

Macroeconomic Forecast Czech Republic

April 2012

Macroeconomic Forecast of the Czech Republic
April 2012

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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 2013) and for certain indicators an outlook for another 2 years (i.e. until 2015). 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
CNB.....	Czech National Bank
CPI	consumer prices index
curr.pr.....	current prices
CZSO	Czech Statistical Office
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
OECD	Organisation for Economic Co-operation and Development
p.p.	percentage point
prelim. . .	preliminarily

Basic Terms:

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

Symbols Used in Tables:

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

Cut-off Date for Data Sources:

Cut-off date for data sources: **March 23, 2012.**

Summary of the Forecast

According to current data, Czech economic output increased by 1.7% in 2011 even as YoY growth had gradually slowed through the year. In Q3 and Q4, moreover, there was QoQ decline in GDP of 0.1%, and the Czech economy formally found itself in technical recession. Such small QoQ changes in GDP are below the margin of statistical error, however, and further revisions of quarterly national accounts may alter this conclusion. For this year, we expect slight GDP growth of 0.2%, while in 2013 economic output should grow by 1.3%.

We expect a rise in consumer prices of around 3.3% in 2012, while average inflation rate should reach 2.3% in 2013. The development of consumer prices will be significantly influenced by VAT changes.

The situation on the labour market should reflect the slow economic growth and heightened uncertainty concerning future development. Employment should

decrease by 0.5% this year, and we anticipate no change or its growth by a slight 0.1% in 2013.

The unemployment rate (LFS) should rise from last year's 6.7% to 7.0% this year, and another slight increase in unemployment may occur in 2013. The wage bill could grow by 1.5% this year and by 2.6% in 2013.

The current account deficit as a percentage of GDP should remain at a sustainable level.

For the Czech economy, a certain calming of the situation in the euro zone due to completion of the Greek debt restructuring and positive impacts of ECB's extraordinary operations mean lower risks for future development in the very short term. Further escalation of the problems in the euro zone cannot be entirely ruled out, however, and thus neither can the possibility of potential negative external shocks spreading to the Czech economy.

Table: **Main Macroeconomic Indicators**

		2009	2010	2011	2012	2013	2011	2012	2013
		Forecast					Previous forecast		
Gross domestic product	<i>growth in %, const.pr.</i>	-4.7	2.7	1.7	0.2	1.3	1.8	0.2	1.6
Consumption of households	<i>growth in %, const.pr.</i>	-0.4	0.6	-0.5	-0.4	0.2	-0.4	-0.7	0.7
Consumption of government	<i>growth in %, const.pr.</i>	3.8	0.6	-1.4	-3.7	-0.5	-2.3	-2.5	0.1
Gross fixed capital formation	<i>growth in %, const.pr.</i>	-11.5	0.1	-1.2	-0.5	2.1	-0.3	0.1	2.1
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.8	0.9	2.6	1.0	0.8	2.7	1.0	0.8
GDP deflator	<i>growth in %</i>	1.9	-1.7	-0.7	2.0	1.4	-0.2	1.9	0.8
Average inflation rate	<i>%</i>	1.0	1.5	1.9	3.3	2.3	1.9	3.2	1.5
Employment (LFS)	<i>growth in %</i>	-1.4	-1.0	0.4	-0.5	0.1	0.4	-0.3	0.0
Unemployment rate (LFS)	<i>average in %</i>	6.7	7.3	6.7	7.0	7.2	6.7	7.0	7.2
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	-2.1	-0.4	1.1	1.5	2.6	1.7	2.0	2.6
Current account / GDP	<i>%</i>	-2.4	-3.9	-2.9	-2.4	-2.3	-1.9	-1.6	-1.7
<u>Assumptions:</u>									
Exchange rate CZK/EUR		26.4	25.3	24.6	25.1	24.9	24.6	25.6	25.3
Long-term interest rates	<i>% p.a.</i>	4.7	3.7	3.7	3.4	3.5	3.7	3.4	3.6
Crude oil Brent	<i>USD/barrel</i>	62	80	111	115	113	111	112	112
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	-4.2	1.9	1.4	-0.3	0.7	1.7	0.0	0.8

Risks to the Forecast

This Macroeconomic Forecast is based on a **“no-event” scenario**, in which the euro zone’s debt crisis will not substantially escalate nor will any other geopolitical event having significant economic impact occur.

In any other scenario, it would be necessary to make speculative assumptions about specific events and their timing. On the other hand, we do consider it useful to more closely specify the balance and relevance of various risks.

Since publication of the Macroeconomic Forecast in January 2012, there have occurred two significant events which have considerably mitigated the **short-term risks** to future development.

The crucial restructuring of the Greek debt and release of the second EA/IMF bailout package have, from a short-term perspective, placated fears concerning the ability of the Greek government to honour its commitments. The ECB’s second long-term refinancing operation provided euro zone banks with a large amount of liquidity for ca 3 years in order to get through a difficult period.

Nevertheless, not much has changed from a **medium-term perspective**.

The most recent data about the state of the Greek economy (YoY drop in GDP by 7.5% in Q4 2011 and by 13.2% between 2007 and 2011) and its level of competitiveness fed anxiety concerning the economic and political sustainability of the Greek consolidation strategy. Developments in other problematic economies on the periphery of the euro zone, and particularly in Portugal, could also prove risky.

Alongside those risks in the external environment, we also identify a significant **internal risk in the Czech economy**: a very low level of confidence in further economic advancement, especially among consumers but also in certain segments of the business sector (see more in Chapter B.2). This leads to more cautious microeconomic decisions and is probably one of the causes for the Czech economy’s lagging behind its neighbouring countries (at roughly similar rates of fiscal consolidation).

We should also mention that this Forecast is based on presumptions about the form of fiscal consolidation for 2013 (on the revenues side, for example, this includes a hike in both VAT rates by 1 p.p.). The most probable variant has been applied, but this has yet to pass through the legislative process. Thus, it cannot be excluded that the final form of consolidation will be different in certain particularities.

On the other side of the risk balance, there is a **positive** possibility (albeit not with a very high probability) that recovery of the German economy could be faster than expected by the Forecast. This could greatly limit the impacts of a potential shock on the Czech economy.

Overall, it can be stated that **significant downside risks** for the scenario under consideration remain. In comparison to the January Forecast, however, their **probability** and intensity have **decreased**, especially for the short-term horizon.

A Forecast Assumptions

The forecast was made on the basis of data known as of **March 23, 2012**. 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 October 2011 are indicated by italics. Data in the tables relating to the years 2014 and 2015 are calculated by extrapolation, indicating 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 prospects for the world economy have improved since publication of the January Macroeconomic Forecast. There are essentially two reasons: good news from the US economy and calming of the situation in the euro zone. The present slowdown in China continues to be a cause for concern, however, while the growth of other large emerging economies (Brazil, India) also slowed in 2011.

The output of the **US economy** increased by 1.7% in 2011, and QoQ GDP growth gradually accelerated over the course of the year (from 0.1% in Q1 up to 0.7% in Q4). Additionally the figures from the US economy also give cause for (cautious) optimism.¹ Consumer confidence reached its highest level of the past year in February, while the Purchasing Managers Index also gained. The situation on the labour market is improving, as well. Although unemployment remained at 8.3% in February (versus 9% in October 2011), an unexpectedly large increase in jobs was recorded in the private sector. This development strengthens household demand, which is the traditional driving factor for US GDP.

Stock markets are also showing signs of optimism. The Dow-Jones index has settled above 13,000 points in recent weeks – a level it last reached in June 2008. The economy is also being helped along by low interest rates and government aid for mortgages. Considering the approaching presidential elections, moreover, we cannot exclude the possibility of additional provisions supporting the economy (although monetary stimulus, and in particular another round of quantitative easing, is not expected). This year, the federal deficit should decrease from ca 9% of GDP in 2011 to an estimated 7.8% of GDP.

Euro zone GDP rose by 1.4% in 2011, as the slight YoY growth of 0.1% in Q2 and Q3 was replaced in the last quarter by a 0.3% drop. The large injection of liquidity

provided to the banking system by ECB and the restructuring of the Greek debt helped to mitigate concerns over the debt crisis which had strongly worsened economic sentiment in the final quarter of 2011. However, growth in practically all euro zone countries is hindered by efforts to consolidate public finances.

The euro zone continues to be driven by Germany, which in 2011 surpassed its pre-crisis GDP level (unlike most euro zone countries, as well as the Czech Republic). The German economy grew by 3.0% in 2011, though it was unable to avoid a QoQ decrease by 0.2% in Q4. Growth in the rest of the euro zone was weak, however, and a similar situation should also prevail in 2012. According to our estimates, the French economy will remain at practically the same level. Spain and Italy expect a decline, while Portugal and Greece are deep in recession.

Unemployment offers a grim perspective on the economic situation in the euro zone. In January, it rose for the fifth month in a row, reaching 10.7%. The distribution is uneven: On one end of the scale is Spain (23.3%), followed by Greece (19.9%), Portugal and Ireland (14.8%), and Slovakia (13.3%). In Germany, on the other hand, unemployment has not exceeded 6% since the middle of last year. Youth unemployment in certain economies is alarming: In Spain, 49.9% of people under 25 are unemployed. That figure is 48.1% in Greece, 36% in Slovakia, and 35.1% in Portugal.

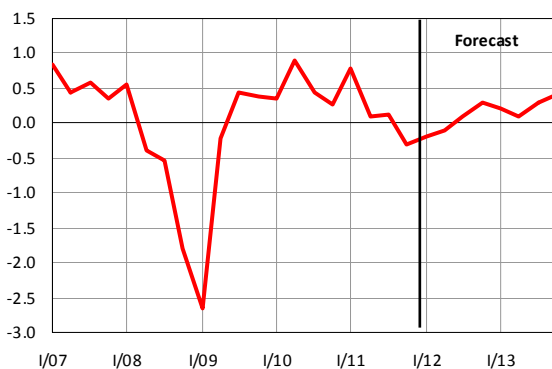
The **Polish economy** grew by a strong 4.3% overall in 2011, and by 1.1% QoQ in Q4. The unemployment rate remained unchanged in January at 10.1%. The economy is currently growing primarily due to investments (especially into infrastructure prior to the European Football Championship), though the growth in domestic consumption slowed somewhat in Q4. The impact of the government's ambitious fiscal consolidation programme has also become evident. For 2012, we expect growth to slow more markedly to 2.5%.

¹ Considering that similar optimism prevalent in the same period last year proved unfounded, it seems appropriate for the time being to remain slightly cautious regarding the forecast.

The **Slovak economy** expanded by 0.9% QoQ in the last quarter of 2011 and by 3.3% for the entire year. Growth has of course been driven mainly by exports, especially of automobiles. Household consumption, on the other hand, has either stagnated or slightly decreased over the long term despite the dynamic economic growth. This is apparently caused by a high unemployment rate (the fifth highest in the euro zone). Growth in 2012 will likely depend strongly on the rate of slowing in Germany and on the new government's fiscal policy.

Graph A.1.1: Growth of GDP in EA12

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



We expect GDP in the EA12 to decline by 0.3% in 2012 (*versus stagnation*), and in 2013 the EA12 economic output could rise by 0.7% (*versus 0.8%*).

We have increased our 2012 growth estimate for the US economy by 0.2 p.p. to 2.2% (*versus 2.0%*), while we have also raised the forecast for 2013 by the same amount.

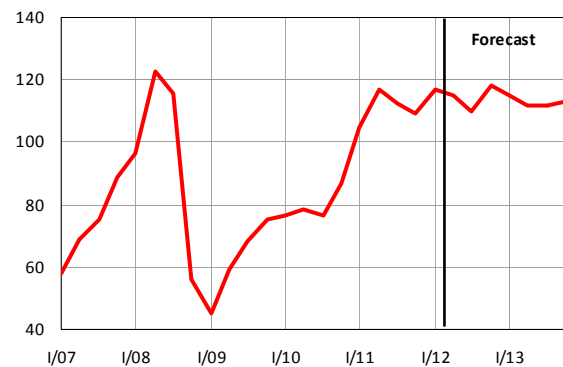
Commodity prices

The price of Brent crude oil reached USD 111 per barrel in 2011, and in Q1 2012 it hovered around USD 117 (*versus USD 113*). Forecasting remains very difficult. Persisting doubts concerning production in a number of countries point to an increase: Not only is anxiety concerning the geopolitical unrest in the Middle East (Iran and Syria in particular) growing, but problems may arise also in Nigeria and potentially in Venezuela. The tension surrounding sanctions against Iran has driven the price of Brent crude up by an estimated USD 10–15/barrel so far.

In addition to fears of downturn in a number of economies (notably, China), arguments for a decrease also include the possible release of strategic reserves (USA). The price continues to be strongly influenced by a high degree of speculation, as in times of cheap money commodities seem to represent a possible profitable investment.

Graph A.1.2: Dollar Prices of Brent Crude Oil

in USD per barrel



We have increased the forecast for 2012 to USD 115 per barrel (*versus USD 112*). We have also changed the forecast for 2013, although only minimally. The risks to the forecast are approximately balanced.

Debt crisis in the euro zone

Since publication of the January Macroeconomic Forecast, the debt crisis in the euro zone has been characterised especially by restructuring of the Greek debt (as well as the “voluntary” private sector involvement, or “PSI”).

The ECB's second² extraordinary refinancing operation (longer-term refinancing operation, LTRO) was also important. As part of this operation, which took place on 29 February, banks borrowed some EUR 530 billion from ECB for a period of approximately three years. Although the banks deposit a significant portion of the liquidity from both three-year LTROs overnight within the ECB deposit facility, these extraordinary operations have brought a measure of calm to financial markets. This is apparent not only on the interbank market, where the EURIBOR–OIS spread (an indicator of banks' willingness to lend to each other on the interbank market) has decreased by a significant ca 50 b.p. since the start of the year, but also on state bond markets. The more positive mood on state bond markets has also led, among other things, to a cessation (or at least suspension) of the interventions which the ECB had been conducting intermittently on secondary markets under the Securities Markets Programme (SMP) since May 2010. On the other hand, these operations may present a risk of moral hazard as it reduces pressure from financial markets (lower yields on state bonds) to consolidate public finances.

This critique came to light, for example, in relation to Spain's decision to re-evaluate its consolidation

² Banks already had borrowed approximately EUR 489 billion from the ECB last December for a period of ca 36 months.

strategy for this year and the next. According to current estimates, Spain's general government deficit reached 8.5% of GDP in 2011, which was a markedly worse result (by ca 2.5 p.p.) compared to the plan. Achieving the original deficit target in 2012 (4.4% of GDP) would thus require severe austerity measures, which, considering the current macroeconomic situation and growth prospects, may not yield the desired result in any case (in this respect, the example of Greece serves as sufficient warning). Spain thus reduced the target for this year to 5.3% of GDP³, but for 2013 it continues to envisage a deficit not exceeding 3% of GDP.

At the same time, Spain is not the only country for which it is crucial that financial markets view the fiscal consolidation strategy as credible, and especially considering the additional cuts in ratings occurring since publication of the January Macroeconomic Forecast. On 27 January, Fitch decreased both Spain's and Italy's rating by two grades (from AA- to A with negative outlook and from A+ to A- with negative outlook, respectively). Portugal was downgraded one level in mid-February after a review by Moody's (from Ba2 to Ba3, negative outlook), while the same occurred for Italy (from A2 to A3, negative outlook). Moody's also reduced Spain's rating by two grades (from A1 to A3, negative outlook).

Let us return, however, to the restructuring of Greek debt. This was begun on 24 February with an official offer to exchange existing bonds and (essentially) concluded on 12 March with the actual exchange of the old bonds governed by Greek law. In total, the restructuring involved liabilities in a nominal value of ca EUR 206 billion, of which EUR 177.3 billion constituted state bonds subject to Greek law and the remaining EUR 28.3 billion of which constituted state bonds subject to law other than Greek and selected bonds guaranteed by the Greek government. For this category of bonds, the option to join the PSI was extended at first to 23 March, and subsequently to 4 April (as of 9 March bond holders representing a nominal value of EUR 19.5 billion had joined), and the exchange of these bonds should be settled by 11 April. In the case of bonds subject to Greek law, holders representing a nominal value of EUR 152 billion joined the PSI. For these bonds, the high percentage participation in PSI (over 85%) enabled the Greek government to apply the collective action clause (CAC),

³ This is a compromise variant resulting from discussions with other ministers of finance in the euro zone. Originally, Spain requested a target of 5.8% of GDP.

thus obligating⁴ the other holders of bonds subject to Greek law to participate in the exchange. Thus, in total, bond holders representing a nominal value of just under EUR 197 billion, which corresponds to 95.7% of the nominal value of bonds for which the exchange offer applied, have joined PSI (both voluntarily and due to CAC).

Holders of bonds subject to Greek law received 1-year and 2-year bonds issued by the European Financial Stability Facility (EFSF) bailout fund in a total nominal value of EUR 26.6 billion (EUR 13.3 billion for each maturity) and new Greek bonds payable in 2023–2042 in a nominal value of EUR 55.8 billion. The losses⁵ of private creditors thus came to 53.5% of the nominal value of the "old" bonds. In net present value terms, the losses from PSI exceed 70% (the new Greek bonds have not only a longer maturity but also a relatively low, albeit gradually increasing, coupon).

The main rating agencies also responded to PSI. On 27 February, Standard & Poor's downgraded Greece's rating to SD (selective default). The agency later declared that after full completion of the restructuring (i.e. after 11 April; see above) it would probably raise Greece's rating to CCC. On 2 March, Moody's had reduced Greece's rating to C (the lowest rating grade, outlook not assigned), but it plans to re-evaluate the appropriateness of this decision soon. On 9 March, Fitch decreased Greece's rating to RD (restricted default). Four days later, however, following the exchange of old bonds in a nominal value of ca EUR 177 billion, it increased Greece's rating to B- with a stable outlook.

Successful completion of PSI cleared the way for Greece to receive a second bailout package from EA/IMF of up to EUR 130 billion. In addition, the remaining funds from the first bailout package (EUR 37 billion still to be drawn from the original EUR 110 billion) are expected to be drawn. According to a European Commission report, the EA's contribution in 2012–2014 should reach a total of EUR 144.7 billion (including resources from the first programme). The

⁴ Application of CAC triggered the payment of CDS (credit default swap) contracts. The total amount of compensation to CDS holders (USD 2.5 billion), however, is not considered to be significant in volume terms and, moreover, it corresponded with market expectations. The impact on the CDS market was therefore minimal.

⁵ The interest accrued on the old bonds was also paid to private creditors. For holders of bonds subject to Greek law, this compensation amounted to EUR 4.6 billion. In order to further motivate creditors to join PSI, creditors also received bonds in a nominal value of EUR 55.8 billion the payment of which will be linked to GDP development (GDP-linked securities).

IMF should contribute EUR 19.8 billion to the bailout programme over the same period. In total, however, the IMF has approved EUR 28 billion in aid for Greece. Greece should draw the remaining EUR 8.2 billion during 2015 and in early 2016. Thus, according to current data, the second bailout programme for Greece totals more than EUR 170 billion. Part of this sum, however, will be used for financing PSI (including recapitalisation of Greek banks) and servicing the debt.

The euro system (ECB and central banks of the individual euro zone countries) should join, too, in the process of resolving Greece's problems. The euro zone also approved a retroactive decrease in the interest rate on loans to Greece by 1.5 p.p. These provisions, along with PSI and in combination with rigorous fiscal consolidation, realisation of an extensive privatisation programme and implementation of structural reforms, should reduce the general government debt to 120.5% of GDP in 2020. It must be said, however, that even in this case Greece's indebtedness would surpass the level considered safe for developed economies by 20–30% of GDP.

At the same time, achievement of this objective is very uncertain. The bailout programme is quite ambitious

concerning fiscal consolidation requirements (primary budget surpluses expected as from 2013) and structural reforms. Moreover, certain assumptions regarding future economic development are questionable at best. There is also a political risk for the programme's implementation stemming from the results of parliamentary elections to be held in mid-June at latest.

With a view to the debt crisis, the Czech Republic is not a high-risk country. Financial markets perceive the fiscal consolidation trajectory as credible, and this is reflected by the low yields on state bonds. The financial sector is stable, liquid and well capitalised. The modest calming of the situation in the euro zone which has occurred as a result of concluding the Greek debt restructuring and the positive impacts of ECB's extraordinary operations means lower risks for the Czech economy's future development in the very short term. However, further escalation of the problems in the euro zone cannot be entirely excluded (it is sometimes speculated, for example, that Portugal will become another Greece), and therefore neither can the possibility for transmission of possible external shocks to the Czech economy.

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
									<i>Forecast</i>	<i>Forecast</i>
USA	3.5	3.1	2.7	1.9	-0.3	-3.5	3.0	1.7	2.2	2.5
EU27	2.5	2.0	3.3	3.2	0.3	-4.3	2.0	1.5	-0.2	0.8
EA12	2.2	1.7	3.2	2.9	0.3	-4.2	1.9	1.4	-0.3	0.7
Germany	1.2	0.7	3.7	3.3	1.1	-5.1	3.7	3.0	0.3	1.1
France	2.5	1.8	2.5	2.3	-0.1	-2.7	1.5	1.7	0.1	0.8
United Kingdom	3.0	2.1	2.6	3.5	-1.1	-4.4	2.1	0.8	0.3	1.2
Austria	2.6	2.4	3.7	3.7	1.4	-3.8	2.3	3.1	0.4	1.3
Hungary	4.8	4.0	3.9	0.1	0.9	-6.8	1.3	1.7	-0.2	0.8
Poland	5.3	3.6	6.2	6.8	5.1	1.6	3.9	4.3	2.5	2.9
Slovakia	5.1	6.7	8.3	10.5	5.9	-4.9	4.2	3.3	1.5	2.8
Czech Republic	4.7	6.8	7.0	5.7	3.1	-4.7	2.7	1.7	0.2	1.3

Graph A.1.3: Real Gross Domestic Product

YoY growth in %, nsa data

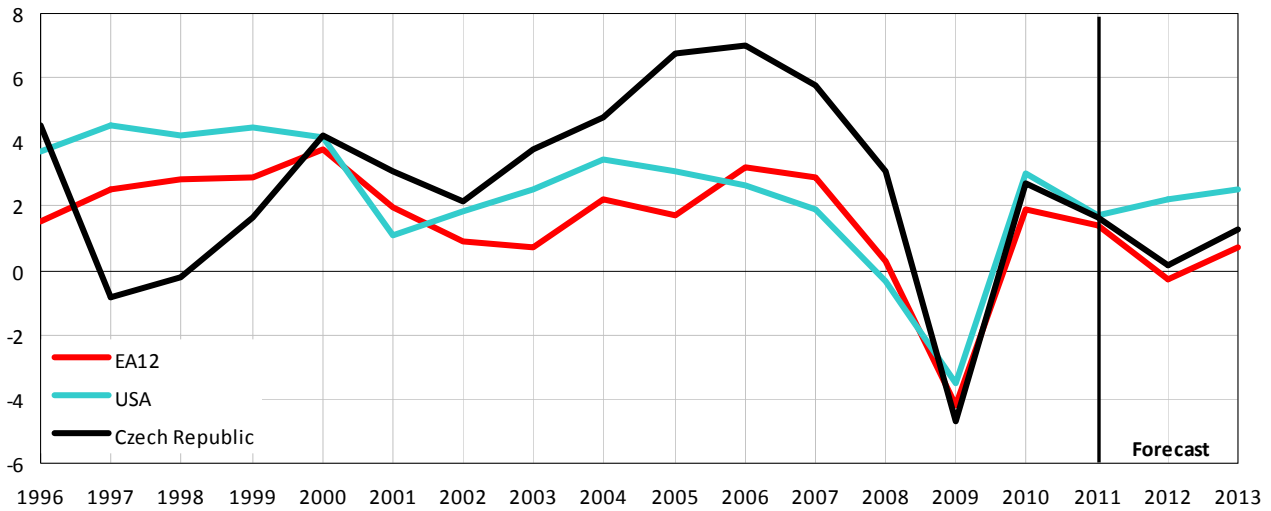


Table A.1.2: Real Gross Domestic Product – quarterly

growth in %, sa data

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
USA	<i>QoQ</i>	0.1	0.3	0.5	0.7	0.5	0.7	0.4	0.5
	<i>YoY</i>	2.2	1.6	1.5	1.6	2.0	2.4	2.3	2.1
EU27	<i>QoQ</i>	0.7	0.2	0.3	-0.3	-0.2	-0.1	0.1	0.3
	<i>YoY</i>	2.4	1.6	1.4	0.9	0.0	-0.3	-0.5	0.1
EA12	<i>QoQ</i>	0.8	0.1	0.1	-0.3	-0.2	-0.1	0.1	0.3
	<i>YoY</i>	2.4	1.6	1.3	0.7	-0.3	-0.5	-0.5	0.1
Germany	<i>QoQ</i>	1.3	0.3	0.5	-0.2	-0.1	0.0	0.3	0.2
	<i>YoY</i>	4.6	2.9	2.7	2.0	0.5	0.2	0.0	0.4
France	<i>QoQ</i>	0.9	-0.1	0.3	0.2	-0.1	-0.1	0.0	0.2
	<i>YoY</i>	2.2	1.6	1.5	1.4	0.3	0.3	0.0	0.0
United Kingdom	<i>QoQ</i>	0.3	0.0	0.5	-0.2	-0.1	0.1	0.2	0.2
	<i>YoY</i>	1.6	0.5	0.4	0.7	0.2	0.3	0.0	0.4
Austria	<i>QoQ</i>	0.9	0.5	0.2	-0.1	-0.1	0.1	0.2	0.3
	<i>YoY</i>	4.4	4.1	2.7	1.5	0.5	0.1	0.1	0.5
Hungary	<i>QoQ</i>	0.7	0.1	0.4	0.3	-0.4	-0.2	-0.1	0.1
	<i>YoY</i>	2.1	1.7	1.5	1.5	0.4	0.1	-0.4	-0.6
Poland	<i>QoQ</i>	1.0	1.2	1.0	1.1	0.5	0.3	0.2	0.3
	<i>YoY</i>	4.5	4.6	4.2	4.3	3.8	2.9	2.1	1.3
Slovakia	<i>QoQ</i>	0.8	0.8	0.8	0.9	0.2	0.0	0.1	0.3
	<i>YoY</i>	3.4	3.4	3.2	3.4	2.7	1.9	1.2	0.6
Czech Republic	<i>QoQ</i>	0.5	0.3	-0.1	-0.1	0.1	0.1	0.2	0.2
	<i>YoY</i>	2.7	2.1	1.3	0.6	0.2	-0.1	0.2	0.5

Graph A.1.4: **Real Gross Domestic Product** – Central European economies

YoY growth in %, nsa data

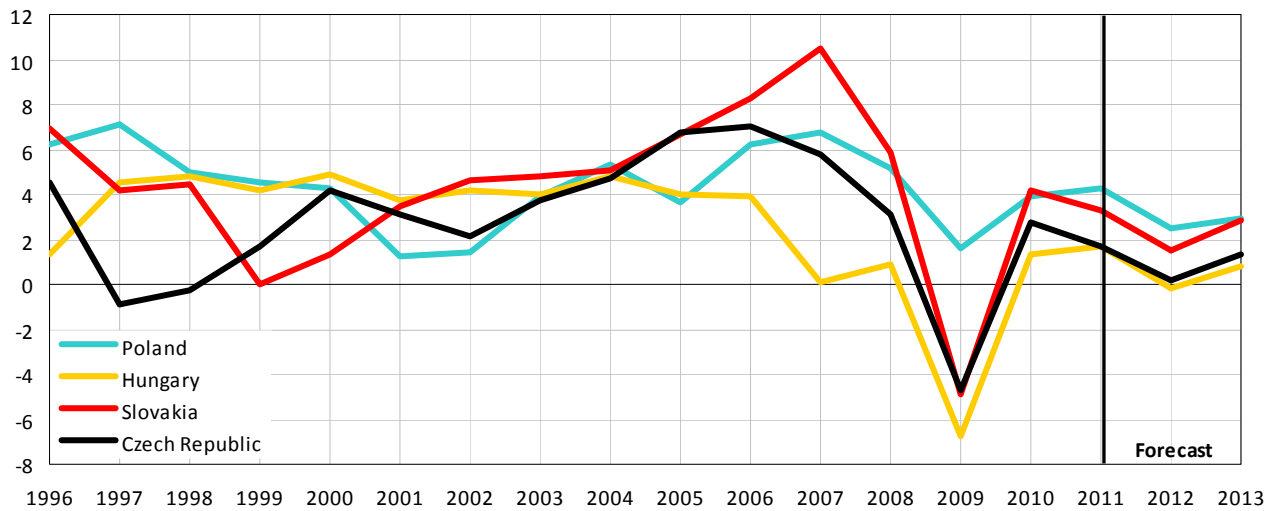


Table A.1.3: **Prices of Commodities** – yearly

spot prices

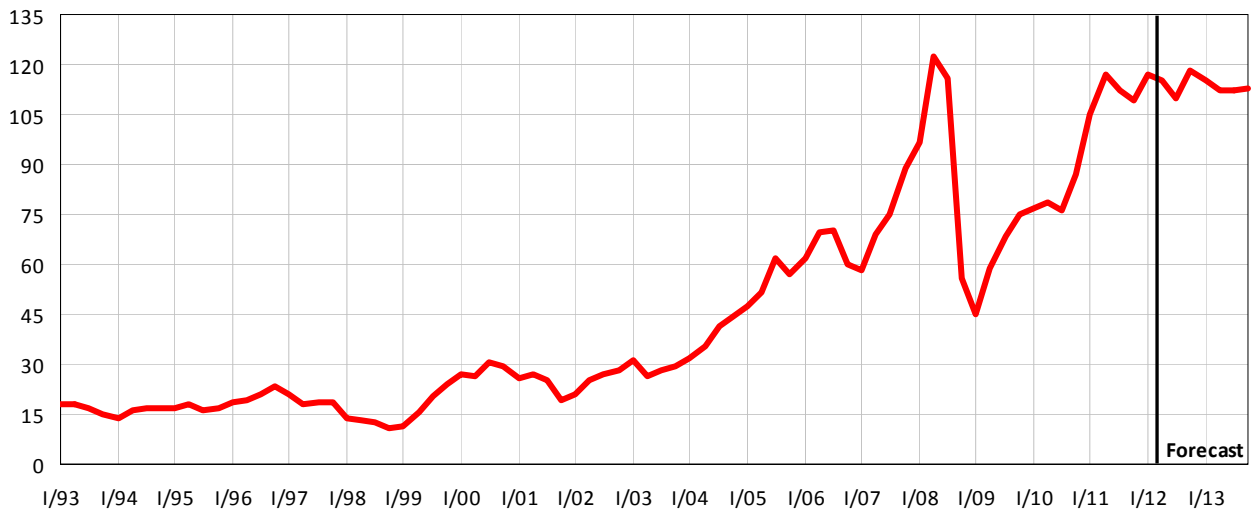
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
											Forecast	Forecast
Crude oil Brent	USD/barrel	38.3	54.4	65.4	72.7	97.7	61.9	79.6	111.0	115	113	
	growth in %	33.0	42.0	20.1	11.2	34.4	-36.7	28.7	39.3	3.7	-1.7	
Crude oil Brent index (in CZK)	2005=100	75.5	100.0	113.3	113.3	127.9	90.5	116.7	150.6	169	166	
	growth in %	21.1	32.4	13.3	-0.1	12.9	-29.3	29.0	29.0	12.5	-2.2	
Wheat	USD/t	156.9	152.4	191.7	255.2	326.0	223.6	223.7	316.2	.	.	
	growth in %	7.3	-2.8	25.8	33.1	27.7	-31.4	0.1	41.4	.	.	
Wheat price index (in CZK)	2005=100	110.4	100.0	118.7	141.9	152.4	116.7	117.1	153.3	.	.	
	growth in %	-2.2	-9.4	18.7	19.6	7.3	-23.4	0.3	30.9	.	.	

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

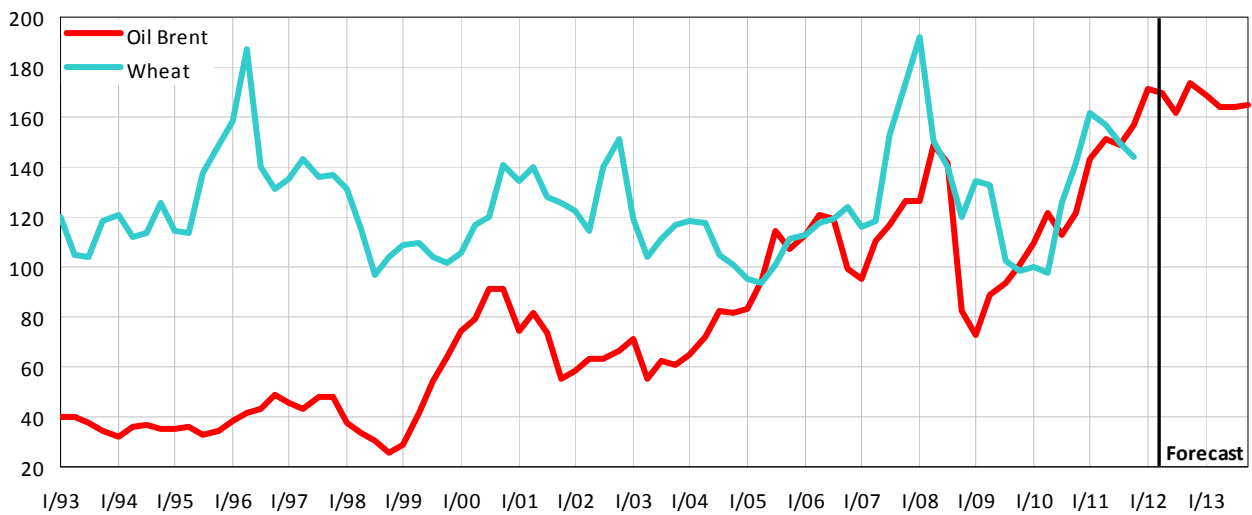
spot prices

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Crude oil Brent	USD/barrel	104.9	117.1	112.5	109.3	117	115	110	118
	growth in %	36.8	48.9	47.3	25.9	11.5	-1.8	-2.2	8.0
Crude oil Brent index (in CZK)	2005=100	143.2	151.5	148.7	157.1	172	170	162	173
	growth in %	30.3	24.8	31.8	29.5	19.8	11.9	8.9	10.4
Wheat price	USD/t	330.5	339.0	315.6	279.7	.	.	.	.
	growth in %	68.9	91.0	32.7	-1.4	.	.	.	.
Wheat price index (in CZK)	2005=100	161.3	156.8	149.2	143.8	.	.	.	.
	growth in %	60.9	60.1	18.7	1.4	.	.	.	.

Graph A.1.5: Dollar Prices of Oil
USD/barrel



Graph A.1.6: Koruna Indices of World Commodity Prices
index 2005 = 100



A.2 Fiscal Policy

According to preliminary estimates, the year 2011 resulted in a general government deficit of 117.9 billion, which represents 3.1% of GDP. It is a better result than the January estimate of 3.7% of GDP. However, this estimate was regarded as an (conservative) upper limit of the interval.

Tax revenues appeared as a significant risk in January. The difference was in fact larger than expected, amounting to nearly 0.5% of GDP (mostly indirect taxes).

On the contrary, number of factors on the expenditure side significantly outweighed the negative results of the revenue side of the balance. The most significant factor was the government investment, where the original assumption of stagnation compared to 2010 proved to be unfounded. Investments in the form of gross fixed capital formation fell by almost 0.7% of GDP and contributed decisively to positive developments in the past year. Primarily they consisted of investments that were financed from own resources (size of investment subsidies from the EU proved to be stable over time). Government sector entities cautiously perceive the current economic development and began to save on items that are non-mandatory, and which may be, to a large extent, decided on autonomously (investments from own resources).

Another important factor was the intermediate consumption, which reached lower level by 0.4% of GDP than originally expected. Such development was to a large extent anticipated by the Ministry of Finance in the process of preparation of the January forecast (mainly due to results of the first three quarters of 2011), however, due to persistent uncertainty (especially concerning tax revenues and possible problems with financing from European sources) a conservative estimate was used. As shown in preliminary data, the development of the intermediate consumption largely offsets the fall in tax receipts and the original conservative stance on the January estimate is thus proved to be fully justified.

Other items of revenues and expenditures were largely anticipated and prospective minor differences offset each other incidentally.

Compared to 2010 a significant improvement in the government sector balance occurred in the past year

amounting to more than 1.7 p.p. (from 4.8% to 3.1% of GDP). After cyclical adjustments and net of one-off measures, the fiscal effort amounts to 1.6 p.p. and reflects a range of austerity measures that were approved for 2011.

On the revenue side a significant increase in indirect taxes has occurred (almost 6%), owing to legislative changes, mainly due to higher collection of taxes on tobacco products, where the increase in tax rates in 2012 resulted in commodity stockpiling. The taxation of the photovoltaic power plants operators also brings positive effects with first revenues in 2011. The introduction of domestic reverse charge has had a positive effect on the collection of value added tax.

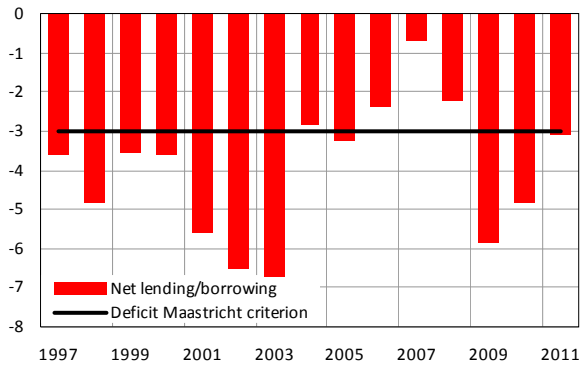
Direct taxes increased in 2011 by almost 7%, where e.g. the personal income tax has gone through a number of legislative changes (with the most significant impact of one-off reduction of the relief per taxpayer – the “anti-floods 100 CZK”). While there have not been any fundamental legislative changes approved for the corporate income tax, it is still positively influenced by temporary acceleration of write-offs from 2009. It is assumed that 2012 shall be the last in which we will register positive effects of this acceleration. Finally, maintaining the rate and the caps for social security contributions at the level of 2010, had a beneficial effect on the revenue side.

The taxation of capital transfers in the form of assigned emission allowances and rising of toll rates by a quarter have had positive effects in the area of capital and other incomes.

Despite numerous changes in the tax area in the past year, the dominant part of the consolidation of public finances has been achieved on the expenditure side. It consisted mainly of the reduction of salaries of employees paid from public sources (excluding teachers and doctors), the reduction of selected social benefits and general non-mandatory expenditures savings, with emphasis on the current expenditure.

The forecast of the general government sector balance for the years 2012 to 2015 will be included in the updated Convergence Programme, which will be issued on 30th April 2012.

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



Graph A.2.2: Government Debt
in % of GDP

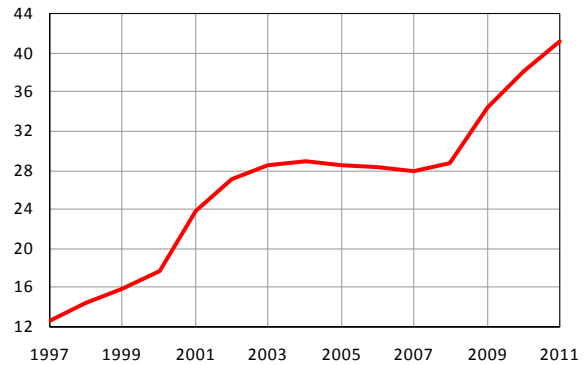


Table A.2.1: Net Lending/Borrowing and Debt

		2003	2004	2005	2006	2007	2008	2009	2010	2011
										Prelim. Estimate
General government balance ¹⁾	<i>bill. CZK</i>	-180	-83	-101	-80	-27	-86	-218	-182	-118
	% GDP	-6.7	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.8	-3.1
Cyclical balance	% GDP	-0.6	-0.6	-0.1	0.6	1.2	1.0	-1.1	-0.6	-0.3
Cyclically adjusted balance	% GDP	-6.1	-2.2	-3.2	-3.0	-1.9	-3.3	-4.8	-4.2	-2.8
One-off measures	% GDP	-0.3	-0.7	-1.2	-0.2	-0.3	-0.1	0.3	0.0	-0.1
Structural balance	% GDP	-5.8	-1.6	-2.0	-2.8	-1.6	-3.2	-5.1	-4.3	-2.6
Fiscal effort ²⁾	<i>percent. points</i>	0.1	4.3	-0.4	-0.8	1.1	-1.5	-1.9	0.8	1.6
Interest expenditure	% GDP	1.0	1.1	1.1	1.1	1.1	1.0	1.3	1.4	1.4
Primary balance	% GDP	-5.7	-1.8	-2.2	-1.3	0.4	-1.2	-4.6	-3.5	-1.7
Cyclically adjusted primary balance	% GDP	-5.0	-1.2	-2.1	-1.9	-0.8	-2.2	-3.5	-2.9	-1.4
General government debt	<i>bill. CZK</i>	768	848	885	948	1 023	1 104	1 286	1 437	1 568
	% GDP	28.6	28.9	28.4	28.3	27.9	28.7	34.4	38.1	41.2
Change in debt-to-GDP ratio	<i>percent. points</i>	1.5	0.4	-0.5	-0.1	-0.3	0.8	5.7	3.7	3.1

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 derivatives.

²⁾ Change in structural balance.

A.3 Monetary Policy and Interest Rates

Monetary policy

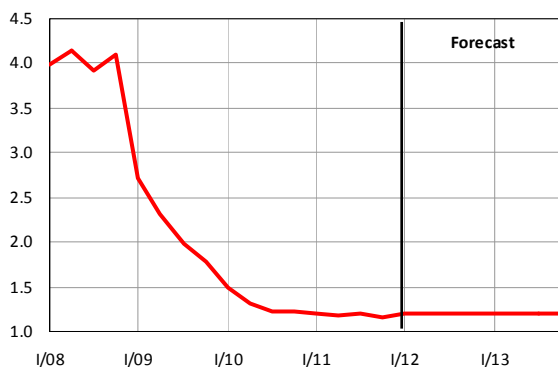
The CNB uses an **inflation-targeting** regime to achieve its main objective – ensuring price stability. Using monetary instruments, the CNB influences overall inflation so that YoY increase in the CPI does not deviate from the medium-term inflationary target of 2% by more than ± 1 p.p. Its primary monetary policy instrument is the interest rate for **2W repo operations**, which was 0.75% in Q1 2012. This can be regarded as a very low rate. Considering the expected economic development, moreover, the 2W repo rate will probably not increase in the near future.

At the end of Q1 2012, the **interest-rate spread** was -0.25 p.p. between the Czech Republic and the EMU and 0.50–0.75 p.p. relative to the US. Interest rate spreads are thus reaching very low levels and do not constitute a fundamental cause for changes in the Czech koruna's exchange rates.

Interest rates

The average value for **3M PRIBOR** held at 1.2% in Q1 2012. We expect the same value also for the whole of 2012 (*versus 1.1%*) and 2013 (*versus 1.3%*).

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



Long-term interest rates should remain at the same level in the coming period or increase only very slightly. The Czech Republic's ratings are currently at a good investment-grade level (AA– with S&P, Moody's A1 and Fitch A+) with stable outlooks. The favourable ratings should support the success of further government bond issues. Moreover, the risks ensuing from the debt crisis in the euro zone have decreased (see Chapter A.1). The credibility of Czech fiscal policy is reflected in the negative spread vis-à-vis average long-term rates in the euro zone. These spreads have been in negative values since mid-2010, and in Q3 2011 reached as deep as -0.80 p.p. (see Graph A.3.6).

In February 2012, CNB carried out another round of stress tests of the Czech banking sector. The stress tests have proven banks' sufficient resilience to external shocks, supported especially by high capital adequacy (15.2% at the end of 2011 versus the regulatory minimum of 8%). On the interbank market, the volume of deposit operations based on a selective measurement in January 2012 decreased rather significantly versus the preceding quarter. This was caused especially by a decline in operations with non-residents with maturity of up to one week. The volume of derivative operations remained at an approximately unchanged level.

We expect the **yield to maturity of 10-year government bonds** to average 3.4% (*unchanged*) in 2012 and 3.5% (*versus 3.6%*) in 2013.

Interest **rates for loans to non-financial corporations** remained level at 3.9% in Q4 2011. For Q1 2012, we expect them to rise to 4.0%. These rates should remain at that same level on average for the whole of 2012 (*versus 4.1%*), while we expect them to increase slightly to 4.2% in 2013 (*versus 4.4%*). **Rates for households' deposits** hovered around 1.2% in Q4 2011. They should stay at this level not only this year (*versus 1.1%*), but also in 2013 (*versus 1.3%*).

The development of real interest rates is crucial from the perspective of the real economy. The assumptions for nominal interest rates and the gross domestic expenditure deflator imply a decrease in real interest rates for loans to non-financial corporations to 1.8% (*versus 1.6%*) for 2012 and an increase to 2.4% (*versus 3.0%*) for 2013.

Graph A.3.2: **Average Real Rates on Loans**

rates on loans deflated by end-of-year final domestic use deflator, in % p.a.

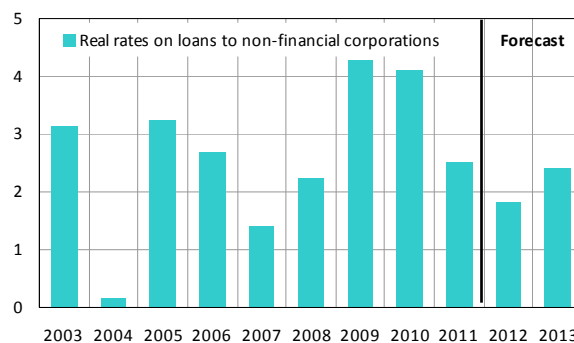


Table A.3.1: **Interest Rates** – yearly
average interest rates in per cent p.a.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
								Forecast	Forecast	Forecast
Repo 2W CNB (end of year)	2.50	2.00	2.50	3.50	2.25	1.00	0.75	0.75	.	.
Main refinancing rate ECB (end of year)	2.00	2.25	3.50	4.00	2.50	1.00	1.00	1.00	.	.
Federal funds rate (end of year)	2.25	4.25	5.25	4.25	0.25	0.25	0.25	0.25	.	.
PRIBOR 3M	2.36	2.01	2.30	3.09	4.04	2.19	1.31	1.19	1.2	1.2
Government bond yield to maturity (10Y)	4.75	3.51	3.78	4.28	4.55	4.67	3.71	3.71	3.4	3.5
Interest rates on loans to non-financial corpor.	4.51	4.27	4.29	4.85	5.59	4.58	4.10	3.93	4.0	4.2
Interest rates on deposits from households	1.33	1.24	1.22	1.29	1.54	1.37	1.25	1.20	1.2	1.2
Real rates on loans to non-financial corporations ¹⁾	0.17	3.24	2.68	1.42	2.25	4.27	4.09	2.5	1.8	2.4
Net real rates on deposits from households with agreed maturity ²⁾	-1.64	-1.13	-0.63	-4.11	-2.26	0.17	-1.21	-1.4	-1.3	-0.7

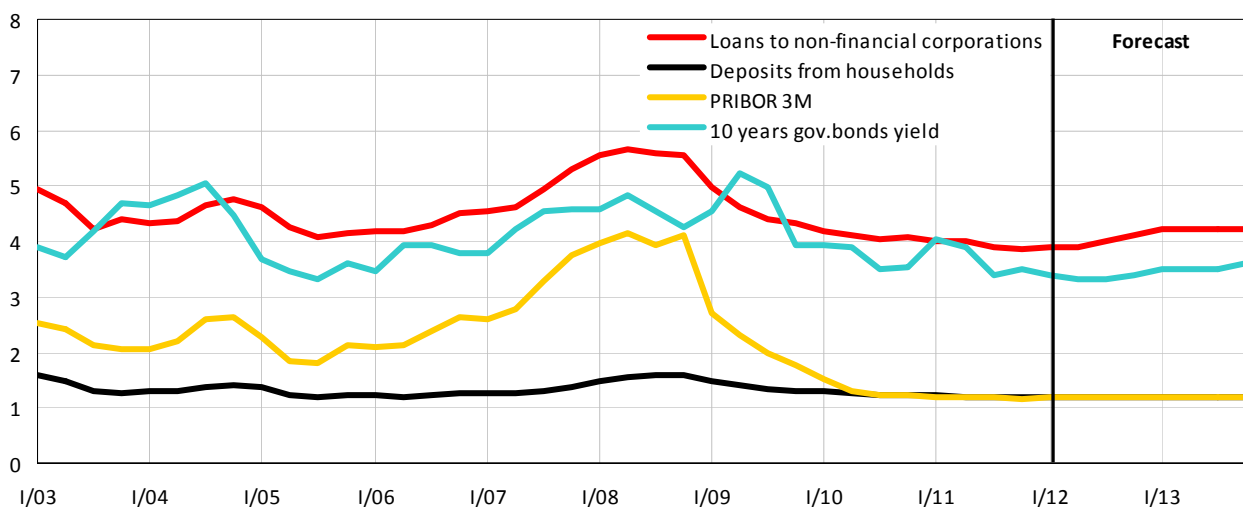
¹⁾ Deflated by gross domestic expenditure deflator.

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

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

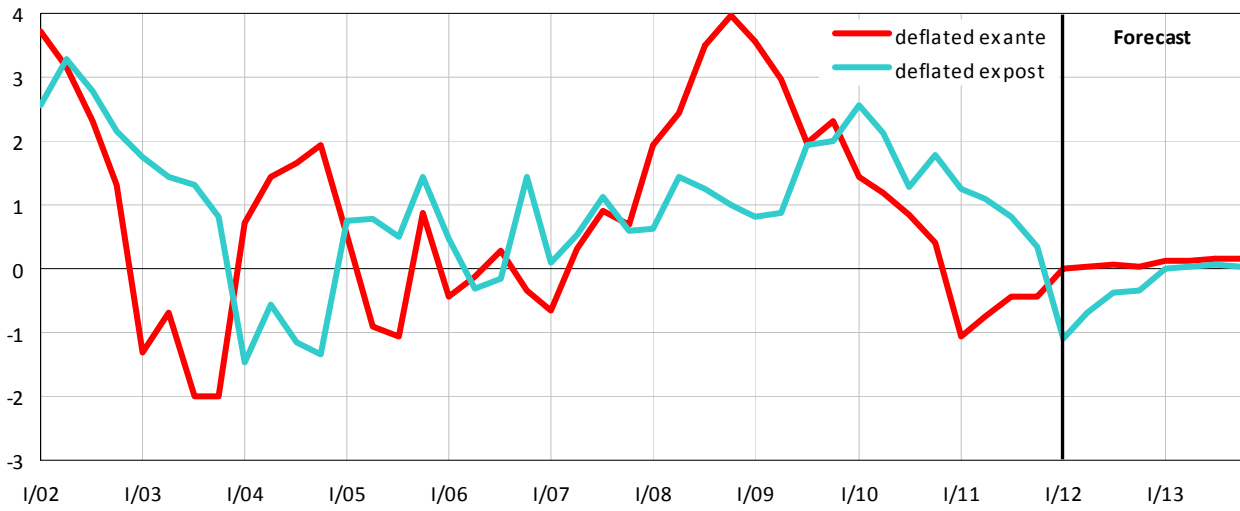
	2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Forecast	Forecast	Forecast	Forecast
Repo 2W rate CNB (end of period)	0.75	0.75	0.75	0.75	.	.	.	.
Main refinancing rate ECB (end of period)	1.00	1.25	1.50	1.00	.	.	.	.
Federal funds rate (end of period)	0.25	0.25	0.25	0.25	.	.	.	.
PRIBOR 3M	1.20	1.21	1.18	1.16	1.2	1.2	1.2	1.2
–10-year government bonds yield to mat.	4.03	3.90	3.40	3.50	3.4	3.3	3.3	3.4
Interest rates on loans to non-fin. corporations	4.00	3.99	3.88	3.87	3.9	3.9	4.0	4.1
Interest rates on deposits from households	1.21	1.20	1.20	1.20	1.1	1.1	1.1	1.1

Graph A.3.3: **Interest Rates**
in % p.a.



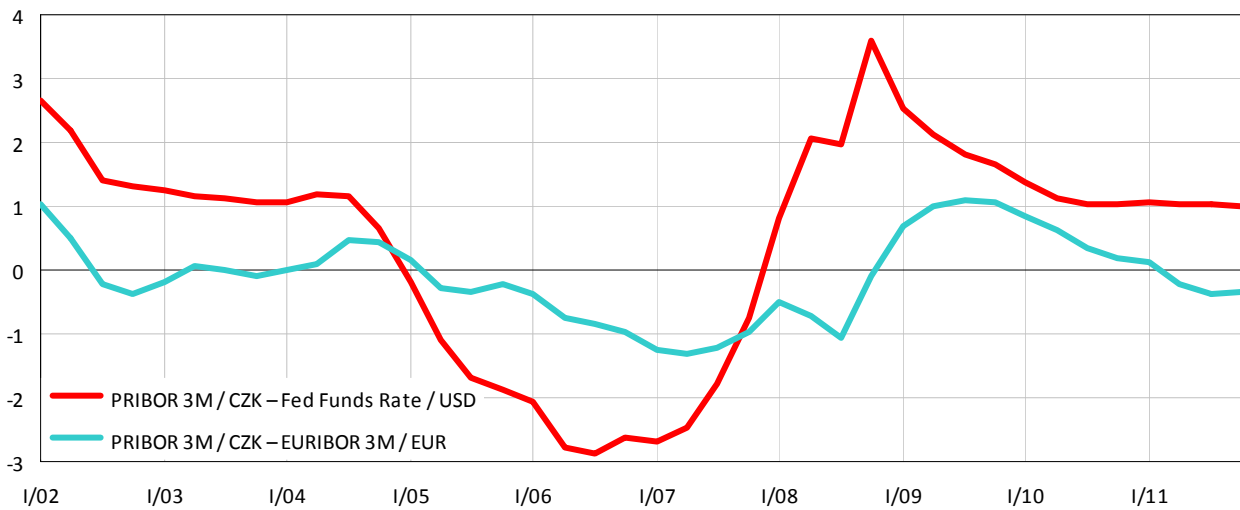
Graph A.3.4: Real PRIBOR 1Y

deflated ex post and ex ante by gross domestic expenditure deflator, in % p.a.



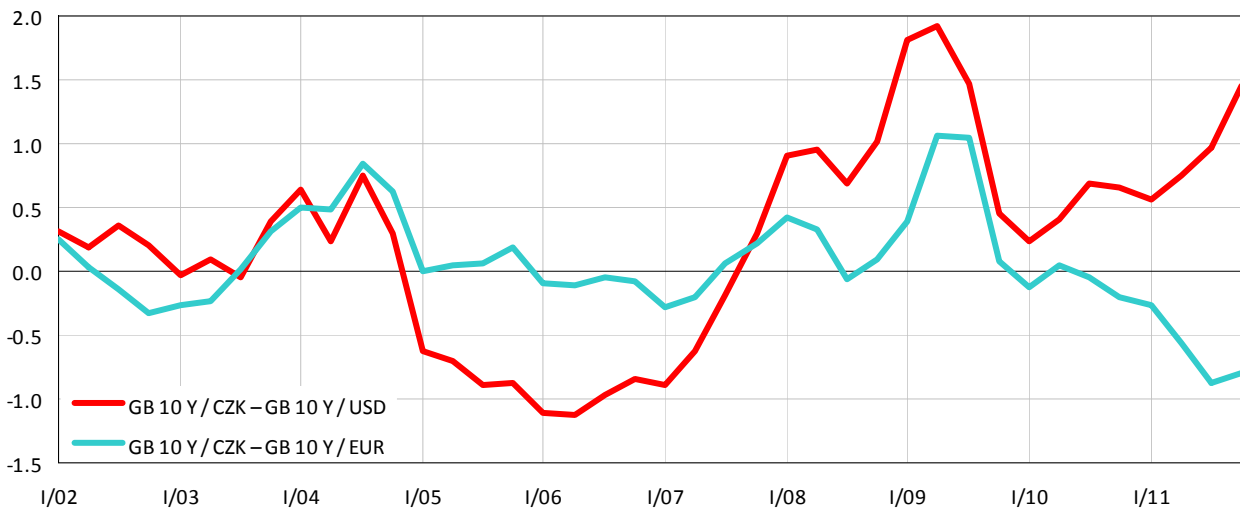
Graph A.3.5: Short-Term Interest Rate Spread

in percentage points



Graph A.3.6: Long-Term Interest Rate Spread

government bonds, in percentage points



A.4 Exchange Rates

The Czech koruna gradually strengthened through the first three quarters of 2011, with no major fluctuations, to an average of 24.56 CZK/EUR in September. In early Q4, as anxiety on financial markets increased due to escalation of the debt crisis in the euro zone, investors turned away from the Central European region and the currencies of these countries depreciated quite dramatically. The koruna, for example, weakened to an average of 25.51 CZK/EUR in December. The situation had already calmed down by the start of 2012, and the koruna began to strengthen once again, returning to below the 25 CZK/EUR mark in March.

Considering the negative interest differential versus EMU, the enduring uncertainty and the weakening in Q4 2011, the nominal and real exchange rates should be below the long-term trend for the entire forecast horizon. The average rate should reach 25.0 CZK/EUR

in 2012, while moderate appreciation of ca 0.6% per year should resume thereafter. Should the situation in the euro zone's problem countries worsen, exchange rate volatility would likely increase.

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

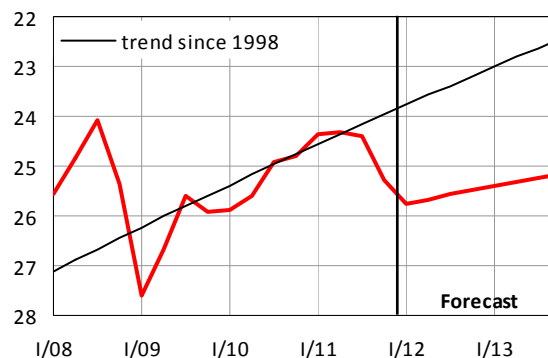


Table A.4.1: Exchange Rates – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
								Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:											
CZK / EUR	<i>average</i>	28.34	27.76	24.96	26.45	25.29	24.59	25.0	24.9	24.7	24.6
	<i>appreciation in %</i>	5.1	2.1	11.3	-5.6	4.6	2.8	-1.7	0.6	0.6	0.6
CZK / USD	<i>average</i>	22.59	20.31	17.06	19.06	19.11	17.69	19.2	19.1	19.0	18.9
	<i>appreciation in %</i>	6.0	11.3	19.0	-10.5	-0.3	8.0	-7.9	0.4	0.6	0.6
NEER	<i>average of 2010=100</i>	88.2	90.6	101.2	98.0	100.0	103.1	101	102	103	103
	<i>appreciation in %</i>	4.8	2.7	11.7	-3.2	2.1	3.1	-1.7	0.6	0.6	0.6
Real exchange rate to EA12¹⁾	<i>average of 2005=100</i>	103.7	107.0	119.0	113.5	115.8	116.5	115	115	115	116
	<i>appreciation in %</i>	3.7	3.1	11.2	-4.6	2.1	0.6	-1.3	0.2	0.0	0.1
REER	<i>average of 2005=100</i>	105.1	108.1	124.5	119.5	121.8	.	.	.	.	.
<i>(Eurostat, CPI deflated, 36 countries)</i>	<i>appreciation in %</i>	5.1	2.9	15.2	-4.0	1.9	.	.	.	.	.

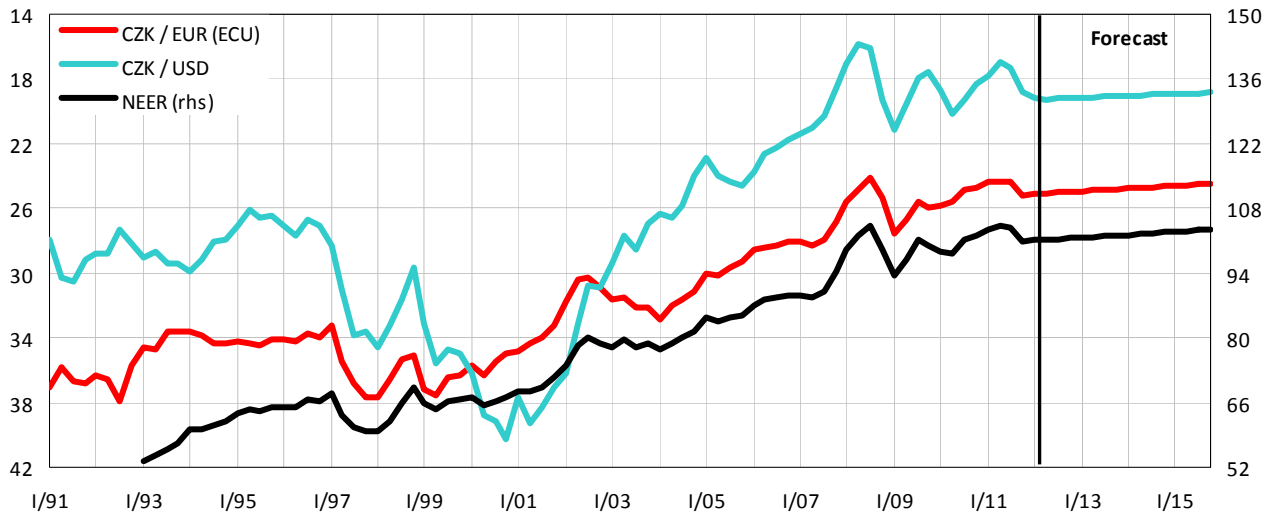
¹⁾ Deflated by GDP deflators.

Table A.4.2: Exchange Rates – quarterly

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Nominal exchange rates:									
CZK / EUR	average	24.37	24.32	24.39	25.28	25.1	25.0	25.0	25.0
	appreciation in %	6.1	5.2	2.2	-1.9	-2.8	-2.9	-2.5	1.3
CZK / USD	average	17.83	16.90	17.27	18.78	19.1	19.3	19.2	19.2
	appreciation in %	5.0	19.3	11.7	-2.8	-6.9	-12.3	-10.2	-2.2
NEER	average of 2010=100	103.4	104.3	104.0	100.6	101	101	101	101
	appreciation in %	4.9	6.0	2.9	-1.6	-2.3	-3.0	-2.5	0.9
Real exchange rate to EA12	average of 2005=100	116.5	117.6	117.5	114.5	114	115	115	116
	appreciation in %	2.9	2.2	0.0	-2.6	-2.3	-2.2	-2.1	1.5
REER	average of 2005=100	125.5	125.8	125.9	.	.	.	.	.
(Eurostat, CPI deflated, 36 countries)	appreciation in %	4.3	4.6	2.2	.	.	.	.	.

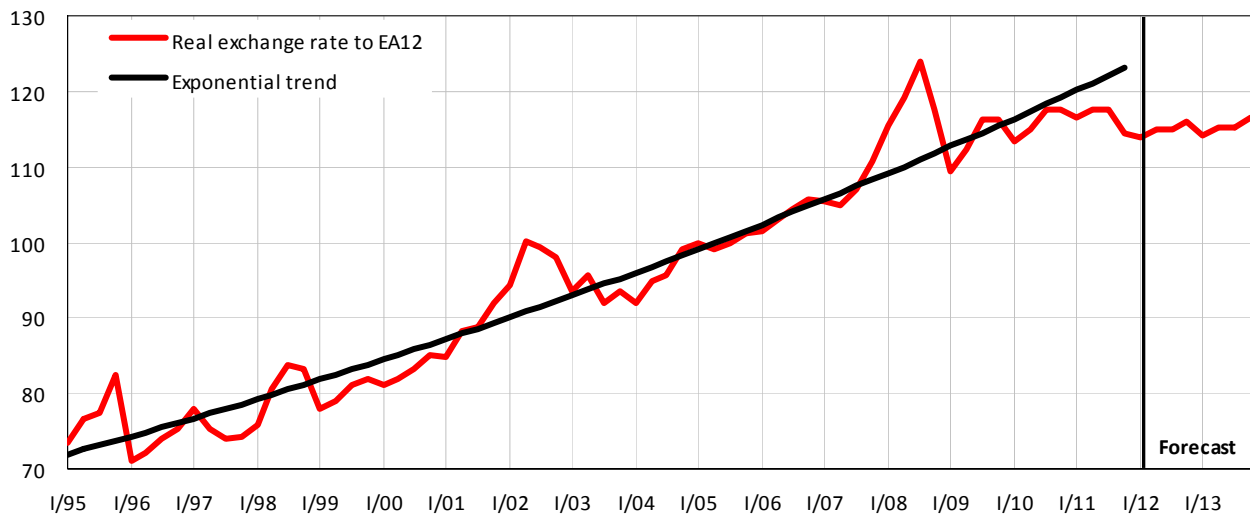
Graph A.4.2: Nominal Exchange Rates

quarterly average, average 2005 = 100 (rhs)

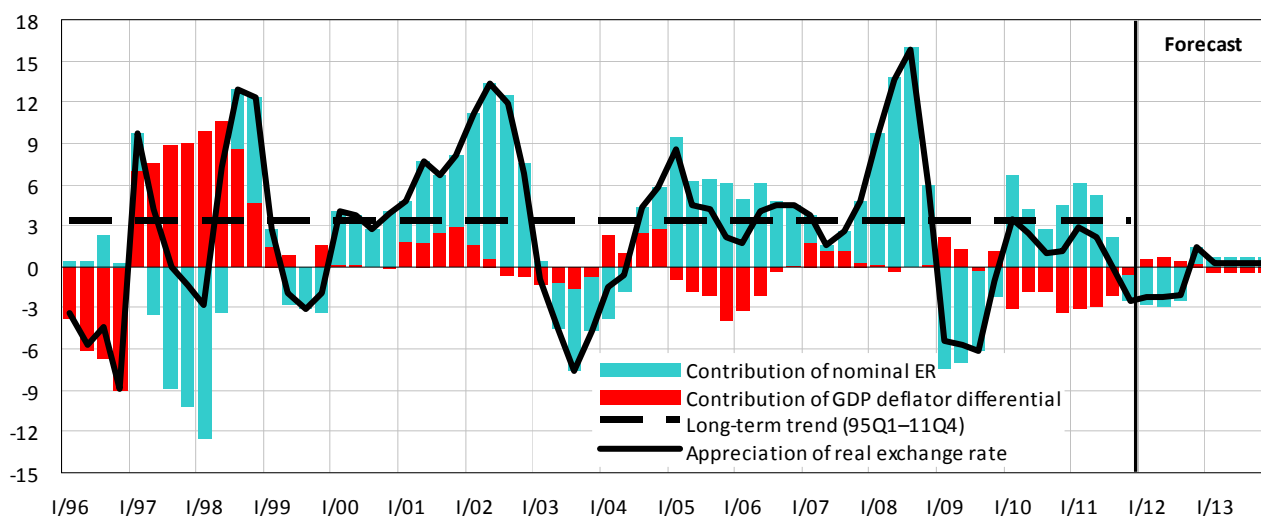


Graph A.4.3: Real Exchange Rate to EA12

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

Business environment

In order to simplify doing business, strengthen motivation to manage companies well, and improve the situation of creditors, the **act on business corporations and co-operatives** was adopted and signed by the President of the Czech Republic on 20 February 2012. This legislation governs the establishment, dissolution and management of companies and introduces a number of fundamental changes. Members of the statutory bodies of companies in bankruptcy will be liable with their property for honouring all the company's obligations, if a court so declares. Moreover, a company may not pay out any funds if by so doing it would put itself into bankruptcy and endanger its creditors. Joint-stock companies will be able to choose between two management models (supervisory board and board of directors, or statutory director and managing board) and also will be able to issue multiple types of shares. For limited liability companies, associates will be able to own multiple business shares and a company will be able to issue multiple types of shares (e.g. priority and voting shares). The act also decreases the amount of the basic capital required for incorporation of a limited liability company from CZK 200,000 to CZK 1. The act will take effect as from 1 January 2014.

The objective of an **amendment to the act on public tenders**, which takes effect on 1 April 2012, is to increase transparency in public procurement processes. Toward this end, the amendment decreases the limit for public tenders regarded as small to

CZK 1 million, eliminates the possibility to choose contenders in public tenders by lottery and introduces the obligation to cancel a procurement process if in the last round only one offer remains to be considered. It replaces the supplier's economic and qualification conditions with a statutory declaration as to its economic and financial capability to fulfil the tender and also introduces the institution of major public tenders (at the state level above CZK 300 million, at local government level above CZK 50 million), for which it tightens up the requirements for both the procurer and the evaluator. The procurers will be obliged to publish the procurement documentation, contract and final price of the tender, and a winning company will have to publish a list of sub-suppliers to which it paid more than 10% of the total price of the procurement or more than 5% in the case of a major public tender.

On 21 March 2012, the Chamber of Deputies approved an **amendment to the act on investment incentives**, with the aim to motivate corporate investments directed to sophisticated technologies and services. While the basic parameters of incentives remain unchanged, the amendment introduces the possibility to draw incentives also for companies operating in research and development as well as strategic and telecommunications services. Moreover, the period for receiving income tax incentives will be extended from 5 years to 10.

An **amendment to the trade licensing act** approved by the Chamber of Deputies on 21 March 2012 reduces the administrative burden on entrepreneurs. The

amendment extends the range of services offered by central registration offices, simplifies the administrative process of moving, and abolishes the obligation to designate a place of business with a special number.

The purpose of an amendment to the **insolvency act** approved by the government on 25 January 2012 is to prevent abuses of the insolvency law. According to the new legal regulation, a court will be able to reject a creditor's motion for insolvency if it is clearly unfounded and to establish a money penalty for such insolvency motion.

An **amendment to the act on the protection of competition** approved by the government on 15 February 2012 should more readily expose cartel agreements. According to the new legislation, participants in cartels who cease such operations of their own accord and report the other participants to the Office for the Protection of Competition will have half or the entire penalty remitted. Last but not least, companies caught in a cartel agreement will be barred from participating in public tenders.

Financial markets

An **amendment to the financial market supervision act** came into effect on 31 January 2012. It transposes into Czech law the European directive aiming to

A.6 Demographic Trends

As of the end of 2011, the Czech Republic had 10.504 million inhabitants. This is the first published figure following from the **census** in 2011. The natural population growth was 2 thousand (8 thousand less versus 2010) and the positive migration balance reached 17 thousand (1 thousand more). An unexpected drop in the birth rate from 117 to 109 thousand is staggering. After three years of stagnation just below 1.5, the total fertility rate thus fell rather sharply to 1.42.

The undercount, i.e. the difference between the balance of population changes based on the previous census and the results of the 2011 census, is 47 thousand. (For comparison: in 2001 it was 35 thousand and in 1991 60 thousand.) In most cases this is probably due to unregistered emigration.

Regarding age structure, the Czech population reached The age structure of the population compatible with the results of the census will be available sometime

contribute to preventing the occurrence and mitigating the course of financial crises. The amendment regulates CNB's co-operation with European supervisory authorities, consisting especially in its duty to inform and possibilities for consultation and collaboration.

Education, science and research

On 8 February 2012, the Chamber of Deputies approved an amendment to the **act on pedagogical personnel**. The amendment increases permeability between qualifications for individual types and levels of schools, provides additional regulation of direct educational activities, and addresses the issue of unqualified educators. The amendment should take effect on 1 September 2012.

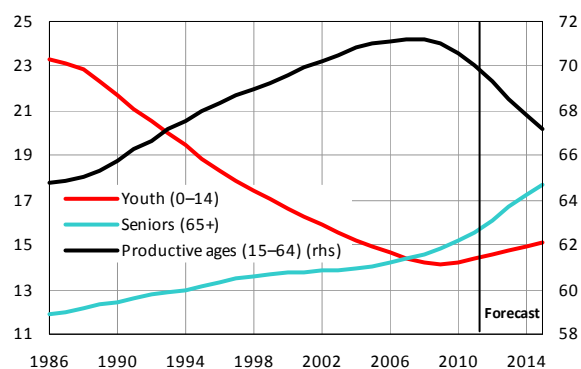
Health care

The act on medical services, act on emergency medical services, and act on specific medical services, collectively referred to as the **second phase of the health care reform**, came into effect on 1 April 2012. These acts govern the rights and obligations of medical personnel and patients, stipulate conditions for providing emergency medical service, and establish procedures for performing medical procedures which in the majority of cases are irreversible.

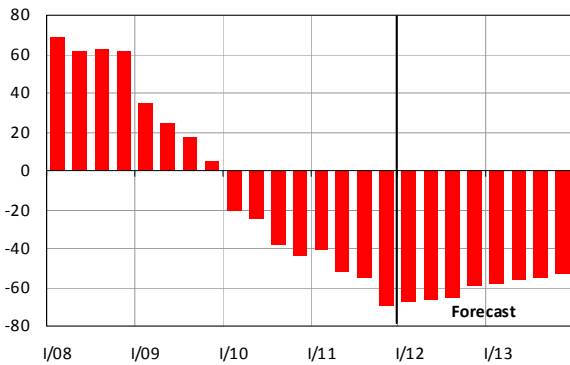
this quarter. Based on the aforementioned undercount, we can anticipate further decrease in the structural proportion of inhabitants in the age group of 15–64 years. Nevertheless, the Czech population has still an economically favourable age structure, and especially in comparison to Western European countries.

Graph A.6.1: **Groups by Age**

structure in per cent



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



The decline in the working-age population is, however, partially compensated by effects within the age structure of the labour force, as proportions of age groups with high or growing participation are increasing. The extension of the retirement age has the same effect. Immigration could be another positive factor, but its extent in the last two years was below the middle variant of CZSO's demographic projection.

The continuing **ageing of the population** has been confirmed. The structural proportion of persons over

64 years of age in the total population, which reached 14% in early 2005, should exceed 16% in 2012 and increase to nearly 20% by 2020. The number and proportion of seniors in the population is rising due to the demographic structure and further continuation of the intensive process of increasing life expectancy. Despite extension of the legal retirement age, the negative impact on the pension account of the state budget is exacerbated by high increase in early retirements (see Graph A.6.5).

Graph A.6.3: Life Expectancy
in years

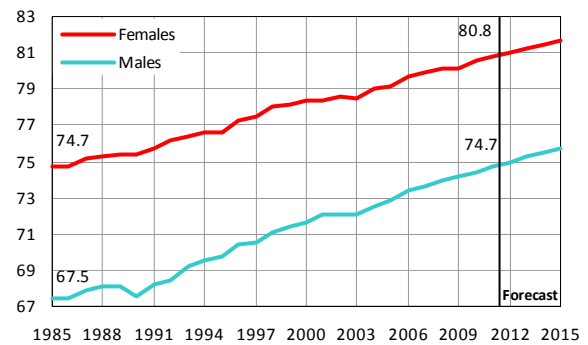


Table A.6.1: **Demography**
in thousands of persons

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
							Forecast	Forecast	Outlook	Outlook
Population (January 1)	10 251	10 287	10 381	10 468	10 507	10 533	10 504	10 537	10 569	10 600
<i>growth in %</i>	0.3	0.4	0.9	0.8	0.4	0.2	-0.3	0.3	0.3	0.3
Age structure (January 1):										
(0–14)	1 501	1 480	1 477	1 480	1 494	1 518	1 533	1 557	1 581	1 604
<i>growth in %</i>	-1.7	-1.5	-0.2	0.2	1.0	1.6	0.9	1.6	1.5	1.5
(15–64)	7 293	7 325	7 391	7 431	7 414	7 379	7 281	7 222	7 168	7 120
<i>growth in %</i>	0.5	0.4	0.9	0.5	-0.2	-0.5	-1.3	-0.8	-0.7	-0.7
(65 and more)	1 456	1 482	1 513	1 556	1 599	1 636	1 690	1 758	1 820	1 876
<i>growth in %</i>	1.5	1.8	2.1	2.9	2.7	2.3	3.3	4.0	3.5	3.1
Old-age pensioners (January 1)¹⁾	1 985	2 024	2 061	2 102	2 147	2 260	2 340	2 394	2 426	2 457
<i>growth in %</i>	1.0	2.0	1.8	2.0	2.1	.	3.5	2.3	1.3	1.3
Old-age dependency ratios (January 1, in %):										
Demographic²⁾	20.0	20.2	20.5	20.9	21.6	22.2	23.2	24.3	25.4	26.3
Under current legislation³⁾	35.6	35.8	35.9	36.1	36.6	37.1	37.4	37.8	38.2	38.7
Effective⁴⁾	41.3	41.6	41.5	41.8	43.6	45.9	47.6	48.9	49.4	49.8
Fertility rate	1.328	1.438	1.497	1.492	1.493	1.42	1.52	1.53	1.54	1.55
Population increase	36	94	86	39	26	-29	33	32	31	29
Natural increase	1	10	15	11	10	2	8	7	6	4
Live births	106	115	120	118	117	109	114	113	112	110
Deaths	104	105	105	107	107	107	106	106	106	106
Net migration	35	84	72	28	16	17	25	25	25	25
Immigration	68	104	78	40	31	23	.	.	.	.
Emigration	33	21	6	12	15	6	.	.	.	.
Census difference	x	x	x	x	x	-47	x	x	x	x

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

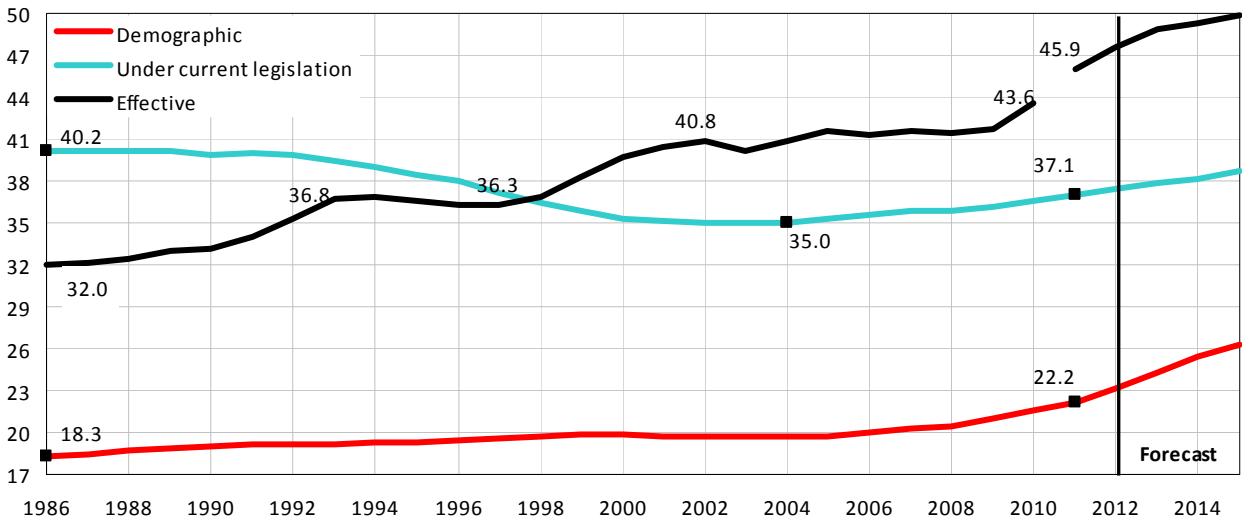
²⁾ Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

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

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

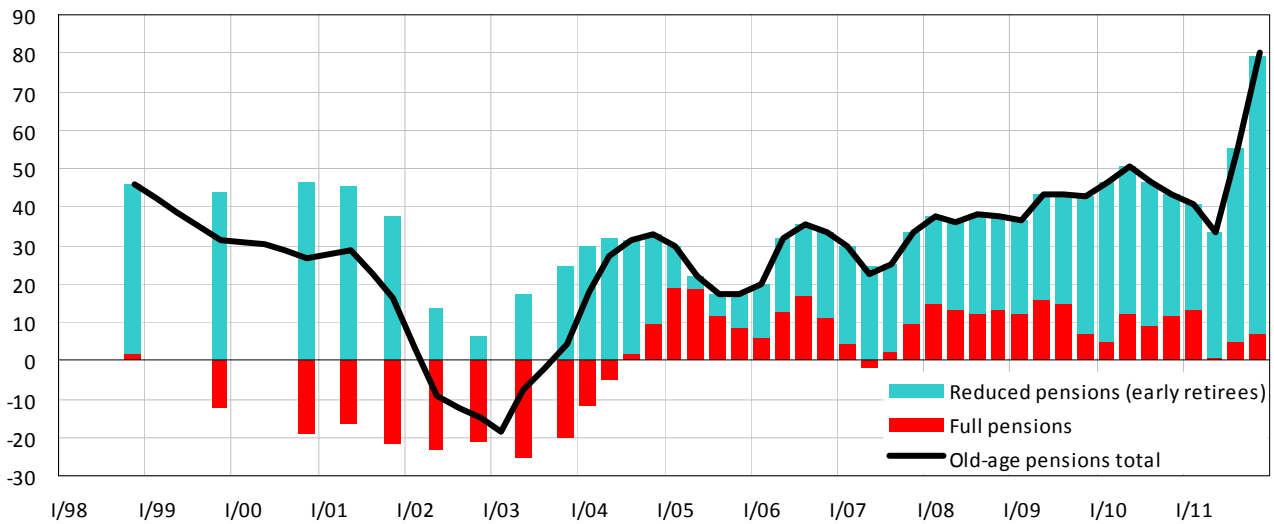
Graph A.6.4: Dependency Ratios

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

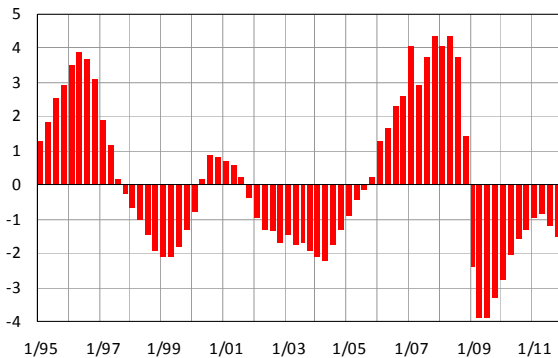
Potential product (PP), specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of GDP to be achieved with average utilisation of production factors. Growth of PP expresses possibilities for long-term sustainable growth of the economy without giving 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, 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 display high instability and should be treated very cautiously.

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

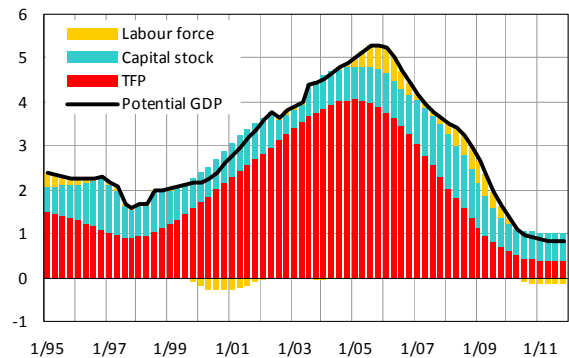
Graph B.1.1: Output Gap

in % of potential GDP



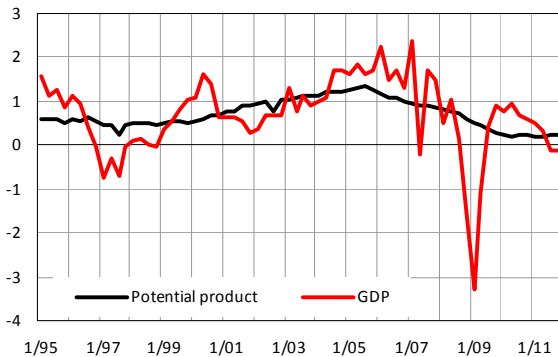
Graph B.1.2: Potential Product Growth

in %, contributions in percentage points



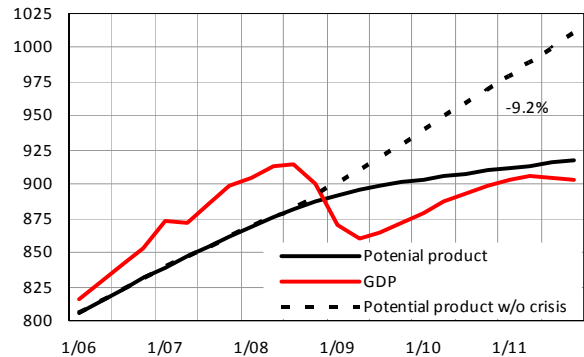
Graph B.1.3: Potential Product and GDP

QoQ growth in %



Graph B.1.4: Levels of Potential Product and GDP

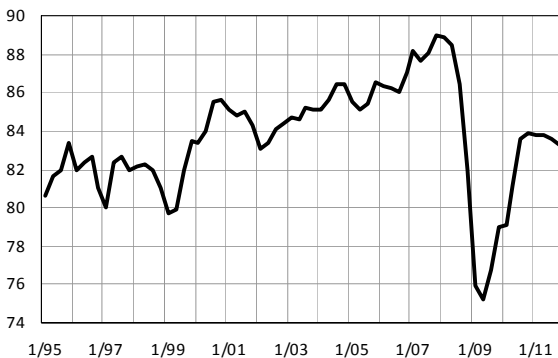
in bill. CZK of 2000



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 %

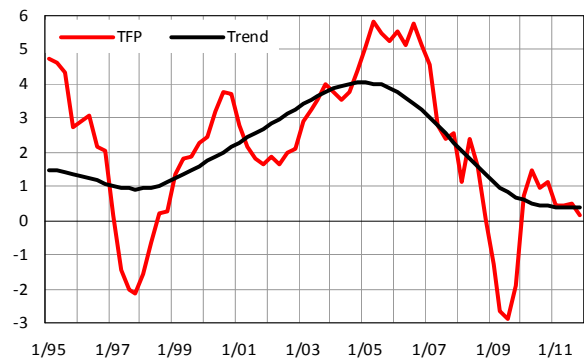


Table B.1: **Output Gap and Potential Product**

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Output gap	<i>per cent</i>	-1.3	-1.7	-1.8	-0.3	2.0	3.8	3.4	-3.4	-1.9	-1.1
Potential output	<i>growth in %</i>	3.7	4.2	4.7	5.2	4.8	3.9	3.3	2.1	1.1	0.8
Contributions:											
TFP	<i>perc. points</i>	3.1	3.6	4.0	4.0	3.5	2.7	1.7	0.9	0.5	0.4
Fixed assets	<i>perc. points</i>	0.6	0.6	0.7	0.8	0.9	1.1	1.2	0.8	0.6	0.6
Participation rate	<i>perc. points</i>	-0.1	-0.2	-0.2	0.2	0.2	-0.2	0.0	0.3	0.2	0.2
Demography¹⁾	<i>perc. points</i>	0.1	0.2	0.2	0.2	0.3	0.3	0.4	0.1	-0.2	-0.4

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

Economic recession from the turn of 2008 to 2009 gave rise to a deeply negative **output gap**. With the modest recovery after the end of the recession, the output gap was gradually reduced to –1% in Q2 2011. GDP’s subsequent stagnation, however, led to a deepening of the production gap to –1.6% by the end of 2011.

As a result of the Czech economy’s lacklustre performance in the last period, YoY growth of **potential product** fell to as low as 1% in 2010 and 2011. In view of the aforementioned instability in the calculations, however, we believe that this estimate undervalues the reality.

The PP component most seriously affected is **total factor productivity** (TFP). In Q4 2011, TFP remained 1.4% lower than at the peak of the cycle in Q3 2008, thus resulting in a slowdown in the YoY growth trend for TFP to 0.4% in Q4 2011. By comparison, a peak of 4.0% had been reached in 2005.

A deep drop in investment activity led to a decrease in **capital stock’s** contribution from 1.2 p.p. in 2008 to 0.6 p.p. in 2010 and 2011.

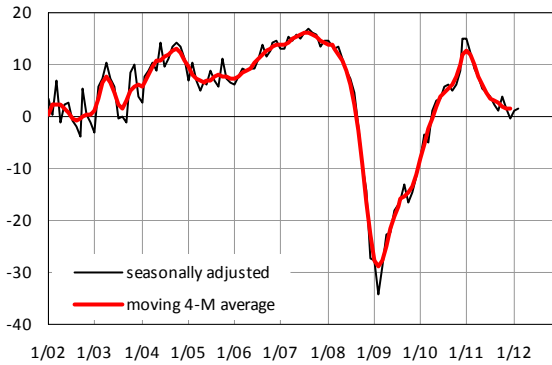
The labour supply has been markedly affected by decrease in the number of working-age inhabitants, which stems from the process of population ageing as well as from a significant drop in immigration versus the situation recorded during 2006–2008. In 2011, the contribution of demographic development to potential GDP growth was significantly negative, at –0.4 p.p. The continuing positive participation trend, measured as the ratio of labour force to the number of inhabitants aged 15–64, has thus far compensated the demographic development by approximately one-half.

Graph B.1.4 illustrates that the recession and slow overcoming of its consequences have so far resulted in a loss of ca 9.2% in the potential product level.

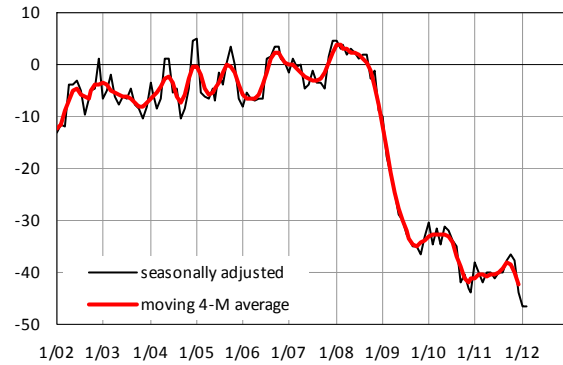
B.2 Business Cycle Indicators

Business cycle indicators express respondents' views as to the current situation and short-term outlook and serve to identify in advance possible turning points in the economic cycle. Their main advantage lies in the quick availability of results reflecting a wide range of influences shaping the expectations of economic entities.⁶

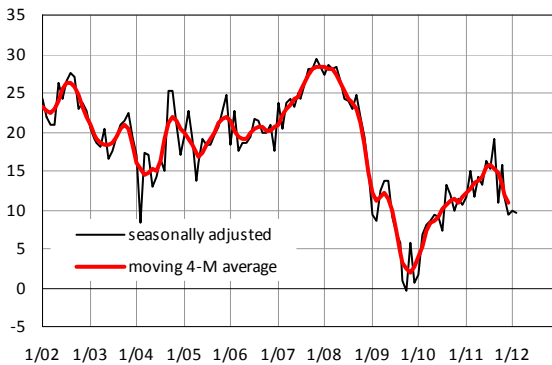
Graph B.2.1: Industrial Confidence Indicator



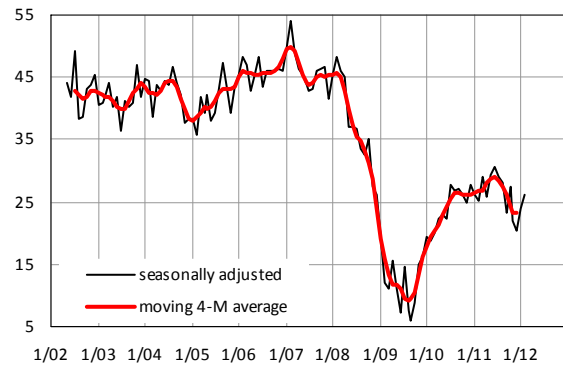
Graph B.2.2: Construction Confidence Indicator



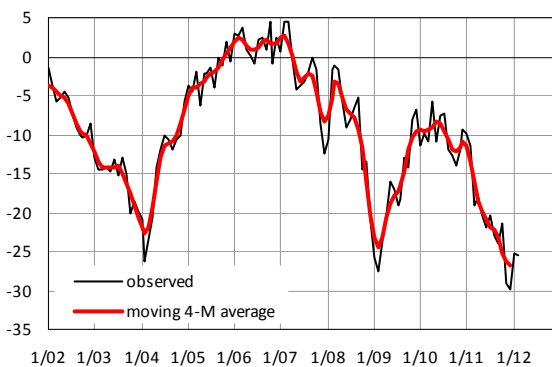
Graph B.2.3: Retail Trade Confidence Indicator



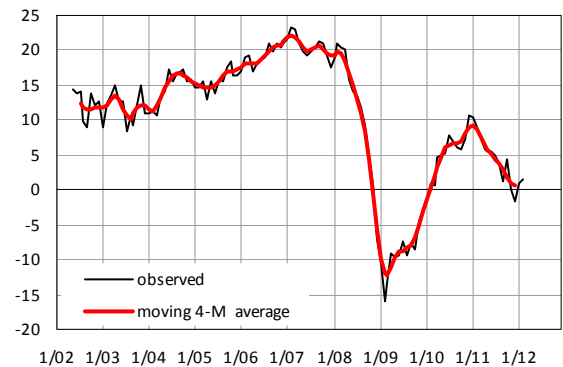
Graph B.2.4: Selected Services Confidence Indicator



Graph B.2.5: Consumer Confidence Indicator



Graph B.2.6: Aggregate Confidence Indicator



⁶ For the business cycle research methodology, see CZSO: http://www.czso.cz/eng/redakce.nsf/i/business_cycle_surveys.

Industry indicators showed modest improvement in January and February 2012. In other sectors, indicators developed in a manner either clearly negative (construction) or not clear at all (retail and services).

In **industry** the assessment as to total and foreign demand moderately improved in January and February 2012. On the other hand, the evaluation of total demand with a three-month outlook was unchanged, while in the case of foreign demand there was an apparent decline between January and February. The view of the current economic situation and its three-month outlook improved. Following a decline in January, the outlook for the economy in a horizon of six months improved slightly in February. Prospects for employment over a 3-month horizon also clearly improved.

Assessments as to the outlook for total demand in **construction** have been highly volatile in recent months. The outlook worsened in February 2012.

According to respondents in **retail trade**, the view of the current economic situation slightly improved, as did its six-month outlook.

The assessment of the current economic situation in selected **services** sectors and evaluation of the economic situation on a six-month horizon both improved moderately in January and February 2012. The expected development for the number of employees in the coming three months shows no clear direction.

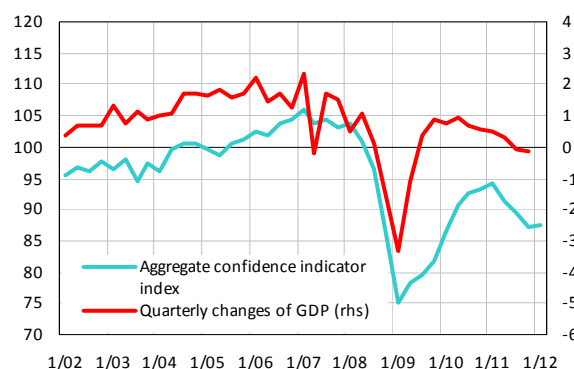
The **consumer** confidence indicator in January and February 2012 showed an improvement in consumer sentiment. It continues, however, to fluctuate near historic lows. Concerning this indicator's long-term development, it should be noted that consumers have always been pessimistic – with the exception of 2006 and part of 2007 – and that its relevance for the economic cycle is rather limited.

Likewise, the **composite confidence indicator** rose in the first two months of 2012 and is now just below zero (Graph B.2.6). We used regression analysis to quantify the relationship between development of the composite confidence indicator and the QoQ index of gross domestic product (GDP). The strength of the correlation between the QoQ increments of GDP and lagged values of the composite indicator is rather weak. Without the lag, the correlation between these two time series is ca 60%. The regression relationship between the QoQ increments of GDP and the

composite indicator (without lag) allows using at least the existing composite indicator published in advance of the quarterly national accounts. Below, we present only a qualitative graphical appraisal. Because the values for March 2012 were not yet available at the time of preparing the new Macroeconomic Forecast, the same value reached in February is assumed for March. It is clear that for Q1 the composite confidence indicator essentially is signalling stagnation in the QoQ dynamics of GDP.

Graph B.2.7: Aggregate confidence indicator and QoQ GDP growth

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

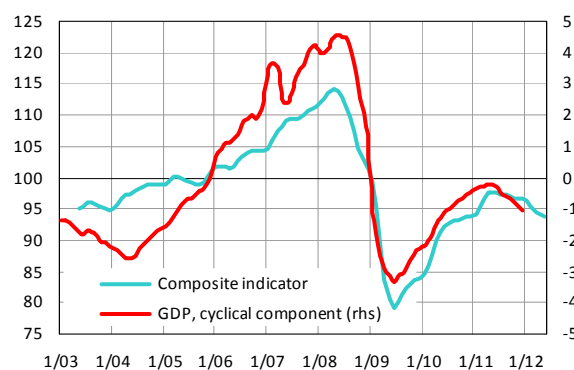


For Q4 2011, the composite leading indicator signalled a drop in the relative cyclical component of GDP, which was then confirmed by data published in March 2012. For Q1 2012, the indicator is signalling a further decline in the cyclical component of GDP. Since the trend dynamics can reasonably be regarded as constant in the short term, the composite leading indicator indicates a QoQ decrease in GDP for Q1 2012. Nevertheless, this is inconsistent with the analysis resulting from the comparison of QoQ changes in GDP and the composite confidence indicator.

Graph B.2.8: Composite Leading Indicator

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

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



C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

Economic output has not yet reached the level at the peak of the cycle from before the recession at the turn of 2008 and 2009. In comparison to that, in Q4 2011 the seasonally adjusted real GDP was 1.2% lower. The growth of seasonally adjusted GDP started slowing from mid-2010 and it halted in the second half of 2011. In Q3 and Q4 a 0.1% QoQ decrease in GDP was recorded, and the Czech economy formally found itself in a technical recession. Such small QoQ changes in GDP are outside the margin of statistical error, however, and later revisions of quarterly national accounts are usually skewed toward higher growth⁷, which may yet alter this conclusion. Therefore, the current phase of the economic cycle can be regarded as stagnation.

GDP⁸ increased YoY by 0.3% in Q4 (*versus 0.8%*). For the entirety of 2011, growth reached 1.7% (*versus 1.8%*). For 2012, we expect the stagnation more or less to continue, with growth coming in only at 0.2% (*no change*). Recovery should occur in 2013 to the level of 1.3% (*versus 1.6%*). There are risks to the downside, although these are lower than was the case for the previous forecast.

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

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

The worsening terms of trade led **real gross domestic income** (RGDI), which reflects the income situation of

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

The slower real GDP growth and lower deflator of gross domestic expenditure also caused lower **nominal GDP** gains than expected in the January forecast. In Q4 2011, YoY growth of 1.2% was recorded (*versus 2.0%*). The price development⁹ is also a cause for nominal GDP to increase more slowly than expected for 2011. The gain was 0.9% (*versus 1.5%*). In 2012, the increase should reach 2.1% (*versus 2.2%*). In 2013, nominal GDP should rise by 2.7% (*versus 2.4%*).

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

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

Expenditures on GDP

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

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

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

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

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

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

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

Future development of investments is extraordinarily uncertain. Pessimistic expectations, apprehensions about the possible impacts of the debt crisis in the euro zone and the limitation on public investment expenditures will have a negative effect. On the other hand, the high production capacities utilisation of successfully exporting companies and their under-investment are beginning to be felt. New investments could also be stimulated by a heightened influx of financing from EU's structural funds (assuming the current problems with drawing are resolved). The

C.2 Prices

Consumer prices

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

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

interaction of these divergent factors should result roughly in stagnation followed by modest growth. In 2012, we expect a decline of 0.5% (*versus growth of 0.1%*). For 2013, we look for growth dynamics to be renewed at the 2.1% level (*forecast unchanged*).

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

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

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

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

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

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

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

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

The forecast for **2013** is no longer based on an assumption of VAT rates being unified at 17.5%, but on an assumption for both rates to be raised by 1.0 p.p. (i.e. to 15% and 21%) from 1 January 2013. The

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

Deflators

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

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

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

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

C.3 Labour Market

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

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

Employment

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

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

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

The **employment rate** (15–64 years) increased YoY by 0.6 p.p. to 66.2% (*as forecast*) in Q4. Due to the

decreasing productive-age population and the need to secure production capacities, we anticipate moderate increase in employment within the forecast horizon. We also expect to see participation by people currently economically inactive (especially old-age pensioners).

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

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

Unemployment

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

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

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

Wages

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

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

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

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

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

C.4 External Relations

(a balance of payments perspective)

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

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

Growth in world trade continued in 2011, albeit at an already decreasing rate. After a strong expansion of export markets¹⁰ by almost 12% in 2010, their growth slowed in 2011 to average 6.9%. The negative influence of the debt crisis in the euro zone on the real economy of trading partner countries should also be reflected in the coming years by a slowdown in export markets. This slowing could reach 1.9% (*versus 2.4%*) in 2012 and 2.8% (*versus 2.7%*) in 2013. We also expect slower growth in export performance, which indicates the volume proportion of Czech goods on foreign markets, from 5.1% in 2011 to 1.2% (*versus 0.4%*) in 2012 and 0.8% (*versus 0.7%*) in 2013. We expect the growth rates for both Czech exports and imports to decline significantly in the next two years. Considering the reduction in domestic demand, we expect imports to grow less than exports, so the **trade surplus** should increase. We estimate it to total 3.0% of GDP (*versus 3.3%*) in 2012 and 3.4% (*versus 3.5%*) in 2013.

The deficit on the fuels balance (SITC 3) reached 4.6% of GDP in 2011. Considering the oil price development

scenario, we expect the current high prices of raw materials to hold during 2012 and 2013. As a proportion of GDP, the fuels deficit should thus deepen to ca 5.4% in 2012 and to 5.3% in 2013 (*forecast unchanged for both years*).

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

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

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

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

Box C.4.1: Openness of the Czech Economy

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

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

Table 1: Territorial Structure of Czech Export

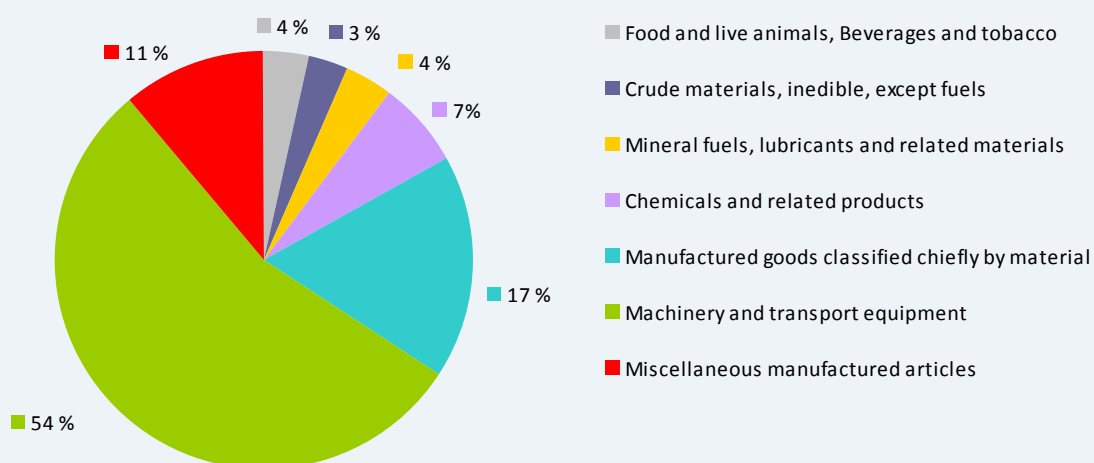
share on total export of goods, current prices

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

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

Graph 1: Commodity Structure of Czech Export

SITC, current prices



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

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

Table 2: Export Relations among Main Export Partners of the Czech Republic

share on total export of goods, current prices

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

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

Table 3: Territorial Structure of Selected Countries' Export

share on total export of goods, current prices

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

Table 4: Export to Selected non-EU Countries

share on total EU export, current prices

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

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

C.5 International Comparisons

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

Using the purchasing power parity method, comparisons of economic output for individual countries within the EU are made in PPS (purchasing power standards). PPS is an artificial currency unit expressing a quantity of goods that can be bought on average for one euro on EU27 territory after exchange rate conversion for countries that use currency units other than the euro. Using updated Eurostat data, purchasing power parity of the Czech Republic in 2011 was CZK 18.35/PPS in comparison to the EU27 or CZK 17.42/EUR in comparison to the EA12.

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

In 2011, the economic level of the Czech Republic expressed by GDP per capita as adjusted to current purchasing power parity was approximately 19,700 PPS, corresponding to 72% of the EA12 average.

After the convergence period, when during 2000–2007 the real economic level in the Czech Republic in comparison to EA12 countries increased by 13 p.p., there has been no change since 2008, or even slight divergence, due to the low growth in real GDP per capita.

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

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

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 2012			April 2012
		min.	max.	consensus	MoF forecast
Gross domestic product (2012)	growth in %, const.pr.	-1.2	1.8	0.3	0.2
Gross domestic product (2013)	growth in %, const.pr.	1.2	3.3	2.1	1.3
Average inflation rate (2012)	%	2.0	3.3	2.9	3.3
Average inflation rate (2013)	%	0.9	2.4	1.7	2.3
Average monthly wage (2012)	growth in %	2.2	2.8	2.5	2.0
Average monthly wage (2013)	growth in %	2.6	4.5	3.3	2.6
Current account / GDP (2012)	%	-3.7	-1.1	-2.6	-2.4
Current account / GDP (2013)	%	-4.2	-1.1	-2.5	-2.3

According to the monitored institutions' expectations, this year will be a period of stagnation for the Czech economy, as **real GDP** should increase by only 0.3%. The institutions expect a modest recovery and increase in economic output by 2.1% in the following year. The Ministry of Finance forecast corresponds with these other institutions' consensus estimate for 2012. It is slightly more pessimistic for 2013, however, as it takes into account the current data and newly prepared fiscal measures.

Due to impacts from changes in indirect taxes, the monitored institutions expect the **average inflation rate** to rise to 2.9% for 2012 but to drop to 1.7% next year. The Ministry's forecast anticipates a slightly higher average inflation rate, as it already takes into

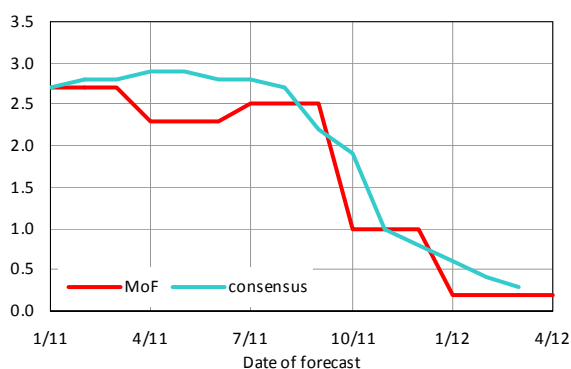
account new proposed adjustments to indirect taxes in 2013 (see Chapter C.2).

According to the monitored institutions' forecasts, the **average wage** should rise by 2.5% in 2012, and in 2013, in connection with the economy's expected recovery, that growth is expected to accelerate to 3.3%. The Ministry's forecast is slightly more pessimistic for both years, reflecting the current signals from the business sector and the known intentions and decisions regarding public sector wages for the coming months.

The **current account deficit of the balance of payments** should remain at a sustainable level. The monitored institutions estimate it to be around 2.5% of GDP for both years, which corresponds to the Ministry's forecast.

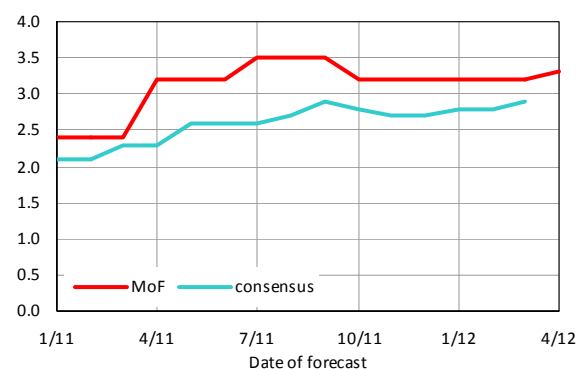
Graph D.1: Forecast of Real GDP Growth for 2012

in %



Graph D.2: Forecast of Average Inflation Rate for 2012

in %



E The Year 2011 in Retrospect

Comparing actual economic outcomes with those forecasted is an important part of the work behind preparing forecasts. The Ministry of Finance of the Czech Republic has thus prepared a comparison of the macroeconomic framework of the state budget for 2011 and the published data for this year. Readers should be aware that these data cannot be deemed final for 2011, as the quarterly national accounts in particular will surely still be revised several times.

Moreover, the revision of the national accounts system carried out in 2011 significantly complicates any comparison of forecasted and actual values. The revision was made in order to improve methodology on the basis of Eurostat requirements, as reflected by the change in definitions of certain indicators (especially for foreign trade), changes in data sources and processing methods, and the switch to a new classification of industries under NACE, rev. 2. In March 2011, the Czech National Bank also carried out a revision in the payments balance area.

Table E.1: Comparison of the 2011 State Budget Macroeconomic Framework with the Actual Outcome

Summary of main indicators		2011 State Budget (July 2010 Forecast)			Outcome (April 2012)			Difference (Outcome–Forecast)		
		2009	2010	2011	2009	2010	2011	2009	2010	2011
Gross domestic product	<i>growth in %, const.pr.</i>	-4.1	1.6	2.3	-4.7	2.7	1.7	-0.6	1.1	-0.6
Consumption of households	<i>growth in %, const.pr.</i>	-0.2	-0.5	2.0	-0.4	0.6	-0.5	-0.2	1.1	-2.5
Consumption of government	<i>growth in %, const.pr.</i>	4.2	-1.8	-0.9	3.8	0.6	-1.4	-0.4	2.4	-0.5
Gross fixed capital formation	<i>growth in %, const.pr.</i>	-9.2	-4.3	2.5	-11.5	0.1	-1.2	-2.3	4.4	-3.7
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	-0.6	1.9	0.6	0.8	0.9	2.6	1.4	-1.0	2.0
GDP deflator	<i>growth in per cent</i>	2.6	-0.2	1.3	1.9	-1.7	-0.7	-0.7	-1.5	-2.0
Average inflation rate	<i>per cent</i>	1.0	1.6	2.5	1.0	1.5	1.9	0.0	-0.1	-0.6
Employment (LFS)	<i>growth in per cent</i>	-1.4	-1.4	0.6	-1.4	-1.0	0.4	0.0	0.4	-0.2
Unemployment rate (LFS)	<i>average in per cent</i>	6.7	7.6	7.3	6.7	7.3	6.7	0.0	-0.3	-0.6
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	-0.1	-0.3	3.8	-2.1	-0.4	1.1	-2.0	-0.1	-2.7
Current account / GDP	<i>per cent</i>	-1.0	-0.1	-1.0	-2.4	-3.9	-2.9	-1.4	-3.8	-1.9
General government balance	<i>% GDP</i>	-6.6	-5.3	-4.8	-5.8	-4.8	-3.1	0.8	0.5	1.7
<u>Assumptions</u>										
Exchange rate CZK/EUR										
Long-term interest rates	<i>% p.a.</i>	26.4	25.5	24.6	26.4	25.3	24.6	0.0	-0.2	0.0
Crude oil Brent	<i>USD/barrel</i>	5	4	4	5	4	4	0	0	0
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	62.0	78.0	87.0	61.9	79.6	111.0	0.0	1.6	24.0

Note: General government balance (in ESA 95) based on the April 2011 Convergence Programme. The change of 2009 data is due to data revisions.

The macroeconomic framework of the state budget for 2011 was prepared based on the Ministry of Finance's Macroeconomic Forecast from July 2010.

At that time, the global economy had been slowly recovering from the financial crisis and subsequent recession from the turn of 2008 and 2009. Economic growth at that time was very fragile as well as uneven, both geographically and through time. The prevailing uncertainty concerning the state of public budgets in the southern wing of the euro zone, especially in Greece, further hindered recovery.

The Czech economy also recovered slowly. A problem, however, was the amount of the general government deficit, which had reached 6.6% of GDP¹¹ in 2009 as a result of the recession and the adopted anti-crisis package. Deficit targets at 5.3% of GDP for 2010 and 4.8% for 2011 were therefore established in the

Convergence Programme from April 2010. Considering the pending elections, however, the measures required to achieve the established goals for 2011 were not yet implemented.

The Forecast from July 2010 had been based on a scenario assuming continuation of the gradual and modestly accelerating recovery.

In preparing the state budget for 2011 (**i.e. after publication of the July Forecast**), the new government that was formed on the basis of the election outcome from the end of May 2010 adopted restrictive measures in the extent of CZK 78 billion, or ca 2.0% of the expected GDP. For the most part, these consisted of spending cuts. One such measure, for example, was 10% reduction of the wage bill in a vast majority of central government institutions. This partly explains the deviation in the wage bill's growth rate in Table E.1.

Economic development since publication of the Forecast from July 2010 has been decidedly uneven.

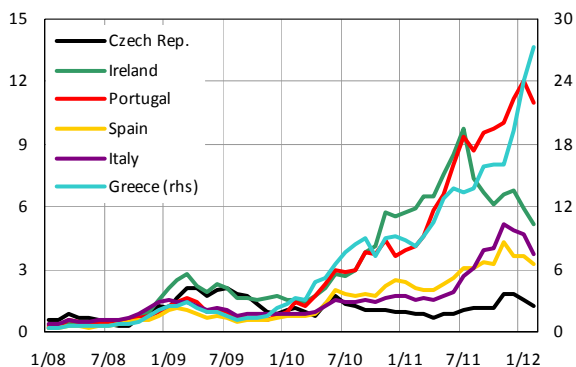
¹¹ According to data from the Convergence Programme of April 2010. Calculated using current data, the deficit was 5.8% of GDP.

While in the second half of 2010 the intensity of recovery both in the Czech Republic and around the world exceeded that of the forecast scenario, the 2nd half of 2011, in particular, was significantly affected by escalation of the debt crisis in the euro zone.

In July 2010, the sole euro zone country receiving international financial aid was Greece. By November 2010, Ireland, too, had requested assistance from the EA/IMF, though from today's perspective the spread of contagion to other countries on the periphery of the euro zone was relatively limited. Portugal requested international financial aid in May 2011, while Spain and Italy came under the scrutiny of financial markets in the second half of 2011. At that time, moreover, concerns regarding the health of the banking sector in the euro zone also emerged due to banks' exposure to government bonds of problematic countries. Uncertainty regarding the possible spread of problems to the real economy was also prevalent, and the euro zone's ability to survive this crisis in its present form was being questioned.

Graph E.1: Spreads over German Bonds

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



Source: ECB

With a fiscal consolidation strategy regarded as credible by financial markets and rating agencies, the Czech Republic was not and is not considered to be a risky country as regards the debt crisis. Nevertheless, it has not avoided unfavourable economic impacts.

Owing to its openness, the Czech economy has developed similarly to certain neighbouring EU economies. **Economic growth** was slower than originally expected in 2011. The difference between the forecasted and actual development was 0.6 p.p. and was caused by domestic demand. According to current data, the contribution of domestic demand was 2.7 p.p. lower than forecasted. Household consumption was restricted by households' unfavourable income situation and low level of confidence, while government consumption was

limited by the adopted consolidation measures. Investments in the government sector fell surprisingly sharply. Also an unexpectedly high comparison base from the end of 2010, to which the solar panel bubble contributed, decreased the final result. The contribution of foreign trade, on the other hand, was 2.0 p.p. higher than forecasted, as the slowdown in imports growth due to decline in domestic demand was considerably stronger than the slowing in exports resulting from lower foreign demand. (A comparison of the nominal and real values of individual indicators would not be adequate given the revision.)

The **average inflation rate** in 2011 was 0.6 p.p. lower than the original estimate. The cause of the overvaluation was the more limited scope of administrative measures. At the time of preparing the July Forecast, an increase in the lower VAT rate from 10% to 12% was being considered. In the end, however, this did not take place. In terms of market prices, the impact of the unexpectedly high oil prices was offset by the cyclical position of the Czech economy and the worsened conditions on the labour market as well as the related moderate growth in wages and household consumption.

Oil prices shot up in the first half of 2011 (to USD 123/barrel in April), while the forecast assumption had envisaged an upper limit of USD 90. One determining factor of this spike was geopolitical unrest in the Middle East and North Africa, the so-called "Arab Spring". The high oil prices were eventually reflected in the economy, and in particular by a worsening of terms of trade (in addition to the data revision), which considerably impacted the **GDP deflator**.

Although real GDP growth was lower than estimated, the **unemployment rate** fell faster than we had expected. It was 0.6 p.p. lower than the original estimate of 7.3%. This may be explained by the additional drop in the number of hours worked per employee as compared to the expectations for growth as well as by the improved ability of the labour market to absorb the unemployed through self-employment. The low growth in the **wage bill**, which was 2.7 p.p. lower than forecasted, was caused primarily by fiscal measures implemented for 2011 (drop in the wage bill and payments in the regulated sphere), lower economic growth, and continuing increased pressure on employers to reduce labour costs.

According to notifications from April 2012, the **general government balance** reached -3.1% of GDP in 2011. Despite the less positive economic development, it was 1.7 p.p. of GDP better than indicated by the trajectory in the 2010 Convergence Programme.

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 2005

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
							Prelim.	Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK 2005</i>	3335	3526	3635	3465	3560	3618	3624	3671	3753	3860
	<i>growth in %</i>	7.0	5.7	3.1	-4.7	2.7	1.7	0.2	1.3	2.2	2.8
Private consumption exp.¹⁾	<i>bill. CZK 2005</i>	1605	1673	1720	1714	1724	1716	1708	1712	1746	1795
	<i>growth in %</i>	4.4	4.2	2.8	-0.4	0.6	-0.5	-0.4	0.2	2.0	2.8
Government consumption exp.	<i>bill. CZK 2005</i>	664	666	674	700	704	694	668	665	653	652
	<i>growth in %</i>	-0.6	0.4	1.2	3.8	0.6	-1.4	-3.7	-0.5	-1.8	-0.2
Gross capital formation	<i>bill. CZK 2005</i>	910	1051	1071	848	898	884	891	910	940	975
	<i>growth in %</i>	10.2	15.5	1.9	-20.8	5.9	-1.6	0.8	2.0	3.4	3.7
– Gross fixed capital formation	<i>bill. CZK 2005</i>	851	964	1004	888	889	879	874	893	918	947
	<i>growth in %</i>	5.8	13.2	4.1	-11.5	0.1	-1.2	-0.5	2.1	2.8	3.2
– Change in stocks and valuables	<i>bill. CZK 2005</i>	59	87	68	-40	9	6	17	17	22	28
Exports of goods and services	<i>bill. CZK 2005</i>	2286	2541	2642	2377	2768	3072	3170	3287	3443	3619
	<i>growth in %</i>	13.8	11.2	4.0	-10.0	16.4	11.0	3.2	3.7	4.8	5.1
Imports of goods and services	<i>bill. CZK 2005</i>	2129	2402	2467	2180	2529	2719	2775	2852	2968	3110
	<i>growth in %</i>	10.8	12.8	2.7	-11.6	16.0	7.5	2.1	2.8	4.1	4.8
Gross domestic exp.	<i>bill. CZK 2005</i>	3179	3390	3465	3271	3334	3302	3274	3291	3343	3424
	<i>growth in %</i>	4.9	6.6	2.2	-5.6	1.9	-1.0	-0.8	0.5	1.6	2.4
Methodological discrepancy²⁾	<i>bill. CZK 2005</i>	0	-3	-6	5	-6	-28	-40	-49	-60	-71
Real gross domestic income	<i>bill. CZK 2005</i>	3280	3488	3562	3423	3458	3458	3448	3481	3552	3648
	<i>growth in %</i>	5.3	6.3	2.1	-3.9	1.0	0.0	-0.3	1.0	2.0	2.7
Contribution to GDP growth³⁾											
– Gross domestic expenditure	<i>percent. points</i>	4.7	6.4	2.2	-5.5	1.8	-0.9	-0.8	0.5	1.5	2.3
– consumption	<i>percent. points</i>	2.0	2.1	1.6	0.6	0.4	-0.5	-1.0	0.0	0.7	1.4
– household expenditure	<i>percent. points</i>	2.2	2.1	1.4	-0.2	0.3	-0.2	-0.2	0.1	1.0	1.4
– government expenditure	<i>percent. points</i>	-0.1	0.1	0.2	0.7	0.1	-0.3	-0.8	-0.1	-0.4	0.0
– gross capital formation	<i>percent. points</i>	2.7	4.3	0.6	-6.0	1.4	-0.4	0.2	0.5	0.8	0.9
– gross fixed capital formation	<i>percent. points</i>	1.5	3.4	1.1	-3.1	0.0	-0.3	-0.1	0.5	0.7	0.8
– change in stocks	<i>percent. points</i>	1.2	0.9	-0.5	-3.0	1.4	-0.1	0.3	0.0	0.2	0.2
– Foreign balance	<i>percent. points</i>	2.3	-0.7	0.9	0.8	0.9	2.6	1.0	0.8	0.8	0.5

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 2005

		2011				2012			
		Q1 <i>Prelim.</i>	Q2 <i>Prelim.</i>	Q3 <i>Prelim.</i>	Q4 <i>Prelim.</i>	Q1 <i>Estim.</i>	Q2 <i>Forecast</i>	Q3 <i>Forecast</i>	Q4 <i>Forecast</i>
Gross domestic product	<i>bill. CZK 2005</i>	851	917	915	935	851	914	920	940
	<i>growth in %</i>	3.1	2.1	1.3	0.3	-0.1	-0.3	0.5	0.5
	<i>growth in % ¹⁾</i>	2.7	2.1	1.3	0.6	0.2	-0.1	0.2	0.5
	<i>quart.growth in % ¹⁾</i>	0.5	0.3	-0.1	-0.1	0.1	0.1	0.2	0.2
Private consumption exp.	<i>bill. CZK 2005</i>	410	429	433	444	405	426	433	445
	<i>growth in %</i>	-0.2	-0.4	-0.6	-0.7	-1.2	-0.8	0.0	0.2
Government consumption exp.	<i>bill. CZK 2005</i>	163	171	169	191	160	163	161	184
	<i>growth in %</i>	-0.1	-1.1	-2.5	-1.7	-1.7	-4.7	-4.6	-3.7
Gross capital formation	<i>bill. CZK 2005</i>	189	225	247	223	182	226	255	228
	<i>growth in %</i>	3.5	0.1	-4.3	-4.1	-3.6	0.5	3.3	2.0
– Gross fixed capital formation	<i>bill. CZK 2005</i>	186	217	227	249	189	211	224	250
	<i>growth in %</i>	-2.1	1.4	-2.1	-1.7	1.5	-2.5	-1.5	0.6
– Change in stocks and valuables	<i>bill. CZK 2005</i>	3	9	20	-26	-7	15	31	-23
Exports of goods and services	<i>bill. CZK 2005</i>	756	783	750	783	785	807	771	808
	<i>growth in %</i>	19.2	12.9	8.5	4.4	3.8	3.0	2.8	3.2
Imports of goods and services	<i>bill. CZK 2005</i>	657	682	678	702	668	696	693	718
	<i>growth in %</i>	16.9	10.0	3.5	1.4	1.8	2.0	2.1	2.3
Methodological discrepancy	<i>bill. CZK 2005</i>	-9	-9	-5	-5	-13	-12	-8	-8
Real gross domestic income	<i>bill. CZK 2005</i>	810	875	876	896	803	870	878	897
	<i>growth in %</i>	0.6	-0.1	-0.3	-0.2	-0.9	-0.7	0.2	0.1

¹⁾ From seasonally and working day adjusted data

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

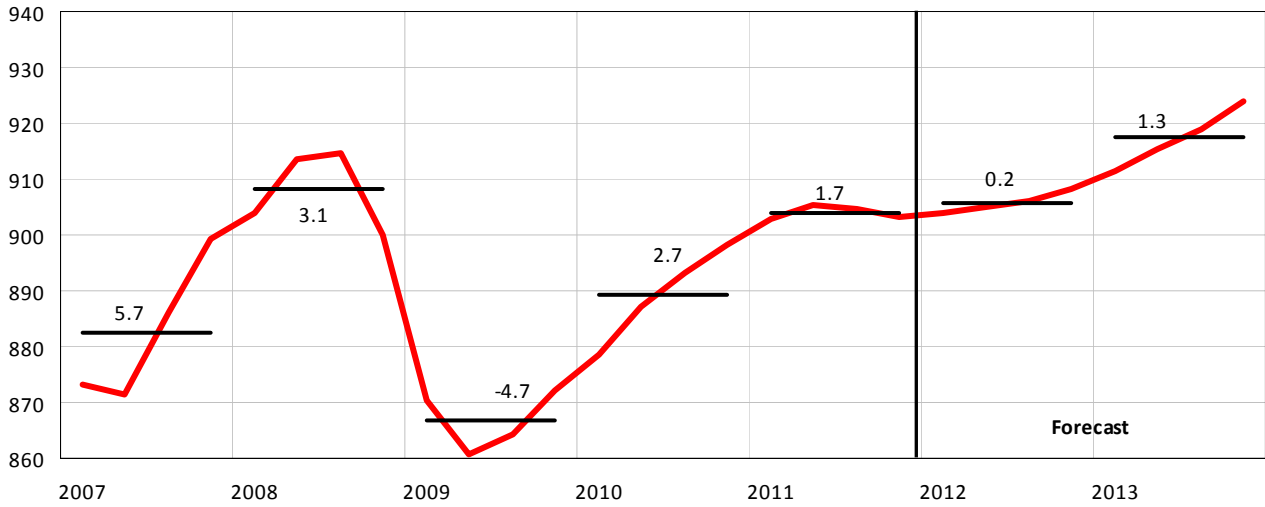
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Gross domestic product	<i>bill. CZK</i>	3353	3663	3848	3739	3775	3809	3891	3996	4143	4325
	<i>growth in %</i>	7.6	9.2	5.1	-2.8	1.0	0.9	2.1	2.7	3.7	4.4
Private consumption	<i>bill. CZK</i>	1629	1748	1883	1880	1900	1925	1981	2029	2108	2211
	<i>growth in %</i>	6.0	7.3	7.8	-0.2	1.1	1.3	2.9	2.4	3.9	4.9
Government consumption	<i>bill. CZK</i>	694	726	759	810	808	795	781	787	785	796
	<i>growth in %</i>	4.0	4.6	4.6	6.6	-0.2	-1.6	-1.8	0.8	-0.2	1.4
Gross capital formation	<i>bill. CZK</i>	928	1092	1114	898	947	932	948	979	1024	1074
	<i>growth in %</i>	12.4	17.6	2.0	-19.3	5.4	-1.6	1.8	3.2	4.7	4.9
– Gross fixed capital formation	<i>bill. CZK</i>	860	990	1031	927	923	911	918	951	989	1033
	<i>growth in %</i>	6.9	15.0	4.2	-10.1	-0.5	-1.3	0.8	3.6	4.0	4.5
– Change in stocks and valuables	<i>bill. CZK</i>	68	102	83	-29	24	20	30	28	36	41
External balance	<i>bill. CZK</i>	101	97	92	151	121	158	181	202	226	243
– Exports of goods and services	<i>bill. CZK</i>	2245	2498	2480	2233	2562	2852	3011	3157	3321	3498
	<i>growth in %</i>	11.8	11.3	-0.7	-10.0	14.7	11.3	5.6	4.8	5.2	5.3
– Imports of goods and services	<i>bill. CZK</i>	2144	2401	2388	2082	2441	2695	2830	2954	3095	3255
	<i>growth in %</i>	11.5	12.0	-0.5	-12.8	17.3	10.4	5.0	4.4	4.8	5.1
Gross national income	<i>bill. CZK</i>	3180	3401	3668	3489	3521	3551	3622	3709	3828	3976
	<i>growth in %</i>	6.6	6.9	7.8	-4.9	0.9	0.8	2.0	2.4	3.2	3.9
Primary income balance	<i>bill. CZK</i>	-172	-261	-180	-250	-254	-258	-268	-288	-315	-349

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

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	884	962	966	999	902	980	989	1021
	<i>growth in %</i>	1.2	0.5	0.7	1.2	2.0	1.9	2.4	2.2
Private consumption	<i>bill. CZK</i>	456	481	487	500	468	495	503	515
	<i>growth in %</i>	1.5	1.4	1.1	1.4	2.5	2.9	3.2	2.9
Government consumption	<i>bill. CZK</i>	181	194	192	227	182	189	187	223
	<i>growth in %</i>	-1.0	-1.6	-2.4	-1.4	0.3	-2.5	-2.7	-2.1
Gross capital formation	<i>bill. CZK</i>	199	237	261	235	196	238	270	244
	<i>growth in %</i>	3.0	-0.5	-4.3	-3.4	-1.6	0.7	3.6	3.6
– Gross fixed capital formation	<i>bill. CZK</i>	193	224	235	259	199	222	234	263
	<i>growth in %</i>	-2.5	0.6	-2.5	-0.9	3.1	-0.9	-0.3	1.5
– Change in stocks and valuables	<i>bill. CZK</i>	6	13	26	-24	-3	17	36	-20
External balance	<i>bill. CZK</i>	47	49	26	36	56	57	29	39
– Exports of goods and services	<i>bill. CZK</i>	693	721	694	745	742	767	732	771
	<i>growth in %</i>	18.5	10.7	8.6	8.3	7.0	6.3	5.6	3.6
– Imports of goods and services	<i>bill. CZK</i>	646	672	668	709	686	710	703	732
	<i>growth in %</i>	20.1	11.1	6.0	6.0	6.1	5.7	5.2	3.2

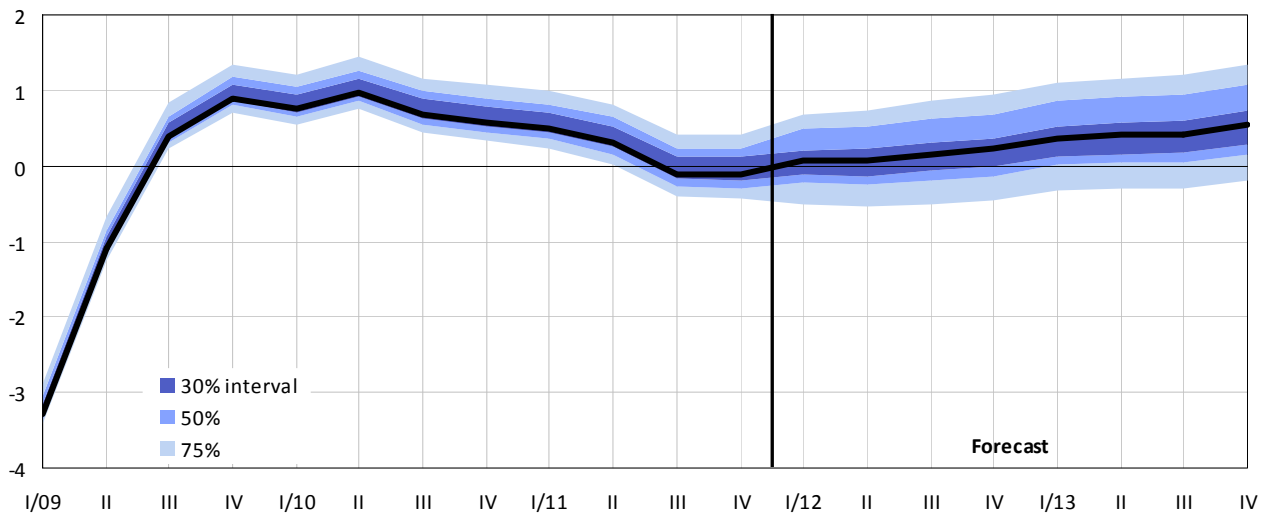
Graph C.1.1: **Gross Domestic Product (real)**

chained volumes, bill. CZK in const. prices of 2005, seasonally adjusted



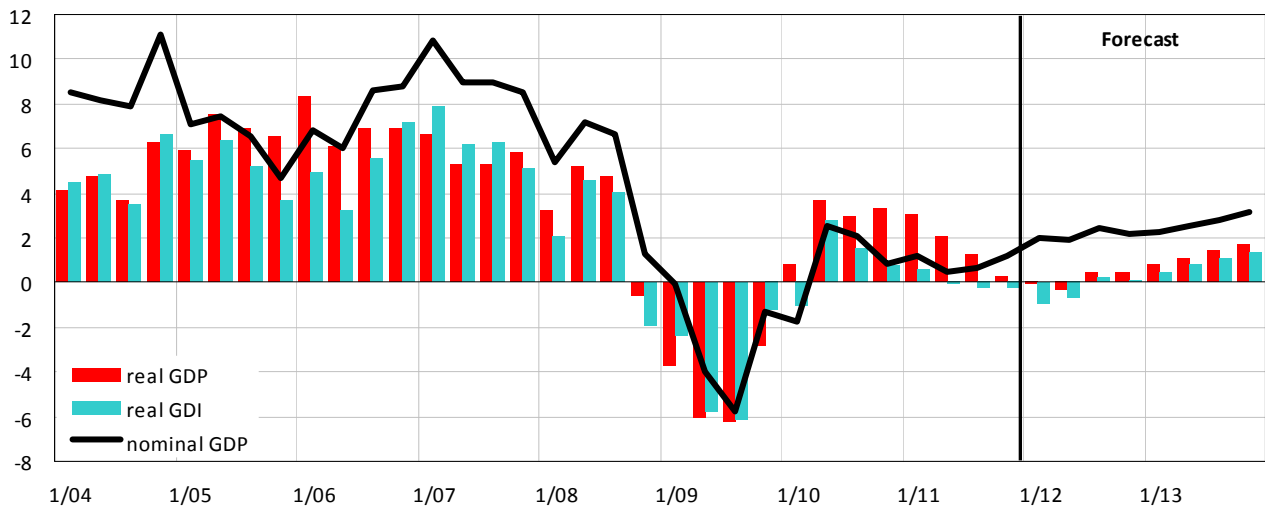
Graph C.1.2: **Gross Domestic Product (real)**

QoQ growth rate, in %, seasonally adjusted

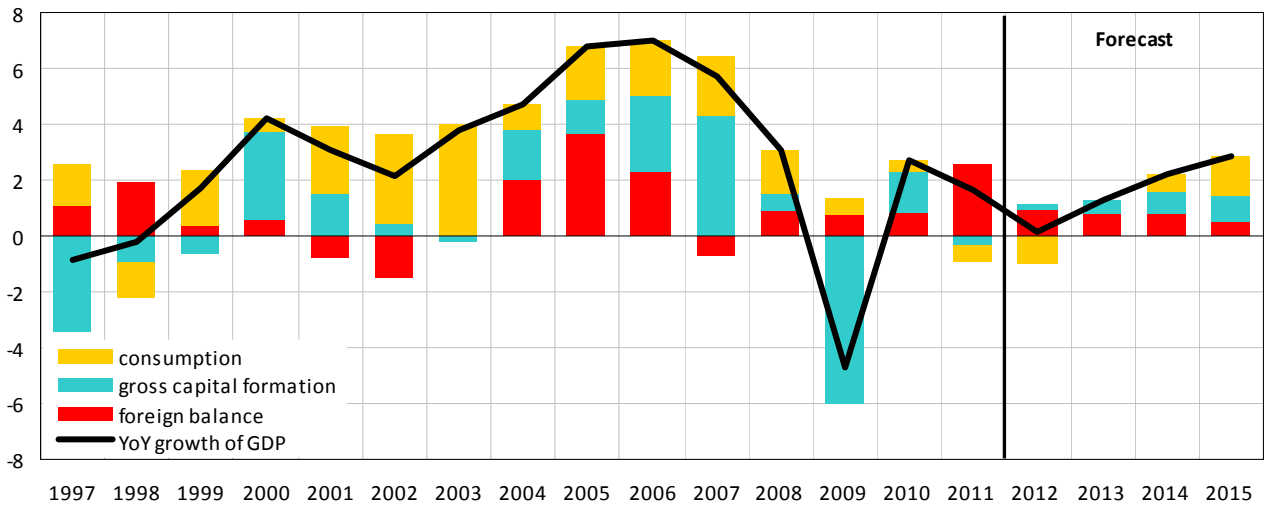


Graph C.1.3: **Gross Domestic Product and Real Gross Domestic Income**

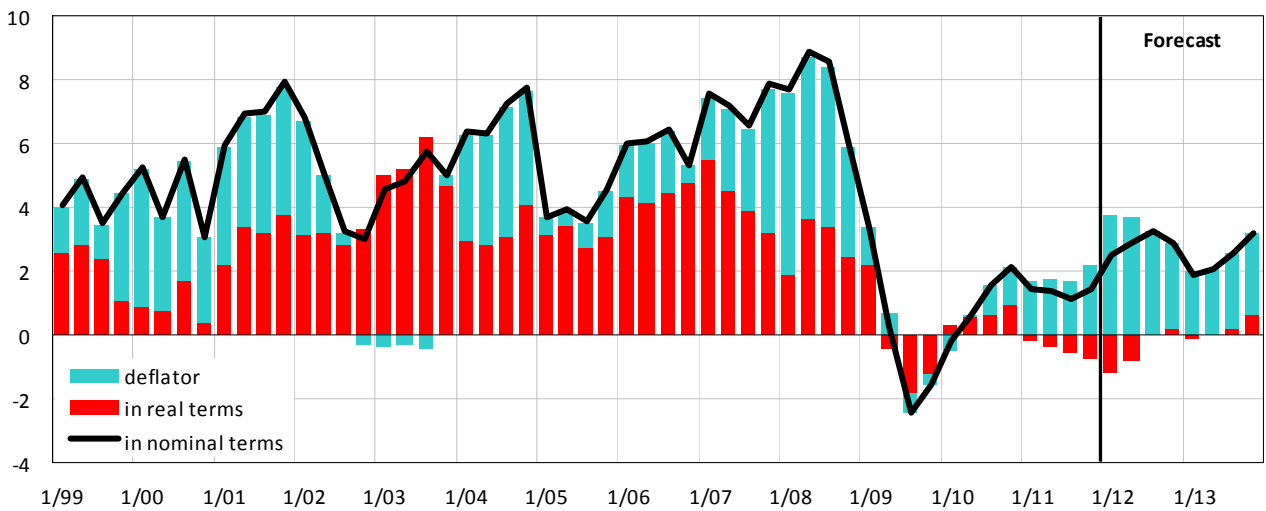
YoY growth rate, in %



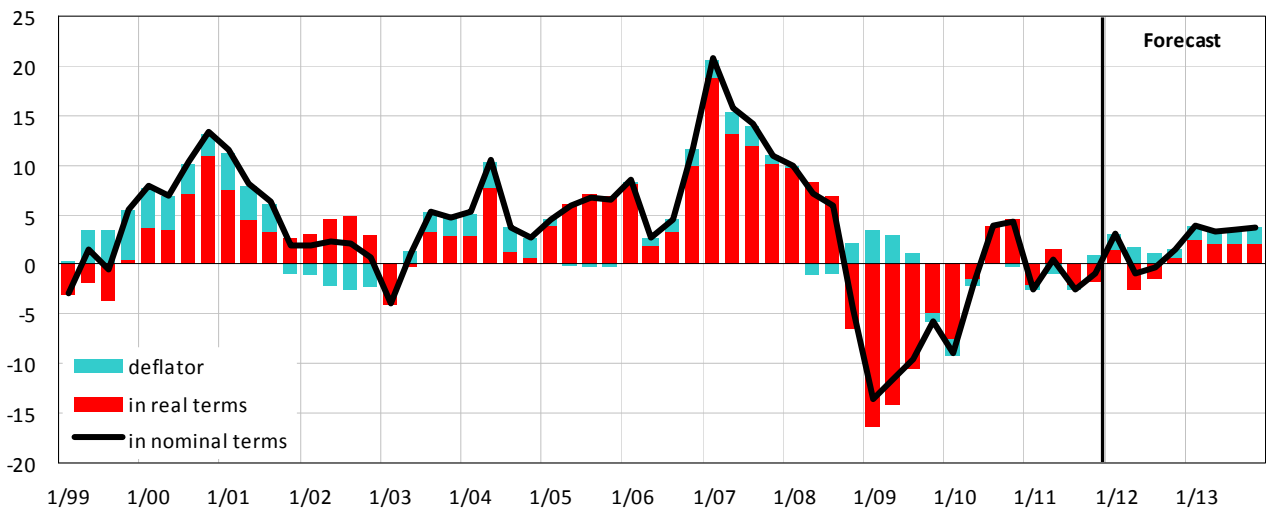
Graph C.1.4: Gross Domestic Product – contributions to YoY growth
in constant prices, decomposition of the YoY growth, in percentage points



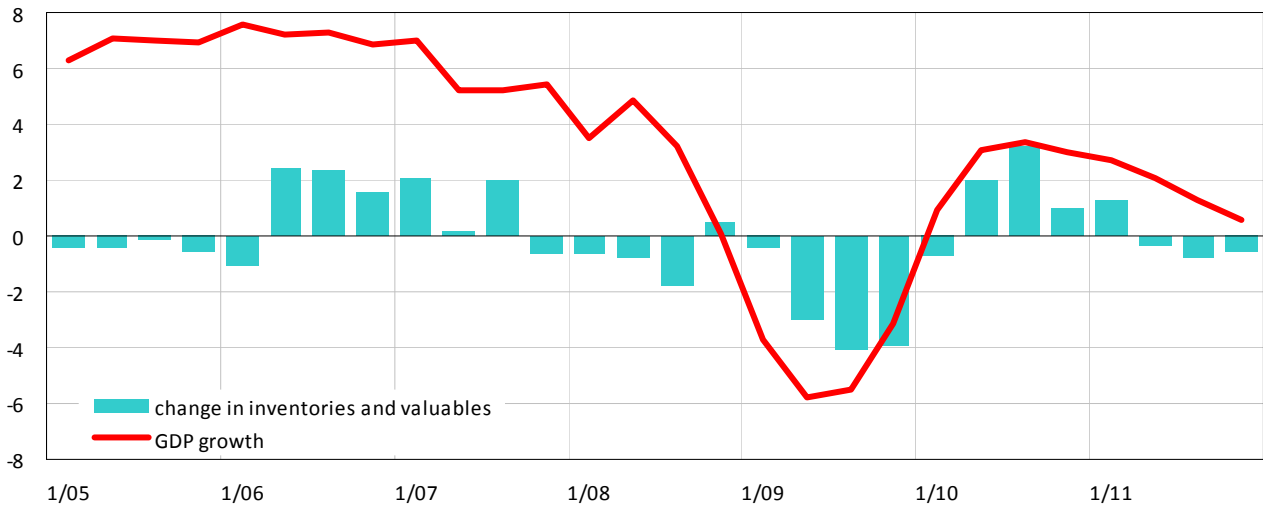
Graph C.1.5: Private Consumption (incl. NPISH)
YoY growth rate, in %



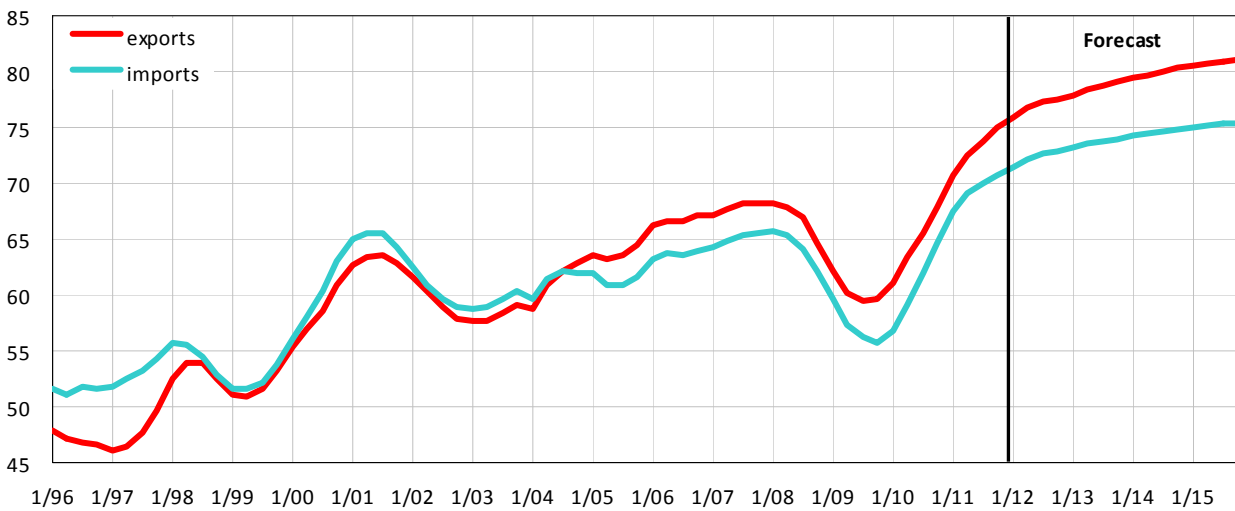
Graph C.1.6: Gross Fixed Capital Formation
YoY growth rate, in %



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 %

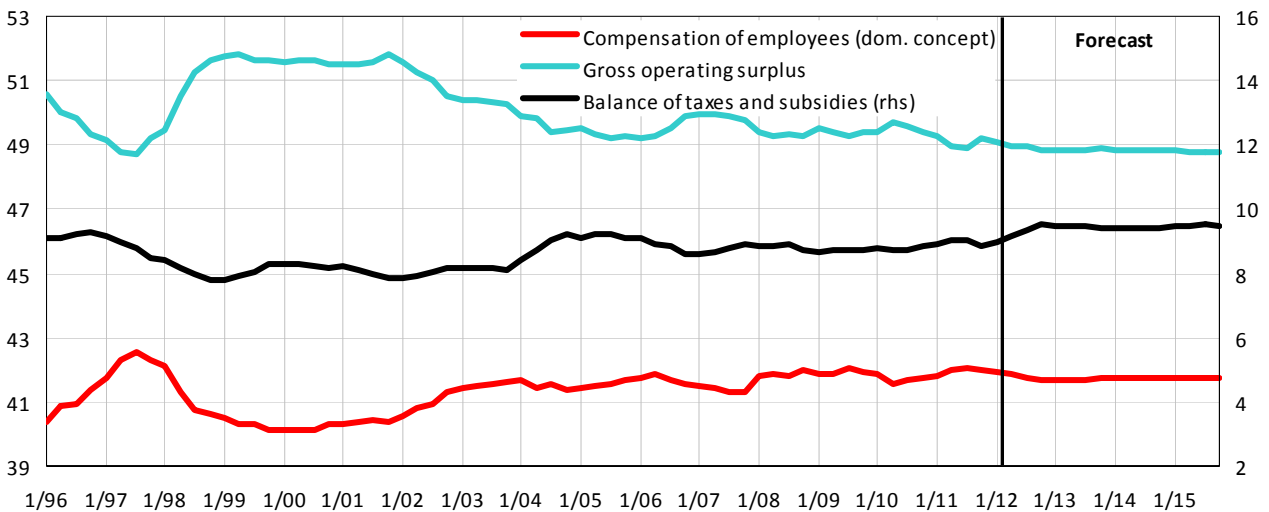


Table C.1.5: GDP by Type of Income – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
							<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
GDP	<i>bill. CZK</i>	3353	3663	3848	3739	3775	3809	3891	3996	4143	4325
	<i>growth in %</i>	7.6	9.2	5.1	-2.8	1.0	0.9	2.1	2.7	3.7	4.4
Balance of taxes and subsidies	<i>bill. CZK</i>	287	327	335	325	334	337	370	377	390	411
	<i>growth in %</i>	1.5	13.9	2.5	-3.1	2.8	0.7	9.8	1.9	3.6	5.3
– Taxes on production and imports	<i>bill. CZK</i>	364	407	419	425	434	452	489	498	514	538
	<i>growth in %</i>	2.9	12.0	2.9	1.4	2.1	4.2	8.2	1.9	3.2	4.5
– Subsidies on production	<i>bill. CZK</i>	76	80	84	100	100	115	119	122	124	127
	<i>growth in %</i>	8.6	4.8	4.4	19.5	-0.4	15.9	3.5	2.0	2.0	2.0
Compensation of employees	<i>bill. CZK</i>	1394	1513	1617	1567	1577	1599	1621	1667	1729	1805
	<i>growth in %</i>	7.3	8.6	6.8	-3.1	0.6	1.4	1.4	2.8	3.7	4.4
– Wages and salaries	<i>bill. CZK</i>	1053	1140	1226	1200	1195	1208	1226	1257	1316	1374
	<i>growth in %</i>	7.2	8.3	7.5	-2.1	-0.4	1.1	1.5	2.6	4.7	4.4
– Social security contributions	<i>bill. CZK</i>	341	373	390	367	382	391	395	410	413	431
	<i>growth in %</i>	7.8	9.4	4.7	-6.1	4.1	2.4	1.1	3.7	0.9	4.4
Gross operating surplus	<i>bill. CZK</i>	1672	1822	1896	1847	1864	1874	1900	1953	2024	2109
	<i>growth in %</i>	8.9	9.0	4.1	-2.6	0.9	0.5	1.4	2.8	3.6	4.2
– Consumption of capital	<i>bill. CZK</i>	603	644	680	711	720	731	739	750	769	796
	<i>growth in %</i>	4.6	6.8	5.6	4.5	1.4	1.4	1.2	1.5	2.5	3.5
– Net operating surplus	<i>bill. CZK</i>	1069	1178	1216	1137	1144	1143	1161	1203	1255	1313
	<i>growth in %</i>	11.6	10.3	3.2	-6.5	0.6	0.0	1.5	3.6	4.3	4.7

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

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	884	962	966	999	902	980	989	1021
	<i>growth in %</i>	1.2	0.5	0.7	1.2	2.0	1.9	2.4	2.2
Balance of taxes and subsidies	<i>bill. CZK</i>	79	91	95	71	86	100	104	80
	<i>growth in %</i>	4.7	4.1	1.6	-8.1	9.6	9.3	9.1	11.5
Compensation of employees	<i>bill. CZK</i>	381	397	396	424	386	402	402	431
	<i>growth in %</i>	1.7	2.4	1.1	0.4	1.3	1.3	1.4	1.5
– Wages and salaries	<i>bill. CZK</i>	287	299	300	322	291	303	304	327
	<i>growth in %</i>	1.5	2.3	0.5	0.1	1.4	1.4	1.5	1.6
– Social security contributions	<i>bill. CZK</i>	94	97	96	102	95	98	97	104
	<i>growth in %</i>	2.1	2.9	3.2	1.4	1.0	1.0	1.1	1.2
Gross operating surplus	<i>bill. CZK</i>	424	473	474	503	429	478	483	510
	<i>growth in %</i>	0.2	-1.7	0.1	3.4	1.3	0.9	1.9	1.5

C.2 Prices

Sources: CZSO, MoF estimates

Table C.2.1: Prices – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
								Forecast	Forecast	Outlook	Outlook
Consumer Price Index											
average of a year	<i>average 2005=100</i>	102.5	105.4	112.1	113.3	115.0	117.2	121.1	123.8	126.1	128.7
	<i>growth in %</i>	2.5	2.8	6.3	1.0	1.5	1.9	3.3	2.3	1.8	2.0
December	<i>average 2005=100</i>	102.3	107.9	111.8	112.9	115.5	118.3	121.2	124.3	126.8	129.4
	<i>growth in %</i>	1.7	5.4	3.6	1.0	2.3	2.4	2.4	2.6	2.0	2.1
– of which contribution of											
administrative measures¹⁾	<i>percentage points</i>	0.8	2.2	4.3	1.0	1.6	1.2	2.1	1.5	0.8	0.7
market increase	<i>percentage points</i>	0.8	3.3	-0.7	0.0	0.7	1.2	0.2	1.1	1.2	1.4
HICP	<i>average 2005=100</i>	102.1	105.1	111.7	112.4	113.7	116.2	120.2	123.0	125.3	128.0
	<i>growth in %</i>	2.1	3.0	6.3	0.6	1.2	2.1	3.5	2.3	1.9	2.1
Offering prices of flats											
	<i>average 2005=100</i>	108.9	131.6	162.4	157.9	151.6	144.4	.	.	.	.
	<i>growth in %</i>	8.9	20.8	23.4	-2.8	-4.0	-4.8	.	.	.	.
Deflators											
GDP	<i>average 2005=100</i>	100.5	103.9	105.9	107.9	106.1	105.3	107.4	108.9	110.4	112.0
	<i>growth in %</i>	0.5	3.3	1.9	1.9	-1.7	-0.7	2.0	1.4	1.4	1.5
Domestic final use	<i>average 2005=100</i>	102.3	105.2	108.4	109.7	109.6	110.6	113.3	115.3	117.2	119.2
	<i>growth in %</i>	2.3	2.8	3.1	1.2	-0.1	0.9	2.4	1.8	1.7	1.7
Consumption of households	<i>average 2005=100</i>	101.5	104.5	109.5	109.7	110.2	112.2	115.9	118.6	120.7	123.2
	<i>growth in %</i>	1.5	2.9	4.8	0.2	0.4	1.8	3.3	2.3	1.8	2.0
Consumption of government	<i>average 2005=100</i>	104.6	108.9	112.6	115.7	114.8	114.6	116.8	118.3	120.3	122.2
	<i>growth in %</i>	4.6	4.1	3.4	2.7	-0.8	-0.2	2.0	1.3	1.7	1.6
Fixed capital formation	<i>average 2005=100</i>	101.0	102.7	102.8	104.4	103.8	103.7	105.0	106.5	107.7	109.1
	<i>growth in %</i>	1.0	1.6	0.1	1.6	-0.6	-0.1	1.3	1.4	1.1	1.3
Exports of goods and services	<i>average 2005=100</i>	98.2	98.3	93.9	93.9	92.5	92.9	95.0	96.0	96.5	96.7
	<i>growth in %</i>	-1.8	0.1	-4.5	0.0	-1.5	0.3	2.3	1.1	0.4	0.2
Imports of goods and services	<i>average 2005=100</i>	100.7	99.9	96.8	95.5	96.5	99.1	102.0	103.6	104.3	104.7
	<i>growth in %</i>	0.7	-0.7	-3.1	-1.4	1.1	2.7	2.9	1.5	0.7	0.4
Terms of trade	<i>average 2005=100</i>	97.6	98.4	97.0	98.4	95.9	93.7	93.1	92.7	92.5	92.4
	<i>growth in %</i>	-2.4	0.8	-1.4	1.4	-2.5	-2.3	-0.6	-0.4	-0.2	-0.2

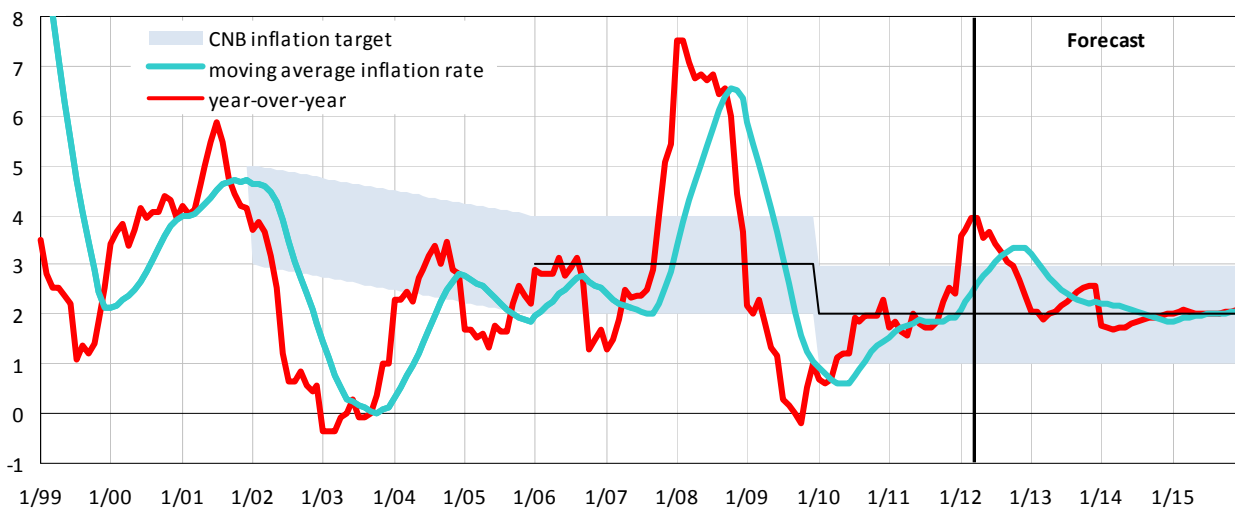
¹⁾ The contribution of increase in regulated prices and in indirect taxes to increase of December YoY consumer price inflation.

Table C.2.2: Prices – quarterly

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Consumer Price Index	<i>average 2005=100</i>	116.4	117.2	117.3	117.8	120.8	121.5	121.1	121.0
	<i>growth in %</i>	1.7	1.8	1.8	2.4	3.7	3.7	3.2	2.7
contr. of administrative measures	<i>percentage points</i>	0.8	0.7	0.8	1.0	2.6	2.6	2.5	2.3
contribution of market increase	<i>percentage points</i>	0.9	1.1	1.0	1.4	1.1	1.1	0.8	0.4
HICP	<i>average 2005=100</i>	115.3	116.0	116.4	117.0	119.8	120.5	120.2	120.2
	<i>growth in %</i>	1.9	1.9	2.0	2.8	4.0	3.8	3.3	2.8
Offering prices of flats	<i>average 2005=100</i>	147.3	144.4	143.5	142.2	.	.	.	.
	<i>growth in %</i>	-3.5	-5.1	-5.2	-5.2	.	.	.	.
GDP deflator	<i>average 2005=100</i>	103.8	104.9	105.5	106.8	106.0	107.2	107.5	108.6
	<i>growth in %</i>	-1.8	-1.6	-0.7	0.9	2.1	2.2	1.9	1.7
Domestic final use deflator	<i>average 2005=100</i>	109.5	110.3	110.6	111.8	112.7	113.1	113.1	114.2
	<i>growth in %</i>	0.6	0.6	0.9	1.4	2.9	2.5	2.2	2.1
Terms of trade	<i>average 2005=100</i>	93.2	93.6	93.9	94.1	92.2	93.2	93.6	93.6
	<i>growth in %</i>	-3.2	-3.0	-2.2	-0.8	-1.1	-0.4	-0.4	-0.5

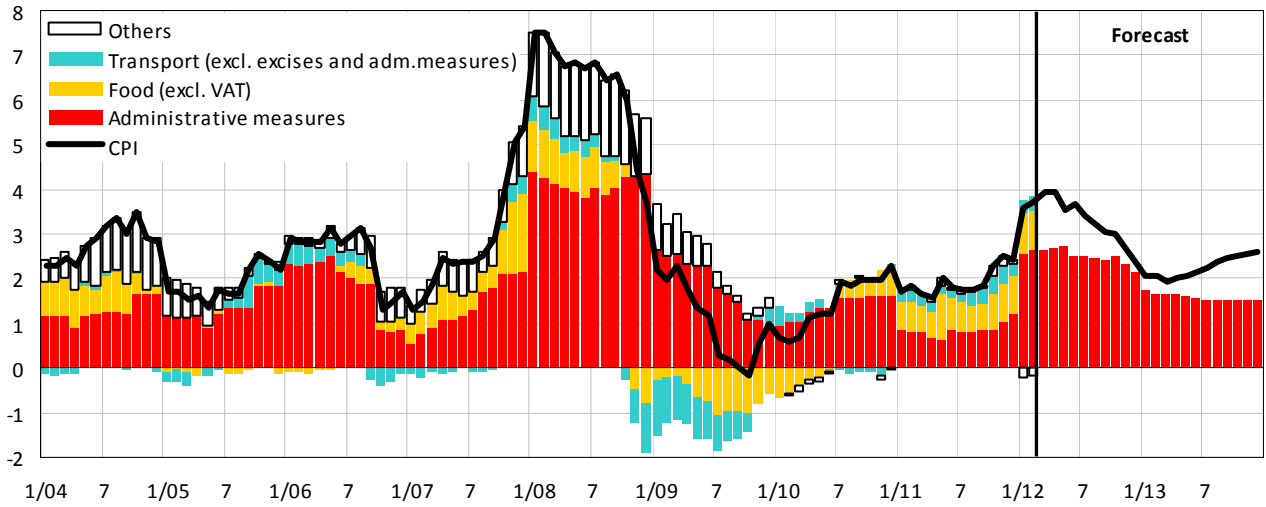
Graph C.2.1: Consumer Prices

YoY growth rate, in %



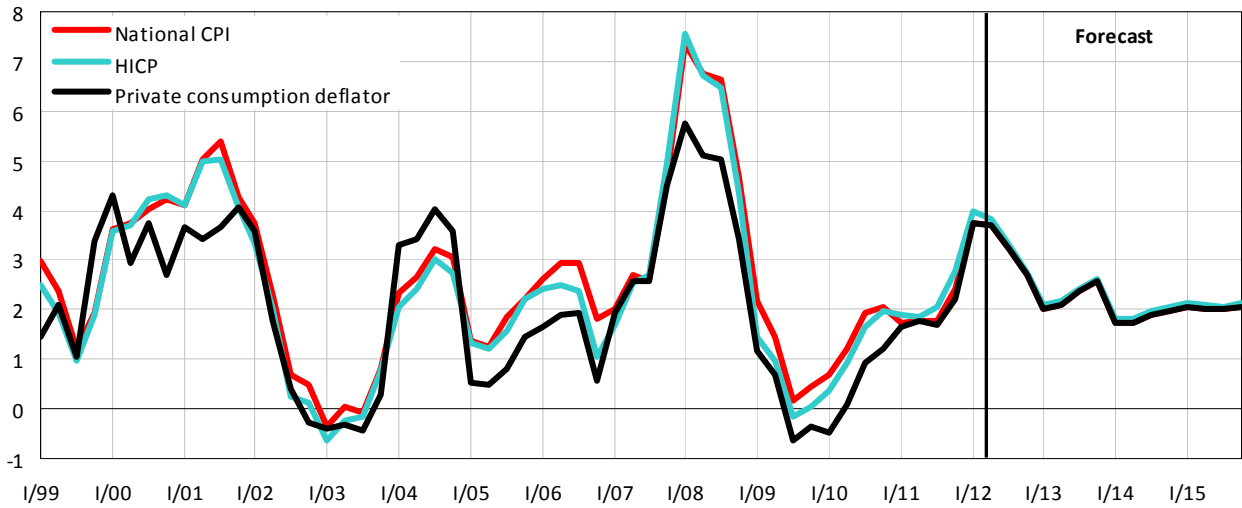
Graph C.2.2: Consumer Prices

decomposition of the YoY increase in consumer prices, in percentage points



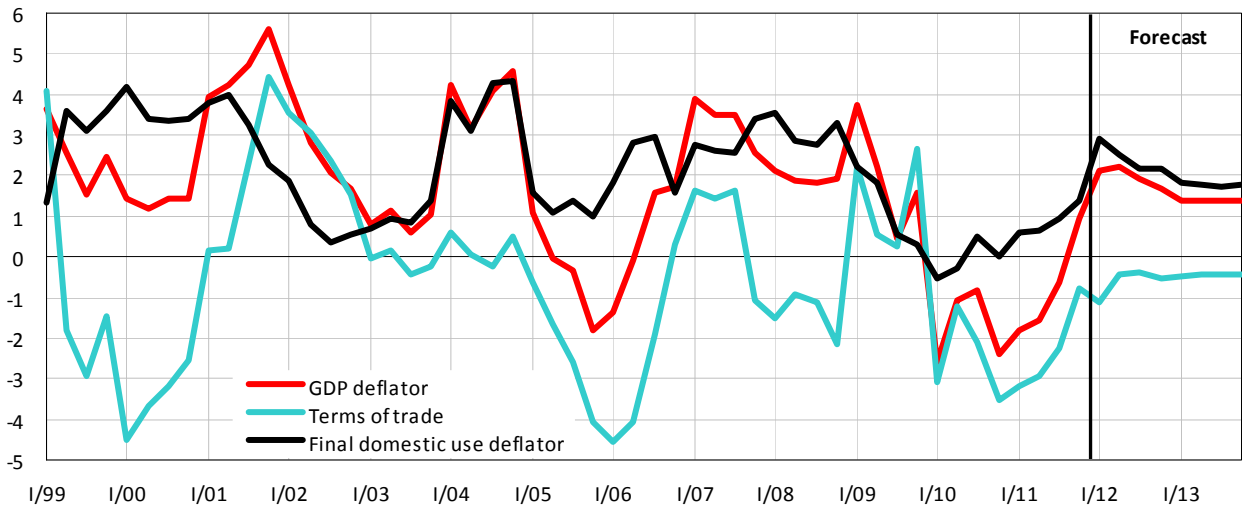
Graph C.2.3: Indicators of Consumer Prices

YoY increases, in %



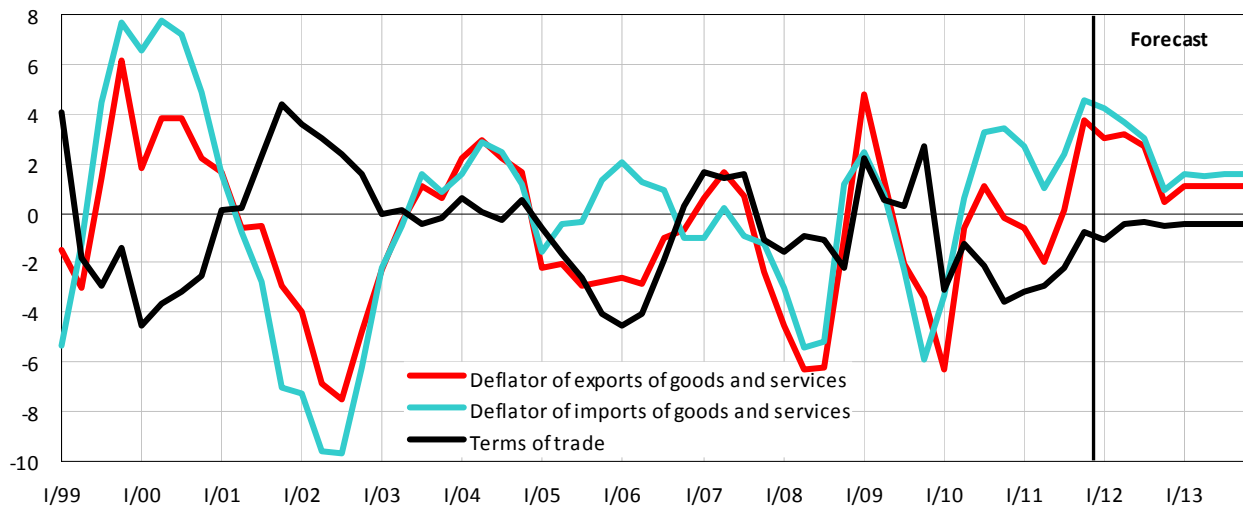
Graph C.2.4: GDP Deflator

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

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
								Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	4828	4922	5002	4934	4885	4904	4881	4886	4898	4916
	<i>growth in %</i>	1.3	1.9	1.6	-1.4	-1.0	0.4	-0.5	0.1	0.2	0.4
– employees	<i>av. in thous.persons</i>	4048	4125	4196	4107	4019	4020	3978	3976	3982	3993
	<i>growth in %</i>	1.2	1.9	1.7	-2.1	-2.1	0.0	-1.1	-0.1	0.2	0.3
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	780	797	807	827	866	884	903	910	916	923
	<i>growth in %</i>	2.2	2.2	1.2	2.5	4.7	2.0	2.2	0.7	0.7	0.8
Unemployment	<i>av. in thous.persons</i>	371	276	230	352	384	354	365	378	375	364
Unemployment rate	<i>average in per cent</i>	7.1	5.3	4.4	6.7	7.3	6.7	7.0	7.2	7.1	6.9
Labour force	<i>av. in thous.persons</i>	5199	5198	5232	5286	5269	5258	5246	5264	5273	5279
	<i>growth in %</i>	0.5	0.0	0.7	1.0	-0.3	-0.2	-0.2	0.3	0.2	0.1
Population aged 15–64	<i>av. in thous.persons</i>	7307	7347	7410	7431	7399	7345	7280	7224	7174	7124
	<i>growth in %</i>	0.5	0.5	0.9	0.3	-0.4	-0.7	-0.9	-0.8	-0.7	-0.7
Employment/Pop. 15–64	<i>average in per cent</i>	66.1	67.0	67.5	66.4	66.0	66.8	67.0	67.6	68.3	69.0
Employment rate 15–64¹⁾	<i>average in per cent</i>	65.3	66.1	66.6	65.4	65.0	65.8	66.0	66.6	67.2	67.9
Labour force/Pop. 15–64	<i>average in per cent</i>	71.2	70.8	70.6	71.1	71.2	71.6	72.1	72.9	73.5	74.1
Participation rate 15–64²⁾	<i>average in per cent</i>	70.3	69.8	69.7	70.1	70.2	70.6	71.0	71.8	72.4	73.0
SNA											
Employment (domestic concept)	<i>av. in thous.persons</i>	4981	5086	5204	5141	5055	5067	5052	5056	5069	5087
	<i>growth in %</i>	1.3	2.1	2.3	-1.2	-1.7	0.3	-0.3	0.1	0.2	0.4
Hours worked	<i>bill. hours</i>	9.01	9.12	9.37	9.07	9.07	8.99	8.90	8.89	8.88	8.89
	<i>growth in %</i>	0.3	1.3	2.7	-3.2	0.0	-0.9	-1.0	-0.2	0.0	0.1
Hours worked / employment	<i>hours</i>	1808	1793	1800	1764	1795	1774	1762	1757	1753	1748
	<i>growth in %</i>	-1.0	-0.8	0.4	-2.0	1.7	-1.1	-0.7	-0.3	-0.3	-0.3
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	474.8	392.8	324.6	465.6	528.7	507.8	508	517	513	500
Unemployment rate	<i>average in per cent</i>	8.13	6.62	5.45	7.98	9.01	8.57	8.6	8.7	8.6	8.4
Registered foreign workers											
Total	<i>av. in thous.persons</i>	233.2	276.2	343.5	335.4	313.5	307.7	.	.	.	.
	<i>growth in %</i>	19.4	18.5	24.4	-2.3	-6.5	-1.8	.	.	.	.
– employees	<i>av. in thous.persons</i>	165.5	209.7	270.2	252.6	219.6	214.9	.	.	.	.
	<i>growth in %</i>	26.1	26.7	28.8	-6.5	-13.0	-2.1	.	.	.	.
– self-employed	<i>av. in thous.persons</i>	67.7	66.5	73.3	82.8	93.9	92.8	.	.	.	.
	<i>growth in %</i>	5.7	-1.8	10.2	13.0	13.4	-1.2	.	.	.	.

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

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

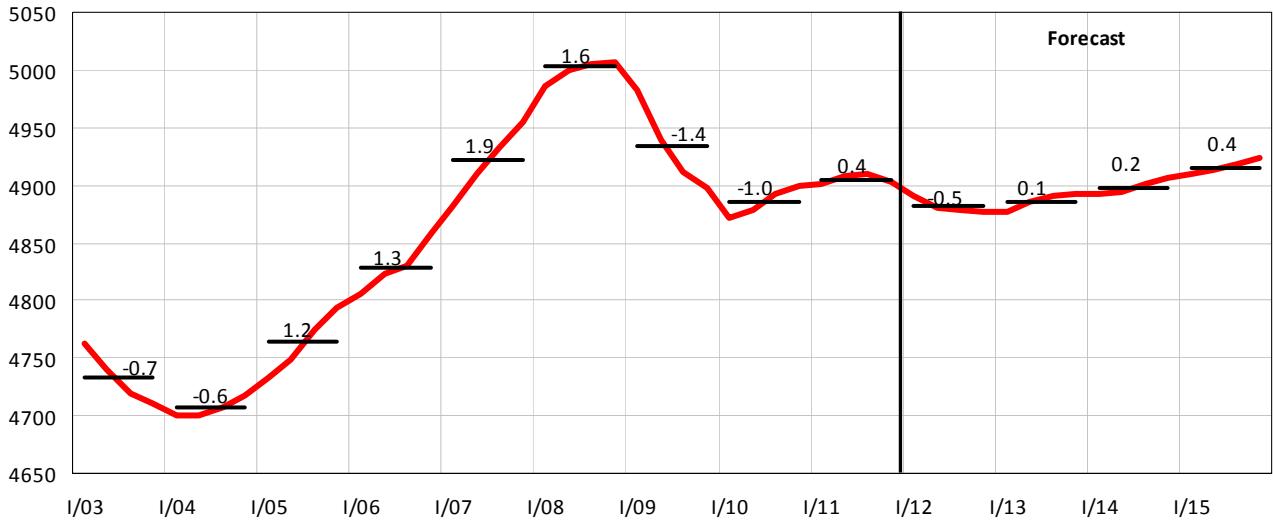
Table C.3.2: Employment – quarterly

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4864	4908	4928	4915	4855	4881	4889	4900
	<i>YoY growth in %</i>	0.7	0.6	0.3	-0.1	-0.2	-0.6	-0.8	-0.3
	<i>QoQ growth in %</i>	0.0	0.1	0.1	-0.1	-0.2	-0.2	0.0	0.0
– employees	<i>av. in thous. persons</i>	3989	4034	4043	4016	3957	3978	3982	3996
	<i>growth in %</i>	-0.1	0.5	0.2	-0.5	-0.8	-1.4	-1.5	-0.5
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	875	874	885	899	898	903	907	904
	<i>growth in %</i>	4.6	0.7	1.0	1.9	2.6	3.3	2.5	0.5
Unemployment	<i>av. in thous. persons</i>	376	355	346	338	363	361	369	365
Unemployment rate	<i>average in per cent</i>	7.2	6.7	6.6	6.4	7.0	6.9	7.0	6.9
Labour force	<i>av. in thous. persons</i>	5241	5263	5274	5253	5218	5242	5258	5265
	<i>growth in %</i>	-0.2	0.1	-0.2	-0.5	-0.4	-0.4	-0.3	0.2
Population aged 15–64	<i>av. in thous. persons</i>	7371	7354	7338	7317	7302	7288	7273	7258
	<i>growth in %</i>	-0.6	-0.7	-0.7	-0.9	-0.9	-0.9	-0.9	-0.8
Employment/Pop. 15–64	<i>average in per cent</i>	66.0	66.7	67.2	67.2	66.5	67.0	67.2	67.5
	<i>increase over a year</i>	0.8	0.8	0.7	0.6	0.5	0.2	0.1	0.3
Employment rate 15–64	<i>average in per cent</i>	65.0	65.7	66.2	66.2	65.4	65.9	66.2	66.5
	<i>increase over a year</i>	0.9	0.8	0.7	0.6	0.5	0.2	0.0	0.3
Labour force/Pop. 15–64	<i>average in per cent</i>	71.1	71.6	71.9	71.8	71.5	71.9	72.3	72.5
	<i>increase over a year</i>	0.2	0.6	0.4	0.3	0.4	0.4	0.4	0.8
Participation rate 15–64	<i>average in per cent</i>	70.1	70.6	70.9	70.8	70.4	70.9	71.2	71.5
	<i>increase over a year</i>	0.3	0.6	0.4	0.3	0.3	0.3	0.4	0.7
SNA									
Employment (domestic concept)	<i>av. in thous. persons</i>	5010	5065	5107	5087	5024	5051	5060	5071
	<i>growth in %</i>	0.4	0.3	0.2	0.1	0.3	-0.3	-0.9	-0.3
Hours worked	<i>bill. hours</i>	2.35	2.37	2.06	2.21	2.29	2.33	2.08	2.20
	<i>growth in %</i>	0.2	-1.0	-2.6	-0.3	-2.5	-1.7	1.0	-0.4
Hours worked / employment	<i>hours</i>	469	469	403	435	456	462	410	434
	<i>growth in %</i>	-0.2	-1.3	-2.8	-0.4	-2.8	-1.4	1.9	-0.1
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	564	506	481	480	532	506	494	499
Unemployment rate	<i>average in per cent</i>	9.6	8.5	8.1	8.1	9.0	8.6	8.4	8.4
Registered foreign workers									
Total	<i>av. in thous. persons</i>	303.0	305.6	309.5	312.8	.	.	.	.
	<i>growth in %</i>	-3.8	-3.4	-1.1	0.9	.	.	.	.
– employees	<i>av. in thous. persons</i>	211.2	212.7	216.3	219.6	.	.	.	.
	<i>growth in %</i>	-5.2	-2.6	-0.9	0.2	.	.	.	.
– self-employed	<i>av. in thous. persons</i>	91.8	92.9	93.3	93.2	.	.	.	.
	<i>growth in %</i>	-0.5	-5.1	-1.5	2.8	.	.	.	.

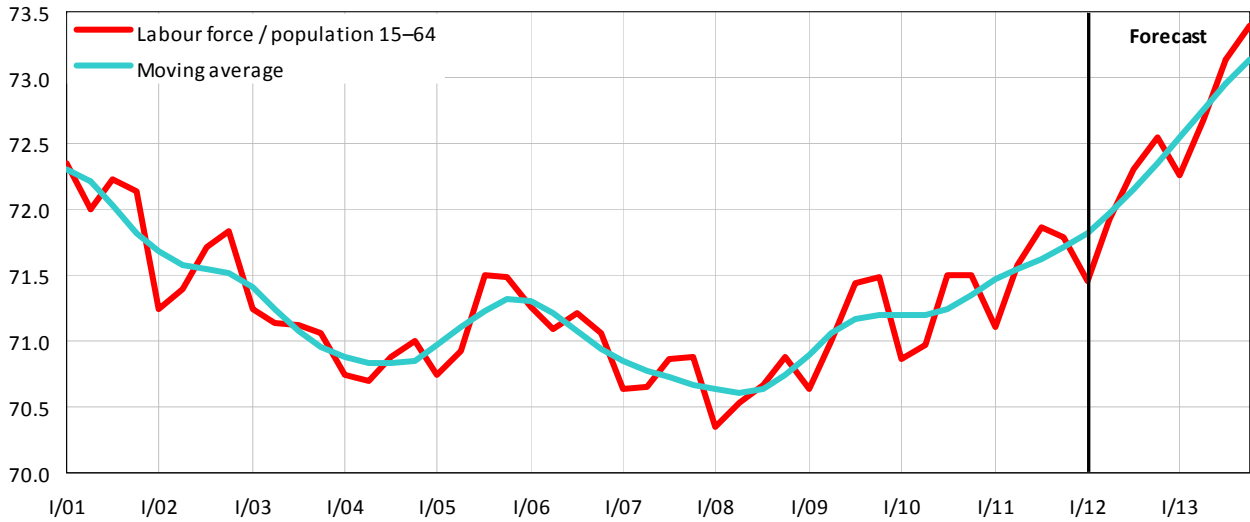
¹⁾ Seasonal adjustment done by the MoF.

Graph C.3.1: Employment (LFS)

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

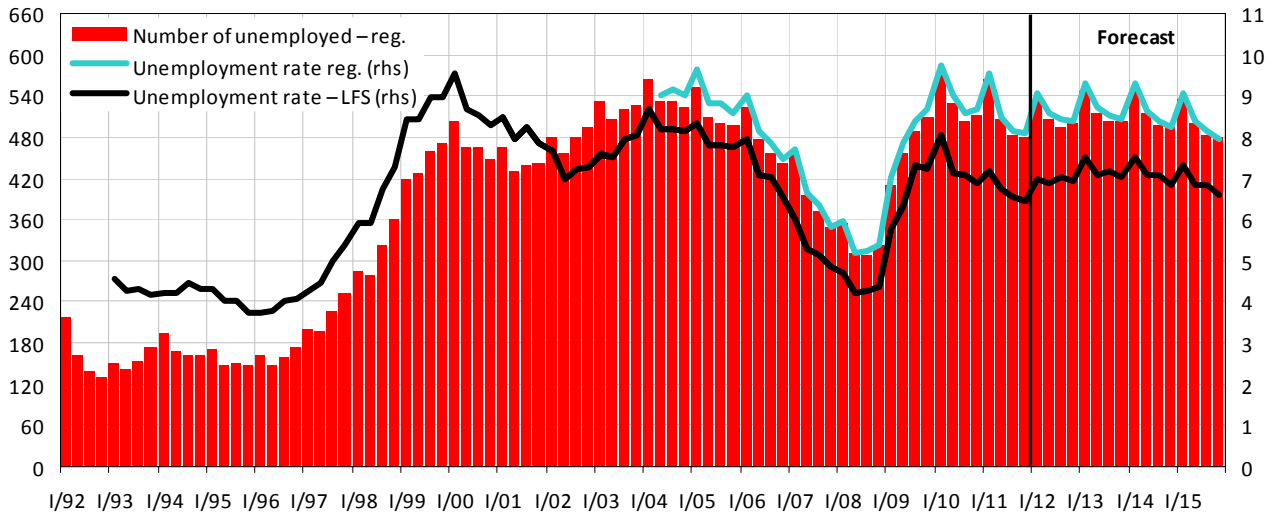


Graph C.3.2: Ratio of Labour Force to Population aged 15–64 (in %)



Graph C.3.3: Unemployment

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



Graph C.3.4: Economic Output and Unemployment

YoY increase of real GDP in %. Change in unemployment in thousands of persons

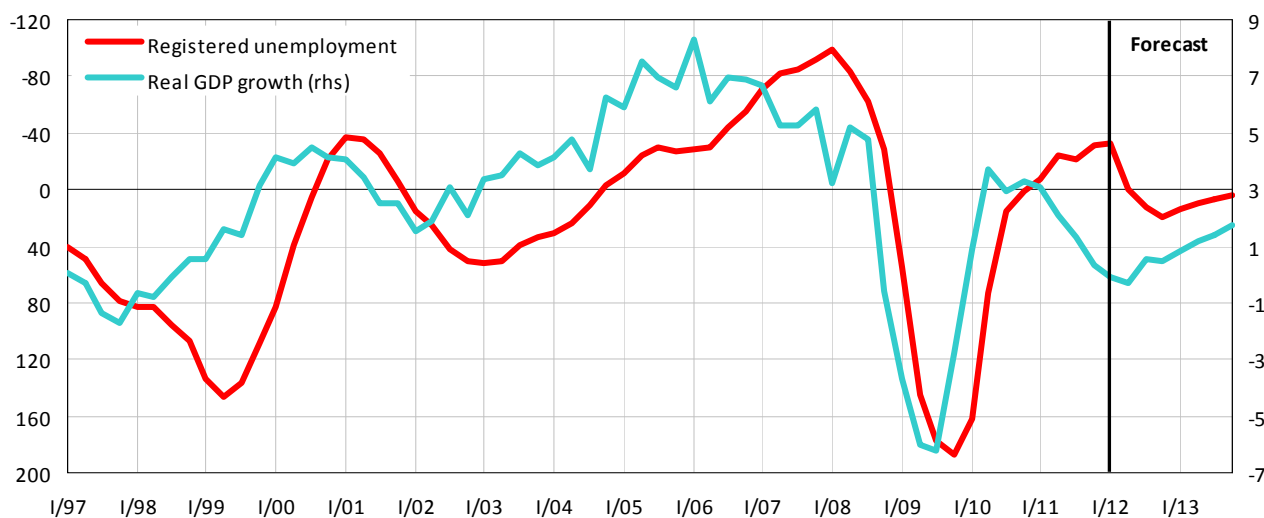


Table C.3.3: Labour Market – analytical indicators

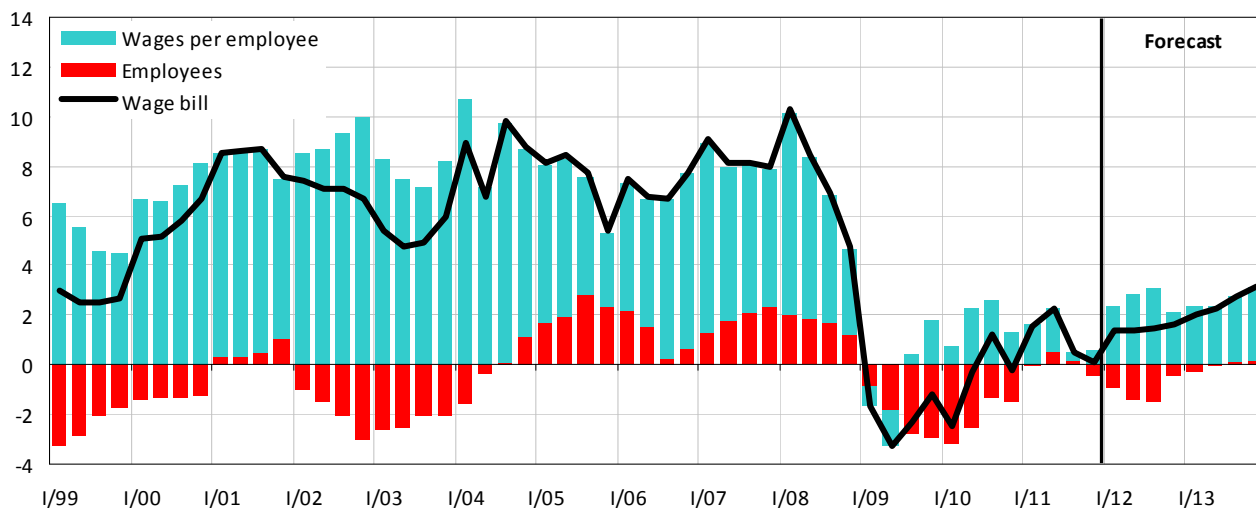
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
											Forecast	Forecast
Compensation per employee												
– nominal	growth in %	8.5	4.9	6.1	6.6	5.0	-1.0	2.8	1.4	2.5	2.9	
– real	growth in %	5.5	3.0	3.4	3.6	-1.2	-2.0	1.4	-0.6	-0.8	0.6	
Average monthly wage ¹⁾												
– nominal	CZK	17 466	18 344	19 546	20 957	22 592	23 344	23 797	24 318	24 800	25 500	
	growth in %	6.3	5.0	6.6	7.2	7.8	3.3	1.9	2.2	2.0	2.6	
– real	CZK 2005	17 791	18 344	19 063	19 874	20 147	20 602	20 699	20 752	20 500	20 600	
	growth in %	3.4	3.1	3.9	4.3	1.4	2.3	0.5	0.3	-1.3	0.3	
Labour productivity	growth in %	5.3	5.5	5.6	3.7	1.4	-3.4	3.8	1.3	0.6	1.2	
Unit labour costs ²⁾	growth in %	3.0	-0.6	0.4	2.7	3.5	2.5	-0.9	0.1	1.8	1.6	
Compensations of employees / GDP	%	41.4	41.7	41.6	41.3	42.0	41.9	41.8	42.0	41.7	41.7	

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.

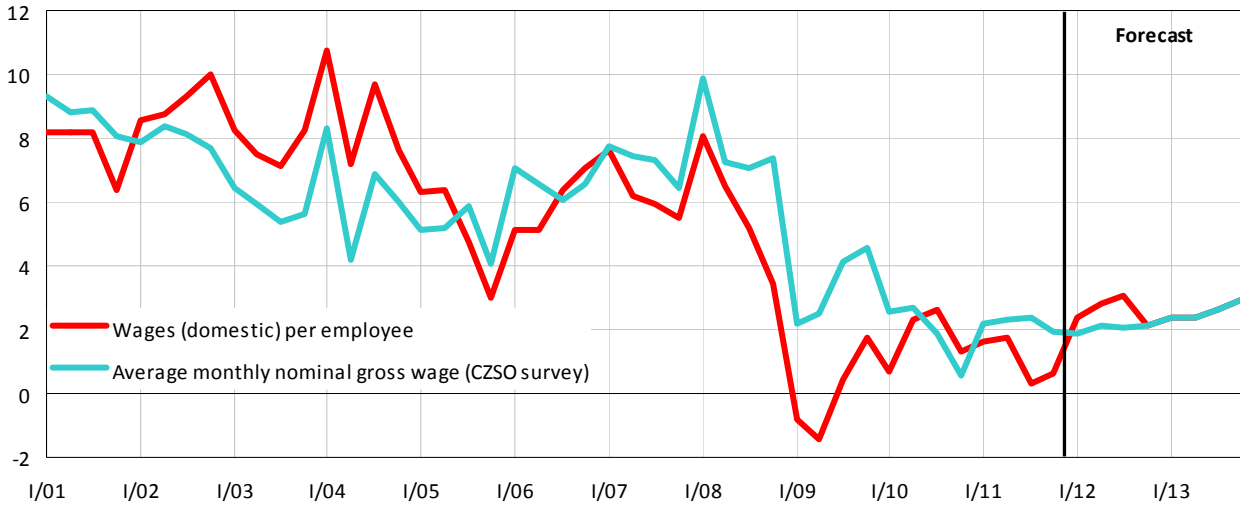
Graph C.3.5: Wage Bill – nominal, domestic concept

YoY growth rate, in %



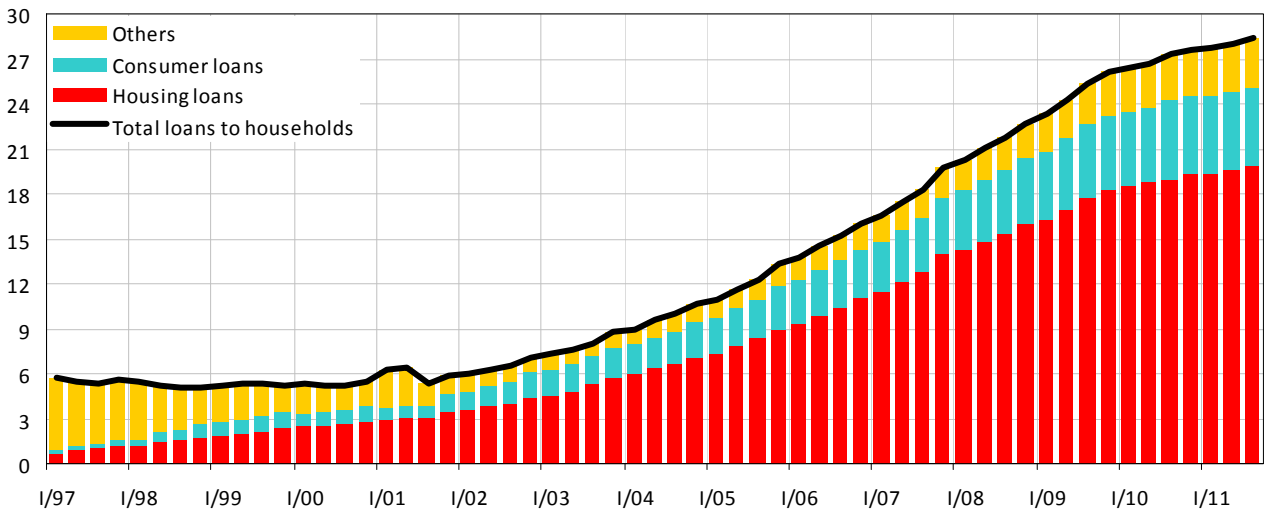
Graph C.3.6: Average Nominal Wage

YoY growth rate, in %



Graph C.3.7: Ratio of Bank Loans to Households to GDP

yearly moving sums of GDP, in %



Graph C.3.8: Gross Savings Rate of Households

in % of disposable income

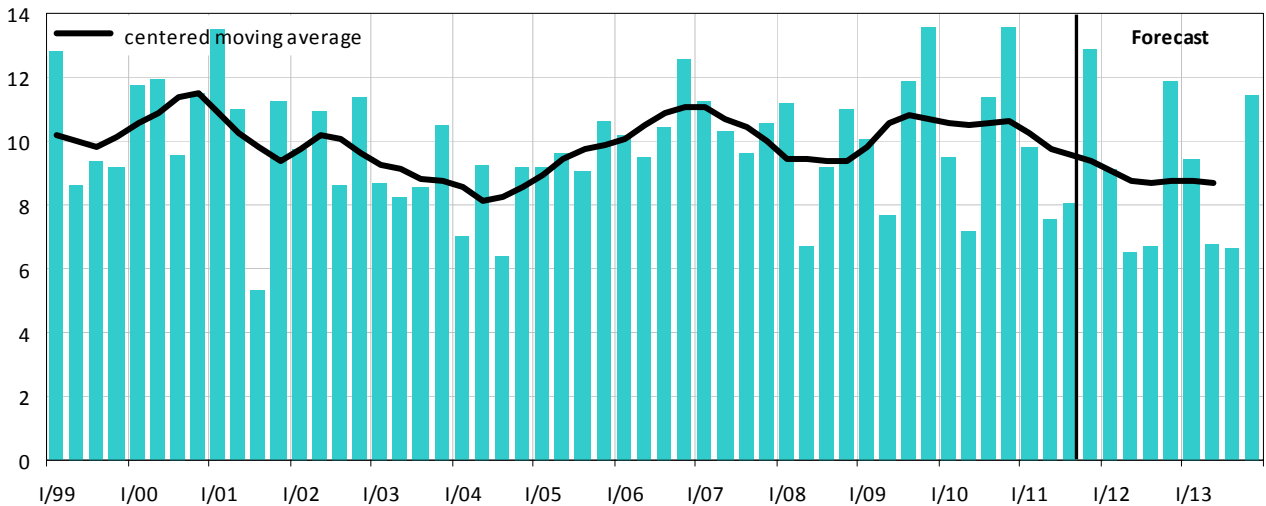


Table C.3.4: **Income and Expenditures of Households – yearly**
SNA methodology – national concept

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
										<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
<u>Current income</u>												
Compensation of employees	<i>bill.CZK</i>	1223	1302	1397	1510	1597	1556	1576	1596	1616	1659	
	<i>growth in %</i>	7.6	6.5	7.3	8.1	5.8	-2.6	1.3	1.3	1.2	2.7	
Gross operating surplus and mixed income	<i>bill.CZK</i>	508	515	538	570	587	588	601	595	598	604	
	<i>growth in %</i>	4.2	1.3	4.4	6.0	3.0	0.1	2.3	-1.0	0.5	1.0	
Property income received	<i>bill.CZK</i>	119	135	150	155	167	149	139	141	145	150	
	<i>growth in %</i>	7.0	13.0	11.5	3.1	8.2	-10.9	-6.7	1.3	3.0	3.0	
Social benefits not-in-kind	<i>bill.CZK</i>	368	386	422	471	495	536	547	561	576	597	
	<i>growth in %</i>	3.7	5.1	9.1	11.6	5.1	8.4	2.0	2.5	2.7	3.7	
Other current transfers received	<i>bill.CZK</i>	100	104	113	122	137	139	134	136	140	146	
	<i>growth in %</i>	4.6	4.5	8.9	7.8	11.8	1.4	-3.3	1.8	3.0	4.0	
<u>Current expenditure</u>												
Property income paid	<i>bill.CZK</i>	20	19	21	26	30	18	20	17	17	17	
	<i>growth in %</i>	15.0	-6.6	10.6	26.5	12.8	-38.1	8.6	-14.0	-0.5	0.0	
Curr. taxes on income and property	<i>bill.CZK</i>	141	144	144	160	146	141	141	143	145	149	
	<i>growth in %</i>	7.9	1.7	0.4	11.0	-8.6	-3.8	-0.1	1.8	1.0	2.7	
Social contributions	<i>bill.CZK</i>	483	515	564	618	638	605	623	638	643	666	
	<i>growth in %</i>	.	6.5	9.6	9.5	3.4	-5.3	3.1	2.4	0.8	3.4	
Other current transfers paid	<i>bill.CZK</i>	104	109	119	132	143	144	139	145	148	151	
	<i>growth in %</i>	6.1	4.7	9.4	11.0	8.3	0.7	-3.7	4.3	2.0	2.0	
Gross disposable income	<i>bill.CZK</i>	1569	1657	1771	1891	2025	2059	2074	2086	2122	2173	
	<i>growth in %</i>	5.4	5.6	6.9	6.8	7.1	1.7	0.7	0.5	1.8	2.4	
Final consumption	<i>bill.CZK</i>	1461	1516	1604	1720	1857	1852	1872	1899	1954	2002	
	<i>growth in %</i>	6.8	3.8	5.9	7.2	8.0	-0.2	1.0	1.5	2.9	2.4	
Change in share in pension funds	<i>bill.CZK</i>	17	19	23	26	24	17	15	15	15	15	
Gross savings	<i>bill.CZK</i>	125	160	190	197	193	224	218	201	183	187	
Capital transfers (income (-) / expenditure (+))	<i>bill.CZK</i>	-27	-31	-31	-36	-29	-26	-30	-33	-21	-21	
Gross capital formation	<i>bill.CZK</i>	140	158	178	203	209	193	212	210	202	194	
	<i>growth in %</i>	4.8	13.2	12.4	14.2	3.0	-7.5	10.0	-0.9	-4.0	-4.0	
Change in financial assets and liab.	<i>bill.CZK</i>	12	34	43	30	12	56	35	24	3	15	
Real disposable income	<i>growth in %</i>	2.5	3.7	4.3	3.8	0.7	0.6	-0.7	-1.4	-1.5	0.0	
Gross savings rate	%	8.0	9.7	10.7	10.4	9.5	10.9	10.5	9.6	8.6	8.6	

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

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										Forecast	Forecast
Balance of goods and services	<i>bill.CZK</i>	3	86	108	106	100	161	129	160	184	205
– balance of trade ¹⁾	<i>bill.CZK</i>	-13	49	59	47	26	87	54	94	117	134
— of which mineral fuels (SITC 3) ²⁾	<i>bill.CZK</i>	-72	-110	-139	-124	-166	-106	-138	-176	-209	-212
– balance of services	<i>bill.CZK</i>	17	38	49	59	74	74	75	66	67	71
Balance of income	<i>bill.CZK</i>	-157	-128	-165	-255	-175	-250	-285	-272	-282	-302
– compensation of employees	<i>bill.CZK</i>	-16	4	3	-4	-19	-11	-1	-3	-6	-9
– investment income	<i>bill.CZK</i>	-141	-132	-168	-251	-156	-239	-284	-269	-277	-293
Balance of transfers	<i>bill.CZK</i>	6	11	-11	-8	-6	-1	9	2	4	4
Current account	<i>bill.CZK</i>	-147	-31	-67	-157	-81	-89	-147	-109	-94	-92
Capital account	<i>bill.CZK</i>	-14	6	10	22	27	51	33	15	17	19
Financial account	<i>bill.CZK</i>	177	160	100	125	92	143	174	88	.	.
– foreign direct investments	<i>bill.CZK</i>	102	280	90	179	36	38	95	75	.	.
– portfolio investments	<i>bill.CZK</i>	53	-81	-27	-57	-9	159	150	6	.	.
– other investments	<i>bill.CZK</i>	23	-38	36	3	65	-53	-71	7	.	.
Change in reserves	<i>bill.CZK</i>	7	93	2	16	40	61	41	-17	.	.
International investment position	<i>bill.CZK</i>	-825	-837	-1084	-1418	-1545	-1728	-1849	.	.	.
Gross external debt	<i>bill.CZK</i>	1012	1144	1196	1377	1630	1639	1789	1875	1921	1965
Balance of goods and services / GDP	<i>per cent</i>	0.1	2.8	3.2	2.9	2.6	4.3	3.4	4.2	4.7	5.1
Current account / GDP	<i>per cent</i>	-5.0	-1.0	-2.0	-4.3	-2.1	-2.4	-3.9	-2.9	-2.4	-2.3
Financial account / GDP	<i>per cent</i>	6.1	5.1	3.0	3.4	2.4	3.8	4.6	2.3	.	.
IIP / GDP	<i>per cent</i>	-28.2	-26.9	-32.3	-38.7	-40.2	-46.2	-49.0	.	.	.
Gross external debt / GDP ³⁾	<i>per cent</i>	34.5	36.7	35.7	37.6	42.3	43.8	47.4	49	49	49

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

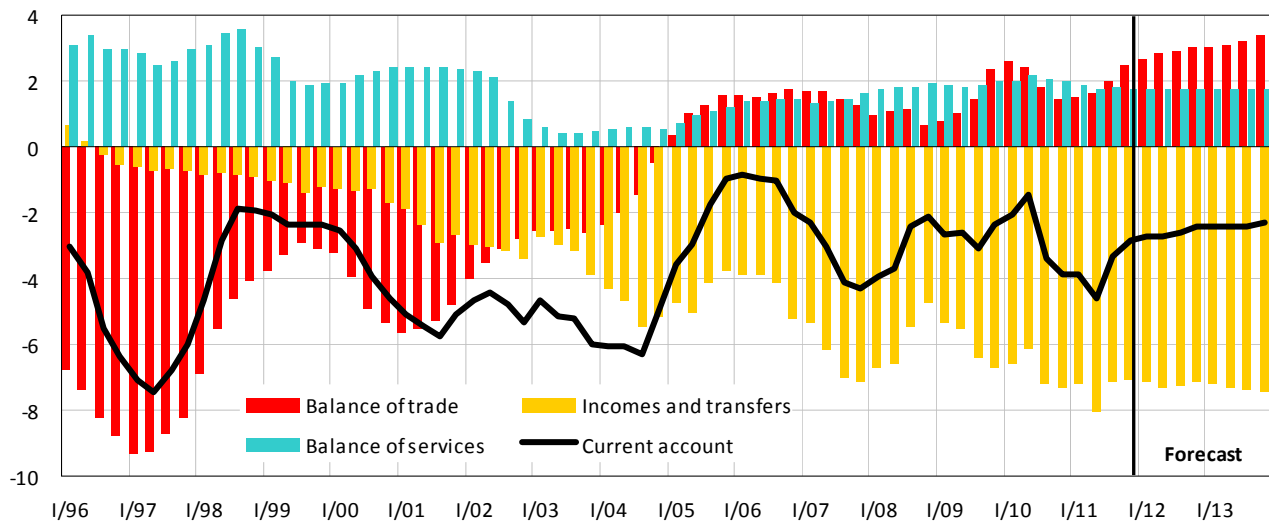
³⁾ Ratio of external debt (in CZK) at the end of period to GDP (in CZK)

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

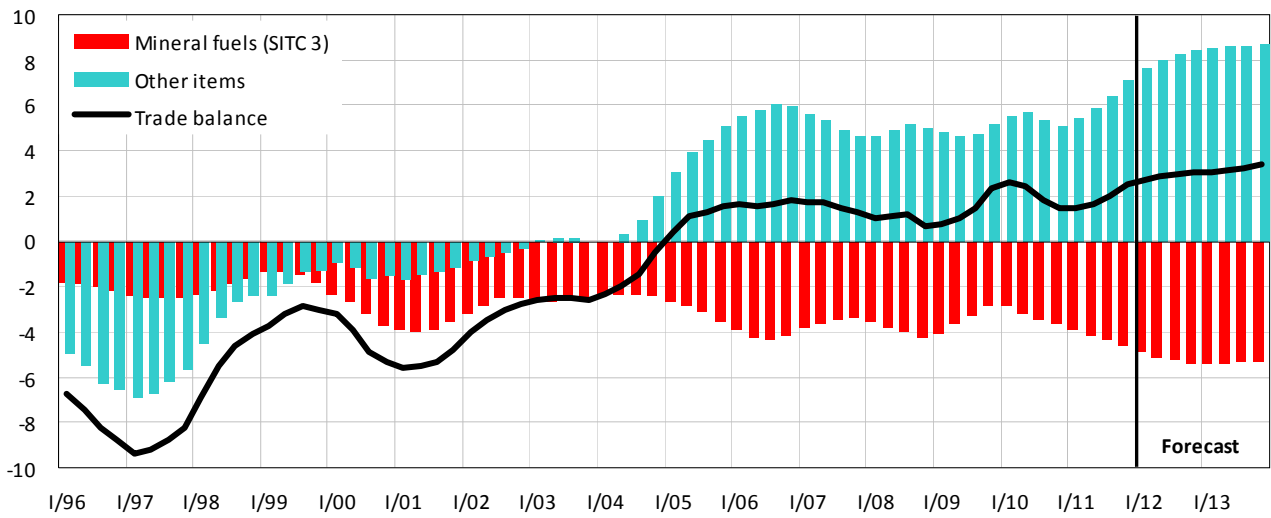
		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Balance of goods and services	bill.CZK	128	130	145	160	170	177	181	184
– balance of trade	bill.CZK	56	63	75	94	103	110	113	117
— of which mineral fuels (SITC 3)	bill.CZK	-150	-160	-166	-176	-188	-197	-204	-209
– balance of services	bill.CZK	71	67	70	66	67	67	67	67
Balance of income	bill.CZK	-283	-313	-280	-272	-275	-277	-280	-282
– compensation of employees	bill.CZK	-2	-2	-3	-3	-4	-4	-5	-6
– investment income	bill.CZK	-281	-310	-277	-269	-271	-273	-275	-277
Balance of transfers	bill.CZK	10	8	8	2	0	-4	-1	4
Current account	bill.CZK	-146	-175	-126	-109	-105	-104	-100	-94
Capital account	bill.CZK	31	21	9	15	15	16	16	17
Financial account	bill.CZK	185	244	115	88	.	.	.	.
– foreign direct investments	bill.CZK	94	99	57	75	.	.	.	.
– portfolio investments	bill.CZK	97	77	-3	6	.	.	.	.
– other investments	bill.CZK	-6	68	62	7	.	.	.	.
Change in reserves	bill.CZK	21	20	-45	-17	.	.	.	.
International investment position	bill.CZK	-1895	-1971	-1972	.	.	.	.	.
Gross external debt	bill.CZK	1749	1782	1863	1875	1858	1892	1921	1921

Graph C.4.1: **Current Account**

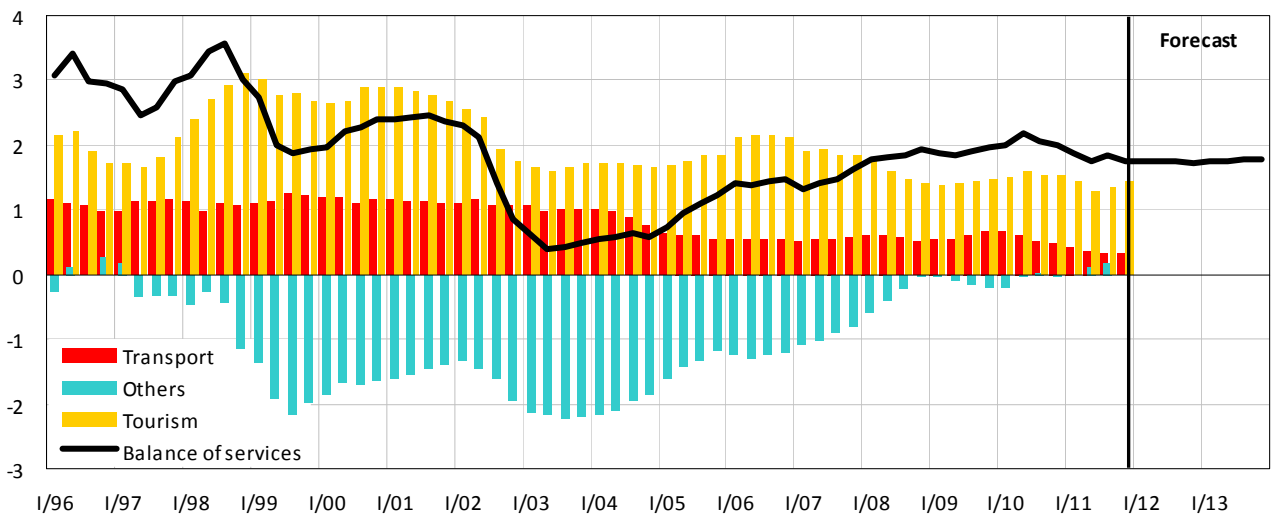
moving sums of the latest 4 quarters, in % of GDP, trade and service balances in BoP definitions



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



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

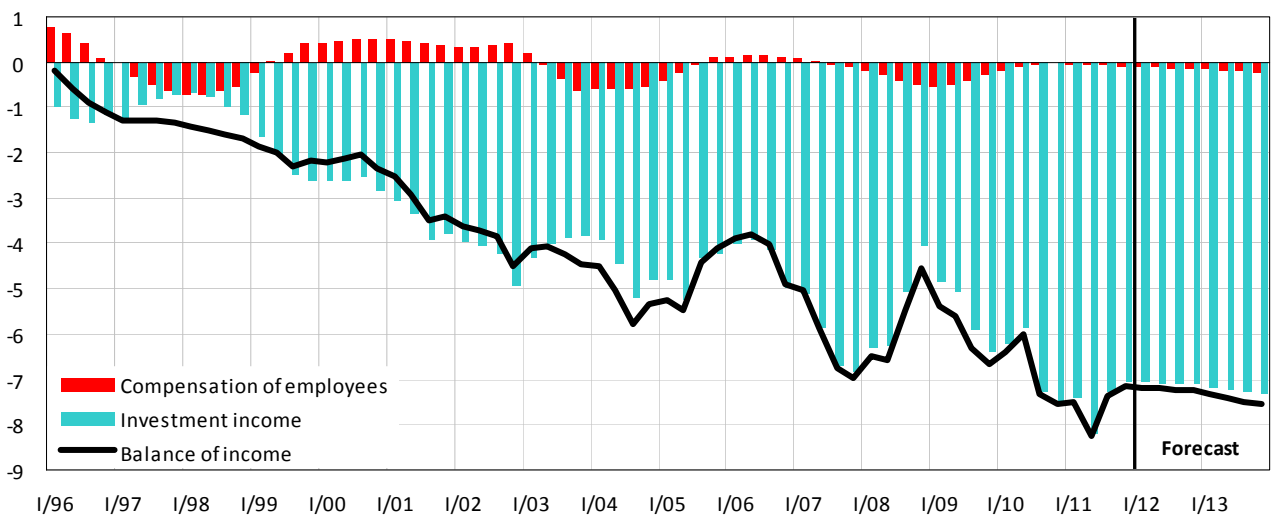


Table C.4.3: Decomposition of Exports of Goods – yearly

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
											Forecast	Forecast
GDP ¹⁾	<i>average of 2005=100</i>	97.9	100.0	104.3	108.9	110.5	106.0	109.3	112.3	113	114	
	<i>growth in %</i>	2.0	2.2	4.3	4.4	1.4	-4.1	3.2	2.8	0.6	1.1	
Import intensity ²⁾	<i>average of 2005=100</i>	94.6	100.0	107.9	110.2	110.1	102.2	110.9	115.3	117	119	
	<i>growth in %</i>	6.2	5.7	7.9	2.1	-0.1	-7.1	8.4	4.0	1.3	1.7	
Export markets ³⁾	<i>average of 2005=100</i>	92.6	100.0	112.5	120.0	121.6	108.3	121.2	129.5	132	136	
	<i>growth in %</i>	8.4	8.0	12.5	6.6	1.4	-10.9	11.9	6.9	1.9	2.8	
Export performance	<i>average of 2005=100</i>	97.6	100.0	101.3	105.8	107.5	106.6	111.5	116.7	118	119	
	<i>growth in %</i>	5.0	2.5	1.3	4.5	1.6	-0.8	4.6	4.7	1.2	0.8	
Real exports	<i>average of 2005=100</i>	90.3	100.0	114.0	126.9	130.7	115.5	135.2	151.2	156	162	
	<i>growth in %</i>	13.8	10.7	14.0	11.4	3.0	-11.7	17.1	11.9	3.1	3.6	
1 / NEER	<i>average of 2005=100</i>	105.9	100.0	95.4	93.0	83.2	86.0	84.2	81.7	83	83	
	<i>growth in %</i>	-1.2	-5.6	-4.6	-2.6	-10.5	3.4	-2.2	-2.9	2.2	-0.7	
Prices on foreign markets	<i>average of 2005=100</i>	97.0	100.0	103.1	106.1	112.8	109.5	110.5	114.7	115	118	
	<i>growth in %</i>	3.5	3.1	3.1	2.9	6.3	-2.9	0.9	3.8	0.6	2.0	
Exports deflator	<i>average of 2005=100</i>	102.7	100.0	98.4	98.6	93.8	94.2	93.0	93.7	96	98	
	<i>growth in %</i>	2.3	-2.6	-1.6	0.2	-4.9	0.4	-1.3	0.8	2.8	1.3	
Nominal exports	<i>average of 2005=100</i>	92.8	100.0	112.2	125.1	122.7	108.6	125.8	141.8	150	158	
	<i>growth in %</i>	16.4	7.7	12.2	11.6	-2.0	-11.4	15.8	12.7	6.0	4.9	

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.

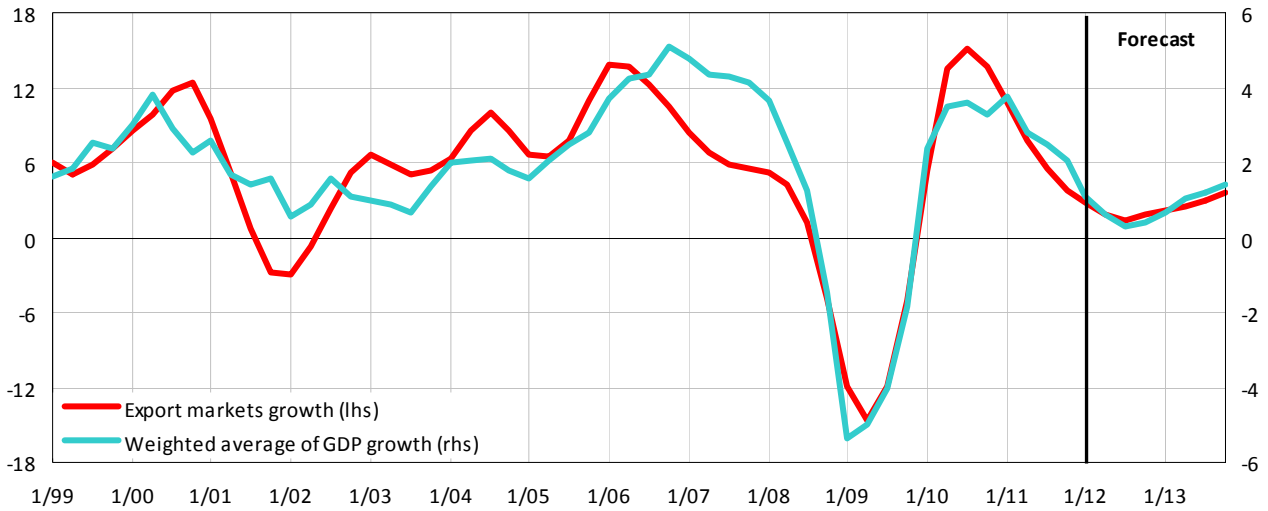
³⁾ Weighted average of imports of goods of the main partners.

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

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
GDP	<i>average of 2005=100</i>	111.7	112.1	112.7	112.8	113	113	113	113
	<i>growth in %</i>	3.8	2.8	2.5	2.0	1.1	0.6	0.3	0.4
Import intensity	<i>average of 2005=100</i>	114.2	115.4	115.8	115.8	116	117	117	117
	<i>growth in %</i>	6.8	4.9	3.0	1.6	1.7	1.2	1.0	1.3
Export markets	<i>average of 2005=100</i>	127.6	129.4	130.6	130.6	131	132	132	133
	<i>growth in %</i>	10.9	7.8	5.5	3.7	2.8	1.8	1.3	1.8
Export performance	<i>average of 2005=100</i>	118.3	119.3	112.4	117.1	119	121	114	119
	<i>growth in %</i>	8.6	6.2	3.0	1.3	1.0	1.1	1.3	1.3
Real exports	<i>average of 2005=100</i>	150.9	154.4	146.7	152.9	157	159	151	158
	<i>growth in %</i>	20.4	14.6	8.7	5.0	3.8	2.9	2.7	3.1
1 / NEER	<i>average of 2005=100</i>	81.4	80.7	81.0	83.7	84	84	83	83
	<i>growth in %</i>	-4.6	-5.7	-2.9	1.6	2.8	3.5	3.0	-0.5
Prices on foreign markets	<i>average of 2005=100</i>	113.7	115.2	115.3	114.7	115	116	115	116
	<i>growth in %</i>	4.9	4.3	3.4	2.5	0.8	0.3	0.2	1.1
Exports deflator	<i>average of 2005=100</i>	92.5	93.0	93.3	96.0	96	97	96	97
	<i>growth in %</i>	0.1	-1.6	0.5	4.1	3.6	3.8	3.2	0.6
Nominal exports	<i>average of 2005=100</i>	139.7	143.6	137.0	146.8	150	153	145	152
	<i>growth in %</i>	20.4	12.7	9.2	9.3	7.6	6.8	6.0	3.7

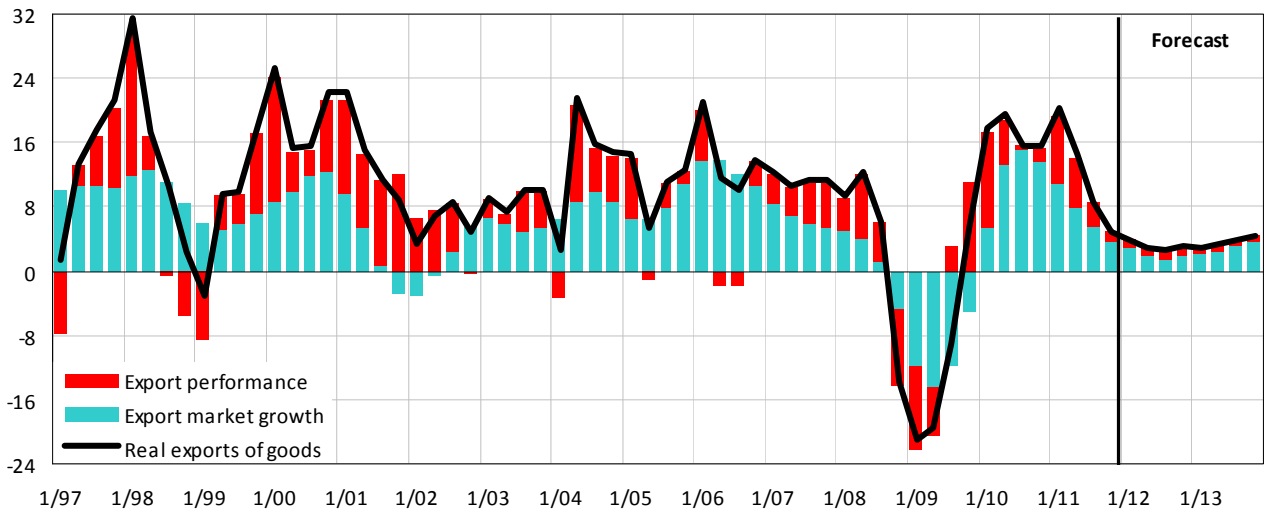
Graph C.4.5: GDP and Imports of Goods in Main Partner Countries

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 %

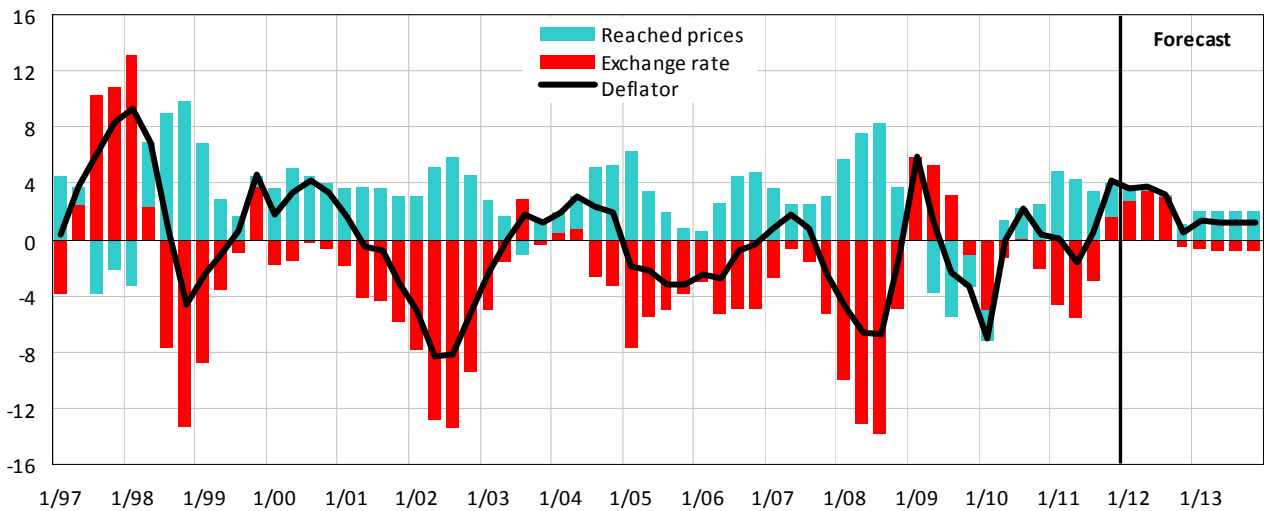
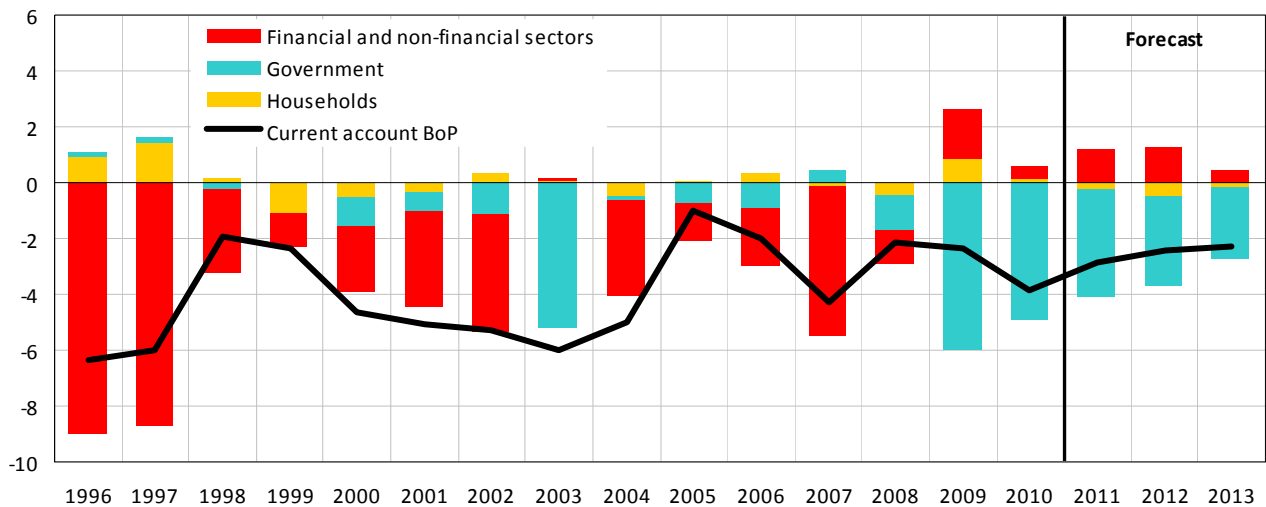


Table C.4.5: Savings and Investments – yearly

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013		
											Estimate	Forecast	Forecast
Gross capital formation	% of GDP	27.1	26.5	27.7	29.8	28.9	24.0	25.1	24.5	24.4	24.5		
–fixed capital formation	% of GDP	25.9	25.8	25.7	27.0	26.8	24.8	24.4	23.9	23.6	23.8		
–change in stocks	% of GDP	1.2	0.7	2.0	2.8	2.1	-0.8	0.6	0.5	0.8	0.7		
–government sector	% of GDP	4.0	4.2	4.5	4.1	4.6	5.1	4.3	4.3	4.2	4.1		
–households	% of GDP	4.8	5.1	5.3	5.5	5.4	5.2	5.6	5.5	5.2	4.9		
–non-financial and financial sectors	% of GDP	18.3	17.2	17.9	20.2	19.0	13.7	15.1	14.6	14.9	15.6		
Gross national savings	% of GDP	23.0	24.5	25.1	24.7	26.0	20.7	20.7	21.6	22.0	22.2		
–government sector	% of GDP	3.9	3.5	3.5	4.5	3.2	-0.9	-0.6	0.5	1.0	1.5		
–households	% of GDP	4.3	5.1	5.7	5.4	5.0	6.0	5.8	5.3	4.7	4.7		
–non-financial and financial sectors	% of GDP	14.9	15.9	15.9	14.8	17.8	15.5	15.5	15.8	16.2	16.0		
Financial balance													
–government sector	% of GDP	-0.2	-0.7	-0.9	0.4	-1.3	-6.0	-4.9	-3.8	-3.2	-2.6		
–households	% of GDP	-0.5	0.1	0.4	-0.2	-0.4	0.8	0.1	-0.2	-0.5	-0.2		
–non-financial and financial sectors	% of GDP	-3.4	-1.3	-2.1	-5.4	-1.2	1.8	0.4	1.2	1.3	0.4		
–methodological discrepancy	% of GDP	-0.9	1.0	0.6	0.8	0.8	1.0	0.5	0.0	0.0	0.0		
Current account BoP	% of GDP	-5.0	-1.0	-2.0	-4.3	-2.1	-2.4	-3.9	-2.9	-2.4	-2.3		

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

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
									<i>Prelim.</i>	<i>Forecast</i>	<i>Forecast</i>
Slovenia	<i>PPS</i>	18 800	19 600	20 700	22 100	22 700	20 500	20 700	20 900	21 200	21 800
	<i>EA12=100</i>	78	79	79	80	83	79	78	77	77	77
Greece	<i>PPS</i>	20 300	20 400	21 800	22 500	23 100	22 100	21 900	20 700	20 100	20 500
	<i>EA12=100</i>	85	82	84	82	84	86	82	76	73	73
Czech Republic	<i>PPS</i>	16 900	17 800	18 900	20 700	20 200	19 300	19 400	19 700	20 000	20 500
	<i>EA12=100</i>	71	72	73	75	74	75	73	72	72	73
Portugal	<i>PPS</i>	16 700	17 900	18 700	19 600	19 500	18 800	19 600	19 400	19 000	19 500
	<i>EA12=100</i>	70	72	72	71	71	73	73	71	69	69
Slovakia	<i>PPS</i>	12 300	13 500	15 000	16 900	18 100	17 000	17 900	18 500	19 000	19 800
	<i>EA12=100</i>	52	55	57	62	66	66	67	68	69	70
Estonia	<i>PPS</i>	12 400	13 800	15 600	17 500	17 300	14 900	15 700	17 100	17 600	18 600
	<i>EA12=100</i>	52	56	60	64	63	58	59	63	64	66
Hungary	<i>PPS</i>	13 600	14 200	14 900	15 400	16 000	15 200	15 800	16 500	16 800	17 300
	<i>EA12=100</i>	57	57	57	56	58	59	59	61	61	61
Poland	<i>PPS</i>	11 000	11 500	12 300	13 600	14 100	14 300	15 300	16 100	16 800	17 600
	<i>EA12=100</i>	46	46	47	50	51	55	57	59	61	62
Lithuania	<i>PPS</i>	11 000	11 900	13 100	14 800	15 400	12 800	14 000	15 400	16 100	17 100
	<i>EA12=100</i>	46	48	50	54	56	50	53	56	58	60
Latvia	<i>PPS</i>	9 900	10 800	12 200	13 900	14 100	12 000	13 000	14 700	15 400	16 400
	<i>EA12=100</i>	41	44	47	50	51	47	49	54	56	58

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

EA12=100

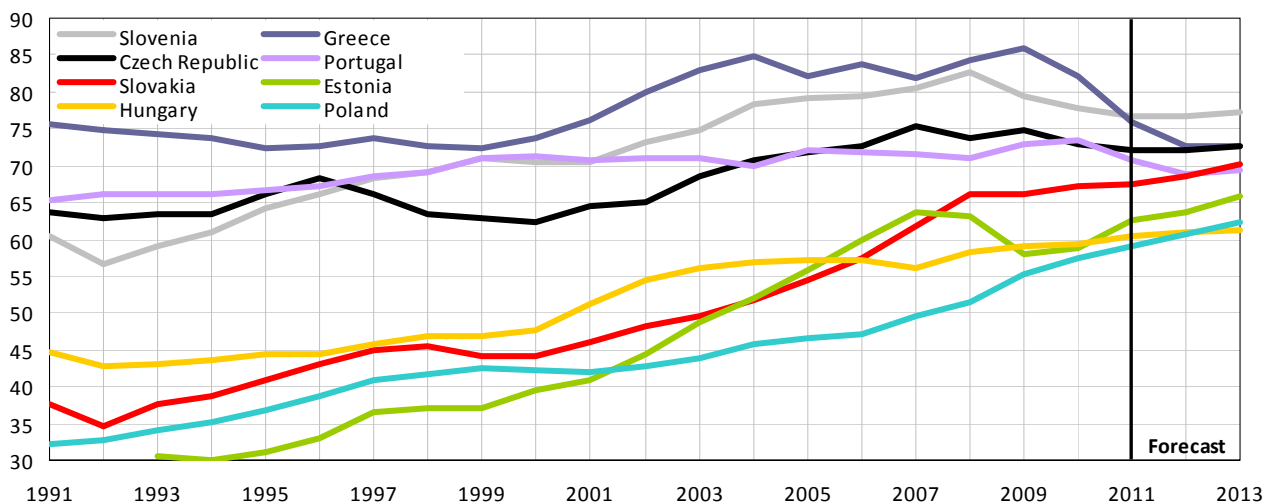
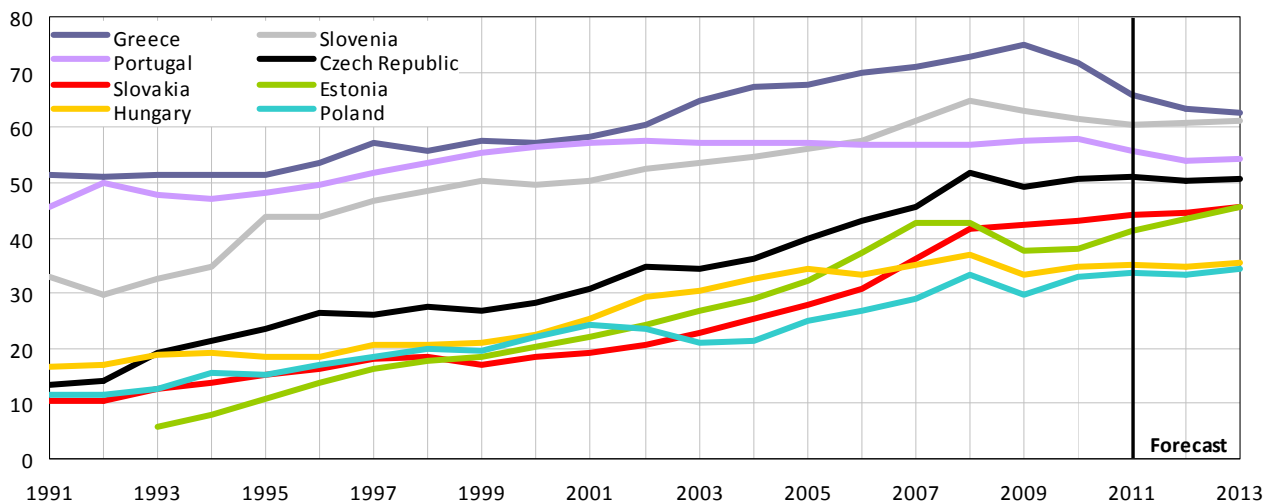


Table C.5.2: GDP p.c. – using current exchange rates

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013		
											Prelim.	Forecast	Forecast
Greece	EUR	16 700	17 400	18 700	19 900	20 700	20 500	20 100	19 000	18 500	18 600		
	EA12=100	67	68	70	71	73	75	72	66	64	63		
	Comparative price level EA12=100	79	83	84	87	86	87	87	87	87	86		
Slovenia	EUR	13 600	14 400	15 400	17 100	18 400	17 300	17 300	17 400	17 700	18 200		
	EA12=100	55	56	57	61	65	63	62	60	61	61		
	Comparative price level EA12=100	70	71	72	76	78	79	79	79	79	79		
Portugal	EUR	14 200	14 600	15 200	16 000	16 200	15 800	16 200	16 100	15 800	16 200		
	EA12=100	57	57	57	57	57	58	58	56	54	54		
	Comparative price level EA12=100	82	79	79	80	80	79	79	79	79	79		
Czech Republic	EUR	9 000	10 200	11 500	12 800	14 800	13 500	14 200	14 700	14 600	15 100		
	EA12=100	36	40	43	46	52	49	51	51	50	51		
	Comparative price level EA12=100	51	56	59	61	70	66	69	71	70	70		
Slovakia	EUR	6 300	7 100	8 200	10 100	11 900	11 600	12 100	12 700	13 000	13 600		
	EA12=100	25	28	31	36	42	42	43	44	45	46		
	Comparative price level EA12=100	49	51	54	59	63	64	64	65	65	65		
Estonia	EUR	7 200	8 300	10 000	12 000	12 200	10 300	10 700	11 900	12 700	13 500		
	EA12=100	29	32	37	43	43	38	38	41	44	46		
	Comparative price level EA12=100	55	58	62	67	68	65	65	66	68	69		
Lithuania	EUR	5 300	6 100	7 100	8 500	9 700	8 000	8 400	9 500	10 200	11 000		
	EA12=100	21	24	27	30	34	29	30	33	35	37		
	Comparative price level EA12=100	46	50	53	56	61	58	57	59	60	61		
Latvia	EUR	4 800	5 600	7 000	9 300	10 100	8 200	8 300	9 700	10 200	10 800		
	EA12=100	19	22	26	33	35	30	30	34	35	36		
	Comparative price level EA12=100	47	50	56	66	69	64	61	63	63	63		
Hungary	EUR	8 100	8 800	8 900	9 900	10 500	9 100	9 700	10 100	10 100	10 500		
	EA12=100	33	34	33	35	37	33	35	35	35	35		
	Comparative price level EA12=100	57	60	58	63	63	56	58	58	57	58		
Poland	EUR	5 300	6 400	7 100	8 100	9 500	8 100	9 300	9 700	9 700	10 200		
	EA12=100	21	25	27	29	33	30	33	34	33	34		
	Comparative price level EA12=100	47	54	57	59	65	54	58	57	55	55		

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

EA12=100



Graph C.5.3: Index of Comparative Price Level of GDP p.c.
EA12=100

