

Summary of the Forecast

During the whole 2012, the Czech economy was probably experiencing a shallow recession, from which it is expected to emerge at the beginning of this year. However, economic recovery should be only gradual, with GDP increasing by mere 0.1% YoY. In 2013, the economy should continue to be driven by balance of goods and services surplus, though the positive contribution of net exports should be counterbalanced by a negative contribution of gross domestic expenditures.

More pronounced economic recovery should occur only in 2014, when GDP could increase by 1.4%, with positive contribution of both foreign trade and gross domestic expenditures.

We expect consumer prices to grow by 2.1% in 2013, while in 2014 the average inflation rate should reach 1.8%. Therefore, in both years it should be near the CNB inflation target. We consider the risks of both inflation acceleration and deflation to be low. This year,

the growth of consumer prices will be significantly influenced by a 1 p.p. hike in both VAT rates, effective from 1 January 2013.

Employment, which is likely to have increased by 0.4% in 2012, should stagnate both in this and the following year. However, the unemployment rate should follow a mild upward tendency; it could increase from an estimated 6.9% last year to 7.3% this year (on average for the whole year), and further on to 7.4% in 2014. Growth of the wage bill could reach 1.9% this year and 3.5% in 2014.

The current account deficit as a percentage of GDP should slightly exceed 1% and should thus remain at a low level.

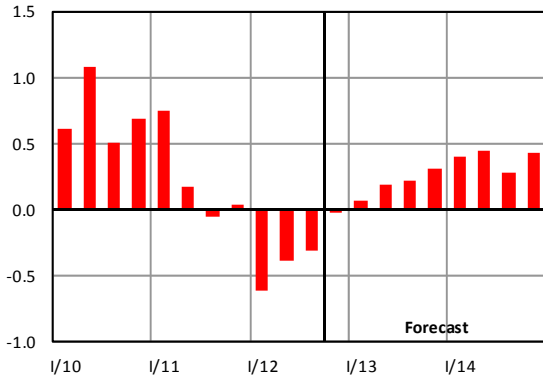
Forecast risks are slightly tilted to the downside. In addition to the further development of the crisis in the euro zone, there is also the risk of low confidence in the Czech economy.

Table: **Main Macroeconomic Indicators**

		2010	2011	2012	2013	2014	2011	2012	2013
		<i>Current forecast</i>					<i>Previous forecast</i>		
Gross domestic product	<i>growth in %, const.pr.</i>	2.5	1.9	-1.1	0.1	1.4	1.7	-1.0	0.7
Consumption of households	<i>growth in %, const.pr.</i>	1.0	0.7	-3.0	-0.7	0.9	-0.6	-3.0	-0.5
Consumption of government	<i>growth in %, const.pr.</i>	0.5	-2.5	-0.9	-1.0	-0.9	-1.7	-1.1	-1.3
Gross fixed capital formation	<i>growth in %, const.pr.</i>	1.0	-0.7	-0.8	0.1	1.3	-0.9	-0.6	0.3
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.5	2.0	1.4	0.7	0.3	2.7	1.8	1.0
GDP deflator	<i>growth in %</i>	-1.4	-0.8	1.1	0.5	0.6	-0.8	1.3	0.9
Average inflation rate	%	1.5	1.9	3.3	2.1	1.8	1.9	3.3	2.1
Employment (LFS)	<i>growth in %</i>	-1.0	0.4	0.4	0.0	0.0	0.4	0.0	-0.2
Unemployment rate (LFS)	<i>average in %</i>	7.3	6.7	6.9	7.3	7.4	6.7	6.9	7.3
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	0.7	2.2	1.7	1.9	3.5	2.3	2.0	2.1
Current account / GDP	%	-3.9	-2.8	-1.6	-1.3	-1.2	-2.9	-1.3	-1.2
<u>Assumptions:</u>									
Exchange rate CZK/EUR		25.3	24.6	25.1	24.9	24.8	24.6	25.1	24.9
Long-term interest rates	% p.a.	3.7	3.7	2.8	2.2	2.3	3.7	2.9	2.7
Crude oil Brent	USD/barrel	80	111	112	105	102	111	113	115
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	2.0	1.4	-0.4	-0.2	0.5	1.4	-0.5	0.3

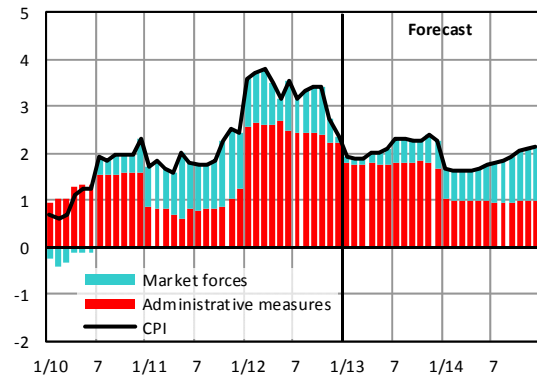
Gradual economic recovery in 2013 and 2014

real GDP, QoQ growth in %, seasonally adjusted



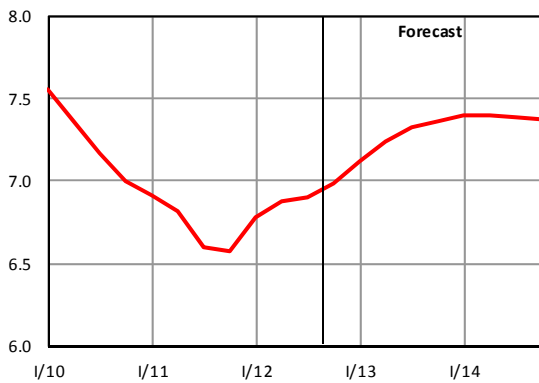
Inflation rate close to the CNB inflation target

decomposition of YoY growth in consumer prices, percentage points



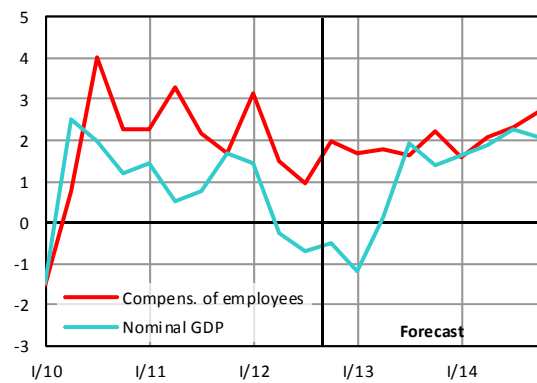
Unemployment rate should not exceed 7.5%

unemployment rate (LFS), in %, seasonally adjusted



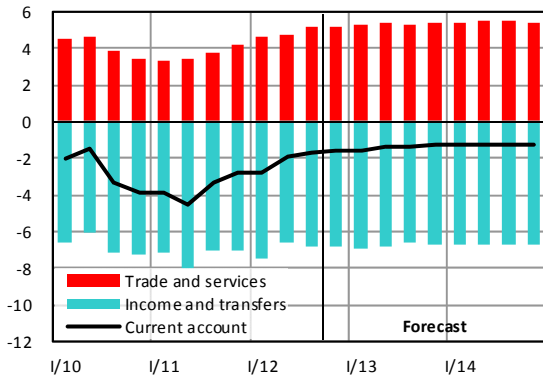
Rising share of compensation of employees on GDP

compensation of employees and nominal GDP, growth in %



Low current account deficit

BoP – current account, in % of GDP (moving sums of the latest 4 quarters)



Government sector deficit below 3% of GDP in 2013

general government balance, in % of GDP

