

Ministry of Finance
Financial Policy Department

Macroeconomic Forecast Czech Republic

January 2011

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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 2012) and for certain indicators an outlook for another 2 years (i.e. until 2014). 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:

macroeconomic.forecast@mfcr.cz

Note:

In some cases, published aggregate data do not match sums of individual items to the last decimal place due to rounding.

List of Abbreviations:

const.pr.	constant prices
CPI	consumer prices index
curr.pr.....	current prices
EA12	euro zone containing 12 countries
EMU.....	Economic and Monetary Union
ESA 95.....	European methodology of national accounting
EU27	EU countries containing 27 countries
GDP.....	gross domestic product
GFS	Government Finance Statistics methodology of the IMF
HICP.....	harmonised index of consumer prices
IMF	International Monetary Fund
LFS	Labour Force Survey
NFC.....	non-fuel commodities
OECD	Organisation for Economic Co-operation and Development
p.p.	percentage point
prelim.	preliminarily

Basic Notions:

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	prediction of future numbers, using expert and mathematical methods
Outlook	prediction 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 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:

Cut-off date for data sources: **11 January 2011.**

Summary of the Forecast

World economic recovery remains encumbered with many uncertainties. The main sources of risk are connected with the state of public budgets and the situation in the banking sector in some euro zone countries.

Economic output of the Czech Republic is still recovering. We estimate that in 2010 real GDP grew by 2.5%, with the main contribution to that growth probably coming from gross capital formation related to replenishing inventories and, to a lesser degree, household consumption. Under the influence of fiscal consolidation measures a moderate slowdown in economic growth to 2.2% for 2011 is expected, and in 2012 GDP should increase by 2.7%.

We expect growth in domestic consumer prices for 2011 and 2012 in the upper half of the CNB inflation target tolerance band, i.e. moderately above 2%.

Although consequences of recession are still seen on the labour market, the situation should gradually improve here as well. After two years of decline, employment should increase by 0.3% in 2011 and by 0.6% in 2012. The unemployment rate apparently peaked in 2010, and it should moderately decrease in this year and next. Growth in the wage bill compared to 2010 should increase to 3.1% in this year and 4.7% in the next due to the rise in employment and in average wages in the private sector.

The current account deficit as a proportion of GDP should remain at a sustainable level.

The government sector deficit in 2010 reached 4.8% of GDP, according to the Ministry of Finance's preliminary estimate. From the viewpoint of the expected development for government sector outcomes in 2011, the new macroeconomic outlook is neutral and the forecast of 4.6% of GDP does not change. This will be further specified upon publication of April notifications of the government deficit and debt.

Table: Main Macroeconomic Indicators

		2007	2008	2009	2010	2011	2012	2010	2011
					Estimate	Forecast	Previous forecast		
Gross domestic product	<i>growth in %, const.pr.</i>	6,1	2,5	-4,1	2,5	2,2	2,7	2,2	2,0
Consumption of households	<i>growth in %, const.pr.</i>	5,0	3,6	-0,2	1,0	1,0	2,9	1,5	1,5
Consumption of government	<i>growth in %, const.pr.</i>	0,5	1,1	2,6	0,2	-3,5	-2,7	0,2	-4,5
Gross fixed capital formation	<i>growth in %, const.pr.</i>	10,8	-1,5	-7,9	0,0	0,8	3,6	-3,0	1,3
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	1,1	1,3	-0,6	0,4	1,7	1,0	0,7	1,5
GDP deflator	<i>growth in per cent</i>	3,4	1,8	2,5	-0,6	0,8	1,9	-0,5	1,3
Average inflation rate	<i>per cent</i>	2,8	6,3	1,0	1,5	2,3	2,4	1,5	2,2
Employment (LFS)	<i>growth in per cent</i>	1,9	1,6	-1,4	-1,0	0,3	0,6	-1,2	0,8
Unemployment rate (LFS)	<i>average in per cent</i>	5,3	4,4	6,7	7,3	7,2	6,8	7,4	7,2
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	9,4	8,7	0,0	0,5	3,1	4,7	0,5	3,4
Current account / GDP	<i>per cent</i>	-3,2	-0,6	-1,0	-2,8	-2,5	-2,9	-1,4	-1,1
<u>Assumptions:</u>									
Exchange rate CZK/EUR		27,8	24,9	26,4	25,3	24,3	23,6	25,3	24,2
Long-term interest rates	<i>% p.a.</i>	4,3	4,6	4,7	3,7	3,8	3,8	3,8	3,9
Crude oil Brent	<i>USD/barrel</i>	73	98	62	80	88	94	78	84
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	2,8	0,4	-4,1	1,7	1,7	2,0	1,6	1,5

A Forecast Assumptions

The forecast was made on the basis of data known as of **11 January 2011**. No political decisions, newly released statistics, or world financial or commodity market developments could be taken into account after this date.

Data from the previous forecast of October 2010 are indicated by italic font. Data in the tables relating to the years 2013 and 2014 are calculated by extrapolation, outlining only the direction of possible developments, and as such are not commented upon in the following text.

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

A.1 External Environment

Economic output

The world economy continues to recover, but the improvement is uneven and its tempo is thus far moderate. In all developing economies, including China and India, a moderate slowing of their rapid growth is expected in 2011. The growth in advanced economies is weaker, but, in contrast to previous assumptions, optimism is growing, and especially in the US. Commodity prices have begun markedly to rise.

The US economy grew QoQ by 0.9% and 0.4%, respectively, in the first two quarters of 2010 and by 0.6% (*versus 0.5%*) in the third quarter. The inflation rate in October was 1.2%. The unemployment rate, which had been steady since January 2010 at just below 10%, decreased to 9.4% in December (9.8% in November).

Despite a relatively modest growth rate (according to predictions, GDP for 2010 should exceed its 2007 level), modest optimism prevailed in the American economy at the turn of the year. Strong holiday season consumption (while household consumption had been growing for five quarters already, it had done so more slowly than in the years of prosperity) contributed to this view, as did rising stock markets. The greatest stimulus was an unexpectedly strong employment gain in the private sector, as well as the first significant decrease in the unemployment rate. It is expected, however, that the labour market stills needs some years to recover. The majority party and opposition reached a consensus on prolonging tax breaks for 2011, which positive news was immediately reflected in the moods of consumers and corporations alike.

Meanwhile the process of unburdening companies and entrepreneurs continues. It is presumed that stronger recovery will occur only when real estate prices have consolidated and begin to rise. The national debt has reached 100% of GDP, and several states and a number of municipalities are on the verge of bankruptcy.

Stimulation to the economy is being provided by the central bank, which is holding the band for the key

refinancing rate at 0–0.25% and continues in “quantitative easing”, which is not expected to end before the third quarter of 2011.

Euro zone GDP (EA12) grew QoQ in 2010’s second and third quarters by 1.0% and 0.3% (*versus 0.4%*), respectively. However, the greatest contribution to the strong growth was from the German economy.

The development in the euro zone is unbalanced, as the GDP of Greece, Ireland and Spain decreased in 2010, and these countries will apparently be near zero growth or in decline again this year. Inflation, too, is unbalanced in the euro zone. In December, the YoY euro zone inflation increased, especially due to the influence of rising energy prices, to 2.3% from 1.9% in November. Price growth ranged from deflation in Ireland (–0.8%) to 1.9% in Germany and 5.2% in Greece. Industrial production in the EA12 has been growing: for November YoY by 7.4%, and in Germany by 11.4%. Meanwhile, high unemployment persists. It is stuck at 10.1% in the EA12, and it is 20.6% in Spain, 14.5% in Slovakia and 13.9% in Ireland. Germany is the exception, where it has been 6.7% already for four months.

The situation in Germany is interesting, and in a way exceptional. After falling under the EA average to –4.7% in 2009, growth strongly above the EA average followed in 2010 (3.6%). Although the extreme growth in the second quarter (2.2% QoQ) was undisputedly a one-time phenomenon, the German economy grew by a solid 0.7% (*as predicted*) in the third quarter, and leading indicators point further to continuing strong economic activity. It is positive that the growth is not only an effect of strong exports but also of domestic consumption.

Most euro zone countries continue to follow fiscal consolidation programmes. The ECB continues to maintain the main refinancing rate at 1.00% and is supporting some economies by purchasing their government bonds. Economic policy in the euro zone faces a difficult task. Even if the problems with solvency of some countries are successfully fended off,

the developing divergences among the member countries is considerable; and the effectiveness of the German economy on the one hand and stagnation of such a large economy as that of Spain on the other will surely raise differences of opinion as to their resolution.

Polish and Slovak economies both are benefiting from not having problems in the banking sector.

Slovakia once again is showing rapid GDP growth, which, as was the case before the recession, is driven by exports. For the third quarter, growth of 1.0% QoQ (*versus 0.4%*) was reported. We estimate overall growth for 2010 at 4.1% (*versus 4.0%*). Industrial production in October 2010 grew by 13.3% YoY. The unemployment rate in November stood at 14.5%, which was the second highest in the euro zone. An apparent result is a decline in household consumption, which had long been one of the growth drivers: Through three quarters of 2010 it decreased by 0.5% YoY. The public finance deficit deteriorated against expectations to ca 8% of GDP for 2010, and the government has prepared consolidation measures to reduce it by ca 2.5 p.p. this year.

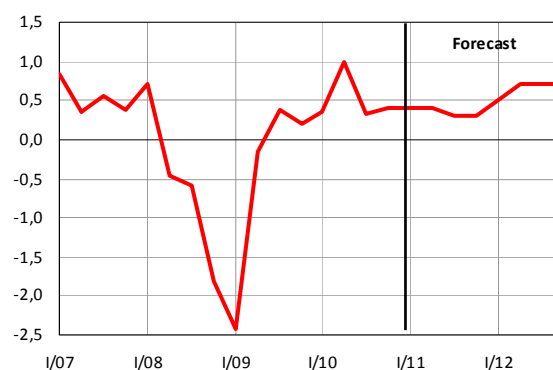
Poland's economy was the only one in the EU to avoid recession in 2009, and it continues to grow dynamically. QoQ growth was 1.1% (*versus 0.5%*) in the third quarter. Growth in 2010 is estimated at 3.8% (*versus 3.2%*). The size of the domestic market makes it possible for growth to be driven by domestic demand, which, in contrast to Slovakia, has grown continuously (by 3% for the first three quarters of 2010). Unemployment stagnated at 9.8% in November. Growth in 2011 will be supported by infrastructure investments ahead of the coming European football championships. The public finance deficit for 2010 approached 8% of GDP and the national debt 55%, leading to the initiation of saving measures and increase in VAT.

Our forecast again stands on an assumption that no more major shocks will occur on financial markets. Recovery is expected in 2011, albeit with considerable differences among the world's various regions. While growth in advanced economies will be relatively weak despite a certain improvement, growth of developing markets will remain dynamic.

We expect that the US economy grew by 2.8% (*versus 2.7%*) in 2010. For 2011, we are boosting our growth estimate to 2.9% (*versus 2.5%*). Recovery will remain dampened by high unemployment.

Graph A.1.1: **Growth of GDP in EA12**

QoQ growth in % (adjusted for seasonal and working day effects)



In the EA12 economy, we estimate GDP growth for 2010 at 1.7% (*versus 1.6%*). In 2011, too, growth should reach 1.7% (*versus 1.5%*). Risks are represented by problems in the financial sector of many countries, high public budget indebtedness, and uneven development across euro zone countries.

Commodity prices

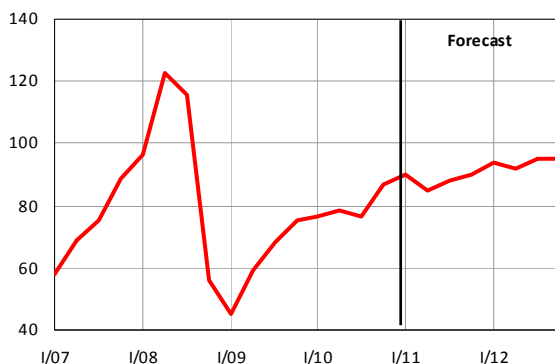
Renewed upward pressure on commodity prices in the last quarter of 2010 is a symptom of growth expectations. The average price for Brent crude in the fourth quarter of 2010 reached USD 86.7/barrel (*versus USD 79*), and compared to the previous quarter it increased by 14%. The average for 2010 was USD 79.7.

Anticipating future development is exceptionally difficult, as conflicting influences are at work. While consumption is still decreasing in advanced economies, this is offset by generally rising demand from China and other countries. Another influence is renewed speculation on commodity prices and the dollar exchange rate. Influences limiting oil demand are an opposite effect. In its latest Energy Outlook 2010, the International Energy Agency regards political actions to limit rising oil demand and the resulting emission to be one of the key factors.

For 2011, we have adjusted our estimate upward to USD 88/barrel (*versus USD 84*). Risks in that forecast are for upward deviations.

Graph A.1.2: Dollar Prices of Brent Crude Oil

in USD per barrel



Food prices, too, have been rising significantly. In December, FAO's index of food commodities broke through the record high from June 2008. The IMF's comparable index also has approached its maximum. Although in the case of cereal grain prices weather anomalies in 2010 were primarily responsible, the influence of speculation, as in summer 2008, should not be underestimated.

Global financial markets

The public finance crisis on the euro zone's periphery reached its next stage in late November 2010, as Ireland requested aid from the joint rescue mechanism of the EU and IMF. The overall amount of assistance should be EUR 85 billion, but the Irish government should itself contribute EUR 17.5 billion to this sum (from the National Pensions Reserve Fund and other sources). The amount of external aid should "only" be EUR 67.5 billion. Ireland should obtain one third of this amount (EUR 22.5 billion) via the EFSM¹, one third through the IMF, and the remaining EUR 22.5 billion from EFSF² and in the form of bilateral loans from the United Kingdom, Denmark and Sweden.

Up to EUR 35 billion should then be directed to the Irish banking sector, the relative size of which (in proportion to the size of the Irish economy) is one cause of Ireland's current problems. Of this EUR 35 billion, EUR 10 billion should be used immediately to recapitalise banks.

What is interesting about the whole matter of aid to Ireland is the fact that the country had long been rejecting EU/IMF aid, and it was especially EU representatives who exerted pressure on Ireland in this regard. The apparent reason was fear of spreading financial contagion to other PIIGS countries, especially Portugal and Spain, should Ireland hesitate too long in

its aid request (although Ireland, unlike Greece, had not had acute liquidity problems). The hopes of preventing the spread of financial contagion by including Ireland into the EU/IMF rescue mechanism, however, were in vain. That is because the same chain of events recurred as in May: rapid escalation of tensions on financial markets, a political reaction (Ireland's request for financial aid) and a temporary calming, followed by a renewed growth in yields and spreads.

The rhetoric by which the political representatives of states finding themselves caught in the financial markets' "spotlights" try to calm the financial markets (rather unsuccessfully) is also characteristic. Thus, Ireland maintained at first that it is unlike Greece, while now Portugal and Spain insist that they are not like Greece and Ireland. The yields of PIIGS countries' government bonds, spreads over German bonds (i.e. in essence a risk premium) and CDS spreads are meanwhile at record high levels and with no visible tendency to fall. Although January auctions of Portuguese and Spanish bonds met with reasonable interest, the investors required high yields. Especially in Portugal's case, these are untenably high in view of its growth outlook.

The rating agencies also responded to developments in the euro zone, again lowering credit ratings for some PIIGS countries. Fitch lowered Ireland's rating by three grades in December (from A+ to BBB+, stable outlook), and Moody's even by five grades (from Aa2 to Baa1, negative outlook). Neither did Portugal escape a downgrade, as Fitch cut its rating by one grade (from AA- to A+, negative outlook) at the end of the year. In January, the same agency lowered the rating of Greece (from BBB- to BB+, negative outlook), whose long-term liabilities thus became the non-investment grade.

Even though Greece (according to a November evaluation mission of the European Commission, ECB and IMF) fulfilled at the end of September all quantitative criteria required for providing another financial aid tranche amounting to EUR 9 billion from euro zone countries and the IMF, the November revision of government sector deficit and debt data (the government sector deficit for 2009 was revised from 13.6% to 15.4% of GDP, government sector debt for the same period from 115.1% to 126.8% of GDP) clearly shows that Greece is just at the beginning of a long road to remedy its public finance.

There also is speculation about the possibility of increasing the funds for the present rescue

¹ European Financial Stability Mechanism

² European Financial Stability Facility

mechanism. At the same time, however, a permanent rescue mechanism is being discussed, the establishment of which already obtained the support of the European Council in December. This European Stability Mechanism (ESM) should replace the current EFSF and EFSM mechanisms from the middle of 2013. In case a euro zone country would be in financial difficulties, and if this would only be a case of liquidity crisis, the ESM would provide financial assistance to this country, conditioned upon fulfilling negotiated conditions. If, however, it were concluded that the country in question was insolvent, then so-called *collective action clauses* (CAC) would be invoked. In essence, this refers to a set of rules which should be an integral part of all bonds of euro zone countries issued from 2013 and should provide a legal framework for negotiations between the debtor and creditors. The latter should, among other things, have the option to decide a change of payment conditions by a qualified majority (extending the maturity, taking a haircut, etc.).

A certain problem connected to ESM is the need to change primary legislation. From a purely economic

view, however, it is fundamentally much more important that a possible approval of the ESM would lower the attractiveness of bonds issued from 2013, especially in comparison to bonds not including CAC (CAC explicitly allows for investors to take a haircut). An important question, therefore, is whether implementing CAC would lead to an increase in the required yields on government bonds, which in turn would negatively influence the stability of public finances.

In view of the considerable complexity in the relationships between the financial sector, government, and other sectors of the real economy, and in view of the frequency with which new information (often of fundamental importance) is emerging, it is almost impossible to determine whether, when and how intensively will the developments abroad impact on the Czech economy. Nevertheless, it still holds that the external environment is an important source of risks for the domestic economy and that it should be monitored closely.

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
								<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
EU27	1,3	2,5	2,0	3,2	3,0	0,5	-4,2	1,7	1,8	2,1
EA12	0,8	2,1	1,7	3,0	2,8	0,4	-4,1	1,7	1,7	2,0
Germany	-0,2	1,2	0,8	3,4	2,7	1,0	-4,7	3,6	2,3	2,1
France	1,1	2,5	1,9	2,2	2,4	0,2	-2,6	1,6	1,6	2,0
United Kingdom	2,8	3,0	2,2	2,8	2,7	-0,1	-4,9	1,7	1,9	2,0
Austria	0,8	2,5	2,5	3,6	3,7	2,2	-3,9	1,8	1,8	2,0
USA	2,5	3,6	3,1	2,7	1,9	0,0	-2,6	2,8	2,9	3,1
Hungary	4,0	4,5	3,2	3,6	0,8	0,8	-6,7	1,1	2,4	3,1
Poland	3,9	5,3	3,6	6,2	6,8	5,1	1,7	3,8	4,0	4,3
Slovakia	4,8	5,1	6,7	8,5	10,5	5,8	-4,8	4,1	3,1	4,1
Czech Republic	3,6	4,5	6,3	6,8	6,1	2,5	-4,1	2,5	2,2	2,7

Graph A.1.3: Real Gross Domestic Product

YoY growth in %, nsa data

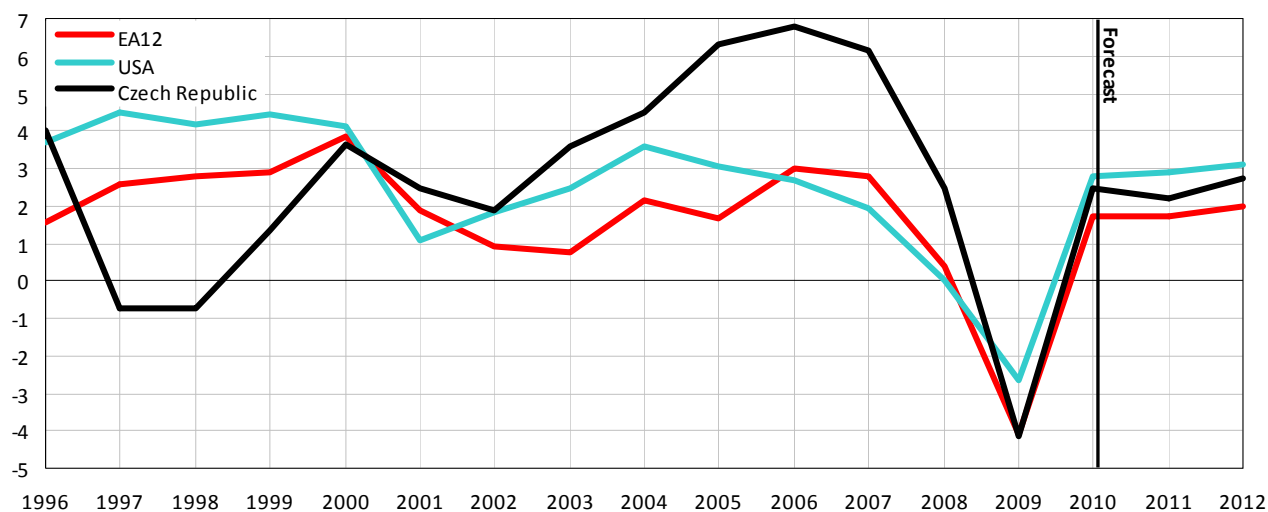


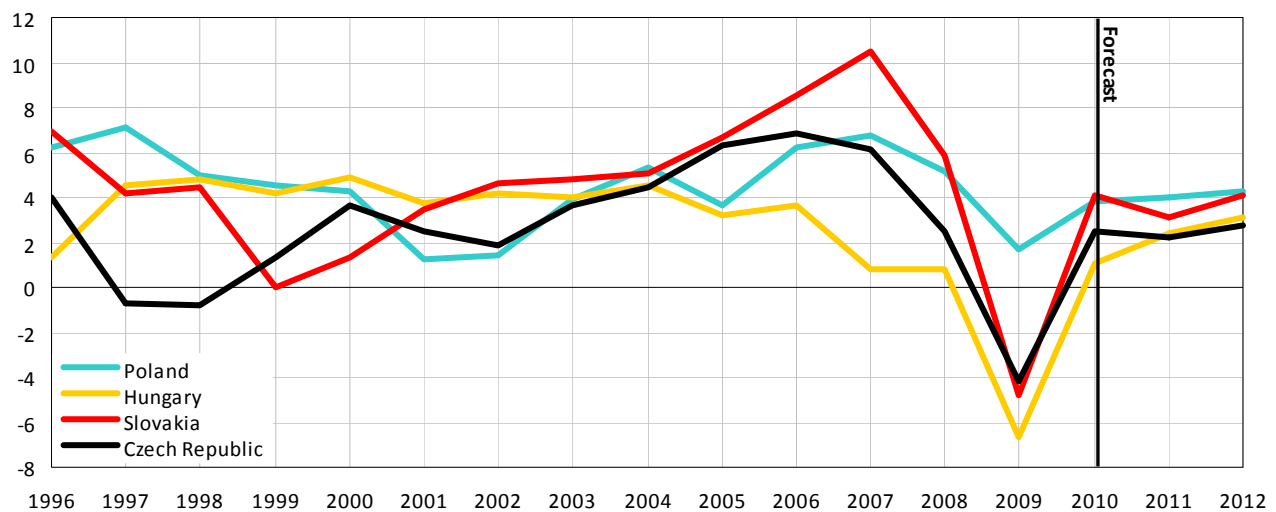
Table A.1.2: Real Gross Domestic Product – quarterly

growth in %, sa data

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
EU27	QoQ	0,4	1,0	0,5	0,4	0,4	0,5	0,3	0,3
	YoY	0,6	2,0	2,2	2,3	2,3	1,8	1,6	1,5
EA12	QoQ	0,4	1,0	0,3	0,4	0,4	0,4	0,3	0,3
	YoY	0,8	1,9	1,9	2,1	2,2	1,5	1,5	1,4
Germany	QoQ	0,6	2,3	0,7	0,5	0,5	0,4	0,3	0,3
	YoY	2,1	3,9	3,9	4,1	4,0	2,1	1,7	1,5
France	QoQ	0,2	0,6	0,3	0,5	0,4	0,3	0,5	0,4
	YoY	1,2	1,6	1,7	1,6	1,8	1,5	1,7	1,6
United Kingdom	QoQ	0,3	1,1	0,7	0,5	0,3	0,5	0,3	0,4
	YoY	-0,3	1,6	2,7	2,7	2,7	2,0	1,6	1,5
Austria	QoQ	0,0	1,2	0,9	0,4	0,3	0,3	0,3	0,3
	YoY	0,1	2,1	2,5	2,5	2,8	1,9	1,3	1,2
USA	QoQ	0,9	0,4	0,6	0,5	0,8	0,8	0,9	0,9
	YoY	2,4	3,0	3,2	2,5	2,4	2,8	3,0	3,4
Hungary	QoQ	1,0	0,4	0,8	0,3	0,6	0,6	0,7	0,7
	YoY	-1,1	0,6	2,2	2,6	2,1	2,4	2,2	2,6
Poland	QoQ	0,7	1,2	1,3	0,4	1,0	1,0	1,2	1,0
	YoY	3,1	3,8	4,7	3,7	4,0	3,8	3,6	4,3
Slovakia	QoQ	0,8	1,0	1,0	0,7	0,6	0,6	0,9	0,9
	YoY	4,6	4,4	4,2	3,5	3,3	2,9	2,8	3,0
Czech Republic	QoQ	0,6	0,8	1,0	1,0	0,1	0,4	0,5	0,3
	YoY	1,0	2,3	2,8	3,5	2,9	2,6	2,1	1,4

Graph A.1.4: **Real Gross Domestic Product** – Central European new member state economies

YoY growth in %, nsa data

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

spot prices

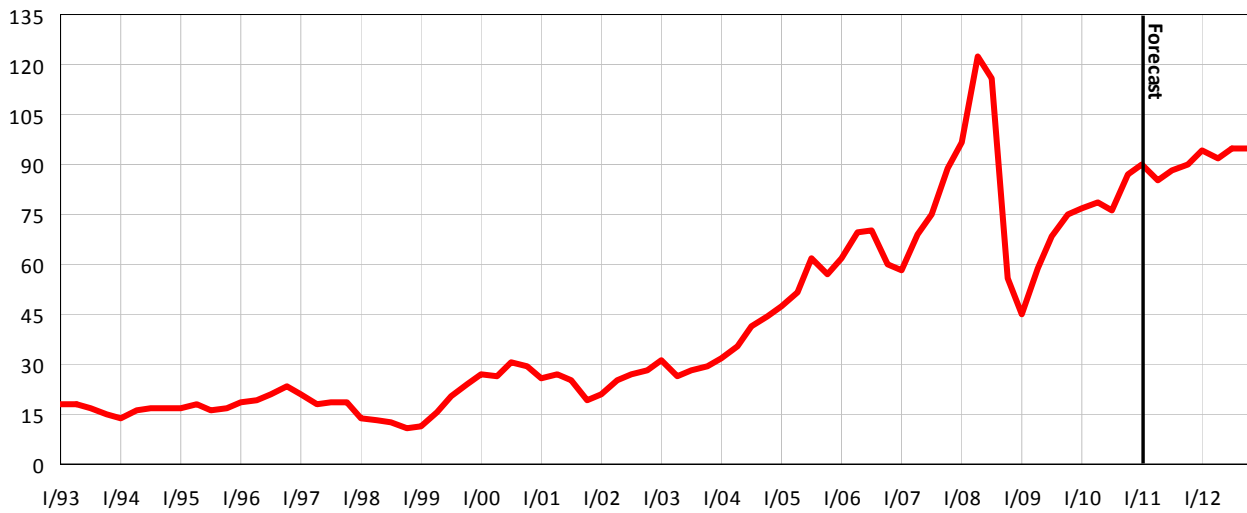
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
											Forecast	Forecast
Crude oil Brent	USD/barrel	28,8	38,3	54,4	65,4	72,7	97,7	61,9	79,7	88	94	
	growth in %	14,0	33,0	42,0	20,1	11,2	34,4	-36,7	28,7	10,8	6,5	
Crude oil Brent index (in CZK)	2005=100	62,4	75,6	100,0	113,4	113,3	127,7	90,5	116,8	126,7	131,0	
	growth in %	-1,7	21,1	32,3	13,4	-0,1	12,7	-29,1	29,1	8,5	0,0	
Wheat	USD/t	146,1	156,9	152,4	191,7	255,2	326,0	223,6	223,8	.	.	
	growth in %	-1,6	7,3	-2,8	25,8	33,1	27,7	-31,4	0,1	.	.	
Wheat price index (in CZK)	2005=100	113,0	110,5	100,0	118,7	142,0	152,1	116,7	117,1	.	.	
	growth in %	-15,2	-2,3	-9,5	18,7	19,6	7,1	-23,3	0,3	.	.	

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

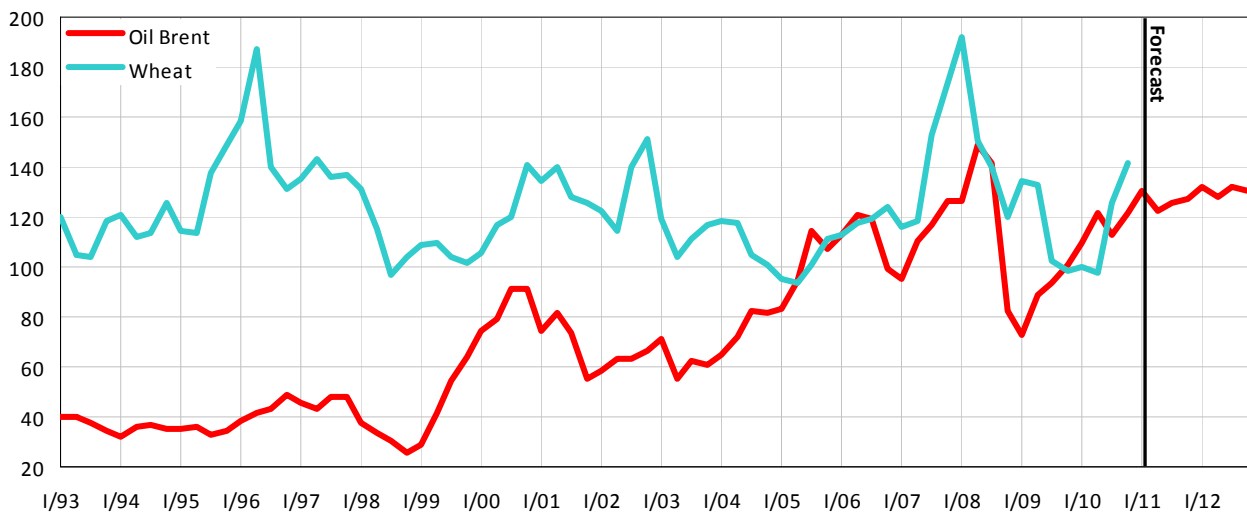
spot prices

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Forecast	Forecast	Forecast	Forecast
Crude oil Brent	USD/barrel	76,7	78,7	76,4	86,8	90,0	85,0	88,0	90,0
	growth in %	70,4	33,2	11,7	15,7	17,3	8,0	15,2	3,7
Crude oil Brent index (in CZK)	2005=100	109,9	121,4	112,9	121,3	130,4	122,2	125,6	127,5
	growth in %	50,4	37,0	20,4	20,5	18,7	0,6	11,3	5,1
Wheat price	USD/t	195,7	177,5	237,9	283,9	.	.	.	.
	growth in %	-15,6	-28,4	13,9	38,2	.	.	.	.
Wheat price index (in CZK)	2005=100	100,2	97,9	125,7	141,9	.	.	.	.
	growth in %	-25,6	-26,4	22,9	43,9	.	.	.	.

Graph A.1.5: Dollar Prices of Oil
USD/barrel



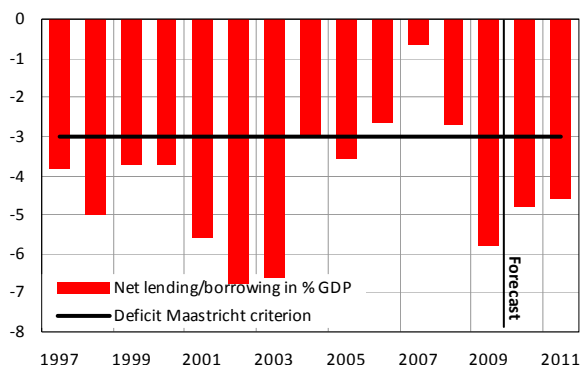
Graph A.1.6: Koruna Indices of World Commodity Prices
index 2005 = 100



A.2 Fiscal Policy

While in past years, general government performance was positively influenced particularly by the peak of the economic cycle, the most recent recession had been bringing worsening results since 2008. This revealed structural deficiencies in general government operations.

Graph A.2.1: **Net Lending/Borrowing**
in % of GDP



According to preliminary estimates by the Ministry of Finance, the **general government deficit** has reached CZK 176.7 billion, which is 4.8% of GDP.³ In comparison with the previous estimate in October, when the deficit was estimated higher by more than CZK 13 billion (5.1% of GDP), this is a moderate improvement.

The improvement is caused by positive developments on financial markets, where interest rates have dropped in all issued maturities on the yield curve for government bonds. This indicates a decline in the risk premium for the Czech Republic and reflects positive evaluation of the fiscal consolidation strategy being implemented. This fact had already been partially reflected in the previous estimate.

On the expenditures side, the category of state social support has been developing positively. Due to active government measures in 2010, there has been a moderate decline in expending for this area. There was also a moderate decline in government sector labour costs, which is a result of personnel optimisation at the individual offices.

Although last year's outcome appears quite optimistic, some facts should be highlighted. While tax receipts in 2010 rose by more than 3%, this growth was significantly influenced also by legislative measures on the revenues side (in particular, boosting VAT as well as

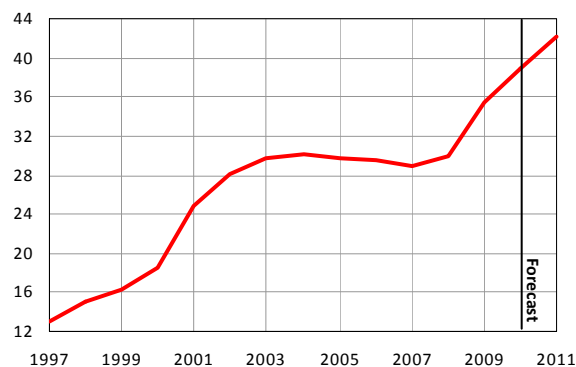
³ More precise information for 2010 will be available 1 April 2011, when the CZSO sends its notifications on the past four years to Eurostat.

excise taxes on mineral fuels, beer and tobacco products). Another risk may stem from macroeconomic developments in case of an adverse shock coming from abroad. Developments on financial markets, too, may be uncertain, as these are by their nature very volatile and often do not reflect fundamental factors. The current advantage, occurring due to the decline in the yield curve, may in future very quickly turn threatening, and especially if the current problems of the euro zone will worsen.

The estimate as to the amount of the general government deficit for 2010 bears a high level of risk. Particularly uncertain is the impact of EU funds, which may significantly influence the final outcome. Another problem lies in the estimate of accrued tax revenue, especially for corporate tax, as it is difficult to predict the development of tax settlement for 2010 which will not occur until halfway through this year.

Concerning the individual segments of the government sector, the most pronounced improvement was in the state and local budgets. By contrast, the results for health insurance companies and privatisation operations have moderately worsened compared to the October forecast, mainly due to higher costs for covering environmental liabilities.

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



We estimate the general government debt at 38.9% of GDP for the end of 2010, which still remains relatively well below the Maastricht convergence criteria.

The state budget for 2011 and medium-term state budget outlook for 2012–2013 presume further continuous improvements in the general government balance up to 2.9% of GDP in 2013. Compared to the Convergence Programme of the Czech Republic from January 2010, the government has tightened its fiscal aims for the following years. At the same time, it has

set the aim of balancing operations in the general government sector in 2016, on the assumption there will be economic growth in that period. Although the current setting of fiscal policies is given by the government-approved expenditure frameworks, conceptual structural reforms are planned for 2012 and 2013 and should be presented this year.

With respect to the sustainability of public finance and intergenerational solidarity, it is absolutely crucial to tackle structural deficiencies. In the medium term, a goal of 1% of GDP (MTO) for the structural deficit of

the general government is set for the Czech Republic under the Stability and Growth Pact. At the current fiscal policy setting, this goal would not be fulfilled within the years covered by the outlook. The structural deficit is expected to have reached 4.0% of GDP, then to slide gradually to 2.2% of GDP in 2013. At the given fiscal policy setting and assumptions of further consolidation, the level of debt should hit its maximum of some 44% of GDP in 2013 and then diminish slowly in subsequent years.

Table A.2.1: Net Lending/Borrowing and Debt

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											Estimate Forecast
General government debt	<i>bill. CZK</i>	695	768	848	885	948	1024	1105	1282	1438	1603
	<i>growth in %</i>	18,9	10,5	10,4	4,4	7,1	8,0	7,9	16,1	12,1	11,5
	<i>% GDP</i>	28,2	29,8	30,1	29,7	29,4	29,0	30,0	35,4	38,9	42,1
General government balance	<i>bill. CZK</i>	-167	-170	-83	-107	-84	-23	-99	-209	-175	-173
Interest derivatives ¹⁾	<i>bill. CZK</i>	0,0	-0,5	-0,5	-0,2	-0,4	-0,7	-1,8	-1,2	-1,3	-1,3
EDP B.9 ²⁾	<i>bill. CZK</i>	-167	-171	-83	-107	-85	-24	-100	-210	-177	-174
	<i>% GDP</i>	-6,8	-6,6	-3,0	-3,6	-2,6	-0,7	-2,7	-5,8	-4,8	-4,6
One-off measures	<i>% GDP</i>	-0,1	-0,3	-0,7	-1,3	-0,2	-0,3	-0,1	0,3	0,2	-0,3
Cyclical balance	<i>% GDP</i>	-0,5	-0,5	-0,5	-0,2	0,4	1,1	0,8	-1,0	-1,0	-1,1
Structural balance	<i>% GDP</i>	-6,2	-5,9	-1,7	-2,1	-2,8	-1,5	-3,4	-5,1	-4,0	-3,2
Fiscal effort	<i>% GDP</i>	-0,6	0,3	4,1	-0,4	-0,7	1,3	-2,0	-1,6	1,0	0,9
Interest expenditure	<i>% GDP</i>	1,2	1,1	1,2	1,2	1,1	1,1	1,1	1,3	1,2	1,8
Primary balance	<i>% GDP</i>	-5,5	-5,5	-1,8	-2,4	-1,5	0,5	-1,6	-4,5	-3,6	-2,7

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⁾ Hedging instruments used to avoid interest rate change risk.

²⁾ General government net lending/borrowing relevant for fulfilment of Maastricht convergence criteria. Compared with net lending/borrowing from national accounts, this item is adjusted for interest rate derivatives.

A.3 Monetary Policy and Interest Rates

Monetary policy

The CNB's main policy objective is price stability. To achieve this, the central bank uses an **inflation targeting** regime. By means of monetary instruments, the CNB influences total inflation so that the YoY increase in the CPI does not deviate from the medium-term inflationary target of 2% by more than ± 1 p.p. The main monetary policy instrument is the interest rate for **2W repo operations**, which stood at 0.75% as at the end of 2010.

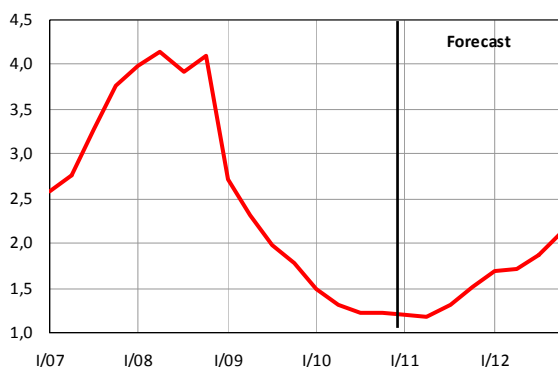
In relation to price levels, the CNB also monitors developments in **interest rate differentials** versus the main world economies. The interest-rate differentials may significantly affect international capital flows and thus affect price levels in the individual countries through the exchange rate. At present, there are no important pressures from this perspective, especially due to the relatively narrow interest rate spreads, which, as of the end of 2010, were at -0.25 p.p. between the Czech Republic and EMU and relative to the US at 0.50 to 0.75 p.p.

Interest rates

The average value for **3M PRIBOR** held at 1.2% (*in line with the forecast*) in the fourth quarter of 2010. For the whole of 2010, 3M PRIBOR was 1.3% and for 2011 it is predicted at 1.3% (*forecast unchanged*). A moderate increase in the PRIBOR rate is expected from the second half of 2011, but this should be neither dramatic nor dampen the fragile recovery of an economy already weakened by restrictive cost-saving measures. We look for 3M PRIBOR to average 1.9% in 2012.

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

in %



Long-term interest rates should slowly rise in the coming years and thus reflect the economic recovery in progress. Given the Czech Republic's current ratings (as of 3 January 2011, Moody's: A1, stable outlook; Standard & Poor's: A+, positive outlook; Fitch Ratings: AA-, positive outlook), further successful issues of government bonds can be expected. Moreover, according to the updated "Funding and Debt Management Strategy of the Czech Republic", due to the ongoing fiscal consolidation, the central government's net borrowing requirement should decrease from CZK 168 billion in 2010 to CZK 106 billion in 2011.

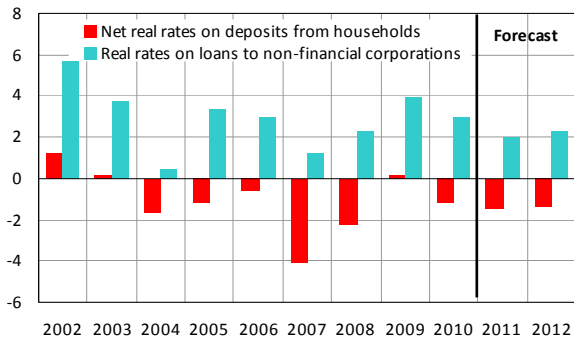
Any possible newly emerging debt or financial issues in EMU countries could, however, increase the risk premium on government bonds and boost the costs for funding the state debt. Assuming a positive scenario, we predict the average **yield to maturity for 10-year government bonds** to be 3.8% (*versus 3.9%*) and 4.0% in 2011 and 2012, respectively.

Interest **rates for deposits and loans** respond to changes in interbank rates with a lag of several months. In this light, their further decrease to 4.1% for loans to non-financial corporations and 1.2% for household deposit rates could be observed in the third quarter of 2010. In the fourth quarter, we expect stable rates. Interbank rates point to average lending rates to non-financial corporations of roughly 4.1% (*versus 4.2%*) in 2011 and 4.4% in 2012. Household deposit rates should reach 1.2% in 2011 (*in line with the forecast*) and in 2012 rise slightly to 1.3%.

The real economy is influenced especially by real interest rates. The development of nominal interest rates, CPI and final domestic use deflator implies a decrease in real interest rates for loans to 2.0% (*versus 2.3%*) and for deposits to $-1.5%$ (*versus $-1.4%$*) in 2011. In 2012, rates will very likely increase slightly: to 2.3% for loans and to $-1.4%$ for deposits.

Weighted average interest rates for new loans to households rose by 0.1 p.p. to 13.9% in the third quarter of 2010 (were it not for a QoQ change in structure, the rates would have decreased by 0.3 p.p.). Interest rates for new loans to non-financial corporations continued their decline to 3.9% (by 0.1 p.p.).

Graph A.3.2: Av. Real Rates on Credits and Deposits
 rates on credits deflated by end-of-year final domestic use deflator, rates on time/savings deposit (net of 15% income tax) deflated by end-of-year CPI growth, in % p.a.



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

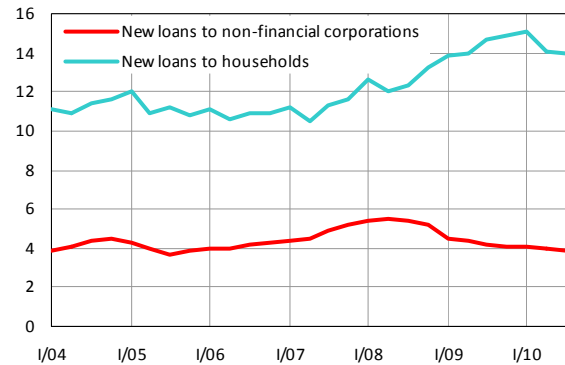


Table A.3.1: Interest Rates – yearly
 average interest rates in per cent p.a.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
								Estimate	Forecast	Forecast
Repo 2W CNB (end of year)	2,00	2,50	2,00	2,50	3,50	2,25	1,00	0,75	.	.
Main refinancing rate ECB (end of year)	2,00	2,00	2,25	3,50	4,00	2,50	1,00	1,00	.	.
Federal funds rate (end of year)	1,00	2,25	4,25	5,25	4,25	0,25	0,25	0,25	.	.
PRIBOR 3M	2,28	2,36	2,01	2,30	3,09	4,04	2,19	1,31	1,3	1,9
Government bond yield to maturity (10Y)	4,12	4,75	3,51	3,78	4,28	4,55	4,67	3,71	3,8	4,0
Interest rates on loans to non-financial corpor.	4,57	4,51	4,27	4,29	4,85	5,59	4,58	4,1	4,1	4,4
Interest rates on deposits from households	1,40	1,33	1,24	1,22	1,29	1,54	1,37	1,3	1,2	1,3
Real rates on loans to non-financial corporations ¹⁾	3,72	0,47	3,38	2,95	1,24	2,27	3,97	3,0	2,0	2,3
Net real rates on deposits from households with agreed maturity ²⁾	0,18	-1,64	-1,13	-0,63	-4,10	-2,26	0,17	-1,2	-1,5	-1,4

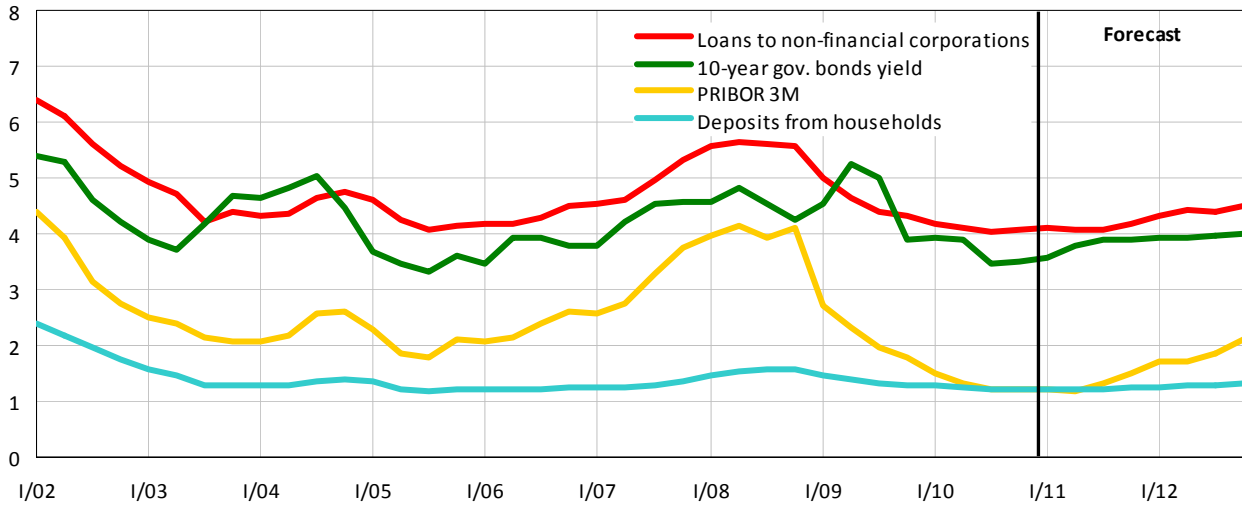
¹⁾ Deflated by domestic demand deflator.

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

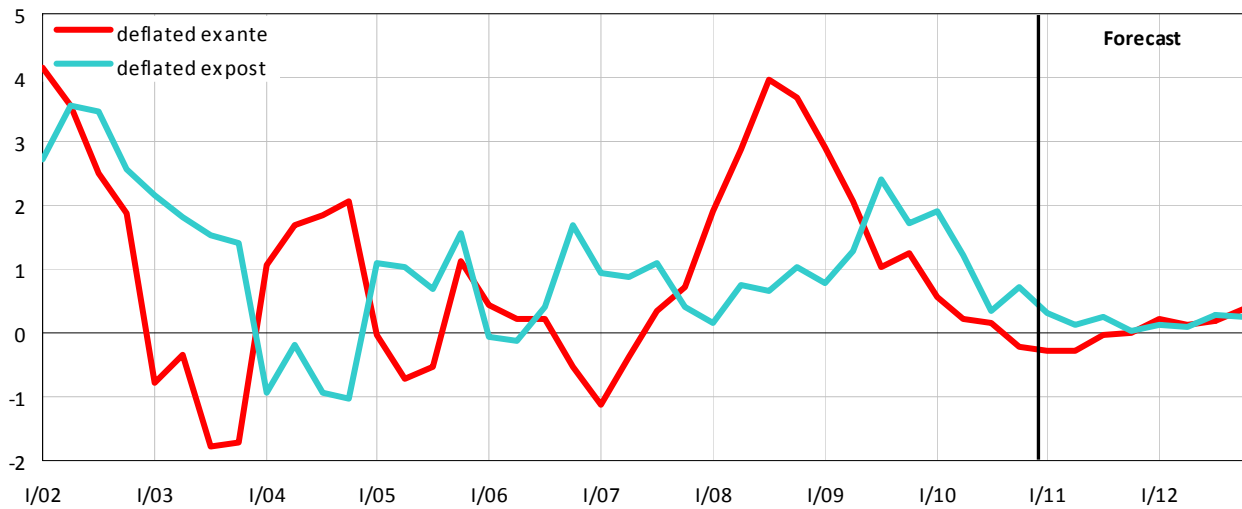
Table A.3.2: Interest Rates – quarterly
 average interest rates in per cent p.a.

	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
				Estimate	Forecast	Forecast	Forecast	Forecast
Repo 2W rate CNB (end of period)	1,00	0,75	0,75	0,75	.	.	.	.
Main refinancing rate ECB (end of period)	1,00	1,00	1,00	1,00	.	.	.	.
Federal funds rate (end of period)	0,25	0,25	0,25	0,25	.	.	.	.
PRIBOR 3M	1,50	1,30	1,23	1,21	1,2	1,2	1,3	1,5
Long term interest rates								
–10-year government bonds yield to mat.	3,94	3,90	3,48	3,51	3,6	3,8	3,9	3,9
Interest rates on loans to non-fin. corporations	4,19	4,11	4,05	4,1	4,1	4,1	4,1	4,2
Interest rates on deposits from households	1,30	1,27	1,22	1,2	1,2	1,2	1,2	1,2

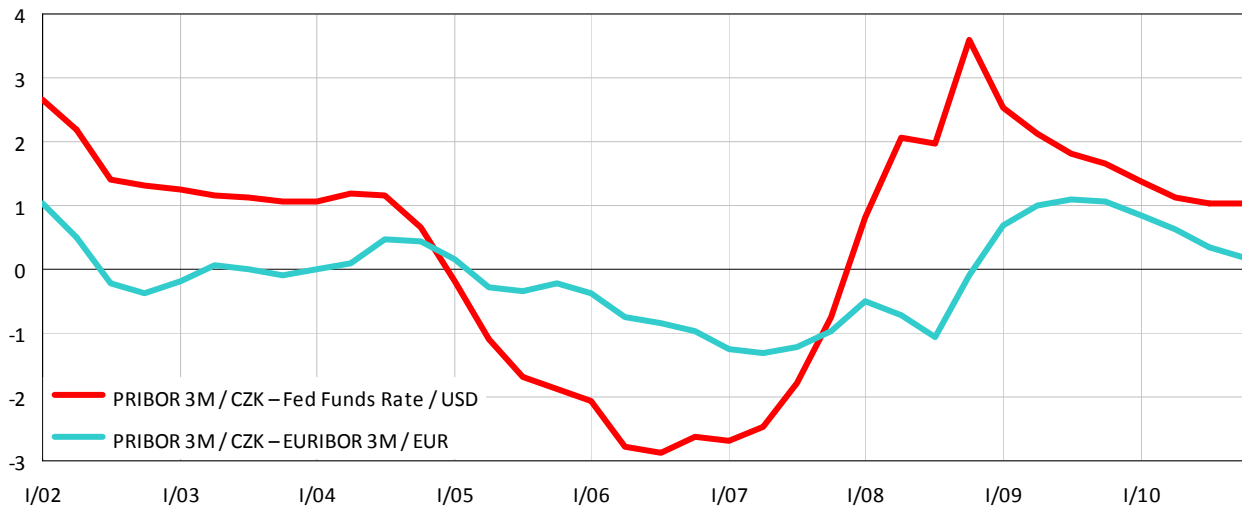
Graph A.3.4: Interest Rates
in % p.a.



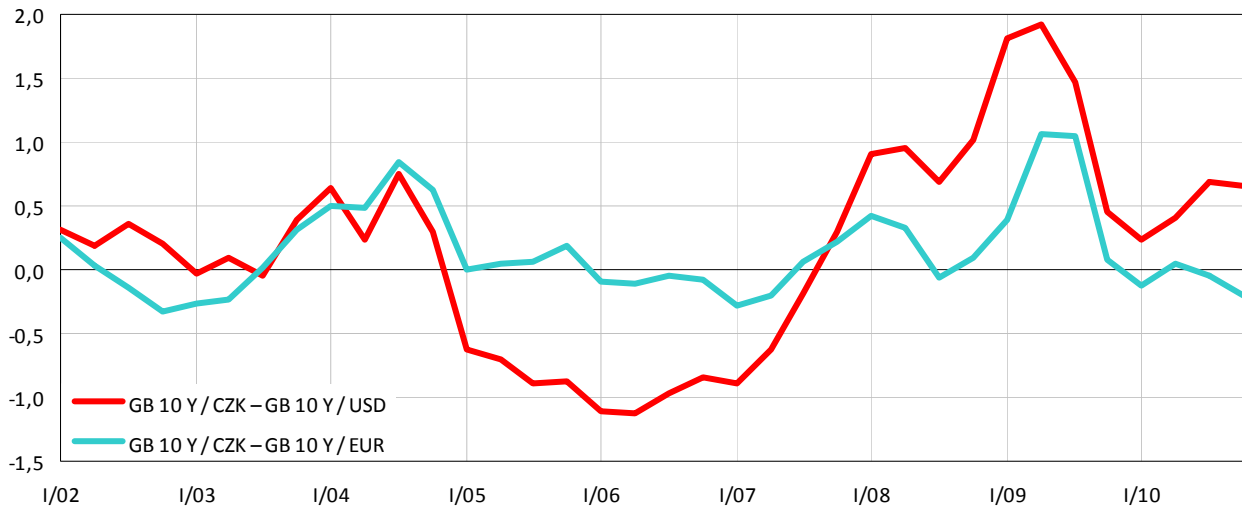
Graph A.3.5: Real PRIBOR 1Y
deflated ex post and ex ante by final domestic use deflator, in % p.a.



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



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



A.4 Exchange Rates

The CZK/EUR exchange rate weakened slightly during the fourth quarter of 2010 from 24.53 CZK/EUR in October to 25.16 CZK/EUR in December. The average exchange rate for the fourth quarter of 2010 was 24.79 CZK/EUR, roughly in accordance with the trend value.

The adopted scenario assumes the tendency for slight increase in the nominal and real rate will remain in the coming months and until the end of 2012. Such tendency would conform to the long-term trend trajectory and results from positive gap of productivity growth in the Czech economy relative to euro zone countries, and that should protect the competitiveness of Czech exporters.

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

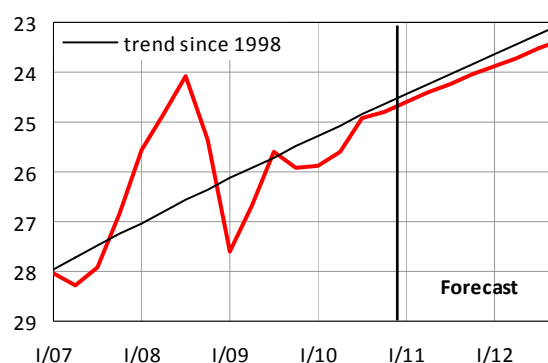


Table A.4.1: Exchange Rates – yearly

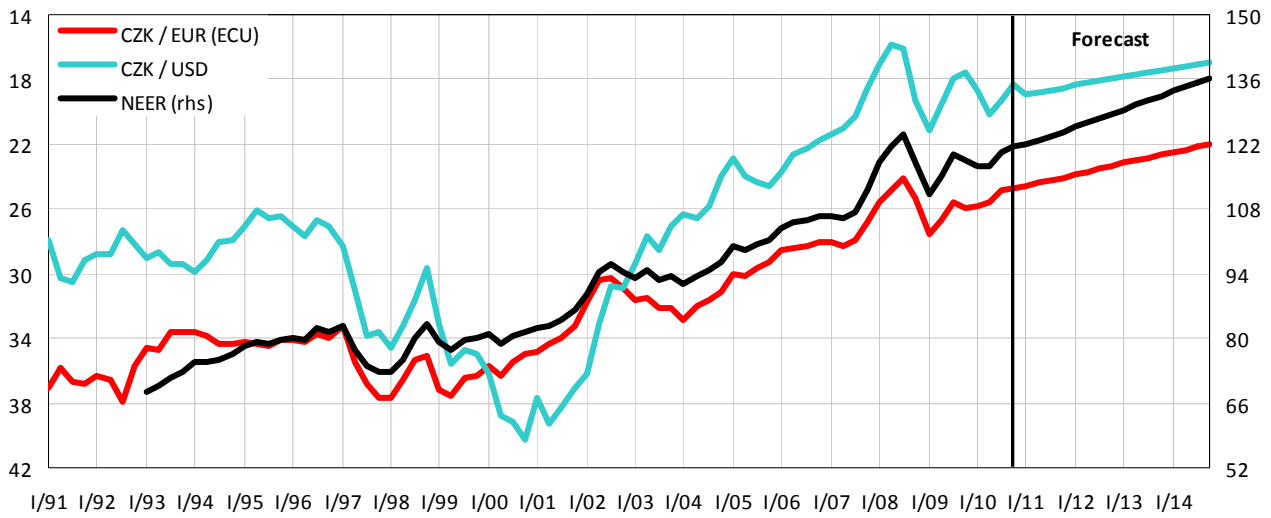
			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
								Estimate	Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:												
CZK / EUR	average		29,78	28,34	27,76	24,94	26,45	25,29	24,3	23,6	22,9	22,2
	appreciation	growth in %	7,1	5,1	2,1	11,3	-5,7	4,6	3,9	3,0	3,0	3,0
CZK / USD	average		23,95	22,61	20,31	17,03	19,06	19,11	18,7	18,2	17,6	17,1
	appreciation	growth in %	7,3	5,9	11,3	19,2	-10,6	-0,3	2,1	3,0	3,0	3,0
NEER	average of 2005=100		100,0	105,1	107,9	120,4	116,2	119	123	127	131	135
	appreciation	growth in %	6,2	5,1	2,6	11,6	-3,5	2,6	3,5	3,0	3,0	3,0
Real exchange rate to EA12¹⁾	average of 2005=100		100,0	104,3	107,5	119,4	114,4	118	121	125	129	133
	appreciation	growth in %	4,8	4,3	3,1	11,1	-4,2	3,1	3,0	3,1	3,2	2,8

¹⁾ Deflated by GDP deflators.

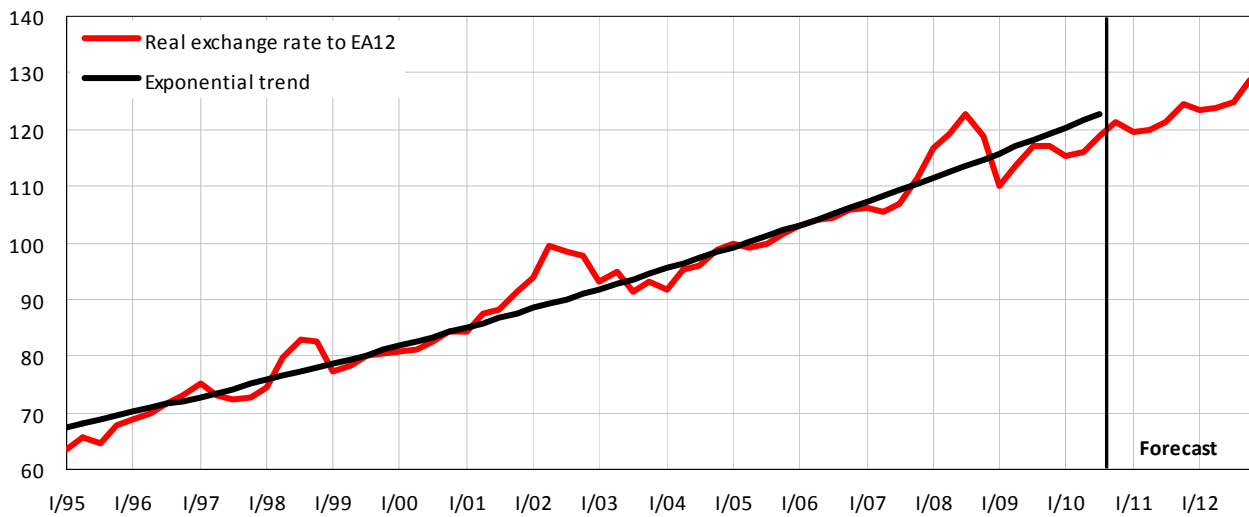
Table A.4.2: Exchange Rates – quarterly

			2010				2011			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast	Forecast
Nominal exchange rates:										
CZK / EUR			25,87	25,59	24,91	24,79	24,6	24,4	24,2	24,1
	appreciation	growth in %	6,7	4,3	2,7	4,6	5,1	4,8	2,8	3,0
CZK / USD			18,71	20,16	19,30	18,26	18,9	18,8	18,6	18,5
	appreciation	growth in %	13,3	-2,8	-7,3	-4,0	-1,1	7,3	3,5	-1,4
NEER	average of 2005=100		117,3	117,3	120,3	122	122	123	124	125
	appreciation	growth in %	5,5	1,9	0,4	2,7	4,0	4,8	2,9	2,5
Real exchange rate to EA12	average of 2005=100		115,3	116,2	118,9	121	120	120	121	125
	appreciation	growth in %	4,7	2,4	1,6	3,5	3,8	3,4	1,9	2,7

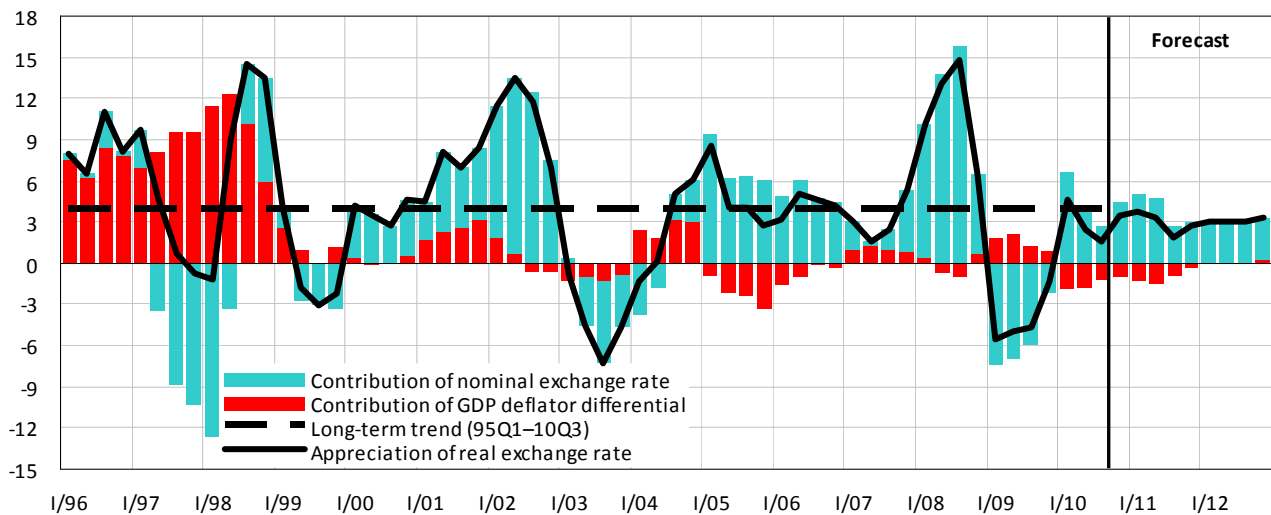
Graph A.4.2: Nominal Exchange Rates
quarterly average, average 2005 = 100 (rhs)



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



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



A.5 Structural Policies

Currently the Czech Republic's government is preparing the **National Reform Plan**⁴, which is to include a schedule of key structural reforms to which the government of the Czech Republic has pledged in its programme statement. Some of the main reforms include reform of the pension and health care systems, a new income tax act, reform of tertiary education, support for science and research, and a fight against corruption. A proposal for the National Reform Plan should be presented at the end of February or start of March 2011, and the reforms should then be implemented by 2012.

Business environment

An **amendment to the Accounting Act** came into effect on 1 January 2011, aiming to reduce the administrative burdens on accounting entities which do consolidation accounting. The amendment also adjusts administrative penalty according to principles of legislation on offences and administrative torts.

The **Strategy for Computerisation of Public Procurement for the period of 2011 to 2015** was ratified by the government of the Czech Republic on 5 January 2011. The new strategy aims to reduce the costs and administrative burden of public buyers and at the same time increase the transparency of the whole public procurement process.

Taxes

The **Tax Code Act** came into effect on 1 January 2011 and replaces the Taxes and Fees Administration Act valid since 1992. The new tax code reduces administrative costs and simplifies the administrative process, limits some competencies of the Minister of Finance (remission of taxes), and introduces a new concept of tax execution.

On the same day, an **amendment to the Income Tax Act** came into effect. The main changes include reducing the annual amount of the tax deduction per taxpayer by CZK 1,200 in 2011 due to flood damage. Also introduced is the taxation of pensions of employed pensioners whose annual income from employment, business activity or leasing exceeds CZK 840,000.

An **amendment to the Value Added Tax Act**, which should help curb tax evasions, was ratified by the

Chamber of Deputies on 17 December 2010. The amendment will allow return of taxes in relation to accounts receivable that are difficult to collect and introduce security for unpaid taxes. It is presumed the amendment will come into effect on 1 April 2011.

Financial markets

In June 2010, an **amendment to the Act on Banks** came into effect, doubling the ceiling for insured bank deposits to EUR 100,000.

On 1 January 2011, an **amendment to the Act on Building Savings Schemes and State Support for Building Savings Schemes** came into effect, with the purpose of reducing the impact of support to building savings schemes on the state budget. State support contributed this year will be taxed at a 50% rate, and from 2012 the maximum amount of state support will be CZK 2000. The amendment also introduced taxation of interest earned on building savings schemes.

Energy

An **amendment to the Act on Promoting the Use of Renewable Sources of Energy**, limiting the increase of electricity prices due to rapid growth in photovoltaic power stations, came into effect on 1 January 2011 (see more in Box C.1.1).

On 5 January 2011 the government approved a draft **amendment to the Energy Act**, which implements the so-called third EU energy package, the intent of which is the separation of gas transport from its production and trade under Czech law. The amendment to the Energy Act should liberalise the energy market, improve consumer protection in the energy market, and strengthen the authority and independence of the Energy Regulatory Office.

Labour market

In connection with consolidation measures under the state budget, the **social and health insurance ceilings** have been raised to 72 times the average monthly wage for 2010. This condition also is preserved for social insurance for 2011, whereas the maximum assessment base for health insurance already is effective indefinitely. Despite a proposal that would have decreased the social security insurance rate paid by the employer by 0.9 p.p. in the new year, under the valid legal regulation it remains at the present 25% level. Meanwhile, the possibility for employers to deduct half of wage compensation for a period of work

⁴This is not the National Reform Programme that the Czech Republic regularly produces as part of the Europe 2020 strategy.

incapacity from the insurance premium was cancelled. In contrast, for employers with 25 employees or fewer and enrolled into a special insurance payment system with premiums 1 p.p. higher, the refunding of half of the wage compensation is introduced.

With regard to **sickness insurance** benefits, the payment of benefits was abolished for the first three calendar days of illness and payment of the benefits by the employer was instituted for the 4th through 14th days of sickness. This measure has been broadened for 2011 to 2013 to include up to the 21st calendar day of sickness. At the same time, the amount of sickness benefit is still assessed based on only 60% of the daily assessment base while increasing the reduction limits reflecting past development of the average wage. In case of self-employed individuals, the abuse of financial aid for maternity leave has been restricted by more closely linking pension and sickness insurance.

In 2010, measures for the **first stage of pension reform** came into effect, gradually increasing the statutory retirement age to 65 years for men and to 62–65 years for women (depending on the number of children raised). The amendment increases the required insurance period to 35 years and excludes studies from the range of non-contributory periods. An important structural measure is the substantial further **strengthening of the motivation for older persons** to remain in the labour market by a marked shortening of

old age pension in case of early retirement and increase in the percentage allowance of an old age pension in a case of concurrence of employment and the receiving of a partial or full pension. The government has newly approved taxation of pension benefits of employed pensioners if these exceed three times the average wage.

Regarding new **benefit measures**, on 1 January 2011 the social bonus (for low-income families with dependent children) was abolished, the birth bonus will be given only for firstborns in low-income households and the summary size of the parental benefit will be the same in the four-year variant as when the benefit is drawn for two years.

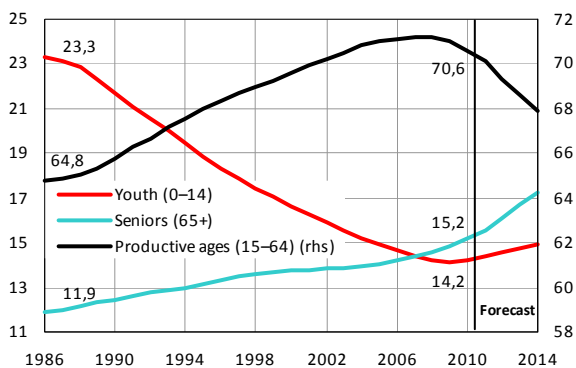
Unemployment support now excludes the possibility of working under certain conditions while receiving unemployment benefits, and those who terminate their own contracts without serious cause or by agreement should draw only 45% of the assessment base. Moreover, such benefit will be provided only after the period corresponding to the amount of severance or leaving pay expires. Only then will the period of support begin to run and with appropriate amount of support. When the job seeker decides to begin in self-employment, he/she can receive a so-called bridging contribution from the labour office, intended to cover operating costs for five months up to one-quarter of the average wage.

A.6 Demographic Trends

According to preliminary data, the population of the Czech Republic grew by 20 thousand to 10.527 million persons from the first to third quarter of 2010. The natural increase in population reached 10 thousand persons, which is equivalent to the same period of 2009.

Considering the falling demand for foreign workers, the positive balance of migration, on the other hand, reached only 10 thousand persons compared with 26 thousand in the first half of 2009. It is almost certain that the assumption of a 2010 migration balance of 40 thousand in the high version or 25 thousand in the central version of the demographic projection will not be fulfilled. Evidently, the period of demographic structural improvement due to immigration of working-age foreigners has thus come to an end (at least temporarily).

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

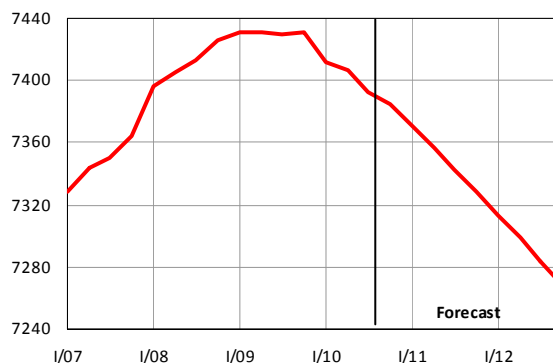


The low migration balance leads us once again to start using the central version of the CZSO Demographic Projection 2009 to formulate our assumptions for the Forecast.

It can be said that from an economic point of view the Czech population at present continues to have a very favourable structure with a high proportion of working-age people (15–64 years), which, however, clearly reached its maximum at the turn of 2008 and 2009.

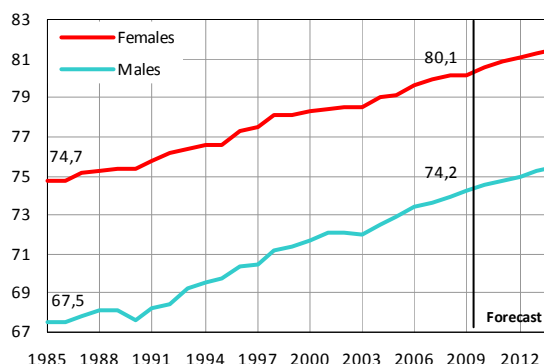
Based on our calculations, however, a moderate decline in the working-age population should be more than compensated by the effects within the age structure of the workforce as the structural proportions of age groups with high or growing participation increase.

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



This will be further supported by the enacted extension of the retirement age. Further rise in labour market flexibility should help create a situation wherein the Czech economy will not suffer from a lack of suitable workforce.

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



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

Table A.6.1: **Demography**
in thousands of persons

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
						Estimate	Forecast	Forecast	Outlook	Outlook
Population (January 1)	10 221	10 251	10 287	10 381	10 468	10 507	10 526	10 560	10 594	10 625
<i>growth in %</i>	0,1	0,3	0,4	0,9	0,8	0,4	0,2	0,3	0,3	0,3
Age structure (January 1):										
(0–14)	1 527	1 501	1 480	1 477	1 480	1 494	1 512	1 538	1 563	1 586
<i>growth in %</i>	-1,8	-1,7	-1,5	-0,2	0,2	1,0	1,2	1,7	1,6	1,5
(15–64)	7 259	7 293	7 325	7 391	7 431	7 414	7 380	7 324	7 264	7 211
<i>growth in %</i>	0,3	0,5	0,4	0,9	0,5	-0,2	-0,5	-0,8	-0,8	-0,7
(65 and more)	1 435	1 456	1 482	1 513	1 556	1 599	1 634	1 699	1 767	1 828
<i>growth in %</i>	0,8	1,5	1,8	2,1	2,9	2,7	2,2	4,0	4,0	3,5
Old-age pensioners (January 1)¹⁾	1 965	1 985	2 024	2 061	2 102	2 145	2 299	2 335	2 370	2 405
<i>growth in %</i>	1,7	1,0	2,0	1,8	2,0	2,0	.	1,6	1,5	1,5
Old-age dependency ratios (January 1, in %):										
Demographic²⁾	19,8	20,0	20,2	20,5	20,9	21,6	22,1	23,2	24,3	25,4
Under current legislation³⁾	32,8	33,0	33,3	33,4	33,7	34,2	34,6	35,0	35,4	35,9
Effective⁴⁾	41,5	41,3	41,6	41,5	41,8	43,5	46,7	47,5	47,9	48,3
Fertility rate	1,282	1,328	1,438	1,497	1,492	1,50	1,51	1,52	1,53	1,54
Population increase	31	36	94	86	39	19	34	33	32	31
Natural increase	-6	1	10	15	11	10	9	8	7	6
Live births	102	106	115	120	118	117	116	114	113	112
Deaths	108	104	105	105	107	107	106	106	106	106
Net migration	36	35	84	72	28	10	25	25	25	25
Immigration	60	68	104	78	40	.	.	.	.	.
Emigration	24	33	21	6	12	.	.	.	.	.

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

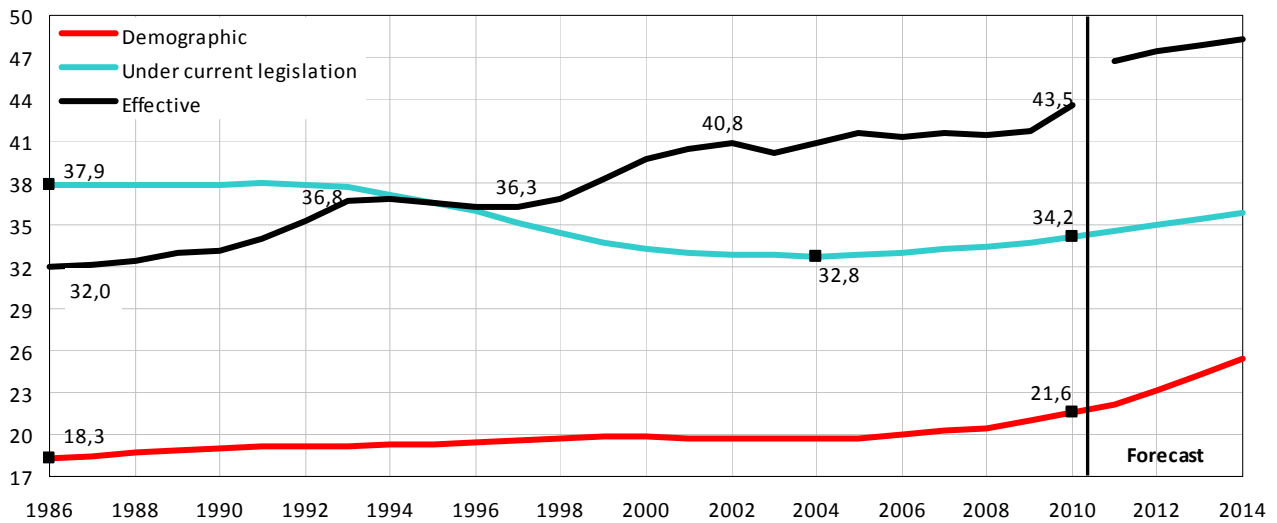
²⁾ Demographic dependency: ratio of people in senior ages (60 and more) to people in productive age (20–59).

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

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

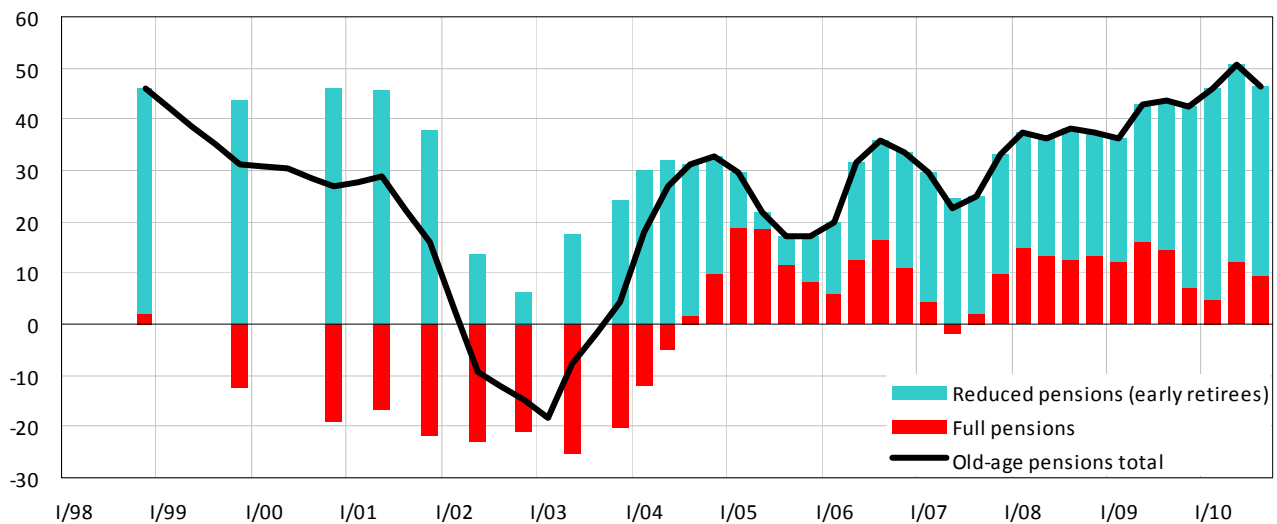
Graph A.6.4: **Dependency Ratios**

in %



Graph A.6.5: **Old-Age Pensioners**

absolute increase over a year in thousands of persons



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

B Economic Cycle

B.1 Position within the Economic Cycle

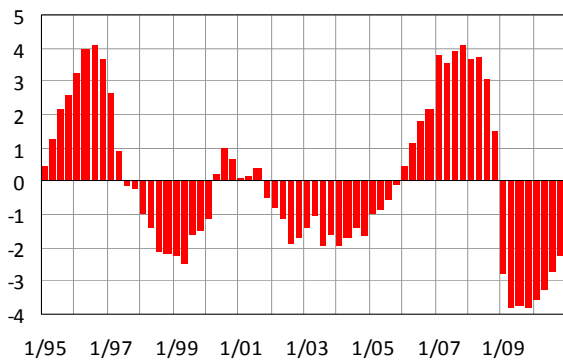
Potential product (PP), specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of GDP to be achieved with average utilisation of production factors. Growth of PP expresses possibilities for long-term sustainable growth of the economy without giving 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 GDP and PP. The concepts of potential product and output gap are used to analyse economic development and to calculate the structural balance of public budgets.

Under current conditions, however, when abrupt changes in the level of economic output have occurred, it is very difficult to distinguish the influence from deepening of the negative output gap from a slowing in PP growth. The results of these calculations thus display high instability and should be treated very cautiously.

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

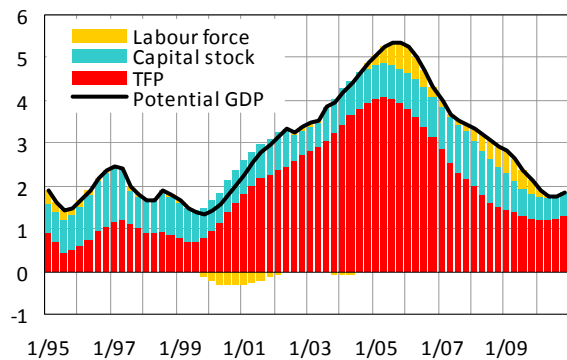
Graph B.1.1.: Output Gap

in % of potential GDP



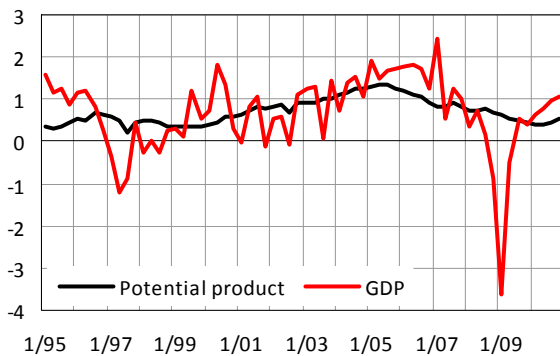
Graph B.1.2: Potential Product Growth

in %, contributions in percentage points



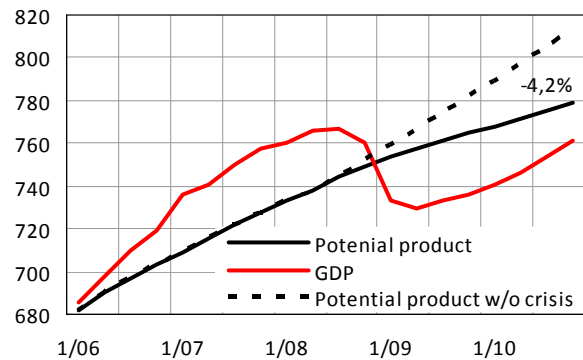
Graph B.1.3: Potential Product and GDP

QoQ growth in %



Graph B.1.4: Levels of Potential Product and GDP

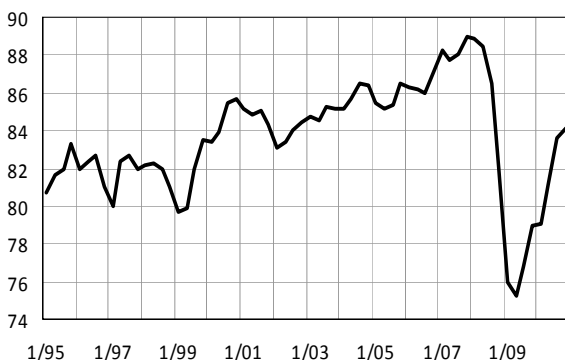
in bill. CZK of 2000



Note: „Potential product w/o crisis“ in graph B.1.4 is a hypothetical level of PP steadily growing from Q4/08 by the average QoQ growth of years 2001–2007.

Graph B.1.5: Utilisation of Capacities in Industry

in %



Graph B.1.6: Total Factor Productivity

YoY growth in %

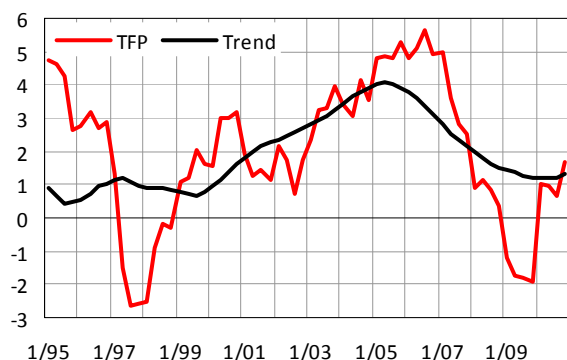


Table B.1: Output Gap and Potential Product

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Output gap	<i>per cent</i>	-0,1	-1,4	-1,5	-1,6	-0,6	1,3	3,7	3,1	-3,6	-3,0
Potential output	<i>growth in %</i>	2,6	3,3	3,7	4,5	5,2	4,8	3,7	3,1	2,5	1,8
Contributions:											
TFP	<i>perc. points</i>	2,0	2,5	3,0	3,7	4,0	3,5	2,5	1,7	1,3	1,2
Fixed assets	<i>perc. points</i>	0,8	0,7	0,7	0,8	0,8	0,9	1,1	1,0	0,7	0,5
Participation rate	<i>perc. points</i>	-0,4	-0,1	-0,2	-0,2	0,2	0,2	-0,2	0,0	0,3	0,2
Demography¹⁾	<i>perc. points</i>	0,2	0,2	0,2	0,2	0,2	0,3	0,3	0,4	0,2	-0,2

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

Economic recession from the turn of 2008 to 2009 gave rise to a deeply negative **output gap**. According to the current calculations, it hovered slightly above the –4% mark from the end of the recession in the second quarter of 2009 until the first quarter of 2010, thus indicating the lowest utilisation of economic potential in the post-transformation period. Since the second quarter of 2010 the intensity of economic recovery has exceeded the growth of potential product and the negative output gap began to close. Calculations show that in the fourth quarter of 2010 it reached circa –2.3%.

Closing of the negative output gap has been reflected in the economy by a sharp increase in industrial production capacities utilisation to 84.2% in the fourth quarter of 2010, which corresponds roughly with the long-term average. An increase of seasonally adjusted registered unemployment in the fourth quarter was apparently only temporary and was caused more by changes in the conditions of providing benefits and the process of fiscal consolidation (see more in Chapter C3).

The YoY growth of **potential product** probably fell to as low as 1.8% in 2010. The calculations show, however, that the QoQ growth could already have reached its minimum during 2010.

The PP component most seriously affected was **total factor productivity** (TFP). The recession led to YoY decline in TFP by 1.8% in 2009 and slowing of the TFP trend growth rate to 1.3% compared to a peak of 4.0% in 2005. In 2010, however, TFP's trend growth showed signs of stabilising. The economic reforms in preparation, and

especially those increasing labour market flexibility, should improve the situation substantially.

A deep drop in investment activity led to a decrease in **capital stock's** contribution from 1.1 p.p. in the fourth quarter of 2007 to 0.5 p.p. in the fourth quarter of 2010.

The labour supply, measured as the ratio of labour force to the number of inhabitants aged 15–64, paradoxically accelerated its growth during the recession in 2009 and in 2010 it contributed to a rise of PP by ca 0.2 p.p. Thus, it compensated the moderate decline in the number of inhabitants aged 15–64.

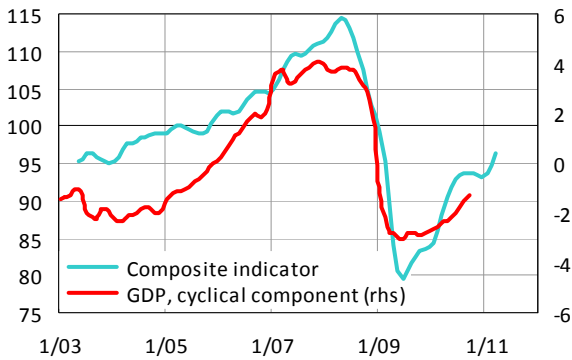
Graph B.1.4 illustrates that the recession and overcoming its consequences have so far resulted in a loss of ca 4.2% in the PP level.

Future PP development will depend on the pace of economic recovery. To close the negative output gap and re-accelerate potential growth, the economy will need to achieve constantly higher paces of GDP growth relative to PP.

B.2 Composite Leading Indicator

The composite leading indicator is compiled from the results of business cycle surveys that fulfil the basic demands made on leading cyclical indicators: that they are economically significant, demonstrate statistically observable leading relationships with regard to the economic cycle, and are regularly available on a timely basis. Since October 2010, the indicator is compiled from those business cycle indicators that have showed a high level of correlation with an average lead time of three months.

Graph B.2.1: Composite Leading Indicator
average 2000 = 100 (lhs), in % of GDP (rhs)
synchronized with cyclical component of GDP based on statistical methods (Hodrick-Prescott filter)



For the third quarter of 2010, the composite indicator signalled growth in GDP's cyclical component, as supported by data published in December 2010.

In 2010's fourth quarter, the indicator value stagnated, while for the first quarter of 2011 the indicator is signalling further growth in the cyclical component of GDP. The indicator's stagnation in the fourth quarter had been caused especially by the indicators 3-month demand outlook for construction and economic situation among retailing trading enterprises. The indicator's growth in the first quarter of 2011 is due to moderate gains in substantially all contributing sub-indicators.

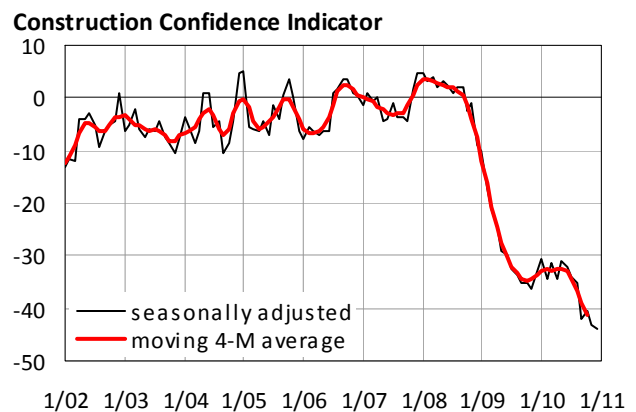
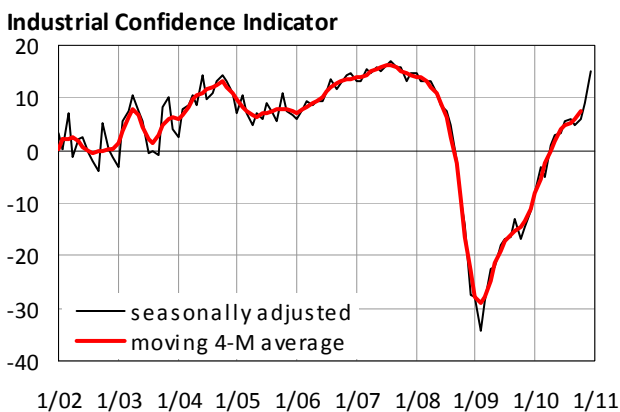
B.3 Individual Business Cycle Indicators

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. The main advantage lies in the quick availability of results reflecting a wide range of influences that shape the expectations of economic entities.

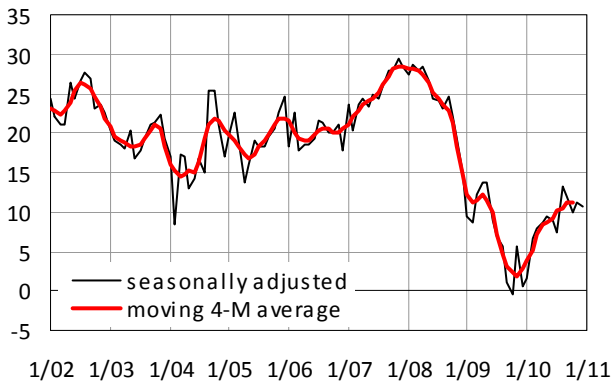
The surveys share a common characteristic in that respondents' answers provide not direct quantification but rather use more general qualitative expressions (such as better, the same, worse, or growing, not changing, falling, etc.). Tendencies are reflected in the business cycle balance, which is the difference between the answers "improvement" and "worsening", expressed in percentages of observations.

The aggregate confidence indicator is presented as a weighted average of seasonally adjusted indicators of confidence in industry, construction, retail trade and selected services sectors as well as of consumer confidence. Weights are established as follows: the indicator of confidence in industry is assigned a weight of 40%, those for construction and retail trade 5% each, that for selected services 30%, and that for consumer confidence 20%.

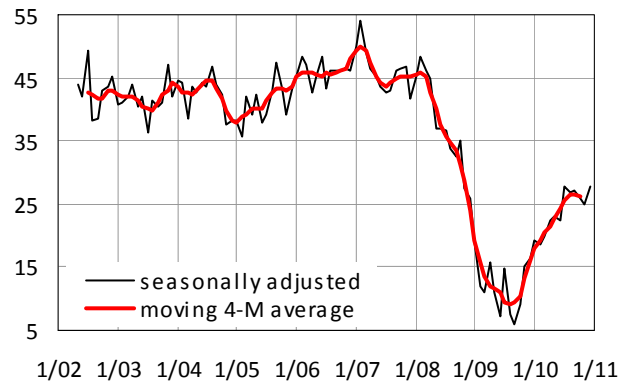
Graph B.3.1: Confidence Indicators



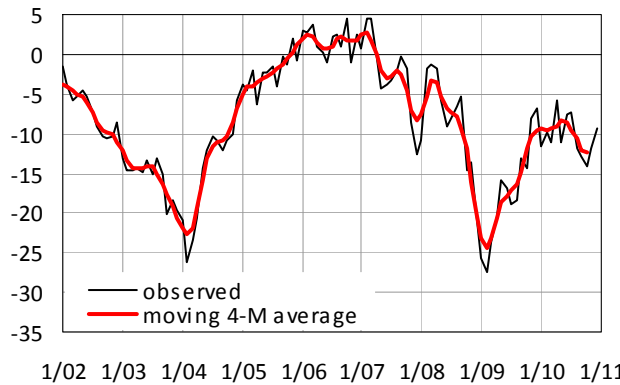
Retail Trade Confidence Indicator



Selected Services Confidence Indicator



Consumer Confidence Indicator



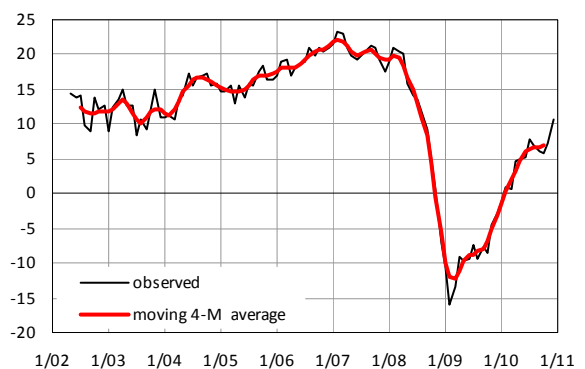
In the fourth quarter of 2010, respondents from **industrial enterprises** continued in their positive evaluation of the economy, and that includes their views of economic situation as well as overall and external demand. In the outlook for the first three months of 2011, assessments modestly improved for both production activity and employment. On three-month and six-month horizons, respondents were more cautious in assessing the economic situation. Demand development (and especially domestic) remains a risk.

In **construction**, there continued an unfavourable assessment of the economic situation, with low demand and weak construction activities. Only in assessing construction activities for the first quarter of 2011 was there seen a hint of improvement, and anticipated employment begins to stabilise. A minute improvement occurs also in the assessment for the economic situation on the three-month horizon, while it stagnates for the six-month horizon.

Although **retail trade** respondents gave a slightly worse assessment of the current economic situation, they are more optimistic in the outlook. For **selected services**, the situation is stable while the assessment of expected demand and the economic situation improved slightly.

Consumer confidence modestly increased late in 2010. The December survey showed that for the next 12 months consumers expect improvement in the overall economic situation. Expectations concerning their financial situations and unemployment also improved slightly.

Graph B.3.2: Aggregate Confidence Indicator



Based upon the individual business cycle indicators, it could be assumed that QoQ growth in the fourth quarter of 2010 could have been similar to that of the third quarter and that QoQ growth in the first quarter of 2011 could moderately slow. Further gain in demand remains a risk here.

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

The recovery of the Czech economy is continuing favourably, and the focus on growth is shifting from net exports to domestic demand. The dominant factor in the third quarter of 2010 was the replenishment of inventories.

From the fourth quarter of 2008 to the second quarter of 2009 the Czech economy was in recession, and in that period the seasonally adjusted real GDP decreased by 4.9% according to current CZSO estimates. A turning point came in the third quarter of 2009, and since then the Czech economy has shown a trend of accelerating growth.

GDP growth accelerated also in the third quarter of 2010 to 1.0% QoQ (*versus 0.7%*), which represented a YoY increase in real GDP⁵ by 2.5% (*versus 2.4%*). Nevertheless, GDP (seasonally adjusted) is still 1.8% below its previous peak from the third quarter of 2008. The Czech economy also continued its recovery in the fourth quarter of 2010, when the maximum impact of the boom in solar investments (see Box C.1.1) became evident. We estimate growth at 1.0% QoQ (*versus 0.5%*), which represents year-on-year growth of 3.4% (*versus 2.5%*).

Improved external conditions should be reflected in continuation of favourable developments. GDP growth is estimated at 2.5% (*versus 2.2%*) for 2010. The government's austerity measures and the end of the solar boom should cause a moderate slowdown in economic growth in 2011 to 2.2% (*versus 2.0%*). Roughly halfway through the year, economic output should reach the pre-recession peak. Growth of 2.7% is estimated for 2012.

The worsening terms of trade led **real gross domestic income (RGDI)**, which reflects the income situation of the Czech economy, to grow more slowly than GDP. In the third quarter of 2010, it grew year on year by 0.7% (*versus 1.5%*). Real income could have increased by 1.1% (*as predicted*) for 2010. The income situation of Czech economic entities thus has improved more slowly than has the growth in economic output. RGDI should increase in 2011 by 1.5% (*versus 1.7%*) and in 2012 by 2.7%.

Real dynamics also are reflected in the development of **nominal GDP**, a key variable for fiscal forecasts. Growth by 2.3% YoY (*versus 2.6%*) was reported in the third quarter of 2010. We estimate GDP to have increased by 1.9% (*versus 1.7%*) in 2010, and we expect growth of 3.1% (*versus 3.4%*) for 2011 and 4.7% for 2012. The aggregate value of GDP for 2011 should reach CZK 3,806 billion, which is a value insignificantly lower than that from the October Forecast (CZK 3,812 billion).

As regards the **income structure of GDP**, we expect to see stagnation in the profitability of the business sector. Gross operating surplus increased by 1.2% (*versus 1.5%*) YoY in the third quarter of 2010 and by ca 1.6% (*versus 1.0%*) for the whole of 2010. For 2011, growth of 2.8% (*versus 3.2%*) can be assumed, i.e. with dynamics below the nominal GDP level. In 2012, we expect growth in the operating surplus by 4.9%.

Forecasts still reflect the high level of uncertainty ensuing especially from developments in the external environment. Impacts of data revisions of past economic development also may be relevant.

Expenditures on GDP

The initiation of recovery in QoQ growth of household consumption was delayed compared to GDP, occurring as late as the first quarter of 2010. In the third quarter of 2010, household consumption rose by only 0.1% QoQ. That means that the YoY growth in **real household expenditures on final consumption** reached 0.9% (*versus 1.7%*) in the third quarter of 2010. We estimate that growth for the whole of 2010 was 1.0% (*versus 1.5%*).

The deteriorating income situation of households continues to work against an increase in consumption. Budgetary measures to stabilise the balance of public finances, especially the decrease in wages in the public sector, will become evident in 2011. We expect household consumption growth dynamics to remain around 1.0% (*versus 1.5%*) for 2011, while growth of about 2.9% is expected in 2012.

Government expenditures on final consumption in the third quarter of 2010 fell in real terms by 0.5% (*versus a decrease of 1.0%*).

In accordance with adopted stabilisation measures and an approved consolidation strategy, government institutions are expected to behave thriftily regarding

⁵ Data without seasonal adjustment are presented in the remaining text, unless stated otherwise.

both employment in the government sector and purchases of goods and services.

We anticipate that real government consumption fell by 0.2% (*versus an increase by 0.2%*) in 2010. Government consumption in 2011 should decrease by 3.5% (*versus 4.5%*). We expect government expenditures to continue to decrease in 2012 by 2.7%.

The volume of **gross fixed capital formation** in the third quarter of 2010 rose year on year by 1.7% (*versus stagnation*), while purchases of vehicles decreased by 30.1%. By contrast, investments in other machinery (except for vehicles) grew by 8.0%, construction investments in other buildings (except for housing) by 4.0%, and investments in housing by 3.2%.

The solar power plant construction boom was evident by the end of 2010 (see Box C.1.1) but will presumably subside in 2011. Fixed capital formation clearly stagnated in 2010 at the 2009 level (*versus a decline by 3.0%*).

The willingness of foreign investors to make new investments or to reinvest profits from their business operations in the Czech Republic will depend on the situations in their home countries. A gradual shift in

capacities that profited from cheap labour can be expected as well. The influence of infrastructure investments and contributions from EU funds will have a positive effect.

A growth dynamic at the 0.8% level (*versus 1.3%*) should be restored in 2011, while growth of about 3.6% is expected in 2012.

The contribution of **change in stocks** to year-on-year GDP growth in the third quarter of 2010 on seasonally adjusted data of 2.7 p.p. accounted for almost the full increase in GDP.

The contribution of **foreign trade** to year-on-year GDP growth on seasonally adjusted data reached -0.9 p.p. for the third quarter of 2010.

The external balance in 2010 was positively influenced by the ongoing recovery in partner countries, while the acceleration in domestic demand had the opposite effect. The increase in the exports volume by 14.5% (*versus 13.3%*) should ensure a foreign trade contribution to GDP growth of 0.4 p.p. (*versus 0.7 p.p.*). We expect foreign trade's contribution of 1.7 p.p. (*versus 1.5 p.p.*) for 2011, once imports for photovoltaic plants have ceased, and 1.0 p.p. for 2012.

Box C.1.1: The influence of solar power plants construction on the Czech economy

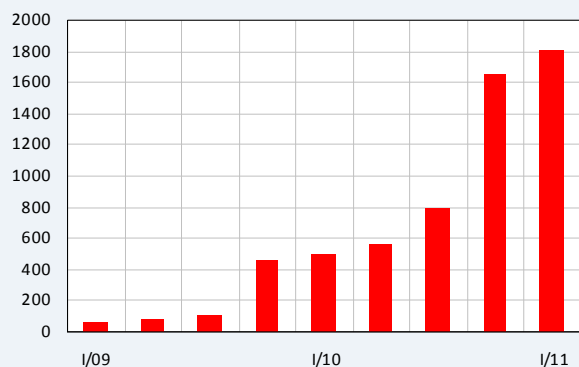
The Czech Republic has joined the EU initiative in support of energy production from renewable sources. Its aim is to reduce carbon dioxide emissions, excessive concentrations of which in the atmosphere purportedly contribute to climate changes, and to increase energy security. Support to the solar energy industry in the Czech Republic is based on Act No. 180/2005 Coll., on the Promotion of Electricity Production from Renewable Energy Sources and legal regulations thereto related. Contrary to the practice in other countries, solar energy in the Czech Republic is not supported directly from the state budget but by the end users of electrical energy. One component of the regulated electricity price, the contribution to renewable sources, is dedicated to covering the expenses for electricity production from such sources, which would not otherwise be economically competitive.

In 2009 and 2010, there was a major decrease in the prices of solar panels, which under the given inflexible support system led to an extreme increase in the profitability of investments into solar energy. Various investors seized upon this opportunity and solar investments grew to such a size as to affect macroeconomic development.

As at the end of 2008, the power capacity of solar plants in the Czech Republic was only 66 MW. By the end of 2009, it was already 464 MW, with the main part of the increase concentrated in the fourth quarter. The solar boom peaked in 2010, with the total capacity according to still-preliminary data reaching 1650 MW, which is almost comparable to the capacity of the Temelín nuclear power plant (2000 MW). The most substantial part of that investment was made during the last quarter of 2010, when capacity of ca 850 MW was installed.

Graph Box.1: Total output installed at the end of period

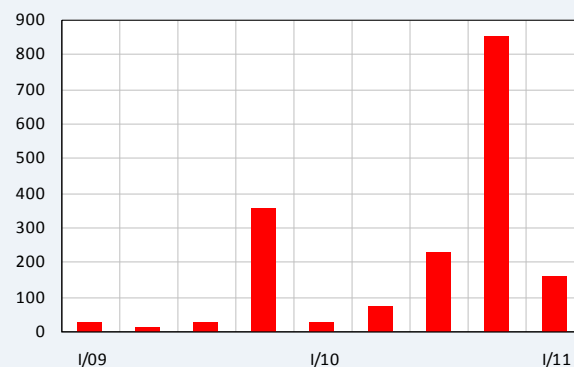
in MW



Source: Energy Regulatory Office

Graph Box.2: Newly installed output

in MW



Source: Energy Regulatory Office

The main effects of the very intensive investments can be observed in three areas: the influence on the balance of trade, the influence on gross capital formation and consequently on GDP development, and the influence of the related administrative measures on the development of electrical energy prices, especially in 2011. In the conclusion to this article, we present those measures undertaken with the aim to mitigate the negative impacts of the solar boom.

Foreign trade

Net exports of photosensitive semiconductor components, by which we approximate the foreign trade in solar panels, were at absolutely negligible levels up to 2008. In 2009, the outset of the solar boom caused a deficit of ca CZK 15 billion, which in 2010 increased to an estimated ca CZK 37 billion (1.0% of GDP). The photovoltaic trade balance thus decreased year on year by ca CZK 22 billion. (This estimate is not exhaustive, considering that other imported components are used in the process of installing solar power plants.)

The increase of solar panel imports thus became a main factor in reducing the positive trade balance in 2010. According to the national accounts, the foreign trade balance for goods in 2009 achieved a positive balance of CZK 165 billion, while in 2010 this is estimated to have deteriorated to ca CZK 128 billion. In YoY terms, the positive trade balance thus decreased by ca CZK 37 billion, approximately three-fifths of which was due to the higher deficit in the solar panels trade.

GDP and its uses

We used the following procedure to estimate the impact of new solar investments on GDP and its components. We determined the value of a newly installed unit of capacity with the estimated average price in 2009 and in 2010. In so doing we excluded the estimated value of land and fees for removing the land from agricultural use, which are not part of GDP. We estimated the value added to the investment on the territory of the Czech Republic as a percentage of the price. We modelled the changes in inventories as a function of the output installed in the following months.

The influence of solar investments on the YoY increase in GDP for 2010 is estimated at ca 0.2 p.p., considering the relatively low contribution of value added in the aggregate investment. Due to these investments, the formation of gross fixed capital in 2010 should be higher on the order of 6–7% (compared to roughly 2% in 2009). These effects were concentrated largely in the fourth quarter, when 850 MW of capacity was installed of the total 1186 MW installed during 2010. Considering that the solar boom came to an end at the close of 2010, there apparently occurred a reduction in inventories for solar investments to a macroeconomically insignificant value. The influence of the solar boom on employment can be considered negligible.

There remains open the difficult question whether the investments in solar panels pushed out other investments which could have been more beneficent for the future growth of the economy.

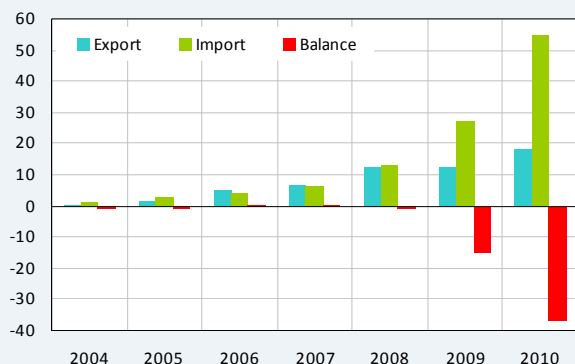
Newly installed solar power capacity should in 2011 increase the production of electric energy in the extent of at maximum 0.1 to 0.2 p.p. of GDP. This positive contribution will, however, be more than balanced by increased demands in managing the electricity transmission network and risks to its stability.

Consumer prices

Apart from the aforementioned macroeconomic impacts, there existed a risk that the expansion of solar power plants would be projected into electrical energy prices. The original estimates for household electrical energy prices to grow in 2011 by 12% were also our input for the previous Macroeconomic Forecast, at the closing date for which there were not yet known the measures for limiting the construction of solar power plants and mitigating the rise in electrical energy prices (see below). These will ensure that household electricity prices in 2011 will grow by only 4.6%, according to the statement of the Energy Regulatory Office (ERO).

Graph Box.3: Trade with solar panels

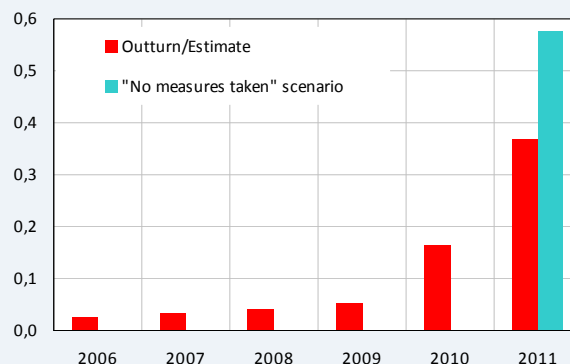
SITC 77 637, CZK bill., incl. the estimate for December 2010



Source: CZSO

Graf Box.4: Renewable sources subsidy

in CZK/kWh



Source: Energy Regulatory Office

Measures for limiting the construction of solar power plants and mitigating the rise of electric energy prices

The unprecedented increase in solar energy investments can be assessed as a failure of the rigid system of support, which did not react – and in fact could not even have reacted – to a significant change in its original conditions. The risks to stability of the energy grid and the rise in electricity prices, which would undermine the competitiveness of the Czech economy, led to the adoption of legislation resulting in the measures described in the following paragraphs.

The entitlement to support in the form of the electricity purchase price or green bonuses remains in place for solar power plants brought on line until the end of February 2011. Support for solar power plants connected in March 2011 and thereafter will apply only to plants with output up to 30 kWp located on rooftops or outer walls of buildings. However, support for solar plants put into operation in 2011 has been decreased to about half what it was in 2010. For example, the purchase prices for electricity from power plants put into production in 2010 were, depending on source output, CZK 12.4 or 12.5/kWh. For sources put into production in 2011, the purchase prices have been decreased to CZK 5.5 to 7.5/kWh depending on source output.

Moreover, a subsidy for electric energy distributors has been established to cover the additional costs connected with supporting electricity from renewable sources. The government has set a limit on funds from the state budget allocated for providing this subsidy, which is CZK 11.7 billion for 2011. The amount of the additional costs covered by the subsidy to the distributors from the state budget is determined by ERO. Should the limit on state budget funds not be sufficient to cover the distributors' additional costs, ERO will increase the price for distributing energy.

The funds for the aforementioned subsidy will be acquired primarily through three measures: (i) For 2011 to 2013, fees for solar power plants put into production in 2009 and 2010 are introduced. The mechanism for collecting these fees is similar to that used to extract VAT. The operators of solar power plants collect the fee while the payers are the electric energy distributors. The fee is set at 26% of the purchase price or 28% of the green bonus. This rate applies to the revenues of solar power plant operators. (ii) Formerly free acquisition of emission allowances for 2011 and 2012 is now subject to the gift tax. The rate is set at 32%. (iii) The fee for removing land from the agricultural use has been increased across the entire economy.

C.2 Prices of Goods and Services

Consumer prices

The **average inflation rate for 2010** reached 1.5% (*in line with the forecast*), which after 2003 and 2009 is the third lowest value since 1989.

YoY growth in consumer prices in the first half of 2010 registered low values given the negative contribution of the market growth in prices. In the second half of the year, YoY inflation remained level with the CNB inflation target or thereabouts, and the contribution of the market growth in prices reverted to positive values. December inflation was 2.3% YoY (*versus 2.2%*), of which administrative measures contributed 1.6 p.p. (*in line with the forecast*) and changes in tax adjustments (increasing both VAT rates by 1.0 p.p. and increasing excise taxes on fuels and alcoholic beverages) accounted for 1.1 p.p.

The acceleration of inflation in the last month of the year (the highest MoM December rise since 1996) to 2.3% YoY (*versus 2.2%*) was caused primarily by the quickly rising prices of food and fuels. The average price of Natural 95 petrol in December was the highest since September 2005, while the price of diesel was the highest since September 2008.

Although we expect administrative measures will have a considerable effect on the development of consumer prices in 2011, due to a lower increase in electricity prices it will be lower than we expected in the October Macroeconomic Forecast (see Box C.1.1). The expected growth in electricity prices in 2011 by 4.6% will yield a contribution of 0.2 p.p. Although we have not changed the estimate for growth in both regulated and newly deregulated rents from the October Macroeconomic Forecast, considerable uncertainty remains. In addition to the aforementioned electricity and rent prices, the increase in prices for water and sewerage (contribution of 0.1 p.p.), gas (contribution of 0.1 p.p.) and heat (contribution of 0.1 p.p.) in 2011 should contribute most to the rise in prices. Uncertainty remains concerning prices in the health sector, where the fee for hospital stay could increase (potential contribution of 0.1 p.p.) and co-payments for medicaments may change.

Inflation impulses should be mitigated by the persistent cyclical position of the Czech economy in the negative

production gap, by deteriorated labour market conditions and by the related moderate growth in wages and household consumption. Inflation is still evaluated as cost-push inflation. Identifying the risk of food prices growth proved to be justified and is also relevant for 2011.

Based on the aforementioned factors collectively determining the development in consumer prices, we expect the **average inflation rate in 2011** to reach 2.3% (*versus 2.2%*) with a December inflation of 2.5% YoY (*forecast unchanged*). The contribution of the market growth in prices is expected to be positive in 2011.

Growth in consumer prices in 2012 should not differ significantly from 2011. The average inflation rate should thus fluctuate around 2.4% with a prices increase of 2.5% during the year. The forecast is based on the current VAT rates.

Inflation should stay in the upper half of the tolerance band for the Czech National Bank's inflation target over the entire forecast horizon.

Deflators

The aggregate price level in the economy has increased only moderately. The **gross domestic expenditure deflator**, which is a comprehensive indicator of price development, grew by 1.4% (*versus a growth of 1.0%*) in the third quarter of 2010 as compared to the same period of last year.

For all of 2010, the gross domestic expenditure deflator should have reached 0.8% (*versus 0.7%*). It should rise by 1.7% (*versus 1.8%*) in 2011, due especially to the acceleration in consumer inflation, and by 2.0% in 2012.

The value of the **implicit GDP deflator** fell by 0.2% (*versus 0.2% growth*) in the third quarter of 2010. Unlike the gross domestic expenditure deflator, it was driven downward by the 2.4% decline (*versus a 1.2% decline*) in the terms of trade. For 2010, we expect a 0.6% decline (*versus a 0.5% decline*) in the deflator with worsening of the terms of trade by 1.8% (*versus a 1.5% decline*). We expect growth of 0.8% (*versus 1.3%*) for 2011 and 1.9% for 2012.

C.3 Labour Market

Employment

The economy's improving situation has already in some parameters begun to be seen on the labour market, whose cyclical development usually lags in comparison with the economic cycle as measured by output.

According to seasonally adjusted data from the Labour Force Survey (LFS), **employment** in the third quarter of 2010 rose by 0.5% QoQ, which was similar to the previous quarter.

There continued to be intensive YoY increase in the number of self-employed and entrepreneurs by 5.2% (*versus* 4.4%), and within that the number of self-employed rose by 7.9%. In a QoQ comparison their increase compared to the previous quarter was already more moderated (by 1.4%). The QoQ increase in employees was comparable to the previous quarter, slightly above 20,000.

The improvement of domestic and external economic conditions, along with an increase in demand, led to a slowing in the decline of employment in the secondary sector to 0.4% YoY, especially due to growing employment in the manufacturing industry (by 2.4%). The increase in the number of persons employed in the tertiary sector decelerated to 0.1%.

The labour supply fell in the third quarter YoY due to the decrease of employed and unemployed persons. Part of the dismissed people entitled to old-age pension opted for non-activity. An increase of pensioners was recorded in both statistics of the LFS and the Czech Social Insurance Administration. From the recorded number of pensioners it can be inferred that the option to retire in the regular and early terms has been already quite exhausted. Cautious personal policies in companies and the reported dismissals in state-run sector may thus in the following period lead rather to an increase of the unemployed.

The number of legally employed foreign citizens dropped year on year by 4.0% at the end of December, while the tendency of decrease in numbers of third world employees and moderate increase of EU/EEA citizens continued.

Rate of economic activity (15-64 years) has increased to 70.5% year on year due to changes in population structure, as has the ratio of workforce to population aged 15-64 (to 71,5%). Higher rate of economic activity

given by the rise of employment can be considered only for later periods.

Rate of employment (15-64 years) has, considering the aforementioned influences, risen YoY by 0.2 p.p. to 65.4%.

Due to a lag in employment progression compared to the recovery of economy we presume a decrease in employment of 1.0% (*versus* 1.2%) for the whole of 2010. The shock increase of unemployment in December 2010 should not manifest reciprocally in employment decrease, as the registered applicants may still use the institute of partial employment. For 2011 and 2012 however, we still consider growth of less than one percent, which should correspond to rational personal policy and gradual incorporation of free capacities at a moderate economic dynamics.

The pre-crisis peak of ratio of employment to population aged 15-64 should be attained during 2012, although the absolute extent of employment from 2008 shall not be exceeded until the 2014 outlook horizon.

Unemployment

Registered unemployment during 2010 displayed very non-standard progression. It reached its absolute peak in February, and then the data on the numbers of unemployed on seasonally adjusted data showed considerable decline. The decrease of the unemployed, however, stopped in September and the December unprecedented MoM increase in registered applicants (by 55 thousand) surpassed all previous expectations. This run on labour offices by the end of the year was, however, caused rather by the effort of the unemployed to retain more beneficial registration conditions before the coming into effect of the new Amendment of the Employment Act from 1 January 2011 than by a change of economical conditions.

In the fourth quarter the numbers of the long-term unemployed also increased. However, this did not manifest on the rise of their ratio to the sum of the registered unemployed due to the aforementioned facts; nevertheless, this ratio was higher than 30%.

Internationally comparable unemployment rate according to LFS reached 7.1% (*versus* 7.2%) in the third quarter of 2010. Due to a different definition of the term "unemployed" a departure from registered unemployment can be expected in the fourth quarter of 2010, as well as at least early 2011.

We presume that the LFS unemployment rate was not affected by the registration problem and reached an average of 7.3% (*versus 7.4%*) for the whole year. In the next period we expect a decline to 7.2% in 2011 (*forecast unchanged*) and 6.8% in 2012. The main reason for a slightly more optimistic development outlook are the improving structural characteristics of the labour market, new legislative adjustments and an expected improvement in the economic situation.

Wages

After a drop in the first quarter of 2010, the **wage bill** (NA, domestic concept) grew in the following two quarters; by 1.1% YoY in the third quarter (*versus 1.4%*). With gradual recovery of the economy, ongoing year-on-year growth can be expected. However, at the end of the year and in the first quarter of 2011 the paid severance pay may play a role (unless it is accrued).

We presume the 2010 wage bill to have increased by 0.5% (*estimate unchanged*). For 2011 a growth of 3.1% is

C.4 External Relations

(a balance of payments perspective)

The external imbalance, expressed as the **ratio of the current account balance to GDP**, reached -2.7% (*versus -1.1%*) in the third quarter of 2010 and worsened (-1.8%) against the same period in the previous year. A significant worsening of the income balance outweighed improvement in the trade balance and the transfers balance.

Upon the recession's abating, the foreign trade volume began to grow again. After more than a year of export market⁶ decline – reaching its nadir in the second quarter of 2009 (YoY decline by 14.8%) – exports started growing from early 2010, and by a strong 15.5% (*versus 12.5%*) in the second quarter of 2010. Since the end of 2009, export performance, indicating the share of Czech goods in export markets, also had been improving, but surprisingly it declined in the third quarter of 2010 by 1.4% (*versus growth of 2.3%*), even though the real export of goods increased by 13.9% (*versus 15.2%*). The dynamic growth in nominal exports and imports was on the one hand influenced by the previous year's low comparison basis; on the other hand, volume of turnover reached roughly the level of pre-crisis years. Commodity imports for production and investment grew significantly, and in particular trade in engineering production. This

expected (*versus 3.4%*), while decreasing the wage bill in a large part of the central government sector by 10%. The wage bill, as economic base for social security contributions and substantial part of personal income tax, should reach CZK 1,290 billion (*versus CZK 1,292 billion*) in 2011.

Average gross monthly wage (CZSO, company-based method, recalculated numbers) grew nominally by 2.0% YoY (*versus 2.4%*) in the third quarter. Its growth was driven by the business sector (2.9%), there was a nominal decrease by 1.8% in the non-business sector, which resulted in a significant real decrease by 3.6%.

On the basis of data from previous periods, signals from the business sector, as well as decisions and intents regarding public sector salaries for the forthcoming period, a relatively moderate growth of average wages in the forthcoming period is expected, pulled by the business sector mainly. In 2010 thus growth of average wage should reach 2.6% (*versus 2.4%*), and in 2011 moderate acceleration to 2.9% (*versus 2.8%*).

was in no small part due to the contribution from the boom in importing equipment for photovoltaic power plants (see Box C.1.1). The balance also is strongly influenced by the delayed effect of the growing prices of mineral fuels on world markets. In the third quarter, the trade balance as a percentage of GDP improved by 1.7 p.p. in yearly terms.

In view of the oil price scenario, we assume further slow growth in prices of raw materials and an increase in the fuels balance deficit over 2011 and in 2012. Its ratio to GDP should be at some -3.7% (*unchanged*) in 2010 and increase to ca -4.1% (*versus -3.8% in 2011*) in 2011 and 2012. Taking into account the recovery in trade, we expect further growth of export markets. We estimate their growth at 12.4% (*versus 10.3%*) for 2010, with deceleration to 8.9% (*versus 6.6%*) in 2011 and to 7.1% in 2012. Export performance should grow as well.

The pace of imports growth outweighed that of exports during most of 2010, thus reducing the trade balance surplus. The surplus excluding fuels is expected not to have changed in 2010 compared to the previous year and to have reached 7.1% of GDP (*versus 7.2%*). We expect its growth to 8.0% of GDP in 2011 (*forecast unchanged*) and to 8.5% of GDP in 2012. Under these assumptions, the trade balance (by the payments balance methodology) should have reached 5.4% of GDP in 2010 (*versus 5.5%*). We then expect a surplus at 6.1% of GDP (*versus 6.3%*) in 2011 and at 6.8% in 2012.

⁶ Weighted average growth in goods imports by the seven most important trade partner countries (Germany, Slovakia, Poland, Austria, France, United Kingdom and Italy).

The influence of foreign trade recovery, decrease in the growth pace of domestic demand, and a drastic decrease of imports for photovoltaics should outweigh the higher oil prices.

After a period of decline during the recession, foreign trade in services started to recover. This was the case especially for transport services, less so in tourism. The decline in the **balance of services** surplus was contributed to especially by rapid growth in the purchasing of foreign transport services. The shift in the services balance from the assets to the liabilities side, however, was connected especially to significantly higher import of so-called other services, contributing to the total volume of outflows by almost 60% (according to CNB statistics). The services balance worsened year on year from +1.1% to -0.7% of GDP⁷ during the third quarter of 2010. We presume that improving balances for transport and tourism will not outweigh the increased deficit in the other services item, and the overall services balance will therefore remain in deficit in the coming periods.

A reduction in the **income balance** deficit in the previous two years was due especially to strong decline in investment activity during the economic recession. As a result, the outflow of investment returns fell and the volume of remuneration paid to foreign employees also decreased. With gradual improvement in the world economic situation, we again look for gradual growth in factor incomes outflows in relation to return to the previous growth trend for foreign investment. The income deficit is estimated at -7.2% of GDP (*versus* -6.4%) for 2010. For 2011, we expect it to deepen to -7.8% of GDP (*versus* -7.1%) and in 2012 to -9.1% of GDP.

Within this context, we estimate that the ratio of the **current account** deficit to GDP reached -2.8% (*versus* -1.4%) in 2010. The forecast for 2011 is -2.5% of GDP (*versus* -1.1%) and for 2012 it is -2.9%. A deficit of this size is easily financed and we regard the risk of related macroeconomic imbalance to be minimal.

⁷ *Balance of services under the national accounts concept did not show such dramatic development. Its surplus only fell slightly from 1.2% of GDP in the third quarter of 2009 to 1.1% of GDP in the third quarter of 2010.*

C.5 International Comparisons

Comparisons for the period to 2009 are based on Eurostat statistics. Since 2010, our own calculations are 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 exchange rate conversion for countries that use currency units other than the euro. Using updated Eurostat data, purchasing power parity of the Czech Republic in 2009 was CZK 17.94/PPS (versus CZK 18.23/PPS) in comparison to the EU27 or CZK 16.79/EUR (versus CZK 16.98/EUR) in comparison to the EA12.

Economic recession hit the EA12 countries and most Central European countries with similar intensity. As a result, when adjusted on the basis of current **purchasing power parity**, the tendency toward economic convergence by the Czech Republic and other Central European countries (except for Poland, see chapter A.1) toward the EA12 average decelerated in 2009. Some countries (the Baltic states, Hungary, Slovenia) which have been hit by the crisis more than were the EA12 countries, even experienced decline in their relative economic levels.

In 2010, per capita GDP of the Czech Republic reached ca PPS 19,800. That corresponds to 75% of EA12 economic output. Due to higher growth in the Czech Republic than in the EA12, the Czech economy's relative performance should start improving again in the coming years. During the forecast horizon, it should surpass the economic level of Greece, which country's growth options are limited by the necessity for hard fiscal consolidation.

An alternative way of calculation by means of the current **exchange rate** takes into account the market valuation of the currency and ensuing differences in price levels. Per capita GDP of the Czech Republic, then, will apparently reach some EUR 13,900. That corresponds to just under half (49%) the EA12 level. Due to growth recovery and gradual appreciation of the exchange rate, the pre-crisis level of 2008 should be surpassed in 2011.

The comparative price level of GDP should have reached ca 65% of the EA12 average in 2010. Depreciation of the real exchange rate was reflected in a year-on-year decline in the price level by 3 p.p. in 2009. This movement helped to boost price competitiveness and made overcoming the difficult situation somewhat easier. A major depreciation in the exchange rate was seen in Poland, where decline of the relative price level reached an almost unbelievable 11 p.p. and thus helped Poland to avoid economic recession.

For the forecast horizon, gradual moderate increase in the comparative price level should be seen, led by productivity growth and growth in the Czech economy's competitiveness due to factors not related to price.

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, eight institutions are domestic (CNB, Ministry of Labour and Social Affairs, domestic banks and investment companies) and others are foreign (European Commission, OECD, IMF etc.). The forecasts are summarised in the following table.

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

Table D.1: Consensus Forecast

		December 2010			January 2011
		min.	max.	consensus	forecast MoF
Gross domestic product (2011)	growth in %, const.pr.	1,2	2,8	1,9	2,2
Gross domestic product (2012)	growth in %, const.pr.	2,3	3,3	2,8	2,7
Average inflation rate (2011)	%	1,9	2,7	2,1	2,3
Average inflation rate (2012)	%	1,7	2,3	2,1	2,4
Average monthly wage (2011)	growth in %	1,5	3,0	2,4	2,9
Average monthly wage (2012)	growth in %	3,5	4,5	3,9	4,1
Current account / GDP (2011)	%	-2,7	-0,6	-1,6	-2,5
Current account / GDP (2012)	%	-3,3	-0,5	-1,7	-2,9

Estimates of **GDP** growth for 2011 show a slight trend toward downward adjustments from the middle of last year. Institutions whose prognoses are followed expect an average increase in the Czech economy's output by 1.9% in 2011. For 2012, they expect GDP growth to accelerate to 2.8%. The Ministry of Finance forecast is in accordance with this trend.

Current forecasts are for the **average rate of inflation** in this and next year to be around 2.1%. The Ministry of Finance expects slightly faster growth in consumer prices.

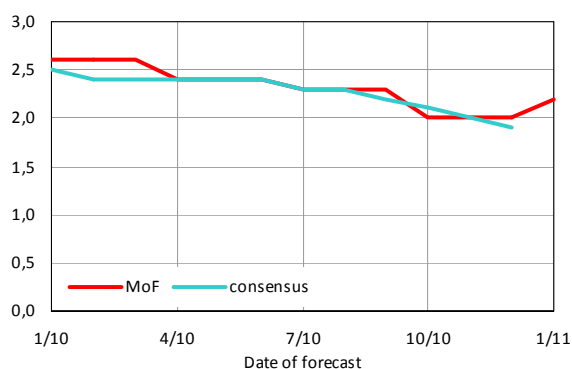
According to the monitored institutions' forecasts, the **average wage** should increase by 2.4% in 2011, and acceleration to 3.9% is expected for 2012. The Ministry of Finance prognosis is in accordance with this trend,

although it anticipates a faster rate of increase for the average wage this year.

The **current account deficit of the balance of payments** should remain at a sustainable level. The institutions expect a deficit equal to 1.6% of GDP for 2011, and for 2012 a slight increase of the current account deficit to 1.7% of GDP is expected. The Ministry of Finance forecasts deeper current account deficits, but these should not exceed 3% of GDP.

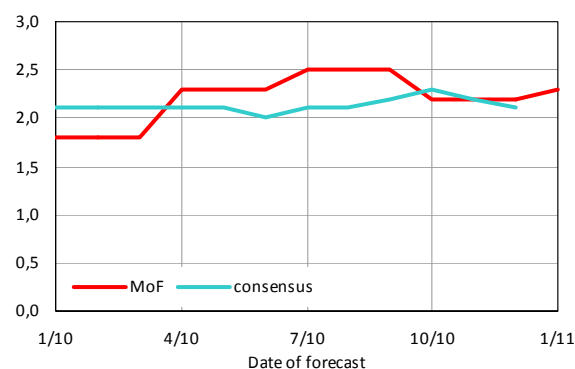
Graph D.1: Forecast of Real GDP Growth for 2011

in %



Graph D.2: Forecast of Average Inflation Rate for 2011

in %



Tables and Graphs:

C.1 Economic Output

Sources: CZSO, MoF estimates

Table C.1.1: Real GDP by Type of Expenditure – yearly
chained volumes, reference year 2000

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							Estimate	Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK 2000</i>	2630	2809	2982	3055	2928	3001	3067	3151	3252	3375
	<i>growth in %</i>	6,3	6,8	6,1	2,5	-4,1	2,5	2,2	2,7	3,2	3,8
Private consumption exp.¹⁾	<i>bill. CZK 2000</i>	1342	1411	1482	1535	1532	1547	1561	1606	1662	1732
	<i>growth in %</i>	2,5	5,1	5,0	3,6	-0,2	1,0	1,0	2,9	3,5	4,2
Government consumption exp.	<i>bill. CZK 2000</i>	542	548	551	557	571	572	552	537	524	517
	<i>growth in %</i>	2,9	1,2	0,5	1,1	2,6	0,2	-3,5	-2,7	-2,5	-1,4
Gross capital formation	<i>bill. CZK 2000</i>	767	841	921	895	753	806	835	865	912	975
	<i>growth in %</i>	-0,8	9,6	9,4	-2,8	-15,8	7,0	3,6	3,6	5,4	6,9
– Gross fixed capital formation	<i>bill. CZK 2000</i>	729	773	856	844	777	777	783	811	857	918
	<i>growth in %</i>	1,8	6,0	10,8	-1,5	-7,9	0,0	0,8	3,6	5,6	7,2
– Change in stocks and valuables	<i>bill. CZK 2000</i>	38	69	64	51	-24	30	52	54	56	57
Exports of goods and services	<i>bill. CZK 2000</i>	2275	2633	3029	3210	2865	3281	3651	4022	4425	4903
	<i>growth in %</i>	11,6	15,8	15,0	6,0	-10,8	14,5	11,3	10,2	10,0	10,8
Imports of goods and services	<i>bill. CZK 2000</i>	2301	2629	3004	3144	2810	3234	3546	3884	4272	4755
	<i>growth in %</i>	5,0	14,3	14,3	4,7	-10,6	15,1	9,7	9,5	10,0	11,3
Domestic demand	<i>bill. CZK 2000</i>	2652	2796	2943	2979	2868	2930	2946	3000	3081	3198
	<i>growth in %</i>	1,7	5,4	5,2	1,2	-3,7	2,2	0,6	1,8	2,7	3,8
Methodological discrepancy²⁾	<i>bill. CZK 2000</i>	6	5	3	2	17	29	14	5	1	4
Real gross domestic income	<i>bill. CZK 2000</i>	2712	2869	3074	3110	3031	3065	3109	3195	3302	3434
	<i>growth in %</i>	5,0	5,8	7,1	1,2	-2,5	1,1	1,5	2,7	3,3	4,0
Contribution to GDP growth³⁾											
– Domestic demand	<i>percent. points</i>	1,7	5,3	5,1	1,2	-3,6	2,0	0,5	1,7	2,6	3,5
– consumption	<i>percent. points</i>	1,9	2,8	2,5	1,9	0,4	0,5	-0,3	0,9	1,3	1,9
– gross capital formation	<i>percent. points</i>	-0,2	2,5	2,5	-0,8	-4,0	1,5	0,8	0,8	1,3	1,6
– gross fixed capital formation	<i>percent. points</i>	0,5	1,5	2,7	-0,4	-1,9	0,0	0,2	0,8	1,2	1,6
– change in stocks	<i>percent. points</i>	-0,7	1,0	-0,1	-0,4	-2,1	1,5	0,6	0,0	0,0	0,0
– Foreign balance	<i>percent. points</i>	4,6	1,5	1,1	1,3	-0,6	0,4	1,7	1,0	0,6	0,3

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 2000

		2010				2011			
		Q1 <i>Prelim.</i>	Q2 <i>Prelim.</i>	Q3 <i>Prelim.</i>	Q4 <i>Estim.</i>	Q1 <i>Forecast</i>	Q2 <i>Forecast</i>	Q3 <i>Forecast</i>	Q4 <i>Forecast</i>
Gross domestic product	<i>bill. CZK 2000</i>	711	764	758	768	732	781	776	779
	<i>growth in %</i>	1,0	2,9	2,5	3,4	3,0	2,2	2,3	1,4
	<i>growth in %¹⁾</i>	1,0	2,3	2,8	3,5	2,9	2,6	2,1	1,4
	<i>quart.growth in %¹⁾</i>	0,6	0,8	1,0	1,0	0,1	0,4	0,5	0,3
Private consumption exp.	<i>bill. CZK 2000</i>	364	388	393	402	367	389	398	407
	<i>growth in %</i>	0,0	1,0	0,9	1,8	1,0	0,4	1,1	1,3
Government consumption exp.	<i>bill. CZK 2000</i>	132	141	141	159	128	136	136	153
	<i>growth in %</i>	2,2	1,2	-0,5	-1,7	-3,7	-3,6	-3,2	-3,6
Gross capital formation	<i>bill. CZK 2000</i>	184	212	218	192	188	218	229	201
	<i>growth in %</i>	-7,4	8,9	13,9	14,0	1,9	2,8	4,6	4,9
– Gross fixed capital formation	<i>bill. CZK 2000</i>	169	192	198	218	176	199	200	209
	<i>growth in %</i>	-5,6	-3,7	1,7	6,8	4,2	3,3	0,8	-4,0
– Change in stocks and valuables	<i>bill. CZK 2000</i>	15	20	20	-26	12	20	29	-8
Exports of goods and services	<i>bill. CZK 2000</i>	758	821	821	880	867	915	906	963
	<i>growth in %</i>	13,8	15,0	13,4	15,6	14,3	11,4	10,4	9,4
Imports of goods and services	<i>bill. CZK 2000</i>	728	799	825	881	812	873	899	961
	<i>growth in %</i>	11,1	16,2	16,0	16,7	11,6	9,2	9,0	9,0
Methodological discrepancy	<i>bill. CZK 2000</i>	0	2	9	17	-5	-3	6	16
Real gross domestic income	<i>bill. CZK 2000</i>	729	778	771	787	744	787	784	794
	<i>growth in %</i>	-0,2	1,3	0,7	2,6	2,2	1,1	1,7	0,9

¹⁾ From seasonally and working day adjusted data

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

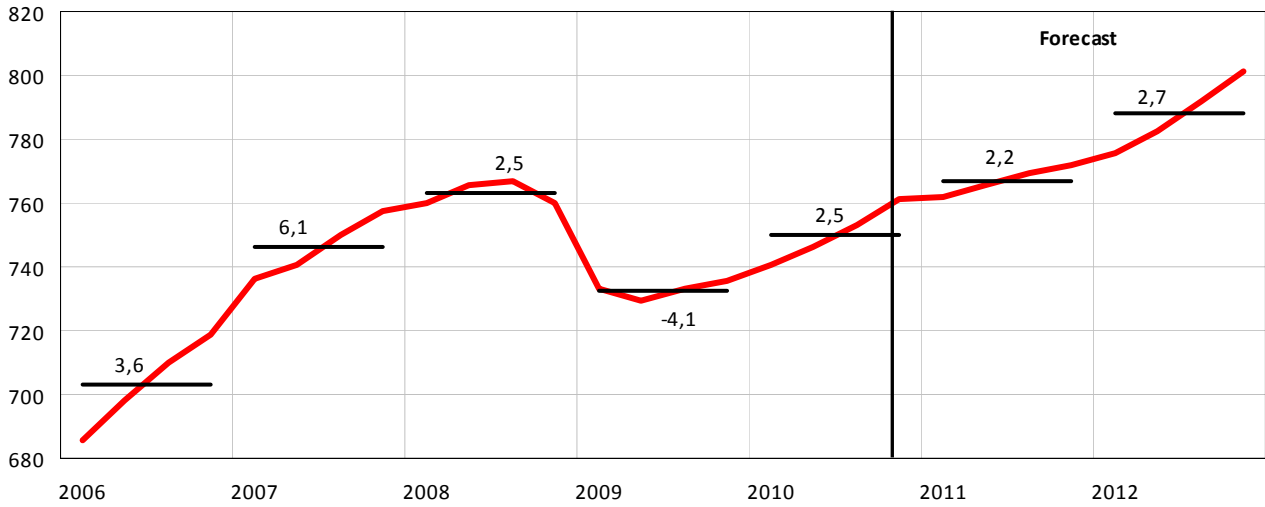
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK</i>	2984	3222	3535	3689	3626	3693	3806	3984	4193	4440
	<i>growth in %</i>	6,0	8,0	9,7	4,3	-1,7	1,9	3,1	4,7	5,3	5,9
Private consumption	<i>bill. CZK</i>	1464	1562	1688	1835	1837	1880	1941	2043	2162	2296
	<i>growth in %</i>	3,4	6,6	8,1	8,7	0,1	2,4	3,2	5,3	5,8	6,2
Government consumption	<i>bill. CZK</i>	658	687	717	753	799	808	791	783	780	788
	<i>growth in %</i>	5,9	4,3	4,4	5,0	6,1	1,1	-2,0	-1,0	-0,5	1,1
Gross capital formation	<i>bill. CZK</i>	766	863	955	934	788	840	875	919	982	1065
	<i>growth in %</i>	-1,1	12,7	10,6	-2,2	-15,5	6,5	4,1	5,1	6,8	8,5
– Gross fixed capital formation	<i>bill. CZK</i>	742	796	890	883	814	810	824	867	930	1010
	<i>growth in %</i>	2,0	7,3	11,8	-0,8	-7,8	-0,5	1,7	5,3	7,2	8,6
– Change in stocks and valuables	<i>bill. CZK</i>	24	67	65	50	-26	30	51	52	52	55
External balance	<i>bill. CZK</i>	95	110	176	168	201	166	199	238	269	291
– Exports of goods and services	<i>bill. CZK</i>	2155	2462	2830	2844	2507	2824	3120	3428	3782	4210
	<i>growth in %</i>	9,1	14,3	14,9	0,5	-11,8	12,7	10,5	9,9	10,3	11,3
– Imports of goods and services	<i>bill. CZK</i>	2060	2352	2655	2676	2305	2658	2921	3190	3513	3919
	<i>growth in %</i>	4,4	14,2	12,9	0,8	-13,8	15,3	9,9	9,2	10,1	11,6
Gross national income	<i>bill. CZK</i>	2850	3062	3288	3523	3411	3449	3532	3651	3801	3990
	<i>growth in %</i>	7,1	7,5	7,4	7,1	-3,2	1,1	2,4	3,4	4,1	5,0
Primary income balance	<i>bill. CZK</i>	-134	-160	-247	-166	-215	-244	-274	-333	-392	-450

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

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	871	937	928	957	902	961	958	985
	<i>growth in %</i>	-0,5	1,9	2,3	3,6	3,5	2,6	3,2	2,9
Private consumption	<i>bill. CZK</i>	439	471	480	490	453	483	497	509
	<i>growth in %</i>	0,3	1,9	3,0	4,1	3,0	2,6	3,4	3,9
Government consumption	<i>bill. CZK</i>	182	197	196	232	179	193	192	227
	<i>growth in %</i>	2,5	1,8	0,7	-0,3	-2,0	-2,0	-2,0	-2,0
Gross capital formation	<i>bill. CZK</i>	193	222	227	199	196	229	238	211
	<i>growth in %</i>	-8,0	9,0	14,3	12,0	1,8	3,1	5,1	6,4
– Gross fixed capital formation	<i>bill. CZK</i>	176	200	206	228	184	208	210	222
	<i>growth in %</i>	-7,2	-4,5	1,6	7,4	4,8	4,0	1,9	-2,9
– Change in stocks and valuables	<i>bill. CZK</i>	17	22	21	-29	12	20	29	-10
External balance	<i>bill. CZK</i>	57	47	25	37	74	57	31	38
– Exports of goods and services	<i>bill. CZK</i>	653	715	705	752	737	783	777	823
	<i>growth in %</i>	5,6	13,8	15,4	15,7	12,9	9,5	10,2	9,5
– Imports of goods and services	<i>bill. CZK</i>	596	668	680	715	663	726	746	786
	<i>growth in %</i>	5,0	17,4	20,9	17,8	11,3	8,8	9,7	9,9

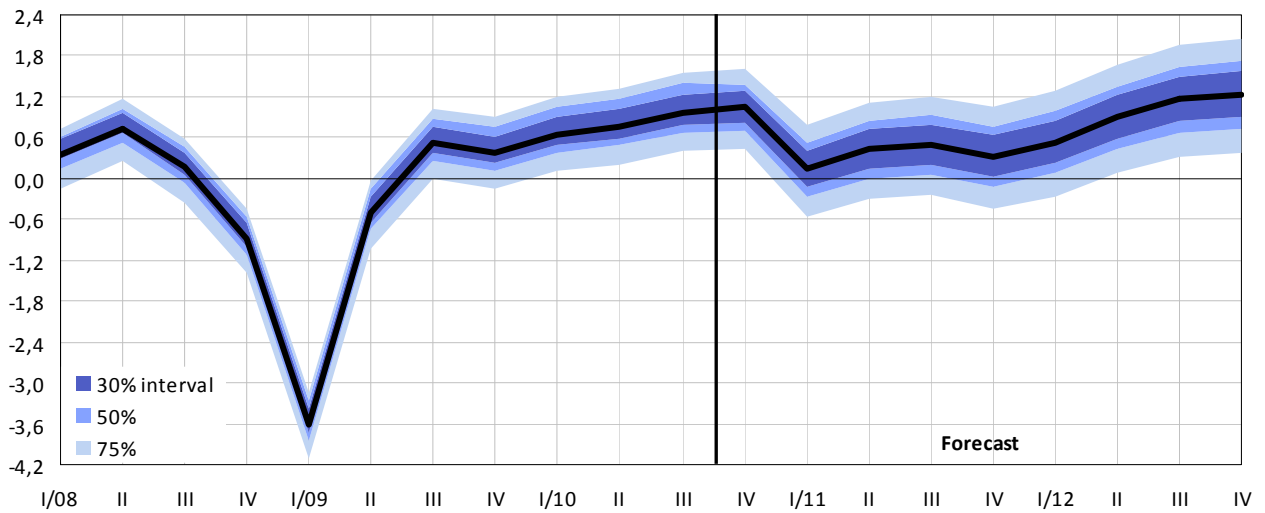
Graph C.1.1: **Gross Domestic Product (real)**

chained volumes, bill. CZK in const. prices of 2000, seasonally adjusted



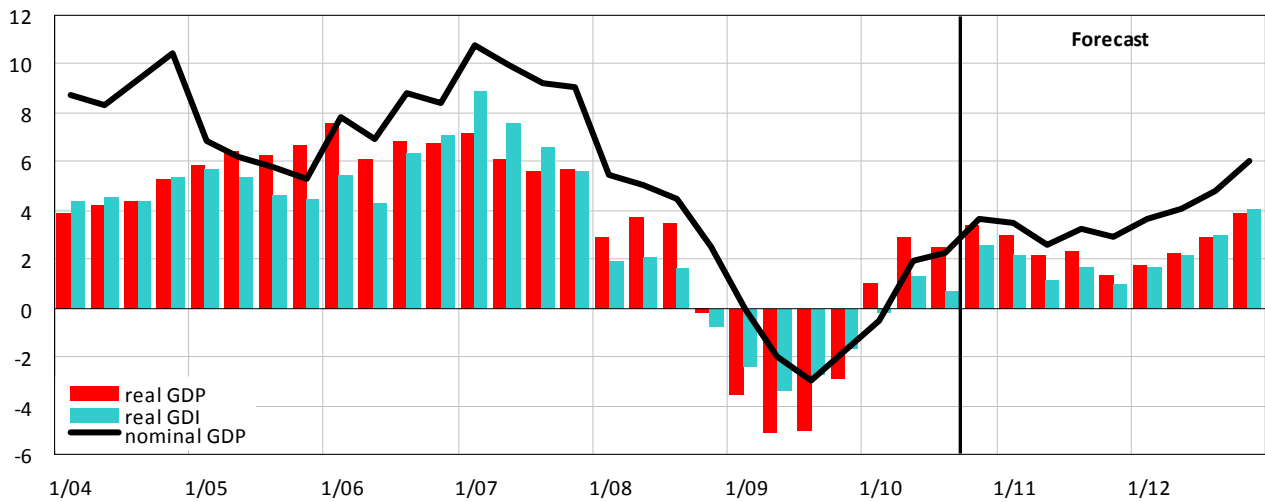
Graph C.1.2: **Gross Domestic Product (real)**

QoQ growth rate, in %, seasonally adjusted

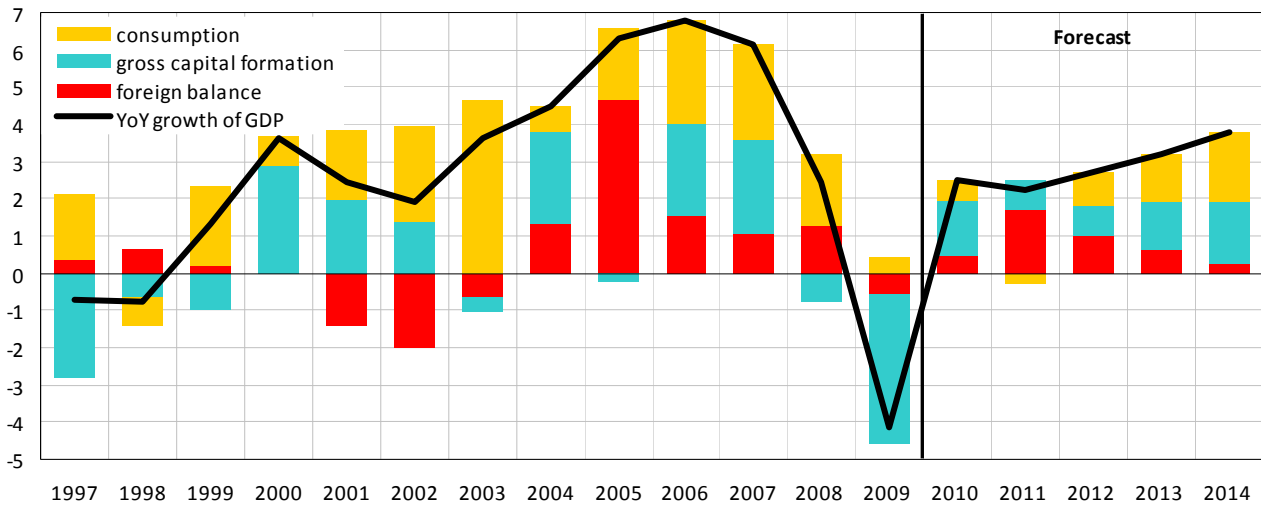


Graph C.1.3: **Gross Domestic Product and Real Gross Domestic Income**

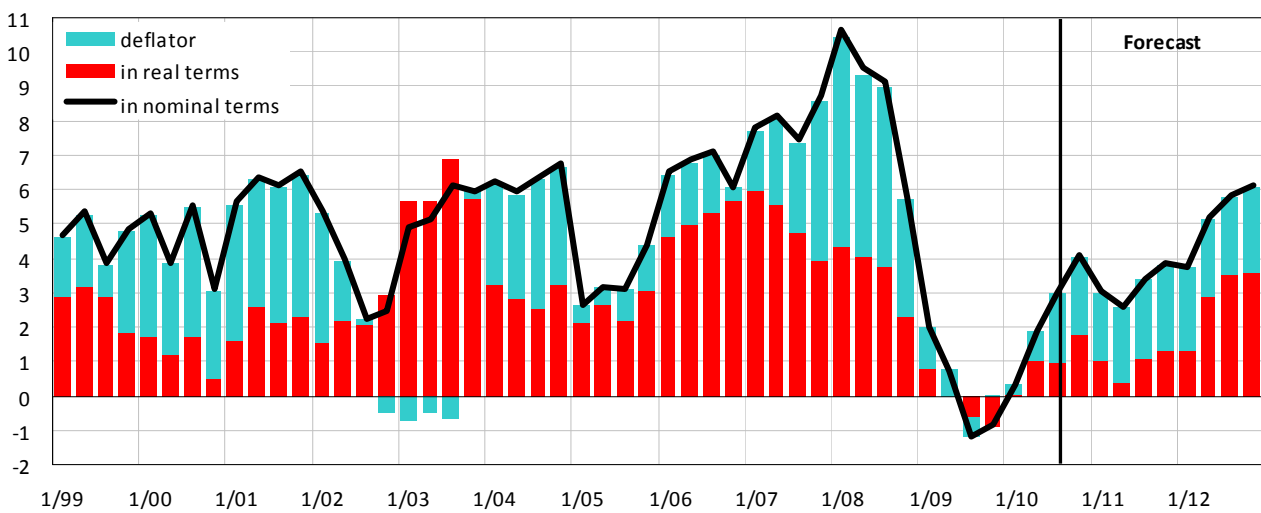
YoY growth rate, in %



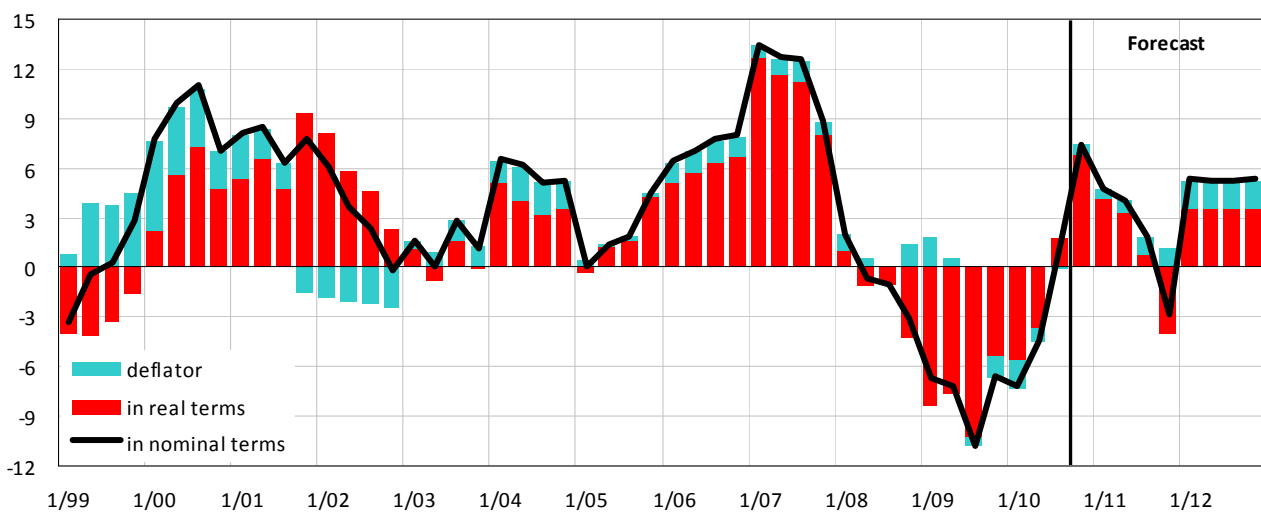
Graph C.1.4: **Gross Domestic Product – contributions to YoY growth**
in constant prices, decomposition of the YoY growth, in percentage points



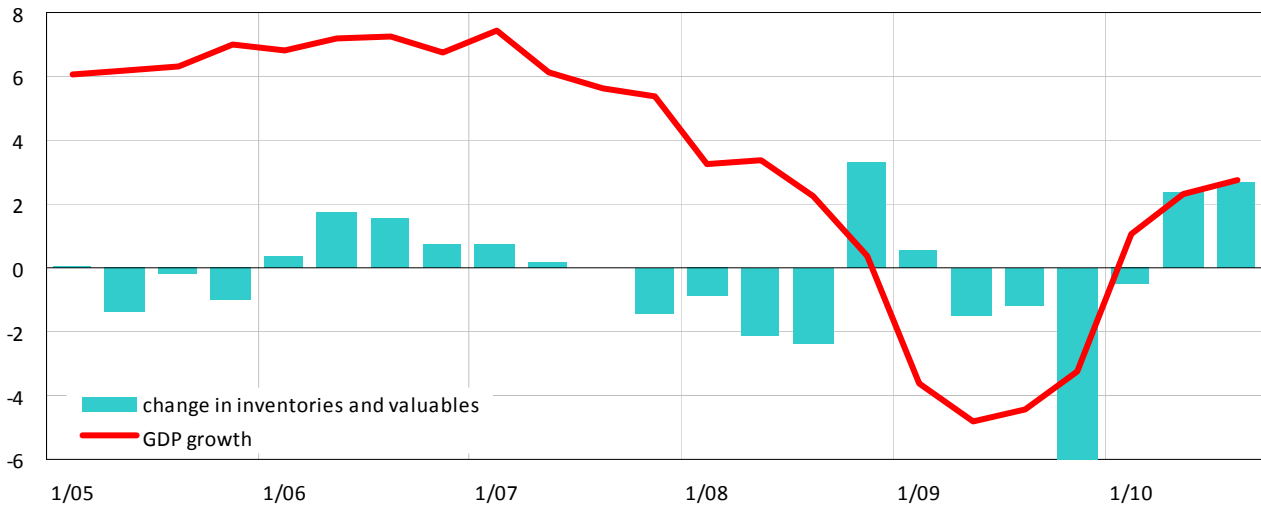
Graph C.1.5: **Private Consumption (incl. NPISH)**
YoY growth rate, in %



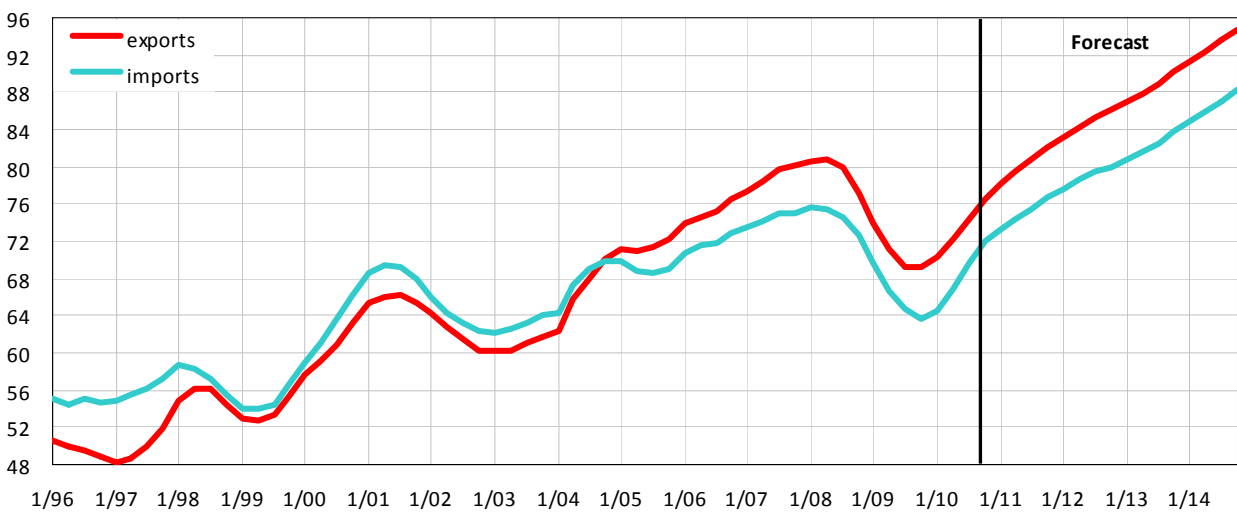
Graph C.1.6: **Gross Fixed Capital Formation**
YoY growth rate, in %



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



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



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

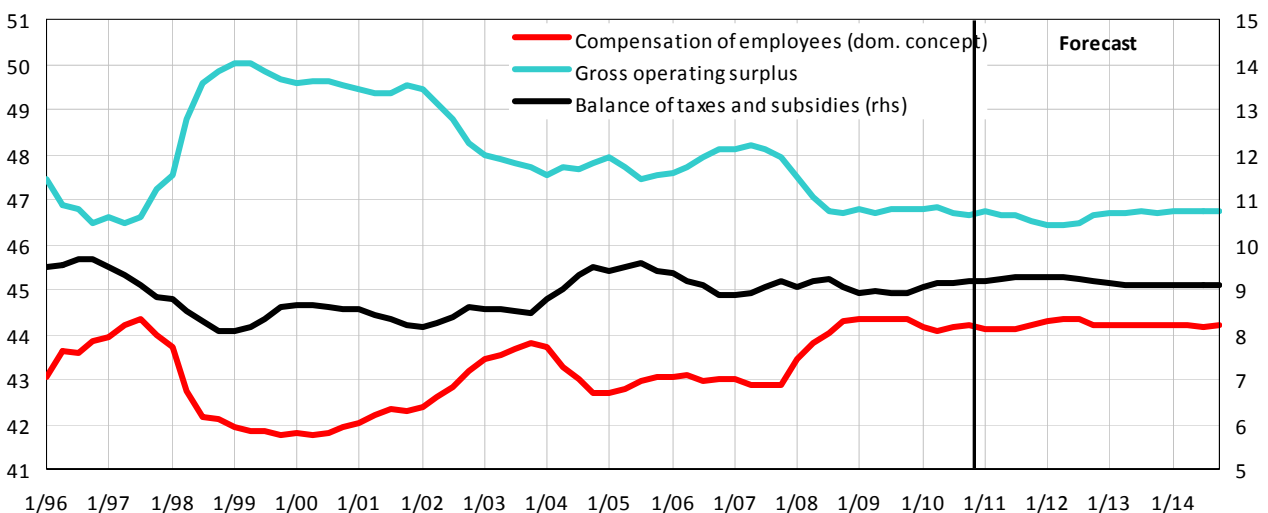


Table C.1.5: GDP by Type of Income – yearly

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							Estimate	Forecast	Forecast	Outlook	Outlook
GDP	<i>bill. CZK</i>	2984	3222	3535	3689	3626	3693	3806	3984	4193	4440
	<i>growth in %</i>	6,0	8,0	9,7	4,3	-1,7	1,9	3,1	4,7	5,3	5,9
Balance of taxes and subsidies	<i>bill. CZK</i>	281	285	325	333	322	339	353	365	381	403
	<i>growth in %</i>	5,1	1,6	13,8	2,5	-3,2	5,2	4,0	3,4	4,6	5,6
– Taxes on production and imports	<i>bill. CZK</i>	353	363	407	418	424	442	457	472	492	516
	<i>growth in %</i>	6,4	2,9	12,0	2,9	1,4	4,2	3,5	3,2	4,2	5,0
– Subsidies on production	<i>bill. CZK</i>	72	78	82	85	102	103	104	107	110	114
	<i>growth in %</i>	12,2	7,8	5,4	4,1	19,3	1,0	1,8	2,5	3,0	3,0
Compensation of employees	<i>bill. CZK</i>	1285	1386	1516	1633	1608	1632	1683	1761	1853	1963
	<i>growth in %</i>	6,9	7,9	9,4	7,7	-1,6	1,5	3,1	4,6	5,2	5,9
– Wages and salaries	<i>bill. CZK</i>	970	1047	1145	1245	1244	1251	1290	1350	1421	1504
	<i>growth in %</i>	6,9	7,9	9,4	8,7	0,0	0,5	3,1	4,7	5,2	5,9
– Social security contributions	<i>bill. CZK</i>	315	339	371	389	363	381	393	411	433	458
	<i>growth in %</i>	6,7	7,8	9,5	4,7	-6,6	4,9	3,1	4,6	5,3	5,9
Gross operating surplus	<i>bill. CZK</i>	1418	1551	1694	1722	1696	1722	1771	1858	1958	2075
	<i>growth in %</i>	5,4	9,3	9,3	1,7	-1,5	1,6	2,8	4,9	5,4	6,0
– Consumption of capital	<i>bill. CZK</i>	554	576	611	639	655	662	679	699	720	742
	<i>growth in %</i>	3,0	4,1	6,1	4,5	2,4	1,1	2,5	3,0	3,0	3,0
– Net operating surplus	<i>bill. CZK</i>	865	974	1083	1083	1041	1060	1092	1159	1238	1334
	<i>growth in %</i>	7,0	12,7	11,1	0,0	-3,9	1,8	3,0	6,1	6,8	7,7

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

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	871	937	928	957	902	961	958	985
	<i>growth in %</i>	-0,5	1,9	2,3	3,6	3,5	2,6	3,2	2,9
Balance of taxes and subsidies	<i>bill. CZK</i>	76	93	95	75	79	96	99	78
	<i>growth in %</i>	7,0	5,3	3,2	6,0	4,0	3,9	3,8	4,4
Compensation of employees	<i>bill. CZK</i>	387	401	401	442	397	413	415	458
	<i>growth in %</i>	-2,0	0,8	3,2	3,8	2,6	3,0	3,3	3,5
– Wages and salaries	<i>bill. CZK</i>	295	306	308	341	303	316	319	353
	<i>growth in %</i>	-2,1	0,5	1,1	2,5	2,6	3,0	3,3	3,5
– Social security contributions	<i>bill. CZK</i>	92	94	93	101	95	97	96	105
	<i>growth in %</i>	-1,5	2,0	11,0	8,5	2,6	3,0	3,3	3,5
Gross operating surplus	<i>bill. CZK</i>	408	443	431	440	425	452	444	449
	<i>growth in %</i>	-0,4	2,3	1,2	3,0	4,2	2,0	3,1	2,0

C.2 Prices of Goods and Services

Sources: CZSO, MoF estimates

Table C.2.1: Prices of Goods and Services – yearly

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							Estimate	Forecast	Forecast	Outlook	Outlook
Consumer Price Index											
average of a year	<i>average 2005=100</i>	100,0	102,5	105,4	112,1	113,3	115,0	117,6	120,4	123,1	125,5
	<i>growth in %</i>	1,9	2,5	2,8	6,3	1,0	1,5	2,3	2,4	2,2	1,9
December	<i>average 2005=100</i>	100,6	102,3	107,9	111,8	112,9	115,5	118,5	121,5	123,8	126,2
	<i>growth in %</i>	2,2	1,7	5,4	3,6	1,0	2,3	2,5	2,5	1,9	1,9
– of which contribution of											
administrative measures¹⁾	<i>percentage points</i>	1,9	0,8	2,2	4,3	1,0	1,6	0,9	0,9	0,6	0,8
market increase	<i>percentage points</i>	0,4	0,8	3,3	-0,7	0,0	0,7	1,6	1,7	1,3	1,2
HICP	<i>average 2005=100</i>	100,0	102,1	105,1	111,7	112,4	113,7	116,3	119,0	121,6	123,9
	<i>growth in %</i>	1,6	2,1	3,0	6,3	0,6	1,2	2,3	2,3	2,2	1,9
Deflators											
GDP	<i>average 2000=100</i>	113,4	114,7	118,6	120,8	123,8	123,1	124,1	126,4	128,9	131,6
	<i>growth in %</i>	-0,3	1,1	3,4	1,8	2,5	-0,6	0,8	1,9	2,0	2,0
Domestic final use	<i>average 2000=100</i>	108,9	111,3	114,2	118,2	119,4	120,4	122,4	124,9	127,3	129,8
	<i>growth in %</i>	1,0	2,2	2,6	3,5	1,0	0,8	1,7	2,0	2,0	1,9
Consumption of households	<i>average 2000=100</i>	109,1	110,7	113,9	119,5	119,9	121,6	124,3	127,2	130,1	132,6
	<i>growth in %</i>	0,8	1,4	2,9	4,9	0,3	1,4	2,3	2,4	2,2	1,9
Consumption of government	<i>average 2000=100</i>	121,5	125,3	130,1	135,2	139,8	141,1	143,3	145,8	148,7	152,5
	<i>growth in %</i>	3,0	3,1	3,8	3,9	3,4	0,9	1,6	1,7	2,0	2,5
Fixed capital formation	<i>average 2000=100</i>	101,8	103,0	104,0	104,7	104,8	104,3	105,2	106,9	108,5	110,0
	<i>growth in %</i>	0,2	1,3	0,9	0,7	0,1	-0,4	0,9	1,6	1,5	1,3
Exports of goods and services	<i>average 2000=100</i>	94,7	93,5	93,4	88,6	87,5	86,1	85,5	85,2	85,5	85,9
	<i>growth in %</i>	-2,2	-1,3	-0,1	-5,2	-1,2	-1,6	-0,7	-0,3	0,3	0,5
Imports of goods and services	<i>average 2000=100</i>	89,5	89,5	88,4	85,1	82,0	82,2	82,4	82,1	82,2	82,4
	<i>growth in %</i>	-0,5	-0,1	-1,2	-3,7	-3,6	0,2	0,2	-0,3	0,1	0,2
Terms of trade	<i>average 2000=100</i>	105,8	104,5	105,7	104,1	106,6	104,7	103,8	103,8	104,0	104,2
	<i>growth in %</i>	-1,7	-1,2	1,2	-1,6	2,5	-1,8	-0,9	0,0	0,2	0,2

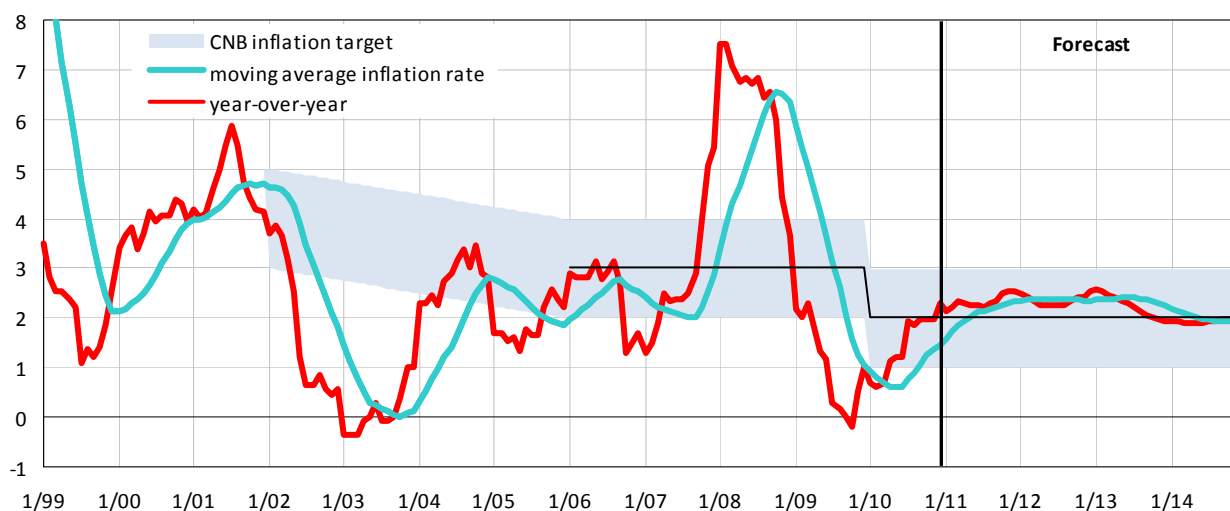
¹⁾ The contribution of increase in regulated prices and in indirect taxes to increase of December YoY consumer price inflation.

Table C.2.2: Prices of Goods and Services – quarterly

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Consumer Price Index	<i>average 2005=100</i>	114,4	115,1	115,2	115,1	117,0	117,7	117,9	118,0
	<i>growth in %</i>	0,7	1,2	1,9	2,1	2,2	2,3	2,3	2,5
contr. of administrative measures	<i>percentage points</i>	1,0	1,3	1,6	1,6	1,0	0,9	0,8	0,9
contribution of market increase	<i>percentage points</i>	-0,3	-0,1	0,4	0,5	1,2	1,3	1,5	1,6
HICP	<i>average 2005=100</i>	113,1	113,9	114,0	113,8	115,6	116,5	116,6	116,6
	<i>growth in %</i>	0,4	0,9	1,6	2,0	2,2	2,2	2,3	2,5
GDP deflator	<i>average 2000=100</i>	122,6	122,6	122,4	124,6	123,2	123,1	123,5	126,5
	<i>growth in %</i>	-1,5	-1,0	-0,2	0,2	0,5	0,4	0,9	1,5
Domestic final use deflator	<i>average 2000=100</i>	119,5	120,2	120,3	121,6	121,2	122,1	122,2	124,1
	<i>growth in %</i>	0,1	0,6	1,4	1,1	1,4	1,6	1,6	2,0
Terms of trade	<i>average 2000=100</i>	105,2	104,2	104,1	105,2	104,2	102,9	103,3	104,6
	<i>growth in %</i>	-1,8	-2,2	-2,4	-0,9	-1,0	-1,3	-0,8	-0,6

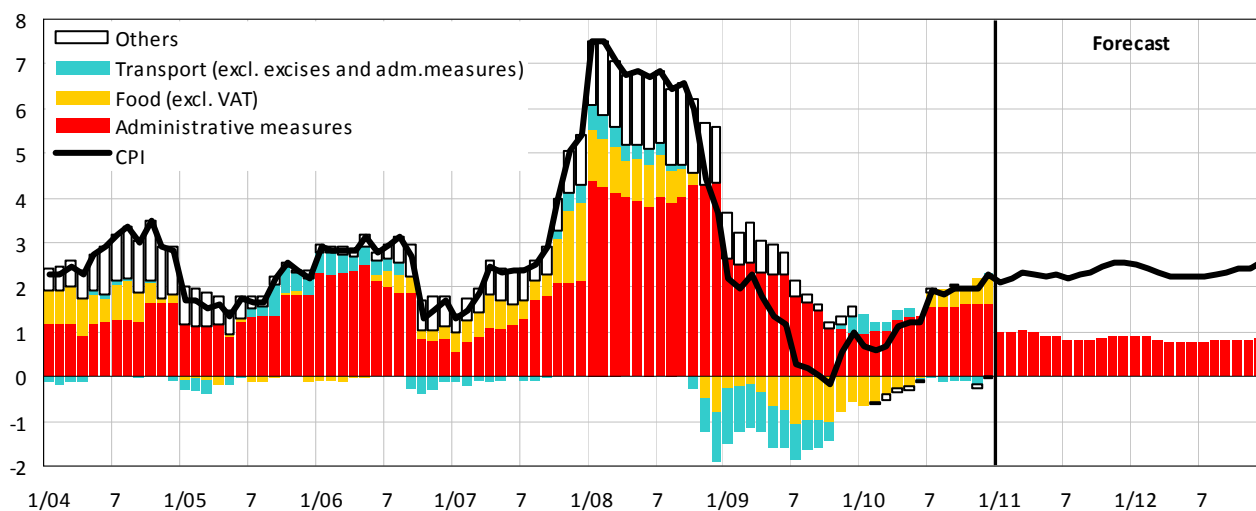
Graph C.2.1: Consumer Prices

YoY growth rate, in %



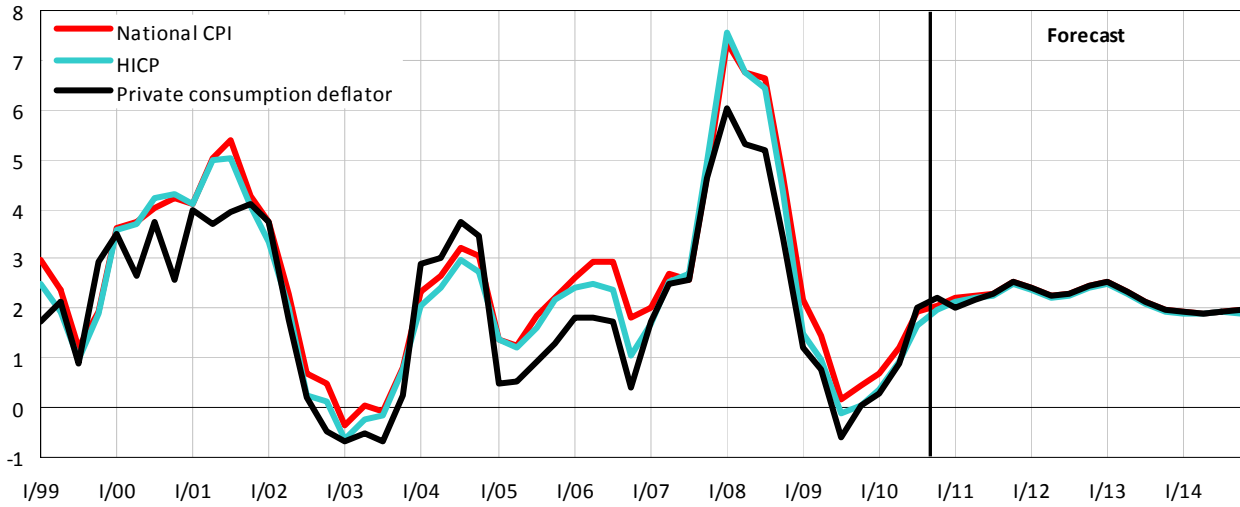
Graph C.2.2: Consumer Prices

decomposition of the YoY increase in consumer prices, in percentage points



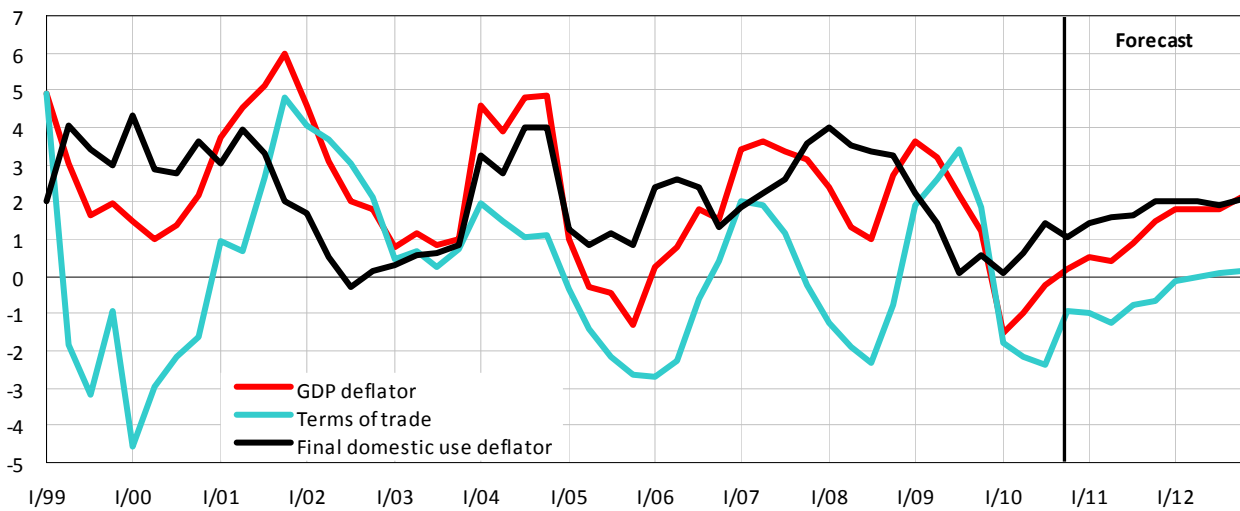
Graph C.2.3: Indicators of Consumer Prices

YoY increases, in %



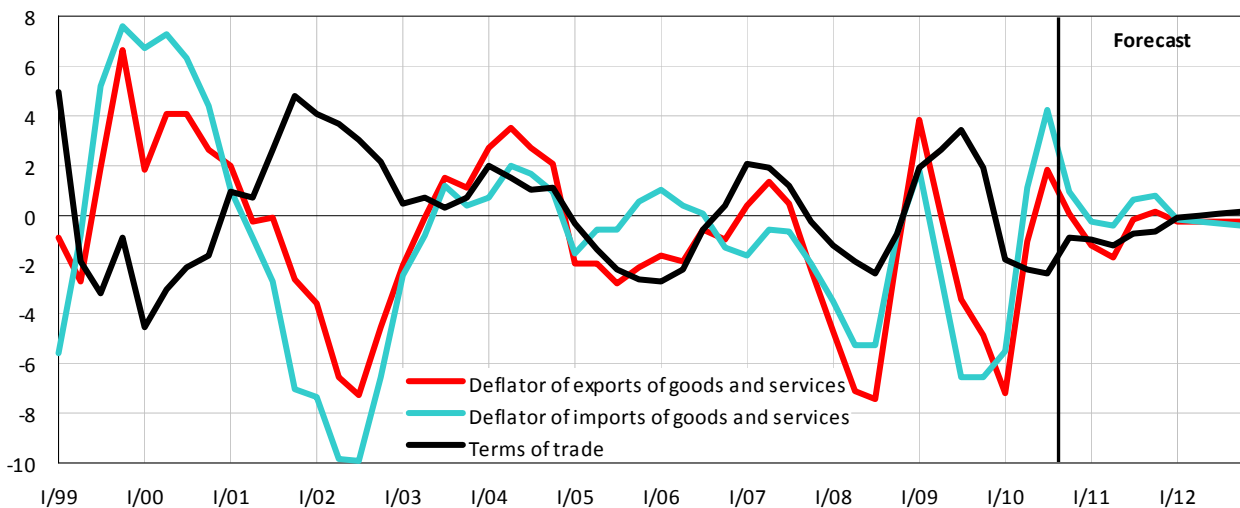
Graph C.2.4: GDP Deflator

YoY indices of final domestic use deflator and terms of trade, in %



Graph C.2.5: Terms of Trade

YoY increases, in %



C.3 Labour Market

Sources: CZSO, Ministry of Industry and Trade, Ministry of Labour and Social Affairs, MoF estimates

Table C.3.1: Employment – yearly

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
								Estimate	Forecast	Forecast	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	4707	4764	4828	4922	5002	4934	4885	4900	4927	4958
	<i>growth in %</i>	-0,6	1,2	1,3	1,9	1,6	-1,4	-1,0	0,3	0,6	0,6
– employees	<i>av. in thous.persons</i>	3914	4001	4048	4125	4196	4107	4021	4018	4038	4060
	<i>growth in %</i>	-0,2	2,2	1,2	1,9	1,7	-2,1	-2,1	-0,1	0,5	0,6
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	792	763	780	797	807	827	865	881	889	897
	<i>growth in %</i>	-2,4	-3,7	2,2	2,2	1,2	2,5	4,5	1,9	0,9	0,9
Unemployment	<i>av. in thous.persons</i>	426	410	371	276	230	352	387	380	358	343
Unemployment rate	<i>average in per cent</i>	8,3	7,9	7,1	5,3	4,4	6,7	7,3	7,2	6,8	6,5
Labour force	<i>av. in thous.persons</i>	5133	5174	5199	5198	5232	5286	5273	5280	5285	5301
	<i>growth in %</i>	0,0	0,8	0,5	0,0	0,7	1,0	-0,3	0,1	0,1	0,3
Population aged 15–64	<i>av. in thous.persons</i>	7247	7270	7307	7347	7410	7431	7399	7349	7291	7235
	<i>growth in %</i>	0,4	0,3	0,5	0,5	0,9	0,3	-0,4	-0,7	-0,8	-0,8
Employment/Pop. 15–64	<i>average in per cent</i>	64,9	65,5	66,1	67,0	67,5	66,4	66,0	66,7	67,6	68,5
Employment rate 15–64¹⁾	<i>average in per cent</i>	64,2	64,8	65,3	66,1	66,6	65,4	65,0	65,6	66,5	67,4
Labour force/Pop. 15–64	<i>average in per cent</i>	70,8	71,2	71,2	70,8	70,6	71,1	71,3	71,8	72,5	73,3
Participation rate 15–64²⁾	<i>average in per cent</i>	70,1	70,4	70,3	69,8	69,7	70,1	70,2	70,7	71,4	72,1
SNA											
Employment (domestic concept)	<i>av. in thous.persons</i>	4940	4992	5088	5224	5288	5226	5187	5223	5261	5308
	<i>growth in %</i>	0,3	1,0	1,9	2,7	1,2	-1,2	-0,7	0,7	0,7	0,9
Hours worked	<i>bill. hours</i>	9,65	9,81	9,97	10,18	10,37	9,88	9,87	9,91	9,99	10,11
	<i>growth in %</i>	0,8	1,6	1,7	2,0	1,9	-4,7	-0,2	0,4	0,8	1,2
Hours worked / employment	<i>hours</i>	1954	1965	1960	1948	1962	1891	1902	1897	1899	1905
	<i>growth in %</i>	0,4	0,6	-0,2	-0,6	0,7	-3,6	0,6	-0,3	0,1	0,3
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	537,4	514,3	474,8	392,8	324,6	465,6	529	519	481	454
Unemployment rate	<i>average in per cent</i>	9,2	9,0	8,1	6,6	5,4	8,0	9,0	8,8	8,2	7,8
Registered foreign workers											
Total	<i>av. in thous.persons</i>	169,4	195,2	233,2	276,2	343,5	335,4	313,5	.	.	.
	<i>growth in %</i>	3,8	15,3	19,4	18,5	24,4	-2,3	-6,5	.	.	.
– employees	<i>av. in thous.persons</i>	106,1	131,2	165,5	209,7	270,2	252,6	219,6	.	.	.
	<i>growth in %</i>	3,7	23,7	26,1	26,7	28,8	-6,5	-13,0	.	.	.
– self-employed	<i>av. in thous.persons</i>	63,3	64,0	67,7	66,5	73,3	82,8	93,9	.	.	.
	<i>growth in %</i>	3,9	1,2	5,7	-1,8	10,2	13,0	13,4	.	.	.

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

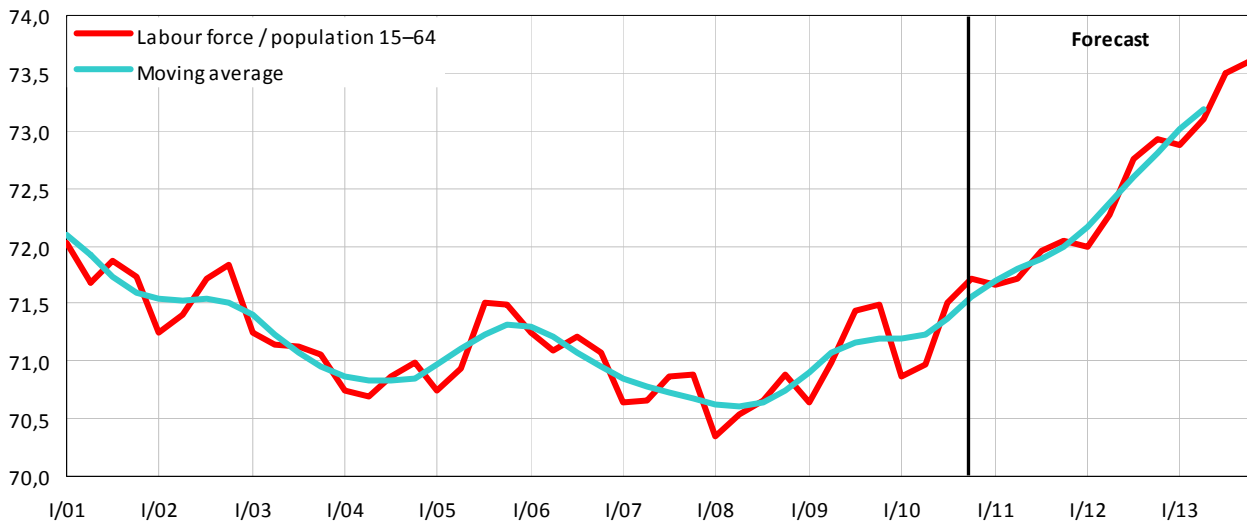
²⁾ The indicator does not contain labour force over 64 years.

Table C.3.2: Employment – quarterly

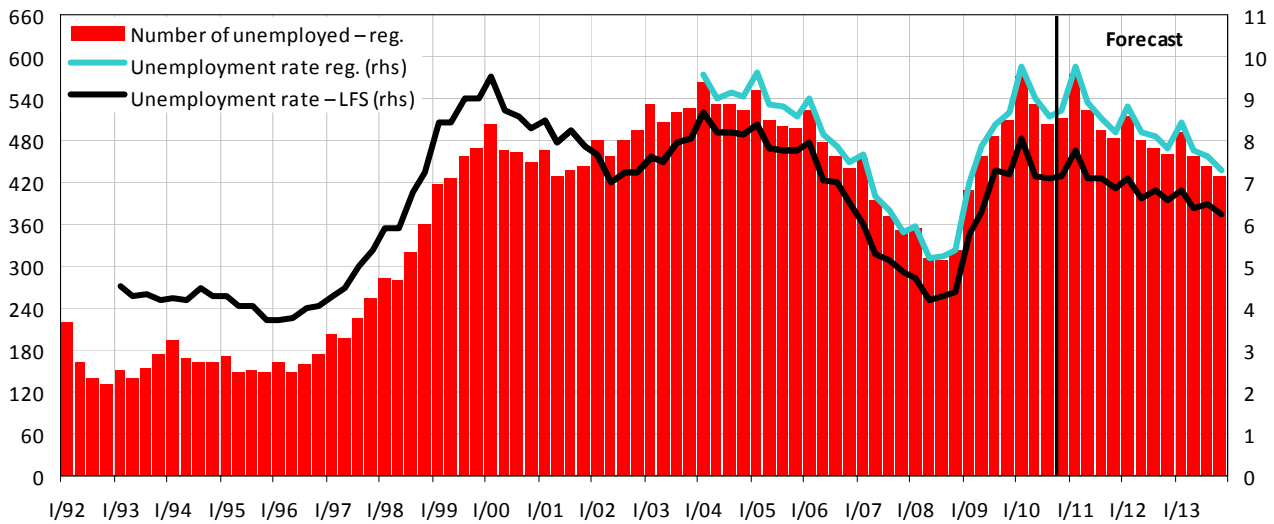
		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Estimate</i>				<i>Forecast</i>			
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4829	4881	4912	4918	4873	4900	4908	4917
	<i>growth in %</i>	-2,4	-1,2	-0,2	-0,2	0,9	0,4	-0,1	0,0
	<i>quart. growth in %¹⁾</i>	-1,3	0,6	0,5	0,1	-0,3	0,1	0,1	0,1
– employees	<i>av. in thous. persons</i>	3992	4013	4035	4041	3995	4019	4026	4033
	<i>growth in %</i>	-3,2	-2,6	-1,3	-1,4	0,1	0,2	-0,2	-0,2
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	837	868	877	877	878	880	882	884
	<i>growth in %</i>	1,7	5,5	5,3	5,6	5,0	1,4	0,7	0,8
Unemployment	<i>av. in thous. persons</i>	423	375	374	378	409	375	374	363
Unemployment rate	<i>average in per cent</i>	8,0	7,1	7,1	7,1	7,7	7,1	7,1	6,9
Labour force	<i>av. in thous. persons</i>	5252	5256	5286	5296	5282	5275	5283	5280
	<i>growth in %</i>	0,0	-0,4	-0,4	-0,3	0,6	0,4	-0,1	-0,3
Population aged 15–64	<i>av. in thous. persons</i>	7412	7406	7393	7384	7370	7356	7342	7328
	<i>growth in %</i>	-0,3	-0,3	-0,5	-0,6	-0,6	-0,7	-0,7	-0,8
Employment/Pop. 15–64	<i>average in per cent</i>	65,2	65,9	66,4	66,6	66,1	66,6	66,8	67,1
	<i>increase over a year</i>	-1,4	-0,6	0,2	0,3	1,0	0,7	0,4	0,5
Employment rate 15–64	<i>average in per cent</i>	64,1	64,9	65,4	65,5	65,1	65,5	65,8	66,0
	<i>increase over a year</i>	-1,4	-0,5	0,2	0,3	0,9	0,6	0,3	0,5
Labour force/Pop. 15–64	<i>average in per cent</i>	70,9	71,0	71,5	71,7	71,7	71,7	71,9	72,1
	<i>increase over a year</i>	0,2	0,0	0,1	0,2	0,8	0,7	0,4	0,3
Participation rate 15–64	<i>average in per cent</i>	69,8	70,0	70,5	70,6	70,6	70,6	70,9	70,9
	<i>increase over a year</i>	0,2	0,0	0,1	0,2	0,8	0,6	0,4	0,3
SNA									
Employment (domestic concept)	<i>av. in thous. persons</i>	5126	5176	5215	5232	5179	5209	5243	5263
	<i>growth in %</i>	-2,1	-1,0	-0,1	0,2	1,0	0,6	0,5	0,6
Hours worked	<i>bill.</i>	2,46	2,54	2,39	2,47	2,49	2,57	2,36	2,48
	<i>growth in %</i>	-1,9	-0,9	1,7	0,5	1,4	1,0	-1,1	0,4
Hours worked / employment	<i>hours</i>	480	492	458	472	481	493	451	472
	<i>growth in %</i>	0,2	0,1	1,8	0,4	0,4	0,4	-1,7	-0,2
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	571,1	530,5	502,4	510,9	573	524	495	483
Unemployment rate	<i>average in per cent</i>	9,7	9,0	8,6	8,7	9,8	8,9	8,5	8,2
Registered foreign workers									
Total	<i>av. in thous. persons</i>	315,0	316,2	312,9	310,0	.	.	.	.
	<i>growth in %</i>	-9,6	-6,0	-5,7	-4,6	.	.	.	.
– employees	<i>av. in thous. persons</i>	222,8	218,4	218,1	219,3	.	.	.	.
	<i>growth in %</i>	-17,5	-14,3	-11,8	-7,9	.	.	.	.
– self-employed	<i>av. in thous. persons</i>	92,2	97,9	94,7	90,7	.	.	.	.
	<i>growth in %</i>	17,7	20,1	11,9	4,5	.	.	.	.

¹⁾ Seasonal adjustment done by the MoF.

Graph C.3.1: Ratio of Labour Force to Population aged 15–64 (in %)



Graph C.3.2: Unemployment
quarterly average, in thousands of persons, in % (rhs)



Graph C.3.3: Economic Output and Unemployment
YoY increase of real GDP in %. Change in unemployment in thousands of persons

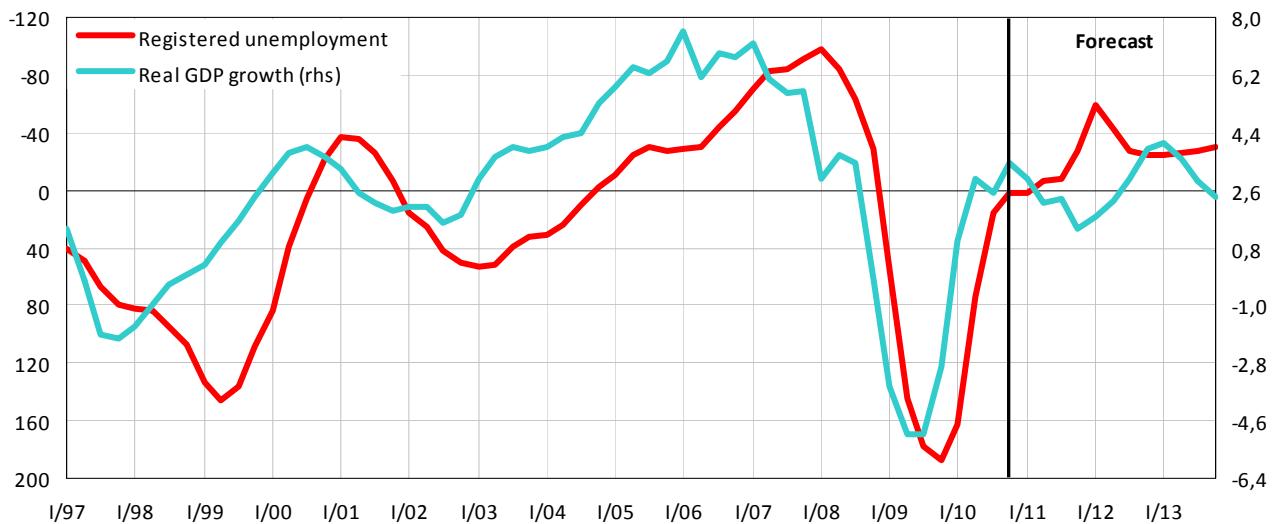


Table C.3.3: Labour Market – analytical indicators

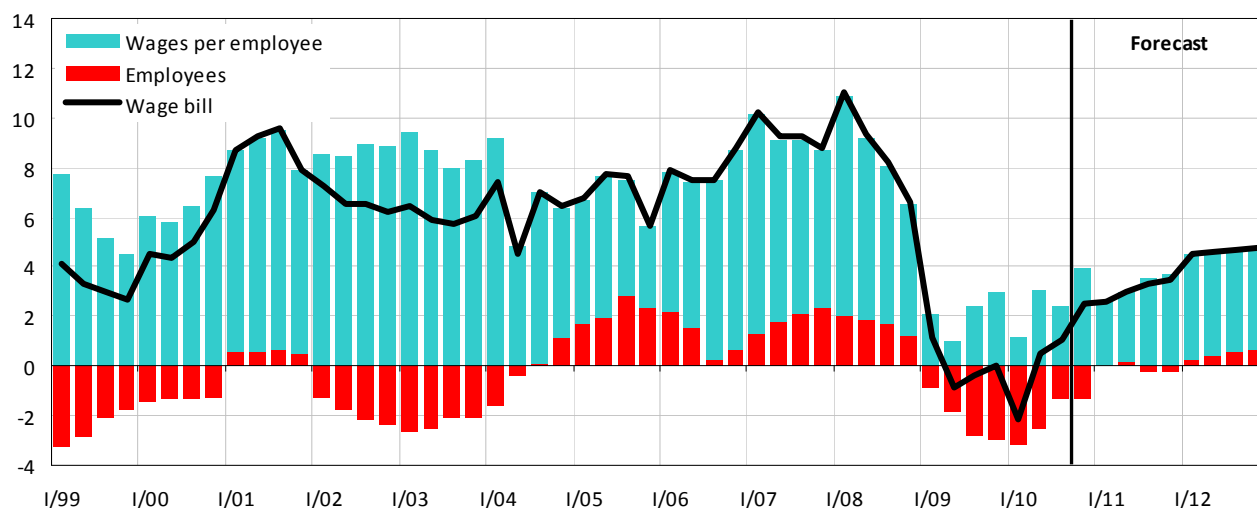
			2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
												Estimate	Forecast	Forecast
Compensation per employee														
– nominal	growth in %		8,2	6,7	4,6	6,6	7,3	5,9	0,5	3,7	3,2	4,1		
– real	growth in %		8,1	3,8	2,6	4,0	4,4	-0,4	-0,5	2,2	0,8	1,7		
Average monthly wage ¹⁾														
– nominal	CZK		16 430	17 466	18 344	19 546	20 957	22 691	23 488	24 100	24 800	25 800		
	growth in %		5,8	6,3	5,0	6,6	7,2	8,3	3,5	2,6	2,9	4,1		
– real	CZK 2005		17 206	17 791	18 344	19 063	19 874	20 235	20 729	21 000	21 100	21 400		
	growth in %		5,7	3,4	3,1	3,9	4,3	1,8	2,4	1,1	0,5	1,7		
Labour productivity	growth in %		4,3	5,1	5,0	5,4	4,1	0,8	-2,8	3,5	1,9	2,2		
Unit labour costs ²⁾	growth in %		3,8	1,5	-0,5	1,2	3,1	5,1	3,5	0,2	1,2	1,9		
Compensations of employees / GDP	%		43,8	42,7	43,1	43,0	42,9	44,3	44,3	44,2	44,2	44,2		

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

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

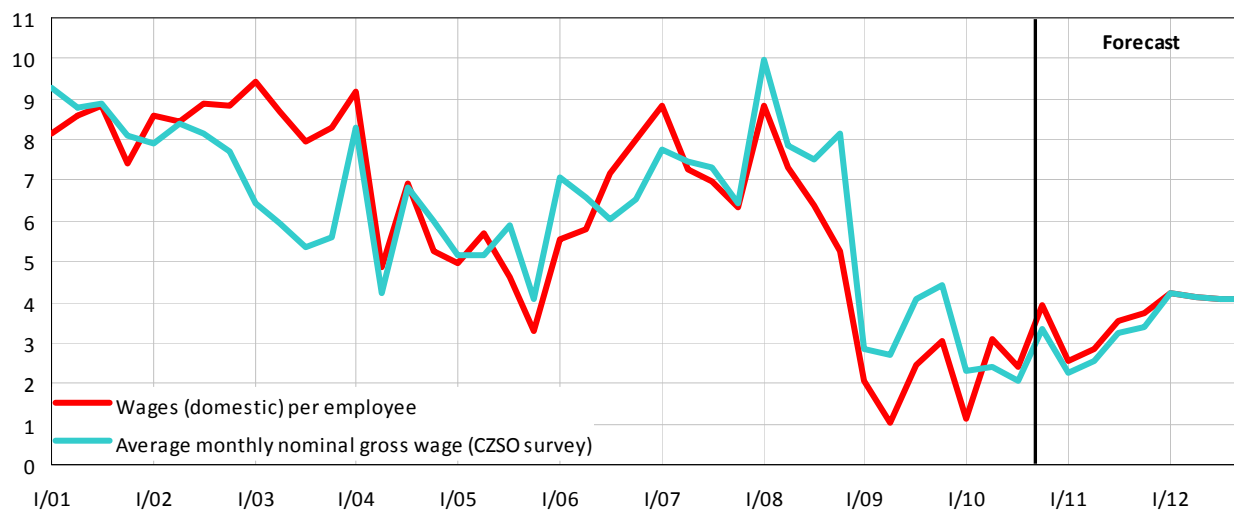
Graph C.3.4: Wage Bill – nominal, domestic concept

YoY growth rate, in %

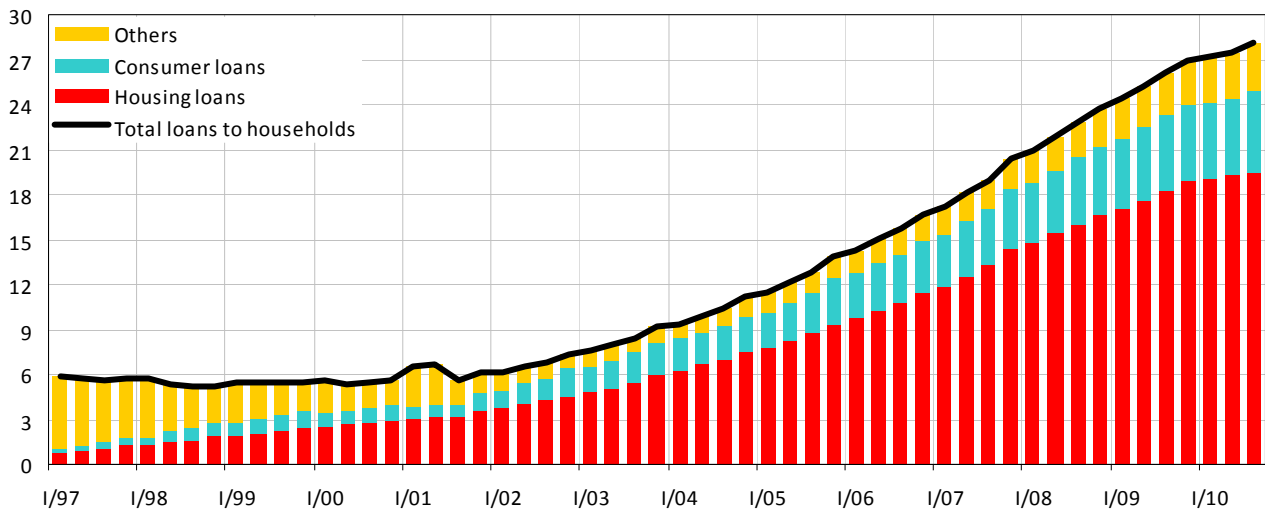


Graph C.3.5: Average Nominal Wage

YoY growth rate, in %



Graph C.3.6: Ratio of Bank Loans to Households to GDP
yearly moving sums of GDP, in %



Graph C.3.7: Gross Savings Rate of Households
in % of disposable income

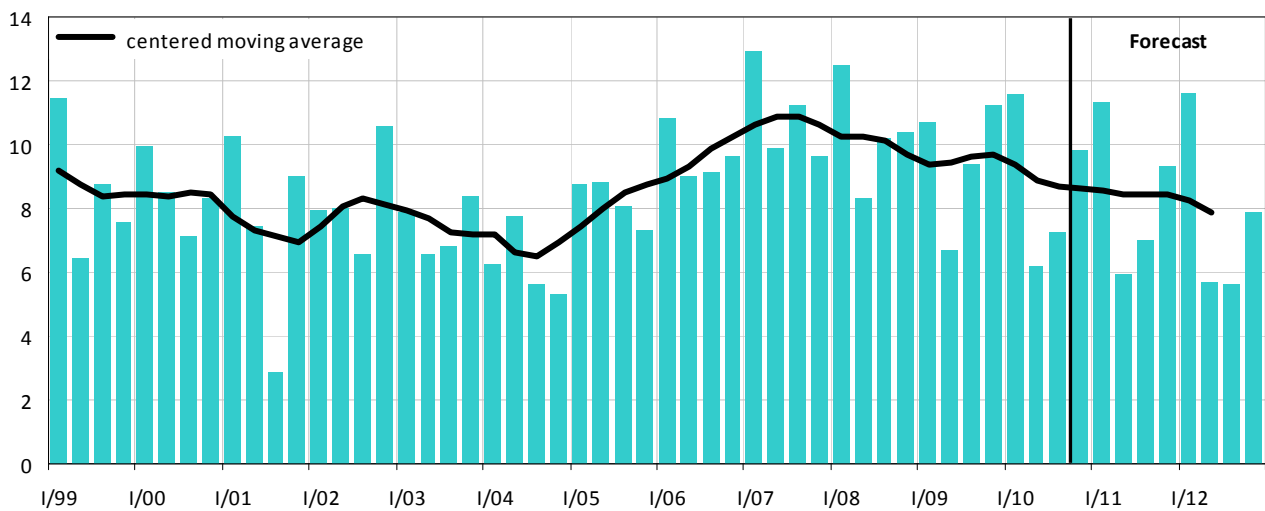


Table C.3.4: **Income and Expenditures of Households – yearly**
SNA methodology – national concept

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Current income											
Compensation of employees	<i>bill.CZK</i>	1120	1186	1273	1387	1511	1614	1594	1629	1680	1750
	<i>growth in %</i>	6,8	5,9	7,3	8,9	8,9	6,8	-1,3	2,2	3,1	4,2
Gross operating surplus and mixed income	<i>bill.CZK</i>	425	449	446	470	505	543	495	499	523	557
	<i>growth in %</i>	7,5	5,7	-0,6	5,4	7,5	7,5	-8,8	0,7	5,0	6,5
Property income received	<i>bill.CZK</i>	97	109	120	133	158	151	122	123	125	130
	<i>growth in %</i>	-1,1	12,7	9,6	11,2	18,5	-4,2	-19,5	0,6	2,0	4,0
Social benefits not-in-kind	<i>bill.CZK</i>	324	369	386	417	466	488	527	532	535	542
	<i>growth in %</i>	3,6	.	4,6	8,1	11,8	4,5	8,1	1,0	0,5	1,4
Other current transfers received	<i>bill.CZK</i>	91	93	103	113	122	137	144	145	151	158
	<i>growth in %</i>	6,8	2,9	10,1	9,8	8,4	12,2	4,8	1,0	4,0	5,0
Current expenditure											
Property income paid	<i>bill.CZK</i>	19	21	20	25	29	33	22	20	20	20
	<i>growth in %</i>	49,0	12,4	-5,3	22,3	19,5	12,5	-34,3	-6,2	-2,0	0,0
Curr. taxes on income and property	<i>bill.CZK</i>	128	138	140	141	157	140	135	137	144	147
	<i>growth in %</i>	11,9	7,6	1,7	0,7	10,9	-10,8	-3,6	1,5	5,6	1,8
Social contributions	<i>bill.CZK</i>	408	474	507	561	615	634	596	617	636	662
	<i>growth in %</i>	6,7	.	7,1	10,6	9,5	3,2	-6,1	3,5	3,1	4,2
Other current transfers paid	<i>bill.CZK</i>	93	100	109	118	129	141	150	149	152	155
	<i>growth in %</i>	13,7	7,2	9,2	8,6	9,3	9,1	6,7	-1,0	2,0	2,0
Gross disposable income	<i>bill.CZK</i>	1409	1474	1551	1675	1833	1985	1979	2005	2062	2154
	<i>growth in %</i>	4,5	4,6	5,3	8,0	9,4	8,3	-0,3	1,3	2,9	4,5
Final consumption	<i>bill.CZK</i>	1317	1399	1443	1537	1660	1804	1804	1846	1906	2006
	<i>growth in %</i>	5,6	6,2	3,1	6,6	8,0	8,7	0,0	2,3	3,2	5,3
Change in share in pension funds	<i>bill.CZK</i>	13	17	19	23	26	24	14	16	17	18
Gross savings	<i>bill.CZK</i>	105	92	128	161	200	205	189	175	173	165
Capital transfers (income (-) / expenditure (+))	<i>bill.CZK</i>	-21	-23	-25	-23	-23	-23	-23	-25	-20	-15
Gross capital formation	<i>bill.CZK</i>	122	132	136	154	191	191	197	181	175	181
	<i>growth in %</i>	-5,1	7,8	2,6	13,5	24,2	-0,2	3,5	-8,2	-3,2	3,0
Change in financial assets and liab.	<i>bill.CZK</i>	6	-18	20	30	31	37	14	18	18	0
Real disposable income	<i>growth in %</i>	4,4	1,8	3,3	5,3	6,4	1,8	-1,3	-0,2	0,5	2,1
Gross savings rate	%	7,4	6,2	8,2	9,6	10,9	10,3	9,5	8,7	8,4	7,7

Note: Government payments to social security systems for non-active population have been imputed to social benefits and social security contributions since 2004.

C.4 External Relations

Sources: CNB, CZSO, Eurostat, MoF estimates

Table C.4.1: Balance of Payments – yearly

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Estimate	Forecast	Forecast
Balance of goods and services	bill.CZK	-57	3	96	110	170	169	208	163	196	235
– balance of trade ¹⁾	bill.CZK	-70	-13	59	65	121	103	181	200	233	271
— custom statistics	bill.CZK	-70	-26	39	40	88	67	150	123	147	177
— mineral fuels (SITC 3) ²⁾	bill.CZK	-68	-72	-110	-139	-124	-166	-106	-138	-156	-163
— others ²⁾	bill.CZK	-1	46	149	179	212	233	256	261	303	340
— difference fob–cif	bill.CZK	.	13	21	25	33	35	31	77	86	94
– balance of services	bill.CZK	13	17	37	45	50	66	27	-37	-36	-36
Balance of income	bill.CZK	-120	-157	-143	-167	-256	-174	-231	-266	-298	-362
– compensation of employees	bill.CZK	-17	-16	-11	1	-5	-19	-14	-3	-3	-11
– investment income	bill.CZK	-103	-141	-132	-168	-251	-155	-217	-263	-295	-351
Balance of transfers	bill.CZK	16	6	7	-20	-28	-17	-14	-2	6	10
Current account	bill.CZK	-161	-147	-40	-77	-113	-23	-37	-104	-96	-117
Capital account	bill.CZK	0	-14	5	8	20	30	41	42	41	43
Financial account	bill.CZK	157	177	155	92	126	59	95	.	.	.
– foreign direct investments	bill.CZK	54	102	280	90	179	36	26	.	.	.
– portfolio investments	bill.CZK	-36	53	-81	-27	-57	-9	114	.	.	.
– other investments	bill.CZK	139	23	-44	29	4	32	-45	.	.	.
Change in reserves	bill.CZK	13	7	93	2	16	40	61	.	.	.
Gross external debt	bill.CZK	895	1012	1142	1194	1375	1607	1590	1828	1935	2061
Balance of goods and services / GDP	per cent	-2,2	0,1	3,2	3,4	4,8	4,6	5,7	4,4	5,2	5,9
Current account / GDP	per cent	-6,2	-5,2	-1,3	-2,4	-3,2	-0,6	-1,0	-2,8	-2,5	-2,9
Financial account / GDP	per cent	6,1	6,3	5,2	2,9	3,6	1,6	2,6	.	.	.
Gross external debt / GDP ³⁾	per cent	34,7	35,9	38,3	37,0	38,9	43,6	43,8	50	51	52

Because of large discrepancies between balance of payments and quarterly national accounts the values of exports and imports of goods and services have not been forecasted.

¹⁾ Imports – fob since May 2004

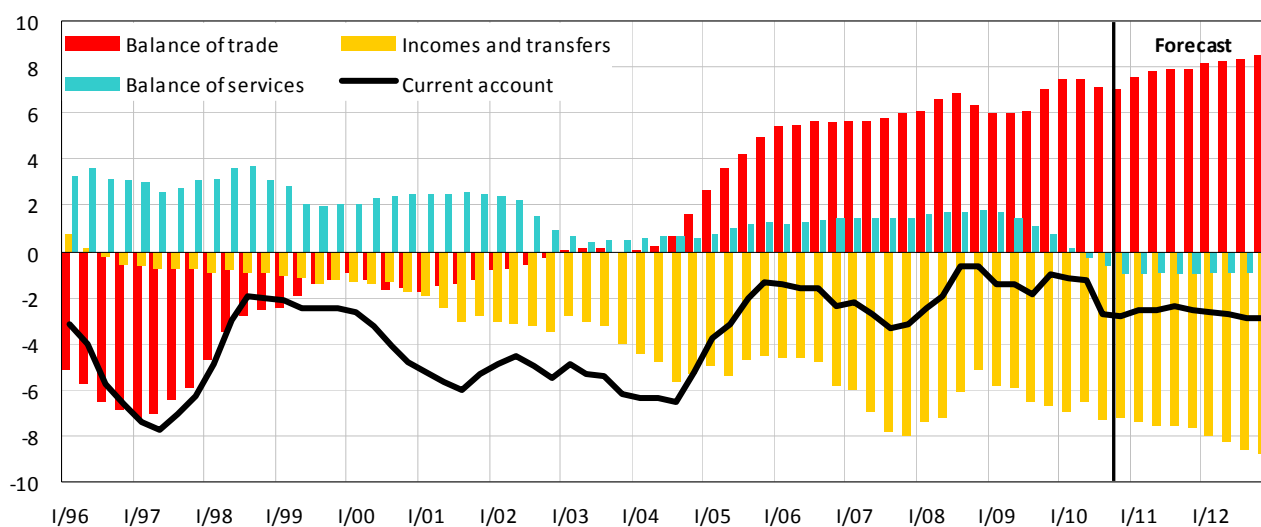
²⁾ Imports – cif

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

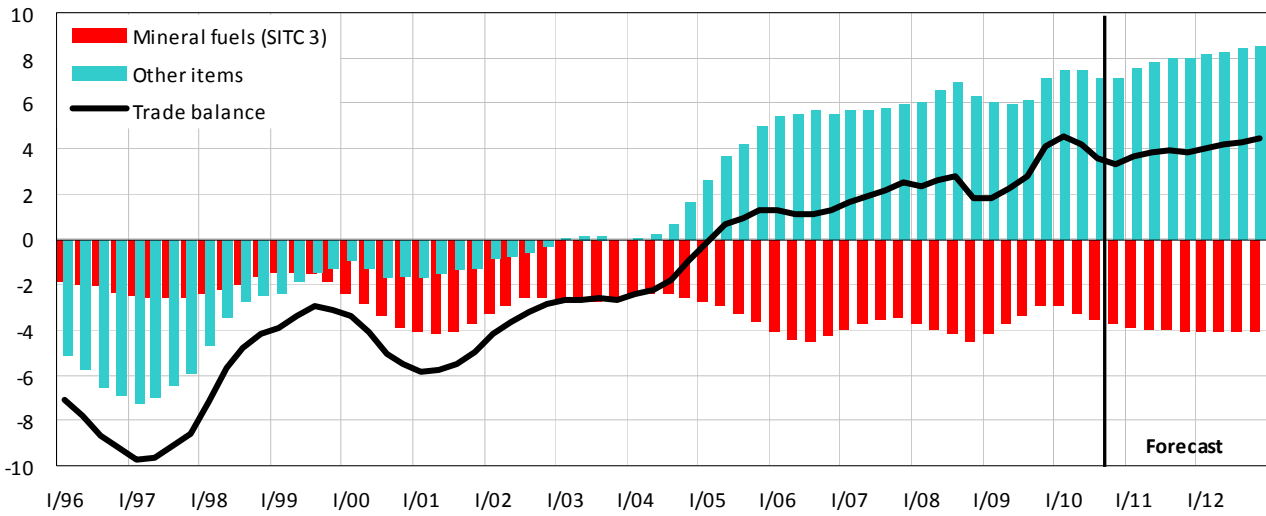
Table C.4.2: **Balance of Payments – quarterly**
moving sums of the latest 4 quarters

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Balance of goods and services	bill.CZK	208	192	169	163	180	190	196	196
-- balance of trade	bill.CZK	203	203	194	200	216	224	232	233
--- custom statistics	bill.CZK	163	152	130	123	137	143	148	147
---- mineral fuels (SITC 3)	bill.CZK	-108	-120	-131	-138	-145	-150	-153	-156
---- others	bill.CZK	271	272	261	261	281	293	301	303
--- difference fob-cif	bill.CZK	40	51	65	77	80	82	84	86
-- balance of services	bill.CZK	5	-11	-25	-37	-37	-35	-36	-36
Balance of income	bill.CZK	-233	-223	-260	-266	-274	-282	-290	-298
- compensation of employees	bill.CZK	-10	-7	-5	-3	-3	-3	-3	-3
- investment income	bill.CZK	-224	-216	-255	-263	-271	-279	-287	-295
Balance of transfers	bill.CZK	-18	-14	-8	-2	-1	-2	4	6
Current account	bill.CZK	-43	-44	-98	-104	-95	-95	-90	-96
Capital account	bill.CZK	28	33	42	42	43	40	40	41
Financial account	bill.CZK	75	79	180	.	.	.	.	.
- foreign direct investments	bill.CZK	46	66	129	.	.	.	.	.
- portfolio investments	bill.CZK	129	112	166	.	.	.	.	.
- other investments	bill.CZK	-99	-99	-115	.	.	.	.	.
Change in reserves	bill.CZK	18	15	78	.	.	.	.	.
Gross external debt	bill.CZK	1553	1686	1818	1828	1808	1847	1919	1935

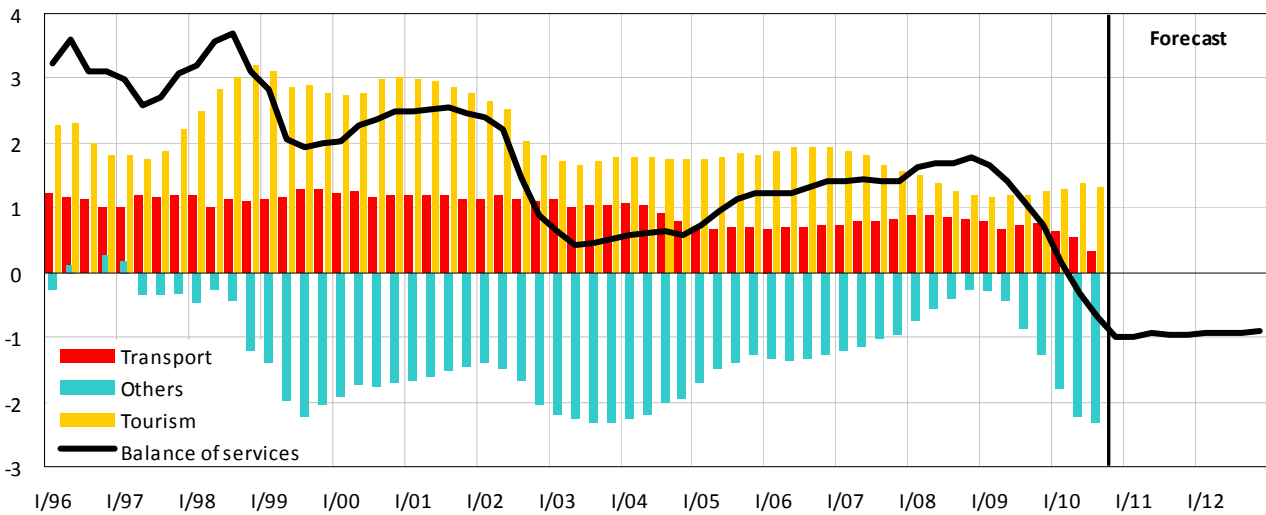
Graph C.4.1: **Current Account**
moving sums of the latest 4 quarters, in % of GDP



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



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



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

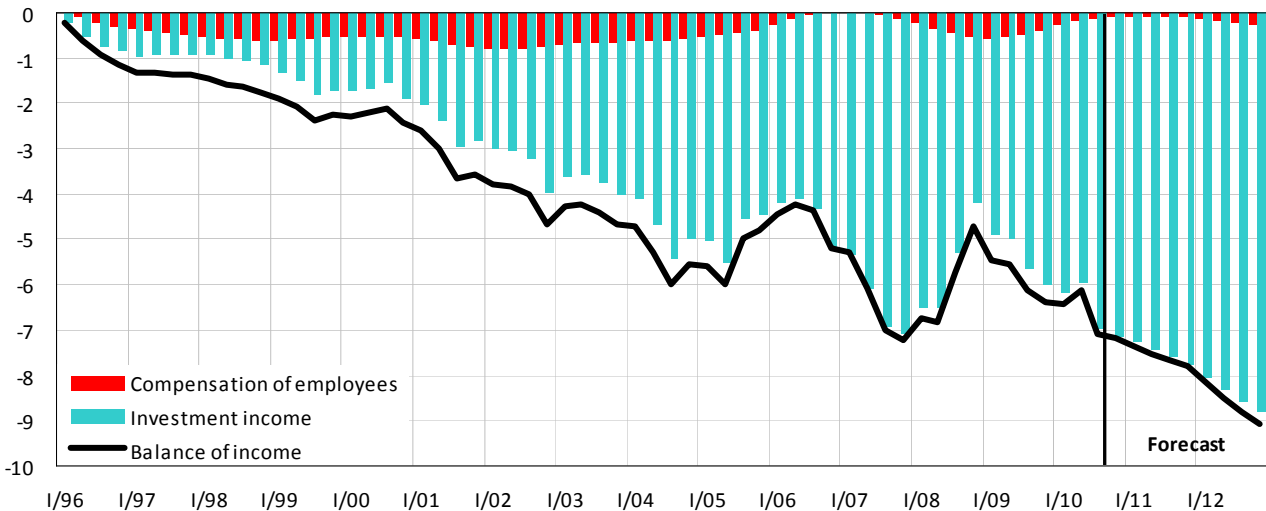


Table C.4.3: Decomposition of Exports of Goods – yearly

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Estimate	Forecast	Forecast
GDP ¹⁾	<i>average of 2000=100</i>	103,7	105,8	108,0	112,5	117,0	118,8	114,2	118	121	123
	<i>growth in %</i>	1,0	2,0	2,1	4,1	4,0	1,6	-3,9	3,1	2,4	2,2
Import intensity ²⁾	<i>average of 2000=100</i>	105,8	112,3	118,7	127,9	130,7	130,1	120,1	131	139	146
	<i>growth in %</i>	4,4	6,1	5,7	7,8	2,2	-0,5	-7,7	9,0	6,3	4,8
Export markets ³⁾	<i>average of 2000=100</i>	109,7	118,8	128,2	143,9	152,9	154,5	137,1	154	168	180
	<i>growth in %</i>	5,5	8,2	7,9	12,3	6,3	1,1	-11,3	12,4	8,9	7,1
Export performance	<i>average of 2000=100</i>	120,3	136,7	141,4	146,9	160,1	167,4	161,0	165	170	175
	<i>growth in %</i>	3,6	13,7	3,5	3,8	9,0	4,6	-3,8	2,5	2,8	3,3
Real exports	<i>average of 2000=100</i>	132,0	162,4	181,3	211,3	244,8	258,7	220,8	254	285	315
	<i>growth in %</i>	9,3	23,0	11,6	16,6	15,8	5,7	-14,6	15,2	12,0	10,7
1 / NEER	<i>average of 2000=100</i>	85,9	85,3	80,3	76,4	74,5	66,7	69,2	67	65	63
	<i>growth in %</i>	0,0	-0,7	-6,0	-4,8	-2,5	-10,4	3,7	-2,6	-3,4	-2,9
Prices on foreign markets	<i>average of 2000=100</i>	107,8	110,9	114,6	118,5	121,4	127,5	122,8	124	128	131
	<i>growth in %</i>	0,0	2,8	3,3	3,4	2,4	5,0	-3,7	1,3	2,7	2,7
Exports deflator	<i>average of 2000=100</i>	92,7	94,6	92,0	90,6	90,4	85,1	84,9	84	83	83
	<i>growth in %</i>	0,0	2,1	-2,8	-1,5	-0,1	-5,9	-0,2	-1,3	-0,8	-0,3
Nominal exports	<i>average of 2000=100</i>	122,3	153,7	166,7	191,3	221,1	220,0	187,3	213	237	262
	<i>growth in %</i>	9,3	25,7	8,5	14,8	15,6	-0,5	-14,9	13,9	11,1	10,3

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.

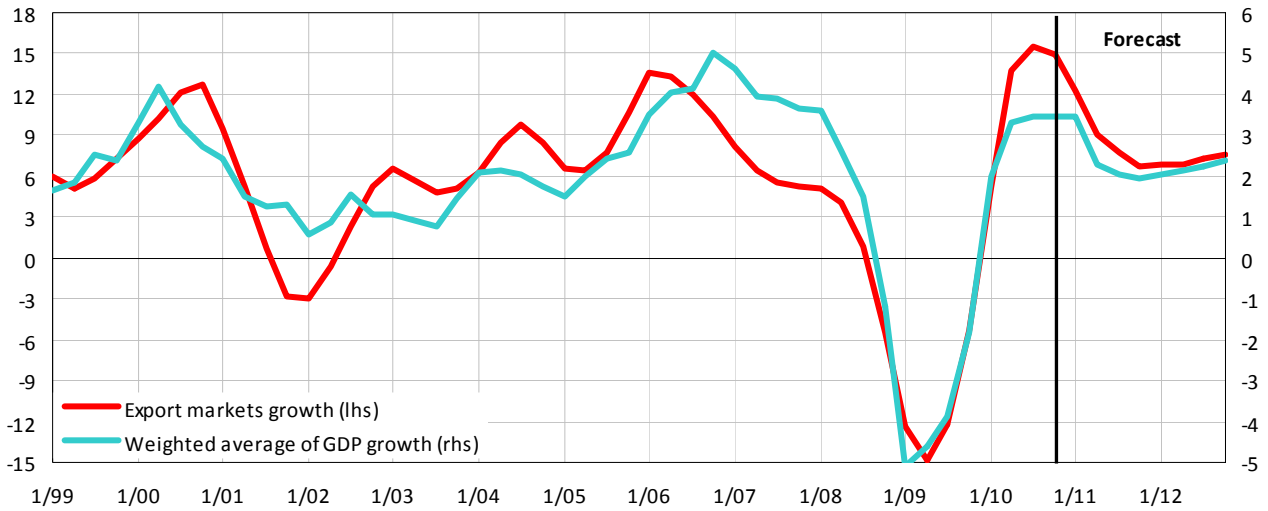
³⁾ Weighted average of imports of goods of the main partners.

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

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
GDP	<i>average of 2000=100</i>	115,7	117,6	118,4	119	120	120	121	121
	<i>growth in %</i>	2,0	3,3	3,5	3,5	3,4	2,3	2,1	2,0
Import intensity	<i>average of 2000=100</i>	126,1	129,8	132,6	135	137	138	140	141
	<i>growth in %</i>	3,2	10,1	11,6	11,1	8,5	6,6	5,6	4,7
Export markets	<i>average of 2000=100</i>	145,9	152,6	157,0	161	164	166	169	172
	<i>growth in %</i>	5,3	13,8	15,5	15,0	12,3	9,1	7,7	6,7
Export performance	<i>average of 2000=100</i>	162,9	166,0	161,7	170	167	171	167	174
	<i>growth in %</i>	9,1	1,2	-1,4	1,6	2,8	2,8	3,0	2,8
Real exports	<i>average of 2000=100</i>	237,6	253,3	253,8	273	274	284	282	300
	<i>growth in %</i>	14,9	15,2	13,9	16,8	15,4	12,2	11,0	9,7
1 / NEER	<i>average of 2000=100</i>	68,5	68,5	66,8	66	66	65	65	64
	<i>growth in %</i>	-5,2	-1,8	-0,4	-2,6	-3,9	-4,5	-2,8	-2,4
Prices on foreign markets	<i>average of 2000=100</i>	122,1	124,0	125,7	126	125	127	129	129
	<i>growth in %</i>	-1,5	1,2	2,9	3,0	2,7	2,7	2,7	2,7
Exports deflator	<i>average of 2000=100</i>	83,6	84,9	83,9	83	83	83	84	83
	<i>growth in %</i>	-6,7	-0,7	2,5	0,3	-1,3	-2,0	-0,2	0,2
Nominal exports	<i>average of 2000=100</i>	198,6	215,0	213,0	227	226	236	236	250
	<i>growth in %</i>	7,3	14,4	16,7	17,2	13,9	10,0	10,7	10,0

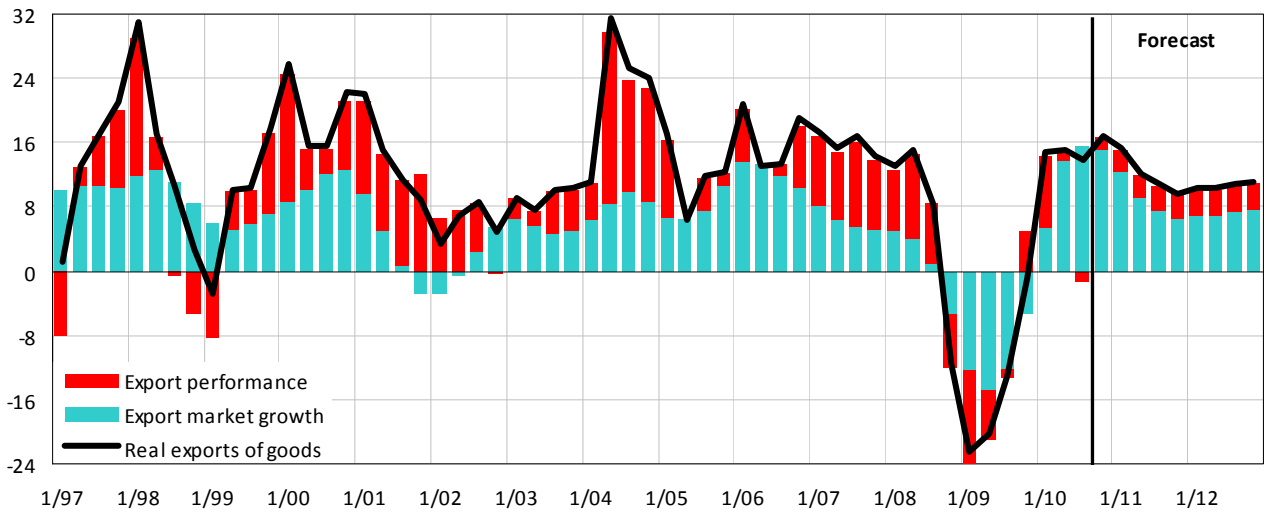
Graph C.4.5: GDP and Imports of Goods in Main Partner Countries

YoY growth, in %



Graph C.4.6: Real Exports of Goods

decomposition of YoY growth, in %



Graph C.4.7: Deflator of Exports of Goods

decomposition of YoY growth, in %

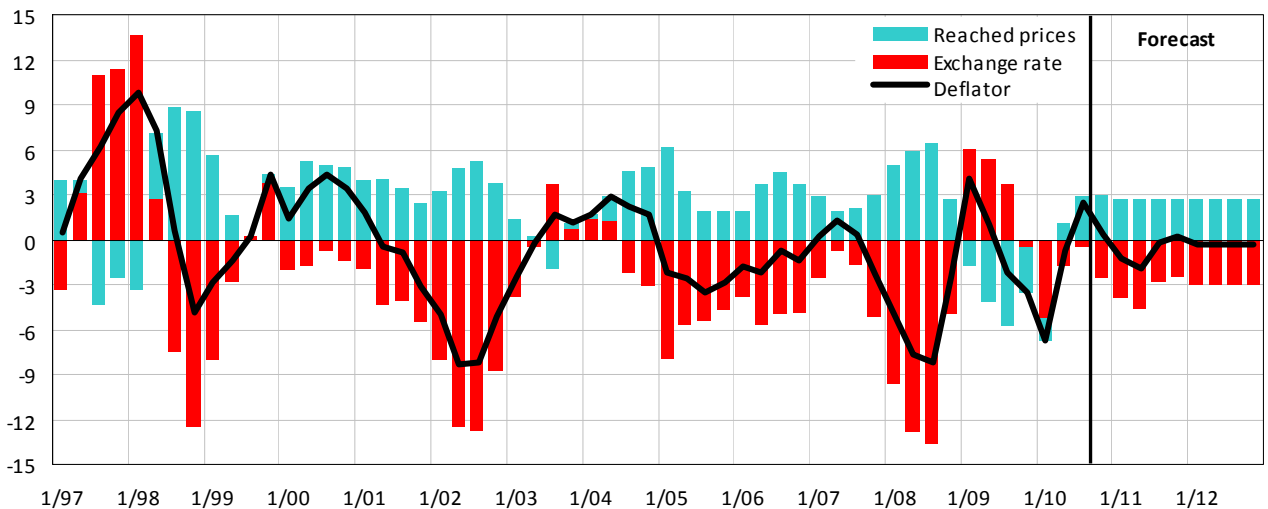
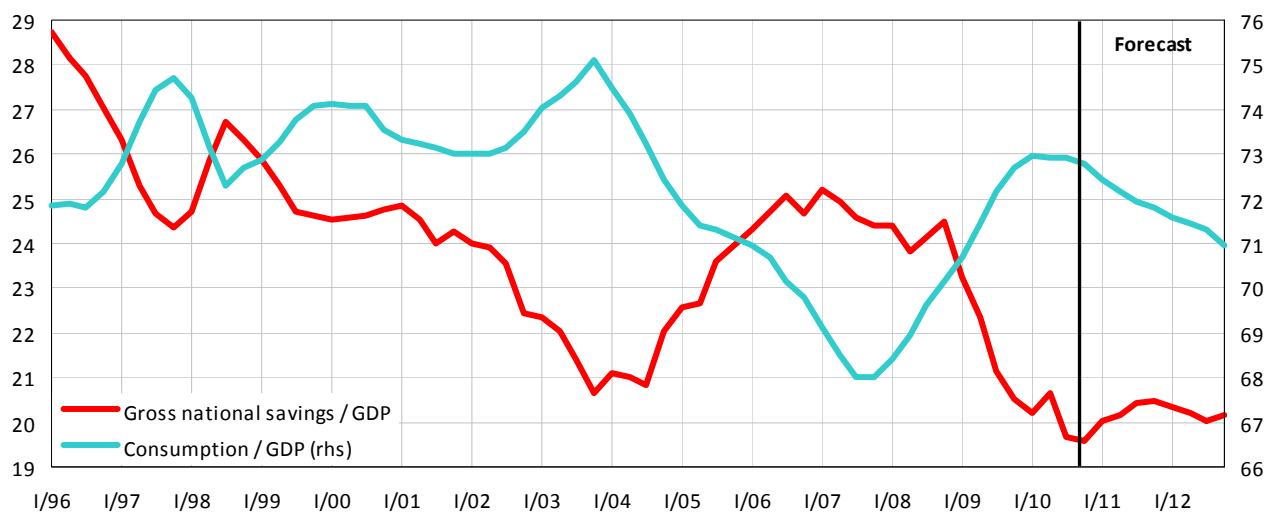


Table C.4.5: Savings and Investments – yearly

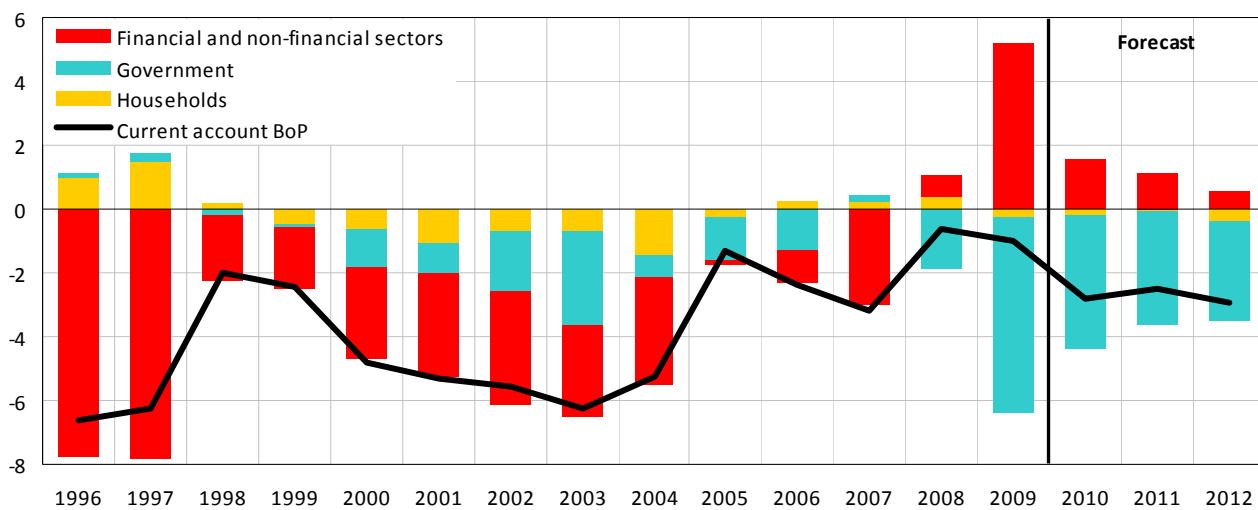
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Estimate	Forecast	Forecast
Gross capital formation	% of GDP	27,2	27,5	25,7	26,8	27,0	25,3	21,7	22,7	23,0	23,1
–fixed capital formation	% of GDP	26,7	25,8	24,9	24,7	25,2	23,9	22,5	21,9	21,6	21,8
–change in stocks	% of GDP	0,5	1,7	0,8	2,1	1,8	1,4	-0,7	0,8	1,3	1,3
–government sector	% of GDP	4,4	4,7	4,9	5,0	4,6	4,9	5,3	5,6	5,6	5,6
–households	% of GDP	4,8	4,7	4,5	4,8	5,4	5,2	5,4	4,9	4,6	4,5
–non-financial and financial sectors	% of GDP	18,1	18,1	16,3	17,0	17,0	15,2	11,0	12,3	12,7	12,9
Gross national savings	% of GDP	20,7	22,0	23,9	24,7	24,4	24,5	20,5	19,9	20,5	20,1
–government sector	% of GDP	1,4	4,0	3,5	3,7	4,8	3,0	-0,9	1,4	2,1	2,5
–households	% of GDP	4,1	3,3	4,3	5,0	5,6	5,6	5,2	4,7	4,5	4,1
–non-financial and financial sectors	% of GDP	15,2	14,7	16,1	16,0	14,0	15,9	16,2	13,8	13,8	13,5
Financial balance											
–government sector	% of GDP	-2,9	-0,7	-1,3	-1,3	0,2	-1,9	-6,2	-4,2	-3,5	-3,1
–households	% of GDP	-0,7	-1,4	-0,3	0,2	0,2	0,4	-0,2	-0,2	-0,1	-0,4
–non-financial and financial sectors	% of GDP	-2,9	-3,4	-0,1	-1,0	-3,0	0,7	5,2	1,5	1,1	0,6
–methodological discrepancy	% of GDP	0,3	0,2	0,4	-0,3	-0,6	0,2	0,2	0,0	0,0	0,0
Current account BoP	% of GDP	-6,2	-5,2	-1,3	-2,4	-3,2	-0,6	-1,0	-2,8	-2,5	-2,9

Graph C.4.8: Gross National Savings and Consumption

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



Graph C.4.9: **Financial Balances of Individual Sectors**
savings less investments, in % of GDP



C.5 International Comparisons

Sources: Eurostat, OECD, IMF, MoF estimates

Table C.5.1: GDP p.c. – using current purchasing power parities

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
										Estimate	Forecast	Forecast
Slovenia	PPS	17 300	18 700	19 700	20 700	22 100	22 800	20 700	21 100	21 800	22 500	
	EA 12 = 100	75	78	79	79	80	83	80	80	81	82	
Greece	PPS	19 200	20 300	20 600	21 900	22 800	23 300	21 900	21 200	20 700	20 700	
	EA 12 = 100	83	85	83	84	83	85	85	80	77	75	
Czech Republic	PPS	15 200	16 300	17 100	18 200	19 900	20 200	19 200	19 800	20 500	21 200	
	EA 12 = 100	66	68	69	70	73	74	75	75	76	77	
Portugal	PPS	16 400	16 700	17 800	18 600	19 600	19 500	18 800	19 200	19 500	19 900	
	EA 12 = 100	71	70	72	71	71	71	73	73	73	72	
Slovakia	PPS	11 500	12 300	13 500	15 000	17 000	18 100	17 200	18 000	18 800	19 800	
	EA 12 = 100	50	52	54	57	62	66	67	69	70	72	
Hungary	PPS	13 000	13 700	14 200	14 900	15 600	16 200	15 300	15 600	16 000	16 500	
	EA 12 = 100	56	57	57	57	57	59	59	59	59	60	
Estonia	PPS	11 300	12 400	13 800	15 600	17 400	16 900	14 800	15 000	15 900	16 700	
	EA 12 = 100	49	52	56	60	63	62	57	57	59	60	
Poland	PPS	10 100	11 000	11 500	12 300	13 600	14 100	14 300	14 900	15 700	16 600	
	EA 12 = 100	44	46	46	47	49	51	55	57	58	60	
Lithuania	PPS	10 200	10 900	11 900	13 100	14 700	15 300	12 900	13 100	13 600	14 400	
	EA 12 = 100	44	46	48	50	54	56	50	50	51	52	
Latvia	PPS	9 000	9 900	10 900	12 200	13 900	14 100	12 200	12 300	12 800	13 500	
	EA 12 = 100	39	41	44	47	51	52	47	47	47	49	

Graph C.5.1: GDP p.c. – using current purchasing power parities

EA 12 = 100

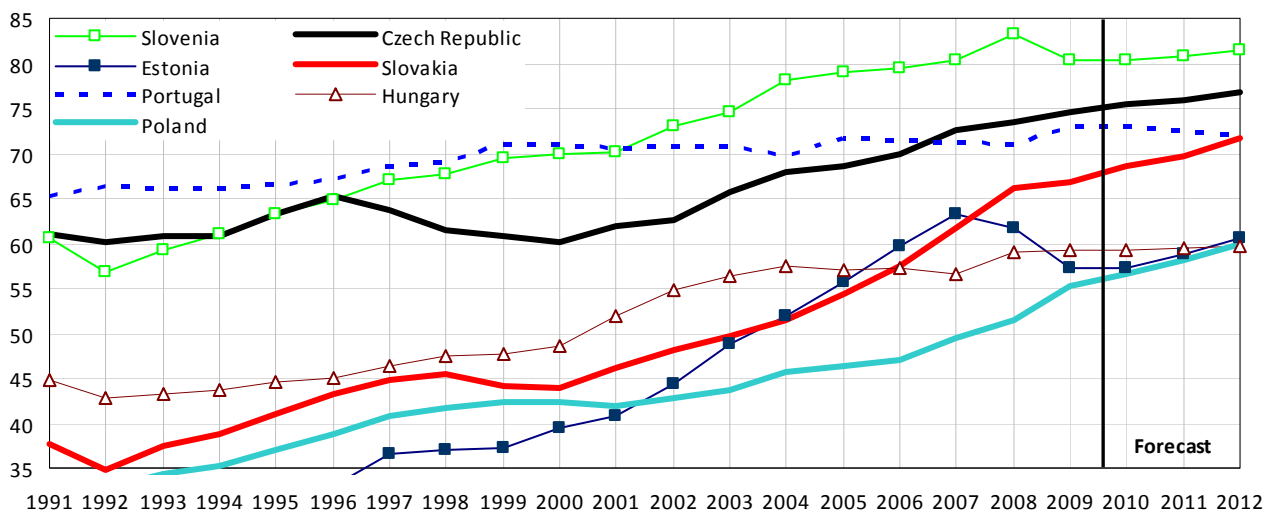
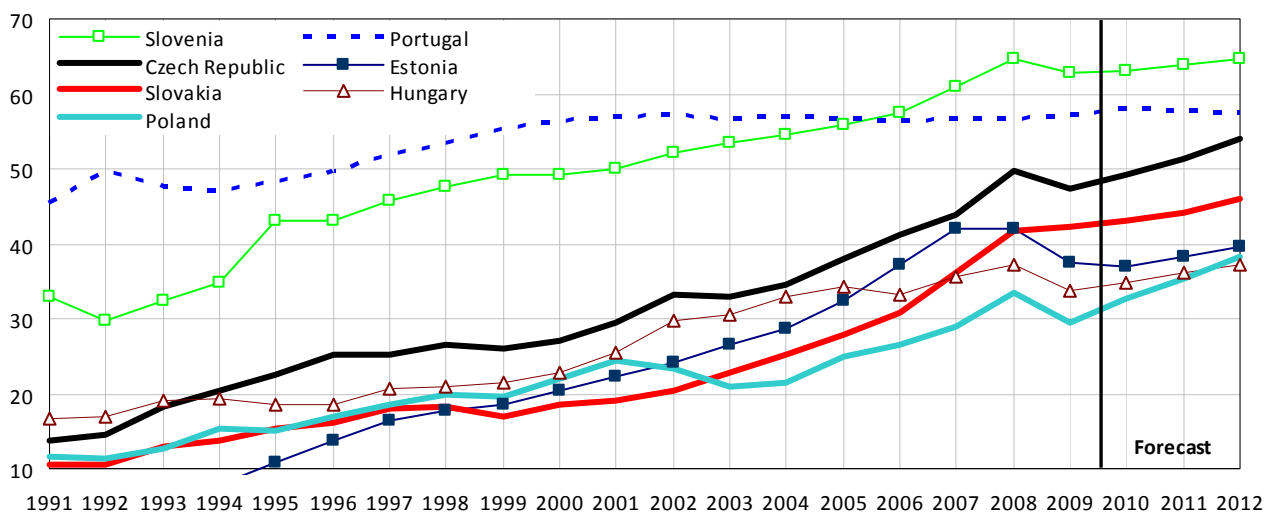


Table C.5.2: GDP p.c. – using current exchange rates

			2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
												Estimate	Forecast	Forecast
Slovenia	EUR		12 900	13 600	14 400	15 400	17 100	18 400	17 300	17 700	18 400	19 100		
	EA 12 = 100		53	55	56	57	61	65	63	63	64	65		
	Comparative price level	EA 12 = 100	72	70	71	72	76	78	78	78	79	79		
Greece	EUR		15 600	16 700	17 500	18 800	20 200	21 000	20 700	20 400	20 000	20 100		
	EA 12 = 100		65	67	68	70	72	73	75	72	70	68		
	Comparative price level	EA 12 = 100	78	79	83	84	87	86	88	90	90	91		
Czech Republic	EUR		7 900	8 600	9 800	11 100	12 300	14 200	13 000	13 900	14 800	15 900		
	EA 12 = 100		33	35	38	41	44	50	47	49	51	54		
	Comparative price level	EA 12 = 100	50	51	56	59	61	67	63	65	68	70		
Portugal	EUR		13 700	14 200	14 600	15 100	15 900	16 200	15 800	16 300	16 600	17 000		
	EA 12 = 100		57	57	57	56	57	57	57	58	58	57		
	Comparative price level	EA 12 = 100	80	82	79	79	80	80	79	79	80	80		
Slovakia	EUR		5 500	6 300	7 100	8 300	10 200	11 900	11 600	12 100	12 700	13 600		
	EA 12 = 100		23	25	28	31	36	42	42	43	44	46		
	Comparative price level	EA 12 = 100	46	49	51	54	59	63	63	63	63	64		
Hungary	EUR		7 300	8 200	8 800	8 900	10 000	10 600	9 300	9 800	10 400	11 000		
	EA 12 = 100		30	33	34	33	36	37	34	35	36	37		
	Comparative price level	EA 12 = 100	54	57	60	58	63	63	57	59	61	62		
Estonia	EUR		6 400	7 200	8 300	10 000	11 800	12 000	10 300	10 400	11 000	11 700		
	EA 12 = 100		27	29	32	37	42	42	38	37	38	40		
	Comparative price level	EA 12 = 100	55	55	58	62	67	68	66	64	65	65		
Poland	EUR		5 000	5 300	6 400	7 100	8 100	9 500	8 100	9 200	10 200	11 300		
	EA 12 = 100		21	21	25	27	29	33	30	33	35	38		
	Comparative price level	EA 12 = 100	48	47	54	57	59	65	53	58	61	64		
Lithuania	EUR		4 800	5 300	6 100	7 100	8 500	9 600	7 900	8 100	8 400	9 000		
	EA 12 = 100		20	21	24	26	30	34	29	29	29	30		
	Comparative price level	EA 12 = 100	45	46	50	53	56	60	58	58	58	58		
Latvia	EUR		4 300	4 800	5 700	7 000	9 300	10 200	8 200	7 900	7 900	8 300		
	EA 12 = 100		18	19	22	26	33	36	30	28	28	28		
	Comparative price level	EA 12 = 100	46	47	50	56	66	69	63	60	58	57		

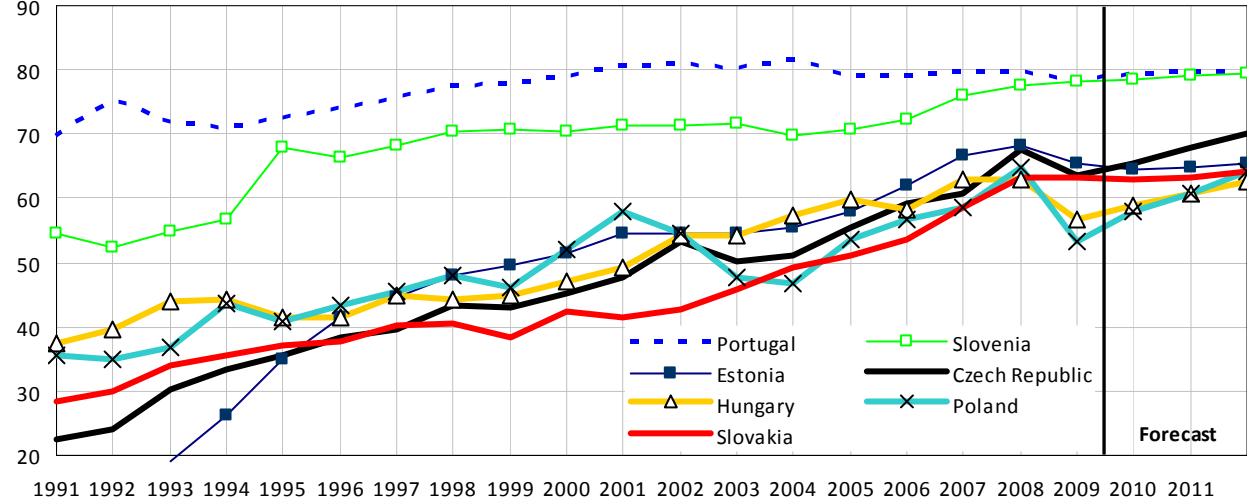
Graph C.5.2: GDP p.c. – using current exchange rates

EA 12 = 100



Graph C.5.3: Index of Comparative Price Level of GDP p.c.

EA 12 = 100



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