Ministry of Finance
Financial Policy Department

Macroeconomic Forecast

Czech Republic

April 2011

Macroeconomic Forecast of the Czech Republic
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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 2012) and for certain indicators an outlook for another 2 years (i.e. until 2014). 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:

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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:

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Note:

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

List of Abbreviations:

const.pr.	constant prices
CPI	consumer prices index
curr.pr.	current prices
EA12	euro zone containing 12 countries
EMU	Economic and Monetary Union
ESA 95	European methodology of national accounting
EU27	EU countries containing 27 countries
GDP	gross domestic product
GFS	Government Finance Statistics methodology of the IMF
HICP	harmonised index of consumer prices
IMF	International Monetary Fund
LFS	Labour Force Survey
NFC	non-fuel commodities
OECD	Organisation for Economic Co-operation and Development
p.p.	percentage point
prelim. ..	preliminarily

Basic Notions:

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	prediction of future numbers, using expert and mathematical methods
Outlook	prediction 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 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:

Cut-off date for data sources: **March 28, 2011**.

Summary of the Forecast

World economic recovery remains subject to many uncertainties. The main sources of risk for the Czech Republic are connected to the state of public budgets and the situation in the banking sector in some Eurozone countries.

According to current data compiled by the Czech Statistical Office (CZSO), GDP grew by 2.3% in 2010. Under the influence of fiscal consolidation measures, a moderate slowdown in economic growth to 1.9% for 2011 is expected. Growth this year should be driven chiefly by foreign trade and to a lesser extent by gross capital formation. In 2012, GDP should increase by 2.3%.

Growth in domestic consumer prices for 2011 is expected slightly above 2%, i.e., very close to the CNB inflation target. The inflation rate in 2012 will be influenced substantially by planned VAT adjustments.

The situation on the labour market is expected to gradually improve. After two years of decline, employment should increase by 0.2% in 2011 and by 0.5% in 2012. The unemployment rate (Labour Force Survey), which apparently peaked in 2010 (on average for the whole year), should decrease this year to 6.9%. In 2012, the unemployment rate should decrease to 6.5%. After two years of stagnation, the wage bill should increase this year by 2.1%. Next year, the wage bill should grow more dynamically in compliance with the development of nominal GDP.

The current account to GDP ratio should remain at a sustainable level; however, the forecast is subject to a greater degree of uncertainty in connection with the data revisions underway at this time.

Table: **Main Macroeconomic Indicators**

		2008	2009	2010	2011	2012	2010	2011	2012
					Forecast			*Previous forecast*	
Gross domestic product	*growth in %, const.pr.*	**2.5**	**-4.1**	**2.3**	**1.9**	**2.3**	2.5	2.2	2.7
Consumption of households	*growth in %, const.pr.*	**3.6**	**-0.2**	**0.5**	**0.7**	**1.9**	1.0	1.0	2.9
Consumption of government	*growth in %, const.pr.*	**1.1**	**2.6**	**0.3**	**-3.4**	**-2.5**	0.2	-3.5	-2.7
Gross fixed capital formation	*growth in %, const.pr.*	**-1.5**	**-7.9**	**-4.6**	**0.7**	**3.2**	0.0	0.8	3.6
Cont. of foreign trade to GDP growth	*p.p., const.pr.*	**1.3**	**-0.6**	**1.0**	**1.8**	**1.1**	0.4	1.7	1.0
GDP deflator	*growth in per cent*	**1.8**	**2.5**	**-1.1**	**-0.5**	**2.7**	-0.6	0.8	1.9
Average inflation rate	*per cent*	**6.3**	**1.0**	**1.5**	**2.1**	**3.2**	1.5	2.3	2.4
Employment *(LFS)*	*growth in per cent*	**1.6**	**-1.4**	**-1.0**	**0.2**	**0.5**	-1.0	0.3	0.6
Unemployment rate *(LFS)*	*average in per cent*	**4.4**	**6.7**	**7.3**	**6.9**	**6.5**	7.3	7.2	6.8
Wage bill *(domestic concept)*	*growth in %, curr.pr.*	**8.7**	**0.0**	**0.1**	**2.1**	**4.4**	0.5	3.1	4.7
Current account / GDP	*per cent*	**-0.6**	**-3.2**	**-3.8**	**-4.0**	**-3.4**	-2.8	-2.5	-2.9
Assumptions:									
Exchange rate CZK/EUR		**24.9**	**26.4**	**25.3**	**24.1**	**23.5**	25.3	24.3	23.6
Long-term interest rates	*% p.a.*	**4.6**	**4.7**	**3.7**	**4.1**	**4.3**	3.7	3.8	3.8
Crude oil Brent	*USD/barrel*	**98**	**62**	**80**	**95**	**96**	80	88	94
GDP in Eurozone (EA-12)	*growth in %, const.pr.*	**0.4**	**-4.1**	**1.7**	**1.7**	**2.0**	1.7	1.7	2.0

A Forecast Assumptions

*The forecast was made on the basis of data known as of **March 28, 2011**. No political decisions, newly released statistics, or world financial or commodity market developments could be taken into account after this date.*

Data from the previous forecast of January 2011 are indicated by italics. Data in the tables relating to the years 2013 and 2014 are calculated by extrapolation, outlining only the direction of possible developments, and as such are not commented upon in the following text.

Sources of tables and graphs: Czech Statistical Office (CZSO), Czech National Bank (CNB), Ministry of Finance of the Czech Republic, Eurostat, IMF, OECD, European Central Bank (ECB), The Economist, our own calculations.

A.1 External Environment

Economic output

The world economy continues to recover but its speed is markedly unequal. All large developing economies, including China and India, are seeing a slight slowdown; however, growth remains high. Growth in developed economies is much weaker, but unlike previously, optimism in the American and German economies is growing. Commodity prices in all of the main groups have continued their sharp rise. A number of events occurred during the first quarter (unrest in the Middle East and the natural disaster in Japan), and these could influence the global economic cycle.

The US economy grew by 2.9% in 2010 and QoQ growth in the last quarter of 2010 was 0.7% *(versus 0.5%)*. Consumer expenditure is helping growth; the growth "mix" is considered healthy (strong consumption and not too high level of supplies). The stock markets continue to grow, with the DJIA holding above 12 000 points. An agreement was reached between the Government and the opposition to extend tax breaks even to 2011 to continue to help support the economy. The current account deficit, which was under 3% during 2009, is again increasing, with the estimate for 2011 being 3.5% of GDP.

High unemployment remains the main cause for concern. It fell from 9.8% in November to 8.9% in February, but job creation has been weak. The painful process of household debt relief continues. The important index of new real estate purchases continues to stagnate, which shows that the process is still not over. The national debt has reached 100% of GDP, and several states and a number of municipalities are on the verge of bankruptcy.

Stimulation to the economy is being provided by the central bank, which is holding the band for the key refinancing rate at 0–0.25% and continues in quantitative easing.

GDP in the Eurozone grew by 1.7% in 2010, and QoQ for the fourth quarter of 2010 by 0.3% *(versus 0.4 %)*. The strong growth of the German economy contributed the most to this. Characteristic for developments in the Eurozone is marked unevenness: in 2010, the GDP of Greece, Ireland, and Spain fell, and these countries will likely be at near zero growth or in decline this year as well; in comparison, the German economy grew by 3.6 percent.

Inflation is also developing at different speeds, but is growing overall, and the differences between the countries are getting smaller. In February, inflation accelerated to 2.4% in particular due to the growth of energy prices.

Unemployment, which remains high, is also showing unevenness. In the Eurozone, it climbed to 9.9% in January, whereas in Germany it fell to 6.5%. In comparison, it stagnated in Spain at 20.4%, in Slovakia at 14.5%, and in Ireland at 13.5%.

After a spring full of turbulence on the financial markets, fiscal restrictions and consolidation are on the agenda for the majority of the countries in the Eurozone. No EA12 country has a surplus budget. The EA deficit is predicted to be at 4.5% of GDP in 2011. With last year's deficit of 3.3%, Germany is preparing to start more aggressive consolidation.

The ECB continues to maintain the main refinancing rate at 1.00% and has been helping certain economies by purchasing government bonds. However, it is sensitive to growing inflation and has thus made indications that it would soon increase the rate. The ECB's monetary policy has to deal with the problem of what common interest rate it should set for the powerful German economy on the one hand and, for example, the big stagnating Spanish economy on the other.

The degree of forced restriction of expenditure is another issue. In Ireland, severe restrictions led to an economic collapse. After many years, with high unemployment, emigration began to rise, and the resulting political instability led to the government's fall.

The Polish and Slovak economies are both benefiting from not having problems in the banking sector.

In 2010, the **Polish economy** grew dynamically by 3.8%, in the fourth quarter by more than 0.8% QoQ *(versus 0.4 %)*. In January, the unemployment rate stagnated at 9.7%. Investment into infrastructure in the wake of the European football championships should help prop the economy in 2011. The public finance deficit in 2010 came close to 8% of GDP, which led to the implementation of economic measures and an increase in VAT. The Government also prepared a programme for the sale of state-owned companies.

After the recession, **Slovakia** is again showing dynamic GDP growth, which is driven mainly by export, as was the case in the previous period. In the fourth quarter, growth reached 0.9 % QoQ *(versus 0.7 %)*, with the economy growing by 4.0% for the entire year. Industrial production in January 2011 grew YoY by 17.1%. A strong dependence on automobile manufacturing and components imported for this sector could, as a result of the production outage in Japan, lead to production being cut back. The unemployment rate amounted to 14.5% in January, which is the second highest in the Eurozone. The public finance deficit in 2010 deteriorated to 8% of GDP against expectations. For this reason, the government prepared consolidation measures that will reduce it by about 2.5 p.p. and is preparing a number of privatisations, for example in energy.

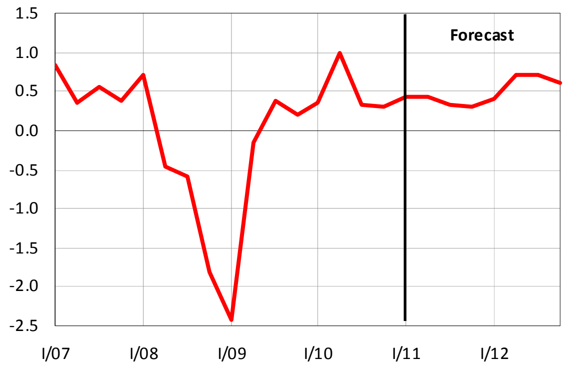
Our forecast is again based on the assumption that no more major shocks will occur on the financial markets and that the Eurozone countries will not experience an insolvency crisis. Recovery is expected in 2011, although a considerably different speed throughout the various regions of the world. While growth in advanced economies will be relatively weak despite a certain improvement, growth of developing markets will remain dynamic.

With respect to the US economy, we are increasing the growth estimate to 3.0 % *(versus 2.9 %)*. For 2012, we are keeping the estimate at 3.1%.

We are keeping our forecast for expected GDP growth in the EA12 economy at 1.7% for 2011 and 2.0% for 2012. Problems in the financial sector of many countries, high public debt and unequal speeds of development in the Eurozone countries will represent the main risks.

Graph A.1.1: **Growth of GDP in EA12**

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



Commodity prices

Renewed pressure on commodity prices since the second half of 2010 is a symptom of growth expectations. Commodity prices in all main market segments are reaching their maximums.

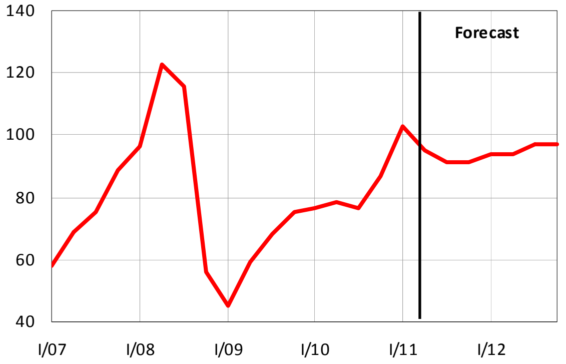
The consequences of globalisation in particular can be seen as the main cause. Industrialisation of the once developing world and the creation of numerous middle classes in these countries with much higher consumption standards are apparently creating long-term pressure on limited resources. Investments into commodity derivatives, which have seen a tremendous boom in recent years, are another factor. Furthermore, since the end of January the global market suffered shocks related to geopolitical turmoil (unrest in many oil-producing countries) or natural disasters (Japan). It is expected, however, that the impact of these shocks will only be short-term.

The average price of Brent crude oil for 2010 reached USD 79.7 per barrel; however, it will apparently exceed USD 103 per barrel for the first quarter of 2011 *(versus USD 90)*.

We have adjusted our estimates of the price of crude oil for 2011 upward to USD 95/barrel (*versus USD 88*). The forecast risks are substantially skewed upwards. However, it is already possible to predict the consequences of the nuclear complications in Japan on the longer-term growth of energy prices.

Commodity prices have also been growing significantly for quite some time in other main market segments (metals, foodstuffs, and agricultural raw materials – namely cotton and Indian rubber). The FAO food price index continues to break new records. Although weather anomalies in 2010 are behind cereal prices, the other causes mentioned above also apply.

Graph A.1.2: **Dollar Prices of Brent Crude Oil**
in USD per barrel



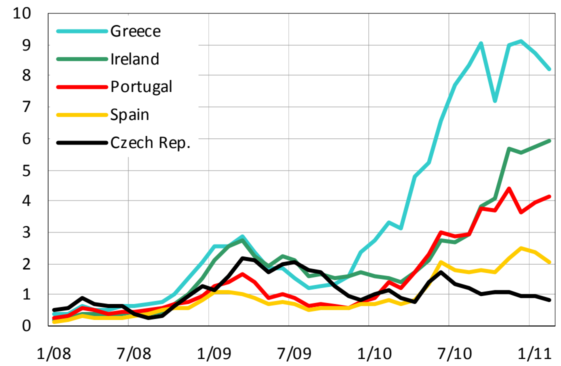
Global financial markets

The debt crisis in the periphery of the Eurozone is continuing unabated even this year. On the one hand, there are signs allowing for slight optimism (certain differentiation of the financial markets between Portugal and Spain, see below); on the other hand, however, political factors are beginning to play an important role (e.g., the fall of the Portuguese government), which could have a significant negative effect on future development. Tensions on the global financial markets are further exacerbated by unrest in the Arab world and the situation in Japan.

Yields on 10-year government bonds and the CDS spreads of Greece, Ireland, and Portugal continue to hover around record high levels without any apparent tendency to fall. In the case of Spain, it is possible to assess the development of these indicators slightly optimistically. Since the end of last year, yields on 10-year government bonds have stagnated above 5% and CDS spreads (5-year government bonds) for this period fell by more than 100 b.p. It appears that the financial markets are beginning to differentiate more between Portugal and Spain, i.e., countries that are often mentioned in connection with the utilisation of financial assistance from the EA/IMF stability mechanism.

The reason for this differentiation may be the different development of public budgets last year in relation to the targets that the Spanish and Portuguese governments had set for this period and the approach of the Spanish authorities to resolving problems in the banking sector. Capital requirements were made more restrictive in Spain and a framework adjusting the capital injection process to a new regulatory minimum was implemented. The preliminary estimates of the Spanish central bank saw banking institutions needing approximately EUR 15 billion for capital equalisation. Although estimates made by other institutions may be higher, the financial markets have, nevertheless, been assessing these measures positively overall.

Graph A.1.3: **Spreads against German Bonds**
Difference in yields on 10-year government bonds of the country in question against 10-year German government bonds, in p.p., monthly average



Certain Irish banks will have to raise capital, too. According to the results of stress tests published by the Irish central bank at the end of March, the four tested banks will have to increase Tier 1 capital by EUR 24 billion in the period of 2011–2013. In response to these numbers (the stress tests took place in the framework of utilisation of financial assistance from the EA/IMF), the ECB announced that it would be accepting Irish government bonds as collateral regardless of their rating.

New stress tests are also being prepared for European banks. Although the results should not be published until June, the European Banking Authority (EBA), which is coordinating the entire testing process, presented the details of the macroeconomic scenario of the stress tests already in mid March. Just as was the case with the previous stress tests, opinions are being voiced that these tests will not contain sufficient "stress" and thus will not sufficiently verify the resilience of European banks against unfavourable shocks. However, the fact that Member States are to draw up a restructuring strategy for vulnerable institutions prior to the publication of the test results should be assessed positively.

Negotiations about the permanent European Stability Mechanism (ESM), which should replace the existing mechanism (which had been conceived as temporary from the onset) as of 2013, have advanced. At the end of March, the European Council agreed on the manner in which the credit capacity of the ESM will be increased to a EUR 500 billion amount that is real and not just "on paper". Unfortunately, no agreement was reached on how to attain the same reinforcement of credit capacity of the existing stability mechanisms.

March also brought a series of changes in the valuation of the credit obligations of certain PIIGS countries. Moody's downgraded Greece by three notches (from Ba1 to B1) and Spain by one notch (from Aa1 to Aa2, negative outlook – the reason for downgrade had to do with the costs tied to bank restructuring and the budget deficits of autonomous regions). Standard & Poor's downgraded Greece by two notches (from BB+ to BB–, negative outlook). It then adjusted Portugal's credit obligations as much as twice not even within a week (by three notches, from A– to BBB–; thus, Portugal's rating is only one level above non-investment grade). The rating adjustments continued even in early April, when Standard & Poor's downgraded Ireland by one notch (from A– to BBB+, stable outlook). Fitch then downgraded Portugal by three notches (from A– to BBB–, negative outlook).

The reasons that Standard & Poor's mentioned for the change in the assessment of Greece's obligations are especially poignant. It is clear from the conclusions of the meeting of the European Council from 24 and 25 March 2011 that the provision of financial assistance from the ESM to a state that becomes insolvent will be conditional upon debt restructuring. Furthermore, the ESM will have a senior status. According to S & P, this agreement on the ESM brings Greece closer to default.

In view of the considerable complexity in the relationships between the financial sector, government, and other sectors of the real economy, and in view of the frequency with which new information is emerging, it is almost impossible to determine whether, when and how intensively will the development abroad impact on the Czech economy. Nevertheless, it still holds that the external environment is an important source of risks for the domestic economy and that it should be monitored closely.

Table A.1.1: **Real Gross Domestic Product** – yearly
growth in %, non-seasonally adjusted data

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
								Prelim.	*Forecast*	*Forecast*
EU27	1.3	2.5	2.0	3.2	3.0	0.5	-4.2	1.8	1.8	2.1
EA12	0.8	2.1	1.7	3.0	2.8	0.4	-4.1	1.7	1.7	2.0
Germany	-0.2	1.2	0.8	3.4	2.7	1.0	-4.7	3.6	2.4	2.0
France	1.1	2.5	1.9	2.2	2.4	0.2	-2.6	1.6	1.7	2.0
United Kingdom	2.8	3.0	2.2	2.8	2.7	-0.1	-4.9	1.3	1.5	2.0
Austria	0.8	2.5	2.5	3.6	3.7	2.2	-3.9	1.8	1.8	2.0
USA	2.5	3.6	3.1	2.7	1.9	0.0	-2.6	2.8	3.0	3.1
Hungary	4.0	4.5	3.2	3.6	0.8	0.8	-6.7	1.1	2.2	3.1
Poland	3.9	5.3	3.6	6.2	6.8	5.1	1.7	3.8	4.1	4.3
Slovakia	4.8	5.1	6.7	8.5	10.5	5.8	-4.8	4.0	3.3	4.1
Czech Republic	3.6	4.5	6.3	6.8	6.1	2.5	-4.1	2.3	1.9	2.3

Graph A.1.4: **Real Gross Domestic Product**
YoY growth in %, nsa data

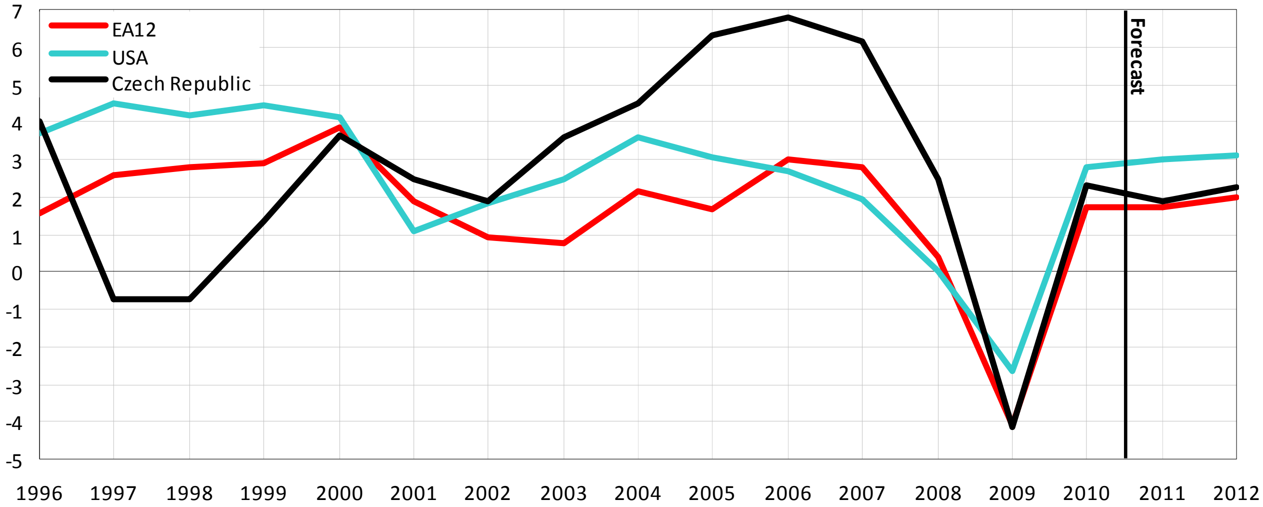


Table A.1.2: **Real Gross Domestic Product** – quarterly
growth in %, sa data

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	*Forecast*	*Forecast*	*Forecast*
EU27	*QoQ*	**0.4**	**1.0**	**0.5**	**0.2**	**0.4**	**0.5**	**0.4**	**0.3**
	YoY	0.6	2.0	2.2	2.1	2.1	1.6	1.5	1.6
EA12	*QoQ*	**0.4**	**1.0**	**0.3**	**0.3**	**0.4**	**0.4**	**0.3**	**0.3**
	YoY	0.8	2.0	1.9	2.0	2.1	1.5	1.5	1.5
Germany	*QoQ*	**0.6**	**2.2**	**0.7**	**0.4**	**0.5**	**0.4**	**0.4**	**0.3**
	YoY	2.1	3.9	3.9	4.0	3.8	2.0	1.7	1.6
France	*QoQ*	**0.3**	**0.6**	**0.3**	**0.3**	**0.4**	**0.5**	**0.5**	**0.4**
	YoY	1.2	1.6	1.7	1.5	1.6	1.5	1.7	1.8
United Kingdom	*QoQ*	**0.3**	**1.0**	**0.7**	**-0.6**	**0.4**	**0.5**	**0.5**	**0.6**
	YoY	-0.3	1.5	2.5	1.5	1.5	1.0	0.8	2.0
Austria	*QoQ*	**0.0**	**1.2**	**0.9**	**0.6**	**0.4**	**0.2**	**0.2**	**0.3**
	YoY	0.1	2.1	2.5	2.7	3.1	2.1	1.4	1.1
USA	*QoQ*	**0.9**	**0.4**	**0.6**	**0.8**	**0.8**	**0.8**	**0.8**	**0.9**
	YoY	2.4	3.0	3.2	2.7	2.7	3.1	3.2	3.3
Hungary	*QoQ*	**1.4**	**0.2**	**0.6**	**0.2**	**0.6**	**0.6**	**0.7**	**0.7**
	YoY	-0.6	0.8	2.2	2.4	1.6	2.0	2.1	2.6
Poland	*QoQ*	**0.6**	**1.1**	**1.2**	**0.8**	**1.0**	**1.0**	**1.2**	**1.0**
	YoY	3.1	3.7	4.6	3.9	4.2	4.1	4.1	4.3
Slovakia	*QoQ*	**0.7**	**0.9**	**0.9**	**0.9**	**0.6**	**0.8**	**0.9**	**0.9**
	YoY	4.5	4.2	4.0	3.4	3.3	3.2	3.2	3.2
Czech Republic	*QoQ*	**0.7**	**0.7**	**0.9**	**0.3**	**0.3**	**0.6**	**0.5**	**0.6**
	YoY	1.1	2.3	2.7	2.6	2.2	2.1	1.6	1.9

Graph A.1.5: **Real Gross Domestic Product** – Central European economies
YoY growth in %, nsa data

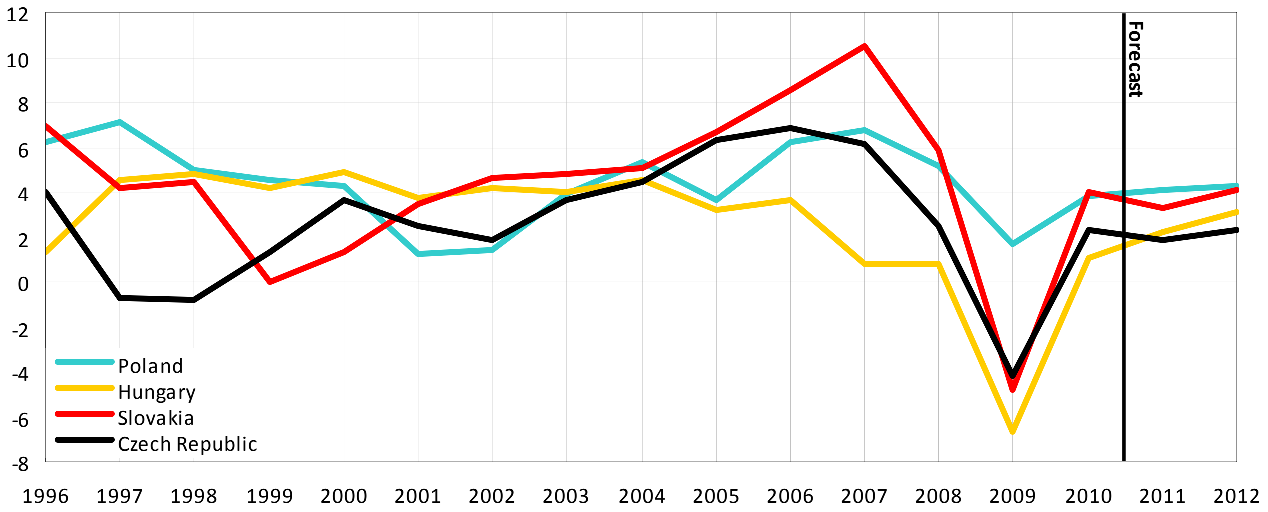


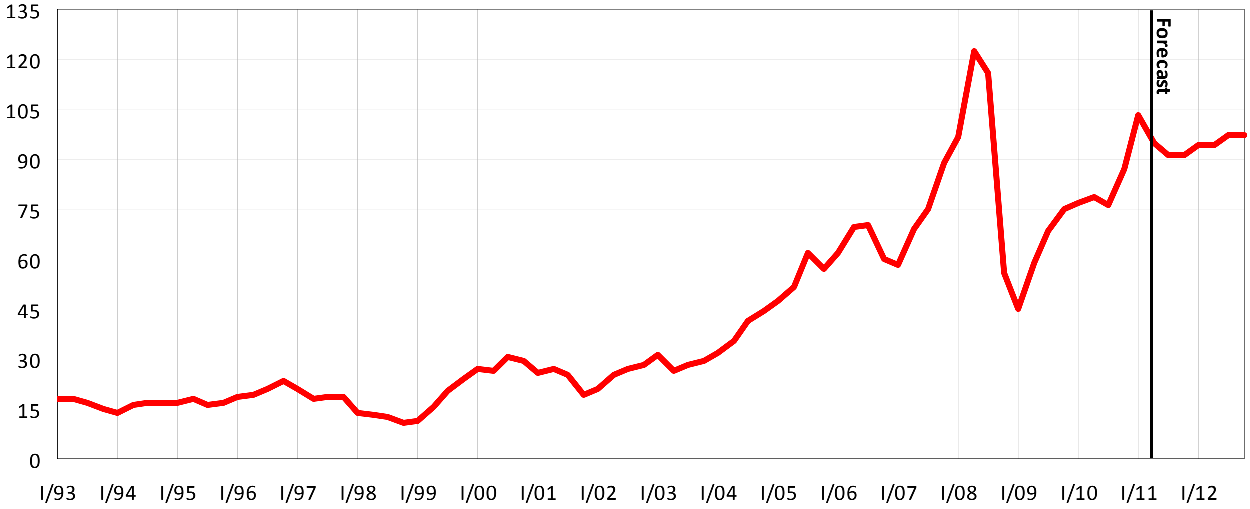
Table A.1.3: **Prices of Commodities** – yearly
spot prices

		2003	2004	2005	2006	2007	2008	2009	2010	2011 *Forecast*	2012 *Forecast*
Crude oil Brent	*USD/barrel*	**28.8**	**38.3**	**54.4**	**65.4**	**72.7**	**97.7**	**61.9**	**79.7**	**95**	**96**
	growth in %	14.0	33.0	42.0	20.1	11.2	34.4	-36.7	28.7	19.3	0.5
Crude oil Brent index *(in CZK)*	*2005=100*	**62.4**	**75.6**	**100.0**	**113.4**	**113.3**	**127.7**	**90.5**	**116.8**	**134**	**132**
	growth in %	-1.7	21.1	32.3	13.4	-0.1	12.7	-29.1	29.1	14.5	-1.0
Wheat	*USD/t*	**146.1**	**156.9**	**152.4**	**191.7**	**255.2**	**326.0**	**223.6**	**223.7**	.	.
	growth in %	-1.6	7.3	-2.8	25.8	33.1	27.7	-31.4	0.1	.	.
Wheat price index *(in CZK)*	*2005=100*	**113.0**	**110.5**	**100.0**	**118.7**	**142.0**	**152.1**	**116.7**	**117.1**	.	.
	growth in %	-15.2	-2.3	-9.5	18.7	19.6	7.1	-23.3	0.3	.	.

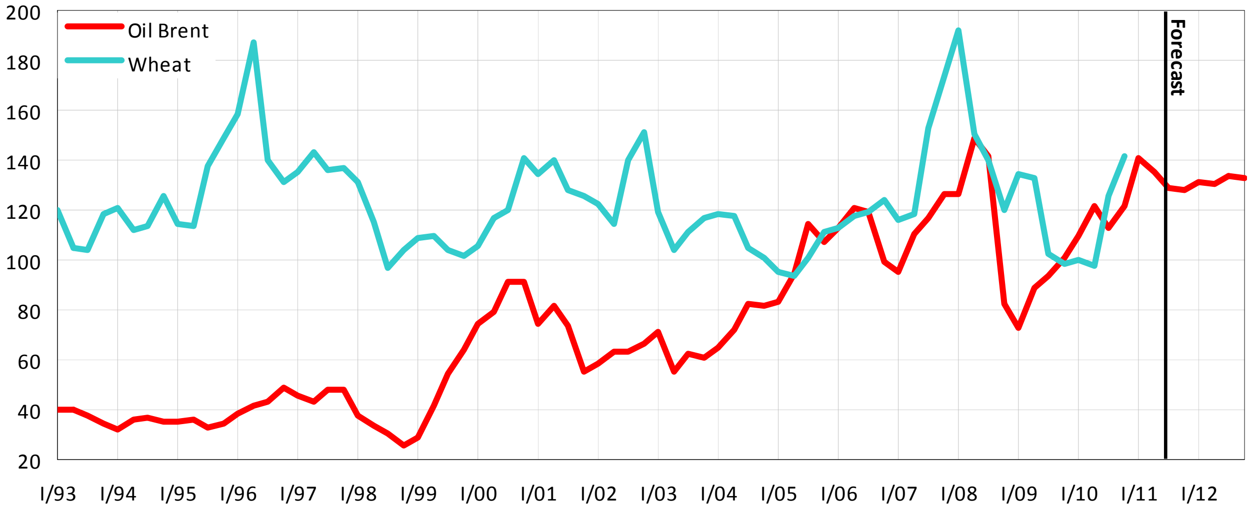
Table A.1.4: **Prices of Commodities** – quarterly
spot prices

		2010				2011			
		Q1	Q2	Q3	Q4	Q1 *Estimate*	Q2 *Forecast*	Q3 *Forecast*	Q4 *Forecast*
Crude oil Brent	*USD/barrel*	**76.7**	**78.7**	**76.4**	**86.8**	**103**	**95**	**91**	**91**
	growth in %	70.4	33.2	11.7	15.7	34.3	20.7	19.1	4.8
Crude oil Brent index *(in CZK)*	*2005=100*	**109.9**	**121.4**	**112.9**	**121.3**	**141**	**135**	**129**	**128**
	growth in %	50.4	37.0	20.4	**20.5**	28.5	11.4	14.0	5.4
Wheat price	*USD/t*	**195.7**	**177.5**	**237.9**	**283.6**	.	.	.	.
	growth in %	-15.6	-28.4	13.9	38.1	.	.	.	.
Wheat price index *(in CZK)*	*2005=100*	**100.2**	**97.9**	**125.7**	**141.7**	.	.	.	.
	growth in %	-25.6	-26.4	22.9	43.8	.	.	.	.

Graph A.1.6: **Dollar Prices of Oil**
USD/barrel



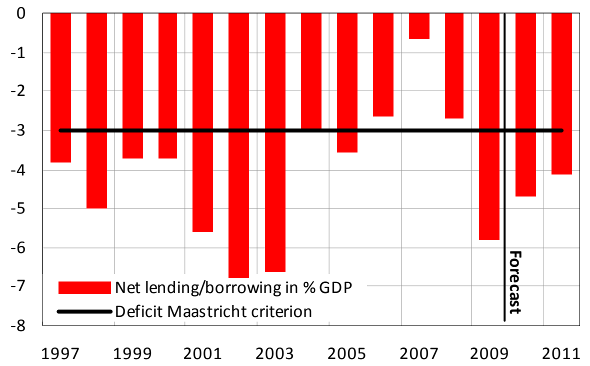
Graph A.1.7: **Koruna Indices of World Commodity Prices**
index 2005 = 100



A.2 Fiscal Policy

While in past years, general government performance was positively influenced particularly by the peaking of the economic cycle, the recent recession had been bringing deteriorating results since 2008, thereby revealing structural deficiencies in general government operations.

Graph A.2.1: **Net Lending/Borrowing**
in % of GDP



According to preliminary estimates of the CZSO, the **general government deficit** for 2010 has reached CZK 172.8 billion, which is 4.7% of GDP. In comparison with the MoF's estimate in January, this is only a minimal change; thus, the MoF's original estimates remained fulfilled to a great extent.

Compared a period of stagnation and decline in 2008 and 2009, revenues again began to increase On the expenditure side, however, an entire range of measures were undertaken, which resulted in a reduction in government expenditure. This included savings related to public administrative operations (stagnation of the wage bill and a drop in intermediate consumption) and a decrease in investment expenditure and subsidies to entities outside the government sector.

The development of interest costs was very positive, growing only slightly despite the relatively high debt dynamic. This can be attributed chiefly to the fall in interest rates in all issued maturities of the yield curve for government bonds, which thus reflects the positive valuation of the implementation of the consolidation strategy.

Although the result of the past year appears relatively optimistic, certain facts should be stressed. Tax revenues were influenced to a significant degree by legislative measures (e.g., increase in VAT or the rates of certain excise taxes). Furthermore, government deficit data for 2010 are still burdened with uncertainty about estimated corporate income tax revenue accruals. More dependable data stemming from incoming tax returns will not be available until the October report.

In 2011, the MoF is expecting the deficit to fall to CZK 154 billion, which represents 4.2% of GDP. This is thus a fiscal consolidation of 0.5 p.p.; after adjusting for cyclical events and one-off factors, fiscal efforts amount to as much as 0.9 p.p. The revenue side will probably be strengthened by faster growth and certain tax revenues such as VAT and corporate income tax. In the case of VAT, this is the effect of the 2010 rate increase, which will apparently not show up to any great extent until later this year. In the case of corporate income tax, this has to do with the affect of accelerated depreciation. Furthermore, the fact that interest rates coming into 2011 have not decreased, as was the case in previous years, needs to be taken into account. Property tax will see a jump, primarily due to the introduction of gift tax on emission allowances which are provided by the government to the private sector free of charge.

As in previous years, a significant inflow of money from the European funds is expected and could reach historical record amounts. These resources influence the balance only up to the amount of national co-financing. Otherwise, they are reflected also on the expenditure side, mainly in the form of government investment.

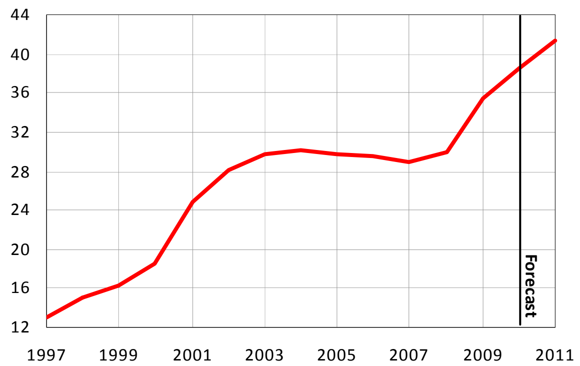
Thanks to a more marked increase in investment transfers outside the sector, a slight increase on the revenue side will likely occur again. In this case, a massive influx of European funds even outside the government sector, where public budgets can contribute partially to co-financing, is expected.

Another striking factor is the risk of acceleration of interest on public debt, where a deterioration of last year's conditions could occur. With regard to the volatility of the financial markets, this item represents a significant future risk for the public budget. A moderate increase is also expected in social transfers. In comparison, the greatest decrease in expenditure is expected on public administration employees.

The risks presented in the government deficit forecast for 2011 stem primarily from the estimated gross fixed capital formation, where even the data for 2010 are still not fully reliable at this time and are to a certain extent based on estimates. Naturally, this makes a subsequent estimate into 2011 more difficult.

Government debt at the end of 2011 is estimated at 41.4% of GDP and thus remains under the value of Maastricht convergence criteria.

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



The mid-term outlook for the budget for the years 2012–2013 assumes a continued gradual improvement of the government balance to 2.9% of GDP in 2013, with the targeted deficit trajectory should lead to balanced budgets in 2016. The current fiscal policy setting is given by the government-approved expenditure frameworks. Nevertheless, significant conceptual structural reforms, which are being discussed at this time and should be approved this or next year, are planned for 2012 and 2013.

A more detailed overview of future results of government operations will be provided in early May in the Convergence Programme of the Czech Republic and in late May in the Fiscal Outlook of the Czech Republic.

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

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
										Prelim.	*Forecast*
General government balance [1]	*bill. CZK*	-167	-171	-83	-107	-85	-24	-100	-213	-173	-154
	% GDP	-6.8	-6.6	-3.0	-3.6	-2.6	-0.7	-2.7	-5.9	-4.7	-4.2
Cyclical balance	*% GDP*	-0.5	-0.5	-0.5	-0.2	0.4	1.1	0.8	-0.9	-0.7	-0.8
Cyclically adjusted balance	*% GDP*	-6.3	-6.1	-2.4	-3.4	-3.0	-1.8	-3.6	-4.9	-4.0	-3.4
One-off measures	*% GDP*	-0.1	-0.3	-0.7	-1.3	-0.2	-0.3	-0.1	0.3	0.0	-0.3
Structural balance	*% GDP*	-6.2	-5.9	-1.7	-2.1	-2.8	-1.5	-3.5	-5.3	-4.0	-3.1
Fiscal effort [2]	*percent. points*	0.6	-0.3	-4.1	0.4	0.7	-1.3	2.0	1.8	-1.3	-0.9
Interest expenditure	*% GDP*	1.2	1.1	1.2	1.2	1.1	1.1	1.1	1.3	1.4	1.7
Primary balance	*% GDP*	-5.4	-5.2	-1.1	-1.2	-1.3	0.7	-1.6	-4.9	-3.3	-2.1
Cyclically adjusted primary balance	*% GDP*	-4.9	-4.7	-0.6	-1.0	-1.7	-0.4	-2.4	-4.0	-2.6	-1.4
General government debt	*bill. CZK*	695	768	848	885	948	1 024	1 105	1 282	1 414	1 538
	% GDP	28.2	29.8	30.1	29.7	29.4	29.0	30.0	35.4	38.5	41.4
Change in debt-to-GDP ratio	*percent. points*	3.3	1.6	0.3	-0.4	-0.2	-0.5	1.0	5.4	3.2	2.8

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] Balance in EDP methodology, i.e. general government net lending (+)/borrowing (-) including interest derivates.
[2] Change in structural balance.

A.3 Monetary Policy and Interest Rates

Monetary policy

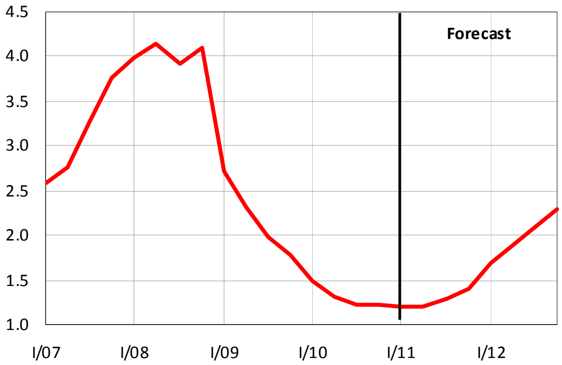
The CNB's main policy objective is ensuring price stability. To achieve this, the central bank uses an **inflation targeting** regime. By means of monetary instruments, the CNB influences total inflation so that the YoY increase in the CPI does not deviate from the medium-term inflationary target of 2% by more than ± 1 p.p. The main monetary policy instrument is the interest rate for **2W repo operations**, which stood at 0.75% in the first quarter of 2011, which is very low from the long-term perspective.

In relation to price levels, the CNB also monitors developments in **interest rate differentials** versus other economies (EA, USA). The interest-rate differentials may significantly affect international capital flows and thus affect price levels in the individual countries through the exchange rate. At present, there are no important pressures from this perspective, especially due to the effect of relatively narrow interest rate spreads, which, in the first quarter of 2011, remained at −0.25 p.p. between the Czech Republic and EMU and relative to the US at 0.50 to 0.75 p.p.

Interest rates

The average value for **3M PRIBOR** held at 1.2% *(in line with the forecast)* in the first quarter of 2010. For 2011, it is forecast at 1.3% *(no change)*. A moderate increase in PRIBOR is expected in the second half of 2011, but this should not be too considerable and should not dampen the not so high economic growth weakened by restrictive government measures. In connection with an expected increase in repo rates, we estimate average 3M PRIBOR at 2.0% for 2012 *(versus 1.9%).*

Graph A.3.1: **PRIBOR 3M**
in %



Long-term interest rates should slowly rise in the coming years and thus reflect the economic recovery in progress. Given the Czech Republic's current relatively good rating (as at 28 March 2011: Moody's: A1; Standard & Poor's: A; Fitch Ratings: A1), further successful issues of government bonds can be expected. The credibility of Czech fiscal policy is reflected in the negative spread compared to average long-term rates in the Eurozone (see Graph A.3.7).

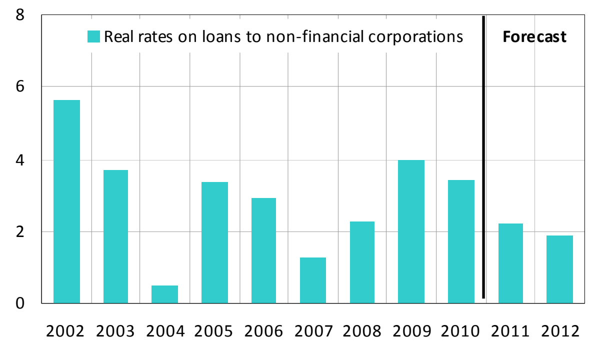
With regard to the not very stable situation in certain EMU countries (e.g., Portugal's current problems), it is not out of the question that the risk premium on government bonds could increase, which would lead to the financing of public debt becoming more expensive. Assuming that external conditions do not markedly deteriorate, we predict the average **yield to maturity of 10-year government bonds** to be 4.1% in 2011 *(versus 3.8 %)* and 4.3% in 2012 *(versus 4.0%*). The spread between Czech and German bonds should narrow slightly.

Interest **rates for deposits and loans** respond to changes in interbank rates with a lag of several months. Therefore, in connection with stagnation, repo rates for loans to non-financial corporations and on household deposits remained at 4.1% and 1.2%, respectively, in the fourth quarter of 2010. We expect the average rates for loans to non-financial corporations to be at approximately 4.1% in 2011 (*no change*) and, in connection with the mentioned increase in interbank rates, a growth of 4.5% is expected in 2012 *(versus 4.4%).* Average rates for household deposits should reach 1.3% in 2011 *(versus 1.2%)* and increase to 1.5% in 2012 *(versus 1.3%)*.

In the context of the real economy, the development of real interest rates is important. The developments of nominal interest rates, CPI, and the deflator for final domestic use imply a decrease in real interest rates for loans to 2.2% in 2011 (*versus 2.0 %*) and 1.9% in 2012 (*versus 2.3%*). The lower value compared to the last forecast is due in particular to administrative influences (increase in VAT).

Compared to the previous quarter, **weighted interest rates for new loans** to households rose in the fourth quarter of 2010 by 0.6 p.p. to 14.9%. Interest rates for new loans to non-financial corporations remained at 4.1 %.

Graph A.3.2: **Average Real Rates on Loans**
rates on loans deflated by end-of-year final domestic use deflator, in % p.a.



Graph A.3.3: **Interest Rates on New Loans to Households and Non-Financial Corporations**
in % p.a.

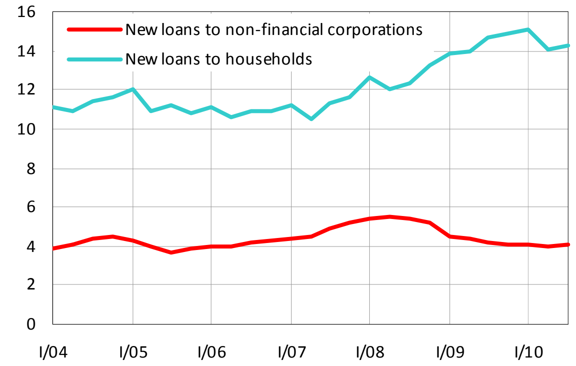


Table A.3.1: **Interest Rates** – yearly
average interest rates in per cent p.a.

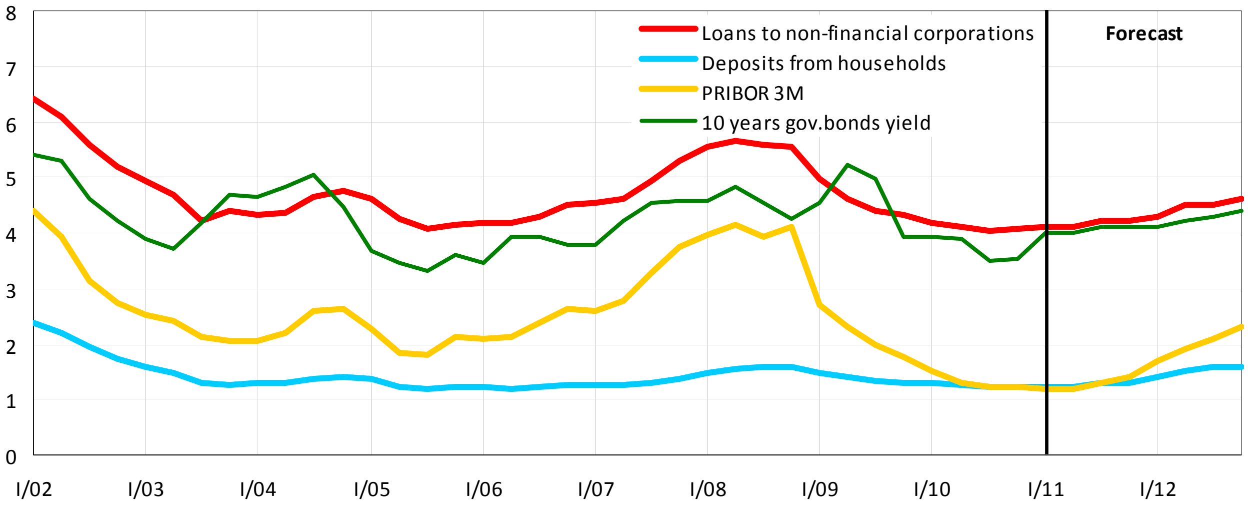
	2003	2004	2005	2006	2007	2008	2009	2010	2011 *Forecast*	2012 *Forecast*
Repo 2W CNB *(end of year)*	2.00	2.50	2.00	2.50	3.50	2.25	1.00	0.75		
Main refinancing rate ECB *(end of year)*	2.00	2.00	2.25	3.50	4.00	2.50	1.00	1.00		
Federal funds rate *(end of year)*	1.00	2.25	4.25	5.25	4.25	0.25	0.25	0.25		
PRIBOR 3M	2.28	2.36	2.01	2.30	3.09	4.04	2.19	1.31	1.3	2.0
Government bond yield to maturity (10Y)	4.12	4.75	3.51	3.78	4.28	4.55	4.67	3.71	4.1	4.3
Interest rates on loans to non-financial corpor.	4.57	4.51	4.27	4.29	4.85	5.59	4.58	4.1	4.1	4.5
Interest rates on deposits from households	1.40	1.33	1.24	1.22	1.29	1.54	1.37	1.25	1.3	1.5
Real rates on loans to non-financial corporations [1]	3.72	0.47	3.38	2.95	1.24	2.27	3.97	3.41	2.2	1.9
Net real rates on deposits from households with agreed maturity [2]	0.18	-1.64	-1.13	-0.63	-4.11	-2.26	0.17	-1.22	-1.4	-1.6

[1] *Deflated by domestic demand deflator.*
[2] *Net of 15 % income tax, deflated by CPI.*

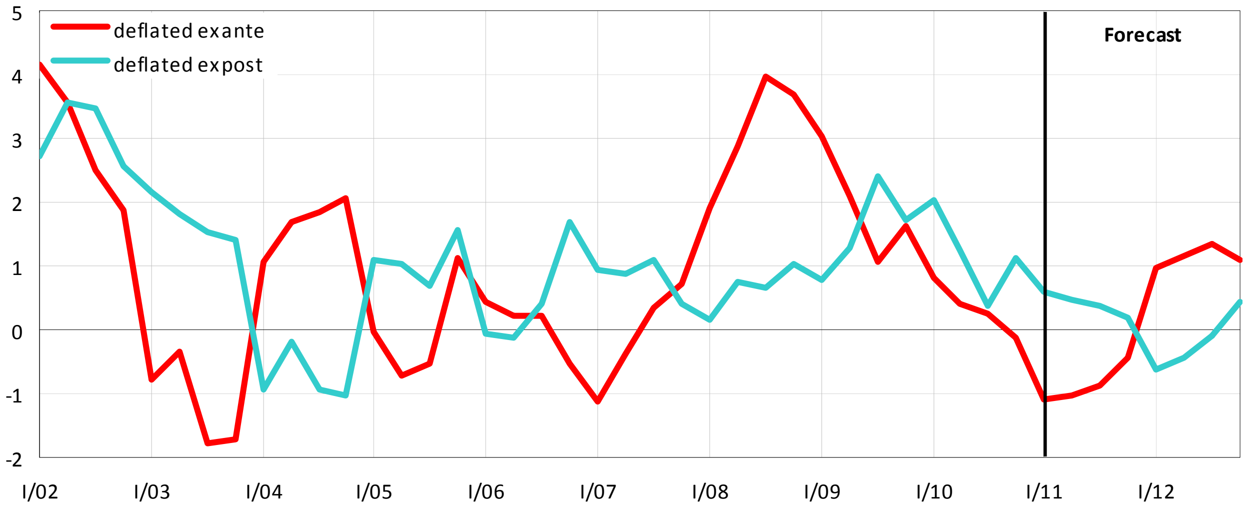
Table A.3.2: **Interest Rates** – quarterly
average interest rates in per cent p.a.

	2010				2011			
	Q1	Q2	Q3	Q4	Q1 *Estimate*	Q2 *Forecast*	Q3 *Forecast*	Q4 *Forecast*
Repo 2W rate CNB *(end of period)*	1.00	0.75	0.75	0.75	.	.	.	.
Main refinancing rate ECB *(end of period)*	1.00	1.00	1.00	1.00	.	.	.	.
Federal funds rate *(end of period)*	0.25	0.25	0.25	0.25	.	.	.	.
PRIBOR 3M	1.50	1.30	1.23	1.21	1.2	1.2	1.3	1.4
– 10-year government bonds yield to mat.	3.94	3.90	3.48	3.51	4.0	4.0	4.1	4.1
Interest rates on loans to non-fin. corporations	4.19	4.11	4.05	4.06	4.1	4.1	4.2	4.2
Interest rates on deposits from households	1.30	1.27	1.22	1.22	1.2	1.2	1.3	1.3

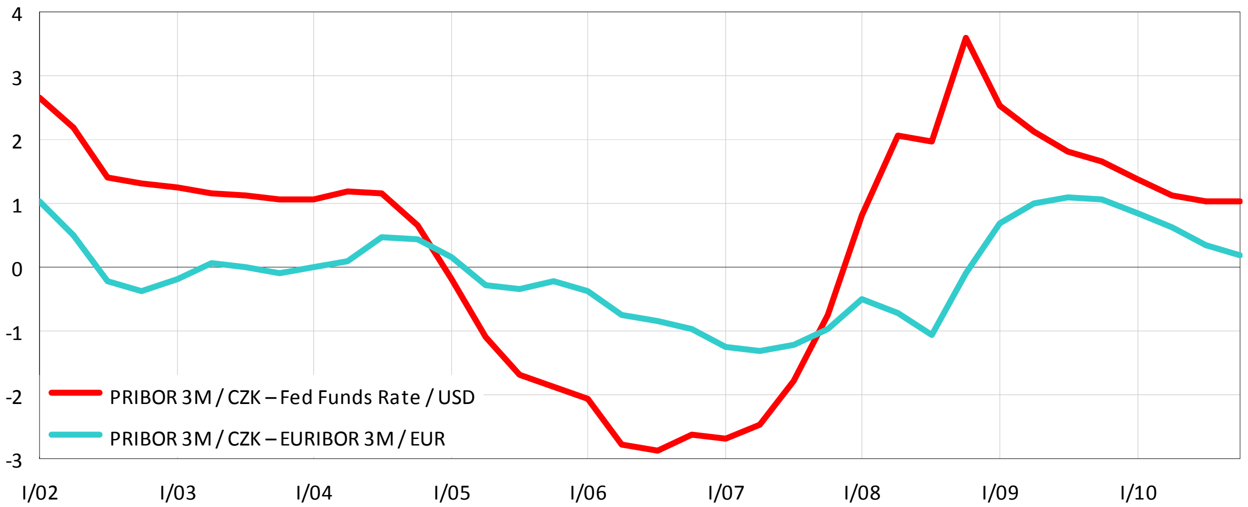
Graph A.3.4: **Interest Rates**
in % p.a.



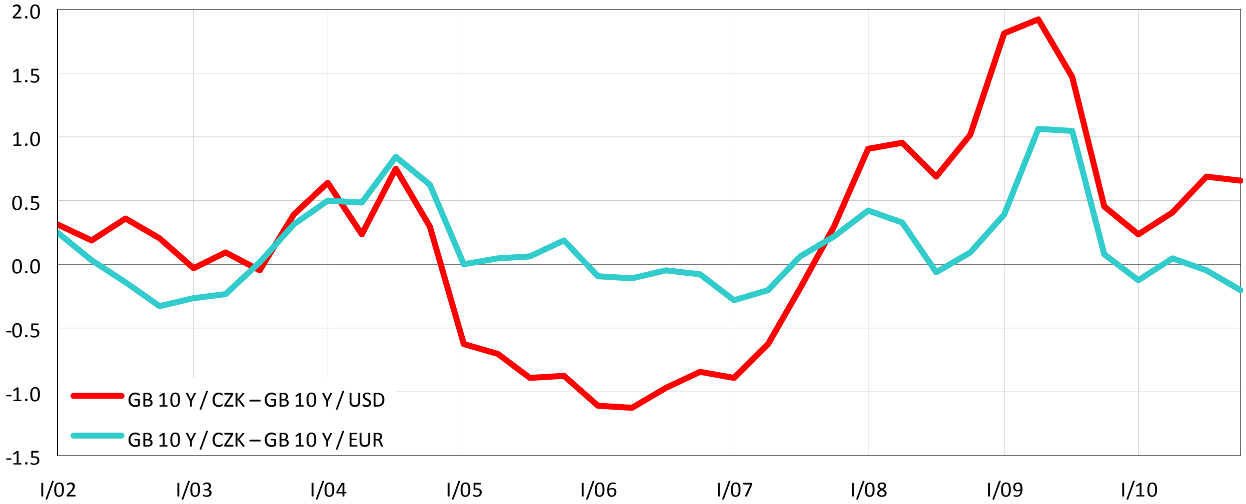
Graph A.3.5: **Real PRIBOR 1Y**
deflated ex post and ex ante by final domestic use deflator, in % p.a.



Graph A.3.6: **Short-Term Interest Rate Spread**
in percentage points



Graph A.3.7: **Long-Term Interest Rate Spread**
government bonds, in percentage points



A.4 Exchange Rates

Since mid 2010, **the CZK/EUR exchange rate** has gradually appreciated roughly in accordance with the long-term trend, even though relatively high volatility remained in the various quarters. The average exchange rate for the fourth quarter of 2010 was 24.79 CZK/EUR; in February 2011, the exchange rate attained an average value of 24.28 CZK/EUR, but during March it weakened, falling over 24.50 CZK/EUR.

The adopted scenario assumes that the exchange rate will continue to move along the trend trajectory of both moderate nominal and real appreciation, which is in line with underlying macroeconomic fundamentals. Any marked strengthening above this trajectory would increase the risk for development of the trade balance.

Graph A.4.1: **Exchange Rate CZK/EUR**
quarterly averages

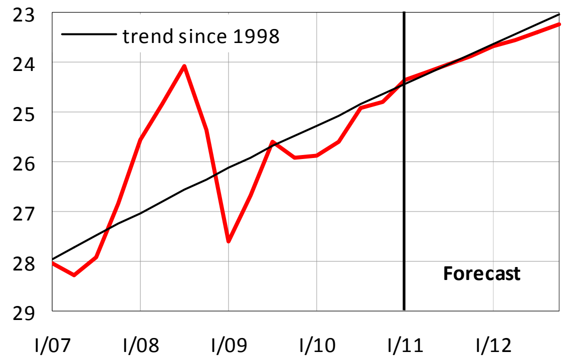


Table A.4.1: **Exchange Rates** – yearly

			2005	2006	2007	2008	2009	2010	2011 *Forecast*	2012 *Forecast*	2013 *Outlook*	2014 *Outlook*
Nominal exchange rates:												
CZK / EUR		*average*	**29.78**	**28.34**	**27.76**	**24.94**	**26.45**	**25.29**	**24.1**	**23.5**	**22.8**	**22.2**
	appreciation	*growth in %*	7.1	5.1	2.1	11.3	-5.7	4.6	4.9	2.7	2.7	2.7
CZK / USD		*average*	**23.95**	**22.61**	**20.31**	**17.03**	**19.06**	**19.11**	**18.3**	**18.0**	**17.6**	**17.1**
	appreciation	*growth in %*	7.3	5.9	11.3	19.2	-10.6	-0.3	4.2	1.6	2.7	2.7
NEER		*average of 2005=100*	**100.0**	**105.1**	**107.9**	**120.4**	**116.2**	**119.1**	**123**	**127**	**130**	**134**
	appreciation	*growth in %*	6.2	5.1	2.6	11.6	-3.5	2.5	3.6	2.6	2.7	2.7
Real exchange rate to EA12[1)]		*average of 2005=100*	**100.0**	**104.3**	**107.5**	**119.4**	**114.4**	**117.4**	**121**	**125**	**128**	**131**
	appreciation	*growth in %*	4.8	4.3	3.1	11.1	-4.2	2.6	2.7	3.6	2.5	2.3

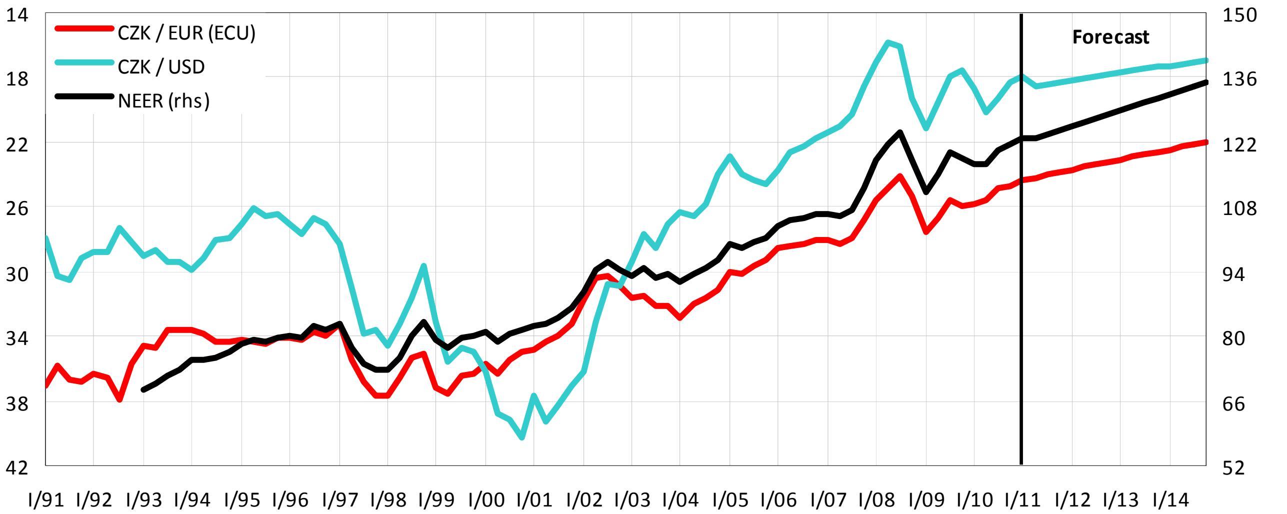
[1)] *Deflated by GDP deflators.*

Table A.4.2: **Exchange Rates** – quarterly

			2010				2011			
			Q1	Q2	Q3	Q4	Q1 *Estimate*	Q2 *Forecast*	Q3 *Forecast*	Q4 *Forecast*
Nominal exchange rates:										
CZK / EUR			**25.87**	**25.59**	**24.91**	**24.79**	**24.4**	**24.2**	**24.0**	**23.9**
	appreciation	*growth in %*	6.7	4.3	2.7	4.6	6.2	5.8	3.7	3.9
CZK / USD			**18.71**	**20.16**	**19.30**	**18.26**	**17.9**	**18.6**	**18.5**	**18.4**
	appreciation	*growth in %*	13.3	-2.8	-7.3	-4.0	4.5	8.3	4.5	-0.5
NEER		*average of 2005=100*	**117.3**	**117.3**	**120.3**	**121.6**	**123**	**123**	**124**	**124**
	appreciation	*growth in %*	5.5	1.9	0.4	2.6	4.6	4.7	2.7	2.4
Real exchange rate to EA12		*average of 2005=100*	**115.2**	**116.1**	**118.7**	**119.7**	**119**	**120**	**121**	**123**
	appreciation	*growth in %*	4.4	2.4	1.3	2.2	3.1	3.0	1.9	2.8

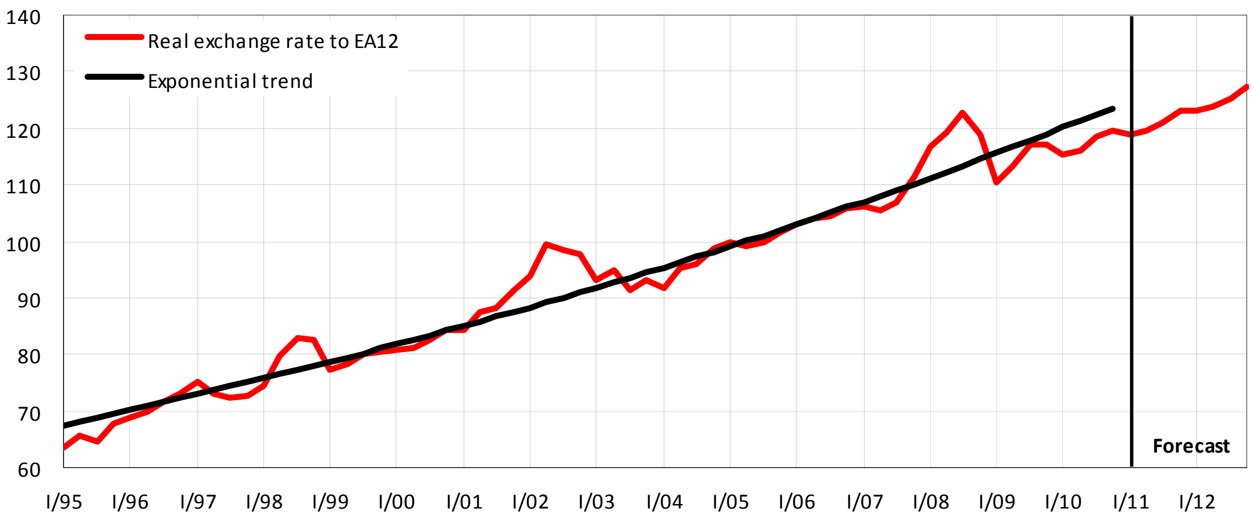
Graph A.4.2: **Nominal Exchange Rates**

quarterly average, average 2005 = 100 (rhs)



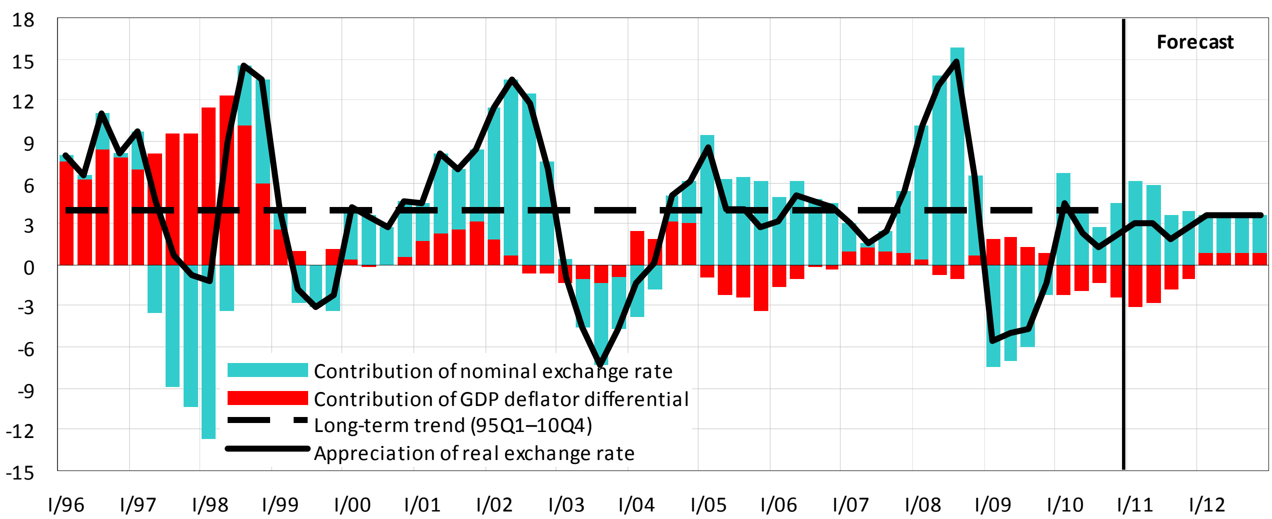
Graph A.4.3: **Real Exchange Rate to EA12**

quarterly average, deflated by GDP deflators, average 2005 = 100



Graph A.4.4: **Real Exchange Rate to EA12**

deflated by GDP deflators, YoY growth, in percentage points



A.5 Structural Policies

On 26 January 2011, the Government of the Czech Republic approved the **Government Legislative Work Plan for 2011** and the **Government Legislative Work Outlook for 2012 to 2014**, which contains a schedule of key structural reforms that the Government of the Czech Republic has pledged to in its programme statement. Some of the main measures include reform of public finance, reform of the pension and health care systems, a new income tax act, reform of tertiary education, and a fight against corruption.

Business environment

In order to increase transparency of the process of awarding public contracts, the Government approved **an amendment to the public procurement act** on 17 March 2011. The amendment reduces and consolidates the maximum value of contracts for which it will not be necessary to put out a tender to CZK 1 million. At the same time, it puts greater restrictions on the requirements imposed on contracting entities and evaluators of contracts that exceed CZK 300 million, and, last but not least, it imposes the obligation to cancel the award procedure if less than three bidders remain after offers are evaluated.

On 31 March 2011, the **amendment to the insolvency act** came into force. This amendment reinforces the position of creditors in insolvency proceedings. It revives the right of creditors to contest the receivables of other creditors if the solution to a debtor's insolvency ends up being bankruptcy or debt relief.

Taxes

On 1 April 2011, the **amendment to the value added tax act entered** into force. This amendment was adopted to restrict tax evasion. It allows for corrections to already disclosed and paid taxes with respect to receivables from debtors who are in bankruptcy. At the same time, it introduced taxpayer guarantees for intentionally undisclosed tax, laying the burden of proof on the tax authorities.

On 29 March 2011, the President of the Czech Republic signed the **amendment to the excise tax act**, which increases the minimum excise tax rate for tobacco products in two steps (as of 1 January 2012 and as of 1 January 2014). The amendment also cancels the hitherto excise tax exemption on emulsified diesel and specifies the conditions for small-scale distilling.

Financial markets

On 28 February 2011, the **amendment to the bank supervision act**, which transposes the European directive on bank supervision into Czech law, entered into force. The main objective of the law is to reinforce cooperation and remove obstacles to exchanging information between authorities overseeing the banking market in the countries of the EU.

The amendment to the act on the Czech National Bank was approved by the Senate on 3 March 2011. The amendment regulates the CNB's authority as part of the newly created European financial market supervision system, which was established on 1 January 2011 and whose purpose is to oversee the EU's financial system.

Labour market

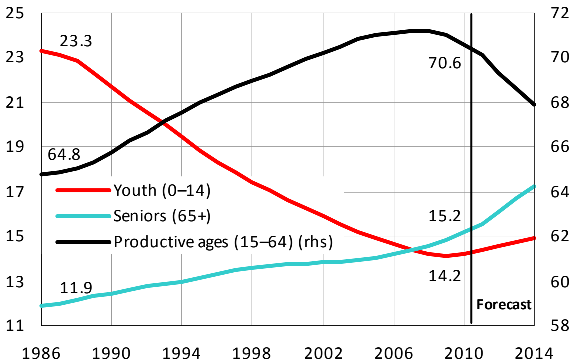
On 23 February 2011, the Government of the Czech Republic approved the **amendment to the act on pension insurance**, which addresses the ruling of the Constitutional Court and reinforces the link between the pension amount and income subject to social insurance contributions. The basic pension assessment and the reduction limit for calculating it will no longer be fixed but derived from average wage. The basic pension assessment, which amounts to CZK 2 230 at this time will now amount to 9% of average wage. The first reduction limit which has now been set at 44% of average wage will remain at the current level of CZK 11000, and incomes not exceeding this amount will continued to be taken into account in their full amount. The second reduction limit will be raised from the current CZK 28 200 to 400% of average wage. For the purposes of calculating pensions, only 26% of this amount will be included, however, with the reduction from the current 30% being carried out gradually. Incomes exceeding 400% of average wage will no longer affect pension amounts after 2014. The increase will be carried out gradually in a number of steps beginning 30 September 2011 and ending on the last day of 2014.

The amendment also accelerates consolidation of the age of retirement of men and women. Consolidation will be finnished in 2041 for those born in 1975. The retirement age will be increased for everyone by two months per year, i.e., in compliance with expected development of life expectancy. Final retirement age is not explicitly defined.

A.6 Demographic Trends

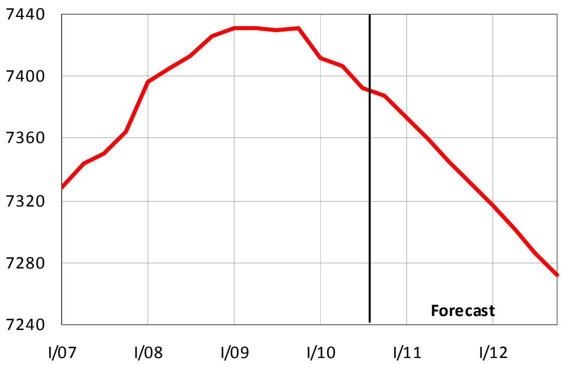
According to preliminary data, the population of the Czech Republic grew by 26 thousand to 10.533 million in 2010. The natural increase in population reached 10 thousand persons, which is only slightly less compared to the previous year. The positive balance of migration in the second half of the year increased and totalled 16 thousand persons compared to 28 thousand in 2009.

Graph A.6.1: **Groups by Age**
structure in per cent



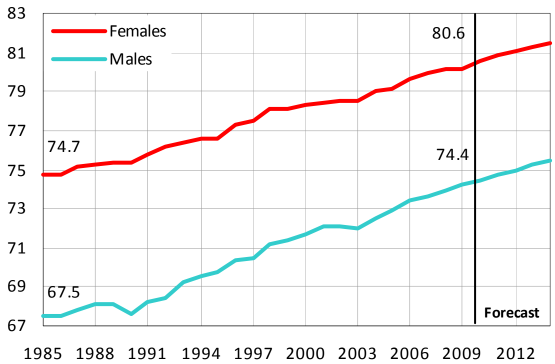
In terms of age structure, the number of inhabitants of productive age (15–64 years) in the Czech population peaked already in 2009. However, from the economic perspective, it still has a very favourable age composition, especially in comparison with Western European countries.

Graph A.6.2: **Czech Population from 15 to 64 Years**
quarterly averages, in thousands



A moderate decline in the working-age population should be more than compensated by the effects within the age structure of the workforce as the structural proportions of age groups with high or growing participation increase. This is and will be supported by the enacted extension of retirement age. Another positive factor should be immigration, which is highly volatile, as demonstrated in recent periods. A further rise in labour market flexibility should also help create a situation where the Czech economy will not suffer from a lack of a suitable labour force.

Graph A.6.3: **Life Expectancy**
in years



On the other hand, the continuing **aging of the population** has been confirmed. In 2007, for the first time in Czech history, the number of people younger than 15 years was lower than the number of people in the 65+ age category. In the future, the number and proportion of seniors in the population will rise due to the demographic structure and the continuation of the intensive process to prolong life expectancy. The proportion of persons over 64 years of age in the total population, which was just below 15% in early 2009, should exceed 16% in early 2012 and increase to nearly 20% by 2020.

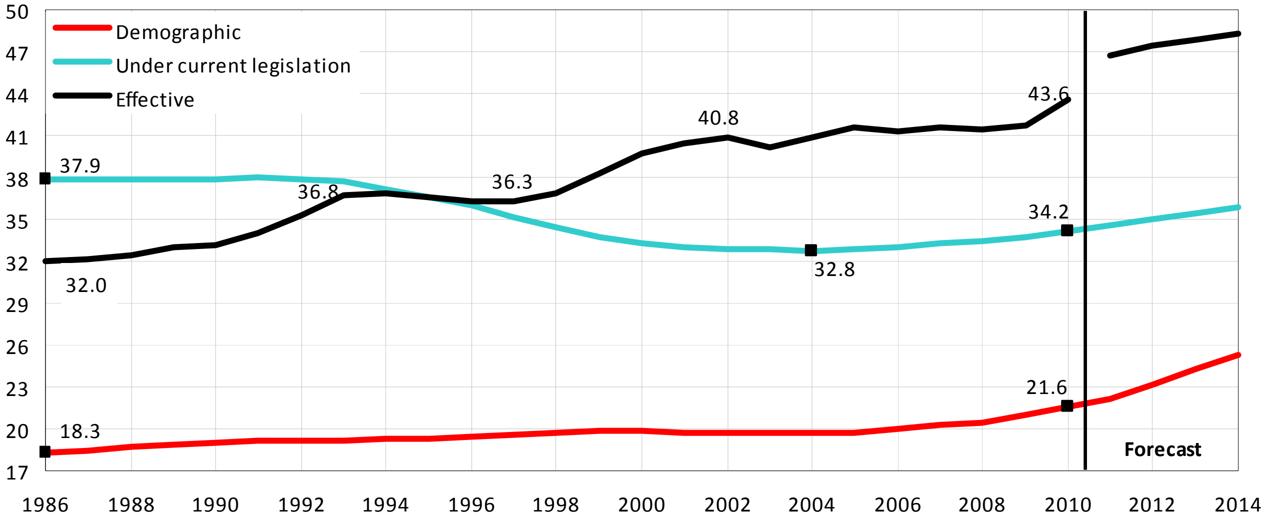
Table A.6.1: **Demography**
in thousands of persons

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
						Prelim.	*Forecast*	*Forecast*	*Outlook*	*Outlook*
Population (January 1)	**10 221**	**10 251**	**10 287**	**10 381**	**10 468**	**10 507**	**10 533**	**10 567**	**10 600**	**10 632**
growth in %	0.1	0.3	0.4	0.9	0.8	0.4	0.2	0.3	0.3	0.3
Age structure (January 1):										
(0–14)	**1 527**	**1 501**	**1 480**	**1 477**	**1 480**	**1 494**	**1 513**	**1 539**	**1 563**	**1 587**
growth in %	-1.8	-1.7	-1.5	-0.2	0.2	1.0	1.3	1.7	1.6	1.5
(15–64)	**7 259**	**7 293**	**7 325**	**7 391**	**7 431**	**7 414**	**7 385**	**7 329**	**7 269**	**7 215**
growth in %	0.3	0.5	0.4	0.9	0.5	-0.2	-0.4	-0.8	-0.8	-0.7
(65 and more)	**1 435**	**1 456**	**1 482**	**1 513**	**1 556**	**1 599**	**1 635**	**1 700**	**1 768**	**1 829**
growth in %	0.8	1.5	1.8	2.1	2.9	2.7	2.3	3.9	4.0	3.5
Old-age pensioners (January 1)[1)]	**1 965**	**1 985**	**2 024**	**2 061**	**2 102**	**2 147**	**2 299**	**2 335**	**2 370**	**2 405**
growth in %	1.7	1.0	2.0	1.8	2.0	2.1	.	1.6	1.5	1.5
Old-age dependency ratios (January 1, in %):										
Demographic [2)]	**19.8**	**20.0**	**20.2**	**20.5**	**20.9**	**21.6**	**22.1**	**23.2**	**24.3**	**25.4**
Under current legislation [3)]	**32.8**	**33.0**	**33.3**	**33.4**	**33.7**	**34.2**	**34.6**	**35.0**	**35.4**	**35.9**
Effective [4)]	**41.5**	**41.3**	**41.6**	**41.5**	**41.8**	**43.6**	**46.7**	**47.4**	**47.9**	**48.3**
Fertility rate	**1.282**	**1.328**	**1.438**	**1.497**	**1.492**	**1.49**	**1.51**	**1.52**	**1.53**	**1.54**
Population increase	**31**	**36**	**94**	**86**	**39**	**26**	**34**	**33**	**32**	**31**
Natural increase	**-6**	**1**	**10**	**15**	**11**	**10**	**9**	**8**	**7**	**6**
Live births	**102**	**106**	**115**	**120**	**118**	**117**	**116**	**114**	**113**	**112**
Deaths	**108**	**104**	**105**	**105**	**107**	**107**	**106**	**106**	**106**	**106**
Net migration	**36**	**35**	**84**	**72**	**28**	**16**	**25**	**25**	**25**	**25**
Immigration	**60**	**68**	**104**	**78**	**40**	**31**	**.**	**.**	**.**	**.**
Emigration	**24**	**33**	**21**	**6**	**12**	**15**	**.**	**.**	**.**	**.**

[1)] *In 2010 disability pensions of pensioners over 64 were transferred into old-age pensions.*
[2)] *Demographic dependency: ratio of people in senior ages (60 and more) to people in productive age (20–59).*
[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.*

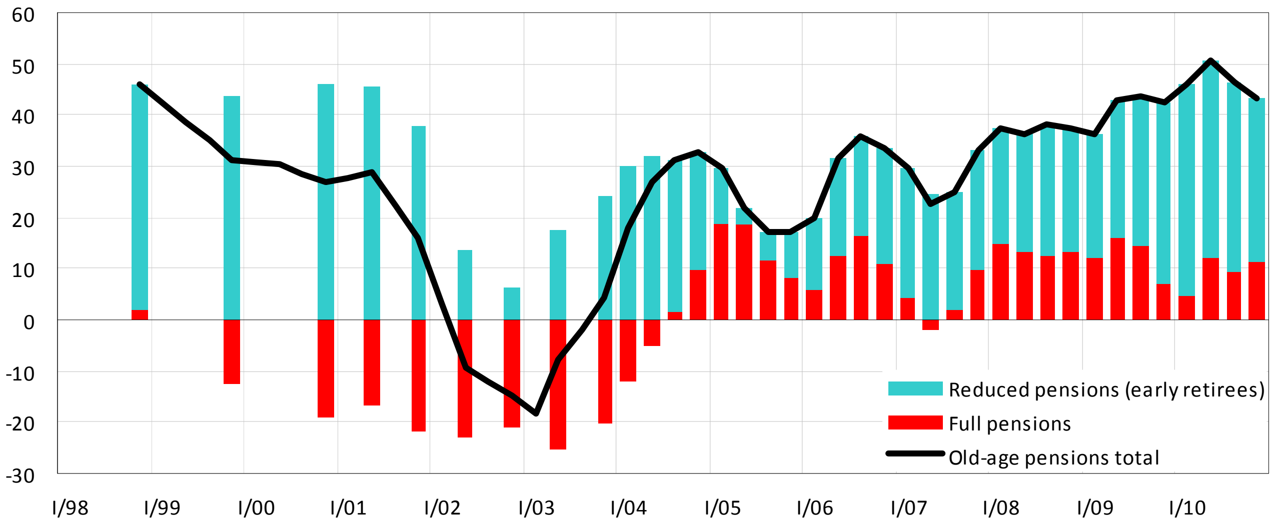
Graph A.6.4: **Dependency Ratios**

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



Graph A.6.5: **Old-Age Pensioners**

absolute increase over a year in thousands of persons



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

B Economic Cycle

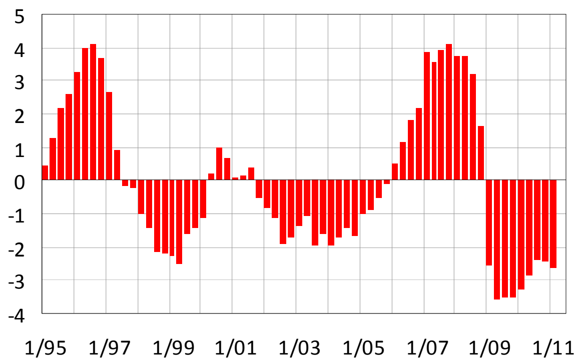
B.1 Position within the Economic Cycle

Potential product (PP), specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of GDP to be achieved with average utilisation of production factors. Growth of PP 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 GDP and PP. The concepts of potential product and output gap are used to analyse economic development and to calculate the structural balance of public budgets.

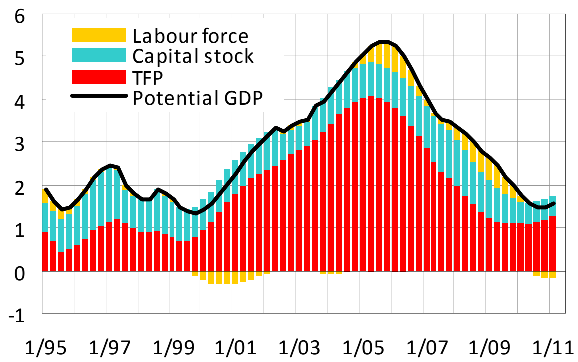
Under current conditions, however, when abrupt changes in the level of economic output have occurred, it is very difficult to distinguish the influence from deepening of the negative output gap from a slowing in PP growth. The results of these calculations thus display high instability and should be treated very cautiously.

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

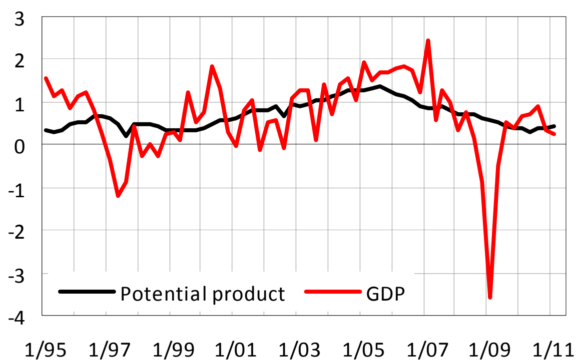
Graph B.1.1.: **Output Gap**
in % of potential GDP



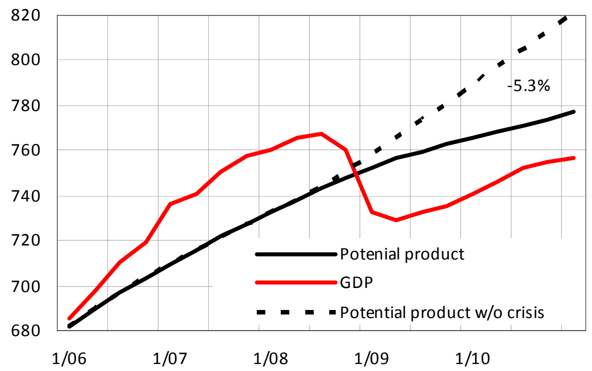
Graph B.1.2: **Potential Product Growth**
in %, contributions in percentage points



Graph B.1.3: **Potential Product and GDP**
QoQ growth in %

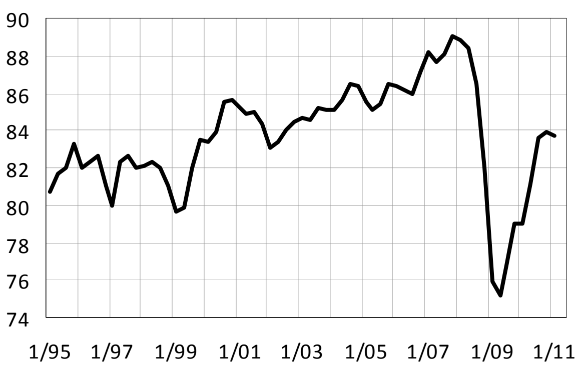


Graph B.1.4: **Levels of Potential Product and GDP**
in bill. CZK of 2000



Note: „Potential product w/o crisis" in graph B.1.4 is a hypothetical level of PP steadily growing from Q4/08 by the average QoQ growth of years 2001–2007.

Graph B.1.5: **Utilisation of Capacities in Industry**
in %



Graph B.1.6: **Total Factor Productivity**
YoY growth in %

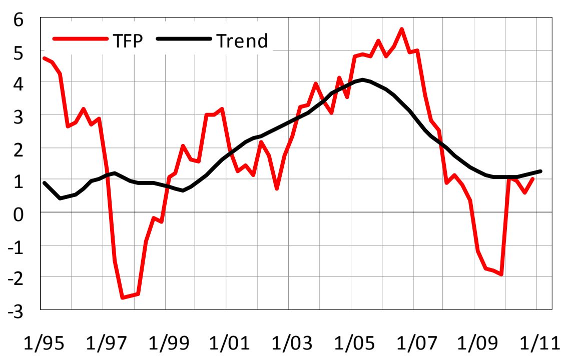


Table B.1: **Output Gap and Potential Product**

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Output gap	*per cent*	-0.1	-1.4	-1.5	-1.6	-0.6	1.3	3.7	3.1	-3.4	-2.7
Potential output	*growth in %*	2.6	3.3	3.7	4.5	5.2	4.8	3.7	3.1	2.3	1.6
Contributions:											
TFP	*perc. points*	2.0	2.5	3.0	3.7	4.0	3.5	2.5	1.7	1.2	1.1
Fixed assets	*perc. points*	0.8	0.7	0.7	0.8	0.8	0.9	1.1	1.0	0.7	0.5
Participation rate	*perc. points*	-0.4	-0.1	-0.2	-0.2	0.2	0.2	-0.2	0.0	0.3	0.2
Demography [1)]	*perc. points*	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.2	-0.2

[1)] *Contribution of growth of working-age population (15–64 years)*

Economic recession in the turn of 2008 to 2009 gave rise to a deeply negative **output gap.** According to the current calculations, it hovered at about the –3.5% mark from the end of the recession in the second quarter of 2009 until the first quarter of 2010, thus indicating the lowest utilisation of economic potential in the post-transformation period. The intensity of economic recovery during the first three quarters of 2010 significantly exceeded the growth of potential product, and the output gap began to close to roughly –2.5%. However, a marked slowdown in growth in the fourth quarter of 2010 and estimated growth for the first quarter of 2011 resulted in this process coming to a halt, at least temporarily.

The foregoing is supported by the fact that the sharp increase in use of capacity in industry also came to a halt just under the long-term average of 84%.

The YoY growth of **potential product** dropped according to calculations to as low as 1.6% in 2010. With regard to the above-mentioned instability of results, we believe, however, that this estimate rather underestimates reality. On the other hand, these calculations show that the QoQ growth could already have reached its minimum during 2010.

The PP component most seriously affected was **total factor productivity** (TFP). The recession led to YoY decline in TFP by 1.8% in 2009 and slowing of the TFP trend growth rate to 1% in 2010 compared to a peak of 4.0% in 2005. In 2010, however, TFP's trend growth showed signs of stabilising. Preparations to increase labour market flexibility should improve the situation substantially.

A major drop in investment activity led to a decrease in **capital stock's** contribution from 1.1 p.p. in 2007 to 0.5 p.p. in 2010.

The labour supply, measured as a levelled ratio of labour force to the number of inhabitants aged 15–64, paradoxically accelerated its growth during the recession in 2009, and in 2010 it contributed to a rise of PP by approx. 0.2 p.p. It thus compensated the moderate decline in the number of inhabitants aged 15–64.

Graph B.1.4 illustrates that the recession and the slow overcoming of its consequences have so far resulted in a loss of approx. 5.3% on the PP level.

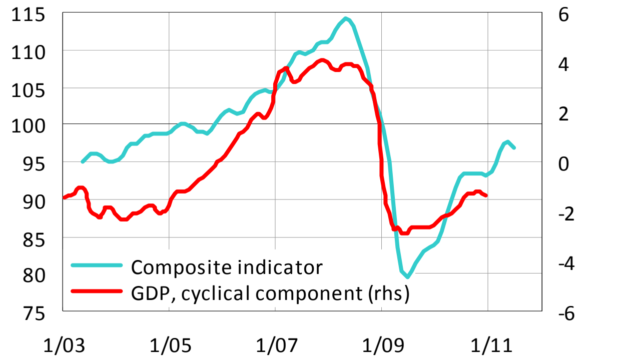
Future PP development will depend on the pace of economic recovery. To close the negative output gap and re-accelerate potential growth, the economy will need to achieve constantly higher paces of GDP growth relative to PP.

B.2 Composite Leading Indicator

The composite leading indicator is compiled from the results of business cycle surveys that fulfil the basic demands made on leading cyclical indicators: that they are economically significant, demonstrate statistically observable leading relationships with regard to the economic cycle, and are regularly available on a timely basis. Since October 2010, the indicator is compiled from those business cycle indicators that have showed a high level of correlation with an average lead time of three months.

Graph B.2.1: **Composite Leading Indicator**

average 2000 = 100 (lhs), in % of GDP (rhs)
synchronized with cyclical component of GDP based on statistical methods (Hodrick-Prescott filter)



For the fourth quarter of 2010, the composite indicator signalled stagnation of the cyclical components of GDP, with the data published in March 2011 confirming this.

For the first quarter of 2011, this indicator signals growth of the cyclical components of GDP, especially due to higher expectations in the industrial sector. In the second quarter of 2011, the cyclical components of GDP should again stagnate according to the composite indicator, with the reason for this being lower expectations in the trade and service sectors.

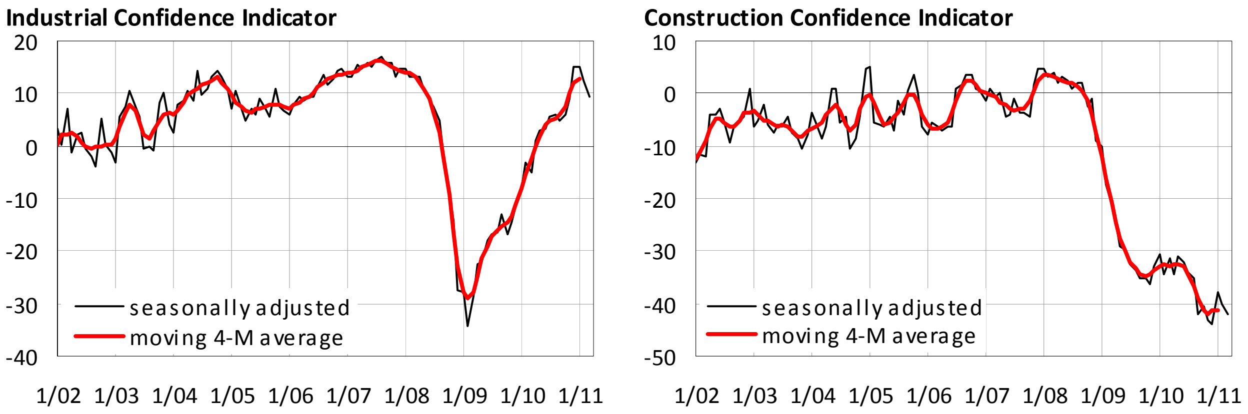
B.3 Individual Business Cycle Indicators

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. The main advantage lies in the quick availability of results reflecting a wide range of influences that shape the expectations of economic entities.

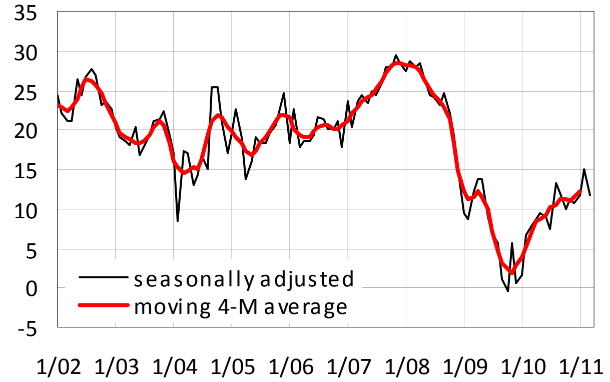
The surveys share a common characteristic in that respondents' answers provide not direct quantification but rather use more general qualitative expressions (such as better, the same, worse, or growing, not changing, falling, etc.). Tendencies are reflected in the business cycle balance, which is the difference between the answers "improvement" and "worsening", expressed in percentages of observations.

The aggregate confidence indicator is presented as a weighted average of seasonally adjusted indicators of confidence in industry, construction, retail trade and selected services sectors as well as of consumer confidence. Weights are established as follows: the indicator of confidence in industry is assigned a weight of 40%, those for construction and retail trade 5% each, that for selected services 30%, and that for consumer confidence 20%.

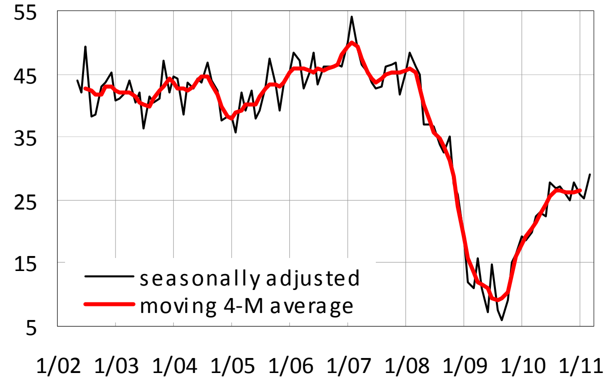
Graph B.3.1: **Confidence Indicators**



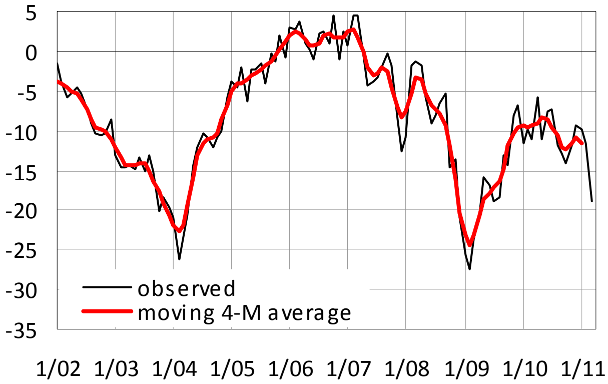
Retail Trade Confidence Indicator



Selected Services Confidence Indicator



Consumer Confidence Indicator



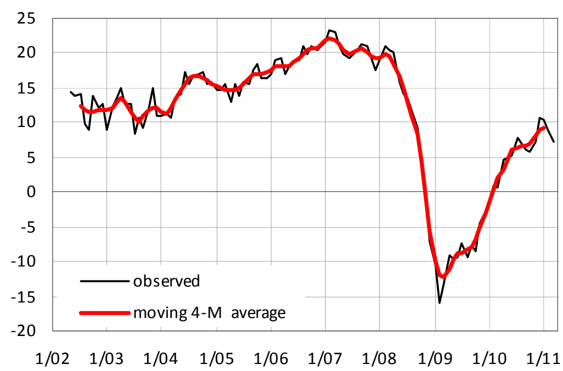
At the beginning of 2011, respondents from **industrial enterprises** were careful in their evaluation of the economy. While they continued to give the economic situation an ever higher evaluation, their evaluation of foreign demand stagnated and their evaluation of overall demand went down slightly. For the second quarter of 2011, respondents, with regard to restricted demand, expected growth in production activity to slow down along with a reduction in employment. This less positive development is also reflected in the evaluation of the future economic situation, especially over the next six months.

In **construction**, evaluation of the economic situation and demand stabilised. When assessing construction activities for the second quarter of 2011, a hint of improvement can be seen, but without an increase in employment. An improvement occurs in the assessment of the development of the economic situation over both the three-month horizon and the six-month horizon.

Retail trade respondents improved their assessment of the current economic situation, as did **service** respondents**.** While retail trade respondents expect a deterioration of the economic situation, respondents from certain service sectors expect steady demand.

Consumer confidence dropped quite markedly in the March survey. The survey showed that for the next 12 months, consumers are worried about a deterioration of the overall economic situation and even their financial situation. Furthermore, expectations related to unemployment deteriorated and concerns over increasing prices grew.

Graph B.3.2: **Aggregate Confidence Indicator**



Based upon the individual business cycle indicators, it could be assumed that QoQ growth in the first quarter of 2011 could moderately slow and maintain a similar level in the second quarter. Development of demand remains a risk.

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

The recovery of the Czech economy is continuing, with the dominating economic growth factor in the fourth quarter of 2010 being the replenishment of inventories and growth of net exports.

The Czech economy stepped out of the recession in the third quarter of 2009. The tendency toward accelerated growth appeared until the third quarter of 2010, when GDP grew QoQ by 0.9%. In the last quarter of last year, however, QoQ GDP growth slowed down to 0.3 % *(versus 1.0 %)*, which meant a YoY increase in real GDP[1] by 2.5 % *(versus 3.4%)*. The level of seasonally adjusted GDP continues to be around 1.6% below its previous peak from the third quarter of 2008. Real GDP grew by 2.3% *(versus 2.5%) over 2010*.

In the next period, one should expect a marked slowdown in inventory increases, whereas investments and household consumption will only be recovering slowly. Due to the influence of fiscal measures, it is expected that growth will slow to 1.9% *(versus 2.2 %)* in 2011, with the growth dynamic expected to return to 2010 levels and GDP to grow by 2.3% *(versus 2.7%)* in 2012.

A significant worsening of 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 the fourth quarter of 2010, it grew YoY by only 0.9% (*versus 2.6%*). Real income only increased by 0.6% (*versus 1.1%*) for 2010. The income situation of Czech economic entities thus has improved more slowly than has the growth in economic output. RGDI should decrease in 2011 by 0.2% (*versus an increase of 1.5%*) and then rise by 2.3% (*versus 2.7%*) in 2012.

Real dynamics also are reflected in the development of **nominal GDP,** a key variable for fiscal forecasts. Growth by only 1.6% YoY (*versus 3.6%*) was reported in the fourth quarter of 2010. In 2010, GDP grew by 1.2% *(versus 1.9%);* we expect GDP to grow by 1.3% (*versus 3.1%*) in 2011 and by 5.0% (*versus 4.7%*) in 2012.

As regards the **income structure of GDP,** we expect to see stagnation in the profitability of the business sector. Gross operating surplus increased by 0.6% (*versus 3.0%*) YoY in the fourth quarter of 2010 and by 0.9% (*versus 1.6%*) for the whole of 2010. For 2011, stagnation (*versus growth of 2.8%*) can be expected. In 2012, we expect growth in the operating surplus by 5.2% (*versus 4.9%*).

Forecasts still reflect the high level of uncertainty ensuing especially from developments in the external environment. Impacts of revisions of past economic development data may also be relevant (see Graph C.1.2).

Expenditures on GDP

In the fourth quarter of 2010, household consumption fell by 1.3% QoQ. That means that the YoY growth in **real household expenditures on final consumption** reached 0.1% (*versus 1.8%*) in the fourth quarter of 2010. Growth for the whole of 2010 was 0.5% (*versus 1.0%*).

The deteriorating income situation of households, especially the decrease in wages in part of the public sector, continues to work against an increase in consumption. We expect household consumption growth dynamics to be at around 0.7% (*versus 1.0%*) for 2011. In 2012, consumption will be slowed down by an increase in the lower VAT rate from 10% to 14%, which is also why growth of about 1.9% (*versus 2.9%*) is expected.

Government expenditures on final consumption in the fourth quarter of 2010 fell in real terms by 1.3% (*versus 1.7%*). For the whole of 2010, government consumption increased in real terms by 0.3% (*versus 0.2%*).

In accordance with adopted stabilisation measures and an approved consolidation strategy, government institutions are expected to behave thriftily regarding both employment and purchases of goods and services. In 2011, government consumption should fall by 3.4% *(versus 3.5%)*. For 2012, we expect government expenditure on consumption to continue to fall by 2.5% (*versus 2.7%*).

The **gross fixed capital formation** in the fourth quarter of 2010 fell YoY by 2.3% (*versus growth of 6.8%*), while purchases of vehicles decreased by 7.9%. Investments in other machinery (except for vehicles) grew by 8.5%. Construction investments in other buildings (except for housing) fell by 2.4%. In contrast, investments in housing grew YoY by 8.2%. Fixed capital formation fell by 4.6% in 2010 (*versus stagnation*). The willingness of

[1] *Data without seasonal adjustment are presented in the remaining text, unless stated otherwise.*

foreign investors to make new investments or to reinvest profits from their business operations in the Czech Republic will depend on the situation in their home countries. A gradual shift in capacities that profited from cheap labour can be expected as well. The influence of infrastructure investments and contributions from EU funds should have a positive effect.

Investment growth at the 0.7% level (*versus 0.8%*) should be restored in 2011, while growth of about 3.2% (*versus 3.6%*) is expected in 2012.

The contribution of **change in inventories** to year-on-year GDP growth in the fourth quarter of 2010 on seasonally adjusted data of 2.8 p.p. accounted for almost the full increase in GDP. For the whole of 2010 it amounted to 2.0 p.p. *(versus 1.5 p.p.)*. For 2011, we expect a contribution of 0.4 p.p *(versus 0.6 p.p.)* and for 2012 0.1 p.p. *(versus 0.0 p.p.).*

The contribution of **foreign trade** to YoY GDP growth on seasonally adjusted data reached 0.9 p.p. for the third quarter of 2010 and 1.0 p.p. (*versus* 0.4 p.p.) for the whole of 2010.

The external balance is positively influenced by the ongoing recovery in partner countries in connection with the current restriction of domestic demand. We expect foreign trade's contribution to be 1.8 p.p. (*versus 1.7 p.p.*) for 2011 and 1.1 p.p. (*versus 1.0 p.p.*) for 2012.

C.2 Prices of Goods and Services

Consumer prices

The **average inflation rate for 2010** reached 1.5%, which after 2003 and 2009 was the third lowest value since 1989.

During 2010, prices grew by 2.3%, to which administrative measures contributed 1.6 p.p., of which 1.1p.p. was due to the increase in the VAT rate by 1.0 p.p. and the increase in excise tax on fuels and alcoholic beverages.

At the beginning of 2011, YoY growth of CPI slowed down to 1.8% in February (by 0.4 p.p. less than the forecast). The whole bias in the estimate occurred in January, when the increase in hitherto regulated rent and rent freed from regulation as of 1 January 2011 together contributed 0.4 p.p. less than forecasted.

The influence of administrative measures on the development of consumer prices will be non-negligible even in 2011. We estimate it now at 0.8 p.p. *(versus 0.9 p.p.)* especially due to the lower than expected increase in regulated rent. Great uncertainty still prevails here, however. The growth of electricity prices as at 1 January 2011 by 4.8% fulfilled expectations. In addition to the mentioned rent prices, uncertainty remains concerning prices in the health sector, where the fee for hospital stays could increase (potential contribution of 0.1 p.p.) and co-payments for medicaments may change.

Inflation impulses should be mitigated by the persistent cyclical position of the Czech economy in the negative output gap, by deteriorated labour market conditions, and by the related moderate growth in wages and household consumption. Inflation is still evaluated as cost-push inflation. Identifying the risk of food prices growth proved to be justified and is especially relevant for 2011. Testifying to this are global food commodity prices and the sharp increase in the prices of agricultural producers (in February they increased by 29.7% YoY, of which animal products by 53.1%).

Based on the aforementioned factors collectively determining the development in consumer prices, we expect the **average inflation rate in 2011** to reach 2.1% (*versus 2.3%*) with a December inflation of 2.5% YoY (*forecast unchanged*). The contribution of the market growth in prices is expected to be positive in 2011.

We are changing the forecast for consumer price growth in 2012 to a significantly greater degree. The most significant influence will be the gradual consolidation of VAT rates. As of 2012, the lower VAT rate should increase to 14%, contributing 1.2 p.p. The concurrent increase in the lower VAT rate and decrease in the basic VAT rate to a consolidated VAT rate of 17.5% as of January 2013 should negatively affect CPI by 0.2 p.p. At the same time, we are contemplating reflecting these changes in full in consumer prices, as the increase in the lower VAT rate concerns necessary commodities and the decrease in the basic VAT rate concerns goods and services where there is extremely fierce competition.

The overall extent of administrative influences in 2012 will contribute 2.3 p.p. (*versus 0.9 p.p.*) to inflation.

Further great uncertainties in the forecast for energy prices appeared immediately after the earthquake in Japan in March and the outage (three months at this point) of 7 blocks of nuclear power plants in Germany. The price of electricity on the German energy exchange jumped by 28% and on the Prague exchange by almost 10%. For now we are not considering these effects in the forecast; however, if these events will continue to influences the energy markets for a longer period of time, they will influence even the final prices for end consumers in 2012 (because of long-term contracts, domestic energy prices should not change in 2011). It is not possible to preclude the synergies leading to price increases in other (alternative) energy commodities.

Dampened consumer demand should not allow for a palpable acceleration of demand-driven price increases even in 2012. In light of the foregoing, we estimate 2012 average inflation rate of 3.2% (*versus 2.4 %)* with December price increase of 2.9% (*versus 2.5%*).

In 2013 and 2014, inflation should stay within the tolerance band for the Czech National Bank's inflation target.

Deflators

The aggregate price level in the economy has increased only moderately. The **gross domestic expenditure deflator**, which is a comprehensive indicator of domestic price development, grew by 0.7% (*versus 1.1%*) YoY in the fourth quarter of 2010. For the whole of 2010, the gross domestic expenditure deflator increased by 0.7% (*versus 0.8%*). It should increase by 1.5% *(versus 1.7%)* in 2011, especially due to the acceleration of consumer inflation, and by 2.8% (*versus 2.0%*) in 2012.

The value of the **implicit GDP deflator** fell by 1.3% (*versus 0.2% growth*) in the fourth quarter of 2010. Unlike the gross domestic expenditure deflator, it was driven downward due to the decline in terms of trade by 2.2% (*versus 0.9%)*. In 2010, the GDP deflator fell by 1.1% (*versus 0.6%)* in connection with worsening terms of trade by 2.2% (*versus a 1.8% decline). We* expect the deflator to fall by 0.5% (*versus a 1.8% rise*) in 2011 and then increase to 2.7% (*versus 1.9%*) in 2012.

C.3 Labour Market

Essentially, the labour market reflected only minimally the improving economic situation. In addition to cyclical development lagging behind the economic cycle as measured by output, the fourth quarter was also about administrative influences. Employment slowed down its YoY fall only thanks to the increase in the number of self-employed persons, and government cost-saving measures lead to the drop in the number of employees but also to extraordinarily low overall average wage growth or more precisely its fall in the public sector.

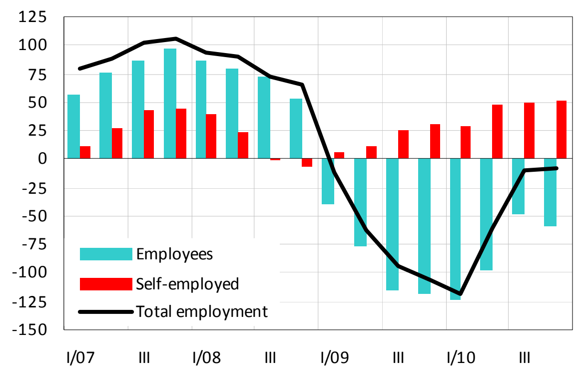
Employment

The YoY drop in employment according to the Labour Force Survey (LFS) continued in the fourth quarter of 2010 to 0.2% *(in line with the forecast)*. Seasonally adjusted employment stagnated QoQ after two quarters of growth.

There continued to be intensive YoY increase in the number of self-employed and entrepreneurs by 6.3% *(versus 5.6 %)* to 18% of total employment, with the number of self-employed increasing YoY by 8.3%. In overall employment, the self-employed now comprise almost 14%. The permanent growth in the number of self-employed is ceasing to be positive even from the point of view of growth of small business, as it is often not a case of people willingly setting up a new trade, but of continued pressure by employers, as using self-employed workers has certain tax advantages for them.

This situation is disadvantageous from the point of view of tax revenues, as with the falling numbers of employers and low growth of average wages the wage bill is increasing only minimally. If conditions do not change, this trend can be expected to continue.

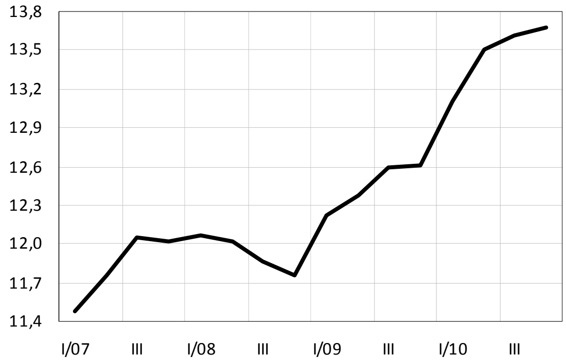
Graph C.3.1 **Structure of YoY Increase in Employment**
in thousands of persons



A partial improvement of domestic and external economic conditions led to a moderate YoY increase in employment in the secondary sector (by 1.1%) thanks to growth in the manufacturing industry. Due to layoffs, especially in public administration and education, the tertiary sector saw employment drop by 1%.

As employment lags behind economic recovery, employment as a whole fell 1.0% in 2010 (*in line with the forecast).* For 2011 and 2012, however, we are expecting growth far below one per cent. This should correspond to rational HR policy and gradual inclusion of spare capacities and rather restrictive policy in the state-run sector.

Graph C.3.2 **Share of self-employed in employment**
in %



Rate of economic activity (15–64 years) has remained at 70.4% YoY. The labour supply however continued to fall YoY in the fourth quarter of 2011 due to the decrease in the number of persons of productive age, which manifested itself in the current decrease of both employed and unemployed persons. Part of the dismissed people entitled to old-age pension opted for non-activity. An increase of old-age pensioners was recorded in both the statistics of the LFS and the statistics of the Czech Social Insurance Administration.

With regard to the above, higher economic activity due to a rise in employment can only be expected in later periods.

Unemployment

Registered unemployment during and at the end of 2010 displayed very non-standard progression. The assumption of the previous forecast that the enormous increase in registered applicants at the end of December 2010 would lead to a smaller increase in January 2011 was confirmed, as was the assumption of a slight divergence in development from the LFS.

The internationally comparable unemployment rate according to LFS reached 6.9% (*versus 7.1%*) in the fourth quarter of 2010. Its YoY decrease amounted to 0.6 p.p..

The unemployment rate according to the LFS attained an average of 7.3% for 2010 *(in line with the forecast)*. We are expecting a fall to 6.9% in 2011 *(versus 7.2%)* and to 6.5% in 2012 *(versus 6.8 %)*. The main reasons for the slightly more optimistic outlook in how employment will develop include new legislative adjustments, the improving structural characteristics of the labour market, and an expected improvement in the economic situation.

Wages

After a drop in the first quarter of 2010, the **wage bill** (NA, domestic concept) grew in the following quarters and by 1.0% YoY in the fourth quarter; however, the average increase for the year was only 0.1% (*versus 0.5%*).

With the gradual economic recovery and the improving situation for companies, a moderate YoY increase in wages can be expected. However, cost-saving measures in the budget will surely have the opposite effect, however. Therefore, for 2011, we are expecting the wage bill to increase by only 2.1% *(versus 3.1%)* in connection with the decrease in both average wages and employment in a large part of the central government sector.

The wage bill, as the economic base for social security contributions and a substantial part of personal income tax, should reach CZK 1,272 billion (*versus CZK 1,290 billion*) in 2011.

YoY growth of **average wage** (CZSO, company-based method, recalculated numbers) was the lowest in ten years and was driven exclusively by the business sector – in the fourth quarter of 2010, it grew nominally YoY by 0.9% in the economy as a whole and by 21% in the business sector; in the non-business sector, the nominal decrease expanded to 3.9% (which resulted in a significant real YoY decrease by 5.9 %). Public administration and defence, due to the drop in both wages and employment, contributed the most to this hitherto unheard of YoY real decrease in average wage; in education, the average wage fell while the number of persons increased.

On the basis of data from previous periods, signals from the business sector and known plans and decision regarding public sector salaries for the forthcoming period, a very moderate growth of average nominal wages in the forthcoming period is expected. We are expecting somewhat slower growth by 2.6% for 2011 *(versus 2.9 %)* and then growth by 4.1% in 2012, this growth continuing to be pulled by the business sector.

The development of **unit labour costs** (ULC) was also related to a very cautious company HR and wage policy. The gradually growing demand for production was secured by companies with the technical minimum number of core workers by extending working hours or using cheaper agency employees. Although the increase in productivity was relatively decent, ULC grew YoY by only 0.9% in the fourth quarter and stagnated for the year thanks to the drop at the beginning of the year.

C.4 External Relations

(a balance of payments perspective)

With CZSO's new "national concept of foreign trade" data, the CNB published data on the balance of payments in the form of "national-concept balance of payments data" for the first time in balances of goods and services for 2009 and 2010 (previous years will be revised later}. There was a fundamental change in the methodology used to report balance of payments (see Box C.4.1), which made it practically impossible to compare previous forecasts with current data.

The external imbalance, expressed as a **ratio of the current account (CA) to GDP** attained -3.8% in 2010, deteriorating YoY by 0.6 p.p. This was caused in particular by a worsening of the balance of trade (by 0.8 p.p.); other items of the current account attained similar YoY results.

World trade continues to recover. After strong growth of the export markets[2] by 11.7% in 2010, we expect a more gradual growth in 2011 and 2012 (by 7.5% and 6.9%, respectively). After an increase in Czech export and import in 2010 by 18.5% and 20.7%, respectively, we also expect slower growth in the next two years in this area. We estimate the **balance of trade** at 0.7% of GDP in 2011 and 1.4% of GDP in 2012.

This estimate naturally carries with it major uncertainties. Both analysis of structure and tendencies in foreign trade for the previous period and the forecast for development are highly problematic due to the current state of the evidence base, where the available time series are not sufficiently consistent due to the influence of various methodologies and show highly divergent results. With regard to the oil price scenario, we expect prices of raw materials to grow gradually and the shortfall in the fuel balance (SITC 3) to increase both during 2011 and during 2012. The share of this balance in GDP in 2010 reached –3.7 %; we expect it to increase in size in 2011 and 2012 to approximately –4.4% and –4.1%, respectively.

The change in the methodology also makes it impossible to compare the forecast with current data in the area of balance of fservices. The surplus in the **balance of services** stagnated YoY at 1.8% of GDP in 2010. In the next two years, we expect it to improve gradually (especially in the travel industry) and grow to approx. 2.2% and 23% of GDP, respectively.

The deficit in the **balance of income** is showing only a weak tendency to grow. As the economic recession has subsided, the influx of direct foreign investment into the Czech Republic has started to increase especially in the form of reinvested earnings, and thus the outflow of dividends from these investments is also gradually growing. Conversely, the outflow of compensation to foreign employees is still falling. In 2010, the deficit in the balance of income reached –7.0% of GDP (*versus -7.2 %*). In coming years, we expect only small changes in the deficit of the balance of income: in 2011 we estimate its stagnation at –7.0 % of GDP (*versus an increase to –7.8%*) and for 2012 its increase to –7.3 % of GDP (*versus –9.1 %*).

Within this context, we expect the ratio of **current account** deficit to GDP to reach –4.0%. The forecast for 2012 is –3.4% of GDP. After the methodological changes in reporting data, the current account deficit is attaining higher values than before revision. However, we do not regard the risk of macroeconomic imbalance as significant.

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

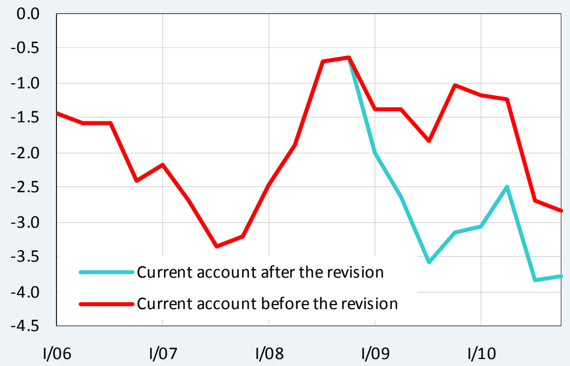
Box C.4.1: **Methodological changes in the balance of payments**

In March 2011, the methodology used to report data on foreign trade in goods and services changed in light of the transition to national concept of foreign trade data. The change chiefly entails the elimination of branding, i.e., the margin of non-residents registered in the Czech Republic only as VAT payers, compared to so-called cross-border statistics on foreign trade in goods and services, which is the new name for customs statistics. In addition to this, the methodology used to calculate direct trading costs was changed and a new procedure for grossing up services was put in place, which led to a decrease in turnover and an increase in the positive balance of net service revenues and expenditures.

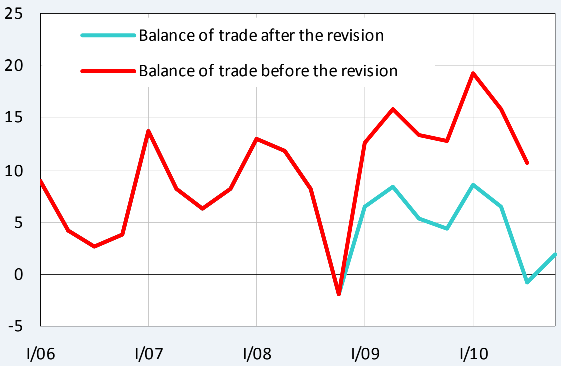
In the first phase, data from 2009 and 2010 were revised. In the framework of national foreign trade, the trade balance surplus for 2009 and 2010 decreased compared to previous data by CZK 99 billion and CZK 148 billion, respectively. The structure of the balance of goods and services changed substantially in favour of a surplus in the service balance (elimination of branding, new calculation of direct trading costs, and gross up of other services) and a decrease in the merchandise balance surplus. In 2009, after processing the results of the annual survey of enterprises with foreign participation, a higher deficit in the balance of income (by CZK 20.8 billion) was recorded in the item "dividends paid and reinvested earnings". After this methodological change, the negative balance of the item "errors and omissions, foreign exchange gains/losses" of the balance of payments substantially decreased in both years.

Due to this change in methodology, the ratio of the balance of payments deficit to GDP changed substantially. For 2009, the ratio of the CA deficit to GDP worsened by approx. 2.1 p.p. to –3.2 % and for 2010 by 0.9 p.p. to –3.8 %.

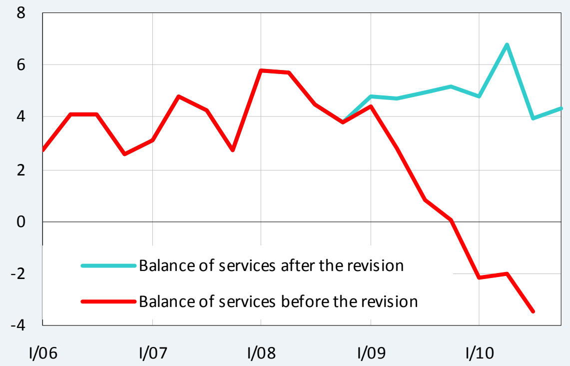
Graph Box.1: **Current account balance of payments**
In % of GDP



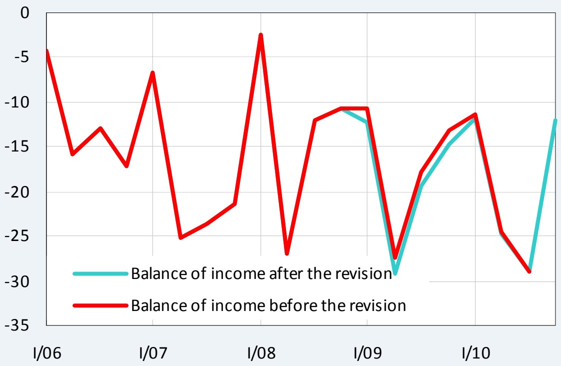
Graph Box.2: **Balance of trade**
in % of GDP



Graph Box.3: **Balance of services**
in % of GDP



Graph Box.4: **Balance of income**
in % of GDP



C.5 International Comparisons

Comparisons for the period to 2010 are based on Eurostat statistics. As of 2011, 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 2010 was CZK 17.43/PPS in comparison to the EU27 or CZK 16.31/EUR in comparison to the EA12.

In 2009, per capita GDP, using current **purchasing power parity** conversion, decreased in both the Czech Republic and other Central European economies as a result of the economic crisis. The only exception was Poland, which managed to avoid the recession. Especially hard hit by the recession were Baltic countries and Slovenia, where the economic level relative to the EA12 in fact fell. In 2010, when economic recovery was already underway, GDP grew in all Central European countries in comparison to the EA12.

In 2010, per capita GDP of the Czech Republic reached approx. PPS 20,000, which corresponds to 76% of EA12 economic output. Due to higher growth in the Czech Republic than in the EA12, the Czech economy's relative performance should continue improving in coming years. During the forecast horizon, it should surpass the economic level of Greece, which country's growth options are limited by the necessity for hard fiscal consolidation.

An alternative way of calculating per capita GDP by means of the current **exchange rate** takes into account the market valuation of the currency and ensuing differences in price levels. This indicator amounted to approx. EUR 13,800, i.e., about half (49%) the EA12 level. Due to growth recovery and gradual appreciation of the exchange rate, the pre-crisis level of 2008 should be surpassed as early as this year.

The comparative price level of GDP reached 65% of the EA12 average in 2010. Depreciation of the real exchange rate in 2009 was reflected in a YoY decline in the price level by 4 p.p. This greatly helped to increase the competitiveness of the Czech economy. A much fiercer depreciation in the exchange rate was seen in Poland, where decline of the relative price level almost reached 12 p.p., thus helping Poland to avoid economic recession.

Already last year, the comparative GDP price level in the Czech Republic, led by productivity growth and growth in the Czech economy's competitiveness due to factors not related to price, grew by 1 p.p. and should continue to increase.

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 13 institutions are continuously monitored from publicly available data sources. Of these, eight institutions are domestic (CNB, Ministry of Labour and Social Affairs, domestic banks and investment companies) and others are foreign (European Commission, OECD, 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**

		March 2011			*April 2011*
		min.	*max.*	*consensus*	*forecast MoF*
Gross domestic product (2011)	*growth in %, const.pr.*	**1.5**	**2.8**	**2.0**	**1.9**
Gross domestic product (2012)	*growth in %, const.pr.*	**2.0**	**3.2**	**2.8**	**2.3**
Average inflation rate (2011)	*%*	**1.5**	**2.3**	**2.0**	**2.1**
Average inflation rate (2012)	*%*	**1.7**	**2.8**	**2.3**	**3.2**
Average monthly wage (2011)	*growth in %*	**1.9**	**2.8**	**2.5**	**2.6**
Average monthly wage (2012)	*growth in %*	**3.5**	**4.5**	**4.1**	**4.1**
Current account / GDP (2011)	*%*	**-3.3**	**-0.6**	**-2.0**	**-4.0**
Current account / GDP (2012)	*%*	**-4.1**	**-0.7**	**-2.1**	**-3.4**

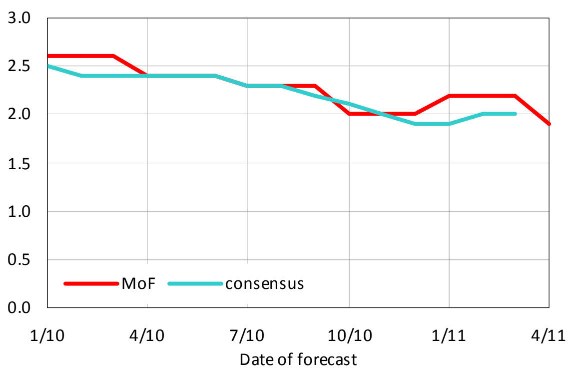
Estimates of **GDP** growth for 2011 have been hovering near the 2% mark for quite some time. Institutions whose prognoses are followed expect an average increase in the Czech economy's output by 2.0% in 2011. For 2012, they expect GDP growth to accelerate to 2.8%. In comparison with the average forecasts of other institutions, the Ministry of Finance's forecast for 2011 differs only slightly, but is more conservative for 2012.

Current forecasts are for the **average rate of inflation** in this year to be 2.0%, which is in compliance with the MoF forecast. The substantial divergence in the MoF forecast for 2012 from the average of the other institutions' forecasts can be explained by the inclusion of the impact of the proposed changes in VAT in the MoF forecast or, as the case may be, the decision on the part of the other monitored institutions to not include this information in their forecasts.

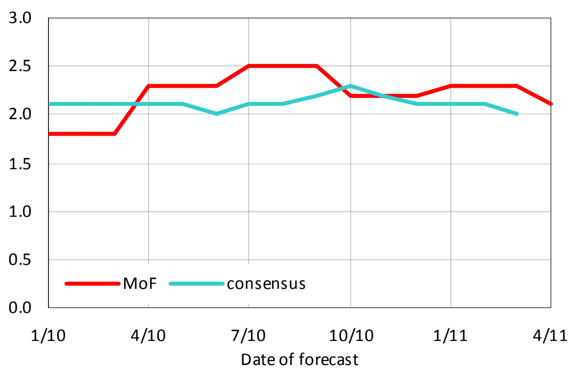
According to the monitored institutions' forecasts, **average wage** should increase by 2.5% in 2011, and acceleration to 4.1% is expected for 2012. The MoF's opinion on the development of average wage is almost identical to these numbers.

The **current account deficit of the balance of payments** should remain at a sustainable level. Comparing the MoF forecast with the monitored institutions' forecasts would not be of great value, however, due to the recent revision of data on the development of the balance of payments in 2009 and 2010.

Graph D.1: **Forecast of Real GDP Growth for 2011**
in %



Graph D.2: **Forecast of Average Inflation Rate for 2011**
in %



E The Year 2010 in Retrospect

In its efforts to increase the transparency of the work behind preparing its forecasts, the MoF has prepared a comparison of the macroeconomic framework of the state budget for 2010 and the published data for this year. We call attention to the fact that these data can in no way be deemed final for 2010, as the national accounts in particular will still surely be revised a number of times.

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

The macroeconomic framework of the national budget for 2010 was prepared on the basis of the June 2009 forecast. Let us remind ourselves of the situation in which the economy found itself at such time.

At the time, both the Czech economy and the **global economy** were going through the deepest slump. World trade was collapsing and the financial markets were experiencing a crisis caused by a number of busts and the very expensive cleanup of big banks. Just released macroeconomic data for the first quarter of 2009 showed a drop in QoQ GDP for the EA12 of 2.5% and for Germany of 3.8%.

The Czech Republic had also been in a **recession** since the fourth quarter of 2008. According to CZSO data at the time, the economic decline reached 3.4%, both QoQ and YoY, in the first quarter of 2009 (after seasonal and working day adjustments). The vast drop in world trade and domestic consumption in the Czech Republic led to a fall in the nominal value of export of approx. 20%, and investments decreased YoY by 5.4%. Inventories also decreased. Business cycle indicators of both domestic and foreign economies then only indicated a slowdown in the decline.

Low demand and falling prices of raw materials led to sharp **disinflation**, where the YoY increase in consumer prices slowed from 6.8% in July 2008 to 1.3% in May 2009. The labour market was also hit hard by the recession. Employment dropped sharply and the seasonally adjusted level of registered unemployed grew in less than a year from 5.4% in September 2008 to 8.1% in May 2009, and continued to rise steeply.

The CNB continued to lower its interest rate for two-week repo operations. In July 2009, the 2W repo rate reached 1.5%; nevertheless, the transmission mechanism of monetary policy was, thanks to a lack of confidence on the inter-bank market, weakened (wider spreads in interbank rates with respect to the 2W repo rate).

As part of **fiscal policy,** a National Emergency Plan was adopted by the Government in early 2009, whose fiscal stimulus in 2009 amounted to 2.2% of GDP. The majority of the measures should have been in force until the end of 2010.

The Fiscal Outlook from May 2009 stated that net lending/borrowing in the government sector should reach –5.1 % of GDP. This was a declared indicative target. A no-policy-change scenario would lead to net lending/borrowing at –6.9 % of GDP.

The situation on the government bond market of certain European countries, namely Latvia, Hungary, and Ukraine, significantly deteriorated during 2009. Yields on Czech government bonds began to register risk aversion and the relative inability of investors to differentiate between the various countries of Central and Eastern Europe. The rate was not fully based on reality and was largely influenced by psychological factors.

This development led to decision to radically shift from fiscal expansion to restriction. In September 2009, a package of measures aimed at stabilising public budgets was adopted. Its goal was to improve the net government balance to -5.3% of GDP in 2010. The main measures in the package included cancellation of crisis-related relief on social security contributions, increasing the VAT and excise tax rates, wage freezes in the government sector, and earmarking funds from the public budget chapters. We would like to point out that this package was proposed and approved only after the cut-off date for the macroeconomic framework of the budget for 2010.

In 2010, austere fiscal policy proved to be the right road to take when the development on the government bond market was dominated by the debt problems of certain Eurozone periphery countries. At moments of increased turbulence in May (Greece) and November (Ireland), the risk premiums on Czech bonds increased only marginally. In May 2010, the spread on 10Y German bonds was on average higher by 0.6 p.p. than in April of the same year; in November, the risk premium on Czech bonds did not even change.

Despite the unclear situation at the time that the June 2009 forecast came out and the fundamental change in the fiscal environment, the actual economic development in 2010 did not deviate to any great extent from the macroeconomic framework of the national budget.

Table E.1: **Comparison of the macroeconomic framework of the NB for 2010 with reality**

Summary of main indicators		2010 State Budget (July 2009 Forecast)			Outcome (April 2011)			Difference (Outcome–Forecast)		
		2008	2009	2010	2008	2009	2010	2008	2009	2010
Gross domestic product	*growth in %, const.pr.*	3.0	-4.3	0.3	2.5	-4.1	2.3	-0.5	0.2	2.0
Consumption of households	*growth in %, const.pr.*	2.7	1.1	0.7	3.6	-0.2	0.5	0.9	-1.3	-0.2
Consumption of government	*growth in %, const.pr.*	1.7	1.3	0.5	1.1	2.6	0.3	-0.6	1.3	-0.2
Gross fixed capital formation	*growth in %, const.pr.*	-0.1	-5.7	-1.5	-1.5	-7.9	-4.6	-1.4	-2.2	-3.1
Cont. of foreign trade to GDP growth	*p.p., const.pr.*	1.9	-1.8	0.2	1.3	-0.6	1.0	-0.6	1.2	0.8
GDP deflator	*growth in per cent*	1.6	2.8	1.0	1.8	2.5	-1.1	0.2	-0.3	-2.1
Average inflation rate	*per cent*	6.3	1.1	1.1	6.3	1.0	1.5	0.0	-0.1	0.4
Employment (LFS)	*growth in per cent*	1.6	-1.8	-2.1	1.6	-1.4	-1.0	0.0	0.4	1.1
Unemployment rate (LFS)	*average in per cent*	4.4	6.8	8.5	4.4	6.7	7.3	0.0	-0.1	-1.2
Wage bill (domestic concept)	*growth in %, curr.pr.*	10.8	1.0	1.0	8.7	0.0	0.1	-2.1	-1.0	-0.9
Current account / GDP	*per cent*	-3.1	-2.0	-0.9	-0.6	-3.2	-3.8	2.5	-1.2	-2.9
General government balance	*% GDP*	-1.5	-4.5	-5.1	-2.7	-5.8	-4.7	-1.2	-1.3	0.4
Assumptions										
Exchange rate CZK/EUR		24.9	26.8	25.5	24.9	26.4	25.3	0.0	-0.4	-0.2
Long-term interest rates	*% p.a.*	4.6	4.5	4.4	4.6	4.8	3.9	0.0	0.3	-0.5
Crude oil Brent	*USD/barrel*	98	62	79	98	62	80	0	0	1
GDP in Eurozone (EA-12)	*growth in %, const.pr.*	0.8	-4.3	-0.2	0.4	-4.1	1.7	-0.4	0.2	1.9

Note: Net government balance (net lending/borrowing) in ESA 95 according to the Fiscal Outlook from May 2009.

The global economic recovery in 2010 was greater than generally expected. Growth in the EA12 and other important economies thus strongly exceeded our forecast at the time. The accepted assumption about the development of the oil prices was spot on. Their marked increase at the end of the year to almost USD 100 per barrel did not affect annual results.

The extent to which final data for 2010 matched the macroeconomic framework of the budget was noteworthy in the case of **nominal values**, which are the most important for determining budgetary parameters. Nominal GDP reached CZK 3 670 bill. compared to the estimated CZK 3 678 bill. in connection with concurrent growth of 1.2%. At the same time, the difference in nominal consumption of households was minimal. Consumption amounted to CZK 1 869 bill. And grew by 1.8% compared to the budgetary framework of CZK 1 888 bill. CZK and growth of 1.6%. (The opposite direction of variances stems from revised data for 2009.)

Real GDP growth in the Czech Republic exceeded the forecast by 2.0 p.p. The economic growth of our business partners also increased the dynamic of Czech exports more than had been expected by the forecast. The largest contributors to the faster growth in the Czech Republic were foreign trade, with its contribution of 1.0 p.p. (instead of 0.2 p.p.) and increase in inventories with a contribution of 2.0 p.p. (instead of –0.1 p.p). Due to falling incomes, household consumption developed less favourably than anticipated by the forecast. Fixed capital formation was also falling faster than predicted.

A slightly higher **inflation rate** (by 0.4 p.p.) in contrast to the macroeconomic framework can be clearly attributed to the aforementioned additional tax measures, contributing 0.8 p.p. to price growth. The reduction in the CNB's inflationary target to 2% as of 1 January and lower growth of household consumption in a highly competitive environment were apparently helping to stabilise inflation.

Thanks to higher than expected economic growth, the **labour market** experienced less disruptions. The seasonally adjusted level of registered unemployment peaked during the first quarter of 2010 exactly as predicted, but on a slightly lower level (9.6 % versus 10.2%). The early cancellation of relief on social security contributions had only a short-term effect, which apparently delayed the peak by a number of months. In the same way, the decrease in the average employment level was substantially more moderate.

The results of the current account balance of payments cannot be evaluated due to the revision of the underlying data (for more information see Box C.4.1).

In 2010, the net government balance (net lending/borrowing) attained –4.7 of GDP according to April notifications. This result is by 0.6 p.p. better than the budget.

Tables and Graphs:

C.1 Economic Output

Sources: CZSO, MoF estimates

Table C.1.1: **Real GDP by Type of Expenditure** – yearly
chained volumes, reference year 2000

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							Prelim.	*Forecast*	*Forecast*	*Outlook*	*Outlook*
Gross domestic product	*bill. CZK 2000*	2630	2809	2982	3055	2928	2996	3052	3121	3224	3352
	growth in %	**6.3**	**6.8**	**6.1**	**2.5**	**-4.1**	**2.3**	**1.9**	**2.3**	**3.3**	**4.0**
Private consumption exp. [1]	*bill. CZK 2000*	1342	1411	1482	1535	1532	1539	1549	1578	1630	1698
	growth in %	**2.5**	**5.1**	**5.0**	**3.6**	**-0.2**	**0.5**	**0.7**	**1.9**	**3.3**	**4.2**
Government consumption exp.	*bill. CZK 2000*	542	548	551	557	571	573	553	539	532	533
	growth in %	**2.9**	**1.2**	**0.5**	**1.1**	**2.6**	**0.3**	**-3.4**	**-2.5**	**-1.3**	**0.1**
Gross capital formation	*bill. CZK 2000*	767	841	921	895	753	789	806	833	878	938
	growth in %	**-0.8**	**9.6**	**9.4**	**-2.8**	**-15.8**	**4.7**	**2.3**	**3.3**	**5.4**	**6.9**
– Gross fixed capital formation	*bill. CZK 2000*	729	773	856	844	777	742	747	771	814	873
	growth in %	**1.8**	**6.0**	**10.8**	**-1.5**	**-7.9**	**-4.6**	**0.7**	**3.2**	**5.6**	**7.2**
– Change in stocks and valuables	*bill. CZK 2000*	38	69	64	51	-24	47	59	62	63	65
Exports of goods and services	*bill. CZK 2000*	2275	2633	3029	3210	2865	3381	3795	4205	4656	5190
	growth in %	**11.6**	**15.8**	**15.0**	**6.0**	**-10.8**	**18.0**	**12.2**	**10.8**	**10.7**	**11.5**
Imports of goods and services	*bill. CZK 2000*	2301	2629	3004	3144	2810	3315	3668	4037	4469	5003
	growth in %	**5.0**	**14.3**	**14.3**	**4.7**	**-10.6**	**18.0**	**10.6**	**10.1**	**10.7**	**12.0**
Domestic demand	*bill. CZK 2000*	2652	2796	2943	2979	2868	2907	2910	2946	3029	3150
	growth in %	**1.7**	**5.4**	**5.2**	**1.2**	**-3.7**	**1.4**	**0.1**	**1.2**	**2.8**	**4.0**
Methodological discrepancy [2]	*bill. CZK 2000*	6	5	3	2	17	30	17	4	-4	-4
Real gross domestic income	*bill. CZK 2000*	2712	2869	3074	3110	3031	3049	3045	3114	3221	3357
	growth in %	**5.0**	**5.8**	**7.1**	**1.2**	**-2.5**	**0.6**	**-0.2**	**2.3**	**3.4**	**4.2**
Contribution to GDP growth [3]											
– Domestic demand	*percent. points*	**1.7**	**5.3**	**5.1**	**1.2**	**-3.6**	**1.3**	**0.1**	**1.2**	**2.7**	**3.8**
– consumption	*percent. points*	**1.9**	**2.8**	**2.5**	**1.9**	**0.4**	**0.3**	**-0.4**	**0.4**	**1.4**	**2.2**
– gross capital formation	*percent. points*	**-0.2**	**2.5**	**2.5**	**-0.8**	**-4.0**	**1.0**	**0.5**	**0.7**	**1.2**	**1.6**
– gross fixed capital formation	*percent. points*	**0.5**	**1.5**	**2.7**	**-0.4**	**-1.9**	**-1.0**	**0.2**	**0.7**	**1.2**	**1.5**
– change in stocks	*percent. points*	**-0.7**	**1.0**	**-0.1**	**-0.4**	**-2.1**	**2.0**	**0.4**	**0.1**	**0.0**	**0.0**
– Foreign balance	*percent. points*	**4.6**	**1.5**	**1.1**	**1.3**	**-0.6**	**1.0**	**1.8**	**1.1**	**0.6**	**0.2**

[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 2000

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	*Prelim.*	*Prelim.*	*Prelim.*	*Estim.*	*Forecast*	*Forecast*	*Forecast*
Gross domestic product	*bill. CZK 2000*	711	764	757	764	727	777	771	777
	growth in %	**1.0**	**2.9**	**2.4**	**2.9**	**2.3**	**1.7**	**1.9**	**1.6**
	growth in % 1)	**1.1**	**2.3**	**2.7**	**2.6**	**2.2**	**2.1**	**1.6**	**1.9**
	quart.growth in %1)	**0.7**	**0.7**	**0.9**	**0.3**	**0.3**	**0.6**	**0.5**	**0.6**
Private consumption exp.	*bill. CZK 2000*	365	387	392	395	362	385	396	406
	growth in %	**0.3**	**0.9**	**0.5**	**0.1**	**-0.7**	**-0.6**	**1.0**	**2.8**
Government consumption exp.	*bill. CZK 2000*	132	140	141	159	128	136	136	154
	growth in %	**2.0**	**0.9**	**-0.2**	**-1.3**	**-3.2**	**-3.4**	**-3.7**	**-3.5**
Gross capital formation	*bill. CZK 2000*	181	200	219	188	191	206	227	183
	growth in %	**-8.6**	**2.3**	**14.4**	**11.9**	**5.2**	**3.0**	**3.6**	**-2.9**
– Gross fixed capital formation	*bill. CZK 2000*	162	187	194	199	162	188	194	203
	growth in %	**-9.4**	**-6.5**	**-0.4**	**-2.3**	**0.3**	**0.5**	**0.0**	**2.0**
– Change in stocks and valuables	*bill. CZK 2000*	20	13	25	-11	29	18	33	-20
Exports of goods and services	*bill. CZK 2000*	786	861	837	896	908	967	926	994
	growth in %	**18.0**	**20.7**	**15.7**	**17.7**	**15.5**	**12.2**	**10.6**	**10.9**
Imports of goods and services	*bill. CZK 2000*	756	826	843	890	861	912	922	973
	growth in %	**15.3**	**20.0**	**18.6**	**17.9**	**13.8**	**10.4**	**9.3**	**9.3**
Methodological discrepancy	*bill. CZK 2000*	2	1	11	17	-2	-4	8	14
Real gross domestic income	*bill. CZK 2000*	729	777	769	774	726	772	770	776
	growth in %	**-0.2**	**1.2**	**0.5**	**0.9**	**-0.3**	**-0.7**	**0.2**	**0.3**

[1)] *From seasonally and working day adjusted data*

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

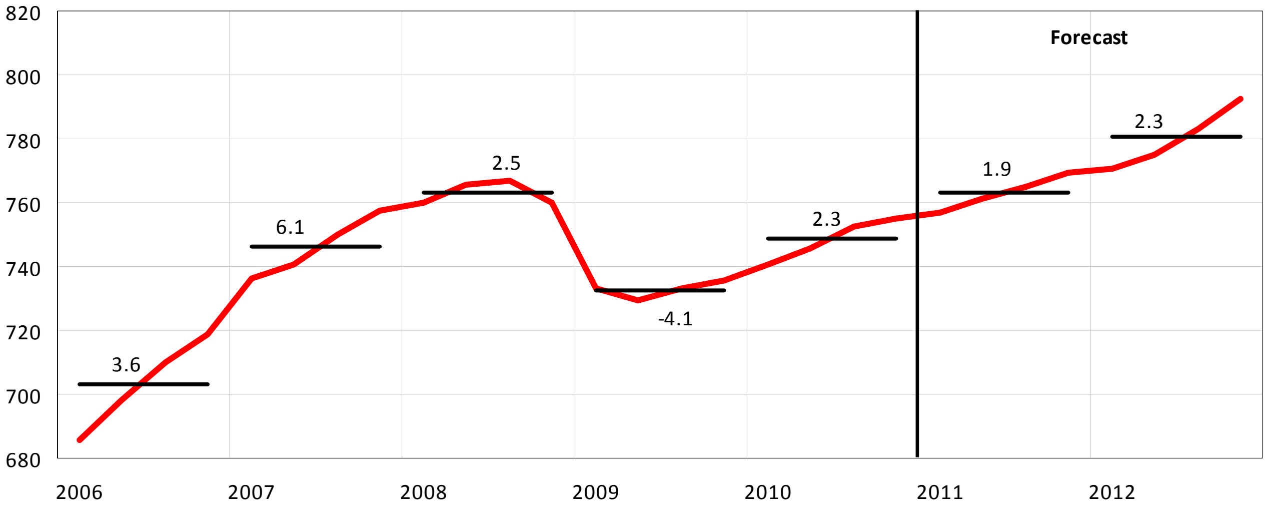
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							Prelim.	*Forecast*	*Forecast*	*Outlook*	*Outlook*
Gross domestic product	*bill. CZK*	**2984**	**3222**	**3535**	**3689**	**3626**	**3670**	**3718**	**3904**	**4095**	**4335**
	growth in %	6.0	8.0	9.7	4.3	-1.7	1.2	1.3	5.0	4.9	5.9
Private consumption	*bill. CZK*	**1464**	**1562**	**1688**	**1835**	**1837**	**1869**	**1919**	**2018**	**2115**	**2247**
	growth in %	3.4	6.6	8.1	8.7	0.1	1.8	2.7	5.2	4.8	6.2
Government consumption	*bill. CZK*	**658**	**687**	**717**	**753**	**799**	**805**	**789**	**789**	**793**	**803**
	growth in %	5.9	4.3	4.4	5.0	6.1	0.8	-2.0	0.0	0.5	1.2
Gross capital formation	*bill. CZK*	**766**	**863**	**955**	**934**	**788**	**820**	**843**	**889**	**948**	**1027**
	growth in %	-1.1	12.7	10.6	-2.2	-15.5	4.0	2.8	5.4	6.7	8.4
– Gross fixed capital formation	*bill. CZK*	**742**	**796**	**890**	**883**	**814**	**771**	**781**	**824**	**878**	**954**
	growth in %	2.0	7.3	11.8	-0.8	-7.8	-5.3	1.3	5.5	6.7	8.6
– Change in stocks and valuables	*bill. CZK*	**24**	**67**	**65**	**50**	**-26**	**49**	**62**	**65**	**69**	**73**
External balance	*bill. CZK*	**95**	**110**	**176**	**168**	**201**	**175**	**167**	**208**	**238**	**258**
– Exports of goods and services	*bill. CZK*	**2155**	**2462**	**2830**	**2844**	**2507**	**2909**	**3240**	**3593**	**3990**	**4468**
	growth in %	9.1	14.3	14.9	0.5	-11.8	16.0	11.4	10.9	11.0	12.0
– Imports of goods and services	*bill. CZK*	**2060**	**2352**	**2655**	**2676**	**2305**	**2734**	**3073**	**3385**	**3751**	**4210**
	growth in %	4.4	14.2	12.9	0.8	-13.8	18.6	12.4	10.1	10.8	12.2
Gross national income	*bill. CZK*	**2850**	**3062**	**3288**	**3523**	**3411**	**3429**	**3477**	**3641**	**3810**	**4028**
	growth in %	7.1	7.5	7.4	7.1	-3.2	0.5	1.4	4.7	4.6	5.7
Primary income balance	*bill. CZK*	**-134**	**-160**	**-247**	**-166**	**-215**	**-241**	**-241**	**-263**	**-285**	**-307**

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

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	*Prelim.*	*Prelim.*	*Prelim.*	*Estim.*	*Forecast*	*Forecast*	*Forecast*
Gross domestic product	*bill. CZK*	**870**	**935**	**926**	**939**	**877**	**941**	**941**	**959**
	growth in %	-0.6	1.8	2.0	1.6	0.8	0.6	1.7	2.1
Private consumption	*bill. CZK*	**441**	**471**	**478**	**480**	**445**	**476**	**493**	**505**
	growth in %	0.6	1.8	2.5	2.1	0.9	1.2	3.1	5.3
Government consumption	*bill. CZK*	**182**	**197**	**196**	**231**	**178**	**193**	**192**	**226**
	growth in %	2.1	1.5	0.7	-0.8	-2.0	-2.0	-2.0	-2.0
Gross capital formation	*bill. CZK*	**189**	**208**	**228**	**195**	**200**	**215**	**237**	**191**
	growth in %	-9.4	2.1	15.0	9.8	5.4	3.4	3.8	-1.6
– Gross fixed capital formation	*bill. CZK*	**169**	**195**	**202**	**206**	**169**	**196**	**203**	**212**
	growth in %	-10.9	-7.2	-0.5	-2.8	0.4	0.8	0.7	2.9
– Change in stocks and valuables	*bill. CZK*	**21**	**13**	**26**	**-12**	**30**	**19**	**34**	**-21**
External balance	*bill. CZK*	**58**	**60**	**23**	**33**	**55**	**57**	**19**	**35**
– Exports of goods and services	*bill. CZK*	**676**	**750**	**719**	**764**	**768**	**828**	**795**	**849**
	growth in %	9.4	19.3	17.7	17.5	13.6	10.4	10.6	11.2
– Imports of goods and services	*bill. CZK*	**618**	**689**	**696**	**731**	**713**	**771**	**776**	**814**
	growth in %	8.9	21.3	23.6	20.4	15.4	11.8	11.5	11.4

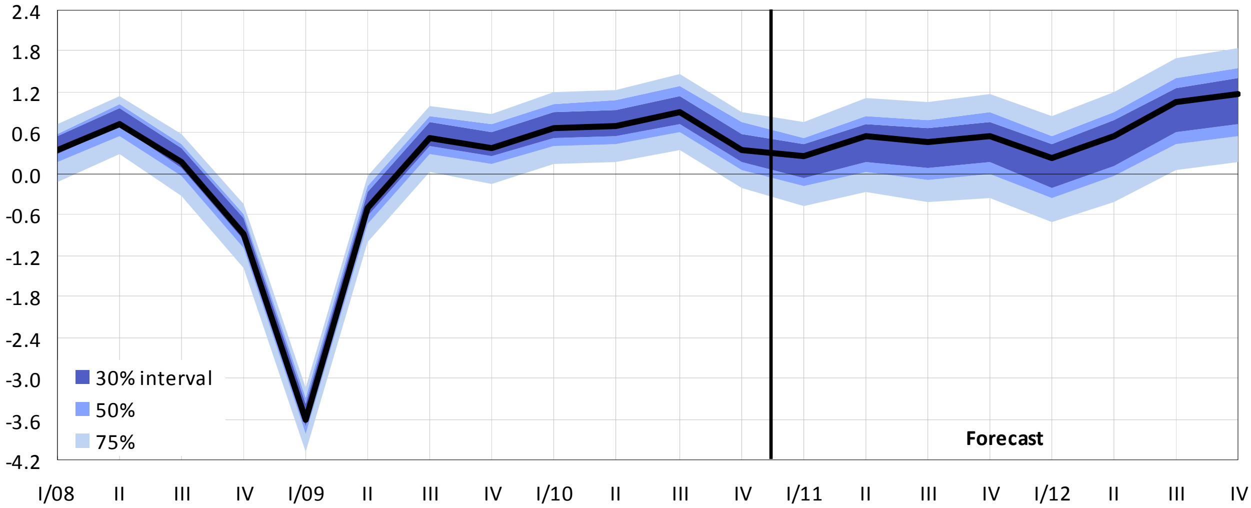
Graph C.1.1: **Gross Domestic Product** (*real*)

chained volumes, bill. CZK in const. prices of 2000, seasonally adjusted



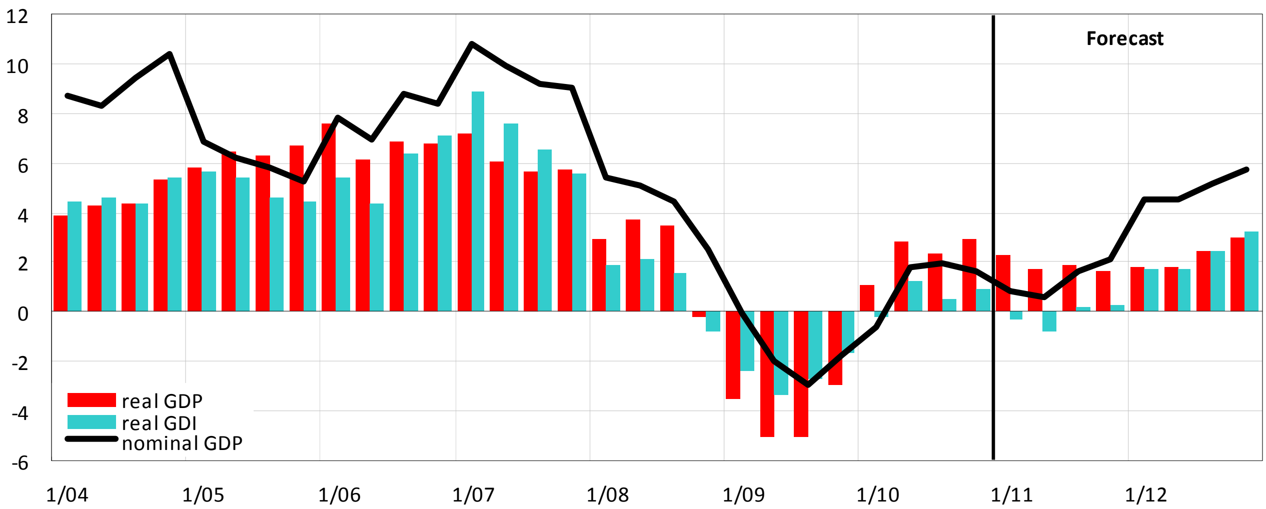
Graph C.1.2: **Gross Domestic Product** (*real*)

QoQ growth rate, in %, seasonally adjusted

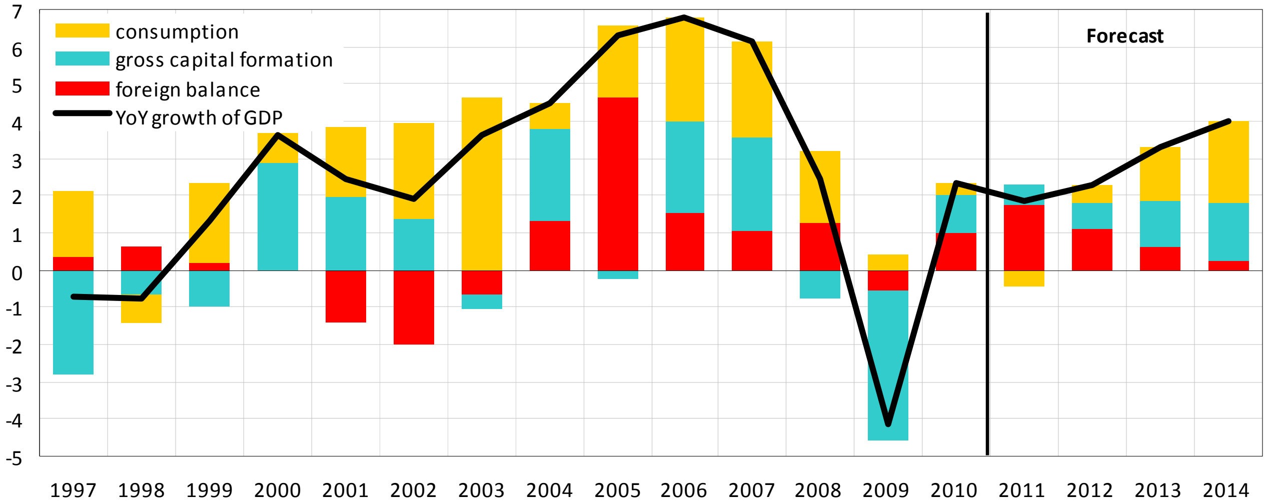


Graph C.1.3: **Gross Domestic Product and Real Gross Domestic Income**

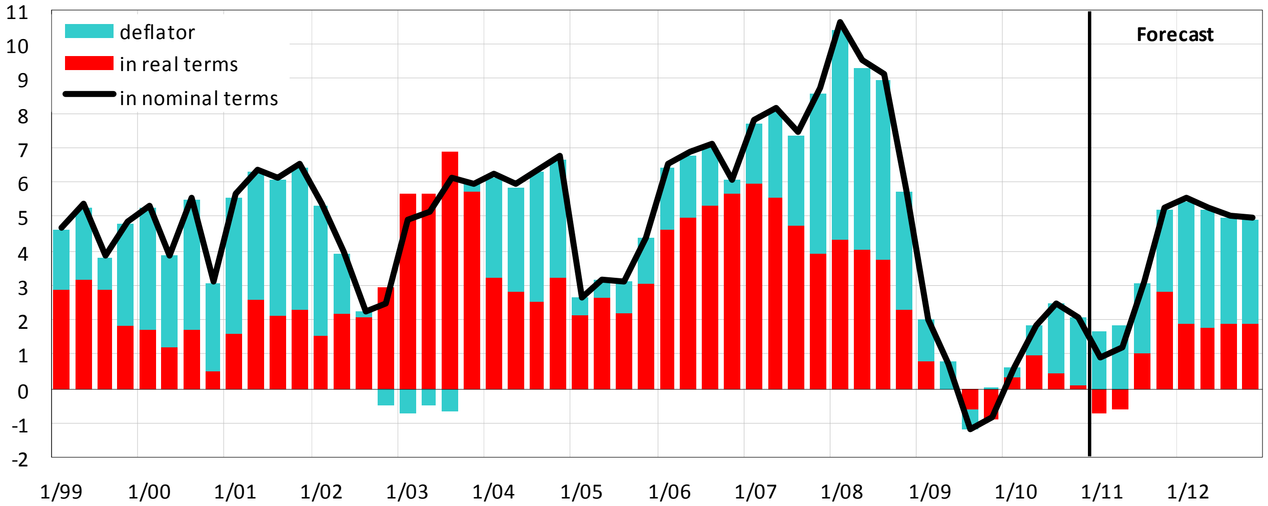
YoY growth rate, in %



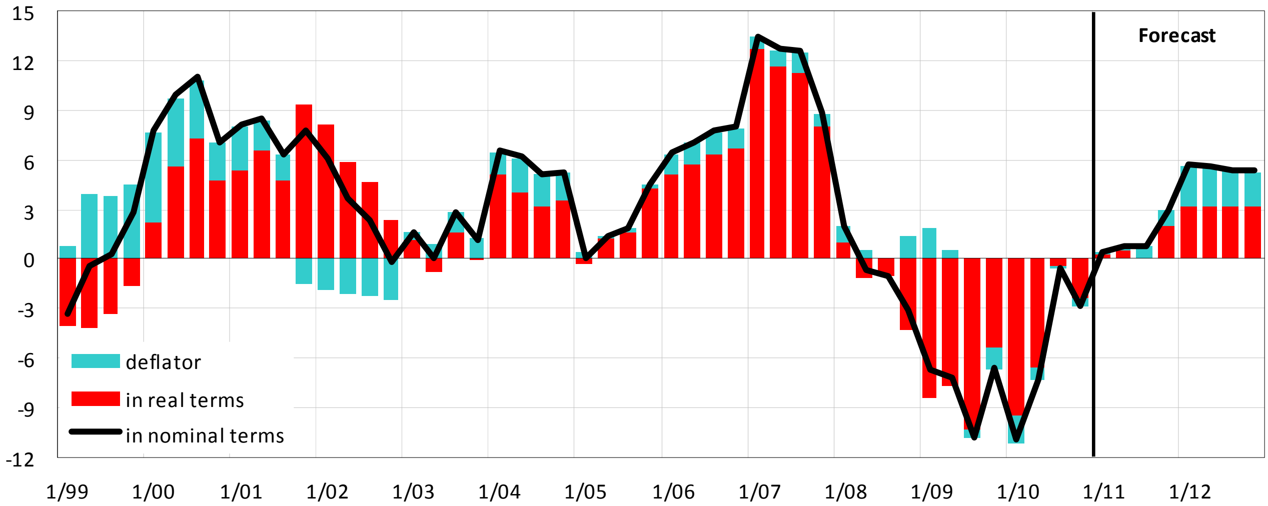
Graph C.1.4: **Gross Domestic Product** – *contributions to YoY growth*
in constant prices, decomposition of the YoY growth, in percentage points



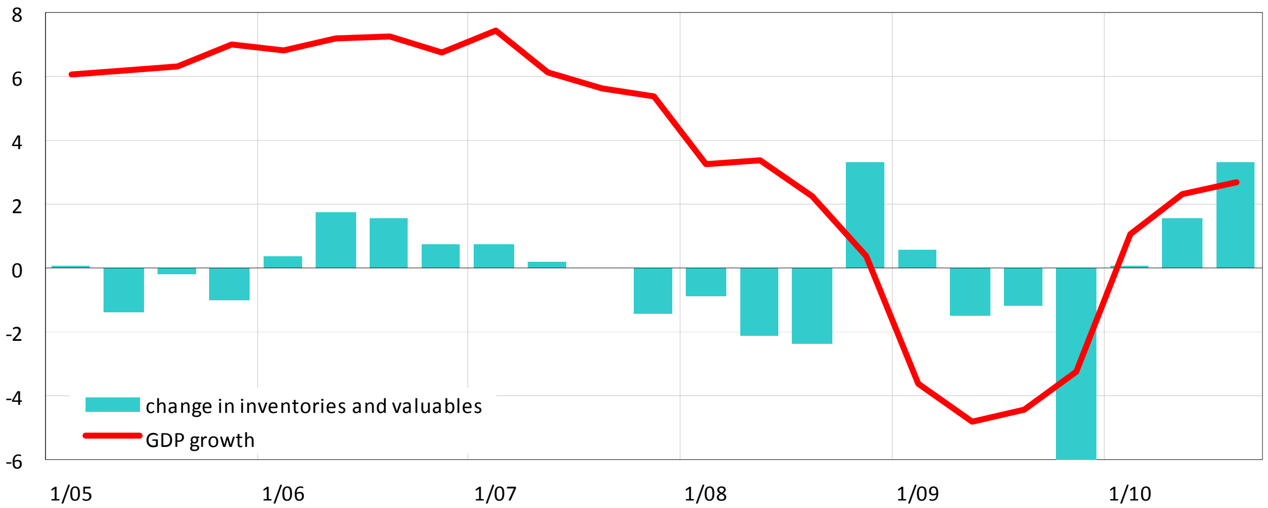
Graph C.1.5: **Private Consumption** (*incl. NPISH*)
YoY growth rate, in %



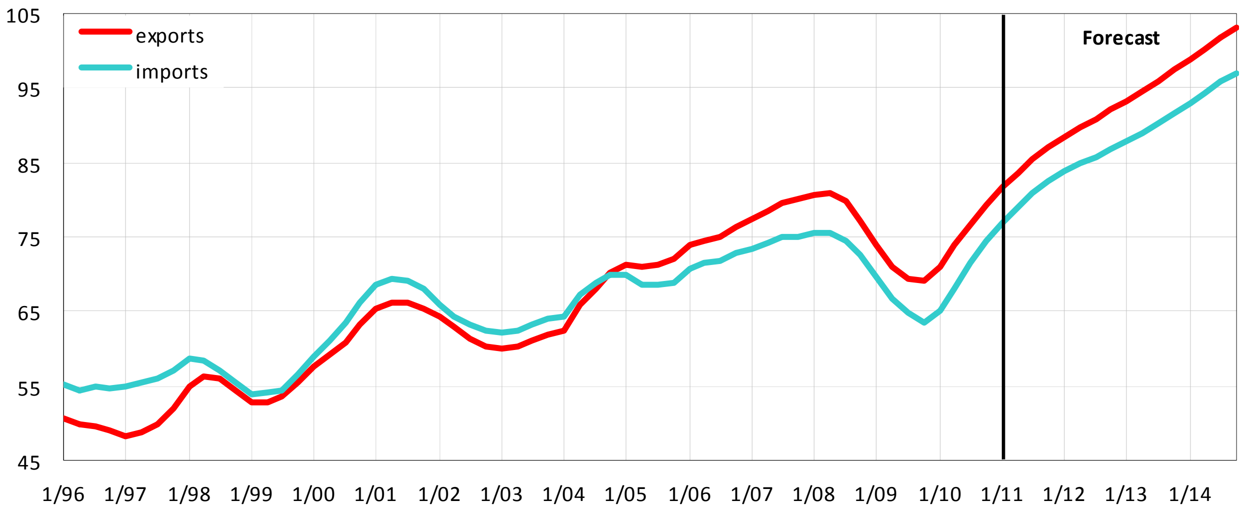
Graph C.1.6: **Gross Fixed Capital Formation**
YoY growth rate, in %



Graph C.1.7: **Change in Inventories and Valuables** (*real*)
seasonally adjusted, contributions to YoY growth of GDP in p.p.



Graph C.1.8: **Ratio of Exports and Imports of Goods and Services to GDP** (*nominal*)
yearly moving sums, in %



Graph C.1.9: **GDP – Income Structure**
yearly moving sums, in %

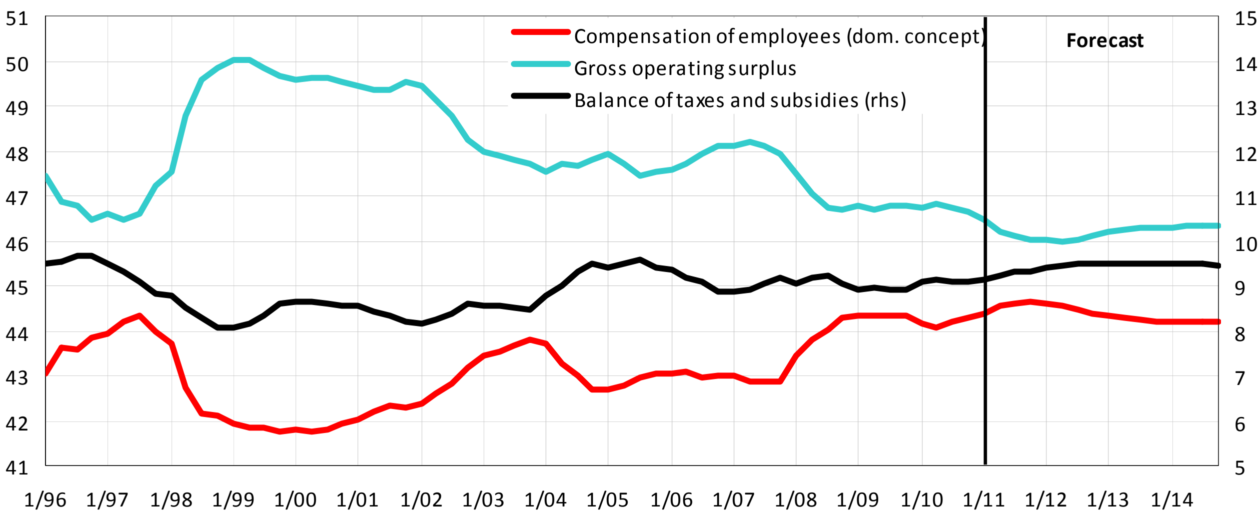


Table C.1.5: **GDP by Type of Income** – yearly

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							Prelim.	*Forecast*	*Forecast*	*Outlook*	*Outlook*
GDP	*bill. CZK*	**2984**	**3222**	**3535**	**3689**	**3626**	**3670**	**3718**	**3904**	**4095**	**4335**
	growth in %	6.0	8.0	9.7	4.3	-1.7	1.2	1.3	5.0	4.9	5.9
Balance of taxes and subsidies	*bill. CZK*	**281**	**285**	**325**	**333**	**322**	**333**	**347**	**371**	**388**	**409**
	growth in %	5.1	1.6	13.8	2.5	-3.2	3.4	4.0	7.0	4.5	5.6
– Taxes on production and imports	*bill. CZK*	**353**	**363**	**407**	**418**	**424**	**433**	**448**	**475**	**495**	**520**
	growth in %	6.4	2.9	12.0	2.9	1.4	2.2	3.5	6.0	4.2	5.0
– Subsidies on production	*bill. CZK*	**72**	**78**	**82**	**85**	**102**	**100**	**101**	**104**	**107**	**110**
	growth in %	12.2	7.8	5.4	4.1	19.3	-1.9	1.8	2.5	3.0	3.0
Compensation of employees	*bill. CZK*	**1285**	**1386**	**1516**	**1633**	**1608**	**1625**	**1660**	**1732**	**1811**	**1917**
	growth in %	6.9	7.9	9.4	7.7	-1.6	1.1	2.1	4.4	4.5	5.9
– Wages and salaries	*bill. CZK*	**970**	**1047**	**1145**	**1245**	**1244**	**1245**	**1272**	**1327**	**1392**	**1473**
	growth in %	6.9	7.9	9.4	8.7	0.0	0.1	2.1	4.4	4.9	5.9
– Social security contributions	*bill. CZK*	**315**	**339**	**371**	**389**	**363**	**380**	**388**	**405**	**419**	**444**
	growth in %	6.7	7.8	9.5	4.7	-6.6	4.6	2.1	4.4	3.4	5.9
Gross operating surplus	*bill. CZK*	**1418**	**1551**	**1694**	**1722**	**1696**	**1711**	**1711**	**1801**	**1896**	**2009**
	growth in %	5.4	9.3	9.3	1.7	-1.5	0.9	0.0	5.2	5.3	5.9
– Consumption of capital	*bill. CZK*	**554**	**576**	**611**	**639**	**655**	**662**	**679**	**699**	**720**	**742**
	growth in %	3.0	4.1	6.1	4.5	2.4	1.1	2.5	3.0	3.0	3.0
– Net operating surplus	*bill. CZK*	**865**	**974**	**1083**	**1083**	**1041**	**1049**	**1033**	**1102**	**1176**	**1267**
	growth in %	7.0	12.7	11.1	0.0	-3.9	0.7	-1.5	6.7	6.7	7.7

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

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	*Prelim.*	*Prelim.*	*Prelim.*	*Estimate*	*Forecast*	*Forecast*	*Forecast*
GDP	*bill. CZK*	**870**	**935**	**926**	**939**	**877**	**941**	**941**	**959**
	growth in %	-0.6	1.8	2.0	1.6	0.8	0.6	1.7	2.1
Balance of taxes and subsidies	*bill. CZK*	**78**	**90**	**93**	**72**	**82**	**93**	**96**	**76**
	growth in %	10.4	1.9	0.2	2.6	4.0	3.9	3.8	4.4
Compensation of employees	*bill. CZK*	**387**	**401**	**402**	**437**	**393**	**409**	**410**	**447**
	growth in %	-2.2	0.8	3.3	2.5	1.8	2.0	2.2	2.4
– Wages and salaries	*bill. CZK*	**294**	**306**	**309**	**336**	**299**	**312**	**316**	**344**
	growth in %	-2.4	0.4	1.2	1.0	1.8	2.0	2.2	2.4
– Social security contributions	*bill. CZK*	**92**	**94**	**93**	**101**	**94**	**96**	**95**	**103**
	growth in %	-1.5	2.0	11.0	7.6	1.8	2.0	2.2	2.4
Gross operating surplus	*bill. CZK*	**405**	**445**	**431**	**429**	**402**	**439**	**434**	**436**
	growth in %	-1.0	2.6	1.2	0.6	-0.7	-1.4	0.7	1.5

C.2 Prices of Goods and Services

Sources: CZSO, MoF estimates

Table C.2.1: **Prices of Goods and Services** – yearly

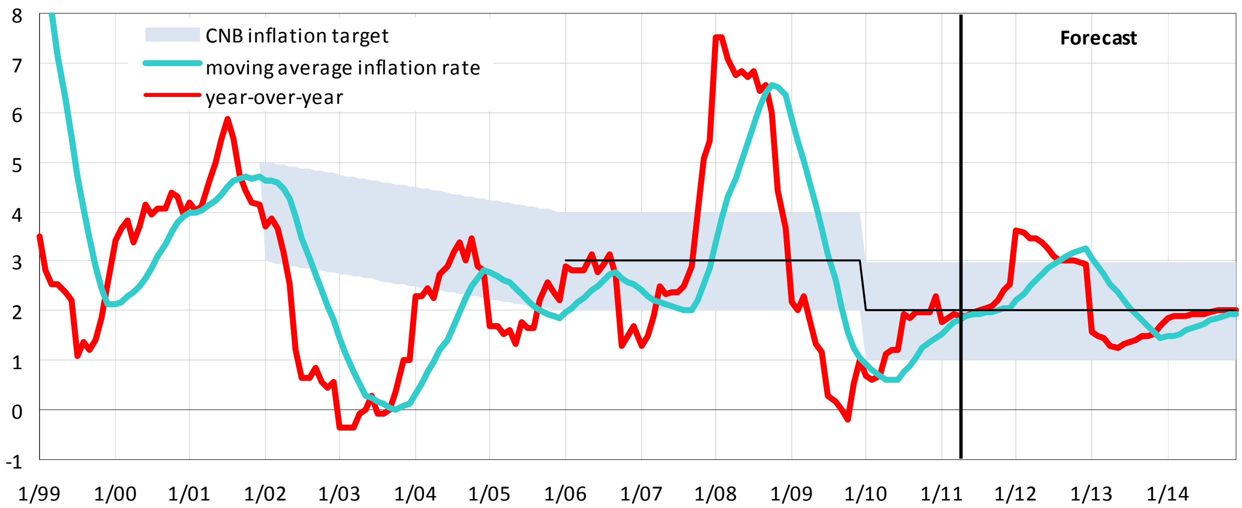
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
							Prelim.	*Forecast*	*Forecast*	*Outlook*	*Outlook*
Consumer Price Index											
average of a year	*average 2005=100*	100.0	102.5	105.4	112.1	113.3	115.0	117.3	121.1	122.9	125.3
	growth in %	**1.9**	**2.5**	**2.8**	**6.3**	**1.0**	**1.5**	**2.1**	**3.2**	**1.5**	**2.0**
December	*average 2005=100*	100.6	102.3	107.9	111.8	112.9	115.5	118.5	122.0	124.0	126.5
	growth in %	**2.2**	**1.7**	**5.4**	**3.6**	**1.0**	**2.3**	**2.5**	**2.9**	**1.7**	**2.0**
– of which contribution of											
administrative measures [1]	*percentage points*	**1.9**	**0.8**	**2.2**	**4.3**	**1.0**	**1.6**	**0.8**	**2.3**	**0.5**	**0.8**
market increase	*percentage points*	**0.4**	**0.8**	**3.3**	**-0.7**	**0.0**	**0.7**	**1.7**	**0.7**	**1.2**	**1.3**
HICP	*average 2005=100*	100.0	102.1	105.1	111.7	112.4	113.7	116.2	120.1	122.0	124.5
	growth in %	**1.6**	**2.1**	**3.0**	**6.3**	**0.6**	**1.2**	**2.2**	**3.4**	**1.6**	**2.1**
Deflators											
GDP	*average 2000=100*	113.4	114.7	118.6	120.8	123.8	122.5	121.8	125.1	127.0	129.3
	growth in %	**-0.3**	**1.1**	**3.4**	**1.8**	**2.5**	**-1.1**	**-0.5**	**2.7**	**1.6**	**1.8**
Domestic final use	*average 2000=100*	108.9	111.3	114.2	118.2	119.4	120.2	122.1	125.5	127.3	129.4
	growth in %	**1.0**	**2.2**	**2.6**	**3.5**	**1.0**	**0.7**	**1.5**	**2.8**	**1.5**	**1.7**
Consumption of households	*average 2000=100*	109.1	110.7	113.9	119.5	119.9	121.5	123.9	127.9	129.8	132.3
	growth in %	**0.8**	**1.4**	**2.9**	**4.9**	**0.3**	**1.3**	**2.0**	**3.2**	**1.5**	**2.0**
Consumption of government	*average 2000=100*	121.5	125.3	130.1	135.2	139.8	140.6	142.7	146.3	149.0	150.6
	growth in %	**3.0**	**3.1**	**3.8**	**3.9**	**3.4**	**0.5**	**1.5**	**2.5**	**1.8**	**1.1**
Fixed capital formation	*average 2000=100*	101.8	103.0	104.0	104.7	104.8	104.0	104.5	106.8	107.9	109.4
	growth in %	**0.2**	**1.3**	**0.9**	**0.7**	**0.1**	**-0.8**	**0.5**	**2.2**	**1.0**	**1.3**
Exports of goods and services	*average 2000=100*	94.7	93.5	93.4	88.6	87.5	86.0	85.4	85.4	85.7	86.1
	growth in %	**-2.2**	**-1.3**	**-0.1**	**-5.2**	**-1.2**	**-1.7**	**-0.8**	**0.1**	**0.3**	**0.5**
Imports of goods and services	*average 2000=100*	89.5	89.5	88.4	85.1	82.0	82.5	83.8	83.8	83.9	84.1
	growth in %	**-0.5**	**-0.1**	**-1.2**	**-3.7**	**-3.6**	**0.5**	**1.6**	**0.1**	**0.1**	**0.2**
Terms of trade	*average 2000=100*	105.8	104.5	105.7	104.1	106.6	104.3	101.9	101.9	102.1	102.3
	growth in %	**-1.7**	**-1.2**	**1.2**	**-1.6**	**2.5**	**-2.2**	**-2.3**	**0.0**	**0.2**	**0.2**

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

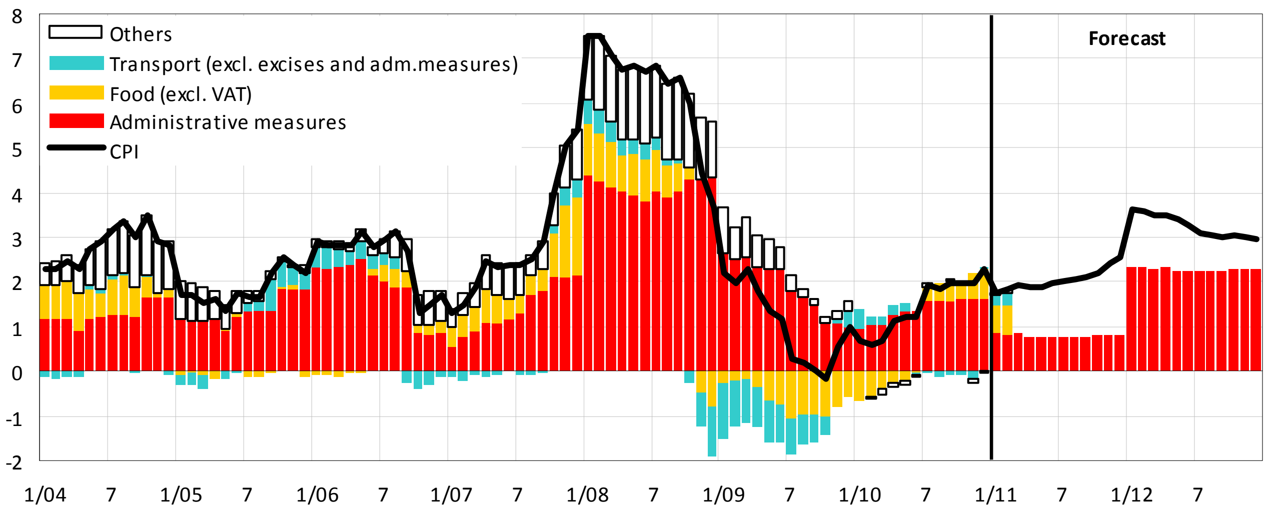
Table C.2.2: **Prices of Goods and Services** – quarterly

		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	*Forecast*	*Forecast*	*Forecast*
Consumer Price Index	*average 2005=100*	114.4	115.1	115.2	115.1	116.5	117.3	117.6	117.8
	growth in %	**0.7**	**1.2**	**1.9**	**2.1**	**1.8**	**1.9**	**2.1**	**2.4**
contr. of administrative measures	*percentage points*	**1.0**	**1.3**	**1.6**	**1.6**	**0.8**	**0.8**	**0.8**	**0.8**
contribution of market increase	*percentage points*	**-0.3**	**-0.1**	**0.4**	**0.5**	**1.0**	**1.1**	**1.3**	**1.6**
HICP	*average 2005=100*	113.1	113.9	114.0	113.8	115.4	116.3	116.5	116.7
	growth in %	**0.4**	**0.9**	**1.6**	**2.0**	**2.0**	**2.0**	**2.2**	**2.5**
GDP deflator	*average 2000=100*	122.4	122.4	122.3	122.8	120.7	121.1	122.0	123.4
	growth in %	**-1.6**	**-1.1**	**-0.4**	**-1.3**	**-1.4**	**-1.1**	**-0.2**	**0.5**
Domestic final use deflator	*average 2000=100*	119.3	120.1	120.2	121.1	120.8	121.8	122.0	123.5
	growth in %	**0.0**	**0.6**	**1.4**	**0.7**	**1.2**	**1.4**	**1.5**	**1.9**
Terms of trade	*average 2000=100*	105.2	104.2	104.1	103.8	102.1	101.3	102.0	102.2
	growth in %	**-1.8**	**-2.2**	**-2.4**	**-2.2**	**-3.0**	**-2.8**	**-2.0**	**-1.6**

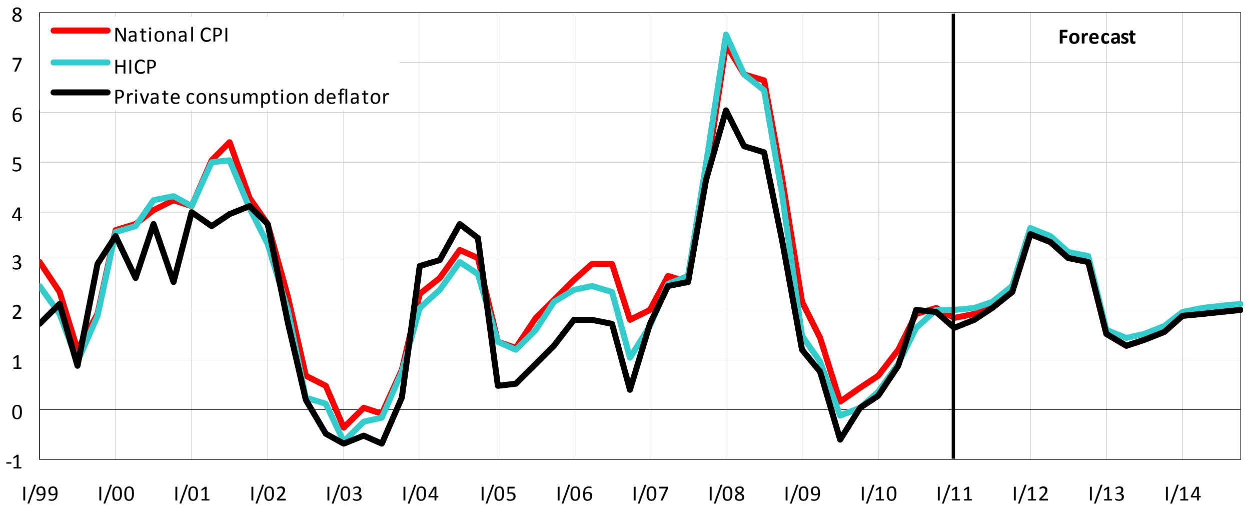
Graph C.2.1: **Consumer Prices**
YoY growth rate, in %



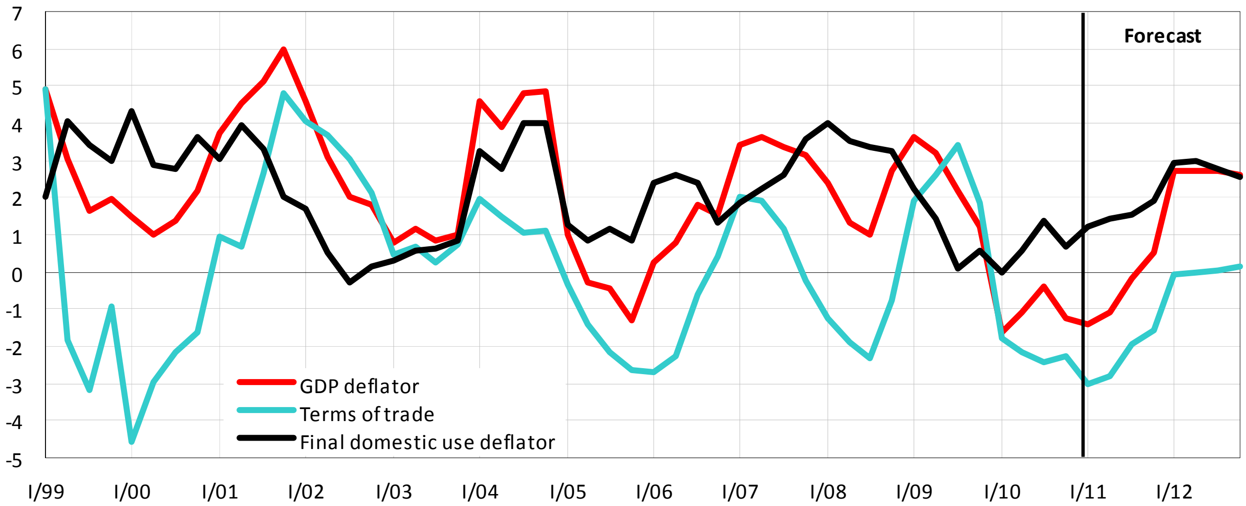
Graph C.2.2: **Consumer Prices**
decomposition of the YoY increase in consumer prices, in percentage points



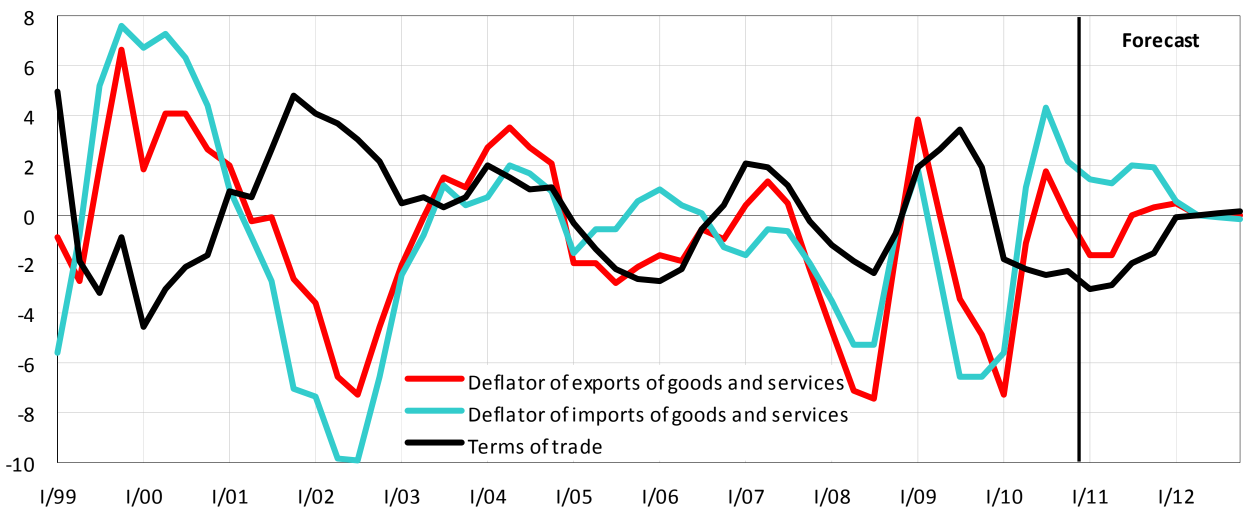
Graph C.2.3: **Indicators of Consumer Prices**
YoY increases, in %



Graph C.2.4: **GDP Deflator**
YoY indices of final domestic use deflator and terms of trade, in %



Graph C.2.5: **Terms of Trade**
YoY increases, in %



C.3 Labour Market

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

Table C.3.1: **Employment** – yearly

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
								Forecast	*Forecast*	*Outlook*	*Outlook*
Labour Force Survey											
Employment	*av. in thous.persons*	**4764**	**4828**	**4922**	**5002**	**4934**	**4885**	**4895**	**4917**	**4944**	**4977**
	growth in %	1.2	1.3	1.9	1.6	-1.4	-1.0	0.2	0.5	0.6	0.7
– employees	*av. in thous.persons*	**4001**	**4048**	**4125**	**4196**	**4107**	**4019**	**3979**	**3982**	**3993**	**4010**
	growth in %	2.2	1.2	1.9	1.7	-2.1	-2.1	-1.0	0.1	0.3	0.4
– entrepreneurs and	*av. in thous.persons*	**763**	**780**	**797**	**807**	**827**	**866**	**915**	**934**	**951**	**967**
self-employed	*growth in %*	-3.7	2.2	2.2	1.2	2.5	4.7	5.7	2.1	1.8	1.8
Unemployment	*av. in thous.persons*	**410**	**371**	**276**	**230**	**352**	**384**	**365**	**340**	**320**	**290**
Unemployment rate	*average in per cent*	**7.9**	**7.1**	**5.3**	**4.4**	**6.7**	**7.3**	**6.9**	**6.5**	**6.1**	**5.5**
Labour force	*av. in thous.persons*	**5174**	**5199**	**5198**	**5232**	**5286**	**5269**	**5259**	**5257**	**5264**	**5267**
	growth in %	0.8	0.5	0.0	0.7	1.0	-0.3	-0.2	-0.1	0.1	0.1
Population aged 15–64	*av. in thous.persons*	**7270**	**7307**	**7347**	**7410**	**7431**	**7399**	**7352**	**7294**	**7238**	**7188**
	growth in %	0.3	0.5	0.5	0.9	0.3	-0.4	-0.6	-0.8	-0.8	-0.7
Employment/Pop. 15–64	*average in per cent*	**65.5**	**66.1**	**67.0**	**67.5**	**66.4**	**66.0**	**66.6**	**67.4**	**68.3**	**69.2**
Employment rate 15–64[1)]	*average in per cent*	**64.8**	**65.3**	**66.1**	**66.6**	**65.4**	**65.0**	**65.5**	**66.3**	**67.2**	**68.1**
Labour force/Pop. 15–64	*average in per cent*	**71.2**	**71.2**	**70.8**	**70.6**	**71.1**	**71.2**	**71.5**	**72.1**	**72.7**	**73.3**
Participation rate 15–64[2)]	*average in per cent*	**70.4**	**70.3**	**69.8**	**69.7**	**70.1**	**70.2**	**70.4**	**70.9**	**71.6**	**72.1**
SNA											
Employment (domestic concept	*av. in thous.persons*	**4992**	**5088**	**5224**	**5288**	**5226**	**5185**	**5193**	**5217**	**5246**	**5281**
	growth in %	1.0	1.9	2.7	1.2	-1.2	-0.8	0.1	0.5	0.6	0.7
Hours worked	*bill. hours*	**9.81**	**9.97**	**10.18**	**10.37**	**9.88**	**9.89**	**9.99**	**10.08**	**10.14**	**10.17**
	growth in %	1.6	1.7	2.0	1.9	-4.7	0.1	1.0	0.9	0.6	0.3
Hours worked / employment	*hours*	**1965**	**1960**	**1948**	**1962**	**1891**	**1907**	**1924**	**1932**	**1933**	**1927**
	growth in %	0.6	-0.2	-0.6	0.7	-3.6	0.9	0.9	0.5	0.1	-0.3
Registered unemployment											
Unemployment	*av. in thous.persons*	**514.3**	**474.8**	**392.8**	**324.6**	**465.6**	**528.7**	**509**	**471**	**445**	**408**
Unemployment rate	*average in per cent*	**8.97**	**8.13**	**6.62**	**5.45**	**7.98**	**9.01**	**8.7**	**8.1**	**7.7**	**7.0**
Registered foreign workers											
Total	*av. in thous.persons*	**195.2**	**233.2**	**276.2**	**343.5**	**335.4**	**313.5**	.	.	.	.
	growth in %	15.3	19.4	18.5	24.4	-2.3	-6.5	.	.	.	.
– employees	*av. in thous.persons*	**131.2**	**165.5**	**209.7**	**270.2**	**252.6**	**219.6**	.	.	.	.
	growth in %	23.7	26.1	26.7	28.8	-6.5	-13.0	.	.	.	.
– self-employed	*av. in thous.persons*	**64.0**	**67.7**	**66.5**	**73.3**	**82.8**	**93.9**	.	.	.	.
	growth in %	1.2	5.7	-1.8	10.2	13.0	13.4	.	.	.	.

[1)] *The indicator does not contain employment over 64 years.*
[2)] *The indicator does not contain labour force over 64 years.*

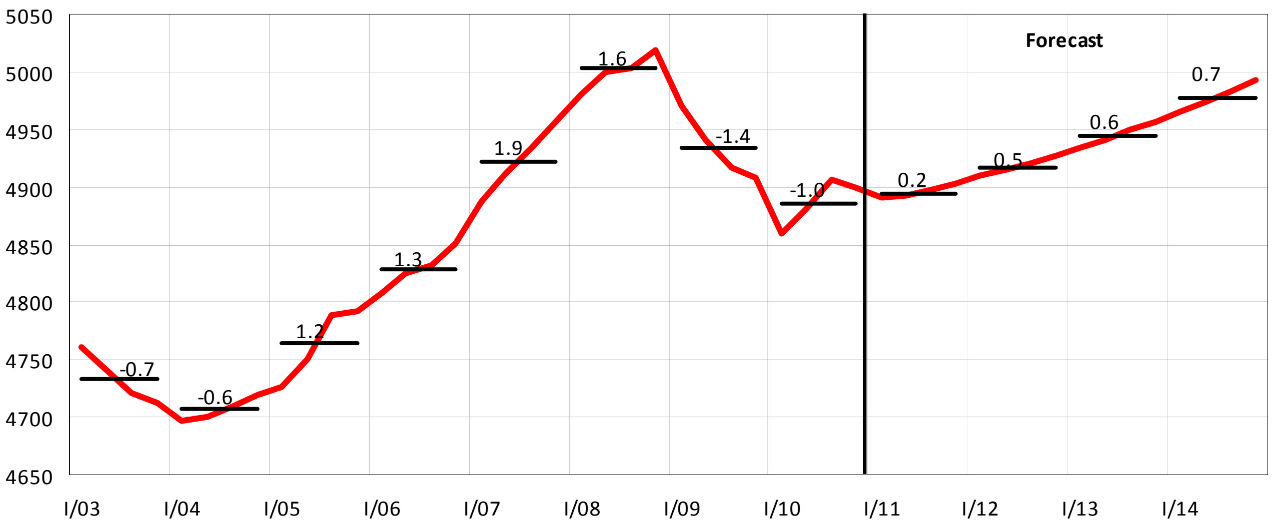
Table C.3.2: **Employment** – quarterly

		2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4
						Estimate	*Forecast*	*Forecast*	*Forecast*
Labour Force Survey									
Employment	*av. in thous. persons*	**4829**	**4881**	**4912**	**4919**	**4860**	**4894**	**4902**	**4922**
	growth in %	-2.4	-1.2	-0.2	-0.2	0.6	0.3	-0.2	0.1
– employees	*av. in thous. persons*	**3992**	**4013**	**4035**	**4036**	**3960**	**3978**	**3980**	**4000**
	growth in %	-3.2	-2.6	-1.3	-1.5	-0.8	-0.9	-1.4	-0.9
– entrepreneurs and	*av. in thous. persons*	**837**	**868**	**877**	**883**	**899**	**917**	**922**	**922**
self-employed	*growth in %*	1.7	5.5	5.3	6.3	7.5	5.6	5.2	4.5
Unemployment	*av. in thous.persons*	**423**	**375**	**374**	**363**	**376**	**375**	**353**	**355**
Unemployment rate	*average in per cent*	**8.0**	**7.1**	**7.1**	**6.9**	**7.2**	**7.1**	**6.7**	**6.7**
Labour force	*av. in thous. persons*	**5252**	**5256**	**5286**	**5282**	**5236**	**5269**	**5255**	**5277**
	growth in %	0.0	-0.4	-0.4	-0.6	-0.3	0.2	-0.6	-0.1
Population aged 15–64	*av. in thous. persons*	**7412**	**7406**	**7393**	**7387**	**7373**	**7359**	**7345**	**7331**
	growth in %	-0.3	-0.3	-0.5	-0.6	-0.5	-0.6	-0.6	-0.8
Employment/Pop. 15–64	*average in per cent*	**65.2**	**65.9**	**66.4**	**66.6**	**65.9**	**66.5**	**66.7**	**67.1**
	increase over a year	-1.4	-0.6	0.2	0.3	0.8	0.6	0.3	0.6
Employment rate 15–64	*average in per cent*	**64.1**	**64.9**	**65.4**	**65.5**	**64.8**	**65.4**	**65.7**	**66.0**
	increase over a year	-1.4	-0.5	0.2	0.3	0.7	0.5	0.2	0.5
Labour force/Pop. 15–64	*average in per cent*	**70.9**	**71.0**	**71.5**	**71.5**	**71.0**	**71.6**	**71.5**	**72.0**
	increase over a year	0.2	0.0	0.1	0.0	0.2	0.6	0.0	0.5
Participation rate 15–64	*average in per cent*	**69.8**	**70.0**	**70.5**	**70.4**	**69.9**	**70.5**	**70.5**	**70.9**
	increase over a year	0.2	0.0	0.1	0.0	0.1	0.5	0.0	0.4
SNA									
Employment (domestic concept)	*av. in thous. persons*	**5126**	**5176**	**5215**	**5224**	**5156**	**5193**	**5202**	**5222**
	growth in %	-2.1	-1.0	-0.1	0.0	0.6	0.3	-0.3	0.0
Hours worked	*bill.*	**2.46**	**2.54**	**2.39**	**2.50**	**2.50**	**2.58**	**2.40**	**2.51**
	growth in %	-1.9	-0.9	1.7	1.6	1.6	1.2	0.5	0.7
Hours worked / employment	*hours*	**480**	**492**	**458**	**478**	**484**	**496**	**462**	**481**
	growth in %	0.2	0.1	1.8	1.5	1.0	0.9	0.8	0.7
Registered unemployment									
Unemployment	*av. in thous. persons*	**571.1**	**530.5**	**502.4**	**510.9**	**565**	**513**	**485**	**475**
Unemployment rate	*average in per cent*	**9.75**	**9.00**	**8.59**	**8.69**	**9.6**	**8.8**	**8.3**	**8.1**
Registered foreign workers									
Total	*av. in thous. persons*	**315.0**	**316.2**	**312.9**	**310.0**	.	.	.	.
	growth in %	-9.6	-6.0	-5.7	-4.6	.	.	.	.
– employees	*av. in thous. persons*	**222.8**	**218.4**	**218.1**	**219.3**	.	.	.	.
	growth in %	-17.5	-14.3	-11.8	-7.9	.	.	.	.
– self-employed	*av. in thous. persons*	**92.2**	**97.9**	**94.7**	**90.7**	.	.	.	.
	growth in %	17.7	20.1	11.9	4.5	.	.	.	.

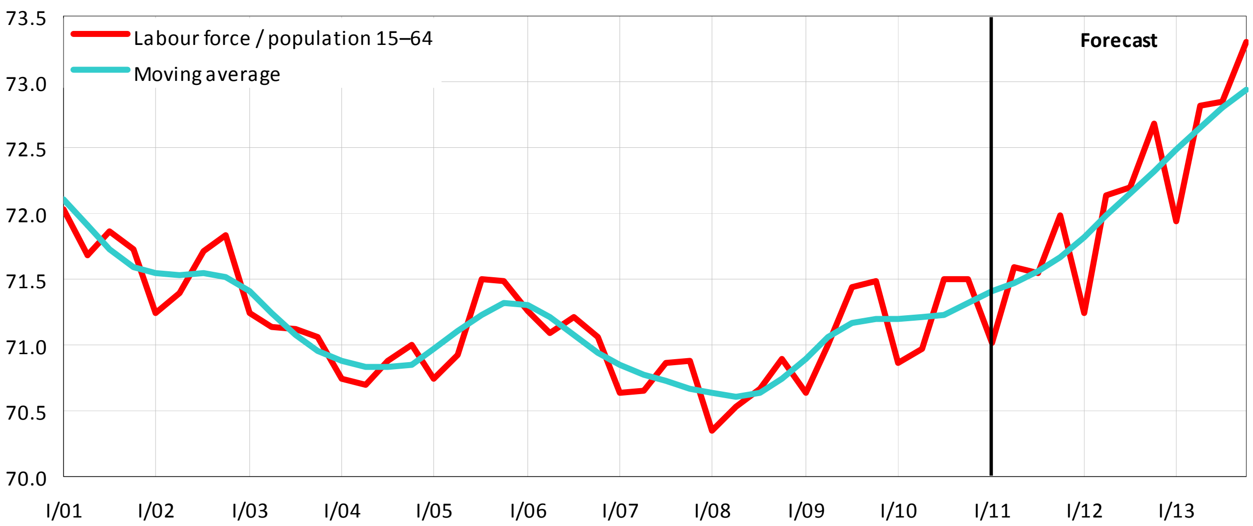
[1] *Seasonal adjustment done by the MoF.*

Graph C.3.3: **Employment**

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

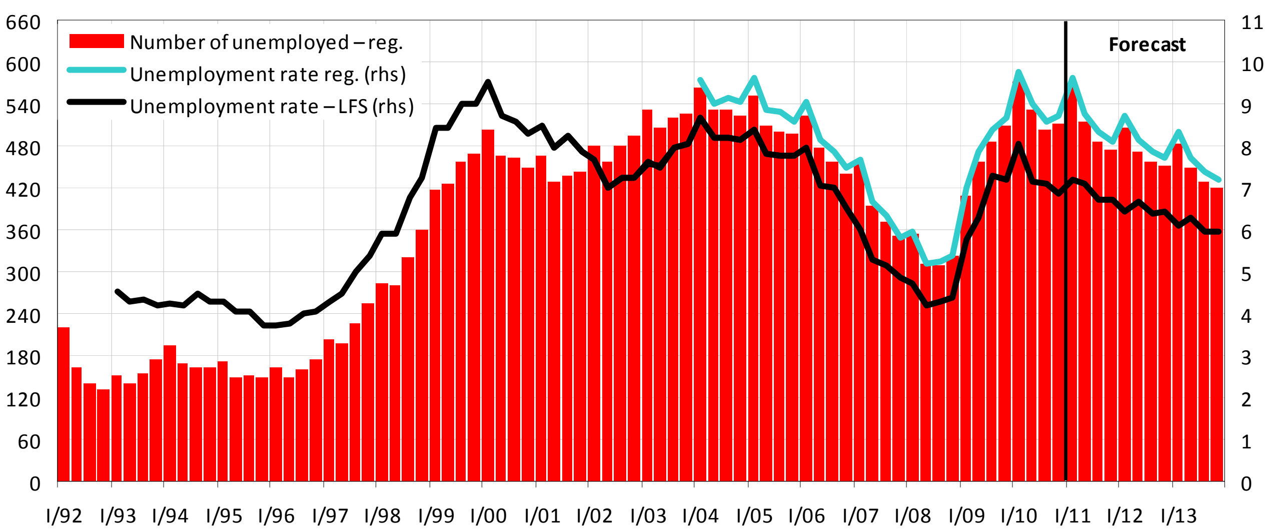


Graph C.3.4: **Ratio of Labour Force to Population aged 15–64** (*in %*)



Graph C.3.5: **Unemployment**

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



Graph C.3.6: **Economic Output and Unemployment**
YoY increase of real GDP in %. Change in unemployment in thousands of persons

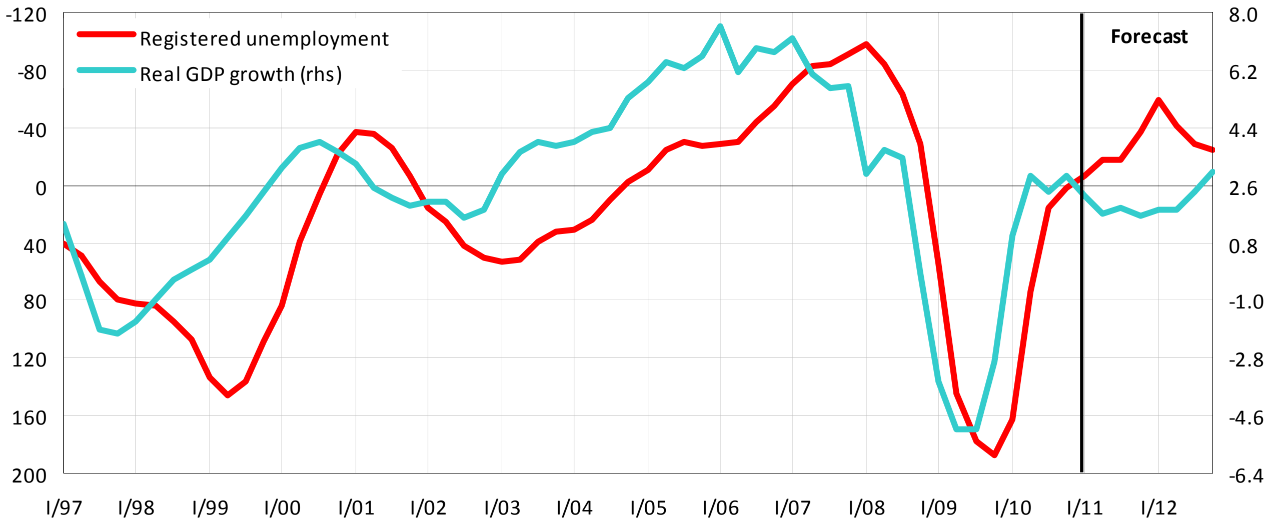
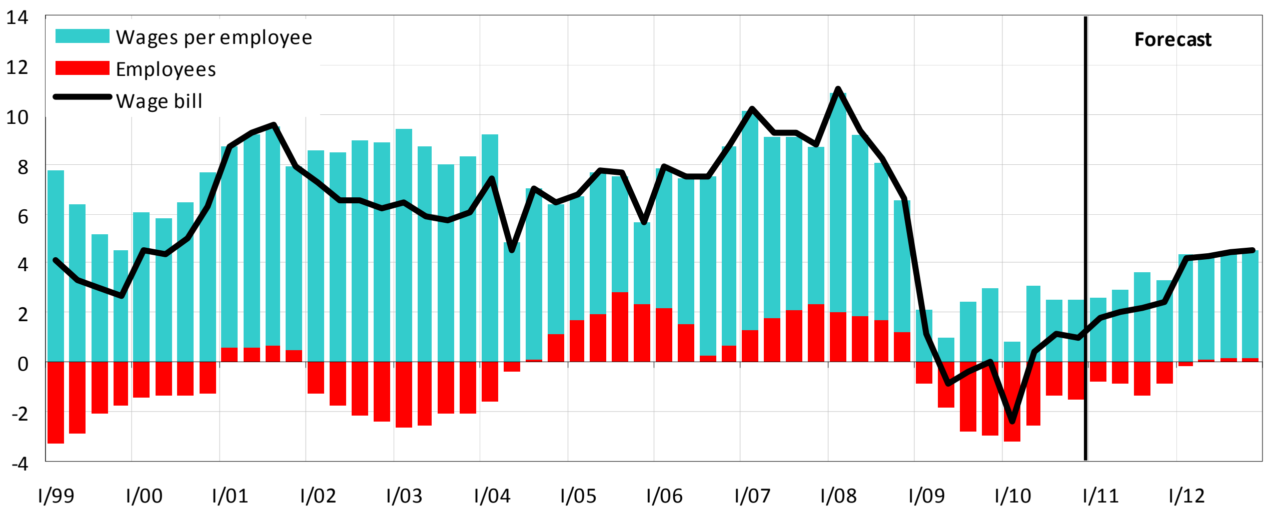


Table C.3.3: **Labour Market** – analytical indicators

		2003	2004	2005	2006	2007	2008	2009	2010 *Prelim*	2011 *Forecast*	2012 *Forecast*
Compensation per employee											
– **nominal**	*growth in %*	8.2	6.7	4.6	6.6	7.3	5.9	0.5	3.3	3.1	4.3
– **real**	*growth in %*	8.1	3.8	2.6	4.0	4.4	-0.4	-0.5	1.8	1.1	1.0
Average monthly wage [1]											
– **nominal**	*CZK*	16 430	17 466	18 344	19 546	20 957	22 691	23 488	23 949	24 600	25 600
	growth in %	5.8	6.3	5.0	6.6	7.2	8.3	3.5	2.0	2.6	4.1
– **real**	*CZK 2005*	17 206	17 791	18 344	19 063	19 874	20 235	20 729	20 832	20 900	21 100
	growth in %	5.7	3.4	3.1	3.9	4.3	1.8	2.4	0.5	0.6	0.8
Labour productivity	*growth in %*	4.3	5.1	5.0	5.4	4.1	0.8	-2.8	3.3	1.7	1.8
Unit labour costs [2]	*growth in %*	3.8	1.5	-0.5	1.2	3.1	5.1	3.5	0.0	1.4	2.4
Compensations of employees / GDP	*%*	43.8	42.7	43.1	43.0	42.9	44.3	44.3	44.3	44.6	44.4

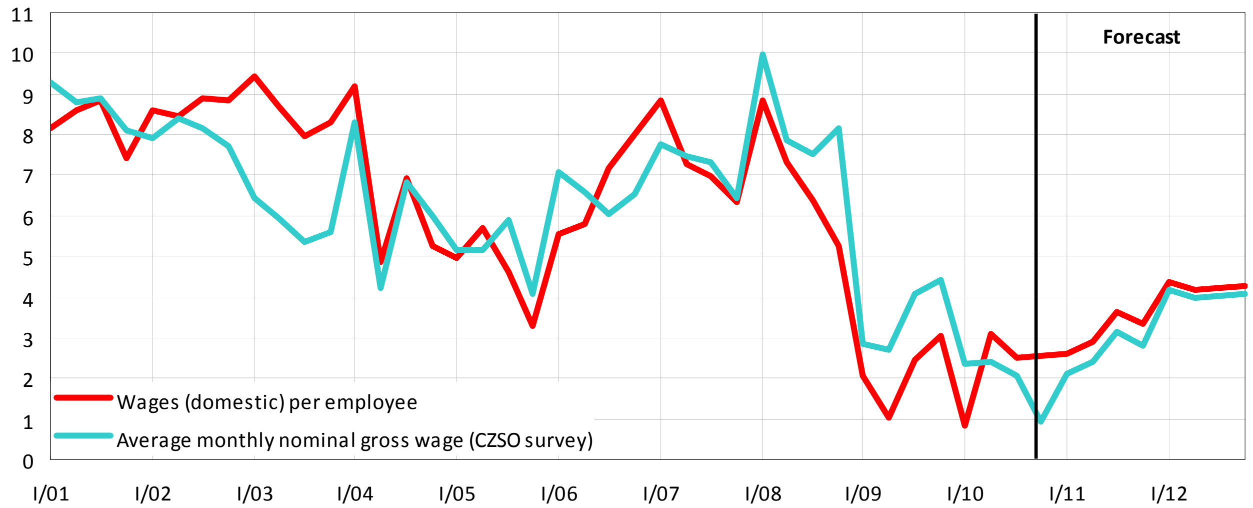
[1] *New time series: average wage is derived from full-time-equivalent employers in the entire economy.*
[2] *Ratio of nominal compensation per employee to real productivity of labour.*

Graph C.3.7: **Wage Bill** – nominal, domestic concept
YoY growth rate, in %



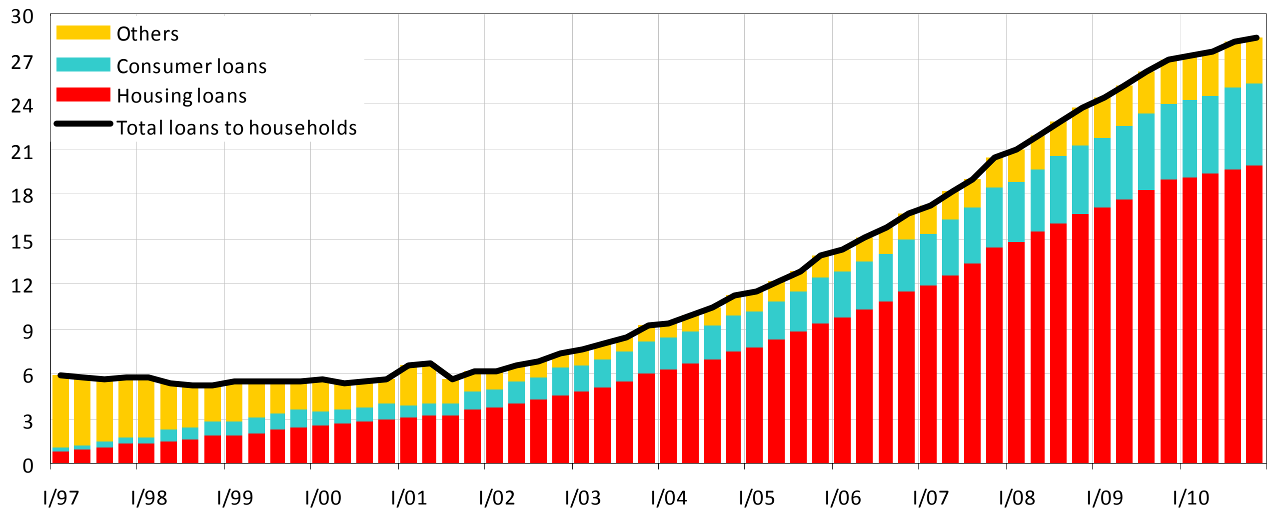
Graph C.3.8: **Average Nominal Wage**

YoY growth rate, in %



Graph C.3.9: **Ratio of Bank Loans to Households to GDP**

yearly moving sums of GDP, in %



Graph C.3.10: **Gross Savings Rate of Households**

in % of disposable income

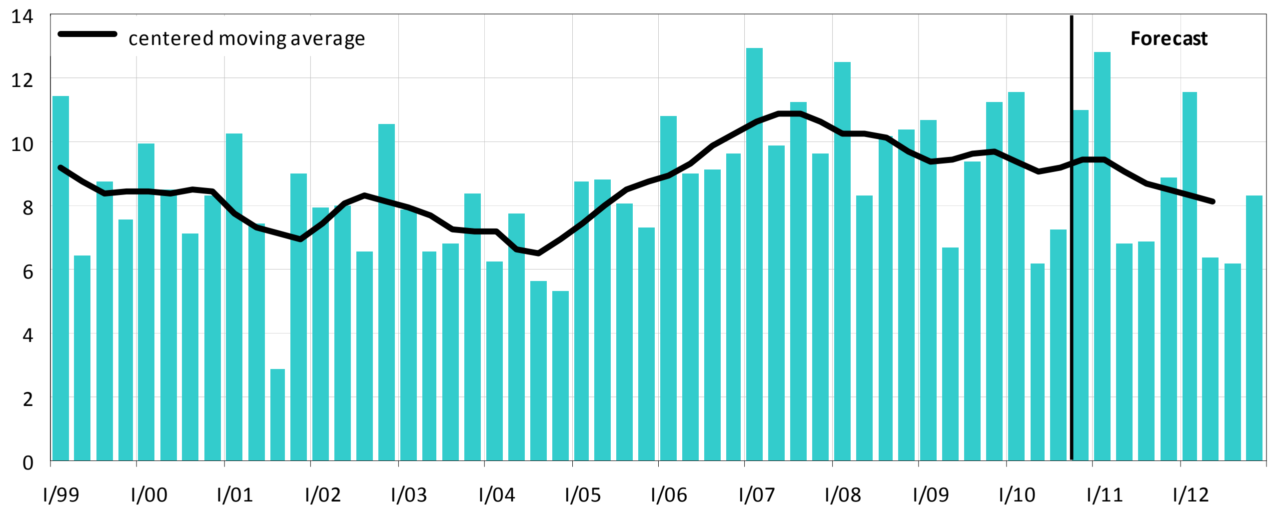


Table C.3.4: **Income and Expenditures of Households** – yearly

SNA methodology – national concept

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Estimate	*Forecast*	*Forecast*
Current income											
Compensation of employees	*bill.CZK*	**1120**	**1186**	**1273**	**1387**	**1511**	**1614**	**1594**	**1623**	**1657**	**1721**
	growth in %	6.8	5.9	7.3	8.9	8.9	6.8	-1.3	1.8	2.1	3.9
Gross operating surplus	*bill.CZK*	**425**	**449**	**446**	**470**	**505**	**543**	**495**	**499**	**523**	**557**
and mixed income	*growth in %*	7.5	5.7	-0.6	5.4	7.5	7.5	-8.8	0.7	5.0	6.5
Property income received	*bill.CZK*	**97**	**109**	**120**	**133**	**158**	**151**	**122**	**123**	**125**	**130**
	growth in %	-1.1	12.7	9.6	11.2	18.5	-4.2	-19.5	0.6	2.0	4.0
Social benefits not-in-kind	*bill.CZK*	**324**	**369**	**386**	**417**	**466**	**488**	**527**	**532**	**535**	**542**
	growth in %	3.6	.	4.6	8.1	11.8	4.5	8.1	1.0	0.5	1.4
Other current transfers received	*bill.CZK*	**91**	**93**	**103**	**113**	**122**	**137**	**144**	**145**	**151**	**158**
	growth in %	6.8	2.9	10.1	9.8	8.4	12.2	4.8	1.0	4.0	5.0
Current expenditure											
Property income paid	*bill.CZK*	**19**	**21**	**20**	**25**	**29**	**33**	**22**	**20**	**20**	**20**
	growth in %	49.0	12.4	-5.3	22.3	19.5	12.5	-34.3	-6.2	-2.0	0.0
Curr. taxes on income and property	*bill.CZK*	**128**	**138**	**140**	**141**	**157**	**140**	**135**	**136**	**142**	**145**
	growth in %	11.9	7.6	1.7	0.7	10.9	-10.8	-3.6	1.0	4.6	1.6
Social contributions	*bill.CZK*	**408**	**474**	**507**	**561**	**615**	**634**	**596**	**614**	**627**	**652**
	growth in %	6.7	.	7.1	10.6	9.5	3.2	-6.1	3.1	2.1	3.9
Other current transfers paid	*bill.CZK*	**93**	**100**	**109**	**118**	**129**	**141**	**150**	**149**	**152**	**155**
	growth in %	13.7	7.2	9.2	8.6	9.3	9.1	6.7	-1.0	2.0	2.0
Gross disposable income	*bill.CZK*	**1409**	**1474**	**1551**	**1675**	**1833**	**1985**	**1979**	**2001**	**2049**	**2138**
	growth in %	4.5	4.6	5.3	8.0	9.4	8.3	-0.3	1.1	2.4	4.3
Final consumption	*bill.CZK*	**1317**	**1399**	**1443**	**1537**	**1660**	**1804**	**1804**	**1837**	**1886**	**1983**
	growth in %	5.6	6.2	3.1	6.6	8.0	8.7	0.0	1.8	2.7	5.2
Change in share in pension funds	*bill.CZK*	**13**	**17**	**19**	**23**	**26**	**24**	**14**	**16**	**17**	**18**
Gross savings	*bill.CZK*	**105**	**92**	**128**	**161**	**200**	**205**	**189**	**180**	**181**	**173**
Capital transfers											
(income (-) / expenditure (+))	*bill.CZK*	**-21**	**-23**	**-25**	**-23**	**-23**	**-23**	**-23**	**-25**	**-20**	**-15**
Gross capital formation	*bill.CZK*	**122**	**132**	**136**	**154**	**191**	**191**	**197**	**181**	**183**	**182**
	growth in %	-5.1	7.8	2.6	13.5	24.2	-0.2	3.5	-8.2	1.0	-0.5
Change in financial assets and liab.	*bill.CZK*	**6**	**-18**	**20**	**30**	**31**	**37**	**14**	**24**	**18**	**6**
Real disposable income	*growth in %*	**4.4**	**1.8**	**3.3**	**5.3**	**6.4**	**1.8**	**-1.3**	**-0.3**	**0.4**	**1.1**
Gross savings rate	*%*	**7.4**	**6.2**	**8.2**	**9.6**	**10.9**	**10.3**	**9.5**	**9.0**	**8.8**	**8.1**

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

C.4 External Relations

Sources: CNB, CZSO, Eurostat, MoF estimates

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

		2003	2004	2005	2006	2007	2008	2009	2010	2011 *Forecast*	2012 *Forecast*
Balance of goods and services	*bill.CZK*	-57	3	96	110	170	169	146	120	106	142
-- balance of trade [1)]	*bill.CZK*	-70	-13	59	65	121	103	81	54	24	53
--- of which mineral fuels (SITC 3)[2)]	*bill.CZK*	-68	-72	-110	-139	-124	-166	-106	-136	-162	-162
-- balance of services	*bill.CZK*	13	17	37	45	50	66	65	66	82	90
Balance of income	*bill.CZK*	-120	-157	-143	-167	-256	-174	-252	-258	-262	-286
– compensation of employees	*bill.CZK*	-17	-16	-11	1	-5	-19	-14	-4	-4	-12
– investment income	*bill.CZK*	-103	-141	-132	-168	-251	-155	-238	-254	-258	-274
Balance of transfers	*bill.CZK*	16	6	7	-20	-28	-17	-9	-2	6	10
Current account	*bill.CZK*	-161	-147	-40	-77	-113	-23	-115	-139	-150	-133
Capital account	*bill.CZK*	0	-14	5	8	20	30	42	34	33	35
Financial account	*bill.CZK*	157	177	155	92	126	59	154	182	.	.
– foreign direct investments	*bill.CZK*	54	102	280	90	179	36	38	97	.	.
– portfolio investments	*bill.CZK*	-36	53	-81	-27	-57	-9	159	157	.	.
– other investments	*bill.CZK*	139	23	-44	29	4	32	-42	-72	.	.
Change in reserves	*bill.CZK*	13	7	93	2	16	40	61	41	.	.
Gross external debt	*bill.CZK*	895	1012	1142	1194	1375	1607	1590	1685	1767	1841
Balance of goods and services / GDP	*per cent*	-2.2	0.1	3.2	3.4	4.8	4.6	4.0	3.3	2.9	3.6
Current account / GDP	*per cent*	-6.2	-5.2	-1.3	-2.4	-3.2	-0.6	-3.2	-3.8	-4.0	-3.4
Financial account / GDP	*per cent*	6.1	6.3	5.2	2.9	3.6	1.6	4.3	5.0	.	.
Gross external debt / GDP [3)]	*per cent*	34.7	35.9	38.3	37.0	38.9	43.6	43.8	45.9	48	47

Because of large discrepancies between balance of payments and quarterly national accounts the values of exports and imports of goods and services have not been forecasted. Data for 2008 and earlier are to be revised during 2011 (see main text).

[1)] *Imports – fob since May 2004*

[2)] *Imports – cif*

[3)] *Ratio of external debt (in CZK) at the end of period to GDP (in CZK)*

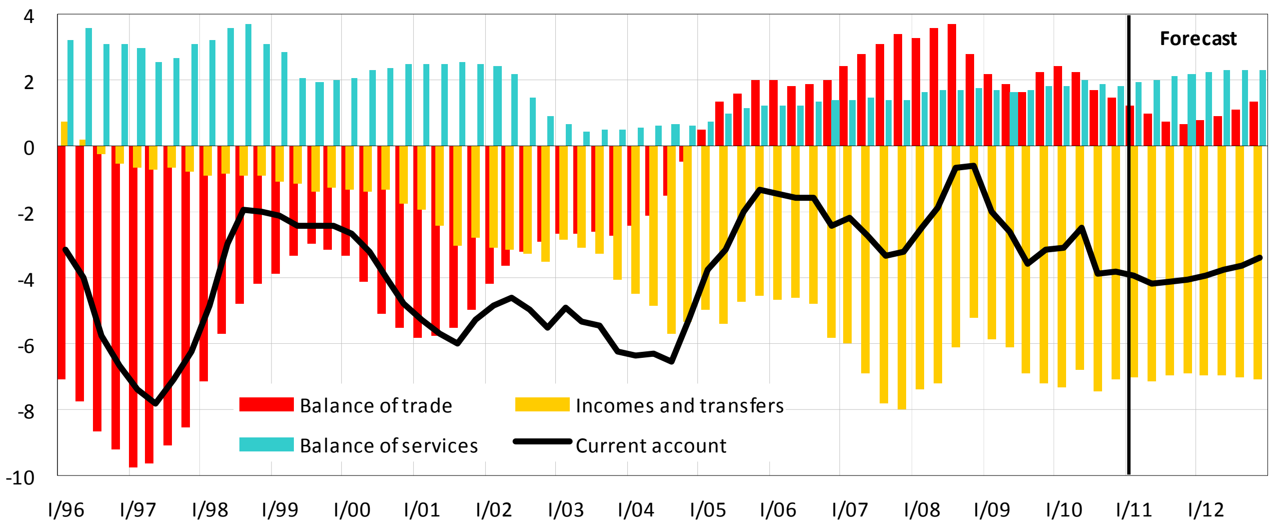
Table C.4.2: **Balance of Payments** – quarterly

moving sums of the latest 4 quarters

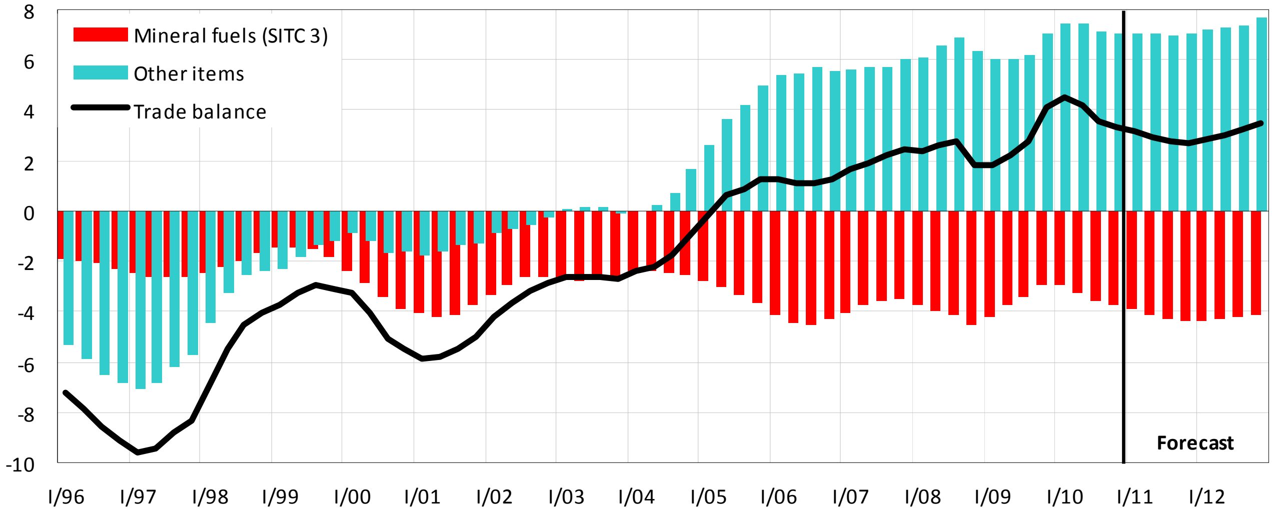
		2010				2011			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	*Forecast*	*Forecast*	*Forecast*
Balance of goods and services	bill.CZK	154	155	131	120	115	110	105	106
-- balance of trade	bill.CZK	89	83	62	54	44	36	27	24
---- of which mineral fuels (SITC 3)	bill.CZK	-108	-120	-131	-136	-143	-152	-158	-162
-- balance of services	bill.CZK	65	72	69	66	71	74	78	82
Balance of income	bill.CZK	-250	-235	-267	-258	-259	-260	-261	-262
– compensation of employees	bill.CZK	-10	-7	-5	-4	-4	-4	-4	-4
– investment income	bill.CZK	-240	-228	-262	-254	-255	-256	-257	-258
Balance of transfers	bill.CZK	-15	-11	-5	-2	-1	-3	3	6
Current account	bill.CZK	-111	-91	-141	-139	-145	-153	-153	-150
Capital account	bill.CZK	28	33	42	34	35	32	32	33
Financial account	bill.CZK	137	113	236	182	.	.	.	.
– foreign direct investments	bill.CZK	52	62	150	97	.	.	.	.
– portfolio investments	bill.CZK	173	157	211	157	.	.	.	.
– other investments	bill.CZK	-88	-106	-124	-72	.	.	.	.
Change in reserves	bill.CZK	18	15	78	41	.	.	.	.
Gross external debt	bill.CZK	1553	1681	1672	1685	1689	1713	1757	1767

Graph C.4.1: **Current Account**

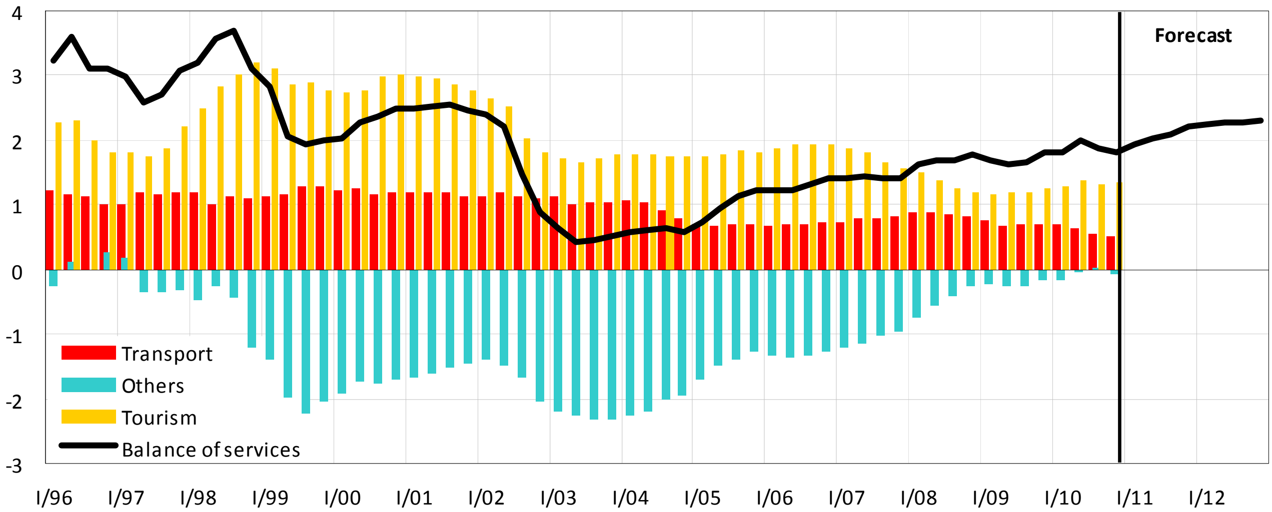
moving sums of the latest 4 quarters, in % of GDP



Graph C.4.2: **Balance of Trade** (*exports fob, imports cif*)
moving sums of the latest 4 quarters, in % of GDP



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



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

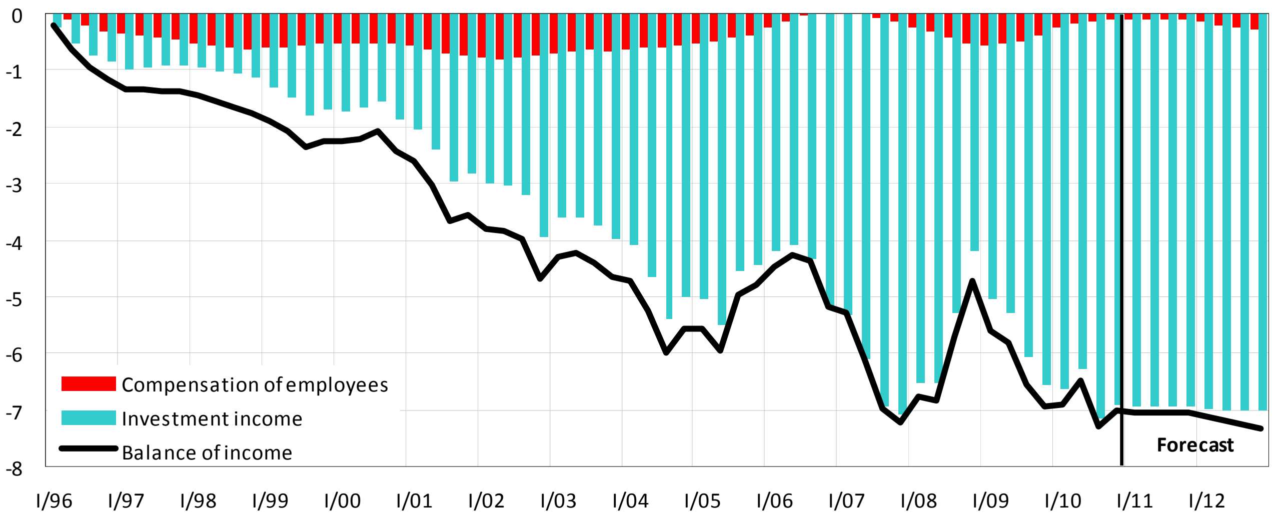


Table C.4.3: **Decomposition of Exports of Goods** – yearly

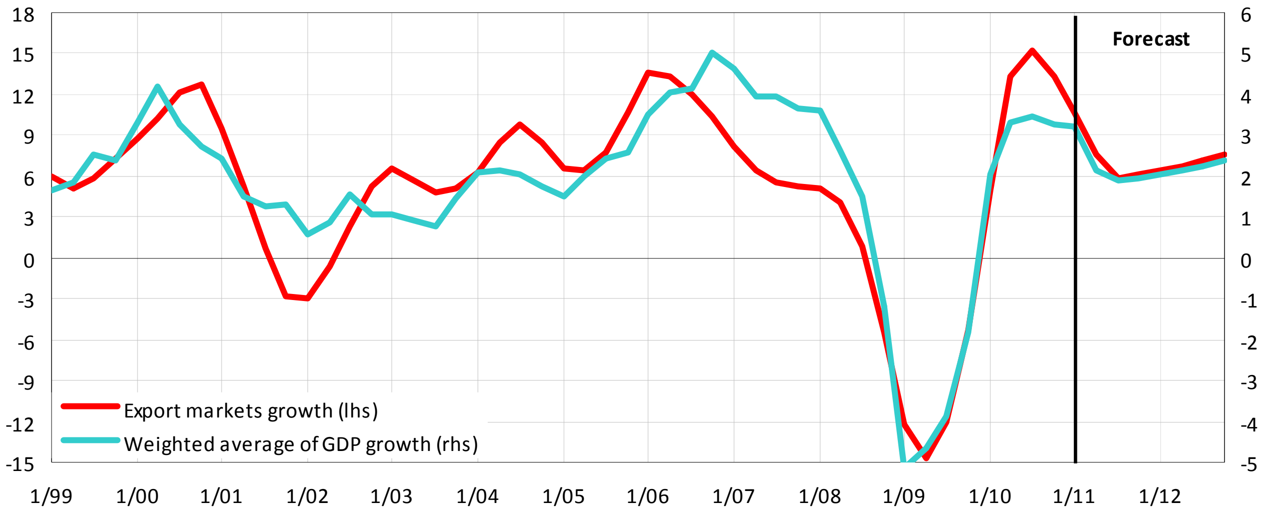
		2003	2004	2005	2006	2007	2008	2009	2010	2011 *Forecast*	2012 *Forecast*
GDP [1)]	*average of 2000=100*	103.7	105.8	108.0	112.5	117.0	118.8	114.2	117.7	120	123
	growth in %	**1.0**	**2.0**	**2.1**	**4.1**	**4.0**	**1.6**	**-3.9**	**3.0**	**2.3**	**2.2**
Import intensity [2)]	*average of 2000=100*	105.8	112.3	118.7	127.9	130.7	130.1	120.2	130.3	137	143
	growth in %	**4.4**	**6.1**	**5.7**	**7.8**	**2.2**	**-0.5**	**-7.6**	**8.4**	**5.1**	**4.6**
Export markets [3)]	*average of 2000=100*	109.7	118.8	128.2	143.9	152.9	154.6	137.3	153.3	165	176
	growth in %	**5.5**	**8.2**	**7.9**	**12.3**	**6.3**	**1.1**	**-11.2**	**11.7**	**7.5**	**6.9**
Export performance	*average of 2000=100*	120.3	136.7	141.4	146.9	160.1	167.3	160.8	171.5	178	184
	growth in %	**3.6**	**13.7**	**3.5**	**3.8**	**9.0**	**4.6**	**-3.9**	**6.6**	**3.9**	**3.4**
Real exports	*average of 2000=100*	132.0	162.4	181.3	211.3	244.8	258.7	220.8	263.0	294	325
	growth in %	**9.3**	**23.0**	**11.6**	**16.6**	**15.8**	**5.7**	**-14.6**	**19.1**	**11.6**	**10.6**
1 / NEER	*average of 2000=100*	85.9	85.3	80.3	76.4	74.5	66.7	69.2	67.4	65	63
	growth in %	**0.0**	**-0.7**	**-6.0**	**-4.8**	**-2.5**	**-10.4**	**3.7**	**-2.5**	**-3.5**	**-2.5**
Prices on foreign markets	*average of 2000=100*	107.8	110.9	114.6	118.5	121.4	127.5	122.8	124.4	128	131
	growth in %	**0.0**	**2.8**	**3.3**	**3.4**	**2.4**	**5.0**	**-3.7**	**1.3**	**2.7**	**2.7**
Exports deflator	*average of 2000=100*	92.7	94.6	92.0	90.6	90.4	85.1	84.9	83.9	83	83
	growth in %	**0.0**	**2.1**	**-2.8**	**-1.5**	**-0.1**	**-5.9**	**-0.2**	**-1.3**	**-0.8**	**0.1**
Nominal exports	*average of 2000=100*	122.3	153.7	166.7	191.3	221.1	220.0	187.3	220.5	244	270
	growth in %	**9.3**	**25.7**	**8.5**	**14.8**	**15.6**	**-0.5**	**-14.9**	**17.7**	**10.7**	**10.7**

[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.*

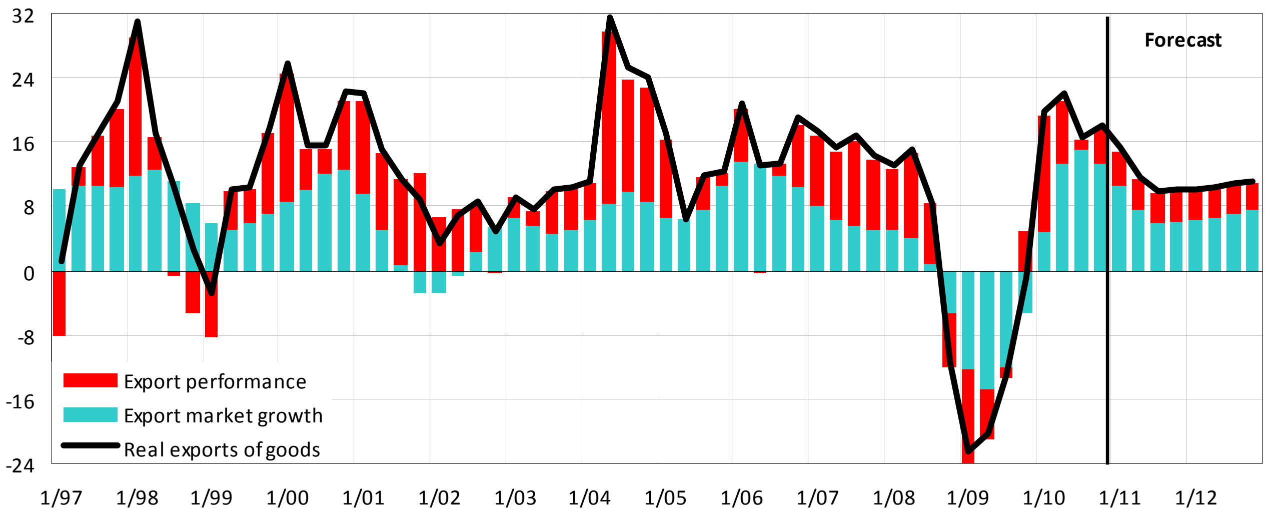
Table C.4.4: **Decomposition of Exports of Goods** – quarterly

		2010				2011			
		Q1	Q2	Q3	Q4	Q1 *Estimate*	Q2 *Forecast*	Q3 *Forecast*	Q4 *Forecast*
GDP	*average of 2000=100*	115.8	117.5	118.4	118.9	119	120	121	121
	growth in %	**2.1**	**3.3**	**3.5**	**3.3**	**3.2**	**2.1**	**1.9**	**2.0**
Import intensity	*average of 2000=100*	125.7	129.4	132.5	133.5	135	136	138	139
	growth in %	**2.8**	**9.6**	**11.3**	**9.7**	**7.3**	**5.3**	**3.9**	**4.1**
Export markets	*average of 2000=100*	145.5	152.1	156.9	158.7	161	164	166	169
	growth in %	**5.0**	**13.3**	**15.2**	**13.3**	**10.7**	**7.5**	**5.9**	**6.2**
Export performance	*average of 2000=100*	170.3	176.3	165.5	173.9	178	183	172	180
	growth in %	**14.2**	**7.7**	**1.1**	**4.2**	**4.2**	**3.8**	**3.7**	**3.7**
Real exports	*average of 2000=100*	247.9	268.3	259.6	276.0	286	299	285	304
	growth in %	**19.9**	**22.0**	**16.5**	**18.0**	**15.4**	**11.6**	**9.8**	**10.1**
1 / NEER	*average of 2000=100*	68.5	68.5	66.8	66.0	65	65	65	65
	growth in %	**-5.2**	**-1.8**	**-0.4**	**-2.5**	**-4.4**	**-4.5**	**-2.7**	**-2.3**
Prices on foreign markets	*average of 2000=100*	121.9	123.9	125.7	126.0	125	127	129	129
	growth in %	**-1.6**	**1.1**	**2.9**	**3.1**	**2.7**	**2.7**	**2.7**	**2.7**
Exports deflator	*average of 2000=100*	83.5	84.8	83.9	83.2	82	83	84	84
	growth in %	**-6.8**	**-0.8**	**2.4**	**0.5**	**-1.8**	**-1.9**	**0.0**	**0.3**
Nominal exports	*average of 2000=100*	207.0	227.6	217.8	229.7	235	249	239	254
	growth in %	**11.8**	**21.1**	**19.4**	**18.6**	**13.3**	**9.5**	**9.7**	**10.5**

Graph C.4.5: **GDP and Imports of Goods in Main Partner Countries**
YoY growth, in %



Graph C.4.6: **Real Exports of Goods**
decomposition of YoY growth, in %



Graph C.4.7: **Deflator of Exports of Goods**
decomposition of YoY growth, in %

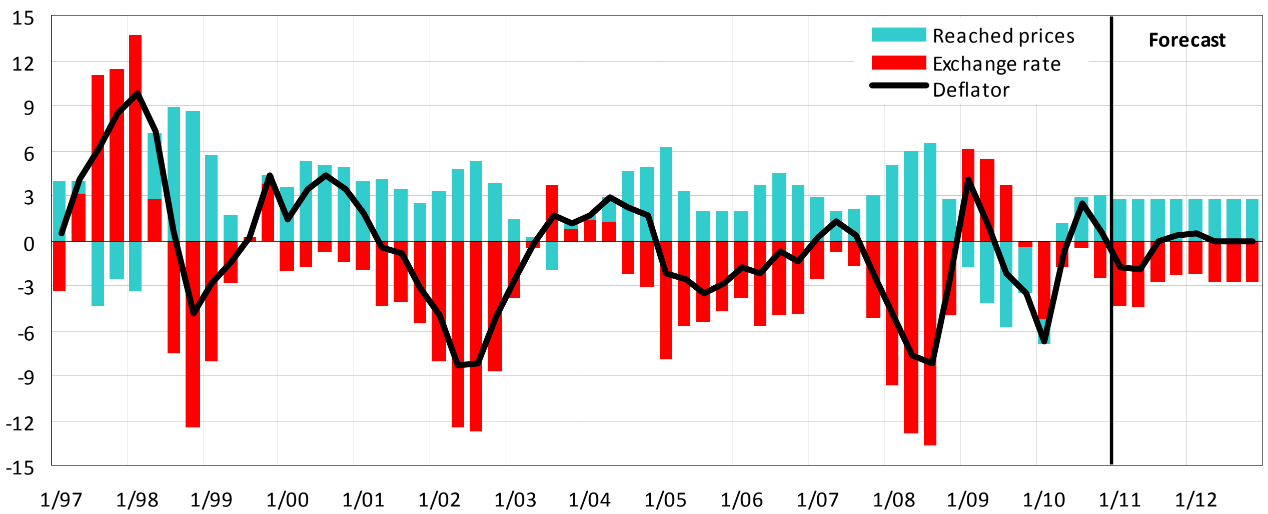
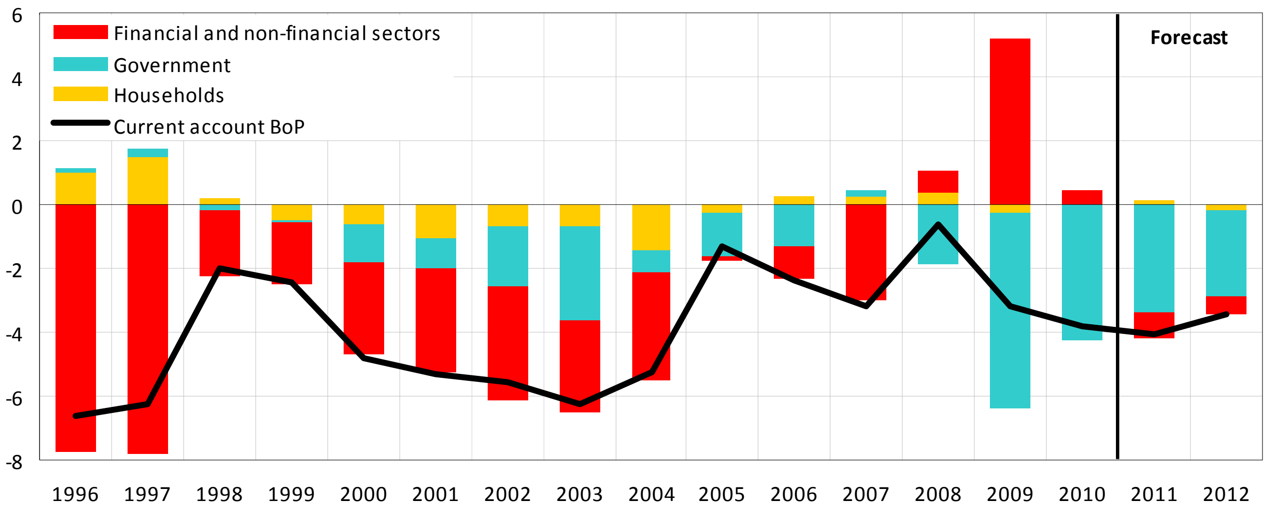


Table C.4.5: **Savings and Investments** – yearly

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Prelimin.	*Forecast*	*Forecast*
Gross capital formation	*% of GDP*	27.2	27.5	25.7	26.8	27.0	25.3	21.7	22.3	22.7	22.8
– **fixed capital formation**	*% of GDP*	26.7	25.8	24.9	24.7	25.2	23.9	22.5	21.0	21.0	21.1
– **change in stocks**	*% of GDP*	0.5	1.7	0.8	2.1	1.8	1.4	-0.7	1.3	1.7	1.7
– **government sector**	*% of GDP*	4.4	4.7	4.9	5.0	4.6	4.9	5.3	5.6	5.8	5.8
– **households**	*% of GDP*	4.8	4.7	4.5	4.8	5.4	5.2	5.4	4.9	4.7	4.6
– **non-financial and financial sectors**	*% of GDP*	18.1	18.1	16.3	17.0	17.0	15.2	11.0	11.8	12.2	12.4
Gross national savings	*% of GDP*	20.7	22.0	23.9	24.7	24.4	24.5	20.5	18.6	18.6	19.3
– **government sector**	*% of GDP*	1.4	4.0	3.5	3.7	4.8	3.0	-0.9	1.4	2.4	3.1
– **households**	*% of GDP*	4.1	3.3	4.3	5.0	5.6	5.6	5.2	4.9	4.9	4.4
– **non-financial and financial sectors**	*% of GDP*	15.2	14.7	16.1	16.0	14.0	15.9	16.2	12.3	11.4	11.8
Financial balance											
– **government sector**	*% of GDP*	-2.9	-0.7	-1.3	-1.3	0.2	-1.9	-6.2	-4.2	-3.4	-2.7
– **households**	*% of GDP*	-0.7	-1.4	-0.3	0.2	0.2	0.4	-0.2	0.0	0.1	-0.2
– **non-financial and financial sectors**	*% of GDP*	-2.9	-3.4	-0.1	-1.0	-3.0	0.7	5.2	0.5	-0.8	-0.5
– **methodological discrepancy**	*% of GDP*	0.3	0.2	0.4	-0.3	-0.6	0.2	-1.9	0.0	0.0	0.0
Current account BoP	*% of GDP*	-6.2	-5.2	-1.3	-2.4	-3.2	-0.6	-3.2	-3.8	-4.0	-3.4

Graph C.4.8: **Financial Balances of Individual Sectors**

savings less investments, in % of GDP



C.5 International Comparisons

Sources: Eurostat, OECD, IMF, MoF estimates

Table C.5.1: **GDP p.c. – using current purchasing power parities**

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
									Prelim.	*Forecast*	*Forecast*
Slovenia	*PPS*	**17 300**	**18 700**	**19 700**	**20 700**	**22 100**	**22 800**	**20 700**	**21 500**	**22 200**	**23 000**
	EA 12 = 100	75	78	79	79	80	83	80	82	82	83
Greece	*PPS*	**19 200**	**20 300**	**20 600**	**22 100**	**22 900**	**23 500**	**22 100**	**21 500**	**21 000**	**21 000**
	EA 12 = 100	83	85	83	85	83	86	86	81	78	76
Czech Republic	*PPS*	**15 200**	**16 300**	**17 100**	**18 200**	**19 900**	**20 200**	**19 200**	**20 000**	**20 600**	**21 300**
	EA 12 = 100	66	68	69	70	73	74	75	76	76	77
Portugal	*PPS*	**16 400**	**16 700**	**17 800**	**18 600**	**19 600**	**19 500**	**18 800**	**19 700**	**20 000**	**20 300**
	EA 12 = 100	71	70	72	71	71	71	73	74	74	73
Slovakia	*PPS*	**11 500**	**12 300**	**13 500**	**15 000**	**17 000**	**18 100**	**17 200**	**18 300**	**19 100**	**20 100**
	EA 12 = 100	50	52	54	57	62	66	67	69	70	72
Estonia	*PPS*	**11 300**	**12 400**	**13 800**	**15 600**	**17 300**	**17 000**	**15 000**	**16 100**	**16 900**	**18 200**
	EA 12 = 100	49	52	56	60	63	62	58	61	63	66
Hungary	*PPS*	**13 000**	**13 700**	**14 200**	**14 900**	**15 600**	**16 200**	**15 300**	**15 900**	**16 300**	**16 800**
	EA 12 = 100	56	57	57	57	57	59	59	60	60	61
Poland	*PPS*	**10 100**	**11 000**	**11 500**	**12 300**	**13 600**	**14 100**	**14 300**	**15 100**	**15 900**	**16 800**
	EA 12 = 100	44	46	46	47	49	51	55	57	59	60
Lithuania	*PPS*	**10 200**	**10 900**	**11 900**	**13 100**	**14 700**	**15 300**	**12 900**	**13 500**	**14 100**	**14 900**
	EA 12 = 100	44	46	48	50	54	56	50	51	52	54
Latvia	*PPS*	**9 000**	**9 900**	**10 900**	**12 200**	**13 900**	**14 100**	**12 200**	**12 600**	**13 100**	**13 800**
	EA 12 = 100	39	41	44	47	51	52	47	48	48	50

Graph C.5.1: **GDP p.c. – using current purchasing power parities**
EA 12 = 100

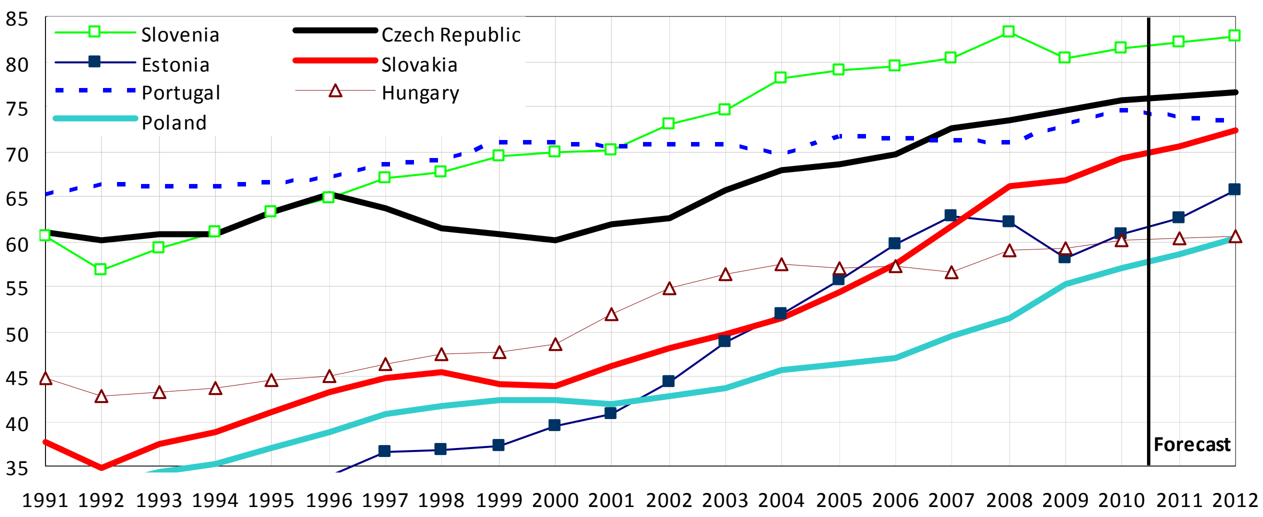
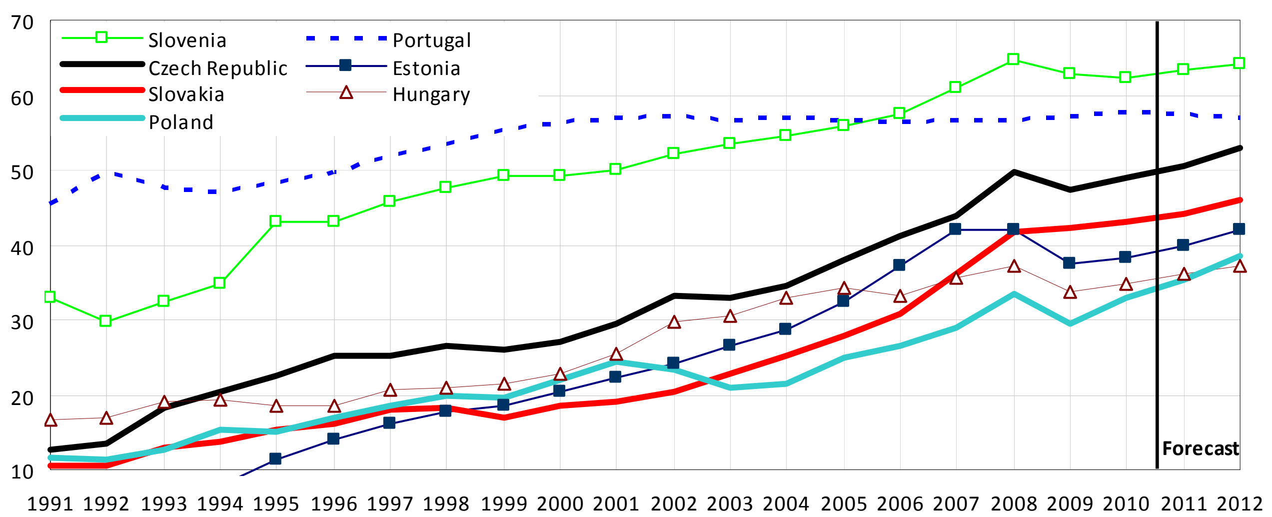


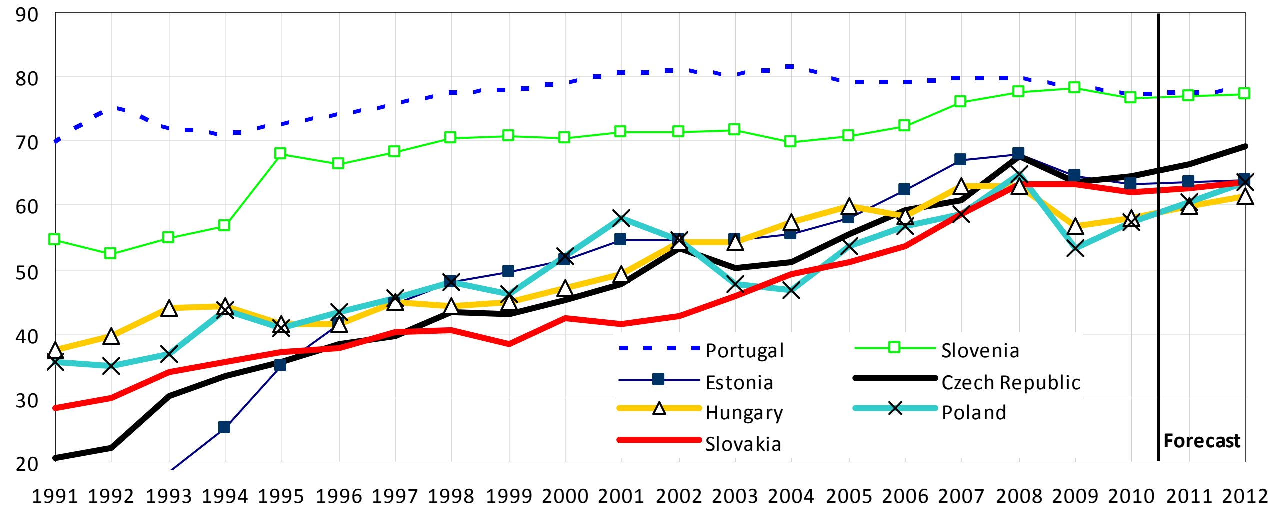
Table C.5.2: **GDP p.c. – using current exchange rates**

			2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
										Prelim.	*Forecast*	*Forecast*
Slovenia		*EUR*	**12 900**	**13 600**	**14 400**	**15 400**	**17 100**	**18 400**	**17 300**	**17 600**	**18 300**	**19 000**
		EA 12 = 100	53	55	56	57	61	65	63	**62**	63	64
	Comparative price level	*EA 12 = 100*	**72**	**70**	**71**	**72**	**76**	**78**	**78**	77	**77**	**77**
Greece		*EUR*	**15 600**	**16 700**	**17 500**	**19 000**	**20 300**	**21 100**	**20 800**	**20 400**	**20 000**	**20 100**
		EA 12 = 100	65	67	68	71	72	74	76	**72**	69	68
	Comparative price level	*EA 12 = 100*	**78**	**79**	**83**	**84**	**87**	**86**	**88**	89	**89**	**90**
Czech Republic		*EUR*	**7 900**	**8 600**	**9 800**	**11 100**	**12 300**	**14 200**	**13 000**	**13 800**	**14 600**	**15 700**
		EA 12 = 100	33	35	38	41	44	50	47	**49**	51	53
	Comparative price level	*EA 12 = 100*	**50**	**51**	**56**	**59**	**61**	**67**	**63**	65	**67**	**69**
Portugal		*EUR*	**13 700**	**14 200**	**14 600**	**15 100**	**15 900**	**16 200**	**15 800**	**16 300**	**16 600**	**16 900**
		EA 12 = 100	57	57	57	56	57	57	57	**58**	57	57
	Comparative price level	*EA 12 = 100*	**80**	**82**	**79**	**79**	**80**	**80**	**79**	77	**78**	**78**
Slovakia		*EUR*	**5 500**	**6 300**	**7 100**	**8 300**	**10 200**	**11 900**	**11 600**	**12 100**	**12 700**	**13 600**
		EA 12 = 100	23	25	28	31	36	42	42	**43**	44	46
	Comparative price level	*EA 12 = 100*	**46**	**49**	**51**	**54**	**59**	**63**	**63**	62	**63**	**64**
Estonia		*EUR*	**6 400**	**7 200**	**8 300**	**10 000**	**11 800**	**12 000**	**10 300**	**10 800**	**11 500**	**12 400**
		EA 12 = 100	27	29	32	37	42	42	37	**38**	40	42
	Comparative price level	*EA 12 = 100*	**55**	**55**	**58**	**62**	**67**	**68**	**65**	63	**64**	**64**
Hungary		*EUR*	**7 300**	**8 200**	**8 800**	**8 900**	**10 000**	**10 600**	**9 300**	**9 800**	**10 400**	**11 100**
		EA 12 = 100	30	33	34	33	36	37	34	**35**	36	37
	Comparative price level	*EA 12 = 100*	**54**	**57**	**60**	**58**	**63**	**63**	**57**	58	**60**	**61**
Poland		*EUR*	**5 000**	**5 300**	**6 400**	**7 100**	**8 100**	**9 500**	**8 100**	**9 300**	**10 200**	**11 400**
		EA 12 = 100	21	21	25	27	29	33	30	**33**	35	38
	Comparative price level	*EA 12 = 100*	**48**	**47**	**54**	**57**	**59**	**65**	**53**	57	**60**	**64**
Lithuania		*EUR*	**4 800**	**5 300**	**6 100**	**7 100**	**8 500**	**9 600**	**7 900**	**8 300**	**8 700**	**9 200**
		EA 12 = 100	20	21	24	26	30	34	29	**30**	30	31
	Comparative price level	*EA 12 = 100*	**45**	**46**	**50**	**53**	**56**	**60**	**58**	58	**58**	**58**
Latvia		*EUR*	**4 300**	**4 800**	**5 700**	**7 000**	**9 300**	**10 200**	**8 200**	**8 000**	**8 100**	**8 500**
		EA 12 = 100	18	19	22	26	33	36	30	**28**	28	29
	Comparative price level	*EA 12 = 100*	**46**	**47**	**50**	**56**	**66**	**69**	**63**	60	**58**	**57**

Graph C.5.2: **GDP p.c. – using current exchange rates**
EA 12 = 100



Graph C.5.3: **Index of Comparative Price Level of GDP p.c.**
EA 12 = 100



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