	1241.4	1337.5	1412.3	1596.0	1651.8	1766.1	1844.1
	y/y												
	ch. in %	12.2	20.7	23.7	7.6	9.2	5.4	7.7	5.6	13.0	3.5	6.9	4.4
Domestic credits	bln. CZK	707.8	809.4	920.6	1018.3	1119.9	1079.8	1058.5	1068.8	1011.9	1005.9	1145.6	1080.2
	y/y												
	ch. in %	17.3	14.4	13.7	10.6	10.0	-3.6	-2.0	1.0	-5.3	-7.1	21.9	0.1
Client credits lent by commercial banks and CNB, total	bln. CZK	676.4	793.5	901.4	998.0	1085.6	1037.4	990.8	965.0	765.7	724.2	791.6	889.4
Share of client credits in GDP	%	66.3	67.1	61.5	60.1	60.8	52.9	48.5	44.9	33.1	30.0	31.0	32.3
CZK credits, total	bln. CZK	672.3	776.3	826.0	895.2	923.6	897.4	869.7	866.3	824.3	800.5	862.8	919.7
Thereof:													
Agriculture, forestry and fishing	bln. CZK	26.4	25.7	30.9	32.5	30.0	25.6	24.8	20.8	16.8	17.5	18.9	21.2
Tree harvesting	bln. CZK	0.9	1.4	1.3	2.5	1.8	1.3	1.1	1.0	1.0	1.1	0.9	1.0
Mining of mineral raw materials	bln. CZK	11.9	10.9	10.6	10.2	13.3	11.6	9.1	7.4	8.6	6.7	8.0	5.3
Manufacturing	bln. CZK	198.0	238.6	253.6	282.6	254.2	222.0	209.7	194.1	135.2	115.6	115.0	120.5
- Manufacture of food and beverages	bln. CZK	30.0	37.5	42.7	48.7	50.5	50.3	45.8	39.6	32.5	24.3	26.2	26.2
- Manufacture of textile, textile products and clothing and Manufacture of leather and leather products	bln. CZK	15.7	18.6	19.2	22.0	18.2	13.9	12.6	11.3	7.0	6.2	6.8	7.0
- Processing of wood, manufacture of wooden products, manufacture of fiber and paper products, printing and publishing	bln. CZK	.0.0	0.0	0.0	20.2	16.6	13.6	14.1	13.2	13.9	12.5	10.7	10.3
- Manufacture of coke, oil refining, manufacture of nuclear fuels	bln. CZK	0.0	0.0	0.0	3.0	3.3	3.4	2.3	2.5	4.2	5.4	3.0	1.3
- Manufacture of chemicals and medical drugs	bln. CZK	20.8	25.4	24.6	24.1	22.8	20.9	17.6	14.0	11.4	11.8	16.5	14.7
- Manufacture of rubber and plastic products	bln. CZK	0.0	0.0	0.0	6.4	7.7	6.6	6.2	6.0	5.5	5.3	6.7	7.5
- Manufacture of other non-metal mineral products	bln. CZK	0.0	0.0	0.0	12.9	12.0	10.1	11.5	13.2	10.9	10.3	9.8	9.7
- Manufacture of basic metals, metallurgy	bln. CZK	84.1	96.0	102.7	35.4	36.4	34.2	35.0	35.6	18.5	12.5	12.7	16.7
- Manufacture and repair of machines and equipment	bln. CZK	0.0	0.0	0.0	34.1	32.9	27.1	26.2	24.1	11.9	8.7	8.4	9.6
- Manufacture of electric and optical equipment	bln. CZK	15.1	17.4	18.3	15.9	14.8	12.4	10.8	10.3	8.1	6.5	6.9	8.0
- Manufacture of transport vehicles	bln. CZK	0.0	0.0	0.0	22.4	27.8	19.4	19.4	16.9	6.1	7.6	2.7	4.4
- Manufacturing n.e.c	bln. CZK	32.4	43.8	46.0	37.6	11.2	10.0	8.3	7.5	5.2	4.4	4.6	5.2
Production and distribution of electricity, water and gas	bln. CZK	18.9	15.9	19.5	29.3	34.1	30.4	38.0	35.0	30.4	25.6	22.5	23.0
Construction	bln. CZK	22.8	26.9	29.3	30.5	31.2	29.6	25.7	18.8	12.0	11.3	12.5	16.0
Trade, sale, maintenance, repair	bln. CZK	153.1	198.1	213.7	187.1	188.7	170.4	155.0	139.1	110.7	96.2	95.0	100.8
Hotels and restaurants	bln. CZK	0.0	0.0	0.0	29.3	20.8	13.8	10.5	8.0	4.4	4.2	4.6	5.0
Transport and warehousing	bln. CZK	14.8	22.5	21.0	18.1	24.0	22.7	21.5	21.4	21.2	21.1	18.6	17.0
Communication	bln. CZK	0.0	0.0	0.0	4.0	3.5	6.1	4.3	5.2	5.5	5.4	8.6	6.0
Financial services	bln. CZK	6.4	15.7	21.8	29.4	65.3	74.3	83.6	112.6	195.4	194.0	189.3	145.9
Insurance services	bln. CZK	0.3	0.3	1.5	6.9	2.1	5.8	1.8	5.2	4.6	3.7	8.0	3.6
Hiring of machines and equipment	bln. CZK	0.0	0.0	19.3	48.7	49.1	49.1	57.0	52.9	47.7	40.6	49.1	64.1
Other business services	bln. CZK	0.0	0.0	45.3	70.6	82.1	81.8	72.8	103.2	42.4	22.4	20.0	24.0
Other activities	bln. CZK	218.8	220.3	158.3	113.5	123.3	152.9	154.8	141.8	188.3	235.2	291.7	366.2

Source: CZSO, CNB

Note: Since 1996 credits are classified by NACE, rev. 3, compatible with the UN classification ISIC. Till 1996 the classification was less detailed.

The y/y decrease of CZK credits in 2001 was influenced by transformation of Konsolidacni Banka to Ceska konsolidacni agentura in September 2001 and the connected transfer of its "credits to businesses" to "net credit to government"

II. INDUSTRY

(index per cent, the corresponding period of previous year = 100, firms with 20 or more employees)

Indicator	Unit	2004															2004	
		Jan.	Feb.	March	1. - 3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.	Dec.		
Industrial production index	%	103.8	107.1	115.3	109.0	110.1	112.7	115.1	110.8	111.0	108.7	106.6	110.1	108.1	110.9	108.3	109.9	
Sales from industrial activities	curr. pr.	bIn CZK	165.8	179.0	208.5	555.8	196.6	202.4	211.0	1 165.5	180.8	183.7	210.9	1 731.5	213.6	223.8	200.8	2 371.5
		%	103.4	110.1	117.8	110.9	111.9	121.3	120.5	114.6	110.8	116.2	113.1	114.0	112.3	119.3	113.5	114.3
	const. pr.	bIn CZK	165.6	179.2	207.2	554.1	193.3	198.2	205.8	1 150.4	175.3	176.8	204.3	1 697.8	205.4	215.4	193.1	2 313.9
		%	102.0	108.6	115.7	109.1	108.4	116.3	114.9	111.2	105.1	109.9	108.0	109.9	106.6	113.5	108.6	109.8
Average number of employees	th. pers.	1 122	1 130	1 135	1 130	1 135	1 133	1 136	1 133	1 138	1 133	1 131	1 128	1 133	1 134	1 131	1 130	
	%	97.6	98.1	98.5	98.4	98.7	99.1	99.4	98.9	99.4	99.6	100.1	99.4	100.0	99.8	99.7	99.5	
Aver. month. sales per employee	const. pr.	th. CZK	147.6	158.6	182.6	163.5	170.4	174.8	181.3	169.5	201.0	156.0	180.6	167.3	181.3	189.9	170.7	170.7
		%	104.6	110.7	117.5	110.8	109.8	117.3	115.5	112.4	105.8	110.3	107.9	110.6	106.6	113.8	108.9	110.4
Average monthly wage	CZK	16 461	15 664	16 939	16 345	16 903	17 592	17 583	16 849	17 655	16 863	17 073	16 981	17 477	20 428	18 870	17 460	
	%	105.9	109.0	110.8	108.6	106.9	105.2	107.1	107.4	106.6	108.6	106.7	107.3	104.9	108.5	104.6	106.9	

Source: Czech Statistical Office

II. INDUSTRY

(firms with 20 or more employees)

Nacxe Division	Average number of firms	Sales from indust. activity mill. CZK				Avg. No. of employees			Avg. month. receipts per empl.			Average monthly wages		
		curr. pr. 2004	Index 2004/2003		Share. total=100	Phys. per. 2004	Index 04/03	Share total=100	const. pr. 2004	Index 04/03	Level ind.=100	CZK		Index 04/03
			curr. pr.	const. pr.								2004	2003	
10 mining of coal and lignite.extraction of peat	21	45 529	106.2	97.3	1.9	36 338	94.2	3.4	94 732	103.2	55.5	21 485	19 937	107.8
CA Mining and quarr. of energy producing mater.	25	49 142	106.4	97.6	2.1	40 185	94.8	3.7	92 448	102.9	54.2	21 382	19 885	107.5
CB Mining and quarr. except energy produc. mater.	80	12 035	103.7	103.5	0.5	5 993	97.1	0.5	158 282	106.6	92.7	19 736	18 675	105.7
C Mining and quarrying	105	61 178	105.9	98.7	2.6	46 178	95.1	4.3	100 991	103.8	59.2	21 169	19 732	107.3
15 food products and beverages	1 097	230 692	104.0	98.9	9.7	111 114	97.6	10.0	159 798	101.3	93.6	15 341	14 579	105.2
16 tobacco products	5	13 933	91.5	99.7	0.6	1 652	96.6	0.2	706 418	103.2	413.8	39 055	35 752	109.2
DA Food products, beverages and tobacco	1 102	244 625	103.2	98.9	10.3	112 766	97.6	10.2	167 807	101.4	98.3	15 688	14 892	105.3
17 textiles	351	48 848	100.6	100.4	2.1	46 233	93.4	4.4	89 783	107.5	52.6	12 476	11 820	105.5
18 wearing apparel, dressing, dyeing of fur	361	11 886	95.0	95.2	0.5	27 219	89.7	2.7	36 904	106.1	21.6	10 204	9 375	108.8
DB Textiles and textile products	712	60 734	99.5	99.4	2.6	73 452	92.0	7.0	70 188	108.0	41.1	11 634	10 891	106.8
DC Leather and leather products	136	4 366	100.7	99.6	0.2	9 277	92.6	0.9	36 188	107.6	21.2	10 908	10 044	108.6
DD Wood and wood products	421	40 531	108.1	106.5	1.7	26 300	99.5	2.3	131 275	107.1	76.9	14 150	13 161	107.5
21 pulp, paper and pap. products	127	47 863	105.4	106.9	2.0	17 578	98.8	1.6	252 789	108.1	148.1	17 782	17 109	103.9
22 publishing, printing and reprod. of recorded media	294	41 713	109.2	108.7	1.8	22 623	102.6	1.9	146 895	106.0	86.1	20 510	19 278	106.4
DE Pulp, paper and pap. products, publis. printing	421	89 576	107.2	107.7	3.8	40 200	100.9	3.5	193 197	106.7	113.2	19 317	18 309	105.5
DF Coke, refined petroleum	5	59 731	113.2	89.5	2.5	2 942	98.0	0.3	658 688	91.3	971.7	25 245	24 064	104.9
DG Chemic., chem. prod. and man-made fibres	201	129 039	118.2	110.0	5.4	37 869	96.4	3.5	286 906	114.1	168.1	20 456	19 183	106.6
DH Rubber and plastic products	544	135 235	111.7	111.8	5.7	63 870	105.7	5.3	186 550	105.7	109.3	16 979	16 118	105.3
DI Other non-metallic mineral products	405	110 872	108.3	107.5	4.7	64 795	98.0	5.8	139 501	109.7	81.7	17 983	16 773	107.2
27 basic metals	175	191 514	138.9	109.1	8.1	59 438	98.9	5.3	217 062	110.4	127.2	19 551	18 158	107.7
28 fabric. metal prod., except machinery and equip.	1 323	136 742	117.4	109.3	5.8	99 108	101.9	8.6	105 044	107.2	61.5	16 664	15 561	107.1
DJ Basic metals and fabricated metal products	1 498	328 256	129.1	109.2	13.8	158 546	100.8	13.9	147 039	108.4	86.1	17 746	16 553	107.2
DK Machinery and equipment n.e.c.	1 043	161 991	114.1	112.9	6.8	127 490	98.7	11.4	103 876	114.3	60.9	17 608	16 434	107.1
30 office machinery and computers	30	81 482	138.5	141.5	3.4	7 594	112.2	0.6	934 630	126.0	547.5	16 305	15 036	108.4
31 electrical machinery and apparatus n.e.c.	515	134 137	126.6	126.4	5.7	86 883	105.5	7.3	135 532	119.8	79.4	16 690	15 635	106.7
32 radio, television and communic. equip .t. apparat.	121	80 714	132.2	137.3	3.4	25 129	106.2	2.1	294 856	129.3	172.7	17 717	16 727	105.9
33 medic., precis. and optic. instr., watches, clocks	183	27 169	113.2	113.8	1.1	20 843	102.2	1.8	111 916	111.4	65.6	17 012	15 659	108.6
DL Electrical and optical equipment	849	323 502	129.5	131.4	13.6	140 449	105.4	11.7	203 742	124.6	119.4	16 901	15 802	107.0
34 motor vehicles, trailers and semi-trailers	222	352 117	114.2	113.8	14.8	90 779	105.1	7.6	336 732	108.3	197.3	20 345	19 151	106.2
35 other transport equipment	93	23 919	94.4	93.1	1.0	19 201	94.4	1.8	95 782	98.6	56.1	18 716	16 988	110.2
DM Transport equipment	315	376 036	112.7	112.4	15.9	109 980	103.0	9.4	294 666	109.1	172.6	20 061	18 739	107.1
36 furniture, manufacturing n.e.c.	531	61 645	108.5	108.5	2.6	50 954	96.3	4.7	100 660	112.7	59.0	13 634	12 709	107.3
37 recycling	60	12 771	148.1	99.4	0.5	3 499	101.7	0.3	158 246	97.7	92.7	17 783	16 096	110.5
DN Manufacturing n.e.c.	591	74 415	113.7	107.6	3.1	54 454	96.6	5.0	104 361	111.3	61.1	13 900	12 915	107.6
D Manufacturing	8 243	2 138 909	115.4	110.8	90.2	1 022 389	99.9	90.1	171 748	110.9	100.6	16 987	15 867	107.1
40 electricity, gas, steam and hot water supply	196	152 242	106.0	102.2	6.4	40 617	95.3	3.8	278 632	107.3	163.2	24 782	23 110	107.2
41 collection, purification and distribution of water	75	19 165	102.5	97.6	0.8	20 433	98.0	1.8	61 214	99.6	35.9	18 164	17 264	105.2
E Electricity, gas and water supply	271	171 407	105.6	101.8	7.2	61 049	96.1	5.6	205 865	105.8	120.6	22 567	21 190	106.5
Total industry	8 619	2 371 494	114.3	109.8	100.0	1 129 616	99.5	100.0	170 699	110.4	100.0	17 460	16 330	106.9

Source: Czech Statistical Office

III. CONSTRUCTION AND DWELLING CONSTRUCTION

1. Construction

(the corresponding period of previous year = 100; CZK in current pr., indices in compar. pr.)

Indicator	Unit	2003	2004														2004		
			Jan.	Feb.	March	1.-3.	April	May	June	1. - 6.	July	Aug.	Sept.	1. - 9.	Oct.	Nov.		Dec.	
Construction output	mill. CZK %	309 600 108.9	14 470 114.9	20 271 109.7	30 713 121.4	65 454 116.1	46 315 161.6	28 825 96.3	33 474 96.3	174 068 116.4	34 637 100.6	37 686 109.6	39 088 103.5	285 479 111.5	38 357 102.9	42 032 109.8	28 437 101.3	394 305 109.7	
Construction output in firms with 20 or more employees by contractors	mill. CZK %	249 267 109.0	10 096 114.1	12 717 109.7	18 426 120.9	41 239 115.6	29 749 163.2	19 659 96.0	22 750 96.0	113 397 115.7	23 922 100.3	27 092 109.2	28 379 103.2	92 790 110.8	29 176 102.3	32 257 110.5	23 984 101.3	278 207 108.9	
of which: in CR	mill. CZK %	246 308 109.2	9 932 112.5	12 464 107.9	18 173 119.9	40 569 114.2	29 421 162.5	19 357 95.4	22 290 94.9	111 637 114.7	23 496 99.7	26 771 109.5	27 942 103.0	89 846 110.1	28 817 102.2	31 858 110.0	23 550 101.2	274 071 108.4	
including: - repairs and maintenance	mill. CZK %	35 620 114.7	1 065 90.7	1 298 79.8	2 063 105.6	4 426 93.1	3 949 153.1	2 452 83.0	3 143 97.3	13 970 103.3	3 198 98.1	3 806 109.5	3 747 91.2	24 721 101.5	3 862 89.3	4 168 98.2	3 337 92.1	36 088 98.7	
- new construction. reconstruction modernization	mill. CZK %	208 233 108.3	8 759 116.6	10 996 111.8	15 888 122.1	35 643 117.4	25 133 164.1	16 659 97.3	18 893 94.2	96 328 116.4	20 029 99.8	22 664 109.4	23 909 105.0	62 930 111.4	24 650 104.6	27 254 112.5	19 863 102.3	234 697 110.0	
- other works	mill. CZK %	2 455 105.4	108 76.4	170 179.1	222 119.7	500 118.5	339 162.2	246 117.7	254 125.9	1 339 128.5	269 112.6	301 116.9	286 111.9	2 195 122.4	305 105.2	436 93.8	350 147.7	3 286 118.0	
abroad	mill. CZK %	2 959 98.6	164 477.5	253 448.2	253 251.5	670 349.9	328 254.9	302 142.0	460 192.0	1 760 187.6	426 147.3	321 90.4	437 119.7	2 944 117.3	359 110.7	399 156.5	434 106.8	4 136 149.5	
Number of employees in firms with 20 or more employees	thous. pers. %	153.8 101.2	146.5 101.9	146.9 102.0	150.3 102.4	147.9 102.1	155.2 102.8	157.8 103.6	159.4 103.9	152.7 102.8	162.6 103.7	165.0 104.1	163.7 103.7	156.4 103.2	164.3 103.8	164.0 104.5	159.9 104.2	158.0 103.4	
Labour productivity in firms with 20 or more employees	curr. pr. com. pr.	thous. CZK %	1 620.7 107.8	68.9 112.0	86.6 107.6	122.6 118.0	278.8 113.2	191.7 158.8	124.5 92.7	142.7 92.4	742.6 112.6	147.0 96.7	164.2 104.9	173.3 99.5	1232.7 107.4	177.6 98.6	196.7 105.8	150.0 97.2	1761.0 105.3
Average monthly wages in firms with 20 or more employees	curr. pr. %	CZK 106.1	16 982 104.9	15 667 109.3	15 925 111.8	16 887 108.7	16 166 108.3	17 603 102.2	17 200 108.8	18 801 107.5	17 046 103.8	18 507 109.0	17 915 105.0	18 273 106.9	17 459 103.0	18 401 107.8	21 517 101.5	20 224 106.2	18 125
Construction output in firms up to 19 employees	curr. pr. %	mill. CZK 108.6	4 374 116.9	7 554 109.8	12 287 122.3	24 215 117.1	16 566 158.7	9 166 97.1	10 724 96.9	60 671 117.6	10 715 101.1	10 594 110.7	10 709 104.1	92 689 113.0	9 181 104.8	9 775 107.6	4 453 101.6	116 098 111.4	
Permits granted in CR total number	pc	149 339	8 692	8 595	11 971	29 258	13 075	13 981	14 761	71 075	13 012	14 632	14 958	11 367 7	13 714	13 501	12 730	15 362 2	
estimated value of construction project	bill. CZK	286.2	25.2	16.4	21.3	62.9	29.1	24.7	24.4	141.1	25.5	31.1	29.5	227.2	29.1	28.9	29.9	315.1	

Source: Czech Statistical Office

III. CONSTRUCTION AND DWELLING CONSTRUCTION

2. Dwelling construction

(index in % - the corresponding period of previous year = 100)

	Unit	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004			
													1. Q.	1.-2. Q.	1.-3. Q.	1.-4. Q.
Dwellings started	number	7 454	10 964	16 548	21 481	31 370	33 255	31 313	29 502	27 599	32 383	35 326	7 471	17 529	29 089	39 037
	%	88.4	147.1	150.9	129.8	146.0	106.0	94.2	94.2	93.5	117.3	109.1	94.6	109.9	106.9	107.0
completed	number	31 509	18 162	12 662	14 037	15 904	21 245	22 299	23 074	22 960	25 598	25 999	5 931	11 414	19 932	32 268
	%	86.4	57.6	69.7	110.9	113.3	133.6	105.0	103.5	99.5	111.5	101.6	123.0	127.9	118.3	119.0
Dwellings under construction	number	72 356	62 117	66 172	73 452	88 371	100 302	109 451	114 868	117 864	126 054	135 428	136 879	138 282	148 635	146 801
	%	74.0	85.8	106.5	111.0	120.3	113.5	109.1	104.9	102.6	106.9	107.4	105.9	106.9	106.4	105.5

Source: Czech Statistical Office

IV. EXTERNAL TRADE

1. Territorial structure

	Turnover		Index 2004/ 2003	Exports		Index 2004/ 2003	Imports		Index 2004/ 2003	Balance	
	1-12/2004			1-12/2004			1-12/2004			1-12/2003	1-12/2004
	mill. CZK	share in %	mill. CZK	share in %	mill. CZK	share in %	mill. CZK	share in %	mill. CZK	mill. CZK	
Total external trade	3 449 713	100.0	122.7	1 713 694	100.0	125.0	1 736 019	100.0	120.5	-69 793	-22 325
Developed market economies	2 990 215	86.7	123.4	1 569 372	91.6	124.3	1 420 843	81.8	122.4	101 773	148 529
EU	2 719 246	78.8	122.9	1 472 534	85.9	124.5	1 246 712	71.8	121.2	154 457	225 822
EFTA	66 123	1.9	108.7	27 800	1.6	111.3	38 323	2.2	106.9	-10 886	-10 523
Other developed market economies	204 846	5.9	135.7	69 038	4.0	126.5	135 808	7.8	140.9	-41 798	-66 770
Developing countries	163 619	4.7	111.8	54 243	3.2	135.8	109 376	6.3	102.8	-66 490	-55 133
European transition economies	49 997	1.4	136.3	38 842	2.3	136.0	11 155	0.6	137.5	20 454	27 687
CIS countries	141 589	4.1	123.1	41 867	2.4	148.0	99 722	5.7	115.0	-58 442	-57 855
Other ^{*)}	100 066	2.9	118.1	8 014	0.5	103.4	92 052	5.3	119.6	-69 202	-84 038
Unspecified	4 227	0.1	77.8	1 356	0.1	35.9	2 871	0.2	173.1	2 113	-1 515
External trade with OECD countries	2 965 331	86.0	123.6	1 546 440	90.2	124.5	1 418 891	81.7	122.5	83 958	127 549

^{*)} China, North Korea, Cuba, Laos, Mongolia, Vietnam

Source: Czech Statistical Office

IV. EXTERNAL TRADE

2. Commodity structure

SITC	Exports		Index 2004/ 2003	Imports		Index 2004/ 2003	Balance	
	1-12/2004			1-12/2004			1-12/2003	1-12/2004
	mill. CZK	share in %	mill. CZK	share in %	mill. CZK	mill. CZK		
Total external trade	1 713 694	100.0	125.0	1 736 019	100.0	120.5	-69 793	-22 325
including:								
0 Food and live animals	47 201	2.8	129.7	70 662	4.1	123.8	-20 688	-23 461
1 Beverages and tobacco	8 888	0.5	108.5	10 720	0.6	142.4	664	-1 832
2 Crude materials, inedible, except fuels	49 181	2.9	128.0	52 862	3.0	129.1	-2 534	-3 681
3 Mineral fuels, lubricants and related materials	53 137	3.1	134.7	121 887	7.0	113.1	-68 354	-68 750
4 Animal and vegetable oils, fats, waxes	1 045	0.1	104.0	4 101	0.2	109.0	-2 759	-3 056
5 Chemicals and related products	105 395	6.2	130.8	193 057	11.1	117.4	-83 856	-87 662
6 Manufactured goods classified chiefly by material	386 035	22.5	122.0	360 374	20.8	124.3	26 572	25 661
7 Machinery and transport equipment	867 169	50.6	126.2	733 245	42.2	119.0	70 943	133 924
8 Miscellaneous manufactured articles	194 750	11.4	120.6	188 257	10.8	123.3	8 801	6 493
9 Unclassified	893	0.1	50.3	854	0.0	237.9	1 418	39

Source: Czech Statistical Office

V. DOMESTIC TRADE

		2003	2004												2004			
			1.	2.	3.	1. - 3.	4.	5.	6.	1. - 6.	7.	8.	9.	1.-9.		10.	11.	12.
Retail sale total (NACE 50. 52. 55)	a	104.6	107.2	102.7	103.8	103.2	109.8	104.7	106.4	104.6	103.8	107.2	102.7	104.5	103.8	109.8	104.7	104.4
	b	104.6	103.9	100.3	101.0	101.8	107.6	103.1	106.0	102.2	100.0	103.9	100.3	101.9	101.0	107.6	103.1	102.4
Retail sale including motor vehicles (NACE 50. 52)	a	104.7	98.8	103.7	104.3	102.4	105.6	103.2	107.3	104.0	103.9	107.4	102.9	104.2	103.8	110.2	104.5	104.7
	b	104.9	98.0	102.3	102.9	101.2	102.9	100.9	103.7	101.9	100.3	104.5	100.8	101.9	101.5	108.4	103.2	102.5
Sale and repairs of motor vehicles and fuel (NACE 50)	a	109.4	93.4	103.2	103.4	100.4	108.8	105.0	112.7	105.0	108.8	109.9	102.8	105.7	107.6	118.7	107.3	107.1
	b	106.9	91.7	99.4	100.4	97.5	102.2	98.7	103.5	99.7	100.1	104.2	98.4	100.1	101.8	112.9	103.2	101.6
Sale and repairs of motor vehicles (NACE 50.1 - 50.4)	a	105.5	88.5	97.0	100.0	95.7	105.5	95.4	104.1	99.0	96.8	105.8	93.7	98.8	97.9	113.4	104.2	100.5
	b	105.6	88.7	97.0	99.2	95.5	104.6	95.6	104.3	98.8	97.0	106.7	94.9	98.9	99.4	114.7	105.7	100.9
Fuel (NACE 50.5)	a	117.4	102.3	116.1	110.2	109.6	115.3	125.4	131.0	117.2	130.6	115.5	118.0	118.7	124.2	129.4	112.9	119.5
	b	109.1	96.4	103.9	102.6	101.0	97.9	104.5	102.0	101.2	104.9	100.9	104.5	102.0	105.7	109.7	98.8	102.7
Retail sale (NACE 52)	a	102.6	101.2	103.9	104.7	103.3	104.0	102.4	104.6	103.5	101.6	106.2	102.9	103.5	101.9	106.2	103.3	103.6
	b	104.0	100.8	103.7	104.2	102.9	103.3	101.9	103.8	103.0	100.4	104.7	102.0	102.7	101.3	106.3	103.2	103.0

Note: a = y-o-y index in current prices
b = y-o-y index in constant prices

Source: Czech Statistical Office

VI. FINANCIAL CONDITIONS
1. Pre-tax profit or loss (million CZK)

(firms with 100 and more employees)

NACE Division	Year		y-o-y change	Share total =100	
	2003	2004		2003	2004
10 mining of coal and lignite.extraction of peat	2940	9927	6987	1.47	3.71
11 extraction of crude petroleum. natur.gas	3230	10516	7286	1.61	3.94
CA Mining and quarr. of energy produc. mater.	3571	2988	-583	2.50	1.76
CB Mining and quarr. exc. energy prod. mater.	928	818	-111	0.46	0.31
C Mining and quarrying	4158	11333	7175	2.08	4.24
DA Food products, beverages and tobacco	17308	18079	770	8.65	6.77
17 textiles	1916	2050	134	0.96	0.77
18 wearing apparel, dressing, dyeing of fur	-150	205	356	-0.08	0.08
DB Textiles and textile products	1765	2255	490	0.88	0.84
DC Leather and leather products	-68	-49	18	-0.03	-0.02
DD Wood and wood products	1078	2058	980	0.54	0.77
21 pulp, paper and pap. products	2951	3554	603	1.47	1.33
22 publis.. printing and reprod. of rec. media	1441	2037	596	0.72	0.76
DE Pulp, paper and pap. prod., publis. printing	4391	5590	1199	2.19	2.09
DF Coke, refined petroleum	202	1984	1782	0.10	0.74
DG Chemic., chem. prod. and man-made fibres	2540	10134	7594	1.27	3.79
DH Rubber and plastic products	9589	9533	-57	4.79	3.57
DI Other non-metallic mineral products	11057	12891	1834	5.53	4.82
27 basic metals	8257	19019	10762	4.13	7.12
28 fabric. metal prod., exc. machin. and equip.	5294	4416	-878	2.65	1.65
DJ Basic metals and fabricated metal products	13551	23435	9884	6.77	8.77
DK Machinery and equipment n.e.c.	2284	4527	2243	1.14	1.69
30 office machinery and computers	-568	-286	281	-0.28	-0.11
31 electrical machinery and apparatus n.e.c.	6879	8343	1464	3.44	3.12
32 radio, telev. and commun. equip. t. apparat.	1147	3148	2002	0.57	1.18
33 med., precis. and opt .instr., watch., clocks	1839	1424	-415	0.92	0.53
DL Electrical and optical equipment	9297	12629	3332	4.65	4.73
34 motor vehicles, trailers and semi-trailers	12596	19440	6844	6.29	7.27
35 other transport equipment	1237	1503	266	0.62	0.56
DM Manufacture of transport equipment	13833	20942	7110	6.91	7.84
36 furniture, manufacturing n.e.c.	2851	4149	1299	1.42	1.55
37 recycling	286	920	633	0.14	0.34
DN Manufacturing n.e.c.	3137	5069	1932	1.57	1.90
D Manufacturing	89964	129075	39111	44.96	48.30
40 electricity, gas, steam and hot water supply	36410	37790	1380	18.19	14.14
41 collection, purific. and distrib. of water	2031	2253	222	1.01	0.84
E Electricity, gas and water supply	38441	40043	1602	19.21	14.98
Total industry	132563	180452	47888	66.24	67.53
F Construction	9086	9826	741	4.54	3.68
G Wholesale and retail trade, repair of motor vehicles, motorcycles	9490	22087	12597	4.74	8.27
H Hotels and restaurants	2025	2985	960	1.01	1.12
I Transport. storage and communication	32698	36925	4227	16.34	13.82
K Real estate. renting and business activities	6840	6155	-685	3.42	2.30
A+B Agriculture. hunting and forestry	626	2990	2364	0.31	1.12
L-Q Others	6789	5809	-980	3.39	2.17
Total CR	200116	267230	67114	100.00	100.00

Source: Czech Statistical Office

VI. FINANCIÁK CONDITIONS

2. The amount of profit, loss and number of enterprises

(firms with 100 and more employees)

NACE	Enterprises with profit							
	am. in mill. CZK		y-o-y change	number of employees		y-o-y change	number of firms	
	2003	2004		2003	2004		2003	2004
10 mining of coal and lignite, extraction of peat	3095	9948	6853	34718	35497	779	9	11
CA Mining and quarrying of energy producing mater.	3701	10858	7157	35225	35984	759	11	13
CB Mining and quarrying except energy prod. mater.	941	856	-85	3089	3388	299	15	18
C Mining and quarrying	4642	11714	7072	38314	39371	1057	26	31
DA Food products, beverages and tobacco	19940	20055	115	69057	61213	-7844	236	223
17 textiles	2763	3148	384	27353	22131	-5222	71	71
18 wearing apparel, dressing, dyeing of fur	320	368	48	6998	11618	4620	33	32
DB Textiles and textile products	3084	3516	432	34351	33749	-602	104	103
DC Leather and leather products	62	77	15	3658	2764	-894	19	16
DD Wood and wood products	1628	2208	581	9534	10569	1036	46	47
21 pulp, paper and pap. products	3945	3942	-2	9488	10848	1360	29	33
22 publish., printing and reproduct, of record. media	1861	2422	560	6978	10671	3693	31	38
DE Pulp, paper and pap. products, publish. printing	5806	6364	558	16465	21519	5053	60	71
DF Coke, refined petroleum	x	1988		x	2237		2	3
DG Chemic., chem. prod. and man-made fibres	6441	10807	4365	19694	27051	7357	52	57
DH Rubber and plastic products	9991	9905	-86	37954	41304	3349	117	129
DI Other non-metallic mineral products	11930	13741	1811	45727	35687	-10040	122	113
27 basic metals	9071	19655	10584	42336	47778	5442	65	75
28 fabric. metal prod., except machin. and eq.	6090	5835	-255	45308	44795	-513	184	189
DJ Basic metals and fabricated metal products	15161	25490	10329	87645	92573	4929	249	264
DK Machinery and equipment n.e.c.	5752	7908	2156	66470	76666	10196	228	252
30 office machinery and computers	393	335	-58	3293	4208	915	5	6
31 electrical machinery and apparatus n.e.c.	7609	8721	1113	55832	64974	9142	142	160
32 radio, televis. and communic. equip. t. app.	2215	3498	1283	13911	18495	4583	31	38
33 medic., precis. and optic. instr., watches, clocks	1914	1652	-262	11754	12636	882	41	36
DL Electrical and optical equipment	12131	14207	2076	84790	100313	15523	219	240
34 motor vehicles, trailers and semi-trailers	15410	22381	6971	70216	79124	8908	92	100
35 other transport equipment	1649	2143	494	12700	11370	-1330	31	28
DM Transport equipment	17058	24524	7466	82916	90494	7577	122	128
36 furniture, manufacturing n.e.c.	3352	4594	1242	23163	23253	90	84	85
37 recycling	297	927	630	1213	1654	441	7	10
DN Manufacturing n.e.c.	3649	5521	1872	24376	24906	530	91	95
D Manufacturing	112979	146311	33332	584730	621044	36314	1667	1741
40 electricity, gas, steam and hot water supply	36599	38029	1430	35613	33930	-1683	59	54
41 collection, purification and distribution of water	2032	2255	223	19065	18587	-478	48	47
E Electricity, gas and water supply	38631	40284	1653	54678	52517	-2161	107	101
Total industry	156252	198309	42057	677721	712932	35210	1800	1872
F Construction	9721	10401	680	66384	63786	-2598	227	222

x- individual data (1 or 2 firms)

Source: CSO, MIT

VI. FINANCIÁK CONDITIONS

3. The amount of profit, loss and number of enterprises

(firms with 100 and more employees)

NACE	Enterprises with loss							
	am. in mill. CZK		y-o-y change	number of employees		y-o-y change	number of firms	
	2003	2004		2003	2004		2003	2004
10 mining of coal and lignite, extraction of peat	-155	x		3562	x		4	2
CA Mining and quarrying of energy producing mater.	-471	-342	129	6818	3973	-2845	5	3
CB Mining and quarrying except energy prod. mater.	x	x		x	x		2	1
C Mining and quarrying	-484	-381	103	7169	4118	-3051	7	4
DA Food products, beverages and tobacco	-2632	-1977	655	16905	20488	3583	63	60
17 textiles	-848	-1098	-250	12881	14444	1563	43	40
18 wearing apparel, dressing, dyeing of fur	-471	-163	308	11690	4720	-6969	22	17
DB Textiles and textile products	-1318	-1261	58	24570	19164	-5406	65	57
DC Leather and leather products	-130	-126	3	2612	2774	162	13	13
DD Wood and wood products	-550	-151	399	4721	2678	-2043	21	13
21 pulp, paper and pap. products	-994	-389	605	5001	3350	-1650	17	11
22 publish., printing and reproduct, of record. media	-421	-385	36	5783	2252	-3530	19	11
DE Pulp, paper and pap. products, publish. printing	-1415	-773	641	10783	5602	-5181	36	22
DF Coke, refined petroleum	x	x		x	x		2	1
DG Chemic., chem. prod. and man-made fibres	-3902	-673	3229	13568	3628	-9940	20	15
DH Rubber and plastic products	-3902	-673	3229	13568	3628	-9940	20	15
DI Other non-metallic mineral products	-873	-850	23	10806	18310	7504	29	34
27 basic metals	-814	-637	178	12850	7460	-5390	30	22
28 fabric. metal prod., except machin. and eq.	-796	-1419	-623	9990	12755	2766	55	57
DJ Basic metals and fabricated metal products	-1610	-2055	-445	22840	20215	-2624	85	79
DK Machinery and equipment n.e.c.	-3468	-3381	87	28876	17678	-11198	88	65
30 office machinery and computers	-961	-622	339	2601	2411	-190	4	4
31 electrical machinery and apparatus n.e.c.	-730	-378	351	12638	7460	-5178	41	23
32 radio, televis. and communic. equip. t. app.	-1068	-349	719	6878	4911	-1967	13	9
33 medic., precis. and optic. instr., watches, clocks	-76	-229	-153	3420	2774	-647	8	9
DL Electrical and optical equipment	-2834	-1578	1256	25537	17555	-7983	66	45
34 motor vehicles, trailers and semi-trailers	-2814	-2941	-128	12922	7714	-5208	28	21
35 other transport equipment	-412	-641	-228	5664	5517	-147	16	16
DM Transport equipment	-3226	-3582	-356	18586	13230	-5356	44	37
36 furniture, manufacturing n.e.c.	-501	-444	57	11194	9447	-1747	40	32
37 recycling	x	x		x	x		2	1
DN Manufacturing n.e.c.	-512	-452	60	11478	9554	-1924	42	33
D Manufacturing	-23015	-17236	5779	195737	155346	-40391	589	490
40 electricity, gas, steam and hot water supply	-189	-239	-50	1381	1081	-300	6	8
41 collection, purification and distribution of water	x	x		x	x		1	1
E Electricity, gas and water supply	-190	-241	-50	1507	1205	-302	7	9
Total industry	-23689	-17857	5832	204413	160669	-43744	603	503
F Construction	-635	-574	60	7600	9190	1589	45	44

x- individual data (1 or 2 firms)

Source: CSO, MIT

VI. FINANCIÁK CONDITIONS

4. Book value added

(firms with 100 and more employees)

NACE	Book value added mill. CZK		y-o-y change %	Share total = 100		Book value added per empl. in CZK		y-o-y change %
	2003	2004		2003	2004	2003	2004	
	10 mining of coal and lignite, extraction of peat	23363	28542	22.2	2.76	3.03	610323	788965
CA Mining and quarrying of energy producing mater.	24806	30178	21.7	2.93	3.21	590016	755258	28.0
CB Mining and quarrying except energy prod. mater.	3105	3056	-1.6	0.37	0.32	902471	865239	-4.1
C Mining and quarrying	27911	33234	19.1	3.30	3.53	613653	764192	24.5
DA Food products, beverages and tobacco	51682	52890	2.3	6.11	5.62	601216	647369	7.7
17 textiles	12786	12809	0.2	1.51	1.36	317784	350219	10.2
18 wearing apparel, dressing, dyeing of fur	3841	3611	-6.0	0.45	0.38	205514	221002	7.5
DB Textiles and textile products	16626	16420	-1.2	1.97	1.75	282176	310320	10.0
DC Leather and leather products	1082	1089	0.6	0.13	0.12	172590	196684	14.0
DD Wood and wood products	6178	6914	11.9	0.73	0.73	433434	521906	20.4
21 pulp, paper and pap. products	10029	10515	4.8	1.19	1.12	692213	740578	7.0
22 publish., printing and reproduct. of record. media	7667	8660	13.0	0.91	0.92	600841	670094	11.5
DE Pulp, paper and pap. products, publish. printing	17696	19174	8.4	2.09	2.04	649425	706992	8.9
DF Coke, refined petroleum	3550	5777	62.7	0.42	0.61	1183318	1950349	64.8
DG Chemic., chem. prod. and man-made fibres	26718	31950	19.6	3.16	3.40	803254	1041445	29.7
DH Rubber and plastic products	26142	29203	11.7	3.09	3.10	629919	648255	2.9
DI Other non-metallic mineral products	37445	40412	7.9	4.43	4.30	662352	748418	13.0
27 basic metals	30239	45273	49.7	3.57	4.81	547952	819594	49.6
28 fabric. metal prod., except machin. and eq.	23917	26312	10.0	2.83	2.80	432506	457193	5.7
DJ Basic metals and fabricated metal products	54156	71584	32.2	6.40	7.61	490170	634678	29.5
DK Machinery and equipment n.e.c.	36012	41909	16.4	4.26	4.46	377696	444212	17.6
30 office machinery and computers	1439	3558	147.3	0.17	0.38	244152	537627	120.2
31 electrical machinery and apparatus n.e.c.	30731	34002	10.6	3.63	3.61	448825	469429	4.6
32 radio, televis. and communic. equip. t. app.	13170	14972	13.7	1.56	1.59	633510	639674	1.0
33 medic., precis. and optic. instr., watches, clocks	6353	7002	10.2	0.75	0.74	418702	454407	8.5
DL Electrical and optical equipment	51694	59535	15.2	6.11	6.33	468549	505101	7.8
34 motor vehicles, trailers and semi-trailers	63143	71993	14.0	7.46	7.65	759499	829049	9.2
35 other transport equipment	8181	8047	-1.6	0.97	0.86	445469	476556	7.0
DM Transport equipment	71324	80040	12.2	8.43	8.51	702684	771663	9.8
36 furniture, manufacturing n.e.c.	12297	13572	10.4	1.45	1.44	357914	415062	16.0
37 recycling	786	1696	115.7	0.09	0.18	525324	963159	83.3
DN Manufacturing n.e.c.	13083	15268	16.7	1.55	1.62	364902	443070	21.4
D Manufacturing	413388	472166	14.2	48.87	50.20	529668	608156	14.8
40 electricity, gas, steam and hot water supply	71819	78673	9.5	8.49	8.36	1941406	2247143	15.7
41 collection, purification and distribution of water	10106	11076	9.6	1.19	1.18	526601	591947	12.4
E Electricity, gas and water supply	81925	89749	9.6	9.68	9.54	1458147	1670642	14.6
Total industry	523224	595149	13.7	61.85	63.27	593134	681260	14.9
F Construction	37074	39284	6.0	4.38	4.18	501109	538309	7.4
G Whol. and retail tr., rep. of mot. vehic., motor.	69620	82803	18.9	8.23	8.80	499403	568785	13.9
H Hotels and restaurants	8444	9792	16.0	1.00	1.04	416928	482292	15.7
I Transport, storage and communication	130135	130810	0.5	15.38	13.91	589189	610846	3.7
K Real estate, renting and business activities	37153	39780	7.1	4.39	4.23	444547	441410	-0.7
A+B Agriculture, hunting and forestry	18567	18142	-2.3	2.19	1.93	272183	312783	14.9
L - Q Others	21704	24882	14.6	2.57	2.65	516898	465074	-10.0
Total - non financial sphere	845922	940643	11.2	100.00	100.00	552735	615511	11.4

Source: CSO, MIT

VI. FINANCIAK CONDITIONS

5. Share of labour cost per book value added

(firms with 100 and more employees)

NACE	Share labour costs per value added		Diff. in points 04-03
	2003	2004	
10 mining of coal and lignite, extraction of peat	58.5	47.9	-10.6
CA Mining and quarrying of energy producing mater.	60.2	49.8	-10.4
CB Mining and quarrying except energy prod. mater.	35.7	39.3	3.6
C Mining and quarrying	57.5	48.8	-8.7
DA Food products, beverages and tobacco	45.4	45.2	-0.1
17 textiles	64.2	61.8	-2.3
18 wearing apparel, dressing, dyeing of fur	82.3	81.2	-1.1
DB Textiles and textile products	68.3	66.1	-2.3
DC Leather and leather products	97.5	95.5	-2.0
DD Wood and wood products	53.4	49.5	-3.9
21 pulp, paper and pap. products	42.2	41.4	-0.8
22 publish., printing and reproduct, of record. media	58.7	56.3	-2.3
DE Pulp, paper and pap. products, publish. printing	49.3	48.1	-1.2
DF Coke, refined petroleum	35.2	22.2	-13.0
DG Chemic., chem. prod. and man-made fibres	41.1	34.8	-6.3
DH Rubber and plastic products	44.6	45.4	0.8
DI Other non-metallic mineral products	43.7	41.6	-2.1
27 basic metals	56.2	43.2	-13.0
28 fabric. metal prod., except machin. and eq.	62.9	63.2	0.3
DJ Basic metals and fabricated metal products	59.2	50.5	-8.6
DK Machinery and equipment n.e.c.	73.1	66.9	-6.2
30 office machinery and computers	100.2	50.0	-50.2
31 electrical machinery and apparatus n.e.c.	57.6	58.5	0.9
32 radio, televis. and communic. equip. t. app.	43.9	46.6	2.7
33 medic., precis. and optic. instr., watches, clocks	61.6	62.1	0.5
DL Electrical and optical equipment	55.8	55.4	-0.4
34 motor vehicles, trailers and semi-trailers	42.2	41.4	-0.8
35 other transport equipment	66.5	67.1	0.6
DM Transport equipment	45.0	44.0	-1.0
36 furniture, manufacturing n.e.c.	61.7	56.6	-5.1
37 recycling	54.6	33.3	-21.3
DN Manufacturing n.e.c.	61.3	54.0	-7.2
D Manufacturing	52.1	49.0	-3.1
40 electricity, gas, steam and hot water supply	22.0	20.5	-1.5
41 collection, purification and distribution of water	57.1	53.7	-3.4
E Electricity, gas and water supply	26.4	24.6	-1.7
Total industry	48.4	45.4	-3.0
F Construction	64.2	65.4	1.2
G Whol. and retail tr., rep. of mot. vehic., motor.	56.3	53.1	-3.2
H Hotels and restaurants	59.5	54.2	-5.3
I Transport, storage and communication	55.6	56.8	1.2
K Real estate, renting and business activities	70.8	75.4	4.6
A+B Agriculture, hunting and forestry	77.7	74.0	-3.7
L - Q Others	52.1	61.4	9.3
Total - non financial sphere	52.7	50.8	-1.9

Source: CSO, MIT

VI. FINANCIAL CONDITIONS

6. Pre-tax profit or loss in industry and construction by institutional sectors

(firms with 100 or more employees)

NACE Division	Pre-tax profit or loss (million CZK)							
	T o t a l		11001 - public sector		11002 - private sector		11003 - foreign sector	
	year 2004	y-o-y change	year 2004	y-o-y change	year 2004	y-o-y change	year 2004	y-o-y change
10 mining of coal and lignite, extraction of peat	9927	6987	2807	548	5978	5660	1142	779
CA Mining and quarrying of energy producing mater.	10516	7286	2486	543	6888	5964	1142	779
CB Mining and quarrying except energy producing mater.	818	-111	0	0	402	-57	415	-54
C Mining and quarrying	11333	7175	2486	543	7291	5907	1557	725
DA Food products, beverages and tobacco	18079	770	418	-93	2781	200	14876	676
17 textiles	2050	134	0	0	1395	306	655	-172
18 wearing apparel, dressing, dyeing of fur	205	356	0	0	-12	235	114	53
DB Textiles and textile products	2255	490	0	0	1383	541	769	-119
DC Leather and leather products	-49	18	0	0	-12	61	-38	-43
DD Wood and wood products	2058	980	0	0	618	642	1439	334
21 pulp, paper and pap. products	3554	603	x		385	147	3142	431
22 publishing, printing and reprod. of recorded media	2037	596	x		491	198	1325	431
DE Ppulp, paper and pap. products, publis. printing	5590	1199	x		876	346	4467	862
DF Coke, refined petroleum	1984	1782	x		1650	1340	0	0
DG Chemic., chem. prod. and man-made fibres	10134	7594	x		1692	3358	5686	1523
DH Rubber and plastic products	9533	-57	0	0	1816	222	7710	-283
DI Other non-metallic mineral products	12891	1834	x		3539	251	9364	1637
27 basic metals	19019	10762	x		6580	5351	12447	5412
28 fabric. metal prod., except machinery and equip.	4416	-878	x		1923	284	2397	-1216
DJ Basic metals and fabricated metal products	23435	9884	x		8503	5635	14843	4196
DK Machinery and equipment n.e.c.	4527	2243	122	575	2641	2136	1767	-462
30 office machinery and computers	-286	281	0	0	x		-252	329
31 electrical machinery and apparatus n.e.c.	8343	1464	0	0	2183	555	6158	905
32 of radio, televis. and communic. equip. t. apparat.	3148	2002	0	0	207	13	2941	1988
33 medic., precis. and optic. instr., watches, clocks	1424	-415	0	0	246	-90	1178	-325
DL Electrical and optical equipment	12629	3332	0	0	2601	431	10025	2898
34 motor vehicles, trailers and semi-trailers	19440	6844	0	0	831	160	18608	6684
35 other transport equipment	1503	266	-191	-315	871	340	822	242
DM Transport equipment	20942	7110	-191	-315	1702	499	19430	6926
36 furniture, manufacturing n.e.c.	4149	1299	0	0	846	148	3253	1178
37 recycling	920	633	0	0	818	590	x	
DN Manufacturing n.e.c.	5069	1932	0	0	1664	739	3355	1221
D Manufacturing	129075	39111	3648	3234	31453	16401	93694	19365
40 electricity, gas, steam and hot water supply	37790	1380	15888	-4730	13412	4606	8490	1504
41 collection, purification and distribution of water	2253	222	165	-68	605	-43	1483	333
E Electricity, gas and water supply	40043	1602	16053	-4798	14017	4563	9973	1837
Total industry	180452	47888	22187	-1021	52761	26871	105225	21927
F Construction	9826	741	163	76	7340	130	2233	403

x individual data (1 or 2 firms)

Source: CSO, MIT

VI. FINANCIAL CONDITIONS

7. Book value added in industry and construction by institutional sectors

(firms with 100 or more employees)

NACE Division	Book value added (million CZK)							
	T o t a l		11001 - public sector		11002 - private sector		11003 - foreign sector	
	year 2004	y-o-y change %	year 2004	y-o-y change %	year 2004	y-o-y change %	year 2004	y-o-y change %
10 mining of coal and lignite, extraction of peat	28542	22.2	8565	11.4	16500	34.3	3477	2.7
CA Mining and quarrying of energy producing mater.	30178	21.7	8145	9.4	18556	32.8	3477	2.7
CB Mining and quarrying except energy producing mater.	3056	-1.6	0		1752	-3.1	1304	0.6
C Mining and quarrying	33234	19.1	8145	9.4	20309	28.7	4781	2.1
DA Food products, beverages and tobacco	52890	2.3	1168	-11.6	20767	2.1	30897	3.1
17 textiles	12809	0.2	0		8141	-3.0	4669	6.2
18 wearing apparel, dressing, dyeing of fur	3611	-6.0	0		2569	-8.6	921	-5.3
DB Textiles and textile products	16420	-1.2	0		10709	-4.4	5590	4.1
DC Leather and leather products	1089	0.6	0		669	-1.9	420	5.0
DD Wood and wood products	6914	11.9	0		2973	10.1	3926	13.8
21 pulp, paper and pap. products	10515	4.8	x		2568	-1.2	7804	6.3
22 publishing, printing and reprod. of recorded media	8660	13.0	x		2795	22.2	5335	10.1
DE Ppulp, paper and pap. products, publis. printing	19174	8.4	x		5363	9.8	13139	7.8
DF Coke, refined petroleum	5777	62.7	x		4836	55.6	0	
DG Chemic., chem. prod. and man-made fibres	31950	19.6	x		8606	12.3	15247	6.0
DH Rubber and plastic products	29203	11.7	0		8455	14.2	20725	10.7
DI Other non-metallic mineral products	40412	7.9	x		14514	0.8	25591	12.9
27 basic metals	45273	49.7	x		19603	38.5	25641	59.7
28 fabric. metal prod., except machinery and equip.	26312	10.0	x		11746	8.1	14217	10.9
DJ Basic metals and fabricated metal products	71584	32.2	x		31349	25.3	39858	38.0
DK Machinery and equipment n.e.c.	41909	16.4	1156	-24.6	23610	21.7	17083	13.6
30 office machinery and computers	3558	147.3	0		x		3480	153.3
31 electrical machinery and apparatus n.e.c.	34002	10.6	0		9334	11.2	24654	10.4
32 of radio, televis. and communic. equip. t. apparat.	14972	13.7	0		1491	0.5	13481	15.4
33 medic., precis. and optic. instr., watches, clocks	7002	10.2	0		1933	-3.7	5070	16.6
DL Electrical and optical equipment	59535	15.2	0		12836	7.4	46685	17.5
34 motor vehicles, trailers and semi-trailers	56620	2.1	x		6439	-15.7	50170	4.9
35 other transport equipment	8047	-1.6	469	-23.0	4578	-5.2	3001	9.5
DM Transport equipment	80040	12.2	469	-23.0	9737	-3.2	69834	15.1
36 furniture, manufacturing n.e.c.	13572	10.4	0		6714	-4.1	6653	31.0
37 recycling	1696	115.7	0		1459	145.1	x	
DN Manufacturing n.e.c.	15268	16.7	0		8173	7.6	6891	30.8
D Manufacturing	472166	14.2	12817	32.8	162597	11.1	295886	15.3
40 electricity, gas, steam and hot water supply	78673	9.5	32807	14.5	27303	8.1	18563	3.7
41 collection, purification and distribution of water	11076	9.6	1120	262.5	4881	0.8	5075	2.4
E Electricity, gas and water supply	89749	9.6	33927	17.1	32184	6.9	23638	3.4
Total industry	595149	13.7	54888	19.2	215089	11.9	324306	14.1
F Construction	39284	6.0	1244	25.9	28276	4.8	9577	5.7

x individual data (1 or 2 firms)

Source: CSO, MIT

VI. FINANCIAL CONDITIONS

8. Book value added per employee in industry and construction by institutional sectors

(firms with 100 or more employees)

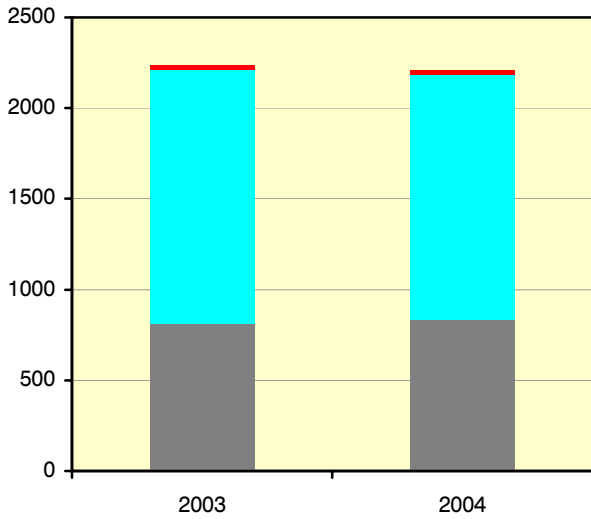
NACE Division	Book value added per employee/year (CZK)							
	Total		11001 - public sector		11002 - private sector		11003 - foreign sector	
	year 2004	y-o-y change %	year 2004	y-o-y change %	year 2004	y-o-y change %	year 2004	y-o-y change %
10 mining of coal and lignite, extraction of peat	788965	29.3	931031	14.7	784276	44.8	585501	5.7
CA Mining and quarrying of energy producing mater.	755258	28.0	651959	11.4	862037	43.1	585501	5.7
CB Mining and quarrying except energy producing mater.	865239	-4.1	0		742232	-3.4	1113142	-6.7
C Mining and quarrying	764192	24.5	651959	11.4	850195	37.7	672442	3.4
DA Food products, beverages and tobacco	647369	7.7	790735	-7.2	362590	7.9	1364710	7.0
17 textiles	350219	10.2	0		321482	10.0	414884	8.9
18 wearing apparel, dressing, dyeing of fur	221002	7.5	0		205728	4.3	247263	9.3
DB Textiles and textile products	310320	10.0	0		283252	8.6	373188	10.1
DC Leather and leather products	196684	14.0	0		198120	20.9	194441	2.5
DD Wood and wood products	521906	20.4	0		375544	25.0	747031	11.3
21 pulp, paper and pap. products	740578	7.0	x		364285	-0.2	1152870	10.3
22 publishing, printing and reprod. of recorded media	670094	11.5	x		499788	23.4	784825	8.0
DE Pulp, paper and pap. products, publis. printing	706992	8.9	x		424232	10.8	968468	8.8
DF Coke, refined petroleum	1950349	64.8	x		2346718	73.7	0	
DG Chemic., chem. prod. and man-made fibres	1041445	29.7	x		580058	19.0	1246485	19.2
DH Rubber and plastic products	648255	2.9	0		408120	4.2	855161	2.8
DI Other non-metallic mineral products	748418	13.0	x		454790	9.0	1231420	11.4
27 basic metals	819594	49.6	x		552184	36.8	1308972	62.7
28 fabric. metal prod., except machinery and equip.	457193	5.7	x		379772	6.2	551762	4.2
DJ Basic metals and fabricated metal products	634678	29.5	x		471912	23.4	878801	34.5
DK Machinery and equipment n.e.c.	444212	17.6	363792	-39.0	426588	29.3	479964	8.0
30 office machinery and computers	537627	120.2	0		x		541102	123.6
31 electrical machinery and apparatus n.e.c.	469429	4.6	0		393789	12.3	506734	0.9
32 of radio, televis. and communic. equip. t. apparat.	639674	1.0	0		299844	-0.1	731341	-0.8
33 medic., precis. and optic. instr., watches, clocks	454407	8.5	0		359558	17.0	505209	0.5
DL Electrical and optical equipment	505101	7.8	0		374904	11.8	558749	5.0
34 motor vehicles, trailers and semi-trailers	829049	9.2	0		351819	5.8	926015	7.8
35 other transport equipment	476556	7.0	283478	-21.2	444024	6.2	609512	13.8
DM Transport equipment	771663	9.8	283478	-21.2	389882	5.7	905802	8.3
36 furniture, manufacturing n.e.c.	415062	16.0	0		296676	4.4	714310	25.8
37 recycling	963159	83.3	0		940459	102.9	x	
DN Manufacturing n.e.c.	443070	21.4	0		337972	15.3	723487	25.7
D Manufacturing	608156	14.8	973390	29.6	412982	16.8	806292	10.4
40 electricity, gas, steam and hot water supply	2247143	15.7	3930300	20.6	1730569	15.4	1705186	8.2
41 collection, purification and distribution of water	591947	12.4	303456	261.6	621346	5.0	708279	4.8
E Electricity, gas and water supply	1670642	14.6	2818497	21.4	1361865	13.2	1309463	7.1
Total industry	681260	14.9	1456042	20.3	487472	17.7	827029	9.8
F Construction	538309	7.4	424472	18.5	503116	6.9	710446	6.1

x individual data (1 or 2 firms)

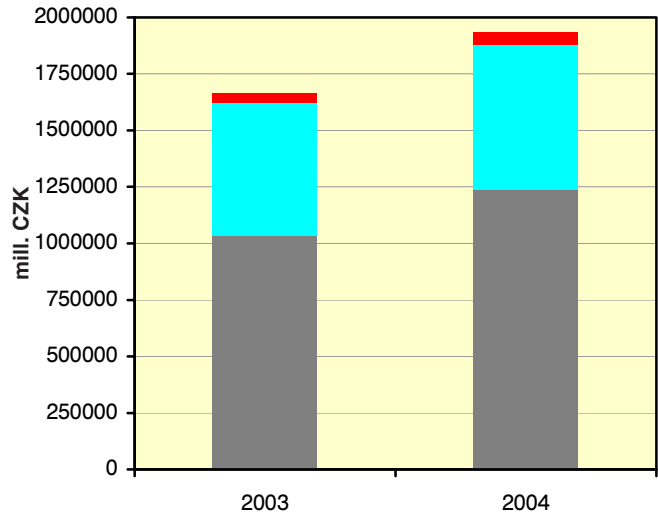
Source: CSO, MIT

**Manufacturing Industry by Sectors
(Firms with 100 or more employees)**

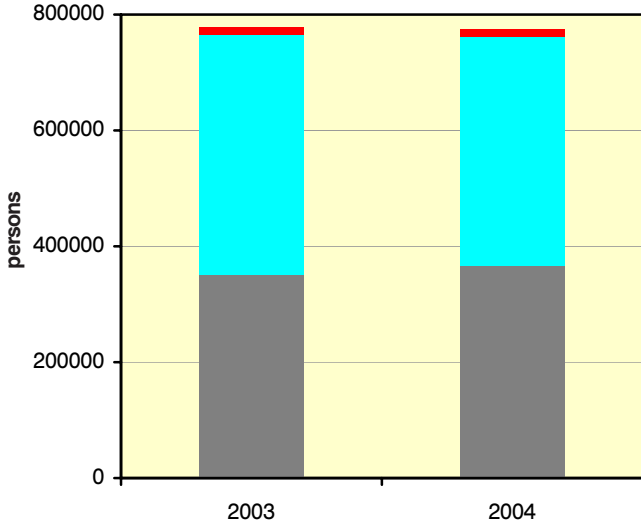
Number of Active Units



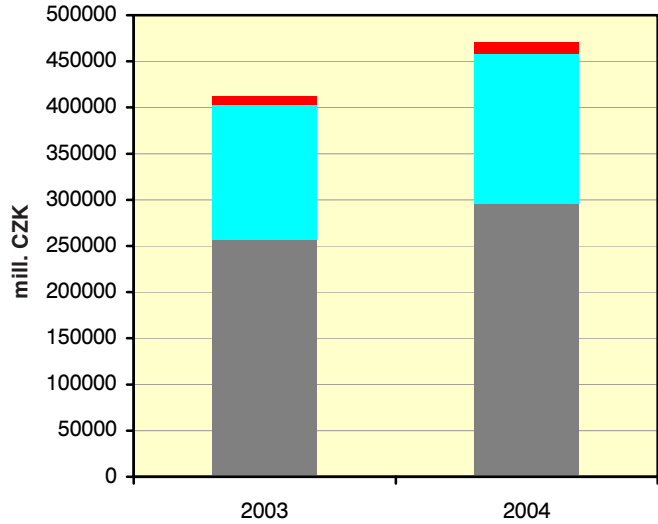
Outputs



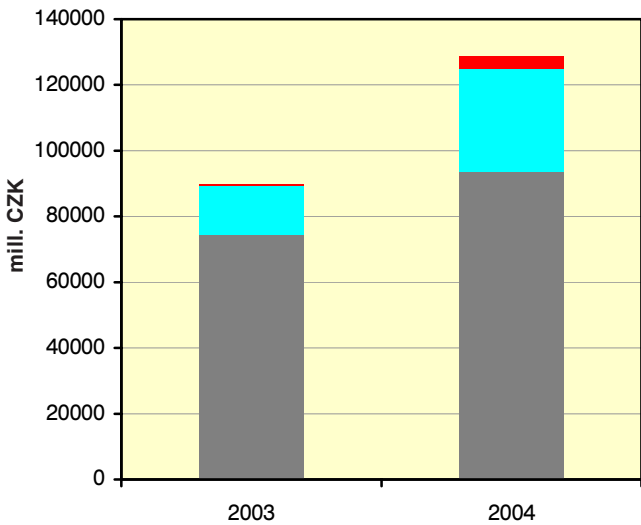
Average Number of Employees



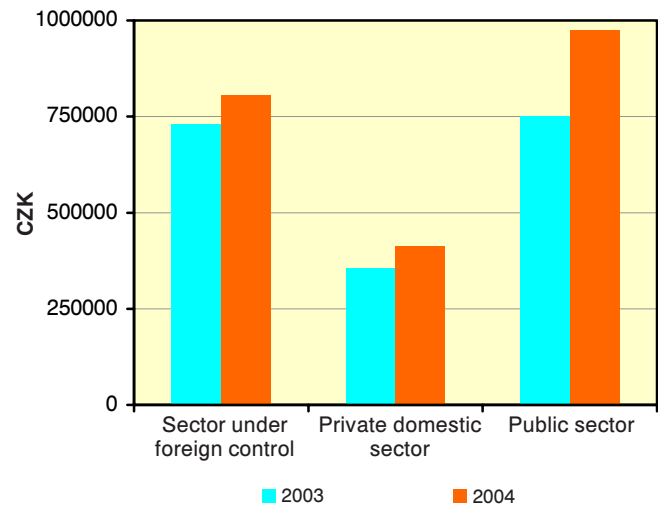
Value Added



Profit before Tax

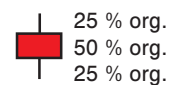


Value Added per Employee

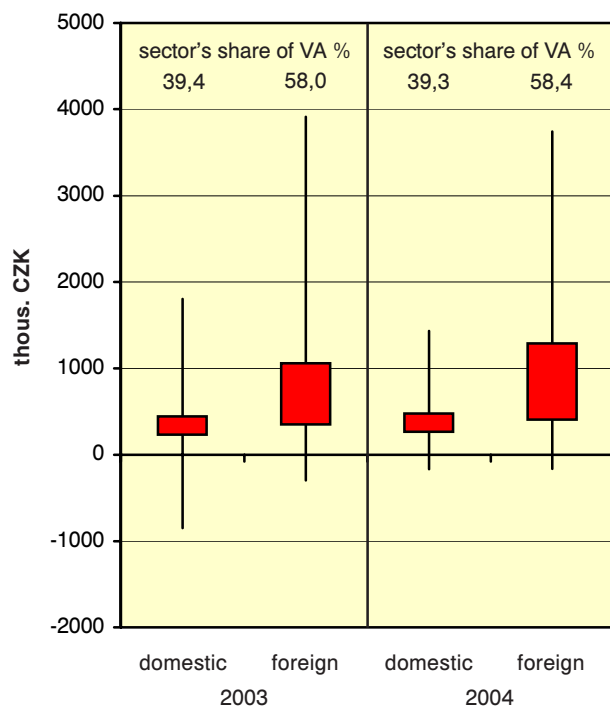


Sector under foreign control
 Private domestic sector
 Public sector

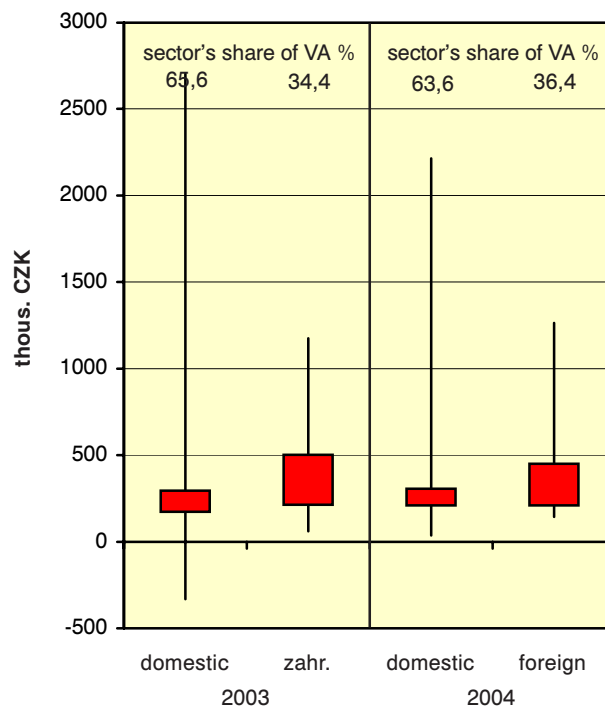
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



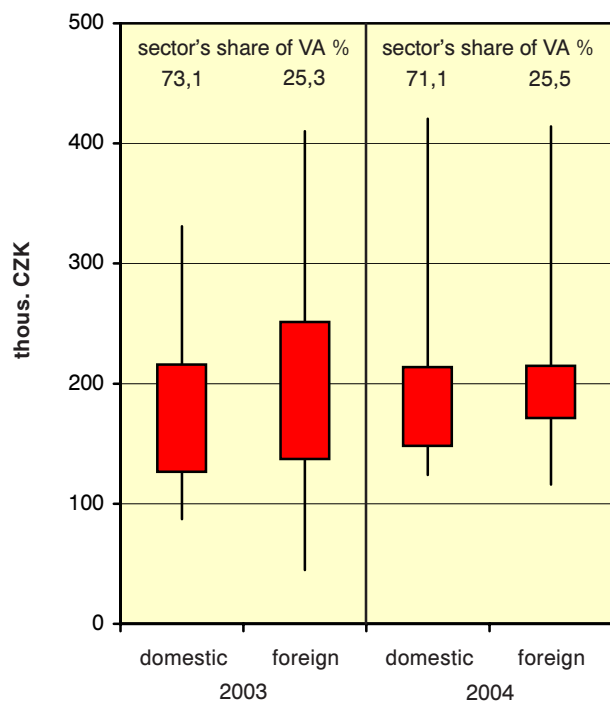
food, beverages, tobacco (15)



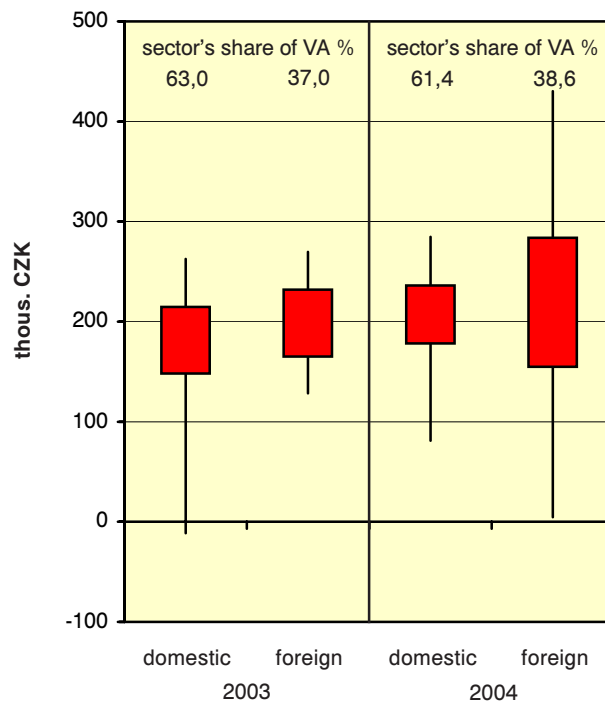
textile (17)



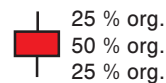
wearing, apparel, dressing (18)



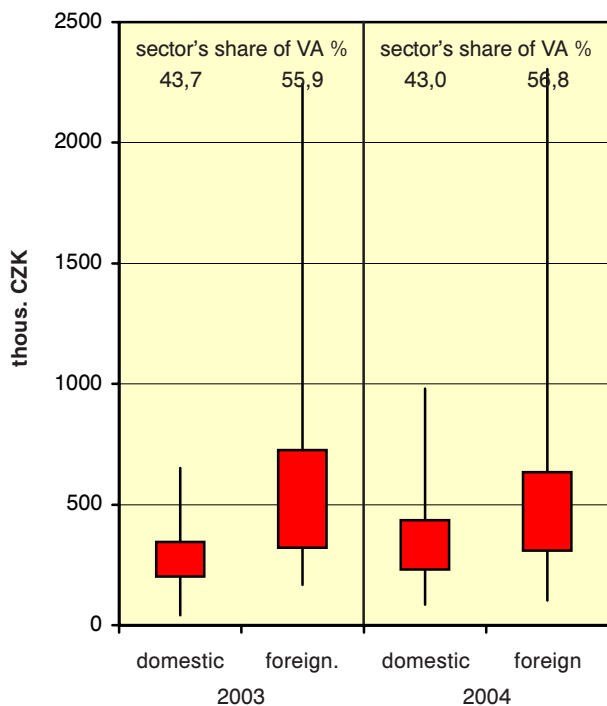
leather products (19)



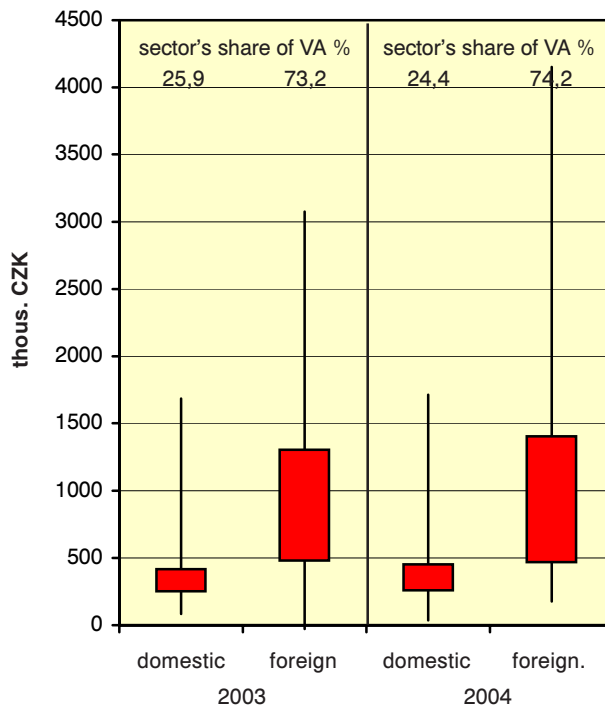
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



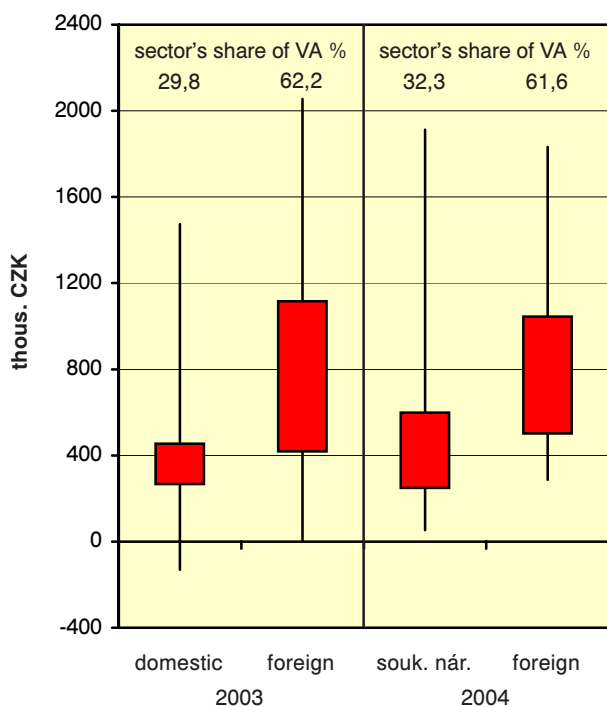
wood products (20)



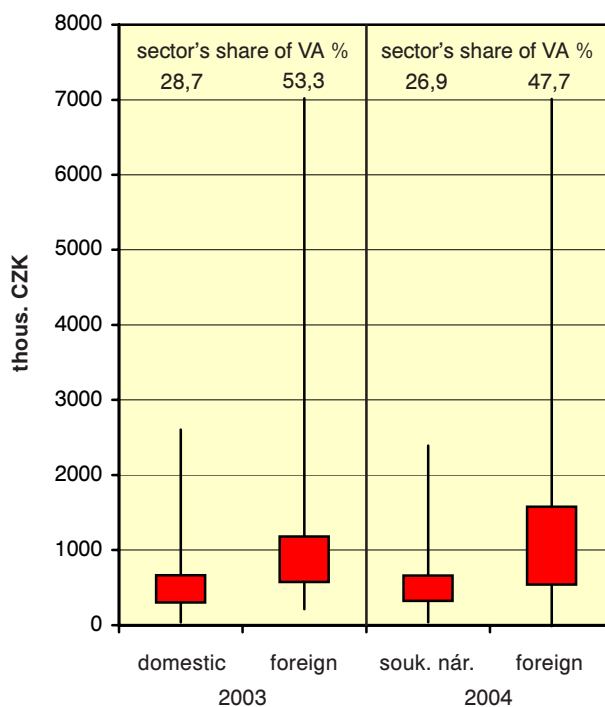
paper products (21)



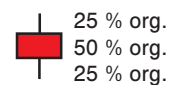
publishing, printing (22)



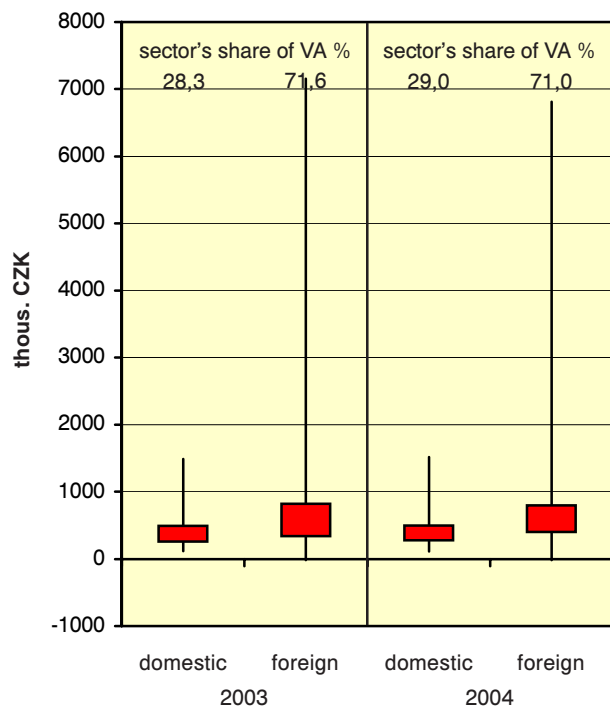
chem. products, man-made fibres (24)



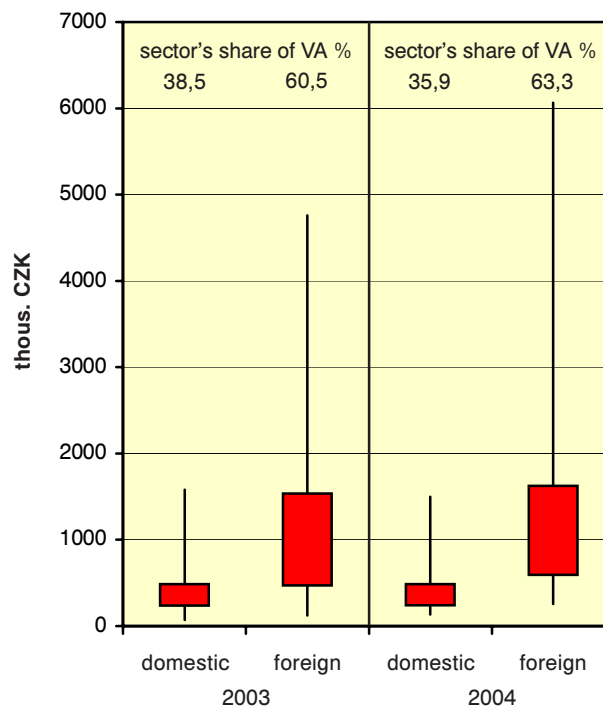
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



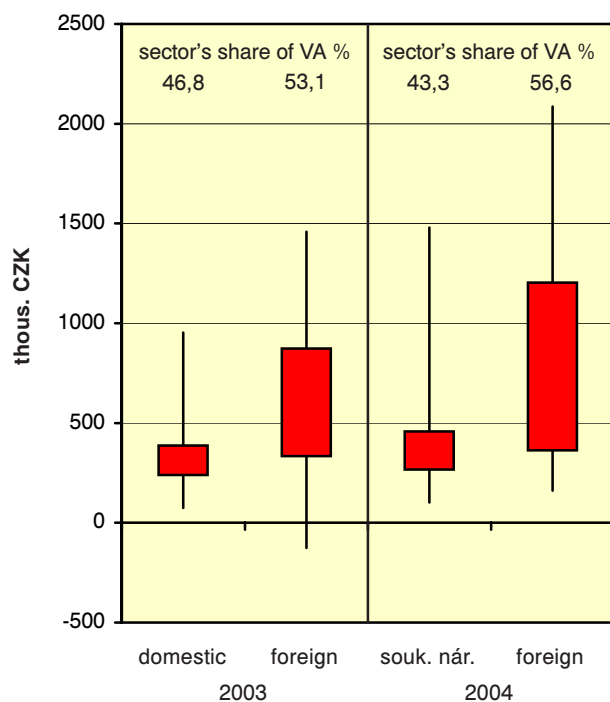
rubber and plastic products (25)



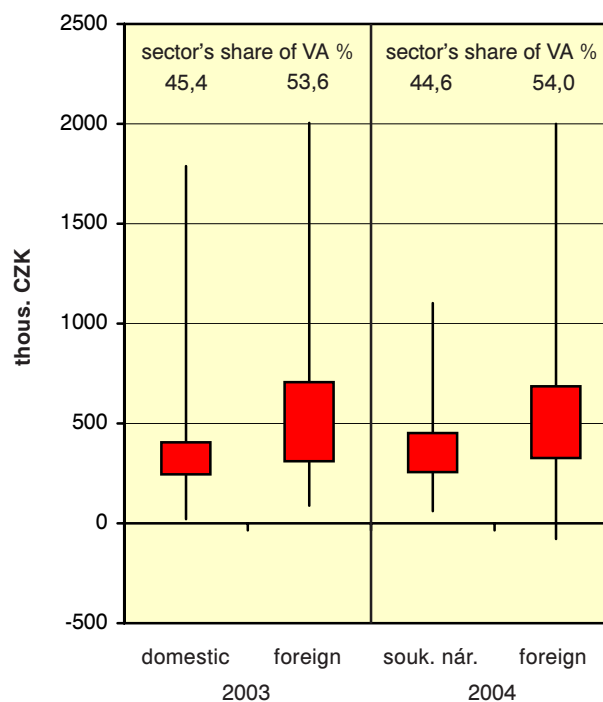
non-metallic mineral products (26)



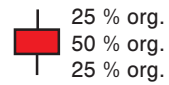
basic metals (27)



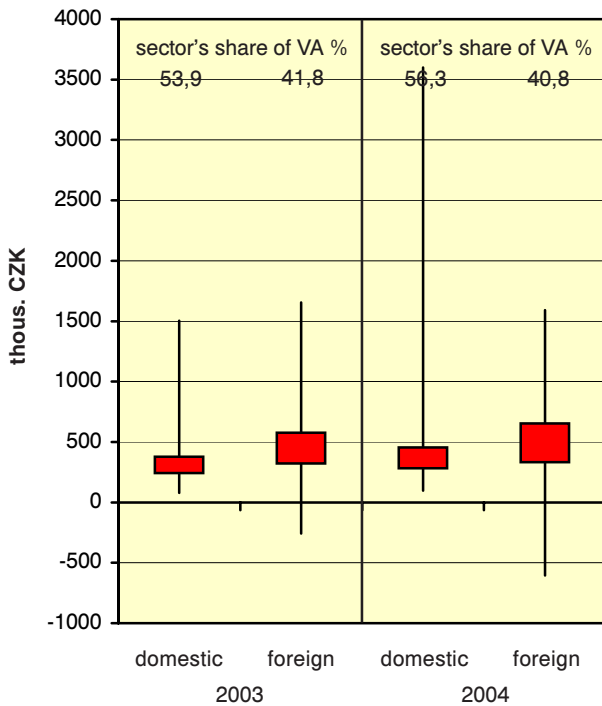
fabricated metal products (28)



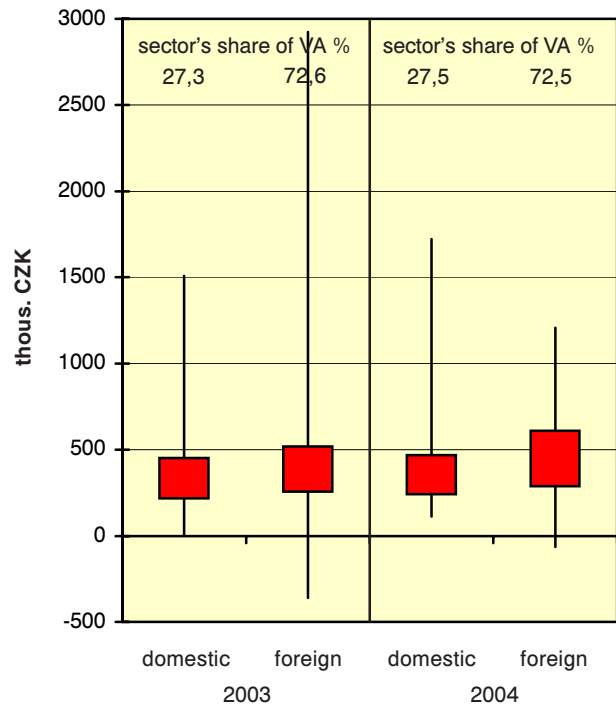
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



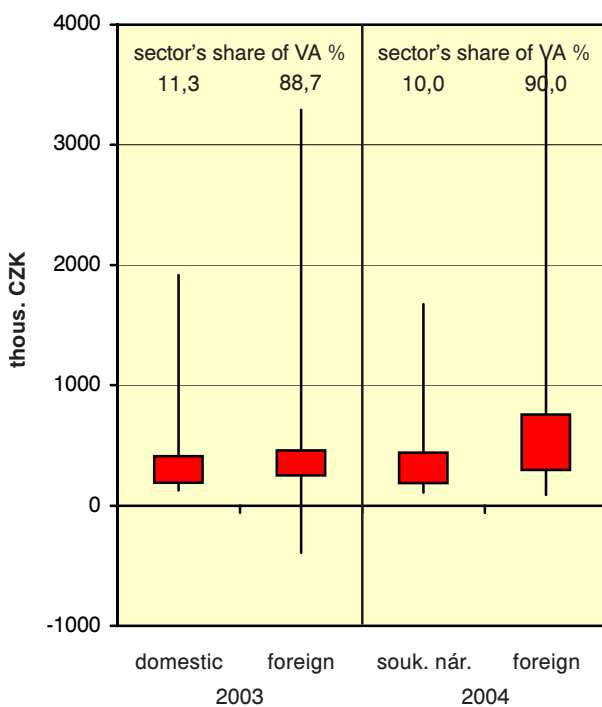
machinery and equipment (29)



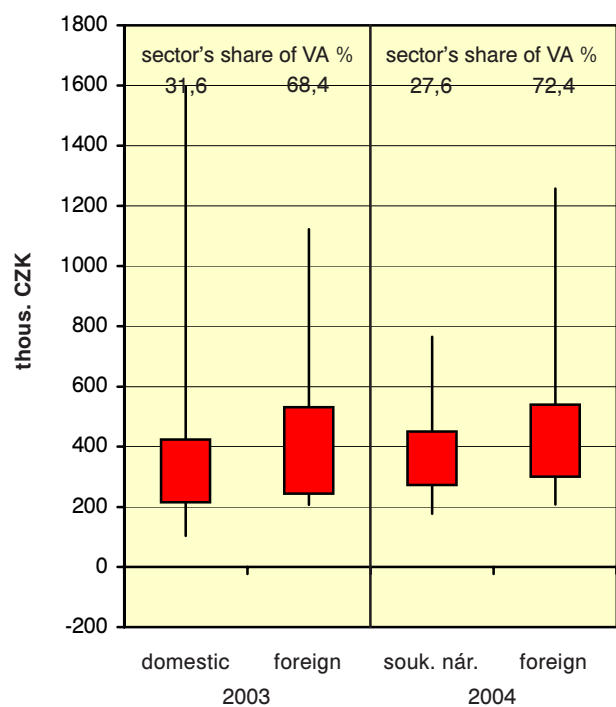
electrical machinery and apparatus (31)



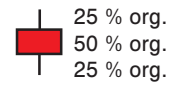
radio, television and communic. equipment (32)



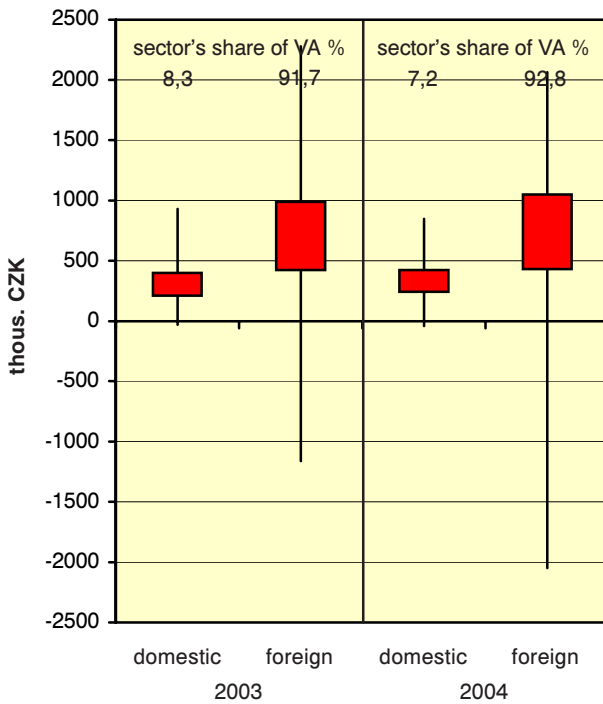
medical and optical instruments (33)



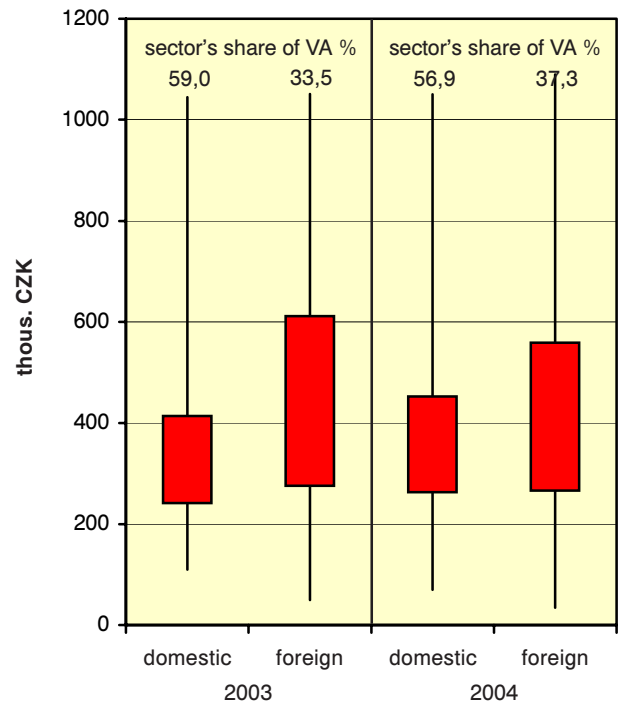
Comparison of Quartile Distribution of Enterprises in Domestic and Foreign Sector According to Value Added per Employee in Manufacturing Industry (firms with 100 and more employees)



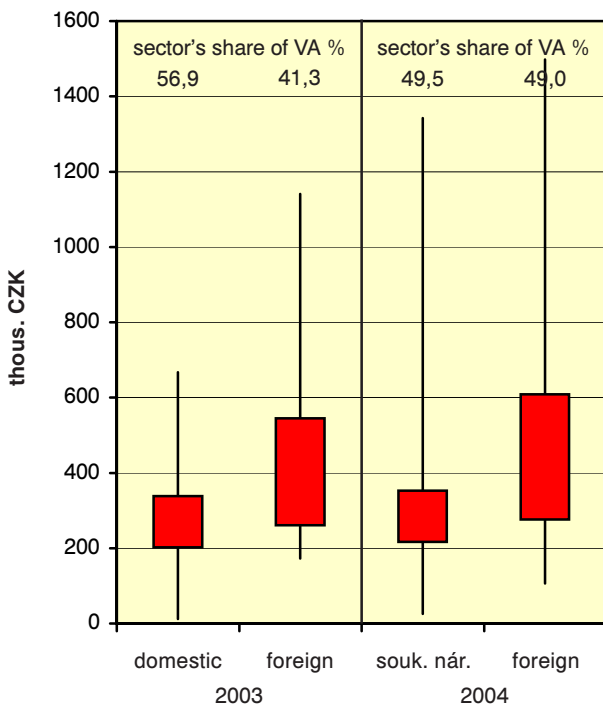
motor vehicles, trailers (34)



other transport equipment (35)



furniture, manufacturing n.e.c. (36)



Manufacturing (D)

