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MARKET STATEMENT OF THE CZECH REPUBLIC

1. General economic situation

The year 2001 saw positive development tendencies prevailing in the Czech Republic. They were stemming from a considerable boom of industrial and construction output, rapid development of market services, and rather slight indications of the extent of diminishing external disequilibrium, especially in the first half of the year. However, the second half was affected, after the 11 September in particular, by certain deceleration of the total economic growth and a decrease in growth rates of the performance of all key industries of the economy, including related economic characteristics. 1995 constant price GDP grew 3.6% year-on-year.

The deceleration of the growth of both output and value added in key production industries and, consequently, of GDP in the second half of 2001 was primarily due to a considerable fall in the boom. This occurred not only in Germany, the main business partner of the Czech Republic, but also in the other EU Member States, which sharply decreased their demands for imports of goods from the Czech Republic. While, the external economic factors, especially the changing global conditions of economic development, hindered the Czech Republic's economic growth subtly, their negative effects were not that strong to stop the growth.

The total economic growth slowed down in the first quarter of 2002, too; 1995 constant price GDP grew 2.5% year-on-year. A macroeconomic forecast suggests that GDP growth in 2002 should stand at 3.2%.

The year-on-year industrial production index was 106.8. The weakened demands in export markets and the gradual appreciation of the Czech *koruna* with to the euro was offset to some extent by heavy investment activity, inflow of foreign direct investments tied with incoming new production capacities, and a high domestic demand.

In 2001, the woodworking industry and the pulp, paper and printing industry increased their outputs 5.3% and 1.0% year-on-year, respectively (1995 average prices).

The January-June 2002 industrial production index dropped to 105.1 year-on-year, as suggested by preliminary estimates. Growing was the production of investment goods in particularly. Manufacturing contributed to the growth of industrial production by the manufacture of furniture.

The year 2001 favoured construction output a great deal: the output grew 9.6%. The growth primarily occurred in the new construction of industrial, transport and business buildings and structures and also in the implementation of reconstruction and modernization projects. Housing construction was still lagging behind the other construction activities. The volume of construction work amounted to CZK 264 billion (current prices).

According to preliminary estimates, January-June 2002 construction output grew 7.5% (current prices), which translates into a slowdown on the corresponding period of 2001.

External trade developed differently in 2001 in comparison with 2000. It was influenced by the deceleration of economic growth in the EU Member States (Germany in particular), price decreases in the world market, appreciation of the Czech *koruna* to the euro (and the US dollar), and inflow of foreign direct investments. The turnover of external trade had rather slow growth dynamics and developed differently in the course of year. The higher growth dynamics of imports than exports reversed since the second quarter of 2001: exports were 11.7% and imports 13.1% higher year-on-year. External trade deficit stood at CZK 119 billion FOB/FOB and was CZK 1.8 billion FOB/FOB down on 2000 (all at current prices). The surplus of trade with Germany dropped to a half and the highest deficit was recorded as before for trade with Russia (imports of crude oil and natural gas). The nominal exchange rates of the Czech *koruna* to the euro and the US dollar appreciated during the year.

January-June imports and exports decreased 5.8% and 2%, respectively, and the trade deficit amounting to CZK 23.9 billion FOB/FOB (current prices) was more than a half down on the corresponding period of 2001 (CZK 50.8 billion FOB/FOB, current prices). In terms of the euro (and the US dollar, too) imports grew 4.8% and exports 8.9%. Territorially, trade balance improved due to trade with developed market economies in particular, but the deficit of trade with developing economies and economies with a state system of trade grew.

2. Developments in forest products markets sectors

Pulp and paper

As in 2000, the production of wood pulp recorded an upward trend in 2001, too: it grew 7.3% to 684 thousand tonnes, wood pulp imports increased 9.0% to 133 thousand tonnes and wood pulp exports 9.6% to 317 thousand tonnes. The production of other pulp, from fibres other than wood and recovered fibre pulp, dropped a quarter to 3 thousand tonnes and imports decreased 7.2% to 13 thousand tonnes. The consumption of recovered paper for pulp manufacture (393 thousand tonnes) was 7.8% up. (All year-on-year.)

Bleached sulphate chemical pulp was the main item in the assortment of imported wood pulp (81.2%, 108 thousand tonnes), while bleached sulphite chemical pulp was the main item of the exported pulp assortment (70.6%, 224 thousand tonnes). Trade in the whole wood pulp assortment experienced lower import and export prices per unit (tonnes) in terms of CZK FOB/FOB (current prices) in comparison with the year 2000, with the decrease in export prices being bigger than in import ones. The wood pulp was mostly imported from European countries (smaller amounts were imported from the USA) and exported to European countries (except for small amounts to Asia).

In 2001, the assortment of paper and paperboard raised its production 7.4% to 864 thousand tonnes; imports grew 7.5% to 625 thousand tonnes and exports 4.6% to 561 thousand tonnes year-on-year. As in the previous years, the trend of higher paper and paperboard imports than exports was recorded in 2001, too. The products were imported from European countries and exported mostly to Europe; small amounts were sold to Asia and Africa.

In 2001, average prices per unit (tonne) of the assortment as a whole, as classified in the HS 96 No. 10 – Paper and paperboard, shown in JQ2 (Supp. 1), decreased 2.8% (imports) and increased 1.7% (exports) year-on-year.

In the first half of 2002, the pulp, paper and printing industry maintained the tendency to raise its production, with no substantial changes occurring in imports and exports.

The pulp production is expected to decline slightly in 2002 (by 3.5%) and reach its 2001 level (685 thousand tonnes) in 2003; as for the assortment of paper and paperboard, the production in 2002 should remain at its 2001 level and then grow in 2003.

Roundwood including pulpwood

In 2001, removals of roundwood decreased 0.5% year-on-year to 14 374 thousand m³, of which industrial wood 1% to 13 364 thousand m³. Removals of wood fuel grew 7.4% to 1 010 thousand m³, though. Imports of roundwood increased 2.3% to 976 thousand m³; exports of roundwood grew

considerably (by 22.4%) to 2 485 thousand m3. Subsequent to a large drop in 2000, the level of exports in 2001 came closer to that of the previous years. Domestic consumption fell 3.7% in 2001.

Import and export prices of 2001 were markedly down on the previous year.

Removals of roundwood in 2002 and 2003 are expected to grow 0.8% to 14 500 thousand m3 and 1% to 14 650 thousand m3 on the previous year, respectively.

Removals of coniferous pulpwood in 2001 decreased 1.2% to 4 380 thousand m3; imports fell 5.1% to 530 thousand m3 and exports increased 18.7% to 620 thousand m3 (all year-on-year).

Removals of non-coniferous pulpwood in 2001 grew 4.5% to 674 thousand m3, imports remained at their previous year's level and exports grew 16.7% year on-year.

Pulpwood production and trade in 2000 and 2003 are assumed to developed in the same way, tending to slightly grow, without any large changes.

Softwood (sawnwood and logs)

Coniferous sawnwood production in 2001 dropped 5.9% to 3 559 thousand m3 year-on-year, reflecting lower removals of coniferous industrial roundwood, increase in exports thereof, and other factors such as sawnwood prices in external markets and low demand for sawnwood. Imports of coniferous sawnwood grew slightly to 226 thousand m3, but exports decreased 6.2% to 1 596 thousand m3.

Coniferous sawnwood was imported from European countries (Germany and Slovakia in particular). Exports were implemented to European countries (the largest volumes to Austria, Germany, Italy), North America (the USA) and Asia (Japan).

In 2002 and 2003, the production, imports, exports and consumption should rise slightly on the previous year.

Removals of coniferous sawlogs and veneer logs in 2001 decreased 1.6% to 7 250 thousand m3, imports remained at the same level of 260 thousand m3, exports increased 27.7% to 1 229 thousand m3, and domestic consumption dropped 6.3% to 6 281 thousand m3, all compared to 2000. Trade was implemented with the neighbouring countries.

It is expected for 2002 and 2003 that the production, imports and consumption should slightly grow. Exports are likely to decrease 4% and 2.4% on the previous year, both in 2002 and 2003.

Hardwood (sawnwood and logs)

In 2001, the production of non-coniferous sawnwood slightly increased to 330 thousand m3, imports fell 6% to 110 thousand m3, exports fell 7.8% to 71 thousand m3, and domestic consumption rose slightly to 369 thousand m3. European countries were main partners in non-coniferous sawnwood trade. Small quantities of tropic species were imported from countries in Asia and Africa.

The existing trend of the production, trade and consumption in the domestic market is likely to exist in 2002 and 2003, too.

In 2001, removals of non-coniferous sawlogs and veneer logs increased 3% to 670 thousand m3, imports fell 9.6% to 113 thousand m3 and exports remained at the same level of 85 thousand m3 (all compared to 2000). Consumption in the domestic market grew 4.2%. Trade was implemented with European countries only.

Wood-based panels

Plywood

In comparison with 2000, the production of plywood in 2001 increased 30.4% to 150 thousand m³, imports grew 11.1% to 80 thousand m³, exports grew 4.2% to 146 thousand m³, and domestic consumption went 78% up to 84 thousand m³. Plywood was imported from a number of European countries and exported to Germany, Austria, Slovakia and Italy.

The upward trend in the production, imports, exports and consumption of plywood is expected to continue in 2002 and 2003. According to statistical data of the CR, 'manufacturing n.e.c.', which includes manufacture of furniture, also contributed to the growth of industrial production by consumption of wood-based panels. The 'manufacturing n.e.c.' raised the first half 2002 industrial production 14% year-on-year.

Particle board

In 2001, the production of particle board grew 13.9% to 820 thousand m³, imports and exports grew 12.2% to 247 thousand m³ and 21.1% to 482 thousand m³, respectively, and consumption in the domestic market increased 7.9% to 585 thousand m³ (all compared to 2000). As in the previous year, the largest quantities of particle board were imported from Germany, Austria and Poland and exported to Romania, Hungary, Germany and Slovakia.

The production, imports, exports and domestic consumption of particle board has been recording an upward trend for several years already. It is thus expected that they will further rise in 2002 and 2003, too (by 8.5% and 6.7% on the previous year, respectively). Manufacture of furniture shows a rising trend.

Fibreboard

As in several previous years, only MDF board has been produced of the whole assortment of fibreboard. The production in 2001 remained at the previous year's level: 75 thousand m³. Imports of other board assortments, especially of hardboard, grew 40.4% year-on-year to 205 thousand m³. Export assortments include MDF board in particular (70%). Exports increased 4.6% to 90 thousand m³. The consumption of fibreboard in the domestic market went 40% up to 190 thousand m³.

It is expected that the production of MDF board in 2002 and 2003 will be the same as in 2001. Imports of fibreboard will continue to rise and so will the domestic consumption.

Secondary processed wood

Trade in secondary processed wood of the assortment monitored by the ECE Timber Committee: Further processed wood; HS 4409; Wooden wrapping and packing equipment; HS 4415, 4416; Builder's joinery and carpentry of wood; HS 4418; and Wooden furniture; HS 940330/40/50/60; has had a rising tendency since 1995. Prices per unit (kg) in terms of CZK FOB have a slight upward tendency and are free of large fluctuations.