

Macroeconomic Forecast Czech Republic

January 2014

Macroeconomic Forecast of the Czech Republic

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

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

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List of Abbreviations:

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

Basic Terms:

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

Symbols Used in Tables:

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

Cut-off Date for Data Sources:

The forecast was made on the basis of data known as of **16 January 2014**. No political decisions, newly released statistics, or world financial or commodity market developments could have been taken into account after this date.

Notes:

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

Data from the previous forecast of October 2013 are indicated by italics. Data relating to the years 2016 and 2017 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

Summary of the Forecast

According to the CZSO's current data, real GDP rose by 0.2% QoQ in Q3 2013, but it continued to fall in annual terms. We estimate that economic recovery continued also at the end of 2013. Nonetheless, GDP probably decreased by 1.4% in the whole of 2013, in particular due to a decline in fixed capital investment. However, with positive contribution from both domestic demand and foreign trade, the economy may grow by 1.4% in 2014. In 2015, GDP growth could accelerate to 2.0%.

Despite a weakening of the Czech koruna due to the CNB's foreign exchange interventions, 2014 should be characterized by very low inflation. Unlike in previous years, administrative effects (especially a decrease in electricity prices) should have an anti-inflationary impact throughout 2014. The inflation rate could thus reach 1.0% this year. In 2015, consumer price growth could accelerate to 2.4% in relation to the economic recovery and delayed effects of the weakened koruna.

Employers' efforts to increase labour productivity by rationalizing the number of employees should lead to a *de facto* stagnation of employment in both 2014 and 2015. We also expect an impact on the unemployment rate (LFS), which should fluctuate around 7%, in spite of gradual economic growth.

In 2014, the wage bill could increase by 2.2%. For 2015 we expect growth to accelerate to 4.3%. The planned transfer of 2 pp of the statutory health insurance contribution rate from employers to employees is expected to be partially compensated by an increase in employees' wages.

We estimate that the government sector deficit reached 2.5% of GDP in 2013. It should be well below 3% of GDP also in 2014. The deficit adjusted for the impact of the business cycle and one-off and temporary measures was probably only 1.2% of GDP in 2013. For the first time in history, therefore, the structural balance has nearly reached the level of the medium-term budgetary objective for the Czech Republic.

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

We regard the forecast risks as balanced.

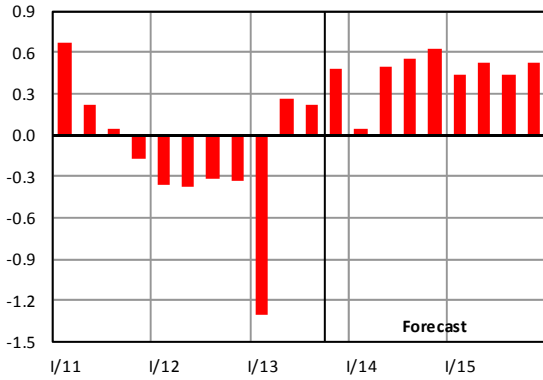
Table: **Main Macroeconomic Indicators**

		2010	2011	2012	2013	2014	2015	2013	2014
		Current forecast						Previous forecast	
Gross domestic product	<i>growth in %, const.pr.</i>	2.5	1.8	-1.0	-1.4	1.4	2.0	-1.0	1.3
Consumption of households	<i>growth in %, const.pr.</i>	0.9	0.5	-2.1	-0.2	0.6	1.5	0.2	0.9
Consumption of government	<i>growth in %, const.pr.</i>	0.2	-2.7	-1.9	1.6	1.0	0.4	0.8	0.2
Gross fixed capital formation	<i>growth in %, const.pr.</i>	1.0	0.4	-4.5	-4.8	-0.3	2.6	-4.8	-0.8
Contr. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.6	1.9	1.7	-0.2	0.7	0.5	0.6	0.6
Contr. of increase in stocks to GDP growth	<i>p.p., const.pr.</i>	1.0	0.1	-0.1	-0.2	0.3	0.1	-0.7	0.4
GDP deflator	<i>growth in %</i>	-1.6	-0.9	1.6	1.6	1.7	1.3	1.2	0.5
Average inflation rate	<i>%</i>	1.5	1.9	3.3	1.4	1.0	2.4	1.4	0.7
Employment (LFS)	<i>growth in %</i>	-1.0	0.4	0.4	0.9	0.1	0.1	1.2	0.4
Unemployment rate (LFS)	<i>average in %</i>	7.3	6.7	7.0	7.0	7.0	6.9	7.1	7.3
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	0.8	2.2	1.8	-0.2	2.2	4.3	0.8	2.5
Current account / GDP	<i>%</i>	-3.9	-2.7	-2.4	-1.7	-0.2	-0.4	-1.7	-1.4
<u>Assumptions:</u>									
Exchange rate CZK/EUR		25.3	24.6	25.1	26.0	27.3	27.2	25.8	25.8
Long-term interest rates	<i>% p.a.</i>	3.7	3.7	2.8	2.1	2.4	2.5	2.1	2.4
Crude oil Brent	<i>USD/barrel</i>	80	111	112	109	104	101	108	103
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	1.9	1.6	-0.6	-0.4	0.9	1.5	-0.3	1.0

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

Gradual economic recovery expected

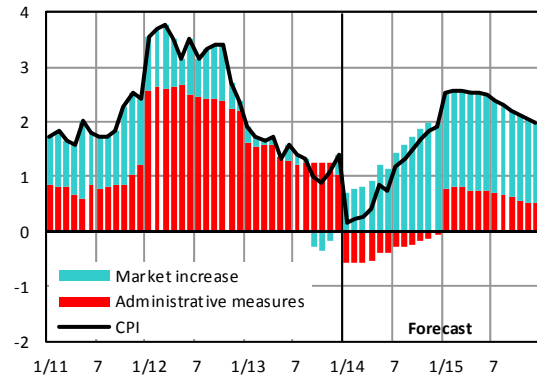
real GDP, QoQ growth rate, in %, seasonally adjusted



Source: CZSO, own calculations

Growth in CPI affected by the CNB's FX interventions

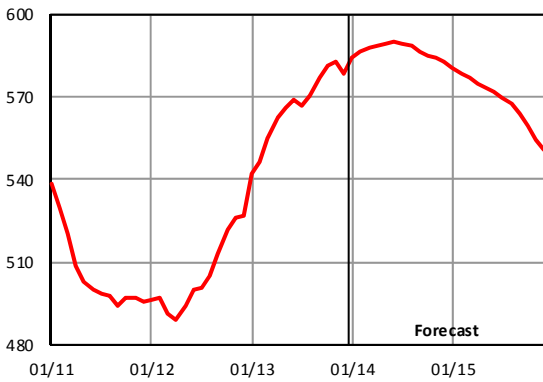
decomposition of YoY growth of CPI, contributions in pp



Source: CZSO, own calculations

Unemployment culminating in mid-2014

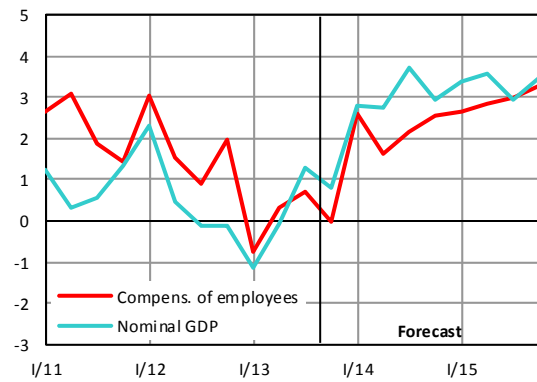
registered unemployment, in thousands of persons, seasonally adjusted



Source: Ministry of Labour and Social Affairs, own calculations

Compensation of employees to GDP ratio declining

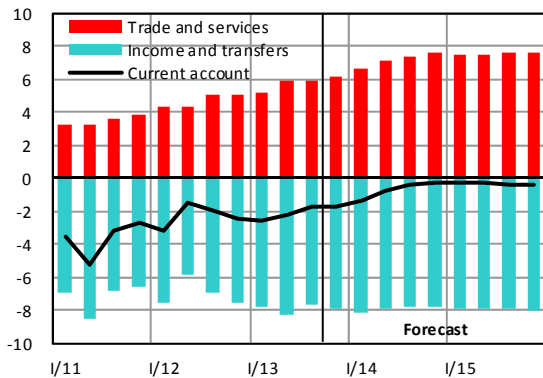
YoY growth rate, in %



Source: CZSO, own calculations

Current account almost balanced

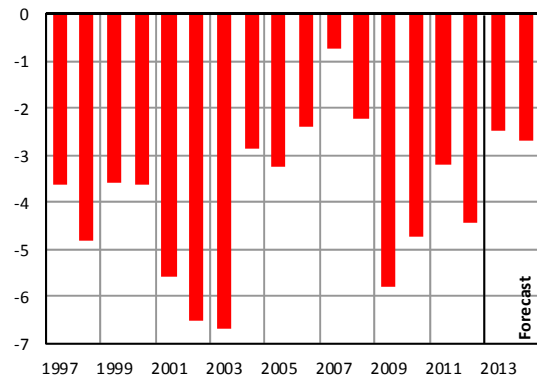
in % of GDP (moving sums of the latest 4 quarters)



Source: CNB, CZSO, own calculations

General gov. deficit successfully under 3% of GDP

general government balance, in % of GDP



Source: CZSO, own calculations

Risks to the Forecast

The up-to-date quarterly national accounts data for Q3 2013 showed that **economic recovery** following the recession, which ended in Q1 2013, is only **very slow**. Moreover, the development of individual components of real GDP use was very volatile. The fact that real gross value added continued to decrease QoQ is a cause for great concern. No considerable increase in gross value added was recorded in any one of the 11 sectors of the NACE classification.

The sustainability and intensity of the recovery are still uncertain. Therefore, the central scenario of the Macroeconomic Forecast is **rather more conservative** in comparison with other forecasts for the Czech economy (see Chapter D).

The scenario envisages that the Czech Republic's economy is gradually entering a period of slowly growing economic output. This should be reflected in a YoY increase in real GDP of 1.4% in 2014 and of 2.0% in 2015. In 2014, both domestic and foreign demand should equally contribute to this result, while in 2015 the weight of domestic expenditures should increase.

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

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

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

However, the still unresolved crisis in the euro zone remains a **negative risk**. Macroeconomic indicators and development on the government bonds markets at least suggest that from the short-term perspective the situation has calmed down and any major upheavals are not very likely. In the troubled euro zone countries, however, the government sector debt is still very high, the situation regarding the quality of financial sector assets unclear and the social situation, which can be judged especially by the high unemployment rate, gloomy. In the medium-term, it is thus not possible to

completely neglect the risk of a possible further escalation of the crisis in the euro zone (see Chapter A.1).

The biggest negative risk within the Czech economy is the fact that it is "frozen" after a 5-year period of alternating recessions and stagnation. In Q3 2013, real gross fixed capital formation was 25.1% lower than at the top of the investment cycle in Q1 2008. Seasonally adjusted number of registered unemployed persons increased from 319 thousand in August 2008 to 578 thousand in December 2013.

On the other hand, the results of business cycle indicators (see Chapter B.2) suggest **considerable improvement** in most of the examined segments (except for construction), which is also partially confirmed by the current data on industrial production and retail sales. However, it remains an open question as to whether and how quickly improvements in business cycle indicators will be reflected in the individual components of domestic demand.

The recent **CNB decision to use the exchange rate as an additional monetary policy instrument** (see Chapter A.3) has considerably changed the setting of economic policy, whereby the uncertainty of forecasts has become more pronounced. The central scenario includes the probable macroeconomic impacts of foreign exchange interventions, but completely arbitrary assumptions had to be made for a number of aspects (e.g. regarding the date when the CNB will stop using the interventions). We perceive the possible stronger response in exports to the weakening of the exchange rate as a positive risk. However, a negative risk is the potential impact of higher than originally expected inflation on household consumption (even if the foreign trade balance improves due to lower consumption).

Even in this Macroeconomic Forecast, the situation and developments on the domestic political scene are an area of uncertainty. A coalition government with clear majority of mandates has been appointed on the basis of the results of early elections to the Chamber of Deputies of the Parliament of the Czech Republic, but its policy statement has not been published yet. This prevents the government's planned economic policy from being assessed in detail.

A Forecast Assumptions

A.1 External Environment

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

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

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

USA

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

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

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

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

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

EU

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

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

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

problems of economies and their low level of competitiveness.

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

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

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

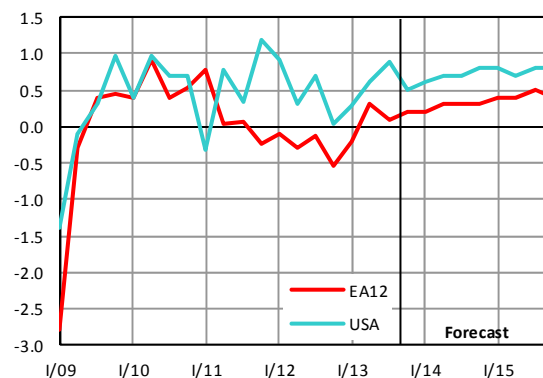
We expect the favourable development in **Germany** to continue. In Q3 2013, **GDP** increased by 0.3% QoQ (*versus 0.5%*). Gross domestic expenditure contributed

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

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

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

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



Source: Eurostat, own calculations

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

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

Business Cycle Indicators in the EU

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

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

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

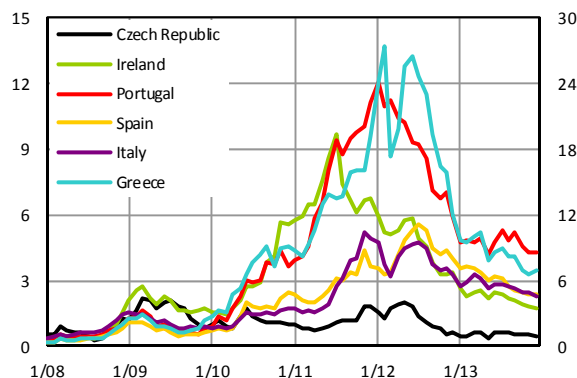
and A.1.9). Considering the relatively stable short-run dynamics of potential output, supported by the European Commission's estimate of potential output for 2013 and 2014, the closing of the negative output gap in the production function methodology can be explained by a continuation of the economic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

Crisis in the Euro Zone

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

Graph A.1.2: **Spreads over German Bonds**

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



Source: Eurostat

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

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

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

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

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

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

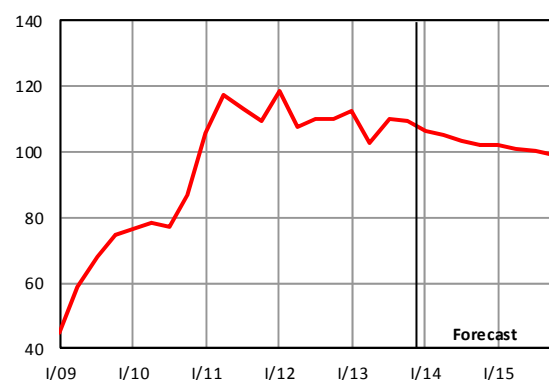
A negative surprise could also be sprung by the comprehensive assessment of banks to be conducted by the ECB in preparation of assuming responsibility for bank supervision as part of the Single Supervisory Mechanism. In an especially problematic scenario, the stress tests might reveal capital shortages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

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

Commodity Prices

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

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



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

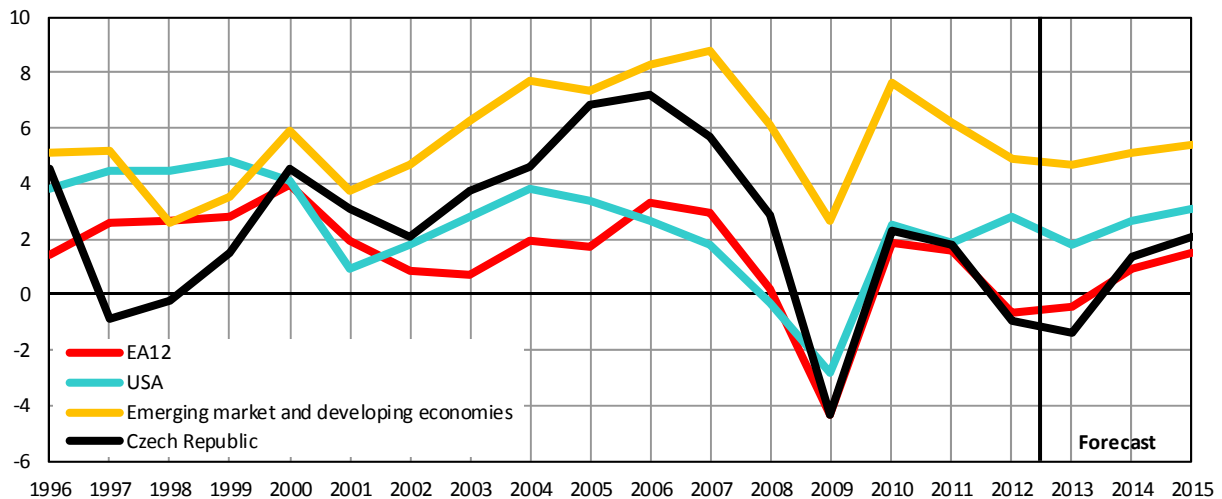
Table A.1.1: Real Gross Domestic Product – yearly
growth rate, in %, seasonally adjusted data (except for the Czech Republic)

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

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

Graph A.1.4: Real Gross Domestic Product

YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, IMF, own calculations

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

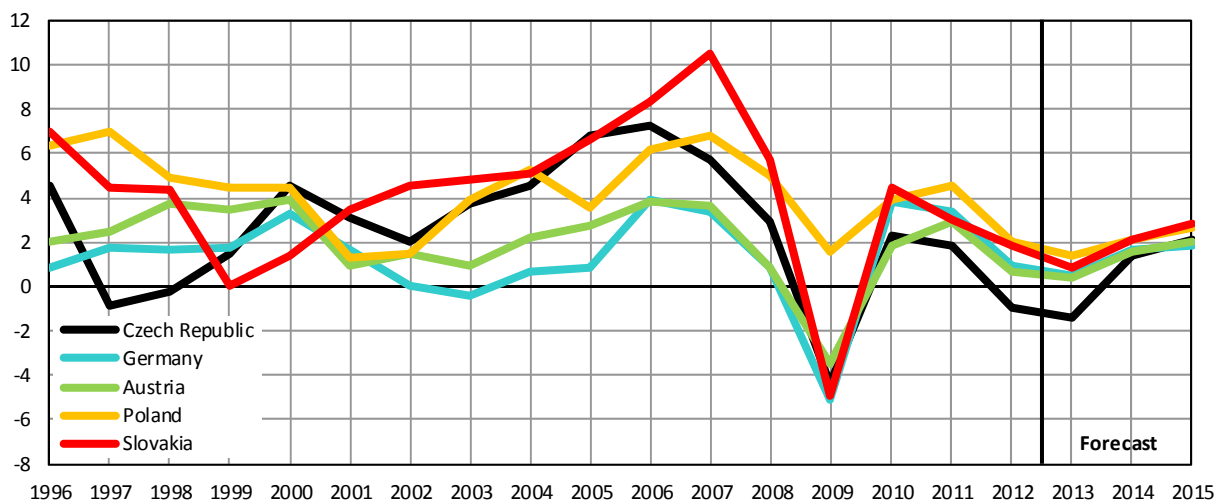
Table A.1.2: Real Gross Domestic Product – quarterly growth rate, in %, seasonally adjusted data

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

Source: Eurostat, NBS China, own calculations

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

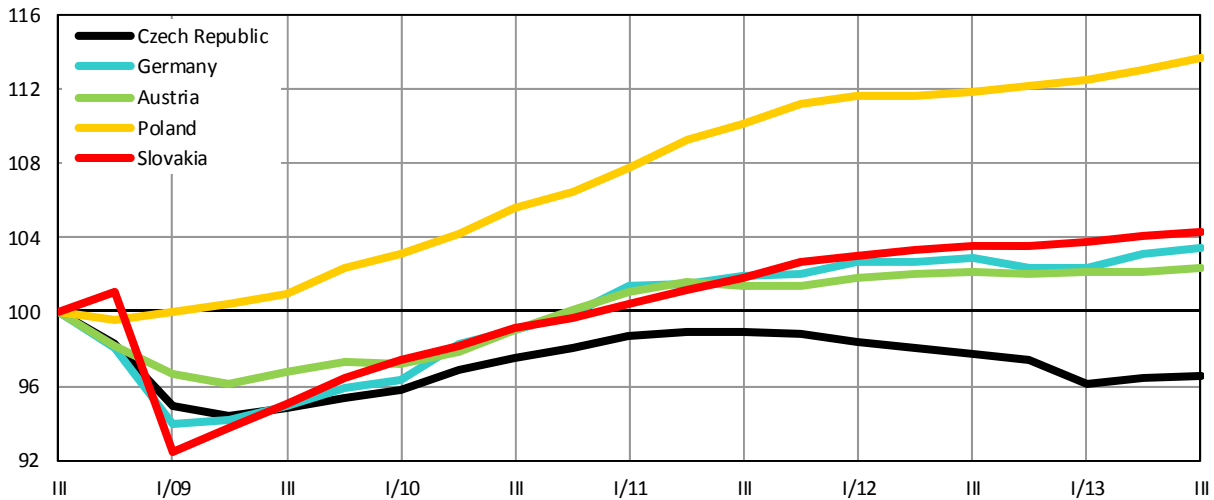
YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, own calculations

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

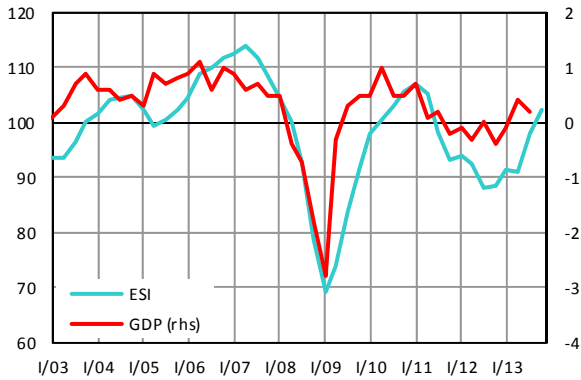
Q3 2008=100, seasonally adjusted data



Source: Eurostat, own calculations

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

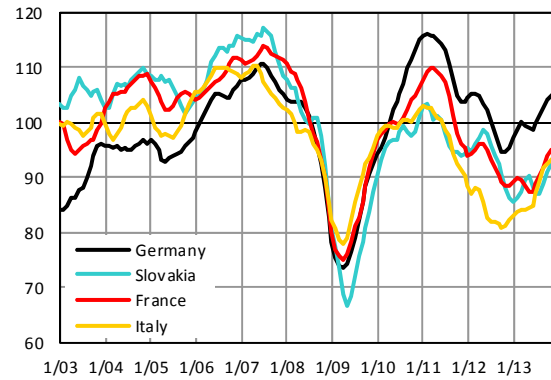
indicator – quarterly averages, QoQ growth in %, sa data



Source: EC, Eurostat

Graph A.1.8: ESI in Selected Trading Partner Countries

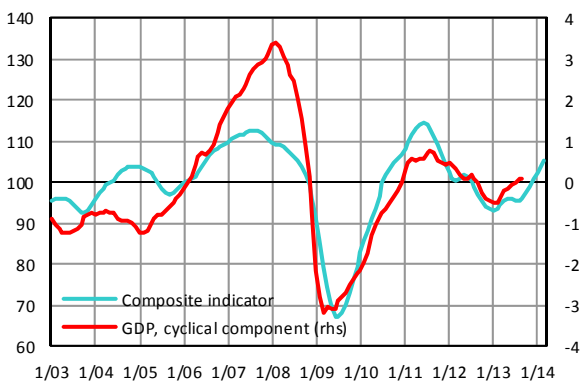
3-month moving averages



Source: EC

Graph A.1.9: Composite Leading Indicator – EU

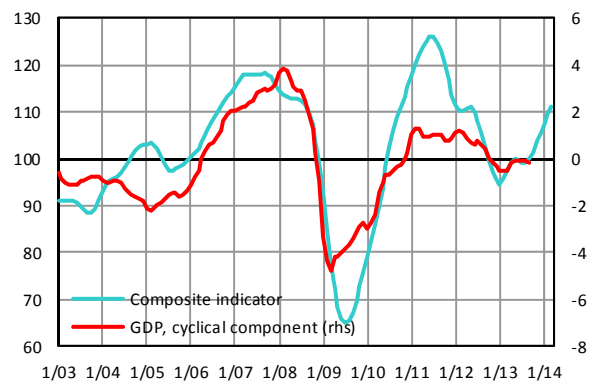
monthly data, 2005=100, cyclical component in % of trend GDP



Source: EC, Eurostat, own calculations

A.1.10: Composite Leading Indicator – Germany

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



Source: EC, Eurostat, own calculations

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

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

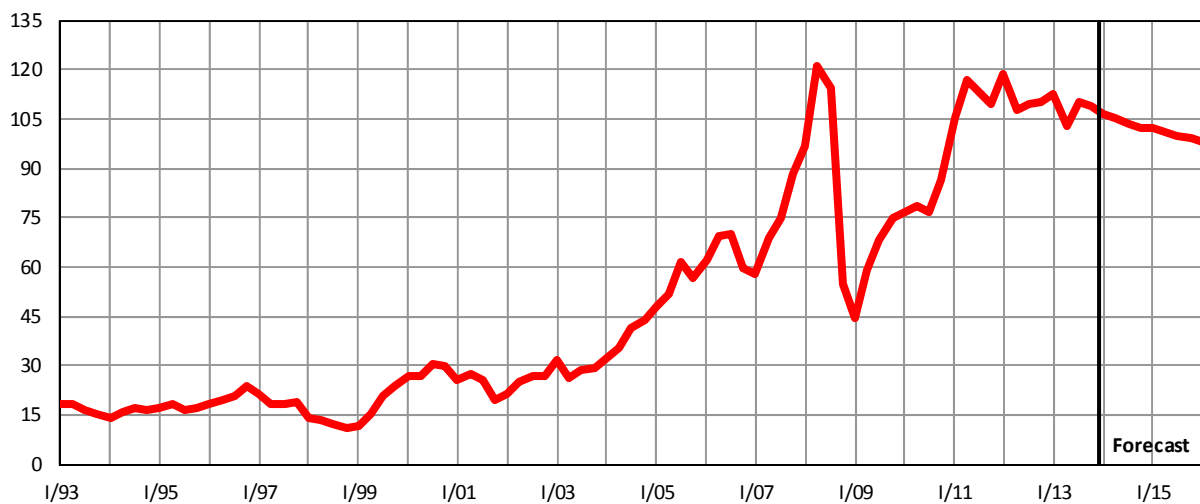
Source: IMF, U. S. Energy Information Administration, own calculations

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

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

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

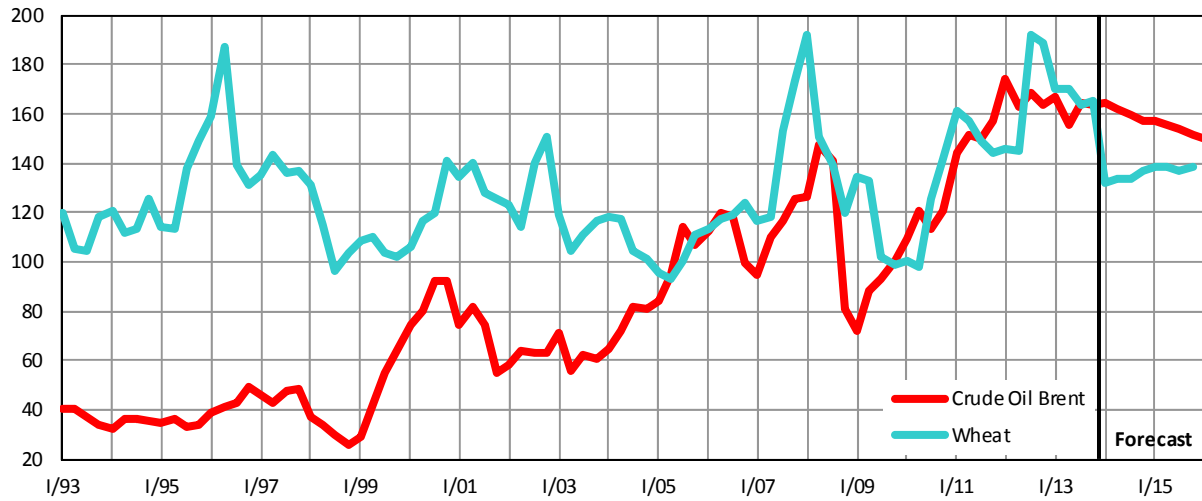
Graph A.1.11: Dollar Prices of Oil
USD/barrel



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

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

index 2005=100



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

A.2 Fiscal Policy

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

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

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

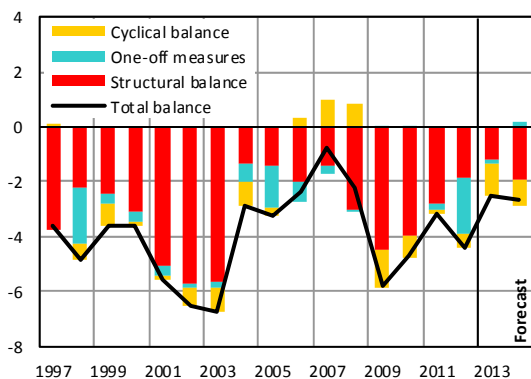
can also be expected in the former National Property Fund, which paid out lower expenditure for removing environmental damage. We also expect slight savings in the costs of financing state debt; these costs fell slightly, despite the already relatively low level in the November Fiscal Outlook.

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

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

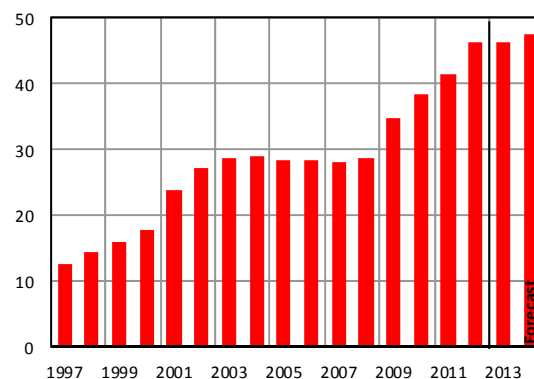
For 2014, we are reducing the forecast of the general government deficit from 2.9% of GDP to 2.7% of GDP. The change is necessitated by a higher accrual level of taxes, mainly of value added tax (see above) in 2013 and further by higher expected nominal GDP for 2014. No major changes are to be made in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

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



Source: CZSO, own calculations

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



Source: CZSO, own calculations

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

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

Source: CZSO, own calculations

Note: Government debt consists of the following financial instruments: currency and deposits, securities other than shares excluding financial derivatives and loans. Government debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government. The nominal value is considered to be an equivalent to the face value of liabilities. It is therefore equal to the amount that the government will have to refund to creditors at maturity.

¹⁾ General government net lending (+)/borrowing (-) including interest derivatives.

²⁾ Change in structural balance.

A.3 Monetary Policy, Financial Sector and Exchange Rates

Monetary Policy

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

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

Financial Sector and Interest Rates

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

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

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

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

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

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

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

Exchange Rates

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

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

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

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

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

Source: CNB, ECB, Fed, own calculations

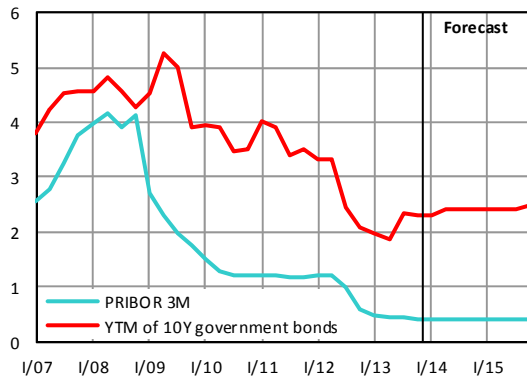
Table A.3.2: Interest Rates, Deposits and Loans – quarterly

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

Source: CNB, ECB, Fed, own calculations

Graph A.3.1: Interest Rates

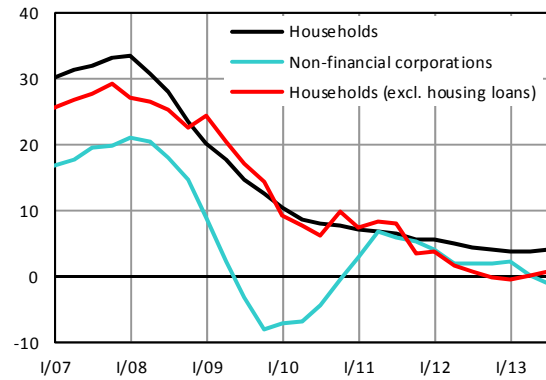
in % p.a.



Source: CNB, own calculations

Graph A.3.2: Loans

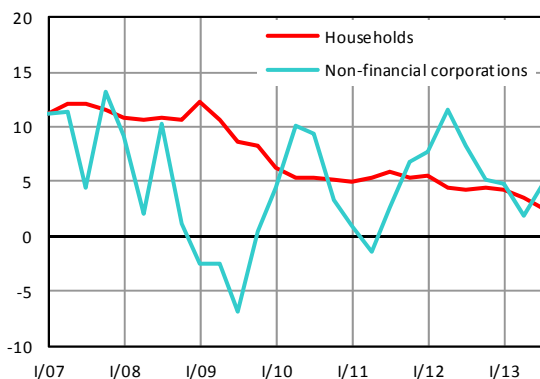
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.3: Deposits

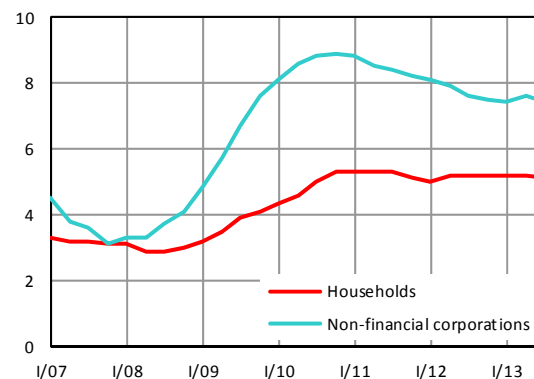
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.4: Non-performing Loans

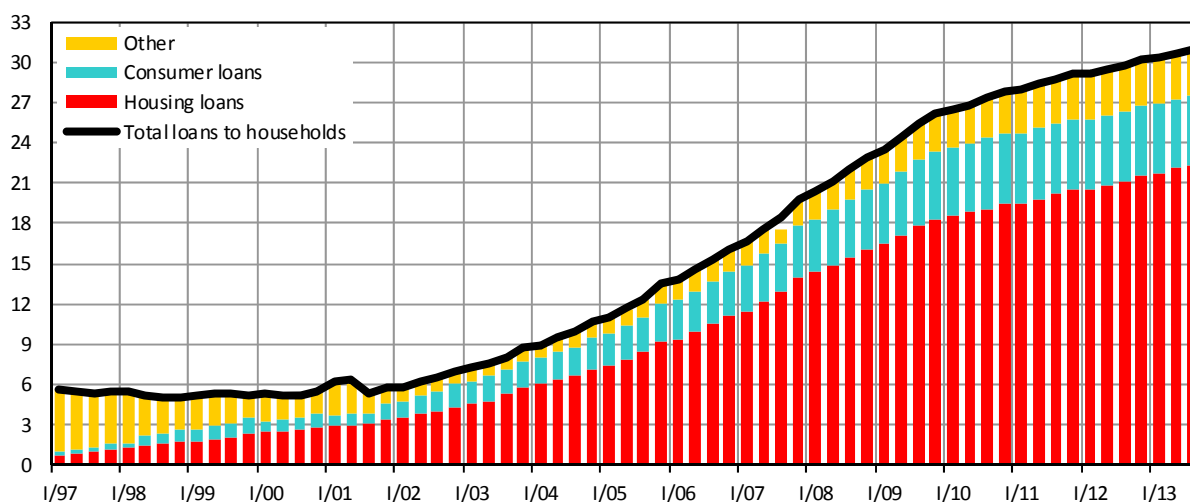
ratio of non-performing to total loans, in %



Source: CNB, own calculations

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

yearly moving sums, in %



Source: CNB, CZSO, own calculations

Table A.3.3: Exchange Rates – yearly

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

Source: CNB, Eurostat, own calculations

¹⁾ Deflated by GDP deflators.

Table A.3.4: Exchange Rates – quarterly

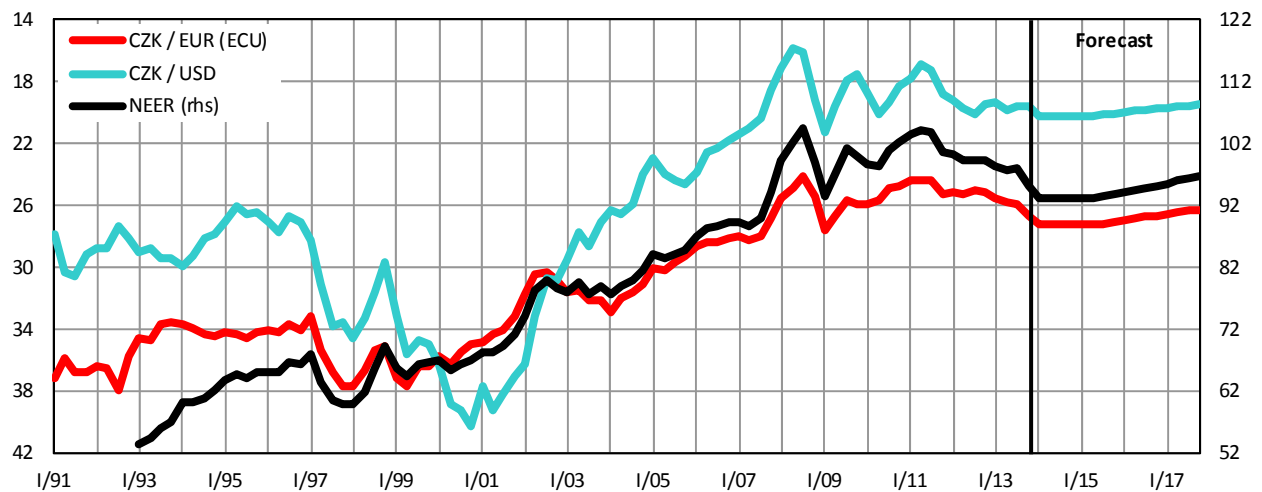
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Estimate</i>				<i>Forecast</i>			
Nominal exchange rates:									
CZK / EUR	<i>average</i>	25.57	25.83	25.85	26.66	27.3	27.3	27.3	27.3
	<i>appreciation in %</i>	-1.9	-2.2	-3.0	-5.6	-6.2	-5.2	-5.1	-2.2
CZK / USD	<i>average</i>	19.37	19.78	19.52	19.59	20.2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

Source: CNB, Eurostat, own calculations

¹⁾ Deflated by GDP deflators.

Graph A.3.6: Nominal Exchange Rates

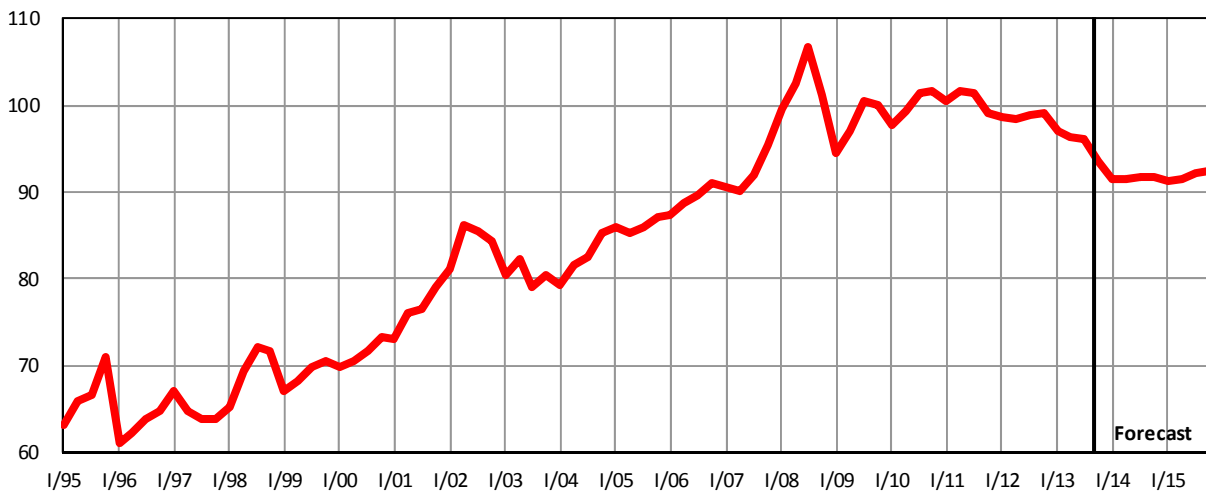
quarterly averages, average 2010=100 (rhs)



Source: CNB, own calculations

Graph A.3.7: Real Exchange Rate to EA12

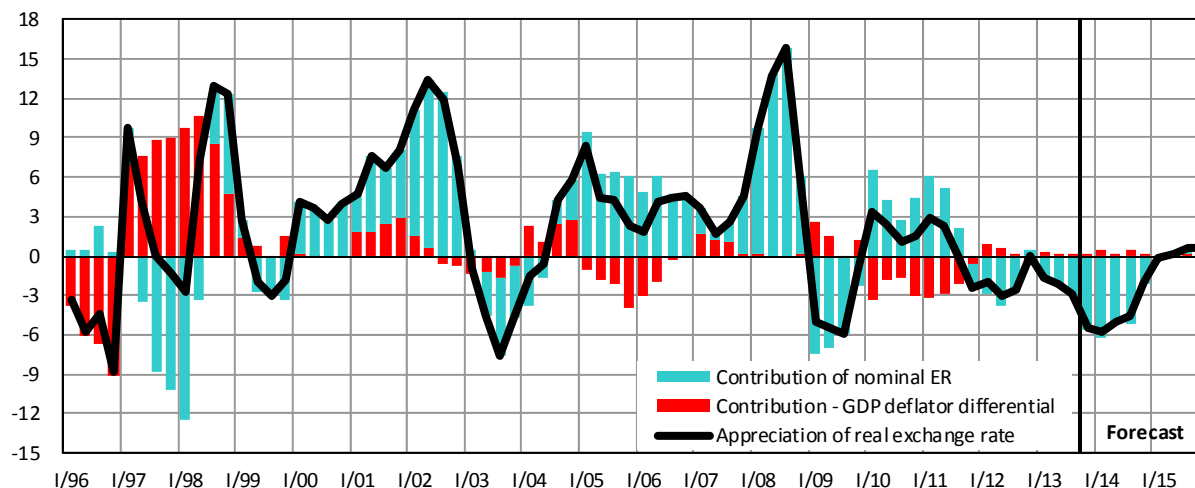
quarterly averages, deflated by GDP deflators, average 2010=100



Source: CNB, Eurostat, own calculations

Graph A.3.8: Real Exchange Rate to EA12

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



Source: CNB, Eurostat, own calculations

A.4 Structural Policies

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

Business environment

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

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

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

Taxes

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

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

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

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

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

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

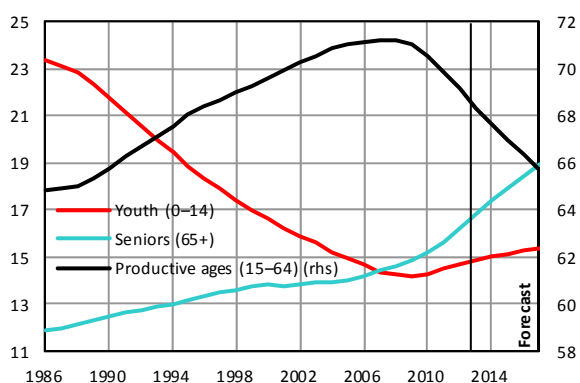
Labour Market

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

A.5 Demographic Trends

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

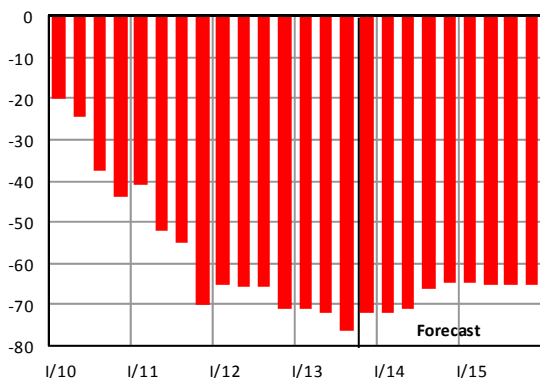
Graph A.5.1: **Age Groups**
structural shares in %



Source: CZSO, own calculations

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

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

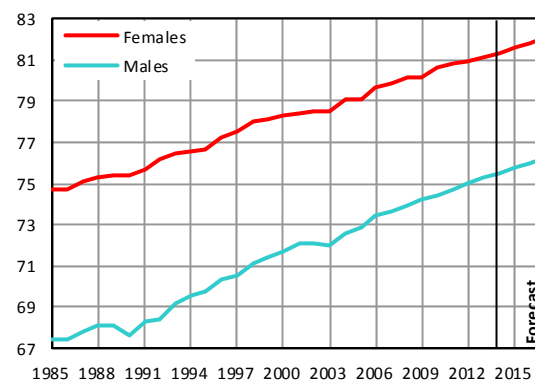


Source: CZSO, own calculations

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

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

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



Source: CZSO

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

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

Table A.5.1: Demography

in thousands of persons (unless stated otherwise)

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

Source: Czech Social Security Administration, CZSO, own calculations

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

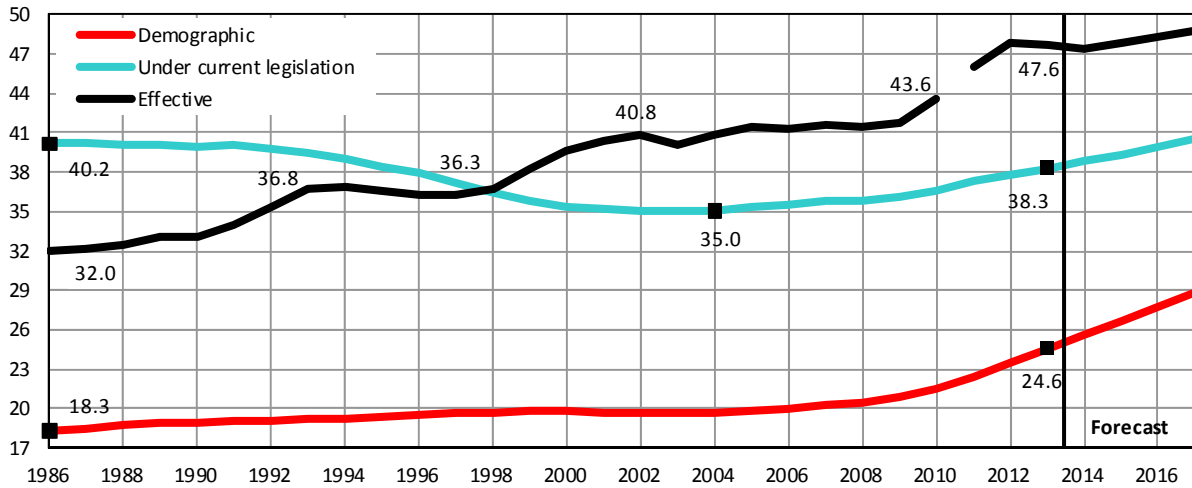
²⁾ Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

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

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

Graph A.5.4: Dependency Ratios

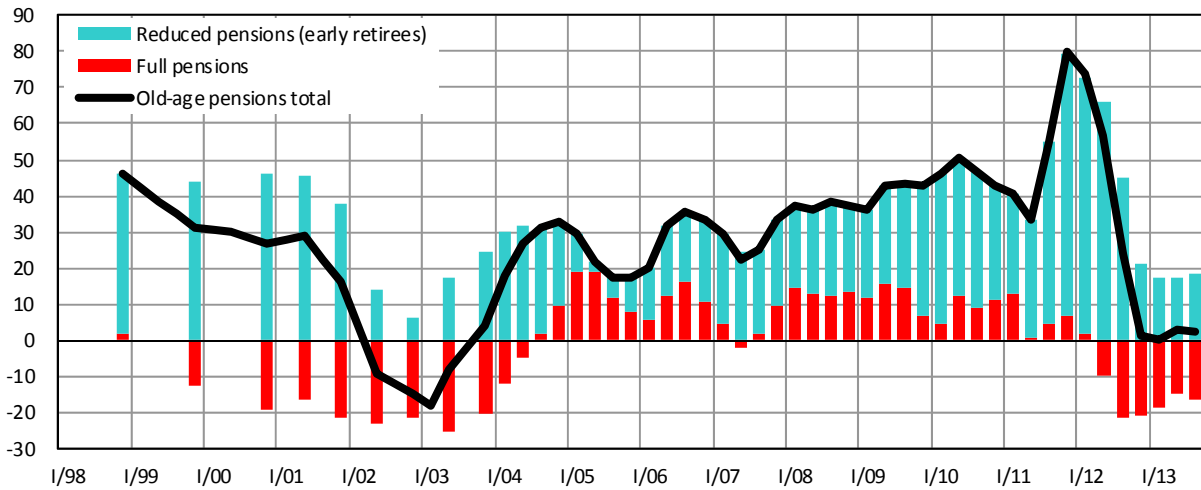
As of January 1, in %, inconsistent between 2010 and 2011 due to transfer of disability pensions to old-age pensions for people over 64 years



Source: CZSO, own calculations

Graph A.5.5: Old-Age Pensioners

absolute increase over a year in thousands of persons



Source: Czech Social Security Administration, CZSO, own calculations

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

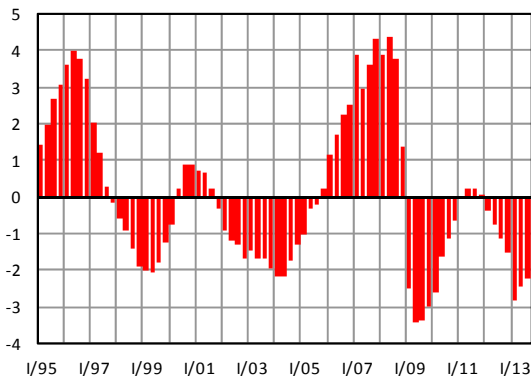
B Economic Cycle

B.1 Position within the Economic Cycle

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

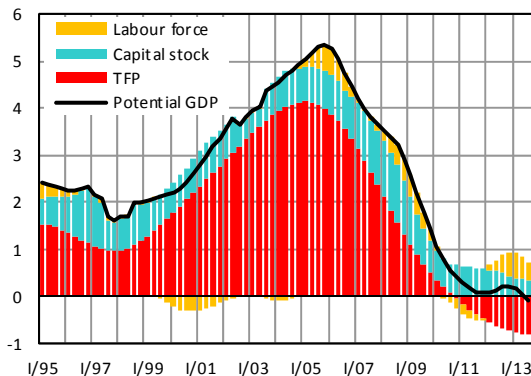
Under current conditions, when abrupt changes in the level of economic output have occurred, it is very difficult to distinguish the influence of deepening of the negative output gap from a slowdown in potential product growth. The results of these calculations display high instability and should be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

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



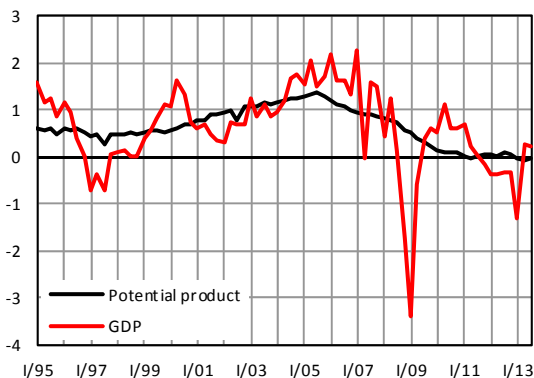
Source: CZSO, own calculations

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



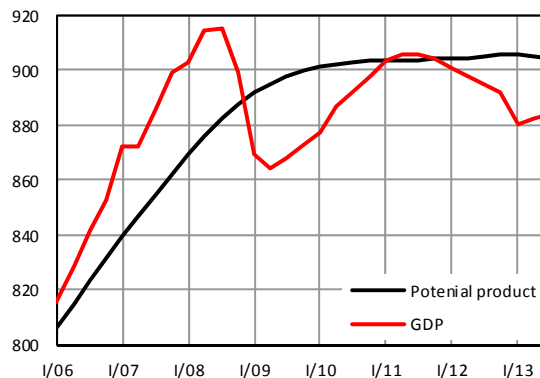
Source: CZSO, own calculations

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



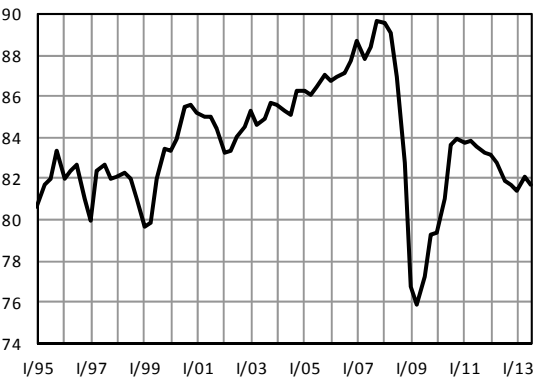
Source: CZSO, own calculations

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



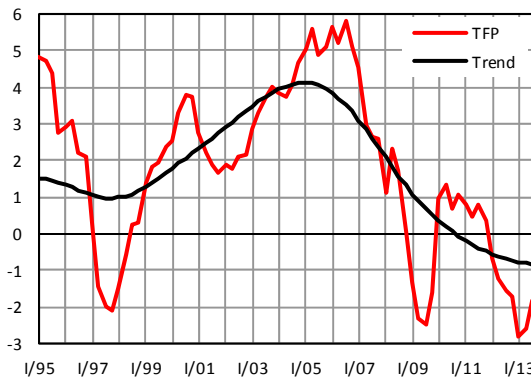
Source: CZSO, own calculations

Graph B.1.5: Capacity Utilisation in Industry
in %



Source: CZSO

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



Source: CZSO, own calculations

Table B.1: Output Gap and Potential Product

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 Q1–3
Output gap	<i>per cent</i>	-1.8	-0.3	1.9	3.7	3.3	-3.1	-1.5	0.1	-1.0	-2.5
Potential product	<i>growth in %</i>	4.7	5.2	4.9	3.9	3.3	2.0	0.7	0.1	0.1	0.0
Contributions:											
–Trend TFP	<i>perc. points</i>	4.0	4.1	3.6	2.7	1.7	0.8	0.1	-0.3	-0.7	-0.8
–Fixed assets	<i>perc. points</i>	0.7	0.8	0.9	1.1	1.2	0.8	0.6	0.6	0.5	0.4
–Participation rate	<i>perc. points</i>	-0.2	0.2	0.2	-0.2	0.0	0.3	0.2	0.3	0.8	1.0
–Demography ¹⁾	<i>perc. points</i>	0.2	0.2	0.2	0.3	0.4	0.1	-0.2	-0.4	-0.5	-0.5

Source: CZSO, own calculations

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

The recent recession lasting from Q4 2011 to Q1 2013 again plunged the Czech economy into a large negative **output gap**. By the end of the recession it had deepened to –2.8%. The following two quarters of slow recovery mitigated the figure to –2.2% in Q3 2013. Utilization of economic potential was low, comparable to that during the so-called great recession at the turn of 2008 and 2009. At present, the negative output gap is reflected in the economy by record-breaking registered unemployment, low utilization of capacities and a slow increase in prices and wages.

Due to long periods of recession or sluggish economic growth, according to our calculations growth of **potential product** has more or less come to a halt. However, these estimates in our opinion underestimate the reality.

The most seriously affected component of potential product is **total factor productivity** (TFP). In Q3 2013, TFP was 4.5% lower than at the peak of the cycle in Q3 2008. Trend component of TFP, derived from the Hodrick-Prescott filter, has been decreasing since the beginning of 2010, which is reflected in the appreciably negative contribution of TFP to potential product growth. The fact that labour as a production factor enters the calculation in the form of the number of employed persons and not in the form of the number of hours worked plays a certain role here.

The long-lasting decline in gross fixed capital formation, which has continued unabated since 2008, has led to a decline in the contribution of **capital stock** from 1.2 pp in 2008 to 0.3 pp in Q3 2013.

Labour supply is affected by a reduction in the working-age population, caused by the population ageing process and by zero net migration (see Chapter A.5). In Q3 2013, demographic development slowed potential product growth by 0.6 pp.

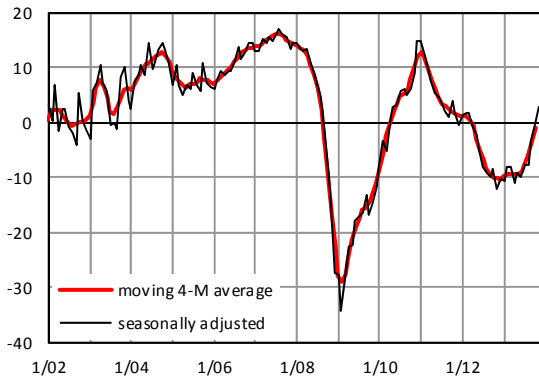
Nevertheless, not only is the size of the labour force nondecreasing under these conditions, it is even growing at a relatively dramatic pace – in Q3 2013 by 0.9% YoY. The negative impact of the decline in working-age population on labour supply is more than compensated by a sharp increase in the **participation rate** (ratio of the labour force to the population aged 15–64 years).

The effects within the age structure of the labour force are reflected here, with the structural proportions of age groups with high or growing participation increasing. We can also see an increased motivation to work under difficult economic conditions supported by postponement of the retirement age. With a contribution of 0.9 pp, the participation rate remained the most important factor for potential product growth in Q3 2013.

B.2 Business Cycle Indicators

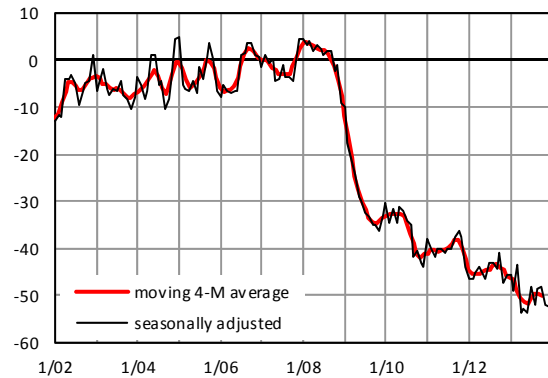
Business cycle indicators express respondents' views as to the current situation and short-term outlook and serve to identify in advance possible turning points in the economic cycle. Their main advantage lies in the quick availability of results reflecting a wide range of influences shaping the expectations of economic entities.¹

Graph B.2.1: Industrial Confidence Indicator



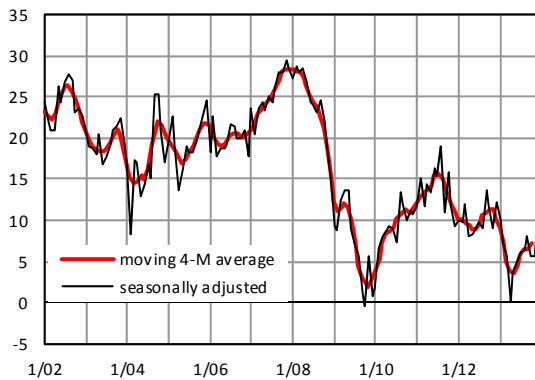
Source: CZSO

Graph B.2.2: Construction Confidence Indicator



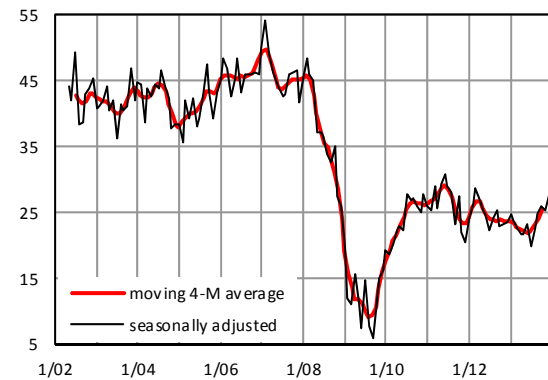
Source: CZSO

Graph B.2.3: Retail Trade Confidence Indicator



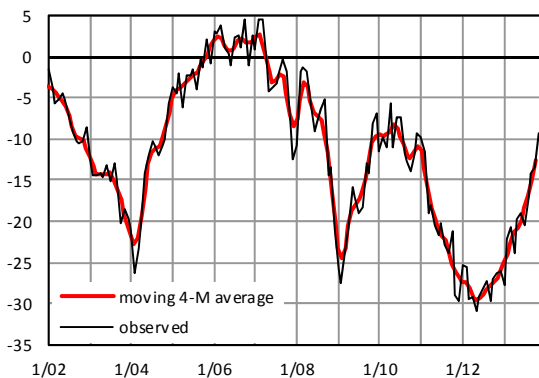
Source: CZSO

Graph B.2.4: Selected Services Confidence Indicator



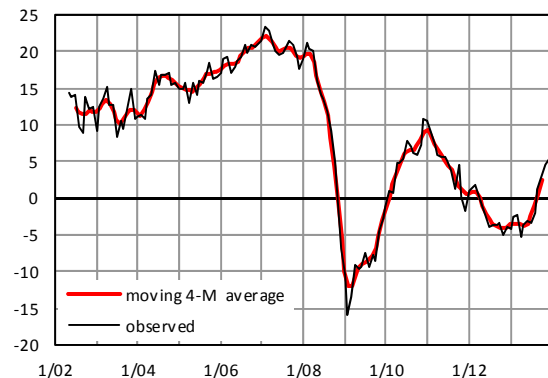
Source: CZSO

Graph B.2.5: Consumer Confidence Indicator



Source: CZSO

Graph B.2.6: Aggregate Confidence Indicator



Source: CZSO

¹ For the business cycle research methodology, see CZSO: http://www.czso.cz/eng/redakce.nsf/i/business_cycle_surveys.

The composite confidence indicator and confidence indicators in industry, trade and selected services increased on a quarterly basis in Q4 2013. They suggest possible improvement of the economic situation in the Czech Republic.

The consumer confidence indicator also continued its convincing growth path. Unlike the industry confidence indicator, however, here the replies of respondents were still predominantly negative. In contrast, the confidence indicator in construction showed a further slight decrease in its value in the given period.

Further, the relationship between the development of confidence indicators and the CZSO's monthly statistics is described for industry, construction, trade and services (the latest available data as of the Forecast's closing date were for November 2013).

The positive development of the industry confidence indicator is qualitatively in line with the development of the seasonally adjusted index of industrial production, which started increasing in annual terms, both for industry as a whole and specifically for the processing industry, in August 2013.

It is also possible to observe the relationship between a decrease in the confidence indicator in construction and a decrease in the construction work index, whose value was decreasing in annual terms in all months from January to November 2013. In total for this period, the construction work index decreased both for buildings and civil engineering works.

In the 11 months of 2013 under consideration, retail sales in constant prices increased in annual terms, especially thanks to the section Sale, maintenance and repair of motor vehicles and motorcycles. However, a small increase can be observed in the given period even without these components of total retail. This is in line with the improvement in the value of the confidence indicator in trade.

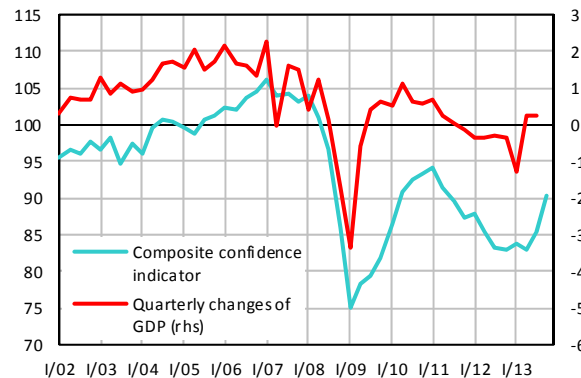
The slight improvement of the confidence indicator in services is not supported by the development of sales in services in constant prices: these decreased on a yearly basis from January to November 2013. A convincing exception is represented only by services related to transport and storage.

Although the relationship between the values of the composite confidence indicator and the quarterly changes in real gross domestic product is not particularly close (without any lag their mutual correlation is approximately 60%), it does at least enable us to utilize the fact that the composite indicator is published in advance of the quarterly

national accounts. In Graph B.2.7 we present only a qualitative assessment. It is clear that for Q4 2013, the composite confidence indicator signalled QoQ growth of GDP.

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

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



Source: CZSO

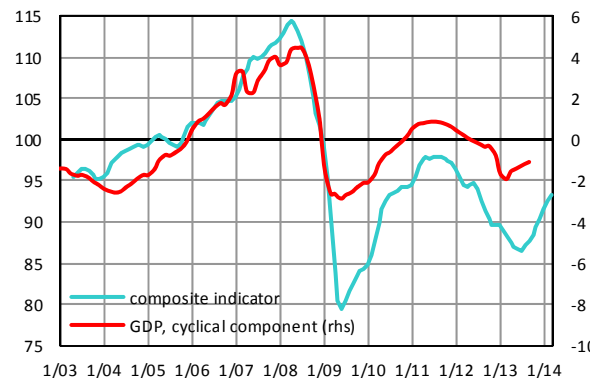
For Q3 2013, the composite leading indicator signalled more or less stagnation of the relative cyclical component of GDP and a small GDP decline on a quarterly basis. The relative cyclical component of GDP based on the Hodrick-Prescott filter roughly stagnated, but GDP increased very slightly according to the CZSO's data from January 2014.

For the Q4 2013 and Q1 2014 the indicator signals closing of the negative output gap. With respect to the fact that the trend dynamics over a short period can be considered constant, this signal is consistent with quarterly GDP growth. As far as Q4 2013 is concerned, the composite indicator provides qualitatively identical information to that of the composite confidence indicator.

Graph B.2.8: Composite Leading Indicator

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

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



Source: CZSO, own calculations

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

Latest Development of GDP

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

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

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

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

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

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

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

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

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

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

GDP Forecast

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C.2 Prices

Consumer Prices

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

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

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

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

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

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

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

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

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

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

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

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

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

Deflators

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

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

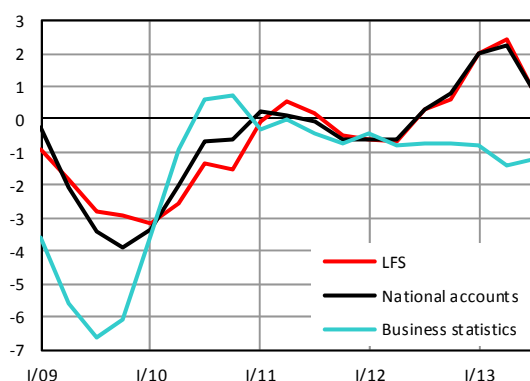
C.3 Labour Market

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

Employment

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

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



Source: CZSO

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

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

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

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

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

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

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

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

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

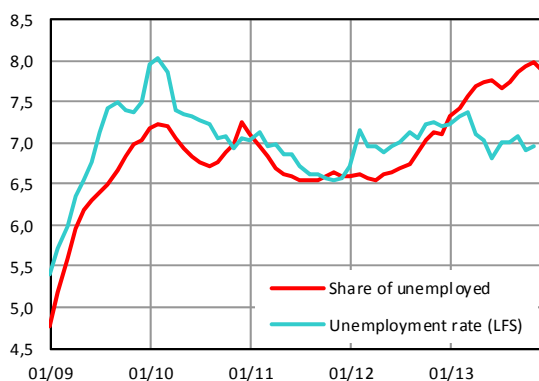
In addition to an increase in working activity, a change in the demographic structure has contributed considerably (and will continue to contribute in the next few years) to an increase in the participation rate (see Chapter A.5).

Unemployment

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

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

seasonally adjusted data, in %



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

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

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

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

Wages

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

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

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

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

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

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

C.4 External Relations

(balance of payments methodology)

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

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

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

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

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

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

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

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

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

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

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

C.5 International Comparisons

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

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

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

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

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

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

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

D Monitoring of Other Institutions' Forecasts

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

		October 2013			October 2013
		min.	max.	consensus	MoF forecast
Gross domestic product (2013)	growth in %, const.pr.	-1.5	-0.4	-0.8	-1.0
Gross domestic product (2014)	growth in %, const.pr.	1.3	2.1	1.7	1.3
Average inflation rate (2013)	%	1.4	1.8	1.6	1.4
Average inflation rate (2014)	%	1.2	1.8	1.4	0.7
Average monthly wage (2013)	growth in %	0.4	1.2	0.9	0.9
Average monthly wage (2014)	growth in %	2.2	2.6	2.4	2.3
Current account / GDP (2013)	%	-3.0	-0.6	-1.5	-1.7
Current account / GDP (2014)	%	-2.9	-0.5	-1.3	-1.4

Source: forecasts of individual institutions, own calculations

On average, the forecasts of the monitored institutions envisage economic recovery in 2014 and 2015. GDP could increase by 1.7% in 2014, in the following year growth could accelerate to 2.3%. The MoF's forecast is slightly more conservative for both aforementioned years.

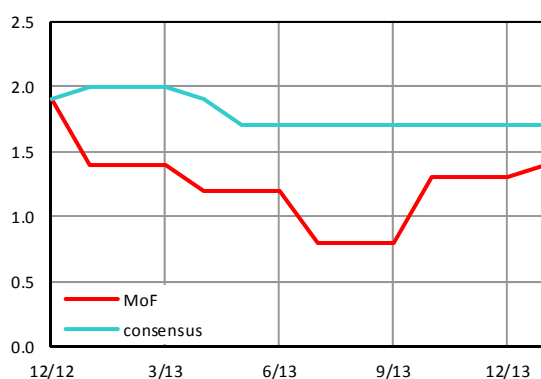
According to the average of institutions' estimates, consumer price growth is expected to slow down to 1.2% in 2014 and accelerate slightly to 1.8% in 2015. The MoF's forecast, already taking into account the impact of the CNB's foreign exchange interventions, envisages an average inflation rate of 1.0% in 2014 and 2.4% in 2015.

According to the forecasts of the monitored institutions, and the average wage should increase by 2.3% in 2014 and by 3.0% in 2015. The MoF's forecast envisages an increase in the average wage of 4.2% in 2015, since it takes into account the reform of direct taxes and payments that is to come into effect in the given year.

On the basis of the opinion of the monitored institutions, the current account deficit of the balance of payments should be around 1.3% of GDP in 2014 and 2015. Thanks to the expected favourable development of the foreign trade balance, the MoF expects the current account of the balance of payments to be nearly balanced.

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

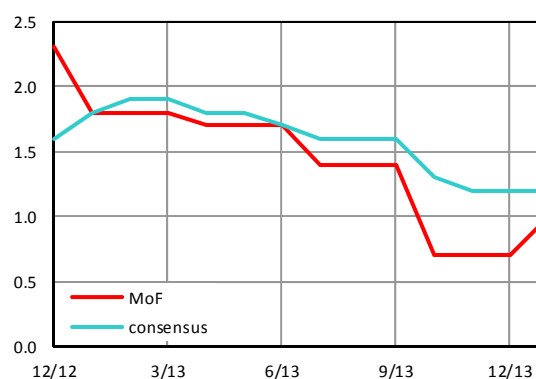
in %; the horizontal axis shows the month, in which the monitoring was conducted



Source: forecasts of individual institutions, own calculations

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

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



Source: forecasts of individual institutions, own calculations

Tables and Graphs:

C.1 Economic Output

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

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Estimate	Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK 2005</i>	3635	3471	3557	3622	3585	3536	3585	3656	3744	3835
	<i>growth in %</i>	3.1	-4.5	2.5	1.8	-1.0	-1.4	1.4	2.0	2.4	2.5
Private consumption exp.¹⁾	<i>bill. CZK 2005</i>	1720	1724	1740	1749	1711	1708	1718	1743	1776	1810
	<i>growth in %</i>	2.8	0.2	0.9	0.5	-2.1	-0.2	0.6	1.5	1.9	1.9
Government consumption exp.	<i>bill. CZK 2005</i>	674	701	703	684	671	681	688	691	699	706
	<i>growth in %</i>	1.2	4.0	0.2	-2.7	-1.9	1.6	1.0	0.4	1.0	1.1
Gross capital formation	<i>bill. CZK 2005</i>	1071	855	901	908	863	813	822	847	875	904
	<i>growth in %</i>	1.9	-20.2	5.4	0.8	-5.0	-5.8	1.0	3.1	3.3	3.3
– Gross fixed capital formation	<i>bill. CZK 2005</i>	1004	893	902	905	864	823	820	842	868	895
	<i>growth in %</i>	4.1	-11.0	1.0	0.4	-4.5	-4.8	-0.3	2.6	3.1	3.1
– Change in stocks and valuables	<i>bill. CZK 2005</i>	68	-38	-1	3	-1	-10	1	6	7	9
Exports of goods and services	<i>bill. CZK 2005</i>	2642	2354	2717	2977	3109	3119	3236	3365	3504	3667
	<i>growth in %</i>	4.0	-10.9	15.4	9.5	4.5	0.3	3.8	4.0	4.1	4.7
Imports of goods and services	<i>bill. CZK 2005</i>	2467	2169	2503	2678	2739	2758	2845	2952	3066	3201
	<i>growth in %</i>	2.7	-12.1	15.4	7.0	2.3	0.7	3.2	3.8	3.9	4.4
Gross domestic exp.	<i>bill. CZK 2005</i>	3465	3288	3351	3347	3252	3214	3239	3292	3359	3428
	<i>growth in %</i>	2.2	-5.1	1.9	-0.1	-2.8	-1.2	0.8	1.6	2.0	2.0
Methodological discrepancy²⁾	<i>bill. CZK 2005</i>	-6	7	-1	-18	-31	-28	-34	-39	-44	-51
Real gross domestic income	<i>bill. CZK 2005</i>	3562	3441	3482	3504	3455	3440	3513	3576	3662	3751
	<i>growth in %</i>	2.1	-3.4	1.2	0.6	-1.4	-0.4	2.1	1.8	2.4	2.5
Contribution to GDP growth³⁾											
– Gross domestic expenditure	<i>percent. points</i>	2.2	-5.0	1.8	-0.1	-2.7	-1.1	0.7	1.5	1.9	1.9
– consumption	<i>percent. points</i>	1.6	0.9	0.5	-0.3	-1.5	0.2	0.5	0.8	1.2	1.2
– household expenditure	<i>percent. points</i>	1.4	0.1	0.5	0.3	-1.1	-0.1	0.3	0.7	1.0	1.0
– government expenditure	<i>percent. points</i>	0.2	0.8	0.1	-0.6	-0.4	0.3	0.2	0.1	0.2	0.2
– gross capital formation	<i>percent. points</i>	0.6	-5.9	1.3	0.2	-1.2	-1.3	0.2	0.7	0.7	0.7
– gross fixed capital formation	<i>percent. points</i>	1.1	-3.0	0.3	0.1	-1.1	-1.1	-0.1	0.6	0.7	0.7
– change in stocks	<i>percent. points</i>	-0.5	-2.9	1.0	0.1	-0.1	-0.2	0.3	0.1	0.0	0.0
– Foreign balance	<i>percent. points</i>	0.9	0.5	0.6	1.9	1.7	-0.2	0.7	0.5	0.5	0.6
– external balance of goods	<i>percent. points</i>	0.5	0.5	0.6	2.1	1.7	0.1	0.6	0.5	0.4	0.5
– external balance of services	<i>percent. points</i>	0.4	0.0	0.1	-0.2	0.0	-0.4	0.1	0.0	0.1	0.1
Gross value added	<i>bill. CZK 2005</i>	3320	3148	3247	3305	3273	.	.	.	.	.
	<i>growth in %</i>	4.1	-5.2	3.1	1.8	-1.0	.	.	.	.	.
Net taxes on products	<i>bill. CZK 2005</i>	316	321	310	316	311	.	.	.	.	.

Source: CZSO, own calculations

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

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

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

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

		2013				2014			
		Q1	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>
Gross domestic product	<i>bill. CZK 2005</i>	829	887	900	920	837	898	917	933
	<i>growth in %</i>	-2.9	-1.7	-0.3	-0.7	1.0	1.2	1.9	1.4
	<i>growth in % ¹⁾</i>	-2.3	-1.7	-1.2	-0.4	1.0	1.2	1.6	1.7
	<i>quart.growth in % ¹⁾</i>	-1.3	0.3	0.2	0.5	0.0	0.5	0.5	0.6
Private consumption exp. ²⁾	<i>bill. CZK 2005</i>	404	425	434	445	404	427	438	449
	<i>growth in %</i>	-1.6	-0.3	0.5	0.5	0.0	0.4	0.9	0.9
Government consumption exp.	<i>bill. CZK 2005</i>	159	167	167	188	161	168	169	190
	<i>growth in %</i>	1.2	1.4	2.6	1.2	1.0	1.0	1.0	1.1
Gross capital formation	<i>bill. CZK 2005</i>	174	196	227	217	174	197	233	218
	<i>growth in %</i>	-6.2	-12.2	0.5	-5.3	0.0	0.7	2.8	0.2
– Gross fixed capital formation	<i>bill. CZK 2005</i>	182	200	213	227	180	200	210	230
	<i>growth in %</i>	-6.9	-5.9	-3.2	-3.4	-1.1	-0.3	-1.2	1.1
– Change in stocks and valuables	<i>bill. CZK 2005</i>	-9	-5	14	-10	-7	-3	23	-12
Exports of goods and services	<i>bill. CZK 2005</i>	748	781	777	813	776	811	806	843
	<i>growth in %</i>	-5.4	0.5	2.9	3.4	3.8	3.8	3.7	3.7
Imports of goods and services	<i>bill. CZK 2005</i>	648	674	698	738	669	696	721	760
	<i>growth in %</i>	-4.5	-1.0	4.7	3.4	3.2	3.2	3.2	3.1
Methodological discrepancy ³⁾	<i>bill. CZK 2005</i>	-7	-8	-7	-6	-9	-10	-9	-7
Real gross domestic income	<i>bill. CZK 2005</i>	805	863	876	897	822	881	900	910
	<i>growth in %</i>	-1.9	-0.8	0.7	0.2	2.2	2.2	2.7	1.5
Gross value added	<i>bill. CZK 2005</i>	767	817	822	.	.	.	.	.
	<i>growth in %</i>	-2.3	-1.2	-0.1	.	.	.	.	.
	<i>growth in % ¹⁾</i>	-1.6	-1.2	-1.1	.	.	.	.	.
	<i>quart.growth in % ¹⁾</i>	0.1	-0.1	-0.4	.	.	.	.	.
Net taxes on products	<i>bill. CZK 2005</i>	64	72	78	.	.	.	.	.

Source: CZSO, own calculations

¹⁾ From seasonally and working day adjusted data

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

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

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

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Estimate	Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK</i>	3848	3759	3791	3823	3846	3855	3974	4106	4233	4393
	<i>growth in %</i>	5.1	-2.3	0.8	0.9	0.6	0.2	3.1	3.3	3.1	3.8
Private consumption ¹⁾	<i>bill. CZK</i>	1883	1902	1917	1935	1944	1964	1993	2067	2125	2209
	<i>growth in %</i>	7.8	1.0	0.8	1.0	0.5	1.0	1.5	3.7	2.8	3.9
Government consumption	<i>bill. CZK</i>	759	809	807	793	789	802	816	827	838	855
	<i>growth in %</i>	4.6	6.6	-0.2	-1.8	-0.5	1.7	1.7	1.4	1.3	2.0
Gross capital formation	<i>bill. CZK</i>	1114	896	940	937	898	846	861	898	934	968
	<i>growth in %</i>	2.0	-19.5	4.8	-0.3	-4.2	-5.8	1.8	4.3	4.0	3.7
– Gross fixed capital formation	<i>bill. CZK</i>	1031	926	931	923	888	846	854	885	919	954
	<i>growth in %</i>	4.2	-10.2	0.5	-0.9	-3.8	-4.7	0.9	3.7	3.8	3.8
– Change in stocks and valuables	<i>bill. CZK</i>	83	-30	9	14	10	0	7	13	14	14
External balance	<i>bill. CZK</i>	92	152	127	159	215	244	304	315	337	362
– Exports of goods and services	<i>bill. CZK</i>	2480	2216	2524	2787	3001	3051	3255	3372	3521	3696
	<i>growth in %</i>	-0.7	-10.7	13.9	10.4	7.7	1.7	6.7	3.6	4.4	5.0
– Imports of goods and services	<i>bill. CZK</i>	2388	2064	2397	2628	2786	2808	2951	3057	3185	3335
	<i>growth in %</i>	-0.5	-13.6	16.1	9.6	6.0	0.8	5.1	3.6	4.2	4.7
Gross national income	<i>bill. CZK</i>	3668	3508	3506	3566	3561	3565	3674	3787	3894	4034
	<i>growth in %</i>	7.8	-4.3	-0.1	1.7	-0.1	0.1	3.1	3.1	2.8	3.6
Primary income balance	<i>bill. CZK</i>	-180	-251	-285	-258	-285	-290	-299	-319	-339	-359

Source: CZSO, own calculations

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

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

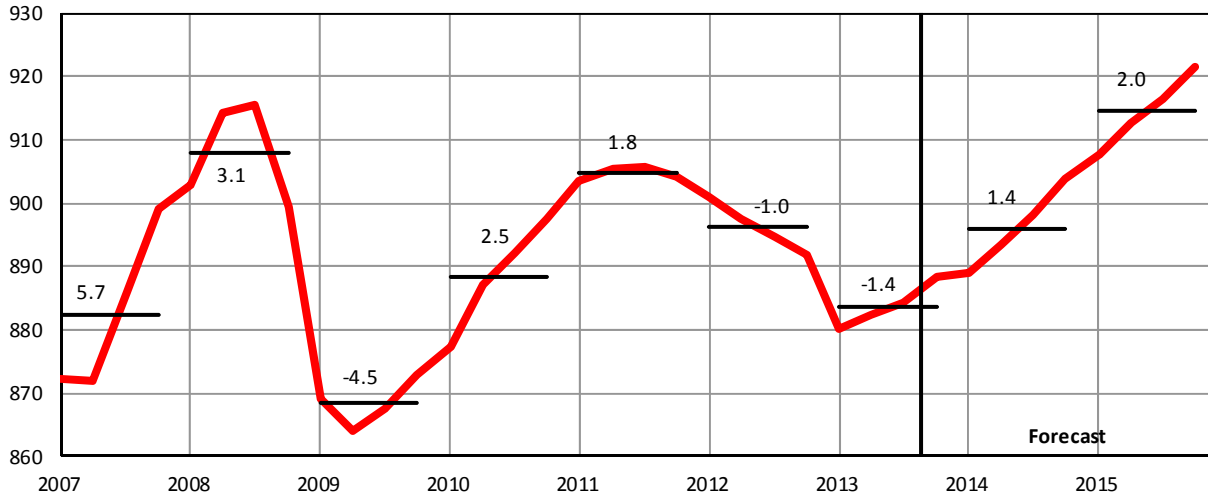
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	897	967	981	1011	922	993	1017	1041
	<i>growth in %</i>	-1.1	-0.1	1.3	0.8	2.8	2.8	3.7	3.0
Private consumption ¹⁾	<i>bill. CZK</i>	464	490	500	510	464	494	510	523
	<i>growth in %</i>	-0.2	1.0	1.6	1.5	0.1	0.9	2.1	2.6
Government consumption	<i>bill. CZK</i>	183	195	196	228	185	198	199	233
	<i>growth in %</i>	1.0	1.6	2.6	1.4	1.2	1.4	1.9	2.2
Gross capital formation	<i>bill. CZK</i>	181	204	235	226	183	206	243	229
	<i>growth in %</i>	-5.6	-12.3	0.4	-5.6	1.4	0.9	3.2	1.7
– Gross fixed capital formation	<i>bill. CZK</i>	188	206	218	234	188	208	219	239
	<i>growth in %</i>	-6.6	-5.9	-3.4	-3.2	-0.1	0.8	0.3	2.4
– Change in stocks and valuables	<i>bill. CZK</i>	-7	-2	17	-8	-4	-2	24	-10
External balance	<i>bill. CZK</i>	69	78	50	47	89	96	65	55
– Exports of goods and services	<i>bill. CZK</i>	727	763	756	805	783	817	811	844
	<i>growth in %</i>	-4.2	1.2	3.7	6.1	7.6	7.1	7.3	4.8
– Imports of goods and services	<i>bill. CZK</i>	658	685	707	758	693	721	747	789
	<i>growth in %</i>	-4.6	-1.5	4.2	5.0	5.4	5.3	5.7	4.1

Source: CZSO, own calculations

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

Graph C.1.1: Gross Domestic Product (real)

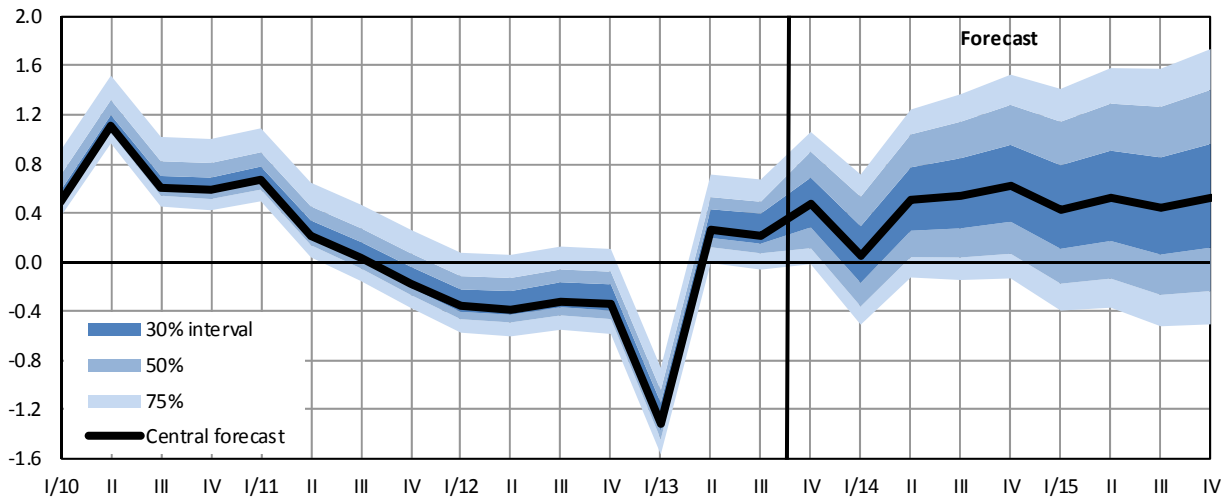
chained volumes, bill. CZK in const. prices of 2005, seasonally adjusted, growth rates in %



Source: CZSO, own calculations

Graph C.1.2: Gross Domestic Product (real)

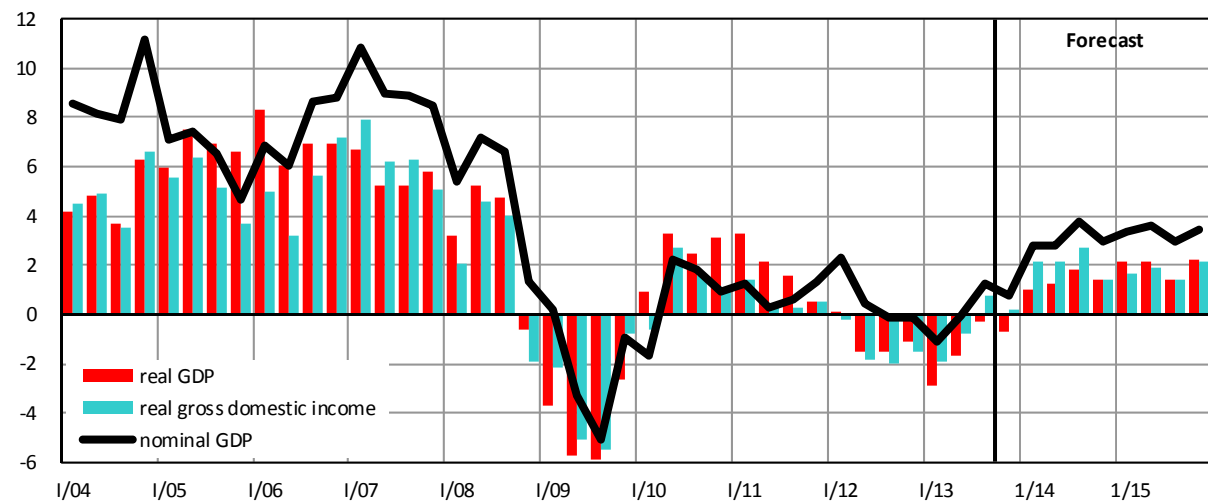
QoQ growth rate, in %, seasonally adjusted, past probability distribution reflects the actual distribution of data revisions, future probability distribution is based upon the MoF's forecasting performance



Source: CZSO, own calculations

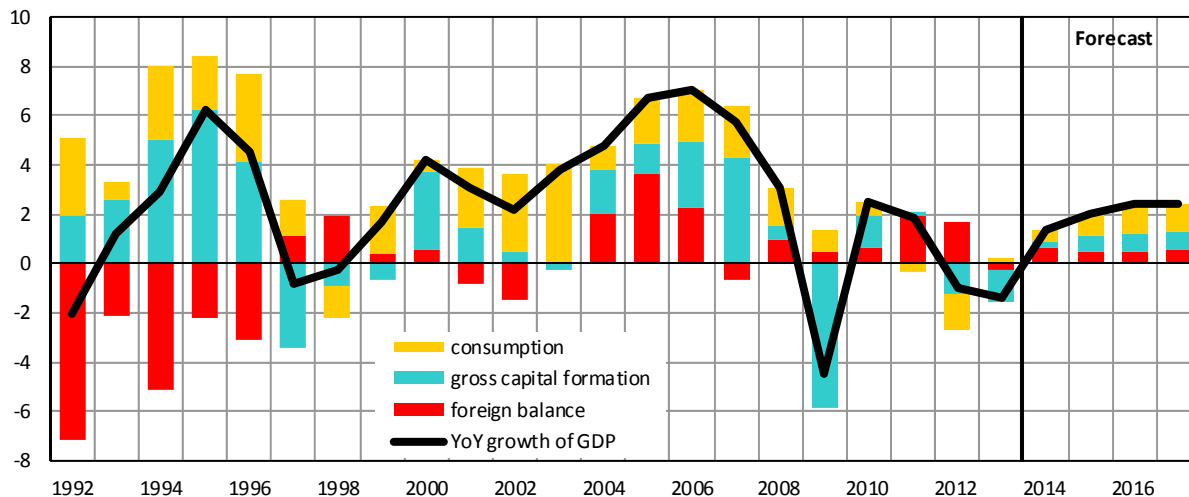
Graph C.1.3: Gross Domestic Product and Real Gross Domestic Income

YoY growth rate, in %



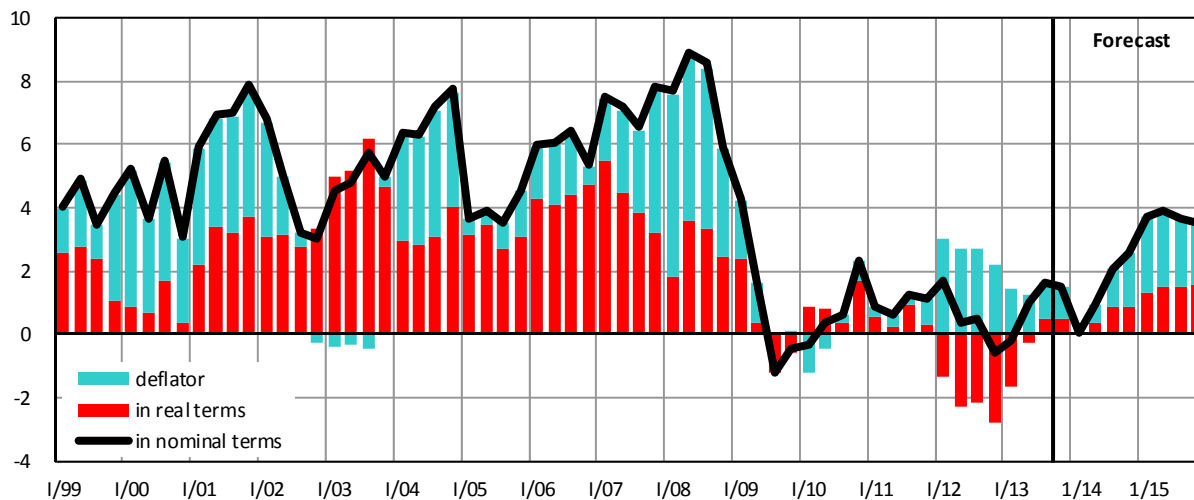
Source: CZSO, own calculations

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



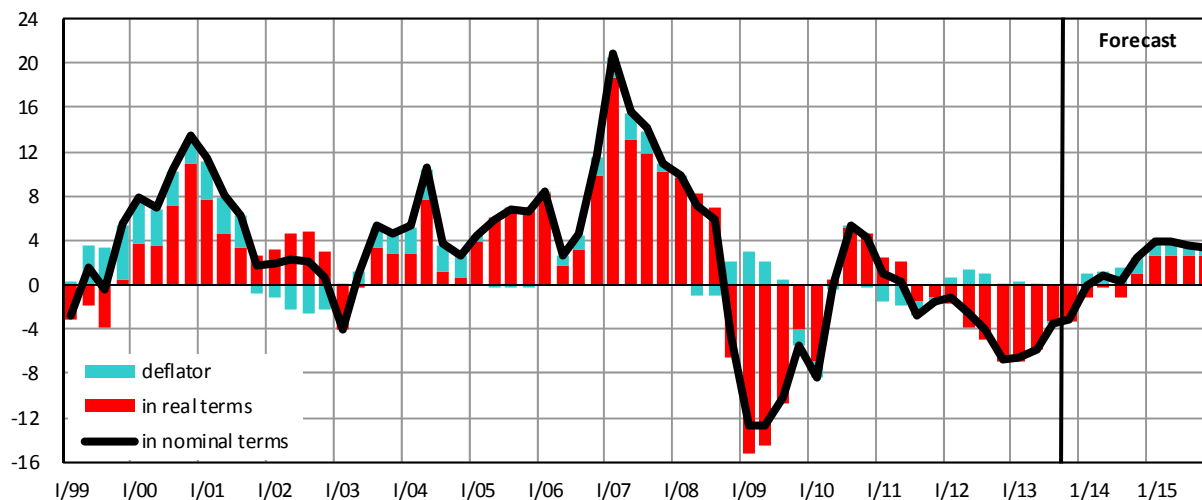
Source: CZSO, own calculations

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



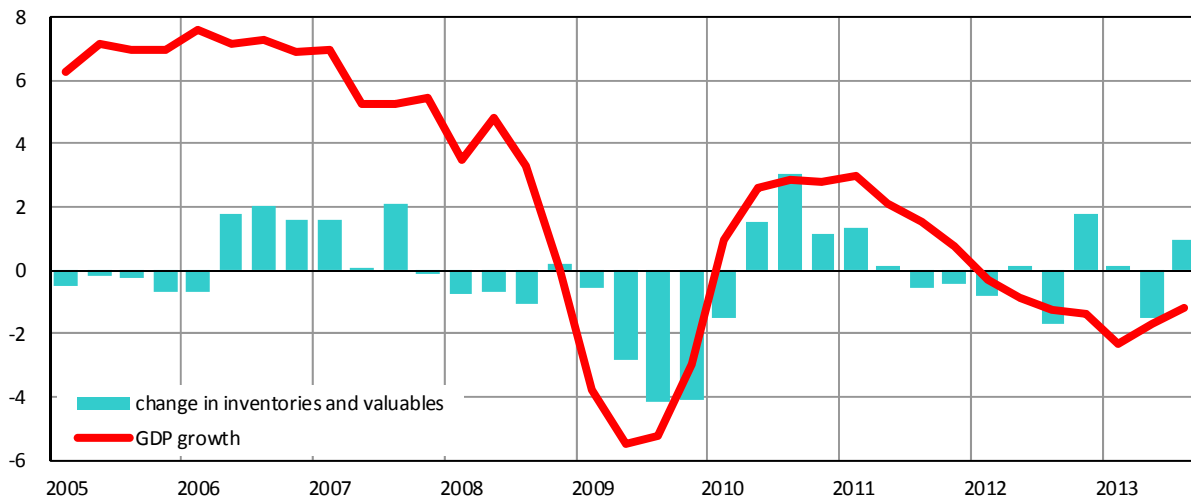
Source: CZSO, own calculations

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



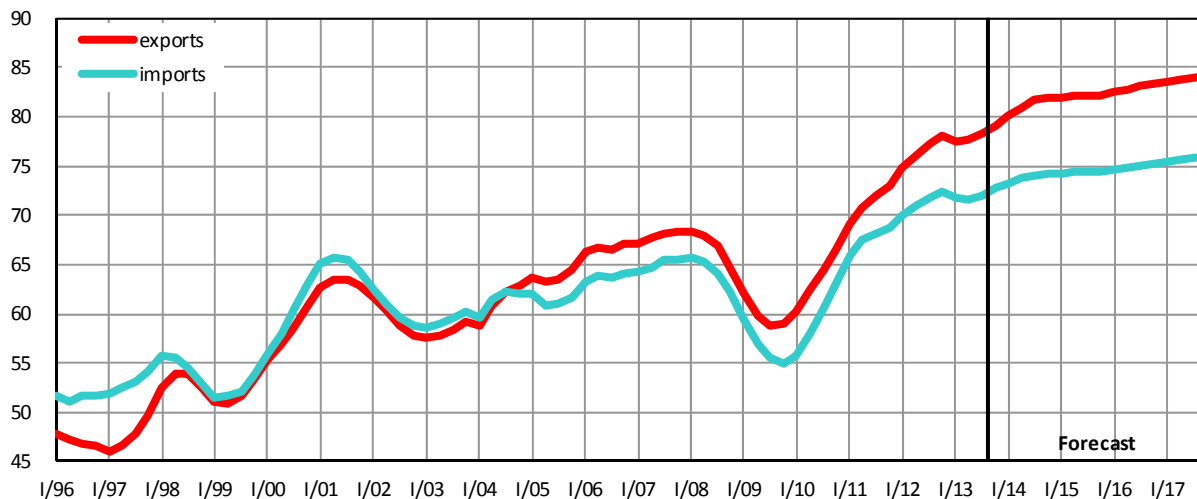
Source: CZSO, own calculations

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



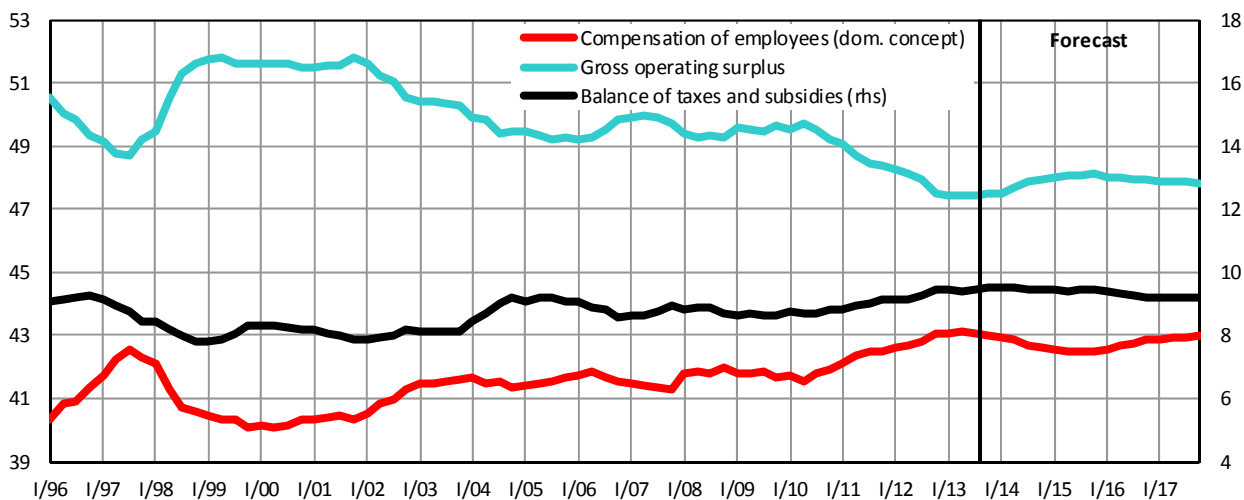
Source: CZSO

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



Source: CZSO, own calculations

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



Source: CZSO, own calculations

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

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
GDP	<i>bill. CZK</i>	3848	3759	3791	3823	3846	3855	3974	4106	4233	4394
	<i>growth in %</i>	5.1	-2.3	0.8	0.9	0.6	0.2	3.1	3.3	3.1	3.8
Balance of taxes and subsidies	<i>bill. CZK</i>	335	325	334	349	363	368	375	387	391	404
	<i>growth in %</i>	2.5	-3.1	2.8	4.3	4.2	1.3	2.0	3.2	0.9	3.4
– Taxes on production and imports	<i>bill. CZK</i>	419	425	434	457	471	477	488	502	507	522
	<i>growth in %</i>	2.9	1.4	2.1	5.3	3.2	1.1	2.4	2.7	1.0	3.0
– Subsidies on production	<i>bill. CZK</i>	84	100	100	108	108	109	113	114	116	118
	<i>growth in %</i>	4.4	19.5	-0.4	8.6	0.2	0.7	3.7	1.0	1.5	1.5
Compensation of employees	<i>bill. CZK</i>	1617	1567	1590	1626	1656	1657	1694	1744	1814	1889
	<i>growth in %</i>	6.8	-3.0	1.4	2.2	1.8	0.1	2.2	2.9	4.0	4.1
– Wages and salaries	<i>bill. CZK</i>	1226	1201	1210	1237	1260	1257	1285	1340	1393	1450
	<i>growth in %</i>	7.5	-2.1	0.8	2.2	1.8	-0.2	2.2	4.3	4.0	4.1
– Social security contributions	<i>bill. CZK</i>	390	367	380	389	396	400	409	404	421	439
	<i>growth in %</i>	4.7	-6.1	3.7	2.4	1.8	1.0	2.2	-1.2	4.2	4.3
Gross operating surplus	<i>bill. CZK</i>	1896	1866	1867	1849	1827	1831	1904	1975	2029	2100
	<i>growth in %</i>	4.1	-1.6	0.0	-0.9	-1.2	0.2	4.0	3.7	2.7	3.5
– Consumption of capital	<i>bill. CZK</i>	680	710	720	731	746	758	773	792	814	839
	<i>growth in %</i>	5.6	4.4	1.4	1.6	2.0	1.6	2.0	2.5	2.8	3.0
– Net operating surplus	<i>bill. CZK</i>	1216	1156	1147	1118	1081	1073	1132	1183	1214	1262
	<i>growth in %</i>	3.2	-4.9	-0.8	-2.5	-3.3	-0.8	5.5	4.6	2.6	3.9

Source: CZSO, own calculations

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

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	897	967	981	1011	922	993	1017	1041
	<i>growth in %</i>	-1.1	-0.1	1.3	0.8	2.8	2.8	3.7	3.0
Balance of taxes and subsidies	<i>bill. CZK</i>	79	92	105	92	80	94	108	94
	<i>growth in %</i>	-0.6	-1.7	3.7	3.2	2.0	2.1	2.2	1.8
Compensation of employees	<i>bill. CZK</i>	397	410	409	441	407	417	418	452
	<i>growth in %</i>	-0.8	0.3	0.7	0.0	2.6	1.6	2.2	2.6
– Wages and salaries	<i>bill. CZK</i>	299	310	310	337	307	315	317	346
	<i>growth in %</i>	-0.9	0.0	0.3	-0.3	2.6	1.6	2.2	2.6
– Social security contributions	<i>bill. CZK</i>	97	100	99	104	100	102	101	106
	<i>growth in %</i>	-0.2	1.3	2.0	1.0	2.6	1.6	2.2	2.6
Gross operating surplus	<i>bill. CZK</i>	422	464	466	478	435	482	492	495
	<i>growth in %</i>	-1.6	-0.1	1.3	1.1	3.1	3.9	5.5	3.5

Source: CZSO, own calculations

C.2 Prices

Table C.2.1: Prices – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Estimate	Forecast	Forecast	Outlook	Outlook
Consumer Price Index											
average of a year	<i>average 2005=100</i>	112.1	113.3	115.0	117.2	121.0	122.8	124.0	126.9	128.1	130.6
	<i>growth in %</i>	6.3	1.0	1.5	1.9	3.3	1.4	1.0	2.4	0.9	2.0
December	<i>average 2005=100</i>	111.8	112.9	115.5	118.3	121.1	122.8	125.2	127.7	129.0	131.4
	<i>growth in %</i>	3.6	1.0	2.3	2.4	2.4	1.4	1.9	2.0	1.0	1.9
– of which contribution of											
administrative measures ¹⁾	<i>percentage points</i>	4.3	1.0	1.6	1.2	2.2	1.0	-0.1	0.5	-0.5	0.4
market increase	<i>percentage points</i>	-0.7	0.0	0.7	1.2	0.1	0.4	2.0	1.5	1.6	1.4
HICP	<i>average 2005=100</i>	111.7	112.4	113.7	116.2	120.3	121.9	123.2	126.2	127.4	130.0
	<i>growth in %</i>	6.3	0.6	1.2	2.1	3.5	1.4	1.1	2.4	0.9	2.0
Offering prices of flats											
	<i>average 2005=100</i>	162.4	157.9	151.6	144.4	145.1	146.5	.	.	.	.
	<i>growth in %</i>	23.4	-2.8	-4.0	-4.8	0.5	1.0	.	.	.	.
Deflators											
GDP	<i>average 2005=100</i>	105.9	108.3	106.6	105.6	107.3	109.0	110.8	112.3	113.1	114.5
	<i>growth in %</i>	1.9	2.3	-1.6	-0.9	1.6	1.6	1.7	1.3	0.7	1.3
Domestic final use	<i>average 2005=100</i>	108.4	109.7	109.3	109.5	111.6	112.4	113.3	115.2	116.0	117.6
	<i>growth in %</i>	3.1	1.2	-0.3	0.1	1.9	0.7	0.8	1.7	0.7	1.4
Consumption of households											
	<i>average 2005=100</i>	109.5	110.3	110.2	110.7	113.6	115.0	116.0	118.6	119.6	122.0
	<i>growth in %</i>	4.8	0.8	-0.2	0.5	2.7	1.2	0.9	2.2	0.9	2.0
Consumption of government											
	<i>average 2005=100</i>	112.6	115.4	114.9	115.9	117.6	117.7	118.5	119.6	120.0	121.1
	<i>growth in %</i>	3.4	2.5	-0.5	0.9	1.5	0.1	0.7	1.0	0.3	0.9
Fixed capital formation											
	<i>average 2005=100</i>	102.8	103.7	103.2	102.0	102.7	102.8	104.1	105.2	105.9	106.7
	<i>growth in %</i>	0.1	1.0	-0.5	-1.2	0.8	0.1	1.3	1.0	0.7	0.7
Exports of goods and services											
	<i>average 2005=100</i>	93.9	94.1	92.9	93.6	96.5	97.8	100.6	100.2	100.5	100.8
	<i>growth in %</i>	-4.5	0.3	-1.3	0.8	3.1	1.4	2.8	-0.4	0.3	0.3
Imports of goods and services											
	<i>average 2005=100</i>	96.8	95.2	95.8	98.1	101.7	101.8	103.7	103.6	103.9	104.2
	<i>growth in %</i>	-3.1	-1.7	0.6	2.5	3.6	0.1	1.9	-0.1	0.3	0.3
Terms of trade											
	<i>average 2005=100</i>	97.0	98.9	97.0	95.4	94.9	96.1	97.0	96.7	96.7	96.7
	<i>growth in %</i>	-1.4	2.0	-1.9	-1.6	-0.5	1.2	0.9	-0.2	0.0	0.0

Source: CZSO, Eurostat, own calculations

Note: The outlook for 2016 is in line with current legislation, assuming VAT rates unification at 17.5% effective from January 1, 2016

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

Table C.2.2: Prices – quarterly

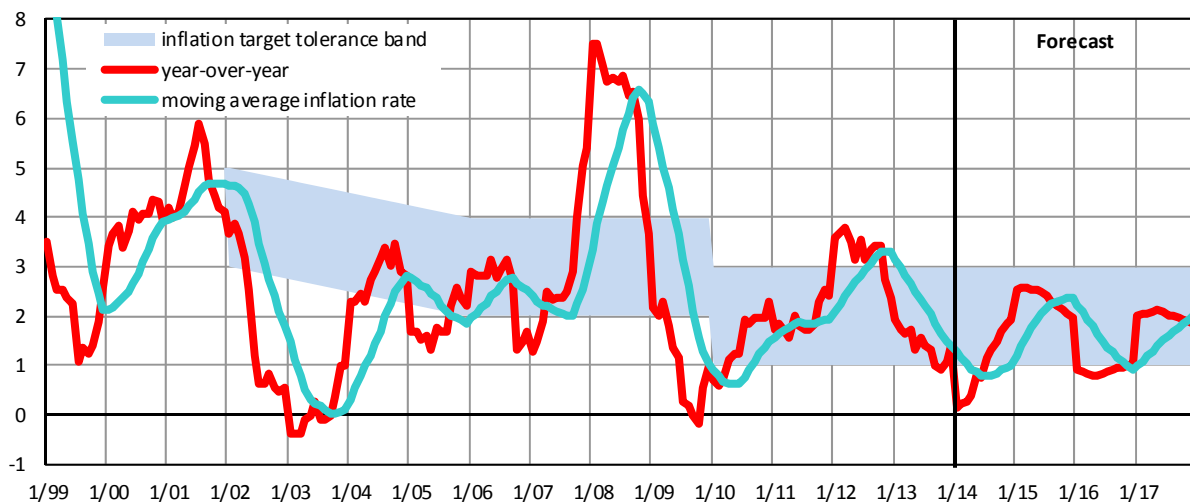
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Consumer Price Index	average 2005=100	122.8	123.0	122.6	122.5	123.1	123.8	124.3	124.8
	growth in %	1.8	1.5	1.2	1.1	0.2	0.7	1.3	1.8
– of which contribution of									
administrative measures¹⁾	percentage points	1.6	1.4	1.2	1.2	-0.6	-0.4	-0.3	-0.1
market increase	percentage points	0.2	0.1	0.0	0.0	0.8	1.1	1.6	1.9
HICP	average 2005=100	121.9	122.2	121.8	121.8	122.3	123.1	123.5	124.0
	growth in %	1.7	1.5	1.2	1.1	0.3	0.7	1.4	1.9
Offering prices of flats	average 2005=100	145.3	145.7	146.7	148.3	.	.	.	.
	growth in %	1.1	-0.3	1.2	1.8	.	.	.	.
Deflators									
GDP	average 2005=100	108.2	109.0	108.9	109.9	110.2	110.6	110.9	111.6
	growth in %	1.8	1.6	1.5	1.5	1.8	1.5	1.8	1.5
Domestic final use	average 2005=100	111.8	112.4	112.3	113.0	112.2	112.8	113.3	114.7
	growth in %	0.9	0.7	0.6	0.5	0.4	0.4	0.9	1.5
Consumption of households	average 2005=100	114.9	115.1	115.1	114.7	115.0	115.8	116.5	116.6
	growth in %	1.4	1.3	1.1	1.0	0.1	0.5	1.2	1.7
Consumption of government	average 2005=100	114.8	116.9	117.0	121.4	115.1	117.3	118.0	122.8
	growth in %	-0.2	0.2	0.1	0.2	0.3	0.3	0.8	1.1
Fixed capital formation	average 2005=100	103.0	102.9	102.6	102.8	104.1	104.1	104.2	104.1
	growth in %	0.3	0.0	-0.2	0.2	1.0	1.1	1.6	1.3
Exports of goods and services	average 2005=100	97.2	97.6	97.3	99.0	100.9	100.8	100.6	100.0
	growth in %	1.2	0.7	0.8	2.7	3.7	3.2	3.5	1.0
Imports of goods and services	average 2005=100	101.5	101.7	101.2	102.8	103.7	103.7	103.6	103.8
	growth in %	-0.1	-0.5	-0.6	1.5	2.2	2.0	2.4	1.0
Terms of trade	average 2005=100	95.8	96.0	96.1	96.3	97.2	97.1	97.2	96.4
	growth in %	1.3	1.3	1.3	1.1	1.5	1.2	1.1	0.0

Source: CZSO, Eurostat, own calculations

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

Graph C.2.1: Consumer Prices

YoY growth rate, in %

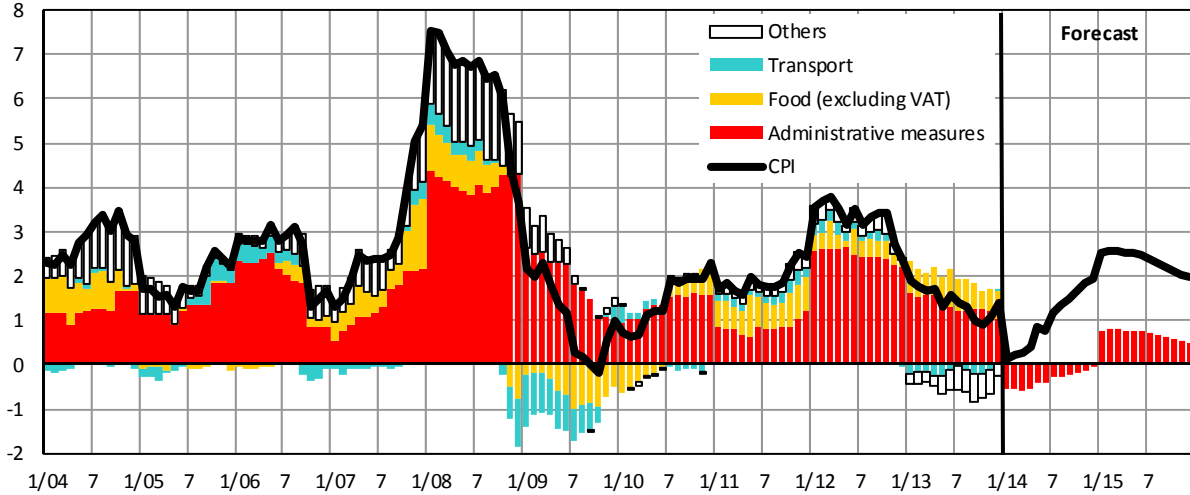


Source: CNB, CZSO, own calculations

Note: For the years 2002–2005 the highlighted area represents target band for headline inflation, whereas from 2006 on it is the tolerance band of the CNB's point target for headline inflation. The outlook for 2016 is in line with current legislation, assuming VAT rates unification at 17.5% effective from January 1, 2016

Graph C.2.2: Consumer Prices

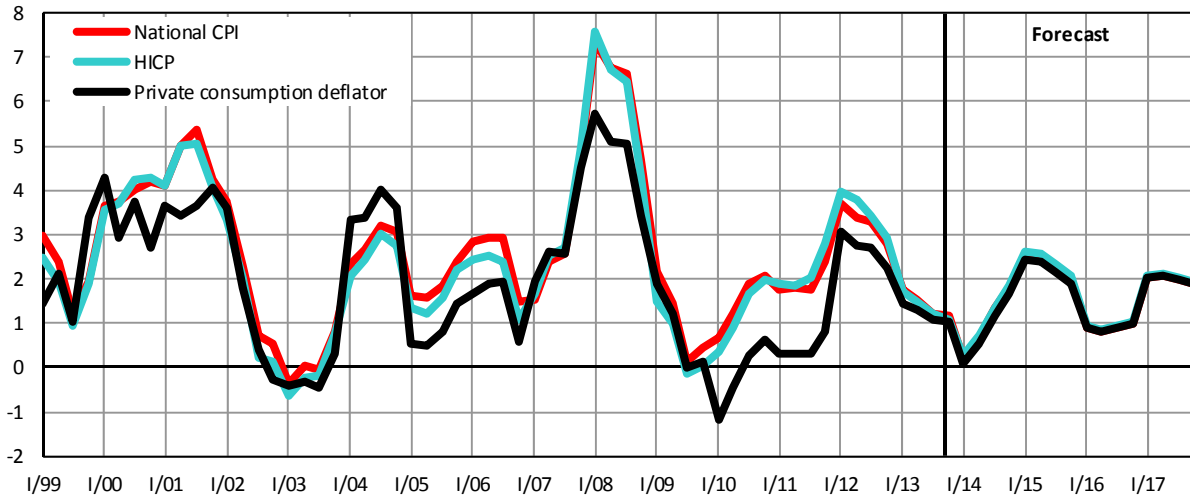
decomposition of YoY growth of CPI, contributions in pp, CPI growth rate in %, Transport excluding administrative measures and excises



Source: CZSO, own calculations

Graph C.2.3: Indicators of Consumer Prices

YoY growth rate, in %

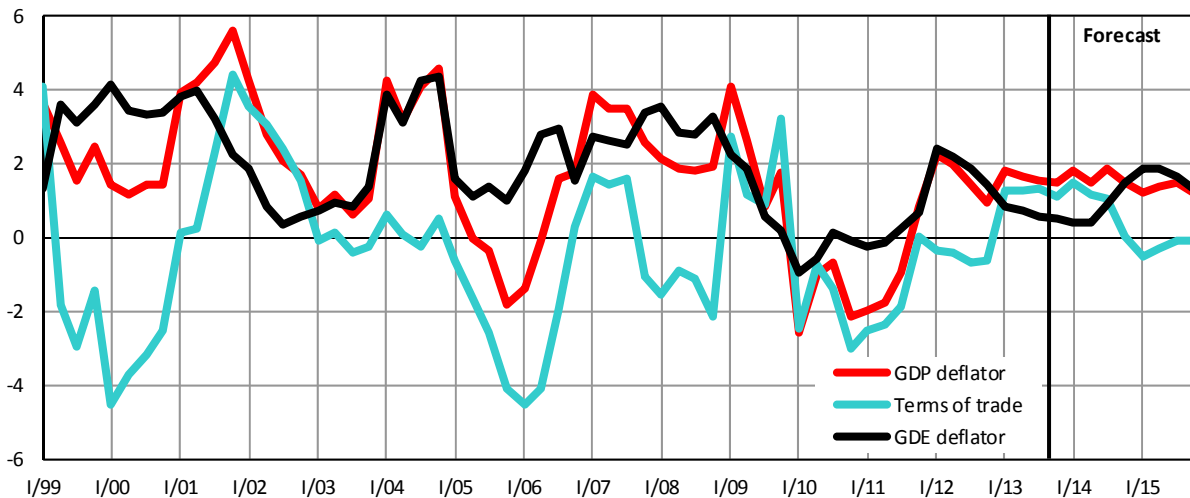


Source: CZSO, Eurostat, own calculations

Note: The outlook for 2016 is in line with current legislation, assuming VAT rates unification at 17.5% effective from January 1, 2016

Graph C.2.4: GDP Deflator

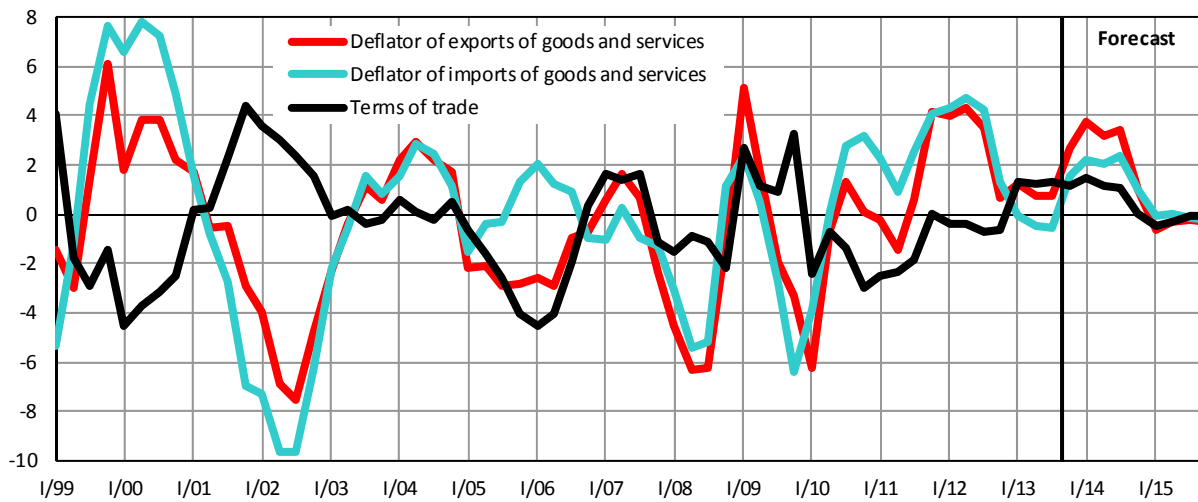
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.2.5: Terms of Trade

YoY growth rate, in %



Source: CZSO, own calculations

C.3 Labour Market

Table C.3.1: Labour Market – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Estimate	Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	5002	4934	4885	4872	4890	4933	4940	4948	4956	4964
	<i>growth in %</i>	1.6	-1.4	-1.0	0.4	0.4	0.9	0.1	0.1	0.2	0.2
– employees	<i>av. in thous.persons</i>	4196	4107	4019	3993	3990	4049	4057	4062	4068	4074
	<i>growth in %</i>	1.7	-2.1	-2.1	0.0	-0.1	1.5	0.2	0.1	0.2	0.1
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	807	827	866	880	901	885	883	886	888	890
	<i>growth in %</i>	1.2	2.5	4.7	2.0	2.4	-1.8	-0.1	0.2	0.3	0.2
Unemployment	<i>av. in thous.persons</i>	230	352	384	351	367	370	369	366	346	320
Unemployment rate	<i>average in per cent</i>	4.4	6.7	7.3	6.7	7.0	7.0	7.0	6.9	6.5	6.1
Labour force	<i>av. in thous.persons</i>	5232	5286	5269	5223	5257	5304	5309	5313	5302	5284
	<i>growth in %</i>	0.7	1.0	-0.3	-0.2	0.7	0.9	0.1	0.1	-0.2	-0.3
Population aged 15–64	<i>av. in thous.persons</i>	7410	7431	7399	7295	7229	7156	7087	7022	6957	6893
	<i>growth in %</i>	0.9	0.3	-0.4	-0.7	-0.9	-1.0	-1.0	-0.9	-0.9	-0.9
Employment/Pop. 15–64	<i>average in per cent</i>	67.5	66.4	66.0	66.8	67.6	68.9	69.7	70.5	71.2	72.0
Employment rate 15–64¹⁾	<i>average in per cent</i>	66.6	65.4	65.0	65.7	66.5	67.7	68.4	69.1	69.9	70.6
Labour force/Pop. 15–64	<i>average in per cent</i>	70.6	71.1	71.2	71.6	72.7	74.1	74.9	75.7	76.2	76.7
Participation rate 15–64²⁾	<i>average in per cent</i>	69.7	70.1	70.2	70.5	71.6	72.8	73.6	74.3	74.8	75.3
SNA											
Employment (domestic concept)	<i>av. in thous.persons</i>	5204	5111	5059	5057	5077	5123	5132	5140	5149	5157
	<i>growth in %</i>	2.3	-1.8	-1.0	0.0	0.4	0.9	0.2	0.1	0.2	0.2
Hours worked	<i>bill. hours</i>	9.37	9.09	9.16	9.16	9.15	9.10	9.14	9.11	9.11	9.10
	<i>growth in %</i>	2.7	-3.0	0.8	0.0	-0.1	-0.5	0.4	-0.3	-0.1	-0.1
Hours worked / employment	<i>hours</i>	1800	1778	1811	1811	1802	1777	1780	1773	1769	1764
	<i>growth in %</i>	0.4	-1.2	1.8	0.0	-0.5	-1.4	0.2	-0.4	-0.2	-0.3
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	324.6	465.6	528.7	507.8	504.7	564	587	570	525	474
Share of unemployed³⁾	<i>average in per cent</i>	4.1	6.1	7.0	6.7	6.8	7.7	8.0	7.8	7.2	6.6

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

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

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

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

Table C.3.2: Labour Market – quarterly

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4884	4953	4954	4943	4898	4948	4961	4953
	<i>YoY growth in %</i>	1.0	1.3	0.7	0.5	0.3	-0.1	0.2	0.2
	<i>QoQ growth in %</i>	0.3	0.5	-0.2	0.0	0.0	0.1	0.1	0.0
– employees	<i>av. in thous. persons</i>	4015	4074	4064	4042	4031	4078	4069	4049
	<i>growth in %</i>	2.0	2.4	0.9	0.7	0.4	0.1	0.1	0.2
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	869	879	889	901	867	870	892	904
	<i>growth in %</i>	-3.2	-3.2	-0.5	-0.1	-0.2	-1.0	0.3	0.3
Unemployment	<i>av. in thous. persons</i>	393	358	370	361	377	360	372	368
Unemployment rate	<i>average in per cent</i>	7.4	6.7	6.9	6.8	7.2	6.8	7.0	6.9
Labour force	<i>av. in thous. persons</i>	5277	5311	5323	5304	5276	5308	5333	5320
	<i>growth in %</i>	1.4	1.4	0.7	0.2	0.0	-0.1	0.2	0.3
Population aged 15–64	<i>av. in thous. persons</i>	7184	7166	7145	7128	7111	7095	7079	7063
	<i>growth in %</i>	-1.0	-1.0	-1.1	-1.0	-1.0	-1.0	-0.9	-0.9
Employment/Pop. 15–64	<i>average in per cent</i>	68.0	69.1	69.3	69.3	68.9	69.7	70.1	70.1
	<i>increase over a year</i>	1.3	1.6	1.2	1.1	0.9	0.6	0.8	0.8
Employment rate 15–64 ¹⁾	<i>average in per cent</i>	66.8	67.8	68.0	68.1	67.6	68.5	68.8	68.8
	<i>increase over a year</i>	1.2	1.3	1.0	1.0	0.8	0.6	0.7	0.7
Labour force/Pop. 15–64	<i>average in per cent</i>	73.5	74.1	74.5	74.4	74.2	74.8	75.3	75.3
	<i>increase over a year</i>	1.7	1.7	1.3	0.9	0.7	0.7	0.8	0.9
Participation rate 15–64 ²⁾	<i>average in per cent</i>	72.3	72.8	73.2	73.1	72.9	73.5	74.0	74.0
	<i>increase over a year</i>	1.6	1.5	1.1	0.9	0.6	0.7	0.8	0.9
SNA									
Employment (domestic concept)	<i>av. in thous. persons</i>	5065	5134	5153	5140	5082	5131	5163	5153
	<i>growth in %</i>	1.1	1.3	0.7	0.6	0.3	0.0	0.2	0.3
Hours worked	<i>bill. hours</i>	2.29	2.36	2.14	2.31	2.32	2.36	2.14	2.31
	<i>growth in %</i>	-4.5	-0.5	3.4	0.2	1.3	0.3	-0.2	-0.1
Hours worked / employment	<i>hours</i>	452	459	416	450	457	461	414	449
	<i>growth in %</i>	-5.5	-1.8	2.7	-0.3	1.0	0.4	-0.4	-0.3
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	582	559	551	566	623	584	569	570
Share of unemployed ³⁾	<i>average in per cent</i>	7.9	7.6	7.5	7.7	8.5	7.9	7.7	7.7

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

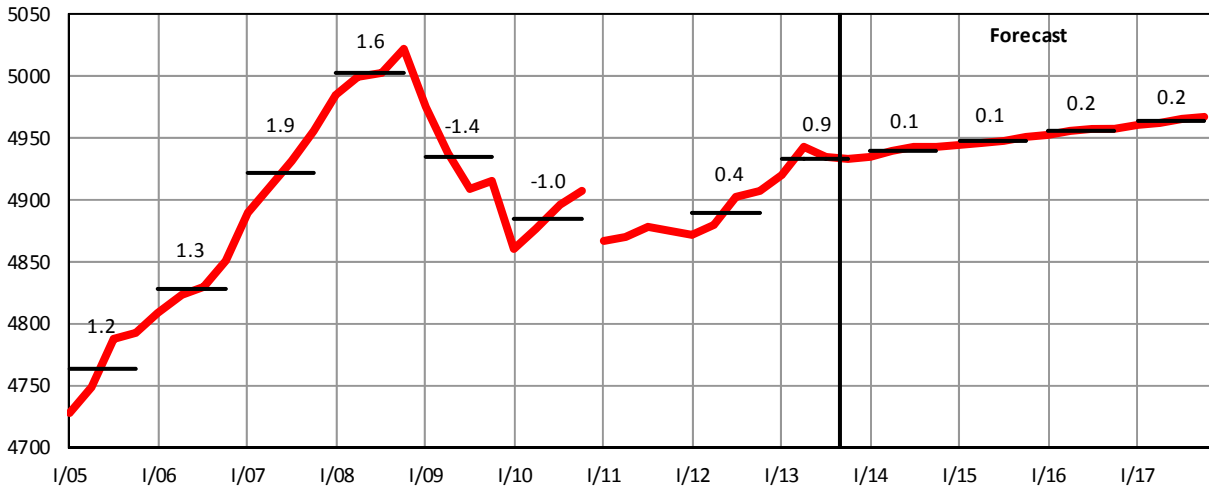
¹⁾ The indicator does not include employment over 64 years.

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

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

Graph C.3.3: Employment (LFS)

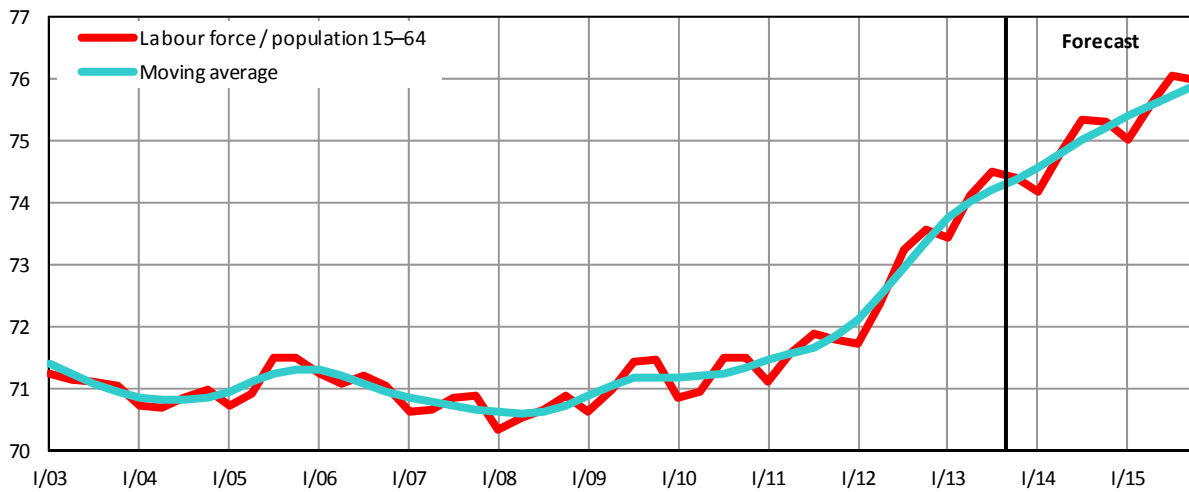
seasonally adjusted data, in thousands of persons, growth rates in %



Source: CZSO, own calculations

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

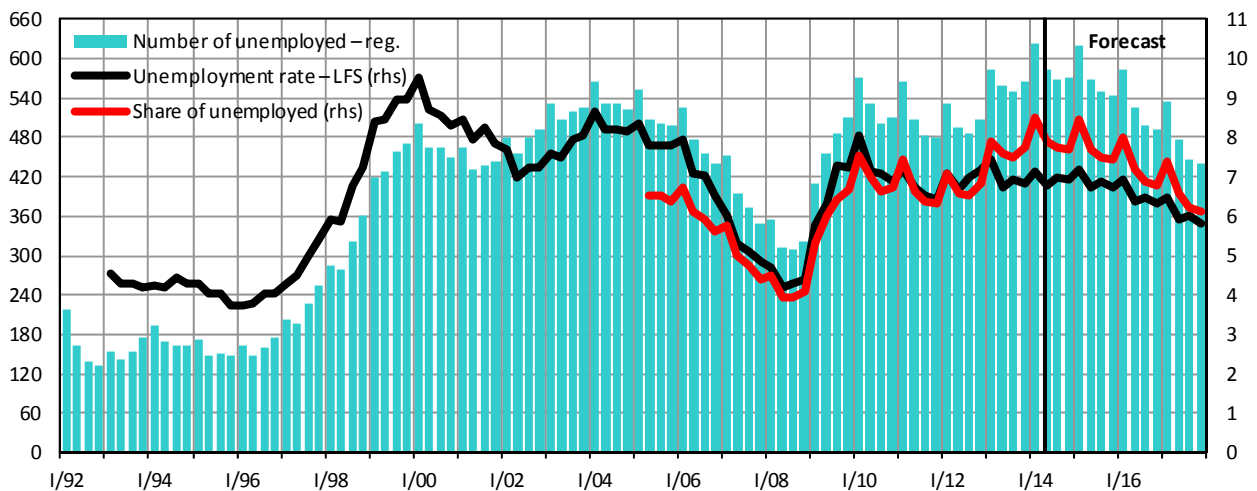
in %



Source: CZSO, own calculations

Graph C.3.5: Unemployment

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

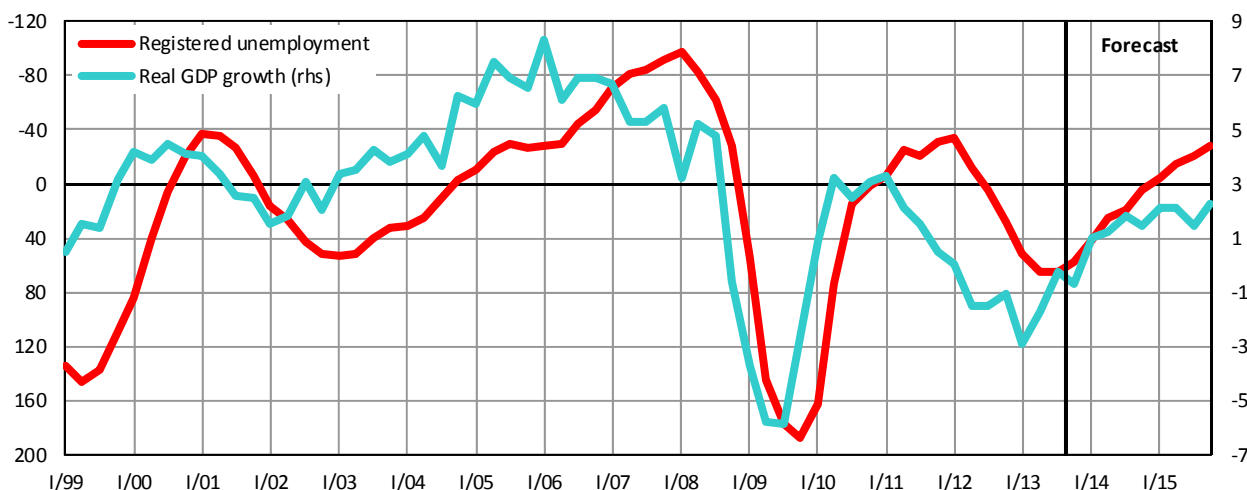


Source: CZSO, Ministry of Labour and Social Affairs, own calculations

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

Graph C.3.6: Economic Output and Unemployment

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



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

Table C.3.3: Labour Market – analytical indicators

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
		<i>Estimate Forecast Forecast</i>									
Compensation per employee											
– nominal	<i>growth in %</i>	6.0	6.3	4.2	-0.6	3.1	2.3	1.9	-1.4	2.0	2.8
– real	<i>growth in %</i>	3.4	3.3	-2.0	-1.7	1.6	0.4	-1.4	-2.8	1.0	0.4
Wage bill	<i>growth in %</i>	7.2	8.3	7.5	-2.1	0.8	2.2	1.8	-0.2	2.2	4.3
Average monthly wage ¹⁾											
– nominal	CZK	19 536	20 947	22 592	23 353	23 858	24 452	25 109	25 300	25 900	27 000
	<i>growth in %</i>	6.5	7.2	7.9	3.4	2.2	2.5	2.7	0.8	2.5	4.2
– real	CZK 2005	19 053	19 865	20 147	20 610	20 753	20 866	20 745	20 600	20 900	21 300
	<i>growth in %</i>	3.9	4.3	1.4	2.3	0.7	0.5	-0.6	-0.7	1.5	1.8
Labour productivity	<i>growth in %</i>	5.6	3.5	0.8	-2.8	3.5	1.9	-1.4	-2.2	1.2	1.8
Unit labour costs ²⁾	<i>growth in %</i>	0.4	2.6	3.4	2.2	-0.4	0.5	3.3	0.9	0.8	1.0
Compensations of employees / GDP	%	41.6	41.3	42.0	41.7	41.9	42.5	43.1	43.0	42.6	42.5

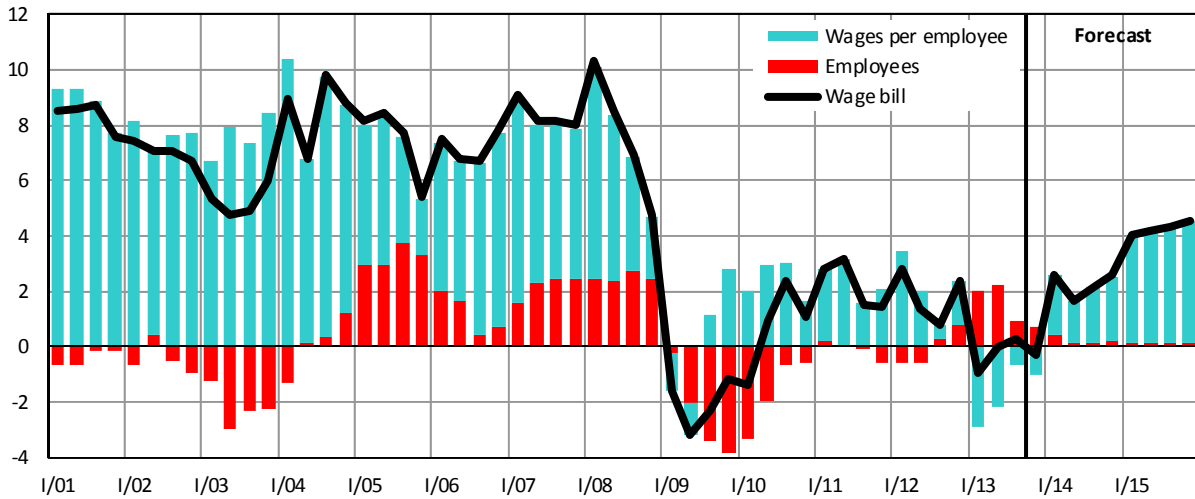
Source: CZSO, own calculations

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

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

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

YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.8: Average Nominal Wage

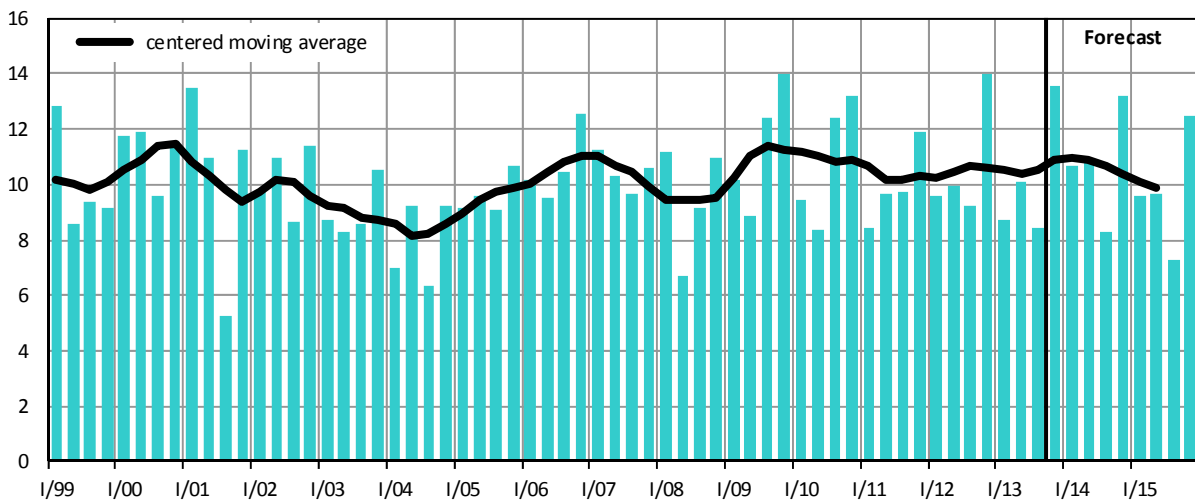
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.9: Gross Savings Rate of Households

in % of disposable income



Source: CZSO, own calculations

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

SNA methodology – national concept

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									Estimate	Forecast	Forecast
Current income											
Compensation of employees	<i>bill.CZK</i>	1397	1510	1597	1557	1589	1627	1660	1662	1700	1750
	<i>growth in %</i>	7.3	8.1	5.8	-2.5	2.1	2.4	2.1	0.1	2.3	2.9
Gross operating surplus and mixed income	<i>bill.CZK</i>	538	570	587	616	608	584	591	591	595	604
	<i>growth in %</i>	4.4	6.0	3.0	5.0	-1.4	-4.0	1.2	0.0	0.8	1.5
Property income received	<i>bill.CZK</i>	150	155	167	155	151	154	141	136	135	136
	<i>growth in %</i>	11.5	3.1	8.2	-7.3	-2.8	2.3	-8.8	-3.7	-0.5	1.0
Social benefits not-in-kind	<i>bill.CZK</i>	422	471	495	536	542	552	567	569	581	595
	<i>growth in %</i>	9.1	11.6	5.1	8.4	1.1	1.9	2.6	0.5	2.1	2.4
Other current transfers received	<i>bill.CZK</i>	113	122	137	137	135	134	146	149	154	159
	<i>growth in %</i>	8.9	7.8	11.8	0.5	-1.8	-0.8	9.2	2.3	3.0	3.6
Current expenditure											
Property income paid	<i>bill.CZK</i>	21	26	30	18	22	20	19	16	16	17
	<i>growth in %</i>	10.6	26.5	12.8	-38.1	18.3	-5.6	-8.8	-11.9	0.0	1.0
Curr. taxes on income and property	<i>bill.CZK</i>	144	160	146	141	137	148	151	151	154	159
	<i>growth in %</i>	0.4	11.0	-8.6	-3.7	-2.7	7.8	2.4	-0.4	2.3	2.9
Social contributions	<i>bill.CZK</i>	564	618	638	605	622	638	653	666	682	703
	<i>growth in %</i>	9.6	9.5	3.4	-5.3	2.8	2.7	2.3	1.9	2.4	3.1
Other current transfers paid	<i>bill.CZK</i>	119	132	143	140	140	142	150	151	152	155
	<i>growth in %</i>	9.4	11.0	8.3	-2.1	0.0	1.1	5.5	0.8	1.0	2.0
Gross disposable income	<i>bill.CZK</i>	1771	1891	2025	2097	2104	2102	2131	2124	2161	2212
	<i>growth in %</i>	6.9	6.8	7.1	3.5	0.3	-0.1	1.4	-0.4	1.8	2.4
Final consumption	<i>bill.CZK</i>	1604	1720	1857	1874	1889	1908	1916	1935	1963	2036
	<i>growth in %</i>	5.9	7.2	8.0	1.0	0.8	1.0	0.4	1.0	1.5	3.7
Change in share in pension funds	<i>bill.CZK</i>	23	26	24	17	15	16	15	30	36	42
Gross savings	<i>bill.CZK</i>	190	197	193	240	230	210	230	219	234	217
Capital transfers											
(income (-) / expenditure (+))	<i>bill.CZK</i>	-31	-36	-29	-28	-33	-29	-24	-21	-19	-19
Gross capital formation	<i>bill.CZK</i>	178	203	209	201	218	190	175	167	161	159
	<i>growth in %</i>	12.4	14.2	3.0	-3.8	8.6	-13.0	-7.9	-4.4	-4.0	-1.0
Change in financial assets and liab.	<i>bill.CZK</i>	43	30	12	66	44	49	77	72	93	78
Real disposable income	<i>growth in %</i>	5.3	3.7	2.2	2.7	0.5	-0.5	-1.2	-1.5	0.9	0.0
Gross savings rate	<i>%</i>	10.7	10.4	9.5	11.4	10.9	10.0	10.8	10.3	10.8	9.8

Source: CZSO, own calculations

C.4 External Relations

Table C.4.1: Balance of Payments – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Balance of goods and services	<i>bill.CZK</i>	108	106	100	161	129	149	196	240	301	312
– balance of trade ¹⁾	<i>bill.CZK</i>	59	47	26	87	54	90	146	190	246	256
– of which mineral fuels (SITC 3) ²⁾	<i>bill.CZK</i>	-139	-124	-167	-107	-138	-177	-189	-196	-196	-188
– balance of services	<i>bill.CZK</i>	49	59	74	74	75	58	50	50	55	56
Balance of income	<i>bill.CZK</i>	-165	-255	-175	-250	-285	-256	-289	-304	-313	-333
– compensation of employees	<i>bill.CZK</i>	3	-4	-19	-11	-1	1	5	6	6	6
– investment income	<i>bill.CZK</i>	-168	-251	-156	-239	-284	-257	-294	-310	-320	-340
Balance of transfers	<i>bill.CZK</i>	-11	-8	-6	-1	9	3	-1	0	4	6
Current account	<i>bill.CZK</i>	-67	-157	-81	-89	-147	-104	-94	-64	-8	-16
Capital account	<i>bill.CZK</i>	10	22	27	51	33	15	52	100	102	104
Financial account	<i>bill.CZK</i>	100	125	92	143	174	59	122	.	.	.
– foreign direct investments	<i>bill.CZK</i>	90	179	36	38	95	47	181	.	.	.
– portfolio investments	<i>bill.CZK</i>	-27	-57	-9	159	150	6	43	.	.	.
– other investments	<i>bill.CZK</i>	36	3	65	-53	-71	7	-102	.	.	.
Change in reserves	<i>bill.CZK</i>	2	16	40	61	41	-17	80	.	.	.
International investment position	<i>bill.CZK</i>	-1084	-1418	-1545	-1728	-1830	-1818	-1904	.	.	.
Gross external debt	<i>bill.CZK</i>	1196	1377	1630	1639	1767	1877	1941	1950	1978	2004
Balance of goods and services / GDP	<i>per cent</i>	3.2	2.9	2.6	4.3	3.4	3.9	5.1	6.2	7.6	7.6
Current account / GDP	<i>per cent</i>	-2.0	-4.3	-2.1	-2.4	-3.9	-2.7	-2.4	-1.7	-0.2	-0.4
Financial account / GDP	<i>per cent</i>	3.0	3.4	2.4	3.8	4.6	1.6	3.2	.	.	.
IIP / GDP	<i>per cent</i>	-32.3	-38.7	-40.2	-46.0	-48.3	-47.5	-49.5	.	.	.
Gross external debt / GDP ³⁾	<i>per cent</i>	35.7	37.6	42.3	43.6	46.6	49.1	50.5	51	50	49

Source: CNB, CZSO, own calculations

¹⁾ Imports – fob

²⁾ Imports – cif

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

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

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Balance of goods and services	bill.CZK	199	229	230	240	261	278	293	301
– balance of trade ¹⁾	bill.CZK	148	176	180	190	209	226	240	246
– of which mineral fuels (SITC 3) ²⁾	bill.CZK	-187	-189	-198	-196	-196	-196	-197	-196
– balance of services	bill.CZK	51	54	50	50	51	53	54	55
Balance of income	bill.CZK	-303	-319	-302	-304	-306	-309	-311	-313
– compensation of employees	bill.CZK	5	6	6	6	6	6	6	6
– investment income	bill.CZK	-307	-325	-308	-310	-312	-315	-317	-320
Balance of transfers	bill.CZK	6	4	6	0	-8	-1	3	4
Current account	bill.CZK	-97	-86	-67	-64	-53	-31	-14	-8
Capital account	bill.CZK	52	51	99	100	100	101	101	102
Financial account	bill.CZK	101	128	56	.	.	.	.	.
– foreign direct investments	bill.CZK	176	138	87	.	.	.	.	.
– portfolio investments	bill.CZK	36	69	34	.	.	.	.	.
– other investments	bill.CZK	-112	-78	-65	.	.	.	.	.
Change in reserves	bill.CZK	54	81	81	.	.	.	.	.
International investment position	bill.CZK	-1877	-1918	-1873	.	.	.	.	.
Gross external debt	bill.CZK	1980	2025	1946	1950	1957	1959	1972	1978

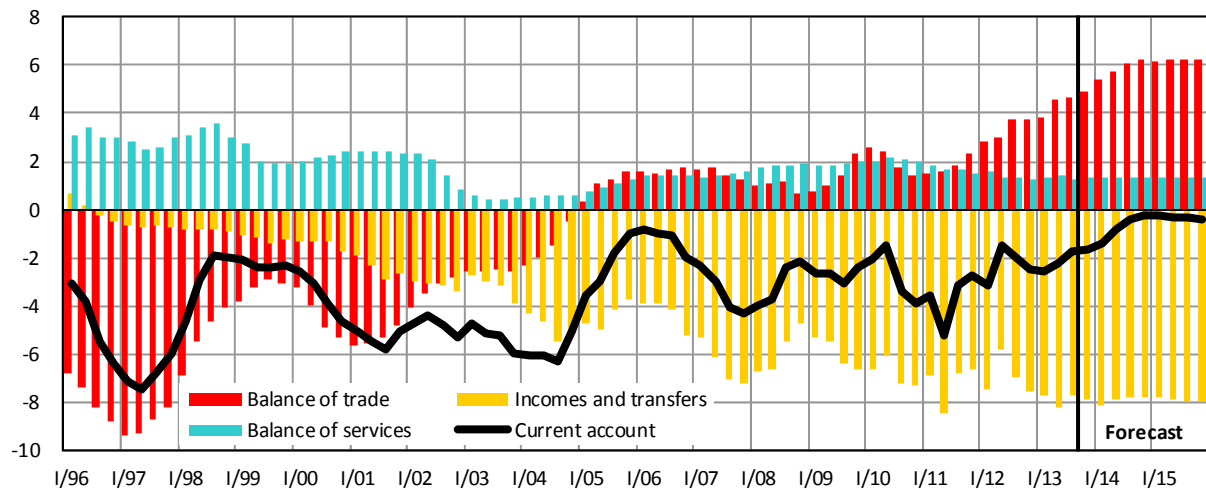
Source: CNB, CZSO, own calculations

¹⁾ Imports – fob

²⁾ Imports – cif

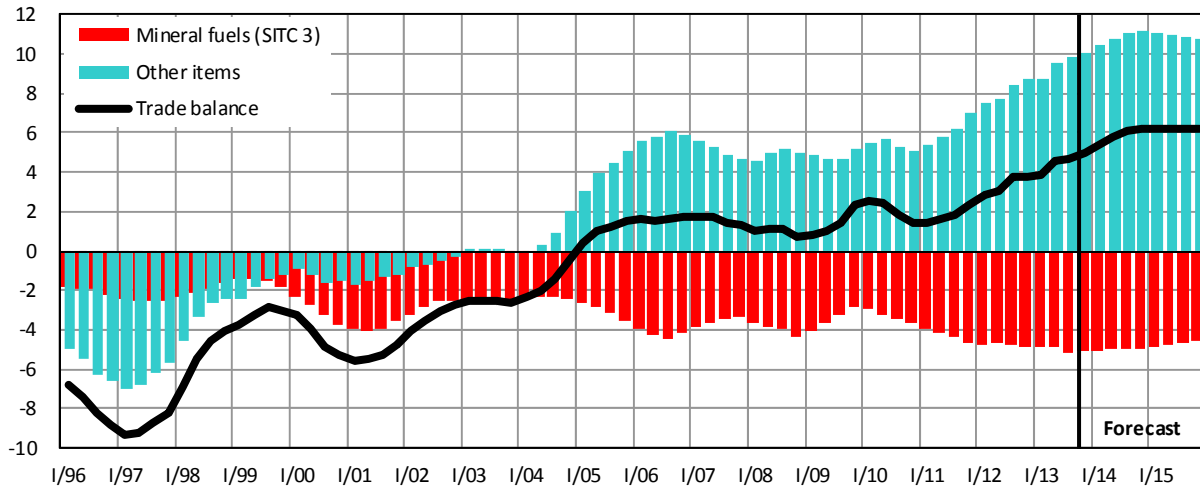
Graph C.4.1: **Current Account**

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



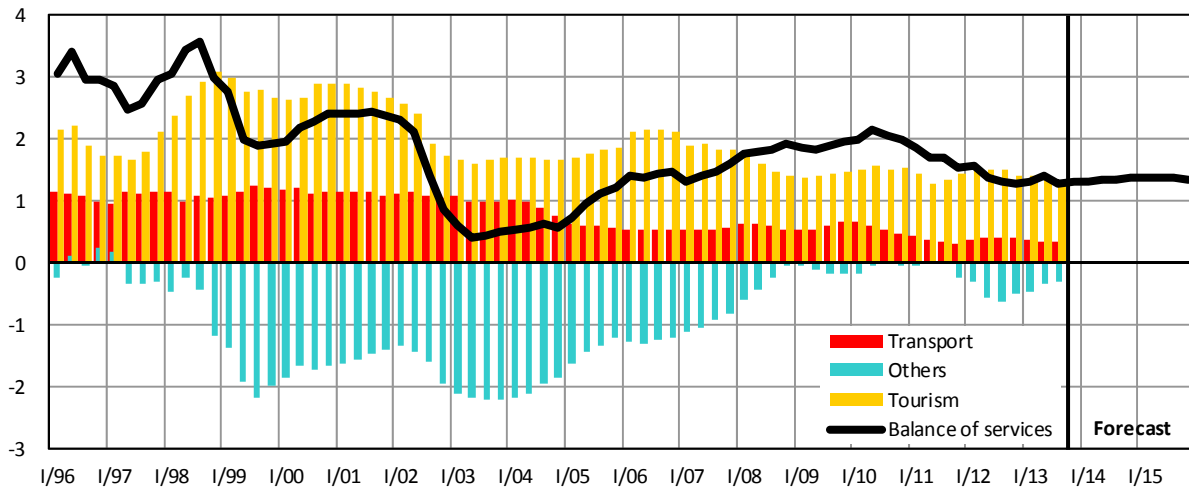
Source: CNB, CZSO, own calculations

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



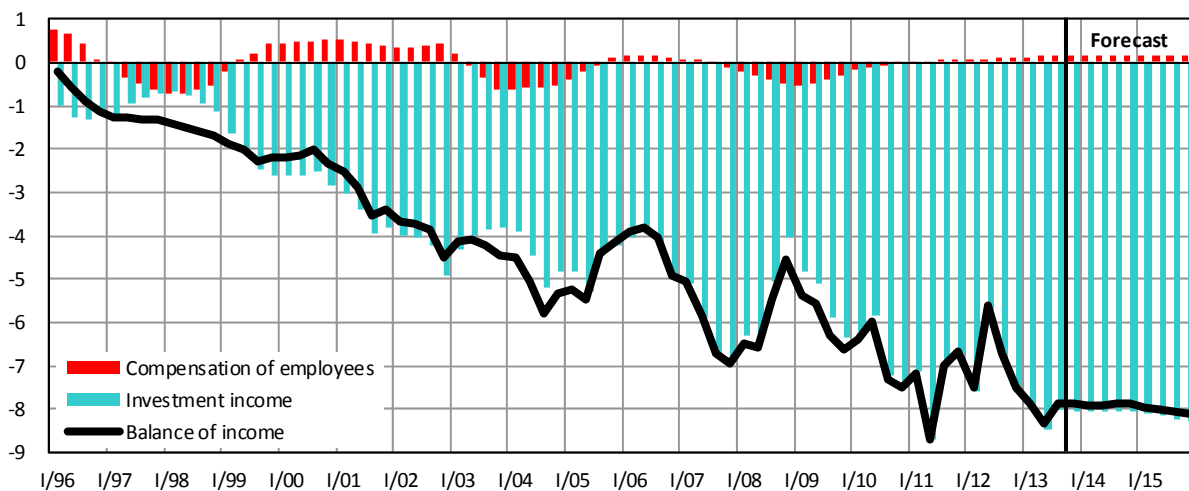
Source: CNB, CZSO, own calculations

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



Source: CNB, CZSO, own calculations

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



Source: CNB, CZSO, own calculations

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

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									Estimate	Forecast	Forecast
GDP ¹⁾	<i>average of 2005=100</i>	104.3	108.9	110.5	106.0	109.6	112.9	114.0	115	117	119
	<i>growth in %</i>	4.3	4.4	1.5	-4.1	3.4	3.0	1.0	0.7	1.8	1.9
Import intensity ²⁾	<i>average of 2005=100</i>	107.8	110.1	110.0	103.1	111.9	117.0	117.2	117	119	120
	<i>growth in %</i>	7.8	2.1	-0.1	-6.2	8.5	4.5	0.2	0.2	1.3	1.3
Export markets ³⁾	<i>average of 2005=100</i>	112.5	119.9	121.5	109.3	122.7	132.0	133.6	135	139	143
	<i>growth in %</i>	12.5	6.6	1.3	-10.0	12.2	7.6	1.2	0.9	3.1	3.1
Export performance	<i>average of 2005=100</i>	101.3	105.9	107.6	105.5	109.4	112.3	115.7	116	117	118
	<i>growth in %</i>	1.3	4.5	1.6	-1.9	3.7	2.7	3.0	0.0	1.0	1.0
Real exports	<i>average of 2005=100</i>	114.0	126.9	130.7	115.3	134.2	148.3	154.6	156	162	169
	<i>growth in %</i>	14.0	11.4	3.0	-11.8	16.4	10.6	4.2	0.9	4.1	4.1
1 / NEER	<i>average of 2005=100</i>	95.4	93.0	83.2	86.0	84.2	81.7	84.6	87	90	90
	<i>growth in %</i>	-4.6	-2.6	-10.5	3.4	-2.2	-2.9	3.6	2.2	4.5	-0.3
Prices on foreign markets	<i>average of 2005=100</i>	103.1	106.1	112.8	108.8	109.5	113.8	113.3	112	111	110
	<i>growth in %</i>	3.1	2.9	6.3	-3.6	0.7	4.0	-0.4	-0.9	-1.3	-0.3
Exports deflator	<i>average of 2005=100</i>	98.4	98.6	93.8	93.6	92.1	93.0	95.9	97	100	100
	<i>growth in %</i>	-1.6	0.2	-4.9	-0.3	-1.5	0.9	3.1	1.3	3.1	-0.6
Nominal exports	<i>average of 2005=100</i>	112.2	125.1	122.7	107.7	123.7	138.0	148.3	152	163	168
	<i>growth in %</i>	12.2	11.6	-2.0	-12.2	14.8	11.6	7.5	2.2	7.3	3.6

Source: CNB, CZSO, Eurostat, own calculations

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

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

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

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

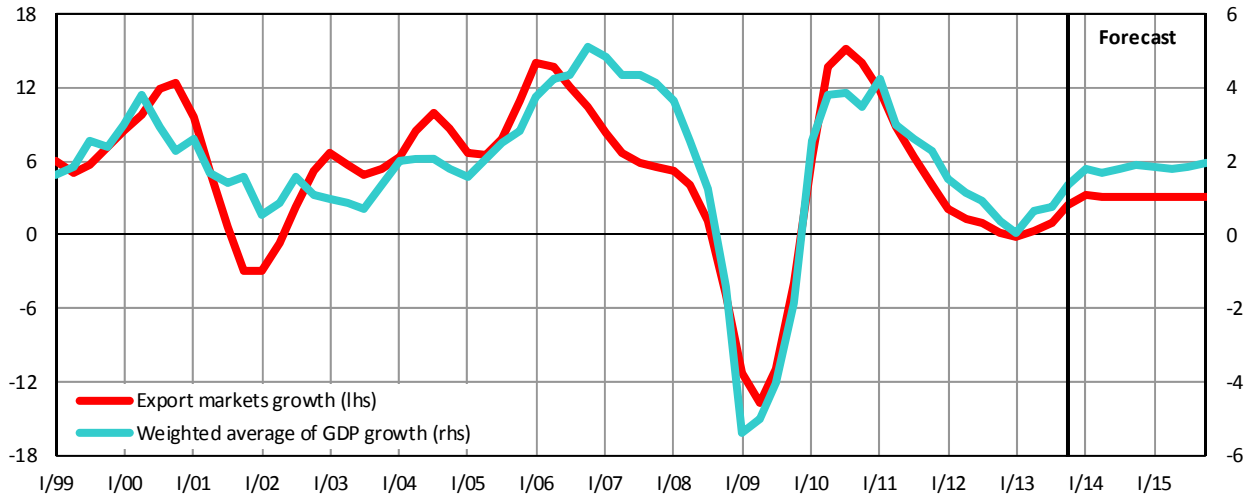
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
GDP ¹⁾	<i>average of 2005=100</i>	114.0	114.7	115.0	115	116	117	117	118
	<i>growth in %</i>	0.0	0.7	0.8	1.4	1.8	1.7	1.8	1.9
Import intensity ²⁾	<i>average of 2005=100</i>	116.7	117.1	117.7	118	118	119	119	120
	<i>growth in %</i>	-0.2	-0.4	0.3	1.0	1.5	1.4	1.2	1.2
Export markets ³⁾	<i>average of 2005=100</i>	133.0	134.3	135.4	136	137	138	140	141
	<i>growth in %</i>	-0.1	0.3	1.0	2.4	3.3	3.1	3.0	3.1
Export performance	<i>average of 2005=100</i>	113.2	116.7	115.2	118	114	118	116	119
	<i>growth in %</i>	-5.4	0.4	3.8	1.3	0.8	1.0	1.0	1.0
Real exports	<i>average of 2005=100</i>	150.6	156.7	156.0	160	157	163	162	167
	<i>growth in %</i>	-5.5	0.7	4.9	3.7	4.1	4.1	4.0	4.1
1 / NEER	<i>average of 2005=100</i>	85.5	86.3	85.9	88	90	90	90	90
	<i>growth in %</i>	1.8	1.7	1.3	4.2	5.7	4.8	5.2	2.3
Prices on foreign markets	<i>average of 2005=100</i>	112.9	112.3	112.3	112	111	111	111	110
	<i>growth in %</i>	-0.6	-1.1	-0.8	-1.2	-1.5	-1.2	-1.3	-1.3
Exports deflator	<i>average of 2005=100</i>	96.6	96.9	96.5	99	101	100	100	100
	<i>growth in %</i>	1.1	0.6	0.5	2.9	4.1	3.5	3.8	1.0
Nominal exports	<i>average of 2005=100</i>	145.5	151.9	150.5	158	158	164	163	166
	<i>growth in %</i>	-4.5	1.3	5.4	6.8	8.4	7.8	8.0	5.1

Source: CNB, CZSO, Eurostat, own calculations

See notes to Table C.4.3.

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

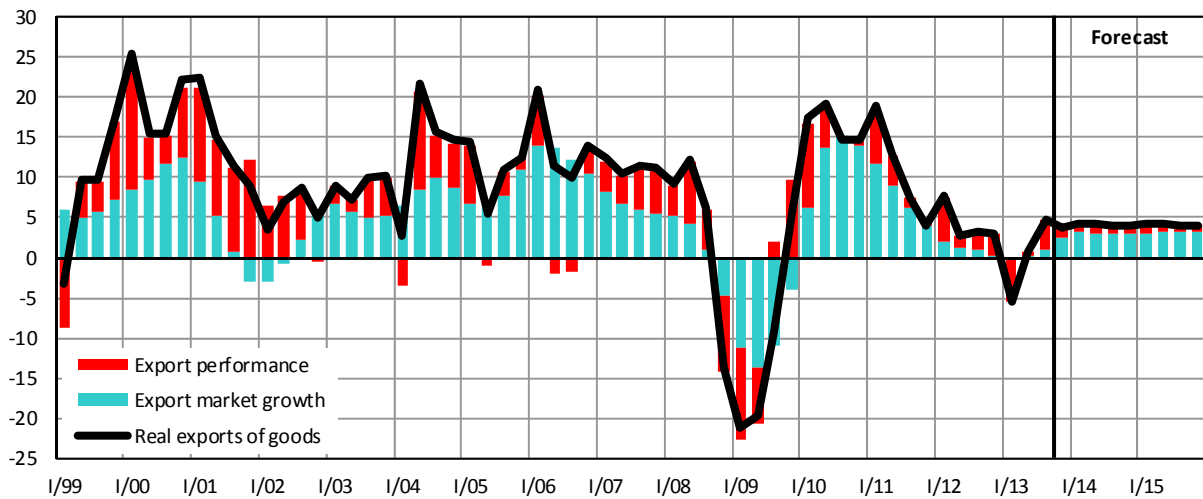
YoY growth rate, in %



Source: Eurostat, own calculations

Graph C.4.6: Real Exports of Goods

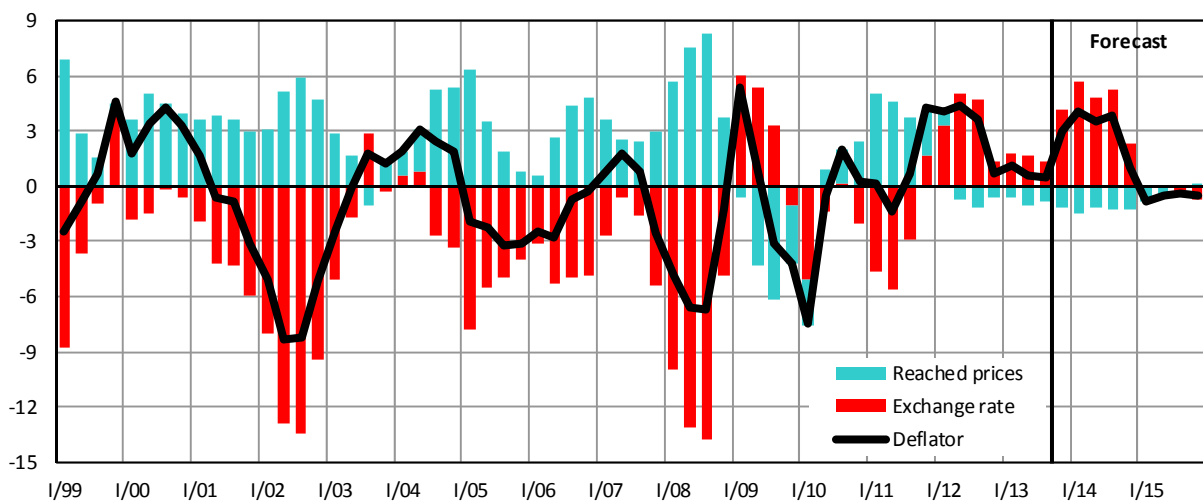
decomposition of YoY growth, in %



Source: CZSO, Eurostat, own calculations

Graph C.4.7: Deflator of Exports of Goods

decomposition of YoY growth, in %



Source: CNB, CZSO, own calculations

C.5 International Comparisons

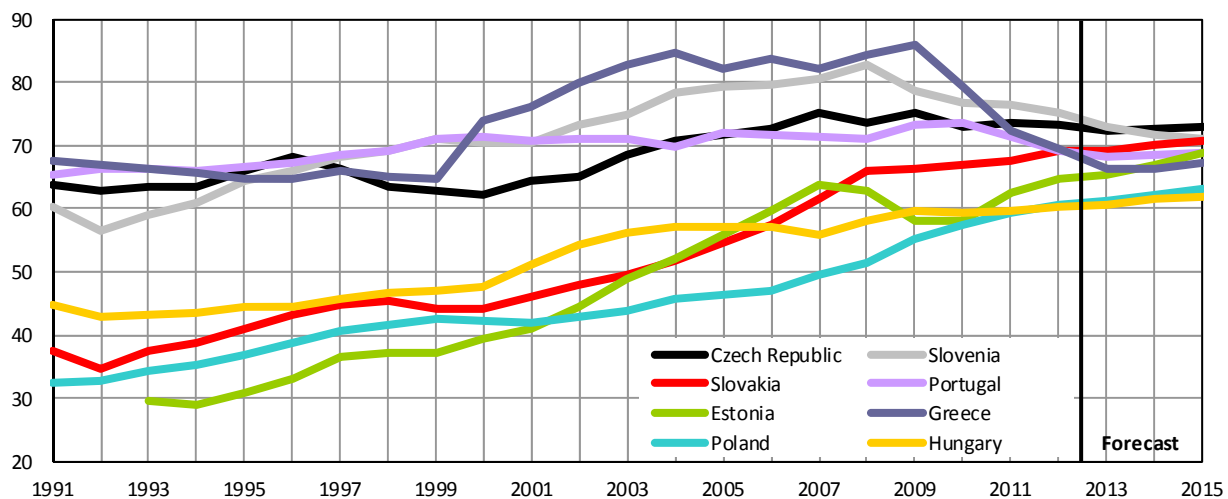
Table C.5.1: GDP per Capita – Using Current Purchasing Power Parities

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

Source: CZSO, Eurostat, own calculations

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

EA12=100



Source: CZSO, Eurostat, own calculations

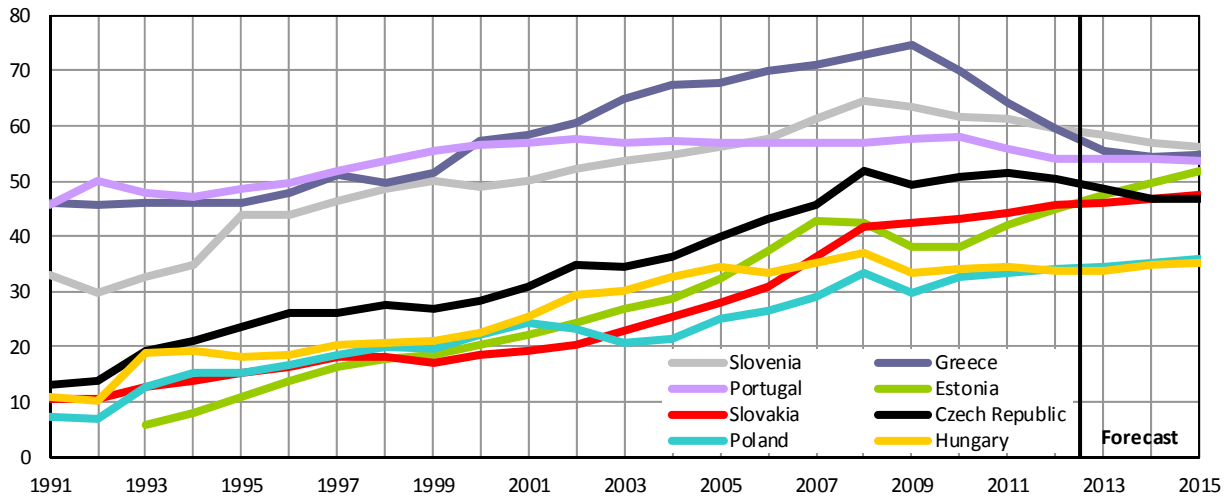
Table C.5.2: GDP per Capita – Using Current Exchange Rates

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

Source: CZSO, Eurostat, own calculations

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

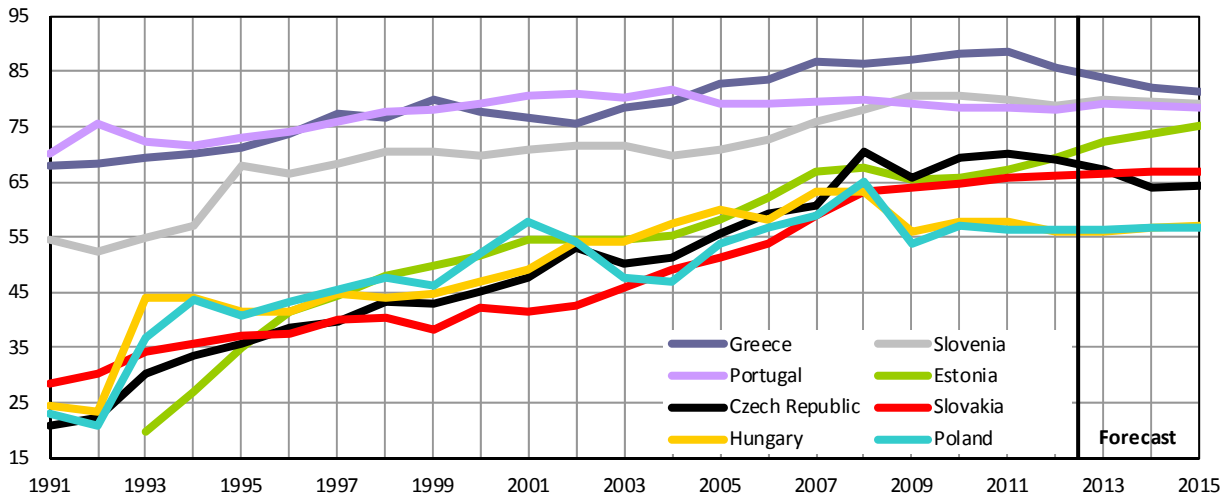
EA12=100



Source: CZSO, Eurostat, own calculations

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

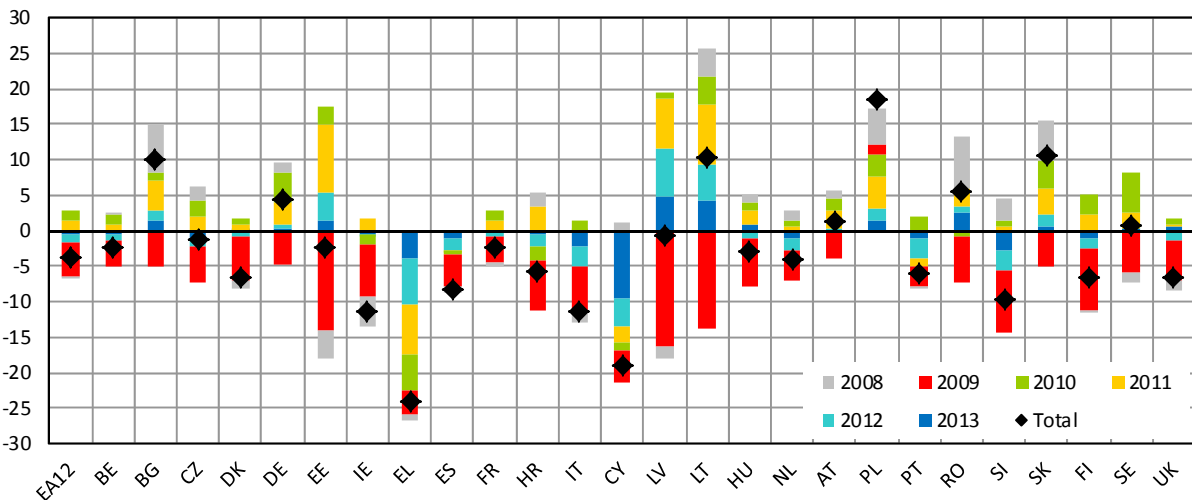
EA12=100



Source: CZSO, Eurostat, own calculations

Graph C.5.4: Change in Real GDP per Capita during 2008–2013

growth in %, data for 2013 are estimates



Source: CZSO, Eurostat, own calculations

