

A Forecast Assumptions

A.1 External Environment

In comparison with the last Forecast, the outlook for global economic growth has slightly improved; however, related uncertainties still persist. The change in outlook stems mainly from stronger than expected recovery in developed economies and confidence that the recovery will continue in 2014. Global economic growth should be driven in particular by the American economy.

Economic growth in developing economies slowed slightly owing to a decrease in domestic demand, but it continues to retain its high dynamics. The slowdown in the growth rate was partially related to the expected changes in the Fed's policy, which limited stimulation measures for the American economy in December 2013. Fears of a more considerable slowdown of the Chinese economy have receded. In addition to the government stimulus, a considerable growth in bank lending at the beginning of 2013 contributed to economic performance. Efforts to transform the model of economic growth to a sustainable one, based on domestic demand, continue.

Japan maintains its strategy of supporting growth and preventing deflationary pressures. However, we expect growth to slow down in 2014 due to measures aimed at ensuring the long-term sustainability of public finances.

USA

The recovery of the **American** economy is gaining strength with contribution mainly coming from domestic demand. Economic growth of 0.9% (*versus* 0.7%) QoQ in Q3 2013 was driven in particular by household consumption and investment. Inventory growth, which probably occurs due to the expectations of further growth, also contributed, though to a lesser extent. Although the fiscal consolidation that started in H1 2013 increased uncertainty regarding future developments, it didn't have a significant impact on consumer confidence. Thus, in line with expectations, the economic slowdown was only temporary. Recovery is also apparent on the real estate market; the easing of conditions on the financial markets can be observed and lending has been increasing. However, growth in the prices of real estate and other assets, which has a positive impact on household wealth, should slow down in 2014 due to gradual rise in mortgage interest rates. The favourable situation continues to be seen on the stock markets – the Dow Jones index exceeded the

record-breaking 16,000 points in Q4 2013. However, the economy probably slowed due to the temporary shutdown of government institutions at the end of 2013.

The GDP performance remains supported by the Fed's accommodative monetary policy. In December 2013, however, the Fed started to gradually reduce the stimulus when it decreased its monthly purchase of bonds to USD 75 billion. The Fed's decision reflects the satisfactory results of the American economy and the improving labour market outlook. It is expected that 2014 will bring a gradual (depending on economic output) slowdown in bond purchases. The Fed confirmed its promise to keep interest rates "at zero" at least until the unemployment rate falls below 6.5%.

The unemployment rate decreased to 6.7% in December 2013 (1.2 pp less YoY). To a great extent, however, the gradual decline in unemployment reflects falling rate of participation, which decreased to 62.8% in December and remains a long-term problem.

We estimate that GDP increased by 1.8% (*unchanged*) in 2013. In 2013, recovery weakened due to consolidation measures. In 2014 GDP could increase by 2.7% (*versus* 2.9%) with private consumption as a major driver of growth. We assume that long-term resolutions for the disputes over the approval of the debt ceiling and government spending will be found. Discussion over the medium-term plan for fiscal consolidation should focus primarily on the unsustainable growth of social expenditure. For 2015 we expect growth to accelerate to 3.1%.

EU

Though the latest figures confirm recovery in the EU, the return to a growth trajectory will be gradual.

In the euro zone, GDP grew by 0.1% QoQ (*versus* 0.2%) in Q3 2013; in a YoY comparison, however, it declined by 0.4% (*versus* 0.3%). QoQ growth can be interpreted as a confirmation of the positive development of Q2 2013.

Although the situation in individual EA12 countries continues to differ considerably, the driver of QoQ growth seems to be domestic demand. Improving sentiment on the financial markets, in industry and in services can be observed. In many cases, however, recovery continues to be hindered by the structural

problems of economies and their low level of competitiveness.

Efforts to help economic recovery are still apparent at the ECB, which cut the main refinancing rate by 0.25 pp to 0.25% in November 2013. The ECB confirmed that its monetary policy would remain pro-growth for an extended period. If necessary, the ECB is ready to take other extraordinary measures for improving the transmission of measures into the real economy. Inflationary pressures are restrained and the ECB considers inflation expectations to be firmly anchored. The bank expects gradual economic recovery during 2014, to which stronger demand from abroad should also contribute.

The situation on the labour market in the EU28 as a whole has stabilized, but the impact of the high unemployment rate on household consumption is clearly negative. Since May 2013, the unemployment rate in the EU28 has held at 10.9%, while in the EA12 it's been close to 12% since January 2013. In November the unemployment rate was higher YoY in 14 countries of the EU28, whereas it was lower in the same number of countries. Considerable differences still persist among individual countries. The worst situation is in Greece, where the unemployment rate reached 27.8% in October 2013. Out of the EU28 countries for which data for November were available as of the cut-off date, the unemployment rate was highest in Spain (26.7%), Croatia (18.6%) and Cyprus (17.3%). In contrast, in Germany it reached only 5.2% for the third time in succession. A low unemployment rate was also recorded in Austria (4.8%), Denmark and in the Netherlands (both at 6.9%).

We estimate that GDP of the EA12 increased by 0.2% (*unchanged*) in Q4 2013, thereby confirming gradual economic recovery. For the whole of 2013, GDP probably decreased by 0.4% (*unchanged*). In 2014 the pace of fiscal consolidation should decelerate, private demand should further strengthen due to improvement in consumer and business sentiment and the continuing stabilization in the banking market. However, the short-term outlook is associated with a certain degree of uncertainty. We assume that the GDP of the EA12 will increase by 0.9% in 2014 (*versus 1.0%*), and we expect its growth to accelerate to 1.5% in 2015. Growth should be driven mainly by consumption and the improving situation in the external environment. For 2015 we forecast growth to accelerate to 1.5%.

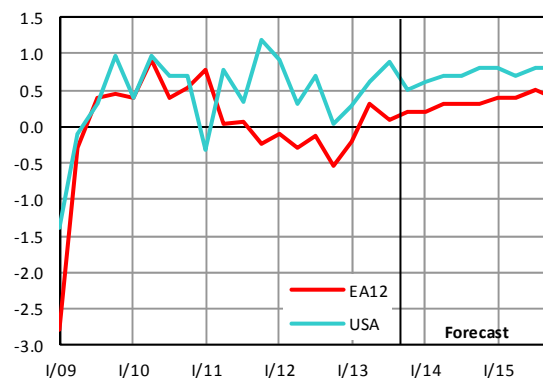
We expect the favourable development in **Germany** to continue. In Q3 2013, **GDP** increased by 0.3% QoQ (*versus 0.5%*). Gross domestic expenditure contributed

positively to growth, while the foreign trade balance had the opposite impact. The ECB's low rates are still positively affecting the economy. Household consumption has been strengthening due to the improving labour market situation. Together, these factors are positively influencing the real estate market. A positive expectation in the business sphere is indicated by the Ifo Index, which has been growing since May 2013.

The expected strengthening in the performance of developed economies and the high competitiveness of German firms should also contribute to growth in 2014. Developments in the banking sector, where many institutions are going through a deleveraging process, will be fundamental. We have increased the estimate for growth in 2013 to 0.6% (*versus 0.5%*). We expect GDP to grow by 1.6% in 2014 (*versus 1.8%*), and we expect growth to accelerate to 1.9% in 2015.

The situation in **France** is less favourable. In Q3 2013, GDP decreased by 0.1% QoQ (*versus 0.2%*). The assumption that the extraordinary factors of Q2 2013 would have a marked impact has been more than fulfilled, with the economy surprisingly growing by 0.6% QoQ. In Q3 2013, a change in inventories and also to a minor degree final consumption had a favourable impact; however, they were more than offset by the negative contribution of gross fixed capital formation and foreign trade balance. Besides low consumer confidence, household consumption is also hampered by the high unemployment rate. Low confidence among entrepreneurs and structural problems are reflected in the lack of investment. The current fiscal situation limits room for further support of the economy. We expect that GDP increased by 0.2% (*versus 0.3%*) in 2013. In 2014, economic growth could accelerate to 0.9% (*versus 1.0%*). Consumption of households should contribute only moderately due to structural problems and low growth of real incomes.

Graph A.1.1: **Growth of GDP in EA12 and in the USA**
QoQ growth rate, in %, seasonally and working day adjusted



Source: Eurostat, own calculations

In Q3 2013, the GDP of **Poland** increased by 0.6% QoQ (*versus 0.4%*). The main source of growth remains exports, although growth in investment and private consumption also contributed. During H2 2013, the unemployment rate fell slightly. The central bank promised to keep the reference rate at its historically low level at least until mid-2014. We have slightly increased the estimate for growth in 2013 to 1.4% (*versus 1.2%*). In 2014, we forecast GDP growth of 2.1% (*versus 2.0%*). Recovery in the euro zone should in particular have a positive impact; however, growth will be hindered by fiscal tightening and the labour market situation.

GDP of **Slovakia** increased in Q3 2013 by 0.2% QoQ (*versus 0.3%*). Growth in foreign demand had a positive impact on economic development, while a decrease in domestic demand contributed adversely, especially the decrease in gross fixed capital formation. In 2013, economic growth was hindered by the consolidation of public finances and the weak performance of the labour market. We are reducing the growth estimate for 2013 to 0.8% (*versus 0.9%*). In 2014, GDP growth could accelerate to 2.1% (*versus 2.2%*). We expect the development in the euro zone to have a positive impact, domestic demand should increase in relation to improving consumer sentiment.

Business Cycle Indicators in the EU

The composite confidence indicator published for the EU by the European Commission continued to rise sharply in Q4 2013 (see Graph A.1.7). All components of the indicator saw a considerable improvement compared to the previous quarter. The most striking change in the respondents' assessment was seen in industry and services. The positive development of the composite indicator heralds a continuation of QoQ GDP growth in the EU in Q4 2013. Given the looser relationship between business cycle indicators and the real economy, however, we incline to a scenario of slower recovery in the forecast.

In Germany, France, Slovakia and Italy, the composite confidence indicator increased in Q4 2013 (see Graph A.1.8). In the economies of the main trading partners of the Czech Republic a relatively strong wave of optimism continues; however, a gradual slowdown in composite indicator growth was apparent in the last months of 2013. The composite German Purchasing Managers Index even saw a slight decrease from 55.4 in November to 55.0 in December.

For Q4 2013, the composite leading indicator signals growth of the relative cyclical component of GDP in Germany and the EU as a whole (see Graphs A.1.10

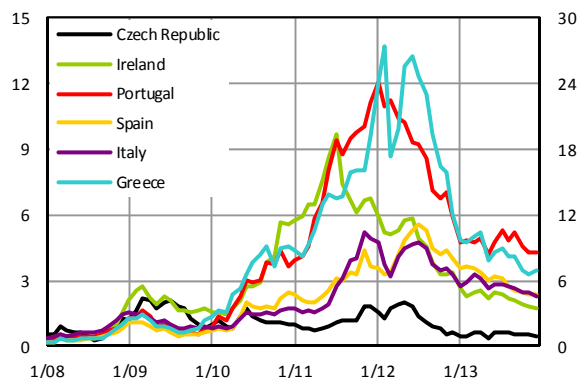
and A.1.9). Considering the relatively stable short-run dynamics of potential output, supported by the European Commission's estimate of potential output for 2013 and 2014, the closing of the negative output gap in the production function methodology can be explained by a continuation of the economic recovery at the end of 2013 and at the beginning of 2014.

Crisis in the Euro Zone

Economic activity in the euro zone periphery states is starting to gradually recover. However, recovery is still very fragile and future developments remain subject to considerable uncertainty. Market sentiment towards the euro zone periphery continued to improve (see Graph A.1.2). This improvement was in part supported by Ireland's exit from the bailout programme and Spain's exit from the financial assistance programme for the recapitalisation of financial institutions. Yet it would be premature to consider the debt crisis over.

Graph A.1.2: Spreads over German Bonds

The difference between yields of 10Y gov. bonds of the respective country and yields of 10Y German bonds, in pp, monthly averages



Source: Eurostat

In Greece, development continues to be very problematic. Fulfilment of the bailout programme is accompanied by considerable complications and the overall economic situation remains, in spite of certain signs of gradual stabilisation, extremely unfavourable. In Q3 2013, GDP dropped by 3.0% in a year-on-year comparison, marking the 21st consecutive YoY decline in economic output. The unemployment rate increased to 27.8% in October (1.7 pp increase YoY), reaching nearly 60% in the 15–24 age group. It is not certain whether Greece will get through without further help in addition to the current bailout programme.

In contrast, Ireland officially exited its bailout programme on 15 December 2013. The return to market financing was apparently successful, although it is too soon, of course, for a definite assessment. However, historically low yields on government bonds on the secondary market and the successful January

auction of 10Y government bonds (bonds worth EUR 3.75 billion were sold, the average revenue was 3.5%, demand reached EUR 14 billion) give reason for cautious optimism. The economic situation is also improving gradually, but the outlook is burdened with risks (quality of banks' balance sheets, economic development in trading partners' countries). The QoQ growth of GDP, which reached 1.0% in Q2 2013, accelerated to 1.5% in Q3 2013. The unemployment rate further slightly decreased to 12.3% in November.

In Spain, which exited the programme for the recapitalisation of financial institutions, the economy has probably bottomed out. In Q3 2013, GDP increased in a quarter-to-quarter comparison, even if by 0.1% only, thanks to which the economy technically emerged from a recession lasting for more than two years. The unemployment rate, which reached 26.7% in November (in the 15–24 age group 57.7%), rose only slightly during 2013 – increasing by just 0.3 pp from January to November. Some “soft” data, for example the Purchasing Managers Index in industry and services, suggest that the economic recovery should continue.

Portugal took advantage of the positive market sentiment towards the euro zone periphery by selling bonds maturing in 2019 worth EUR 3.25 billion. With demand exceeding EUR 11 billion, average yield reached 4.7%. In spite of positive developments on the government bond market, an orderly exit from the bailout programme in mid-2014 is marked by a certain degree of uncertainty. In Q2 2013 and Q3 2013, GDP increased in a quarter-to-quarter comparison, but it is still decreasing in annual terms. The unemployment rate is gradually declining, yet it is still the fifth highest in the EU28 (it stood at 15.5% in November 2013). Domestic demand is therefore weak and the economy continues to be driven by foreign trade. Cutting the government sector deficit to 4% of GDP (the target value for 2014) from an estimated approx. 6% in 2013 will require additional austerity measures, which can further dampen domestic demand. Moreover, the constitutional court is adding to uncertainty with respect to the future course of fiscal consolidation: it has already cancelled several austerity measures during 2013. A slower decrease in government sector deficit would help the fragile economic recovery, on

the other hand it could be perceived negatively by the financial markets.

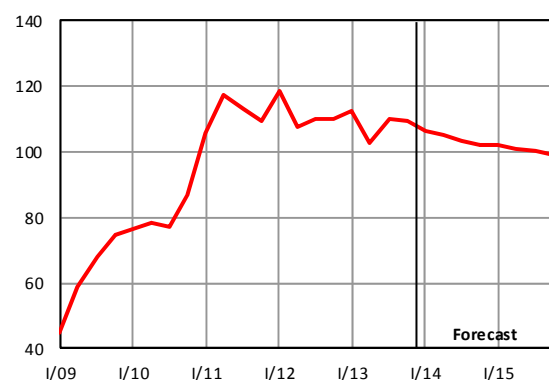
A negative surprise could also be sprung by the comprehensive assessment of banks to be conducted by the ECB in preparation of assuming responsibility for bank supervision as part of the Single Supervisory Mechanism. In an especially problematic scenario, the stress tests might reveal capital shortages in some banks that might then be unable to raise the capital from private sources.

For the Czech Republic, a small open economy with strong business links to the EA countries, an eventual escalation of the crisis in the euro zone would mean a decrease in foreign demand for its exports. This could have an indirect impact on investment activity and final consumption expenditures. However, highly resilient financial sector and credible fiscal policy, which is reflected in the low yields on government bonds, remain the Czech Republic's strengths.

Commodity Prices

In 2013, the average price of Brent crude oil was 108.6 USD/barrel (*versus 108 USD*). Despite certain volatility (the escalation of the conflict in Syria, the shortfall in supply from some producers) it saw a slight YoY decrease during the year in line with expectations. The further price drop in the outlook is a likely outcome of expanding production capacities, the increasing substitution of imports into the USA and Canada, and a low inflation rate. In 2014, the average price of Brent crude oil could reach USD 104 per barrel (*versus USD 103*).

Graph A.1.3: **Dollar Prices of Brent Crude Oil**
in USD per barrel



Source: U. S. Energy Information Administration, own calculations

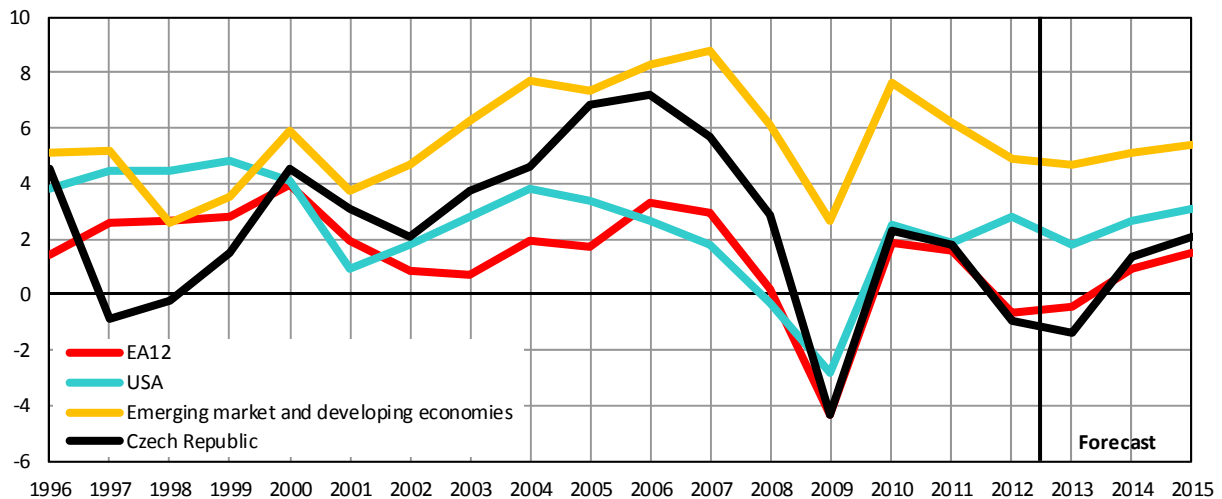
Table A.1.1: Real Gross Domestic Product – yearly
growth rate, in %, seasonally adjusted data (except for the Czech Republic)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
								<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
World	5.3	5.4	2.8	-0.6	5.2	3.9	3.2	3.0	3.7	3.9
USA	2.7	1.8	-0.3	-2.8	2.5	1.8	2.8	1.8	2.7	3.1
China	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.8	7.4	7.2
EU28	3.5	3.2	0.3	-4.5	2.0	1.7	-0.4	0.0	1.3	1.8
EA12	3.3	2.9	0.2	-4.4	1.9	1.6	-0.6	-0.4	0.9	1.5
Germany	3.9	3.4	0.8	-5.1	3.9	3.4	0.9	0.5	1.6	1.9
France	2.7	2.2	-0.2	-3.1	1.6	2.0	0.0	0.2	0.9	1.4
United Kingdom	2.8	3.4	-0.8	-5.2	1.7	1.1	0.3	1.8	2.3	2.4
Austria	3.8	3.7	0.9	-3.5	1.9	2.9	0.7	0.4	1.6	2.0
Hungary	3.9	0.1	0.8	-6.7	1.0	1.6	-1.7	1.1	1.9	1.8
Poland	6.2	6.8	5.0	1.6	3.9	4.5	2.0	1.4	2.1	2.7
Slovakia	8.3	10.5	5.8	-4.9	4.4	3.0	1.8	0.8	2.1	2.8
Czech Republic	7.0	5.7	3.1	-4.5	2.5	1.8	-1.0	-1.4	1.4	2.0

Source: CZSO, Eurostat, IMF, NBS China, own calculations

Graph A.1.4: Real Gross Domestic Product

YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, IMF, own calculations

Note: Emerging market and developing economies comprising 154 countries (according to the IMF's classification)

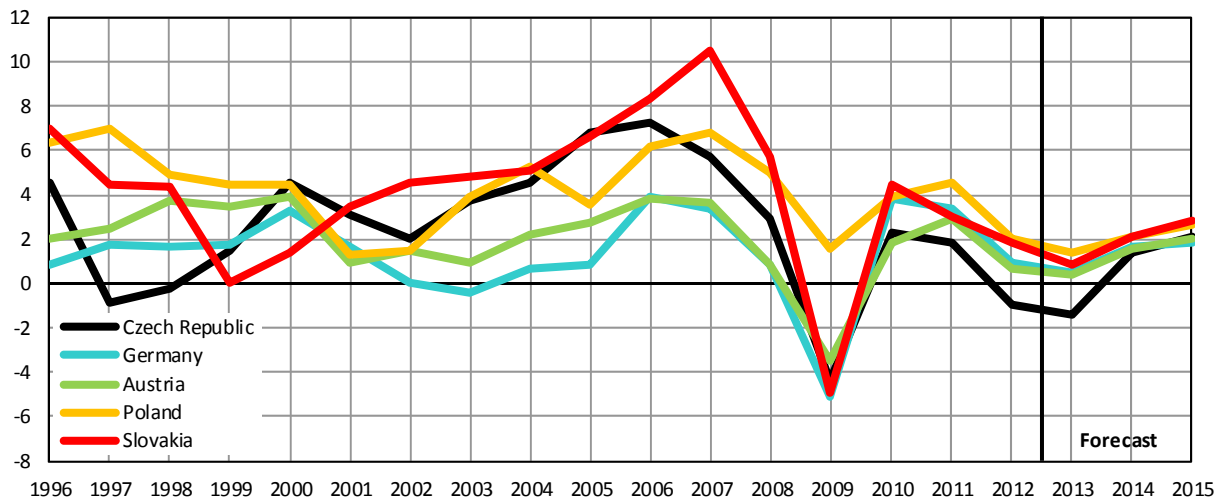
Table A.1.2: Real Gross Domestic Product – quarterly growth rate, in %, seasonally adjusted data

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
USA	QoQ	0.3	0.6	0.9	0.5	0.6	0.7	0.7	0.8
	YoY	1.3	1.6	1.8	2.3	2.6	2.7	2.5	2.8
China	QoQ	1.6	1.9	2.2	1.8	1.7	1.8	1.6	1.6
	YoY	7.8	7.8	7.9	7.7	7.8	7.7	7.1	6.9
EU28	QoQ	-0.1	0.4	0.2	0.2	0.3	0.4	0.4	0.5
	YoY	-0.8	-0.1	0.1	0.7	1.1	1.1	1.3	1.6
EA12	QoQ	-0.2	0.3	0.1	0.2	0.2	0.3	0.3	0.3
	YoY	-1.2	-0.6	-0.4	0.4	0.8	0.8	1.0	1.1
Germany	QoQ	0.0	0.7	0.3	0.3	0.4	0.4	0.5	0.4
	YoY	-0.3	0.5	0.6	1.3	1.8	1.4	1.6	1.7
France	QoQ	-0.1	0.6	-0.1	0.3	0.2	0.2	0.3	0.2
	YoY	-0.4	0.5	0.2	0.7	0.9	0.6	1.0	0.9
United Kingdom	QoQ	0.5	0.8	0.8	0.4	0.6	0.6	0.5	0.5
	YoY	0.7	2.0	1.9	2.5	2.6	2.4	2.1	2.2
Austria	QoQ	0.1	0.0	0.2	0.5	0.4	0.4	0.6	0.5
	YoY	0.3	0.1	0.2	0.8	1.1	1.5	1.9	1.9
Hungary	QoQ	0.9	0.4	0.9	0.4	0.4	0.4	0.5	0.5
	YoY	-0.3	0.5	1.6	2.6	2.1	2.1	1.7	1.8
Poland	QoQ	0.3	0.5	0.6	0.4	0.5	0.5	0.6	0.7
	YoY	0.8	1.2	1.7	1.8	2.0	2.0	2.0	2.3
Slovakia	QoQ	0.2	0.3	0.2	0.4	0.5	0.7	0.8	0.8
	YoY	0.7	0.7	0.7	1.1	1.4	1.8	2.4	2.8
Czech Republic	QoQ	-1.3	0.3	0.2	0.5	0.0	0.5	0.5	0.6
	YoY	-2.3	-1.7	-1.2	-0.4	1.0	1.2	1.6	1.7

Source: Eurostat, NBS China, own calculations

Graph A.1.5: Real Gross Domestic Product – Czech Republic and the neighbouring states

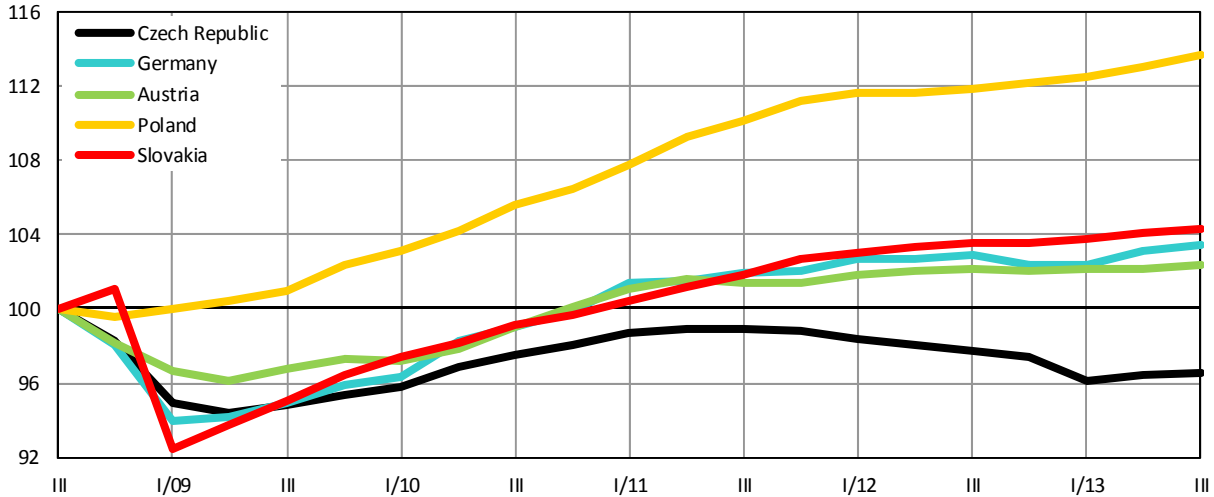
YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, own calculations

Graph A.1.6: Real Gross Domestic Product – Czech Republic and the neighbouring states

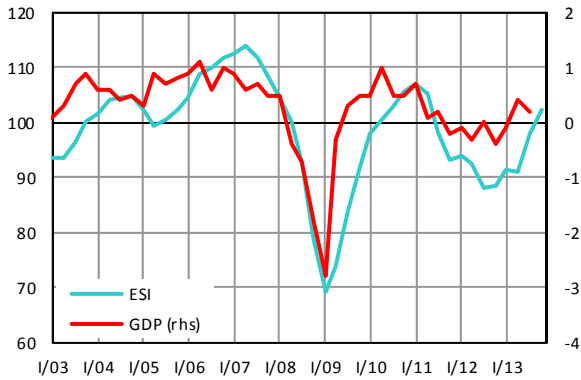
Q3 2008=100, seasonally adjusted data



Source: Eurostat, own calculations

Graph A.1.7: ESI and GDP Growth in the EU

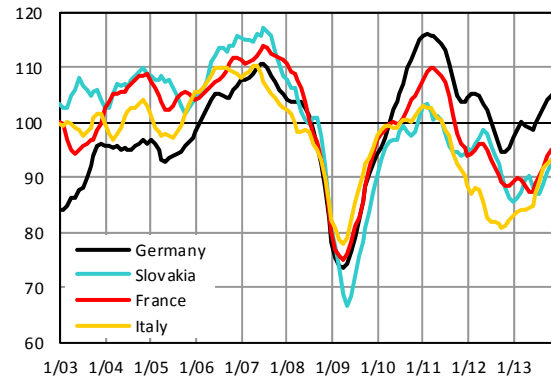
indicator – quarterly averages, QoQ growth in %, sa data



Source: EC, Eurostat

Graph A.1.8: ESI in Selected Trading Partner Countries

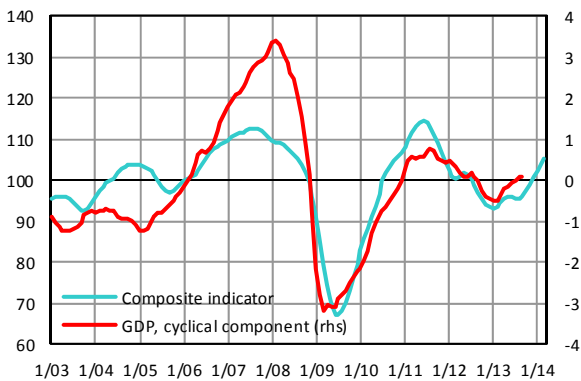
3-month moving averages



Source: EC

Graph A.1.9: Composite Leading Indicator – EU

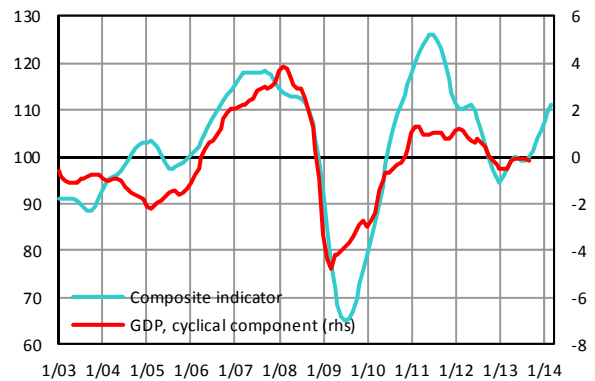
monthly data, 2005=100, cyclical component in % of trend GDP



Source: EC, Eurostat, own calculations

A.1.10: Composite Leading Indicator – Germany

monthly data, 2005=100, cyclical component in % of trend GDP



Source: EC, Eurostat, own calculations

Table A.1.3: Prices of Selected Commodities – yearly
spot prices

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Crude oil Brent	USD/barrel	65.1	72.4	96.9	61.5	79.6	111.3	111.6	108.6	104	101	
	growth in %	19.6	11.1	34.0	-36.5	29.3	39.9	0.3	-2.6	-4.0	-3.6	
Crude oil Brent index (in CZK)	2005=100	112.5	111.5	123.9	88.4	116.1	150.4	167.0	162.5	161	155	
	growth in %	12.5	-0.9	11.1	-28.6	31.4	29.5	11.0	-2.7	-1.0	-3.9	
Wheat	USD/t	191.7	255.2	325.9	223.4	223.7	316.2	313.3	312.2	242	250	
	growth in %	25.8	33.1	27.7	-31.5	0.1	41.4	-0.9	-0.3	-22.3	3.3	
Wheat price index (in CZK)	2005=100	118.3	140.2	150.7	117.1	116.4	152.8	168.1	167.2	134	138	
	growth in %	18.3	18.4	7.5	-22.3	-0.6	31.3	10.0	-0.5	-19.9	3.0	

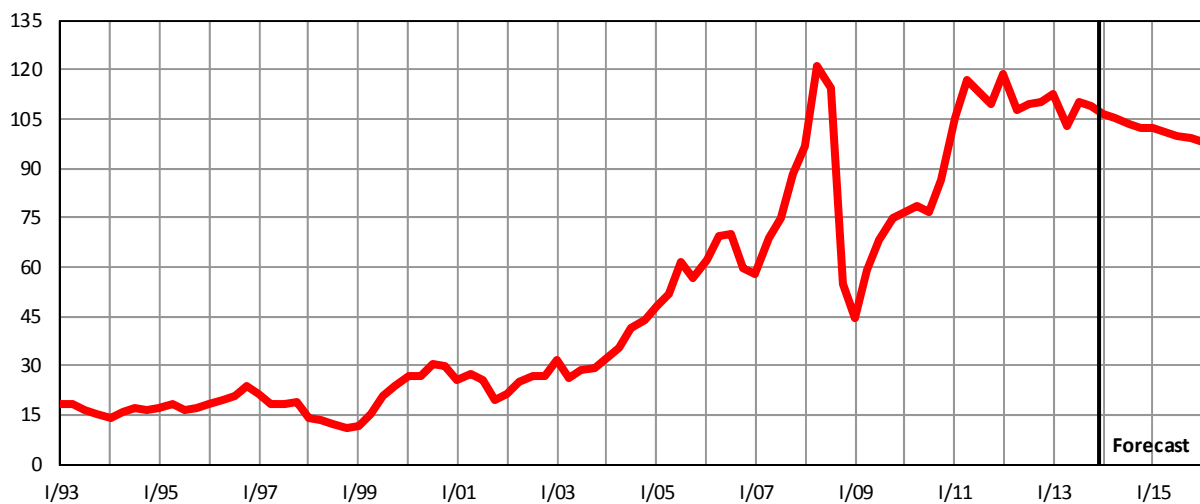
Source: IMF, U. S. Energy Information Administration, own calculations

Table A.1.4: Prices of Selected Commodities – quarterly
spot prices

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Forecast	Forecast	Forecast	Forecast
Crude oil Brent	USD/barrel	112.4	102.6	110.2	109.2	107	105	104	102
	growth in %	-5.3	-4.8	0.5	-0.8	-5.3	2.4	-6.1	-6.6
Crude oil Brent index (in CZK)	2005=100	166.6	155.1	164.5	163.7	164	162	160	157
	growth in %	-4.1	-4.6	-2.2	0.1	-1.3	4.5	-2.9	-3.8
Wheat price	USD/t	321.4	313.8	305.9	307.8	239	241	242	248
	growth in %	15.3	16.7	-12.5	-13.5	-25.6	-23.1	-20.9	-19.5
Wheat price index (in CZK)	2005=100	170.5	169.9	163.4	165.1	132	133	134	137
	growth in %	16.7	17.0	-14.9	-12.7	-22.5	-21.5	-18.2	-17.1

Source: IMF, U. S. Energy Information Administration, own calculations

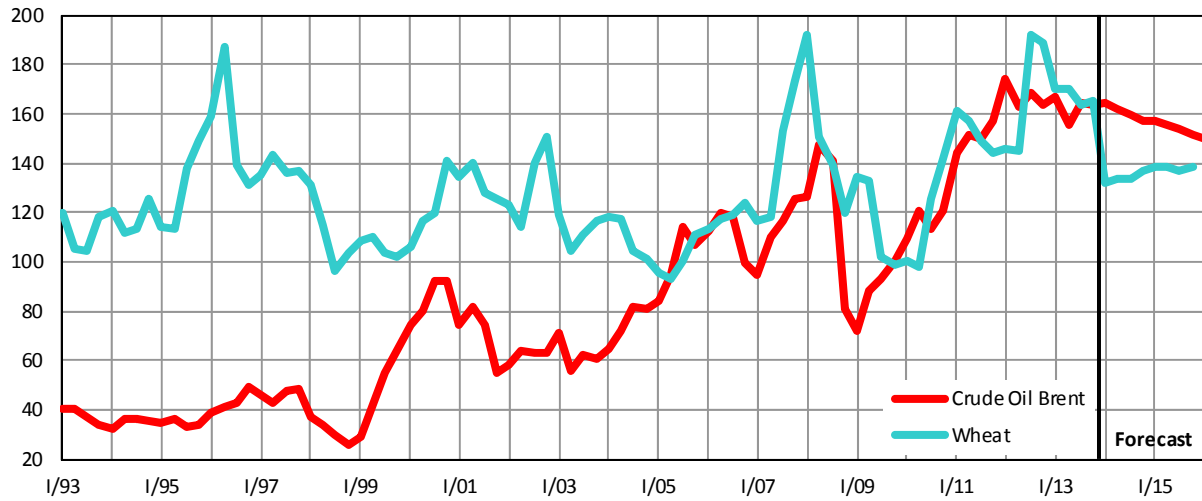
Graph A.1.11: Dollar Prices of Oil
USD/barrel



Source: U. S. Energy Information Administration, own calculations

Graph A.1.12: Koruna Indices of Prices of Selected Commodities

index 2005=100



Source: IMF, U. S. Energy Information Administration, own calculations

A.2 Fiscal Policy

According to current MoF estimates, the government sector balance ended with a deficit of 2.5% of GDP in 2013. In comparison with the deficit of 2012, adjusted for one-off measures (financial compensation to churches and religious organizations, and corrections of refunds from the EU), this is a slight improvement, despite the relatively marked widening of the negative output gap in 2013. It follows that, had it been adjusted for the effect of the business cycle and one-off or temporary measures, the YoY improvement of the general government sector deficit would have been even greater. Thanks to fiscal efforts of 0.7 pp, the structural balance reached -1.2% of GDP, nearly achieving the level of the medium-term budgetary objective (MTO) for the Czech Republic (a structural balance of -1% of GDP).

For the year 2013, we have made changes in estimates on both the revenue and expenditure sides. In particular in revenues, collection of value added tax is expected to be higher, as the measures against tax evasion (including introducing obligatory security deposits and the registration duty for fuel traders) launched at the beginning of 2013 have started to take effect. In the case of other taxes, changes were less apparent and largely offset each other. Worth mentioning are only worse cash revenues from excise taxes (mainly the tax on mineral oils) and a more favourable development of social security contributions. At present, the tax revenues figures are only estimates, since collection in the first months of 2014 is important for the accrual revenues of 2013; in the case of corporate income taxes even eight months are needed. With respect to the current economic situation in the Czech Republic and abroad, we do not expect any negative surprise in the collection of taxes at the beginning of 2014. We see risks for the estimate of tax incomes as tilted more in the positive direction.

On the expenditure side, total paid social benefits were lower, mainly in the case of pension insurance benefits. Non-pension social benefits, such as allowances for living, sickness benefits, housing supplement or contribution to care, increased by nearly 10% YoY in total. Other social benefits developed in line with expectations. Lower savings on the expenditure side

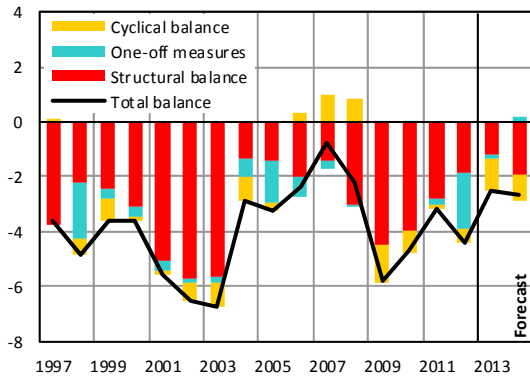
can also be expected in the former National Property Fund, which paid out lower expenditure for removing environmental damage. We also expect slight savings in the costs of financing state debt; these costs fell slightly, despite the already relatively low level in the November Fiscal Outlook.

Based on the cash result of the state budget in 2013 and data from quarterly national accounts of the general government sector for the first three quarters of 2013, it is possible to expect that government investment continued to decrease in 2013. The decrease should mainly be attributable to investment paid from EU funds, where a slower disbursement of the operational programme Transport has the biggest impact. However, total savings for the government sector balance in the ESA 95 methodology are of course only in the amount of national financing, which can be estimated to be in billions at most.

The estimate of 2013 outcome includes the sale of emission allowances of CZK 2.2 billion, while the estimate of non-refunded EU fund inflows is considered at CZK 1.2 billion. The economic results do not include revenues from the auction of frequency band licences to mobile operators, which represent income of 2014. In total, the estimate for last year is gauged conservatively. Therefore, the deficit of 2.5% of GDP can be taken as the upper limit, above which the result probably should not reach. Positive risks can be expected especially for tax incomes and gross fixed capital formation.

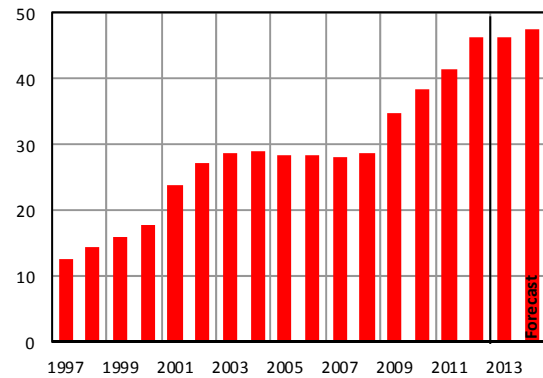
For 2014, we are reducing the forecast of the general government deficit from 2.9% of GDP to 2.7% of GDP. The change is necessitated by a higher accrual level of taxes, mainly of value added tax (see above) in 2013 and further by higher expected nominal GDP for 2014. No major changes are to be made in discretionary measures in 2014, measures on the revenue and expenditure sides more or less cancel each other out, with a net positive effect of 0.2% of GDP (more detailed information can be found in the November Fiscal Outlook of the Czech Republic). The forecast for 2014 will be specified and the preliminary facts for 2013 will be published in the Notification of Government Deficit and Debt as of 1 April 2014.

Graph A.2.1: **Decomposition of the Government Balance**
in % of GDP



Source: CZSO, own calculations

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



Source: CZSO, own calculations

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

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
											Estimate	Forecast
General government balance ¹⁾	% GDP	-3.2	-2.4	-0.7	-2.2	-5.8	-4.7	-3.2	-4.4	-2.5	-2.7	
	bill. CZK	-101	-80	-27	-86	-218	-179	-122	-170	-96	-107	
Cyclical balance	% GDP	-0.3	0.4	1.0	0.9	-1.4	-0.8	-0.2	-0.5	-1.1	-0.9	
Cyclically adjusted balance	% GDP	-2.9	-2.7	-1.7	-3.1	-4.4	-3.9	-3.0	-3.9	-1.3	-1.8	
One-off measures	% GDP	-1.5	-0.7	-0.3	-0.1	0.0	0.0	-0.2	-2.1	-0.2	0.2	
Structural balance	% GDP	-1.4	-2.0	-1.4	-3.0	-4.5	-4.0	-2.8	-1.8	-1.2	-1.9	
Fiscal effort ²⁾	percent. points	-0.1	-0.6	0.6	-1.6	-1.5	0.5	1.2	1.0	0.7	-0.8	
Interest expenditure	% GDP	1.1	1.1	1.1	1.0	1.3	1.3	1.4	1.5	1.4	1.4	
Primary balance	% GDP	-2.2	-1.3	0.4	-1.2	-4.5	-3.4	-1.8	-3.0	-1.1	-1.3	
Cyclically adjusted primary balance	% GDP	-1.8	-1.7	-0.6	-2.1	-3.2	-2.6	-1.6	-2.4	0.1	-0.3	
General government debt	% GDP	28.4	28.3	27.9	28.7	34.6	38.4	41.4	46.2	46.3	47.6	
	bill. CZK	885	948	1 023	1 104	1 299	1 454	1 583	1 775	1 786	1 891	
Change in debt-to-GDP ratio	percent. points	-0.5	-0.1	-0.3	0.8	5.9	3.8	3.0	4.8	0.2	1.3	

Source: CZSO, own calculations

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⁾ General government net lending (+)/borrowing (-) including interest derivatives.

²⁾ Change in structural balance.

A.3 Monetary Policy, Financial Sector and Exchange Rates

Monetary Policy

In November 2012, the CNB cut the limit interest rate for **2W** (two-week) **repo operations** to 0.05%, whereby the main monetary policy instrument reached not only a historical low, but above all the zero lower bound. Nonetheless, disinflation continued due to economic downturn, development on the labour market and other factors (e.g. commodity prices). Monetary-policy relevant inflation, i.e. inflation adjusted for first-round effects of changes to indirect taxes, reached only 0.1% in October 2013. To prevent long-term undershooting of the inflation target and to accelerate the return to a situation when it will again be able to use its standard instrument, the CNB Bank Board decided on 7 November 2013 to use the exchange rate as another monetary policy instrument. According to the CNB's announcement, foreign exchange interventions against the Czech koruna aimed at keeping the CZK/EUR exchange rate close to 27 CZK/EUR will be conducted in such a volume and for as long as will be necessary for fulfilling the inflation target. We assume that foreign exchange interventions will influence inflation almost exclusively through the so-called direct channel, i.e. through import prices.

A technical assumption was made in this forecast that the CNB will abandon foreign exchange interventions in mid-2015. As far as the current volume of foreign exchange interventions is concerned, it can be inferred from the statistics for CNB foreign exchange trading. These statistics show that in November 2013 the CNB purchased foreign currency worth EUR 7.5 billion.

Financial Sector and Interest Rates

In Q4 2013, the **3M** (3-month) **PRIBOR** interbank market rate averaged 0.41% (*versus* 0.5%). The deviation from the forecast was due largely to a change in the set of monetary policy instruments. It was confirmed that monetary policy interest rates will remain close to zero for an extended period. For 2014, we forecast an average value of 0.4% (*versus* 0.5%); we expect the 3M PRIBOR to remain at this level also in 2015.

Thanks to problem-free fiscal development, long-term interest rates should remain low. However, a gradual slight increase can be expected. The Czech Republic's

rating is constantly at a good investment level; Standard & Poor's AA-, Moody's A1, Fitch Ratings A+ (all still with a stable outlook). **The yield to maturity on 10-year government bonds** (for convergence purposes) reached 2.3% in Q4 2013 and averaged 2.1% for the whole of 2013 (*consistent with the forecast*). Yields could increase slightly to 2.4% (*unchanged*) in 2014 and further to 2.5% in 2015.

In January 2014, the CNB conducted another bank lending survey, which concluded that in Q4 2013 credit standards did not change in any sector of the credit market. For Q1 2014, a tightening of standards for consumer loans had been expected. No change was expected in housing loans or loans to non-financial corporations. In November 2013, the CNB also conducted another round of stress tests of Czech banks, which again proved that the banking sector is sufficiently resilient to external shocks.

In connection with the development of primary interest rates, client interest rates are stagnating or decreasing very slowly. Interest rates on deposits stagnated (at 1.0% on household deposits and at 0.4% on company deposits) in Q3 2013. Rates on loans to households and non-financial corporations decreased slightly (see Table A.3.2). Household indebtedness continues to expand at a slow pace, which is in line with the overall economic development. Growth of total loans to households is driven especially by housing loans. Though the volume of consumer loans has been rising recently, the unfavourable economic situation of households means that the increase is only modest. Loans to non-financial corporations have been in decline recently, which corresponds to persistent weak investment activity.

The situation concerning non-performing loans has been stabilized, in spite of the repercussions of the economic recession. In Q3 2013 their share stood at 5.1% for households (0.1 pp less YoY) and 7.4% for non-financial corporations (0.2 pp less YoY).

At the end of December 2013, the Prague Stock Exchange's PX index was just below 1,000 points, i.e. a value approximately 5% lower against the same period of 2012 (most global share indexes strengthened in 2013).

Exchange Rates

During the last two years, the CZK/EUR exchange rate ranged from 24.7 to 25.9 CZK/EUR, with a tendency to weaken. On average, the exchange rate weakened by 2.2% in 2012 and by 3.2% in 2013.

There was a sharp change on 7 November 2013 when the CNB announced that it would keep the exchange rate near the level of 27 CZK/EUR. After several days, the exchange rate stabilized and now fluctuates within the corridor of 27.20–27.75 CZK/EUR without exhibiting much volatility.

In order to specify the estimate for the future exchange rate level, arbitrary assumptions regarding the date for terminating the use of this extraordinary instrument as well as the retreat strategy had to be made. Based on available information, we made a technical assumption of exchange rate stability at a level of 27.25 CZK/EUR for the period until the end of Q2 2015. Subsequently, the koruna should again start strengthening against EUR, but at a more moderate pace than that of a long-term trend.

Table A.3.1: Interest Rates, Deposits and Loans – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	2.50	3.50	2.25	1.00	0.75	0.75	0.05	0.05	.	.	
Main refinancing rate ECB (end of period)	in % p.a.	3.50	4.00	2.50	1.00	1.00	1.00	0.75	0.25	.	.	
Federal funds rate (end of period)	in % p.a.	5.25	4.25	0.25	0.25	0.25	0.25	0.25	0.25	.	.	
PRIBOR 3M	in % p.a.	2.30	3.09	4.04	2.19	1.31	1.19	1.00	0.46	0.4	0.4	
YTM of 10Y government bonds	in % p.a.	3.78	4.28	4.55	4.67	3.71	3.71	2.80	2.13	2.4	2.5	
Households – MFI (CR, unless stated otherwise)												
– interest rates on loans	in % p.a.	6.93	6.63	6.81	7.00	7.00	6.83	6.46	.	.	.	
– loans	growth in %	32.1	31.7	28.9	16.3	8.7	6.5	4.9	.	.	.	
– loans without housing loans	growth in %	28.3	27.3	25.3	19.1	8.3	6.8	1.4	.	.	.	
– deposits	growth in %	7.3	10.6	9.4	10.5	5.4	5.0	4.7	.	.	.	
– share of non-performing loans	in %	3.7	3.2	3.0	3.7	4.8	5.3	5.2	.	.	.	
– loans to deposits ratio	in %	40	48	57	60	61	62	65	.	.	.	
– loans to deposits ratio (Eurozone)	in %	99	99	94	89	90	90	87	.	.	.	
Non-financial firms – MFI (CR, unless stated otherwise)												
– interest rates on loans	in % p.a.	4.29	4.85	5.59	4.58	4.10	3.93	3.69	.	.	.	
– loans	growth in %	13.9	16.7	17.5	0.2	-6.5	3.3	2.5	.	.	.	
– deposits	growth in %	10.9	13.2	5.3	-1.7	4.8	0.9	8.2	.	.	.	
– share of non-performing loans	in %	4.5	3.8	3.6	6.2	8.6	8.5	7.7	.	.	.	
– loans to deposits ratio	in %	117	120	134	137	123	126	122	.	.	.	
– loans to deposits ratio (Eurozone)	in %	292	296	315	315	294	286	273	.	.	.	

Source: CNB, ECB, Fed, own calculations

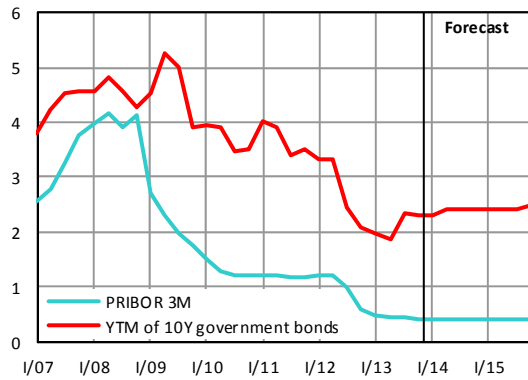
Table A.3.2: Interest Rates, Deposits and Loans – quarterly

		2013				2014			
		Q1	Q2	Q3	Q4	Q1 <i>Forecast</i>	Q2 <i>Forecast</i>	Q3 <i>Forecast</i>	Q4 <i>Forecast</i>
Repo 2W rate CNB (end of period)	<i>in % p.a.</i>	0.05	0.05	0.05	0.05	.	.	.	.
Main refinancing rate ECB (end of period)	<i>in % p.a.</i>	0.75	0.50	0.50	0.25	.	.	.	.
Federal funds rate (end of period)	<i>in % p.a.</i>	0.25	0.25	0.25	0.25	.	.	.	.
PRIBOR 3M	<i>in % p.a.</i>	0.50	0.46	0.46	0.41	0.4	0.4	0.4	0.4
YTM of 10Y government bonds	<i>in % p.a.</i>	1.98	1.88	2.35	2.31	2.3	2.4	2.4	2.4
Households – MFI (CR, unless stated otherwise)									
– interest rates on loans	<i>in % p.a.</i>	6.21	6.09	5.96	.	.	.	.	.
– loans	<i>growth in %</i>	3.7	3.9	4.1	.	.	.	.	.
– loans without housing loans	<i>growth in %</i>	-0.4	0.1	0.7	.	.	.	.	.
– deposits	<i>growth in %</i>	4.2	3.6	2.7	.	.	.	.	.
– share of non-performing loans	<i>in %</i>	5.2	5.2	5.1	.	.	.	.	.
– loans to deposits ratio	<i>in %</i>	64	65	66	.	.	.	.	.
– loans to deposits ratio (Eurozone)	<i>in %</i>	85	84	84	.	.	.	.	.
Non-financial firms – MFI (CR, unless stated otherwise)									
– interest rates on loans	<i>in % p.a.</i>	3.27	3.23	3.17	.	.	.	.	.
– loans	<i>growth in %</i>	2.3	0.2	-1.2	.	.	.	.	.
– deposits	<i>growth in %</i>	4.8	1.9	4.7	.	.	.	.	.
– share of non-performing loans	<i>in %</i>	7.4	7.6	7.4	.	.	.	.	.
– loans to deposits ratio	<i>in %</i>	119	119	117	.	.	.	.	.
– loans to deposits ratio (Eurozone)	<i>in %</i>	256	252	245	.	.	.	.	.

Source: CNB, ECB, Fed, own calculations

Graph A.3.1: Interest Rates

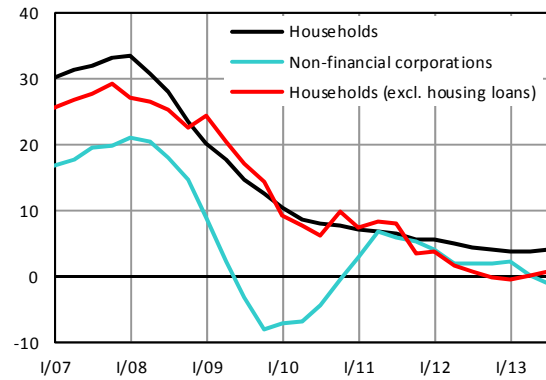
in % p.a.



Source: CNB, own calculations

Graph A.3.2: Loans

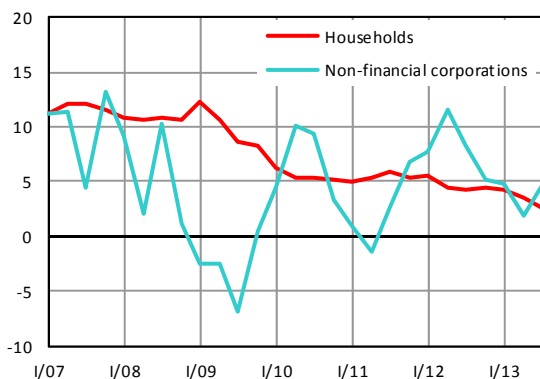
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.3: Deposits

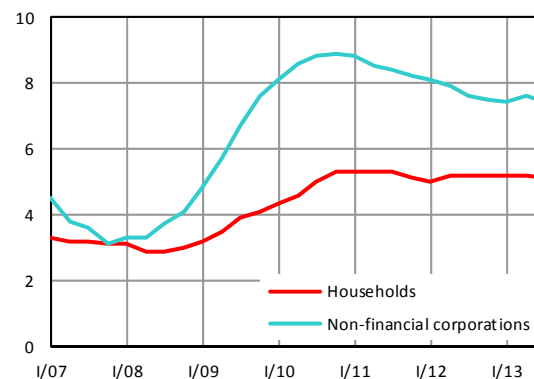
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.4: Non-performing Loans

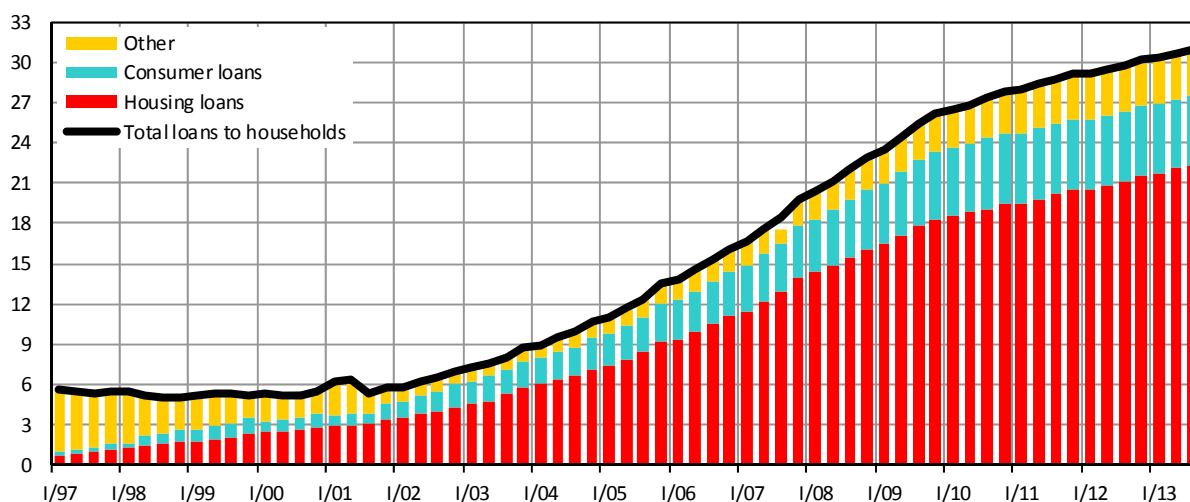
ratio of non-performing to total loans, in %



Source: CNB, own calculations

Graph A.3.5: Ratio of Bank Loans to Households to GDP

yearly moving sums, in %



Source: CNB, CZSO, own calculations

Table A.3.3: Exchange Rates – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Estimate	Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:											
CZK / EUR	average	24.96	26.45	25.29	24.59	25.14	25.98	27.3	27.2	26.8	26.4
	appreciation in %	11.3	-5.6	4.6	2.8	-2.2	-3.2	-4.7	0.3	1.4	1.5
CZK / USD	average	17.06	19.06	19.11	17.69	19.59	19.57	20.2	20.1	19.9	19.6
	appreciation in %	19.0	-10.5	-0.3	8.0	-9.7	0.1	-3.1	0.3	1.4	1.5
NEER	average of 2010=100	101.2	98.0	100.0	103.1	99.5	97	93	93	95	96
	appreciation in %	11.7	-3.2	2.1	3.1	-3.5	-2.2	-4.3	0.3	1.4	1.5
Real exchange rate to EA12¹⁾	average of 2010=100	102.4	97.9	100.0	100.7	98.8	96	92	92	93	94
	appreciation in %	11.3	-4.4	2.1	0.7	-1.9	-3.1	-4.3	0.3	0.8	1.5
REER	average of 2010=100	102.2	98.1	100.0	102.4	100.1	.	.	.	.	.
	(Eurostat, CPI deflated, 37 countries)	15.1	-4.0	2.0	2.4	-2.2	.	.	.	.	.

Source: CNB, Eurostat, own calculations

¹⁾ Deflated by GDP deflators.

Table A.3.4: Exchange Rates – quarterly

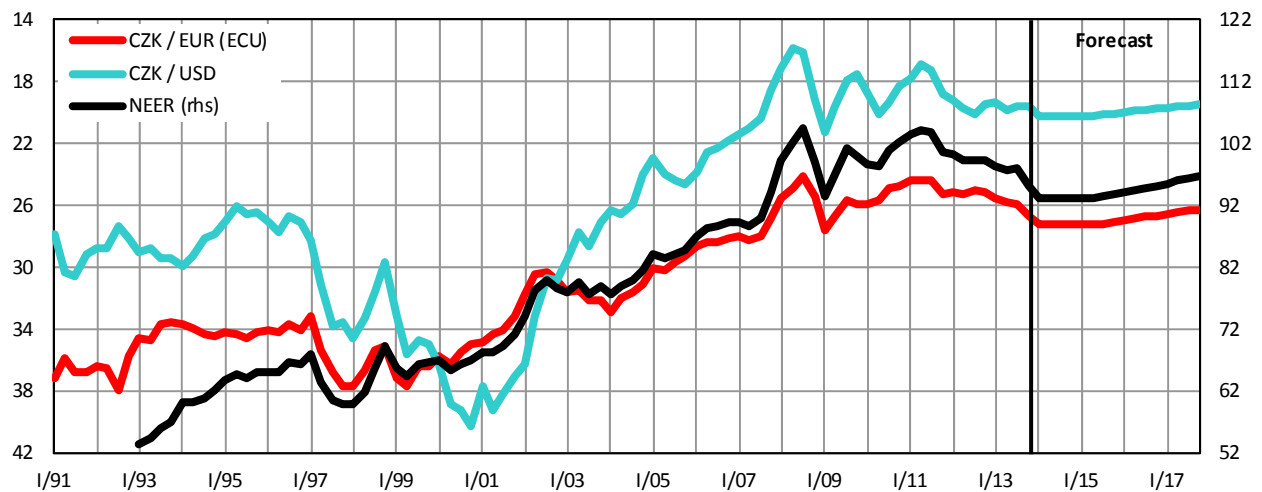
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Nominal exchange rates:									
CZK / EUR	average	25.57	25.83	25.85	26.66	27.3	27.3	27.3	27.3
	appreciation in %	-1.9	-2.2	-3.0	-5.6	-6.2	-5.2	-5.1	-2.2
CZK / USD	average	19.37	19.78	19.52	19.59	20.2	20.2	20.2	20.2
	appreciation in %	-1.2	-0.3	2.8	-0.9	-4.0	-2.0	-3.3	-2.9
NEER	average of 2010=100	98.4	97.6	98.0	95	93	93	93	93
	appreciation in %	-1.7	-1.7	-1.3	-4.0	-5.4	-4.6	-4.9	-2.3
Real exchange rate to EA12 ¹⁾	average of 2010=100	96.9	96.3	96.1	94	91	91	92	92
	appreciation in %	-1.6	-2.2	-2.9	-5.5	-5.7	-5.0	-4.6	-2.0
REER	average of 2010=100	99.6	98.5	.	.	.	.	.	.
(Eurostat, CPI deflated, 37 countries)	appreciation in %	-1.7	-1.4	.	.	.	.	.	.

Source: CNB, Eurostat, own calculations

¹⁾ Deflated by GDP deflators.

Graph A.3.6: Nominal Exchange Rates

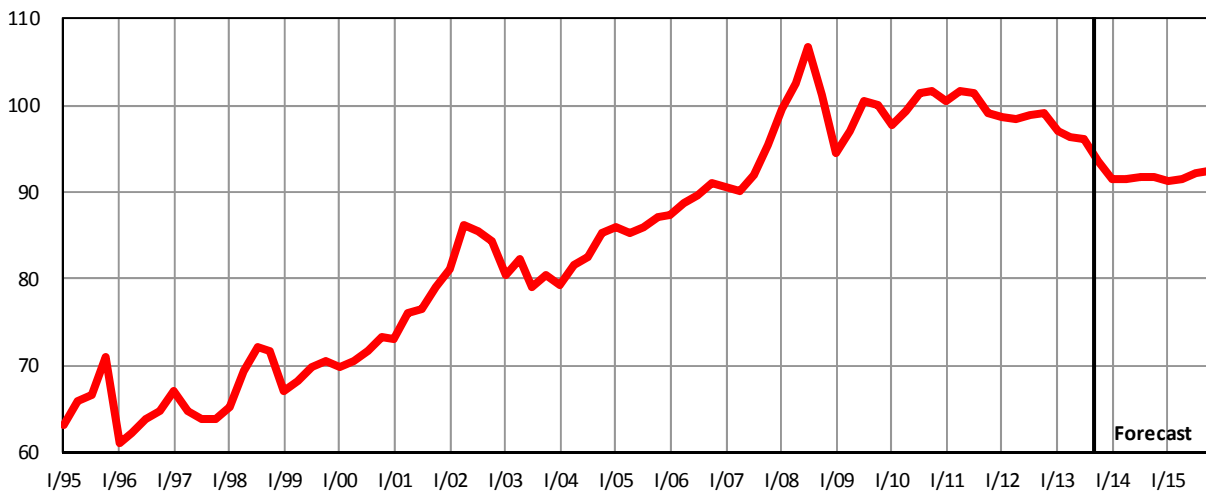
quarterly averages, average 2010=100 (rhs)



Source: CNB, own calculations

Graph A.3.7: Real Exchange Rate to EA12

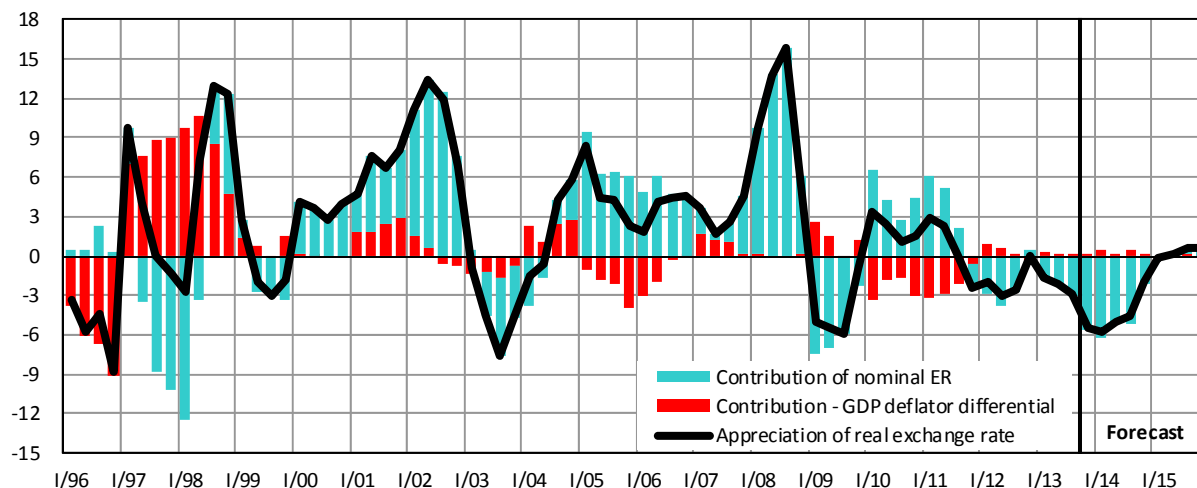
quarterly averages, deflated by GDP deflators, average 2010=100



Source: CNB, Eurostat, own calculations

Graph A.3.8: Real Exchange Rate to EA12

deflated by GDP deflators, YoY growth rate in %, contributions in percentage points



Source: CNB, Eurostat, own calculations

A.4 Structural Policies

On 25 and 26 October 2013, the elections to the Chamber of Deputies of the Parliament of the Czech Republic were held. In the elections, the ČSSD won 50 seats in total, the political movement ANO 47, the KSČM 33, the TOP 09 26 and ODS 16, while KDU-ČSL and Tomio Okamura's political movement Úsvit won 14 mandates each. Coalition government of ČSSD, ANO and KDU-ČSL was appointed by the president on 29 January 2014.

Business environment

The **Act on Commercial Companies and Cooperatives**, which regulates the circumstances of their establishment, dissolution and management, came into effect on 1 January 2014. Members and former members of statutory bodies of bankrupt companies are now liable to settle all company liabilities with their own property, if a court so declared. Nor can companies pay out any funds if this would result in their bankruptcy and harm their creditors. Joint-stock companies can now use two management models (in the form of a board of directors and supervisory board, or the statutory director and managing board) and are authorized to issue multiple types of shares. In the case of limited liability companies, a partner can own more business shares and the company has the possibility to issue multiple types of shares. The Act has also reduced the amount of the basic capital required for establishing a limited liability company from CZK 200,000 to CZK 1.

On 1 January 2014, the **statutory measure of the Senate amending the Act on Public Procurement** came into effect. The measure has cancelled the

institute of persons with special competences and increased the limit for small-scale public contracts to CZK 2 million for supplies and services, and to CZK 6 million for construction works. Last but not least, it has introduced a mechanism for the new or repeated awarding of those public contracts previously cancelled due to there having been only 1 bid left or having been delivered to a contracting entity for assessment.

Taxes

On 1 January 2014, the **statutory measure of the Senate amending taxation statutes in connection with the recodification of private law** came into effect. The statutory measure has introduced a number of terminological and factual changes, as well as necessary changes in connection with establishing the Single Collection Point, the full launch of which is expected on 1 January 2015 (see the 3rd pillar of tax reform). Major changes include extending the time limit from 6 months to 3 years for the exemption of income of natural persons from the sale of securities and introducing an annual limit of CZK 100,000 for the exemption of income from the sale of securities that are not part of a business property. The limit for the exemption of income from occasional activities or the occasional lease of movables not performed by an entrepreneur was increased from CZK 20,000 to CZK 30,000. Income not subject to public insurance premiums (contracts for work) now form a separate taxable amount collected by withdrawal at a special rate, while the limit for monthly income was increased from CZK 5,000 to CZK 10,000. Deduction from the tax base is also allowed for the acquisition of research and development results from research organizations. The

maximum limit for the deduction of gifts for public benefit purposes was increased to 15% for natural entities and unified at 10% for legal entities.

In connection with the comprehensive change in private law, on 1 January 2014 **the statutory measure of the Senate on immovable property acquisition tax** came into effect, which should reduce the administrative burden of tax payers and the state. The measure has cancelled the Act on Inheritance Tax, Gift Tax and Real Estate Transfer Tax, while preserving the taxation of paid real estate transfers in the form of taxing the acquisition of immovable property. In the case of common transactions based on contracts of sale and contracts of exchange, the assignor remains the tax payer; nonetheless, the contracting parties were also allowed to select the assignee as the payer. In other cases, the payer is the assignee. The measure has also decreased the number of cases in which submission of an expert opinion is obligatory according to valuation regulations on the ascertained prices of immovable assets, and will generally restrict the amount of written materials payers will be obliged to attach to their tax returns.

Based on the **amendment to the Act on Excise Taxes**, that came into effect on 1 January 2013, the excise tax rate on cigarettes increased as of 1 January 2014.

On 1 January 2015, the Act on the Amendment of Acts in Relation to Establishing the Single Collection Point should come into effect, which has been referred to as the **3rd pillar of the tax reform**. Major changes include reintroducing wage as the base of natural person income tax and unification of its rate with legal entity income tax at 19%. The employer's contributions to

social security and public health insurance will be realised by paying from the wage bill for public insurances using the rate of 32.4%. Insurance rates for social security and public health insurance for employees will be unified at 6.5%, while for insurance premiums for social security the ceiling will be the amount of four average wages. The basic annual discount per tax payer of CZK 24,840 will only be provided up to the amount of four average wages. The deductibility of interest from mortgage loans will be decreased from CZK 300,000 to CZK 80,000 per household. The reform further cancels some tax reliefs, for example the advantages provided by an employer operating public passenger transport to its employees and their family members in the form of free or discounted tickets. In the case of self-employed persons, the insurance premium rates for social security and public health insurance will be reduced to 6.5%; however, the assessment base will be extended to 100%. Expenditure lump-sums will be preserved.

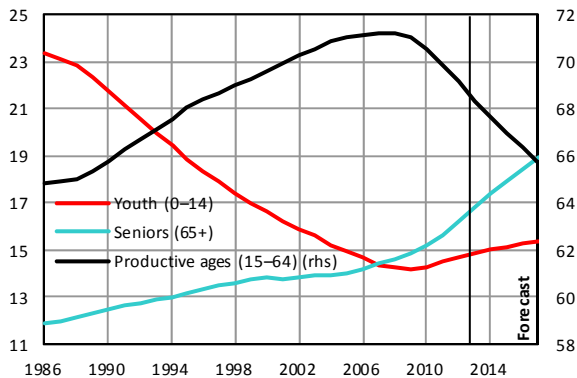
Labour Market

In order to improve the harmonization of professional and family life for parents of small children and increase parents' participation in the labour market, on 2 January 2014 the government approved **a draft bill to provide child-care services in the children's group**. The act will introduce a new type of service consisting in looking after and taking care of children from the age of one year until the mandatory school attendance. The provider of the service can be the employer of a parent, a church, local government unit, generally beneficial company, foundation or university. The act should come into effect on 1 September 2014.

A.5 Demographic Trends

At the beginning of October 2013, 10.514 million people lived in the Czech Republic. During the year, the number of inhabitants roughly stagnated (a decrease of 2 thous. persons) with nearly zero natural increase or net migration. Therefore, with immigration coming to a halt it is possible that the Czech Republic has already reached its post-WWII **population peak**, situated by the central variant of the CZSO's Demographic Projection 2013 in approximately 2017.

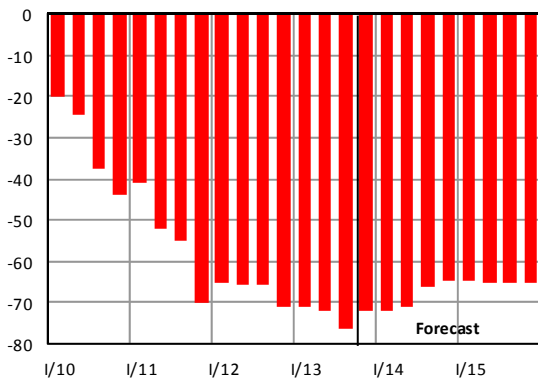
Graph A.5.1: **Age Groups**
structural shares in %



Source: CZSO, own calculations

In terms of **age structure**, the proportion of the population aged 15–64 has been sharply decreasing since 2008, and will almost certainly decline further (see Graph A.5.1). Persons born at the end of the 1990s, when the birth rate was very low, exceed the lower age limit of this group, while the population-strong generation born after the WWII is gradually being classified as senior citizens.

Graph A.5.2: **Czech Population Aged 15–64**
based on LFS, YoY increases of quarterly averages, in thousands

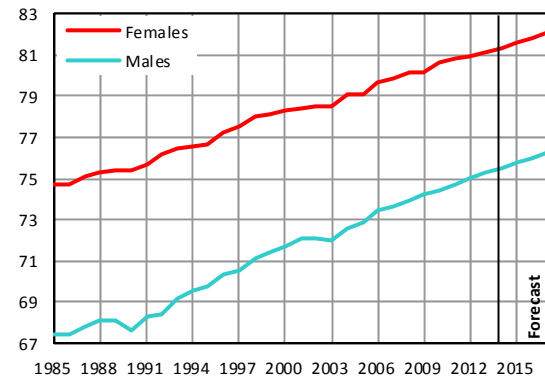


Source: CZSO, own calculations

In absolute terms, the working-age population is decreasing by approximately 70 thousand people a year (see Graph A.5.2), or by 1.0% in relative terms. The economic impacts of this situation are described in more detail in Chapter B.1.

In contrast, the structural proportion of **persons over 64 years** in the total population reached 16.8% at the beginning of 2013, and is increasing by 0.5 pp annually. The number of seniors in the population is significantly rising due to demographic structure and further continuation of the intensive process of increasing life expectancy and, in the horizon of the outlook, i.e. at the beginning of 2017, it should reach approximately 2 million people.

Graph A.5.3: **Life Expectancy**
in years



Source: CZSO

In such situation it is quite paradoxical that the number of **old-age pensioners** has now been more or less stagnant since the beginning of 2012. However, we suppose this to be a temporary matter, compensating for the unprecedented increase in 2011 (see Graph A.5.5) when potential future pensioners optimized the opportunity to retire during a period when rules for determining pension payments were changed.

In the structure of old-age pensions, the number of pensioners with reduced pensions after early retirement continues to rise rather dynamically (by 18 thousand YoY at the end of September 2013), while the number of pensioners entitled to a full pension has decreased YoY by 16 thousand. The share of reduced pensions has already reached 23.5% compared to 19.9% at the end of 2010.

Table A.5.1: Demography

in thousands of persons (unless stated otherwise)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
						Estimate	Forecast	Forecast	Outlook	Outlook
Population (January 1)	10 381	10 468	10 507	10 487	10 505	10 516	10 524	10 530	10 534	10 536
<i>growth in %</i>	0.9	0.8	0.4	-0.2	0.2	0.1	0.1	0.1	0.0	0.0
Age structure (January 1):										
(0–14)	1 477	1 480	1 494	1 522	1 541	1 560	1 578	1 594	1 606	1 616
<i>growth in %</i>	-0.2	0.2	1.0	1.8	1.3	1.2	1.1	1.0	0.8	0.6
(15–64)	7 391	7 431	7 414	7 328	7 263	7 188	7 118	7 053	6 988	6 923
<i>growth in %</i>	0.9	0.5	-0.2	-1.2	-0.9	-1.0	-1.0	-0.9	-0.9	-0.9
(65 and more)	1 513	1 556	1 599	1 637	1 701	1 768	1 828	1 882	1 939	1 997
<i>growth in %</i>	2.1	2.9	2.7	2.4	3.9	3.9	3.4	3.0	3.0	3.0
Old-age pensioners (January 1)¹⁾	2 061	2 102	2 147	2 260	2 340	2 341	2 345	2 371	2 398	2 421
<i>growth in %</i>	1.8	2.0	2.1	.	3.5	0.1	0.2	1.1	1.2	1.0
Old-age dependency ratios (January 1, in %):										
Demographic ²⁾	20.5	20.9	21.6	22.3	23.4	24.6	25.7	26.7	27.8	28.9
Under current legislation ³⁾	35.9	36.1	36.6	37.4	37.8	38.3	38.8	39.3	39.9	40.5
Effective ⁴⁾	41.5	41.8	43.6	45.9	47.9	47.6	47.4	47.9	48.3	48.7
Fertility rate	1.497	1.492	1.493	1.427	1.450	1.45	1.45	1.45	1.45	1.46
Population increase	86	39	-20	19	11	8	6	4	2	1
Natural increase	15	11	10	2	0	-1	-3	-5	-7	-9
Live births	120	118	117	109	109	107	104	102	100	98
Deaths	105	107	107	107	108	107	107	107	107	107
Net migration	72	28	16	17	10	9	9	9	9	9
Immigration	78	40	31	23	30	.	.	.	.	.
Emigration	6	12	15	6	20	.	.	.	.	.
Census difference	x	x	-46	x	x	x	x	x	x	x

Source: Czech Social Security Administration, CZSO, own calculations

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

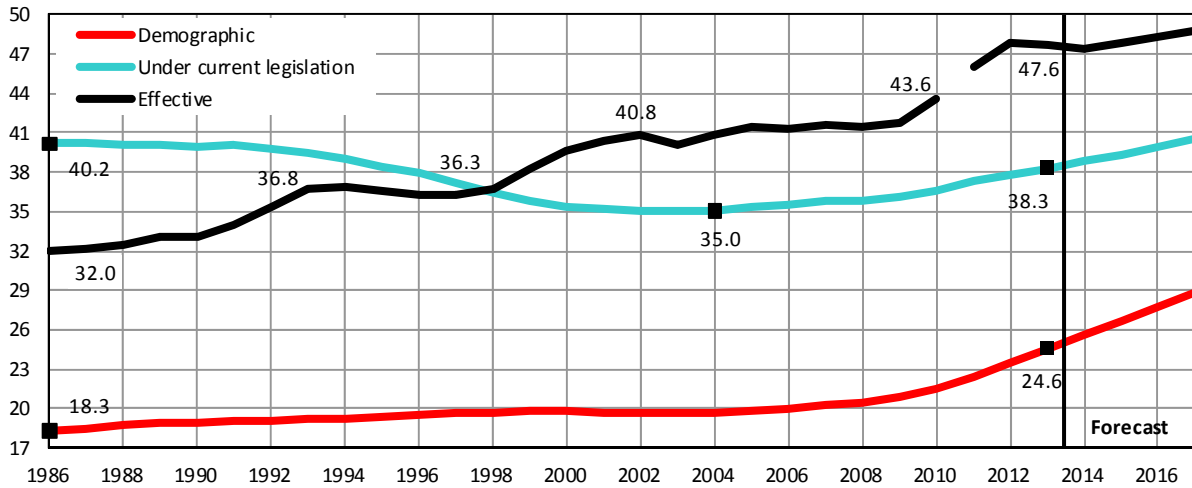
²⁾ Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

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.5.4: Dependency Ratios

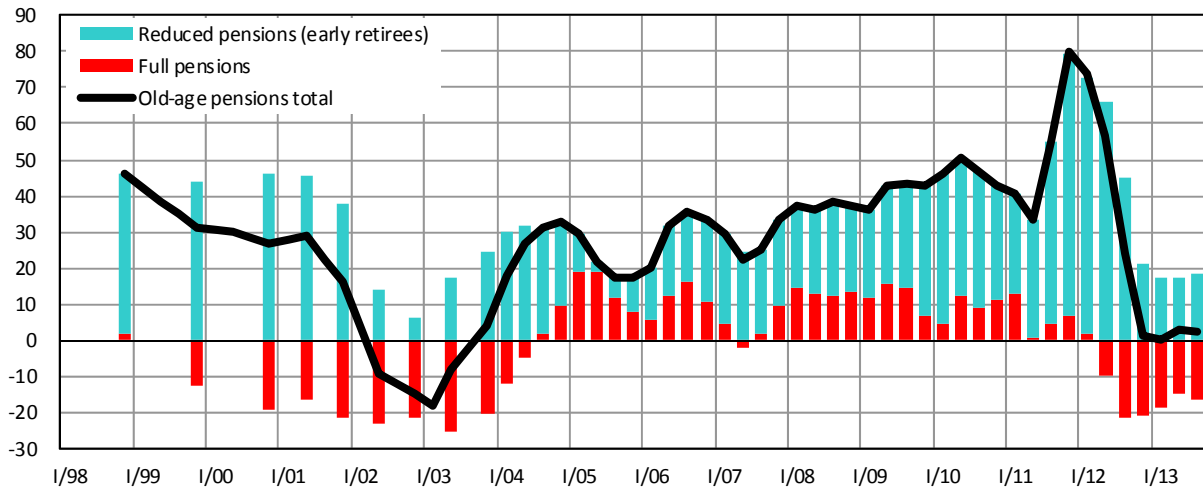
As of January 1, in %, inconsistent between 2010 and 2011 due to transfer of disability pensions to old-age pensions for people over 64 years



Source: CZSO, own calculations

Graph A.5.5: Old-Age Pensioners

absolute increase over a year in thousands of persons



Source: Czech Social Security Administration, CZSO, own calculations

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