

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

Latest Development of GDP

In Q3 2013 economic output measured by GDP increased slightly by 0.2% (*versus 0.4%*) on quarterly basis² and confirmed the end of the recession. However, it decreased by 0.3% on yearly basis (*versus growth of 0.3%*).

Examining the quarterly development of gross value added (GVA) will not provide any positive information for the time being. GVA quarterly decreased in real terms by 0.4% in Q3 2013, while no discernible increase has been recorded in any of 11 sectors of the NACE classification. The yearly decrease in GVA was 0.1%. The quarterly growth of GDP can be interpreted as a consequence of considerable growth in the balance of net taxes.

Let us look now at the determinants of both quarterly and yearly development of GDP in terms of aggregated expenses.

The quarterly growth of GDP was predominantly driven by an increase in inventories and valuables. In addition, an increase was recorded of government institution expenses for consumption. Gross fixed capital formation continued its gradual decrease, now lasting for seven quarters on a quarterly basis. The growth of imports exceeding the growth of exports resulted in foreign trade attenuating quarterly GDP growth. The decrease in household consumption expenditure also continued.

The yearly perspective provides similar results. Foreign trade development was negative, resulting from the fact that YoY import growth was in advance of export growth. Exports grew in real terms by 2.9% (*versus 1.8%*) in Q3 2013 and imports increased by 4.7% (*versus 1.3%*). A decrease in gross fixed capital formation by 3.2% (*versus 4.7%*) conformed to an already existing pattern.

In contrast, a yearly decrease in GDP was primarily mitigated by an increase in inventories and valuables, an increase government final consumption expenditure of 2.6% (*versus 0.2%*) and household expenditure of 0.5% (*versus a decrease of 1.1%*). The real increase in household consumption was caused, in terms of its structure, by a growth of expenditure on durable and

semi-durable goods. It should be recalled that expenditure on durable goods is highly volatile and also the fact that the highest share of “necessary” expenditure is on non-durable goods and services. The aforementioned development can be understood as a clear sign of persistent household budgetary problems. The increase in consumption was accompanied at the same time by a slight decrease in the gross savings rate of households.

In the aforementioned period, real gross fixed capital formation saw deterioration both in quarterly and yearly comparison. For the period from Q1 to Q3 2013, there was a real yearly decrease in all key types of investment. In Q3 2013, a very slight yearly growth of investment in means of transport could be seen.

In nominal terms, GDP increased by 1.3% (*versus 0.9%*) in Q3 2013.

Considering the income structure of GDP, in Q3 2013 employee compensation increased by 0.7% (*versus 1.8%*) on a yearly basis with an increase in the wage bill of 0.3% (*versus 1.8%*). At the same time, gross operating surplus increased by 1.3% (*versus a decrease of 0.2%*). However, with regard to the development of inflation according to the household consumption deflator, the aforementioned nominal growth of the wage bill continued to represent a negative impulse for the development of real disposable household income.

GDP Forecast

The forecast for GDP and its expenditure components is influenced by risk factors (see Forecast Risks) similar to those in the previous forecasts. However, risks related to development the external environment are at a lower level in the medium-term outlook.

Based on the CZSO's monthly statistics, with regard to the development of business cycle indicators and also when taking into account the now common effect of stockpiling cigarette tax stamps as a consequence of an increase in the excise tax on tobacco, we assume that the quarterly increase in real GDP in Q4 2013 was stronger than in the previous one. We estimate specifically that it increased by 0.5% in real terms (*versus 0.6%*) on a quarterly basis. At the same time, GDP should more or less stagnate in Q1 2014 due to the higher base of comparison.

We estimate that for the whole of 2013, GDP decreased in real terms by 1.4% (*versus 1.0%*). With

² QoQ changes described in the text are expressed based on seasonally adjusted data; in other cases, data are seasonally unadjusted.

respect to the structure of expenditure, this was mainly generated by a decrease in gross domestic expenditure. Breaking this down, we estimate a decrease in household consumption of 0.2% (*versus an increase of 0.2%*), growth in government consumption of 1.6% (*versus 0.8%*) and a decrease in gross capital formation of 5.8% (*versus 7.9%*). Foreign trade also contributed to GDP decrease in real terms in 2013, for which we estimate a growth in exports of 0.3% (*versus a decrease of 0.1%*) and an increase in imports of 0.7% (*versus a decrease of 0.9%*). These changes in the estimates have been caused not only by the deviation of the data published for Q3 2013 from the forecast, but also by a revision of the previous quarters³.

In 2013, real gross domestic income (RGDI) probably decreased by only 0.4%. A negative contribution of foreign trade to GDP growth of 0.2 pp (adjusted for export and import prices) was realized with significant improvement in the terms of trade. In contrast, its contribution to RGDI growth (without adjusting for the terms of trade) reached a positive value of 0.8 pp, which relativizes the aforementioned negative evaluation of foreign trade. Based on this indicator rather than on GDP, the assessment of economic output in the given period is much more positive.

The external economic environment will continue to recover growth dynamics (see Chapter A.1) approximately to the same extent as we expected in the October Forecast. This should be intensified in the short term by weakening the exchange rate (with respect to its use as a CNB currency policy instrument), which should support the price competitiveness of exporters. Such development will naturally bring with it a positive impact on foreign trade, which should represent half of GDP growth in 2014 and a quarter of GDP growth in 2015. In comparison with the previous forecast, the contribution of foreign trade to GDP growth in 2014 has been slightly increased, mainly due to taking into account current foreign trade data.

We are not changing the contribution of gross domestic expenditure to GDP growth in 2014 in comparison with the previous forecast; in 2015 an increase in gross domestic expenditure will represent most of GDP growth.

For the whole of 2014, we forecast an increase in real GDP of 1.4% (*versus 1.3%*). In 2015, we expect GDP growth of 2.0%.

³ For example, the YoY decrease in real GDP in Q2 2013 deepened by 0.4 pp, while the contribution of foreign trade, gross fixed capital formation and the consumption of households and the government decreased.

From the perspective of the final impacts on GDP growth as part of gross domestic expenditure, we have mainly changed the contribution of household consumption. We believe that households will continue to be extremely limited in terms of their income. Another unfavourable parameter is the expected higher growth of the household consumption deflator (see Chapter C.2). Essentially, the stagnation of key parameters on the labour market in 2014 and only moderate growth of real disposable income will be brought about by real household consumption growth in 2014 of 0.6% (*versus 0.9%*). In 2015, we expect household consumption growth of 1.5%. This will correspond to a slight decrease in the gross savings rate of households.

In 2014, government consumption dynamics will be positively influenced by growth in wages in the state administration (more details – see Chapter C.3); on the other hand, its low increase in 2015 should be made up mainly of real expenditure on goods and services, since compensation of employees will be lower due to a legislative change concerning the payer of health insurance (transfer of 2 pp of the social security contributions rate from employers to employees). We expect government consumption to grow by 1.0% (*versus 0.2%*) in 2014 and by 0.4% in 2015.

Low domestic and foreign demand, a decrease in internal resources for financing and limited government investment in infrastructure all contributed to a decrease in gross fixed capital formation. We expect that the impact of these factors will mitigate in 2014. Due to growth of the change in inventories and valuables, we forecast a slight increase in real gross capital formation of 1.0% (*versus 0.9%*) in 2014; gross fixed capital formation will even decrease slightly by 0.3% (*versus 0.8%*). In 2015, we forecast growth of gross capital formation of 3.1% and growth of gross fixed capital formation of 2.6%.

As already mentioned, foreign trade should have a pro-growth impact in 2014 and 2015. In 2014, we forecast growth of 3.8% (*versus 3.3%*) in exports in real terms and growth of 3.2% (*versus 2.7%*) in imports. In 2015, we expect real exports to grow by 4.0% and imports by 3.8%. A lower difference between the growth of exports and imports in 2015 in comparison with 2014 takes into consideration further recovery of domestic demand.

In 2014, nominal GDP will grow by 3.1% (*versus 1.9%*). In 2015, we forecast nominal GDP growth of 3.3%.

C.2 Prices

Consumer Prices

The **average inflation rate in 2013** amounted to 1.4% (*consistent with the forecast*).

YoY growth of consumer prices was 1.4% (*versus 1.2%*) in December 2013, and could mainly be attributed to the contribution of administrative measures. They contributed by 1.0 pp, of which the impact of changes in indirect taxes accounted for 0.9 pp.

When examining contributions of individual segments of the consumer basket to YoY inflation in December 2013, food and non-alcoholic beverages (0.7 pp) contributed most, with prices increasing in annual terms most out of all segments, i.e. by 4.8%.

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

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

In regulated prices, a decrease in the electricity price will have the biggest impact. At the beginning of 2014, the price decreased in both its non-regulated and – in relation to the Energy Regulatory Office's decision – its regulated part. In connection with legislative measures, the contribution towards renewable sources decreased from CZK 583/MWh in 2013 to a maximum of CZK 495/MWh in 2014.

With regard to indirect taxes, the inflation forecast for 2014 expects an increase in the excise taxes on cigarettes, with a total contribution of 0.2 pp, even though only part of the planned increase has been approved⁴. The impact on consumer prices should be gradual and should be reflected mainly in H2 2014.

Based on the aforementioned, we expect that the contribution of administrative measures to the YoY growth of consumer prices will be –0.1 pp (*versus 0.1 pp*) in December 2014, of which electricity should account for –0.5 pp. Unlike in the previous years, administrative measures should be an important anti-inflationary factor.

Another important anti-inflationary factor will be the negative output gap. This should already have a less intensive effect in 2014 than in 2013, however, due to the recovery in the Czech economy. Expected growth of unit labour costs of less than one percent should not represent any significant inflationary factor in 2014. Inflation should also be influenced only slightly by the crude oil price, where a slight decrease is expected. In contrast, one important factor exerting upward pressure on inflation, and which plays the biggest role in increasing the forecast for the average inflation rate in 2014, is the weakening of the koruna due to the CNB's foreign exchange interventions. The expected YoY weakening of the koruna by 4.7% against the EUR and by 3.1% against the US dollar (see Table A.3.3) represents a relatively strong upward impetus on inflation. This impetus is also behind, in addition to the contributions of administrative measures, the expected acceleration of YoY inflation during 2014, which should only reach 0.2% in Q1 2014, but climb to 1.8% in Q4 2014.

Despite the markedly loose monetary policy, both in the exchange rate and interest rate components, the **average inflation rate in 2014** should be very low and reach only 1.0% (*versus 0.7%*), with a YoY increase in prices of 1.9% (*versus 1.4%*) in December.

The evaluation of the effects of unit labour costs and the crude oil price on inflation in 2015 is similar to that in 2014. With delay, the weakened koruna should also have an impact on inflation in 2015. However, the continuing growth of the Czech economy and the related closing of the output gap could already largely eliminate the anti-inflation effects of the domestic economy. Administrative measures will probably already act in the usual pro-inflationary direction. **In 2015**, the average inflation rate should reach 2.4% with a YoY growth of consumer prices of 2.0% in December.

The outlook for 2016 and 2017 is based on current legislation, which in the outlook for inflation is mainly reflected in the impact of changes to indirect taxes.

⁴ A part of the increase in the excise tax on cigarettes resulting from the European directive transposition has not yet gone through the legislative process.

Deflators

Gross domestic expenditure deflator, a comprehensive indicator of domestic inflation, grew by 0.6% (*versus 0.8 %*) on a yearly basis in Q3 2013. In structural terms, growth was a result of an increase in the household consumption deflator; in contrast, growth was slightly mitigated by the gross capital formation deflator. The factors underlying the growth of the household consumption deflator are similar to those for the consumer price index. A slight decrease in the gross fixed capital formation deflator can be related to a decrease in price for construction works.

In Q3 2013, the terms of trade showed a yearly growth of 1.3% (*versus a decrease of 0.2%*). We now also estimate an improvement of the terms of trade for Q4 2013 and forecast the same for 2014.

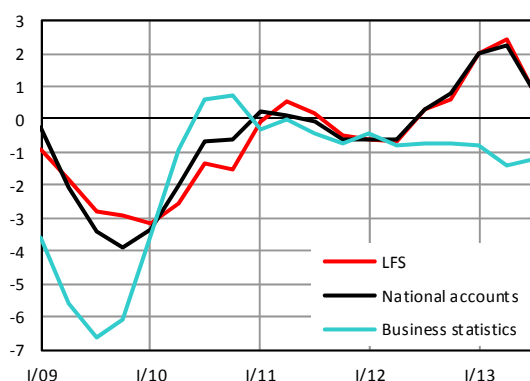
C.3 Labour Market

The behaviour of the labour market continued to be somewhat non-standard from the macroeconomic perspective. Nevertheless, at least employment growth (headcount) has now slowed due to the lower number of recorded occasional working activities. In line with expectations, the number of registered unemployed increased, while seasonally adjusted unemployment (LFS) decreased. The very moderate wage growth was in line with the development of other macroeconomic indicators.

Employment

According to the LFS, **employment** grew YoY in Q3 2013 thanks to an increase in the number of employees in the tertiary sector.

Graph C.3.1: **Employment in Different Statistics**
YoY growth rate, in %, business statistics in full-time equivalent



Source: CZSO

The slowdown in YoY growth of total employment in Q3 2013 (see Graph C.3.1) to 0.7% (*versus 1.2%*) was caused by decelerating growth in the number of

The implicit GDP deflator, which is a result of the gross domestic expenditure deflator and the terms of trade, increased on a yearly basis by 1.5% (*versus 0.6%*) in Q3 2013. It is clear from the above that this discrepancy originated due to the relatively strong improvement (growth) of the terms of trade.

We expect the gross domestic expenditure deflator to grow by 0.8% (*versus 0.6%*) in 2014. For 2015, we forecast the deflator to grow by 1.7%. The terms of trade in 2014 will show growth of 0.9% (*versus a decrease of 0.2%*), for the following year we forecast their decrease by 0.2%.

In relation to these values, we expect the implicit GDP deflator in 2014 to grow by 1.7% (*versus 0.5%*) and by 1.3% in 2015.

employees from 2.4% in Q2 2013 to 0.9% (*versus 1.5%*) in Q3 2013. The growth rate for part-time flexible forms of employment, both formal and informal, clearly slowed down. The causes of this development could be the lower need for external labour sources due to lower demand, or efforts to stop a decrease in productivity by greater utilization of internal employees. The slowdown in the decrease in the number of registered employees (full-time equivalent) could provide confirmation of efforts to prioritize the retention of core employees and offer a sign of optimism from companies with a view to their future production.

Possible signs of a reversal in the development of employment structure are manifested in the changes of the number of entrepreneurs. While the number of self-employed continued to fall, the decrease in the number of employers, which had persisted since mid-2011, came to a halt.

With respect to the situation on the labour market, in 2013 we expect employment to grow by 0.9% (*versus 1.2%*), after taking into account a considerable slowdown in the growth rate in Q3 2013. For 2014, we expect further rationalization of the number of employees, which should be reflected in an increase in the number of worked hours per employee. However, the approved increase in jobs in the government sector (in the armed forces, labour offices and financial control) should also contribute, at least partially, to an increase in employment of 0.1% (*versus 0.4%*). A slight increase in employment should also occur in 2015.

Since mid-2010, the **employment rate** of the population aged 15–64 has been showing continuous growth. In Q3 2013, it increased by 1.0 pp YoY, especially due to an increasing proportion of part-time jobs.

The **economic activity rate** (15–64 year-olds) grew by 1.1 pp YoY in Q3 2013. This growth continues to reflect in particular the increased motivation of households to compensate for an actual (or expected) decrease in real disposable income by means of formal and informal gainful activities.

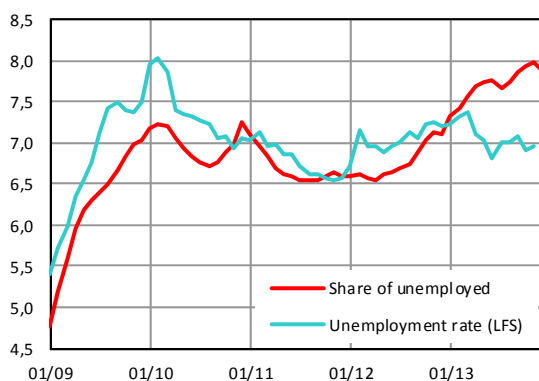
In addition to an increase in working activity, a change in the demographic structure has contributed considerably (and will continue to contribute in the next few years) to an increase in the participation rate (see Chapter A.5).

Unemployment

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

Graph C.3.2: **Indicators of Unemployment**

seasonally adjusted data, in %



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

The growth tendency for seasonally adjusted **registered unemployment** was confirmed in Q4 2013. Considering the length and depth of the recession, the increase in unemployment was not critical, but the level of seasonally adjusted unemployment is at its historical maximum.

The fact that unemployment growth (including long-term unemployment) is more pronounced in the younger age categories poses a problem. The higher than usual number of new job applicants among graduates could suggest not only the fact that their preparedness to actively enter the labour market is diminishing, but also that employers are demanding more practical experience from job applicants.

The LFS unemployment rate reached 6.9% in Q3 2013. LFS monthly data suggest that the unemployment rate (15–64) could decrease slightly in Q4 2013. The expected return to an increase in the number of worked hours per employee should be reflected in 2014 by a slight increase in the unemployment rate, as a consequence of reduced capacity to find jobs (also occasional ones). In annual terms, this development would mean unemployment rate stagnation at 7.0% (*versus 7.3%*).

Wages

In contrast to the previous two quarters, the wage increase in Q3 2013 was no longer influenced by legislative or administrative changes. Generally, the cautious behaviour of enterprises and institutions in terms of remuneration has not changed.

In Q3 2013, the **wage bill** (national accounts methodology, domestic concept) showed only a very low increase of 0.3% (*versus 2%* – a part of different development versus the forecast must be attributed to the data revision). Development in 2014 will be influenced by a cautious behaviour of the private sector. An increase in the wage bill in the budgetary sphere of 2% in 2014 and of 1% in 2015–2016 should continue to have a positive effect. Nonetheless, predominant in this area are the efforts of the private sector to compensate for the relatively high increases of unit wage costs in recent years.

In 2015, according to the current legislation, 2 pp of the health insurance contribution rate should be transferred from employers to employees. We expect that employers will compensate this change partially by an increase in gross wage (the effect of approx. 0.5 pp on YoY growth of the wage bill).

Therefore, the wage bill could increase by 2.2% (*versus 2.5%*) in 2014 and by 4.3% in 2015.

In Q3 2013, **the average wage** (business statistics, full-time equivalent) increased by 1.3% (*versus 1.7%*); in real terms it has shown a slight increase of 0.1% for the first time since the beginning of 2012. The only exception in this development was Q4 2012, when a considerable amount of extraordinary bonuses was

paid out due to efforts to avoid paying the so-called “solidarity surcharge” for personal income tax, effective from 2013. Taking into account the statistical effect of this event, we estimate that YoY growth of the average nominal wage was relatively low in Q4 2013. This effect will also show itself positively in Q1 2014.

C.4 External Relations

(balance of payments methodology)

In Q3 2013, the external imbalance, expressed as a ratio of the current account balance to GDP, reached in annual terms $-1.7%$ (*versus $-1.8%$*), thus improving by 0.2 pp YoY. The income balance deficit deepened by 1.1 pp, on the other hand, the trade balance surplus increased by 1.0 pp. The balance of current transfers improved by 0.4 pp, the balance of services has hardly changed in annual terms at all.

Export markets⁵, whose growth rate has been decreasing for more than two years in connection with the deteriorated external environment, started rising again during H1 2013. In Q3 2013, growth of 1.0% was recorded. This improvement has not been significantly reflected in foreign demand: exports to the most important partner countries remain more or less stagnant. We estimate that in 2013 export markets increased by 0.9% (*versus 0.6%*). However, we expect a more significant recovery of foreign trade and more dynamic growth of export markets in the following period. For 2014, we anticipate that the ongoing recovery in the global economy will be accompanied by a growth of export markets of 3.1% (*versus 2.7%*). We also anticipate the same growth of export markets in 2015.

Export performance, which indicates a change in the share of the volume of Czech goods on foreign markets, probably stagnated in 2013 (*versus a decrease of 0.8%*). Improved price competitiveness of Czech firms resulting from a weaker exchange rate of the Czech koruna (in connection with the CNB’s foreign exchange interventions) should contribute to an increase in export performance of 1.0% in 2014 (*versus 0.7%*) and 2015.

We estimate that in 2013 the trade balance surplus reached 4.9% of GDP (*versus 4.7%*). For 2014, we expect the trade balance surplus to increase to 6.2% of GDP (*versus 5.0%*). The same relative surplus could be reached also in 2015.

In Q3 2013 the deficit in the fuel balance (SITC 3) reached 5.1% of GDP (*versus 4.8%*) in annual terms. We estimate that the deficit reached the same value for the whole of 2013 (*versus 4.8%*). With regard to the expected scenario for crude oil prices, we assume that in the course of 2014 and 2015 prices of fuel will be decreasing and the deficit in the fuel balance will be falling slightly. We estimate it will decrease to 4.9% of GDP (*versus 4.6%*) in 2014 and to 4.6% of GDP in 2015. A change in the estimate of the fuel commodity class deficit is mainly associated with the depreciation of the koruna after the CNB started its interventions, and therefore with increased prices of imports, especially of crude oil and natural gas.

In Q3 2013 the surplus in the balance of services (in annual terms) stood at 1.3% of GDP (*versus 1.4%*), as in the same period of the previous year, and it has been changing only slightly since H2 2012. The growth rates of services imports are still slightly exceeding the growth rates of services exports, which in 2013 concerned mainly the balance of tourism. The decline in the global economy in previous periods has also been reflected in the foreign trade in services. With the expected improvement of the external environment, we also anticipate an increase in domestic and foreign demand for services. We estimate that in 2013 the services balance reached 1.3% of GDP (*versus 1.5%*). In 2014, the surplus could slightly increase to 1.4% of GDP (*versus 1.6%*) and reach a similar level also in 2015.

The deficit in the income balance, which includes the reinvested and repatriated earnings of foreign investors, deepened in Q3 2013 in annual terms by 1.1 pp YoY, reaching 7.9% of GDP (*versus 8.1%*). The increase in the deficit was due largely to an increased outflow of investment income in the form of dividends paid out to foreign owners of domestic direct and also portfolio investments. The balance of compensation of employees improved slightly, though it has a considerably lower impact on overall income balance. We estimate that for the whole of 2013 the income balance showed a deficit of 7.9% of GDP (*versus 8.1%*).

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

We expect that the deficit in the income balance in 2014 will remain roughly at the level of the previous year, i.e. at 7.9% of GDP (*versus* 8.2%). In 2015, we expect it to deepen slightly to 8.1% of GDP.

Under the given circumstances, we estimate that the ratio of the current account balance to GDP reached

–1.7% of GDP (*unchanged*) in 2013. Mainly due to the expected favourable development of foreign trade in goods, we anticipate seeing a considerable improvement in the current account deficit to 0.2% of GDP in 2014 (*versus* 1.4%) and 0.4% of GDP in 2015. The current account of the balance of payments should thus be nearly balanced.

C.5 International Comparisons

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

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

Due to recession, GDP per capita measured in **current purchasing power parity** declined in all monitored countries, with the exception of Poland, in 2009. While most states have gradually recovered from the crisis, in Greece the absolute economic level also decreased in 2013, now falling for the fifth year in a row. The absolute economic level decreased slightly in Croatia in 2010, in Portugal in 2011–2013 and in Slovenia in 2012 and 2013. In 2009–2013, also the relative economic level vis-à-vis the EA12 countries declined in the aforementioned countries, the largest drop (19 pp) being recorded in Greece. In contrast, economic level relative to the EA12 average is increasing most quickly in the Baltic states.

In the Czech Republic, the economic level measured by GDP per capita adjusted by current purchasing power parity was approx. 20,200 PPS in 2013, corresponding to 72% of economic level of the EA12. After a period of convergence in 2000–2007, when the country's relative economic level vis-à-vis the EA12 countries increased by 13 pp, the Czech Republic was stagnating since 2010. In 2013, however, the relative economic level decreased by 1 pp due to a fall in economic output.

With regard to a slow economic recovery, we expect the relative economic level of the Czech Republic to stagnate in the following years.

GDP per capita, when adjusted for the **exchange rate**, takes into account the market valuation of the currency and the ensuing differences in price levels. In the case of the Czech Republic, this indicator was probably EUR 14,100 in 2013, i.e. 48% of the EA12 level. In the aforementioned year, the absolute and relative levels of GDP per capita adjusted for the exchange rate decreased, to which the CNB's interventions on the foreign exchange market also contributed. With regard to the expected continuation of these interventions, in 2014 we expect a further decrease in both absolute and relative levels, to the level of Slovakia.

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