

Macroeconomic Forecast Czech Republic

January 2015

Macroeconomic Forecast of the Czech Republic

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ISSN 1804-7971

Issued quarterly, free distribution

Electronic archive:
<http://www.mfcz.cz/macroforecast>

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The Macroeconomic Forecast is prepared by the Financial Policy Department of the Czech Ministry of Finance on a quarterly basis. It contains a forecast for the current and following years (i.e. until 2016) and for certain indicators an outlook for another 2 years (i.e. until 2018). As a rule, it is published in the second half of the first month of each quarter and is also available on the Ministry of Finance website at:

www.mfcr.cz/macroforecast

Any comments or suggestions that would help us to improve the quality of our publication and closer satisfy the needs of its users are welcome. Please direct any comments to the following email address:

macroeconomic.forecast@mfcr.cz

List of Abbreviations:

const.pr.	constant prices
CNB	Czech National Bank
CPI	consumer price index
curr.pr.	current prices
CZSO	Czech Statistical Office
EA12	euro zone consisting of the 12 original countries
EC	European Commission
ECB	European Central Bank
ESI	Economic Sentiment Indicator
EU27	EU28 excluding Croatia
EU28	EU consisting of 28 countries
Fed	Federal Reserve System
GDP	gross domestic product
GVA	gross value added
HICP	harmonised index of consumer prices
IMF	International Monetary Fund
LFS	Labour Force Survey
MFI	monetary financial institutions
pp	percentage points
rev.	revisions
SITC	Standard International Trade Classification
TFP	total factor productivity
VAT	value added tax

Basic Terms:

Prelim. (preliminary data)	data from quarterly national accounts, released by the CZSO, as yet unverified by annual national accounts
Estimate	estimate of past numbers which for various reasons were not available at the time of preparing the publication, e.g. previous quarter's GDP
Forecast	forecast of future numbers, using expert and mathematical methods
Outlook	projection of more distant future numbers, using mainly extrapolation methods

Symbols Used in Tables:

-	A dash in place of a number indicates that the phenomenon did not occur.
.	A dot in place of a number indicates that we do not forecast that variable, or the figure is unavailable or unreliable.
x, (space)	A cross or space in place of a number indicates that no entry is possible for logical reasons.

Cut-off Date for Data Sources:

The forecast was made on the basis of data known as of **13 January 2015**. No political decisions, newly released statistics, or world financial or commodity market developments could have been taken into account after this date.

Notes:

Published aggregate data may not match sums of individual items to the last decimal place due to rounding.

Data from the previous forecast (October 2014) are indicated by italics. Data relating to the years 2017 and 2018 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

Summary of the Forecast

Real GDP increased by 0.4% QoQ in the third quarter of 2014 and a moderate recovery of economic activity therefore continued. We estimate that GDP increased by 2.4% last year and expect the economy to grow by 2.7% this year. In 2016, real GDP growth could slow down marginally to 2.5%. Growth in both years should be driven exclusively by domestic demand, with the contributions of final consumption expenditure and gross capital formation being roughly balanced. Net exports of goods (in constant prices) should weigh on growth as relatively solid growth of domestic demand will push up imports.

The average inflation rate reached only 0.4% in 2014. Consumer prices should grow very slowly also this year, especially due to the slump in the price of oil. The average inflation rate could thus decrease further to 0.3% this year. In 2016, the main factors affecting inflation should have either neutral or pro-inflationary impact. Growth of consumer prices should therefore accelerate, but we expect inflation to remain below the 2% inflation target of the CNB.

Compared with the previous Forecast, the labour market outlook has slightly improved, but the expected trends haven't changed. Thanks to the gradual pick-up in economic activity, the unemployment rate should be declining moderately, whereas employment should be modestly rising.

Total wage bill could increase by 3.9% this year. In 2016 we expect its growth to accelerate marginally to 4.1%. Apart from a gradual improvement in the state of the private sector, which is due to economic recovery, total wage bill is positively affected by an increase in the wage bill in state administration.

We estimate that the deficit of the general government sector reached 1.3% of GDP in 2014, a similar level as in 2013. As a result of the government's effort to support economic growth, and termination of certain restrictive measures, the balance should deteriorate this year. However, the deficit should remain well below the threshold of 3% of GDP. The indebtedness of the general government sector should further decrease from an estimated 43.2% of GDP in 2014 to 41.3% of GDP in 2015.

Current account of the balance of payments could post a small surplus both in this and the next year. Further increases of surplus on the balance of goods will be supported by the development of the price of oil and the exchange rate. However, this will be partially offset by the continued deepening of the deficit on the primary income balance.

In our opinion, risks to the Forecast are tilted to the downside, especially due to the risks that we see in the external environment of the Czech economy.

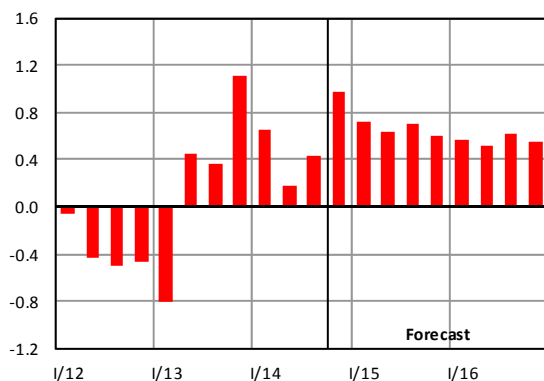
Table: **Main Macroeconomic Indicators**

		2010	2011	2012	2013	2014	2015	2016	2014	2015
		<i>Current forecast</i>							<i>Previous forecast</i>	
Gross domestic product	<i>bill. CZK</i>	3 954	4 022	4 048	4 086	4 284	4 509	4 698	4 284	4 467
Gross domestic product	<i>growth in %, const.pr.</i>	2.3	2.0	-0.8	-0.7	2.4	2.7	2.5	2.4	2.5
Consumption of households	<i>growth in %, const.pr.</i>	1.0	0.2	-1.8	0.4	1.5	2.8	2.3	1.4	1.7
Consumption of government	<i>growth in %, const.pr.</i>	0.4	-2.9	-1.0	2.3	1.9	2.0	1.3	1.9	2.0
Gross fixed capital formation	<i>growth in %, const.pr.</i>	1.3	1.1	-2.9	-4.4	4.5	5.3	4.1	4.5	4.9
Contr. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.5	1.9	1.3	0.0	-0.2	-0.5	-0.2	-0.1	0.0
Contr. of increase in stocks to GDP growth	<i>p.p., const.pr.</i>	0.8	0.2	-0.2	-0.2	0.3	0.1	0.3	0.4	0.0
GDP deflator	<i>growth in %</i>	-1.5	-0.2	1.4	1.7	2.4	2.5	1.6	2.4	1.8
Average inflation rate	<i>%</i>	1.5	1.9	3.3	1.4	0.4	0.3	1.4	0.5	1.5
Employment (LFS)	<i>growth in %</i>	-1.0	0.4	0.4	1.0	0.6	0.4	0.2	0.4	0.3
Unemployment rate (LFS)	<i>average in %</i>	7.3	6.7	7.0	7.0	6.1	5.7	5.6	6.3	6.1
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	0.6	2.2	2.1	-0.4	3.0	3.9	4.1	2.9	3.9
Current account / GDP	<i>%</i>	-3.6	-2.1	-1.6	-1.4	-0.2	1.0	0.5	0.0	-0.3
<u>Assumptions:</u>										
Exchange rate CZK/EUR		25.3	24.6	25.1	26.0	27.5	27.7	27.6	27.5	27.5
Long-term interest rates	<i>% p.a.</i>	3.7	3.7	2.8	2.1	1.6	1.0	1.6	1.7	1.7
Crude oil Brent	<i>USD/barrel</i>	80	111	112	109	99	54	67	105	101
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	2.0	1.6	-0.7	-0.5	0.8	1.0	1.5	0.7	1.1

Source: CNB, CZSO, Eurostat, U. S. Energy Information Administration, own calculations

Economic recovery should continue

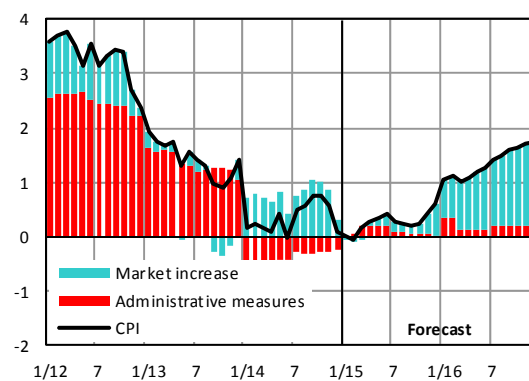
real GDP, QoQ growth rate, in %, seasonally adjusted



Source: CZSO, own calculations

Inflation should remain very low

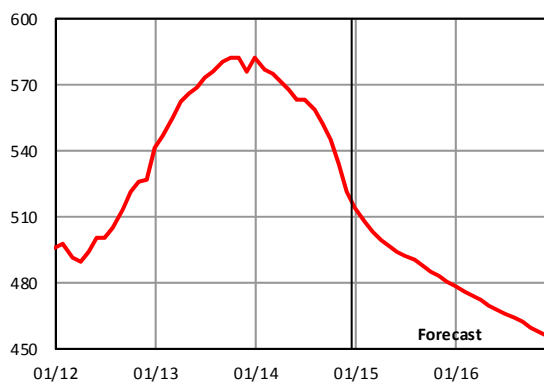
decomposition of YoY growth of CPI, contributions in pp



Source: CZSO, own calculations

Unemployment should continue to decline

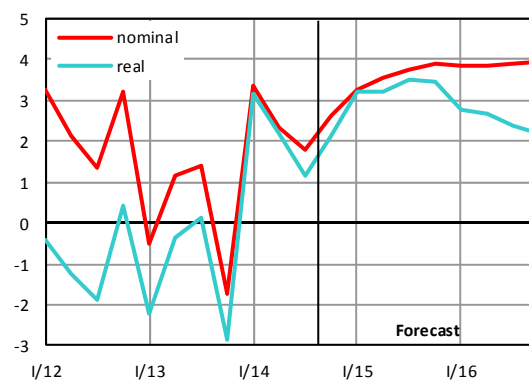
registered unemployment, in thousands of persons, seasonally adjusted



Source: Ministry of Labour and Social Affairs, own calculations

Average real wage growth supported by low inflation

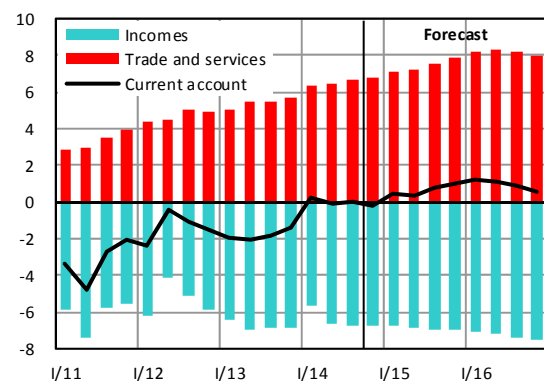
YoY growth rate, in %



Source: CZSO, own calculations

Small surplus on the current account

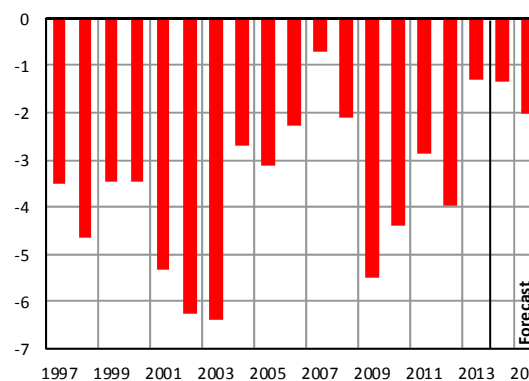
in % of GDP (moving sums of the latest 4 quarters)



Source: CNB, CZSO, own calculations

General government deficit under 3% of GDP

general government balance, in % of GDP



Source: CZSO, own calculations

Risks to the Forecast

The Czech economy is in a recovery phase. The pickup continued also in the third quarter of 2014 when **real GDP** increased by 0.4% QoQ, which was in line with our estimate. Economic growth is driven exclusively by domestic demand.

Other main macroeconomic indicators confirm this positive development. In the third quarter of 2014¹, gross value added, which unlike GDP does not include indirect taxes and subsidies, surpassed the previous high achieved in the third quarter of 2008. Real gross domestic income, which unlike real GDP is not adjusted for the change in terms of trade, increased at a steady pace of 4% YoY since the beginning of 2014.

Economic situation will be influenced by a couple of positive factors in 2015. The most important one is the **slump in the price of oil** on commodity markets. As at the cut-off date (13 January 2015), the Brent crude oil traded at 48 USD/barrel, down almost 60% from the June 2014 maximum. We assume that the price of oil will return to higher levels only in the medium term horizon (see Chapter A.1).

From the economic point of view, it will be a **positive supply shock**. Its effects on the economy are hard to estimate, given its extent, but one may state that it will significantly lengthen the time during which inflation will hover close to zero. It will also bring significant cost savings for consumers and firms, with positive effects on real private consumption, gross operating surplus and private investment. A model simulation of other possible effects of an oil price change (in comparison with the baseline scenario) can be found in Box A.1.

Weaker exchange rate of the euro (and thus also the koruna) vis-à-vis the US dollar will soften the effect of low dollar price of oil, though only to a limited extent.

Fiscal stimulation, whose extent can be measured by fiscal effort (−0.8 pp), will be another positive factor affecting the Czech economy. Expansive fiscal policy will be further supported by an effort to **draw down as much money from the EU funds as possible** before the end of 2015.

These factors account for a slight **upward revision to the forecast for real GDP growth in 2015** from 2.5% to **2.7%**. However, given the time-limited effect of the aforementioned factors, we expect growth to slow down marginally to 2.5% in 2016.

The forecast for economic growth in this year has been revised upwards, but this is to a great extent offset by deterioration **in the balance of risks**. We regard the risks within the Czech economy as broadly balanced, whereas the **risks stemming from the developments in the external environment are perceived as strongly negative**.

The geopolitical situation in Europe and its immediate vicinity gradually worsens. Even though these risks do not pose a direct threat to the Czech Republic, the extent to which they will hit the countries of our main trading partners, especially Germany, will be crucial, given the high openness of the Czech economy.

This holds true not only for the expected **recession of the Russian economy**, which feels the effects of the slump in the price of oil and a sharp depreciation of the rouble exchange rate, but also for a possible further escalation of the **situation in eastern Ukraine**. However, the direct impact on the Czech economy could be rather limited, given the ongoing decrease in the exposition of Czech businesses towards the region.

The Czech economy could be also indirectly hit if there was a repeated escalation of the crisis in the euro area. The situation in most of the troubled countries on the euro area periphery has remained relatively calm, but **snap elections in Greece**² raise serious concerns (see Chapter A.1). In case that the election results hindered cooperation between Greece and the official creditors, the **impact on the stability of the euro area**, or the EU, could be serious. In such a scenario, the sentiment on financial markets would almost certainly deteriorate significantly. Irrespective of the election results, however, important fundamental factors, e.g. the rate of unemployment or government sector indebtedness, remain unfavourable and pose significant negative risks for future developments.

Escalation of terrorist attacks could also pose a risk. In an extreme case, the attacks could destabilize safety, political or economic situation in affected countries.

Due to low predictability of economic agents' response to the significant changes in the price of oil, exchange rates and other economic parameters, future situation **within the Czech economy** is subject to much higher than usual uncertainty. However, risks to both upside and downside are regarded as broadly balanced.

¹ Due to a downward revision to GVA in the second quarter of 2014, GVA surpassed the previous high in only the third quarter of 2014, not in the second quarter as was stated in the previous Forecast.

² As at the cut-off date of the Forecast, the results of snap elections in Greece were not known.

A Forecast Assumptions

A.1 External Environment

Global economic recovery continues. Developments in individual regions remain diverse and these differences have even deepened, compared with the previous Forecast. Risks related to slowdown in international trade, escalation of geopolitical situation and uncertainty associated with the reforms that are being undertaken in emerging economies remain. Growth dynamics in advanced economies, except for the euro area, continues to strengthen. Structural problems put a brake on the emerging economies' growth potential; risks from the developments in these economies have increased.

Concerns about a slowdown of the Chinese economy are materializing; we expect growth to slow down below 7%, from this year on. Risks to the stability of the Chinese financial market persist. High lending activity of local banks is not sustainable in the long term, and the debt of local governments is dangerously rising. Further monetary policy easing aimed at supporting economic growth is limited by fears of real estate and equity market bubbles. There is an ongoing effort to shift the growth model to a one based on domestic demand. However, services and private consumption have so far failed to offset the slowdown in other segments of the economy. The slowdown of the Chinese economy, together with the slump in the price of oil, weighs on many other emerging economies that are dependent on trade with primary commodities. Latest developments have therefore underscored the need for these economies to revise their growth models and adopt structural reforms.

Geopolitical tension in Ukraine has eased, but local fights still continue. Given the considerable problems of the Russian economy, which encompass loss of confidence, sharply falling rouble and the slump in the price of oil, it seems likely that in the near future Russia will focus more on domestic affairs, temporarily reducing its cross-border activities. Sanctions against Russia that were imposed by the EU and the USA are still in force, although there are some calls for lifting the sanctions if there is progress in peace talks. The impact on individual states of the EU varies, depending on the extent to which the economies are exposed to Russia. The sanctions have so far weighed on market sentiment, rather than on exports from the EU. Owing to the fact that neither Russia nor Ukraine is among the most important export markets for the Czech Republic, direct macroeconomic effects of the conflict

in Ukraine on the Czech economy should not be substantial. Main trading partners of the Czech Republic are faced with a similar situation; exports of goods to Russia account for 2–5% of their total exports of goods.

USA

The American economy recorded a strong growth of 1.2% QoQ (*versus 0.8%*) in the third quarter of 2014, following a considerable pick-up in the second quarter. Growth was predominantly driven by consumption and investment. Domestic demand should remain the main driver of the US economy also in the future. Rising consumer confidence and increasing net worth of households (real estate prices are growing, Dow Jones Industrial Average and S&P 500 stock market indices are still hovering around record highs) will have a positive impact on consumption of households. Investment activity of firms has already reached the pre-crisis level, amid rising lending activity of banks.

The economy is still supported by accommodative monetary policy, although the Fed ended the asset purchase programmes in October. The Fed's decision reflects its positive assessment of the state of the US economy. Key interest rates have remained unchanged. The Fed confirmed that it stood ready to hold the rates at their current levels for a considerable time after the end of its asset purchase programme, especially if projected inflation continued to run below the long term inflation target of 2%. If, however, incoming information indicated faster progress towards the target, the Board of Governors might raise the rates earlier. The central bank sees the risks to the outlook for economic activity and the labour market as balanced. The Fed expects inflation to rise gradually towards the 2% target as the labour market improves further and the transitory effects of the slump in the price of oil dissipate.

In the second half of 2014, unemployment rate fell below 6% for the first time since the outbreak of the crisis. It stood at 5.8% in November 2014, having declined by 1.2 pp YoY. The long lasting decrease in participation rate has stopped, which is a positive aspect. The unemployment rate is expected to decline further towards 5% in the middle of this year. Taking into account low growth of the working age population, the unemployment rate is slowly approaching its equilibrium level of approximately

5.5%. In line with expectations of the Fed, full capacity utilization should lead to inflation pressures in the next year.

Given the higher than expected growth in the third quarter of 2014 and the related minor upward revision of the estimate for growth in the fourth quarter, the estimate for GDP growth in 2014 has been revised up to 2.5% (*versus* 2.1%). We expect GDP growth to accelerate to 3.2% in 2015 (*versus* 2.9%). We still assume that growth should be driven mainly by private consumption and investment. Public spending should grow after a lengthy restriction. GDP could increase by 3.1% in 2016.

EU

In the third quarter of 2014, quarterly GDP growth marginally accelerated both in the EU28 and the EA12; in the EU28 to 0.3% (*versus* 0.1%) and in the EA12 to 0.2% (*versus* 0.1%). In a YoY comparison, GDP in the EU28 increased by 1.3% (*versus* 1.0%), whereas in the EA12 it grew by 0.8% (*versus* 0.6%). However, the developments in individual states of the EA12 remain widely varied. In many countries of the EA12, structural problems and uncertainty over the outlook weigh on economic recovery.

The ECB eased monetary policy further in September 2014 in reaction to ongoing disinflation and decreasing inflation expectations. All monetary policy rates were cut by 10 basis points – the main refinancing rate to 0.05%, the interest rate on the marginal lending facility to 0.30% and the interest rate on the deposit facility to –0.20% – and have so far remained at these levels. In the fourth quarter of 2014, the ECB also launched the Asset-Backed Securities Purchase Programme and the Covered Bond Purchase Programme. The programmes will last at least two years. The ECB also conducted another round of Targeted Longer-Term Refinancing Operations and announced that six more rounds will be conducted before June 2016. Just like the other extraordinary measures the ECB took in the past, the programmes aim at improving the functioning of the transmission mechanism of the ECB's monetary policy and supporting provision of credit to the non-financial sector. The ECB has reiterated that should the need arise it stands ready to take further extraordinary steps or change the extent, composition and pace of implementation of the current programmes.

Situation on the labour market stabilised in the second half of the last year both in the EU28 and in the euro area. In November 2014, the unemployment rate in the EU28 and in the euro area was 10.0% (YoY decrease of 0.7 pp) and 11.5% (YoY decrease of 0.4 pp)

respectively. However, considerable differences among individual states persist. The worst situation is still in Greece, where the unemployment rate stood at 25.7% in September. Of the EU28 countries for which the data for November were available at the cut-off date, the highest unemployment rate was recorded in Spain (23.9%), Cyprus (16.8%) and Croatia (16.5%); the lowest was in Austria (4.9%), Germany (5.0%) and the Czech Republic (5.8%).

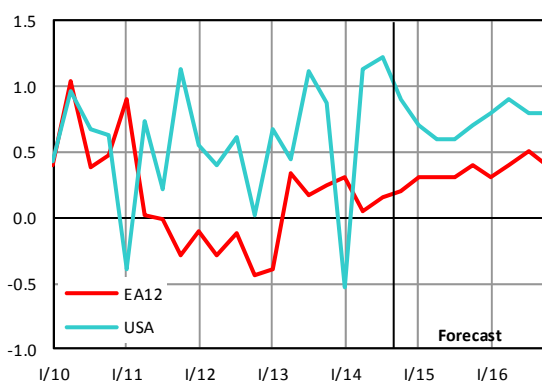
In line with the previous Forecast, the euro area saw a moderate pick-up in economic activity in the second half of the last year. We expect that the gradual recovery will continue also in 2015. Domestic demand supported by low inflation and favourable interest rates should contribute positively to growth. We also expect the situation on the labour market to improve further and wages to rise moderately. However, high rate of unemployment still weighs on growth. Risks to the forecast include the uncertainty related to the effects of the reforms that are being undertaken and the developments in the economies of trading partners. We estimate that GDP in the EA12 increased by 0.8% (*versus* 0.7%) in 2014. Growth is expected to accelerate to 1.0% (*versus* 1.1%) in 2015 and further to 1.5% in 2016.

The near stagnation of the **German** economy continued in the third quarter of 2014, when GDP increased by just 0.1% (*versus* 0.3%). The unfavourable outcome was due to temporarily increased uncertainty related to the weak performance of economies of the main trading partners, and the risks of an escalation of geopolitical conflicts. Contribution of consumption to GDP growth was positive. Contribution of gross fixed capital formation, on the contrary, was negative, as firms felt the uncertainty from developments in the external environment. Spending of firms on machinery and equipment lagged behind the dynamics from the beginning of the last year, the recovery of investment activity was therefore interrupted. However, we expect a reversal of this development in 2015. This is implied e.g. by favourable values of short-term indicators and sentiment indexes. The Ifo index increased after a long period of time, and following a minor blip the GfK Consumer Climate indicator also returned to growth. Low ECB rates continue to have a positive effect on the economy; consumption of households is also boosted by a very good situation on the labour market. Together, these factors impact positively on the real estate market. The expected pickup in output of developed economies and a high competitiveness of German firms should contribute positively to growth. Data on industrial production imply that the economy

could return to growth in the first half of this year. We estimate that GDP increased by 1.4% (*unchanged*), especially due to strong growth in the first quarter. We expect GDP to increase by 1.0% this year (*versus 1.4%*); growth could accelerate to 1.7% in the next year. Growth should be driven by consumption of households and investment.

The situation in **France** is remains unfavourable. GDP posted a moderate increase of 0.3% (*versus 0.1%*) in the third quarter of 2014, but there is nothing that would imply a stronger pickup in economic activity. With a lag, the measures that were aimed to give a boost to low-income households and the business sphere might have finally had an effect. Expected pickup in private investment, which stagnated over the last two years, has not come yet. Situation on the labour market is not getting any better – high rate of unemployment, which stood at 10.3% in November 2014, and problems with job creation weigh on private consumption. The fact that certain industrial sectors face low sales on foreign markets poses another problem. It is also very unlikely that the government met the deficit target of 4.4% of GDP. Estimates of future deficits have been revised significantly, it thus seems likely that France will exit the Excessive Deficit Procedure in 2017 at the earliest. The required fiscal consolidation will have a negative effect on economic activity. We estimate that the economy grew by just 0.4% (*unchanged*) in 2014. GDP growth could slightly accelerate to 0.8% (*unchanged*) this year and further to 1.1% in 2016.

Graph A.1.1: **Growth of GDP in EA12 and in the USA**
QoQ growth rate, in %, seasonally and working day adjusted



Source: Eurostat, own calculations

In **Poland**, GDP increased by 0.9% QoQ (*versus 0.6%*) in the third quarter of 2014. High growth dynamics from the first half of the last year thus continued. Low inflation (consumer prices actually declined at the end of 2014) and improving situation on the labour market support domestic demand, which is the main driver of growth. Foreign demand decreased, which, together

with higher growth of imports due to the dynamics of domestic demand, resulted in a negative contribution of trade balance to GDP growth. Domestic demand should remain the main pro-growth factor also in 2015. The central bank cut the monetary policy rate to a new all-time low of 2.00% in October 2014, as inflation outlook implied the inflation target would be missed. Unfavourable state of trade relations with Russia has a limited effect on economic activity. We revise the estimate for GDP growth in 2014 up to 3.4% (*versus 3.2%*). Due to the planned consolidation and cut in government consumption, GDP growth should slow down slightly to 3.0% (*versus 3.2%*). We expect GDP to increase by 3.2% in 2016.

GDP of **Slovakia** increased by 0.6% QoQ (*in line with estimate*) in the third quarter of 2014. All components of domestic demand are growing. This, together with a decrease in foreign demand, leads to real imports growing faster than real exports. Net exports therefore weigh on GDP growth. However, this effect is more than offset by the positive contribution of gross domestic expenditure. Private consumption should get a boost from rising real wages and employment this year. Situation on the labour market is improving further; unemployment rate decreased to 12.6% in November 2014 (1.5 pp less YoY). Positive data are coming from construction, which is helped by growth of mortgages. We leave our estimate for GDP growth in 2014 at 2.4%. In 2015, GDP growth could accelerate to 2.5% (*versus 2.7%*). We expect GDP to increase by 2.9% in 2016.

Business Cycle Indicators in the EU

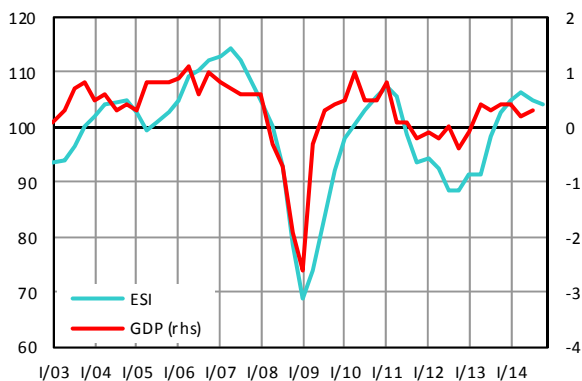
In the EU, the Economic Sentiment Indicator, which is published by the EC, posted another small decrease in the fourth quarter of 2014. Assessment of consumers and respondents in trade deteriorated, compared with the previous quarter. On the contrary, sentiment increased in construction, although it remains strongly negative. Assessment of respondents improved also in services. Sentiment in industry did not change on the previous quarter, negative assessment of respondents thus prevails. For the fourth quarter of 2014, the ESI signals a small deceleration of quarterly GDP growth in the EU. However, given its positive level, we interpret the change of the indicator as a sign that QoQ growth rate in the fourth quarter remained unchanged from the third quarter of 2014.

In the countries of selected trading partners, moderate improvement in sentiment continued in France and Slovakia. Following previous steep falls, the indicator now decreases at much slower pace in Germany and

Italy. In Germany, sentiment worsened on the previous quarter in industry, trade and among consumers, but it improved in services and construction.

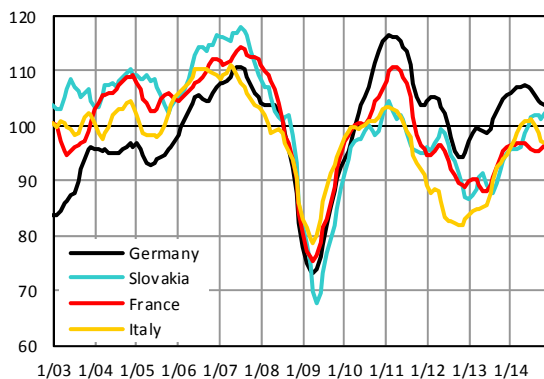
Graph A.1.2: ESI and GDP Growth in the EU

ESI – quarterly averages, GDP – QoQ growth rate in %, sa data



Source: EC, Eurostat

Graph A.1.3: ESI in Selected Trading Partner Countries
3-month moving averages

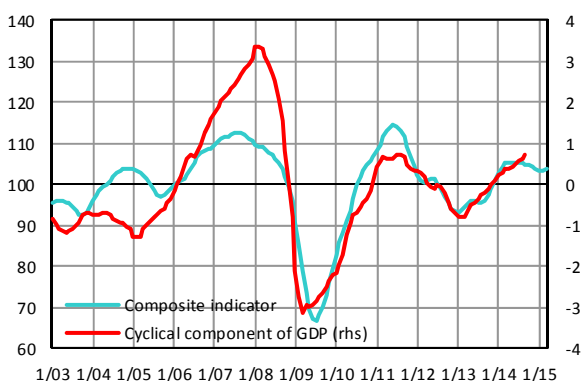


Source: EC

For the first quarter of 2015, the composite leading indicator signals a small increase in the relative cyclical component of GDP in Germany and the EU. Following slow GDP growth at the end of 2014, QoQ growth of the German economy could slightly pick up in the first quarter of 2015. As for the EU as a whole, we expect that QoQ growth rate in the first quarter of 2015 will be the same as in the fourth quarter of 2014.

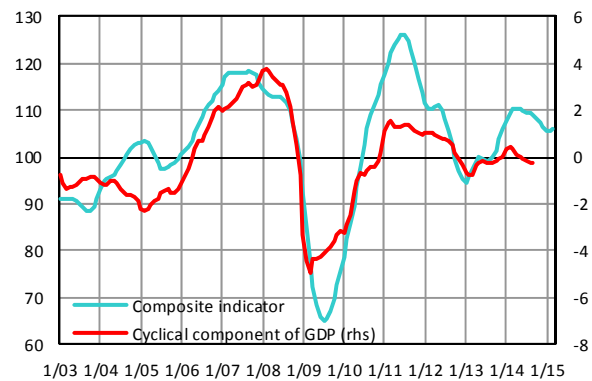
Graph A.1.4: Composite Leading Indicator – EU

monthly data, 2005=100, cyclical component in % of trend GDP



Source: EC, Eurostat, own calculations

Graph A.1.5: Composite Leading Indicator – Germany
monthly data, 2005=100, cyclical component in % of trend GDP



Source: EC, Eurostat, own calculations

Situation in the Troubled Economies of the Euro Area

Recovery of economic activity continued in the third quarter of 2014 in Ireland, Portugal, Greece (according to up-to-date data, GDP has been increasing in QoQ terms since the beginning of 2014) and in Spain. On the contrary, Italy and Cyprus are still in recession.

Developments in Greece became much more dramatic at the turn of the year. At the root of the problem were complications that arose during the fifth review of the bailout programme. There was a real danger that the review would not be completed before the end of 2014. This was a prerequisite for providing the remaining €1.8 billion from the European Financial Stability Facility and also for granting a precautionary ESM (European Stability Mechanism) credit line. Given the conditions on the government bonds market, tapping the credit line after the conclusion of the bailout programme is very likely. On 8 December, the finance ministers of the euro area countries therefore expressed their support for a two-month technical extension of the bailout programme, which would thus end in February 2015. The Greek prime minister subsequently announced that the presidential elections, which should have taken place in February 2015, would be held in the second half of December. At that time, the name of the presidential candidate was yet unknown.

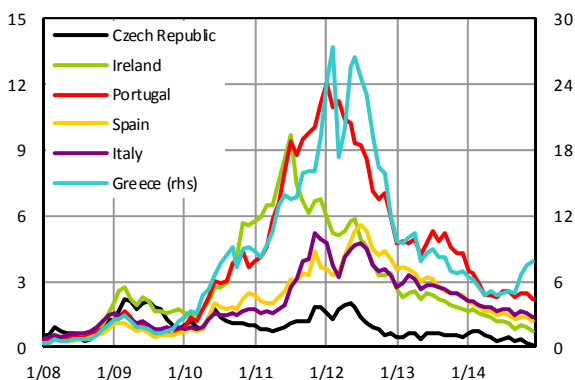
However, the parliament failed to elect the president and therefore was dissolved. The president will thus have to be elected by a new parliament that will be elected in snap elections at the end of January. Election polls show that SYRIZA, a populist left-wing movement that is highly critical of the bailout programmes and the related austerity measures (the movement demands e.g. a partial write-off of Greek debt held by official creditors), will win the elections. Therefore, significant political risks now exist in Greece, which

could – in an extreme case – lead to a repeated escalation of the crisis in the euro area.

It has to be noted, however, that the impact of the developments in Greece on government bond yields of other euro area periphery states has so far been *de facto* imperceptible (see Graph A.1.6). Highly accommodative monetary policy and expectations of further monetary easing (that could include purchases of government bonds by the ECB), extremely low rate of inflation and low inflation expectations all strongly contribute to historically low yields on government bonds. From institutional point of view, the euro area is much better prepared to weather potential shocks than it was in mid-2012, when “Grexit” was also seen as a risk.

Graph A.1.6: Spreads over German Bonds

The difference between yields of 10Y gov. bonds of the respective country and yields of 10Y German bonds, in pp, monthly averages



Source: Eurostat

Risks from the comprehensive assessment of large euro area banks have not materialised. Capital shortfall was detected at 25 banks, but it totalled only circa €25 billion. However, the assessment was based on end-2013 data, and therefore it does not take into account the measures the banks took during 2014. As a result, only 13 banks will have to raise capital by at least €9.5 billion in total (0.1% of euro area GDP). The banks will have up to nine months to cover the capital shortfalls.

Future developments in the economies on the euro area periphery are subject to downside risks. Sudden deterioration of market sentiment towards the region, which could occur especially in relation to future developments in Greece, cannot be excluded. It is thus premature to consider the euro area crisis to be over.

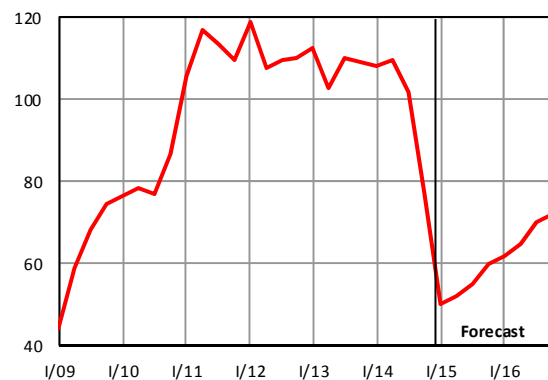
Given the high openness of the Czech economy and strong business links to the euro area, a potential escalation of the crisis in the euro area could weigh on foreign demand for exports from the Czech Republic. This could have an indirect impact on investment activity and final consumption expenditure.

Commodity Prices

The price of Brent crude oil averaged \$77.1/barrel (*versus* \$101) in the fourth quarter of 2014. As at the cut-off date of the Forecast (13 January 2015), Brent crude oil traded below the threshold of \$50/barrel. Much lower than expected price of oil results from weaker demand for and rising supply of oil. Last but not least, it also reflects OPEC's decision not to cut the production of oil. The aforementioned factors account for the major downward revision to the forecast, above all in the nearest quarters. We expect that the markets will adjust to the slump in the price of oil during this year, especially in its first half. Producers will gradually adjust to the new price conditions and reassess the profitability of their projects. Gradual increase in the expected price of oil is in line with the situation on derivatives markets. On average, the price of Brent crude oil could reach \$54/barrel (*versus* \$101) this year. In 2016, the price could grow further to \$67/barrel.

Graph A.1.7: Dollar Prices of Brent Crude Oil

in USD per barrel



Source: U. S. Energy Information Administration, own calculations

Box A.1: Alternative scenario for the price of oil

This box presents the possible impacts of the crude oil price developing differently from the basic scenario considered in the Macroeconomic Forecast. In this alternative scenario we assume that the current low price of oil is only a short term phenomenon and that it would rise sharply by 40% in 2015. The crude oil price would average \$76 a barrel in 2015 (instead of the expected \$54.3 a barrel in the basic scenario). For 2016–2018, the YoY changes in the price of oil are assumed to be the same as in the baseline scenario. This rise would result in an increase in the import price index, as shown in Table 1. Higher crude oil price would also be reflected in a lower growth of export markets. Therefore we further assume the weakening of foreign demand (GDP growth rate in the EU) approximated by a lower growth in the EU of about 0.1 pp in 2015.

Table 1: Imports of goods and services deflator

Import prices		2014	2015	2016	2017	2018
Baseline	<i>average 2010=100</i>	109.3	107.7	106.6	106.7	106.9
	<i>growth in %</i>	2.2	-1.5	-1.0	0.1	0.1
Alternative scenario	<i>average 2010=100</i>	109.3	109.3	108.2	108.3	108.4
	<i>growth in %</i>	2.2	0.0	-1.0	0.1	0.1

The results of this alternative scenario, which takes into account the aforementioned shocks, are based on the DSGE model of the Ministry of Finance of the Czech Republic. Both shocks, i.e. both the increase in the crude oil price and the lower growth of foreign demand, would have a negative impact on the Czech economy, particularly in 2015. In 2016–2018, the impact on the macroeconomic variables included in the simulation would be relatively negligible. A recognizable delay, and therefore a persistence of the effects until 2016, could be reflected to a certain extent in the case of wage development.

Table 2: Simulation results

		2014	2015	2016	2017	2018
Baseline Scenario						
Gross domestic product	<i>growth in %</i>	2.4	2.7	2.5	2.3	2.2
Private consumption	<i>growth in %</i>	1.5	2.8	2.3	2.2	2.1
Gross fixed capital formation	<i>growth in %</i>	4.5	5.3	4.1	3.2	3.1
Exports of goods and services	<i>growth in %</i>	8.0	5.1	5.3	5.3	5.2
Imports of goods and services	<i>growth in %</i>	8.8	6.2	6.1	5.6	5.4
Inflation (HICP)	<i>growth in %</i>	0.4	0.3	1.4	1.8	1.9
Unemployment rate	<i>in %</i>	6.1	5.7	5.6	5.5	5.4
General government balance	<i>% of GDP</i>	-1.5	-2.2	-1.4	-1.0	.
Gross government debt	<i>% of GDP</i>	43.2	41.3	41.6	41.2	.
Alternative Scenario						
Gross domestic product	<i>growth in %</i>	2.4	2.3	2.5	2.3	2.2
Private consumption	<i>growth in %</i>	1.5	2.2	2.3	2.2	2.1
Gross fixed capital formation	<i>growth in %</i>	4.5	5.0	4.1	3.2	3.1
Exports of goods and services	<i>growth in %</i>	8.0	4.5	5.3	5.3	5.2
Imports of goods and services	<i>growth in %</i>	8.8	5.6	6.0	5.6	5.4
Inflation (HICP)	<i>growth in %</i>	0.4	0.5	1.3	1.8	1.9
Unemployment rate	<i>in %</i>	6.1	6.0	5.6	5.5	5.4
General government balance	<i>% of GDP</i>	-1.5	-2.4	-1.4	-1.0	.
Gross government debt	<i>% of GDP</i>	43.2	41.5	41.9	41.5	.

Higher import prices would manifest themselves in a direct decrease in the import volume, with a positive impact on net exports of 0.7 pp (also on the current account balance), thus influencing GDP growth as well. Subsequently, however, the volume of exports would decrease due to growth of export prices and a decrease in foreign demand. Growth of household consumption would be slower by approximately 0.6 pp due to relatively higher prices of both

foreign and domestic goods, and growth of investment in fixed capital would also be lower by 0.1–0.2 pp in 2015. The total impact on real GDP growth in 2015 would be approximately –0.4 pp.

Due to the negative changes in the economy, expected production of firms would decrease, which could then exert pressure on wages and possibly push up the unemployment rate by approximately 0.3 pp. In this case, a growth of import input prices would have a positive impact on price level growth (in the direction of faster growth); in contrast, a negative impact would be a consequence of a decrease in wages, or their slower increase, respectively. The resulting inflation rate would be 0.3 pp higher than in the baseline scenario.

Due to lower tax revenues caused by lower consumption dynamics, lower production of firms as well as a decrease in the growth rate of wages, the general government balance would see a negative impact of –0.2% of GDP. This would be also reflected in the accumulation of debt, which would thus be moderately higher than in the baseline scenario.

The aforementioned effects can be considered symmetrical. This means that in the event of any further decrease in crude oil price (and a slight increase in foreign demand) compared to the baseline scenario, the impacts on the aforementioned macroeconomic variables would be similar, only with opposite signs.

Table A.1.1: **Real Gross Domestic Product** – yearly

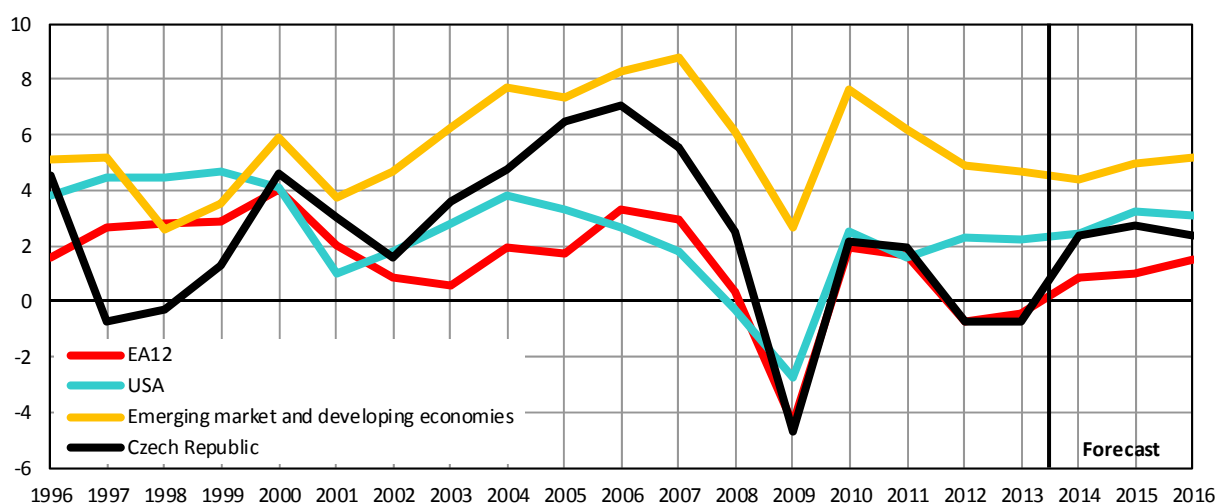
growth rate, in %, seasonally adjusted data (except for the Czech Republic)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
								Estimate	Forecast	Forecast
World	5.4	2.8	-0.6	5.2	3.9	3.1	3.0	3.3	3.8	4.0
USA	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2	2.5	3.2	3.1
China	14.2	9.6	9.2	10.4	9.3	7.7	7.7	7.3	6.9	6.6
EU28	3.1	0.4	-4.4	2.0	1.8	-0.4	0.1	1.3	1.4	1.9
EA12	2.9	0.3	-4.4	2.0	1.6	-0.7	-0.5	0.8	1.0	1.5
Germany	3.4	0.8	-5.6	3.9	3.7	0.6	0.2	1.4	1.0	1.7
France	2.3	0.1	-2.9	1.9	2.1	0.4	0.4	0.4	0.8	1.1
United Kingdom	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7	3.0	2.8	2.5
Austria	3.5	1.3	-3.7	1.8	3.2	1.0	0.1	0.3	0.8	1.5
Hungary	0.5	0.7	-6.5	0.8	1.8	-1.5	1.6	3.2	2.4	2.0
Poland	7.2	3.9	2.5	3.7	4.8	1.9	1.6	3.4	3.0	3.2
Slovakia	10.7	5.4	-5.3	4.8	2.7	1.6	1.4	2.4	2.5	2.9
Czech Republic	5.5	2.7	-4.8	2.3	2.0	-0.8	-0.7	2.4	2.7	2.5

Source: CZSO, Eurostat, IMF, NBS China, own calculations

Graph A.1.8: **Real Gross Domestic Product**

YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, IMF, own calculations

Note: Emerging market and developing economies comprising 154 countries (according to the IMF's classification)

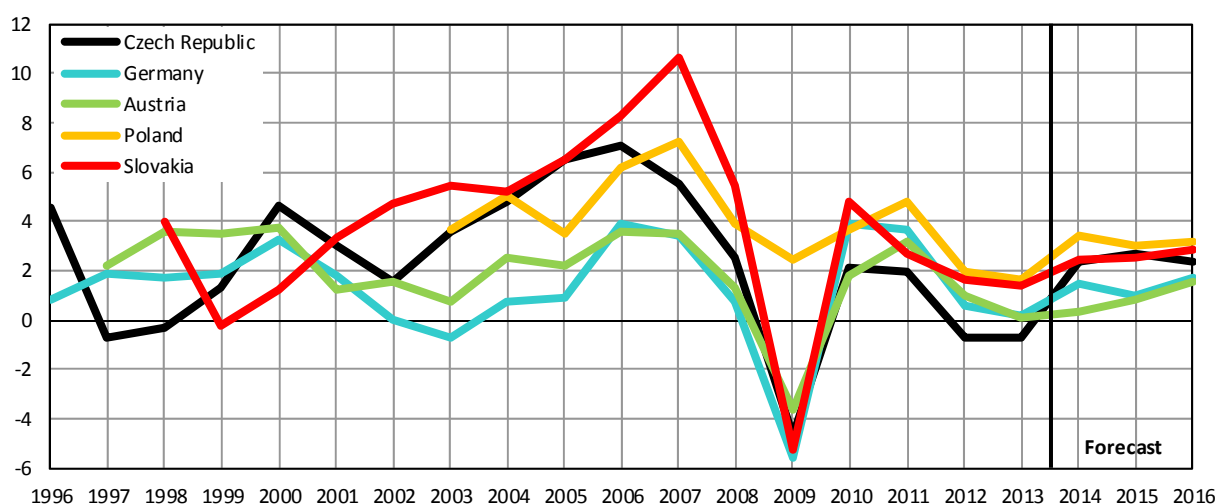
Table A.1.2: **Real Gross Domestic Product** – quarterly
growth rate, in %, seasonally adjusted data

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Estimate</i>				<i>Forecast</i>			
USA	QoQ	-0.5	1.1	1.2	0.9	0.7	0.6	0.6	0.7
	YoY	1.9	2.6	2.7	2.7	4.0	3.5	2.8	2.6
China	QoQ	1.5	2.0	1.6	1.6	1.7	1.7	1.6	1.7
	YoY	7.5	7.7	7.0	6.9	7.1	6.8	6.8	6.9
EU28	QoQ	0.4	0.2	0.3	0.3	0.3	0.5	0.4	0.5
	YoY	1.5	1.3	1.3	1.2	1.1	1.4	1.5	1.7
EA12	QoQ	0.3	0.1	0.2	0.2	0.3	0.3	0.3	0.4
	YoY	1.1	0.8	0.8	0.7	0.7	1.0	1.1	1.3
Germany	QoQ	0.8	-0.1	0.1	0.1	0.3	0.4	0.4	0.5
	YoY	2.3	1.4	1.2	0.8	0.4	0.9	1.2	1.6
France	QoQ	0.0	-0.1	0.3	0.2	0.2	0.2	0.2	0.3
	YoY	0.8	0.0	0.4	0.4	0.6	0.9	0.8	0.9
United Kingdom	QoQ	0.7	0.9	0.7	0.6	0.6	0.7	0.8	0.7
	YoY	2.9	3.2	3.0	3.0	2.8	2.6	2.7	2.8
Austria	QoQ	0.1	0.0	-0.3	0.2	0.3	0.3	0.3	0.4
	YoY	0.9	0.5	0.0	0.0	0.2	0.5	1.1	1.3
Hungary	QoQ	0.9	0.8	0.5	0.4	0.6	0.7	0.7	0.5
	YoY	3.5	3.6	3.1	2.6	2.3	2.2	2.4	2.5
Poland	QoQ	1.1	0.7	0.9	0.6	0.7	0.8	0.8	0.8
	YoY	3.5	3.4	3.4	3.4	3.0	3.1	2.9	3.1
Slovakia	QoQ	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.7
	YoY	2.3	2.5	2.5	2.4	2.5	2.5	2.5	2.6
Czech Republic	QoQ	0.6	0.2	0.4	1.0	0.7	0.6	0.7	0.6
	YoY	2.6	2.3	2.4	2.2	2.3	2.8	3.1	2.7

Source: Eurostat, NBS China, own calculations

Graph A.1.9: **Real Gross Domestic Product** – Czech Republic and the neighbouring states

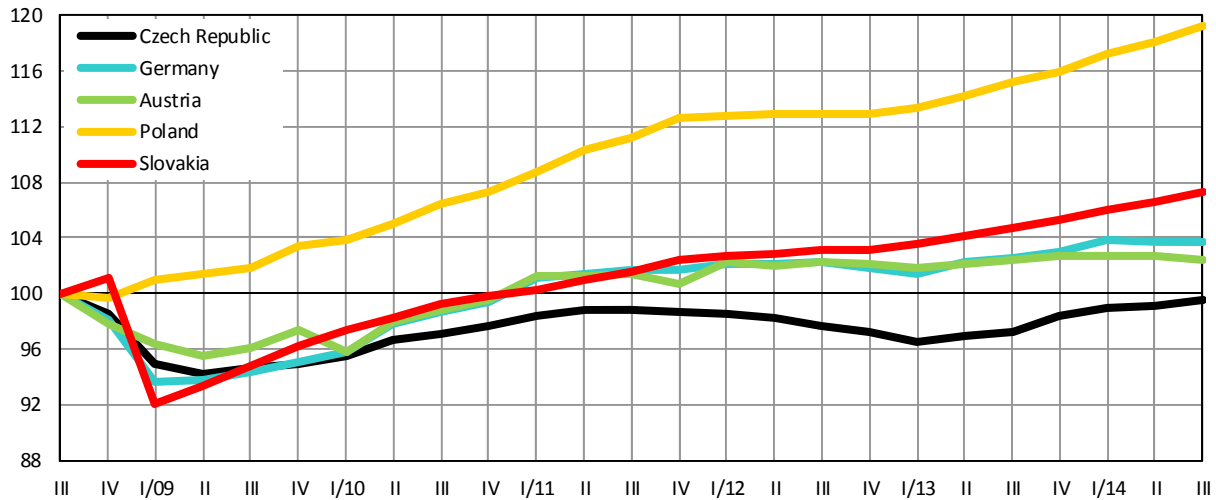
YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, own calculations

Graph A.1.10: **Real Gross Domestic Product – Czech Republic and the neighbouring states**

Q3 2008=100, seasonally adjusted data



Source: Eurostat, own calculations

Table A.1.3: **Prices of Selected Commodities – yearly**

spot prices

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
										Forecast	Forecast
Crude oil Brent	USD/barrel	72.4	96.9	61.5	79.6	111.3	111.6	108.6	99.2	54	67
	growth in %	11.1	34.0	-36.5	29.3	39.9	0.3	-2.6	-8.7	-45.3	24.0
Crude oil Brent index (in CZK)	2005=100	96.0	106.7	76.1	100.0	129.5	143.8	139.9	134.8	84	104
	growth in %	-0.9	11.1	-28.6	31.4	29.5	11.0	-2.7	-3.6	-37.8	23.6
Wheat	USD/t	255.2	325.9	223.4	223.7	316.2	313.3	312.2	284.1	219	.
	growth in %	33.1	27.7	-31.5	0.1	41.4	-0.9	-0.3	-9.0	-23.0	.
Wheat price index (in CZK)	2005=100	120.4	129.5	100.6	100.0	131.3	144.4	143.7	138.2	121	.
	growth in %	18.4	7.5	-22.3	-0.6	31.3	10.0	-0.5	-3.8	-12.6	.

Source: IMF, U. S. Energy Information Administration, own calculations

Table A.1.4: **Prices of Selected Commodities – quarterly**

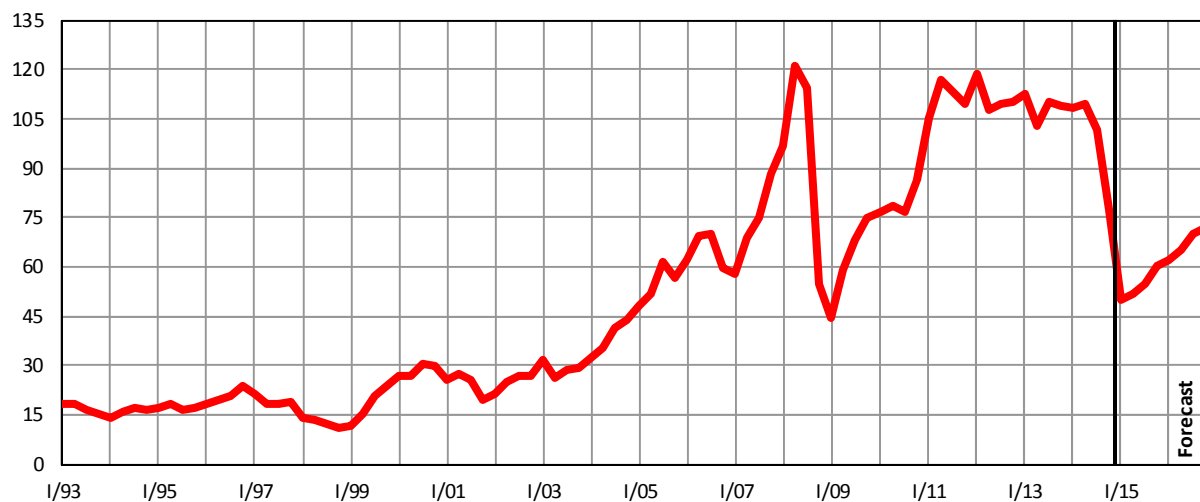
spot prices

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Forecast	Forecast	Forecast	Forecast
Crude oil Brent	USD/barrel	108.1	109.7	101.9	77.1	50	52	55	60
	growth in %	-3.8	7.0	-7.6	-29.4	-53.8	-52.6	-46.0	-22.2
Crude oil Brent index (in CZK)	2005=100	142.7	144.6	139.9	112.2	78	80	85	92
	growth in %	-0.5	8.3	-1.3	-20.4	-45.2	-44.6	-39.4	-17.7
Wheat price	USD/t	297.1	322.1	262.5	254.7	212	216	220	227
	growth in %	-7.6	2.6	-14.2	-17.3	-28.6	-33.0	-16.0	-10.8
Wheat price index (in CZK)	2005=100	140.0	151.7	128.7	132.4	118	119	121	125
	growth in %	-4.4	3.9	-8.4	-6.6	-15.5	-21.7	-5.8	-5.6

Source: IMF, U. S. Energy Information Administration, own calculations

Graph A.1.11: Dollar Prices of Oil

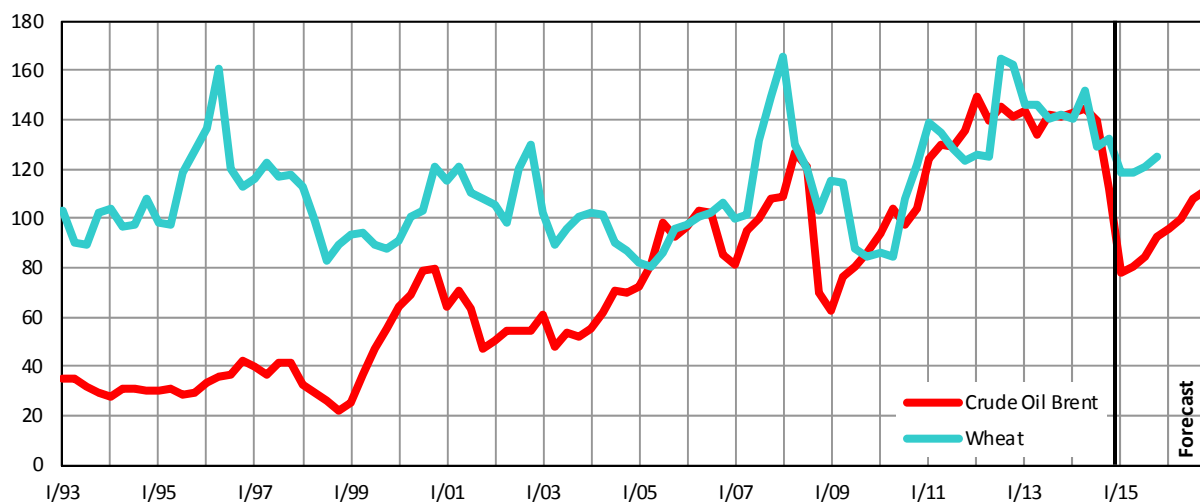
USD/barrel



Source: U. S. Energy Information Administration, own calculations

Graph A.1.12: Koruna Indices of Prices of Selected Commodities

index 2010=100



Source: IMF, U. S. Energy Information Administration, own calculations

A.2 Fiscal Policy

The general government sector deficit is estimated to have reached 1.3% of GDP in 2014, a similar level as in 2013. This is an improvement of 0.2 pp, compared with the previous forecast in Fiscal Outlook.

The revenue side was positively influenced by the development of the corporate income tax. Compared with our previous estimate, we now expect better collection of corporate income tax and VAT. On the other hand, collection of indirect taxes is estimated to have deteriorated in 2014 (due to the development of excise duty on tobacco products). Budget reports show there was only a slight YoY decrease of CZK 2.3 billion, but according to the accrual methodology the collection of taxes on tobacco products in January and February 2014 is included in revenues of the year 2013. The decrease in accrual terms is thus likely to be higher than in cash terms. The assumption regarding the level of total tax revenues thus remains unchanged.

From the perspective of YoY changes, there was no major discretionary tax change in 2014. Except for the excise duty on tobacco, the dynamics was determined especially by the development of macroeconomic bases. The revenue side was also positively influenced by the sale of frequency bands worth CZK 8.5 billion to mobile operators. On the revenue side, there should also be an increase in accrual subsidies received from the EU funds, which were a major source of the rise in general government sector investment.

On the expenditure side, intermediate consumption (especially purchases of goods and services of the general government sector) probably developed better than we had originally assumed. Its dynamics should be lower than originally expected, which underscores the government's effort to improve economic management. Better outcome might be expected also in the case of social benefits, which increased only by 1.3% YoY (national concept based on budget reports). State funds also achieved some savings, especially due to the results of the State Fund for Transport Infrastructure.

Just like in 2013, government consumption contributed positively to the YoY dynamics of the economy in 2014. In nominal terms, final consumption expenditure of the government sector units probably increased by 3.0% in 2014. Consumption was likely driven especially by the development of social benefits in kind, where both the change in the Reimbursement Decree

strengthening hospital care and an increase in payments to the public health insurance system for state insured persons are reflected. Compensation of employees, estimated to have increased by 2.9%, also contributed to the growth of consumption. In contrast, intermediate consumption, which decreased by more than 1% YoY during the first three quarters of 2014, slowed the dynamics of government consumption.

Investment activity of the government sector probably increased in 2014, following several years of decline. Its growth was driven especially by expenditure on the projects co-financed from the EU funds. In the first three quarters of 2014, government investment rose by more than 10%.

At present, not all relevant data for the year 2014 are known. Therefore, it is still an estimate of the Ministry of Finance. Preliminary data will be published by the CZSO on 1 April.

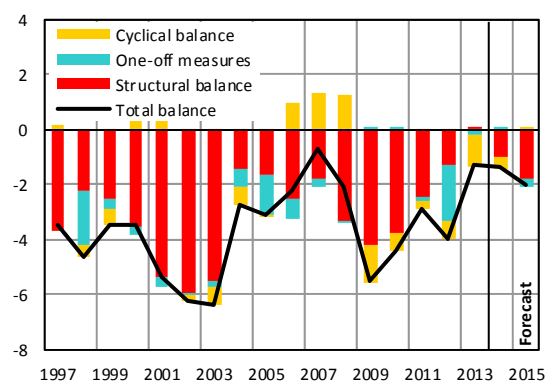
The government sector deficit is currently forecast to deepen to 2.0% of GDP in 2015. Compared with the previous estimate that the government sector deficit would reach 2.2% of GDP, the current estimate reflects improved macroeconomic forecast, especially higher growth of private consumption. In YoY terms, the fiscal policy thus has a pro-growth character. Government consumption and investment in particular, should increase. Investment should be again driven by the EU funds, given the conclusion of the 2007–2013 programming period. The estimate of the balance also takes into account the second reduced 10% VAT rate already introduced for selected commodities, higher tax credits for the second and any additional child, an increase in the wage bill in state administration, the reintroduction of the former pension indexation rule (growth of the consumer price index and one third of real wage growth; except for the year 2015, when the indexation is temporarily higher in order to compensate for the cuts in previous years) or a further increase in payments for state insured persons. The decrease in one-off revenues (see above) also has an impact on the YoY deterioration of the balance in 2015. The estimate of the balance in 2015 also includes a one-off imputation of approximately 0.2% of GDP for the lease of the JAS 39 Gripen jet fighters. On the other hand, the situation on the financial markets and the decrease in yields on government bonds has a positive impact on the balance.

Thanks especially to a decrease in the state budget debt of nearly CZK 20 billion, the general government sector debt decreased to 43.2% of GDP in 2014. Further stabilization of the state budget debt through improved liquidity management should push the

general government debt to GDP ratio down to 41.3% of GDP in 2015.

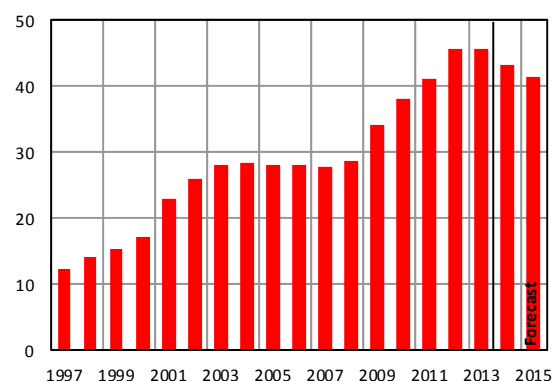
Risks to the forecast can be currently assessed as balanced.

Graph A.2.1: **Decomposition of the Government Balance**
in % of GDP



Source: CZSO, own calculations

Graph A.2.2: **Government Debt**
in % of GDP



Source: CZSO, own calculations

Table A.2.1: **Net Lending/Borrowing and Debt**

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
											Estimate Forecast
General government balance ¹⁾	% GDP	-2.3	-0.7	-2.1	-5.5	-4.4	-2.9	-4.0	-1.3	-1.3	-2.0
	bill. CZK	-79	-27	-85	-216	-175	-115	-162	-53	-58	-91
Cyclical balance	% GDP	1.0	1.4	1.3	-1.4	-0.7	-0.2	-0.7	-1.2	-0.4	0.1
Cyclically adjusted balance	% GDP	-3.2	-2.1	-3.4	-4.2	-3.7	-2.6	-3.3	-0.1	-0.9	-2.1
One-off measures ²⁾	% GDP	-0.7	-0.3	-0.1	0.0	0.0	-0.2	-2.0	-0.2	0.1	-0.3
Structural balance	% GDP	-2.5	-1.8	-3.3	-4.2	-3.7	-2.4	-1.3	0.0	-1.0	-1.8
Fiscal effort ³⁾	percent. points	-0.9	0.7	-1.5	-0.9	0.5	1.3	1.1	1.4	-1.0	-0.8
Interest expenditure	% GDP	1.0	1.1	1.0	1.2	1.3	1.3	1.4	1.4	1.3	1.2
Primary balance	% GDP	-1.2	0.4	-1.1	-4.3	-3.1	-1.5	-2.5	0.0	-0.1	-0.8
Cyclically adjusted primary balance	% GDP	-2.2	-1.0	-2.4	-2.9	-2.4	-1.3	-1.8	1.2	0.4	-0.9
General government debt	% GDP	27.9	27.8	28.7	34.1	38.2	41.0	45.5	45.7	43.2	41.3
	bill. CZK	979	1 066	1 151	1 336	1 509	1 648	1 842	1 869	1 852	1 864
Change in debt-to-GDP ratio	percent. points	-0.1	-0.1	0.9	5.4	4.1	2.8	4.5	0.2	-2.5	-1.9

Source: CZSO, own calculations

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) General government net lending (+)/borrowing (-)

2) One-off and temporary measures are such measures that have only a temporary impact on public budgets. Besides their temporary impact on overall balance, these measures are usually of non-recurring nature and very often result from the events that are beyond the direct power of the government.

3) Change in structural balance.

A.3 Monetary Policy, Financial Sector and Exchange Rates

Monetary Policy

Due to domestic macroeconomic developments and other factors, disinflation continued even after the CNB cut the limit interest rate for 2W (two-week) repo operations to 0.05% in November 2012. In order to prevent long-term undershooting of the inflation target and to accelerate the return to a situation when it would again be able to use its standard instruments, the Bank Board of the CNB decided on 7 November 2013 to use the exchange rate as an additional monetary policy instrument. Interventions on the foreign exchange market at a volume of approximately €7.5 billion were carried out only in November 2013; since then, the mere existence of the exchange rate commitment and the declared resolution of the CNB to meet this commitment have been enough to maintain the exchange rate above the level of 27 CZK/EUR.

Financial Sector and Interest Rates

In the fourth quarter of 2014, the **3M** (3-month) **PRIBOR** interbank market rate averaged 0.34% (*versus* 0.4%). The 3M PRIBOR should remain at 0.3% on average also in 2015 (*versus* 0.4%) and 2016. We assume that increase in market rates can be expected only with a certain delay after the CNB discontinues its exchange rate commitment.

With respect to very weak inflationary pressures and low primary interest rates, long-term interest rates continued to decline to extremely low values. **The yield to maturity on 10-year government bonds** for convergence purposes reached only 0.9% (*versus* 1.5%) in the fourth quarter of 2014, for the whole of 2014 it averaged 1.6% (*versus* 1.7%). With regard to the current development of long-term interest rates, low inflation expectations and expected fiscal trajectory, no marked increase in long-term rates should occur in the medium-term horizon either. Therefore, for 2015 we forecast a value of 1.0% (*versus* 1.7%) and expect long-term rates to grow slightly to 1.6% in 2016.

In October 2014, the CNB conducted another bank lending survey. The survey concluded that in the third quarter of 2014 credit standards eased further for corporate loans, tightened for consumer loans to households, and had not changed significantly for housing loans. For the fourth quarter of 2014, banks expected an easing of credit standards in all segments of the credit market. The most recent stress tests of banks, the results of which were published by the CNB in November 2014, confirmed the banking sector to be sufficiently resilient to possible negative shocks.

In connection with the development of primary interest rates, client interest rates have been low for a long time. In the third quarter of 2014, interest rates on household deposits decreased by 0.2 pp YoY to 0.8%, and rates on corporate deposits dropped by 0.1 pp to 0.3%. The rates on loans to households decreased by 0.5 pp YoY to 5.5%; the rates on loans to non-financial corporations decreased by 0.2 pp YoY to 3.0%.

The growth of loans to households, driven mainly by housing loans, has recently been relatively low. Consumer loans have latterly been slightly falling, and growth of so-called “other loans”, which include e.g. loans to sole traders, has also been decreasing. Loans to non-financial corporations have seen a slight YoY decrease in recent quarters, and growth of foreign currency loans is also decreasing.

The share of non-performing loans has been decreasing, even if very slowly. In the third quarter of 2014 it reached 4.8% for households (0.3 pp less YoY) and decreased to 7.0% for non-financial corporations (0.4 pp less YoY).

Exchange Rates

For the major part of 2014, the CZK/EUR exchange rate hovered close to 27.50 CZK/EUR. The koruna weakened to this level after the CNB started using the exchange rate as an additional monetary policy tool at the beginning of November 2013 (see above). In 2014 as a whole, the koruna weakened by 5.7% YoY on average.

In the first weeks of 2015, speculation over possible postponement of the exchange rate commitment of the CNB caused nervousness on the foreign exchange market, which was reflected in considerable weakening of the CZK/EUR exchange rate above 28 CZK/EUR. However, we do not consider this fluctuation to be permanent; we expect that the situation will become calmer during the first quarter of 2015 at the latest and from the second quarter of 2015 the koruna will return back to the level of the fourth quarter of 2014, i.e. to 27.6 CZK/EUR.

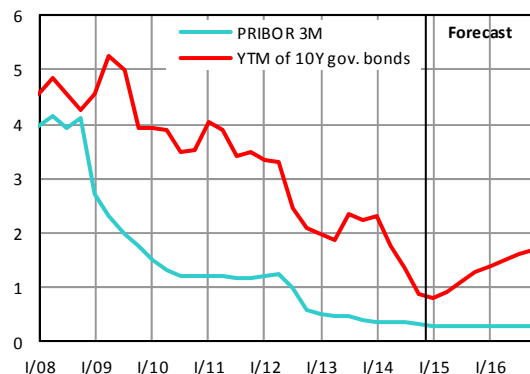
In order to forecast the CZK/EUR exchange rate, we also had to make arbitrary assumptions about the date when the CNB will stop using the exchange rate instrument, as well as its exit strategy. Based on the available information (especially the CNB’s statement that it will not stop using the exchange rate as a monetary policy instrument before 2016), we have made a technical assumption for the period from the

second quarter of 2014 until the end of 2016 that the exchange rate will remain stable at 27.6 CZK/EUR. Subsequently, the koruna should again start to strengthen slightly against the euro, approximately by

0.4% QoQ. This is in line with the CNB's statement that it will not allow considerable appreciation of the koruna after it discontinues the exchange rate commitment.

Graph A.3.1: Interest Rates

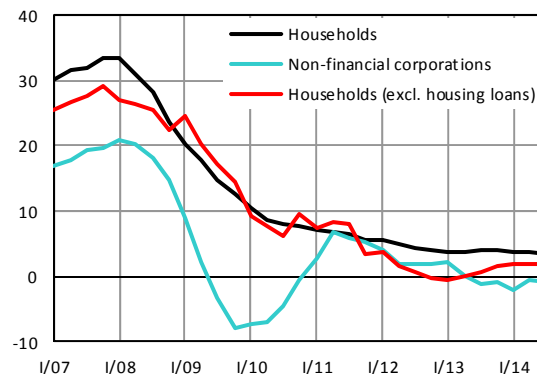
in % p.a.



Source: CNB, own calculations

Graph A.3.2: Loans

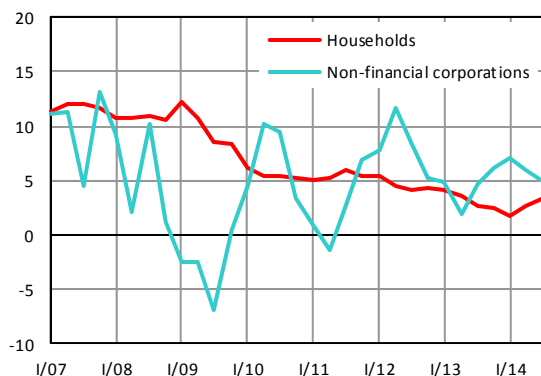
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.3: Deposits

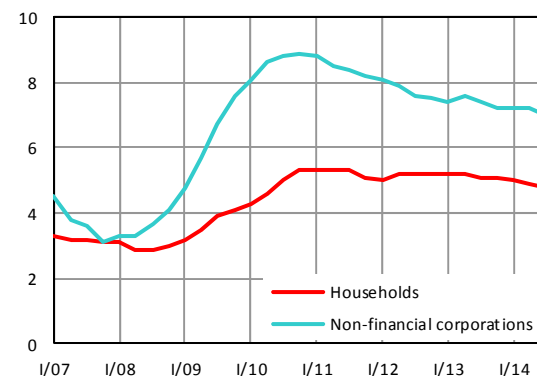
YoY growth rate, in %



Source: CNB, own calculations

Graph A.3.4: Non-performing Loans

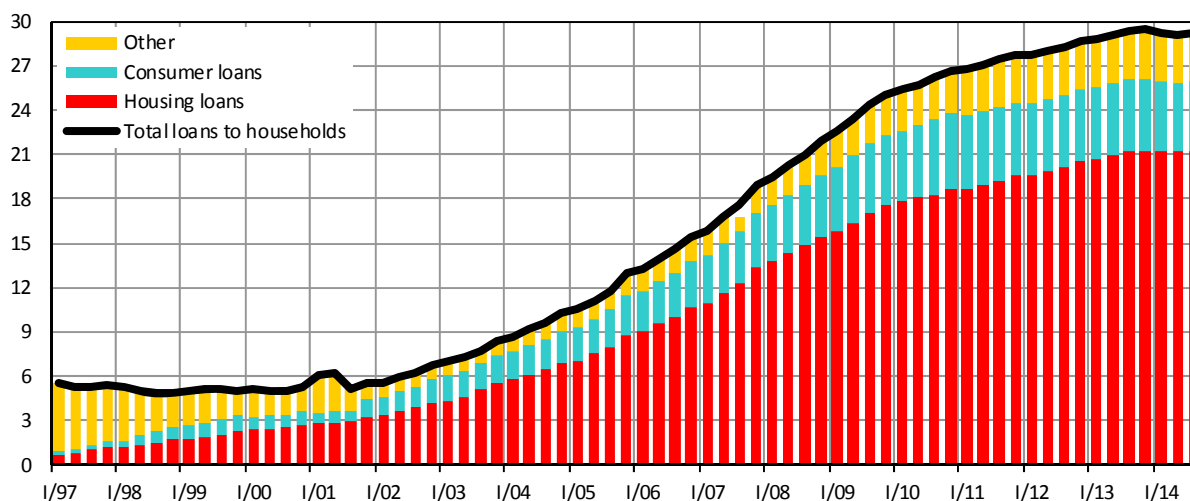
ratio of non-performing to total loans, in %



Source: CNB, own calculations

Graph A.3.5: Ratio of Bank Loans to Households to GDP

yearly moving sums, in %



Source: CNB, CZSO, own calculations

Table A.3.1: Interest Rates, Deposits and Loans – yearly

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
		Forecast Forecast									
Repo 2W rate CNB (end of period)	in % p.a.	3.50	2.25	1.00	0.75	0.75	0.05	0.05	0.05	.	.
Main refinancing rate ECB (end of period)	in % p.a.	4.00	2.50	1.00	1.00	1.00	0.75	0.25	0.05	.	.
Federal funds rate (end of period)	in % p.a.	4.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	.	.
PRIBOR 3M	in % p.a.	3.09	4.04	2.19	1.31	1.19	1.00	0.46	0.41	0.3	0.3
YTM of 10Y government bonds	in % p.a.	4.28	4.55	4.67	3.71	3.71	2.80	2.11	1.58	1.0	1.6
Households – MFI (CR, unless stated otherwise)											
– interest rates on loans	in % p.a.	6.63	6.81	7.00	7.00	6.83	6.46	6.03	.	.	.
– loans	growth in %	31.7	28.9	16.3	8.7	6.5	4.9	4.0	.	.	.
– loans without housing loans	growth in %	27.3	25.3	19.1	8.3	6.8	1.4	0.5	.	.	.
– deposits	growth in %	10.6	9.4	10.5	5.4	5.0	4.7	3.2	.	.	.
– share of non-performing loans	in %	3.2	3.0	3.7	4.8	5.3	5.2	5.2	.	.	.
– loans to deposits ratio	in %	48	57	60	61	62	65	65	.	.	.
– loans to deposits ratio (Eurozone)	in %	99	94	89	90	90	87	84	.	.	.
Non-financial firms – MFI (CR, unless stated otherwise)											
– interest rates on loans	in % p.a.	4.85	5.59	4.58	4.10	3.93	3.69	3.19	.	.	.
– loans	growth in %	16.7	17.5	0.2	-6.5	3.3	2.5	0.1	.	.	.
– deposits	growth in %	13.2	5.3	-1.7	4.8	0.9	8.2	4.4	.	.	.
– share of non-performing loans	in %	3.8	3.6	6.2	8.6	8.5	7.7	7.4	.	.	.
– loans to deposits ratio	in %	120	134	137	123	126	122	117	.	.	.
– loans to deposits ratio (Eurozone)	in %	296	315	315	294	286	273	246	.	.	.

Source: CNB, ECB, Fed, own calculations

Table A.3.2: Interest Rates, Deposits and Loans – quarterly

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Forecast				Forecast			
Repo 2W rate CNB (end of period)	in % p.a.	0.05	0.05	0.05	0.05	.	.	.	.
Main refinancing rate ECB (end of period)	in % p.a.	0.25	0.15	0.05	0.05	.	.	.	.
Federal funds rate (end of period)	in % p.a.	0.25	0.25	0.25	0.25	.	.	.	.
PRIBOR 3M	in % p.a.	0.37	0.36	0.35	0.34	0.3	0.3	0.3	0.3
YTM of 10Y government bonds	in % p.a.	2.30	1.76	1.36	0.88	0.8	0.9	1.1	1.3
Households – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	5.73	5.62	5.52	.	.	.	.	.
– loans	growth in %	3.9	3.8	3.6	.	.	.	.	.
– loans without housing loans	growth in %	1.9	1.8	1.8	.	.	.	.	.
– deposits	growth in %	1.8	2.6	3.4	.	.	.	.	.
– share of non-performing loans	in %	5.0	4.9	4.8	.	.	.	.	.
– loans to deposits ratio	in %	65	65	66	.	.	.	.	.
– loans to deposits ratio (Eurozone)	in %	83	82	82	.	.	.	.	.
Non-financial firms – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	3.06	3.04	2.98	.	.	.	.	.
– loans	growth in %	-1.9	-0.6	-0.9	.	.	.	.	.
– deposits	growth in %	7.1	5.9	4.9	.	.	.	.	.
– share of non-performing loans	in %	7.2	7.2	7.0	.	.	.	.	.
– loans to deposits ratio	in %	112	111	111	.	.	.	.	.
– loans to deposits ratio (Eurozone)	in %	234	230	224	.	.	.	.	.

Source: CNB, ECB, Fed, own calculations

Table A.3.3: Exchange Rates – yearly

			2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Estimate	Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:												
CZK / EUR	average		26.45	25.29	24.59	25.14	25.98	27.53	27.7	27.6	27.3	26.9
	appreciation in %		-5.6	4.6	2.8	-2.2	-3.2	-5.6	-0.6	0.4	1.0	1.7
CZK / USD	average		19.06	19.11	17.69	19.59	19.57	20.75	23.5	23.4	23.1	22.8
	appreciation in %		-10.5	-0.3	8.0	-9.7	0.1	-5.7	-11.6	0.4	1.0	1.7
NEER	average of 2010=100		98.0	100.0	103.1	99.5	97.3	92	91	91	92	93
	appreciation in %		-3.2	2.1	3.1	-3.5	-2.2	-5.1	-1.8	0.4	1.0	1.7
Real exchange rate to EA12¹⁾	average of 2010=100		97.8	100.0	101.4	99.3	96.3	92	93	94	95	97
	appreciation in %		-4.1	2.3	1.4	-2.1	-3.0	-4.4	0.8	0.8	1.1	2.7
REER	average of 2010=100		98.9	100.0	102.0	99.2	96.9	.	.	.	.	.
	(Eurostat, CPI deflated, 37 countries) appreciation in %		-3.7	1.2	2.0	-2.8	-2.3	.	.	.	.	.

Source: CNB, Eurostat, own calculations

1) Deflated by GDP deflators.

Table A.3.4: Exchange Rates – quarterly

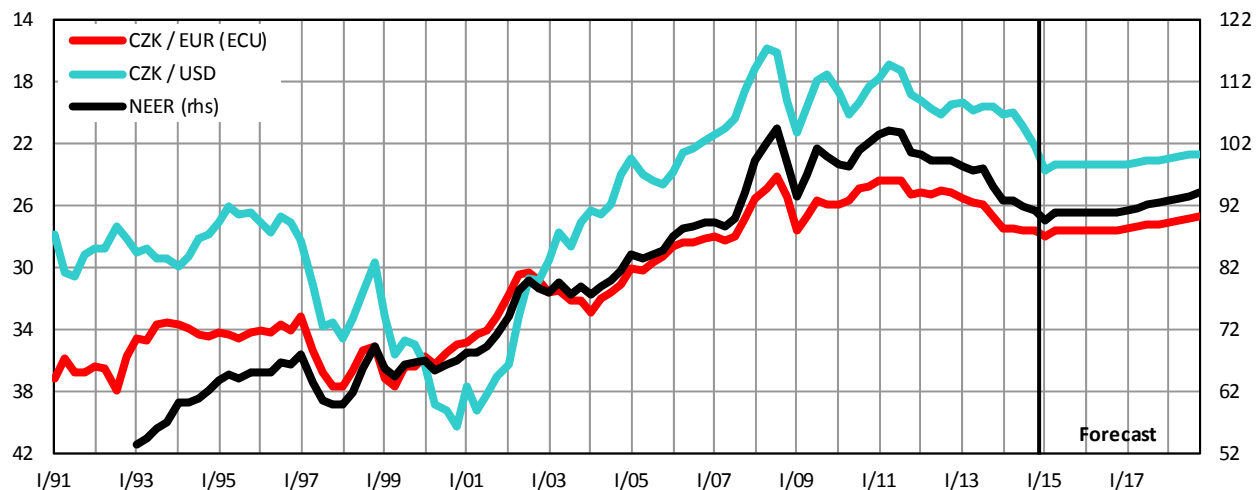
			2014				2015			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Forecast	Forecast	Forecast	Forecast
Nominal exchange rates:										
CZK / EUR	average		27.44	27.45	27.62	27.62	28.0	27.6	27.6	27.6
	appreciation in %		-6.8	-5.9	-6.4	-3.5	-2.0	-0.6	0.1	0.1
CZK / USD	average		20.04	20.02	20.84	22.10	23.7	23.4	23.4	23.4
	appreciation in %		-3.3	-1.2	-6.4	-11.4	-15.6	-14.4	-10.9	-5.5
NEER	average of 2010=100		93.0	93.0	91.9	91	90	91	91	91
	appreciation in %		-5.5	-4.7	-6.2	-3.9	-3.6	-2.2	-1.1	-0.5
Real exchange rate to EA12¹⁾	average of 2010=100		91.8	92.3	92	92	91	93	93	94
	appreciation in %		-5.6	-4.4	-5.0	-2.5	-0.7	0.6	1.4	2.0
REER	average of 2010=100		92.9	92.1	91.0	.	.	.	.	.
	(Eurostat, CPI deflated, 42 countries) appreciation in %		-5.6	-5.3	-6.6	.	.	.	.	.

Source: CNB, Eurostat, own calculations

1) Deflated by GDP deflators.

Graph A.3.6: Nominal Exchange Rates

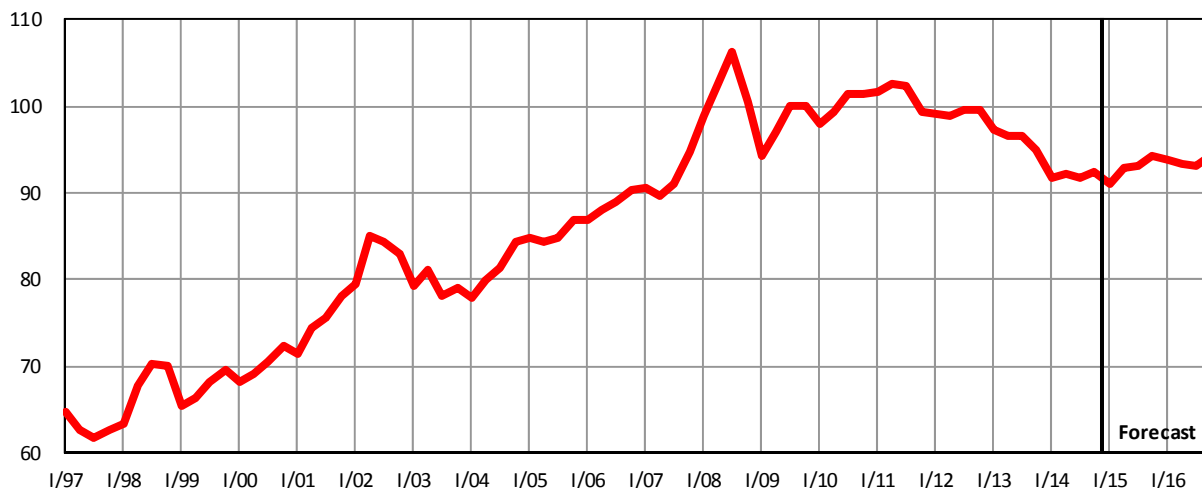
quarterly averages, average 2010=100 (rhs)



Source: CNB, own calculations

Graph A.3.7: Real Exchange Rate to EA12

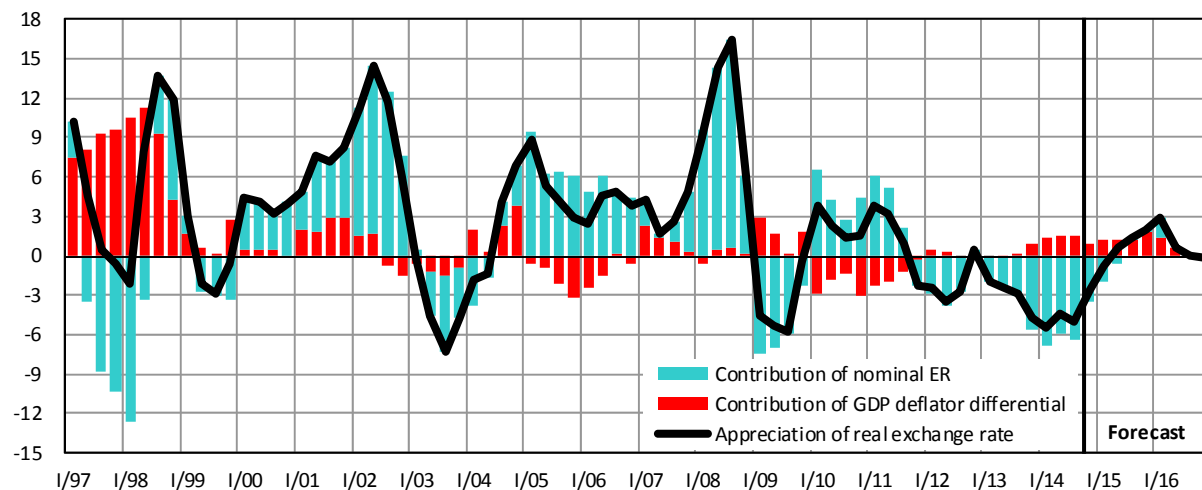
quarterly averages, deflated by GDP deflators, average 2010=100



Source: CNB, Eurostat, own calculations

Graph A.3.8: Real Exchange Rate to EA12

deflated by GDP deflators, YoY growth rate in %, contributions in percentage points



Source: CNB, Eurostat, own calculations

A.4 Structural Policies

Business Environment

The amendment to the Act on Public Contracts, which the Chamber of Deputies approved on 12 December 2014, extends the criteria applicable to selecting the economically most suitable bid to include other partial evaluation criteria (assessment of the organization, qualifications and experience of employees or the impact on employment of persons with more difficult access to the labour market). The amendment also cancels the obligation of the contracting authority to annul the tender procedure in the case of only one bid. The amendment will come into effect on the day of its announcement.

Taxes

The amendment to the Act on Value Added Tax that introduced the second reduced VAT rate of 10% on drugs, books, essential infant nutrition and selected foodstuffs came into effect on 1 January 2015.

Another **amendment to the Act on Value Added Tax** aimed at improving the collection of taxes establishes the institute of electronic tax reporting, introduces a temporary reverse charge for selected goods or services, and retains the turnover limit of CZK 1 million per year for obligatory registration for VAT. The amendment came into effect on 1 January 2015; with respect to electronic tax reporting it will come into effect on 1 January 2016.

On 1 December 2014, the **amendment to the Act on Excise Taxes** came into effect. In response to the weakening of the CZK/EUR exchange rate, the amendment regulates the rates of excise duty on tobacco products in order to meet the EU requirement for the minimum excise tax level, i.e. €90 per 1,000 cigarettes. At the same time, it reintroduced the refund of the mineral oils tax, in the amount of 40% and 57%, for persons using these oils in agricultural primary production.

The **amendment to the Act on Excise Taxes** aimed at limiting tax fraud came into effect on 1 January 2015. The amendment introduces a register of persons handling special mineral oils for persons acquiring these oils as bulk goods or in packaging exceeding 220 litres.

On 1 January 2015, the **amendment to the Act on Income Taxes** came into effect. Tax credits for a second child increased annually by CZK 2,400 and for a third and any additional child by CZK 3,600. The current lump-sum expenses in the amount of 60% and 80% were preserved, but the absolute amount of deduction using the lump-sum was limited to the amount of CZK 1.6 million and CZK 1.2 million, respectively. Old-age pensioners with annual incomes not exceeding CZK 840,000 are again entitled to claim basic personal tax credit.

Financial Markets

The **amendment to the Act Amending Certain Acts on the Financial Market**, which should reduce the risk of corruption, came into effect on 1 December 2014. Mandatory cashless payments no longer apply solely to cases when obligations are settled by payment, but to all payments (loans, gifts). The limit for mandatory cashless payments was reduced from CZK 350,000 to CZK 270,000, whereby recipients are obliged to refuse any payment above the new limit if it is not made as a cashless payment. Last but not least, the amendment transposed the EU Directive defining the requirements for credit transfers and direct debits in EUR.

A.5 Demographic Trends

At the end of September 2014, 10.528 million people lived in the Czech Republic. Its population increased by 16 thousand during the first three quarters of 2014.

This renewed rise in population is mainly due to higher immigration. Thirty-one thousand persons moved here from abroad (11 thousand more YoY), while the number of persons moving abroad decreased by 1 thousand in a YoY comparison. The net migration

Labour Market

On 22 December 2014, the government approved the **amendment to the Act on Pension Savings** that will prevent new participants from entering pension funds. The legal regulation aims at stopping new participants from entering the fund system in the period prior to its abolition, thus reducing administrative requirements for settling participants' savings. The amendment will come into effect on the day of its announcement.

The **amendment to the Employment Act**, which withdrew the possibility of awarding and providing unemployment benefits to job applicants who occupy a position as member of a trading company or cooperative, came into effect on 1 January 2015.

The **amendment to the Employment Act** reintroduced the category of disadvantaged persons. Employment of these persons will be supported with a contribution of up to CZK 5,000 per month. The contribution to the shared employment mediation for job agencies was reduced from CZK 5,000 to a maximum of CZK 500. On the contrary, the amount for placing an unemployed person in work was increased from CZK 1,250 to a maximum of CZK 6,250 provided such person stays in the job for at least 6 months.

By the **Government Decree on Minimum Wage**, the minimum wage was raised by CZK 700 to CZK 9,200 as of 1 January 2015.

Social and the Health Care System

The **amendment to the Act on State Social Support**, which should support families with small children, came into effect on 1 January 2015. The amendment introduced a maternity grant of CZK 10,000 also for the second child, and at the same time it increased the coefficient on which entitlement to the maternity grant is based.

On 1 January 2015, the **amendment to the Act on Public Health Insurance** came into effect, cancelling fees for prescriptions and outpatient treatment.

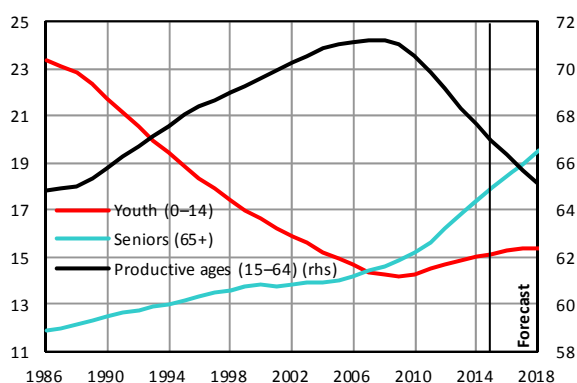
(+11 thousand) again returned to positive figures. The highest balance was for citizens of Slovakia (4 thousand) and Ukraine (2 thousand). As for the citizens of Ukraine and Russia, the number of persons who moved both in and out of the country was high, which probably reflects the situation in Eastern Europe.

The natural growth in population was also renewed. The number of births increased slightly (by

approximately 2 thousand to 83 thousand), the number of deaths (78 thousand) was 5 thousand lower in a year-on-year comparison.

Graph A.5.1: **Age Groups**

structural shares in %

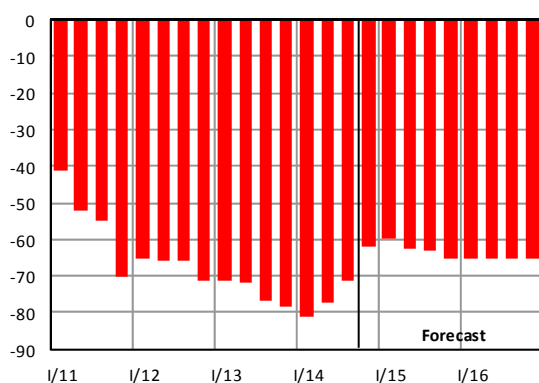


Source: CZSO, own calculations

As far as age structure is concerned, in 2014 there was an apparent slowdown in the YoY decline in **population aged 15–64 years** (see Graph A.5.2), mainly thanks to migration. The decline is explained by the fact that persons born at the turn of the millennium, when the birth rate was very low, are now crossing the lower age threshold of this age group, while the population-strong generation born after WWII is gradually being classified as senior citizens.

Graph A.5.2: **Population Aged 15–64**

based on LFS, YoY increases of quarterly averages, in thousands



Source: CZSO, own calculations

Also in the following years, the working-age population should continue to decrease by approximately 60–70 thousand people a year in absolute terms, which is an

annual decrease of just below 1%. The economic impacts of this situation are described in more detail in Chapter B.1.

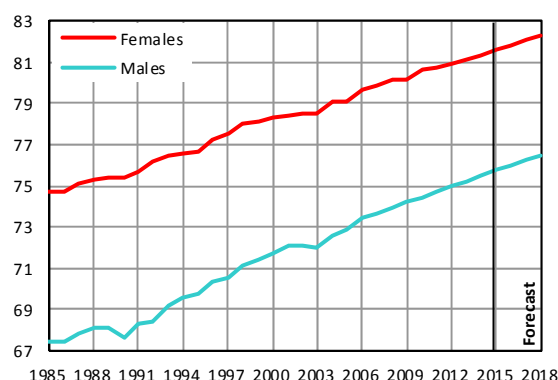
In contrast, the structural proportion of **persons aged over 64 years** in the total population probably reached 17.9% at the beginning of 2015 and should regularly increase by approximately 0.5 pp annually.

The number of seniors in the population is significantly increasing due to demographic structure and the ongoing rise in life expectancy, and it should exceed 2 million persons at the beginning of 2018. From the perspective of the sustainability of the pension system, however, increases in retirement age are adequate to match the prolonging life expectancy in the next 20–25 years.

The stagnation in the number of **old-age pensioners** from the beginning of 2012 until the end of 2013 (see Graph A.5.5) was a temporary phenomenon caused by a change in the rules for calculating pensions during the parametric change in the pension system in 2011. YoY growth in the number of old-age pensioners reached 21 thousand at the end of September 2014. Almost the entire increase can be attributed to pensioners with reduced pensions following early retirement, while the number of pensioners entitled to a full pension is stagnating. The share of reduced pensions has already reached 24.2%, compared to 19.0% at the end of 2009.

Graph A.5.3: **Life Expectancy**

in years



Source: CZSO

Table A.5.1: Demographics
in thousands of persons (unless stated otherwise)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Estimate	Forecast	Forecast	Outlook	Outlook
Population (January 1)	10 468	10 507	10 487	10 505	10 516	10 512	10 528	10 532	10 534	10 534
growth in %	0.8	0.4	-0.2	0.2	0.1	0.0	0.1	0.0	0.0	0.0
Age structure (January 1):										
(0–14)	1 480	1 494	1 522	1 541	1 560	1 577	1 594	1 606	1 616	1 621
growth in %	0.2	1.0	1.8	1.3	1.2	1.1	1.0	0.8	0.6	0.4
(15–64)	7 431	7 414	7 328	7 263	7 188	7 109	7 052	6 987	6 921	6 859
growth in %	0.5	-0.2	-1.2	-0.9	-1.0	-1.1	-0.8	-0.9	-0.9	-0.9
(65 and more)	1 556	1 599	1 637	1 701	1 768	1 826	1 882	1 939	1 997	2 053
growth in %	2.9	2.7	2.4	3.9	3.9	3.3	3.1	3.0	3.0	2.8
Old-age pensioners (January 1)¹⁾	2 102	2 147	2 260	2 340	2 341	2 340	2 360	2 385	2 407	2 428
growth in %	2.0	2.1	.	3.5	0.1	0.0	0.8	1.0	1.0	0.9
Old-age dependency ratios (January 1, in %):										
Demographic ²⁾	20.9	21.6	22.3	23.4	24.6	25.7	26.7	27.8	28.9	29.9
Under current legislation ³⁾	36.1	36.6	37.4	37.8	38.3	38.8	39.4	40.0	40.5	41.0
Effective ⁴⁾	41.8	43.6	45.9	47.9	47.6	47.2	47.2	47.6	48.0	48.4
Fertility rate	1.492	1.493	1.427	1.452	1.456	1.45	1.45	1.45	1.46	1.46
Population increase	39	-20	19	11	-4	15	4	2	1	-1
Natural increase	11	10	2	0	-2	-3	-5	-7	-9	-11
Live births	118	117	109	109	107	104	102	100	98	97
Deaths	107	107	107	108	109	107	107	107	107	107
Net migration	28	16	17	10	-1	18	9	9	9	10
Immigration	40	31	23	30	30	.	.	.	.	.
Emigration	12	15	6	20	31	.	.	.	.	.
Census difference	x	-46	x	x	x	x	x	x	x	x

Source: Czech Social Security Administration, CZSO, own calculations

1) In 2010 disability pensions of pensioners over 64 were transferred into old-age pensions.

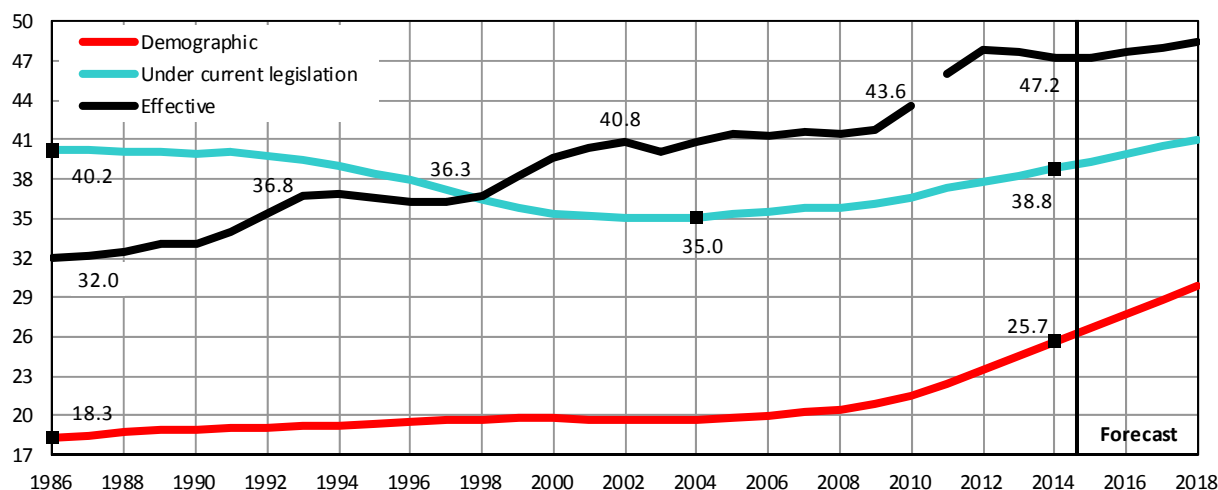
2) Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

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

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

Graph A.5.4: Dependency Ratios

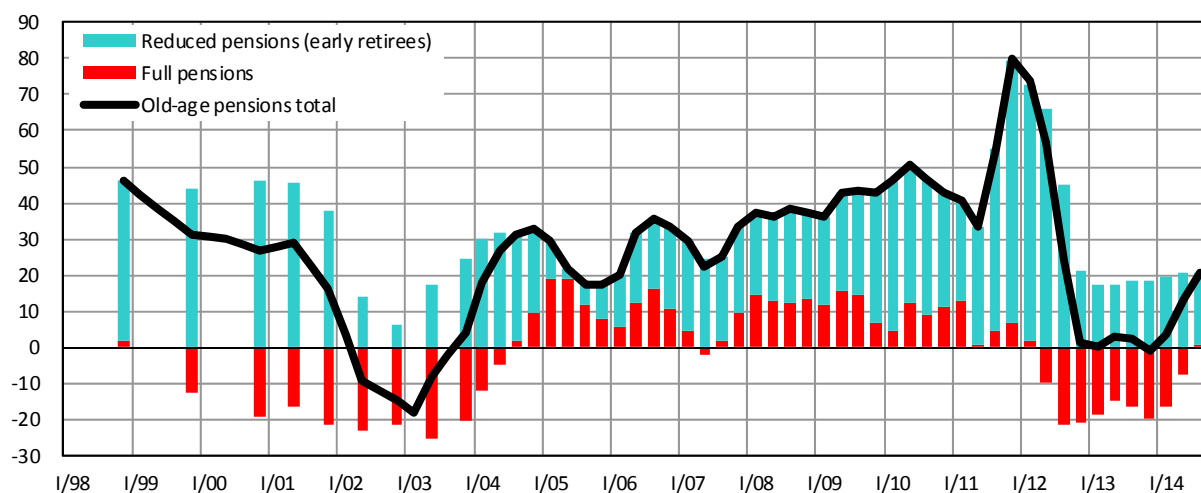
As of January 1, in %, inconsistent between 2010 and 2011 due to transfer of disability pensions to old-age pensions for people over 64 years



Source: CZSO, own calculations

Graph A.5.5: Old-Age Pensioners

absolute increase over a year in thousands of persons



Source: Czech Social Security Administration, CZSO, own calculations

Note: Transfer of disability pensions to old-age pensions for people over 64 years in 2010 is not included.

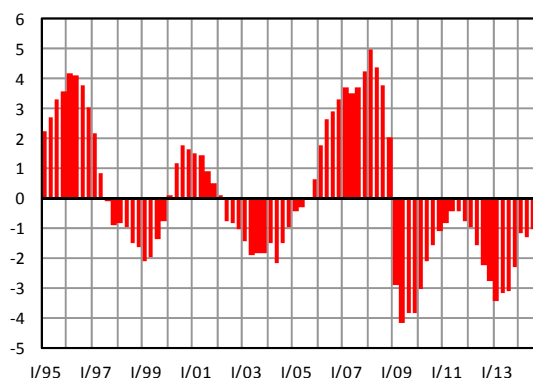
B Economic Cycle

B.1 Position within the Economic Cycle

Potential product, specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of economic output to be achieved with average utilization of production factors. Growth of potential product expresses possibilities for long-term sustainable growth of the economy without giving rise to imbalances. It can be broken down into contributions from the labour force, capital stock, and total factor productivity. The output gap identifies the cyclical position of the economy and expresses the relationship between actual product and potential product. The concepts of potential product and output gap are used to analyse the economic cycle and to calculate the structural balance of public budgets.

Graph B.1.1: Output Gap

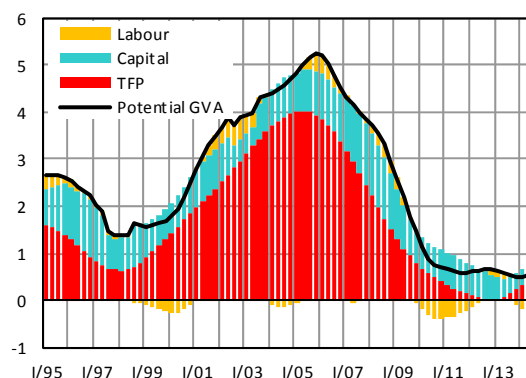
in % of potential product



Source: CZSO, own calculations

Graph B.1.2: Potential Product Growth

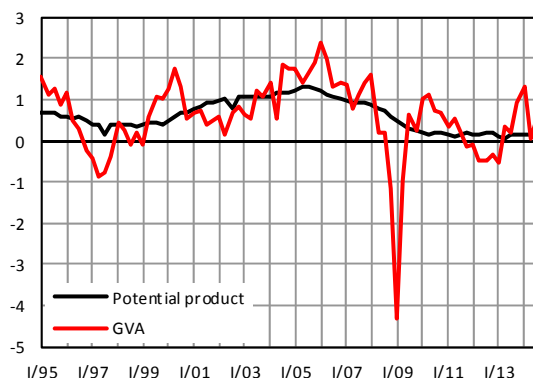
in %, contributions in percentage points



Source: CZSO, own calculations

Graph B.1.3: Potential Product and GVA

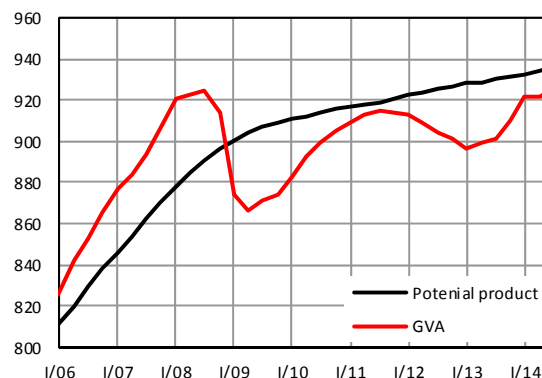
QoQ growth rate, in %



Source: CZSO, own calculations

Graph B.1.4: Levels of Potential Product and GVA

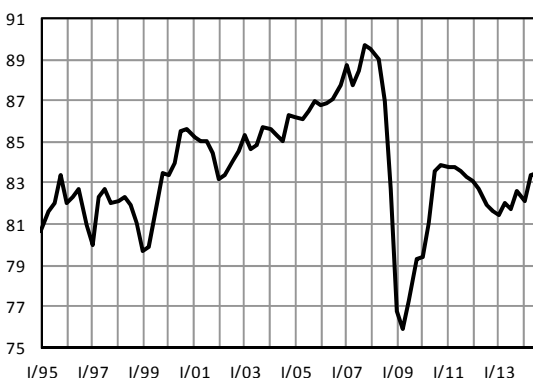
in bill. CZK of 2010



Source: CZSO, own calculations

Graph B.1.5: Capacity Utilisation in Industry

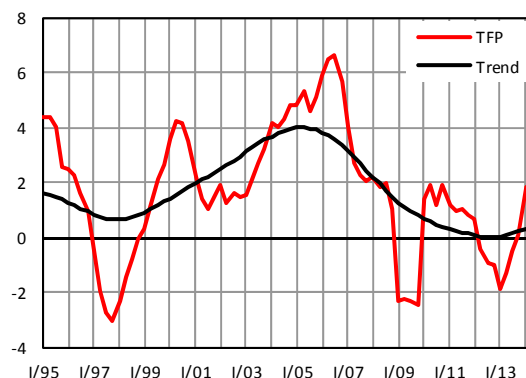
in %



Source: CZSO

Graph B.1.6: Total Factor Productivity

YoY growth rate, in %



Source: CZSO, own calculations

Table B.1: Output Gap and Potential Product

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Q1-Q3
Output gap	<i>per cent</i>	0.0	2.7	3.8	3.8	-3.7	-2.0	-0.6	-1.9	-3.0	-1.2
Potential product ¹⁾	<i>growth in %</i>	5.1	4.9	4.1	3.4	2.0	0.9	0.6	0.6	0.6	0.6
Contributions:											
–Trend TFP	<i>perc. points</i>	4.0	3.6	2.8	1.9	1.0	0.5	0.2	0.0	0.1	0.4
–Fixed assets	<i>perc. points</i>	0.9	1.0	1.2	1.3	0.9	0.7	0.7	0.6	0.4	0.4
–Demography ²⁾	<i>perc. points</i>	0.2	0.2	0.3	0.3	0.1	-0.2	-0.4	-0.5	-0.5	-0.5
–Participation rate	<i>perc. points</i>	0.2	0.2	-0.2	0.0	0.3	0.2	0.3	0.8	0.9	0.5
–Usually worked hours	<i>perc. points</i>	-0.2	-0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2

Source: CZSO, own calculations

1) Based on gross value added

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

Thanks to the gradual economic recovery, the negative **output gap** narrowed from –3.4% at the end of the recession in the first quarter of 2013 to –1.0% in the third quarter of 2014 (see Graph B.1.1). So far, the negative output gap has been reflected in the economy by low demand inflation, slow growth of wages and high registered unemployment.

Any forecast for the future development of the output gap is always associated with a considerable degree of uncertainty. Yet it is possible to infer that if economic growth is in line with the forecast, the negative output gap should already close during 2015. In the following years, the economy should find itself with a positive output gap.

The expected development of the output gap is primarily caused by the low growth of **potential product**. Due to long periods of recession, stagnation or only low growth, growth of potential product slowed considerably, and it was 0.7% YoY in the third quarter of 2014.

This slowdown was mainly caused by **total factor productivity** (TFP). Its trend component, derived from the Hodrick-Prescott filter, switched to stagnation during the recession in 2012. With respect to the end point problem, however, any improvement apparent at the end of the time series will have to be confirmed in the following periods.

The long-lasting and deep slump in gross fixed capital formation in 2008–2013 (by more than 20% – see Graph C.1.6) has led to a drop in the contribution of **capital stock** from 1.3 pp in 2008 to 0.3 pp in the fourth quarter of 2013. Considering the low ratio of investment aimed at expanding production capacities to capital stock, the recovery of investment, which has

been taking place since the beginning of 2014, will only manifest itself in potential product dynamics with delay.

The **labour supply** is affected by a long-term decrease in the working-age population, caused by the population ageing process (see Chapter A.5). In the third quarter of 2014, **demographic development** slowed potential product growth by 0.5 pp.

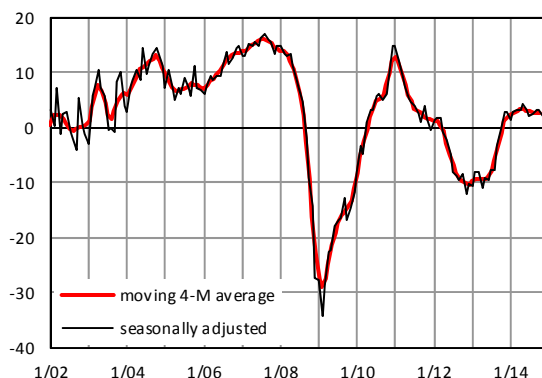
The negative impact of the decline in the population aged 15–64 years on labour supply is compensated by an increase in the **participation rate** (the ratio of the labour force to the population aged 15–64 years). With respect to its anti-cyclical character, the decrease in its contribution to potential product growth from 0.9 pp in 2013 to 0.4 pp in the third quarter of 2014 can probably be explained by the course of the economic cycle. In the following period, the structural factors of the participation rate – an increase in the number of inhabitants in age groups with naturally high participation (see Chapter C.3) and an increase in the statutory retirement age – should start to predominate.

In the Czech Republic, regular average working time is shortening. The structural component of this process can be explained by the fact that the average number of hours worked in the Czech Republic is long, compared to standards of more developed countries. In addition, in reaction to the progress of the cycle there was greater expansion of part-time work and a more flexible use of occasional work. However, this factor has been disappearing in recent quarters. In the third quarter of 2014, the lower number of **hours** usually **worked** slowed potential product growth by only 0.2 pp versus 0.4 pp at the end of recession in the first quarter of 2013.

B.2 Business Cycle Indicators

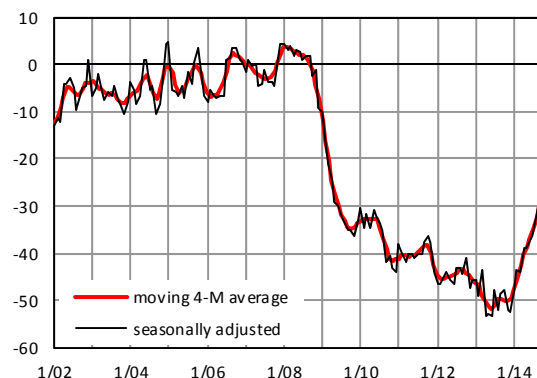
Business cycle indicators express respondents' views as to the current situation and short-term outlook and serve to identify in advance possible turning points in the economic cycle. Their main advantage lies in the quick availability of results reflecting a wide range of influences shaping the expectations of economic entities.³

Graph B.2.1: Industrial Confidence Indicator



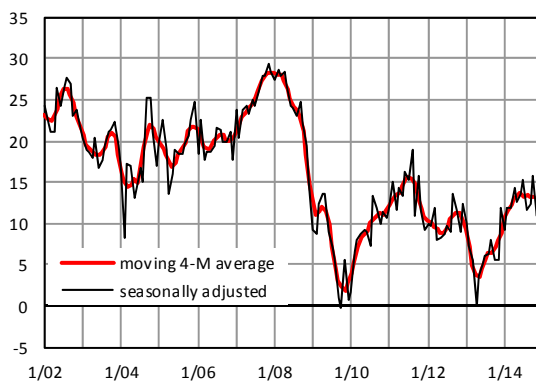
Source: CZSO

Graph B.2.2: Construction Confidence Indicator



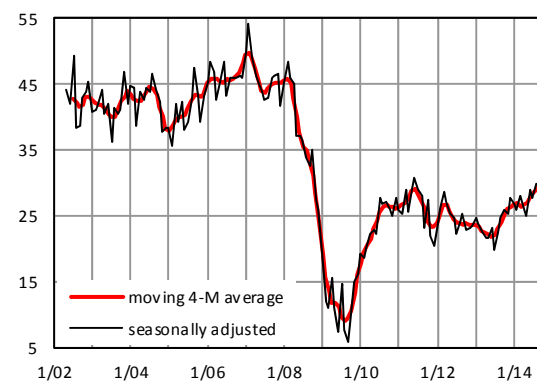
Source: CZSO

Graph B.2.3: Retail Trade Confidence Indicator



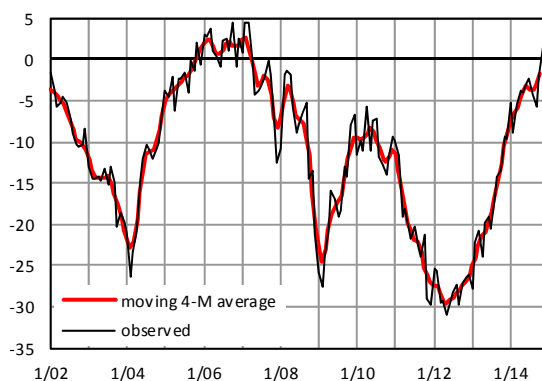
Source: CZSO

Graph B.2.4: Selected Services Confidence Indicator



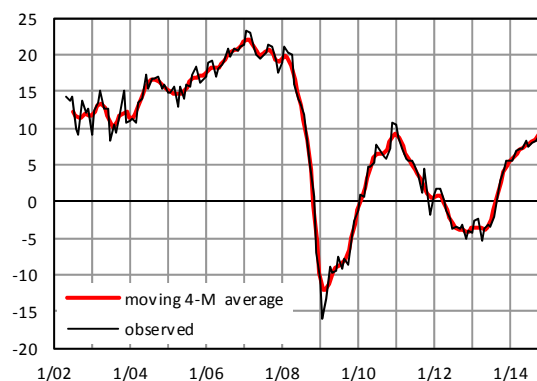
Source: CZSO

Graph B.2.5: Consumer Confidence Indicator



Source: CZSO

Graph B.2.6: Aggregate Confidence Indicator

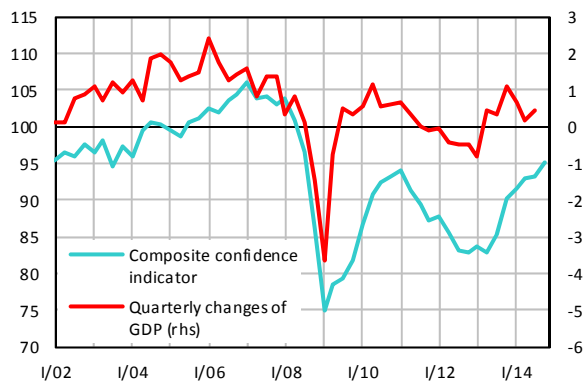


Source: CZSO

³ For the business cycle research methodology, see CZSO: http://www.czso.cz/eng/redakce.nsf/i/business_cycle_surveys.

Graph B.2.7: Composite confidence indicator and QoQ GDP Growth

2005=100 (lhs), QoQ GDP growth in % (rhs)



Source: CZSO

Confidence in construction increased considerably in the period between the third and the fourth quarter of 2014. Confidence in industry and also in trade tended to stagnate, while selected market services showed a slight improvement. However, the overall assessment of respondents in industry, trade and services was positive, in contrast to construction.

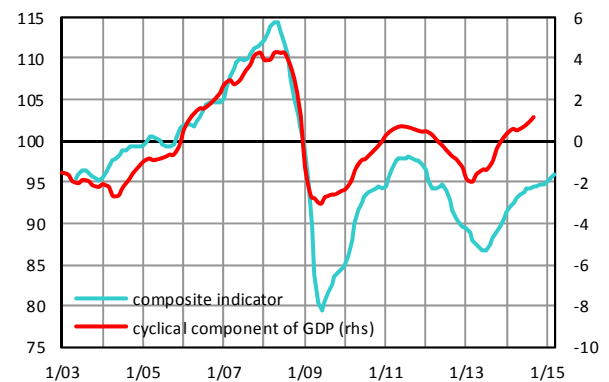
Consumer sentiment also posted further improvement. The balance of respondents' assessments has now reached a positive value.

It generally holds true that from the first to the third quarter of 2014 the gradual improvement of confidence indicators in industry, construction, trade and selected services was accompanied by a growth of the industrial and construction production indexes, and by a growth of sales in trade and services, respectively.

Although the link between the values of the composite confidence indicator and QoQ changes in real GDP is not particularly strong (without any lag their correlation is approximately 60%), it does at least

Graph B.2.8: Composite Leading Indicator

average 2005=100 (lhs), in % of GDP (rhs)



Source: CZSO, own calculations

Note: synchronized with cyclical component of GDP based on statistical methods (Hodrick-Prescott filter)

enable us to utilize the fact that the composite indicator is published in advance of quarterly national accounts. Therefore, only a qualitative assessment is presented in Graph B.2.7. The composite confidence indicator implied that GDP would grow in QoQ terms in the fourth quarter of 2014.

The composite leading indicator implied that quarterly GDP growth would be positive and that the cyclical component of GDP would increase in the third quarter of 2014. The released data confirmed this signal. The relative cyclical component, derived from up-to-date national accounts data using decomposition based on the Hodrick-Prescott filter, has recently been showing positive values.

The indicator signals that the relative cyclical component was rather stagnant in the fourth quarter of 2014, which is still consistent with quarterly GDP growth rate approximately at the level reached in the third quarter of 2014. For the first quarter of 2015 the indicator signals that the relative cyclical component will increase.

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

GDP in the third quarter of 2014

Economic output measured by real GDP increased by 2.7% YoY (*versus 2.9%*), while seasonally adjusted GDP increased by 0.4% QoQ (*in line with the estimate*).

The YoY growth of GDP was driven especially by domestic demand, with roughly equal contributions of final consumption expenditure (of households and the government) and gross fixed capital formation. However, the positive contribution of a change in inventories must not be overlooked either. After four quarters of negative contribution, the foreign trade balance in constant prices contributed positively to GDP growth, though the contribution was negligible.

Growth of household consumption was related to long-term improvement in consumer confidence, which probably explains the decrease in the gross savings rate. The generally improving economic situation was reflected in growth of real disposable income. All types of expenditure (divided by their durability) saw growth, in particular expenditure on services, which show a tight correlation with the course of the economic cycle. Household consumption increased in real terms by 2.0% YoY (*versus 1.3%*) and government consumption by 0.9% (*versus 1.8%*).

Growth in gross fixed capital formation was mainly related to the drawdown of money from structural funds as well as to gradual economic recovery. It mainly involved the contributions of investment in other buildings and structures and other machinery and equipment. In real terms, gross capital formation increased by 5.4% (*versus 8.8%*), while the growth of gross fixed capital formation reached 5.0% (*versus 4.7%*). The considerable growth of inventories, which, among other things, include investment projects not yet completed, may be related to the acceleration in investment growth.

The growth of our export markets, in particular that of Germany, visibly slowed. This also manifested itself in a lower, yet still solid real increase in exports. In line with the estimate, it reached 7.1% YoY (*versus 7.3%*). The slowing of import dynamics to 7.5% (*versus 8.3%*) was also related to this change.

On the export side, foreign trade benefited in particular from the weakening of the koruna, which gave a boost to price competitiveness. Export prices grew faster than import prices, which translated to an

improvement in the terms of trade of 1.6% YoY. The resulting trading gain brought about a situation where real gross domestic income, which unlike GDP includes the trading gain or loss from a change in the terms of trade, increased by 3.9% YoY (*versus 4.3%*), i.e. more than GDP.

The faster growth of CZK export prices compared to CZK import prices was also reflected in nominal GDP, which increased by 5.4% (*versus 5.3%*).

Looking at the income structure, nominal GDP was supported mainly by the growth in gross operating surplus of 9.1% (*versus 8.9%*) and the compensation of employees of 2.7% (*versus 2.5%*). The recovery of gross operating surplus significantly contributed to growth of firms' internal sources for investment financing.

Estimate for the fourth quarter of 2014

The estimate of GDP and its structure is based on the course of phenomena already observed in the previous period and commented on above. We estimate that GDP increased by 1.9% YoY (*versus 1.6%*) and by 1.0% QoQ (*versus 0.6%*). In 2014 as a whole, GDP is likely to have increased by 2.4% (*unchanged*).

The estimate of GDP growth is mainly supported by the relatively faster growth of gross capital formation of 4.2% (*versus 2.8%*). This change is almost exclusively caused by a growth in gross fixed capital formation due to the latest information on the drawdown of money from EU structural funds. In accordance with budgetary indicators, we also increase the estimate of government consumption growth to 2.4% (*versus 1.8%*). From the perspective of their impact on GDP growth, other changes are small: consumption of households probably increased by 2.0% (*versus 1.9%*), exports by 5.4% (*versus 6.5%*) and imports by 6.6% (*versus 7.4%*). The negative contribution of foreign trade to GDP growth is in line with the October Forecast.

Forecast for the years 2015 and 2016

The forecast increase in economic output in both years is based exclusively on the growth of domestic demand; foreign trade in constant prices will weigh on GDP growth. Domestic demand will benefit from additional income resulting from considerably lower crude oil prices, which will manifest itself in costs, and therefore in the operating surplus of firms.

Thanks to very low inflation, household consumption will be supported by the growth of real disposable income and probably also by consumers' positive expectations. For 2015 at least, we cannot expect any significant contribution from consumer loans to resources for private consumption.

The growth of gross fixed capital formation will be strongly supported not only by investment projects cofinanced from the EU funds, but also by a necessity to react to the growth in domestic demand. Firms' own resources for financing investment projects should grow relatively strongly. Similarly to households, we do not expect any significant use of credit to finance investment activity in at least 2015.

Imports will react to growing domestic demand and exports and in particular in 2015 to a low crude oil price. The dynamics of exports should slow in 2015 in line with the expected development of export performance. Key changes compared to the October Forecast are summarized below.

We are increasing the forecast for real growth of household consumption to 2.8% (*versus* 1.7%) in 2015. Growth of household consumption should slow to 2.3% in 2016, as the price effect of the slump in the price of oil will disappear.

We are not changing the forecast for government consumption; this is based on the approved state budget for 2015 and the budgetary outlook. Government consumption should increase by 2.0% in 2015 and by 1.3% in 2016.

However, we are increasing the forecast for growth of gross fixed capital formation to 5.3% (*versus* 4.9%) in 2015 and 4.1% in 2016. The change in the forecast is

mainly caused by updated information on the drawdown of resources from the EU funds. The change will also be reflected in the faster growth of gross capital formation in 2015. In line with the course of the cycle and with regard to investment growth, we are increasing the forecast for change in inventories.

In addition to new assumptions regarding the crude oil price, the change in the forecast for import growth also reflects an adjustment in the forecast for domestic demand and export growth. A lower crude oil price decreases nominal imports on the one hand, but at the same time it decreases the import price index. In terms of their impact on real imports, these are antagonistic effects. Stronger domestic demand will cause faster import growth; however, the expected slower export growth will have the opposite effect. As a result, we forecast growth of imports of 6.2% (*versus* 5.9%) in 2015, while imports could increase by 6.1% in 2016.

The change in the growth of exports reflects the relatively slower growth of export markets in 2015, but also the decrease in prices achieved on foreign markets. A lower assumption for the crude oil price and its income effect on demand will be reflected in the countries of our main trading partners to a smaller extent than in the economy of the Czech Republic. The reason is their relatively higher price level, the different structure of their economy, and therefore also the lower share of consumption of oil products in GDP. As a result, real exports may grow by 5.1% (*versus* 5.4%) in 2015 and by 5.3% in 2016. The change in the forecast for exports and imports will mean that foreign trade in constant prices will contribute for the first time negatively to real GDP growth in 2015 and 2016.

C.2 Prices

Consumer Prices

The average inflation rate in 2014 reached 0.4% (*versus* 0.5%). This was the second lowest rate in the history of the independent Czech Republic (in 2003 the average inflation rate was 0.1%). Very low inflation was maintained due to the extraordinary development of administrative measures (including changes in indirect taxes and regulated prices), specifically the reduction in regulated prices, where a decrease in the price of electricity had the greatest impact. The weakened koruna was the only major pro-inflationary factor in 2014.

Year on year growth in consumer prices in December 2014 was 0.1% (*versus* 1.0%), of which –0.2 pp could

be attributed to administrative measures and the remaining 0.3 pp to market influences. The contributions of individual divisions of the consumer basket to YoY inflation in December fell within a narrow range from –0.2 pp (housing) to 0.2 pp (other goods and services).

A considerably lower than expected price of Brent crude oil and the persistent decline in the prices of manufacturers in the euro zone contributed to the relatively significant 0.9 pp overvaluation of YoY inflation in December by the October Macroeconomic Forecast. The price of Brent crude oil itself contributed to this error approximately 0.3 pp. The estimate that YoY inflation had accelerated in the third quarter of 2014 was fulfilled, but the forecast for it to further

accelerate into the fourth quarter of 2014 was not borne out.

In **2015**, various administrative measures should be reflected in consumer prices. The increase in the excise tax on cigarettes (contribution of 0.2 pp) will have an upward impact on the price level, whereas the introduction of the second reduced VAT rate of 10% on drugs, books, essential infant nutrition and selected foodstuffs (−0.1 pp) and the abolition of most fees in healthcare (contribution of −0.2 pp) will have a downward impact. Within the group of regulated prices, the reduction in electricity prices should make a mark, although not as significant as in 2014 (contribution of −0.1 pp versus −0.4 pp in 2014). In total, administrative measures should have a neutral impact on inflation. However, due to the price of natural gas, which falls into the group of regulated prices, we assess the risks as skewed to the downside. We expect the contribution of administrative measures to the YoY growth of consumer prices to be zero in December 2015 (*versus 0.1 pp*).

With respect to the expected closing of the output gap during 2015 (see Chapter B.1) and increasing domestic demand, slight demand pressures should already be apparent in the inflation rate in 2015. The koruna exchange rate should also have a pro-inflationary effect, though less significant than in 2014.

The Czech economy is experiencing a favourable supply shock in the form of a considerable decrease in the crude oil price. Compared to the October Forecast, the January Forecast is based on a very different price of Brent crude oil, which in 2015 should average nearly half the level it did in 2014 (see Table A.1.3). The price of oil thus represents a significant anti-inflationary factor for 2015 and, in addition to the aforementioned error in the October Forecast, is a major reason for a considerable decrease in the forecast for the average inflation rate in 2015. In contrast, unit labour costs should have a slightly pro-inflationary effect (see Table C.3.3).

Inflation should also remain very low this year. **In 2015, the average inflation rate** should reach 0.3% (*versus 1.5%*), with a YoY increase in consumer prices of 0.6% (*versus 1.6%*) in December.

In 2016, the main inflation factors should have a neutral effect (exchange rate, stable indirect taxes) or pro-inflationary effect (increasing demand in connection with the positive output gap, growth of crude oil prices, unit labour costs and regulated prices). In comparison with 2015, inflation should accelerate.

In 2016, we expect YoY inflation to return to the tolerance band around the 2% target of the CNB, fluctuating in the lower half. In 2016, the average inflation rate should reach 1.4%, with a YoY increase in consumer prices of 1.7% in December.

Deflators

A comprehensive indicator of domestic inflation is the gross domestic product deflator, which is a resultant of the gross domestic expenditure deflator and the terms of trade. In the third quarter of 2014, its growth of 2.6% (*versus 2.3%*) was caused in particular by an improvement in the terms of trade of 1.6% (*versus 1.8%*). The gross domestic expenditure deflator increased by 1.3% (*versus 0.7%*). While the growth of consumer prices analysed above was lower than the expected growth from the perspective of the household consumption deflator, the growth of the gross fixed capital formation deflator was considerably faster. We assume that this was the effect of the weaker koruna.

For 2015, we are considerably increasing the forecast for GDP deflator growth. We expect it to grow by 2.5% (*versus 1.8%*) in 2015 and by 1.6% in 2016. As far as the structure is concerned, this is mainly constituted by the impact of a relatively higher improvement in the terms of trade, which should increase by 2.4% (*versus 0.9%*) in 2015 and further by 0.8% in 2016. The gross domestic expenditure deflator might increase by 0.6% (*versus 1.1%*) in 2015 and further by 1.1% in 2016.

The decrease in the forecast for growth of the gross domestic expenditure deflator is a result of adjusting the forecast for the consumption deflator described above and the gross fixed capital formation deflator, the growth of which we are increasing due to the effect of the weaker koruna. The change in the forecast development of the terms of trade arises primarily because of the assumption of a lower crude oil price.

C.3 Labour Market

The labour market situation in the third quarter of 2014 was in line with the improving position of the Czech economy in the economic cycle. Employment according to all statistics showed an increase due to the increasing number of employees and registered unemployment decreased considerably more quickly than was expected. The increase in wages was very moderate, which resulted in a YoY stagnation of unit labour costs.

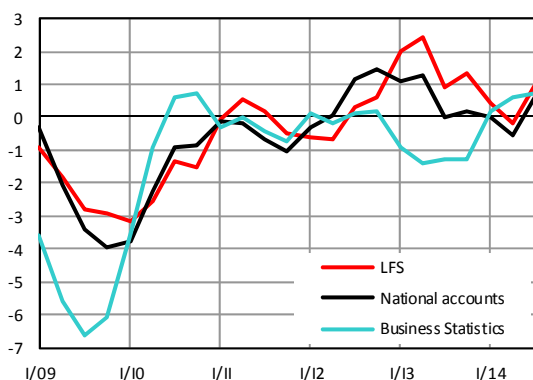
Employment

According to the LFS, **employment** grew by 0.8% YoY (*versus 0.3%*) in the third quarter of 2014, mainly due to an increase of 1.0% (*versus stagnation*) in the number of employees. The growth in the number of entrepreneurs was minimal, only 0.1% (*versus 1.9%*). For the following period, we expect a moderate decrease in the share of entrepreneurs in employment. The modification of lump-sum deductions applying to self-employed persons from 2015 should contribute to this outcome. Similarly to previous quarters, manufacturing and public services contributed most significantly to employment growth.

In annual terms, the share of part-time jobs decreased further, which is fully in line with the improving situation in the private sector and the growth of new orders. In response to the increased labour demand, regular working time was extended and overtime work further increased, in addition to the creation of new jobs.

Graph C.3.1: **Employees in Different Statistics**

YoY growth rate, in %, business statistics in full-time equivalent



Source: CZSO

With respect to the higher than expected growth of employment in the third quarter of 2014 and slightly increased forecast for real GDP growth for 2015, we are adjusting the estimate and forecast for employment slightly upwards. Employment could increase by 0.6% (*versus 0.4%*) in 2014 and by 0.4% (*versus 0.3%*) in

2015. With respect to the demographic development (see Chapter A.5), we expect employment growth to slow down to 0.2% in 2016. We consider the impact of lower crude oil prices on employment to be slightly positive thanks to the expected acceleration of economic growth.

Economic Activity Rate

The **economic activity rate** (15–64 year-olds) grew by 0.5 pp YoY (*versus 0.4 pp*). YoY increases in the participation rate have been slowing gradually since the turn of 2012 and 2013, which is caused by the countercyclical character of the participation rate in the Czech Republic. In addition to these cyclical factors, however, the participation rate is noticeably influenced by structural aspects. These also involve the ongoing change in the structure of the age group 15–64, where the weight of cohorts with naturally high participation rate will increase up to the forecast horizon (especially of those aged 40–49). The total impact of the change in the demographic structure will be positive; we estimate its contribution to YoY growth of the participation rate to reach 0.4 pp in 2015, with a subsequent gradual decrease. However, the structural component of the participation rate will be also influenced by other factors, especially the increasing statutory retirement age. For these reasons, the participation rate (15–64 year-olds) adjusted for the effect of the cycle should increase in the forecast horizon at a pace close to 0.5 pp.

Unemployment

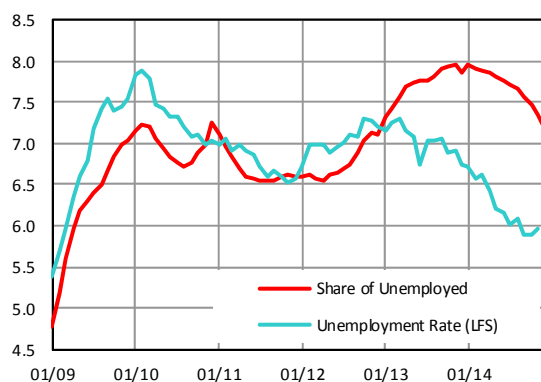
The number of registered unemployed reached its historical maximum in January 2014, but its substantial decrease during the year resulted in a situation when the average number of registered unemployed was approximately 3 thousand lower in 2014 than in 2013. This development had several causes. The improved economic situation resulted in a reduction in the influx of new applicants, and in particular in an increase in the number of unemployed persons who found work on their own. Since 2014, an improvement in the operation of labour offices has become apparent (also thanks to the increasing number of their employees), which has manifested itself in a considerably higher number of unemployed for whom labour offices found job placements.

The unemployment rate according to the LFS decreased during 2014, in particular thanks to the fact that short-term unemployed persons were successful at finding jobs. In contrast, for the time being, the long-

term unemployed are not benefitting from the improved economic conditions to the same extent, thus the long-term unemployment rate has been decreasing only slightly. This factor will decrease the intensity of further reduction in the unemployment rate. With a lower level in the unemployment rate in the following years, it is also possible to expect increasing frictions on the labour market (mismatch between labour demand and supply), which will be apparent especially in regions with a traditionally low unemployment rates and in regions with historically specific qualification of the labour force.

Graph C.3.2: **Indicators of Unemployment**

seasonally adjusted data, in %



Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Note: Share of unemployed (Ministry of Labour and Social Affairs) is defined as a share of available job seekers aged 15 to 64 years in the population of the same age.

The unemployment rate according to the LFS could reach 6.1% (*versus* 6.3%) on average in 2014; for 2015 we are decreasing the forecast, also in relation to employment growth, to 5.7% (*versus* 6.1%) and we expect it to decrease more slowly to 5.6% in 2016.

Wages

The relatively high increase in the wage bill and the average wage in the first half of 2014 slowed in the third quarter of 2014, in line with our expectation. This was consistent with a lower collection of social security contributions and with the wage policy of firms remaining prudent for the time being. The growth of unit labour costs continues to be very moderate: since 2013 it has been increasing at a slower pace than the GDP deflator.

Growth in **the wage bill** (national accounts methodology, domestic concept) slowed to 2.5% (*in*

line with the estimate) in the third quarter of 2014. The wage bill could have increased by 3.0% (*versus* 2.9%) in 2014 thanks to ongoing economic recovery and the increased wage bill in the budgetary sphere.

Even though the inflation forecast for 2015 was revised downwards, we expect the nominal wage base for 2015 to be roughly at a similar level as in the last forecast, owing to the already finished wage negotiations. Given the upward revision to the GDP growth forecast for this year, we assume slightly faster growth of real labour productivity and lower unemployment rate than in the previous Forecast. However, these factors, which would otherwise exert additional pressure on wage growth, will be offset by lower inflation. The improving situation in the private sector and wage growth in the budgetary sphere will also have a positive impact on wage bill growth in the following years: we forecast a slight acceleration of the wage bill growth to 4.1% in 2016.

The **average wage** (business statistics, full-time equivalent) increased by 1.8% (*versus* 1.9%) in the third quarter of 2014. While in the previous two quarters the growth of the average wage was higher in the business sphere, the rise in the public administration wage bill, which increased by 4% (compared to actual YoY stagnation in 2013), probably became apparent in the third quarter. As far as the sectoral structure is concerned, manufacturing posted one of the highest increases (2.3%).

A positive signal is the ongoing growth of the median wage by 1.5%, compared to an increase of 0.8% in 2013. The acceleration in its growth rate could impact positively on household consumption: households with lower incomes tend to have a higher propensity to consume.

For 2014, with respect to the fulfilled expectations of economic growth, we expect the average wage to increase approximately at the same level as in the last forecast, i.e. by 2.5% (*versus* 2.6%). For similar reasons as those affecting the wage bill, we forecast a nominal growth in the average wage of 3.6% (*versus* 3.8%) in 2015; we consider the impact of the increase in the minimum wage in 2015 on the total indicator to be marginal. For 2016 we forecast a slight acceleration of the average wage growth to 3.9%.

C.4 External Relations

(balance of payments methodology)

Chapter C.4 is presented for the first time in the methodology of the sixth edition of the Balance of Payments Manual (BPM6), used by the CNB since October 2014.

The basic division of the structure of balance of payments according to the new manual remains the same. The names of some items of the current account have changed – the former trade balance is now the balance of goods, the income balance has been transformed into the primary income balance, the previous name for the balance of current transfers has been amended to the secondary income balance.

Within the structure of individual balances, many items have been transferred. In transferrals between the balances of goods and services, for example, the accounts for processing goods and repairs have been transferred from the balance of goods and into services, to which new items have also been added, such as fees for the use of intellectual property, research and development and some financial services.

The new version of the manual also reverses the current convention of using signs on financial accounts, so that there is consistency with changes in the international investment position. Any surplus on financial accounts or their components⁴ now means an improvement of the investment position by increasing domestic investment abroad or by decreasing foreign investment in the Czech Republic, i.e. the outflow of funds. In BPM6, a change in foreign exchange reserves also becomes a component of the financial account termed “reserve assets”. The changes also concern indicators of the international investment position and the foreign debt rate⁵.

The October Macroeconomic Forecast was based on data according to the previous manual BPM5. Where any comparison between the previous forecast and this forecast would be misleading for these reasons, such comparison is not included in the text.

In annual sums, the current account of the balance of payments was balanced (*versus a surplus of 0.1% of GDP*) in the third quarter of 2014, thus improving by 1.8 pp YoY. Except for the balance of services, the surplus of which decreased by 0.3 pp, all items of the

current account improved. The surplus of the balance of goods increased by 1.4 pp, the deficit in the primary income balance decreased by 0.1 pp and the deficit in the secondary income balance improved by 0.5 pp.

Export markets⁶ did not develop as favourably as we expected. At the beginning of 2014 they continued in their growth of 2013; however, their rate has been decreasing since the second quarter of 2014. In the third quarter of 2014, growth of 1.9% (*versus 5.1%*) was recorded. We estimate that export markets increased by 2.5% (*versus 5.2%*) in 2014. We expect at least a slight recovery of the world economy in the following period, which should be reflected positively in export market dynamics. We expect export markets to grow by 2.6% (*versus 3.4%*) in 2015 and by 3.4% in 2016.

Export performance, which indicates a change in the share of the volume of Czech goods on foreign markets, increased relatively strongly by 6.0% in 2014 (*versus 3.7%*) as expected. The weaker exchange rate of the Czech koruna, which has a positive influence on the price competitiveness of Czech exporters, impacted favourably on export performance. In future, export performance should grow more slowly – by 2.6% (*versus 2.2%*) in 2015 and by 2.0% in 2016.

The solid growth of foreign trade observed in 2013 continued from the beginning of 2014. Growth rates of exports and imports exceeded 10%. Faster export growth than import growth has meant a continued rise in the trade balance surplus, in which has also been reflected the weaker koruna exchange rate. This also manifested itself in the growth of CZK export and import prices, whereby export prices grew faster than import prices. The improvement in the terms of trade will be further intensified by a decline in the crude oil price in 2015. We estimate that in 2014 the surplus in the balance of goods reached 5.5% of GDP. We expect the surplus to grow to 6.6% of GDP in 2015 and 6.7% in 2016.

In annual terms, the deficit in the fuel balance (SITC 3) reached 4.4% of GDP (*versus 4.7%*) in the third quarter of 2014. We estimate that the deficit reached 4.3% of GDP (*versus 4.6%*) in the last year as a whole. Among other things, the slump in the price of oil (see Chapter A.1) will result in a significant decrease of the deficit on

⁴ Inflow of foreign direct investment into the CR is reported with a minus sign.

⁵ More information available at the CNB website: http://www.cnb.cz/en/statistics/bop_stat/implementace_manualu bmp6.html

⁶ Weighted average of the growth of goods imports by the six most important trading partner countries (Germany, Slovakia, Poland, France, United Kingdom, and Austria)

the fuel balance. The deficit could thus reach 2.4% of GDP (*versus* 4.4%) this year. In 2016, however, it might deepen marginally to 2.5% of GDP, owing to the expected development of the price of oil and nominal GDP growth.

The transition to the new Balance of Payments Manual BPM6 had the biggest impact on the balance of services. In addition to the change in structure, the nominal amount of exports and imports of services and the nominal level of the surplus of this part of the balance increased. However, its downward trend remained unchanged; this trend (on an annual basis) dates uninterruptedly back to the end of 2012. It is connected with less favourable dynamics (lower growth, faster decrease) of exports of services than their imports, recently above all in the most important parts of the balance of services, i.e. tourism and transport. We estimate the surplus in the balance of services to be 1.3% of GDP in 2014. We expect that the surplus in the balance of services will also stagnate at this level in 2015 and 2016.

In annual terms, the deficit in the primary income balance, which comprises reinvested and repatriated earnings of foreign investors, decreased by 0.1 pp YoY to 6.7% of GDP in the third quarter of 2014. For the whole of 2014 we estimate a deficit of 6.8% of GDP; the tendency of the deficit to deepen should persist in the future. The deficit on the primary income balance could thus widen to 7.0% of GDP in 2015 and 7.5% of GDP in 2016.

Under the given circumstances, we estimate that the current account saw an insignificant deficit of –0.2% of GDP (*versus the balanced forecast*) in 2014. While we also expect the current account to be more or less balanced in the following years, we expect a slight surplus in connection, in particular, with the expected favourable development of the foreign trade in goods; this surplus should be 1.0% of GDP (*versus a deficit of 0.3%*) in 2015 and 0.5% of GDP in 2016.

C.5 International Comparisons

Comparisons for the period up to and including 2013 are based on Eurostat data. Since 2014, our own calculations on the basis of real exchange rates have been used.

Using the purchasing power parity method, comparisons of economic output for individual countries within the EU are made in PPS (purchasing power standards). PPS is an artificial currency unit expressing a quantity of goods that can be bought on average for one euro in the EU28 territory after converting the exchange rate for countries using currency units other than the euro.

Due to the transition to the European System of Accounts ESA 2010, both the absolute and relative economic levels have changed in the monitored countries. Due to the revision, the cumulative absolute level of GDP per capita adjusted by current purchasing power parity increased in all monitored countries in 2007–2013. However, economic level relative to the EA12 average increased only in the Czech Republic and Portugal.

With the exception of Poland, the absolute level of GDP per capita adjusted by **current purchasing power parity** declined in all monitored countries in 2009 as a result of economic slump. Most countries gradually recovered from the crisis, but in Greece a sharp decline in the economic level continued without interruption until 2013. There was also a slight decrease of the absolute economic level in Croatia in 2010 and in Portugal in 2011 and 2012. Greece also recorded the biggest decline in economic level relative to the EA12, which reached 19 pp in 2009–2013. On the contrary, the economic level relative to the EA12 average has been increasing most rapidly in the Baltic States. During 2009–2014 it increased by 18 pp in Lithuania and by 12 pp in Latvia and Estonia.

According to the Eurostat data, the purchasing power parity of the Czech Republic in 2013 was CZK 17.74/PPS compared to the EU28, or CZK 17.01/EUR compared to the EA12. Preliminary estimates indicate that economic level of the Czech Republic expressed in GDP per capita adjusted by current purchasing power parity was circa 22,600 PPS in 2014, corresponding to 77% of economic level of the EA12. Thanks to strong economic growth, economic level of the Czech Republic relative to the EA12 increased by 13 pp during 2000–2007. However,

a long period of recessions and anaemic economic growth has brought the convergence process to a halt. During 2008–2013, the economic level therefore fluctuated between 74% and 76% of the EA12 level. With the improved economic outlook for 2015, we expect the relative economic level to grow by 2 pp in 2015 and further by 1 pp in 2016.

An alternative adjustment of GDP per capita that uses current **exchange rate**, takes into account the market valuation of the currency and the ensuing differences in price levels. We estimate that in the case of the Czech Republic this indicator was ca EUR 14,800 in 2014, i.e. 49% of the EA12 level. In the aforementioned year, the absolute and relative levels of GDP per capita adjusted for the exchange rate decreased due to the weakening of the Czech koruna in consequence of the CNB's monetary policy. Higher economic growth and improvement of the terms of trade due to a sharp decline in the price of oil will contribute to a slight increase in absolute and relative levels in 2015 and 2016.

As far as the comparison of price levels is concerned, in 2008–2014 the **GDP price level** decreased in most monitored countries compared to the EA12 average. The biggest decrease in the aforementioned period recorded Poland and Hungary (both by 10 pp), while the pre-crisis level has so far been superseded only by Estonia and Slovakia.

In the Czech Republic, the **comparative price level of GDP** has been decreasing since 2011, reaching 63% of the EA12 average in 2014. The expected stagnation of the price level in 2015 and 2016 should help maintain competitiveness of the Czech economy.

D Monitoring of Other Institutions' Forecasts

The Ministry of Finance of the Czech Republic monitors macroeconomic forecasts of other institutions engaged in forecasting future development of the Czech economy. Forecasts of 11 institutions are continuously monitored from publicly available data sources. Of these, six institutions are domestic (CNB, Ministry of Labour and Social Affairs, domestic banks and investment companies) and others are foreign (European Commission, Organisation for Economic Co-operation and Development, IMF, etc.). The forecasts are summarised in the following table.

Sources of tables and graphs: Ministry of Finance's own calculations.

Table D.1: Consensus Forecast

		December 2014			January 2015
		min.	max.	consensus	MoF forecast
Gross domestic product (2014)	growth in %, const.pr.	2.0	2.7	2.4	2.7
Gross domestic product (2015)	growth in %, const.pr.	2.0	2.9	2.7	2.5
Average inflation rate (2014)	%	0.3	1.9	1.3	0.3
Average inflation rate (2015)	%	1.6	2.4	2.0	1.4
Average monthly wage (2014)	growth in %	2.4	3.7	3.3	3.6
Average monthly wage (2015)	growth in %	2.7	4.3	3.6	3.9
Current account / GDP (2014)	%	-1.2	0.3	-0.2	1.0
Current account / GDP (2015)	%	-0.5	0.6	0.0	0.5

Source: forecasts of individual institutions, own calculations

On average, the forecasts of the monitored institutions envisage economic growth of approximately 2.5% in 2015 and 2016. The MoF's forecast is in line with these estimates.

According to the institutions' estimates, the average inflation rate should gradually rise to 1.3% in 2015 and 2.0% in 2016. Unlike the forecasts of many other institutions, the MoF's forecast already reflects the slump in the price of oil in recent months. The MoF therefore expects a considerably lower growth in consumer prices in both aforementioned years.

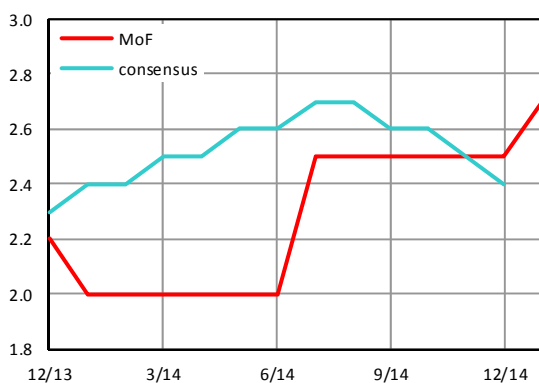
According to the monitored institutions' forecasts, the nominal average wage should increase by ca 3.5% in 2015 and 2016. According to the MoF's forecast, the

average wage growth should be slightly higher – 3.6% in 2015 and 3.9% in 2016.

In the opinions of the monitored institutions, the current account of the balance payments should be roughly balanced in 2015 and 2016. With respect to the sharp decline in the price of oil over recent months and the expected development of the koruna exchange rate, the MoF expects a slight surplus on the current account of the balance of payments, which could reach 1.0% of GDP in 2015 and 0.5% of GDP in 2016.

Graph D.1: Forecast of Real GDP Growth for 2015

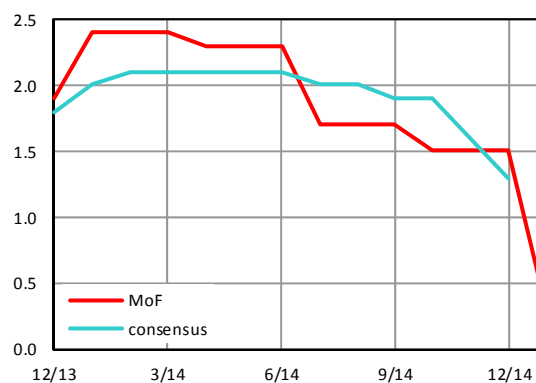
in %; the horizontal axis shows the month, in which the monitoring was conducted



Source: forecasts of individual institutions, own calculations

Graph D.2: Forecast of Average Inflation Rate for 2015

in %; the horizontal axis shows the month, in which the monitoring was conducted



Source: forecasts of individual institutions, own calculations

Tables and Graphs:

C.1 Economic Output

Table C.1.1: **Real GDP by Type of Expenditure** – yearly
chained volumes, reference year 2010

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
							<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK 2010</i>	3 865	3 954	4 031	3 999	3 971	4 064	4 172	4 278	4 374	4 470
	<i>growth in %</i>	-4.8	2.3	2.0	-0.8	-0.7	2.4	2.7	2.5	2.3	2.2
Private consumption exp.¹⁾	<i>bill. CZK 2010</i>	1 928	1 947	1 952	1 917	1 925	1 954	2 008	2 054	2 099	2 143
	<i>growth in %</i>	-0.7	1.0	0.2	-1.8	0.4	1.5	2.8	2.3	2.2	2.1
Government consumption exp.	<i>bill. CZK 2010</i>	807	810	786	778	796	811	827	838	847	854
	<i>growth in %</i>	3.0	0.4	-2.9	-1.0	2.3	1.9	2.0	1.3	1.1	0.9
Gross capital formation	<i>bill. CZK 2010</i>	1 029	1 074	1 094	1 053	1 000	1 055	1 114	1 173	1 211	1 250
	<i>growth in %</i>	-18.1	4.4	1.9	-3.7	-5.1	5.5	5.7	5.3	3.3	3.2
– Gross fixed capital formation	<i>bill. CZK 2010</i>	1 052	1 066	1 077	1 046	1 000	1 045	1 099	1 145	1 181	1 218
	<i>growth in %</i>	-10.1	1.3	1.1	-2.9	-4.4	4.5	5.26	4.1	3.2	3.1
– Change in stocks and valuables	<i>bill. CZK 2010</i>	-23	8	17	8	0	10	15	28	30	32
Exports of goods and services	<i>bill. CZK 2010</i>	2 278	2 616	2 860	2 977	2 986	3 224	3 388	3 568	3 755	3 949
	<i>growth in %</i>	-9.8	14.8	9.3	4.1	0.3	8.0	5.1	5.3	5.3	5.2
Imports of goods and services	<i>bill. CZK 2010</i>	2 171	2 494	2 661	2 726	2 734	2 975	3 161	3 353	3 541	3 733
	<i>growth in %</i>	-11.0	14.9	6.7	2.4	0.3	8.8	6.2	6.1	5.6	5.4
Gross domestic exp.	<i>bill. CZK 2010</i>	3 763	3 831	3 832	3 749	3 721	3 820	3 950	4 066	4 158	4 248
	<i>growth in %</i>	-5.5	1.8	0.0	-2.2	-0.7	2.7	3.4	2.9	2.3	2.2
Methodological discrepancy²⁾	<i>bill. CZK 2010</i>	-6	0	0	-1	-1	-4	-5	-2	3	7
Real gross domestic income	<i>bill. CZK 2010</i>	3 915	3 954	3 988	3 940	3 943	4 092	4 284	4 421	4 520	4 623
	<i>growth in %</i>	-3.7	1.0	0.9	-1.2	0.1	3.8	4.7	3.2	2.3	2.3
Contribution to GDP growth³⁾											
– Gross domestic expenditure	<i>percent. points</i>	-5.4	1.7	0.0	-2.1	-0.7	2.5	3.2	2.7	2.1	2.0
– consumption	<i>percent. points</i>	0.3	0.6	-0.5	-1.1	0.6	1.1	1.7	1.3	1.2	1.1
– household expenditure	<i>percent. points</i>	-0.3	0.5	0.1	-0.9	0.2	0.8	1.3	1.1	1.0	1.0
– government expenditure	<i>percent. points</i>	0.6	0.1	-0.6	-0.2	0.4	0.4	0.4	0.2	0.2	0.2
– gross capital formation	<i>percent. points</i>	-5.6	1.2	0.5	-1.0	-1.3	1.4	1.5	1.4	0.9	0.8
– gross fixed capital formation	<i>percent. points</i>	-2.9	0.4	0.3	-0.8	-1.1	1.1	1.3	1.1	0.8	0.8
– change in stocks	<i>percent. points</i>	-2.7	0.8	0.2	-0.2	-0.2	0.3	0.1	0.3	0.0	0.0
– Foreign balance	<i>percent. points</i>	0.5	0.5	1.9	1.3	0.0	-0.2	-0.5	-0.2	0.2	0.2
– external balance of goods	<i>percent. points</i>	0.6	0.8	2.0	1.4	0.1	0.0	-0.6	-0.2	0.1	0.1
– external balance of services	<i>percent. points</i>	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2	0.1	0.1	0.1	0.1
Gross value added	<i>bill. CZK 2010</i>	3 483	3 583	3 654	3 627	3 606	.	.	.	.	.
	<i>growth in %</i>	-5.5	2.9	2.0	-0.7	-0.6	.	.	.	.	.
Net taxes on products	<i>bill. CZK 2010</i>	384	371	378	371	365	.	.	.	.	.

Source: CZSO, own calculations

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 C.1.2: **Real GDP by Type of Expenditure – quarterly**
chained volumes, reference year 2010

		2014				2015			
		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>
Gross domestic product	<i>bill. CZK 2010</i>	950	1 016	1 038	1 061	972	1 044	1 063	1 093
	<i>growth in %</i>	2.6	2.3	2.7	1.9	2.3	2.8	2.5	3.0
	<i>growth in % ¹⁾</i>	2.6	2.3	2.4	2.2	2.3	2.8	3.1	2.7
	<i>quart.growth in % ¹⁾</i>	0.6	0.2	0.4	1.0	0.7	0.6	0.7	0.6
Private consumption exp. ²⁾	<i>bill. CZK 2010</i>	458	485	501	509	473	499	513	523
	<i>growth in %</i>	0.8	1.3	2.0	2.0	3.2	2.9	2.3	2.7
Government consumption exp.	<i>bill. CZK 2010</i>	188	198	198	228	191	203	201	232
	<i>growth in %</i>	1.4	2.9	0.9	2.4	2.0	2.4	1.8	1.8
Gross capital formation	<i>bill. CZK 2010</i>	215	262	288	289	220	278	305	311
	<i>growth in %</i>	2.5	9.9	5.4	4.2	2.5	6.1	5.9	7.4
– Gross fixed capital formation	<i>bill. CZK 2010</i>	230	248	268	299	243	263	282	312
	<i>growth in %</i>	2.6	4.4	5.0	5.5	5.5	6.0	5.2	4.5
– Change in stocks and valuables	<i>bill. CZK 2010</i>	-15	14	21	-9	-22	15	24	-1
Exports of goods and services	<i>bill. CZK 2010</i>	794	808	794	827	836	849	834	869
	<i>growth in %</i>	11.4	8.2	7.1	5.4	5.4	5.1	5.0	5.0
Imports of goods and services	<i>bill. CZK 2010</i>	705	737	743	791	750	784	788	839
	<i>growth in %</i>	10.7	11.0	7.5	6.6	6.5	6.4	6.1	6.1
Methodological discrepancy ³⁾	<i>bill. CZK 2010</i>	0	-1	-1	-2	1	-1	-2	-3
Real gross domestic income	<i>bill. CZK 2010</i>	953	1 024	1 044	1 072	990	1 070	1 091	1 132
	<i>growth in %</i>	4.0	4.0	3.9	3.2	3.8	4.5	4.6	5.6
Gross value added	<i>bill. CZK 2010</i>	877	932	945	.	.	.	.	.
	<i>growth in %</i>	2.9	2.7	3.2	.	.	.	.	.
	<i>growth in % ¹⁾</i>	2.8	2.5	2.8	.	.	.	.	.
	<i>quart.growth in % ¹⁾</i>	1.3	0.0	0.5	.	.	.	.	.
Net taxes on products	<i>bill. CZK 2010</i>	76	86	93	.	.	.	.	.

Source: CZSO, own calculations

1) From seasonally and working day adjusted data

2) The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.

3) Deterministic impact of using prices and structure of the previous year for calculation of y-o-y growth.

Table C.1.3: Nominal GDP by Type of Expenditure – yearly

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
							Estimate	Forecast	Forecast	Outlook	Outlook
Gross domestic product	bill. CZK	3 922	3 954	4 022	4 048	4 086	4 284	4 509	4 698	4 866	5 039
	growth in %	-2.3	0.8	1.7	0.6	1.0	4.8	5.3	4.2	3.6	3.6
Private consumption ¹⁾	bill. CZK	1 918	1 947	1 984	1 998	2 026	2 064	2 123	2 201	2 291	2 383
	growth in %	0.2	1.5	1.9	0.7	1.4	1.9	2.9	3.7	4.1	4.0
Government consumption	bill. CZK	812	810	792	783	802	826	851	868	885	900
	growth in %	6.0	-0.3	-2.2	-1.1	2.4	3.0	3.0	2.0	1.9	1.7
Gross capital formation	bill. CZK	1 040	1 074	1 088	1 066	1 022	1 097	1 175	1 248	1 301	1 353
	growth in %	-16.8	3.3	1.2	-2.0	-4.1	7.3	7.1	6.2	4.3	4.0
– Gross fixed capital formation	bill. CZK	1 063	1 066	1 069	1 055	1 019	1 082	1 158	1 216	1 266	1 317
	growth in %	-8.7	0.2	0.3	-1.3	-3.4	6.2	6.9	5.1	4.1	4.0
– Change in stocks and valuables	bill. CZK	-24	8	19	11	3	15	17	32	35	36
External balance	bill. CZK	152	123	159	200	235	296	360	380	388	403
– Exports of goods and services	bill. CZK	2 307	2 616	2 881	3 098	3 155	3 548	3 764	3 954	4 168	4 393
	growth in %	-9.3	13.4	10.1	7.5	1.8	12.5	6.1	5.1	5.4	5.4
– Imports of goods and services	bill. CZK	2 154	2 494	2 722	2 897	2 919	3 252	3 404	3 574	3 779	3 990
	growth in %	-12.3	15.8	9.1	6.4	0.8	11.4	4.7	5.0	5.7	5.6
Gross national income	bill. CZK	3 576	3 584	3 636	3 710	3 712	3 900	4 097	4 251	4 382	4 518
	growth in %	-3.1	0.2	1.4	2.0	0.1	5.1	5.1	3.7	3.1	3.1
Primary income balance	bill. CZK	-346	-370	-387	-338	-374	-384	-411	-447	-484	-521

Source: CZSO, own calculations

1) The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.

Table C.1.4: Nominal GDP by Type of Expenditure – quarterly

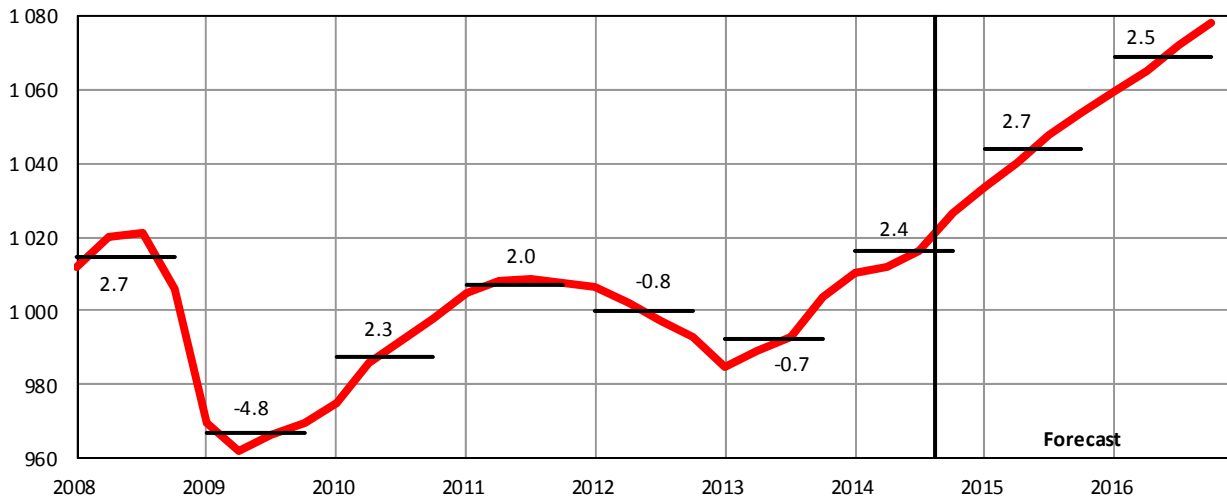
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	Prelim.	Prelim.	Estimate	Forecast	Forecast	Forecast	Forecast
Gross domestic product	bill. CZK	990	1 070	1 094	1 130	1 037	1 125	1 149	1 198
	growth in %	4.9	5.0	5.4	4.0	4.8	5.2	5.0	6.1
Private consumption ¹⁾	bill. CZK	482	512	531	539	497	528	543	555
	growth in %	1.1	1.5	2.5	2.3	3.1	3.1	2.4	3.0
Government consumption	bill. CZK	187	201	201	237	192	208	207	243
	growth in %	2.6	4.3	2.6	2.6	3.1	3.6	2.9	2.6
Gross capital formation	bill. CZK	222	272	301	303	234	292	321	328
	growth in %	3.0	11.4	8.0	6.5	5.4	7.4	6.6	8.3
– Gross fixed capital formation	bill. CZK	237	256	277	312	256	276	297	329
	growth in %	3.8	5.7	7.2	7.6	7.6	8.1	7.0	5.4
– Change in stocks and valuables	bill. CZK	-16	16	23	-9	-22	16	24	0
External balance	bill. CZK	99	85	62	50	114	97	78	72
– Exports of goods and services	bill. CZK	871	887	876	914	939	943	921	960
	growth in %	16.5	12.7	12.6	8.5	7.8	6.3	5.1	5.1
– Imports of goods and services	bill. CZK	771	802	815	863	825	846	844	889
	growth in %	13.8	13.0	11.2	8.0	7.0	5.5	3.5	2.9

Source: CZSO, own calculations

1) The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.

Graph C.1.1: Gross Domestic Product (real)

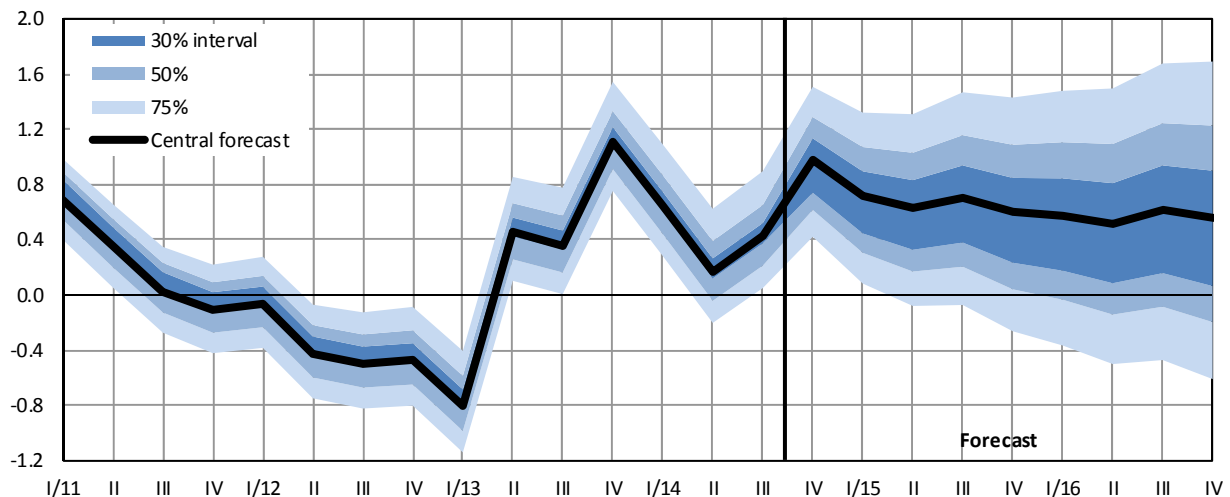
chained volumes, bill. CZK in const. prices of 2010, seasonally adjusted, growth rates in %



Source: CZSO, own calculations

Graph C.1.2: Gross Domestic Product (real)

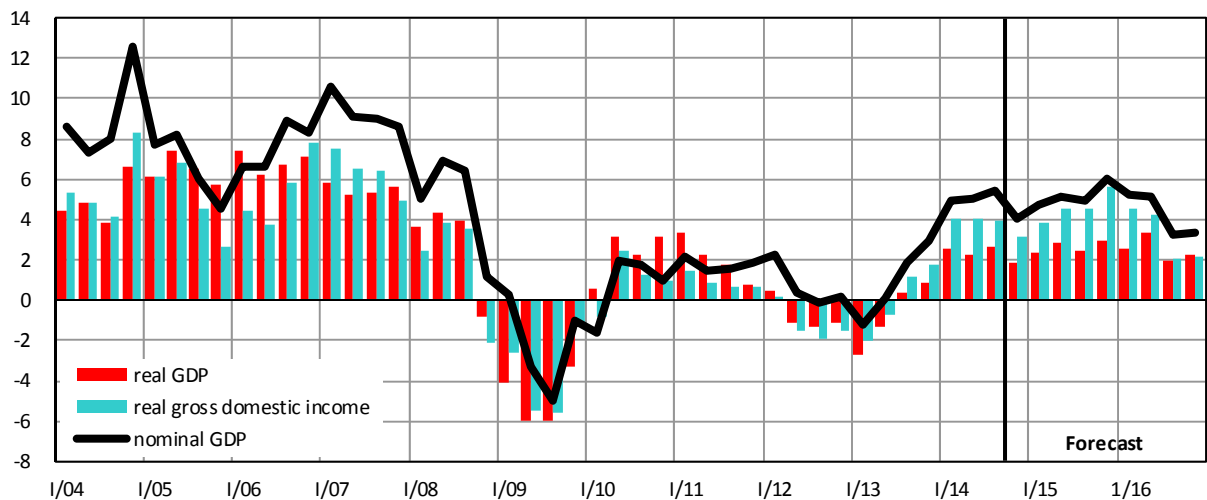
QoQ growth rate, in %, seasonally adjusted, past probability distribution reflects the actual distribution of data revisions, future probability distribution is based upon the MoF's forecasting performance



Source: CZSO, own calculations

Graph C.1.3: Gross Domestic Product and Real Gross Domestic Income

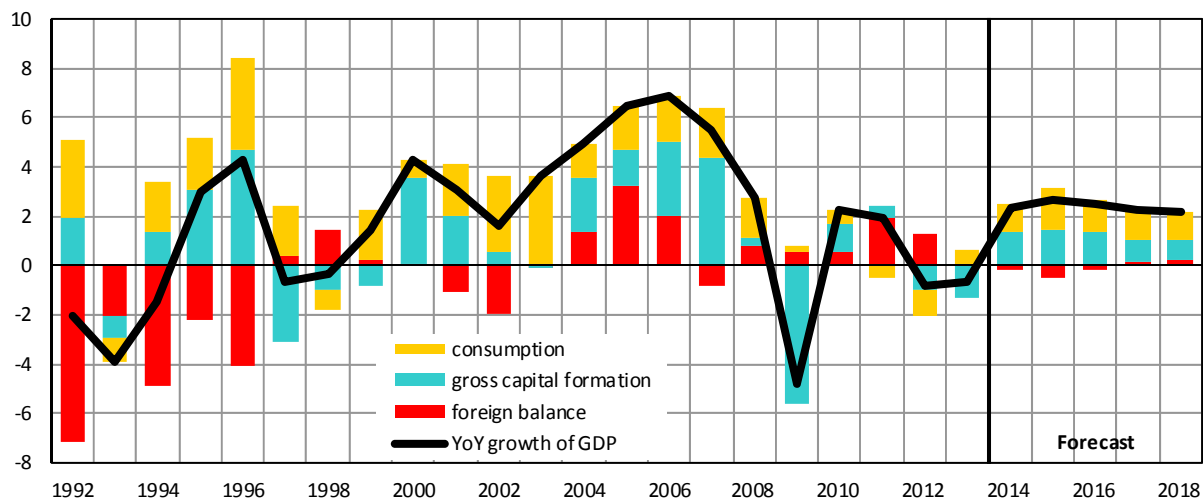
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.1.4: Gross Domestic Product (real) – contributions to YoY growth

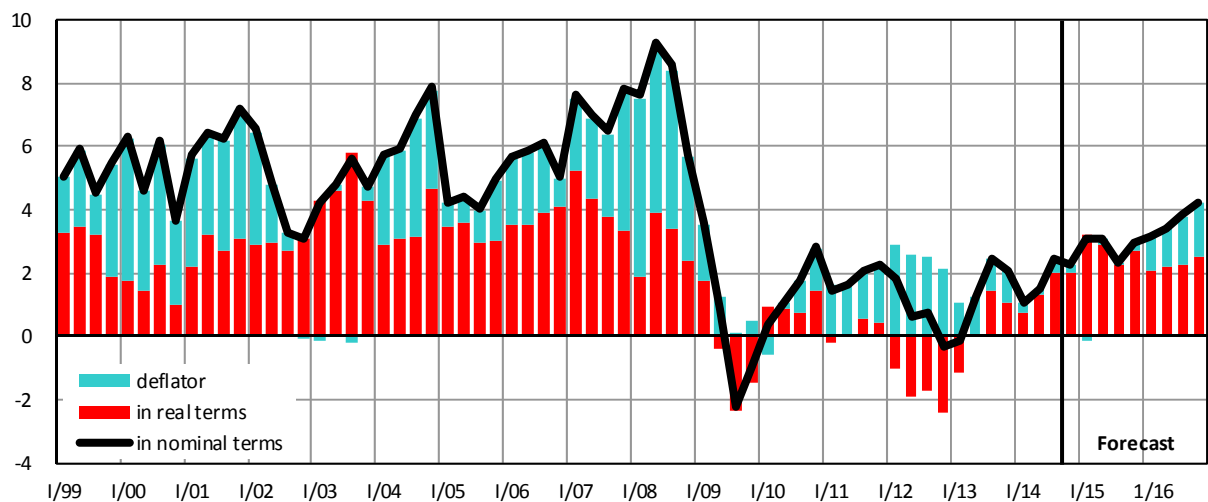
decomposition of GDP YoY growth, contributions in percentage points, GDP growth rate in %



Source: CZSO, own calculations

Graph C.1.5: Private Consumption (incl. NPISH)

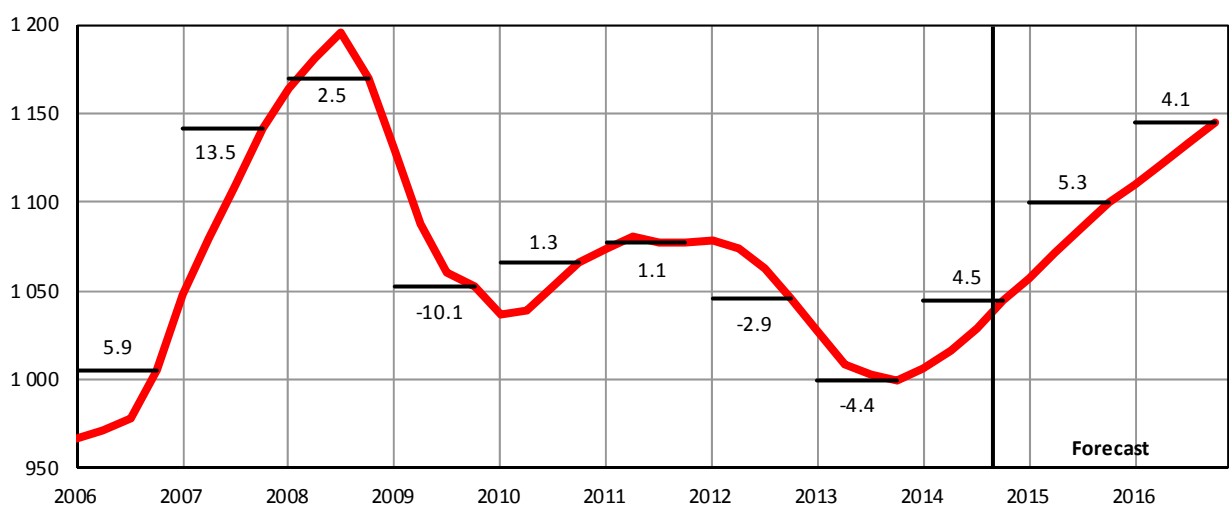
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.1.6: Gross Fixed Capital Formation

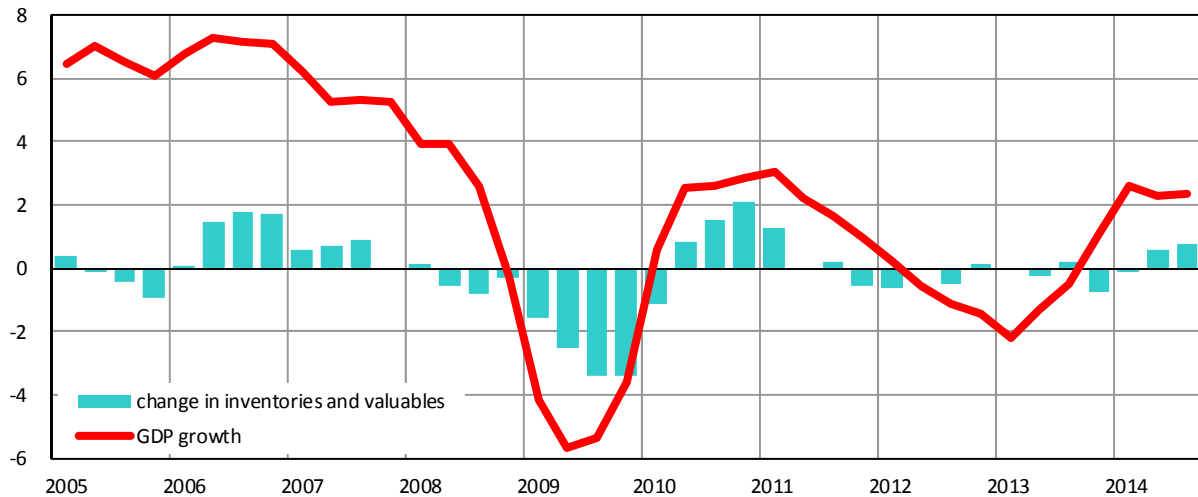
yearly moving sums, bill. CZK in const. prices of 2010, growth rates in %



Source: CZSO, own calculations

Graph C.1.7: Change in Inventories and Valuables (real)

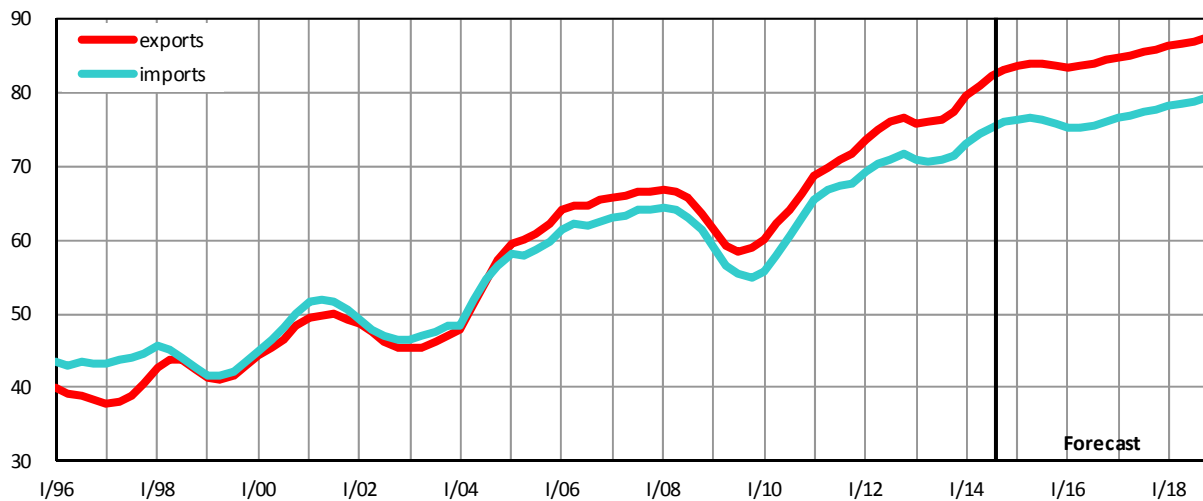
seasonally adjusted, contributions to YoY growth of GDP in percentage points



Source: CZSO

Graph C.1.8: Ratio of Exports and Imports of Goods and Services to GDP (nominal)

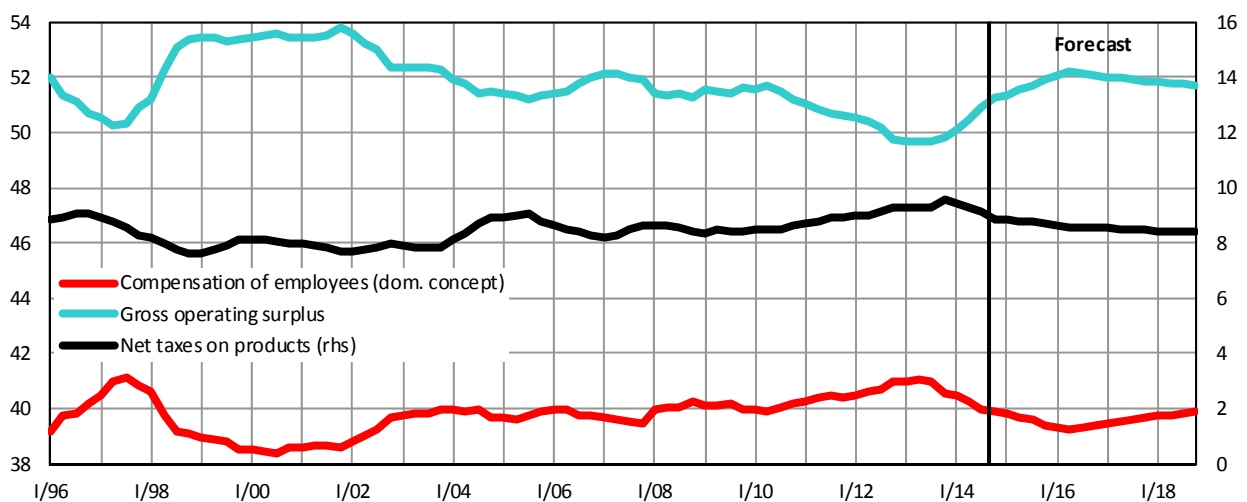
yearly moving sums, in %



Source: CZSO, own calculations

Graph C.1.9: GDP – Income Structure

yearly moving sums, in %



Source: CZSO, own calculations

Table C.1.5: GDP by Type of Income – yearly

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
							Estimate	Forecast	Forecast	Outlook	Outlook
GDP	bill. CZK	3 922	3 954	4 022	4 048	4 086	4 284	4 509	4 698	4 866	5 039
	growth in %	-2.3	0.8	1.7	0.6	1.0	4.8	5.3	4.2	3.6	3.6
Balance of taxes and subsidies	bill. CZK	329	341	360	376	392	380	391	403	412	423
	growth in %	-2.9	3.5	5.7	4.4	4.2	-3.2	3.1	2.9	2.3	2.6
– Taxes on production and imports	bill. CZK	430	447	488	507	532	.	.	.	.	.
	growth in %	1.5	4.0	9.0	4.1	4.8	.	.	.	.	.
– Subsidies on production	bill. CZK	101	107	127	131	140	.	.	.	.	.
	growth in %	19.4	5.7	19.6	3.1	6.3	.	.	.	.	.
Compensation of employees	bill. CZK	1 569	1 589	1 626	1 658	1 658	1 710	1 776	1 850	1 931	2 010
	growth in %	-3.0	1.3	2.3	2.0	0.0	3.1	3.9	4.1	4.4	4.1
– Wages and salaries	bill. CZK	1 202	1 209	1 236	1 262	1 257	1 294	1 345	1 401	1 458	1 518
	growth in %	-2.0	0.6	2.2	2.1	-0.4	3.0	3.9	4.1	4.1	4.1
– Social security contributions	bill. CZK	367	380	390	396	401	415	431	449	472	492
	growth in %	-6.1	3.7	2.5	1.6	1.3	3.5	3.9	4.1	5.1	4.1
Gross operating surplus	bill. CZK	2 024	2 024	2 037	2 014	2 036	2 194	2 341	2 445	2 523	2 606
	growth in %	-1.7	0.0	0.6	-1.1	1.1	7.8	6.7	4.4	3.2	3.3
– Consumption of capital	bill. CZK	841	850	863	880	905	935	979	1 019	1 053	1 089
	growth in %	3.6	1.0	1.6	1.9	2.9	3.2	4.7	4.1	3.4	3.4
– Net operating surplus	bill. CZK	1 183	1 174	1 173	1 135	1 131	1 260	1 363	1 426	1 470	1 517
	growth in %	-5.2	-0.8	-0.1	-3.3	-0.3	11.4	8.2	4.7	3.1	3.2

Source: CZSO, own calculations

Table C.1.6: GDP by Type of Income – quarterly

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	Prelim.	Prelim.	Estimate	Forecast	Forecast	Forecast	Forecast
GDP	bill. CZK	990	1 070	1 094	1 130	1 037	1 125	1 149	1 198
	growth in %	4.9	5.0	5.4	4.0	4.8	5.2	5.0	6.1
Balance of taxes and subsidies	bill. CZK	78	95	106	100	81	98	109	103
	growth in %	-4.2	0.5	-1.9	-6.8	3.2	3.1	3.0	3.2
Compensation of employees	bill. CZK	412	424	423	451	427	440	439	470
	growth in %	3.5	3.0	2.7	3.3	3.7	3.9	3.9	4.1
– Wages and salaries	bill. CZK	311	321	320	342	322	333	333	356
	growth in %	3.4	2.9	2.5	3.2	3.7	3.9	3.9	4.1
– Social security contributions	bill. CZK	101	103	102	109	105	107	106	113
	growth in %	3.9	3.1	3.2	3.7	3.7	3.9	3.9	4.1
Gross operating surplus	bill. CZK	500	550	566	578	530	586	600	626
	growth in %	7.7	7.5	9.1	6.8	5.9	6.5	6.1	8.1

Source: CZSO, own calculations

C.2 Prices

Table C.2.1: Prices – yearly

			2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
			Estimate					Forecast	Forecast	Outlook	Outlook		
Consumer Price Index													
average of a year	average 2005=100		113.3	115.0	117.2	121.0	122.8	123.2	123.5	125.2	127.5	129.9	
	growth in %		1.0	1.5	1.9	3.3	1.4	0.4	0.3	1.4	1.8	1.9	
December	average 2005=100		112.9	115.5	118.3	121.1	122.8	122.9	123.7	125.8	128.0	130.5	
	growth in %		1.0	2.3	2.4	2.4	1.4	0.1	0.6	1.7	1.8	1.9	
– of which contribution of													
administrative measures ¹⁾	percentage points		1.0	1.6	1.2	2.2	1.0	-0.2	0.0	0.2	0.2	0.2	
market increase	percentage points		0.0	0.7	1.2	0.1	0.4	0.3	0.6	1.6	1.5	1.7	
HICP	average 2005=100		112.4	113.7	116.2	120.3	121.9	122.4	122.8	124.4	126.7	129.1	
	growth in %		0.6	1.2	2.1	3.5	1.4	0.4	0.3	1.4	1.8	1.9	
Offering prices of flats			average 2010=100	104.3	100.0	95.1	96.1	97.2	100.7
	growth in %		-2.7	-4.1	-4.9	1.0	1.2	3.6	.	.	.	.
Deflators													
GDP	average 2010=100		101.5	100.0	99.8	101.2	102.9	105.4	108.1	109.8	111.2	112.7	
	growth in %		2.6	-1.5	-0.2	1.4	1.7	2.4	2.5	1.6	1.3	1.3	
Domestic final use	average 2010=100		100.2	100.0	100.8	102.6	103.5	104.4	105.0	106.2	107.7	109.1	
	growth in %		1.5	-0.2	0.8	1.8	0.8	0.9	0.6	1.1	1.4	1.4	
Consumption of households	average 2010=100		99.5	100.0	101.6	104.2	105.3	105.6	105.7	107.2	109.1	111.2	
	growth in %		0.9	0.5	1.6	2.5	1.0	0.3	0.1	1.4	1.8	1.9	
Consumption of government	average 2010=100		100.6	100.0	100.8	100.7	100.8	101.8	102.9	103.6	104.5	105.4	
	growth in %		2.9	-0.6	0.8	-0.1	0.1	1.1	1.0	0.7	0.9	0.8	
Fixed capital formation	average 2010=100		101.1	100.0	99.2	100.9	101.9	103.6	105.3	106.2	107.2	108.1	
	growth in %		1.5	-1.1	-0.8	1.7	1.1	1.7	1.6	0.9	0.9	0.9	
Exports of goods and services	average 2010=100		101.2	100.0	100.7	104.0	105.7	110.1	111.1	110.8	111.0	111.2	
	growth in %		0.5	-1.2	0.7	3.3	1.6	4.2	0.9	-0.2	0.1	0.2	
Imports of goods and services	average 2010=100		99.2	100.0	102.3	106.3	106.8	109.3	107.7	106.6	106.7	106.9	
	growth in %		-1.5	0.8	2.3	3.9	0.5	2.4	-1.5	-1.0	0.1	0.1	
Terms of trade	average 2010=100		102.0	100.0	98.5	97.9	99.0	100.7	103.2	104.0	104.0	104.1	
	growth in %		2.0	-2.0	-1.5	-0.6	1.1	1.8	2.4	0.8	0.0	0.1	

Source: CZSO, Eurostat, own calculations

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

Table C.2.2: Prices – quarterly

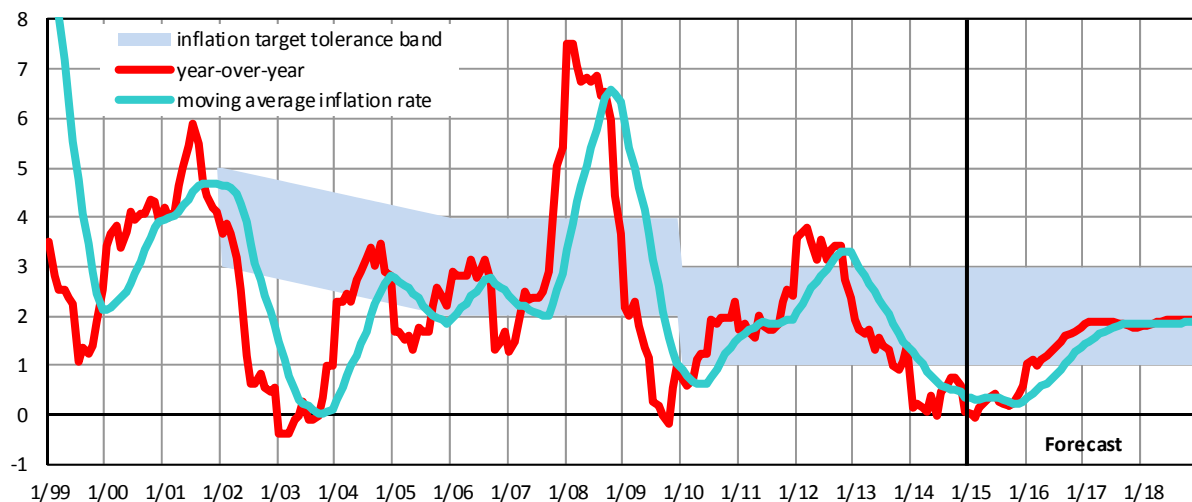
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Consumer Price Index	average 2005=100	123.0	123.2	123.4	123.1	123.1	123.6	123.7	123.6
	growth in %	0.2	0.2	0.6	0.5	0.1	0.3	0.2	0.4
– of which contribution of									
administrative measures ¹⁾									
	percentage points	-0.6	-0.5	-0.3	-0.3	0.1	0.2	0.1	0.0
market increase									
	percentage points	0.7	0.6	0.9	0.7	0.0	0.1	0.2	0.4
HICP	average 2005=100	122.3	122.5	122.7	122.3	122.3	122.9	122.9	122.9
	growth in %	0.3	0.2	0.7	0.5	0.0	0.3	0.2	0.4
Offering prices of flats	average 2010=100	99.3	100.6	101.9	101.2	.	.	.	.
	growth in %	3.0	4.1	4.6	2.7	.	.	.	.
Deflators									
GDP	average 2010=100	104.2	105.3	105.5	106.5	106.7	107.7	108.0	109.7
	growth in %	2.3	2.7	2.6	2.1	2.4	2.3	2.4	3.0
Domestic final use	average 2010=100	103.4	104.2	104.6	105.2	104.3	104.9	105.1	105.7
	growth in %	0.6	0.8	1.3	0.8	0.9	0.7	0.4	0.5
Consumption of households	average 2010=100	105.3	105.5	105.9	105.8	105.2	105.7	105.9	106.1
	growth in %	0.3	0.2	0.4	0.3	-0.1	0.2	0.1	0.2
Consumption of government	average 2010=100	99.4	101.6	101.8	104.1	100.5	102.8	102.9	105.0
	growth in %	1.2	1.4	1.7	0.1	1.1	1.1	1.1	0.8
Fixed capital formation	average 2010=100	103.1	103.2	103.7	104.4	105.2	105.2	105.5	105.3
	growth in %	1.1	1.2	2.1	2.0	2.0	1.9	1.7	0.9
Exports of goods and services	average 2010=100	109.7	109.7	110.3	110.4	112.3	111.1	110.4	110.6
	growth in %	4.6	4.1	5.1	3.0	2.3	1.2	0.1	0.1
Imports of goods and services	average 2010=100	109.5	108.8	109.6	109.2	110.0	107.9	107.0	106.0
	growth in %	2.8	1.9	3.5	1.4	0.5	-0.8	-2.4	-3.0
Terms of trade	average 2010=100	100.2	100.8	100.6	101.1	102.1	102.9	103.2	104.3
	growth in %	1.8	2.2	1.6	1.6	1.8	2.1	2.5	3.2

Source: CZSO, Eurostat, own calculations

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

Graph C.2.1: Consumer Prices

YoY growth rate, in %

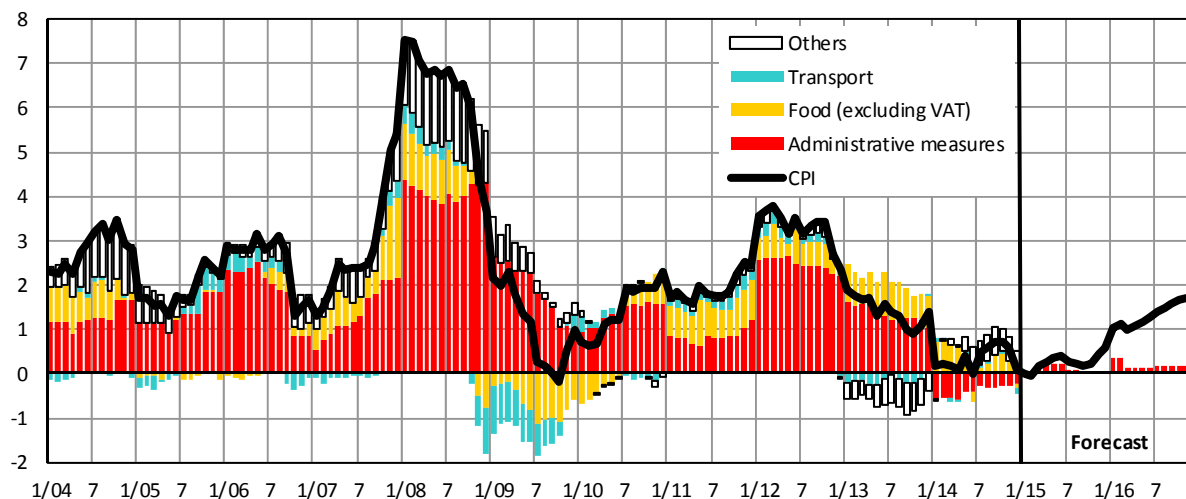


Source: CNB, CZSO, own calculations

Note: For the years 2002–2005 the highlighted area represents target band for headline inflation, whereas from 2006 on it is the tolerance band of the CNB's point target for headline inflation.

Graph C.2.2: Consumer Prices

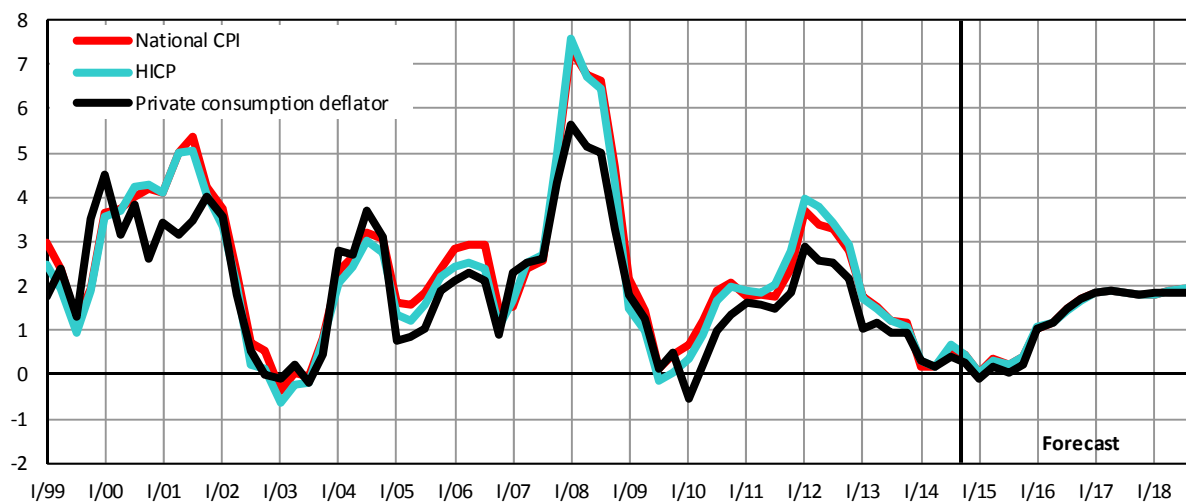
decomposition of YoY growth of CPI, contributions in pp, CPI growth rate in %, Transport excluding administrative measures and excises



Source: CZSO, own calculations

Graph C.2.3: Indicators of Consumer Prices

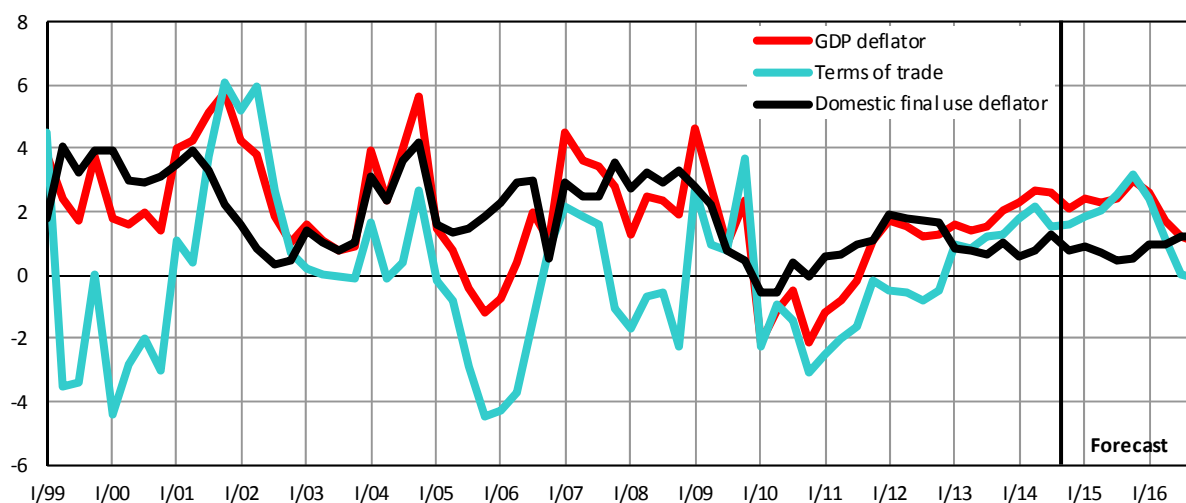
YoY growth rate, in %



Source: CZSO, Eurostat, own calculations

Graph C.2.4: GDP Deflator

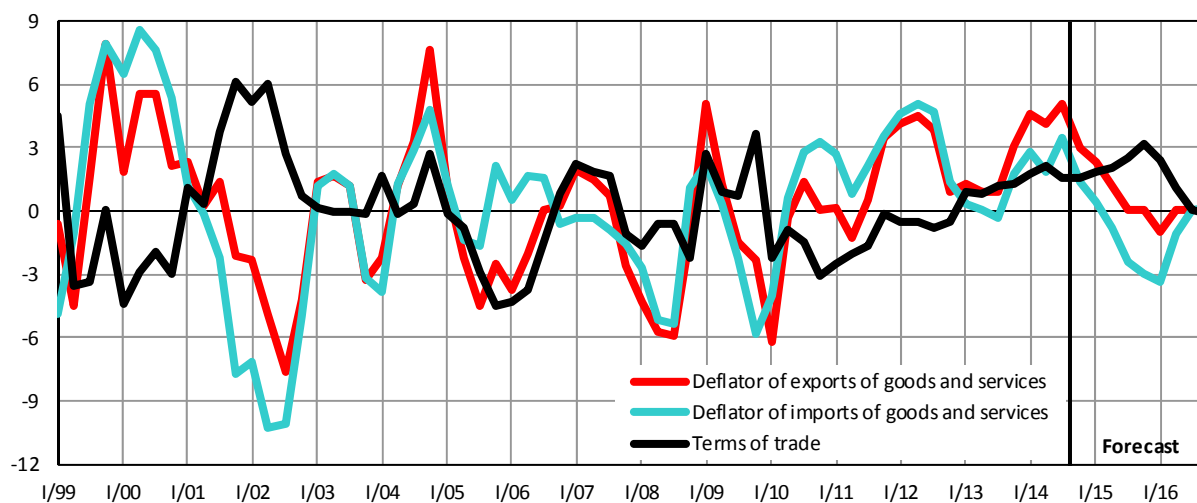
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.2.5: Terms of Trade

YoY growth rate, in %



Source: CZSO, own calculations

C.3 Labour Market

Table C.3.1: Labour Market – yearly

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
							Estimate	Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	4 934	4 885	4 872	4 890	4 937	4 969	4 989	4 997	5 003	5 005
	<i>growth in %</i>	-1.4	-1.0	0.4	0.4	1.0	0.6	0.4	0.2	0.1	0.1
– employees	<i>av. in thous.persons</i>	4 107	4 019	3 993	3 990	4 055	4 075	4 092	4 100	4 106	4 109
	<i>growth in %</i>	-2.1	-2.1	0.0	-0.1	1.6	0.5	0.4	0.2	0.1	0.1
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	827	866	880	901	882	894	896	897	897	897
	<i>growth in %</i>	2.5	4.7	2.0	2.4	-2.1	1.4	0.2	0.1	0.0	0.0
Unemployment	<i>av. in thous.persons</i>	352	384	351	367	369	324	302	294	289	286
Unemployment rate	<i>average in per cent</i>	6.7	7.3	6.7	7.0	7.0	6.1	5.7	5.6	5.5	5.4
Labour force	<i>av. in thous.persons</i>	5 286	5 269	5 223	5 257	5 306	5 293	5 291	5 291	5 292	5 292
	<i>growth in %</i>	1.0	-0.3	-0.2	0.7	0.9	-0.2	0.0	0.0	0.0	0.0
Population aged 15–64	<i>av. in thous.persons</i>	7 431	7 399	7 295	7 229	7 154	7 081	7 018	6 953	6 890	6 831
	<i>growth in %</i>	0.3	-0.4	-0.7	-0.9	-1.0	-1.0	-0.9	-0.9	-0.9	-0.8
Employment/Pop. 15–64	<i>average in per cent</i>	66.4	66.0	66.8	67.6	69.0	70.2	71.1	71.9	72.6	73.3
Employment rate 15–64¹⁾	<i>average in per cent</i>	65.4	65.0	65.7	66.5	67.7	68.9	69.7	70.5	71.2	71.8
Labour force/Pop. 15–64	<i>average in per cent</i>	71.1	71.2	71.6	72.7	74.2	74.8	75.4	76.1	76.8	77.5
Participation rate 15–64²⁾	<i>average in per cent</i>	70.1	70.2	70.5	71.6	72.9	73.4	74.0	74.7	75.4	76.0
SNA											
Employment (domestic concept)	<i>av. in thous.persons</i>	5 110	5 057	5 043	5 065	5 084	5 100	5 121	5 129	5 135	5 138
	<i>growth in %</i>	-1.8	-1.0	-0.3	0.4	0.4	0.3	0.4	0.2	0.1	0.1
Hours worked	<i>bill. hours</i>	9.09	9.10	9.11	8.99	8.96	.	.	.	.	.
	<i>growth in %</i>	-2.4	0.1	0.1	-1.2	-0.4	.	.	.	.	.
Hours worked / employment	<i>hours</i>	1 779	1 800	1 806	1 776	1 763	.	.	.	.	.
	<i>growth in %</i>	-0.6	1.2	0.3	-1.6	-0.7	.	.	.	.	.
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	465.6	528.7	507.8	504.7	564.4	561	496	468	446	427
Share of unemployed³⁾	<i>average in per cent</i>	6.1	7.0	6.7	6.8	7.7	7.7	6.8	6.4	6.2	6.0

Source: CZSO, Ministry of Labour and Social Affairs, own calculations

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

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

3) Share of available job seekers aged 15 to 64 years in the population of the same age.

Table C.3.2: Labour Market – quarterly

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4 923	4 962	4 995	4 996	4 950	4 993	5 006	5 005
	<i>YoY growth in %</i>	0.8	0.2	0.8	0.8	0.5	0.6	0.2	0.2
	<i>QoQ growth in %</i>	0.3	0.0	0.4	0.1	0.1	0.1	0.0	0.0
– employees	<i>av. in thous. persons</i>	4 030	4 064	4 105	4 100	4 054	4 091	4 116	4 109
	<i>growth in %</i>	0.4	-0.2	1.0	0.8	0.6	0.7	0.3	0.2
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	893	898	890	896	896	902	890	896
	<i>growth in %</i>	2.8	2.2	0.1	0.6	0.4	0.4	0.0	0.0
Unemployment	<i>av. in thous. persons</i>	358	319	313	308	318	293	301	297
Unemployment rate	<i>average in per cent</i>	6.8	6.0	5.9	5.8	6.0	5.5	5.7	5.6
Labour force	<i>av. in thous. persons</i>	5 281	5 281	5 308	5 304	5 268	5 286	5 307	5 302
	<i>growth in %</i>	0.1	-0.6	-0.3	-0.2	-0.2	0.1	0.0	0.0
Population aged 15–64	<i>av. in thous. persons</i>	7 103	7 089	7 074	7 059	7 043	7 026	7 010	6 994
	<i>growth in %</i>	-1.1	-1.1	-1.0	-0.9	-0.8	-0.9	-0.9	-0.9
Employment/Pop. 15–64	<i>average in per cent</i>	69.3	70.0	70.6	70.8	70.3	71.1	71.4	71.6
	<i>increase over a year</i>	1.3	0.9	1.3	1.2	1.0	1.1	0.8	0.8
Employment rate 15–64 ¹⁾	<i>average in per cent</i>	68.1	68.7	69.3	69.4	68.9	69.7	70.0	70.2
	<i>increase over a year</i>	1.2	0.9	1.3	1.1	0.9	1.0	0.7	0.8
Labour force/Pop. 15–64	<i>average in per cent</i>	74.4	74.5	75.0	75.1	74.8	75.2	75.7	75.8
	<i>increase over a year</i>	0.9	0.4	0.5	0.5	0.4	0.7	0.7	0.7
Participation rate 15–64 ²⁾	<i>average in per cent</i>	73.1	73.2	73.7	73.8	73.4	73.9	74.3	74.4
	<i>increase over a year</i>	0.8	0.4	0.5	0.5	0.4	0.7	0.6	0.6
SNA									
Employment (domestic concept)	<i>av. in thous. persons</i>	5 047	5 087	5 138	5 130	5 075	5 119	5 149	5 139
	<i>growth in %</i>	0.5	-0.1	0.5	0.5	0.5	0.6	0.2	0.2
Hours worked	<i>bill. hours</i>	2.26	2.33	2.16	.	.	.	.	.
	<i>growth in %</i>	0.0	0.0	2.3	.	.	.	.	.
Hours worked / employment	<i>hours</i>	448	458	421	.	.	.	.	.
	<i>growth in %</i>	-0.5	0.1	1.8	.	.	.	.	.
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	619	566	537	524	552	495	468	470
Share of unemployed ³⁾	<i>average in per cent</i>	8.5	7.8	7.4	7.2	7.6	6.7	6.4	6.4

Source: CZSO, Ministry of Labour and Social Affairs, own calculations

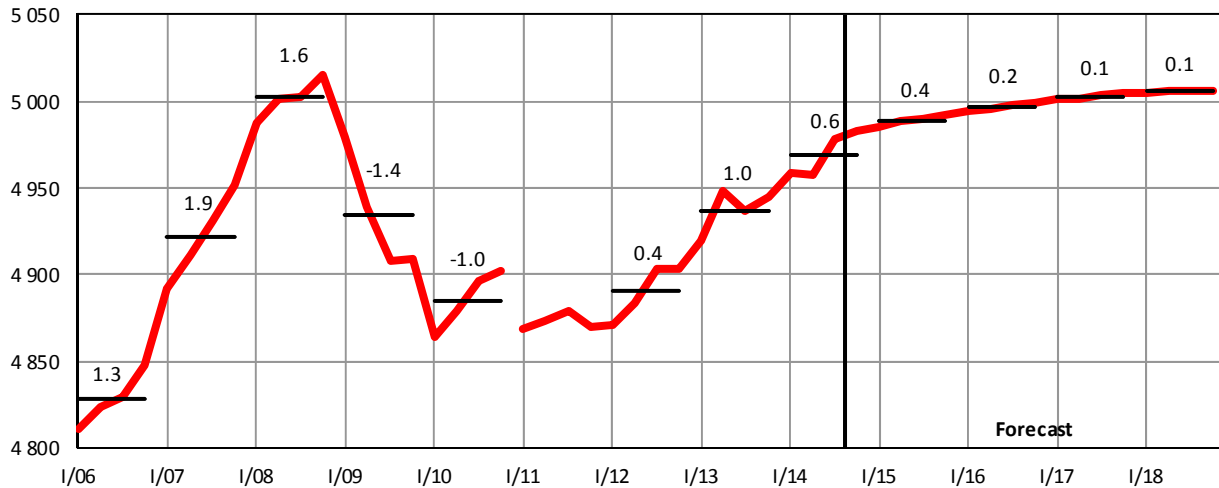
1) The indicator does not include employment over 64 years.

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

3) Share of available job seekers aged 15 to 64 years in the population of the same age.

Graph C.3.3: Employment (LFS)

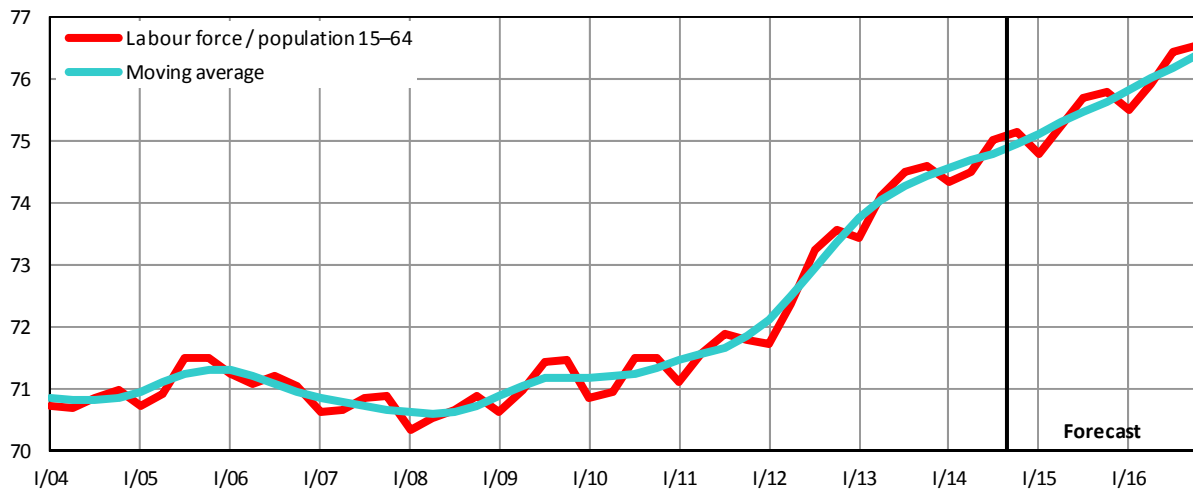
seasonally adjusted data, in thousands of persons, growth rates in %



Source: CZSO, own calculations

Graph C.3.4: Ratio of Labour Force to Population Aged 15–64

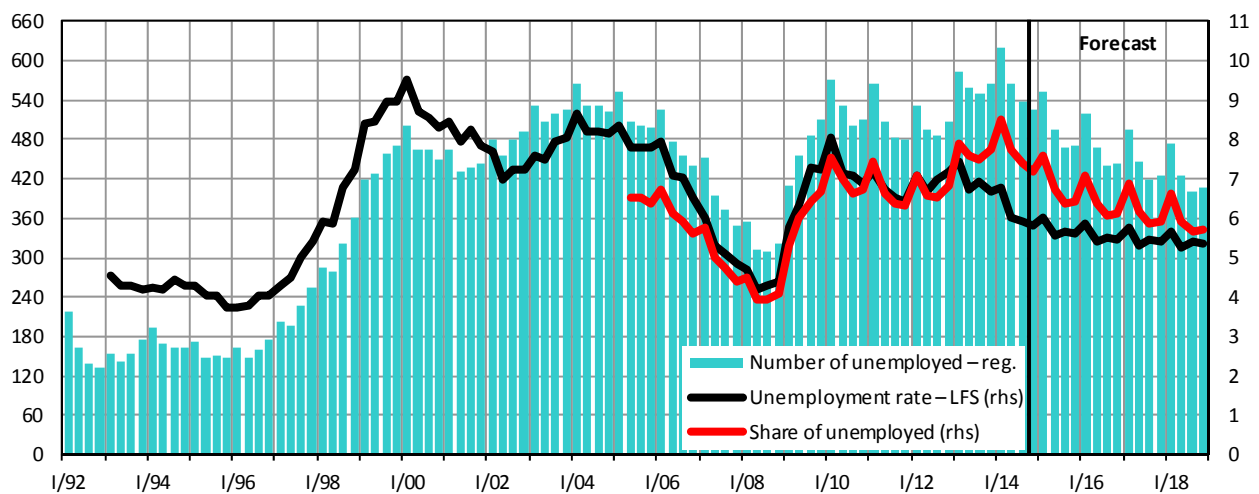
in %



Source: CZSO, own calculations

Graph C.3.5: Unemployment

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

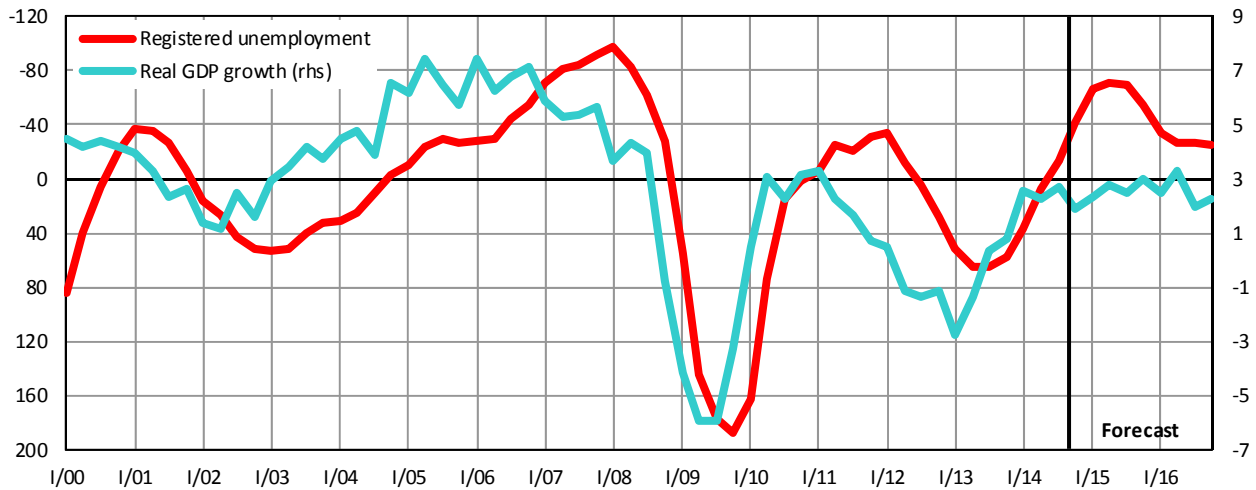


Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Note: Share of unemployed (Ministry of Labour and Social Affairs) is defined as a share of available job seekers aged 15 to 64 years in the population of the same age.

Graph C.3.6: Economic Output and Unemployment

YoY real GDP growth rate in %, change in unemployment in thousands of persons



Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Table C.3.3: Labour Market – analytical indicators

			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
										Estimate	Forecast	Forecast
Compensation per employee												
– nominal	growth in %		6.2	4.1	-0.6	3.3	2.8	1.4	-0.6	3.0	3.5	3.9
– real	growth in %		3.2	-2.1	-1.6	1.8	0.9	-1.9	-2.0	2.6	3.2	2.6
Wage bill	growth in %		8.3	7.5	-2.0	0.6	2.2	2.1	-0.4	3.0	3.9	4.1
Average monthly wage ¹⁾												
– nominal	CZK		20 947	22 592	23 353	23 858	24 452	25 063	25 075	25 700	26 600	27 700
	growth in %		7.2	7.9	3.4	2.2	2.5	2.5	0.0	2.5	3.6	3.9
– real	CZK 2005		19 865	20 147	20 610	20 753	20 866	20 707	20 426	20 900	21 600	22 100
	growth in %		4.3	1.4	2.3	0.7	0.5	-0.8	-1.4	2.2	3.4	2.5
Median monthly wage												
	CZK		17 445	19 364	19 781	20 294	20 743	20 984	21 152	.	.	.
	growth in %		7.2	11.0	2.2	2.6	2.2	1.2	0.8	.	.	.
Labour productivity												
	growth in %		3.4	0.5	-3.1	3.4	2.2	-1.2	-1.1	2.0	2.3	2.4
Unit labour costs ²⁾												
	growth in %		2.7	3.5	2.6	0.0	0.6	2.6	0.5	0.9	1.2	1.6
Compensations of employees / GDP			39.5	40.3	40.0	40.2	40.4	40.9	40.6	39.9	39.4	39.4

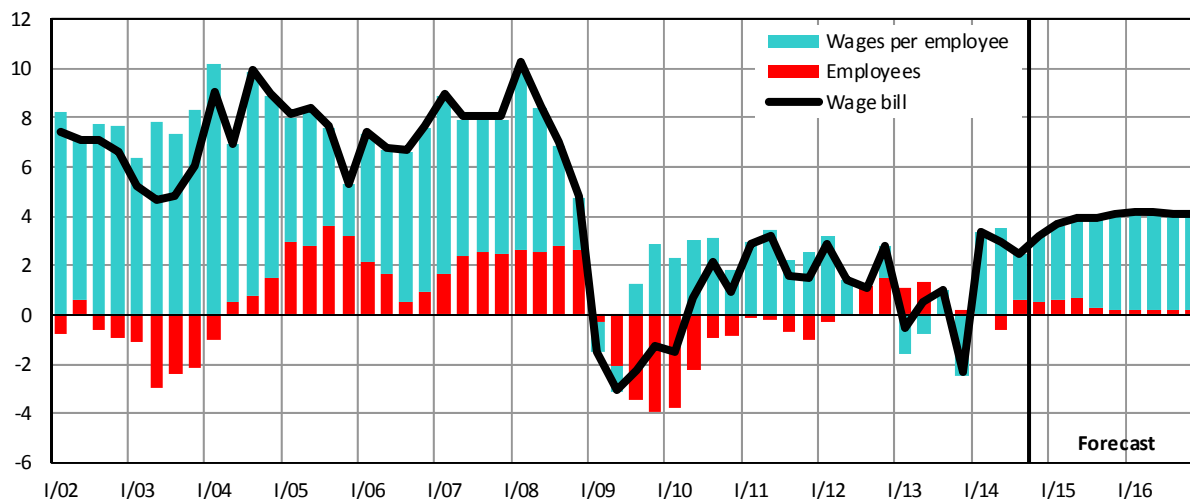
Source: CZSO, own calculations

1) New time series: average wage is derived from full-time-equivalent employers in the entire economy.

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

Graph C.3.7: **Wage Bill** – nominal, domestic concept

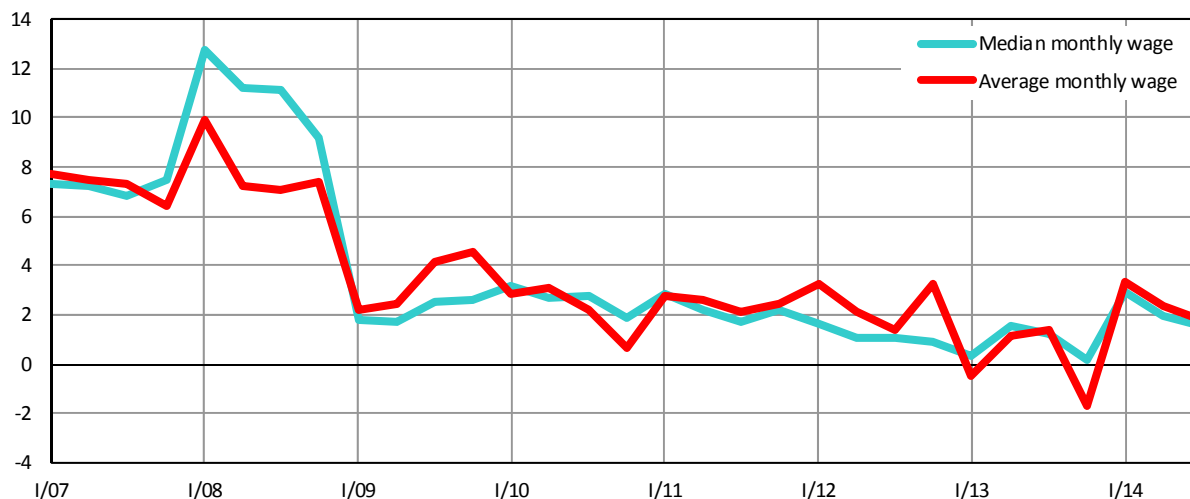
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.8: **Nominal Monthly Wage**

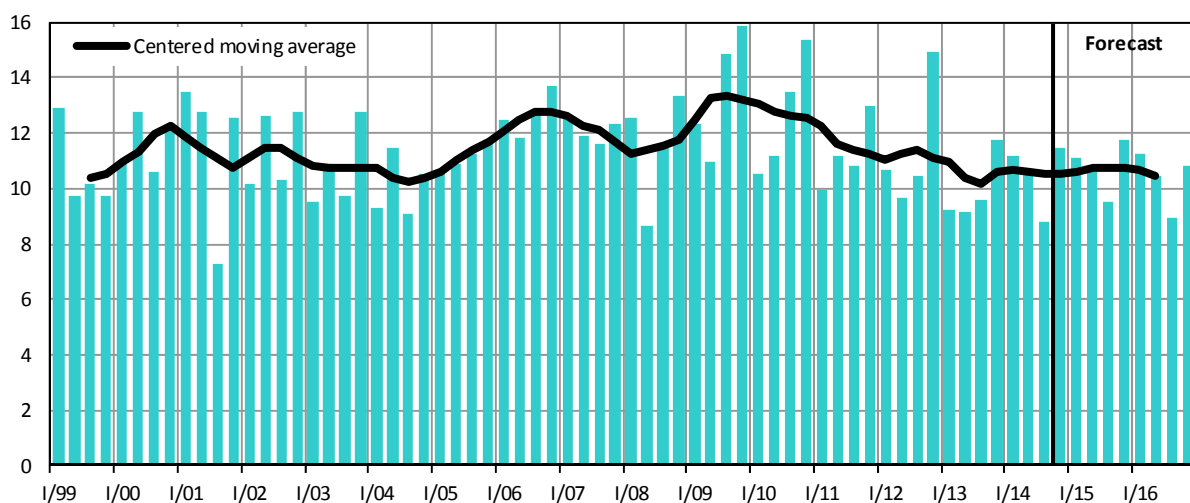
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.9: **Gross Savings Rate of Households**

in % of disposable income



Source: CZSO, own calculations

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

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
									Estimate	Forecast	Forecast
Current income											
Compensation of employees	bill.CZK	1 505	1 593	1 553	1 585	1 626	1 662	1 674	1 731	1 798	1 869
	growth in %	8.1	5.8	-2.5	2.0	2.6	2.2	0.7	3.5	3.9	3.9
Gross operating surplus and mixed income	bill.CZK	632	657	686	685	674	660	656	667	683	702
	growth in %	5.0	4.0	4.5	-0.2	-1.7	-2.0	-0.6	1.6	2.4	2.8
Property income received	bill.CZK	162	177	158	152	151	146	138	131	124	124
	growth in %	4.1	9.8	-11.0	-3.5	-0.8	-3.7	-5.0	-5.4	-5.0	0.0
Social benefits not-in-kind	bill.CZK	471	493	535	542	553	566	563	575	599	614
	growth in %	11.9	4.7	8.6	1.2	2.1	2.3	-0.5	2.2	4.1	2.6
Other current transfers received	bill.CZK	126	143	141	140	140	152	146	159	164	169
	growth in %	8.3	13.2	-1.4	-1.0	-0.2	8.8	-4.1	9.4	3.0	3.0
Current expenditure											
Property income paid	bill.CZK	27	31	19	23	21	15	19	15	15	14
	growth in %	25.2	11.2	-36.7	17.7	-8.5	-27.3	24.4	-20.3	-3.0	-3.0
Curr. taxes on income and property	bill.CZK	161	145	140	137	149	151	159	165	171	178
	growth in %	11.9	-9.9	-3.0	-2.6	8.6	1.6	5.1	4.0	3.9	3.9
Social contributions	bill.CZK	616	637	603	621	640	653	670	695	722	749
	growth in %	9.5	3.3	-5.3	2.9	3.0	2.2	2.5	3.8	3.8	3.7
Other current transfers paid	bill.CZK	130	146	143	141	147	155	147	151	155	159
	growth in %	12.4	12.1	-1.6	-1.6	4.3	5.6	-5.0	2.5	2.5	3.0
Gross disposable income	bill.CZK	1 961	2 106	2 168	2 182	2 188	2 211	2 181	2 237	2 306	2 378
	growth in %	6.4	7.4	3.0	0.7	0.2	1.0	-1.3	2.5	3.1	3.1
Final consumption	bill.CZK	1 749	1 887	1 891	1 920	1 957	1 970	1 999	2 036	2 094	2 171
	growth in %	7.3	7.9	0.2	1.5	1.9	0.7	1.4	1.8	2.9	3.7
Change in share in pension funds	bill.CZK	26	24	17	15	16	15	35	34	36	40
Gross savings	bill.CZK	238	243	295	278	247	255	218	236	248	247
Capital transfers (income (-) / expenditure (+))	bill.CZK	-34	-25	-25	-29	-25	-21	-13	-11	-12	-12
Gross capital formation	bill.CZK	213	219	212	230	198	178	178	173	176	182
	growth in %	12.8	2.8	-3.1	8.8	-14.0	-10.0	-0.4	-2.4	1.8	3.0
Change in financial assets and liab.	bill.CZK	58	47	106	75	72	96	50	70	80	73
Real disposable income	growth in %	3.4	2.5	2.1	0.1	-1.4	-1.4	-2.3	2.2	3.0	1.7
Gross savings rate	%	12.1	11.5	13.6	12.7	11.3	11.5	10.0	10.5	10.8	10.4

Source: CZSO, own calculations

C.4 External Relations

Table C.4.1: **Balance of Payments – yearly**

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
									Estimate	Forecast	Forecast
Goods and services	<i>bill.CZK</i>	98	85	147	119	157	201	232	291	355	375
	<i>% GDP</i>	2.6	2.1	3.7	3.0	3.9	5.0	5.7	6.8	7.9	8.0
– goods	<i>bill.CZK</i>	10	-4	65	40	75	124	164	235	297	315
	<i>% GDP</i>	0.3	-0.1	1.7	1.0	1.9	3.1	4.0	5.5	6.6	6.7
– services	<i>bill.CZK</i>	88	89	82	78	81	78	69	56	57	60
	<i>% GDP</i>	2.3	2.2	2.1	2.0	2.0	1.9	1.7	1.3	1.3	1.3
Primary income	<i>bill.CZK</i>	-255	-148	-217	-250	-223	-238	-280	-290	-317	-352
	<i>% GDP</i>	-6.6	-3.7	-5.5	-6.3	-5.6	-5.9	-6.8	-6.8	-7.0	-7.5
– compensation of employees	<i>bill.CZK</i>	-4	-25	-16	-5	-2	1	12	19	20	17
	<i>% GDP</i>	-0.1	-0.6	-0.4	-0.1	-0.1	0.0	0.3	0.5	0.4	0.4
– investment income	<i>bill.CZK</i>	-251	-123	-200	-245	-221	-239	-291	-309	-337	-369
	<i>% GDP</i>	-6.6	-3.1	-5.1	-6.2	-5.5	-5.9	-7.1	-7.2	-7.5	-7.9
Secondary income	<i>bill.CZK</i>	-8	-12	-19	-11	-18	-27	-9	-10	8	2
	<i>% GDP</i>	-0.2	-0.3	-0.5	-0.3	-0.5	-0.7	-0.2	-0.2	0.2	0.0
Current account	<i>bill.CZK</i>	-164	-75	-89	-142	-85	-63	-57	-8	46	25
	<i>% GDP</i>	-4.3	-1.9	-2.3	-3.6	-2.1	-1.6	-1.4	-0.2	1.0	0.5
Capital account	<i>bill.CZK</i>	22	26	51	38	13	53	54	51	71	31
	<i>% GDP</i>	0.6	0.6	1.3	1.0	0.3	1.3	1.3	1.2	1.6	0.7
Net lending/borrowing	<i>bill.CZK</i>	-143	-49	-38	-104	-72	-10	-3	43	117	56
	<i>% GDP</i>	-3.7	-1.2	-1.0	-2.6	-1.8	-0.3	-0.1	1.0	2.6	1.2
Financial account	<i>bill.CZK</i>	-110	-43	-72	-122	-75	12	5	.	.	.
– direct investments	<i>bill.CZK</i>	-179	-36	-38	-95	-47	-121	-33	.	.	.
– portfolio investments	<i>bill.CZK</i>	57	9	-159	-150	-6	-55	-93	.	.	.
– financial derivatives	<i>bill.CZK</i>	-1	3	1	5	4	-9	-5	.	.	.
– other investments	<i>bill.CZK</i>	-2	-59	62	77	-9	116	-53	.	.	.
– reserve assets	<i>bill.CZK</i>	16	40	61	41	-17	80	188	.	.	.
International investment position	<i>bill.CZK</i>	-1 418	-1 534	-1 726	-1 823	-1 823	-1 864	-1 665	.	.	.
	<i>% GDP</i>	-37.0	-38.2	-44.0	-46.1	-45.3	-46.0	-40.7	.	.	.
Gross external debt	<i>bill.CZK</i>	1 377	1 862	1 956	2 164	2 312	2 434	2 723	.	.	.
	<i>% GDP</i>	35.9	46.4	49.9	54.7	57.5	60.1	66.6	.	.	.

Source: CNB, CZSO, own calculations

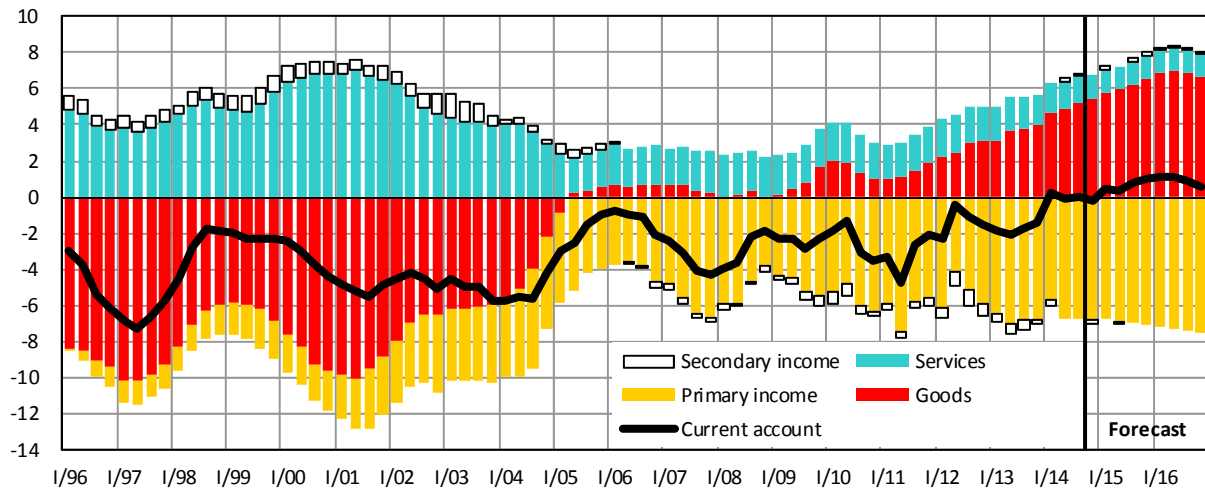
Table C.4.2: **Balance of Payments – quarterly**
moving sums of the latest 4 quarters

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Goods and services	bill.CZK	261	268	284	291	306	318	334	355
– goods	bill.CZK	193	202	223	235	249	261	276	297
– services	bill.CZK	68	66	60	56	57	57	57	57
Primary income	bill.CZK	-235	-281	-285	-290	-294	-302	-309	-317
– compensation of employees	bill.CZK	13	16	18	19	22	21	21	20
– investment income	bill.CZK	-248	-297	-303	-309	-316	-323	-330	-337
Secondary income	bill.CZK	-15	8	1	-10	9	-2	11	8
Current account	bill.CZK	11	-4	0	-8	20	15	35	46
Capital account	bill.CZK	74	71	46	51	56	61	66	71
Net lending/borrowing	bill.CZK	86	67	46	43	76	76	101	117
Financial account	bill.CZK	62	73	20	.	.	.	.	.
– direct investments	bill.CZK	-42	-92	-123	.	.	.	.	.
– portfolio investments	bill.CZK	-91	38	37	.	.	.	.	.
– financial derivatives	bill.CZK	-7	-6	-6	.	.	.	.	.
– other investments	bill.CZK	-5	-114	-114	.	.	.	.	.
– reserve assets	bill.CZK	208	247	226	.	.	.	.	.
International investment position	stock in bill.CZK	-1 547	-1 539	-1 526	.	.	.	.	.
Gross external debt	stock in bill.CZK	2 685	2 765	2 775	.	.	.	.	.

Source: CNB, CZSO, own calculations

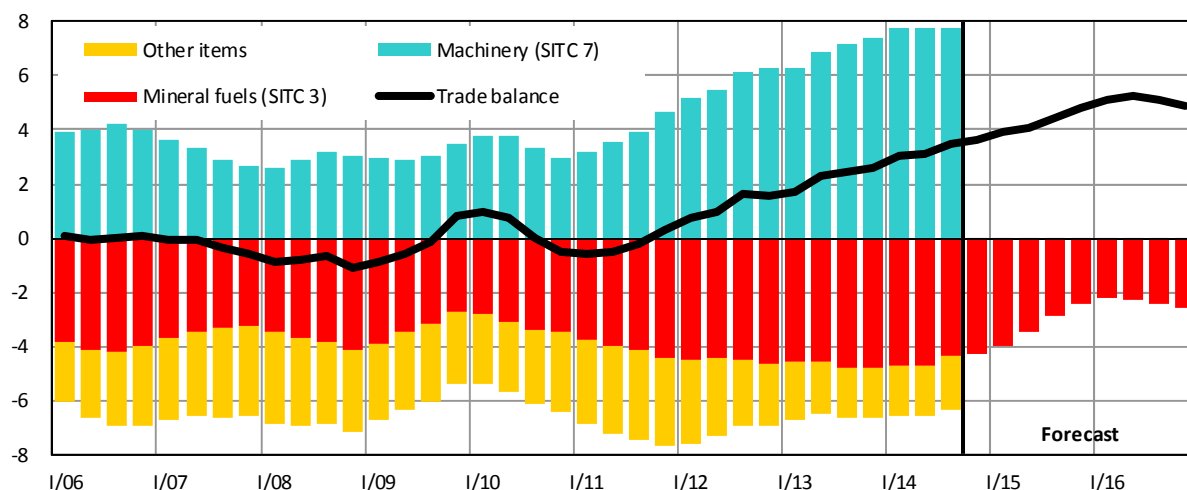
Graph C.4.1: **Current Account**

moving sums of the latest 4 quarters, in % of GDP, trade and service balances in BoP definitions



Source: CNB, CZSO, own calculations

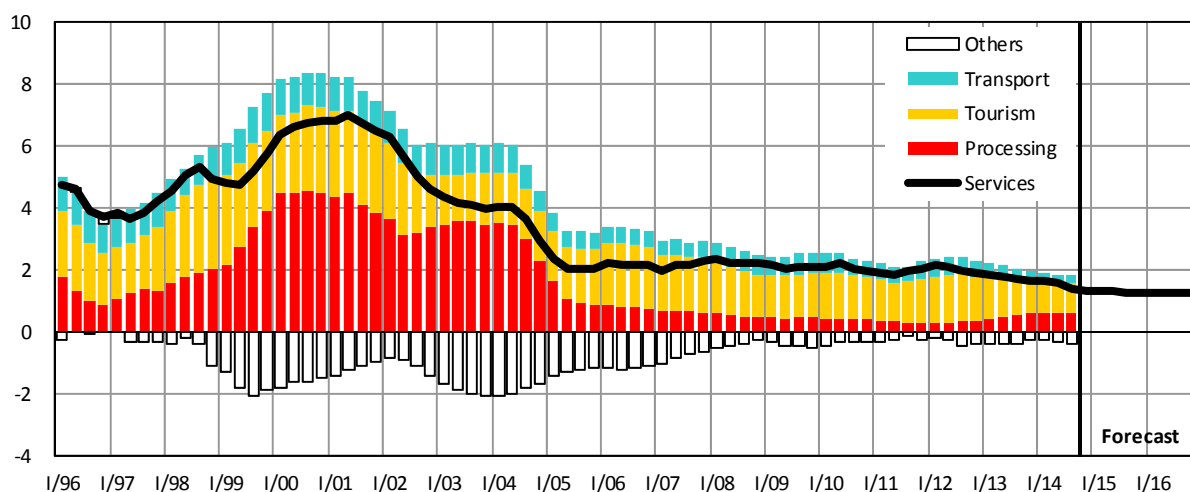
Graph C.4.2: Balance of Trade (national concept)
moving sums of the latest 4 quarters, in % of GDP, in cross-border definitions



Source: CZSO, own calculations

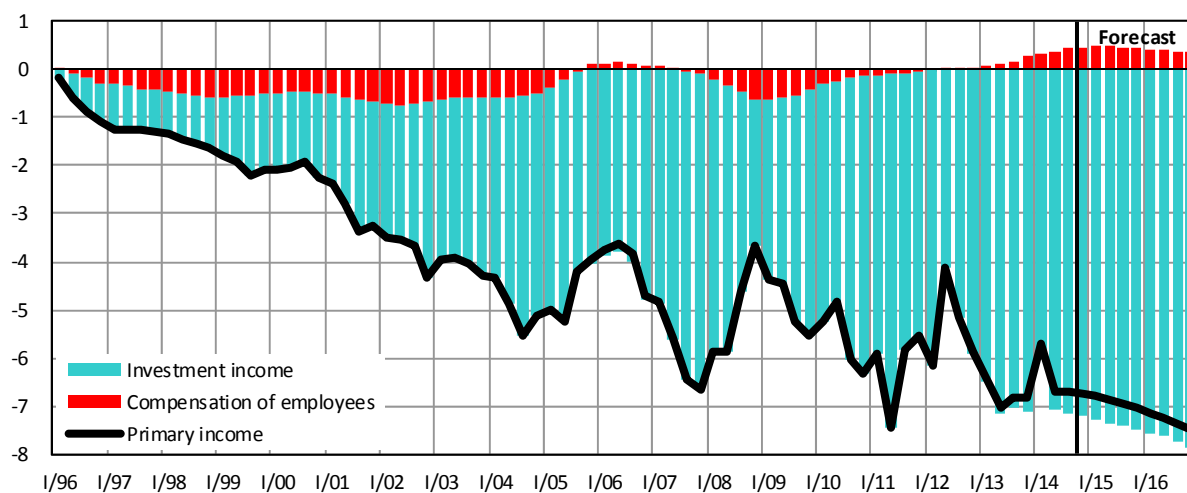
Note: The data in the chart show imports in cif methodology. For this reason, the chart is not comparable with Tables C.4.1 and C.4.2, where imports are in fob methodology.

Graph C.4.3: Balance of Services
moving sums of the latest 4 quarters, in % of GDP



Source: CNB, CZSO, own calculations

Graph C.4.4: Balance of Primary Income
moving sums of the latest 4 quarters, in % of GDP



Source: CNB, CZSO, own calculations

Table C.4.3: **Decomposition of Exports of Goods – yearly**

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
		Estimate Forecast Forecast									
GDP ¹⁾	average of 2005=100	101.1	101.7	97.6	100.0	102.4	103.1	103.9	105	107	109
	growth in %	3.6	0.7	-4.1	2.5	2.4	0.7	0.8	1.4	1.5	1.8
Import intensity ²⁾	average of 2005=100	99.8	99.8	92.0	100.0	103.9	103.3	103.9	105	106	108
	growth in %	2.5	0.0	-7.8	8.7	3.9	-0.5	0.5	1.1	1.1	1.6
Export markets ³⁾	average of 2005=100	100.8	101.5	89.7	100.0	106.4	106.5	107.9	111	114	117
	growth in %	6.2	0.6	-11.6	11.4	6.4	0.1	1.3	2.5	2.6	3.4
Export performance	average of 2005=100	91.6	94.8	95.9	100.0	103.5	107.5	106.9	113	116	119
	growth in %	5.1	3.5	1.2	4.2	3.5	3.8	-0.5	6.0	2.6	2.0
Real exports	average of 2005=100	92.4	96.3	86.1	100.0	110.2	114.5	115.4	125	132	139
	growth in %	11.6	4.2	-10.5	16.1	10.2	4.0	0.8	8.6	5.3	5.5
1 / NEER	average of 2005=100	110.5	98.9	102.2	100.0	97.1	100.6	102.9	108	110	110
	growth in %	-2.6	-10.5	3.4	-2.2	-2.9	3.6	2.3	5.4	1.9	-0.4
Prices on foreign markets	average of 2005=100	96.3	102.4	99.3	100.0	103.8	103.7	102.8	101	101	101
	growth in %	2.9	6.3	-3.1	0.8	3.8	-0.1	-0.9	-1.3	-0.8	0.0
Exports deflator	average of 2005=100	106.4	101.2	101.4	100.0	100.8	104.3	105.7	110	111	111
	growth in %	0.2	-4.9	0.2	-1.4	0.8	3.4	1.4	4.0	1.0	-0.3
Nominal exports	average of 2005=100	98.3	97.4	87.2	100.0	111.0	119.4	122.0	138	147	154
	growth in %	11.8	-0.9	-10.5	14.7	11.0	7.5	2.2	12.9	6.4	5.1

Source: CNB, CZSO, Eurostat, own calculations

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 C.4.4: **Decomposition of Exports of Goods – quarterly**

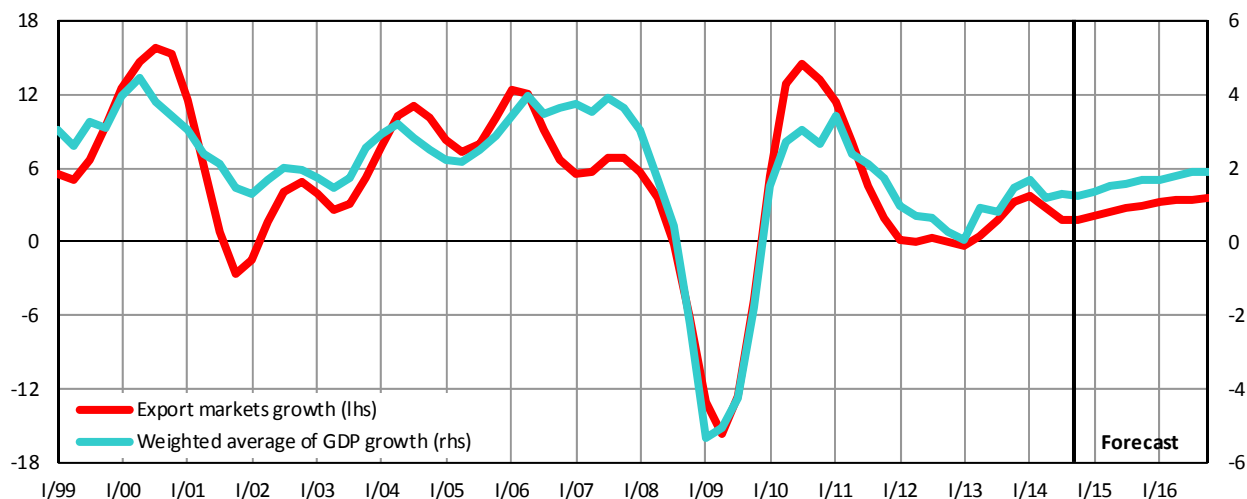
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Estimate				Forecast			
GDP ¹⁾	average of 2010=100	104.9	105.1	105.5	106	106	107	107	108
	growth in %	1.7	1.2	1.3	1.3	1.3	1.5	1.6	1.7
Import intensity ²⁾	average of 2010=100	104.8	105.0	105.0	105	106	106	106	107
	growth in %	2.0	1.5	0.5	0.6	0.8	1.0	1.2	1.3
Export markets ³⁾	average of 2010=100	109.9	110.3	110.8	112	112	113	114	115
	growth in %	3.7	2.7	1.9	1.8	2.2	2.5	2.8	3.0
Export performance	average of 2010=100	113.2	114.3	111.5	114	117	117	114	117
	growth in %	8.9	6.0	5.6	3.6	3.4	2.7	2.3	2.1
Real exports	average of 2010=100	124.5	126.1	123.5	127	131	133	130	134
	growth in %	12.9	9.0	7.6	5.5	5.6	5.2	5.2	5.1
1 / NEER	average of 2010=100	107.6	107.6	108.8	109	112	110	110	110
	growth in %	5.9	5.0	6.6	4.1	3.7	2.2	1.1	0.5
Prices on foreign markets	average of 2010=100	101.9	101.9	101.3	101	101	101	100	100
	growth in %	-1.3	-0.9	-1.5	-1.5	-1.0	-0.8	-1.0	-0.4
Exports deflator	average of 2010=100	109.7	109.7	110.3	110	113	111	110	110
	growth in %	4.5	4.0	5.0	2.5	2.6	1.4	0.0	0.1
Nominal exports	average of 2010=100	136.5	138.3	136.1	140	148	148	143	148
	growth in %	17.9	13.3	12.9	8.2	8.4	6.7	5.2	5.2

Source: CNB, CZSO, Eurostat, own calculations

See notes to Table C.4.3.

Graph C.4.5: GDP and Imports of Goods in Main Partner Countries

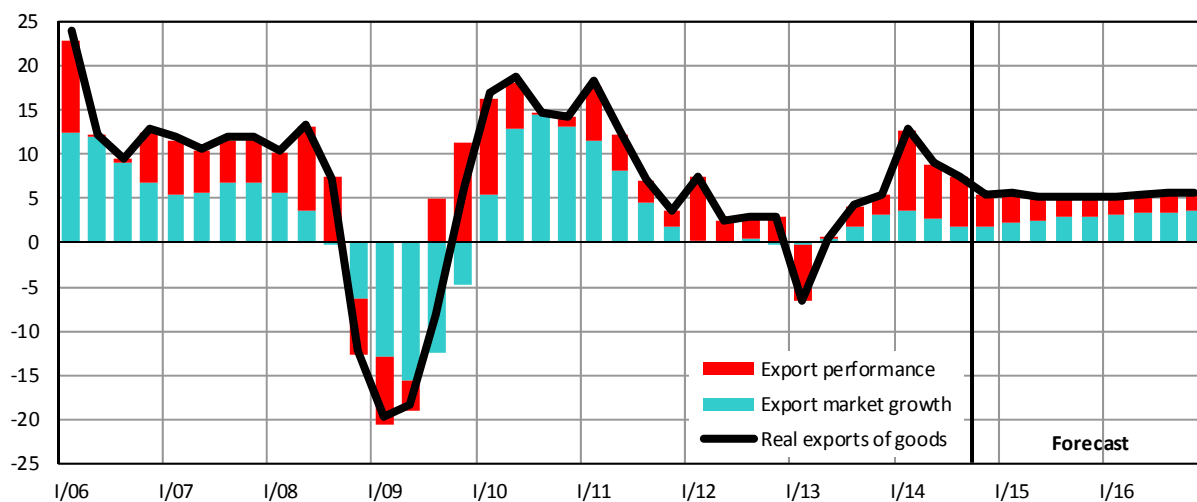
YoY growth rate, in %



Source: Eurostat, own calculations

Graph C.4.6: Real Exports of Goods

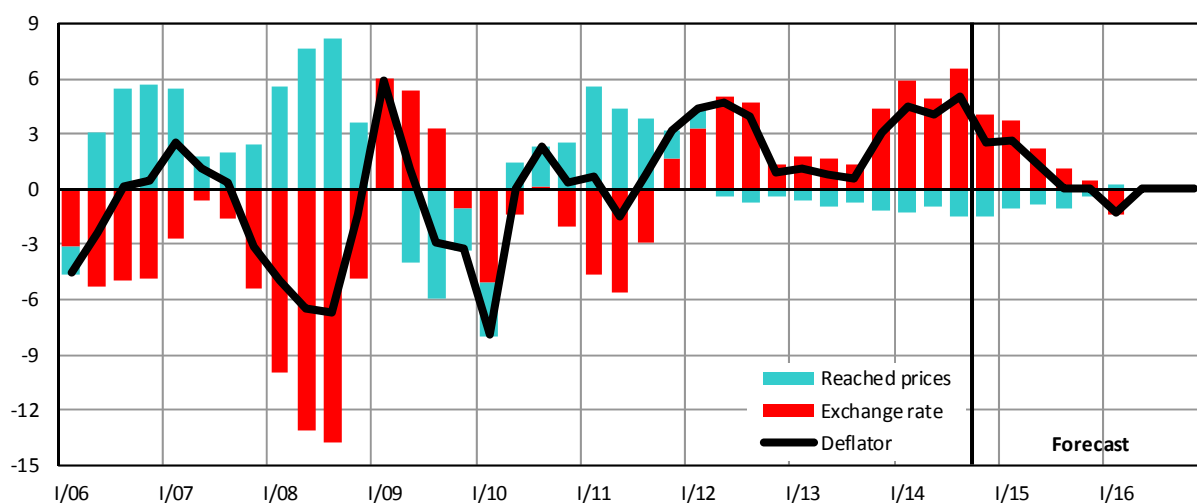
decomposition of YoY growth, in %



Source: CZSO, Eurostat, own calculations

Graph C.4.7: Deflator of Exports of Goods

decomposition of YoY growth, in %



Source: CNB, CZSO, own calculations

C.5 International Comparisons

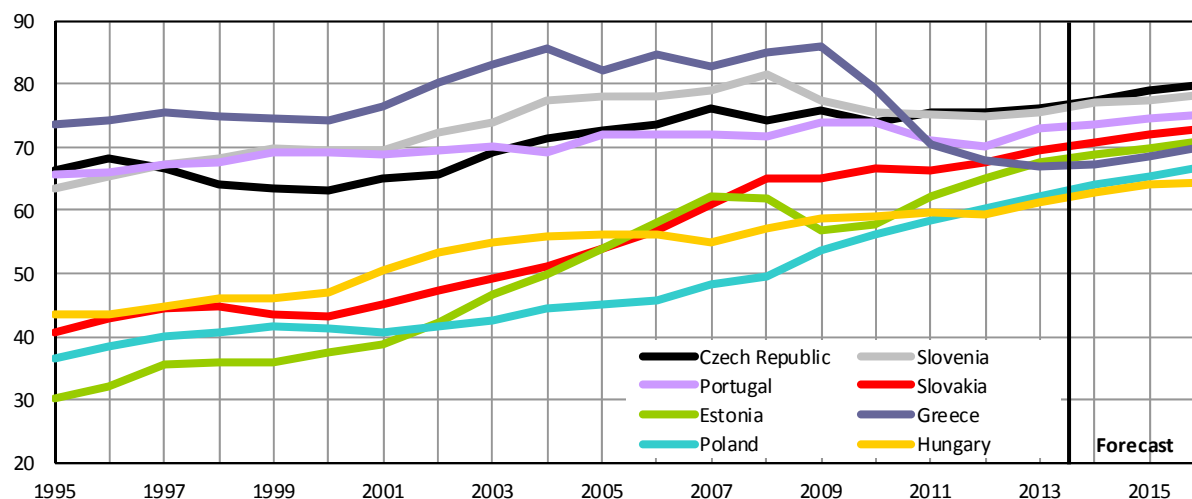
Table C.5.1: GDP per Capita – Using Current Purchasing Power Parities

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
									<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Czech Republic	PPS	21 600	21 100	20 200	20 600	21 600	21 800	21 900	22 600	23 400	24 400
	EA12=100	76	74	76	74	76	76	76	77	79	80
Slovenia	PPS	22 500	23 100	20 700	21 000	21 500	21 600	21 800	22 500	23 100	24 000
	EA12=100	79	81	78	76	75	75	76	77	78	78
Portugal	PPS	20 500	20 400	19 700	20 600	20 300	20 200	21 000	21 500	22 100	23 000
	EA12=100	72	72	74	74	71	70	73	74	74	75
Slovakia	PPS	17 300	18 500	17 300	18 500	18 900	19 600	20 000	20 700	21 400	22 400
	EA12=100	61	65	65	67	66	68	69	71	72	73
Lithuania	PPS	15 600	16 200	13 800	15 300	17 000	18 300	19 400	20 300	21 200	22 300
	EA12=100	55	57	52	55	60	63	67	69	71	73
Estonia	PPS	17 700	17 600	15 200	16 100	17 800	18 800	19 500	20 100	20 800	21 800
	EA12=100	62	62	57	58	62	65	68	69	70	71
Greece	PPS	23 500	24 100	22 900	22 100	20 100	19 600	19 300	19 600	20 400	21 500
	EA12=100	83	85	86	79	70	68	67	67	69	70
Poland	PPS	13 700	14 100	14 300	15 600	16 600	17 400	17 900	18 700	19 500	20 400
	EA12=100	48	50	54	56	58	60	62	64	65	67
Hungary	PPS	15 600	16 200	15 600	16 400	17 000	17 100	17 600	18 400	19 000	19 700
	EA12=100	55	57	59	59	60	59	61	63	64	64
Latvia	PPS	15 400	15 600	12 900	13 500	14 700	16 000	17 000	17 700	18 600	19 700
	EA12=100	54	55	48	48	52	55	59	61	62	64
Croatia	PPS	15 800	16 400	15 000	14 900	15 500	16 000	16 100	16 200	16 400	16 900
	EA12=100	56	58	56	54	54	56	56	55	55	55

Source: CZSO, Eurostat, own calculations

Graph C.5.1: GDP per Capita – Using Current Purchasing Power Parities

EA12=100



Source: CZSO, Eurostat, own calculations

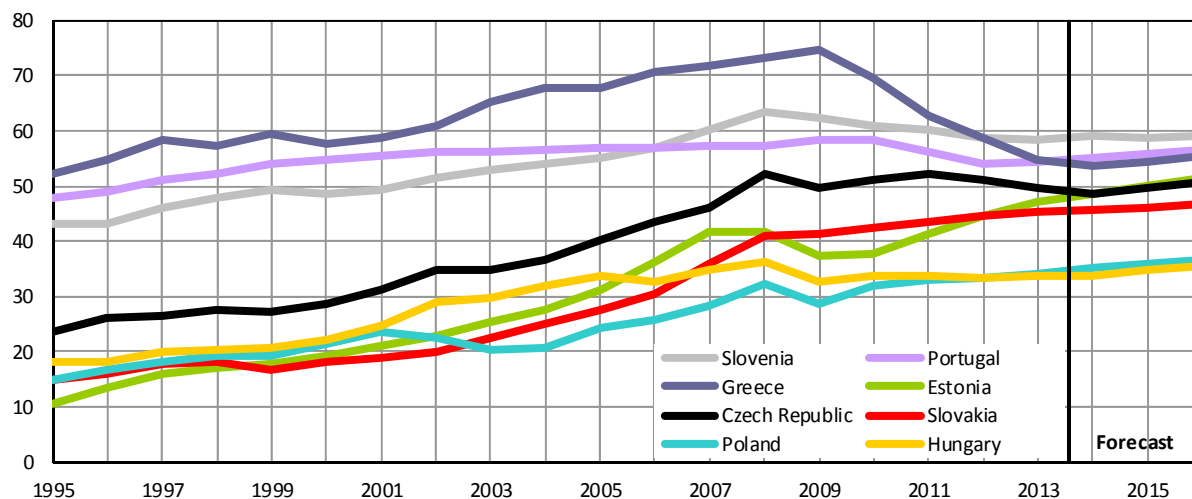
Table C.5.2: GDP per Capita – Using Current Exchange Rates

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
		<i>Estimate Forecast Forecast</i>									
Slovenia	<i>EUR</i>	17 400	18 800	17 700	17 700	18 000	17 500	17 500	17 900	18 300	18 800
	<i>EA12=100</i>	60	64	62	61	60	59	58	59	59	59
<i>Comparative price level</i>	<i>EA12=100</i>	76	78	80	80	80	78	77	77	76	75
Portugal	<i>EUR</i>	16 600	16 900	16 600	17 000	16 700	16 100	16 400	16 800	17 300	18 000
	<i>EA12=100</i>	57	57	58	58	56	54	54	55.2	56	56.4
<i>Comparative price level</i>	<i>EA12=100</i>	80	80	79	79	79	77	75	75	75	75
Greece	<i>EUR</i>	20 900	21 600	21 200	20 300	18 700	17 500	16 500	16 300	16 900	17 700
	<i>EA12=100</i>	72	73	75	70	63	59	55	53.7	54	55.5
<i>Comparative price level</i>	<i>EA12=100</i>	87	86	87	88	89	86	82	80	79	79
Estonia	<i>EUR</i>	12 100	12 300	10 600	11 000	12 300	13 300	14 200	14 800	15 500	16 400
	<i>EA12=100</i>	42	42	37	38	41	45	47	48	50	51
<i>Comparative price level</i>	<i>EA12=100</i>	67	68	65	66	67	69	70	70	71	72
Czech Republic	<i>EUR</i>	13 400	15 400	14 100	14 900	15 600	15 300	15 000	14 800	15 500	16 200
	<i>EA12=100</i>	46	52	50	51	52	51	50	49	50	51
<i>Comparative price level</i>	<i>EA12=100</i>	61	70	66	69	69	68	65	63	63	63
Slovakia	<i>EUR</i>	10 400	12 100	11 800	12 400	13 000	13 400	13 600	13 900	14 300	14 900
	<i>EA12=100</i>	36	41	41	43	44	45	45	46	46	47
<i>Comparative price level</i>	<i>EA12=100</i>	59	63	64	64	66	66	65	65	64	64
Lithuania	<i>EUR</i>	9 000	10 200	8 500	9 000	10 300	11 200	11 800	12 300	12 900	13 700
	<i>EA12=100</i>	31	35	30	31	35	37	39	40	42	43
<i>Comparative price level</i>	<i>EA12=100</i>	56	61	58	56	58	59	58	58	59	59
Latvia	<i>EUR</i>	10 300	11 200	8 800	8 600	9 800	10 900	11 600	12 100	12 800	13 700
	<i>EA12=100</i>	35	38	31	30	33	37	38	40	41	43
<i>Comparative price level</i>	<i>EA12=100</i>	65	69	64	61	64	66	65	66	66	67
Poland	<i>EUR</i>	8 200	9 500	8 200	9 300	9 800	10 000	10 300	10 700	11 100	11 700
	<i>EA12=100</i>	28	32	29	32	33	34	34	35	36	37
<i>Comparative price level</i>	<i>EA12=100</i>	59	65	54	57	56	56	55	55	55	55
Hungary	<i>EUR</i>	10 100	10 700	9 300	9 800	10 100	9 900	10 200	10 200	10 800	11 400
	<i>EA12=100</i>	35	36	33	34	34	33	34	34	35	36
<i>Comparative price level</i>	<i>EA12=100</i>	63	63	56	57	57	56	55	53	55	55
Croatia	<i>EUR</i>	10 200	11 200	10 500	10 500	10 400	10 300	10 200	10 200	10 200	10 500
	<i>EA12=100</i>	35	38	37	36	35	34	34	33	33	33
<i>Comparative price level</i>	<i>EA12=100</i>	63	65	65	67	64	62	61	60	60	59

Source: CZSO, Eurostat, own calculations

Graph C.5.2: GDP per Capita – Using Current Exchange Rates

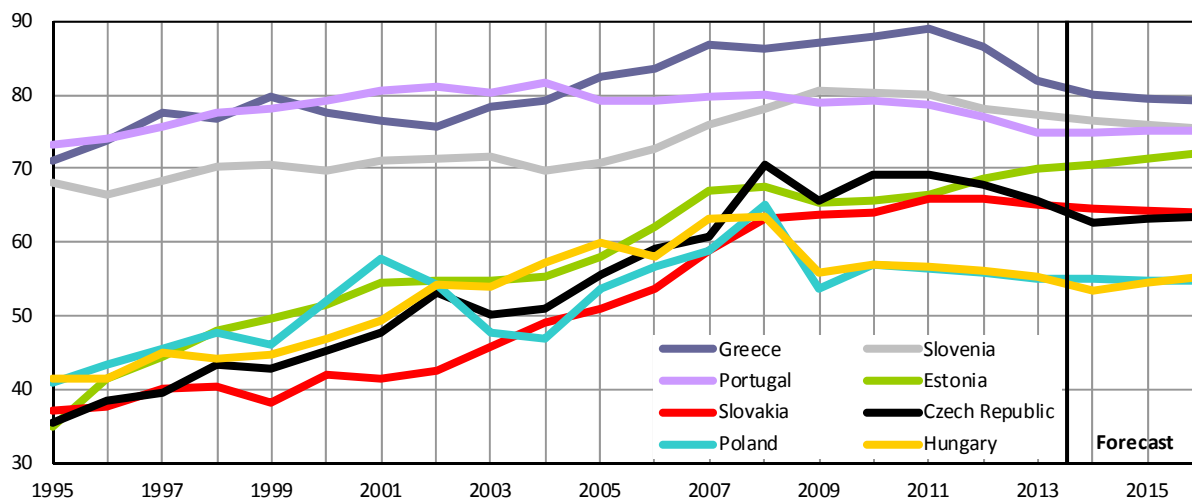
EA12=100



Source: CZSO, Eurostat, own calculations

Graph C.5.3: Comparative Price Level of GDP per Capita

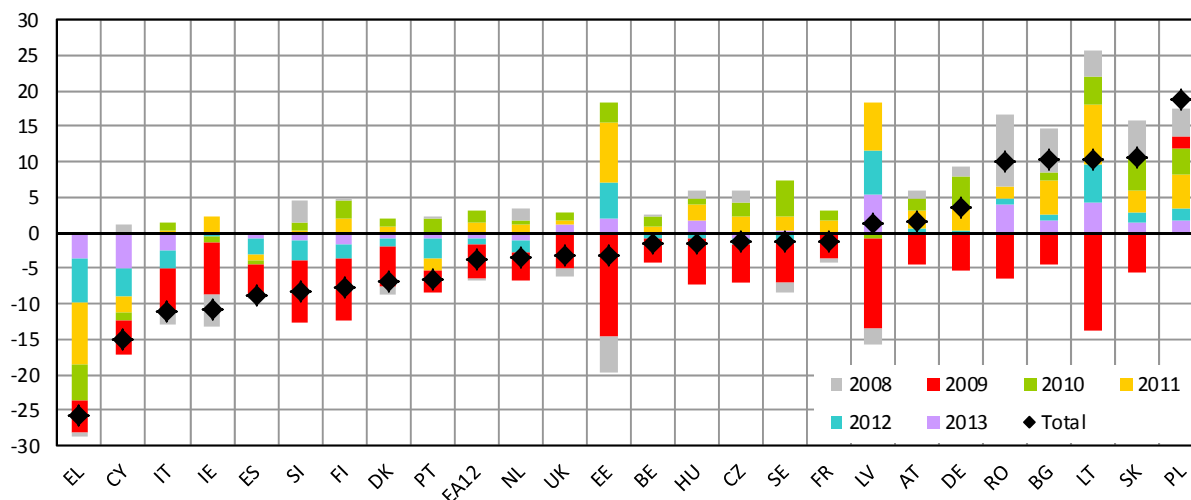
EA12=100



Source: CZSO, Eurostat, own calculations

Graph C.5.4: Change in Real GDP per Capita during 2008–2013

growth in %



Source: CZSO, Eurostat, own calculations

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