

Macroeconomic Forecast of the Czech Republic

April 2014

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The Macroeconomic Forecast is prepared by the Financial Policy Department of the Czech Ministry of Finance on a quarterly basis. It contains a forecast for the current and following years (i.e. until 2015) and for certain indicators an outlook for another 2 years (i.e. until 2017). As a rule, it is published in the second half of the first month of each quarter and is also available on the Ministry of Finance website at:

www.mfcr.cz/macroforecast

Any comments or suggestions that would help us to improve the quality of our publication and closer satisfy the needs of its users are welcome. Please direct any comments to the following email address:

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List of Abbreviations:

const.pr.	constant prices
CNB	Czech National Bank
CPI	consumer price index
curr.pr.	current prices
CZSO	Czech Statistical Office
EA12	euro zone consisting of 12 countries
EC	European Commission
ECB	European Central Bank
ESI	Economic Sentiment Indicator
EU27	EU28 excluding Croatia
EU28	EU consisting of 28 countries
Fed	Federal Reserve System
GDP	gross domestic product
GVA	gross value added
HICP	harmonised index of consumer prices
IMF	International Monetary Fund
LFS	Labour Force Survey
MFI	monetary financial institutions
pp	percentage points
rev.	revisions
SITC	Standard International Trade Classification
TFP	total factor productivity
VAT	value added tax

Basic Terms:

Prelim. (preliminary data)	data from quarterly national accounts, released by the CZSO, as yet unverified by annual national accounts
Estimate	estimate of past numbers which for various reasons were not available at the time of preparing the publication, e.g. previous quarter's GDP
Forecast	forecast of future numbers, using expert and mathematical methods
Outlook	projection of more distant future numbers, using mainly extrapolation methods

Symbols Used in Tables:

-	A dash in place of a number indicates that the phenomenon did not occur.
.	A dot in place of a number indicates that we do not forecast that variable, or the figure is unavailable or unreliable.
x, (space)	A cross or space in place of a number indicates that no entry is possible for logical reasons.

Cut-off Date for Data Sources:

The forecast was made on the basis of data known as of **1 April 2014**. No political decisions, newly released statistics, or world financial or commodity market developments could have been taken into account after this date.

Notes:

Published aggregate data may not match sums of individual items to the last decimal place due to rounding.

Data from the previous forecast of January 2014 are indicated by italics. Data relating to the years 2016 and 2017 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

Summary of the Forecast

According to the CZSO's current data, real GDP decreased by 0.9% in the whole of 2013. The surprisingly strong QoQ growth of 1.8% in Q4 2013 was largely a product of one-off factors (stockpiling cigarette tax stamps as a consequence of an increase in the excise tax on cigarettes as of 1 January 2014). This will be negatively reflected in growth particularly in Q1 2014; however, gradual economic recovery should continue. GDP could increase by 1.7% in 2014, while in 2015 growth could accelerate to 2.0%. In both 2014 and 2015, all expenditure components should contribute positively to economic growth. Domestic demand should account for two thirds of economic growth and foreign trade balance for the remainder.

Despite the weakening of the Czech koruna due to the CNB's foreign exchange interventions, 2014 should be characterized by very low inflation. Unlike in previous years, administrative measures (especially a decrease in electricity prices) should have an anti-inflationary impact throughout 2014. Inflation rate could thus reach 1.0% this year. In 2015, consumer price growth could accelerate to 2.3% in relation to the economic recovery and delayed effects of the weaker koruna. The planned introduction of the third VAT rate of 10% for selected goods and services, which is expected to take effect in 2015, together with the abolition of regulatory

fees for visit to a doctor, will have a slight anti-inflationary impact.

Employers' efforts to increase labour productivity should lead to only minimal growth of employment in both 2014 and 2015. We also expect an impact on the unemployment rate (LFS), which should in both years decrease only slightly, in spite of gradual economic growth.

In 2014, the wage bill could increase by 1.8%; for 2015 we expect growth to accelerate to 3.5%.

According to the CZSO's preliminary estimate, the government sector deficit reached 1.4% of GDP in 2013. In spite of the negative output gap, fiscal effort reached 1.3 pp. In 2014, an expansionary fiscal policy leading to a deficit of around 1.8% of GDP is expected. In 2013, the government sector debt as a percentage of GDP decreased slightly to 46%. In 2014, we expect it to fall further to 44% because of changes in liquidity management.

Owing in particular to the favourable development of the foreign trade balance, we expect that the current account deficit of the balance of payments will be negligible in 2014 and 2015.

We regard the forecast risks as balanced.

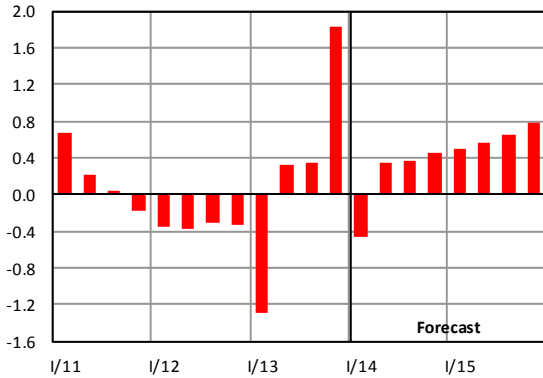
Table: Main Macroeconomic Indicators

		2010	2011	2012	2013	2014	2015	2013	2014	2015
		Current forecast						Previous forecast		
Gross domestic product	<i>growth in %, const.pr.</i>	2.5	1.8	-1.0	-0.9	1.7	2.0	-1.4	1.4	2.0
Consumption of households	<i>growth in %, const.pr.</i>	0.9	0.5	-2.1	0.1	0.6	1.5	-0.2	0.6	1.5
Consumption of government	<i>growth in %, const.pr.</i>	0.2	-2.7	-1.9	1.6	0.8	0.7	1.6	1.0	0.4
Gross fixed capital formation	<i>growth in %, const.pr.</i>	1.0	0.4	-4.5	-3.5	2.7	2.0	-4.8	-0.3	2.6
Contr. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.6	1.9	1.7	-0.3	0.5	0.6	-0.2	0.7	0.5
Contr. of increase in stocks to GDP growth	<i>p.p., const.pr.</i>	1.0	0.1	-0.1	-0.2	0.2	0.1	-0.2	0.3	0.1
GDP deflator	<i>growth in %</i>	-1.6	-0.9	1.6	1.9	1.8	1.7	1.6	1.7	1.3
Average inflation rate	<i>%</i>	1.5	1.9	3.3	1.4	1.0	2.3	1.4	1.0	2.4
Employment (LFS)	<i>growth in %</i>	-1.0	0.4	0.4	1.0	0.2	0.2	0.9	0.1	0.1
Unemployment rate (LFS)	<i>average in %</i>	7.3	6.7	7.0	7.0	6.8	6.6	7.0	7.0	6.9
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	0.8	2.2	1.8	-0.9	1.8	3.5	-0.2	2.2	4.3
Current account / GDP	<i>%</i>	-3.9	-2.7	-1.3	-1.4	-0.4	-0.3	-1.7	-0.2	-0.4
<u>Assumptions:</u>										
Exchange rate CZK/EUR		25.3	24.6	25.1	26.0	27.3	27.2	26.0	27.3	27.2
Long-term interest rates	<i>% p.a.</i>	3.7	3.7	2.8	2.1	2.4	2.6	2.1	2.4	2.5
Crude oil Brent	<i>USD/barrel</i>	80	111	112	109	105	101	109	104	101
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	1.9	1.6	-0.6	-0.4	1.1	1.5	-0.4	0.9	1.5

Source: CNB, CZSO, Eurostat, U. S. Energy Information Administration, own calculations

Gradual economic recovery expected

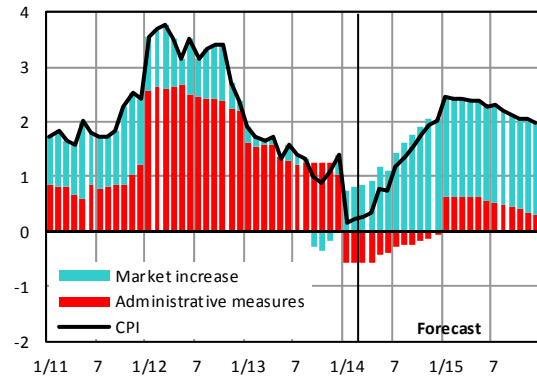
real GDP, QoQ growth rate, in %, seasonally adjusted



Source: CZSO, own calculations

Growth in CPI affected by the CNB's FX interventions

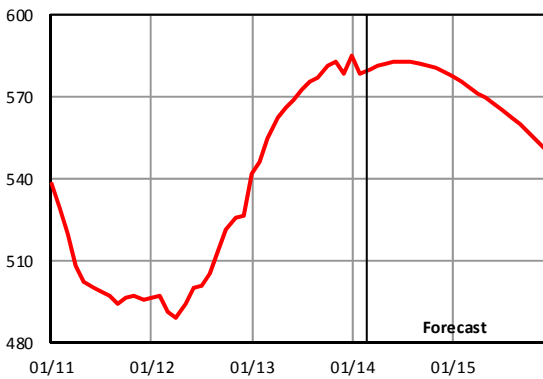
decomposition of YoY growth of CPI, contributions in pp



Source: CZSO, own calculations

Unemployment to start declining in mid-2014

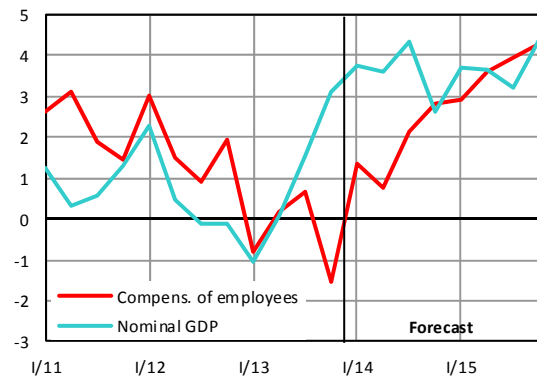
registered unemployment, in thousands of persons, seasonally adjusted



Source: Ministry of Labour and Social Affairs, own calculations

Compensation of employees/GDP to decline this year

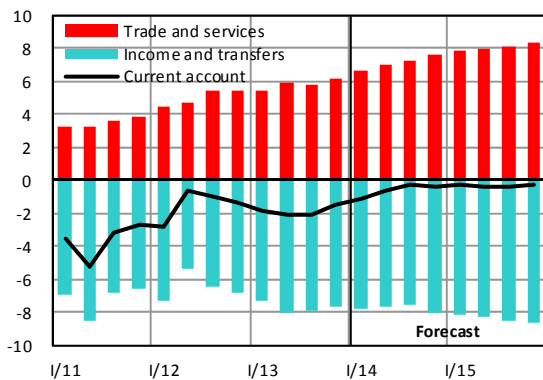
YoY growth rate, in %



Source: CZSO, own calculations

Current account almost balanced

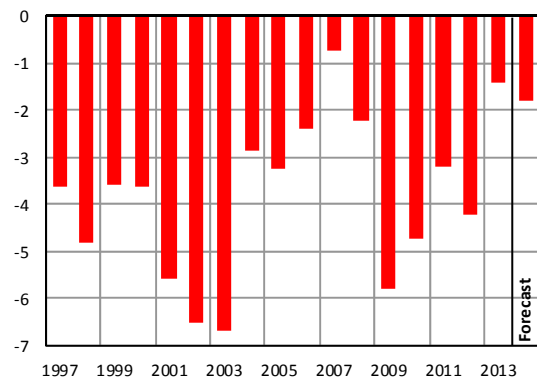
in % of GDP (moving sums of the latest 4 quarters)



Source: CNB, CZSO, own calculations

General government deficit well under 3% of GDP

general government balance, in % of GDP



Source: CZSO, own calculations

Risks to the Forecast

In Q4 2013, **real GDP grew** by 1.8% QoQ. To a great extent, however, this result was positively influenced by **one-off factors**, in particular by stockpiling cigarette tax stamps before an increase in the excise tax on cigarettes as of 1 January 2014. In contrast, this factor should dampen economic growth in the following quarters.

A more realistic view of the course of economic recovery is provided by **real gross value added**¹, which increased by 0.8% QoQ in Q4 2013. Even though this is a very promising result, we still assume that **economic recovery** will continue at a more or less **gradual rate**. So far, growth has been almost exclusively driven by manufacturing; other sectors are mostly in stagnation. Intensity of the recovery is still uncertain and will depend on whether the recovery spreads to other sectors as well. Therefore, the central scenario of the Macroeconomic Forecast is **rather more conservative** in comparison with other forecasts for the Czech economy (see Chapter D).

The risks of the scenario are considered to be more or less balanced.

As far as the **external environment** is concerned, one can emphasise a **positive risk** that the developed economies may grow more quickly than the central scenario assumes.

Even though on the global scale the euro zone will probably remain the slowest growing region, the chances are that the **recovery of the export-oriented economies of Germany** and some other main trading partners of the Czech Republic may be **stronger**. This may be the direction in which the positive confidence indicators in these countries point (see Chapter A.1).

On the other hand, a new **negative risk** has arisen in geopolitical developments **in Eastern Europe**. In spite of its recent increase, Czech export exposure to the problem area remains relatively small – Russia accounted for 3.7% of Czech exports in 2013 and Ukraine for 1.0%. However, any eventual escalation of the tensions or even military action in this region could lead to disruption of crude oil or natural gas supplies to Central Europe. However, we believe that such development is not in the interest of any of the parties involved.

The situation in the troubled countries on the euro zone periphery has gradually, at least from the short-term perspective, **calmed**. Macroeconomic indicators

and development on the government bond markets suggest that any major upheavals in the affected countries on the euro zone periphery are, for the time being, unlikely. However, unfavourable fundamental factors – very high level of government sector debt and unclear situation regarding the quality of bank assets – still remain. Therefore, much will depend on results of the tests of banking sector resilience to be published by the ECB in November 2014 at the latest (see Chapter A.1).

Amid instability of economic and legal environment, the 5-year period of alternating recessions and weak growth led to an increase in risk aversion of both households and firms, which now remains a **negative risk within the Czech economy**

Regarding **household consumption**, we are therefore far from certain if the considerable improvement in the consumer confidence indicator (see Chapter B.2) will be reflected in a change in household behaviour, which has been cautious so far. A strong argument against exaggerated optimism is registered unemployment being near its historical maximum, low creation of new jobs and a decrease in households' real disposable income in 2013.

Real gross fixed capital formation is at the bottom of the investment cycle after a very deep fall lasting for more than 5 years. To a great extent, future development will be influenced by the necessity to draw down as much EU funds from the 2007–2013 financial perspective as possible before the end of 2015. The ability to utilize such funds represents both an upside and downside risk to the relatively prudent scenario of the forecast. A non-negligible risk is also the efficiency of capital allocation, given the likely effort to draw down funds “at any cost” and the possibility that economically more meaningful projects with a higher multiplier effect, which cannot be cofinanced from the EU funds, will be crowded out.

The use of the exchange rate as an additional monetary policy instrument of the CNB (see Chapter A.3) has considerably changed the economic policy setting. Current experience shows that the market has adjusted to the CNB commitment without the necessity of other interventions, and that the CZK/EUR exchange rate is relatively stable. Uncertainty still persists, however, regarding the date and way of discontinuing this instrument and the switch to the standard regime of monetary policy.

¹ GVA, unlike GDP, does not include taxes and subsidies on products.

A Forecast Assumptions

A.1 External Environment

In comparison with the last forecast, the outlook for global economic growth has barely changed; however, uncertainties regarding future growth still persist. A relatively favourable outlook stems from the expected recovery in developed economies, which could drive global economic growth in the years of the outlook. Economic growth in developing economies has slowed slightly owing to a decrease in domestic demand, but it continues to retain its high dynamics. While in some countries growth rates remain high, in others capital outflow in connection with changes in the Fed's policies has highlighted domestic imbalances and underlined the necessity of structural reforms.

Fears of a significant slowdown of the Chinese economy have receded; however, risks related to vulnerability of the local financial market persist. In addition to the government stimulus, a considerable growth in bank lending at the beginning of 2013 contributed to economic performance; nonetheless, banking sector liberalization is still lagging behind and the loan market is considerably distorted. Efforts continue to transform the model of economic growth to one that is sustainable, based on domestic demand, and to gradually liberalize the economic environment. The revision of growth models will also be needed in other large developing economies; the favourable external conditions of growth, such as low interest rates and the inflow of foreign capital, are turning out to be temporary.

Uncertainty related to the outlook is highlighted by the recent outbreak of geopolitical tensions in Ukraine. Although Russia and Ukraine are not important export markets for the Czech Republic, any eventual escalation of tension accompanied by the introduction of Western sanctions could represent a considerable negative growth impulse.

USA

Domestic demand continues to be the primary driver of **American** economic growth. Economic growth of 0.7% (*versus* 0.5%) QoQ in Q4 2013 was mainly driven by household consumption and fixed investment. Inventory growth, which probably continues to occur due to expectations of a continued boom, also contributed, though to a lesser extent. Consistent with the forecast, growth also slowed due to the shutdown of government institutions at the beginning of October

2013, when the crisis over discussions on increasing the debt ceiling culminated.

Improving sentiment can still be seen on the financial markets, where conditions are easing and loan activities recovering. Growth in the price of real estate and other assets should slow down in 2014 due to a gradual rise in mortgage interest rates; as such the related positive impact on household wealth will decrease. The favourable situation continues to be seen on stock markets – the Dow Jones index again exceeded 16,000 points after its sharp weakening at the turn of January and February 2014.

GDP performance remains supported by the accommodative monetary policy, although in January 2014 the Fed finally started to gradually limit the extent of the third wave of quantitative easing. In January, February and April, the Fed decreased its original monthly purchase of securities, previously amounting to USD 85 billion a month, by USD 10 billion each month. The Fed's last decision to limit the extent of quantitative easing was fully in line with market expectations and reflects the satisfactory results of the American economy, in particular a better than expected labour market outlook. The Fed also stated that it will no longer consider the unemployment rate a decisive indicator, and that when deciding on an increase in interest rates, it will consider a wider range of indicators related to the labour market and inflation.

The unemployment rate reached 6.7% in February 2014, thus declining by 1.0 pp compared to February 2013. However, the declining unemployment rate is accompanied by falling rate of participation, which remains a long-term problem.

In 2013, GDP growth slowed to 1.9% (*versus* 1.8%) due to the impact of consolidation measures. In 2014, GDP could increase by 2.8% (*versus* 2.7%), with private consumption and investment as the main drivers of growth. Barriers to growth relating to short-term uncertainty in fiscal policy were temporarily averted. Discussion around the medium-term plan for fiscal consolidation should focus primarily on the unsustainable growth of social expenditure. For 2015 we expect growth to accelerate slightly to 3.0% (*versus* 3.1%).

EU

The economy is gradually recovering, both in the EA12 and the EU as a whole. In the euro zone, a QoQ growth of GDP of 0.3% (*versus 0.2%*) was recorded in Q4 2013, representing growth of 0.5% (*versus 0.4%*) in a YoY comparison.

Although the situation in individual EA12 countries continues to differ considerably, a gradual growth of domestic demand can be seen in the EA12 as a whole. Improving sentiment on the financial markets, in industry and in services can be observed. In many cases, however, recovery continues to be hampered by the structural problems of economies and their low level of competitiveness.

ECB monetary policy remains highly accommodative. At its meeting in March, the bank decided in line with expectations to keep rates at the current level. The main reference rate remains at 0.25% and the deposit rate at zero. The ECB confirmed that its monetary policy would remain pro-growth for an extended period and that the closing of the output gap would be very slow. The ECB also stated that it is ready to take other extraordinary measures where necessary. Voices on the ECB Monetary Policy Committee are also calling ever louder for the further easing of monetary policy. If the bank decides to act, the most probable scenario is a slight decrease in the main rate and a decrease in the deposit rate to negative values. Officially, however, the bank is assessing inflation risks as balanced and considers inflation expectations to be firmly anchored. The ECB expects gradual economic recovery during 2014 and expects inflation to return to its target in the medium-term.

The situation on the labour market in the EU28 as a whole has stabilized. In February, the unemployment rate in the EU28 reached 10.6%, in the EA12 11.9%. Considerable differences still persist among individual countries. The worst situation is in Greece, where the unemployment rate (reaching 27.5% in December 2013) is more than 22 pp higher than in Austria. Of the EU28 countries for which data for February were available as of the cut-off date, the unemployment rate was highest in Spain (25.6%), Croatia (17.6%) and Cyprus (16.7%). In contrast, the lowest unemployment rate was in Austria (4.8%) and Germany (5.1%).

For the whole of 2013, GDP of the EA12 decreased by 0.4% (*in line with the forecast*). In 2014, private demand should strengthen due to expected improvement in consumer and business sentiment and the continuing stabilization of the banking sector. Private investment and consumption should replace

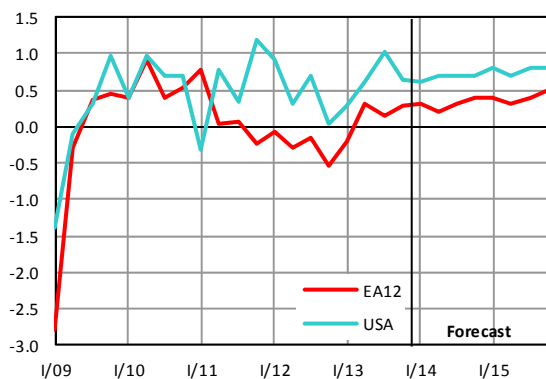
net exports as the principal driver of growth. However, the short-term outlook continues to be associated with a certain degree of uncertainty. We assume that GDP of the EA12 will increase by 1.1% in 2014 (*versus 0.9%*), and we expect its growth to accelerate to 1.5% (*unchanged*) in 2015.

We expect the relatively favourable development in **Germany** to continue. In Q4 2013, GDP increased by 0.4% QoQ (*versus 0.3%*). Net exports and gross fixed capital formation in particular contributed positively to growth, while a decline in inventories had the opposite impact. The ECB's low rates are still positively affecting the economy. Household consumption has been strengthening due to the very good 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, while the growing GfK index is documenting increased consumer confidence. The expected strengthening in the performance of developed economies and the high competitiveness of German firms should also contribute to growth in 2014. Keeping favourable conditions on the credit markets will be crucial. In 2013, the German economy grew by 0.5% (*in line with the estimate*). We expect GDP to grow by 1.7% in 2014 (*versus 1.6%*), and we expect growth to accelerate slightly to 1.8% in 2015 (*versus 1.9%*).

The situation in **France** is less favourable. In Q4 2013, GDP increased by 0.3% QoQ (*in line with the estimate*); however, similarly as in Q2 2013, this growth was a consequence of extraordinary factors. For the first time since the end of 2011, a QoQ increase in gross fixed capital formation has been recorded. This could herald investment recovery, which could occur in 2014 thanks to favourable conditions on the financial markets and improvement of confidence among entrepreneurs. Household consumption should also have a pro-growth impact, to which the stabilization in the labour market and a decrease in the savings rate should contribute. A tense fiscal situation limits room for further support of the economy. In 2013, GDP grew by 0.3% (*versus 0.2%*). In 2014, economic growth could accelerate to 0.9% (*unchanged*), while in Q1 2014 we expect the growth rate to slow down as a consequence of the extraordinary factors at the end of 2013. In 2015, GDP growth could further accelerate to 1.4% (*unchanged*).

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 Q4 2013, the GDP of **Poland** increased by 0.6% QoQ (*versus 0.4%*). The main source of growth remains exports, although growth in private consumption also contributed. The unemployment rate continues to fall, which is driving up consumer confidence. Consumer confidence, together with a low inflation rate, should contribute to a recovery in domestic demand during 2014. The central bank should leave monetary policy rates, which have been kept at a historical minimum of 2.50% since mid-2013, at the present level at least until the end of Q3 2014. GDP grew by 1.5% (*versus 1.4%*) in 2013, while in 2014 we forecast GDP growth of 2.5% (*versus 2.1%*). Recovery in the euro zone should in particular have a positive impact. However, growth will be hampered by fiscal tightening and the labour market situation. In spite of its recent decline, the unemployment rate remains high. In 2015, growth could accelerate to 2.8% (*versus 2.7%*).

The GDP of **Slovakia** increased in Q4 2013 by 0.4% QoQ (*in line with the estimate*). After a long period, growth in domestic demand had a positive impact on economic development, especially growth in gross fixed capital formation and government consumption. In 2014, we expect export performance to strengthen as a consequence of the improving outlook of the external environment and further recovery of domestic demand thanks to the improving labour market situation and low inflation rate. In 2013, the economy grew by 0.9% (*versus 0.8%*). We are slightly increasing the estimate for 2014 to 2.2% (*versus 2.1%*), while GDP growth in 2015 could accelerate to 2.9% (*versus 2.8%*).

Business Cycle Indicators in the EU

The composite confidence indicator published for the EU by the European Commission continued to rise in Q1 2014. All components of the indicator saw an improvement compared to the previous quarter. The most striking change in the respondents' assessment

was seen in the service, retail and consumer sectors. For Q1 2014, the composite indicator signals a slight acceleration of QoQ growth of EU's GDP. However, given the aforementioned uncertainties, the central scenario of the forecast expects the growth rate of Q4 2013 to be maintained.

In Q1 2014, the composite confidence indicator improved in Germany, France, Slovakia and Italy. Confidence growth slowed considerably in the Slovak and French economies. By contrast, in the south of the euro zone, with Italy ahead of the pack, confidence has been rising considerably, which points to a probable continuation of recovery. Confidence in the German economy is still strengthening. However, this is exclusively a result of the improving assessment of the current situation. On the other hand, corrections are being made in terms of expectations regarding future development.

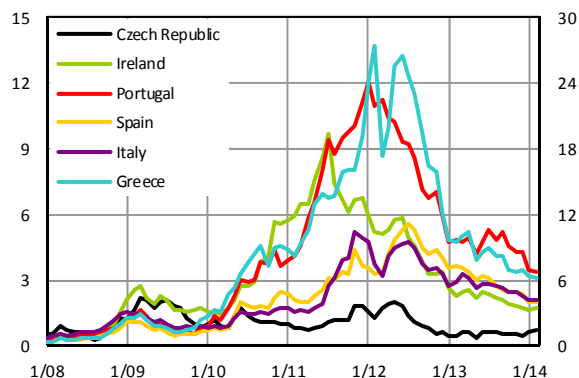
For Q1 2014, the composite leading indicator signals stabilization of the relative cyclical component of GDP in Germany and the EU as a whole. This is consistent with a continuation of economic growth approximately at the level of potential output growth.

Situation in the Troubled Economies of the Euro Zone

Data published in the last few months have confirmed that economic activity in the euro zone periphery states (except for Cyprus) has been recovering or stabilizing gradually. Market sentiment towards the euro zone periphery continued to improve slightly (see Graph A.1.2). Nonetheless, it would be premature to consider the crisis in the euro zone 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

Greek GDP fell by 2.3% YoY in Q4 2013. In a YoY comparison, economic output has been falling for 22 quarters in a row; however, during 2013 the rate of decline slowed considerably. Unemployment rate stopped increasing, but considering its current level of

more than 27% (reaching nearly 60% in the 15–24 age group), unemployment represents a serious economic and social problem even in the long run. A breakthrough occurred in negotiations between the Greek government and the EC, ECB and IMF representatives held as a part of the 4th assessment of the bailout programme. After more than six months the negotiations were finally concluded, but the release of another tranche of financial aid will depend on approval of the agreed measures. The Greek government has only a narrow majority in the Parliament; moreover, finding sufficient support for some measures will be very difficult.

Ireland's full return to the primary market for government bonds after exiting its bailout programme at the end of 2013 was apparently successful. This year's auctions of government bonds (scheduled bond auctions were resumed) and treasury bills met with strong demand and secondary market bond yields are at a historical low. According to preliminary data², GDP decreased by 2.3% QoQ in Q4 2013 (whereas a slight growth was expected). However, this estimate will almost certainly be revised several times. Nonetheless, a number of other indicators suggest that the Irish economic recovery continues.

The Portuguese economy is also recovering gradually. Since Q2 2013 (inclusive), GDP has been increasing in a QoQ comparison and the labour market situation has also been improving gradually – the unemployment rate has been slowly decreasing, while employment has been growing. Portugal should exit the bailout programme already in mid-2014. It is not certain if the exit will pass off entirely smoothly, but improving market sentiment towards the euro zone periphery, showing itself in a decrease in yields on government bonds and solid demand during auctions of government bonds and treasury bills, gives reason for cautious optimism.

A risk for future development on the euro zone periphery is the quality of banks' balance sheets. According to IMF data (Financial Soundness Indicators), the ratio of non-performing loans to total loans has been increasing in all countries of the euro zone periphery, exceeding even 30% in Greece in Q3 2013 (it was just below 25% in Ireland in the same period). A number of negative surprises could spring from the comprehensive assessment of banks that is being conducted by the ECB in preparation of assuming

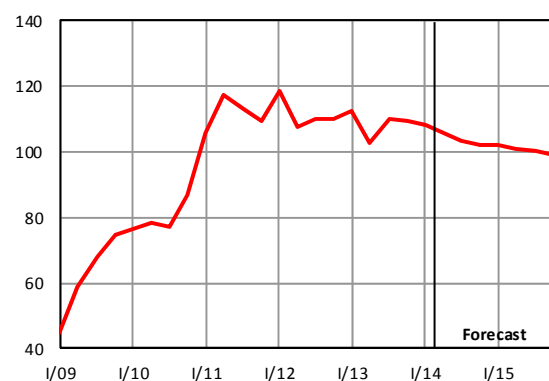
responsibility for bank supervision as part of the Single Supervisory Mechanism. In the case of Greece, recently published results of stress tests of local banks conducted by the Bank of Greece have already provided some hints. Within the time horizon of the stress tests (until the end of 2016), Greek banks will need to increase their capital by EUR 6.4 billion (and by EUR 9.4 billion in the adverse scenario) so that Core Tier 1 capital ratio does not fall below 8.0% (below 5.5% in the adverse scenario).

For the Czech Republic, a small open economy with strong business links to the EA countries, any 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 expenditure. However, a highly resilient financial sector and credible fiscal policy, which is reflected in the low yields on government bonds, remain the Czech Republic's strength.

Commodity Prices

In Q1 2014, the average price of **Brent** crude oil was 108.3 USD/barrel (*versus 107 USD*). In 2014, the price should continue to fall slightly, in particular due to expanding production capacities, the increasing substitution of imports into the USA and Canada by domestic production, and a low inflation rate. In 2014, the average price of Brent crude oil for the whole year could reach USD 105 per barrel (*versus 104 USD*). In 2015, growth in supply should exceed growth in global demand and the price should further drop to USD 101 per barrel (*unchanged*).

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



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

² Seasonal adjustment in the case of Ireland does not include correction for the impact of a different number of working days (Q3 had by 2 working days more than Q4)

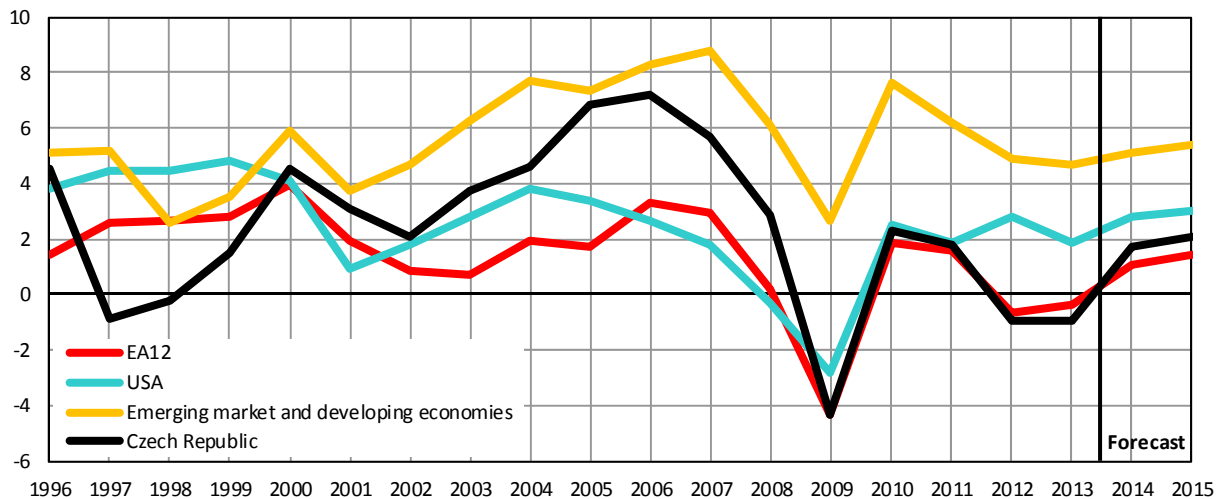
Table A.1.1: Real Gross Domestic Product – yearly
growth rate, in %, seasonally adjusted data (except for the Czech Republic)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									<i>Forecast</i>	<i>Forecast</i>
World	5.3	5.4	2.8	-0.6	5.2	3.9	3.1	3.0	3.7	3.9
USA	2.7	1.8	-0.3	-2.8	2.5	1.8	2.8	1.9	2.8	3.0
China	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7	7.4	7.2
EU28	3.5	3.2	0.3	-4.5	2.0	1.7	-0.4	0.1	1.6	1.8
EA12	3.3	2.9	0.2	-4.4	1.9	1.6	-0.6	-0.4	1.1	1.5
Germany	3.9	3.4	0.8	-5.1	3.9	3.4	0.9	0.5	1.7	1.8
France	2.7	2.2	-0.2	-3.1	1.6	2.0	0.0	0.3	0.9	1.4
United Kingdom	2.8	3.4	-0.8	-5.2	1.7	1.1	0.3	1.9	2.5	2.4
Austria	3.8	3.7	0.9	-3.5	1.9	2.9	0.7	0.4	1.4	1.8
Hungary	3.9	0.1	0.8	-6.7	1.0	1.6	-1.7	1.2	1.9	1.8
Poland	6.2	6.8	5.0	1.6	3.9	4.5	2.0	1.5	2.5	2.8
Slovakia	8.3	10.5	5.8	-4.9	4.4	3.0	1.8	0.9	2.2	2.9
Czech Republic	7.0	5.7	3.1	-4.5	2.5	1.8	-1.0	-0.9	1.7	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)

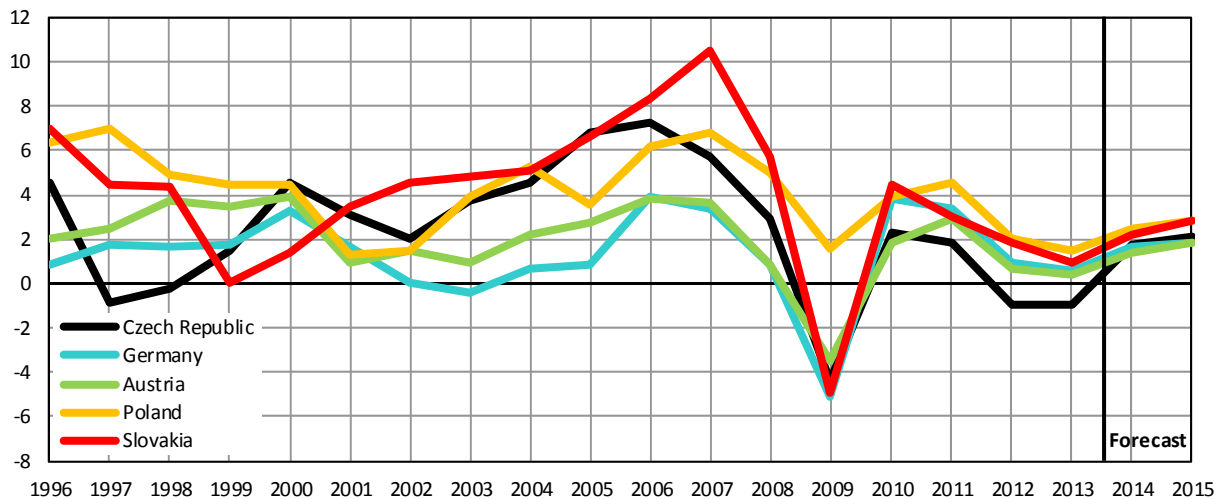
Table A.1.2: Real Gross Domestic Product – quarterly growth rate, in %, seasonally adjusted data

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
USA	QoQ	0.3	0.6	1.0	0.7	0.6	0.7	0.7	0.7
	YoY	1.3	1.6	2.0	2.6	2.9	3.0	2.7	2.7
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	0.3	0.4	0.4	0.4	0.4	0.5
	YoY	-0.7	-0.1	0.2	1.1	1.5	1.5	1.6	1.7
EA12	QoQ	-0.2	0.3	0.1	0.3	0.3	0.2	0.3	0.4
	YoY	-1.2	-0.6	-0.3	0.5	1.0	0.9	1.1	1.2
Germany	QoQ	0.0	0.7	0.3	0.4	0.4	0.4	0.5	0.4
	YoY	-0.3	0.5	0.6	1.4	1.8	1.5	1.7	1.7
France	QoQ	-0.1	0.6	0.0	0.3	0.2	0.2	0.3	0.2
	YoY	-0.4	0.5	0.3	0.8	1.0	0.7	1.0	0.9
United Kingdom	QoQ	0.5	0.8	0.8	0.7	0.6	0.6	0.5	0.5
	YoY	0.7	2.0	1.9	2.8	2.9	2.7	2.4	2.2
Austria	QoQ	0.1	0.0	0.2	0.3	0.4	0.4	0.6	0.5
	YoY	0.5	0.3	0.4	0.5	0.9	1.3	1.7	1.9
Hungary	QoQ	1.1	0.3	0.8	0.5	0.4	0.4	0.4	0.5
	YoY	-0.1	0.6	1.7	2.7	2.1	2.2	1.7	1.7
Poland	QoQ	0.4	0.6	0.7	0.6	0.6	0.7	0.6	0.7
	YoY	0.8	1.3	1.8	2.2	2.4	2.5	2.5	2.6
Slovakia	QoQ	0.3	0.3	0.3	0.4	0.6	0.7	0.7	0.8
	YoY	0.7	0.8	0.9	1.4	1.6	2.0	2.4	2.8
Czech Republic	QoQ	-1.3	0.3	0.3	1.8	-0.5	0.3	0.4	0.5
	YoY	-2.3	-1.6	-1.0	1.2	2.0	2.1	2.1	0.7

Source: Eurostat, NBS China, own calculations

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

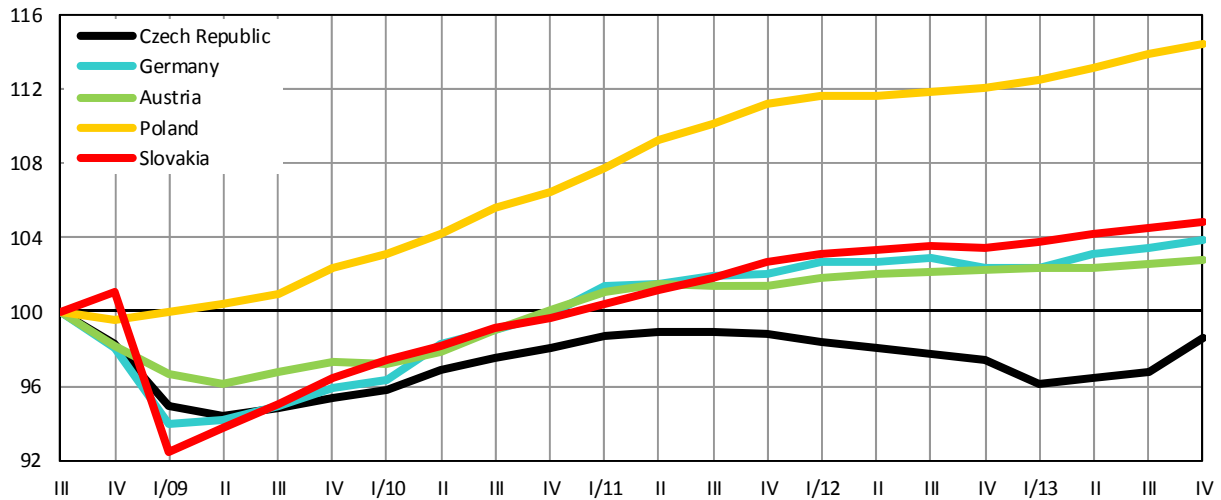
YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, own calculations

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

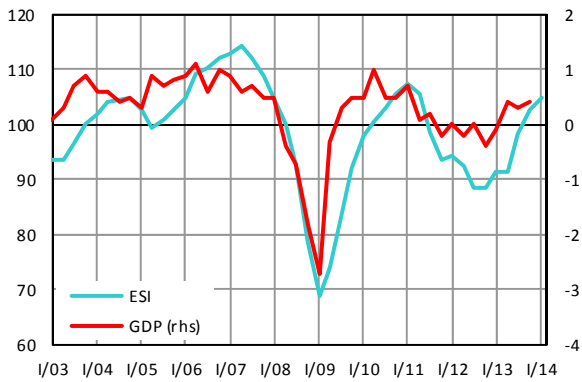
Q3 2008=100, seasonally adjusted data



Source: Eurostat, own calculations

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

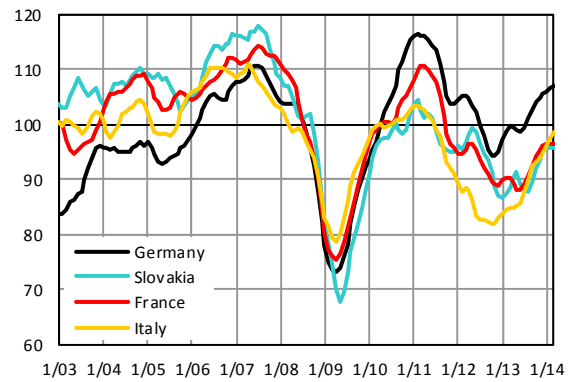
indicator – quarterly averages, QoQ growth in %, sa data



Source: EC, Eurostat

Graph A.1.8: ESI in Selected Trading Partner Countries

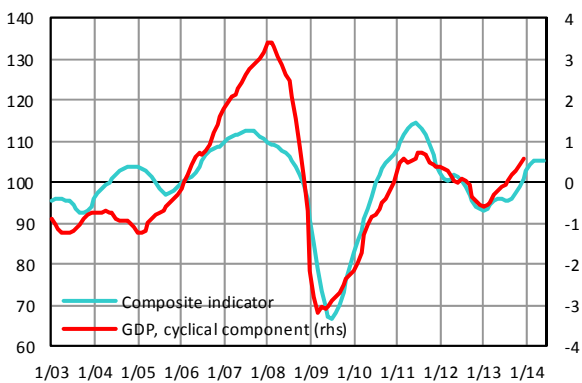
3-month moving averages



Source: EC

Graph A.1.9: Composite Leading Indicator – EU

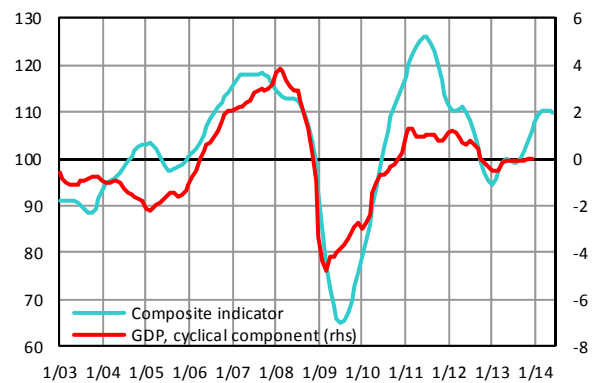
monthly data, 2005=100, cyclical component in % of trend GDP



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	105	101	
	growth in %	19.6	11.1	34.0	-36.5	29.3	39.9	0.3	-2.6	-3.5	-4.1	
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	-0.6	-4.2	
Wheat	USD/t	191.7	255.2	325.9	223.4	223.7	316.2	313.3	312.2	250	244	
	growth in %	25.8	33.1	27.7	-31.5	0.1	41.4	-0.9	-0.3	-20.0	-2.3	
Wheat price index (in CZK)	2005=100	118.3	140.2	150.7	117.1	116.4	152.8	168.1	167.2	138	134	
	growth in %	18.3	18.4	7.5	-22.3	-0.6	31.3	10.0	-0.5	-17.6	-2.4	

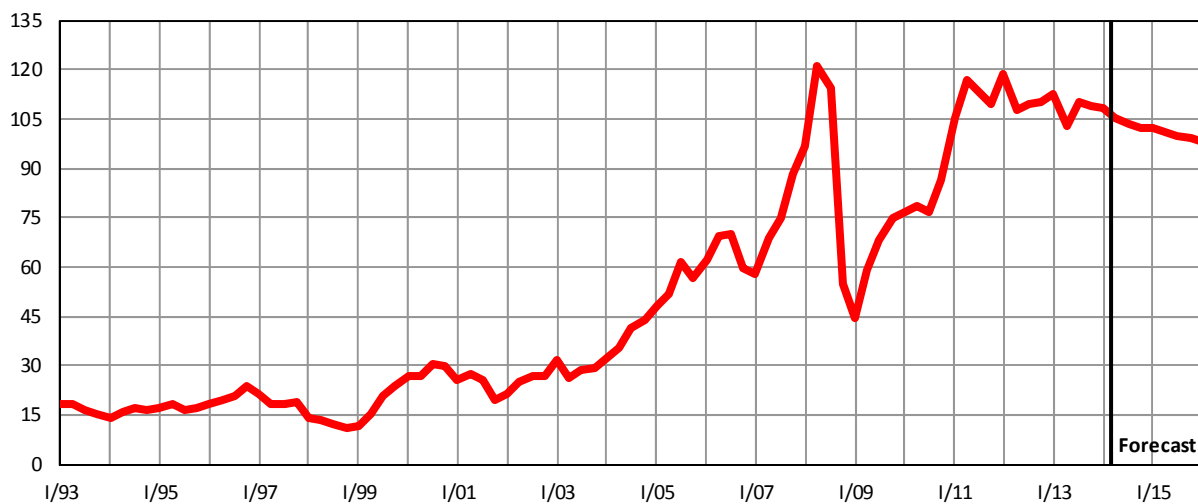
Source: IMF, U. S. Energy Information Administration, own calculations

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

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Crude oil Brent	USD/barrel	112.4	102.6	110.2	109.2	108.1	106	104	102
	growth in %	-5.3	-4.8	0.5	-0.8	-3.8	2.9	-6.1	-6.6
Crude oil Brent index (in CZK)	2005=100	166.6	155.1	164.5	163.7	165.7	163	160	157
	growth in %	-4.1	-4.6	-2.2	0.1	-0.5	5.0	-2.9	-3.8
Wheat price	USD/t	321.4	313.8	305.9	307.8	291	232	235	241
	growth in %	15.3	16.7	-12.5	-13.5	-9.4	-26.1	-23.2	-21.8
Wheat price index (in CZK)	2005=100	170.5	169.9	163.4	165.1	160	128	130	133
	growth in %	16.7	17.0	-14.9	-12.7	-6.3	-24.5	-20.6	-19.4

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

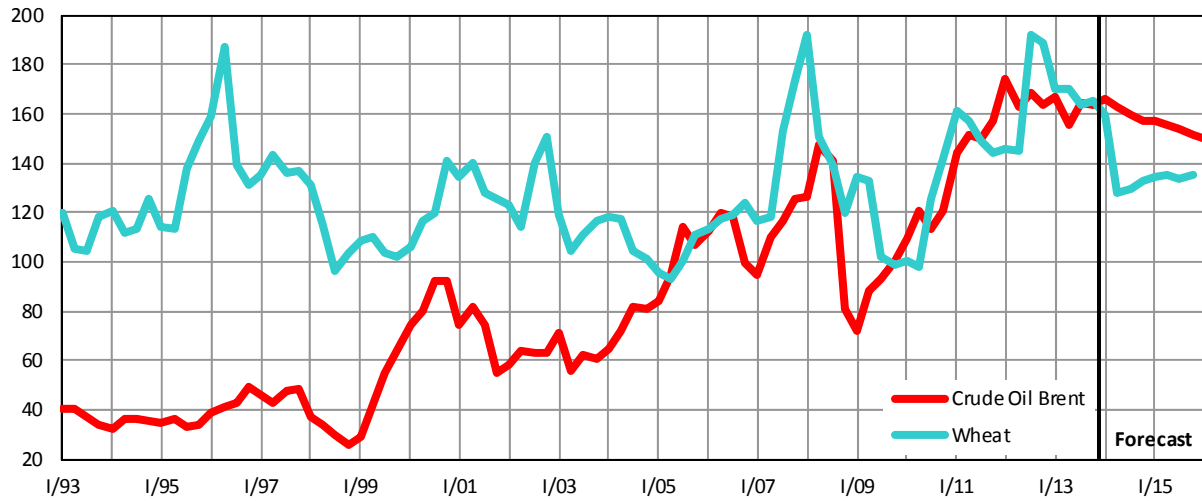
Graph A.1.11: Dollar Prices of Oil
USD/barrel



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 the CZSO's preliminary estimates, the government sector balance ended in a deficit of 1.4% of GDP in 2013. Compared to the original MoF assumption of January 2014, the estimate has improved by 1.1 pp. This very positive result is the sum of several factors.

On the revenue side, it involves revenues of accrual taxes, which were nearly 0.2% of GDP higher compared to expectations. The change in the rates of tobacco taxes has had a marked impact here following significant stockpiling at the end of 2013 and a high cash collection in the first two months of 2014 (cash fulfilment has reached nearly half the amount budgeted for the whole year). Because of accrualization methods, however, this collection represents income of 2013. Another important factor on the revenue side is the development of social security contributions, which were 0.2% of GDP higher compared to the expectations.

On the expenditure side, the most important factor was government sector investments, which were lower by nearly 0.4% of GDP compared to the assumptions. Compared to the January estimate, the CZSO has revised its quarterly accounts. The original decrease in investment assigned to projects financed by the EU, and therefore without any major impact on the balance, was corrected to a decrease in domestic investment projects in particular. The decrease in these investments was largely responsible for a surplus of local budgets of 0.4% of GDP, which was their best result for the last 17 years. To a slightly lesser extent, the decrease in investment was also apparent at the central level, in particular at the Road and Motorway Directorate. A more favourable development, by approximately 0.1% of GDP, compared to expectations was also seen in social allowances. The same level also applied to investment expenditure to other sectors of the national economy.

Thanks to the economic result for 2013, the structural balance (the balance adjusted for the effect of the business cycle and one-off and temporary measures) reached -0.3% of GDP. Since joining the EU, the Czech Republic has so met the medium-term budgetary objective for the first time. This target is defined as a structural deficit of 1% of GDP. Fiscal effort, i.e. a YoY change in the structural balance, was 1.3 pp in 2013, i.e. the same level as in 2011 and 2012.

In 2014, we expect the government sector deficit to increase to 1.8% of GDP. Considering the gradually

closing output gap, the structural deficit will probably deepen by 1 pp to 1.3% of GDP in 2014. This change must be treated with caution, since the excellent result of last year is largely a consequence of several factors that economically cannot be fully attributed to 2013 and cannot be evaluated as clearly positive from the perspective of future development. The first factor is the aforementioned stockpiling of tobacco products, which has increased the collection of 2013 to the detriment of 2014.

Another major difference is the development of investment expenditure of the government sector, where growth is expected of more than 28% compared to 2013. An increase should be seen above all in investments co-financed from EU funds; the assumption expects drawing down 95% of the allocation for the programming period 2007–2013 before the end of 2015. This assumption is supported by the fact that contracts are already signed for most of this investment expenditure by the respective managing body of the operational programme. Similar amount of investment should also continue in 2015. This is the last year when it is possible to implement expenditures from the 2007–2013 programming period. This high increase in investment obviously makes demands on Czech financing, which here accounts for more than 0.2% of GDP and fully impacts on the government sector deficit. As far as investments from purely Czech sources are concerned, their stagnation can be assumed in 2014 since demands on government sector budgets for co-financing investments paid from EU funds will stop growth in domestic investment. With a less conservative forecast, even their slight decrease can be expected.

For 2014, we expect nominal government consumption to grow by 1.7%, mainly due to a very slight increase in both employee compensation of 1.9% and low growth in intermediate consumption of 1.5%.

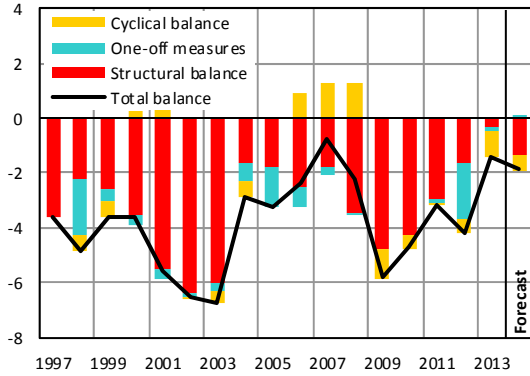
At present we can regard the forecast risks as balanced. If the assumption regarding full use of the allocation from EU structural funds for the last programming period is not fulfilled, it would mean savings on the Czech financing of these projects. On the revenue side, the development of tax incomes stands for the risk, whereby in the case of less favourable economic development there could be tax shortcomings.

Despite the considerable increase in investment activity compared to 2013 and the stockpiling of cigarette tax stamps last year, the general government

sector deficit will probably not exceed 2% of GDP in 2014.

A detailed analysis of general government sector development in 2013, an analysis of the Notifications

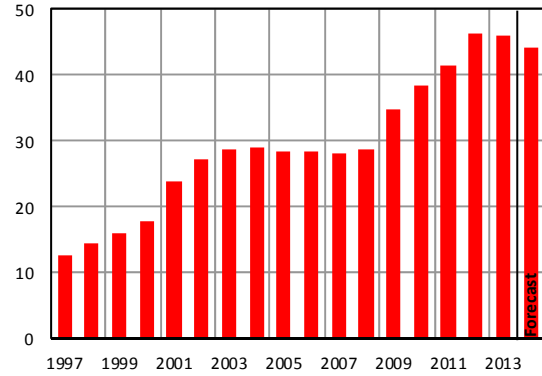
Graph A.2.1: **Decomposition of the Government Balance**
in % of GDP



Source: CZSO, own calculations

of Government Deficit and Debt in 2014 and the forecast of fiscal policy until 2017 will be included of this year's April Update of the Convergence Programme of the Czech Republic.

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
		<i>Prelim. Forecast</i>									
General government balance ¹⁾	% GDP	-3.2	-2.4	-0.7	-2.2	-5.8	-4.7	-3.2	-4.2	-1.4	-1.8
	bill. CZK	-101	-80	-27	-86	-218	-179	-122	-162	-56	-73
Cyclical balance	% GDP	0.0	0.9	1.3	1.3	-1.1	-0.5	-0.1	-0.5	-1.0	-0.6
Cyclically adjusted balance	% GDP	-3.3	-3.3	-2.0	-3.5	-4.7	-4.2	-3.1	-3.7	-0.5	-1.2
One-off measures	% GDP	-1.5	-0.7	-0.3	-0.1	0.0	0.0	-0.2	-2.1	-0.2	0.1
Structural balance	% GDP	-1.8	-2.5	-1.8	-3.4	-4.8	-4.3	-2.9	-1.6	-0.3	-1.3
Fiscal effort ²⁾	percent. points	-0.1	-0.8	0.8	-1.7	-1.3	0.5	1.3	1.3	1.3	-1.0
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	-2.7	-0.1	-0.5
Cyclically adjusted primary balance	% GDP	-2.2	-2.2	-1.0	-2.5	-3.4	-2.9	-1.8	-2.2	0.9	0.1
General government debt	% GDP	28.4	28.3	27.9	28.7	34.6	38.4	41.4	46.2	46.0	44.0
	bill. CZK	885	948	1 023	1 104	1 299	1 454	1 583	1 775	1 788	1 768
Change in debt-to-GDP ratio	percent. points	-0.5	-0.1	-0.3	0.8	5.9	3.8	3.0	4.8	-0.1	-2.1

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 chiefly the zero lower bound. Nonetheless, disinflation continued due to the negative output gap, 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 volume and for so 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 using the exchange rate as a monetary policy instrument in mid-2015. As far as the current volume of foreign exchange interventions is concerned, this 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, while the volume of interventions was zero in the following months. Market expectations apparently maintained the koruna exchange rate at a relatively stable level.

Financial Sector and Interest Rates

In Q1 2014, the **3M** (3-month) **PRIBOR** interbank market rate averaged 0.37% (*consistent with the forecast*). In both 2014 and 2015, the 3M rate should average 0.4% (*in both cases unchanged*).

Thanks to relatively stable fiscal development, long-term interest rates should remain low. However, their gradual slight increase can be expected due to an expected decrease in the risk aversion of investors. The Czech Republic's rating has remained at a good investment level – Standard & Poor's AA–, Moody's A1, Fitch Ratings A+ (all still with a stable outlook). We expect that **the yield to maturity on 10-year government bonds** for convergence purposes reached

2.3% (*unchanged*) in Q1 2014. We are leaving the forecast for 2014 at 2.4%; in 2015 long-term interest rates should increase slightly to 2.6% (*versus 2.5%*).

Client interest rates continue to decrease slowly. In Q4 2013, interest rates on deposits of households decreased by 0.1 pp QoQ to 0.9%, while rates on deposits of firms stagnated at 0.4%. Rates on loans to households fell by 0.2 pp QoQ to 5.8% and rates on loans to non-financial corporations decreased by 0.1 pp to 3.1%. Household indebtedness continues to expand at a slow pace. The growth of total loans to households is driven especially by housing loans. In fact, the volume of consumer loans has been stagnating recently, while growth of other loans (e.g. loans to sole traders) has accelerated. Loans to non-financial corporations have been in decline for the last few quarters, which implies that investment activity is suppressed.

The situation concerning non-performing loans has been stable, in spite of the impacts of the economic recession. In Q4 2013 their share stood at 5.1% for households (QoQ stagnation, 0.1 pp less YoY) and decreased to 7.2% for non-financial corporations (0.2 pp less QoQ, 0.3 pp less YoY).

In the second half of March 2014, the Prague Stock Exchange's PX Index ranged from 950 to 1,000 points, which represents values comparable with the same period of 2013 and the previous quarter. In the past few weeks, increased volatility has been recorded due to the Ukrainian crisis.

Exchange Rates

Over the last two years, the CZK/EUR exchange rate ranged in a relatively narrow band from 24.7 to 25.9 CZK/EUR, with a tendency to depreciate.

There was a sharp change at the beginning of November 2013 when the CNB announced that it would keep the exchange rate close to 27 CZK/EUR. The koruna weakened by nearly 7% before the end of 2013, whereupon the exchange rate fluctuated around the level of 27.50 CZK/EUR without exhibiting much volatility. For the whole of 2013, the CZK exchange rate weakened by 3.2%.

In order to forecast the CZK/EUR exchange rate level, arbitrary assumptions had to be made regarding the date when the CNB will abandon using the extraordinary exchange rate instrument as well as the exit strategy to be employed. Based on available information, we have 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. We assume that the convergence of the Czech economy to the economic level of the euro zone will be renewed.

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	2.11	2.4	2.6	
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	6.03	.	.	
– loans	growth in %	32.1	31.7	28.9	16.3	8.7	6.5	4.9	4.0	.	.	
– loans without housing loans	growth in %	28.3	27.3	25.3	19.1	8.3	6.8	1.4	0.5	.	.	
– deposits	growth in %	7.3	10.6	9.4	10.5	5.4	5.0	4.7	3.2	.	.	
– share of non-performing loans	in %	3.7	3.2	3.0	3.7	4.8	5.3	5.2	5.2	.	.	
– loans to deposits ratio	in %	40	48	57	60	61	62	65	65	.	.	
– loans to deposits ratio (Eurozone)	in %	99	99	94	89	90	90	87	84	.	.	
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	3.19	.	.	
– loans	growth in %	13.9	16.7	17.5	0.2	-6.5	3.3	2.5	0.1	.	.	
– deposits	growth in %	10.9	13.2	5.3	-1.7	4.8	0.9	8.2	4.4	.	.	
– share of non-performing loans	in %	4.5	3.8	3.6	6.2	8.6	8.5	7.7	7.4	.	.	
– loans to deposits ratio	in %	117	120	134	137	123	126	122	117	.	.	
– loans to deposits ratio (Eurozone)	in %	292	296	315	315	294	286	273	248	.	.	

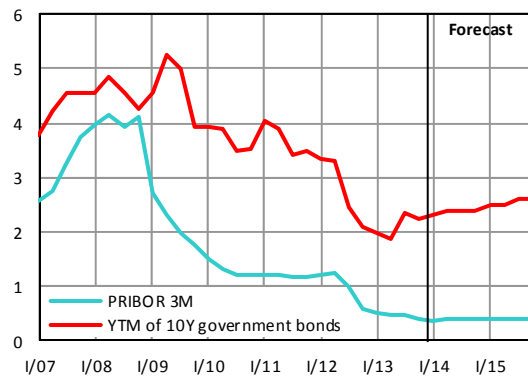
Source: CNB, ECB, Fed, own calculations

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

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	0.05	0.05	0.05	0.05	0.05	.	.	.
Main refinancing rate ECB (end of period)	in % p.a.	0.75	0.50	0.50	0.25	0.25	.	.	.
Federal funds rate (end of period)	in % p.a.	0.25	0.25	0.25	0.25	0.25	.	.	.
PRIBOR 3M	in % p.a.	0.50	0.46	0.46	0.41	0.37	0.4	0.4	0.4
YTM of 10Y government bonds	in % p.a.	1.98	1.88	2.35	2.24	2.3	2.4	2.4	2.4
Households – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	6.21	6.09	5.96	5.83	.	.	.	.
– loans	growth in %	3.7	3.9	4.1	4.2	.	.	.	.
– loans without housing loans	growth in %	-0.4	0.1	0.7	1.7	.	.	.	.
– deposits	growth in %	4.2	3.6	2.7	2.4	.	.	.	.
– share of non-performing loans	in %	5.2	5.2	5.1	5.1	.	.	.	.
– loans to deposits ratio	in %	64	65	66	66	.	.	.	.
– loans to deposits ratio (Eurozone)	in %	85	84	84	84	.	.	.	.
Non-financial firms – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	3.27	3.23	3.17	3.09	.	.	.	.
– loans	growth in %	2.3	0.2	-1.2	-0.9	.	.	.	.
– deposits	growth in %	4.8	1.9	4.7	6.1	.	.	.	.
– share of non-performing loans	in %	7.4	7.6	7.4	7.2	.	.	.	.
– loans to deposits ratio	in %	119	119	117	111	.	.	.	.
– loans to deposits ratio (Eurozone)	in %	256	252	245	237	.	.	.	.

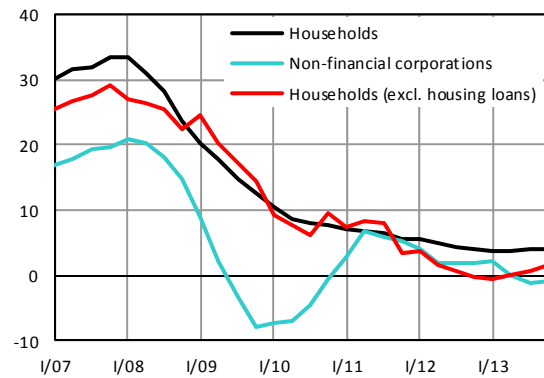
Source: CNB, ECB, Fed, own calculations

Graph A.3.1: Interest Rates
in % p.a.



Source: CNB, own calculations

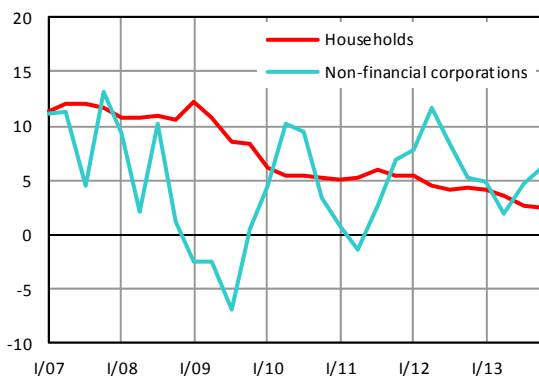
Graph A.3.2: Loans
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.3: Deposits

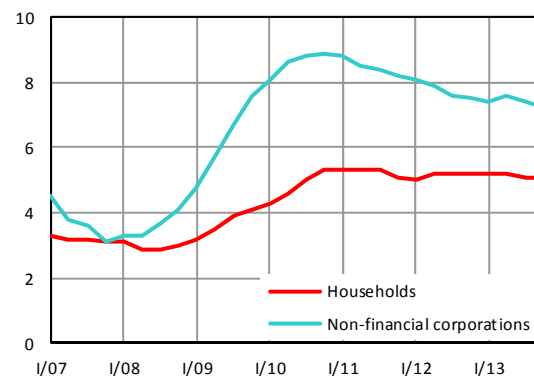
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.4: Non-performing Loans

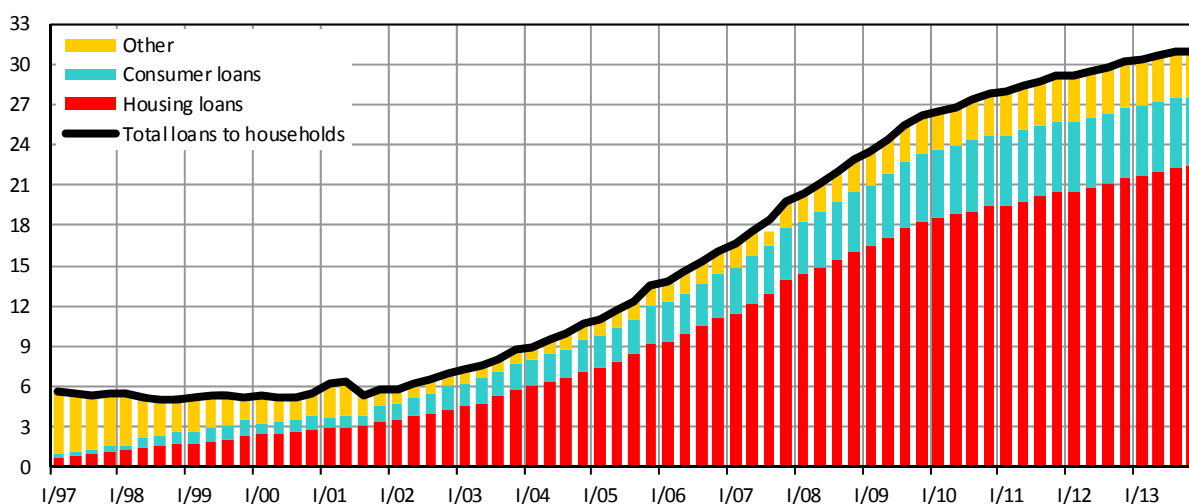
ratio of non-performing to total loans, in %



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
								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	-4.8	0.5	1.4	1.5
CZK / USD	average	17.06	19.06	19.11	17.69	19.59	19.57	20.1	20.1	19.9	19.6
	appreciation in %	19.0	-10.5	-0.3	8.0	-9.7	0.1	-2.9	0.1	1.4	1.5
NEER	average of 2010=100	101.2	98.0	100.0	103.1	99.5	97.3	93	93	95	96
	appreciation in %	11.7	-3.2	2.1	3.1	-3.5	-2.2	-4.5	0.4	1.4	1.5
Real exchange rate to EA12¹⁾	average of 2010=100	102.4	97.9	100.0	100.7	98.8	96.0	92	93	94	95
	appreciation in %	11.3	-4.4	2.1	0.7	-1.9	-2.8	-4.3	0.8	1.0	1.5
REER	average of 2010=100	102.7	98.9	100.0	102.0	99.2	.	.	.	.	.
	(Eurostat, CPI deflated, 37 countries)	appreciation in %	14.9	-3.7	1.1	2.0	-2.8	.	.	.	.

Source: CNB, Eurostat, own calculations

¹⁾ Deflated by GDP deflators.

Table A.3.4: Exchange Rates – quarterly

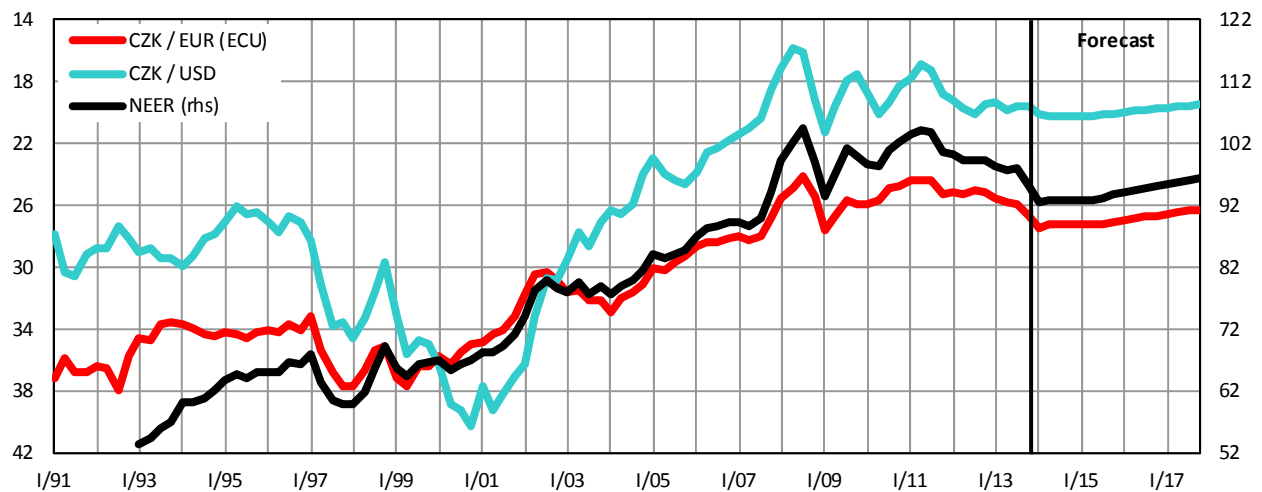
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Nominal exchange rates:									
CZK / EUR	average	25.57	25.83	25.85	26.66	27.44	27.3	27.3	27.3
	appreciation in %	-1.9	-2.2	-3.0	-5.6	-6.8	-5.2	-5.1	-2.2
CZK / USD	average	19.37	19.78	19.52	19.59	20.04	20.2	20.2	20.2
	appreciation in %	-1.2	-0.3	2.8	-0.9	-3.3	-2.0	-3.3	-2.9
NEER	average of 2010=100	98.4	97.6	98.0	95.1	92	93	93	93
	appreciation in %	-1.7	-1.7	-1.3	-4.1	-6.1	-4.7	-5.1	-2.3
Real exchange rate to EA12 ¹⁾	average of 2010=100	97.0	96.4	96.2	94.4	91	92	92	93
	appreciation in %	-1.5	-2.0	-2.7	-4.7	-6.5	-5.0	-4.6	-1.3
REER	average of 2010=100	98.5	97.3	97.4	.	.	.	.	.
	(Eurostat, CPI deflated, 37 countries)	appreciation in %	-2.1	-1.8	-1.4	.	.	.	.

Source: CNB, Eurostat, own calculations

¹⁾ Deflated by GDP deflators.

Graph A.3.6: Nominal Exchange Rates

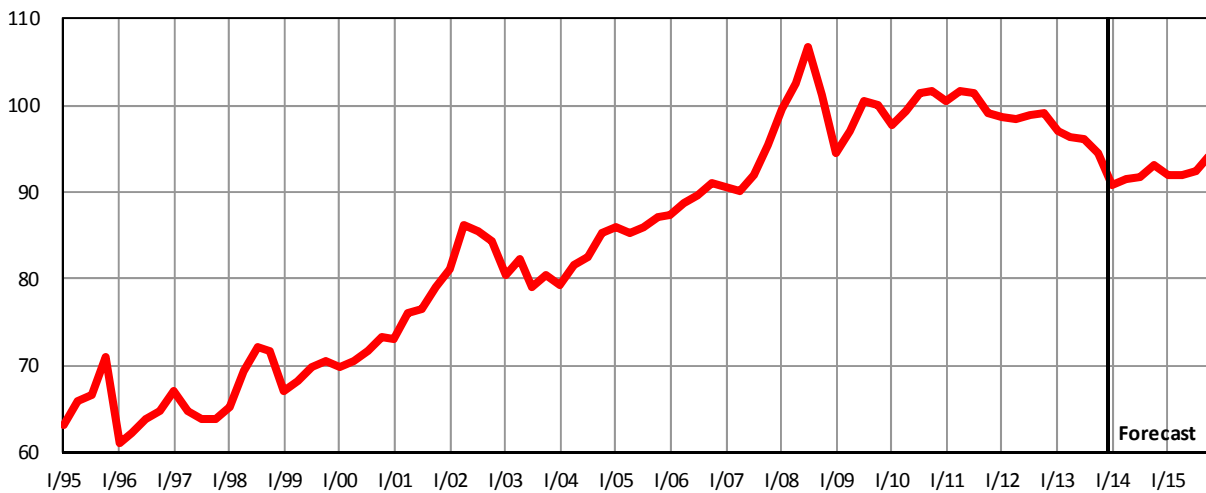
quarterly averages, average 2010=100 (rhs)



Source: CNB, own calculations

Graph A.3.7: Real Exchange Rate to EA12

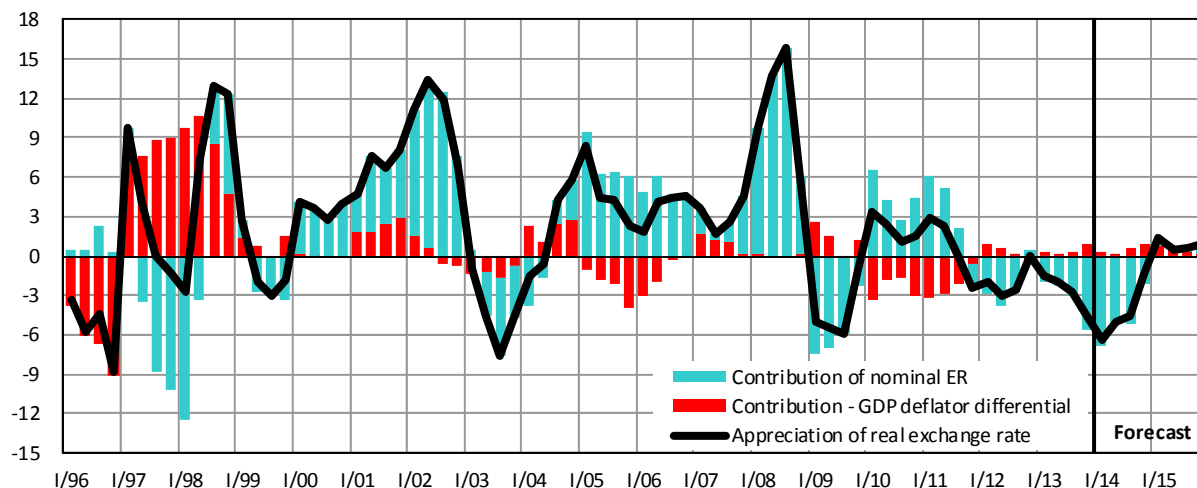
quarterly averages, deflated by GDP deflators, average 2010=100



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 12 February 2014, the coalition government (i.e. the parties ČSSD, ANO 2011 political movement and KDU-ČSL) approved its policy statement, defining 10 priority areas:

- Development of conditions for free enterprises, kick-starting of sustainable economic growth, increasing competitiveness, job creation.
- Effective utilization of EU funds.
- Stocktaking and reconstruction of the state, rationalization of state's economic management.
- Fight against corruption, serious economic crime and usury.
- Development of public services in education, health, social system, transport and security.
- Development of civil society.
- Active membership of the EU and NATO.
- Adoption of civil service law.
- Effective use of information and communication technologies in public administration.
- Strengthening of parliamentary control of the Czech Republic's intelligence service.

Financial Markets

On 22 January 2014, the government approved the **bill amending certain acts in connection with establishment and supervision of access to the business of banks, savings banks and credit unions as well as securities dealers**, implementing the EU Directive on the access to the activity of credit institutions and the prudential supervision of them in the Czech law. The new legal regulation introduces capital reserves the holding of which can be required by the CNB from banks, cooperative savings banks and investment firms in order to strengthen the capital resources and limit systemic risks. Simultaneously, the responsibility for supervision of the liquidity of branches of the Member States banks will be transferred from the supervisory authority of the host state to the supervisory authority of the home state. Last but not least, the act introduces changes in penalties, remuneration or corporate governance. The act should come into effect on 1 April 2014, and some selected parts of it on 1 January 2015 and 1 January 2016.

A.5 Demographic Trends

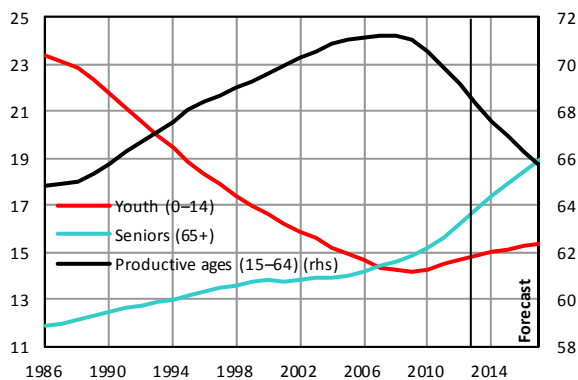
At the beginning of 2014, 10.512 million people lived in the Czech Republic. During 2013, the number of Czech inhabitants decreased by 4 thousand people, i.e. the first population decrease since 2002.

The slight prevalence of the number of deaths over the births (by 2 thousand) was roughly in line with the expectation of the central variant of the CZSO's Demographic Projection 2013. In contrast, a negative balance in registered migration, recorded for only the second time in the history of the independent Czech Republic, was an unpleasant surprise. Weak economic output clearly diminishes the attractiveness of the Czech market for foreign employees.

The number of inhabitants of the Czech Republic is very close to its post-WWII **population peak**. It is not clear yet whether the peak was already reached at the beginning of 2013 (in line with the low variant of the CZSO's Projection) or whether the central variant will prove correct with a very slight increase in the population in the near future. Beyond the outlook horizon we can in all likelihood expect a long-term decrease in the number of inhabitants of the Czech Republic.

Graph A.5.1: **Age Groups**

structural shares in %



Source: CZSO, own calculations

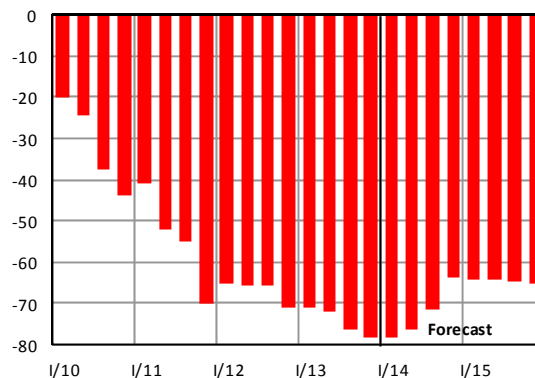
Non-fulfilment of the expected positive migration balance will probably be reflected in a deepening of the lasting decline of the structural proportion of the **population aged 15–64** (see Graph A.5.1). It will add to the natural development, whereby persons born at the turn of the millennium, when the birth rate was very low, are now exceeding the lower age limit of this group, while the population-strong generation born after WWII is gradually being classified as senior citizens.

In absolute terms, the working-age population is decreasing by approximately 70–80 thousand people

a year (see Graph A.5.2), i.e. by approximately 1% a year. The economic impacts of this situation are described in more detail in Chapter B.1.

Graph A.5.2: **Czech Population Aged 15–64**

based on LFS, YoY increases of quarterly averages, in thousands

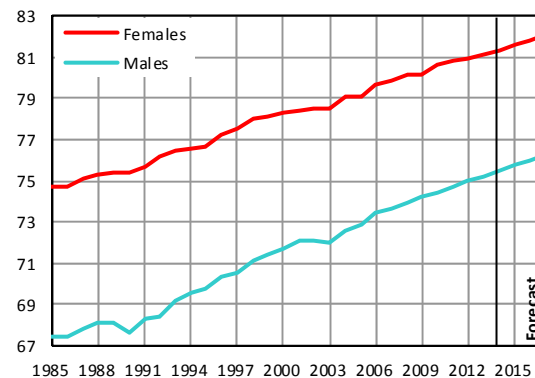


Source: CZSO, own calculations

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 outlook horizon, 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 a paradox that the number of **old-age pensioners** has been stagnant since the beginning of 2012. In their structure, the number of pensioners with reduced pensions after early retirement is continuing to rise quite dynamically (by 19 thousand YoY at the end of 2013), while the number of pensioners entitled to a full pension has decreased YoY by 20 thousand. The share of reduced pensions has already reached 23.7%, compared to 19.0% at the end of 2009. A certain decoupling is occurring between

that proportion of potential pensioners (probably better qualified with secure jobs) who are postponing their retirement and another section of the population

which is increasingly taking advantage of early retirement.

Table A.5.1: Demography

in thousands of persons (unless stated otherwise)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Forecast	Forecast	Outlook	Outlook
Population (January 1)	10 381	10 468	10 507	10 487	10 505	10 516	10 512	10 518	10 522	10 524
<i>growth in %</i>	0.9	0.8	0.4	-0.2	0.2	0.1	0.0	0.1	0.0	0.0
Age structure (January 1):										
(0–14)	1 477	1 480	1 494	1 522	1 541	1 560	1 579	1 594	1 606	1 616
<i>growth in %</i>	-0.2	0.2	1.0	1.8	1.3	1.2	1.2	0.9	0.8	0.6
(15–64)	7 391	7 431	7 414	7 328	7 263	7 188	7 106	7 042	6 977	6 911
<i>growth in %</i>	0.9	0.5	-0.2	-1.2	-0.9	-1.0	-1.1	-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	2 340	2 355	2 380	2 403
<i>growth in %</i>	1.8	2.0	2.1	.	3.5	0.1	0.0	0.6	1.0	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	38.9	39.4	40.0	40.6
Effective ⁴⁾	41.5	41.8	43.6	45.9	47.9	47.6	47.2	47.5	47.9	48.2
Fertility rate	1.497	1.492	1.493	1.427	1.450	1.460	1.45	1.45	1.45	1.46
Population increase	86	39	-20	19	11	-4	6	4	2	1
Natural increase	15	11	10	2	0	-2	-3	-5	-7	-9
Live births	120	118	117	109	109	107	104	102	100	98
Deaths	105	107	107	107	108	109	107	107	107	107
Net migration	72	28	16	17	10	-1	9	9	9	9
Immigration	78	40	31	23	30	30	.	.	.	.
Emigration	6	12	15	6	20	31	.	.	.	.
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.

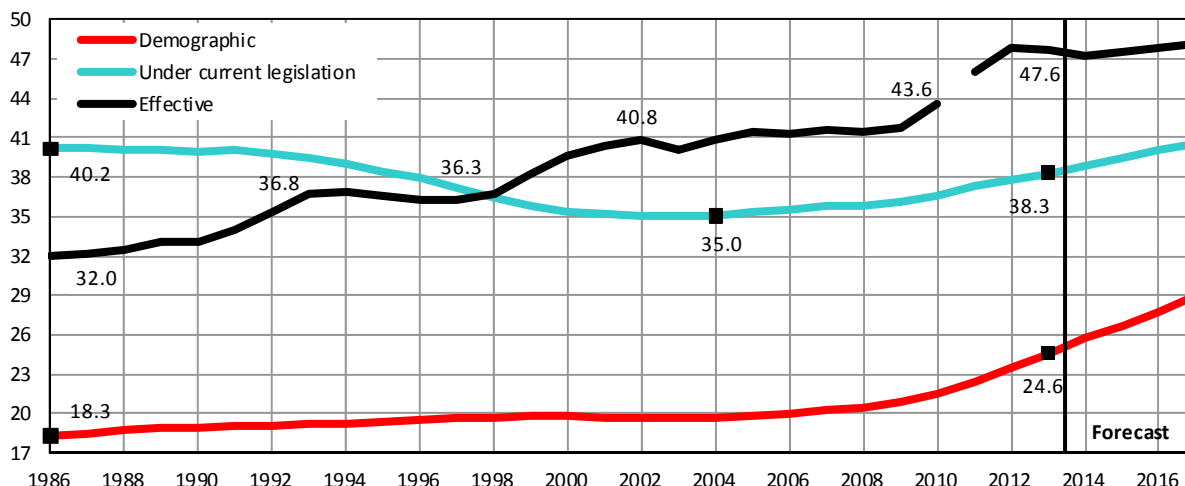
²⁾ Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

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

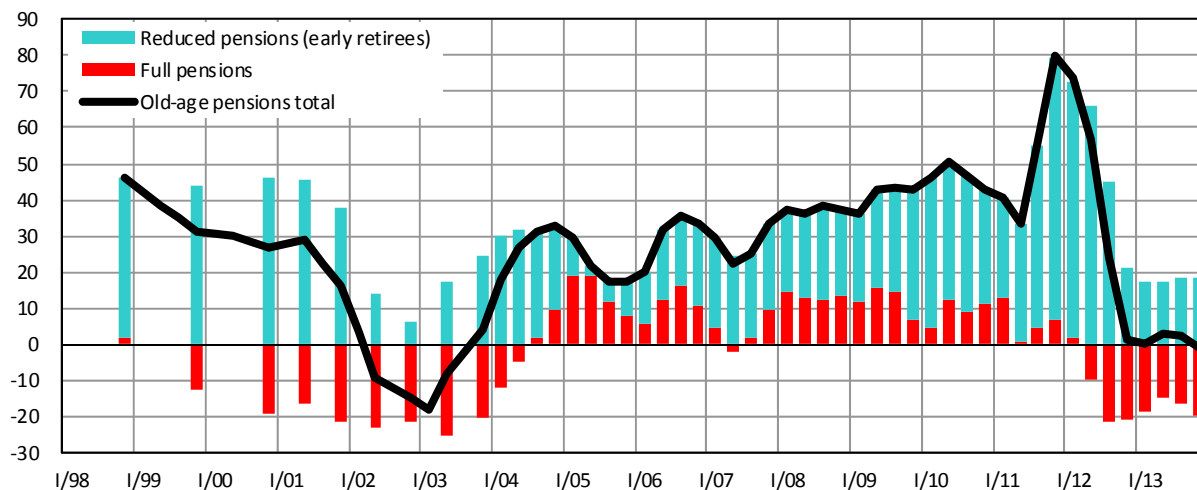
As of January 1, in %, inconsistent between 2010 and 2011 due to transfer of disability pensions to old-age pensions for people over 64 years



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

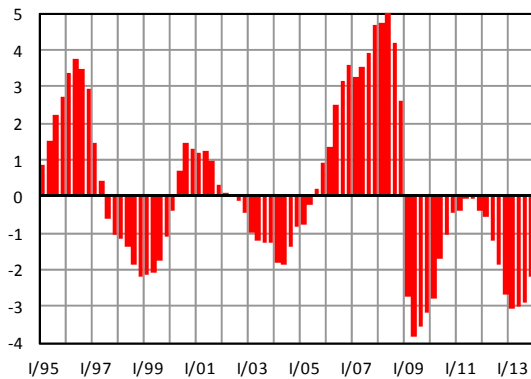
Note: Transfer of disability pensions to old-age pensions for people over 64 years in 2010 is not included.

B Economic Cycle

B.1 Position within the Economic Cycle

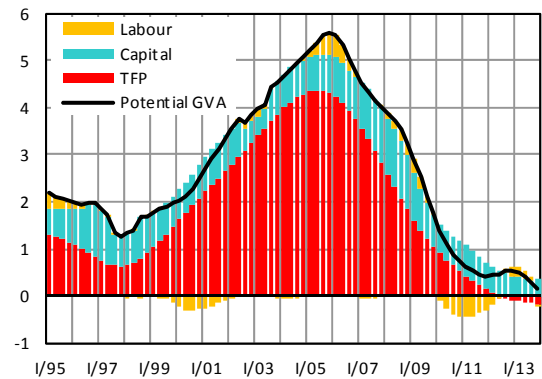
Potential product (PP), specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of economic output to be achieved with average utilization of production factors. Growth of potential product expresses possibilities for long-term sustainable growth of the economy without giving rise to imbalances. It can be broken down into contributions from the labour force, capital stock, and total factor productivity. The output gap identifies the cyclical position of the economy and expresses the relationship between actual product and PP. The concepts of potential product and output gap are used to analyze the economic cycle and to calculate the structural balance of public budgets.

Graph B.1.1: Output Gap
in % of potential GDP



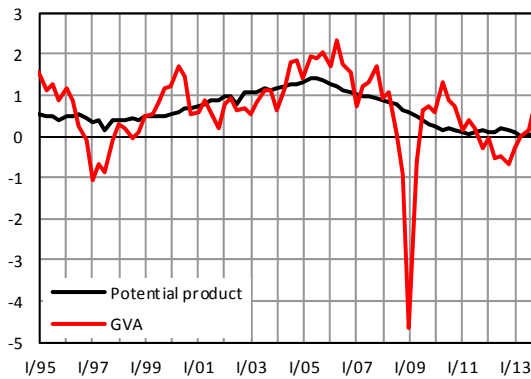
Source: CZSO, own calculations

Graph B.1.2: Potential Product Growth
in %, contributions in percentage points



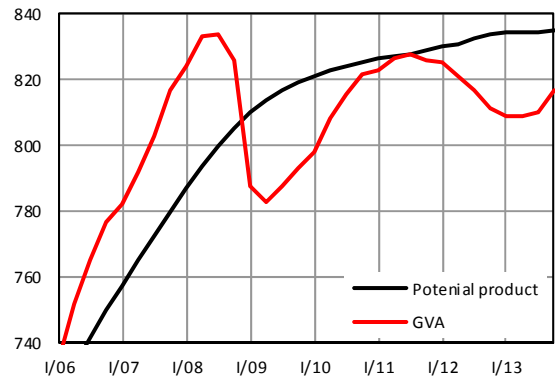
Source: CZSO, own calculations

Graph B.1.3: Potential Product and GDP
QoQ growth rate, in %



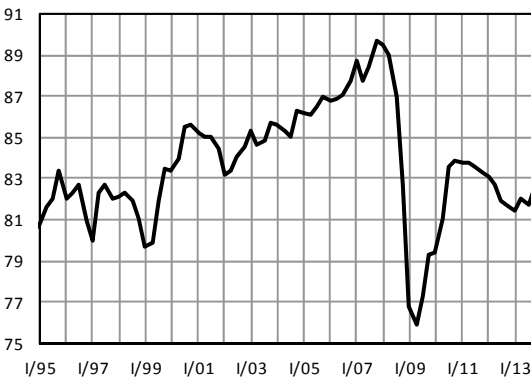
Source: CZSO, own calculations

Graph B.1.4: Levels of Potential Product and GDP
in bill. CZK of 2005



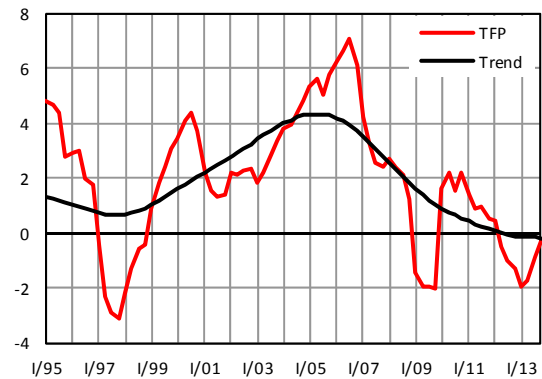
Source: CZSO, own calculations

Graph B.1.5: Capacity Utilisation in Industry
in %



Source: CZSO

Graph B.1.6: Total Factor Productivity
YoY growth rate, in %



Source: CZSO, own calculations

Table B.1: Output Gap and Potential Product

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Output gap	<i>per cent</i>	-1.5	0.1	2.7	3.9	4.1	-3.3	-1.5	-0.2	-1.6	-2.8
Potential product	<i>growth in %</i>	4.9	5.4	5.2	4.2	3.6	2.3	1.0	0.5	0.5	0.3
Contributions:											
–Trend TFP	<i>perc. points</i>	4.2	4.3	4.0	3.2	2.2	1.3	0.7	0.3	0.0	-0.1
–Fixed assets	<i>perc. points</i>	0.7	0.8	0.9	1.1	1.2	0.8	0.6	0.6	0.5	0.4
–Demography ¹⁾	<i>perc. points</i>	0.2	0.2	0.2	0.3	0.4	0.1	-0.2	-0.4	-0.5	-0.6
–Participation rate	<i>perc. points</i>	-0.2	0.2	0.2	-0.2	0.0	0.3	0.2	0.3	0.8	1.0
–Usually worked hours	<i>perc. points</i>	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3

Source: CZSO, own calculations

¹⁾ Contribution of growth of working-age population (15–64 years)

In this Macroeconomic Forecast, two **fundamental methodical changes** have been made in a way of calculating potential product and the output gap:

- The real GDP indicator (adjusted for seasons and working days) has shown high volatility in recent quarters caused by irregularities in the collection of indirect taxes (more details – see Chapter C.1), which misrepresents the actual course of the economic cycle. Therefore, for the purpose of these calculations GDP has been replaced by real gross value added, which does not include indirect taxes.
- It has been shown that specification of the production factor of labour based on the number of persons employed under conditions of a decrease in the average number of hours worked (more details – see Chapter C.3) considerably undervalues total factor productivity, and thus also potential product. Therefore, calculation algorithm was supplemented, in accordance with the methodology used by the EC, by the factor of worked hours per employed person.

The recession in which the economy found itself from Q4 2011 to Q1 2013 again resulted in a large negative **output gap**. By the end of the recession it reached –3.0%. However, the following three quarters of recovery mitigated the figure to –2.2% in Q4 2013. The negative output gap is reflected in the economy by registered unemployment close to record-breaking values, below-average utilization of capacities and a slow increase in prices and wages.

Due to long periods of recession or sluggish economic growth, growth of **potential product** slowed considerably, down to approximately 0.3% in 2013.

This slowdown was mainly caused by **total factor productivity** (TFP). Its trend component, derived from

the Hodrick-Prescott filter, has been more or less stagnant since 2011.

The long-lasting decline in gross fixed capital formation, which has continued unabated since 2008, has led to a decline in the contribution of **capital stock** from 1.2 pp in 2008 to 0.4 pp in 2013.

Labour supply is affected by a reduction in the working-age population, caused by the population ageing process and even by negative net migration (see Chapter A.5). In 2013, demographic development slowed down potential product growth by 0.6 pp.

However, the size of the labour force even increased under these conditions by 0.9% in 2013. The negative impact of the decline in working-age population on labour supply is more than compensated by an increase in the **participation rate** (ratio of the labour force to the population aged 15–64 years). It increased by 1.5 pp YoY in 2013, which was the biggest increase in the history of the independent Czech Republic, and added 1.0 pp to potential product growth. The participation rate has thus become the most important factor of potential product growth.

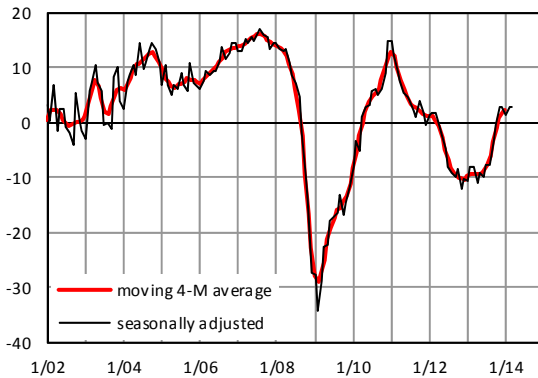
The effects within the age structure of the labour force are reflected here, with the structural proportions of age groups with high or growing participation increasing. We also see an increased motivation to work under difficult economic conditions supported by gradual postponement of the retirement age.

In the Czech Republic, usual average working time is in decline. This autonomous process, which is a consequence of the country now approaching the standards of more developed countries, has been intensified recently by extension of part-time jobs and more flexible use of occasional work. The lower number of usually **worked hours** slowed potential product growth by 0.3 pp in 2013.

B.2 Business Cycle Indicators

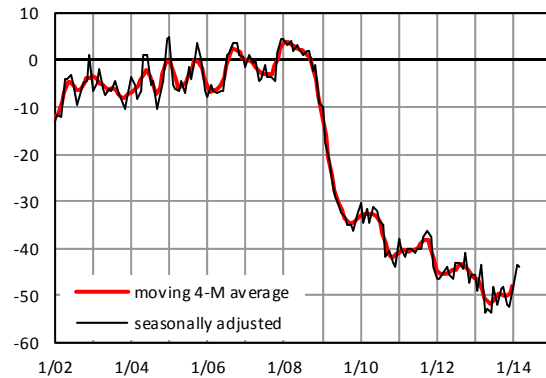
Business cycle indicators express respondents' views as to the current situation and short-term outlook and serve to identify in advance possible turning points in the economic cycle. Their main advantage lies in the quick availability of results reflecting a wide range of influences shaping the expectations of economic entities.³

Graph B.2.1: Industrial Confidence Indicator



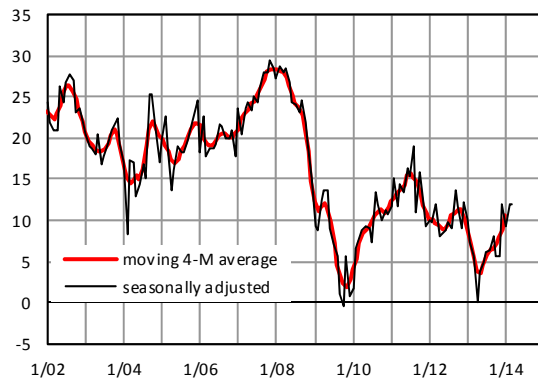
Source: CZSO

Graph B.2.2: Construction Confidence Indicator



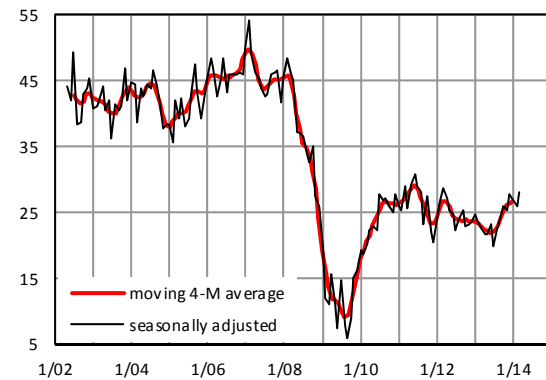
Source: CZSO

Graph B.2.3: Retail Trade Confidence Indicator



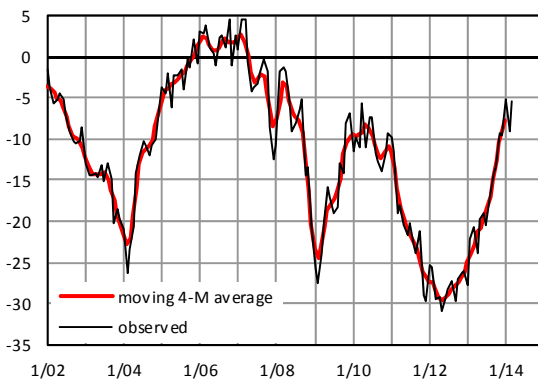
Source: CZSO

Graph B.2.4: Selected Services Confidence Indicator



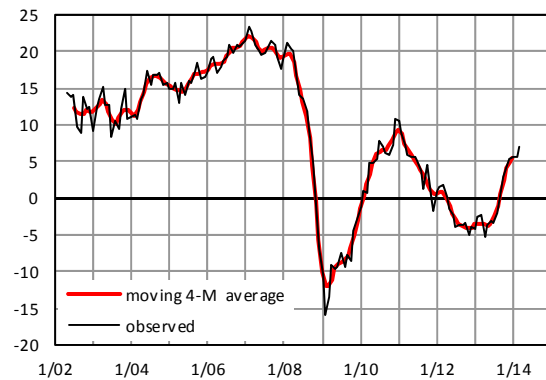
Source: CZSO

Graph B.2.5: Consumer Confidence Indicator



Source: CZSO

Graph B.2.6: Aggregate Confidence Indicator



Source: CZSO

³ For the business cycle research methodology, see CZSO: http://www.czso.cz/eng/redakce.nsf/i/business_cycle_surveys.

Business cycle indicators generally saw positive development between Q4 2013 and Q1 2014. The responses of respondents in industry, trade and selected market services were predominantly positive, and the share of positive answers increased in a QoQ comparison. In the construction sector the responses continue to be overwhelmingly negative, although their share decreased on a quarterly basis.

Consumer sentiment further improved. The majority, although not as high as in the previous quarter, of responses remains negative.

Further, the relationship between the development of confidence indicators and the CZSO's monthly statistics is described for industry, construction, trade and services (the latest available data as of the forecast's cut-off date were for January 2014).

YoY growth of industrial production could be observed in January, mainly in connection with the high surplus of foreign trade. On a yearly basis, the volume of new orders also increased considerably, with foreign orders rising by more than a fifth. This development corresponded with an improvement of the industry confidence indicator.

In construction, the construction production index increased in annual terms, both for buildings and civil engineering works. Growth in the construction production index corresponded with a positive development of the confidence indicator in construction.

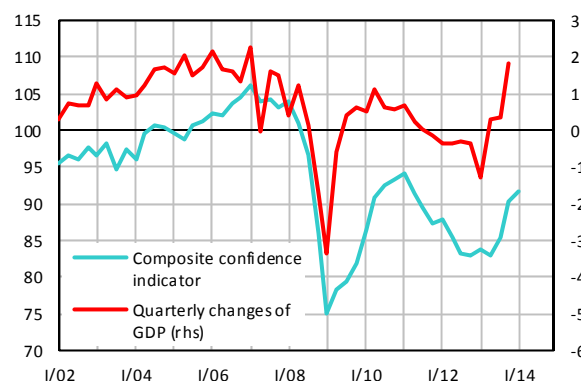
In trade, a growth in sales in constant prices could be observed, mainly thanks to the automotive segment. In other segments of trade, however, development was considerably less positive.

Sales in constant prices of selected market services also increased in annual terms, mainly thanks to growth in the section Transportation and Storage. An overall modest recovery in services was accompanied by only a slight improvement of the confidence indicator.

Although the relationship between the values of the composite confidence indicator and the quarterly changes in real GDP is not particularly close (without any lag their correlation is approximately 60%), it does at least enable us to utilize the fact that the composite indicator is published in advance of quarterly national accounts. In Graph B.2.7 we therefore present only a qualitative assessment. It is clear that for Q1 2014, the composite confidence indicator signalled a quarterly growth of GDP.

Graph B.2.7: Composite confidence indicator and QoQ GDP Growth

2005=100 (lhs), QoQ GDP growth in % (rhs)



Source: CZSO

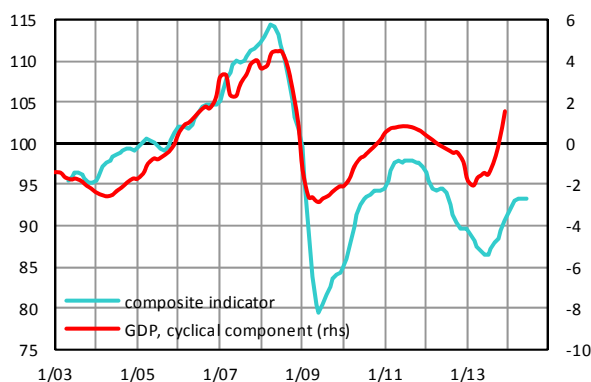
For Q4 2013, the composite leading indicator signalled the closing of the negative output gap. The published data have confirmed this signal. However, the composite indicator cannot at all take into account the impact of administrative interventions, e.g. the impacts of stockpiling tobacco products in connection with an increase in the excise tax. Therefore the improvement of the relative cyclical component in Q4 2013 is proportionally much stronger with respect to the development of the indicator. The same factor is also reflected in the interpretation for Q1 2014.

For Q1 2014, the indicator forecasts a very slight improvement of the relative cyclical component of GDP and its stagnation for Q2 2014. Since trend dynamics over the short term can be considered approximately constant, this signal is consistent with a slight GDP growth in Q1 2014 and its stagnation in Q2 2014. Considering the aforementioned one-off factor, however, it is also possible to expect, in line with the aforementioned indicator development, a GDP decrease in Q1 2014.

Graph B.2.8: Composite Leading Indicator

average 2005=100 (lhs), in % of GDP (rhs)

synchronized with cyclical component of GDP based on statistical methods (Hodrick-Prescott filter)



Source: CZSO, own calculations

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

Latest Development of GDP

Economic output, measured by real GDP, decreased by 0.9% (*versus 1.4%*) in 2013. Even though the economy emerged from a recession in Q2 2013, its growth was only limited.

Thanks to the planned increase in the excise tax on tobacco products, there was a considerable stockpiling of tax stamps for tobacco products in the last quarter. This was reflected in a high QoQ real GDP growth of 1.8% (*versus 0.5%*), whereas real gross value added, which does not capture direct effects of increases in indirect taxes, increased by only 0.8% QoQ. In a YoY comparison, real GDP increased by 0.8% in Q4 2013 (*versus a decrease of 0.7%*).

Domestic demand, due to an increase in final consumption expenditure and gross capital formation, and foreign trade balance both positively contributed to the QoQ increase in GDP. A positive sign was the fact that final consumption expenditure rose due to an increase in household consumption; nevertheless, for the time being it is hard to perceive this fact as a convincing sign of a turn-around. Similarly positive, although as far as the interpretation for the future is concerned somewhat inconclusive, information was a QoQ increase in gross fixed capital formation. In connection with recovery in the external environment, and thereby also in manufacturing, there was a considerable QoQ increase in exports.

In Q4 2013, YoY real growth in GDP was mainly driven by an increase in final consumption expenditure and partially also by the positive development of the foreign trade balance. Gross capital formation has slightly dampened GDP growth due to the development of inventories and valuables; however, after nine quarters it was possible to observe at least a slight increase in gross fixed capital formation. As for final consumption expenditure, private consumption also increased, although on a YoY basis the growth of government consumption was significant, too.

Specifically, in Q4 2013 household consumption increased by 1.0% YoY (*versus 0.5%*) and government consumption by 1.9% (*versus 1.2%*). In connection with the development of private consumption, we should point out that the CZSO has considerably increased the growth of household consumption in Q3 2013, from 0.5% in January to 1.3% at present. Real gross capital formation has decreased by 1.6% (*versus 5.3%*). This

decrease was mitigated by an increase in gross fixed capital formation of 1.7% (*versus a decrease of 3.4%*).

In Q4 2013, real exports increased by 2.8% YoY (*versus 3.4%*), while imports rose by 2.5% YoY (*versus 3.4%*).

In Q4 2013, the real increase in household consumption was driven, in terms of its structure, by expenditure on semi-durable goods and also, for the first time in two years, by expenditure on non-durable goods. This could be caused primarily by two factors: by softening of the households' budget constraint or by an increase in consumer optimism (or decrease in pessimism), which would be reflected in a declining propensity to save. Given the negative development of compensation of employees and, on the other hand, the positive development of the consumer confidence indicator in the respective period, we incline to the second cause. For the whole 2013, household consumption was supported only by an increase in expenditure on semi-durable goods.

Investment in other machines, equipment and means of transport contributed to the real growth of gross fixed capital formation in Q4 2013. However, these signals are once again considerably ambiguous. This can be well seen in the data for the whole 2013, when gross fixed capital formation decreased in real terms, as did all major types of investment in physical capital.

In Q4 2013, foreign trade contributed positively to GDP growth amid an improvement in terms of trade. Real gross domestic income rose by 2.2% YoY (*versus 0.2%*).

In nominal terms, GDP increased by 3.1% (*versus 0.8%*) in Q4 2013. Considering the income structure of GDP, compensation of employees decreased by 1.5% YoY (*versus stagnation*). The main reason was a higher than expected fall in wage bill caused by the payment of extraordinary bonuses in Q4 2012 (see Chapter C.3). On the other hand, however, gross operating surplus increased by 4.9% (*versus 1.1%*).

The aforementioned nominal decline in compensation of employees undoubtedly represented a negative impulse for the development of real disposable income of households. On the other hand, the rise in gross operating surplus, which had been falling or stagnating in YoY terms since 2009, can be understood as a positive signal, one that both contributes to the growth of companies' internal resources and can also lead to an increase in their investment activity over time.

GDP Estimate and Forecast

Considering the development of business cycle statistics, foreign trade and the aforementioned positive signals in household consumption and gross capital formation, we assume that both domestic and foreign demand had a pro-growth impact in Q1 2014. At the same time, however, it is necessary to take into account the already mentioned one-off factor of stockpiling cigarette tax stamps, which conversely decreased quarterly GDP dynamics. Specifically, we estimate that on a quarterly basis GDP decreased by 0.5% (*versus stagnation*). From Q2 2014, the quarterly growth of GDP should gently accelerate up to 0.5% (*versus 0.6%*) in the last quarter of 2014.

We estimate that GDP increased in Q1 2014 in real terms by 2.0% (*versus 1.0%*) on a yearly basis. Considering the revision of data on the development of household consumption in Q3 2013, we are adjusting the estimate of growth in Q1 2014 by 0.3 pp to 0.3%. We are not changing the estimate for government consumption growth of 1.0%. On the contrary, considering the surprising development in investment and taking into account the utilization of funds drawn from EU projects (detailed below), we estimate that gross fixed capital formation increased in real terms by 3.4% (*versus a decrease of 1.1%*) on a yearly basis. With regards to the recovery in foreign trade, we estimate that exports increased in real terms by 4.2% (*versus 3.8%*) and imports by 3.7% (*versus 3.2%*) on a yearly basis.

Compared to the January Forecast for 2014, we expect slightly more favourable development in the external environment, which is reflected in a slightly higher growth rate of the export markets. We also expect that the improving business cycle indicators will gradually be reflected in the decision-making of households and firms on their consumption and investment. This is confirmed, to a certain extent, by statistics from the individual sectors of the economy.

This year, real GDP could increase by 1.7% (*versus 1.4%*). The change compared to the last forecast is caused in particular by an increase in the forecast for growth in gross fixed capital formation. For 2015, we forecast GDP growth of 2.0% (*unchanged*). In both years, GDP growth should be attributed to domestic demand (approximately 66% both years).

In 2014, households will also be relatively more limited in terms of their incomes. We forecast that growth of real disposable income will only be limited. This follows from the low dynamics of nominal incomes, since growth in price levels will be low in spite of the CNB's

foreign exchange interventions. The unemployment rate will fall only very slowly, and in comparison with 2013 there will only be slight employment growth. Against these factors, however, is the rapid decline in the pessimism of Czech households, which could mitigate the creation of prudential savings. For 2014, we forecast a growth in household consumption of 0.6% (*unchanged*). A relatively pronounced reduction in the forecast for growth in real incomes will be to a great extent compensated by a growth of household consumer appetite. In 2015, household consumption growth could accelerate to 1.5% (*unchanged*).

We estimate government consumption to grow by 0.8% (*versus 1.0%*) in 2014 and by 0.7% (*versus 0.4%*) in 2015 in real terms. The change in the forecast is related to a growth in consumption of medical services and changes in direct and indirect taxes in accordance with the government's programme statement.

In Q4 2013, the recovery of foreign trade was reflected in the development of investment in fixed capital as well as the low base of comparison as a result of a long-term decrease in selected investment components. Although investment in fixed capital is much more volatile than household consumption, and any slight growth must be interpreted with utmost prudence, we forecast its recovery in 2014. The primary reason is the fact that in Q4 2013 investment growth was also accompanied in by growth of gross operating surplus, which is the initial indicator of company internal resources. Secondly, in weighing up new information on opportunities to obtain resources in 2014 and 2015 from the EU financial perspective 2007–2013, we have increased the volume of gross fixed capital formation in current prices compared to the January Forecast to take into account the probable better utilization in these years. The risk of this estimate is, however, the rate at which private investment will be squeezed out. In 2014, gross fixed capital formation should increase by 2.7% (*versus a decrease of 0.3%*) in real terms, and by 2.0% (*versus 2.6%*) in 2015.

In 2014 and 2015, foreign trade will have a pro-growth impact. In 2014, real exports could increase by 3.8% (*unchanged*) and real imports by 3.4% (*versus 3.2%*). In 2015, we expect real exports to grow by 4.2% (*versus 4.0%*) and imports by 3.8% (*unchanged*).

In 2014, nominal GDP should grow by 3.6% (*versus 3.1%*). In 2015, we forecast nominal GDP growth of 3.7% (*versus 3.3%*).

C.2 Prices

Consumer Prices

At the beginning of 2014, YoY inflation slowed considerably in accordance with the January Forecast. This slowdown was caused by the fadeaway of the impacts of last year's increase in VAT and the fact that the YoY change in regulated prices switched from growth to decline.

YoY growth of consumer prices reached 0.2% (*in line with the forecast*) in February 2014. The contribution of administrative measures was -0.6 pp, of which 0.1 pp could be attributed to last year's increase in the excise tax on cigarettes and -0.7 pp to regulated prices. The decrease in regulated prices was particularly driven by a decrease in the electricity price of 10.5%.

When examining the contributions of individual segments of the consumer basket to YoY inflation in February 2014, food and non-alcoholic beverages (0.7 pp) contributed most. In contrast, growth in prices was mitigated mostly by housing (-0.7 pp).

In spite of the weakening of the koruna due to the CNB's foreign exchange interventions, **2014** should be characterized by very low inflation.

A breakdown of YoY inflation into the contributions of market and administrative effects (see Graph C.2.2) makes it clear that administrative measures should have an anti-inflationary effect in the course of 2014. The negative contribution of regulated prices will outweigh the positive contribution of changes in indirect taxes.

With regard to indirect taxes, the inflation forecast for 2014 expects an increase in excise taxes on cigarettes. The total contribution to the YoY growth of prices in December could be 0.3 pp, of which approximately a third could be attributed to an increase in the excise taxes effective as of 1 January 2014. The remaining 0.2 pp could be attributed to the expected increase in excise taxes resulting from the transposition of the European directive which, however, has not yet gone through the legislative process. The impact of these tax changes on consumer prices should be gradual and should be reflected mainly in H2 2014.

Based on the aforementioned assumptions, we expect that the contribution of administrative measures to the YoY growth of consumer prices in December 2014 will be zero (*versus -0.1 pp*), of which electricity should account for -0.4 pp. Unlike previous years, administrative measures will be an important anti-inflationary factor.

The negative output gap will also have an anti-inflationary impact, in spite of the solid QoQ growth of gross value added in Q4 2013. Another factor that should exert slight anti-inflationary pressure is the expected development of unit labour costs (see Table C.3.3). Inflation should be influenced only slightly by the US dollar crude oil price, where a slight decrease of 3.8% is expected. In contrast, one important factor driving up inflation is the weakening of the koruna due to the CNB's foreign exchange interventions. The expected YoY weakening of the koruna of 4.8% against the EUR and 3.2% against the US dollar represents relatively strong upward pressure on inflation. In addition to the contributions of administrative measures, this impetus also lies behind the expected acceleration of YoY inflation in the course of 2014, which apparently only reached 0.2% in Q1 2014, but should climb to 1.9% in Q4 2014.

Despite the considerably loose monetary policy, both in the exchange rate and interest rate components, the **average inflation rate in 2014** should be very low and reach only 1.0% (*unchanged*), with a YoY increase in prices of 2.0% (*versus 1.9%*) in December 2014.

In **2015**, administrative measures should already be acting in the usual pro-inflationary direction, in spite of the introduction of the third VAT rate of 10% and the abolition of fees for doctor visits, which together should bring inflation down by 0.2 pp.⁴ Unlike this year, unit labour costs should have a pro-inflationary impact. Inflation should continue to be moderately mitigated by a slight decrease in the crude oil price, while the impact of the weakened koruna exchange rate should fade and the negative output gap should then dampen growth of prices less intensively than this year. We expect the average inflation rate in 2015 to reach 2.3% (*versus 2.4%*) and the YoY increase of consumer prices in December 2.0% (*unchanged*).

Deflators

The gross domestic expenditure deflator, which is a comprehensive indicator of domestic inflation, grew by 0.9% (*versus 0.5%*) YoY in Q4 2013.

In terms of its structure, the growth was a result of both an increase in the household and government consumption deflator and an increase in the gross capital formation deflator. Growth of the gross fixed

⁴ In relation to the government's programme statement, we expect the introduction of this rate for selected representatives of the following consumer basket segments: health, recreation and culture.

capital formation deflator as well as the household consumption deflator was influenced, to a certain extent, by the CNB's intervention; nevertheless, with regard to the intervention timing, prices have not yet fully adjusted. Investment demand is too weak for the time being to consider demand factors.

In Q4 2013, the terms of trade showed a growth of 1.8% (*versus 1.1%*). Both export and import prices were affected by the depreciation of the Czech koruna.

The implicit GDP deflator, which is a result of the gross domestic expenditure deflator and the terms of trade, increased on a yearly basis by 2.3% (*versus 1.5%*) in Q4 2013. From the above, it should be clear that this discrepancy (forecast vs. data) originated due to the relatively strong improvement (growth) of the terms of trade and the higher growth of the gross domestic expenditure deflator, mainly due to a relatively higher growth of the gross fixed capital formation deflator.

C.3 Labour Market

The behaviour of the labour market continued to be somewhat non-standard from the macroeconomic perspective. YoY growth in headcount employment continued. In line with expectations, the number of registered unemployed rose, although unemployment (LFS) decreased. Considering the shift of bonuses and the growing number of part-time jobs, a decrease in wages was expected, although its extent was rather surprising.

Employment

According to the LFS, **employment** grew by 0.8% YoY (*versus 0.5%*) in Q4 2013, mainly due to an increase in the number of employees of 1.3% (*versus 0.7%*). The biggest contribution to this result came from the tertiary sector.

Employment dynamics was significantly affected by a YoY increase in the share of part-time jobs, mainly in retail and education. From the demographic point of view, women aged 25–49, above all, contributed to this increase. This could be an evidence that labour supply is still elevated as households want to secure extra income.

As far as the employment structure by professional status is concerned, signs of a gradual reversal from the previous quarter were confirmed. The number of self-employed continued to fall on a yearly basis, while the number of employers increased slightly.

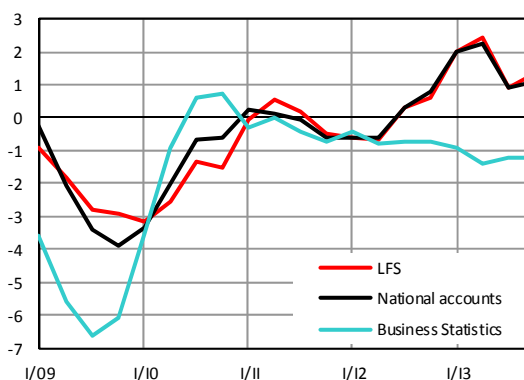
The gross domestic expenditure deflator could increase by 0.8% (*unchanged*) in 2014 and by 1.4% (*versus 1.7%*) in 2015. The terms of trade should post a growth of 1.2% (*versus 0.9%*) in 2014, while for the following year we forecast an increase of 0.5% (*versus a decrease of 0.2%*). We take into account a higher growth of the deflator of exports of goods in both years. In 2014, it should be a consequence of both the impact of the depreciation of the koruna exchange rate and a lower than previously (in the January forecast) expected decrease in reached prices. In 2015, we now expect reached prices to grow. In reaction to the koruna exchange rate development in Q1 2014, we have slightly increased the forecast for the growth of the import deflator, while the forecast for 2015 remains almost unchanged.

In relation to these values, we forecast growth of the implicit GDP deflator of 1.8% (*versus 1.7%*) in 2014 and we expect it to increase by 1.7% (*versus 1.3%*) in 2015.

Employers' efforts to increase labour productivity should lead to effective stagnation of employment. Employment should increase by only 0.2% (*versus 0.1%*) in both 2014 and 2015, in spite of a gradual economic recovery.

Graph C.3.1: **Employees in Different Statistics**

YoY growth rate, in %, business statistics in full-time equivalent



Source: CZSO

Since mid-2010, **employment rate** of the population aged 15–64 has been showing continuous growth. In Q4 2013, it increased further by 1.2 pp YoY (*versus 1.0 pp*), especially due to the increasing share of part-time jobs.

Economic activity rate (15–64 year-olds) grew by 1.0 pp YoY in Q4 2013 (*versus 0.9 pp*). This growth continues to reflect in particular the increased motivation of households to compensate for

a decrease in real disposable income by means of formal and informal gainful activities.

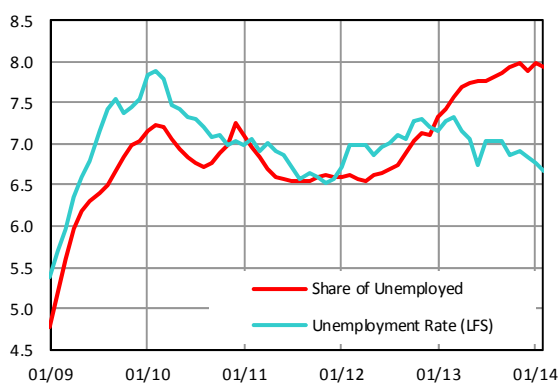
Changes in the demographic structure, apart from the increase in work activity, have considerably contributed (and will continue to contribute in the next few years) to the increase in participation rate (see Chapter A.5).

Unemployment

In the EU context, the unemployment rate (LFS) in the Czech Republic is one of the lowest. On the other hand, the number of job applicants registered at labour offices in 2013 has reached its highest level in the Czech Republic's history, and a further increase can also be expected in 2014. Economic interpretation of these indicators, the development of which is shown in Graph C.3.2, follows from their definition. Registered unemployment in the current situation is an expression of the continuing strong motivation towards any extra income, while registration at labour offices is also a condition for being granted a number of social benefits. According to the current legislation, partial extra earnings are supported or at least tolerated within the framework of the registered form of unemployment (for LFS, this is entirely excluded by definition), which results in stagnation or a slight decrease in the LFS unemployment rate.

Graph C.3.2: Indicators of Unemployment

seasonally adjusted data, in %



Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Note: Share of unemployed (Ministry of Labour and Social Affairs) is defined as a share of available job seekers aged 15 to 64 years in the population of the same age.

Seasonally adjusted **registered unemployment** in February 2014 already decreased, while a positive factor is the growing number of registered unemployed who found jobs independently. The share of unemployed persons (seasonally adjusted) could reach its peak during 2014; however, pressure on higher levels of registered unemployment will persist.

The **LFS unemployment rate** reached 6.7% in Q4 2013. A decrease in the long-term unemployment rate

contributed to its slight QoQ decline. If this trend is confirmed, it would mean a positive signal from the perspective of developments in structural unemployment, which could contribute to a stronger response of the unemployment rate to an improving position in the economic cycle. However, for 2014 we still expect only a slight decrease in the unemployment rate of 0.2 pp. We assume a more intensive utilization of core employees, to a lesser extent supplemented by agency employees, which means that the job finding rate could remain dampened.

Wages

The extent of the decrease in the wage bill and the average wage in Q4 2013 was rather surprising.

The **wage bill** (national accounts methodology, domestic concept) showed a considerable decrease of 2.7% (*versus 0.3%*) in Q4 2013. This can partially be attributed to the extent of managerial bonuses shifted to Q4 2012 as a result of the introduction of the solidarity surcharge for income tax from 1 January 2013. An increase in the number of part-time jobs could also have had an impact on the decrease in the wage bill in Q4 2013. The structure of part-time jobs indicates that their hourly remuneration could be lower compared to standard forms of employment. A dominant factor behind the relatively low growth of wages in 2014 should be the private sector's efforts to compensate for a continuous decrease in net operating surplus from 2009 to 2012. An increased proportion of employment in the informal sector, to which the divergence between registered and LFS unemployment as well as between LFS employment and employment according to the business employment statistics point, could further contribute to low wage growth.

The wage bill could therefore increase by 1.7% (*versus 2.2%*) in 2014 and by 3.6% (*versus 4.3%*) in 2015. Based on the government's decision, 2 pp of the health insurance rate will not be transferred from employers to employees from 2015. According to our original estimates, the contribution of this change to wage bill growth should have reached 0.5 pp in 2015.

In Q4 2013, the **average wage** (business statistics, full-time equivalent) decreased by 1.8% (*versus an increase of 0.8%*), in real terms it decreased by 2.9%. The impact of Q4 2012, when a considerable amount of extraordinary bonuses was paid out, is also important in this statistics. For the reasons mentioned in previous paragraphs, we expect the average wage to grow by 2.1% in 2014 (*versus 2.5%*) and by 3.4% in 2015 (*versus 4.2%*).

C.4 External Relations

(balance of payments methodology)

In 2013, the external imbalance, expressed as a ratio of the current account balance to GDP, reached -1.4% (*versus* -1.7%), thus deteriorating slightly by 0.1 pp in annual terms. The income balance deficit widened by 1.3 pp and the surplus of the balance of services decreased by 0.3 pp. On the other hand, the trade balance surplus increased by 1.0 pp and the balance of current transfers, moving from deficit to surplus, also improved by 0.5 pp.

The analysis of the previous development of the balance of payments and its forecast were influenced, to a certain extent, by the data revision conducted by the CNB upon the publication of data for Q4 2013. The revision covered the data for 2012 and the first three quarters of 2013; all parts of the current account and some items of the financial account were revised. In 2012, the income balance improved by CZK 29 billion, the balance of services by CZK 12 billion and the goods trade balance by CZK 3 billion. The ratio of the current account balance to GDP improved due to the revision by 1.1 pp to -1.3% in 2012; by contrast, in the first three quarters of 2013 it deteriorated by 0.3 pp to -2.0% .

Export markets⁵ started growing again during 2013, after their two-year decline, and they increased by 1.2% during the whole year (*versus* 0.9%). The expected recovery of the global economy should be favourably reflected in export market dynamics. Export markets could increase by 3.3% in 2014 (*versus* 3.1%) and by 3.1% in 2015 (*unchanged*). This should be positively reflected in the foreign trade results.

Export performance, which indicates a change in the share of the volume of Czech goods on foreign markets, was lower by 0.2% in 2013 (*versus stagnation*). Improved price competitiveness of Czech firms resulting from a weaker exchange rate of the Czech koruna (in connection with the CNB's foreign exchange interventions) should contribute to an increase in export performance of 0.8% in 2014 (*versus* 1.0%) and by 1.2% in 2015 (*versus* 1.0%).

In 2013, foreign trade in goods was recovering only slowly from its decline caused by weak foreign and domestic demand. The volumes of exports and imports started rising as late as in the second half of the year when growth rates were gradually increasing. For the

larger part of the year, exports were growing faster than imports, which led to the trade balance surplus reaching record highs.

In 2013, the trade balance surplus reached 4.8% of GDP (*versus* 4.9%). It could increase to 6.1% of GDP (*versus* 6.2%) in 2014, partially thanks to the continuing positive impact of the terms of trade. In 2015, trade balance surplus could reach 6.9% of GDP (*versus* 6.2%).

The deficit in the fuel balance (SITC 3) reached 5.2% of GDP in 2013 (*versus* 5.1%). With regard to the expected scenario for crude oil prices and the development of the koruna exchange rate, we assume that in the course of 2014 and 2015 the deficit in the fuel balance will roughly stagnate or slightly decrease. It should reach 5.0% of GDP (*versus* 4.9%) in 2014 and 4.6% of GDP (*unchanged*) in 2015.

Imports of services have been increasing in the last three years at a higher pace than exports of services, and thus the surplus of this part of balance has gradually been decreasing. Worse YoY results of the balance of transport services and the balance of tourism participated roughly equally in a decrease in the overall surplus in 2013. The surplus in the balance of services reached 1.4% of GDP in 2013 (*versus* 1.3%). The impact of the improvement in external environment or the weaker koruna could bring at least a small increase in the surplus in the balance of services in the following period, yet the balance of services should in relative terms remain almost unchanged. We expect the surplus in the balance of services to reach 1.4% of GDP in 2014 and 2015 (*in both cases unchanged*).

The deficit in the income balance, which includes the reinvested and repatriated earnings of foreign investors, deepened in 2013 compared to the previous year by 1.3 pp, reaching 8.0% of GDP (*versus* 7.9%). The increase in the deficit was largely due to an increased outflow of investment income in the form of dividends paid out to foreign owners of domestic direct investments. The balance of compensation of employees improved, though it has had a much lower impact on overall income balance. We expect that the deficit in the income balance will continue to grow and will reach 8.2% of GDP in 2014 (*versus* 7.9%) and 8.8% of GDP (*versus* 8.1%) in 2015.

⁵ *Weighted average of the growth of goods imports by the six most important trading partner countries (Germany, Slovakia, Poland, France, United Kingdom, and Austria)*

We assume that in 2014 the current account balance will improve considerably to -0.4% of GDP (*versus* -0.2%), mainly due to the favourable development of foreign trade in goods. The current account balance

should remain at a similar level also in 2015, when it could improve slightly to -0.3% of GDP (*versus* -0.4%). In both years, the current account of the balance of payments should thus be nearly balanced.

C.5 International Comparisons

Comparisons for the period up to and including 2013 are based on Eurostat statistics. Since 2014, our own calculations have been used on the basis of real exchange rates.

Using the purchasing power parity method, comparisons of economic output for individual countries within the EU are made in PPS (purchasing power standards). PPS is an artificial currency unit expressing a quantity of goods that can be bought on average for one euro on EU27 territory after converting the exchange rate for countries using currency units other than the euro. Using Eurostat data, the purchasing power parity of the Czech Republic in 2013 was CZK 18.14/PPS compared to the EU27, or CZK 17.41/EUR compared to the EA12.

Due to the recession, GDP per capita measured in **current purchasing power parity** declined in 2009 in all monitored countries, with the exception of Poland. While most states have gradually recovered from the crisis, in Greece the absolute economic level continued to fall without interruption until 2013. The absolute economic level also decreased slightly in Croatia in 2010 and 2013, in Portugal in 2011 and 2012 and in Slovenia in 2012 and 2013. In 2009-2013, also the relative economic level vis-à-vis the EA12 countries declined in the aforementioned economies, the largest drop (20 pp) being recorded in Greece. In contrast, the economic level relative to the EA12 average is increasing most quickly in the Baltic states. In the period of 2009-2013, it increased by 14 pp in Lithuania, by 11 pp in Latvia and by 7 pp in Estonia.

In the Czech Republic, the economic level measured by GDP per capita adjusted by current purchasing power parity was approximately 20,400 PPS in 2013, corresponding to 73% of economic level of the EA12. After a period of convergence in 2000-2007, when the Czech Republic's relative economic level vis-à-vis the EA12 countries increased by 13 pp, the Czech Republic

has been stagnating since 2010. Due to the slow economic recovery, the relative economic level of the Czech Republic should stagnate in 2014 and could increase by 1 pp in 2015.

GDP per capita, when adjusted for the **exchange rate**, takes into account the market valuation of the currency and the ensuing differences in price levels. In the case of the Czech Republic, this indicator was approximately EUR 14,200 in 2013, i.e. 49% of the EA12 level. In the aforementioned year, the absolute and relative levels of GDP per capita adjusted for the exchange rate decreased, to which the CNB's foreign exchange interventions also contributed. With regard to the assumption that the CNB will use the exchange rate as another monetary policy instrument until mid-2015, in 2014 we expect a further decrease in both absolute and relative levels.

When comparing price levels, the **comparative price level of GDP** in the Czech Republic decreased by 2 pp in 2013, thus reaching 67% of the EA12 average. The expected slight decrease in the comparative price level by a further 3 pp in 2014 should help maintain the Czech economy's competitiveness.

D Monitoring of Other Institutions' Forecasts

The Ministry of Finance of the Czech Republic monitors macroeconomic forecasts of other institutions engaged in forecasting future development of the Czech economy. Forecasts of 11 institutions are continuously monitored from publicly available data sources. Of these, six institutions are domestic (CNB, Ministry of Labour and Social Affairs, domestic banks and investment companies) and others are foreign (European Commission, Organisation for Economic Co-operation and Development, IMF, etc.). The forecasts are summarised in the following table.

Sources of tables and graphs: Ministry of Finance's own calculations.

Table D.1: Consensus Forecast

		March 2014			April 2014
		min.	max.	consensus	MoF forecast
Gross domestic product (2014)	growth in %, const.pr.	1.1	2.5	1.8	1.7
Gross domestic product (2015)	growth in %, const.pr.	2.2	3.0	2.5	2.0
Average inflation rate (2014)	%	0.9	1.8	1.2	1.0
Average inflation rate (2015)	%	1.3	2.6	2.1	2.3
Average monthly wage (2014)	growth in %	2.0	2.7	2.4	2.1
Average monthly wage (2015)	growth in %	2.1	4.2	3.3	3.4
Current account / GDP (2014)	%	-2.3	0.5	-1.0	-0.4
Current account / GDP (2015)	%	-1.9	0.5	-0.9	-0.3

Source: forecasts of individual institutions, own calculations

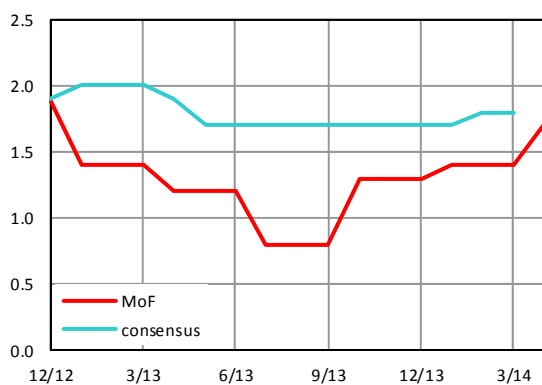
On average, the forecasts of the monitored institutions envisage economic recovery in 2014 and 2015. GDP growth could reach 1.8% in 2014 and 2.5% in the following year. The MoF's forecast is slightly more conservative for both aforementioned years.

According to the institutions' estimates, consumer price growth is expected to slow down to 1.2% in 2014 and accelerate to 2.1% in 2015. The forecast of the MoF is in line with both estimates.

According to the forecasts of the monitored institutions, in 2014 and 2015 the average wage should

Graph D.1: Forecast of Real GDP Growth for 2014

in %; the horizontal axis shows the month, in which the monitoring was conducted



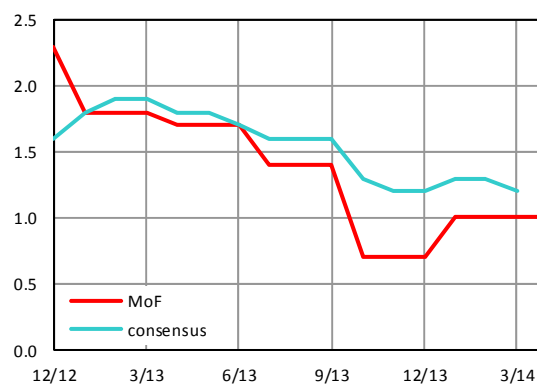
Source: forecasts of individual institutions, own calculations

increase by 2.4% and 3.3%, respectively. The forecast of the MoF is in line with both estimates.

According to the opinion of the monitored institutions, the current account deficit of the balance of payments should be around 1% of GDP in 2014 and 2015. For both these years, the MoF's forecast expects the current account of the balance of payments to be nearly balanced. Unlike some institutions which publish their forecasts on a half-yearly basis, the MoF's forecast takes into account the impacts of the CNB's interventions.

Graph D.2: Forecast of Average Inflation Rate for 2014

in %; the horizontal axis shows the month, in which the monitoring was conducted



Source: forecasts of individual institutions, own calculations

E Looking back at 2013

The macroeconomic framework of the State Budget (SB) for 2013 was, rather exceptionally, based on the Macroeconomic Forecast from October 2012, since the original draft SB was returned by the Chamber of Deputies on 24 October 2012. On 21 November 2012, the government submitted a new draft SB which the Chamber of Deputies approved on 19 December 2012.

The following text compares the macroeconomic framework with the data for 2013 published before 1 April 2014. It should be pointed out that the data for 2013, which are specified below, cannot be considered

final, as they will surely be revised. When assessing the forecast, the extent of revisions for 2010 and 2011 conducted by the CZSO from October 2012 to April 2014 should also be taken into account.

Comparison of the forecast with the actual data shows that the SB was based on a realistic macroeconomic framework. The deviation in the case of one of the main budgetary parameters, i.e. the level of GDP at current prices, amounted to only CZK 2 billion. Overall, the forecast accuracy was higher at current prices than at constant prices.

Table E.1: The Macroeconomic Framework for the 2013 State Budget – Comparison with the Actual Data

		2012 State Budget (July 2011)				Outcome (April 2013)				Difference (outcome – forecast)			
		2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
		<i>Forecast</i>											
Gross domestic product	<i>bill. CZK, curr.pr.</i>	3 775	3 808	3 820	3 882	3 791	3 823	3 846	3 884	16	15	26	2
Gross domestic product	<i>growth in %, const.pr.</i>	2.7	1.7	-1.0	0.7	2.5	1.8	-1.0	-0.9	-0.2	0.1	0.0	-1.6
Consumption of households	<i>growth in %, const.pr.</i>	0.6	-0.6	-3.0	-0.5	0.9	0.5	-2.1	0.1	0.3	1.1	0.9	0.6
Consumption of government	<i>growth in %, const.pr.</i>	0.6	-1.7	-1.1	-1.3	0.2	-2.7	-1.9	1.6	-0.4	-1.0	-0.8	2.9
Gross fixed capital formation	<i>growth in %, const.pr.</i>	0.1	-0.9	-0.6	0.3	1.0	0.4	-4.5	-3.5	0.9	1.3	-3.9	-3.8
Cont. of net exports to GDP growth	<i>p.p., const.pr.</i>	0.9	2.7	1.8	1.0	0.6	1.9	1.7	-0.3	-0.3	-0.8	-0.1	-1.3
GDP deflator	<i>growth in %</i>	-1.7	-0.8	1.3	0.9	-1.6	-0.9	1.6	1.9	0.1	-0.1	0.3	1.0
Average inflation rate	<i>%</i>	1.5	1.9	3.3	2.1	1.5	1.9	3.3	1.4	-	-	0.0	-0.7
Employment (LFS)	<i>growth in %</i>	-1.0	0.4	0.0	-0.2	-1.0	0.4	0.4	1.0	-	-	0.4	1.2
Unemployment rate (LFS)	<i>average in %</i>	7.3	6.7	6.9	7.3	7.3	6.7	7.0	7.0	-	-	0.1	-0.3
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	-0.4	2.3	2.0	2.1	0.8	2.2	1.8	-0.9	1.2	-0.1	-0.2	-3.0
Current account / GDP	<i>%</i>	-3.9	-2.9	-1.3	-1.2	-3.9	-2.7	-1.3	-1.4	0.0	0.2	0.0	-0.2
Government sector balance	<i>% of GDP</i>	-4.8	-3.3	-3.2	-2.9	-4.7	-3.2	-4.2	-1.4	0.1	0.1	-1.0	1.5
<u>Assumptions:</u>													
Exchange rate CZK/EUR		25.3	24.6	25.1	24.9	25.3	24.6	25.1	26.0	-	-	0.0	1.1
Long-term interest rates	<i>% p.a.</i>	3.7	3.7	2.9	2.7	3.7	3.7	2.8	2.1	-	-	-0.1	-0.6
Crude oil Brent	<i>USD/barrel</i>	80	111	113	115	80	111	112	109	-	-	-1	-6
GDP in Eurozone (EA12)	<i>growth in %, const.pr.</i>	2.0	1.4	-0.5	0.3	1.9	1.6	-0.6	-0.4	-0.1	0.2	-0.1	-0.7

The macroeconomic framework of the SB was in line with other institutions' forecasts of that time, as is clear from the Table E.2.

At the time when the forecast was drawn up, the economy was in a shallow recession. According to the then available data, real GDP decreased by 0.2% OoQ in Q2 2012, which represented a YoY decrease of 1.7%. All components of domestic demand posted real YoY decline – household consumption went down by 3.5% (later changed to -2.3%), government consumption by 0.9% (now -2.5%) and gross capital formation by 6.5% (now -3.8%). On the contrary, the development of foreign trade had a positive impact.

Table E.2 Comparison with other official forecasts

	Date of forecast release	GDP <i>growth in %, const. pr.</i>	Inflation rate <i>in %, aop</i>
CNB	<i>November 2012</i>	0.2	2.3
EC	<i>November 2012</i>	0.8	-
IMF	<i>October 2012</i>	0.8	2.1
OECD	<i>November 2012</i>	0.8	2.0
Average		0.7	2.1
MoF	<i>October 2012</i>	0.7	2.1
Data	<i>April 2014</i>	-0.9	1.4

Neither the situation in the external environment of the Czech economy was favourable. The euro zone as a whole was also going through a recession and the development on its periphery (Greece, Cyprus, Portugal, Spain and Italy) was particularly alarming. Moreover, in mid-2012 there was an escalation of the debt crisis. Tensions were later reduced thanks to introducing the possibility of interventions by the ECB on the secondary government bonds market, the initiation of the ESM, and progress in resolving the problems of the Spanish banking sector. Yet the possibility of further escalation of the debt crisis was considered to be a significant downside risk.

Fortunately, this risk did not materialize. During 2013, market sentiment towards the euro zone periphery was gradually improving, and remained largely unaffected by, for example, complications related to negotiations on the bailout programme for Cyprus in March 2013. On the other hand, the economic performance of the euro area was weaker than assumed in the forecast. The recession lasted until Q1 2013 and the subsequent recovery during the year was only modest. Total economic output of the EA12 in 2013 was 0.7 pp below the forecast.

Development in individual euro area countries was very diverse; nevertheless, continuing uncertainty regarding future development, the impacts of fiscal consolidation, the labour market situation and related slow recovery of domestic demand, and the gradual stabilization of the financial markets combined with low credit activity, can all generally be identified as causes of a weaker than expected output growth. The unfavourable development of investment reflected the tight fiscal situation, mixed expectations of the private sector and low consumer confidence which only started improving slightly in H2 2013

The situation in the euro zone has been reflected in the development of the Czech economy. The forecast expected the recession in the Czech Republic to end at the turn of 2012 and 2013 and predicted subsequent slight but stable economic recovery. As in the euro area, the recession lasted one quarter longer. Moreover, the economic downturn in Q1 2013 was very deep – by 1.3% QoQ. Only slow economic recovery in the following two quarters led to GDP showing a decrease of 0.9% for the whole of 2013 instead of the expected growth of 0.7%. The extraordinarily strong QoQ GDP growth in Q4 2013 of 1.8% offered no assistance since it was largely caused by one-off factors, especially the effect of stockpiling

cigarette tax stamps in reaction to an increase in the excise tax as of 1 January 2014.

The main domestic factors that contributed to a decrease in economic output in 2013 include political instability, hard to predict business environment and the low level of economic sentiment of consumers and of many segments of the business sector. These factors had a negative impact on the development of household consumption and investment.

Real (i.e. adjusted for changes in price level) economic activity did not develop fully in line with the original expectations. From the budgetary perspective, however, nominal quantities are more important. Within the rather accurately estimated level of nominal GDP, a higher than expected decrease in real GDP was offset by a higher than expected increase in the GDP deflator. As regards the individual components of real GDP use, the foreign trade balance, government consumption and household consumption developed more favourably compared to the assumptions. In contrast, gross capital formation recorded a deep decline.

A higher than expected increase in the trade balance surplus was definitely a result of a surprising improvement in the terms of trade of 1.4%, instead of the expected decrease of 1.0%. The faster growth of export prices and slower growth of import prices contributed to approximately the same extent. Conversely, growth rates of real goods and services exports more or less stagnated, while imports only slowed down slightly. The resulting contribution of foreign trade to real GDP growth even reached a negative value (–0.3 pp), instead of the originally expected 1.0 pp. An evaluation through the contribution to growth of real gross domestic income thus seem more economically justifiable, in the case of foreign trade including both volume and price components. In 2013, it reached 0.7 pp compared to the expected 0.2 pp.

Three factors influenced the recorded nominal level of household consumption. Instead of the decrease in household consumption expenditure in constant prices of 0.5%, growth of 0.1% was shown. The retroactive data revisions impacted in 2010 and 2011 in a similar direction, upwards by CZK 16 billion and CZK 36 billion, respectively. Lower than expected growth of consumer prices (see below) did not reverse the favourable result from the budget perspective.

Nominal and real investment was considerably lower compared to the forecast. Instead of expected growth of 0.3%, the volume of gross fixed capital formation

decreased by 3.5%. We think that the main reasons for the decline in investment were significant uncertainty regarding future development and the private investors postponing new investment. The low utilization of production capacities in industry also has to be taken into account. However, unfavourable development has been identified also in government sector investment, the nominal decrease of which according to preliminary data reached CZK 15 billion in 2013 (when stagnation was expected). This decrease was almost exclusively caused by problems with drawing money from European funds.

Compared to the forecasted value, the average inflation rate in 2013 was 0.7 pp lower. Administrative measures (e.g. an unexpected decrease in natural gas prices) participated in this result by roughly two thirds, with market impacts responsible for the final third.

The response of the labour market to a decrease in economic output took an atypical course. In 2013, total employment increased by 1.0%, while the unemployment rate stagnated at 7.0%. The reduced creation of new “standard” jobs was outweighed by the so-called additional worker effect, whereby households reacted to their insecure prospects and deteriorated financial situation with an increase in labour supply in order to secure additional incomes. This is demonstrated by the record share of part-time jobs, and thus by a decrease in the number of worked hours per employee as well as the historically highest participation rate. However, the number of registered unemployed increased considerably in the course of 2013. The increasing divergence between these statistics and the Labour Force Survey (LFS) shows that employment growth could also be largely driven by informal extra incomes.

Based on the lower than expected economic growth (also due to higher employment and thus lower real labour productivity), the wage bill showed a decrease.

One of the causes of the difference between the forecast and reality is the massive “tax optimization” as a result of introducing the solidarity surcharge for income tax from 2013, which affected employees whose annual income is more than 48 times higher than the average monthly wage. This resulted in the payment of extraordinary bonuses in early 2012 in the amount of approximately CZK 5 billion, with subsequent loss of the wage bill at the beginning of 2013.

Compared to expectations, the current account of the balance of payments showed CZK 7 billion (0.2% of GDP) higher deficit. As a whole it developed roughly in line with the forecast, though differences in individual balances were significant. Trade balance (goods) showed surplus higher by CZK 40 billion, and better results were achieved also in the balance of transfers (by CZK 16 billion) and the balance of services (by CZK 5 billion). In contrast, the income balance deficit was CZK 68 billion higher.

According to the CZSO’s preliminary estimate, the government sector deficit reached 1.4% of GDP in 2013. Structural balance, i.e. the balance adjusted for the effects of business cycle and one-off or temporary measures, reached –0.3% of GDP due to fiscal effort (YoY change in the structural balance) amounting to 1.3 pp. Structural balance was therefore well below the level of the medium-term budgetary objective for the Czech Republic (structural balance of –1% of GDP). The better result was achieved mainly due to the impact of lower than expected investment activity (especially investment from national resources). Tax revenues fared also better than had been expected, especially in the case of indirect taxes, which was among other factors due to the relatively large stockpiling of tobacco products in reaction to an increase in the rate as of 1 January 2014. More favourable development was also seen in social allowances from the pension scheme system.

Tables and Graphs:

C.1 Economic Output

Table C.1.1: Real GDP by Type of Expenditure – yearly
 chained volumes, reference year 2005

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Prelim.	Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK 2005</i>	3635	3471	3557	3622	3585	3551	3613	3685	3768	3863
	<i>growth in %</i>	3.1	-4.5	2.5	1.8	-1.0	-0.9	1.7	2.0	2.2	2.5
Private consumption exp.¹⁾	<i>bill. CZK 2005</i>	1720	1724	1740	1749	1711	1714	1723	1749	1782	1816
	<i>growth in %</i>	2.8	0.2	0.9	0.5	-2.1	0.1	0.6	1.5	1.9	1.9
Government consumption exp.	<i>bill. CZK 2005</i>	674	701	703	684	671	682	687	691	700	708
	<i>growth in %</i>	1.2	4.0	0.2	-2.7	-1.9	1.6	0.8	0.7	1.2	1.2
Gross capital formation	<i>bill. CZK 2005</i>	1071	855	901	908	863	825	853	872	892	922
	<i>growth in %</i>	1.9	-20.2	5.4	0.8	-5.0	-4.4	3.4	2.3	2.3	3.3
– Gross fixed capital formation	<i>bill. CZK 2005</i>	1004	893	902	905	864	834	856	873	891	919
	<i>growth in %</i>	4.1	-11.0	1.0	0.4	-4.5	-3.5	2.7	2.0	2.1	3.1
– Change in stocks and valuables	<i>bill. CZK 2005</i>	68	-38	-1	3	-1	-9	-3	0	1	3
Exports of goods and services	<i>bill. CZK 2005</i>	2642	2354	2717	2977	3109	3115	3233	3368	3515	3688
	<i>growth in %</i>	4.0	-10.9	15.4	9.5	4.5	0.2	3.8	4.2	4.4	4.9
Imports of goods and services	<i>bill. CZK 2005</i>	2467	2169	2503	2678	2739	2755	2849	2956	3078	3221
	<i>growth in %</i>	2.7	-12.1	15.4	7.0	2.3	0.6	3.4	3.8	4.1	4.7
Gross domestic exp.	<i>bill. CZK 2005</i>	3465	3288	3351	3347	3252	3231	3272	3321	3382	3452
	<i>growth in %</i>	2.2	-5.1	1.9	-0.1	-2.8	-0.7	1.3	1.5	1.8	2.1
Methodological discrepancy²⁾	<i>bill. CZK 2005</i>	-6	7	-1	-18	-31	-28	-34	-39	-43	-49
Real gross domestic income	<i>bill. CZK 2005</i>	3562	3441	3482	3504	3455	3460	3550	3636	3718	3811
	<i>growth in %</i>	2.1	-3.4	1.2	0.6	-1.4	0.1	2.6	2.4	2.2	2.5
Contribution to GDP growth³⁾											
– Gross domestic expenditure	<i>percent. points</i>	2.2	-5.0	1.8	-0.1	-2.7	-0.6	1.2	1.4	1.7	1.9
– consumption	<i>percent. points</i>	1.6	0.9	0.5	-0.3	-1.5	0.4	0.4	0.9	1.2	1.2
– household expenditure	<i>percent. points</i>	1.4	0.1	0.5	0.3	-1.1	0.1	0.3	0.7	0.9	0.9
– government expenditure	<i>percent. points</i>	0.2	0.8	0.1	-0.6	-0.4	0.3	0.2	0.1	0.2	0.2
– gross capital formation	<i>percent. points</i>	0.6	-5.9	1.3	0.2	-1.2	-1.0	0.8	0.5	0.5	0.7
– gross fixed capital formation	<i>percent. points</i>	1.1	-3.0	0.3	0.1	-1.1	-0.8	0.6	0.4	0.5	0.7
– change in stocks	<i>percent. points</i>	-0.5	-2.9	1.0	0.1	-0.1	-0.2	0.2	0.1	0.0	0.0
– Foreign balance	<i>percent. points</i>	0.9	0.5	0.6	1.9	1.7	-0.3	0.5	0.6	0.6	0.6
– external balance of goods	<i>percent. points</i>	0.5	0.5	0.6	2.1	1.7	0.0	0.4	0.6	0.5	0.5
– external balance of services	<i>percent. points</i>	0.4	0.0	0.1	-0.2	0.0	-0.4	0.1	0.0	0.1	0.1
Gross value added	<i>bill. CZK 2005</i>	3320	3148	3247	3305	3273	3244	.	.	.	.
	<i>growth in %</i>	4.1	-5.2	3.1	1.8	-1.0	-0.9	.	.	.	.
Net taxes on products	<i>bill. CZK 2005</i>	316	321	310	316	311	307	.	.	.	.

Source: CZSO, own calculations

¹⁾ The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.

²⁾ Deterministic impact of using prices and structure of the previous year for calculation of y-o-y growth.

³⁾ Calculated on the basis of prices and structure of the previous year with perfectly additive contributions.

Table C.1.2: Real GDP by Type of Expenditure – quarterly
 chained volumes, reference year 2005

		2013				2014			
		Q1 <i>Prelim.</i>	Q2 <i>Prelim.</i>	Q3 <i>Prelim.</i>	Q4 <i>Prelim.</i>	Q1 <i>Estimate</i>	Q2 <i>Forecast</i>	Q3 <i>Forecast</i>	Q4 <i>Forecast</i>
Gross domestic product	<i>bill. CZK 2005</i>	829	887	902	934	845	906	923	938
	<i>growth in %</i>	-2.9	-1.7	-0.1	0.8	2.0	2.1	2.4	0.4
	<i>growth in %¹⁾</i>	-2.3	-1.6	-1.0	1.2	2.0	2.1	2.1	0.7
	<i>quart.growth in %¹⁾</i>	-1.3	0.3	0.3	1.8	-0.5	0.3	0.4	0.5
Private consumption exp.²⁾	<i>bill. CZK 2005</i>	403	425	438	447	405	428	439	451
	<i>growth in %</i>	-1.7	-0.2	1.3	1.0	0.3	0.7	0.4	0.8
Government consumption exp.	<i>bill. CZK 2005</i>	159	166	167	189	161	167	169	190
	<i>growth in %</i>	1.1	0.8	2.6	1.9	1.0	0.7	0.8	0.5
Gross capital formation	<i>bill. CZK 2005</i>	174	197	228	226	182	207	244	220
	<i>growth in %</i>	-5.9	-11.4	0.9	-1.6	4.7	4.7	7.0	-2.4
– Gross fixed capital formation	<i>bill. CZK 2005</i>	183	199	213	239	189	206	218	244
	<i>growth in %</i>	-6.8	-6.6	-3.2	1.7	3.4	3.4	2.3	1.9
– Change in stocks and valuables	<i>bill. CZK 2005</i>	-9	-2	15	-13	-7	1	26	-23
Exports of goods and services	<i>bill. CZK 2005</i>	748	781	777	808	779	813	805	837
	<i>growth in %</i>	-5.3	0.5	2.8	2.8	4.2	4.0	3.6	3.5
Imports of goods and services	<i>bill. CZK 2005</i>	648	674	702	731	672	698	725	754
	<i>growth in %</i>	-4.5	-0.9	5.2	2.5	3.7	3.6	3.3	3.1
Methodological discrepancy³⁾	<i>bill. CZK 2005</i>	-8	-8	-7	-5	-9	-10	-8	-6
Real gross domestic income	<i>bill. CZK 2005</i>	804	863	878	915	830	889	906	925
	<i>growth in %</i>	-1.9	-0.7	0.9	2.2	3.2	3.0	3.2	1.1
Gross value added	<i>bill. CZK 2005</i>	764	814	825	842	.	.	.	.
	<i>growth in %</i>	-2.6	-1.5	0.2	0.3	.	.	.	.
	<i>growth in %¹⁾</i>	-2.0	-1.4	-0.8	0.7	.	.	.	.
	<i>quart.growth in %¹⁾</i>	-0.3	0.0	0.2	0.8	.	.	.	.
Net taxes on products	<i>bill. CZK 2005</i>	66	74	77	90	.	.	.	.

Source: CZSO, own calculations

¹⁾ From seasonally and working day adjusted data

²⁾ The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.

³⁾ Deterministic impact of using prices and structure of the previous year for calculation of y-o-y growth.

Table C.1.3: Nominal GDP by Type of Expenditure – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK</i>	3848	3759	3791	3823	3846	3884	4023	4173	4303	4471
	<i>growth in %</i>	5.1	-2.3	0.8	0.9	0.6	1.0	3.6	3.7	3.1	3.9
Private consumption ¹⁾	<i>bill. CZK</i>	1883	1902	1917	1935	1944	1969	1996	2066	2135	2220
	<i>growth in %</i>	7.8	1.0	0.8	1.0	0.5	1.3	1.4	3.5	3.3	4.0
Government consumption	<i>bill. CZK</i>	759	809	807	793	789	802	816	830	844	861
	<i>growth in %</i>	4.6	6.6	-0.2	-1.8	-0.5	1.7	1.7	1.8	1.6	2.0
Gross capital formation	<i>bill. CZK</i>	1114	896	940	937	898	865	900	924	948	985
	<i>growth in %</i>	2.0	-19.5	4.8	-0.3	-4.2	-3.6	4.0	2.7	2.5	4.0
– Gross fixed capital formation	<i>bill. CZK</i>	1031	926	931	923	888	858	893	919	945	981
	<i>growth in %</i>	4.2	-10.2	0.5	-0.9	-3.8	-3.3	4.0	2.9	2.8	3.8
– Change in stocks and valuables	<i>bill. CZK</i>	83	-30	9	14	10	7	7	5	3	4
External balance	<i>bill. CZK</i>	92	152	127	159	215	247	311	353	377	405
– Exports of goods and services	<i>bill. CZK</i>	2480	2216	2524	2787	3001	3053	3277	3422	3583	3770
	<i>growth in %</i>	-0.7	-10.7	13.9	10.4	7.7	1.7	7.3	4.4	4.7	5.2
– Imports of goods and services	<i>bill. CZK</i>	2388	2064	2397	2628	2786	2806	2966	3070	3206	3365
	<i>growth in %</i>	-0.5	-13.6	16.1	9.6	6.0	0.7	5.7	3.5	4.4	5.0
Gross national income	<i>bill. CZK</i>	3668	3508	3506	3566	3561	3627	3709	3821	3923	4055
	<i>growth in %</i>	7.8	-4.3	-0.1	1.7	-0.1	1.8	2.3	3.0	2.7	3.4
Primary income balance	<i>bill. CZK</i>	-180	-251	-285	-258	-285	-257	-314	-352	-380	-416

Source: CZSO, own calculations

¹⁾ The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.

Table C.1.4: Nominal GDP by Type of Expenditure – quarterly

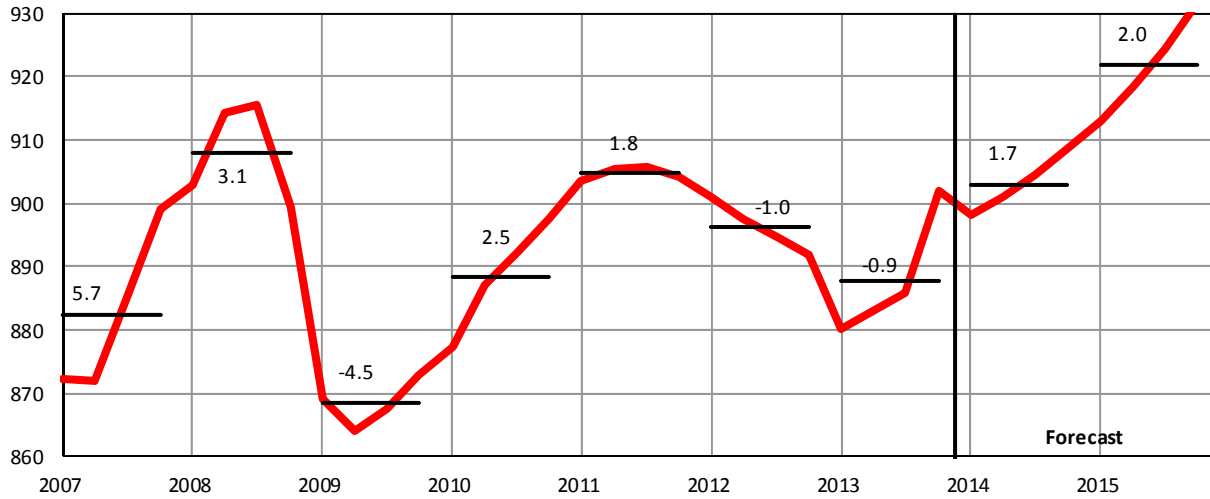
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	898	968	983	1034	931	1004	1026	1062
	<i>growth in %</i>	-1.1	0.1	1.5	3.1	3.8	3.6	4.3	2.7
Private consumption ¹⁾	<i>bill. CZK</i>	463	490	504	512	464	495	511	525
	<i>growth in %</i>	-0.4	1.0	2.4	1.9	0.3	1.1	1.5	2.5
Government consumption	<i>bill. CZK</i>	183	194	196	231	185	196	199	235
	<i>growth in %</i>	0.8	1.0	2.5	2.4	1.2	1.4	1.9	2.0
Gross capital formation	<i>bill. CZK</i>	183	207	238	237	193	217	256	234
	<i>growth in %</i>	-4.7	-10.8	1.5	-0.6	5.5	4.8	7.6	-1.4
– Gross fixed capital formation	<i>bill. CZK</i>	188	205	218	247	197	214	227	255
	<i>growth in %</i>	-6.5	-6.6	-3.4	2.3	4.6	4.5	3.9	3.3
– Change in stocks and valuables	<i>bill. CZK</i>	-5	2	20	-10	-4	3	29	-21
External balance	<i>bill. CZK</i>	69	78	46	54	89	95	59	67
– Exports of goods and services	<i>bill. CZK</i>	727	763	756	806	792	821	812	852
	<i>growth in %</i>	-4.2	1.3	3.6	6.3	8.9	7.6	7.5	5.6
– Imports of goods and services	<i>bill. CZK</i>	658	686	710	752	702	726	753	784
	<i>growth in %</i>	-4.6	-1.4	4.7	4.2	6.7	6.0	6.1	4.3

Source: CZSO, own calculations

¹⁾ The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.

Graph C.1.1: Gross Domestic Product (real)

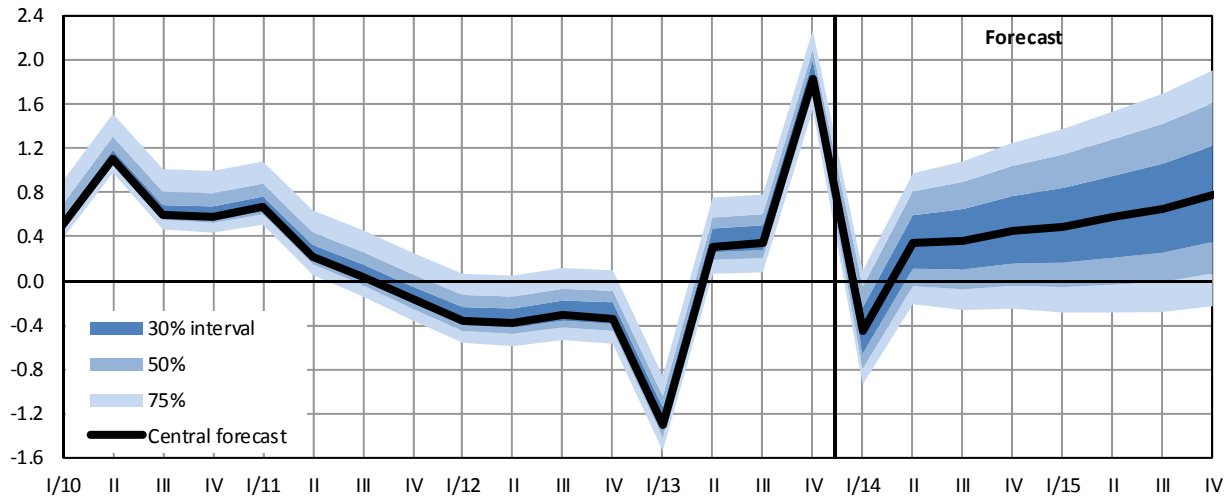
chained volumes, bill. CZK in const. prices of 2005, seasonally adjusted, growth rates in %



Source: CZSO, own calculations

Graph C.1.2: Gross Domestic Product (real)

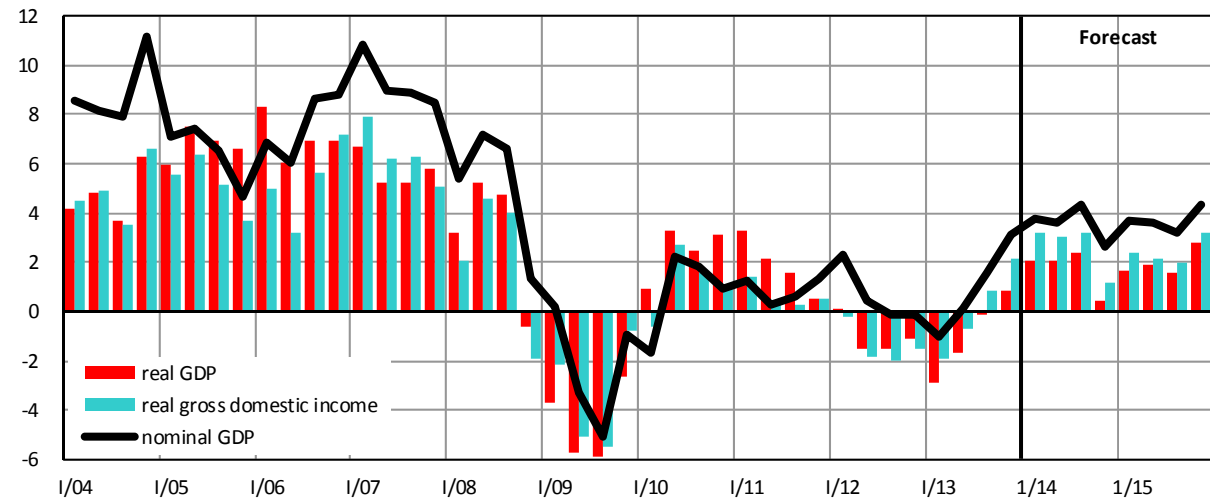
QoQ growth rate, in %, seasonally adjusted, past probability distribution reflects the actual distribution of data revisions, future probability distribution is based upon the MoF's forecasting performance



Source: CZSO, own calculations

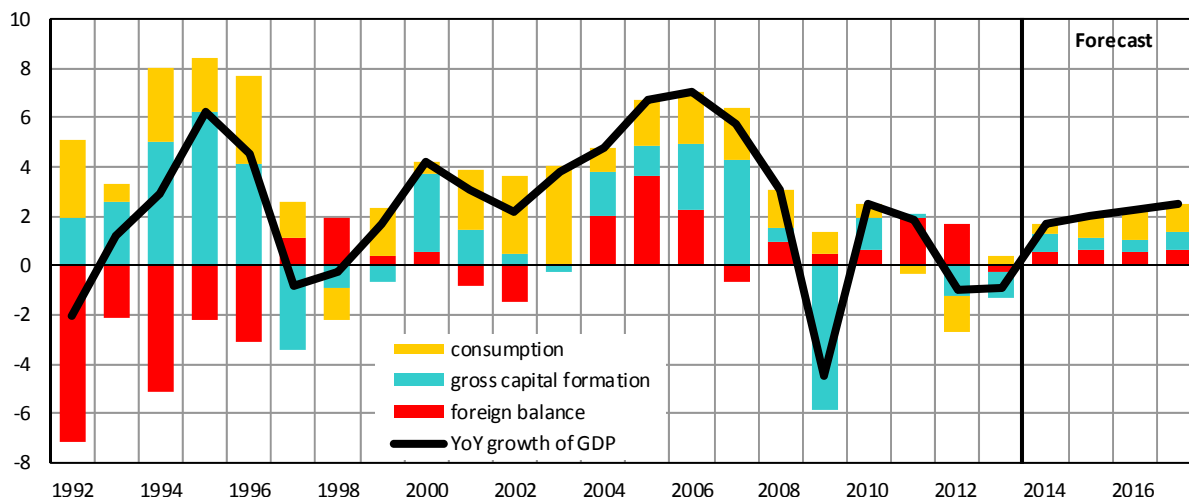
Graph C.1.3: Gross Domestic Product and Real Gross Domestic Income

YoY growth rate, in %



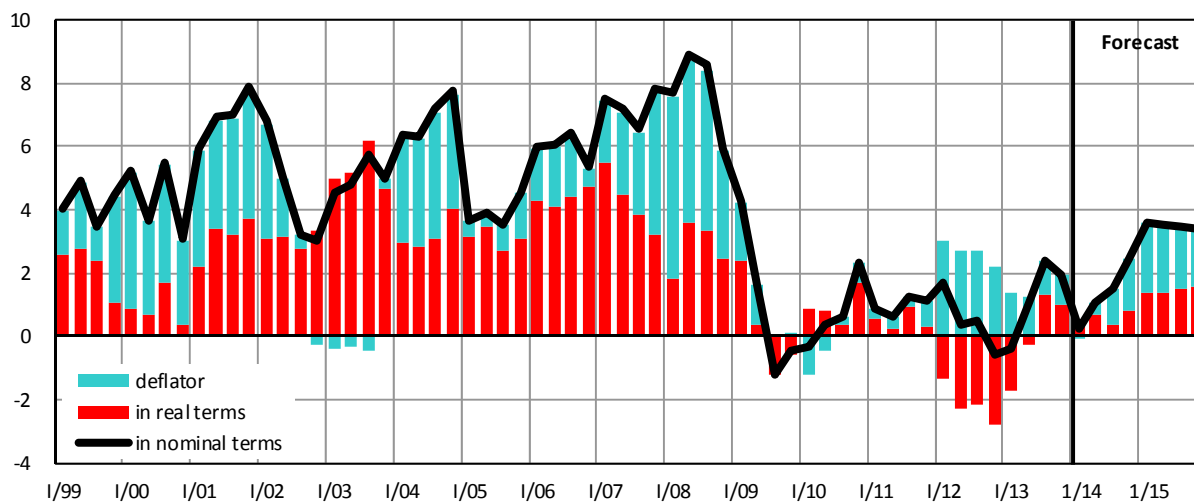
Source: CZSO, own calculations

Graph C.1.4: Gross Domestic Product (real) – contributions to YoY growth
 decomposition of GDP YoY growth, contributions in percentage points, GDP growth rate in %



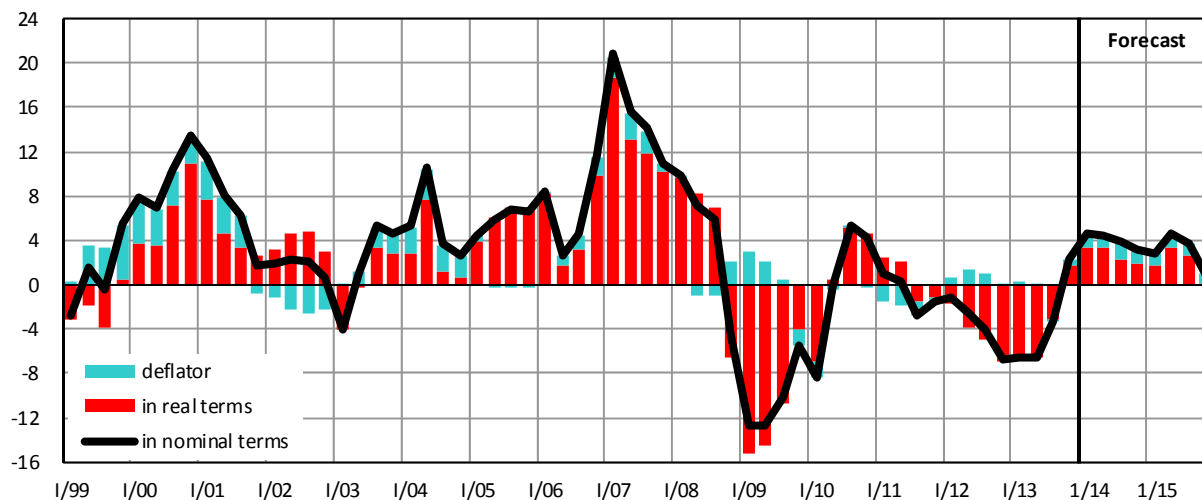
Source: CZSO, own calculations

Graph C.1.5: Private Consumption (incl. NPISH)
 YoY growth rate, in %



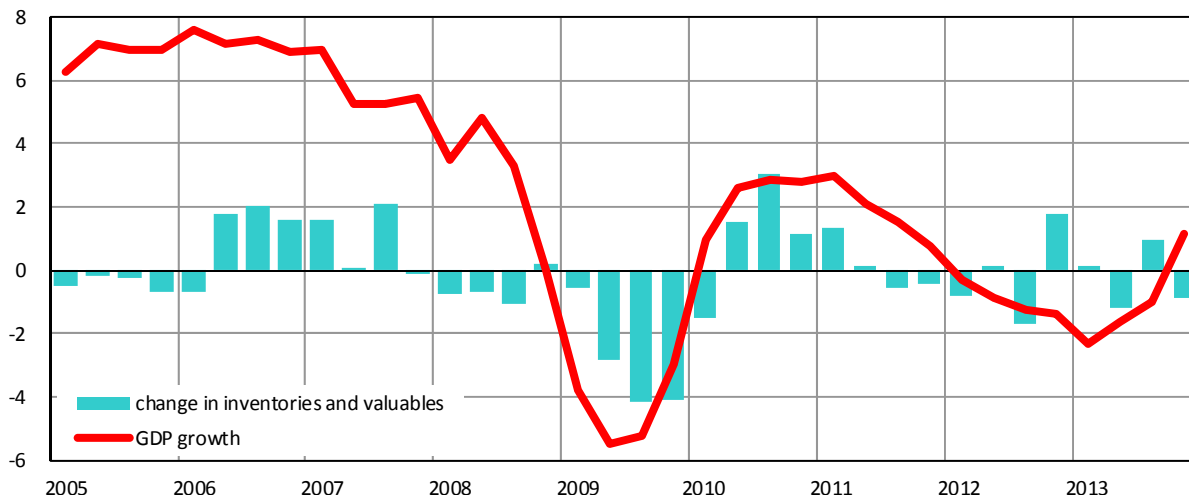
Source: CZSO, own calculations

Graph C.1.6: Gross Fixed Capital Formation
 YoY growth rate, in %



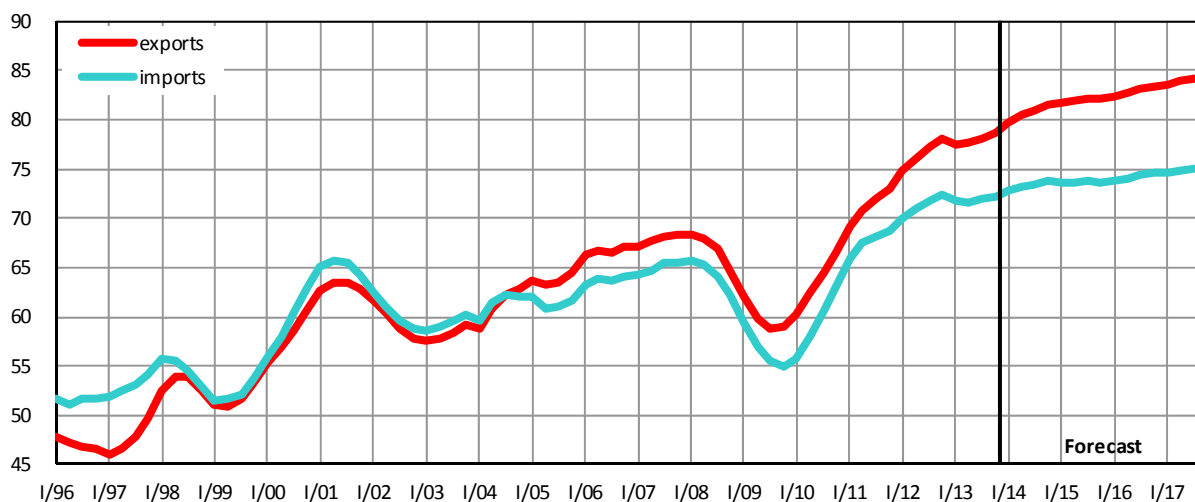
Source: CZSO, own calculations

Graph C.1.7: Change in Inventories and Valuables (real)
seasonally adjusted, contributions to YoY growth of GDP in percentage points



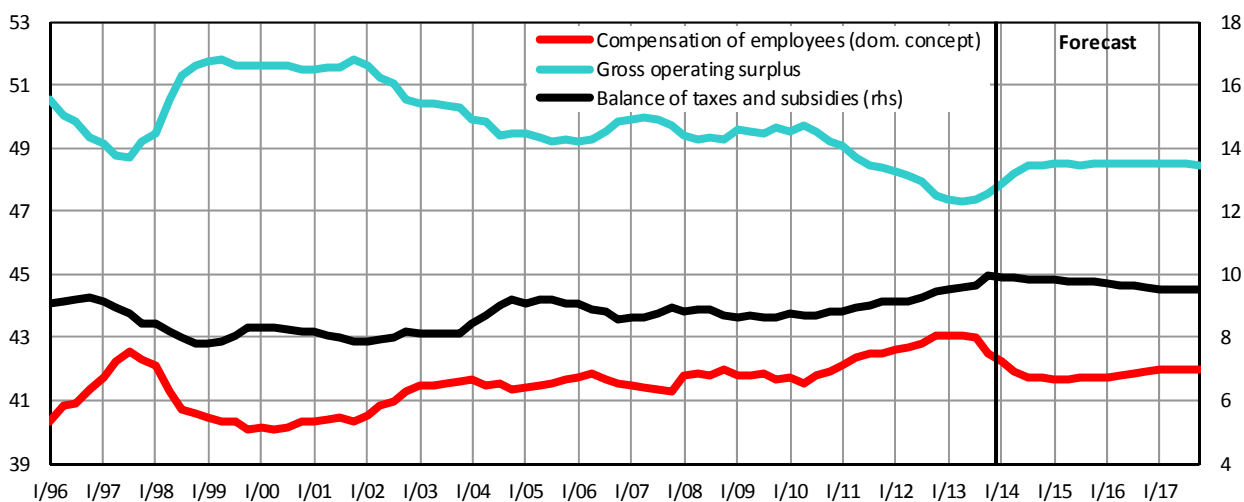
Source: CZSO

Graph C.1.8: Ratio of Exports and Imports of Goods and Services to GDP (nominal)
yearly moving sums, in %



Source: CZSO, own calculations

Graph C.1.9: GDP – Income Structure
yearly moving sums, in %



Source: CZSO, own calculations

Table C.1.5: GDP by Type of Income – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
GDP	<i>bill. CZK</i>	3848	3759	3791	3823	3846	3884	4023	4173	4303	4471
	<i>growth in %</i>	5.1	-2.3	0.8	0.9	0.6	1.0	3.6	3.7	3.1	3.9
Balance of taxes and subsidies	<i>bill. CZK</i>	335	325	334	349	363	387	397	409	413	427
	<i>growth in %</i>	2.5	-3.1	2.8	4.3	4.2	6.5	2.5	3.2	0.9	3.4
– Taxes on production and imports	<i>bill. CZK</i>	419	425	434	457	471	494	508	522	527	543
	<i>growth in %</i>	2.9	1.4	2.1	5.3	3.2	4.9	2.8	2.7	1.0	3.0
– Subsidies on production	<i>bill. CZK</i>	84	100	100	108	108	108	112	113	115	116
	<i>growth in %</i>	4.4	19.5	-0.4	8.6	0.2	-0.4	3.7	1.0	1.5	1.5
Compensation of employees	<i>bill. CZK</i>	1617	1567	1590	1626	1656	1649	1679	1741	1804	1878
	<i>growth in %</i>	6.8	-3.0	1.4	2.2	1.8	-0.4	1.8	3.7	3.6	4.1
– Wages and salaries	<i>bill. CZK</i>	1226	1201	1210	1237	1260	1248	1270	1314	1362	1418
	<i>growth in %</i>	7.5	-2.1	0.8	2.2	1.8	-0.9	1.8	3.5	3.6	4.1
– Social security contributions	<i>bill. CZK</i>	390	367	380	389	396	402	409	427	443	461
	<i>growth in %</i>	4.7	-6.1	3.7	2.4	1.8	1.4	1.8	4.5	3.6	4.1
Gross operating surplus	<i>bill. CZK</i>	1896	1866	1867	1849	1827	1848	1947	2023	2086	2166
	<i>growth in %</i>	4.1	-1.6	0.0	-0.9	-1.2	1.1	5.4	3.9	3.1	3.8
– Consumption of capital	<i>bill. CZK</i>	680	710	720	731	746	760	775	794	816	841
	<i>growth in %</i>	5.6	4.4	1.4	1.6	2.0	1.9	2.0	2.5	2.8	3.0
– Net operating surplus	<i>bill. CZK</i>	1216	1156	1147	1118	1081	1088	1173	1229	1270	1325
	<i>growth in %</i>	3.2	-4.9	-0.8	-2.5	-3.3	0.6	7.8	4.8	3.3	4.4

Source: CZSO, own calculations

Table C.1.6: GDP by Type of Income – quarterly

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	898	968	983	1034	931	1004	1026	1062
	<i>growth in %</i>	-1.1	0.1	1.5	3.1	3.8	3.6	4.3	2.7
Balance of taxes and subsidies	<i>bill. CZK</i>	82	96	104	104	83	99	107	106
	<i>growth in %</i>	4.0	2.7	2.8	16.7	1.4	2.6	2.6	2.4
Compensation of employees	<i>bill. CZK</i>	397	410	409	434	402	413	418	446
	<i>growth in %</i>	-0.8	0.2	0.7	-1.5	1.4	0.8	2.1	2.8
– Wages and salaries	<i>bill. CZK</i>	299	309	310	329	303	312	316	338
	<i>growth in %</i>	-1.0	-0.2	0.3	-2.7	1.4	0.8	2.1	2.8
– Social security contributions	<i>bill. CZK</i>	97	100	99	105	99	101	101	108
	<i>growth in %</i>	-0.3	1.3	2.0	2.4	1.4	0.8	2.1	2.8
Gross operating surplus	<i>bill. CZK</i>	419	463	470	496	446	492	501	509
	<i>growth in %</i>	-2.2	-0.5	2.0	4.9	6.5	6.4	6.7	2.5

Source: CZSO, own calculations

C.2 Prices

Table C.2.1: Prices – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								Forecast	Forecast	Outlook	Outlook
Consumer Price Index											
average of a year	<i>average 2005=100</i>	112.1	113.3	115.0	117.2	121.0	122.8	124.0	126.8	128.6	131.3
	<i>growth in %</i>	6.3	1.0	1.5	1.9	3.3	1.4	1.0	2.3	1.4	2.1
December	<i>average 2005=100</i>	111.8	112.9	115.5	118.3	121.1	122.8	125.3	127.8	129.6	132.2
	<i>growth in %</i>	3.6	1.0	2.3	2.4	2.4	1.4	2.0	2.0	1.4	2.0
– of which contribution of											
administrative measures¹⁾	<i>percentage points</i>	4.3	1.0	1.6	1.2	2.2	1.0	0.0	0.3	-0.3	0.4
market increase	<i>percentage points</i>	-0.7	0.0	0.7	1.2	0.1	0.4	2.1	1.7	1.7	1.6
HICP	<i>average 2005=100</i>	111.7	112.4	113.7	116.2	120.3	121.9	123.3	126.1	127.9	130.6
	<i>growth in %</i>	6.3	0.6	1.2	2.1	3.5	1.4	1.1	2.3	1.4	2.1
Offering prices of flats											
	<i>average 2005=100</i>	162.4	157.9	151.6	144.4	145.1	146.5	.	.	.	.
	<i>growth in %</i>	23.4	-2.8	-4.0	-4.8	0.5	1.0	.	.	.	.
Deflators											
GDP	<i>average 2005=100</i>	105.9	108.3	106.6	105.6	107.3	109.4	111.4	113.2	114.2	115.8
	<i>growth in %</i>	1.9	2.3	-1.6	-0.9	1.6	1.9	1.8	1.7	0.9	1.3
Domestic final use	<i>average 2005=100</i>	108.4	109.7	109.3	109.5	111.6	112.6	113.5	115.1	116.1	117.8
	<i>growth in %</i>	3.1	1.2	-0.3	0.1	1.9	0.9	0.8	1.4	0.9	1.5
Consumption of households											
	<i>average 2005=100</i>	109.5	110.3	110.2	110.7	113.6	114.9	115.8	118.2	119.8	122.3
	<i>growth in %</i>	4.8	0.8	-0.2	0.5	2.7	1.1	0.8	2.0	1.4	2.1
Consumption of government											
	<i>average 2005=100</i>	112.6	115.4	114.9	115.9	117.6	117.7	118.8	120.1	120.6	121.6
	<i>growth in %</i>	3.4	2.5	-0.5	0.9	1.5	0.1	0.9	1.1	0.4	0.8
Fixed capital formation											
	<i>average 2005=100</i>	102.8	103.7	103.2	102.0	102.7	103.0	104.3	105.3	106.0	106.8
	<i>growth in %</i>	0.1	1.0	-0.5	-1.2	0.8	0.2	1.3	1.0	0.7	0.7
Exports of goods and services											
	<i>average 2005=100</i>	93.9	94.1	92.9	93.6	96.5	98.0	101.4	101.6	101.9	102.2
	<i>growth in %</i>	-4.5	0.3	-1.3	0.8	3.1	1.6	3.4	0.3	0.3	0.3
Imports of goods and services											
	<i>average 2005=100</i>	96.8	95.2	95.8	98.1	101.7	101.8	104.1	103.8	104.2	104.5
	<i>growth in %</i>	-3.1	-1.7	0.6	2.5	3.6	0.1	2.2	-0.2	0.3	0.3
Terms of trade											
	<i>average 2005=100</i>	97.0	98.9	97.0	95.4	94.9	96.2	97.4	97.9	97.9	97.9
	<i>growth in %</i>	-1.4	2.0	-1.9	-1.6	-0.5	1.4	1.2	0.5	0.0	0.0

Source: CZSO, Eurostat, own calculations

Note: The outlook for 2016 assumes a 1 pp decrease in VAT rates (i.e. to 14% and 20%) with the effect from 1 January 2016.

¹⁾ The contribution of increase in regulated prices and in indirect taxes to increase of December YoY consumer price inflation.

Table C.2.2: Prices – quarterly

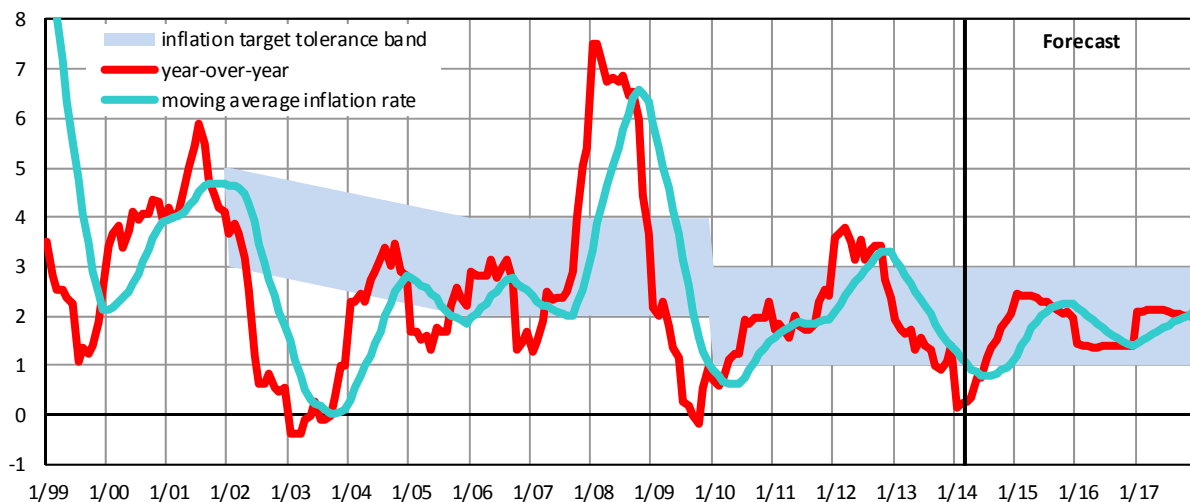
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Consumer Price Index	average 2005=100	122.8	123.0	122.6	122.5	123.1	123.8	124.3	124.9
	growth in %	1.8	1.5	1.2	1.1	0.2	0.6	1.4	1.9
– of which contribution of									
administrative measures¹⁾	percentage points	1.6	1.4	1.2	1.2	-0.6	-0.5	-0.2	-0.1
market increase	percentage points	0.2	0.1	0.0	0.0	0.8	1.1	1.6	2.0
HICP	average 2005=100	121.9	122.2	121.8	121.8	122.3	123.0	123.5	124.1
	growth in %	1.7	1.5	1.2	1.1	0.3	0.7	1.4	1.9
Offering prices of flats	average 2005=100	145.3	145.7	146.7	148.3	.	.	.	.
	growth in %	1.1	-0.3	1.2	1.8	.	.	.	.
Deflators									
GDP	average 2005=100	108.3	109.1	109.0	110.8	110.2	110.8	111.1	113.2
	growth in %	1.9	1.8	1.7	2.3	1.7	1.5	1.9	2.2
Domestic final use	average 2005=100	111.9	112.5	112.4	113.4	112.1	113.0	113.5	115.1
	growth in %	1.0	0.9	0.7	0.9	0.2	0.4	1.0	1.5
Consumption of households	average 2005=100	114.8	115.1	115.1	114.6	114.8	115.6	116.4	116.5
	growth in %	1.4	1.3	1.0	0.9	0.0	0.4	1.1	1.7
Consumption of government	average 2005=100	114.7	116.9	116.8	121.8	115.0	117.6	118.1	123.6
	growth in %	-0.3	0.2	-0.1	0.5	0.3	0.7	1.1	1.4
Fixed capital formation	average 2005=100	103.0	103.0	102.6	103.3	104.2	104.1	104.2	104.7
	growth in %	0.3	0.1	-0.2	0.7	1.2	1.1	1.6	1.3
Exports of goods and services	average 2005=100	97.2	97.7	97.3	99.7	101.6	101.1	100.9	101.8
	growth in %	1.2	0.8	0.8	3.4	4.5	3.5	3.7	2.0
Imports of goods and services	average 2005=100	101.5	101.7	101.2	102.9	104.5	104.0	103.9	104.0
	growth in %	-0.1	-0.5	-0.6	1.6	2.9	2.3	2.6	1.1
Terms of trade	average 2005=100	95.8	96.1	96.1	97.0	97.2	97.2	97.2	97.8
	growth in %	1.3	1.3	1.3	1.8	1.5	1.2	1.1	0.9

Source: CZSO, Eurostat, own calculations

¹⁾ The contribution of increase in regulated prices and in indirect taxes to increase of December YoY consumer price inflation.

Graph C.2.1: Consumer Prices

YoY growth rate, in %

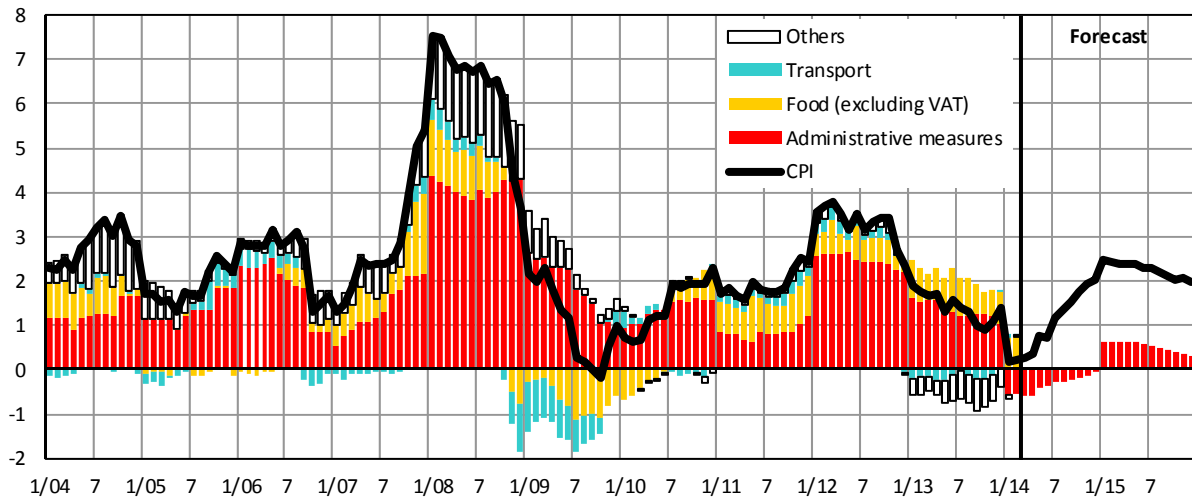


Source: CNB, CZSO, own calculations

Note: For the years 2002–2005 the highlighted area represents target band for headline inflation, whereas from 2006 on it is the tolerance band of the CNB's point target for headline inflation. The outlook for 2016 assumes a 1 pp decrease in VAT rates (i.e. to 14% and 20%) with the effect from 1 January 2016.

Graph C.2.2: Consumer Prices

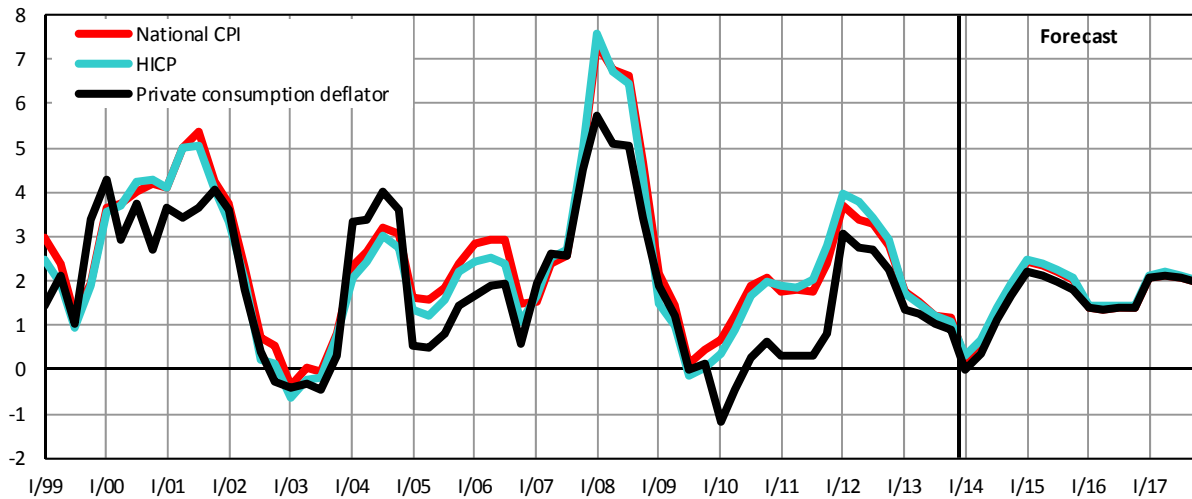
decomposition of YoY growth of CPI, contributions in pp, CPI growth rate in %, Transport excluding administrative measures and excises



Source: CZSO, own calculations

Graph C.2.3: Indicators of Consumer Prices

YoY growth rate, in %

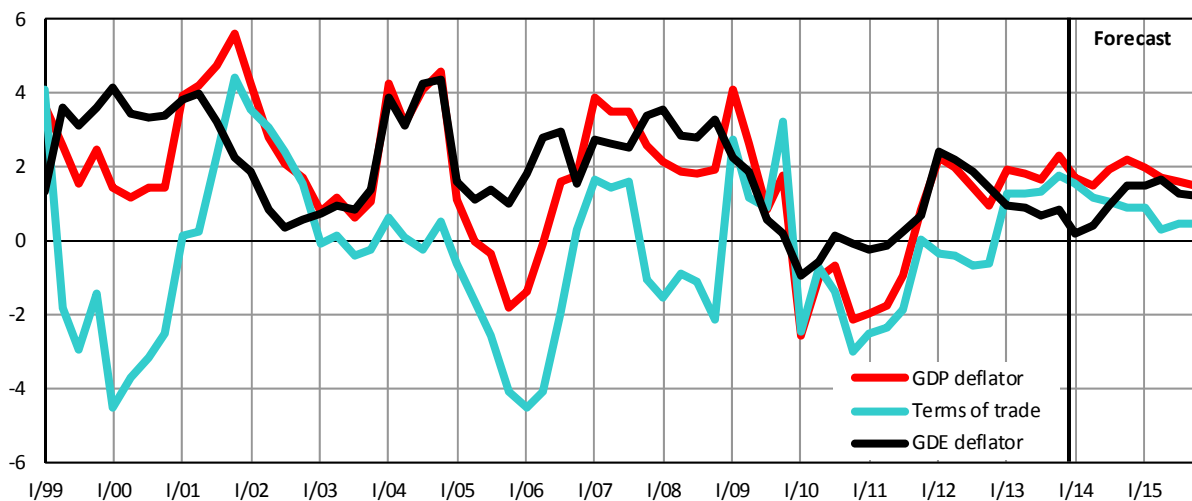


Source: CZSO, Eurostat, own calculations

Note: The outlook for 2016 assumes a 1 pp decrease in VAT rates (i.e. to 14% and 20%) with the effect from 1 January 2016.

Graph C.2.4: GDP Deflator

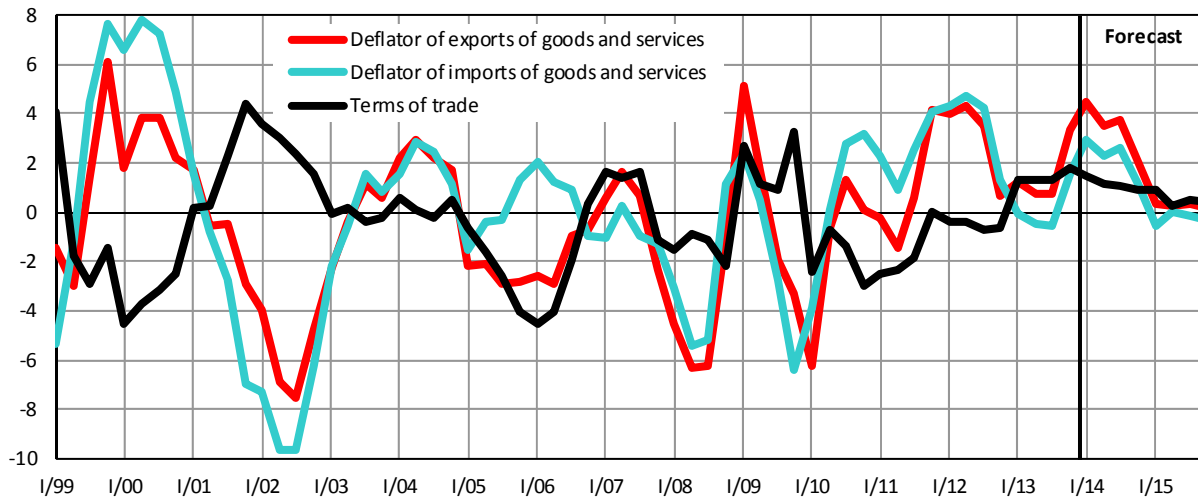
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.2.5: Terms of Trade

YoY growth rate, in %



Source: CZSO, own calculations

C.3 Labour Market

Table C.3.1: Labour Market – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	5002	4934	4885	4872	4890	4937	4949	4957	4969	4977
	<i>growth in %</i>	1.6	-1.4	-1.0	0.4	0.4	1.0	0.2	0.2	0.2	0.2
– employees	<i>av. in thous.persons</i>	4196	4107	4019	3993	3990	4055	4077	4086	4098	4107
	<i>growth in %</i>	1.7	-2.1	-2.1	0.0	-0.1	1.6	0.5	0.2	0.3	0.2
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	807	827	866	880	901	882	872	871	871	870
	<i>growth in %</i>	1.2	2.5	4.7	2.0	2.4	-2.1	-1.1	-0.2	0.0	-0.1
Unemployment	<i>av. in thous.persons</i>	230	352	384	351	367	369	358	353	339	316
Unemployment rate	<i>average in per cent</i>	4.4	6.7	7.3	6.7	7.0	7.0	6.8	6.6	6.4	6.0
Labour force	<i>av. in thous.persons</i>	5232	5286	5269	5223	5257	5306	5308	5310	5308	5293
	<i>growth in %</i>	0.7	1.0	-0.3	-0.2	0.7	0.9	0.0	0.0	0.0	-0.3
Population aged 15–64	<i>av. in thous.persons</i>	7410	7431	7399	7295	7229	7154	7082	7017	6951	6888
	<i>growth in %</i>	0.9	0.3	-0.4	-0.7	-0.9	-1.0	-1.0	-0.9	-0.9	-0.9
Employment/Pop. 15–64	<i>average in per cent</i>	67.5	66.4	66.0	66.8	67.6	69.0	69.9	70.6	71.5	72.3
Employment rate 15–64¹⁾	<i>average in per cent</i>	66.6	65.4	65.0	65.7	66.5	67.7	68.5	69.2	70.0	70.8
Labour force/Pop. 15–64	<i>average in per cent</i>	70.6	71.1	71.2	71.6	72.7	74.2	75.0	75.7	76.4	76.8
Participation rate 15–64²⁾	<i>average in per cent</i>	69.7	70.1	70.2	70.5	71.6	72.9	73.5	74.2	74.9	75.3
SNA											
Employment (domestic concept)	<i>av. in thous.persons</i>	5204	5111	5059	5057	5077	5124	5138	5146	5159	5167
	<i>growth in %</i>	2.3	-1.8	-1.0	0.0	0.4	0.9	0.3	0.2	0.2	0.2
Hours worked	<i>bill. hours</i>	9.37	9.09	9.16	9.16	9.15	9.08	9.02	8.99	8.99	8.98
	<i>growth in %</i>	2.7	-3.0	0.8	0.0	-0.1	-0.8	-0.7	-0.3	0.0	-0.1
Hours worked / employment	<i>hours</i>	1800	1778	1811	1811	1802	1772	1755	1747	1743	1738
	<i>growth in %</i>	0.4	-1.2	1.8	0.0	-0.5	-1.7	-1.0	-0.4	-0.2	-0.3
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	324.6	465.6	528.7	507.8	504.7	564	581	566	525	474
Share of unemployed³⁾	<i>average in per cent</i>	4.1	6.1	7.0	6.7	6.8	7.7	7.9	7.7	7.2	6.6

Source: CZSO, Ministry of Labour and Social Affairs, own calculations

¹⁾ The indicator does not include employment over 64 years.

²⁾ The indicator does not include labour force over 64 years.

³⁾ Share of available job seekers aged 15 to 64 years in the population of the same age.

Table C.3.2: Labour Market – quarterly

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4884	4953	4954	4958	4913	4957	4966	4962
	<i>YoY growth in %</i>	1.0	1.3	0.7	0.8	0.6	0.1	0.2	0.1
	<i>QoQ growth in %</i>	0.3	0.5	-0.1	0.2	0.0	0.0	0.0	0.0
– employees	<i>av. in thous. persons</i>	4015	4074	4064	4067	4051	4102	4081	4075
	<i>growth in %</i>	2.0	2.4	0.9	1.3	0.9	0.7	0.4	0.2
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	869	879	889	890	862	855	885	887
	<i>growth in %</i>	-3.2	-3.2	-0.5	-1.3	-0.8	-2.7	-0.5	-0.4
Unemployment	<i>av. in thous. persons</i>	393	358	370	355	367	348	361	358
Unemployment rate	<i>average in per cent</i>	7.4	6.7	6.9	6.7	6.9	6.6	6.8	6.7
Labour force	<i>av. in thous. persons</i>	5277	5311	5323	5313	5279	5305	5326	5320
	<i>growth in %</i>	1.4	1.4	0.7	0.3	0.0	-0.1	0.1	0.1
Population aged 15–64	<i>av. in thous. persons</i>	7184	7166	7145	7121	7105	7089	7074	7058
	<i>growth in %</i>	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	-1.0	-0.9
Employment/Pop. 15–64	<i>average in per cent</i>	68.0	69.1	69.3	69.6	69.1	69.9	70.2	70.3
	<i>increase over a year</i>	1.3	1.6	1.2	1.3	1.1	0.8	0.9	0.7
Employment rate 15–64 ¹⁾	<i>average in per cent</i>	66.8	67.8	68.0	68.3	67.7	68.5	68.8	68.9
	<i>increase over a year</i>	1.2	1.3	1.0	1.2	0.9	0.7	0.7	0.6
Labour force/Pop. 15–64	<i>average in per cent</i>	73.5	74.1	74.5	74.6	74.3	74.8	75.3	75.4
	<i>increase over a year</i>	1.7	1.7	1.3	1.0	0.8	0.7	0.8	0.8
Participation rate 15–64 ²⁾	<i>average in per cent</i>	72.3	72.8	73.2	73.3	72.9	73.4	73.9	73.9
	<i>increase over a year</i>	1.6	1.5	1.1	1.0	0.6	0.6	0.7	0.7
SNA									
Employment (domestic concept)	<i>av. in thous. persons</i>	5065	5134	5153	5146	5100	5138	5165	5151
	<i>growth in %</i>	1.1	1.3	0.7	0.7	0.7	0.1	0.2	0.1
Hours worked	<i>bill. hours</i>	2.29	2.36	2.14	2.29	2.29	2.34	2.11	2.27
	<i>growth in %</i>	-4.5	-0.5	3.2	-0.7	0.0	-0.7	-1.2	-1.0
Hours worked / employment	<i>hours</i>	452	459	415	445	449	455	409	441
	<i>growth in %</i>	-5.5	-1.8	2.5	-1.4	-0.7	-0.8	-1.4	-1.1
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	582	559	551	566	620	577	560	567
Share of unemployed ³⁾	<i>average in per cent</i>	7.9	7.6	7.5	7.7	8.5	7.8	7.6	7.7

Source: CZSO, Ministry of Labour and Social Affairs, own calculations

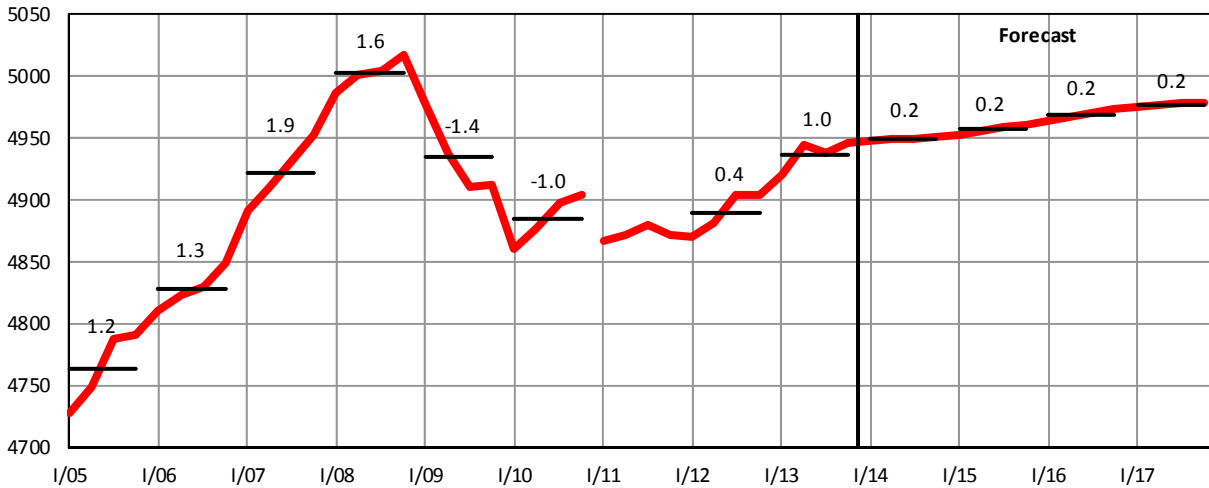
¹⁾ The indicator does not include employment over 64 years.

²⁾ The indicator does not include labour force over 64 years.

³⁾ Share of available job seekers aged 15 to 64 years in the population of the same age.

Graph C.3.3: Employment (LFS)

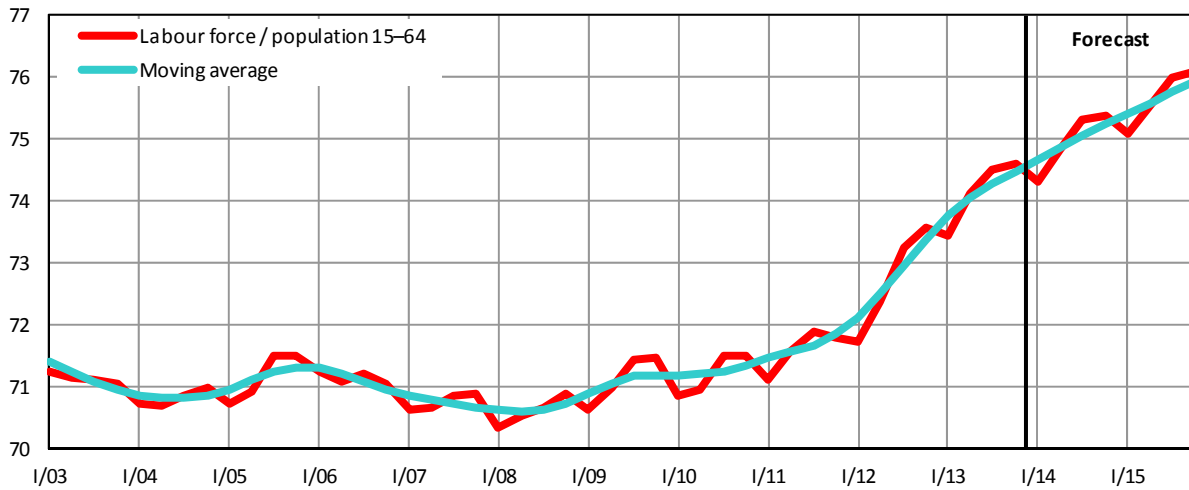
seasonally adjusted data, in thousands of persons, growth rates in %



Source: CZSO, own calculations

Graph C.3.4: Ratio of Labour Force to Population Aged 15–64

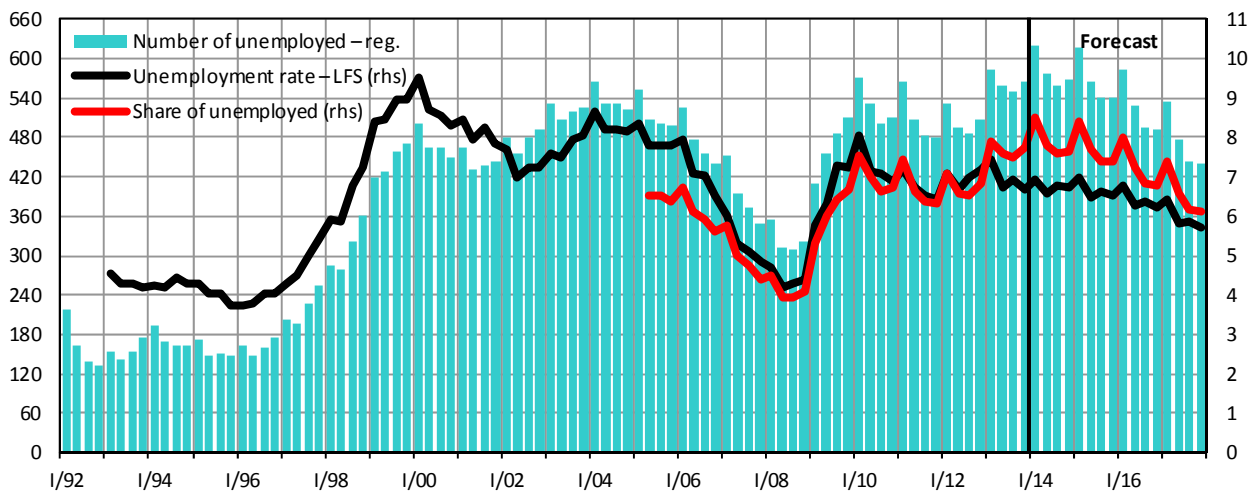
in %



Source: CZSO, own calculations

Graph C.3.5: Unemployment

quarterly average, in thousands of persons, in % (rhs)

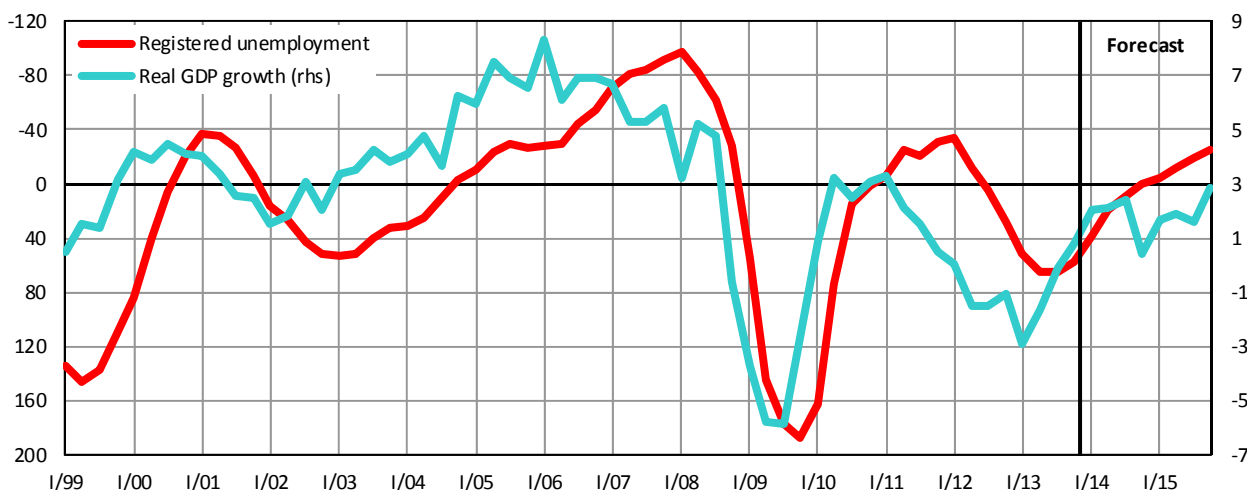


Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Note: Share of unemployed (Ministry of Labour and Social Affairs) is defined as a share of available job seekers aged 15 to 64 years in the population of the same age.

Graph C.3.6: Economic Output and Unemployment

YoY real GDP growth rate in %, change in unemployment in thousands of persons



Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Table C.3.3: Labour Market – analytical indicators

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Compensation per employee												
– nominal	growth in %	6.0	6.3	4.2	-0.6	3.1	2.3	1.9	-1.9	1.2	3.5	
– real	growth in %	3.4	3.3	-2.0	-1.7	1.6	0.4	-1.4	-3.3	0.2	1.2	
Wage bill	growth in %	7.2	8.3	7.5	-2.1	0.8	2.2	1.8	-0.9	1.8	3.5	
Average monthly wage ¹⁾												
– nominal	CZK	19 536	20 947	22 592	23 353	23 858	24 452	25 109	25 126	25 700	26 500	
	growth in %	6.5	7.2	7.9	3.4	2.2	2.5	2.7	0.1	2.1	3.4	
– real	CZK 2005	19 053	19 865	20 147	20 610	20 753	20 866	20 745	20 467	20 700	20 900	
	growth in %	3.9	4.3	1.4	2.3	0.7	0.5	-0.6	-1.3	1.1	1.1	
Labour productivity	growth in %	5.6	3.5	0.8	-2.8	3.5	1.9	-1.4	-1.8	1.4	1.9	
Unit labour costs ²⁾	growth in %	0.4	2.6	3.4	2.2	-0.4	0.5	3.3	-0.1	-0.2	1.6	
Compensations of employees / GDP	%	41.6	41.3	42.0	41.7	41.9	42.5	43.1	42.5	41.7	41.7	

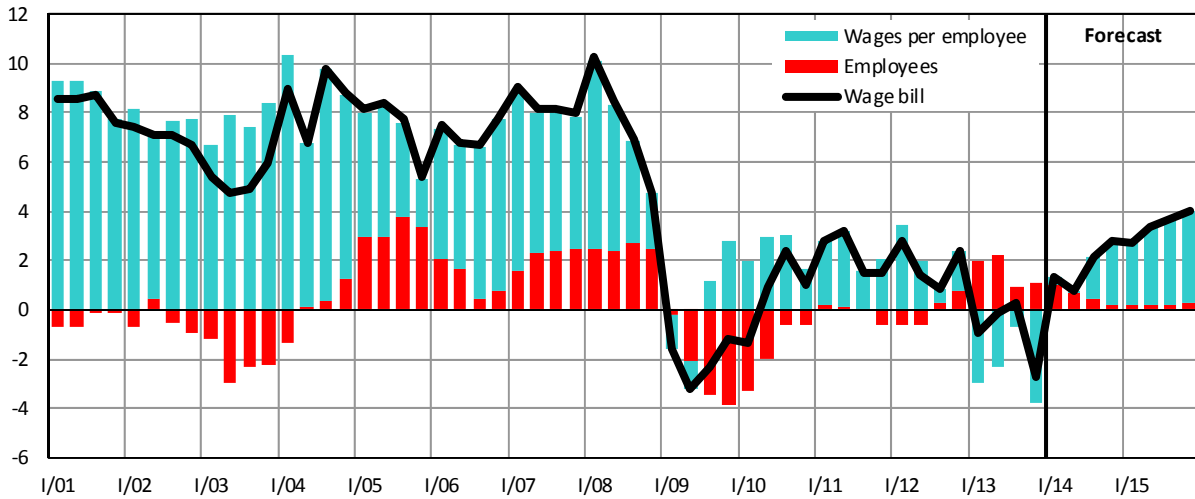
Source: CZSO, own calculations

¹⁾ New time series: average wage is derived from full-time-equivalent employers in the entire economy.

²⁾ Ratio of nominal compensation per employee to real productivity of labour.

Graph C.3.7: Wage Bill – nominal, domestic concept

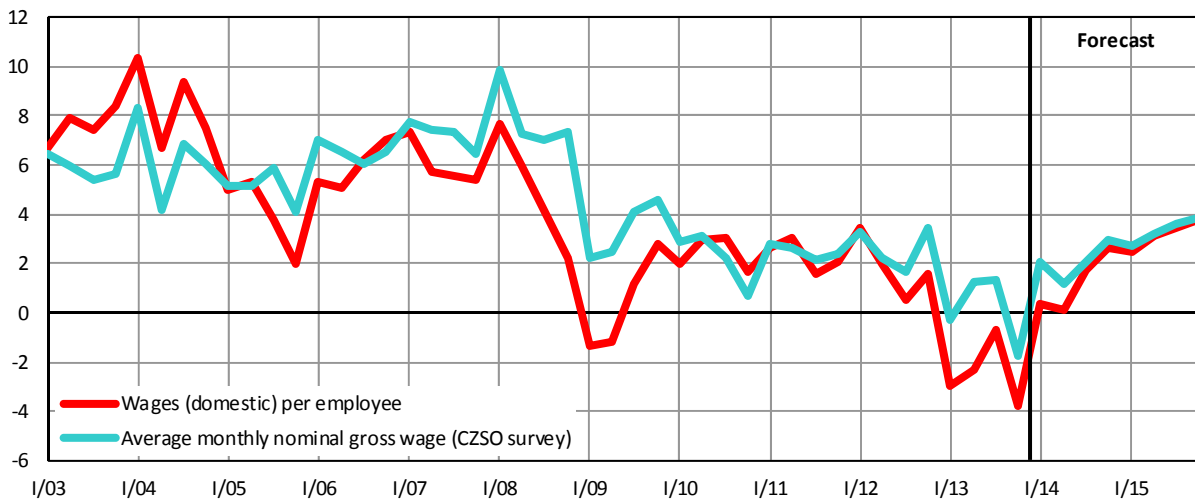
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.8: Average Nominal Wage

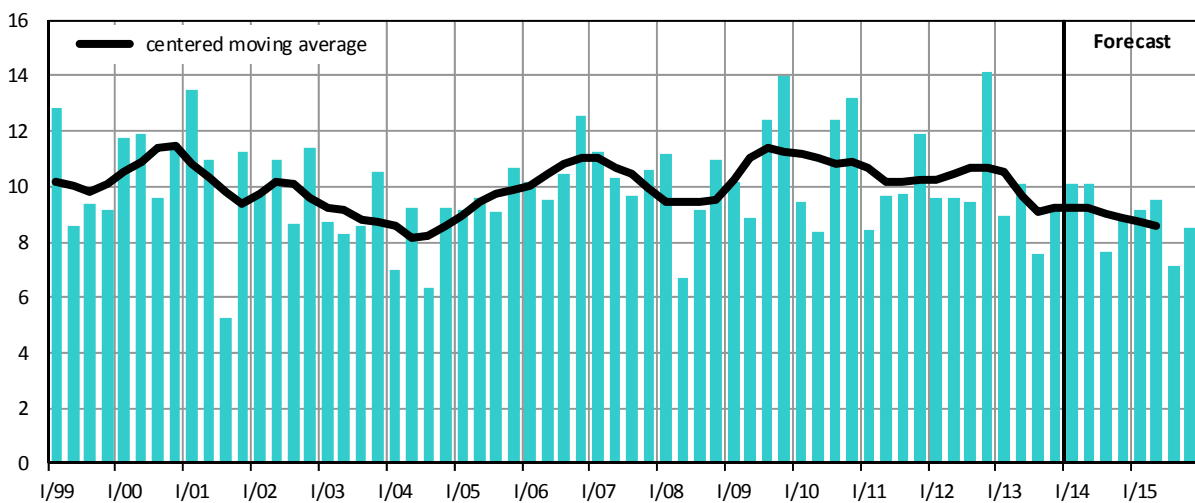
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.9: Gross Savings Rate of Households

in % of disposable income



Source: CZSO, own calculations

Table C.3.4: **Income and Expenditures of Households – yearly**

SNA methodology – national concept

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>
Current income											
Compensation of employees	<i>bill.CZK</i>	1397	1510	1597	1557	1589	1627	1660	1657	1688	1750
	<i>growth in %</i>	7.3	8.1	5.8	-2.5	2.1	2.4	2.1	-0.2	1.9	3.7
Gross operating surplus and mixed income	<i>bill.CZK</i>	538	570	587	616	608	584	591	587	592	601
	<i>growth in %</i>	4.4	6.0	3.0	5.0	-1.4	-4.0	1.2	-0.6	0.8	1.5
Property income received	<i>bill.CZK</i>	150	155	167	155	151	154	141	133	131	132
	<i>growth in %</i>	11.5	3.1	8.2	-7.3	-2.8	2.3	-8.8	-5.7	-1.5	1.0
Social benefits not-in-kind	<i>bill.CZK</i>	422	471	495	536	542	552	567	563	568	582
	<i>growth in %</i>	9.1	11.6	5.1	8.4	1.1	1.9	2.6	-0.7	1.0	2.4
Other current transfers received	<i>bill.CZK</i>	113	122	137	137	135	134	146	148	151	156
	<i>growth in %</i>	8.9	7.8	11.8	0.5	-1.8	-0.8	9.2	1.2	2.0	3.6
Current expenditure											
Property income paid	<i>bill.CZK</i>	21	26	30	18	22	20	19	17	17	17
	<i>growth in %</i>	10.6	26.5	12.8	-38.1	18.3	-5.6	-8.8	-8.0	-2.0	1.0
Curr. taxes on income and property	<i>bill.CZK</i>	144	160	146	141	137	148	151	157	160	166
	<i>growth in %</i>	0.4	11.0	-8.6	-3.7	-2.7	7.8	2.4	3.8	2.0	3.7
Social contributions	<i>bill.CZK</i>	564	618	638	605	622	638	653	668	681	707
	<i>growth in %</i>	9.6	9.5	3.4	-5.3	2.8	2.7	2.3	2.2	2.1	3.8
Other current transfers paid	<i>bill.CZK</i>	119	132	143	140	140	142	150	152	154	157
	<i>growth in %</i>	9.4	11.0	8.3	-2.1	0.0	1.1	5.5	1.7	1.0	2.0
Gross disposable income	<i>bill.CZK</i>	1771	1891	2025	2097	2104	2102	2131	2093	2118	2174
	<i>growth in %</i>	6.9	6.8	7.1	3.5	0.3	-0.1	1.4	-1.8	1.2	2.6
Final consumption	<i>bill.CZK</i>	1604	1720	1857	1874	1889	1908	1916	1940	1966	2036
	<i>growth in %</i>	5.9	7.2	8.0	1.0	0.8	1.0	0.4	1.2	1.4	3.5
Change in share in pension funds	<i>bill.CZK</i>	23	26	24	17	15	16	15	35	42	48
Gross savings	<i>bill.CZK</i>	190	197	193	240	230	210	230	188	194	186
Capital transfers											
(income (-) / expenditure (+))	<i>bill.CZK</i>	-31	-36	-29	-28	-33	-29	-24	-21	-19	-19
Gross capital formation	<i>bill.CZK</i>	178	203	209	201	218	190	175	167	161	159
	<i>growth in %</i>	12.4	14.2	3.0	-3.8	8.6	-13.0	-7.9	-4.4	-4.0	-1.0
Change in financial assets and liab.	<i>bill.CZK</i>	43	30	12	66	44	49	77	44	52	47
Real disposable income	<i>growth in %</i>	5.3	3.7	2.2	2.7	0.5	-0.5	-1.2	-2.9	0.4	0.0
Gross savings rate	<i>%</i>	10.7	10.4	9.5	11.4	10.9	10.0	10.8	9.0	9.1	8.6

Source: CZSO, own calculations

C.4 External Relations

Table C.4.1: Balance of Payments – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Balance of goods and services	bill.CZK	108	106	100	161	129	149	211	241	305	348	
– balance of trade ¹⁾	bill.CZK	59	47	26	87	54	90	149	188	247	288	
– of which mineral fuels (SITC 3) ²⁾	bill.CZK	-139	-124	-167	-107	-138	-177	-189	-200	-201	-192	
– balance of services	bill.CZK	49	59	74	74	75	58	62	53	58	59	
Balance of income	bill.CZK	-165	-255	-175	-250	-285	-256	-260	-312	-328	-366	
– compensation of employees	bill.CZK	3	-4	-19	-11	-1	1	5	7	10	9	
– investment income	bill.CZK	-168	-251	-156	-239	-284	-257	-265	-320	-338	-376	
Balance of transfers	bill.CZK	-11	-8	-6	-1	9	3	-2	15	8	6	
Current account	bill.CZK	-67	-157	-81	-89	-147	-104	-51	-56	-15	-13	
Capital account	bill.CZK	10	22	27	51	33	15	52	75	87	87	
Financial account	bill.CZK	100	125	92	143	174	59	74	188	.	.	
– foreign direct investments	bill.CZK	90	179	36	38	95	47	121	33	.	.	
– portfolio investments	bill.CZK	-27	-57	-9	159	150	6	55	92	.	.	
– other investments	bill.CZK	36	3	65	-53	-71	7	-102	63	.	.	
Change in reserves	bill.CZK	2	16	40	61	41	-17	80	192	.	.	
International investment position	bill.CZK	-1084	-1418	-1545	-1728	-1830	-1818	-1876	-1772	.	.	
Gross external debt	bill.CZK	1196	1377	1630	1639	1767	1877	1952	2215	2280	2346	
Balance of goods and services / GDP	per cent	3.2	2.9	2.6	4.3	3.4	3.9	5.5	6.2	7.6	8.3	
Current account / GDP	per cent	-2.0	-4.3	-2.1	-2.4	-3.9	-2.7	-1.3	-1.4	-0.4	-0.3	
Financial account / GDP	per cent	3.0	3.4	2.4	3.8	4.6	1.6	1.9	4.8	.	.	
IIP / GDP	per cent	-32.3	-38.7	-40.2	-46.0	-48.3	-47.5	-48.8	-45.6	.	.	
Gross external debt / GDP ³⁾	per cent	35.7	37.6	42.3	43.6	46.6	49.1	50.8	57.0	57	56	

Source: CNB, CZSO, own calculations

¹⁾ Imports – fob

²⁾ Imports – cif

³⁾ Ratio of external debt (in CZK) at the end of period to GDP (in CZK)

Table C.4.2: **Balance of Payments – quarterly**
moving sums of the latest 4 quarters

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Balance of goods and services	<i>bill.CZK</i>	209	228	224	241	261	278	292	305
– balance of trade ¹⁾	<i>bill.CZK</i>	150	170	173	188	207	223	235	247
– of which mineral fuels (SITC 3) ²⁾	<i>bill.CZK</i>	-186	-189	-198	-200	-200	-200	-202	-201
– balance of services	<i>bill.CZK</i>	59	58	51	53	54	56	57	58
Balance of income	<i>bill.CZK</i>	-284	-309	-308	-312	-315	-319	-323	-328
– compensation of employees	<i>bill.CZK</i>	5	5	5	7	9	10	10	10
– investment income	<i>bill.CZK</i>	-288	-315	-313	-320	-324	-329	-333	-338
Balance of transfers	<i>bill.CZK</i>	6	4	6	15	9	17	22	8
Current account	<i>bill.CZK</i>	-69	-78	-78	-56	-45	-24	-10	-15
Capital account	<i>bill.CZK</i>	52	51	98	75	78	81	84	87
Financial account	<i>bill.CZK</i>	68	100	43	188	.	.	.	.
– foreign direct investments	<i>bill.CZK</i>	132	97	65	33	.	.	.	.
– portfolio investments	<i>bill.CZK</i>	49	81	46	92	.	.	.	.
– other investments	<i>bill.CZK</i>	-112	-78	-67	63	.	.	.	.
Change in reserves	<i>bill.CZK</i>	54	81	81	192	.	.	.	.
International investment position	<i>bill.CZK</i>	-1830	-1889	-1835	-1772	.	.	.	.
Gross external debt	<i>bill.CZK</i>	1999	2042	1965	2215	2237	2246	2272	2280

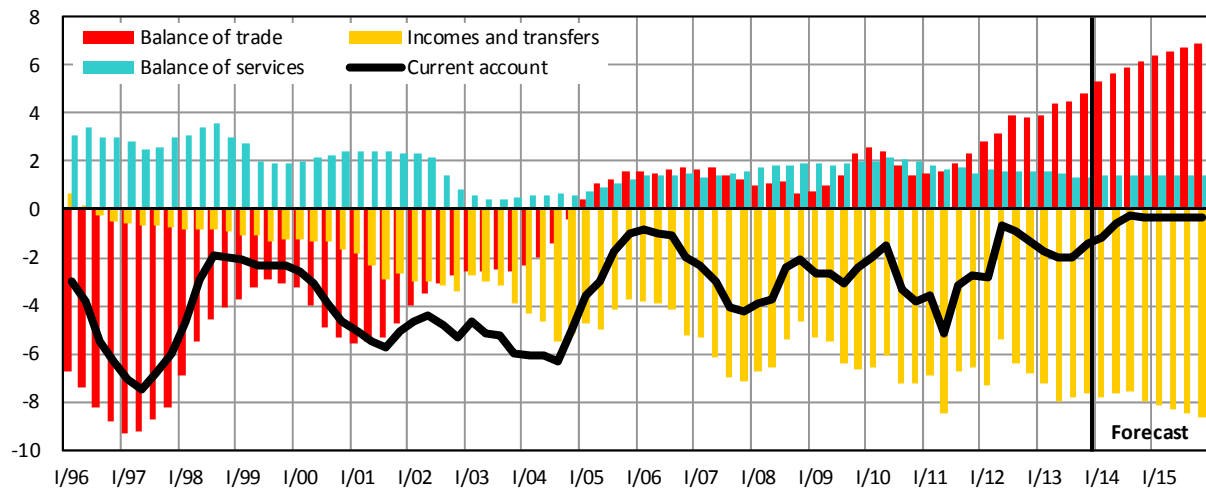
Source: CNB, CZSO, own calculations

¹⁾ Imports – fob

²⁾ Imports – cif

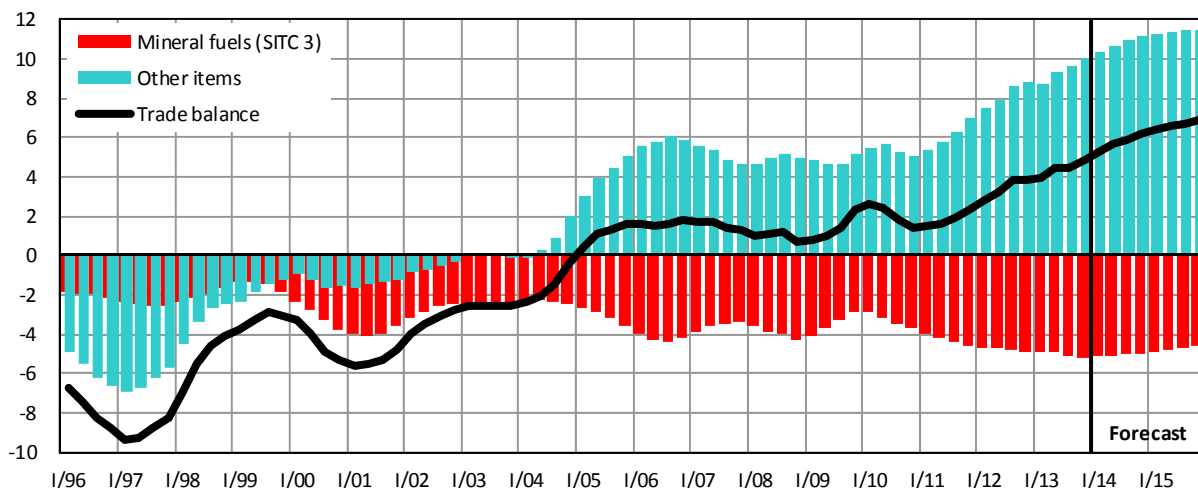
Graph C.4.1: **Current Account**

moving sums of the latest 4 quarters, in % of GDP, trade and service balances in BoP definitions



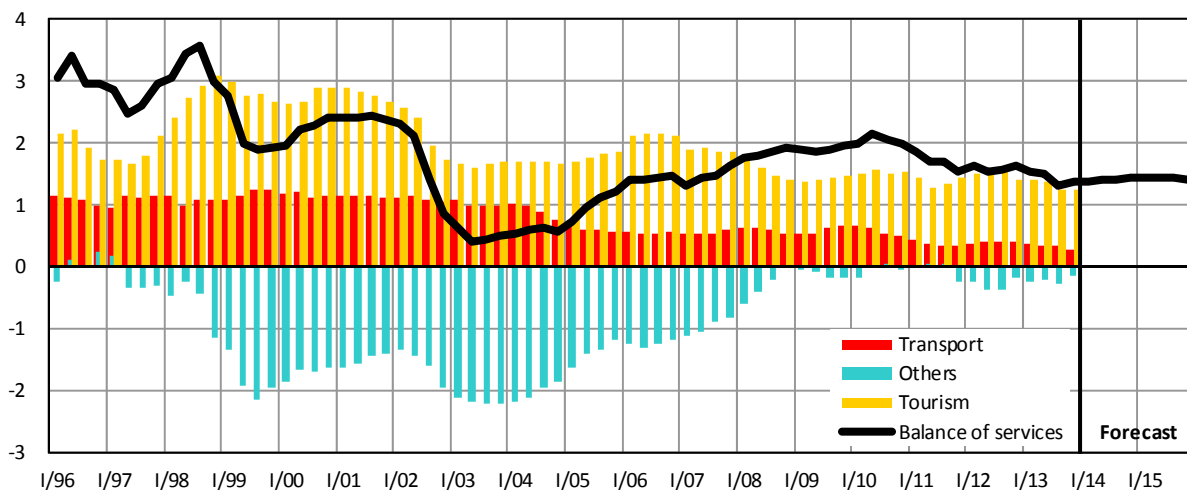
Source: CNB, CZSO, own calculations

Graph C.4.2: Balance of Trade (exports fob, imports cif)
moving sums of the latest 4 quarters, in % of GDP, in cross-border definitions



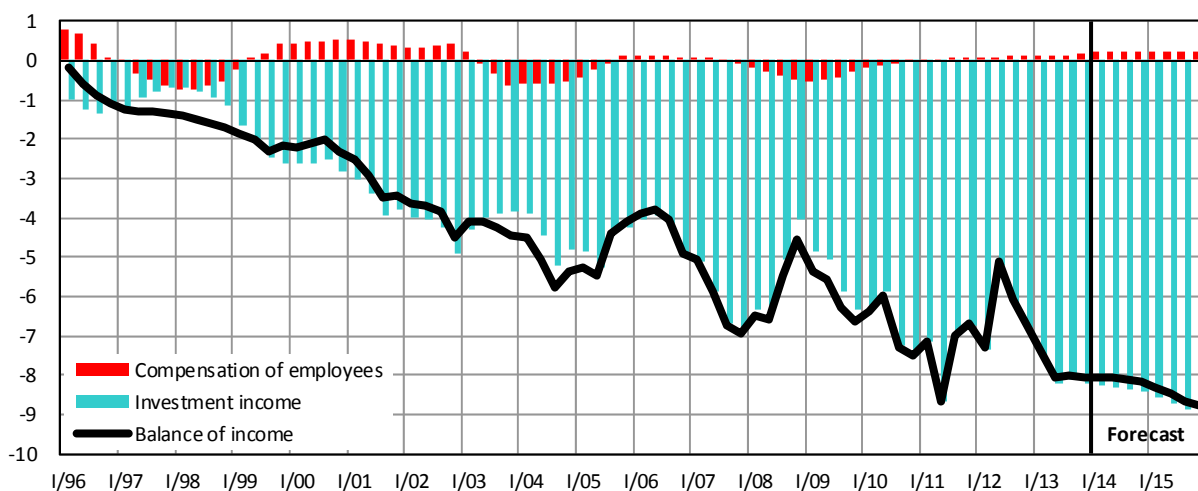
Source: CNB, CZSO, own calculations

Graph C.4.3: Balance of Services
moving sums of the latest 4 quarters, in % of GDP



Source: CNB, CZSO, own calculations

Graph C.4.4: Balance of Income
moving sums of the latest 4 quarters, in % of GDP



Source: CNB, CZSO, own calculations

Table C.4.3: Decomposition of Exports of Goods – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
GDP ¹⁾	<i>average of 2005=100</i>	104.3	108.9	110.5	105.9	109.4	112.6	113.7	114.5	117	119	
	<i>growth in %</i>	4.3	4.4	1.5	-4.2	3.3	2.9	1.0	0.8	1.8	1.9	
Import intensity ²⁾	<i>average of 2005=100</i>	107.8	110.1	109.9	103.2	112.1	117.0	117.1	117.6	119	121	
	<i>growth in %</i>	7.8	2.1	-0.1	-6.1	8.6	4.3	0.1	0.4	1.5	1.2	
Export markets ³⁾	<i>average of 2005=100</i>	112.5	119.9	121.5	109.3	122.7	131.7	133.2	134.7	139	144	
	<i>growth in %</i>	12.5	6.6	1.3	-10.0	12.2	7.4	1.1	1.2	3.3	3.1	
Export performance	<i>average of 2005=100</i>	101.3	105.9	107.6	105.5	109.4	112.6	116.1	115.8	117	118	
	<i>growth in %</i>	1.3	4.5	1.6	-1.9	3.7	3.0	3.1	-0.2	0.8	1.2	
Real exports	<i>average of 2005=100</i>	114.0	126.9	130.7	115.3	134.2	148.3	154.6	156.1	163	170	
	<i>growth in %</i>	14.0	11.4	3.0	-11.8	16.4	10.6	4.2	1.0	4.2	4.4	
1 / NEER	<i>average of 2005=100</i>	95.4	93.0	83.2	86.0	84.2	81.7	84.6	86.6	91	90	
	<i>growth in %</i>	-4.6	-2.6	-10.5	3.4	-2.2	-2.9	3.6	2.3	4.7	-0.4	
Prices on foreign markets	<i>average of 2005=100</i>	103.1	106.1	112.8	108.8	109.5	113.8	113.3	112.3	111	112	
	<i>growth in %</i>	3.1	2.9	6.3	-3.6	0.7	4.0	-0.4	-0.9	-1.0	0.6	
Exports deflator	<i>average of 2005=100</i>	98.4	98.6	93.8	93.6	92.1	93.0	95.9	97.2	101	101	
	<i>growth in %</i>	-1.6	0.2	-4.9	-0.3	-1.5	0.9	3.1	1.3	3.6	0.2	
Nominal exports	<i>average of 2005=100</i>	112.2	125.1	122.7	107.7	123.7	138.0	148.3	151.8	164	171	
	<i>growth in %</i>	12.2	11.6	-2.0	-12.2	14.8	11.6	7.5	2.3	7.9	4.5	

Source: CNB, CZSO, Eurostat, own calculations

¹⁾ Weighted average of GDP of the seven most important partners – Germany, Slovakia, Austria, the United Kingdom, Poland, France and Italy.

²⁾ Index of ratio of real imports of goods to real GDP.

³⁾ Weighted average of imports of goods of the main partners.

Table C.4.4: Decomposition of Exports of Goods – quarterly

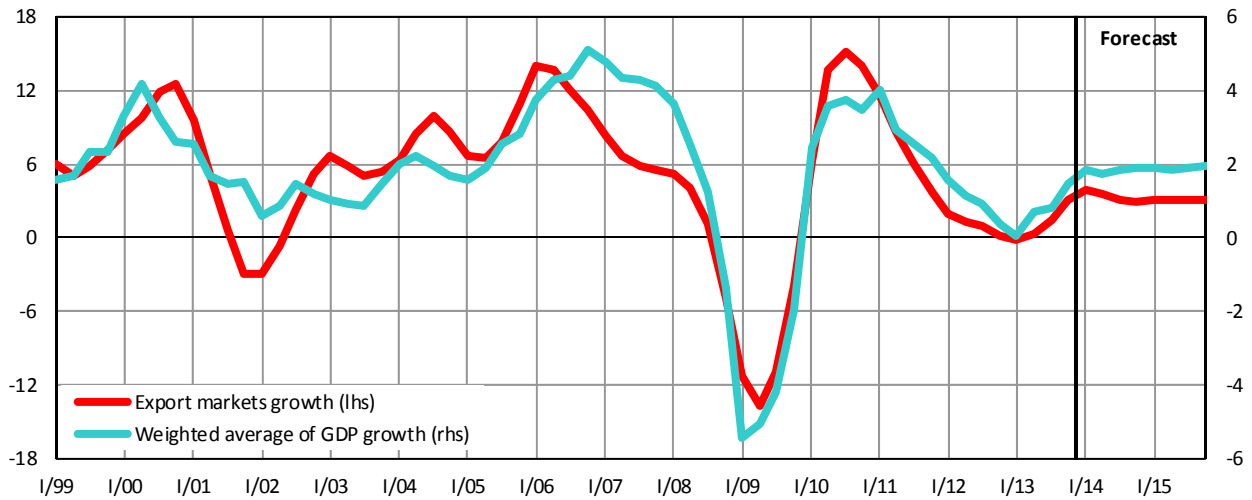
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
GDP ¹⁾	<i>average of 2005=100</i>	113.7	114.4	114.8	115.3	116	116	117	117
	<i>growth in %</i>	0.1	0.7	0.8	1.5	1.8	1.7	1.8	1.9
Import intensity ²⁾	<i>average of 2005=100</i>	116.6	117.1	118.1	118.7	119	119	120	120
	<i>growth in %</i>	-0.2	-0.4	0.6	1.6	2.0	1.8	1.2	1.0
Export markets ³⁾	<i>average of 2005=100</i>	132.6	133.9	135.6	136.8	138	139	140	141
	<i>growth in %</i>	-0.2	0.3	1.5	3.1	3.9	3.5	3.1	2.9
Export performance	<i>average of 2005=100</i>	113.6	117.0	115.1	117.6	114	118	116	119
	<i>growth in %</i>	-5.3	0.4	3.3	1.0	0.7	0.8	0.8	0.9
Real exports	<i>average of 2005=100</i>	150.7	156.7	156.0	160.9	158	164	162	167
	<i>growth in %</i>	-5.5	0.7	4.8	4.1	4.6	4.4	3.9	3.8
1 / NEER	<i>average of 2005=100</i>	85.5	86.3	85.9	88.5	91	91	91	91
	<i>growth in %</i>	1.8	1.7	1.3	4.3	6.4	4.9	5.4	2.3
Prices on foreign markets	<i>average of 2005=100</i>	112.9	112.3	112.3	111.6	111	111	111	111
	<i>growth in %</i>	-0.6	-1.1	-0.8	-1.2	-1.5	-1.2	-1.3	-0.2
Exports deflator	<i>average of 2005=100</i>	96.6	96.9	96.5	98.8	101	100	100	101
	<i>growth in %</i>	1.1	0.6	0.5	3.0	4.8	3.7	4.0	2.1
Nominal exports	<i>average of 2005=100</i>	145.6	151.9	150.5	159.0	160	164	163	169
	<i>growth in %</i>	-4.4	1.3	5.4	7.2	9.7	8.2	8.0	6.0

Source: CNB, CZSO, Eurostat, own calculations

See notes to Table C.4.3.

Graph C.4.5: GDP and Imports of Goods in Main Partner Countries

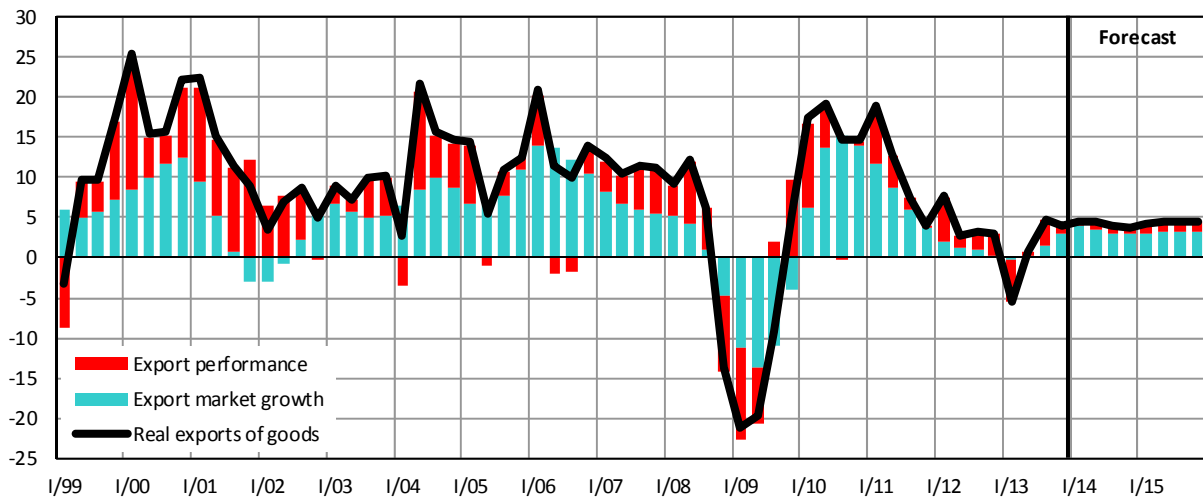
YoY growth rate, in %



Source: Eurostat, own calculations

Graph C.4.6: Real Exports of Goods

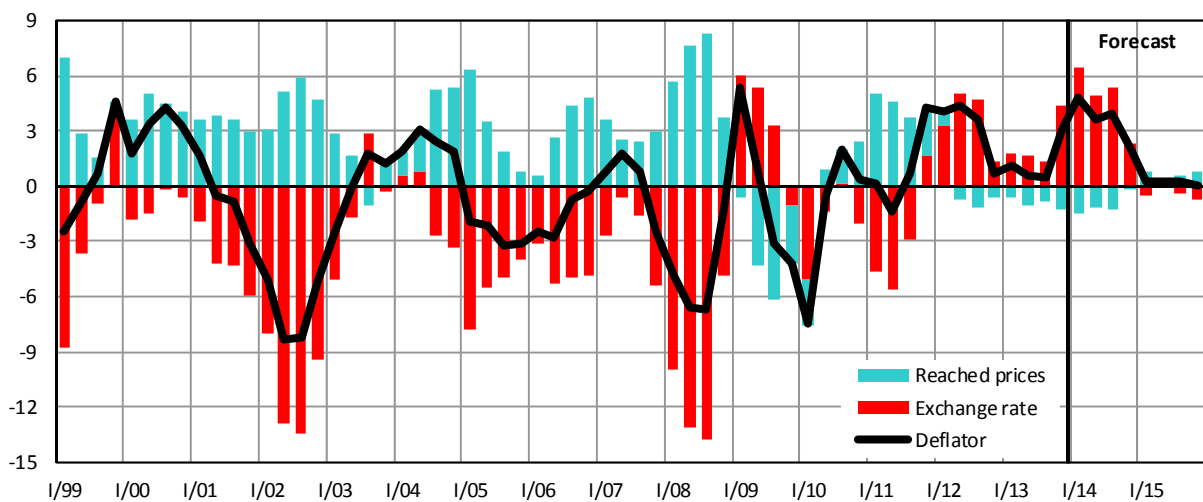
decomposition of YoY growth, in %



Source: CZSO, Eurostat, own calculations

Graph C.4.7: Deflator of Exports of Goods

decomposition of YoY growth, in %



Source: CNB, CZSO, own calculations

C.5 International Comparisons

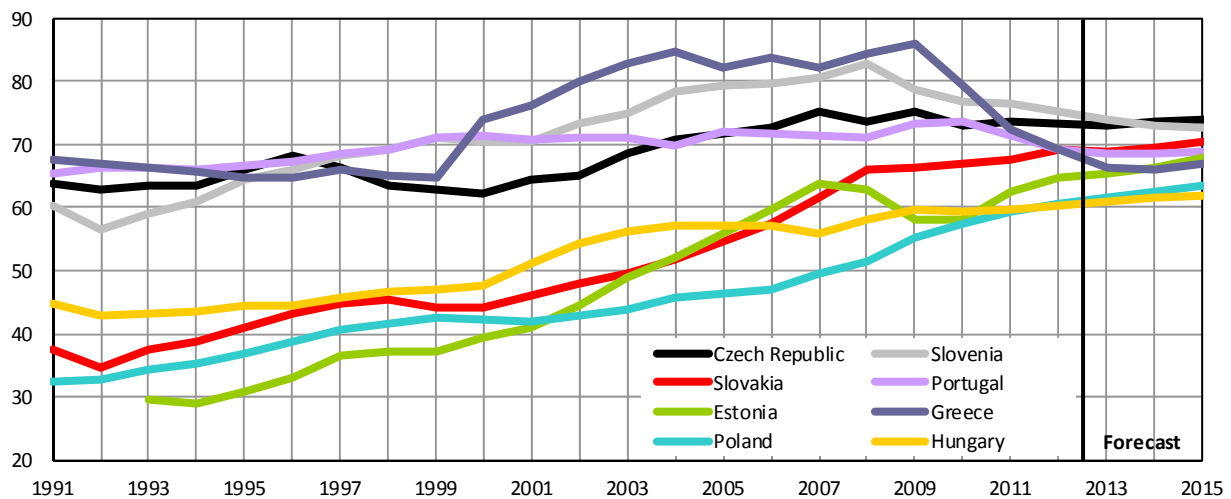
Table C.5.1: GDP per Capita – Using Current Purchasing Power Parities

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
										Estimate	Forecast	Forecast
Czech Republic	PPS	18 900	20 700	20 200	19 400	19 500	20 100	20 300	20 400	21 000	21 700	
	EA12=100	73	75	74	75	73	73	73	73	73	74	
Slovenia	PPS	20 700	22 100	22 700	20 300	20 500	21 000	20 900	20 600	20 800	21 400	
	EA12=100	79	80	83	79	77	77	75	74	73	73	
Slovakia	PPS	15 000	16 900	18 100	17 100	17 900	18 500	19 100	19 200	19 800	20 700	
	EA12=100	57	62	66	66	67	67	69	69	69	70	
Lithuania	PPS	13 600	15 500	16 100	13 600	15 000	16 700	17 900	18 700	19 800	20 900	
	EA12=100	52	56	59	53	56	61	64	67	69	71	
Portugal	PPS	18 700	19 600	19 500	18 800	19 700	19 600	19 200	19 200	19 600	20 200	
	EA12=100	72	72	71	73	74	71	69	69	69	69	
Estonia	PPS	15 600	17 500	17 200	15 000	15 500	17 200	18 000	18 200	18 900	19 900	
	EA12=100	60	64	63	58	58	63	65	65	66	68	
Greece	PPS	21 800	22 500	23 100	22 100	21 200	19 900	19 200	18 500	18 900	19 700	
	EA12=100	84	82	84	86	79	72	69	66	66	67	
Latvia	PPS	12 500	14 300	14 600	12 700	13 200	14 700	15 900	16 800	17 900	19 100	
	EA12=100	48	52	53	49	49	54	57	60	63	65	
Poland	PPS	12 300	13 600	14 100	14 200	15 300	16 200	16 800	17 200	17 900	18 700	
	EA12=100	47	50	51	55	57	59	61	61	63	63	
Hungary	PPS	14 900	15 400	16 000	15 300	15 800	16 300	16 700	17 000	17 600	18 200	
	EA12=100	57	56	58	60	59	60	60	61	62	62	
Croatia	PPS	13 700	15 200	15 800	14 500	14 300	15 200	15 500	15 400	15 700	16 100	
	EA12=100	52	55	58	56	53	55	56	55	55	55	

Source: CZSO, Eurostat, own calculations

Graph C.5.1: GDP per Capita – Using Current Purchasing Power Parities

EA12=100



Source: CZSO, Eurostat, own calculations

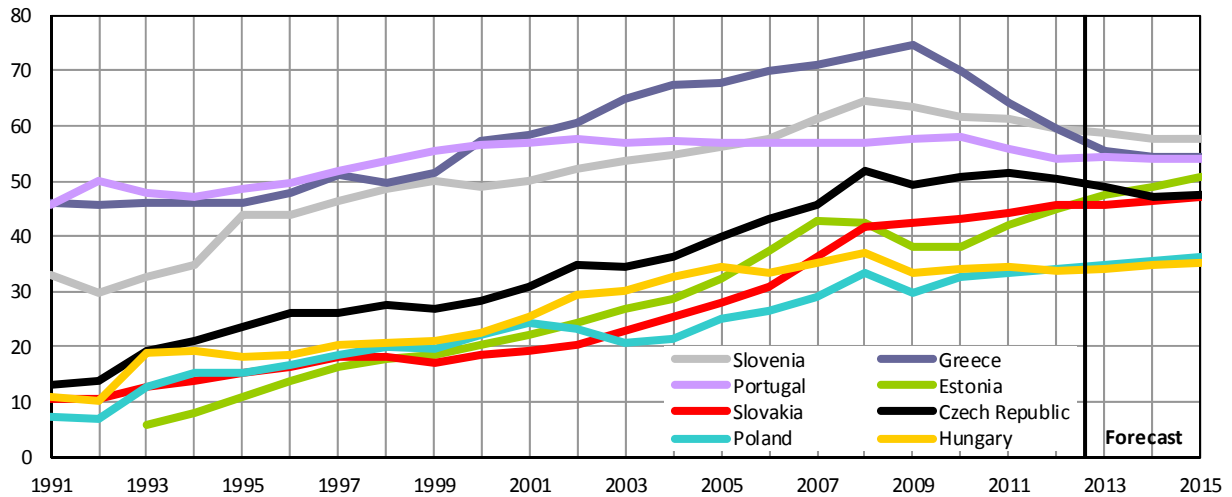
Table C.5.2: GDP per Capita – Using Current Exchange Rates

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
		<i>Estimate Forecast Forecast</i>									
Latvia	<i>EUR</i>	10 200	13 600	15 000	12 300	12 200	14 000	15 600	16 500	17 700	19 100
	<i>EA12=100</i>	38	48	52	45	44	49	54	57	60	62
	<i>Comparative price level EA12=100</i>	80	93	98	91	88	91	94	94	95	96
Slovenia	<i>EUR</i>	15 500	17 100	18 400	17 300	17 300	17 600	17 200	17 100	17 200	17 600
	<i>EA12=100</i>	58	61	65	63	62	61	59	59	58	58
	<i>Comparative price level EA12=100</i>	73	76	78	80	80	80	79	80	79	79
Greece	<i>EUR</i>	18 700	19 900	20 800	20 500	19 600	18 500	17 100	16 100	16 100	16 700
	<i>EA12=100</i>	70	71	73	75	70	64	59	55	54	54
	<i>Comparative price level EA12=100</i>	84	87	86	87	88	88	86	84	82	81
Portugal	<i>EUR</i>	15 200	16 000	16 200	15 900	16 300	16 100	15 600	15 800	16 100	16 500
	<i>EA12=100</i>	57	57	57	58	58	56	54	54	54	54
	<i>Comparative price level EA12=100</i>	79	80	80	79	78	78	78	79	79	78
Estonia	<i>EUR</i>	10 000	12 000	12 100	10 400	10 700	12 100	13 000	13 800	14 500	15 600
	<i>EA12=100</i>	37	43	42	38	38	42	45	47	49	51
	<i>Comparative price level EA12=100</i>	62	67	68	65	66	67	70	72	74	75
Czech Republic	<i>EUR</i>	11 500	12 800	14 800	13 500	14 300	14 800	14 600	14 200	14 000	14 600
	<i>EA12=100</i>	43	46	52	49	51	51	50	49	47	48
	<i>Comparative price level EA12=100</i>	59	61	70	66	70	70	69	67	64	64
Slovakia	<i>EUR</i>	8 300	10 200	11 900	11 600	12 100	12 800	13 200	13 300	13 800	14 400
	<i>EA12=100</i>	31	36	42	42	43	44	46	46	46	47
	<i>Comparative price level EA12=100</i>	54	59	63	64	65	66	66	67	67	67
Lithuania	<i>EUR</i>	7 400	8 900	10 100	8 400	8 900	10 200	11 000	11 700	12 400	13 200
	<i>EA12=100</i>	28	32	36	31	32	36	38	40	42	43
	<i>Comparative price level EA12=100</i>	53	56	61	58	57	58	59	60	60	61
Poland	<i>EUR</i>	7 100	8 200	9 500	8 100	9 200	9 600	9 900	10 100	10 500	11 100
	<i>EA12=100</i>	27	29	33	30	33	33	34	35	35	36
	<i>Comparative price level EA12=100</i>	57	59	65	54	57	56	56	56	57	57
Croatia	<i>EUR</i>	8 900	9 800	10 700	10 100	10 100	10 300	10 200	10 200	10 400	10 700
	<i>EA12=100</i>	33	35	38	37	36	36	35	35	35	35
	<i>Comparative price level EA12=100</i>	64	63	65	65	67	65	63	64	64	64
Hungary	<i>EUR</i>	8 900	9 900	10 500	9 100	9 600	9 900	9 800	9 900	10 400	10 800
	<i>EA12=100</i>	33	35	37	33	34	34	34	34	35	35
	<i>Comparative price level EA12=100</i>	58	63	63	56	58	58	56	56	57	57

Source: CZSO, Eurostat, own calculations

Graph C.5.2: GDP per Capita – Using Current Exchange Rates

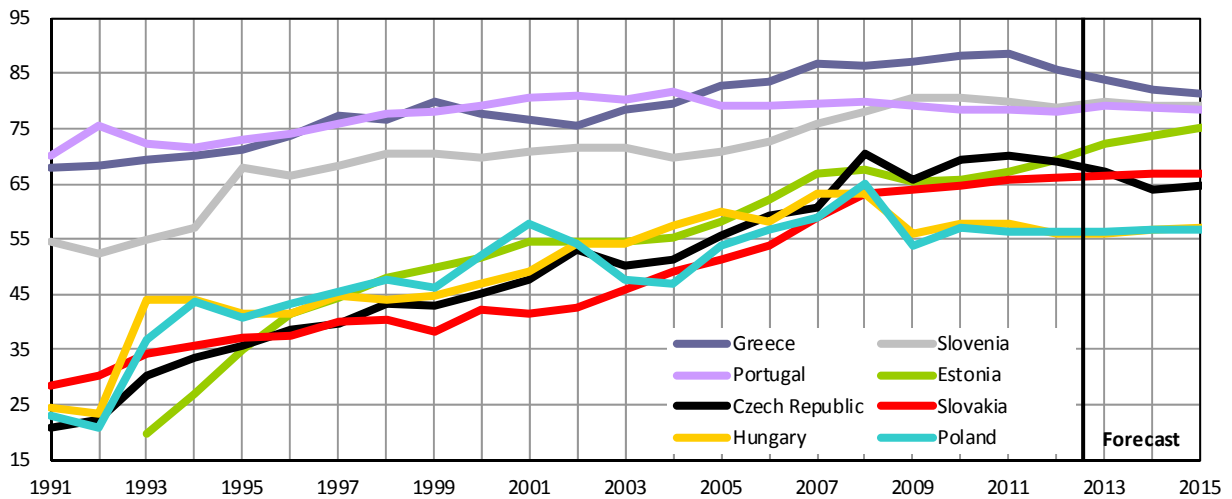
EA12=100



Source: CZSO, Eurostat, own calculations

Graph C.5.3: Comparative Price Level of GDP per Capita

EA12=100



Source: CZSO, Eurostat, own calculations

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