Ministry of Finance
Department for Financial Policies

Macroeconomic Forecast

Czech Republic

January 2010

Table of contents:

Macroeconomic forecasts are prepared by the Financial Policy Department of the Czech Ministry of Finance with quarterly periodicity. It contains a forecast for current and following years (i.e. till 2011) and for some indicators an outlook for further 2 years (i.e. till 2013). As a rule, they are published in the second half of the first month of each quarter and are also available on the MoF websites at:

> *www.mfcr.cz/macroforecast*

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

> *macroforecast@mfcr.cz*

Detailed information on fiscal developments can be found in Fiscal Outlook of the Czech Republic and are also available at:

> *www.mfcr.cz/fiscaloutlook*

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

List of used abbreviations:

CA .... current account of balance of payments
Const.p. .... constant prices
Curr.p. .... current prices
EA12 .... euro area containing 12 countries
EMU... European Monetary Union
ESA 95 .... European methodology of national accounting
EU27... EU countries containing 27 countries
GDPgross domestic product
GG .... general government
GFS Government Finance Statistics methodology of the International Monetary Fund
NFC non-fuel commodities
NPI .... non-profit institutions
Per. .... period
Perc. point, p.p. .... percentage point
Prelim. .... preliminarily
sa .... seasonal adjustment
TI .... transformation institutions
y-on-y terms. .... year-on-year terms

Basic notions:

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

Symbols used in the tables:

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

Deadline for data sources: 11th January 2010

A Forecast assumptions

*The forecast was prepared on the basis of data known as of **11 January 2010**. No political decisions, newly released statistics, or world financial or commodity markets developments could be taken into account after this date.*

Data from the previous forecast from October 2009 are marked in italics. Data in the tables covering years 2012 and 2013 are indicative, outlining only the direction of possible developments and as such are not commented on in the following text.

A.1   External environment

Economic environment

The world economy has been recovering from recession. Since spring 2009 equity markets have performed better with manufacturing production and export starting to recover at roughly the same time. China and other Asia's economies have returned to robust growth.

US economy slowed to 0.4 % in 2008, falling in the second half of the year. The slump continued in the first two quarters of 2009 (by -1.6 % and −0.2 % QoQ) and was replaced by 0.6 % growth (*0.1 %)* in the third quarter*. November inflation accelerated to 0.4 % thanks to higher prices of energy. Rate of unemployment grew to 10.2 % in October 2009, fell to 10.0 % in November and showed the same value also in December. Overcoming of recession was helped by consumption growth thanks to government stimuli including tax cuts. Optimism returned to stock markets, Dow-Jones Index grew by some 55 % as compared with the minimum of early March 2009. Property markets show signs of improvement but are still weak. US households start saving more, which can be a big change for the future. Unfinished rehabilitation of banks and financial sector poses a risk for future developments.

After general outline of health insurance reform has been put through, policy debate has focused on the issue, whether, and to what extent, to continue providing government stimuli. At present, the government tries to redirect part of unused financial relief to banks onto support of job creation as high rate of unemployment is seen as the main threat to recovery. The dollar kept on weakening in the fourth quarter, which helped exports, but strengthened a little in the end-year.

Euro area's GDP (EA12) grew by 0.6 % in 2008. Decline started in the second quarter of 2008 while a turn for growth occurred in the third quarter of 2009 (0.4 % QoQ *compared with 0.2 %*). Germany experienced severe recession (first estimate indicates decline by 5.0 % in 2009) although in the second quarter of 2009 it rather surprisingly reported growth by 0.3 % QoQ. In the third quarter growth reached 0.7 % (*0.5 %).*

Inter alia, economies heavily dependent on exports of manufacturing products were hit by the economic slump. YoY decline in industrial production peaked in April to May 2009, with growth of contracts reported afterward. Industrial production has been growing then in month-on-month terms (except for October) while in November its YoY decline reduced to −7.1 % (-8.8 % in Germany). Rate of unemployment in EA12 grew as in the US to 10.0 % in November (but mere 8.1 % in Germany in November and December). EA12 inflation grew to 0.9 % in December. Recession-related shock puts monetary union's cohesion to the test, as slump is very severe in some countries (Spain, Ireland, Greece). For quite a long time, ECB keeps interest rates at historic minimum of 1.00 %. Under "exit strategy" it prepares a gradual withdrawal of favourable crisis credits.

Following years of decline or stagnation, household consumption started growing in Germany. Recovery supported by government interventions gathered strength in early summer. Relatively low unemployment and inflation boosted consumption. However, in the third quarter consumption fell again and the government prepared a tax-cut package to support growth. Despite strong increase in exports it is not clear whether unemployment, which has kept low so far, will not start growing in the new year.

As regards **Central European** economies, high share of industrial production and dependence on exports to EU also resulted in decline in economic output.

In **Slovakia** high share of exports, especially of cars, as well as fall in foreign investment contributed to sharp decline in GDP (-8.6 % QoQ) in the first quarter of 2009. However, GDP has been growing since the second quarter but decline in 2009 will nevertheless hover around 5 %. The crisis led to growth in rate of unemployment above 12 %, which is maximum in past four years.

Poland's economy seems to be the only one in the EU to have avoided recession. Moderate growth in the first three quarters of 2009 was pulled by household

consumption. Also weakening of the zloty, robust fiscal impulse as well as low indebtedness of businesses and households helped. Nevertheless unemployment is growing, reaching 11.4 % in November.

Brent oil has been traded at some USD 80 per barrel in recent weeks but average price for 2009 was USD 61.9. Such development reflected expectations of economic recovery and, moreover, oil turned to be subject of investment again due to falling dollar. According to IEA data, demand for oil fell in advanced economies in past year. Decline was obviously counterbalanced with growing demand of China and other countries.

Our forecast is again based on the assumption that no major negative events will occur on the financial markets. In 2010 transition to growth is expected in global terms.

As regards US economy, change in real GDP amounting to −2.6 % (*-2.8 %)* is expected in 2009, while in 2010 GDP should grow slightly by 2.0 % *(1.5 %).* For 2011 growth is estimated at 2.5 %. Risk is seen in insufficient consolidation of financial sector and high unemployment.

In **EA12** economy a change in GDP at −3.9 % (*-4.0 %)* is estimated in 2009 and growth by 1.1 % (*0.9 %)* in 2010. In 2011 growth should reach 1.9 %. Risk is seen in potential new slump after pro-growth stimuli are withdrawn and in high, probably further growing unemployment.

Graph A.1.1: **Growth of GDP in EA12**
*QoQ growth in % (adjusted for seasonal and working day effects)*
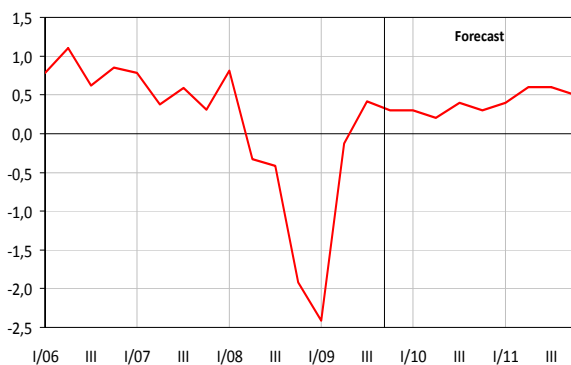
Commodity prices

Oil. Taking into account that the past forecast was right to capture trend to price increasing as well as its numerical level, price for 2010 is left almost identical as in October, i.e. USD 81 (*USD 79)* per barrel of Brent oil. In common with the previous forecast, growth to values above USD 90 is considered probable. On the side of production, due to insufficient investment in the period of lower prices and other factors, inability to increase

extraction considerably could be seen. Risks of the forecast are deviated upwards.

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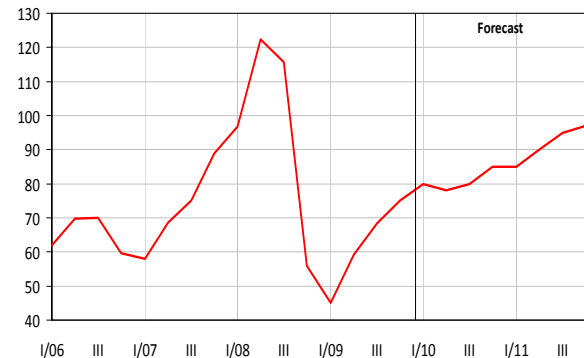
Global financial markets

2009 was a turbulent year for financial markets. It is true that extraordinary supporting measures of central banks and governments helped stabilize financial system, nevertheless future development is not free of risks, of which recent events in Dubai or Greece should remind us.

It stems from the IMF October Global Financial Stability Report that financial system stability increased between April and October 2009 but risks of repeated worsening remain considerable. Risk aversion also decreased over this period but demand of some investors for risk-free assets (government bonds) remains strong.

Graph A.1.3: **Risk premia**
spread of 10Y government bond yields against German bonds, in p.p., monthly average
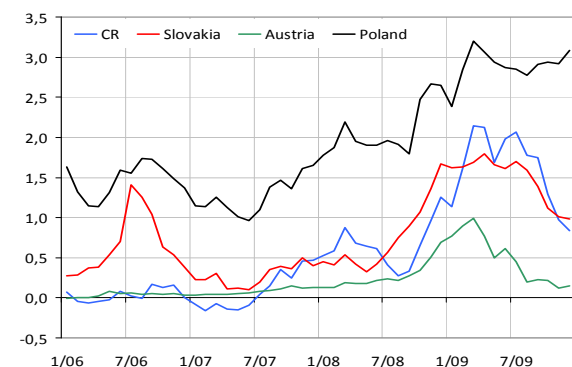
Source: ECB

Within the context of recent events, holding of government bonds of different countries is more than ever connected with unequal risks. Graph A.1.3 captures development of risk premia of Central European government bonds (difference between yields of 10-year government bonds of a specific Central European country and yields of German bonds

with the same maturity time). It is true that risk premium of Czech government bonds fell noticeably compared with maximums of the first half of past year but does not reach pre-crisis values so far.

Higher tolerance to risk also favourably influenced economic results of financial institutions, especially those with strong financial divisions[1]. Some of them performed better enough to pay off at least part of the accepted government support. However, the IMF estimates that banks due to bad credits and re-valuation of assets since mid-year 2009 to end-year 2010 will write down assets worth of USD 1.5 trill. IMF further expects that bank yields will not fully offset these losses and capital positions of banks will be still under pressure. It could unfavourably influence willingness of banks to lend and hurt the current recovery.

Also the ECB estimated bank losses in its December Financial Stability Review. ECB assumes that between November 2009 and December 2010 euro area's bank losses from bad credits and re-valuation of assets will reach EUR 187bn. Nevertheless, IMF and ECB estimates are encumbered with high rate of uncertainty.

Fast-growing indebtedness of some states is another risk for future development, which can raise the question of public finance sustainability in these countries and lead to a rise in costs on their debt service. Under autumn forecast of the European Commission, none of EU countries will run surplus budgets in the years 2010-2011 and general government deficits of some countries will exceed 10 % threshold in single years (Ireland, Latvia, Greece, UK) or will get close to this level. Moreover, in past December main rating agencies decreased rating of Greece and in some countries' outlooks there was a change for the worse.

It will thus be very important to set properly the so-called „exit strategies" (i.e. withdrawal of extraordinary crisis-related instruments of monetary and fiscal policies) and especially their timing. To finish adopted measures too soon would mean to risk stability of financial sector and probable negative impact on real economy (within the context of fragile as yet recovery); on the contrary, late withdrawal could bring a moral-hazard problem and burden public finance even more.

A.2   Fiscal policy

In previous years, performance of government institutions sector was positively influenced in particular by the peak phase of the economic cycle. However, recent economic recession has brought worsening of outcomes, revealing again structural deficiencies on the expenditure side of the general government.

Under preliminary data, general government deficit reached **6.6 % of GDP in 2009.** Compared with the October forecast, no change in estimate thus occurs but the estimate is still very influenced by high rate of uncertainty especially as regards tax receipts developments, in particular those related with corporate income tax. Similarly as deficit, also preliminary estimate of debt by the end of 2009 remains the same, amounting to 35.2 % of GDP. With regard to the current unsustainable fiscal-policy setting, debt will probably grow considerably in the future. For the time being, however, the numbers are preliminary. Data from administrative sources will be available as late as in this April.

Fiscal-policy setting for **2010** corresponds to planned deficit of the government sector of some **5.3 % of GDP.**

These expected values can be considered attainable nevertheless development of general government implementation toward the end of past year lays ground to certain risks tending to slightly worse results. In 2010 risk for implementation of the planned government sector deficit is seen in forthcoming election period connected with possibility of additional spending, and in local budgets performance, indicating as yet more like unwillingness to adjust their expenditures to expected revenues.

On the other hand, net operating surplus in 2009 indicates slightly that dropout in corporate income tax revenue could be more than expected caused by remission or reduction of advances on tax, which could subsequently lead to higher than expected yield from corporate income tax. With regard to delay in calculation of accrual revenue in direct taxation, real state for 2009 will be known finally in early 2011.

When assessing the fiscal-policy setting in 2009 and 2010 it is necessary to say that expenditure frameworks valid for these years were set as early as in 2007, i.e. in period of the highest boom and were only minimally changed afterward. Consequently, their setting partially reflected the then optimistic expectations of future developments. Nevertheless, the given higher level of planned spending means strengthening of importance of automatic stabilizers in the Czech economy in 2009 and 2010.

This reality as well as the fact that in the CR as continental Europe's country automatic stabilizers are

---

[1] *E.g. main world stock indices showed mostly double-digit growth and some credited their accounts with even more than 100 %. However, in many cases this favourable development was not sufficient to offset all losses from 2007, 2008 and early 2009.*

traditionally of high importance was not taken into account too much when planning stimulation measures for 2009. Consequently, it resulted in flagrant surpassing of Maastricht criterion for general government deficit.

Similar can be said about 2010. Nevertheless, long-term considerable exceeding of deficit criterion would reduce CR's credit significantly and then increase costs of government debt financing or possibly even hamper government bonds sale and thus hold up or make fully impossible implementation of some government expenditures. From this reason the government proposed and the Parliament approved austerity package for 2010 mainly (see Table A.2.1), aimed to reduce general government deficit to the mentioned 5.3 % of GDP.

When discussing draft bill on the CR state budget for 2010 some amendments were approved, which means that the planned state budget deficit for 2010 could be deepened. The government considered the situation after adoption of the 2010 state budget and passed a resolution to tie expenditures in total volume of CZK 5.9bn in the adopted 2010 budget.

It is characteristic for long-term internal situation of the CR that all adopted measures are more of ad hoc character. Consequently, they do not form a part of longer-term plans destined for public finance sustainability.

Table A.2.1: **Stabilization Measures for 2010**
ESA 95, in bill.CZK

Measures	Government sector		
	Revenues	*Expend.*	*Balance*
Property taxes	**2,8**	**0,0**	**2,8**
Income taxes	**1,5**	**0,0**	**1,5**
Excise taxes	**11,1**	**0,0**	**11,1**
Value added tax	**17,8**	**0,0**	**17,8**
Income from insurance	**32,6**	**0,0**	**32,6**
Maintaining the 50% refunding of wage compensation to employers	**0,0**	**2,2**	**-2,2**
Payment of sickness benefits	**0,0**	**-4,4**	**4,4**
Cancelled valorisation of pensions	**0,0**	**-6,9**	**6,9**
Volume reduction of public sector wages	**0,0**	**-2,0**	**2,0**
Total	**65,8**	**-11,1**	**76,9**

A.3 Monetary policy and interest rates

Monetary policy

To secure price stability, the CNB makes use of **inflation-targeting** regime. Inflation target is generally defined as the YoY increase in the CPI and is set at **2.0 %** (with tolerance band of ± 1 p.p.) from January 2010. Inflation target is set as medium-term with a monetary policy horizon of 12-18 months.

Limit interest rate for 2-week repo rates (**2W repo rate)** is the primary monetary instrument. It was lowered by 0.25 p.p. to 1.00 % over the fourth quarter of 2009 with regard to anti-inflationary risks of the CNB November forecast.

In **ECB** assessments, euro area's economy will grow by moderate albeit probably uneven pace with inflationary pressures remaining weak in the medium run. Such development supported ECB decision to leave interest rate for refinancing operations at 1.00 %. Thus, Interest

differential between the CR and euro area closed by the end of 2009. Should the ECB policy rate remain unchanged, during the first half of 2010 interest differential could grow slightly, which should not however influence considerably investment flows or moderate appreciation of the koruna.

US **Fed** kept the target band for refinance interest rate at 0.00-0.25 % in the fourth quarter of 2009. In the forthcoming period, decision on planned gradual withdrawal of programmes supporting mortgage credits and property markets can contribute to tightening of monetary conditions. Interest differential between the CR and the US reached 0.75-1.00 p.p. in December 2009.

Interest rates

December change in 2W repo rate contributed to lowering of average three-month **PRIBOR** rate to 1.77 % level in the fourth quarter of 2009. Expected

economic recovery should be accompanied in 2010 and 2011 by growth of market interest rates, which will be however dampened by falling risk premium. For 2010 average three-month PRIBOR rate is estimated at 1.7 % (*1.9 %)* and for 2011 at 2.4 %.

By means of transmission channels, expected growth of real inter-bank rates will obviously act on real economy toward subduing of aggregate demand growth and weakening of potential inflationary pressures.

Graph A.3.1: **PRIBOR 3M**
in %
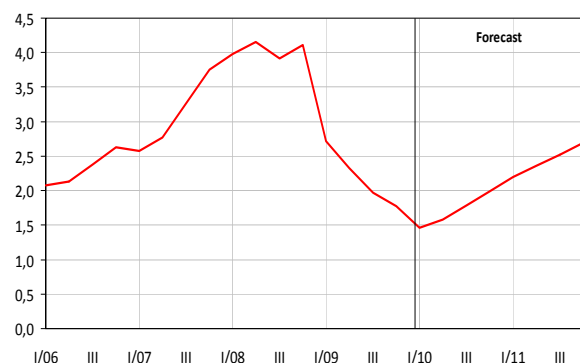
Average yield to maturity of 10-year government bonds fell considerably to 3.91 % in the fourth quarter of 2009. For the following period a change in falling trend is expected in connection with decreasing risk aversion and expected narrowing of spreads between yields and interest swaps, for which upward tendency is expected. Average yield of 10-year government bonds for 2010 is therefore predicted at 3.8 % (*4.3 %).* In 2011 its stability is expected at 4.0 %.

Interest rates from deposits and credits react in general to changes in inter-bank interest rates with a moderate delay and so are expected to grow since the second half of 2010. For the entire year 2010 average interest rates from household deposits are estimated at 1.3 % (*1.2 %)* and average interest rates from credits to non-financial businesses at 4.2 % (*4.7 %).* In 2011 average rate from household deposits is expected at some 1.3 % and rates from credits to non-financial businesses should grow to 4.5 %.

Interest rates from new credits to households were growing in the third quarter of 2009, reaching on average 14.7 %. An increase in average rates was caused by tightening credit conditions despite fall in inter-bank rates but major role was played by change in the structure of newly provided credits (share of more expensive bank overdrafts increased). Interest rates from new credits to non-financial businesses were mostly falling in the third quarter of 2009 (even with structure unchanged) and their average value was 4.2 %.

A.4   Exchange rates

Flexibility of the **exchange rate** helps the economy to respond to unfavourable shocks. Strengthening of the exchange rate of the koruna against the euro up to historic record of CZK/EUR 22.97 in July 2008 helped subdue inflationary pressures. The following steep correction up to CZK/EUR 29.47 in February 2009 somewhat decreased exporters' problems due to abrupt weakening of external demand. Average value in December 2009 was CZK/EUR 26.08, which was less by 3.0 % compared with the trend value.

The adopted scenario assumes that the exchange rate will hover below the long-term trend values over 2010 and 2011 keeping the tendency to moderate nominal and real appreciation.

Graph A.4.1: **Exchange Rate CZK/EUR**
quarterly averages
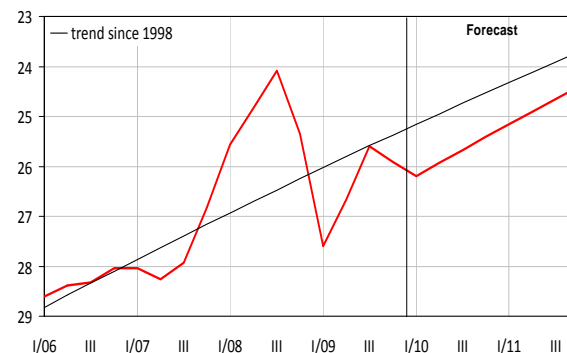
A.5   Structural policies

Business environment

On 28 December 2009 the **Act on Free Movement of Services** came into effect. The regulation transposes into the Czech legal order the Directive on Services in the Internal Market, which liberalizes substantially provision of services within the EU. In connection with adoption of the Act on Free Movement of Services, **Points of Single Contact** (PSC) were opened on 1 January 2010, aimed at making business entry easier especially for small and medium-sized entrepreneurs in the service sector, both Czech and foreign. PSCs provide them with information on business entry and at the same time arrange contacts with corresponding authorities. PSCs are available also in the electronic form and are part of pan-European network.

On 1 November 2009 transitional period ended and regular operation of information system of data boxes started. **Data boxes** are intended to deliver electronic documents of public authorities and to perform acts towards public authorities. They are aimed to simplify,

accelerate and make more effective communication between public authorities and legal persons. Legal persons and public authorities are obliged to use this system. As of 1 January 2010 a paid service was introduced enabling mutual communication only among natural persons, natural persons – entrepreneurs and legal persons. Till 1 July 2010, however, the service will be limited exclusively to invoices or similar requests for payment.

Measures reducing administrative burden of entrepreneurs include an amendment to the **Tax and Fee Administration Act**, which came into effect from 1 January 2010. It exempts small and medium-sized businesses from the obligation to keep a logbook for recording expenses related with trips made with a company car.

Financial market

European Directive on Payment Services in the Internal Market, harmonizing conditions of payment services provision within the EU, was transposed into the Czech legal order by means of **Act on System of Payment.** Shortening of time of bank transfers is the main contribution of the Act, which came into effect on 1 November 2009.

Taxation

Process of shifting the tax burden from direct taxation to indirect taxation has been continuing in the CR. By means of an amendment to the Income Tax Act, adopted in connection with the Act on General Government Stabilization, the **rate of corporate income tax** was cut from 20 % to 19 % from 1 January 2010.

On 1 January 2010 an amendment to the **VAT Act** took effect, aimed to set rules preventing tax evasion and tax avoidance. To apply for VAT refund is now possible in electronic form only. Another amendment to the VAT Act became valid on the same day, adopted in connection with draft bill on the 2010 state budget of the CR. The amendment increased VAT basic rate from 19 % to 20 % and reduced VAT rate from 9 % to 10 %.

An amendment to the Act on Consumption Taxes, adopted in connection with draft bill on the 2010 state budget for the CR, increases the rate of excise tax from petrol and diesel oil, spirit, beer and tobacco products. Amendment's effect was set at 1 January 2010 and for tobacco products at 1 February 2010.

Sustainable development, energy and climate change

The Czech government approved **Strategic Framework for the Czech Republic's Sustainable Development** on 11 January 2010. The document sets a vision of sustainable developments in the Czech Republic and defines its key principles, which are necessary to respect when formulating all related strategies and concept documents of the Czech government. The government also approved an **amendment to the Act on Conditions of Trading with Greenhouse Gases Emission Permits,** which transposes EU directive on incorporation of aviation-related activities into emission permit trading system. The amendment is aimed to stabilize emissions from air traffic at the level of the years 2004 to 2006 average. From 2012 all providers of air traffic, whose airplanes land on or leave airports on the EU territory, will be covered by the European system of emission permit trading.

Labour market

Strengthening of economic activity was the aim of amendments to the **Act on Employment and Act on Assistance in Material Poverty,** increasing interconnection of job-seekers' material-security claims with system of assistance in material poverty and introducing stricter rules of active employment policy. The period of support in unemployment was shortened by one month while unemployment benefit was increased - for the first two months it amounts to 65 % of average net monthly earning reached in the last job, for the next two months to 50 % and for the remaining part of period of support to 45 %.[2] Changes were made also as regards material-poverty assistance benefits: now they are paid in the form of vouchers for purchase of goods from 35 % at least and 65 % at most.

As regards **health insurance** system, in 2009 payment of sickness benefits has been abolished for the first three calendar days of illness and payment of the benefits by the employer was introduced for the fourth through fourteenth day. The measure is to eliminate sick pay abuse and to cut sickness rate in the CR, which is above Europe's average in the long run. The changes were accompanied with a cut in **social contribution** rate by 1.0 p.p. In 2011 the rate will decrease by further 0.9 p.p. for some employers. Also social contributions paid by employees were cut by 1.5 p.p. in 2009 with personal income tax rate and tax

---

[2] *Note: Anti-crisis measure that should increase unemployment benefit to 80 % in the first two months and to 55 % for the remaining part of period of support or to 85 % in case of re-qualification have never become effective.*

credit being preserved. In 2010 reduction thresholds of healthcare insurance were increased and size of sick pay and of financial assistance in maternity for the whole period of support time were temporarily reduced to single 60 %.

An increase in earned net income of persons with children is to be ensured by higher tax allowance /bonus per child in 2010. The size of children's allowances thus gets back to the same level as before anti-crisis package.

In relation with consolidation measures of the state budget, **caps** for social and healthcare **security contributions**[3] were increased to 72 multiple of average monthly wage for 2010. Further, measures of demand side of the labour market boosting maintenance of jobs for low-income employees (social security contribution reduction) expired az 31 December 2009 together with retreat of recession.

Measures of the **first stage of pension reform** come into effect in 2010, extending gradually the statutory retirement age up to 65 years for men and to 62-65 years for women (depending on the number of brought-up children). The amendment extends necessary time of insurance to 35 years and excludes time of study from the category of alternative periods of insurance. It re-considered also definition of full and partial disablement, introducing three degrees of disablement.

As regards structural measures, also strengthening of motivation of older persons to stay on the labour market is important. Motivation includes more severe cuts in old-age pensions in case of early retirement, and growth of percent term of old-age pension in case of concurrence of employment and drawing a full or partial pension.

A.6   Demographic trends

Under preliminary data for the first half of 2009, dynamic year-on-year growth of number of the CR population remained stable, reaching 0.6 %.

Positive balance of migration kept on high level of 18 thousand people in the first half-year, representing the most important factor of an increase in population growth although its intensity fell in comparison with 2008.

Natural increase of population reached 4 thousand persons, which is 2 thousand less compared with the same period of 2008. These characteristics suggest that

demographic situation is close to trajectory of high variant of the CZSO 2009 Demographic Projections and so the high variant has been preferred to the central one.

In general it can be said that from economic view the Czech population has still a very favourable structure with high share of working-age population (15 to 64 years), which however obviously reached its peak at the turn of 2008 and 2009.

Graph A.6.1: **Czech Population from 15 to 64 years**
quarterly averages, in thousands
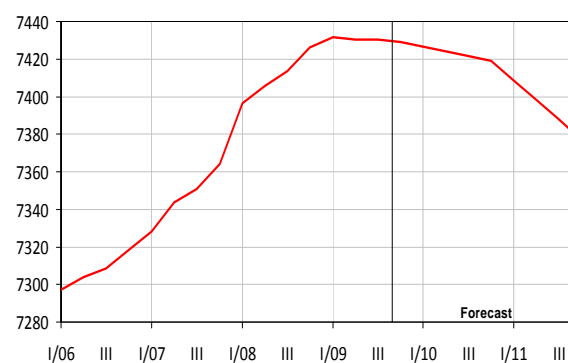
Also under assumptions of high variant of the projection, lower immigration can be still expected and, consequently, slight worsening of demographic structure. This phenomenon should be supported also by shrinking demand for foreign workforce due to lower economic activity.

In our calculations, however, stagnation of following moderate decline in the number of working-age population should be more than compensated by effects within the age structure of the workforce when structural shares of age groups with high or growing participation increase. Such development should be supported by statutory extension of retirement age.

On the other hand, the projection confirms progressing **population ageing process.** For the first time in Czech history, number of people younger than 20 years was lower in 2007 than number of population in the age category 60+. In future the number and share of seniors in the population will grow thanks to demographic structure and further lengthening of average life expectancy. Structural share of inhabitants older than 65 years in total population, which in early 2009 amounted to less than 15 %, should rise to nearly 20 % by early 2020.

---

[3] *However, maximum assessment base for health security contributions will remain preserved even after 2010.*

B Economic cycle

B.1   Position within the economic cycle

Potential product, specified on the basis of calculation by means of the Cobb-Douglas production function, indicates the level of GDP achieved with average use of production factors. Growth of potential product expresses possibilities for long-term sustainable growth of the economy free of imbalances. It can be broken down into contributions of 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 potential product. The concepts of potential product and output gap are used to analyze economic developments and to calculate the structural balance of the general government.

Under current conditions, however, when steep changes in the level of economic output have been taking place, it is very difficult to distinguish the influence of deepening of the negative output gap from that of a slowdown in potential product growth. Results of these calculations thus display high volatility and should be treated very cautiously.

Graph B.1: **Output Gap**
in % of potential GDP
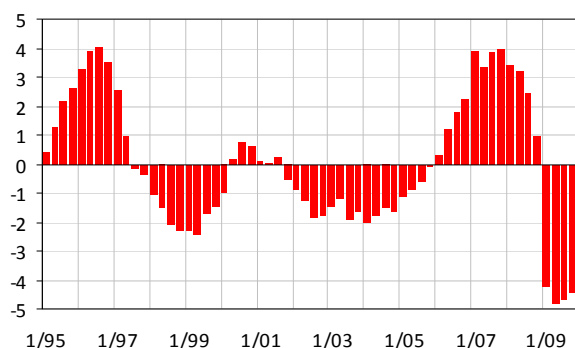
Graph B.2: **Potential Product Growth**
in %, contributions in percentage points
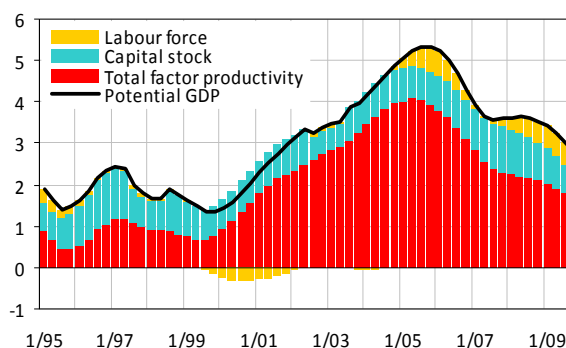
Graph B.3: **Utilisation of Capacities in Industry**
in %
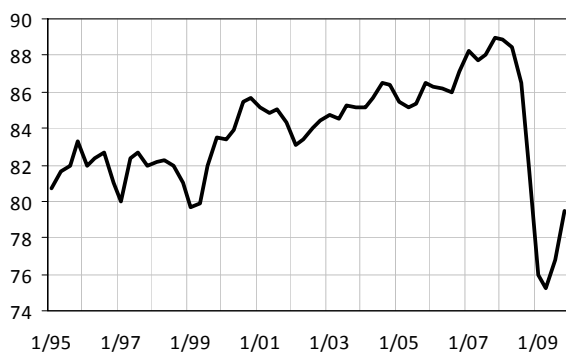
Graph B.4: **Total Factor Productivity**
YoY growth in %
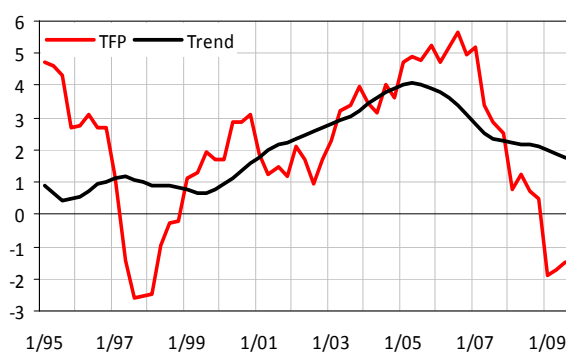
Table B.1: **Output Gap and Potential Product**

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Output gap	*per cent*	0,1	-0,1	-1,5	-1,6	-1,6	-0,6	1,3	3,7	2,5	-4,6
Potential output	*growth in per cent*	1,7	2,6	3,3	3,7	4,5	5,2	4,8	3,7	3,6	3,1
Contributions:											
TFP	*percentage points*	1,3	2,0	2,5	3,0	3,7	4,0	3,5	2,5	2,2	1,8
Fixed assets	*percentage points*	0,7	0,8	0,7	0,7	0,8	0,8	0,9	1,1	1,0	0,8
Participation rate	*percentage points*	-0,5	-0,4	-0,1	-0,2	-0,2	0,2	0,2	-0,2	0,0	0,3
Demography [1]	*percentage points*	0,2	0,2	0,2	0,2	0,2	0,2	0,3	0,3	0,4	0,2

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

Economic recession, which hit the Czech economy at the turn of 2008 and 2009, resulted in an emergence of a deeply negative **output gap.** According to current calculations, it hovered between –5 % and –4 % over the entire year 2009, which indicates the lowest utilisation of economic potential in the post-transformation period.

Deeply negative output gap reflects in the economy by means of extremely low utilisation of capacities in the industry, steep rise in the unemployment rate, reduction in the number of vacancies and, last but not least, substantial worsening of the general government deficit.

Total factor productivity (TPF) is the component of the potential product that was hit most. Since the beginning of 2009 economic problems have led to year-on-year decline in TPF, which reflected in slowdown of its trend growth below 2 % compared with 4 % in 2005.

Despite dropout of investment activity, impacts on growth of **capital stock** are less important so far. On the contrary, labour supply, measured as ratio of labour force to the number of population aged 15-64 years, surprisingly accelerated its growth in 2009.

Slowdown in growth of trend TPF reflects directly in year-on-year growth of **potential product,** which decreased probably below 3 % in late 2009. Further development of potential product will depend on the speed of the economy's recovery.

B.2   Composite leading indicator

Composite leading indicator is compiled from the results of business cycle surveys meeting basic demands made on cyclical leading indicators – economic significance, statistically observable relation to the course of economic cycle ahead of time and timely and regular availability.

Based on an analysis of relations between individual business cycle indicators and cyclical component of real GDP, a change was made in construction of composite leading indicator. The indicator has been compiled from those business cycle indicators that show a high level of correlation with average lead of six months.

Graph B.5: **Leading Composite Indicator**
average 2000=100 (lhs)
synchronized with cyclical component of GDP based on statistical methods (Hodrick-Prescott filter)
in % of GDP (rhs)
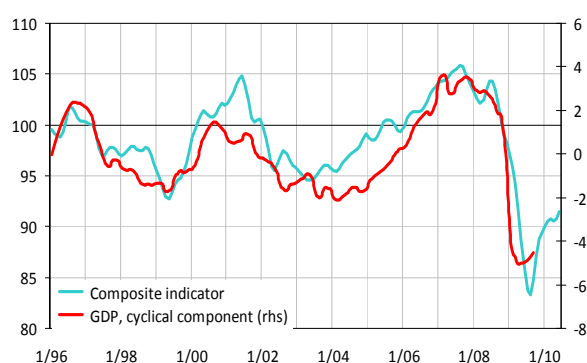
Composite leading indicator signalled increase in relative cyclical component in the fourth quarter of 2009, i.e. further QoQ growth of real GDP.

For the first half of 2010 the composite leading indicator signals further improvement of negative value of relative cyclical component with possible slowdown in this process in the first quarter of 2010.

Recent development shows that relative cyclical component starts to lag behind the development of leading composite indicator. With regard to the issue of the so-called end point when estimating the relative cyclical component as well as with regard to probable revisions of national accounts in the forthcoming period, it seems appropriate to postpone the composite indicator adjustment by several quarters.

Higher volatility of estimated relative cyclical component of GDP is caused by change in seasonal adjustment method used by the CZSO.

B.3 Individual business cycle indicators

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

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

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

Graph B.6: **Confidence Indicators**
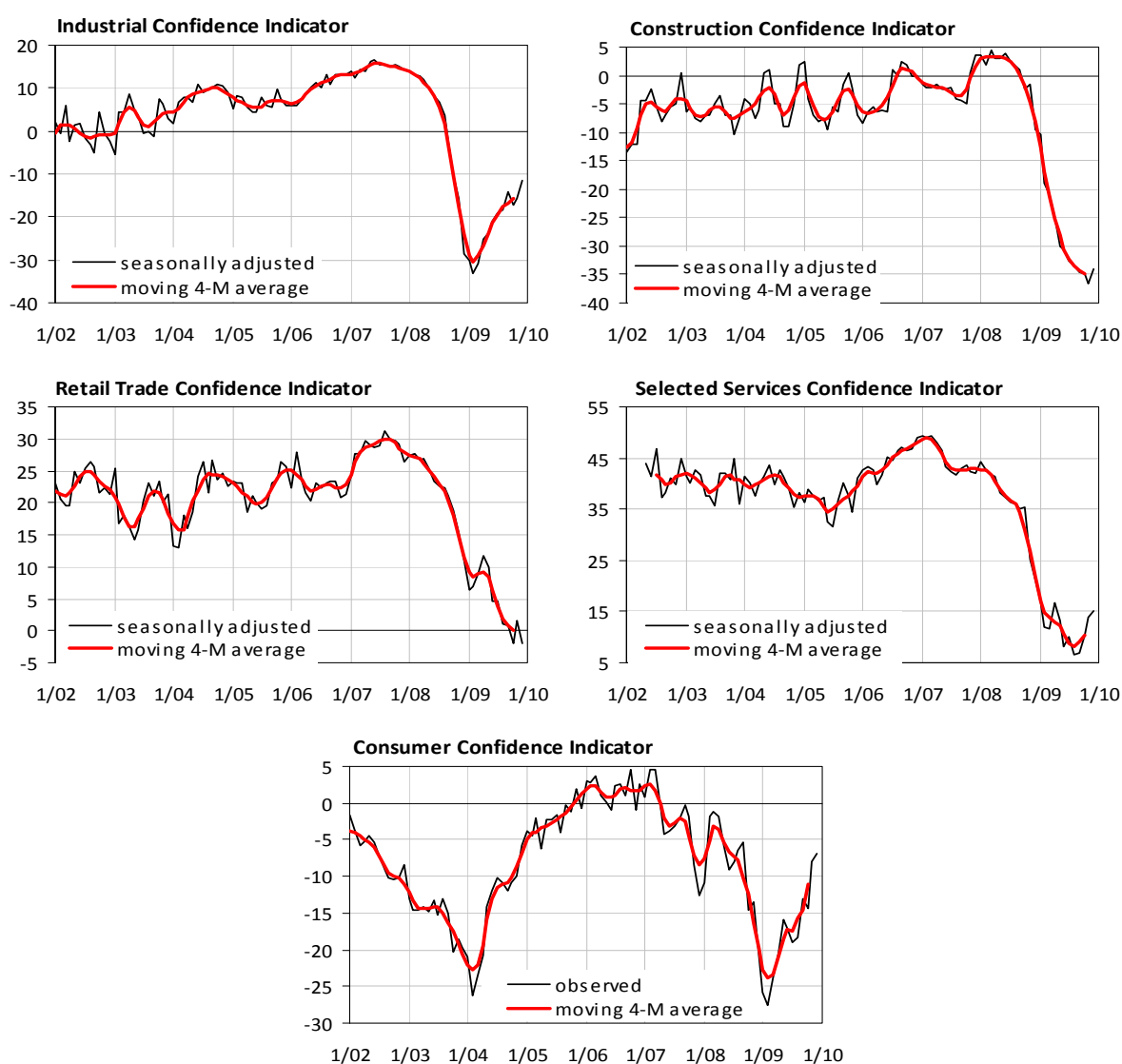
In the end of 2009 confidence in domestic economy further increased. In **industrial businesses** both current economic situation and total and external demand were assessed favourably in the fourth quarter of 2009. Also assessment of outlook for the first quarter is slightly optimistic. Respondents expect a gradual growth of production activity together with recovery in employment. Expected improvement of the businesses' economic situation also follows from this.

While in the industry situation started improving, scepticism still prevailed in **construction.** For the first quarter of 2010 respondents expect only a slight improvement in construction activity and stagnation of employment. A major improvement cannot be expected even as regards assessment of economic situation. Construction businesses allow for improvement as late as in six-month horizon.

As regards **trade,** deepening of economic problems continued although less vigorously. Turnaround was seen in **services** where businesses improved their assessment of economic situation, both current situation and development in three- and six-month horizon. Also assessment of expected demand shows rising trend.

Consumer confidence increased in the December survey. Next twelve months should bring a moderate improvement of total economic situation but also worsening of consumers' financial situation. Share of respondents, expecting an increase in unemployment, is gradually falling.

Graph B.7: **Aggregate Confidence Indicator**
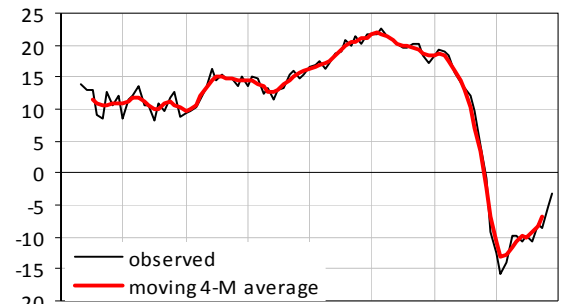
On the basis of opinions of economic agents it could be assumed that QoQ growth continued in the fourth quarter of 2009 (especially in industry and selected services). For the first quarter of 2010 the survey indicates a possible moderate growth. Developments of foreign demand will be an important factor.

C Forecast of macroeconomic indicators

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

Table C.1: **Main Macroeconomic Indicators**

		2006	2007	2008	2009	2010 Forecast	2011	2008	2009 Previous forecast	2010
Gross domestic product	*increase in %, const.pr.*	6,8	6,1	2,5	-4,0	1,3	2,6	2,7	-5,0	0,3
Consumption of households	*increase in %, const.pr.*	5,2	5,0	3,6	1,4	-0,8	2,0	3,4	0,7	-1,3
Consumption of government	*increase in %, const.pr.*	1,2	0,7	1,0	4,0	-1,7	1,0	1,6	2,0	-1,0
Gross fixed capital formation	*increase in %, const.pr.*	6,0	10,8	-1,5	-7,5	-3,7	2,5	-1,1	-7,8	-3,9
Contribution of foreign trade to GDP growth	*p.p., const.pr.*	1,5	1,1	1,3	-0,6	1,5	0,6	1,5	-1,0	1,4
GDP deflator	*increase in per cent*	1,1	3,4	1,8	3,1	0,5	1,0	1,7	2,7	0,2
Average inflation rate	*per cent*	2,5	2,8	6,3	1,0	2,0	1,8	6,3	0,9	1,4
Employment *(LFS)*	*increase in per cent*	1,3	1,9	1,6	-1,4	-1,8	0,0	1,6	-1,3	-1,9
Unemployment rate *(LFS)*	*average in per cent*	7,1	5,3	4,4	6,7	8,8	8,6	4,4	6,5	8,4
Wage bill *(domestic concept)*	*increase in %, curr.pr.*	7,9	9,4	8,7	-0,3	-0,7	4,5	8,7	-0,3	-1,1
Current account / GDP	*per cent*	-2,4	-3,2	-3,1	-1,0	0,5	-0,2	-3,1	-1,4	0,4
<u>Assumptions:</u>										
Exchange rate CZK/EUR		28,3	27,8	24,9	26,4	25,8	24,8	24,9	26,3	24,9
Long-term interest rates	*% p.a.*	3,8	4,3	4,6	4,7	3,8	4,0	4,6	4,9	4,3
Crude oil Brent	*USD/barrel*	65	73	98	62	81	92	98	61	79
GDP in Eurozone (EA-12)	*increase in %, const.pr.*	3,0	2,7	0,6	-3,9	1,1	1,9	0,8	-4,0	0,9

C.1 Economic output

In the fourth quarter of 2008 the Czech Republic was fully affected by the global economic crisis and entered into recession. Slump continued also in the first quarter of 2009 with **seasonally adjusted GDP** falling over these two quarters by 5.0 % (*by 6.0 % according to the CZSO October data).* Turnaround occurred in the second quarter of 2009 when seasonally adjusted GDP grew by 0.2 % (*0.1 %)* QoQ. In the third quarter of 2009 growth accelerated to 0.8 % (*0.4 %).* With regard to revision of the previous quarters it means a YoY dropout in GDP in constant prices by 4.7 %[4] in the third quarter of 2009 *(decline by 6.3 %).* Economies of our main trading partners gradually emerge from recession. The effect of restrictive fiscal measures will be seen as late as in 2010, in case of some trading partners even later.

In the fourth quarter of 2009 the economy probably continued further recovering. The forecast of QoQ growth has been increased to 0.8 % (*0.5 %),* which however means a YoY decline by 2.3 % (*decline by 3.5 %).* Also here the change in opinion of YoY pace of growth has been affected considerably by revision of QoQ growths made recently. Yearly real GDP for the entire 2009 should record decline by 4.0 % *(5.0 %).*

In the beginning of 2010 effect of stabilization measures should be seen in one-off QoQ decline by 0.2 %. Improved external conditions should gradually offset restrictive impacts of stabilization measures. Contribution of foreign trade should become the key pro-growth factor instead of current household consumption and government institutions spending. The forecast of GDP growth for 2010 is 1.3 % (*0.3 %).* In 2011 a moderate acceleration to 2.6 % should be seen.

---

[4] *Data **without seasonal adjustment** are given in the text, unless stated otherwise.*

Box C.1.1: **Impact of Carry Over Effect on GDP Forecasts**

Forecast of YoY changes in quarterly GDP in the Macroeconomic Forecast is based on QoQ changes (after adjustment for effects of seasons and working days), which are seen as decisive parameters of the indicator's dynamics. E.g. YoY growth of GDP in the fourth quarter of 2009 is given by chaining of individual QoQ growths in the first to fourth quarter of 2009. Consequently, should a change in QoQ growth in some of these quarters occur, either due to revision of past data or to different result released by the CZSO compared with the forecast, this fact will reflect in an increase or decrease in GDP level in future periods. This phenomenon is called carry over effect.

Carry over effect makes it possible to decompose changes in the forecast of YoY decline or growth of real GDP depending on changed statistics of QoQ decline/growth. Impact of carry over effect can be explained on an example of lessening of YoY decline in GDP in the fourth quarter of 2009 from 3.5 % in the October forecast to the current 2.3 %.

The CZSO lowered the depth of QoQ dropout in the first quarter of 2009 from –4.8 % to –4.4 % (i.e. by 0.4 p.p.) and increased growth for the second quarter from 0.1 % to 0.2 % (i.e. by 0.1 p.p.). Revisions of the past development thus contributed to change in YoY result for the fourth quarter by +0.5 p.p. The first CZSO estimate of QoQ growth in the third quarter is 0.8 % compared with the estimate of 0.4 % i.e. also with a positive difference of 0.4 p.p. Moreover, in the current forecast estimate of QoQ growth in the fourth quarter was increased to 0.8 % compared with 0.5 % in the October forecast.

Results of the analysis are summed up in the Table A.1.1. They demonstrate inter alia that prevailing part of the change in estimate of annual GDP change in 2009 has been caused by adjustment of the released times series for the past.

Table C.1.1: **Decomposition of YoY Changes of Forecasts under the Impact of the Carry Over Efect**

	Q4/2009	2009	2010
Forecast January 2010	-2,3	-4,0	1,3
Forecast October 2009	-3,5	-5,0	0,3
Difference	1,2	1,0	1,0
Revision of past developments	0,5	0,7	0,0
Results of Q3/2009	0,4	0,2	0,2
Change in estimate Q4/2009	0,3	0,1	0,2
Change in forecast for 2010	x	x	0,6

Drop in **real gross domestic income (RGDI)** reflecting income situation of the Czech economy is considerably lower compared with real GDP. Due to improvement in terms of trade RGDI fell 2.4 % only (*4.7 %)* in the third quarter of 2009. For 2009 decline is estimated by mere 2.0 % (*3.7 %).* In 2010 real income could rise by 0.8 % (*stagnation)* and in 2011 by 2.5 %.

Decline in real dynamics is reflected also in **nominal GDP,** the key variable for fiscal forecasts. In the third quarter of 2009 a YoY decline by 2.5 % (*4.2 %)* was recorded where YoY decline in real economy was mitigated by improvement in terms of trade. For 2009 GDP in current prices is estimated to have fallen by 1.1 % (*2.4 %).* Obviously thus first nominal decline in GDP has been recorded in the history of market economy in the CR. In 2010 growth by 1.9 % (*0.6 %)* is expected and in 2011 by 3.6 %.

As regards **income structure of GDP,** stagnation in the business sphere profitability is expected. In the third quarter of 2009 gross operating surplus fell by 0.8 % (*7.3 %)* YoY, for entire 2009 decline by mere 0.1 %

(*3.9 %)* is expected. In 2010 growth by 1.8 % (*stagnation)* is expected. In 2011 growth by 3.5 % can be assumed, which is roughly in agreement with nominal GDP dynamics.

The forecasts are still related with high rate of uncertainty ensuing especially from external environment development and also from the economy's response to measures aimed to stabilize the general government. Impacts of data revisions on past economic development can be also relevant. The situation is documented by means of Graph C.1.2 in the annex.

Expenditures in GDP

Change in inventories was the dominant component of the steep decline in economic output on the side of expenditures. It contributed with 3.4 p.p. to lowering of seasonally adjusted GDP by 4.1 % in the third quarter of 2009. It stems from Graph C.1.7 in the annex that dynamics of change in inventories was the decisive factor of GDP development in the last three

quarters. Under tightened economic conditions and pressure to maintain cash-flow, businesses were obviously motivated to reduce inventories.

Growth of real **household expenditures on final consumption** reached 1.1 % YoY (*decline by 0.1 %*) in the third quarter of 2009. In 2009 household consumption obviously grew by some 1.4 % (*0.7 %*) and was thus the economy's stabilizing factor.

From early 2010 effect of stabilization measures to maintain public finance deficit within reason will be seen. Further growth of consumption will be counteracted by falling employment and ensuing worsening income situation of households. Also households' efforts to generate savings covering risks will have their effects. On the other hand, low rate of inflation could help increase household consumption. In 2010 household consumption is expected to fall by 0.8 % (*decline by 1.3 %*). In 2011 it should restart growing, reaching some 2.0 %.

Government expenditures on final consumption rose by 5.4 % (*0.7 %*) in the third quarter of 2009. They are estimated to grow 4.0 % (*2.0 %*) in 2009.

In accordance with adopted stabilization measures austerity behaviour of government institutions is expected as regards both employment in the government sector and purchases of goods and services. In 2010 decline in real government consumption by 1.7 % (*1.0 %*) is expected. In 2011 government consumption should grow by 1.0 %.

Volume of **gross fixed capital formation** fell in the third quarter by 9.6 % (*9.1 %*) YoY. Investments in other machines and purchases of transport vehicles were reduced most by 22.1 % and 19.6 %, respectively. Investments in other constructions fell by 4.3 % and in housing by mere 0.3 %.

In the current uncertain situation it is necessary to take into account that many investment plans have been reconsidered or postponed due to low utilisation of existing capacities. Willingness of foreign investors to make new investments or reinvest profits from their business operations in the CR will depend on their situation in their home countries. At the same time, economic performance of businesses will be negatively affected by stabilization measures.

After overheating of the housing market in 2007 and 2008, situation should gradually return to trajectory sustainable in the long run. With regard to households' financial situation, trajectory deviation in the opposite direction could be rather expected.

On the other hand, fall in investment could be mitigated by infrastructure investments with contributions from EU funds. Investment volume probably fell by 7.5 % (*7.8 %*) in 2009. For 2010 further decline by 3.7 % (*decline by 5.9 %*) is expected. In 2011 growth dynamics should restore, reaching some 2.5 %.

After dropout to −3.1 p.p. in the fourth quarter of 2008, contribution of **foreign trade** (FT) on seasonally adjusted data was improving over 2009, reaching -0.1 p.p. in the third quarter of 2009. For the entire year the contribution is estimated to have reached -0.6 p.p. (*−1,0 p.p.*).

In the second and third quarters of 2009 the export and thus also FT contribution to GDP development was obviously positively influenced by foreign government measures, especially as regards car industry support. This effect, however, needs to be taken as temporary one. On the other hand, indications of the end of slump already appear for our main customers.

In 2010 positive effect of domestic demand reduction due to stabilization measures as well as of ongoing recovery in partner countries should be seen. FT contribution should be distinctly positive, amounting to 1.5 p.p. (*1.4 p.p.*). For 2011 FT contribution is expected at some 0.6 p.p.

C.2 Prices of goods and services

Consumer prices

Except for the last two months, the year 2009 was characterized by permanently falling growth of prices. In October consumer price index reached even a negative value of −0.2 % YoY, which has been for the first time since August 2003. However, due to an increase in prices of fuels and food in the end-year, the December YoY value was 1.0 % (*0.2 %*) with contribution of administrative measures amounting to 1.0 p.p. (*1.1 p.p.*). Net inflation corresponded closely with low economic performance, showing positive value in March only. **Average rate of inflation for 2009** reached 1.0 % (*0.9 %*), which is the second lowest value since 1989.

Slowing growth of consumer prices was helped by several significant factors. Prices in the section of food and soft drinks were lower in YoY terms for the entire 2009. Their MoM increase in November and December was in our estimate caused partially by effect of expected rise in both VAT rates as of 1 January 2010. Similar situation was seen already in the end of 2007. Prices of transport (especially prices of fuels and cars) also reduced the consumer price level for the most part of the year. Since November, however, a strong basic effect of low prices of oil started to act and

therefore the transport section is the second biggest contributor to YoY growth of inflation.

Contribution of administrative measures remained to be an important pro-inflationary factor even in 2009, although quarter the size as compared with 2008. In December prices of regulated rents (by 27.6 %, contribution to YoY growth amounting to 0.6 p.p.) and of electricity (by 11.4 %, 0.5 p.p. contribution) increased most while prices of gas were lower (by 11.6 %, -0.3 p.p. contribution).

Administrative measures will probably play the most important role in consumer price inflation in **2010** too. Expected growth of regulated rents (by 27.3 %, 0.6 p.p contribution), heat (by 4.8 %, 0.2 p.p. contribution) and water rate and sewage charges (6.2 %, 0.1 p.p. contribution) should outweigh the January cuts in price of electricity (by 3.6 %, -0.2 p.p contribution) and gas (by 0.6 %, negligible impact). Contribution in the area of indirect taxation will be shaped by government package to cut the government deficit including e.g. an increase of both VAT rates by 1 p.p. and an increase of excise taxes on cigarettes, fuels, spirits and beer. Its final impact on CPI is estimated at 1.0 p.p. Compared with the previous forecast we no more allow for shifting of selected services with high share of human labour from the basic to reduced VAT rate as this measure has not been adopted by the Parliament. Total contribution of administrative measures thus should be 2.1 p.p. (*1.3 p.p.)* in 2009.

On the supply side, especially prices of oil will have pro-inflationary effect. Their strongest impact on YoY comparison of prices should be seen in the first quarter of 2010 when the strong basic effect will continue. Also moderate recovery of world and domestic prices of food is expected over the year. Also the loosened monetary policy of 2009 and ongoing positive gap of real marginal costs pointing to decline in producers' profit margins below the long term level, will have pro-inflationary character. On the other hand, fragile recovery of domestic economy, persisting position in negative output gap, worsening conditions on the labour market, moderate growth of wages and related cooling household consumption create a very limited room for consumer price growth. All this will be joined by impact of YoY stronger exchange rate of the domestic currency.

On the basis of mentioned assumptions, **average rate of inflation in 2010** is expected to reach 2.0 % (*1.4 %)* with a December inflation of 2.4 % (*1.9 %)* YoY. Net inflation should return to slightly positive values.

In **2011** gradual slowdown in pace of consumer price growth is expected especially due to effects of 2010 administrative measures fading away. Average rate of inflation should thus hover around 1.8 % with an increase of prices over the year by 1.9 %.

Deflators

YoY growth of **gross domestic expenditure deflator (GDE),** which is a comprehensive indicator of price developments throughout the whole economy, slowed to 0.4 % (*0.6 %)* in the third quarter of 2009 due to lower inflation in fixed capital formation and household and government consumption.

For entire 2009 growth of GDE deflator obviously reached some 1.1 % (*1.3 %).* In 2010 average value should reach 1.2 % (*0.7 %)* with tendency to gradual growth especially due to acceleration of consumer inflation. In 2011 GDE deflator should grow by 1.3 %.

Growth of **implicit GDP deflator** reached 2.3 % (*2.2 %)* YoY in the third quarter of 2009. Compared with gross domestic expenditure deflator, it was influenced upwards by improvement of terms of trade by 3.3 % (*2.4 %).* For entire 2009 growth by 3.1 % (*2.7 %)* can be expected. Should terms of trade fall in 2010, growth by mere 0.5 % (*0.2 %)* is expected while in 2011 growth by 1.0 % is allowed for.

C.3   Labour market and households

Labour market indicators reacted promptly to economic slump at the turn of 2008 and 2009. Thanks to high number of vacancies and employers proclamations to prefer employment at the expense of shorter working hours and, consequently, also wages, total impact on employment was not so radical compared with neighbouring countries. Future developments will depend on coordination of gradual abatement of dramatic situation on the demand side with restoration of economic growth generating jobs and with solution of existing or newly arising structural problems on the supply side (professional and regional mobility, motivation of low-income groups to seek jobs actively, rigidity of work contracts for indefinite period of time etc.).

Employment

Under Labour Force Survey (LFS), **employment fell by 1.9 %** (*1.8 %)* in the third quarter of 2009. Decline in the number of employees by 2.7 % (*-2.5 %)* was the key factor. Growth in the number of self-employed was higher in relative terms, reaching 3.0 % (*1.9 %).* In absolute values, however, it was YoY increase by 24 thousand compared with shrinkage by 118 thousand.

Growth of labour supply continued – labour force grew by 70 thousand in YoY terms, with shrinkage of the employed amounting to 93 thousand and an increase of the unemployed amounting to 163 thousand. **Rate of economic activity** (15-64 years) thus grew by 0.7 p.p. YoY to 70.4 % and ratio of labour force to 15-64 year population also by 0.7 p.p. to 71.4 %. Increasing participation in the period of the unfavourable economic performance is surprising and can be probably attributed to increasing flexibility of the labour market.

However, **rate of employment** (15-64 years) fell by 1.5 p.p. to 65.2 %, YoY.

Number of persons working in the secondary sector kept on falling considerably. The decline was most significant in manufacturing where under LFS there is 190 thousand workers less in YoY terms. Similarly as in the previous period it was partially offset by growth in the number of people employed in the tertiary sector (education and trade) and in construction.

By the end-year there were 318 thousand foreigners legally employed in the CR (less by 43 thousand YoY). Due to restriction of jobs in industry, number of registered foreign employees was falling gradually. By the end of December 231 thousand of them were registered, which means YoY decrease by 54 thousand. Since early 2009 number of foreigners – tradesmen increased with moderately growing intensity by some 10 thousand a year, compensating in this way – similarly as some domestic workers – for loss of job.

Short-term outlook is not very optimistic. Economic problems can cause further running of non-profitable businesses out while legislative adjustments (especially termination of social security contribution reduction for low-income employees) will probably lead to further cuts in permanent staff. It may be however assumed that dismissed employees shall try to create their own business activities (new working activities or possibly via making use of businesses' efforts to optimize their taxes by means of hiring „tradesmen").

For entire 2009 it is expected that employment fell by 1.4 % (*1.3 %).* Despite moderate economic recovery, decline by 1.8 % (*1.9 %*) is still expected in 2010 with gradual turnaround leading to stagnation in 2011.

Unemployment

It is true that **growth of unemployment** slowed its pace in the second half of 2009 but average number of the registered unemployed reached 509 thousand (*exactly in accordance with the forecast)* in the fourth quarter of 2009. Optimism-generating faster flows continued,

especially as regards the number of job seekers placed. For the most part it was obviously given by the fact that also more active people were registered, probably often high-qualified and willing in time of crisis to accept a less favourable job, too. On the other hand, in the end of 2009 also unfavourable increase of the long-term unemployed was confirmed with their share in the group of registered unemployed rising to 23 %.

As regards differences in statistics, higher values can be assumed to keep on and (should the legislation status quo be preserved) probably also growth in registered unemployment due to the fact that persons registered with the employment agencies as unemployed can legally work for a limited period, which is excluded by the LFS definition.

Harmonized unemployment rate developed by Eurostat (comparable with LFS) reached 7.6 % in the CR in November 2009 while EU27 average was 9.4 %. Consequently, despite dramatic increase, unemployment rate in the CR is nearly 2 p.p. lower than Europe's average.

The forecast is based on expected economic recovery and unemployment lagging behind its course, legislative changes, signals from production sectors, and announced or implemented-by-December reduction in jobs in the non-business sphere. There is also the question of tax and wage attractiveness of the registered unemployed for employers (personal wage statistics give evidence of the risk of unemployment growth in this way, with relatively high growth of nominal average wage being substantiated inter alia by dismissal of lower-paid employees mainly and by growth of partial unemployment).

Internationally comparable general rate of registered unemployment under LFS obviously grew to 6.7 % (*6.5 %*) in 2009. In 2010 it should reach some 8.8 % (*8.4 %*) and its small decline to 8.6 % should take place as late as in 2011.

Average rate of registered unemployment should grow to 10.1 % (*9.9 %*) in 2010 and fall in 2011 similarly as under LFS.

Wages

Due to lower demand and productivity of labour in main production industries, **YoY decline in wage bill** continued in the third quarter of 2009, reaching 1.0 % (*unchanged).* In this context **high growth of nominal average wage** presented by the CZSO by 4.8 % (*1.6 %*) (under the FTE data from statistics of businesses and including additional calculations of small businesses) came as a surprise. Besides administrative effects, it

was caused primarily by dismissal of employees with lower wages and YoY decline in sickness rate (due to change in sick pay regime its abuse obviously decreased).

Growth of unit labour costs was considerably **lower** (2.0 %) than expected (*5.2 %).* It stemmed as from „mere" 3 % decline in productivity of labour (YoY decline in real GDP was by 1.6 p.p. lower in the third quarter than predicted) as from nearly 1 % decrease in compensation to employees in comparison with the predicted weak 0.3 % growth. It was caused by accounting reductions of social contributions paid by an employer (estimated yearly impact on compensations – CZK 18bn), which had been retroactively applied in the third quarter for the period since early 2009.

On the basis of data revision for the previous period, third-quarter results and signals from the business sphere as well as decision on public sector wages, only a very moderate growth of average wages is expected in the short-term outlook. With regard to cuts in the number of employees, wage bill is expected to decrease, YoY, by the end of the first half of 2010. In 2009 wage bill obviously fell by 0.3 % *(unchanged).* In 2010 decline should reach 0.7 % (*1.1 %)* while in 2011 growth by 4.5 % is expected thanks to ongoing recovery of the economy.

Households
(In nominal terms under the sector account of households from quarterly national accounts)

Within household incomes, only income in the category of social and other transfers grew YoY in the third quarter of 2009 and so current income as a total recorded decline by 2.3 % (*0.1 %).* Growth of disposable income by 0.6 % (*2.6 %)* was helped by fall in current expenditures by 8.7 % (*6.0 %)* given especially by YoY considerably lower paid taxes and social contributions (postponement of advance payments, reduction in social security contributions etc.). Considerable part of disposable income was directed to growing consumption, which increased by 0.5 % (*decline by 0.2 %)* at the expense of lower savings.

For 2009 it can be assumed that dynamics of gross disposable income slowed to 2.1 % (*2.9 %).* With fall in employment resulting in decline in wage bill and with moderate growth of welfare incomes on the side of revenues together with changes in taxation and insurance premiums, stagnation can be expected in 2010 (*growth by 0.6 %)* and growth by 4.0 % in 2011.

Uncertain situation on the labour market and risks related with possibility of losing a job should lead in forthcoming period to a gradual change in consumption behaviour of households tending to higher savings.

C.4 External relations
(Balance of payments definitions)

External imbalance, expressed by ratio of **current account (CA)** balance to GDP, reached −2.3 % (*-1.9 %)* on an annual basis in the third quarter of 2009 and continued improving. Growth of trade balance surplus and falling deficit of the balance of income contributed most to this development.

In connection with the world economic crisis, Czech **exports and imports** experienced breakthrough in the fourth quarter of 2008. Abrupt slump in demand caused a steep drop in foreign trade volume. For the first time since the second quarter of 2002 a YoY decline in export markets was recorded in the fourth quarter of 2008[5], which continued also in 2009. In the third quarter of 2009 export markets dropped by 12.8 % (*14.8 %)* YoY. However, export performance, indicating share of Czech goods in the export markets, already improved by 1.8 % (*worsening by 2.0 %).*

It led to relatively strong decline in nominal exports by 13.2 % and imports by 17.0 %. On the other hand fast growth of trade balance surplus continued due to faster pace of decline in imports than in exports. In the third quarter of 2009 ratio of trade balance to GDP totalled 3.7 % (*3.5 %)* on an annual basis, which is the same value as in the third quarter of 2008 prior to impacts of global economic turmoil reflecting in the Czech economy.

With regard to abatement of economic recession, prices of raw materials, especially of oil, started growing slowly since the second quarter of 2009 and in October they were rising even in YoY comparison. For 2009 deficit in the fuel part of the balance (SITC 3) is estimated to have fallen to some −3.0 % of GDP (*-2.9 %)* from −4.5 % in 2008. In 2010 further slow growth of raw material prices is assumed to reflect in an increase in SITC 3 deficit to some −3.6 % of GDP.

With regard to trade recovery, growth of export markets by 2.2 % (*decline by 0.5 %)* is expected in 2010 with growth accelerating to 5.2 % in 2011. Export performance should rise, too.

Surplus of non-fuel part of the balance is estimated to have increased to 7.0 % of GDP (*6.0 %)* in 2009. With the current fall in deficit of the fuel part of the balance,

---

[5] *Weighted average of growth of goods import by seven most important trade partner countries (Germany, Slovakia, Poland, Austria, France, United Kingdom and Italy).*

trade balance surplus (in balance of payments definitions) should reach 4.8 % of GDP[6] *(3.8 %)*. In 2010 trade balance surplus is expected at 5.8 % of GDP *(4.6 %)*. Effects of moderate recovery of foreign trade and domestic demand restriction should considerably outweigh higher oil prices. In 2011 size of the surplus is expected to remain stable at 5.9 %.

Recession-related reduction of economic activities reflected also in foreign trade in services. After long-term growth, surplus of **balance of services** has started decreasing since early 2009. Slowdown in pace of growth of revenues was caused by fall in incomes from tourism and transport, only exports of the so-called other services kept on growing YoY. On the other hand a faster pace of growth of expenditures was connected with rapidly growing purchases of other services. This meant a reduction in ratio of balance-of-services surplus to GDP (in yearly total) by 0.5 p.p. compared with end-year 2008, when it reached maximum in the past seven years (2.2 %). In the period of slow recovery of foreign trade in goods, slow growth is expected also as regards trade in services while surplus in balance of services should fall in connection with moderately faster growth of imports.

Balance-of-income deficit, including reinvested and repatriated profits of foreign investors, has been falling since the second quarter of 2008 when it reached historic minimum of −8.4 % of GDP. Decline in outflow of profits abroad is connected mainly with lower profitability of foreign firms. Especially outflow of revenues from foreign direct investments and outflow of compensation for work of foreigners employed in the CR were lower. In the third quarter of 2009 ratio of balance of income to GDP lowered in annual total by 0.9 p.p. to −7.2 % *(7.0 %)*. The current trend of reduction in the balance-of-income deficit is expected to keep on also in 2010. In 2011 deficit should start growing again moderately to some −7.7 %.

In 2009 ratio of **current account** deficit to GDP is assumed to have reached −1.1 % *(-1.4 %)*. In 2010 current account could reach surplus of 0.5 % of GDP *(unchanged),* which would be the first surplus since 1993. Tendency to balance the current account or its passage to surplus is based on the fact that effects of real import dampening (fall in domestic demand and high import intensity of exports) as well as lesser outflow of yields are gaining ground. Also in 2011 current account should be roughly balanced (-0.2 % of GDP).

C.5   International comparisons[7]

Comparisons of economic output of individual countries are made in PPS (purchasing power standards). PPS is an artificial currency unit expressing quantity of goods that can be bought on average for one euro on the EU27 territory after exchange rate conversion for countries that use other currency unit than the euro. Under Eurostat data, purchasing power parity of the CR was CZK/PPS 17.55 in 2008.

Due to economic recession, when adjusted by current **purchasing power parity,** tendency of economic convergence of the CR and other Central European countries (except for Poland, see chapter A.1) toward EA12 average has stopped in 2009. Some countries (Baltic states, Hungary, Slovenia), which have been hit by the crisis more than EA12 countries, experience even bigger or smaller decline in their relative economic level.

In 2009 Czech Republic's GDP p.c. should have reached some PPS 19 400, which corresponds to 73 % of EA12 economic output.

Alternative way of calculations by means of the current **exchange rate** takes into account a market assessment of the currency and ensuing differences in price levels. GDP of the CR p.c. then reaches some EUR 13 100, which corresponds to 47 % of EA12 level. Compared with 2008 thus a decline appears given by correction of inappropriate appreciation of the exchange rate.

Comparative price level of GDP should have reached some 65 % of EA12 average in 2009. Depreciation of the real exchange rate can be seen here in YoY decline by 2 p.p. Such movement helped increase price competitiveness and make overcoming of difficult situation easier. A major depreciation of the exchange rate was seen in Poland where decline of relative price level reached approx. incredible 11 p.p.

Situation in Slovakia after euro adoption is different. With non-existence of the exchange-rate channel and with expected positive inflation differential against EA12, Slovakia will have to withstand danger of further increase in comparative price level and strengthening of real exchange rate e.g. by means of very moderate wage development.

---

[6] *Another item is represented by costs on transport and insurance of imported goods amounting to some 0.7 % of GDP, which cannot be assigned from available sources to individual items.*

[7] *Comparisons for the period to 2008 are based on Eurostat statistics. Since 2009, our own calculations are used based on real exchange rates.*

D Monitoring of other institutions' forecast

The Czech Ministry of Finance monitors macroeconomic forecasts of other institutions, engaged in forecasting of future developments of the Czech economy. Forecasts of 13 institutions are continuously monitored from publicly available data sources. Of these, 8 institutions are domestic (CNB, Ministry of Labour and Social Affairs, domestic banks and investment companies) and others are foreign (European Commission, OECD, IMF, The Economist's panel, etc.). The forecasts are summed up in the following table.

Table D.1: **Consensus Forecast**

		December 2009			January 2010
		min.	*max.*	*consensus*	*forecast MoF*
Gross domestic product (2010)	*%, const.pr.*	**0,3**	**2,0**	**1,2**	**1,3**
Gross domestic product (2011)	*%, const.pr.*	**2,2**	**2,8**	**2,5**	**2,6**
Average inflation rate (2010)	*%*	**0,9**	**1,8**	**1,3**	**2,0**
Average inflation rate (2011)	*%*	**1,7**	**2,3**	**2,0**	**1,8**
Average monthly wage (2010)	*%*	**2,2**	**2,9**	**2,4**	**2,4**
Average monthly wage (2011)	*%*	**3,9**	**4,3**	**4,2**	**4,7**
Current account / GDP (2010)	*%*	**-2,4**	**0,3**	**-1,2**	**0,5**
Current account / GDP (2011)	*%*	**-2,7**	**0,3**	**-1,1**	**-0,2**

Approximately till mid-2009, consensus forecasts of **GDP** growth for 2010 showed tendency to downward revisions but then they stabilized moderately above 1 %. MoF forecasts showed similar development although they were slightly more conservative for the most part of the monitored period.

On average the institutions assume that the Czech economy's performance will increase by 1.2 % in 2010 and by 2.5 % in 2011. These estimates are nearly identical with MoF forecast.

Current forecasts of **rate of inflation** for this year allow for average rate of inflation at some 1.3 % while for 2011 institutions expect acceleration of consumer price growth to 2.0 %. Contrary to the consensus forecast, the MoF predicts higher average rate of inflation in

2010 with subsequent slowdown in growth of prices in 2011.

Growth of **average wage** was considerably slower than was usual in the past and similar development should be seen also in 2010-11. Consensus forecast allows for an increase in average wage by 2.4 % in 2010 and 4.2 % in the following year. MoF forecast is in accordance with this tendency although the ministry expects higher growth of average wage in 2011.

Consensus forecasts of **ratio of current account of balance of payments to GDP** for 2010 are gradually revised upward (lower CA deficit). In comparison with forecast average, the MoF allows for better CA and even expects CA surplus in 2010.

Graph D.1: **Forecast of Real GDP Growth for 2010**
in %
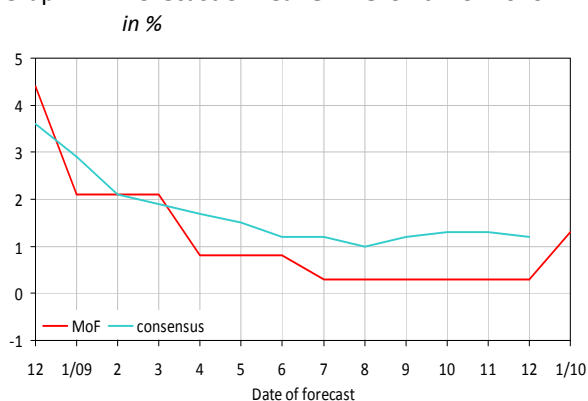
Graph D.2: **Forecast of Aver. Inflation Rate for 2010**
in %
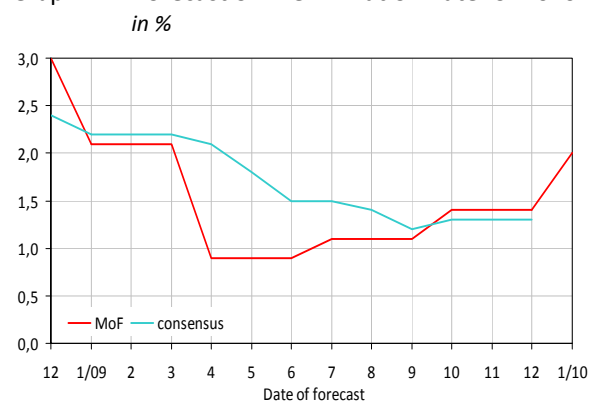
A.1   World Economy

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

Table A.1.1: **Real Gross Domestic Product** – yearly
growth in %, sa data

	2002	2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast
EU27	1,2	1,3	2,5	2,0	3,2	2,9	0,8	-4,0	1,1	2,0
EA12	0,9	0,8	2,1	1,7	3,0	2,7	0,6	-3,9	1,1	1,9
Germany	0,0	-0,2	1,2	0,8	3,2	2,5	1,3	-5,0	1,4	1,9
France	1,0	1,1	2,5	1,9	2,2	2,3	0,4	-2,2	1,3	1,7
United Kingdom	2,1	2,8	3,0	2,2	2,9	2,6	0,5	-4,7	1,2	2,1
Austria	1,6	0,8	2,5	2,5	3,5	3,5	2,0	-3,7	1,0	1,9
USA	1,8	2,5	3,6	3,1	2,7	2,1	0,4	-2,6	2,0	2,5
Hungary	4,4	4,3	4,9	3,5	4,0	1,0	0,6	-6,9	-1,0	1,5
Poland	1,4	3,9	5,3	3,6	6,2	6,8	5,0	1,2	2,3	3,0
Slovakia	4,6	4,8	5,0	6,7	8,5	10,6	6,2	-5,3	2,1	3,9
Czech Republic	1,9	3,6	4,5	6,3	6,8	6,1	2,5	-4,0	1,3	2,6

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

		2009 Q1	2009 Q2	2009 Q3	2009 Q4 Estimate	2010 Q1 Forecast	2010 Q2 Forecast	2010 Q3 Forecast	2010 Q4 Forecast
EU27	QoQ	-2,4	-0,3	0,3	0,3	0,3	0,2	0,4	0,3
	YoY	-4,9	-5,0	-4,3	-2,1	0,7	1,1	1,2	1,2
EA12	QoQ	-2,4	-0,1	0,4	0,3	0,3	0,2	0,4	0,3
	YoY	-5,0	-4,8	-4,0	-1,8	0,9	1,2	1,2	1,2
Germany	QoQ	-3,5	0,4	0,7	0,1	0,2	0,3	0,3	0,4
	YoY	-6,7	-5,8	-4,8	-2,3	1,5	1,3	0,9	1,2
France	QoQ	-1,4	0,3	0,3	0,3	0,2	0,4	0,2	0,4
	YoY	-3,5	-2,8	-2,3	-0,5	1,1	1,2	1,1	1,2
United Kingdom	QoQ	-2,5	-0,7	-0,2	0,3	0,4	0,5	0,3	0,4
	YoY	-5,2	-5,8	-5,1	-3,0	-0,1	1,0	1,5	1,6
Austria	QoQ	-2,5	-0,4	0,5	0,2	0,2	0,2	0,3	0,2
	YoY	-4,0	-4,8	-3,7	-2,2	0,5	1,1	0,9	0,9
USA	QoQ	-1,6	-0,2	0,6	0,4	0,3	0,5	0,7	0,8
	YoY	-3,3	-3,8	-2,6	-0,9	1,1	1,8	1,9	2,3
Hungary	QoQ	-2,5	-1,9	-1,8	-0,3	-0,1	0,3	0,2	0,5
	YoY	-5,5	-7,2	-7,9	-6,4	-4,1	-1,9	0,1	0,9
Poland	QoQ	0,1	0,5	0,5	0,6	0,5	0,6	0,5	0,5
	YoY	1,5	1,3	1,0	1,7	2,1	2,2	2,2	2,1
Slovakia	QoQ	-8,6	1,1	1,6	0,5	0,4	0,3	0,2	0,4
	YoY	-4,9	-5,4	-5,0	-5,7	3,6	2,8	1,4	1,3
Czech Republic	QoQ	-4,4	0,2	0,8	0,8	-0,2	0,2	0,2	0,2
	YoY	-4,2	-4,7	-4,1	-2,7	1,6	1,6	1,1	0,5

Graph A.1.1: **Real Gross Domestic Product**
growth in %, sa data
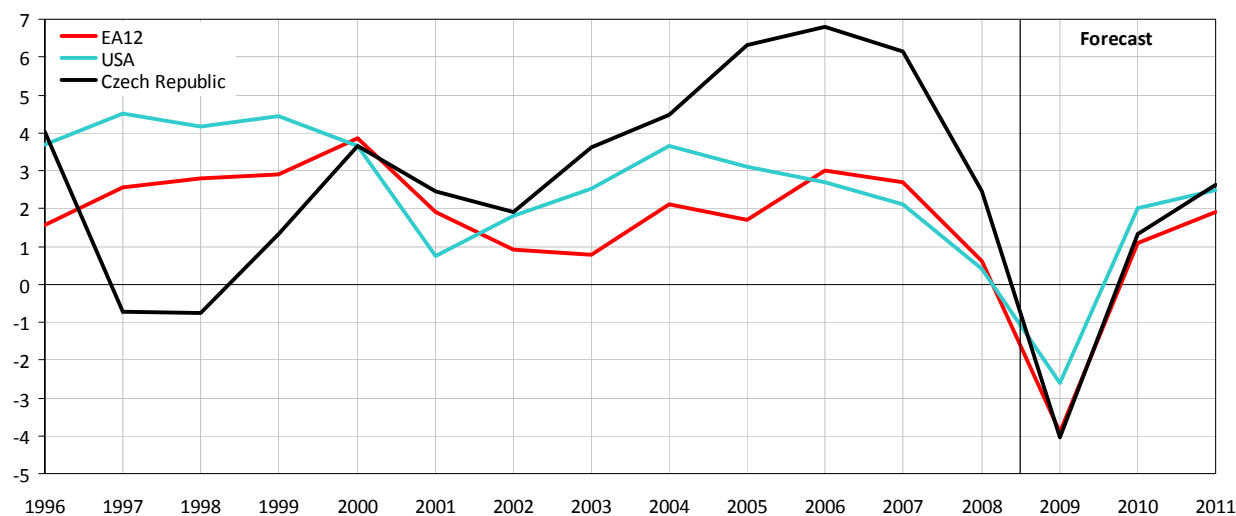
Graph A.1.2: **Real Gross Domestic Product** – Central European new member state economies
growth in %, sa data
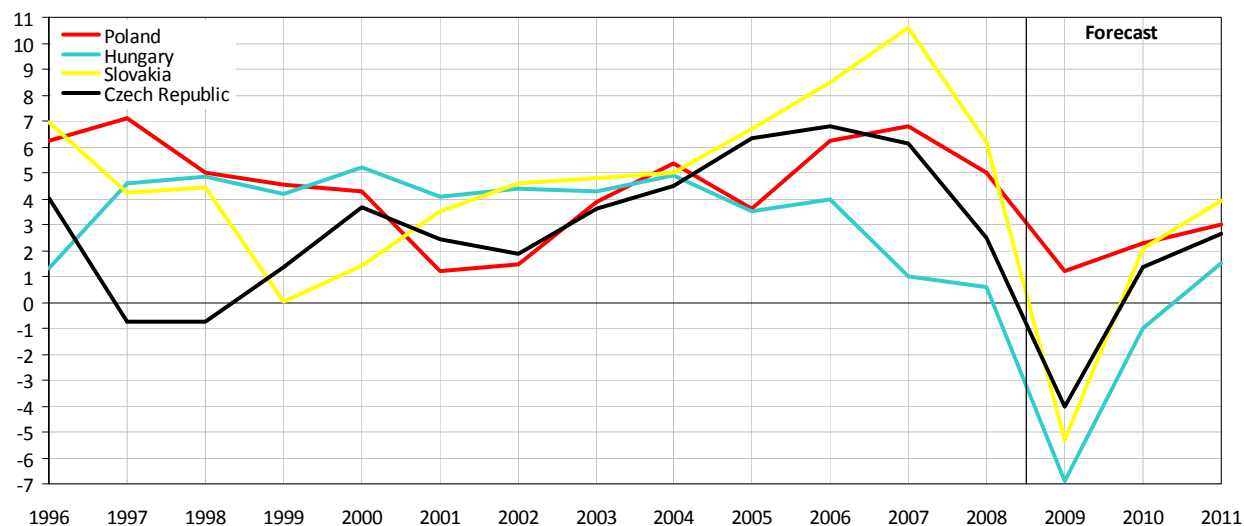
Table A.1.3: **Prices of Commodities** – yearly
spot prices

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
										Forecast	*Forecast*
Crude oil Brent	*USD/barrel*	**25,3**	**28,8**	**38,3**	**54,4**	**65,4**	**72,7**	**97,7**	**61,9**	**81**	**92**
	growth in % prev. y.	3,6	14,0	33,0	42,0	20,1	11,2	34,4	-36,7	30,5	13,6
Crude oil Brent index *(in CZK)*	*2005=100*	**63,5**	**62,4**	**75,6**	**100,0**	**113,4**	**113,3**	**127,7**	**90,5**	**111**	**122**
	growth in % prev. y.	-10,9	-1,7	21,1	32,3	13,4	-0,1	12,7	-29,1	22,9	9,5
Wheat	*USD/t*	**148,5**	**146,1**	**156,9**	**152,4**	**191,7**	**255,2**	**326,0**	**223,5**	**.**	**.**
	growth in % prev. y.	17,1	-1,6	7,3	-2,8	25,8	33,1	27,7	-31,4	.	.
Wheat price index *(in CZK)*	*2005=100*	**133,2**	**113,0**	**110,5**	**100,0**	**118,7**	**142,0**	**152,1**	**116,7**	**.**	**.**
	growth in % prev. y.	0,8	-15,2	-2,3	-9,5	18,7	19,6	7,1	-23,3	.	.

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

		2009				2010			
		Q1	**Q2**	**Q3**	**Q4**	**Q1** *Forecast*	**Q2** *Forecast*	**Q3** *Forecast*	**Q4** *Forecast*
Crude oil Brent	*USD/barel*	**45,0**	**59,1**	**68,4**	**75,0**	**80**	**78**	**80**	**85**
	růst v %	-53,5	-51,8	-40,8	34,2	77,8	32,0	17,0	13,3
Crude oil Brent index *(in CZK)*	*2005=100*	**73,0**	**88,6**	**93,7**	**100,7**	**111**	**108**	**109**	**115**
	růst v %	-42,2	-40,5	-34,0	**22,2**	52,5	21,4	16,7	14,4
Wheat price	*USD/t*	**232,0**	**248,0**	**209,0**	**205,0**	.	.	.	.
	růst v %	107,4	68,5	15,7	-33,3	.	.	.	.
Wheat price index *(in CZK)*	*2005=100*	**192,3**	**150,7**	**139,7**	**120,1**	.	.	.	.
	růst v %	65,5	27,6	-8,7	-30,7	.	.	.	.

Graph A.1.3: **Dollar Prices of Oil**
in USD/barrel
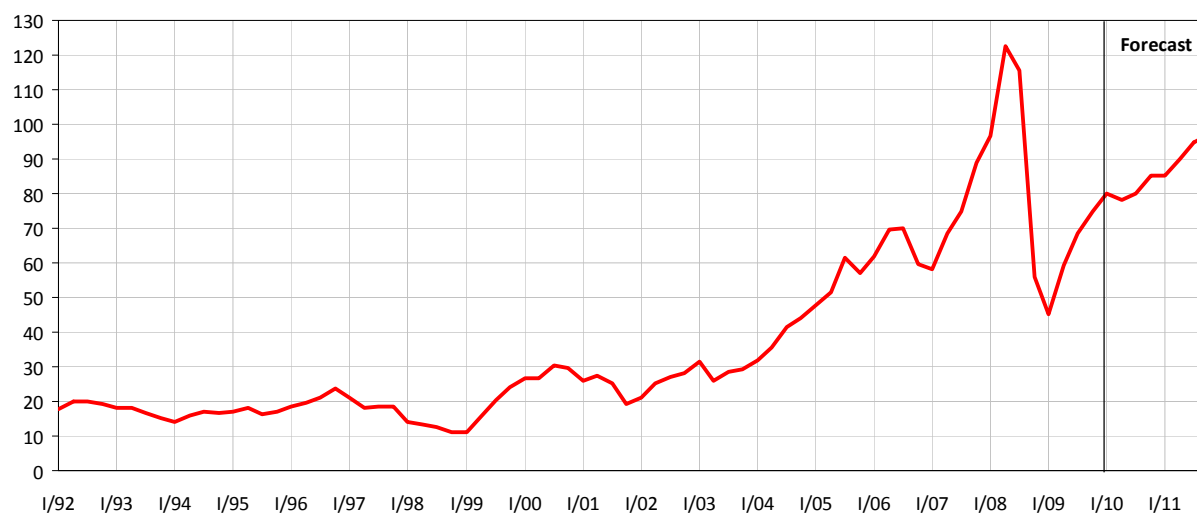
Graph A.1.4: **Koruna Indices of World Commodity Prices**
index 2005 = 100
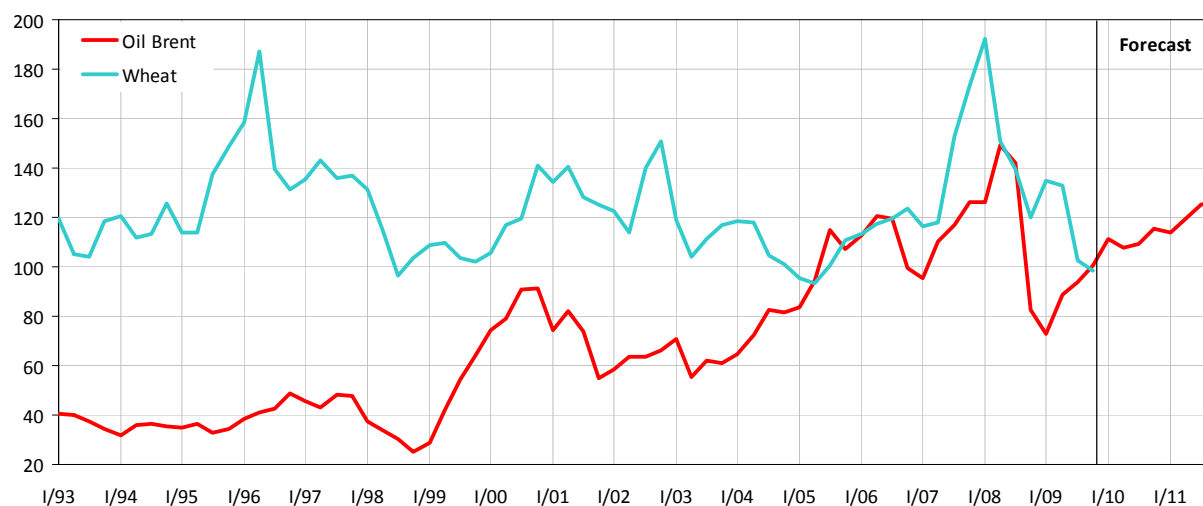
A.2   General Government

Sources: MoF, CZSO

Table A.2.1: **Net lending/borrowing and debt**

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
									Prel.	*Estimate*	*Forecast*
General government balance	*bill. CZK*	**-132**	**-167**	**-170**	**-83**	**-107**	**-84**	**-23**	**-76**	**-235**	**-195**
General government debt	*bill. CZK*	**585**	**695**	**768**	**848**	**885**	**948**	**1024**	**1105**	**1284**	**1434**
	growth in %	44,2	18,9	10,5	10,4	4,4	7,1	8,0	7,9	16,2	11,7
	% GDP	24,9	28,2	29,8	30,1	29,7	29,4	29,0	30,0	35,2	38,6
Interest derivatives [1]	*bill. CZK*	**0,0**	**0,0**	**-0,5**	**-0,5**	**-0,2**	**-0,4**	**-0,7**	**-1,8**	**-4,8**	**-0,5**
EDP B.9 [2]	*bill. CZK*	**-132**	**-167**	**-171**	**-83**	**-107**	**-85**	**-24**	**-77**	**-240**	**-196**
	% GDP	**-5,6**	**-6,8**	**-6,6**	**-3,0**	**-3,6**	**-2,6**	**-0,7**	**-2,1**	**-6,6**	**-5,3**
Interest expenditure	*% GDP*	**1,0**	**1,2**	**1,1**	**1,2**	**1,2**	**1,1**	**1,1**	**1,1**	**1,2**	**1,7**
Primary balance	*% GDP*	**-4,6**	**-5,5**	**-5,5**	**-1,8**	**-2,4**	**-1,5**	**0,5**	**-1,0**	**-5,2**	**-3,5**

Note: Government debt consists of the following financial instruments: currency and deposits, securities other than shares excluding financial derivatives and loans. Government debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government. The nominal value is considered to be an equivalent to the face value of liabilities. It is therefore equal to the amount that the government will have to refund to creditors at maturity.
[1] *Hedging instruments used to avoid interest rate change risk.*
[2] *General government net lending/borrowing relevant for fulfilment of Maastricht convergence criteria. Compared to net lending/borrowing from national accounts, this item is adjusted for interest rate derivatives.*

Graph A.2.1: **Net lending/borrowing**
in % of GDP
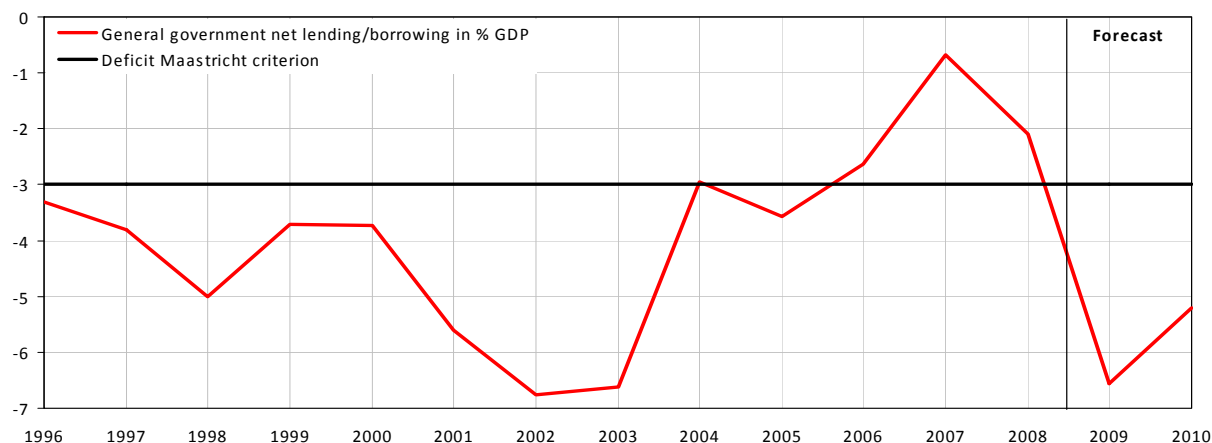
Graph A.2.2: **Debt**
in % of GDP
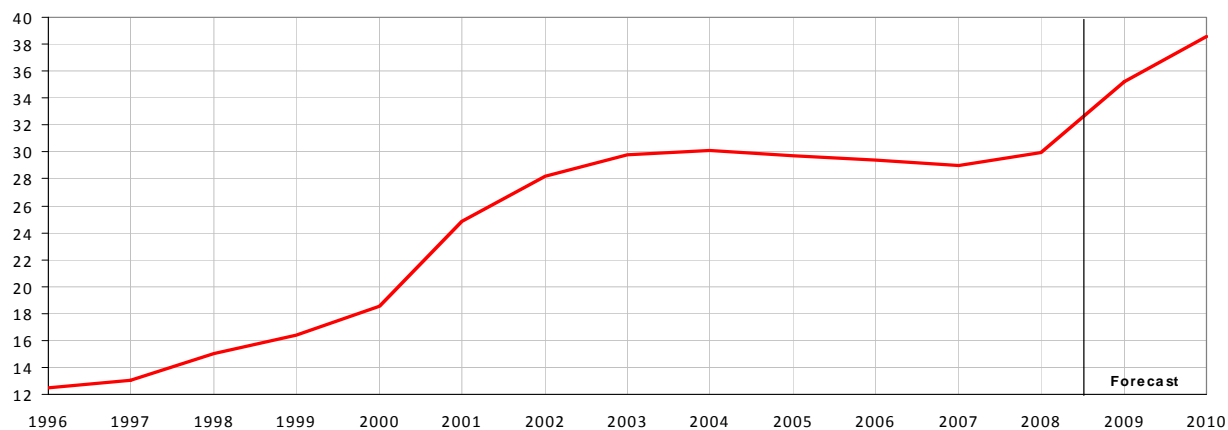
A.3 Interest Rates

Sources: CNB, MoF estimates.

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

		2002	2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast
Repo 2W CNB *(end of year)*		2,75	2,00	2,50	2,00	2,50	3,50	2,25	1,00 .	.	
Main refinancing rate ECB *(end of year)*		2,75	2,00	2,00	2,25	3,50	4,00	2,50	1,00 .	.	
Federal funds rate *(end of year)*		1,25	1,00	2,25	4,25	5,25	4,25	0,25	0,25 .	.	
PRIBOR 3M		3,55	2,28	2,36	2,01	2,30	3,09	4,04	2,19	1,7	2,4
Government bond yield to maturity	10Y	4,94	4,12	4,75	3,51	3,78	4,28	4,55	4,67	3,8	4,0
Interest rates on loans to non-financial corporations		5,82	4,57	4,51	4,27	4,29	4,85	5,59	4,6	4,2	4,5
Interest rates on deposits from households		2,06	1,40	1,33	1,24	1,22	1,29	1,54	1,4	1,3	1,4
Real rates on loans to non-financial corporations [1]		5,65	3,72	0,47	3,38	2,95	1,22	2,33	4,1	3,6	3,4
Net real rates on deposits from households with agreed maturity [2]		1,19	0,18	-1,64	-1,13	-0,63	-4,10	-2,26	0,2	-1,3	1,2

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

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

	2009				2010			
	Q1	Q2	Q3	Q4 Estimate	Q1 Forecast	Q2 Forecast	Q3 Forecast	Q4 Forecast
Repo 2W rate CNB *(end of period)*	1,75	1,50	1,25	1,00 .	.	.	.	
Main refinancing rate ECB *(end of period)*	1,50	1,00	1,00	1,00 .	.	.	.	
Federal funds rate *(end of period)*	0,25	0,25	0,25	0,25 .	.	.	.	
PRIBOR 3M	2,71	2,32	1,97	1,77	1,5	1,6	1,8	2,0
Long term interest rates – 10-year government bonds yield to mat.	4,55	5,24	4,99	3,91	3,7	3,7	3,9	4,0
Interest rates on loans to non-financial corporations	4,99	4,63	4,40	4,3	4,2	4,1	4,2	4,3
Interest rates on deposits from households	1,48	1,40	1,33	1,3	1,3	1,3	1,3	1,3

Graph A.3.1: **Interest Rates**
in % p.a.

Legend:
- Loans to non-financial corporations
- 10-year gov. bonds yield
- PRIBOR 3M
- Deposits from households

Forecast
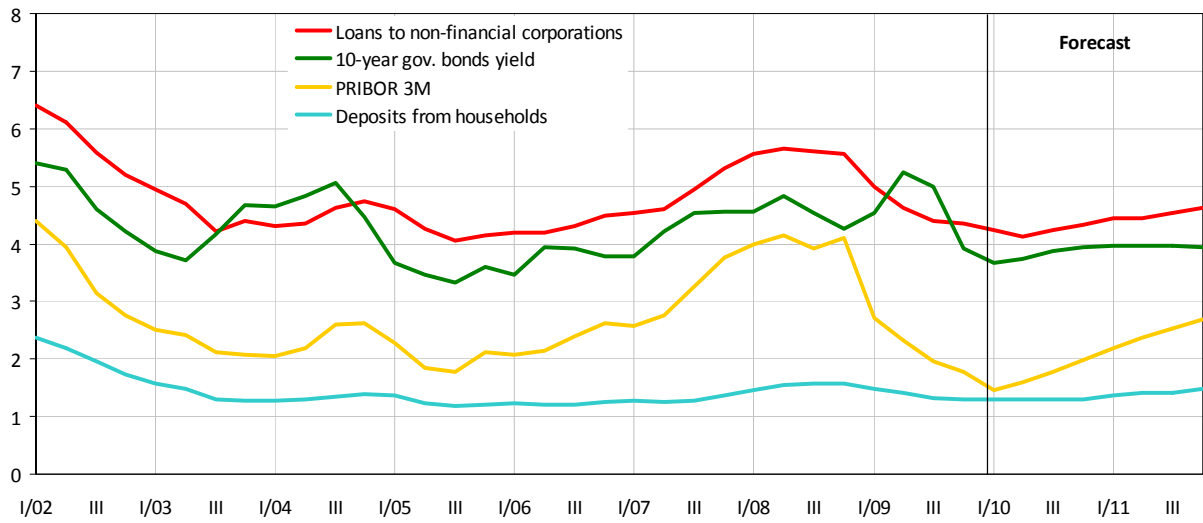
Graph A.3.2: **Interest Rates on New Loans to Households and Non-Financial Corporations**
in % p.a.

Legend:
- New loans to non-financial corporations
- New loans to households
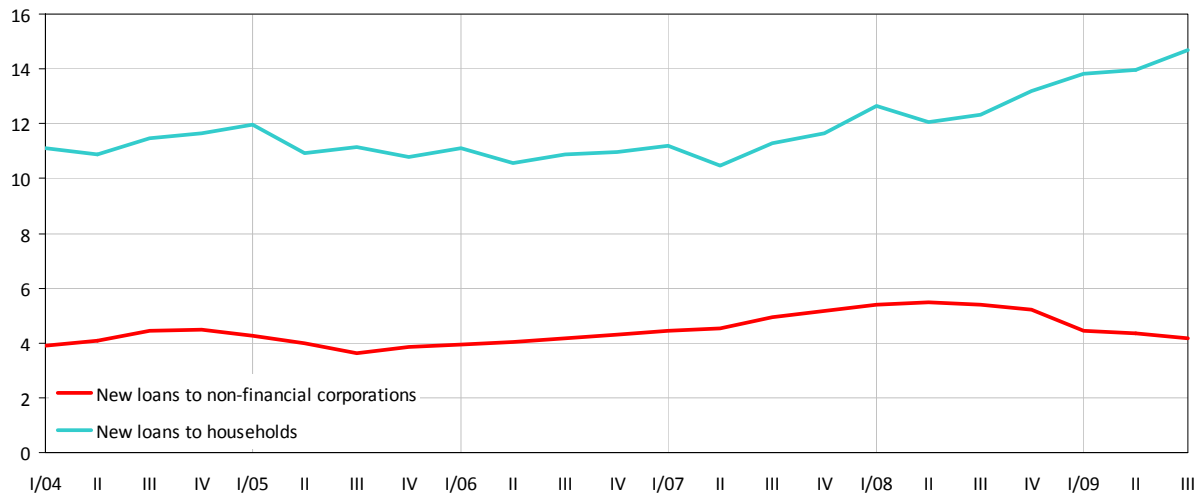
Graph A.3.3: **Real PRIBOR 1Y**
deflated ex post and ex ante by final domestic use deflator, in % p.a.

Legend:
- deflated ex ante
- deflated ex post

Forecast
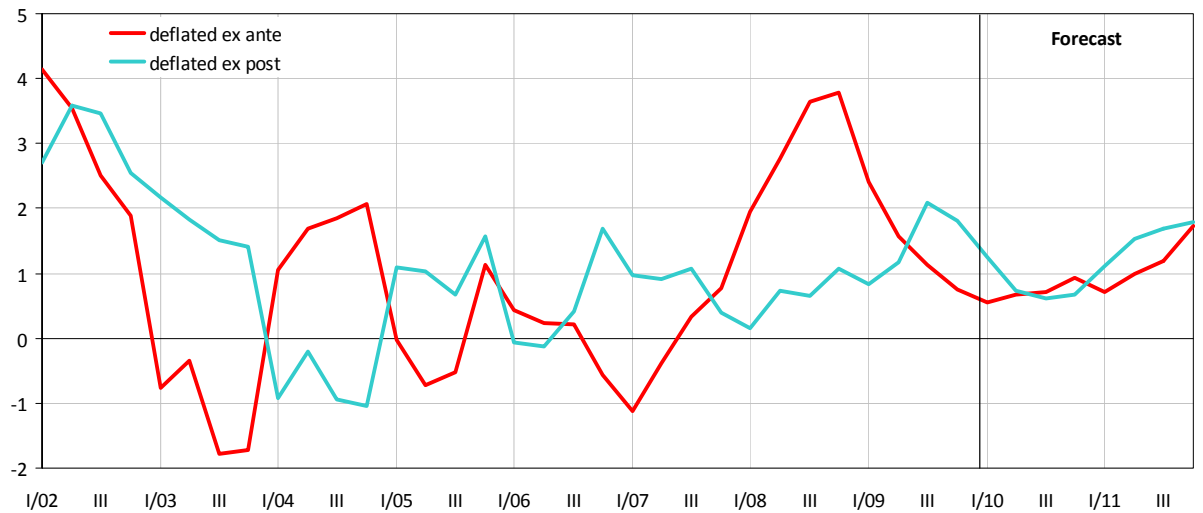
Graph A.3.4: **Average Real Rates on Credits and Deposits**
rates on credits deflated by end-of-year final domestic use deflator, rates on time/savings deposit (net of 15% income tax) deflated by end-of-year CPI growth, in % p.a.
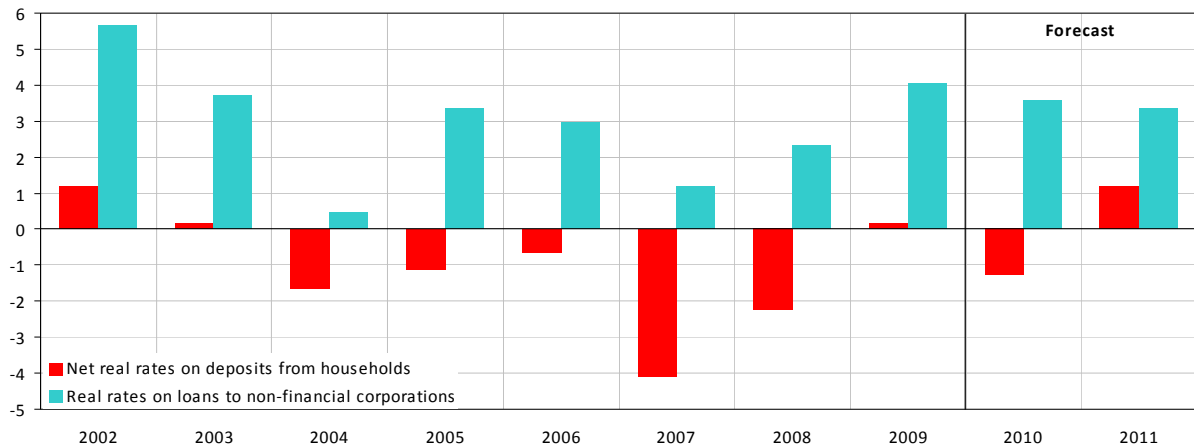
Graph A.3.5: **Short - Term Interest Rate Spread**
in percentage points
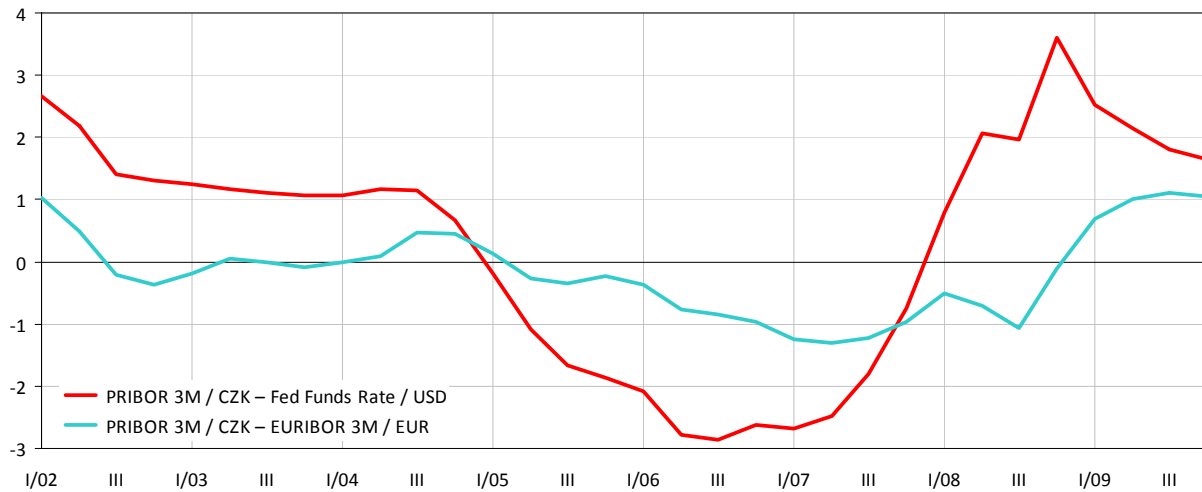
Graph A.3.6: **Long - Term Interest Rate Spread**
government bonds, in percentage points

30
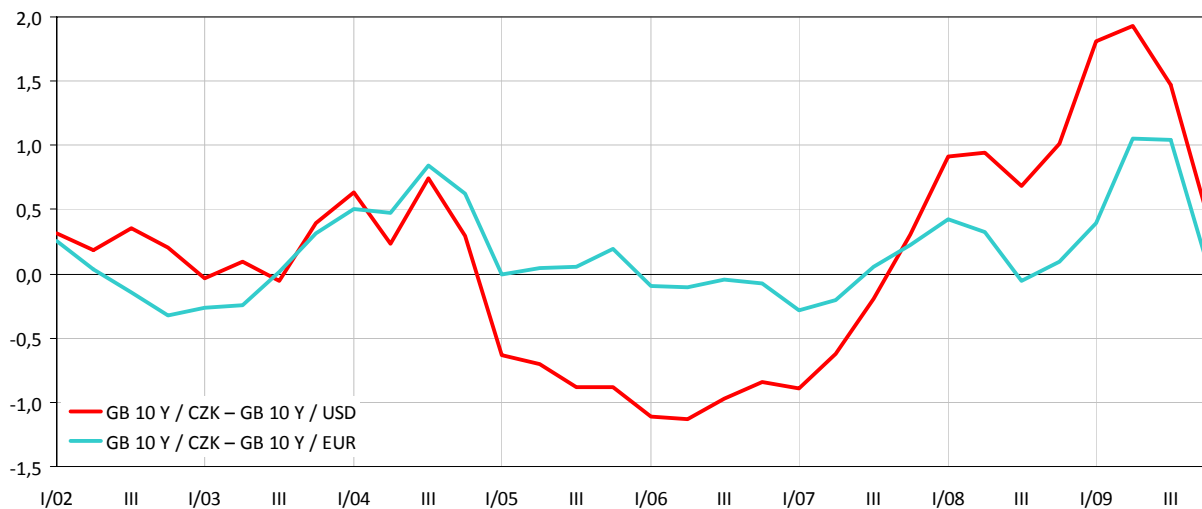
A.4 Exchange Rates

Sources: CNB, CZSO, Eurostat, MoF estimates

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

		2003	2004	2005	2006	2007	2008	2009 *Estimate*	2010 *Forecast*	2011 *Forecast*	2012 *Outlook*
Nominal exchange rates:											
CZK / EUR	*average*	31,84	31,90	29,78	28,34	27,76	24,94	26,45	25,8	24,8	23,8
appreciation	*growth in %*	-3,2	-0,2	7,1	5,1	2,1	11,3	-5,7	2,5	4,1	4,1
CZK / USD	*average*	28,23	25,70	23,95	22,61	20,31	17,03	19,06	17,9	17,3	16,7
appreciation	*growth in %*	16,0	9,8	7,3	5,9	11,3	19,2	-10,6	6,2	3,8	3,8
NEER	*average of 2005=100*	93,5	94,1	100,0	105,1	107,9	120,4	116	119	124	129
appreciation	*growth in %*	-0,1	0,7	6,2	5,1	2,6	11,6	-3,5	2,3	4,1	4,1
Real exchange rate [1]											
to EA12	*average of 2005=100*	93,2	95,4	100,0	104,2	107,5	119,2	115	117	121	126
appreciation	*growth in %*	-4,4	2,4	4,8	4,2	3,1	10,9	-3,8	2,1	3,3	3,8

[1] *Deflated by GDP deflators.*

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

		2009				2010			
		Q1	Q2	Q3	Q4 *Estimate*	Q1 *Forecast*	Q2 *Forecast*	Q3 *Forecast*	Q4 *Forecast*
Nominal exchange rates:									
CZK / EUR		27,60	26,68	25,60	25,91	26,2	25,9	25,7	25,4
appreciation	*growth in %*	-7,4	-6,9	-5,9	-2,2	5,3	2,9	-0,3	2,0
CZK / USD		21,21	19,59	17,90	17,53	18,2	18,0	17,9	17,7
appreciation	*growth in %*	-19,5	-18,9	-10,4	9,8	16,5	8,7	0,2	-0,9
NEER	*average of 2005=100*	111,1	115,1	119,8	119	117	118	120	121
appreciation	*growth in %*	-5,7	-5,2	-3,6	0,7	5,4	2,8	-0,2	1,6
Real exchange rate to EA12	*average of 2005=100*	110,2	113,3	116,8	118	116	116	116	121
appreciation	*growth in %*	-5,6	-4,8	-4,6	0,0	4,8	2,1	-0,5	2,0

Graph A.4.1: **Nominal Exchange Rates**

quarterly average, average 2005 = 100 (rhs)
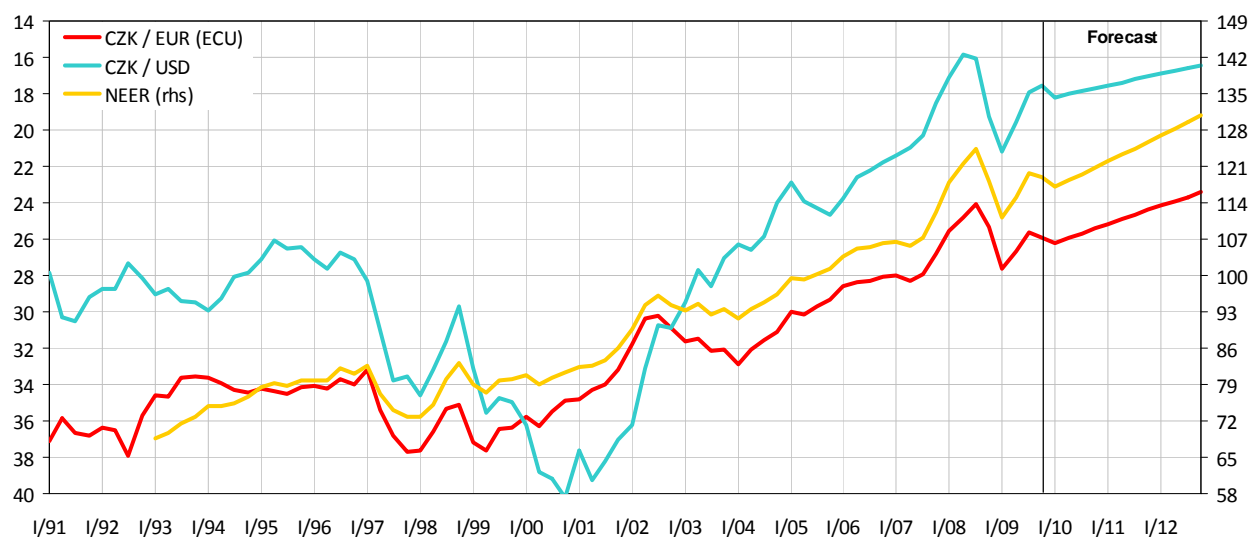
Graph A.4.2: **Real Exchange Rate to EA12**

quarterly average, deflated by GDP deflators, average 2005 = 100
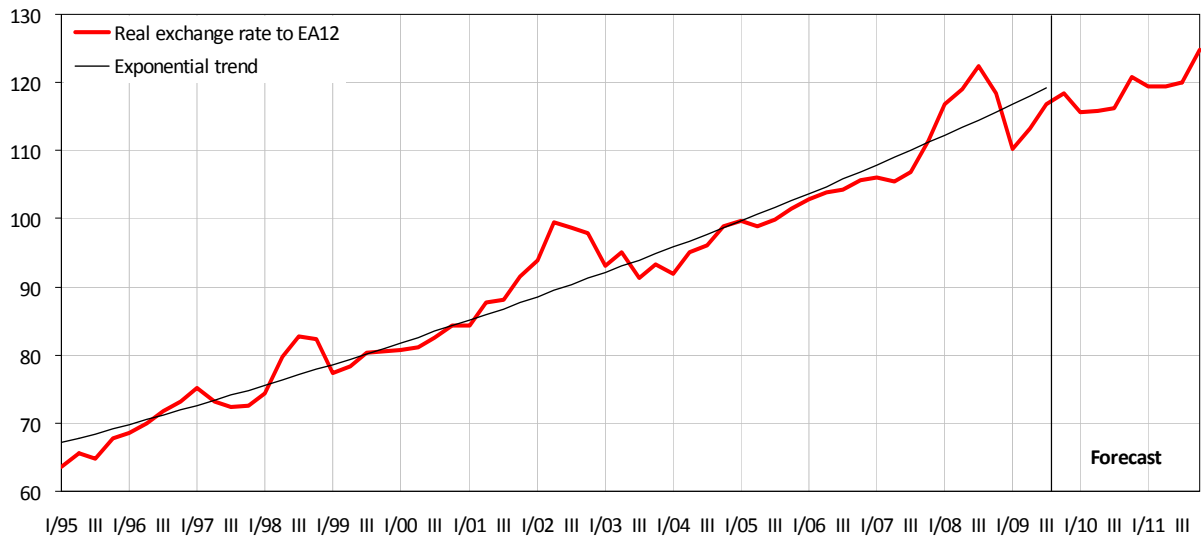
Graph A.4.3: **Real Exchange Rate to EA12**

deflated by GDP deflators, YoY growth, in percentage points
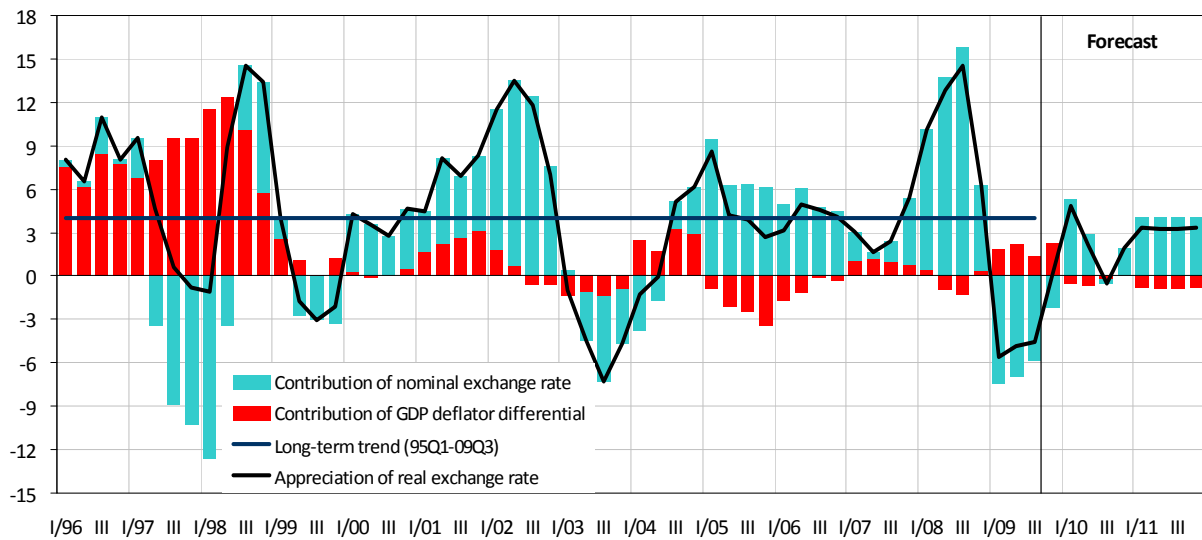
A.6 Demography

Sources: CZSO, MoF estimates, Czech Social Security Administration

Table A.6.1: **Demography**
in thousands of persons, end-of-year

	2004	2005	2006	2007	2008	2009 *Estimate*	2010 *Forecast*	2011 *Forecast*	2012 *Outlook*	2013 *Outlook*
Population (January 1)	10 211	10 221	10 251	10 287	10 381	10 468	10 519	10 572	10 625	10 677
growth in %	0,1	0,1	0,3	0,4	0,9	0,8	0,5	0,5	0,5	0,5
Age structure (January 1):										
(0–19)	2 219	2 184	2 155	2 131	2 123	2 117	2 109	2 099	2 091	2 089
growth in %	-1,6	-1,5	-1,3	-1,1	-0,3	-0,3	-0,4	-0,5	-0,4	-0,1
(20–59)	6 022	6 020	6 042	6 033	6 061	6 087	6 089	6 090	6 087	6 079
growth in %	0,1	0,0	0,4	-0,1	0,5	0,4	0,0	0,0	0,0	-0,1
(60 and more)	1 971	2 017	2 054	2 123	2 197	2 264	2 321	2 383	2 447	2 509
growth in %	2,0	2,3	1,9	3,4	3,5	3,0	2,5	2,7	2,7	2,6
Old-age pensioners (Jan 1)	1 933	1 965	1 985	2 024	2 061	2 102	2 145	2 182	2 218	2 253
growth in %	0,6	1,7	1,0	2,0	1,8	2,0	2,0	1,7	1,6	1,6
Old-age dependency ratios *(Jan 1 in %)*:										
Demographic [1]	32,7	33,5	34,0	35,2	36,3	37,2	38,1	39,1	40,2	41,3
Under current legislation [2]	32,8	32,8	33,0	33,3	33,4	33,7	34,1	34,5	34,8	35,2
Effective [3]	40,9	41,5	41,3	41,6	41,5	41,8	43,5	44,9	45,5	45,9
Fertility rate	1,226	1,282	1,328	1,438	1,497	1,50	1,51	1,53	1,54	1,55
Population increase	9	31	36	94	86	52	53	53	53	52
Natural increase	-10	-6	1	10	15	12	13	13	13	12
Live births	98	102	106	115	120	119	118	118	117	116
Deaths	107	108	104	105	105	107	106	105	105	104
Net migration	19	36	35	84	72	40	40	40	40	40
Immigration	53	60	68	104	78	.	.	.	.	.
Emigration	35	24	33	21	6	.	.	.	.	.

[1] *Demographic dependency: ratio of people in senior ages (60 and more) to people in productive ages (20 - 59).*
[2] *Dependency under current legislation: ratio of people above the official retirement age to the people over 19 below the official retirement age.*
[3] *Effective dependency: ratio of old-age pensioners to working people.*

Graph A.6.1: **Groups by Age**
structure in per cent
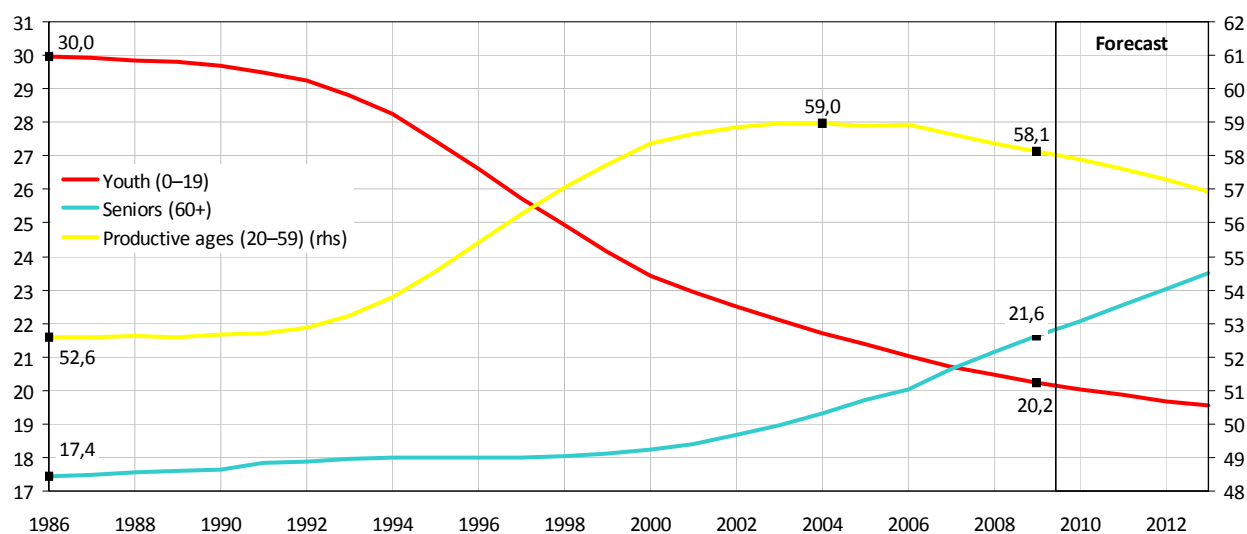
Graph A.6.2: **Life Expectancy**
in years
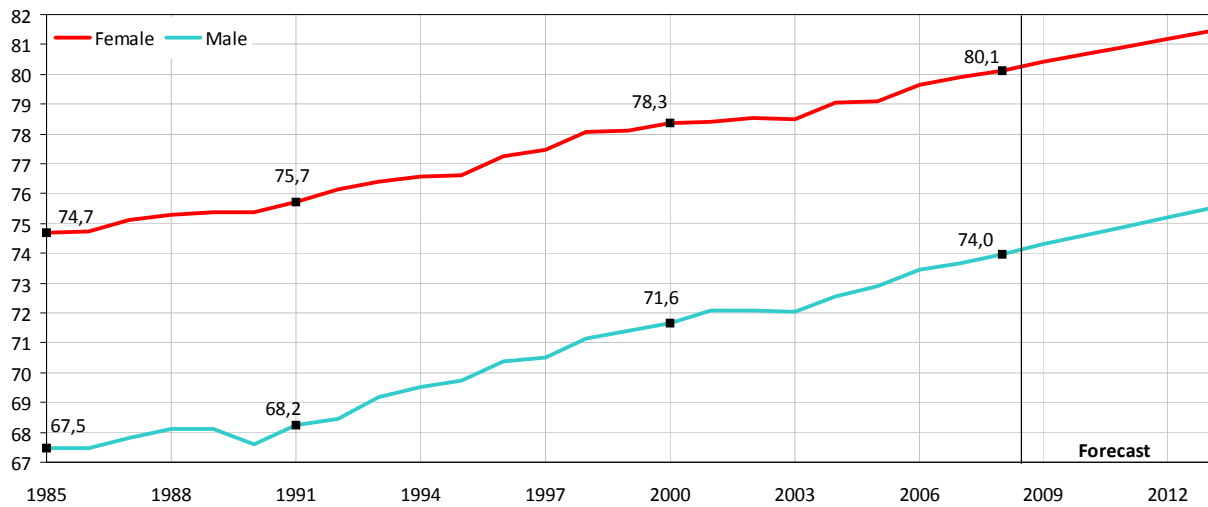
Graph A.6.3: **Dependency Ratios**
definitions – see Table A.6.1, in %
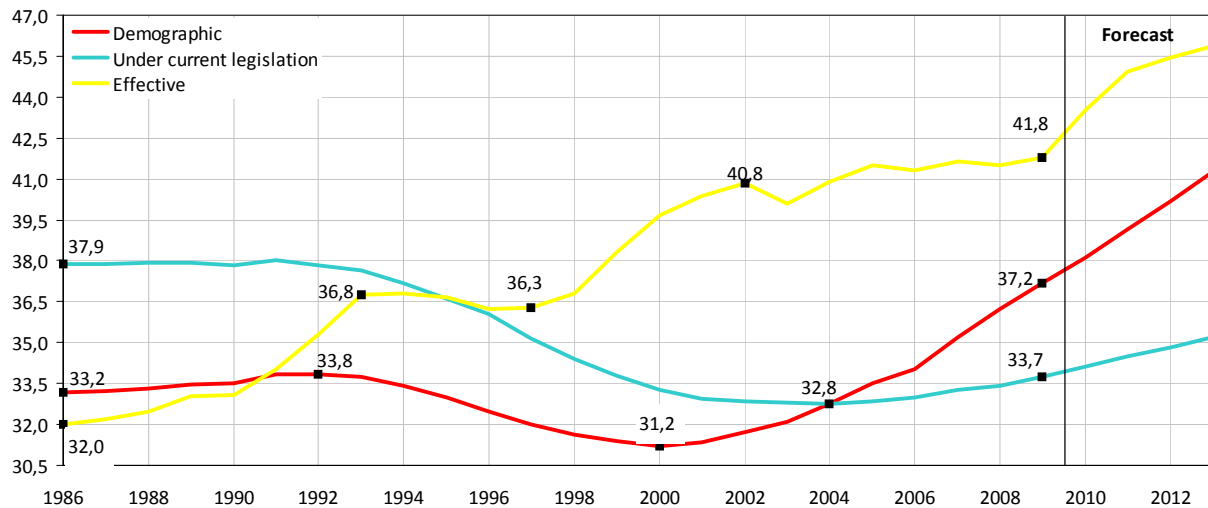
Graph A.6.4: **Old–Age Pensioners**
absolute increase over a year in thousands of persons

34
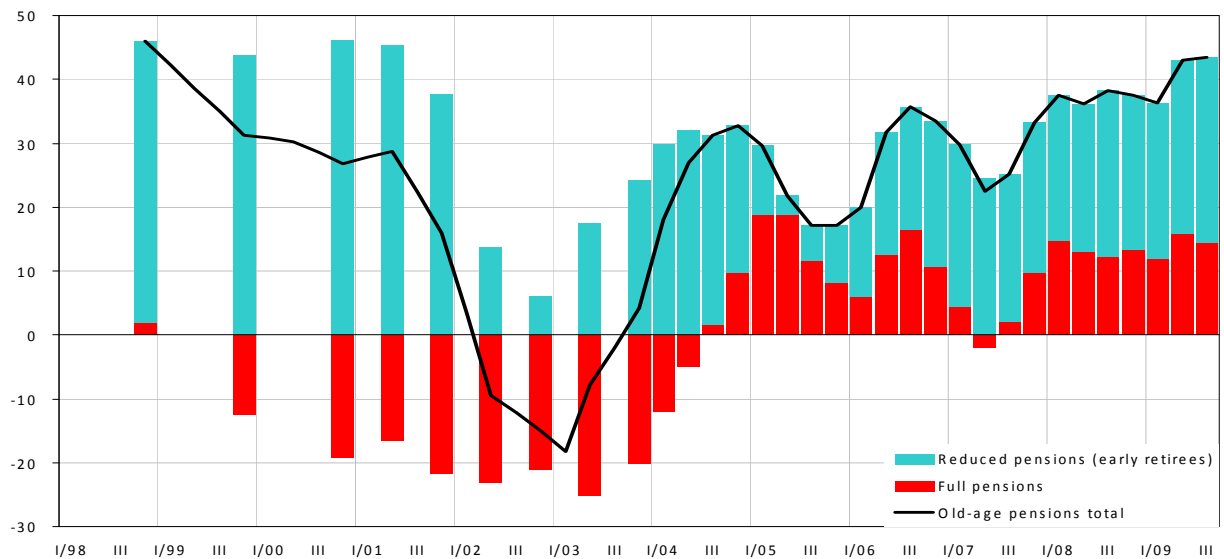
C.1 Economic Output

Sources: CZSO, MoF estimates.

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

		2004	2005	2006	2007	2008 Prelim.	2009 Estim.	2010 Forecast	2011 Forecast	2012 Outlook	2013 Outlook
Gross domestic product	bill. CZK 2000	2474	2630	2809	2982	3055	2932	2971	3049	3166	3305
	growth in %	4,5	6,3	6,8	6,1	2,5	-4,0	1,3	2,6	3,8	4,4
Private consumption exp.[1]	bill. CZK 2000	1309	1342	1411	1481	1534	1556	1544	1574	1613	1675
	growth in %	2,9	2,5	5,2	5,0	3,6	1,4	-0,8	2,0	2,5	3,8
Government consumption exp.	bill. CZK 2000	527	542	548	552	557	579	570	575	574	571
	growth in %	-3,5	2,9	1,2	0,7	1,0	4,0	-1,7	1,0	-0,1	-0,5
Gross capital formation	bill. CZK 2000	774	767	841	920	895	719	740	767	805	864
	growth in %	9,1	-0,8	9,6	9,4	-2,7	-19,6	2,9	3,7	4,9	7,3
– Gross fixed capital formation	bill. CZK 2000	716	729	773	856	844	780	751	770	798	855
	growth in %	3,9	1,8	6,0	10,8	-1,5	-7,5	-3,7	2,5	3,6	7,2
– Change in stocks and valuables	bill. CZK 2000	58	38	69	64	51	-61	-11	-3	7	8
Exports of goods and services	bill. CZK 2000	2039	2275	2633	3029	3210	2828	2952	3141	3346	3631
	growth in %	20,7	11,6	15,8	15,0	6,0	-11,9	4,4	6,4	6,5	8,5
Imports of goods and services	bill. CZK 2000	2192	2301	2629	3004	3144	2771	2838	3010	3157	3410
	growth in %	17,9	5,0	14,3	14,3	4,7	-11,9	2,4	6,1	4,9	8,0
Domestic demand	bill. CZK 2000	2608	2652	2796	2943	2979	2871	2866	2927	2999	3109
	growth in %	3,1	1,7	5,4	5,2	1,2	-3,6	-0,2	2,1	2,5	3,7
Methodological discrepancy[2]	bill. CZK 2000	18	5	4	3	2	20	4	2	-16	-26
Real gross domestic income	bill. CZK 2000	2582	2712	2869	3074	3110	3047	3071	3147	3265	3431
	growth in %	4,7	5,0	5,8	7,1	1,2	-2,0	0,8	2,5	3,7	5,1
Contribution to GDP growth[3]											
– Domestic demand	percentage points	3,2	1,7	5,3	5,1	1,2	-3,5	-0,2	2,0	2,3	3,4
– consumption	percentage points	0,7	1,9	2,8	2,6	1,9	1,5	-0,8	1,2	1,2	1,8
– gross capital formation	percentage points	2,5	-0,2	2,5	2,5	-0,7	-5,0	0,6	0,8	1,0	1,6
– Foreign balance	percentage points	1,3	4,6	1,5	1,1	1,3	-0,6	1,5	0,6	1,5	1,0

[1] The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.
[2] Deterministic impact of using prices and structure of the previous year for calculation of y-o-y growth
[3] Calculated on the basis of prices and structure of the previous year with perfectly additive contributions

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

		2009				2010			
		Q1 Prelim.	Q2 Prelim.	Q3 Prelim.	Q4 Estim.	Q1 Forecast	Q2 Forecast	Q3 Forecast	Q4 Forecast
Gross domestic product	bill. CZK 2000	700	741	742	749	711	755	753	752
	growth in %	-4,2	-5,0	-4,7	-2,3	1,6	1,9	1,5	0,5
	growth in % [1]	-4,2	-4,7	-4,1	-2,7	1,6	1,6	1,1	0,5
	quart.growth in % [1]	-4,4	0,2	0,8	0,8	-0,2	0,2	0,2	0,2
Private consumption exp.	bill. CZK 2000	369	391	396	399	366	389	392	396
	growth in %	2,3	1,8	1,1	0,4	-0,7	-0,5	-1,0	-0,9
Government consumption exp.	bill. CZK 2000	134	142	143	160	132	140	141	157
	growth in %	4,6	3,9	5,4	2,4	-1,3	-1,6	-1,9	-2,0
Gross capital formation	bill. CZK 2000	179	175	173	192	190	183	178	189
	growth in %	-15,4	-22,4	-24,4	-16,1	6,0	4,5	3,0	-1,6
– Gross fixed capital formation	bill. CZK 2000	183	201	196	200	174	193	190	195
	growth in %	-6,1	-7,0	-9,6	-7,3	-4,5	-4,3	-3,5	-2,5
– Change in stocks and valuables	bill. CZK 2000	-4	-26	-23	-8	15	-10	-11	-6
Exports of goods and services	bill. CZK 2000	668	714	734	712	688	748	768	747
	growth in %	-18,5	-16,0	-8,1	-4,1	2,9	4,8	4,7	5,0
Imports of goods and services	bill. CZK 2000	653	681	707	729	665	700	724	749
	growth in %	-17,3	-16,2	-8,6	-5,1	1,8	2,7	2,4	2,7
Methodological discrepancy	bill. CZK 2000	3	0	3	15	-1	-5	-2	12
Real gross domestic income	bill. CZK 2000	728	767	768	784	738	775	775	783
	growth in %	-2,8	-3,2	-2,4	0,3	1,4	1,0	0,9	-0,1

[1] From seasonally and working day adjusted data

35

Table C.1.3: **Nominal GDP by type of expenditure** – yearly

		2004	2005	2006	2007	2008 Prelim.	2009 Estim.	2010 Forecast	2011 Forecast	2012 Outlook	2013 Outlook
Gross domestic product	bill. CZK	2815	2984	3222	3535	3689	3649	3718	3852	4059	4356
	growth in %	9,2	6,0	8,0	9,7	4,3	-1,1	1,9	3,6	5,4	7,3
Private consumption	bill. CZK	1417	1464	1562	1687	1834	1865	1879	1945	2037	2161
	growth in %	6,3	3,4	6,6	8,0	8,7	1,7	0,8	3,5	4,8	6,1
Government consumption	bill. CZK	622	658	687	718	753	798	790	808	818	837
	growth in %	3,1	5,9	4,3	4,5	4,9	6,0	-1,0	2,2	1,2	2,4
Gross capital formation	bill. CZK	774	766	863	955	934	767	795	831	876	947
	growth in %	10,6	-1,1	12,7	10,6	-2,2	-17,8	3,6	4,5	5,5	8,0
– Gross fixed capital formation	bill. CZK	727	742	796	890	883	831	806	832	868	937
	growth in %	5,8	2,0	7,3	11,8	-0,8	-5,9	-3,0	3,2	4,3	8,0
– Change in stocks and valuables	bill. CZK	47	24	67	64	51	-64	-11	-1	8	10
External balance	bill. CZK	2	95	110	176	168	218	253	269	328	411
– Exports of goods and services	bill. CZK	1975	2155	2462	2830	2844	2514	2617	2748	2956	3331
	growth in %	24,0	9,1	14,3	14,9	0,5	-11,6	4,1	5,0	7,6	12,7
– Imports of goods and services	bill. CZK	1973	2060	2352	2655	2676	2296	2364	2479	2628	2920
	growth in %	19,5	4,4	14,2	12,9	0,8	-14,2	3,0	4,9	6,0	11,1
Gross national income	bill. CZK	2660	2850	3062	3288	3426	3409	3486	3574	3736	3988
	growth in %	7,9	7,1	7,5	7,4	4,2	-0,5	2,2	2,5	4,5	6,7
Primary income balance	bill. CZK	-155	-134	-160	-247	-263	-240	-233	-278	-323	-368

Table C.1.4: **Nominal GDP by type of expenditure** - quarterly

		2009				2010			
		Q1 Prelim.	Q2 Prelim.	Q3 Prelim.	Q4 Estim.	Q1 Forecast	Q2 Forecast	Q3 Forecast	Q4 Forecast
Gross domestic product	bill. CZK	872	919	912	945	890	938	932	958
	growth in %	-0,5	-1,8	-2,5	0,5	2,0	2,1	2,2	1,4
Private consumption	bill. CZK	445	470	475	475	446	474	478	481
	growth in %	3,6	2,5	0,6	0,2	0,2	0,9	0,8	1,1
Government consumption	bill. CZK	179	194	195	230	177	192	193	228
	growth in %	7,9	6,1	6,6	4,0	-1,0	-1,0	-1,0	-1,0
Gross capital formation	bill. CZK	192	188	184	203	204	198	190	203
	growth in %	-12,3	-20,0	-23,0	-15,5	6,1	5,3	3,6	-0,4
– Gross fixed capital formation	bill. CZK	197	215	207	212	189	207	202	209
	growth in %	-2,9	-4,9	-8,7	-6,7	-3,8	-3,6	-2,8	-1,8
– Change in stocks and valuables	bill. CZK	-4	-27	-24	-9	15	-9	-11	-6
External balance	bill. CZK	56	67	59	36	62	74	71	47
– Exports of goods and services	bill. CZK	619	628	619	648	628	654	654	681
	growth in %	-15,6	-16,0	-11,2	-2,6	1,5	4,0	5,8	5,1
– Imports of goods and services	bill. CZK	562	562	560	612	566	580	583	635
	growth in %	-16,2	-18,5	-14,5	-7,3	0,6	3,3	4,2	3,7

Graph C.1.1: **Gross Domestic Product** *(real)*
chained volumes, bill. CZK in const. prices of 2000, seasonally adjusted
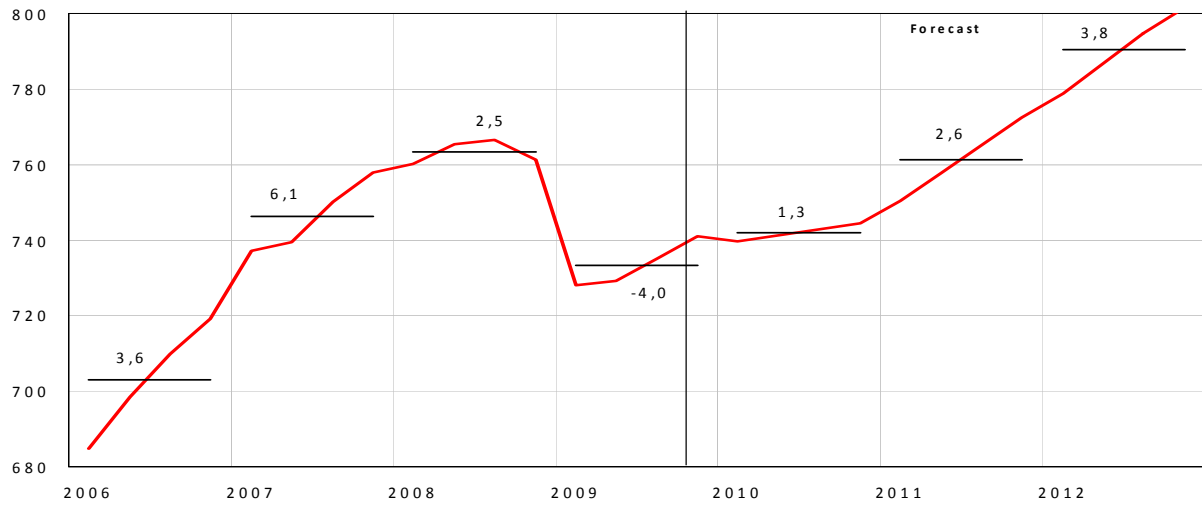
Graph C.1.2: **Gross Domestic Product** *(real)*
QoQ growth rate, in %, seasonally adjusted
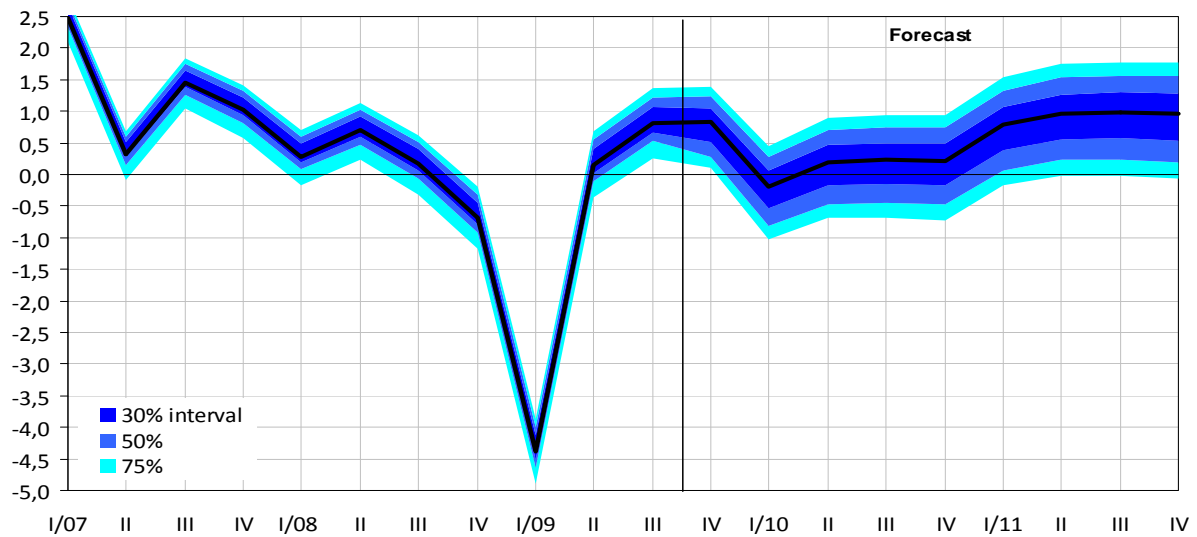
Graph C.1.3: **Gross Domestic Product and Real Gross Domestic Income**
YoY growth rate, in %
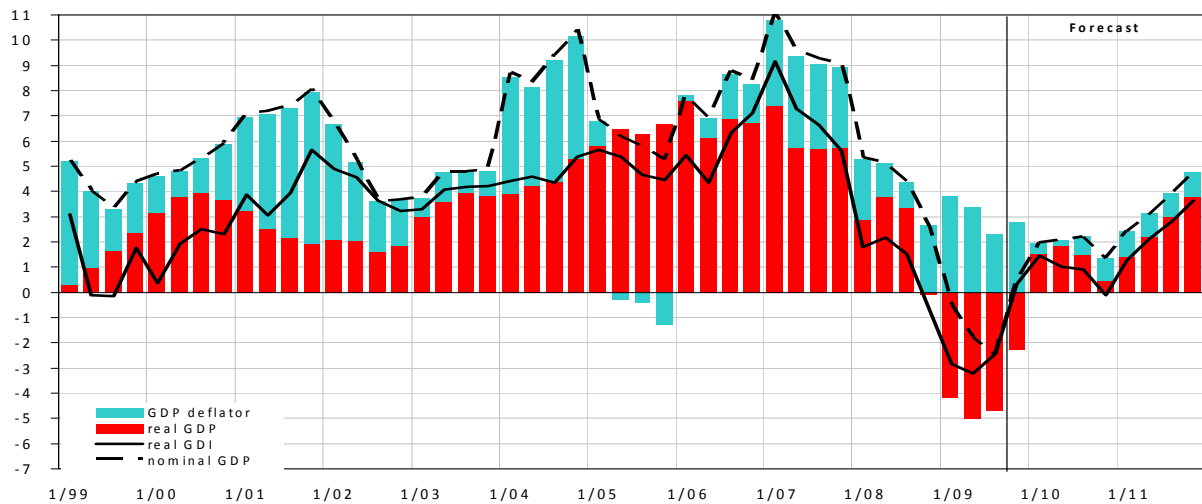
Graph C.1.4: **Gross Domestic Product -** *contributions to YoY growth*
in constant prices, decomposition of the YoY growth, in percentage points

Legend:
- consumption
- gross capital formation
- foreign balance
- YoY growth of GDP

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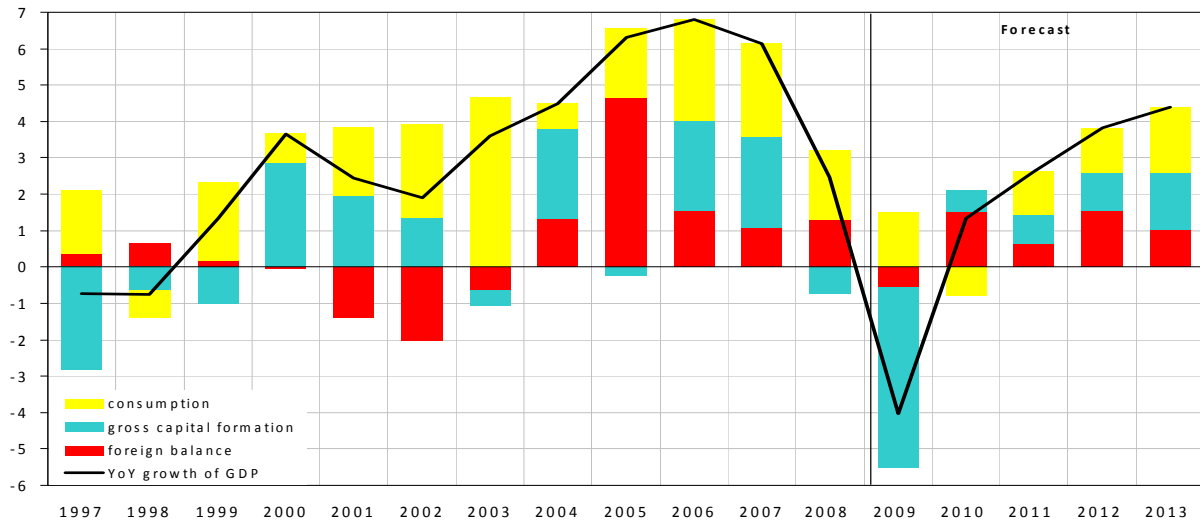
Graph C.1.5: **Private Consumption** *(incl. NPISH)*
YoY growth rate, in %

Legend:
- deflator
- in real terms
- in nominal terms

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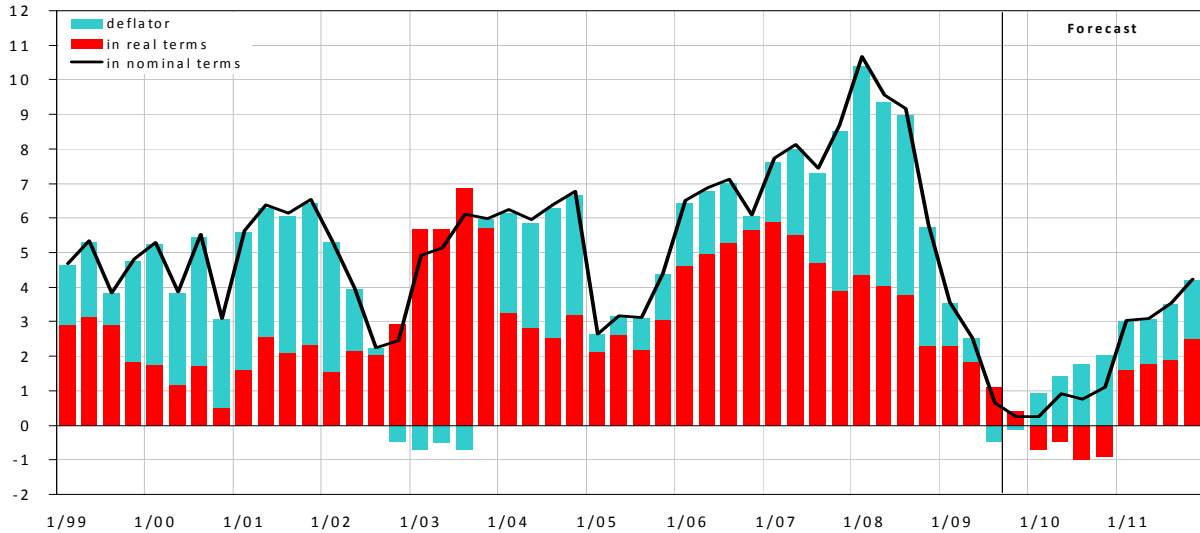
Graph C.1.6: **Gross Fixed Capital Formation**
YoY growth rate, in %

Legend:
- deflator
- in real terms
- in nominal terms

Forecast
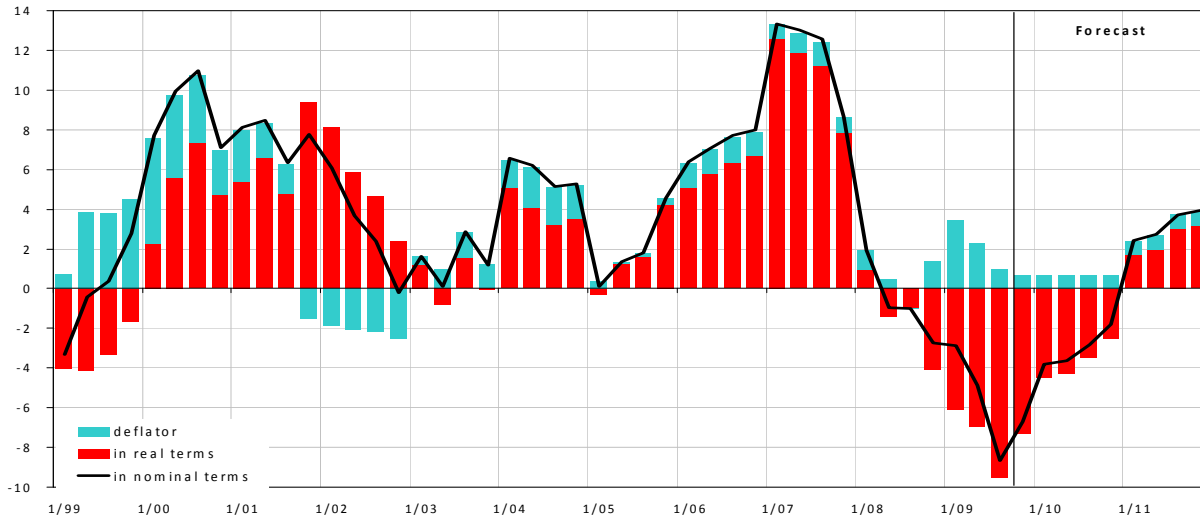
Graph C.1.7: **Change in Inventories and Valuables** *(real)*
seasonally adjusted, contributions to YoY growth of GDP in p.p.
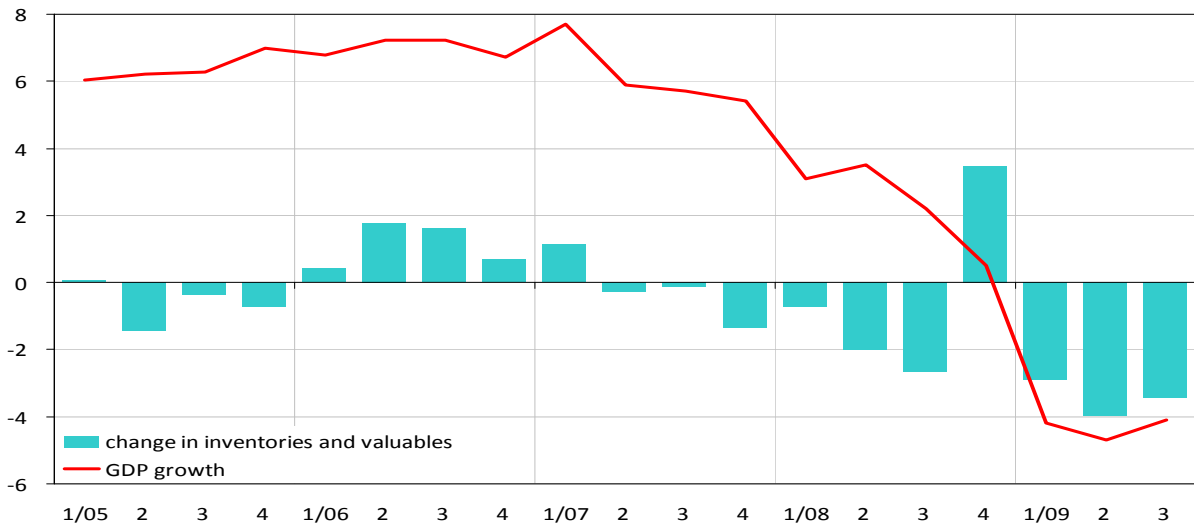
Graph C.1.8: **Ratio of Exports and Imports of Goods and Services to GDP** *(nominal)*
yearly moving sums, in %
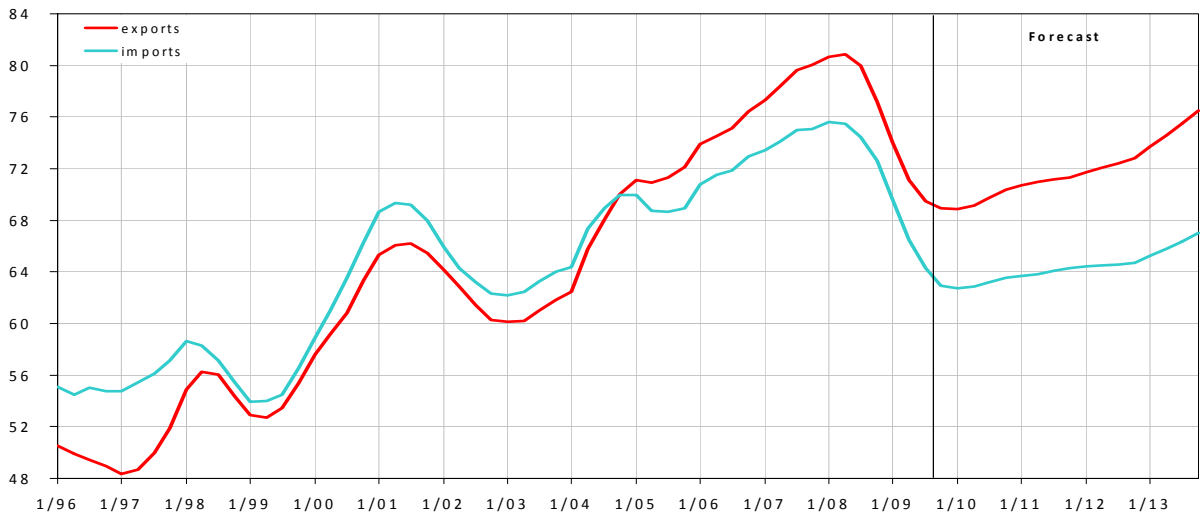
Table C.1.5: **GDP – by type of income** – yearly

		2002	2003	2004	2005	2006	2007	2008 _Prelim._	2009 _Forecast_	2010 _Forecast_	2011 _Forecast_
GDP	bill. CZK	**2464**	**2577**	**2815**	**2984**	**3222**	**3535**	**3689**	**3649**	**3718**	**3852**
	growth in %	4,8	4,6	9,2	6,0	8,0	9,7	4,3	-1,1	1,9	3,6
Balance of taxes and subsidies	bill. CZK	**211**	**219**	**267**	**281**	**285**	**325**	**333**	**325**	**362**	**373**
	growth in %	9,8	3,4	22,2	5,1	1,6	13,8	2,5	-2,3	11,4	2,9
– Taxes on production and imports	bill. CZK	**268**	**287**	**331**	**353**	**363**	**407**	**418**	**418**	**455**	**466**
	growth in %	3,9	7,1	15,5	6,4	2,9	12,0	2,9	-0,2	9,0	2,5
– Subsidies on production	bill. CZK	**57**	**68**	**64**	**72**	**78**	**82**	**85**	**92**	**93**	**94**
	growth in %	-13,5	20,6	-5,9	12,2	7,8	5,4	4,1	8,3	0,5	0,9
Compensation of employees	bill. CZK	**1064**	**1129**	**1202**	**1285**	**1386**	**1516**	**1634**	**1604**	**1605**	**1668**
	growth in %	7,0	6,1	6,5	6,9	7,9	9,4	7,7	-1,8	0,1	3,9
– Wages and salaries	bill. CZK	**805**	**853**	**907**	**970**	**1047**	**1145**	**1245**	**1241**	**1233**	**1288**
	growth in %	6,6	6,0	6,3	6,9	7,9	9,4	8,7	-0,3	-0,7	4,5
– Social security contributions	bill. CZK	**260**	**276**	**295**	**315**	**339**	**371**	**389**	**363**	**373**	**380**
	growth in %	8,3	6,2	7,0	6,7	7,8	9,5	4,7	-6,7	2,7	1,9
Gross operating surplus	bill. CZK	**1189**	**1229**	**1345**	**1418**	**1551**	**1694**	**1722**	**1720**	**1750**	**1812**
	growth in %	2,0	3,4	9,4	5,4	9,3	9,3	1,6	-0,1	1,8	3,5
– Consumption of capital	bill. CZK	**492**	**509**	**538**	**554**	**576**	**611**	**639**	**657**	**682**	**710**
	growth in %	3,0	3,5	5,7	3,0	4,1	6,1	4,6	2,8	3,8	4,0
– Net operating surplus	bill. CZK	**697**	**721**	**808**	**865**	**974**	**1083**	**1083**	**1062**	**1068**	**1102**
	growth in %	1,4	3,4	12,1	7,0	12,7	11,1	0,0	-1,9	0,5	3,2

Table C.1.6: **GDP - by type of income** – quarterly

		2009				2010			
		Q1 _Prelim._	Q2 _Prelim._	Q3 _Prelim._	Q4 _Estimate_	Q1 _Forecast_	Q2 _Forecast_	Q3 _Forecast_	Q4 _Forecast_
GDP	bill. CZK	**872**	**919**	**912**	**945**	**890**	**938**	**932**	**958**
	growth in %	-0,5	-1,8	-2,5	0,5	2,0	2,1	2,2	1,4
Balance of taxes and subsidies	bill. CZK	**71**	**88**	**93**	**73**	**80**	**97**	**103**	**83**
	growth in %	-5,0	-0,7	-4,8	1,9	12,0	10,9	10,5	12,7
Compensation of employees	bill. CZK	**396**	**398**	**387**	**424**	**391**	**395**	**391**	**428**
	growth in %	0,5	-1,7	-3,7	-2,3	-1,3	-0,8	1,2	1,2
– Wages and salaries	bill. CZK	**301**	**306**	**303**	**332**	**294**	**301**	**304**	**333**
	growth in %	0,9	-0,5	-1,0	-0,5	-2,1	-1,6	0,4	0,4
– Social security contributions	bill. CZK	**95**	**92**	**84**	**92**	**97**	**94**	**87**	**95**
	growth in %	-0,7	-5,5	-12,1	-8,5	1,4	1,9	3,9	3,9
Gross operating surplus	bill. CZK	**405**	**434**	**432**	**449**	**419**	**446**	**438**	**447**
	growth in %	-0,7	-2,1	-0,8	3,0	3,4	2,9	1,4	-0,3

C.2 Prices of Goods and Services

Sources: CZSO, MoF estimates.

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

		2002	2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast
Consumer Price Index											
average of a year	*average 2005=100*	95,4	95,5	98,2	100,0	102,5	105,4	112,1	113,3	115,6	117,6
	growth in %	**1,8**	**0,1**	**2,8**	**1,9**	**2,5**	**2,8**	**6,3**	**1,0**	**2,0**	**1,8**
end of a year	*average 2005=100*	94,8	95,8	98,5	100,6	102,3	107,9	111,8	112,9	115,7	117,9
	growth in %	**0,6**	**1,0**	**2,8**	**2,2**	**1,7**	**5,4**	**3,6**	**1,0**	**2,4**	**1,9**
– of which contribution of											
administrative measures [1]	*percentage points*	**0,7**	**0,3**	**1,7**	**1,9**	**0,8**	**2,2**	**4,3**	**1,0**	**2,1**	**1,1**
market increase	*percentage points*	**-0,2**	**0,7**	**1,1**	**0,4**	**0,8**	**3,3**	**-0,7**	**0,0**	**0,3**	**0,9**
HICP	*average 2005=100*	96,1	96,0	98,4	100,0	102,1	105,1	111,7	112,4	114,3	116,1
	growth in %	**1,4**	**-0,1**	**2,6**	**1,6**	**2,1**	**3,0**	**6,3**	**0,6**	**1,8**	**1,5**
Deflators											
GDP	*average 2000=100*	107,8	108,8	113,8	113,4	114,7	118,6	120,8	124,5	125,1	126,3
	growth in %	**2,8**	**0,9**	**4,5**	**-0,3**	**1,1**	**3,4**	**1,8**	**3,1**	**0,5**	**1,0**
Domestic final use	*average 2000=100*	103,6	104,2	107,8	108,9	111,3	114,2	118,2	119,5	120,9	122,4
	growth in %	**0,5**	**0,6**	**3,5**	**1,0**	**2,2**	**2,6**	**3,5**	**1,1**	**1,2**	**1,3**
Consumption of households	*average 2000=100*	105,2	104,8	108,2	109,1	110,7	113,9	119,5	119,9	121,7	123,6
	growth in %	**1,2**	**-0,4**	**3,3**	**0,8**	**1,4**	**2,9**	**4,9**	**0,3**	**1,6**	**1,5**
Consumption of government	*average 2000=100*	107,8	110,5	118,0	121,5	125,3	130,1	135,2	137,8	138,8	140,5
	growth in %	**3,7**	**2,4**	**6,8**	**3,0**	**3,1**	**3,8**	**3,9**	**1,9**	**0,7**	**1,2**
Fixed capital formation	*average 2000=100*	98,8	99,8	101,5	101,8	103,0	104,0	104,7	106,6	107,3	108,1
	growth in %	**-2,2**	**1,0**	**1,8**	**0,2**	**1,3**	**0,9**	**0,7**	**1,8**	**0,7**	**0,7**
Exports of goods and services	*average 2000=100*	94,2	94,3	96,9	94,7	93,5	93,4	88,6	88,9	88,7	87,5
	growth in %	**-5,5**	**0,1**	**2,7**	**-2,2**	**-1,3**	**-0,1**	**-5,2**	**0,4**	**-0,3**	**-1,3**
Imports of goods and services	*average 2000=100*	89,2	88,8	90,0	89,5	89,5	88,4	85,1	82,9	83,3	82,4
	growth in %	**-8,4**	**-0,4**	**1,3**	**-0,5**	**-0,1**	**-1,2**	**-3,7**	**-2,6**	**0,5**	**-1,1**
Terms of trade	*average 2000=100*	105,6	106,2	107,6	105,8	104,5	105,7	104,1	107,3	106,4	106,2
	growth in %	**3,2**	**0,5**	**1,4**	**-1,7**	**-1,2**	**1,2**	**-1,6**	**3,1**	**-0,8**	**-0,2**

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

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

		2009				2010			
		Q1	Q2	Q3	Q4 Estimate	Q1 Forecast	Q2 Forecast	Q3 Forecast	Q4 Forecast
Consumer Price Index	*average 2005=100*	113,7	113,7	113,1	112,7	115,4	115,9	115,6	115,5
	growth in %	**2,2**	**1,4**	**0,1**	**0,4**	**1,5**	**1,9**	**2,2**	**2,4**
Contributions:									
administrative measures	*percentage points*	**2,6**	**2,3**	**1,7**	**1,0**	**1,3**	**1,6**	**1,8**	**2,1**
market increase	*percentage points*	**-0,4**	**-0,9**	**-1,5**	**-0,6**	**0,1**	**0,3**	**0,4**	**0,4**
HICP	*average 2005=100*	112,7	112,9	112,2	111,6	114,1	114,8	114,4	114,1
	growth in %	**1,5**	**1,0**	**-0,1**	**0,1**	**1,2**	**1,7**	**2,0**	**2,2**
GDP deflator	*average 2000=100*	124,7	124,0	122,9	126,3	125,2	124,2	123,8	127,4
	growth in %	**3,8**	**3,4**	**2,3**	**2,8**	**0,4**	**0,2**	**0,7**	**0,9**
Domestic final use deflator	*average 2000=100*	119,3	119,6	118,9	120,2	120,0	120,9	120,5	122,1
	growth in %	**2,2**	**1,5**	**0,4**	**0,5**	**0,6**	**1,1**	**1,3**	**1,6**
Terms of trade	*average 2000=100*	107,5	106,7	106,5	108,5	107,3	105,3	105,7	107,6
	growth in %	**2,2**	**2,8**	**3,3**	**4,1**	**-0,2**	**-1,3**	**-0,8**	**-0,8**

Graph C.2.1: **Consumer Prices**
YoY growth rate, in %
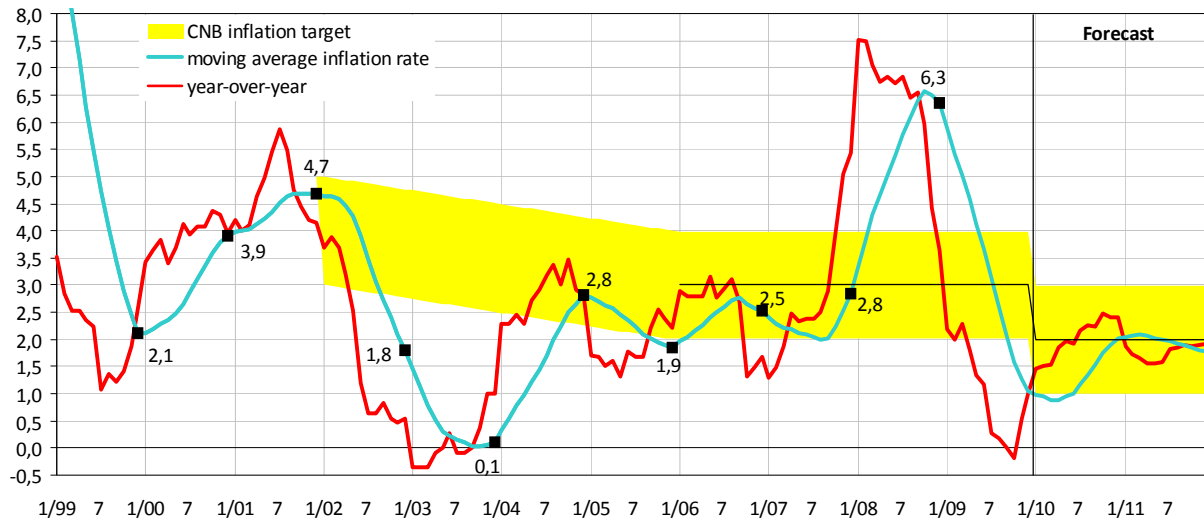
Graph C.2.2: **Consumer Prices**
decomposition of the YoY increase in consumer prices, in percentage points
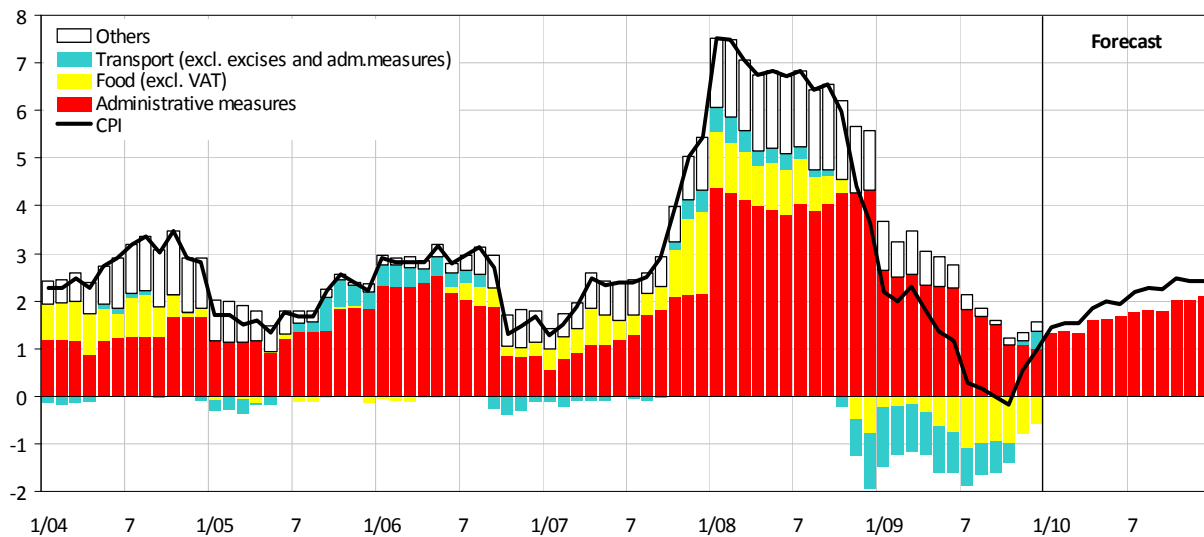
Graph C.2.3: **HICP and Maastricht Criterion of Inflation**
moving inflation rate from HICP, in %
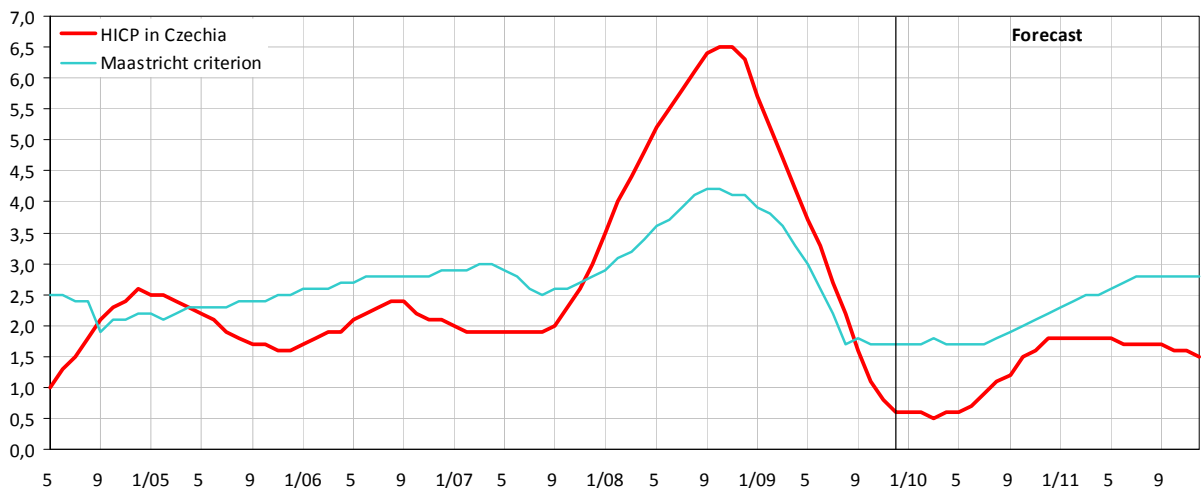
Graph C.2.4: **Indicators of Consumer Prices**
YoY increases, in %
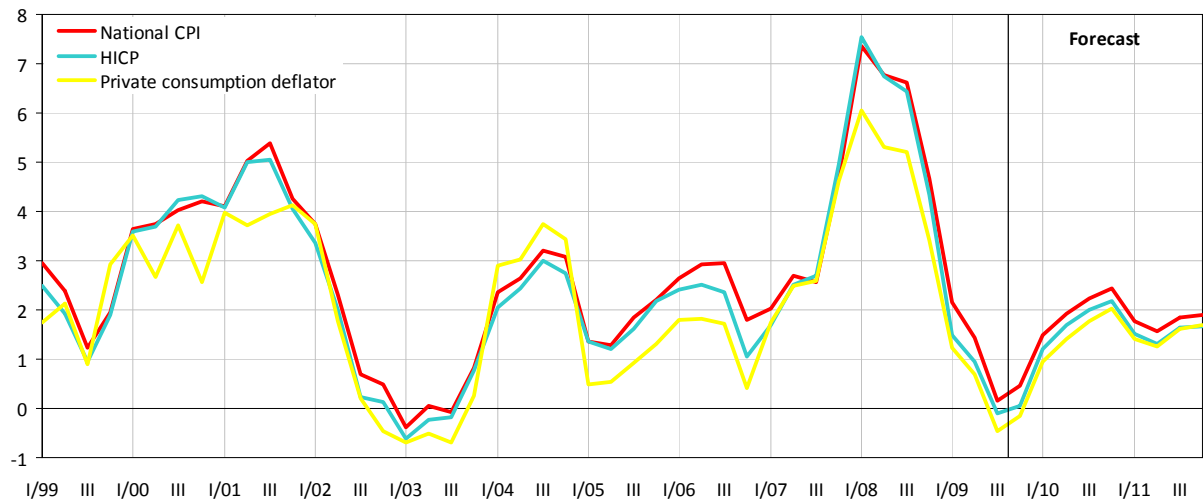
Graph C.2.5: **GDP Deflator**
YoY indices of final domestic use deflator and terms of trade, in %
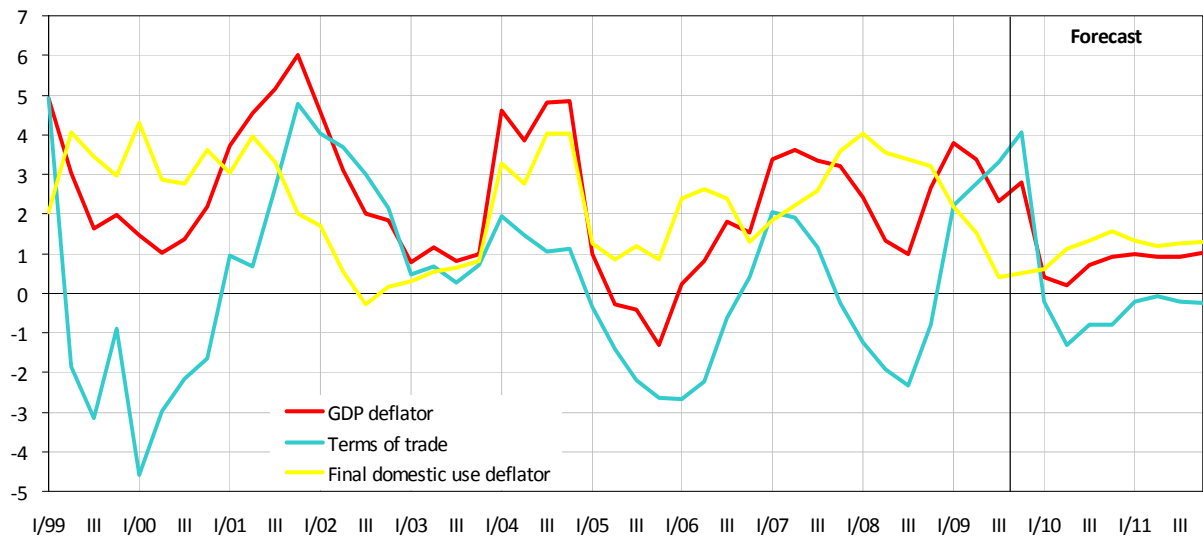
Graph C.2.6: **Terms of Trade**
YoY increases, in %
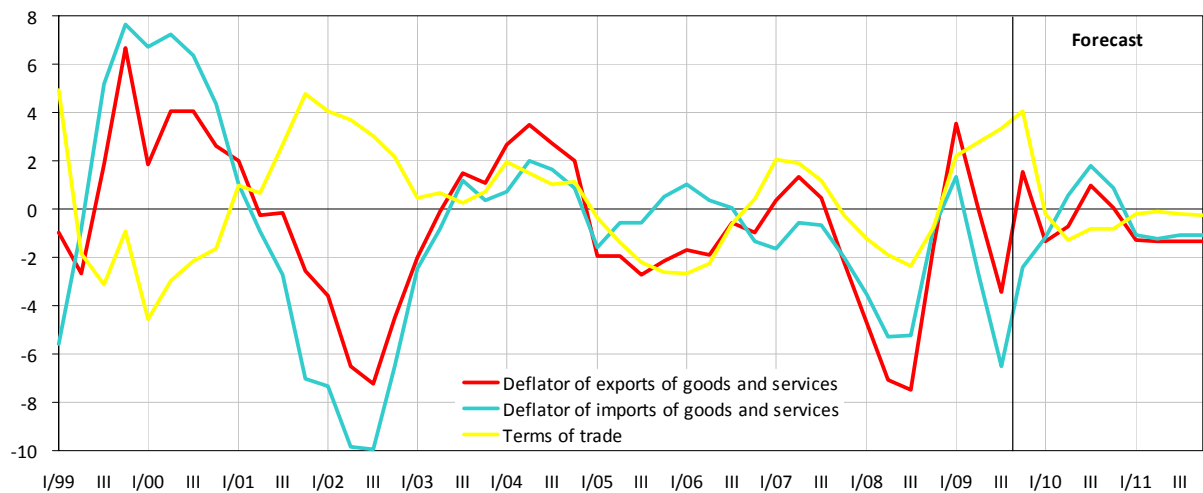
C.3 Labour Market

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

Table C.3.1: **Employment –** yearly

		2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast	2012 Outlook
Labour Force Survey											
Employment	*average in thous.persons*	**4733**	**4707**	**4764**	**4828**	**4922**	**5002**	**4934**	**4847**	**4844**	**4877**
	growth in %	-0,7	-0,6	1,2	1,3	1,9	1,6	-1,4	-1,8	0,0	0,7
– employees	*average in thous.persons*	**3922**	**3914**	**4001**	**4048**	**4125**	**4196**	**4106**	**4010**	**4003**	**4026**
	growth in %	-2,0	-0,2	2,2	1,2	1,9	1,7	-2,1	-2,3	-0,2	0,6
– enterpreneurs and	*average in thous.persons*	**811**	**792**	**763**	**780**	**797**	**807**	**828**	**837**	**841**	**851**
self-employed	*growth in %*	6,4	-2,4	-3,7	2,2	2,2	1,2	2,7	1,1	0,5	1,1
Unemployment	*average in thous.persons*	**399**	**426**	**410**	**371**	**276**	**230**	**356**	**465**	**457**	**402**
Unemployment rate	*average in per cent*	**7,8**	**8,3**	**7,9**	**7,1**	**5,3**	**4,4**	**6,7**	**8,8**	**8,6**	**7,6**
Labour force	*average in thous.persons*	**5132**	**5133**	**5174**	**5199**	**5198**	**5232**	**5290**	**5312**	**5302**	**5278**
	growth in %	-0,1	0,0	0,8	0,5	0,0	0,7	1,1	0,4	-0,2	-0,4
Productive-age (15–64)	*average in thous.persons*	**7214**	**7247**	**7270**	**7307**	**7347**	**7410**	**7430**	**7423**	**7393**	**7348**
population	*growth in %*	0,4	0,4	0,3	0,5	0,5	0,9	0,3	-0,1	-0,4	-0,6
Employment/Pop. 15–64	*average in per cent*	**65,6**	**64,9**	**65,5**	**66,1**	**67,0**	**67,5**	**66,4**	**65,3**	**65,5**	**66,4**
Employment rate 15–64[1]	*average in per cent*	**64,9**	**64,2**	**64,8**	**65,3**	**66,1**	**66,6**	**65,4**	**64,2**	**64,3**	**65,1**
Labour force/Pop. 15–64	*average in per cent*	**71,1**	**70,8**	**71,2**	**71,2**	**70,8**	**70,6**	**71,2**	**71,6**	**71,7**	**71,8**
Participation rate 15–64[2]	*average in per cent*	**70,4**	**70,1**	**70,4**	**70,3**	**69,8**	**69,7**	**70,1**	**70,4**	**70,5**	**70,6**
SNA											
Employment	*average in thous.persons*	**4923**	**4940**	**4992**	**5088**	**5224**	**5288**	**5219**	**5137**	**5117**	**5150**
(domestic concept)	*growth in %*	-1,3	0,3	1,0	1,9	2,7	1,2	-1,3	-1,6	-0,4	0,6
Hours worked	*bill. hours*	**9,58**	**9,65**	**9,81**	**9,96**	**10,16**	**10,30**	**9,87**	**9,63**	**9,59**	**9,67**
	growth in %	-1,3	0,8	1,6	1,5	2,0	1,4	-4,1	-2,4	-0,4	0,8
Hours worked / employment	*hours*	**1945**	**1954**	**1965**	**1957**	**1944**	**1947**	**1892**	**1875**	**1875**	**1877**
	growth in %	0,1	0,4	0,6	-0,4	-0,6	0,2	-2,9	-0,9	0,0	0,1
Registered unemployment											
Unemployment	*average in thous.persons*	**521,6**	**537,4**	**514,3**	**474,8**	**392,8**	**324,6**	**465,6**	**586**	**568**	**495**
Unemployment rate[3]	*average in per cent*	**9,90**	**10,24**	**9,79**	.	.	.	.	.	.	.
	average in per cent	.	**9,2**	**8,97**	**8,13**	**6,62**	**5,44**	**7,97**	**10,1**	**9,8**	**8,6**
Registered foreign workers											
Total	*average in thous.persons*	**163,2**	**169,4**	**195,2**	**233,2**	**276,2**	**343,5**	**335,4**	.	.	.
	growth in %	-2,6	3,8	15,3	19,4	18,5	24,4	-2,3	.	.	.
– employees	*average in thous.persons*	**102,3**	**106,1**	**131,2**	**165,5**	**209,7**	**270,2**	**252,6**	.	.	.
	growth in %	-3,5	3,7	23,7	26,1	26,7	28,8	-6,5	.	.	.
– self-employed	*average in thous.persons*	**60,9**	**63,3**	**64,0**	**67,7**	**66,5**	**73,3**	**82,8**	.	.	.
	growth in %	-1,1	3,9	1,2	5,7	-1,8	10,2	13,0	.	.	.

[1] *The indicator does not contain employment over 64 years.*
[2] *The indicator does not contain labour force over 64 years.*
[3] *Old methodology in the first row, new methodology in the second row.*

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

|		2009				2010			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Labour Force Survey									
Employment	average in thous.persons	**4947**	**4941**	**4922**	**4925**	**4843**	**4845**	**4840**	**4858**
	growth in %	-0,2	-1,2	-1,9	-2,2	-2,1	-2,0	-1,7	-1,4
– employees	average in thous.persons	**4124**	**4119**	**4089**	**4091**	**4008**	**4009**	**4003**	**4019**
	growth in %	-0,9	-1,8	-2,8	-3,1	-2,8	-2,7	-2,1	-1,8
– enterpreneurs and	average in thous.persons	**823**	**823**	**833**	**834**	**835**	**836**	**837**	**838**
self-employed	growth in %	3,2	1,8	3,0	2,6	1,5	1,7	0,6	0,5
Unemployment	average in thous.persons	**303**	**334**	**387**	**401**	**449**	**445**	**485**	**481**
Unemployment rate	average in per cent	**5,8**	**6,3**	**7,3**	**7,5**	**8,5**	**8,4**	**9,1**	**9,0**
Labour force	average in thous.persons	**5250**	**5275**	**5309**	**5326**	**5292**	**5290**	**5325**	**5339**
	growth in %	0,9	1,0	1,3	1,2	0,8	0,3	0,3	0,2
Productive-age (15–64)	average in thous.persons	**7432**	**7431**	**7430**	**7429**	**7427**	**7424**	**7422**	**7419**
population	growth in %	0,5	0,3	0,2	0,0	-0,1	-0,1	-0,1	-0,1
Employment/Pop.15–64	average in per cent	**66,6**	**66,5**	**66,2**	**66,3**	**65,2**	**65,3**	**65,2**	**65,5**
	increase over a year	-0,5	-1,1	-1,4	-1,5	-1,3	-1,2	-1,0	-0,8
Employment rate 15–64	average in per cent	**65,6**	**65,4**	**65,2**	**65,2**	**64,1**	**64,2**	**64,1**	**64,3**
	increase over a year	-0,5	-1,2	-1,5	-1,6	-1,4	-1,2	-1,1	-0,9
Labour force/Pop.15–64	average in per cent	**70,6**	**71,0**	**71,4**	**71,7**	**71,3**	**71,3**	**71,8**	**72,0**
	increase over a year	0,3	0,5	0,8	0,8	0,6	0,3	0,3	0,3
Participation rate 15–64	average in per cent	**69,6**	**69,9**	**70,4**	**70,6**	**70,2**	**70,1**	**70,6**	**70,8**
	increase over a year	0,2	0,3	0,7	0,7	0,5	0,2	0,2	0,2
SNA									
Employment	average in thous.persons	**5232**	**5215**	**5210**	**5221**	**5139**	**5122**	**5127**	**5158**
(domestic concept)	growth in %	0,0	-1,2	-2,1	-1,9	-1,8	-1,8	-1,6	-1,2
Hours worked	bill.	**2,51**	**2,56**	**2,34**	**2,46**	**2,43**	**2,51**	**2,28**	**2,41**
	growth in %	-3,5	-4,6	-6,4	-4,9	-3,0	-2,2	-2,4	-2,2
Hours worked / employmen	hours	**479**	**491**	**449**	**472**	**473**	**489**	**445**	**467**
	growth in %	-3,5	-3,4	-4,4	-3,1	-1,2	-0,4	-0,9	-1,0
Registered unemployment									
Unemployment	average in thous.persons	**409,2**	**456,8**	**487,1**	**509,2**	**584**	**586**	**586**	**587**
Unemployment rate	average in per cent	**7,0**	**7,9**	**8,4**	**8,7**	**10,0**	**10,1**	**10,1**	**10,1**
Registered foreign workers									
Total	average in thous.persons	**348,4**	**336,5**	**331,8**	**324,8**	.	.	.	.
	growth in %	10,4	-0,2	-6,5	-11,2	.	.	.	.
– employees	average in thous.persons	**270,1**	**255,0**	**247,2**	**238,1**	.	.	.	.
	growth in %	9,9	-3,8	-11,9	-17,8	.	.	.	.
– self-employed	average in thous.persons	**78,3**	**81,5**	**84,6**	**86,8**	.	.	.	.
	growth in %	12,1	12,8	13,6	13,6	.	.	.	.

Graph C.3.1: **Ratio of Labour Force and Employment to Population (15-64)**
in %
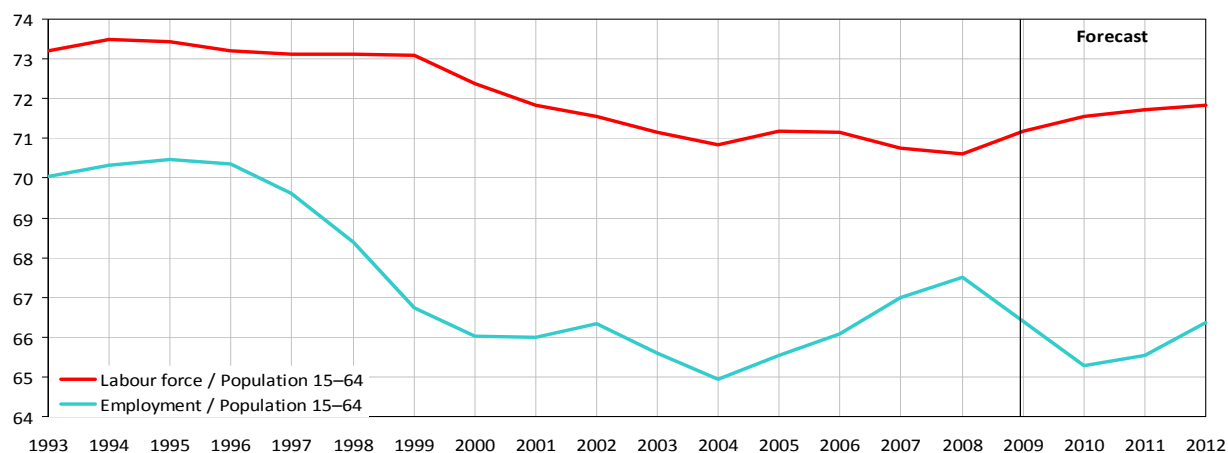
Graph C.3.2: **Unemployment**
quarterly average, in thousands of persons, in % (rhs)
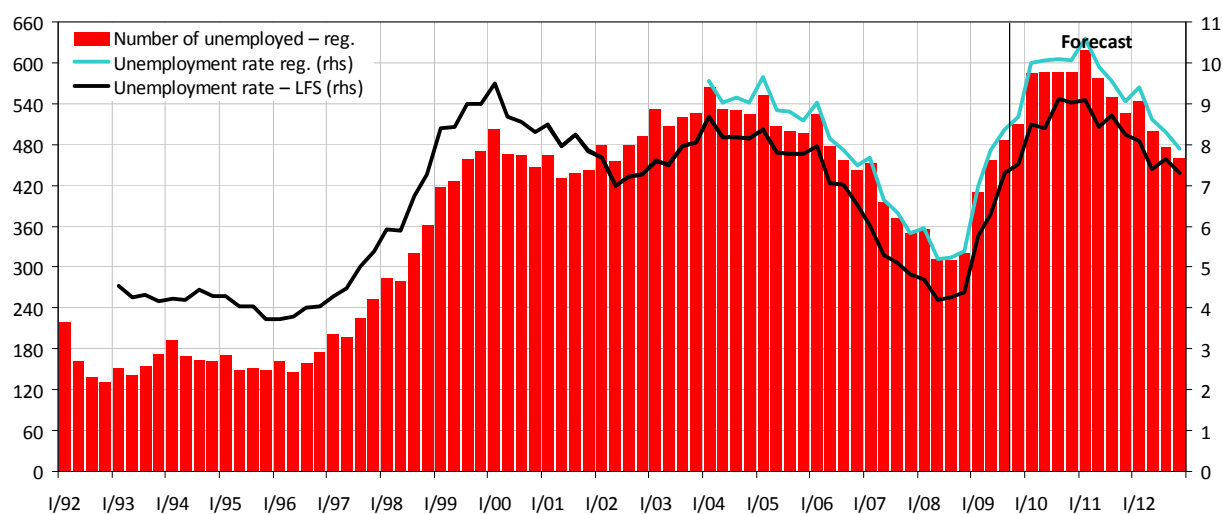
Graph C.3.3: **Economic Output and Unemployment**
YoY increase of real GDP in % and change in unemployment in thous. persons
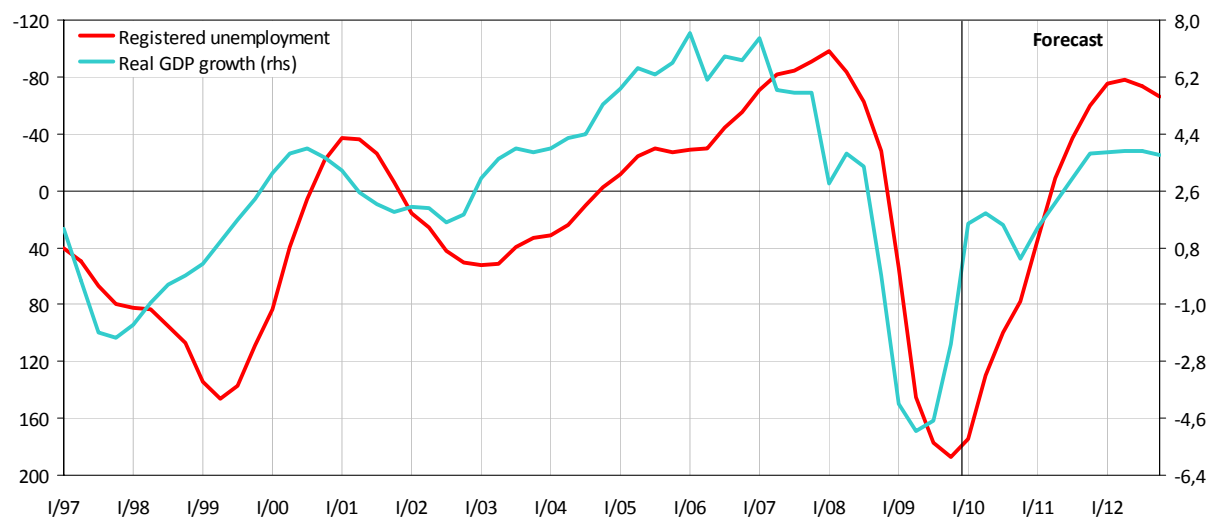
Table C.3.3: **Labour Market -** analytical indicators

		2002	2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast
Compensation per employee											
– nominal	*increase in %*	7,3	8,2	6,7	4,6	6,6	7,3	5,9	0,3	2,5	4,1
– real	*increase in %*	5,4	8,1	3,8	2,6	4,0	4,4	-0,4	-0,7	0,5	2,3
Average monthly wage [1]											
– nominal	*CZK*	15 524	16 430	17 466	18 344	19 546	20 957	22 691	23 600	24 100	25 300
	increase in %	8,0	5,8	6,3	5,0	6,6	7,2	8,3	3,9	2,4	4,7
– real	*CZK 2005*	16 274	17 206	17 791	18 344	19 063	19 874	20 235	20 800	20 900	21 500
	increase in %	6,1	5,7	3,4	3,1	3,9	4,3	1,8	2,9	0,4	2,8
Labour productivity	*increase in %*	1,1	4,3	5,1	5,0	5,4	4,1	0,8	-2,7	3,2	2,7
Unit labour costs [2]	*increase in %*	6,1	3,8	1,5	-0,5	1,2	3,1	5,1	3,1	-0,7	1,4
Compensations of employees / GDP	*%*	43,2	43,8	42,7	43,1	43,0	42,9	44,3	44,0	43,2	43,3

[1] *Since June 2009 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.3.4: **Wage Bill** – *nominal, domestic concept*
YoY growth rate, in %
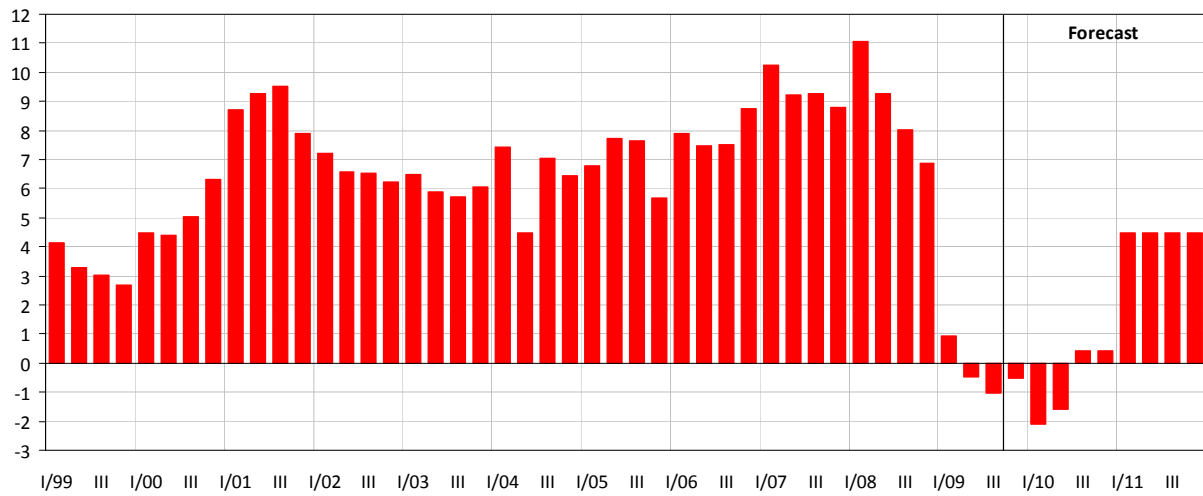
Graph C.3.5: **Average Nominal Wage**
YoY growth rate, in %

Graph C.3.6: **Ratio of Bank Loans to Households to GDP**
yearly moving sums of GDP, in %

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

SNA methodology – national concept

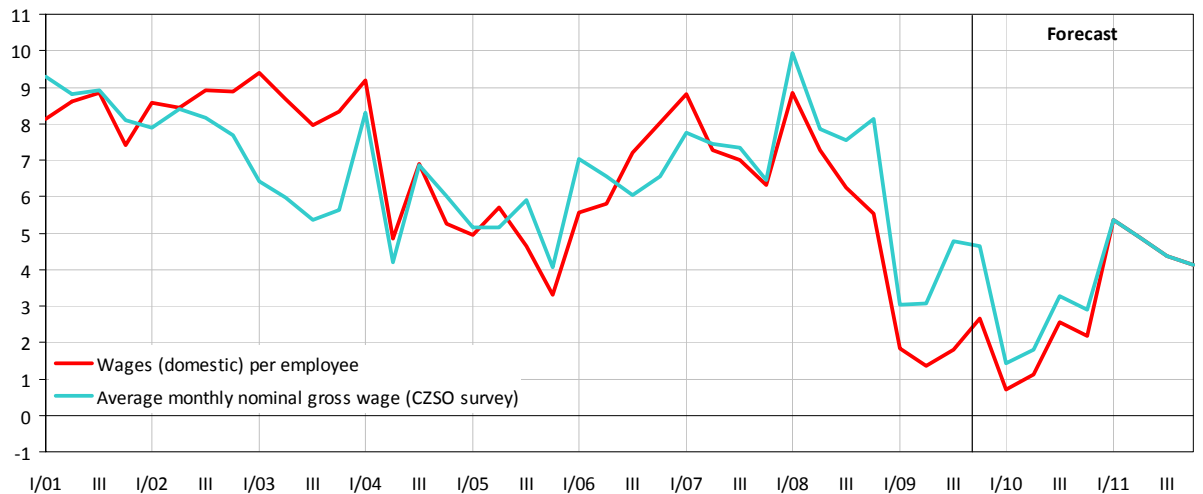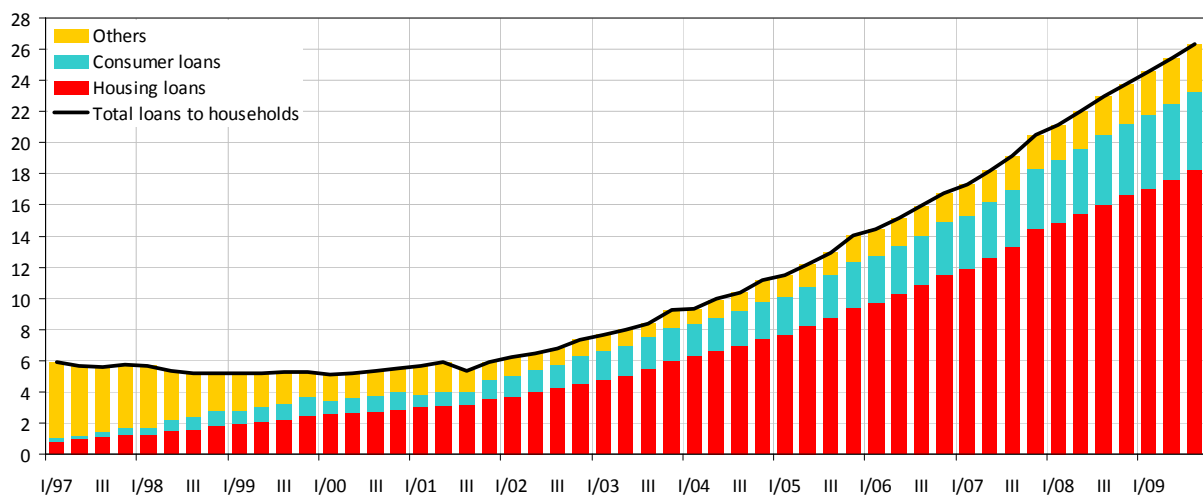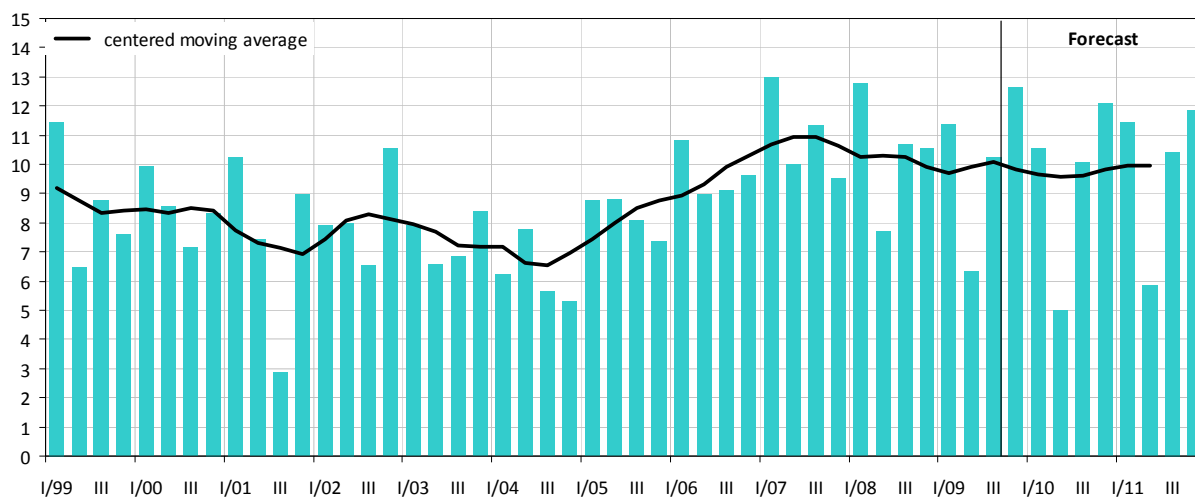|		2002	2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast
Current income											
Compensation of employees	*bill.CZK*	**1049**	**1120**	**1186**	**1273**	**1387**	**1511**	**1615**	**1590**	**1595**	**1649**
	growth in %	6,8	6,8	5,9	7,3	8,9	8,9	6,8	-1,5	0,3	3,4
Gross mixed income	*bill.CZK*	**395**	**425**	**449**	**446**	**470**	**505**	**543**	**528**	**539**	**552**
	growth in %	1,2	7,5	5,7	-0,6	5,4	7,5	7,5	-2,8	2,0	2,5
Property income received	*bill.CZK*	**98**	**97**	**109**	**120**	**133**	**158**	**165**	**135**	**139**	**144**
	growth in %	-5,1	-1,1	12,7	9,6	11,2	18,5	4,5	-18,4	3,0	3,5
Social benefits not-in-kind	*bill.CZK*	**313**	**324**	**369**	**386**	**417**	**466**	**488**	**528**	**542**	**566**
	growth in %	8,0	3,6	.	4,6	8,1	11,8	4,5	8,4	2,5	4,5
Other current transfers received	*bill.CZK*	**85**	**91**	**93**	**103**	**113**	**122**	**137**	**148**	**155**	**163**
	growth in %	7,8	6,8	2,9	10,1	9,8	8,4	12,2	7,7	5,0	5,0
Current expenditure											
Property income paid	*bill.CZK*	**13**	**19**	**21**	**20**	**25**	**29**	**33**	**26**	**25**	**25**
	growth in %	-18,0	49,0	12,4	-5,3	22,4	19,4	12,5	-21,5	-5,0	1,0
Current taxes on income and property	*bill.CZK*	**115**	**128**	**138**	**140**	**141**	**157**	**152**	**136**	**142**	**146**
	growth in %	8,0	11,9	7,6	1,7	0,7	10,9	-3,0	-10,4	4,0	3,4
Social contributions	*bill.CZK*	**382**	**408**	**474**	**507**	**561**	**615**	**634**	**584**	**613**	**622**
	growth in %	9,2	6,7	.	7,1	10,6	9,5	3,2	-7,9	4,9	1,4
Other current transfers paid	*bill.CZK*	**82**	**93**	**100**	**109**	**118**	**129**	**141**	**155**	**162**	**172**
	growth in %	3,4	13,7	7,2	9,2	8,6	9,3	9,1	9,6	5,0	6,0
Gross disposable income	*bill.CZK*	**1348**	**1409**	**1474**	**1551**	**1675**	**1833**	**1987**	**2028**	**2027**	**2109**
	growth in %	4,3	4,5	4,6	5,3	8,0	9,4	8,4	2,1	0,0	4,0
Final consumption	*bill.CZK*	**1248**	**1317**	**1399**	**1443**	**1537**	**1659**	**1804**	**1833**	**1847**	**1912**
	growth in %	3,4	5,6	6,2	3,1	6,6	7,9	8,7	1,6	0,8	3,5
Change in share in pension funds	*bill.CZK*	**11**	**13**	**17**	**19**	**23**	**26**	**24**	**12**	**12**	**12**
Gross savings	*bill.CZK*	**112**	**105**	**92**	**128**	**161**	**200**	**207**	**207**	**193**	**210**
Capital transfers											
(income (-) / expenditure (+))	*bill.CZK*	**-36**	**-21**	**-23**	**-25**	**-23**	**-23**	**-37**	**-38**	**-24**	**-24**
Gross capital formation	*bill.CZK*	**129**	**122**	**132**	**136**	**154**	**191**	**191**	**178**	**177**	**175**
	growth in %	6,8	-5,1	7,8	2,6	13,5	24,2	-0,2	-6,5	-1,0	-1,0
Change in financial assets and liab.	*bill.CZK*	**23**	**6**	**-18**	**20**	**30**	**32**	**39**	**51**	**40**	**59**
Real disposable income	*growth in %*	**2,4**	**4,4**	**1,8**	**3,3**	**5,3**	**6,4**	**1,9**	**1,0**	**-2,0**	**2,2**
Gross savings rate	*%*	**8,3**	**7,4**	**6,2**	**8,2**	**9,6**	**10,9**	**10,4**	**10,2**	**9,5**	**9,9**

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

Graph C.3.7: **Gross Savings Rate of Households**

in % of disposable income

C.4 External Ralations

Sources: CNB, CZSO, Eurostat, MoF estimates

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

		2002	2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast
Exports of goods (fob)	bill.CZK	1254	1371	1723	1869	2145	2479	2465	2126	2221	2333
growth in %		-1,2	9,3	25,7	8,5	14,8	15,6	-0,6	-13,7	4,4	5,0
Imports of goods (fob) [1]	bill.CZK	1326	1441	1736	1809	2079	2359	2362	1952	2006	2106
growth in %		-4,4	8,7	.	4,2	14,9	13,4	0,2	-17,4	2,8	5,0
Balance of trade [1]	bill.CZK	-71	-70	-13	59	65	121	103	174	214	226
of which:											
– mineral fuels (SITC 3)[2]	bill.CZK	-64	-68	-72	-110	-139	-124	-166	-110	-135	-150
– others [2]	bill.CZK	-7	-1	46	149	179	212	233	255	318	344
– difference fob–cif	bill.CZK	.	.	13	21	25	33	36	30	31	33
Exports of services	bill.CZK	231	219	247	282	314	342	377	386	394	412
growth in %		-14,3	-5,2	.	14,3	11,2	8,8	10,5	2,3	2,0	4,7
Imports of services	bill.CZK	209	206	231	245	269	292	295	331	344	359
growth in %		-1,1	-1,6	.	6,5	9,6	8,5	1,2	12,0	4,0	4,3
Balance of services	bill.CZK	22	13	17	37	45	50	82	55	50	53
Balance of income	bill.CZK	-116	-120	-157	-143	-167	-256	-289	-256	-248	-296
of which:											
– compensation of employees	bill.CZK	-18	-17	-16	-11	1	-5	-35	-18	-14	-22
– investment income	bill.CZK	-97	-103	-141	-132	-168	-251	-254	-237	-233	-273
Balance of transfers	bill.CZK	29	16	6	7	-20	-28	-10	-9	4	8
Current account	bill.CZK	-136	-161	-147	-40	-77	-113	-114	-35	20	-8
Capital account	bill.CZK	0	0	-14	5	8	20	31	36	38	36
Financial account	bill.CZK	348	157	177	155	92	126	151	.	.	.
– foreign direct investments	bill.CZK	271	54	102	280	90	179	150	.	.	.
– portfolio investments	bill.CZK	-47	-36	53	-81	-27	-57	-9	.	.	.
– other investments	bill.CZK	124	139	23	-44	29	4	10	.	.	.
Change in reserves	bill.CZK	217	13	7	93	2	16	40	.	.	.
Gross external debt	bill.CZK	813	895	1012	1142	1194	1375	1556	1417	1410	1427
Balance of trade / GDP [1]	per cent	-2,9	-2,7	-0,5	2,0	2,0	3,4	2,8	4,8	5,8	5,9
Current account / GDP	per cent	-5,5	-6,2	-5,2	-1,3	-2,4	-3,2	-3,1	-1,0	0,5	-0,2
Financial account / GDP	per cent	14,1	6,1	6,3	5,2	2,9	3,6	4,1	.	.	.
Gross external debt / GDP [3]	per cent	33,0	34,7	35,9	38,3	37,0	38,9	42,2	39	38	37

[1] Imports cif till April 2004, fob since May 2004
[2] Imports cif
[3] In CZK

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

		2009				2010			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Forecast	Forecast	Forecast	Forecast
Exports of goods (fob)	bill.CZK	523	528	522	554	528	552	556	585
	growth in %	-18,8	-19,0	-13,2	-2,5	1,1	4,4	6,5	5,6
Imports of goods (fob)	bill.CZK	482	475	477	519	482	490	497	538
	growth in %	-19,8	-22,5	-17,0	-9,6	0,0	3,2	4,3	3,6
Balance of trade	bill.CZK	41	54	46	34	47	62	59	47
– mineral fuels (SITC 3) [1]	bill.CZK	-29	-24	-26	-31	-32	-34	-33	-36
– others [1]	bill.CZK	61	71	65	57	71	88	84	75
– difference fob–cif	bill.CZK	8	7	6	8	8	8	8	8
Exports of services	bill.CZK	95	99	95	97	97	101	97	98
	growth in %	6,7	3,1	-0,3	0,0	2,0	2,0	2,0	2,0
Imports of services	bill.CZK	78	86	82	85	81	89	86	88
	growth in %	16,2	16,4	8,3	8,0	4,0	4,0	4,0	4,0
Balance of services	bill.CZK	17	13	13	12	16	12	12	10
Balance of income	bill.CZK	-39	-94	-67	-56	-37	-92	-65	-54
– compensation of employees	bill.CZK	-4	-3	-3	-8	-3	-2	-2	-7
– investment income	bill.CZK	-35	-90	-64	-48	-34	-89	-63	-47
Balance of transfers	bill.CZK	4	-1	-12	0	1	1	1	1
Current account	bill.CZK	23	-28	-20	-10	27	-17	7	4
Capital account	bill.CZK	16	5	6	10	16	5	6	10
Financial account	bill.CZK	-6	25	34	.	.	.	.	.
– foreign direct investments	bill.CZK	13	-2	-9	.	.	.	.	.
– portfolio investments	bill.CZK	-1	74	24	.	.	.	.	.
– other investments	bill.CZK	-19	-47	19	.	.	.	.	.
Change in reserves	bill.CZK	36	6	-1	.	.	.	.	.
Gross external debt	bill.CZK	1507	1466	1413	1417	1386	1411	1410	1407

[1] Imports cif

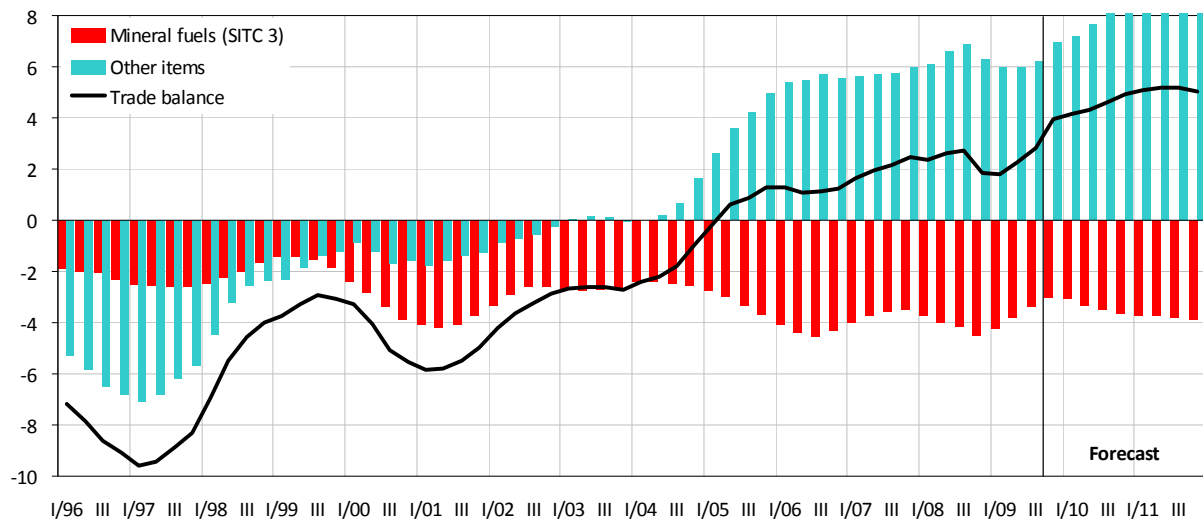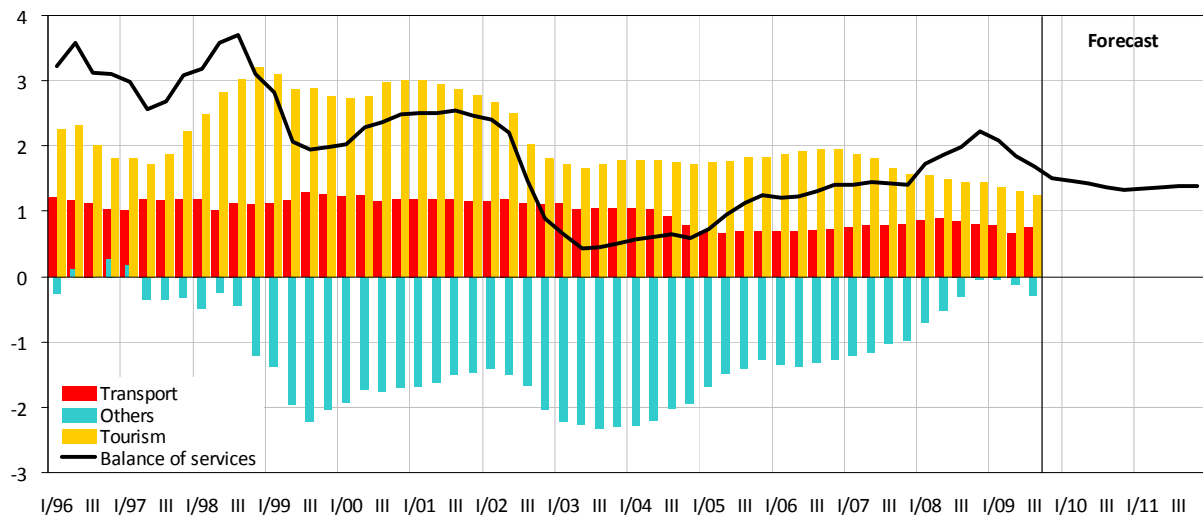Graph C.4.1: **Current Account**
moving sums of the latest 4 quarters in per cent of GDP
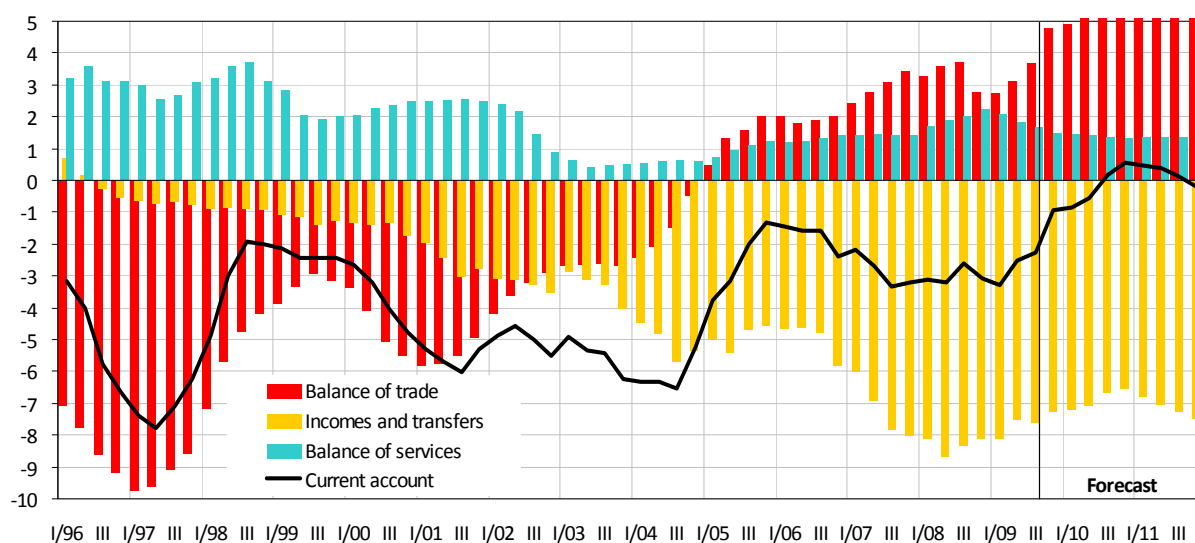
Graph C.4.2: **Balance of Trade** *(exports fob, imports cif)*
moving sums of the latest 4 quarters in per cent of GDP

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

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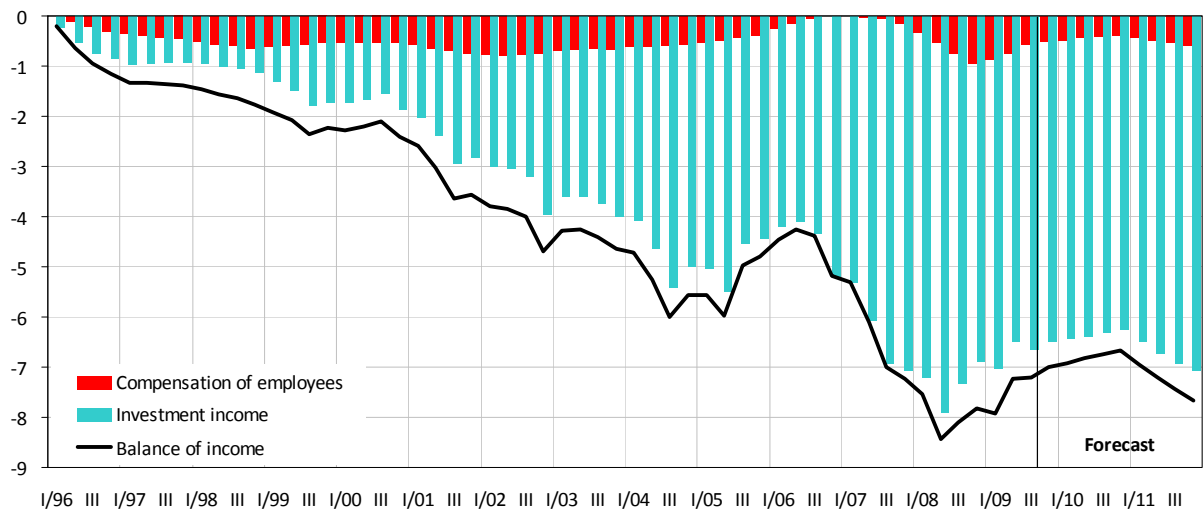*moving sums of the latest 4 quarters in per cent of GDP*

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

		2002	2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast
GDP [1]	average of 2000=100	102,6	103,7	105,8	108,0	112,4	116,8	118,9	114	116	118
	growth in %	1,0	1,1	2,0	2,1	4,0	3,9	1,8	-4,0	1,5	2,0
Import intensity [2]	average of 2000=100	101,3	105,8	112,3	118,6	128,0	130,7	130,4	120	121	124
	growth in %	0,0	4,4	6,1	5,7	7,9	2,1	-0,2	-8,2	0,7	3,2
Export markets [3]	average of 2000=100	104,0	109,8	118,8	128,2	143,9	152,7	155,1	137	140	147
	growth in %	1,0	5,5	8,2	7,9	12,2	6,1	1,6	-11,9	2,2	5,2
Export performance	average of 2000=100	116,1	120,3	136,7	141,5	146,9	160,4	166,8	161	165	167
	growth in %	4,8	3,5	13,7	3,5	3,8	9,2	4,0	-3,5	2,4	1,4
Real exports	average of 2000=100	120,8	132,0	162,4	181,3	211,3	244,8	258,7	220	230	245
	growth in %	5,9	9,3	23,0	11,6	16,6	15,8	5,7	-15,0	4,6	6,7
1 / NEER	average of 2000=100	85,9	85,9	85,3	80,3	76,4	74,5	66,7	69	68	65
	growth in %	-10,5	0,0	-0,7	-5,9	-4,9	-2,5	-10,4	3,6	-2,4	-3,9
Prices on foreign markets	average of 2000=100	107,8	107,8	110,9	114,5	118,5	121,4	127,5	125	127	131
	growth in %	4,2	0,0	2,8	3,2	3,5	2,4	5,0	-2,3	2,3	2,5
Exports deflator	average of 2000=100	92,7	92,7	94,6	92,0	90,6	90,4	85,1	86	86	85
	growth in %	-6,7	0,0	2,1	-2,8	-1,5	-0,1	-5,9	1,3	-0,1	-1,5
Nominal exports	average of 2000=100	111,9	122,3	153,7	166,7	191,3	221,1	220,0	189	198	208
	growth in %	-1,2	9,3	25,7	8,5	14,8	15,6	-0,5	-14,0	4,5	5,0

[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**

		2009				2010			
		Q1	Q2	Q3	Q4 Estimate	Q1 Forecast	Q2 Forecast	Q3 Forecast	Q4 Forecast
GDP	average of 2000=100	113,4	113,8	114,5	115	115	116	116	116
	growth in %	-5,1	-4,8	-4,0	-2,3	1,6	1,6	1,3	1,4
Import intensity	average of 2000=100	122,8	118,4	118,6	119	120	120	121	122
	growth in %	-7,0	-10,4	-9,2	-6,0	-2,6	1,4	1,9	2,1
Export markets	average of 2000=100	139,3	134,6	135,8	137	138	139	140	142
	growth in %	-11,8	-14,7	-12,8	-8,2	-1,1	3,1	3,2	3,5
Export performance	average of 2000=100	149,2	163,9	167,7	163	155	167	171	166
	growth in %	-11,9	-6,1	1,8	3,2	3,9	2,1	1,7	1,7
Real exports	average of 2000=100	207,8	220,6	227,7	223	214	232	239	235
	growth in %	-22,2	-19,9	-11,2	-5,2	2,8	5,2	4,9	5,2
1 / NEER	average of 2000=100	72,3	69,8	67,0	68	69	68	67	67
	growth in %	6,0	5,4	3,7	-0,6	-5,1	-2,7	0,2	-1,6
Prices on foreign markets	average of 2000=100	123,9	122,5	122,1	130	129	125	124	133
	growth in %	-1,9	-4,3	-5,8	3,0	4,0	2,0	1,2	2,0
Exports deflator	average of 2000=100	89,5	85,5	81,8	88	88	85	83	88
	growth in %	4,0	0,9	-2,3	2,3	-1,3	-0,8	1,4	0,4
Nominal exports	average of 2000=100	185,9	188,5	186,3	196	189	197	198	207
	growth in %	-19,1	-19,1	-13,3	-3,0	1,4	4,4	6,5	5,6

Graph C.4.5: **GDP and Imports of Goods in Main Partner Countries**
YoY growth, in %
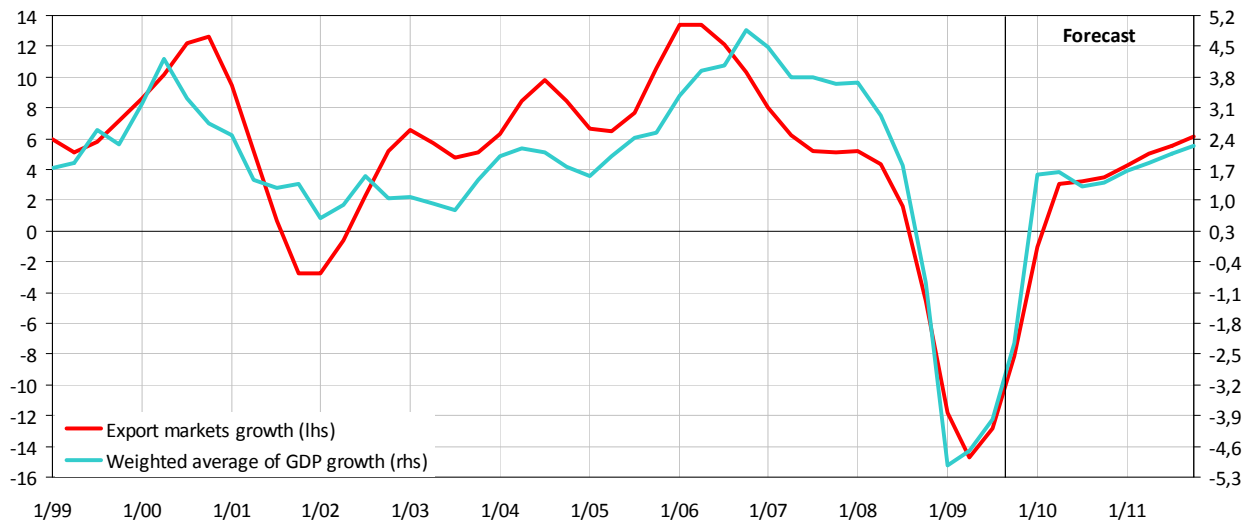
Graph C.4.6: **Real Exports of Goods**
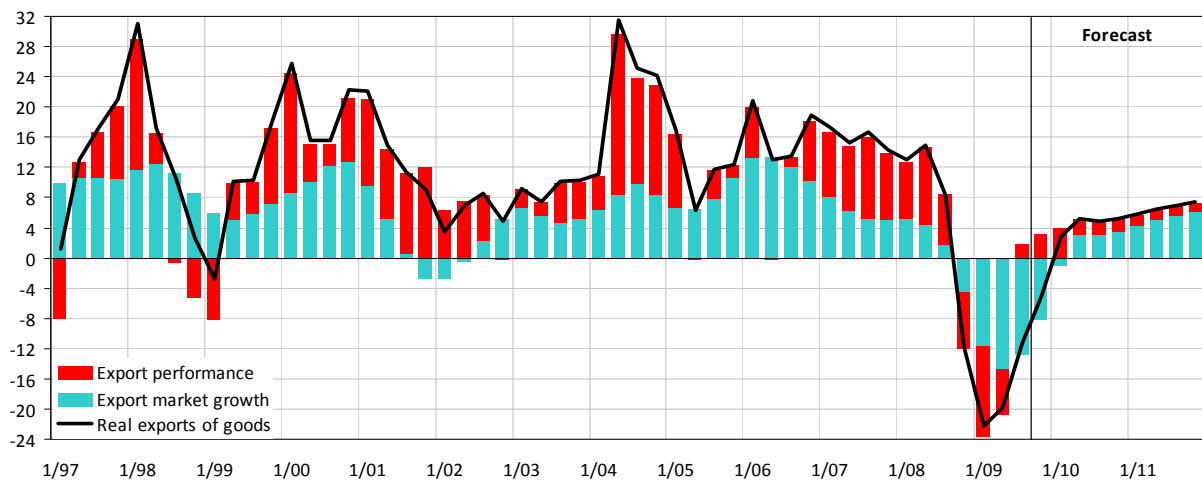*decomposition of YoY growth, in %*

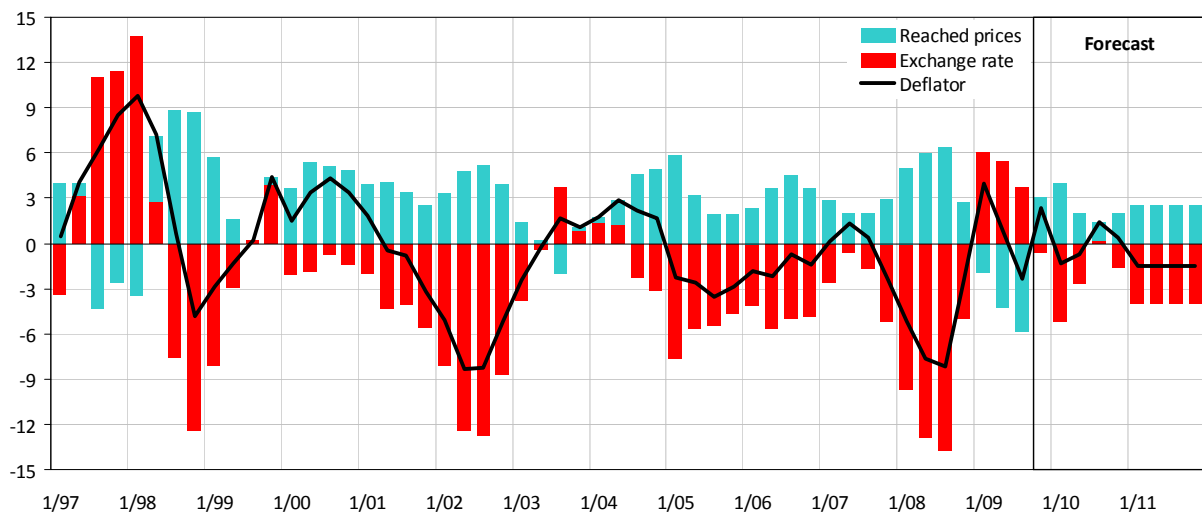Graph C.4.7: **Deflator of Exports of Goods**
decomposition of YoY growth, in %

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

		2002	2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast
Gross capital formation	*% of GDP*	28,6	27,2	27,5	25,7	26,8	27,0	25,3	21,0	21,4	21,6
– fixed capital formation	*% of GDP*	27,5	26,7	25,8	24,9	24,7	25,2	23,9	22,8	21,7	21,6
– change in stocks	*% of GDP*	1,1	0,5	1,7	0,8	2,1	1,8	1,4	-1,8	-0,3	0,0
– government sector	*% of GDP*	3,9	4,4	4,7	4,9	5,0	4,6	4,9	5,1	5,5	5,7
– households	*% of GDP*	5,2	4,8	4,7	4,5	4,8	5,4	5,2	4,9	4,7	4,5
– non-financial and financial sectors	*% of GDP*	19,4	18,1	18,1	16,3	17,0	17,0	15,2	11,0	11,1	11,3
Gross national savings	*% of GDP*	22,4	20,7	22,0	23,9	24,7	24,4	21,9	20,1	21,9	21,4
– government sector	*% of GDP*	2,0	1,4	4,0	3,5	3,7	4,8	3,7	1,1	1,6	2,1
– households	*% of GDP*	4,5	4,1	3,3	4,3	5,0	5,7	5,6	5,7	5,2	5,4
– non-financial and financial sectors	*% of GDP*	15,9	15,2	14,7	16,1	16,0	14,0	12,6	13,3	15,1	13,8
Financial balance											
– government sector	*% of GDP*	-1,9	-2,9	-0,7	-1,3	-1,3	0,2	-1,3	-4,0	-3,9	-3,6
– households	*% of GDP*	-0,7	-0,7	-1,4	-0,3	0,2	0,3	0,4	0,8	0,4	0,9
– non-financial and financial sectors	*% of GDP*	-3,5	-2,9	-3,4	-0,1	-1,0	-3,0	-2,6	2,3	4,0	2,5
– methodological discrepancy	*% of GDP*	0,6	0,3	0,2	0,4	-0,3	-0,6	0,4	0,0	0,0	0,0
Current account BoP	*% of GDP*	-5,5	-6,2	-5,2	-1,3	-2,4	-3,2	-3,1	-1,0	0,5	-0,2

Graph C.4.8: **Gross National Savings and Consumption**
moving sums of the latest 4 quarters in per cent of GDP
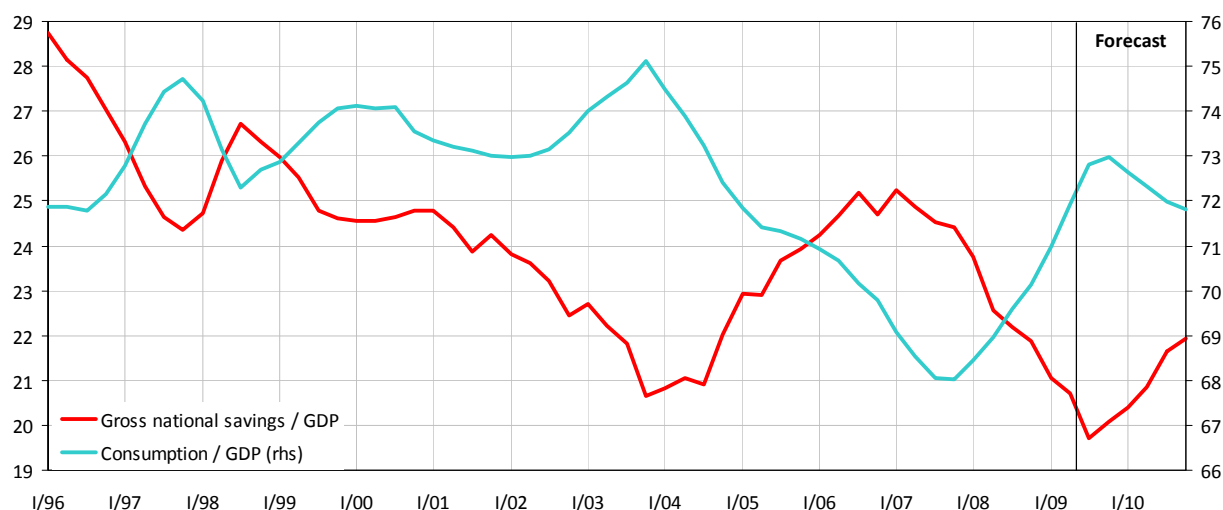
Graph C.4.9: **Financial Balances of Individual Sectors**
savings minus investments as percent of GDP

C.5 International Comparisons

Sources: Eurostat, OECD, IMF, MoF estimates
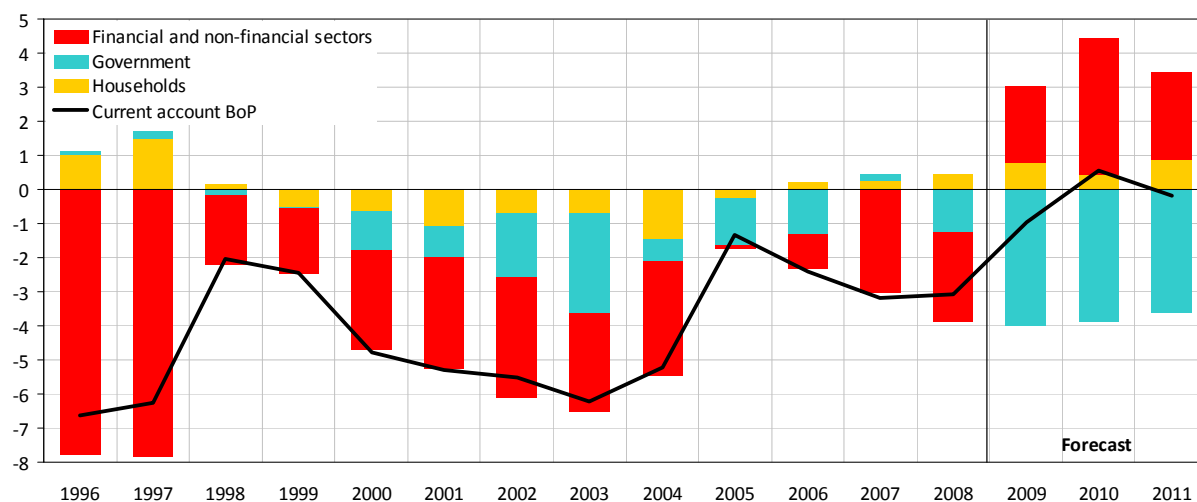
Table C.5.1: **GDP p.c.** - using current purchasing power parities

		2002	2003	2004	2005	2006	2007	2008	2009 Estimate	2010 Forecast	2011 Forecast
Greece	*PPS*	**18 500**	**19 200**	**20 400**	**20 600**	**22 000**	**23 100**	**23 600**	**23 500**	**23 600**	**24 000**
	EA 12 = 100	80	83	85	83	84	84	86	89	88	87
Slovenia	*PPS*	**16 800**	**17 300**	**18 700**	**19 700**	**20 700**	**22 100**	**22 800**	**21 400**	**21 900**	**22 600**
	EA 12 = 100	73	75	78	79	79	81	83	81	82	82
Czechia	*PPS*	**14 400**	**15 200**	**16 300**	**17 100**	**18 200**	**19 900**	**20 100**	**19 400**	**19 800**	**20 500**
	EA 12 = 100	63	66	68	69	70	73	74	73	74	74
Portugal	*PPS*	**15 800**	**15 900**	**16 100**	**17 300**	**18 100**	**18 800**	**19 000**	**18 600**	**18 800**	**19 200**
	EA 12 = 100	68	69	67	70	69	69	70	70	70	70
Slovakia	*PPS*	**11 100**	**11 500**	**12 300**	**13 500**	**15 000**	**16 900**	**18 100**	**17 400**	**17 900**	**18 600**
	EA 12 = 100	48	50	52	54	57	61	66	66	67	68
Hungary	*PPS*	**12 600**	**13 000**	**13 700**	**14 200**	**15 000**	**15 600**	**16 100**	**15 200**	**15 300**	**16 000**
	EA 12 = 100	55	56	57	57	57	57	59	58	57	58
Estonia	*PPS*	**10 200**	**11 300**	**12 400**	**13 800**	**15 400**	**17 100**	**16 900**	**14 700**	**14 900**	**15 700**
	EA 12 = 100	44	49	52	56	59	63	62	56	56	57
Poland	*PPS*	**9 900**	**10 100**	**11 000**	**11 500**	**12 300**	**13 600**	**14 100**	**14 500**	**14 900**	**15 600**
	EA 12 = 100	43	44	46	46	47	49	52	55	56	57
Lithuania	*PPS*	**9 000**	**10 200**	**10 900**	**11 900**	**13 100**	**14 800**	**15 500**	**13 400**	**13 100**	**13 600**
	EA 12 = 100	39	44	46	48	50	54	57	51	49	49
Latvia	*PPS*	**8 400**	**9 000**	**9 900**	**10 900**	**12 200**	**13 900**	**14 400**	**12 000**	**11 700**	**12 100**
	EA 12 = 100	37	39	41	44	47	51	52	45	43	44

Graph C.5.1: **GDP p.c.** - using current purchasing power parities
EA 12 = 100
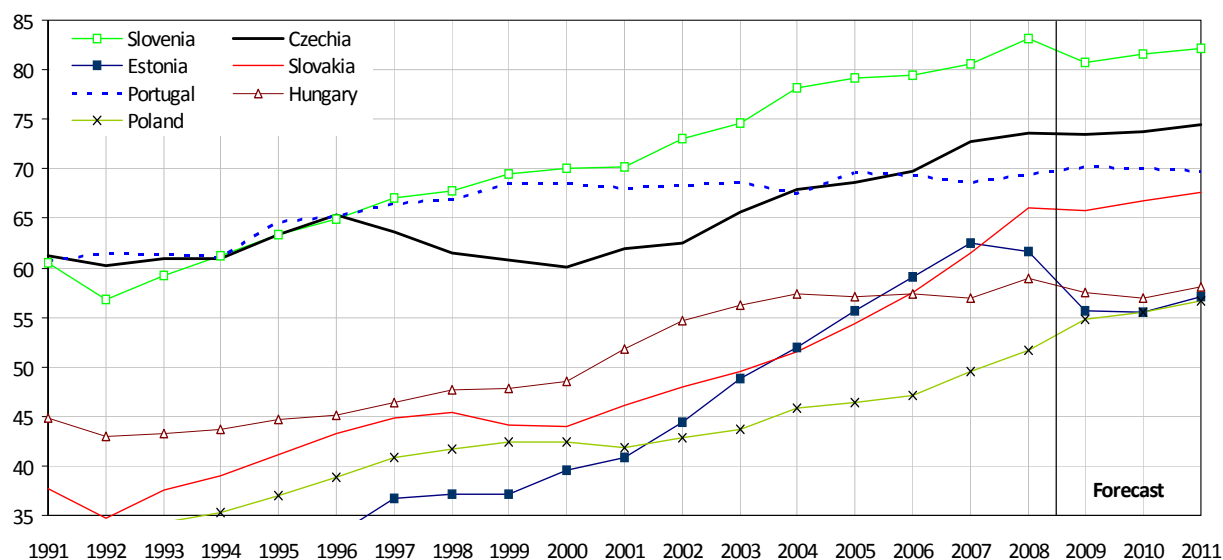
Table C.5.2: **GDP p.c**. - using current exchange rates

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
									Estimate	*Forecast*	*Forecast*
Greece	*EUR*	**14 300**	**15 600**	**16 800**	**17 600**	**18 900**	**20 200**	**21 300**	**21 300**	**21 400**	**22 000**
	EA 12 = 100	60	65	67	69	70	72	74	77	76	76
Comparative price level	*EA 12 = 100*	**76**	**78**	**79**	**83**	**84**	**86**	**86**	**87**	**87**	**88**
Slovenia	*EUR*	**12 300**	**12 900**	**13 600**	**14 400**	**15 400**	**17 100**	**18 400**	**17 500**	**18 000**	**18 700**
	EA 12 = 100	52	53	55	56	57	61	64	63	64	65
Comparative price level	*EA 12 = 100*	**71**	**72**	**70**	**71**	**72**	**76**	**77**	**79**	**79**	**79**
Czechia	*EUR*	**7 800**	**7 900**	**8 600**	**9 800**	**11 100**	**12 300**	**14 200**	**13 100**	**13 600**	**14 600**
	EA 12 = 100	33	33	35	38	41	44	50	47	49	51
Comparative price level	*EA 12 = 100*	**53**	**50**	**51**	**56**	**59**	**61**	**67**	**65**	**66**	**68**
Portugal	*EUR*	**13 100**	**13 300**	**13 700**	**14 100**	**14 700**	**15 400**	**15 700**	**15 200**	**15 300**	**15 700**
	EA 12 = 100	55	55	55	55	55	55	55	55	55	54
Comparative price level	*EA 12 = 100*	**81**	**80**	**82**	**79**	**79**	**80**	**79**	**78**	**78**	**78**
Slovakia	*EUR*	**4 800**	**5 500**	**6 300**	**7 100**	**8 300**	**10 200**	**12 000**	**12 300**	**12 900**	**13 600**
	EA 12 = 100	20	23	25	28	31	36	42	45	46	47
Comparative price level	*EA 12 = 100*	**43**	**46**	**49**	**51**	**54**	**59**	**63**	**68**	**69**	**70**
Hungary	*EUR*	**7 000**	**7 300**	**8 200**	**8 800**	**8 900**	**10 100**	**10 500**	**9 100**	**9 500**	**10 500**
	EA 12 = 100	30	30	33	34	33	36	37	33	34	37
Comparative price level	*EA 12 = 100*	**54**	**54**	**57**	**60**	**58**	**63**	**62**	**57**	**60**	**63**
Estonia	*EUR*	**5 700**	**6 400**	**7 200**	**8 300**	**9 800**	**11 600**	**12 000**	**10 300**	**10 000**	**10 600**
	EA 12 = 100	24	27	29	32	37	42	42	37	36	37
Comparative price level	*EA 12 = 100*	**55**	**55**	**55**	**58**	**62**	**66**	**68**	**67**	**64**	**65**
Poland	*EUR*	**5 500**	**5 000**	**5 300**	**6 400**	**7 100**	**8 100**	**9 500**	**8 100**	**8 700**	**9 700**
	EA 12 = 100	23	21	21	25	27	29	33	29	31	34
Comparative price level	*EA 12 = 100*	**55**	**48**	**47**	**54**	**57**	**59**	**64**	**53**	**56**	**60**
Lithuania	*EUR*	**4 300**	**4 800**	**5 300**	**6 100**	**7 100**	**8 500**	**9 600**	**8 100**	**7 700**	**8 000**
	EA 12 = 100	18	20	21	24	26	30	34	29	27	28
Comparative price level	*EA 12 = 100*	**47**	**45**	**46**	**50**	**53**	**56**	**59**	**58**	**56**	**56**
Latvia	*EUR*	**4 200**	**4 300**	**4 800**	**5 700**	**7 000**	**9 300**	**10 200**	**8 200**	**7 500**	**7 600**
	EA 12 = 100	18	18	19	22	26	33	36	30	27	26
Comparative price level	*EA 12 = 100*	**49**	**46**	**47**	**50**	**56**	**66**	**68**	**66**	**62**	**60**

Graph C.5.2: **GDP p.c.** - using current exchange rates
EA 12 = 100
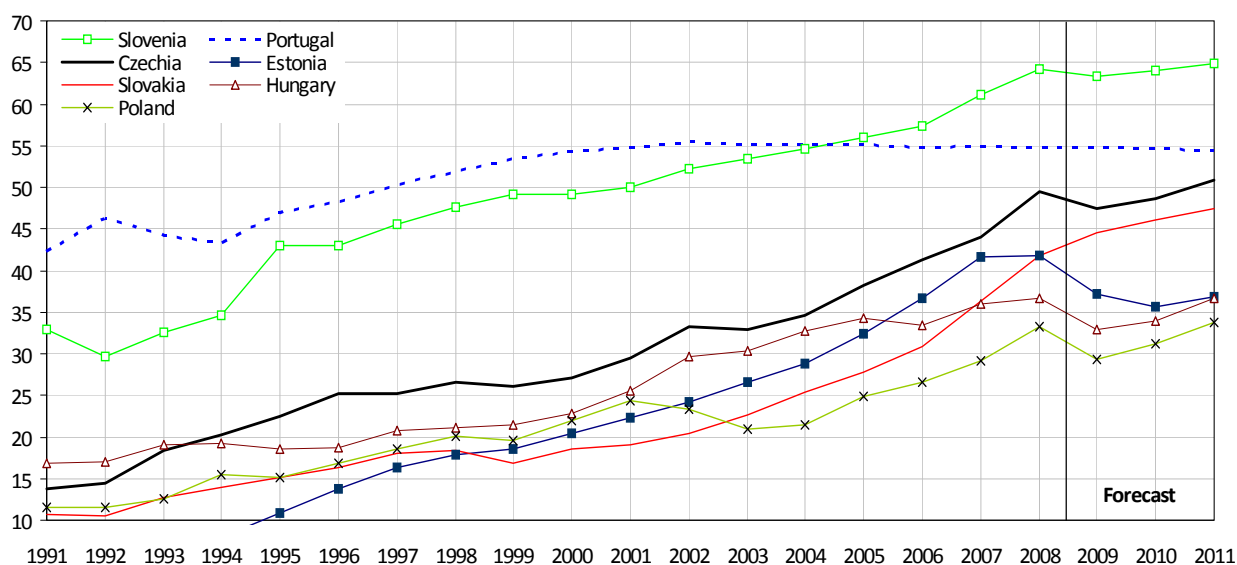
Graph C.5.3: **Index of Comparative Price Level of GDP p.c.**
EA 12 = 100