

## Summary of the Forecast

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

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

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

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

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

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

Table: Main Macroeconomic Indicators

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