

A Forecast Assumptions

The forecast was made on the basis of data known as of **June 24, 2011**. No political decisions, newly released statistics, or world financial or commodity market developments could be taken into account after this date.

Data from the previous forecast of April 2011 are indicated by italics. Data in the tables relating to the years 2013 and 2014 are calculated by extrapolation, outlining only the direction of possible developments, and as such are not commented upon in the following text.

Sources of tables and graphs: Czech Statistical Office (CZSO), Czech National Bank (CNB), Ministry of Finance of the Czech Republic, Eurostat, IMF, OECD, European Central Bank (ECB), The Economist, our own calculations.

A.1 External Environment

Economic output

Although the world economy continues to recover, as compared to the April forecast it is burdened with greater uncertainties. Growth remains strong in China and India, but there are indications of overheating and central banks are turning to stricter currency policies due to rising inflation. By contrast, the growth dynamics in developed economies continue to be weak. The US economy has already slowed somewhat, while Japan, influenced by the effects of the earthquake, slipped into recession in the first quarter of 2011. Thus far, optimism is persisting in the German economy. In the euro zone as well as the US, fears of a possible debt crisis are growing. Very high commodity prices were increasing further from April to May.

QoQ growth of the **US economy** slowed from 0.8% in the fourth quarter of 2010 to 0.5% in the first quarter of 2011. The data on newly created job positions were also disappointing. The repeated growth of the unemployment rate from 8.8% in March to 9.1% in May has reflected in consumer spending. It appears that growth, for the time being, is not self-supporting but depends to a significant extent on government stimulus. The stagnating real estate market attests to the fact that the effects of the boom and subsequent slump on the real estate market have by no means been overcome. Of course, it must be added that many forecasts (including that of the Fed) predict that the economy will again pick up speed in the year's second half.

The economy is being stimulated by the central bank, which continues to hold the band for the key refinancing rate at 0–0.25%. In June, however, the second stage of quantitative easing (QE2) is ending and is not expected to continue. The national debt is at 100% of GDP, and several member states are on the verge of bankruptcy. This results in a difficult decision-making process regarding the priorities of economic policy. At present, additional government stimuli are not politically viable. A stalemate between the government and opposition has developed. The latter

is demanding spending cuts, upon which it is conditioning its agreement with the increase of the national debt ceiling. Whilst the prevailing opinion is that an agreement will be reached by the beginning of August, nothing can be ruled out in an unusually embittered domestic political situation.

Euro zone GDP recorded unexpectedly strong QoQ growth of 0.8% (*versus 0.5%*) in the first quarter of 2011. The greatest contribution to this strong growth came from the two largest euro zone countries. GDP rose QoQ by 1.5% in Germany and 1.0% in France. However, development in the euro zone is very uneven. Portugal is in recession, Greece experienced a sharp downturn, the development in Ireland is uncertain, and the large economies of Spain and Italy will probably stagnate this year as well.

Similar discrepancies can be found in unemployment levels. It remains at a high level overall in the EA12, stagnating in April at 9.9% for the third month in a row. At the same time, it is constantly falling in Germany, reaching 6.1% in April. At the other end of the scale is Spain, where unemployment was 20.7% in March and April (the unemployment rate in the age category of up to 25 years is at 44%). In Ireland unemployment is stagnating at 14.7%, while in Slovakia it fell slightly to 13.9%.

For the present, the relatively positive picture of euro zone growth hinges especially on the extraordinarily strong German economy, which is experiencing a strong export boom and unusually strong household consumption. Neither the development of industrial production or of new orders as yet is indicating a significant export deceleration, but rather a gradual reduction. The development of the important Chinese market and the high prices of raw materials present some uncertainty. In addition, the question remains what impact the decision to abandon nuclear energy will have.

The programme of most euro zone countries is fiscal restriction and consolidation. No country in the EA12 has a budget surplus, and the budget deficit of EA

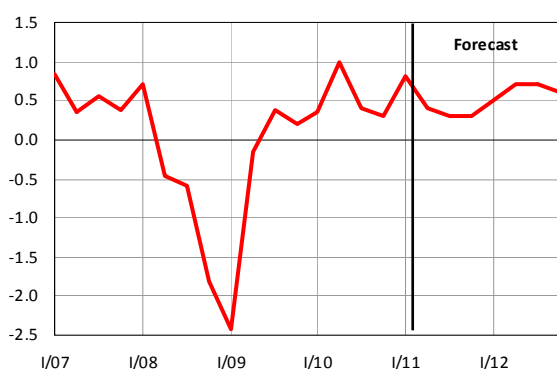
countries is estimated at 4.3% of GDP in 2011. The ECB raised its main rate by 25 basis points to 1.25% in April and indicated a possible rate increase in July, although it cannot be ruled out that it would change its opinion following a drop in the prices of commodities. The ECB's currency policy faces a difficult question of what common rate to establish for both the more powerful economy of the euro zone's north, on the one hand, and the stagnating southern wing, on the other.

The main issue of the euro zone's present economic policy is to resolve the debt crisis in Greece and prevent its worsening in other member states. The protracted and sometimes contradictory decisions taken so far present no great cause for optimism.

The **Polish economy** grew by 1.0% QoQ in the first quarter of 2011 (*as had been estimated*). The unemployment rate stagnated at 9.3% in April. Infrastructure investments in preparation for the European Football Championship have been a support to the economy. The deepening of the public finance deficit to 7.9% of GDP in 2010 led to the initiation of austerity measures and a VAT increase. The government aims to reduce the deficit to 5.6% of GDP this year and to 2.9% (i.e. below the excessive deficit procedure limit) in 2012.

Driven mainly by exports, the **Slovak economy** grew dynamically by 1.0% (*versus 0.6%*) QoQ in the first quarter. Industrial production increased YoY by 8.3% in April 2011. The economy is afflicted by high unemployment, which reached 13.9% in April and is the third highest in the euro zone. In combination with a drop in real wages caused by high inflation (4.2% YoY in May), this situation caused household consumption to decline. The public finance deficit deteriorated in 2010 to 7.9% of GDP, and the government thus has prepared consolidation measures to reduce it to 4% in 2012.

Graph A.1.1: Growth of GDP in EA12
QoQ growth in % (adjusted for seasonal and working day effects)



We have lowered our growth estimate for the US economy to 2.8% (*versus 3.0%*). For 2012, our estimate remains at 3.1%.

The GDP growth forecast for the EA12 economy for 2011 has been increased to 1.9% (*versus 1.7%*), while leaving it at 2.0% for 2012. Forecast risks are connected mainly to the debt crisis on the euro zone's periphery.

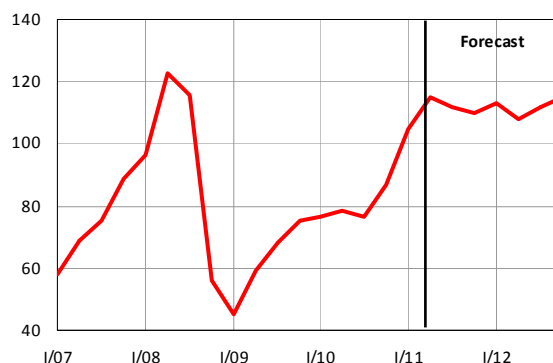
Commodity prices

Influenced by growth expectations, commodity prices reached their maxima in all main segments of the market at the turn of April to May. In recent weeks, however, most prices have shown a certain correction.

The causes for price growth are the same as those mentioned in the previous forecast: rapid growth in the developing world is putting pressure on limited resources, investments into commodity derivatives are booming (also in connection with the weak dollar), and geopolitical unrest persists in many oil-producing countries.

The average price for Brent crude in the second quarter of 2011 evidently reached USD 115 per barrel (*versus USD 95*), peaking at USD 123 in April. At the same time, Brent has an unusually high price spread against WTI (West Texas Intermediate) crude, which is evidently caused by the loss of Libyan production.

Graph A.1.2: Dollar Prices of Brent Crude Oil
in USD per barrel



We thus had to correct the oil price estimate for 2011 significantly upwards to USD 110/barrel (*versus USD 95*), the risks now being downward deviations. Fears of deceleration in global growth and, for example, the increase in oil inventories in the US are contributing factors. Fears that supplies might be interrupted abated even before the interventions by the International Energy Agency (IEA) and US government, which promised to release strategic reserves. Similarly, Saudi Arabia promised to increase supplies in order to compensate for the situation in

Libya. The termination of QE2 at the end of June also could contribute to a general drop in commodity prices, at least in the short term.

Global financial markets

The debt crisis on the euro zone's periphery struck with renewed force in the second quarter of this year. While Portugal requested financial aid from the EA/IMF (totalling EUR 78 billion), Greece again became the centre of attention of (among others) financial markets. The country was to be saved from the threat of bankruptcy by a financial injection in the record amount of EUR 110 billion. However, the EA/IMF bailout package from May 2010 is proving insufficient after only a year.

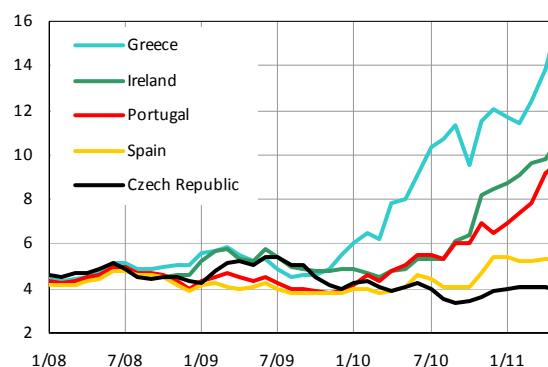
While the Greek government managed to decrease the general government deficit from an alarming 15.4% of GDP in 2009 to 10.5% of GDP last year through a series of austerity measures on both the income and expenditure sides, revenues and reductions in expenses still lag behind expectations. By contrast, the effects of fiscal restriction on economic activity in Greece surpassed expectations, in a negative sense. According to current Eurostat data, the YoY GDP decline was 7.7% in the first quarter of 2011, and in the final quarter of 2010 it was even 8.8%. Although GDP grew in the first quarter of 2011 (in seasonally adjusted data) by 0.8% QoQ, taking into account the further prepared austerity measures, whose acceptance is now also a condition for the release of an additional tranche from last year's bailout package, this probably does not yet represent a trend reversal.

Greece's problem continues to be high indebtedness of the government sector, which climbed from 127% of GDP in 2009 to 142% of GDP last year. The mere stabilisation of the debt-to-GDP ratio would require significant primary surpluses, even using relatively optimistic estimates for economic growth and interest rates.

Probably the most pressing problem that Greece currently (i.e. at the end of June) faces is connected to last year's financial aid from the EA/IMF. The bailout package was calculated with the expectation that Greece would be partly able to finance itself on capital markets already in 2012. As graph A.1.3 indicates, however, that yields of Greek 10-year bonds are reaching record high levels¹ and are considerably higher than they were in 2010. A similar picture of how

financial markets regard the state of Greek public finances is provided by CDS spreads as well as by a further series of rating downgrades of Greece in recent months (of all countries currently evaluated by the agency S&P, Greece has the worst rating). Hence, any notion of Greece's returning to the financial market already next year would be unrealistic.

Graph A.1.3: **Yields on 10Y government bonds**
in % p.a., monthly average



The issue of how to cover this financial deficit is currently being discussed. It is expected that Greece will obtain a portion of the funds through a massive programme for privatising state property, which could bring in up to EUR 50 billion in the course of the next several years. Another part would be supplied by euro zone countries in the form of conditional financial aid.

A potential agreement with private creditors (especially financial institutions) about a "rollover"² of Greek bonds also could provide partial relief to Greek public finances. The newly issued bonds would have longer maturities than the original (maturing) bonds.

The participation of private investors could of course prove problematic. Rating agencies have already announced that under certain conditions (especially if the involvement of investors were not completely voluntary) they would consider a "reprofiling" of Greek debt as a default. The ECB is taking a stand against the participation of private investors as well, fearing the consequences of a potential default and drawing attention to the possibility that financial infection may spread in this connection.

A decision about further aid to Greece should come sometime in July. Although some are of the opinion that any kind of additional aid to Greece would only delay the inevitable (i.e. default), "buying time" could also have its justifications, provided this time were

¹ The yields for Greek two-year bonds even exceeded the 30% mark in June.

² The payment of maturing bonds would be covered by the sale of new bonds.

used for fiscal consolidation in certain countries and for strengthening the capital of banks. However, the much-needed stress tests of European banks are probably (again) not going to inspire much confidence in financial markets in light of the probability that at least one country of the euro zone may default. This is because the European stress tests do not take this possibility into account.

The impact of the potential default of a euro zone country would evidently not be limited to the financial sector (losses due to repricing of bonds, possible spread of the financial infection, etc.) but, due to the many mutual links between the financial sector and the real economy, could in time be reflected in

economic activity as well. Considering the exposure of West European banks to the periphery of the euro zone, and taking into account the territorial structure of the Czech foreign trade, a shock in the form of a default could indirectly be reflected also in the domestic economy.

Of course, it is practically impossible to predict when and how the consequences of a potential default would specifically influence the Czech economy. The only certainty is that the external environment will continue to present a significant source of risks for the domestic economy. These risks need to be closely monitored.

Table A.1.1: **Real Gross Domestic Product** – yearly growth in %, non-seasonally adjusted data

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
								<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>
EU27	1.3	2.5	2.0	3.3	3.0	0.5	-4.3	1.8	2.0	2.1
EA12	0.7	2.2	1.6	3.1	2.8	0.3	-4.1	1.7	1.9	2.0
Germany	-0.2	1.2	0.8	3.4	2.7	1.0	-4.7	3.6	3.2	2.2
France	0.9	2.5	1.8	2.5	2.3	-0.1	-2.7	1.5	2.0	1.9
United Kingdom	2.8	3.0	2.2	2.8	2.7	-0.1	-4.9	1.3	1.5	2.0
Austria	0.8	2.5	2.5	3.6	3.7	2.2	-3.9	2.0	2.7	2.0
USA	2.5	3.6	3.1	2.7	1.9	0.0	-2.6	2.9	2.8	3.1
Hungary	4.0	4.5	3.2	3.6	0.8	0.8	-6.7	1.2	2.6	3.1
Poland	3.9	5.3	3.6	6.2	6.8	5.1	1.7	3.8	4.2	4.3
Slovakia	4.8	5.1	6.7	8.5	10.5	5.8	-4.8	4.0	3.4	3.9
Czech Republic	3.6	4.5	6.3	6.8	6.1	2.5	-4.1	2.3	2.5	2.5

Graph A.1.4: **Real Gross Domestic Product** YoY growth in %, nsa data

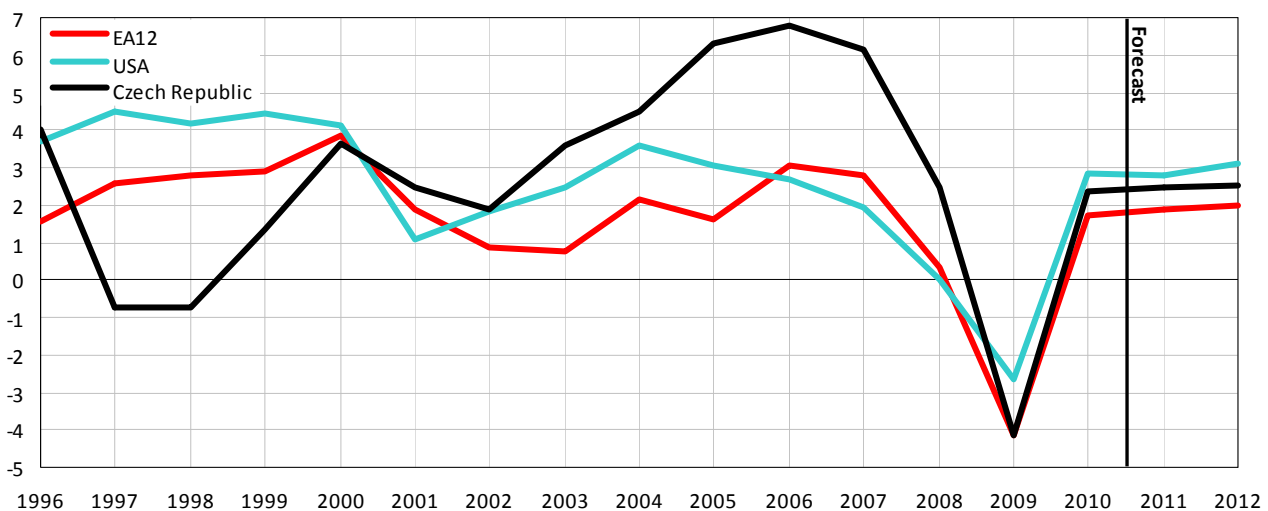


Table A.1.2: **Real Gross Domestic Product** – quarterly
growth in %, sa data

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	
EU27	<i>QoQ</i>	0.4	1.0	0.5	0.2	0.8	0.5	0.4	0.3
	<i>YoY</i>	0.6	2.0	2.2	2.1	2.5	2.0	1.9	2.0
EA12	<i>QoQ</i>	0.4	1.0	0.4	0.3	0.8	0.4	0.3	0.3
	<i>YoY</i>	0.8	2.0	2.0	1.9	2.5	1.9	1.8	1.8
Germany	<i>QoQ</i>	0.5	2.1	0.8	0.4	1.5	0.5	0.3	0.3
	<i>YoY</i>	2.3	3.9	3.9	3.8	4.8	3.2	2.7	2.6
France	<i>QoQ</i>	0.3	0.5	0.4	0.3	1.0	0.4	0.4	0.3
	<i>YoY</i>	1.2	1.6	1.7	1.5	2.2	2.1	2.1	2.1
United Kingdom	<i>QoQ</i>	0.3	1.1	0.7	-0.5	0.5	0.4	0.5	0.5
	<i>YoY</i>	-0.3	1.6	2.6	1.6	1.8	1.1	0.9	1.9
Austria	<i>QoQ</i>	0.0	1.0	1.1	0.9	1.0	0.2	0.2	0.3
	<i>YoY</i>	0.1	2.0	2.5	3.0	4.1	3.2	2.3	1.7
USA	<i>QoQ</i>	0.9	0.4	0.6	0.8	0.5	0.7	0.8	0.9
	<i>YoY</i>	2.4	3.0	3.2	2.8	2.4	2.7	2.8	2.9
Hungary	<i>QoQ</i>	1.4	0.1	0.8	0.5	0.7	0.6	0.7	0.7
	<i>YoY</i>	-0.7	0.7	2.3	2.8	2.1	2.6	2.5	2.7
Poland	<i>QoQ</i>	0.6	1.1	1.2	0.8	1.0	1.0	1.2	1.0
	<i>YoY</i>	3.0	3.5	4.3	3.8	4.2	4.1	4.1	4.3
Slovakia	<i>QoQ</i>	0.7	0.8	0.9	0.9	1.0	0.8	0.7	0.8
	<i>YoY</i>	4.4	4.1	3.8	3.3	3.6	3.6	3.4	3.3
Czech Republic	<i>QoQ</i>	0.8	0.6	0.8	0.5	0.9	0.3	0.6	0.5
	<i>YoY</i>	1.2	2.3	2.6	2.7	2.8	2.5	2.3	2.3

Graph A.1.5: **Real Gross Domestic Product** – Central European economies

YoY growth in %, nsa data

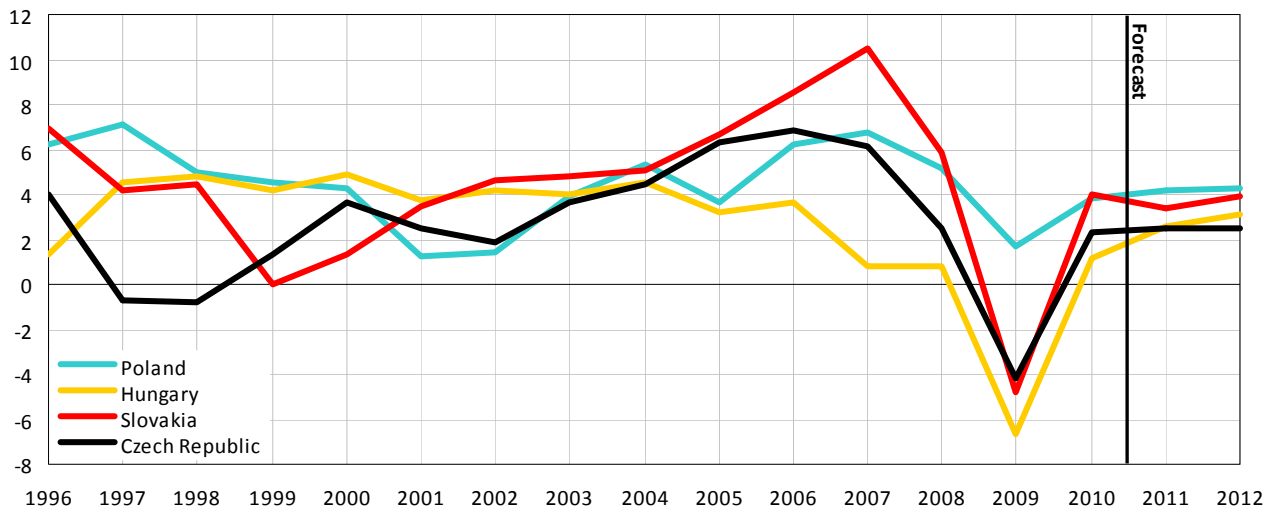


Table A.1.3: **Prices of Commodities** – yearly

spot prices

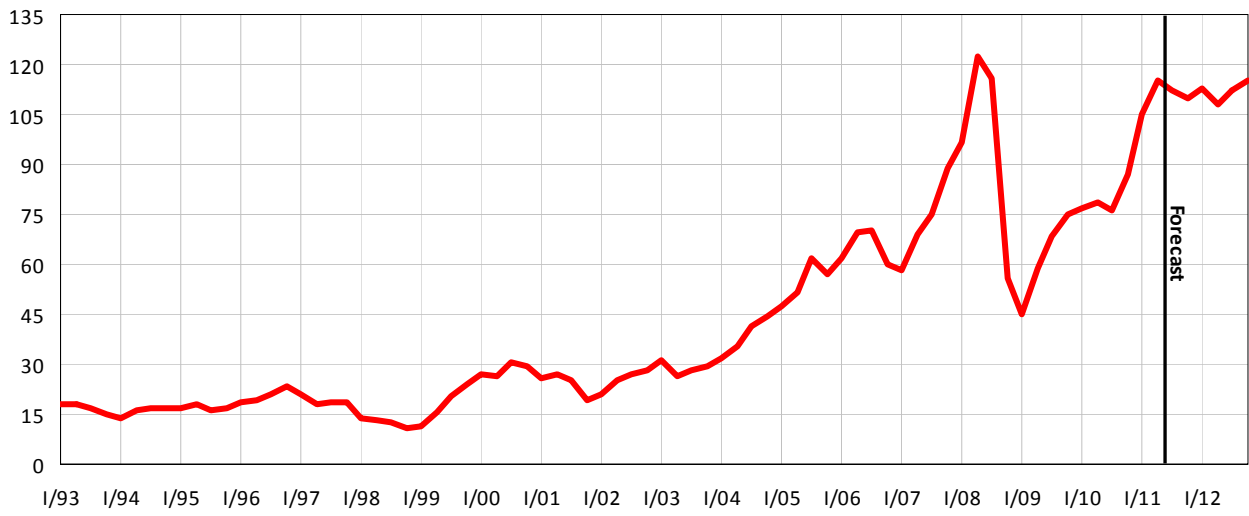
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
											Forecast	Forecast
Crude oil Brent	USD/barrel	28.8	38.3	54.4	65.4	72.7	97.7	61.9	79.7	110	112	
	growth in %	14.0	33.0	42.0	20.1	11.2	34.4	-36.7	28.7	38.7	1.4	
Crude oil Brent index (in CZK)	2005=100	62.4	75.6	100.0	113.4	113.3	127.7	90.5	116.8	148	150	
	growth in %	-1.7	21.1	32.3	13.4	-0.1	12.7	-29.1	29.1	26.5	1.4	
Wheat	USD/t	146.1	156.9	152.4	191.7	255.2	326.0	223.6	223.7	.	.	
	growth in %	-1.6	7.3	-2.8	25.8	33.1	27.7	-31.4	0.1	.	.	
Wheat price index (in CZK)	2005=100	113.0	110.5	100.0	118.7	142.0	152.1	116.7	117.1	.	.	
	growth in %	-15.2	-2.3	-9.5	18.7	19.6	7.1	-23.3	0.3	.	.	

Table A.1.4: **Prices of Commodities** – quarterly

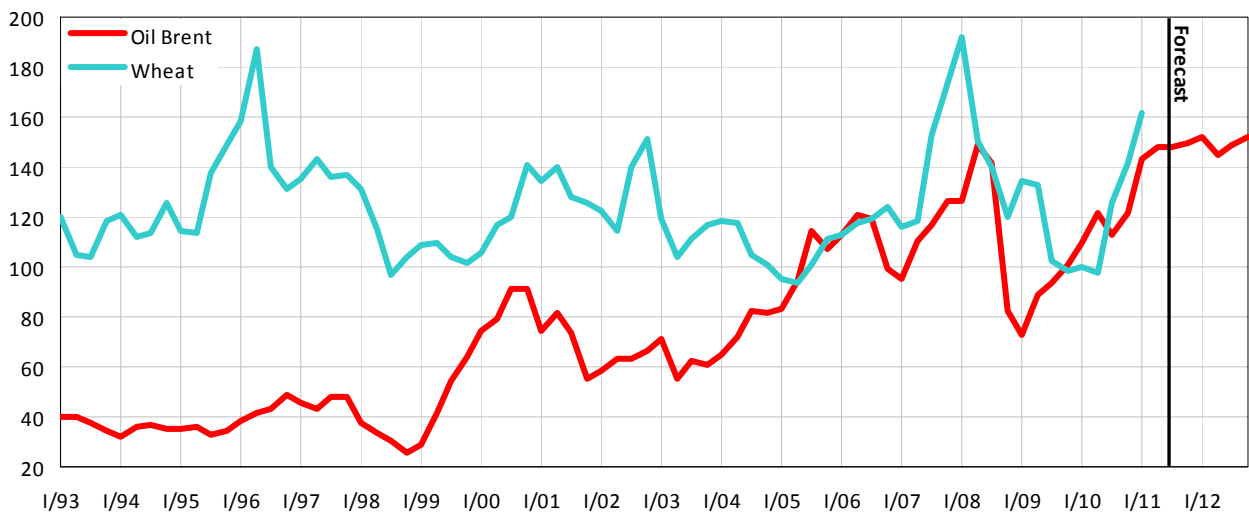
spot prices

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Forecast	Forecast	Forecast	Forecast
Crude oil Brent	USD/barrel	76.7	78.7	76.4	86.8	104.9	115	112	110
	growth in %	70.4	33.2	11.7	15.7	36.8	46.1	46.6	26.7
Crude oil Brent index (in CZK)	2005=100	109.9	121.4	112.9	121.3	143.2	148	148	149
	growth in %	50.4	37.0	20.4	20.5	30.3	22.0	31.3	23.1
Wheat price	USD/t	195.7	177.5	237.9	283.6	330.5	.	.	.
	growth in %	-15.6	-28.4	13.9	38.1	68.9	.	.	.
Wheat price index (in CZK)	2005=100	100.2	97.9	125.7	141.7	161.3	.	.	.
	growth in %	-25.6	-26.4	22.9	43.8	60.9	.	.	.

Graph A.1.6: Dollar Prices of Oil
USD/barrel



Graph A.1.7: Koruna Indices of World Commodity Prices
index 2005=100

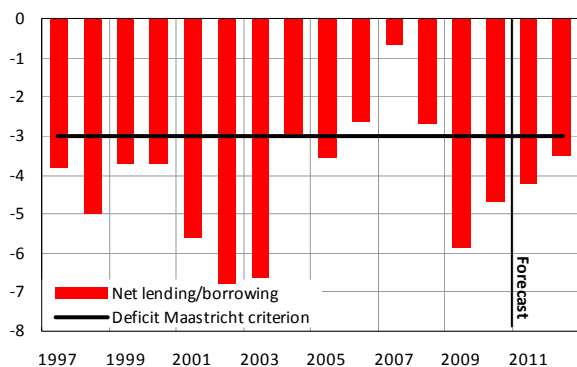


A.2 Fiscal Policy

Considering that the notification of the government deficit and debt is prepared and published on a semi-annual basis, the development described herein is based to a large extent on the latest issue of the Fiscal Outlook of the Czech Republic from May 2011.

Graph A.2.1: **Net Lending/Borrowing**

in % of GDP



According to preliminary estimates of the CZSO, the **general government deficit** reached CZK 172.8 billion in 2010, which was 4.7% of GDP. Revenues recovered in comparison to 2009 following the period of stagnation and decline in 2008 and 2009. On the expenditures side, a whole range of measures resulted in a decline in government sector expenditures. These constituted operational savings in government administration (stagnation in the wage bill and a decline in intermediate consumption), as well as a decline in investment expenditures and subsidies to subjects outside the government sector.

Very positive development was evident for interest expenses, which grew only moderately despite relatively high debt dynamics. Interest rates have dropped in all issued maturities on the yield curve for government bonds. This reflects positive evaluation of the consolidation strategy being implemented.

Although last year's outcome appears relatively optimistic, some facts should be highlighted. Tax receipts were significantly influenced by legislative changes, e.g. by increasing VAT and excise rates. Moreover, data on the general government deficit for 2010 are still subject to uncertainty regarding the estimate of accrued tax revenue from corporate income tax. More reliable data will only be available in the October Macroeconomic Forecast and Fiscal Outlook.

The Ministry of Finance expects the deficit to decrease to CZK 157 billion in 2011, which represents 4.2% of

GDP. Compared with the estimates in the last Fiscal Outlook, this constitutes a slight worsening in absolute terms, but the ratio to GDP remains basically unchanged due to a higher estimate of nominal GDP.

In view of the data for the first quarter of 2011, it was necessary to reassess the estimate of government consumption, as the originally anticipated nominal decline of 2% turned out to be too optimistic. We now estimate a 1% decline in government expenditures on final consumption, which has a negative impact on the government balance. At the same time, the outlook for corporate income tax revenues has been worsened (see below). On the contrary, the VAT could develop more positively, as a result of higher GDP dynamics.

The presented economic estimate for 2011 thus assumes fiscal consolidation in the order of 0.5 p.p. After adjustments for cyclical effects and one-off factors, the fiscal effort amounts to 0.7 p.p. Compared with 2010, the revenue side will probably be strengthened by faster growth of some tax revenues, namely VAT, as the effect of the 2010 VAT rates increase should be – to a large extent – evident only this year. Moreover, the hike in the reduced VAT rate in 2012 will also play a role, as e.g. an effort to complete new constructions is expected.

On the contrary, the development in corporate income tax is highly uncertain. On one hand, the impact of accelerated depreciation, which was introduced as one of the counter-crisis measures in 2009, is fading away, but on the other, more aggressive tax optimization might be used and tax-deductible losses applied in the future.

Property taxes are recording sharp growth, due primarily to the impact of introducing a gift tax on emission allowances, which the government sector supplies free of charge to the private sector.

As in previous years, a substantial influx of money from European funds is expected for this year as well, possibly reaching historically record-breaking levels. These resources influence the balance only in the amount of national co-financing. Otherwise, they are also reflected on the expenditures side, mainly in the form of government investments.

Moderate growth will most likely be seen on the expenditure side in comparison to last year, due to the significant increase in investment transfers outside the sector. In this case, a more substantial inflow of

European funds to sectors other than the government is also expected, whereby public budgets can partly contribute to co-financing.

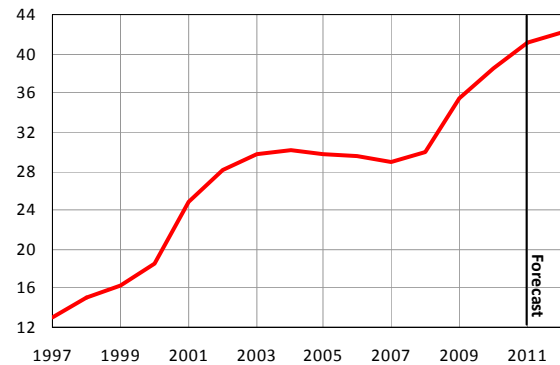
Another prominent factor is the risk for acceleration of interest costs from government debt in case of a worsening of market conditions. Considering the volatility of financial markets, this item presents a significant future risk for the state budget. In addition, we expect social transfers to grow moderately as well.

By contrast, the most significant decrease on the expenditure side is seen for personnel costs in public administration. Taking into account the preliminary data for the first quarter, the originally estimated decrease had to be partly reduced, which is the main reason for changing the government consumption estimate.

The risks to the presented forecast of the general government deficit for 2011 stem primarily from the estimate of gross fixed capital formation, as not even data from 2010 are fully reliable and are based to a considerable extent on estimates. As a result, the subsequent forecast for 2011 is of course made more difficult.

We estimate the **general government debt** at 41.2% of GDP for the end of 2011, which still remains relatively well below the Maastricht convergence criterion.

Graph A.2.2: **Government Debt**
in % of GDP



The medium-term budget outlook for 2012–2014 presumes further continuous improvements in the general government balance to 1.9% of GDP in 2014. The targeted deficit trajectory follows the aim to achieve balance in the general government sector in 2016.

Table A.2.1: **Net Lending/Borrowing and Debt**

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Prelim.	Forecast	Forecast
General government balance ¹⁾	<i>bill. CZK</i>	-171	-83	-107	-85	-24	-100	-213	-173	-157	-139
	% GDP	-6.6	-3.0	-3.6	-2.6	-0.7	-2.7	-5.9	-4.7	-4.2	-3.5
Cyclical balance	% GDP	-0.5	-0.5	-0.2	0.4	1.1	0.8	-0.9	-0.8	-0.6	-0.6
Cyclically adjusted balance	% GDP	-6.1	-2.4	-3.4	-3.0	-1.8	-3.6	-4.9	-4.0	-3.6	-3.0
One-off measures	% GDP	-0.3	-0.7	-1.3	-0.2	-0.3	-0.1	0.3	0.0	-0.3	-0.3
Structural balance	% GDP	-5.9	-1.7	-2.1	-2.8	-1.5	-3.5	-5.3	-4.0	-3.3	-2.8
Fiscal effort ²⁾	<i>percent. points</i>	0.3	4.1	-0.4	-0.7	1.3	-2.0	-1.8	1.3	0.7	0.5
Interest expenditure	% GDP	1.1	1.2	1.2	1.1	1.1	1.1	1.3	1.4	1.7	1.7
Primary balance	% GDP	-5.2	-1.1	-1.2	-1.3	0.7	-1.6	-4.9	-3.3	-2.2	-1.6
Cyclically adjusted primary balance	% GDP	-4.7	-0.6	-1.0	-1.7	-0.4	-2.4	-4.0	-2.6	-1.6	-1.1
General government debt	<i>bill. CZK</i>	768	848	885	948	1 024	1 105	1 282	1 414	1 538	1 654
	% GDP	29.8	30.1	29.7	29.4	29.0	30.0	35.4	38.5	41.2	42.2
Change in debt-to-GDP ratio	<i>percent. points</i>	1.6	0.3	-0.4	-0.2	-0.5	1.0	5.4	3.2	2.7	0.9

Note: Government debt consists of the following financial instruments: currency and deposits, securities other than shares excluding financial derivatives and loans. Government debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government. The nominal value is considered to be an equivalent to the face value of liabilities. It is therefore equal to the amount that the government will have to refund to creditors at maturity.

¹⁾ Balance in EDP methodology, i.e. general government net lending (+)/borrowing (-) including interest derivatives.

²⁾ Change in structural balance.

A.3 Monetary Policy and Interest Rates

Monetary policy

The CNB's main policy objective is maintaining price stability. To achieve this, an **inflation-targeting** regime is used. By means of monetary instruments, the CNB influences total inflation so that the YoY increase in the CPI should not deviate from the medium-term inflationary target of 2% by more than ± 1 p.p. The main monetary policy instrument is the interest rate for **2W repo operations**, which remained at 0.75% in the second quarter of 2011.

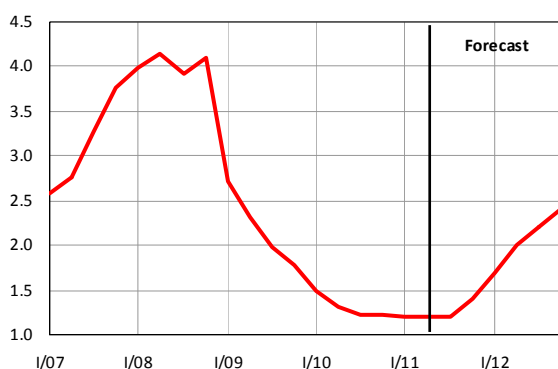
In relation to price levels, the CNB also monitors developments in **interest-rate differentials** versus other world economies (EA, USA). The interest-rate differentials may significantly affect international capital flows and thus affect price levels in the individual countries through the exchange rate. At present, there are no important pressures from this perspective, especially due to the narrow spreads in monetary policy rates, which, as of the second quarter of 2011, remained at -0.50 p.p. between the Czech Republic and EMU and relative to the US at 0.50 to 0.75 p.p.

Interest rates

The average value for **3M PRIBOR** held at 1.2% (*in line with the forecast*) in the second quarter of 2011. For full 2011, it is predicted at 1.3% (*unchanged*), with a moderate increase expected during the second half of 2011. This should not be too substantial, however, and should have no fundamental impact on the real economy. In connection with the universally expected repo rate increase, we estimate 3M PRIBOR to average 2.1% (*versus 2.0%*) for 2012.

Graph A.3.1: **PRIBOR 3M**

in %



Long-term interest rates should rise moderately in coming months and thus reflect the economic recovery in progress. Given the Czech Republic's relatively positive current ratings (Moody's: A1, Standard & Poor's: A, Fitch Ratings: A1), further successful issues of government bonds can be expected. Faith in Czech fiscal policy is reflected in the negative spread versus average long-term rates in the euro zone (see Graph A.3.7).

Under certain circumstances, the debt crisis that has afflicted several euro zone countries (especially Greece) could lead to a risk premium increase, which would boost the costs for funding the state debt. Assuming this will not occur, we predict the average **yield to maturity for 10-year government bonds** to be 4.1% (*in line with the previous forecast*) in 2011 and 4.3% (*also unchanged*) for 2012. The spread between Czech and German bonds should decrease moderately.

The CNB has published its Financial Stability Report, in which it states that while the current position of the financial sector is good, the aforementioned fiscal development in the euro zone and other factors stemming from the global environment present certain risks. Stress tests carried out by the CNB confirmed a high risk resistance in the banking sector. Only extreme shocks, such as a long-lasting recession or the default of large bank debtors, could prove a problem for the banks.

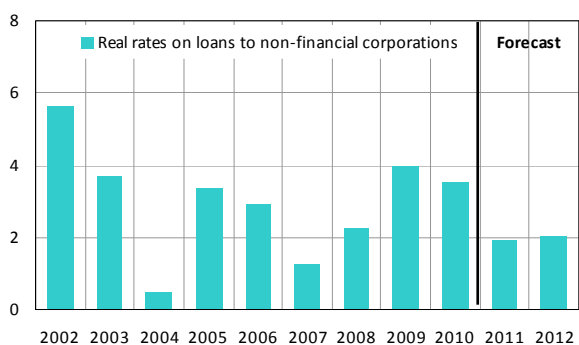
Growth in bank loans to households as a proportion of GDP, which was high in the years 2002–2009, slowed in 2010. This ratio reached 28.7% in 2010, which was 1.7 p.p. more than in 2009. The growth halted completely in the first quarter of 2011. The share of nonperforming loans of households fluctuated at 5.3% in April 2011 (0.8 p.p. more than in April 2010), while this proportion reached 9.3% for non-financial corporations (0.3 p.p. more than in April 2010).

Interest **rates for deposits and loans** respond with a lag to the fluctuations of interbank rates. In the first quarter of 2011, these decreased moderately to 4.0% for loans to non-financial corporations, while stagnating at 1.2% for households' deposits. We expect average rates for loans to non-financial corporations to reach approximately 4.1% in 2011 (*unchanged*), and in 2012 we expect an increase to 4.6% (*versus 4.5%*) due to the rise in interbank rates mentioned above. Average household deposit rates should reach 1.3% in

2011 (*unchanged*) and in 2012 rise further to 1.5% (*unchanged*).

The development of real interest rates is fundamental to the real economy. The estimates of nominal interest rates, CPI and the gross domestic expenditures deflator imply a decrease in real interest rates for loans to non-financial corporations to 1.9% (*versus 2.2%*) in 2011 and to 2.0% (*versus 1.9%*) in 2012.

Graph A.3.2: **Average Real Rates on Loans**
rates on loans deflated by end-of-year final domestic use deflator, in % p.a.



Weighted average interest rates for new loans to households remained at 14.9% in the first quarter of 2011. Interest rates for new loans to non-financial corporations declined to 3.7%.

Graph A.3.3: **Interest Rates on New Loans to Households and Non-Financial Corporations**
in % p.a.

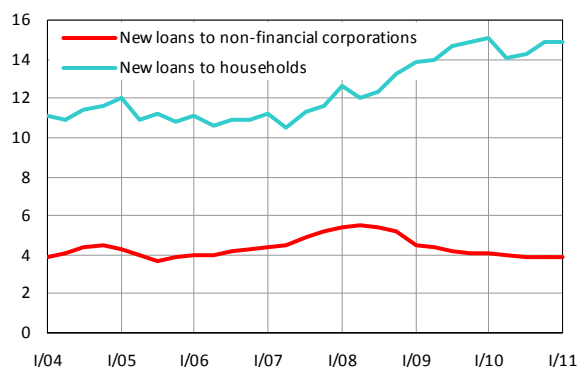


Table A.3.1: **Interest Rates – yearly**
average interest rates in per cent p.a.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Forecast	Forecast
Repo 2W CNB (end of year)	2.00	2.50	2.00	2.50	3.50	2.25	1.00	0.75		
Main refinancing rate ECB (end of year)	2.00	2.00	2.25	3.50	4.00	2.50	1.00	1.00		
Federal funds rate (end of year)	1.00	2.25	4.25	5.25	4.25	0.25	0.25	0.25		
PRIBOR 3M	2.28	2.36	2.01	2.30	3.09	4.04	2.19	1.31	1.3	2.1
Government bond yield to maturity (10Y)	4.12	4.75	3.51	3.78	4.28	4.55	4.67	3.71	4.0	4.3
Interest rates on loans to non-financial corpor.	4.57	4.51	4.27	4.29	4.85	5.59	4.58	4.10	4.1	4.6
Interest rates on deposits from households	1.40	1.33	1.24	1.22	1.29	1.54	1.37	1.25	1.3	1.5
Real rates on loans to non-financial corporations¹⁾	3.72	0.47	3.38	2.95	1.24	2.27	3.97	3.52	1.9	2.0
Net real rates on deposits from households with agreed maturity²⁾	0.18	-1.64	-1.13	-0.63	-4.11	-2.26	0.17	-1.21	-1.9	-1.6

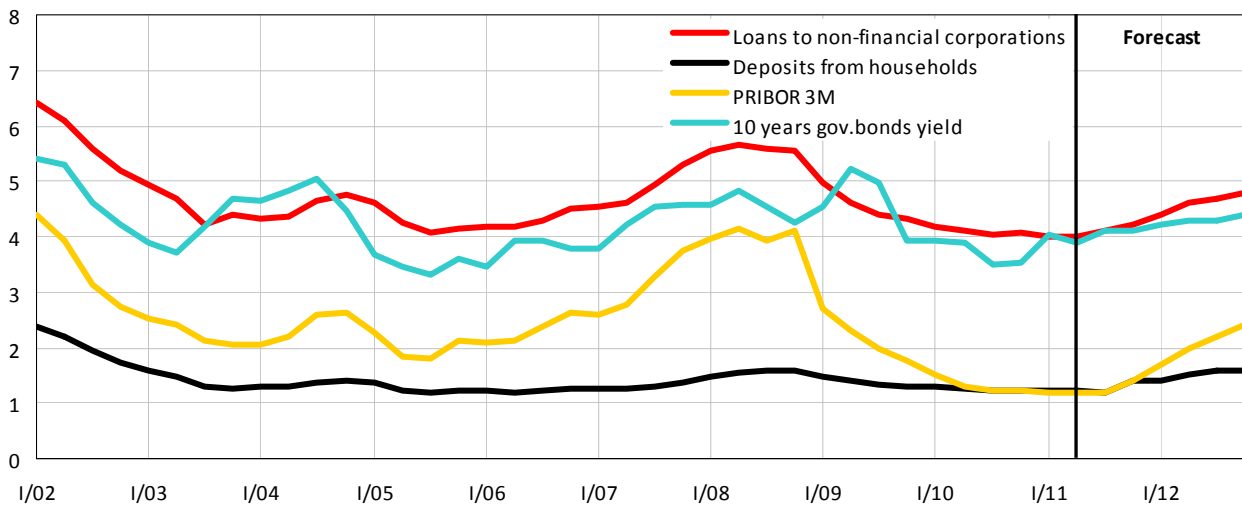
¹⁾ Deflated by gross domestic expenditure deflator.

²⁾ Net of 15 % income tax, deflated by CPI.

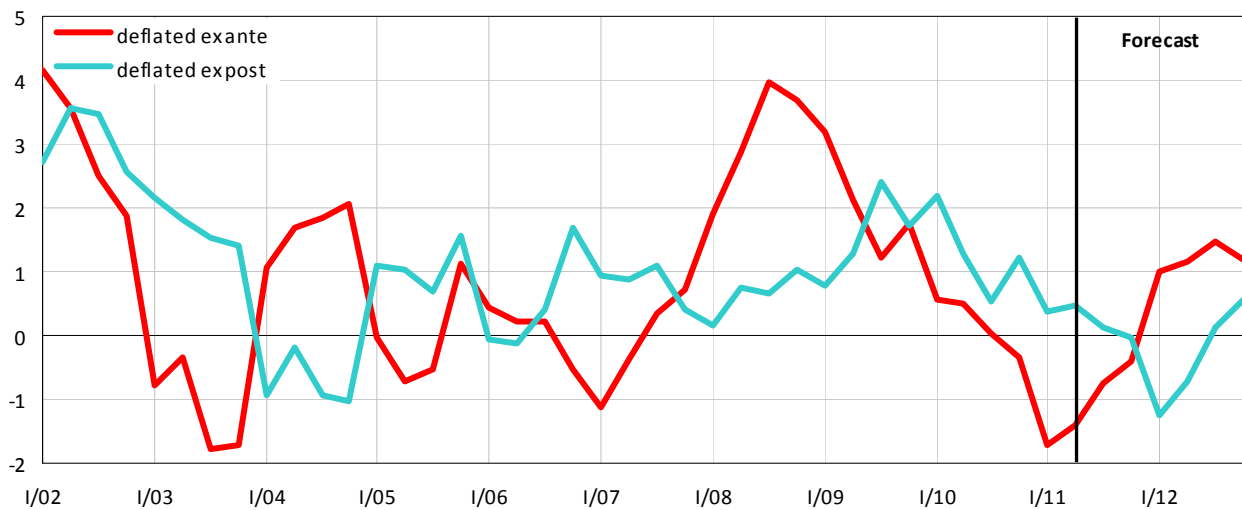
Table A.3.2: **Interest Rates** – quarterly
average interest rates in per cent p.a.

	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Forecast	Forecast	Forecast
Repo 2W rate CNB (end of period)	1.00	0.75	0.75	0.75	0.75	.	.	.
Main refinancing rate ECB (end of period)	1.00	1.00	1.00	1.00	1.00	.	.	.
Federal funds rate (end of period)	0.25	0.25	0.25	0.25	0.25	.	.	.
PRIBOR 3M	1.50	1.30	1.23	1.21	1.20	1.2	1.2	1.4
–10-year government bonds yield to mat.	3.94	3.90	3.48	3.51	4.03	3.9	4.1	4.1
Interest rates on loans to non-fin. corporations	4.19	4.11	4.05	4.06	4.00	4.0	4.1	4.2
Interest rates on deposits from households	1.30	1.27	1.22	1.22	1.21	1.2	1.2	1.4

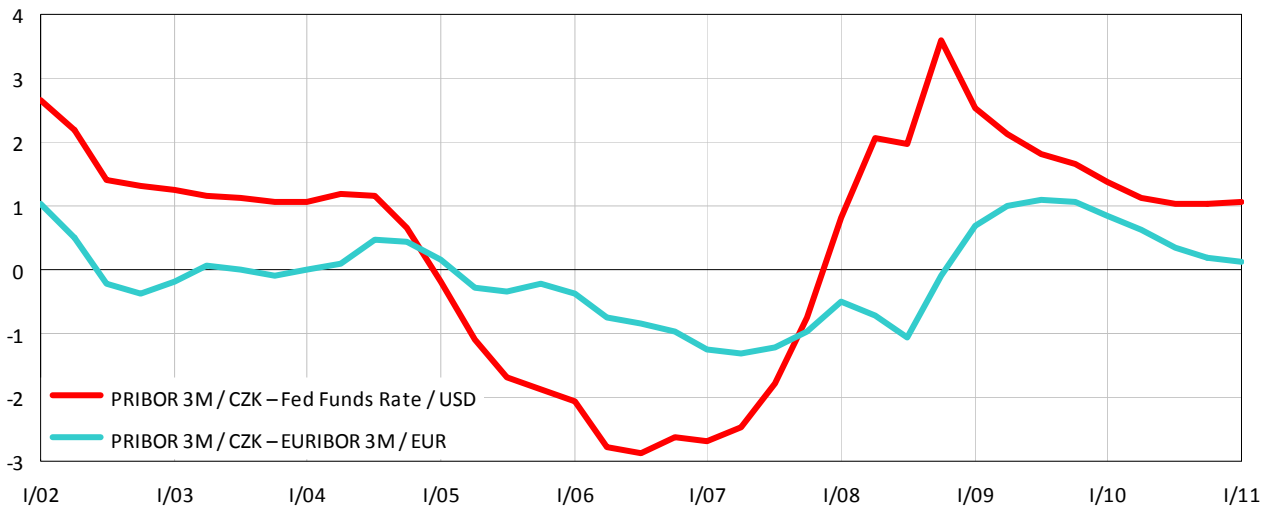
Graph A.3.4: **Interest Rates**
in % p.a.



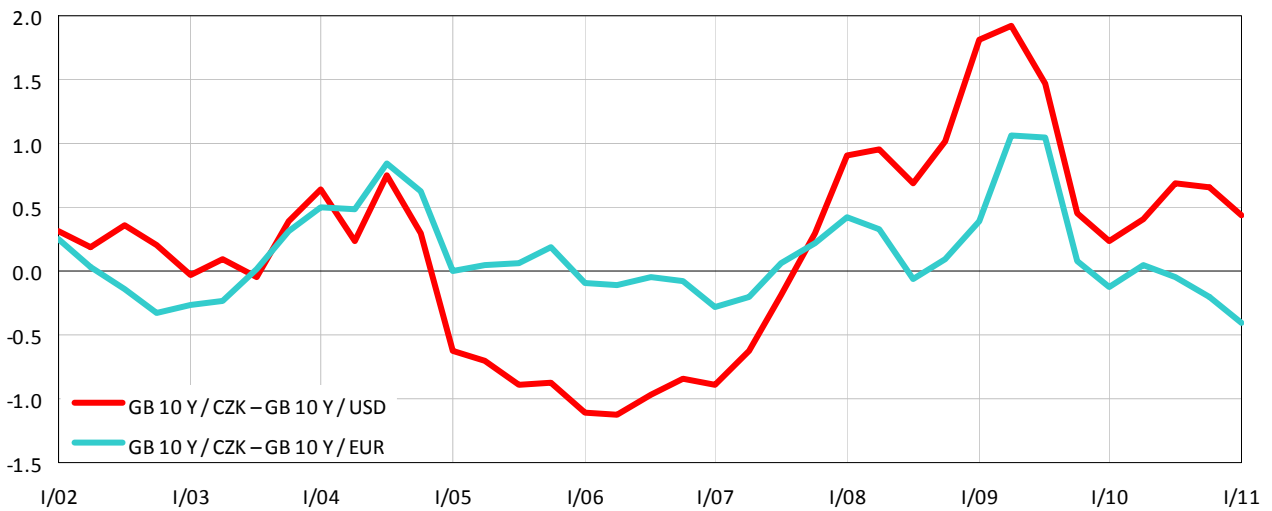
Graph A.3.5: **Real PRIBOR 1Y**
deflated ex post and ex ante by gross domestic expenditure deflator, in % p.a.



Graph A.3.6: Short-Term Interest Rate Spread
in percentage points



Graph A.3.7: Long-Term Interest Rate Spread
government bonds, in percentage points



A.4 Exchange Rates

In keeping with the long-term trend, the **CZK/EUR exchange rate** has been gaining in value since roughly the middle of 2010. During individual quarters, however, a relatively high volatility remained perceptible. This volatility reflects the current period of heightened global uncertainty and of sudden mood swings among investors on financial markets, as well as the level of their risk aversion.

The adopted scenario assumes that the rate will continue to fluctuate roughly along the trend trajectory of moderate nominal and real appreciation, which is in accordance with macroeconomic fundamentals. Should the situation in the euro zone's problem countries become more dramatic, sudden movements of the exchange rate in either direction cannot be ruled out. If the Czech koruna remains stronger versus the long-term trajectory over a longer period, this could result in a risk of decrease in the trade balance surplus.

Graph A.4.1: Exchange Rate CZK/EUR
quarterly averages

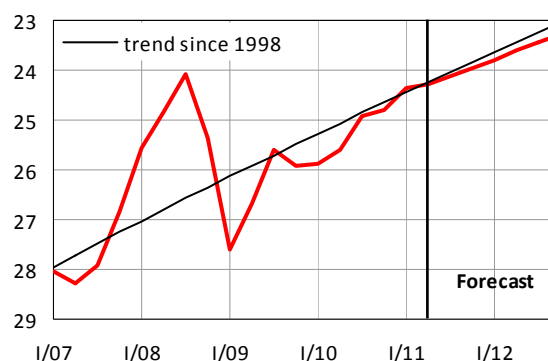


Table A.4.1: Exchange Rates – yearly

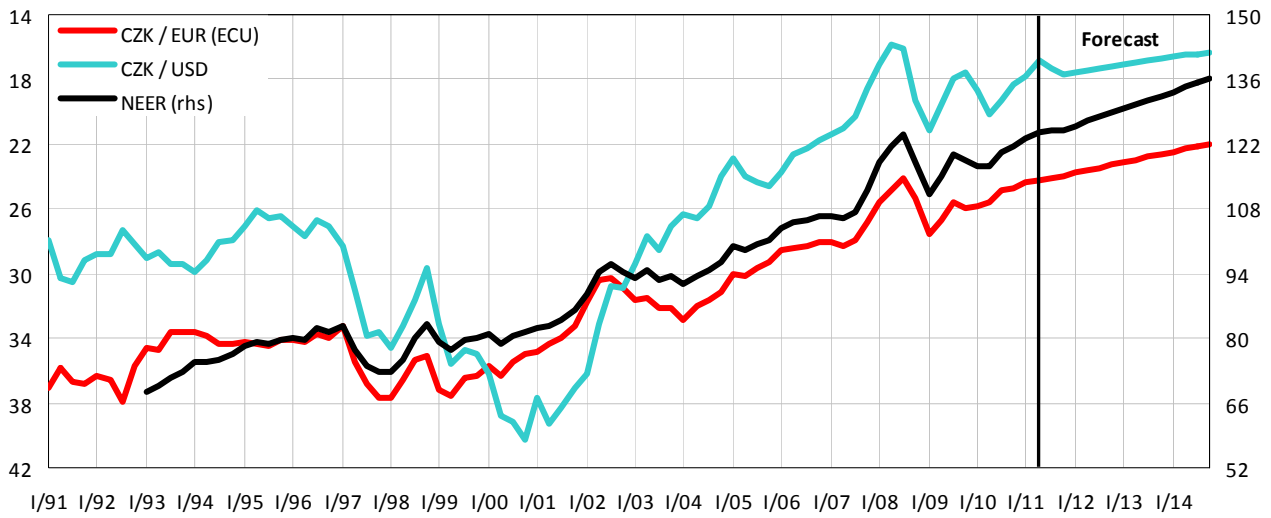
			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
									Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:												
CZK / EUR	<i>average</i>		29.78	28.34	27.76	24.94	26.45	25.29	24.2	23.5	22.9	22.2
	<i>appreciation</i>	<i>growth in %</i>	7.1	5.1	2.1	11.3	-5.7	4.6	4.6	2.8	2.9	2.9
CZK / USD	<i>average</i>		23.95	22.61	20.31	17.03	19.06	19.11	17.4	17.4	16.9	16.5
	<i>appreciation</i>	<i>growth in %</i>	7.3	5.9	11.3	19.2	-10.6	-0.3	9.7	0.0	2.9	2.9
NEER	<i>average of 2005=100</i>		100.0	105.1	107.9	120.4	116.2	119.1	124	127	131	135
	<i>appreciation</i>	<i>growth in %</i>	6.2	5.1	2.6	11.6	-3.5	2.5	4.4	2.4	2.9	2.9
Real exchange rate to EA12¹⁾	<i>average of 2005=100</i>		100.0	104.3	107.5	119.5	114.4	117.2	120	124	128	131
	<i>appreciation</i>	<i>growth in %</i>	4.8	4.3	3.1	11.1	-4.2	2.5	2.4	3.7	2.6	2.5

¹⁾ Deflated by GDP deflators.

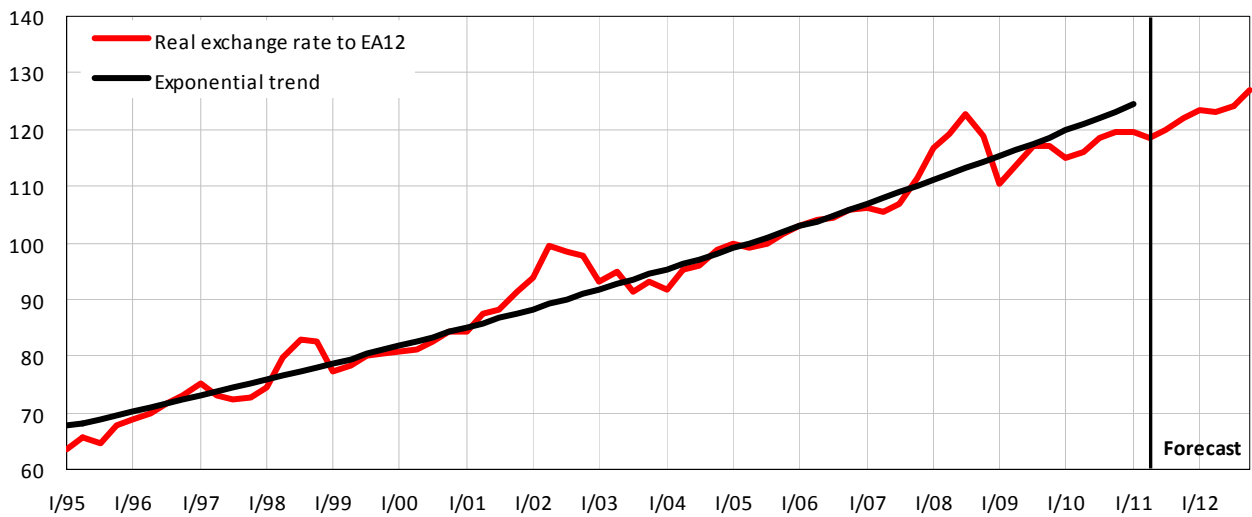
Table A.4.2: Exchange Rates – quarterly

			2010				2011			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast	
Nominal exchange rates:										
CZK / EUR	<i>average</i>		25.87	25.59	24.91	24.79	24.37	24.3	24.1	23.9
	<i>appreciation</i>	<i>growth in %</i>	6.7	4.3	2.7	4.6	6.1	5.3	3.3	3.5
CZK / USD	<i>average</i>		18.71	20.16	19.30	18.26	17.83	16.8	17.3	17.7
	<i>appreciation</i>	<i>growth in %</i>	13.3	-2.8	-7.3	-4.0	5.0	19.7	11.6	2.9
NEER	<i>average of 2005=100</i>		117.3	117.3	120.3	121.6	123.1	124	125	125
	<i>appreciation</i>	<i>growth in %</i>	5.5	1.9	0.4	2.6	5.0	6.0	3.7	2.9
Real exchange rate to EA12	<i>average of 2005=100</i>		115.0	116.0	118.4	119.6	119.5	119	120	122
	<i>appreciation</i>	<i>growth in %</i>	4.3	2.3	1.1	2.1	3.9	2.2	1.2	2.2

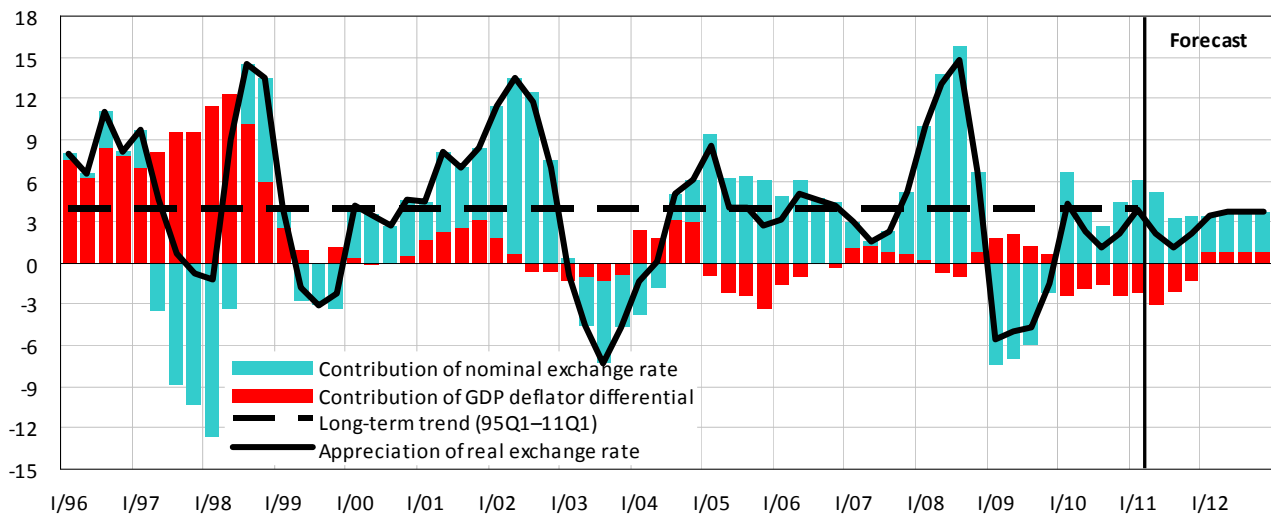
Graph A.4.2: Nominal Exchange Rates
quarterly average, average 2005 = 100 (rhs)



Graph A.4.3: Real Exchange Rate to EA12
quarterly average, deflated by GDP deflators, average 2005 = 100



Graph A.4.4: Real Exchange Rate to EA12
deflated by GDP deflators, YoY growth, in percentage points



A.5 Structural Policies

On 27 April 2011, the government passed the National Reform Programme of the Czech Republic 2011, in which it details its goals in accordance with the Europe 2020 strategy. Main priorities include consolidating public finances, making the labour market more flexible, increasing the quality of education, supporting research and innovation, and increasing energy efficiency. The priorities set in the National Reform Programme of the Czech Republic 2011 are in accordance with the government's policy statement from August 2010.

Business environment

On 18 May 2011 the government passed the **Commercial Companies and Cooperatives Act**, the objectives of which are to simplify entrepreneurship, strengthen the motivation for good company governance, and improve the position of creditors. The act introduces a number of fundamental changes. The amount of registered capital necessary to found a limited liability company will be reduced from CZK 200,000 to CZK 1. The members of statutory bodies of a company in liquidation will be held liable by means of their property to honour all the liabilities of the company, if so stipulated by a court. Companies also will not be permitted to pay out any funds if this would induce bankruptcy and endanger creditors. Joint-stock companies will be able to choose between two governance models: a supervisory board plus board of directors, or a statutory director and board of trustees. In the case of a limited liability company, a member will be able to own multiple ownership interests and the company will be able to issue multiple types of ownership interests (e.g. priority or with voting rights). The act should come into effect in 2013.

In order to increase the transparency of the public procurement process, the government ratified an **amendment to the Public Procurement Act** on 18 May 2011. The amendment reduces the limit for small-scale public orders to CZK 1 million, makes the requirements for bidders and evaluators of significant public orders more strict and introduces compulsory cancellation of an awarding process should fewer than 3 bids remain for evaluation after reviewing the bids. The practice of determining the winner of the selection process by drawing will be abolished. Instead, a panel of experts will evaluate the bids. The amendment is expected to come into force in 2012.

On 21 June 2011, the Chamber of Deputies passed an **amendment to the Public Administration Information Systems Act**. On its basis, banks and savings banks will now also be able to perform the service of a public administration contact point (Czech POINT).

An **amendment to the General Health Insurance Premiums Act**, which the President of the Czech Republic signed on 11 May 2011, unifies the deadlines for paying any social and health insurance premiums. The amendment will come into effect on 1 August 2011.

Taxes

On 25 May 2011, the government ratified an amendment to the **Value Added Tax Act**. On 1 January 2012 the reduced tax rate will be increased from 10% to 14%, and on 1 January 2013 the rates will be harmonised at 17.5%.

Financial markets

An **amendment to the Czech National Bank Act** came into effect on 6 April 2011. The amendment adjusts the CNB's sphere of activity as part of the newly created European System of Financial Supervision, which was established on 1 January 2011 and whose purpose is to ensure supervision of the EU's financial system.

On 18 May 2011, the government approved **legislation amending the conditions of building savings schemes** with the goal of reducing budgetary costs from supporting building savings schemes. The maximum amount of state contribution was decreased from 15% to 10%, while the maximum limit for the base was retained at CZK 20,000 and tax breaks for interest from building society savings were abolished. The amendment is expected to come into force on 1 January 2012.

On 27 May 2011, an **amendment to the Payments Act** came into effect. The amendment transposes into Czech law the European directive on electronic money and the irrevocability of settlement in payment systems and systems for settling securities transactions. The amendment significantly liberalises institutions' management of electronic money.

Education, science and research

On 13 April 2011 the government passed an **amendment to the Schools Act**, the primary purpose of which is to reduce schools' bureaucratic burdens and to facilitate access to education. The amendment

simplifies requirements for companies that run their own nursery school, specifies regulations for attending foreign schools, retains the current form of state school-leaving examinations for two years, and abolishes final evaluations of pupils by primary schools. Last but not least, it introduces a six-year term of office for school directors and simplifies their dismissal, if necessary.

Energy

On 9 June 2011, the Senate approved an **amendment to the Energy Act**, which implements the so-called third EU energy package, the intent of which is the separation of gas transport from its production and trade under Czech law. The amendment to the Act should liberalise the energy market, improve consumer protection in the energy market, and strengthen the authority and independence of the Energy Regulatory Office.

An amendment to the Renewable Energies Support Act, which was ratified by the government on 11 May 2011, should lead to effectively achieving the goal of 13% of energy consumption from renewable sources in 2020. Should the Energy Regulatory Office establish by the end of April in a given year that it has already issued licences to construct power stations for the corresponding estimated installed output and the ecological commitment has thereby been fulfilled, support for the production of electricity from renewable sources is suspended for the next year. The measure will apply only to new applicants for connecting power stations to the network. Under the amendment, owners of solar power stations connected to the network in 2009 and 2010 will be charged with compulsory levies in 2012 and 2013 amounting to 28% of subsidies received.

Labour market

The government approved **pension reform** on 29 June 2011. The reform is comprised of two pieces of legislation, one concerning pensions and the other concerning supplementary pensions. The legislation is necessary for creation of the pension system's second tier and transformation of the third tier. The legislation stipulates that the second tier be financed by release of the pension contributions from the first tier. Participants in the second tier lower their contribution rate to the first tier by 3 p.p. and add an additional 2 p.p. from their own sources. At the same time, they will be able to request to transfer an amount corresponding to 1 p.p. to the account of parents who are beneficiaries of old age pensions. People will be

able to decide about this release prior to reaching the age of 35. People older than 35 at the time of the reform's launch will be able to make a decision within a 6-month time frame. A decision may not be changed after it has been taken or after the deadline has passed.

As it is now, the old age pension from the first tier will consist of basic and percentage allowances. The basic pension allowance will be paid out in full regardless of participation in the second tier, while the percentage allowance will be calculated to reflect the length of participation in the second tier and hence the lower pension contributions paid into the first tier. Old age pension from the second tier will be paid in the form of either lifelong annuities, lifelong annuities with an agreed payment of survivor's pension in the same amount for the period of 3 years from the day of the participant's death, or annuities paid out for a period of 20 years (in case of the pension beneficiary's death before the 20-year period has elapsed the entitlement to the pension payments passes to the inheritance).

The administration of funds is to be provided by pension companies, which will be required to offer four types of funds (general, conservative, balanced and dynamic) reflecting different investment limits, portfolio structures and risks. Transformation costs (due to dropping away of income to the first tier) will be covered primarily with resources received from increase in the reduced VAT rate. The reform should come into effect from 2013.

On 21 June 2011, the Chamber of Deputies voted to overrule the Senate and passed an **amendment to the Pension Insurance Act** which strengthens the tie between the pension and pension contributions paid. The basic pension allowance and reduced ceiling for its calculation will no longer be stipulated as a fixed amount but will be derived from the average wage in the economy. The basic pension allowance will now be 9% of the average salary. The first reduction ceiling, which was newly set at 44% of the average salary, will remain roughly unchanged at the current level of CZK 11,000, and any income that does not exceed this amount will be taken into account at 100% also in future. The second reduction ceiling will be raised from the current CZK 28,200 to 400% of the average salary. For the purposes of pension calculations, however, only 26% of this amount will be included. The reduction from the current 30% will be carried out gradually. Income exceeding 400% of the average salary will no longer influence the pension amount

after 2014. The increase will be carried out gradually in several steps, from 30 September 2011 until the end of 2014.

The amendment also accelerates harmonisation of the retirement ages for men and women. For people born in 1975, harmonisation will be reached in 2041. Thereafter, the retirement age of all policyholders will be increased at a rate of two months per year in accordance with the expected development of life expectancy, without an explicit designation of the final retirement age.

The goal of the **amendment to the Labour Code** approved by the government on 29 June 2011 is to make the labour market more flexible and to increase the motivation of companies to create new jobs. The new adjustment allows for an employment contract to be negotiated for a fixed period of up to 3 years, during which negotiation of employment for a fixed period may be repeated twice more. The trial period may be extended to six months for senior staff. The amount of severance pay upon termination of employment will be determined by the number of years spent at the company. The amendment also adjusts contracts of services, doubling the limit to 300 hours yearly and also setting the monthly income ceiling at CZK 10,000 from which no health or social insurance will be paid. Last but not least, it introduces a new cause for dismissal consisting in serious breach of the duty of an employee on sick leave to adhere to the medical regimen during the first 21 calendar days of sick leave.

On 18 May 2011, the government approved three legislative amendments, collectively known as **social reform I**, with the aim of simplifying the social security system, reducing administrative burdens for users of services, and improving the targeting and needs calculation of social benefits. The reform concerns amendments to several acts related to consolidating the payment of non-insurance social benefits, the Act on Providing Benefits to Persons with Disabilities, and the Employment Act. The aforementioned acts should come into effect on 1 January 2012.

An act amending several acts related to consolidating the payment of non-insurance social benefits consolidates the process of paying out non-insurance social security benefits. The Labour Office of the Czech

Republic takes over the responsibilities for benefits for aid in case of material need, benefits for persons with disabilities, and contributions towards care, together with the role of performing inspection of social services provision. The office at the same time becomes the sole contact point for benefit claimants. Furthermore, the act toughens conditions for persons who consciously evade work, introduces a time limit for the payment of housing contributions, and expands the possibilities of parents to select both the length of time for drawing and amount of parental benefits.

The Act on Providing Benefits to Persons with Disabilities combines the existing benefits into two aggregated benefits – a monthly mobility contribution and a one-time contribution to special aids. The Act also governs the permit for people with disabilities and several advantages the holders of these permits are entitled to.

The Employment Act makes support for the employment of persons with disabilities at protected workplaces more effective, limits the abuse of legal regulations in the area of providing benefits to support the employment of persons with disabilities, and governs the provision of so-called alternative compliance with the required proportion of persons with disabilities. The act also toughens penalties for undertaking illegal work and adjusts the definition of illegal work to make it easier to verify. Last but not least, it regulates the intermediation of employment and unemployment benefits.

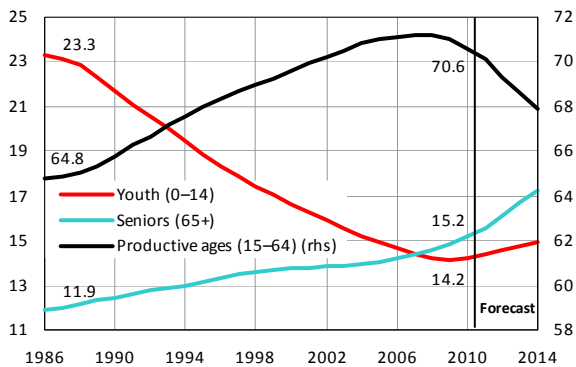
Health care

On 21 June, the Chamber of Deputies passed an amendment to the Public Health Insurance Act, known as the first phase of the **health care reform**. The amendment introduces a definition of standard care and enables patients in individual cases to pay for so-called extra care. It also introduces electronic auctions for medication prices. One type of medication selected by the State Institute for Drug Control will be paid for in full by public health insurance, while others will be paid for at only 75% of the basic coverage. Last but not least, the amendment raises the hospital-stay fee from CZK 60 to CZK 100 per day, imposes a charge on medication of up to CZK 50, and introduces a single charge for prescriptions of CZK 30.

A.6 Demographic Trends

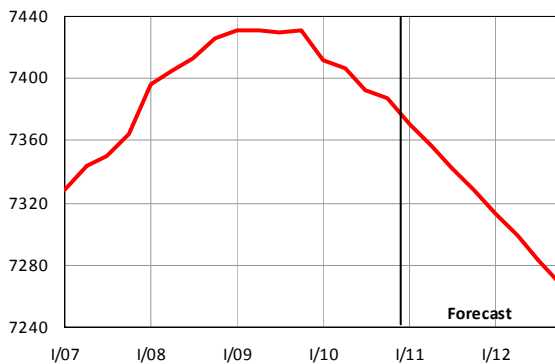
According to preliminary data, the population of the Czech Republic grew by 3 thousand to 10.536 million persons in the first quarter of 2011. Both natural population decline and slightly positive migration balance repeated the development in the first quarter of 2010.

Graph A.6.1: **Groups by Age**
structure in per cent



Regarding age structure, the Czech population reached the highest number of working-age inhabitants (15–64 years) in 2009. Nevertheless, it still has a very favourable age structure, especially in comparison to Western European countries.

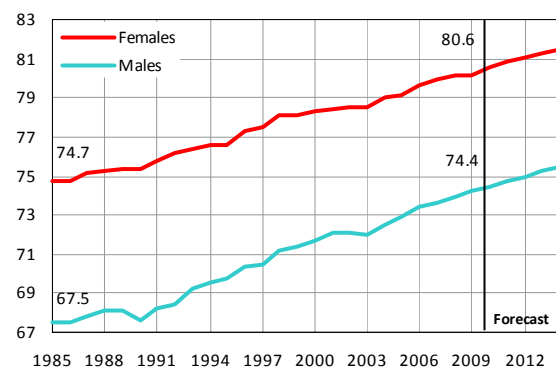
Graph A.6.2: **Czech Population from 15 to 64 Years**
quarterly averages, in thousands



The decline in the working-age population should be compensated, however, to a large extent by effects within the age structure of the workforce, as the structural proportions of age groups with high or growing participation increase. This has been and will

continue to be supported by the previously enacted extension of the retirement age. (The effects of further acceleration among women with several children as part of the “small pension reform” will become evident only beyond the forecast’s horizon.) While immigration could be another positive factor, its volume, as the recent period has shown, fluctuates greatly. The rise in labour market flexibility should also help create a situation wherein the Czech economy will not suffer from an insufficiently suitable workforce.

Graph A.6.3: **Life Expectancy**
in years



The continuing **process of population ageing** also has been confirmed. In 2007, for the first time in Czech history, the number of people younger than 15 years was lower than the number of people in the 65+ age category. In future, the number and proportion of seniors in the population will rise due to the demographic structure and continuation of the intensive process to extend the life expectancy. The structural proportion of persons over 64 years of age in the total population, which was just below 15% in early 2009, should surpass 16% at the beginning of 2012 and increase to nearly 20% by 2020.

Table A.6.1: Demography
in thousands of persons

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
						Prelim.	Forecast	Forecast	Outlook	Outlook
Population (January 1)	10 221	10 251	10 287	10 381	10 468	10 507	10 533	10 567	10 600	10 632
growth in %	0.1	0.3	0.4	0.9	0.8	0.4	0.2	0.3	0.3	0.3
Age structure (January 1):										
(0–14)	1 527	1 501	1 480	1 477	1 480	1 494	1 513	1 539	1 563	1 587
growth in %	-1.8	-1.7	-1.5	-0.2	0.2	1.0	1.3	1.7	1.6	1.5
(15–64)	7 259	7 293	7 325	7 391	7 431	7 414	7 385	7 329	7 269	7 215
growth in %	0.3	0.5	0.4	0.9	0.5	-0.2	-0.4	-0.8	-0.8	-0.7
(65 and more)	1 435	1 456	1 482	1 513	1 556	1 599	1 635	1 700	1 768	1 829
growth in %	0.8	1.5	1.8	2.1	2.9	2.7	2.3	3.9	4.0	3.5
Old-age pensioners (January 1)¹⁾	1 965	1 985	2 024	2 061	2 102	2 147	2 296	2 335	2 367	2 399
growth in %	1.7	1.0	2.0	1.8	2.0	2.1	.	1.7	1.4	1.3
Old-age dependency ratios (January 1, in %):										
Demographic²⁾	19.8	20.0	20.2	20.5	20.9	21.6	22.1	23.2	24.3	25.4
Under current legislation³⁾	35.3	35.6	35.8	35.9	36.1	36.6	37.0	37.4	37.8	38.2
Effective⁴⁾	41.5	41.3	41.6	41.5	41.8	43.6	46.7	47.5	47.9	48.2
Fertility rate	1.282	1.328	1.438	1.497	1.492	1.49	1.51	1.52	1.53	1.54
Population increase	31	36	94	86	39	26	34	33	32	31
Natural increase	-6	1	10	15	11	10	9	8	7	6
Live births	102	106	115	120	118	117	116	114	113	112
Deaths	108	104	105	105	107	107	106	106	106	106
Net migration	36	35	84	72	28	16	25	25	25	25
Immigration	60	68	104	78	40	31
Emigration	24	33	21	6	12	15

¹⁾ In 2010 disability pensions of pensioners over 64 were transferred into old-age pensions.

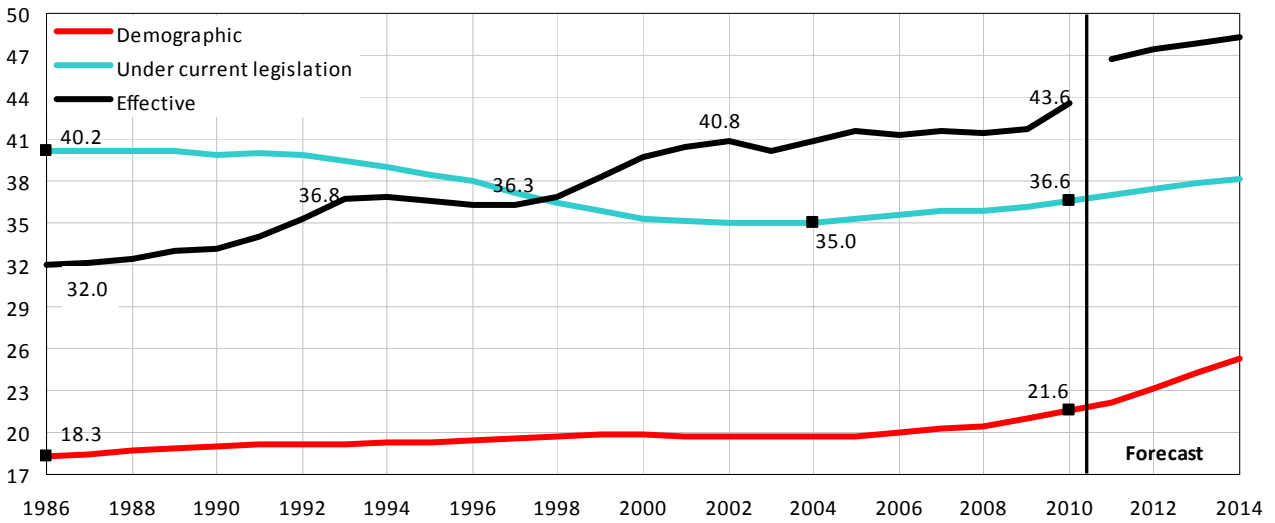
²⁾ Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

³⁾ Dependency under current legislation: ratio of people above the official retirement age to the people over 19 below the official retirement age.

⁴⁾ Effective dependency: ratio of old-age pensioners to working people.

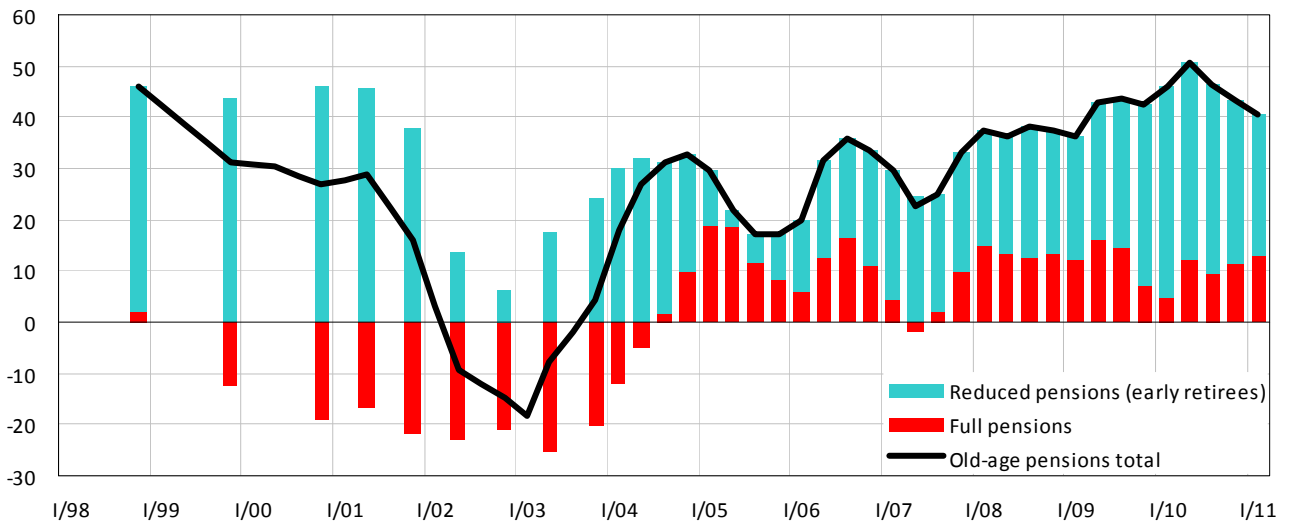
Graph A.6.4: Dependency Ratios

As of January 1, in %, inconsistent between 2010 and 2011 due to transfer of disability pensions to old-age pensions for people over 64 years



Graph A.6.5: Old-Age Pensioners

absolute increase over a year in thousands of persons



Note: Transfer of disability pensions to old-age pensions for people over 64 years in 2010 is not included.