

Macroeconomic Forecast of the Czech Republic
October 2011

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The Macroeconomic Forecast is prepared by the Financial Policy Department of the Czech Ministry of Finance on a quarterly basis. It contains a forecast for the current and following years (i.e. until 2012) and for certain indicators an outlook for another 2 years (i.e. until 2014). As a rule, it is published in the second half of the first month of each quarter and is also available on the Ministry of Finance website at:

www.mfcr.cz/macroforecast

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

macroeconomic.forecast@mfcr.cz

Note:

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

List of Abbreviations:

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

Basic 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	prediction of future numbers, using expert and mathematical methods
Outlook	prediction of more distant future numbers, using mainly extrapolation methods

Symbols Used in Tables:

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

Cut-off Date for Data Sources:

Cut-off date for data sources: **October 12, 2011.**

Summary of the Forecast

The global economic situation has worsened since July 2011, when the last Macroeconomic Forecast was issued. This is reflected in the new estimates of future development.

We now expect real GDP growth of 2.1% for 2011, while the growth estimate for 2012 is 1.0%. Due to significant uncertainties about future development of the euro zone's debt crisis, the new Macroeconomic Forecast is subject to significant downside risks. Future developments of the Czech economy will depend considerably on whether, how quickly, and with what consequences the current situation in problematic euro zone countries will be resolved.

Consumer prices should increase by 1.9% this year. In 2012, the inflation rate will be significantly influenced by increase in the reduced VAT rate to 14% and should reach 3.2%. In this case, too, the risks are tilted to the downside.

The situation on the labour market will likely reflect the slow economic growth and heightened uncertainty concerning the future development. Employment should increase by 0.4% this year. For 2012, however, we anticipate a decrease of 0.2%. The unemployment rate should be around 6.9% both this year and the next one. The wage bill could increase by 2.3% this year and by 2.7% in 2012.

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

The general government balance is expected to reach -3.7% of GDP this year. In 2012, in accordance with approved consolidation strategy there should be an improvement to -3.2% of GDP. The government debt to GDP ratio shall increase from 40.5% of GDP in 2011 to 42.2% in 2012.

Table: **Main Macroeconomic Indicators**

		2008	2009	2010	2011	2012	2011	2012
		Forecast					Previous forecast	
Gross domestic product	<i>growth in %, const.pr.</i>	2.5	-4.1	2.3	2.1	1.0	2.5	2.5
Consumption of households	<i>growth in %, const.pr.</i>	3.6	-0.2	0.2	-0.6	-0.5	0.5	2.0
Consumption of government	<i>growth in %, const.pr.</i>	1.1	2.6	-0.1	-1.2	-0.5	-2.4	-2.1
Gross fixed capital formation	<i>growth in %, const.pr.</i>	-1.5	-7.9	-3.1	2.1	1.4	1.9	3.2
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	1.3	-0.6	1.0	1.7	1.0	1.9	1.1
GDP deflator	<i>growth in %</i>	1.8	2.5	-1.2	0.0	1.7	-0.8	2.6
Average inflation rate	<i>%</i>	6.3	1.0	1.5	1.9	3.2	2.3	3.5
Employment (LFS)	<i>growth in %</i>	1.6	-1.4	-1.0	0.4	-0.2	0.2	0.4
Unemployment rate (LFS)	<i>average in %</i>	4.4	6.7	7.3	6.9	6.9	6.7	6.4
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	8.7	0.0	1.2	2.3	2.7	2.3	4.4
Current account / GDP	<i>%</i>	-2.2	-2.5	-3.2	-3.1	-3.3	-3.9	-3.6
<u>Assumptions:</u>								
Exchange rate CZK/EUR		24.9	26.4	25.3	24.3	23.9	24.2	23.5
Long-term interest rates	<i>% p.a.</i>	4.6	4.7	3.7	3.7	3.7	4.0	4.3
Crude oil Brent	<i>USD/barrel</i>	98	62	80	110	107	110	112
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	0.4	-4.2	1.8	1.7	1.0	1.9	2.0

Risks to the Forecast

The outlook for the global economic situation has deteriorated severely since July 2011, when the previous Macroeconomic Forecast was published. The increasing severity of the debt crisis and its spread to other euro zone states, combined with politicians' inability to effectively resolve this situation, have led to increasing concerns about the ability of the problematic countries' governments to repay debts and to anxiety on financial markets. The contagion is gradually spreading also to the banking sector in the euro zone. Activity on interbank markets is decreasing, and a number of banks had their ratings lowered due to their exposure to government bonds of problematic countries. Another symptom is the decline in equity markets accompanied by increased volatility. This negative situation has already been reflected in worsening of a number of important institutions' macroeconomic forecasts.

The specific impacts of this unfavourable development upon the Czech economy will depend mainly upon whether the spread of the debt contagion to large euro zone countries (Italy, Spain) will be contained, whether there will be a banking crisis in any European states, and with what costs and consequences the crisis will be resolved.

The Czech economy does not suffer from macroeconomic imbalances. Financial markets have faith in the trajectory of fiscal consolidation, as reflected by low yields on government bonds. The financial sector is stable, liquid and well capitalised. Due to the economy's considerable openness, however, any negative external shocks are very likely to have a significant impact.

It may be presumed that the main channel of transmission would be, as in the last recession, a loss of trust and weakened expectations of private entities. If apprehensions concerning further spread of the debt contagion, the banking crisis, and emergence of a new recession continue to strengthen, feelings of uncertainty about future development could lead to excessive caution in making decisions on consumption, investments, and creation of new jobs. Such cautious approach on the microeconomic level would subsequently be reflected in macroeconomic aggregates.

The new Macroeconomic Forecast is therefore subject to significant downside risks, and in the current situation we cannot rule out even the extreme possibility of another recession similar to that from the turn of 2008 and 2009.

A Forecast Assumptions

The forecast was made on the basis of data known as of **12 October 2011**. No political decisions, newly released statistics, or world financial or commodity market developments could be taken into account after this date.

Data from the previous forecast of July 2011 are indicated by italics. Data in the tables relating to the years 2013 and 2014 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

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

A.1 External Environment

Economic output

The outlook for the world economy has worsened since the last forecast, and there are fears for a second round of recession. Uncertainty has increased, especially due to apprehensions about the sustainability of some euro zone countries' public finances and the political leadership's ability to resolve the situation. Furthermore, the generally adopted restrictive fiscal policies are hindering recovery. Growth in the developed economies of the USA and EU has slowed. In Japan, the decline has already lasted for three quarters. Not even the large emerging economies provide a clear picture. Although their growth remains high, there are signs of a slowdown.

Growth of the US economy was radically decreased by a revision of data from the end of July, which was the first of many poor macroeconomic reports. GDP increased QoQ by only 0.1% (*versus 0.8%*) in the first quarter of 2011 and by 0.3% (*versus 0.7%*) in the second. The main cause of the slowdown is the less significant growth in consumption, largely due to the indebtedness of households. It has been proven that growth, up to now, has not been self-supporting but rather has depended to a significant extent on government stimulus. New jobs still are not being created at the necessary rate, and the unemployment rate has been stagnant for four months now at 9.1%.

During the summer, moreover, a stalemate between the administration and opposition legislators arose over increasing the government debt ceiling, which led S&P to downgrade the US debt rating. One of the repercussions was volatility on equity markets. During the second week of August, the Dow Jones index dropped from 12,500 points (the level at the end of July) to below 11,000 points, and it was fluctuating around this value also in early October.

To strengthen growth and create new jobs, the President has proposed a package of public investments and tax relief amounting to USD 447 billion. The central bank, too, is stimulating the economy, as it continues to hold the band for the key

refinancing rate at 0–0.25% and has resorted to selling short-term while purchasing long-term bonds (so-called Operation Twist), the purpose of which is to keep interest rates low to stimulate consumption and lending.

Growth in the euro zone decelerated abruptly, and uncertainty is overflowing from the financial markets into the real economy. QoQ GDP growth in the EA12 slowed sharply to 0.2% (*versus 0.4%*) in the second quarter from 0.8% in the first quarter. As in the US, this slowing was caused especially by a decrease in consumption. In Germany, which has been the euro zone's powerhouse, QoQ GDP growth was only 0.1% in the second quarter (1.3% in the first quarter) while the French economy stagnated in this period (having grown 0.9% in the first quarter). Greece is in a deep economic slump, Portugal has found itself in recession, and Spain and Italy are close to stagnation. Outside the euro area, the Polish and Swedish economies are growing strongly and Great Britain is just holding steady.

The unemployment rate in the EA12, which remained level at 10.0% in August, continues to be characterised by significant differences between individual countries. Germany has already reached 6% due to a long-term decrease, whereas unemployment has risen to a grim 21.2% in Spain, 14.6% in Ireland, and 13.4% in Slovakia.

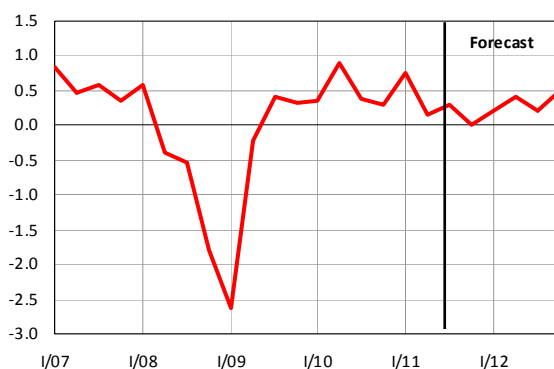
The **Polish economy** grew by 1.1% QoQ in the second quarter of 2011 (*versus 1.0%*). The unemployment rate stood steady at 9.4% in August. Infrastructure investments in preparation for the European Football Championship have remained a support to the economy. Growth is therefore powered especially by investments, while growth in consumption has slightly decreased. In order to reduce the deficit, which is estimated at –6% of GDP this year, the government has increased VAT and has also begun selling state shares in energy companies and banks.

The **Slovak economy** grew by 0.9% (*versus 0.8%*) QoQ in both the first and second quarters. Growth has been driven mainly by exports, and in particular automobile

manufacturing. Although industrial production increased in August, the preceding drops in June and July indicate a slowdown. The economy is afflicted by high unemployment, which is the third highest in the euro zone. In combination with a drop in real wages, this situation apparently caused household consumption to decline. The government has prepared a number of measures, including introduction of the so-called debt brake, in order to decrease the deficit, estimated at -5.0% of GDP in 2011. Following collapse of the government, however, the future of the fiscal reforms is uncertain.

Graph A.1.1: Growth of GDP in EA12

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



We have lowered our growth estimate for the US economy to 1.6% (versus 2.8%) for 2011 and to 1.9% (versus 3.1%) for 2012.

GDP growth forecast for the EA12 economy was decreased to 1.7% (versus 1.9%) for 2011 and to 1.0% (versus 2.0%) for 2012. Due to possible impacts of the debt crisis, the forecast contains downward risks.

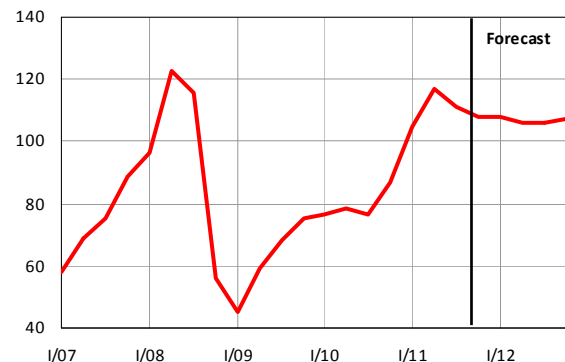
Commodity prices

Commodity prices peaked in April, when Brent crude oil reached USD 123 per barrel. Since then, a modest correction has occurred due to fears of a global slump. The average price per barrel of Brent crude was USD 117 in the second quarter and USD 112 in the third (in accordance with the forecast). Moreover, geopolitical unrest in the Middle East is quieting down and Libyan production is expected to restart.

Prices of other key raw materials present a similar picture. The price of wheat, for example, fell to USD 316 per ton in the third quarter versus an average of USD 339 in the previous quarter.

Graph A.1.2: Dollar Prices of Brent Crude Oil

in USD per barrel



We have held the estimate for Brent crude oil at USD 110 per barrel (unchanged) for 2011. For 2012, we have decreased it to USD 107 (versus USD 112). Forecast risks are to the down side.

Global financial markets

The third quarter of this year was characterised by escalation and deepening of the debt crisis in the euro zone. Greece has again found itself at the centre, though other problematic states have not been spared. The contagion is spreading to equity markets and is also impacting the banking sector.

The euro zone tried to find a solution to the debt crisis in mid-July at a summit in Brussels. There, its leading representatives agreed, among other things, on a second bailout package for Greece (EUR 109 billion from euro area member states and the IMF and up to EUR 50 billion from the private sector), an extension on the maturity of bailout loans (including current loans for Greece, Ireland and Portugal) from the current maximum of 7.5 years to 15–30 years, and more advantageous interest rates on the provided loans (now ca 3.5–4.0%). The powers of the European Financial Stability Facility (EFSF) bailout fund and its “successor”, the European Stability Mechanism (ESM), were reinforced. Using loans to governments, the EFSF could finance a possible recapitalisation of financial institutions, even in countries which will not draw other financial aid from the EFSF. Under certain circumstances, it also could intervene on the secondary market for government bonds.

The results of the July summit were approved in all states of the euro zone after almost three months, though in Slovakia the extension of the EFSF was approved only at a second attempt. At the same time, discussions have already started on its further reinforcement, as EFSF in its current form is not large

enough to handle possible difficulties in Italy and Spain.

Meanwhile, spread of the debt contagion into the third and fourth largest economies of the euro zone is not just a hypothetical scenario. Italy and Spain had already come under pressure from financial markets at the turn of July and August, as the yields of 10Y state bonds surpassed the 6% level. Only the ECB's interventions in the form of state bond purchases on the secondary market contributed to alleviating that pressure. The total volume of bonds purchased under the Securities Markets Programme increased by EUR 89 billion between 8 August and 7 October.

Italy and Spain have also been warned by rating agencies. S&P downgraded Italy's rating by one level (from A+ to A, negative outlook) in mid-September. A similar change in rating occurred for Spain less than a month later, as its rating also was downgraded by a notch (from AA to AA-, negative outlook). In October, Italy's rating was also downgraded by both Moody's (by 3 levels, from Aa2 to A2) and Fitch (by one level, from AA- to A+, negative outlook), the latter also adjusting its rating for Spain (rating downgraded by two levels, from AA+ to AA-, negative outlook).

Regardless of the situation in Italy and Spain, future development will play out in Greece, which has in reality been insolvent for a long time. It is only prevented from sinking by a lifebelt of loans from euro area member states and the IMF. Nevertheless, Greece has been unable to fulfil the objectives in consolidating public finances (among other areas) as agreed with the euro zone and IMF. Despite this, another tranche of financial aid should be provided to Greece in early

November in the amount of EUR 8 billion (5.8 billion from euro zone countries and 2.2 billion from the IMF).

Although Greece should not default in the nearest term, a restructuring of its debt clearly cannot be avoided. In the event of a managed bankruptcy for Greece (and unmanaged bankruptcy is highly improbable), the current bailout mechanism (the EFSF) clearly would not prevent a spread of the contagion to other problematic states. Moreover, the banking sector would also become infected, even in countries at the heart of the euro zone (Germany, France). European politicians thus should attempt to create an environment which would limit the risks of deep impacts from a Greek default.

In this respect, a certain change in the euro zone's stance on resolving the current situation is indicated by the conclusion of a meeting between Chancellor Merkel and President Sarkozy in Berlin on 9 October. A focus should be placed on recapitalising banks so that they are able to absorb possible losses resulting from holding state bonds of problematic countries. The existence of instruments that would enable a swift response to developments and rapid replenishment of bank capital would open a path to a managed bankruptcy for Greece. At the same time, such instruments should reduce risk for the occurrence of bank crises and the spread of the debt crisis to other countries.

The impact on the Czech economy would then depend primarily on whether and to what extent these risks would become reality after Greece's managed bankruptcy (for more, see the introductory chapter "Risks to the Forecast").

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									<i>Forecast</i>	<i>Forecast</i>
USA	2.5	3.5	3.1	2.7	1.9	-0.3	-3.5	3.0	1.6	1.9
EU27	1.3	2.5	1.9	3.3	3.1	0.5	-4.3	1.8	1.7	1.1
EA12	0.7	2.1	1.6	3.2	2.9	0.4	-4.2	1.8	1.7	1.0
Germany	-0.4	1.2	0.7	3.7	3.3	1.1	-5.1	3.7	2.9	1.2
France	0.9	2.5	1.8	2.5	2.3	-0.1	-2.7	1.5	1.7	1.3
United Kingdom	2.8	3.0	2.2	2.8	2.7	-0.1	-4.9	1.4	1.2	1.8
Austria	0.9	2.6	2.4	3.7	3.7	1.4	-3.8	2.3	2.9	1.9
Hungary	4.0	4.5	3.2	3.6	0.8	0.8	-6.7	1.2	1.4	1.7
Poland	3.9	5.3	3.6	6.2	6.8	5.1	1.6	3.8	4.2	3.6
Slovakia	4.8	5.1	6.7	8.5	10.5	5.8	-4.8	4.0	3.4	3.0
Czech Republic	3.6	4.5	6.3	6.8	6.1	2.5	-4.1	2.3	2.1	1.0

Graph A.1.3: Real Gross Domestic Product

YoY growth in %, nsa data

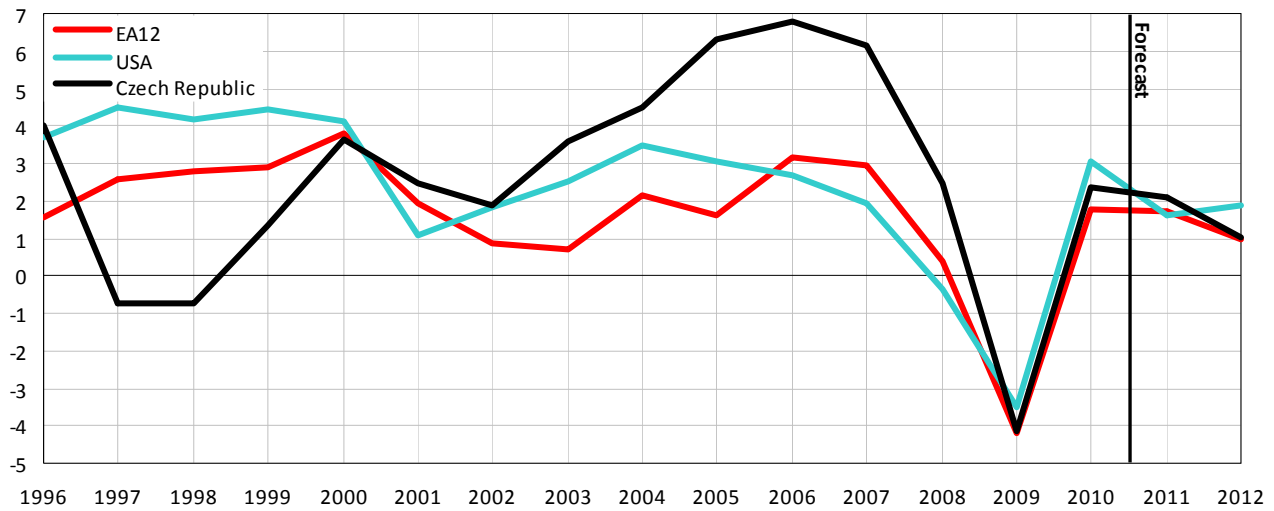


Table A.1.2: Real Gross Domestic Product – quarterly

growth in %, sa data

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Estimate Forecast</i>			
USA	QoQ	1.0	0.9	0.6	0.6	0.1	0.3	0.4	0.3
	YoY	2.2	3.3	3.5	3.1	2.2	1.6	1.4	1.1
EU27	QoQ	0.4	1.0	0.5	0.2	0.7	0.2	0.4	0.3
	YoY	0.7	2.1	2.3	2.1	2.4	1.7	1.6	1.7
EA12	QoQ	0.4	0.9	0.4	0.3	0.8	0.1	0.3	0.0
	YoY	0.9	2.0	2.0	1.9	2.4	1.6	1.5	1.2
Germany	QoQ	0.5	1.9	0.8	0.5	1.3	0.1	0.3	0.2
	YoY	2.4	4.1	4.0	3.8	4.6	2.8	2.3	2.0
France	QoQ	0.2	0.5	0.4	0.3	0.9	0.0	0.4	0.3
	YoY	1.1	1.5	1.7	1.4	2.1	1.6	1.6	1.6
United Kingdom	QoQ	0.4	1.1	0.6	-0.5	0.5	0.2	0.5	0.5
	YoY	-0.3	1.6	2.5	1.5	1.6	0.7	0.6	1.6
Austria	QoQ	-0.9	1.4	1.4	0.6	0.8	0.7	0.2	0.3
	YoY	0.4	2.8	3.6	2.5	4.3	3.5	2.3	2.0
Hungary	QoQ	1.0	0.4	0.8	0.2	0.3	0.0	0.6	0.4
	YoY	-0.9	0.7	2.4	2.4	1.7	1.2	1.0	1.3
Poland	QoQ	0.7	1.1	1.3	0.9	1.1	1.1	0.7	0.8
	YoY	3.1	3.6	4.6	3.9	4.4	4.5	3.9	3.8
Slovakia	QoQ	0.7	0.9	0.8	0.8	0.9	0.9	0.7	0.7
	YoY	4.5	4.3	4.0	3.3	3.5	3.5	3.4	3.3
Czech Republic	QoQ	0.8	0.6	0.8	0.5	0.9	0.1	0.3	0.1
	YoY	1.2	2.3	2.6	2.7	2.8	2.2	1.8	1.4

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

YoY growth in %, nsa data

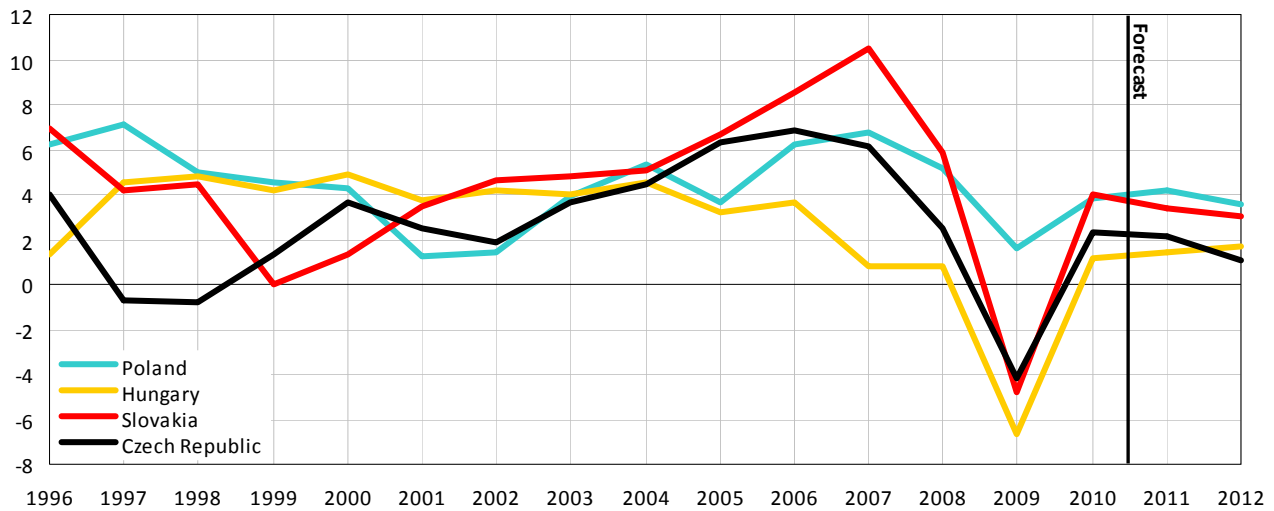


Table A.1.3: **Prices of Commodities** – yearly

spot prices

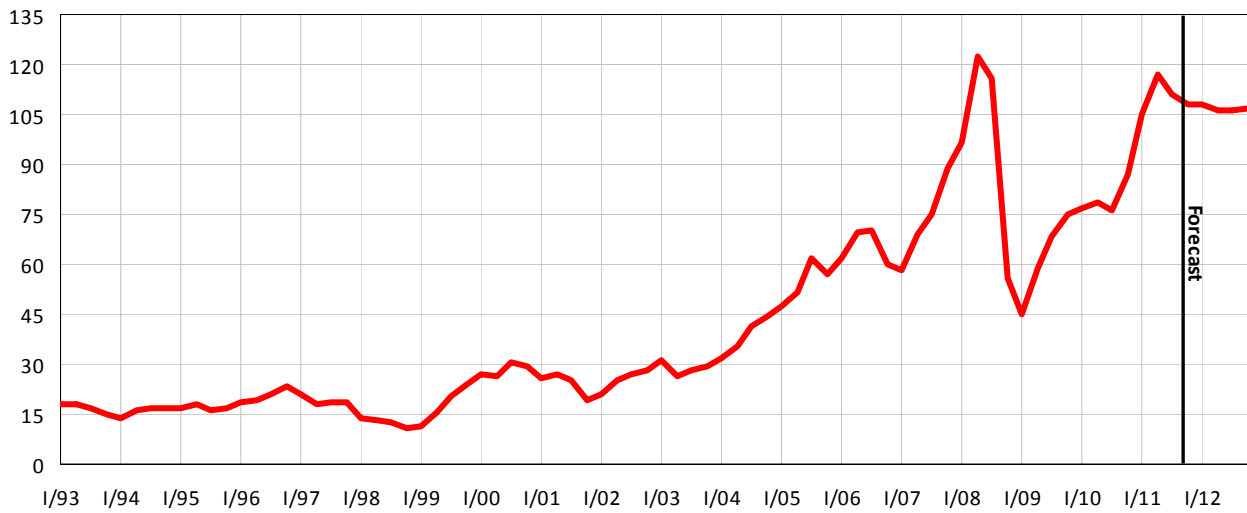
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
											Forecast	Forecast
Crude oil Brent	USD/barrel	28.8	38.3	54.4	65.4	72.7	97.7	61.9	79.7	110	107	
	growth in %	14.0	33.0	42.0	20.1	11.2	34.4	-36.7	28.7	38.4	-3.2	
Crude oil Brent index (in CZK)	2005=100	62.4	75.6	100.0	113.4	113.3	127.7	90.5	116.8	148	145	
	growth in %	-1.7	21.1	32.3	13.4	-0.1	12.7	-29.1	29.1	26.7	-1.9	
Wheat	USD/t	146.1	156.9	152.4	191.7	255.2	326.0	223.6	223.7	.	.	
	growth in %	-1.6	7.3	-2.8	25.8	33.1	27.7	-31.4	0.1	.	.	
Wheat price index (in CZK)	2005=100	113.0	110.5	100.0	118.7	142.0	152.1	116.7	117.1	.	.	
	growth in %	-15.2	-2.3	-9.5	18.7	19.6	7.1	-23.3	0.3	.	.	

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

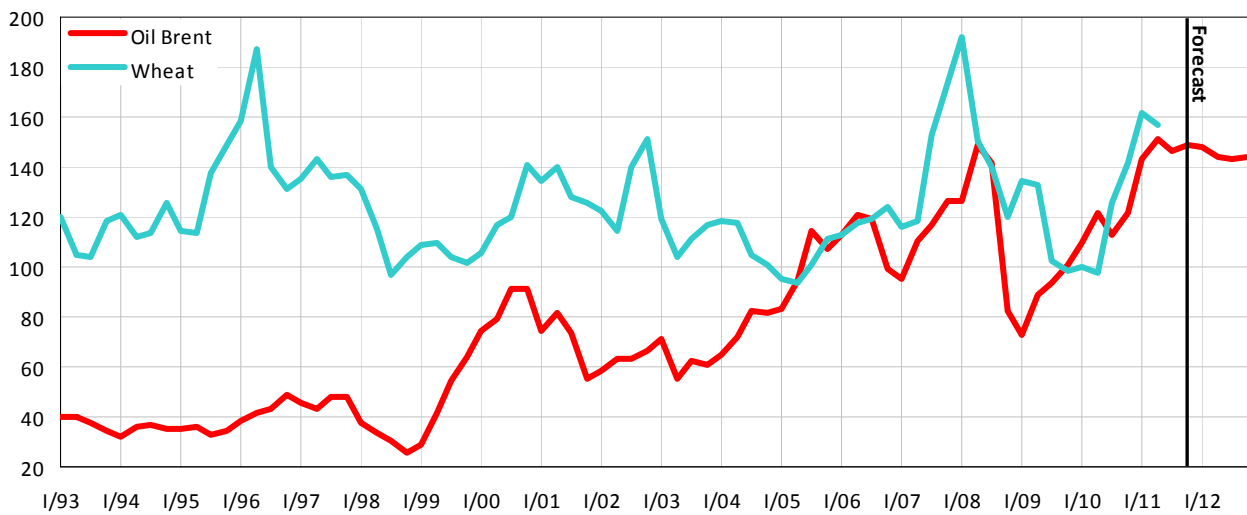
spot prices

		2010				2011				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
									Estimate	Forecast
Crude oil Brent	USD/barrel	76.7	78.7	76.4	86.8	104.9	117.1	111	108	
	growth in %	70.4	33.2	11.7	15.7	36.8	48.8	45.3	24.4	
Crude oil Brent index (in CZK)	2005=100	109.9	121.4	112.9	121.3	143.2	151.5	147	149	
	growth in %	50.4	37.0	20.4	20.5	30.3	24.8	30.0	22.5	
Wheat price	USD/t	195.7	177.5	237.9	283.6	330.5	339.0	316	.	
	growth in %	-15.6	-28.4	13.9	38.1	68.9	91.0	32.7	.	
Wheat price index (in CZK)	2005=100	100.2	97.9	125.7	141.7	161.3	156.8	149	.	
	growth in %	-25.6	-26.4	22.9	43.8	60.9	60.1	18.7	.	

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



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

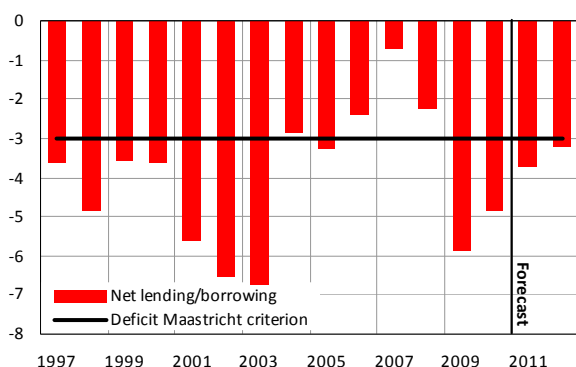


A.2 Fiscal Policy

All data in this chapter, in contrast to other sections of the *Macroeconomic Forecast*, already include a reconciling revision of the annual national accounts (see Chapter E) and are thus fully compatible with the nominal values of the government deficit and debt from the autumn notification.

According to preliminary CZSO estimates, the general government deficit reached approximately CZK 183 billion (4.8% of GDP) in 2010.

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



Compared to the estimate from last April, the deficit increased by almost CZK 10 billion (0.3% of GDP) in **2010**. The revision is due both to new facts which were not or could not have been known in April and to changes in the methodological approach for compiling national accounts¹.

Another change was a new approach to calculating accrual tax revenue from corporate entities and entrepreneurs. There was a shift in accounting for tax payments based on tax returns wherein the tax returns submitted from last November through August of this year are key for the past year (originally this period matched the calendar year). This change, however, will only adjust the distribution of tax revenues over time. Cumulative over a longer period, there will be no difference.

Sector reclassification in accordance with Eurostat rules also influences considerably the development of transactions and, therefore, the deficit. Based on the test criterion for inclusion under general government, a number of units were moved to the general government sector while several others were moved to other sectors. The impact of this operation on the 2010 balance is on the order of CZK 3 billion.

¹ For individual income tax, for example, the revenue now includes a tax bonus, which reached ca CZK 11 billion in 2010. The same amount, however, was subsequently attributed to the expenditure side as a transfer provided to households, and the resulting final balance has therefore not changed.

In contrast to the sharp drop in 2009, a recovery was recorded in general government revenues. This was evident especially in social contributions, VAT and excise taxes. A whole range of measures resulted in a decline on the expenditure side. These comprised operational savings in government administration (decrease in the wage bill and a drop in intermediate consumption), as well as a decline in investment expenditures and subsidies to subjects outside the government sector.

Positive development was evident also for interest costs, which grew only moderately despite relatively high debt dynamics. Interest rates have dropped in all issued maturities along the yield curve for government bonds. This reflects a positive view of the consolidation strategy being implemented.

Although last year's outcome appears relatively optimistic, it should be pointed out that tax receipts were significantly influenced by legislative changes, e.g. by increasing VAT and excise rates.

The Ministry of Finance expects the government deficit to decrease to CZK 142 billion (3.7% of GDP) in **2011**. Compared with the notification of the government deficit and debt from early April, this constitutes an improvement of 0.5% of GDP, due in part to an improvement in the balance by approximately CZK 12 billion as well as a more significant change in the base (GDP) versus the April forecast.

A slight improvement in tax revenues is expected compared to April. After adjusting for the influence of the tax bonus, the change is just under CZK 2 billion. Better development is estimated for social contributions, amounting to CZK 5 billion.

Interest costs also have a favourable influence, as a much more optimistic development is expected in comparison to April and the new estimate is some CZK 10 billion lower. The very cautious approach from early this year, which anticipated an increase in interest rates, now seems unrealistic, as this did not in fact occur.

Both the revenue and expenditure sides are also influenced by a decrease in investment subsidies (sources from the EU), which are reflected on the expenditure side in government investments, and overall thus influence the balance only in the amount of national co-financing. The decrease in government investments from April adjusted for deficit-neutral

investment subsidies from the EU thus comprises just under CZK 9 billion. This development is caused both by a decrease in last year's base, as the CZSO revised this item, and by revaluation of the outlook on the development of investments from national sources. As a result, the April assumption was corrected to approximately the same amount as last year.

The sales forecast, in contrast, developed negatively, dropping by almost CZK 14 billion due to, among other factors, a considerable decrease in the base from the preceding year.

Social transfers, both in-kind and monetary, were also reassessed negatively. Increased expenditures on health care by health insurance companies and on retirement pensions are expected in particular, thus placing greater demands on the state budget than originally expected due to a significant increase in the number of pensions paid out this year. The total amount of in-kind and monetary transfers is thus CZK 4 billion higher than in the previous estimate.

The influence of other items on revenues and expenditures is less significant and is largely compensated for.

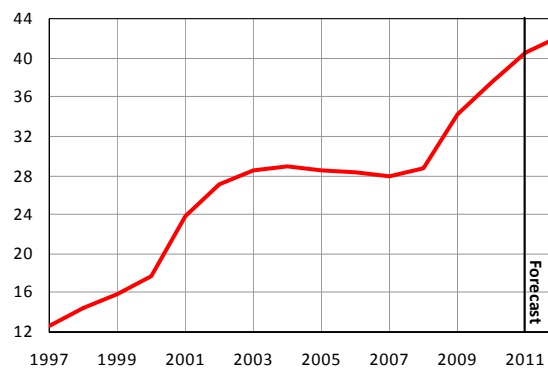
The current estimate, however, also bears certain risks. On the revenue side, the main concern is the non-fulfilment of tax estimates (VAT and social insurance contributions). The most recent development of cash performance suggests a decrease in their collection, and a key question is how this will develop in the remaining part of the year.

Non-fulfilment of the estimate for government investments financed from EU sources may present another problem, and especially due to the influence of subsequent co-financing. For some projects, moreover, the payment of EU funds is currently on hold. Projects continue to be implemented, however, with financing from national resources. In case of favourable development, the requested amount will be paid in arrears with no influence on the deficit. If the payment is not made, then these expenditures will be reclassified as investments exclusively from national resources and will thus have a negative impact on the balance.

The last significant risk is the possible adoption of a law by which the government will settle claims of property grievances vis-à-vis churches and religious institutions. The amount of money owed would be CZK 59 billion (1.5% GDP) and will probably be entirely assigned to the deficit in the year in which the law is adopted. Its effect would be one-off and would not influence government consolidation effort. The question remains whether the law will be passed and what will be the speed of the legislative process, which would then determine the year to which the transaction is included.

General government debt is estimated at 40.5% of GDP for the end of 2011. Primary deficit and then interest payments are the main contributors to an increase in debt quota.

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



The medium-term budget outlook for 2012–2014 presumes further continuous improvements in the general government balance. The targeted deficit trajectory aims to achieve a balanced budget of the general government sector in 2016. Towards this end, it has been proposed to further tighten the central government's medium-term expenditure frameworks. However, the risks posed by current macroeconomic developments in the foreign and domestic economies are so big that in order to fulfil the deficit trajectory, additional consolidation measures would be necessary should those risks be realised.

Further analysis of future development for the general government sector will be available in the November issue of the Fiscal Outlook of the Czech Republic.

Table A.2.1: Net Lending/Borrowing and Debt

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Prelim.	Forecast	Forecast
General government balance ¹⁾	bill. CZK	-180	-83	-101	-80	-27	-86	-219	-183	-142	-128
	% GDP	-6.7	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.8	-3.7	-3.2
Cyclical balance	% GDP	-0.7	-0.7	-0.1	0.6	1.2	1.1	-1.0	-0.5	-0.3	-0.5
Cyclically adjusted balance	% GDP	-6.0	-2.2	-3.1	-3.0	-1.9	-3.3	-4.9	-4.3	-3.4	-2.8
One-off measures	% GDP	-0.3	-0.7	-1.2	-0.2	-0.3	-0.1	0.3	0.0	-0.3	-0.3
Structural balance	% GDP	-5.8	-1.5	-1.9	-2.8	-1.6	-3.3	-5.2	-4.4	-3.1	-2.5
Fiscal effort ²⁾	percent. points	0.1	4.3	-0.4	-0.9	1.1	-1.6	-1.9	0.8	1.2	0.6
Interest expenditure	% GDP	1.0	1.1	1.1	1.1	1.1	1.0	1.3	1.4	1.4	1.4
Primary balance	% GDP	-5.4	-1.1	-1.0	-1.1	0.6	-1.1	-4.9	-3.5	-2.0	-1.5
Cyclically adjusted primary balance	% GDP	-4.7	-0.4	-0.8	-1.7	-0.6	-2.2	-3.9	-3.0	-1.7	-1.1
General government debt	bill. CZK	768	848	885	948	1 024	1 105	1 282	1 418	1 560	1 670
	% GDP	28.6	28.9	28.4	28.3	28.0	28.7	34.3	37.6	40.5	42.2
Change in debt-to-GDP ratio	percent. points	1.5	0.4	-0.5	-0.1	-0.3	0.8	5.6	3.3	2.9	1.7

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

¹⁾ Balance in EDP methodology, i.e. general government net lending (+)/borrowing (-) including interest derivatives.

²⁾ Change in structural balance.

A.3 Monetary Policy and Interest Rates

Monetary policy

The CNB's main policy objective is to maintain price stability. To achieve this, an **inflation-targeting** regime is used. By means of monetary instruments, the CNB tries to influence headline inflation so that YoY increase in the CPI should not deviate from the medium-term inflationary target of 2% by more than ± 1 p.p. The main monetary policy instrument is the interest rate for **2W repo operations**, which remained at 0.75% in the third quarter of 2011. This can be regarded as a very low value from a long-term perspective.

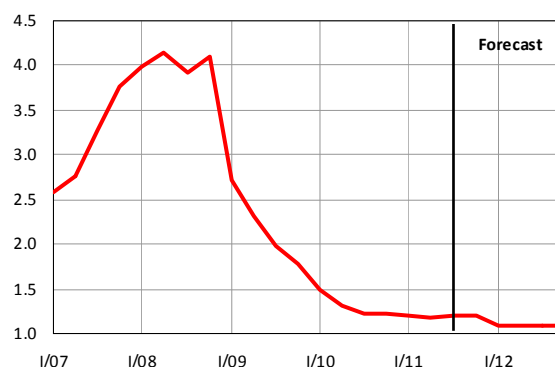
In relation to price levels, the CNB also monitors developments in **interest-rate differentials** vis-à-vis other world economies (EA countries, USA). The interest-rate differentials may significantly affect international capital flows and thus impact on price levels in the individual countries through the exchange rate. At present, there are no important pressures from this perspective, especially due to the narrow interest spreads, which, as of the third quarter of 2011, amounted to -0.75 p.p. between the Czech Republic and the EMU and from 0.50 to 0.75 p.p. relative to the US.

Interest rates

The average value for **3M PRIBOR** held at 1.2% (*in line with the forecast*) in the third quarter of 2011. Due to presumed very weak growth, we estimate the same value for all of 2011 (*versus 1.3%*). For 2012, we expect a slight decrease in 3M PRIBOR to 1.1% (*versus 2.1%*). The significant change versus the previous prediction is due to the presumed absence of demand inflation.

Graph A.3.1: PRIBOR 3M

in %



Long-term interest rates should rise only very moderately in coming months. In August, Standard & Poor's upgraded the Czech Republic's debt rating from A to AA-, i.e. by two notches. Moody's and Fitch Ratings kept their ratings at A1. Due to this development, further successful issues of government bonds can be expected. Faith in Czech fiscal policy is reflected in the negative spread versus average long-term rates in the euro zone (see Graph A.3.6).

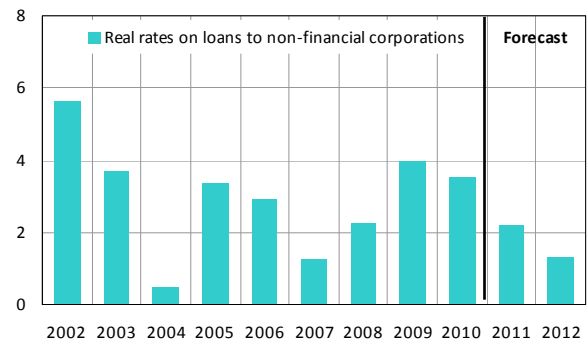
The influence of the debt crisis that has afflicted several euro zone countries (especially Greece) on development of the risk premia for government bonds is very difficult to estimate. At present, the Czech Republic can be considered to have a positive image among investors, as reflected, for example, by the strong positive correlation between the yields of Czech and German bonds. We estimate the average **yield to maturity for 10-year government bonds** in 2011 and 2012 to be 3.7% (*versus 4.1% and 4.3%, respectively*), rising slightly only in late 2012. The spread between Czech and German bonds should decrease moderately.

Interest **rates for deposits and loans** respond with a lag to the fluctuations of interbank rates. In the second quarter of 2011, these held steady at 4.0% for loans to non-financial corporations and at 1.2% for households' deposits. We expect average rates for loans to non-financial corporations to reach

approximately 3.9% (*versus 4.1%*) this year, and in 2012 we expect these to stay level at 3.9% (*versus 4.6%*) due to the aforementioned steady interbank rates. Average household deposit rates should reach 1.2% (*versus 1.3%*) in 2011 and remain at this value in 2012 (*versus an increase to 1.5%*). This forecast, however, is conditioned upon the debt crisis in the euro zone not deepening further.

Graph A.3.2: Average Real Rates on Loans

rates on loans deflated by end-of-year final domestic use deflator, in % p.a.



The development of real interest rates is fundamental to the real economy. The estimates of nominal interest rates, CPI and the final domestic use deflator imply a decrease in real interest rates for loans to non-financial corporations to 2.2% (*versus 1.9%*) in 2011 and to 1.3% (*versus 2.0%*) in 2012.

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									<i>Forecast</i>	<i>Forecast</i>
Repo 2W CNB (end of year)	2.00	2.50	2.00	2.50	3.50	2.25	1.00	0.75		
Main refinancing rate ECB (end of year)	2.00	2.00	2.25	3.50	4.00	2.50	1.00	1.00		
Federal funds rate (end of year)	1.00	2.25	4.25	5.25	4.25	0.25	0.25	0.25		
PRIBOR 3M	2.28	2.36	2.01	2.30	3.09	4.04	2.19	1.31	1.2	1.1
Government bond yield to maturity (10Y)	4.12	4.75	3.51	3.78	4.28	4.55	4.67	3.71	3.7	3.7
Interest rates on loans to non-financial corpor.	4.57	4.51	4.27	4.29	4.85	5.59	4.58	4.10	3.9	3.9
Interest rates on deposits from households	1.40	1.33	1.24	1.22	1.29	1.54	1.37	1.25	1.2	1.2
Real rates on loans to non-financial corporations¹⁾	3.72	0.47	3.38	2.95	1.24	2.27	3.97	3.52	2.2	1.3
Net real rates on deposits from households with agreed maturity²⁾	0.18	-1.64	-1.13	-0.63	-4.11	-2.26	0.17	-1.21	-1.6	-1.3

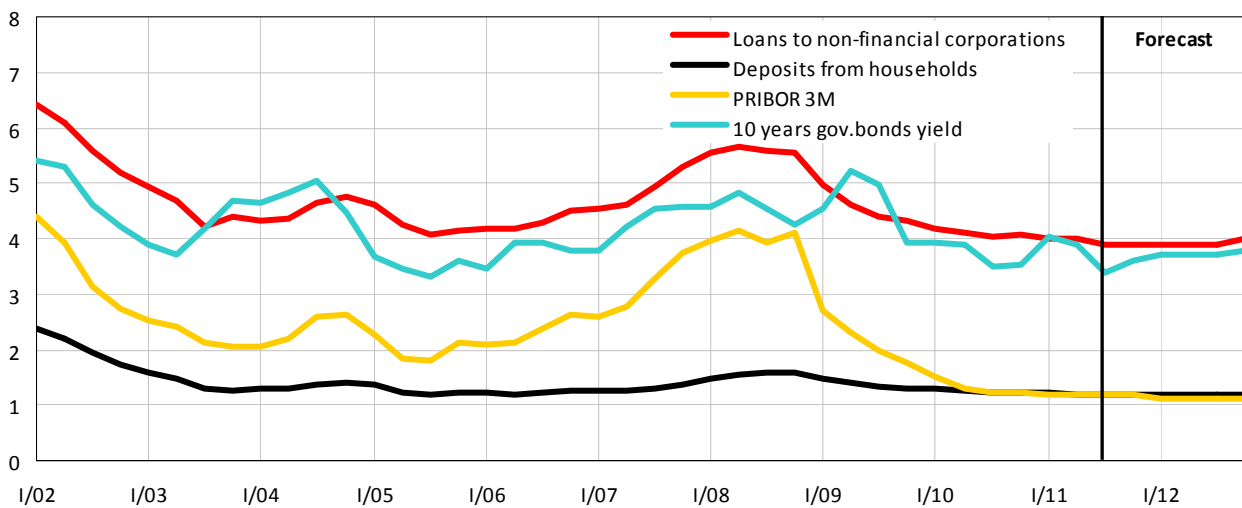
¹⁾ Deflated by gross domestic expenditure deflator.

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

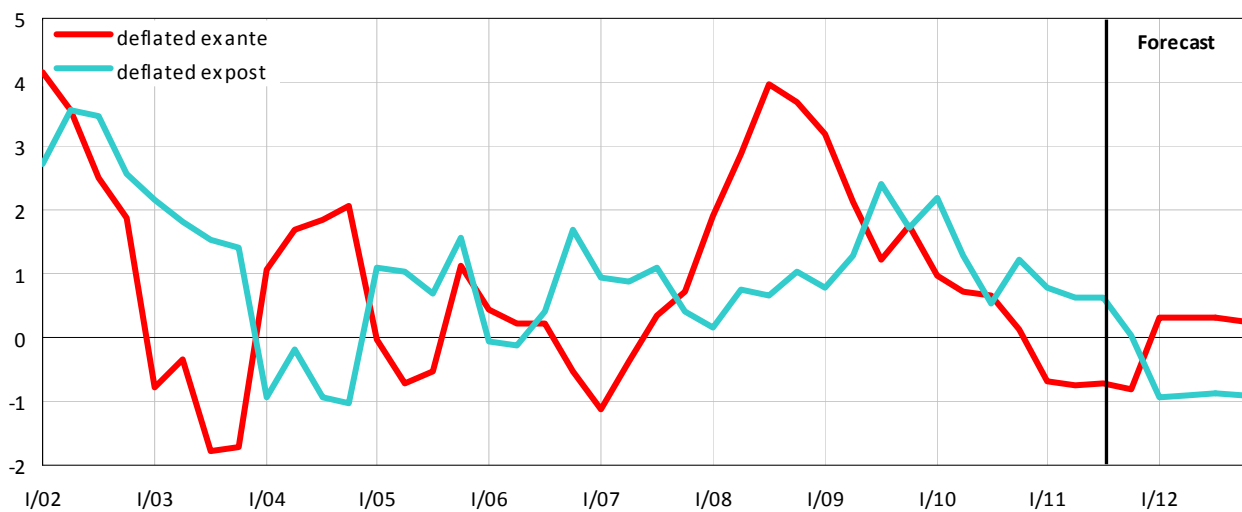
Table A.3.2: **Interest Rates** – quarterly
average interest rates in per cent p.a.

	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							<i>Estimate</i>	<i>Forecast</i>
Repo 2W rate CNB (end of period)	1.00	0.75	0.75	0.75	0.75	0.75	0.75	.
Main refinancing rate ECB (end of period)	1.00	1.00	1.00	1.00	1.00	1.25	1.50	.
Federal funds rate (end of period)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	.
PRIBOR 3M	1.50	1.30	1.23	1.21	1.20	1.21	1.18	1.2
–10-year government bonds yield to mat.	3.94	3.90	3.48	3.51	4.03	3.90	3.40	3.6
Interest rates on loans to non-fin. corporations	4.19	4.11	4.05	4.06	4.00	3.99	3.9	3.9
Interest rates on deposits from households	1.30	1.27	1.22	1.22	1.21	1.20	1.2	1.2

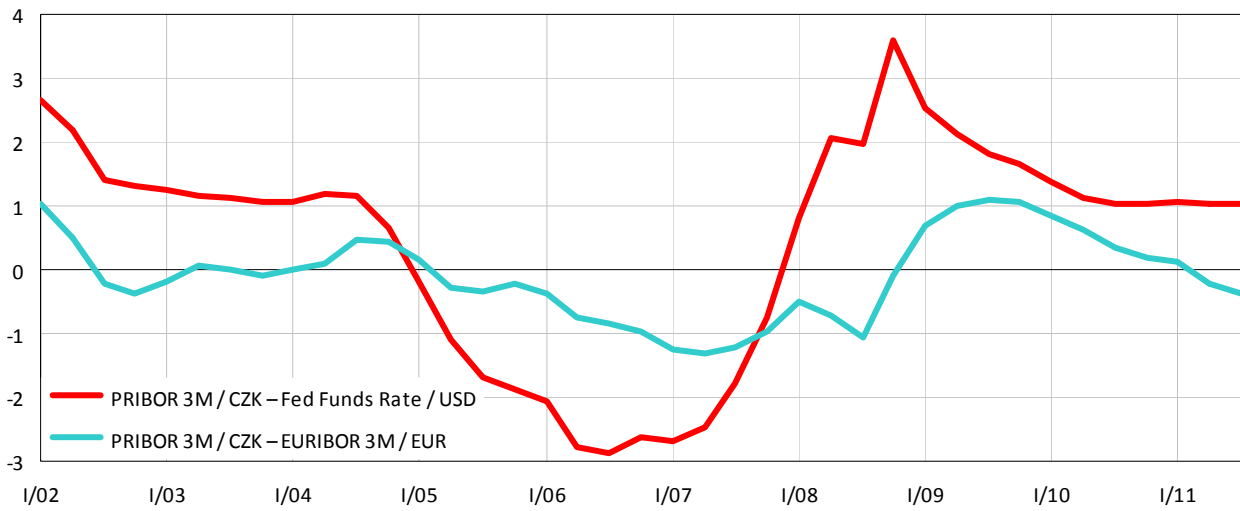
Graph A.3.3: **Interest Rates**
in % p.a.



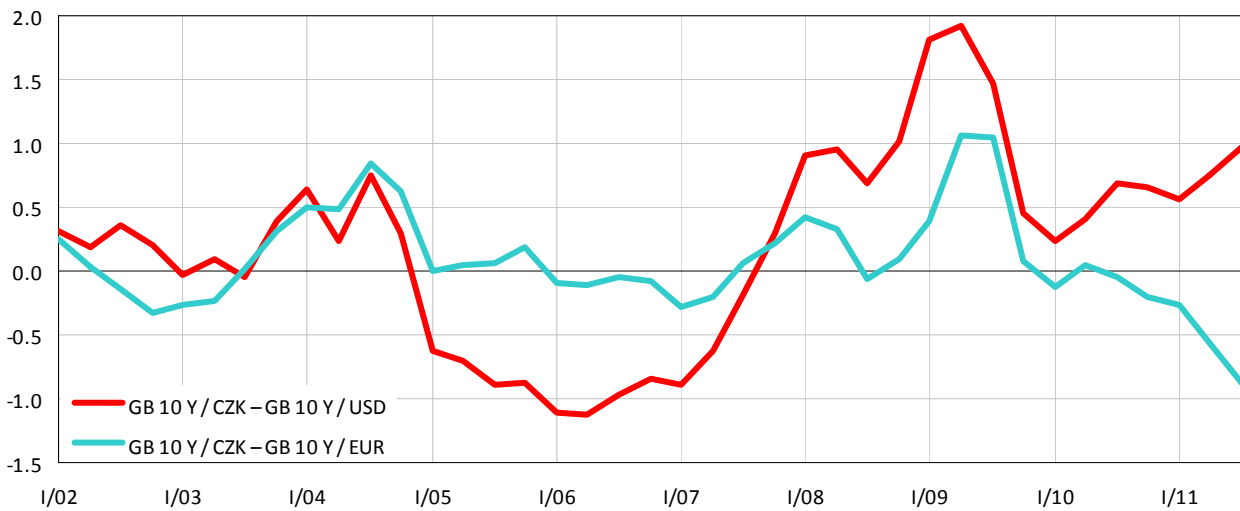
Graph A.3.4: **Real PRIBOR 1Y**
deflated ex post and ex ante by gross domestic expenditure deflator, in % p.a.



Graph A.3.5: Short-Term Interest Rate Spread
in percentage points



Graph A.3.6: Long-Term Interest Rate Spread
government bonds, in percentage points



A.4 Exchange Rates

The average **CZK/EUR exchange rate** reached 24.39 in the third quarter of 2011, approximately the same value as in the first half of the year. The worsening situation on financial markets and increasing aversion to risk during September 2011 led to a gradual weakening to the value of 24.90 CZK/EUR. We regard this weakening of the free-floating Czech koruna as positive, because it may help exporters to cope with the expected slowdown in foreign demand.

We have moderated the assumption of exchange-rate appreciation for the coming period such that both the nominal and real exchange rates should stay under the long-term trend for the entire forecast horizon. Should the situation in the euro zone's problem countries become more dramatic, an increase of volatility is likely and sharp movements of the exchange rate in either direction cannot be ruled out.

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

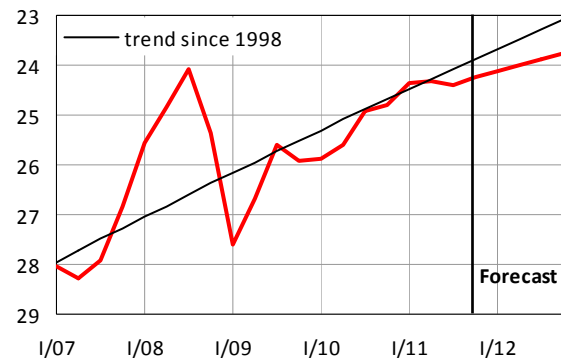


Table A.4.1: Exchange Rates – yearly

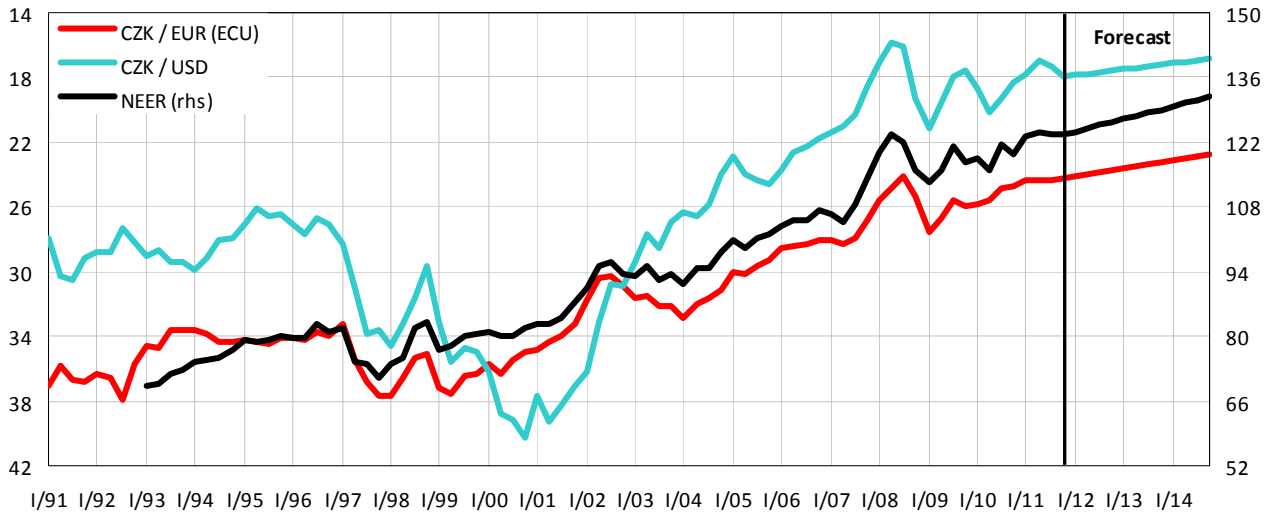
			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
									Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:												
CZK / EUR	<i>average</i>		29.78	28.34	27.76	24.94	26.45	25.29	24.3	23.9	23.4	22.9
	<i>appreciation</i>	<i>growth in %</i>	7.1	5.1	2.1	11.3	-5.7	4.6	3.9	1.7	2.2	2.2
CZK / USD	<i>average</i>		23.95	22.61	20.31	17.03	19.06	19.11	17.5	17.7	17.4	17.0
	<i>appreciation</i>	<i>growth in %</i>	7.3	5.9	11.3	19.2	-10.6	-0.3	9.2	-1.3	2.2	2.2
NEER	<i>average of 2005=100</i>		100.0	105.4	108.5	120.3	117.0	118.8	124	125	128	131
	<i>appreciation</i>	<i>growth in %</i>	5.6	5.4	3.0	10.8	-2.8	1.5	4.1	1.3	2.2	2.2
Real exchange rate to EA12¹⁾	<i>average of 2005=100</i>		100.0	104.3	107.6	119.7	114.6	117.5	120	123	124	126
	<i>appreciation</i>	<i>growth in %</i>	4.8	4.3	3.1	11.2	-4.2	2.5	2.6	1.9	1.3	1.3

¹⁾ Deflated by GDP deflators.

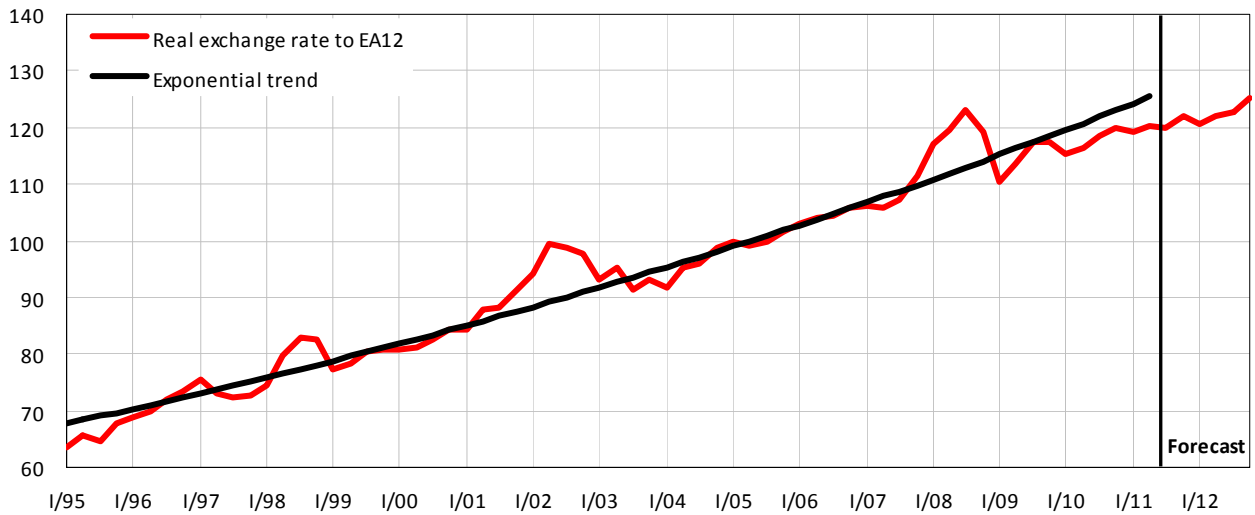
Table A.4.2: Exchange Rates – quarterly

			2010				2011			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Estimate	Forecast	
Nominal exchange rates:										
CZK / EUR	<i>average</i>		25.87	25.59	24.91	24.79	24.37	24.32	24.39	24.3
	<i>appreciation</i>	<i>growth in %</i>	6.7	4.3	2.7	4.6	6.1	5.2	2.2	2.2
CZK / USD	<i>average</i>		18.71	20.16	19.30	18.26	17.83	16.90	17.27	18.0
	<i>appreciation</i>	<i>growth in %</i>	13.3	-2.8	-7.3	-4.0	5.0	19.3	11.7	1.6
NEER	<i>average of 2005=100</i>		118.3	116.0	121.6	119.3	123.4	124.1	124	124
	<i>appreciation</i>	<i>growth in %</i>	4.4	0.1	0.4	1.3	4.3	7.0	1.6	3.7
Real exchange rate to EA12	<i>average of 2005=100</i>		115.3	116.3	118.7	119.8	119.3	120.3	120	122
	<i>appreciation</i>	<i>growth in %</i>	4.3	2.3	1.1	2.1	3.5	3.5	1.1	2.0

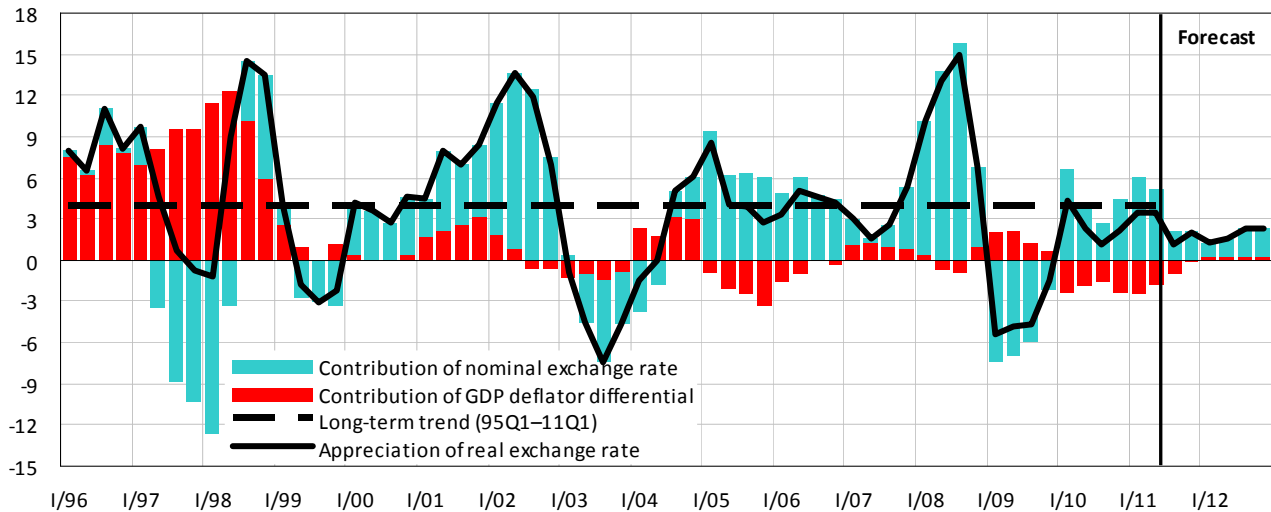
Graph A.4.2: Nominal Exchange Rates
quarterly average, average 2005 = 100 (rhs)



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



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



A.5 Structural Policies

Business environment

On 27 September 2011, the Chamber of Deputies passed a proposal for the **act on criminal liability of legal entities**, which will make it possible to punish companies, for example, for money laundering, tax evasion, operating rigged games and wagers, money counterfeiting, or arranging an advantage in awarding a public contract. Punishment can take the form of a ban on activities, monetary fines, forfeiture of property, prohibition to receive subsidies, or prohibition to participate in public tenders. It will even be possible to liquidate a company if its activities are primarily criminal. The act is expected to take effect as from 1 January 2012.

Taxes

In order to simplify the tax system and decrease tax administration, on 24 August 2011 the Czech government passed a proposal for an act amending other acts related to establishing a single collection point. The proposal is known as the **3rd pillar of the tax reform** and represents a reform of direct taxes and contributions.

The reform discards the concept of a super-gross wage and unifies the individual and corporate income tax rates as well as gift tax rate at 19%. The employer's contributions to social security and public health insurance will be realised by means of a contribution from the total wages to public insurance with a rate of 32%. Insurance rates for social security and public health insurance for employees will be unified at 6.5% while the upper limit for the social security premium will be four times the average wage and the limit for the social security premium will be six times the average wage. The basic discount per payer in the amount of CZK 24,840 will only be provided up to four times the average wage. Tax relief for a child will increase by CZK 1,800 yearly, and the maximum tax bonus amount will increase by CZK 8,100. Tax deductibility of interest from mortgage loans will be decreased from CZK 300,000 to CZK 80,000 per household.

The tax reform proposal also cancels certain tax deductions, such as for catering provided in non-monetary form at the workplace or as part of company catering provided by other entities, including food vouchers, or advantages provided by the employer for personal public transport to its employees and their family members in the form of free or discounted

fares. A tax discount in the amount of CZK 3,000 per year will be introduced in this connection.

Premium rates for social security and public health insurance for self-employed persons will be decreased to 6.5%, but the assessment base will be extended to 100%. Expenditure flat rates will be preserved. The limit for mandatory value added taxpayer registration for taxable persons and entities will be decreased to CZK 750,000.

Last but not least, the reform cancels the dividends tax but introduces a 20% tax on companies operating in the gambling sector.

The reform measures are expected to come into effect on 1 January 2013. The only exception concerns contributions from lotteries, for which the proposed date of effectiveness is 1 January 2012.

On 2 September 2011, the Chamber of Deputies ratified an amendment to the **Value Added Tax Act**. On 1 January 2012, the reduced tax rate will be increased from 10% to 14%. On 1 January 2013, the rates will be harmonised at 17.5%.

Financial markets

With the goal of reducing budgetary costs from supporting building savings schemes, the Chamber of Deputies approved on 2 September 2011 **legislation amending the conditions of building savings schemes**. The maximum amount of state contribution will be decreased from 15% to 10%, while the maximum limit for the base will be retained at CZK 20,000 and tax breaks for interest from building society savings will be abolished. The amendment is expected to come into force on 1 January 2012.

Energy

On 21 September 2011, the government of the Czech Republic approved the **request for allocation of free-of-charge permits to be used for investments in equipment and modernisation of infrastructure and in clean technologies and the national investment plan**, prepared by the Ministry of the Environment of the Czech Republic. In the years 2013–2020, the Czech Republic will have 638 million permits available, of which 280 million permits will be sold in auction, 250 million permits will be allocated free of charge to Czech industry, and the remaining 108 million permits will be allocated to electricity companies for free in exchange for investments in clean technologies. The number of

free permits allocated to electricity companies will gradually be decreased over the course of the entire period, and in 2020 permits will only be sold to electricity companies in auction.

Labour market

The Chamber of Deputies approved **pension reform** on 9 September 2011. The reform is comprised of two pieces of legislation, one concerning pensions and the other concerning supplementary pensions. The legislation is necessary for creation of the pension system's second tier and transformation of the third tier. The legislation stipulates that the second tier be financed by release of pension contributions from the first tier. Participants in the second tier reduce their contribution rate to the first tier by 3 p.p. and add an additional 2 p.p. from their own sources. People will be able to decide about this release prior to reaching the age of 35. People older than 35 at the time of the reform's launch will have to make a decision within a 6 months time frame. A decision may not be changed after it has been taken or after the deadline has passed.

The old age pension from the first tier will consist of basic and percentage allowances. The basic pension allowance will be paid out in full regardless of participation in the second tier, while the percentage allowance will be calculated to reflect the length of participation in the second tier and hence the lesser pension contributions paid into the first tier. Old age pension from the second tier will be paid in the form of either lifelong annuities, lifelong annuities with an agreed payment of survivor's pension in the same amount for the period of 3 years from the day of the participant's death, or annuities paid out for a period of 20 years (in case of the pension beneficiary's death before the 20-year period has elapsed the entitlement to the pension payments passes to the inheritance).

The administration of funds is to be provided by pension companies, which will be required to offer four types of funds (general, conservative, balanced and dynamic) reflecting different investment limits, portfolio structures and risks. Transformation costs (due to dropping away of income to the first tier) will be covered primarily with resources received from unifying of VAT rates. The reform should take effect as from 2013.

An **amendment to the Pension Insurance Act** took effect on 30 September 2011, strengthening the tie between the pension and pension contributions paid. The basic pension allowance and reduced ceiling for its

calculation will no longer be stipulated as a fixed amount but will be derived from the average wage in the economy. The basic pension allowance is currently CZK 2,230 and will now be 9% of the average salary. The first reduction ceiling, which was newly set at 44% of the average salary, will remain roughly unchanged at the current level of CZK 11,000, and any income that does not exceed this amount will be taken into account at 100% also in future. The second reduction ceiling will be raised from the current CZK 28,200 to 400% of the average salary. For the purposes of pension calculations, however, only 26% of this amount will be included. The reduction from the current 30% will be carried out gradually. Income exceeding 400% of the average salary will no longer influence the pension amount after 2014. The increase will be carried out gradually in several steps, from 30 September 2011 until the end of 2014.

The amendment also accelerates harmonisation of the retirement ages for men and women. For insured persons born in 1975, the harmonisation will occur in 2041. Thereafter, the retirement age of all policyholders will be increased at a rate of two months per year in accordance with the expected development of life expectancy, without an explicit designation of the final retirement age.

On 9 September 2011, the Chamber of Deputies approved three legislative amendments, collectively known as **social reform I**, with the objective of simplifying the social security system, reducing administrative burdens for users of services, and improving the targeting and needs calculation of social benefits. The reform concerns amendments to several acts related to consolidating the payment of non-insurance social benefits, the Act on Providing Benefits to Persons with Disabilities, and the Employment Act. The aforementioned acts should come into effect on 1 January 2012.

An act amending several acts related to consolidating the payment of non-insurance social benefits consolidates the process of paying out non-insurance social security benefits. The Labour Office of the Czech Republic takes over the responsibilities for benefits for aid in case of material need, benefits for persons with disabilities, and contributions towards care, together with the role of performing inspection of social services provision. The office at the same time becomes the sole contact point for benefit claimants. Furthermore, the act toughens conditions for persons who consciously evade work, introduces a time limit

for the payment of housing contributions, and expands the possibilities of parents to select both the length of time for drawing and amount of parental benefits.

The Act on Providing Benefits to Persons with Disabilities combines the existing benefits into two aggregated benefits – a monthly mobility contribution and a one-time contribution to special aids. The Act also governs the card for people with disabilities and several benefits to which the holders of these cards are entitled.

The Employment Act makes support for the employment of persons with disabilities at protected workplaces more effective, limits the abuse of legal regulations in the area of providing benefits to support the employment of persons with disabilities, and governs the provision of so-called alternative compliance with the required proportion of persons with disabilities. The act also toughens penalties for undertaking illegal work and adjusts the definition of illegal work to make it easier to verify. Last but not least, it regulates the intermediation of employment and unemployment benefits.

On 9 September 2011, the Chamber of Deputies approved an **amendment to the Labour Code** which should make the labour market more flexible and increase the motivation of companies to create new jobs. The amendment will allow a trial period for senior staff of up to 6 months and a severance payment upon termination of employment due to organisational changes according to the number of years of employment. It will be possible to conclude employment for a fixed period of up to 3 years, and it will be possible to extend this twice more by the same period with the same employer. It will now also be possible to give notice to an employee who seriously

breaches a treatment regime in the first 21 days of sick leave. The amendment to the Labour Code should become effective on 1 January 2012.

Health care

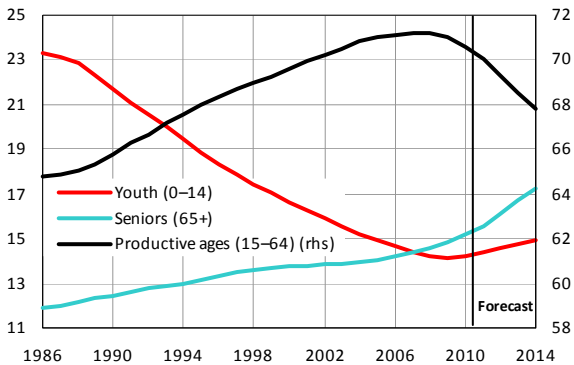
On 29 September 2011, the President of the Czech Republic signed an amendment to the Public Health Insurance Act, known as the **first phase of the health care reform**. The amendment introduces a definition of standard care and enables patients in individual cases to pay for so-called above-standard care. It also introduces electronic auctions for medication prices. One type of medication selected by the State Institute for Drug Control will be paid for in full by public health insurance, while others will be paid for at only 75% of the basic coverage. Last but not least, the amendment raises the hospital-stay fee from CZK 60 to CZK 100 per day, imposes a charge on medication of up to CZK 50, and introduces a single charge for prescriptions of CZK 30. The reform will become effective on 1 January 2012.

The second phase of the health reform, which includes the act on medical services, act on emergency medical services, and act on specific medical services, was approved by the Chamber of Deputies on 7 September 2011. The reform regulates the rights and obligations of medical personnel and patients, stipulates the conditions for providing emergency medical service, and establishes procedures for performing medical operations which in the majority of cases are irreversible. The reform is expected to come into effect on the 1st day of the 4th calendar month after its announcement.

A.6 Demographic Trends

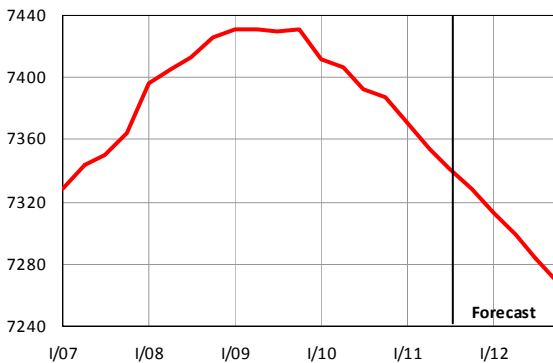
According to preliminary data, the population of the Czech Republic grew by 9 thous. to 10.542 million people in the first half of 2011. Neither the slight natural population increase (1 thous.) nor the slightly positive migration balance (8 thous.) diverged significantly from development in the first half of 2010.

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



Regarding age structure, the Czech population reached its peak number of working-age inhabitants (15–64 years) in 2009. Nevertheless, it still has a very favourable age structure, especially in comparison to Western European countries.

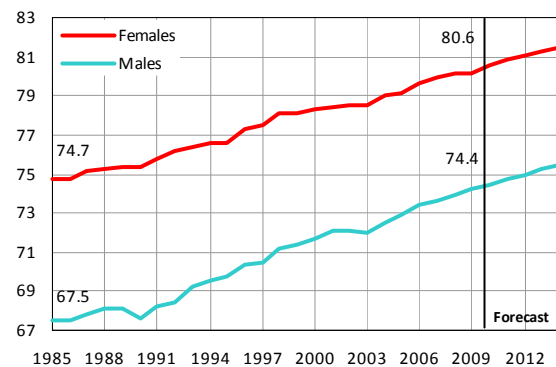
Graph A.6.2: **Czech Population from 15 to 64 Years**
quarterly averages, in thousands



The decline in the working-age population is, however, partially compensated by effects within the age

structure of the labour force, as the structural proportions of age groups with high or growing participation are increasing. This has been, and will continue to be, supported by extension of the retirement age. While immigration could be another positive factor, its volume, as the recent period has shown, fluctuates greatly. The increase in labour market flexibility should also help to create a situation wherein the Czech economy will not suffer from an insufficiency of suitable labour force.

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



The continuing **ageing of the population** has been confirmed. The structural proportion of persons over 64 years of age in the total population, which reached 14% in early 2005, should exceed 16% in 2012 and increase to nearly 20% by 2020. In future, the number and proportion of seniors in the population will continue to rise due to the demographic structure and intensive continuation in extending the life expectancy.

Table A.6.1: Demography
in thousands of persons

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
						<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Population (January 1)	10 221	10 251	10 287	10 381	10 468	10 507	10 533	10 567	10 600	10 632
<i>growth in %</i>	0.1	0.3	0.4	0.9	0.8	0.4	0.2	0.3	0.3	0.3
Age structure (January 1):										
(0–14)	1 527	1 501	1 480	1 477	1 480	1 494	1 518	1 540	1 565	1 588
<i>growth in %</i>	-1.8	-1.7	-1.5	-0.2	0.2	1.0	1.6	1.5	1.6	1.5
(15–64)	7 259	7 293	7 325	7 391	7 431	7 414	7 379	7 327	7 268	7 214
<i>growth in %</i>	0.3	0.5	0.4	0.9	0.5	-0.2	-0.5	-0.7	-0.8	-0.7
(65 and more)	1 435	1 456	1 482	1 513	1 556	1 599	1 636	1 700	1 768	1 829
<i>growth in %</i>	0.8	1.5	1.8	2.1	2.9	2.7	2.3	3.9	4.0	3.5
Old-age pensioners (January 1)¹⁾	1 965	1 985	2 024	2 061	2 102	2 147	2 296	2 336	2 368	2 400
<i>growth in %</i>	1.7	1.0	2.0	1.8	2.0	2.1	.	1.7	1.4	1.3
Old-age dependency ratios (January 1, in %):										
Demographic²⁾	19.8	20.0	20.2	20.5	20.9	21.6	22.2	23.2	24.3	25.4
Under current legislation³⁾	35.3	35.6	35.8	35.9	36.1	36.6	37.1	37.4	37.8	38.2
Effective⁴⁾	41.5	41.3	41.6	41.5	41.8	43.6	46.7	47.4	48.2	48.7
Fertility rate	1.282	1.328	1.438	1.497	1.492	1.49	1.51	1.52	1.53	1.54
Population increase	31	36	94	86	39	26	34	33	32	31
Natural increase	-6	1	10	15	11	10	9	8	7	6
Live births	102	106	115	120	118	117	116	114	113	112
Deaths	108	104	105	105	107	107	106	106	106	106
Net migration	36	35	84	72	28	16	25	25	25	25
Immigration	60	68	104	78	40	31	.	.	.	.
Emigration	24	33	21	6	12	15	.	.	.	.

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

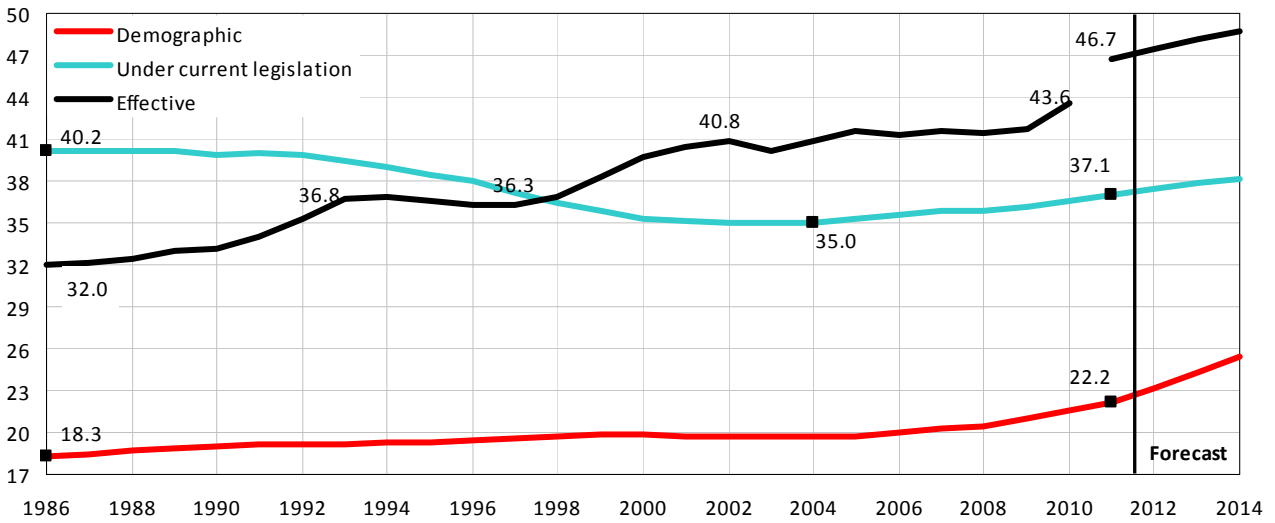
²⁾ Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

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.

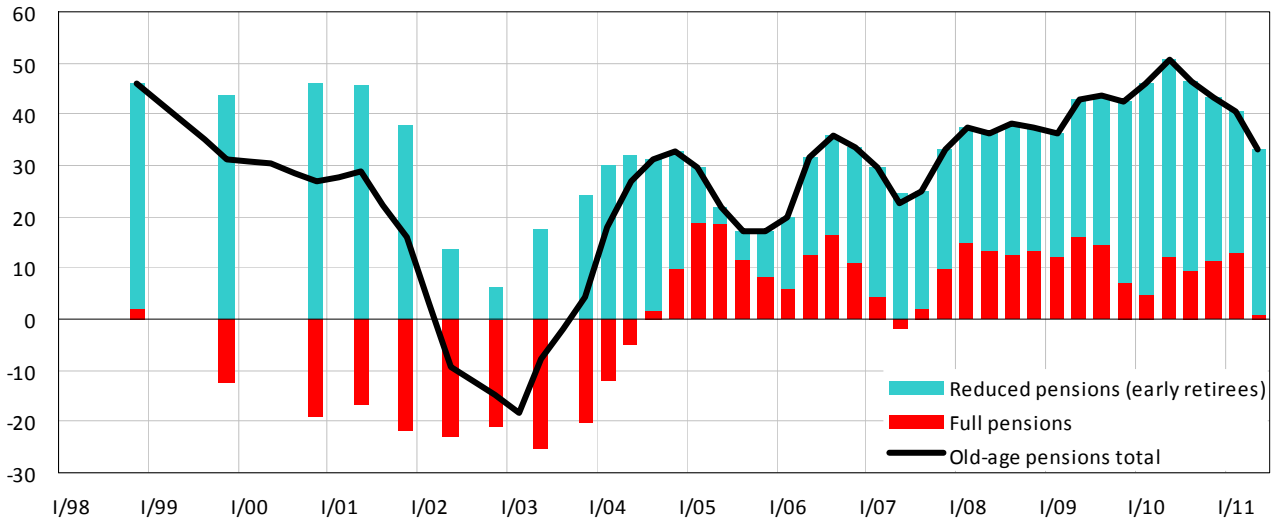
Graph A.6.4: Dependency Ratios

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



Graph A.6.5: Old-Age Pensioners

absolute increase over a year in thousands of persons



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

B Economic Cycle

B.1 Position within the Economic Cycle

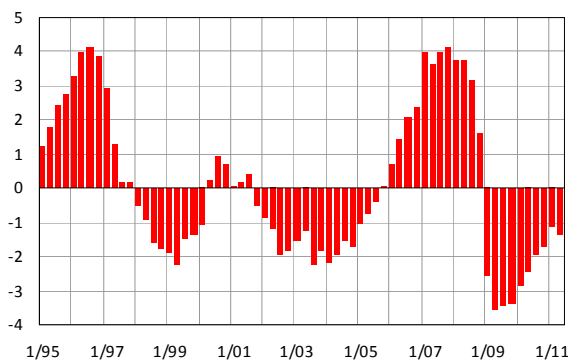
Potential product (PP), specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of GDP to be achieved with average utilisation of production factors. Growth of PP expresses possibilities for long-term sustainable growth of the economy without giving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

Under current conditions, when abrupt changes in the level of economic output have occurred, it is very difficult to distinguish the influence from deepening of the negative output gap from a slowing in PP growth. The results of these calculations display high instability and should be treated very cautiously. **We also point out that the listed calculations will be adjusted in the next forecast according to the revision of the quarterly national accounts by CZSO (see Chapter E).**

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

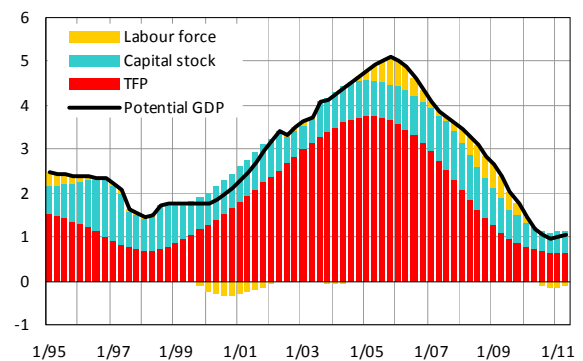
Graph B.1.1: Output Gap

in % of potential GDP



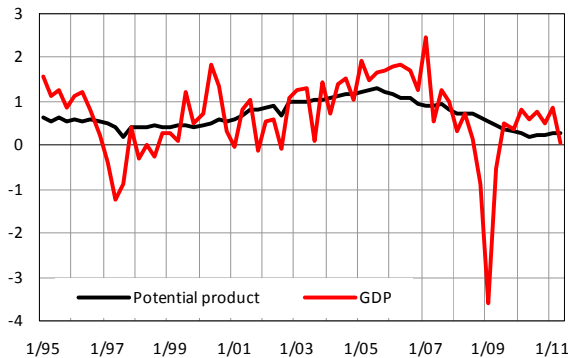
Graph B.1.2: Potential Product Growth

in %, contributions in percentage points



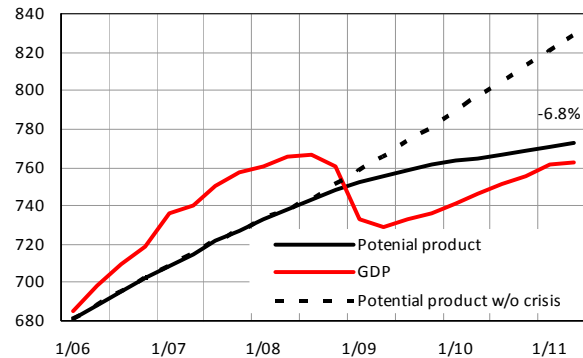
Graph B.1.3: Potential Product and GDP

QoQ growth in %



Graph B.1.4: Levels of Potential Product and GDP

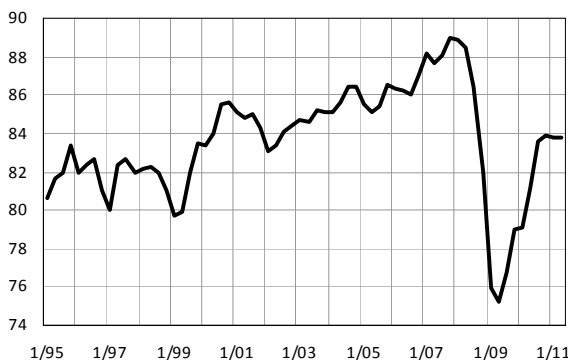
in bill. CZK of 2000



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

Graph B.1.5: Utilisation of Capacities in Industry

in %



Graph B.1.6: Total Factor Productivity

YoY growth in %

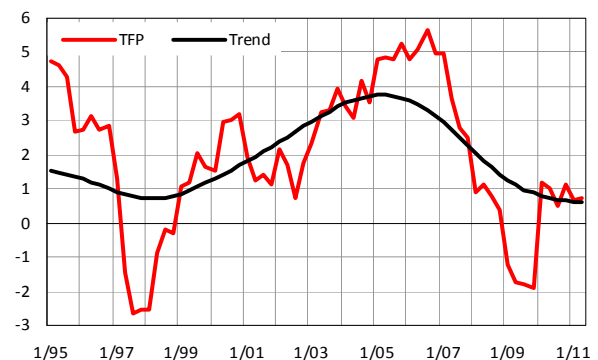


Table B.1: **Output Gap and Potential Product**

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Q1–Q2
Output gap	<i>per cent</i>	-1.4	-1.5	-1.5	-0.5	1.3	3.8	3.1	-3.1	-1.9	-1.2
Potential output	<i>growth in %</i>	3.3	3.7	4.5	5.2	4.8	3.7	3.1	2.0	1.1	1.0
Contributions:											
TFP	<i>perc. points</i>	2.5	3.0	3.7	4.0	3.5	2.5	1.7	0.9	0.6	0.6
Fixed assets	<i>perc. points</i>	0.7	0.7	0.8	0.8	0.9	1.1	1.0	0.7	0.5	0.5
Participation rate	<i>perc. points</i>	-0.1	-0.2	-0.2	0.2	0.2	-0.2	0.0	0.3	0.2	0.2
Demography¹⁾	<i>perc. points</i>	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.2	-0.2	-0.4

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

Economic recession in the turn of 2008 to 2009 induced a deeply negative **output gap**. According to current calculations, it reached ca –3.5% in the second quarter of 2009, thus indicating the lowest utilisation of economic potential in the post-transformation period. In the first quarter of 2011, the output gap eased to just under –1%. In the second quarter, GDP was almost unchanged and the output gap again expanded to –1.4%.

As a result of the deep recession and ensuing slow recovery, the YoY growth of **potential product** fell to as low as 1% in 2010. In view of the aforementioned instability in the calculations, however, we believe that this estimate substantially underestimates the reality.

The PP component most seriously affected was **total factor productivity** (TFP). The recession led to YoY decline in TFP by 1.8% in 2009. Even during the following recovery, four quarters of QoQ decline in TFP were recorded, resulting in a slowdown in YoY growth of the trend TFP to 0.6% in the second quarter of 2011. By comparison, a peak of 3.8% was reached in 2005.

A deep drop in investment activity led to a decrease in **capital stock's** contribution from 1.1 p.p. in 2007 to 0.5 p.p. in 2010 and in the first half of 2011.

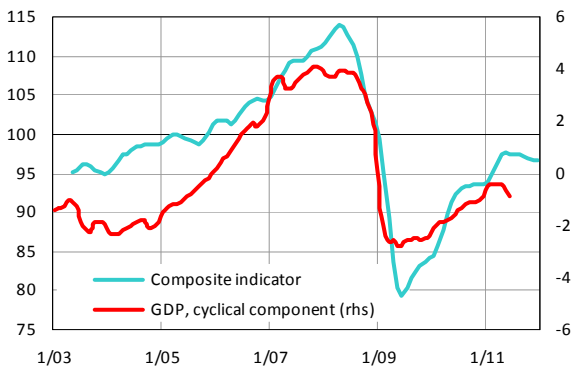
The labour supply is starting to be affected markedly by decrease in the number of working-age inhabitants, which stems from the process of population ageing as well as from a significant drop in immigration versus the situation recorded during 2006–2008. In the first half of 2011, the contribution of demographic development to potential GDP growth was significantly negative, reaching –0.4 p.p. The participation trend, measured as the ratio of labour force to the number of inhabitants aged 15–64 and which paradoxically accelerated its growth during the recession in 2009, has thus far only partly compensated the demographic development.

Graph B.1.4 illustrates that the recession and slow overcoming of its consequences have so far resulted in a loss of ca 6.8% in the potential product level.

B.2 Composite Leading Indicator

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

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



For the second quarter of 2011, the composite indicator was signalling stagnation in GDP's relative cyclical component. Data published in September 2011 did not confirm this signal, however, as GDP's relative

cyclical component dropped significantly. With the publication of new data, moreover, the indicator shows a slight lag versus its standard lead. Without knowing the "real" course of the relative cyclical component (the published data are only preliminary so far, and will certainly be subject to revision), however, the issue cannot be dealt with systematically. Based upon past experience, it is probable that the update of national accounts data would bring the relative cyclical component and composite indicator back into harmony.

For the third and fourth quarters of 2011, the indicator signals a decrease in GDP's relative cyclical component, especially due to the influence of lower expectations in industry and business.

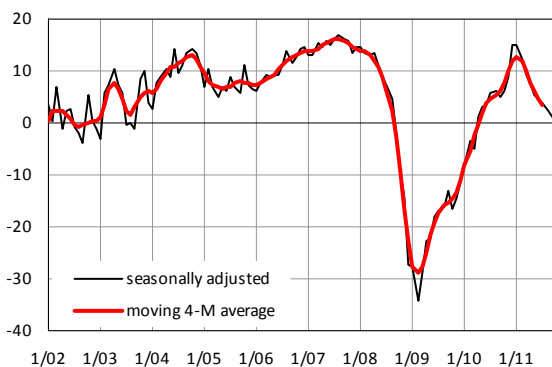
B.3 Individual Business Cycle Indicators

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

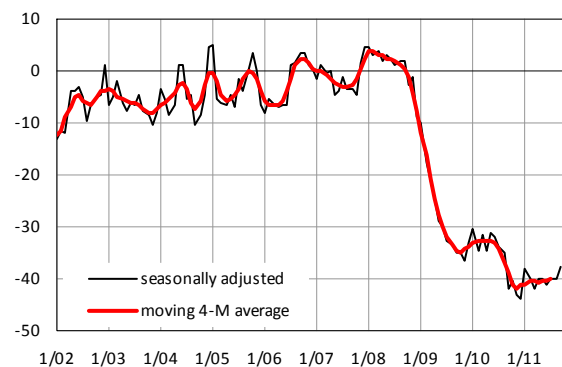
The surveys share a common characteristic in that respondents' answers provide not direct quantification but rather use more general qualitative expressions (such as better, the same, worse, or growing, not changing, falling, etc.). Tendencies are reflected in the business cycle balance, which is the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

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

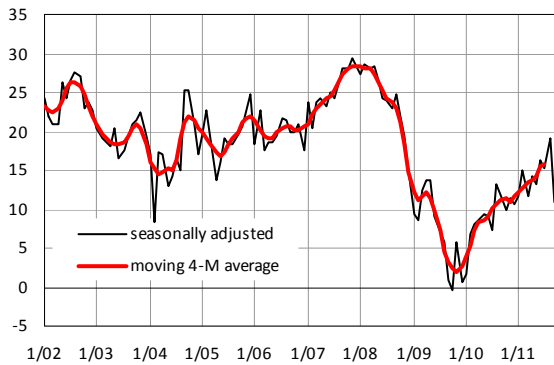
Graph B.3.1: Industrial Confidence Indicator



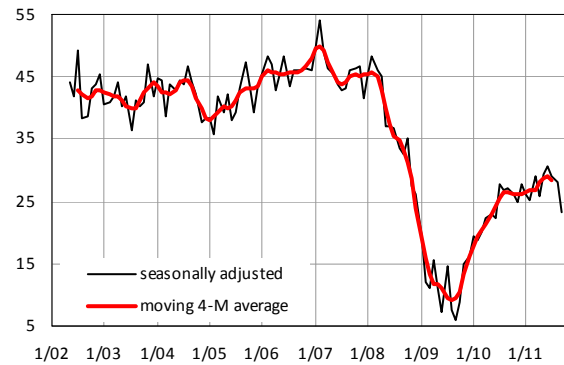
Graph B.3.2: Construction Confidence Indicator



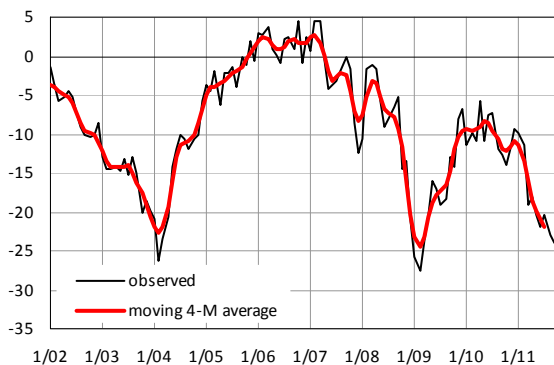
Graph B.3.3: Retail Trade Confidence Indicator



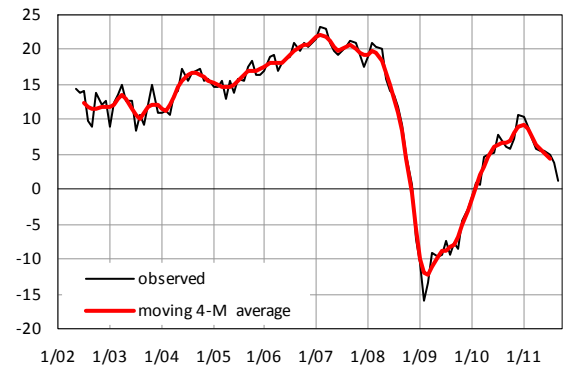
Graph B.3.4: Selected Services Confidence Indicator



Graph B.3.5: Consumer Confidence Indicator



Graph B.3.6: Aggregate Confidence Indicator



According to respondents in **industrial** enterprises, confidence again did not cease to decline in the third quarter of 2011. Although their evaluation of the current economic situation has slightly improved, their assessment of overall as well as foreign demand continued to decline. The outlook for the fourth quarter also is rather sceptical. Respondents expect a slowdown in the rate of production activities with almost stable employment. This is also reflected by a worsening assessment of the economic situation on three- and six-month horizons.

In **construction**, the situation relatively stabilised, although the assessment of overall demand remained low. For the fourth quarter of 2011, however, respondents are expecting moderately optimistic development. They anticipate improvement in both construction activities as well as employment. They estimate that contracts will provide for 8.4 months of work. The assessment of the economic situation also improves slightly.

Judging from respondents in **retail trade**, there was a decrease in the evaluation not only for the current economic situation, but also for the future.

Respondents in selected **services** sectors have the same assessment of the current economic situation. Their three-month horizon, however, evaluates the economic situation as one of modest growth, but with flat demand and a declining number of employees. Over a six-month horizon, their evaluation of the economic situation begins to decrease.

According to the September survey, the **consumer** confidence indicator continued to fall. Consumers expect that not only will the overall economic situation worsen in the coming 12 months, but that their own financial situations will as well. In addition to lingering fears of rising prices, the number of respondents expecting an increase in unemployment is rising and the number of those who plan to save is decreasing.

Based upon the individual business cycle indicators, it can be assumed that QoQ growth will continue to be low in the third and fourth quarters of 2011. Demand development remains especially at risk.

C Forecast of the Development of Macroeconomic Indicators

At the end of September 2011, the CZSO conducted an extraordinary revision of annual national accounts which introduced a method of tracing economic transactions in accordance with the current requirements of Eurostat. The impacts of this revision on the time series of basic macroeconomic indicators are described in detail in Chapter E.

Quarterly national accounts will not be revised until December 2011 prior to the publication of data on the third quarter of 2011. **This Forecast** (with the exception of Chapter A.2 – Fiscal Policy) is **therefore based on non-revised national accounts data**.

C.1 Economic Output

After QoQ growth of 0.9% in the first quarter of 2011, seasonally adjusted real GDP increased only by a slight 0.1% (*versus 0.3%*) in the second quarter of 2011. This represents YoY growth² of 2.2% (*in accordance with the forecast*).

Although economic output in the second quarter was essentially the same as that in the July forecast, future development is very uncertain. Economic growth likely will be hindered by pessimism and fears concerning the impacts of the debt crisis in the euro zone as well as potential problems in the banking system and their overflowing into the real economy. The Czech economy could thus be on the verge of recession at the turn of 2011 and 2012 (see Graph C.1.2).

For 2011, we expect growth to slow to 2.1% (*versus 2.5%*), while for 2012 we anticipate further deceleration of growth dynamics to 1.0% (*versus 2.5%*). There are significant risks of downward deviations.

The worsening terms of trade, although less serious than expected in July, led **real gross domestic income** (RGDI), which reflects the income situation of the Czech economy, to grow more slowly than GDP did. In the second quarter of 2011, RGDI increased YoY by only 0.9% (*versus a decrease of 0.7%*). The income situation of Czech economic entities, therefore, lags behind output growth. RGDI should increase by 0.9% (*versus stagnation*) in 2011 and by 0.3% (*versus 2.3%*) in 2012. Whereas in 2011 the faster rate of RGDI growth (in comparison with the July forecast) was mostly in relation to development in the terms of trade, the change in the rate of growth in 2012 is caused by the expected lower economic growth.

The development in the terms of trade is also causing higher growth in **nominal GDP** (which is a key variable for fiscal forecasts) than originally expected. In the second quarter of 2011, YoY growth of 1.9% (*versus 0.5%*) was recorded. We expect an increase in nominal GDP by 2.1% (*versus 1.7%*) for 2011 and by 2.8% (*versus 5.2%*) for 2012.

Regarding the **income structure of GDP**, we have change the growth prognosis for profitability of the business sector downwards versus the July forecast, with continuing risks of downward deviations. In the second quarter of 2011, the gross operating surplus decreased by 0.5% YoY (*versus 1.5%*). For 2011, growth of 1.5% (*versus 1.0%*) can be expected, and in 2012 the operating surplus could increase by as much as 2.0% (*versus 5.6%*).

Expenditures on GDP

In 2011 and 2012, the positive values of economic growth should be maintained especially by foreign trade and, to a lesser degree, by fixed capital formation. Consumption among households should continue to fall under the influence of their unfavourable income situations. Fiscal consolidation measures will also contribute to this decline. Government consumption should decrease in conjunction with the adopted stabilisation measures. It is also necessary to anticipate that stocks rebuilding after the recession will come to an end.

The QoQ drop in seasonally adjusted **household consumption** slowed from 0.5% in the first quarter of 2011 to 0.2% in the second quarter of 2011. This means real household expenditures on final consumption dropped 0.6% YoY (*versus growth of 0.1%*) in the second quarter of 2011. Household consumption is pressed down by an unfavourable income situation, especially the decrease in the wage bill in part of the public sector. In the coming quarters, consumers' apprehensions from the debt crisis in the euro zone and the ensuing economic turbulence will also act against growth. For 2011, we expect a decrease in household consumption of around 0.6% (*versus growth of 0.5%*). In 2012, moreover, the decrease in consumption will be deepened by the increase of the reduced VAT rate from 10% to 14%. This is one of the reasons we expect a decrease in consumption by 0.5% (*versus growth of 2.0%*).

Government expenditure on final consumption in the second quarter of 2011 fell by 1.4% (*versus 2.6%*) in real terms. In accordance with adopted stabilisation

² Data without seasonal adjustment are presented in the remaining text, unless stated otherwise.

measures and the approved consolidation strategy, government institutions are expected to behave thriftily regarding both employment and purchases of goods and services. Government consumption should decrease by 1.2% (*versus 2.4%*) in 2011. We expect consumption expenditure to continue to decline in 2012 by 0.5% (*versus 2.1%*).

Gross fixed capital formation increased YoY by 3.5% (*versus 1.9%*) in the second quarter of 2011. Purchases of vehicles especially contributed to the increase in investments, as these rose by 10.3%. Purchases of machinery other than vehicles also increased, and that by 14.8%. Construction investments in non-residential buildings fell by 1.7%, while investments in housing decreased YoY by 0.2%.

The willingness of foreign investors to make new investments or to reinvest profit from business undertakings in the Czech Republic will also depend on the situations in their home countries. Pessimism and apprehension regarding the impacts of the debt crisis will likely prevail. Infrastructure investments with contributions from EU funds, on the other hand, should have a positive effect. New investments could also be stimulated by low interest rates. We expect

C.2 Prices

Consumer prices

The YoY growth in consumer prices reached 1.8% (*versus 2.5%*) in September, with a contribution of 0.8 p.p. from administrative provisions.

That difference between reality and the forecast was caused especially by the food and non-alcoholic beverages sector, where price levels declined from June to August. The volatility of food prices is a factor which disproportionately increases the difficulty of inflation forecasts relative to its importance in the consumer basket.

Fuel prices remain close to historical highs, even though presumptions about the development of dollar prices of oil and the CZK/USD exchange rate result in no additional pressure for its growth.

Even in the remaining part of 2011, prices which are at least partially regulated will significantly affect the growth of consumer prices. We estimate their contribution to YoY growth of CPI at 1.1 p.p. (*versus 0.9 p.p.*) in December 2011. The rise in natural gas prices and fee for a hospital stay will contribute 0.1 p.p. each.

gross fixed capital formation to increase by 2.1% (*versus 1.9%*) for 2011. For 2012, we expect growth of around 1.4% (*versus 3.2%*).

The contribution of **change in inventories** to YoY GDP growth in the second quarter of 2011 on seasonally adjusted data was 0.4 p.p. We expect a contribution of 0.5 p.p. (*versus 0.4 p.p.*) for 2011 and zero contribution (*versus 0.2 p.p.*) for 2012.

The contribution of **foreign trade** to YoY GDP growth on seasonally adjusted data reached 1.7 p.p. for the second quarter of 2011. The external balance has so far been influenced by the ongoing recovery in trading-partner countries accompanied by concurrent limited growth in domestic demand. We anticipate a foreign trade contribution of 1.7 p.p. (*versus 1.9 p.p.*) for 2011 and 1.0 p.p. (*versus 1.1 p.p.*) for 2012. Deceleration in the export volume growth rate could be offset by a levelling off in domestic consumption.

All estimated figures in this chapter are based on predefined assumptions about the development of the external environment. Lower-than-expected growth of the euro zone or even a drop in its economic level would mean deceleration of growth or decrease in the Czech economy's output, respectively.

The YoY inflation rate should increase through the end of the year, reaching 2.6% (*versus 3.0%*) in December. Part of the inflation impulse resulting from the increase in the reduced VAT rate from January 2012 will most likely have an effect already in the last two months of this year.³ We estimate the **average inflation rate in 2011** to be 1.9% (*versus 2.3%*).

In 2012, inflation will be significantly affected by administrative measures, which will account for approximately three quarters of the growth in consumer prices. The presumed increase of the reduced VAT rate from 10% to 14% as from the beginning of 2012 will represent an impact on CPI in the amount of 1.1 p.p., and we expect it to be fully reflected in consumer prices. We estimate the impact of the increase in the excise tax on cigarettes and tobacco to be 0.1 p.p. Among prices which are at least partially regulated, electricity prices will contribute the most to the increase in CPI (contribution of 0.2 p.p.). These are affected, however, by considerable

³ This effect can only be differentiated from normal price fluctuations with difficulty, and therefore it cannot be reported as an influence of administrative measures.

uncertainty related to the difficulty in estimating the limit of proceeds from the state budget designated for paying additional costs connected to production of electricity from renewable sources. Heating prices will have a similar contribution (0.2 p.p.). Impacts from changes in regulated prices will typically be concentrated in January, in terms of timing, and in housing, as regards consumer basket categories. We estimate a total contribution of administrative measures to the YoY growth in consumer prices of 2.2 p.p. (*versus 2.3 p.p.*) in December 2012.

Although the current forecast is, in contrast to the previous one, based on the presumption of a weaker CZK/EUR exchange rate, due to the expected slowdown in economic growth, the estimate of **average inflation rate in 2012** was decreased to 3.2% (*versus 3.5%*) with December 2012 inflation at 2.4% YoY (*versus 2.9%*). Due to the expected continuing decline of household consumption spending, the possibilities of price growth will be very limited.

The positive contribution of market YoY inflation should decrease during 2012. If GDP grows more slowly than predicted in the next year, even negative contributions from the market growth of prices should not be ruled out in late 2012.

C.3 Labour Market

The labour market has so far reflected the improving economic situation at the start of the year with a standard lag. Employment is rising, unemployment is slightly decreasing, and growing participation is compensating for the decrease in the working-age population.

Employment

According to the Labour Force Survey (LFS), employment rose YoY in the second quarter of 2011 by 0.6% (*versus 0.3%*).

The YoY increase of employee numbers in the secondary sector continued mainly due to the manufacturing industry (79 thousand). On the other hand, the number of persons employed in construction continued to decline. The number of employees in the tertiary sector decreased especially due to the government sector (central government institutions), while the number of employees in the primary sector remained basically the same.

The increase in the category of entrepreneurs and self-employed perceptibly slowed to 0.7% (*versus 1.7%*) YoY

In the outlook for 2013 and 2014, inflation will return to the CNB's inflation target. We anticipate that as from the beginning of 2013 VAT rates will be unified at 17.5%, which will be reflected in a total impact on CPI of -0.2 p.p.

Deflators

The aggregate price level in the economy has increased only moderately. The **gross domestic expenditure deflator**, which is a comprehensive indicator of domestic inflation, grew by 1.1% YoY (*versus 1.3%*) in the second quarter of 2011. It should increase by 1.2% (*versus 1.7%*) in 2011 and by 2.5% (*versus 3.0%*) in 2012, due primarily to acceleration in consumer inflation.

The value of the **implicit GDP deflator** fell by 0.4% (*versus 1.6%*) in the second quarter of 2011. Unlike the gross domestic expenditure deflator, it was driven downward by the 1.6% decline (*versus 3.3%*) in the terms of trade. We expect stagnation in the deflator (*versus a decline of 0.8%*) for 2011 and growth of 1.7% (*versus 2.6%*) for 2012.

due to further deceleration in growth among self-employed persons (1.5% YoY) and only a slight increase in employers. After a two-year decline and stagnation in the last quarter, number of wage earners increased by 0.5% YoY.

The **employment rate** (15–64 years of age) increased by 0.8 p.p. to 65.7%, which is the highest figure since the fourth quarter of 2008. In its composition, steady growth in the age category of 55–59 years (by 2.8 p.p. to 69.4%) in particular can be perceived positively. Employment in the category of 25–29 years also visibly increased (by 1.6 p.p. to 74.3%).

Economic activity rate (15–64 years) increased YoY by 0.6 p.p. to 70.5%. With a decreasing population in the given age category, however, the labour supply remained basically unchanged in the second quarter of 2011.

Development in the category of 55–64 years was interesting. Due to the extension of the retirement age, the rise in employment is accelerating. Growth in the number of early retirements accelerated, apparently particularly among persons with lower incomes. This

was probably due to the effects of the so-called small pension reform (reinforcing the importance of earned income when calculating pensions). However, this effect was more than compensated by stagnation in the number of people with a full non-decreased old age pension (see Graph A.6.5)

In light of the current development, we have slightly increased the forecast for growth in employment to 0.4% (*versus 0.2%*) in 2011. For 2012, however, we assume a YoY decrease in employment by 0.2% (*versus growth by 0.4%*) due to the slowdown in GDP growth and in part also to the announced further decline in the number of employees in state administration.

At the same time, we expect a gradual decrease in hours worked per employee due to the presumed effort of companies to retain skilled employees.

Unemployment

Registered unemployment dropped markedly in the second and third quarters of 2011 by ca 0.5 p.p. YoY. The number of job seekers decreased at a greater rate MoM in the second quarter.

The internationally comparable unemployment rate according to LFS reached 6.7% (*versus 6.5%*) in the second quarter of 2011. Its YoY decrease was 0.4 p.p. Given the previous and expected development of employment and the economic situation, we expect the LFS unemployment rate to stagnate at 6.9% for 2011 and 2012 (*versus 6.7% in 2011 and 6.4% in 2012*).

Wages

Regarding wages, the decelerating impact of administrative decisions continued to be evidenced by further decline in average nominal wage in the state-run sector.

The **wage bill** (NA, domestic concept) increased by 2.5% YoY (*versus 2.2%*) in the second quarter of 2011, along with growth in production and employment in the private sector.

For 2011, we expect an increase in the wage bill of 2.3% (*no change*) and an increase of 2.7% (*versus 4.4%*) for 2012. We also expect a certain effect from the announced VAT increase in the business sector. In addition to the lower economic output, austerity measures in the budget will continue to forestall higher growth, though to a lesser extent than in 2011 due to a reinforcement of wages and salaries in select sectors.

The **average nominal wage** determined using registered statistics (full-time equivalent) grew by 2.5% (*versus 2.2%*) YoY in the second quarter.

In the business sector, its YoY increase was 3.2%. We do not expect faster future growth of wages in this sector, however, and especially in industry, due to the rather pessimistic expectations of economic development in the forthcoming period.

In the non-business sector, the average nominal wage continued to decrease YoY (by 0.9%) along with a further drop in employee numbers. The decrease was again driven by the public administration and defence sectors (by 3.2%). Due to the continuing austerity measures, this trend will continue even despite the increase in certain sectors.

On the basis of signals from the business sector and known intents and decisions regarding public sector salaries for the forthcoming period, and contrary to the previous forecast, the increase in average nominal wages is expected to abate in this period. We anticipate growth by 2.2% (*versus 2.3%*) for 2011 and by only 2.7% (*versus 4.0%*) in 2012. Given the presumed inflation rate of 3.2%, this will mean a 0.5% decrease in real terms for the total average wage.

C.4 External Relations

(a balance of payments perspective)

Along with the publication of figures for the second quarter of 2011, CNB also published the balance of payments for 2005–2010 and the first quarter of 2011 under the new methodology for national data. Due to this revision, the ratio indicator of the current account deficit as a proportion of GDP increased in 2007 and 2008 (by approximately 1.2 p.p. and 1.6 p.p., respectively), while for other years it decreased. In 2010, the current account/GDP ratio decreased due to this change by 0.6 p.p. The changes affected most of all the balance of services and current transfers (a difference of +0.3 p.p.). In the first quarter of 2011, the revision meant an improvement in the ratio of the current account deficit to GDP by approximately 0.5 p.p. These changes influenced the accuracy of the comparison of previous forecasts with reality. Nevertheless, we publish the originally forecast data.

The external imbalance, expressed as the **ratio of the current account balance to GDP**, reached -3.5% (*versus* -3.7%) in annual terms in the second quarter of 2011 and worsened by 1.8 p.p. YoY. Apart from the balance of current transfers (up by 0.3 p.p.), all components of the current account worsened: the trade balance by 0.9 p.p., income balance by 0.8 p.p., and balance of services by 0.4 p.p.

World trade continued to grow more slowly in the first quarter of 2011. After the strong growth in export markets⁴ by 11.5% in 2010, its rate slowed somewhat in the first two quarters of 2011 to 11.0% and 8.1%, respectively. For 2011 we expect export markets growth of 7.6% (*versus* 7.2%), while for 2012 we anticipate a more significant slowdown to 3.8% (*versus* 6.9%). Similarly, we anticipate a somewhat lower growth rate for Czech imports and exports by the end of 2012 in comparison to past periods (by 17.6% for exports and by 20.1% in imports in annual terms). We estimate that the **trade balance** will reach 1.8% of GDP (*versus* 0.6%) in 2011 and 1.9% of GDP (*versus* 1.1%) in 2012 at lower growth rates for the export and import volumes.

In view of the oil price scenario, we assume the current high prices of raw materials will remain high over the course of 2011 and 2012, thus increasing the fuels balance deficit (SITC 3). Its ratio to GDP reached -3.8%

in 2010, and we expect it to deepen further to ca -4.8% in 2011 and 2012 (*estimate almost unchanged*).

The **balance of services** surplus decreased by 0.4 p.p. YoY to 1.8% of GDP (*versus* 1.9%) in the second quarter of 2011. Since the recession subsided, revenues and expenditures in the balance of services have been increasing since the middle of last year. Expenditures have grown faster than revenues, and thus this item's overall surplus has decreased. Considering the rather unfavourable outlook for the world economy's development, we expect stagnation or a slight drop in the balance of services for the rest of 2011 and in 2012 (to ca 1.9% [*versus* 2.0%] in 2011 and to 1.8% of GDP [*versus* 2.1%] in 2012).

The deficit in the **income balance**, which includes foreign investors' reinvested and repatriated profits, showed a weak growth tendency, with both revenues and expenditures increasing. The rise in the deficit was caused especially by growth in the outflow of investment income in the item "foreign direct investments", which consist primarily of reinvested profits. The balance of compensation of employees continues to improve due to domestic industrial enterprises' low demand for employing foreigners. We expect this trend to continue in 2011, and we estimate a slight increase in the income deficit to 7.1% of GDP (*versus* 6.7%) in 2011 and to 7.3% of GDP (*versus* 7.0%) in 2012.

Within this context, we estimate that the current account balance as a proportion of GDP will reach -3.1% (*versus* -3.9%). The forecast for 2012 is -3.3% of GDP (*versus* -3.6%). A current account deficit of this size presents no risk of macroeconomic imbalance.

⁴ *Weighted average growth in goods imports by the seven most important trade partner countries (Germany, Slovakia, Poland, Austria, France, United Kingdom and Italy).*

C.5 International Comparisons

Comparisons for the period up to and including 2010 are based on Eurostat statistics. Since 2011, our own calculations are used on the basis of real exchange rates. To maintain consistency throughout the Macroeconomic Forecast, no revised data was used for the Czech Republic (see Chapter E) and the results thus may be slightly undervalued compared to other monitored economies.

Using the purchasing power parity method, comparisons of economic output for individual countries within the EU are made in PPS (purchasing power standards). PPS is an artificial currency unit expressing a quantity of goods that can be bought on average for one euro on EU27 territory after exchange rate conversion for countries that use currency units other than the euro. Using updated Eurostat data, purchasing power parity of the Czech Republic in 2010 was CZK 17.87/PPS in comparison to the EU27 or CZK 16.92/EUR in comparison to the EA12.

As a result of the economic crisis, per capita GDP adjusted using **current purchasing power parity** fell in 2009 in the Czech Republic and in other Central European countries. The only exception was Poland, which was not hit by recession. By contrast, recession hit the Baltic countries and Slovenia especially hard, as their relative economic levels compared to the EA12 also decreased. Last year, the economic recession continued only in Greece, while in the other monitored economies economic recovery led to GDP growth. The relative economic level compared to the EA12 fell not only in Greece, however, but also in the Czech Republic and Slovenia.

In 2010, per capita GDP of the Czech Republic reached ca PPS 19,500, corresponding to 73% of the EA12 economic output. The relative economic level of the Czech Republic compared to the EA12 decreased by 2 p.p. against the previous year and, according to Eurostat data, fell below the level of Portugal. It is necessary, however, to view this data simply as preliminary, since based on a revision of annual national accounts it can be expected that the relative level of the Czech Republic has been higher than that of Portugal since 2006.

An alternative way of calculating GDP per capita by means of the current **exchange rate** takes into account the market valuation of the currency and ensuing differences in price levels. In the case of the Czech Republic, this indicator amounted to ca EUR 13,800 in 2010, i.e. nearly half of the EA12 level (49%). Due to growth recovery and gradual appreciation of the exchange rate, the pre-crisis level of 2008 should be surpassed as early as this year.

The comparative price level of GDP in the Czech Republic reached 67% of the EA12 average in 2010. Depreciation of the real exchange rate was reflected in a YoY drop in the price level by 4 p.p. in 2009, which significantly helped to boost the competitiveness of the Czech economy. Much faster exchange rate depreciation was seen in Poland, where decline of the relative price level reached almost 12 p.p. and thus helped Poland to avoid economic recession.

The comparative price level of Czech GDP grew already by 3 p.p. last year and should continue to rise gradually, led by productivity growth and growth in the Czech economy's competitiveness due to factors not related to price.

D Monitoring of Other Institutions' Forecasts

The Ministry of Finance of the Czech Republic monitors macroeconomic forecasts of other institutions engaged in forecasting future development of the Czech economy. Forecasts of 13 institutions are continuously monitored from publicly available data sources. Of these, eight institutions are domestic (CNB, Ministry of Labour and Social Affairs, domestic banks and investment companies) and others are foreign (European Commission, OECD, IMF etc.). The forecasts are summarised in the following table.

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

Table D.1: Consensus Forecast

		September 2011			October 2011
		min.	max.	consensus	MoF forecast
Gross domestic product (2011)	growth in %, const.pr.	1.8	2.4	2.1	2.1
Gross domestic product (2012)	growth in %, const.pr.	1.1	3.5	2.2	1.0
Average inflation rate (2011)	%	1.8	2.3	2.0	1.9
Average inflation rate (2012)	%	2.0	3.4	2.9	3.2
Average monthly wage (2011)	growth in %	2.2	2.8	2.5	2.2
Average monthly wage (2012)	growth in %	3.2	4.4	3.8	2.7
Current account / GDP (2011)	%	-3.7	-2.4	-3.2	-3.1
Current account / GDP (2012)	%	-4.1	-1.5	-3.1	-3.3

Estimates of **GDP** growth for 2011 have long fluctuated around 2%. Institutions whose prognoses are followed on average expect that the Czech economic growth this year and the next will only slightly exceed 2%. The Ministry of Finance forecast for 2011 is consistent with the average of other institutions' prognoses, while for 2012 it is significantly more pessimistic since it already takes into account current data from the real economy and the escalation of problems in the euro zone.

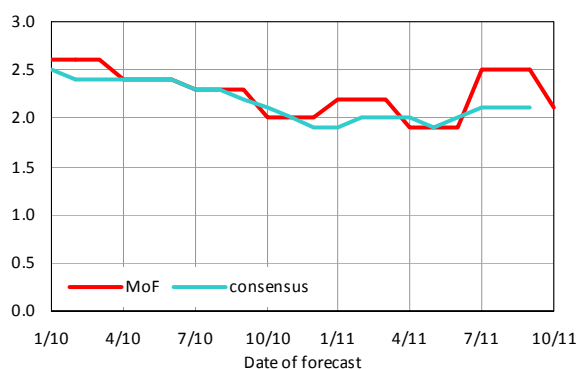
Monitored institutions anticipate the **average rate of inflation** in this year to be 2.0%. For 2012, the average rate of inflation is expected to rise to 3% as a result of the impacts of changes in indirect taxes. The Ministry's forecast concurs with these other institutions' predictions.

According to the monitored institutions' predictions, the **average wage** should increase by 2.5% in 2011 and this growth is expected to accelerate to 3.8% for 2012. The Ministry's forecast anticipates an increase in the average wage by 2.2% for this year, while wages are expected to increase by 2.7% in 2012. The difference for 2012 is due to differing expectations about economic development.

The **current account deficit of the balance of payments** should remain at a sustainable level. The Ministry's forecast differs only minimally from those of other institutions.

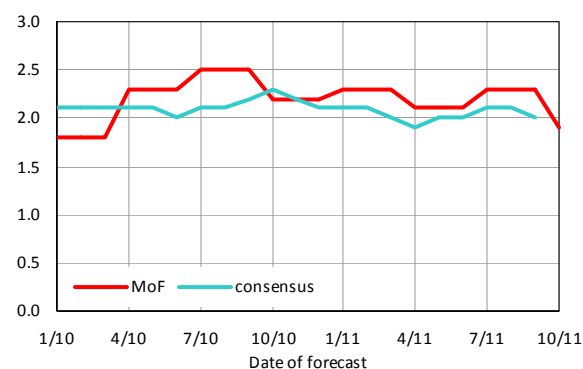
Graph D.1: Forecast of Real GDP Growth for 2011

in %



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

in %



E Extraordinary and Standard Revisions to Annual National Accounts

On 30 September 2011, the Czech Statistical Office published its extraordinary and standard revisions to annual national accounts for the period 1995–2009, including a preliminary version of the annual national accounts for 2010. At present, the data from quarterly national accounts are not compatible with the annual data. They will be harmonised as part of the publication of quarterly national accounts on 9 December 2011.

In creating national accounts, a great many methodological improvements were made in the collection and processing of data as well as of course at the level of individual methods for estimates based on the given data. The most substantial changes as regards the data stated below include the following:

- national concept of import and export of goods: Delimitation of import and export flows based on “across-the-border” statistics, for which the crossing of state borders is a criterion for including a transaction under foreign trade, did not correspond to the national accounts concept, for

change of owner is necessary for the subject of a transaction to be regarded as part of foreign trade.

- imputed rents: Due to exceeding the 10% limit of housing rented on the market, it has been necessary since 2007 to switch to a method of imputing market rents. The method based on costs, which was used in previous years, was refined.
- capitalisation of software produced at one’s own expense: All software of a value exceeding ECU 500 is now recorded as part of gross fixed capital formation.
- individual housing construction: The method for estimating individual housing construction has been improved.

The Czech Statistical Office has provided very detailed information on other changes as part of its report on the extraordinary and standard revisions of annual national accounts to which we refer readers. Below we comment on the most significant changes made in annual national accounts.

E.1 Nominal GDP – Expenditure and Income Structures

Tables E.1.1 and E.1.2 record the expenditure and income structures of GDP at levels and rates of growth. The nominal GDP level in individual years was increased overall, and the relative deviations of new and original values fluctuated in the range of 2.9%–4.7%. Considering that a large proportion of the methodological changes were applied throughout the monitored time period, the impacts on nominal GDP’s growth rate are relatively low (from –1.1 p.p. to 0.7 p.p.). The extreme values belong to the last two years included in the extraordinary revision when the level of foreign trade changed greatly.

The level of household consumption was made higher for the entire monitored period. The switch to the method of imputed rents and the improvement of the outlay method for recording rents were particular contributing factors. Changes in level fluctuated between 1.9% and 5.6%. Changes in growth rates of nominal household consumption are in a range of –1.0 p.p. to 1.0 p.p.

Substantial changes occurred in gross fixed capital formation due to software capitalisation, changes in estimates in individual housing construction and, last but not least, the balancing of commodities flows in tables of supplies and use which were significantly

influenced by the change in how foreign trade is recorded. Changes in levels fluctuate from 4.1% to 17.9%. The largest changes can be found precisely in the last years of the sample when the largest changes in foreign trade also took place (see below). Changes in growth rates fluctuate from –2.2 p.p. to 5.0 p.p. The stated changes in gross fixed capital formation, together with changes in inventories, led to growth in the level of gross capital formation, and the largest changes again can be seen in the last years of the period.

The switch to the national concept of foreign trade led to a drop in the levels of imports and exports. Changes in the levels of exports fluctuated between –11.8% and 0.4% and changes in the levels of imports between –9.7% and –0.8%. The impact on the overall balance was entirely negative in all years. Impacts on the growth rate of imports and exports are more significant since 2004.

As regards income structure of GDP, the largest changes were unequivocally seen in the gross operational surplus, relative changes in which fluctuated between 6.9% and 11.1%. Changes in growth rates fluctuated between –2.6 p.p. and 2.4 p.p.

Table E.1.1 Nominal GDP – levels

		1995	2000	2005	2006	2007	2008	2009	2010
Gross domestic product	<i>bill. CZK</i>	1534	2270	3116	3353	3663	3848	3739	3775
	<i>change against the original value in %</i>	4.6	3.7	4.4	4.0	3.6	4.3	3.1	2.9
Private consumption	<i>bill. CZK</i>	788	1179	1538	1629	1748	1883	1880	1900
	<i>change against the original value in %</i>	5.6	2.6	5.0	4.3	3.6	2.7	2.3	1.9
Government consumption	<i>bill. CZK</i>	309	460	667	694	726	759	810	808
	<i>change against the original value in %</i>	0.8	-0.2	1.4	1.0	1.2	0.9	1.3	1.0
Gross capital formation	<i>bill. CZK</i>	493	679	826	928	1092	1114	898	947
	<i>change against the original value in %</i>	3.2	5.3	7.8	7.5	14.3	19.3	13.9	14.3
–Gross fixed capital formation	<i>bill. CZK</i>	483	652	805	860	990	1031	927	923
	<i>change against the original value in %</i>	4.5	6.5	8.5	8.0	11.2	16.8	13.9	17.9
–Change in stocks and valuables	<i>bill. CZK</i>	8	24	18	65	98	79	-33	20
	<i>change against the original value in bill. CZK</i>	-8	-9	-6	-2	34	29	-7	-26
External balance	<i>bill. CZK</i>	-56	-49	85	101	97	92	151	121
	<i>change against the original value in bill. CZK</i>	7.9	17.5	-9.6	-9.3	-78.4	-76.0	-50.0	-54.3
–Exports of goods and service	<i>bill. CZK</i>	742	1392	2026	2269	2527	2508	2257	2592
	<i>change against the original value in %</i>	-0.3	0.3	-6.0	-7.9	-10.7	-11.8	-10.0	-10.9
–Imports of goods and services	<i>bill. CZK</i>	797	1440	1941	2168	2429	2416	2106	2472
	<i>change against the original value in %</i>	-1.3	-0.9	-5.8	-7.8	-8.5	-9.7	-8.7	-9.6
Balance of taxes and subsidies	<i>bill. CZK</i>	139	186	283	287	327	335	325	334
	<i>change against the original value in %</i>	0.6	-0.6	0.8	0.7	0.7	0.7	0.9	0.3
–Taxes on production and imports	<i>bill. CZK</i>	179	246	353	364	407	419	425	434
	<i>change against the original value in %</i>	-0.4	-0.8	0.2	0.2	0.2	0.2	0.3	0.2
–Subsidies on production	<i>bill. CZK</i>	40	60	70	76	80	84	100	100
	<i>change against the original value in %</i>	-3.5	-1.3	-2.3	-1.5	-2.0	-1.7	-1.5	0.0
Compensation of employees	<i>bill. CZK</i>	620	915	1299	1394	1513	1617	1567	1577
	<i>change against the original value in %</i>	-1.6	-0.3	1.1	0.5	-0.2	-1.0	-2.5	-3.8
–Wages and salaries	<i>bill. CZK</i>	473	690	982	1053	1140	1226	1200	1195
	<i>change against the original value in %</i>	-2.2	-0.5	1.3	0.6	-0.4	-1.5	-3.5	-5.1
–Social security contributions	<i>bill. CZK</i>	147	225	316	341	373	390	367	382
	<i>change against the original value in %</i>	0.3	0.2	0.5	0.5	0.4	0.4	0.9	0.4
Gross operating surplus	<i>bill. CZK</i>	775	1169	1534	1672	1822	1896	1847	1864
	<i>change against the original value in %</i>	11.0	7.8	8.2	7.8	7.5	10.1	8.9	10.0
–Consumption of capital	<i>bill. CZK</i>	300	468	577	603	644	680	711	720
	<i>change against the original value in %</i>	1.2	3.7	4.1	4.6	5.3	6.4	8.6	9.0
–Net operating surplus	<i>bill. CZK</i>	475	700	958	1069	1178	1216	1137	1144
	<i>change against the original value in %</i>	18.1	10.7	10.8	9.7	8.8	12.3	9.1	10.7
Gross national income	<i>bill. CZK</i>	1534	2231	2985	3180	3401	3668	3489	3521
	<i>change against the original value in %</i>	4.8	4.3	4.7	3.9	3.4	4.1	2.3	2.7

Table E.1.2 Nominal GDP – growth rates

		1996	2000	2005	2006	2007	2008	2009	2010
Gross domestic product	<i>growth in %</i>	14.9	5.6	6.4	7.6	9.2	5.1	-2.8	1.0
	<i>change against the original value in p.p.</i>	0.1	0.4	0.4	-0.4	-0.5	0.7	-1.1	-0.2
Private consumption	<i>growth in %</i>	16.1	4.3	3.9	6.0	7.3	7.8	-0.2	1.1
	<i>change against the original value in p.p.</i>	-1.0	-0.1	0.6	-0.7	-0.8	-1.0	-0.3	-0.4
Government consumption	<i>growth in %</i>	11.1	4.5	5.9	4.0	4.6	4.6	6.6	-0.2
	<i>change against the original value in p.p.</i>	0.0	-0.1	0.0	-0.4	0.2	-0.4	0.5	-0.3
Gross capital formation	<i>growth in %</i>	20.7	15.0	4.0	12.4	17.6	2.0	-19.3	5.4
	<i>change against the original value in p.p.</i>	2.0	0.5	5.1	-0.2	6.9	4.3	-3.8	0.3
– Gross fixed capital formation	<i>growth in %</i>	16.9	9.9	6.0	6.9	15.0	4.2	-10.1	-0.5
	<i>change against the original value in p.p.</i>	-0.1	0.9	3.9	-0.4	3.2	5.0	-2.2	3.3
Exports of goods and services	<i>growth in %</i>	11.1	20.7	9.0	12.0	11.4	-0.7	-10.0	14.8
	<i>change against the original value in p.p.</i>	0.4	0.5	-0.1	-2.3	-3.6	-1.2	1.8	-1.2
Imports of goods and services	<i>growth in %</i>	14.8	23.6	5.9	11.7	12.1	-0.5	-12.9	17.4
	<i>change against the original value in p.p.</i>	0.6	0.3	1.5	-2.5	-0.8	-1.3	1.0	-1.2
Balance of taxes and subsidies	<i>growth in %</i>	18.0	4.3	5.0	1.5	13.9	2.5	-3.1	2.8
	<i>change against the original value in p.p.</i>	-0.3	-0.1	0.0	-0.2	0.1	-0.1	0.2	-0.6
– Taxes on production and imports	<i>growth in %</i>	13.3	3.0	6.5	2.9	12.0	2.9	1.4	2.1
	<i>change against the original value in p.p.</i>	0.0	-0.2	0.0	0.0	0.0	0.0	0.1	-0.1
– Subsidies on production	<i>growth in %</i>	-2.7	-0.8	12.6	8.6	4.8	4.4	19.5	-0.4
	<i>change against the original value in p.p.</i>	0.6	-0.6	0.4	0.8	-0.5	0.3	0.2	1.5
Compensation of employees	<i>growth in %</i>	17.5	6.2	7.2	7.3	8.6	6.8	-3.1	0.6
	<i>change against the original value in p.p.</i>	0.4	0.5	0.3	-0.6	-0.8	-0.9	-1.5	-1.4
– Wages and salaries	<i>growth in %</i>	17.7	5.7	7.3	7.2	8.3	7.5	-2.1	-0.4
	<i>change against the original value in p.p.</i>	0.6	0.6	0.4	-0.7	-1.0	-1.2	-2.1	-1.6
– Social security contributions	<i>growth in %</i>	16.6	7.6	6.7	7.8	9.4	4.7	-6.1	4.1
	<i>change against the original value in p.p.</i>	0.0	0.1	0.0	-0.1	-0.1	0.0	0.5	-0.5
Gross operating surplus	<i>growth in %</i>	12.2	5.4	6.0	8.9	9.0	4.1	-2.6	0.9
	<i>change against the original value in p.p.</i>	0.2	0.4	0.5	-0.4	-0.3	2.4	-1.1	1.0
– Consumption of capital	<i>growth in %</i>	11.1	7.3	3.6	4.6	6.8	5.6	4.5	1.4
	<i>change against the original value in p.p.</i>	1.6	0.3	0.5	0.5	0.7	1.1	2.1	0.4
– Net operating surplus	<i>growth in %</i>	12.9	4.1	7.5	11.6	10.3	3.2	-6.5	0.6
	<i>change against the original value in p.p.</i>	-1.0	0.6	0.4	-1.1	-0.9	3.2	-2.7	1.4
Gross national income	<i>growth in %</i>	13.8	5.5	7.0	6.6	6.9	7.8	-4.9	0.9
	<i>change against the original value in p.p.</i>	0.4	0.2	-0.2	-0.9	-0.4	0.7	-1.7	0.5

E.2 Real GDP – Expenditure Structure, Course of the Recession

Changes in real GDP growth rates are not dramatic; it fluctuates in a range of –0.5 p.p. to 0.6 p.p. Greater changes in growth rates can be seen in partial expenditure items, especially gross capital formation, exports, imports, and household consumption. Data are recorded in Table E.2.1.

Changes in growth rates of gross fixed capital formation fluctuate between –3.6 p.p. and 5.6 p.p. This is significantly reflected also in changes in growth rates of gross capital formation.

The revised data alter the perspective on the depth of the recession in 2009. According to new annual national accounts data, real GDP fell by 4.7% (versus the original 4.1%). Also according to new data, the impact of the foreign trade balance on the development of GDP in the same year was positive. This corresponds to the course of the recession in other neighbouring countries. The negative impact of gross capital formation was even stronger due to the

greater drop in gross fixed capital formation as well as the greater drop in inventories. Although the decline in household consumption was in fact 0.2 p.p. greater, it still applies that household consumption was not noticeably affected in 2009. The economic recovery in 2010 was slightly faster, as the economy grew by 2.7% (rather than the original 2.3%).

Economic cycle

The Hodrick–Prescott filter can be used to verify that the published extraordinary and standard revisions of annual national accounts have an entirely insignificant impact on the picture of the course of the economic cycle. A more detailed analysis of the course of the economic cycle including its determinants will be possible only after the revised quarterly data will be published.

Table E.2.1 Real GDP – growth rates

		1996	2000	2005	2006	2007	2008	2009	2010
Gross domestic product	<i>growth in %</i>	4.5	4.2	6.8	7.0	5.7	3.1	-4.7	2.7
	<i>change against the original value in p.p.</i>	0.5	0.5	0.4	0.2	-0.4	0.6	-0.5	0.4
Private consumption	<i>growth in %</i>	7.4	0.9	3.1	4.4	4.2	2.8	-0.4	0.6
	<i>change against the original value in p.p.</i>	-1.0	-0.4	0.6	-0.7	-0.8	-0.8	-0.2	0.4
Government consumption	<i>growth in %</i>	-1.2	0.0	1.6	-0.6	0.4	1.2	3.8	0.6
	<i>change against the original value in p.p.</i>	-0.3	-0.7	-1.2	-1.7	-0.1	0.1	1.2	0.7
Gross capital formation	<i>growth in %</i>	12.7	11.4	4.3	10.2	15.5	1.9	-20.8	5.9
	<i>change against the original value in p.p.</i>	1.1	0.8	5.1	0.5	6.1	4.7	-5.0	0.1
– Gross fixed capital formation	<i>growth in %</i>	9.1	6.5	6.0	5.8	13.2	4.1	-11.5	0.1
	<i>change against the original value in p.p.</i>	-0.8	1.4	4.3	-0.2	2.4	5.6	-3.6	3.2
Exports of goods and services	<i>growth in %</i>	6.5	17.3	11.8	14.0	11.3	3.9	-10.0	16.6
	<i>change against the original value in p.p.</i>	1.0	0.7	0.2	-1.8	-3.7	-2.1	0.7	-1.4
Imports of goods and services	<i>growth in %</i>	12.0	16.0	6.1	11.0	12.9	2.7	-11.7	16.2
	<i>change against the original value in p.p.</i>	0.0	-0.2	1.2	-3.3	-1.3	-2.0	-1.0	-1.8

E.3 Deflators of GDP and GDP Expenditures

Deflators of GDP and GDP expenditures also changed in connection with the change in nominal and real data. Table E.3.1 indicates that terms of trade recorded the largest changes in connection with changes in import and export deflators. Year-on-year changes in import and export deflators were generally increased

in the last 3 years of the extraordinary revision, and, with the exception of 2008, changes caused terms of trade to worsen. Changes in the growth of the terms-of-trade deflator fluctuated throughout the monitored period between –2.1 p.p. and 0.2 p.p.

Table E.3.1 GDP Deflators – growth rates

		1996	2000	2005	2006	2007	2008	2009	2010
Gross domestic product	<i>growth in %</i>	9.9	1.4	-0.3	0.5	3.3	1.9	1.9	-1.7
	<i>change against the original value in p.p.</i>	-0.5	-0.1	-0.1	-0.6	-0.1	0.1	-0.6	-0.6
Private consumption	<i>growth in %</i>	8.1	3.4	0.8	1.5	2.9	4.8	0.2	0.4
	<i>change against the original value in p.p.</i>	0.1	0.3	0.0	0.1	0.1	-0.2	-0.1	-0.8
Government consumption	<i>growth in %</i>	12.4	4.5	4.2	4.6	4.1	3.4	2.7	-0.8
	<i>change against the original value in p.p.</i>	0.3	0.6	1.3	1.5	0.3	-0.4	-0.7	-1.0
Gross fixed capital formation	<i>growth in %</i>	7.2	3.2	-0.1	1.0	1.6	0.1	1.6	-0.6
	<i>change against the original value in p.p.</i>	0.7	-0.5	-0.3	-0.2	0.7	-0.6	1.5	0.2
Exports of goods and services	<i>growth in %</i>	4.3	2.9	-2.5	-1.8	0.1	-4.5	0.0	-1.5
	<i>change against the original value in p.p.</i>	-0.6	-0.3	-0.3	-0.5	0.1	0.7	1.3	0.2
Imports of goods and services	<i>growth in %</i>	2.4	6.5	-0.2	0.7	-0.7	-3.1	-1.4	1.0
	<i>change against the original value in p.p.</i>	0.6	0.4	0.3	0.7	0.5	0.6	2.2	0.5
Terms of trade	<i>growth in %</i>	1.8	-3.4	-2.3	-2.4	0.8	-1.4	1.4	-2.5
	<i>change against the original value in p.p.</i>	-1.2	-0.6	-0.6	-1.2	-0.4	0.2	-1.0	-0.3

Tables and Graphs:

C.1 Economic Output

Sources: CZSO, MoF estimates

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

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK 2000</i>	2630	2809	2982	3055	2928	2997	3060	3092	3154	3258
	<i>growth in %</i>	6.3	6.8	6.1	2.5	-4.1	2.3	2.1	1.0	2.0	3.3
Private consumption exp.¹⁾	<i>bill. CZK 2000</i>	1342	1411	1482	1535	1532	1535	1526	1519	1537	1575
	<i>growth in %</i>	2.5	5.1	5.0	3.6	-0.2	0.2	-0.6	-0.5	1.2	2.5
Government consumption exp.	<i>bill. CZK 2000</i>	542	548	551	557	571	571	564	561	560	564
	<i>growth in %</i>	2.9	1.2	0.5	1.1	2.6	-0.1	-1.2	-0.5	-0.2	0.8
Gross capital formation	<i>bill. CZK 2000</i>	767	841	921	895	753	797	830	843	866	893
	<i>growth in %</i>	-0.8	9.6	9.4	-2.8	-15.8	5.8	4.1	1.5	2.8	3.1
– Gross fixed capital formation	<i>bill. CZK 2000</i>	729	773	856	844	777	753	769	780	802	827
	<i>growth in %</i>	1.8	6.0	10.8	-1.5	-7.9	-3.1	2.1	1.4	2.8	3.2
– Change in stocks and valuables	<i>bill. CZK 2000</i>	38	69	64	51	-24	44	61	63	64	66
Exports of goods and services	<i>bill. CZK 2000</i>	2275	2633	3029	3210	2865	3381	3697	3862	4107	4461
	<i>growth in %</i>	11.6	15.8	15.0	6.0	-10.8	18.0	9.3	4.5	6.3	8.6
Imports of goods and services	<i>bill. CZK 2000</i>	2301	2629	3004	3144	2810	3316	3568	3692	3904	4210
	<i>growth in %</i>	5.0	14.3	14.3	4.7	-10.6	18.0	7.6	3.5	5.7	7.8
Domestic demand	<i>bill. CZK 2000</i>	2652	2796	2943	2979	2868	2908	2920	2920	2956	3024
	<i>growth in %</i>	1.7	5.4	5.2	1.2	-3.7	1.4	0.4	0.0	1.3	2.3
Methodological discrepancy²⁾	<i>bill. CZK 2000</i>	6	5	3	2	17	29	12	-1	-12	-26
Real gross domestic income	<i>bill. CZK 2000</i>	2712	2869	3074	3110	3031	3051	3077	3087	3139	3238
	<i>growth in %</i>	5.0	5.8	7.1	1.2	-2.5	0.6	0.9	0.3	1.7	3.1
Contribution to GDP growth³⁾											
– Domestic demand	<i>percent. points</i>	1.7	5.3	5.1	1.2	-3.6	1.3	0.4	0.0	1.2	2.1
– consumption	<i>percent. points</i>	1.9	2.8	2.5	1.9	0.4	0.1	-0.6	-0.3	0.6	1.4
– gross capital formation	<i>percent. points</i>	-0.2	2.5	2.5	-0.8	-4.0	1.3	0.9	0.3	0.6	0.7
– gross fixed capital formation	<i>percent. points</i>	0.5	1.5	2.7	-0.4	-1.9	-0.7	0.4	0.3	0.6	0.7
– change in stocks	<i>percent. points</i>	-0.7	1.0	-0.1	-0.4	-2.1	2.0	0.5	0.0	0.0	0.0
– Foreign balance	<i>percent. points</i>	4.6	1.5	1.1	1.3	-0.6	1.0	1.7	1.0	0.8	1.2

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

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

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

Table C.1.2: **Real GDP by Type of Expenditure** – quarterly
 chained volumes, reference year 2000

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estim.</i>	<i>Estim.</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK 2000</i>	712	764	756	765	734	781	771	774
	<i>growth in %</i>	1.2	2.9	2.3	3.0	3.1	2.2	2.0	1.2
	<i>growth in % ¹⁾</i>	1.2	2.3	2.6	2.7	2.8	2.2	1.8	1.4
	<i>quart.growth in % ¹⁾</i>	0.8	0.6	0.8	0.5	0.9	0.1	0.3	0.1
Private consumption exp.	<i>bill. CZK 2000</i>	363	384	388	399	363	382	387	394
	<i>growth in %</i>	-0.1	0.1	-0.3	1.0	-0.2	-0.6	-0.3	-1.2
Government consumption exp.	<i>bill. CZK 2000</i>	133	140	140	157	131	138	139	156
	<i>growth in %</i>	2.3	0.9	-0.7	-2.4	-1.0	-1.4	-1.1	-1.2
Gross capital formation	<i>bill. CZK 2000</i>	184	204	223	187	192	214	232	192
	<i>growth in %</i>	-7.4	4.4	16.3	11.1	4.5	5.4	4.0	2.6
– Gross fixed capital formation	<i>bill. CZK 2000</i>	165	190	194	204	170	197	197	204
	<i>growth in %</i>	-7.8	-4.7	-0.2	-0.1	3.3	3.5	1.5	0.4
– Change in stocks and valuables	<i>bill. CZK 2000</i>	19	13	29	-17	22	17	35	-13
Exports of goods and services	<i>bill. CZK 2000</i>	786	862	837	896	908	942	900	946
	<i>growth in %</i>	18.0	20.7	15.7	17.7	15.5	9.4	7.5	5.6
Imports of goods and services	<i>bill. CZK 2000</i>	756	826	843	890	858	892	893	925
	<i>growth in %</i>	15.4	20.0	18.6	17.9	13.5	8.0	5.9	3.9
Methodological discrepancy	<i>bill. CZK 2000</i>	2	0	10	17	-2	-4	6	12
Real gross domestic income	<i>bill. CZK 2000</i>	730	778	768	775	735	784	777	780
	<i>growth in %</i>	-0.1	1.2	0.4	1.0	0.7	0.9	1.2	0.7

¹⁾ From seasonally and working day adjusted data

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

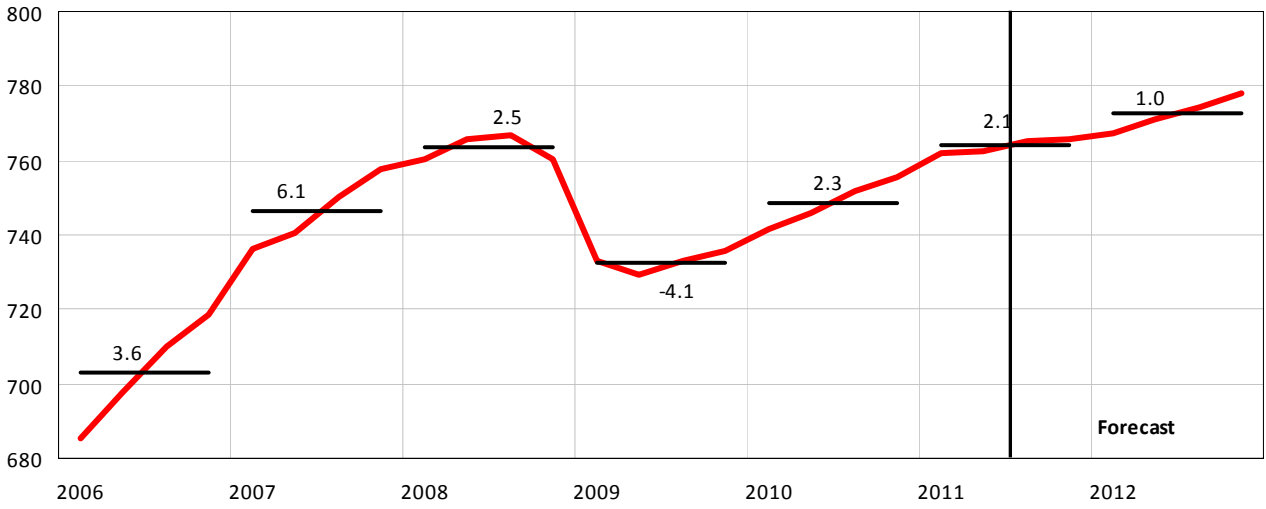
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK</i>	2984	3222	3535	3689	3626	3667	3743	3846	3960	4145
	<i>growth in %</i>	6.0	8.0	9.7	4.3	-1.7	1.1	2.1	2.8	3.0	4.7
Private consumption	<i>bill. CZK</i>	1464	1562	1688	1835	1837	1864	1891	1942	1997	2091
	<i>growth in %</i>	3.4	6.6	8.1	8.7	0.1	1.5	1.4	2.7	2.8	4.7
Government consumption	<i>bill. CZK</i>	658	687	717	753	799	800	799	815	824	842
	<i>growth in %</i>	5.9	4.3	4.4	5.0	6.1	0.1	-0.2	2.1	1.1	2.2
Gross capital formation	<i>bill. CZK</i>	766	863	955	934	788	829	860	882	912	945
	<i>growth in %</i>	-1.1	12.7	10.6	-2.2	-15.5	5.1	3.8	2.5	3.3	3.6
– Gross fixed capital formation	<i>bill. CZK</i>	742	796	890	883	814	783	800	827	856	892
	<i>growth in %</i>	2.0	7.3	11.8	-0.8	-7.8	-3.8	2.2	3.3	3.5	4.3
– Change in stocks and valuables	<i>bill. CZK</i>	24	67	65	50	-26	46	60	56	56	52
External balance	<i>bill. CZK</i>	95	110	176	168	201	175	194	207	227	268
– Exports of goods and services	<i>bill. CZK</i>	2155	2462	2830	2844	2507	2909	3173	3325	3541	3860
	<i>growth in %</i>	9.1	14.3	14.9	0.5	-11.8	16.0	9.1	4.8	6.5	9.0
– Imports of goods and services	<i>bill. CZK</i>	2060	2352	2655	2676	2305	2734	2979	3118	3314	3592
	<i>growth in %</i>	4.4	14.2	12.9	0.8	-13.8	18.6	9.0	4.7	6.3	8.4
Gross national income	<i>bill. CZK</i>	2850	3062	3288	3523	3411	3427	3498	3583	3678	3845
	<i>growth in %</i>	7.1	7.5	7.4	7.1	-3.2	0.5	2.1	2.4	2.7	4.5
Primary income balance	<i>bill. CZK</i>	-134	-160	-247	-166	-215	-240	-245	-264	-282	-300

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

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estim.</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	870	936	923	938	886	953	945	960
	<i>growth in %</i>	-0.6	1.8	1.8	1.6	1.8	1.9	2.3	2.3
Private consumption	<i>bill. CZK</i>	439	467	474	485	446	474	481	490
	<i>growth in %</i>	0.1	1.1	1.6	3.0	1.7	1.5	1.5	1.1
Government consumption	<i>bill. CZK</i>	182	196	195	228	181	195	194	229
	<i>growth in %</i>	2.2	1.1	0.1	-2.2	-0.7	-0.6	-0.3	0.6
Gross capital formation	<i>bill. CZK</i>	191	213	231	193	200	222	240	198
	<i>growth in %</i>	-8.5	4.4	16.6	9.0	4.3	4.7	3.9	2.4
– Gross fixed capital formation	<i>bill. CZK</i>	172	198	202	211	176	203	207	214
	<i>growth in %</i>	-9.4	-5.4	-0.3	-0.7	2.3	2.5	2.3	1.6
– Change in stocks and valuables	<i>bill. CZK</i>	20	14	29	-18	24	19	34	-16
External balance	<i>bill. CZK</i>	58	60	23	33	60	62	29	43
– Exports of goods and services	<i>bill. CZK</i>	676	750	719	764	776	806	787	803
	<i>growth in %</i>	9.4	19.3	17.7	17.5	14.8	7.5	9.4	5.2
– Imports of goods and services	<i>bill. CZK</i>	618	689	696	731	717	744	758	761
	<i>growth in %</i>	8.9	21.3	23.6	20.4	16.0	7.9	8.9	4.1

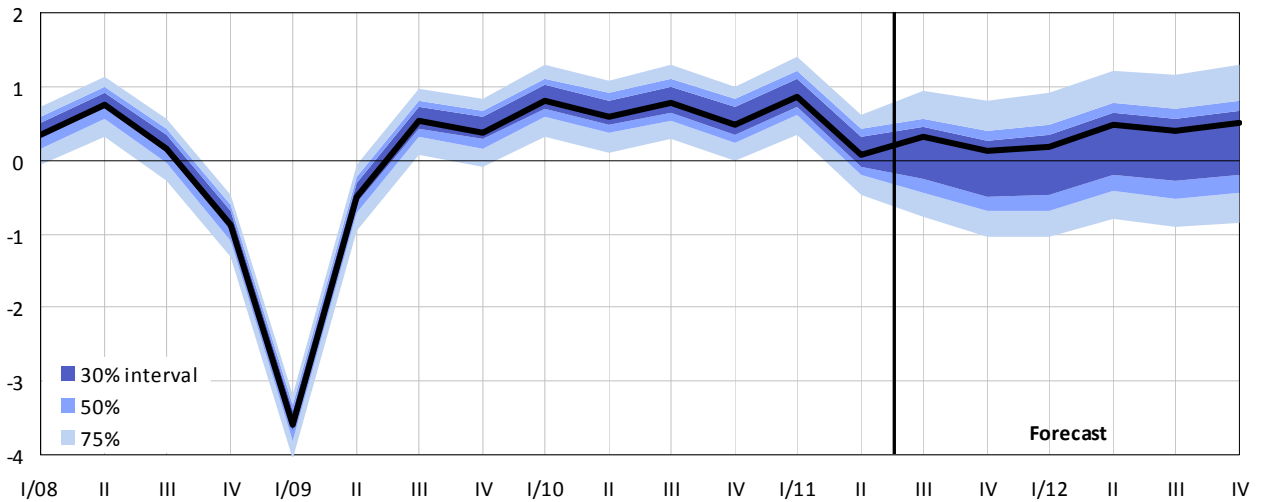
Graph C.1.1: **Gross Domestic Product (real)**

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



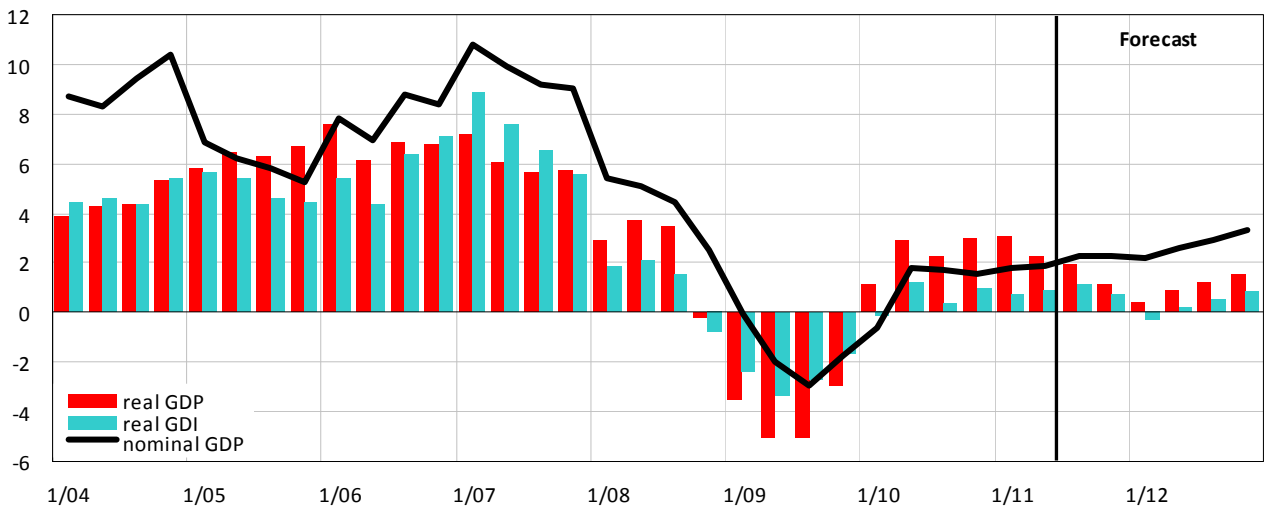
Graph C.1.2: **Gross Domestic Product (real)**

QoQ growth rate, in %, seasonally adjusted

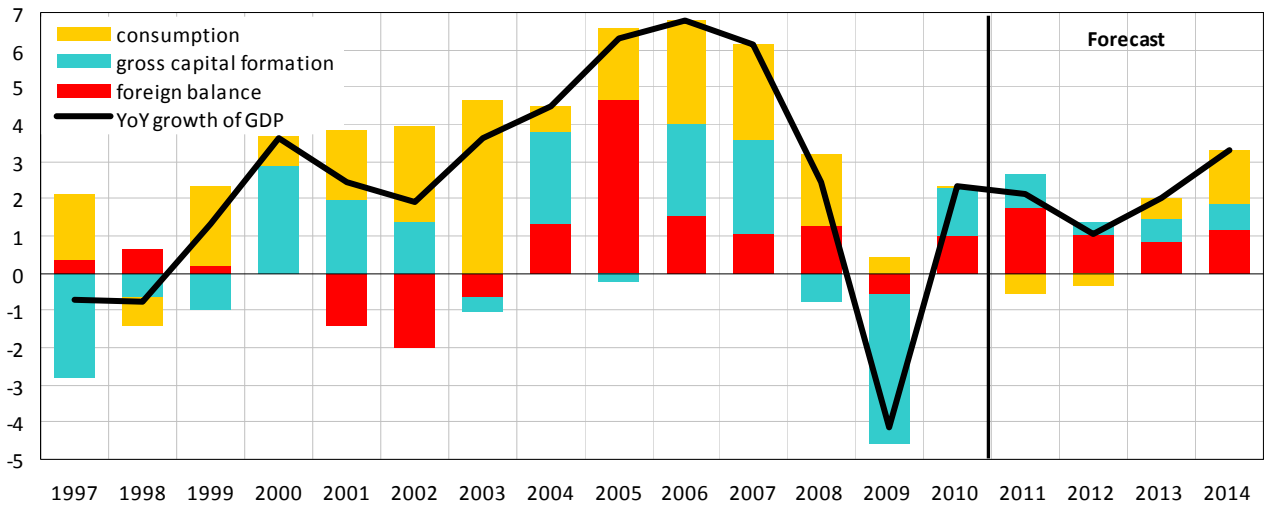


Graph C.1.3: **Gross Domestic Product and Real Gross Domestic Income**

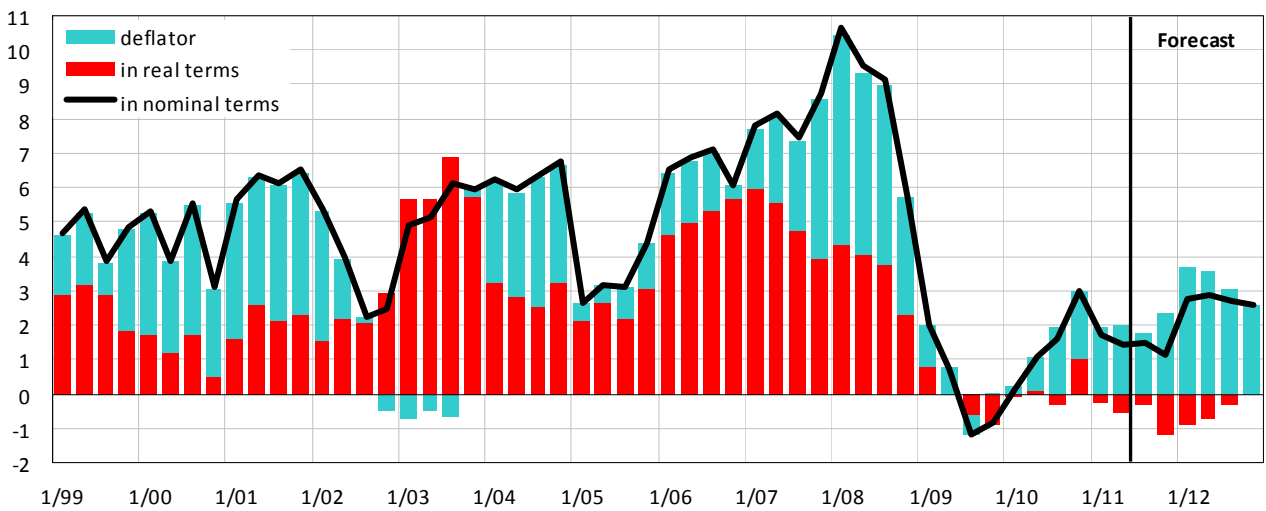
YoY growth rate, in %



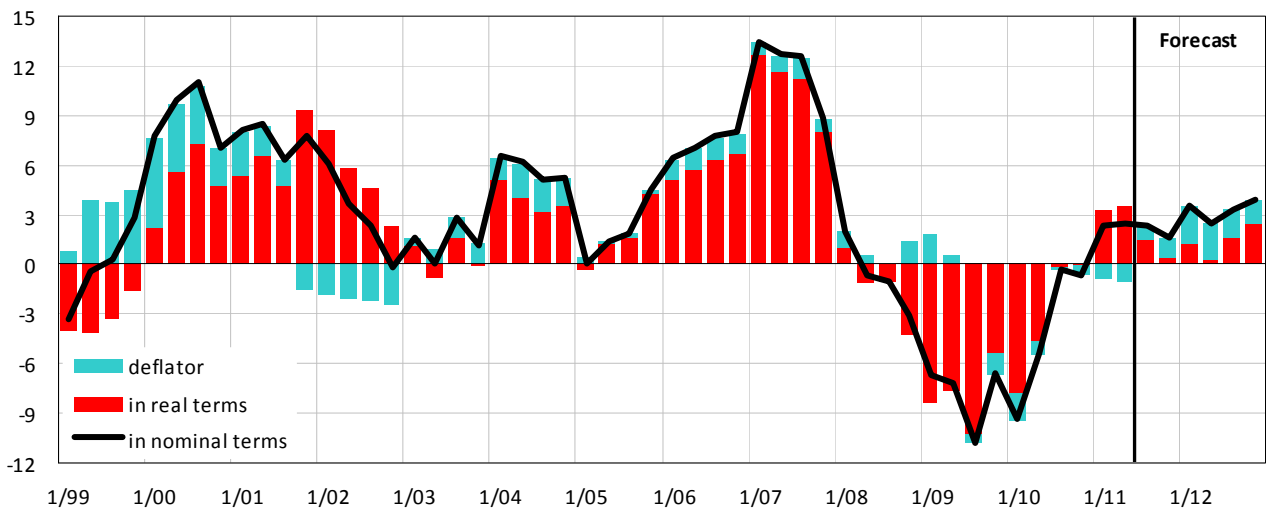
Graph C.1.4: Gross Domestic Product – contributions to YoY growth
in constant prices, decomposition of the YoY growth, in percentage points



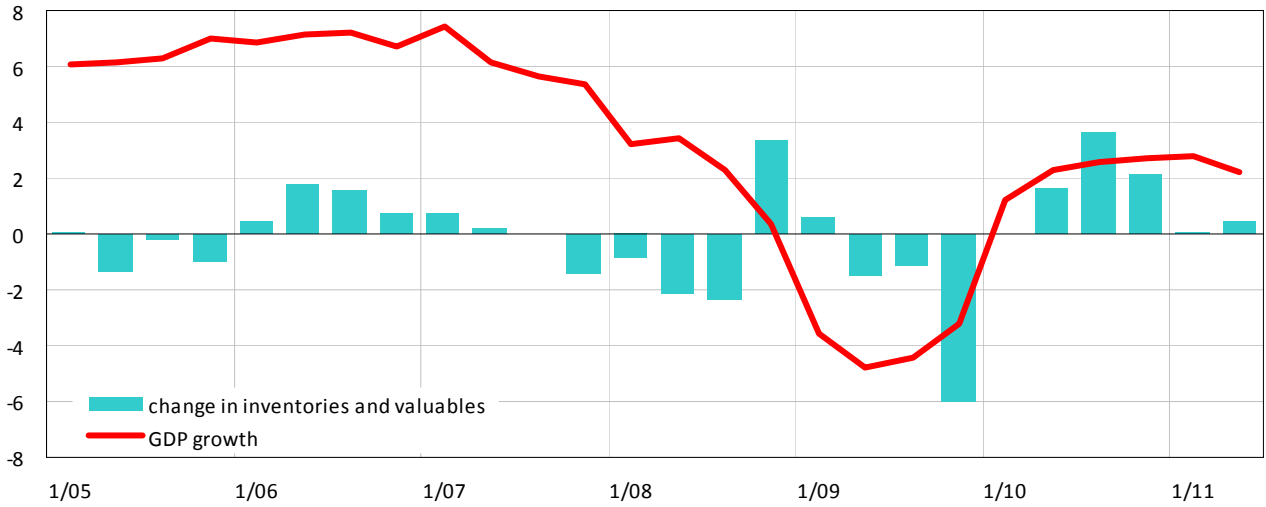
Graph C.1.5: Private Consumption (incl. NPISH)
YoY growth rate, in %



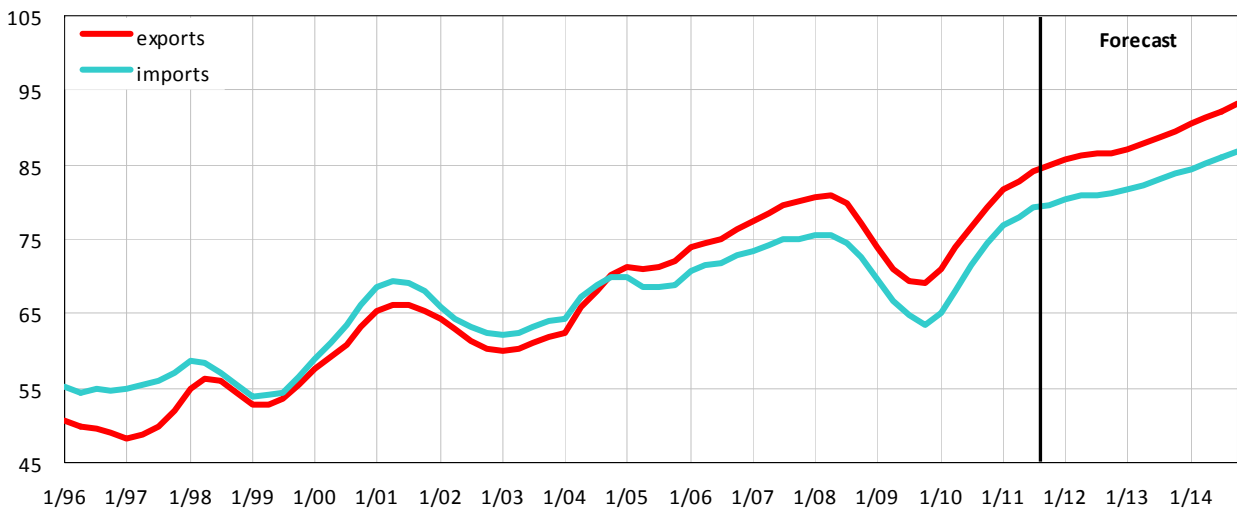
Graph C.1.6: Gross Fixed Capital Formation
YoY growth rate, in %



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



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



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

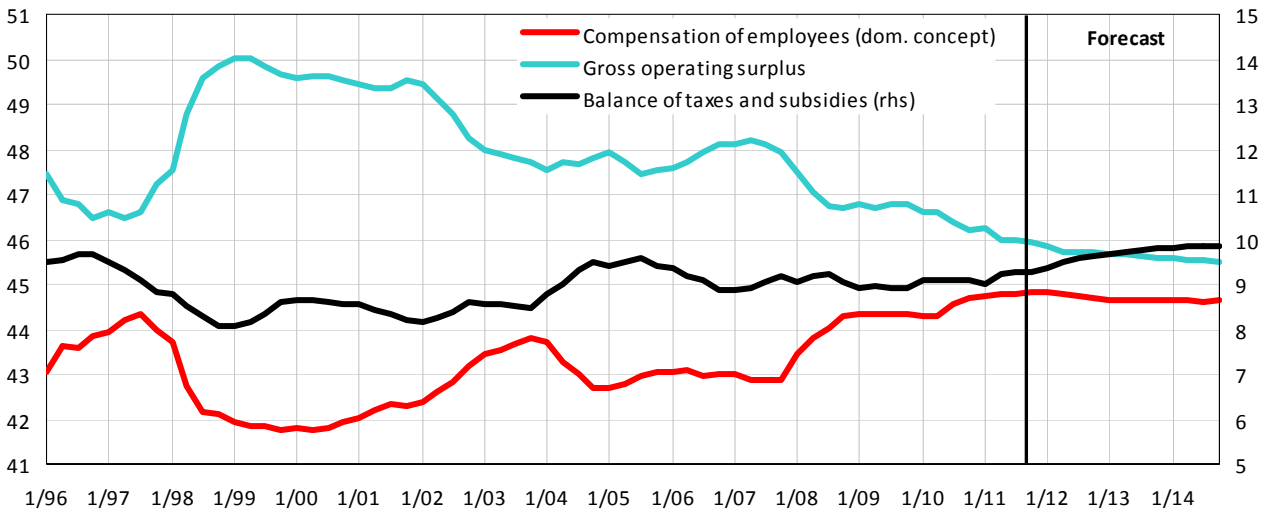


Table C.1.5: GDP by Type of Income – yearly

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
GDP	<i>bill. CZK</i>	2984	3222	3535	3689	3626	3667	3743	3846	3960	4145
	<i>growth in %</i>	6.0	8.0	9.7	4.3	-1.7	1.1	2.1	2.8	3.0	4.7
Balance of taxes and subsidies	<i>bill. CZK</i>	281	285	325	333	322	333	346	371	387	409
	<i>growth in %</i>	5.1	1.6	13.8	2.5	-3.2	3.4	3.9	7.0	4.5	5.5
– Taxes on production and imports	<i>bill. CZK</i>	353	363	407	418	424	433	447	474	494	518
	<i>growth in %</i>	6.4	2.9	12.0	2.9	1.4	2.1	3.2	6.0	4.2	5.0
– Subsidies on production	<i>bill. CZK</i>	72	78	82	85	102	100	101	103	106	109
	<i>growth in %</i>	12.2	7.8	5.4	4.1	19.3	-1.9	0.9	2.5	3.0	3.0
Compensation of employees	<i>bill. CZK</i>	1285	1386	1516	1633	1608	1639	1677	1718	1768	1850
	<i>growth in %</i>	6.9	7.9	9.4	7.7	-1.6	2.0	2.3	2.4	2.9	4.7
– Wages and salaries	<i>bill. CZK</i>	970	1047	1145	1245	1244	1259	1289	1324	1363	1426
	<i>growth in %</i>	6.9	7.9	9.4	8.7	0.0	1.2	2.3	2.7	2.9	4.7
– Social security contributions	<i>bill. CZK</i>	315	339	371	389	363	380	389	394	405	424
	<i>growth in %</i>	6.7	7.8	9.5	4.7	-6.6	4.6	2.2	1.5	2.7	4.7
Gross operating surplus	<i>bill. CZK</i>	1418	1551	1694	1722	1696	1695	1720	1758	1805	1886
	<i>growth in %</i>	5.4	9.3	9.3	1.7	-1.5	-0.1	1.5	2.2	2.7	4.5
– Consumption of capital	<i>bill. CZK</i>	554	576	611	639	655	661	666	672	682	696
	<i>growth in %</i>	3.0	4.1	6.1	4.5	2.4	1.0	0.7	1.0	1.5	2.0
– Net operating surplus	<i>bill. CZK</i>	865	974	1083	1083	1041	1034	1054	1085	1123	1190
	<i>growth in %</i>	7.0	12.7	11.1	0.0	-3.9	-0.8	2.0	3.0	3.4	6.0

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

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	870	936	923	938	886	953	945	960
	<i>growth in %</i>	-0.6	1.8	1.8	1.6	1.8	1.9	2.3	2.3
Balance of taxes and subsidies	<i>bill. CZK</i>	78	90	93	72	77	100	95	74
	<i>growth in %</i>	10.4	1.9	0.2	2.4	-2.0	11.3	2.6	2.9
Compensation of employees	<i>bill. CZK</i>	392	405	405	438	400	414	415	448
	<i>growth in %</i>	-0.9	1.8	4.3	2.8	2.1	2.4	2.3	2.4
– Wages and salaries	<i>bill. CZK</i>	299	310	313	337	306	318	320	346
	<i>growth in %</i>	-0.7	1.7	2.4	1.4	2.2	2.5	2.3	2.4
– Social security contributions	<i>bill. CZK</i>	92	94	93	101	94	96	95	103
	<i>growth in %</i>	-1.5	2.0	11.0	7.6	2.0	2.1	2.3	2.4
Gross operating surplus	<i>bill. CZK</i>	400	441	425	428	409	439	435	437
	<i>growth in %</i>	-2.3	1.8	-0.2	0.2	2.2	-0.5	2.2	2.0

C.2 Prices

Sources: CZSO, MoF estimates

Table C.2.1: Prices – yearly

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
								<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Consumer Price Index												
average of a year	<i>average 2005=100</i>	100.0	102.5	105.4	112.1	113.3	115.0	117.2	120.9	122.9	125.5	
	<i>growth in %</i>	1.9	2.5	2.8	6.3	1.0	1.5	1.9	3.2	1.6	2.1	
December	<i>average 2005=100</i>	100.6	102.3	107.9	111.8	112.9	115.5	118.6	121.4	123.9	126.4	
	<i>growth in %</i>	2.2	1.7	5.4	3.6	1.0	2.3	2.6	2.4	2.0	2.0	
– of which contribution of												
administrative measures¹⁾	<i>percentage points</i>	1.9	0.8	2.2	4.3	1.0	1.6	1.1	2.2	0.5	0.8	
market increase	<i>percentage points</i>	0.4	0.8	3.3	-0.7	0.0	0.7	1.6	0.2	1.5	1.3	
HICP	<i>average 2005=100</i>	100.0	102.1	105.1	111.7	112.4	113.7	116.1	120.0	122.1	124.8	
	<i>growth in %</i>	1.6	2.1	3.0	6.3	0.6	1.2	2.1	3.4	1.7	2.2	
Offering prices of flats												
	<i>average 2005=100</i>	100.0	108.9	131.6	162.4	157.9	151.6	.	.	.	.
	<i>growth in %</i>	-1.6	8.9	20.8	23.4	-2.8	-4.0	.	.	.	.
Deflators												
GDP	<i>average 2000=100</i>	113.4	114.7	118.6	120.8	123.8	122.4	122.3	124.4	125.6	127.2	
	<i>growth in %</i>	-0.3	1.1	3.4	1.8	2.5	-1.2	0.0	1.7	0.9	1.3	
Domestic final use	<i>average 2000=100</i>	108.9	111.3	114.2	118.2	119.4	120.1	121.6	124.7	126.3	128.2	
	<i>growth in %</i>	1.0	2.2	2.6	3.5	1.0	0.6	1.2	2.5	1.3	1.6	
Consumption of households	<i>average 2000=100</i>	109.1	110.7	113.9	119.5	119.9	121.5	123.9	127.9	130.0	132.7	
	<i>growth in %</i>	0.8	1.4	2.9	4.9	0.3	1.3	2.0	3.2	1.6	2.1	
Consumption of government	<i>average 2000=100</i>	121.5	125.3	130.1	135.2	139.8	140.2	141.6	145.2	147.1	149.2	
	<i>growth in %</i>	3.0	3.1	3.8	3.9	3.4	0.2	1.0	2.6	1.3	1.4	
Fixed capital formation	<i>average 2000=100</i>	101.8	103.0	104.0	104.7	104.8	104.0	104.0	106.0	106.8	107.9	
	<i>growth in %</i>	0.2	1.3	0.9	0.7	0.1	-0.8	0.1	1.9	0.7	1.1	
Exports of goods and services	<i>average 2000=100</i>	94.7	93.5	93.4	88.6	87.5	86.0	85.8	86.1	86.2	86.5	
	<i>growth in %</i>	-2.2	-1.3	-0.1	-5.2	-1.2	-1.7	-0.2	0.3	0.1	0.3	
Imports of goods and services	<i>average 2000=100</i>	89.5	89.5	88.4	85.1	82.0	82.5	83.5	84.5	84.9	85.3	
	<i>growth in %</i>	-0.5	-0.1	-1.2	-3.7	-3.6	0.5	1.3	1.2	0.5	0.5	
Terms of trade	<i>average 2000=100</i>	105.8	104.5	105.7	104.1	106.6	104.3	102.8	101.9	101.6	101.4	
	<i>growth in %</i>	-1.7	-1.2	1.2	-1.6	2.5	-2.2	-1.5	-0.8	-0.4	-0.2	

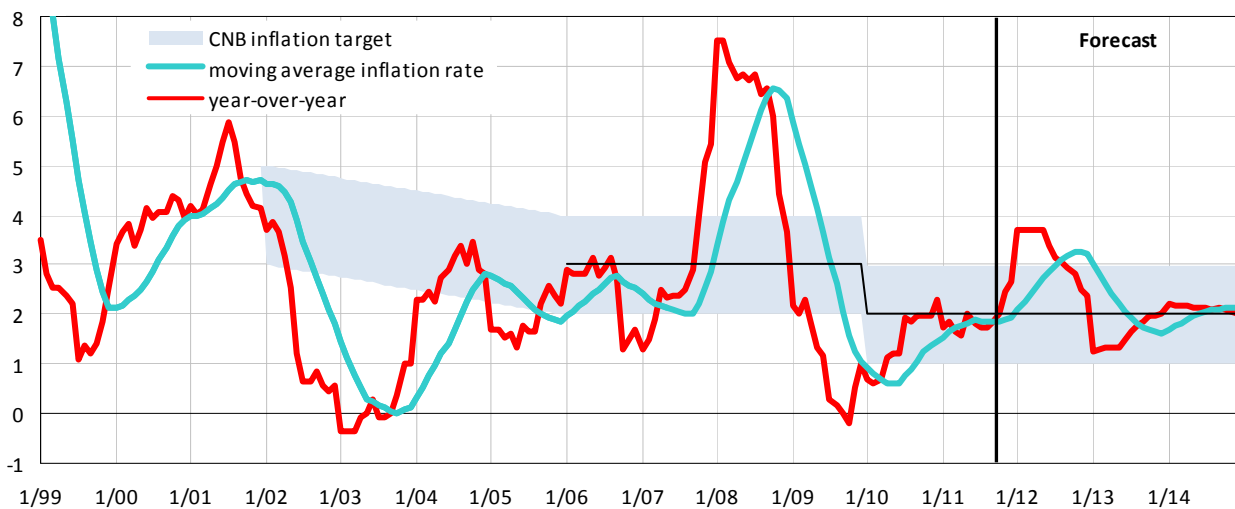
¹⁾ The contribution of increase in regulated prices and in indirect taxes to increase of December YoY consumer price inflation.

Table C.2.2: Prices – quarterly

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate		Forecast	
Consumer Price Index	<i>average 2005=100</i>	114.4	115.1	115.2	115.1	116.4	117.2	117.3	117.8
	<i>growth in %</i>	0.7	1.2	1.9	2.1	1.7	1.8	1.8	2.4
contr. of administrative measures	<i>percentage points</i>	1.0	1.3	1.6	1.6	0.8	0.7	0.8	1.0
contribution of market increase	<i>percentage points</i>	-0.3	-0.1	0.4	0.5	0.9	1.1	1.0	1.4
HICP	<i>average 2005=100</i>	113.1	113.9	114.0	113.8	115.3	116.0	116.3	116.7
	<i>growth in %</i>	0.4	0.9	1.7	2.0	1.9	1.9	2.0	2.5
Offering prices of flats	<i>average 2005=100</i>	152.7	152.2	151.3	150.0	147.3	144.4	.	.
	<i>growth in %</i>	-7.3	-2.2	-3.3	-3.0	-3.5	-5.1	.	.
GDP deflator	<i>average 2000=100</i>	122.2	122.4	122.1	122.7	120.7	122.0	122.5	124.0
	<i>growth in %</i>	-1.8	-1.1	-0.5	-1.3	-1.2	-0.4	0.3	1.1
Domestic final use deflator	<i>average 2000=100</i>	119.1	120.1	120.0	121.0	120.4	121.5	121.4	123.0
	<i>growth in %</i>	-0.1	0.6	1.2	0.6	1.1	1.1	1.1	1.7
Terms of trade	<i>average 2000=100</i>	105.2	104.2	104.1	103.9	102.4	102.6	103.1	103.2
	<i>growth in %</i>	-1.8	-2.2	-2.4	-2.2	-2.7	-1.6	-1.0	-0.6

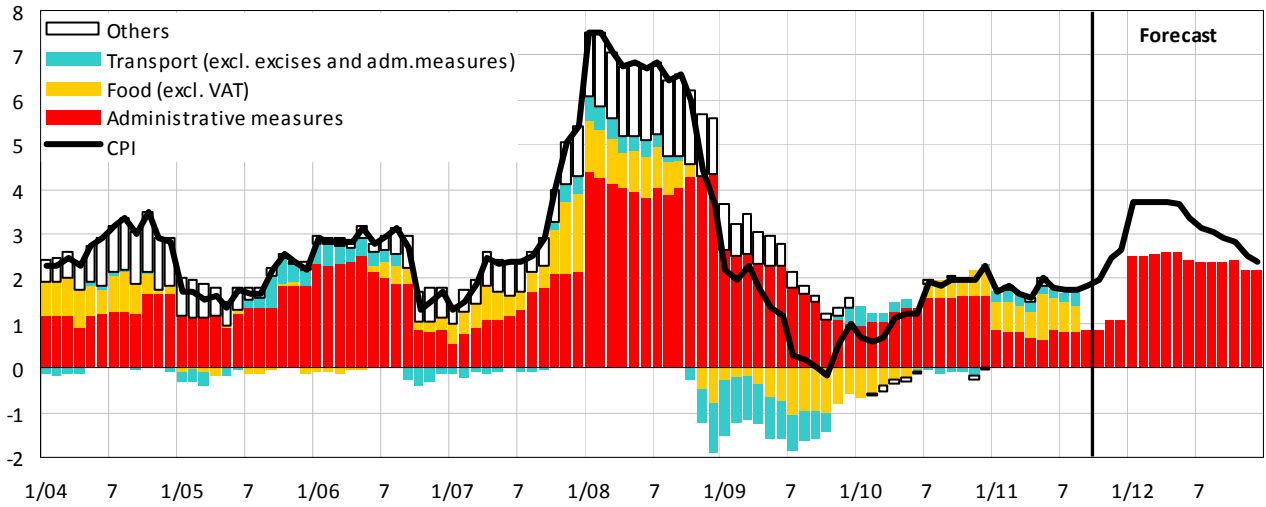
Graph C.2.1: Consumer Prices

YoY growth rate, in %



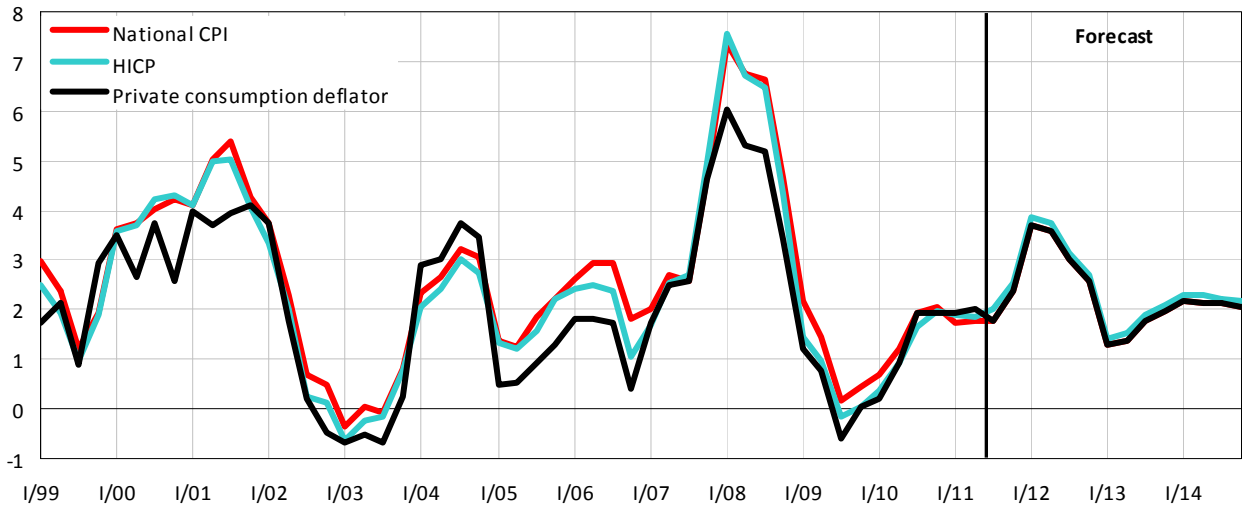
Graph C.2.2: Consumer Prices

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



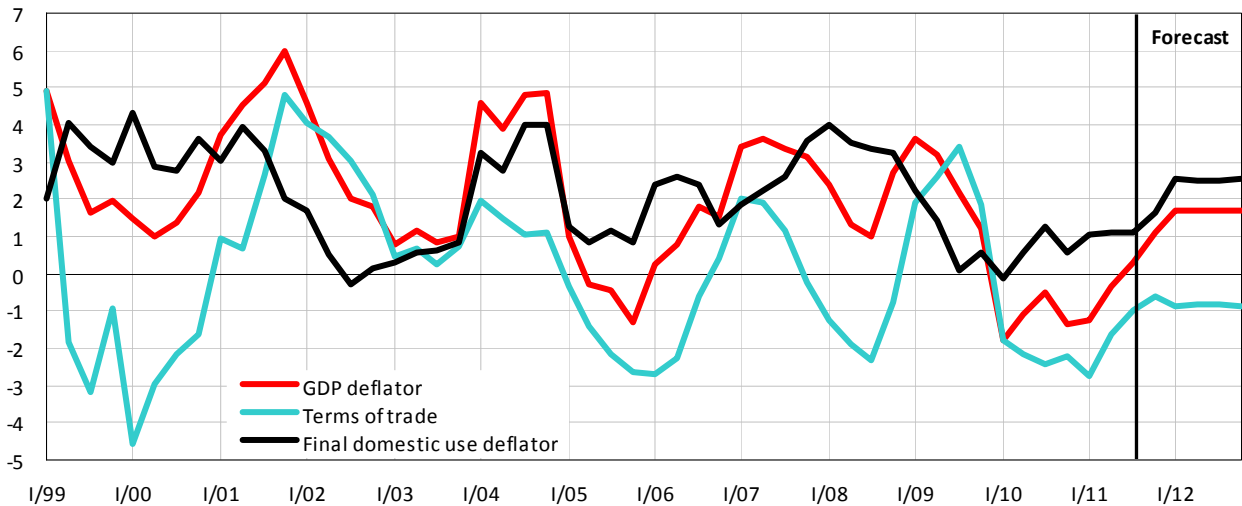
Graph C.2.3: Indicators of Consumer Prices

YoY increases, in %



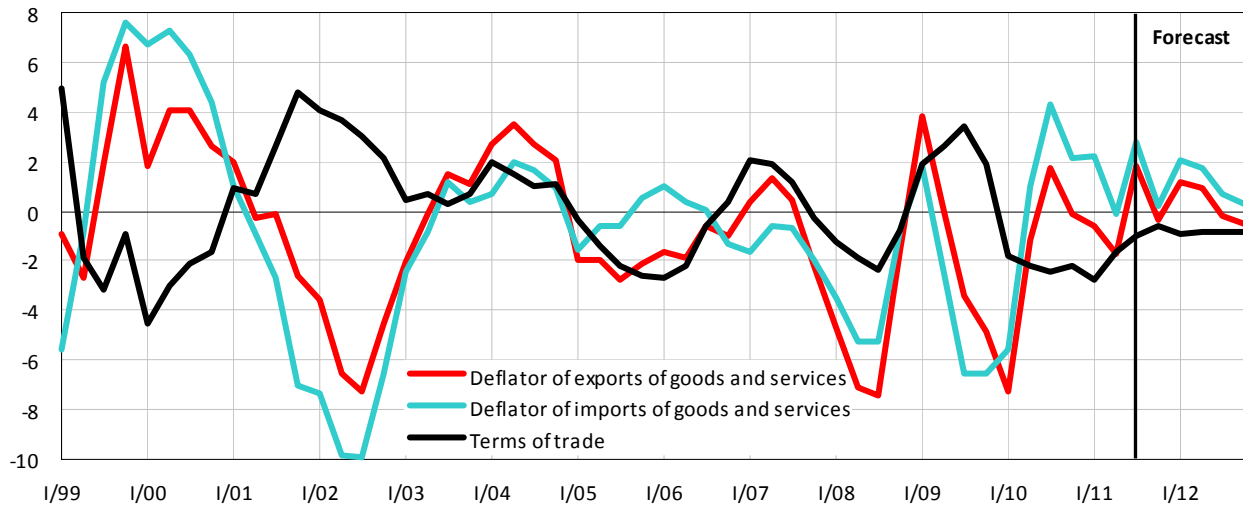
Graph C.2.4: GDP Deflator

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



Graph C.2.5: Terms of Trade

YoY increases, in %



C.3 Labour Market

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

Table C.3.1: Employment – yearly

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
								Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	4764	4828	4922	5002	4934	4885	4905	4896	4901	4927
	<i>growth in %</i>	1.2	1.3	1.9	1.6	-1.4	-1.0	0.4	-0.2	0.1	0.5
– employees	<i>av. in thous.persons</i>	4001	4048	4125	4196	4107	4019	4032	4024	4022	4037
	<i>growth in %</i>	2.2	1.2	1.9	1.7	-2.1	-2.1	0.3	-0.2	-0.1	0.4
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	763	780	797	807	827	866	874	872	879	890
	<i>growth in %</i>	-3.7	2.2	2.2	1.2	2.5	4.7	0.9	-0.2	0.8	1.2
Unemployment	<i>av. in thous.persons</i>	410	371	276	230	352	384	362	366	365	355
Unemployment rate	<i>average in per cent</i>	7.9	7.1	5.3	4.4	6.7	7.3	6.9	6.9	6.9	6.7
Labour force	<i>av. in thous.persons</i>	5174	5199	5198	5232	5286	5269	5268	5262	5266	5282
	<i>growth in %</i>	0.8	0.5	0.0	0.7	1.0	-0.3	0.0	-0.1	0.1	0.3
Population aged 15–64	<i>av. in thous.persons</i>	7270	7307	7347	7410	7431	7399	7348	7291	7235	7185
	<i>growth in %</i>	0.3	0.5	0.5	0.9	0.3	-0.4	-0.7	-0.8	-0.8	-0.7
Employment/Pop. 15–64	<i>average in per cent</i>	65.5	66.1	67.0	67.5	66.4	66.0	66.8	67.2	67.7	68.6
Employment rate 15–64¹⁾	<i>average in per cent</i>	64.8	65.3	66.1	66.6	65.4	65.0	65.7	66.0	66.6	67.4
Labour force/Pop. 15–64	<i>average in per cent</i>	71.2	71.2	70.8	70.6	71.1	71.2	71.7	72.2	72.8	73.5
Participation rate 15–64²⁾	<i>average in per cent</i>	70.4	70.3	69.8	69.7	70.1	70.2	70.6	71.0	71.6	72.4
SNA											
Employment (domestic concept)	<i>av. in thous.persons</i>	4992	5088	5224	5288	5226	5185	5202	5190	5195	5223
	<i>growth in %</i>	1.0	1.9	2.7	1.2	-1.2	-0.8	0.3	-0.2	0.1	0.5
Hours worked	<i>bill. hours</i>	9.81	9.97	10.18	10.37	9.88	9.89	9.90	9.81	9.73	9.71
	<i>growth in %</i>	1.6	1.7	2.0	1.9	-4.7	0.1	0.1	-0.9	-0.8	-0.2
Hours worked / employment	<i>hours</i>	1965	1960	1948	1962	1891	1907	1903	1890	1873	1859
	<i>growth in %</i>	0.6	-0.2	-0.6	0.7	-3.6	0.9	-0.2	-0.7	-0.9	-0.8
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	514.3	474.8	392.8	324.6	465.6	528.7	506	493	493	475
Unemployment rate	<i>average in per cent</i>	8.97	8.13	6.62	5.45	7.98	9.01	8.5	8.4	8.4	8.1
Registered foreign workers											
Total	<i>av. in thous.persons</i>	195.2	233.2	276.2	343.5	335.4	313.5	.	.	.	.
	<i>growth in %</i>	15.3	19.4	18.5	24.4	-2.3	-6.5	.	.	.	.
– employees	<i>av. in thous.persons</i>	131.2	165.5	209.7	270.2	252.6	219.6	.	.	.	.
	<i>growth in %</i>	23.7	26.1	26.7	28.8	-6.5	-13.0	.	.	.	.
– self-employed	<i>av. in thous.persons</i>	64.0	67.7	66.5	73.3	82.8	93.9	.	.	.	.
	<i>growth in %</i>	1.2	5.7	-1.8	10.2	13.0	13.4	.	.	.	.

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

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

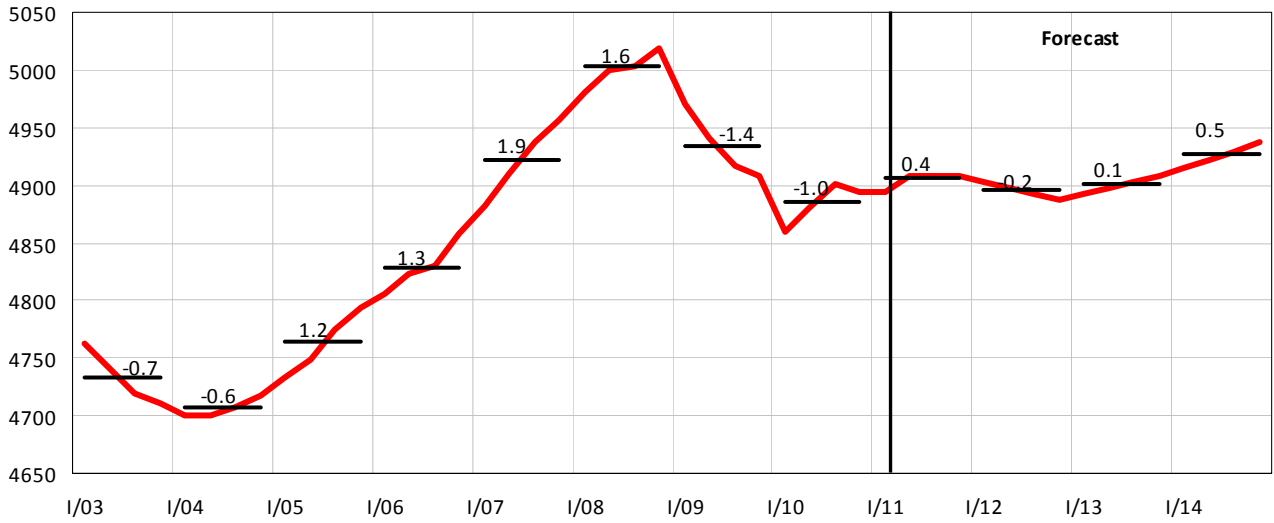
Table C.3.2: Employment – quarterly

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Estimate	Forecast
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4829	4881	4912	4919	4864	4908	4918	4931
	<i>YoY growth in %</i>	-2.4	-1.2	-0.2	-0.2	0.7	0.6	0.1	0.3
	<i>QoQ growth in %</i>	-0.5	0.2	0.3	0.1	0.0	0.1	0.0	0.0
– employees	<i>av. in thous. persons</i>	3992	4013	4035	4036	3989	4034	4042	4061
	<i>growth in %</i>	-3.2	-2.6	-1.3	-1.5	-0.1	0.5	0.2	0.6
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	837	868	876	883	875	874	876	871
	<i>growth in %</i>	1.7	5.5	5.2	6.3	4.6	0.7	-0.1	-1.4
Unemployment	<i>av. in thous. persons</i>	423	375	374	363	376	355	363	355
Unemployment rate	<i>average in per cent</i>	8.0	7.1	7.1	6.9	7.2	6.7	6.9	6.7
Labour force	<i>av. in thous. persons</i>	5252	5256	5286	5282	5241	5263	5281	5286
	<i>growth in %</i>	0.0	-0.4	-0.4	-0.6	-0.2	0.1	-0.1	0.1
Population aged 15–64	<i>av. in thous. persons</i>	7412	7406	7393	7387	7371	7354	7341	7328
	<i>growth in %</i>	-0.3	-0.3	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8
Employment/Pop. 15–64	<i>average in per cent</i>	65.2	65.9	66.4	66.6	66.0	66.7	67.0	67.3
	<i>increase over a year</i>	-1.4	-0.6	0.2	0.3	0.8	0.8	0.6	0.7
Employment rate 15–64	<i>average in per cent</i>	64.1	64.9	65.4	65.5	65.0	65.7	65.9	66.2
	<i>increase over a year</i>	-1.4	-0.5	0.2	0.3	0.9	0.8	0.5	0.7
Labour force/Pop. 15–64	<i>average in per cent</i>	70.9	71.0	71.5	71.5	71.1	71.6	71.9	72.1
	<i>increase over a year</i>	0.2	0.0	0.1	0.0	0.2	0.6	0.4	0.6
Participation rate 15–64	<i>average in per cent</i>	69.8	70.0	70.5	70.4	70.1	70.5	70.9	71.0
	<i>increase over a year</i>	0.2	0.0	0.1	0.0	0.3	0.6	0.4	0.6
SNA									
Employment (domestic concept)	<i>av. in thous. persons</i>	5126	5176	5215	5224	5162	5205	5213	5227
	<i>growth in %</i>	-2.1	-1.0	-0.1	0.0	0.7	0.6	0.0	0.1
Hours worked	<i>bill. hours</i>	2.46	2.54	2.39	2.50	2.46	2.56	2.39	2.49
	<i>growth in %</i>	-1.9	-0.9	1.7	1.6	0.0	0.6	0.0	-0.1
Hours worked / employment	<i>hours</i>	480	492	458	478	476	492	458	477
	<i>growth in %</i>	0.2	0.1	1.8	1.5	-0.7	0.0	0.0	-0.2
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	571.1	530.5	502.4	510.9	564.5	506	481	473
Unemployment rate	<i>average in per cent</i>	9.75	9.00	8.59	8.69	9.57	8.48	8.14	7.9
Registered foreign workers									
Total	<i>av. in thous. persons</i>	315.0	316.2	312.9	310.0	303.0	305.6	309.5	.
	<i>growth in %</i>	-9.6	-6.0	-5.7	-4.6	-3.8	-3.4	-1.1	.
– employees	<i>av. in thous. persons</i>	222.8	218.4	218.1	219.3	211.2	212.7	216.3	.
	<i>growth in %</i>	-17.5	-14.3	-11.8	-7.9	-5.2	-2.6	-0.9	.
– self-employed	<i>av. in thous. persons</i>	92.2	97.9	94.7	90.7	91.8	92.9	93.3	.
	<i>growth in %</i>	17.7	20.1	11.9	4.5	-0.5	-5.1	-1.5	.

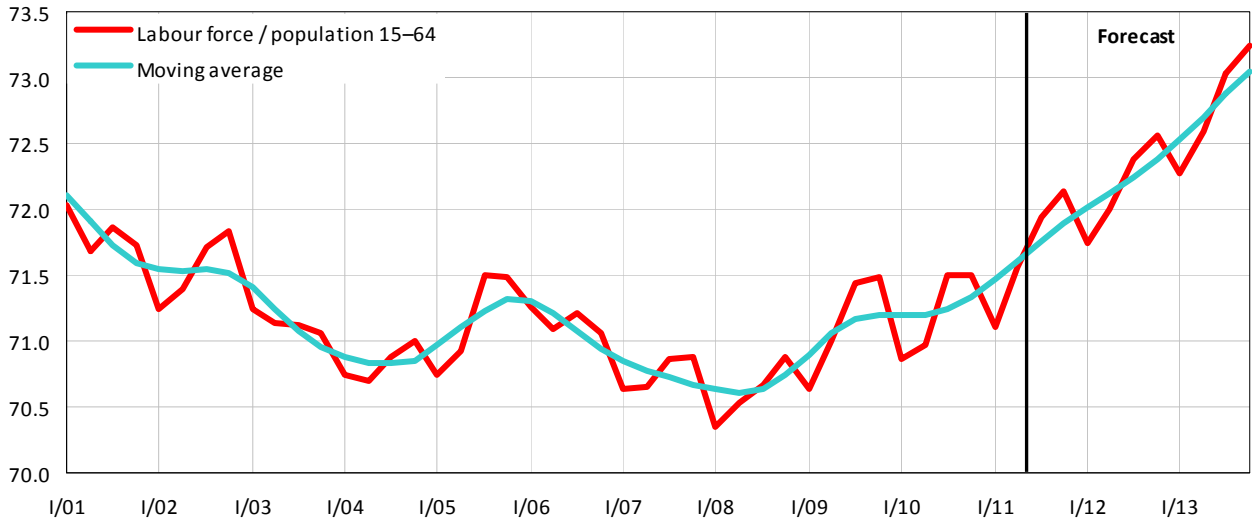
¹⁾ Seasonal adjustment done by the MoF.

Graph C.3.1: Employment (LFS)

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

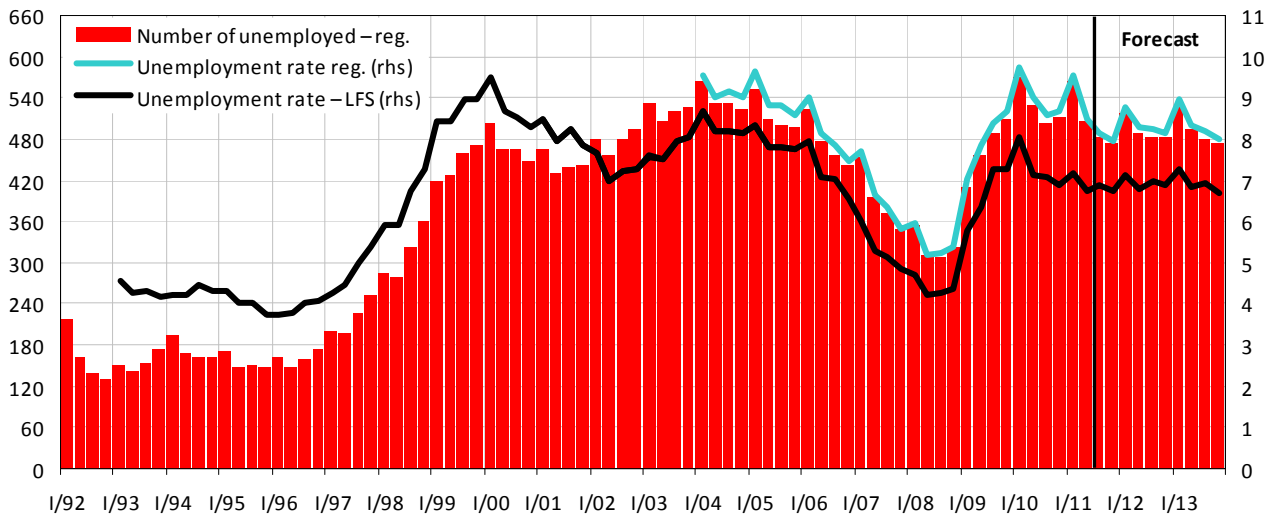


Graph C.3.2: Ratio of Labour Force to Population aged 15–64 (in %)



Graph C.3.3: Unemployment

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



Graph C.3.4: Economic Output and Unemployment

YoY increase of real GDP in %. Change in unemployment in thousands of persons

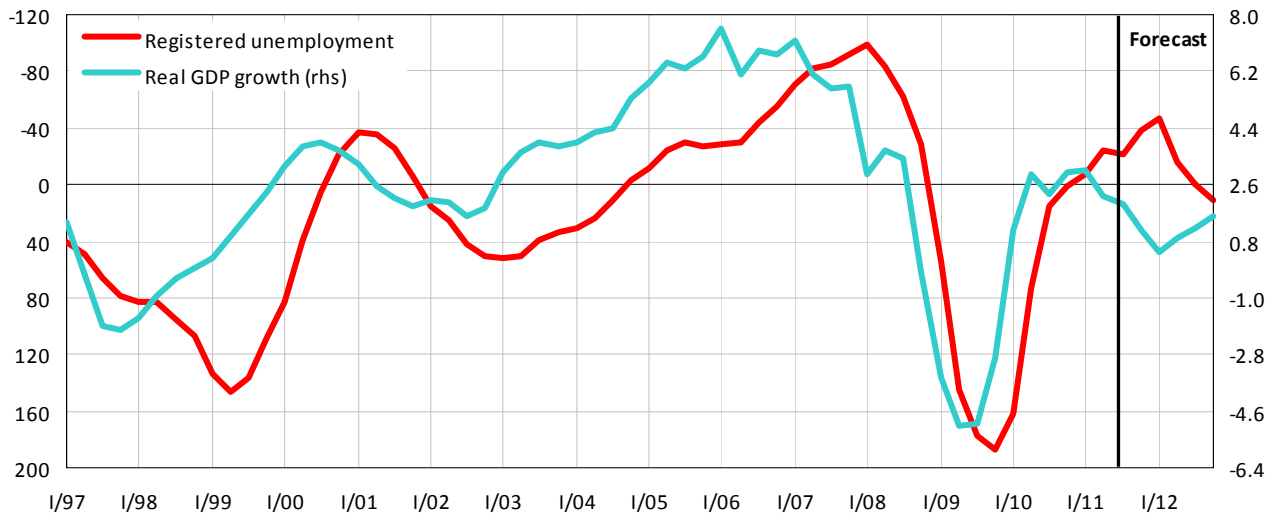


Table C.3.3: Labour Market – analytical indicators

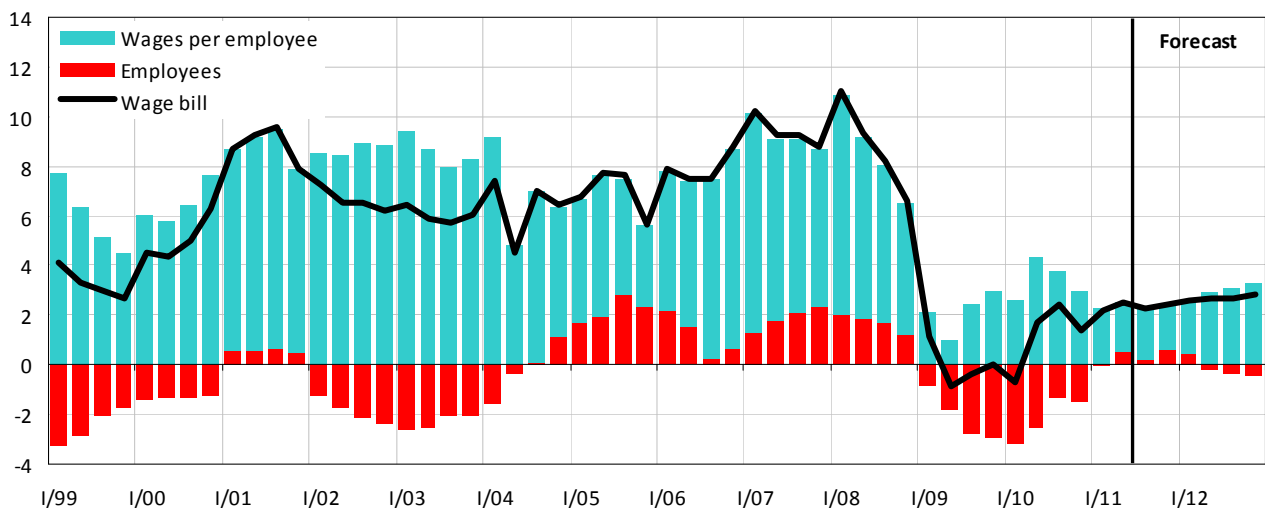
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
											Prelim	Forecast	Forecast
Compensation per employee													
– nominal	growth in %	8.2	6.7	4.6	6.6	7.3	5.9	0.5	4.2	2.0	2.6		
– real	growth in %	8.1	3.8	2.6	4.0	4.4	-0.4	-0.5	2.7	0.1	-0.6		
Average monthly wage ¹⁾													
– nominal	CZK	16 430	17 466	18 344	19 546	20 957	22 592	23 344	23 797	24 300	25 000		
	growth in %	5.8	6.3	5.0	6.6	7.2	7.8	3.3	1.9	2.2	2.7		
– real	CZK 2005	17 206	17 791	18 344	19 063	19 874	20 147	20 602	20 699	20 800	20 700		
	growth in %	5.7	3.4	3.1	3.9	4.3	1.4	2.3	0.5	0.3	-0.5		
Labour productivity	growth in %	4.3	5.1	5.0	5.4	4.1	0.8	-2.8	3.4	1.7	1.2		
Unit labour costs ²⁾	growth in %	3.8	1.5	-0.5	1.2	3.1	5.1	3.5	0.8	0.3	1.4		
Compensations of employees / GDP	%	43.8	42.7	43.1	43.0	42.9	44.3	44.3	44.7	44.8	44.7		

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.3.5: Wage Bill – nominal, domestic concept

YoY growth rate, in %



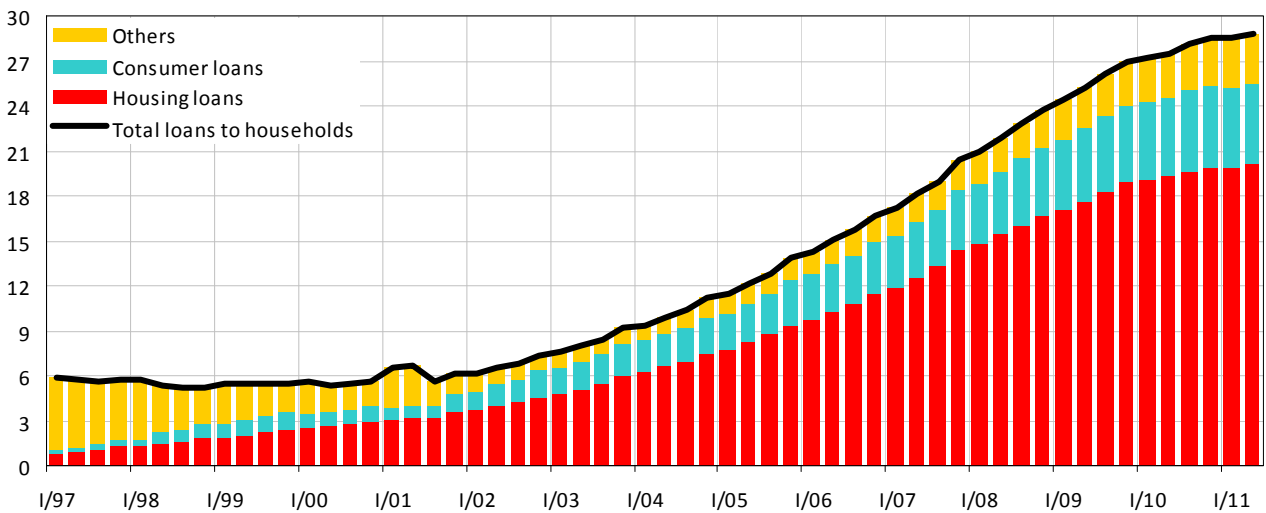
Graph C.3.6: Average Nominal Wage

YoY growth rate, in %



Graph C.3.7: Ratio of Bank Loans to Households to GDP

yearly moving sums of GDP, in %



Graph C.3.8: Gross Savings Rate of Households

in % of disposable income

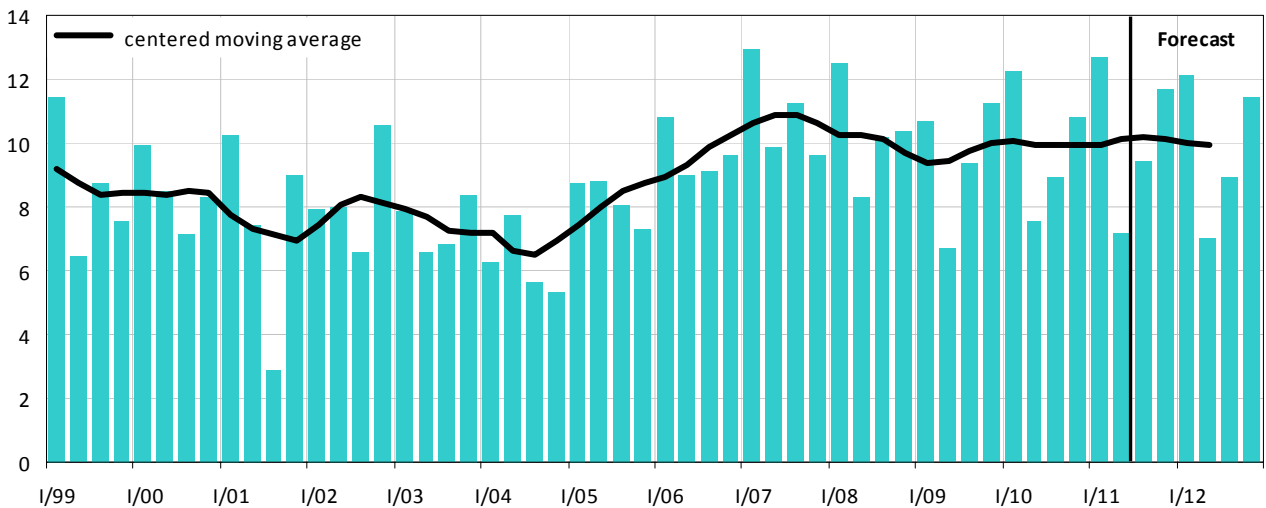


Table C.3.4: **Income and Expenditures of Households – yearly**
SNA methodology – national concept

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>
<u>Current income</u>											
Compensation of employees	<i>bill.CZK</i>	1120	1186	1273	1387	1511	1614	1594	1636	1673	1710
	<i>growth in %</i>	6.8	5.9	7.3	8.9	8.9	6.8	-1.3	2.6	2.3	2.2
Gross operating surplus and mixed income	<i>bill.CZK</i>	425	449	446	470	505	543	495	488	487	491
	<i>growth in %</i>	7.5	5.7	-0.6	5.4	7.5	7.5	-8.8	-1.4	-0.3	1.0
Property income received	<i>bill.CZK</i>	97	109	120	133	158	151	122	127	128	132
	<i>growth in %</i>	-1.1	12.7	9.6	11.2	18.5	-4.2	-19.5	4.7	0.6	3.0
Social benefits not-in-kind	<i>bill.CZK</i>	324	369	386	417	466	488	527	534	546	554
	<i>growth in %</i>	3.6	.	4.6	8.1	11.8	4.5	8.1	1.4	2.2	1.4
Other current transfers received	<i>bill.CZK</i>	91	93	103	113	122	137	144	146	146	153
	<i>growth in %</i>	6.8	2.9	10.1	9.8	8.4	12.2	4.8	1.9	-0.1	5.0
<u>Current expenditure</u>											
Property income paid	<i>bill.CZK</i>	19	21	20	25	29	33	22	19	16	16
	<i>growth in %</i>	49.0	12.4	-5.3	22.3	19.5	12.5	-34.3	-13.6	-16.6	0.0
Curr. taxes on income and property	<i>bill.CZK</i>	128	138	140	141	157	140	135	136	137	138
	<i>growth in %</i>	11.9	7.6	1.7	0.7	10.9	-10.8	-3.6	0.9	0.8	0.5
Social contributions	<i>bill.CZK</i>	408	474	507	561	615	634	596	619	635	648
	<i>growth in %</i>	6.7	.	7.1	10.6	9.5	3.2	-6.1	3.9	2.6	2.0
Other current transfers paid	<i>bill.CZK</i>	93	100	109	118	129	141	150	147	145	145
	<i>growth in %</i>	13.7	7.2	9.2	8.6	9.3	9.1	6.7	-2.1	-1.7	0.0
Gross disposable income	<i>bill.CZK</i>	1409	1474	1551	1675	1833	1985	1979	2011	2047	2094
	<i>growth in %</i>	4.5	4.6	5.3	8.0	9.4	8.3	-0.3	1.6	1.8	2.3
Final consumption	<i>bill.CZK</i>	1317	1399	1443	1537	1660	1804	1804	1828	1854	1904
	<i>growth in %</i>	5.6	6.2	3.1	6.6	8.0	8.7	0.0	1.3	1.4	2.7
Change in share in pension funds	<i>bill.CZK</i>	13	17	19	23	26	24	14	15	16	17
Gross savings	<i>bill.CZK</i>	105	92	128	161	200	205	189	199	210	207
Capital transfers (income (-) / expenditure (+))	<i>bill.CZK</i>	-21	-23	-25	-23	-23	-23	-23	-27	-29	-18
Gross capital formation	<i>bill.CZK</i>	122	132	136	154	191	191	197	199	193	185
	<i>growth in %</i>	-5.1	7.8	2.6	13.5	24.2	-0.2	3.5	0.6	-2.8	-4.0
Change in financial assets and liab.	<i>bill.CZK</i>	6	-18	20	30	31	37	14	27	45	40
Real disposable income	<i>growth in %</i>	4.4	1.8	3.3	5.3	6.4	1.8	-1.3	0.2	-0.1	-0.9
Gross savings rate	<i>%</i>	7.4	6.2	8.2	9.6	10.9	10.3	9.5	9.9	10.3	9.9

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

C.4 External Relations

Sources: CNB, CZSO, Eurostat, MoF estimates

Table C.4.1: Balance of Payments – yearly

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
											Forecast	Forecast
Balance of goods and services	<i>bill.CZK</i>	-57	3	86	108	106	100	161	129	138	148	
– balance of trade ¹⁾	<i>bill.CZK</i>	-70	-13	49	59	47	26	87	54	66	76	
— of which mineral fuels (SITC 3) ²⁾	<i>bill.CZK</i>	-68	-72	-110	-139	-124	-166	-106	-138	-180	-188	
– balance of services	<i>bill.CZK</i>	13	17	38	49	59	74	74	75	71	72	
Balance of income	<i>bill.CZK</i>	-120	-157	-128	-165	-255	-175	-250	-255	-267	-287	
– compensation of employees	<i>bill.CZK</i>	-17	-16	4	3	-4	-19	-11	-1	-3	-7	
– investment income	<i>bill.CZK</i>	-103	-141	-132	-168	-251	-156	-239	-254	-264	-280	
Balance of transfers	<i>bill.CZK</i>	16	6	11	-11	-8	-6	-1	9	11	10	
Current account	<i>bill.CZK</i>	-161	-147	-31	-67	-157	-81	-89	-116	-118	-129	
Capital account	<i>bill.CZK</i>	0	-14	6	10	22	27	51	32	22	24	
Financial account	<i>bill.CZK</i>	157	177	160	100	125	92	143	183	.	.	
– foreign direct investments	<i>bill.CZK</i>	54	102	280	90	179	36	38	97	.	.	
– portfolio investments	<i>bill.CZK</i>	-36	53	-81	-27	-57	-9	159	157	.	.	
– other investments	<i>bill.CZK</i>	139	23	-38	36	3	65	-53	-71	.	.	
Change in reserves	<i>bill.CZK</i>	13	7	93	2	16	40	61	41	.	.	
Gross external debt	<i>bill.CZK</i>	895	1012	1144	1196	1377	1630	1639	1789	1846	1953	
Balance of goods and services / GDP	<i>per cent</i>	-2.2	0.1	2.9	3.4	3.0	2.7	4.4	3.5	3.7	3.8	
Current account / GDP	<i>per cent</i>	-6.2	-5.2	-1.0	-2.1	-4.4	-2.2	-2.5	-3.2	-3.1	-3.3	
Financial account / GDP	<i>per cent</i>	6.1	6.3	5.4	3.1	3.5	2.5	3.9	5.0	.	.	
Gross external debt / GDP ³⁾	<i>per cent</i>	34.7	35.9	38.4	37.1	39.0	44.2	45.2	48.8	49	51	

Because of large discrepancies between balance of payments and quarterly national accounts the values of exports and imports of goods and services have not been forecasted. Data for 2008 and earlier are to be revised during 2011 (see main text).

¹⁾ Imports – fob since May 2004

²⁾ Imports – cif

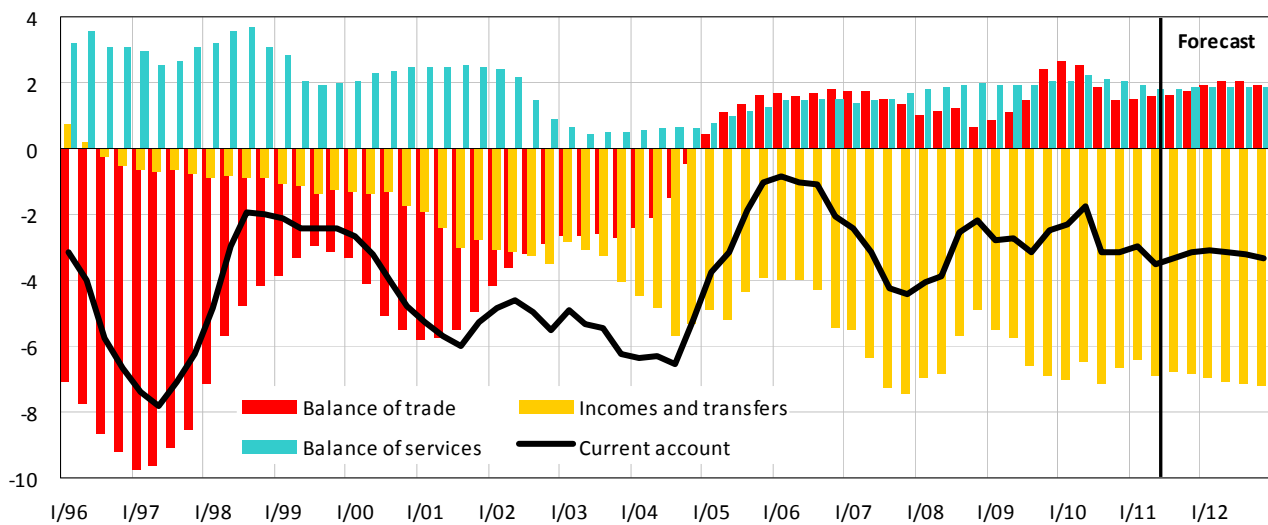
³⁾ Ratio of external debt (in CZK) at the end of period to GDP (in CZK)

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

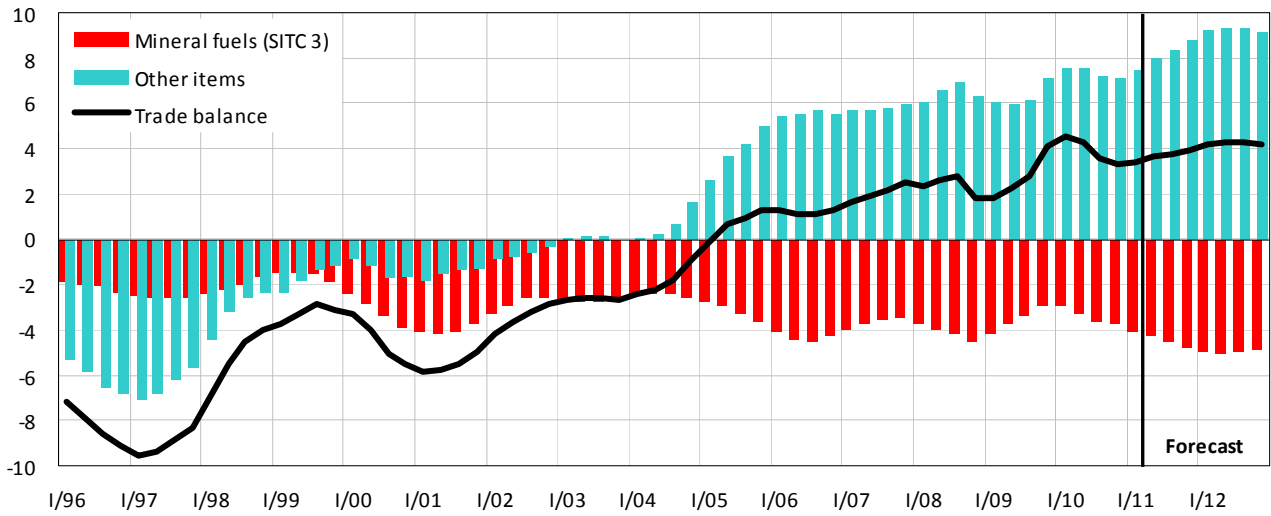
		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Estimate	Forecast
Balance of goods and services	<i>bill.CZK</i>	171	173	145	129	128	125	129	138
– balance of trade	<i>bill.CZK</i>	97	92	68	54	57	59	61	66
— of which mineral fuels (SITC 3)	<i>bill.CZK</i>	-108	-121	-132	-138	-149	-159	-170	-180
– balance of services	<i>bill.CZK</i>	74	81	78	75	71	66	68	71
Balance of income	<i>bill.CZK</i>	-247	-233	-264	-255	-246	-265	-266	-267
– compensation of employees	<i>bill.CZK</i>	-7	-4	-2	-1	-2	-3	-3	-3
– investment income	<i>bill.CZK</i>	-241	-229	-262	-254	-244	-262	-263	-264
Balance of transfers	<i>bill.CZK</i>	-8	-4	4	9	10	8	12	11
Current account	<i>bill.CZK</i>	-84	-63	-115	-116	-109	-131	-125	-118
Capital account	<i>bill.CZK</i>	38	43	51	32	31	21	22	22
Financial account	<i>bill.CZK</i>	124	97	219	183	188	.	.	.
– foreign direct investments	<i>bill.CZK</i>	52	62	150	97	80	.	.	.
– portfolio investments	<i>bill.CZK</i>	173	157	211	157	99	.	.	.
– other investments	<i>bill.CZK</i>	-101	-122	-141	-71	9	.	.	.
Change in reserves	<i>bill.CZK</i>	18	15	78	41	21	.	.	.
Gross external debt	<i>bill.CZK</i>	1601	1716	1732	1789	1749	1782	1836	1846

Graph C.4.1: **Current Account**

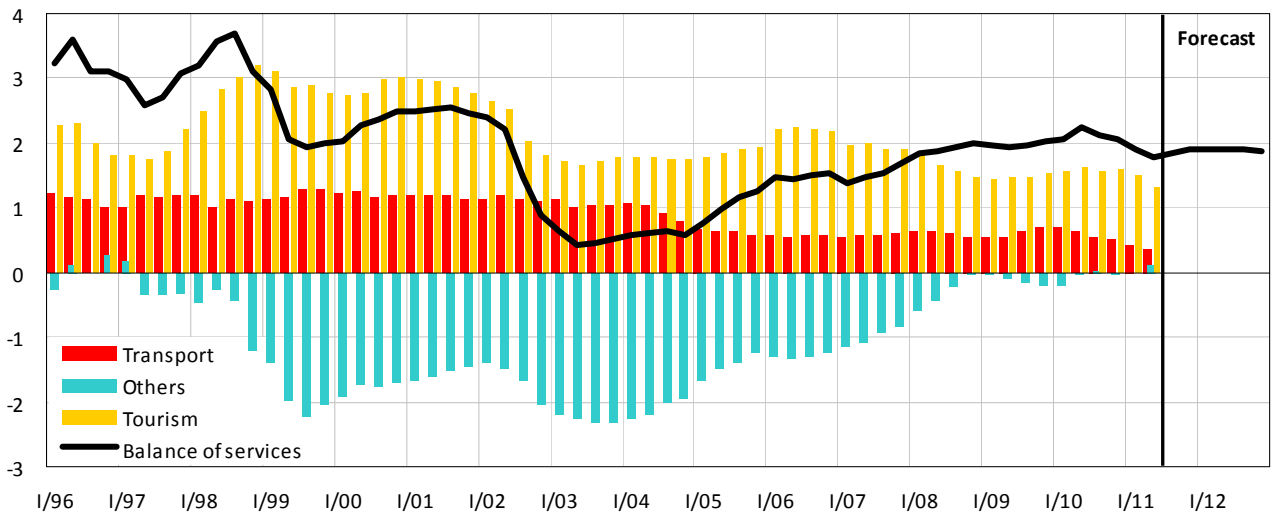
moving sums of the latest 4 quarters, in % of GDP, trade and service balances in BoP definitions



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



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



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

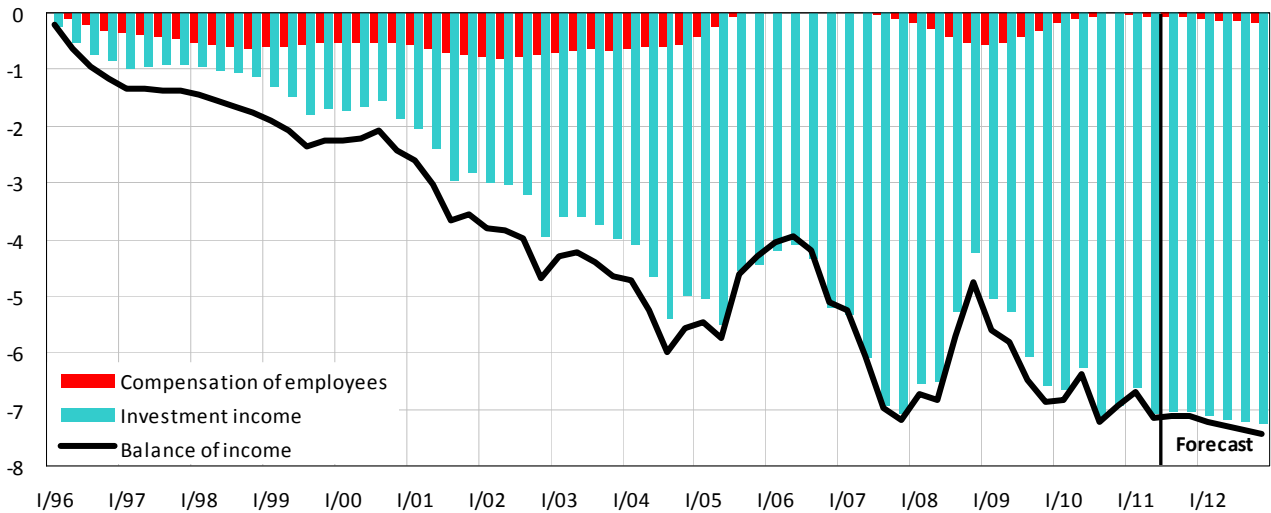


Table C.4.3: Decomposition of Exports of Goods – yearly

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
											Forecast	Forecast
GDP ¹⁾	<i>average of 2000=100</i>	103.8	105.9	108.0	112.7	117.6	119.4	114.5	118.0	121	123	
	<i>growth in %</i>	1.0	2.0	2.0	4.3	4.3	1.5	-4.1	3.1	2.7	1.5	
Import intensity ²⁾	<i>average of 2000=100</i>	105.7	112.2	118.6	127.6	130.3	129.9	120.4	130.3	137	140	
	<i>growth in %</i>	4.6	6.2	5.7	7.6	2.1	-0.3	-7.3	8.2	4.8	2.3	
Export markets ³⁾	<i>average of 2000=100</i>	109.7	118.8	128.1	143.8	153.2	155.1	137.8	153.7	165	172	
	<i>growth in %</i>	5.6	8.3	7.8	12.3	6.5	1.2	-11.1	11.5	7.6	3.8	
Export performance	<i>average of 2000=100</i>	120.3	136.7	141.5	146.9	159.8	166.8	160.2	171.1	175	175	
	<i>growth in %</i>	3.5	13.6	3.5	3.8	8.7	4.4	-3.9	6.8	2.4	0.2	
Real exports	<i>average of 2000=100</i>	132.0	162.4	181.3	211.3	244.8	258.7	220.8	263.0	290	301	
	<i>growth in %</i>	9.3	23.0	11.6	16.6	15.8	5.7	-14.6	19.1	10.2	4.0	
1 / NEER	<i>average of 2000=100</i>	86.3	85.2	80.0	76.5	74.3	67.0	68.9	67.9	65	64	
	<i>growth in %</i>	0.4	-1.2	-6.1	-4.4	-2.8	-9.8	2.8	-1.5	-4.0	-1.3	
Prices on foreign markets	<i>average of 2000=100</i>	107.4	111.1	115.0	118.4	121.7	127.0	123.3	123.6	129	132	
	<i>growth in %</i>	-0.4	3.4	3.5	3.0	2.7	4.4	-2.9	0.3	4.3	2.2	
Exports deflator	<i>average of 2000=100</i>	92.7	94.6	92.0	90.6	90.4	85.1	84.9	83.9	84	85	
	<i>growth in %</i>	0.0	2.1	-2.8	-1.5	-0.1	-5.9	-0.2	-1.3	0.1	0.8	
Nominal exports	<i>average of 2000=100</i>	122.3	153.7	166.7	191.3	221.1	220.0	187.3	220.5	243	255	
	<i>growth in %</i>	9.3	25.7	8.5	14.8	15.6	-0.5	-14.9	17.7	10.3	4.9	

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

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

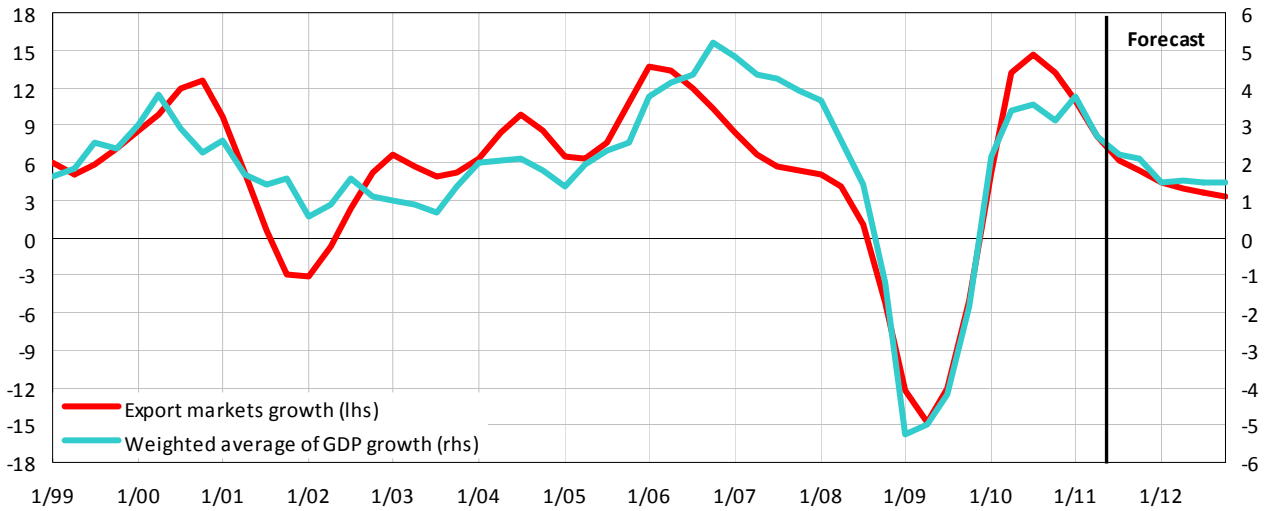
³⁾ Weighted average of imports of goods of the main partners.

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

		2010				2011					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
										Estimate	Forecast
GDP	<i>average of 2000=100</i>	116.1	117.8	118.7	119.3	120.5	120.9	121	122		
	<i>growth in %</i>	2.2	3.4	3.6	3.1	3.8	2.7	2.2	2.1		
Import intensity	<i>average of 2000=100</i>	125.9	129.3	132.1	133.8	134.7	136.1	137	138		
	<i>growth in %</i>	2.9	9.4	10.7	9.8	7.0	5.3	3.8	3.2		
Export markets	<i>average of 2000=100</i>	146.2	152.3	156.8	159.6	162.3	164.6	166	168		
	<i>growth in %</i>	5.1	13.1	14.7	13.3	11.0	8.1	6.1	5.4		
Export performance	<i>average of 2000=100</i>	169.6	176.2	165.6	172.9	178.6	181.2	168	173		
	<i>growth in %</i>	14.0	7.8	1.6	4.2	5.3	2.8	1.5	0.0		
Real exports	<i>average of 2000=100</i>	247.9	268.3	259.6	276.0	289.9	298.1	280	291		
	<i>growth in %</i>	19.9	22.0	16.5	18.0	16.9	11.1	7.7	5.4		
1 / NEER	<i>average of 2000=100</i>	68.1	69.5	66.3	67.6	65.3	64.9	65	65		
	<i>growth in %</i>	-4.2	-0.1	-0.4	-1.3	-4.1	-6.5	-1.5	-3.5		
Prices on foreign markets	<i>average of 2000=100</i>	122.6	122.1	126.6	123.2	128.1	128.9	131	127		
	<i>growth in %</i>	-2.7	-0.7	2.9	1.8	4.5	5.5	3.7	3.3		
Exports deflator	<i>average of 2000=100</i>	83.5	84.8	83.9	83.2	83.6	83.7	86	83		
	<i>growth in %</i>	-6.8	-0.8	2.4	0.5	0.1	-1.4	2.1	-0.3		
Nominal exports	<i>average of 2000=100</i>	207.0	227.6	217.8	229.7	242.4	249.5	240	241		
	<i>growth in %</i>	11.8	21.1	19.4	18.6	17.1	9.6	10.0	5.0		

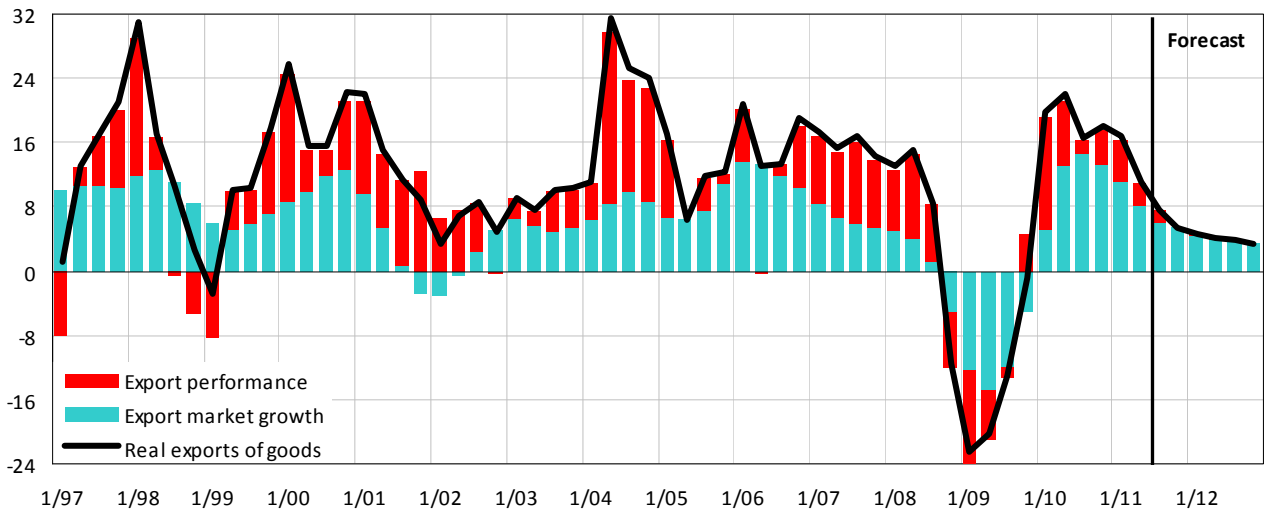
Graph C.4.5: GDP and Imports of Goods in Main Partner Countries

YoY growth, in %



Graph C.4.6: Real Exports of Goods

decomposition of YoY growth, in %



Graph C.4.7: Deflator of Exports of Goods

decomposition of YoY growth, in %

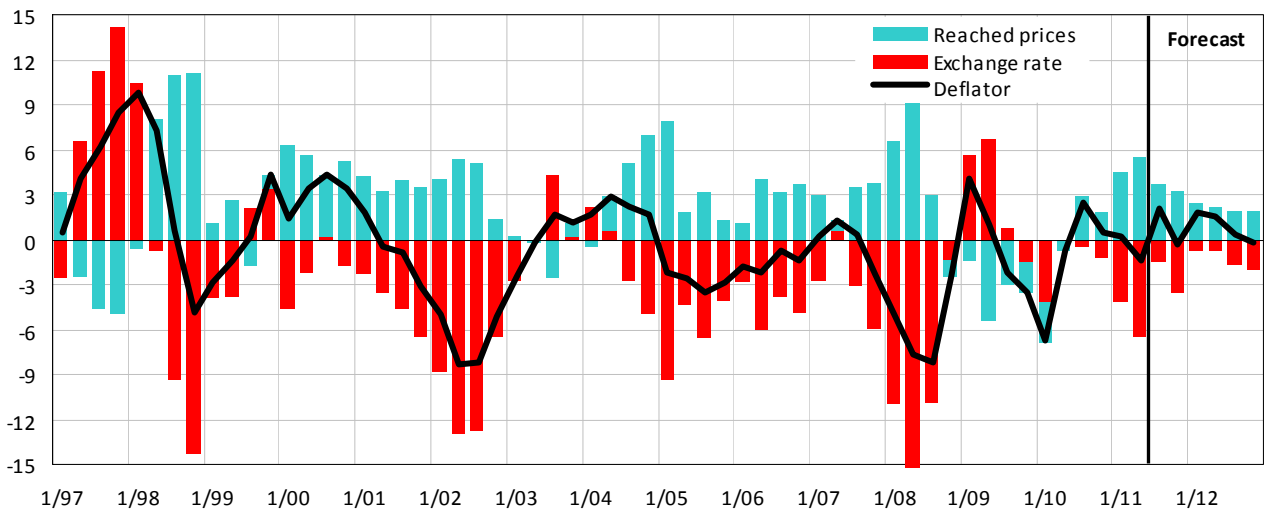
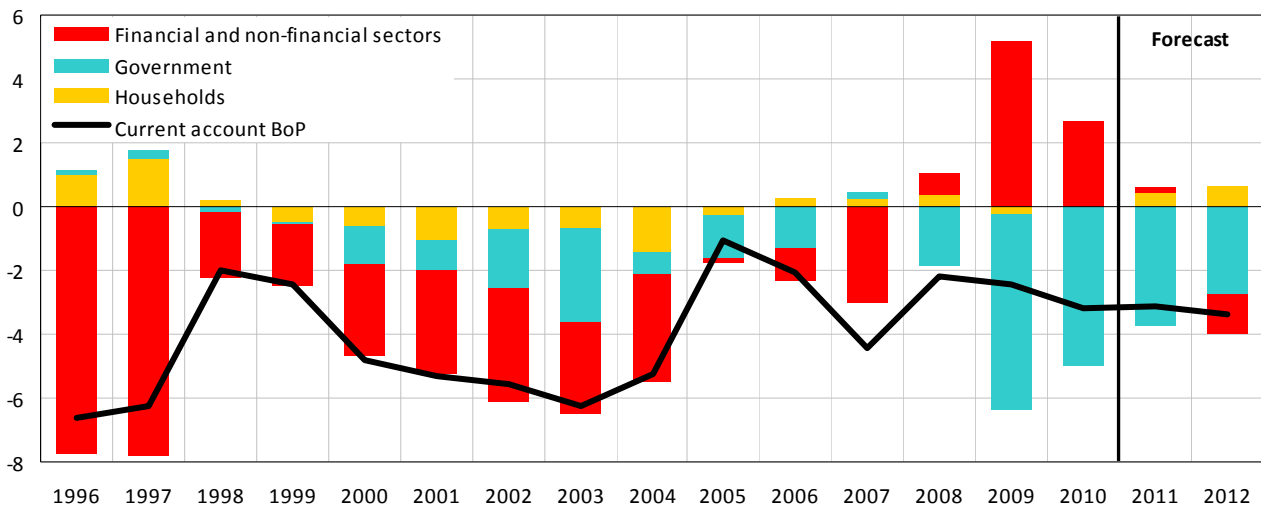


Table C.4.5: Savings and Investments – yearly

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>
Gross capital formation	% of GDP	27.2	27.5	25.7	26.8	27.0	25.3	21.7	22.6	23.0	22.9
–fixed capital formation	% of GDP	26.7	25.8	24.9	24.7	25.2	23.9	22.5	21.3	21.4	21.5
–change in stocks	% of GDP	0.5	1.7	0.8	2.1	1.8	1.4	-0.7	1.2	1.6	1.4
–government sector	% of GDP	4.4	4.7	4.9	5.0	4.6	4.9	5.3	4.6	5.3	5.8
–households	% of GDP	4.8	4.7	4.5	4.8	5.4	5.2	5.4	5.4	5.2	4.8
–non-financial and financial sectors	% of GDP	18.1	18.1	16.3	17.0	17.0	15.2	11.0	12.5	12.5	12.3
Gross national savings	% of GDP	20.7	22.0	23.9	24.7	24.4	24.5	20.5	20.3	19.8	19.6
–government sector	% of GDP	1.4	4.0	3.5	3.7	4.8	3.0	-0.9	-0.4	1.6	3.1
–households	% of GDP	4.1	3.3	4.3	5.0	5.6	5.6	5.2	5.4	5.6	5.5
–non-financial and financial sectors	% of GDP	15.2	14.7	16.1	16.0	14.0	15.9	16.2	15.2	12.6	11.0
Financial balance											
–government sector	% of GDP	-2.9	-0.7	-1.3	-1.3	0.2	-1.9	-6.2	-5.0	-3.7	-2.7
–households	% of GDP	-0.7	-1.4	-0.3	0.2	0.2	0.4	-0.2	0.0	0.5	0.6
–non-financial and financial sectors	% of GDP	-2.9	-3.4	-0.1	-1.0	-3.0	0.7	5.2	2.7	0.1	-1.2
–methodological discrepancy	% of GDP	0.3	0.2	0.7	0.0	-1.8	-1.4	-1.2	-0.9	0.0	0.0
Current account BoP	% of GDP	-6.2	-5.2	-1.0	-2.1	-4.4	-2.2	-2.5	-3.2	-3.1	-3.3

Graph C.4.8: Financial Balances of Individual Sectors

savings less investments, in % of GDP



C.5 International Comparisons

Sources: Eurostat, OECD, IMF, MoF estimates

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

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Prelim.	Forecast	Forecast
Slovenia	PPS	17 300	18 800	19 600	20 700	22 100	22 800	20 700	20 900	21 600	22 300
	EA12=100	75	78	79	79	80	83	80	79	79	80
Greece	PPS	19 200	20 300	20 400	21 800	22 500	23 100	21 800	21 500	21 000	21 000
	EA12=100	83	85	82	84	82	84	85	81	77	75
Czech Republic	PPS	15 200	16 300	17 000	18 200	19 900	20 200	19 300	19 500	20 100	20 500
	EA12=100	66	68	69	70	73	74	75	73	74	73
Portugal	PPS	16 400	16 700	17 800	18 600	19 600	19 500	18 900	19 800	20 100	20 400
	EA12=100	71	70	72	71	71	71	73	74	74	73
Slovakia	PPS	11 500	12 300	13 500	15 000	17 000	18 100	17 200	18 100	18 800	19 800
	EA12=100	50	52	55	57	62	66	67	68	69	71
Estonia	PPS	11 300	12 400	13 800	15 600	17 500	17 200	15 000	15 700	16 500	17 800
	EA12=100	49	52	56	60	64	63	58	59	61	64
Poland	PPS	10 100	11 000	11 500	12 300	13 600	14 100	14 300	15 300	16 000	17 000
	EA12=100	44	46	46	47	49	51	55	57	59	61
Hungary	PPS	13 000	13 700	14 200	14 900	15 400	16 000	15 000	15 500	15 900	16 400
	EA12=100	56	57	57	57	56	59	58	58	58	59
Lithuania	PPS	10 200	11 000	11 900	13 100	14 800	15 400	12 900	14 200	14 800	15 700
	EA12=100	44	46	48	50	54	56	50	53	54	56
Latvia	PPS	8 900	9 900	10 800	12 200	13 900	14 000	12 200	12 600	13 100	13 800
	EA12=100	39	41	44	47	50	51	47	47	48	49

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

EA12=100

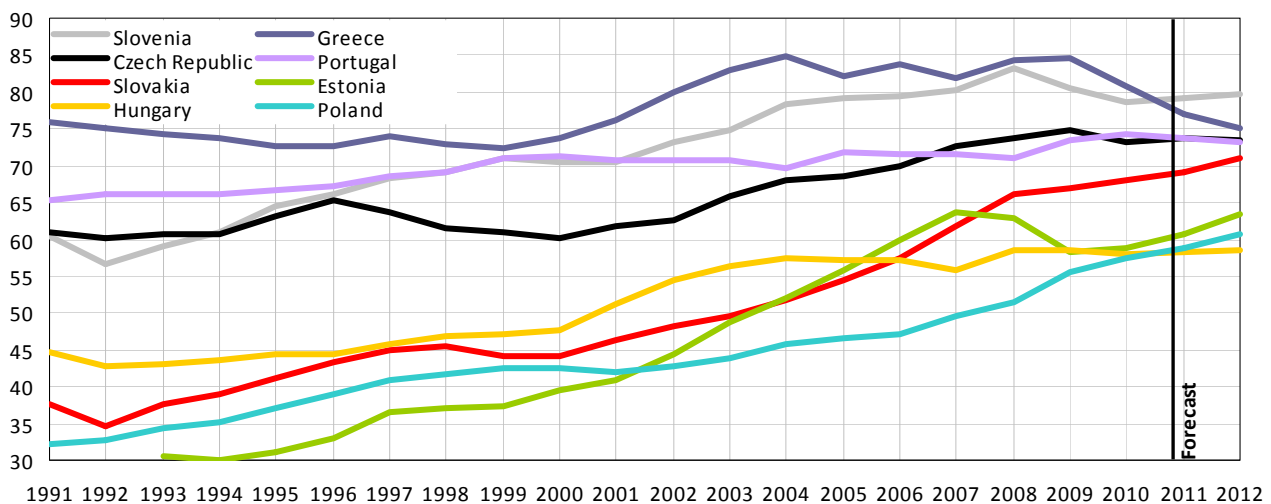
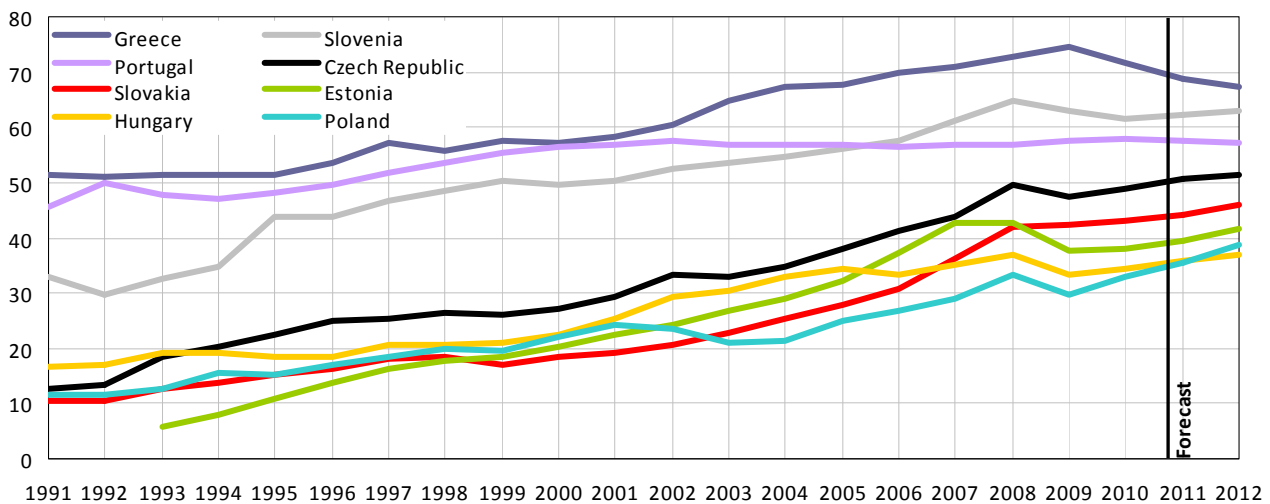


Table C.5.2: GDP p.c. – using current exchange rates

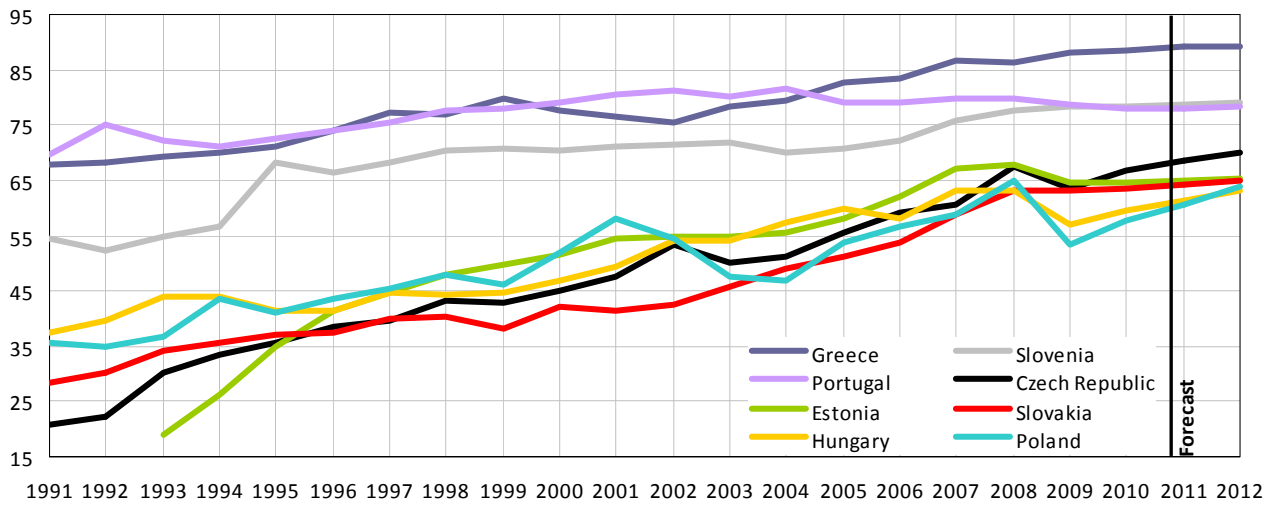
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Prelim.	Forecast	Forecast
Greece	EUR	15 600	16 700	17 400	18 700	19 900	20 700	20 500	20 100	19 800	19 900
	EA12=100	65	67	68	70	71	73	75	71	69	67
	Comparative price level EA12=100	78	79	83	84	87	86	88	89	89	89
Slovenia	EUR	12 900	13 600	14 400	15 400	17 100	18 400	17 300	17 300	17 900	18 600
	EA12=100	54	55	56	57	61	65	63	61	62	63
	Comparative price level EA12=100	72	70	71	72	76	78	78	78	79	79
Portugal	EUR	13 700	14 200	14 600	15 100	16 000	16 200	15 900	16 200	16 600	16 900
	EA12=100	57	57	57	57	57	57	58	58	58	57
	Comparative price level EA12=100	80	82	79	79	80	80	79	78	78	78
Czech Republic	EUR	7 900	8 600	9 800	11 100	12 300	14 200	13 100	13 800	14 600	15 200
	EA12=100	33	35	38	41	44	50	48	49	51	51
	Comparative price level EA12=100	50	51	56	59	61	67	64	67	69	70
Slovakia	EUR	5 500	6 300	7 100	8 300	10 200	11 900	11 600	12 100	12 700	13 600
	EA12=100	23	25	28	31	36	42	42	43	44	46
	Comparative price level EA12=100	46	49	51	54	59	63	63	64	64	65
Estonia	EUR	6 400	7 200	8 300	10 000	12 000	12 200	10 300	10 700	11 300	12 300
	EA12=100	27	29	32	37	43	43	38	38	39	42
	Comparative price level EA12=100	55	55	58	62	67	68	65	64	65	65
Hungary	EUR	7 300	8 200	8 800	8 900	9 900	10 500	9 100	9 700	10 300	10 900
	EA12=100	31	33	34	33	35	37	33	35	36	37
	Comparative price level EA12=100	54	57	60	58	63	63	57	59	61	63
Poland	EUR	5 000	5 300	6 400	7 100	8 100	9 500	8 100	9 300	10 200	11 400
	EA12=100	21	21	25	27	29	33	30	33	36	39
	Comparative price level EA12=100	48	47	54	57	59	65	53	58	60	64
Lithuania	EUR	4 800	5 300	6 100	7 100	8 500	9 700	8 000	8 400	8 800	9 300
	EA12=100	20	21	24	27	30	34	29	30	30	31
	Comparative price level EA12=100	45	46	50	53	56	60	58	56	56	56
Latvia	EUR	4 300	4 800	5 600	7 000	9 300	10 100	8 200	8 000	8 100	8 500
	EA12=100	18	19	22	26	33	35	30	29	28	29
	Comparative price level EA12=100	46	47	50	56	66	69	63	60	59	58

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

EA12=100



Graph C.5.3: Index of Comparative Price Level of GDP p.c.
EA12=100



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