

Summary of the Forecast

In 2010, the Czech economy grew by 2.3%. GDP growth, driven especially by foreign trade and, to a lesser extent, also by gross capital formation, could accelerate moderately to 2.5% this year. Economic output could grow at this same rate in 2012, as well.

Compared to the Macroeconomic Forecast of April 2011, GDP growth is projected to be 0.6 p.p. higher for this year. This adjustment reflects the development in the first quarter of this year, which was better than expected.

We expect growth in domestic consumer prices for 2011 of around 2.3%. The inflation rate in 2012 and 2013 will be significantly influenced by the planned VAT adjustments.

We expect the situation on the labour market to improve gradually. After two years of decline,

employment should increase by 0.2% in 2011 and by 0.4% in 2012. The unemployment rate, which evidently peaked in 2010 (average for the whole year), should decrease to 6.7% this year. In 2012, the unemployment rate may even fall to 6.4%. We expect the growth dynamics of the wage bill to gradually recover, possibly increasing by 2.3% this year and by 4.4% in 2012.

The current account to GDP ratio should remain at a sustainable level. The forecast, however, is subject to a higher level of uncertainty in connection with the recent data revision for 2009 and 2010.

Risks for the Czech economy are linked especially to the state of public budgets in several countries at the periphery of the euro zone.

Table: **Main Macroeconomic Indicators**

		2008	2009	2010	2011	2012	2011	2012
		Forecast					Previous forecast	
Gross domestic product	<i>growth in %, const.pr.</i>	2.5	-4.1	2.3	2.5	2.5	1.9	2.3
Consumption of households	<i>growth in %, const.pr.</i>	3.6	-0.2	0.2	0.5	2.0	0.7	1.9
Consumption of government	<i>growth in %, const.pr.</i>	1.1	2.6	-0.1	-2.4	-2.1	-3.4	-2.5
Gross fixed capital formation	<i>growth in %, const.pr.</i>	-1.5	-7.9	-3.1	1.9	3.2	0.7	3.2
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	1.3	-0.6	1.0	1.9	1.1	1.8	1.1
GDP deflator	<i>growth in %</i>	1.8	2.5	-1.2	-0.8	2.6	-0.5	2.7
Average inflation rate	<i>%</i>	6.3	1.0	1.5	2.3	3.5	2.1	3.2
Employment (LFS)	<i>growth in %</i>	1.6	-1.4	-1.0	0.2	0.4	0.2	0.5
Unemployment rate (LFS)	<i>average in %</i>	4.4	6.7	7.3	6.7	6.4	6.9	6.5
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	8.7	0.0	1.2	2.3	4.4	2.1	4.4
Current account / GDP	<i>%</i>	-0.6	-3.2	-3.8	-3.9	-3.6	-4.0	-3.4
<u>Assumptions:</u>								
Exchange rate CZK/EUR		24.9	26.4	25.3	24.2	23.5	24.1	23.5
Long-term interest rates	<i>% p.a.</i>	4.6	4.7	3.7	4.0	4.3	4.1	4.3
Crude oil Brent	<i>USD/barrel</i>	98	62	80	110	112	95	96
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	0.3	-4.1	1.7	1.9	2.0	1.7	2.0