

Macroeconomic Forecast Czech Republic

July 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:

www.mfcr.cz/macroforecast

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

macroeconomic.forecast@mfcr.cz

List of Abbreviations:

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

Basic Terms:

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

Symbols Used in Tables:

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

Cut-off Date for Data Sources:

The forecast was made on the basis of data known as of **4 July 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 April 2014 are indicated by italics. Data relating to the years 2016 and 2017 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

Summary of the Forecast

Real GDP increased by 0.8% QoQ in the first quarter of 2014 (gross value added rose at an even faster pace, by 1.1% QoQ), which far surpassed the estimate from the April Macroeconomic Forecast. We have therefore revised the forecast for GDP growth in 2014 up to 2.7%. Such a substantial change – 1.0 pp – is almost exclusively due to better than expected developments in the first quarter. The economy should continue to grow at a moderate pace also in 2015, when GDP could increase by 2.5%. Main expenditure components should all contribute positively to GDP growth in both 2014 and 2015. Domestic demand should account for roughly three quarters of the growth, while balance of foreign trade for the remaining part.

Despite the weakening of the Czech koruna due to the CNB's foreign exchange interventions, the year 2014 should be characterized by very low inflation. Unlike in previous years, administrative measures (especially a decrease in electricity prices) should have an anti-inflationary impact throughout 2014. Average inflation rate could thus reach 0.6% this year. Consumer price growth should accelerate in 2015, but we assume that inflation will still be hovering below the CNB's inflation target.

Much better than previously estimated economic developments in the first quarter of 2014, which led to

the change in the forecast for GDP, were also reflected in the improvement in expected developments on the labour market. Compared to the April Macroeconomic Forecast, we assume a faster decline in unemployment rate, which could average 6.1% in 2015. Also, employment should grow stronger in 2014 than we thought so far.

Total wage bill could increase by 2.8% this year. In 2015 we expect its growth to accelerate to 3.8%. A proposed increase in the wage bill in state administration, apart from an expected gradual improvement in the state of the private sector, should impact positively on total wage bill.

We expect the government sector to post a deficit of 1.5% of GDP this year. The balance should thus remain unchanged from the previous year. At the same time, the government sector debt should decline by 2.0 pp to 44.0% of GDP.

For the first time since 1993, the current account of the balance of payments could post a small surplus this year, mainly thanks to positive developments in the trade balance. In 2015, the current account should be balanced.

We regard risks to the Forecast as balanced.

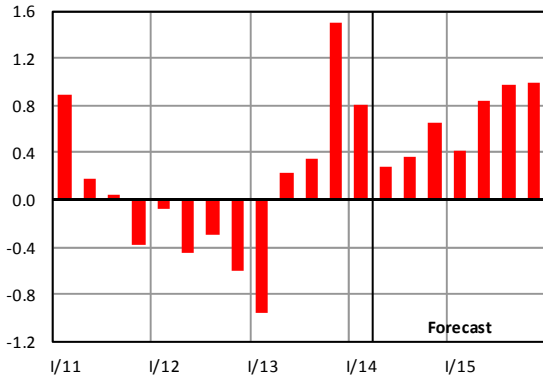
Table: **Main Macroeconomic Indicators**

		2010	2011	2012	2013	2014	2015	2013	2014	2015
		Current forecast					Previous forecast			
Gross domestic product	<i>bill. CZK</i>	3 791	3 823	3 846	3 884	4 061	4 216	3 884	4 023	4 173
Gross domestic product	<i>growth in %, const.pr.</i>	2.5	1.8	-1.0	-0.9	2.7	2.5	-0.9	1.7	2.0
Consumption of households	<i>growth in %, const.pr.</i>	0.9	0.5	-2.1	0.1	1.6	1.4	0.1	0.6	1.5
Consumption of government	<i>growth in %, const.pr.</i>	0.2	-2.7	-1.9	1.6	1.9	1.6	1.6	0.8	0.7
Gross fixed capital formation	<i>growth in %, const.pr.</i>	1.0	0.4	-4.5	-3.5	4.1	3.5	-3.5	2.7	2.0
Contr. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.6	1.9	1.7	-0.3	0.6	0.5	-0.3	0.5	0.6
Contr. of increase in stocks to GDP growth	<i>p.p., const.pr.</i>	1.0	0.1	-0.1	-0.2	0.0	0.2	-0.2	0.2	0.1
GDP deflator	<i>growth in %</i>	-1.6	-0.9	1.6	1.9	1.8	1.3	1.9	1.8	1.7
Average inflation rate	<i>%</i>	1.5	1.9	3.3	1.4	0.6	1.7	1.4	1.0	2.3
Employment (LFS)	<i>growth in %</i>	-1.0	0.4	0.4	1.0	0.5	0.2	1.0	0.2	0.2
Unemployment rate (LFS)	<i>average in %</i>	7.3	6.7	7.0	7.0	6.4	6.1	7.0	6.8	6.6
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	0.8	2.2	1.8	-0.9	2.8	3.8	-0.9	1.8	3.5
Current account / GDP	<i>%</i>	-3.9	-2.7	-1.3	-1.4	0.4	0.0	-1.4	-0.4	-0.3
Assumptions:										
Exchange rate CZK/EUR		25.3	24.6	25.1	26.0	27.4	27.4	26.0	27.3	27.2
Long-term interest rates	<i>% p.a.</i>	3.7	3.7	2.8	2.1	1.9	2.4	2.1	2.4	2.6
Crude oil Brent	<i>USD/barrel</i>	80	111	112	109	108	104	109	105	101
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	1.9	1.6	-0.6	-0.4	1.1	1.6	-0.4	1.1	1.5

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

Economic recovery should continue

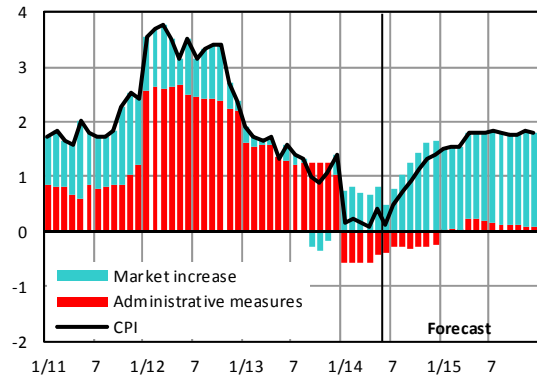
real GDP, QoQ growth rate, in %, seasonally adjusted



Source: CZSO, own calculations

Inflation gradually approaching the inflation target

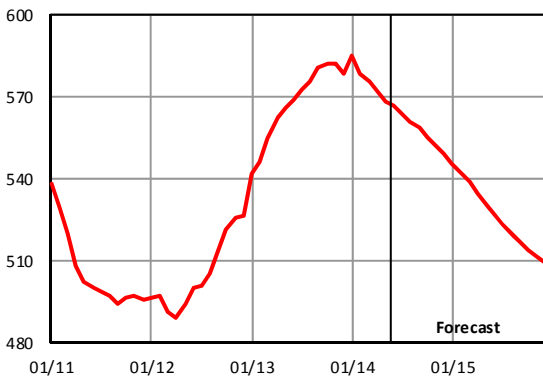
decomposition of YoY growth of CPI, contributions in pp



Source: CZSO, own calculations

Unemployment likely to have peaked

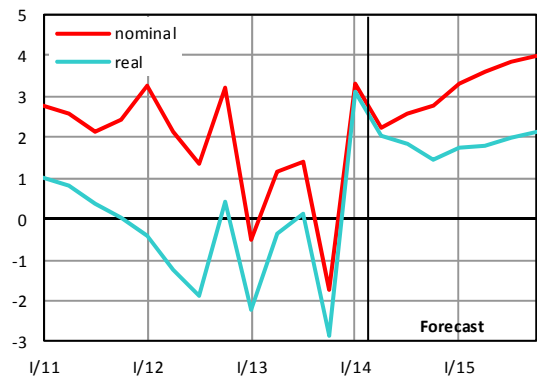
registered unemployment, in thousands of persons, seasonally adjusted



Source: Ministry of Labour and Social Affairs, own calculations

Moderate growth of real wage

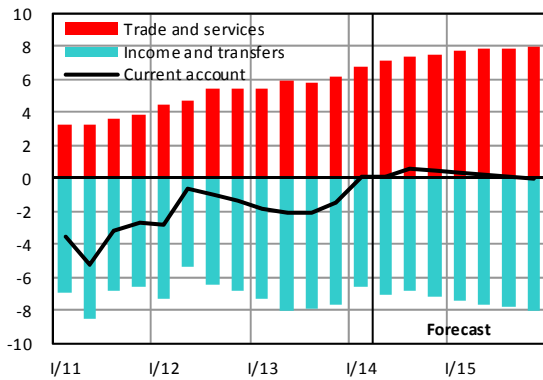
YoY growth rate, in %



Source: CZSO, own calculations

A small surplus on the current account

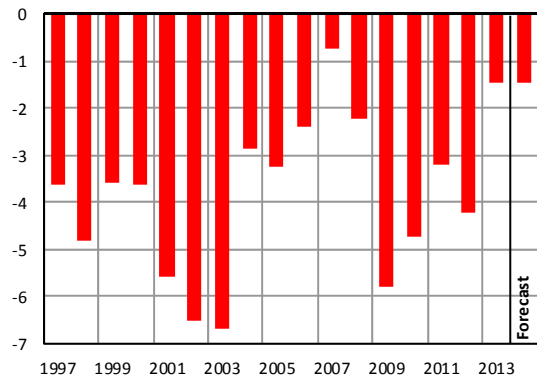
in % of GDP (moving sums of the latest 4 quarters)



Source: CNB, CZSO, own calculations

General government deficit well under 3% of GDP

general government balance, in % of GDP



Source: CZSO, own calculations

Risks to the Forecast

Real GDP recorded a **surprisingly strong quarterly growth** of 0.8% in the first quarter of 2014, following a revised growth of 1.5% QoQ in the fourth quarter of 2013. Real gross value added, which does not include indirect taxes and subsidies, increased by more than 1% QoQ in each of these two quarters. Without further comments, these figures on their own illustrate the strength of the recovery in this time period.

It is likely, however, that positive developments in the first quarter of 2014 were, for the large part, due to **one-off or temporary factors**, e.g. low statistical base, exceptionally mild winter, better drawdown of the EU funds and a positive impact of monetary policy on the growth of exports.

Therefore, we still hold the view that further **recovery of the economy** will be rather **gradual** and that the macroeconomic aggregates' dynamics of the fourth quarter of 2013 and the first quarter of 2014 will not repeat itself in the nearest future.

We have revised our forecast for real GDP growth in 2014 up by 1.0 pp to 2.7%, despite a conservative estimate of developments in the remaining part of this year. Economic growth should slow down slightly to 2.5% in 2015.

We regard the scenario risks as roughly balanced.

There is a **positive risk in the external environment** that economies of some of the main trading partners of the Czech Republic will, at least in the short-run, grow faster than the central scenario assumes. Results of the indicator model, however, should be treated with some caution. Apart from that, caution is also warranted by June economic sentiment indicators (see Chapter A.1).

On the other hand, one has to emphasize geopolitical risks, considering the developments in Iraq (possible impact on the price of oil) and Ukraine. As at the cut-off date of the Forecast, the situation in eastern Ukraine was unclear. Although severance of trade relations with Russia or Ukraine does not seem to be imminent, the risk of a negative impact of this crisis on the Czech economy still persists.

Situation in the troubled countries on the periphery of the euro area has been gradually **calming down** further. A modest recovery or stabilisation of periphery

economies and a decline in yields on the government bond markets point to a certain improvement in the overall situation, but important fundamental factors, e.g. high indebtedness of (not only) the government sector and the true state of banks' balance sheets still being unclear, remain unfavourable. Apart from the results of the comprehensive assessment of European banks (see Chapter A.1), it will be important in this respect whether and how the banks will manage to cover eventual capital shortfalls.

The situation **within the Czech economy** is also subject to risks in both directions.

As far as **private consumption** is concerned, the question remains to what extent will the increase in consumer sentiment indicator (see Chapter B.2) have an effect on households' behaviour under the conditions of high registered unemployment and low dynamics of real disposable income.

Having experienced a big fall over previous years, real **gross fixed capital formation** rebounded after it had hit the bottom of the investment cycle. However, it is unlikely to reach the all-time high of 2008 by the end of the outlook period. Further development of fixed investment will be influenced by an effort to draw down as much money from the EU funds as possible, relaxation of the restriction on investment of the government sector, resumption of inflow of foreign direct investment, and the extent to which confidence of the private sector will have an effect on actual investment activity. Each of these factors entails sizeable risks, both positive and negative.

It is also necessary to mention the **risk of statistical description of economic reality**. This Macroeconomic Forecast is the last one to be based on the ESA 1995 system of national accounts. In October 2014, there will be a shift to the ESA 2010 standard. This special revision will have an impact on the whole system of national accounts, including the main aggregates: GDP, gross national income and the ratio of government sector debt to GDP. There will be a change not only in the level of individual indicators, but their dynamics (though to a limited extent) is likely to be affected too.

A Forecast Assumptions

A.1 External Environment

Compared with the previous forecast, the outlook for global economic growth has barely changed; however, the uncertainty associated with future developments still persists. A relatively favourable outlook stems from an expected pickup in activity in developed economies, which should be the main drivers of global economic growth in the years of the outlook period. Due to structural problems, economic growth in emerging economies has been slowing down moderately, yet its dynamics remains high. Therefore, the gap between growth rates in developed and emerging economies keeps narrowing.

Fears of a more significant slowdown of the Chinese economy have not so far come true, although the risks related to vulnerability of the local financial market persist. Private sector indebtedness keeps growing, liberalisation of the banking sector is far from finished and the loan market is considerably distorted. Effort continues to be made to shift the growth model to a sustainable one, which would be based on domestic demand, and to gradually liberalise economic environment. Other large emerging economies, in which the last year's capital outflow highlighted internal imbalances and underlined the need for structural reforms, might need to revise their growth models too. However, a new inflow of foreign capital might lead to the needed reforms being postponed, which could have a negative impact on economic growth in the future.

Uncertainty associated with the outlook is highlighted by the geopolitical tensions in Ukraine. Owing to the fact that neither Russia nor Ukraine is an important export market for the Czech Republic, the conflict in Ukraine should not have a substantial impact on the Czech economy. Nevertheless, some exporters and importers, especially those who conduct their business in the regions affected by the conflict, could face complications. Potential escalation of the tensions accompanied with sanctions imposed by the West, however, could have a significant negative impact on some EU member states' growth. The impact on individual states of the EU would vary, depending on the extent to which their economies are exposed to Russia. Economies of EU member states could be affected also indirectly, through a decline in confidence of households and firms. As regards the developments in Ukraine, it is necessary to note that the states of the

EU are, to a great degree, dependent on importing oil and natural gas from Russia.

USA

The American economy surprised on the downside in the first quarter of 2014 as GDP dropped by 0.7% QoQ (*versus growth of 0.6%*). The poor outcome resulted primarily from severe weather, which acted as a brake on economic activity in the first months of this year. Private consumption was the only positive contributor to GDP, other components stagnated or decreased.

The data released in recent weeks, however, confirm that the economy has returned on a growth trajectory in the second quarter of 2014. Irrespective of its temporary drop, domestic demand should remain the main driver of the US economy. Rising consumer confidence and increasing net worth of households (real estate prices are growing, Dow Jones and S&P 500 stock market indices are hovering around historical highs) should have a positive impact on consumption of households. Unemployment rate is expected to fall further, possibly coming close to 5% in mid-2015. Firms' investment activity is approaching the pre-crisis level, while growth of loan activity is supported by improving conditions on financial markets.

The economy is still supported by accommodative monetary policy, but the Fed keeps on tapering the quantitative easing. Beginning in July, the monthly volume of asset purchases is reduced further by \$10 billion, to \$35 billion. The Fed's decision reflects its assessment of the state of the US economy, most notably the situation on the labour market. Growth has stabilised and the economy should be able to operate without larger stimuli. The Fed considers inflation pressures to be noisy, although it has revised up the outlook for short-term interest rates. Short-term rates could, therefore, start rising sooner than it had been indicated at the beginning of this year.

Unemployment rate reached 6.3% in May, declining by 1.2 pp in a YoY comparison. However, falling jobless rate is accompanied by decreasing participation rate, which remains a long-term problem.

Given the unexpectedly poor performance of the US economy in the first quarter, we have revised our forecast for GDP growth in 2014 down to 2.0% (*versus 2.8%*). However, we still assume that growth should be driven mainly by private consumption and investment.

Risks to the forecast of economic growth associated with short-term uncertainty about fiscal policy have subsided, but the debate about medium-term plan for fiscal consolidation is still necessary. We expect GDP growth to accelerate to 3.1% in 2015 (*versus 3.0%*).

EU

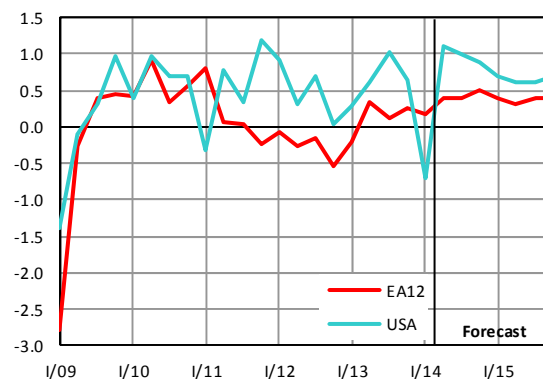
In both the EA12 and the EU28 as a whole, a gradual pickup in economic activity continues. Developments in individual states of the EA12 remain widely varied, although the forecasts (however inaccurate they may turn out to be) expect growth rates in individual states of the EA12 to converge. GDP in the euro area rose by 0.2% QoQ (*versus 0.3%*) in the first quarter, which represented a YoY increase of 0.9% (*versus 1.0%*). In the euro area as a whole, a gradual rise in domestic demand can be observed. Sentiment is improving not only on the financial markets, but also in industry, as well as in services. In many cases, however, structural problems and low competitiveness put a brake on these economies' recovery.

The already very accommodative monetary policy of the ECB was eased further in June, in reaction to persisting low inflation. The main refinancing rate was cut to a new historical low of 0.15%, but decreasing the interest rate on the deposit facility to -0.10%, bringing it therefore into negative territory, was the unprecedented move. These measures were, in fact, in line with our previous forecast. Moreover, the ECB did show its determination to enhance the functioning of the monetary policy transmission mechanism by announcing a series of new targeted longer-term refinancing operations that are aimed at supporting bank lending (excluding loans to households for house purchase) to the euro area non-financial private sector. This measure targets only supply of loans, not demand for loans, and the question therefore remains to what extent will this measure actually boost credit growth in the euro area. Apart from other measures, the ECB decided to suspend the weekly fine-tuning operation sterilising the liquidity injected under the Securities Markets Programme (according to the Consolidated financial statement of the Eurosystem as at 20 June 2014, the value of accumulated purchases under this programme surpassed €160 billion). At the same time, the ECB has confirmed that its monetary policy will remain accommodative for an extended period of time. A potential further easing of monetary policy could include a programme of purchases of asset backed securities (where the underlying asset would be loans to the euro area non-financial private sector).

Situation on the labour market in the EU28 as a whole has stabilised. In May, unemployment rate in the EU28 and in the EA12 was 10.3% and 11.6% respectively. However, considerable differences among individual states persist. The worst situation is still in Greece, where jobless rate stood at 26.8% in March. Of the EU28 countries, for which the data for May were available as at the cut-off date, the highest jobless rate was recorded in Spain (25.1%), followed by Croatia (16.3%) and Cyprus (15.3%). The lowest rate of unemployment was in Austria (4.7%) and in Germany (5.1%).

We expect domestic demand to strengthen this year, thanks to the improved sentiment of consumers and firms and an ongoing stabilisation of the banking sector. Private investment and consumption should, therefore, be the main drivers of growth. GDP in the EA12 is assumed to increase by 1.1% (*unchanged*) this year. Growth is expected to accelerate to 1.6% (*versus 1.5%*) in 2015.

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

Positive developments can be seen in **Germany**. GDP increased by 0.8% QoQ (*versus 0.4%*) in the first quarter of 2014. Mild weather, which caused part of the economic activity to be shifted from the second quarter to the first quarter, was behind the faster than expected growth. The biggest positive contributions to GDP growth came from gross capital formation and expenditure on consumption, while net exports had the opposite effect. Besides low rates of the ECB that have a positive effect on the whole economy, consumption of households is boosted also by a very good situation on the labour market. Together, these factors impact positively on the real estate market. Expected slowdown of the economy, which should follow the strong performance in the first quarter, is reflected in the Ifo index, which in both May and June recorded the first declines in many months. However, sentiment in the business sector is still on a high level.

Consumer climate (GfK Consumer Climate indicator), which had been flat since March of this year, improved slightly in June and July. Expected pickup in output in developed economies and high competitiveness of German firms should contribute positively to growth also in this year. Preserving favourable conditions on credit markets, however, will be crucial. We forecast GDP to increase by 2.0% this year (*versus 1.7%*), while for 2015 a slight slowdown of growth to 1.8% (*unchanged*) is expected.

The situation in **France** is less favourable. GDP was flat in a QoQ comparison (*versus growth of 0.2%*) in the first quarter of 2014; positive contributions to growth came only from change in inventories and valuables and government consumption. A more significant recovery of the French economy isn't underway yet. Therefore, the gap between the performance of the two biggest economies in the euro area (Germany and France) keeps widening. Measures that were taken to give a boost to low-income households and the business sector are likely to have an effect in the second half of the year. A pickup in private investment, which stagnated over the last two years, is expected. Situation on the labour market is likely to have stabilised. However, high unemployment rate and problems with job creation put a brake on the recovery of private consumption. Another problem is that sales from abroad of some industrial sectors have been low, meaning that strongly positive contributions of net exports to GDP growth cannot be expected in the future. We estimate the economy to grow by 0.9% (*unchanged*) in 2014. In 2015, GDP growth could further accelerate to 1.4% (*unchanged*).

Performance of the **Polish** economy in the first quarter of this year was a positive surprise. GDP increased by 1.1% QoQ (*versus 0.6%*), the main drivers of growth having been fixed investment and consumption of households. Unemployment rate continues decreasing, leading to a rise in consumer confidence, which, together with low inflation rate, should contribute to a recovery in domestic demand during this year. The central bank should keep monetary policy rates, which have stayed at the historical low of 2.50% since mid-2013, unchanged at least till the end of this year. Given the better than expected developments in the first quarter, we have revised our estimate for this year's GDP growth up to 3.2% (*versus 2.5%*). Recovery in the euro area and domestic investment should be the main positive drivers, but growth will be hampered by fiscal consolidation. In 2015, GDP growth could slightly decelerate to 3.1% (*versus 2.8%*).

GDP of **Slovakia** increased by 0.6% QoQ (*in line with the estimate*) in the first quarter of 2014. Expenditure on final consumption (mainly household consumption) and gross fixed capital formation were the positive contributors to the 2.0% YoY increase in the first quarter. Thanks to favourable developments in the countries of trading partners, we expect Slovak export performance to improve this year. Consumption of households should pick up owing to an increase in real wage. We have revised our forecast for GDP growth in 2014 up slightly to 2.4% (*versus 2.2%*). In 2015, GDP growth could accelerate to 2.9% (*unchanged*).

Business Cycle Indicators in the EU

The Economic Sentiment Indicator, which is published by the EC, continued to rise in the second quarter of 2014 in the EU. Besides construction, where strongly negative sentiment still prevails, all components of the indicator have improved, compared with the previous quarter. The most substantial improvement has been recorded in the consumer segment. In industry, services and trade there has been only a small improvement in respondents' assessment. For the second quarter of 2014, the Economic Sentiment Indicator signals a small acceleration of quarterly GDP growth in the EU, which is in line with our Forecast.

In the second quarter of 2014, growth of the ESI gradually came to a halt in Germany, while in France the indicator even fell marginally, owing largely to worse assessment in industry. Following a long period of a relatively steep rise in the indicator, economic sentiment is now stagnating in Italy. In Slovakia, on the contrary, the indicator started to grow after the preceding correction. Even though the ESI in Germany, unlike in the other monitored countries (i.e. Slovakia, France and Italy), shows a strongly positive balance, the fact that its growth came to halt is assessed with caution, given the pace of recovery.

For the second quarter of 2014, the composite leading indicator signals a minor correction of relative cyclical component of GDP in the EU, particularly in Germany. This is consistent with a slight widening of the negative output gap (production function method) in the EU, which the EC assumes will be the case this year.

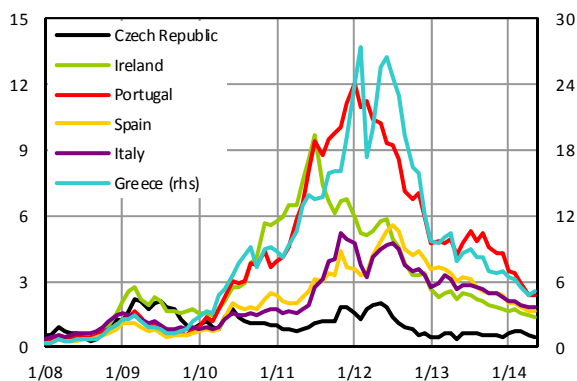
Situation in the Troubled Economies of the Euro Area

The latest data confirm that economic activity on the euro area's periphery (Ireland, Portugal, Spain, Italy, Greece and Cyprus) has been gradually picking up, or, at the least, stabilising. Cyprus, where GDP recorded another rather strong QoQ decline – by 0.7% – in the first quarter of 2014, has remained an exception.

Market sentiment towards the euro area periphery has improved further (see Graph A.1.2). However, the marked decline in yields of (not only) 10Y government bonds, which in the case of Ireland, Italy, Portugal and Spain are at or close to the historical lows, does not, apparently, reflect economic fundamentals. Search for yield, under the conditions of highly accommodative monetary policy (the ECB had been expected to further ease its monetary policy stance, which it did, although the speculations that the ECB would resort to quantitative easing have been proved unfounded) and extremely low, in some periphery countries even negative, inflation rate, is much more likely to explain the observed increase in the price of government bonds.

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

Positive market sentiment towards the euro area periphery, whatever its cause might be, is sure to be behind the success of the first auction (which could not have taken place were it not for the positive market sentiment) of long-term Greek government bonds since 2010 (in April, Greece sold 5Y government bonds worth €3 billion, demand surpassed €20 billion). Even Cyprus, owing to the successful June auction of 5Y government bonds, managed to return to the primary market, circa one year after its bailout programme had been signed and sealed.

Ireland and Spain, which have already exited their bailout programmes, were joined in May by Portugal. However, the disbursement of the final tranche was affected by the Portuguese Constitutional Court, which

in late May rejected certain austerity measures. Moreover, it should soon decide on the compliance with the constitution of other austerity measures. The government has therefore decided to introduce alternative measures, which would bring down budget deficit to the target, only after all the rulings of the Constitutional Court had been announced. This also means that Portugal did not receive the last tranche (worth €2.6 billion) of the programme financing; the disbursement was conditional upon the government introducing alternative austerity measures by the end of June. Taking into account Portugal's comfortable cash reserve and regained access to the primary government bonds market, however, not receiving the final tranche should not pose a problem for Portugal.

Quality of banks' balance sheets poses a significant downside risk to future developments on the euro area periphery. Comprehensive assessment of banks, which is being performed by the ECB prior to its assuming full responsibility for supervision under the Single Supervisory Mechanism, could reveal capital shortfalls so large that the respective banks might be unable to cover them by the allowed instruments within the specified period (six months following the comprehensive assessment, extended to nine months for those shortfalls identified in the adverse stress test scenario). In this regard, one has to point out that the euro area member states' representatives reached a preliminary political agreement on the ESM direct (bank) recapitalisation instrument.

Future developments in the economies on the euro area periphery are subject to downside risks. Sudden worsening of the market sentiment towards the region, which could be caused by the results of the comprehensive assessment of European banks, cannot be excluded. It is therefore premature to consider the euro area crisis to be over, notwithstanding certain improvement of the situation.

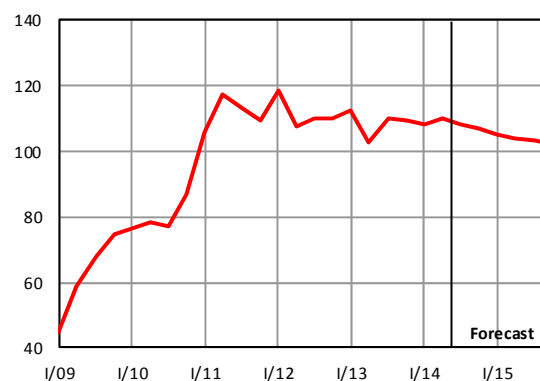
For the Czech Republic, a small open economy with strong business links to the euro area, any potential escalation of the crisis in the euro area could lead to a decrease in foreign demand for its exports. This could have an indirect impact on investment activity and final consumption expenditure.

Commodity Prices

The price of Brent crude oil averaged \$109.7/barrel in the second quarter of 2014 (*versus \$106*). Higher than expected price of oil results primarily from geopolitical factors (Iraq, Ukraine). These factors account for the upward revision to the forecast, above all in the near term. However, we have not changed our view of the market fundamentals. This year, the price of oil should be declining marginally, mainly due to increasing production capacity and the extent to which the US and Canadian imports are substituted for domestic production, and low inflation rate. On average, the price could reach \$108/barrel (*versus \$105*) this year. Growth of supply should surpass growth of global demand also in 2015, and the price should therefore decrease further to \$104/barrel (*versus \$101*). Risks to

the upside related to escalation of geopolitical conflicts are significant.

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**

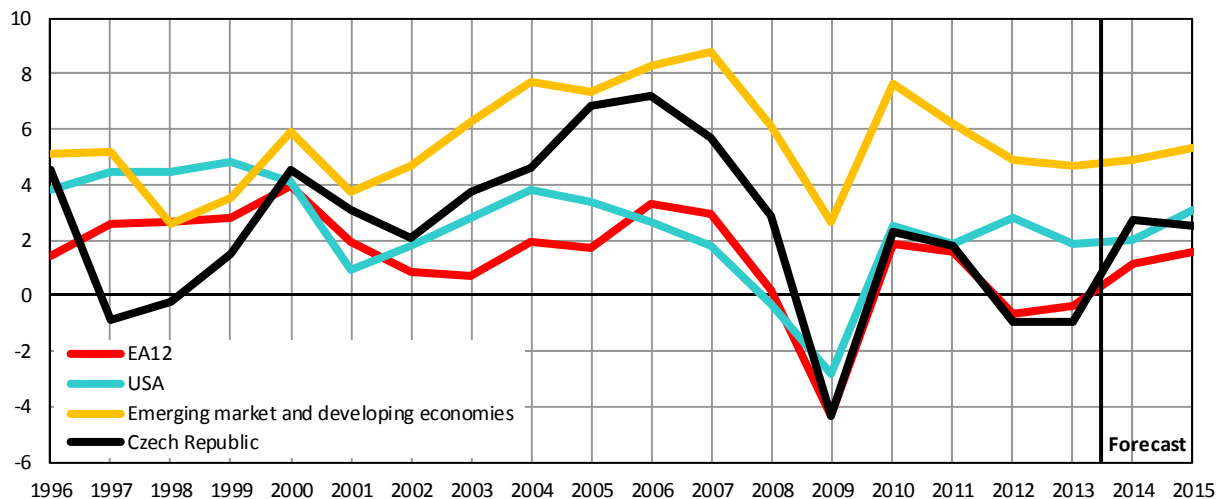
growth rate, in %, seasonally adjusted data (except for the Czech Republic)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									Forecast	Forecast
World	5.3	5.4	2.8	-0.6	5.2	3.9	3.1	3.0	3.6	3.9
USA	2.7	1.8	-0.3	-2.8	2.5	1.8	2.8	1.9	2.0	3.1
China	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7	7.4	7.3
EU28	3.5	3.2	0.3	-4.5	2.0	1.7	-0.3	0.1	1.5	1.8
EA12	3.3	2.9	0.2	-4.4	1.9	1.6	-0.6	-0.4	1.1	1.6
Germany	3.9	3.4	0.8	-5.1	3.9	3.4	0.9	0.5	2.0	1.8
France	2.7	2.2	0.1	-2.9	1.9	2.1	0.4	0.4	0.9	1.4
United Kingdom	2.8	3.4	-0.8	-5.2	1.7	1.1	0.3	1.7	2.8	2.5
Austria	3.8	3.7	0.9	-3.5	1.9	2.9	0.7	0.4	1.4	1.8
Hungary	4.0	0.1	0.7	-6.7	1.0	1.6	-1.7	1.2	2.8	2.2
Poland	6.2	6.8	5.1	1.6	3.9	4.5	2.1	1.6	3.2	3.1
Slovakia	8.3	10.5	5.8	-4.9	4.4	3.0	1.8	0.9	2.4	2.9
Czech Republic	7.0	5.7	3.1	-4.5	2.5	1.8	-1.0	-0.9	2.7	2.5

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

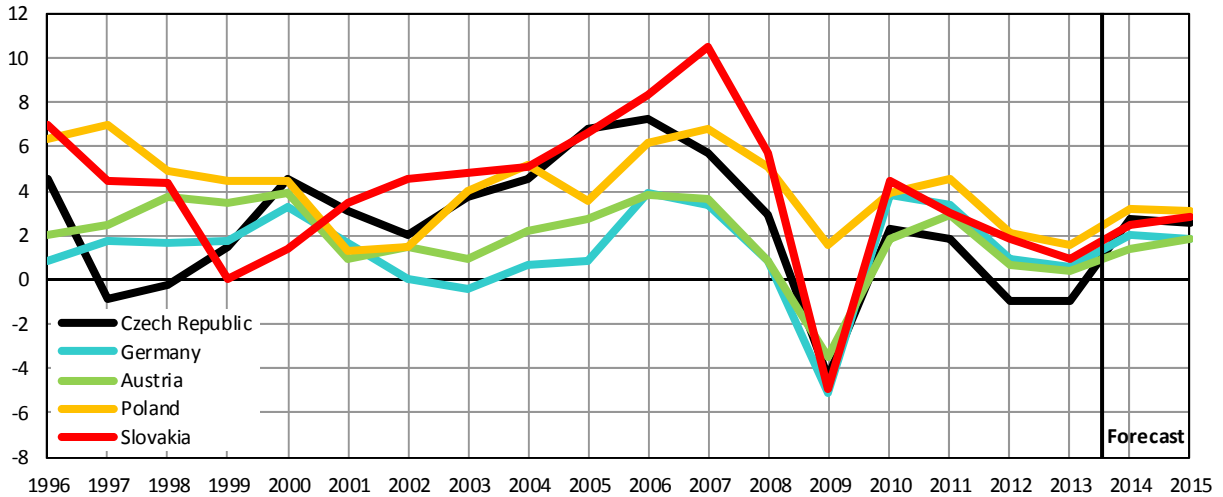
growth rate, in %, seasonally adjusted data

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Estimate		Forecast		Forecast		Forecast	
USA	QoQ	0.3	0.6	1.0	0.7	-0.7	1.1	1.0	0.9
	YoY	1.3	1.6	2.0	2.6	1.6	2.1	2.0	2.3
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	0.0	0.4	0.3	0.4	0.3	0.4	0.4	0.5
	YoY	-0.7	-0.1	0.2	1.0	1.4	1.4	1.5	1.6
EA12	QoQ	-0.2	0.3	0.1	0.3	0.2	0.4	0.4	0.5
	YoY	-1.2	-0.6	-0.3	0.5	0.9	1.0	1.2	1.5
Germany	QoQ	0.0	0.7	0.3	0.4	0.8	0.4	0.3	0.4
	YoY	-0.3	0.5	0.6	1.4	2.3	1.9	1.9	1.9
France	QoQ	0.0	0.6	-0.1	0.2	0.0	0.3	0.5	0.4
	YoY	-0.2	0.7	0.3	0.8	0.8	0.5	1.0	1.2
United Kingdom	QoQ	0.4	0.8	0.8	0.7	0.8	0.6	0.5	0.5
	YoY	0.5	1.7	1.8	2.7	3.1	3.0	2.6	2.4
Austria	QoQ	0.0	0.0	0.3	0.4	0.2	0.4	0.6	0.5
	YoY	0.3	0.1	0.4	0.7	0.9	1.3	1.6	1.7
Hungary	QoQ	0.8	0.3	1.1	0.7	1.1	0.3	0.4	0.4
	YoY	-0.3	0.5	1.8	2.9	3.2	3.2	2.5	2.2
Poland	QoQ	0.1	0.8	0.8	0.7	1.1	0.6	0.6	0.6
	YoY	0.5	1.3	2.0	2.5	3.5	3.3	3.0	2.9
Slovakia	QoQ	0.1	0.4	0.4	0.6	0.6	0.7	0.7	0.8
	YoY	0.5	0.7	1.0	1.6	2.0	2.3	2.6	2.8
Czech Republic	QoQ	-1.0	0.2	0.4	1.5	0.8	0.3	0.4	0.7
	YoY	-2.3	-1.6	-1.0	1.1	2.9	3.0	3.0	2.1

Source: Eurostat, NBS China, own calculations

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

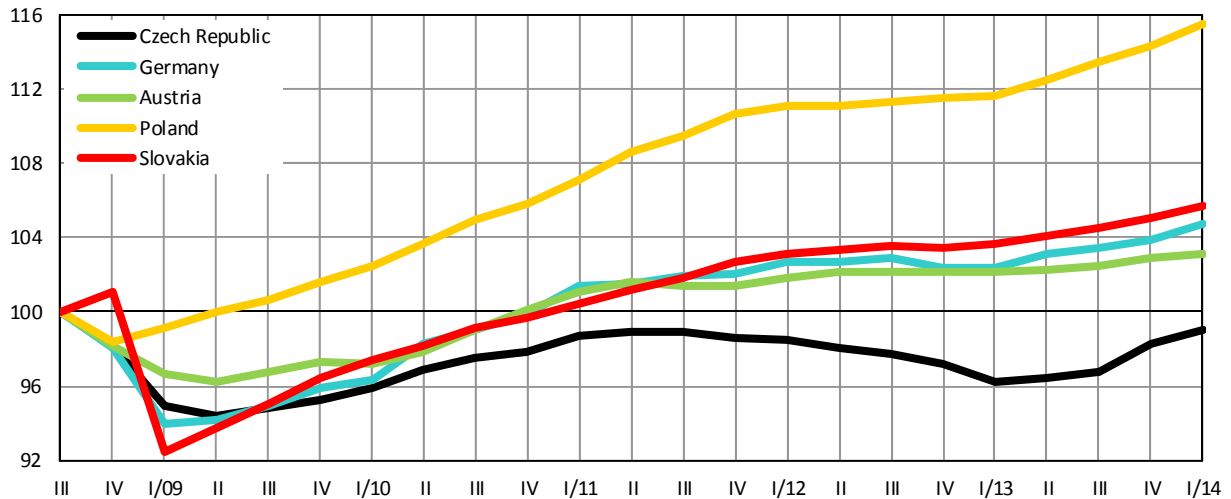
YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, own calculations

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

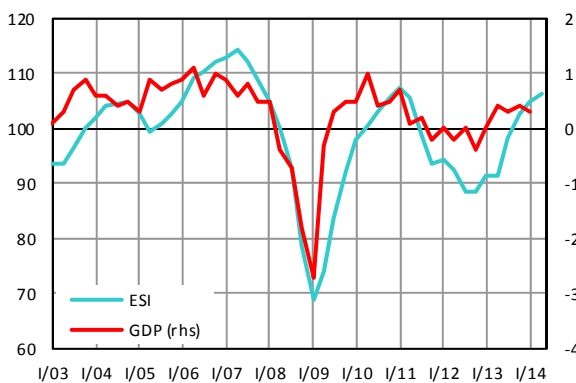
Q3 2008=100, seasonally adjusted data



Source: Eurostat, own calculations

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

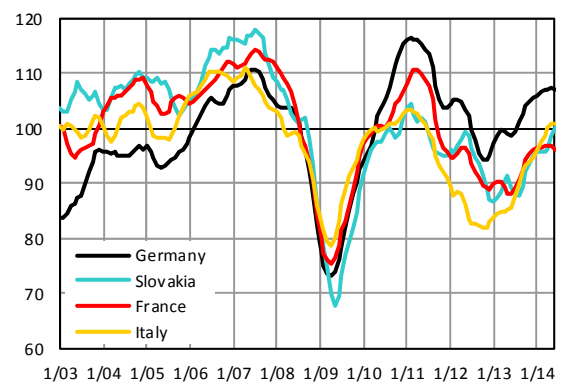
indicator – quarterly averages, QoQ growth in %, sa data



Source: EC, Eurostat

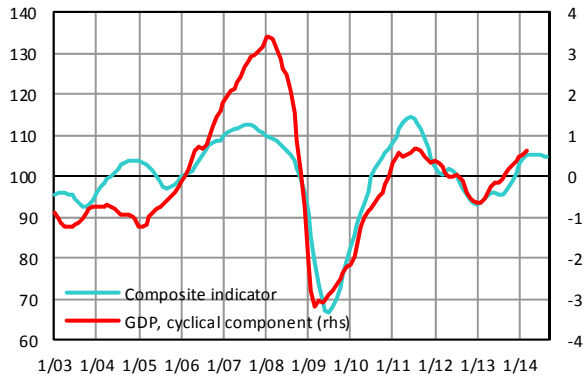
Graph A.1.8: ESI in Selected Trading Partner Countries

3-month moving averages



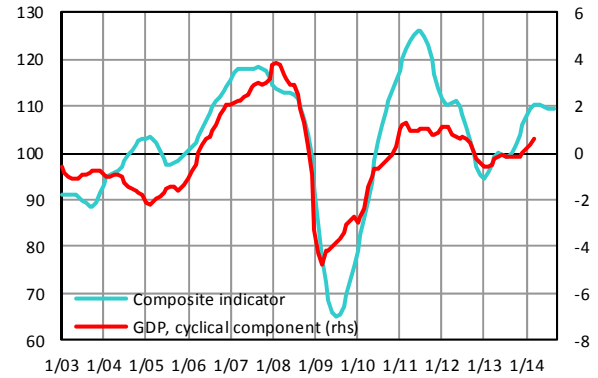
Source: EC

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	108	104
	growth in %	19.6	11.1	34.0	-36.5	29.3	39.9	0.3	-2.6	-0.4	-4.4
Crude oil Brent index (in CZK)	2005=100	112.5	111.5	123.9	88.4	116.1	150.4	167.0	162.5	167	160
	growth in %	12.5	-0.9	11.1	-28.6	31.4	29.5	11.0	-2.7	2.8	-4.0
Wheat	USD/t	191.7	255.2	325.9	223.4	223.7	316.2	313.3	312.2	267	254
	growth in %	25.8	33.1	27.7	-31.5	0.1	41.4	-0.9	-0.3	-14.4	-5.0
Wheat price index (in CZK)	2005=100	118.3	140.2	150.7	117.1	116.4	152.8	168.1	167.2	147	141
	growth in %	18.3	18.4	7.5	-22.3	-0.6	31.3	10.0	-0.5	-11.8	-4.5

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

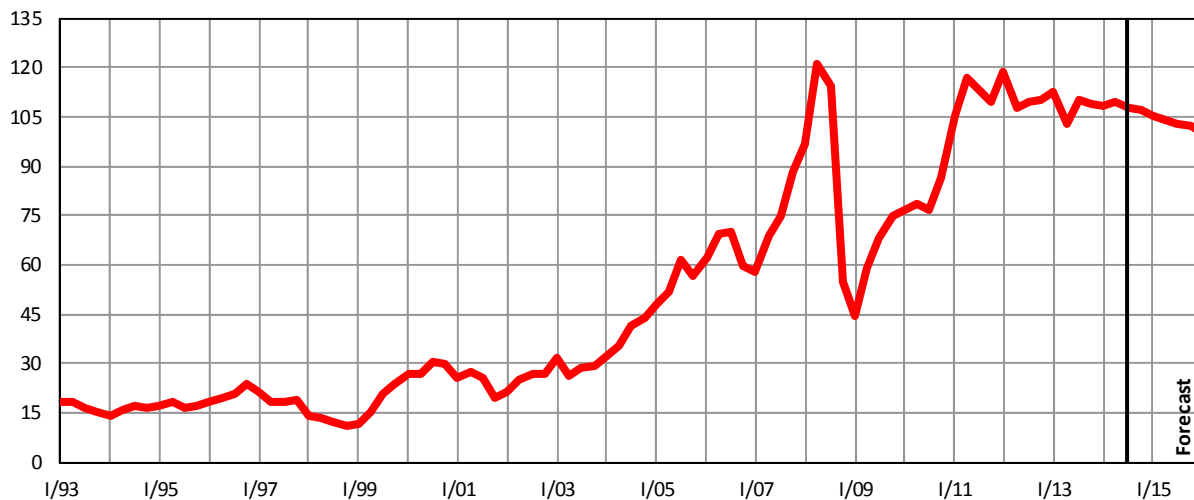
Table A.1.4: Prices of Selected Commodities – quarterly spot prices

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Crude oil Brent	USD/barrel	112.4	102.6	110.2	109.2	108.1	109.7	108	107
	growth in %	-5.3	-4.8	0.5	-0.8	-3.8	7.0	-2.0	-2.0
Crude oil Brent index (in CZK)	2005=100	166.6	155.1	164.5	163.7	165.7	168.0	168	166
	growth in %	-4.1	-4.6	-2.2	0.1	-0.5	8.3	2.1	1.7
Wheat price	USD/t	321.4	313.8	305.9	307.8	297.1	296	233	243
	growth in %	15.3	16.7	-12.5	-13.5	-7.6	-5.6	-23.9	-21.2
Wheat price index (in CZK)	2005=100	170.5	169.9	163.4	165.1	163.0	162	130	135
	growth in %	16.7	17.0	-14.9	-12.7	-4.4	-4.4	-20.7	-18.2

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

Graph A.1.11: Dollar Prices of Oil

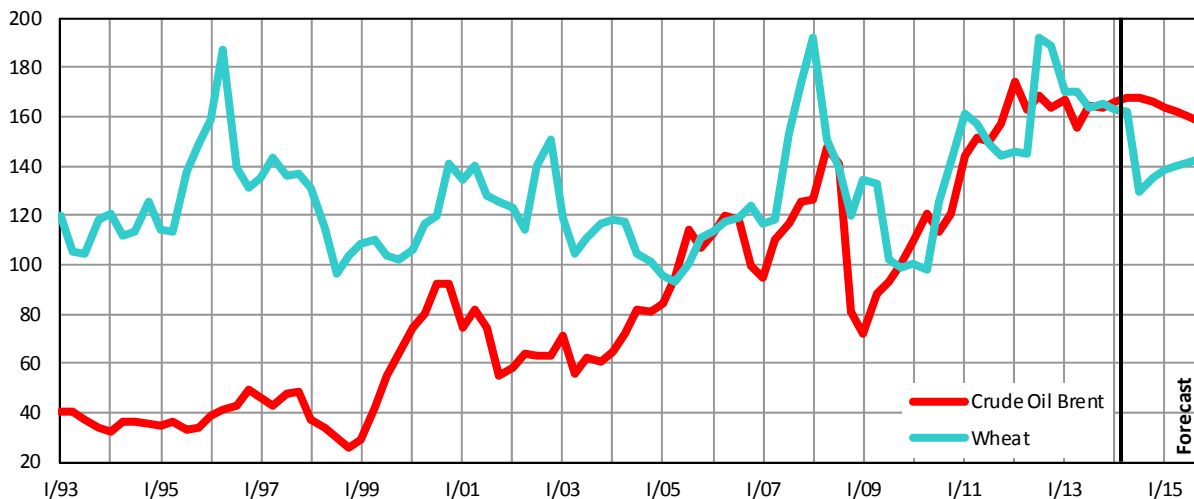
USD/barrel



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

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

index 2005=100



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

A.2 Fiscal Policy

According to the CZSO's estimate, the government sector balance in 2013 ended with the deficit amounting to 1.5% of GDP, which was an improvement of 2.8 pp compared to 2012. A considerable part (1.8 pp) of this figure, however, is owing to the fact that specific transactions (financial compensation to churches and religious organizations and a correction to the reimbursement from EU funds) were included in the deficit of 2012. Had it been adjusted for these operations, the deficit would have decreased by 1 pp.

The structural balance (the balance adjusted for the effect of the business cycle and one-off and temporary operations) reached -0.2% of GDP in 2013. Fiscal effort (YoY change in the structural balance), which was 1.4 pp in 2013, has now exceeded 1 pp for the third year in a row.

On the revenue side, the substantial reduction in the structural balance was especially due to a 1 pp increase in both VAT rates, which caused revenues to rise by nearly 0.4% of GDP. The second largest discretionary effect on the revenue side were modifications to personal income tax (for example, abolishing the basic discount for working pensioners, a solidarity surcharge of 7%, limitation of expenditure lump-sums), which had a total impact of approximately 0.2% of GDP. Changes to other taxes were only slight and largely compensated one another.

As for expenditure, the largest savings occurred in gross fixed capital formation (government investment); nearly 0.4% of GDP YoY. The decrease was mainly seen in investment financed from domestic sources with a full impact on government sector deficit. This development was most apparent in local budgets and less so in central government.

Based on current data, we can expect the government sector deficit to reach 1.5% of GDP in 2014. Compared to the estimate in the April Forecast, the expected deficit is now 0.3 pp lower. The new estimate takes into consideration current development of cash fulfilment, quarterly national accounts and also reflects an improvement in the forecast for economic developments. On the revenue side, there will be an improvement in tax incomes, mainly direct taxes and VAT. In contrast, the expected development of excise taxes has been revised down slightly, due to the development of revenues from taxes on tobacco products. With respect to the considerable stockpiling, which was collected in January and February this year,

a considerable amount has been transferred in favour of 2013 due to tax accrualization (nearly half of income for the whole year was already drawn according to cash fulfilment in February 2014). On the expenditure side, lower expenditure on interest payments can be expected thanks to a very stable debt development and relatively favourable development on the financial markets. This also demonstrates that the Czech Republic is perceived very positively by the financial markets.

On the revenue side, there are only relatively moderate discretionary tax measures in 2014, of which the most significant is a decrease in payments from electricity generated by solar radiation (however, the period in which these payments will be made was extended), with an impact of approximately 0.1% of GDP; other non-autonomous changes have a relatively small impact. Revenues include CZK 8.5 billion from the sale of licences to mobile operators.

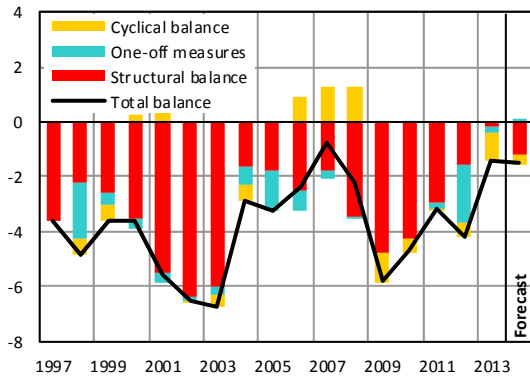
On the expenditure side, the estimate envisages an increase in government consumption of 2%, which will be driven by the development of social benefits in kind (payments of health insurance companies for health care). These should increase by 3%, a rise that reflects in part an increase in payments for state insured persons and also a change in the Reimbursement Decree in favour of strengthening levels of hospital care.

Government investment is also expected to show a relatively large increase, mainly in investment financed from EU sources. For Czech investment, a similar value is expected to that in 2013. In this case, the impact on the deficit is considerably limited, as most funds invested in such manner will be subsequently refunded to the Czech Republic from the EU budget.

In 2013, government sector debt reached 46.0% of GDP. Mainly due to stagnation in the level of state budget debt, the debt quota should decrease by 2 pp to 44.0% of GDP at the end of 2014.

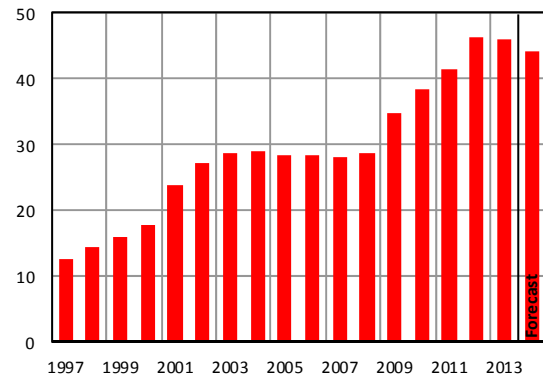
At present, we regard the risks to the forecast as balanced. If the assumption about full use of the allocation from the EU structural funds for the last programming period was not met, there would be savings on Czech financing. On the revenue side, the risk lies in the development of tax income, which is very dependent on the development of relevant macroeconomic tax bases.

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
										Prelim.	Forecast
General government balance ¹⁾	% GDP	-3.2	-2.4	-0.7	-2.2	-5.8	-4.7	-3.2	-4.2	-1.5	-1.5
	bill. CZK	-101	-80	-27	-86	-218	-179	-122	-162	-56	-59
Cyclical balance	% GDP	0.0	0.9	1.3	1.3	-1.1	-0.5	-0.1	-0.6	-1.1	-0.4
Cyclically adjusted balance	% GDP	-3.3	-3.3	-2.0	-3.5	-4.7	-4.2	-3.1	-3.7	-0.4	-1.1
One-off measures	% GDP	-1.5	-0.7	-0.3	-0.1	0.0	0.0	-0.2	-2.1	-0.2	0.1
Structural balance	% GDP	-1.8	-2.5	-1.8	-3.4	-4.8	-4.3	-2.9	-1.6	-0.2	-1.2
Fiscal effort ²⁾	percent. points	-0.1	-0.8	0.8	-1.7	-1.3	0.5	1.3	1.3	1.4	-1.0
Interest expenditure	% GDP	1.1	1.1	1.1	1.0	1.3	1.3	1.4	1.5	1.4	1.3
Primary balance	% GDP	-2.2	-1.3	0.4	-1.2	-4.5	-3.4	-1.8	-2.8	-0.1	-0.2
Cyclically adjusted primary balance	% GDP	-2.2	-2.2	-1.0	-2.5	-3.5	-2.9	-1.8	-2.2	1.0	0.2
General government debt	% GDP	28.4	28.3	27.9	28.7	34.6	38.4	41.4	46.2	46.0	44.0
	bill. CZK	885	948	1 023	1 104	1 299	1 454	1 583	1 775	1 788	1 789
Change in debt-to-GDP ratio	percent. points	-0.5	-0.1	-0.3	0.8	5.9	3.8	3.0	4.7	-0.1	-2.0

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

Even after the CNB cut the limit interest rate for 2W (two-week) repo operations to 0.05% in November 2012, disinflation continued, given domestic economic developments and other factors (e.g. commodity prices). In order 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 Bank Board of the CNB decided on 7 November 2013 to use the exchange rate as another monetary policy instrument. Interventions on the foreign exchange market (in the volume of approximately EUR 7.5 billion) were only carried out in November; since then, the mere existence of the exchange rate commitment and the declared resolution of the CNB to meet this commitment have been enough to maintain the exchange rate above the level of 27 CZK/EUR.

Financial Sector and Interest Rates

In the second quarter of 2014, the **3M** (3-month) **PRIBOR** interbank market rate averaged 0.36% (*in line with the forecast*). The 3M PRIBOR should also remain at 0.4% on average in 2014 and 2015 (*unchanged in both cases*).

With respect to very weak inflationary pressures, long-term interest rates remain at historically low levels. With regard to the expected development of short-term interest rates and the trajectory of fiscal policy, no marked increase in long-term rates should occur in the medium-term horizon, either. **The yield to maturity on 10-year government bonds** for convergence purposes reached only 1.8% (*versus 2.4%*) in the second quarter of 2014. We have revised the forecast for 2014 down to 1.9% (*versus 2.4%*); in 2015, long-term interest rates should increase to 2.4% (*versus 2.6%*).

In April 2014, the CNB conducted another bank lending survey which concluded that credit standards had not changed in any segment of the credit market in the first quarter of 2014. For the second quarter of 2014, the banks expected an easing of standards for corporate loans and, conversely, their tightening for consumer loans to households and housing loans.

The last bank stress tests, the results of which were published by the CNB in the Financial Stability Report 2013/2014, again showed that the banking sector is sufficiently resilient to even very unfavourable shocks.

Stability of the sector owes mainly to the high capital adequacy of banks.

In connection with the development of primary interest rates, client interest rates are still at very low levels. In the first quarter of 2014, interest rates on household deposits remained unchanged from the previous quarter at 0.9%, while rates on company deposits decreased by 0.1 pp to 0.3%. The rates on loans to households also decreased by 0.1 pp QoQ to 5.7%; the rates on loans to non-financial corporations remained at 3.1%.

Growth in loans to households continues to be relatively low, and is mainly driven by housing loans. The YoY growth of consumer loans has recently been oscillating around zero; nevertheless, pronounced growth has been recorded for so-called 'other loans', which comprise e.g. loans to sole traders. Loans to non-financial corporations have seen a YoY decrease in the recent quarters, although loans in foreign currency recorded a considerable increase. However, there was a one-off surge at the rate in which these loans were taken out shortly after the aforementioned exchange rate commitment had been introduced.

The situation concerning non-performing loans remains stable. In the first quarter of 2014 their share stood at 5.0% for households (0.1 pp less QoQ, 0.2 pp less YoY) and decreased to 7.2% for non-financial corporations (0.1 pp less QoQ, 0.2 pp less YoY).

The Prague Stock Exchange Index PX ranged from 1,000 to 1,050 points in the second half of June 2014, but fell below 960 points at the beginning of July. Still, the PX Index was nearly 10% higher than at the beginning of July 2013.

Exchange Rates

After the CNB announced at the beginning of November 2013 that it would start using the CZK/EUR exchange rate as an additional monetary policy instrument, the koruna weakened sharply vis-à-vis the euro. The koruna was weakening gradually also in the following days: at the end of 2013 the exchange rate was up to 7% weaker compared to the level before the interventions. In this year, the exchange rate has so far been hovering around the level of 27.50 CZK/EUR, without any significant fluctuations. In the first half of 2014, the koruna weakened by 6.4% YoY on average.

In order to forecast the CZK/EUR exchange rate, arbitrary assumptions about the date when the CNB will stop using the extraordinary exchange rate

instrument and the exit strategy had to be made. Based on available information, we have made a technical assumption that the exchange rate would remain stable at 27.45 CZK/EUR until the end of the second quarter of 2015. Subsequently, the koruna should again start strengthening slightly against the

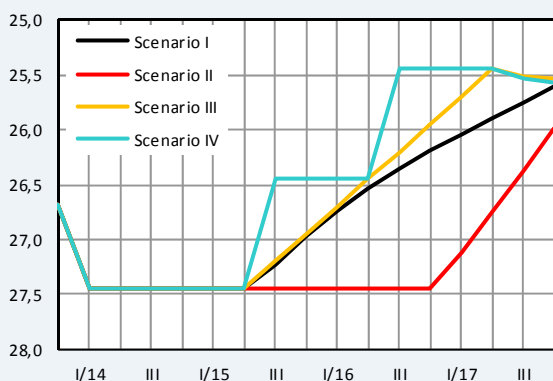
euro, which is in accordance with the CNB's statement that it will not allow sharp appreciation of the koruna after discontinuing the exchange rate commitment. Various scenarios of discontinuing the exchange rate commitment and model simulations of their impacts are shown in Box A.3.

Box A.3: Model based conditional forecast for key macroeconomic variables in different scenarios for discontinuing the exchange rate commitment

This box summarizes the results of a model conditional forecast, which examines the impact of four different scenarios for returning to the floating exchange rate on the fundamental macroeconomic indicators in the horizon by the end of the year 2017. To create the conditional forecast we used the adjusted model of the IMF¹, which by its nature corresponds to the new Keynesian economics and enables an analysis of monetary policies. The reduced-form model consists of 17 equations organized in four economic blocks – aggregate demand (the IS curve), aggregate supply (the Phillips curve), uncovered interest rate parity and monetary policy rule (the Taylor rule). The model also covers economic developments abroad.

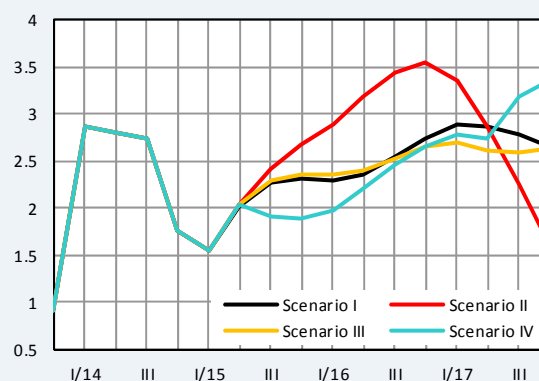
All the considered scenarios are based on the assumption that the nominal CZK/EUR exchange rate will be maintained, as part of the regime of using the exchange rate as a monetary policy instrument, at the level of 27.45 CZK/EUR until the end of the second quarter of 2015. According to current information, the CNB should not discontinue the exchange rate commitment before the second quarter of 2015; indeed, the CNB might not take such step until even later. Starting in the third quarter of 2015, we model four different scenarios of discontinuing the exchange rate commitment. Scenario I assumes a jump termination in which the exchange rate is immediately transferred to a free-floating regime. Scenario II considers the situation when the current exchange rate commitment will be discontinued as late as in the fourth quarter of 2016; until then, the exchange rate will remain at the level of 27.45 CZK/EUR. Scenario III models the regime's gradual termination, whereby in the period from the third quarter of 2015 to the second quarter of 2017 the CNB tolerates the koruna to strengthen by a maximum of 0.25 CZK/EUR per quarter. Scenario IV assumes that in the period from the third quarter of 2015 to the second quarter of 2016 the CNB will allow the rate to appreciate to a maximum 26.25 CZK/EUR. For the period from the third quarter of 2016 to the second quarter of 2017, this limit will be shifted to 25.25 CZK/EUR, and after that the koruna exchange rate would enter the free-floating regime. Moreover, all of the scenarios assume that the CNB will keep the interest rate constant before the free-floating exchange regime is reached. We emphasize that all scenarios were created purely for the purpose of this conditional forecast, and in no way do they intend (or are able) to anticipate the CNB's future steps in the exchange rate policy area.

Graph 1: Nominal CZK/EUR Exchange Rate



Graph 2: Real Gross Domestic Product

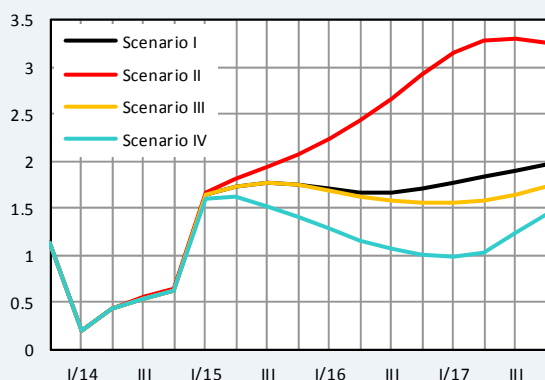
YoY growth rate, in %



¹ Based on Beneš, Hurník, Vávra (2008): *Exchange Rate Management and Inflation Targeting: Modeling the Exchange Rate in Reduced-Form New Keynesian Models*. *Czech Journal of Economics and Finance*, 58(3–4), p. 166–194

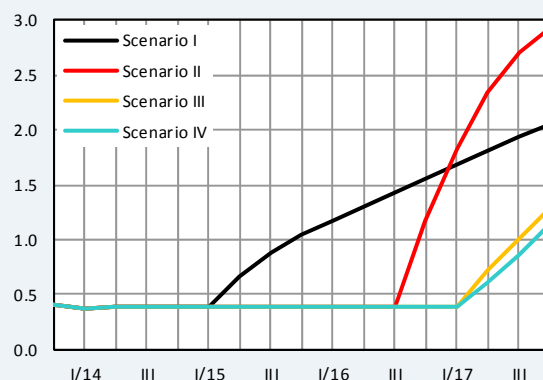
Graph 3: Consumer Price Index

YoY growth rate, in %



Graph 4: Short-term Interest Rates

in % p. a.



The graphs above show the model conditional forecast for selected macroeconomic aggregates from the second quarter of 2014 to the fourth quarter of 2017. For each variable, the development in each scenario is shown. As is clear from the graphs, different approaches to discontinuing the foreign exchange interventions regime would have different impact on the real economy. However, the results of the model must be understood rather as qualitative, not as the precise forecast for the development of macroeconomic variables in the given scenario.

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)	<i>in % p.a.</i>	2.50	3.50	2.25	1.00	0.75	0.75	0.05	0.05	.	.	
Main refinancing rate ECB (end of period)	<i>in % p.a.</i>	3.50	4.00	2.50	1.00	1.00	1.00	0.75	0.25	.	.	
Federal funds rate (end of period)	<i>in % p.a.</i>	5.25	4.25	0.25	0.25	0.25	0.25	0.25	0.25	.	.	
PRIBOR 3M	<i>in % p.a.</i>	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	<i>in % p.a.</i>	3.78	4.28	4.55	4.67	3.71	3.71	2.80	2.11	1.9	2.4	
Households – MFI (CR, unless stated otherwise)												
– interest rates on loans	<i>in % p.a.</i>	6.93	6.63	6.81	7.00	7.00	6.83	6.46	6.03	.	.	
– loans	<i>growth in %</i>	32.1	31.7	28.9	16.3	8.7	6.5	4.9	4.0	.	.	
– loans without housing loans	<i>growth in %</i>	28.3	27.3	25.3	19.1	8.3	6.8	1.4	0.5	.	.	
– deposits	<i>growth in %</i>	7.3	10.6	9.4	10.5	5.4	5.0	4.7	3.2	.	.	
– share of non-performing loans	<i>in %</i>	3.7	3.2	3.0	3.7	4.8	5.3	5.2	5.2	.	.	
– loans to deposits ratio	<i>in %</i>	40	48	57	60	61	62	65	65	.	.	
– loans to deposits ratio (Eurozone)	<i>in %</i>	99	99	94	89	90	90	87	84	.	.	
Non-financial firms – MFI (CR, unless stated otherwise)												
– interest rates on loans	<i>in % p.a.</i>	4.29	4.85	5.59	4.58	4.10	3.93	3.69	3.19	.	.	
– loans	<i>growth in %</i>	13.9	16.7	17.5	0.2	-6.5	3.3	2.5	0.1	.	.	
– deposits	<i>growth in %</i>	10.9	13.2	5.3	-1.7	4.8	0.9	8.2	4.4	.	.	
– share of non-performing loans	<i>in %</i>	4.5	3.8	3.6	6.2	8.6	8.5	7.7	7.4	.	.	
– loans to deposits ratio	<i>in %</i>	117	120	134	137	123	126	122	117	.	.	
– loans to deposits ratio (Eurozone)	<i>in %</i>	292	296	315	315	294	286	273	246	.	.	

Source: CNB, ECB, Fed, own calculations

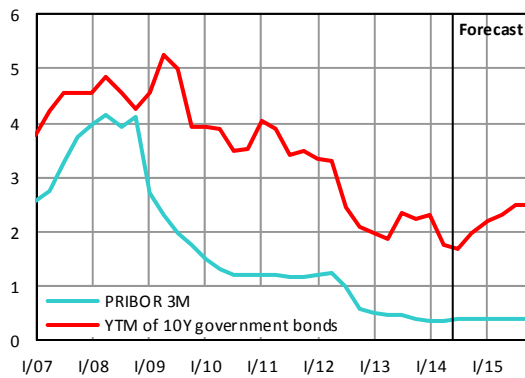
Table A.3.2: Interest Rates, Deposits and Loans – quarterly

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	0.05	0.05	0.05	0.05	0.05	0.05	.	.
Main refinancing rate ECB (end of period)	in % p.a.	0.75	0.50	0.50	0.25	0.25	0.15	.	.
Federal funds rate (end of period)	in % p.a.	0.25	0.25	0.25	0.25	0.25	0.25	.	.
PRIBOR 3M	in % p.a.	0.50	0.46	0.46	0.41	0.37	0.36	0.4	0.4
YTM of 10Y government bonds	in % p.a.	1.98	1.88	2.35	2.24	2.30	1.76	1.7	2.0
Households – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	6.21	6.09	5.96	5.83	5.73	.	.	.
– loans	growth in %	3.7	3.9	4.1	4.2	3.9	.	.	.
– loans without housing loans	growth in %	-0.4	0.1	0.7	1.7	1.9	.	.	.
– deposits	growth in %	4.2	3.6	2.7	2.4	1.8	.	.	.
– share of non-performing loans	in %	5.2	5.2	5.1	5.1	5.0	.	.	.
– loans to deposits ratio	in %	64	65	66	66	65	.	.	.
– loans to deposits ratio (Eurozone)	in %	85	84	84	84	83	.	.	.
Non-financial firms – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	3.27	3.23	3.17	3.09	3.06	.	.	.
– loans	growth in %	2.3	0.2	-1.2	-0.9	-1.9	.	.	.
– deposits	growth in %	4.8	1.9	4.7	6.1	7.1	.	.	.
– share of non-performing loans	in %	7.4	7.6	7.4	7.2	7.2	.	.	.
– loans to deposits ratio	in %	119	119	117	111	112	.	.	.
– loans to deposits ratio (Eurozone)	in %	256	252	245	232	234	.	.	.

Source: CNB, ECB, Fed, own calculations

Graph A.3.1: Interest Rates

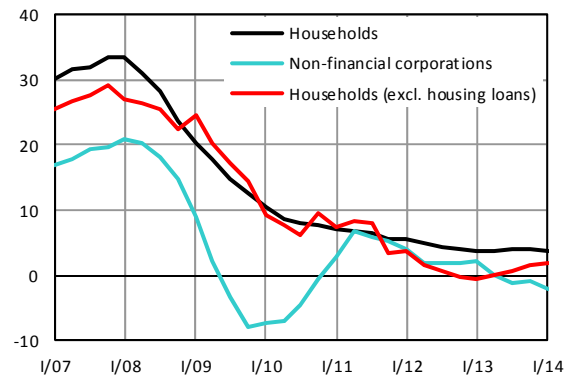
in % p.a.



Source: CNB, own calculations

Graph A.3.2: Loans

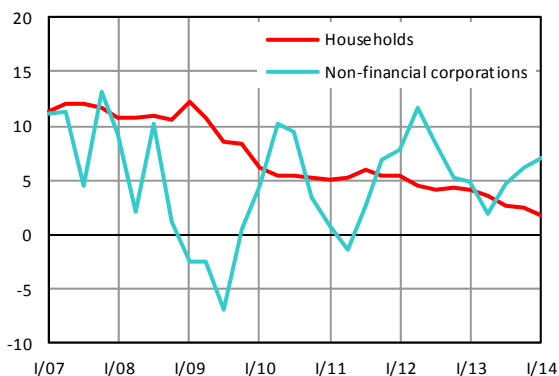
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.3: Deposits

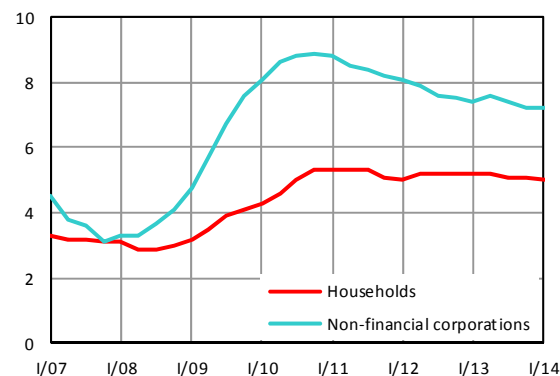
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.4: Non-performing Loans

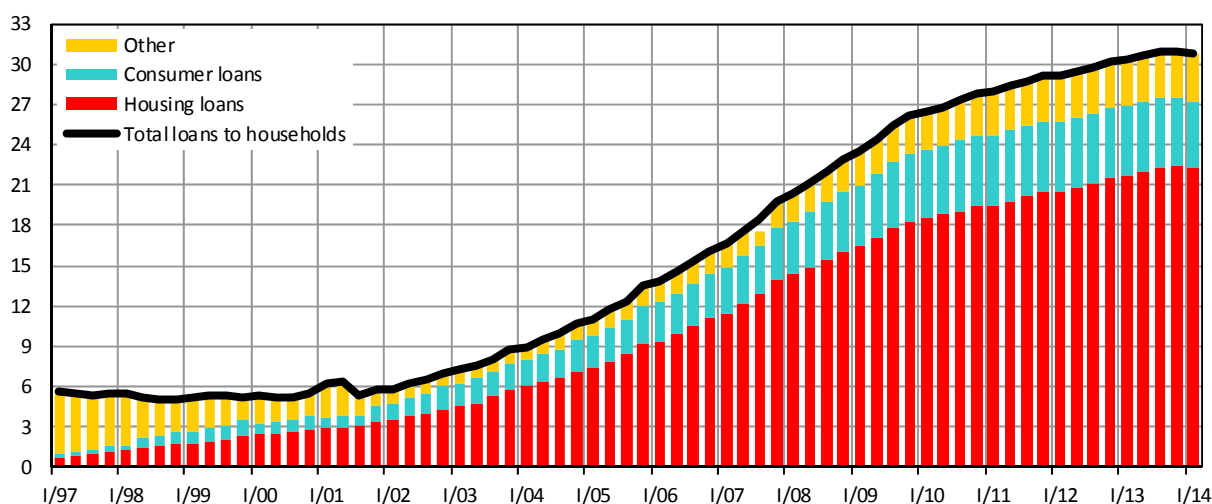
ratio of non-performing to total loans, in %



Source: CNB, own calculations

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

yearly moving sums, in %



Source: CNB, CZSO, own calculations

Table A.3.3: Exchange Rates – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:											
CZK / EUR	average	24.96	26.45	25.29	24.59	25.14	25.98	27.4	27.4	26.9	26.4
	appreciation in %	11.3	-5.6	4.6	2.8	-2.2	-3.2	-5.3	0.3	1.7	1.8
CZK / USD	average	17.06	19.06	19.11	17.69	19.59	19.57	20.2	20.3	19.9	19.6
	appreciation in %	19.0	-10.5	-0.3	8.0	-9.7	0.1	-3.0	-0.4	1.7	1.8
NEER	average of 2010=100	101.2	98.0	100.0	103.1	99.5	97.3	93	93	95	97
	appreciation in %	11.7	-3.2	2.1	3.1	-3.5	-2.2	-4.4	0.3	1.7	1.8
Real exchange rate to EA12¹⁾	average of 2010=100	102.5	97.9	100.0	100.7	98.8	96.1	92	92	93	95
	appreciation in %	11.3	-4.4	2.1	0.7	-1.9	-2.8	-4.6	0.5	1.5	1.8
REER	average of 2010=100	102.7	98.9	100.0	102.0	99.2	96.9	.	.	.	.
	(Eurostat, CPI deflated, 37 countries)	14.9	-3.7	1.1	2.0	-2.8	-2.3	.	.	.	.

Source: CNB, Eurostat, own calculations

¹⁾ Deflated by GDP deflators.

Table A.3.4: Exchange Rates – quarterly

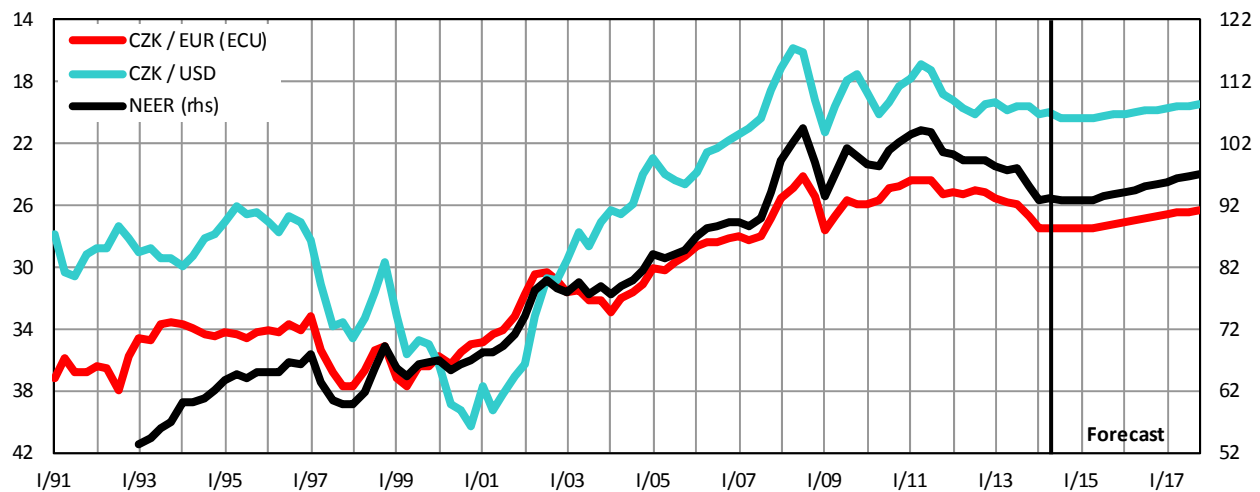
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast		Forecast
Nominal exchange rates:									
CZK / EUR	average	25.57	25.83	25.85	26.66	27.44	27.45	27.4	27.4
	appreciation in %	-1.9	-2.2	-3.0	-5.6	-6.8	-5.9	-5.8	-2.9
CZK / USD	average	19.37	19.78	19.52	19.59	20.04	20.02	20.3	20.3
	appreciation in %	-1.2	-0.3	2.8	-0.9	-3.3	-1.2	-4.0	-3.6
NEER	average of 2010=100	98.4	97.6	98.0	95.1	93.0	93.1	93	93
	appreciation in %	-1.7	-1.7	-1.3	-4.1	-5.5	-4.6	-5.1	-2.3
Real exchange rate to EA12 ¹⁾	average of 2010=100	97.0	96.4	96.2	94.6	91.6	91	91	93
	appreciation in %	-1.6	-2.0	-2.8	-4.5	-5.5	-5.5	-5.2	-2.2
REER	average of 2010=100	98.5	97.3	97.4	94.4	.	.	.	.
	(Eurostat, CPI deflated, 37 countries)	appreciation in %	-2.1	-1.8	-1.4	-4.0	.	.	.

Source: CNB, Eurostat, own calculations

¹⁾ Deflated by GDP deflators.

Graph A.3.6: Nominal Exchange Rates

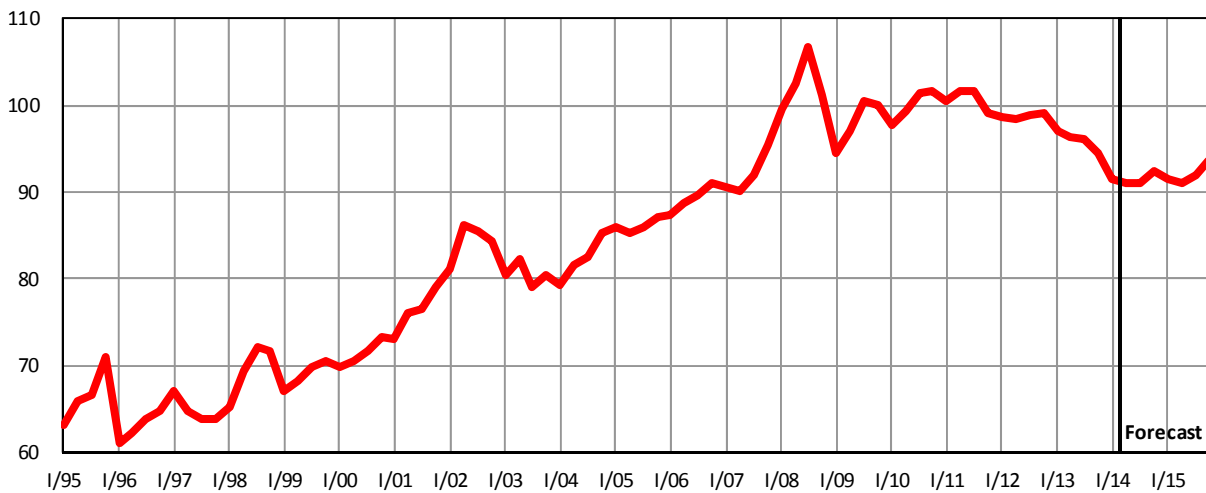
quarterly averages, average 2010=100 (rhs)



Source: CNB, own calculations

Graph A.3.7: Real Exchange Rate to EA12

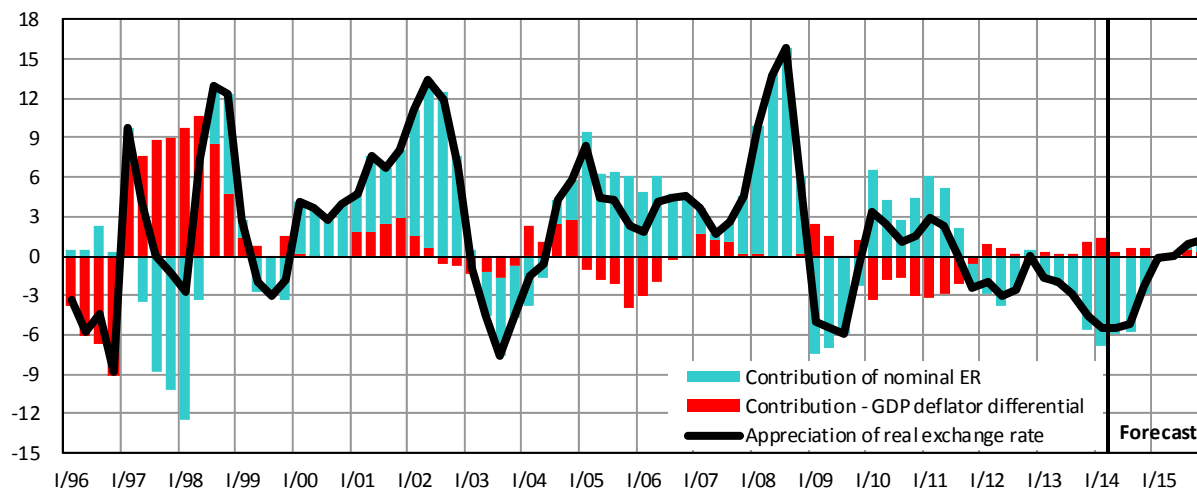
quarterly averages, deflated by GDP deflators, average 2010=100



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

Taxes

On 21 May 2014, the government approved **the amendment to the Act on Excise Taxes**. In reaction to the weakening of the CZK/EUR exchange rate, the amendment modifies the rates of excise tax on tobacco products in order to meet the EU minimum requirement for the excise tax level, i.e. €90 per 1,000 cigarettes. The amendment should come into effect on the first day of the third month following the month of the declaration (in the forecast we assume that the amendment will be effective as of 1 January 2015).

On 2 July 2014, the government approved **the amendment to the Act on Income Taxes**. Tax credits for the second child will increase annually by CZK 2,400 and for the third and any additional child by CZK 3,600. The current lump-sum expenditure of 60% and 80% will be preserved, but now they will be limited by an income ceiling of CZK 2 million. Old-age pensioners with annual incomes not exceeding CZK 840,000 will again be allowed to apply the basic discount per tax payer. The amendment is scheduled to come into effect on 1 January 2015.

The amendment to the Act on Value Added Tax approved by the government on 2 July 2014 introduces a second reduced value added tax rate of 10% on drugs, books and essential infant nutrition. The amendment should be effective from 1 January 2015.

Financial Markets

On 18 June 2014, the senate approved the **bill amending certain acts in connection with the establishment and supervision of access to the**

business of banks, savings banks and credit unions as well as securities dealers, implementing the EU Directive on the taking up of the business of credit institutions and their prudential supervision under Czech law. The new legal regulation introduces capital reserves which the CNB can require banks, cooperative savings banks and investment firms to hold in order to strengthen the capital resources and limit systemic risks. Simultaneously, the responsibility for supervision of the liquidity of branches of Member State banks (not subsidiary banks) will be transferred from the supervisory authority of the host state to the supervisory authority of the home state. The act should come into effect on the day of its announcement, and some selected parts of it on 1 January 2015 and 1 January 2016.

In order to reduce the risk of corruption, on 9 April 2014 the government approved the **amendment to the Bill Amending Certain Acts on the Financial Market**. According to the new legal regulation, mandatory cashless payments will no longer just apply to cases when obligations are settled by payment, but to all payments (loans, gifts). The limit for mandatory cashless payments will be reduced from CZK 350,000 to CZK 270,000, while recipients will be obliged to refuse any payment above the new limit if it is not made as a cashless payment. The amendment also transposes the EU Directive defining the requirements for credit transfers and direct debits in EUR. The amendment is expected to come into effect on the first day of the calendar month following its announcement.

Energy and the environment

On 12 May 2014, the government approved the **amendment to the Act on Conditions for Trading in Allowances for Greenhouse Gas Emissions**, transposing the EU Directive into Czech law. The amendment imposes the duty on operators to return any allowances that were assigned and issued to them in an unauthorized manner. If operators breach this duty, a sanction can be imposed on them. The amendment is scheduled to come into effect on 1 January 2015.

Labour Market

The amendment to the Employment Act, approved by the Senate on 18 June 2014, reintroduces the category of disadvantaged persons. The employment of these persons will be supported with a contribution of up to CZK 5,000 per month. The contribution to shared intermediation of employment for job agencies will be reduced from CZK 5,000 to a maximum CZK 500. In contrast, the amount for placing in work an unemployed person will increase from CZK 1,250 to a maximum of CZK 6,250 if such person stays in the job for at least 6 months. The amendment should come into effect on the first day of the month following its announcement.

In order to improve the balance between the work life and family life of parents with small children and to increase their participation in the labour market, on 20 June 2014 the Chamber of Deputies approved **a draft bill to provide childcare services in a children's group**. The act introduces a new type of service consisting in looking after and taking care of children from the age of one year until mandatory school attendance. The provider of the service can be the employer of a parent, a church, local government unit,

A.5 Demographic Trends

At the beginning of the second quarter of 2014, 10.517 million people lived in the Czech Republic. Its population increased by 5 thousand during the first quarter of 2014, whereby the population loss of 2013 was more than compensated.

In the first quarter of 2014, net migration rate again returned to positive figures (+5 thousand). The number of births (26 thousand) was similar to that of the same quarter of 2013. Roughly the same number of deaths, however, represented a 5 thousand decline in a YoY comparison. It is interesting that in absolute terms, the greatest decrease in number of deaths was seen in the

generally beneficial company, foundation, university or association. The act should come into effect on 1 September 2014.

Social and Health Insurance

On 20 June 2014, the Chamber of Deputies approved **a draft bill on pension insurance**, regulating the rules for indexation of pensions. For pension increases, the amount is set so that the increase in average old-age pension would equal the amount of 100% growth of the total consumer price index and one third of real wage growth. From 2015, the average independently paid old-age pension will increase by at least 1.8%. The amendment to the act should come into effect on 1 September 2014.

The amendment to the Act on Insurance Premium for Public Health Insurance that came into effect on 1 July 2014 increases the monthly payment for state insured persons from CZK 787 to CZK 845. At the same time, however, health insurance companies will be obliged to compensate healthcare providers for the shortfall in income resulting from the cancelled fees for hospitalization.

In order to support families with small children, on 2 July 2014 the government approved the **amendment to the Act on State Social Support**. The amendment introduces a maternity grant of CZK 10,000 also for the second child, and at the same time it increases the coefficient on which the entitlement to maternity grant is based. The amendment should come into effect on 1 January 2015.

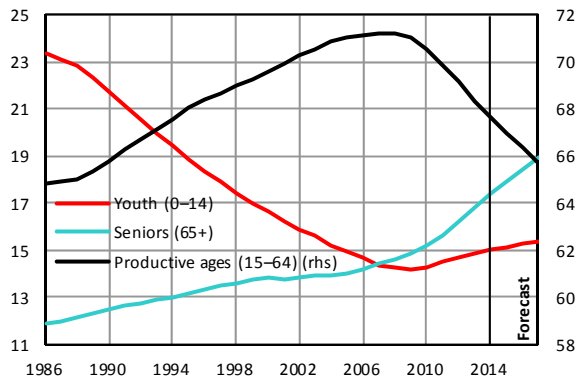
The amendment to the Act on Public Health Insurance approved by the government on 2 July 2014 cancels fees for prescriptions and outpatient treatment. The amendment is scheduled to come into effect on 1 January 2015.

age group 80–89 years. The surprisingly sharp drop in the death rate in this age category could have been influenced, at least partially, by the unusually warm weather in this period.

The number of inhabitants of the Czech Republic has narrowly exceeded the previous high from the beginning of 2013 and is still very close to the post-WWII **population peak**. It seems so far that the central variant of the CZSO's Population Projection will prove correct, with a very slight increase in population in the near future. Beyond the outlook horizon, we can

in all likelihood expect a long-term decrease in the number of inhabitants of the Czech Republic.

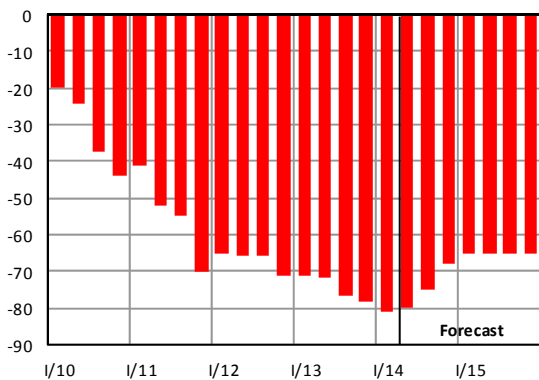
Graph A.5.1: Age Groups
structural shares in %



Source: CZSO, own calculations

According to the published results of the population age structure at the beginning of 2014, the decrease in the structural proportion of the **population aged 15 to 64** (see Graph A.5.1) continued unabated. This decline is predominantly explained by natural change, whereby persons born at the turn of the millennium, when the birth rate was very low, are now exceeding the lower age limit of this group, while the population-strong generation born after WWII is gradually being classified as senior citizens.

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



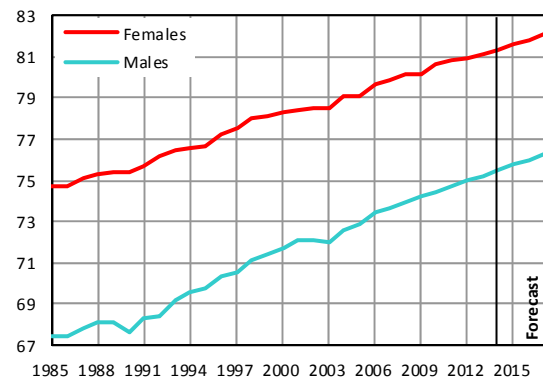
Source: CZSO, own calculations

In the following years, the rate of this decrease should slacken somewhat. Nonetheless, in absolute terms, the

working-age population should continue to decline by approximately 60–70 thousand people a year (see Graph A.5.2), which is a decrease of just below 1% a year. 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 17.4% at the beginning of 2014, and should regularly increase by 0.5 pp annually. The number of seniors in the population is significantly rising due to demographic structure and the continuing intensive process of increasing life expectancy; in the outlook horizon, i.e. at the beginning of 2017, the number of persons in this category should come close to 2 million.

Graph A.5.3: Life Expectancy
in years



Source: CZSO

In such situation it is quite a paradox that the number of **old-age pensioners** has been stagnant since 2012. In structural view, the number of pensioners with reduced pensions after early retirement is continuing to rise quite dynamically (by 20 thousand YoY at the beginning of April 2014), while the number of pensioners entitled to a full pension has decreased YoY by 16 thousand. The share of reduced pensions has already reached 23.9%, compared to 19.0% at the end of 2009. A certain decoupling is occurring between the proportion of potential pensioners (probably better qualified with secure jobs) who are postponing their retirement and another section of the population that is taking advantage of early retirement more often.

Table A.5.1: Demography

in thousands of persons (unless stated otherwise)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Forecast	Forecast	Outlook	Outlook
Population (January 1)	10 381	10 468	10 507	10 487	10 505	10 516	10 512	10 518	10 522	10 524
<i>growth in %</i>	0.9	0.8	0.4	-0.2	0.2	0.1	0.0	0.1	0.0	0.0
Age structure (January 1):										
(0–14)	1 477	1 480	1 494	1 522	1 541	1 560	1 577	1 593	1 605	1 615
<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	7 109	7 044	6 979	6 913
<i>growth in %</i>	0.9	0.5	-0.2	-1.2	-0.9	-1.0	-1.1	-0.9	-0.9	-0.9
(65 and more)	1 513	1 556	1 599	1 637	1 701	1 768	1 826	1 881	1 938	1 996
<i>growth in %</i>	2.1	2.9	2.7	2.4	3.9	3.9	3.3	3.1	3.0	3.0
Old-age pensioners (January 1)¹⁾	2 061	2 102	2 147	2 260	2 340	2 341	2 340	2 357	2 381	2 404
<i>growth in %</i>	1.8	2.0	2.1	.	3.5	0.1	0.0	0.7	1.0	1.0
Old-age dependency ratios (January 1, in %):										
Demographic ²⁾	20.5	20.9	21.6	22.3	23.4	24.6	25.7	26.7	27.8	28.9
Under current legislation ³⁾	35.9	36.1	36.6	37.4	37.8	38.3	38.8	39.5	40.1	40.6
Effective ⁴⁾	41.5	41.8	43.6	45.9	47.9	47.6	47.2	47.3	47.8	48.1
Fertility rate	1.497	1.492	1.493	1.427	1.452	1.460	1.45	1.45	1.45	1.46
Population increase	86	39	-20	19	11	-4	6	4	2	1
Natural increase	15	11	10	2	0	-2	-3	-5	-7	-9
Live births	120	118	117	109	109	107	104	102	100	98
Deaths	105	107	107	107	108	109	107	107	107	107
Net migration	72	28	16	17	10	-1	9	9	9	9
Immigration	78	40	31	23	30	30	.	.	.	.
Emigration	6	12	15	6	20	31	.	.	.	.
Census difference	x	x	-46	x	x	x	x	x	x	x

Source: Czech Social Security Administration, CZSO, own calculations

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

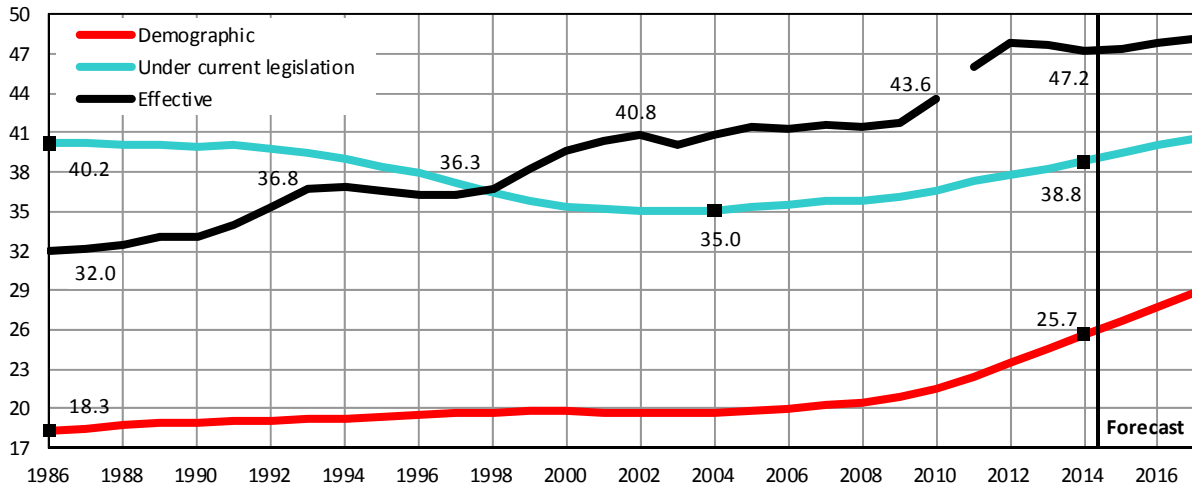
²⁾ Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

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

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

Graph A.5.4: Dependency Ratios

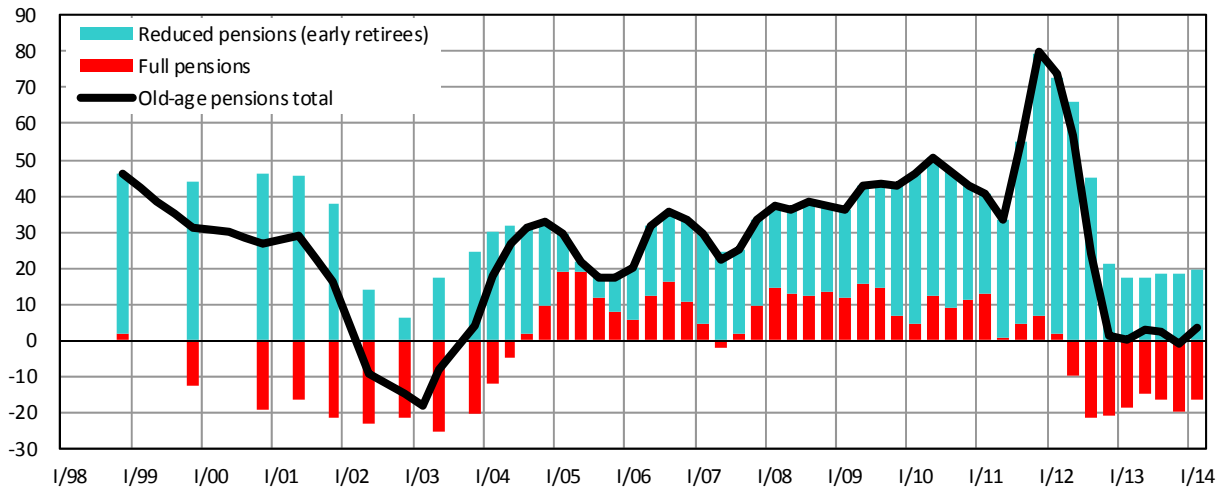
As of January 1, in %, inconsistent between 2010 and 2011 due to transfer of disability pensions to old-age pensions for people over 64 years



Source: CZSO, own calculations

Graph A.5.5: Old-Age Pensioners

absolute increase over a year in thousands of persons



Source: Czech Social Security Administration, CZSO, own calculations

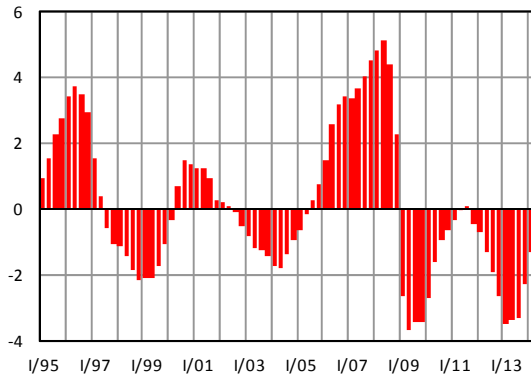
Note: Transfer of disability pensions to old-age pensions for people over 64 years in 2010 is not included.

B Economic Cycle

B.1 Position within the Economic Cycle

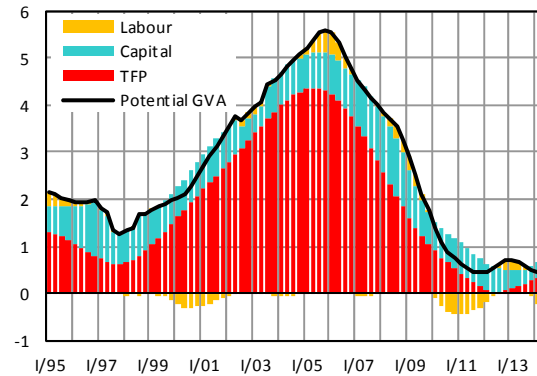
Potential product, specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of economic output to be achieved with average utilization of production factors. Growth of potential product expresses possibilities for long-term sustainable growth of the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

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



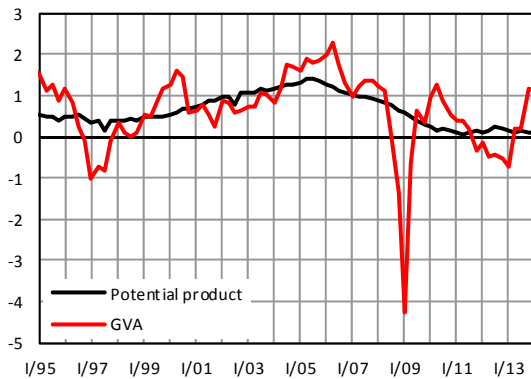
Source: CZSO, own calculations

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



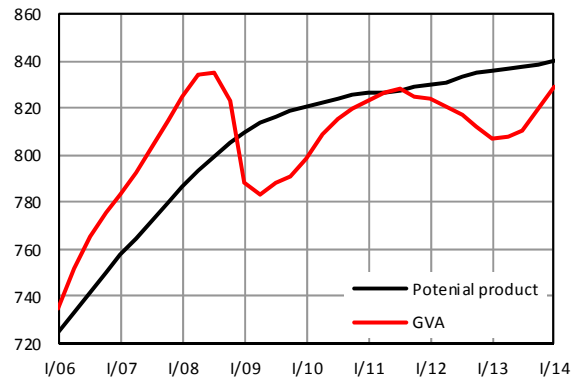
Source: CZSO, own calculations

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



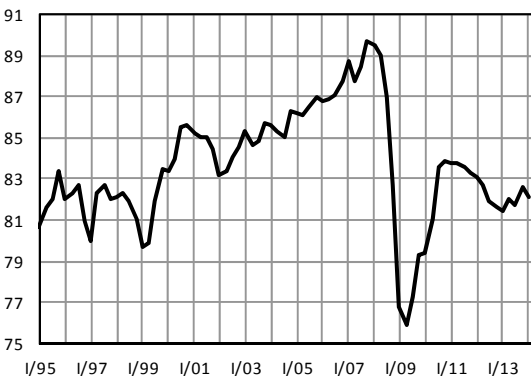
Source: CZSO, own calculations

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



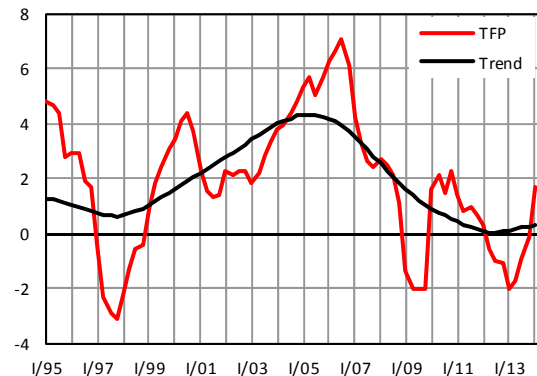
Source: CZSO, own calculations

Graph B.1.5: Capacity Utilisation in Industry
in %



Source: CZSO

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



Source: CZSO, own calculations

Table B.1: Output Gap and Potential Product

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Q1
Output gap	<i>per cent</i>	0.1	2.7	3.9	4.1	-3.3	-1.5	-0.2	-1.7	-3.1	-1.3
Potential product ¹⁾	<i>growth in %</i>	5.4	5.2	4.2	3.6	2.3	1.0	0.5	0.6	0.6	0.5
Contributions:											
–Trend TFP	<i>perc. points</i>	4.3	4.0	3.2	2.2	1.3	0.7	0.3	0.1	0.2	0.3
–Fixed assets	<i>perc. points</i>	0.8	0.9	1.1	1.2	0.8	0.6	0.6	0.5	0.3	0.3
–Demography ²⁾	<i>perc. points</i>	0.2	0.2	0.3	0.4	0.1	-0.2	-0.4	-0.5	-0.6	-0.6
–Participation rate	<i>perc. points</i>	0.2	0.2	-0.2	0.0	0.3	0.2	0.3	0.8	1.0	0.7
–Usually worked hours	<i>perc. points</i>	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3

Source: CZSO, own calculations

¹⁾ Based on gross value added

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

The protracted recession, which lasted from the fourth quarter of 2011 to the first quarter of 2013, resulted in a large negative **output gap**. At the end of the recession it reached –3.5%, which is similar in depth to the recession at the turn of 2008 and 2009 (see Graph B.1.1). However, strong economic growth in the fourth quarter of 2013 and the first quarter of 2014 resulted in its narrowing to –1.3%. So far, the negative output gap has been reflected in the economy by high registered unemployment, below-average utilization of capacities and a slow increase in prices and wages.

Any forecast for the future development of the output gap is always associated with a considerable degree of uncertainty. Yet it is possible to infer that if the central scenario of the Macroeconomic Forecast materialised, the negative output gap would close during 2015. In the years of the outlook, the economy might already find itself with a positive output gap.

The expected development of the output gap is primarily caused by the low growth of **potential product**. Due to long periods of recession or sluggish economic growth, growth of potential product has slowed considerably, down to 0.5% in the first quarter of 2014.

This slowdown was mainly caused by **total factor productivity** (TFP). Its trend component, derived from the Hodrick-Prescott filter, has been more or less stagnant since 2011. Apparent signs of an improvement at the end of the time series will have to be confirmed in the following period.

The long-lasting slump in gross fixed capital formation in 2008–2013 has led to a drop in the contribution of **capital stock** from 1.2 pp in 2008 to 0.3 pp in 2013 and in the first quarter of 2014.

Labour supply is affected by a decrease in working-age population, which is caused by the population ageing process (see Chapter A.5). In the first quarter of 2014, **demographic developments** slowed potential product growth by 0.6 pp.

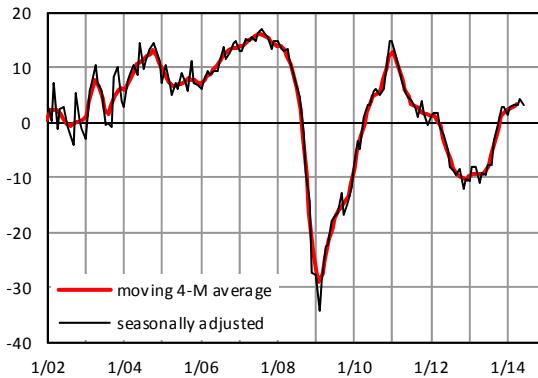
The negative impact of the decline in the population aged 15–64 years on labour supply is more than compensated by an increase in the **participation rate** (ratio of the labour force to the population aged 15–64 years), and the labour force is thus not decreasing. Our calculations show that the rate of participation in the Czech economy has rather an anti-cyclical character. Therefore, the decrease in its contribution to potential product growth from 1.0 pp in 2013 to 0.7 pp in the first quarter of 2014 should certainly not cause any alarm. The participation rate still remains the most important factor of potential product growth.

In the Czech Republic, regular average working time is shortening. This autonomous process, which is a consequence of the country now approaching the standards of more developed countries, has been intensified recently by the extension of part-time jobs and a more flexible use of occasional work. The lower number of **hours** usually **worked** slowed potential product growth by 0.3 pp in the first quarter of 2014.

B.2 Business Cycle Indicators

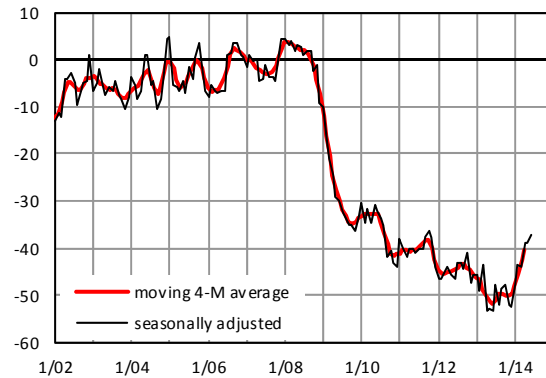
Business cycle indicators express respondents' views as to the current situation and short-term outlook and serve to identify in advance possible turning points in the economic cycle. Their main advantage lies in the quick availability of results reflecting a wide range of influences shaping the expectations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

Graph B.2.1: Industrial Confidence Indicator



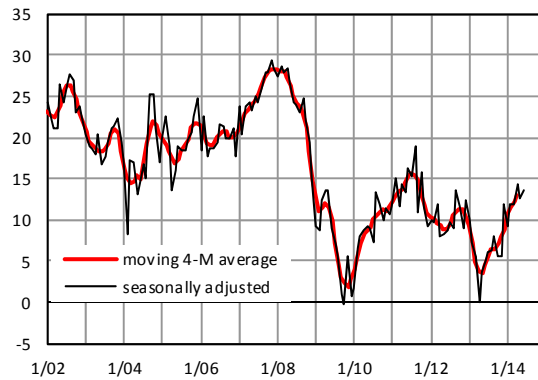
Source: CZSO

Graph B.2.2: Construction Confidence Indicator



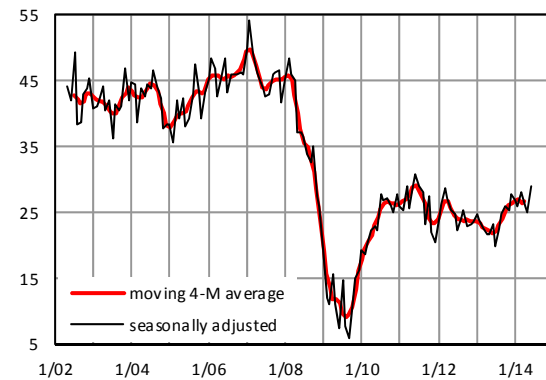
Source: CZSO

Graph B.2.3: Retail Trade Confidence Indicator



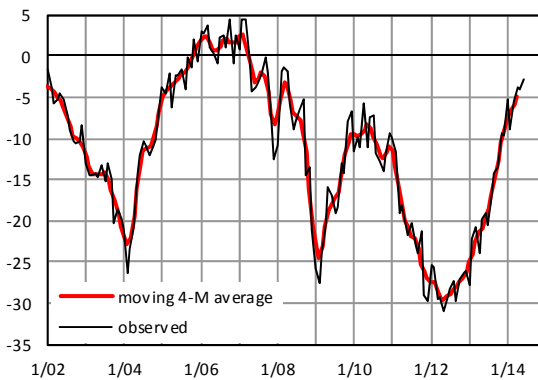
Source: CZSO

Graph B.2.4: Selected Services Confidence Indicator



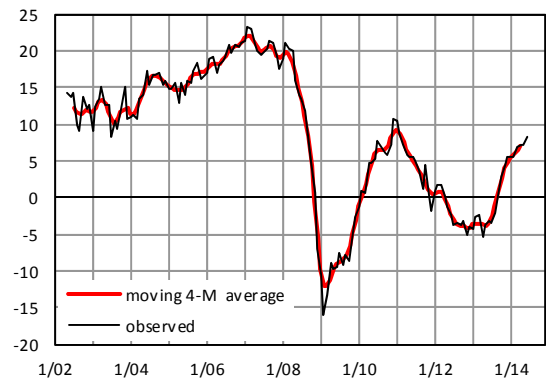
Source: CZSO

Graph B.2.5: Consumer Confidence Indicator



Source: CZSO

Graph B.2.6: Aggregate Confidence Indicator



Source: CZSO

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

In the second quarter of 2014, confidence indicators improved on the previous quarter, with positive assessment of respondents prevailing in industry, trade and selected market services. The situation in industry and trade improved in quarterly terms, while in services it remained unchanged. There was a big improvement in construction, where respondents' negative assessments still far outweigh the positive ones, yet their share decreased from the first quarter of 2014.

There was a further improvement also in consumer sentiment. The balance of respondents' assessments is still slightly negative, though taking into account the time series' history this has to be viewed positively.

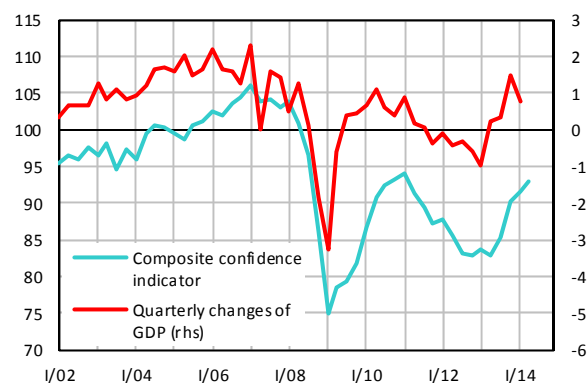
In the next paragraph, the relationship between the development of confidence indicators and the CZSO's monthly statistics for industry, trade and services is outlined (the latest available data as of the forecast's cut-off date were for April 2014).

Industrial confidence indicator has been in line with the development of industrial production index, which has been growing in YoY terms since the third quarter of 2013, and which is accompanied by an increase in new orders. The rather marked drop in the share of respondents' negative assessments in construction went hand in hand with growing construction output, in both civil engineering and building construction. The increase in confidence in trade was accompanied by growing inflation-adjusted retail sales, which continue to be driven by sales of motor vehicles and fuel, though. Moreover, the rather limited growth of sales in services, adjusted for inflation, was driven mainly by rising sales in transportation and storage.

Although the link between values of the composite confidence indicator and quarterly changes in real GDP is not particularly strong (without any lag their correlation is approximately 60%), it does at least enable us to utilise the fact that the composite indicator is published in advance of quarterly national accounts. Therefore, only a qualitative assessment is presented in Graph B.2.7. The composite confidence indicator implied that GDP would grow in QoQ terms in the second quarter of 2014.

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

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



Source: CZSO

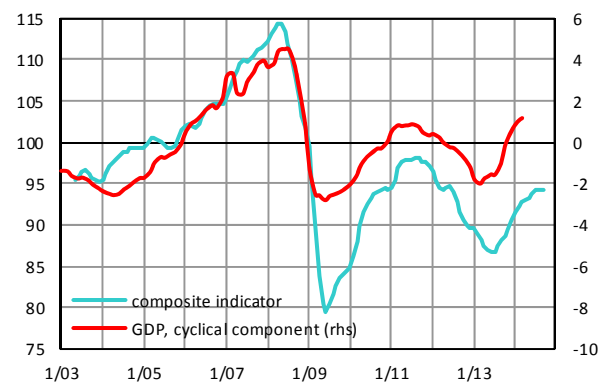
Composite leading indicator had implied that quarterly GDP growth would be positive and relative cyclical component of GDP would improve in the first quarter of 2014. The released data confirmed this signal. Relative cyclical component, derived by means of the Hodrick-Prescott filter, has been recently attaining positive values.

The indicator signals a further improvement in the relative cyclical component in the second and the third quarter of 2014. This is consistent with quarterly GDP growth rate at or slightly below the level seen in the first quarter of 2014, taking into account the fact that short-run dynamics of the trend can be regarded as constant and that the trend is stagnating.

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 the first quarter of 2014, real GDP increased by 0.8% QoQ³ (*versus a decrease of 0.5%*), which corresponded to growth of 2.9% in a YoY comparison (*versus 2.0%*). Stockpiling of cigarette tax stamps before the excise tax on cigarettes was increased in January was reflected unfavourably in GDP dynamics in the first quarter 2014 (GVA increased by 1.1% QoQ); nonetheless, the effect was weaker than we estimated. Domestic demand and net exports also developed better, compared with our estimate. Household consumption increased by 1.5% YoY in real terms (*versus 0.3%*) and government consumption by 1.3% (*versus 1.0%*). Gross capital formation was 3.3% higher (*versus 4.7%*), with gross fixed capital formation increasing by 5.6% (*versus 3.4%*). Year on year growth of exports reached 10.1% (*versus 4.2%*), while imports increased by 9.6% (*versus 3.7%*).

Apart from household and government expenditure on consumption, gross fixed capital formation and net exports contributed to the QoQ increase in GDP. However, gross capital formation mitigated QoQ growth of GDP due to the predominant effect of inventory reduction.

With the exception of the change in inventories, all expenditure components contributed positively to the YoY growth of real GDP in the first quarter of 2014.

In terms of the structure of household expenditure, growth in household consumption was driven by expenditure on semi-durable and non-durable goods and services. The recovery of expenditure on services and non-durable goods can be interpreted as a sign of tight household budgets becoming somewhat less constrained (they were most constrained in 2012 and 2013). This has been supported by a positive development in compensation of employees, or (more precisely) gross disposable income, as well as by generally optimistic developments of the main labour market indicators. Increasing consumer sentiment also played a certain role and manifested itself in a decrease in the household savings rate. On the other hand, expenditure on durable goods has not yet recovered. Faster recovery of household consumption than that envisaged in the April Macroeconomic

Forecast was the main reason why the forecast differed from the actual development of GDP in the first quarter of 2014. Owing to the fact that we are able to identify reasons for the reported growth of household consumption, we adjust the July Forecast accordingly.

Investment in other machinery and equipment, other buildings and structures and transport equipment contributed to the growth of real gross fixed capital formation in the first quarter of 2014. We believe that our hypothesis from the April Forecast, where we predicted a recovery of investment activity primarily due to a better drawdown of the EU funds, has been proven correct. Further, the increasing investment activity was positively affected by developments in foreign trade (growing demand for production leading to an increase in the volume of internal sources for financing investment). For these reasons, the higher growth of investment is partially reflected in the forecast for the remaining part of 2014. However, in terms of its impact on the upward revision of the forecast for GDP growth, this change of opinion is significantly less important than the one associated with/related to household consumption.

In the first quarter of 2014, foreign trade contributed positively to GDP growth alongside an improvement in the terms of trade. In the first quarter of 2014, real gross domestic income increased by 4.3% YoY (*versus 3.2%*).

In nominal terms, GDP increased by 5.2% (*versus 3.8%*) in the first quarter of 2014. In terms of the income structure of GDP, compensation of employees increased by 3.4% YoY (*versus 1.4%*). A high QoQ growth of gross operating surplus of 8.3% (*versus 6.5%*) signals the growing volume of internal sources for financing investment, while the relatively high growth of compensation of employees contributed considerably to an increase in gross disposable income of households.

GDP Estimate and Forecast

With regard to the aforementioned reasons, we expect that growth of household consumption and gross fixed capital formation will be higher in 2014 than we assumed in the April Forecast. On the other hand, we believe that the high growth of exports (which together with growth of gross domestic expenditure also led to considerably higher than expected growth of imports) was a somewhat temporary phenomenon

³ QoQ changes referred to in the text are expressed using seasonally adjusted data; in other cases, seasonally non-adjusted data are used.

strongly related to the unexpectedly high growth of the German economy, as well as to the depreciation of the Czech koruna. With respect to the fact that we have not fundamentally changed the forecast for the development of the external environment, we expect the contribution of foreign trade to GDP growth in this year to be only slightly higher, compared with the April Forecast. Therefore, any increase in the forecast for GDP growth is related to a change in viewpoint regarding the growth of gross domestic expenditure.

Specifically, we estimate that real GDP increased by 0.3% QoQ (*unchanged*) in the second quarter of 2014. This conclusion is supported by both the aforementioned view concerning the exceptionality of high exports growth in the first quarter of 2014 and the development of the composite leading indicator, which signalled lower GDP growth for the second quarter of 2014 in comparison with the first quarter of 2014. For the third quarter of 2014, we forecast approximately the same QoQ growth; the expected acceleration of growth in the last quarter is connected with the effect of stockpiling cigarette tax stamps as a consequence of another scheduled change in excise taxes.

We estimate that real GDP increased by 3.0% YoY (*versus 2.1%*) in the second quarter of 2014. In terms of its structure we estimate that household consumption increased by 1.7% (*versus 0.7%*) and government consumption by 2.2% (*versus 0.7%*). We are also revising the estimate for the growth of gross fixed capital formation up to 6.0% (*versus 3.4%*). With regard to the recovery in foreign trade, we estimate that exports increased in real terms by 7.2% YoY (*versus 4.0%*) in the second quarter of 2014, as did imports (*versus 3.6%*).

As stated above, in terms of the contributions of expenditure components to GDP growth for the whole of 2014, basically only the opinion regarding household consumption has undergone fundamental change.

We expect that real GDP will increase by 2.7% (*versus 1.7%*) in 2014; in 2015 economic growth could slow slightly to 2.5% (*versus 2.0%*). Change in the opinion on GDP development in 2015 stems also from the upward revision to the forecast for growth of gross domestic

expenditure, but in this case it is mainly a result of a change in the forecast for growth of gross capital formation.

Due to a quicker improvement in the situation on the labour market as well as higher consumer sentiment, we are increasing the forecast for the growth of household consumption in 2014 to 1.6% (*versus 0.6%*). For 2015, we have left the forecast for household consumption almost unchanged, and we expect it to grow by 1.4% (*versus 1.5%*).

We revise the forecast for government consumption growth in 2014 and 2015 up mainly due to an increase in health insurance companies' payments for health care. We assume that real government consumption will increase by 1.9% (*versus 0.8%*) in 2014 and by 1.6% (*versus 0.7%*) in 2015.

The drawdown of money from the EU funds, faster growth of domestic demand, higher dynamics of foreign trade as well as the increasing internal sources for financing investment will all be reflected in real growth of gross fixed capital formation, which should increase by 4.1% in 2014 (*versus 2.7%*) and by 3.5% in 2015 (*versus 2.0%*).

Foreign trade should also have a pro-growth effect in 2014 and 2015; however, its contribution to GDP growth remains essentially unchanged. Real exports could increase by 7.4% (*versus 3.8%*) in 2014, while imports could increase by 7.2% (*versus 3.4%*). For 2015, we expect growth of both exports and imports to decelerate to 4.8% (*versus 4.2%*) and 4.7% (*versus 3.8%*), respectively.

Nominal GDP will probably grow by 4.6% (*versus 3.6%*) in 2014, whereas in 2015 we forecast its growth at 3.8% (*versus 3.7%*).

C.2 Prices

Consumer Prices

Year on year growth of consumer prices has been very low this year. In May it reached only 0.4% (*versus 0.8%*), of which 0.1 pp could be attributed to last year's increase in the excise tax on cigarettes and -0.5 pp to regulated prices, where a decrease in the price of electricity had the greatest impact.

When examining the contributions of individual segments of the consumer basket to YoY inflation, the situation has not changed markedly since the beginning of 2014. In May, the biggest contribution (0.4 pp) was again seen in the segment food and non-alcoholic beverages and the smallest contribution in housing (-0.4 pp).

In spite of the weakening of the koruna due to the CNB's foreign exchange interventions, **2014** should be characterized by a very low average inflation: it is likely to be the second lowest (after the year 2003) in the history of the independent Czech Republic. It is clear from Graph C.2.2 that very low inflation will be maintained due to the extraordinary development of administrative measures, the contribution of which to the YoY growth of consumer prices in December 2014 should be -0.3 pp (*versus 0.0 pp*).

The decrease in the forecast for the contribution of administrative measures relates to the longer than originally expected negotiations over the further increase in excise taxes on cigarettes following the transposition of the EU directive. We assume that the impacts of this increase (0.2 pp) will be reflected in consumer prices as late as during 2015. The negative contribution of regulated prices (-0.4 pp) will outweigh the positive contribution of indirect taxes (0.1 pp attributable to this year's increase in the excise tax on cigarettes) more significantly in YoY inflation in December 2014 compared to the assumptions of the April Forecast.

Weakening of the koruna exchange rate resulting from the CNB's exchange rate commitment is likely to be the only more significant pro-inflationary factor in 2014. However, it seems that the pass-through effect is lower than we expected. The impact of the price of crude oil and unit labour costs on inflation should be neutral, while the still negative output gap should prevent growing demand from feeding through to prices.

The first quarter of 2014 was already the eighth quarter in a row of disinflation in the Czech economy. However, we estimate that YoY inflation did not slow

any further in the second quarter of 2014. Moreover, the forecast expects inflation to start accelerating in the following quarters.

Despite the very loose monetary policy, both in the exchange rate and interest rate components, the **average inflation rate in 2014** should reach only 0.6% (*versus 1.0%*), with a YoY increase in prices of 1.4% (*versus 2.0%*) in December 2014.

In **2015**, several administrative measures should be reflected in consumer prices. In addition to the aforementioned increase in the excise tax on cigarettes, these include the introduction of the second reduced VAT rate of 10% applying to drugs, books and essential infant nutrition (an impact on YoY inflation of -0.1 pp) and the abolition of selected fees in healthcare (an impact of -0.2 pp). Within the group of regulated prices, electricity prices should fall, although not as significantly as in 2014. On average, regulated prices should stagnate in 2015.

Barriers preventing growing demand from being reflected in prices should gradually disappear in 2015, inflation should be supported by a slight growth in unit labour costs (Table C.3.3). Unlike this year, the CZK exchange rate should tend to have a neutral impact on inflation. According to the forecast assumptions, the dollar crude oil price should be a slightly anti-inflationary factor.

We expect YoY inflation to approach the 2% target of the CNB in 2015, more so than in the remaining part of 2014. **In 2015, the average inflation rate** should reach 1.7% (*versus 2.3%*), with a YoY increase in consumer prices of 1.8% (*versus 2.0%*) in December.

Deflators

The gross domestic expenditure deflator, which is a comprehensive indicator of domestic inflation, grew by 0.5% YoY (*versus 0.2%*) in the first quarter of 2014. In terms of its structure, the growth was a result of both an increase in the household and government consumption deflator and an increase in the gross capital formation deflator. The factors underlying the development of the household consumption deflator are identical to those we mentioned above when analysing the development of the consumer price index. Growth of the gross fixed capital formation deflator as well as the household consumption deflator was influenced, to a certain extent, by the CNB's intervention in the form of the depreciation of the Czech koruna. Investment demand is still too weak for

the time being to consider demand factors for price growth.

Terms of trade increased by 1.8% (*versus 1.5%*) in the first quarter of 2014; these were also influenced by the depreciation of the Czech koruna.

The implicit GDP deflator, which is a result of the gross domestic expenditure deflator and terms of trade, increased on a yearly basis by 2.3% (*versus 1.7%*) in the first quarter of 2014.

C.3 Labour Market

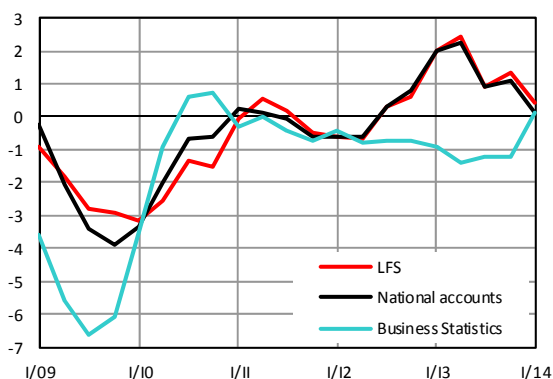
At the beginning of 2014, the behaviour of the labour market was still somewhat anomalous from the macroeconomic perspective. Although YoY growth in employment continued, the dominant contribution of an increase in the number of entrepreneurs does not correspond to the behaviour typical for a period of recovery. Unemployment according to the LFS continued to decline more significantly than registered unemployment. Wage growth was consistent with the shift of bonuses, growing levels of employment and stabilization of the number of full-time jobs, although its extent was higher than expected.

Employment

According to the LFS, **employment** grew by 0.8% YoY (*versus 0.6%*) in the first quarter of 2014. Unlike the previous year, this development was mainly caused by an increase of 2.8% (*versus a decrease of 0.8%*) in the number of persons in the category of entrepreneurs, while the number of employees increased by 0.4% (*versus 0.9%*). The impact of economic recovery is also apparent in the increase in the number of employees according to business statistics, where upon closer inspection the significant positive contribution of manufacturing becomes clear.

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

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



Source: CZSO

We forecast the gross domestic expenditure deflator to grow by 0.7% (*versus 0.8%*) in 2014, and for 2015 we forecast it to grow by 1.1% (*versus 1.4%*). The terms of trade could show growth of 1.1% (*versus 1.2%*) in 2014, while they could increase by 0.3% (*versus 0.5%*) in 2015.

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

The share of part-time jobs again decreased slightly in the first quarter of 2014. It is nevertheless markedly higher than prior to 2013; from the demographic point of view, women aged 25–49 years contributed predominantly to this outcome. This, together with the rising number of own-account workers, provides evidence that labour supply is still elevated since households want to secure extra income.

With higher than expected growth of economic activity, employment should increase by 0.5% (*versus 0.2%*) in 2014 and further by 0.2% (*unchanged*) in 2015.

Since mid-2010, **the employment rate** of the population aged 15–64 has been showing continuous growth. In the first quarter of 2014, it increased further by 1.2 pp YoY (*versus 0.9 pp*). Unlike the previous period, from the perspective of business employment statistics, this increase applied not just to occasional working activities.

The economic activity rate (15–64 year-olds) grew by 0.8 pp YoY in the first quarter of 2014 (*versus 0.6 pp*). The increase in participation, after reaching extreme values at the turn of 2012 and 2013, is slowing gradually, which could reflect the anti-cyclical character of participation in the Czech economy. Its lasting increase continues to reflect the motivation of some households to compensate for adverse development of real disposable income by means of formal and informal gainful activities. In the forecast horizon, we expect a trend increase in the economic activity rate (15–64 years), due in part to the increasing statutory retirement age.

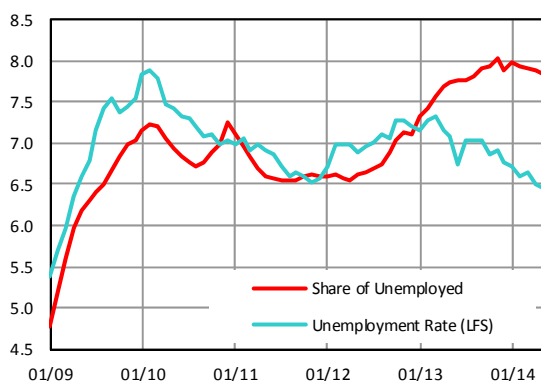
Unemployment

Compared to other EU states, the unemployment rate (LFS) in the Czech Republic is one of the lowest. Nevertheless, the number of job applicants registered at labour offices at the beginning of 2014 has reached its highest level in the Czech Republic's history. In spite

of the expected continuous decrease in the number of registered unemployed in 2014, this would only mean stagnation in annual terms.

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 discrepancy between the LFS and registered unemployment (also apparent in long-term unemployment figures) results from the fact that current legislation tolerates limited extra income during the registered form of unemployment, while the definition of unemployed persons according to the LFS excludes any remunerated work. In addition, registration at labour offices is a condition for being granted a number of social benefits and need not necessarily reflect purely motivation towards extra income.

In accordance with the improvement in the forecast for the development of real GDP and its components, we have also modified the forecast for unemployment rate development. Compared to the April Forecast, we expect a faster decrease in the unemployment rate, which could reach, on average for the whole of 2014, 6.4% (*versus* 6.8%) and 6.1% in 2015 (*versus* 6.6%).

Wages

A high increase in the wage bill and the average wage in the first quarter of 2014 could lead, together with other structural factors, to a relatively positive development in both 2014 and 2015.

The wage bill (national accounts methodology, domestic concept) posted a considerable increase of 3.5% YoY (*versus* 1.4%) in the first quarter of 2014, which was mainly due to the statistical effect of

managerial bonuses now being disbursed during the standard time period. Last year, these bonuses were shifted to the fourth quarter of 2012 as a result of the introduction of a solidarity surcharge for income tax from 2013. In addition to this temporary phenomenon, the YoY increase in the share of overtime work in the business sector is a positive signal for the future.

Based on the positive developments in the first quarter of 2014 and better forecast for real GDP and real labour productivity growth in 2014, we expect that the wage bill could increase by 2.8% in 2014 (*versus* 1.8%). In addition to the improving situation in the private sector, a positive impulse for future developments (also after 2014) should be the continuing slight increase in the wage bill in the state administration, even though the signalization effects for the private sector seem to be relatively weak, as implied by an analysis of the past years. Another positive factor for the development of wages might be, at least in the short term, stabilization in the proportion of part-time jobs, the structure of which indicates that their hourly remuneration could be relatively lower compared to standard forms of employment. On the other hand, the permanently increased proportion of informal jobs poses a risk for future developments. This conclusion can be supported in particular by the historically highest difference between unemployment according to the LFS and registered unemployment. For 2015, we expect an increase in the wage bill of 3.8% (*versus* 3.5%).

Average wage (business statistics, full-time equivalent) increased by 3.3% (*versus* 2.1%) in the first quarter of 2014, and – given the very low inflation – posted the highest real growth (3.1%) since 2010. The statistical effect of shifting extraordinary bonuses was also apparent. However, a positive signal for the future is a relatively high growth of the median wage (2.9%), as this statistic is not subject to the effects of the timing of managerial bonuses. For the aforementioned reasons concerning the wage bill, we expect the average wage to grow by 2.7% in 2014 (*versus* 2.1%) and by 3.7% in 2015 (*versus* 3.4%).

C.4 External Relations

(balance of payments methodology)

In the first quarter of 2014, the ratio of the current account balance to GDP reached a surplus (in the annual sum) of 0.2% (*versus a deficit of 1.1%*), which meant a YoY improvement of 1.9 pp. The trade balance surplus and the surplus of the balance of current transfers increased by 1.4 pp and 0.2 pp, respectively. The income balance deficit also decreased, falling by 0.5 pp. In contrast, the surplus of the balance of services decreased by 0.1 pp; apart from this, however, all other items on the current account improved.

Export markets⁴ increased by 1.7% in 2013. Their growth accelerated throughout the course of 2013, and this tendency was also maintained in the first quarter of 2014, when export markets increased by 5.9% (*versus 3.9%*). The expected recovery of world trade and domestic demand in the economies of the main trade partners should influence export market dynamics positively. Export markets could increase by 5.7% (*versus 3.3%*) on average for the whole of 2014, and for 2015 we expect a slight slowdown of growth to 3.6% (*versus 3.1%*). The development of export markets should be reflected positively in the foreign trade results.

The forecast development of export markets should also be accompanied by an increase in export performance, which indicates a change in the share of the volume of Czech goods on foreign markets. The expected growth of export performance of 2.4% (*versus 0.8%*) in 2014 and 1.4% in 2015 (*versus 1.2%*) should be supported, considering the weakening of the EUR/CZK exchange rate, by the improved price competitiveness of Czech exporters.

The results of foreign trade in goods gradually improved during 2013. The relatively significant increase in the volume of exports and imports recorded in the second half of 2013 also continued in the first quarter of 2014. The weaker exchange rate of the Czech koruna is also reflected in an increase in the trade balance surplus. The surplus of the trade balance could reach 6.0% of GDP in 2014 (*versus 6.1%*) and could increase further to 6.5% of GDP (*versus 6.9%*) in 2015.

In annual terms, the deficit in the fuel balance (SITC 3) reached 5.0% of GDP in the first quarter of 2014 (*versus 5.1%*). With regard to the expected scenario for

crude oil prices and the development of the koruna exchange rate, we assume that in the course of 2014 and 2015 the deficit in the fuel balance will stagnate or slightly decrease. It should reach 5.0% of GDP (*unchanged*) in 2014 and 4.7% of GDP (*versus 4.6%*) in 2015.

Imports of services have been increasing for more than three years at a higher pace than exports of services, and thus the surplus of the balance of services has gradually been decreasing. Since the end of 2012, the surplus of the balance of tourism and transport has been decreasing, whereby constantly rising expenditure has combined with an approximate stagnation in revenues. In the last two quarters, there was a slight improvement of the balance of services as a result of an improvement in the balance of so-called other services. In the first quarter of 2014, its total surplus in annual terms remained at 1.5% of GDP (*versus 1.4%*), i.e. it was unchanged YoY. We expect that in 2014 and 2015 the surplus of the balance of services will stagnate at 1.5% of GDP (*in both years versus 1.4%*).

In annual terms, the deficit in the income balance, which comprises reinvested and repatriated earnings of foreign investors, decreased by 0.5 pp (compared with the first quarter of 2013) to 6.9% of GDP (*versus 8.0%*) in the first quarter of 2014. The decrease in the deficit was caused not only by a decline in the volume of dividends paid from foreign direct investments abroad (their payments could have been merely postponed, at least partially), but also an improvement in the balance of compensation of employees. In spite of this partial decrease in the deficit in the income balance, however, its long-term upward trend will probably remain unaffected. The income balance could show a deficit of 7.6% of GDP (*versus 8.2%*) in 2014 and 8.2% of GDP (*versus 8.8%*) in 2015.

Under the given circumstances, we assume that there will be a further slight improvement in the current account balance in 2014 to 0.4% of GDP (*versus -0.4%*). Current account of the balance of payments would show a surplus for the whole calendar year for the first time since 1993. We expect that the current account could be balanced in 2015 (*versus -0.3%*).

⁴ *Weighted average of growth in imports of goods from the six most important trade partners (Germany, Slovakia, Poland, France, the United Kingdom and Austria).*

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 in the EU28 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 17.98/PPS compared to the EU28, or CZK 17.24/EUR compared to the EA12.

Due to the recession, GDP per capita measured in **current purchasing power parity** declined in 2009 in all monitored countries, with the exception of Poland. While most states have gradually recovered from the crisis, in Greece the absolute economic level continued to fall without interruption until 2013. The absolute economic level also decreased slightly in Croatia in 2010, in Portugal in 2011 and in Slovenia in 2013. In 2009–2013, the relative economic level vis-à-vis the EA12 countries also declined in all the aforementioned economies, the largest drop (19 pp) being recorded in Greece. In contrast, the economic level relative to the EA12 average is increasing most quickly in the Baltic states. In the period 2009–2013, it increased by 15 pp in Lithuania, by 13 pp in Latvia and by 8 pp in Estonia.

In the Czech Republic, the economic level measured by GDP per capita adjusted by current purchasing power parity was approximately 20,600 PPS in 2013, corresponding to 73% of economic level in the EA12. Thanks to strong economic growth, the relative economic level of the Czech Republic in comparison with the EA12 countries increased by 13 pp in the years 2000–2007. Afterwards, however, due to periods of recession and only negligible economic growth, the convergence process stopped. In 2008–2013, economic

level of the Czech Republic ranged between 73% and 75% of the EA12 average. However, we expect the economic level of the Czech Republic to grow by 2 pp in 2014 and it to stagnate in 2015.

Calculated alternatively using the exchange rate, which takes into account the market valuation of the currency and ensuing differences in price levels, GDP per capita in the Czech Republic in 2013 reached approximately EUR 14,200, i.e. 49% of the EA12 level. In 2013, both the absolute and relative levels of GDP per capita adjusted for the exchange rate decreased; a decline to which the adoption of the exchange rate commitment by the Czech National Bank in November 2013 also contributed. With regard to the assumption that the CNB will use the exchange rate as an additional monetary policy instrument until mid-2015, in 2014 we expect a further decrease in both absolute and relative levels.

When comparing price levels, the **comparative price level of GDP** in the Czech Republic decreased by 2 pp in 2013, thus reaching 66% of the EA12 average. The expected slight decrease in the comparative price level by 3 pp in 2014 should help maintain the Czech economy's competitiveness.

D Monitoring of Other Institutions' Forecasts

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

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

Table D.1: Consensus Forecast

		June 2014			July 2014
		min.	max.	consensus	MoF forecast
Gross domestic product (2014)	growth in %, const.pr.	1.2	2.8	2.2	2.7
Gross domestic product (2015)	growth in %, const.pr.	2.0	3.3	2.6	2.5
Average inflation rate (2014)	%	0.1	1.3	0.9	0.6
Average inflation rate (2015)	%	1.8	2.4	2.1	1.7
Average monthly wage (2014)	growth in %	2.3	3.0	2.6	2.7
Average monthly wage (2015)	growth in %	2.4	4.3	3.5	3.6
Current account / GDP (2014)	%	-1.5	0.4	-0.6	0.4
Current account / GDP (2015)	%	-1.4	0.5	-0.7	0.0

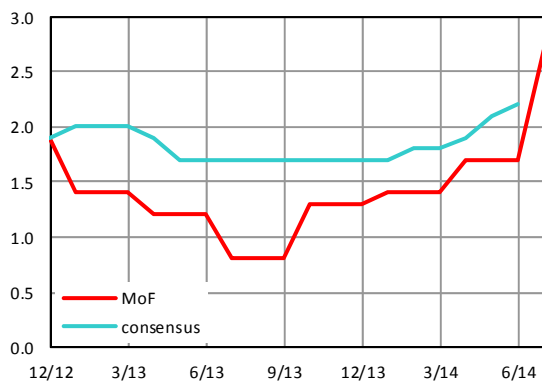
Source: forecasts of individual institutions, own calculations

On average, forecasts of the monitored institutions envisage economic recovery in 2014 and 2015. GDP growth could reach 2.2% in 2014 and 2.6% in the next year. The MoF's forecast, which expects growth of 2.7% in 2014, can nevertheless be considered as rather conservative, as it is already based on the data from the quarterly national accounts for the first quarter of 2014.

According to the forecasts of the monitored institutions, the year 2014 should be characterized by very low average inflation rate, which should not exceed 1%. In 2015, consumer price growth should accelerate to 2.1%. The MoF's forecast expects a slightly slower growth of consumer prices in both the aforementioned years.

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

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



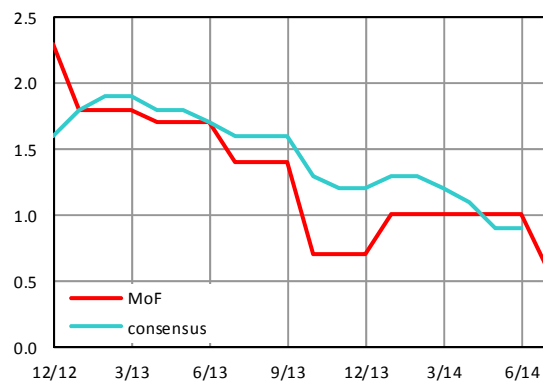
Source: forecasts of individual institutions, own calculations

According to the forecasts of the monitored institutions, the average nominal wage should increase by 2.6% in 2014 and 3.5% in 2015, respectively. The average real wage should therefore again rise, after two years of decline. The forecast of the MoF is in line with both estimates.

According to the opinion of the monitored institutions, the deficit on the current account of the balance of payments should be around 0.6% of GDP in 2014 and 2015. According to the MoF's forecast, the current account of the balance of payments should see a slight surplus in 2014 for the first time since 1993, mainly due to the favourable development of the balance of goods and services. For 2015, the MoF in its forecast expects a balanced current account.

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
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK 2005</i>	3 635	3 471	3 557	3 622	3 585	3 551	3 648	3 739	3 834	3 932
	<i>growth in %</i>	3.1	-4.5	2.5	1.8	-1.0	-0.9	2.7	2.5	2.5	2.5
Private consumption exp.¹⁾	<i>bill. CZK 2005</i>	1 720	1 724	1 740	1 749	1 711	1 714	1 741	1 766	1 799	1 834
	<i>growth in %</i>	2.8	0.2	0.9	0.5	-2.1	0.1	1.6	1.4	1.9	1.9
Government consumption exp.	<i>bill. CZK 2005</i>	674	701	703	684	671	682	695	706	715	724
	<i>growth in %</i>	1.2	4.0	0.2	-2.7	-1.9	1.6	1.9	1.6	1.3	1.2
Gross capital formation	<i>bill. CZK 2005</i>	1 071	855	901	908	863	825	858	896	928	959
	<i>growth in %</i>	1.9	-20.2	5.4	0.8	-5.0	-4.4	4.0	4.5	3.5	3.4
– Gross fixed capital formation	<i>bill. CZK 2005</i>	1 004	893	902	905	864	834	868	899	928	958
	<i>growth in %</i>	4.1	-11.0	1.0	0.4	-4.5	-3.5	4.1	3.5	3.3	3.2
– Change in stocks and valuables	<i>bill. CZK 2005</i>	68	-38	-1	3	-1	-9	-10	-2	-1	1
Exports of goods and services	<i>bill. CZK 2005</i>	2 642	2 354	2 717	2 977	3 109	3 115	3 346	3 506	3 659	3 839
	<i>growth in %</i>	4.0	-10.9	15.4	9.5	4.5	0.2	7.4	4.8	4.4	4.9
Imports of goods and services	<i>bill. CZK 2005</i>	2 467	2 169	2 503	2 678	2 739	2 755	2 954	3 092	3 220	3 370
	<i>growth in %</i>	2.7	-12.1	15.4	7.0	2.3	0.6	7.2	4.7	4.1	4.7
Gross domestic exp.	<i>bill. CZK 2005</i>	3 465	3 288	3 351	3 347	3 252	3 231	3 303	3 376	3 449	3 522
	<i>growth in %</i>	2.2	-5.1	1.9	-0.1	-2.8	-0.7	2.2	2.2	2.2	2.1
Methodological discrepancy²⁾	<i>bill. CZK 2005</i>	-6	7	-1	-18	-31	-28	-37	-43	-48	-54
Real gross domestic income	<i>bill. CZK 2005</i>	3 562	3 441	3 482	3 504	3 455	3 460	3 584	3 683	3 777	3 873
	<i>growth in %</i>	2.1	-3.4	1.2	0.6	-1.4	0.1	3.6	2.8	2.5	2.5
Contribution to GDP growth³⁾											
– Gross domestic expenditure	<i>percent. points</i>	2.2	-5.0	1.8	-0.1	-2.7	-0.6	2.1	2.0	2.0	1.9
– consumption	<i>percent. points</i>	1.6	0.9	0.5	-0.3	-1.5	0.4	1.2	1.0	1.2	1.2
– household expenditure	<i>percent. points</i>	1.4	0.1	0.5	0.3	-1.1	0.1	0.8	0.7	0.9	0.9
– government expenditure	<i>percent. points</i>	0.2	0.8	0.1	-0.6	-0.4	0.3	0.4	0.3	0.3	0.2
– gross capital formation	<i>percent. points</i>	0.6	-5.9	1.3	0.2	-1.2	-1.0	0.9	1.0	0.8	0.8
– gross fixed capital formation	<i>percent. points</i>	1.1	-3.0	0.3	0.1	-1.1	-0.8	0.9	0.8	0.7	0.7
– change in stocks	<i>percent. points</i>	-0.5	-2.9	1.0	0.1	-0.1	-0.2	0.0	0.2	0.1	0.0
– Foreign balance	<i>percent. points</i>	0.9	0.5	0.6	1.9	1.7	-0.3	0.6	0.5	0.6	0.6
– external balance of goods	<i>percent. points</i>	0.5	0.5	0.6	2.1	1.7	0.0	0.5	0.5	0.5	0.5
– external balance of services	<i>percent. points</i>	0.4	0.0	0.1	-0.2	0.0	-0.4	0.1	0.0	0.1	0.1
Gross value added	<i>bill. CZK 2005</i>	3 320	3 148	3 247	3 305	3 273	3 244	.	.	.	.
	<i>growth in %</i>	4.1	-5.2	3.1	1.8	-1.0	-0.9	.	.	.	.
Net taxes on products	<i>bill. CZK 2005</i>	316	321	310	316	311	307	.	.	.	.

Source: CZSO, own calculations

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

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

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

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

		2013				2014			
		Q1 <i>Prelim.</i>	Q2 <i>Prelim.</i>	Q3 <i>Prelim.</i>	Q4 <i>Prelim.</i>	Q1 <i>Prelim.</i>	Q2 <i>Estimate</i>	Q3 <i>Forecast</i>	Q4 <i>Forecast</i>
Gross domestic product	<i>bill. CZK 2005</i>	829	887	902	934	852	914	931	950
	<i>growth in %</i>	-2.9	-1.7	-0.1	0.8	2.9	3.0	3.3	1.8
	<i>growth in %¹⁾</i>	-2.3	-1.6	-1.0	1.1	2.9	3.0	3.0	2.1
	<i>quart.growth in %¹⁾</i>	-1.0	0.2	0.4	1.5	0.8	0.3	0.4	0.7
Private consumption exp.²⁾	<i>bill. CZK 2005</i>	403	425	438	447	409	433	444	455
	<i>growth in %</i>	-1.7	-0.2	1.3	1.0	1.5	1.7	1.4	1.8
Government consumption exp.	<i>bill. CZK 2005</i>	159	166	167	189	161	169	171	193
	<i>growth in %</i>	1.1	0.8	2.6	1.9	1.3	2.2	2.2	1.9
Gross capital formation	<i>bill. CZK 2005</i>	174	197	228	226	180	208	244	226
	<i>growth in %</i>	-5.9	-11.4	0.9	-1.6	3.3	5.5	7.3	0.0
– Gross fixed capital formation	<i>bill. CZK 2005</i>	183	199	213	239	193	211	221	243
	<i>growth in %</i>	-6.8	-6.6	-3.2	1.7	5.6	6.0	4.0	1.5
– Change in stocks and valuables	<i>bill. CZK 2005</i>	-9	-2	15	-13	-13	-3	23	-17
Exports of goods and services	<i>bill. CZK 2005</i>	748	781	777	808	823	837	829	857
	<i>growth in %</i>	-5.3	0.5	2.8	2.8	10.1	7.2	6.6	6.0
Imports of goods and services	<i>bill. CZK 2005</i>	648	674	702	731	710	723	747	773
	<i>growth in %</i>	-4.5	-0.9	5.2	2.5	9.6	7.2	6.5	5.7
Methodological discrepancy³⁾	<i>bill. CZK 2005</i>	-8	-8	-7	-5	-11	-11	-9	-7
Real gross domestic income	<i>bill. CZK 2005</i>	804	863	878	915	839	898	911	935
	<i>growth in %</i>	-1.9	-0.7	0.9	2.2	4.3	4.1	3.9	2.3
Gross value added	<i>bill. CZK 2005</i>	764	814	825	842	786	.	.	.
	<i>growth in %</i>	-2.6	-1.5	0.2	0.3	2.9	.	.	.
	<i>growth in %¹⁾</i>	-2.1	-1.5	-0.8	0.9	2.8	.	.	.
	<i>quart.growth in %¹⁾</i>	-0.7	0.2	0.2	1.2	1.1	.	.	.
Net taxes on products	<i>bill. CZK 2005</i>	66	74	77	90	68	.	.	.

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
							Prelim.	Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK</i>	3 848	3 759	3 791	3 823	3 846	3 884	4 061	4 216	4 372	4 544
	<i>growth in %</i>	5.1	-2.3	0.8	0.9	0.6	1.0	4.6	3.8	3.7	3.9
Private consumption ¹⁾	<i>bill. CZK</i>	1 883	1 902	1 917	1 935	1 944	1 969	2 015	2 081	2 162	2 245
	<i>growth in %</i>	7.8	1.0	0.8	1.0	0.5	1.3	2.3	3.3	3.9	3.8
Government consumption	<i>bill. CZK</i>	759	809	807	793	789	802	819	838	856	873
	<i>growth in %</i>	4.6	6.6	-0.2	-1.8	-0.5	1.7	2.1	2.3	2.2	2.0
Gross capital formation	<i>bill. CZK</i>	1 114	896	940	937	898	865	913	952	985	1 029
	<i>growth in %</i>	2.0	-19.5	4.8	-0.3	-4.2	-3.6	5.5	4.4	3.4	4.5
– Gross fixed capital formation	<i>bill. CZK</i>	1 031	926	931	923	888	858	903	941	979	1 018
	<i>growth in %</i>	4.2	-10.2	0.5	-0.9	-3.8	-3.3	5.3	4.2	4.0	3.9
– Change in stocks and valuables	<i>bill. CZK</i>	83	-30	9	14	10	7	9	11	6	12
External balance	<i>bill. CZK</i>	92	152	127	159	215	247	315	344	369	397
– Exports of goods and services	<i>bill. CZK</i>	2 480	2 216	2 524	2 787	3 001	3 053	3 401	3 570	3 737	3 933
	<i>growth in %</i>	-0.7	-10.7	13.9	10.4	7.7	1.7	11.4	5.0	4.7	5.2
– Imports of goods and services	<i>bill. CZK</i>	2 388	2 064	2 397	2 628	2 786	2 806	3 086	3 226	3 369	3 536
	<i>growth in %</i>	-0.5	-13.6	16.1	9.6	6.0	0.7	10.0	4.5	4.4	5.0
Gross national income	<i>bill. CZK</i>	3 668	3 508	3 506	3 566	3 561	3 627	3 769	3 884	4 012	4 148
	<i>growth in %</i>	7.8	-4.3	-0.1	1.7	-0.1	1.8	3.9	3.1	3.3	3.4
Primary income balance	<i>bill. CZK</i>	-180	-251	-285	-258	-285	-257	-293	-332	-360	-396

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

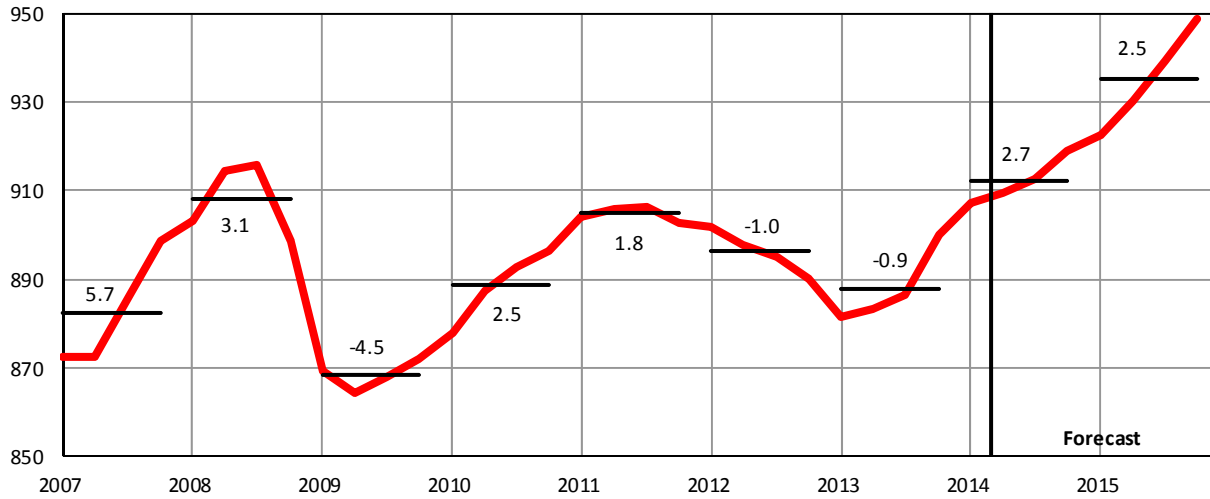
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	Prelim.	Prelim.	Prelim.	Prelim.	Estimate	Forecast	Forecast
Gross domestic product	<i>bill. CZK</i>	898	968	983	1 034	944	1 012	1 033	1 072
	<i>growth in %</i>	-1.1	0.1	1.5	3.1	5.2	4.5	5.1	3.6
Private consumption ¹⁾	<i>bill. CZK</i>	463	490	504	512	471	500	515	529
	<i>growth in %</i>	-0.4	1.0	2.4	1.9	1.7	2.0	2.2	3.2
Government consumption	<i>bill. CZK</i>	183	194	196	231	186	197	200	236
	<i>growth in %</i>	0.8	1.0	2.5	2.4	2.0	1.9	2.2	2.1
Gross capital formation	<i>bill. CZK</i>	183	207	238	237	190	219	261	242
	<i>growth in %</i>	-4.7	-10.8	1.5	-0.6	4.2	5.8	9.6	2.0
– Gross fixed capital formation	<i>bill. CZK</i>	188	205	218	247	201	219	230	253
	<i>growth in %</i>	-6.5	-6.6	-3.4	2.3	6.8	7.0	5.3	2.6
– Change in stocks and valuables	<i>bill. CZK</i>	-5	2	20	-10	-10	0	31	-11
External balance	<i>bill. CZK</i>	69	78	46	54	97	96	57	65
– Exports of goods and services	<i>bill. CZK</i>	727	763	756	806	838	850	840	873
	<i>growth in %</i>	-4.2	1.3	3.6	6.3	15.3	11.4	11.1	8.3
– Imports of goods and services	<i>bill. CZK</i>	658	686	710	752	742	754	782	808
	<i>growth in %</i>	-4.6	-1.4	4.7	4.2	12.8	9.9	10.2	7.4

Source: CZSO, own calculations

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

Graph C.1.1: Gross Domestic Product (real)

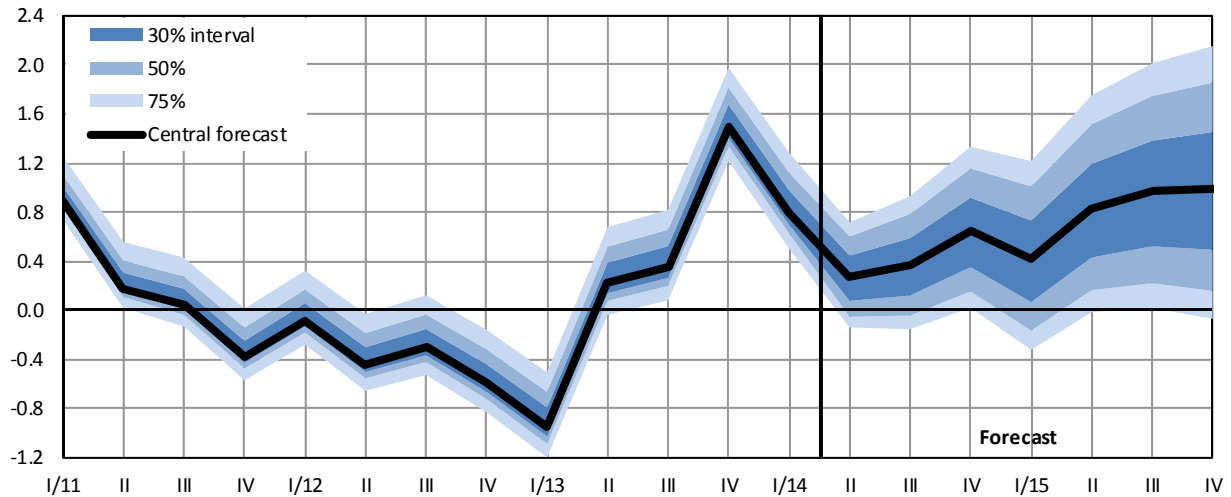
chained volumes, bill. CZK in const. prices of 2005, seasonally adjusted, growth rates in %



Source: CZSO, own calculations

Graph C.1.2: Gross Domestic Product (real)

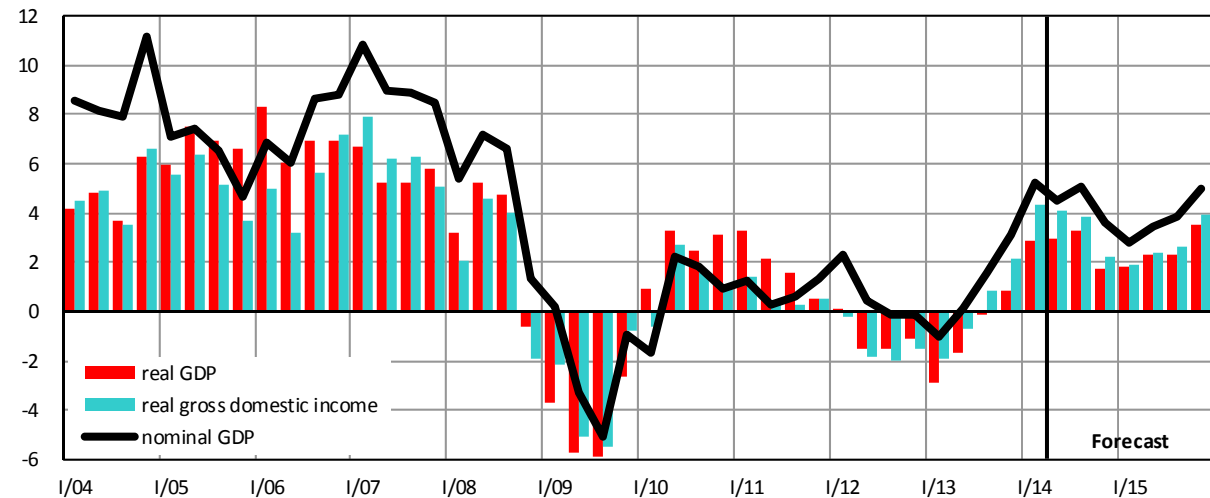
QoQ growth rate, in %, seasonally adjusted, past probability distribution reflects the actual distribution of data revisions, future probability distribution is based upon the MoF's forecasting performance



Source: CZSO, own calculations

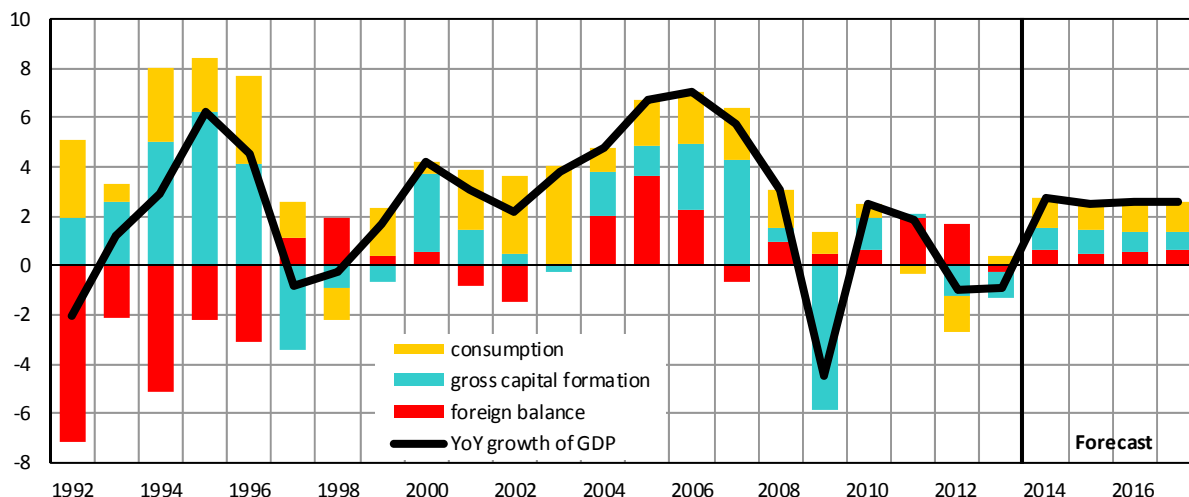
Graph C.1.3: Gross Domestic Product and Real Gross Domestic Income

YoY growth rate, in %



Source: CZSO, own calculations

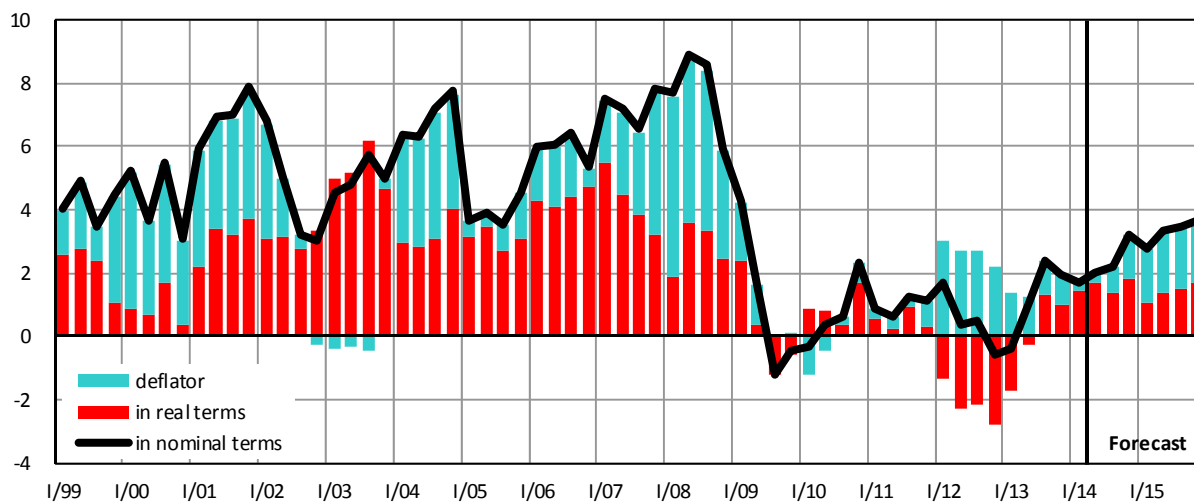
Graph C.1.4: Gross Domestic Product (real) – contributions to YoY growth
 decomposition of GDP YoY growth, contributions in percentage points, GDP growth rate in %



Source: CZSO, own calculations

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

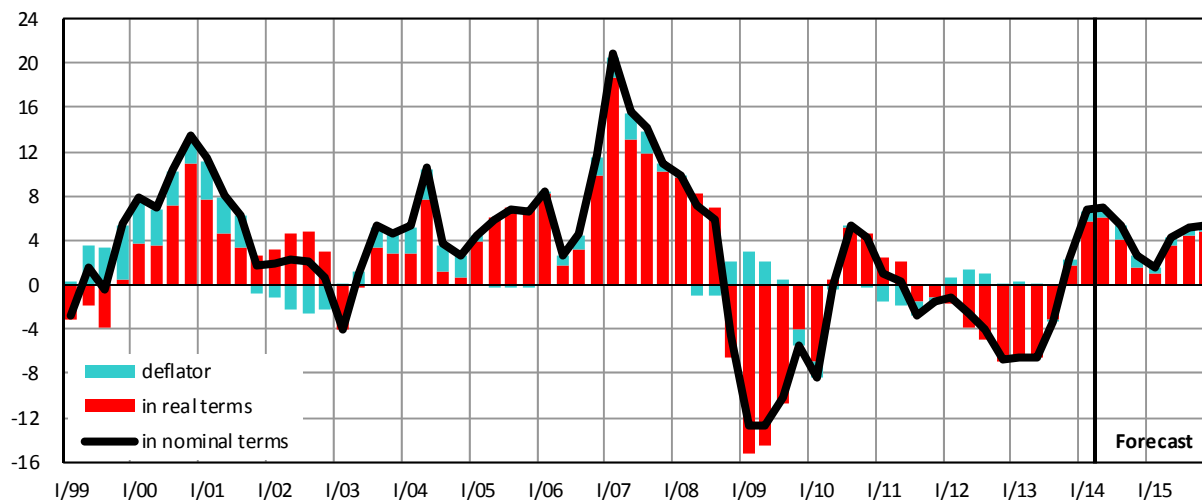
YoY growth rate, in %



Source: CZSO, own calculations

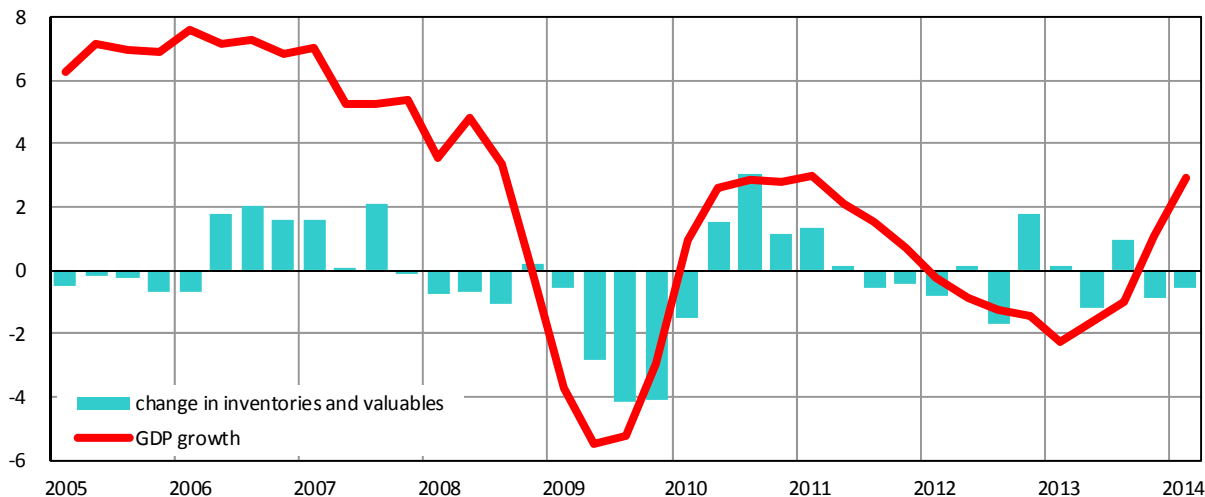
Graph C.1.6: Gross Fixed Capital Formation

YoY growth rate, in %



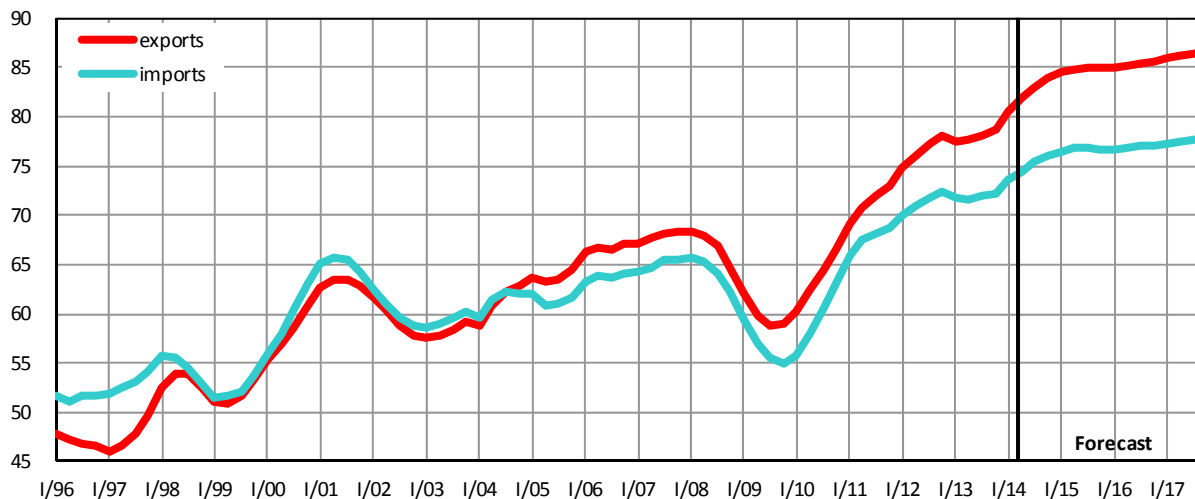
Source: CZSO, own calculations

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



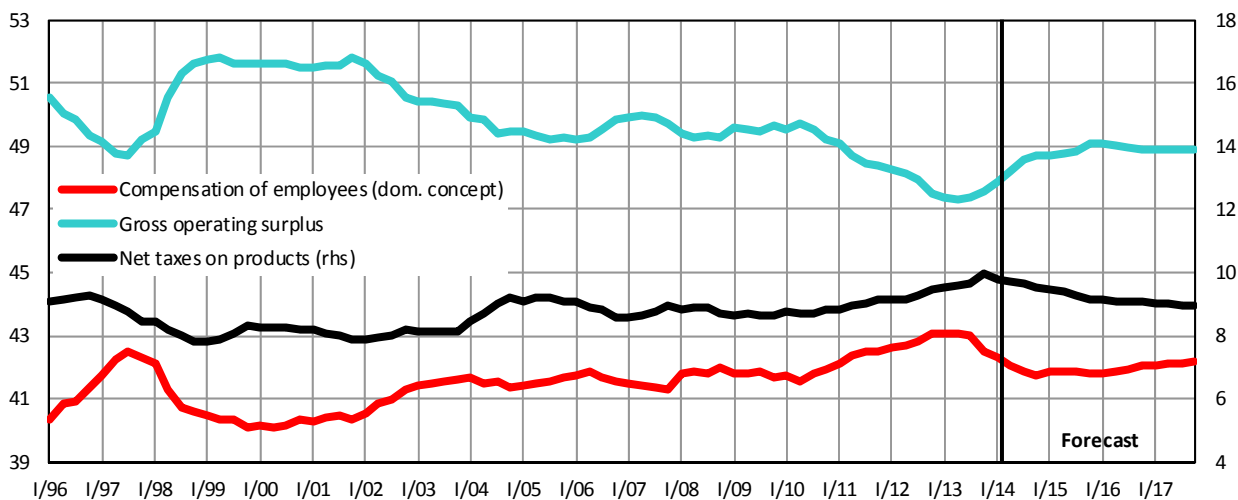
Source: CZSO

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



Source: CZSO, own calculations

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



Source: CZSO, own calculations

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

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
GDP	<i>bill. CZK</i>	3 848	3 759	3 791	3 823	3 846	3 884	4061	4216	4372	4544
	<i>growth in %</i>	5.1	-2.3	0.8	0.9	0.6	1.0	4.6	3.8	3.7	3.9
Balance of taxes and subsidies	<i>bill. CZK</i>	335	325	334	349	363	387	388	386	397	406
	<i>growth in %</i>	2.5	-3.1	2.8	4.3	4.2	6.5	0.3	-0.5	2.9	2.1
– Taxes on production and imports	<i>bill. CZK</i>	419	425	434	457	471	494	502	503	516	528
	<i>growth in %</i>	2.9	1.4	2.1	5.3	3.2	4.9	1.6	0.1	2.7	2.3
– Subsidies on production	<i>bill. CZK</i>	84	100	100	108	108	108	114	117	119	123
	<i>growth in %</i>	4.4	19.5	-0.4	8.6	0.2	-0.4	6.1	2.0	2.0	3.0
Compensation of employees	<i>bill. CZK</i>	1 617	1 567	1 590	1 626	1 656	1 649	1696	1761	1838	1917
	<i>growth in %</i>	6.8	-3.0	1.4	2.2	1.8	-0.4	2.8	3.8	4.4	4.3
– Wages and salaries	<i>bill. CZK</i>	1 226	1 201	1 210	1 237	1 260	1 248	1283	1332	1387	1447
	<i>growth in %</i>	7.5	-2.1	0.8	2.2	1.8	-0.9	2.8	3.8	4.1	4.3
– Social security contributions	<i>bill. CZK</i>	390	367	380	389	396	402	413	429	451	470
	<i>growth in %</i>	4.7	-6.1	3.7	2.4	1.8	1.4	2.8	3.8	5.1	4.3
Gross operating surplus	<i>bill. CZK</i>	1 896	1 866	1 867	1 849	1 827	1 848	1977	2068	2137	2222
	<i>growth in %</i>	4.1	-1.6	0.0	-0.9	-1.2	1.1	7.0	4.6	3.3	4.0
– Consumption of capital	<i>bill. CZK</i>	680	710	720	731	746	760	788	818	849	881
	<i>growth in %</i>	5.6	4.4	1.4	1.6	2.0	1.9	3.8	3.7	3.8	3.8
– Net operating surplus	<i>bill. CZK</i>	1 216	1 156	1 147	1 118	1 081	1 088	1189	1251	1289	1341
	<i>growth in %</i>	3.2	-4.9	-0.8	-2.5	-3.3	0.6	9.3	5.2	3.0	4.0

Source: CZSO, own calculations

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

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	898	968	983	1 034	944	1 012	1 033	1 072
	<i>growth in %</i>	-1.1	0.1	1.5	3.1	5.2	4.5	5.1	3.6
Balance of taxes and subsidies	<i>bill. CZK</i>	82	96	104	104	81	97	105	105
	<i>growth in %</i>	4.0	2.7	2.8	16.7	-1.8	0.9	1.0	0.8
Compensation of employees	<i>bill. CZK</i>	397	410	409	434	410	419	420	447
	<i>growth in %</i>	-0.8	0.2	0.7	-1.5	3.4	2.3	2.7	2.9
– Wages and salaries	<i>bill. CZK</i>	299	309	310	329	310	317	318	339
	<i>growth in %</i>	-1.0	-0.2	0.3	-2.7	3.5	2.3	2.7	2.9
– Social security contributions	<i>bill. CZK</i>	97	100	99	105	101	102	102	108
	<i>growth in %</i>	-0.3	1.3	2.0	2.4	3.3	2.3	2.7	2.9
Gross operating surplus	<i>bill. CZK</i>	419	463	470	496	453	496	508	520
	<i>growth in %</i>	-2.2	-0.5	2.0	4.9	8.3	7.3	8.0	4.8

Source: CZSO, own calculations

C.2 Prices

Table C.2.1: Prices – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								Forecast	Forecast	Outlook	Outlook
Consumer Price Index											
average of a year	<i>average 2005=100</i>	112.1	113.3	115.0	117.2	121.0	122.8	123.5	125.6	128.1	130.5
	<i>growth in %</i>	6.3	1.0	1.5	1.9	3.3	1.4	0.6	1.7	2.0	1.9
December	<i>average 2005=100</i>	111.8	112.9	115.5	118.3	121.1	122.8	124.6	126.8	129.1	131.7
	<i>growth in %</i>	3.6	1.0	2.3	2.4	2.4	1.4	1.4	1.8	1.8	2.0
– of which contribution of											
administrative measures ¹⁾	<i>percentage points</i>	4.3	1.0	1.6	1.2	2.2	1.0	-0.3	0.1	0.2	0.2
market increase	<i>percentage points</i>	-0.7	0.0	0.7	1.2	0.1	0.4	1.7	1.7	1.6	1.7
HICP	<i>average 2005=100</i>	111.7	112.4	113.7	116.2	120.3	121.9	122.8	124.9	127.4	129.9
	<i>growth in %</i>	6.3	0.6	1.2	2.1	3.5	1.4	0.7	1.8	2.0	1.9
Offering prices of flats											
	<i>average 2005=100</i>	107.2	104.3	100.0	95.1	96.1	97.2	.	.	.	.
	<i>growth in %</i>	23.0	-2.7	-4.1	-4.9	1.0	1.2	.	.	.	.
Deflators											
GDP	<i>average 2005=100</i>	105.9	108.3	106.6	105.6	107.3	109.4	111.3	112.7	114.0	115.6
	<i>growth in %</i>	1.9	2.3	-1.6	-0.9	1.6	1.9	1.8	1.3	1.1	1.3
Domestic final use	<i>average 2005=100</i>	108.4	109.7	109.3	109.5	111.6	112.6	113.4	114.7	116.1	117.8
	<i>growth in %</i>	3.1	1.2	-0.3	0.1	1.9	0.9	0.7	1.1	1.2	1.5
Consumption of households	<i>average 2005=100</i>	109.5	110.3	110.2	110.7	113.6	114.9	115.7	117.9	120.2	122.4
	<i>growth in %</i>	4.8	0.8	-0.2	0.5	2.7	1.1	0.7	1.8	2.0	1.9
Consumption of government	<i>average 2005=100</i>	112.6	115.4	114.9	115.9	117.6	117.7	117.9	118.7	119.7	120.6
	<i>growth in %</i>	3.4	2.5	-0.5	0.9	1.5	0.1	0.2	0.6	0.9	0.8
Fixed capital formation	<i>average 2005=100</i>	102.8	103.7	103.2	102.0	102.7	103.0	104.1	104.8	105.5	106.2
	<i>growth in %</i>	0.1	1.0	-0.5	-1.2	0.8	0.2	1.1	0.6	0.7	0.7
Exports of goods and services	<i>average 2005=100</i>	93.9	94.1	92.9	93.6	96.5	98.0	101.7	101.8	102.1	102.4
	<i>growth in %</i>	-4.5	0.3	-1.3	0.8	3.1	1.6	3.7	0.2	0.3	0.3
Imports of goods and services	<i>average 2005=100</i>	96.8	95.2	95.8	98.1	101.7	101.8	104.5	104.3	104.6	104.9
	<i>growth in %</i>	-3.1	-1.7	0.6	2.5	3.6	0.1	2.6	-0.1	0.3	0.3
Terms of trade	<i>average 2005=100</i>	97.0	98.9	97.0	95.4	94.9	96.2	97.3	97.6	97.6	97.6
	<i>growth in %</i>	-1.4	2.0	-1.9	-1.6	-0.5	1.4	1.1	0.3	0.0	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.

Table C.2.2: Prices – quarterly

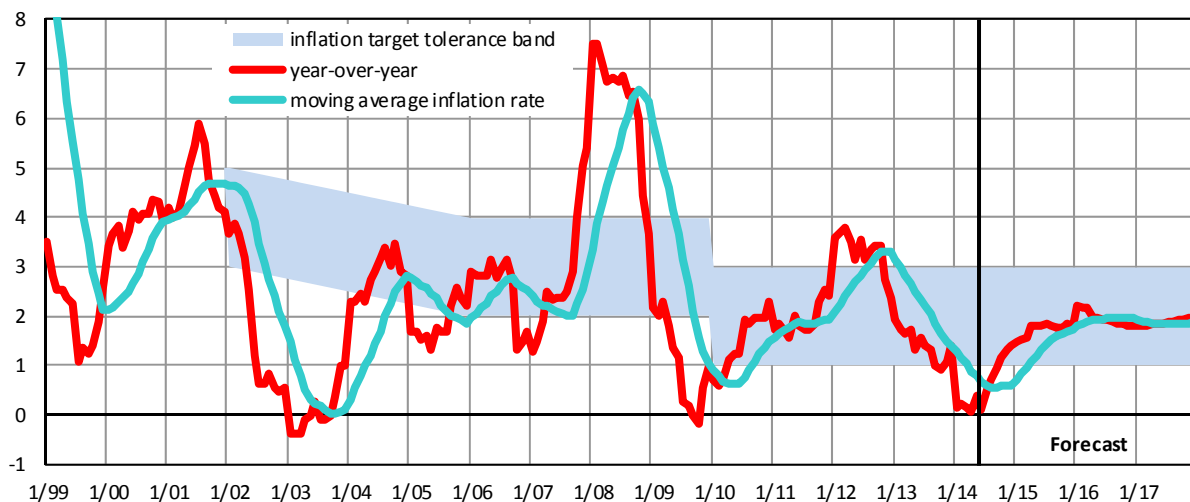
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Consumer Price Index	<i>average 2005=100</i>	122.8	123.0	122.6	122.5	123.0	123.3	123.5	124.1
	<i>growth in %</i>	1.8	1.5	1.2	1.1	0.2	0.2	0.7	1.3
– of which contribution of administrative measures¹⁾	<i>percentage points</i>	1.6	1.4	1.2	1.2	-0.6	-0.5	-0.3	-0.3
market increase	<i>percentage points</i>	0.2	0.1	0.0	0.0	0.7	0.7	1.0	1.6
HICP	<i>average 2005=100</i>	121.9	122.2	121.8	121.8	122.3	122.5	122.8	123.4
	<i>growth in %</i>	1.7	1.5	1.2	1.1	0.3	0.3	0.8	1.3
Offering prices of flats	<i>average 2005=100</i>	96.4	96.6	97.4	98.5	99.3	.	.	.
	<i>growth in %</i>	1.6	-0.2	1.5	2.0	3.0	.	.	.
Deflators									
GDP	<i>average 2005=100</i>	108.3	109.1	109.0	110.8	110.8	110.8	110.9	112.8
	<i>growth in %</i>	1.9	1.8	1.7	2.3	2.3	1.5	1.7	1.8
Domestic final use	<i>average 2005=100</i>	111.9	112.5	112.4	113.4	112.5	112.7	113.5	114.8
	<i>growth in %</i>	1.0	0.9	0.7	0.9	0.5	0.1	1.0	1.3
Consumption of households	<i>average 2005=100</i>	114.8	115.1	115.1	114.6	115.1	115.5	116.0	116.2
	<i>growth in %</i>	1.4	1.3	1.0	0.9	0.3	0.3	0.8	1.4
Consumption of government	<i>average 2005=100</i>	114.7	116.9	116.8	121.8	115.6	116.5	116.9	122.1
	<i>growth in %</i>	-0.3	0.2	-0.1	0.5	0.7	-0.3	0.0	0.2
Fixed capital formation	<i>average 2005=100</i>	103.0	103.0	102.6	103.3	104.1	103.9	103.9	104.4
	<i>growth in %</i>	0.3	0.1	-0.2	0.7	1.1	0.9	1.3	1.1
Exports of goods and services	<i>average 2005=100</i>	97.2	97.7	97.3	99.7	101.9	101.5	101.3	101.9
	<i>growth in %</i>	1.2	0.8	0.8	3.4	4.8	3.9	4.2	2.2
Imports of goods and services	<i>average 2005=100</i>	101.5	101.7	101.2	102.9	104.5	104.2	104.7	104.5
	<i>growth in %</i>	-0.1	-0.5	-0.6	1.6	2.9	2.5	3.4	1.6
Terms of trade	<i>average 2005=100</i>	95.8	96.1	96.1	97.0	97.5	97.4	96.8	97.6
	<i>growth in %</i>	1.3	1.3	1.3	1.8	1.8	1.4	0.7	0.6

Source: CZSO, Eurostat, own calculations

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

Graph C.2.1: Consumer Prices

YoY growth rate, in %

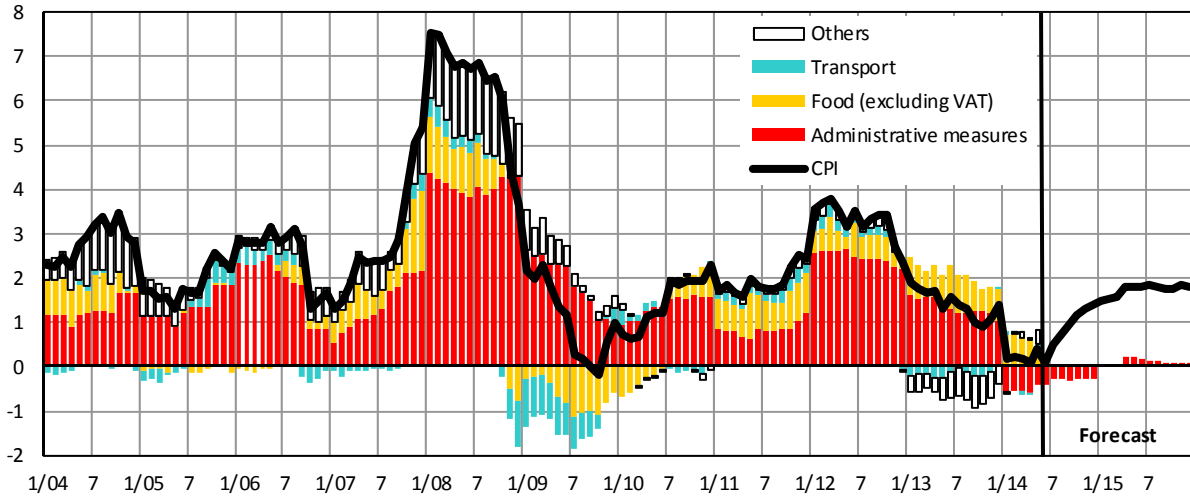


Source: CNB, CZSO, own calculations

Note: For the years 2002–2005 the highlighted area represents target band for headline inflation, whereas from 2006 on it is the tolerance band of the CNB's point target for headline inflation.

Graph C.2.2: Consumer Prices

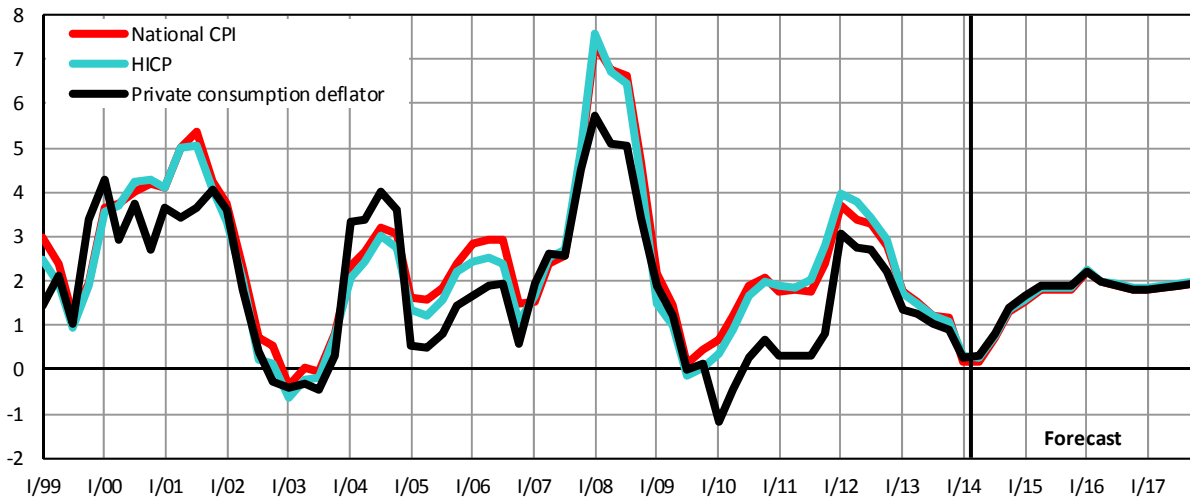
decomposition of YoY growth of CPI, contributions in pp, CPI growth rate in %, Transport excluding administrative measures and excises



Source: CZSO, own calculations

Graph C.2.3: Indicators of Consumer Prices

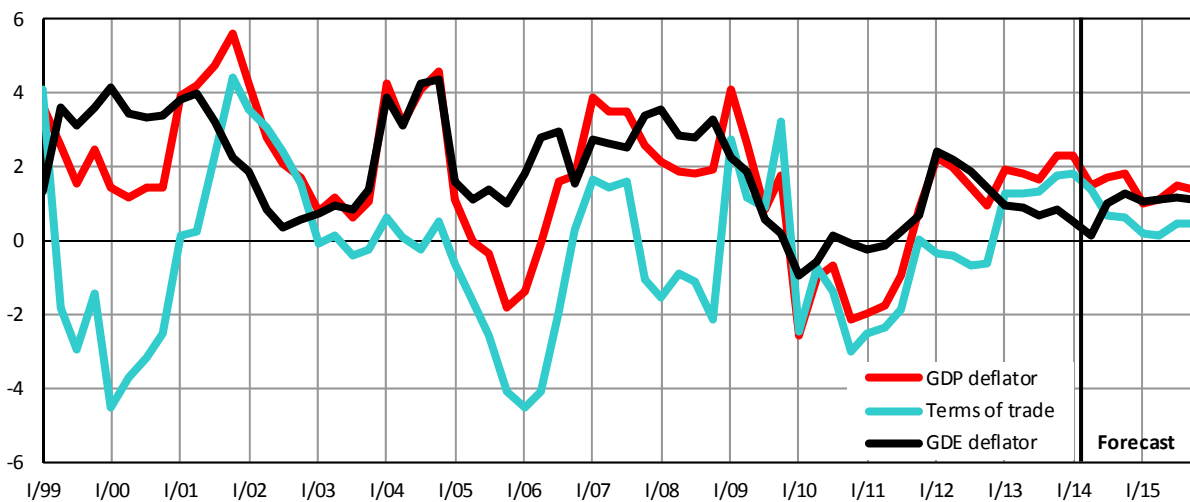
YoY growth rate, in %



Source: CZSO, Eurostat, own calculations

Graph C.2.4: GDP Deflator

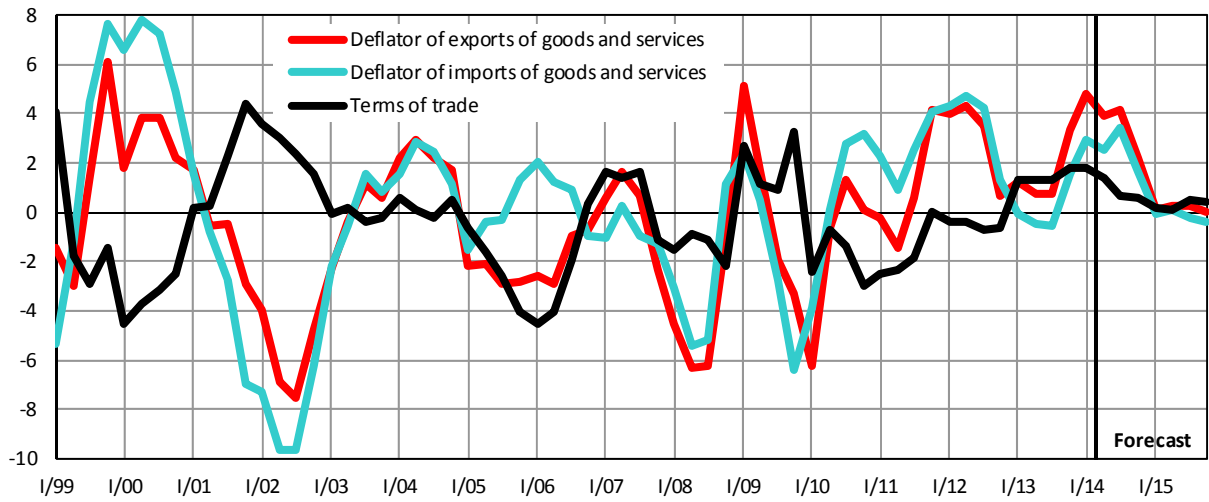
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.2.5: Terms of Trade

YoY growth rate, in %



Source: CZSO, own calculations

C.3 Labour Market

Table C.3.1: Labour Market – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	5 002	4 934	4 885	4 872	4 890	4 937	4 962	4 973	4 982	4 991
	<i>growth in %</i>	1.6	-1.4	-1.0	0.4	0.4	1.0	0.5	0.2	0.2	0.2
– employees	<i>av. in thous.persons</i>	4 196	4 107	4 019	3 993	3 990	4 055	4 064	4 073	4 081	4 089
	<i>growth in %</i>	1.7	-2.1	-2.1	0.0	-0.1	1.6	0.2	0.2	0.2	0.2
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	807	827	866	880	901	882	898	900	901	901
	<i>growth in %</i>	1.2	2.5	4.7	2.0	2.4	-2.1	1.8	0.2	0.1	0.1
Unemployment	<i>av. in thous.persons</i>	230	352	384	351	367	369	339	320	310	304
Unemployment rate	<i>average in per cent</i>	4.4	6.7	7.3	6.7	7.0	7.0	6.4	6.1	5.9	5.7
Labour force	<i>av. in thous.persons</i>	5 232	5 286	5 269	5 223	5 257	5 306	5 300	5 293	5 292	5 295
	<i>growth in %</i>	0.7	1.0	-0.3	-0.2	0.7	0.9	-0.1	-0.1	0.0	0.1
Population aged 15–64	<i>av. in thous.persons</i>	7 410	7 431	7 399	7 295	7 229	7 154	7 078	7 013	6 947	6 884
	<i>growth in %</i>	0.9	0.3	-0.4	-0.7	-0.9	-1.0	-1.1	-0.9	-0.9	-0.9
Employment/Pop. 15–64	<i>average in per cent</i>	67.5	66.4	66.0	66.8	67.6	69.0	70.1	70.9	71.7	72.5
Employment rate 15–64¹⁾	<i>average in per cent</i>	66.6	65.4	65.0	65.7	66.5	67.7	68.7	69.5	70.2	71.0
Labour force/Pop. 15–64	<i>average in per cent</i>	70.6	71.1	71.2	71.6	72.7	74.2	74.9	75.5	76.2	76.9
Participation rate 15–64²⁾	<i>average in per cent</i>	69.7	70.1	70.2	70.5	71.6	72.9	73.5	74.0	74.7	75.4
SNA											
Employment (domestic concept)	<i>av. in thous.persons</i>	5 204	5 111	5 059	5 057	5 077	5 124	5 147	5 159	5 168	5 177
	<i>growth in %</i>	2.3	-1.8	-1.0	0.0	0.4	0.9	0.4	0.2	0.2	0.2
Hours worked	<i>bill. hours</i>	9.37	9.09	9.16	9.16	9.15	9.08	9.15	9.13	9.12	9.11
	<i>growth in %</i>	2.7	-3.0	0.8	0.0	-0.1	-0.8	0.8	-0.2	-0.1	-0.1
Hours worked / employment	<i>hours</i>	1 800	1 778	1 811	1 811	1 802	1 772	1 778	1 770	1 764	1 759
	<i>growth in %</i>	0.4	-1.2	1.8	0.0	-0.5	-1.7	0.3	-0.5	-0.3	-0.3
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	324.6	465.6	528.7	507.8	504.7	564.4	566	527	497	475
Share of unemployed³⁾	<i>average in per cent</i>	4.1	6.1	7.0	6.7	6.8	7.7	7.7	7.2	6.8	6.6

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

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

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

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

Table C.3.2: Labour Market – quarterly

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4 884	4 953	4 954	4 958	4 923	4 968	4 978	4 977
	<i>YoY growth in %</i>	1.0	1.3	0.7	0.8	0.8	0.3	0.5	0.4
	<i>QoQ growth in %</i>	0.2	0.5	-0.1	0.2	0.2	0.0	0.1	0.1
– employees	<i>av. in thous. persons</i>	4 015	4 074	4 064	4 067	4 030	4 078	4 072	4 075
	<i>growth in %</i>	2.0	2.4	0.9	1.3	0.4	0.1	0.2	0.2
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	869	879	889	890	893	890	906	902
	<i>growth in %</i>	-3.2	-3.2	-0.5	-1.3	2.8	1.2	1.9	1.3
Unemployment	<i>av. in thous. persons</i>	393	358	370	355	358	329	337	330
Unemployment rate	<i>average in per cent</i>	7.4	6.7	6.9	6.7	6.8	6.2	6.3	6.2
Labour force	<i>av. in thous. persons</i>	5 277	5 311	5 323	5 313	5 281	5 297	5 316	5 307
	<i>growth in %</i>	1.4	1.4	0.7	0.3	0.1	-0.3	-0.1	-0.1
Population aged 15–64	<i>av. in thous. persons</i>	7 184	7 166	7 145	7 121	7 103	7 086	7 070	7 054
	<i>growth in %</i>	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.0
Employment/Pop. 15–64	<i>average in per cent</i>	68.0	69.1	69.3	69.6	69.3	70.1	70.4	70.6
	<i>increase over a year</i>	1.3	1.6	1.2	1.3	1.3	1.0	1.1	0.9
Employment rate 15–64 ¹⁾	<i>average in per cent</i>	66.8	67.8	68.0	68.3	68.1	68.7	69.0	69.1
	<i>increase over a year</i>	1.2	1.3	1.0	1.2	1.2	0.9	0.9	0.9
Labour force/Pop. 15–64	<i>average in per cent</i>	73.5	74.1	74.5	74.6	74.4	74.8	75.2	75.2
	<i>increase over a year</i>	1.7	1.7	1.3	1.0	0.9	0.6	0.7	0.6
Participation rate 15–64 ²⁾	<i>average in per cent</i>	72.3	72.8	73.2	73.3	73.1	73.3	73.7	73.8
	<i>increase over a year</i>	1.6	1.5	1.1	1.0	0.8	0.5	0.5	0.5
SNA									
Employment (domestic concept)	<i>av. in thous. persons</i>	5 065	5 134	5 153	5 146	5 093	5 150	5 179	5 167
	<i>growth in %</i>	1.1	1.3	0.7	0.7	0.6	0.3	0.5	0.4
Hours worked	<i>bill. hours</i>	2.29	2.36	2.14	2.29	2.33	2.37	2.14	2.30
	<i>growth in %</i>	-4.5	-0.5	3.2	-0.7	1.8	0.7	0.2	0.4
Hours worked / employment	<i>hours</i>	452	459	415	445	458	461	414	445
	<i>growth in %</i>	-5.5	-1.8	2.5	-1.4	1.2	0.4	-0.3	0.0
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	582	559	551	566	619	566	539	539
Share of unemployed ³⁾	<i>average in per cent</i>	7.9	7.6	7.5	7.7	8.5	7.8	7.4	7.3

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

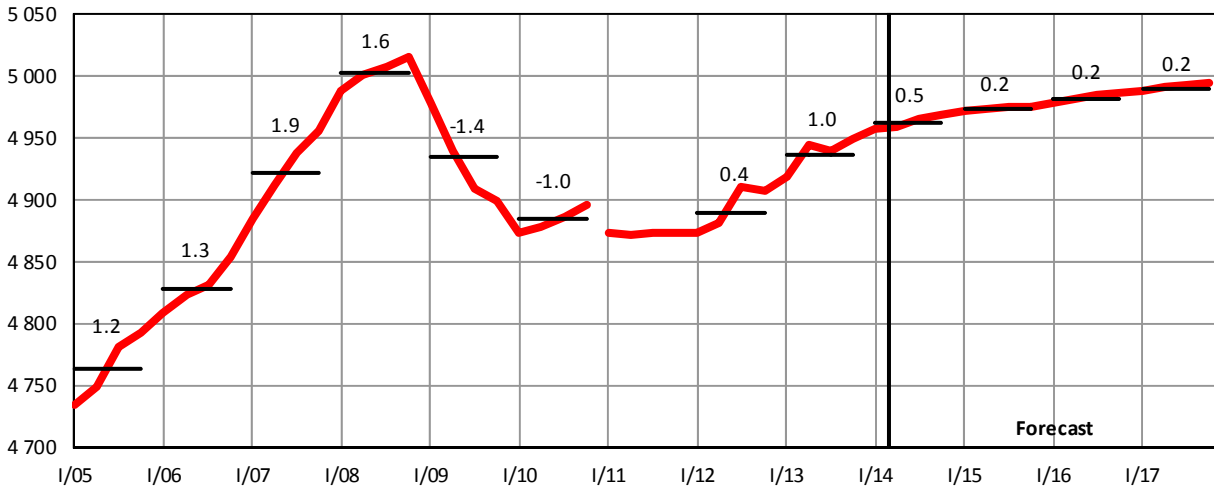
¹⁾ The indicator does not include employment over 64 years.

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

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

Graph C.3.3: Employment (LFS)

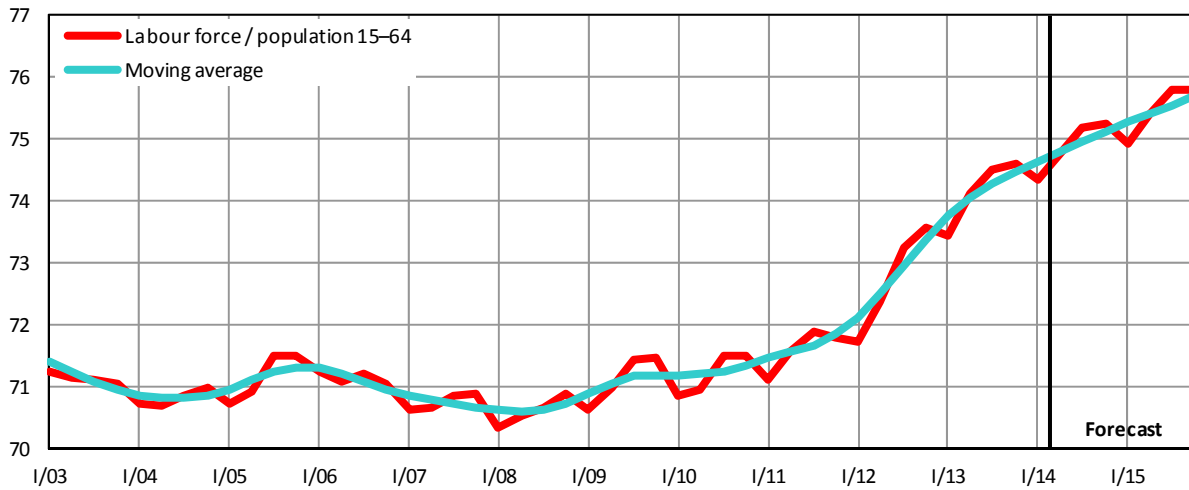
seasonally adjusted data, in thousands of persons, growth rates in %



Source: CZSO, own calculations

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

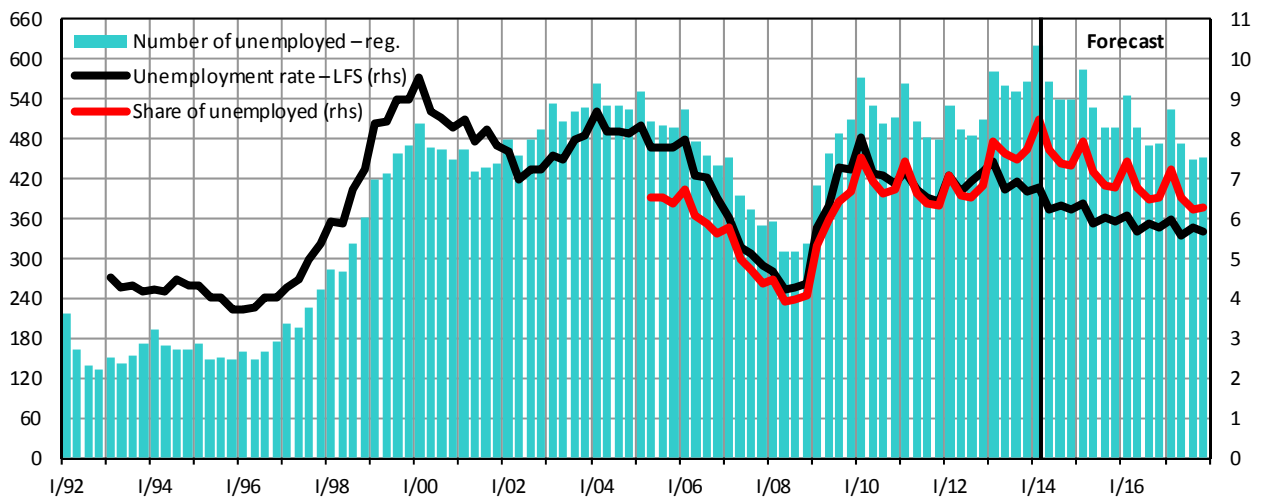
in %



Source: CZSO, own calculations

Graph C.3.5: Unemployment

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

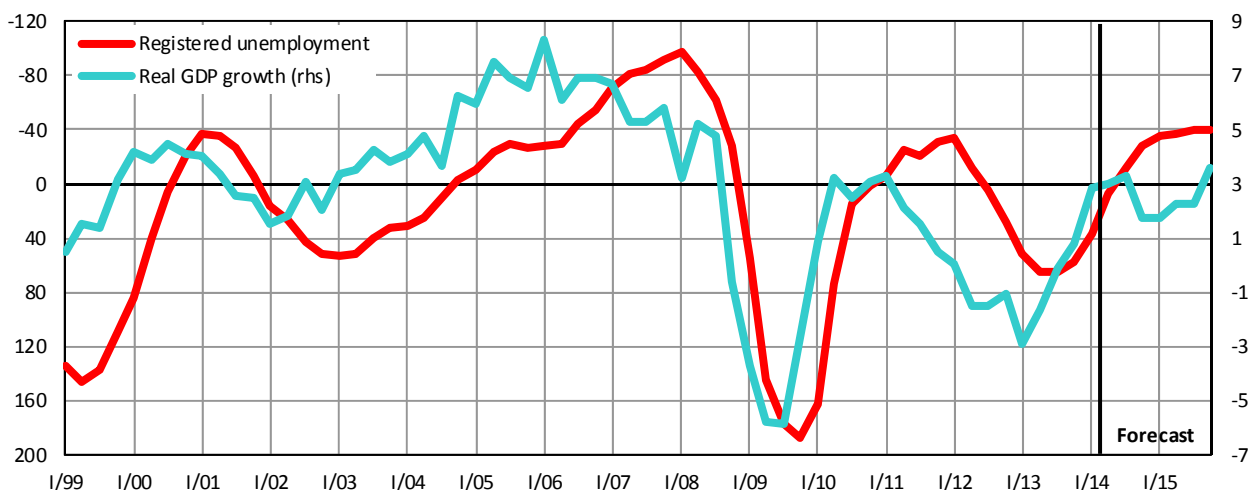


Source: CZSO, Ministry of Labour and Social Affairs, own calculations

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

Graph C.3.6: Economic Output and Unemployment

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



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

Table C.3.3: Labour Market – analytical indicators

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Compensation per employee												
– nominal	growth in %	6.0	6.3	4.2	-0.6	3.1	2.3	1.9	-1.9	2.7	3.6	
– real	growth in %	3.4	3.3	-2.0	-1.7	1.6	0.4	-1.4	-3.3	2.1	1.8	
Wage bill	growth in %	7.2	8.3	7.5	-2.1	0.8	2.2	1.8	-0.9	2.8	3.8	
Average monthly wage ¹⁾												
– nominal	CZK	19 536	20 947	22 592	23 353	23 858	24 452	25 063	25 075	25 800	26 700	
	growth in %	6.5	7.2	7.9	3.4	2.2	2.5	2.5	0.0	2.7	3.7	
– real	CZK 2005	19 053	19 865	20 147	20 610	20 753	20 866	20 707	20 426	20 900	21 300	
	growth in %	3.9	4.3	1.4	2.3	0.7	0.5	-0.8	-1.4	2.1	1.9	
Median monthly wage												
	CZK	16 273	17 445	19 364	19 781	20 294	20 743	20 984	21 158	.	.	
	growth in %	.	7.2	11.0	2.2	2.6	2.2	1.2	0.8	.	.	
Labour productivity	growth in %	5.6	3.5	0.8	-2.8	3.5	1.9	-1.4	-1.8	2.3	2.3	
Unit labour costs ²⁾	growth in %	0.4	2.6	3.4	2.2	-0.4	0.5	3.3	-0.1	0.4	1.3	
Compensations of employees / GDP	%	41.6	41.3	42.0	41.7	41.9	42.5	43.1	42.5	41.8	41.8	

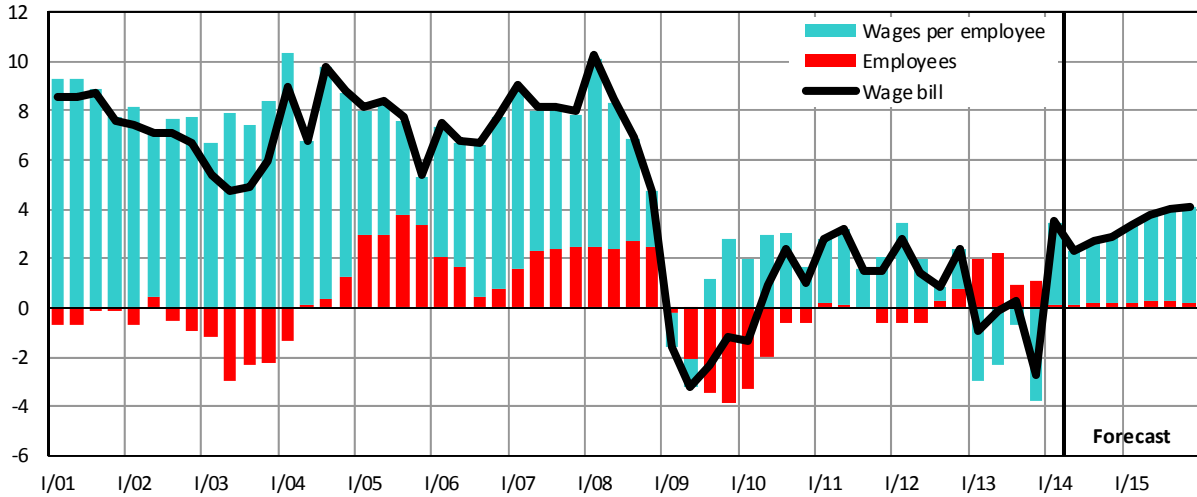
Source: CZSO, own calculations

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

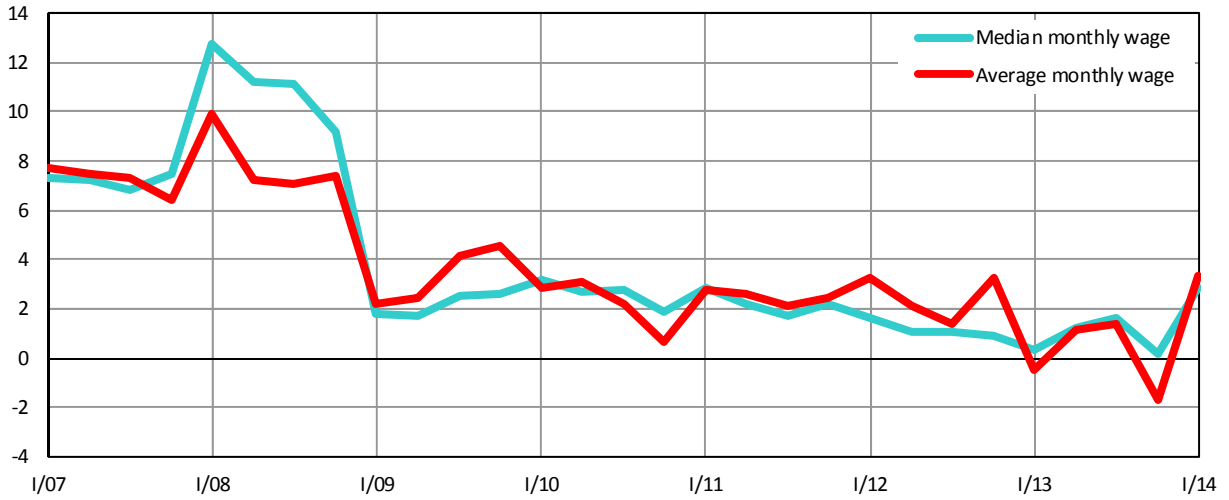
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.8: Nominal Monthly Wage

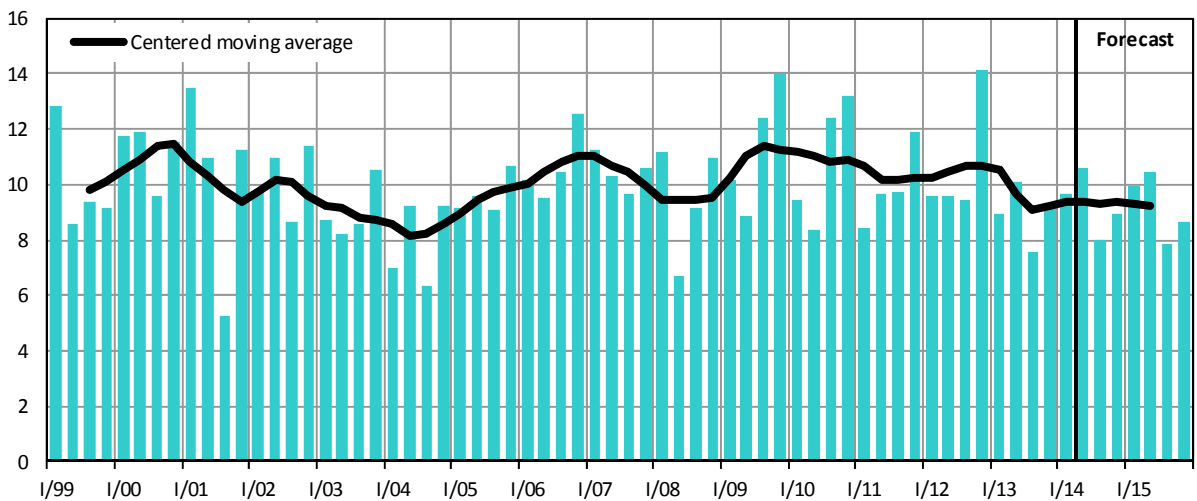
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.9: Gross Savings Rate of Households

in % of disposable income



Source: CZSO, own calculations

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

SNA methodology – national concept

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>
Current income											
Compensation of employees	<i>bill.CZK</i>	1 397	1 510	1 597	1 557	1 589	1 627	1 660	1 657	1 711	1 775
	<i>growth in %</i>	7.3	8.1	5.8	-2.5	2.1	2.4	2.1	-0.2	3.3	3.7
Gross operating surplus and mixed income	<i>bill.CZK</i>	538	570	587	616	608	584	591	587	597	608
	<i>growth in %</i>	4.4	6.0	3.0	5.0	-1.4	-4.0	1.2	-0.6	1.6	1.9
Property income received	<i>bill.CZK</i>	150	155	167	155	151	154	141	133	130	131
	<i>growth in %</i>	11.5	3.1	8.2	-7.3	-2.8	2.3	-8.8	-5.7	-2.0	0.8
Social benefits not-in-kind	<i>bill.CZK</i>	422	471	495	536	542	552	567	563	582	603
	<i>growth in %</i>	9.1	11.6	5.1	8.4	1.1	1.9	2.6	-0.7	3.4	3.6
Other current transfers received	<i>bill.CZK</i>	113	122	137	137	135	134	146	148	152	157
	<i>growth in %</i>	8.9	7.8	11.8	0.5	-1.8	-0.8	9.2	1.2	2.9	3.0
Current expenditure											
Property income paid	<i>bill.CZK</i>	21	26	30	18	22	20	19	17	15	15
	<i>growth in %</i>	10.6	26.5	12.8	-38.1	18.3	-5.6	-8.8	-8.0	-12.9	0.0
Curr. taxes on income and property	<i>bill.CZK</i>	144	160	146	141	137	148	151	157	164	171
	<i>growth in %</i>	0.4	11.0	-8.6	-3.7	-2.7	7.8	2.4	3.8	4.6	3.8
Social contributions	<i>bill.CZK</i>	564	618	638	605	622	638	653	668	691	717
	<i>growth in %</i>	9.6	9.5	3.4	-5.3	2.8	2.7	2.3	2.2	3.5	3.7
Other current transfers paid	<i>bill.CZK</i>	119	132	143	140	140	142	150	152	153	156
	<i>growth in %</i>	9.4	11.0	8.3	-2.1	0.0	1.1	5.5	1.7	0.5	1.8
Gross disposable income	<i>bill.CZK</i>	1 771	1 891	2 025	2 097	2 104	2 102	2 131	2 093	2 149	2 216
	<i>growth in %</i>	6.9	6.8	7.1	3.5	0.3	-0.1	1.4	-1.8	2.7	3.1
Final consumption	<i>bill.CZK</i>	1 604	1 720	1 857	1 874	1 889	1 908	1 916	1 940	1 985	2 050
	<i>growth in %</i>	5.9	7.2	8.0	1.0	0.8	1.0	0.4	1.2	2.3	3.3
Change in share in pension funds	<i>bill.CZK</i>	23	26	24	17	15	16	15	35	36	39
Gross savings	<i>bill.CZK</i>	190	197	193	240	230	210	230	188	200	204
Capital transfers (income (-)/ expenditure (+))	<i>bill.CZK</i>	-31	-36	-29	-28	-33	-29	-24	-22	-22	-21
Gross capital formation	<i>bill.CZK</i>	178	203	209	201	218	190	175	160	159	164
	<i>growth in %</i>	12.4	14.2	3.0	-3.8	8.6	-13.0	-7.9	-8.3	-1.2	3.4
Change in financial assets and liab.	<i>bill.CZK</i>	43	30	12	66	44	49	77	48	62	60
Real disposable income	<i>growth in %</i>	5.3	3.7	2.2	2.7	0.5	-0.5	-1.2	-2.9	1.9	1.3
Gross savings rate	<i>%</i>	10.7	10.4	9.5	11.4	10.9	10.0	10.8	9.0	9.3	9.2

Source: CZSO, own calculations

C.4 External Relations

Table C.4.1: Balance of Payments – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Balance of goods and services	bill.CZK	108	106	100	161	129	149	211	241	307	336	
– balance of trade ¹⁾	bill.CZK	59	47	26	87	54	90	149	188	245	273	
– of which mineral fuels (SITC 3) ²⁾	bill.CZK	-139	-124	-166	-106	-137	-177	-189	-200	-203	-199	
– balance of services	bill.CZK	49	59	74	74	75	58	62	53	62	63	
Balance of income	bill.CZK	-165	-255	-175	-250	-285	-256	-260	-312	-307	-346	
– compensation of employees	bill.CZK	3	-4	-19	-11	-1	1	5	7	14	13	
– investment income	bill.CZK	-168	-251	-156	-239	-284	-257	-265	-320	-321	-359	
Balance of transfers	bill.CZK	-11	-8	-6	-1	9	3	-2	15	17	8	
Current account	bill.CZK	-67	-157	-81	-89	-147	-104	-51	-56	17	-1	
Capital account	bill.CZK	10	22	27	51	33	15	52	75	116	136	
Financial account	bill.CZK	100	125	92	143	174	59	74	188	.	.	
– foreign direct investments	bill.CZK	90	179	36	38	95	47	121	33	.	.	
– portfolio investments	bill.CZK	-27	-57	-9	159	150	6	55	92	.	.	
– other investments	bill.CZK	36	3	65	-53	-71	7	-102	63	.	.	
Change in reserves	bill.CZK	2	16	40	61	41	-17	80	192	.	.	
International investment position	bill.CZK	-1 084	-1 418	-1 545	-1 728	-1 830	-1 818	-1 876	-1 772	.	.	
Gross external debt	bill.CZK	1 196	1 377	1 630	1 639	1 767	1 877	1 952	2 215	2 186	2 307	
Balance of goods and services / GDP	per cent	3.2	2.9	2.6	4.3	3.4	3.9	5.5	6.2	7.6	8.0	
Current account / GDP	per cent	-2.0	-4.3	-2.1	-2.4	-3.9	-2.7	-1.3	-1.4	0.4	0.0	
Financial account / GDP	per cent	3.0	3.4	2.4	3.8	4.6	1.6	1.9	4.8	.	.	
IIP / GDP	per cent	-32.3	-38.7	-40.2	-46.0	-48.3	-47.5	-48.8	-45.6	.	.	
Gross external debt / GDP ³⁾	per cent	35.7	37.6	42.3	43.6	46.6	49.1	50.8	57.0	54	55	

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	
Balance of goods and services	bill.CZK	209	228	224	241	266	285	296	307
– balance of trade ¹⁾	bill.CZK	150	170	173	188	207	225	235	245
– of which mineral fuels (SITC 3) ²⁾	bill.CZK	-186	-189	-198	-200	-198	-199	-201	-203
– balance of services	bill.CZK	59	58	51	53	59	60	61	62
Balance of income	bill.CZK	-284	-309	-308	-312	-272	-300	-303	-307
– compensation of employees	bill.CZK	5	5	5	7	9	11	13	14
– investment income	bill.CZK	-288	-315	-313	-320	-281	-311	-316	-321
Balance of transfers	bill.CZK	6	4	6	15	12	22	29	17
Current account	bill.CZK	-69	-78	-78	-56	6	7	22	17
Capital account	bill.CZK	52	51	98	75	96	106	111	116
Financial account	bill.CZK	68	100	43	188	148	.	.	.
– foreign direct investments	bill.CZK	132	97	65	33	36	.	.	.
– portfolio investments	bill.CZK	49	81	46	92	89	.	.	.
– other investments	bill.CZK	-112	-78	-67	63	23	.	.	.
Change in reserves	bill.CZK	54	81	81	192	211	.	.	.
International investment position	bill.CZK	-1 830	-1 889	-1 835	-1 772	-1 703	.	.	.
Gross external debt	bill.CZK	1 999	2 042	1 965	2 215	2 151	2 147	2 176	2 186

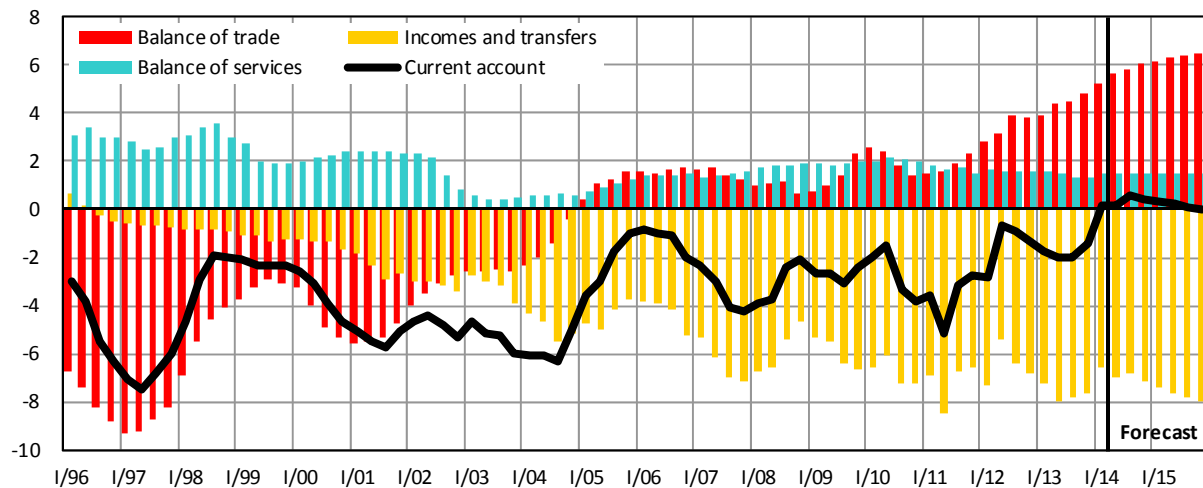
Source: CNB, CZSO, own calculations

¹⁾ Imports – fob

²⁾ Imports – cif

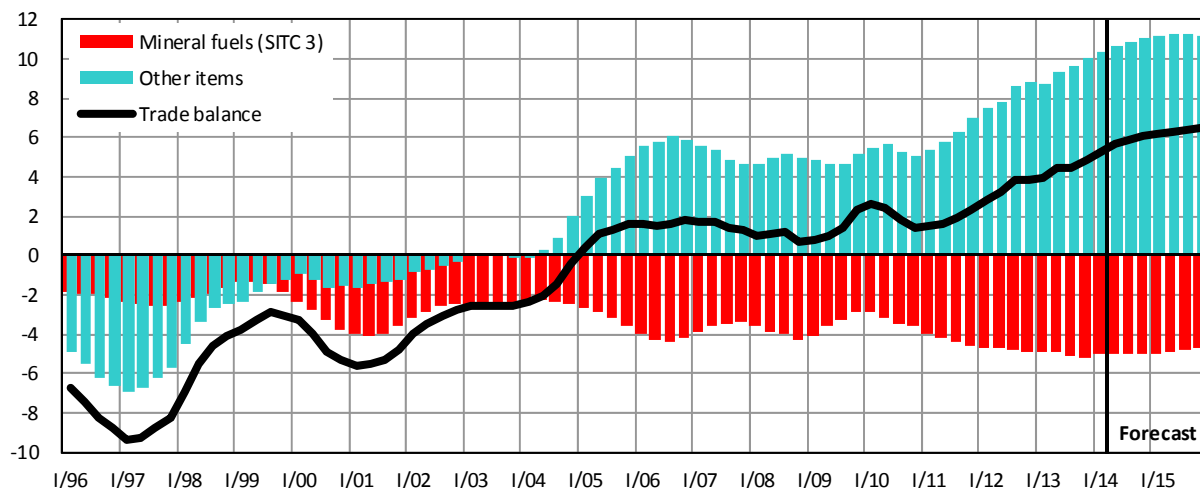
Graph C.4.1: **Current Account**

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



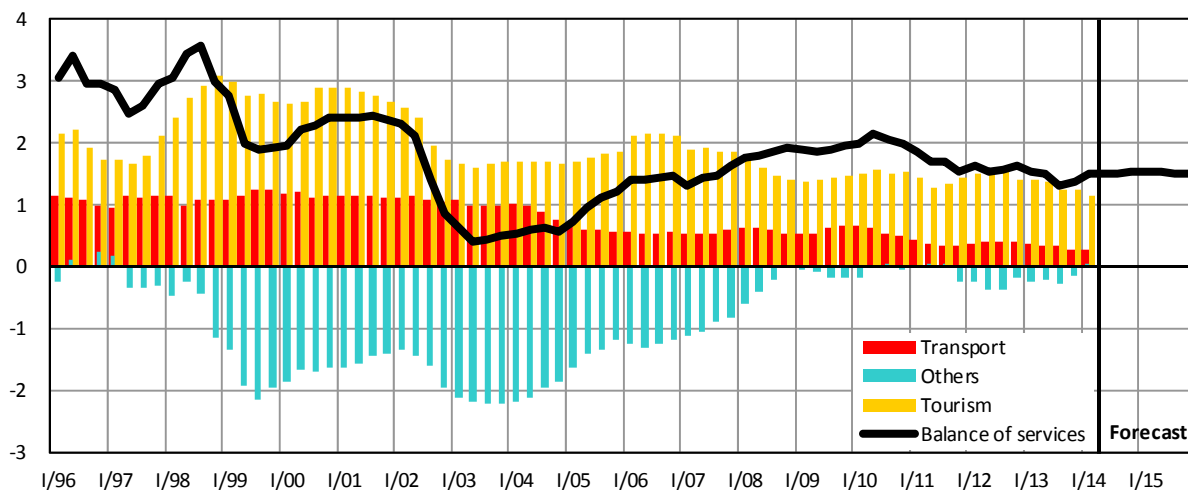
Source: CNB, CZSO, own calculations

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



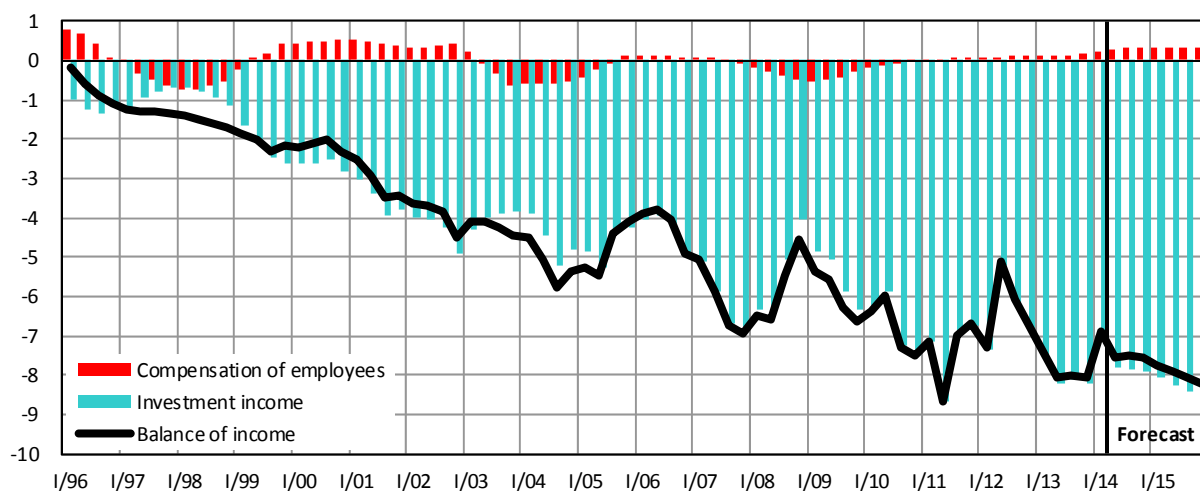
Source: CNB, CZSO, own calculations

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



Source: CNB, CZSO, own calculations

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



Source: CNB, CZSO, own calculations

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

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
GDP ¹⁾	<i>average of 2005=100</i>	104.3	108.9	110.5	105.9	109.5	112.7	113.8	114.7	117	120	
	<i>growth in %</i>	4.3	4.4	1.5	-4.1	3.3	2.9	1.0	0.8	2.3	2.0	
Import intensity ²⁾	<i>average of 2005=100</i>	107.8	110.1	109.9	103.2	112.1	116.9	117.1	118.1	122	124	
	<i>growth in %</i>	7.8	2.1	-0.1	-6.2	8.6	4.3	0.1	0.9	3.3	1.6	
Export markets ³⁾	<i>average of 2005=100</i>	112.5	119.9	121.5	109.3	122.7	131.7	133.2	135.4	143	148	
	<i>growth in %</i>	12.5	6.6	1.3	-10.0	12.2	7.4	1.1	1.7	5.7	3.6	
Export performance	<i>average of 2005=100</i>	101.3	105.9	107.6	105.5	109.4	112.6	116.1	115.2	118	120	
	<i>growth in %</i>	1.3	4.5	1.6	-1.9	3.7	3.0	3.1	-0.7	2.4	1.4	
Real exports	<i>average of 2005=100</i>	114.0	126.9	130.7	115.3	134.2	148.3	154.6	156.1	169	177	
	<i>growth in %</i>	14.0	11.4	3.0	-11.8	16.4	10.6	4.2	1.0	8.2	5.1	
1 / NEER	<i>average of 2005=100</i>	95.4	93.0	83.2	86.0	84.2	81.7	84.6	86.6	91	90	
	<i>growth in %</i>	-4.6	-2.6	-10.5	3.4	-2.2	-2.9	3.6	2.3	4.6	-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	112.3	111	111	
	<i>growth in %</i>	3.1	2.9	6.3	-3.6	0.7	4.0	-0.4	-0.9	-1.2	0.3	
Exports deflator	<i>average of 2005=100</i>	98.4	98.6	93.8	93.6	92.1	93.0	95.9	97.2	100	100	
	<i>growth in %</i>	-1.6	0.2	-4.9	-0.3	-1.5	0.9	3.1	1.3	3.3	0.1	
Nominal exports	<i>average of 2005=100</i>	112.2	125.1	122.7	107.7	123.7	138.0	148.3	151.8	170	178	
	<i>growth in %</i>	12.2	11.6	-2.0	-12.2	14.8	11.6	7.5	2.3	11.8	5.1	

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

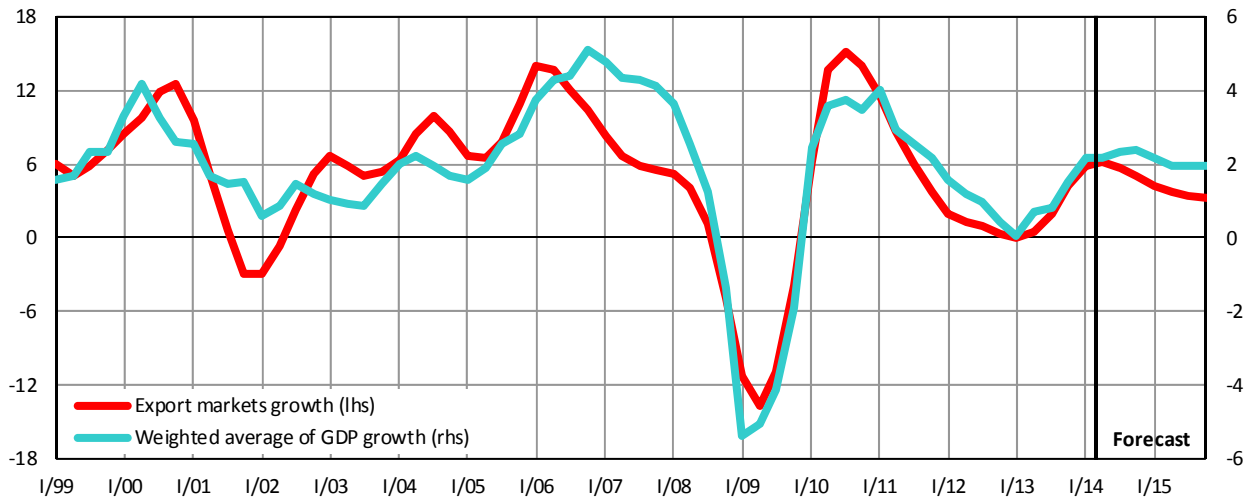
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	
GDP ¹⁾	<i>average of 2005=100</i>	113.8	114.5	114.9	115.4	116.3	117	118	118
	<i>growth in %</i>	0.0	0.7	0.8	1.5	2.2	2.2	2.4	2.4
Import intensity ²⁾	<i>average of 2005=100</i>	116.8	117.3	118.5	119.9	121.0	122	122	123
	<i>growth in %</i>	0.0	-0.1	1.1	2.6	3.6	3.9	3.3	2.5
Export markets ³⁾	<i>average of 2005=100</i>	132.9	134.3	136.1	138.4	140.7	143	144	145
	<i>growth in %</i>	0.0	0.6	1.9	4.2	5.9	6.2	5.7	5.0
Export performance	<i>average of 2005=100</i>	113.4	116.7	114.6	116.3	118.6	119	116	118
	<i>growth in %</i>	-5.5	0.2	2.9	-0.1	4.6	1.8	1.6	1.6
Real exports	<i>average of 2005=100</i>	150.7	156.7	156.0	160.9	166.9	169	168	172
	<i>growth in %</i>	-5.5	0.7	4.8	4.1	10.8	8.1	7.4	6.7
1 / NEER	<i>average of 2005=100</i>	85.5	86.3	85.9	88.5	90.6	90	91	91
	<i>growth in %</i>	1.8	1.7	1.3	4.3	5.9	4.8	5.4	2.3
Prices on foreign markets	<i>average of 2005=100</i>	112.9	112.3	112.3	111.6	111.4	111	111	111
	<i>growth in %</i>	-0.6	-1.1	-0.8	-1.2	-1.4	-1.2	-1.5	-0.7
Exports deflator	<i>average of 2005=100</i>	96.6	96.9	96.5	98.8	100.8	100	100	100
	<i>growth in %</i>	1.1	0.6	0.5	3.0	4.4	3.5	3.8	1.6
Nominal exports	<i>average of 2005=100</i>	145.6	151.9	150.5	159.0	168.3	170	168	172
	<i>growth in %</i>	-4.4	1.3	5.4	7.2	15.6	11.9	11.5	8.4

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

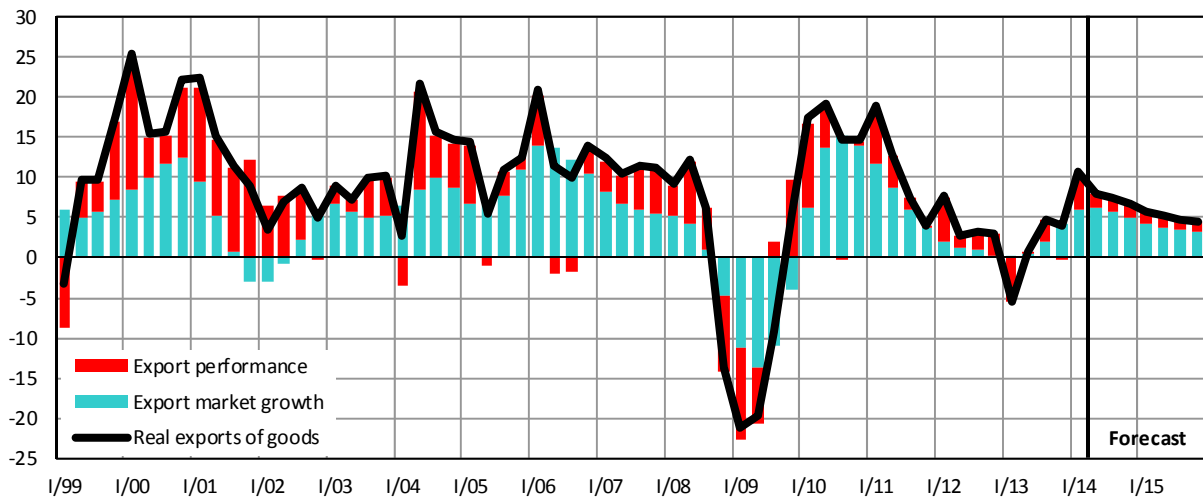
YoY growth rate, in %



Source: Eurostat, own calculations

Graph C.4.6: Real Exports of Goods

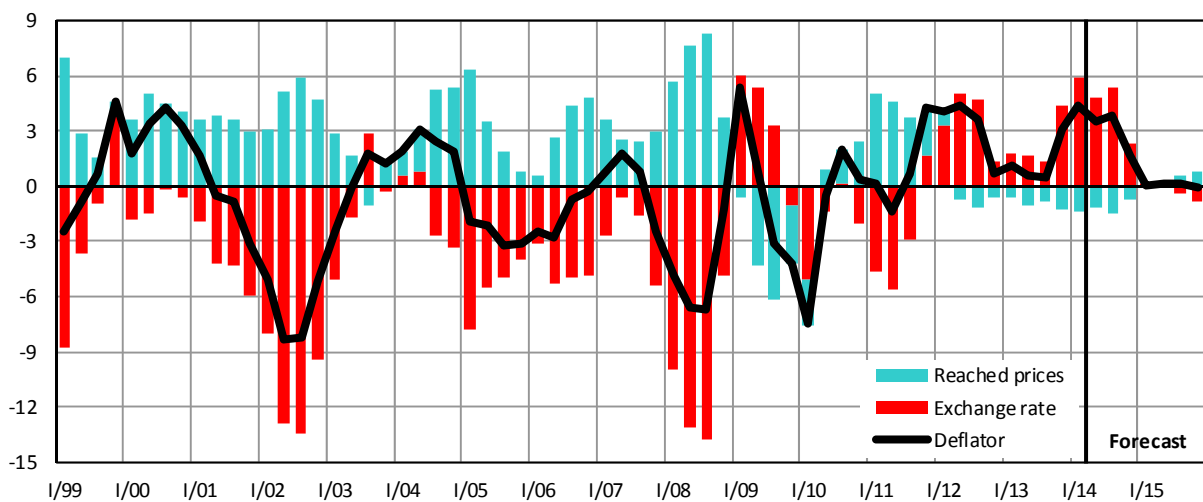
decomposition of YoY growth, in %



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

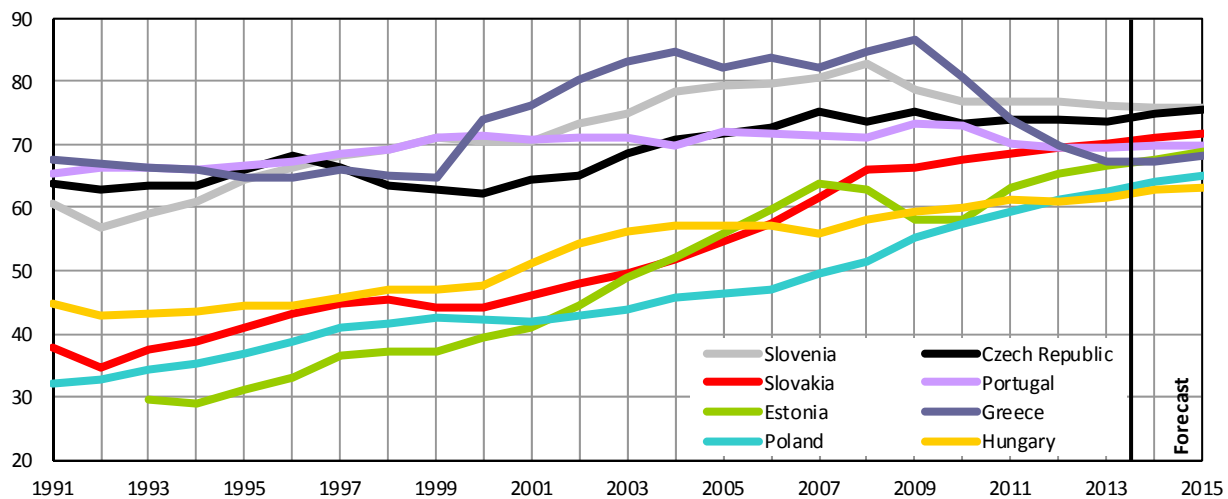
Table C.5.1: GDP per Capita – Using Current Purchasing Power Parities

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Slovenia	PPS	20 700	22 100	22 700	20 200	20 600	21 200	21 400	21 300	21 600	22 200	
	EA12=100	79	80	83	79	77	77	77	76	76	76	
Czech Republic	PPS	18 900	20 600	20 200	19 400	19 700	20 300	20 700	20 600	21 300	22 100	
	EA12=100	73	75	74	75	73	74	74	73	75	75	
Slovakia	PPS	14 900	16 900	18 100	17 000	18 100	18 900	19 400	19 600	20 300	21 100	
	EA12=100	57	62	66	66	68	69	70	70	71	72	
Lithuania	PPS	13 600	15 500	16 100	13 600	15 100	16 900	18 300	19 100	20 100	21 100	
	EA12=100	52	56	59	53	56	61	66	68	70	72	
Portugal	PPS	18 700	19 600	19 500	18 800	19 600	19 300	19 400	19 400	19 900	20 400	
	EA12=100	72	71	71	73	73	70	69	69	70	70	
Estonia	PPS	15 600	17 500	17 200	14 900	15 600	17 400	18 200	18 600	19 300	20 200	
	EA12=100	60	64	63	58	58	63	65	66	67	69	
Greece	PPS	21 800	22 600	23 200	22 300	21 600	20 300	19 500	18 800	19 200	20 000	
	EA12=100	84	82	85	87	81	74	70	67	67	68	
Latvia	PPS	12 500	14 300	14 600	12 700	13 500	15 000	16 400	17 300	18 300	19 500	
	EA12=100	48	52	53	49	50	54	59	62	64	66	
Poland	PPS	12 300	13 600	14 100	14 200	15 400	16 400	17 100	17 500	18 300	19 100	
	EA12=100	47	50	51	55	57	59	61	62	64	65	
Hungary	PPS	14 900	15 300	15 900	15 300	16 100	16 900	17 000	17 200	17 900	18 500	
	EA12=100	57	56	58	59	60	61	61	61	63	63	
Croatia	PPS	14 100	15 600	16 200	14 900	14 700	15 200	15 600	15 600	15 800	16 100	
	EA12=100	54	57	59	58	55	55	56	56	55	55	

Source: CZSO, Eurostat, own calculations

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

EA12=100



Source: CZSO, Eurostat, own calculations

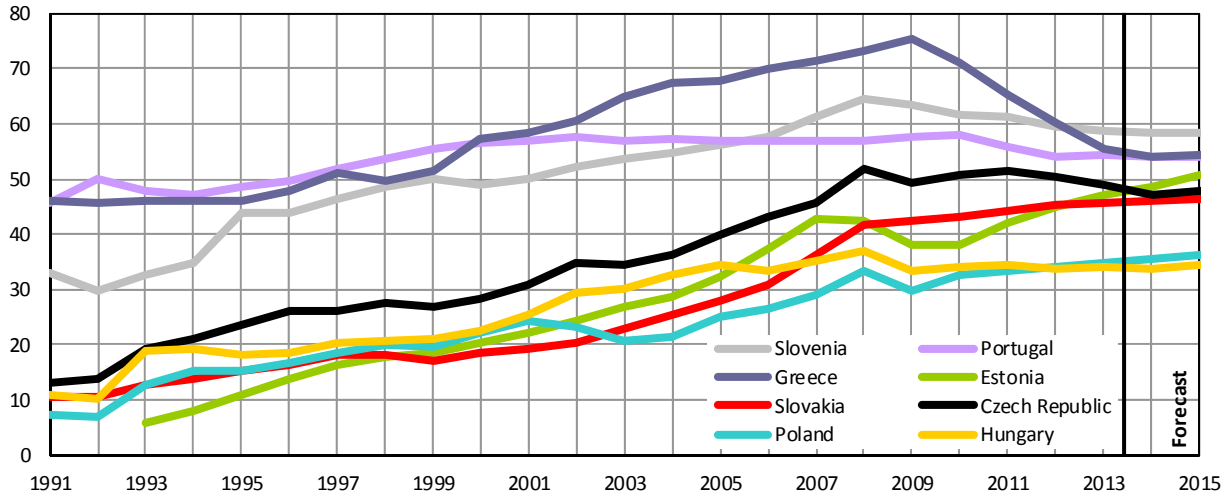
Table C.5.2: GDP per Capita – Using Current Exchange Rates

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Latvia	EUR	10 200	13 600	15 000	12 300	12 200	14 000	15 600	16 500	17 600	18 900	
	EA12=100	38	48	52	45	44	48	54	57	59	62	
	Comparative price level EA12=100	80	93	98	91	87	89	92	92	92	93	
Slovenia	EUR	15 500	17 100	18 400	17 300	17 300	17 600	17 200	17 100	17 400	17 800	
	EA12=100	58	61	65	63	62	61	59	59	58	58	
	Comparative price level EA12=100	73	76	78	80	80	80	78	77	77	77	
Portugal	EUR	15 200	16 000	16 200	15 900	16 300	16 100	15 600	15 800	16 100	16 500	
	EA12=100	57	57	57	58	58	56	54	54	54.1	54	
	Comparative price level EA12=100	79	80	80	79	79	80	78	78	78	77	
Greece	EUR	18 700	20 000	20 800	20 700	19 900	18 700	17 400	16 100	16 100	16 600	
	EA12=100	70	71	73	75	71	65	60	55	54.1	54	
	Comparative price level EA12=100	84	87	86	87	88	88	86	82	81	80	
Estonia	EUR	10 000	12 000	12 100	10 400	10 700	12 100	13 000	13 800	14 500	15 500	
	EA12=100	37	43	42	38	38	42	45	47	49	51	
	Comparative price level EA12=100	62	67	68	65	66	67	69	71	72	74	
Czech Republic	EUR	11 500	12 800	14 800	13 500	14 300	14 800	14 600	14 200	14 100	14 600	
	EA12=100	43	46	52	49	51	51	50	49	47	48	
	Comparative price level EA12=100	59	61	70	66	69	70	68	66	63	63	
Slovakia	EUR	8 300	10 200	11 900	11 600	12 100	12 800	13 200	13 300	13 700	14 200	
	EA12=100	31	36	42	42	43	44	45	46	46	46	
	Comparative price level EA12=100	54	59	63	64	64	65	65	65	65	64	
Lithuania	EUR	7 400	8 900	10 100	8 400	8 900	10 200	11 000	11 700	12 400	13 100	
	EA12=100	28	32	36	31	32	35	38	40	42	43	
	Comparative price level EA12=100	53	56	61	58	56	58	58	59	59	60	
Poland	EUR	7 100	8 200	9 500	8 100	9 200	9 600	9 900	10 100	10 600	11 100	
	EA12=100	27	29	33	30	33	33	34	35	36	36	
	Comparative price level EA12=100	57	59	65	54	57	56	56	56	56	56	
Croatia	EUR	9 200	10 100	11 000	10 400	10 300	10 300	10 200	10 100	10 100	10 300	
	EA12=100	34	36	39	38	37	36	35	35	34	34	
	Comparative price level EA12=100	64	63	65	65	67	65	63	62	62	62	
Hungary	EUR	8 900	9 900	10 500	9 100	9 600	9 900	9 800	9 900	10 100	10 600	
	EA12=100	33	35	37	33	34	34	34	34	34	35	
	Comparative price level EA12=100	58	63	63	56	57	56	56	55	54	55	

Source: CZSO, Eurostat, own calculations

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

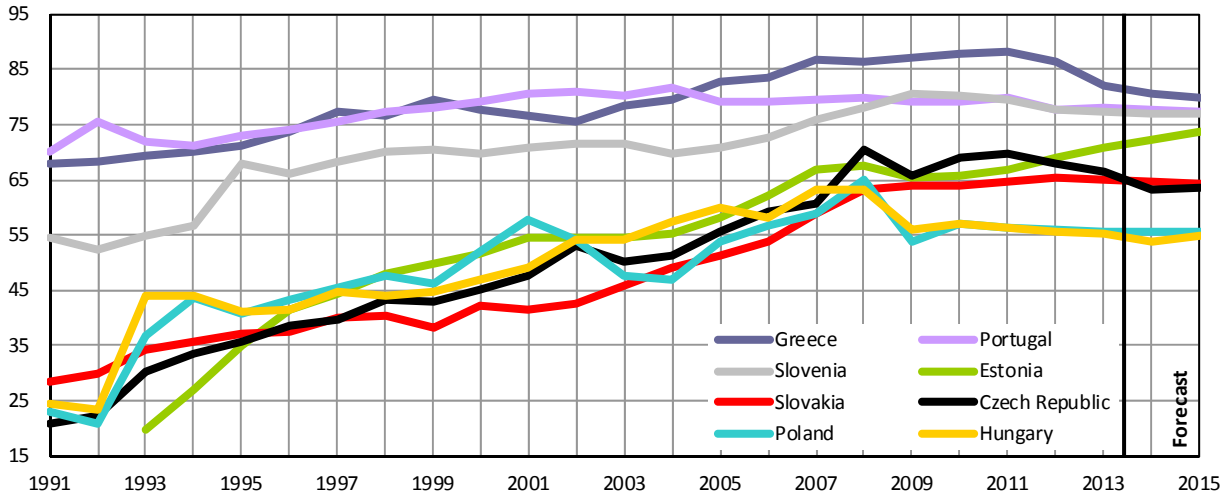
EA12=100



Source: CZSO, Eurostat, own calculations

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

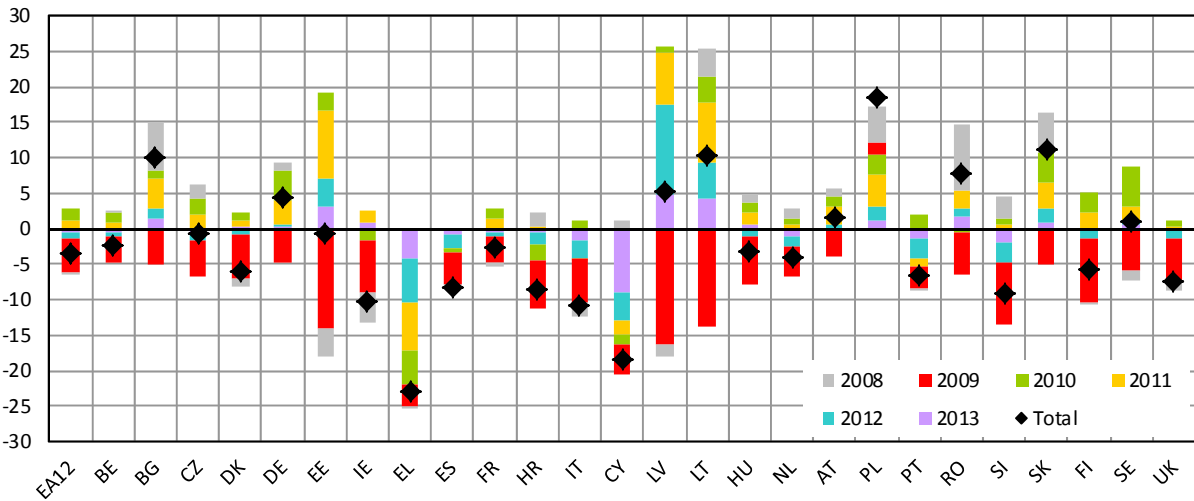
EA12=100



Source: CZSO, Eurostat, own calculations

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

growth in %



Source: CZSO, Eurostat, own calculations

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