C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

Economic output has not yet reached the level at the peak of the cycle from before the recession at the turn of 2008 and 2009. In comparison to that, in Q4 2011 the seasonally adjusted real GDP was 1.2% lower. The growth of seasonally adjusted GDP started slowing from mid-2010 and it halted in the second half of 2011. In Q3 and Q4 a 0.1% QoQ decrease in GDP was recorded, and the Czech economy formally found itself in a technical recession. Such small QoQ changes in GDP are outside the margin of statistical error, however, and later revisions of quarterly national accounts are usually skewed toward higher growth[7], which may yet alter this conclusion. Therefore, the current phase of the economic cycle can be regarded as stagnation.

GDP[8] increased YoY by 0.3% in Q4 (*versus 0.8%*). For the entirety of 2011, growth reached 1.7% (*versus 1.8%*). For 2012, we expect the stagnation more or less to continue, with growth coming in only at 0.2% (*no change*). Recovery should occur in 2013 to the level of 1.3% (*versus 1.6%*). There are risks to the downside, although these are lower than was the case for the previous forecast.

For the coming period, the decrease of external risks, due to the completed restructuring of Greek debt and positive impacts of ECB's extraordinary long-term financial operations, brings a certain optimism.

On the other hand, fiscal consolidation will have a pronounced negative effect on the growth dynamics. It will include especially the increase of VAT rates from the start of 2012 and 2013. Anxiety is also caused by the low level of confidence in the economy, most significantly among consumers and in construction. This should be reflected in more cautious microeconomic decision-making. The economic situation will be highly variable among firms, as in export-related companies the situation will be markedly better in comparison to those relying especially on domestic sales.

The worsening terms of trade led **real gross domestic income** (RGDI), which reflects the income situation of the Czech economy, to grow more slowly than GDP. In Q4 2011, RGDI decreased YoY by 0.2% (*versus 0.1%*). The income situation among Czech economic entities is thus lagging behind the growth in output. For 2011 as a whole, RGDI was stagnating (*versus 0.5% growth*). In 2012, it should decrease by 0.3% (*versus 0.6%*) in step with deterioration in the terms of trade. For 2013, we expect 1.0% growth (*versus 1.2%*).

The slower real GDP growth and lower deflator of gross domestic expenditure also caused lower **nominal GDP** gains than expected in the January forecast. In Q4 2011, YoY growth of 1.2% was recorded (*versus 2.0%*). The price development[9] is also a cause for nominal GDP to increase more slowly than expected for 2011. The gain was 0.9% (*versus 1.5%*). In 2012, the increase should reach 2.1% (*versus 2.2%*). In 2013, nominal GDP should rise by 2.7% (*versus 2.4%*).

Regarding the **income structure** of GDP, after developing unfavourably in the previous quarters of 2011, the gross operating surplus expanded significantly in Q4 by 3.4% (*versus 1.5%*). Even so, its growth for 2011 reached just 0.5% (*versus 0.8%*). The different orientation of deviations is caused by revisions in data from previous quarters.

In 2012, increase in the operating surplus could reach 1.4% (*versus 1.0%*). For 2013, we expect it to rise to 2.8% (*versus 2.1%*).

Expenditures on GDP

The YoY decline in real **household final consumption** outlays came to 0.7% (*as forecast*). Households' consumption is being pressed down by their unfavourable income situation, and especially by decline in the wage bill in part of the public sector and low consumer confidence. For 2011, household consumption apparently fell by 0.5% (*versus 0.4%*).

In early 2012, moreover, higher inflation will have an impact due to the hike in the reduced VAT rate from 10% to 14%. We therefore expect consumption to slip by 0.4% (*versus 0.7%*). After two years of decline, consumption could stabilise in 2013 thanks to the slight economic recovery and despite fiscal restriction. We expect unremarkable growth of 0.2% (*versus 0.7%*).

[7] *From 38 observations during the history from 2002 to date of publishing seasonally adjusted GDP, upward revision of the first estimate of QoQ growth was recorded in 23 cases (61%), no change in 2 cases and downward revision in 13 cases (34%).*

8 Data are presented without seasonal adjustment in the remaining text, unless stated otherwise

[9] *The decrease of the average GDP deflator for Q1 to Q3 was revised from 0.7% to 1.3%.*

Government spending on final consumption fell by 1.7% in real terms (*versus 4.4%*). For the entirety of 2011, government consumption decreased by 1.4% (*versus 2.3%*). In accordance with the adopted stabilisation measures and expected fixing of certain expenses, government institutions are expected to continue behaving thriftily regarding both employment and purchases of goods and services. For 2012, we expect government outlays on consumption to decline by 3.7% (*versus 2.5%*). In 2013, if the consolidation strategy is respected, the decrease could slow to 0.5% (*versus growth of 0.1%*).

Gross fixed capital formation in Q4 2011 declined by 1.7% YoY (*versus 0.9%*). Investments in machinery, according to the latest data, were growing throughout the entire year, while construction investments were falling. In Q4 2011, vehicle purchases rose by 11.2% and machinery purchases (excluding vehicles) by 1.7%. Investments into non-residential buildings, by contrast, decreased by 3.9% and investments into housing fell by even 11.3%. Investments for the entire year 2011 were down by 1.2% (*versus 0.3%*).

Future development of investments is extraordinarily uncertain. Pessimistic expectations, apprehensions about the possible impacts of the debt crisis in the euro zone and the limitation on public investment expenditures will have a negative effect. On the other hand, the high production capacities utilisation of successfully exporting companies and their under-investment are beginning to be felt. New investments could also be stimulated by a heightened influx of financing from EU's structural funds (assuming the current problems with drawing are resolved). The interaction of these divergent factors should result roughly in stagnation followed by modest growth. In 2012, we expect a decline of 0.5% (*versus growth of 0.1%*). For 2013, we look for growth dynamics to be renewed at the 2.1% level (*forecast unchanged*).

The contribution from the change in inventories to YoY growth of GDP in seasonally adjusted data stood at –0.5 p.p. in Q4 2011, and it was one of the factors decreasing the YoY dynamics of GDP. For 2011 as a whole, the contribution from the change in inventories was –0.1 p.p. (*versus –0.2 p.p.*). In 2012 and 2013, we look for approximately neutral influence of inventories on the change in economic output.

Foreign trade is the main positive factor for the economy's development. The slowdown of imports growth due to decline in domestic demand is considerably stronger versus the slowing in exports due to the weaker foreign demand. The result is a significantly positive **contribution of foreign trade** to YoY GDP growth in the seasonally adjusted data. This reached 2.3 p.p. in Q4 2011. For 2011, foreign trade's contribution was 2.6 p.p. (*versus 2.7 p.p.*), which was the highest value since 2005. Under not markedly unfavourable external conditions, positive contributions from foreign trade can be expected in the forecast's time horizon. Slowing demand for imported goods and services should continue to predominate over the weakening growth rate in export volume, albeit with a lesser intensity compared to the exceptional year 2011. In 2012, foreign trade's contribution should reach 1.0 p.p. (*forecast unchanged*), and in 2013 it could be 0.8 p.p. (*forecast unchanged*).

C.2 Prices

Consumer prices

YoY growth in consumer prices reached 3.7% in February (*versus 3.5%*), with a 2.6 p.p contribution from administrative measures.

Acceleration of YoY inflation at the outset of the year was caused by the increased contribution of administrative measures, as the hike in the reduced VAT rate from 10% to 14% was reflected in a 1.1 p.p. contribution. Regulated prices also contributed to YoY inflation: natural gas prices by 0.6 p.p. and, for example, prices of electricity, heat, water and sewage combined, and prices in the health care segment by 0.2 p.p. each.

YoY inflation in February was pulled by the housing segment (1.6 p.p.), followed by food and non-alcoholic drinks (1.1 p.p.), in which more than half of the impact of the VAT increase was seen.

Fuel prices reached record levels in February, with the price of Natural 95 petrol reaching CZK 36.20/l and that of diesel fuel CZK 36.75/l. The assumptions accepted concerning the dollar prices of oil and the CZK/USD exchange rate are reflected in the unfavourable outlook for CZK-denominated oil prices (see Table A.1.3) and in the forecast's horizon provide no room for significant decrease in fuel prices.

From January 2012, the CZSO is working with a new consumer basket which was published on

16 February 2012. There were minor changes in the list of price representatives and their weights. The shift to the new consumer basket also complicates comparisons of the previous forecast with reality and with the current forecast. The new weighting is reflected not only in fresh information, but also in a change of the estimate of administrative influences between this and the January Macroeconomic Forecast. All other circumstances being equal, a change of the weighting scheme usually causes an increase by approximately 0.1 p.p. in the annual forecast from the contribution of regulated prices.

We continue to assume that in **2012**, administrative measures will contribute approximately three-quarters of the inflationary effect, consisting in the impacts from indirect taxes and changes in prices which the CZSO reports as regulated. Concerning indirect taxes, in addition to the already implemented VAT increase, growth in the price level will be affected (with an estimated impact of 0.1 p.p.) by the higher excise taxes on cigarettes and tobacco. In the group of goods and services with regulated prices, those related to housing will contribute most to the YoY rise in CPI for December 2012 (contributions of 0.2 p.p. each should be caused by electricity, water and sewage fees in aggregate, natural gas and heat). Administrative measures should contribute 2.1 p.p. (*forecast unchanged*) to YoY prices growth for December 2012.

Weak domestic demand will be the main anti-inflation factor for 2012. Conversely, the effect of the exchange rate should be a slight pro-inflation factor. The **average inflation rate** in 2012 should reach 3.3% (*versus 3.2%*), with prices rising by 2.4% during the year (*versus 2.3%*). The YoY growth of prices should slow in the second half of the year. We continue to expect contributions from market growth in prices to the YoY inflation to be positive in 2012.

The forecast for **2013** is no longer based on an assumption of VAT rates being unified at 17.5%, but on an assumption for both rates to be raised by 1.0 p.p. (i.e. to 15% and 21%) from 1 January 2013. The contribution of indirect taxes to the rise in consumer prices is therefore no longer expected to be negative, but rather positive and amounting to 0.7 p.p. The change of assumption concerning VAT is also the main reason for boosting the inflation forecast for 2013, when we expect the average inflation rate to reach 2.3% (*versus 1.5%*) with an increase of prices during the year of 2.6% (*versus 1.7%*). Administrative measures should have a dominant influence on inflation also in 2013 due to the change in assumptions concerning VAT.

Deflators

The aggregate price level in the economy is rising only moderately. The **gross domestic expenditure (GDE) deflator**, which is a comprehensive indicator of domestic inflation, grew YoY by 1.4% (*versus 2.1%*) in Q4 2011, while all its components grew more slowly than forecast. For 2011, the deflator thus rose by 0.9% (*versus 1.1%*).

In early 2012, domestic prices were affected by the impact of the VAT change. For 2012 as a whole, the GDE deflator should thus rise by 2.4% (*versus 2.7%*) and should be driven especially by consumer inflation. In 2013, when another VAT increase is expected, the GDE deflator could rise by 1.8% (*versus 1.2%*).

The implicit GDP deflator increased by 0.9% (*versus 1.2%*) in Q4 2011. The lower outcome was due especially to the GDE deflator in the prices of fixed capital formation. The terms of foreign trade deteriorated only by 0.8% (*versus 1.2%*). For 2011, the deflator dropped by 0.7% (*versus 0.2%*). The forecast's divergence from reality was mainly due to revision of the decrease in the average GDP deflator for Q1 to Q3 2011 from 0.7% to 1.4% with a revision of the deterioration in terms of trade from 2.0% to 2.6%.

For 2012, we are increasing the GDP deflator forecast to 2.0% (*versus 1.9%*). For 2013, we expect the deflator increment to be 1.4% (*versus 0.8%*) due to the change in the assumption for VAT rates (see above).

C.3 Labour Market

The flat economic growth results in a decrease of employment and slight deterioration in conditions on the labour market.

Moreover, the labour market is also affected by a decrease in people of productive age (see Chapter A.6) and by the new legislative adjustments to old-age pensions. The so-called small pension reform as from 1 October 2011, which reinforced the link between newly attributed pensions and the wages received and created stricter penalties for early retirement from the start of 2012, led to an unprecedented increase in early retirement and decrease in the labour supply in the second half of 2011.

Employment

According to the Labour Force Survey (LFS), **employment** decreased YoY in Q4 2011 by 0.1% (*versus growth of 0.1%*) due to a marked decline in the employees segment by 0.5% (*versus growth of 0.2%*). We presume that, in addition to austerity measures, the more pronounced decrease in the number of employees was caused also by the one-off factor of early retirements. The increase in the entrepreneurs and self-employed segment was 1.9% (*versus 0.4%*), due to a further rise in the number of entrepreneurs without employees. Despite a higher number of part-time jobs (some of which are filled by senior pensioners), their rising number may signal continuing expansion of the so-called "black system" of concealed employment relationships, which is very unfavourable to the budget. New legislation as from January 2012 assumes stricter penalties for this form of employment and, starting from the New Year, control should also be reinforced. We expect, however, that this will come into real and full effect only later.

From a sector perspective, there was shift to YoY decrease of employees in the tertiary and primary sectors, while according to LFS the secondary sector showed a slight increase. While manufacturing contributed to that growth, the decline in construction had the opposite effect. The statistics show that public administration continued to contribute significantly to the decrease in total employment.

Seasonally adjusted employment decreased QoQ in Q4 2011. The favourable growth trend which had lasted since Q2 2010 thus ended.

The **employment rate** (15–64 years) increased YoY by 0.6 p.p. to 66.2% (*as forecast*) in Q4. Due to the decreasing productive-age population and the need to secure production capacities, we anticipate moderate increase in employment within the forecast horizon. We also expect to see participation by people currently economically inactive (especially old-age pensioners).

The **economic activity rate** (15–64 years) grew YoY by 0.3 p.p. to 70.7% in Q4 2011 (*versus 70.8%*). With a gradually decreasing number of residents, the total labour supply thus decreased by 0.5% YoY (*versus 0.3%*). Within the long-term horizon, we expect a tendency for an increasing participation rate, especially due to gradual raising of the statutory retirement age, which should lead (albeit at a slower rate) also to increase of the effective retirement age.

For this year, we expect employment to decrease by 0.5% (*versus 0.3%*). This worsening of the forecast is due especially to the carryover of current decrease in seasonally adjusted employment. Following from the expected improvement in the economic situation, employment should rise by a slight 0.1% (*versus stagnation*) in 2013.

Unemployment

The decline of **registered unemployment** in seasonally adjusted data apparently reached its bottom in September 2011. Unemployment began slightly increasing month on month thereafter, and this tendency continued also in the first months of 2012. Renewed growth in numbers of the long-term unemployed is an unfavourable social and economic phenomenon recorded in this statistic.

According to LFS, not only the total number of unemployed continued to decline YoY in Q4 2011, but so did the number of those long term unemployed. The **unemployment rate** reached 6.4% in Q4 2011 (*versus 6.5%)*, and its YoY decrease was 0.4 p.p. A partial effect can be assumed here of early retirement.

Although the new legislative measures should gradually contribute to slowing the increase in the number of registered job seekers, we do not expect a switch to decrease within the forecast's horizon. We expect a slight increase in the unemployment rate (LFS) in 2012 to 7.0%, and for 2013 we look for another increase to 7.2% (*forecast unchanged for both years*).

Wages

The **wage bill** (national accounts, domestic concept) in Q4 2011, according to preliminary data, rose by just 0.1% (*versus 2.0%*). These statistics also indicate a 0.4% decrease in the number of employees. The increasingly significant drop in construction was joined also by retail trade, transport and catering. The volume of salaries in the state administration, health care and education combined was the same as last year.

With the drop of employment in 2012 that is sharper than originally expected, for this year we expect the wage bill to grow by 1.5% (*versus 2.0 %*), and for 2013 we preserve the forecast at 2.6%.

The **average wage** according to registry statistics grew by 2.0% in Q4 2011 (*as forecast*), which, with 2.4% growth of prices, means in real terms a YoY decrease of 0.4%. In the non-business sector, decrease in real terms has been underway already since Q2 2010.

Construction had the greatest ongoing effect on the wages decrease in the business sector. In the non-business sector, savings in central government institutions were still apparent, while education recorded the largest YoY increase of all sectors.

Based on the signals from the business sector and the currently known intentions and decisions concerning wages in the public sector for the coming period, we expect a slowdown in the rise of average nominal wages. In 2012 we only expect nominal growth of 2.0% (forecast unchanged), which will mean a real decrease in overall average wage of 1.3%, given the expected higher inflation rate. For 2013, along with an improving economic situation, we expect nominal gain in the average wage of 2.6% (by 0.3% in real terms).

C.4 External Relations

(a balance of payments perspective)

With the publication of data for Q4 2011, the CNB revised the balance of payments data for 2010 and the first three quarters of 2011. The current account deficit as a proportion of GDP was increased by ca 0.8 p.p. due to this revision both in 2010 and in the annual aggregate through Q3 2011. These changes significantly affected the correctness of comparing previous forecasts with reality.

The external imbalance, expressed as the **ratio of the current account balance to GDP**, reached –2.9% in 2011, and thus grew YoY by 1.0 p.p. Apart from the trade balance (improvement of 1.0 p.p.), the income balance also contributed to this (improvement of 0.4 p.p.). In contrast, the balance of services deteriorated (by 0.3 p.p.) as did the balance of current transfers (by 0.2 p.p.).

Growth in world trade continued in 2011, albeit at an already decreasing rate. After a strong expansion of export markets[10] by almost 12% in 2010, their growth slowed in 2011 to average 6.9%. The negative influence of the debt crisis in the euro zone on the real economy of trading partner countries should also be reflected in the coming years by a slowdown in export markets. This slowing could reach 1.9% (*versus 2.4%*) in 2012 and 2.8% (*versus 2.7%*) in 2013. We also expect slower growth in export performance, which indicates the volume proportion of Czech goods on foreign markets, from 5.1% in 2011 to 1.2% (*versus 0.4%*) in 2012 and 0.8% (*versus 0.7%*) in 2013. We expect the growth rates for both Czech exports and imports to decline significantly in the next two years. Considering the reduction in domestic demand, we expect imports to grow less than exports, so the **trade surplus** should increase. We estimate it to total 3.0% of GDP (*versus 3.3%*) in 2012 and 3.4% (*versus 3.5%*) in 2013.

The deficit on the fuels balance (SITC 3) reached 4.6% of GDP in 2011. Considering the oil price development scenario, we expect the current high prices of raw materials to hold during 2012 and 2013. As a proportion of GDP, the fuels deficit should thus deepen to ca 5.4% in 2012 and to 5.3% in 2013 (*forecast unchanged for both years*).

The **balance of services** surplus decreased YoY by 0.3 p.p. to 1.7% of GDP in 2011. Services export and import growth rates were slowing for most of the year, but the expenditures grew faster than revenues and the balance of services surplus was diminishing. The surplus decrease was especially apparent in transportation services, where the surpluses of road and air transportation dropped most. A smaller decrease in surplus was recorded in the tourism balance, and only the balance of other services slightly improved YoY. For 2012 and 2013, we expect the balance of services surplus to remain at ca 1.7% of GDP (*forecast unchanged for both years*).

The deficit on the **income balance**, which includes the reinvested and repatriated profits of foreign investors, shows only a weakly growing tendency that is apparent already from mid-2010. This concerns both an outflow of investment income, which consists predominantly of reinvested profit, as well as compensation to foreign employees. The incomes deficit reached 7.1% of GDP in 2011. We expect the weak growth to continue in 2012 and 2013 and the incomes deficit will reach 7.2% of GDP (*versus 6.9%*) and 7.5% of GDP (*versus 7.3%*), respectively.

In the given circumstances, we estimate that the **current account** balance as a ratio to GDP will reach –2.4% (*versus –1.6%*) in 2012, and in 2013 we expect a CA/GDP ratio of –2.3% (*versus –1.7%*). After the data revision, the current account deficit was larger than previously, but even in this amount it poses no risks of macroeconomic imbalances.

[10] *Weighted average growth in goods imports by the seven most important trading partner countries (Germany, Slovakia, Poland, Austria, France, United Kingdom and Italy).*

Box C.4.1: **Openness of the Czech Economy**

The Czech Republic is a strongly export-oriented country. Its openness as measured by the ratio of goods and services exports under SNA to GDP reached 68.2% in 2010. According to cross-border statistics, exports of goods came to 67.1% of GDP. The data presented below are from cross-border statistics for 2010.

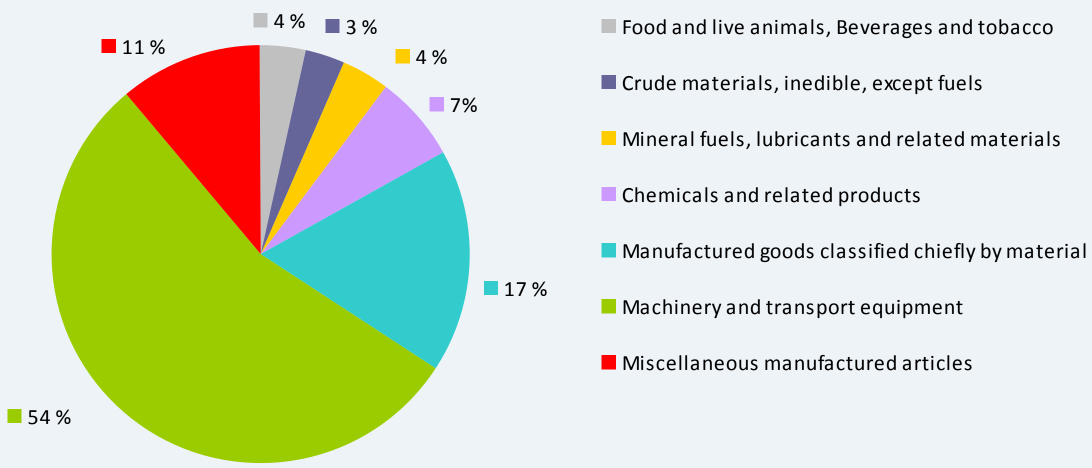
Czech exports are characterised by low territorial and product diversification. Of total exports, 82% is sold within the European Union. The top eight countries – all of which are EU members – account for more than 70%. With a nearly one-third share, exports to Germany, comprising especially industrial sub-contracts, play a dominant role.

Table 1: **Territorial Structure of Czech Export**
share on total export of goods, current prices

	Ratio	Cummulative ratio
Germany	32.6	32.6
Slovakia	8.6	41.2
Poland	6.2	47.4
France	5.4	52.8
Great Britain	5.0	57.7
Austria	4.8	62.5
Italy	4.5	67.0
The Netherlands	3.7	70.7
Russia	2.7	73.4
Belgium	2.5	75.8

Machinery and transportation equipment account for over 50% of exports. One reason for this has been government support for direct foreign investments in the form of investment incentives, approximately half of which have gone to the automotive industry. Another prominent group is semi-finished goods in the form of the aforementioned sub-contracts directed primarily to EU countries. Industrial consumer goods complete the leading triumvirate.

Graph 1: **Commodity Structure of Czech Export**
SITC, current prices



Note: The graph does not depict the categories ***Animal and vegetable oils, fats and waxes*** *and* ***Commodities and transactions not classified elsewhere in the SITC****, since these are negligible in terms of the volume exported.*

Table 2 presents the export interconnectedness among the Czech Republic's seven largest export partners. Among all continental economies, Germany is the leading customer, and the territorial diversification of its exports is very high. The strong interconnectedness of these economies is evident from the last column.

Table 2: **Export Relations among Main Export Partners of the Czech Republic**
share on total export of goods, current prices

From / To	Czech Rep.	Germany	Slovakia	Poland	France	Great Britain	Austria	Italy	Total
Czech Rep.	x	32.6	8.6	6.2	5.4	5.0	4.8	4.5	**67.0**
Germany	2.8	x	0.9	4.0	9.4	6.2	5.5	6.2	**34.9**
Slovakia	13.7	19.2	x	7.3	6.8	3.7	6.8	5.5	**63.1**
Poland	6.0	26.1	2.7	x	6.8	6.3	1.9	5.9	**55.7**
France	0.7	16.2	0.5	1.5	x	6.7	0.9	8.1	**34.7**
Great Britain	0.7	10.5	0.2	1.4	7.2	x	0.6	3.3	**23.9**
Austria	3.8	31.6	2.1	2.5	4.2	3.0	x	7.8	**55.0**
Italy	1.1	13.0	0.6	2.5	11.6	5.2	2.4	x	**36.4**

The last two tables show export data of the main European economies to the largest world markets. Of these economies, the United Kingdom traditionally exports the most to these markets. Although the other economies are relatively less dependent on these markets, their exports to these territories still account for about two-thirds of total EU exports.

Table 3: **Territorial Structure of Selected Countries' Export**
share on total export of goods, current prices

From / To	USA	China	Japan	Total	Rest of the world
	1	*2*	*3*	*4 = 1 + 2 + 3*	
Germany	6.9	5.7	1.4	13.9	86.1
France	5.7	2.8	1.5	10.0	90.0
Great Britain	14.4	2.9	1.6	18.9	81.1
Italy	6.0	2.6	1.2	9.8	90.2

Table 4: **Export to Selected non-EU Countries**
share on total EU export, current prices

From / To	USA	China	Japan
Germany	27.1	47.5	30.0
France	9.1	9.7	13.4
Great Britain	18.4	7.8	11.5
Italy	8.4	7.6	9.1
Total	**63.0**	**72.6**	**64.1**
Other EU countries	**37.0**	**27.4**	**35.9**

Generally speaking, small economies are more open than are large economies. One exception in Europe is Germany, whose openness as measured by the ratio of exports of goods and services to GDP amounts to 50%. The Czech economy is predominantly dependent on economic development in the European Union. The dependence of Czech exports on the demand in the USA and China, on the other hand, is negligible both in terms of direct exports as well as indirectly through exports to the euro zone.

C.5 International Comparisons

Comparisons for the period up to and including 2011 are based on Eurostat statistics. From 2012, our own calculations are used on the basis of real exchange rates.

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 on EU27 territory after exchange rate conversion for countries that use currency units other than the euro. Using updated Eurostat data, purchasing power parity of the Czech Republic in 2011 was CZK 18.35/PPS in comparison to the EU27 or CZK 17.42/EUR in comparison to the EA12.

Most countries are gradually recovering from the economic crisis of 2009 which had caused the absolute level of GDP per capita, adjusted by **current purchasing power parity**, to decrease in all monitored countries except for Poland. The economic level in Greece has continued to fall since 2008, joined in 2011 by Portugal. Considering the ongoing recession with which both countries are struggling, this unfavourable development should continue in 2012 as well. In addition to decrease in absolute level, the two countries also slipped in their relative economic levels vis-à-vis the EA12 countries. The total decrease in Greece for the period 2009–2012 should come to 13 p.p. By contrast, the Baltic states have recorded the fastest increases in their relative economic levels compared to the EA12 since 2010. In 2012, however, the tempo of real convergence should slow considerably.

In 2011, the economic level of the Czech Republic expressed by GDP per capita as adjusted to current purchasing power parity was approximately 19,700 PPS, corresponding to 72% of the EA12 average. After the convergence period, when during 2000–2007 the real economic level in the Czech Republic in comparison to EA12 countries increased by 13 p.p., there has been no change since 2008, or even slight divergence, due to the low growth in real GDP per capita.

An alternative way of calculating GDP per capita by means of the current **exchange rate** takes into account the market value of the currency and ensuing differences in price levels. In the case of the Czech Republic, this indicator was ca EUR 14,700 in 2011, i.e. approximately half (51%) the level of the EA12. Due to expected stagnation of the economy and slight devaluation of the koruna in 2012, however, we do not expect the pre-crisis level from 2008 to be surpassed in 2012.

Looking at price levels, the **comparative price level of GDP** in the Czech Republic increased by 2 p.p. in 2011, thus reaching 71% of the EA12 average. An expected slight decrease of the price level in 2012 should help to boost the competitiveness of the Czech economy.