

Macroeconomic Forecast Czech Republic

October 2014

Macroeconomic Forecast of the Czech Republic

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

www.mfcr.cz/macroforecast

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

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List of Abbreviations:

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

Basic Terms:

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

Symbols Used in Tables:

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

Cut-off Date for Data Sources:

The forecast was made on the basis of data known as of **7 October 2014**. No political decisions, newly released statistics, or world financial or commodity market developments could have been taken into account after this date.

Notes:

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

Data from the previous forecast of July 2014 are indicated by italics. Data relating to the years 2016 and 2017 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

Summary of the Forecast

According to the latest data, which are based on the national accounts standard ESA 2010 and reflect other methodical changes, real GDP increased by 0.3% QoQ in the second quarter of 2014. Compared with the first quarter of 2014, there was some slowdown of growth but this was in line with expectations. We, therefore, still hold the view that the economy should continue to grow at a moderate pace. Real GDP could increase by 2.4% YoY this year and maintain similar dynamics also in 2015. Growth in both years should be driven exclusively by domestic demand; the contribution of net exports should be close to zero.

Despite the weakening of the Czech koruna due to the CNB's foreign exchange interventions, the year 2014 should be characterized by very low inflation. Unlike in previous years, administrative measures (especially a decrease in electricity prices) should have an anti-inflationary impact throughout 2014. Average inflation rate could thus reach 0.5% this year. Consumer price growth should accelerate in 2015, but we assume that inflation will still be hovering below the CNB's inflation target.

Compared with the previous Macroeconomic Forecast, the forecast for labour market developments changed only little. Thanks to the gradual pick-up in economic

activity, the unemployment rate should be declining moderately, whereas employment should be modestly rising.

Total wage bill could increase by 2.9% this year. In 2015 we expect its growth to accelerate to 3.9%. A proposed increase in the wage bill in state administration, apart from an expected gradual improvement in the state of the private sector, should impact positively on total wage bill.

We expect the government sector to post a deficit of 1.5% of GDP this year. In absolute terms, the balance should slightly deteriorate compared with the last year, but the deficit will remain well below 3% of GDP. Owing to an improved liquidity management, the government sector debt should decrease by 1.8 pp to 43.9% of GDP. A deficit of 2.4% of GDP, given partially by a one-off inclusion of the lease of JAS 39 Gripen jet fighters, is expected for the next year.

Current account of the balance of payments should be balanced this year; in 2015 it could post a small deficit. Further increases of the balance of trade surplus will be compensated for by the continued deepening of the income balance deficits.

We regard risks to the Forecast as balanced.

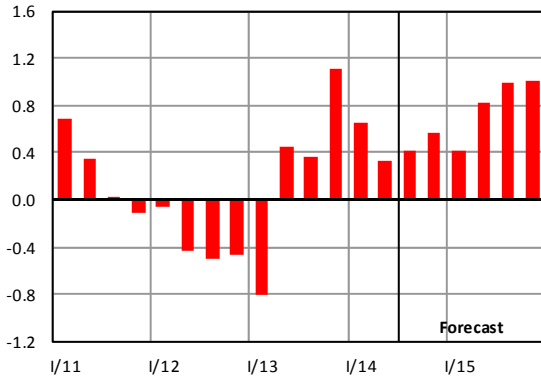
Table: **Main Macroeconomic Indicators**

		2010	2011	2012	2013	2014	2015	2013	2014	2015
		Current forecast					Previous forecast			
Gross domestic product	<i>bill. CZK</i>	3 954	4 022	4 048	4 086	4 284	4 467	3 884	4 061	4 216
Gross domestic product	<i>growth in %, const.pr.</i>	2.3	2.0	-0.8	-0.7	2.4	2.5	-0.9	2.7	2.5
Consumption of households	<i>growth in %, const.pr.</i>	1.0	0.2	-1.8	0.4	1.4	1.7	0.1	1.6	1.4
Consumption of government	<i>growth in %, const.pr.</i>	0.4	-2.9	-1.0	2.3	1.9	2.0	1.6	1.9	1.6
Gross fixed capital formation	<i>growth in %, const.pr.</i>	1.3	1.1	-2.9	-4.4	4.5	4.9	-3.5	4.1	3.5
Contr. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.5	1.9	1.3	0.0	-0.1	0.0	-0.3	0.6	0.5
Contr. of increase in stocks to GDP growth	<i>p.p., const.pr.</i>	0.8	0.2	-0.2	-0.2	0.4	0.0	-0.2	0.0	0.2
GDP deflator	<i>growth in %</i>	-1.5	-0.2	1.4	1.7	2.4	1.8	1.9	1.8	1.3
Average inflation rate	<i>%</i>	1.5	1.9	3.3	1.4	0.5	1.5	1.4	0.6	1.7
Employment (LFS)	<i>growth in %</i>	-1.0	0.4	0.4	1.0	0.4	0.3	1.0	0.5	0.2
Unemployment rate (LFS)	<i>average in %</i>	7.3	6.7	7.0	7.0	6.3	6.1	7.0	6.4	6.1
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	0.6	2.2	2.1	-0.4	2.9	3.9	-0.9	2.8	3.8
Current account / GDP	<i>%</i>	-3.7	-2.6	-1.3	-1.4	0.0	-0.3	-1.4	0.4	0.0
<u>Assumptions:</u>										
Exchange rate CZK/EUR		25.3	24.6	25.1	26.0	27.5	27.5	26.0	27.4	27.4
Long-term interest rates	<i>% p.a.</i>	3.7	3.7	2.8	2.1	1.7	1.7	2.1	1.9	2.4
Crude oil Brent	<i>USD/barrel</i>	80	111	112	109	105	101	109	108	104
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	1.9	1.6	-0.6	-0.4	0.7	1.1	-0.4	1.1	1.6

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

Economic recovery should continue

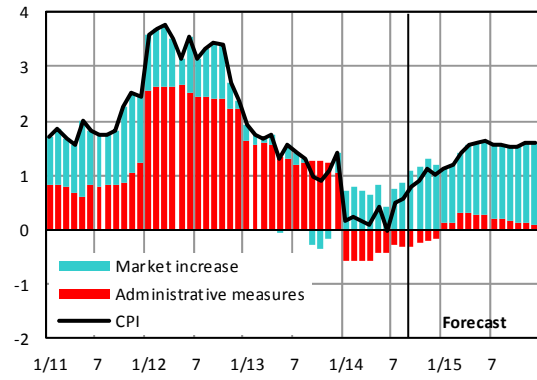
real GDP, QoQ growth rate, in %, seasonally adjusted



Source: CZSO, own calculations

Inflation gradually approaching the inflation target

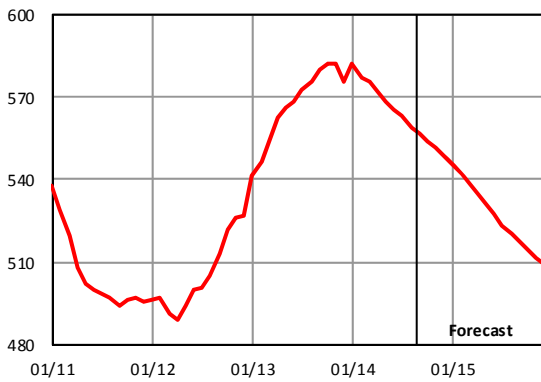
decomposition of YoY growth of CPI, contributions in pp



Source: CZSO, own calculations

Unemployment should continue to decline

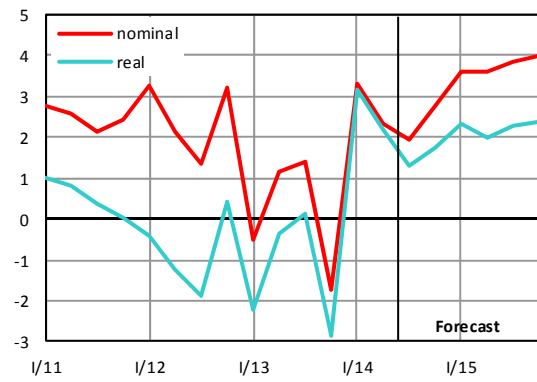
registered unemployment, in thousands of persons, seasonally adjusted



Source: Ministry of Labour and Social Affairs, own calculations

Moderate growth of average real wage

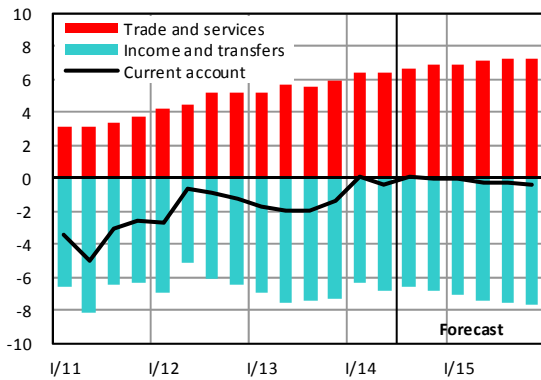
YoY growth rate, in %



Source: CZSO, own calculations

Current account almost balanced

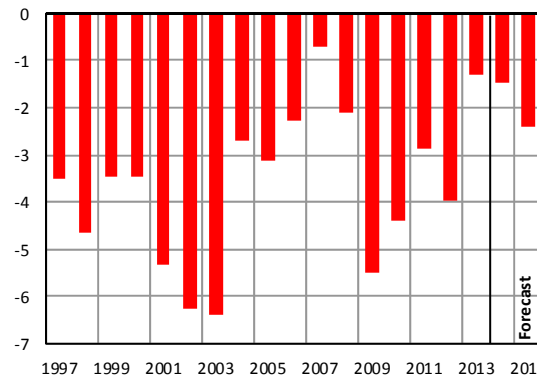
in % of GDP (moving sums of the latest 4 quarters)



Source: CNB, CZSO, own calculations

General government deficit under 3% of GDP

general government balance, in % of GDP



Source: CZSO, own calculations

Risks to the Forecast

Economic recovery went on also in the second quarter of 2014. Real GDP increased by 0.3% QoQ, following the quarterly growth of 0.6% in the first quarter of 2014. The slowdown in growth was likely due to the one-off and temporary factors that stimulated the economy in the first quarter (low statistical base, exceptionally mild winter, better drawdown of the EU funds and a positive impact of monetary policy on the growth of exports), as pointed out in the previous forecast.

Gross value added, which unlike GDP does not include indirect taxes and subsidies, increased by 0.5% QoQ in the second quarter. It thus surpassed the previous high from the third quarter of 2008.

We still believe that further recovery of the economy will be rather gradual. A conservative estimate of the developments in the remaining part of this year led to the forecast for real GDP growth in 2014 being revised down from 2.7% to 2.4%. The main reason for this change in the forecast is a downward revision of economic growth in the previous quarters in connection with the transition to the new standard ESA 2010 (see Box C.1). The forecast for the next year remains unchanged at 2.5%.

However, there is a substantial change in GDP composition by end use. The pickup in domestic demand is surprisingly strong, which holds true especially for gross capital formation. Moreover, domestic demand will be supported by a significant fiscal stimulus in the next year.

On the contrary, the deteriorating situation in the external environment led to a considerable downward revision of the forecast for growth in some of the major trade partner countries. This is reflected in the expected contribution of foreign trade to GDP growth, which is virtually zero. As a result, economic growth should be driven exclusively by domestic demand.

Taking into account these changes, we regard the risks to the forecast as roughly balanced.

The uncertainty regarding future developments in the external environment has increased substantially.

As for the developments in the economies of our main trading partners, the data for the second quarter were disappointing, especially in the case of a stagnation of the euro area and a drop of the German economy. Moreover, economic sentiment indicators do not point to an improvement of the situation (see Chapter A.1). Although we think that this was rather a one-off

wobble, we assume that economic growth in many states of the EU will be very slow in the upcoming quarters.

The situation in eastern Ukraine has escalated in the period following the publication of the last forecast, and the EU and Russia imposed mutual sanctions. The direct impact of these sanctions on the Czech economy should be negligible (unlikely more than 0.1% of GDP). The indirect effects, however, could be more serious. They might include a reduction in trade with Russia in goods that are not subject to the sanctions, or lower intermediate exports to countries for which Russia is a more important trading partner. Besides that, there is a risk of a further escalation of the conflict, which might trigger another round of sanctions and counter-sanctions with greater economic consequences.

Another geopolitical risk is the ongoing war in Syria and Iraq, which could have an effect not only on the price of oil, but also on the security in Europe.

Situation in the troubled countries on the periphery of the euro area has been gradually calming down further (see Chapter A.1). The decline in yields on the government bond markets points to a certain improvement in the overall situation, but important fundamental factors, e.g. high indebtedness of (not only) the government sector and the true state of banks' balance sheets still being unclear, remain unfavourable. In this regard, the publication of the results of the comprehensive assessment of European banks will be important.

The situation within the Czech economy is also subject to risks in both directions. Compared with the previous Forecast, however, we think that the risks to the downside are less significant.

As for final consumption expenditure of households, the question remains what will be the households' behaviour under the conditions of high registered unemployment and a relatively low dynamics of real disposable income.

Future development of fixed investment will be influenced by an effort to draw down as much money from the EU funds as possible, relaxation of the restriction on investment of the government sector, resumption of inflow of foreign direct investment, and the extent to which confidence of the private sector will have an effect on actual investment activity. Each of these factors entails sizeable risks, both positive and negative.

A Forecast Assumptions

A.1 External Environment

Compared with the previous forecast, the outlook for global economic growth has deteriorated, especially in the near term. Slowdown in international trade, tense geopolitical situation and uncertainty associated with the reforms being undertaken in emerging economies and in some EU member states are the reasons for the revision. Disregarding the short-term volatility, growth dynamics in advanced economies, with the exception of the euro area, continues to strengthen. Structural problems put a brake on the emerging economies' growth potential. The gap between the growth rates in developed and emerging economies keeps narrowing.

Fears of a more significant slowdown of the Chinese economy have not so far come true. Following a slowdown in domestic demand, which was related to the government's effort to curb the growth of credit activity and to a correction on the real estate market, China's growth surprisingly accelerated in the second quarter. However, the risks related to vulnerability of the local financial market persist, liberalisation of the banking sector is far from finished and the loan market is considerably distorted. Effort continues to be made to shift the growth model to a sustainable one, which would be based on domestic demand, and to gradually liberalise the economic environment.

Other large emerging economies, in which the last year's capital outflow highlighted internal imbalances and underlined the need for structural reforms, might need to revise their growth models too.

Uncertainty associated with the outlook is highlighted by the geopolitical tensions in Ukraine. The new EU sanctions against Russia are primarily aimed at the institutions on the financial markets, and the energy and arms industries. Access of the major Russian state-owned banks to capital markets was restricted. At the same time, trade with arms has been banned, just like exports of certain technologies used in oil drilling, which may cause severe difficulties for Russian oil drilling companies in future. The USA have imposed similar sanctions against Russia. Owing to the fact that neither Russia nor Ukraine is among the most important export markets for the Czech Republic, the conflict in Ukraine should not have a substantial impact on the Czech economy. Nevertheless, some exporters and importers could face complications. An escalation of tensions accompanied with the sanctions imposed by the West has already had an adverse effect on growth in some EU member states. The impact on

individual EU countries varies, depending on the extent to which the economies are exposed to Russia. So far, the sanctions have had a negative impact on market sentiment rather than on export performance of the EU.

USA

The American economy recorded a strong QoQ growth of 1.0% (*versus 1.1%*) in the second quarter of 2014. The deep drop in the first quarter of 2014, when severe weather acted as a break on economic activity, was only one-off. In the second quarter of 2014, therefore, the economy resumed solid pace of growth from the end of the last year, which was in line with expectations. The main contributions to growth came from consumption and investment to machinery and equipment.

Domestic demand should remain the main driver of the US economy. Rising consumer confidence and increasing net worth of households (real estate prices are growing, Dow Jones and S&P 500 stock market indices are still hovering around record highs) will have a positive impact on consumption of households. Firms' investment activity is approaching the pre-crisis level, while banks' lending activity continues to rise.

The economy is still supported by accommodative monetary policy. However, the Fed keeps on tapering quantitative easing. Beginning in October, the monthly volume of asset purchases is reduced further by \$10 billion, to \$15 billion. The Fed's decision reflects its positive assessment of the state of the US economy. In the Fed's view, favourable developments on the labour market have run out of steam somewhat, but economic growth has stabilised and the economy should be able to operate without larger stimuli. So far, the Fed has assessed long-term inflation expectations as stable, and the risks to the economic outlook and the situation on the labour market as balanced. The risk of a long-term undershooting of the 2% inflation target has slightly decreased since the beginning of the year.

In September, the unemployment rate fell below 6% (to 5.9%) for the first time since the outbreak of the crisis, declining by 1.3 pp YoY. However, falling jobless rate is accompanied by decreasing participation rate, which remains a long-term issue. Unemployment rate is expected to decline further towards 5% in mid-2015. Taking into account the low growth of the working-age

population, the economy is slowly approaching the point of full employment; full capacity utilization should lead to inflation pressures in the next year.

Given that the return of the US economy to a growth trajectory after the poor performance in the first quarter was in line with the estimate from the July Macroeconomic Forecast, we have revised our forecast for GDP growth in 2014 only marginally up to 2.1% (*versus 2.0%*). We still assume that growth should be driven mainly by private consumption and investment. Risks to the forecast of economic growth associated with short-term uncertainty about fiscal policy have subsided, but the debate about medium-term plan for fiscal consolidation is still necessary. We expect GDP growth to accelerate to 2.9% in 2015 (*versus 3.1%*).

EU

As at the cut-off date, the data according to the national accounts standard ESA 2010 were available only for some of the EU countries.

In the second quarter of 2014, GDP growth rate slowed down to 0.2% QoQ (*versus 0.4%*) in the EU28, whereas in the EA12 GDP remained unchanged (*versus growth of 0.4%*), compared with the first quarter. In a YoY comparison, GDP increased by 1.2% (*versus 1.4%*) in the EU28 and by 0.7% (*versus 1.0%*) in the EA12. Developments in individual member states of the EA12 remain widely varied. Generally, some slowdown of both domestic demand and foreign trade can be observed. In many countries of the EA12, however, structural problems and uncertainty related to the effects of the reforms that are being undertaken put a brake on these economies' recovery.

The ECB eased monetary policy further in September, in reaction to ongoing disinflation and decreasing inflation expectations. All monetary policy rates were cut by 10 basis points– the main refinancing rate to 0.05%, the interest rate on the marginal lending facility to 0.30% and the interest rate on the deposit facility to –0.20%. At the same time, the ECB introduced the Asset-Backed Securities Purchase Programme (underlying assets consisting of claims against the euro area non-financial private sector) and the Covered Bond Purchase Programme, in which covered bonds issued by MFIs domiciled in the euro area will be purchased. The programmes will last for at least two years and both will start in the fourth quarter of 2014. Their aim, just like the aim of the previous extraordinary measures taken by the ECB (Targeted Longer-Term Refinancing Operations), is to improve the functioning of the transmission mechanism of monetary policy and support provision of credit to the non-financial sector. Easing of monetary policy is in line

with the July Macroeconomic Forecast. The ECB has confirmed that it stands ready to take further steps, should they be needed.

Situation on the labour market in the EU28 as a whole has stabilised. In August, unemployment rate in the EU28 and in the EA12 was 10.1% and 11.5% respectively. However, considerable differences among individual states persist. The worst situation is still in Greece, where jobless rate stood at 27.0% in June. Of the EU28 countries for which the data for August were available as at the cut-off date, the highest jobless rate was recorded in Spain (24.4%) and Croatia (16.5%), the lowest rate of unemployment was in Austria (4.7%) and in Germany (4.9%).

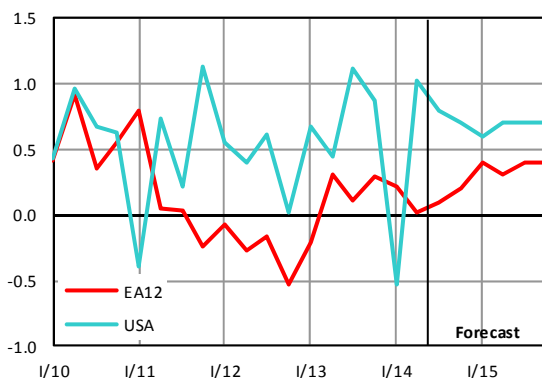
We expect that the stagnation of GDP in the EA12, which occurred in the second quarter, will be followed by a gradual pickup in activity in the second half of the year and throughout 2015. However, growth should be significantly weaker than it was expected in the last Forecast. Risks to the forecast include the persisting high unemployment rate, uncertainty related to the effects of the reforms that are being undertaken and the developments on the credit market. GDP in the EA12 is assumed to increase by 0.7% (*versus 1.1%*) this year. Growth is expected to accelerate to 1.1% (*versus 1.5%*) in 2015.

Germany posted a surprising 0.2% QoQ drop in GDP (*versus a 0.4% increase*) in the second quarter of 2014. The unfavourable outcome, however, is partly due to one-off factors (very mild winter), which caused part of the economic activity to be shifted from the second quarter to the first quarter. Considering the performance of the German economy in the first half of 2014, the average quarterly GDP growth rate was cca 0.3%, which represented a slight slowdown of just 0.1 pp, in comparison with the second half of 2013. Exports increased only modestly in the second quarter. Exports within the EU recorded a modest rise, whereas trade with the countries outside the EU was almost stable. Firms' investment expenditure on machinery and equipment did not reach the same dynamics as at the beginning of the year. The pickup in investment activity that begun in the first half of 2013 was thus disrupted. The main problem in the case of investment is weak demand in the EA12 and the reluctance of households and the government to spend. The Ifo index declined for the 4th consecutive month in September, especially the expectations component. The first decrease in a long time posted the GfK Consumer Climate indicator, although its value still remains high. Low rates of the ECB continue to have a

positive effect on the whole economy, consumption of households is boosted also by a very good situation on the labour market. Together, these factors impact positively on the real estate market. Expected pickup in output in developed economies and high competitiveness of German firms should contribute positively to growth. Data on industrial production imply that the economy could return to growth in the second half of this year; compared with expectations from the beginning of the year, however, the growth will be much lower. We expect GDP to increase by 1.4% this year (*versus 2.0%*) as well as in 2015 (*versus 1.8%*).

The situation in **France** remains unfavourable. GDP was flat again in a QoQ comparison (*versus growth of 0.3%*) in the second quarter of 2014; recovery of the French economy is still to come. Measures that were taken to give a boost to low-income households and the business sphere haven't had effect so far. A pickup in private investment, which stagnated over the last two years, is expected. Situation on the labour market is not getting any better – high rate of unemployment, which reached 10.5% in August, and problems with job creation put a brake on private consumption. Low exports of certain industrial sectors pose another problem. Therefore, strongly positive contributions of net exports to GDP growth cannot be expected in future. The government has announced that meeting the deficit target for this year is unlikely, which jeopardizes exiting the Excessive Deficit Procedure in 2015. Furthermore, the required fiscal consolidation will have a negative effect on economic activity. We expect the economy to grow by just 0.4% (*versus 0.9%*) in 2014. In 2015, GDP growth could slightly accelerate to 0.8% (*versus 1.4%*).

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



Source: Eurostat, own calculations

In **Poland**, GDP increased by 0.6% QoQ (*in line with the estimate*) in the second quarter. Even though the first quarter of 2014 was marked by an exceptionally strong momentum, growth in the second quarter matched

the dynamics observed in the last year. The relative importance of domestic demand, which should remain the main driver of growth even in 2015, is increasing thanks to the stable situation on the labour market and low inflation. Monetary policy rates have stayed at the historical low of 2.50% since mid-2013, despite the inflation target not being met. Uncertainties related to the outlook for the EA12 persist and they are expected to have a negative effect on investment activity, just like the unfavourable state of trade relations with Russia. We leave the estimate for this year's GDP growth unchanged at 3.2%. In 2015, GDP growth could slightly decelerate to 3.0% (*versus 3.1%*).

GDP of **Slovakia** increased by 0.6% QoQ (*versus 0.7%*) in the second quarter of 2014. Final consumption expenditure and investment were the main drivers of growth. Given the assumed developments in the EA12, however, we expect foreign demand to slow down in the second half of the year. Investments are also likely to be weaker because of the uncertainty related with the outlook. Consumption of households should get a boost from rising real wages and employment. Consumption of the government sector should contribute positively to growth in this year; however, its contribution should be negative in the next year due to the additional planned fiscal consolidation. On the other hand, the expected slowdown in domestic demand should be reflected positively in the contribution of net exports to GDP growth. We leave our forecast for GDP growth in 2014 at 2.4%. In 2015, economic growth could accelerate to 2.7% (*versus 2.9%*).

Business Cycle Indicators in the EU

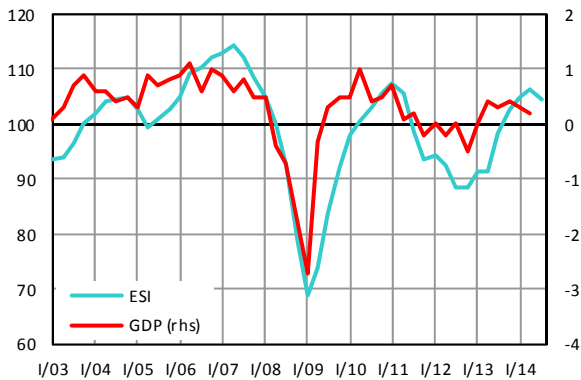
The Economic Sentiment Indicator, which is published by the EC, decreased in the third quarter of 2014 in the EU, thus disrupting the growth trend. Assessment of consumers, as well as respondents in trade, industry and services deteriorated, compared with the previous quarter. On the other hand, sentiment increased in construction, although it remains strongly negative. For the third quarter of 2014, the Economic Sentiment Indicator signals a small deceleration of quarterly GDP growth in the EU, which is in line with our Forecast.

In France, the decline of the ESI came to a halt in the third quarter of 2014, whereas in Slovakia the ESI continued to grow moderately. In Italy, the assessment of respondents started to worsen, likely in connection with the economy entering a technical recession. In Germany, the ESI continued decreasing, albeit from significantly positive levels, as all components of the indicator deteriorated. According to the Ifo indicator,

the weaker sentiment in Germany is due to the fading optimism in assessing the current economic situation and worsening expectations.

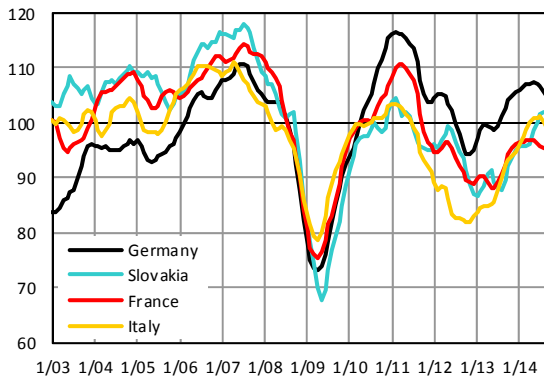
Graph A.1.2: ESI and GDP Growth in the EU

ESI – quarterly averages, GDP – QoQ growth rate in %, sa data



Source: EC, Eurostat

Graph A.1.3: ESI in Selected Trading Partner Countries
3-month moving averages

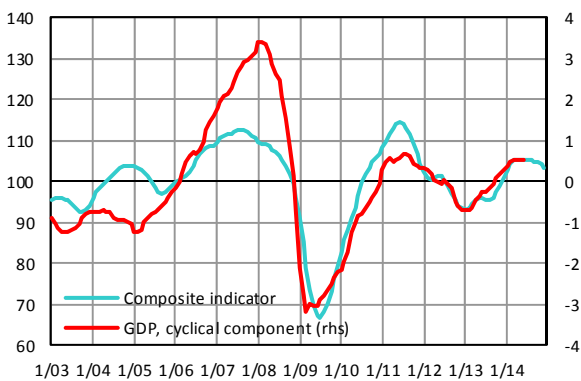


Source: EC

For the third quarter of 2014, the composite leading indicator signals that the relative cyclical component of GDP in the EU will keep on deteriorating. This is consistent with a slight widening of the negative output gap in the EU, which is in line with the European Commission’s estimate for this year.

Graph A.1.4: Composite Leading Indicator – EU

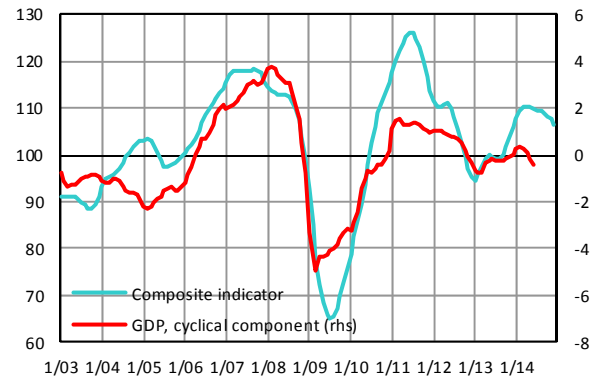
monthly data, 2005=100, cyclical component in % of trend GDP



Source: EC, Eurostat, own calculations

Graph A.1.5: Composite Leading Indicator – Germany

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



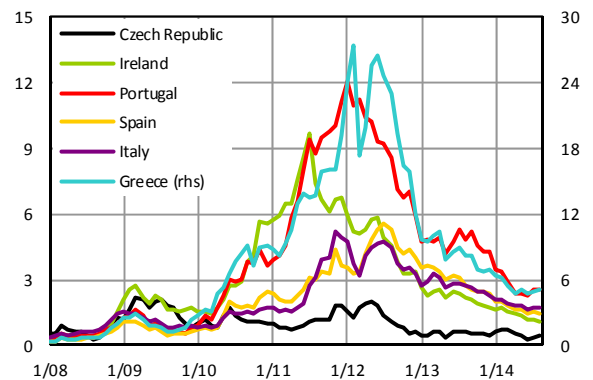
Source: EC, Eurostat, own calculations

Situation in the Troubled Economies of the Euro Area

The latest data have confirmed that economic activity has been gradually picking up in Ireland, Portugal and in Spain. The Italian economy re-entered a technical recession in the second quarter of 2014; given the magnitude of quarterly GDP changes, however, the developments over the last four quarters can be regarded rather as stagnation. Greek GDP recorded a 24th consecutive YoY decline in the second quarter of 2014, but the speed at which economic output is falling has slowed down considerably. Cyprus, where GDP was more than 10% lower in the second quarter of 2014 than in the second quarter of 2011, still finds itself in a protracted recession.

Graph A.1.6: Spreads over German Bonds

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



Source: Eurostat

Market sentiment towards the euro area periphery remains favourable (see Graph A.1.6). However, the yields on (not only) 10Y government bonds, which in the case of Ireland, Italy, Portugal and Spain are at the historical lows (at the end of September, the yield on 2Y Irish government bonds on the secondary market was even negative), do not, apparently, reflect the economic fundamentals. Search for yield, under the conditions of highly accommodative monetary policy

and extremely low, and in some periphery countries even negative, inflation rate, is much more likely to explain the high price of government bonds.

Ireland is trying to make use of the positive market sentiment towards the euro area periphery by seeking early repayment (refinancing) of the loans provided by the IMF within the bailout programme. Loans from the IMF, whose participation in the bailout programme for Ireland¹ totals €22.5 billion, are scheduled to be fully repaid in 2023. The problem, however, is the interest rate on the IMF loans, which is approximately 5%, as the yield on Irish 10Y government bonds is hovering below 2%. By refinancing the IMF loans, Ireland could therefore achieve considerable savings, estimated at €1.5 billion (cca 1% of GDP) over the maturity of the loans. However, early repayment of the IMF loans must be formally approved by other creditors who financially participated in the bailout programme (so far, Ireland has managed to secure political support for its plan). If Ireland failed to secure their consent and still insisted on early repayment of the IMF loans, it would have to make an early repayment of the loans from other creditors as well.

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

Another, though not that significant, risk present future developments in Greece. Funds from the Greek bailout programme, or – more precisely – from the part provided by the euro area states via the European Financial Stability Facility, have been almost completely drawn down. The programme envisages the IMF financing continuing until mid-2016; however, in 2015 and 2016 the IMF should provide Greece with “only” €9 billion in total. The question as to whether or not Greece will need another bailout programme or some other form of help, e.g. partial (official) debt forgiveness, is thus becoming even more pressing. The prospects for Greece being able to almost fully finance

¹ International financial help totalled €67.5 billion; apart from the IMF, the EU contributed €22.5 billion, the euro area €17.7 billion, the remaining €4.8 billion was provided in the form of bilateral loans from the UK, Sweden and Denmark

itself on the primary market, starting in 2015, have not looked very good so far.

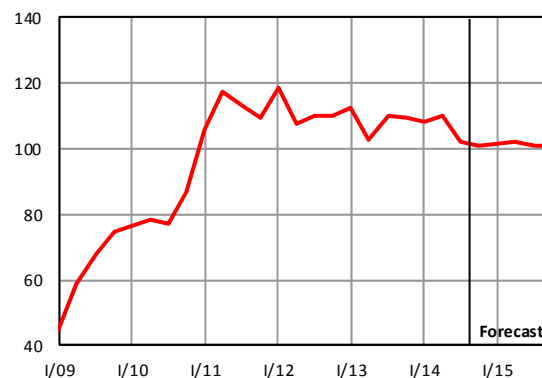
Future developments in the economies on the euro area periphery are subject to downside risks. Sudden worsening of the market sentiment towards the region, which could be caused by the results of the comprehensive assessment of European banks, cannot be excluded. It is therefore premature to consider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

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

Commodity Prices

The price of Brent crude oil averaged \$102.0/barrel (*versus* \$108) in the third quarter of 2014. Lower than expected price of oil results primarily from weaker demand for oil, reflecting the weaker performance of the global economy, and an unexpectedly rapid return of the Libyan production to the markets. These factors account for the minor downward revision to the forecast, above all in the near term. However, we have not changed our view of the market fundamentals. The price of oil should continue to decline moderately, mainly due to increasing production capacity and the extent to which domestic production in the US and Canada substitutes for imports of oil, and deteriorated outlook for the EU. A gradual decline in the price of oil is also in line with the situation on derivatives markets. That market volatility could increase as a result of the rather tense geopolitical situation remains a risk. On average, the price of Brent crude oil could reach \$105/barrel (*versus* \$108) this year. In 2015, the price could decrease further to \$101/barrel (*versus* \$104).

Graph A.1.7: **Dollar Prices of Brent Crude Oil**
in USD per barrel



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

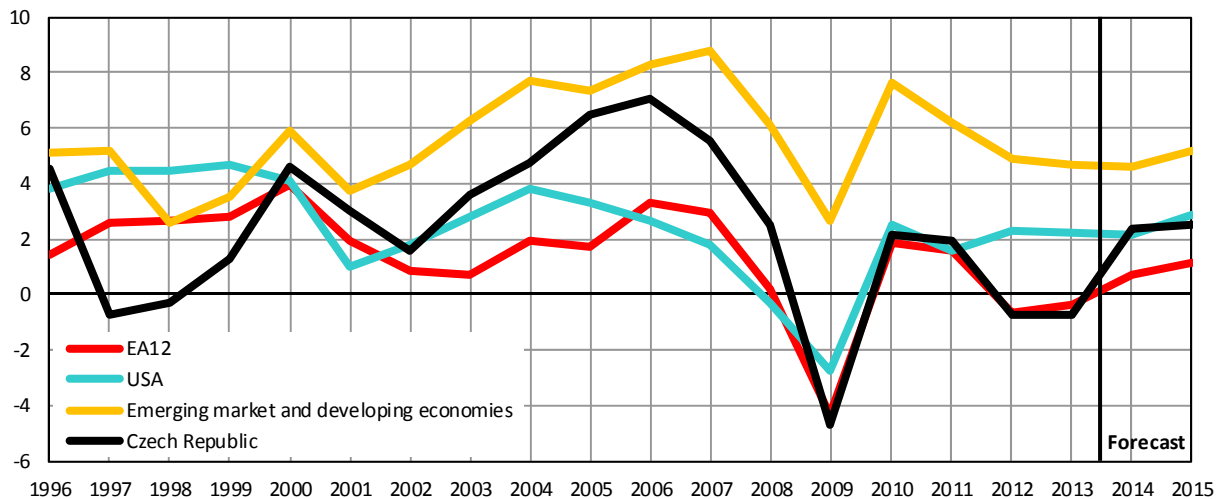
Table A.1.1: **Real Gross Domestic Product – yearly**
growth rate, in %, seasonally adjusted data (except for the Czech Republic)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									<i>Forecast</i>	<i>Forecast</i>
World	5.3	5.4	2.8	-0.6	5.2	3.9	3.1	3.0	3.3	3.8
USA	2.7	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2	2.1	2.9
China	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7	7.3	7.3
EU28	3.5	3.2	0.3	-4.5	2.0	1.7	-0.3	0.1	1.1	1.3
EA12	3.3	2.9	0.2	-4.4	1.9	1.6	-0.6	-0.4	0.7	1.1
Germany	3.9	3.4	0.8	-5.6	3.9	3.7	0.6	0.2	1.4	1.4
France	2.6	2.3	0.1	-2.9	1.9	2.1	0.4	0.4	0.4	0.8
United Kingdom	2.8	3.4	-0.8	-5.2	1.7	1.1	0.3	1.7	3.0	2.7
Austria	3.8	3.7	0.9	-3.5	1.9	2.9	0.7	0.3	0.9	1.3
Hungary	4.0	0.1	0.7	-6.7	1.0	1.6	-1.7	1.2	3.3	2.4
Poland	6.2	6.8	5.0	1.6	3.9	4.5	2.1	1.6	3.2	3.2
Slovakia	8.3	10.5	5.8	-4.9	4.4	3.0	1.8	0.9	2.4	2.7
Czech Republic	6.9	5.5	2.7	-4.8	2.3	2.0	-0.8	-0.7	2.4	2.5

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

Graph A.1.8: **Real Gross Domestic Product**

YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, IMF, own calculations

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

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

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Estimate	Forecast
USA	QoQ	0.7	0.4	1.1	0.9	-0.5	1.0	0.8	0.7
	YoY	1.7	1.8	2.3	3.1	1.9	2.5	2.2	2.0
China	QoQ	1.6	1.8	2.3	1.7	1.5	2.0	1.6	1.6
	YoY	7.8	7.5	7.8	7.6	7.5	7.7	7.0	6.9
EU28	QoQ	0.0	0.4	0.3	0.4	0.3	0.2	0.1	0.3
	YoY	-0.7	-0.1	0.2	1.1	1.4	1.2	1.0	0.9
EA12	QoQ	-0.2	0.3	0.1	0.3	0.2	0.0	0.1	0.2
	YoY	-1.2	-0.6	-0.3	0.5	0.9	0.7	0.6	0.5
Germany	QoQ	-0.4	0.8	0.3	0.4	0.7	-0.2	0.3	0.2
	YoY	-0.6	0.1	0.3	1.1	2.2	1.3	1.3	1.0
France	QoQ	0.0	0.7	-0.1	0.2	0.0	0.0	0.1	0.2
	YoY	-0.2	0.7	0.3	0.8	0.8	0.1	0.3	0.3
United Kingdom	QoQ	0.5	0.7	0.8	0.7	0.8	0.8	0.6	0.6
	YoY	0.7	1.8	1.8	2.7	3.0	3.1	2.9	2.8
Austria	QoQ	0.0	0.0	0.3	0.4	0.1	0.2	0.3	0.3
	YoY	0.3	0.0	0.4	0.7	0.8	0.9	0.9	0.9
Hungary	QoQ	0.7	0.4	1.1	0.7	1.1	0.8	0.6	0.4
	YoY	-0.4	0.5	1.8	2.9	3.3	3.7	3.2	2.9
Poland	QoQ	0.1	0.8	0.8	0.7	1.1	0.6	0.6	0.6
	YoY	0.5	1.3	2.0	2.5	3.5	3.3	3.1	3.0
Slovakia	QoQ	0.1	0.4	0.5	0.6	0.7	0.6	0.6	0.7
	YoY	0.5	0.6	1.0	1.6	2.2	2.4	2.5	2.6
Czech Republic	QoQ	-0.8	0.5	0.4	1.1	0.6	0.3	0.4	0.6
	YoY	-2.2	-1.3	-0.5	1.1	2.6	2.5	2.5	2.0

Source: Eurostat, NBS China, own calculations

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

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
										Forecast	Forecast
Crude oil Brent	USD/barrel	65.1	72.4	96.9	61.5	79.6	111.3	111.6	108.6	105	101
	growth in %	19.6	11.1	34.0	-36.5	29.3	39.9	0.3	-2.6	-3.1	-3.6
Crude oil Brent index (in CZK)	2005=100	96.9	96.0	106.7	76.1	100.0	129.5	143.8	139.9	142	141
	growth in %	12.5	-0.9	11.1	-28.6	31.4	29.5	11.0	-2.7	1.5	-0.6
Wheat	USD/t	191.7	255.2	325.9	223.4	223.7	316.2	313.3	312.2	268	219
	growth in %	25.8	33.1	27.7	-31.5	0.1	41.4	-0.9	-0.3	-14.2	-18.3
Wheat price index (in CZK)	2005=100	101.7	120.4	129.5	100.6	100.0	131.3	144.4	143.7	129	109
	growth in %	18.3	18.4	7.5	-22.3	-0.6	31.3	10.0	-0.5	-10.4	-15.4

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

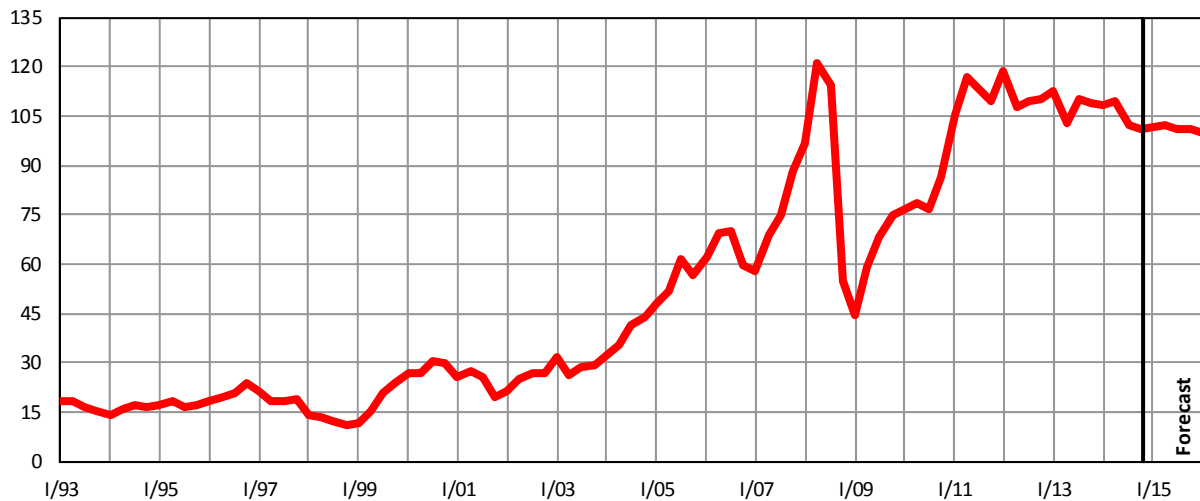
Table A.1.4: Prices of Selected Commodities – quarterly
spot prices

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3 <i>Estimate</i>	Q4 <i>Forecast</i>
Crude oil Brent	<i>USD/barrel</i>	112.4	102.6	110.2	109.2	108.1	109.7	102.0	101
	<i>growth in %</i>	-5.3	-4.8	0.5	-0.8	-3.8	7.0	-7.5	-7.5
Crude oil Brent index (in CZK)	<i>2005=100</i>	143.5	133.6	141.7	140.9	142.7	144.6	140.0	141
	<i>growth in %</i>	-4.1	-4.6	-2.2	0.1	-0.5	8.3	-1.2	-0.2
Wheat price	<i>USD/t</i>	321.4	313.8	305.9	307.8	297.1	322.1	248	204
	<i>growth in %</i>	15.3	16.7	-12.5	-13.5	-7.6	2.6	-19.1	-33.6
Wheat price index (in CZK)	<i>2005=100</i>	146.5	146.0	140.4	141.8	140.0	151.7	121	102
	<i>growth in %</i>	16.7	17.0	-14.9	-12.7	-4.4	3.9	-13.6	-28.3

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

Graph A.1.9: Dollar Prices of Oil

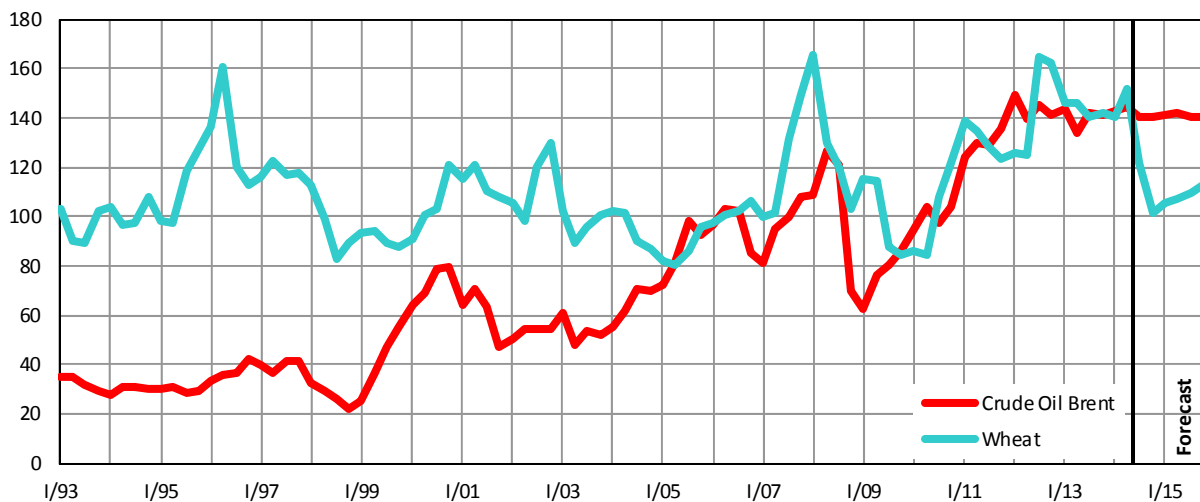
USD/barrel



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

Graph A.1.10: Koruna Indices of Prices of Selected Commodities

index 2010=100



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

A.2 Fiscal Policy

According to the current data, the government sector balance in 2013 ended with the deficit of 1.3% of GDP, which was an improvement of 2.7 pp compared to 2012. Considerable part of the improvement (1.8 pp), however, is due to specific transactions in 2012 (fin. compensation to churches and religious organizations and a correction to the reimbursement from EU funds). Disregarding their effect, the deficit fell by 0.9 pp. In comparison with the April notification, the estimate of the general government deficit in 2013 has improved by 0.2 pp (originally 1.5% of GDP). Although this partly follows from an absolute change in the deficit, the transition to the new methodology ESA 2010 has also had a significant impact by setting the level of nominal gross domestic product higher (see Box C.1). Therefore, all indicators have decreased as a ratio to GDP.

Structural balance (i.e. the balance adjusted for the effect of the business cycle and one-off and temporary measures) was balanced in 2013. The YoY change in the structural balance, the so-called fiscal effort, has exceeded 1 pp for several years in a row.

The considerable fiscal effort in 2013 was achieved both on the revenue and expenditure sides. On the revenue side, in particular there was a 1 pp increase in both VAT rates, which contributed to fiscal effort by nearly 0.4 pp. The second significant discretionary revenue measure were modifications to personal income tax (e.g. abolishing the basic discount for working pensioners, which can be, however, requested retrospectively; a solidarity surcharge of 7%, limitation of expenditure lump-sums) totalling 0.2 pp. Changes to other tax revenues were only minor and largely compensated one another.

On the expenditure side, there was yet another more substantial decrease in gross fixed capital formation (government investment) in 2013, by nearly 0.4% of GDP YoY. The decrease occurred mainly in investment financed from domestic sources which have a full impact on government sector balance. It was apparent both in local budgets and central government.

We expect the government sector deficit to reach 1.5% of GDP in 2014. Compared to the estimate in the previous Macroeconomic Forecast, the forecast of the absolute deficit level deteriorated slightly, yet thanks to the aforementioned transition to the ESA 2010 methodology the forecast of the relative deficit level has not changed. The structural balance should reach -1.1% of GDP and fiscal effort -1.2 pp.

On the revenue side, a relatively high (cca 4%) growth in the revenues from direct taxes can be expected. In

contrast, a slight decrease can be expected in indirect taxes, in particular due to a decrease in revenues from taxes on tobacco products. According to the accrual methodology, the considerable stockpiling of the first two months of 2014 is included in tax revenues of 2013. In 2014, there was no major discretionary tax change, and the dynamics is thus caused by tax base dynamics. The revenue side was influenced by the sale of LTE frequency bands worth CZK 8.5 billion to mobile operators. An increase can also be expected for accrual investment subsidies from the EU, which are the main source of growth in government investment in 2014.

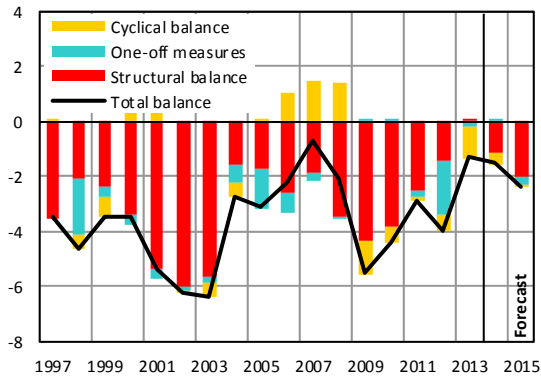
On the expenditure side, compared to the last forecast we can expect greater dynamics of government consumption, which should increase by 2.9% in current prices in annual terms. Consumption will be driven especially by social benefits in kind (expenditure of health insurance companies on health care), due partly to an increase in contributions for state insured persons and partly to the less restrictive Reimbursement Decree strengthening hospital care in particular. The assumption regarding wage bill growth in the government sector was also increased: it should rise by approximately 3% compared to last year. The assumption regarding the dynamics of the purchase of goods and services in the government sector remains at approximately the same level of 1.6%.

After several years of decline in investment activity of the government sector, we can expect it to grow by nearly 5% in 2014. It will be driven especially by the expenditure of projects co-financed from the EU funds.

For 2015, current estimates expect a deepening of government sector deficit down to 2.4% of GDP, which reflects government efforts to support the economy. Not only should government consumption grow relatively quickly, but investment in particular should increase. Investment should be again driven by the EU funds. The estimate of the balance also expects the introduction of the third VAT rate of 10% for selected commodities, an increase in the wage bill of state administration and also the reintroduction of the former method of indexation of pensions. The estimate of the balance in 2015 includes a one-off imputation of approximately 0.2% of GDP of the lease of the JAS 39 Gripen jet fighters.

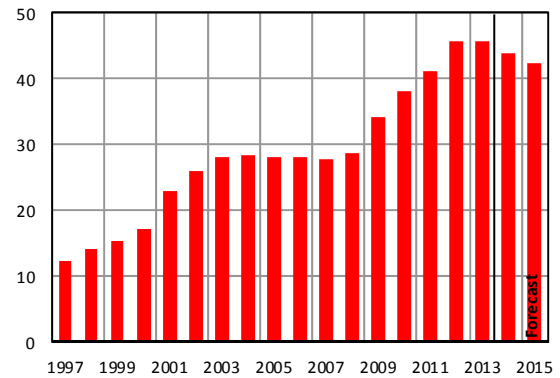
Government debt in 2013 reached 45.7% of GDP. In particular thanks to stabilization of the state budget debt, government sector debt should decrease in 2014 in relative terms to 43.9% of GDP, in 2015 it should further decrease to 42.2% of GDP.

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



Source: CZSO, own calculations

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



Source: CZSO, own calculations

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

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									Prelim.	Forecast	Forecast
General government balance ¹⁾	% GDP	-2.3	-0.7	-2.1	-5.5	-4.4	-2.9	-4.0	-1.3	-1.5	-2.4
	bill. CZK	-79	-27	-85	-216	-175	-115	-162	-53	-64	-107
Cyclical balance	% GDP	1.0	1.5	1.4	-1.3	-0.6	-0.1	-0.6	-1.1	-0.5	-0.1
Cyclically adjusted balance	% GDP	-3.3	-2.2	-3.5	-4.3	-3.8	-2.7	-3.4	-0.2	-1.0	-2.3
One-off measures ²⁾	% GDP	-0.7	-0.3	-0.1	0.0	0.0	-0.2	-2.0	-0.2	0.1	-0.3
Structural balance	% GDP	-2.6	-1.9	-3.4	-4.3	-3.8	-2.6	-1.4	0.0	-1.1	-2.0
Fiscal effort ³⁾	percent. points	-0.9	0.7	-1.5	-0.9	0.5	1.3	1.1	1.4	-1.2	-0.9
Interest expenditure	% GDP	1.0	1.1	1.0	1.2	1.3	1.3	1.4	1.4	1.3	1.2
Primary balance	% GDP	-1.2	0.4	-1.1	-4.3	-3.1	-1.5	-2.5	0.0	-0.2	-1.2
Cyclically adjusted primary balance	% GDP	-2.3	-1.1	-2.5	-3.0	-2.5	-1.4	-1.9	1.2	0.2	-1.1
General government debt	% GDP	27.9	27.8	28.7	34.1	38.2	41.0	45.5	45.7	43.9	42.2
	bill. CZK	979	1 066	1 151	1 336	1 509	1 648	1 842	1 869	1 881	1 883
Change in debt-to-GDP ratio	percent. points	-0.1	-0.1	0.9	5.4	4.1	2.8	4.5	0.2	-1.8	-1.8

Source: CZSO, own calculations

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

1) General government net lending (+)/borrowing (-)

2) One-off and temporary measures are such measures that have only a temporary impact on public budgets. Besides their temporary impact on overall balance, these measures are usually of non-recurring nature and very often result from the events that are beyond the direct power of the government.

3) Change in structural balance.

A.3 Monetary Policy, Financial Sector and Exchange Rates

Monetary Policy

Even after the CNB cut the limit interest rate for 2W (two-week) repo operations to 0.05% in November 2012, disinflation continued, given domestic macroeconomic developments and other factors (e.g. commodity prices). In order to prevent long-term undershooting of the inflation target and to accelerate the return to a situation when it would again be able to use its standard instruments, the Bank Board of the CNB decided on 7 November 2013 to use the exchange rate as an additional monetary policy instrument. Interventions on the foreign exchange market (in the volume of approximately €7.5 billion) were carried out only in November 2013; since then, the mere existence of the exchange rate commitment and the declared resolution of the CNB to meet this commitment have been enough to maintain the exchange rate above the level of 27 CZK/EUR.

Financial Sector and Interest Rates

In the third quarter of 2014, the **3M** (3-month) **PRIBOR** interbank market rate averaged 0.35% (*in line with the forecast*). The 3M PRIBOR should remain at 0.4% on average also in 2014 and 2015 (*unchanged in both cases*).

With respect to very weak inflationary pressures and low primary interest rates, long-term interest rates still remain at historically low levels. With regard to the expected development of short-term interest rates, to the considerable demand for government bonds and the expected trajectory of fiscal policy, no marked increase in long-term rates should occur in the medium-term horizon either. **The yield to maturity on 10-year government bonds** for convergence purposes reached only 1.4% (*versus 1.7%*) on average in the third quarter of 2014. For the whole of 2014 we forecast a value of 1.7% (*versus 1.9%*); long-term interest rates could remain at this level also in 2015 (*versus 2.4%*).

In July 2014, the CNB conducted another bank lending survey which concluded that in the second quarter of 2014 credit standards had eased for corporate loans, tightened for consumer loans to households and didn't change significantly for housing loans. The same direction of changes in credit standards was expected by banks also for the third quarter of 2014.

In connection with the development of primary interest rates, client interest rates are steady at very low values. In the second quarter of 2014, interest rates on household deposits remained unchanged from the previous quarter at 0.9%, and rates on company

deposits did not change either, remaining at 0.3%. The rates on loans to households decreased by 0.1 pp QoQ to 5.7%; the rates on loans to non-financial corporations also decreased by 0.1 pp to 3.0%.

Growth in loans to households, driven mainly by housing loans, has now been relatively low for a long time (see Graph A.3.2). Consumer loans have been slightly decreasing recently, although the volume of the so-called "other loans", which include e.g. loans to sole traders, rises. Loans to non-financial corporations have seen a YoY decrease in the recent quarters, although foreign currency loans recorded a pronounced increase. However, there was a one-off surge in the rate at which these loans were taken out shortly after the aforementioned exchange rate commitment was introduced.

The share of non-performing loans is slightly decreasing. In the second quarter of 2014 it reached 4.9% for households (0.1 pp less QoQ, 0.3 pp less YoY), and decreased to 7.2% for non-financial corporations (QoQ stagnation, 0.4 pp less YoY).

The Prague Stock Exchange Index PX oscillated around 1,000 points in the second half of September 2014, which represented QoQ stagnation and slight YoY growth.

Exchange Rates

Except for August and the beginning of September 2014, the CZK/EUR exchange rate has been hovering around the level of 27.50 CZK/EUR since the beginning of 2014. The koruna weakened to this level after the CNB started using the exchange rate as an additional monetary policy tool at the beginning of November 2013 (see above). For the first three quarters of 2014, the koruna weakened by 6.4% YoY on average.

In order to forecast the CZK/EUR exchange rate, arbitrary assumptions about the date when the CNB will stop using the extraordinary exchange rate instrument, as well as its exit strategy, have had to be made. Based on the available information (especially the CNB's statement that it will not stop using the exchange rate as a monetary policy instrument before 2016), we have made a technical assumption that the exchange rate will remain stable at 27.5 CZK/EUR until the end of the second quarter of 2016. Subsequently, the koruna should again start strengthening slightly against the euro, approximately by 0.5% QoQ. This is in accordance with the CNB's statement that it will not allow considerable appreciation of the koruna after discontinuing the exchange rate commitment.

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

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	2.50	3.50	2.25	1.00	0.75	0.75	0.05	0.05	.	.	
Main refinancing rate ECB (end of period)	in % p.a.	3.50	4.00	2.50	1.00	1.00	1.00	0.75	0.25	.	.	
Federal funds rate (end of period)	in % p.a.	5.25	4.25	0.25	0.25	0.25	0.25	0.25	0.25	.	.	
PRIBOR 3M	in % p.a.	2.30	3.09	4.04	2.19	1.31	1.19	1.00	0.46	0.4	0.4	
YTM of 10Y government bonds	in % p.a.	3.78	4.28	4.55	4.67	3.71	3.71	2.80	2.11	1.7	1.7	
Households – MFI (CR, unless stated otherwise)												
– interest rates on loans	in % p.a.	6.93	6.63	6.81	7.00	7.00	6.83	6.46	6.03	.	.	
– loans	growth in %	32.1	31.7	28.9	16.3	8.7	6.5	4.9	4.0	.	.	
– loans without housing loans	growth in %	28.3	27.3	25.3	19.1	8.3	6.8	1.4	0.5	.	.	
– deposits	growth in %	7.3	10.6	9.4	10.5	5.4	5.0	4.7	3.2	.	.	
– share of non-performing loans	in %	3.7	3.2	3.0	3.7	4.8	5.3	5.2	5.2	.	.	
– loans to deposits ratio	in %	40	48	57	60	61	62	65	65	.	.	
– loans to deposits ratio (Eurozone)	in %	99	99	94	89	90	90	87	84	.	.	
Non-financial firms – MFI (CR, unless stated otherwise)												
– interest rates on loans	in % p.a.	4.29	4.85	5.59	4.58	4.10	3.93	3.69	3.19	.	.	
– loans	growth in %	13.9	16.7	17.5	0.2	-6.5	3.3	2.5	0.1	.	.	
– deposits	growth in %	10.9	13.2	5.3	-1.7	4.8	0.9	8.2	4.4	.	.	
– share of non-performing loans	in %	4.5	3.8	3.6	6.2	8.6	8.5	7.7	7.4	.	.	
– loans to deposits ratio	in %	117	120	134	137	123	126	122	117	.	.	
– loans to deposits ratio (Eurozone)	in %	292	296	315	315	294	286	273	246	.	.	

Source: CNB, ECB, Fed, own calculations

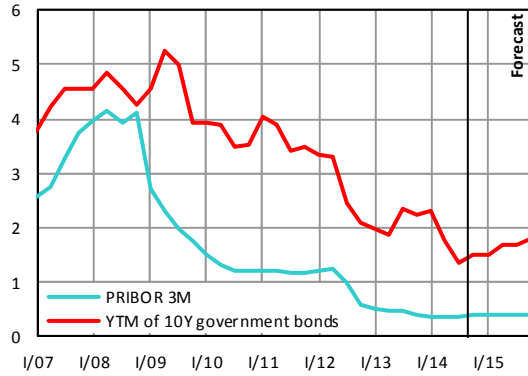
Table A.3.2: Interest Rates, Deposits and Loans – quarterly

		2013				2014				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
										Forecast
Repo 2W rate CNB (end of period)	in % p.a.	0.05	0.05	0.05	0.05	0.05	0.05	0.05	.	
Main refinancing rate ECB (end of period)	in % p.a.	0.75	0.50	0.50	0.25	0.25	0.15	0.05	.	
Federal funds rate (end of period)	in % p.a.	0.25	0.25	0.25	0.25	0.25	0.25	0.25	.	
PRIBOR 3M	in % p.a.	0.50	0.46	0.46	0.41	0.37	0.36	0.35	0.4	
YTM of 10Y government bonds	in % p.a.	1.98	1.88	2.35	2.24	2.30	1.76	1.36	1.5	
Households – MFI (CR, unless stated otherwise)										
– interest rates on loans	in % p.a.	6.21	6.09	5.96	5.83	5.73	.	.	.	
– loans	growth in %	3.7	3.9	4.1	4.2	3.9	.	.	.	
– loans without housing loans	growth in %	-0.4	0.1	0.7	1.7	1.9	.	.	.	
– deposits	growth in %	4.2	3.6	2.7	2.4	1.8	.	.	.	
– share of non-performing loans	in %	5.2	5.2	5.1	5.1	5.0	.	.	.	
– loans to deposits ratio	in %	64	65	66	66	65	.	.	.	
– loans to deposits ratio (Eurozone)	in %	85	84	84	84	83	.	.	.	
Non-financial firms – MFI (CR, unless stated otherwise)										
– interest rates on loans	in % p.a.	3.27	3.23	3.17	3.09	3.06	.	.	.	
– loans	growth in %	2.3	0.2	-1.2	-0.9	-1.9	.	.	.	
– deposits	growth in %	4.8	1.9	4.7	6.1	7.1	.	.	.	
– share of non-performing loans	in %	7.4	7.6	7.4	7.2	7.2	.	.	.	
– loans to deposits ratio	in %	119	119	117	111	112	.	.	.	
– loans to deposits ratio (Eurozone)	in %	256	252	245	232	234	.	.	.	

Source: CNB, ECB, Fed, own calculations

Graph A.3.1: Interest Rates

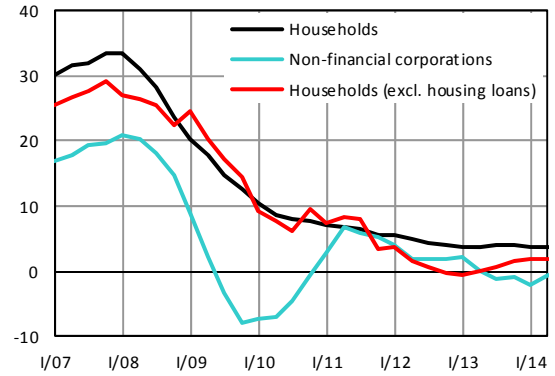
in % p.a.



Source: CNB, own calculations

Graph A.3.2: Loans

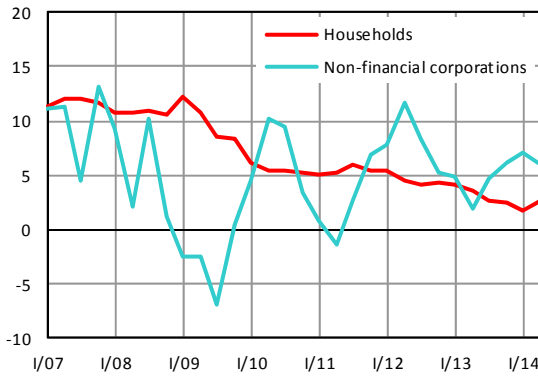
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.3: Deposits

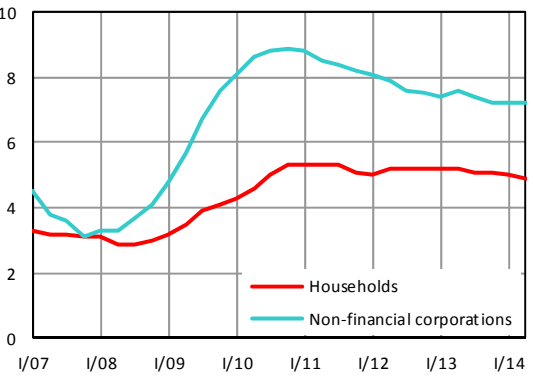
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.4: Non-performing Loans

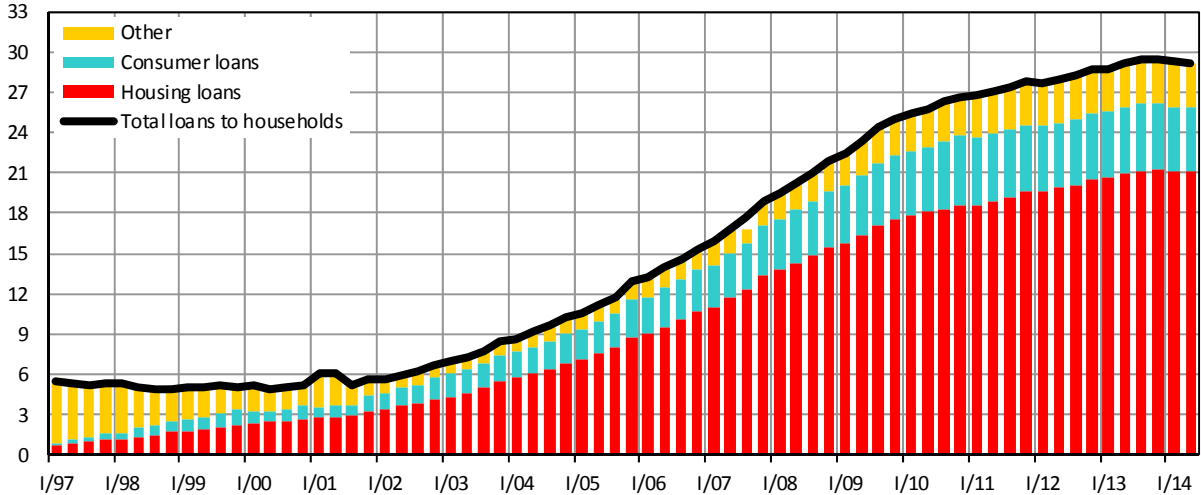
ratio of non-performing to total loans, in %



Source: CNB, own calculations

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

yearly moving sums, in %



Source: CNB, CZSO, own calculations

Table A.3.3: Exchange Rates – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:											
CZK / EUR	average	24.96	26.45	25.29	24.59	25.14	25.98	27.5	27.5	27.4	26.9
	appreciation in %	11.3	-5.6	4.6	2.8	-2.2	-3.2	-5.5	0.0	0.4	1.9
CZK / USD	average	17.06	19.06	19.11	17.69	19.59	19.57	20.5	21.2	21.1	20.7
	appreciation in %	19.0	-10.5	-0.3	8.0	-9.7	0.1	-4.6	-3.0	0.4	1.9
NEER	average of 2010=100	101.2	98.0	100.0	103.1	99.5	97.3	93	92	93	94
	appreciation in %	11.7	-3.2	2.1	3.1	-3.5	-2.2	-4.8	-0.3	0.4	1.9
Real exchange rate to EA12¹⁾	average of 2010=100	102.0	97.8	100.0	101.4	99.3	96.3	92	93	93	95
	appreciation in %	11.4	-4.1	2.3	1.4	-2.1	-3.0	-4.3	0.7	0.3	1.9
REER	average of 2010=100	102.7	98.9	100.0	102.0	99.1	96.9	.	.	.	.
(Eurostat, CPI deflated, 37 countries)	appreciation in %	14.9	-3.7	1.1	2.0	-2.9	-2.3	.	.	.	.

Source: CNB, Eurostat, own calculations

1) Deflated by GDP deflators.

Table A.3.4: Exchange Rates – quarterly

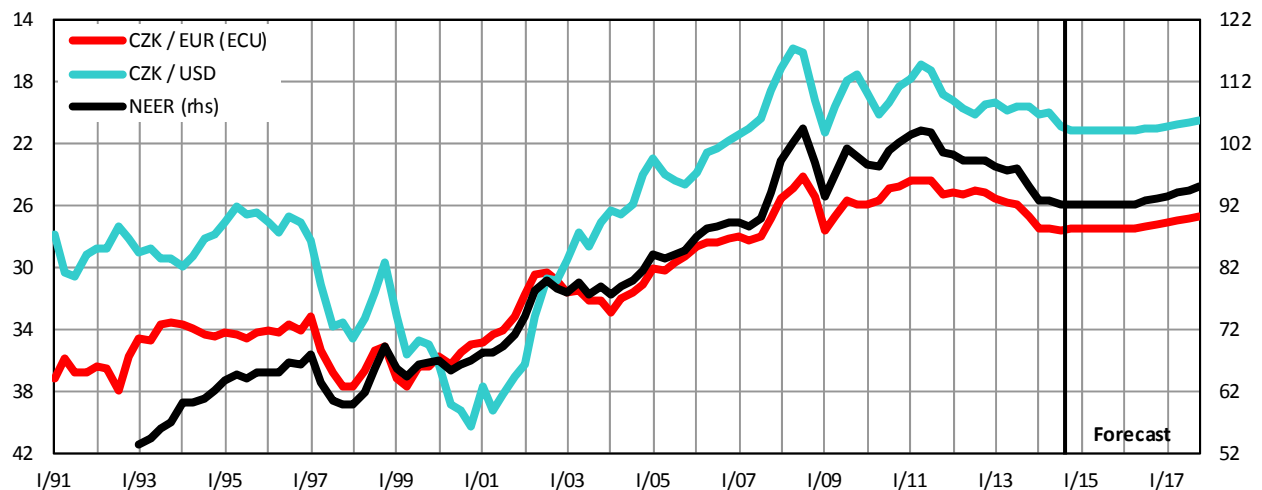
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate		Forecast
Nominal exchange rates:									
CZK / EUR	average	25.57	25.83	25.85	26.66	27.44	27.45	27.62	27.5
	appreciation in %	-1.9	-2.2	-3.0	-5.6	-6.8	-5.9	-6.4	-3.1
CZK / USD	average	19.37	19.78	19.52	19.59	20.04	20.02	20.84	21.2
	appreciation in %	-1.2	-0.3	2.8	-0.9	-3.3	-1.2	-6.4	-7.4
NEER	average of 2010=100	98.4	97.6	98.0	95.1	93.0	93.0	92.1	92
	appreciation in %	-1.7	-1.7	-1.3	-4.1	-5.5	-4.7	-6.0	-3.0
Real exchange rate to EA12¹⁾	average of 2010=100	97.2	96.6	96.6	94.9	91.8	92.3	91	93
	appreciation in %	-1.9	-2.4	-2.9	-4.8	-5.6	-4.4	-5.3	-1.9
REER	average of 2010=100	98.3	97.2	97.4	94.4	93.0	.	.	.
(Eurostat, CPI deflated, 37 countries)	appreciation in %	-2.1	-1.9	-1.3	-3.9	-5.4	.	.	.

Source: CNB, Eurostat, own calculations

1) Deflated by GDP deflators.

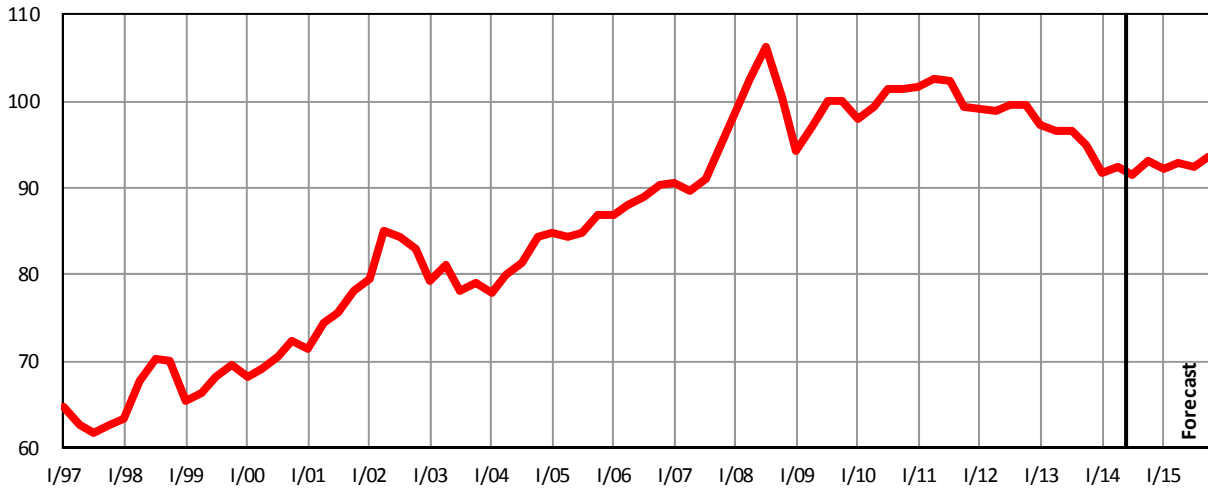
Graph A.3.6: Nominal Exchange Rates

quarterly averages, average 2010=100 (rhs)



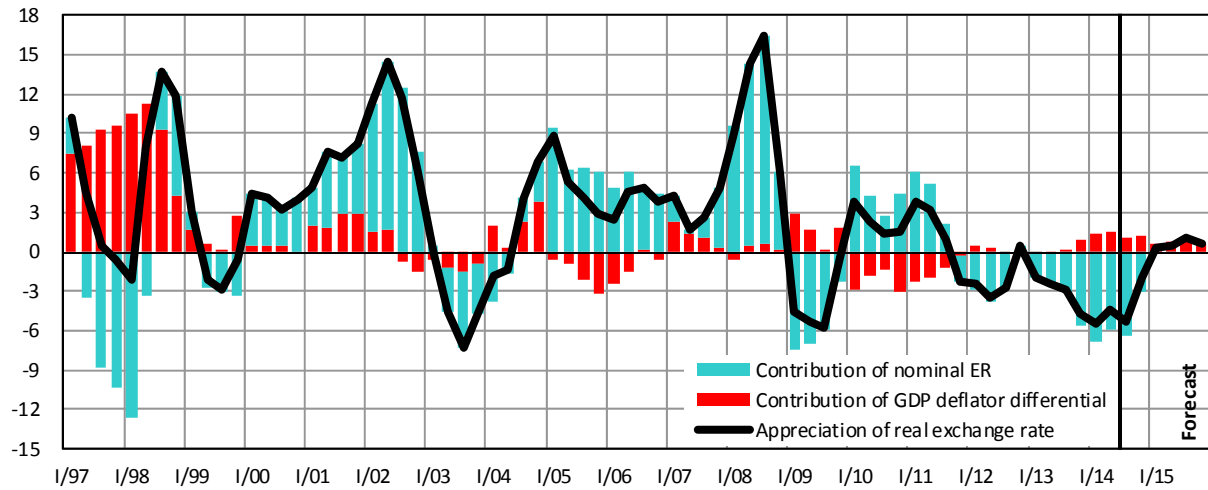
Source: CNB, own calculations

Graph A.3.7: Real Exchange Rate to EA12
quarterly averages, deflated by GDP deflators, average 2010=100



Source: CNB, Eurostat, own calculations

Graph A.3.8: Real Exchange Rate to EA12
deflated by GDP deflators, YoY growth rate in %, contributions in percentage points



Source: CNB, Eurostat, own calculations

A.4 Structural Policies

Business Environment

On 3 September 2014, the government approved **the amendment to the Act on Investment Incentives**, thereby introducing new stimuli and at the same time removing some limiting conditions from the investment incentive system. The amendment extends the number of regions in which material support will be provided for creating new jobs and the requalification or training of employees. In this connection, it introduces the concept of Special Economic Zones, in which the subsidy for a newly created job will be up to CZK 300,000 and exemption from property tax will stretch up to 5 years for new corporations. Investment incentives will also now be provided to data centres and call centres that create more than 500 jobs. In contrast, the requirement for the minimum number of newly created jobs will decrease for projects involving technological and strategic services centres, and the 75% limit on the maximum rate of support for low-tech sectors will be abolished. The amendment should come into effect on 1 January 2015.

The amendment to the Act on Public Contracts approved by the government on 3 September 2014 extends the criteria applicable to selecting the economically most suitable bid to include other partial evaluation criteria (assessment of the organization, qualifications and experience of employees or the impact on employment of persons with more difficult access to the labour market). The amendment also cancels the obligation of the contracting authority to annul the tender procedure in the case of only one bid. The amendment is scheduled to come into effect on 1 January 2015.

In order to increase the quality, effectiveness and transparency of public administration, on 27 August 2014 the government established the Government Council for Public Administration and approved the **Strategic Framework for the Development of Public Administration of the Czech Republic for 2014–2020**. Its defined strategic targets include the modernization and revision of public administration, the optimization of its performance across the country, increasing accessibility and transparency using eGovernment tools and the professionalization and development of human resources in the sector.

Taxes

The amendment to the Act on Value Added Tax approved by the Chamber of Deputies on

24 September 2014 introduces second reduced value added tax rate of 10% on drugs, books and essential infant nutrition. The amendment should be effective from 1 January 2015.

In order to improve the collection of taxes, on 27 August 2014 the government approved another **amendment to the Act on Value Added Tax** establishing the institute of inspection reports, introducing temporary reverse charge for selected goods or services, and retaining the turnover limit of CZK 1 million per year for obligatory registration for value added tax. The amendment is scheduled to come into effect on 1 January 2015, in respect of inspection reporting from 1 January 2016.

On 16 September 2014, the President of the Czech Republic signed **the amendment to the Act on Excise Taxes**. In response to the weakening of the CZK/EUR exchange rate, the amendment regulates the rates of excise tax on tobacco products in order to meet the EU minimum requirement for the excise tax level, i.e. €90 per 1,000 cigarettes. At the same time, the amendment reintroduces the refund of the mineral oils tax for persons using these oils in agricultural primary production in the amount of 40% and 57%. The amendment will be effective as of 1 December 2014.

The amendment to the Act on Excise Taxes aimed at limiting tax fraud was approved by the government on 27 August 2014. The amendment introduces a register of persons dealing with special mineral oils for persons acquiring these oils as bulk goods or placed in packaging exceeding 220 litres. The amendment is scheduled to come into effect on 1 January 2015.

On 24 September 2014, the Chamber of Deputies approved the **amendment to the Act on Income Taxes**. Tax credits for a second child will increase annually by CZK 2,400 and for a third and any additional child by CZK 3,600. The current lump-sum expenses in the amount of 80% and 60% will be preserved, but the absolute amount of deduction using the lump-sum will be limited by the amount of CZK 1.6 million and CZK 1.2 million, respectively. Old-age pensioners with annual incomes not exceeding CZK 840,000 will again be allowed to apply the basic discount per tax payer. The amendment is scheduled to come into effect on 1 January 2015.

Financial Markets

The Act amending Certain Acts in Connection with Establishing Access to and Supervision of the

Activities of Banks, Savings Banks and Credit Unions as well as Securities Dealers came into effect on 22 July 2014. The Act implements the EU Directive on the access to the activity of credit institutions and their prudential supervision under Czech law. The new legal regulation introduces capital reserves which the CNB can require banks, cooperative savings banks and investment firms to hold in order to strengthen capital endowment and limit systemic risks. Simultaneously, responsibility for supervision of the liquidity of branches of Member State banks (not subsidiary banks) will be transferred from the supervisory authority of the host state to the supervisory authority of the home state. Some selected parts of the act will come into effect as late as on 1 January 2015 and 1 January 2016.

In order to reduce the risk of corruption, on 24 September 2014 the Chamber of Deputies approved the **amendment to the Bill Amending Certain Acts on the Financial Market**. According to the new legal regulation, mandatory cashless payments will no longer just apply to cases when obligations are settled by payment, but to all payments (loans, gifts). The limit for mandatory cashless payments will be reduced from CZK 350,000 to CZK 270,000, whereby recipients will be obliged to refuse any payment above the new limit if it is not made as a cashless payment. The amendment also transposes the EU Directive defining the requirements for credit transfers and direct debits in EUR. The amendment is expected to come into effect on the first day of the calendar month following its announcement.

Energy and the Environment

On 26 September 2014, the Chamber of Deputies approved the **amendment to the Act on Conditions for Trading in Allowances for Greenhouse Gas Emissions**, transposing the EU Directive into Czech law. The amendment imposes the duty on operators to return any allowances that were assigned and issued to them in an unauthorized manner. A sanction can be imposed on operators if they breach this duty. The amendment is scheduled to come into effect on 1 January 2015.

Education, Science and Research

On 27 August 2014, the government approved **an amendment to the Education Act**. The amendment regulates conditions for education of students with special educational needs, adjusts the position of head teachers and establishes a register of pedagogical employees that should provide information on the status and development of the pedagogical profession. The amendment also introduces uniform final

examinations of secondary education subjects with certificate of apprenticeship, and extends the competences of preparation classes of basic schools. The act is scheduled to come into effect on the first day of the calendar month following its announcement, and some selected parts of it on 1 September 2015 and 1 September 2016.

On 9 July 2014, the government approved the **Education Policy Strategy of the Czech Republic until 2020**, defining the basic framework for the further development of education. The Strategy defines three basic cross cutting priorities: reducing inequality in education, supporting high-quality teaching and teachers as its key prerequisite and the effective management of the education system.

Labour Market

The amendment to the Employment Act signed by the President of the Czech Republic on 8 July 2014 reintroduces the category of disadvantaged persons. The employment of these persons will be supported with a contribution of up to CZK 5,000 per month. The contribution to shared intermediation of employment for job agencies will be reduced from CZK 5,000 to a maximum of CZK 500. In contrast, the amount for placing an unemployed person in work will increase from CZK 1,250 to a maximum of CZK 6,250, provided such person stays in the job for at least 6 months. The amendment will be effective as of 1 January 2015.

On 3 September 2014, the government approved **an amendment to the Employment Act** which withdrew the possibility of awarding and providing unemployment benefits to job applicants who occupy a position as member of a trading company or cooperative. The amendment is scheduled to come into effect on 1 January 2015.

In order to improve the balance between the work life and family life of parents with small children and to increase their participation in the labour market, on 23 September 2014 the Chamber of Deputies once again approved **a draft Bill to Provide Childcare Services in a Children's Group**. The act introduces a new type of service consisting in looking after and taking care of children from the age of one year until mandatory school attendance. The provider of such service can be the employer of a parent, a church, local government unit, a generally beneficial company, foundation, university or association.

By the **Government Order on Minimum Wage** of 15 September 2014, the minimum wage will increase by CZK 700 to CZK 9,200 as of 1 January 2015.

Social and Health Care Systems

The draft Bill on Pension Insurance which came into effect on 1 September 2014 regulates the rules for the indexation of pensions. For pension increases, the amount is set so that the increase in average old-age pension would equal the amount of 100% growth of the total consumer price index and one third of real wage growth. From 2015, the average independently paid old-age pension will increase by at least 1.8%.

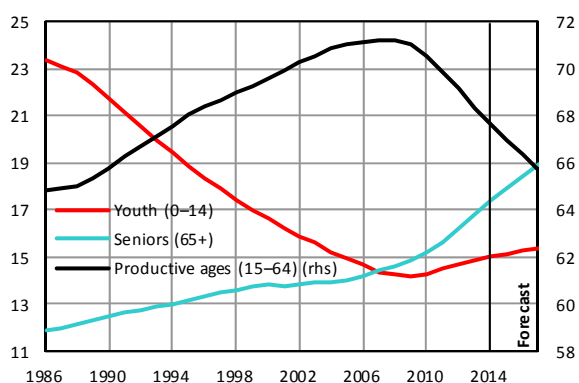
In order to support families with small children, on 24 September 2014 the Chamber of Deputies approved the amendment to the Act on State Social Support. The amendment introduces a maternity grant of

A.5 Demographic Trends

In mid-2014, 10,522 million people lived in the Czech Republic. Its population increased by 9 thousand during the first half of 2014.

This renewed rise in population is mainly due to higher immigration. Twenty-three thousand persons moved from abroad (9 thousand more than in the first half of 2013). In the first half of 2014, the net migration rate again returned to positive figures (+8 thousand). The highest balance was for citizens of Slovakia (3 thousand) and Russia. As far as citizens of Ukraine are concerned, the number of persons who moved both in and out of the country was high, with roughly zero balance. It cannot yet be concluded with certainty whether this renewal of positive net migration is a one-off occurrence, or if the Czech Republic is again becoming a target of migration flows.

Graph A.5.1: Age Groups
structural shares in %



Source: CZSO, own calculations

CZK 10,000 also for the second child, and at the same time it increases the coefficient on which the entitlement to maternity grant is based. The amendment should come into effect on 1 January 2015.

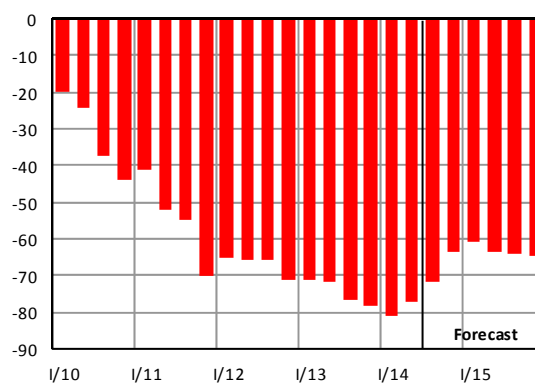
The amendment to the Act on Public Health Insurance approved by the Chamber of Deputies on 26 September 2014 cancels fees for prescriptions and outpatient treatment. The amendment is scheduled to come into effect on 1 January 2015.

The number of births (53 thousand) was similar to that of the same period in 2013, but the number of deaths was approximately 5 thousand lower in a year-on-year comparison.

As far as the age structure is concerned, in the second quarter of 2014 there was a relatively pronounced slowdown in the YoY decline in population aged 15–64 years (see Graph A.5.2), probably thanks to migration. This decline is predominantly explained by natural change, whereby persons born at the turn of the millennium, when the birth rate was very low, are now exceeding the lower age limit of this age group, while the population-strong generation born after WWII is gradually being classified as senior citizens.

Graph A.5.2: Czech Population Aged 15–64

based on LFS, YoY increases of quarterly averages, in thousands



Source: CZSO, own calculations

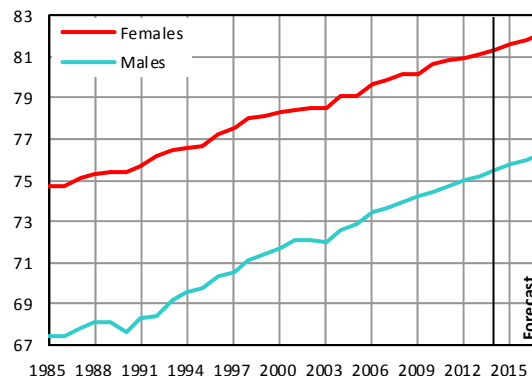
Also in the following years, in absolute terms the working-age population should continue to decline by approximately 60–70 thousand people a year, which is an annual decrease of just below 1%. The economic impacts of this situation are described in more detail in Chapter B.1.

In contrast, the structural proportion of **persons aged over 64 years** in the total population reached 17.4% at the beginning of 2014 and should regularly increase by approximately 0.5 pp annually. The number of seniors in the population is significantly increasing due to demographic structure and the ongoing rise in life expectancy. The number of persons in this category should approach 2 million at the end of the outlook horizon, i.e. at the beginning of 2017. From the perspective of pension system sustainability, however, increases in retirement age are adequate to match the prolonging life expectancy in the next 20–25 years.

It has become clear that the stagnation in the number of **old-age pensioners** from the beginning of 2012 until the end of 2013 was a temporary phenomenon caused by a change in the rules for calculating pensions during the parametric change in the pension system in 2011.

YoY growth in the number of old-age pensioners reached 13 thousand at the beginning of July 2014. At the same time, the number of pensioners with reduced pensions following early retirement is continuing to rise quite dynamically (by 20 thousand), while the decline in the number of pensioners entitled to a full pension has slowed down to 7 thousand. The share of reduced pensions has already reached 24.0%, compared to 19.0% at the end of 2009.

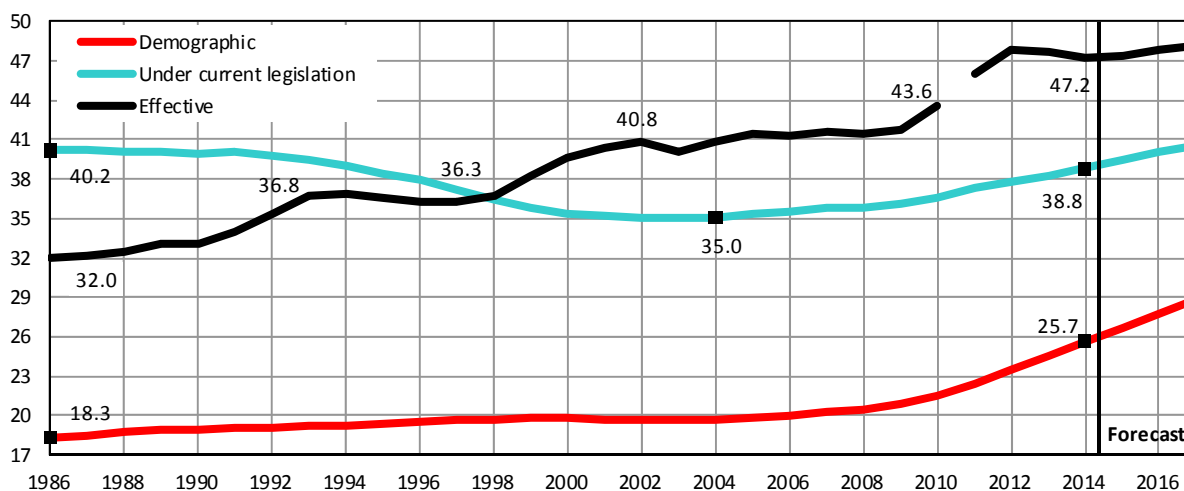
Graph A.5.3: **Life Expectancy**
in years



Source: CZSO

Graph A.5.4: **Dependency Ratios**

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



Source: CZSO, own calculations

Table A.5.1: Demography

in thousands of persons (unless stated otherwise)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Forecast	Forecast	Outlook	Outlook
Population (January 1)	10 381	10 468	10 507	10 487	10 505	10 516	10 512	10 523	10 527	10 529
<i>growth in %</i>	0.9	0.8	0.4	-0.2	0.2	0.1	0.0	0.1	0.0	0.0
Age structure (January 1):										
(0–14)	1 477	1 480	1 494	1 522	1 541	1 560	1 577	1 593	1 606	1 615
<i>growth in %</i>	-0.2	0.2	1.0	1.8	1.3	1.2	1.1	1.0	0.8	0.6
(15–64)	7 391	7 431	7 414	7 328	7 263	7 188	7 109	7 047	6 983	6 917
<i>growth in %</i>	0.9	0.5	-0.2	-1.2	-0.9	-1.0	-1.1	-0.9	-0.9	-0.9
(65 and more)	1 513	1 556	1 599	1 637	1 701	1 768	1 826	1 882	1 939	1 997
<i>growth in %</i>	2.1	2.9	2.7	2.4	3.9	3.9	3.3	3.1	3.0	3.0
Old-age pensioners (January 1)¹⁾	2 061	2 102	2 147	2 260	2 340	2 341	2 340	2 358	2 383	2 406
<i>growth in %</i>	1.8	2.0	2.1	.	3.5	0.1	0.0	0.8	1.0	1.0
Old-age dependency ratios (January 1, in %):										
Demographic ²⁾	20.5	20.9	21.6	22.3	23.4	24.6	25.7	26.7	27.8	28.9
Under current legislation ³⁾	35.9	36.1	36.6	37.4	37.8	38.3	38.8	39.4	40.0	40.5
Effective ⁴⁾	41.5	41.8	43.6	45.9	47.9	47.6	47.2	47.4	47.8	48.2
Fertility rate	1.497	1.492	1.493	1.427	1.452	1.460	1.45	1.45	1.45	1.46
Population increase	86	39	-20	19	11	-4	10	4	2	1
Natural increase	15	11	10	2	0	-2	-3	-5	-7	-9
Live births	120	118	117	109	109	107	104	102	100	98
Deaths	105	107	107	107	108	109	107	107	107	107
Net migration	72	28	16	17	10	-1	13	9	9	9
Immigration	78	40	31	23	30	30	.	.	.	.
Emigration	6	12	15	6	20	31	.	.	.	.
Census difference	x	x	-46	x	x	x	x	x	x	x

Source: Czech Social Security Administration, CZSO, own calculations

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

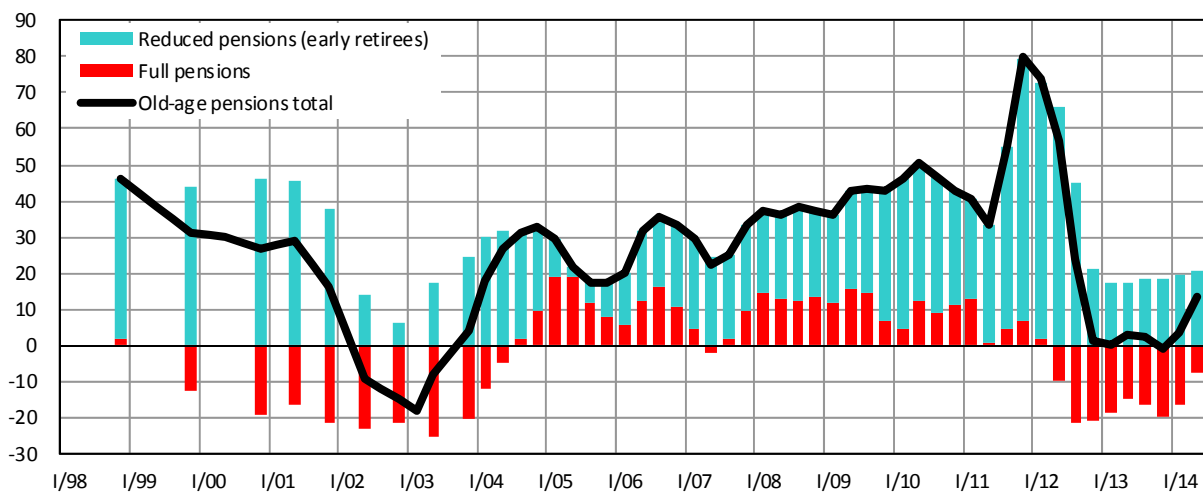
2) Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

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

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

Graph A.5.5: Old-Age Pensioners

absolute increase over a year in thousands of persons



Source: Czech Social Security Administration, CZSO, own calculations

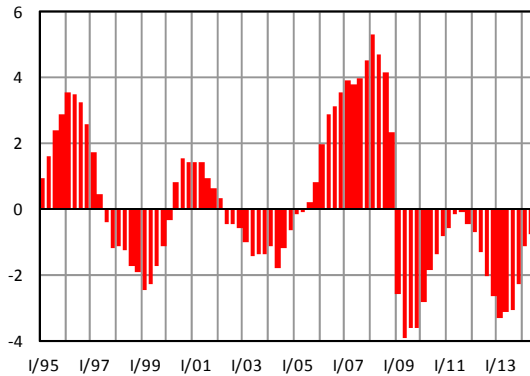
Note: Transfer of disability pensions to old-age pensions for people over 64 years in 2010 is not included.

B Economic Cycle

B.1 Position within the Economic Cycle

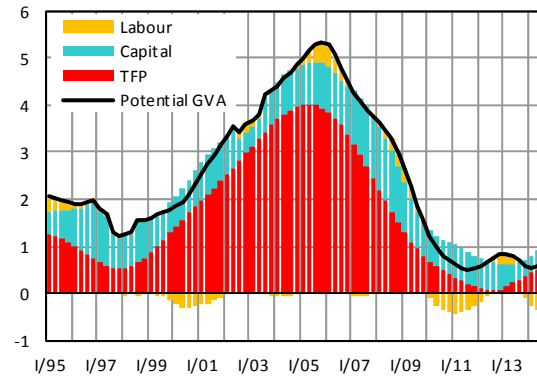
Potential product, specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of economic output to be achieved with average utilization of production factors. Growth of potential product expresses possibilities for long-term sustainable growth of the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

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



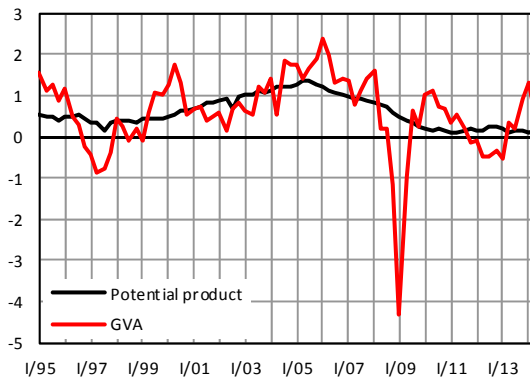
Source: CZSO, own calculations

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



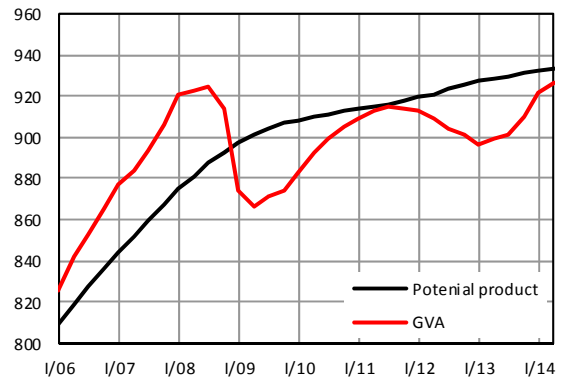
Source: CZSO, own calculations

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



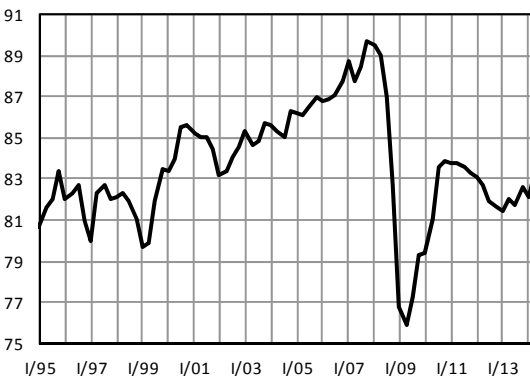
Source: CZSO, own calculations

Graph B.1.4: Levels of Potential Product and GVA
in bill. CZK of 2010



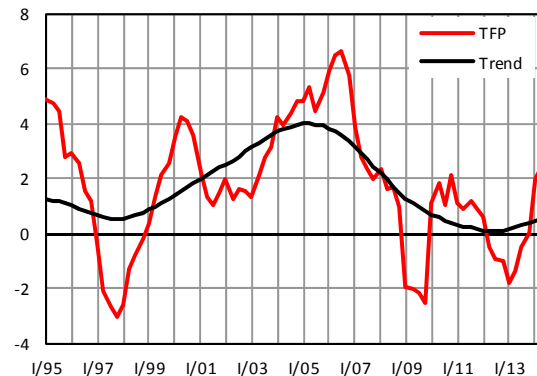
Source: CZSO, own calculations

Graph B.1.5: Capacity Utilisation in Industry
in %



Source: CZSO

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



Source: CZSO, own calculations

Table B.1: Output Gap and Potential Product

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 H1
Output gap	<i>per cent</i>	0.2	2.9	4.1	4.1	-3.4	-1.7	-0.3	-1.7	-3.0	-1.0
Potential product ¹⁾	<i>growth in %</i>	5.2	4.9	4.0	3.3	2.1	0.9	0.5	0.7	0.7	0.6
Contributions:											
–Trend TFP	<i>perc. points</i>	4.0	3.6	2.8	1.9	1.0	0.5	0.2	0.1	0.3	0.5
–Fixed assets	<i>perc. points</i>	0.9	1.0	1.2	1.3	0.9	0.7	0.7	0.6	0.4	0.4
–Demography ²⁾	<i>perc. points</i>	0.2	0.2	0.3	0.3	0.1	-0.2	-0.4	-0.5	-0.5	-0.5
–Participation rate	<i>perc. points</i>	0.2	0.2	-0.2	0.0	0.3	0.2	0.3	0.8	0.9	0.5
–Usually worked hours	<i>perc. points</i>	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3

Source: CZSO, own calculations

1) Based on gross value added

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

The transition to the new national accounts standard ESA 2010 (for more details, see Box C.1) had only a limited impact on the results of the analysis of the business cycle, the course of which remained basically unchanged. In the period from the beginning of 1995 to the first quarter of 2014, the average growth rate of potential product (and also real GVA) decreased from 2.6% to 2.5%, while the average contribution of TFP decreased by 0.2 pp and the contribution of capital stock, in contrast, increased by 0.1 pp. These changes were distributed more or less equally across the whole time series.

Thanks to the recent economic recovery, the negative **output gap** narrowed from –3.3% at the end of the recession in the first quarter of 2013 to –0.8% in the second quarter of 2014 (see Graph B.1.1). So far, the negative output gap has been reflected in the economy by high registered unemployment, below-average capacity utilization and slow growth of prices and wages.

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

The expected development of the output gap is primarily caused by the low growth in **potential product**. Due to long periods of recession or sluggish economic growth, growth of potential product has slowed considerably, and it was 0.6% YoY in the second quarter of 2014.

This slowdown was mainly caused by **total factor productivity**. Its trend component, derived from the Hodrick-Prescott filter, has almost switched to stagnation in 2012. With respect to the end point

problem, however, any apparent signs of improvement at the end of the time series will have to be confirmed in the following periods.

The long-lasting and deep slump in gross fixed capital formation in 2008–2013 has led to a drop in the contribution of **capital stock** from 1.3 pp in 2008 to 0.4 pp in 2013 and in the first half of 2014. Recovery in investment activity from the beginning of 2014 will manifest itself in the contribution of capital stock only with delay.

The **labour supply** is affected by a long-term decrease in the working-age population caused by the population ageing process (see Chapter A.5). In the first half of 2014, **demographic development** slowed potential product growth by 0.5 pp.

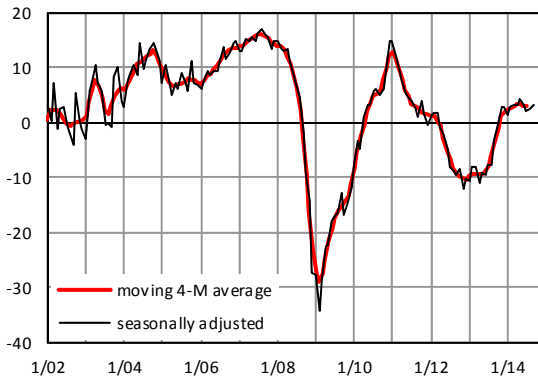
The negative impact of the decline in the population aged 15–64 years on the labour supply is largely compensated by an increase in the **participation rate** (ratio of the labour force to the population aged 15–64 years). Our calculations show that in the long run the rate of participation in the Czech economy has an anti-cyclical character. Therefore, the decrease in its contribution to potential product growth from 0.9 pp in 2013 to 0.5 pp in the second quarter of 2014 reflects the economic cycle development. In the following period, there should not be any further decrease, as the structural factor of the participation rate (increase in the number of inhabitants in the age groups with naturally high participation) should start to prevail.

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

B.2 Business Cycle Indicators

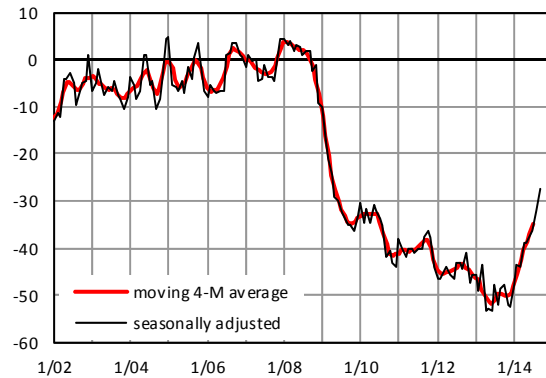
Business cycle indicators express respondents' views as to the current situation and short-term outlook and serve to identify in advance possible turning points in the economic cycle. Their main advantage lies in the quick availability of results reflecting a wide range of influences shaping the expectations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

Graph B.2.1: Industrial Confidence Indicator



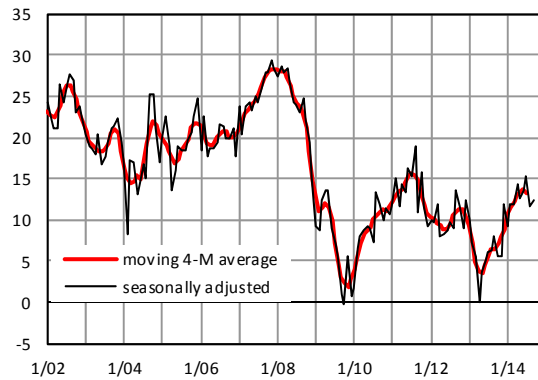
Source: CZSO

Graph B.2.2: Construction Confidence Indicator



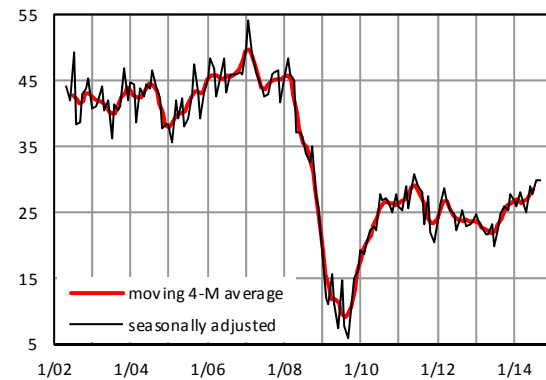
Source: CZSO

Graph B.2.3: Retail Trade Confidence Indicator



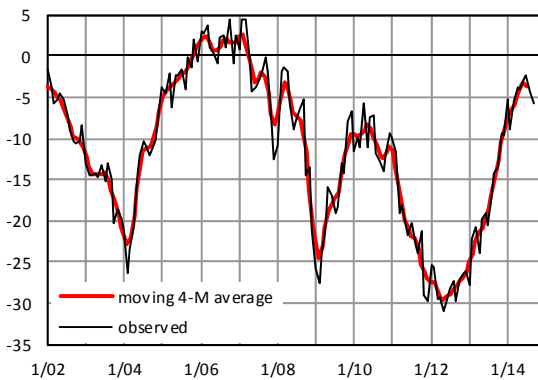
Source: CZSO

Graph B.2.4: Selected Services Confidence Indicator



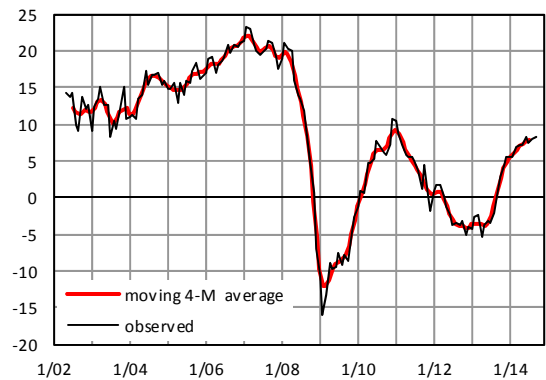
Source: CZSO

Graph B.2.5: Consumer Confidence Indicator



Source: CZSO

Graph B.2.6: Aggregate Confidence Indicator

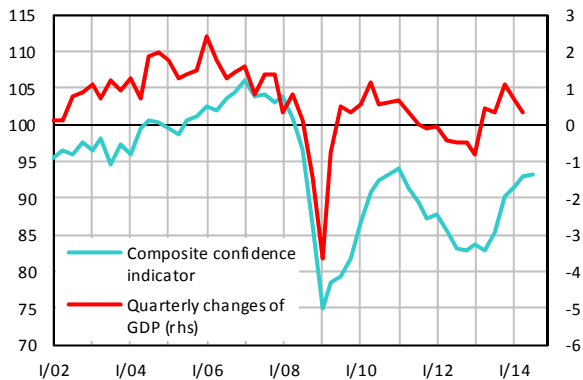


Source: CZSO

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

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

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



Source: CZSO

Information emanating from the business cycle survey analysis is less favourable compared to the July Macroeconomic Forecast.

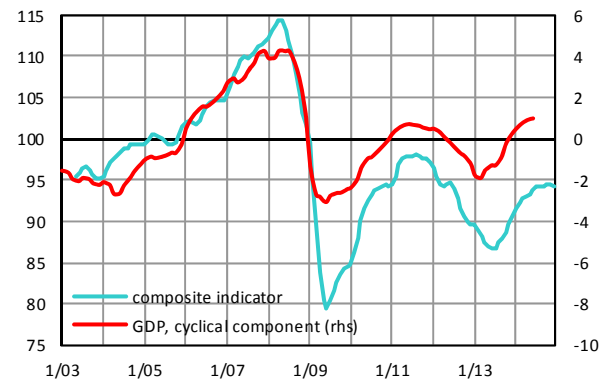
In the period between the second and third quarters of 2014, confidence indicators did not generally show any substantial changes. Confidence indicators stagnated or decreased slightly in industry and trade, although respondents' assessments in both sectors are predominantly positive. On the other hand, construction and selected market services showed a slight increase. In market services, the positive assessments of respondents continue to predominate, while negative assessments continue to far outweigh positive ones in construction.

Consumer sentiment in the aforementioned period deteriorated, meaning respondents' assessments continued to be largely negative. However, with regard to the previous development of the time series, this might be considered for the time being as correction to the long-term growth in the value of the given indicator.

In contrast, the composite and business indicators showed a further slight increase in their values.

Graph B.2.8: Composite Leading Indicator

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



Source: CZSO, own calculations

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

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

The composite leading indicator implied that quarterly GDP growth would be positive and that the relative cyclical component of GDP would improve in the second quarter of 2014, which was confirmed by the released data.

The indicator signals stagnation of the relative cyclical component in the third and fourth quarters of 2014. This is consistent with the quarterly GDP growth rate between the values of the first and second quarters of 2014, taking into account the fact that short-run dynamics of the trend can be regarded as constant and that at present the trend is stagnating.

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

Latest Development of GDP

This forecast is based on the national accounts data published by the CZSO on 1 October 2014. New data already fully correspond to the national accounts methodology ESA 2010 and they also reflect other methodical changes made by the CZSO. Due to changes in the whole historical time series (see Box C.1), the comparison of the estimate from the July Forecast with the actual data is purely formal, and cannot be interpreted in detail in terms of the forecast's success or failure.

In the second quarter of 2014, real GDP increased by 2.5% YoY (*versus 3.0%*). Growth was driven by domestic demand, both investment and final consumption expenditure (of both households and the government sector). In contrast, foreign trade made a negative contribution to GDP growth.

In quarterly terms³, GDP posted an increase of 0.3% (*consistent with the estimate*). Both final consumption expenditure and gross capital formation made a more or less equal contribution to the QoQ growth of GDP. Foreign trade mitigated GDP growth, as the growth of real imports surpassed the growth of real exports.

In the second quarter of 2014, household consumption increased in real terms by 1.5% YoY (*versus 1.7%*). In terms of the structure of household expenditure, growth was driven by expenditure on durable goods and services. Expenditure on non-durable goods saw only moderate growth. We should point out that in connection with the last recession of the Czech economy, this was by far the most affected part of consumption, which indicated that households faced income constraints. In contrast, the tendency to save manifests itself, at least initially, with the postponement of expenditure on durable and semi-durable goods.

Real gross capital formation increased by 9.3% YoY (*versus 5.5%*) in the second quarter of 2014, with growth of gross fixed capital formation reaching 5.6% (*versus 6.0%*). It is obvious from this that there was a sizeable YoY increase in the change of inventories⁴. Gross fixed capital formation grew especially due to

investment in other buildings and structures, other machines and equipment (now also weapon systems), and transport equipment. Investment in dwellings also increased slightly; nevertheless, in the light of how badly they were affected by the last recession, it is difficult to view the situation as a recovery or a turning point.

Real exports increased by 8.1% YoY (*versus 7.2%*) in the second quarter of 2014, while imports increased by 10.5% YoY (*versus 7.2%*). Foreign trade contributed negatively to GDP growth in the second quarter of 2014. However, there was a considerable improvement in the terms of trade, which is why the assessment of trade relations in real and in nominal terms differs. In the second quarter of 2014, real gross domestic income increased by 4.2% YoY (*versus 4.1%*).

In nominal terms, GDP increased by 5.2% YoY (*versus 4.5%*) in the second quarter of 2014.

Looking at the income structure of GDP, compensation of employees increased by 3.0% YoY (*versus 2.3%*) in the second quarter of 2014. Gross operating surplus increased by 7.9% (*versus 7.3%*). The high growth in gross operating surplus is a sign of the growing volume of internal sources for financing investment; relatively high growth in the compensation of employees contributed considerably to growth in gross disposable household income.

GDP Estimate and Forecast

We expect that the growth of investment and private consumption, which signals a pickup in domestic demand, will continue in the remainder of the year. Final consumption expenditure of households should be supported by the ongoing growth of real disposable income, while the effort to draw down as much EU funds from the financial perspective 2007–2013 as possible will have a positive impact on investment activity. The growth of domestic demand should be reflected in the dynamics of imports; growth of exports should be boosted by the subsiding effects of the depreciated koruna that had increased exporters' price competitiveness. Both exports and imports might keep growing at rates similar to those in the second quarter of 2014.

We estimate that real GDP increased by 0.4% QoQ (*unchanged*) in the third quarter of 2014. Both the composite leading indicator and the development of

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

⁴ This holds true for seasonally unadjusted data only. The contribution of the increase in the change of inventories to GDP is only 0.2pp after seasonal adjustment (see Chart C.1.7).

the composite confidence indicator support this estimate. For the fourth quarter of 2014 we forecast only a slight acceleration of quarterly GDP growth. The effect of stockpiling tobacco product tax stamps in connection with another planned increase in excise taxes will not be as pronounced as in the previous years, because new legislation limits the extent of stockpiling.

According to our estimate, real GDP increased by 2.9% YoY (*versus 3.3%*) in the third quarter of 2014. In terms of the composition of GDP by end use, we estimate that in the third quarter of 2014 consumption of households increased by 1.3% (*versus 1.4%*) and government consumption by 1.8% (*versus 2.2%*). Further, we revise the growth of gross fixed capital formation up to 4.7% (*versus 4.0%*). With regard to the estimated development of the economies of our main trading partners in the third quarter of 2014 and the data available for this period, we estimate that real exports increased by 7.3% YoY (*versus 6.6%*) and real imports by 8.3% YoY (*versus 6.5%*).

We forecast real GDP to increase by 2.4% (*versus 2.7%*) in 2014. The main reason for reducing the forecast is the downward revision of economic growth in the previous quarters due to the transition to the new standard ESA 2010. In 2015, we expect GDP to grow by 2.5% (*forecast unchanged*).

We forecast consumption of households to increase by 1.4% (*versus 1.6%*) in 2014. In 2015, we expect it to grow by 1.7% (*versus 1.4%*). The changes to the forecast are related partly to the revision of the time series for household consumption, and in 2015 mainly to the expected higher growth in real compensation of employees. We also expect a slight decrease in the households' gross savings rate due to the lower uncertainty perceived by households.

We expect government consumption to grow by 1.9% (*forecast unchanged*) in 2014 and by 2.0% (*versus 1.6%*) in 2015. We are increasing the forecast for growth of government consumption in 2015 due to relatively higher intermediate consumption and social benefits in kind.

Drawdown of money from the EU funds, faster growth of domestic demand as well as increasing internal sources for financing investment should all be reflected in the growth of real gross fixed capital formation of 4.5% (*versus 4.1%*) in 2014 and 4.9% (*versus 3.5%*) in 2015. The relatively high increase in the forecast for 2015 reflects updated information on the distribution of project financing from the EU funds, especially within the financial perspective 2007–2013. The impact of the lease of the JAS 39 Gripen jet fighters is also significant.

The contribution of the foreign trade balance to the growth of real GDP should be approximately zero in 2014 and 2015. We forecast real exports to grow by 8.3% (*versus 7.4%*) and real imports by 9.1% (*versus 7.2%*) in 2014. In 2015, we expect real exports to increase by 5.4% (*versus 4.8%*) and imports by 5.9% (*versus 4.7%*). The change to the forecast is partly given by the revision of the time series. Moreover, exports are affected by the downward revision to the forecast of growth of economies of the main trading partners and subsiding of the effects of depreciated koruna. In addition, the upward revision to the forecast of domestic demand growth impacts on imports.

Nominal GDP could increase by 4.8% (*versus 4.6%*) in 2014; for 2015 we predict its growth to slow down to 4.3% (*versus 3.8%*). The change to the forecast for 2015 is explained by a revision to the forecast of the terms of trade.

Box C.1: Revision of national accounts in connection with the transition to the ESA 2010 system of national accounts

On 1 October 2014, the Czech Statistical Office published a revised time series for the annual national accounts, primarily because of the transition to the new ESA 2010 system of national accounts. The CZSO describes these changes in detail on its website, together with other voluntary modifications affecting data sources or evaluation methods. In this box, we provide information on the differences between the annual data from national accounts based on ESA 2010 and the data that were up to date at the end of September and compiled according to the ESA 1995 system of national accounts. We are only concentrating on GDP and expenditure components at the following three levels: nominal level, real growth and growth of deflators. The information is summarized in Tables 1 to 3.

The level of nominal GDP increased considerably across the whole time series, which has mainly to do with the fact that expenditure on research and development as well as other military expenditure are now classified as gross fixed capital formation. Moreover, the lower limit on the classification of expenditure on small tools as gross fixed capital formation was abolished. As regards household consumption, this mainly involves an expansion of the term "housing fund" and the resulting additional consumption of housing services. In the aforementioned period, exports and imports increased

more or less equivalently due to the new accounting treatment of the so-called “merchandising”. The impact on the resulting balance of foreign trade has been minimal.

Table 1: **GDP and expenditure components – nominal levels**

		2008	2009	2010	2011	2012	2013
GDP	<i>ESA 1995, bill. CZK</i>	3 848	3 759	3 791	3 823	3 846	3 884
	<i>ESA 2010, bill. CZK</i>	4 015	3 922	3 954	4 022	4 048	4 086
	<i>difference in bill. CZK</i>	167	163	163	199	202	202
Private consumption	<i>ESA 1995, bill. CZK</i>	1 857	1 874	1 889	1 908	1 916	1 940
	<i>ESA 2010, bill. CZK</i>	1 887	1 891	1 920	1 957	1 970	1 999
	<i>difference in bill. CZK</i>	30	16	31	49	54	59
Government consumption	<i>ESA 1995, bill. CZK</i>	759	809	807	793	789	802
	<i>ESA 2010, bill. CZK</i>	766	812	810	792	783	802
	<i>difference in bill. CZK</i>	6	2	2	0	-5	0
Gross capital formation	<i>ESA 1995, bill. CZK</i>	1 114	896	940	937	898	865
	<i>ESA 2010, bill. CZK</i>	1 249	1 040	1 074	1 088	1 066	1 022
	<i>difference in bill. CZK</i>	136	143	135	151	169	157
Exports of goods and services	<i>ESA 1995, bill. CZK</i>	2 480	2 216	2 524	2 787	3 001	3 053
	<i>ESA 2010, bill. CZK</i>	2 544	2 307	2 616	2 881	3 098	3 155
	<i>difference in bill. CZK</i>	64	91	92	94	97	102
Imports of goods and services	<i>ESA 1995, bill. CZK</i>	2 388	2 064	2 397	2 628	2 786	2 806
	<i>ESA 2010, bill. CZK</i>	2 457	2 154	2 494	2 722	2 897	2 919
	<i>difference in bill. CZK</i>	69	90	97	94	112	113
Foreign trade balance	<i>ESA 1995, bill. CZK</i>	92	152	127	159	215	247
	<i>ESA 2010, bill. CZK</i>	87	152	123	159	200	235
	<i>difference in bill. CZK</i>	-5	1	-5	0	-15	-11

When it comes to the significant moments as regards the development of the Czech economy over the last 7 years, the revision of national accounts has slightly changed the view of the economic development in the recession which the economy entered in the fourth quarter of 2008 and from which it emerged at the end of the first half of 2009. According to the new data, the economic decline in 2009 was 0.3 pp (–4.8%) deeper. The role of domestic demand was stronger in this process: household consumption actually decreased, and did not increase, as the earlier data had indicated; on the other hand, the decline in gross fixed capital formation, although still very strong, was slightly lower compared to the original data. Foreign trade mitigated the decline in GDP slightly more than was first calculated. The other recession, through which the economy went over the last 7 years, lasted from the fourth quarter of 2011 to the first quarter of 2013. According to the current data, the decrease in GDP in 2012 was in fact slightly lower, as was the decrease in consumption and gross capital formation. The foreign trade balance in that year mitigated the GDP decline relatively less. The recovery in 2013 was stronger due to the smaller negative contribution of foreign trade to GDP growth – current data show foreign trade to have been neutral towards GDP growth in 2013.

As to the development of deflators, the considerable increase in GDP deflator growth in 2011 is worth noticing. This was due to an increase in deflators for household consumption and gross capital formation. In the whole period, there were minimal changes in the development of terms of trade, which are a result of export and import deflators. Changes in these deflators were also minor in scope; moreover, considering the terms of trade, they had the tendency to compensate each other.

Table 2: GDP and expenditure components – YoY real growth rates

		2008	2009	2010	2011	2012	2013
GDP	<i>ESA 1995, growth in %</i>	3.1	-4.5	2.5	1.8	-1.0	-0.9
	<i>ESA 2010, growth in %</i>	2.7	-4.8	2.3	2.0	-0.8	-0.7
	<i>difference in pp</i>	-0.4	-0.3	-0.2	0.1	0.2	0.2
Private consumption	<i>ESA 1995, growth in %</i>	3.0	0.2	1.0	0.5	-2.2	0.1
	<i>ESA 2010, growth in %</i>	2.9	-0.7	1.0	0.2	-1.8	0.4
	<i>difference in pp</i>	-0.1	-0.8	0.1	-0.3	0.4	0.3
Government consumption	<i>ESA 1995, growth in %</i>	1.2	4.0	0.2	-2.7	-1.9	1.6
	<i>ESA 2010, growth in %</i>	1.1	3.0	0.4	-2.9	-1.0	2.3
	<i>difference in pp</i>	0.0	-1.0	0.2	-0.2	0.9	0.7
Gross capital formation	<i>ESA 1995, growth in %</i>	1.9	-20.2	5.4	0.8	-5.0	-4.4
	<i>ESA 2010, growth in %</i>	1.2	-18.1	4.4	1.9	-3.7	-5.1
	<i>difference in pp</i>	-0.8	2.2	-1.0	1.0	1.3	-0.7
Exports of goods and services	<i>ESA 1995, growth in %</i>	4.0	-10.9	15.4	9.5	4.5	0.2
	<i>ESA 2010, growth in %</i>	4.2	-9.8	14.8	9.3	4.1	0.3
	<i>difference in pp</i>	0.3	1.1	-0.6	-0.2	-0.4	0.1
Imports of goods and services	<i>ESA 1995, growth in %</i>	2.7	-12.1	15.4	7.0	2.3	0.6
	<i>ESA 2010, growth in %</i>	3.2	-11.0	14.9	6.7	2.4	0.3
	<i>difference in pp</i>	0.5	1.0	-0.5	-0.3	0.2	-0.3

Table 3: GDP and expenditure components – YoY growth rates of deflators

		2008	2009	2010	2011	2012	2013
GDP	<i>ESA 1995, growth in %</i>	1.9	2.3	-1.6	-0.9	1.6	1.9
	<i>ESA 2010, growth in %</i>	2.0	2.6	-1.5	-0.2	1.4	1.7
	<i>difference in pp</i>	0.1	0.4	0.1	0.7	-0.2	-0.3
Private consumption	<i>ESA 1995, growth in %</i>	4.8	0.8	-0.2	0.5	2.7	1.2
	<i>ESA 2010, growth in %</i>	4.8	0.9	0.5	1.7	2.6	1.1
	<i>difference in pp</i>	0.0	0.1	0.7	1.2	-0.1	-0.1
Government consumption	<i>ESA 1995, growth in %</i>	3.4	2.5	-0.5	0.9	1.5	0.1
	<i>ESA 2010, growth in %</i>	3.5	2.9	-0.6	0.8	-0.1	0.1
	<i>difference in pp</i>	0.0	0.5	-0.2	-0.1	-1.6	0.0
Gross capital formation	<i>ESA 1995, growth in %</i>	0.1	0.9	-0.6	-1.1	0.8	0.9
	<i>ESA 2010, growth in %</i>	0.3	1.6	-1.1	-0.6	1.8	1.1
	<i>difference in pp</i>	0.2	0.7	-0.5	0.5	1.0	0.2
Exports of goods and services	<i>ESA 1995, growth in %</i>	-4.5	0.3	-1.3	0.8	3.1	1.6
	<i>ESA 2010, growth in %</i>	-4.3	0.5	-1.2	0.7	3.3	1.6
	<i>difference in pp</i>	0.2	0.3	0.1	-0.1	0.2	0.0
Imports of goods and services	<i>ESA 1995, growth in %</i>	-3.1	-1.7	0.6	2.5	3.6	0.1
	<i>ESA 2010, growth in %</i>	-3.1	-1.5	0.8	2.3	3.9	0.5
	<i>difference in pp</i>	0.1	0.2	0.1	-0.2	0.3	0.3
Terms of trade	<i>ESA 1995, growth in %</i>	-1.4	2.0	-1.9	-1.6	-0.5	1.4
	<i>ESA 2010, growth in %</i>	-1.3	2.0	-2.0	-1.5	-0.6	1.1
	<i>difference in pp</i>	0.2	0.0	0.0	0.1	0.0	-0.3

C.2 Prices

Consumer Prices

Year on year growth in consumer prices has been very low this year. In August it reached only 0.6% (*versus* 0.7%), of which 0.1 pp could be attributed to an increase in the excise tax on cigarettes and –0.4 pp to regulated prices, where a decrease in the price of electricity had the greatest impact.

As for the contributions of individual divisions of the consumer basket to YoY inflation, in August 2014 the largest contribution made the divisions *food and non-alcoholic beverages* and *alcoholic beverages, tobacco* (0.2 pp each), the smallest contribution the division *housing* (–0.2 pp).

The prediction that YoY inflation would not slow any more in the second quarter of 2014 was confirmed. For the third quarter of 2014, we are still forecasting its acceleration, which should also continue in the fourth quarter of 2014.

In spite of the weakening of the koruna due to the CNB's foreign exchange interventions, the year **2014** should be characterized by very low average inflation; it is likely to be the second lowest in the history of the independent Czech Republic, behind the year 2003. It is clear from Graph C.2.2 that very low inflation will be maintained due to the extraordinary development of administrative measures, the contribution of which to the YoY growth of consumer prices in December 2014 should be –0.2 pp (*versus* –0.3 pp).

The weakened koruna is likely to be the only significant pro-inflationary factor in 2014. In contrast, the still negative output gap does not allow growing demand to be more clearly reflected in prices. Despite the very loose monetary policy, both in the exchange rate and interest rate components, the **average inflation rate in 2014** should reach only 0.5% (*versus* 0.6%), with a YoY increase in prices of 1.0% (*versus* 1.4%) in December 2014.

In **2015**, several administrative measures should be reflected in consumer prices. The increase in the excise tax on cigarettes (contribution of 0.2 pp) will have an upward impact on price levels, whereas the introduction of the second reduced VAT rate of 10% on drugs, books and essential infant nutrition (–0.1 pp) and the abolition of selected fees in healthcare (–0.2 pp) will have a downward impact. Within the group of regulated prices, electricity prices should fall, although not as significantly as in 2014 (the expected

contribution is –0.1 pp compared to –0.4 pp in 2014). On average, regulated prices should stagnate in 2015.

Barriers preventing growing demand from being reflected in prices should gradually disappear in 2015, while inflation should be slightly boosted by a growth in unit labour costs (Table C.3.3). Unlike this year, the CZK/EUR exchange rate should tend to have a neutral impact on inflation. Similarly as in 2014, according to the forecast assumptions, the dollar crude oil price should be a slightly anti-inflationary factor.

In 2015, we expect YoY inflation to be in the lower half of the tolerance band of the 2% target of the CNB. **In 2015, the average inflation rate** could reach 1.5% (*versus* 1.7%), with a YoY increase in consumer prices of 1.6% (*versus* 1.8%) in December.

Deflators

The gross domestic expenditure deflator, which is a comprehensive indicator of domestic inflation, grew by 0.8% YoY (*versus* 0.1%) in the second quarter of 2014. In terms of its structure, this growth primarily resulted from an increase in the final consumption expenditure deflator, mainly the government consumption deflator. The growth of the gross (fixed) capital formation deflator also contributed to its rise. The factors underlying the development of the household consumption deflator are identical to those we mentioned above when analysing the development of the consumer price index. Growth of the gross fixed capital formation deflator as well as the household consumption deflator was influenced, to a certain extent, by the CNB's intervention in the form of the depreciation of the Czech koruna.

Terms of trade increased by 2.2% (*versus* 1.4%) in the second quarter of 2014. Terms of trade were also influenced by the depreciation of the Czech koruna.

The implicit GDP deflator, which is a result of the gross domestic expenditure deflator and the terms of trade, increased by 2.7% YoY (*versus* 1.5%) in the second quarter of 2014.

We forecast the gross domestic expenditure deflator to grow by 0.8% (*versus* 0.7%) in 2014 and by 1.1% (*unchanged*) in 2015. The terms of trade will probably grow by 1.8% (*versus* 1.1%) in 2014; for 2015 we expect growth of 0.9% (*versus* 0.3%).

In relation to these values, we forecast the implicit GDP deflator to grow by 2.4% (*versus* 1.8%) in 2014 and by 1.8% (*versus* 1.3%) in 2015.

C.3 Labour Market

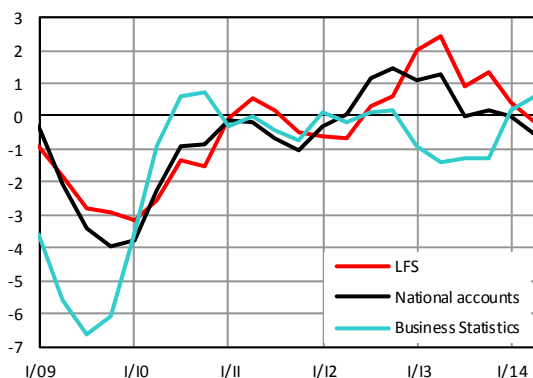
Employment according to the LFS was still behaving somewhat anomalously in the first half of 2014. Although its YoY growth continued, it was for the largest part due to an increase in the number of entrepreneurs. Such development neither corresponds to behaviour typical for a period of recovery nor to the business statistics. Unemployment according to the LFS continued to decline more significantly than registered unemployment, which was no surprise. Wage growth was also consistent with the recovery and with an increase in bonuses as well as the number of full-time jobs.

Employment

According to the LFS, **employment** grew by 0.2% YoY (*versus 0.3%*) in the second quarter of 2014, mainly due to an increase of 2.2% (*versus 1.2%*) in the number of persons in the category of entrepreneurs, while the number of employees decreased by 0.2% (*versus growth of 0.1%*).

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

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



Source: CZSO

In annual terms, the share of part-time jobs decreased slightly again in the second quarter of 2014. The increasing demand for labour resulted in the extension of regular working time and increase in overtime work. However, considering the repeated increase in the number of economically inactive persons caring for family members, neither can we exclude the decline in short-time working opportunities mainly for women aged 25–49 years. However, the rising number of own-account workers provides evidence that labour supply is still elevated since households want to secure extra income.

Considering that the change in the GDP growth forecast is only negligible, the forecast for employment development also remains virtually unchanged.

Employment could increase by 0.4% (*versus 0.5%*) in 2014 and by 0.3% (*versus 0.2%*) in 2015.

Since mid-2010, **the employment rate** of the population aged 15–64 has been showing continuous growth. In the second quarter of 2014, it increased by 0.9 pp YoY (*in line with the estimate*), while the forecast reflected both demographic development and employment.

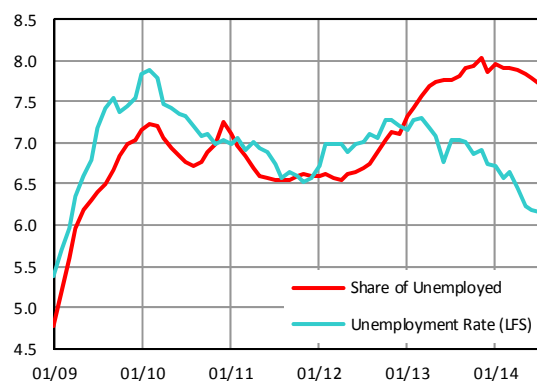
The **economic activity rate** (15–64 year-olds) grew by 0.4 pp YoY in the second quarter of 2014 (*versus 0.5 pp*). YoY increases in the rate of participation have been slowing gradually since the turn of 2012 and 2013, while in the second quarter of 2014 the seasonally adjusted rate of participation already decreased from the previous quarter. This could reflect the counter-cyclical (over the long term) character of participation in the Czech economy. In the forecast horizon, however, we expect a trend increase in the economic activity rate in the category of the 15–64 year-olds, due to changes in the demographic structure and the increasing statutory retirement age.

Unemployment

Compared to other EU states, the unemployment rate (LFS) in the Czech Republic is still one of the lowest. Nevertheless, the number of job applicants registered at labour offices at the beginning of 2014 has reached its highest level in the Czech Republic's history. With the expected continuous decrease in the number of registered unemployed in 2014, only stagnation or a very slight decrease in their number can be expected in annual terms.

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

seasonally adjusted data, in %



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

The discrepancy between the LFS and registered unemployment (also apparent in the long-term unemployment figures) results from the fact that current legislation tolerates limited extra income during the registered form of unemployment, while the definition of unemployed persons according to the LFS excludes any remunerated work. In addition, registration at labour offices is a condition for being granted a range of social benefits.

The unemployment rate according to the LFS could reach 6.3% (versus 6.4%) on average in 2014, for 2015 we are not changing the forecast of 6.1%.

Wages

The relatively high increase in the wage bill and the average wage in the first half of 2014 should also continue in 2015, thanks to the pickup of the Czech economy, increasing real labour productivity and growing wage bill in the state administration.

In annual terms, the wage bill (national accounts methodology, domestic concept) again posted a considerable increase of 3.0% (versus 2.3%) in the second quarter of 2014. Comparison between the estimate and actual figures, however, is significantly limited by the transition to the ESA 2010 system of national accounts. In terms of sectoral structure, growth in the second quarter of 2014 was more or less balanced; another decrease in the wage bill was only evident in construction, where the wage bill has now been in decline since the fourth quarter of 2010. The uninterrupted decrease in the number of employees in this sector has had a considerable impact.

C.4 External Relations

(balance of payments methodology)

Chapter C.4 is based on the data valid until the introduction of new statistical standards according to the sixth edition of the Balance of Payments Manual (BPM6) in October 2014. This modification has resulted in considerable changes in the balance of the current and financial accounts, including their structure and the revision of data for the past. This chapter, in particular the tables, doesn't correspond to the new statistical data published in the period between the cut-off date and the publication of this Macroeconomic Forecast.

In annual sums, the current account of the balance of payments was -0.3% of GDP (*versus +0.2%*) in the second quarter of 2014, thus reaching an almost balanced level. A YoY improvement of the current account balance of 1.6 pp was mainly due to an increase in the surplus of the foreign trade balance of 0.9 pp and the surplus of the balance of current transfers of 0.7 pp. In contrast, the surplus of the

The positive development of the wage bill in the first half of 2014, however, will probably be compensated in the short run by a lower increase in the third quarter of 2014, which is suggested by a relatively weak wage increases in industry in July and August. On the other hand, a positive factor might be the stabilization in the proportion of part-time jobs, the hourly remuneration of which could be relatively lower in the current situation compared to standard forms of employment. In 2014, the wage bill could increase by 2.9% (*versus 2.8%*).

The improving situation in the private sector and the increase in the wage bill in state administration will have a positive impact on the increase in the wage bill in 2015. Compared to the last forecast, however, this increase will be mitigated by slightly lower than expected inflation. For 2015, we expect the wage bill to grow by 3.9% (*versus 3.8%*).

The average wage (business statistics, full-time equivalent) increased by 2.3% (*versus 2.2%*) in the second quarter of 2014, with both the business and non-business spheres contributing positively to this result. As far as sectors are concerned, manufacturing posted one of the highest increases - 3.0%. Further, a positive signal is the relatively solid growth in the median wage of 2.0%. The median wage increased by only 0.9% in 2013, the acceleration of its growth rate could impact positively on household consumption (households with lower incomes tend to have higher propensity to consume). For similar reasons as those affecting the wage bill, we expect the average wage to grow by 2.6% in 2014 (*versus 2.7%*) and by 3.8% in 2015 (*versus 3.7%*).

balance of services fell by 0.1 pp. The income balance deficit stagnated.

The YoY growth of export markets⁵, which gradually accelerated from the second quarter of 2013, slightly slowed in the second quarter of 2014 compared to the first quarter of 2014, slipping to 5.6% (*versus 6.2%*). Considering the less favourable outlook for the development of the external environment, we expect the slowdown in export market growth to continue throughout the whole forecast horizon. Export markets could increase by 5.2% (*versus 5.7%*) on average in 2014 and by 3.4% (*versus 3.6%*) in 2015.

⁵ *Weighted average of growth in imports of goods from the six most important trading partners (Germany, Slovakia, Poland, France, United Kingdom, and Austria)*

Export performance, which indicates a change in the share of the volume of Czech goods on foreign markets, should increase by 3.7% (*versus 2.4%*) in 2014, with its growth decelerate to 2.2% (*versus 1.4%*) in 2015. The improved price competitiveness of Czech exporters caused by the weaker exchange rate of the Czech koruna should have a positive impact on export performance.

Solid growth of foreign trade observed in the last quarter of 2013 continued at the beginning of the year. However, the relatively high growth rates of exports and imports were also influenced by a lower statistical base. The weaker exchange rate of the Czech koruna was also reflected by an increase in the trade balance surplus. It has also manifested itself in an increase in the koruna prices of exports and imports, with export prices increasing more quickly than import prices. The terms of trade have thus been improving since the beginning of 2013, contributing positively to the results of foreign trade. However, we expect the impact of the current loss of international trade growth dynamics to be reflected soon in a lower growth of Czech foreign trade. The surplus of the trade balance could reach 5.5% of GDP (*versus 6.0%*) in 2014 and could increase further to 6.0% of GDP (*versus 6.5%*) in 2015.

In annual terms, the deficit in the fuel balance (SITC 3) reached 4.7% of GDP (*versus 5.0%*) in the second quarter of 2014. With regard to the expected scenario for crude oil prices and the development of the koruna exchange rate, we assume that the deficit in the fuel balance will roughly stagnate in the course of 2014 and slightly decrease in 2015. It should reach 4.6% of GDP (*versus 5.0%*) in 2014 and 4.4% of GDP (*versus 4.7%*) in 2015.

For nearly four years, imports of services (on an annual basis) have been increasing at a higher pace than

exports of services, and the surplus of the balance of services has thus been decreasing in annual terms. Considering the fact that changes in the balance of transport services and tourism have been minor, the extremely volatile item of “other services” has recently been having the biggest impact on the total balance of services. In the second quarter of 2014, the revenue and expenditure of all items of the balance of services increased in annual terms, except for the purchase of so-called other services. The surplus of the balance of services has decreased by 0.1 pp YoY to 1.3% of GDP (*versus 1.5%*), with the most significant factor here being the stronger growth of expenditure compared to revenue from tourism. We expect the surplus of the balance of services to stagnate at this level in 2014 and 2015 (*in both years versus 1.5%*).

In annual terms, the deficit in the income balance, which comprises reinvested and repatriated earnings of foreign investors, decreased by 0.1 pp YoY to 7.6% of GDP (*versus 7.5%*) in the second quarter of 2014, although compared to the first quarter of 2014 the deficit in the income balance deepened. The decrease in the deficit in the first quarter of 2014 was caused by the postponement of payments of dividends from direct foreign investments until the second quarter of 2014, and therefore we consider it a one-off decrease. The trend of a gradual deepening of the deficit in the income balance should continue in future. The income balance could show a deficit of 7.6% of GDP (*unchanged*) in 2014 and 7.8% of GDP (*versus 8.2%*) in 2015.

Under the given circumstances, we assume that the current account will be balanced (*versus +0.4% of GDP*) in 2014. The current account of the balance of payments could show a negligible deficit of 0.3% of GDP (*versus 0.0%*) in 2015.

C.5 International Comparisons

In connection with the transition to the new ESA 2010 European standard of national accounts, data sources necessary for carrying out international comparisons were not available as of the cut-off date for the forecast. Therefore, on this particular occasion the chapter ‘International Comparisons’ is not included in the Macroeconomic Forecast.

D Monitoring of Other Institutions' Forecasts

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

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

Table D.1: Consensus Forecast

		September 2014			October 2014
		min.	max.	consensus	MoF forecast
Gross domestic product (2014)	growth in %, const.pr.	1.2	2.9	2.4	2.4
Gross domestic product (2015)	growth in %, const.pr.	2.4	3.3	2.6	2.5
Average inflation rate (2014)	%	0.1	0.8	0.5	0.5
Average inflation rate (2015)	%	1.0	2.2	1.9	1.5
Average monthly wage (2014)	growth in %	2.3	2.7	2.5	2.6
Average monthly wage (2015)	growth in %	3.1	4.6	3.7	3.8
Current account / GDP (2014)	%	-1.5	0.5	-0.2	0.0
Current account / GDP (2015)	%	-1.4	0.3	-0.3	-0.3

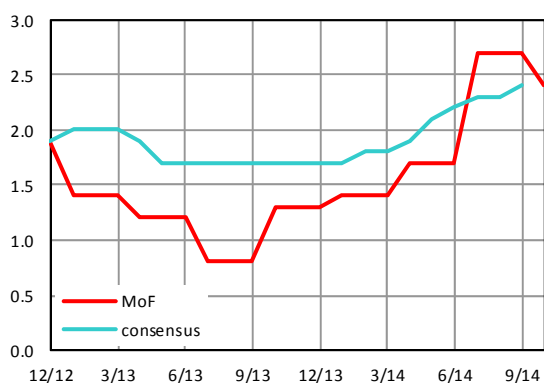
Source: forecasts of individual institutions, own calculations

On average, the forecasts of the monitored institutions envisage gradual economic recovery in 2014 and 2015. GDP growth could reach 2.4% in 2014 and 2.6% in the following year. The MoF's forecast is in line with both estimates.

According to the forecasts of these institutions, consumer price growth should slow to 0.5% in 2014 and accelerate to 1.9% in 2015. The MoF's forecast is slightly more conservative for 2015.

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

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



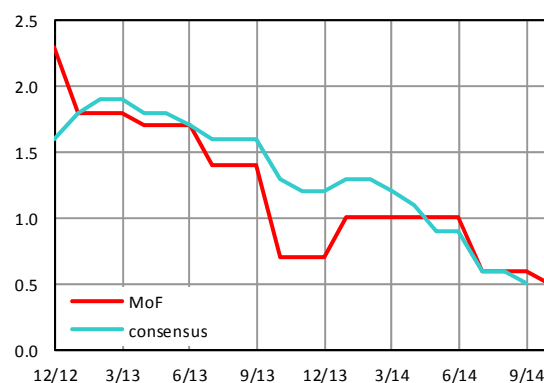
Source: forecasts of individual institutions, own calculations

In 2014 and 2015, according to the forecasts of the monitored institutions, the average wage should increase by 2.5% and 3.7%, respectively. The MoF's forecast is in line with both estimates.

According to the opinion of the monitored institutions, the deficit on the current account of the balance of payments should be around -0.2% of GDP in 2014 and 2015. The MoF in its forecast also expects an approximately balanced current account in both years.

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

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



Source: forecasts of individual institutions, own calculations

Tables and Graphs:

C.1 Economic Output

Table C.1.1: Real GDP by Type of Expenditure – yearly
 chained volumes, reference year 2010

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK 2010</i>	4 062	3 865	3 954	4 031	3 999	3 971	4 066	4 166	4 272	4 377
	<i>growth in %</i>	2.7	-4.8	2.3	2.0	-0.8	-0.7	2.4	2.5	2.5	2.5
Private consumption exp.¹⁾	<i>bill. CZK 2010</i>	1 940	1 928	1 947	1 952	1 917	1 925	1 951	1 985	2 022	2 061
	<i>growth in %</i>	2.9	-0.7	1.0	0.2	-1.8	0.4	1.4	1.7	1.9	1.9
Government consumption exp.	<i>bill. CZK 2010</i>	783	807	810	786	778	796	811	827	838	847
	<i>growth in %</i>	1.1	3.0	0.4	-2.9	-1.0	2.3	1.9	2.0	1.3	1.1
Gross capital formation	<i>bill. CZK 2010</i>	1 256	1 029	1 074	1 094	1 053	1 000	1 059	1 109	1 147	1 184
	<i>growth in %</i>	1.2	-18.1	4.4	1.9	-3.7	-5.1	5.9	4.7	3.4	3.3
– Gross fixed capital formation	<i>bill. CZK 2010</i>	1 170	1 052	1 066	1 077	1 046	1 000	1 045	1 096	1 132	1 169
	<i>growth in %</i>	2.5	-10.1	1.3	1.1	-2.9	-4.4	4.5	4.9	3.3	3.2
– Change in stocks and valuables	<i>bill. CZK 2010</i>	86	-23	8	17	8	0	14	13	14	16
Exports of goods and services	<i>bill. CZK 2010</i>	2 527	2 278	2 616	2 860	2 977	2 986	3 233	3 409	3 584	3 757
	<i>growth in %</i>	4.2	-9.8	14.8	9.3	4.1	0.3	8.3	5.4	5.1	4.8
Imports of goods and services	<i>bill. CZK 2010</i>	2 439	2 171	2 494	2 661	2 726	2 734	2 984	3 160	3 317	3 471
	<i>growth in %</i>	3.2	-11.0	14.9	6.7	2.4	0.3	9.1	5.9	5.0	4.7
Gross domestic exp.	<i>bill. CZK 2010</i>	3 981	3 763	3 831	3 832	3 749	3 721	3 821	3 921	4 007	4 092
	<i>growth in %</i>	2.0	-5.5	1.8	0.0	-2.2	-0.7	2.7	2.6	2.2	2.1
Methodological discrepancy²⁾	<i>bill. CZK 2010</i>	-5	-6	0	0	-1	-1	-4	-4	-2	-1
Real gross domestic income	<i>bill. CZK 2010</i>	4 066	3 915	3 954	3 988	3 940	3 943	4 094	4 225	4 332	4 439
	<i>growth in %</i>	1.8	-3.7	1.0	0.9	-1.2	0.1	3.8	3.2	2.5	2.5
Contribution to GDP growth³⁾											
– Gross domestic expenditure	<i>percent. points</i>	1.9	-5.4	1.7	0.0	-2.1	-0.7	2.5	2.4	2.0	2.0
– consumption	<i>percent. points</i>	1.6	0.3	0.6	-0.5	-1.1	0.6	1.1	1.2	1.2	1.1
– household expenditure	<i>percent. points</i>	1.3	-0.3	0.5	0.1	-0.9	0.2	0.7	0.8	0.9	0.9
– government expenditure	<i>percent. points</i>	0.2	0.6	0.1	-0.6	-0.2	0.4	0.4	0.4	0.2	0.2
– gross capital formation	<i>percent. points</i>	0.4	-5.6	1.2	0.5	-1.0	-1.3	1.5	1.2	0.9	0.9
– gross fixed capital formation	<i>percent. points</i>	0.8	-2.9	0.4	0.3	-0.8	-1.1	1.1	1.2	0.8	0.8
– change in stocks	<i>percent. points</i>	-0.4	-2.7	0.8	0.2	-0.2	-0.2	0.4	0.0	0.0	0.0
– Foreign balance	<i>percent. points</i>	0.8	0.5	0.5	1.9	1.3	0.0	-0.1	0.0	0.5	0.5
– external balance of goods	<i>percent. points</i>	0.9	0.6	0.8	2.0	1.4	0.1	-0.1	0.0	0.4	0.4
– external balance of services	<i>percent. points</i>	-0.1	-0.1	-0.3	-0.1	-0.1	-0.1	-0.1	0.1	0.1	0.1
Gross value added	<i>bill. CZK 2010</i>	3 685	3 483	3 583	3 654	3 627	3 606	.	.	.	.
	<i>growth in %</i>	3.6	-5.5	2.9	2.0	-0.7	-0.6	.	.	.	.
Net taxes on products	<i>bill. CZK 2010</i>	377	384	371	378	371	365	.	.	.	.

Source: CZSO, own calculations

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

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

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

Table C.1.2: Real GDP by Type of Expenditure – quarterly
 chained volumes, reference year 2010

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK 2010</i>	926	993	1 010	1 041	950	1 018	1 040	1 058
	<i>growth in %</i>	-2.7	-1.4	0.3	0.8	2.6	2.5	2.9	1.6
	<i>growth in % ¹⁾</i>	-2.2	-1.3	-0.5	1.1	2.6	2.5	2.5	2.0
	<i>quart.growth in % ¹⁾</i>	-0.8	0.5	0.4	1.1	0.6	0.3	0.4	0.6
Private consumption exp. ²⁾	<i>bill. CZK 2010</i>	455	479	491	499	458	486	498	509
	<i>growth in %</i>	-1.2	0.1	1.5	1.1	0.8	1.5	1.3	1.9
Government consumption exp.	<i>bill. CZK 2010</i>	185	192	196	222	188	198	199	226
	<i>growth in %</i>	0.9	1.3	3.4	3.4	1.4	2.6	1.8	1.8
Gross capital formation	<i>bill. CZK 2010</i>	210	238	274	278	215	261	298	286
	<i>growth in %</i>	-7.9	-11.3	-1.4	-0.6	2.5	9.3	8.8	2.8
– Gross fixed capital formation	<i>bill. CZK 2010</i>	224	237	255	283	230	251	267	297
	<i>growth in %</i>	-7.5	-7.4	-2.4	-0.9	2.6	5.6	4.7	4.9
– Change in stocks and valuables	<i>bill. CZK 2010</i>	-15	1	19	-5	-15	10	31	-11
Exports of goods and services	<i>bill. CZK 2010</i>	712	747	741	785	794	808	795	837
	<i>growth in %</i>	-6.2	0.2	2.7	4.5	11.4	8.1	7.3	6.5
Imports of goods and services	<i>bill. CZK 2010</i>	637	664	691	742	705	734	749	797
	<i>growth in %</i>	-6.1	-1.7	3.9	5.0	10.7	10.5	8.3	7.4
Methodological discrepancy ³⁾	<i>bill. CZK 2010</i>	0	1	-1	-2	0	0	-1	-2
Real gross domestic income	<i>bill. CZK 2010</i>	916	984	1 004	1 039	953	1 026	1 048	1 068
	<i>growth in %</i>	-2.0	-0.7	1.2	1.8	4.0	4.2	4.3	2.8
Gross value added	<i>bill. CZK 2010</i>	852	908	916	930	877	937	.	.
	<i>growth in %</i>	-2.2	-0.8	0.5	0.2	2.9	3.2	.	.
	<i>growth in % ¹⁾</i>	-1.8	-1.0	-0.3	0.9	2.8	3.0	.	.
	<i>quart.growth in % ¹⁾</i>	-0.5	0.3	0.2	0.9	1.3	0.5	.	.
Net taxes on products	<i>bill. CZK 2010</i>	76	86	94	109	76	83	.	.

Source: CZSO, own calculations

1) From seasonally and working day adjusted data

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

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

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

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK</i>	4 015	3 922	3 954	4 022	4 048	4 086	4 284	4 467	4 635	4 810
	<i>growth in %</i>	4.8	-2.3	0.8	1.7	0.6	1.0	4.8	4.3	3.8	3.8
Private consumption ¹⁾	<i>bill. CZK</i>	1 913	1 918	1 947	1 984	1 998	2 026	2 066	2 134	2 216	2 302
	<i>growth in %</i>	7.8	0.2	1.5	1.9	0.7	1.4	1.9	3.3	3.8	3.9
Government consumption	<i>bill. CZK</i>	766	812	810	792	783	802	826	850	867	884
	<i>growth in %</i>	4.6	6.0	-0.3	-2.2	-1.1	2.4	2.9	3.0	2.0	1.9
Gross capital formation	<i>bill. CZK</i>	1 249	1 040	1 074	1 088	1 066	1 022	1 094	1 151	1 197	1 245
	<i>growth in %</i>	1.5	-16.8	3.3	1.2	-2.0	-4.1	7.1	5.2	3.9	4.0
– Gross fixed capital formation	<i>bill. CZK</i>	1 165	1 063	1 066	1 069	1 055	1 019	1 077	1 136	1 182	1 228
	<i>growth in %</i>	2.9	-8.7	0.2	0.3	-1.3	-3.4	5.7	5.5	4.0	3.9
– Change in stocks and valuables	<i>bill. CZK</i>	84	-24	8	19	11	3	17	15	15	17
External balance	<i>bill. CZK</i>	87	152	123	159	200	235	298	331	355	380
– Exports of goods and services	<i>bill. CZK</i>	2 544	2 307	2 616	2 881	3 098	3 155	3 563	3 785	3 992	4 197
	<i>growth in %</i>	-0.2	-9.3	13.4	10.1	7.5	1.8	12.9	6.3	5.5	5.1
– Imports of goods and services	<i>bill. CZK</i>	2 457	2 154	2 494	2 722	2 897	2 919	3 265	3 454	3 637	3 818
	<i>growth in %</i>	0.0	-12.3	15.8	9.1	6.4	0.8	11.8	5.8	5.3	5.0
Gross national income	<i>bill. CZK</i>	3 690	3 576	3 584	3 636	3 710	3 712	3 898	4 055	4 194	4 334
	<i>growth in %</i>	4.7	-3.1	0.2	1.4	2.0	0.1	5.0	4.0	3.4	3.3
Primary income balance	<i>bill. CZK</i>	-325	-346	-370	-387	-338	-374	-386	-412	-441	-477

Source: CZSO, own calculations

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

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

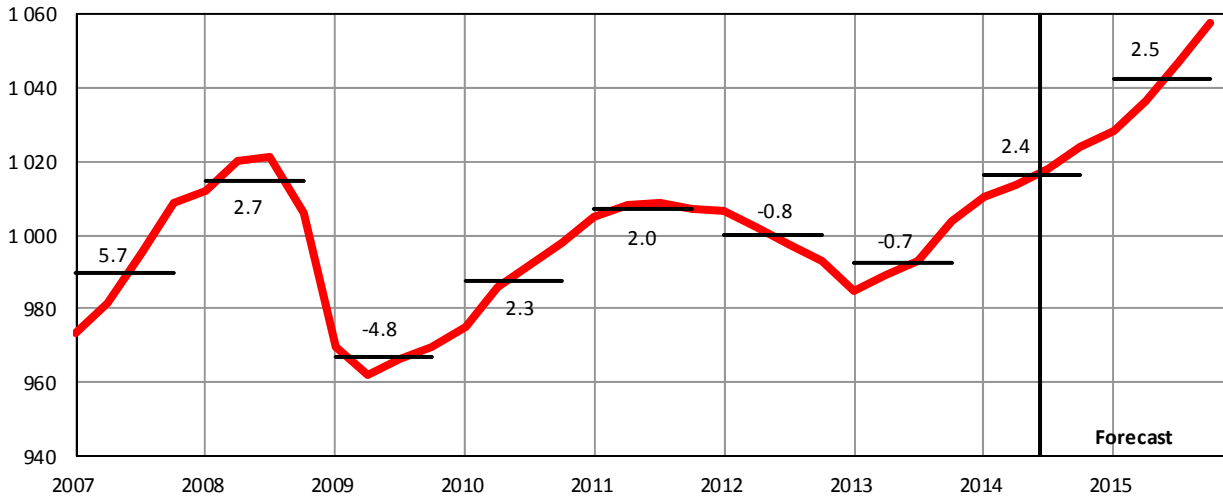
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	943	1 019	1 038	1 086	990	1 072	1 093	1 129
	<i>growth in %</i>	-1.2	0.0	1.9	2.9	4.9	5.2	5.3	4.0
Private consumption ¹⁾	<i>bill. CZK</i>	477	504	518	527	482	513	528	543
	<i>growth in %</i>	-0.1	1.3	2.4	2.1	1.1	1.7	2.0	3.0
Government consumption	<i>bill. CZK</i>	182	193	196	231	187	201	200	237
	<i>growth in %</i>	0.6	1.4	3.3	3.9	2.6	4.3	2.3	2.7
Gross capital formation	<i>bill. CZK</i>	215	244	279	285	222	270	306	296
	<i>growth in %</i>	-6.4	-10.7	-0.6	0.7	3.0	10.8	9.9	4.1
– Gross fixed capital formation	<i>bill. CZK</i>	229	242	259	290	237	259	275	307
	<i>growth in %</i>	-6.6	-6.7	-1.8	0.8	3.8	6.9	6.1	5.8
– Change in stocks and valuables	<i>bill. CZK</i>	-14	2	20	-5	-16	12	32	-10
External balance	<i>bill. CZK</i>	69	77	46	43	99	88	58	53
– Exports of goods and services	<i>bill. CZK</i>	747	787	778	842	871	886	880	925
	<i>growth in %</i>	-5.0	1.1	3.6	7.7	16.5	12.6	13.1	9.9
– Imports of goods and services	<i>bill. CZK</i>	678	710	733	799	771	799	822	873
	<i>growth in %</i>	-5.9	-1.6	3.5	6.9	13.8	12.5	12.2	9.2

Source: CZSO, own calculations

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

Graph C.1.1: Gross Domestic Product (real)

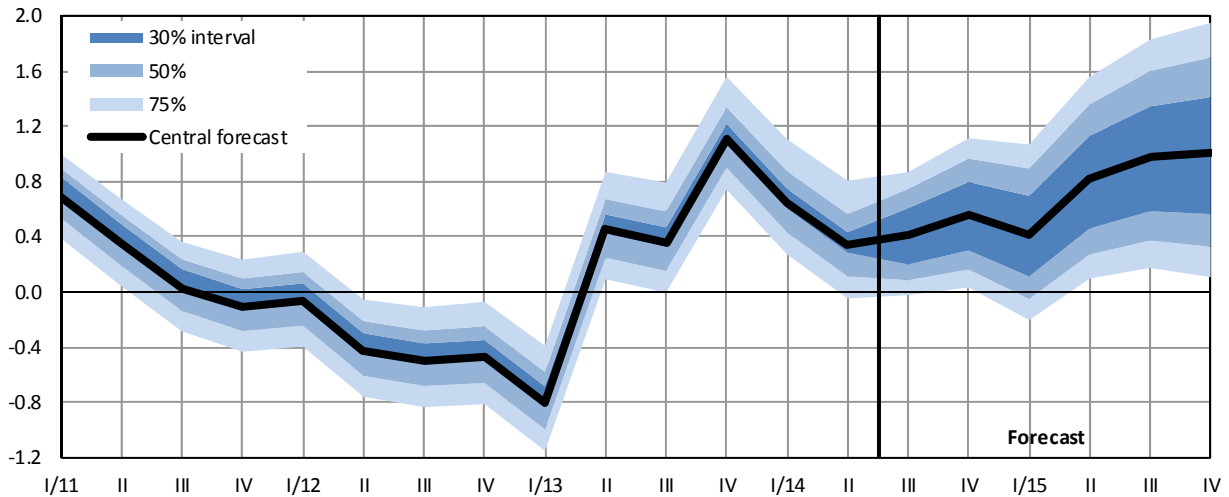
chained volumes, bill. CZK in const. prices of 2005, seasonally adjusted, growth rates in %



Source: CZSO, own calculations

Graph C.1.2: Gross Domestic Product (real)

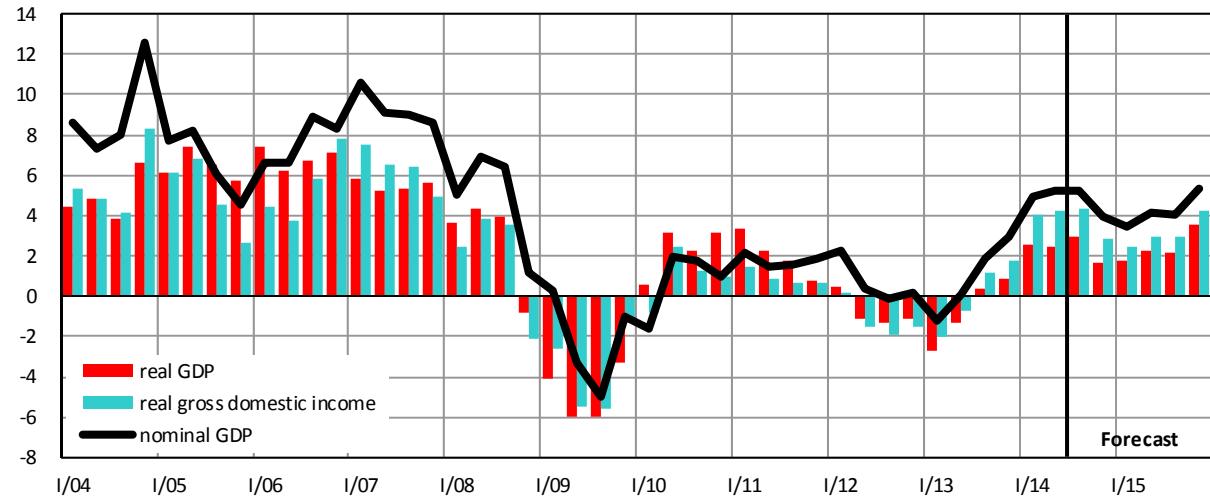
QoQ growth rate, in %, seasonally adjusted, past probability distribution reflects the actual distribution of data revisions, future probability distribution is based upon the MoF's forecasting performance



Source: CZSO, own calculations

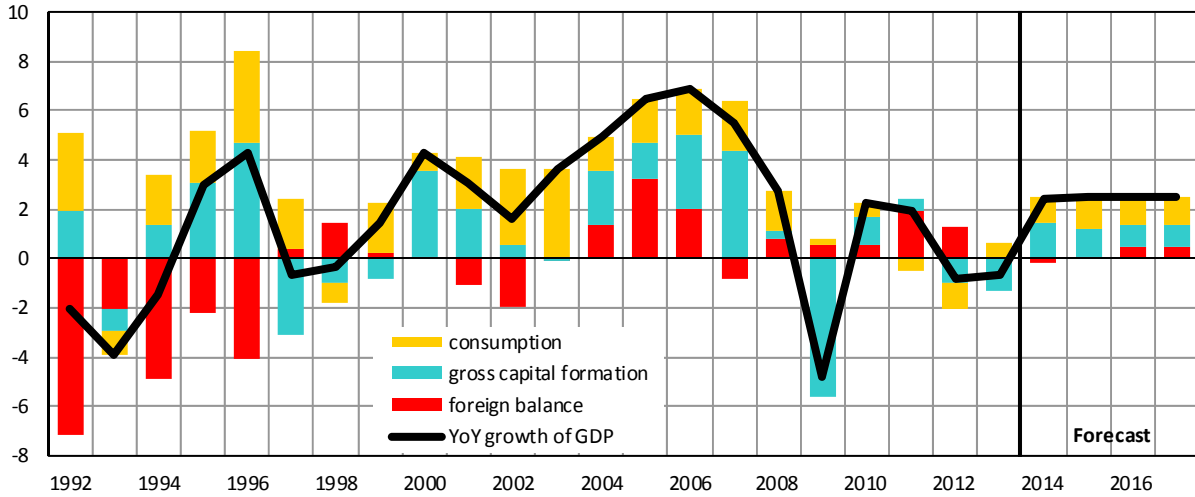
Graph C.1.3: Gross Domestic Product and Real Gross Domestic Income

YoY growth rate, in %



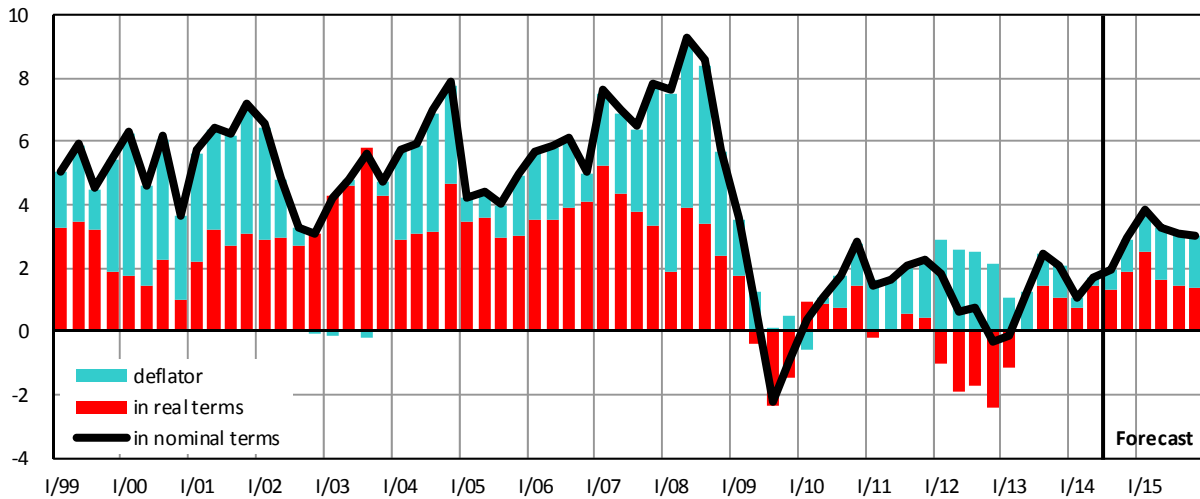
Source: CZSO, own calculations

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



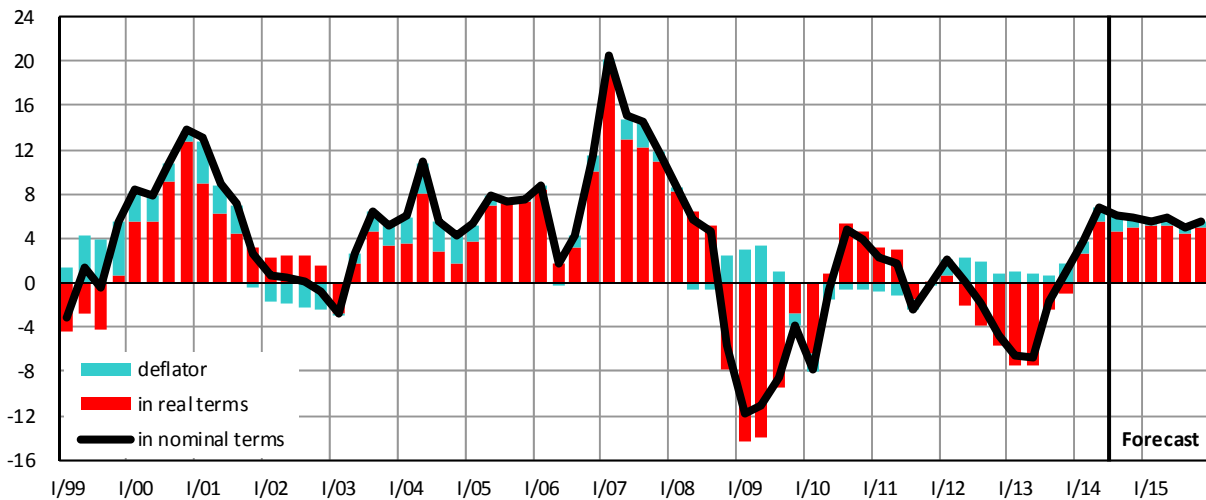
Source: CZSO, own calculations

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



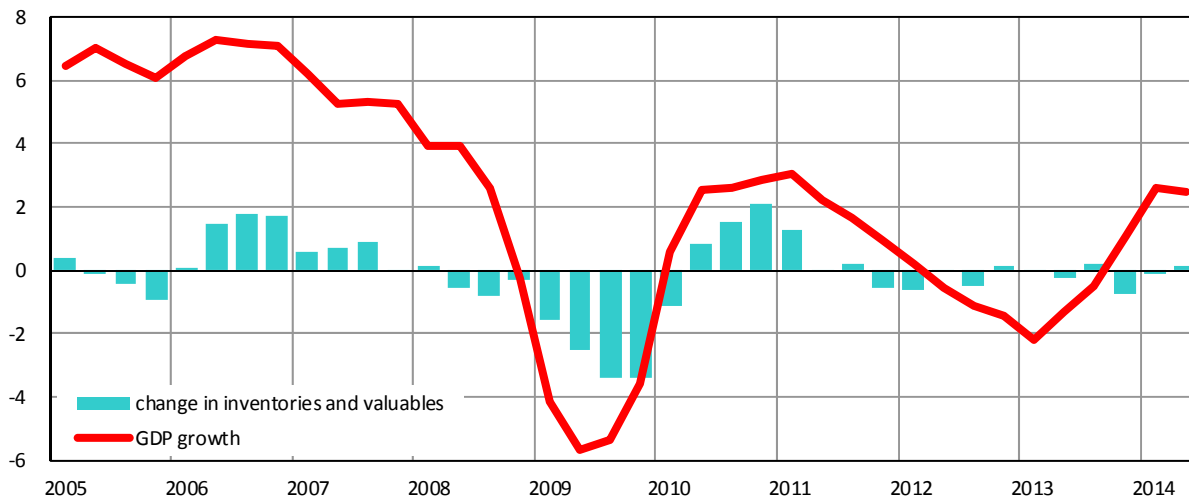
Source: CZSO, own calculations

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



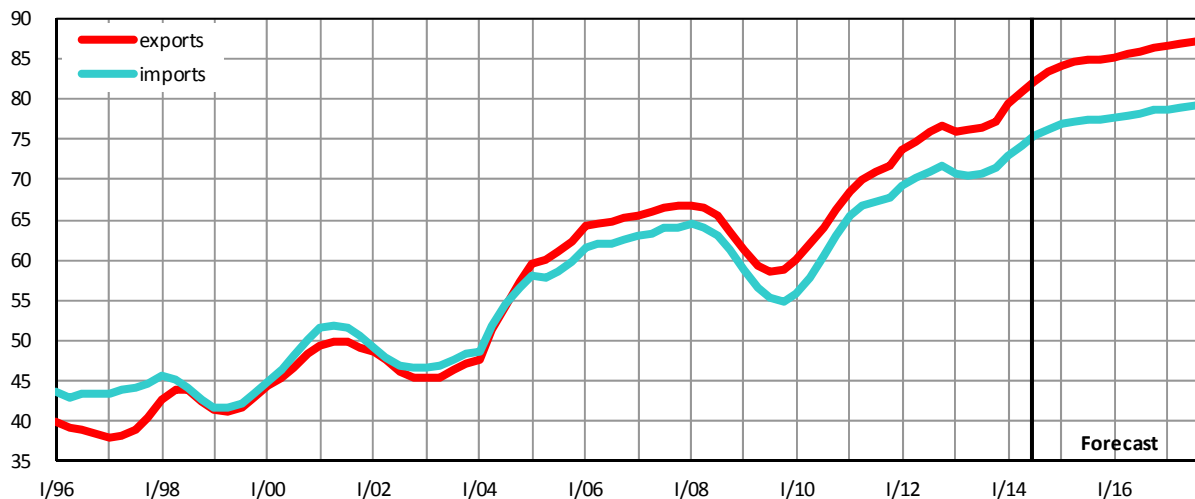
Source: CZSO, own calculations

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



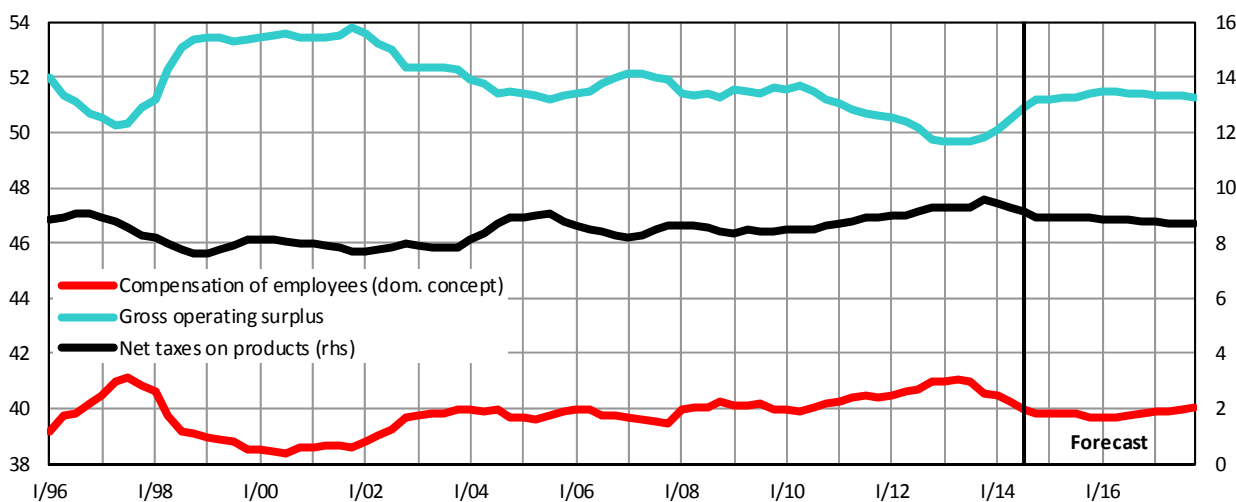
Source: CZSO

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



Source: CZSO, own calculations

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



Source: CZSO, own calculations

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

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
GDP	<i>bill. CZK</i>	4 015	3 922	3 954	4 022	4 048	4 086	4 284	4 467	4 635	4 810
	<i>growth in %</i>	4.8	-2.3	0.8	1.7	0.6	1.0	4.8	4.3	3.8	3.8
Balance of taxes and subsidies	<i>bill. CZK</i>	339	329	341	360	376	392	383	397	408	417
	<i>growth in %</i>	2.5	-2.9	3.5	5.7	4.4	4.2	-2.2	3.5	2.8	2.3
– Taxes on production and imports	<i>bill. CZK</i>	423	430	447	488	507	532	.	.	.	.
	<i>growth in %</i>	3.0	1.5	4.0	9.0	4.1	4.8	.	.	.	.
– Subsidies on production	<i>bill. CZK</i>	84	101	107	127	131	140	.	.	.	.
	<i>growth in %</i>	5.0	19.4	5.7	19.6	3.1	6.3	.	.	.	.
Compensation of employees	<i>bill. CZK</i>	1 617	1 569	1 589	1 626	1 658	1 658	1 707	1 773	1 846	1 926
	<i>growth in %</i>	6.8	-3.0	1.3	2.3	2.0	0.0	3.0	3.9	4.1	4.4
– Wages and salaries	<i>bill. CZK</i>	1 226	1 202	1 209	1 236	1 262	1 257	1 294	1 343	1 399	1 456
	<i>growth in %</i>	7.5	-2.0	0.6	2.2	2.1	-0.4	2.9	3.9	4.1	4.1
– Social security contributions	<i>bill. CZK</i>	390	367	380	390	396	401	413	429	447	470
	<i>growth in %</i>	4.7	-6.1	3.7	2.5	1.6	1.3	3.1	3.9	4.1	5.1
Gross operating surplus	<i>bill. CZK</i>	2 060	2 024	2 024	2 037	2 014	2 036	2 193	2 297	2 381	2 467
	<i>growth in %</i>	3.6	-1.7	0.0	0.6	-1.1	1.1	7.7	4.7	3.7	3.6
– Consumption of capital	<i>bill. CZK</i>	811	841	850	863	880	905	935	971	1 009	1 047
	<i>growth in %</i>	6.3	3.6	1.0	1.6	1.9	2.9	3.2	3.9	3.9	3.8
– Net operating surplus	<i>bill. CZK</i>	1 248	1 183	1 174	1 173	1 135	1 131	1 259	1 326	1 372	1 420
	<i>growth in %</i>	1.9	-5.2	-0.8	-0.1	-3.3	-0.3	11.3	5.3	3.5	3.5

Source: CZSO, own calculations

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

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	943	1 019	1 038	1 086	990	1 072	1 093	1 129
	<i>growth in %</i>	-1.2	0.0	1.9	2.9	4.9	5.2	5.3	4.0
Balance of taxes and subsidies	<i>bill. CZK</i>	81	95	108	107	78	95	106	104
	<i>growth in %</i>	-0.8	-1.7	3.3	16.1	-4.2	0.2	-2.1	-3.1
Compensation of employees	<i>bill. CZK</i>	398	412	412	437	412	424	422	449
	<i>growth in %</i>	-0.5	0.7	1.2	-1.2	3.5	3.0	2.5	2.7
– Wages and salaries	<i>bill. CZK</i>	301	312	313	332	311	321	321	341
	<i>growth in %</i>	-0.5	0.5	1.0	-2.3	3.4	3.0	2.5	2.7
– Social security contributions	<i>bill. CZK</i>	97	100	99	105	101	103	102	108
	<i>growth in %</i>	-0.5	1.2	2.1	2.5	3.9	3.1	2.5	2.7
Gross operating surplus	<i>bill. CZK</i>	464	512	518	542	500	553	565	576
	<i>growth in %</i>	-1.9	-0.2	2.1	4.0	7.7	7.9	8.9	6.4

Source: CZSO, own calculations

C.2 Prices

Table C.2.1: Prices – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								Forecast	Forecast	Outlook	Outlook
Consumer Price Index											
average of a year	<i>average 2005=100</i>	112.1	113.3	115.0	117.2	121.0	122.8	123.4	125.2	127.6	130.1
	<i>growth in %</i>	6.3	1.0	1.5	1.9	3.3	1.4	0.5	1.5	1.9	2.0
December	<i>average 2005=100</i>	111.8	112.9	115.5	118.3	121.1	122.8	124.1	126.0	128.5	131.1
	<i>growth in %</i>	3.6	1.0	2.3	2.4	2.4	1.4	1.0	1.6	1.9	2.0
– of which contribution of											
administrative measures ¹⁾	<i>percentage points</i>	4.3	1.0	1.6	1.2	2.2	1.0	-0.2	0.1	0.2	0.2
market increase	<i>percentage points</i>	-0.7	0.0	0.7	1.2	0.1	0.4	1.2	1.5	1.7	1.8
HICP	<i>average 2005=100</i>	111.7	112.4	113.7	116.2	120.3	121.9	122.6	124.5	126.9	129.4
	<i>growth in %</i>	6.3	0.6	1.2	2.1	3.5	1.4	0.6	1.5	1.9	2.0
Offering prices of flats											
	<i>average 2010=100</i>	107.2	104.3	100.0	95.1	96.1	97.2	.	.	.	.
	<i>growth in %</i>	23.0	-2.7	-4.1	-4.9	1.0	1.2	.	.	.	.
Deflators											
GDP	<i>average 2010=100</i>	98.9	101.5	100.0	99.8	101.2	102.9	105.4	107.2	108.5	109.9
	<i>growth in %</i>	2.0	2.6	-1.5	-0.2	1.4	1.7	2.4	1.8	1.2	1.3
Domestic final use	<i>average 2010=100</i>	98.7	100.2	100.0	100.8	102.6	103.5	104.3	105.5	106.8	108.3
	<i>growth in %</i>	3.0	1.5	-0.2	0.8	1.8	0.8	0.8	1.1	1.3	1.4
Consumption of households	<i>average 2010=100</i>	98.6	99.5	100.0	101.6	104.2	105.3	105.9	107.5	109.6	111.7
	<i>growth in %</i>	4.7	0.9	0.5	1.6	2.5	1.0	0.6	1.5	1.9	2.0
Consumption of government	<i>average 2010=100</i>	97.8	100.6	100.0	100.8	100.7	100.8	101.8	102.7	103.5	104.4
	<i>growth in %</i>	3.5	2.9	-0.6	0.8	-0.1	0.1	1.0	0.9	0.7	0.9
Fixed capital formation	<i>average 2010=100</i>	99.6	101.1	100.0	99.2	100.9	101.9	103.1	103.6	104.4	105.1
	<i>growth in %</i>	0.4	1.5	-1.1	-0.8	1.7	1.1	1.1	0.5	0.7	0.7
Exports of goods and services	<i>average 2010=100</i>	100.7	101.2	100.0	100.7	104.0	105.7	110.2	111.1	111.4	111.7
	<i>growth in %</i>	-4.3	0.5	-1.2	0.7	3.3	1.6	4.3	0.8	0.3	0.3
Imports of goods and services	<i>average 2010=100</i>	100.7	99.2	100.0	102.3	106.3	106.8	109.4	109.3	109.7	110.0
	<i>growth in %</i>	-3.1	-1.5	0.8	2.3	3.9	0.5	2.5	-0.1	0.3	0.3
Terms of trade	<i>average 2010=100</i>	100.0	102.0	100.0	98.5	97.9	99.0	100.7	101.6	101.6	101.6
	<i>growth in %</i>	-1.3	2.0	-2.0	-1.5	-0.6	1.1	1.8	0.9	0.0	0.0

Source: CZSO, Eurostat, own calculations

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

Table C.2.2: Prices – quarterly

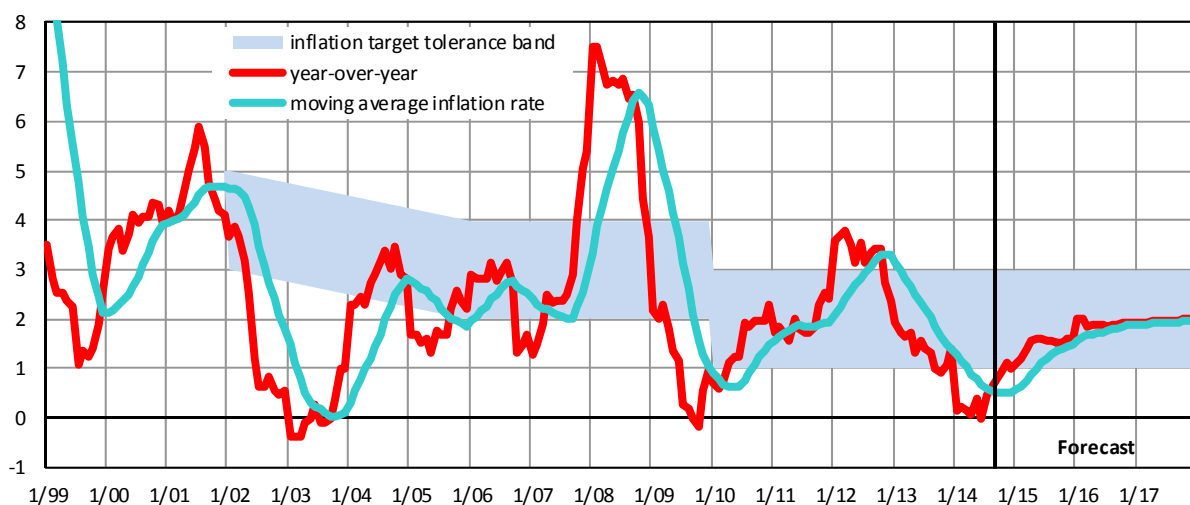
		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Estimate	Forecast
Consumer Price Index	average 2005=100	122.8	123.0	122.6	122.5	123.0	123.2	123.4	123.8
	growth in %	1.8	1.5	1.2	1.1	0.2	0.2	0.6	1.0
– of which contribution of									
administrative measures¹⁾	percentage points	1.6	1.4	1.2	1.2	-0.6	-0.5	-0.3	-0.2
market increase	percentage points	0.2	0.1	0.0	0.0	0.7	0.6	0.9	1.2
HICP	average 2005=100	121.9	122.2	121.8	121.8	122.3	122.5	122.7	123.0
	growth in %	1.7	1.5	1.2	1.1	0.3	0.2	0.7	1.0
Offering prices of flats	average 2010=100	96.4	96.6	97.4	98.5	99.3	100.6	.	.
	growth in %	1.6	-0.2	1.5	2.0	3.0	4.1	.	.
Deflators									
GDP	average 2010=100	101.9	102.6	102.8	104.3	104.2	105.3	105.1	106.7
	growth in %	1.6	1.4	1.6	2.1	2.3	2.7	2.3	2.3
Domestic final use	average 2010=100	102.8	103.4	103.3	104.4	103.4	104.2	104.0	105.5
	growth in %	0.9	0.8	0.7	1.0	0.6	0.8	0.7	1.1
Consumption of households	average 2010=100	105.0	105.3	105.4	105.5	105.3	105.5	106.1	106.6
	growth in %	1.1	1.2	1.0	1.0	0.3	0.2	0.6	1.0
Consumption of government	average 2010=100	98.2	100.2	100.0	104.0	99.4	101.9	100.5	104.9
	growth in %	-0.3	0.1	-0.1	0.5	1.2	1.7	0.5	0.9
Fixed capital formation	average 2010=100	101.9	102.0	101.5	102.3	103.1	103.2	102.9	103.2
	growth in %	1.0	0.8	0.7	1.7	1.1	1.2	1.3	0.9
Exports of goods and services	average 2010=100	104.9	105.4	105.0	107.2	109.7	109.7	110.7	110.6
	growth in %	1.2	0.9	0.9	3.1	4.6	4.1	5.4	3.2
Imports of goods and services	average 2010=100	106.5	106.8	106.0	107.7	109.5	108.8	109.8	109.5
	growth in %	0.3	0.0	-0.4	1.8	2.8	1.9	3.6	1.7
Terms of trade	average 2010=100	98.5	98.7	99.1	99.6	100.2	100.8	100.8	101.0
	growth in %	0.9	0.8	1.2	1.3	1.8	2.2	1.8	1.5

Source: CZSO, Eurostat, own calculations

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

Graph C.2.1: Consumer Prices

YoY growth rate, in %

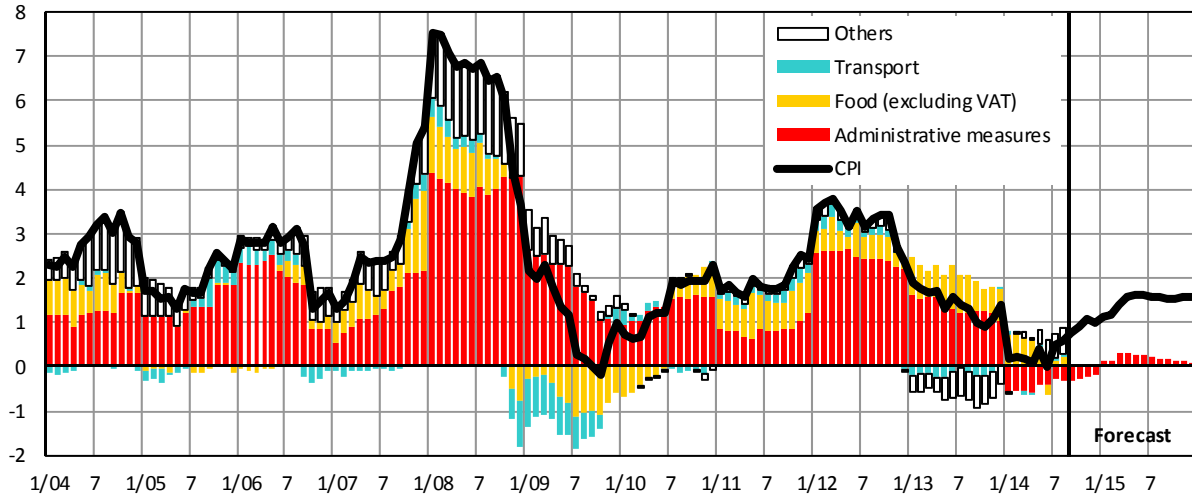


Source: CNB, CZSO, own calculations

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

Graph C.2.2: Consumer Prices

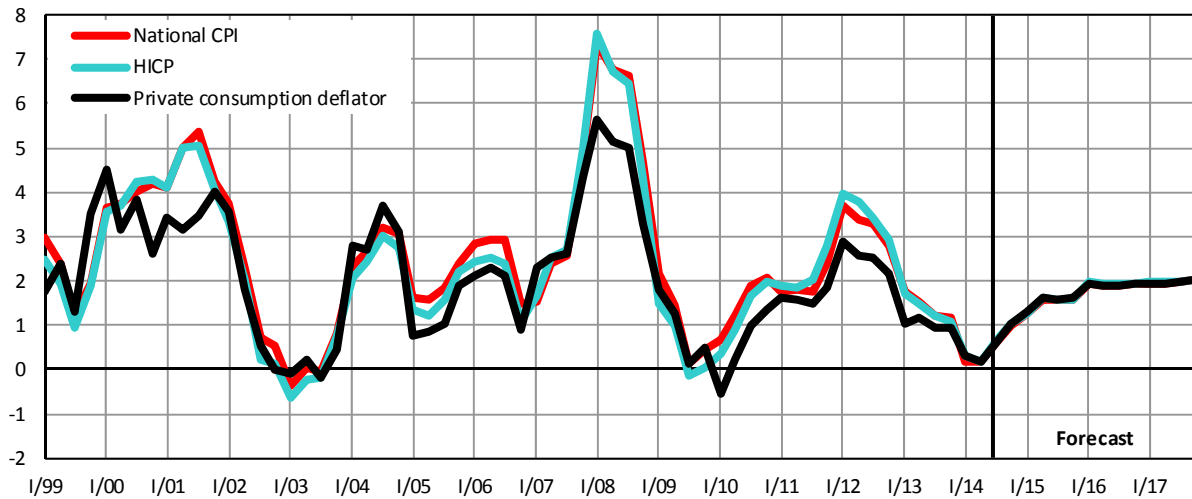
decomposition of YoY growth of CPI, contributions in pp, CPI growth rate in %, Transport excluding administrative measures and excises



Source: CZSO, own calculations

Graph C.2.3: Indicators of Consumer Prices

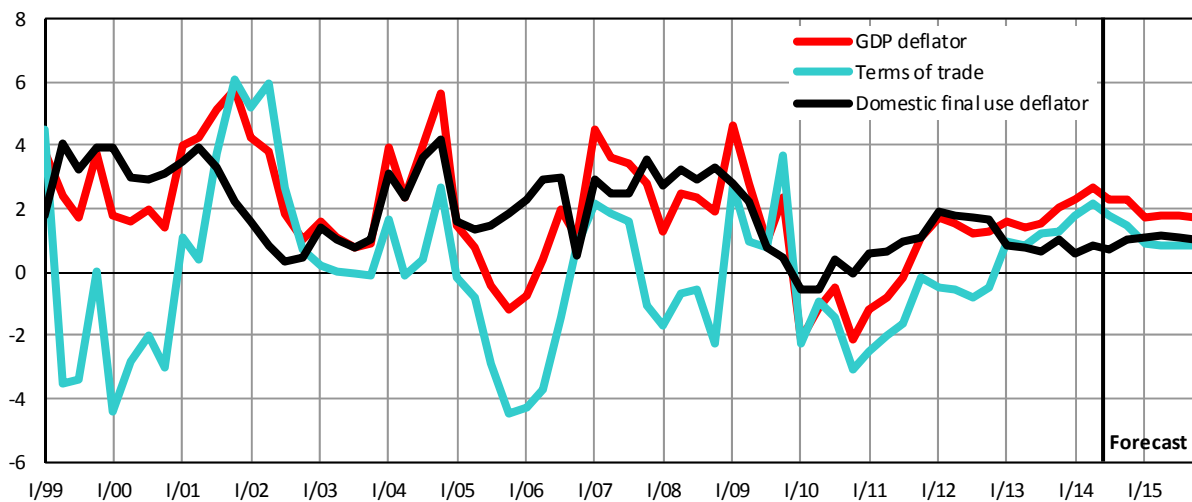
YoY growth rate, in %



Source: CZSO, Eurostat, own calculations

Graph C.2.4: GDP Deflator

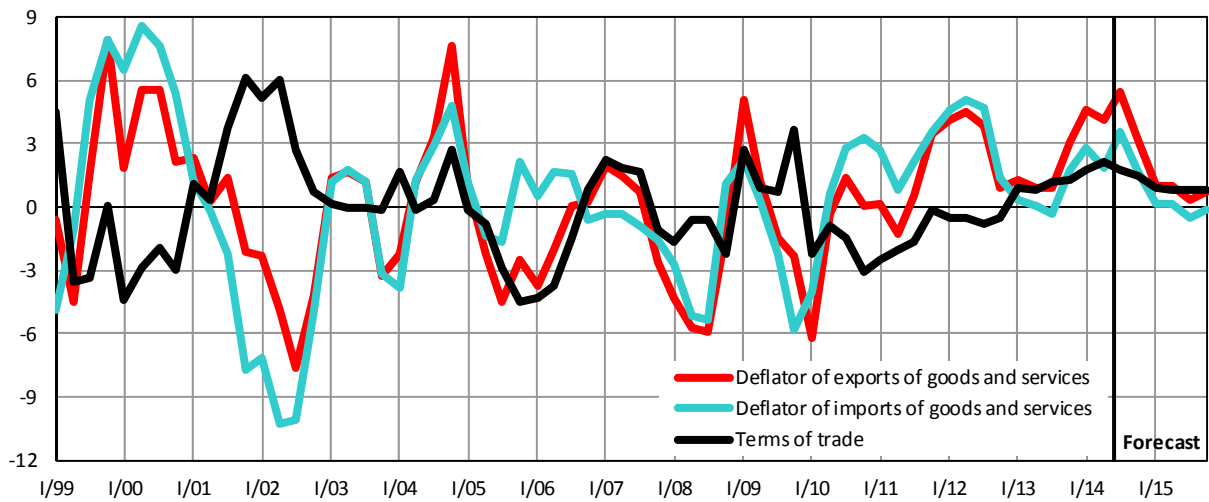
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.2.5: Terms of Trade

YoY growth rate, in %



Source: CZSO, own calculations

C.3 Labour Market

Table C.3.1: Labour Market – yearly

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
								Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	5 002	4 934	4 885	4 872	4 890	4 937	4 958	4 973	4 982	4 991
	<i>growth in %</i>	1.6	-1.4	-1.0	0.4	0.4	1.0	0.4	0.3	0.2	0.2
– employees	<i>av. in thous.persons</i>	4 196	4 107	4 019	3 993	3 990	4 055	4 057	4 067	4 075	4 083
	<i>growth in %</i>	1.7	-2.1	-2.1	0.0	-0.1	1.6	0.0	0.3	0.2	0.2
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	807	827	866	880	901	882	901	906	907	908
	<i>growth in %</i>	1.2	2.5	4.7	2.0	2.4	-2.1	2.1	0.6	0.1	0.1
Unemployment	<i>av. in thous.persons</i>	230	352	384	351	367	369	333	320	310	304
Unemployment rate	<i>average in per cent</i>	4.4	6.7	7.3	6.7	7.0	7.0	6.3	6.1	5.9	5.7
Labour force	<i>av. in thous.persons</i>	5 232	5 286	5 269	5 223	5 257	5 306	5 291	5 294	5 293	5 295
	<i>growth in %</i>	0.7	1.0	-0.3	-0.2	0.7	0.9	-0.3	0.1	0.0	0.1
Population aged 15–64	<i>av. in thous.persons</i>	7 410	7 431	7 399	7 295	7 229	7 154	7 081	7 017	6 952	6 889
	<i>growth in %</i>	0.9	0.3	-0.4	-0.7	-0.9	-1.0	-1.0	-0.9	-0.9	-0.9
Employment/Pop. 15–64	<i>average in per cent</i>	67.5	66.4	66.0	66.8	67.6	69.0	70.0	70.9	71.7	72.4
Employment rate 15–64¹⁾	<i>average in per cent</i>	66.6	65.4	65.0	65.7	66.5	67.7	68.7	69.5	70.3	71.0
Labour force/Pop. 15–64	<i>average in per cent</i>	70.6	71.1	71.2	71.6	72.7	74.2	74.7	75.4	76.1	76.9
Participation rate 15–64²⁾	<i>average in per cent</i>	69.7	70.1	70.2	70.5	71.6	72.9	73.4	74.1	74.7	75.4
SNA											
Employment (domestic concept)	<i>av. in thous.persons</i>	5 204	5 110	5 057	5 043	5 065	5 084	5 098	5 114	5 123	5 132
	<i>growth in %</i>	2.2	-1.8	-1.0	-0.3	0.4	0.4	0.3	0.3	0.2	0.2
Hours worked	<i>bill. hours</i>	9.31	9.09	9.10	9.11	8.99	8.96	.	.	.	.
	<i>growth in %</i>	2.5	-2.4	0.1	0.1	-1.2	-0.4	.	.	.	.
Hours worked / employment	<i>hours</i>	1 790	1 779	1 800	1 806	1 776	1 763	.	.	.	.
	<i>growth in %</i>	0.3	-0.6	1.2	0.3	-1.6	-0.7	.	.	.	.
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	324.6	465.6	528.7	507.8	504.7	564.4	565	527	497	476
Share of unemployed³⁾	<i>average in per cent</i>	4.1	6.1	7.0	6.7	6.8	7.7	7.7	7.2	6.8	6.6

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

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

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

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

Table C.3.2: Labour Market – quarterly

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate		Forecast	
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4 884	4 953	4 954	4 958	4 923	4 962	4 971	4 974
	<i>YoY growth in %</i>	1.0	1.3	0.7	0.8	0.8	0.2	0.3	0.3
	<i>QoQ growth in %</i>	0.2	0.6	-0.1	0.2	0.1	0.0	0.1	0.2
– employees	<i>av. in thous. persons</i>	4 015	4 074	4 064	4 067	4 030	4 064	4 064	4 069
	<i>growth in %</i>	2.0	2.4	0.9	1.3	0.4	-0.2	0.0	0.0
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	869	879	889	890	893	898	907	906
	<i>growth in %</i>	-3.2	-3.2	-0.5	-1.3	2.8	2.2	1.9	1.7
Unemployment	<i>av. in thous. persons</i>	393	358	370	355	358	319	330	326
Unemployment rate	<i>average in per cent</i>	7.4	6.7	6.9	6.7	6.8	6.0	6.2	6.1
Labour force	<i>av. in thous. persons</i>	5 277	5 311	5 323	5 313	5 281	5 281	5 301	5 300
	<i>growth in %</i>	1.4	1.4	0.7	0.3	0.1	-0.6	-0.4	-0.3
Population aged 15–64	<i>av. in thous. persons</i>	7 184	7 166	7 145	7 121	7 103	7 089	7 073	7 058
	<i>growth in %</i>	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	-1.0	-0.9
Employment/Pop. 15–64	<i>average in per cent</i>	68.0	69.1	69.3	69.6	69.3	70.0	70.3	70.5
	<i>increase over a year</i>	1.3	1.6	1.2	1.3	1.3	0.9	0.9	0.9
Employment rate 15–64¹⁾	<i>average in per cent</i>	66.8	67.8	68.0	68.3	68.1	68.7	68.9	69.1
	<i>increase over a year</i>	1.2	1.3	1.0	1.2	1.2	0.9	0.9	0.9
Labour force/Pop. 15–64	<i>average in per cent</i>	73.5	74.1	74.5	74.6	74.4	74.5	74.9	75.1
	<i>increase over a year</i>	1.7	1.7	1.3	1.0	0.9	0.4	0.4	0.5
Participation rate 15–64²⁾	<i>average in per cent</i>	72.3	72.8	73.2	73.3	73.1	73.2	73.6	73.7
	<i>increase over a year</i>	1.6	1.5	1.1	1.0	0.8	0.4	0.4	0.5
SNA									
Employment (domestic concept)	<i>av. in thous. persons</i>	5 023	5 093	5 112	5 107	5 047	5 087	5 132	5 125
	<i>growth in %</i>	0.5	0.7	0.1	0.1	0.5	-0.1	0.4	0.4
Hours worked	<i>bill. hours</i>	2.26	2.33	2.11	2.26	2.26	2.29	.	.
	<i>growth in %</i>	-4.0	0.0	3.7	-0.5	0.0	-1.8	.	.
Hours worked / employment	<i>hours</i>	450	457	413	443	448	450	.	.
	<i>growth in %</i>	-4.5	-0.8	3.5	-0.6	-0.5	-1.7	.	.
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	582	559	551	566	619	566	537	538
Share of unemployed³⁾	<i>average in per cent</i>	7.9	7.6	7.5	7.7	8.5	7.8	7.4	7.3

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

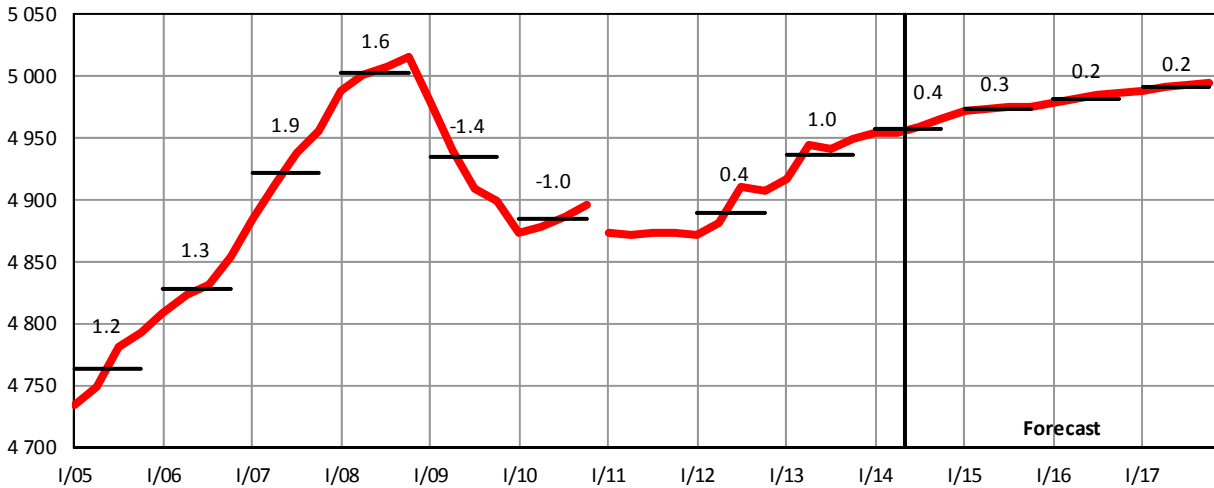
1) The indicator does not include employment over 64 years.

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

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

Graph C.3.3: Employment (LFS)

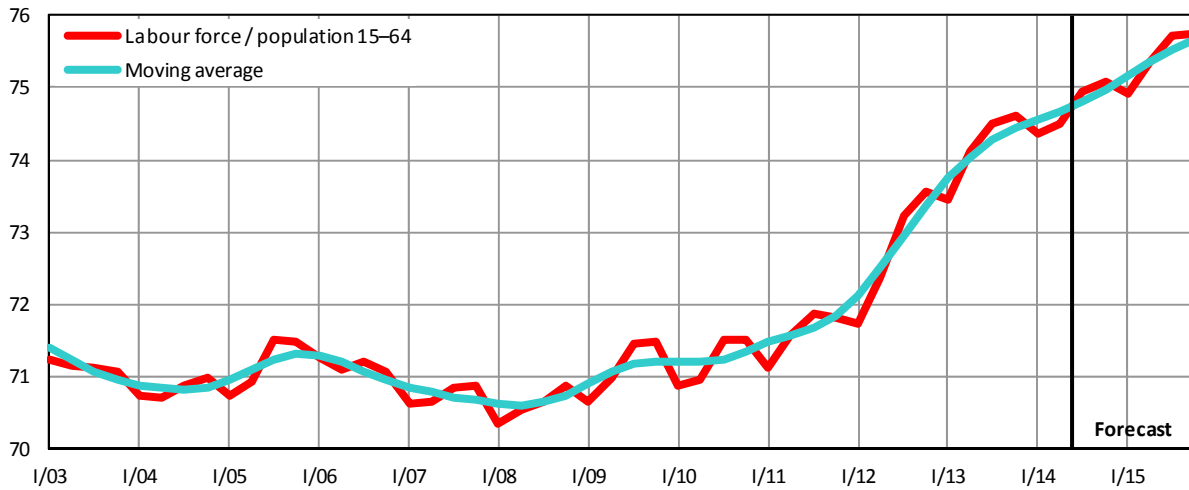
seasonally adjusted data, in thousands of persons, growth rates in %



Source: CZSO, own calculations

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

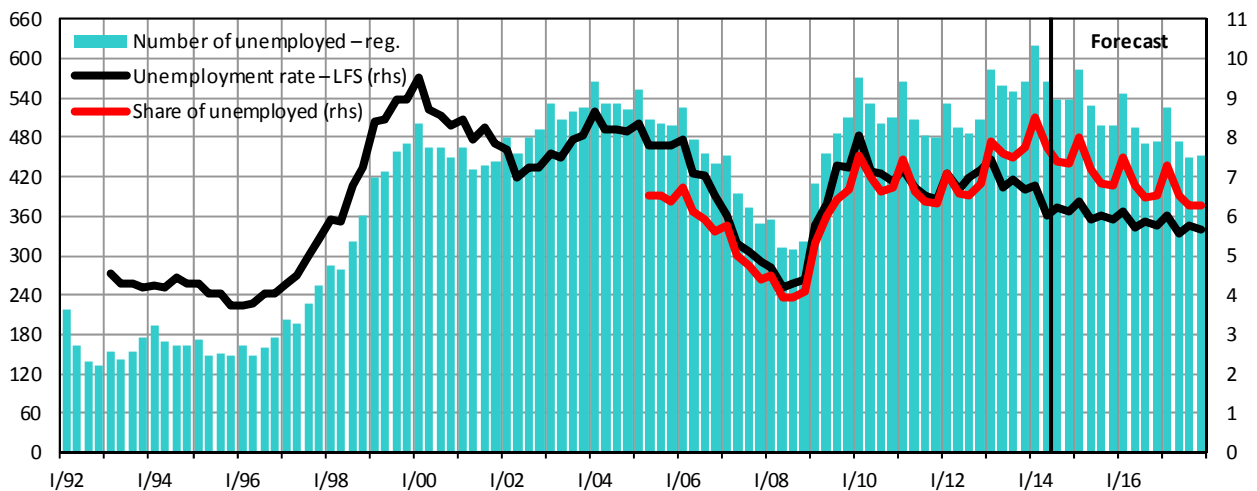
in %



Source: CZSO, own calculations

Graph C.3.5: Unemployment

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

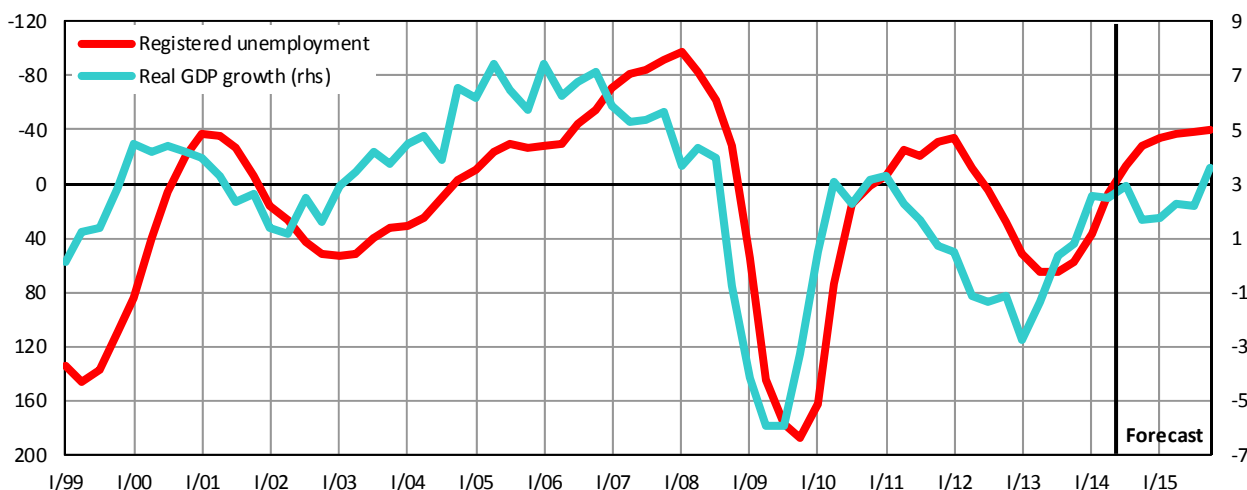


Source: CZSO, Ministry of Labour and Social Affairs, own calculations

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

Graph C.3.6: Economic Output and Unemployment

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



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

Table C.3.3: Labour Market – analytical indicators

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Compensation per employee												
– nominal	growth in %	5.9	6.2	4.1	-0.6	3.3	2.8	1.4	-0.6	3.1	3.6	
– real	growth in %	3.3	3.2	-2.1	-1.6	1.8	0.9	-1.9	-2.0	2.6	2.1	
Wage bill	growth in %	7.1	8.3	7.5	-2.0	0.6	2.2	2.1	-0.4	2.9	3.9	
Average monthly wage ¹⁾												
– nominal	CZK	19 536	20 947	22 592	23 353	23 858	24 452	25 063	25 075	25 700	26 700	
	growth in %	6.5	7.2	7.9	3.4	2.2	2.5	2.5	0.0	2.6	3.8	
– real	CZK 2005	19 053	19 865	20 147	20 610	20 753	20 866	20 707	20 426	20 900	21 300	
	growth in %	3.9	4.3	1.4	2.3	0.7	0.5	-0.8	-1.4	2.1	2.2	
Median monthly wage												
	CZK	16 273	17 445	19 364	19 781	20 294	20 743	20 984	21 173	.	.	
	growth in %	.	7.2	11.0	2.2	2.6	2.2	1.2	0.9	.	.	
Labour productivity	growth in %	5.5	3.4	0.5	-3.1	3.4	2.2	-1.2	-1.1	2.1	2.1	
Unit labour costs ²⁾	growth in %	0.5	2.7	3.5	2.6	0.0	0.6	2.6	0.5	0.9	1.4	
Compensations of employees / GDP	%	39.7	39.5	40.3	40.0	40.2	40.4	40.9	40.6	39.8	39.7	

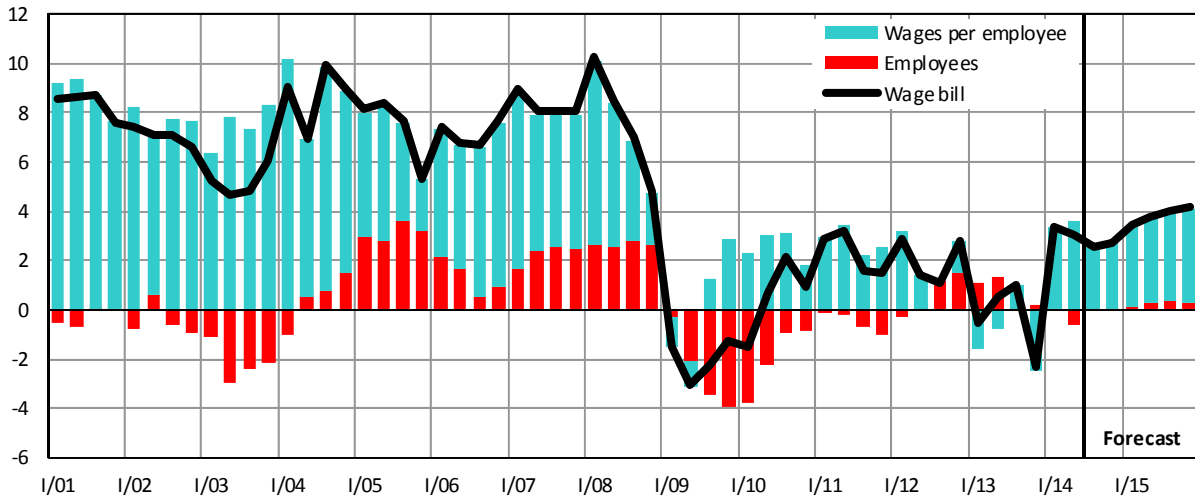
Source: CZSO, own calculations

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

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

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

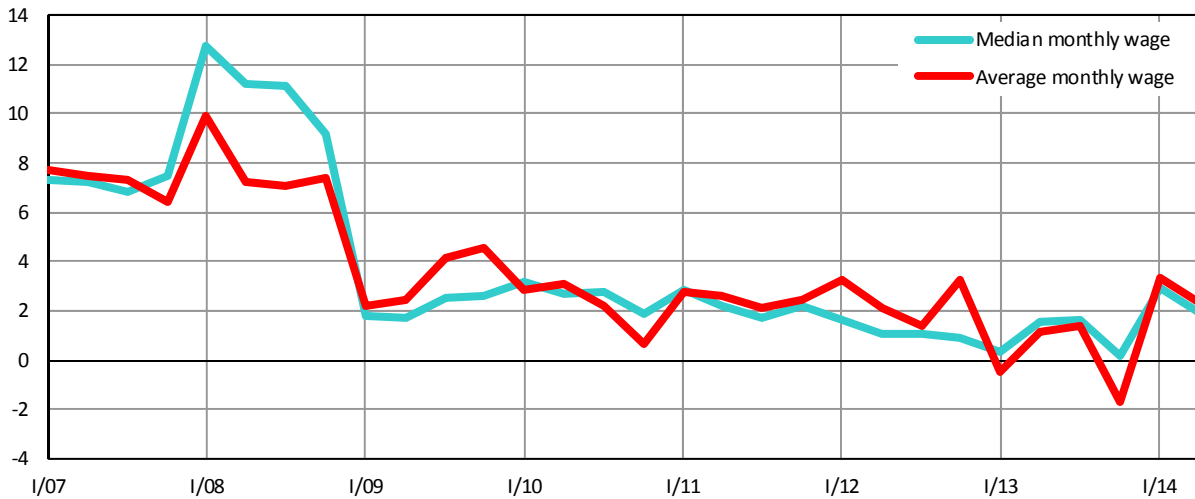
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.8: Nominal Monthly Wage

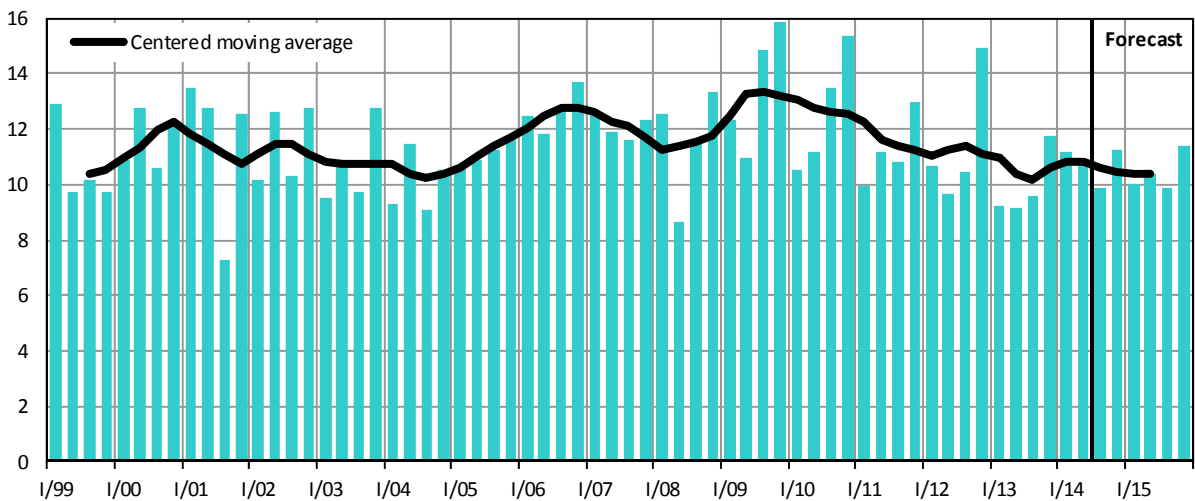
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.9: Gross Savings Rate of Households

in % of disposable income



Source: CZSO, own calculations

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

SNA methodology – national concept

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
									<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>
Current income											
Compensation of employees	<i>bill.CZK</i>	1 392	1 505	1 593	1 553	1 585	1 626	1 662	1 674	1 721	1 787
	<i>growth in %</i>	7.3	8.1	5.8	-2.5	2.0	2.6	2.2	0.7	2.9	3.8
Gross operating surplus and mixed income	<i>bill.CZK</i>	601	632	657	686	685	674	660	656	666	681
	<i>growth in %</i>	5.6	5.0	4.0	4.5	-0.2	-1.7	-2.0	-0.6	1.5	2.4
Property income received	<i>bill.CZK</i>	155	162	177	158	152	151	146	138	135	137
	<i>growth in %</i>	10.5	4.1	9.8	-11.0	-3.5	-0.8	-3.7	-5.0	-2.1	0.8
Social benefits not-in-kind	<i>bill.CZK</i>	421	471	493	535	542	553	566	563	581	596
	<i>growth in %</i>	9.1	11.9	4.7	8.6	1.2	2.1	2.3	-0.5	3.2	2.5
Other current transfers received	<i>bill.CZK</i>	117	126	143	141	140	140	152	146	154	159
	<i>growth in %</i>	6.6	8.3	13.2	-1.4	-1.0	-0.2	8.8	-4.1	5.8	3.0
Current expenditure											
Property income paid	<i>bill.CZK</i>	22	27	31	19	23	21	15	19	16	16
	<i>growth in %</i>	9.8	25.2	11.2	-36.7	17.7	-8.5	-27.3	24.4	-12.7	0.0
Curr. taxes on income and property	<i>bill.CZK</i>	144	161	145	140	137	149	151	159	157	163
	<i>growth in %</i>	0.6	11.9	-9.9	-3.0	-2.6	8.6	1.6	5.1	-0.8	3.8
Social contributions	<i>bill.CZK</i>	563	616	637	603	621	640	653	670	695	725
	<i>growth in %</i>	9.6	9.5	3.3	-5.3	2.9	3.0	2.2	2.5	3.8	4.2
Other current transfers paid	<i>bill.CZK</i>	116	130	146	143	141	147	155	147	148	151
	<i>growth in %</i>	5.7	12.4	12.1	-1.6	-1.6	4.3	5.6	-5.0	0.2	2.1
Gross disposable income	<i>bill.CZK</i>	1 842	1 961	2 106	2 168	2 182	2 188	2 211	2 181	2 241	2 304
	<i>growth in %</i>	7.3	6.4	7.4	3.0	0.7	0.2	1.0	-1.3	2.7	2.8
Final consumption	<i>bill.CZK</i>	1 631	1 749	1 887	1 891	1 920	1 957	1 970	1 999	2 037	2 104
	<i>growth in %</i>	5.6	7.3	7.9	0.2	1.5	1.9	0.7	1.4	1.9	3.3
Change in share in pension funds	<i>bill.CZK</i>	23	26	24	17	15	16	15	35	37	40
Gross savings	<i>bill.CZK</i>	234	238	243	295	278	247	255	218	241	240
Capital transfers (income (-) / expenditure (+))	<i>bill.CZK</i>	-29	-34	-25	-25	-29	-25	-21	-13	-11	-12
Gross capital formation	<i>bill.CZK</i>	188	213	219	212	230	198	178	178	177	182
	<i>growth in %</i>	12.2	12.8	2.8	-3.1	8.8	-14.0	-10.0	-0.4	-0.4	2.8
Change in financial assets and liab.	<i>bill.CZK</i>	74	58	47	106	75	72	96	50	72	67
Real disposable income	<i>growth in %</i>	5.3	3.4	2.5	2.1	0.1	-1.4	-1.4	-2.3	2.1	1.3
Gross savings rate	<i>%</i>	12.7	12.1	11.5	13.6	12.7	11.3	11.5	10.0	10.8	10.4

Source: CZSO, own calculations

C.4 External Relations

Table C.4.1: Balance of Payments – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
Balance of goods and services	bill.CZK	108	106	100	161	129	149	211	241	294	327	
– balance of trade ¹⁾	bill.CZK	59	47	26	87	54	90	149	188	236	268	
– of which mineral fuels (SITC 3) ²⁾	bill.CZK	-139	-124	-166	-106	-137	-177	-189	-196	-199	-198	
– balance of services	bill.CZK	49	59	74	74	75	58	62	53	58	59	
Balance of income	bill.CZK	-165	-255	-175	-250	-285	-256	-260	-312	-324	-350	
– compensation of employees	bill.CZK	3	-4	-19	-11	-1	1	5	7	8	8	
– investment income	bill.CZK	-168	-251	-156	-239	-284	-257	-265	-320	-332	-358	
Balance of transfers	bill.CZK	-11	-8	-6	-1	9	3	-2	15	30	8	
Current account	bill.CZK	-67	-157	-81	-89	-147	-104	-51	-56	1	-14	
Capital account	bill.CZK	10	22	27	51	33	15	52	75	106	126	
Financial account	bill.CZK	100	125	92	143	174	59	74	188	.	.	
– foreign direct investments	bill.CZK	90	179	36	38	95	47	121	33	.	.	
– portfolio investments	bill.CZK	-27	-57	-9	159	150	6	55	92	.	.	
– other investments	bill.CZK	36	3	65	-53	-71	7	-102	63	.	.	
Change in reserves	bill.CZK	2	16	40	61	41	-17	80	192	.	.	
International investment position	bill.CZK	-1 084	-1 418	-1 545	-1 728	-1 830	-1 818	-1 876	-1 772	.	.	
Gross external debt	bill.CZK	1 196	1 377	1 630	1 639	1 767	1 877	1 952	2 215	2 305	2 405	
Balance of goods and services / GDP	per cent	3.1	2.8	2.5	4.1	3.3	3.7	5.2	5.9	6.9	7.3	
Current account / GDP	per cent	-1.9	-4.1	-2.0	-2.3	-3.7	-2.6	-1.3	-1.4	0.0	-0.3	
Financial account / GDP	per cent	2.8	3.3	2.3	3.7	4.4	1.5	1.8	4.6	.	.	
IIP / GDP	per cent	-30.9	-37.0	-38.5	-44.1	-46.3	-45.2	-46.3	-43.4	.	.	
Gross external debt / GDP ³⁾	per cent	34.1	35.9	40.6	41.8	44.7	46.7	48.2	54.2	54	54	

Source: CNB, CZSO, own calculations

1) Imports – fob

2) Imports – cif

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

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

		2013				2014			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Estimate	Forecast
Balance of goods and services	bill.CZK	209	228	224	241	266	271	284	294
– balance of trade ¹⁾	bill.CZK	150	170	173	188	207	216	227	236
– of which mineral fuels (SITC 3) ²⁾	bill.CZK	-184	-184	-193	-196	-195	-196	-198	-199
– balance of services	bill.CZK	59	58	51	53	59	55	56	58
Balance of income	bill.CZK	-284	-309	-308	-312	-272	-320	-321	-324
– compensation of employees	bill.CZK	5	5	5	7	9	10	9	8
– investment income	bill.CZK	-288	-315	-313	-320	-281	-330	-331	-332
Balance of transfers	bill.CZK	6	4	6	15	12	35	42	30
Current account	bill.CZK	-69	-78	-78	-56	6	-14	4	1
Capital account	bill.CZK	52	51	98	75	96	96	101	106
Financial account	bill.CZK	68	100	43	188	148	166	.	.
– foreign direct investments	bill.CZK	132	97	65	33	36	85	.	.
– portfolio investments	bill.CZK	49	81	46	92	89	-40	.	.
– other investments	bill.CZK	-112	-78	-67	63	23	121	.	.
Change in reserves	bill.CZK	54	81	81	192	211	250	.	.
International investment position	bill.CZK	-1 830	-1 889	-1 835	-1 772	-1 703	-1 660	.	.
Gross external debt	bill.CZK	1 999	2 042	1 965	2 215	2 151	2 262	2 293	2 305

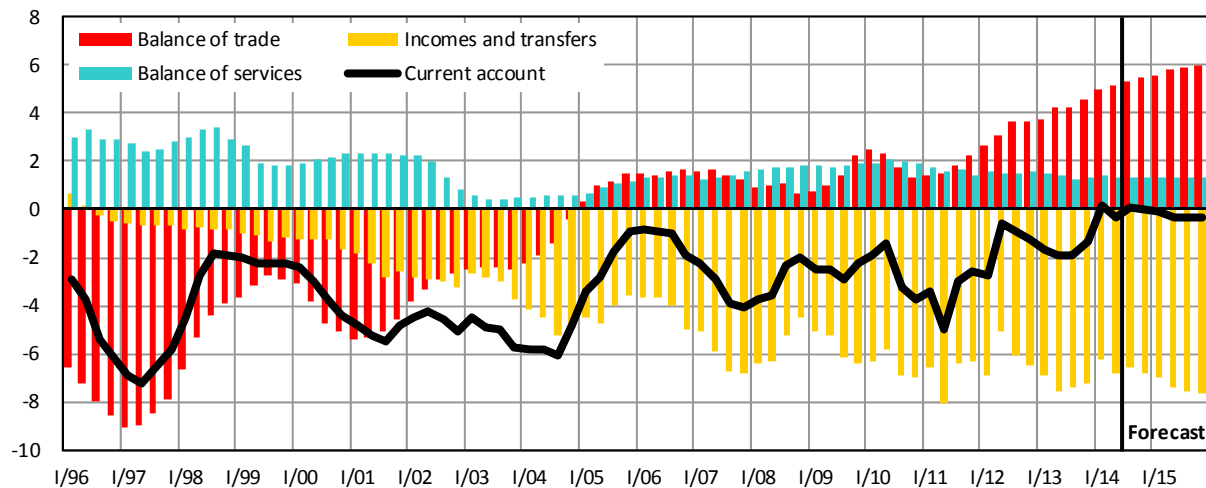
Source: CNB, CZSO, own calculations

1) Imports – fob

2) Imports – cif

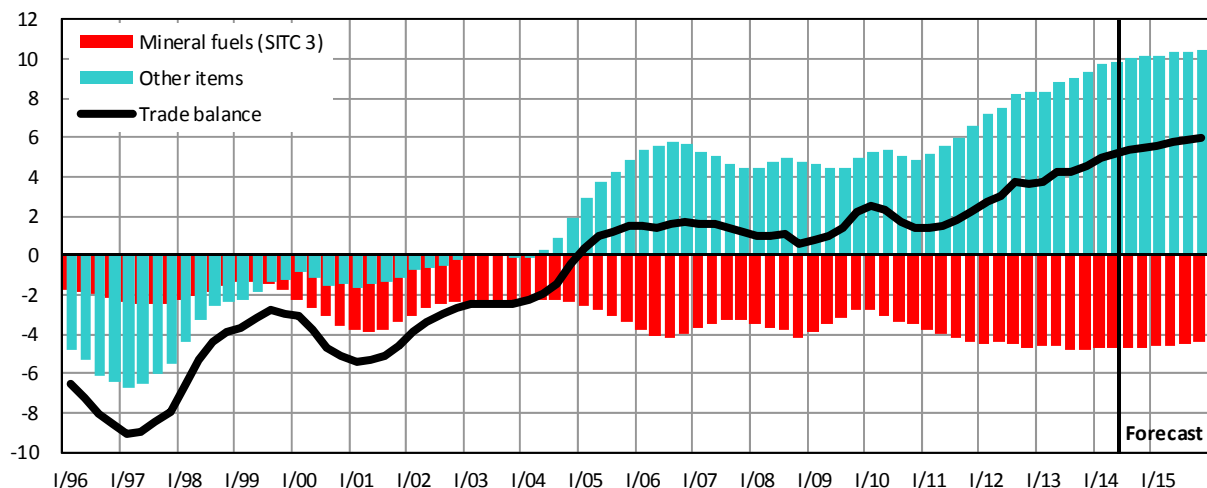
Graph C.4.1: **Current Account**

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



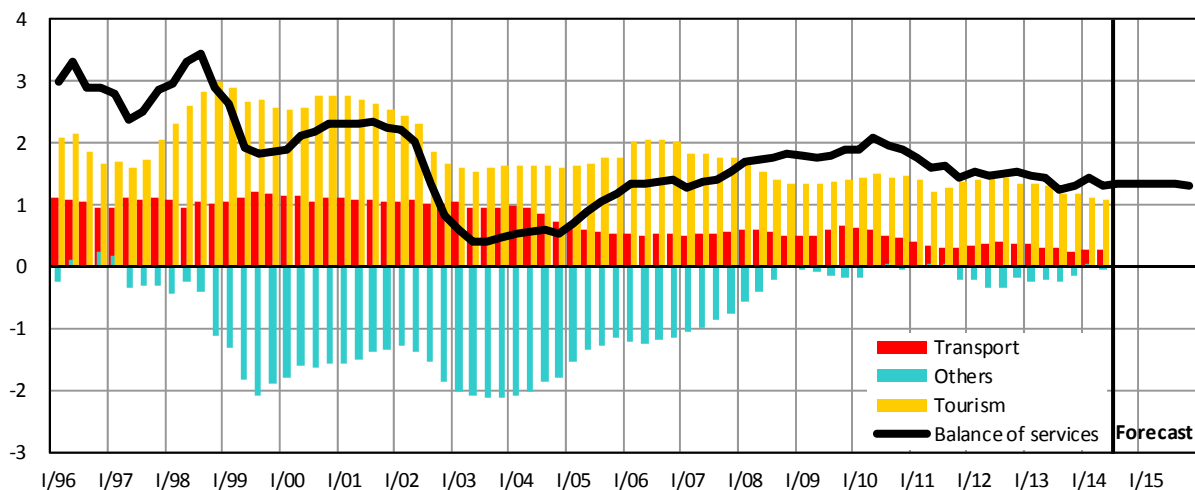
Source: CNB, CZSO, own calculations

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



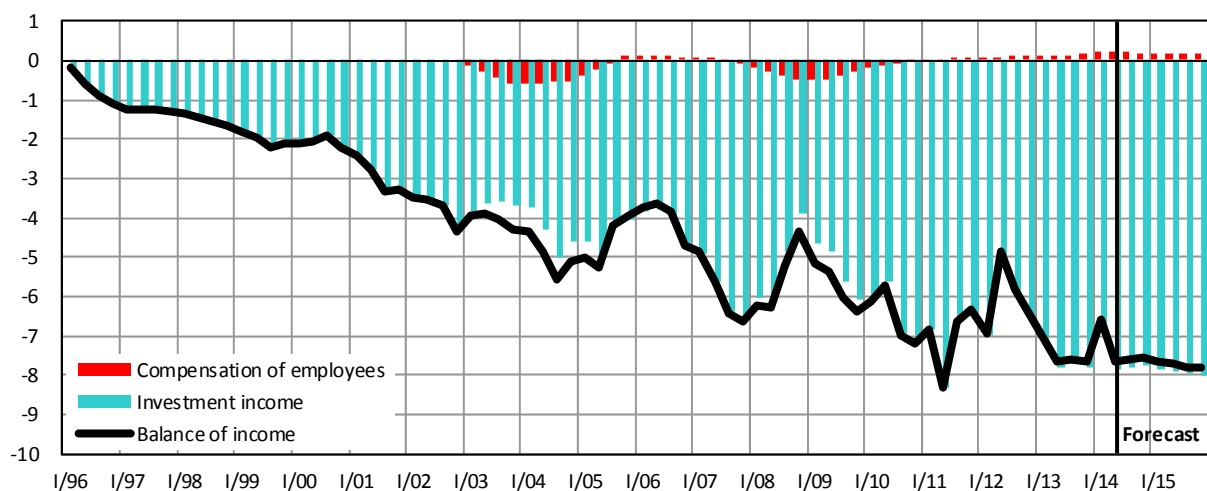
Source: CNB, CZSO, own calculations

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



Source: CNB, CZSO, own calculations

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



Source: CNB, CZSO, own calculations

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

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
											Forecast	Forecast
GDP ¹⁾	<i>average of 2005=100</i>	104.3	108.9	110.5	105.9	109.5	112.7	113.7	114.3	116	118	
	<i>growth in %</i>	4.3	4.4	1.5	-4.1	3.3	2.9	0.9	0.6	1.8	1.7	
Import intensity ²⁾	<i>average of 2005=100</i>	107.8	110.1	109.9	103.2	112.1	116.9	117.2	118.4	122	124	
	<i>growth in %</i>	7.8	2.1	-0.1	-6.2	8.6	4.3	0.2	1.1	3.3	1.6	
Export markets ³⁾	<i>average of 2005=100</i>	112.5	119.9	121.5	109.3	122.7	131.7	133.2	135.4	142	147	
	<i>growth in %</i>	12.5	6.6	1.3	-10.0	12.2	7.4	1.1	1.7	5.2	3.4	
Export performance	<i>average of 2005=100</i>	101.7	106.5	109.4	108.8	112.6	115.5	118.8	117.8	122	125	
	<i>growth in %</i>	1.7	4.7	2.8	-0.6	3.5	2.6	2.8	-0.9	3.7	2.2	
Real exports	<i>average of 2005=100</i>	114.4	127.7	133.0	119.0	138.2	152.2	158.2	159.5	174	184	
	<i>growth in %</i>	14.4	11.6	4.2	-10.5	16.1	10.2	4.0	0.8	9.0	5.7	
1 / NEER	<i>average of 2005=100</i>	95.4	93.0	83.2	86.0	84.2	81.7	84.6	86.6	91	91	
	<i>growth in %</i>	-4.6	-2.6	-10.5	3.4	-2.2	-2.9	3.6	2.3	5.1	0.3	
Prices on foreign markets	<i>average of 2005=100</i>	103.1	106.1	112.7	109.3	110.1	114.3	114.2	113.2	112	113	
	<i>growth in %</i>	3.1	2.9	6.3	-3.1	0.8	3.8	-0.1	-0.9	-0.9	0.5	
Exports deflator	<i>average of 2005=100</i>	98.4	98.6	93.8	94.0	92.7	93.4	96.6	98.0	102	103	
	<i>growth in %</i>	-1.6	0.2	-4.9	0.2	-1.4	0.8	3.4	1.4	4.1	0.9	
Nominal exports	<i>average of 2005=100</i>	112.6	125.9	124.7	111.7	128.1	142.2	152.9	156.3	177	189	
	<i>growth in %</i>	12.6	11.8	-0.9	-10.5	14.7	11.0	7.5	2.2	13.5	6.6	

Source: CNB, CZSO, Eurostat, own calculations

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

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

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

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

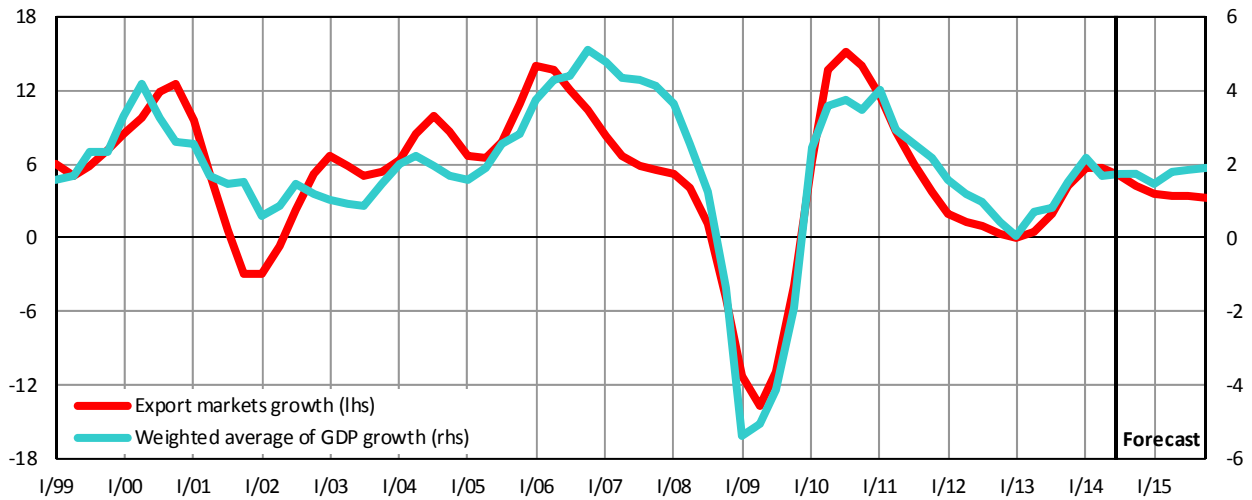
		2013				2014				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
									Estimate	Forecast
GDP ¹⁾	<i>average of 2005=100</i>	113.4	114.2	114.6	115.2	115.9	116.0	117	117	
	<i>growth in %</i>	-0.1	0.4	0.7	1.4	2.2	1.7	1.7	1.6	
Import intensity ²⁾	<i>average of 2005=100</i>	117.2	117.6	118.8	120.2	121.3	122.2	123	123	
	<i>growth in %</i>	0.2	0.1	1.2	2.7	3.5	3.9	3.4	2.6	
Export markets ³⁾	<i>average of 2005=100</i>	132.9	134.3	136.1	138.4	140.5	141.8	143	144	
	<i>growth in %</i>	0.0	0.6	1.9	4.2	5.7	5.6	5.1	4.3	
Export performance	<i>average of 2005=100</i>	114.7	119.1	116.6	120.6	122.4	122.6	120	124	
	<i>growth in %</i>	-6.7	-0.1	2.3	1.2	6.8	2.9	2.6	2.6	
Real exports	<i>average of 2005=100</i>	152.4	159.9	158.7	166.9	172.0	173.8	171	179	
	<i>growth in %</i>	-6.6	0.5	4.2	5.4	12.9	8.7	7.8	7.0	
1 / NEER	<i>average of 2005=100</i>	85.5	86.3	85.9	88.5	90.6	90.6	91	91	
	<i>growth in %</i>	1.8	1.7	1.3	4.3	5.9	5.0	6.4	3.1	
Prices on foreign markets	<i>average of 2005=100</i>	113.7	113.2	113.2	112.5	112.2	112.2	112	112	
	<i>growth in %</i>	-0.6	-0.9	-0.7	-1.2	-1.3	-0.9	-1.0	-0.3	
Exports deflator	<i>average of 2005=100</i>	97.3	97.7	97.3	99.6	101.6	101.6	103	102	
	<i>growth in %</i>	1.1	0.8	0.6	3.1	4.5	4.0	5.4	2.8	
Nominal exports	<i>average of 2005=100</i>	148.3	156.3	154.5	166.3	174.9	176.7	175	183	
	<i>growth in %</i>	-5.6	1.3	4.9	8.7	17.9	13.0	13.6	9.9	

Source: CNB, CZSO, Eurostat, own calculations

See notes to Table C.4.3.

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

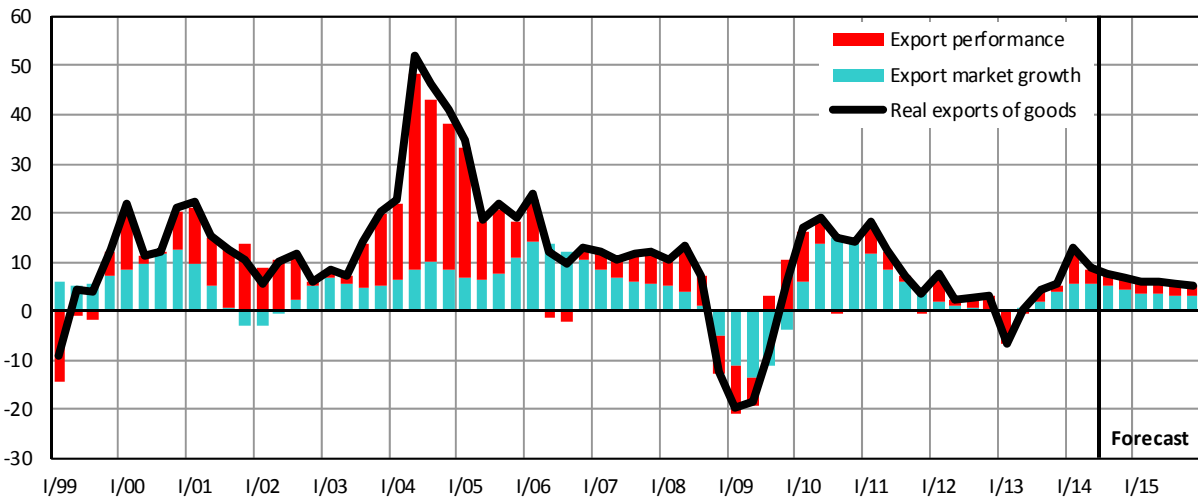
YoY growth rate, in %



Source: Eurostat, own calculations

Graph C.4.6: Real Exports of Goods

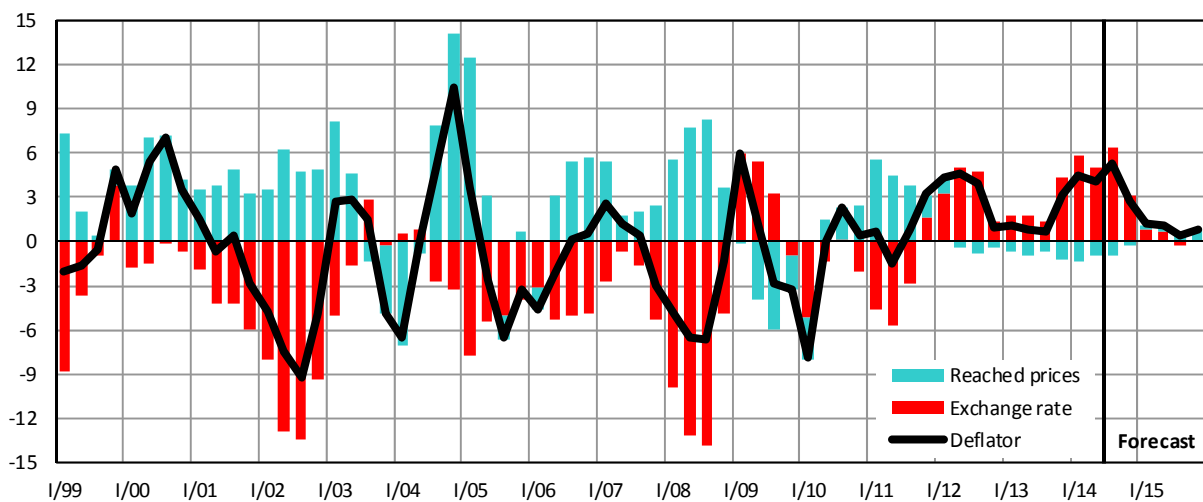
decomposition of YoY growth, in %



Source: CZSO, Eurostat, own calculations

Graph C.4.7: Deflator of Exports of Goods

decomposition of YoY growth, in %



Source: CNB, CZSO, own calculations

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