

Summary of the Forecast

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

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

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

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

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

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

Table: **Main Macroeconomic Indicators**

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