

Macroeconomic Forecast Czech Republic

April 2015

Macroeconomic Forecast of the Czech Republic

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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 2016) and for certain indicators an outlook for another 2 years (i.e. until 2018). 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 the 12 original 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 2015**.

Notes

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

Data from the previous forecast (January 2015) are indicated by italics. Data relating to the years 2017 and 2018 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

Summary of and Risks to the Forecast

Recovery of the Czech economy gathered momentum in the fourth quarter of 2014. **Real gross value added increased by 1.2% QoQ**, which was the fastest growth since the first quarter of 2008. Economic growth was driven exclusively by domestic demand, with consumption of households and the government and fixed capital formation all increasing.

Significantly lower dynamics of **real GDP**¹, which rose by 0.4% QoQ, was caused by a one-off drop (on accrual basis) of collection of excise duty on tobacco products. The drop results from introduction of the legal time limit on vending tobacco products with old tax stamps. Effects of this measure have thus no influence on the assessment of the course of the economic recovery.

Economic growth continues under the conditions of almost zero inflation and an improving situation on the labour market. Unemployment rate (LFS) is declining, while the fall in registered unemployment is even more pronounced. For the first time since 1993, the current account of the balance of payments recorded a surplus in 2014.

The economy is stimulated by a couple of one-off factors in 2015. The most important one is a positive supply shock resulting from the **low price of oil** on commodity markets. We expect the dollar price of Brent crude oil to be almost two fifths lower in 2015 than it was in 2014.

The depreciation of the euro (and thus of the koruna) vis-à-vis the US dollar reduces the impact of the low dollar price of oil. Even so, oil should be cheaper by almost a quarter in koruna terms, compared with 2014 (see Chapter A.1).

Another positive factor for the Czech economy is **fiscal stimulation**, the extent of which can be expressed in terms of fiscal effort (YoY change in the ratio of structural balance to GDP) of the general government sector, which should reach -0.3 pp in 2015. Expansive fiscal policy is further intensified by the effort to **draw down maximum possible amount of money from the EU funds** from the financial perspective 2007–2013 by the end of 2015.

In the light of these facts, the **forecast for real GDP growth in 2015 remains unchanged at 2.7%**.

Most of the aforementioned factors are expected to subside in 2016. The price of oil should have a proinflationary impact through its effect on the costs of firms. After the economic fundamentals become more solid and the output gap turns positive there should be no need for a fiscal stimulus and more emphasis should be placed on the reduction of the general government sector deficit. The fact that the drawdown of funds from the financial perspective 2007–2013 is not possible after 2015, and that the drawdown from the perspective 2014–2020 is likely to be gradual, should be one of the major determinants of investment.

For these reasons, we forecast a **moderate slowdown of growth to 2.5% in 2016**.

In our opinion, **risks to the Forecast** are **tilted to the downside**, especially due to the risks that we see in the external environment of the Czech economy.

These are, in the first place, **geopolitical risks**. The situation in eastern Ukraine has calmed down somewhat since the beginning of the year, but potential escalation of the conflict cannot be excluded entirely. Given the low exposition of Czech firms towards this region, however, the direct macroeconomic impacts on the Czech economy would be rather limited. Instability in the Middle East and Northern Africa could influence the developments on oil and natural gas markets.

The Czech economy could be also indirectly hit if the **developments in Greece** (see Chapter A.1) resulted in a repeated escalation of the crisis in the euro area. The bailout programme was extended until the end of June, but Greece is facing pressing liquidity problems. The negotiations with representatives from the EC, the ECB and the IMF over the measures, the implementation of which would pave the way for the release of the remaining bailout money, have so far failed to bring substantial progress. Moreover, it is still unclear how the situation will evolve after the bailout programme ends. Under current conditions (especially on the government bonds market), Greece is unlikely to manage without further aid.

¹ Gross domestic product is the sum of gross value added and indirect taxes net of subsidies.

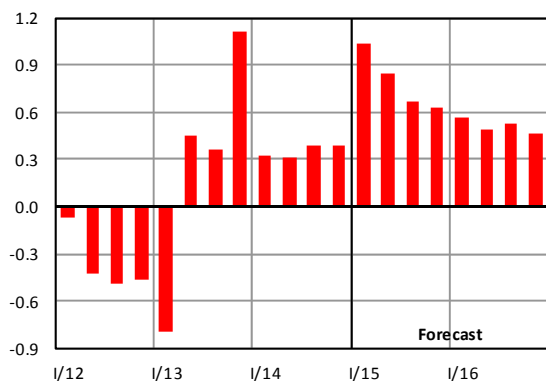
Table: Main Macroeconomic Indicators

			2010	2011	2012	2013	2014	2015	2016	2014	2015	2016
			Current forecast						Previous forecast			
Gross domestic product	<i>bill. CZK</i>		3 954	4 022	4 048	4 086	4 266	4 467	4 644	4 284	4 509	4 698
Gross domestic product	<i>growth in %, const.pr.</i>		2.3	2.0	-0.8	-0.7	2.0	2.7	2.5	2.4	2.7	2.5
Consumption of households	<i>growth in %, const.pr.</i>		1.0	0.2	-1.8	0.4	1.7	2.8	2.3	1.5	2.8	2.3
Consumption of government	<i>growth in %, const.pr.</i>		0.4	-2.9	-1.0	2.3	2.3	1.7	1.6	1.9	2.0	1.3
Gross fixed capital formation	<i>growth in %, const.pr.</i>		1.3	1.1	-2.9	-4.4	4.5	5.3	4.2	4.5	5.3	4.1
Contr. of foreign trade to GDP growth	<i>p.p., const.pr.</i>		0.5	1.9	1.3	0.0	-0.1	-0.3	0.0	-0.2	-0.5	-0.2
Contr. of change in stocks to GDP growth	<i>p.p., const.pr.</i>		0.8	0.2	-0.2	-0.2	-0.3	0.0	0.0	0.3	0.1	0.3
GDP deflator	<i>growth in %</i>		-1.5	-0.2	1.4	1.7	2.4	1.9	1.4	2.4	2.5	1.6
Average inflation rate	<i>%</i>		1.5	1.9	3.3	1.4	0.4	0.3	1.5	0.4	0.3	1.4
Employment (LFS)	<i>growth in %</i>		-1.0	0.4	0.4	1.0	0.8	0.7	0.2	0.6	0.4	0.2
Unemployment rate (LFS)	<i>average in %</i>		7.3	6.7	7.0	7.0	6.1	5.7	5.5	6.1	5.7	5.6
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>		0.6	2.2	2.1	-0.4	3.1	4.0	4.1	3.0	3.9	4.1
Current account balance	<i>% of GDP</i>		-3.6	-2.1	-1.6	-0.5	0.6	1.3	0.9	-0.2	1.0	0.5
General government balance	<i>% of GDP</i>		-4.4	-2.7	-3.9	-1.2	-2.0	-1.9	.	-1.3	-2.0	.
<u>Assumptions:</u>												
Exchange rate CZK/EUR			25.3	24.6	25.1	26.0	27.5	27.5	27.5	27.5	27.7	27.6
Long-term interest rates	<i>% p.a.</i>		3.7	3.7	2.8	2.1	1.6	0.6	0.8	1.6	1.0	1.6
Crude oil Brent	<i>USD/barrel</i>		80	111	112	109	99	60	68	99	54	67
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>		2.0	1.6	-0.8	-0.4	0.9	1.4	1.8	0.8	1.0	1.5

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

Economic recovery should continue

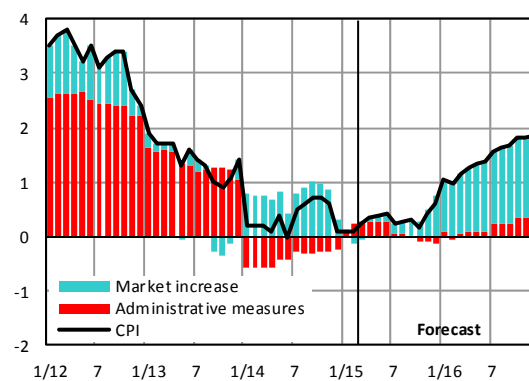
real GDP, QoQ growth rate, in %, seasonally adjusted



Source: CZSO, own calculations

Inflation should remain very low

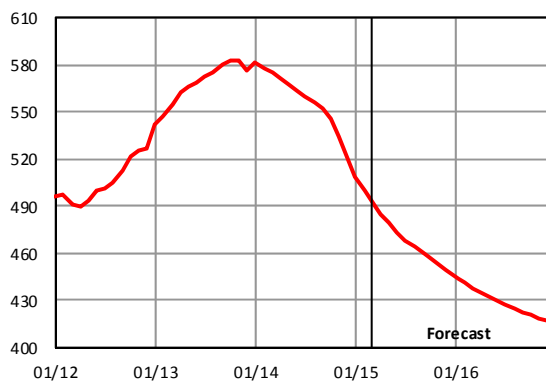
decomposition of YoY growth of CPI, contributions in pp



Source: CZSO, own calculations

Unemployment should continue to decline

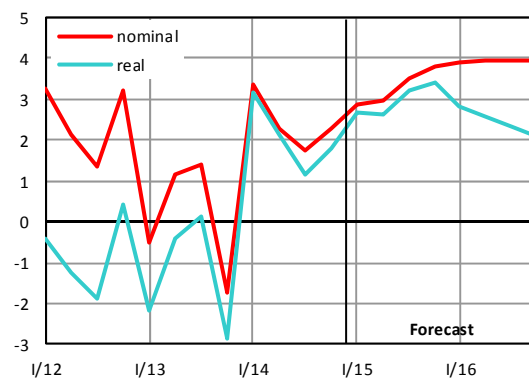
registered unemployment, in thousands of persons, seasonally adjusted



Source: Ministry of Labour and Social Affairs, own calculations

Average real wage growth supported by low inflation

YoY growth rate, in %



Source: CZSO, own calculations

A Forecast Assumptions

A.1 External Environment

The global economic recovery continues, but developments in individual regions remain diverse. The outlook of the global economy has slightly improved, however, it continues to be rather characterised by lower dynamics of GDP growth. Low oil prices and the accommodative monetary policy of central banks represent positive impulses for the world economy; nevertheless, risks related to the possibility of an escalation in the geopolitical situation persist. Developed countries can see a continued strengthening of their growth dynamics. Structural problems are still putting the brakes on the growth potential of emerging countries; while the risk of external imbalances in connection with a sharp decrease in crude oil prices has considerably strengthened.

Concerns about the lower growth rate of the Chinese economy are materializing. Domestic demand is slowing down, and there are excessive capacities apparent across the economy. Risks to the stability of the Chinese financial market persist – the high lending activity of local banks is not sustainable, and the high debt rate of local governments also raises fears. The slowdown of the Chinese economy, together with the slump in the price of oil, is weighing on many other emerging economies that are dependent on trade with primary commodities.

The geopolitical tension in Ukraine has eased after the ceasefire agreement was concluded in February of this year, but local fights have not stopped completely. Sanctions against Russia imposed by the USA and the EU are still in force. However, there are more and more calls for lifting the sanctions if further progress in peace talks is reached, mainly in future territorial arrangements. Owing to the fact that neither Russia nor Ukraine is among the most important export markets for the Czech Republic, the direct macroeconomic effects of the conflict in Ukraine on the Czech economy should not be substantial. The impact on individual states of the EU varies, depending on the extent to which the economies are exposed to Russia. The sanctions have so far weighed on market sentiment, rather than on exports from the EU.

A.1.1 USA

The American economy recorded a slowdown of its QoQ growth to 0.5% (*versus 0.9%*) in the fourth quarter of 2014, but nothing suggests that the slowdown should be of a more permanent character. Growth continued to be predominantly driven by consumption, while import growth and a decrease in non-residential investment and defence expenditures contributed to the slowdown.

In 2015, domestic demand should remain the main driver of the US economy. Rising consumer confidence and the increasing net worth of households (real estate prices are growing, the Dow Jones Industrial Average and S&P 500 stock market indices are still hovering around record highs) will have a positive impact on household consumption. The pressure on deleveraging of households and firms has eased up, and sentiment indicators are rising. The investment activity of firms has already reached the pre-crisis level, amid the rising lending activity of banks.

The economy is still supported by an accommodative monetary policy. At its March meeting, the Fed confirmed its positive assessment of economic output, mainly the labour market situation, but key rates have remained unchanged. The beginning of a slow tightening of the monetary policy is expected in the second half of 2015. The central bank sees the risks to the outlook for economic activity and the labour market as balanced. The Fed expects inflation to rise gradually towards the 2% target as the labour market improves further in line with expectations and the transitory effects on the slump in the price of oil dissipate.

In February 2015, the unemployment rate fell to 5.5%, having declined by 1.2 pp YoY. The unemployment rate is expected to decline further towards 5% in 2015. Taking into account the low growth of the working age population and the stagnating participation rate, the economy is slowly approaching the full employment level. Full capacity utilization should lead to inflation pressures.

In 2014, the economy grew by 2.4% (*versus 2.5%*). The estimate for GDP growth in 2015 has been slightly decreased to 3.0% (*versus 3.2%*). The economy should continue to grow at a similar rate in 2016, when we expect its growth to be 3.1% (*unchanged*). We still assume that growth should be driven mainly by private consumption and investment.

A.1.2 EU

In the fourth quarter of 2014, quarterly GDP growth marginally accelerated both in the EU28 and the EA12; in the EU28 to 0.4% (*versus 0.3%*) and in the EA12 to 0.3% (*versus 0.2%*). In a YoY comparison, GDP in the EU28 increased by 1.3% (*versus 1.2%*), whereas in the EA12 it grew by 0.8% (*versus 0.7%*) only. However, the developments in individual states of the EA12 remain widely varied. In many countries of the EA12, structural problems of economies are still weighing on an economic recovery.

The ECB eased monetary policy further in reaction to decreasing inflation in the EA into negative values and decreasing inflation expectations. The current programmes of private sector asset purchases launched at the end of 2014 have been extended in March 2015 by purchases (on the secondary market) of government bonds and bonds issued by selected agencies domiciled in the euro zone and by the European institutions. Purchases with monthly aggregates in all programmes reaching EUR 60 billion will be carried out at least until September 2016. A further easing of monetary and financial conditions should make cheaper financing available for firms and households, which should support the return of inflation towards 2% through investment and consumption. The monetary policy rates have not changed.

The unemployment rate in the EU28 and the EA12 has been gradually decreasing since the end of 2013. In February 2015, the unemployment rate in the EU28 and the euro area was 9.8% (YoY decrease of 0.7 pp) and 11.3% (YoY decrease of 0.5 pp), respectively. Considerable differences among individual states persist. The worst situation is still in Greece, where the unemployment rate stood at 26.0% in December 2014. Of the EU28 countries for which the data for February were available at the cut-off date, the highest unemployment rate was recorded in Spain (23.2%), Croatia (18.5%) and Cyprus (16.3%); the lowest was in Germany (4.8%) and Austria (5.3%).

In line with the estimate in the previous Forecast, the gradual economic recovery in the EA12 also continued at the end of 2014. For the whole of 2014, real GDP increased by 0.9% (*versus 0.8%*). Economic activity growth should also continue in 2015, while in comparison with 2014 we expect it to have slightly faster dynamics during the whole year. Domestic demand supported by low inflation (positive impact on real wage dynamics), favourable interest rates and further improvement in the labour market situation should contribute positively to growth. The weakened euro should support growth of exports; however, strengthening domestic demand will also increase imports. In some economies of the euro zone, however, the high rate of unemployment will weigh on growth. Risks to the forecast include the uncertainty related to the postponement of necessary reforms and the possibility of an escalation in geopolitical tension. We expect GDP in the EA12 to grow by 1.4% in 2015 (*versus 1.0%*), and we expect growth to accelerate to 1.8% in 2016 (*versus 1.5%*).

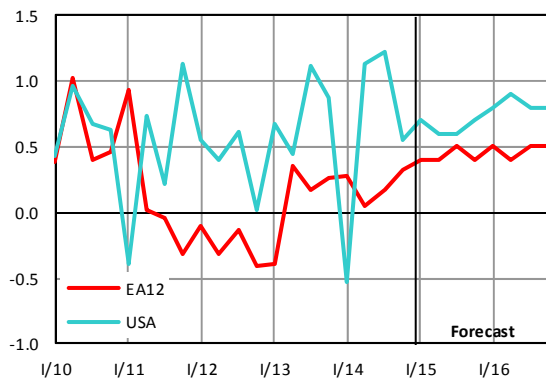
In the fourth quarter of 2014, **Germany** surprised positively with its strong QoQ growth of GDP of 0.7% (*versus 0.1%*). Except for a change in stocks and valuables,

this result was positively influenced by all expenditure components, in particular household consumption. The uncertainty of firms related to the development of the external environment decreased at the end of 2014. Investment expenditures of firms in machines and equipment saw considerably better development in 2014 than in the previous two years. The growth of investment activity should also continue in 2015, which is implied e.g. by the favourable values of short-term indicators and sentiment indexes. The Ifo index has been increasing since the end of 2014, while the assessment of the current situation and the expectation component are improving. The high values of the confidence index (GfK) confirm consumers' positive sentiment. Low ECB rates continue to have a positive effect on the economy; household consumption is boosted by a very good situation on the labour market. Together, these factors are having a positive impact on the real estate market. The expected pickup in the output of developed economies and the high competitiveness of German firms should continue to contribute positively to growth. Lending standards have further eased, and loans to firms and households continue to grow. In 2014, GDP increased by 1.6% (*versus 1.4%*), in particular due to strong economic growth in the first quarter of 2014. We expect growth of 1.8% (*versus 1.0%*) in 2015 and a further slight acceleration to 2.0% (*versus 1.7%*) in 2016. Growth should be driven by household consumption and investment.

The situation in **France** remains unfavourable. In the fourth quarter of 2014, GDP increased by a mere 0.1% (*versus 0.2%*) and indicators suggest only a very slight recovery. The measures taken to give a boost to low income households and the business sphere had only a limited impact. The situation on the labour market is not getting any better – a high rate of unemployment, which stood at 10.6% in February 2015, and problems with job creation are weighing on household consumption. Estimates of future government deficits have been significantly revised based on weak economic output, but the time-limit for exiting the Excessive Deficit Procedure was extended until 2017. The required fiscal consolidation will have a negative effect on economic activity. In 2014, the economy grew by 0.4% (*consistent with the estimate*); in 2015 GDP growth could slightly accelerate to 0.8% (*unchanged*). In 2016, we forecast GDP growth of 1.5% (*versus 1.1%*). Structural reforms should have a favourable effect with a lag and the reversal of confidence of consumers and firms is also expected.

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 **Poland**, GDP increased by 0.7% QoQ (*versus 0.6%*) in the fourth quarter of 2014. High growth dynamics from the previous quarters continued. Negative inflation and the improving situation on the labour market are supporting domestic demand, which should also be the main driver of growth in 2015. Real exports of goods and services increased by 6.0% in 2014, but imports were growing even faster due to the dynamics of domestic demand, which resulted in a negative contribution of net exports to GDP growth. GDP increased by 3.3% (*versus 3.4%*) in 2014 and we expect a slight slowdown of growth to 3.1% (*versus 3.0%*) in 2015. The economy should be supported by projects financed from EU funds; the planned fiscal consolidation will have the opposite effect – Poland is expected to exit the Excessive Deficit Procedure in 2015. In March 2015, there was a further relaxation of monetary policy – the reference rate was reduced to 1.50%, which is the minimum so far. The weakening of the local currency towards the euro should contribute to export performance. In 2016 we expect GDP growth of 3.4% (*versus 3.2%*).

The GDP of **Slovakia** increased by 0.6% QoQ (*in line with the estimate*) in the fourth quarter of 2014, for the whole of 2014 it increased by 2.4% (*in line with the estimate*). Consumption and investment in fixed capital were increasing during the course of 2014. Growth of exports in goods and services in constant prices slowed down considerably, but a similar development could be seen for imports (in the first three quarters with the advance of their growth to growth of exports), thus foreign trade contributing favourably to GDP growth at the end of 2014. Domestic demand should remain the growth driver in 2015. Household consumption will be supported by the growth of real wages and increasing employment. Consumer sentiment indicators are favourable. The situation on the labour market is still improving, the unemployment rate was 12.5% in January 2015, i.e. 1.4 pp less YoY. In 2015, GDP growth could accelerate to 2.7% (*versus 2.5%*), for 2016 we forecast growth acceleration to 3.0% (*versus 2.9%*). In 2016, the growth structure should be more balanced;

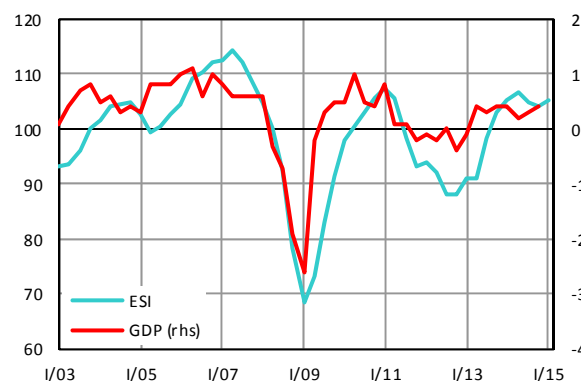
in addition to domestic demand, net exports should also again contribute favourably to growth.

A.1.3 Business Cycle Indicators in the EU

The Economic Sentiment Indicator, which is published by the EC, increased slightly in the EU in the first quarter of 2015. Compared to the previous quarter, the assessment of respondents in the consumer segment and retail trade improved most considerably. Slight improvement could be seen in industry; on the contrary, the assessment of respondents in services and construction deteriorated slightly. For the first quarter of 2015, the composite indicator signals a slight acceleration in QoQ growth of GDP in the EU. Considering higher than expected economic growth at the end of 2014, however, we interpret this signal from the forecast perspective as maintaining growth dynamics.

Graph A.1.2: ESI and GDP Growth in the EU

ESI – quarterly averages, GDP – QoQ growth rate in %, sa data

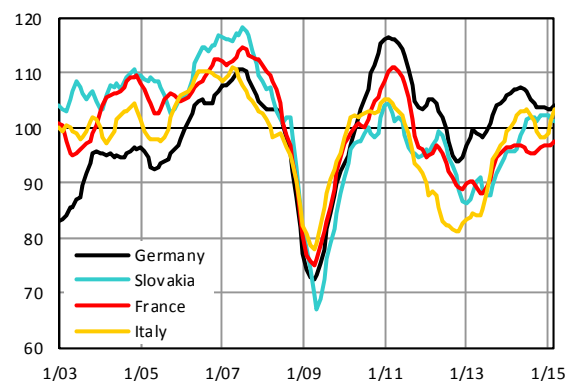


Source: EC, Eurostat

In the countries of selected trading partners, the highest improvement in sentiment could be seen in Italy where the sentiment indicator moved to a positive balance. In contrast, the indicator value has been slightly corrected in Slovakia, while a gradual improvement of sentiment continues in France. In March 2015, the indicator value also increased in Germany when sentiment improved particularly in the consumer segment, industry and services.

Graph A.1.3: ESI in Selected Trading Partner Countries

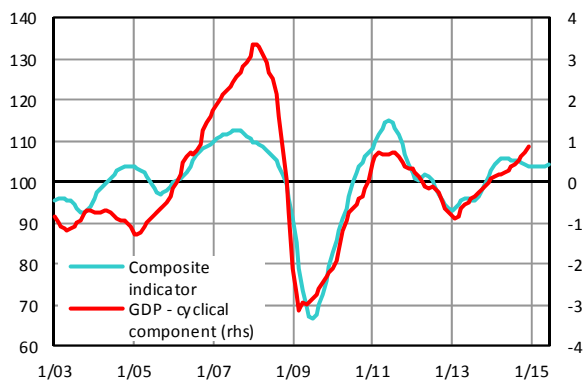
3-month moving averages



Source: EC

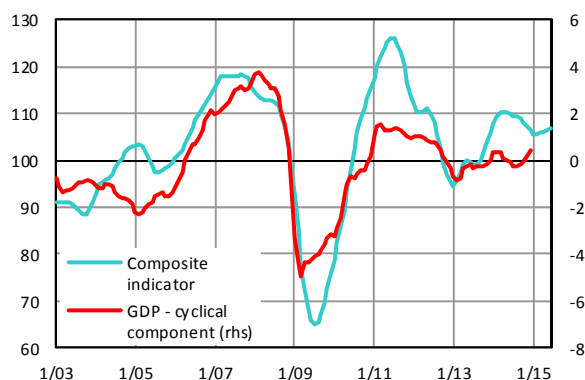
For the second quarter of 2015, the composite leading indicator signals continuation of a slight increase in the relative cyclical component of GDP in the EU and Germany. In Germany, the strong QoQ growth should also be preserved more probably in the first half of 2015. In the case of the EU as a whole, we forecast a slight acceleration of QoQ growth in the second quarter of 2015.

Graph A.1.4: Composite Leading Indicator – EU
monthly data, 2005=100, cyclical component in % of trend GDP



Source: EC, Eurostat, own calculations

Graph A.1.5: Composite Leading Indicator – Germany
monthly data, 2005=100, cyclical component in % of trend GDP



Source: EC, Eurostat, own calculations

A.1.4 Situation in the Troubled Economies of the EA

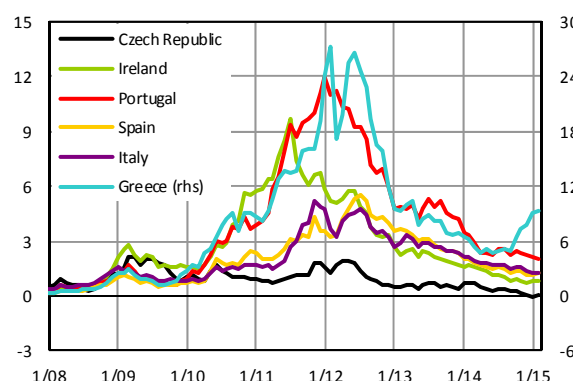
Developments in individual states on the euro area periphery are mixed. Recovery continues in Spain, Portugal and Ireland (Ireland was by far the fastest growing economy of the EU in 2014), but the developments in Cyprus, Italy and Greece are less favourable. The Italian economy was declining marginally throughout 2014, Cyprus is still in recession and Greece, whose economy began to pick up moderately at the beginning of 2014, posted a QoQ GDP decline in the fourth quarter of 2014.

Developments in Greece remain quite dramatic. The new Greek government managed to negotiate another, this time a four-month, extension of the bailout programme, which should now expire at the end of June. By the end of April, Greece should in detail specify the measures (after they had been agreed with the EC, the ECB and the IMF), the implementation of which will be

a precondition for the conclusion of the last review of the bailout programme and release of the remaining part of bailout funds. Given the current liquidity problems of Greece, however, some of the top European politicians leave open the possibility of an earlier release of a part the funds, subject again to implementation (of at least a part of) the agreed reforms. However, implementation of these measures may encounter problems because of internal political reasons. The repeated extension of the bailout programme should also bridge the time for discussions on further help for Greece. Taking into account the current situation on the government bonds market, it is hard to imagine Greece fully returning to the primary market in July.

Graph A.1.6: 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

The impact of the developments in Greece on yields on government bonds of other euro area periphery states has been *de facto* imperceptible so far (see Graph A.1.6). Accommodative monetary policy of the ECB, inflation that has already turned negative and low inflation expectations all contribute to historically low yields on government bonds. From the institutional point of view, the euro area is much better prepared to weather potential shocks than it was in mid-2012, when “Grexit” was seen as a hard-to-manage risk.

Future developments in the economies on the euro area periphery are still subject to downside risks. Sudden deterioration of market sentiment towards the region, which could occur especially in relation to future developments in Greece, cannot be entirely excluded. It is thus premature to consider the euro area crisis to be over.

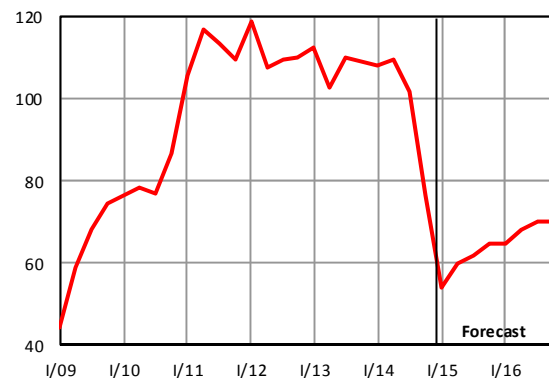
Given the high openness of the Czech economy and strong business links to the euro area, a potential escalation of the crisis in the euro area could weigh on foreign demand for exports from the Czech Republic. At the same time, the confidence of households and firms could decrease, having a negative impact on consumption and investment.

A.1.5 Commodity Prices

We estimate the price of Brent crude oil averaged 54 USD/barrel (*versus 50 USD*) in the first quarter of 2015. In February 2015, the first growth of the average monthly oil price was recorded since June 2014; however, the question remains whether the prices have already reached their lowest values. An excess of supply over demand should have a downward effect on prices in the first half of 2015, in particular in the USA where stock accumulation resulted, after a longer period of time, in an increase in the difference of prices between US and European oil. Producers are gradually adjusting to price conditions and reassessing their investment plans. The expected gradual increase in the price is in line with the situation on the futures market where the increase in the oil price is signalled at present in the price of futures contracts. The average price of Brent crude oil for the whole year of 2015 could

reach USD 60 per barrel (*versus 54 USD*). In 2016, the price could grow further to 68 USD per barrel (*versus 67 USD*).

Graph A.1.7: Dollar Prices of Brent Crude Oil
in USD per barrel



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

Table A.1.1: Real Gross Domestic Product – yearly

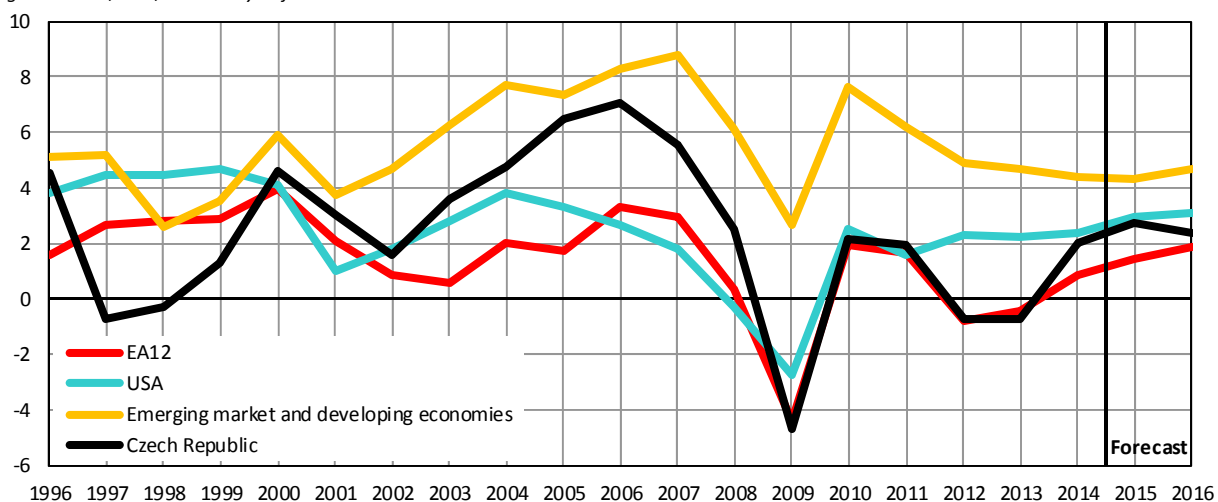
growth rate, in %, seasonally adjusted data (except for the Czech Republic)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
									Forecast	Forecast
World	5.4	2.8	-0.6	5.2	3.9	3.1	3.3	3.3	3.5	3.7
USA	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2	2.4	3.0	3.1
China	14.2	9.6	9.2	10.4	9.3	7.7	7.7	7.3	6.9	6.6
EU28	3.1	0.4	-4.4	2.0	1.8	-0.4	0.1	1.3	1.6	1.9
EA12	2.9	0.3	-4.4	2.0	1.6	-0.8	-0.4	0.9	1.4	1.8
Germany	3.4	0.8	-5.6	3.9	3.7	0.6	0.2	1.6	1.8	2.0
France	2.3	0.1	-2.9	1.9	2.1	0.4	0.4	0.4	0.8	1.5
United Kingdom	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7	2.8	2.7	2.5
Austria	3.5	1.3	-3.7	1.8	3.2	1.0	0.1	0.4	0.7	1.6
Hungary	0.5	0.7	-6.5	0.8	1.8	-1.5	1.6	3.6	2.6	1.9
Poland	7.2	3.9	2.5	3.7	4.8	1.9	1.6	3.3	3.1	3.4
Slovakia	10.7	5.4	-5.3	4.8	2.7	1.6	1.4	2.4	2.7	3.0
Czech Republic	5.5	2.7	-4.8	2.3	2.0	-0.8	-0.7	2.0	2.7	2.5

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

Graph A.1.8: 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

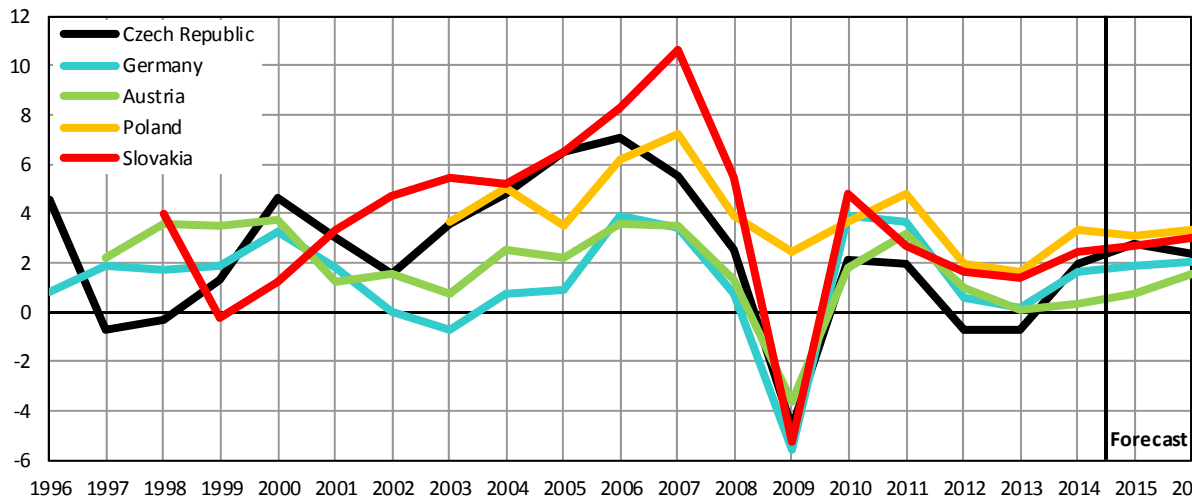
growth rate, in %, seasonally adjusted data

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
USA	QoQ	-0.5	1.1	1.2	0.5	0.7	0.6	0.6	0.7
	YoY	1.9	2.6	2.7	2.4	3.6	3.1	2.5	2.6
China	QoQ	1.5	2.0	1.6	1.6	1.7	1.7	1.6	1.7
	YoY	7.5	7.7	7.0	6.9	7.1	6.8	6.8	6.9
EU28	QoQ	0.4	0.2	0.3	0.4	0.4	0.5	0.4	0.5
	YoY	1.4	1.3	1.2	1.3	1.3	1.6	1.7	1.8
EA12	QoQ	0.3	0.1	0.2	0.3	0.4	0.4	0.5	0.4
	YoY	1.1	0.8	0.8	0.8	1.0	1.3	1.6	1.7
Germany	QoQ	0.8	-0.1	0.1	0.7	0.5	0.5	0.6	0.5
	YoY	2.3	1.4	1.2	1.5	1.2	1.8	2.3	2.1
France	QoQ	0.0	-0.1	0.3	0.1	0.2	0.3	0.3	0.3
	YoY	0.8	0.0	0.4	0.2	0.4	0.9	0.9	1.1
United Kingdom	QoQ	0.9	0.8	0.6	0.6	0.6	0.7	0.8	0.7
	YoY	2.7	2.9	2.8	3.0	2.7	2.5	2.7	2.8
Austria	QoQ	-0.1	0.0	0.1	-0.2	0.3	0.3	0.4	0.4
	YoY	0.8	0.5	0.3	-0.2	0.2	0.5	0.8	1.4
Hungary	QoQ	1.1	1.0	0.4	0.8	0.6	0.7	0.6	0.5
	YoY	3.7	4.0	3.4	3.4	2.9	2.6	2.7	2.4
Poland	QoQ	1.0	0.6	0.8	0.7	0.7	0.8	0.9	0.8
	YoY	3.5	3.3	3.3	3.2	2.9	3.0	3.1	3.2
Slovakia	QoQ	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.7
	YoY	2.3	2.4	2.5	2.4	2.5	2.6	2.8	2.9
Czech Republic	QoQ	0.3	0.3	0.4	0.4	1.0	0.8	0.7	0.6
	YoY	2.3	2.1	2.2	1.4	2.1	2.7	3.0	3.2

Source: Eurostat, NBS China, own calculations

Graph A.1.9: Real Gross Domestic Product – Czech Republic and the neighbouring states

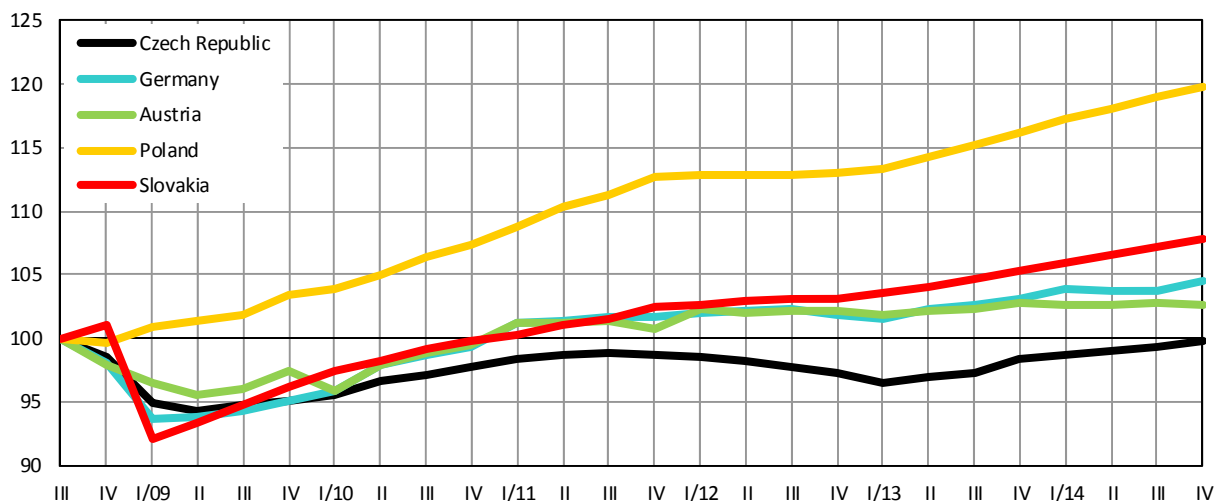
YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, own calculations

Graph A.1.10: Real Gross Domestic Product – Czech Republic and the neighbouring states

Q3 2008=100, seasonally adjusted data



Source: Eurostat, own calculations

Table A.1.3: Prices of Selected Commodities – yearly

spot prices

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
										Forecast	Forecast
Crude oil Brent	USD/barrel	72.4	96.9	61.5	79.6	111.3	111.6	108.6	99.0	60	68
	growth in %	11.1	34.0	-36.5	29.3	39.9	0.3	-2.6	-8.8	-39.2	13.3
Crude oil Brent index (in CZK)	2005=100	96.0	106.7	76.1	100.0	129.5	143.8	139.9	134.6	102	118
	growth in %	-0.9	11.1	-28.6	31.4	29.5	11.0	-2.7	-3.8	-23.9	14.9
Wheat	USD/t	255.2	325.9	223.4	223.7	316.2	313.3	312.2	284.9	209	207
	growth in %	33.1	27.7	-31.5	0.1	41.4	-0.9	-0.3	-8.8	-26.8	-0.8
Wheat price index (in CZK)	2005=100	120.4	129.5	100.6	100.0	131.3	144.4	143.7	138.6	126	128
	growth in %	18.4	7.5	-22.3	-0.6	31.3	10.0	-0.5	-3.5	-8.9	1.0

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

Table A.1.4: Prices of Selected Commodities – quarterly

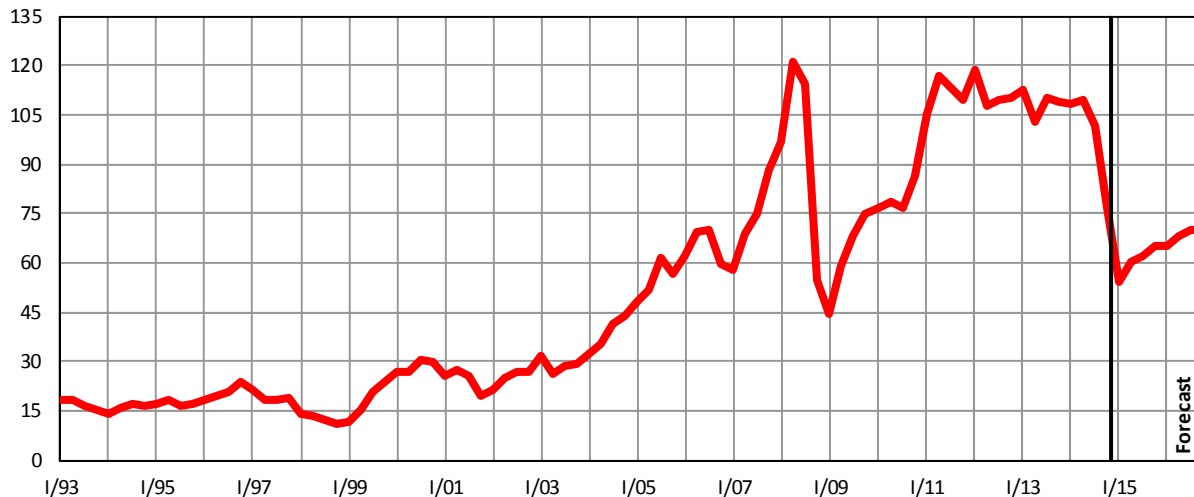
spot prices

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Crude oil Brent	USD/barrel	108.1	109.7	101.9	76.4	54	60	62	65
	growth in %	-3.8	7.0	-7.6	-30.0	-50.1	-45.3	-39.2	-15.0
Crude oil Brent index (in CZK)	2005=100	142.7	144.6	139.9	111.2	87	103	107	112
	growth in %	-0.5	8.3	-1.3	-21.1	-38.8	-28.5	-23.6	0.8
Wheat price	USD/t	297.1	322.1	262.5	257.9	233	197	200	205
	growth in %	-7.6	2.6	-14.2	-16.2	-21.7	-38.9	-23.9	-20.3
Wheat price index (in CZK)	2005=100	140.0	151.7	128.7	134.1	134	121	123	127
	growth in %	-4.4	3.9	-8.4	-5.5	-4.1	-20.1	-4.4	-5.6

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

Graph A.1.11: Dollar Prices of Oil

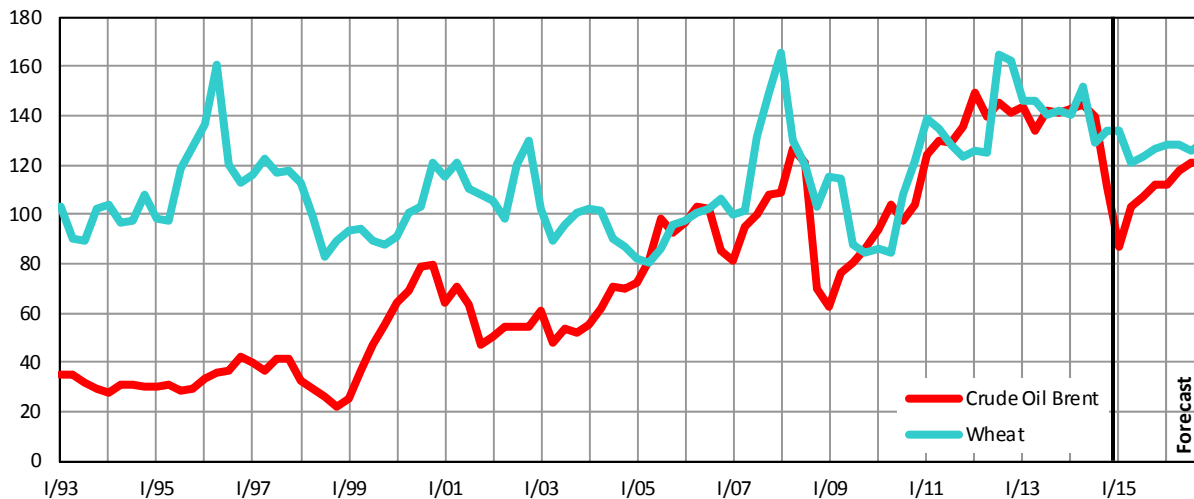
USD/barrel



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

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

index 2010=100



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

A.2 Fiscal Policy

Preliminary data of the CZSO show that the general government sector deficit reached 2.0% of GDP in 2014, which was a deterioration of 0.9 pp in comparison with 2013. However, this was due to a range of one-off factors.

As part of the transition to the ESA 2010 standard, certain financial sector units, such as the Czech-Moravian Guarantee and Development Bank, the Export Guarantee and Insurance Corporation and the Deposit Insurance Fund, were included in the general government sector. Moreover, in the October 2014 notification of government deficit and debt the Czech Export Bank was included in the general government. Out of these institutions, the Deposit Insurance Fund had the biggest impact on the general government deficit, because it disbursed compensations to clients of bankrupt financial institutions amounting to 0.3% of GDP in 2014. These compensations were negligible in 2013.

Revenues from indirect taxes (on accrual basis), which decreased by 1.7%, i.e. by 0.2% of GDP, contributed to the deterioration of the general government balance in 2014. This can be explained by the development of the revenues from the excise duty on tobacco products, which were down more than 46 % on 2013 especially due to the introduction of limited time validity of tobacco stamps. Economic agents' opportunity to stockpile tobacco stamps was thus significantly reduced. Under the ESA 2010 accrual accounting, tax revenues are recorded at the time relevant for the payment of the tax, which does not have to correspond with the cash revenue. Tobacco stamps are due in two months after they had been ordered; for this reason, the transition from cash to accrual accounting involves a two-month shift in the case of revenues from the excise duty on tobacco products. On accrual basis, the revenues of 2014 include cash payments received between March and December 2014 and in the first two months of 2015. Compared with January and February 2014 (when there was a significant impact of stockpiling), cash collection of excise taxes was down almost CZK 17 billion in January and February 2015. This sudden drop occurred only in the year of approval of the aforementioned change in legislation. In the years to come, revenues from this tax should return to the long-term trend, which follows actual consumption of tobacco products.

Investment of the general government sector was up almost 18% in 2014, which also contributed to the YoY deterioration of the deficit. An increase was recorded primarily in the investment of local government (even though investment of the central government was also up), due to a rise in investment financed from the EU as well as from national sources. After a period of uninterrupted declines (since 2009), investment thus came close to the level of 2011.

Nominal increase of the government's final consumption expenditure by 3.3% is the last substantial factor that influenced the YoY change of the balance. This development, however, is primarily due to an increase in the expenditure of health insurance companies on health care, whereby they tried to compensate the drop in the revenues of health care institutions resulting from the abolition of selected health care regulatory fees. Purchases of goods and services (intermediate consumption) of the general government sector rose at a significantly slower pace than in 2013.

In the light of the aforementioned facts, one can assess the year 2014 positively. Despite the huge negative impact of the compensations disbursed to the clients of bankrupt financial institutions and the drop in the collection of excise duty on tobacco products, the deficit remained below 3% of GDP. At the same time, investment activity was kickstarted, which forms a sound basis for the future development.

The general government sector deficit is expected to decrease moderately to 1.9% of GDP in 2015. On the revenue side, the collection of excise duty on tobacco products should increase sharply. Despite the second reduced rate on selected groups of commodities, the VAT should also perform favourably. Collection of direct taxes should increase by more than 3%, driven (similarly as in 2014) especially by revenues from the corporate income tax

Subsidies from the EU (on accrual basis) are expected to record a high growth. On the expenditure side, they are connected with a significant rise in investment co-financed from the EU funds, which should occur in an effort to draw down the remaining funds from the programming period 2007–2013.

Higher growth of wage costs related to the development of compensation of employees in the general government sector will impact on the expenditure side. On the contrary, the dynamics of social transfers in kind (payments of health insurance companies for health care) should slow down, compared with the previous year. In nominal terms, final consumption expenditure of the general government should increase by 2.2%.

Expenditure in the social area, where a rather low growth in previous years was given by a reduced indexation of pension benefits, is also expected to accelerate. The approved increase in the pension indexation rule from 2015 will contribute to more than 4% increase in this item.

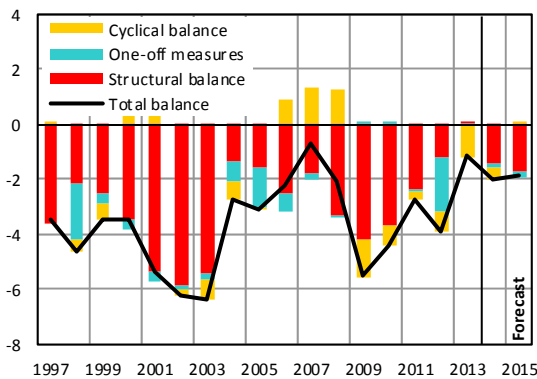
Investment is expected to increase enormously – by more than 29%. Its growth will be driven especially by the investment co-financed from the EU budget. However, purely national investment of the general govern-

ment sector should also rise. This year's investment, deficit and debt will be also influenced by a one-off transaction in the form of inclusion of the principal of the lease of supersonic fighter jets JAS-39 Gripen, amounting to approximately CZK 10.5 billion.

The general government sector debt reached 42.6% of GDP in 2014. Compared with the previous year, the debt decreased both in nominal and relative terms,

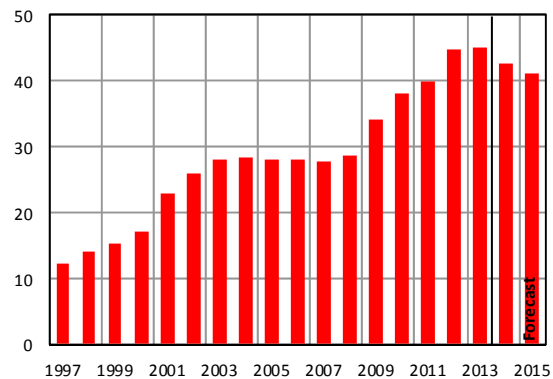
especially due to the management of state treasury liquidity. The state budget debt is expected to stabilize further in 2015. The dynamics of the general government sector debt will thus be given primarily by the one-off imputation of the liabilities resulting from the lease of the supersonic fighter jets. The debt should reach CZK 1828.6 billion (i.e. 40.9% of GDP). Its decline in proportion to GDP will thus continue in this year.

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



Source: CZSO, own calculations

Graph A.2.2: Government Debt
in % of GDP



Source: CZSO, own calculations

Table A.2.1: Net Lending/Borrowing and Debt

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Prelim.	Forecast
General government balance ¹⁾	% GDP	-2.3	-0.7	-2.1	-5.5	-4.4	-2.7	-3.9	-1.2	-2.0	-1.9	
	bill. CZK	-79	-27	-85	-216	-175	-109	-158	-47	-87	-83	
Cyclical balance	% GDP	0.9	1.3	1.3	-1.4	-0.7	-0.3	-0.7	-1.2	-0.4	0.1	
Cyclically adjusted balance	% GDP	-3.2	-2.0	-3.4	-4.1	-3.7	-2.4	-3.2	0.0	-1.6	-1.9	
One-off measures ²⁾	% GDP	-0.7	-0.3	-0.1	0.0	0.0	-0.1	-2.0	-0.1	-0.2	-0.2	
Structural balance	% GDP	-2.5	-1.8	-3.3	-4.2	-3.7	-2.3	-1.2	0.1	-1.5	-1.7	
Fiscal effort ³⁾	percent. points	-0.9	0.7	-1.5	-0.9	0.5	1.4	1.1	1.3	-1.5	-0.3	
Interest expenditure	% GDP	1.0	1.1	1.0	1.2	1.3	1.3	1.4	1.3	1.3	1.2	
Primary balance	% GDP	-1.2	0.4	-1.1	-4.3	-3.1	-1.4	-2.5	0.2	-0.7	-0.7	
Cyclically adjusted primary balance	% GDP	-2.1	-1.0	-2.4	-2.9	-2.3	-1.1	-1.7	1.4	-0.3	-0.8	
General government debt	% GDP	27.9	27.8	28.7	34.1	38.2	39.9	44.6	45.0	42.6	40.9	
	bill. CZK	979	1 066	1 151	1 336	1 509	1 604	1 804	1 840	1 816	1 829	
Change in debt-to-GDP ratio	percent. points	-0.1	-0.1	0.9	5.4	4.1	1.7	4.7	0.5	-2.5	-1.6	

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 (-)

2) One-off and temporary measures are such measures that have only a temporary impact on public budgets. Besides their temporary impact on overall balance, these measures are usually of non-recurring nature and very often result from the events that are beyond the direct power of the government.

3) Change in structural balance.

A.3 Monetary Policy, Financial Sector and Exchange Rates

A.3.1 Monetary Policy

Due to domestic macroeconomic developments and other factors, disinflation continued even after the CNB cut the limit interest rate for 2W (two-week) repo operations to 0.05% in November 2012. In order to prevent long-term under-shooting of the inflation target and to accelerate the return to a situation when it would again be able to use its standard instruments, the Bank Board of the CNB decided on 7 November 2013 to use the exchange rate as an additional monetary policy instrument. Interventions on the foreign exchange market (in the volume of approximately EUR 7.5 billion) were only carried out in November 2013; since then, the mere existence of the exchange rate commitment and the declared resolution of the CNB to meet this commitment have been enough to maintain the exchange rate above the level of 27 CZK/EUR.

A.3.2 Financial Sector and Interest Rates

In the first quarter of 2015, the **3M** (3-month) **PRIBOR** interbank market rate averaged 0.33% (*consistent with the forecast*). The 3M PRIBOR should remain at this level also in 2015 and 2016 (*unchanged*).

With respect to the absence of inflationary pressures and practically zero primary interest rates, long-term interest rates are at extremely low values. We estimate that **the yield to maturity on 10-year government bonds** for convergence purposes reached only 0.5% (*versus 0.8%*) in the first quarter of 2015, for the whole of 2015 we forecast its value at 0.6% (*versus 1.0%*). With regard to the expected development of primary interest rates, expected fiscal trajectory and in particular developments of long-term interest rates in most European countries, no marked increase in long-term rates should occur in the medium-term horizon either. Therefore, for 2016 we forecast only a slight increase to 0.8% (*versus 1.6%*).

In January 2015, the CNB conducted another bank lending survey. The survey concluded that in the fourth quarter of 2014 credit standards eased in all segments of the credit market. Banks also expected their further easing in the first quarter of 2015.

In connection with the development of primary and interbank interest rates, client interest rates have been very low for a long time. In the fourth quarter of 2014, interest rates on household deposits decreased by 0.1 pp YoY to 0.8%, and rates on corporate deposits dropped by 0.2 pp YoY to 0.2%. The rates on loans to households decreased by 0.4 pp YoY to 5.4%; the rates on loans to non-financial corporations decreased by 0.2 pp YoY to 2.9%.

The growth of loans to households, driven mainly by housing loans, has recently been relatively low. Consumer loans continue to fall slightly, and the growth of so-called "other loans", which include e.g. loans to sole traders, has also been decreasing. Loans to non-financial corporations increased slightly at the end of 2014 after a longer period of decrease, growth of foreign currency loans to non-financial corporations decreased relatively considerably.

The share of non-performing loans has been decreasing very slowly. In the fourth quarter of 2014 it reached 4.8% for households (0.3 pp less YoY) and 6.8% for non-financial corporations (0.4 pp less YoY).

The Prague Stock Exchange Index PX oscillated around 1,030 points at the end of March 2015, which represented QoQ growth of approximately 9%. In annual terms, the index value was approximately 2% higher.

It can be stated that the financial sector remains stable and does not pose more serious risks to the real economy.

A.3.3 Exchange Rates

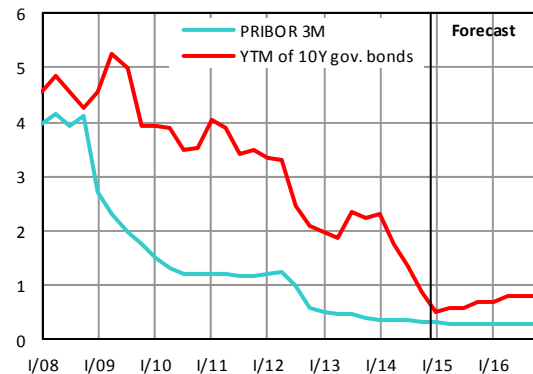
For the major part of 2014, the CZK/EUR exchange rate hovered close to the level of 27.50 CZK/EUR. The koruna weakened to this level after the CNB started using the exchange rate as an additional monetary policy instrument at the beginning of November 2013 (see above). For the whole of 2014, the koruna weakened by 5.6% YoY on average.

Considerable weakening of the koruna above 28 CZK/EUR at the beginning of 2015 turned out to be temporary in line with our expectations. Afterwards, the koruna started strengthening and the exchange rate averaged 27.62 CZK/EUR in the first quarter of 2015 (*versus 28.0*).

It is not yet clear when and in what manner the CNB will stop using the exchange rate instrument. Based on the available information (especially the CNB's statement that it will not stop using the exchange rate as a monetary policy instrument before the second half of 2016), we have made a technical assumption that the exchange rate will remain stable at 27.5 CZK/EUR until the end of 2016. We expect that subsequently the koruna will again start strengthening slightly against the euro, approximately by 0.4% QoQ. The expected development is in line with the CNB's statement that it will not allow considerable appreciation of the koruna after it discontinues the exchange rate commitment.

Graph A.3.1: Interest Rates

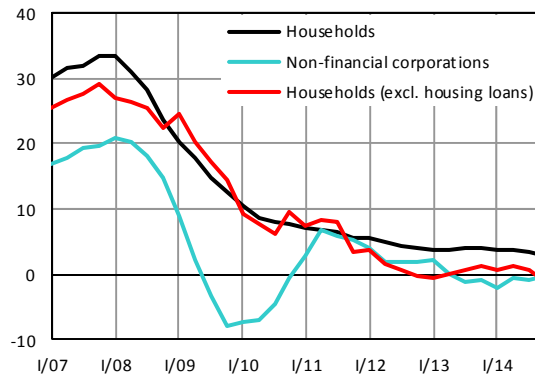
in % p.a.



Source: CNB, own calculations

Graph A.3.2: Loans

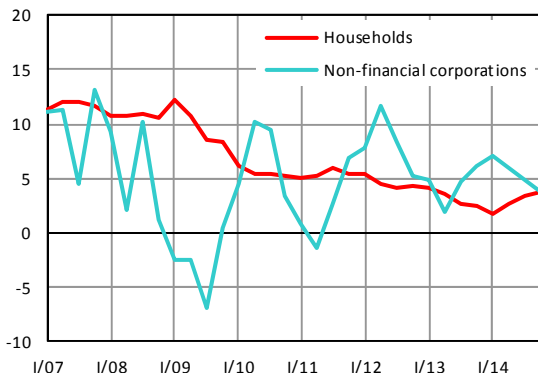
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.3: Deposits

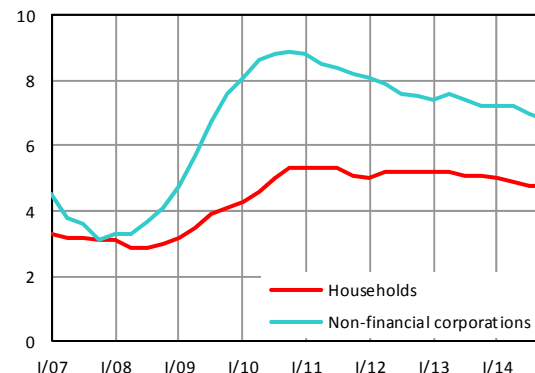
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.4: Non-performing Loans

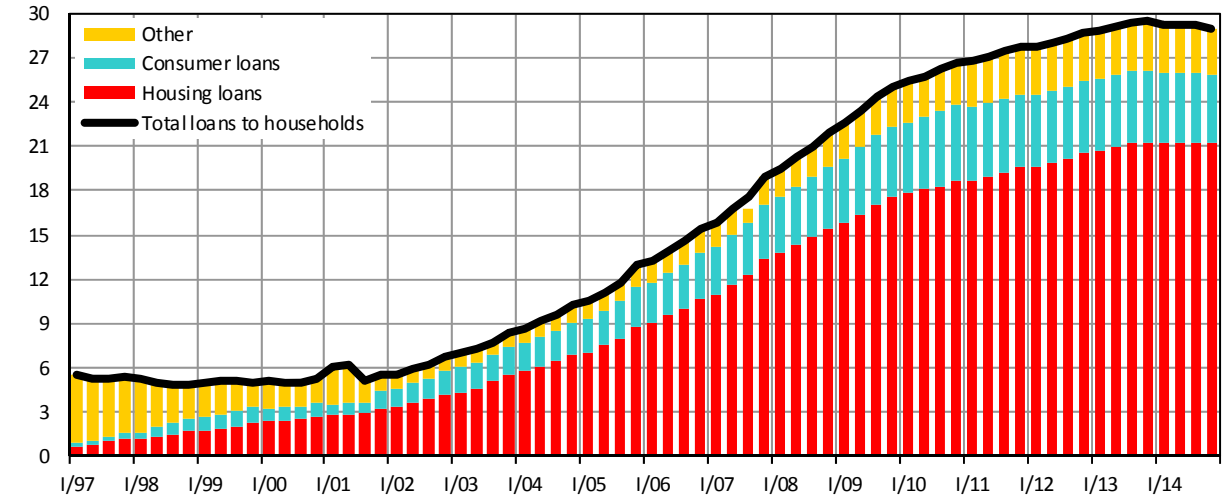
ratio of non-performing to total loans, in %



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.3.1: Interest Rates, Deposits and Loans – yearly

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
										Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	3.50	2.25	1.00	0.75	0.75	0.05	0.05	0.05	.	.
Main refinancing rate ECB (end of period)	in % p.a.	4.00	2.50	1.00	1.00	1.00	0.75	0.25	0.05	.	.
Federal funds rate (end of period)	in % p.a.	4.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	.	.
PRIBOR 3M	in % p.a.	3.09	4.04	2.19	1.31	1.19	1.00	0.46	0.36	0.3	0.3
YTM of 10Y government bonds	in % p.a.	4.28	4.55	4.67	3.71	3.71	2.80	2.11	1.58	0.6	0.8
Households – MFI (CR, unless stated otherwise)											
– interest rates on loans	in % p.a.	6.63	6.81	7.00	7.00	6.83	6.46	6.03	5.57	.	.
– loans	growth in %	31.7	28.9	16.3	8.7	6.5	4.9	4.0	3.5	.	.
– loans without housing loans	growth in %	27.3	25.3	19.1	8.3	6.8	1.4	0.4	0.3	.	.
– deposits	growth in %	10.6	9.4	10.5	5.4	5.0	4.7	3.2	2.9	.	.
– share of non-performing loans	in %	3.2	3.0	3.7	4.8	5.3	5.2	5.2	4.9	.	.
– loans to deposits ratio	in %	48	57	60	61	62	65	65	65	.	.
– loans to deposits ratio (Eurozone)	in %	99	94	89	90	90	87	84	82	.	.
Non-financial firms – MFI (CR, unless stated otherwise)											
– interest rates on loans	in % p.a.	4.85	5.59	4.58	4.10	3.93	3.69	3.19	3.00	.	.
– loans	growth in %	16.7	17.5	0.2	-6.5	3.3	2.5	0.1	-0.9	.	.
– deposits	growth in %	13.2	5.3	-1.7	4.8	0.9	8.2	4.4	5.4	.	.
– share of non-performing loans	in %	3.8	3.6	6.2	8.6	8.5	7.7	7.4	7.1	.	.
– loans to deposits ratio	in %	122	137	141	125	129	122	117	110	.	.
– loans to deposits ratio (Eurozone)	in %	308	329	326	308	301	291	264	239	.	.

Source: CNB, ECB, Fed, own calculations

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

		2014				2015			
		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.	0.25	0.15	0.05	0.05	0.05	.	.	.
Federal funds rate (end of period)	in % p.a.	0.25	0.25	0.25	0.25	0.25	.	.	.
PRIBOR 3M	in % p.a.	0.37	0.36	0.35	0.34	0.33	0.3	0.3	0.3
YTM of 10Y government bonds	in % p.a.	2.30	1.76	1.36	0.88	0.5	0.6	0.6	0.7
Households – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	5.73	5.62	5.52	5.40	.	.	.	.
– loans	growth in %	3.9	3.8	3.6	2.7	.	.	.	.
– loans without housing loans	growth in %	0.6	1.2	0.6	-1.2	.	.	.	.
– deposits	growth in %	1.8	2.6	3.4	3.7	.	.	.	.
– share of non-performing loans	in %	5.0	4.9	4.8	4.8	.	.	.	.
– loans to deposits ratio	in %	65	65	66	65	.	.	.	.
– loans to deposits ratio (Eurozone)	in %	83	82	82	81	.	.	.	.
Non-financial firms – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	3.06	3.04	2.98	2.93	.	.	.	.
– loans	growth in %	-1.9	-0.6	-0.9	-0.1	.	.	.	.
– deposits	growth in %	7.1	5.9	4.9	3.8	.	.	.	.
– share of non-performing loans	in %	7.2	7.2	7.0	6.8	.	.	.	.
– loans to deposits ratio	in %	112	111	111	107	.	.	.	.
– loans to deposits ratio (Eurozone)	in %	242	247	239	230	.	.	.	.

Source: CNB, ECB, Fed, own calculations

Table A.3.3: Exchange Rates – yearly

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:											
CZK / EUR	average	26.45	25.29	24.59	25.14	25.98	27.53	27.5	27.5	27.2	26.8
	appreciation in %	-5.6	4.6	2.8	-2.2	-3.2	-5.6	0.0	0.1	0.9	1.5
CZK / USD	average	19.06	19.11	17.69	19.59	19.57	20.75	25.8	26.2	26.0	25.6
	appreciation in %	-10.5	-0.3	8.0	-9.7	0.1	-5.7	-19.5	-1.6	0.9	1.5
NEER	average of 2010=100	98.0	100.0	103.1	99.5	97.3	92.5	91	91	92	93
	appreciation in %	-3.2	2.1	3.1	-3.5	-2.2	-4.9	-1.4	-0.1	0.9	1.5
Real exchange rate to EA12¹⁾	average of 2010=100	97.8	100.0	101.6	99.5	96.7	92.4	93	93	95	97
	appreciation in %	-4.1	2.3	1.6	-2.0	-2.9	-4.5	0.8	0.3	1.1	2.8
REER	average of 2010=100	98.9	100.0	102.0	99.2	96.9	.	.	.	.	.
(Eurostat, CPI deflated, 42 countries)	appreciation in %	-3.7	1.2	2.0	-2.8	-2.3	.	.	.	.	.

Source: CNB, Eurostat, own calculations

1) Deflated by GDP deflators.

Table A.3.4: Exchange Rates – quarterly

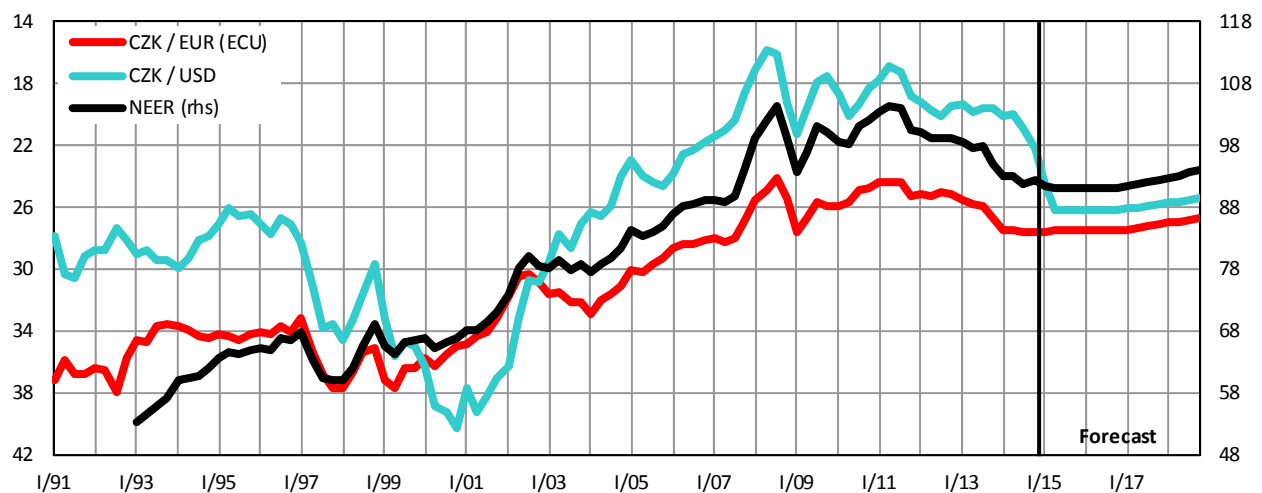
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Nominal exchange rates:									
CZK / EUR	average	27.44	27.45	27.62	27.62	27.62	27.5	27.5	27.5
	appreciation in %	-6.8	-5.9	-6.4	-3.5	-0.7	-0.2	0.4	0.5
CZK / USD	average	20.04	20.02	20.84	22.10	24.55	26.2	26.2	26.2
	appreciation in %	-3.3	-1.2	-6.4	-11.4	-18.4	-23.5	-20.4	-15.6
NEER	average of 2010=100	93.0	93.0	91.9	92.3	91	91	91	91
	appreciation in %	-5.5	-4.7	-6.2	-3.0	-1.7	-1.9	-0.8	-1.2
Real exchange rate to EA12¹⁾	average of 2010=100	92.1	92.6	92.2	92.5	92	93	94	94
	appreciation in %	-5.7	-4.4	-4.9	-2.8	-0.5	0.5	1.5	1.7
REER	average of 2010=100	92.9	92.1	91.0	.	.	.	.	.
(Eurostat, CPI deflated, 42 countries)	appreciation in %	-5.6	-5.3	-6.6	.	.	.	.	.

Source: CNB, Eurostat, own calculations

1) Deflated by GDP deflators.

Graph A.3.6: Nominal Exchange Rates

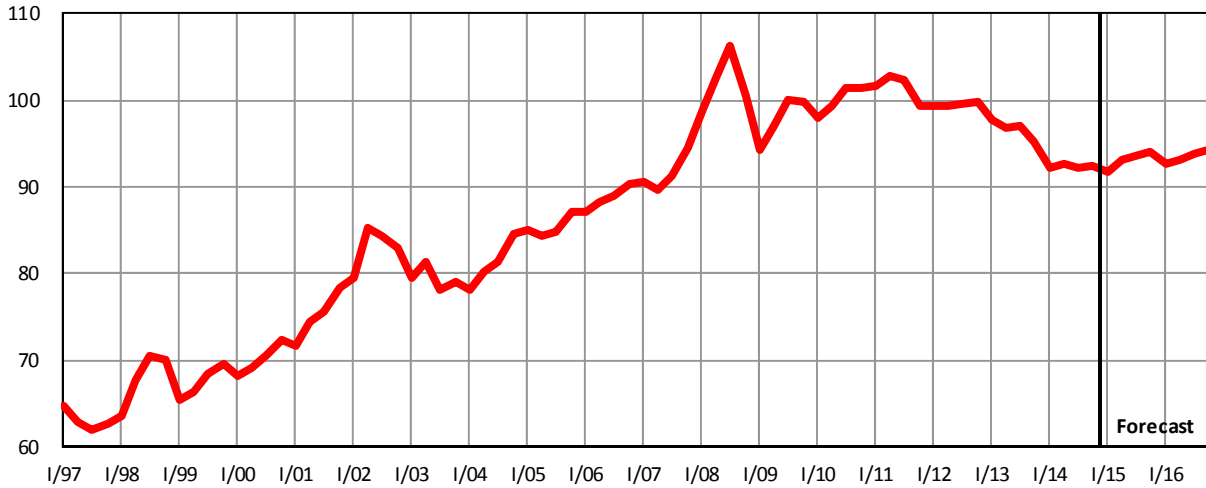
quarterly averages, average 2010=100 (rhs)



Source: CNB, own calculations

Graph A.3.7: Real Exchange Rate to EA12

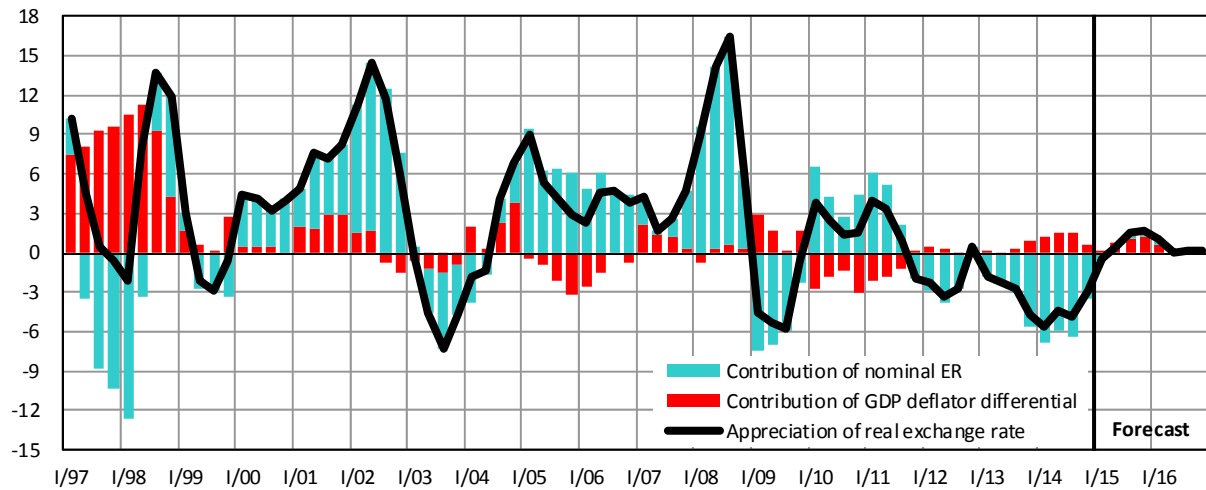
quarterly averages, deflated by GDP deflators, average 2010=100



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

A.4.1 Business Environment

On 19 March 2015, the Senate approved the **amendment to the Investment Incentive Act** that introduces new stimuli and also removes some limiting conditions from the investment incentive system. The amendment extends the number of regions in which material support will be provided for creating new jobs and the requalification or training of employees. In this connection, it introduces the concept of Special Economic Zones, in which the subsidy for a newly created job will be up to CZK 300,000 and exemption from property tax will stretch up to 5 years for new corporations. Investment incentives will also now be provided to data centres and call centres that create more than 500 jobs. In contrast, the requirement for the minimum number of newly created jobs will decrease for projects involving technological and strategic services centres, and the 75% limit on the maximum rate of support for low-tech sectors will be abolished. The amendment should come into effect on 1 May 2015.

The amendment to the Act on Public Contracts, that came into effect on 6 March 2015, extends the criteria applicable to selecting the economically most suitable bid to include other partial evaluation criteria (assessment of the organization, qualifications and experience of employees or the impact on the employment of persons with more difficult access to the labour market). The amendment also cancels the obligation of the contracting authority to annul the tender procedure in the case of only one bid and increases the limit for awarding extra work from 20 to 30 %.

A.4.2 Taxes

On 23 February 2015, the government approved **the amendment to the Act on Excise Taxes** that should limit tax evasion. The amendment introduces global taxation of raw tobacco and the register of persons dealing with raw tobacco. At the same time, the amendment reduces deposits for smaller fuel distributors from CZK 20 to 10 million. The amendment is scheduled to come into effect on 1 July 2015.

Another **amendment to the Act on Excise Taxes** approved by the government on the same day, i.e. on 23 February 2015, extends tax advantages of high-percentage and clean bio fuels for the period 2015–2020. The Act is scheduled to come into effect on 1 July 2015.

A.4.3 Financial Markets

The amendment to the Act on the Insurance Sector, approved by the government on 23 February 2015, transposes the EU Directive on Access to Insurance and Reinsurance Activity and its Performance into the Czech legal order. The new legal regulation aims at removing the biggest differences among legal regulations of the EU member states and creating the internal insurance and reinsurance market using the so-called single European passport that will enable insurance and reinsurance companies to perform their activities in the whole EU. The amendment should also facilitate access to insurance and reinsurance activities, ensure the financial stability of the market and the adequate protection of policy holders, and create a supervisory framework. Last but not least, the amendment regulates the supervisory activity of the CNB. The amendment is scheduled to come into effect on 1 January 2016.

A.5 Demographic Trends

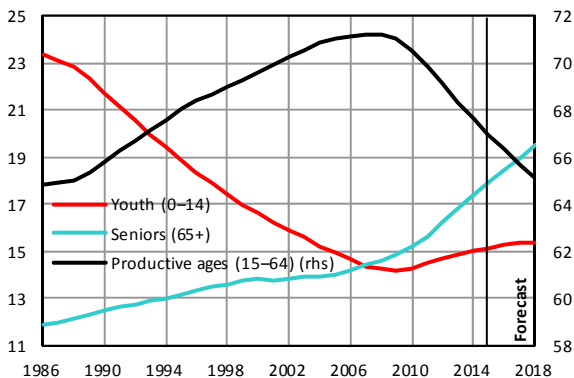
The year 2014 was a year of surprisingly dynamic population developments in the Czech Republic. At the end of 2014, 10,538 million people lived in the Czech Republic. During 2014, its population increased by 26 thousand inhabitants, i.e. the highest rise in population since 2010.

The high rise in population was mainly due to renewal of the positive net migration. Forty-two thousand persons moved here from abroad (12 thousand more YoY, i.e. the highest number since 2008), while the number of persons moving abroad was only 20 thousand persons (11 thousand less YoY). The highest balance was for citizens of Slovakia (6 thousand), Ukraine (4 thousand) and Russia (3 thousand). As for the citizens of Ukraine and Russia, the number of persons who moved both in and out of the country was high, which probably reflects the situation in Eastern Europe.

The natural growth in population was also renewed. The number of births increased by 3 thousand to 110 thousand. According to preliminary results, the total fertility rate was 1.53 children, which is the highest number since 1993. The number of deaths (106 thousand) was 3 thousand less YoY, i.e. the lowest number for the last six years.

Graph A.5.1: Age Groups

structural shares in %



Source: CZSO, own calculations

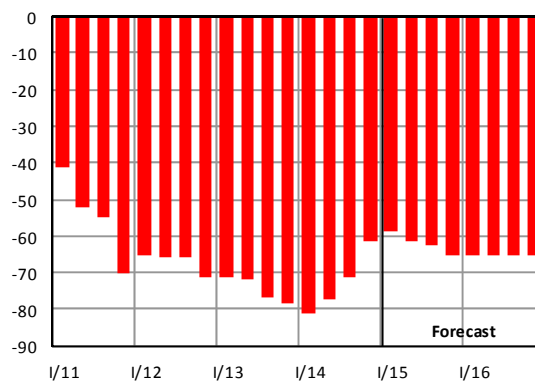
With respect to the demographic structure of the society, there has been a decline in **population aged 15-64 years** since 2009. This decline (see graph A.5.2) was partially mitigated by high immigration in 2014. Also in the following years, the working-age population should continue to decrease by approximately 60–70 thousand people a year in absolute terms, which is an annual decrease of just below 1% a year. The economic impacts of this situation are described in more detail in Chapter B.1.

In contrast, the structural proportion of **persons aged over 64 years** in the total population probably reached 17.9% at the beginning of 2015 and should regularly increase by approximately 0.5 pp annually.

The number of seniors in the population is significantly increasing due to demographic structure and the ongoing rise in life expectancy, and it should reach 2 million persons at the beginning of 2017. From the perspective of the sustainability of the pension system, however, increases in retirement age are adequate to match the prolonging life expectancy in the next 20–25 years.

Graph A.5.2: Population Aged 15–64

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

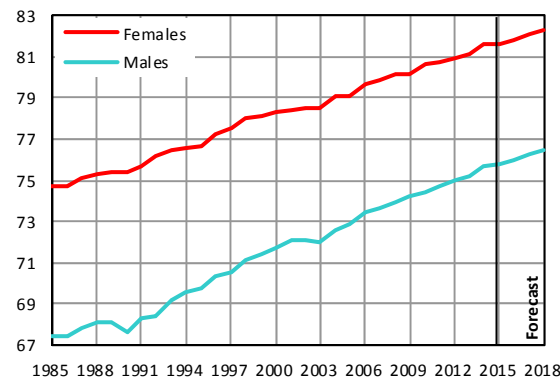


Source: CZSO, own calculations

In 2014 the number of **old-age pensioners** increased by 15 thousand after its stagnation in 2012 and 2013 caused by a change in the rules for calculating pensions during the parametric change in the pension system. This is less than an increase in the number of persons reaching their retirement age (26 thousand). The entire increase can be attributed to pensioners with reduced pensions following early retirement, while the number of pensioners entitled to a full pension decreased by 7 thousand. The share of reduced pensions has already reached 24.5%, compared to 19.6% at the end of 2010.

Graph A.5.3: Life Expectancy

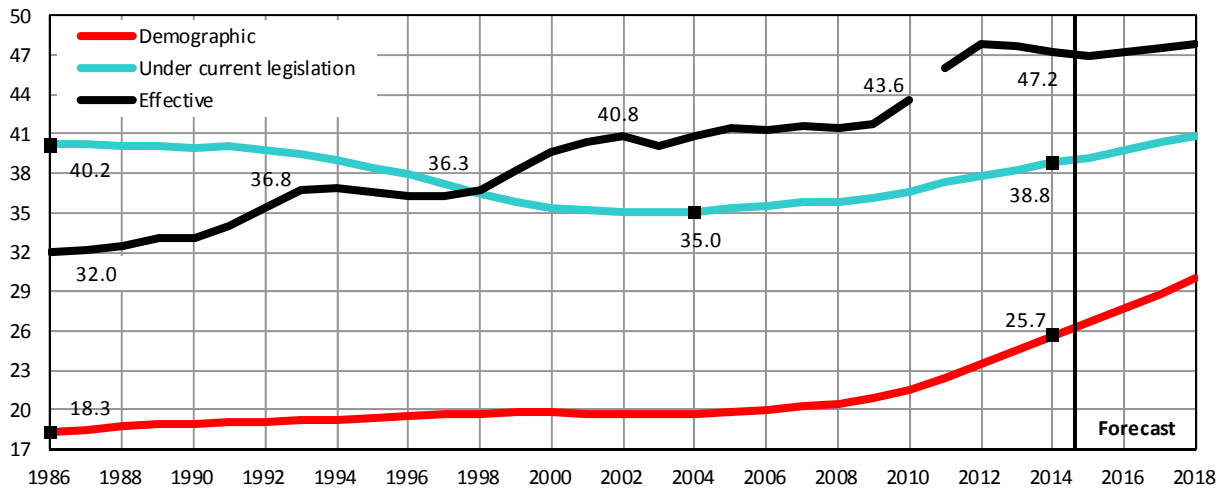
in years



Source: CZSO

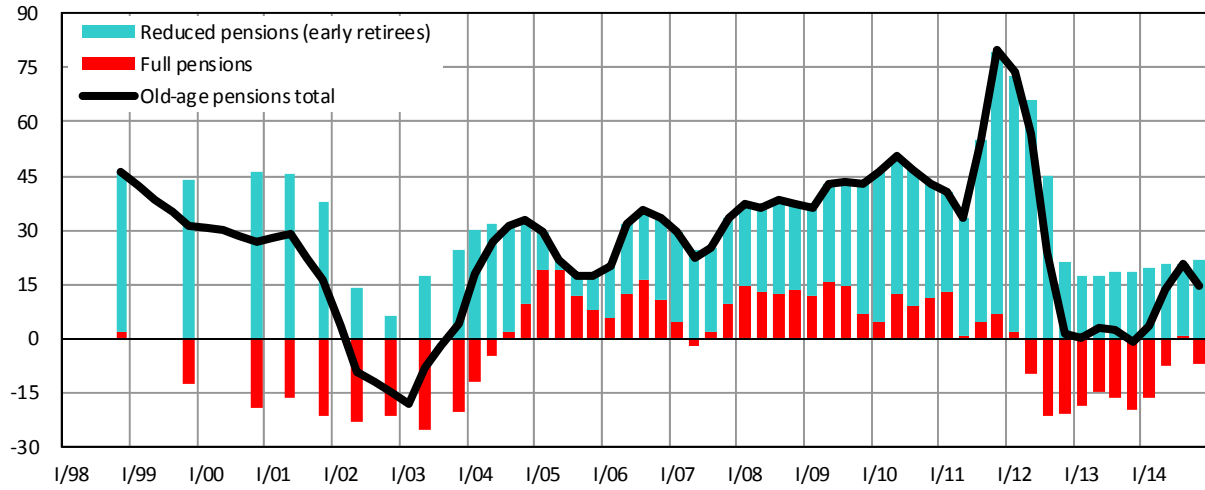
Table A.5.1: Demographics
in thousands of persons (unless stated otherwise)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
							<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Population (January 1)	10 468	10 507	10 487	10 505	10 516	10 512	10 538	10 542	10 544	10 545
<i>growth in %</i>	0.8	0.4	-0.2	0.2	0.1	0.0	0.2	0.0	0.0	0.0
Age structure (January 1):										
(0–14)	1 480	1 494	1 522	1 541	1 560	1 577	1 596	1 609	1 618	1 624
<i>growth in %</i>	0.2	1.0	1.8	1.3	1.2	1.1	1.2	0.8	0.6	0.4
(15–64)	7 431	7 414	7 328	7 263	7 188	7 109	7 057	6 992	6 926	6 864
<i>growth in %</i>	0.5	-0.2	-1.2	-0.9	-1.0	-1.1	-0.7	-0.9	-0.9	-0.9
(65 and more)	1 556	1 599	1 637	1 701	1 768	1 826	1 885	1 942	2 000	2 056
<i>growth in %</i>	2.9	2.7	2.4	3.9	3.9	3.3	3.3	3.0	3.0	2.8
Old-age pensioners (January 1)¹⁾	2 102	2 147	2 260	2 340	2 341	2 340	2 355	2 375	2 395	2 414
<i>growth in %</i>	2.0	2.1	.	3.5	0.1	0.0	0.6	0.8	0.9	0.8
Old-age dependency ratios (January 1, in %):										
Demographic²⁾	20.9	21.6	22.3	23.4	24.6	25.7	26.7	27.8	28.9	30.0
Under current legislation³⁾	36.1	36.6	37.4	37.8	38.3	38.8	39.2	39.8	40.4	40.9
Effective⁴⁾	41.8	43.6	45.9	47.9	47.6	47.2	46.9	47.2	47.6	47.9
Fertility rate	1.492	1.493	1.427	1.452	1.456	1.53	1.45	1.45	1.46	1.46
Population increase	39	-20	19	11	-4	26	4	2	1	-1
Natural increase	11	10	2	0	-2	4	-5	-7	-9	-11
Live births	118	117	109	109	107	110	102	100	98	97
Deaths	107	107	107	108	109	106	107	107	107	107
Net migration	28	16	17	10	-1	22	9	9	9	10
Immigration	40	31	23	30	30	42	.	.	.	.
Emigration	12	15	6	20	31	20	.	.	.	.
Census difference	x	-46	x	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.

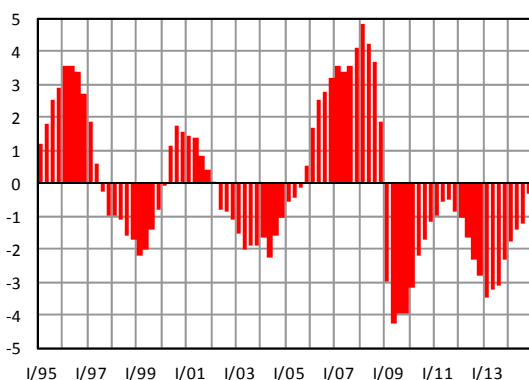
B Economic Cycle

B.1 Position within the Economic Cycle

Potential product, 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 potential product. The concepts of potential product and output gap are used to analyse the economic cycle and to calculate the structural balance of public budgets.

Graph B.1.1: Output Gap

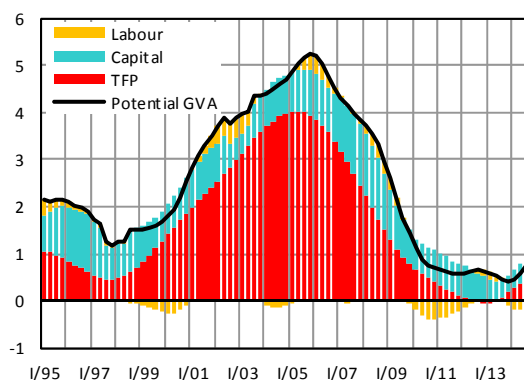
in % of potential product



Source: CZSO, own calculations

Graph B.1.2: Potential Product Growth

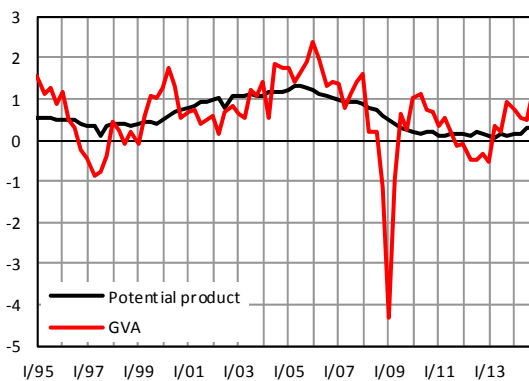
in %, contributions in percentage points



Source: CZSO, own calculations

Graph B.1.3: Potential Product and GVA

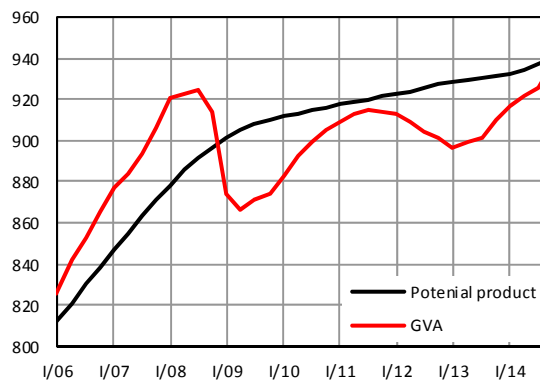
QoQ growth rate, in %



Source: CZSO, own calculations

Graph B.1.4: Levels of Potential Product and GVA

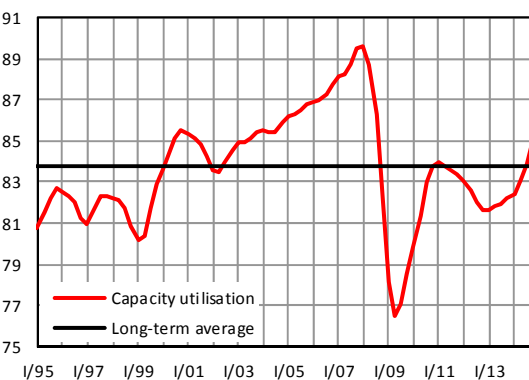
in bill. CZK of 2010



Source: CZSO, own calculations

Graph B.1.5: Capacity Utilisation in Industry

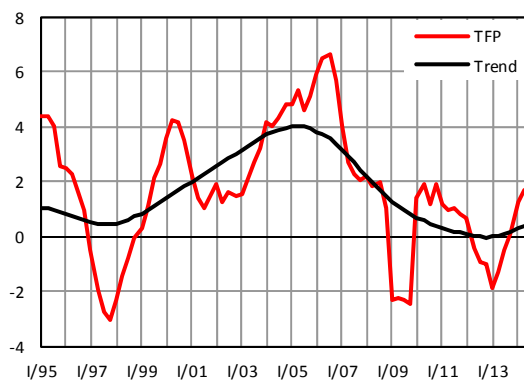
smoothed by Hodrick-Prescott filter, in %



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

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Output gap	<i>per cent</i>	-0.1	2.6	3.7	3.7	-3.8	-2.1	-0.7	-2.0	-3.0	-1.2
Potential product ¹⁾	<i>growth in %</i>	5.1	4.9	4.1	3.4	2.0	0.9	0.6	0.6	0.5	0.7
Contributions:											
-Trend TFP	<i>perc. points</i>	4.0	3.6	2.8	1.9	1.0	0.5	0.2	0.0	0.1	0.4
-Fixed assets	<i>perc. points</i>	0.9	1.0	1.2	1.3	0.9	0.7	0.7	0.6	0.4	0.4
-Demography ²⁾	<i>perc. points</i>	0.2	0.2	0.3	0.3	0.1	-0.2	-0.4	-0.5	-0.5	-0.5
-Participation rate	<i>perc. points</i>	0.2	0.2	-0.2	0.0	0.3	0.2	0.3	0.8	0.9	0.5
-Usually worked hours	<i>perc. points</i>	-0.2	-0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2

Source: CZSO, own calculations

1) Based on gross value added

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

Thanks to the dynamic recovery of the Czech economy, the deeply negative **output gap**, originating in the course of the last recession, nearly closed. In the fourth quarter of 2014, according to our calculations, it already reached only -0.3% (see Graph B.1.1). This result is supported by the fact that the utilization of production capacities in industry has already reached its long-term average level (see Graph B.1.5). The unemployment rate (LFS) is also below its long-term average. In contrast, neither the acceleration of wage dynamics nor inflation driven by demand has been observed in the economy yet.

Any forecast for the future development of the output gap is always associated with a considerable degree of uncertainty. Yet it is possible to infer that if economic growth is in line with the forecast, the negative output gap should already close during 2015. In the following years, the economy should find itself under the conditions of a positive output gap when any further stimulation by the economic policies could create origin for future macroeconomic imbalances.

The expected development of the output gap is primarily caused by the low growth of **potential product**. Due to long periods of recession, stagnation or only low growth, the growth of potential product slowed considerably, and in spite of a slight acceleration in the last quarters, it was 0.9% YoY in the fourth quarter of 2014.

This slowdown was mainly caused by **total factor productivity** (TFP). Its trend component, derived from the Hodrick-Prescott filter, switched to stagnation during the recession in 2012. With respect to the end point problem, however, any improvement apparent at the end of the time series will have to be confirmed in the following periods.

The long-lasting and deep slump in gross fixed capital formation in 2008–2013 (by more than 20% – see

Graph C.1.6) has led to a drop in the contribution of **capital stock** from 1.3 pp in 2008 to 0.3 pp in the fourth quarter of 2013. Considering the low ratio of investment aimed at expanding production capacities to capital stock, the recovery of investment, which has been taking place since the beginning of 2014, will only manifest itself in potential product dynamics with delay – the contribution of the capital stock in the fourth quarter of 2014 was 0.5 pp.

The labour supply is affected by a long-term decrease in the working-age population, caused by the population ageing process (see Chapter A.5). In the fourth quarter of 2014, **demographic development** slowed potential product growth by 0.5 pp.

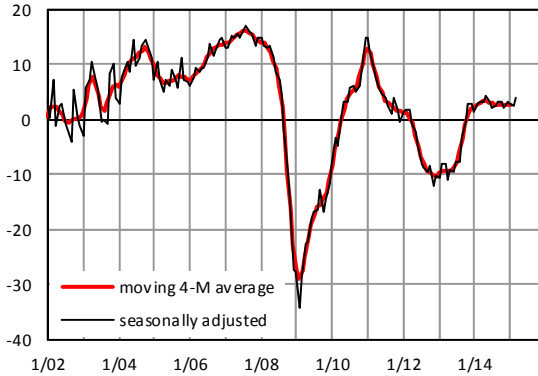
The negative impact of the decline in the population aged 15–64 years on the labour supply is compensated by an increase in the **participation rate** (the ratio of the labour force to the population aged 15–64 years). With respect to its anti-cyclical character, the decrease in its contribution to potential product growth from 0.9 pp in 2013 to 0.5 pp in the fourth quarter of 2014 can be explained by the economic cycle. In the following period, the structural factors of the participation rate – an increase in the number of inhabitants in age groups with naturally high participation (see Chapter C.3) and an increase in the statutory retirement age – should start to predominate.

In the Czech Republic, the regular average working time is shortening. The structural component of this process can be explained by the fact that the average number of hours worked in the Czech Republic is long, compared to standards of more developed countries. In the fourth quarter of 2014, the lower number of **hours usually worked** slowed potential product growth by only 0.2 pp versus 0.4 pp at the end of the recession in the first quarter of 2013.

B.2 Business Cycle Indicators

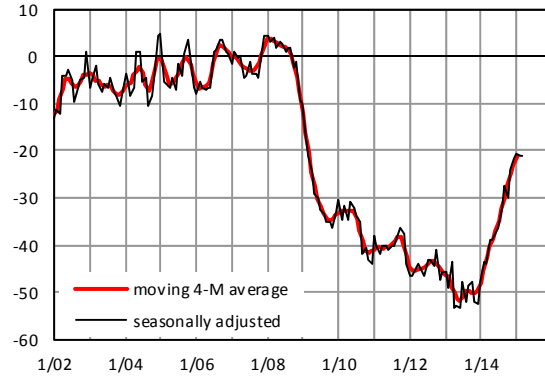
Business cycle indicators express respondents' views as to the current situation and short-term outlook and serve to identify in advance possible turning points in the economic cycle. Their main advantage lies in the quick availability of results reflecting a wide range of influences shaping the expectations of economic entities.²

Graph B.2.1: Industrial Confidence Indicator



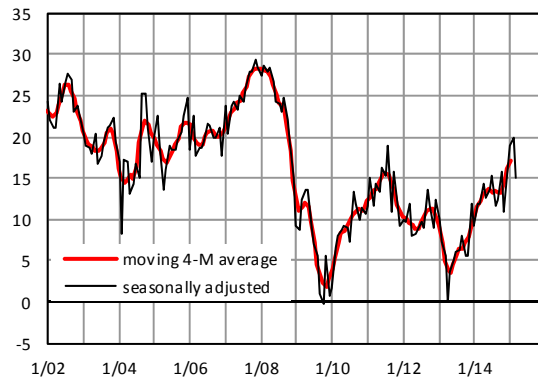
Source: CZSO

Graph B.2.2: Construction Confidence Indicator



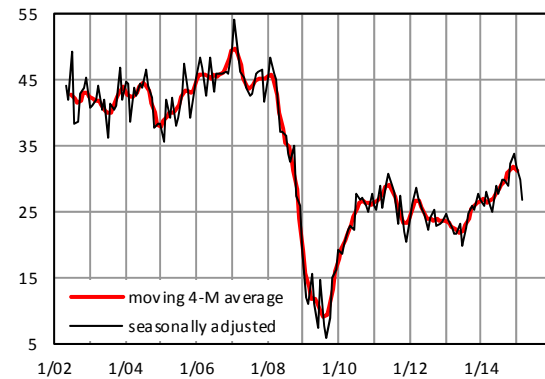
Source: CZSO

Graph B.2.3: Retail Trade Confidence Indicator



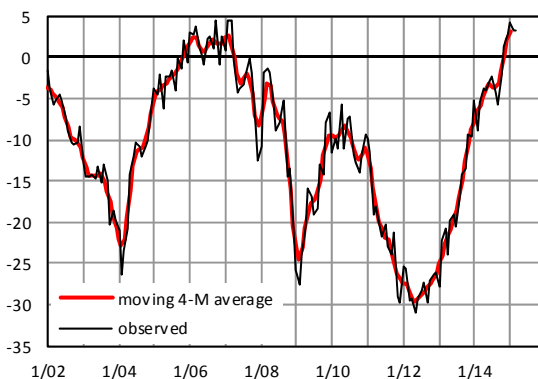
Source: CZSO

Graph B.2.4: Selected Services Confidence Indicator



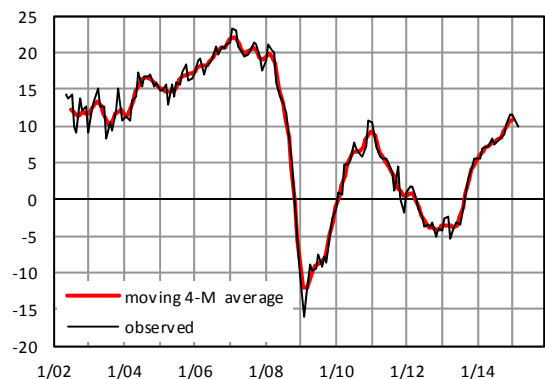
Source: CZSO

Graph B.2.5: Consumer Confidence Indicator



Source: CZSO

Graph B.2.6: Aggregate Confidence Indicator

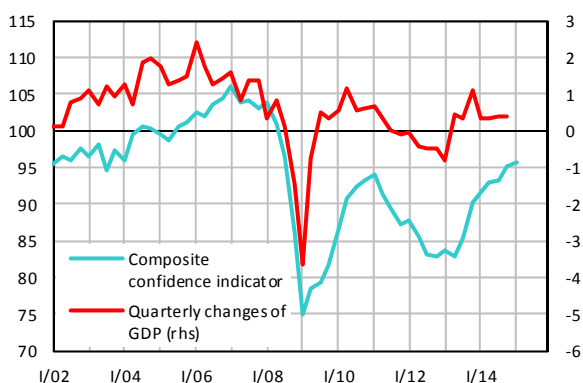


Source: CZSO

² For the business cycle research methodology, see CZSO: http://www.czso.cz/eng/redakce.nsf/i/business_cycle_surveys.

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

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



Source: CZSO

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

While the industrial confidence indicator was more or less stagnating in the first quarter of 2015, the value of the services confidence indicator decreased slightly. In contrast, confidence in trade and also construction increased, but the overall assessment of respondents in construction is still negative.

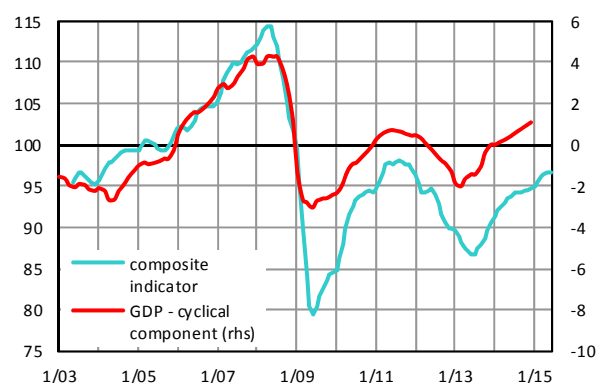
Consumer sentiment posted a further improvement and the balance of respondents' assessments has now reached positive values.

An increase in the confidence indicator in trade is reflected in an increase in real sales; in contrast, a deterioration of confidence in services is in line with a real decrease in sales. It is also possible to see the accordance between the growth of the confidence indicator value in construction and the growth of the construction production index in January 2015. In the case of industry, the situation is less apparent as relatively high growth of the industrial production was again recorded in January 2015, while the confidence indicator rather stagnated.

Although the link between the values of the composite confidence indicator and the QoQ changes in real GDP is not particularly strong (without any lag their correlation is approximately 60%), it does at least enable us to

Graph B.2.8: Composite Leading Indicator

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



Source: CZSO, own calculations

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

utilize the fact that the composite indicator is published in advance of quarterly national accounts. Therefore, only a qualitative assessment is presented in Graph B.2.7. The composite confidence indicator implied that GDP would grow in QoQ terms in the first quarter of 2015 slightly more than in the last quarter of 2014.

The composite leading indicator implied that quarterly GDP growth in the fourth quarter of 2014 would be almost the same as that recorded in the third quarter of 2014. The released data confirmed this signal. The relative cyclical component, derived from up-to-date national accounts data using decomposition based on the Hodrick-Prescott filter, has recently been showing positive values and its level has been increasing.

For the first quarter of 2015 the indicator signals that the relative cyclical component increased further, which in terms of the quarterly GDP growth rate means slightly higher dynamics than in the last quarter of 2014. For the second quarter of 2015 the indicator signals that the relative cyclical component will improve negligibly, which would be in line with the approximately same QoQ growth of GDP as in the first quarter of 2015.

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

C.1.1 GDP in the fourth quarter of 2014

Economic output measured by real GDP increased by 1.2% YoY (*versus 1.9%*) in the fourth quarter of 2014, while seasonally adjusted GDP increased by 0.4% QoQ (*versus 1.0%*). With regard to the fact that gross value added posted a QoQ growth of 1.2%, it is clear that the relatively lower GDP growth was caused by a slump in indirect taxes. It resulted from a substantially lower stockpiling of tax stamps in reaction to an increase in the excise duty on tobacco products in comparison with the end of 2013. This reaction resulted from introducing the time-limited sale of old tax stamps (see Chapter A.2).

The YoY growth of GDP in the given period was based on increasing final consumption expenditure, while household consumption and the government contributed to the GDP development nearly equally. On the contrary, gross capital formation weighed on GDP dynamics. It was caused by the stock development, reflecting the already mentioned effect of slump in indirect taxes in terms of expenditure on GDP. The gross fixed capital formation contributed favourably to the GDP development. With a quicker increase in the import volume than the export volume, net exports weighed on GDP growth.

The growth of household consumption was supported by the increasing disposable income and consumer confidence. The recovery of household consumption could be seen in the expenditure on both non-durable goods and services and on durable goods. Household consumption increased in real terms by 2.0% (*in line with the estimate*). Government consumption was up by 4.3% (*versus 2.4%*).

As for gross fixed capital formation, investment rose, in particular in other buildings and structures and other machinery and equipment, which might have largely been due to the drawdown of money from structural funds. Due to a one-off decrease in a change in inventories, gross capital formation decreased in real terms by 1.9% (*versus a growth of 4.2%*), while growth of gross fixed capital formation reached 3.4% (*versus 5.5%*).

The growth of exports was in line with the growth of export markets, imports were supported by recovering domestic demand and growing exports. Exports increased by 6.7% YoY (*versus 5.4%*) and imports by 7.4% YoY (*versus 6.6%*).

Export prices grew faster than import prices, which translated into an improvement in the terms of trade of 0.7% YoY. The resulting trading gain brought about a situation where real gross domestic income, which unlike GDP includes the trading gain or loss from a change in the terms of trade, increased by 1.7% YoY (*versus 3.2%*).

Nominal GDP that increased by 3.0% (*versus 4.0%*) was supported mainly by the growth in the gross operating surplus of 6.7% (*versus 6.8%*) and the compensation of employees of 3.6% (*versus 3.3%*).

In 2014, real GDP increased by 2.0% (*versus 2.4%*). The growth was given by both the final consumption expenditure and gross capital formation. Net exports weighed on GDP growth very slightly.

C.1.2 Estimate for the first quarter of 2015

The estimate of GDP and its structure is based on the course of phenomena already observed in the previous period and commented on above. We estimate that GDP increased by 2.1% YoY (*versus 2.3%*) and by 1.0% QoQ (*versus 0.7%*). The increase in QoQ dynamics of GDP is a result of compensation of a one-off slump in excise taxes in the last quarter of 2014.

We estimate that GDP growth was mainly driven, in terms of expenditure, by final consumption with a slight contribution of gross capital formation. In contrast, foreign trade continued to weigh on GDP dynamics slightly. Household consumption probably increased by 3.3% (*versus 3.2%*) and government consumption by 1.8% (*versus 2.0%*). According to our estimate, gross capital formation increased by 0.4% (*versus 2.5%*). It resulted from a decrease in the estimate of gross fixed capital formation growth in relation to newly disclosed data for 2014 and relatively higher YoY decrease in the change in stocks. Furthermore, we estimate that exports grew by 6.0% (*versus 5.4%*) and imports by 6.8% (*versus 6.5%*). The changes relate to higher than estimated growth rates of both variables in the fourth quarter of 2014.

C.1.3 Forecast for the years 2015 and 2016

The forecast increase in economic output in both years is based exclusively on the growth of domestic demand; foreign trade in constant prices should weigh on GDP growth in 2015 and have a neutral effect in 2016. We expect that domestic demand will benefit from additional income resulting from considerably lower crude oil prices, which will primarily manifest itself in costs, and therefore in the operating surplus of firms.

We expect that GDP will increase in 2015 in real terms by 2.7% and by 2.5% in 2016. This is in line with the January Macroeconomic Forecast. The key changes in the GDP structure compared to the January Forecast are summarized below.

Thanks to very low inflation, household consumption will be supported by the growth of real disposal income and probably also by consumers' positive expectations. For 2015 at least, we cannot expect any significant contribution from consumer loans to resources for private consumption.

We are not changing the forecast for real growth of household consumption in 2015 and 2016 and we expect it to grow by 2.8% or 2.3%, respectively. Lower growth in 2016 compared to 2015 is a result of the fact that the price effect of the slump in the price of oil should disappear.

We are slightly decreasing the forecast for government consumption growth in 2015. We expect that it should increase by 1.7% (*versus 2.0%*) in 2015 as a consequence of its discretionary limitation due to non-planned expenditure in connection with the compensation of judges' salaries and taxes for emission allowances collected in an unjustified manner. In 2016, we expect that government consumption will grow by 1.6% (*versus 1.3%*), i.e. relatively more, as a consequence of higher expenditure for social benefits in kind.

The growth of gross fixed capital formation will be strongly supported by investment in projects cofi-

nanced from EU funds. Firms' own resources for financing investment projects should grow relatively strongly. Similarly to households, we expect a very limited use of credit in at least 2015. Further for 2015, we expect the one-off effect of the purchase of the JAS-39 Gripen jet fighters (see Chapter A.2) that will be reflected in an increase in gross fixed capital formation.

We are not fundamentally changing the forecast for gross fixed capital and are slightly decreasing the growth of gross capital formation due to a more prudent view of the contribution of a change in stocks to the GDP development. We expect gross capital formation to increase by 5.2% (*versus 5.7%*) in 2015 and by 4.4% (*versus 5.3%*) in 2016.

Imports will react to growing domestic demand and exports that will be mainly supported in 2015 by a low crude oil price (a favourable supply shock for economies of trading partners).

For 2015 we forecast the growth of imports by 6.6% (*versus 6.2%*), and in 2016 imports could grow by 6.6% (*versus 6.1%*). The changes are based on a change in assumptions regarding the crude oil price and exchange rates when the level of both is slightly higher in this forecast than in January.

Exports could increase in 2015 in real terms by 5.7% (*versus 5.1%*) and in 2016 by 6.0% (*versus 5.3%*). The change is mainly based on the assumption of higher growth of export markets.

C.2 Prices

C.2.1 Consumer Prices

The year on year growth in consumer prices in February 2015 was 0.1% (*versus -0.1%*), and it has already remained at this level for three months in succession. The contribution of administrative measures was 0.2 pp and was nearly exclusively due to an increase in excise tax on tobacco products.

Year on year inflation has been pushed down since the end of 2014 by a decrease in the crude oil price, which is well apparent in the contributions of individual divisions of the consumer basket. With a YoY decrease in fuel prices of 17.1%, the contribution of the division *transport* was -0.6 pp and this division weighed down on inflation most. The largest contribution to the growth of prices was made by the divisions of *housing* and *alcoholic beverages, tobacco* (0.3 pp each).

The year 2015 should be characterized, mainly due to a favourable supply shock in the form of a considerable decrease in the crude oil price, by very low inflation the average rate of which will probably be nearly the same as in 2014.

Out of administrative measures³, not only the aforementioned increase in excise tax (contribution of 0.2 pp) was reflected in consumer prices, but also measures slowing down price growth, for example the introduction of the second reduced 10% VAT rate (contribution of -0.1 pp) or the abolition of most fees in health service (-0.2 pp). According to our assumptions, a decrease in the natural gas price should add to these measures in the remaining part of 2015. In total, administrative measures should have nearly a neutral effect on inflation (Graph C.2.2); their contribution to the YoY growth of consumer prices in December 2015 should be -0.1 pp (*versus 0.0 pp*).

With respect to the expected closing of the output gap during 2015 (see Chapter B.1) and increasing demand, demand pressures should already be apparent in the inflation rate in 2015. The koruna exchange rate should also have a pro-inflationary effect, though less significant than in 2014. The determining inflation factor in 2015 should be the price of Brent crude oil, which will

³ They include changes in regulated prices (according to the CZSO reporting) and the impact of changes in indirect taxes.

be approximately by two fifths cheaper than in 2014 in the dollar terms according to the forecast assumptions (Table A.1.3). In contrast, unit labour costs should have a slightly pro-inflationary effect.

In 2015, the average inflation rate should reach 0.3% (*unchanged*), with a YoY increase in consumer prices of 0.6% (*unchanged*) in December.

In 2016, inflation should accelerate after the favourable supply shock dissipates. In 2016, the main inflation factors should have a neutral effect (exchange rate, regulated prices) or pro-inflationary effect (increasing demand in connection with the growing positive output gap, growth of crude oil prices and unit labour costs). Our forecast is already based on the fact that the excise tax on tobacco products will increase further from the beginning of 2016 (contribution of 0.2 pp). In contrast, we consider the price effects of the introduction of electronic sales record-keeping to be marginal.

In 2016, we expect YoY inflation to return after two years to the tolerance band around 2% target of the CNB, fluctuating in the lower half. In 2016, the average inflation rate should reach 1.5% (*versus 1.4%*), with a YoY increase in consumer prices of 1.8% (*versus 1.7%*) in December.

C.3 Labour Market

The labour market situation in the fourth quarter of 2014 was in line with the improving overall situation of the Czech economy. Employment showed an increase mainly due to the increasing number of employees, registered unemployment decreased quickly and the increase in the average nominal wage slightly accelerated.

C.3.1 Employment

According to the LFS, **employment** grew by 1.2% YoY (*versus 0.8%*) in the fourth quarter of 2014, mainly due to an increase of the number of employees of 1.2% (*versus 0.8%*). The number of entrepreneurs also increased, by 1.0% (*versus 0.6%*). Similarly to previous quarters, manufacturing and public services contributed most significantly to employment growth. For the following period, we continue to expect a moderate trend decrease in the share of entrepreneurs in employment. The modification of lump-sum deductions applying to self-employed persons from 2015 should contribute to this outcome.

Due to a favourable employment development in the fourth quarter of 2014, we are increasing the forecast for its growth to 0.7% (*versus 0.4%*) in 2015. In 2016, we are not changing the forecast for growth of 0.2%; we continue in assuming the prevailing preference of

C.2.2 Deflators

A comprehensive indicator of domestic inflation is the gross domestic product deflator, which is a resultant of the gross domestic expenditure deflator and the terms of trade. In the fourth quarter of 2014, its growth of 1.8% (*versus 2.1%*) was caused by an increase in the gross domestic expenditure deflator of 1.2% (*versus 0.8%*) and by an improvement in the terms of trade of 0.7% (*versus 1.6%*). While the growth of consumer prices analysed above was identical with the estimate from the perspective of the household consumption deflator, the growth of the government consumption deflator was considerably higher, mainly due to an increase in prices under the Reimbursement Decree.

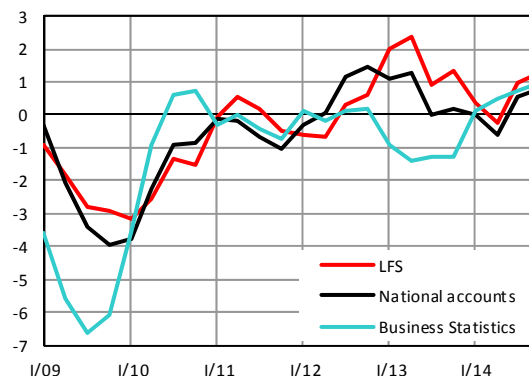
For 2015, due to a decrease in the forecast growth of the terms of trade, we are decreasing the forecast for GDP deflator growth. We expect it to grow by 1.9% (*versus 2.5%*) in 2015 and by 1.4% (*versus 1.6%*) in 2016. The terms of trade should increase by 1.9% (*versus 2.4%*) in 2015 and further by 0.6% (*versus 0.8%*) in 2016. The gross domestic expenditure deflator could increase by 0.4% (*versus 0.6%*) in 2015 and further by 1.0% (*versus 1.1%*) in 2016.

The main change, i.e. a decrease in the growth of the terms of trade, is based on the assumption of slightly higher crude oil prices and the exchange rate level compared to the January Macroeconomic Forecast.

the growth of wages over another more significant increase in the number of the employed due to increasing frictions (see Chapter C.3.4). In the forecast horizon, however, these relatively low increases in employment will be reflected, with respect to the decreasing working age population, in a significant increase in the employment rate of 0.8 pp per year on average.

Graph C.3.1: Employees in Different Statistics

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



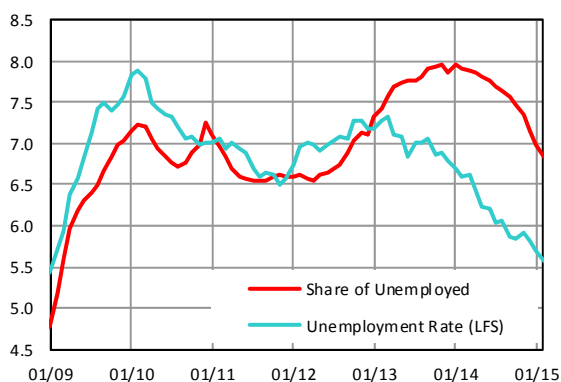
Source: CZSO

C.3.2 Unemployment

The improving economic situation resulted in a very quick decrease in the number of registered unemployed. Since the beginning of 2014, the number of new applicants has been decreasing, the improved personnel situation at labour offices has also had a favourable effect. It has manifested itself in a higher number of unemployed for whom labour offices found job placements (everything on a seasonally adjusted basis). The important factor is also a higher number of applicants who found work on their own thanks to the increasing number of jobs offered.

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.

The unemployment rate according to the LFS has been decreasing since the beginning of 2013, in particular thanks to the fact that short-term unemployed persons were successful at finding jobs. However, for the time being, the long-term unemployed (unemployed for 12 months and more) are not benefitting from the economic recovery, the seasonally adjusted long-term unemployment rate was *de facto* stagnating during the year 2014.

Due to a lower level in the unemployment rate and a high share in long-term unemployed persons, it is possible to expect increasing frictions on the labour market in the following years (a mismatch between labour demand and supply), which will be apparent especially in regions with traditionally low unemployment rates and in regions with historically specific qualification of the labour force.

The unemployment rate according to the LFS should reach 5.7% (*unchanged*) on average in 2015; for 2016 we are decreasing the forecast slightly, also in relation to the expected higher employment level, to 5.5% (*versus* 5.6%).

C.3.3 Economic Activity Rate

The **economic activity rate** (15–64 year-olds) grew by 0.8 pp YoY in the fourth quarter of 2014 (*versus* 0.5 pp). YoY increases in the participation rate have

been slowing gradually since the turn of 2012 and 2013, which is caused by the countercyclical character of the participation rate in the Czech Republic. Considering the fact that the Czech economy should be near its potential in 2015 and 2016 (see Chapter B.1), structural factors should have a dominant effect on the participation rate development. These mainly comprise the increasing weight of cohorts with a naturally high participation rate (especially of those aged 40–49) and the increasing statutory retirement age. Due to the improving position in the economic cycle, the participation rate growth (15–64) should decelerate slightly, but in spite of that we expect that it will grow nearly by 3 pp between 2014 and 2018.

C.3.4 Wages

The relatively high increase in the wage bill recorded at the end of 2014 should also continue in 2015. Although the low inflation rate will weigh on it, there are a number of factors that should contribute to wage growth.

YoY growth in **the wage bill** (national accounts methodology, domestic concept) in the fourth quarter of 2014 accelerated (in line with our expectations) to 3.8% (*versus* 3.2%). A considerable increase in the wage bill in manufacturing of 5.4% contributed significantly to this outcome, together with the abatement of restrictions in the budgetary sphere. The growth of the wage bill in public administration, defence, education and health care reached 5.7%.

For the first quarter of 2015, we forecast an increase in the wage bill approximately at the same level as at the end of 2014, while several factors should have an impact in opposite directions. In the first three months of 2015, the cash collection of social security contributions was again satisfactory, but YoY growth of wages in industry was only 1.2%, which could indicate relatively low actually negotiated increases in wages.

From the longer-term perspective, a very low inflation rate will weigh on the nominal growth of the wage bill; on the other hand, the expected sound growth of labour productivity should result in higher wages. Another factor that could represent pressure on wage increases is the expected quick reduction of the difference between registered unemployment and unemployment according to the LFS, which would imply a decrease in the number of jobs in the grey economy. The expected increase in frictions on the labour market related to the expected quickly decreasing short-term unemployment rate could lead to shortage of qualified employees in some professions or regions and exert pressure on wage growth.

For these reasons, we forecast that the wage bill could increase by 4.0% (*versus* 3.9%) in 2015 and it could also grow at similar pace in the following years. In spite of these relatively high increases in the wage bill, growth of unit labour costs should remain at an acceptable

level; and compensation of employees as a proportion of GDP should remain near the long-term average at 40%.

The **average wage** (business statistics, full-time equivalent) increased by 2.3% (*versus 2.6%*) in the fourth quarter of 2014, while the growth of wages in the non-business sphere contributed significantly to this out-

come. A positive signal is the ongoing relatively solid growth of the median wage (by 2.6%) with possible positive consequences for household consumption. For similar reasons as those affecting the wage bill and after taking into account the development in the fourth quarter of 2014, we forecast a growth of the average wage by 3.3% in 2015 (*versus 3.6%*) and by 3.9% in 2016 (*unchanged*).

C.4 External Relations

Chapter C.4 is presented in the methodology of the sixth edition of the Balance of Payments Manual (BPM6) used by the CNB since October 2014. The new version of the manual reverses the current convention of using signs on financial account, so that there is consistency with changes in the international investment position. Any surplus on financial account or their components⁴ now means an improvement of the investment position by increasing domestic investment abroad or by decreasing foreign investment in the Czech Republic, i.e. the outflow of funds. In BPM6, a change in foreign exchange reserves also becomes a component of the financial account termed "reserve assets". The changes also concern indicators of the international investment position and the foreign debt rate⁵.

In 2014, the current account of the balance of payments posted a surplus for the first time since 1993, 0.6% of GDP (*versus a deficit of 0.2% of GDP*). It meant a YoY improvement of 1.1 pp, which was exclusively due to an increase in surplus of the balance of goods of 1.5 pp. The balance of primary and secondary incomes in comparison with 2013 did not change, while the surplus of the balance of services decreased by 0.4 pp.

Growth of export markets⁶ slowed gradually in the course of 2014, however, for the whole of 2014 it reached 4.3% (*versus 2.5%*), which meant nearly a double growth rate compared to 2013. In line with the expected development of our trading partners' economies, export markets should continue to grow, by 3.0% (*versus 2.6%*) in 2015 and by 4.1% (*versus 3.4%*) in 2016.

Export performance, which indicates a change in the share of the volume of Czech goods on foreign markets, increased by 4.7% in 2014 (*versus 6.0%*), i.e. the highest growth since 2005. The weaker koruna, which had a positive influence on the price competitiveness of Czech exporters, impacted on the outcome. In the future, export performance should grow more slowly – by 2.6% (*unchanged*) in 2015 and by 1.8% (*versus 2.0%*) in 2016.

Since 2014, foreign trade in goods has continued in a strong increase of 2013. Growth rates of exports and imports exceeded 10% for the majority of the year. Faster export growth than import growth has meant a rise in the trade balance surplus, in which the weaker

koruna exchange rate has also been reflected. This also manifested itself in the growth of the CZK export and import prices, whereby export prices grew faster than import prices. Changes in the terms of trade have been in positive values since the beginning of 2013 and participated in foreign trade outcomes favourably. In 2015, the improvement in the terms of trade will also be influenced considerably by low crude oil prices. In 2014, the development of the price of this commodity was reflected in a decrease in the deficit in the fuel balance (SITC 3) compared to 2013 of 0.8 pp to 4.0% of GDP.

In 2014, the goods balance surplus reached 5.6% of GDP (*versus 5.5%*). We forecast an increase in the surplus to 6.6% of GDP in 2015 (*no change*) and to 6.7% in 2016 (*also unchanged*).

The downward trend of the surplus of the balance of services (on an annual basis) has been persistent since the end of 2012. It is connected with less favourable dynamics (lower growth, or higher decrease) of exports of services than their imports, particularly in tourism. An increase in the deficit of the balance of financial services and so-called other business services had a considerable impact on the decrease in the total surplus of the balance of services. In total, the surplus of the balance of services reached 1.3% of GDP in 2014 (*in line with the estimate*). We expect that the surplus of the balance of services will also stagnate at this level in 2015 (*unchanged*), for 2016 we forecast its negligible improvement to 1.4% of GDP (*versus 1.3%*).

The deficit in the primary income balance, which comprises reinvested and repatriated earnings of foreign investors, did not change in 2014 compared to 2013 and remained at 6.1% of GDP. However, the long-term tendency of its increase should persist in the future. The deficit of the primary income balance could deepen to 6.4% of GDP (*versus 7.0% of GDP*) in 2015 and further to 6.9% of GDP (*versus 7.5% of GDP*) in 2016. The expected increase in profitability of firms with foreign owners related to total economic recovery and export growth should contribute to this development.

We assume that mainly due to the favourable development of foreign trade in goods, the current account balance will improve in 2015 to 1.3% of GDP (*versus 1.0% of GDP*). Due to the deepened deficit in primary income, the surplus of the current account should decrease slightly in 2016 to 0.9% (*versus 0.5% of GDP*).

⁴ Inflow of foreign direct investment into the CR is reported with a minus sign.

⁵ More information available on the CNB website: http://www.cnb.cz/en/statistics/bop_stat/implementace_manualu_bmp6.html

⁶ Weighted average of the growth of goods imports by the six most important trading partner countries (Germany, Slovakia, Poland, France, United Kingdom and Austria)

C.5 International Comparisons

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

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 in the EU28 territory after converting the exchange rate for countries using currency units other than the euro.

With the exception of Poland, the level of GDP per capita converted by **current purchasing power parity** declined in all monitored countries in 2009 as a result of economic slump. Most countries gradually recovered from the crisis, but in Greece a sharp decline in the absolute economic level continued without interruption until 2013. There was also a slight decrease of the absolute economic level in Croatia in 2010 and in Portugal in 2011 and 2012. Greece also recorded the biggest decline in economic level relative to the EA12, which reached 18 pp in 2009–2013. On the contrary, the economic level relative to the EA12 average has been increasing most rapidly in the Baltic States. During 2009–2014 it increased by 18 pp in Lithuania and by 12 pp in Latvia and Estonia.

According to the Eurostat data, the purchasing power parity of the Czech Republic in 2013 was CZK 17.74/PPS compared to the EU28, or CZK 17.01/EUR compared to the EA12. Preliminary estimates indicate that the economic level of the Czech Republic expressed in GDP per capita adjusted by current purchasing power parity was circa 22,500 PPS in 2014, corresponding to 77% of the economic level in the EA12. Thanks to strong economic growth, the economic level of the Czech Republic relative to the EA12 increased by 13 pp during 2000–2007. However, a longer period of recessions and anaemic economic growth has brought the convergence process to a halt. During 2008–2013, the economic level fluctuated between 74% and 76% of the EA12 level. For 2015 and 2016, we already expect the relative economic level to grow by 1 pp each year.

An alternative adjustment of GDP per capita that uses current **exchange rate**, takes into account the market valuation of the currency and the ensuing differences in price levels. We estimate that in the case of the Czech Republic this indicator was ca EUR 14,700 in 2014, i.e. 48% of the EA12 level. In the aforementioned year, the absolute and relative levels of GDP per capita converted by the exchange rate decreased due to the weakening of the Czech koruna in consequence of the CNB's monetary policy. Higher economic growth and improvement of the terms of trade due to a sharp decline in the price of oil will contribute to a slight increase in absolute and relative levels in 2015 and 2016.

As far as the comparison of price levels is concerned, in 2008–2014 the **GDP price level** decreased in most monitored countries compared to the EA12 average. The biggest decrease in the aforementioned period was recorded by Poland and Hungary, by 10 pp or 9 pp, respectively, while the pre-crisis level has so far been superseded only by Estonia and Slovakia.

In the Czech Republic, the comparative price level of GDP has been decreasing since 2012, reaching 63% of the EU12 average in 2014. The expected stagnation of the price level in 2015 and 2016 should help maintain the competitiveness of the Czech economy.

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 13 institutions are continuously monitored from publicly available data sources. Of these, seven 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.

Table D.1: Consensus Forecast

		March 2015			April 2015
		min.	max.	consensus	MoF forecast
Gross domestic product (2014)	growth in %, const.pr.	2.0	2.9	2.5	2.7
Gross domestic product (2015)	growth in %, const.pr.	2.2	3.0	2.7	2.5
Average inflation rate (2014)	%	-0.1	1.9	0.6	0.3
Average inflation rate (2015)	%	1.5	2.0	1.8	1.5
Average monthly wage (2014)	growth in %	2.4	3.4	2.8	3.3
Average monthly wage (2015)	growth in %	2.8	3.8	3.2	3.9
Current account / GDP (2014)	%	-0.9	1.8	0.1	1.3
Current account / GDP (2015)	%	-0.8	1.7	0.4	0.9

Source: forecasts of individual institutions, own calculations

On average, the forecasts of the monitored institutions envisage economic growth of approximately 2.6% in 2015 and 2016. The MoF's forecast is in line with these estimates.

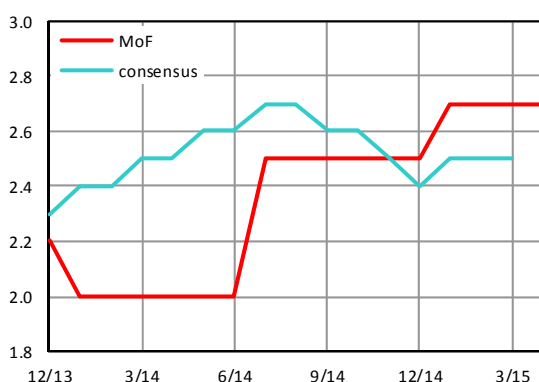
According to the institutions' estimates, the average inflation rate should gradually rise to 0.7% in 2015 and 1.8% in 2016. According to the MoF's forecast, the growth of consumer prices in both aforementioned years should reach slightly lower values. With respect to the speed of the decrease in the price of oil in the second half of 2014, the consensus forecast is more considerably than usual influenced by the fact that several of the monitored institutions update their forecasts with lower than quarterly periodicity.

According to the monitored institutions' forecasts, the nominal average wage should increase by ca 3.0% in 2015 and 2016. According to the MoF's forecast, the average wage growth should be slightly higher – 3.3% in 2015 and 3.9% in 2016.

In the opinions of the monitored institutions, the current account of the balance payments should be roughly balanced in 2015 and 2016. With respect to the sharp decline in the price of oil in the second half of 2014 and the expected development of the koruna exchange rate, the MoF's forecast expects a surplus on the current account of the balance of payments, which could reach 1.3% of GDP in 2015 and 0.9% of GDP in 2016.

Graph D.1: Forecast of Real GDP Growth for 2015

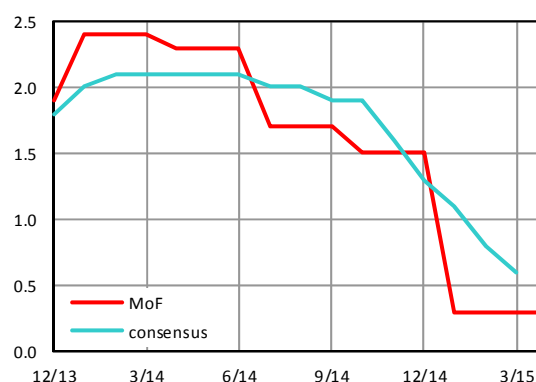
in %; the horizontal axis shows the month, in which the monitoring was conducted



Source: forecasts of individual institutions, own calculations

Graph D.2: Forecast of Average Inflation Rate for 2015

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



Source: forecasts of individual institutions, own calculations

E Looking back at 2014

The macroeconomic framework of the State Budget (SB) for 2014 was, rather exceptionally, based on the data available as of 12 September 2013, since the original draft based on the July 2013 Macroeconomic Forecast was not approved.

The following text compares the macroeconomic framework of the SB with the data for 2014 published before 1 April 2015. However, this data cannot be considered final in the case of most indicators due to their future revisions. When assessing the macroeconomic framework of the SB, the exceptional revision of the national accounts time series should mainly be taken into account: due to the transition to the European System of National and Regional Accounts of 2010 (ESA 2010) and other methodological changes. On the back of the transition from the fifth to sixth edition of the Balance of Payments Manual, there were also

methodological changes concerning balance of payments figures.

In the sphere of national accounts and the balance of payments, the macroeconomic framework of the SB is not methodologically comparable with current data. After the revision was made, (as an example) the level of nominal GDP increased ca by 6% over the whole time series, however, differences in YoY increases of most macroeconomic aggregates according to both methodologies are relatively small.

In spite of the aforementioned facts it is possible to state that the State Budget was based on a rather conservative macroeconomic framework. Contrary to expectations, economic recovery was faster, which resulted in a more favourable development of nearly all indicators relevant for the performance of the government sector.

Table E.1: Macroeconomic Framework of the State Budget for 2014 – Comparison with the Actual Data

		2014 State Budget (September 2013)				Outcome (April 2015)				Difference (outcome–forecast)			
		2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
		<i>Forecast</i>				<i>Prelim.</i>							
Gross domestic product	<i>bill. CZK, curr.pr.</i>	3 823	3 830	3 822	3 901	4 022	4 048	4 086	4 266	199	218	264	365
Gross domestic product	<i>growth in %, const.pr.</i>	1.8	-1.2	-1.1	1.3	2.0	-0.8	-0.7	2.0	0.2	0.4	0.4	0.7
Consumption of households	<i>growth in %, const.pr.</i>	0.5	-2.7	0.2	0.7	0.2	-1.8	0.4	1.7	-0.3	0.9	0.2	1.0
Consumption of government	<i>growth in %, const.pr.</i>	-2.7	-1.2	0.7	0.0	-2.9	-1.0	2.3	2.3	-0.2	0.2	1.6	2.3
Gross fixed capital formation	<i>growth in %, const.pr.</i>	0.4	-2.7	-4.8	-0.3	1.1	-2.9	-4.4	4.5	0.7	-0.2	0.4	4.8
Cont. of net exports to GDP growth	<i>p.p., const.pr.</i>	1.9	1.4	0.6	0.5	1.9	1.3	0.0	-0.1	0.0	-0.1	-0.6	-0.6
GDP deflator	<i>growth in %</i>	-0.9	1.4	0.8	0.8	-0.2	1.4	1.7	2.4	0.7	0.0	0.9	1.6
Average inflation rate	<i>%</i>	1.9	3.3	1.5	1.1	1.9	3.3	1.4	0.4	-	-	-0.1	-0.7
Employment (LFS)	<i>growth in %</i>	0.4	0.4	1.0	0.1	0.4	0.4	1.0	0.8	-	-	0.0	0.7
Unemployment rate (LFS)	<i>average in %</i>	6.7	7.0	7.3	7.6	6.7	7.0	7.0	6.1	-	-	-0.3	-1.5
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	2.2	1.5	1.0	2.5	2.2	2.1	-0.4	3.1	0.0	0.6	-1.4	0.6
Current account / GDP	<i>%</i>	-2.7	-2.5	-1.9	-1.6	-2.1	-1.6	-0.5	0.6	0.6	0.9	1.4	2.2
Assumptions:													
Exchange rate CZK/EUR		24.6	25.1	25.8	25.8	24.6	25.1	26.0	27.5	-	-	0.2	1.7
Long-term interest rates	<i>% p.a.</i>	3.7	2.8	2.0	2.2	3.7	2.8	2.1	1.6	-	-	0.1	-0.6
Crude oil Brent	<i>USD/barrel</i>	111	112	108	103	111	112	109	99	-	-	1	-4
GDP in Eurozone (EA12)	<i>growth in %, const.pr.</i>	1.6	-0.6	-0.2	1.1	1.6	-0.8	-0.4	0.9	0.0	-0.2	-0.2	-0.2

At the time the macroeconomic framework was drafted, the economic activity started recovering gradually after an 18-month recession. According to the data available at that time, real GDP increased by 0.6% QoQ in the second quarter of 2013 thanks to the contribution of net exports, but due to a sharp decline in gross capital formation it decreased by 1.3% in YoY terms. In spite of a gradual economic recovery, the economic output posted a decrease for the whole of 2013 in line with expectations, due to the ongoing decline in gross capital formation. In contrast, households' and government consumption expenditure had

a positive effect, while foreign trade had a neutral impact on GDP growth in 2013.

The situation in the external environment of the Czech economy calmed down further during 2013. The euro zone as a whole emerged from a recession in the second quarter of 2013, similarly as the Czech economy, but the development in individual states remained widely varied. The unfavourable economic situation persisted mainly in the euro zone periphery states (Italy, Cyprus, Portugal, Greece, and Spain). Therefore, the possibility of the euro zone crisis escalation contin-

ued to be considered as a key negative risk associated with the external environment development.

Fortunately, this risk did not materialize. In 2014, the market sentiment towards the euro zone periphery continued to improve and, except for Italy and Cyprus (and also Greece at the end of 2014), there was also a gradual economic recovery in the individual states. The bailout programmes for Ireland and Portugal were terminated (thus both states returned completely to the primary government bond market), as well as the programme of financial assistance for recapitalization of Spanish financial institutions. The complex assessment of leading banks in the euro zone, the results of which were published at the beginning of November 2014, revealed only non-systemic capital shortcomings. At the end of the year, the situation in Greece escalated due to problems with closing the bailout programme and political uncertainty, but the impact on other economies in the south of the euro zone was absolutely negligible. From the perspective of the euro zone periphery development, the year 2014 can be assessed relatively favourably.

The economic activity in the euro zone was recovering more slowly in 2014 than the macroeconomic framework of the SB expected. Structural problems of many economies and the uncertainty regarding the future development associated with geopolitical risks can be identified as the cause of weak growth. The situation on the labour market gradually stabilised in the second half of 2014, but the high unemployment rate weighed on the recovery of domestic demand. In spite of easing conditions on the financial markets and the stabilization of the banking sector, the expected growth of investment did not occur, the development of investment activity reflected mixed expectations of the private sector and low consumer confidence.

A slight improvement of the situation in the euro zone also impacted the Czech economy, which shows a gradual recovery from the second quarter of 2013. GDP growth in 2014 was considerably faster than expected, whereas factors that can be predicted only with difficulty played an important role, for example a higher level of consumer confidence and positive expectations of a part of the business sector with regard to the future economic development. The difference between the expected real GDP growth rate and current data is caused by the stronger growth of domestic demand, mainly that of gross fixed capital formation.

The faster than expected growth of wages, lower inflation, more favourable development of employment and improvement of consumer confidence accelerated the growth of household consumption to 1.7% instead of the expected 0.7%.

The macroeconomic framework of the SB departed from reality most notably in the case of gross fixed capital formation. Instead of the forecasted decrease of

0.3%, investment in fixed capital increased by 4.6%. The considerably improved drawing of structural funds played a major role; new investments were also stimulated by faster growth of the domestic economy and dynamically growing exports.

The main cause of the deviation of the contribution of foreign trade to GDP growth, reaching -0.1 pp instead of the expected $+0.5$ pp, consisted of dynamic import growth provided by the domestic demand recovery. The weakening of the koruna following the CNB's changed monetary policy (see below) supported the price competitiveness of Czech exports; nevertheless, the effect on the import side caused by domestic demand was stronger.

In contrast, the situation of foreign trade in nominal terms was considerably more favourable. In 2014, export prices grew considerably faster than import prices, in particular for machinery and transport equipment. In addition, the unexpected slump in oil prices influenced import prices at the end of 2014. These aforementioned factors resulted in an increase in the surplus of the balance of goods to the new record high level of 5.5% of GDP. As a result, a surplus of the current account of the balance of payments has been achieved for the first time since 1993.

The average inflation rate reached only 0.4% in 2014, which was 0.7 pp less compared to the macroeconomic framework of the SB. This was due to the lower than expected contribution of administrative measures (for example an increase in the excise tax on tobacco products had a much smaller effect) and the slump in oil price was reflected in consumer prices starting from the end of 2014. Contrary to the assumptions of the macroeconomic framework, the inflation rate was lower even in spite of the pro-inflationary effect of the koruna exchange rate that weakened against the EUR and the US dollar by more than 5% in 2014. The macroeconomic framework expected the CZK/EUR exchange rate stability at the level of 2013, as it did not expect that the CNB would start using the koruna exchange rate as an additional instrument monetary easing.

The reaction of the labour market to the economic recovery in 2014 was extremely strong, and – contrary to our original expectation – employment growth was 0.7 pp higher and the unemployment rate (both indicators according to the LFS) 1.5 pp lower. The intensity of this reaction can be explained, in addition to the improved economic situation of the private sector, mainly by improved expectations (see Chapter B.2) that manifested themselves in a standard way in considerably higher investment in factors of production, and thus also in employment growth. Another reason for such a strong reaction of employment to economic growth was the significant creation of low-paid or informal jobs. This notion can be supported by the historically highest difference in the number of unemployed

persons monitored in the Labour Force Survey and those registered at labour offices.

The growth of the wage bill was slightly higher than expected (by 0.5 pp) whereas several factors had an impact in opposite directions – the higher growth of real labour productivity and lower average inflation rate. One of the major causes was also the statistical effect of the massive “tax optimization” as a result of the introduction of 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. A higher than estimated impact of shifting the payment of extraordinary bonuses at the end of 2012 manifested itself with a higher YoY increase in the first quarter of 2014. In contrast, the already mentioned increased share of low-paid jobs resulted in the lower growth of the wage bill.

In 2014, the government sector deficit reached 2.0% of GDP (the ESA 2010 methodology) compared to the

forecast 2.9% of GDP (the ESA 95 methodology). When abstracting away from methodological changes as part of the transition to the new ESA 2010 system, the better than expected recovery of the Czech economy contributed to the lower deficit.

In 2014, several other major factors had a significant impact on the government sector balance. One-off factors with a negative impact mainly included the methodological change related to the inclusion of new units in the government sector (payments from the Deposit Insurance Fund for bankrupted financial institutions of ca 0.3% of GDP) and YoY lower collection of taxes on tobacco products due to a stockpiling restriction (0.6% of GDP). Greater investment activity of the government sector (the impact on the deficit of ca 0.3% of GDP) further contributed to a higher deficit. Favourable one-off effects included revenues from the sale of licences to mobile operators (0.2% of GDP).

Tables and Graphs:

C.1 Economic Output

Table C.1.1: Real GDP by Type of Expenditure – yearly
chained volumes, reference year 2010

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK 2010</i>	3 865	3 954	4 031	3 999	3 971	4 050	4 159	4 263	4 360	4 459
	<i>growth in %</i>	-4.8	2.3	2.0	-0.8	-0.7	2.0	2.7	2.5	2.3	2.3
Private consumption exp.¹⁾	<i>bill. CZK 2010</i>	1 928	1 947	1 952	1 917	1 925	1 957	2 012	2 059	2 104	2 149
	<i>growth in %</i>	-0.7	1.0	0.2	-1.8	0.4	1.7	2.8	2.3	2.2	2.1
Government consumption exp.	<i>bill. CZK 2010</i>	807	810	786	778	796	814	827	841	853	865
	<i>growth in %</i>	3.0	0.4	-2.9	-1.0	2.3	2.3	1.7	1.6	1.5	1.3
Gross capital formation	<i>bill. CZK 2010</i>	1 029	1 074	1 094	1 053	1 000	1 030	1 084	1 131	1 169	1 209
	<i>growth in %</i>	-18.1	4.4	1.9	-3.7	-5.1	3.1	5.2	4.4	3.4	3.4
–Gross fixed capital formation	<i>bill. CZK 2010</i>	1 052	1 066	1 077	1 046	1 000	1 044	1 100	1 145	1 182	1 220
	<i>growth in %</i>	-10.1	1.3	1.1	-2.9	-4.4	4.5	5.3	4.2	3.2	3.2
–Change in stocks and valuables	<i>bill. CZK 2010</i>	-23	8	17	8	0	-14	-16	-14	-13	-11
Exports of goods and services	<i>bill. CZK 2010</i>	2 278	2 616	2 860	2 977	2 986	3 247	3 433	3 638	3 861	4 097
	<i>growth in %</i>	-9.8	14.8	9.3	4.1	0.3	8.8	5.7	6.0	6.1	6.1
Imports of goods and services	<i>bill. CZK 2010</i>	2 171	2 494	2 661	2 726	2 734	2 995	3 192	3 404	3 630	3 868
	<i>growth in %</i>	-11.0	14.9	6.7	2.4	0.3	9.5	6.6	6.6	6.6	6.6
Gross domestic exp.	<i>bill. CZK 2010</i>	3 763	3 831	3 832	3 749	3 721	3 802	3 924	4 031	4 128	4 223
	<i>growth in %</i>	-5.5	1.8	0.0	-2.2	-0.7	2.2	3.2	2.7	2.4	2.3
Methodological discrepancy²⁾	<i>bill. CZK 2010</i>	-6	0	0	-1	-1	-4	-4	-2	2	7
Real gross domestic income	<i>bill. CZK 2010</i>	3 915	3 954	3 988	3 940	3 943	4 070	4 247	4 374	4 480	4 592
	<i>growth in %</i>	-3.7	1.0	0.9	-1.2	0.1	3.2	4.3	3.0	2.4	2.5
Contribution to GDP growth³⁾											
–Gross domestic expenditure	<i>percent. points</i>	-5.4	1.7	0.0	-2.1	-0.7	2.0	3.0	2.5	2.2	2.1
– consumption	<i>percent. points</i>	0.3	0.6	-0.5	-1.1	0.6	1.3	1.7	1.4	1.3	1.2
– household expenditure	<i>percent. points</i>	-0.3	0.5	0.1	-0.9	0.2	0.8	1.4	1.1	1.0	1.0
– government expenditure	<i>percent. points</i>	0.6	0.1	-0.6	-0.2	0.4	0.4	0.3	0.3	0.3	0.2
– gross capital formation	<i>percent. points</i>	-5.6	1.2	0.5	-1.0	-1.3	0.8	1.3	1.1	0.9	0.9
– gross fixed capital formation	<i>percent. points</i>	-2.9	0.4	0.3	-0.8	-1.1	1.1	1.3	1.1	0.8	0.8
– change in stocks	<i>percent. points</i>	-2.7	0.8	0.2	-0.2	-0.2	-0.3	0.0	0.0	0.0	0.0
–Foreign balance	<i>percent. points</i>	0.5	0.5	1.9	1.3	0.0	-0.1	-0.3	0.0	0.1	0.1
– external balance of goods	<i>percent. points</i>	0.6	0.8	2.0	1.4	0.1	0.2	-0.3	-0.1	0.0	0.0
– external balance of services	<i>percent. points</i>	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2	0.1	0.1	0.1	0.1
Gross value added	<i>bill. CZK 2010</i>	3 483	3 583	3 654	3 627	3 606	3 700	.	.	.	.
	<i>growth in %</i>	-5.5	2.9	2.0	-0.7	-0.6	2.6	.	.	.	.
Net taxes on products	<i>bill. CZK 2010</i>	384	371	378	371	365	354	.	.	.	.

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 2010*

		2014				2015			
		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 2010</i>	947	1 014	1 035	1 053	967	1 042	1 060	1 090
	<i>growth in %</i>	2.3	2.1	2.5	1.2	2.1	2.7	2.4	3.5
	<i>growth in %¹⁾</i>	2.3	2.1	2.2	1.4	2.1	2.7	3.0	3.2
	<i>quart.growth in %¹⁾</i>	0.3	0.3	0.4	0.4	1.0	0.8	0.7	0.6
Private consumption exp.²⁾	<i>bill. CZK 2010</i>	459	487	502	509	474	500	514	523
	<i>growth in %</i>	0.9	1.6	2.2	2.0	3.3	2.8	2.4	2.8
Government consumption exp.	<i>bill. CZK 2010</i>	187	198	197	232	190	202	200	236
	<i>growth in %</i>	0.8	3.0	0.5	4.3	1.8	1.7	1.6	1.6
Gross capital formation	<i>bill. CZK 2010</i>	213	260	285	273	214	275	298	297
	<i>growth in %</i>	1.5	8.9	4.1	-1.9	0.4	5.8	4.8	8.8
–Gross fixed capital formation	<i>bill. CZK 2010</i>	231	249	271	293	242	263	282	312
	<i>growth in %</i>	3.0	5.1	6.4	3.4	4.8	5.4	4.1	6.7
–Change in stocks and valuables	<i>bill. CZK 2010</i>	-18	11	13	-20	-28	12	16	-16
Exports of goods and services	<i>bill. CZK 2010</i>	795	812	802	838	843	858	847	885
	<i>growth in %</i>	11.6	8.7	8.2	6.7	6.0	5.6	5.6	5.7
Imports of goods and services	<i>bill. CZK 2010</i>	707	742	750	797	755	792	798	849
	<i>growth in %</i>	11.1	11.7	8.4	7.4	6.8	6.7	6.4	6.5
Methodological discrepancy³⁾	<i>bill. CZK 2010</i>	0	-1	-1	-2	1	-1	-2	-3
Real gross domestic income	<i>bill. CZK 2010</i>	950	1 022	1 041	1 057	979	1 065	1 087	1 116
	<i>growth in %</i>	3.7	3.9	3.7	1.7	3.0	4.1	4.4	5.6
Gross value added	<i>bill. CZK 2010</i>	871	930	942	957	.	.	.	.
	<i>growth in %</i>	2.3	2.4	2.9	2.8	.	.	.	.
	<i>growth in %¹⁾</i>	2.2	2.5	2.7	3.0	.	.	.	.
	<i>quart.growth in %¹⁾</i>	0.7	0.5	0.5	1.2	.	.	.	.
Net taxes on products	<i>bill. CZK 2010</i>	78	86	93	97	.	.	.	.

*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

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK</i>	3 922	3 954	4 022	4 048	4 086	4 266.1	4 467	4 644	4 816	5 002
	<i>growth in %</i>	-2.3	0.8	1.7	0.6	1.0	4.4	4.7	4.0	3.7	3.8
Private consumption ¹⁾	<i>bill. CZK</i>	1 918	1 947	1 984	1 998	2 026	2 068	2 129	2 211	2 301	2 394
	<i>growth in %</i>	0.2	1.5	1.9	0.7	1.4	2.0	3.0	3.8	4.1	4.0
Government consumption	<i>bill. CZK</i>	812	810	792	783	802	835	853	869	889	909
	<i>growth in %</i>	6.0	-0.3	-2.2	-1.1	2.4	4.1	2.2	1.9	2.3	2.2
Gross capital formation	<i>bill. CZK</i>	1 040	1 074	1 088	1 066	1 022	1 071	1 135	1 194	1 243	1 296
	<i>growth in %</i>	-16.8	3.3	1.2	-2.0	-4.1	4.8	6.0	5.1	4.1	4.3
–Gross fixed capital formation	<i>bill. CZK</i>	1 063	1 066	1 069	1 055	1 019	1 081	1 146	1 205	1 255	1 306
	<i>growth in %</i>	-8.7	0.2	0.3	-1.3	-3.4	6.1	6.0	5.1	4.1	4.1
–Change in stocks and valuables	<i>bill. CZK</i>	-24	8	19	11	3	-10	-11	-11	-12	-10
External balance	<i>bill. CZK</i>	152	123	159	200	235	292	350	371	383	403
–Exports of goods and services	<i>bill. CZK</i>	2 307	2 616	2 881	3 098	3 155	3 568	3 805	4 048	4 321	4 613
	<i>growth in %</i>	-9.3	13.4	10.1	7.5	1.8	13.1	6.6	6.4	6.8	6.8
–Imports of goods and services	<i>bill. CZK</i>	2 154	2 494	2 722	2 897	2 919	3 275	3 455	3 677	3 938	4 210
	<i>growth in %</i>	-12.3	15.8	9.1	6.4	0.8	12.2	5.5	6.4	7.1	6.9
Gross national income	<i>bill. CZK</i>	3 646	3 656	3 713	3 793	3 798	3 978	4 152	4 294	4 429	4 577
	<i>growth in %</i>	-2.9	0.3	1.6	2.1	0.1	4.7	4.4	3.4	3.2	3.3
Primary income balance	<i>bill. CZK</i>	-276	-297	-309	-255	-288	-288	-315	-350	-387	-424

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

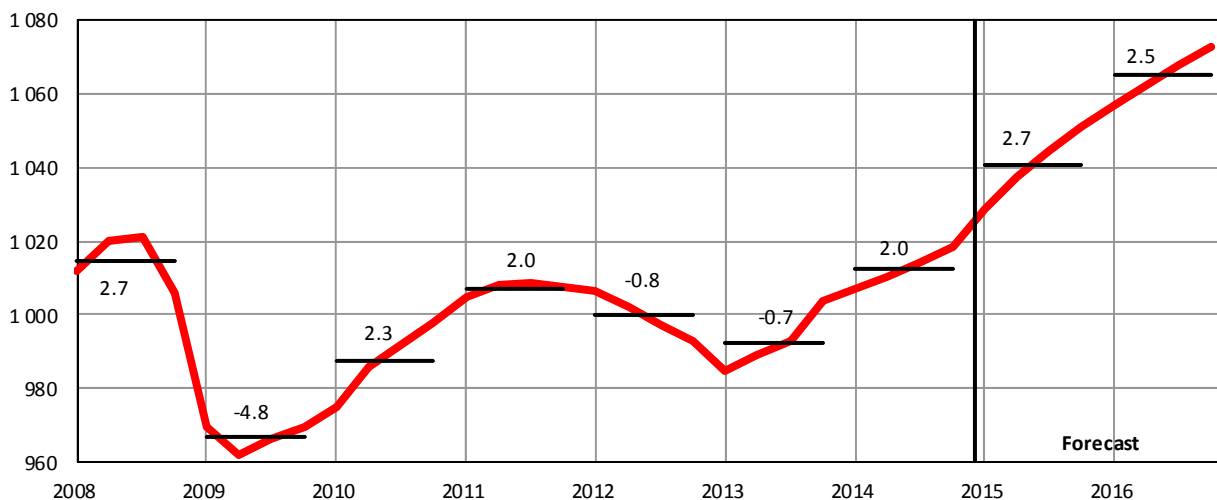
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	987	1 068	1 093	1 118	1 021	1 117	1 143	1 185
	<i>growth in %</i>	4.6	4.9	5.2	3.0	3.5	4.5	4.6	6.0
Private consumption ¹⁾	<i>bill. CZK</i>	483	514	531	539	499	529	545	556
	<i>growth in %</i>	1.2	1.9	2.6	2.3	3.3	2.9	2.6	3.0
Government consumption	<i>bill. CZK</i>	187	201	201	246	191	206	206	250
	<i>growth in %</i>	2.6	4.4	2.6	6.2	2.5	2.5	2.3	1.7
Gross capital formation	<i>bill. CZK</i>	219	270	297	286	223	287	312	314
	<i>growth in %</i>	1.9	10.5	6.6	0.4	1.8	6.4	5.0	9.8
–Gross fixed capital formation	<i>bill. CZK</i>	238	257	281	305	250	274	295	328
	<i>growth in %</i>	4.1	6.3	8.7	5.2	4.8	6.4	5.0	7.6
–Change in stocks and valuables	<i>bill. CZK</i>	-19	12	16	-19	-26	13	17	-14
External balance	<i>bill. CZK</i>	98	84	63	48	108	95	81	66
–Exports of goods and services	<i>bill. CZK</i>	872	891	885	919	934	953	938	979
	<i>growth in %</i>	16.8	13.2	13.7	9.2	7.1	6.9	6.0	6.5
–Imports of goods and services	<i>bill. CZK</i>	774	807	822	872	826	858	857	914
	<i>growth in %</i>	14.2	13.8	12.2	9.1	6.8	6.3	4.3	4.8

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)

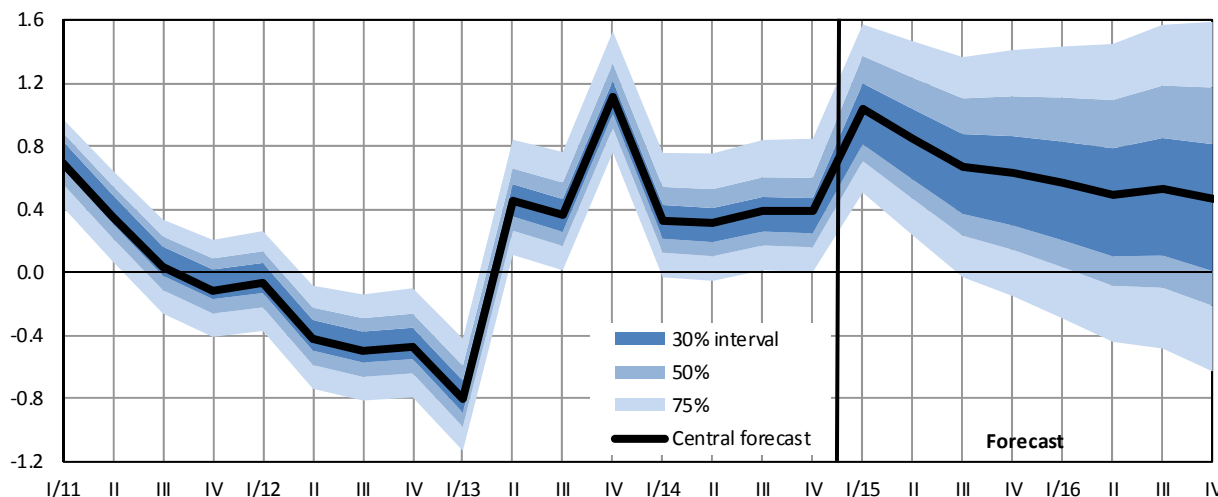
chained volumes, bill. CZK in const. prices of 2010, seasonally adjusted, growth rates in %



Source: CZSO, own calculations

Graph C.1.2: Gross Domestic Product (real)

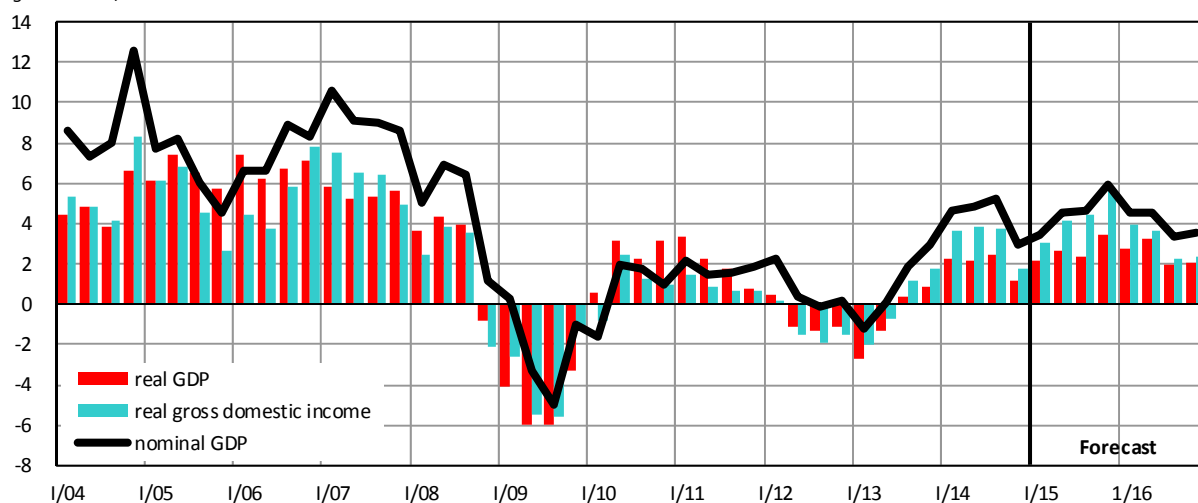
QoQ growth rate, in %, seasonally adjusted, past probability distribution reflects the actual distribution of data revisions, future probability distribution is based upon the MoF's forecasting performance



Source: CZSO, own calculations

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

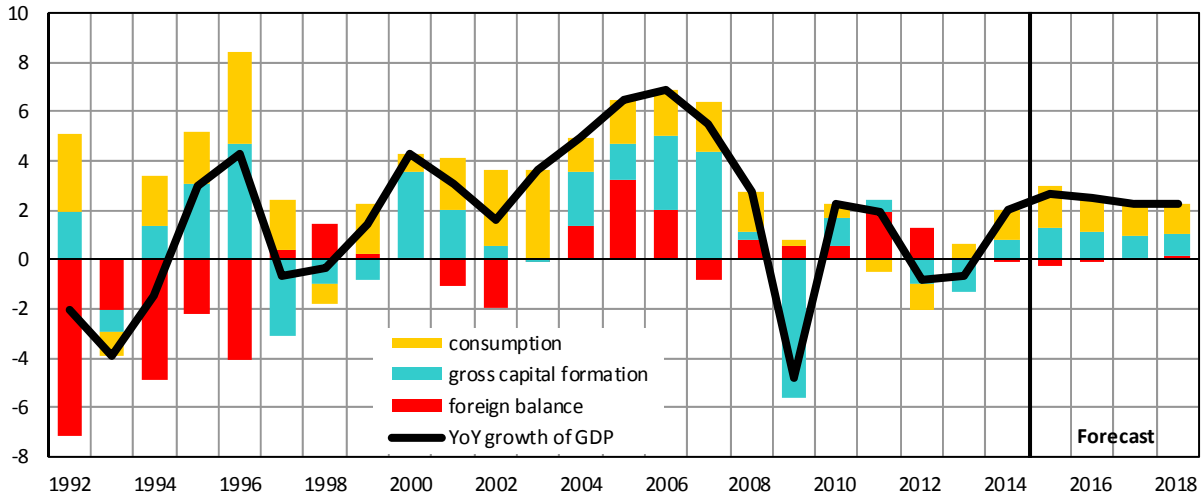
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.1.4: Gross Domestic Product (real) – contributions to YoY growth

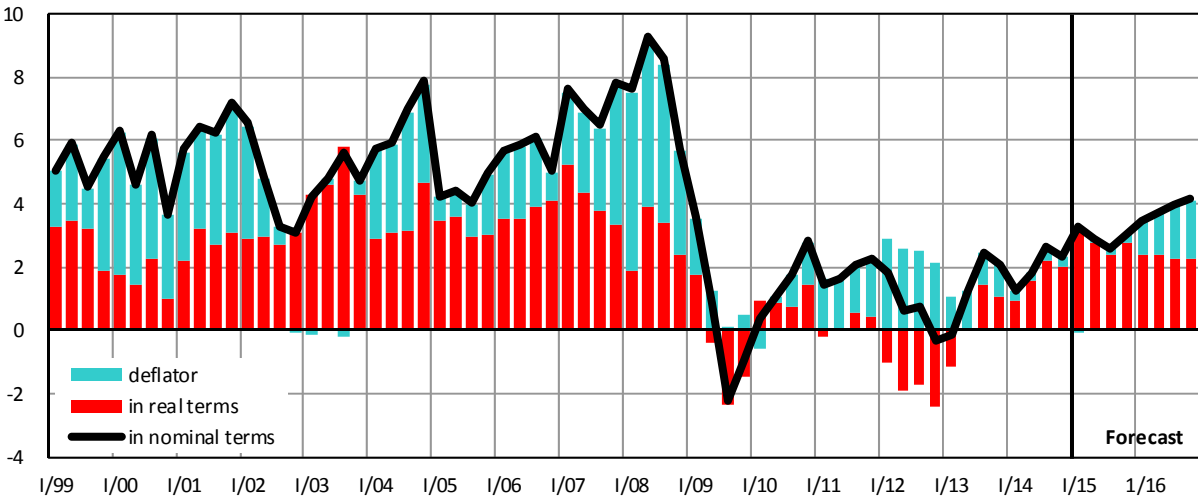
decomposition of GDP YoY growth, contributions in percentage points, GDP growth rate in %



Source: CZSO, own calculations

Graph C.1.5: Private Consumption (incl. NPISH)

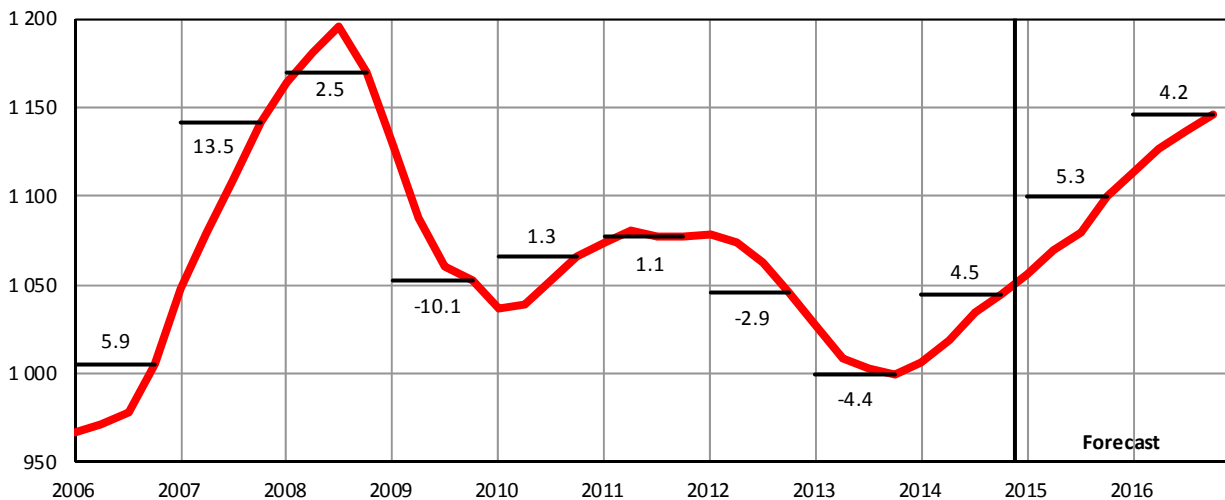
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.1.6: Gross Fixed Capital Formation

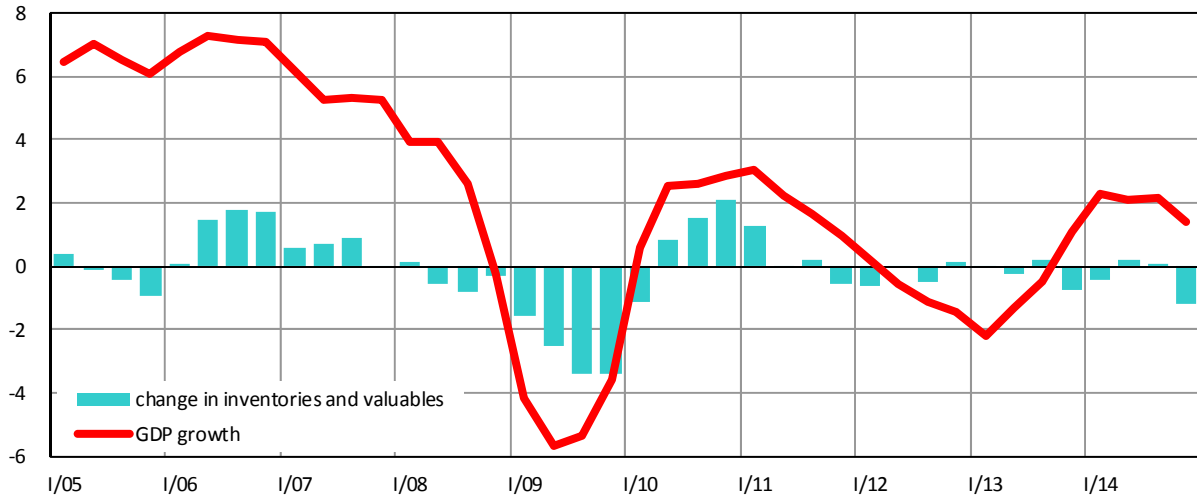
yearly moving sums, bill. CZK in const. prices of 2010, growth rates in %



Source: CZSO, own calculations

Graph C.1.7: Change in Inventories and Valuables (real)

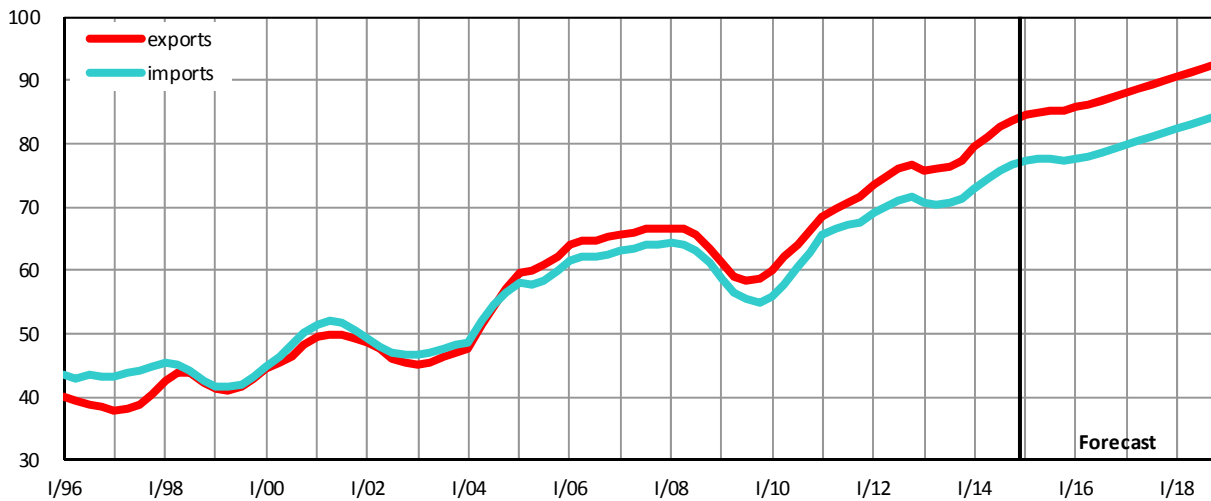
seasonally adjusted, contributions to YoY growth of GDP in percentage points



Source: CZSO

Graph C.1.8: Ratio of Exports and Imports of Goods and Services to GDP (nominal)

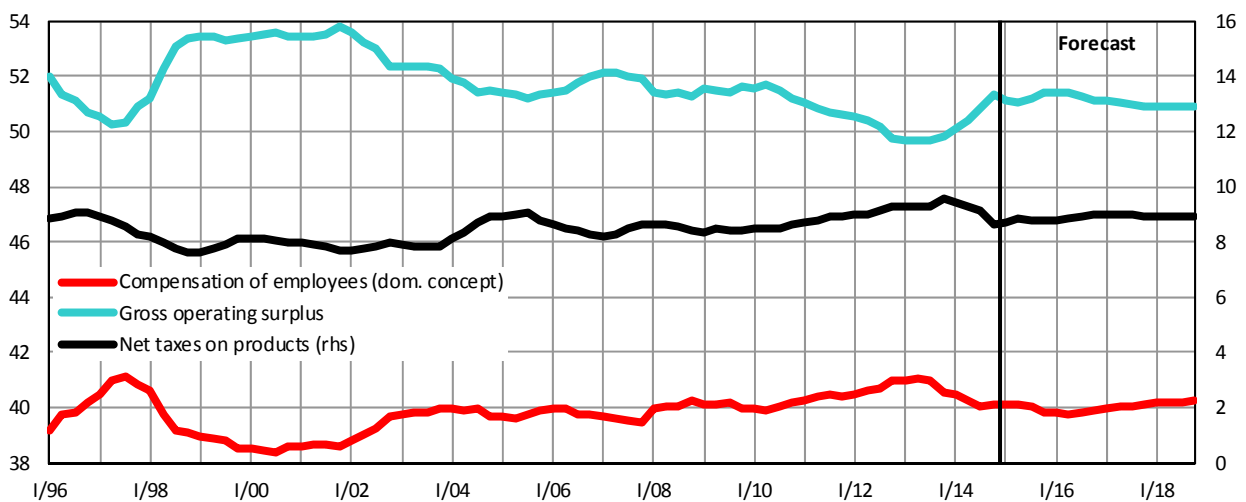
yearly moving sums, in %



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

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
GDP	<i>bill. CZK</i>	3 922	3 954	4 022	4 048	4 086	4 266	4 467	4 644	4 816	5 002
	<i>growth in %</i>	-2.3	0.8	1.7	0.6	1.0	4.4	4.7	4.0	3.7	3.8
Balance of taxes and subsidies	<i>bill. CZK</i>	329	341	360	376	392	367	390	417	431	445
	<i>growth in %</i>	-2.9	3.5	5.7	4.4	4.2	-6.4	6.4	6.7	3.4	3.3
– Taxes on production and imports	<i>bill. CZK</i>	430	447	488	507	532	523	.	.	.	.
	<i>growth in %</i>	1.5	4.0	9.0	4.1	4.8	-1.6	.	.	.	.
– Subsidies on production	<i>bill. CZK</i>	101	107	127	131	140	156	.	.	.	.
	<i>growth in %</i>	19.4	5.7	19.6	3.1	6.3	12.0	.	.	.	.
Compensation of employees	<i>bill. CZK</i>	1 569	1 589	1 626	1 658	1 658	1 711	1 779	1 852	1 933	2 013
	<i>growth in %</i>	-3.0	1.3	2.3	2.0	0.0	3.2	4.0	4.1	4.4	4.1
– Wages and salaries	<i>bill. CZK</i>	1 202	1 209	1 236	1 262	1 257	1 296	1 348	1 404	1 461	1 522
	<i>growth in %</i>	-2.0	0.6	2.2	2.1	-0.4	3.1	4.0	4.1	4.1	4.1
– Social security contributions	<i>bill. CZK</i>	367	380	390	396	401	414	431	449	472	491
	<i>growth in %</i>	-6.1	3.7	2.5	1.6	1.3	3.3	4.0	4.1	5.1	4.1
Gross operating surplus	<i>bill. CZK</i>	2 024	2 024	2 037	2 014	2 036	2 189	2 297	2 375	2 452	2 544
	<i>growth in %</i>	-1.7	0.0	0.6	-1.1	1.1	7.5	5.0	3.4	3.3	3.7
– Consumption of capital	<i>bill. CZK</i>	841	850	863	880	905	933	971	1 008	1 045	1 083
	<i>growth in %</i>	3.6	1.0	1.6	1.9	2.9	3.0	4.1	3.8	3.6	3.7
– Net operating surplus	<i>bill. CZK</i>	1 183	1 174	1 173	1 135	1 131	1 256	1 326	1 366	1 408	1 461
	<i>growth in %</i>	-5.2	-0.8	-0.1	-3.3	-0.3	11.0	5.6	3.0	3.0	3.8

Source: CZSO, own calculations

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

		2014				2015			
		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>	987	1 068	1 093	1 118	1 021	1 117	1 143	1 185
	<i>growth in %</i>	4.6	4.9	5.2	3.0	3.5	4.5	4.6	6.0
Balance of taxes and subsidies	<i>bill. CZK</i>	78	96	107	87	86	105	109	90
	<i>growth in %</i>	-4.6	0.6	-1.5	-18.9	10.3	10.1	2.5	3.5
Compensation of employees	<i>bill. CZK</i>	412	424	422	453	427	441	440	471
	<i>growth in %</i>	3.5	3.0	2.6	3.6	3.8	3.9	4.1	4.1
– Wages and salaries	<i>bill. CZK</i>	311	321	320	344	323	333	333	359
	<i>growth in %</i>	3.3	2.9	2.4	3.8	3.8	3.9	4.1	4.1
– Social security contributions	<i>bill. CZK</i>	101	103	102	108	105	107	106	113
	<i>growth in %</i>	3.9	3.1	3.2	3.1	3.8	3.9	4.1	4.1
Gross operating surplus	<i>bill. CZK</i>	498	549	564	579	508	571	595	624
	<i>growth in %</i>	7.3	7.2	8.7	6.8	2.1	4.1	5.5	7.8

Source: CZSO, own calculations

C.2 Prices

Table C.2.1: Prices – yearly

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
Consumer Price Index											
average of a year	<i>average 2005=100</i>	113.3	114.9	117.1	121.0	122.7	123.2	123.5	125.3	127.6	130.0
	<i>growth in %</i>	1.0	1.5	1.9	3.3	1.4	0.4	0.3	1.5	1.8	1.9
December	<i>average 2005=100</i>	112.9	115.5	118.3	121.1	122.8	122.9	123.7	125.9	128.3	130.7
	<i>growth in %</i>	1.0	2.3	2.4	2.4	1.4	0.1	0.6	1.8	1.8	1.9
of which the contribution of											
–administrative measures¹⁾	<i>percentage points</i>	1.0	1.6	1.2	2.2	1.0	-0.2	-0.1	0.3	0.2	0.3
–market increase	<i>percentage points</i>	0.0	0.7	1.2	0.1	0.4	0.3	0.7	1.5	1.6	1.6
HICP	<i>average 2005=100</i>	112.4	113.7	116.2	120.3	121.9	122.4	122.7	124.4	126.6	129.0
	<i>growth in %</i>	0.6	1.2	2.1	3.5	1.4	0.4	0.2	1.4	1.8	1.9
Offering prices of flats	<i>average 2010=100</i>	104.3	100.0	95.1	96.1	97.2	100.7	.	.	.	.
	<i>growth in %</i>	-2.7	-4.1	-4.9	1.1	1.1	3.6	.	.	.	.
Deflators											
GDP	<i>average 2010=100</i>	101.5	100.0	99.8	101.2	102.9	105.3	107.4	108.9	110.5	112.2
	<i>growth in %</i>	2.6	-1.5	-0.2	1.4	1.7	2.4	1.9	1.4	1.4	1.5
Domestic final use	<i>average 2010=100</i>	100.2	100.0	100.8	102.6	103.5	104.5	104.9	106.0	107.4	108.9
	<i>growth in %</i>	1.5	-0.2	0.8	1.8	0.8	1.0	0.4	1.0	1.3	1.4
Consumption of households	<i>average 2010=100</i>	99.5	100.0	101.6	104.2	105.3	105.6	105.8	107.4	109.3	111.4
	<i>growth in %</i>	0.9	0.5	1.6	2.5	1.0	0.3	0.2	1.5	1.8	1.9
Consumption of government	<i>average 2010=100</i>	100.6	100.0	100.8	100.7	100.8	102.6	103.1	103.4	104.2	105.1
	<i>growth in %</i>	2.9	-0.6	0.8	-0.1	0.1	1.8	0.5	0.3	0.8	0.8
Fixed capital formation	<i>average 2010=100</i>	101.1	100.0	99.2	100.9	101.9	103.5	104.3	105.2	106.1	107.1
	<i>growth in %</i>	1.5	-1.1	-0.8	1.7	1.1	1.6	0.7	0.9	0.9	0.9
Exports of goods and services	<i>average 2010=100</i>	101.2	100.0	100.7	104.0	105.7	109.9	110.8	111.3	111.9	112.6
	<i>growth in %</i>	0.5	-1.2	0.7	3.3	1.6	4.0	0.9	0.4	0.6	0.6
Imports of goods and services	<i>average 2010=100</i>	99.2	100.0	102.3	106.3	106.8	109.4	108.2	108.0	108.5	108.8
	<i>growth in %</i>	-1.5	0.8	2.3	3.9	0.5	2.4	-1.0	-0.2	0.4	0.3
Terms of trade	<i>average 2010=100</i>	102.0	100.0	98.5	97.9	99.0	100.5	102.4	103.0	103.2	103.4
	<i>growth in %</i>	2.0	-2.0	-1.5	-0.6	1.1	1.5	1.9	0.6	0.2	0.2

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.

Table C.2.2: Prices – quarterly

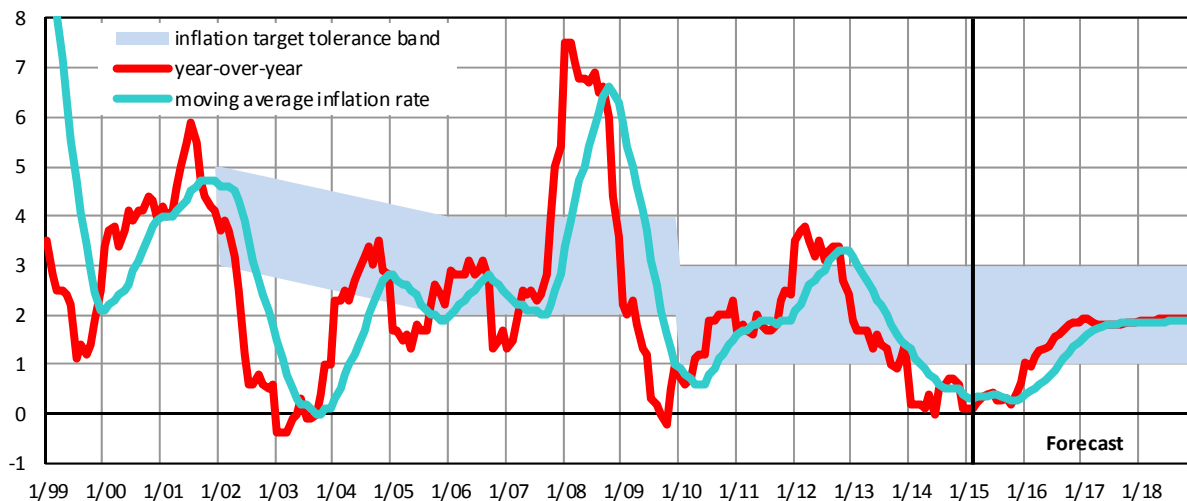
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Consumer Price Index	<i>average 2005=100</i>	123.0	123.2	123.3	123.1	123.2	123.6	123.7	123.6
	<i>growth in %</i>	0.2	0.2	0.6	0.5	0.2	0.4	0.3	0.4
of which the contribution of									
– administrative measures ¹⁾	<i>percentage points</i>	-0.6	-0.5	-0.3	-0.3	0.2	0.3	0.0	-0.1
– market increase	<i>percentage points</i>	0.8	0.7	0.9	0.8	0.0	0.1	0.3	0.5
HICP	<i>average 2005=100</i>	122.3	122.5	122.7	122.3	122.3	122.8	122.9	122.8
	<i>growth in %</i>	0.3	0.2	0.7	0.5	0.0	0.2	0.2	0.4
Offering prices of flats	<i>average 2010=100</i>	99.3	100.6	101.9	101.2	.	.	.	.
	<i>growth in %</i>	3.0	4.1	4.6	2.7	.	.	.	.
Deflators									
GDP	<i>average 2010=100</i>	104.3	105.3	105.5	106.2	105.6	107.2	107.9	108.7
	<i>growth in %</i>	2.3	2.7	2.7	1.8	1.3	1.8	2.2	2.4
Domestic final use	<i>average 2010=100</i>	103.5	104.2	104.6	105.6	104.0	104.6	104.9	106.0
	<i>growth in %</i>	0.6	0.8	1.3	1.2	0.5	0.4	0.3	0.4
Consumption of households	<i>average 2010=100</i>	105.3	105.5	105.9	105.8	105.2	105.7	106.1	106.1
	<i>growth in %</i>	0.3	0.2	0.4	0.3	0.0	0.2	0.2	0.3
Consumption of government	<i>average 2010=100</i>	100.0	101.6	102.1	105.9	100.6	102.3	102.8	106.0
	<i>growth in %</i>	1.8	1.3	2.1	1.8	0.7	0.7	0.6	0.1
Fixed capital formation	<i>average 2010=100</i>	103.1	103.2	103.7	104.1	103.1	104.2	104.5	105.0
	<i>growth in %</i>	1.1	1.2	2.1	1.8	0.0	1.0	0.8	0.9
Exports of goods and services	<i>average 2010=100</i>	109.7	109.7	110.3	109.7	110.9	111.1	110.8	110.6
	<i>growth in %</i>	4.6	4.1	5.1	2.3	1.1	1.3	0.4	0.8
Imports of goods and services	<i>average 2010=100</i>	109.5	108.8	109.7	109.4	109.5	108.4	107.5	107.7
	<i>growth in %</i>	2.8	1.9	3.5	1.6	0.0	-0.4	-2.0	-1.6
Terms of trade	<i>average 2010=100</i>	100.2	100.8	100.6	100.2	101.3	102.5	103.0	102.7
	<i>growth in %</i>	1.8	2.2	1.6	0.7	1.1	1.7	2.4	2.5

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 %

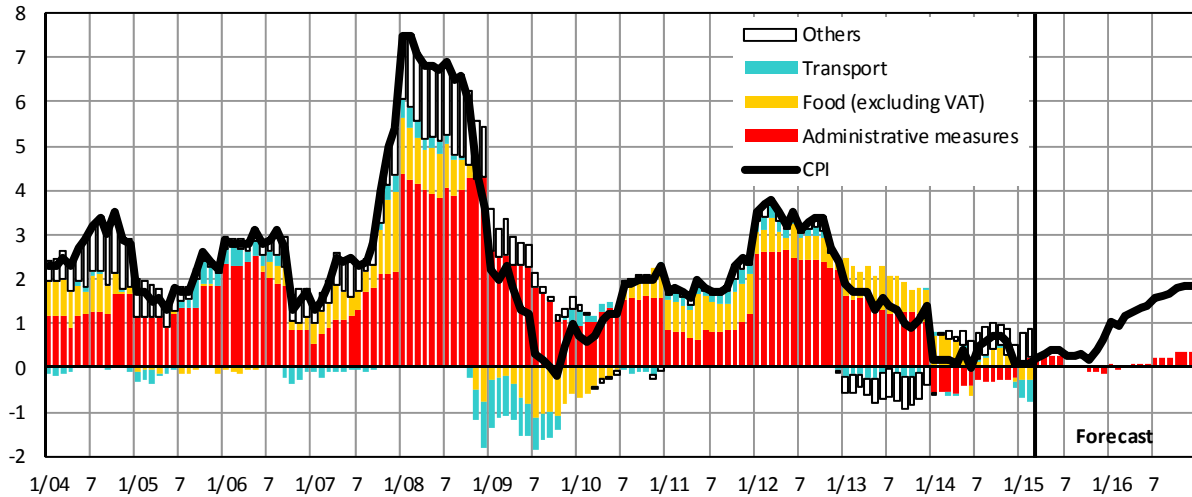


Source: CNB, CZSO, own calculations

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.

Graph C.2.2: Consumer Prices

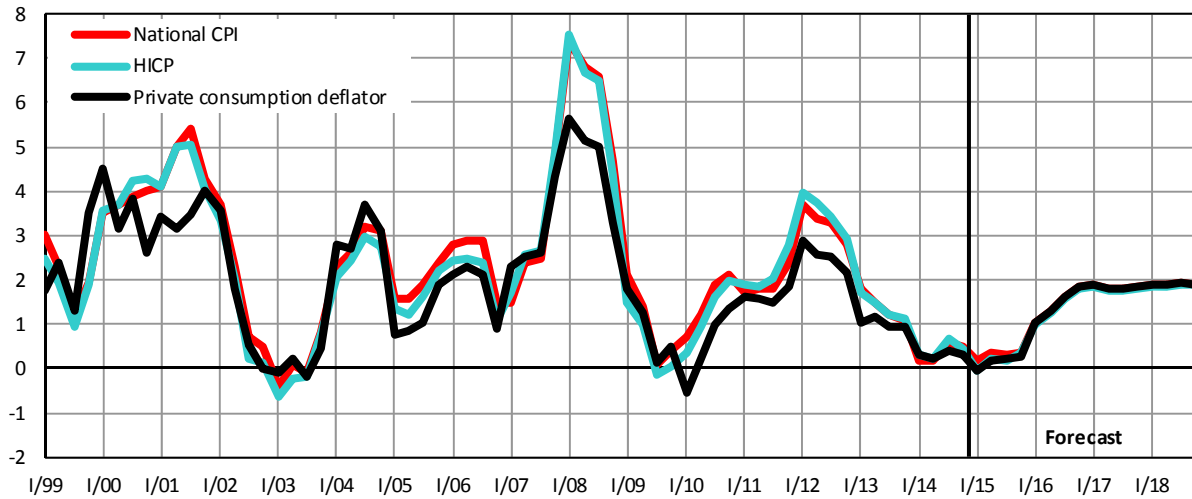
decomposition of YoY growth of CPI, contributions in pp, CPI growth rate in %, Transport excluding administrative measures and excises



Source: CZSO, own calculations

Graph C.2.3: Indicators of Consumer Prices

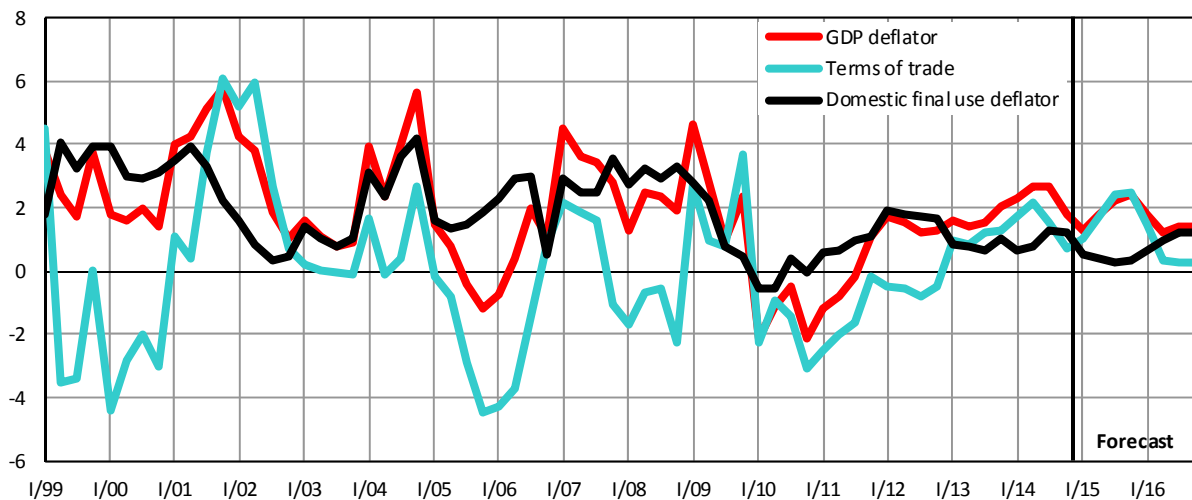
YoY growth rate, in %



Source: CZSO, Eurostat, own calculations

Graph C.2.4: GDP Deflator

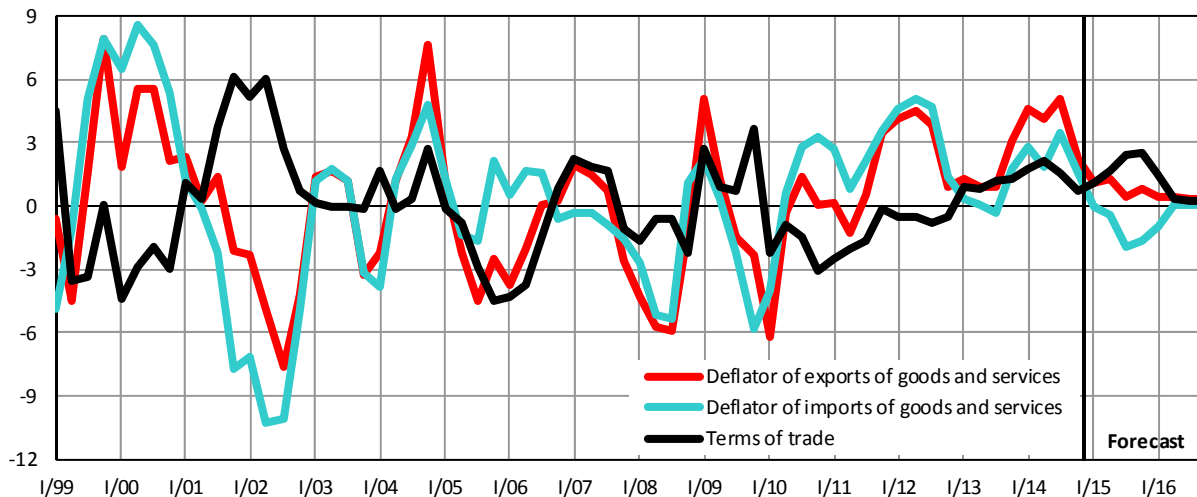
YoY growth rate, in %



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

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	4 934	4 885	4 872	4 890	4 937	4 974	5 011	5 019	5 025	5 028
	<i>growth in %</i>	-1.4	-1.0	0.4	0.4	1.0	0.8	0.7	0.2	0.1	0.1
– employees	<i>av. in thous.persons</i>	4 107	4 019	3 993	3 990	4 055	4 079	4 111	4 118	4 124	4 127
	<i>growth in %</i>	-2.1	-2.1	0.0	-0.1	1.6	0.6	0.8	0.2	0.1	0.1
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	827	866	880	901	882	895	900	901	901	901
	<i>growth in %</i>	2.5	4.7	2.0	2.4	-2.1	1.5	0.6	0.1	0.0	0.0
Unemployment	<i>av. in thous.persons</i>	352	384	351	367	369	324	300	293	288	284
Unemployment rate	<i>average in per cent</i>	6.7	7.3	6.7	7.0	7.0	6.1	5.7	5.5	5.4	5.3
Long-term unemployment¹⁾	<i>av. in thous.persons</i>	109	160	144	161	163	141	.	.	.	.
Labour force	<i>av. in thous.persons</i>	5 286	5 269	5 223	5 257	5 306	5 298	5 311	5 312	5 313	5 311
	<i>growth in %</i>	1.0	-0.3	-0.2	0.7	0.9	-0.2	0.2	0.0	0.0	0.0
Population aged 15–64	<i>av. in thous.persons</i>	7 431	7 399	7 295	7 229	7 154	7 081	7 019	6 954	6 891	6 832
	<i>growth in %</i>	0.3	-0.4	-0.7	-0.9	-1.0	-1.0	-0.9	-0.9	-0.9	-0.8
Employment/Pop. 15–64	<i>average in per cent</i>	66.4	66.0	66.8	67.6	69.0	70.2	71.4	72.2	72.9	73.6
Employment rate 15–64²⁾	<i>average in per cent</i>	65.4	65.0	65.7	66.5	67.7	69.0	70.0	70.8	71.5	72.1
Labour force/Pop. 15–64	<i>average in per cent</i>	71.1	71.2	71.6	72.7	74.2	74.8	75.7	76.4	77.1	77.7
Participation rate 15–64³⁾	<i>average in per cent</i>	70.1	70.2	70.5	71.6	72.9	73.5	74.3	75.0	75.7	76.3
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	465.6	528.7	507.8	504.7	564.4	561.4	477	431	409	392
Share of unemployed⁴⁾	<i>average in per cent</i>	6.1	7.0	6.7	6.8	7.7	7.7	6.5	5.9	5.7	5.5
Wages and salaries											
Average monthly wage⁵⁾											
– nominal	CZK	23 353	23 858	24 452	25 063	25 075	25 681	26 500	27 600	28 700	29 800
	<i>growth in %</i>	3.4	2.2	2.5	2.5	0.0	2.4	3.3	3.9	4.0	4.0
– real	CZK 2005	20 612	20 764	20 881	20 713	20 436	20 845	21 500	22 000	22 500	22 900
	<i>growth in %</i>	2.3	0.7	0.6	-0.8	-1.3	2.0	3.0	2.5	2.1	2.1
Median monthly wage	CZK	19 781	20 294	20 743	20 984	21 155	21 629	.	.	.	.
	<i>growth in %</i>	2.2	2.6	2.2	1.2	0.8	2.2	.	.	.	.
Wage bill	<i>growth in %</i>	-2.0	0.6	2.2	2.1	-0.4	3.1	4.0	4.1	4.1	4.1
Labour productivity	<i>growth in %</i>	-3.1	3.4	2.2	-1.2	-1.1	1.6	2.0	2.3	2.2	2.2
Unit labour costs⁶⁾	<i>growth in %</i>	2.6	0.0	0.6	2.6	0.5	1.4	1.2	1.6	2.0	1.8
Compens. of employees / GDP	%	40.0	40.2	40.4	40.9	40.6	40.1	39.8	39.9	40.1	40.2

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

1) Persons in unemployment for longer than 12 months.

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

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

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

5) Derived from full-time-equivalent employees in the entire economy.

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

Table C.3.2: Labour Market – quarterly

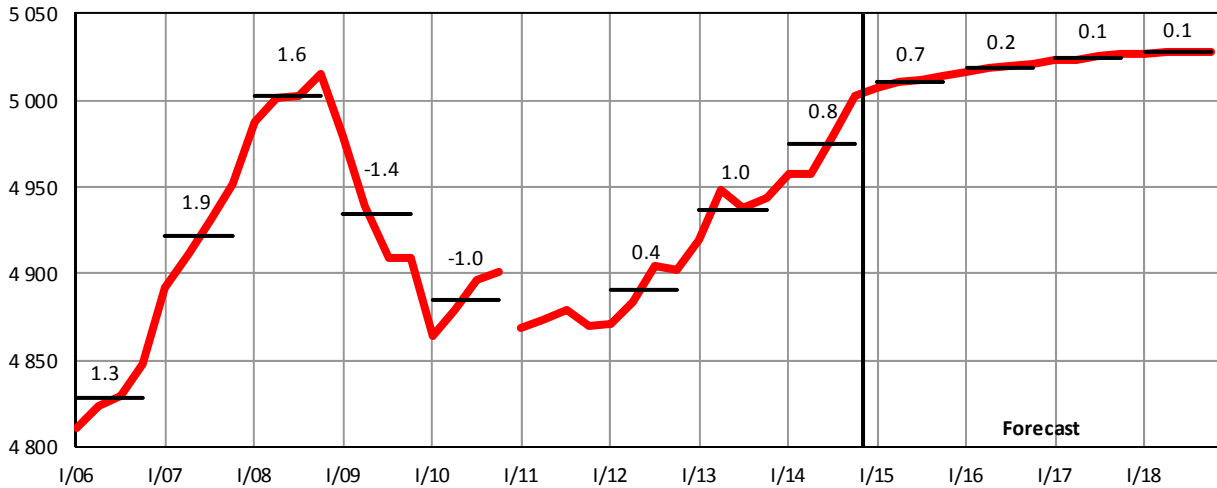
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4 923	4 962	4 995	5 017	4 973	5 015	5 027	5 028
	<i>YoY growth in %</i>	0.8	0.2	0.8	1.2	1.0	1.1	0.6	0.2
	<i>QoQ growth in %</i>	0.3	0.0	0.4	0.4	0.1	0.1	0.0	0.0
– employees	<i>av. in thous. persons</i>	4 030	4 064	4 105	4 118	4 072	4 109	4 133	4 129
	<i>growth in %</i>	0.4	-0.2	1.0	1.2	1.1	1.1	0.7	0.3
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	893	898	890	899	900	906	894	900
	<i>growth in %</i>	2.8	2.2	0.1	1.0	0.8	0.9	0.5	0.1
Unemployment	<i>av. in thous. persons</i>	358	319	313	305	314	291	299	296
Unemployment rate	<i>average in per cent</i>	6.8	6.0	5.9	5.7	5.9	5.5	5.6	5.6
Long-term unemployment ¹⁾	<i>av. in thous. persons</i>	147	138	137	141	.	.	.	.
Labour force	<i>av. in thous. persons</i>	5 281	5 281	5 308	5 322	5 287	5 306	5 326	5 324
	<i>growth in %</i>	0.1	-0.6	-0.3	0.2	0.1	0.5	0.3	0.0
Population aged 15–64	<i>av. in thous. persons</i>	7 103	7 089	7 074	7 060	7 044	7 027	7 011	6 995
	<i>growth in %</i>	-1.1	-1.1	-1.0	-0.9	-0.8	-0.9	-0.9	-0.9
Employment/Pop. 15–64	<i>average in per cent</i>	69.3	70.0	70.6	71.1	70.6	71.4	71.7	71.9
	<i>increase over a year</i>	1.3	0.9	1.3	1.4	1.3	1.4	1.1	0.8
Employment rate 15–64 ²⁾	<i>average in per cent</i>	68.1	68.7	69.3	69.8	69.2	70.0	70.3	70.5
	<i>increase over a year</i>	1.2	0.9	1.3	1.5	1.2	1.3	1.0	0.7
Labour force/Pop. 15–64	<i>average in per cent</i>	74.4	74.5	75.0	75.4	75.1	75.5	76.0	76.1
	<i>increase over a year</i>	0.9	0.4	0.5	0.8	0.7	1.0	0.9	0.7
Participation rate 15–64 ³⁾	<i>average in per cent</i>	73.1	73.2	73.7	74.1	73.7	74.1	74.6	74.7
	<i>increase over a year</i>	0.8	0.4	0.5	0.8	0.6	1.0	0.8	0.6
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	619.1	565.9	536.6	524.2	546	478	445	440
Share of unemployed ⁴⁾	<i>average in per cent</i>	8.5	7.8	7.4	7.2	7.5	6.5	6.1	6.0
Wages and salaries									
Average monthly wage ⁵⁾									
– nominal	CZK	24 817	25 492	25 213	27 200	25 500	26 300	26 100	28 200
	<i>growth in %</i>	3.3	2.3	1.8	2.3	2.9	3.0	3.5	3.8
– real	CZK 2005	20 176	20 692	20 448	22 096	20 700	21 200	21 100	22 800
	<i>growth in %</i>	3.2	2.1	1.2	1.8	2.7	2.6	3.2	3.4
Median monthly wage	CZK	20 773	21 378	21 516	22 847	.	.	.	.
	<i>growth in %</i>	2.9	1.9	1.5	2.6	.	.	.	.
Wage bill	<i>growth in %</i>	3.3	2.9	2.4	3.8	3.8	3.9	4.1	4.1

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

- 1) Persons in unemployment for longer than 12 months.
- 2) The indicator does not include employment over 64 years.
- 3) The indicator does not include labour force over 64 years.
- 4) Share of available job seekers aged 15 to 64 years in the population of the same age.
- 5) Derived from full-time-equivalent employers in the entire economy.

Graph C.3.3: Employment (LFS)

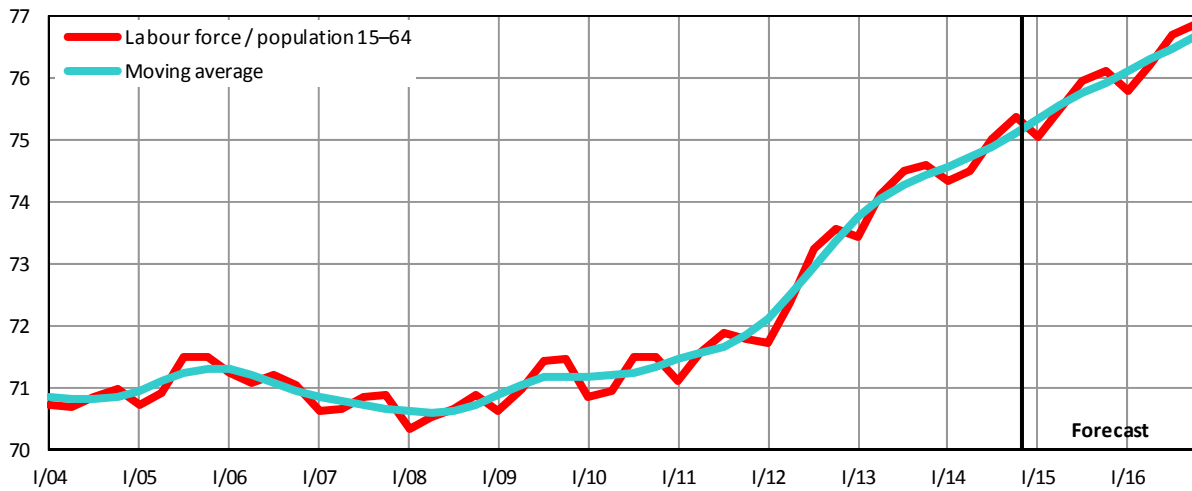
seasonally adjusted data, in thousands of persons, growth rates in %



Source: CZSO, own calculations

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

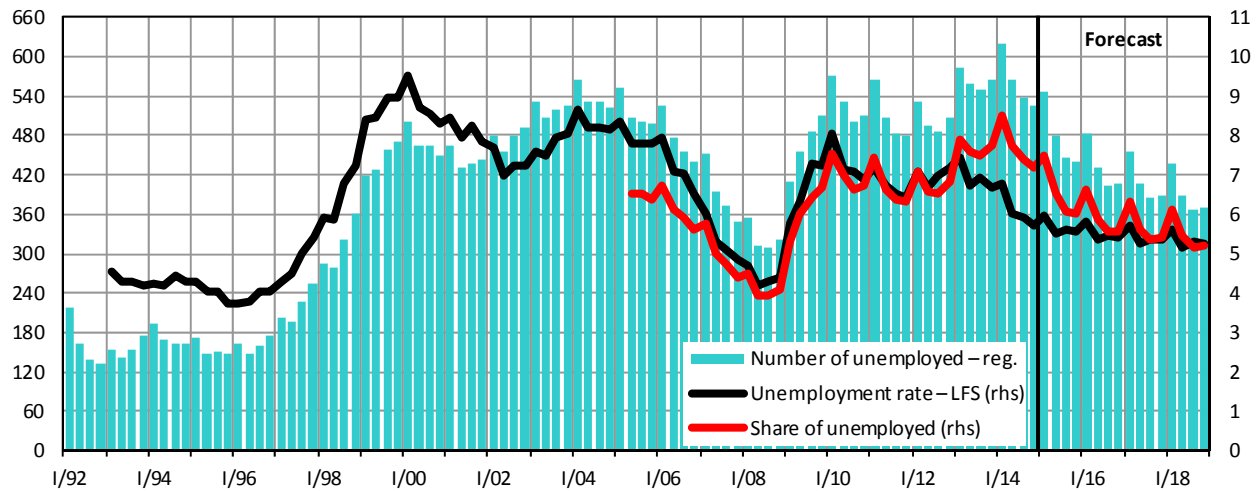
in %



Source: CZSO, own calculations

Graph C.3.5: Unemployment

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

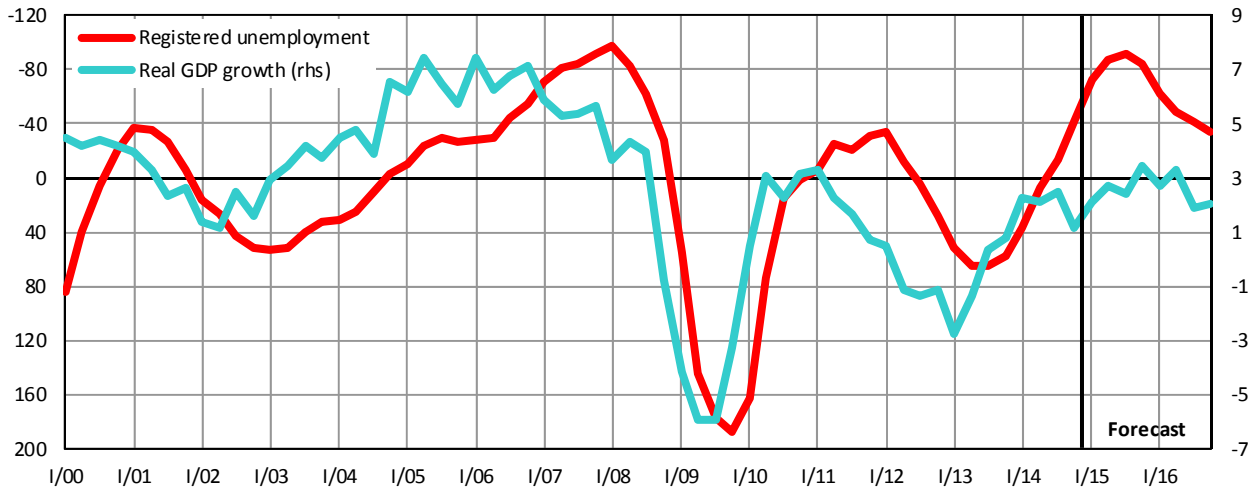


Source: CZSO, Ministry of Labour and Social Affairs, own calculations

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

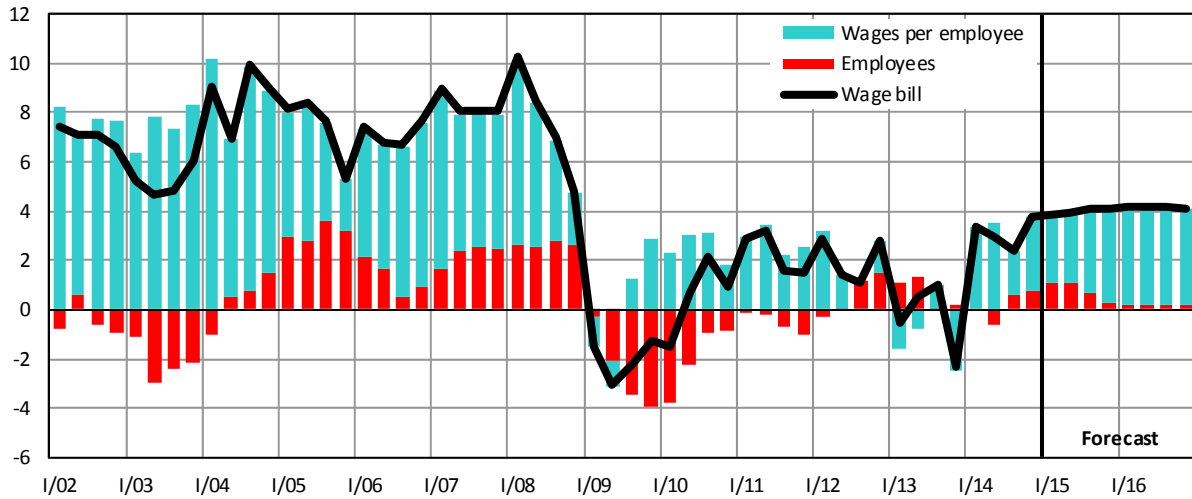
YoY real GDP growth rate in %, change in unemployment in thousands of persons



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

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

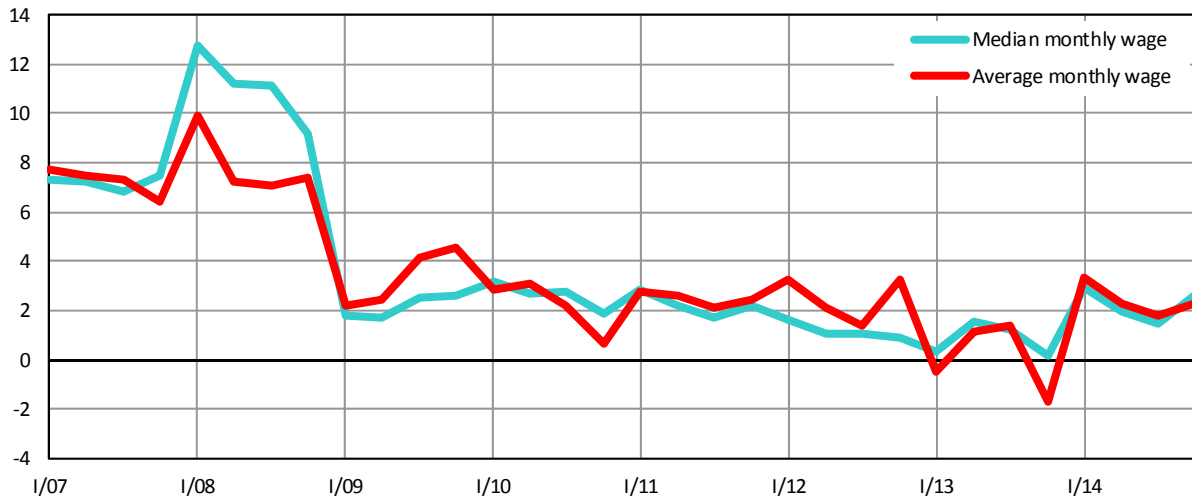
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.8: Nominal Monthly Wage

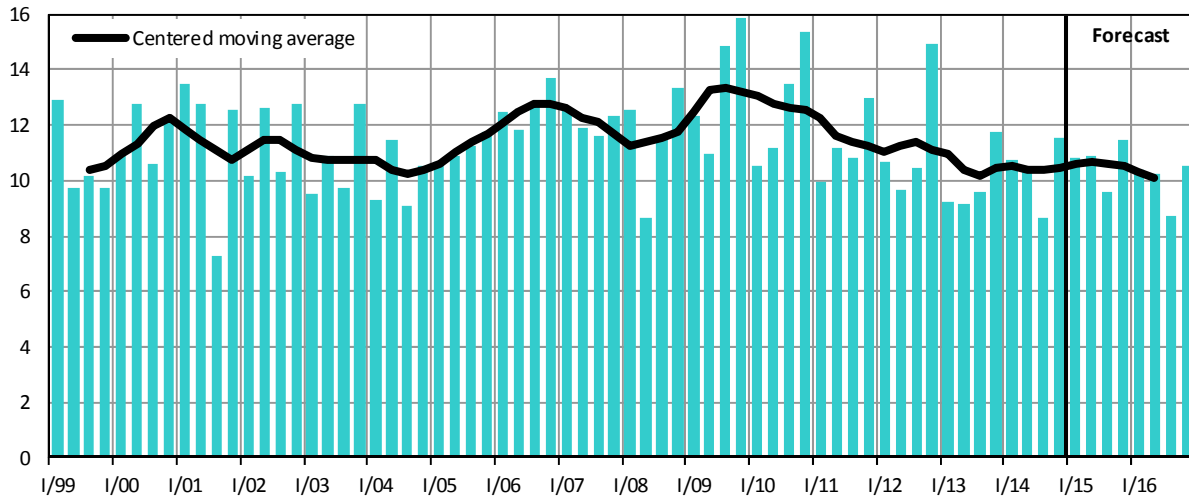
YoY growth rate, in %



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

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
											Forecast	Forecast
Current income												
Compensation of employees	bill.CZK	1 505	1 593	1 553	1 585	1 626	1 662	1 674	1 739	1 808	1 879	
	growth in %	8.1	5.8	-2.5	2.0	2.6	2.2	0.7	3.9	4.0	3.9	
Gross operating surplus and mixed income	bill.CZK	632	657	686	685	674	660	656	659	669	686	
	growth in %	5.0	4.0	4.5	-0.2	-1.7	-2.0	-0.6	0.5	1.5	2.5	
Property income received	bill.CZK	162	177	158	152	151	146	138	127	124	124	
	growth in %	4.1	9.8	-11.0	-3.5	-0.8	-3.7	-5.0	-8.0	-2.5	0.0	
Social benefits not-in-kind	bill.CZK	471	493	535	542	553	566	563	576	601	615	
	growth in %	11.9	4.7	8.6	1.2	2.1	2.3	-0.5	2.4	4.3	2.2	
Other current transfers received	bill.CZK	126	143	141	140	140	152	146	147	148	153	
	growth in %	8.3	13.2	-1.4	-1.0	-0.2	8.8	-4.1	0.9	1.0	3.0	
Current expenditure												
Property income paid	bill.CZK	27	31	19	23	21	15	19	15	14	14	
	growth in %	25.2	11.2	-36.7	17.7	-8.5	-27.3	24.4	-22.5	-3.0	-3.0	
Curr. taxes on income and property	bill.CZK	161	145	140	137	149	151	159	166	173	179	
	growth in %	11.9	-9.9	-3.0	-2.6	8.6	1.6	5.1	4.6	4.0	3.9	
Social contributions	bill.CZK	616	637	603	621	640	653	670	696	725	753	
	growth in %	9.5	3.3	-5.3	2.9	3.0	2.2	2.5	3.9	4.1	3.8	
Other current transfers paid	bill.CZK	130	146	143	141	147	155	147	137	134	134	
	growth in %	12.4	12.1	-1.6	-1.6	4.3	5.6	-5.0	-7.0	-2.5	0.0	
Gross disposable income	bill.CZK	1 961	2 106	2 168	2 182	2 188	2 211	2 181	2 235	2 306	2 377	
	growth in %	6.4	7.4	3.0	0.7	0.2	1.0	-1.3	2.4	3.2	3.1	
Final consumption	bill.CZK	1 749	1 887	1 891	1 920	1 957	1 970	1 999	2 039	2 099	2 180	
	growth in %	7.3	7.9	0.2	1.5	1.9	0.7	1.4	2.0	3.0	3.8	
Change in share in pension funds	bill.CZK	26	24	17	15	16	15	35	35	40	40	
Gross savings	bill.CZK	238	243	295	278	247	255	218	231	246	237	
Capital transfers (income (-) / expenditure (+))	bill.CZK	-34	-25	-25	-29	-25	-21	-13	-18	-22	-23	
Gross capital formation	bill.CZK	213	219	212	230	198	178	178	174	177	182	
	growth in %	12.8	2.8	-3.1	8.8	-14.0	-10.0	-0.4	-2.3	1.8	3.0	
Change in financial assets and liab.	bill.CZK	58	47	106	75	72	96	50	72	88	75	
Real disposable income	growth in %	3.4	2.5	2.1	0.1	-1.4	-1.4	-2.3	2.1	3.0	1.6	
Gross savings rate	%	12.1	11.5	13.6	12.7	11.3	11.5	10.0	10.3	10.7	10.0	

Source: CZSO, own calculations

C.4 External Relations

Table C.4.1: Balance of Payments – yearly

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
										Forecast	Forecast
Goods and services	<i>bill.CZK</i>	98	85	147	119	157	201	237	295	352	373
	<i>% GDP</i>	2.6	2.1	3.7	3.0	3.9	5.0	5.8	6.9	7.9	8.0
– goods	<i>bill.CZK</i>	10	-4	65	40	75	124	167	239	294	310
	<i>% GDP</i>	0.3	-0.1	1.7	1.0	1.9	3.1	4.1	5.6	6.6	6.7
– services	<i>bill.CZK</i>	88	89	82	78	81	78	70	56	58	63
	<i>% GDP</i>	2.3	2.2	2.1	2.0	2.0	1.9	1.7	1.3	1.3	1.3
Primary income	<i>bill.CZK</i>	-255	-148	-217	-250	-223	-238	-249	-259	-286	-321
	<i>% GDP</i>	-6.6	-3.7	-5.5	-6.3	-5.6	-5.9	-6.1	-6.1	-6.4	-6.9
Secondary income	<i>bill.CZK</i>	-8	-12	-19	-11	-18	-27	-10	-10	-8	-10
	<i>% GDP</i>	-0.2	-0.3	-0.5	-0.3	-0.5	-0.7	-0.2	-0.2	-0.2	-0.2
Current account	<i>bill.CZK</i>	-164	-75	-89	-142	-85	-63	-22	26	58	42
	<i>% GDP</i>	-4.3	-1.9	-2.3	-3.6	-2.1	-1.6	-0.5	0.6	1.3	0.9
Capital account	<i>bill.CZK</i>	22	26	51	38	13	53	82	32	52	12
	<i>% GDP</i>	0.6	0.6	1.3	1.0	0.3	1.3	2.0	0.8	1.2	0.3
Net lending/borrowing	<i>bill.CZK</i>	-143	-49	-38	-104	-72	-10	61	58	111	54
	<i>% GDP</i>	-3.7	-1.2	-1.0	-2.6	-1.8	-0.3	1.5	1.4	2.5	1.2
Financial account	<i>bill.CZK</i>	-110	-43	-72	-122	-75	12	68	48	.	.
– direct investments	<i>bill.CZK</i>	-179	-36	-38	-95	-47	-121	7	-134	.	.
– portfolio investments	<i>bill.CZK</i>	57	9	-159	-150	-6	-55	-93	90	.	.
– financial derivatives	<i>bill.CZK</i>	-1	3	1	5	4	-9	-5	-6	.	.
– other investments	<i>bill.CZK</i>	-2	-59	62	77	-9	116	-30	24	.	.
– reserve assets	<i>bill.CZK</i>	16	40	61	41	-17	80	188	73	.	.
International investment position	<i>bill.CZK</i>	-1 418	-1 534	-1 726	-1 823	-1 823	-1 864	-1 695	-1 520	.	.
	<i>% GDP</i>	-37.0	-38.2	-44.0	-46.1	-45.3	-46.0	-41.5	-35.6	.	.
Gross external debt	<i>bill.CZK</i>	1 377	1 862	1 956	2 164	2 312	2 434	2 733	2 857	.	.
	<i>% GDP</i>	35.9	46.4	49.9	54.7	57.5	60.1	66.9	67.0	.	.

Source: CNB, CZSO, own calculations

Table C.4.2: Balance of Payments – quarterly

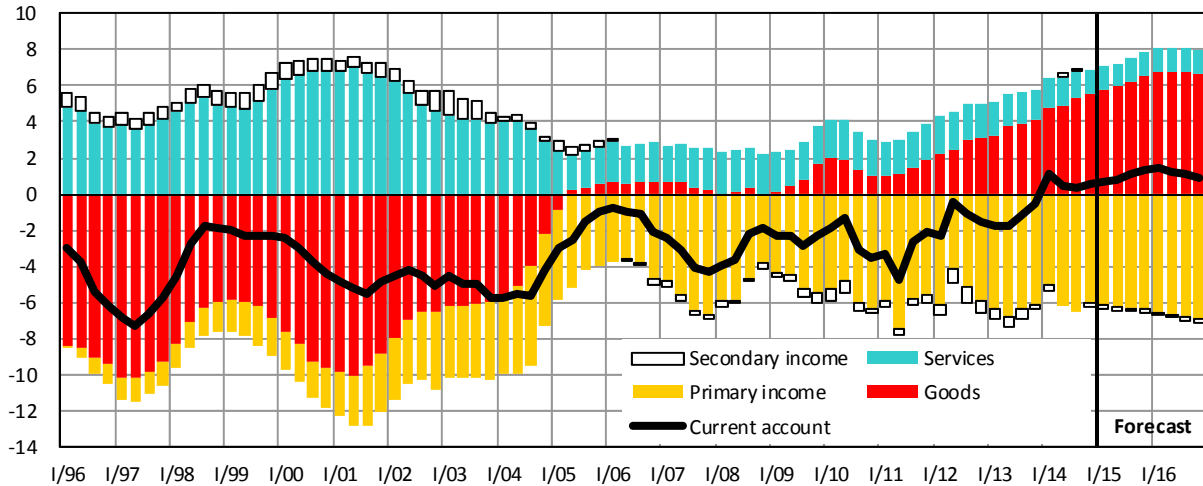
moving sums of the latest 4 quarters

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Goods and services	<i>bill.CZK</i>	265	271	288	295	305	316	333	352
– goods	<i>bill.CZK</i>	196	205	225	239	248	258	276	294
– services	<i>bill.CZK</i>	69	66	64	56	57	58	58	58
Primary income	<i>bill.CZK</i>	-206	-260	-276	-259	-265	-272	-278	-286
Secondary income	<i>bill.CZK</i>	-14	10	3	-10	-9	-9	-8	-8
Current account	<i>bill.CZK</i>	45	20	16	26	30	35	47	58
Capital account	<i>bill.CZK</i>	103	100	46	32	37	42	47	52
Net lending/borrowing	<i>bill.CZK</i>	148	120	62	58	68	78	94	111
Financial account	<i>bill.CZK</i>	104	107	46	48	.	.	.	.
– direct investments	<i>bill.CZK</i>	-33	-94	-126	-134	.	.	.	.
– portfolio investments	<i>bill.CZK</i>	-91	38	37	90	.	.	.	.
– financial derivatives	<i>bill.CZK</i>	-7	-6	-6	-6	.	.	.	.
– other investments	<i>bill.CZK</i>	28	-78	-85	24	.	.	.	.
– reserve assets	<i>bill.CZK</i>	208	247	226	73	.	.	.	.
International investment position	<i>stock in bill.CZK</i>	-1 542	-1 550	-1 564	-1 520	.	.	.	.
Gross external debt	<i>stock in bill.CZK</i>	2 688	2 763	2 810	2 857	.	.	.	.

Source: CNB, CZSO, own calculations

Graph C.4.1: Current Account

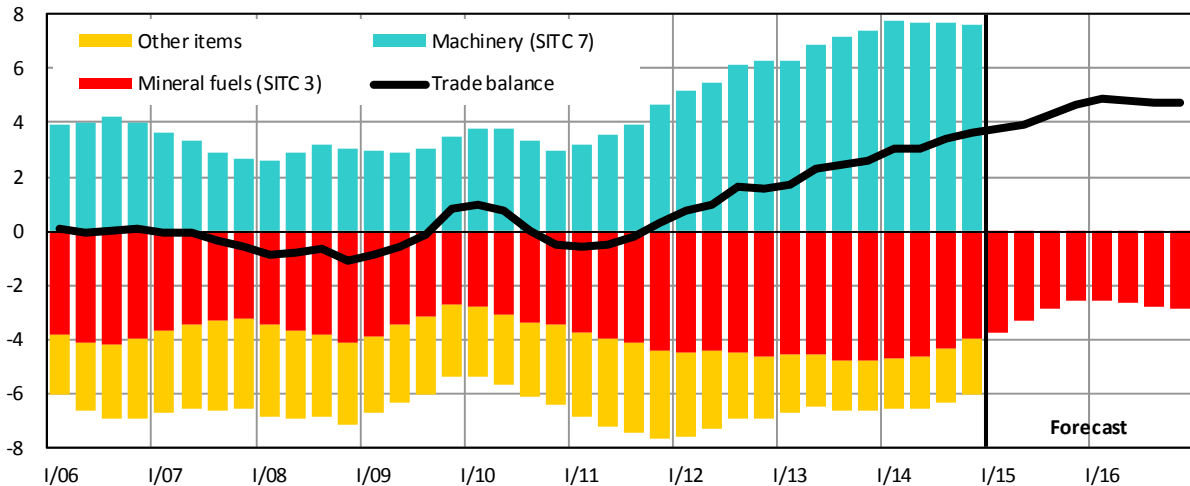
moving sums of the latest 4 quarters, in % of GDP, trade and service balances in BoP definitions



Source: CNB, CZSO, own calculations

Graph C.4.2: Balance of Trade (national concept)

moving sums of the latest 4 quarters, in % of GDP, in cross-border definitions

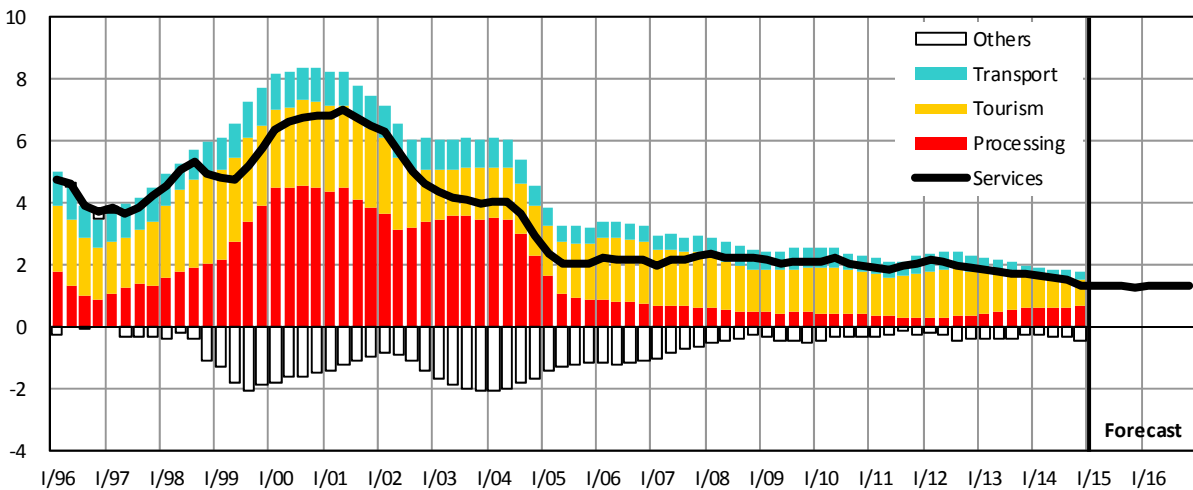


Source: CZSO, own calculations

Note: The data in the chart show imports in cif methodology. For this reason, the chart is not comparable with Tables C.4.1 and C.4.2, where imports are in fob methodology.

Graph C.4.3: Balance of Services

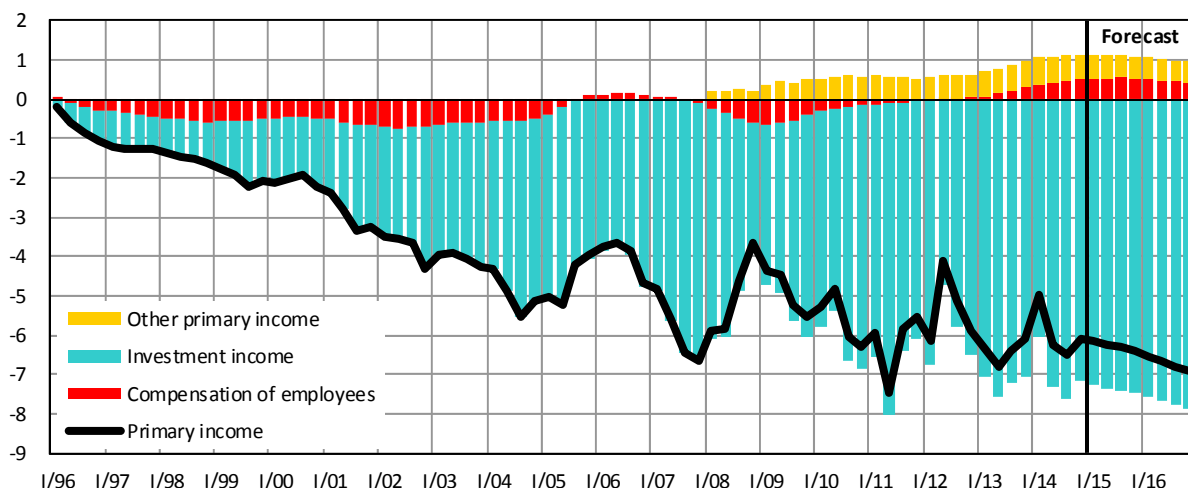
moving sums of the latest 4 quarters, in % of GDP



Source: CNB, CZSO, own calculations

Graph C.4.4: Balance of Primary 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

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
											Forecast	Forecast
GDP ¹⁾	average of 2005=100	99.9	100.9	97.4	100.0	102.7	103.5	104.3	105.7	107	110	
	growth in %	3.9	1.0	-3.5	2.6	2.7	0.8	0.8	1.3	1.7	2.2	
Import intensity ²⁾	average of 2005=100	97.7	98.3	90.3	100.0	105.2	104.8	106.3	109.5	111	113	
	growth in %	3.9	0.6	-8.1	10.7	5.2	-0.4	1.4	3.0	1.3	1.9	
Export markets ³⁾	average of 2005=100	97.6	99.2	88.0	100.0	108.0	108.5	110.9	115.7	119	124	
	growth in %	7.9	1.6	-11.3	13.6	8.0	0.4	2.2	4.3	3.0	4.1	
Export performance	average of 2005=100	94.6	97.0	97.8	100.0	102.0	105.6	104.1	108.9	112	114	
	growth in %	3.4	2.5	0.9	2.2	2.0	3.5	-1.4	4.7	2.6	1.8	
Real exports	average of 2005=100	92.4	96.3	86.1	100.0	110.2	114.5	115.4	126.0	133	141	
	growth in %	11.6	4.2	-10.5	16.1	10.2	4.0	0.8	9.2	5.7	5.9	
1 / NEER	average of 2005=100	110.5	98.9	102.2	100.0	97.1	100.6	102.9	108.1	110	110	
	growth in %	-2.6	-10.5	3.4	-2.2	-2.9	3.6	2.3	5.1	1.4	0.1	
Prices on foreign markets	average of 2005=100	96.3	102.4	99.3	100.0	103.8	103.7	102.8	101.6	101	101	
	growth in %	2.9	6.3	-3.1	0.8	3.8	-0.1	-0.9	-1.1	-0.7	0.0	
Exports deflator	average of 2005=100	106.4	101.2	101.4	100.0	100.8	104.3	105.7	109.8	111	111	
	growth in %	0.2	-4.9	0.2	-1.4	0.8	3.4	1.4	3.9	0.7	0.1	
Nominal exports	average of 2005=100	98.3	97.4	87.2	100.0	111.0	119.4	122.0	138.4	147	156	
	growth in %	11.8	-0.9	-10.5	14.7	11.0	7.5	2.2	13.4	6.4	6.0	

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

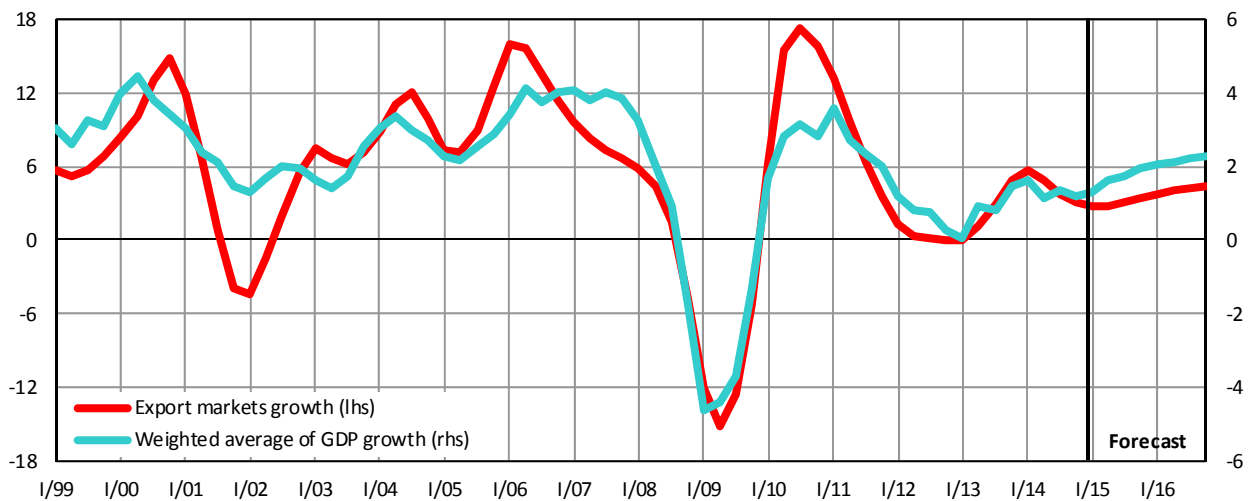
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
GDP ¹⁾	<i>average of 2010=100</i>	105.2	105.4	105.9	106.2	107	107	108	108
	<i>growth in %</i>	1.6	1.1	1.3	1.2	1.3	1.6	1.8	2.0
Import intensity ²⁾	<i>average of 2010=100</i>	108.9	109.4	109.6	110.0	110	111	111	112
	<i>growth in %</i>	4.0	3.8	2.4	1.8	1.4	1.1	1.3	1.4
Export markets ³⁾	<i>average of 2010=100</i>	114.6	115.4	116.1	116.8	118	119	120	121
	<i>growth in %</i>	5.8	4.9	3.7	3.0	2.7	2.8	3.1	3.4
Export performance	<i>average of 2010=100</i>	108.9	109.7	107.0	110.1	112	113	109	112
	<i>growth in %</i>	7.0	4.2	4.3	3.3	3.2	2.7	2.3	2.1
Real exports	<i>average of 2010=100</i>	124.8	126.6	124.2	128.6	132	134	131	136
	<i>growth in %</i>	13.2	9.4	8.2	6.4	6.0	5.5	5.5	5.6
1 / NEER	<i>average of 2010=100</i>	107.6	107.6	108.8	108.4	109	110	110	110
	<i>growth in %</i>	5.9	5.0	6.6	3.1	1.7	1.9	0.8	1.2
Prices on foreign markets	<i>average of 2010=100</i>	101.9	101.9	101.3	101.2	101	101	101	101
	<i>growth in %</i>	-1.3	-0.9	-1.5	-0.9	-0.8	-0.8	-0.7	-0.6
Exports deflator	<i>average of 2010=100</i>	109.7	109.7	110.3	109.8	111	111	110	110
	<i>growth in %</i>	4.5	4.0	5.0	2.2	0.9	1.1	0.1	0.6
Nominal exports	<i>average of 2010=100</i>	136.9	138.8	136.9	141.1	146	148	145	150
	<i>growth in %</i>	18.2	13.7	13.6	8.7	6.9	6.7	5.6	6.2

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

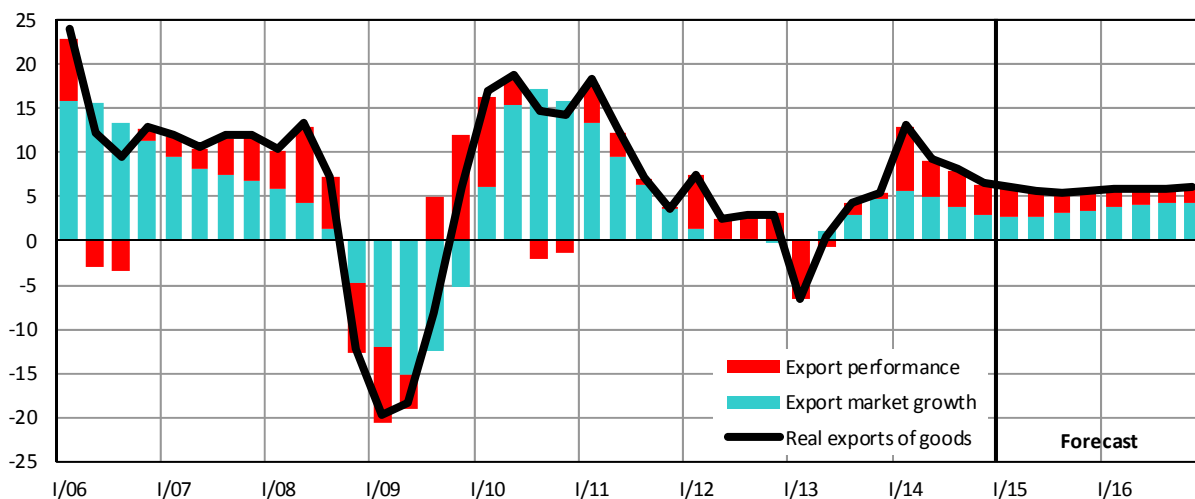
YoY growth rate, in %



Source: Eurostat, own calculations

Graph C.4.6: Real Exports of Goods

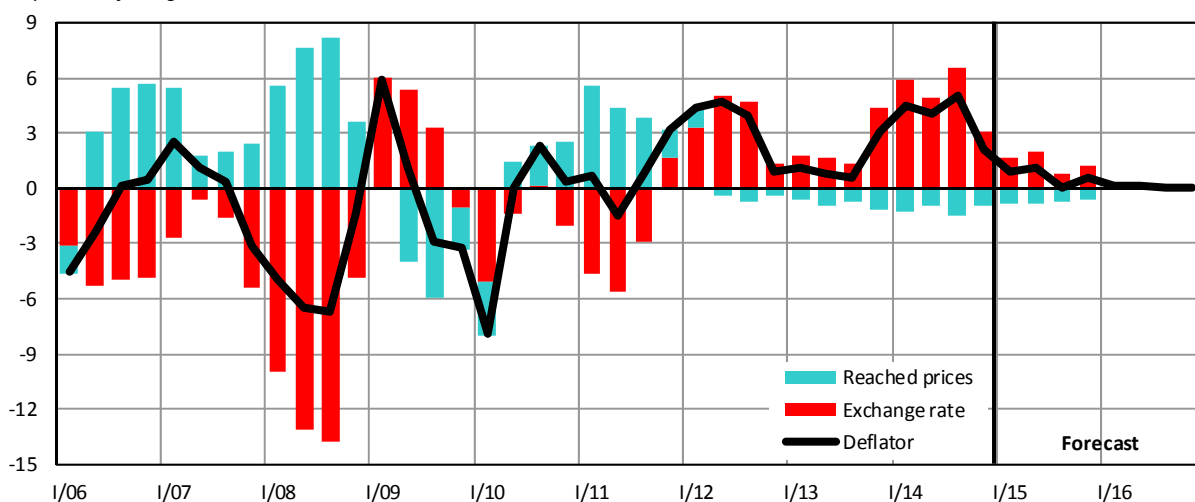
decomposition of YoY growth, in %



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

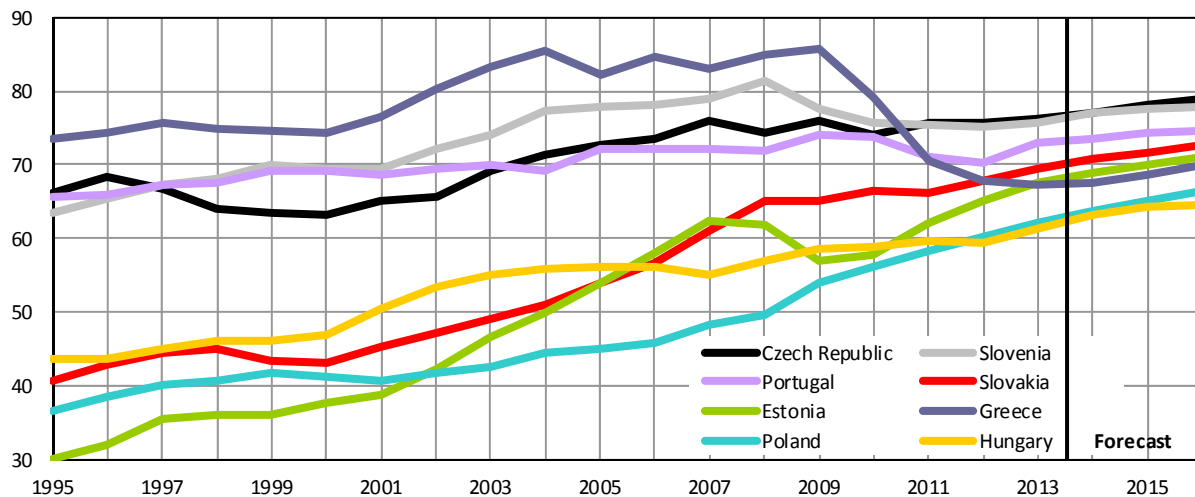
Table C.5.1: GDP per Capita – Using Current Purchasing Power Parities

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
										<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Czech Republic	PPS	21 600	21 100	20 200	20 600	21 600	21 800	21 900	22 500	23 300	24 200	
	EA12=100	76	74	76	74	76	76	76	77	78	79	
Slovenia	PPS	22 500	23 100	20 700	21 000	21 500	21 600	21 800	22 600	23 100	24 000	
	EA12=100	79	81	78	76	75	75	76	77	77	78	
Portugal	PPS	20 500	20 400	19 700	20 600	20 300	20 200	21 000	21 500	22 100	23 000	
	EA12=100	72	72	74	74	71	70	73	74	74	75	
Slovakia	PPS	17 300	18 500	17 300	18 500	18 900	19 600	20 000	20 700	21 400	22 300	
	EA12=100	61	65	65	67	66	68	69	71	72	73	
Lithuania	PPS	15 600	16 200	13 800	15 300	17 000	18 300	19 400	20 400	21 200	22 400	
	EA12=100	55	57	52	55	60	63	67	70	71	73	
Estonia	PPS	17 700	17 600	15 200	16 100	17 800	18 800	19 500	20 100	20 800	21 800	
	EA12=100	62	62	57	58	62	65	68	69	70	71	
Greece	PPS	23 500	24 100	22 900	22 100	20 100	19 600	19 400	19 800	20 400	21 500	
	EA12=100	83	85	86	79	70	68	67	68	68	70	
Poland	PPS	13 700	14 100	14 400	15 600	16 600	17 400	17 900	18 700	19 400	20 400	
	EA12=100	48	50	54	56	58	60	62	64	65	66	
Hungary	PPS	15 600	16 200	15 600	16 400	17 000	17 100	17 600	18 500	19 100	19 800	
	EA12=100	55	57	59	59	60	59	61	63	64	64	
Latvia	PPS	15 400	15 600	12 900	13 500	14 700	16 000	17 000	17 700	18 500	19 500	
	EA12=100	54	55	48	48	52	55	59	61	62	64	
Croatia	PPS	15 800	16 400	15 000	14 900	15 500	16 000	16 100	16 300	16 500	16 900	
	EA12=100	56	58	56	54	54	56	56	56	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

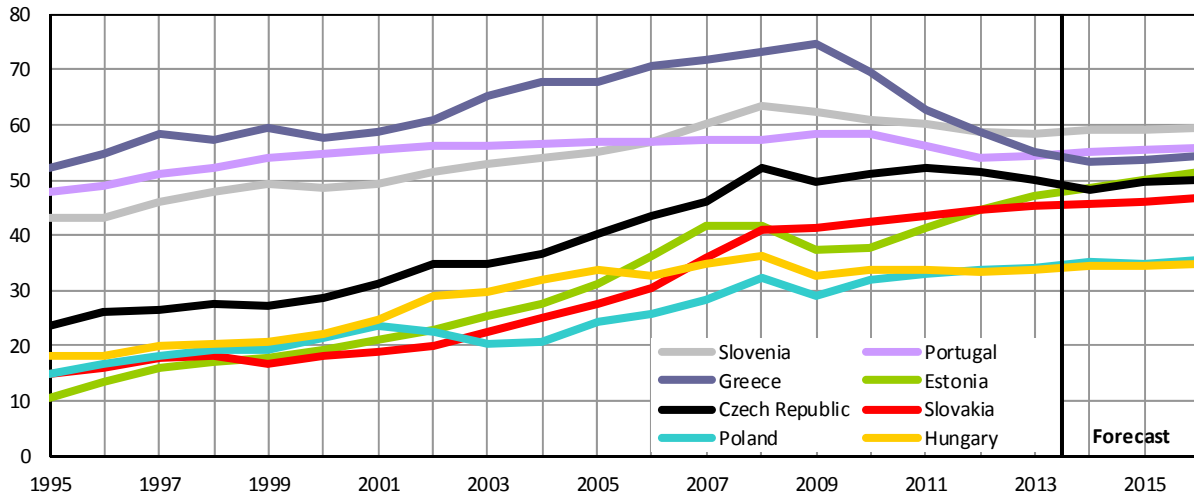
Table C.5.2: GDP per Capita – Using Current Exchange Rates

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Slovenia	<i>EUR</i>	17 400	18 800	17 700	17 700	18 000	17 500	17 500	18 100	18 400	19 000
	<i>EA12=100</i>	60	64	62	61	60	59	58	59	59	59
	<i>Comparative price level EA12=100</i>	76	78	80	80	80	78	77	77	76	76
Portugal	<i>EUR</i>	16 600	16 900	16 600	17 000	16 700	16 100	16 400	16 800	17 300	17 900
	<i>EA12=100</i>	57	57	58	58	56	54	55	55.0	56	56.0
	<i>Comparative price level EA12=100</i>	80	80	79	79	79	77	75	75	75	75
Greece	<i>EUR</i>	20 900	21 600	21 200	20 300	18 700	17 500	16 500	16 300	16 700	17 400
	<i>EA12=100</i>	72	73	75	70	63	59	55	53.4	54	54.4
	<i>Comparative price level EA12=100</i>	87	86	87	88	89	86	82	79	78	78
Estonia	<i>EUR</i>	12 100	12 300	10 600	11 000	12 300	13 300	14 200	14 800	15 600	16 500
	<i>EA12=100</i>	42	42	37	38	41	45	47	49	50	51
	<i>Comparative price level EA12=100</i>	67	68	65	66	67	69	70	71	72	72
Czech Republic	<i>EUR</i>	13 400	15 400	14 100	14 900	15 600	15 300	15 000	14 700	15 400	16 000
	<i>EA12=100</i>	46	52	50	51	52	51	50	48	50	50
	<i>Comparative price level EA12=100</i>	61	70	66	69	69	68	65	63	63	63
Slovakia	<i>EUR</i>	10 400	12 100	11 800	12 400	13 000	13 400	13 600	13 900	14 400	15 000
	<i>EA12=100</i>	36	41	41	43	44	45	45	46	46	47
	<i>Comparative price level EA12=100</i>	59	63	64	64	66	66	65	64	64	64
Lithuania	<i>EUR</i>	9 000	10 200	8 500	9 000	10 300	11 200	11 800	12 400	13 200	14 000
	<i>EA12=100</i>	31	35	30	31	35	37	39	41	42	44
	<i>Comparative price level EA12=100</i>	56	61	58	56	58	59	58	58	60	60
Latvia	<i>EUR</i>	10 300	11 200	8 800	8 600	9 800	10 900	11 600	12 100	12 700	13 500
	<i>EA12=100</i>	35	38	31	30	33	37	39	40	41	42
	<i>Comparative price level EA12=100</i>	65	69	64	61	64	66	65	65	66	67
Poland	<i>EUR</i>	8 200	9 500	8 200	9 300	9 800	10 000	10 300	10 700	10 800	11 400
	<i>EA12=100</i>	28	32	29	32	33	34	34	35	35	35
	<i>Comparative price level EA12=100</i>	59	65	54	57	56	56	55	55	53	53
Hungary	<i>EUR</i>	10 100	10 700	9 300	9 800	10 100	9 900	10 200	10 500	10 700	11 200
	<i>EA12=100</i>	35	36	33	34	34	33	34	34	34	35
	<i>Comparative price level EA12=100</i>	63	63	56	57	57	56	55	54	54	54
Croatia	<i>EUR</i>	10 200	11 200	10 500	10 500	10 400	10 300	10 200	10 200	10 200	10 400
	<i>EA12=100</i>	35	38	37	36	35	34	34	33	33	32
	<i>Comparative price level EA12=100</i>	63	65	65	67	64	62	61	60	59	59

Source: CZSO, Eurostat, own calculations

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

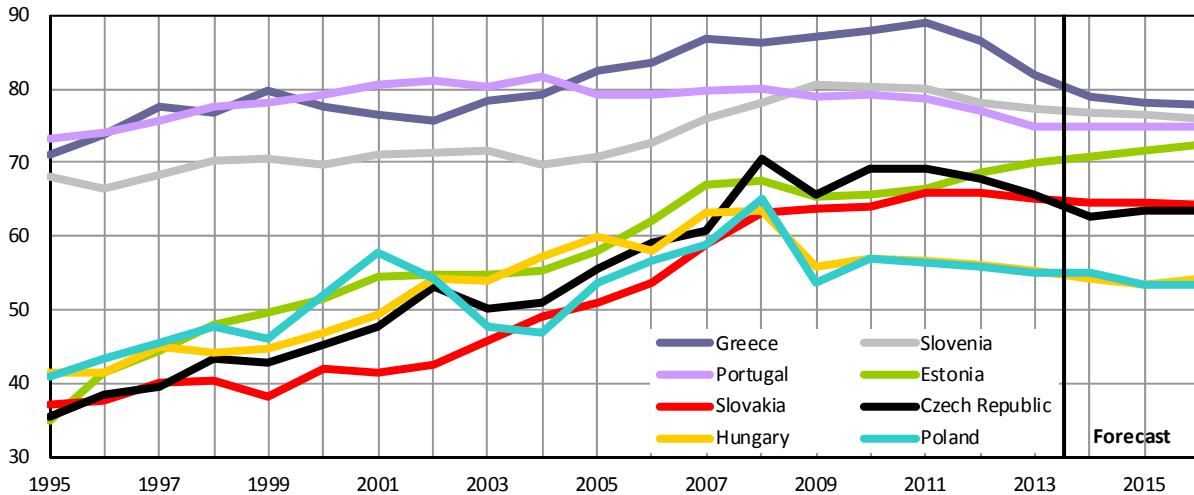
EA12=100



Source: CZSO, Eurostat, own calculations

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

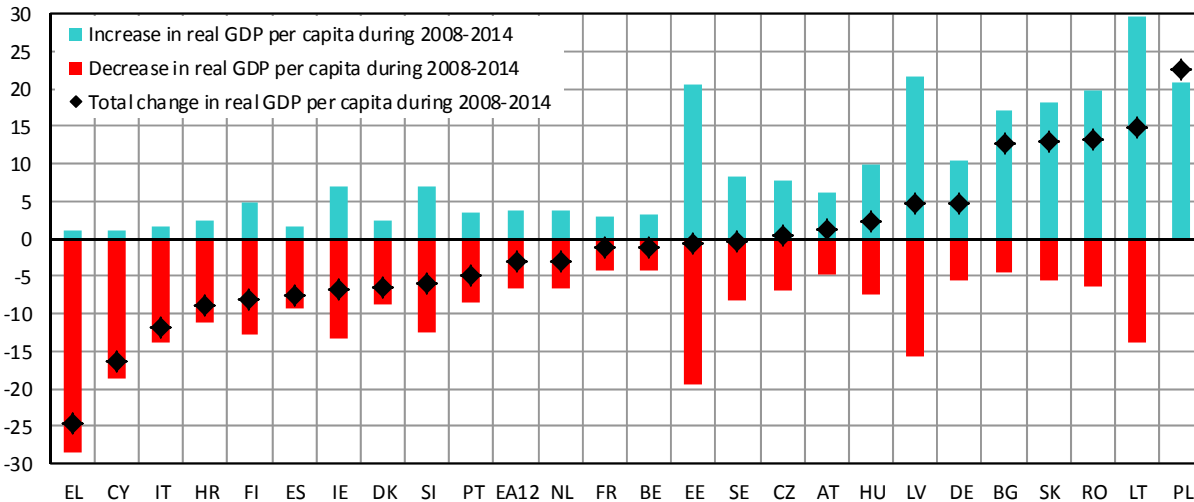
EA12=100



Source: CZSO, Eurostat, own calculations

Graph C.5.4: Change in Real GDP per Capita during 2008–2014

growth in %



Source: CZSO, Eurostat, own calculations

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