

Ministry of Finance
Department for Financial Policies

**Macroeconomic
Forecast
Czech Republic**

January 2009

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Macroeconomic forecasts are prepared by the Financial Policy Department of the Czech Ministry of Finance with quarterly periodicity. It contains a forecast for current and following years (i.e. till 2009) and for some indicators an outlook for further 2 years (i.e. till 2011). As a rule, they are published in the second half of the first month of each quarter and are also available on the MoF websites at:

<http://www.mfcr.cz/macroForecast>

Any comments or suggestions that would help us to improve the quality of our publication and bring it closer to the needs of its users are welcomed. Please direct your possible comments towards the following e-mail address:

macroforecast@mfcr.cz

Detailed information on fiscal developments can be found in Fiscal Outlook of the Czech Republic.

Notes:

In some cases, published aggregate data do not match sums of individual items to the last decimal place due to rounding.

List of used abbreviations:

CA	current account of balance of payments
Const.p.	constant prices
Curr.p.	current prices
EA-12.....	euro area containing 12 countries
EMU.....	European Monetary Union
ESA 95	European methodology of national accounting
GDP	gross domestic product
GG	general government
GFS	Government Finance Statistics methodology of the International Monetary Fund
NFC.....	non-fuel commodities
NPI	non-profit institutions
Per.	period
Perc. point, p.p.	percentage point
Prelim.....	preliminarily
sa	seasonal adjustment
TI	transformation institutions
y-on-y terms.	year-on-year terms

Basic notions:

Prelim. (preliminary data)	data from quarterly national accounts, released by the CZSO, which have not been verified yet by annual national accounts
Estimate.....	prognosis of past numbers, which were not available on various grounds in time of elaborating the paper, e.g. previous quarter's GDP
Forecast.....	prognosis of future numbers, using expert and mathematical methods
Outlook	prognosis of more distant future numbers, using extrapolation methods mainly

Symbols used in the tables:

-	dash in the place of number means absence of the phenomenon
.	dot in the place of number means unavailability or unreliability of the figure
x, (space).....	cross or space in the place of number means the entry is not possible from logical reasons

Deadline for data sources: 16th January 2009

A Forecast assumptions

High divergence of possible future developments of exogenous parameters considerably increases uncertainty of Macroeconomic Forecast. Interpretation of forecasts under these conditions is discussed in Box C.1.

The forecast was made on the basis of data, known as of 16 January 2009. Neither political decisions nor newly published statistics and events on world financial or commodity markets could be taken into account after this date.

A.1 External environment

The world economy is in the grips of crisis on financial markets and its subsequent spillover into the real economy.

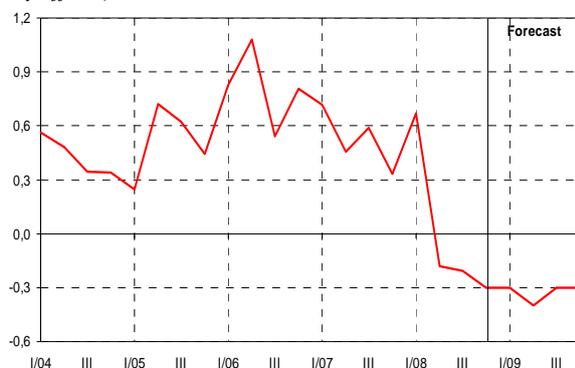
The euro area has been in recession since the second quarter of 2008 while the US economy recorded quarter-to-quarter decline in GDP in the third quarter too. The situation has further dramatised after the collapse of US investment bank Lehman Brothers in mid-September 2008. At the turn of September and October a radical change occurred. Advanced economies' problems have deepened, extending to emerging economies too. Under available data, world trade fell sharply in November with industrial production falling too in many countries.

Considerable uncertainty is connected with concerns about effectiveness of adopted and implemented measures of fiscal and monetary policies in the most-hit countries.

Consequently, under current state of knowledge it is not possible to estimate reliably depth or duration of global economy's problems.

Graph A.1.1: Growth of GDP in EA12

QoQ growth in % (adjusted for seasonal and working day effects)



Our projection stems from the assumption that no more major negative events will occur on the financial markets and financial sector crisis will not deepen. Nevertheless, real economy's turmoil can be expected to persist in global terms till 2010.

With extremely high volatility of oil prices it is also very difficult to draw a realistic scenario of their future development.

Dollar prices of Brent oil fell sharply in the second half of 2008. For the next period, a scenario of recovery of medium-term tendency to moderate growth similarly as in 2002-2006 was chosen. In the conditions of global cooling a fall in demand can be expected, which can be however compensated by supply restriction by means of either cuts in OPEC's production quotas or by economic reasons of producers with higher extraction costs.

Graph A.1.2: Dollar Prices of Brent Crude Oil

in USD per barrel



Impacts of external environment problems on the Czech economy are described in Box C.2.

For more details on external environment, see chapter C.8.

A.2 Fiscal policy

Government sector performed well in previous two years, which had been influenced especially by cyclical peak. However, the current development of the economy will bring, should volume of spending be not reconsidered, a worsening of deficit, reminding once again of structural problems on the spending side of general government.

For 2008, deficit of government sector is expected to have reached 1.2 per cent of GDP, which is some 1.7 p.p. better than set in the initial fiscal target. Under current knowledge, deficit thus deepened negligibly compared with 2007 as effects of both less favourable economic development and inclusion of reserves into spending had slightly prevailed over economies stemming from stabilization measures. Risk for the deficit size estimate is seen especially in accrual volume of tax on legal persons' income for 2008.

General government deficit for 2009 is based on an assumption of adherence to budgeted expenditures except for an increase in social spending, especially unemployment benefits, and lower general government revenue due to slower pace of the economy's growth. In such circumstances, 2009 deficit for government institutions sector can be expected at 3.0 per cent of GDP. Should adopted spending ceilings for 2010 and 2011 be kept, then deficits in the mentioned years would reach 2.9 per cent and 2.5 per cent of GDP, respectively.

The scenario is then autonomous where room is left for automatic stabilizers to act freely just as set by fiscal rules of the Czech Republic. Fiscal policy in such situation supports, quite automatically, economic activity in the CR.

The government nevertheless expressed its determination to make additional budgetary cuts of some CZK 12-15bn for 2009, i.e. approx. 0.4 per cent of GDP. Then, when changes in 2009 state budget are approved by the Czech parliament, effect of automatic stabilizers will be somehow weakened. From the view of long-term sustainability of the Czech general government, sharp rise in demand of individual EU governments for financial sources, and due to approaching to Maastricht deficit criterion, this step can be however assessed as stabilizing one. At the same time, the government will create room for decision on possible further, or differently structured, boosting of domestic economy and will decide on potential change of spending frameworks for the next period.

Reform measures introduced from 1 January 2008 and aimed to stabilize general government can be also assessed as anti-crisis steps as they strengthen household demand, reduce tax burden of businessmen, increase labour market flexibility and cut some expenditures of the state budget, as currently proposed by many experts.

At the same time many other measures were adopted over 2008 to boost the Czech economy under worsening external economic environment and its possible impacts on domestic real economy. Following measures can be mentioned:

- Cuts in social security contributions paid by employees with expected budgetary impact of CZK 18.4bn, which provided, compared with initially planned change in income tax, additional funds to all households,
- CZK 14.4bn contribution to construction and modernization of infrastructure within the State Fund of Transport and Infrastructure,
- Increase of salaries in the government sector by CZK 2.7bn as a response to a decrease of public sector salaries in 2008 in real terms,
- Increase of capital of CEB (Czech Export Bank) and other export and guarantee promoting institutions by some CZK 2bn,

- Increase of capital of Supporting Guarantee Agricultural and Forestry Fund by CZK 0.3bn,
- CZK 0.6bn allocation for investment incentives for technology centres projects,
- CZK 0.5bn support of project co-financing from EU funds aimed at projects improving the environment (within the Financial Perspective from 2004-2006).

Inflow of finance from EU funds remains to be a positive expansionary factor. In principle, these means have no direct effect on general government balance as they are government revenue and expenditure at the same time. Nevertheless, they represent large additional demand-generating resources.

For more details on general government till 2008, see chapter C.7.

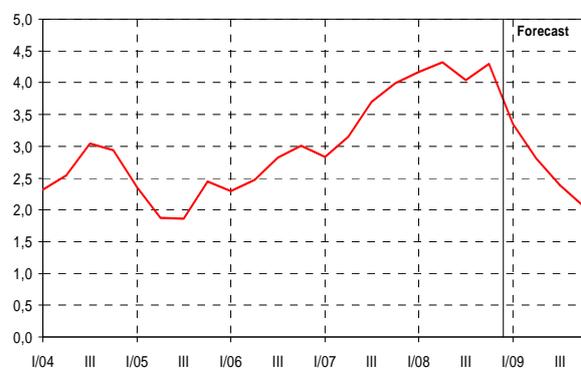
A.3 Monetary policy and exchange rates

Monetary policy of the CNB is based on inflation targeting regime. Presently the CNB's inflation target is set at 3 per cent with tolerance band of ± 1 p.p. and is defined as year-on-year increase in consumer price index. In March 2007 a new inflation target of 2 per cent was announced, effective from January 2010. Inflation target is set as medium-term with monetary-policy horizon of 12-18 months.

Dramatic decline in cost- and demand-related pressures deviated risks considerably toward anti-inflationary course. A space thus opened for the CNB to cut key interest rates, which could help restore economic activity.

However, reduced effectiveness of monetary policy remains to be a problem. It is seen in considerable spreads of inter-bank and especially of client credit rates compared with monetary-policy rates due to still very high values of risk premia (see Box C.2 for more).

Graph A.3.1: **PRIBOR 1Y**
in %



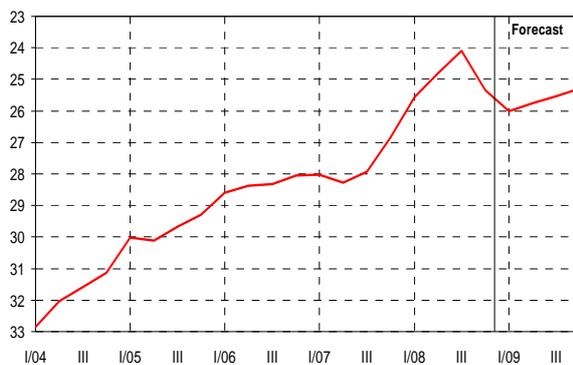
For more details on interest rates, see chapter C.6.

As of 21 July 2008, a historic record of the exchange rate of CZK 22.97/EUR was reached. Following correction, caused by outflow of financial investment from emerging markets, resulted in average value of the exchange rate of CZK 26.11/EUR in December 2008, which represents year-to-year appreciation by mere 0.7 per cent. As of 16 January 2009 the exchange rate was CZK 27.16/EUR. Such exchange rate was weaker by full 5.0 per cent compared with the trend value. Depreciation of the exchange rate could help exporters to cope better with drop in external demand.

Adopted scenario assumes that in the first quarter of 2009 the exchange rate will reach CZK 26.00/EUR on average. In the following period long-term tendency toward moderate nominal and real appreciation should be restored.

Risks are deviated rather toward weaker values of the exchange rate.

Graph A.3.2: Exchange Rate
CZK/EUR



A.4 Structural policies

The current unfavourable development of the world economy made the Czech government adopt several extraordinary measures in recent months. On 2 December 2008 the Czech prime minister declared **Strategy of Preparedness and Growth Acceleration**, aimed to restore confidence in financial sector, prevention and elimination of risks related with the world crisis, stabilization and increase in flexibility of economic environment and providing pro-growth impulses. Individual instruments of the Strategy (fiscal and monetary policy, structural policies, impulses to supply and demand) will be applied depending on further course of the Czech economy.

Following upon the Strategy, government's **National Economic Council** (NERV in the Czech acronym) was established on 8 January 2009. The Council's primary task is to analyze risks and impacts of the current financial and economic crisis and to identify measures and tools to minimize unfavourable effects.

Business environment

Medium-term reform measures are aimed to restrict red tape, reduce administrative burden of businessmen and simplify business environment. The most important reforms adopted in the last quarter include **act on free movement of services** approved by the Czech government on 5 January 2009 and implementing Directive on internal market services (considerably liberalizing provision of services in the EU) into the Czech system of law.

With a view of removing excessive bureaucratic burden, the government approved **Plan to Reduce Administrative Burden of the Businessmen** setting out binding approach to cut the burden by 20 per cent till 2010.

Financial market

In effort to strengthen confidence in banking sector, **100 percent guarantee for deposits** up to EUR 50 000 was introduced.

On 8 October 2008 the Czech government approved the **subject design of the act on financial market supervision**. The primary aim of the act is to introduce a unitary law regulating practices of the CNB when executing financial market supervision.

Taxation

In taxation further shift from direct taxes to indirect ones occurred. Corporate income tax rate was reduced from 21 per cent in 2008 to 20 per cent in 2009. Since 1 January social security contributions were reduced while amendments to the acts on real estate tax and on inheritance and gift tax came into force.

To boost business environment and reduce administrative burden, a comprehensive reform of tax system is under preparation covering reforms of income and property taxation, reform of taxation process and institutional reform. Within the taxation process adjustment, the government approved a new **taxation order** on 19 November 2008, resulting in reduction of administrative costs and simplification of administrative process, restricting some competences of the minister of finance and introducing a new concept of tax execution.

Education, science and research

High quality of education is of key importance for competitiveness and transition to knowledge economy. In 2008 **White Book of Tertiary Education** was finished to serve as basis for overall reform of university education. The basic concept of the reform consists in elimination of the most serious barriers to access to university education, changes in university education structure

and its financing. The act should be adopted this year. On 5 January 2009 the government approved **Implementation Plan of the Lifelong Learning Strategy**, representing a coherent conception of lifelong learning for 2007-2015.

Presently **Reform of the R&D and Innovation System**, approved by the government on 26 March 2008, is being implemented. It is aimed at simplification of administration, more effective use of public funds for R&D and higher contribution of research, development and innovation for the Czech economy.

Energy and climate changes

In the sphere of energy and climate change further shift is seen toward reducing energy intensiveness of European economies and their transformation to low-carbon ones. In December 2008 the European Council and European Parliament adopted the so-called **climate-energy package** setting out de facto a real market with carbon since 2013. Final version of the package is favourable for the Czech Republic as efforts to put a gradual launching of energy auctions through were successful and concerns about leap growth of energy prices and redeployment or liquidation of energy-intensive industries were dispelled.

To boost development of production and use of renewable energy resources, on 16 December 2008 the government approved an amendment to the **act on excise tax** exempting pure bio-fuels from taxation (as regards fuels with high share of bio-component, the share of bio-component is tax-exempt).

Labour market

Several persisting structural problems (lack of motivation to work, discrimination of older workers, insufficient harmony of education system with changing demands of the labour market and low regional and professional mobility) are being joined by cyclical problems as well.

Strengthening of economic activity is the main aim of amendments to the **act on employment and act on assistance in material poverty** (effective from 1 January 2009) increasing interconnection of job seekers' material-security claims with system of assistance in material poverty and introducing clear rules of active employment policy. The period of support in unemployment is shortened by 1 month while unemployment benefit is increased – for the first two months it amounts to 65 per cent of average net monthly earning reached in the last job, for the next two months to 50 per cent and for the remaining part of period of support to 45 per cent. Way of payment of material-poverty assistance benefit has been newly tightened: 35 per cent of benefit at least and 65 per cent at most is

provided in the form of vouchers for purchase of goods.

Payments of **sickness benefits** was abolished for the first three calendar days while during the fourth through fourteenth day the benefits will be paid out by an employer. The measure is to eliminate benefits abuse and to achieve reduction in sickness rate in the CR, which is above Europe's average in the long run. The changes are accompanied with cut in social security rate by 1.0 p.p. (in 2010 by further 0.9 p.p. for some employers). Also security contributions paid by employees are cut by 1.5 p.p. (employees are now paying only contributions for pension and health security) with rate of personal income tax and size of tax deductions being preserved.

Approved **first stage of pension reform** extended gradual increase of the statutory retirement age up to 65 years for men and 62-65 years for women depending on number of brought-up children. Furthermore, it extended necessary time of insurance to 35 years and excluded time of study from the category of alternative periods. It re-considered also definition of full and partial disablement, introducing three degrees of disablement with differing size of pension paid. It strengthened **motivation of older persons** to stay on the labour market by means of more severe cuts in old-age pensions in case of early retirement and by growth of percent term of old-age pension in case of concurrence of employment and drawing a full or partial pension.

The second stage should change a structure of financing of the basic pension system and make changes in conditions of supplementary pension insurance and life insurance. Under the **third stage** the insured should have possibility of partial opt-out from the basic pension insurance connected with individual saving.

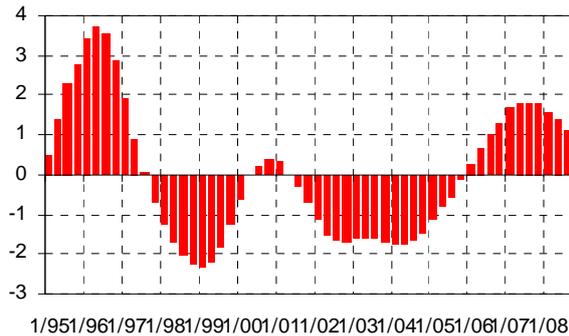
Continuing reform efforts make head for harmonization of family and working life (the so-called **pro-family package**) and further liberalization and flexibility of labour market legislation.

B Economic cycle

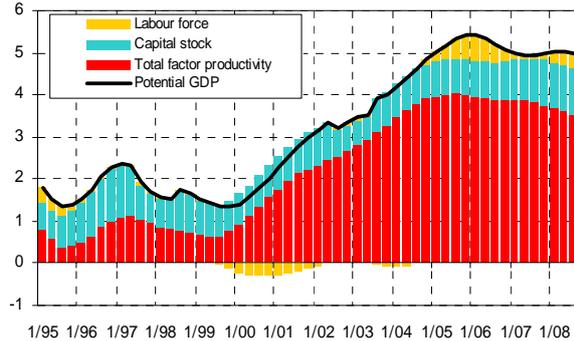
B.1 Position within the economic cycle

Potential product, specified on the basis of calculation by means of Cobb-Douglas production function, indicates the level of GDP with average use of production factors. Growth of potential product describes possibilities of sustainable growth of the economy free of imbalances. It can be broken down into contributions of labour force, capital stock and total factor productivity. Output gap identifies cyclical position of the economy, expressing the relation between GDP and potential product. Concepts of potential product and output gap are used for analysis of economic growth and calculation of the general government structural balance.

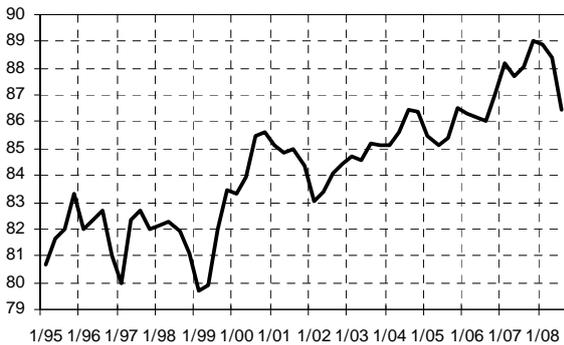
Graph B.1: Output Gap
in % of GDP



Graph B.2: Potential Product Growth
in %, contributions in percentage points



Graph B.3: Utilisation of Capacities in Industry
in %



Graph B.4: Total Factor Productivity
YoY growth in %

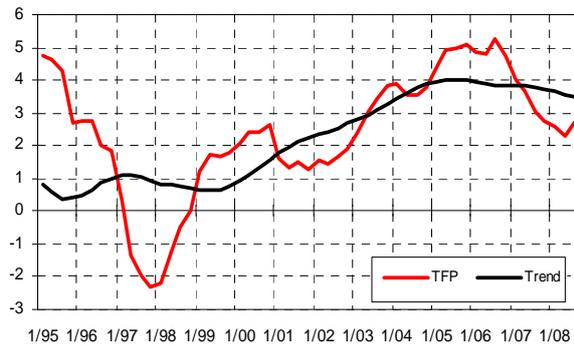


Table B.1: Output Gap and Potential Product

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
		<i>Estimate</i>									
Output gap	<i>per cent</i>	-1,9	0,0	-0,2	-1,5	-1,6	-1,7	-0,7	0,8	1,8	0,9
Potential output	<i>growth in per cent</i>	1,4	1,7	2,6	3,3	3,7	4,5	5,2	5,2	5,0	5,0
Contributions:											
TFP	<i>percentage points</i>	0,7	1,2	2,0	2,5	3,0	3,7	4,0	3,9	3,8	3,6
Fixed assets	<i>percentage points</i>	0,8	0,8	0,8	0,7	0,7	0,8	0,8	0,9	1,0	1,1
Participation rate	<i>percentage points</i>	-0,2	-0,5	-0,4	-0,1	-0,2	-0,2	0,2	0,2	-0,2	-0,1
Demography ¹⁾	<i>percentage points</i>	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,3	0,3	0,4

¹⁾ Contribution of growth of working-age population (15-64 years)

Positive **output gap** fell further in the third quarter of 2008 to some 1.0 per cent of potential

product from 1.5 per cent in the previous quarter. A considerable slowdown in year-on-year growth in

the fourth quarter should nearly eliminate output gap while in 2009 the economy will be obviously deeply below its potential.

Diminishing output gap is reflected in steep fall in the number of vacancies, use of production capacities in industry and inflationary pressures. Besides, rate of unemployment is growing.

Year-on-year growth of **potential product** has kept close to 5 per cent since 2007. The current economic problems should be of cyclical character mostly and pace of potential product should decrease only slightly.

For the most part, growth of potential product is pulled by trend of **total factor productivity**. Lower growth of observed

productivity in recent period can be regarded as usual development during cyclical slowdown. Moreover, it is compensated by favourable development of other components of potential product growth.

On the **labour market**, decline of participation has been slowing (ratio of the number of the employed and unemployed to working-age population). It can be interpreted that adopted reform measures in taxation and social benefits moderate decline of the number of persons that are able and willing to work. A contribution of an increase in the **economy's capitalization** to growth of potential product is also slightly growing.

B.2 Leading composite indicator

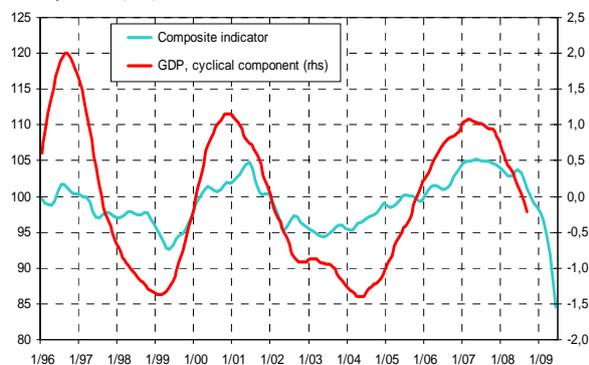
Leading composite indicator is set up based on the results of business cycle surveys meeting basic demands made on cyclical leading indicators – economic significance, statistically observable relation to the course of economic cycle and timely and regular availability.

Based on an analysis of relations between individual business cycle indicators and cyclical component of real GDP, a change was made in construction of leading composite indicator after release of national account data on 10 December 2008. Presently, indicator is set up from those business cycle indicators that showed a high level of correlation with average lead of six months.

Graph B.5: Composite Leading Indicator

average 2000=100 (lhs)

synchronized with cyclical component of GDP based on statistical methods (Hodrick-Prescott filter)
in % of GDP (rhs)



Leading composite indicator had signalled slowdown in growth dynamics for the first three quarters of 2008. Released data on real GDP development confirmed this signal, which was proved also by falling relative cyclical component of GDP, whose value for last month (September) had been negative.

For the fourth quarter of 2008 and first half of 2009, indicator signals further slowdown in the economic growth. Therefore, relative cyclical component of GDP will further fall below 1 per cent in the next period. Some components of composite indicator showed a moderate growth in last month, which could signal slowdown in decline or virtually turnaround in indicator's development in the next period.

The components include especially three-month outlook of credit availability in construction and six-month outlook of economic situation in industry. On the other hand, indicator is greatly pulled downward by three-month outlook of export demand in industry.

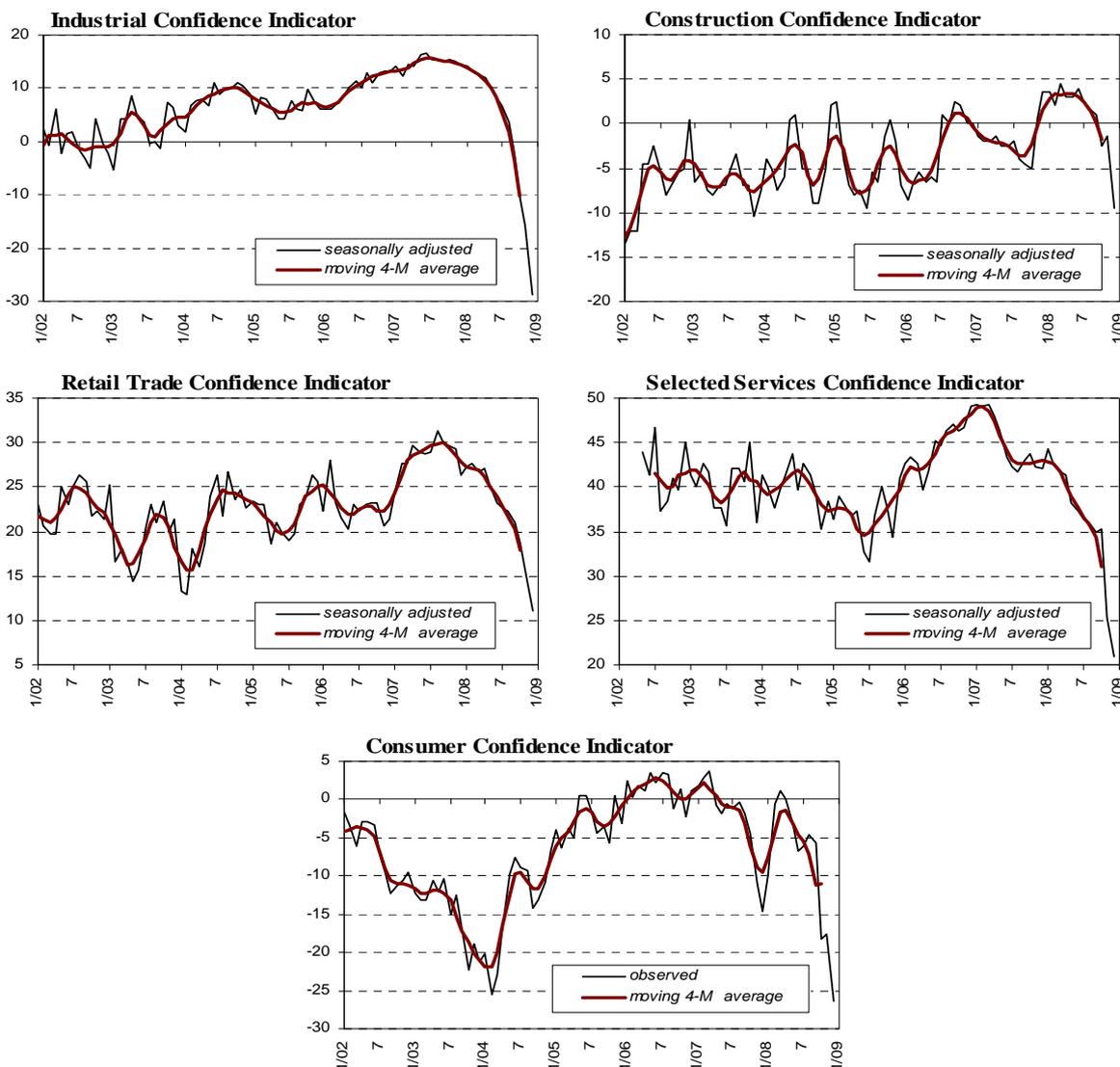
B.3 Individual business cycle indicators

Business cycle surveys express respondents' views of current situation and short-term outlook and serve to identify possible turning points of economic cycle in advance. The main advantage lies in quick availability of results reflecting a wide range of effects shaping expectations of economic agents.

The surveys share a common characteristic: respondents' answers do not give a direct quantification but use more general expressions (such as better, the same, worse, or growing, not changing, falling etc.). Tendencies are reflected in business cycle balance, which is a difference between answers „improvement“ and „worsening“, expressed in per cents of observations (see Methodology of the CZSO).

Aggregate indicator of confidence is presented as weighted average of seasonally adjusted indicators of confidence in industry, construction, selected services and consumer confidence indicator. Weights are set up as follows: indicator of confidence in industry is assigned weight of 40 per cent, construction and trade 5 per cent both, selected services 30 per cent and consumer confidence indicator 20 per cent.

Graph B.6: Confidence Indicators



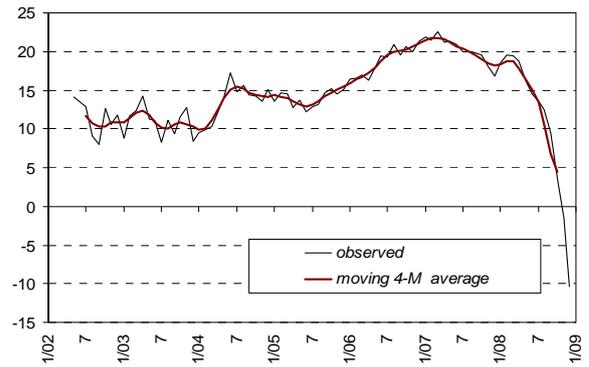
In the end of 2008 it was clearly seen that the business sphere perceived fully the extent of economic problems. As negative effects in the economy had sudden impact in the fourth quarter, higher assessment of business cycle indicators toward worsening was recorded. Tendencies to decline thus were emphasized.

In industrial and construction businesses, assessment of both current economic situation and of demand, especially foreign (industry), worsened in the fourth quarter. For the first quarter of 2009 respondents allow for further slowdown in production and construction activities and fall in employment. Also their expectations as regards total economic situation worsened.

Slowdown in total economic activity in the CR manifested itself also in answers of respondents in **trade** and **selected services** by worsened assessment of their economic situation.

Consumer confidence was falling further in the fourth quarter of 2008. Consumers assume in December survey that development in the next twelve months will bring worsening of both total economic situation and their own financial situation. Share of respondents expecting increase in unemployment rose while share of consumers intending to save fell.

Graph B.7: **Aggregate Confidence Indicator**



Decline of aggregate indicator of confidence has been accelerating since the first quarter of 2008. Besides business indicator, which had shown a slight tendency to decline as soon as in the first quarter, also indicator of consumer confidence has started falling since the second quarter. Based on opinions of economic entities it can be assumed that economic activity slowed in the fourth quarter of 2008 and no change in this tendency can be expected in the first quarter of 2009.

C Forecast of macroeconomic indicators

Box C.1: Interpretation of point forecasts under conditions of increased uncertainty

Global financial and economic crisis reflects in macroeconomic forecasts not only by permanent worsening of outlooks but also by their increased uncertainty. With available knowledge it is very difficult (if not impossible) to estimate depth and duration of global problems, not mentioning the extent and intensity of impacts on the Czech economy, which is not primary source of problems and only absorbs shocks from external environment.

Tremendous uncertainty can be documented by random examples:

1. E.g. IMF World Economic Outlook from October 2008 (Appendix 3.1)¹ illustrates uncertainty by stating that oil futures option prices from 19 September 2008 suggest that the 90 per-cent confidence interval for end-2008 will range from USD 60 to USD 165 a barrel. This calculation was based on „hard“ data of commodity market grounded on investors' positions. Actual spot prices of various types of oil were at some USD 36 a barrel on 31 December 2008.

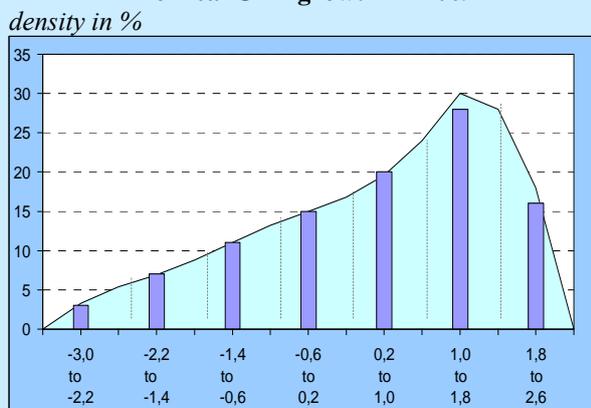
2. ECB in its projection from September 2008 forecast economic growth in the euro area with 75 % probability between 0.6 % and 1.8 per cent in 2009. In December projection² this interval shifted to -1.0 % to 0,0 %, i.e. to the range to which probability of less than 10 percent had been assigned to more than 3 months ago. (Note: ECB's projection is quoted here as it is the one and only international institution producing exclusively range forecasts. Similar shift in forecasts has been seen also as regards other international and national institutions engaged in macroeconomic forecasting including the MoF.)

To make orientation of Macroeconomic Forecast's users easier, its authors tried to construct probability distribution for real GDP growth in 2009 based on the current state of knowledge.

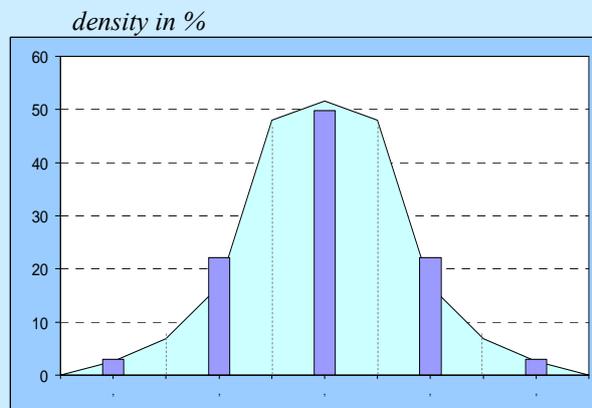
Within equally broad intervals, economic growth between 1.0 % and 1.8 % is considered to be the most probable. Growth higher than 1.8 % is not excluded but probability is low. On the other hand, growth lower than 1.0 % or small decline in GDP is relatively probable. Probability of decline by 2.0 per cent or more is very small.

The said above leads to **skewed and very flat probability distribution**, as seen from Graph C.1.1. For the sake of comparison, Graph C.1.2 illustrates customary normal probability distribution.

Graph C.1.1: Flat and skewed probability distribution of real GDP growth in 2009



Graph C.1.2: Normal probability distribution



Several different point forecasts can be assigned to skewed flat probability distribution from graph C.1.1:

- Mode as the most probable forecast of the future with 1.4 percent value,
- Median – 50% chance that the result will be better and the same chance that it would be worse - of 0.8 %,
- Arithmetic average of 0.5 %,
- Quadratic mean of 0.4 %.

By choosing statistics, the **MoF tends to practice of international institutions** – OECD³, IMF⁴, EC and EBRD – interpreting their central projections as a **mode of distribution**, i.e. the **most probable forecast of the future**. Risks, surrounding the projection, are specified. They can be, and presently are, highly imbalanced.

¹ <http://www.imf.org/external/pubs/ft/weo/2008/02/pdf/c3.pdf>

² <http://www.ecb.int/pub/pdf/other/eurosystemstaffprojections200812en.pdf>

³ <http://stats.oecd.org/glossary/detail.asp?ID=310>

⁴ <http://www.imf.org/external/pubs/ft/weo/2008/02/pdf/c1.pdf>

C Forecast of macroeconomic indicators

Consequently, point forecast of GDP growth of **1.4 per cent with risks strongly deviated downwards** corresponds to the given situation. 75 % probability interval can be set in broad range between **-1.2 % and 2.0 %**.

Data from the previous forecast from October 2008 are marked in italics. Data in the tables covering the year 2011 are indicative, outlining only the direction of possible development and as such are not commented in the following text.

Development of the main macroeconomic indicators of the Czech economy and their forecasts are summed up as follows:

Table C.1: Main Macroeconomic Indicators

		2004	2005	2006	2007	2008	2009	2010	2008	2009
		Estimate						Forecast		Previous forecast
Gross domestic product	<i>increase in %, const.pr.</i>	4,5	6,3	6,8	6,0	4,0	1,4	2,1	4,4	3,7
Consumption of households	<i>increase in %, const.pr.</i>	2,9	2,5	5,4	5,3	2,9	3,2	3,0	3,3	3,9
Consumption of government	<i>increase in %, const.pr.</i>	-3,5	2,9	-0,7	0,4	1,5	0,5	0,0	1,1	0,5
Gross fixed capital formation	<i>increase in %, const.pr.</i>	3,9	1,8	6,5	6,7	4,5	-0,2	2,0	5,1	4,5
Contribution of foreign trade to GDP growth	<i>p.p., const.pr.</i>	1,3	4,6	1,6	1,0	2,9	-0,7	0,2	2,2	0,4
GDP deflator	<i>increase in per cent</i>	4,5	-0,3	0,9	3,6	1,3	1,8	1,8	2,4	2,1
Average inflation rate	<i>per cent</i>	2,8	1,9	2,5	2,8	6,3	1,3	2,1	6,4	2,9
Employment (LFS)	<i>increase in per cent</i>	-0,6	1,2	1,3	1,9	1,5	-0,3	-0,8	1,6	0,7
Unemployment rate (LFS)	<i>average in per cent</i>	8,3	7,9	7,1	5,3	4,4	5,2	5,9	4,4	4,5
Wage bill (domestic concept)	<i>increase in %, curr.pr.</i>	6,3	6,9	8,0	9,3	8,1	4,2	5,3	9,5	8,3
Current account / GDP	<i>per cent</i>	-5,2	-1,3	-2,6	-1,8	-2,8	-1,8	-1,7	-2,5	-2,3
<i>Assumptions:</i>										
Exchange rate CZK/EUR		31,9	29,8	28,3	27,8	25,0	25,6	24,7	24,9	24,7
Long-term interest rates	<i>% p.a.</i>	4,8	3,5	3,8	4,3	4,6	3,8	3,8	4,7	4,4
Crude oil Brent	<i>USD/barrel</i>	38	54	65	73	98	55	69	113	120
GDP in Eurozone (EA-12)	<i>increase in %, const.pr.</i>	2,1	1,7	2,9	2,6	0,9	-1,0	-0,7	1,3	0,7

Box C.2: Impact of global financial and economic problems on the Czech economy

Before global financial and economic problems worsened in September 2008, the Czech Republic had enjoyed favourable macroeconomic situation. Economic growth, slowing down naturally due to cyclical effect, was despite extremely appreciated exchange rate pulled by foreign trade contribution. Acceleration of inflation was of temporary character, similarly as in neighbouring countries. Functioning of labour market has improved recently. Current account deficit has showed very sustainable values in international comparisons and foreign exchange debt of economic entities has not been significant. Fiscal and monetary policies have been quite adequate. In the light of subsequent events, the only substantial shortcoming can be seen in too high commodity specialization of exports in some machinery products, especially in cars and their accessories.

Unfavourable external development should reflect in the Czech economy through following channels:

1. Foreign trade

Euro area's economy has been in recession since the second quarter of 2008 and probably will stay in it over 2009. Also growth of other our important trade partners (Slovakia and Poland) has been slowing. As a result, volume of export markets (weighted pace of growth of their imports) will obviously fall after estimated growth by 3.8 per cent in 2008 to some 0.4 per cent in 2009. Lower demand for some export products will thus reflect in cut in contribution of foreign trade with goods and services to GDP growth from 2.9 p.p. in 2008 to some -0.7 p.p. in 2009 (see chapter C.4 and C.1 for more).

2. Confidence in the economy

Fall in confidence (described in chapter B.3) and concerns of economic entities, supported by imbalanced approach of some media, will obviously have psychological effect of more prudent microeconomic decisions. From macroeconomic point of view it will lead to slowdown in growth of domestic demand, mainly for investment. Contribution of domestic final demand (without change in inventories) to GDP growth could fall from 3.0 p.p. in 2008 to 1.8 p.p. in 2009.

3. Financial intermediation

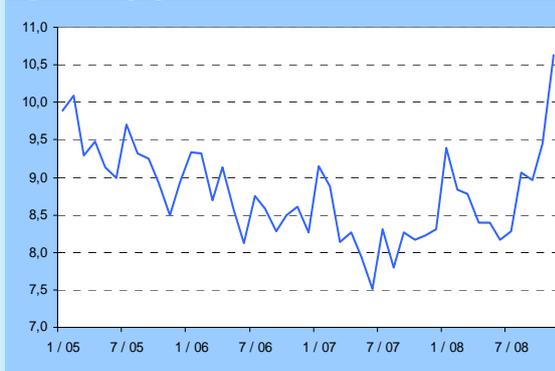
Despite unfavourable external development and gradual cooling of domestic economy, the Czech banking sector remains in good shape. Banks are sufficiently capitalized (as of 30 September 2008 capital adequacy of

the banking sector was 12.89 per cent) and profitable (growth of profit was nearly 12 per cent in the first three quarters of 2008, year on year. Their exposure toward „toxic“ assets is negligible and quality of credit portfolio is good. Banks have not granted credits in foreign exchange to a higher extent.

There is tension on inter-bank money market since October. It stems from surveys of average daily money-market turnovers that banks are not willing in fact to lend one another larger volumes of money for a period longer than one week. Moreover, in the end of October money market rates (especially of longer maturities) got off the corridor set by discount and Lombard rates. They return to this band rather slowly in spite of two cuts in CNB rates in November and December by 1.25 p.p. in total. Spread between PRIBOR and PRIBID rates remains between 20 and 45 basic points. Also increased interest of banks in deposit facilities and 2W repo tenders is visible. On the other hand, three-month repo tenders are hardly used by the banks. Surplus of liquidity is still characteristic for the Czech banking.

From data as of 30 November 2008, growth of risk premium and preference of bank liquidity is visible⁵. Under normal circumstances it could be deduced from difference between interest rates on new credits and some of money-market rates but with regard to the fact that part of the money market „has frozen“, 2W repo rate of the CNB has been chosen for this purpose⁶. Growth of risk premium and preference of liquidity appeared especially during November (see Graphs C.2.1 and C.2.2). Cuts in monetary-policy rates, that is to say, did not result in similar cuts in interest rates for new credits (for many categories of credits interest rates even increased).

Graph C.2.1: Spread between interest rate on new loans to households and 2W repo rate in percentage points.



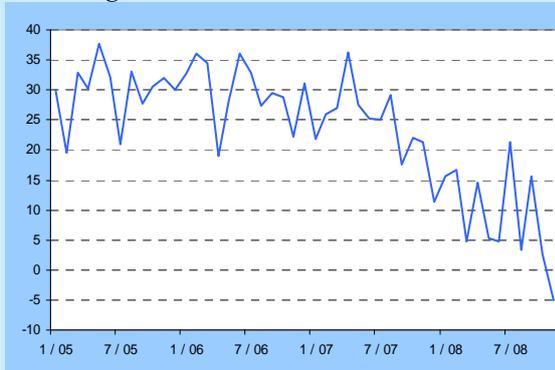
Graph C.2.2: Spread between interest rate on new loans to firms and 2W repo rate



Source: CNB

New credits to firms show weakening dynamics of growth, which is not the case of new credits provided to households, whose volume fell in November in year-on-year terms. Positive year-on-year dynamics was kept by bank overdrafts (both for households and firms) although in case of firms their year-on-year rate of growth has also visible slowed since June.

Graph C.2.3: New loans to households YoY changes, in %



Graph C.2.4: New loans to firms



Source: CNB

⁵ From unofficial data it can be also concluded that creditworthiness of clients is judged more strictly, higher claims on credit hedging are raised etc.

⁶ CNB now lends money to banks at fixed rate, which is bound to 2W repo rate. Moreover, under normal circumstances spread between 2W repo rate and money-market rates is relatively stable.

Taking into account that the CNB cut its rates in December too and there are no indications that banks would release conditions for granting new credits, further growth of preference of bank liquidity and risk premium is probable. Curves of year-on-year changes in new credits should thus keep to the downward trend. Should this development continue for a longer time, it would entail quite serious problems as regards future development of investments, operational financing of credit-dependent firms and partially also household consumption.

4. Wealth effect

Savings⁷ of households are distinguished by stable and conservative structure. From Table C.2.1 it is obvious⁸, that in the period July – November 2008 a decrease occurred in size of savings in the form of shares in mutual funds, direct investment in shares, bonds and construction savings. Drop related with first two instruments is caused mainly by fall in prices of assets, in which households and mutual funds invested.

Also sales of stocks and mutual funds shares played their role. On the basis of data of Association for the Czech capital market on net sales of fund shares it is assessed that from July to November households sold their shares for CZK 12.5bn, shifting them probably into less risky liquid assets (currency, demand deposits).

In November household savings in the form of stocks and mutual fund shares were lower by CZK 53.9bn than in June. Out of this, some CZK 40bn represented a net loss caused by capital market dropout and loss investment. This amount represents some 1.7 per cent of total household saving only and so the effect of size of given changes on household consumption is considered small.

Table C.2.1: **Savings of households**
bill. CZK

	30. 6. 2008	30. 9. 2008	30. 11. 2008	difference November–June
Currency	255,6	258,9	289,0	33,4
Non-time deposits	620,6	643,8	654,4	33,8
Time deposits	304,5	310,8	307,1	2,6
Building savings	385,6	383,0	383,7	-1,9
Foreign currency deposits	56,5	62,0	64,8	8,4
Other deposits	23,2	24,4	25,2	2,0
Life insurance	202,3	207,1	210,3	8,0
Pension funds	176,8	181,7	184,9	8,1
Securities	67,6	56,5	44,7	-22,9
– shares	53,7	44,1	31,7	-22,1
–other securities	13,9	12,4	13,0	-0,9
Mutual funds shares	196,2	191,8	165,2	-31,0
Total	2289,0	2320,0	2329,4	40,4

Sources: CCMA (Czech Capital Market Association), CNB, PSE, own calculation

Also a decrease in housing prices, not documented yet by official statistical data, should not influence considerably household consumption. In the Czech economy neither holding of flats motivated by speculation on price growth nor financing of consumption by mortgage credits is extended.

⁷ Savings in this context include also money in circulation, which is money that is spent by households rather sooner than later and thus is not usually included. On the other hand, this reservation applies also to part of money on current accounts, which are ranked among savings quite commonly. Conversely, the analysis does not cover money „under the mattresses“ i.e. banknotes and coins out of circulation.

⁸ Data as of 30 June 2008 and 30 September 2008 stem from data released by the CNB in financial account statistics and bank statistics. Besides demand, time and foreign-exchange deposits and construction savings, the data as of 30 November 2008 represent our own estimates.

C.1 Economic output

The Czech economy reached cyclical peak in the third quarter of 2007 proceeding then to the stage of slowdown of GDP growth.

In the fourth quarter of 2008 a breakthrough occurred and crisis symptoms from external environment started influencing the Czech economy. With regard to openness of the economy and due to uncertainties in external environment, the forecast is burdened with high uncertainty (see Box C.1).

Under recent CZSO data, year-on-year increase of **real GDP** reached 4.3 per cent⁹ in the third quarter of 2008 (*compared with MoF estimate of 4.1 per cent from October 2008*). Quarter-to-quarter growth of seasonally adjusted GDP slowed negligibly to 0.9 per cent (*unchanged*) in the third quarter of 2008 from revised 1.0 per cent in the previous two quarters.

Available monthly business cycle statistics indicate quarter-to-quarter decline in GDP by 0.2 per cent in the fourth quarter with slowdown in year-to-year growth to 2.8 per cent (*3.8 per cent*). In 2009 growth should slow to 1.4 per cent (*3.7 per cent*). In mid-2010 crisis phenomena should abate with growth of GDP for this year estimated at 2.1 per cent.

Risks of these estimates are unambiguously deviated downward. Results of the Forecast indicate that the Czech economy could avoid¹⁰ recession but that the latter cannot be fully excluded.

Crisis development will reflect in **nominal terms**, too. Slowdown of nominal GDP dynamics is expected from 9.8 per cent (*10.4 per cent*) in 2007 to 5.4 per cent (*6.9 per cent*) in 2008 and to 3.2 per cent (*5.8 per cent*) in 2009. For 2010 an increase is expected at 3.9 per cent. Although trade unions are assumed to prefer jobs to wage growth, profitability of the business sphere will fall as regards income structure of GDP. Growth of gross operation surplus should slow from 10.0 per cent (*11.8 per cent*) in 2007 to mere 2.2 per cent in 2008 and 2009 (*3.1 per cent and 3.7 per cent, respectively*). For 2010 an increase by 2.9 per cent is expected.

Impacts of changes in terms of trade are illustrated by means of **real gross domestic income (RGDI)** reflecting income situation of the Czech economy. After peaking at 8.1 per cent in the first quarter of 2007, its pace of growth slowed to mere 2.0 per cent (*2.9 per cent*) in the third quarter of 2008. In 2008 growth of RGDI should be at 1.9 per cent (*3.3 per cent*) and in 2009 and 2010 an increase by 2.0 per cent is expected (*3.5 per cent in 2009*).

⁹ Seasonally adjusted y-o-y growth of GDP was 4.2%.

¹⁰ Recession is understood in usual statistical interpretation, i.e. as q-o-q decline in real GDP in two subsequent quarters. Recession is not identical with decline in yearly GDP, it can appear even when yearly GDP has grown. E.g. in Slovakia during recession GDP decreased by 4.2% in total during the first through fourth quarter of 1999. Nevertheless a minimum increase of GDP by 0.03% was recorded in 1999 compared with 1998.

Expenditures on GDP

After considerable growth in previous years, household consumption has been losing its dynamics since beginning of 2008. Year-on-year growth of **real household expenditures on final consumption** slowed to 2.7 per cent (*3.5 per cent*) in the third quarter of 2008. However, household consumption should not be hit by crisis development in last quarter of 2008. For entire 2008, increase of household consumption is estimated at 2.9 per cent (*3.3 %*).

Lowering of social security contributions and ensuing increase in household net incomes as well as falling rate of inflation could help to stable growth of household consumption.

On the other hand, household efforts to generate savings to cover risks stemming from future crisis developments could counteract growth of consumption. In longer time horizon also effect of increase in unemployment could be seen.

In 2009 household consumption should grow by 3.2 per cent (*3.9 per cent*). It could then become a stabilizing segment of the economy. In 2010 growth by 3.0 per cent is expected.

Government expenditures on final consumption grew by 3.5 per cent (*2.0 per cent*) in the third quarter of 2008. In the following period, austerity behaviour of government institutions is expected with regard to government institutions employment as well as to purchase of goods and services. In 2008 government consumption is expected to grow by 1.5 per cent (*1.1 per cent*) and in 2009 by 0.5 per cent (*unchanged*). In 2010 real government consumption is expected to stagnate.

The volume of **gross fixed capital formation** increased by 4.5 per cent y-o-y (*5.8 per cent*) in the third quarter of 2008. In the current uncertain situation it is necessary to allow for reassessment or postponement of many investment intentions in the private sector. Willingness of foreign investors to invest and reinvest profits from doing business in the Czech Republic will depend on their situation in domestic countries. At the same time decline in housing construction is expected. On the other hand, infrastructure investments with contributions from EU funds should keep their dynamics. Pace of growth of investment should reach 4.5 per cent (*5.1 per cent*) in 2008 and fall by 0.2 per cent (*growth by 4.5 per cent*) in 2009. For 2010 growth by 2.0 per cent is expected.

In 2008 positive contribution of **foreign trade** in goods and services to real GDP growth could reach as much as 2.9 p.p. (*2.2 p.p.*) despite very unfavourable external conditions and record-breaking exchange rate of the koruna. In 2009, however, this indicator will fully reflect impacts of global cooling – a negative contribution of –0.7 p.p. (*+0.4 p.p.*) is expected. In 2010 contribution should reach +0.2 p.p.

C.2 Prices of goods and services

Consumer prices

Average rate of inflation for 2008 reached 6.3 per cent (*6.4 per cent*).

Except for the last two months, 2008 was characterised by relatively high values of year-on-year growth of consumer prices. Year-on-year rate of inflation did not fall below 6.0 per cent up to October. November slowdown by 1.4 p.p. and the biggest month-to-month December decline since 1993, however, resulted in final value of 3.6 per cent y-o-y (*4.7 per cent*). At the same time, contribution of administrative effects was 4.4 p.p. (*4.0 p.p.*) while contribution of market price movement was -0.8 p.p. (*+0.7 p.p.*), which was the highest year-on-year negative contribution since April 2003.

From administrative measures, year-on-year inflation reflected an increase in reduced VAT rate from 5 to 9 per cent amounting to 1.1 p.p., growth of gas price 0.7 p.p., excise tax on cigarettes 0.6 p.p., electricity prices 0.4 p.p., prices of heat 0.4 p.p., introduction of charges for doctors' visits 0.4 p.p. and increase in price of regulated rents 0.4 p.p.

Leap growth of prices in the section of **food and soft drinks**, obvious especially at the turn of 2007 and 2008, gradually abated. In the end of the year prices of food were lower by 0.8 per cent y-o-y. **Transport** prices were lower in December by as much as 9.3 per cent. Record high prices of fuels from July 2008 shifted to unexpectedly low values in the last quarter. The biggest contribution of 2.6 p.p. thus was seen in section of **housing**.

After high inflation in 2008, **considerable disinflation should be seen in 2009**. Cost and demand pressures should weaken and besides also the so-called basic effect, i.e. high comparison basis from the previous period should have its impact.

Administrative effects having one-off impact on growth of consumer prices in early 2008 (change in reduced VAT rate, introduction of healthcare charges and environmental taxes) will no more influence the price level in 2009. It is estimated that contribution of administrative measures to total inflation will decrease in total to 1.9 p.p. in 2009, which would be 2.5 p.p. less than in 2008. The most important administrative measures will include growth of regulated rents (contribution of 0.6 p.p.), electricity (0.5 p.p.), heat prices (0.3 p.p.) and prices of water and sewage charges (0.1 p.p.) with most measures coming into effect in early 2009.

Over entire year negative contributions of market inflation can be expected. Market movements will be influenced especially by lower prices of food, oil and other raw materials and also by further decline in world demand. Also a shift to negative output gap, expected during the year, will have anti-inflationary effects. In the second half of the year gradual lessening of negative contributions of market inflation is expected especially due to prices of

goods. Inflation in 2009 thus will be dictated mainly by cost factors - administrative measures.

It is therefore assumed that average rate of inflation will be 1.3 per cent (*2.9 per cent*) in 2009. December year-on-year growth of inflation is estimated at 1.1 per cent (*2.7 per cent*).

In 2010 average rate of inflation should be at some 2.1 per cent, i.e. close to CNB inflation target.

Deflators

Growth of **gross domestic expenditure deflator**, which is a comprehensive indicator of price increase in the economy, slowed to 3.9 per cent (*4.1 per cent*) in the third quarter of 2008 due to prices of household consumption and construction investment. For 2008 annual average should reach 4.0 per cent (*unchanged*). In 2009 its growth should slow with general slackening of inflationary pressures to 1.2 per cent (*2.3 per cent*) and in 2010 it should reach 2.0 per cent.

Growth of **implicit GDP deflator** reached 1.0 per cent (*2.4 per cent*) in the third quarter of 2008. Slower growth as against the gross domestic expenditure deflator is given by worsening of terms of trade by 2.8 per cent (*1.5 per cent*). This factor should act in the fourth quarter too and so for entire year 2008 growth of GDP by 1.3 per cent (*2.4 per cent*) is expected. In 2009 effect of considerable slowdown in wage dynamics will obviously prevail over improvement of terms of trade and so growth by mere 1.8 per cent (*2.1 per cent*) can be expected. The same growth by 1.8 per cent is expected also in 2010.

C.3 Labour market and households

Employers and employees are assumed to respond to difficult situation by compliance with consensus on preference to keep jobs by means of part-time work and at the expense of wage increase.

Employment

(*Labour Force Survey definitions – LFS*)

Growth of employment by 1.5 per cent (*1.6 per cent*) in the third quarter reflected still very good economic situation and start-up of new or extended production capacities in the car industry. Similarly as in the previous period, manufacturing and services in real estate, lease and business activities contributed most to this development.

Rate of employment kept growing on in year-on-year terms. From the age view, the highest share in its increase had mostly higher age categories by lengthening their work activities.

Labour force grew by 30 thousand people (increase of the employed by 73 thousand and loss of the unemployed by 43 thousand). Number of the economically non-active people increased, year-on-year, by 69 thousand (out of which some 65 per cent were represented by pensioners).

C Forecast of macroeconomic indicators

Lack of workers especially in places of concentrated industrial production resulted in an increase in the number of foreign employees as recently as in the third quarter 2008 but in the end-year a moderate chain decline in total number of registered foreign workers was seen.

Turnaround in the Czech economy's performance in the fourth quarter will reflect in employment by means of slowdown in year-on-year increase to 1.0 per cent (*1.3 per cent*). For entire year 2008 growth of employment by 1.5 per cent (*1.7 per cent*) is expected.

For the next period efforts and cooperation of workers and businesses and employment agencies are expected to preserve maximum of possible jobs and to launch re-qualification programmes for the dismissed or people at risk. Activities of all labour market participants should inhibit fall in employment in 2009 unfolding especially from oversized manufacturing.

Therefore year-on-year decline in employment by 0.3 per cent (*growth by 0.7 per cent*) is expected. Following upon economic performance and terms of sales, decline by 0.8 per cent is expected in 2010.

Unemployment

A fall in unemployment rate was gradually slowing in the first half of 2008. Unemployment rate hit its minimum (on seasonally adjusted data) in August 2008. Since then number of the registered unemployed (especially due to an increase in the newly registered) has been growing. Nevertheless in the end of 2008 unemployment was still close below the level of end-year 2007.

Also vacancies fell sharply, which shows a visible-at-first-sight reduction of possibilities to create jobs. Neither change in approach of job seekers can be excluded as regards taking on jobs, once considered unsuitable or inadequate.

In the end of 2008 workers' dismissals started already when firms had run their business down and economic activities had finished. In such cases firms tried maximally to keep first-class and efficient workers and, when necessary, preferred the option not to employ superfluous persons cheaper from the view of redundancy payments or other benefits i.e. especially workers taken on probation, foreigners and pensioners.

In the following period unemployment will continue to grow. It may be partly inhibited by new legislation on unemployment benefits and intensive activities of employment agencies regarding active employment policy. Programmes will be financed as from domestic sources as thanks to participation of the European Social Fund.

Internationally comparable unemployment rate under LFS should increase to 5.2 per cent (*4.4 per cent*) in 2009 and to 5.9 per cent in 2010. Average rate of registered unemployment should

increase to 6.3 per cent (*5.4 per cent*) in 2009 and to 7.0 per cent in 2010, which would be less than in 2006.

Wages

Relatively strong growth of the wage bill slightly slowed to 8.0 per cent (*9.0 per cent*) in the third quarter of 2008. However, difference between growth of wages and productivity reflecting i.a. wage struggle for first-class workforce started in the period of high demand, turns to be a problem.

Adherence to austerity wage measures in the government-managed sphere contributed as to stabilization of wages as to accentuation of differentiation in level and growth of wages between government and businesses and to a year-on-year real fall of wages in the non-business sphere. It was therefore decided to increase wages in the government sector in 2009.

For the fourth quarter of 2008 further slowdown in growth of wages to 7.0 per cent (*9.0 per cent*) is expected. In 2009 however it is necessary to allow for dramatic slowdown in wage dynamics to 4.2 per cent (*8.3 per cent*). In 2010 wage bill should grow by 5.3 per cent.

Average gross nominal monthly wage should increase by 7.9 per cent (*8.5 per cent*) in 2008, by 5.1 per cent (*7.7 per cent*) in 2009 and by 6.4 per cent in 2010.

Unit costs of labour should increase by 3.2 per cent (*4.6 per cent*) in 2008, by 2.4 per cent in 2009 and by 2.8 per cent in 2010.

Households

In the first three quarters of 2008 development of household sector account was characterized by high nominal dynamics of disposable income given especially by fast growth of wages supported by increasing employment. However, real consumption was limited by high inflation although saving formation decreased.

Compared with the first three quarters, a slower growth of compensations of employees is expected in the fourth quarter as initial austerity measures will reflect already as regards both number of employees and extent of working time and wage means. However real consumption is not expected to slow within this horizon with regard to inflation slowdown, still sufficient disposable sources and wide offer of discount actions started considerably sooner than in the previous years.

In 2009 and 2010 we expect a moderate growth of compensations to employees taking into account economic growth. Household disposable income in 2009 will be strongly positively influenced by 1.5 percent cut in social security contributions paid by employees. This adjustment will increase growth of disposable income by some 1.0 p.p. and besides vigorous disinflation it could help maintain

or possibly slightly accelerate real household consumption despite prudential behaviour and orientation rather on savings formation with regard to the labour market problems.

C.4 External relations

(Balance of payments definitions)

External imbalance, expressed by **ratio of current account (CA) deficit to GDP**, has been ranging within -1.5 per cent to -2.6 per cent since the beginning of 2006. Lowering of CA deficit in annual terms to -2.3 per cent of GDP in the third quarter of 2008 (-2.5 per cent in the second quarter) was given by improvement of balance of trade in goods and services.

In the third quarter favourable development of **trade balance** still continued with surplus increasing surprisingly from 3.6 per cent of GDP in the previous quarter to 3.8 per cent (*3.4 per cent*) despite extremely strong exchange rate and unfavourable situation in the external environment.

Since the fourth quarter, however, trade balance has reflected sharp slowdown in world economy's growth, which results in a decline of demand especially in countries with advanced market economy (AME). Problems with sales are deepened also by considerable slowdown in Asian countries, growing rapidly until recently, whose economies are incidentally strongly tied with AME countries. Because of the current world economy turmoil, prices of raw materials, especially of oil, fell sharply, which would improve the Czech trade balance at least partially. In will be seen in decreasing deficit of the fuel part of the balance (SITC 3) from -4.1 per cent of GDP in the third quarter of 2008 to some -2.4 per cent of GDP (*-4.8 per cent*) in 2009.

Growth of export markets¹¹ has been slowing from 12.0 per cent reached in 2006. With regard to gloomy perspectives of the world economy, export markets are estimated to fall by some 0.4 per cent (*growth by 3.1 per cent*) in 2009. Taking into account structure of exports (high share of motor vehicles), also worsening of export performance indicating share of Czech goods on export markets can be expected.

It is expected that surplus of non-fuel part of the balance still increased to CZK 243bn (CZK 259bn) over 2008 while trade balance surplus should reach (in BoP definitions) CZK 113bn (CZK 130bn). In 2009 global weakening of demand should reflect in reduction of surplus of non-fuel part of the balance to CZK 166bn (CZK 289bn). With the current fall in deficit of the fuel part of the balance trade balance

surplus (in balance of payments definitions) should reach CZK 105bn (CZK 194bn).

Balance of services surplus has been growing moderately since 2003, reaching 2.1 per cent of GDP in the third quarter of 2008 (in annual terms). Growth was related especially with improving results of the so-called other services. Contribution of transport remains stable while surplus of balance of tourism with lower revenue receipts and moderate growth of expenditure is decreasing. In crisis period it can be expected that intensity of both active and passive tourism will decrease similarly. Slow growth of balance of services surplus is expected also in the following period.

Balance of income deficit, including reinvested and repatriated profits of foreign investors, has been deepening permanently since mid-2006, reaching -7.9 per cent of GDP in the third quarter of 2008. Due to assumed reduction in investment inflow and lower economic activity of foreign firms, slowdown in profit outflow abroad is expected. Similarly outflow of compensations for work of foreigners employed in the CR should not increase.

Ratio of **current account** deficit to GDP is expected to reach -2.9 per cent (*-2.5 per cent*) in 2008. Forecast for 2009 is -1.9 per cent of GDP (*-2.3 per cent*). Paradoxical at first sight lowering of deficit forecast stems from the fact that impact of lower oil prices, slowdown in real imports (lower growth of domestic demand and high import intensity of exports), and lesser outflow of yields should prevail over export dropout.

C.5 Demographic trends¹²

Under end-2007 data, growth of the Czech population accelerated considerably to 0.9 per cent.

Total fertility¹³ grew to 1.44 against the minimum of 1.13 in 1999. Although it is still very far from reference value of 2.04 ensuring long-term stability of the population, this development shows certain promise for the future. Natural rise of population by 10 thousand people was the highest since 1982. Average life expectancy approximated 80 years for women and 74 years for men. Positive balance of migration was 84 thousand of people, reaching the highest value since the World War II.

From economic view, the Czech population thus has a very favourable structure with high share and growing number of working-age population.

These tendencies continued in 2008 as well. However, in 2009 with lower demand for workforce

¹¹ Weighted average of growth of goods imports by seven most important trade partner countries (Germany, Slovakia, Poland, Austria, France, the United Kingdom and Italy).

¹² Results of the CZSO demographic projection from late 2003 differ distinctly from the current data on population development. Therefore the projection is based on data from late 2007 and on own calculations proceeding on high variant of demographic projection.

¹³ Number of life-born children per one woman, should her fertility remain the same for her entire reproduction period as in the given year.

lower immigration can be expected and thus also slight worsening of demographic structure.

Nevertheless it is still true that the CR is at the beginning of **population ageing process**. For the first time in Czech history, number of people younger than 20 years was lower in 2007 than number of population in the age category 60+. The number and share of seniors in the population will grow due to demographic structure and further lengthening of average life expectancy. Demography thus represents economic risk in the medium and long run.

C.6 Interest rates

In the last quarter of 2008 the **CNB** cut the policy rate for 2W repo operations by 1.25 p.p. The first decrease was in November when interest rate was cut from 3.50 per cent to 2.75 per cent. In December further cut by 0.50 p.p. to the present 2.25 per cent followed. Monetary policy easing, which will probably continue in 2009 as well, corresponds with of lower expected inflation, slower expected growth and global trend of key interest rates reduction. Extent of changes in 2W repo rate can be lesser, should the koruna depreciate against the euro more than assumed by the CNB forecast.

When the CNB bank board takes decisions on policy rates setting, context of **ECB** monetary policy plays an important role. ECB cut policy rates by 1.75 p.p. in total during the fourth quarter of 2008. By the end-year, its main refinancing rate was at 2.50 per cent. With regard to expected disinflation and recession in the EMU, its further cut looks very probable. Interest spread between the CR and the euro area was negative by the end of December, amounting to 0.25 p.p.

US **Fed**, as another important institution affecting the world economy, cut in December main interest rate for refinancing operations to 0.25 per cent. Thus possibilities to use interest rates as a tool against the US economic slump were exhausted and Fed was forced to use quantitative easing, i.e. increasing the sum of money in the economy.

Short-term yield curve of CR inter-bank rates shifted downward in December 2008 compared with January 2008 for shorter maturities as a response to three cuts in 2W repo rate. The level has not changed for longer maturities, which is obviously caused by growth of risk premium on inter-bank market. Average **PRIBOR** 3M rate reached 4.11 per cent in the fourth quarter of 2008 and 4.04 per cent (*unchanged*) for entire 2008. Following upon expected fall of key interest rate in 2009 and gradual decrease in risk premium, yearly average of **PRIBOR** 3M is forecast at 2.2 per cent (*3.8 per cent*). In 2010 2.3 per cent is expected thanks to 2W repo rate set at slightly increased inflationary. However, growth of three-month inter-bank rate will be compensated by further cut in risk premium.

Yield to maturity of 10-year government bonds for convergence purposes¹⁴ fell in December in comparison with November 2008 by 0.23 p.p. to 4.09 per cent, reaching average value of 4.55 per cent (*4.7 per cent*) over entire 2008. In 2009 demand for government bonds is expected to prevail over investment in shares, which could lead together with falling policy rate to further fall of yields. For 2009 thus average level of yield of 10-year government bonds is estimated at 3.8 per cent (*4.4 per cent*) and for 2010 at 3.7 per cent under assumption of stagnation and following moderate growth of yields in the end-year.

Average interest rates from deposits of households and non-profit institutions serving to households reached 1.58 per cent in the third quarter of 2008. After moderate October increase interest rates fell to 1.56 per cent in November. In 2009 they could be at 1.4 per cent (*unchanged*) and in 2010 at some 1.2 per cent under assumption of the above mentioned development of 2W repo rate, falling risk premium and trend development of household deposit structure (falling tendency of deposits with agreed maturity and growth of one-day deposits and time deposits).

Average interest rates from credits to non-financial businesses were 5.6 per cent in the third quarter 2008. In October and November they remained the same. For 2009 interest rates are expected at some 4.7 per cent (*5.4 per cent*) and at 4.3 per cent in 2010. Even such moderate nominal fall in rates in 2009 would mean tightening of credit conditions for the business sphere. With regard to vigorous disinflation, real rates (deflated by final use deflator) would increase from 1.7 per cent in 2008 to 3.4 per cent in 2009. Besides, functioning of financial intermediation will be also limited by dynamics of credit granting. The latter will depend, besides demand for credits, on severity of the bank assessment of the clients' credibility, requirements for credit hedging and other non-price factors.

C.7 General government

For **2008** general government **deficit** should reach CZK 45.6bn, which is 1.2 per cent of GDP. Compared with October estimate for 2008 (CZK 47.3bn) thus results are reassessed only slightly by CZK 1.7bn.

In comparison with October estimates, slight worsening by approx. CZK 5bn is expected for the state budget. Tax receipts developed in accordance with October assumptions. However, expectations regarding social contributions were rather too optimistic as limits of contributions had a more noticeable impact than initially expected.

Compared with October estimate, saving is expected on the expenditure side of the budget,

¹⁴ This indicator corresponds to the Maastricht criterion for interest rates.

especially due to lower drawing of European money (which in itself has no impact on the balance) and related lower co-financing from budgetary sources.

Nevertheless higher deficit of the state budget is fully compensated by more favourable results of the former National Property Fund, especially due to lower costs on removal of environmental damage. Estimate of other entities of central government institutions' sub-sector changed only slightly.

Local governments are expected to have performed better by CZK 3.3bn as against initial estimates while social security funds will probably show result worse by CZK 2.7bn. Especially higher effect of security contributions ceilings for healthcare insurance is demonstrated here.

That means that October 2008 estimate was built on realistic foundations and the current reassessment of forecast for 2008 is only moderate.

For **2009** general government deficit is estimated at CZK 112.9bn, which corresponds to 3.0 per cent of GDP.

Compared with the previous CZK 62.4bn deficit forecast thus noticeable worsening is expected, corresponding with lower assumed pace of the economic growth. Expected decline in tax and social security revenues will have dominant share in higher deficit. Growth of expenditures related especially with increase in unemployment will be of less importance. The structure of projection risk is dominated by uncertainties surrounding revenue from corporate income tax as the most volatile component of tax receipts. Under current conditions, its size is very difficult to forecast. Other tax receipts and expected size of expenditures take considerably lesser part in forecast risk. When adopted, planned cuts in the state budget spending should act in favour of deficit and debt improvement.

By the end of 2008 **debt** is expected to have reached CZK 1093.3bn, i.e. 29.4 per cent of GDP. It thus stayed quite stable in relative terms.

The size of the debt for 2009 is estimated at CZK 1166bn, i.e. 30.4 per cent of GDP. It will be influenced by planned sale of the Prague Airport.

C.8 World economy

With financial market crisis affecting the real economy, the world economy is obviously heading for recession at the turn of 2008 and 2009. The US economy declined for the first time in the third quarter of 2008 while euro area suffered already from recession at that time. With regard to global character of recession and world trade downturn it cannot be assumed that Asia's economies would be able to balance this decline. Since summer inflation has been falling in many countries and oil prices have fallen dramatically.

The US economy gives a grim picture at present. It slowed sharply from high growth in the

second quarter of 2008 (0.7 per cent in q-o-q terms) to -0.1 per cent in the third quarter and all appearances are that the decline will continue. Rate of unemployment grew from February 4.8 per cent to 6.7 per cent in November and further increase is signalled. Also sharp slowdown in consumption points to recession. For the first time since the fourth quarter of 1991 household consumption, on which US growth depends, fell (by 1 per cent against the second quarter). Inflation is also falling from the July 5.6 per cent to 1.1 per cent in November. Immediately afterwards record inflation in 17 years, deflation is thus threatening.

The future will be influenced especially by continuation of crisis, which broke out on US financial and stock markets in mid-September. Since 15 September both Fed and government have been trying to prevent deepening of financial system crisis: Fed cut key interest rate up to 0.25 per cent and pours money into the economy also by means of buying the so-called toxic assets from banks, guarantee takeovers etc. The government prepares a bailout package for large car producers endangered by collapse. Real estate prices continue falling, which increasingly hinders private consumption. Many expectations are connected with new president assuming an office. For the time being it seems that the new administration will prefer tax incentives to public expenditures at the outset.

Expected growth in the US is reduced for 2008 to 1.2 per cent (*1.6 per cent*) while in 2009 decline is expected by -1.2 per cent (*growth by 0.7 per cent*) and in 2010 decline by -0.5 per cent.

After the strong first quarter (quarter-to-quarter growth of GDP by 0.7 per cent), **euro area (EA12)** was hit by recession with two identical downturns by 0.2 per cent both in the second and third quarters. Germany is in similar situation (declines in GDP by 0.4 per cent and 0.5 per cent, respectively). Of large economies, Italy and France are on the brink of recession. Exports, on which many economies depend, are impaired by general conditions of sales and appreciation of the euro. The economy is thus slowing due to unfavourable external conditions, stricter credit conditions and property market slump. Household consumption has been stagnating or falling since February, which reflects also fall in consumer and business confidence. Industrial production has been falling in EA12 (and EU27 as well) since September. In November it was 1.6 per cent as against October, in Germany 3.3 per cent.

After peaking at 4.0 per cent in July, high inflation in EA12 started slowing up to the current 1.6 per cent in December. The ECB cut interest rate in January 2009 to 2.0 per cent. So far low unemployment, which was at 7.1 per cent from January to April (the lowest value in more than 20 years) and rose to 7.8 per cent in November, has favourable impact. The main risks are seen in

impacts of US and world economy slowdown on exports and continuation or even deepening of financial market crisis.

For 2008 GDP growth in EA12 is estimated at 0.9 per cent (*1.4 per cent*) while in 2009 fall by 1.0 per cent (*growth by 0.7 per cent*) and in 2010 further decline by 0.7 per cent is expected.

Central European economies have in the long run been growing and keep growing faster than Western Europe except for Hungary, which started going down in the third quarter. However, high share of industrial production and dependence on exports indicate also here strong slowdown.

Slovak economy grew by 10.4 per cent in 2007, which was the best performance within the EU. In 2008 it continued in high pace (in the first three quarters 1.1%, 1.2%, 1.5% q-o-q). With regard to high share of exports, however, deceleration needs to be expected. It is indicated already by m-o-m slowdown in industrial production by 7.1 per cent in November. Slovakia joined the euro area on 1 January 2009.

Deceleration of GDP growth is expected. For 2008 GDP is expected to grow by 7.4 per cent (*7.6 per cent*), in 2009 by 3.4 per cent (*6.3 per cent*) and in 2010 by 3.2 per cent.

In **Poland** the economy grew in 2007 by 6.6 per cent. Also in the first three quarters of 2008 it grew dynamically by 1.2 – 1.3% q-o-q. Similarly as in Slovakia, growth was pulled by foreign investment inflow and household consumption. It is obvious that also here external development will hinder growth (in case of Poland developments in Russia and Ukraine are significant).

For 2008 GDP is expected to grow by 5.2 per cent (*5.4 per cent*), in 2009 by 2.5 per cent (*4.6 per cent*) and in 2010 by 2.3 per cent.

In six months, **price of oil** dropped from values close to USD 150 to some USD 40 in January 2009. With absence of major fall in global demand it indicates considerable effect of speculation driving prices to July extremes. Any estimate of prices is very difficult due to many conflicting factors. It is true that global slump will lead to fall in demand but inability is seen on the side of production to increase oil production to a major extent when necessary. It was for the first time when IEA publicly admitted in 2008 that oil production has probably come close to its maximum. Price of oil is influenced by OPEC regulation too. On the other hand it is possible that efforts to substitute oil partially will strengthen, which is also among the priorities of the new US administration. Potential success of these efforts could lead to subsequent fall in prices in the long horizon.

In our forecast slight growth above the current level at some USD 40 is expected in short-term. For 2009 price at USD 55 (*USD 113*) per barrel of Brent oil is expected and for 2010 at USD 69.

C.9 International comparisons¹⁵

Comparisons of economic output of individual countries are made in PPS¹⁶. PPS is an artificial currency unit expressing quantity of goods that can be bought on average for one euro on the EU27 territory after exchange rate conversion for countries that use other currency than the euro.¹⁷

When adjusted by current **purchasing power parity**, process of Czech economic convergence toward EA12 average shows stable tendency similarly as in other Central European economies. With regard to synchronization of economic problems, this tendency should not be disrupted even by the current situation. Average „pace of convergence“ after 2002 reaches 2 p.p. a year.

In 2008 Czech Republic's GDP p.c. reached approx. PPS 21 200, which corresponds to 75 per cent of EA12 economic output. In 2010 Czech economy's performance should approximate some four fifths of euro area economic level.

Alternative way of calculation by means of the current **exchange rate** takes into account a market assessment of the currency as a result of economic competitiveness and ensuing differences in price levels. GDP p.c. then reached some EUR 14 400, which corresponds to exactly half the level of EA12.

Comparative price level of GDP in the CR was some 66 per cent of EA12 average in 2008. Between 2003 and 2008 the Czech price level has approximated to EA12 level by some 3 p.p. a year on average.

However, year 2008 was not standard from this point of view. A leap in comparative price levels by some 6 p.p. was seen in the CR, Poland and Slovakia. Strengthening of exchange rates stemmed from the fact that these countries were perceived by financial markets as area suitable for investment in the first stage of global financial crisis.

In 2009 year-on-year lowering of comparative price levels can be expected in the CR and Poland. This depreciation of the exchange rate could help increase price competitiveness and make overcoming of difficult situation easier.

Slovakia, on the contrary, will face further increase of comparative price level and strengthening of the real exchange rate after adopting the euro and with expected positive inflationary differential against the EA12.

¹⁵Comparisons for the period to 2007 are based on Eurostat and OECD statistics. Since 2008, our own calculations are used based on real exchange rates.

¹⁶PPS is abbreviation for Purchasing Power Standard.

¹⁷E.g. PPP CZK 17.13/PPS in 2007 expressed the fact that for given sum of Czech korunas the same set of representative goods could be bought as for 1 euro within EU27.

D Monitoring of other institutions' forecasts

The Czech Ministry of Finance organizes twice a year a meeting of institutions, engaged in analysing and forecasting macroeconomic developments of the CR – the so-called Colloquium. Fourteen institutions including the MoF took part in the last, 26th Colloquium, held on 24 November 2008.

The Colloquium's aim was to get the idea of views on expected development of our economy and assess together the main tendencies in years 2008 to 2011 while years 2010 and 2011 were seen as indicative outlook. At the same time, current economic issues were discussed.

Forecasts for 2009 to 2010 are summed up in the following table.

Table D.1: Consensus Forecast

		2009				2010			
		November 2008			January 2009	November 2008			January 2009
		min.	max.	consensus	MoF CR	min.	max.	consensus	MoF CR
Gross domestic product	increase in %, const.pr.	2,0	4,5	3,0	1,4	2,9	4,4	3,6	2,1
Consumption of households	increase in %, const.pr.	2,0	4,1	3,1	3,2	3,0	4,2	3,7	3,0
Consumption of government	increase in %, const.pr.	0,0	1,5	0,7	0,5	0,0	2,0	0,8	0,0
Fixed capital formation	increase in %, const.pr.	1,0	4,5	2,6	-0,2	3,5	6,2	4,7	2,0
GDP deflator	increase in %, const.pr.	1,6	4,1	2,5	1,8	0,7	3,3	2,2	1,8
Inflation rate	per cent	2,0	6,1	2,8	1,3	2,1	3,0	2,4	2,1
Employment	increase in per cent	-1,8	1,0	0,1	-0,3	-1,5	0,4	-0,3	-0,8
Unemployment rate	average in per cent	4,5	6,3	5,2	5,2	4,8	7,0	5,6	5,9
Current account / GDP	per cent	-4,7	0,0	-2,5	-1,8	-4,0	0,5	-1,8	-1,7
Exchange rate CZK / EUR		24,0	25,9	25,0	25,6	24,2	25,0	24,5	24,7
Crude oil Brent	USD / barrel	60	120	77	55	70	115	88	69

Results of the Colloquium reflect rate of knowledge of Czech economy problems from the second half of November 2008. Most institutions confirmed the following key tendencies of economic development, which have today (January 2009) rather historic value and document extreme uncertainties:

- Slowdown in GDP growth dynamics to 3.0 per cent in 2009 and its gradual increase up to (presumed) level of 2008 i.e. 4.4 %,
- Considerable slowdown in household consumption growth from 5.9 % in 2007 to 3.0 per cent in 2008 and 3.1 % in 2009; slow growth of dynamics in 2010-11,
- Stable dynamics of government consumption growth at some 1 % in 2008-11,
- Slowdown in growth of fixed capital formation to 2.6 % in 2009 and growth by 4.7 per cent in 2010-11,
- One-off increase in average rate of inflation in 2008, gradual slowdown to 2.3 % in 2009-11,
- Nearly stable GDP deflator, values within 2.2-2.6 % expected in 2008-11,
- Gradual growth of rate of unemployment from 4.7 % in 2008 to 5.6 per cent in 2010,
- Fall in dynamics of growth of employment, fall by 0.3 % in 2010,
- Stable current account deficit to GDP at some 2.5 % in 2008-2009, for 2010-11 improvement expected approx. at the level of 2007,
- Moderate strengthening of the koruna against the euro up to CZK 23.90/EUR in 2011,
- Average price of Brent oil at USD 77 a barrel, gradual increase to USD 98 a barrel in 2010-11.

Box D.1: Respondents

Outcome of the autumn 26th Colloquium was set up based on background papers received from the institutions mentioned below. We use this occasion to thank them for cooperation. Also forecasts of the IMF and European Commission were included.

Atlantik FT
 CERGE – EI
 Česká spořitelna
 ČSOB
 Czech National Bank
 ING
 Komerční banka

Liberal Institute
 Ministry of Industry and Trade
 Ministry of Labour and Social Affairs
 Patria Finance
 Raiffeisen Bank
 UniCredit Bank

1. Economic Output

Sources: CZSO, MoF estimates.

Table 1.1: Real GDP by type of expenditure – yearly
chained volumes, reference year 2000

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
								Estim.	Forecast	Forecast	Outlook
Gross domestic product	bill. CZK 2000	2285	2368	2474	2630	2809	2976	3096	3139	3204	3325
	prev.year=100	101,9	103,6	104,5	106,3	106,8	106,0	104,0	101,4	102,1	103,8
Private consumption exp.¹⁾	bill. CZK 2000	1200	1272	1309	1342	1415	1490	1533	1582	1629	1686
	prev.year=100	102,2	106,0	102,9	102,5	105,4	105,3	102,9	103,2	103,0	103,5
Government consumption exp.	bill. CZK 2000	510	546	527	542	538	540	548	551	551	551
	prev.year=100	106,7	107,1	96,5	102,9	99,3	100,4	101,5	100,5	100,0	100,0
Gross capital formation	bill. CZK 2000	720	710	774	767	848	919	900	914	929	965
	prev.year=100	104,6	98,6	109,1	99,2	110,5	108,4	97,9	101,5	101,6	103,8
- Gross fixed capital formation	bill. CZK 2000	686	689	716	729	776	828	865	864	881	916
	prev.year=100	105,1	100,4	103,9	101,8	106,5	106,7	104,5	99,8	102,0	104,0
- Change in stocks and valuables	bill. CZK 2000	34	20	58	38	71	91	35	51	48	48
Exports of goods and services	bill. CZK 2000	1575	1689	2039	2275	2634	3027	3309	3282	3417	3635
	prev.year=100	102,1	107,2	120,7	111,6	115,8	114,9	109,3	99,2	104,1	106,4
Imports of goods and services	bill. CZK 2000	1722	1859	2192	2301	2628	3002	3184	3187	3319	3495
	prev.year=100	105,0	108,0	117,9	105,0	114,2	114,2	106,1	100,1	104,1	105,3
Domestic demand	bill. CZK 2000	2429	2530	2608	2652	2794	2936	2971	3037	3097	3185
	prev.year=100	103,8	104,2	103,1	101,7	105,4	105,1	101,2	102,2	102,0	102,8
Methodological discrepancy²⁾	bill. CZK 2000	3	11	18	5	3	1	-10	-3	-3	-17
Real gross domestic income	bill. CZK 2000	2373	2466	2582	2712	2869	3070	3129	3193	3257	3389
	prev.year=100	104,1	103,9	104,7	105,0	105,8	107,0	101,9	102,0	102,0	104,1
Contribution to GDP growth³⁾											
- Domestic demand	percentage points	3,9	4,2	3,2	1,7	5,2	4,9	1,1	2,1	1,9	2,7
- - consumption	percentage points	2,6	4,7	0,7	1,9	2,5	2,7	1,7	1,7	1,5	1,8
- - gross capital formation	percentage points	1,4	-0,4	2,5	-0,2	2,7	2,2	-0,5	0,4	0,4	0,9
- Foreign balance	percentage points	-2,0	-0,6	1,3	4,6	1,6	1,0	2,9	-0,7	0,2	1,1

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 1.2: Real GDP by type of expenditure – quarterly
chained volumes, reference year 2000

		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	Prelim.	Prelim.	Estim.	Forecast	Forecast	Forecast	Forecast
Gross domestic product	bill. CZK 2000	730	792	784	790	745	802	790	802
	prev.year=100	104,7	104,5	104,3	102,8	102,0	101,3	100,8	101,5
	prev.quatr. = 100 %)	101,0	101,0	100,9	99,8	100,2	100,2	100,5	100,5
Private consumption exp.	bill. CZK 2000	356	383	391	402	368	396	403	415
	prev.year=100	102,4	103,3	102,7	103,0	103,3	103,2	103,2	103,2
Government consumption exp.	bill. CZK 2000	125	134	134	155	127	135	134	155
	prev.year=100	99,3	102,2	103,5	101,0	101,0	101,0	100,0	100,0
Gross capital formation	bill. CZK 2000	215	239	230	217	226	242	230	216
	prev.year=100	104,1	94,8	94,3	99,7	105,2	101,4	100,1	99,6
- Gross fixed capital formation	bill. CZK 2000	197	223	219	227	196	223	219	226
	prev.year=100	105,8	105,9	104,5	102,0	99,8	99,8	99,8	99,8
- Change in stocks and valuables	bill. CZK 2000	18	16	11	-9	30	20	11	-10
Exports of goods and services	bill. CZK 2000	823	855	806	826	822	846	794	820
	prev.year=100	114,1	115,0	108,9	100,4	99,9	98,9	98,5	99,4
Imports of goods and services	bill. CZK 2000	785	813	771	815	793	812	768	813
	prev.year=100	111,7	110,4	104,1	99,1	101,1	99,8	99,7	99,8
Methodological discrepancy	bill. CZK 2000	-3	-6	-6	5	-3	-5	-3	8
Real gross domestic income	bill. CZK 2000	750	804	789	786	762	822	808	800
	prev.year=100	103,6	102,8	102,0	99,5	101,6	102,2	102,4	101,8

Table 1.3: Nominal GDP by type of expenditure – yearly

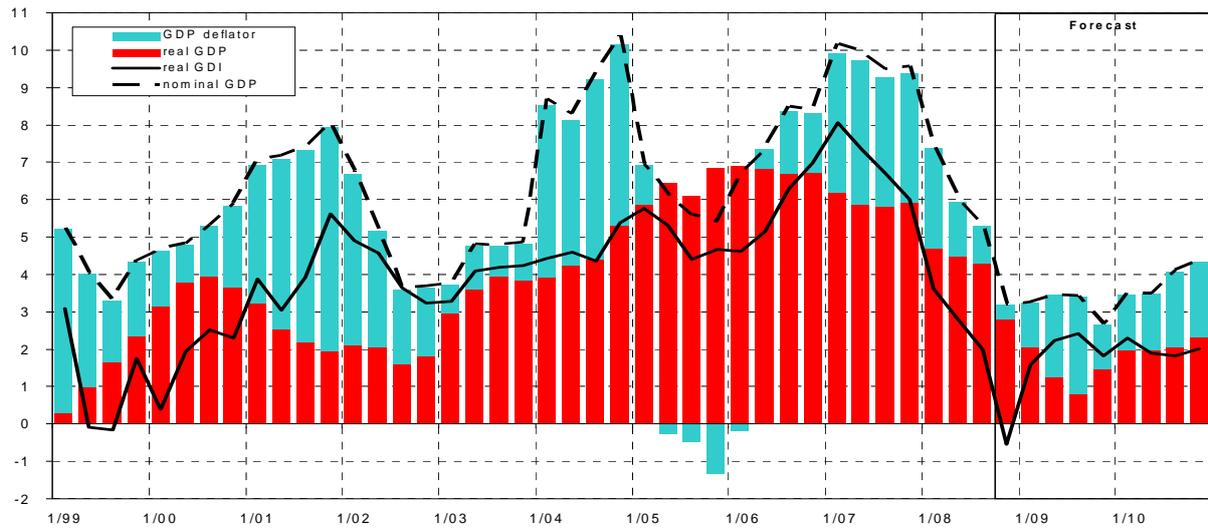
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
								<i>Estim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK</i>	2464	2577	2815	2984	3216	3530	3722	3842	3991	4234
	<i>prev.year=100</i>	104,8	104,6	109,2	106,0	107,8	109,8	105,4	103,2	103,9	106,1
Private consumption	<i>bill. CZK</i>	1262	1332	1417	1464	1568	1698	1844	1922	2018	2135
	<i>prev.year=100</i>	103,4	105,6	106,3	103,4	107,0	108,3	108,6	104,2	105,0	105,8
Government consumption	<i>bill. CZK</i>	549	603	622	658	685	719	754	783	807	831
	<i>prev.year=100</i>	110,6	109,8	103,1	105,9	104,0	104,9	104,9	103,9	103,0	103,0
Gross capital formation	<i>bill. CZK</i>	704	700	774	766	852	936	930	944	971	1015
	<i>prev.year=100</i>	101,4	99,5	110,6	98,9	111,2	109,9	99,3	101,4	102,9	104,5
- Gross fixed capital formation	<i>bill. CZK</i>	678	687	727	742	792	858	900	904	929	973
	<i>prev.year=100</i>	102,8	101,4	105,8	102,0	106,8	108,2	104,9	100,5	102,7	104,7
- Change in stocks and valuables	<i>bill. CZK</i>	26	13	47	24	60	79	30	39	42	42
External balance	<i>bill. CZK</i>	-51	-59	2	95	111	178	194	193	195	254
- Exports of goods and services	<i>bill. CZK</i>	1484	1592	1975	2155	2462	2830	2880	2870	2963	3214
	<i>prev.year=100</i>	96,5	107,3	124,0	109,1	114,3	115,0	101,7	99,7	103,2	108,5
- Imports of goods and services	<i>bill. CZK</i>	1535	1651	1973	2060	2351	2653	2685	2678	2768	2960
	<i>prev.year=100</i>	96,2	107,5	119,5	104,4	114,1	112,8	101,2	99,7	103,4	107,0
Gross national income	<i>bill. CZK</i>	2352	2466	2660	2850	3042	3317	3455	3583	3741	3994
	<i>prev.year=100</i>	103,5	104,8	107,9	107,1	106,7	109,0	104,2	103,7	104,4	106,7
Primary income balance	<i>bill. CZK</i>	-112	-111	-155	-134	-174	-213	-267	-258	-249	-240

Table 1.4: Nominal GDP by type of expenditure - quarterly

		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	879	950	941	952	908	983	973	978
	<i>prev.year=100</i>	107,5	106,0	105,3	103,2	103,3	103,5	103,4	102,7
Private consumption	<i>bill. CZK</i>	427	461	474	483	448	480	493	502
	<i>prev.year=100</i>	109,4	109,3	108,8	107,2	104,9	104,3	103,9	103,9
Government consumption	<i>bill. CZK</i>	166	183	184	221	173	191	190	229
	<i>prev.year=100</i>	102,2	105,6	107,4	104,3	104,2	104,3	103,3	103,9
Gross capital formation	<i>bill. CZK</i>	219	244	235	232	231	246	235	231
	<i>prev.year=100</i>	105,1	95,2	94,4	104,0	105,5	101,0	99,9	99,6
- Gross fixed capital formation	<i>bill. CZK</i>	203	232	228	236	204	233	229	238
	<i>prev.year=100</i>	106,7	106,5	104,6	102,2	100,5	100,5	100,5	100,5
- Change in stocks and valuables	<i>bill. CZK</i>	15	12	7	-4	26	13	6	-6
External balance	<i>bill. CZK</i>	68	62	47	17	57	65	55	15
- Exports of goods and services	<i>bill. CZK</i>	734	749	697	699	729	750	703	689
	<i>prev.year=100</i>	108,4	106,3	99,8	93,2	99,3	100,1	100,8	98,6
- Imports of goods and services	<i>bill. CZK</i>	666	687	650	682	672	684	647	674
	<i>prev.year=100</i>	107,6	104,2	98,2	95,8	100,9	99,6	99,6	98,8

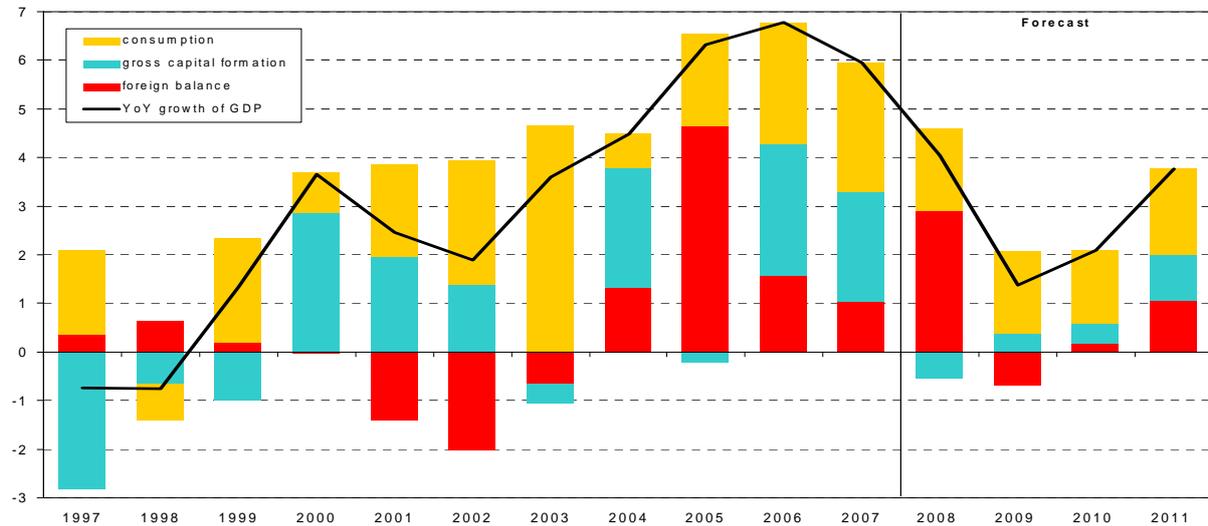
Graph 1.1: Gross Domestic Product and Real Gross Domestic Income

YoY growth rate, the same quarter of the previous year = 100, in %



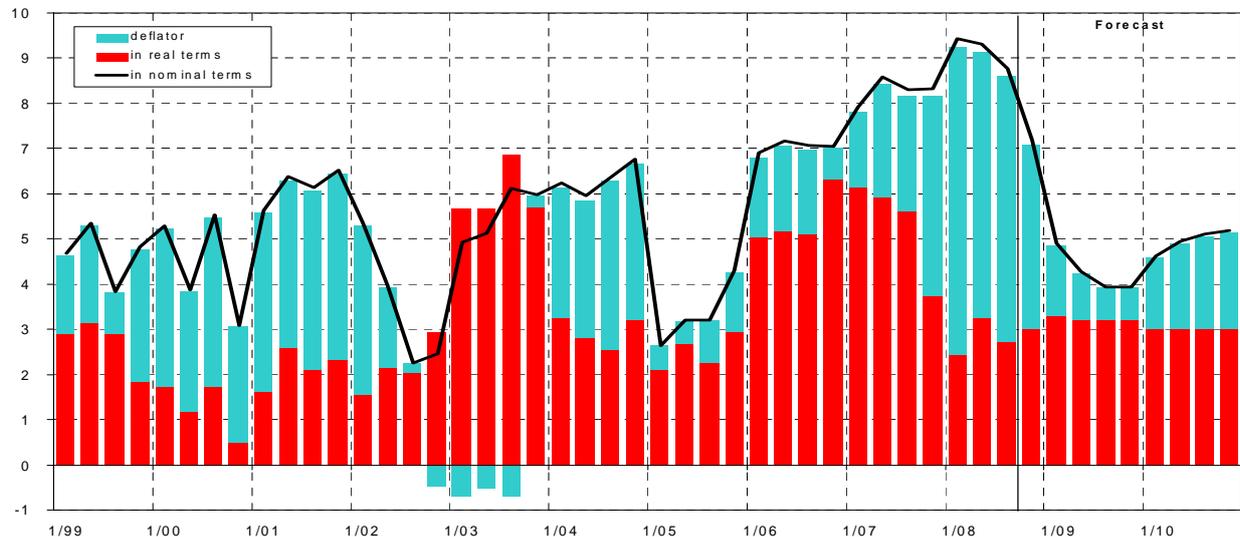
Graph 1.2: Gross Domestic Product - contributions to YoY growth

in constant prices, decomposition of the YoY growth, in percentage points



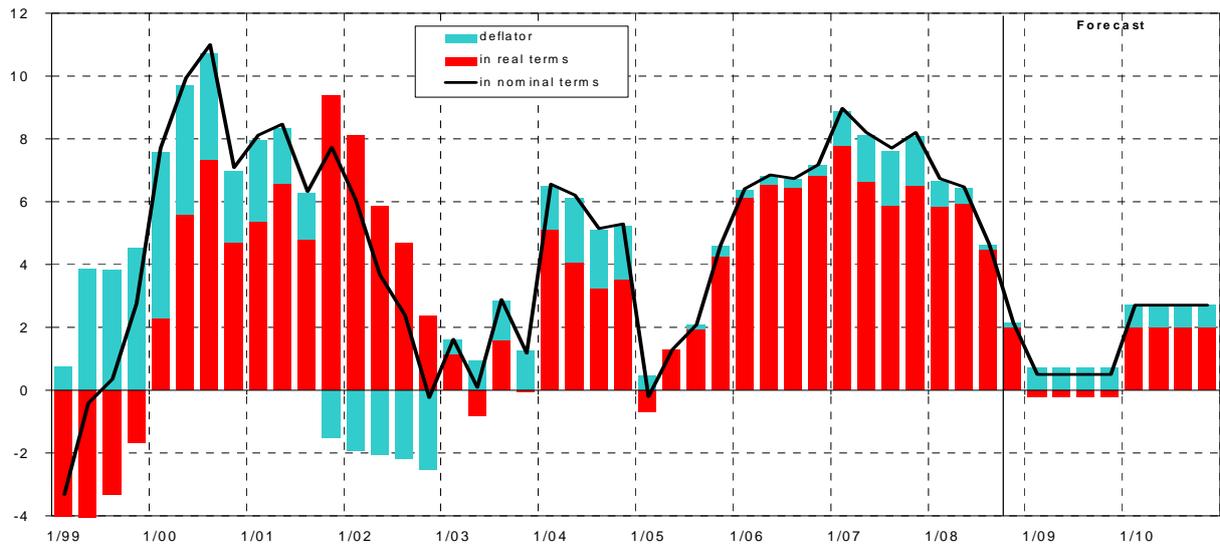
Graph 1.3: Private Consumption (incl. NPISH)

YoY growth rate, the same quarter of the previous year = 100, in %



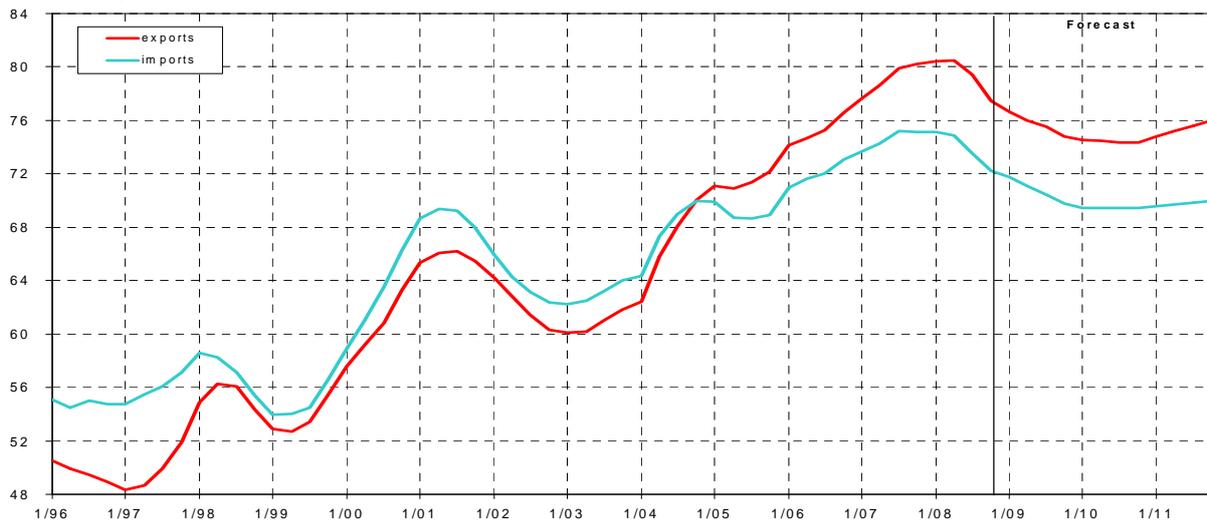
Graph 1.4: Gross Fixed Capital Formation

YoY growth rate, the same quarter of the previous year = 100, in %



Graph 1.5: Ratio of Exports and Imports of Goods and Services to GDP (in current prices)

yearly moving sums, in %



Graph 1.6: GDP – Income Structure

yearly moving sums, in %

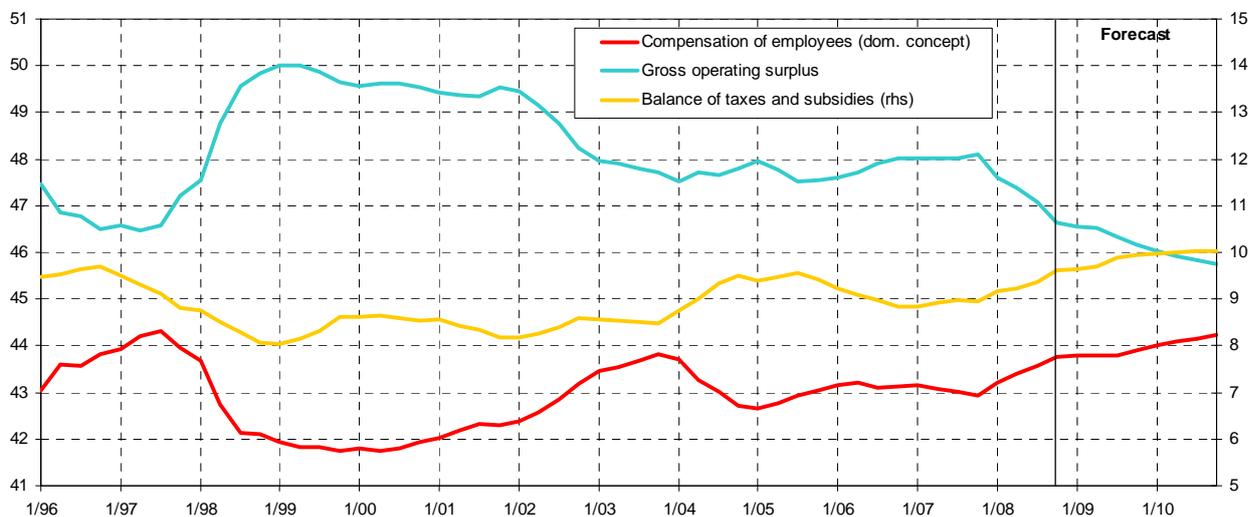


Table 1.5: GDP – by type of income – yearly

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	2352	2464	2577	2815	2984	3216	3530	3722	3842	3991
	<i>prev.year=100</i>	107,4	104,8	104,6	109,2	106,0	107,8	109,8	105,4	103,2	103,9
Balance of taxes and subsidies	<i>bill. CZK</i>	193	211	219	267	281	284	316	358	382	400
	<i>prev.year=100</i>	103,0	109,8	103,4	122,2	105,1	101,3	111,1	113,2	106,8	104,8
- Taxes on production and imports	<i>bill. CZK</i>	258	268	287	331	353	362	398	440	469	490
	<i>prev.year=100</i>	104,1	103,9	107,1	115,5	106,4	102,6	109,9	110,7	106,6	104,4
- Subsidies on production	<i>bill. CZK</i>	65	57	68	64	72	78	82	83	88	90
	<i>prev.year=100</i>	107,3	86,5	120,6	94,1	112,2	107,8	105,4	101,0	106,0	103,0
Compensation of employees	<i>bill. CZK</i>	995	1064	1129	1202	1285	1387	1516	1629	1686	1765
	<i>prev.year=100</i>	108,4	107,0	106,1	106,5	106,9	108,0	109,3	107,4	103,5	104,7
- Wages and salaries	<i>bill. CZK</i>	755	805	853	907	970	1048	1145	1237	1289	1358
	<i>prev.year=100</i>	108,8	106,6	106,0	106,3	106,9	108,0	109,3	108,1	104,2	105,3
- Social security contributions	<i>bill. CZK</i>	240	260	276	295	315	339	371	392	397	407
	<i>prev.year=100</i>	106,9	108,3	106,2	107,0	106,7	107,8	109,5	105,4	101,3	102,7
Gross operating surplus	<i>bill. CZK</i>	1165	1189	1229	1345	1418	1544	1698	1736	1774	1826
	<i>prev.year=100</i>	107,4	102,0	103,4	109,4	105,4	108,9	110,0	102,2	102,2	102,9
- Consumption of capital	<i>bill. CZK</i>	477	492	509	538	554	576	604	631	658	684
	<i>prev.year=100</i>	105,8	103,0	103,5	105,7	103,0	104,0	104,8	104,5	104,2	104,0
- Net operating surplus	<i>bill. CZK</i>	688	697	721	808	865	968	1094	1105	1116	1142
	<i>prev.year=100</i>	108,6	101,4	103,4	112,1	107,0	112,0	113,0	101,0	101,0	102,3

Table 1.6: GDP - by type of income – quarterly

		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	879	950	941	952	908	983	973	978
	<i>prev.year=100</i>	107,5	106,0	105,3	103,2	103,3	103,5	103,4	102,7
Balance of taxes and subsidies	<i>bill. CZK</i>	83	89	97	88	88	94	108	92
	<i>prev.year=100</i>	120,1	107,5	110,7	116,0	105,2	105,2	111,4	104,8
Compensation of employees	<i>bill. CZK</i>	391	404	401	433	405	418	416	448
	<i>prev.year=100</i>	110,1	108,1	107,0	105,0	103,5	103,5	103,5	103,5
- Wages and salaries	<i>bill. CZK</i>	295	306	306	330	307	319	319	344
	<i>prev.year=100</i>	109,9	108,6	108,0	106,2	104,2	104,2	104,2	104,2
- Social security contributions	<i>bill. CZK</i>	96	98	95	102	97	99	97	104
	<i>prev.year=100</i>	110,7	106,8	103,8	101,2	101,3	101,3	101,3	101,3
Gross operating surplus	<i>bill. CZK</i>	405	457	442	432	416	471	449	438
	<i>prev.year=100</i>	102,9	103,9	102,8	99,3	102,6	103,1	101,6	101,4

2. Prices of Goods and Services

Sources: CZSO, MoF estimates.

Table 2.1: Prices of Goods and Services – yearly

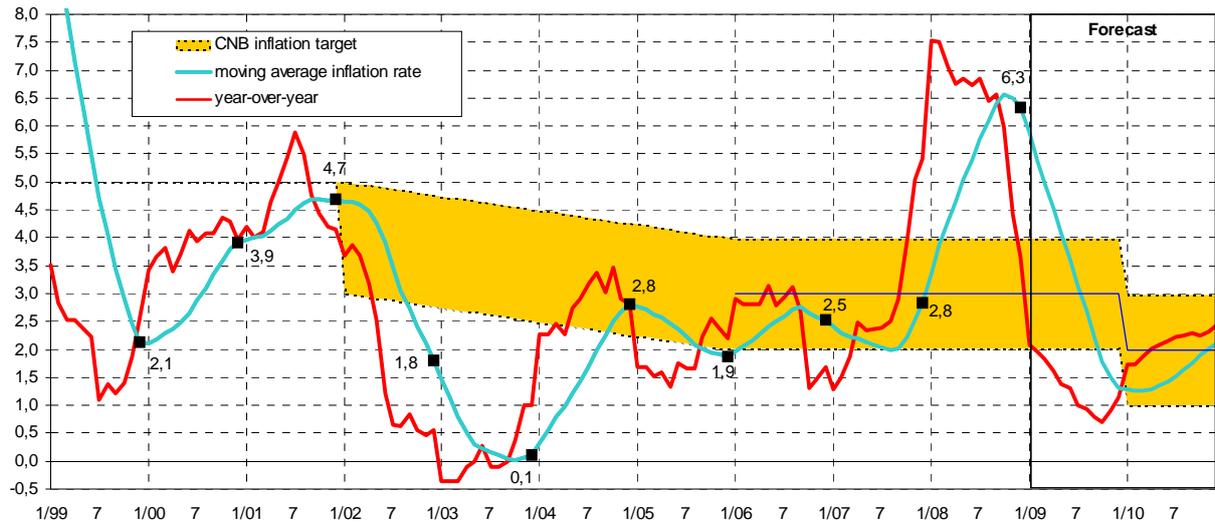
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									Estimate	Forecast	Forecast
Consumer Price Index											
average of a year	average 2005=100	93,7	95,4	95,5	98,2	100,0	102,5	105,4	112,1	113,6	116,0
	growth in per cent	4,7	1,8	0,1	2,8	1,9	2,5	2,8	6,3	1,3	2,1
end of a year	average 2005=100	94,3	94,8	95,8	98,5	100,6	102,3	107,9	111,8	113,1	115,8
	growth in per cent	4,1	0,6	1,0	2,8	2,2	1,7	5,4	3,6	1,1	2,4
- of which contribution of administrative measures ¹⁾	percentage points	2,3	0,7	0,3	1,7	1,9	0,8	2,2	4,3	1,8	2,3
HICP											
	average 2005=100	94,7	96,1	96,0	98,4	100,0	102,1	105,1	111,7	113,1	115,4
	growth in per cent	4,5	1,4	-0,1	2,6	1,6	2,1	3,0	6,3	1,2	2,0
Deflators											
GDP	average 2000=100	104,9	107,8	108,8	113,8	113,4	114,5	118,6	120,2	122,4	124,5
	prev.year=100	104,9	102,8	100,9	104,5	99,7	100,9	103,6	101,3	101,8	101,8
Domestic final use	average 2000=100	103,1	103,6	104,2	107,8	108,9	111,1	114,2	118,7	120,2	122,5
	prev.year=100	103,1	100,5	100,6	103,5	101,0	102,0	102,8	104,0	101,2	102,0
Consumption of households	average 2000=100	103,9	105,2	104,8	108,2	109,1	110,8	113,9	120,3	121,5	123,9
	prev.year=100	103,9	101,2	99,6	103,3	100,8	101,5	102,8	105,6	101,0	101,9
Consumption of government	average 2000=100	104,0	107,8	110,5	118,0	121,5	127,2	133,0	137,5	142,2	146,5
	prev.year=100	104,0	103,7	102,4	106,8	103,0	104,7	104,6	103,4	103,4	103,0
Fixed capital formation	average 2000=100	101,0	98,8	99,8	101,5	101,8	102,0	103,6	104,0	104,7	105,4
	prev.year=100	101,0	97,8	101,0	101,8	100,2	100,3	101,5	100,4	100,7	100,7
Exports of goods and services	average 2000=100	99,7	94,2	94,3	96,9	94,7	93,5	93,5	87,0	87,5	86,7
	prev.year=100	99,7	94,5	100,1	102,7	97,8	98,7	100,0	93,1	100,5	99,2
Imports of goods and services	average 2000=100	97,4	89,2	88,8	90,0	89,5	89,4	88,4	84,3	84,0	83,4
	prev.year=100	97,4	91,6	99,6	101,3	99,5	99,9	98,8	95,4	99,6	99,3
Terms of trade	average 2000=100	102,4	105,6	106,2	107,6	105,8	104,5	105,8	103,2	104,1	104,0
	prev.year=100	102,4	103,2	100,5	101,4	98,3	98,8	101,2	97,5	100,9	99,9

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

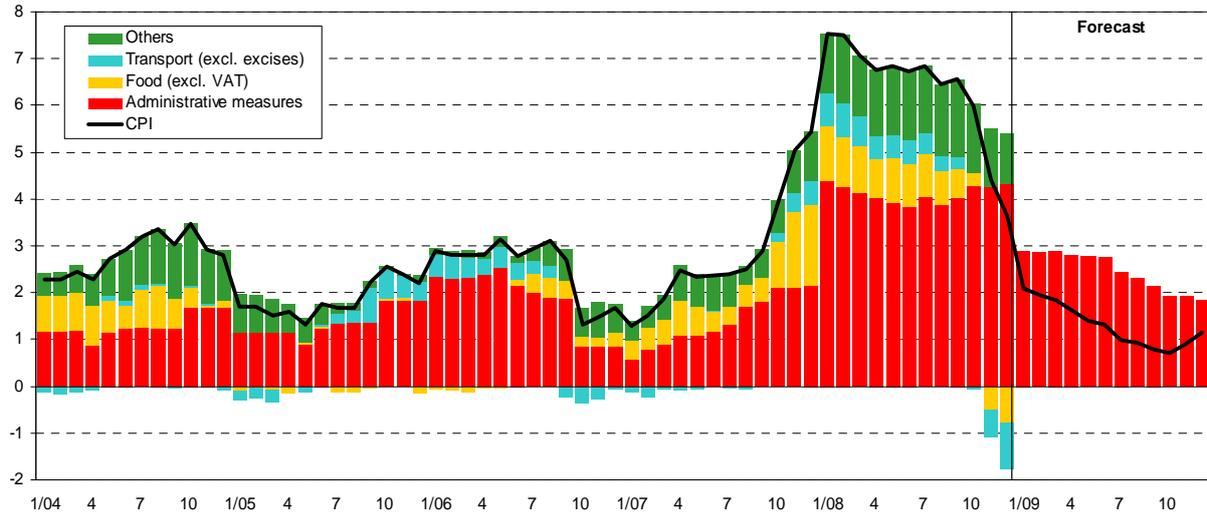
Table 2.2: Prices of Goods and Services - quarterly

		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Consumer Price Index	average 2005=100	111,3	112,1	112,9	112,2	113,5	113,7	113,9	113,3
	prev.year = 100	107,4	106,8	106,6	104,7	102,0	101,4	100,9	100,9
HICP	average 2005=100	111,1	111,8	112,3	111,7	113,1	113,3	113,2	112,6
	prev.year = 100	107,5	106,7	106,4	104,4	101,8	101,4	100,8	100,8
GDP deflator	average 2000=100	120,3	120,0	120,1	120,5	121,8	122,6	123,2	121,9
	prev.year = 100	102,7	101,5	101,0	100,4	101,2	102,2	102,6	101,2
Domestic final use deflator	average 2000=100	117,0	118,1	119,0	120,6	118,9	119,4	120,2	122,1
	prev.year = 100	104,4	103,9	103,9	103,9	101,6	101,1	101,0	101,2
Terms of trade	average 2000=100	105,2	103,8	102,6	101,1	104,7	105,2	105,0	101,4
	prev.year=100	98,8	98,0	97,2	96,1	99,5	101,4	102,3	100,3

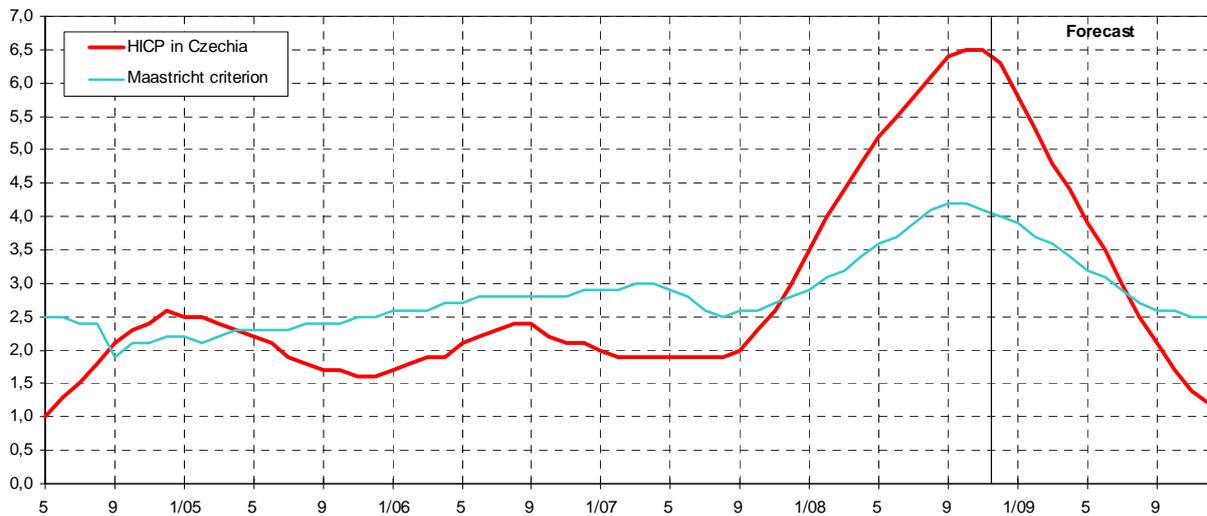
Graph 2.1: Consumer Prices
in %



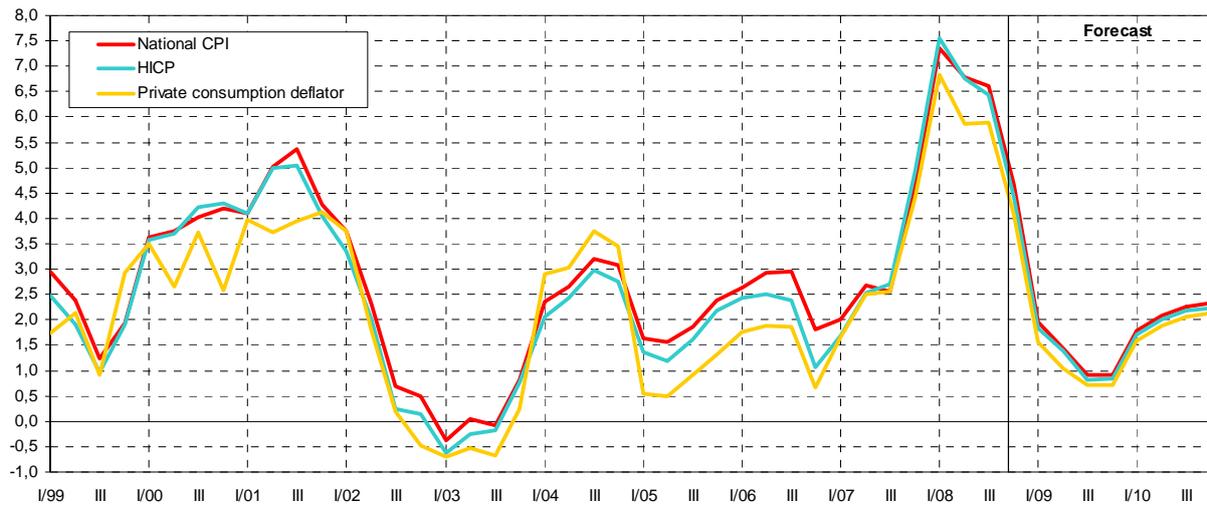
Graph 2.2: Consumer Prices
decomposition of the YoY increase in consumer prices, in percentage points



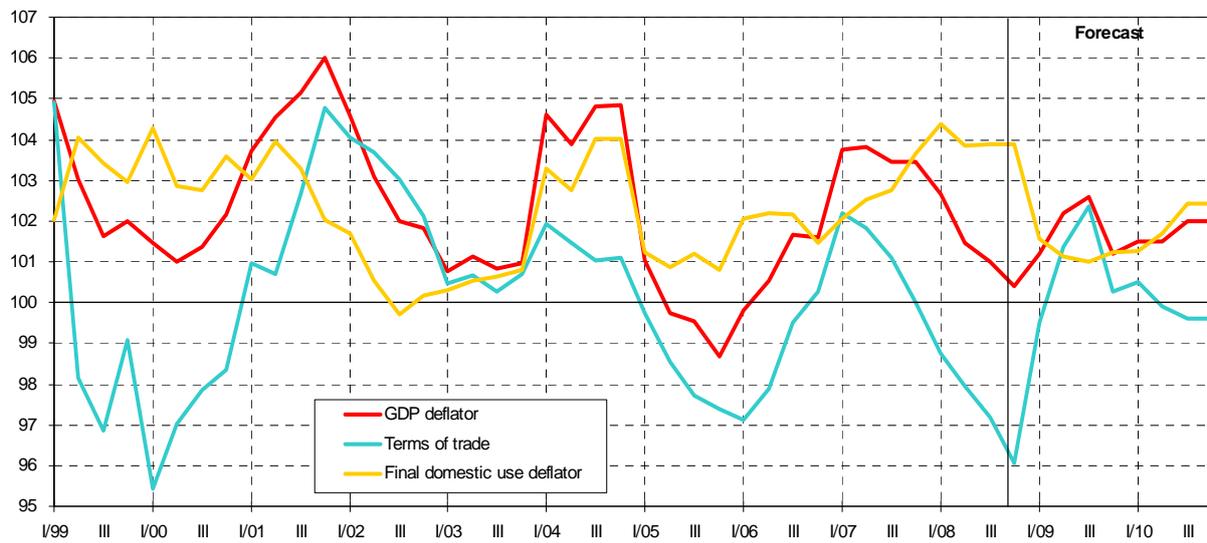
Graph 2.3: HICP and Maastricht Criterion of Inflation
moving inflation rate from HICP, in %



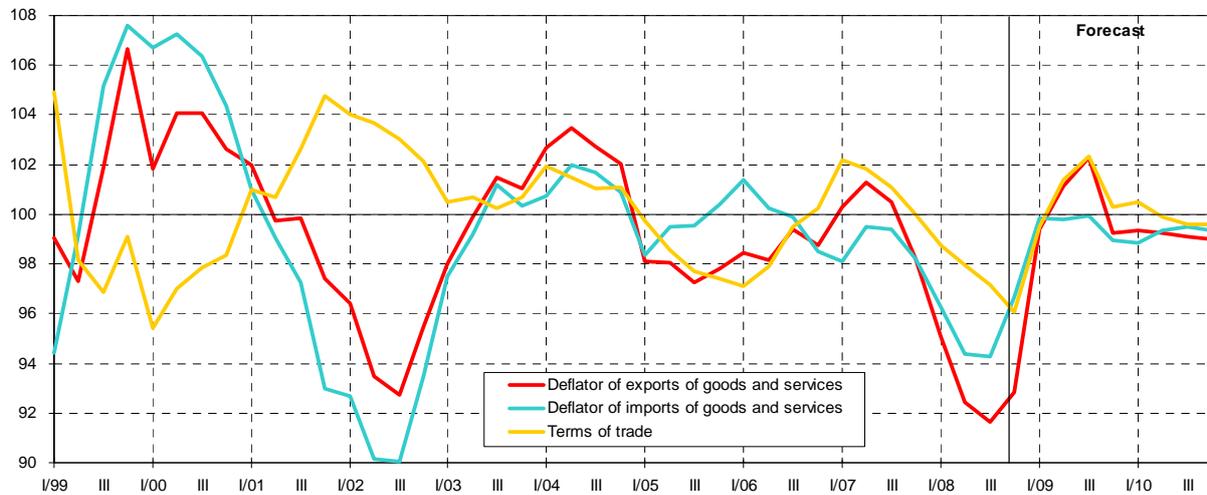
Graph 2.4: Indicators of Consumer Prices
YoY increases, in %



Graph 2.5: GDP Deflator
YoY indices of final domestic use deflator and terms of trade, prev. year = 100 %



Graph 2.6: Terms of Trade
prev year = 100 %



3. Labour Market

Sources: CZSO, Min. of Industry and Trade, Min. of Labour and Social Affairs, MoF estimates.

Table 3.1: Employment – yearly

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Labour Force Survey											
Employment	<i>average in thous.persons</i>	4728	4765	4733	4707	4764	4828	4922	4998	4981	4943
	<i>prev.year=100</i>	100,4	(100,8)	99,3	99,4	101,2	101,3	101,9	101,5	99,7	99,2
- employees	<i>average in thous.persons</i>	4014	4002	3922	3914	4001	4048	4125	4191	4167	4123
	<i>prev.year=100</i>	100,2	(99,7)	98,0	99,8	102,2	101,2	101,9	101,6	99,4	98,9
- entrepreneurs and self-employed	<i>average in thous.persons</i>	714	763	811	792	763	780	797	807	815	821
	<i>prev.year=100</i>	100,8	(106,8)	106,4	97,6	96,3	102,2	102,2	101,2	101,0	100,7
Unemployment	<i>average in thous.persons</i>	418	374	399	426	410	371	276	231	271	309
Unemployment rate	<i>average in per cent</i>	8,1	7,3	7,8	8,3	7,9	7,1	5,3	4,4	5,2	5,9
Labour force	<i>average in thous.persons</i>	5146	5139	5132	5133	5174	5199	5198	5229	5252	5252
	<i>prev.year=100</i>	99,7	99,9	99,9	100,0	100,8	100,5	100,0	100,6	100,4	100,0
Productive-age (15 - 64) population	<i>average in thous.persons</i>	7165	7183	7214	7247	7270	7307	7347	7409	7428	7431
	<i>prev.year=100</i>	100,4	100,3	100,4	100,4	100,3	100,5	100,5	100,9	100,3	100,0
Employment/Pop.15-64	<i>average in per cent</i>	66,0	66,3	65,6	64,9	65,5	66,1	67,0	67,5	67,1	66,5
Employment rate 15-64¹⁾	<i>average in per cent</i>	65,2	65,6	64,9	64,2	64,8	65,3	66,1	66,5	66,2	65,7
Labour force/Pop.15-64	<i>average in per cent</i>	71,8	71,5	71,1	70,8	71,2	71,2	70,8	70,6	70,7	70,7
Participation rate 15-64²⁾	<i>average in per cent</i>	71,0	70,8	70,4	70,1	70,4	70,3	69,8	69,6	69,8	69,8
SNA											
Employment (domestic concept)	<i>average in thous.persons</i>	4963	4991	4923	4940	4992	5072	5207	5308	5290	5249
	<i>prev.year=100</i>	100,5	100,6	98,7	100,3	101,0	101,6	102,7	101,9	99,7	99,2
Hours worked	<i>bill.</i>	9,75	9,70	9,58	9,65	9,81	9,96	10,16	10,32	10,16	10,12
	<i>prev.year=100</i>	96,0	99,5	98,7	100,8	101,6	101,5	102,0	101,6	98,4	99,6
Hours worked / employer	<i>hours</i>	1965	1944	1945	1954	1965	1963	1950	1944	1920	1928
	<i>prev.year=100</i>	95,6	98,9	100,1	100,4	100,6	99,9	99,4	99,7	98,8	100,4
Registered unemployment											
Unemployment	<i>average in thous.persons</i>	443,8	477,5	521,6	537,4	514,3	474,8	392,8	324,6	374	419
Unemployment rate³⁾	<i>average in per cent</i>	8,54	9,16	9,90	10,24	9,79	.	.	.	.	.
	<i>average in per cent</i>	.	.	.	9,2	8,97	8,13	6,62	5,44	6,3	7,0
Registered foreign workers											
Total	<i>average in thous.persons</i>	166,7	167,6	163,2	169,4	195,2	233,2	276,2	343,5	.	.
	<i>prev.year=100</i>	107,5	100,5	97,4	103,8	115,3	119,4	118,5	124,4	.	.
- employees	<i>average in thous.persons</i>	105,1	106,0	102,3	106,1	131,2	165,5	209,7	270,2	.	.
	<i>prev.year=100</i>	109,8	100,9	96,5	103,7	123,7	126,1	126,7	128,8	.	.
- self-employed	<i>average in thous.persons</i>	61,7	61,6	60,9	63,3	64,0	67,7	66,5	73,3	.	.
	<i>prev.year=100</i>	103,8	99,9	98,9	103,9	101,2	105,7	98,2	110,2	.	.

LFS: Data for 2001 are not fully comparable with following years due to harmonisation with EU standards.

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

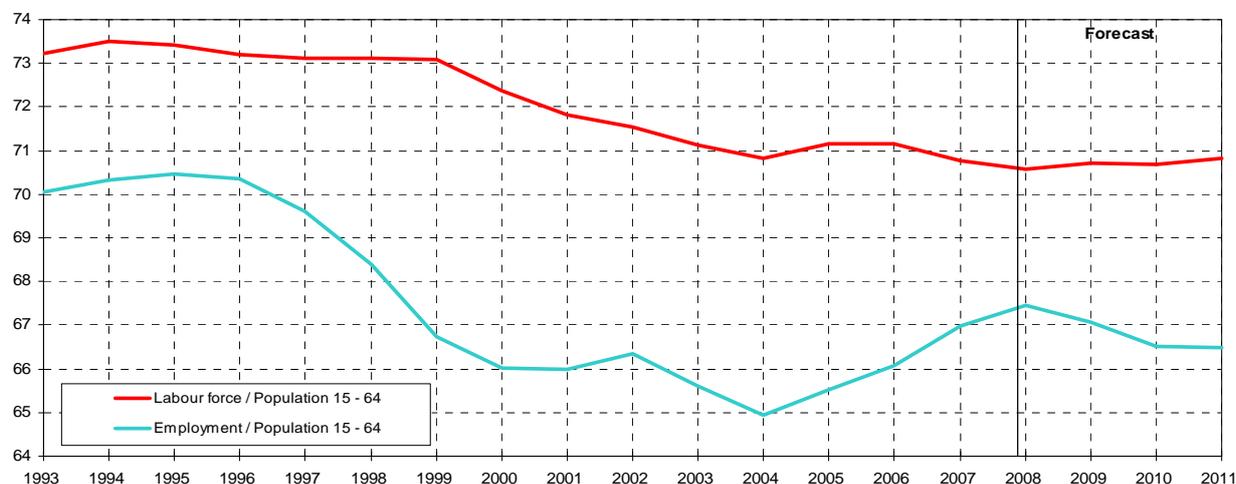
²⁾ The indicator does not contain labour force over 64 years.

³⁾ Old methodology in the first row, new methodology in the second row.

Table 3.2: Employment - quarterly

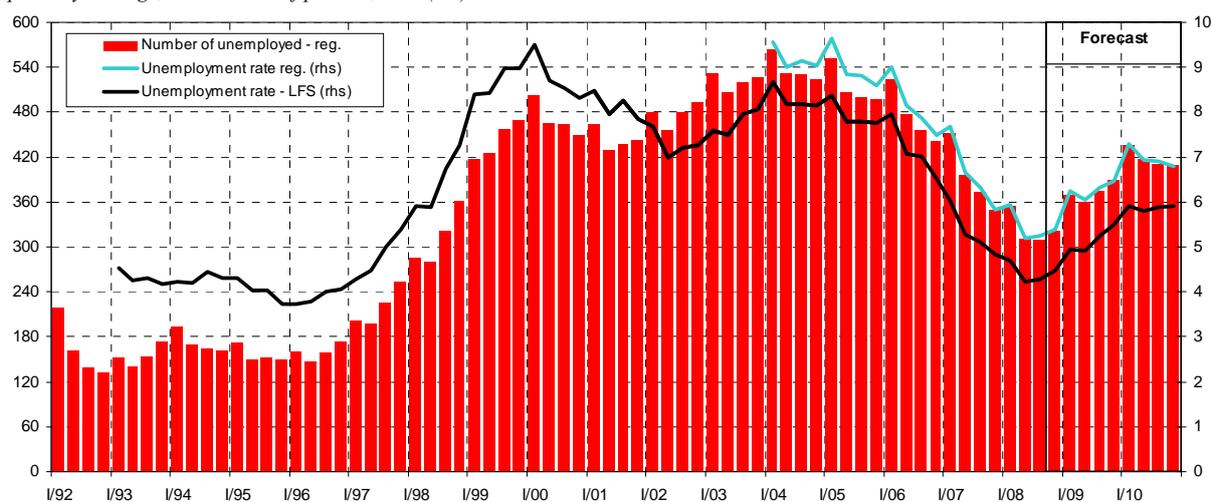
		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Labour Force Survey									
Employment	average in thous.persons	4958	5003	5014	5016	4962	4992	4990	4980
	prev.year=100	101,9	101,8	101,5	101,0	100,1	99,8	99,5	99,3
- employees	average in thous.persons	4161	4195	4206	4203	4149	4178	4176	4165
	prev.year=100	102,0	101,9	101,7	100,8	99,7	99,6	99,3	99,1
- entrepreneurs and self-employed	average in thous.persons	797	808	808	813	814	814	815	816
	prev.year=100	101,3	101,6	100,3	101,8	102,1	100,8	100,8	100,3
Unemployment	average in thous.persons	245	220	224	235	258	259	276	290
Unemployment rate	average in per cent	4,7	4,2	4,3	4,5	4,9	4,9	5,2	5,5
Labour force	average in thous.persons	5203	5223	5238	5251	5220	5251	5267	5270
	prev.year=100	100,5	100,7	100,6	100,6	100,3	100,5	100,5	100,4
Productive-age (15 - 64) population	average in thous.persons	7397	7406	7413	7422	7425	7427	7430	7432
	prev.year=100	100,9	100,8	100,9	100,8	100,4	100,3	100,2	100,1
Employment/Pop.15-64	average in per cent	67,0	67,6	67,6	67,6	66,8	67,2	67,2	67,0
	increase over a year	0,6	0,6	0,4	0,1	-0,2	-0,3	-0,5	-0,6
Employment rate 15-64	average in per cent	66,1	66,6	66,7	66,7	66,0	66,3	66,3	66,2
	increase over a year	0,6	0,6	0,4	0,2	-0,2	-0,3	-0,4	-0,5
Labour force/Pop.15-64	average in per cent	70,3	70,5	70,7	70,7	70,3	70,7	70,9	70,9
	increase over a year	-0,3	-0,1	-0,2	-0,1	0,0	0,2	0,2	0,2
Participation rate 15-64	average in per cent	69,4	69,6	69,7	69,8	69,4	69,8	70,0	70,1
	increase over a year	-0,4	-0,1	-0,2	-0,1	0,0	0,2	0,3	0,2
SNA									
Employment (domestic concept)	average in thous.persons	5278	5316	5327	5310	5282	5305	5301	5272
	prev.year=100	102,6	102,3	101,9	101,0	100,1	99,8	99,5	99,3
Hours worked	bill.	2,61	2,67	2,48	2,57	2,58	2,63	2,43	2,52
	prev.year=100	100,3	102,5	104,0	99,9	99,1	98,8	97,9	98,0
Hours worked / employment	hours	494	502	465	484	489	497	458	477
	prev.year=100	97,7	100,2	102,1	98,9	99,0	99,0	98,4	98,7
Registered unemployment									
Unemployment	average in thous.persons	355,1	311,9	309,5	321,8	369	360	375	390
Unemployment rate	average in per cent	5,95	5,19	5,24	5,39	6,2	6,0	6,3	6,5
Registered foreign workers									
Total	average in thous.persons	315,7	337,1	355,1	365,9	.	.	.	.
	prev.year=100	125,2	126,5	125,5	120,7	.	.	.	.
- employees	average in thous.persons	245,8	264,9	280,5	289,6	.	.	.	.
	prev.year=100	131,7	131,7	129,8	123,2	.	.	.	.
- self-employed	average in thous.persons	69,9	72,2	74,5	76,4	.	.	.	.
	prev.year=100	106,7	110,3	111,8	112,0	.	.	.	.

Graph 3.1: Ratio of Labour Force and Employment to Population (15-64) in %



Graph 3.2: Unemployment

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



Graph 3.3: Economic Output and Unemployment

YoY increase of real GDP in % and change in unemployment in thous. persons



Table 3.3: Labour Market - analytical indicators

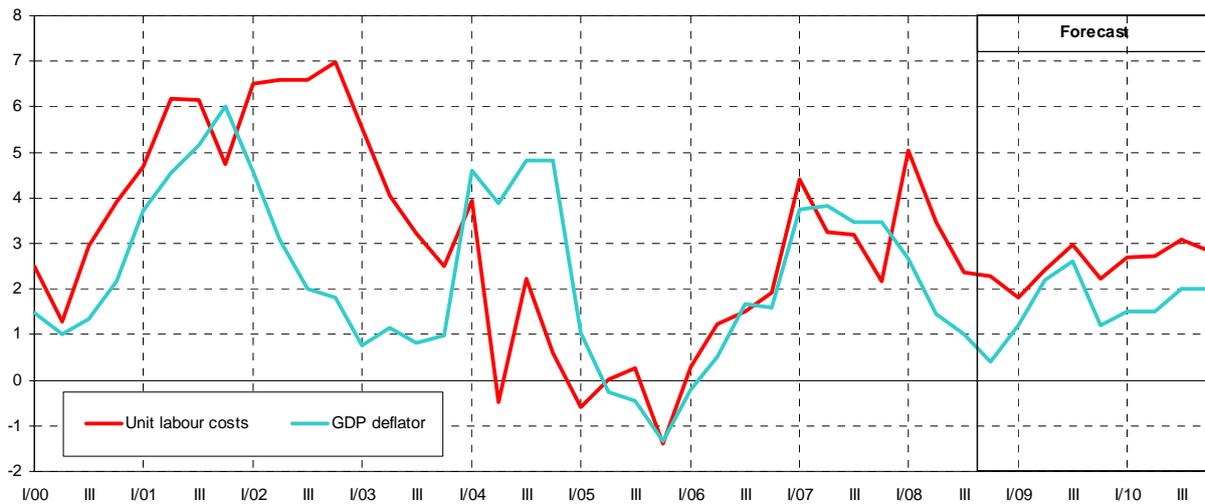
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									Estimate	Forecast	Forecast
Compensation per employee											
- nominal	prev. year=100	108,1	107,3	108,2	106,7	104,6	106,7	107,3	105,8	104,1	105,8
- real	prev. year=100	103,3	105,4	108,1	103,8	102,6	104,1	104,3	99,4	102,8	103,6
Average monthly wage ¹⁾											
- nominal	CZK	14 793	15 866	16 917	18 041	18 992	20 219	21 694	23 400	24 600	26 200
	prev. year=100	108,7	107,3	106,6	106,6	105,3	106,5	107,3	107,9	105,1	106,4
- real	CZK 2005	15 788	16 632	17 716	18 377	18 992	19 719	20 573	20 900	21 700	22 600
	prev. year=100	103,8	105,4	106,5	103,7	103,3	103,8	104,3	101,5	103,8	104,2
Labour productivity											
	prev. year=100	102,1	101,1	104,3	105,1	105,0	105,4	103,9	102,5	101,7	102,9
Unit labour costs ²⁾											
	prev. year=100	105,9	106,1	103,8	101,5	99,5	101,3	103,2	103,2	102,4	102,8
Compensations of employees / GDP											
	%	42,3	43,2	43,8	42,7	43,1	43,1	42,9	43,8	43,9	44,2

¹⁾ This indicator includes only business sphere enterprises with 20 employees or more and all non-business sphere organizations.

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

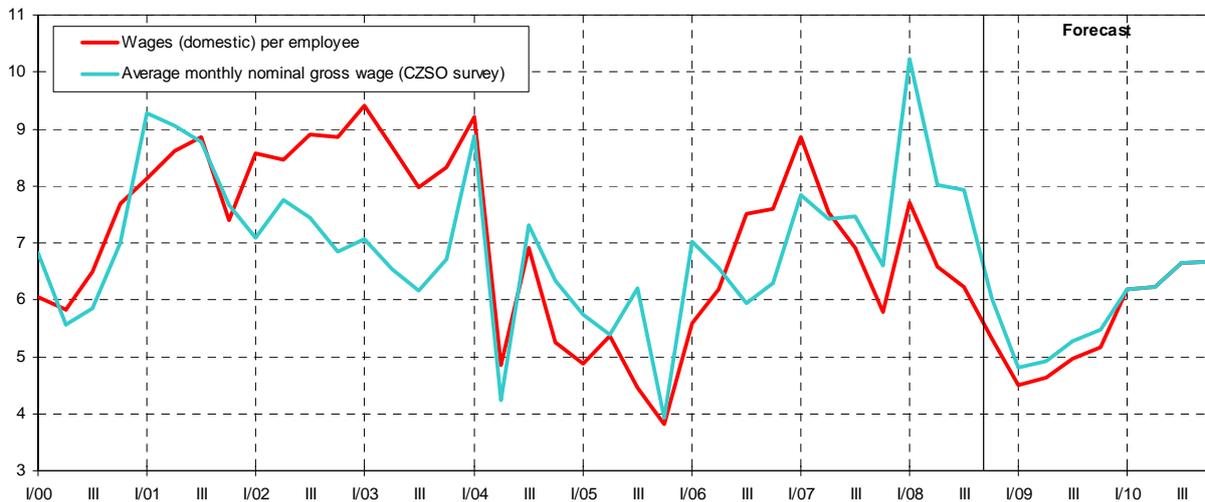
Graph 3.4: Unit Labour Costs

nominal compensation of employees (domestic concept) per unit of real GDP, prev. year = 100 %



Graph 3.5: Average Nominal Wage

prev. year = 100 %



Graph 3.6: Ratio of Bank Loans to Households to GDP

yearly moving sums of GDP, in %

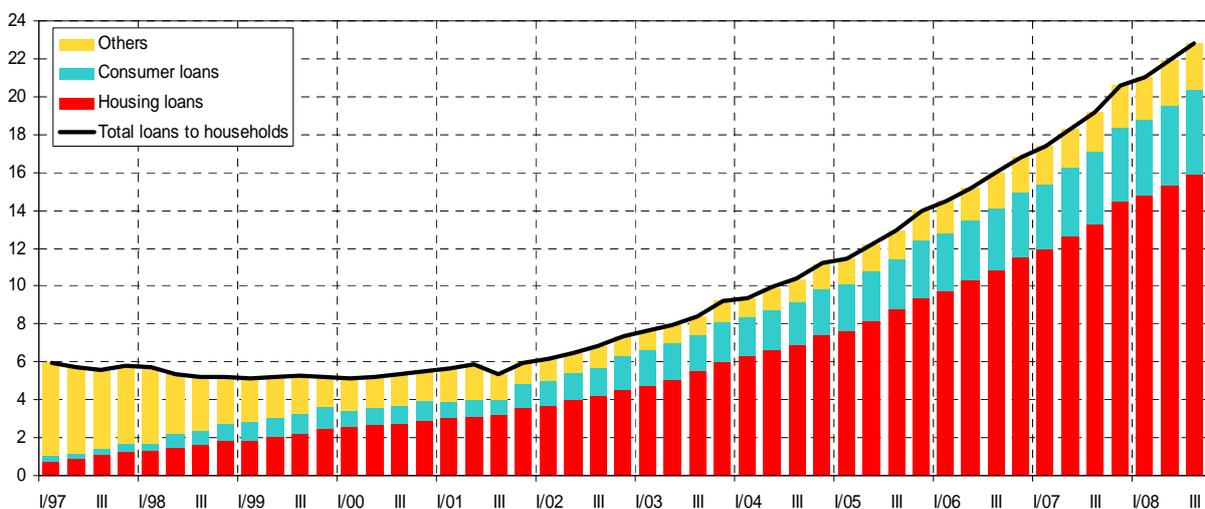
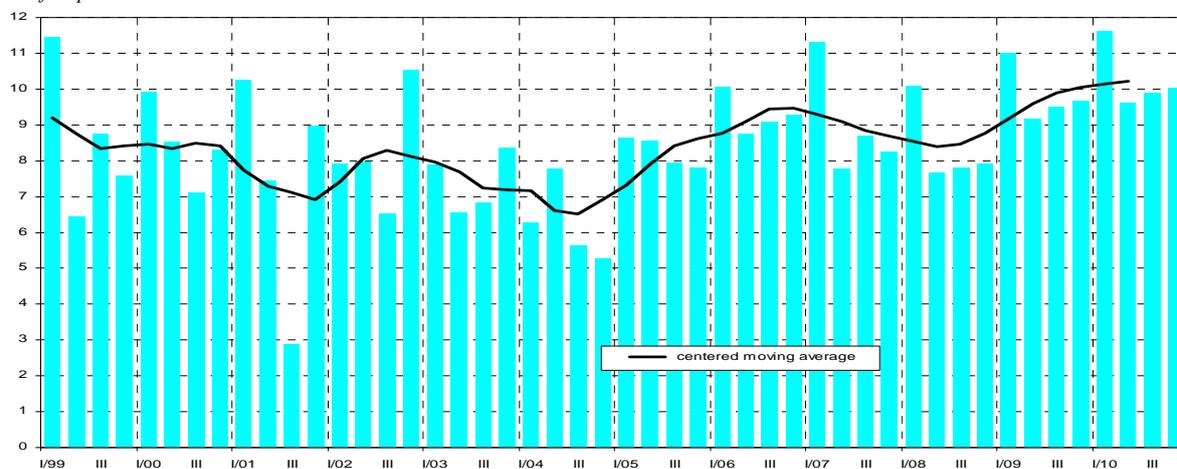


Table 3.4: **Income and Expenditures of Households – yearly**
SNA methodology – national concept

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Current income											
Compensation of employees	<i>bill.CZK</i>	982	1049	1120	1186	1273	1374	1497	1594	1651	1729
	<i>prev.year=100</i>	107,9	106,8	106,8	105,9	107,3	107,9	108,9	106,5	103,6	104,7
Gross mixed income	<i>bill.CZK</i>	391	395	425	449	446	469	495	517	535	561
	<i>prev.year=100</i>	104,4	101,2	107,5	105,7	99,4	105,2	105,5	104,4	103,5	105,0
Property income received	<i>bill.CZK</i>	103	98	97	109	120	137	157	177	188	201
	<i>prev.year=100</i>	101,6	94,9	98,9	112,7	109,6	113,9	114,7	113,0	106,0	107,0
Social benefits not-in-kind	<i>bill.CZK</i>	290	313	324	369	386	419	466	488	514	536
	<i>prev.year=100</i>	104,6	108,0	103,6	.	104,6	108,7	111,2	104,6	105,5	104,2
Other current transfers received	<i>bill.CZK</i>	79	85	91	93	103	113	120	134	142	151
	<i>prev.year=100</i>	91,2	107,8	106,8	102,9	110,1	109,9	106,4	111,8	106,0	106,0
Current expenditure											
Property income paid	<i>bill.CZK</i>	15	13	19	21	20	25	37	40	44	49
	<i>prev.year=100</i>	94,6	82,0	149,0	112,4	94,7	123,3	149,6	108,3	110,0	110,0
Current taxes on income and property	<i>bill.CZK</i>	106	115	128	138	140	140	156	145	150	158
	<i>prev.year=100</i>	105,9	108,0	111,9	107,6	101,7	99,8	111,4	92,8	103,8	105,2
Social contributions	<i>bill.CZK</i>	350	382	408	474	507	556	610	637	626	643
	<i>prev.year=100</i>	106,8	109,2	106,7	.	107,1	109,7	109,6	104,4	98,3	102,7
Other current transfers paid	<i>bill.CZK</i>	79	82	93	100	109	115	127	135	141	147
	<i>prev.year=100</i>	108,5	103,4	113,7	107,2	109,2	105,9	109,9	106,5	104,5	104,5
Gross disposable income	<i>bill.CZK</i>	1293	1348	1409	1474	1551	1675	1805	1953	2069	2181
	<i>prev.year=100</i>	105,0	104,3	104,5	104,6	105,3	108,0	107,7	108,2	105,9	105,4
Final consumption	<i>bill.CZK</i>	1207	1248	1317	1399	1443	1543	1669	1815	1892	1986
	<i>prev.year=100</i>	106,4	103,4	105,6	106,2	103,1	107,0	108,2	108,7	104,2	105,0
Change in net share in pension funds	<i>bill.CZK</i>	9	11	13	17	19	23	26	25	27	29
Gross savings	<i>bill.CZK</i>	96	112	105	92	128	156	162	163	203	224
Capital transfers											
(income (-) / expenditure (+))	<i>bill.CZK</i>	-17	-36	-21	-23	-25	-23	-23	-38	-24	-24
Gross capital formation	<i>bill.CZK</i>	121	129	122	132	136	153	187	194	198	208
	<i>prev.year=100</i>	102,7	106,8	94,9	107,8	102,6	112,6	122,3	103,9	102,0	105,0
Change in financial assets and liab.	<i>bill.CZK</i>	-5	23	6	-18	20	25	-3	-8	29	40
Real disposable income	<i>bill.CZK 2000</i>	1380	1414	1475	1501	1551	1634	1712	1741	1821	1880
	<i>prev.year=100</i>	100,3	102,4	104,4	101,8	103,3	105,3	104,8	101,7	104,6	103,3
Gross savings rate	%	7,4	8,3	7,4	6,2	8,2	9,3	9,0	8,3	9,8	10,3

Government payments to social security systems for non-active population have been imputed to social benefits and social security contributions since 2004.

Graph 3.7: **Gross Savings Rate of Households**
in % of disposable income



4. External Relations

Sources: CNB, CZSO, Eurostat, MoF estimates

Table 4.1: Exchange Rates – yearly

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
								<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>
Nominal exchange rates:											
CZK / EUR	<i>average</i>	30,81	31,84	31,90	29,78	28,34	27,76	24,96	25,6	24,7	23,8
	<i>appreciation prev.year=100</i>	110,6	96,8	99,8	107,1	105,1	102,1	111,2	97,3	103,7	103,7
CZK / USD	<i>average</i>	32,74	28,23	25,70	23,95	22,61	20,31	17,06	19,6	20,1	19,9
	<i>appreciation prev.year=100</i>	116,2	116,0	109,8	107,3	105,9	111,3	119,0	87,3	97,4	101,1
NEER	<i>verage of 2005=100</i>	94,3	94,0	94,4	100,0	104,8	106,8	118	114	118	122
	<i>appreciation prev.year=100</i>	111,7	99,7	100,4	105,9	104,8	101,8	110,9	96,6	102,9	103,4
Real exchange rate ¹⁾											
to EA-12	<i>verage of 2005=100</i>	97,5	93,2	95,5	100,0	104,0	107,6	119	115	119	124
	<i>appreciation prev.year=100</i>	110,9	95,6	102,4	104,7	104,0	103,4	110,3	97,0	103,7	104,2

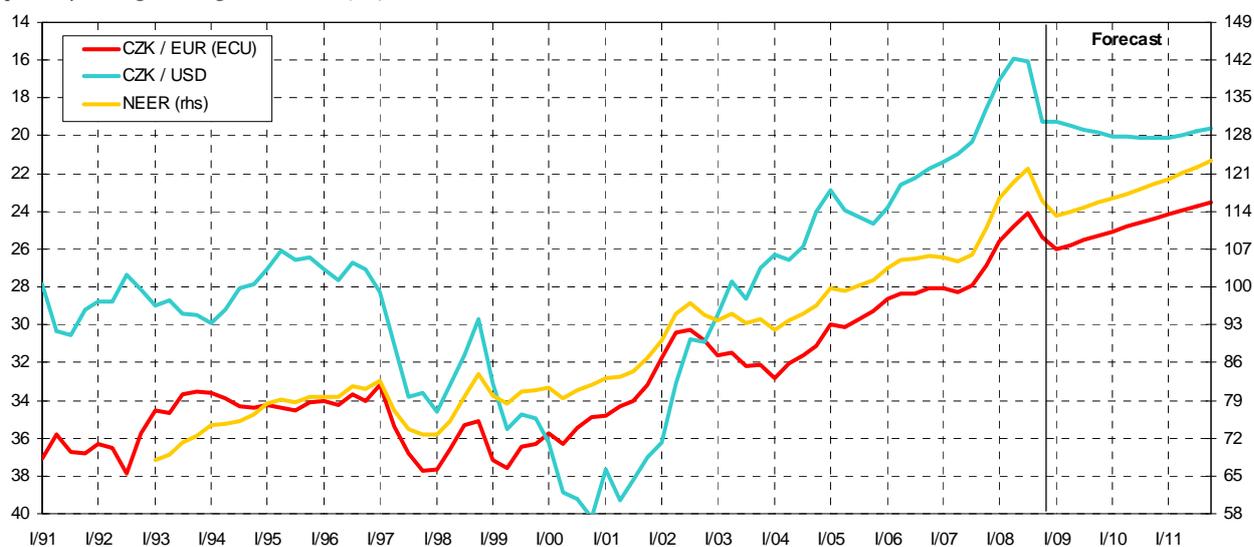
¹⁾ Deflated by GDP deflators.

Table 4.2: Exchange Rates - quarterly

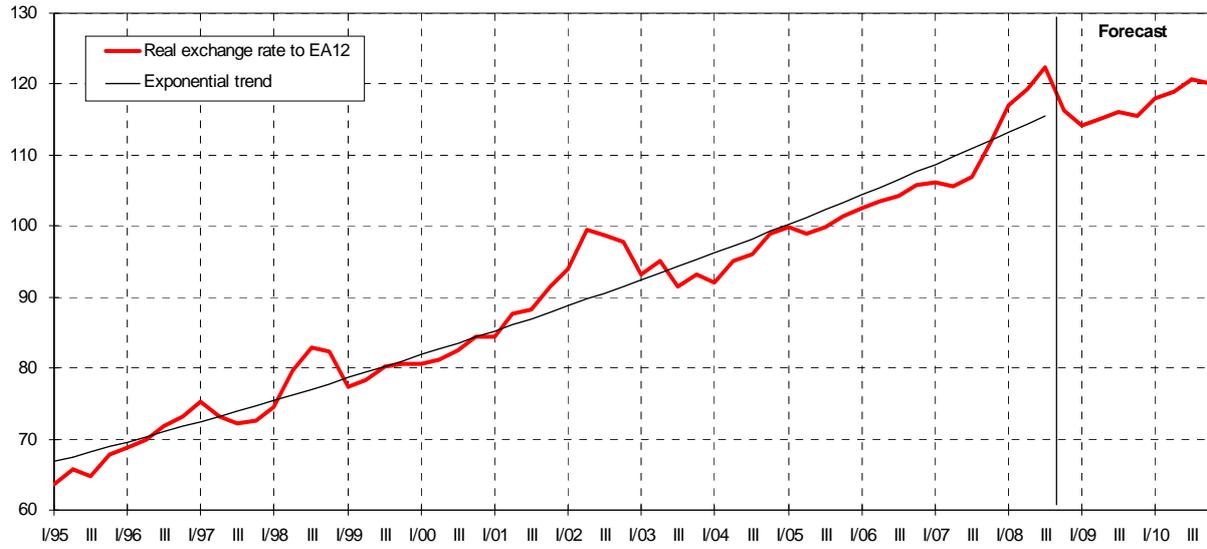
		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Nominal exchange rates:									
CZK / EUR		25,56	24,83	24,09	25,34	26,0	25,8	25,5	25,3
	<i>appreciation prev.year=100</i>	109,7	113,9	115,9	105,9	98,3	96,4	94,4	100,2
CZK / USD		17,08	15,89	16,05	19,25	19,3	19,5	19,7	19,8
	<i>appreciation prev.year=100</i>	125,3	132,0	126,7	96,3	88,7	81,7	81,7	97,0
NEER	<i>average of 2005=100</i>	116,4	119,4	121,9	116	113	114	115	116
	<i>appreciation prev.year=100</i>	110,4	114,1	115,0	104,5	97,3	95,5	94,2	99,8
Real exchange rate									
to EA-12	<i>average of 2005=100</i>	117,1	119,3	122,4	116	114	115	116	115
	<i>appreciation prev.year=100</i>	110,3	113,0	114,4	103,9	97,5	96,5	94,8	99,3

Graph 4.1: Nominal Exchange Rates

quarterly average, average 2005 = 100 (rhs)



Graph 4.2: Real Exchange Rate to EA12
quarterly average, deflated by GDP deflators, average 2005 = 100



Graph 4.3: Real Exchange Rate to EA12
deflated by GDP deflators, YoY growth, in percentage points

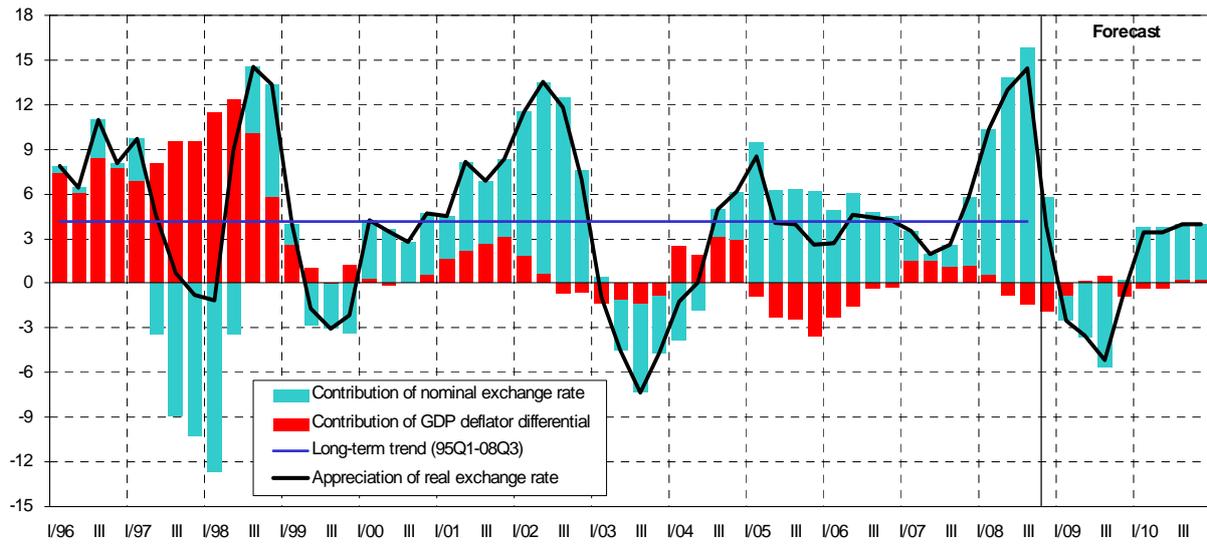


Table 4.3: Balance of Payments - yearly

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Exports of goods (fob)	<i>bill.CZK</i>	1270	1254	1371	1723	1869	2145	2479	2498	2470	2540
	<i>prev.year=100</i>	113,2	98,8	109,3	125,7	108,5	114,8	115,6	100,8	98,9	102,8
Imports of goods (fob) ¹⁾	<i>bill.CZK</i>	1386	1326	1441	1736	1809	2079	2359	2385	2365	2442
	<i>prev.year=100</i>	111,6	95,6	108,7	.	104,2	114,9	113,4	101,1	99,2	103,2
Balance of trade ¹⁾	<i>bill.CZK</i>	-117	-71	-70	-13	59	65	121	113	105	98
of which:											
- mineral fuels (SITC 3) ²⁾	<i>bill.CZK</i>	-88	-64	-68	-72	-110	-139	-124	-164	-95	-117
- others ²⁾	<i>bill.CZK</i>	-29	-7	-1	46	149	179	212	243	167	181
- imports fob - imports cif	<i>bill.CZK</i>	.	.	.	13	21	25	33	34	33	34
Exports of services	<i>bill.CZK</i>	270	231	219	247	282	314	347	371	390	412
	<i>prev.year=100</i>	101,8	85,7	94,8	.	114,3	111,2	110,4	107,0	105,0	105,8
Imports of services	<i>bill.CZK</i>	212	209	206	231	245	268	290	292	304	317
	<i>prev.year=100</i>	100,7	98,9	98,4	.	106,5	109,0	108,3	100,7	104,0	104,5
Balance of services	<i>bill.CZK</i>	58	22	13	17	37	46	57	79	86	95
Balance of income	<i>bill.CZK</i>	-84	-116	-120	-157	-143	-181	-222	-297	-287	-292
of which:											
- compensation of employees	<i>bill.CZK</i>	-17	-18	-17	-16	-11	-13	-20	-35	-35	-36
- investment income	<i>bill.CZK</i>	-66	-97	-103	-141	-132	-168	-202	-262	-252	-256
Balance of transfers	<i>bill.CZK</i>	18	29	16	6	7	-13	-18	-1	28	32
Current account	<i>bill.CZK</i>	-124	-136	-161	-147	-40	-82	-63	-106	-68	-67
Capital account	<i>bill.CZK</i>	0	0	0	-14	5	8	20	40	52	58
Financial account	<i>bill.CZK</i>	173	348	157	177	155	92	94	.	.	.
- foreign direct investments	<i>bill.CZK</i>	208	271	54	102	280	90	158	.	.	.
- portfolio investments	<i>bill.CZK</i>	35	-47	-36	53	-81	-27	-53	.	.	.
- other investments	<i>bill.CZK</i>	-70	124	139	23	-44	29	-11	.	.	.
Change in reserves	<i>bill.CZK</i>	67	217	13	7	93	2	16	.	.	.
Gross external debt	<i>bill.CZK</i>	811	813	895	1012	1142	1194	1349	1549	1637	1680
Balance of trade / GDP ¹⁾	<i>per cent</i>	-5,0	-2,9	-2,7	-0,5	2,0	2,0	3,4	3,0	2,7	2,5
Current account / GDP	<i>per cent</i>	-5,3	-5,5	-6,2	-5,2	-1,3	-2,6	-1,8	-2,8	-1,8	-1,7
Financial account / GDP	<i>per cent</i>	7,3	14,1	6,1	6,3	5,2	2,9	2,7	.	.	.
Gross external debt / GDP ³⁾	<i>per cent</i>	34,5	33,0	34,7	35,9	38,3	37,1	38,2	42	43	42

¹⁾ Imports cif till April 2004, fob since May 2004

²⁾ Imports cif

³⁾ In CZK

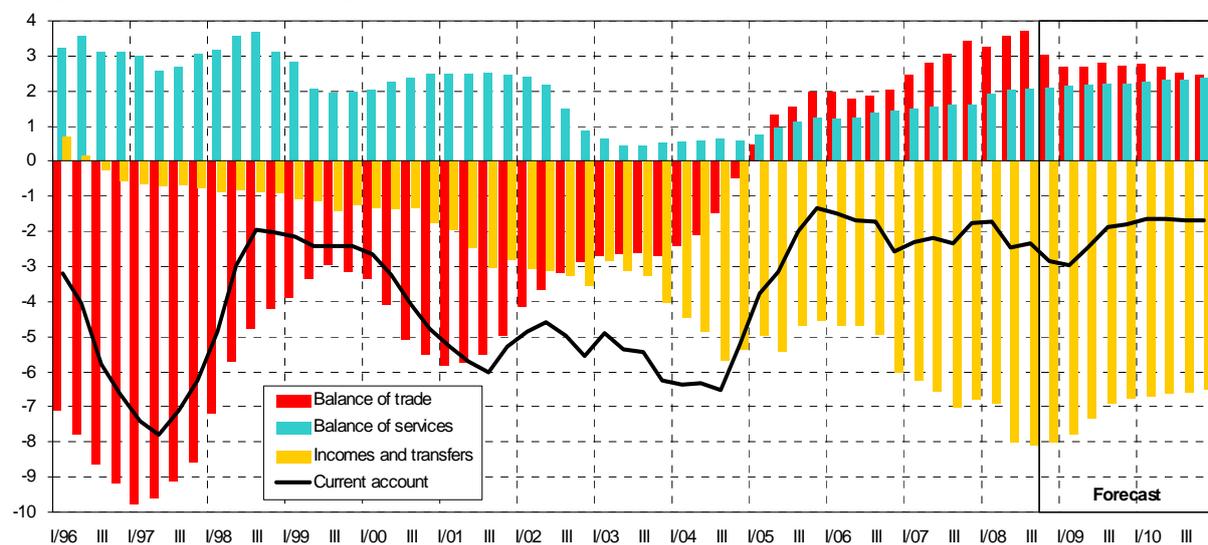
Table 4.4: Balance of Payments - quarterly

		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Exports of goods (fob)	bill.CZK	639	652	602	605	629	648	603	591
	prev.year=100	106,2	106,0	99,5	92,0	98,5	99,3	100,1	97,6
Imports of goods (fob)	bill.CZK	597	612	574	602	600	606	568	590
	prev.year=100	107,4	104,1	98,3	95,4	100,6	99,1	99,0	98,1
Balance of trade	bill.CZK	42	40	28	3	29	41	34	1
- mineral fuels (SITC 3) ¹⁾	bill.CZK	-39	-42	-41	-43	-29	-24	-21	-21
- others ¹⁾	bill.CZK	73	73	61	37	52	55	46	13
- difference between imports cif and fob	bill.CZK	7	9	8	10	5	10	9	9
Exports of services	bill.CZK	88	96	94	93	93	101	99	97
	prev.year=100	118,3	108,9	101,2	102,0	105,0	105,0	105,0	105,0
Imports of services	bill.CZK	64	74	75	79	67	77	78	82
	prev.year=100	102,4	104,8	97,4	99,0	104,0	104,0	104,0	104,0
Balance of services	bill.CZK	24	22	19	13	26	24	21	15
Balance of income	bill.CZK	-38	-122	-72	-65	-38	-112	-72	-65
- compensation of employees	bill.CZK	-6	-8	-10	-11	-6	-8	-10	-11
- investment income	bill.CZK	-32	-114	-62	-55	-32	-104	-62	-55
Balance of transfers	bill.CZK	1	2	-7	3	7	7	7	7
Current account	bill.CZK	29	-58	-32	-46	23	-40	-10	-43
Capital account	bill.CZK	7	13	2	18	10	20	1	21
Financial account	bill.CZK	-7	68	50	.	.	.	.	.
- foreign direct investments	bill.CZK	22	55	44	.	.	.	.	.
- portfolio investments	bill.CZK	-13	39	8	.	.	.	.	.
- other investments	bill.CZK	-16	-26	-2	.	.	.	.	.
Change in reserves	bill.CZK	19	18	1	.	.	.	.	.
Gross external debt	bill.CZK	1355	1462	1513	1549	1582	1605	1621	1637

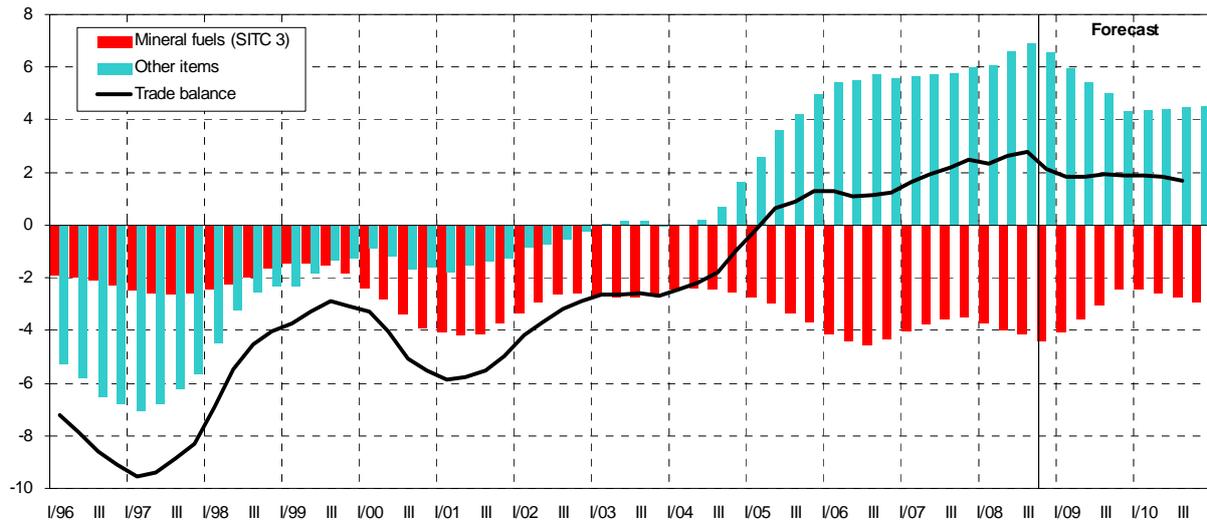
¹⁾ Imports cif

Graph 4.4: Current Account

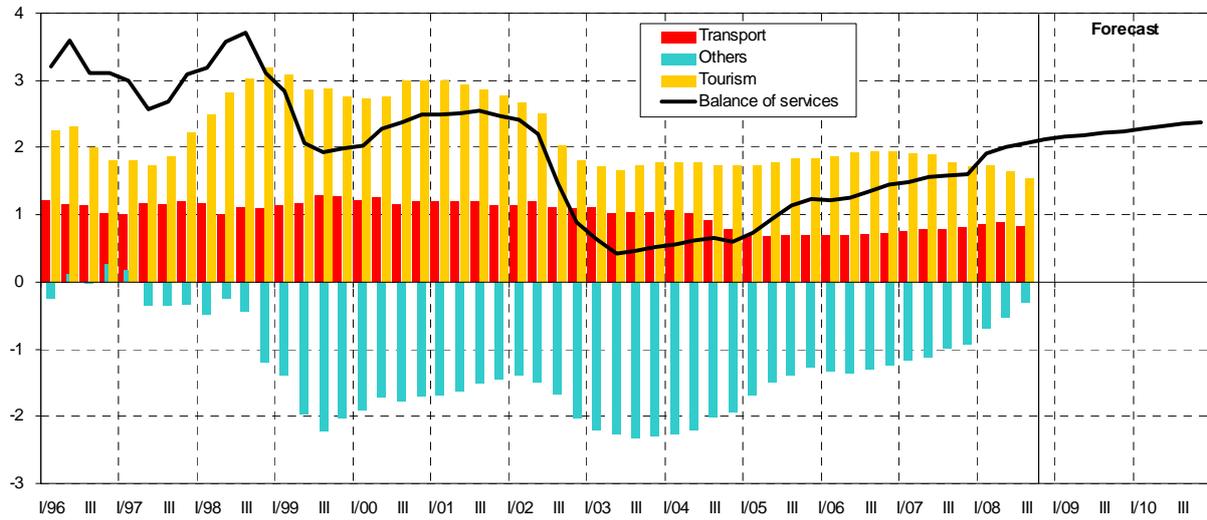
moving sums of the latest 4 quarters in per cent of GDP



Graph 4.5: **Balance of Trade** (*exports fob, imports cif*)
moving sums of the latest 4 quarters in per cent of GDP



Graph 4.6: **Balance of Services**
moving sums of the latest 4 quarters in per cent of GDP



Graph 4.7: **Balance of Income**
moving sums of the latest 4 quarters in per cent of GDP

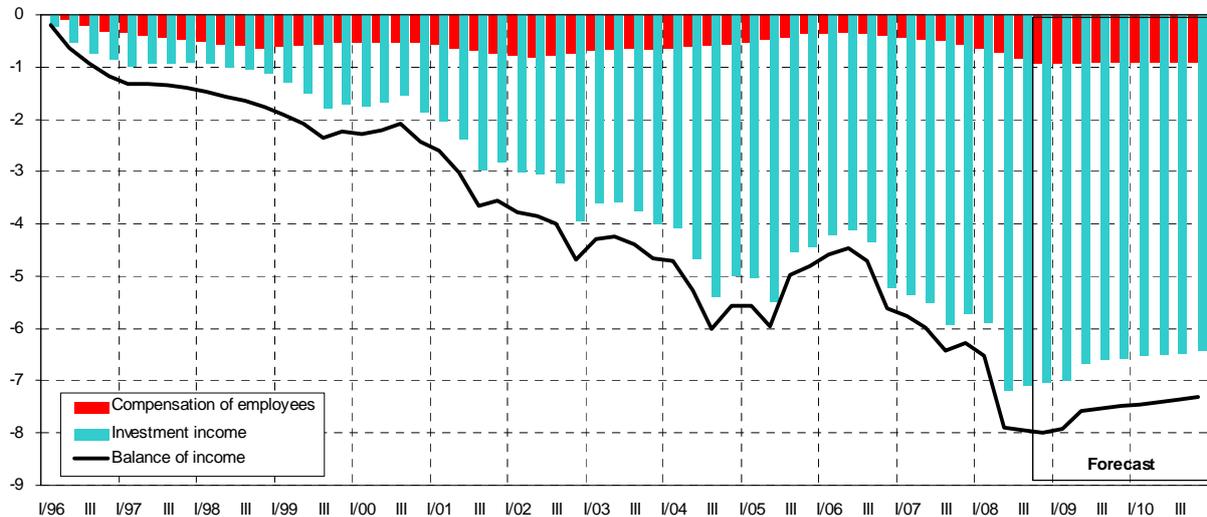


Table 4.5: Decomposition of Exports of Goods – yearly

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
GDP ¹⁾	<i>average of 2000=100</i>	101,7	102,7	103,7	105,8	108,0	112,3	116,6	119	119	120
	<i>prev.year=100</i>	101,7	101,0	101,0	102,0	102,1	103,9	103,9	102,4	99,8	100,8
Import intensity ²⁾	<i>average of 2000=100</i>	101,4	101,4	105,9	112,3	118,7	127,9	130,9	133	132	134
	<i>prev.year=100</i>	101,4	100,1	104,4	106,1	105,7	107,7	102,4	101,4	99,7	101,4
Export markets ³⁾	<i>average of 2000=100</i>	103,0	104,2	109,9	118,8	128,2	143,6	152,6	158	158	161
	<i>prev.year=100</i>	103,0	101,1	105,5	108,1	107,9	112,0	106,3	103,8	99,6	102,2
Export performance	<i>average of 2000=100</i>	110,7	116,0	120,2	136,7	141,4	147,2	160,3	167	165	168
	<i>prev.year=100</i>	110,7	104,8	103,6	113,8	103,4	104,1	108,9	104,5	98,8	101,4
Real exports	<i>average of 2000=100</i>	114,1	120,8	132,0	162,4	181,3	211,4	244,6	265	261	271
	<i>prev.year=100</i>	114,1	105,9	109,3	123,0	111,6	116,6	115,7	108,5	98,4	103,7
I / NEER	<i>average of 2000=100</i>	95,9	85,9	86,1	85,7	80,9	77,2	75,8	68	71	69
	<i>prev.year=100</i>	95,9	89,6	100,2	99,6	94,3	95,5	98,2	90,2	103,4	97,2
Prices on foreign markets	<i>average of 2000=100</i>	103,6	107,9	107,7	110,4	113,7	117,3	119,3	123	120	122
	<i>prev.year=100</i>	103,6	104,1	99,8	102,5	103,0	103,1	101,8	103,2	97,2	102,0
Exports deflator	<i>average of 2000=100</i>	99,3	92,7	92,7	94,6	92,0	90,5	90,5	84	85	84
	<i>prev.year=100</i>	99,3	93,3	100,0	102,1	97,2	98,4	99,9	93,0	100,5	99,2
Nominal exports	<i>average of 2000=100</i>	113,2	111,9	122,3	153,7	166,7	191,3	221,1	223	221	227
	<i>prev.year=100</i>	113,2	98,8	109,3	125,7	108,5	114,8	115,6	101,0	98,9	102,8

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

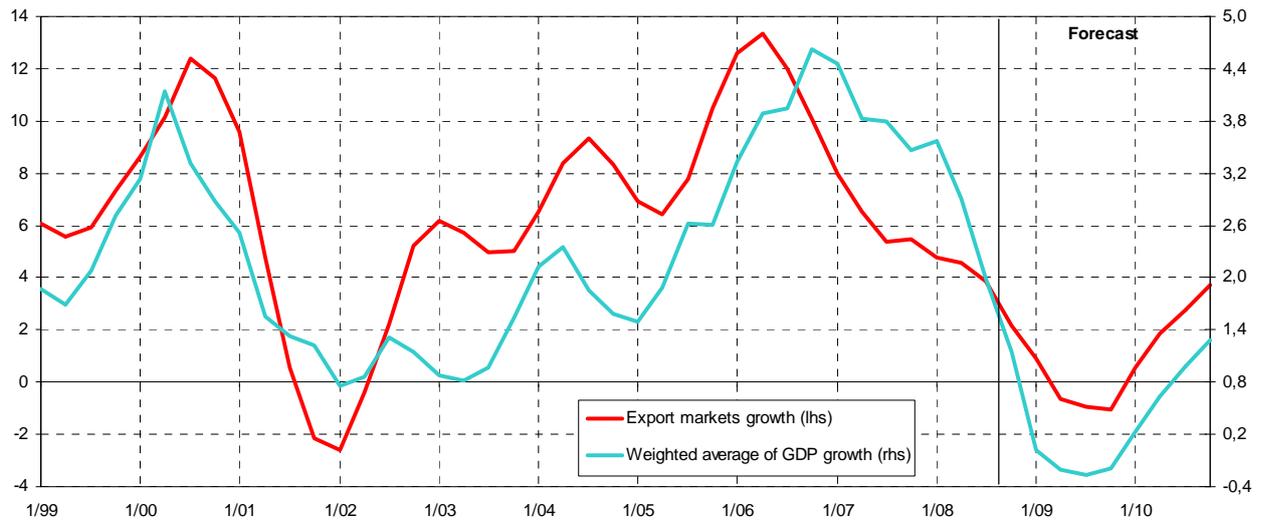
²⁾ Index of ratio of real imports of goods to real GDP.

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

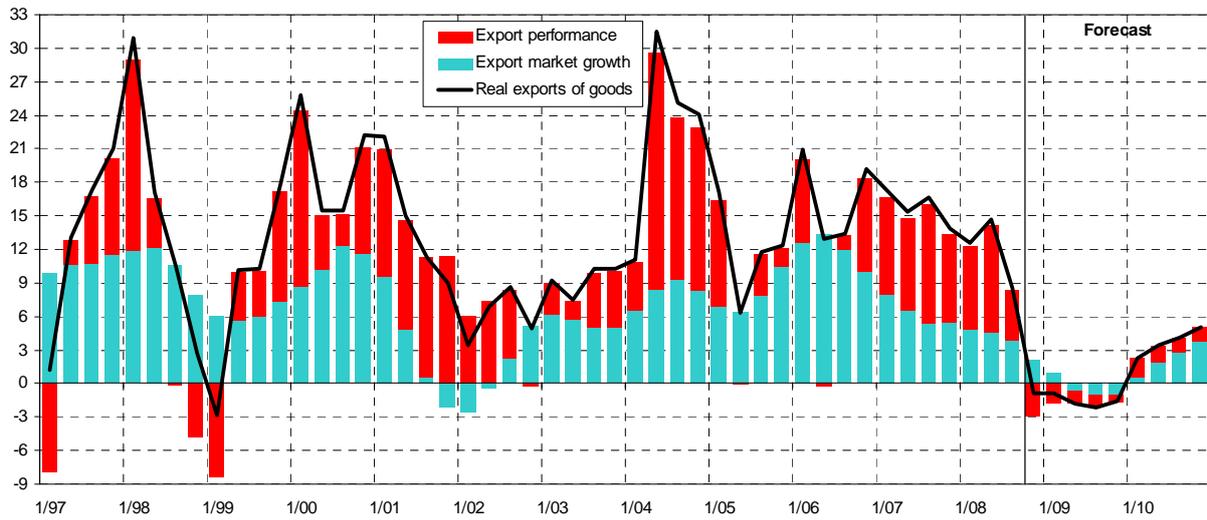
Table 4.6: Decomposition of Exports of Goods – quarterly

		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>average of 2000=100</i>	119,2	119,4	119,4	119	119	119	119	119
	<i>prev.year=100</i>	103,5	102,9	102,0	101,1	100,0	99,8	99,7	99,8
Import intensity	<i>average of 2000=100</i>	131,5	132,9	133,3	133	133	132	132	132
	<i>prev.year=100</i>	101,2	101,7	101,9	101,0	100,9	99,6	99,3	99,2
Export markets	<i>average of 2000=100</i>	156,8	158,6	159,2	159	158	158	158	158
	<i>prev.year=100</i>	104,8	104,6	103,9	102,1	100,9	99,4	99,0	99,0
Export performance	<i>average of 2000=100</i>	169,8	173,2	161,2	166	167	171	159	165
	<i>prev.year=100</i>	107,5	109,6	104,5	97,0	98,2	98,8	98,8	99,4
Real exports	<i>average of 2000=100</i>	266,3	274,7	256,6	264	264	270	251	259
	<i>prev.year=100</i>	112,6	114,7	108,5	99,1	99,1	98,2	97,9	98,4
I / NEER	<i>average of 2000=100</i>	69,5	67,8	66,4	70	71	71	70	70
	<i>prev.year=100</i>	90,6	87,7	87,0	95,7	102,8	104,7	106,2	100,2
Prices on foreign markets	<i>average of 2000=100</i>	124,1	125,1	126,2	117	120	121	122	116
	<i>prev.year=100</i>	104,9	105,5	105,5	97,0	96,7	96,6	96,3	99,0
Exports deflator	<i>average of 2000=100</i>	86,2	84,7	83,7	82	86	86	86	81
	<i>prev.year=100</i>	95,0	92,5	91,7	92,8	99,4	101,1	102,3	99,2
Nominal exports	<i>average of 2000=100</i>	229,5	232,7	214,8	216	226	231	215	211
	<i>prev.year=100</i>	107,0	106,0	99,5	92,0	98,5	99,3	100,1	97,6

Graph 4.8: GDP and Imports of Goods in Main Partner Countries
YoY growth, in %



Graph 4.9: Real Exports of Goods
decomposition of YoY growth, in %



Graph 4.10: Deflator of Exports of Goods
decomposition of YoY growth, in %

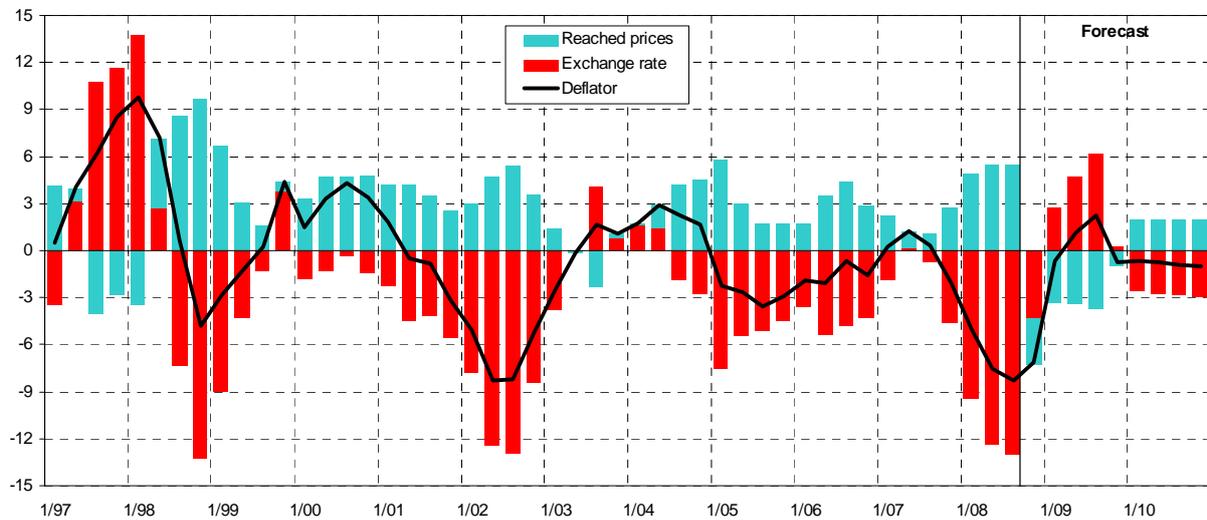
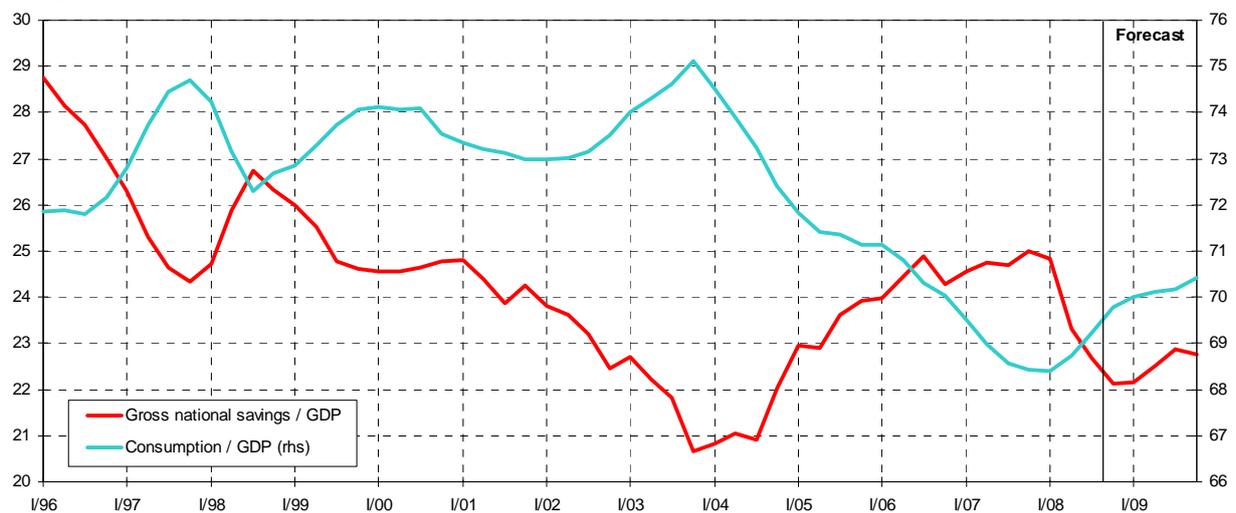


Table 4.7: Savings and Investments – yearly

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Gross capital formation	% of GDP	29,5	28,6	27,2	27,5	25,7	26,5	26,5	25,0	24,6	24,3
- fixed capital formation	% of GDP	28,0	27,5	26,7	25,8	24,9	24,6	24,3	24,2	23,5	23,3
- change in stocks	% of GDP	1,5	1,1	0,5	1,7	0,8	1,9	2,2	0,8	1,0	1,0
- government sector	% of GDP	3,6	3,9	4,4	4,7	4,9	5,0	4,9	5,3	5,9	6,4
- households	% of GDP	5,1	5,2	4,8	4,7	4,5	4,7	5,3	5,2	5,2	5,2
- non-financial and financial sectors	% of GDP	20,8	19,4	18,1	18,1	16,3	16,7	16,4	14,5	13,5	12,7
Gross national savings	% of GDP	24,2	22,4	20,7	22,0	23,9	24,3	25,0	22,1	22,8	22,6
- government sector	% of GDP	2,7	2,0	1,4	4,0	3,5	3,6	4,3	4,2	4,1	4,2
- households	% of GDP	4,1	4,5	4,1	3,3	4,3	4,8	4,6	4,4	5,3	5,6
- non-financial and financial sectors	% of GDP	17,5	15,9	15,2	14,7	16,1	15,8	16,1	13,5	13,4	12,8
Financial balance											
- government sector	% of GDP	-0,9	-1,9	-2,9	-0,7	-1,3	-1,4	-0,5	-1,1	-1,8	-2,2
- households	% of GDP	-1,1	-0,7	-0,7	-1,4	-0,3	0,1	-0,7	-0,8	0,1	0,4
- non-financial and financial sectors	% of GDP	-3,3	-3,5	-2,9	-3,4	-0,1	-0,9	-0,3	-1,0	-0,1	0,1
- methodological discrepancy	% of GDP	0,0	0,6	0,3	0,2	0,4	-0,3	-0,3	0,0	0,0	0,0
Current account BoP	% of GDP	-5,3	-5,5	-6,2	-5,2	-1,3	-2,6	-1,8	-2,8	-1,8	-1,7

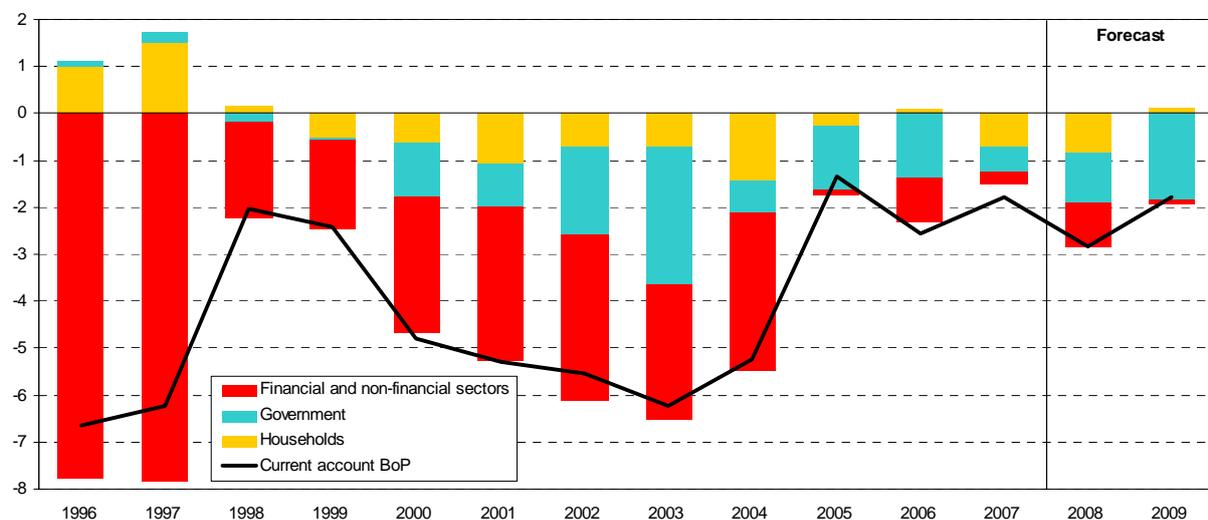
Graph 4.11: Gross National Savings and Consumption

moving sums of the latest 4 quarters in per cent of GDP



Graph 4.12: Financial Balances of Individual Sectors

savings minus investments as percent of GDP



5. Demography

Sources: CZSO, MoF estimates, Czech Social Security Administration

Table 5.1: Demography
in thousands of persons, end-of-year

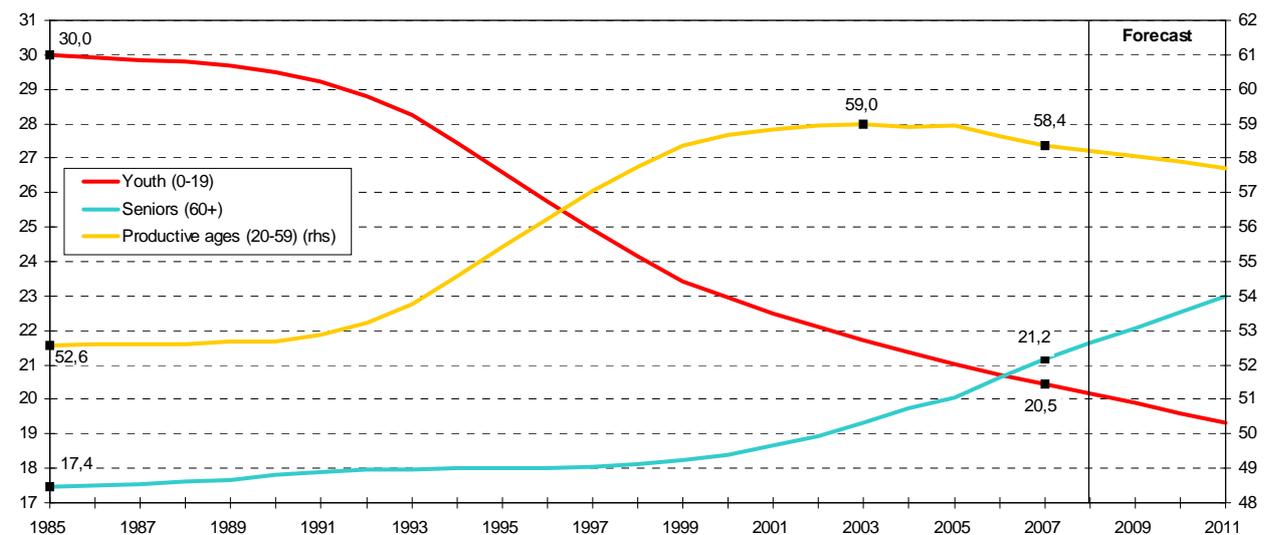
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
							<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>
Population	10 203	10 211	10 221	10 251	10 287	10 381	10 450	10 504	10 549	10 588
<i>prev. year=100</i>	100,0	100,1	100,1	100,3	100,4	100,9	100,7	100,5	100,4	100,4
Age structure:										
(0 - 19)	2 255	2 219	2 184	2 155	2 131	2 123	2 106	2 089	2 067	2 044
<i>prev. year=100</i>	98,2	98,4	98,5	98,7	98,9	99,7	99,2	99,2	98,9	98,9
(20 - 59)	6 016	6 022	6 020	6 042	6 033	6 061	6 083	6 098	6 107	6 109
<i>prev. year=100</i>	100,2	100,1	100,0	100,4	99,9	100,5	100,4	100,3	100,1	100,0
(60 and more)	1 932	1 971	2 017	2 054	2 123	2 197	2 261	2 317	2 375	2 435
<i>prev. year=100</i>	101,4	102,0	102,3	101,9	103,4	103,5	102,9	102,5	102,5	102,5
Old-age pensioners	1 921	1 933	1 965	1 985	2 024	2 061	2 102	2 138	2 171	2 202
<i>prev. year=100</i>	99,3	100,6	101,7	101,0	102,0	101,8	102,0	101,7	101,5	101,4
Old-age dependency ratios (in %):										
Demographic ¹⁾	32,1	32,7	33,5	34,0	35,2	36,3	37,2	38,0	38,9	39,9
Under current legislation ²⁾	32,8	32,8	32,8	33,0	33,3	33,4	33,7	34,0	34,3	34,5
Effective ³⁾	40,1	40,9	41,5	41,3	41,6	41,5	41,9	42,9	43,9	44,9
Fertility rate	1,171	1,179	1,226	1,282	1,328	1,44	.	.	.	.
Population increase	-3	8	9	31	36	94	69	54	45	39
Natural increase	-15	-18	-10	-6	1	10	14	12	10	9
Live births	93	94	98	102	106	115	119	117	116	115
Deaths	108	111	107	108	104	105	105	105	106	106
Net migration	12	26	19	36	35	84	55	42	34	30
Immigration	45	60	53	60	68	104	.	.	.	.
Emigration	32	34	35	24	33	21	.	.	.	.

¹⁾ Demographic dependency: ratio of people in senior ages (60 and more) to people in productive ages (20 - 59).

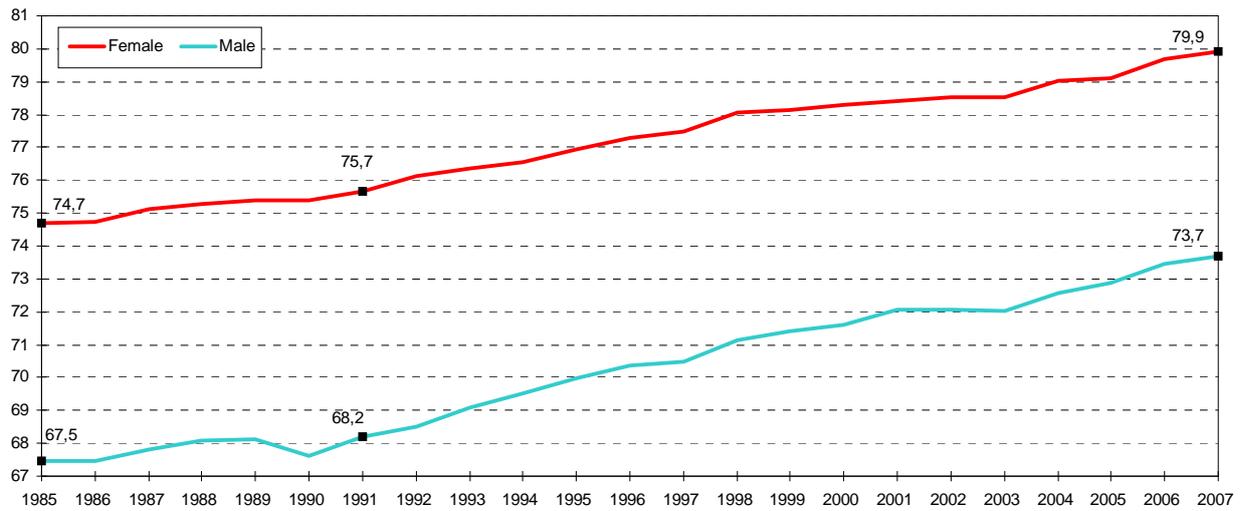
²⁾ Dependency under current legislation: ratio of people above the official retirement age to the people over 19 below the official retirement age.

³⁾ Effective dependency: ratio of old-age pensioners to working people.

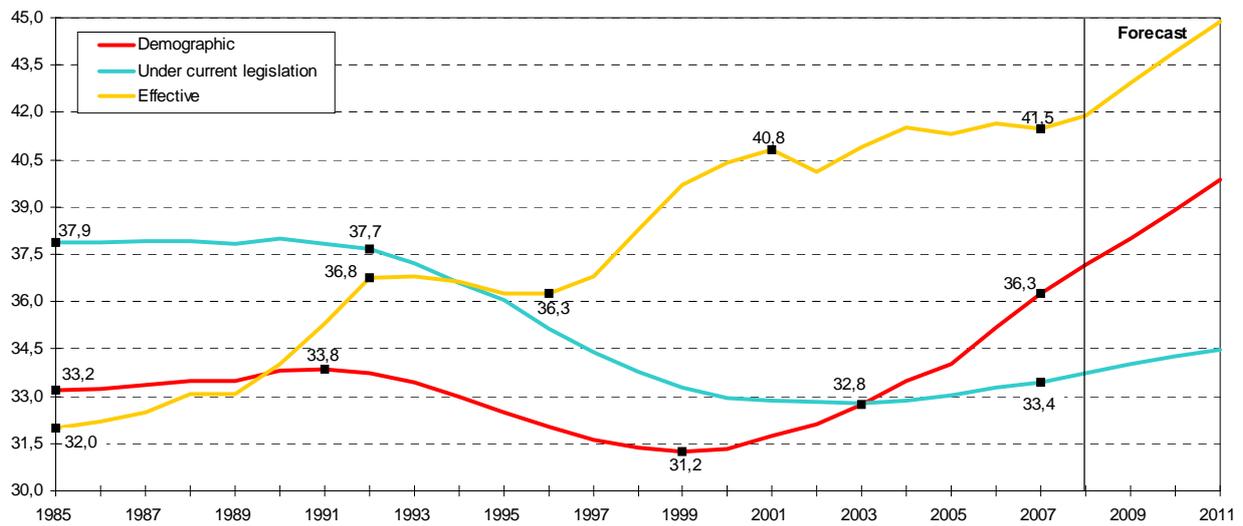
Graph 5.1: Groups by Age
structure in per cent



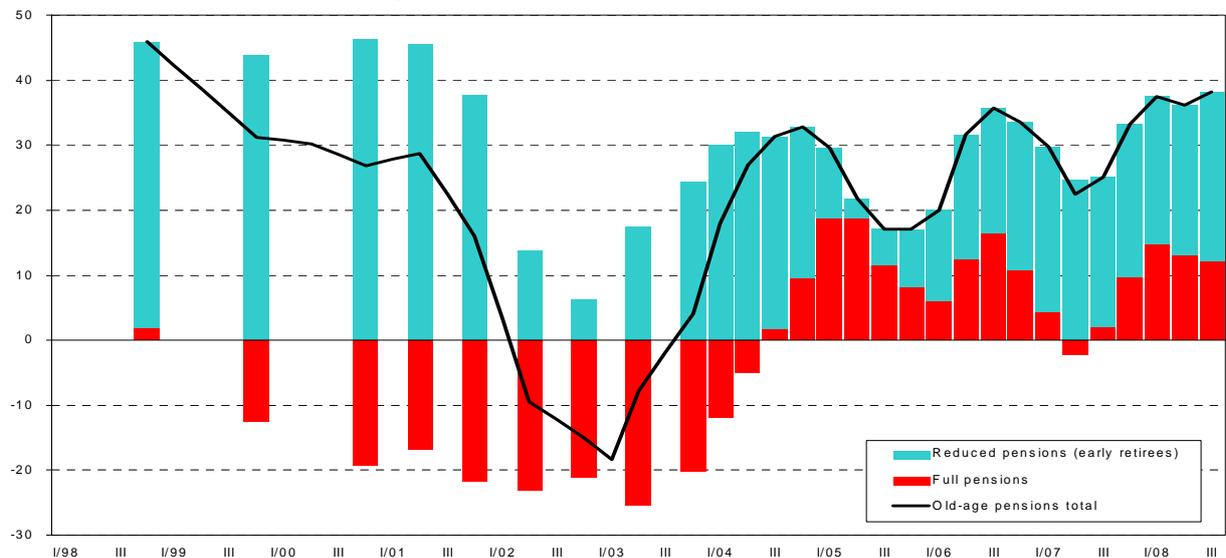
Graph 5.2: Life Expectancy
in years



Graph 5.3: Dependency Ratios
definitions – see Table 5.1, in %



Graph 5.4: Old-Age Pensioners
absolute increase over a year in thousands of persons



6. Interest Rates

Sources: CNB, MoF estimates.

Table 6.1: **Interest Rates** - yearly
average interest rates in per cent p.a.

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
										Estimate	Forecast	Forecast
Repo 2W CNB (end - year)		5,25	4,75	2,75	2,00	2,50	2,00	2,50	3,50	2,25	.	.
Main refinancing rate ECB (end - year)		4,75	3,25	2,75	2,00	2,00	2,25	3,50	4,00	2,50	.	.
Federal funds rate (end - year)		6,50	1,75	1,25	1,00	2,25	4,25	5,25	4,25	0,25	.	.
PRIBOR 3M		5,36	5,18	3,55	2,28	2,36	2,01	2,30	3,09	4,04	2,2	2,3
Government bond yield to maturity	10Y	.	6,35	4,94	4,12	4,75	3,51	3,78	4,28	4,55	3,8	3,7
Interest rates on loans to non-financial corporations		.	6,83	5,82	4,57	4,51	4,27	4,29	4,85	5,6	4,7	4,3
Interest rates on deposits from households		.	2,90	2,06	1,40	1,33	1,24	1,22	1,29	1,5	1,4	1,2
Real rates on loans to non-financial corporations ¹⁾		.	4,7	5,7	3,7	0,5	3,4	2,8	1,1	1,7	3,4	2,9
Net real rates on deposits from households with agreed maturity ²⁾		.	-1,6	1,2	0,2	-1,6	-1,1	-0,6	-4,1	-2,3	0,1	-1,4

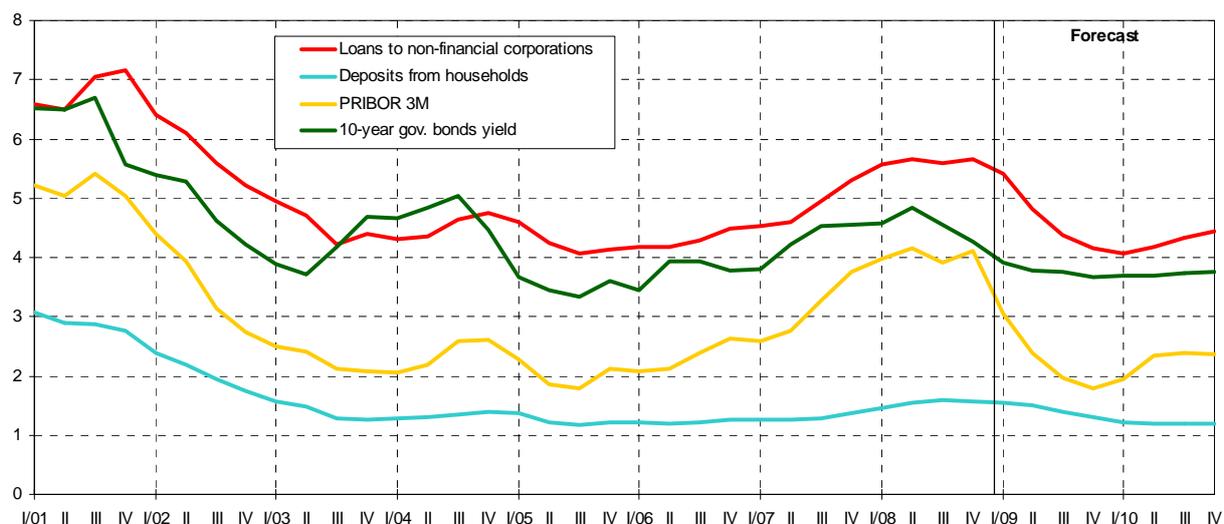
¹⁾ Deflated by domestic demand deflator.

²⁾ Net of 15 % income tax, deflated by CPI.

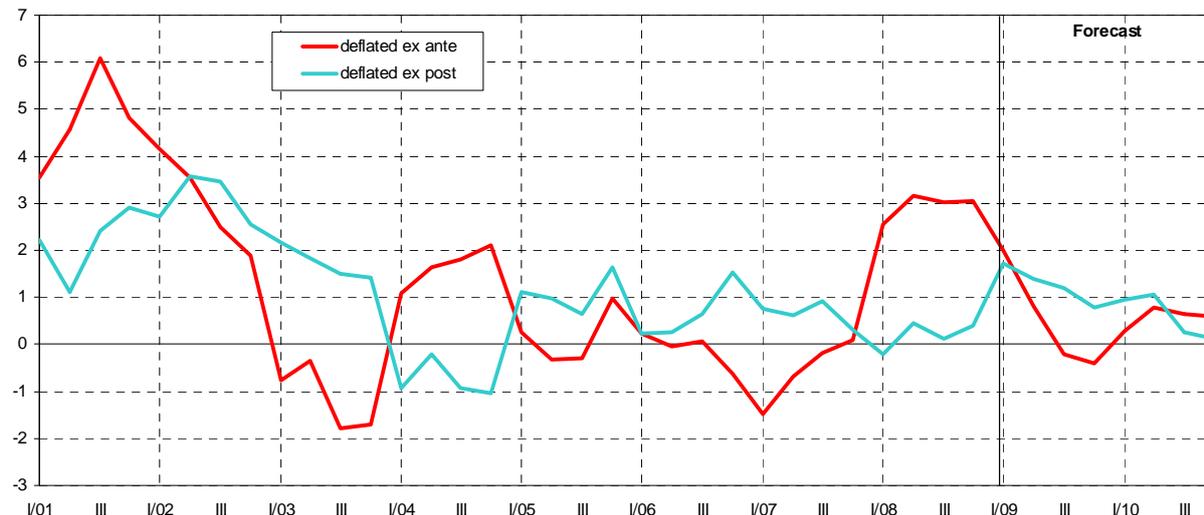
Table 6.2: **Interest Rates** - quarterly
average interest rates in per cent p.a.

	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
				Estimate	Forecast	Forecast	Forecast	Forecast
Repo 2W rate CNB (end-period)	3,75	3,75	3,50	2,25	.	.	.	.
Main refinancing rate ECB (end - period)	4,00	4,00	4,00	2,50	.	.	.	.
Federal funds rate (end - period)	2,25	2,00	2,00	0,25	.	.	.	.
PRIBOR 3M	3,98	4,15	3,91	4,11	3,1	2,4	2,0	1,8
Long term interest rates -								
- 10-year government bonds yield to mat.	4,57	4,83	4,55	4,27	3,9	3,8	3,8	3,7
Interest rates on loans to non-financial corporations	5,56	5,65	5,60	5,7	5,4	4,8	4,4	4,1
Interest rates on deposits from households	1,47	1,55	1,58	1,6	1,6	1,5	1,4	1,3

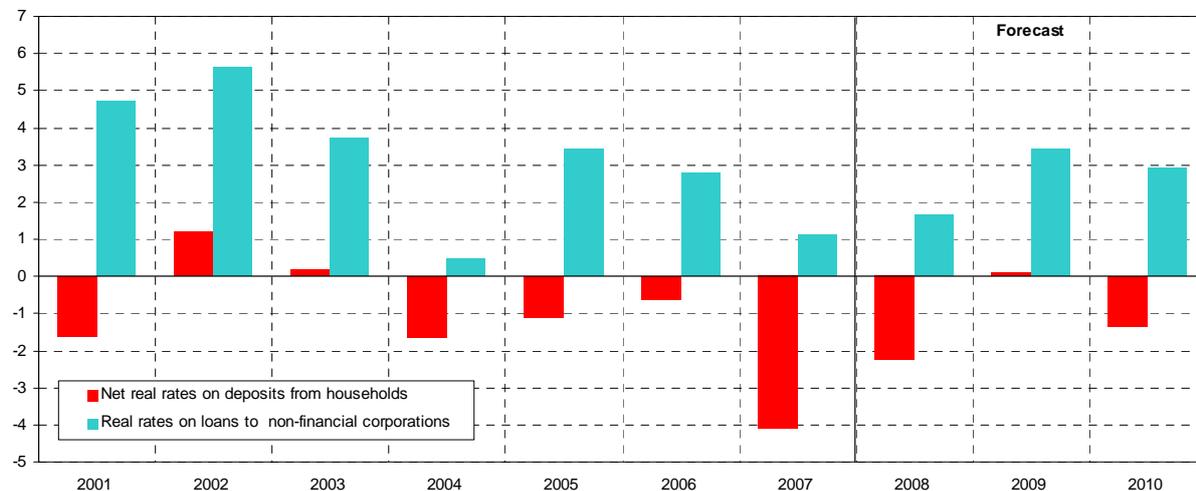
Graph 6.1: Interest Rates
in % p.a.



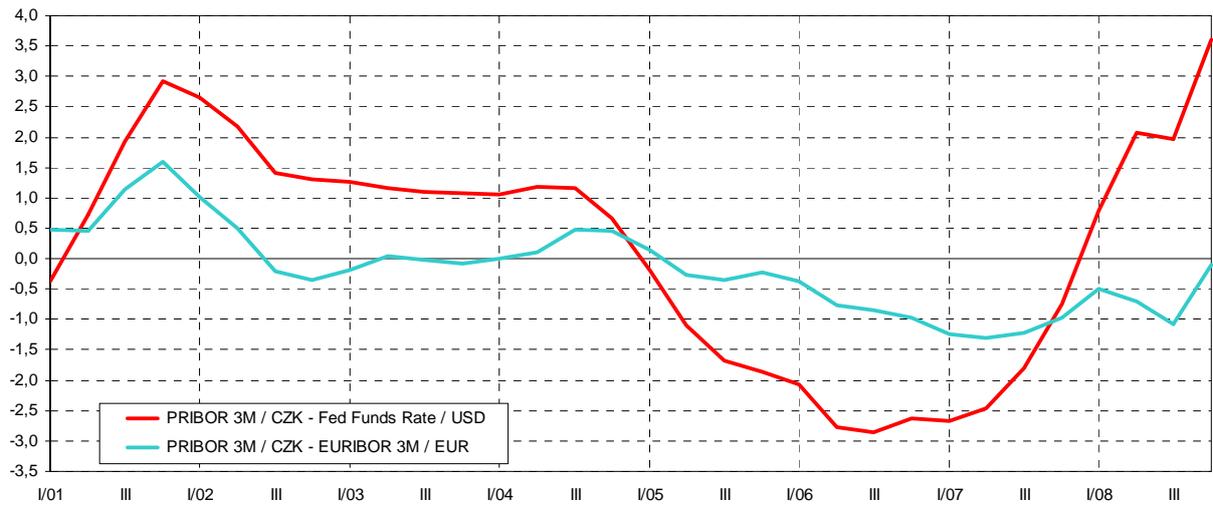
Graph 6.2: Real PRIBOR 1Y
deflated ex post and ex ante by final domestic use deflator, in % p.a.



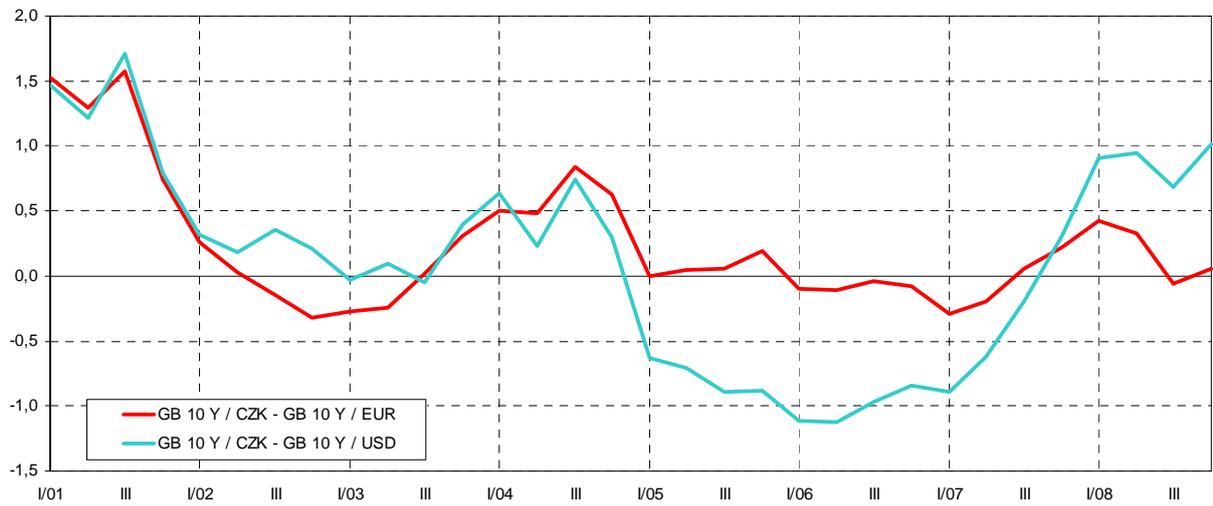
Graph 6.3: Average Real Rates on Credits and Time/Saving Deposits
rates on credits deflated by end-of-year final domestic use deflator, rates on time/savings deposit (net of 15% income tax) deflated by end-of-year CPI growth, in % p.a.



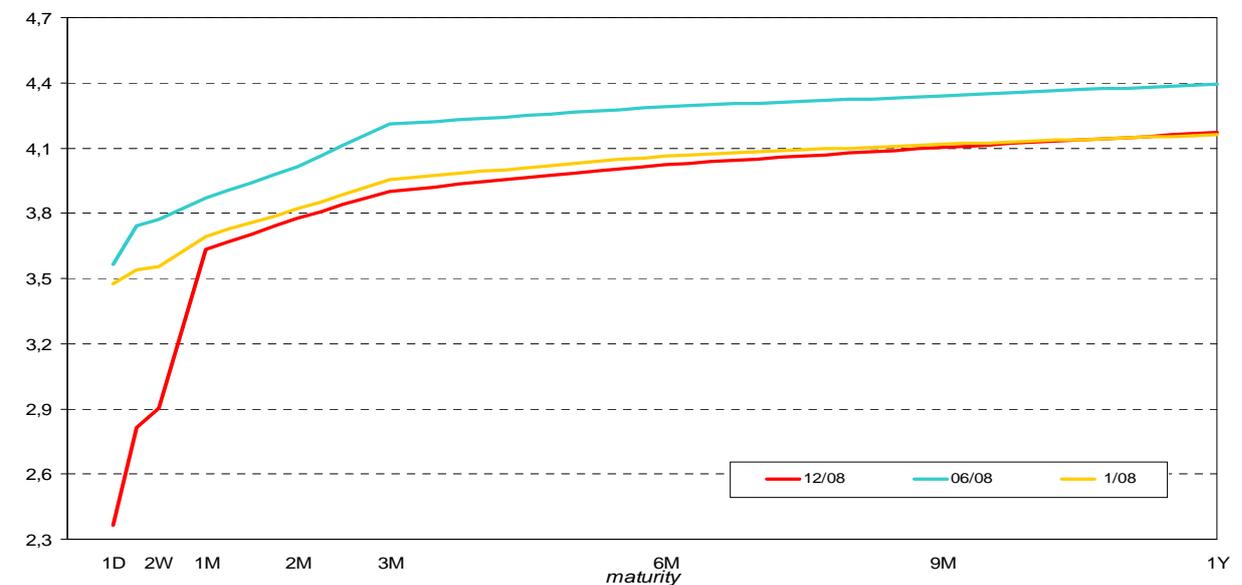
Graph 6.4: Short - Term Interest Rate Spread
in percentage points



Graph 6.5: Long - Term Interest Rate Spread
government bonds, in percentage points



Graph 6.6: Yield Curves of PRIBOR
in % p.a.



7. General Government

Sources: MoF, CZSO

Table 7.1: Net lending/borrowing and debt

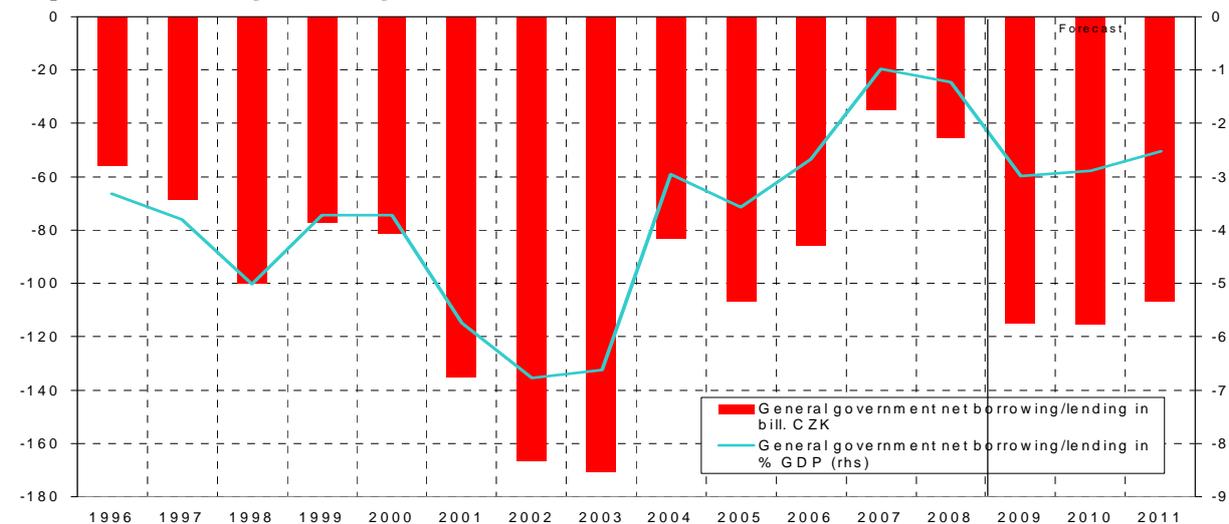
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
							Prel.	Forecast	Outlook	Outlook	Outlook
General government net lending (+)/net borrowing(-)	bill. CZK	-166,8	-170,0	-82,7	-106,6	-85,5	-34,2	-43,8	-112,9	-113,3	-104,8
General government debt	bill. CZK	702,3	775,0	855,1	888,6	951,5	1020,7	1093,3	1166,1	1249,9	1321,7
	prev. year=100	118,7	110,3	110,3	103,9	107,1	107,3	107,1	106,7	107,2	105,7
	% GDP	28,5	30,1	30,4	29,8	29,6	28,9	29,4	30,4	31,3	31,2
Interest derivatives ¹⁾	bill. CZK	0,0	-0,5	-0,5	-0,2	-0,4	-0,7	-1,8	-1,8	-1,8	-1,8
EDP B.9 ²⁾	bill. CZK	-166,8	-170,6	-83,3	-106,7	-85,9	-34,9	-45,6	-114,8	-115,1	-106,6
	% GDP	-6,8	-6,6	-3,0	-3,6	-2,7	-1,0	-1,2	-3,0	-2,9	-2,5
Interest expenditure	% GDP	1,2	1,1	1,2	1,2	1,1	1,1	1,2	1,1	1,3	1,3
Primary balance	% GDP	-5,5	-5,5	-1,8	-2,4	-1,6	0,2	0,0	-1,8	-1,6	-1,2

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.

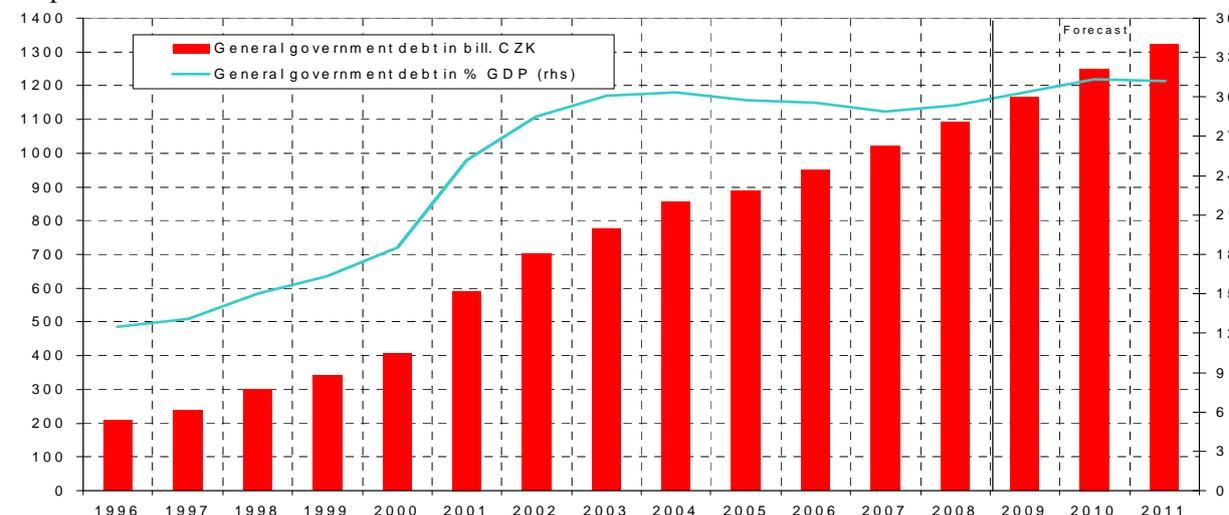
¹⁾ Hedging instruments used to avoid interest rate change risk.

²⁾ General government net lending/borrowing relevant for fulfilment of maastricht convergence criteria. Compared to net lending/borrowing from national accounts, this item is adjusted for interest rate derivatives.

Graph 7.1: Net lending/borrowing



Graph 7.2: Debt



8. World Economy

Sources: Eurostat; OECD - Main Economic Indicators, Quarterly National Accounts; The Economist; IMF – Financial Statistics; MoF estimates

Table 8.1: Real Gross Domestic Product – yearly
growth in %, sa data

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									<i>Forecast</i>	<i>Forecast</i>
EU27	2,0	1,2	1,3	2,5	2,0	3,1	2,9	1,1	-0,8	-0,5
EA12	1,9	0,9	0,8	2,1	1,7	2,9	2,6	0,9	-1,0	-0,7
Germany	1,2	0,0	-0,2	1,2	0,8	3,0	2,5	1,3	-1,2	-0,7
France	1,9	1,0	1,1	2,5	1,9	2,2	2,2	1,0	-0,8	-0,2
Britain	2,4	2,1	2,8	3,3	1,8	2,9	3,0	0,7	-1,6	-1,0
Austria	0,5	1,6	0,8	2,5	2,9	3,4	3,1	1,6	-0,9	0,2
USA	0,8	1,6	2,5	3,6	3,1	2,9	2,0	1,2	-1,2	-0,5
Hungary	4,1	4,4	4,2	4,8	4,1	3,9	1,3	1,2	-1,0	0,0
Poland	1,2	1,4	3,9	5,3	3,6	6,2	6,6	5,2	2,5	2,3
Slovakia	3,4	4,8	4,8	5,2	6,6	8,5	10,4	7,4	3,4	3,2
Czechia	2,5	1,9	3,6	4,5	6,3	6,8	6,0	4,0	1,4	2,1

Table 8.2: Real Gross Domestic Product – quarterly
growth in %, sa data

		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
EU27	<i>QoQ</i>	0,6	0,0	-0,2	-0,2	-0,2	-0,4	-0,3	-0,3
	<i>YoY</i>	2,3	1,7	0,8	0,2	-0,6	-1,0	-1,1	-1,1
EA12	<i>QoQ</i>	0,7	-0,2	-0,2	-0,3	-0,3	-0,4	-0,3	-0,3
	<i>YoY</i>	2,1	1,4	0,6	0,0	-1,0	-1,2	-1,3	-1,3
Germany	<i>QoQ</i>	1,4	-0,4	-0,5	-0,5	-0,4	-0,2	-0,2	-0,1
	<i>YoY</i>	2,7	1,9	0,8	-0,1	-1,8	-1,6	-1,2	-0,8
France	<i>QoQ</i>	0,4	-0,3	0,1	-0,2	-0,3	-0,2	-0,2	-0,2
	<i>YoY</i>	2,0	1,2	0,6	0,0	-0,6	-0,6	-0,9	-0,9
Britain	<i>QoQ</i>	0,3	0,0	-0,5	-0,6	-0,5	-0,3	-0,2	-0,2
	<i>YoY</i>	2,3	1,5	0,3	-0,8	-1,6	-1,9	-1,6	-1,2
Austria	<i>QoQ</i>	0,5	0,3	0,2	-0,1	-0,3	-0,3	-0,4	-0,4
	<i>YoY</i>	2,4	2,0	1,5	0,8	0,0	-0,5	-1,1	-1,4
USA	<i>QoQ</i>	0,2	0,7	-0,1	-0,4	-0,5	-0,5	-0,3	-0,2
	<i>YoY</i>	2,5	2,1	0,7	0,4	-0,3	-1,5	-1,7	-1,5
Hungary	<i>QoQ</i>	0,5	0,4	-0,1	-0,2	-0,4	-0,4	-0,3	-0,3
	<i>YoY</i>	1,1	1,6	0,8	0,6	-0,3	-1,1	-1,3	-1,4
Poland	<i>QoQ</i>	1,2	1,3	1,2	0,5	0,5	0,4	0,4	0,5
	<i>YoY</i>	6,1	5,8	4,8	4,4	3,6	2,7	1,8	1,8
Slovakia	<i>QoQ</i>	1,1	1,2	1,5	1,2	0,8	0,5	0,4	0,4
	<i>YoY</i>	9,1	7,9	7,0	5,1	4,8	4,1	2,9	2,1
Czechia	<i>QoQ</i>	1,0	1,0	0,9	-0,2	0,2	0,2	0,5	0,5
	<i>YoY</i>	4,9	4,6	4,2	2,8	2,0	1,3	0,8	1,5

Graph 8.1: Real Gross Domestic Product

growth in %, sa data



Graph 8.2: Real Gross Domestic Product – Central European new member state economies

growth in %, sa data

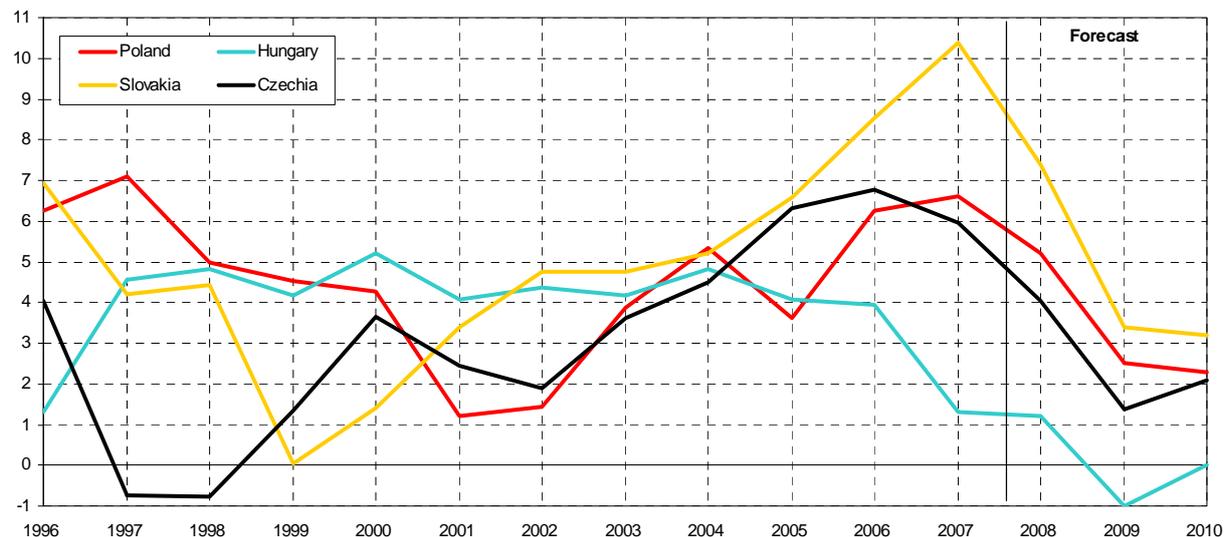


Table 8.3: Prices of Commodities – yearly

spot prices

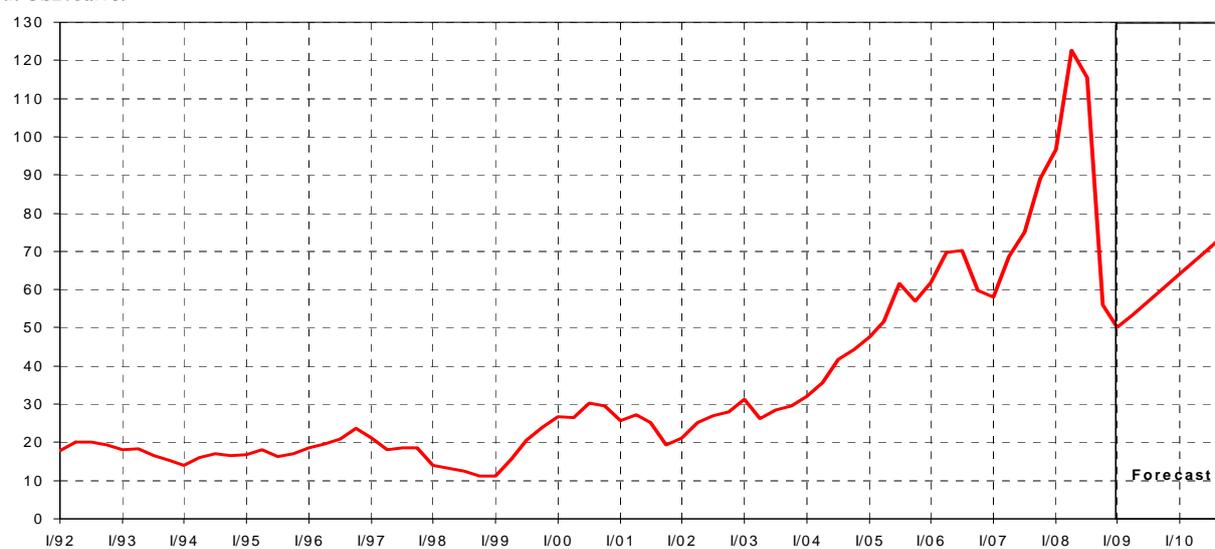
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
											Forecast	Forecast
Crude oil Brent	USD/barrel	24,4	25,3	28,8	38,3	54,4	65,4	72,7	97,7	55	69	
	prev. year=100	86,2	103,6	114,0	133,0	142,0	120,1	111,2	134,4	56,6	125,7	
Crude oil Brent index (in CZK)	2005=100	71,2	63,5	62,4	75,6	100,0	113,4	113,3	127,9	83	107	
	prev. year=100	85,0	89,1	98,3	121,1	132,3	113,4	99,9	112,9	64,8	129,0	
Wheat price (USD)	USD/t	126,8	148,5	146,1	156,9	152,4	191,7	255,2	326,0	.	.	
	prev. year=100	111,2	117,1	98,4	107,3	97,2	125,8	133,1	127,7	.	.	
Wheat price index (in CZK)	2005=100	132,1	133,2	113,0	110,5	100,0	118,7	142,0	152,4	.	.	
	prev. year=100	109,6	100,8	84,8	97,7	90,5	118,7	119,6	107,3	.	.	

) NFC – Nonfuel commodities.

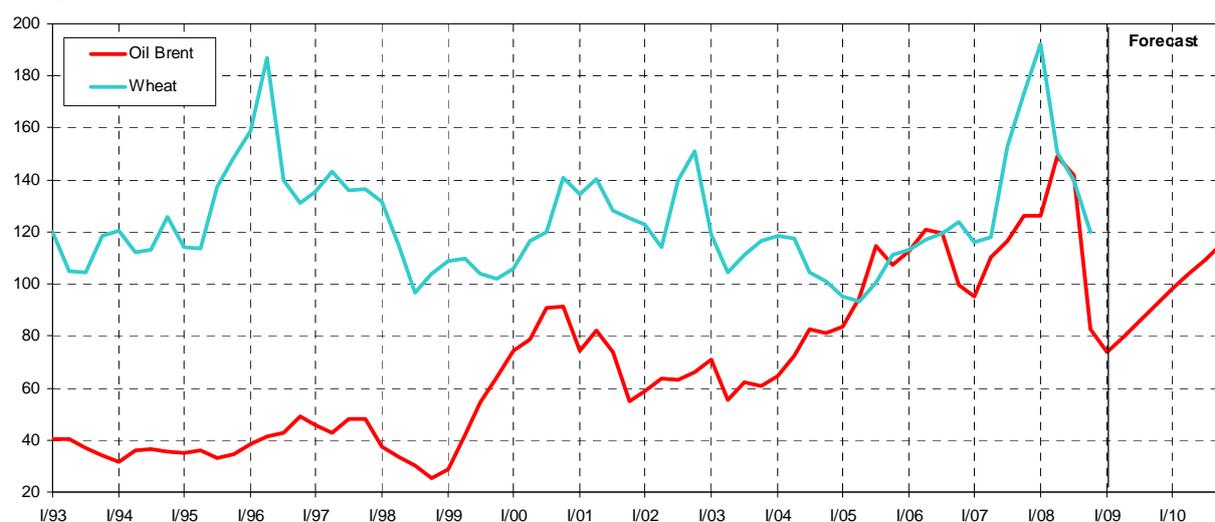
Table 8.4: Prices of Commodities – quarterly
spot prices

		2008				2009			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Crude oil Brent	<i>USD/barrel</i>	96,7	122,5	115,6	55,9	50	54	57	61
	<i>prev. year=100</i>	166,4	178,3	154,1	62,8	51,7	43,7	49,3	108,2
Crude oil Brent index (in CZK)	<i>2005=100</i>	126,4	149,0	142,0	82,4	74	80	86	92
	<i>prev. year=100</i>	132,8	135,1	121,6	65,2	58,3	53,5	60,4	111,6
Wheat price (USD)	<i>USD/t</i>	411,4	346,5	318,0	228,0	.	.	.	.
	<i>prev. year=100</i>	207,4	168,5	115,7	66,7	.	.	.	.
Wheat price index (in CZK)	<i>2005=100</i>	192,3	150,7	139,7	120,1	.	.	.	.
	<i>prev. year=100</i>	165,5	127,6	91,3	69,3	.	.	.	.

Graph 8.3: Dollar Prices of Oil
in USD/barrel



Graph 8.4: Koruna Indices of World Commodity Prices
index 2005 = 100



9. International Comparisons

Sources: Eurostat, OECD, IMF, MoF estimates

Table 9.1: GDP p.c. - using current purchasing power parities

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Greece	<i>PPS (EU - 27)</i>	17 100	18 500	19 100	20 400	20 900	22 200	23 600	24 800	25 600	26 500
	<i>EA 12 = 100</i>	76	80	82	85	84	85	86	88	91	93
Slovenia	<i>PPS (EU - 27)</i>	15 800	16 800	17 300	18 700	19 600	20 700	22 200	23 800	24 800	26 000
	<i>EA 12 = 100</i>	70	73	75	78	79	80	81	84	87	91
Czechia	<i>PPS (EU - 27)</i>	13 900	14 400	15 200	16 300	17 100	18 300	20 000	21 200	21 900	22 700
	<i>EA 12 = 100</i>	62	63	66	68	69	70	73	75	77	80
Portugal	<i>PPS (EU - 27)</i>	15 300	15 800	15 900	16 100	17 300	18 000	19 000	19 500	19 700	20 000
	<i>EA 12 = 100</i>	68	68	69	67	70	69	69	69	70	70
Slovakia	<i>PPS (EU - 27)</i>	10 400	11 100	11 500	12 400	13 500	15 000	16 700	18 300	19 400	20 500
	<i>EA 12 = 100</i>	46	48	50	52	54	58	61	65	69	72
Estonia	<i>PPS (EU - 27)</i>	9 100	10 200	11 300	12 400	13 700	15 400	16 900	17 100	17 200	17 700
	<i>EA 12 = 100</i>	41	44	49	52	55	59	62	61	61	62
Hungary	<i>PPS (EU - 27)</i>	11 600	12 600	13 100	13 700	14 200	15 000	15 600	16 200	16 400	16 700
	<i>EA 12 = 100</i>	52	55	57	57	57	58	57	57	58	59
Lithuania	<i>PPS (EU - 27)</i>	8 200	9 000	10 200	10 900	11 900	13 100	14 800	15 800	16 100	16 100
	<i>EA 12 = 100</i>	37	39	44	46	48	50	54	56	57	56
Poland	<i>PPS (EU - 27)</i>	9 400	9 900	10 100	11 000	11 500	12 400	13 300	14 300	15 100	15 700
	<i>EA 12 = 100</i>	42	43	44	46	46	47	49	51	53	55
Latvia	<i>PPS (EU - 27)</i>	7 700	8 400	9 000	9 900	10 900	12 400	13 600	13 900	13 700	14 100
	<i>EA 12 = 100</i>	34	37	39	41	44	48	50	49	49	49

Graph 9.1: GDP p.c. - using current purchasing power parities

EA 12 = 100

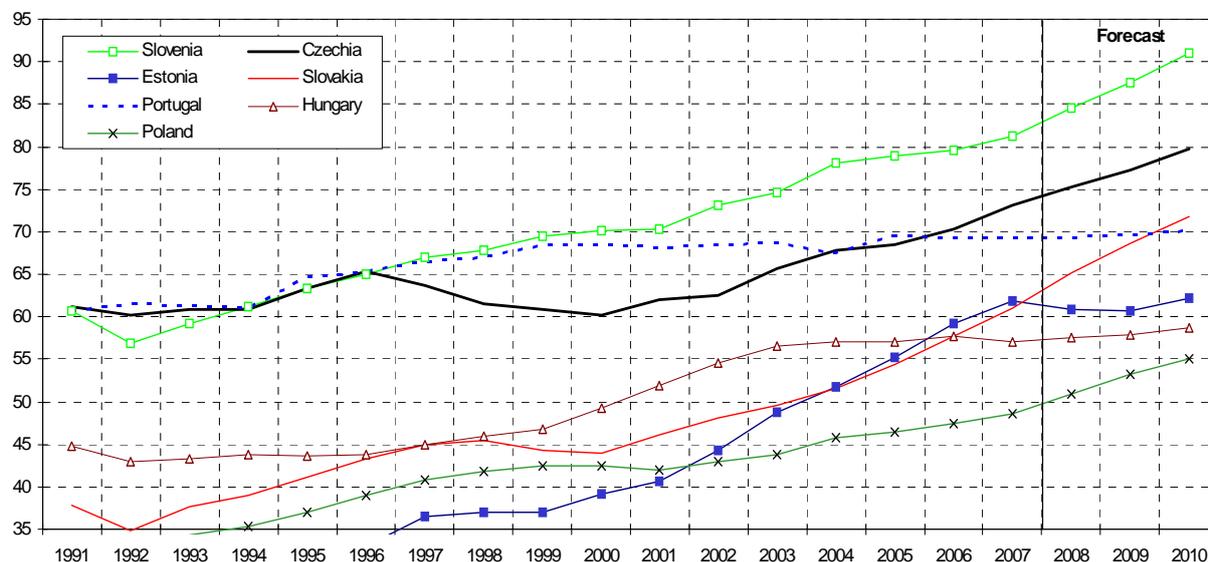
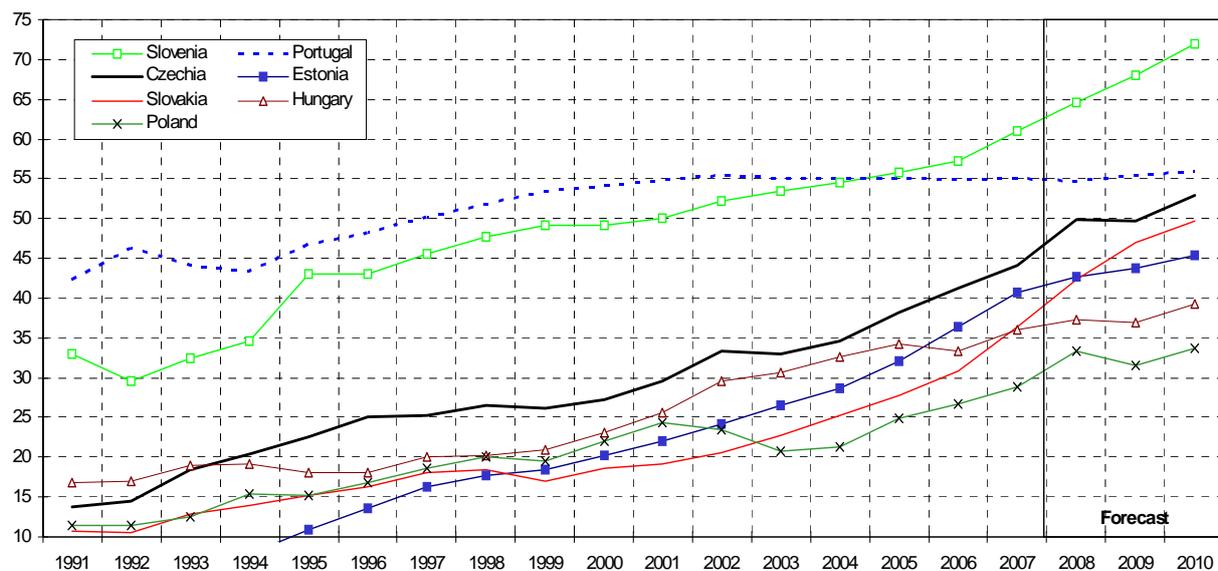


Table 9.2: GDP p.c. - using current exchange rates

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
		<i>Estimate Forecast Forecast</i>									
Greece	EUR	13 400	14 300	15 500	16 800	17 800	19 100	20 400	21 700	22 600	23 600
	EA 12 = 100	58	60	65	67	69	71	73	75	78	81
Comparative price level	EA 12 = 100	77	76	78	79	83	84	84	85	86	87
Slovenia	EUR	11 400	12 300	12 900	13 600	14 300	15 400	17 100	18 600	19 700	21 000
	EA 12 = 100	50	52	54	55	56	57	61	65	68	72
Comparative price level	EA 12 = 100	71	71	72	70	71	72	75	76	78	79
Czechia	EUR	6 800	7 800	7 900	8 600	9 800	11 100	12 300	14 400	14 400	15 500
	EA 12 = 100	29	33	33	35	38	41	44	50	50	53
Comparative price level	EA 12 = 100	48	53	50	51	56	59	60	66	64	66
Portugal	EUR	12 600	13 100	13 300	13 700	14 100	14 700	15 400	15 700	16 100	16 300
	EA 12 = 100	55	55	55	55	55	55	55	55	55	56
Comparative price level	EA 12 = 100	81	81	80	82	79	79	79	79	80	80
Slovakia	EUR	4 400	4 800	5 500	6 300	7 100	8 300	10 200	12 200	13 600	14 500
	EA 12 = 100	19	21	23	25	28	31	36	42	47	50
Comparative price level	EA 12 = 100	41	43	46	49	51	53	59	65	69	69
Estonia	EUR	5 100	5 700	6 400	7 100	8 200	9 700	11 400	12 300	12 700	13 300
	EA 12 = 100	22	24	27	29	32	36	41	43	44	45
Comparative price level	EA 12 = 100	54	55	55	55	58	61	66	70	72	73
Hungary	EUR	5 800	7 000	7 400	8 100	8 800	8 900	10 100	10 700	10 700	11 500
	EA 12 = 100	26	30	31	33	34	33	36	37	37	39
Comparative price level	EA 12 = 100	49	54	54	57	60	58	63	65	64	67
Lithuania	EUR	3 900	4 300	4 800	5 300	6 100	7 100	8 400	9 800	10 300	10 600
	EA 12 = 100	17	18	20	21	24	26	30	34	36	36
Comparative price level	EA 12 = 100	47	47	45	46	50	52	56	60	63	64
Poland	EUR	5 600	5 500	5 000	5 300	6 400	7 100	8 100	9 600	9 200	9 900
	EA 12 = 100	24	23	21	21	25	27	29	33	32	34
Comparative price level	EA 12 = 100	58	55	48	47	54	56	59	65	59	61
Latvia	EUR	4 000	4 200	4 300	4 800	5 700	7 000	8 800	10 000	10 000	10 400
	EA 12 = 100	17	18	18	19	22	26	32	35	34	36
Comparative price level	EA 12 = 100	51	49	46	47	50	55	63	70	71	72

Graph 9.2: GDP p.c. - using current exchange rates

EA 12 = 100



Graph 9.3: Index of Comparative Price Level of GDP p.c.
EA 12 = 100

