**Ministry of Finance**
Financial Policy Department

# Macroeconomic Forecast

## Czech Republic

**October 2013**

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## List of Abbreviations:

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

## Basic Terms:

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

## Symbols Used in Tables:

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

## Cut-off Date for Data Sources:

The forecast was made on the basis of data known as of **9 October 2013**. No political decisions, newly released statistics, or world financial or commodity market developments could have been taken into account after this date.

## Notes:

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

Data from the previous forecast of July 2013 are indicated by italics. Data relating to the years 2015 and 2016 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

# Summary of the Forecast

Real GDP, which showed a surprisingly marked QoQ decline of 1.3% in Q1 2013, increased by 0.6% QoQ in Q2 2013. The economy technically emerged from the 18-month recession; however, GDP was 1.3% lower than in Q2 2012. Despite the expected economic recovery, economic output for the whole year should decrease by 1.0%, in particular due to a decline in gross capital formation. In 2014, however, with a positive contribution from all components except for fixed investment, GDP could increase by 1.3%.

Consumer prices should grow at a sluggish pace. We expect the average inflation rate to reach 1.4% in 2013 and 0.7% in 2014. Inflation in 2014 will be very low in particular thanks to a decline in electricity prices.

Employment, the YoY growth of which was accelerating throughout the whole of the last year despite the recession, could increase by 1.2% this year. This somewhat paradoxical development was caused by a rise in the number of part-time jobs and a decline in the ratio of total hours worked to employment. For 2014, employment growth of 0.4% is estimated. The unemployment rate (LFS) should be slowly rising from the last year's 7.0%. It could reach 7.1% in 2013 and 7.3% in 2014. Growth in the wage bill, which should reach 0.8% in 2013, could accelerate to 2.5% in 2014. Therefore, the total wage bill growth rate is expected to exceed the dynamics of nominal GDP in both years.

According to the MoF's end-September notifications, the government sector deficit should reach 2.9% of GDP in 2013, which is also the target value for 2014. In addition to the rules of the Stability and Growth Pact, any room for the stabilizing role of fiscal policy is also restricted by the persisting structural deficits of the government sector.

The current account deficit should not exceed 2% of GDP, which is a sustainable level fully consistent with the external macroeconomic balance.

Despite an uncertain outlook for the external environment and the still relatively low confidence of domestic agents in future economic development, we evaluate the forecast risks as balanced.

Table: **Main Macroeconomic Indicators**

| | | 2010 | 2011 | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Current forecast | | Previous forecast | | |
| **Gross domestic product** | *growth in %, const.pr.* | 2.5 | 1.8 | -1.0 | -1.0 | 1.3 | -1.2 | -1.5 | 0.8 |
| **Consumption of households** | *growth in %, const.pr.* | 0.9 | 0.5 | -2.1 | 0.2 | 0.9 | -2.7 | -0.8 | 0.4 |
| **Consumption of government** | *growth in %, const.pr.* | 0.2 | -2.7 | -1.9 | 0.8 | 0.2 | -1.2 | 0.5 | -0.9 |
| **Gross fixed capital formation** | *growth in %, const.pr.* | 1.0 | 0.4 | -4.5 | -4.8 | -0.8 | -2.7 | -4.3 | -0.6 |
| **Cont. of foreign trade to GDP growth** | *p.p., const.pr.* | 0.6 | 1.9 | 1.7 | 0.6 | 0.6 | 1.4 | 0.2 | 0.5 |
| **GDP deflator** | *growth in %* | -1.6 | -0.9 | 1.6 | 1.2 | 0.5 | 1.4 | 0.6 | 0.9 |
| **Average inflation rate** | *%* | 1.5 | 1.9 | 3.3 | 1.4 | 0.7 | 3.3 | 1.6 | 1.4 |
| **Employment** *(LFS)* | *growth in %* | -1.0 | 0.4 | 0.4 | 1.2 | 0.4 | 0.4 | 0.5 | -0.2 |
| **Unemployment rate** *(LFS)* | *average in %* | 7.3 | 6.7 | 7.0 | 7.1 | 7.3 | 7.0 | 7.5 | 7.6 |
| **Wage bill** *(domestic concept)* | *growth in %, curr.pr.* | 0.8 | 2.2 | 1.8 | 0.8 | 2.5 | 1.5 | 0.7 | 2.1 |
| **Current account / GDP** | *%* | -3.9 | -2.7 | -2.4 | -1.7 | -1.4 | -2.5 | -2.3 | -2.4 |
| Assumptions: | | | | | | | | | |
| **Exchange rate CZK/EUR** | | 25.3 | 24.6 | 25.1 | 25.8 | 25.8 | 25.1 | 25.8 | 25.8 |
| **Long-term interest rates** | *% p.a.* | 3.7 | 3.7 | 2.8 | 2.1 | 2.4 | 2.8 | 2.0 | 2.2 |
| **Crude oil Brent** | *USD/barrel* | 80 | 111 | 112 | 108 | 103 | 112 | 106 | 101 |
| **GDP in Eurozone (EA-12)** | *growth in %, const.pr.* | 1.9 | 1.6 | -0.6 | -0.3 | 1.0 | -0.6 | -0.5 | 1.0 |

## Gradual economic recovery expected
*real GDP, QoQ growth in %, seasonally adjusted*
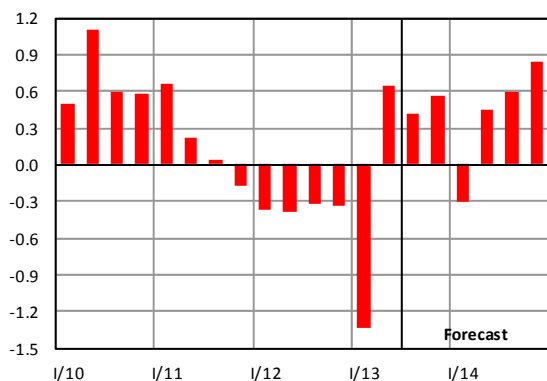


## Sluggish growth of consumer prices
*decomposition of YoY growth in consumer prices, percentage points*
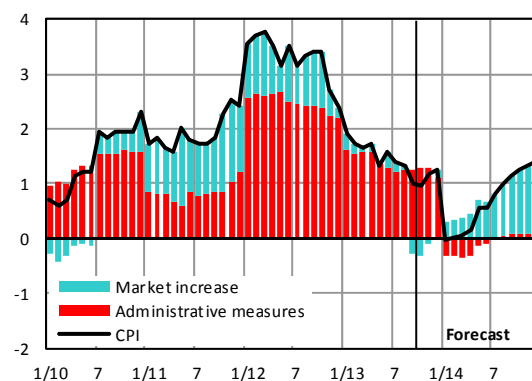


## Unemployment culminating in mid-2014
*registered unemployment, in thousands of persons, seasonally adjusted*
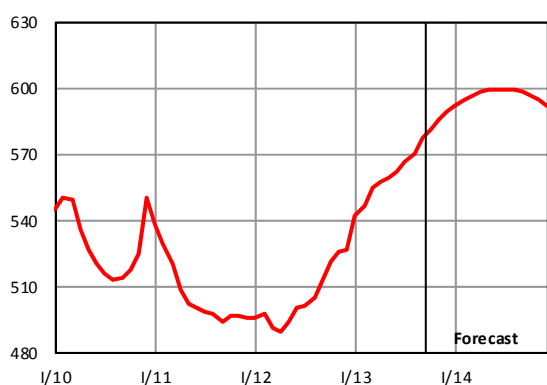


## Rising share of compensation of employees on GDP
*growth in %*



## Low current account deficit
*in % of GDP (moving sums of the latest 4 quarters)*



## Government sector deficit below 3% of GDP in 2013
*general government balance, in % of GDP*



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# Risks to the Forecast

Recently, the Czech economy has been very volatile. A deep and surprising QoQ decline in GDP of 1.3% in Q1 2013 was followed by an increase of 0.6% in Q2 2013. **Under such volatile conditions forecasting future development is very difficult; nonetheless, the MoF's forecast is, in accordance with its role, rather conservative**.

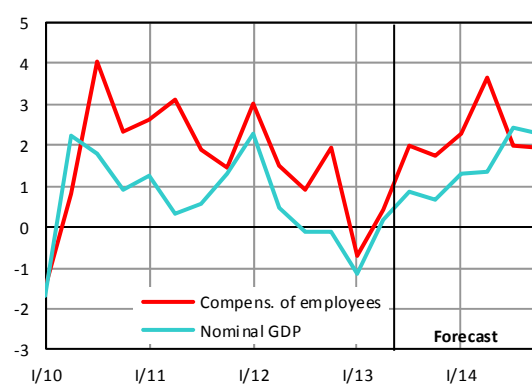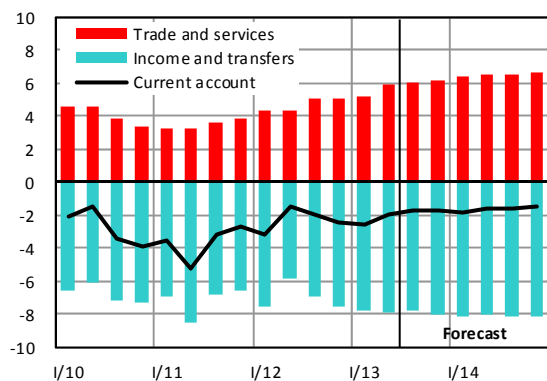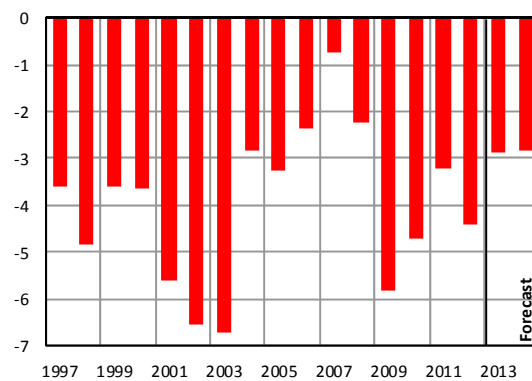GDP growth in Q2 2013 was partially influenced by compensation of unfavourable one-off circumstances from the previous quarter (reactions of economic agents to a change in excise taxes on tobacco and cigarettes, bad weather); however, the analysis of gross value added, which is not influenced by tax changes, indicates that the economy probably emerged from recession in Q2 2013. Even so, the sustainability and intensity of recovery are highly uncertain.

For 2014, the central scenario of this Macroeconomic Forecast expects a YoY growth of real GDP of 1.3%, with equal contribution of domestic and foreign demand. **We consider the risks of this development to be moreless balanced.**

The most important **negative economic risk** related to the **external environment** is, in our view, the still unresolved crisis in the euro zone. From the short-term perspective, one can say that the situation has become calmer and major upheavals are not very likely. However, this does not mean that the risk of a possible escalation in the euro zone crisis can be entirely ruled out (for more details see Chapter A.1).

On the other hand, given the possibility that the **recovery of the German economy** could be **stronger** than in the central scenario of the forecast, **positive risk** can also be accented. The correlation coefficient of cyclical components of GDP[1] of Germany and the Czech Republic reaches, without any lag, nearly 85% for the period starting in 2000. The Czech economy is thus extremely synchronized with its German counterpart. Any change in the cyclical development of the Federal Republic of Germany is therefore also reflected in cyclical development in the Czech Republic.

**The biggest negative domestic risk is the risk of political instability.** At the time of preparing this forecast, the results of the early election to the Chamber of Deputies were not known. Much will depend on how quickly the future government will be formed after the election and how strong and stable it will be. Neither is it possible to forecast the economic policy of the future government.

**Economic sentiment** is still low, though the business cycle indicators show an improvement in all examined segments, even to a lesser extent in construction. This could pose a **positive risk** of a more dynamic recovery than that expected in the central scenario.

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[1] *The cyclical component of GDP is derived from a time series adjusted for the influence of seasons and working days using the Hodrick-Prescott filter.*

# A  Forecast Assumptions

*Sources of tables and graphs: CNB, CZSO, ECB, Eurostat, Ministry of Finance of the Czech Republic, IMF, OECD, The Economist, own calculations, U.S. Energy Information Administration*

## A.1  External Environment

The IMF's outlook for global economic growth has slightly deteriorated, in particular as a result of lower than expected growth in large developing economies. Moreover, the related uncertainties persist. Also, the problem of the Fed's quantitative easing tapering is being discussed.

In China, efforts to re-orientate the economy towards growth based on domestic demand continue, although the governement's support is limited for the time being. In many developing economies the growth is still hindered by structural problems.

**USA**

The American economy continues to recover. The recovery should further strengthen in the following year, in particular due to an improvement on the labour market. In Q2 2013, the economy grew by 0.6% QoQ (*consistent with the forecast*), with growth being driven especially by private demand. Fiscal consolidation, which started in Q1 2013, created uncertainty regarding the economic outlook. However, it had no significant impact on consumer confidence. Likewise the impact on economic activity was only temporary. Recovery is apparent on the real estate market, conditions on the financial markets are easing and growth of credit activity can be observed. Growth in the prices of real estate and other assets has a positive impact on household wealth, reducing net household debt. A favourable situation can also be seen on the stock market – the Dow Jones index is still averaging above 14,000 points, the record-breaking levels of 2007.

The economy remains supported by the Fed's accommodative monetary policy. With the outlook improving, a discussion on the timing of the exit from the quantitative easing programme is gaining ground. In spite of the recent Fed's assurances that the programme would continue, the general opinion of the market that there will soon be a revision of monetary policy has not changed. While a premature termination of the programme could put the economic recovery at risk, late reaction could, on the contrary, result in considerable costs in the form of sub-optimal capital allocation. The Fed's current policy is facilitated by low inflation rate and surplus capacities, mitigating the pressure on price and wage growth.

A change in the Fed's Board of Governors will be made in the near future as the current Fed Governor's term of office ends in January. However, no major change in the current policy of the Fed is expected.

The unemployment rate has decreased by 0.8 pp over the last 12 months (in August, it was 7.3%); however, the decrease was largely caused by transition of a part of the unemployed persons to the non-active category. Moreover, the labour market faces structural problems.

For 2013 we are slightly decreasing our growth forecast to 1.8% (*versus 2.0%*), in 2014 GDP could grow by 2.9% (*unchanged*). We expect that the current dispute regarding government funding and an increase in the debt ceiling will be solved quickly.

**EU**

In the EA12 GDP grew by of 0.3% QoQ (*versus 0.2%*) in Q2 2013; in a YoY comparison, however, economic output declined by 0.6% (*versus 0.8%*). On a QoQ basis we observed the first increase in GDP since Q3 2011.

Although the situation in individual EA12 countries continues to differ considerably, the general driver of recovery seems to be the increasing domestic demand. A positive contribution of net exports and improving sentiment on financial markets, in industry and in services can also be seen. Furthermore, the "long winter" contributed to output as it lead to a partial shift of investment and consumption from Q1 2013 to Q2 2013. Therefore, to a certain extent, the recovery can be regarded as temporary. Growth continues to be hindered by structural problems and low competitiveness in some economies.

Monetary policy of the ECB remains accommodative. Moreover, the ECB is prepared to launch other extraordinary long-term refinancing operations and take additional steps to improve the transmission of measures into real economy. Pressure on inflation growth is mitigated and the ECB sees inflation risks as balanced.

Divergence among the individual countries of the euro zone can be illustrated by the unemployment rate, which in the EA12 reached 12.0% in August (up by 0.5 pp YoY). The highest unemployment rate was in Greece (27.9% in June), Spain (26.2%) and Cyprus

(16.9%). In contrast, the unemployment rate in Germany decreased to 5.2% in July and remained at that level in August. The high unemployment rate in the euro zone hinders the recovery of household consumption.

In H2 2013, the economic situation in the euro zone should improve only slightly. The pace of fiscal consolidation should further decelerate, private demand should strengthen due to improvement in consumer sentiment and the stabilization in the banking sector should resume. The short-term outlook for the euro zone is still associated with a high degree of uncertainty. We assume that the GDP of the EA12 will decrease by 0.4% (*versus 0.5%*) this year and we expect to see it grow by 1.0% (*unchanged*) in 2014.

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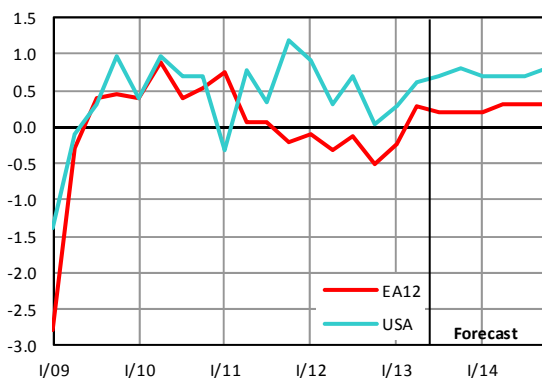


We expect relatively favourable development in **Germany**, whose GDP grew by 0.7% QoQ (*versus 0.4%*) in Q2 2013. As expected, stagnation at the beginning of the year proved to be temporary. The ECB's low rates have a positive impact on the economy. Household consumption is strengthened by the labour market situation. Low interest rates and a low unemployment rate should further positively affect the real estate market. The positive expectations of economic entities are implied not only by the Ifo index, but also the consumer sentiment index. Both indexes currently reach a 6-year maximum.

Given slightly more favourable situation in the euro zone the high competitiveness of German companies should continue to support economic growth also in 2014. Developments in the banking sector, where many institutions are going through a deleveraging process, will be fundamental. The government's infrastructure investment decisions will also be important and the result of the parliamentary elections has sent out a positive message in this respect for the economy. Continuity in economic policy and a stable business environment for the private sector can be

expected. We expect GDP to grow by 0.6% (*versus 0.4%*) this year, while in 2014 we forecast a growth of 1.8% (*versus 1.7%*).

The situation in **France** is less favourable, despite GDP increase by 0.5% QoQ (*versus 0.1%*) in Q2 2013. The growth was driven mainly by rising domestic demand, in particular by government consumption. Besides low consumer confidence, household consumption is also hampered by the growing unemployment rate. Low confidence among entrepreneurs and structural problems are reflected in the lack of investment. The current fiscal situation limits room for further support of the economy. This year we expect GDP to grow by 0.3% (*versus a decrease of 0.1%*); in 2014 the economy should grow by 1.0% (*versus 0.9%*).

In **Poland**, GDP grew by 0.5% QoQ in Q2 2013. This development was triggered mainly by recovery in the EA12 and growing private consumption. While the consumption is still negatively influenced by a decline in real wages and consumer confidence, the rate of unemployment growth has halted. The central bank supported the economy by a further decrease in the reference rate to a historical low of 2.5%. We are slightly increasing our estimate of growth for 2013 to 1.2% (*versus 1.1%*); for 2014 we predict growth of 2.0% (*versus 2.2%*).

Thanks to the recovery in the euro zone, **Slovakia** is maintaining its export performance. In Q2 2013, GDP grew by 0.3% QoQ (*versus 0.4%*). We expect a favourable development of domestic demand as a consequence of improving consumer sentiment. However, economic growth is hampered by the situation on the labour market and fiscal consolidation. We are reducing the growth estimate for 2013 to 0.9% (*versus 1.1%*); while economic growth in 2014 could accelerate to 2.2% (*versus 2.5%*).

**Commodity prices**

As a consequence of overly optimistic expectations for global economic growth, the price of Brent crude oil was high at the beginning of this year. At the end of Q1 2013, however, the outlook was revised and the market recorded a price correction. Growth was seen again during Q2 2013 and Q3 2013, especially due to the escalation of the conflict in Syria, the shortfall in supply from Libya and maintenance of infrastructure in the North Sea. For the whole 2013, we expect the price of crude oil to be at USD 108 per barrel (*versus USD 106*). The decrease in the price of Brent crude oil in the outlook is influenced by expanding production capacities, the expectation of slightly lower global economic growth in 2014 and the substitution of

imports into the USA and Canada with American crude oil as extraction in North America expands. In 2014, the average price of Brent crude oil could reach USD 103 per barrel (*versus USD 102*).

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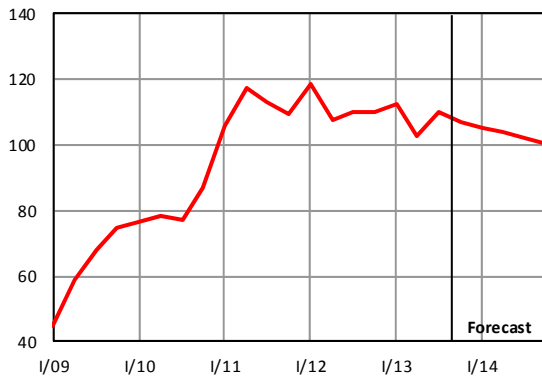


**Debt crisis in the euro zone**

The situation on the euro zone periphery remains relatively calm, but risks of an escalation of the so-called debt crisis persist. Moreover, the overall economic situation continues to be unfavourable, especially in the south of the euro zone.

Greek GDP fell by 3.8% YoY in Q2 2013. Although the rate of decrease again slowed, economic output has now been shrinking for 20 quarters in a row. The unemployment rate continues to rise: it already reached 27.9% in June (up by 3.3 pp YoY) and even exceeded 60% in the age group 15–24. It is becoming evident that the financial support provided to Greece in the second bailout programme will not be sufficient (Greece is unlikely to succeed in restoring full access to the primary government bond market by the end of 2014). This has already been fairly openly acknowledged by some top European representatives.

In contrast, there's a real chance that Ireland will exit its bailout programme in December this year. Yields on 10-year government bonds do not exceed 4% (the last time they were below this limit was in 2007). This year's auctions of treasury bills and bonds also imply that the transition to full market financing will not be accompanied with any significant complications. Moreover, of the countries on the periphery of the euro zone, the Irish economy is in the best condition. From Q3 2012 to Q1 2013 Ireland underwent a shallow recession, but its GDP increased by 0.4% QoQ in Q2 2013. The unemployment rate, which was slowly decreasing during this recession, stood at 13.6% in August (down by 1.1 pp YoY).

The prospects that Portugal will orderly exit its bailout programme (in mid-2014), however, are not so good.

The yield on 10-year government bonds still exceeds 6%. Implementation of the bailout programme has already been complicated several times by the Constitutional Court, which rejected some approved austerity measures. Risk can also emanate from political support for the bailout programme (in July, Portugal went through a minor government crisis) and future economic development. GDP increased by 1.1% QoQ in Q2 2013, but this growth merely terminated (technically) a recession which had lasted 2.5 years, during which GDP decreased cumulatively by more than 7%. The unemployment rate has started to decrease, but it still remains above 16%.

Graph A.1.3: **Spreads over German Bonds**
*The difference between yields of 10Y gov. bonds of the respective country and yields of 10Y German bonds, in p.p., monthly averages*
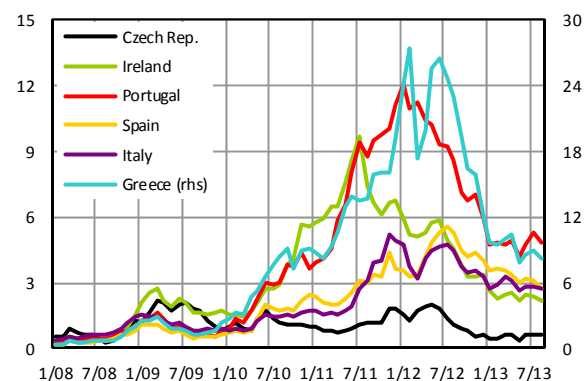


The quickly deteriorating economic situation in Cyprus could bring problems in the implementation of the Cypriot bailout programme, but any impact of the developments in Cyprus on other EA or EU states should be minimal. The Cypriot economy makes up only 0.2% of the euro zone's GDP.

Political situation in Italy could pose a risk for further development of the crisis in the euro zone. Tensions on the financial markets could also be caused by the developments in the Spanish banking system. Its restructuring is basically going as originally planned, although negative surprises cannot not be completely excluded, given the overall situation of the Spanish economy.

Should the crisis in the eurozone escalate, the Czech Republic would experience a decrease in foreign demand for its exports, owing to its strong trade links to the EA countries. This would have an indirect effect on investment activity and final consumption expenditures. However, the advantage of the Czech Republic remains its highly resilient financial sector and credible fiscal policy.

Table A.1.1: **Real Gross Domestic Product** – yearly
*growth in %, seasonally adjusted data (except for the Czech Republic)*

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 Forecast | 2014 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|
| **World** | 4.6 | 5.3 | 5.4 | 2.8 | -0.6 | 5.2 | 3.9 | 3.2 | 2.9 | 3.6 |
| **USA** | 3.4 | 2.7 | 1.8 | -0.3 | -2.8 | 2.5 | 1.8 | 2.8 | 1.8 | 2.9 |
| **China** | 11.3 | 12.7 | 14.2 | 9.6 | 9.2 | 10.4 | 9.3 | 7.8 | 7.8 | 8.2 |
| **EU28** | 2.2 | 3.4 | 3.2 | 0.3 | -4.5 | 2.0 | 1.7 | -0.4 | -0.1 | 1.2 |
| **EA12** | 1.8 | 3.3 | 2.9 | 0.2 | -4.4 | 1.9 | 1.6 | -0.6 | -0.4 | 1.0 |
| **Germany** | 0.8 | 3.9 | 3.4 | 0.8 | -5.1 | 3.9 | 3.4 | 0.9 | 0.6 | 1.8 |
| **France** | 1.9 | 2.7 | 2.2 | -0.2 | -3.1 | 1.6 | 2.0 | 0.0 | 0.3 | 1.0 |
| **United Kingdom** | 3.2 | 2.8 | 3.4 | -0.8 | -5.2 | 1.7 | 1.1 | 0.1 | 1.2 | 2.0 |
| **Austria** | 2.8 | 3.8 | 3.7 | 0.9 | -3.5 | 1.9 | 2.9 | 0.6 | 0.5 | 1.7 |
| **Hungary** | 4.1 | 3.9 | 0.1 | 0.7 | -6.7 | 1.3 | 1.6 | -1.8 | 0.3 | 1.3 |
| **Poland** | 3.6 | 6.2 | 6.8 | 5.0 | 1.6 | 3.9 | 4.5 | 2.0 | 1.2 | 2.0 |
| **Slovakia** | 6.7 | 8.3 | 10.5 | 5.8 | -4.9 | 4.4 | 3.2 | 2.0 | 0.9 | 2.2 |
| **Czech Republic** | 6.8 | 7.0 | 5.7 | 3.1 | -4.5 | 2.5 | 1.8 | -1.0 | -1.0 | 1.3 |

Graph A.1.4: **Real Gross Domestic Product**
*YoY growth in %, seasonally adjusted data*
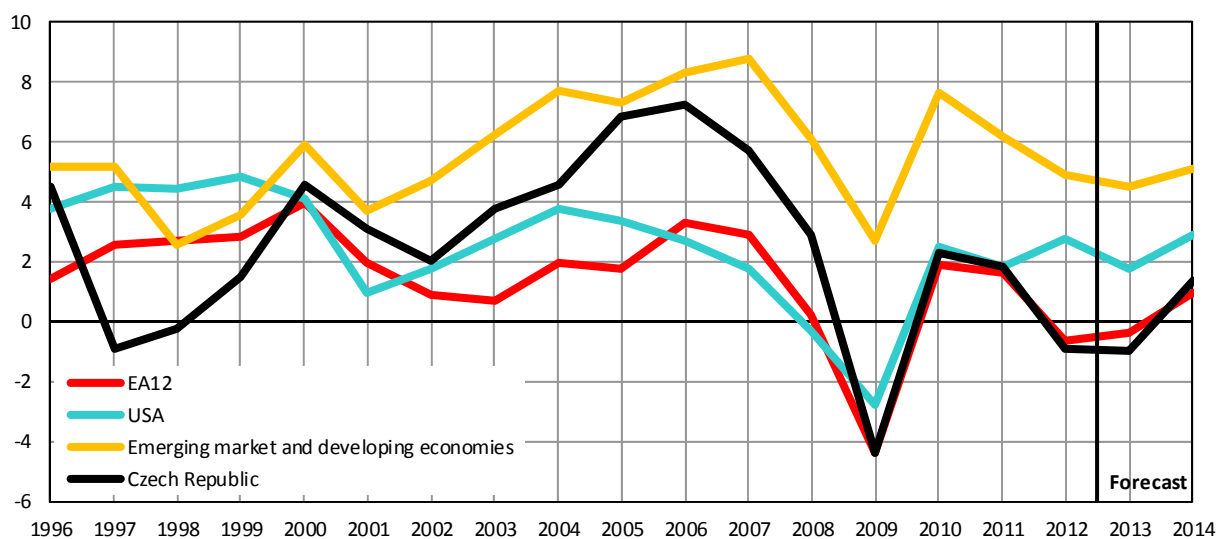
Table A.1.2: **Real Gross Domestic Product** – quarterly
*growth in %, seasonally adjusted data*

| | | **2012** | | | | **2013** | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 *Estimate* | Q4 *Forecast* |
| **USA** | *QoQ* | **0.9** | **0.3** | **0.7** | **0.0** | **0.3** | **0.6** | **0.7** | **0.8** |
| | *YoY* | 3.3 | 2.8 | 3.1 | 2.0 | 1.3 | 1.6 | 1.6 | 2.4 |
| **China** | *QoQ* | **1.6** | **1.9** | **2.1** | **2.0** | **1.6** | **1.9** | **2.0** | **2.0** |
| | *YoY* | 8.3 | 7.8 | 7.6 | 7.8 | 7.8 | 7.8 | 7.7 | 7.7 |
| **EU28** | *QoQ* | **0.0** | **-0.3** | **0.0** | **-0.4** | **-0.1** | **0.3** | **0.2** | **0.2** |
| | *YoY* | 0.1 | -0.3 | -0.5 | -0.7 | -0.8 | -0.2 | 0.0 | 0.6 |
| **EA12** | *QoQ* | **-0.1** | **-0.3** | **-0.1** | **-0.5** | **-0.2** | **0.3** | **0.2** | **0.2** |
| | *YoY* | -0.2 | -0.6 | -0.8 | -1.0 | -1.2 | -0.6 | -0.3 | 0.4 |
| **Germany** | *QoQ* | **0.7** | **-0.1** | **0.2** | **-0.5** | **0.0** | **0.7** | **0.5** | **0.4** |
| | *YoY* | 1.3 | 1.1 | 0.9 | 0.3 | -0.3 | 0.5 | 0.8 | 1.6 |
| **France** | *QoQ* | **0.0** | **-0.3** | **0.2** | **-0.2** | **-0.1** | **0.5** | **0.2** | **0.2** |
| | *YoY* | 0.4 | 0.1 | 0.0 | -0.3 | -0.5 | 0.4 | 0.4 | 0.8 |
| **United Kingdom** | *QoQ* | **0.0** | **-0.5** | **0.6** | **-0.3** | **0.4** | **0.7** | **0.5** | **0.4** |
| | *YoY* | 0.6 | 0.0 | 0.0 | -0.2 | 0.2 | 1.3 | 1.2 | 2.0 |
| **Austria** | *QoQ* | **0.4** | **0.2** | **0.1** | **-0.1** | **0.1** | **0.1** | **0.4** | **0.5** |
| | *YoY* | 0.8 | 0.5 | 0.7 | 0.6 | 0.3 | 0.1 | 0.5 | 1.1 |
| **Hungary** | *QoQ* | **-1.5** | **-0.5** | **0.0** | **-0.5** | **0.6** | **0.1** | **0.2** | **0.2** |
| | *YoY* | -1.3 | -1.7 | -1.7 | -2.5 | -0.5 | 0.1 | 0.3 | 1.1 |
| **Poland** | *QoQ* | **0.3** | **0.0** | **0.4** | **0.1** | **0.2** | **0.5** | **0.4** | **0.4** |
| | *YoY* | 3.5 | 2.1 | 1.7 | 0.8 | 0.7 | 1.2 | 1.2 | 1.5 |
| **Slovakia** | *QoQ* | **0.4** | **0.3** | **0.2** | **0.1** | **0.2** | **0.3** | **0.3** | **0.4** |
| | *YoY* | 2.9 | 2.3 | 1.9 | 1.0 | 0.8 | 0.8 | 0.9 | 1.2 |
| **Czech Republic** | *QoQ* | **-0.4** | **-0.4** | **-0.3** | **-0.3** | **-1.3** | **0.6** | **0.4** | **0.6** |
| | *YoY* | -0.3 | -0.9 | -1.2 | -1.4 | -2.3 | -1.3 | -0.6 | 0.3 |

Graph A.1.5: **Real Gross Domestic Product** – Czech Republic and the neighbouring states
*YoY growth in %, seasonally adjusted data*
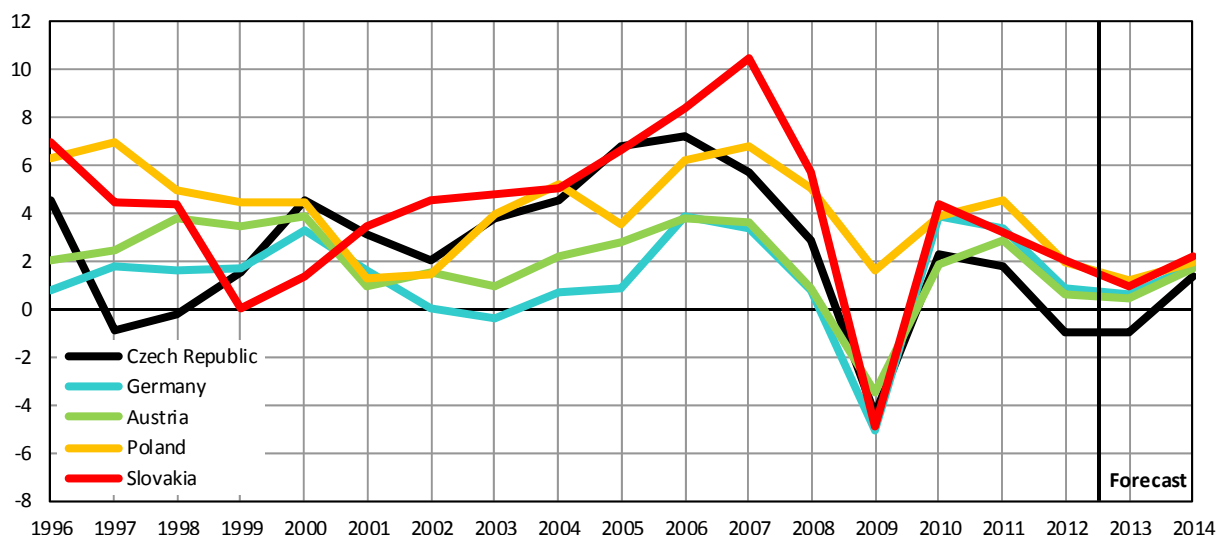
Graph A.1.6: **Real Gross Domestic Product** – Czech Republic and the neighbouring states
*Q3 2008=100, seasonally adjusted data*



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

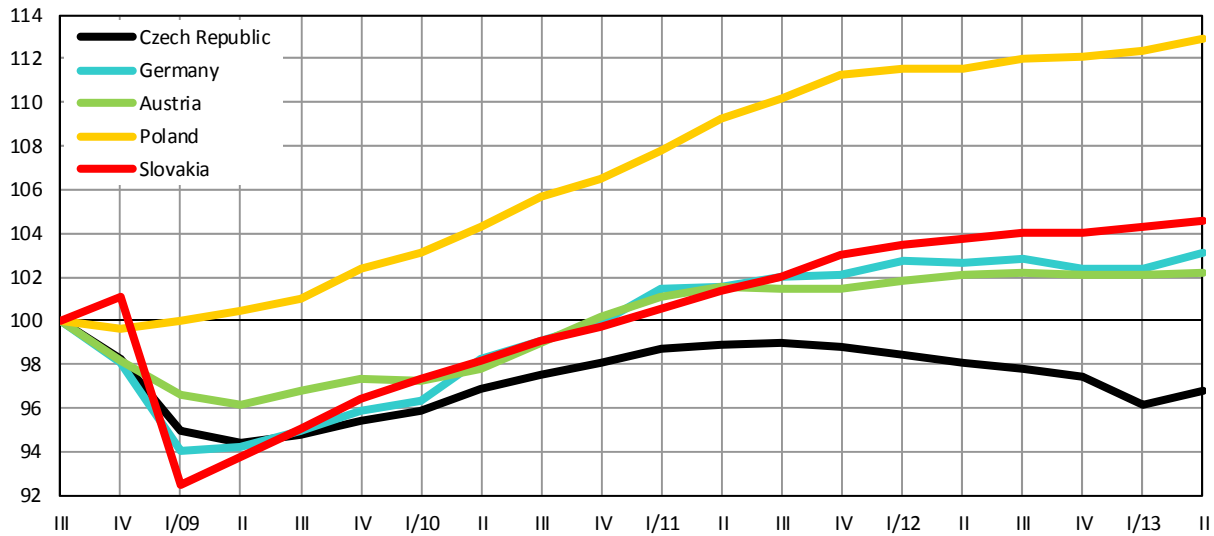| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | *Forecast* | *Forecast* |
| **Crude oil Brent** | *USD/barrel* | **54.5** | **65.1** | **72.4** | **96.9** | **61.5** | **79.6** | **111.3** | **111.6** | **108** | **103** |
| | *growth in %* | 42.6 | 19.6 | 11.1 | 34.0 | -36.5 | 29.3 | 39.9 | 0.3 | -3.1 | -4.9 |
| **Crude oil Brent index** *(in CZK)* | *2005=100* | **100.0** | **112.5** | **111.5** | **123.9** | **88.4** | **116.1** | **150.4** | **167.0** | **162** | **156** |
| | *growth in %* | 33.7 | 12.5 | -0.9 | 11.1 | -28.6 | 31.4 | 29.5 | 11.0 | -2.9 | -3.7 |
| **Wheat** | *USD/t* | **152.4** | **191.7** | **255.2** | **325.9** | **223.4** | **223.7** | **316.2** | **313.3** | **297** | **253** |
| | *growth in %* | -2.8 | 25.8 | 33.1 | 27.7 | -31.5 | 0.1 | 41.4 | -0.9 | -5.3 | -14.8 |
| **Wheat price index** *(in CZK)* | *2005=100* | **100.0** | **118.3** | **140.2** | **150.7** | **117.1** | **116.4** | **152.8** | **168.1** | **159** | **138** |
| | *growth in %* | -9.5 | 18.3 | 18.4 | 7.5 | -22.3 | -0.6 | 31.3 | 10.0 | -5.2 | -13.7 |

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

| | | 2012 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | | | | | | | | | *Forecast* |
| **Crude oil Brent** | *USD/barrel* | **118.7** | **107.7** | **109.6** | **110.1** | **112.4** | **102.6** | **110.2** | **107** |
| | *growth in %* | 12.6 | -7.9 | -3.2 | 0.7 | -5.3 | -4.8 | 0.5 | -2.9 |
| **Crude oil Brent index** *(in CZK)* | *2005=100* | **173.8** | **162.6** | **168.2** | **163.6** | **166.6** | **155.1** | **164.5** | **163** |
| | *growth in %* | 20.9 | 7.5 | 12.5 | 4.1 | -4.1 | -4.6 | -2.2 | -0.5 |
| **Wheat price** | *USD/t* | **278.8** | **269.0** | **349.5** | **355.7** | **321.4** | **313.8** | **305.9** | **245** |
| | *growth in %* | -15.6 | -20.7 | 10.7 | 27.2 | 15.3 | 16.7 | -12.5 | -31.1 |
| **Wheat price index** *(in CZK)* | *2005=100* | **146.1** | **145.2** | **192.0** | **189.1** | **170.5** | **169.9** | **163.4** | **133** |
| | *growth in %* | -9.4 | -7.4 | 28.6 | 31.5 | 16.7 | 17.0 | -14.9 | -29.5 |

Graph A.1.7: **Dollar Prices of Oil**
*USD/barrel*
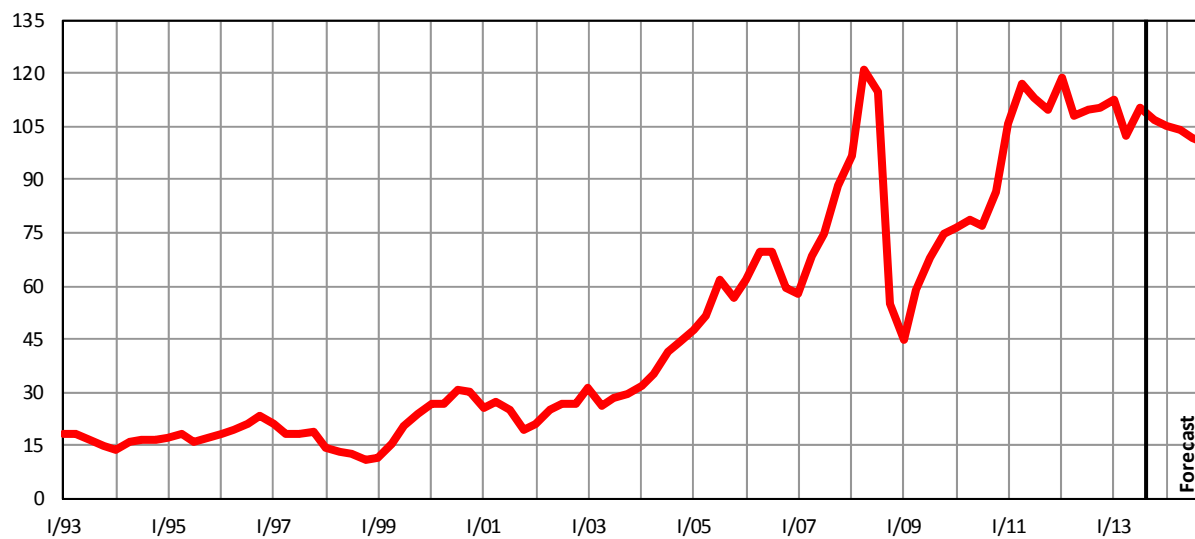


Graph A.1.8: **Koruna Indices of Prices of Selected Commodities**
*index 2005=100*
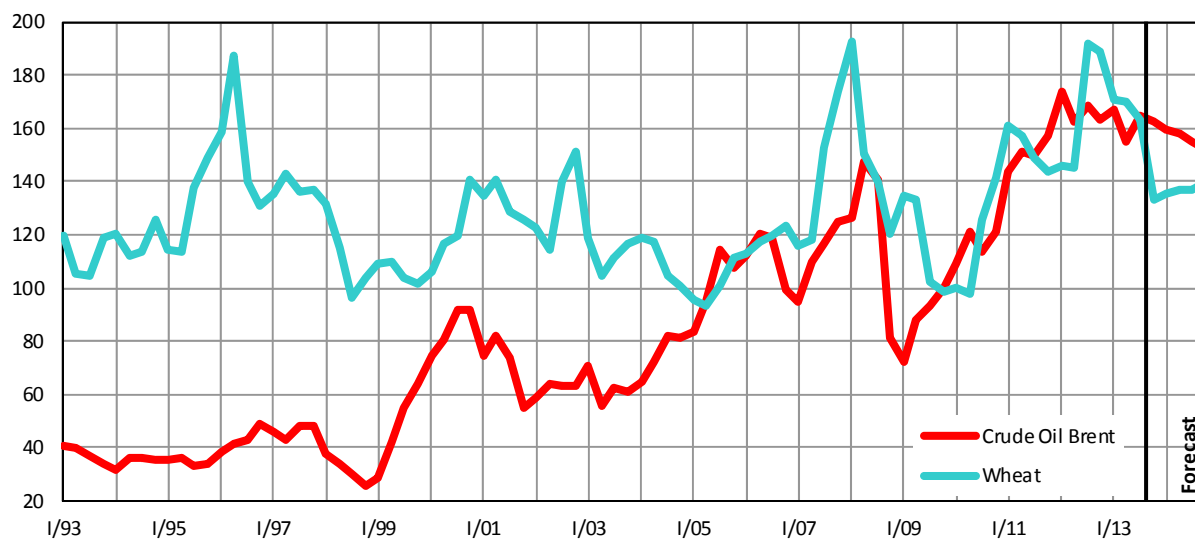
## A.2  Fiscal Policy

Last year, the government sector balance ended up in a deficit of 4.4% of GDP. Compared to 2011, this was a significant worsening; however, the result was affected by two one-off measures (financial compensation to churches and the non-refunded EU fund inflows) totalling CZK 71 billion. Had it been adjusted for these measures, the deficit would have been 0.6 pp lower than in 2011, i.e. 2.6% of GDP. Owing to the considerably deeper negative output gap in 2012, the improvement in balance is even more noticeable in structural terms. This development was supported by a number of discretionary changes (e.g. an increase in the VAT reduced rate by 4 pp) and the austerity policy, in particular in intermediate consumption of the government sector. Last but not least, the result also reflected a drop in investment expenditure, which was partially caused by a reduction in expenditure on projects co-financed by the EU (impact on the balance only in the amount of national financing).

In 2013, we expect the government sector deficit to reach 2.9% of GDP. Compared to the last year's deficit adjusted for the aforementioned one-offs, this would mean a deterioration. This worse YoY result should be caused in particular by the deepening negative output gap, which is further lowering tax revenues. The government sector balance adjusted for the cycle and one-off and temporary measures should be similar to that in 2012, i.e. approximately 1.5% of GDP.

Compared to the July Forecast, the deficit estimate for 2013 has been increased by 0.1 pp. On the revenue side, the estimate for tax revenues has been decreased by 0.2% of GDP (lower growth is expected both for the taxes on production and imports as well as for the income taxes). Social security contributions are expected in approximately the same amount as in the previous forecast, although the difference in funds transferred to the fully-funded pension pillar is significant. While the original estimates expected approximately CZK 6 billion, the actual amount will probably be relatively negligible – only in the order of hundreds of millions. Finally, we are maintaining our assumption about the amount of accrual income subsidies from the EU.

On the expenditure side, the largest change has occurred in the area of social expenditures, where the assumption regarding social transfers paid has been conservatively increased. The main reason is the more marked increase in benefits of assistance in material need (in particular allowance for living and supplement for housing). Foster care benefits are also higher, due to an amendment to the Act on Social and Legal Protection of Children. In total, social benefits should increase by 4.3% compared to the previous year. Based on the development in the first two quarters of this year, the estimate for growth of the total wage bill in the government sector has also been changed; we are now forecasting a growth of 2% (against the original forecast of virtual stagnation).

Compared to the original estimate, savings on the expenditure side occurred primarily in intermediate consumption, where the CZSO revised the 2012 figures downwards and the last year's drop was thus even more pronounced. Social benefits in kind (payments of health insurance companies for health care) are also expected to be lower; this reflects a decrease in health care costs and, to a lesser extent, also administrative savings by health insurance companies. The estimate for interest costs has also been reduced, since this year these will probably even decrease. The main reason is the use of the funds obtained through bond issues in recent years; the deficit is financed by drawing down the government's accounts.

The current deficit forecast includes revenues from the sale of emission allowances of CZK 1.7 billion (not included in the original estimate) as well as an estimate of non-refunded EU fund inflows of CZK 1.6 billion (not considered in the previous forecast). The sale of LTE licences is not included in the forecast since this will probably be income next year. The forecast is drawn up conservatively, and we regard any possible risk towards further deterioration as very low.

We expect that in relative terms the government sector debt will decrease slightly to 46.1% of GDP. The main reason is the use of reserves of funds obtained through issuing bonds in recent years. The good result of cash performance of the state budget is also having a very favourable effect; in particular money from the EU cohesion policy funds is bringing additional liquidity. In terms of debt structure, the principal change is a decrease in treasury bills.

Compared to previous data, the CZSO has revised the general government sector debt for 2009–2012. Hedged debt instruments denominated in foreign currency are now valued using the contractual exchange rate of the respective derivative; this has resulted in an increase in the government debt level in recent years by CZK 13–16 billion.

In accordance with the draft state budget, the budget for state funds for 2014 and with updating amounts of

the medium-term expenditure framework, the government sector deficit for 2014 is estimated at 2.9% of GDP. The deficit should comprise, in particular, the state budget balance and structurally it should act slightly in a stimulating way. The general government sector debt should increase by 1.9 pp to 47.9% of GDP.

Graph A.2.1: **Decomposition of the government balance**
*in % of GDP*
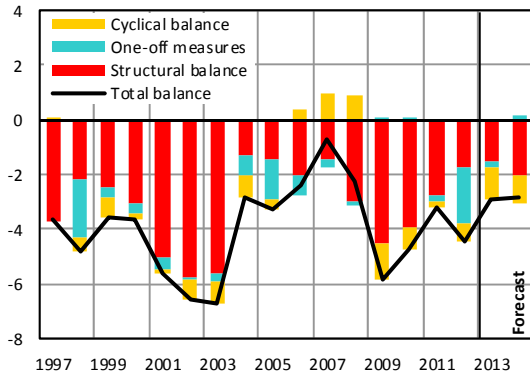


Graph A.2.2: **Government Debt**
*in % of GDP*
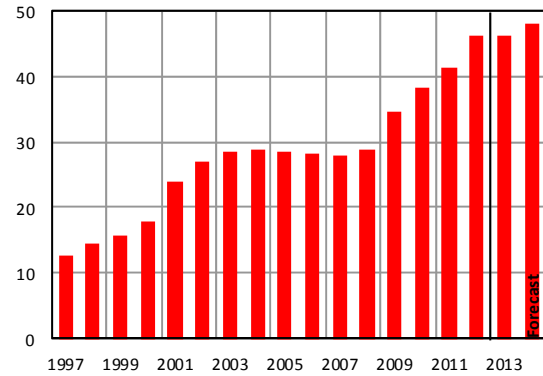


Table A.2.1: **Net Lending/Borrowing and Debt**

|  |  | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
|  |  |  |  |  |  |  |  |  | Prelim. | Forecast | Forecast |
| General government balance [1] | % GDP | -3.2 | -2.4 | -0.7 | -2.2 | -5.8 | -4.7 | -3.2 | -4.4 | -2.9 | -2.9 |
|  |  | -101 | -80 | -27 | -86 | -218 | -179 | -122 | -170 | -112 | -112 |
| Cyclical balance | % GDP | -0.3 | 0.4 | 1.0 | 0.9 | -1.4 | -0.8 | -0.2 | -0.6 | -1.2 | -1.0 |
| Cyclically adjusted balance | % GDP | -2.9 | -2.7 | -1.7 | -3.1 | -4.4 | -3.9 | -3.0 | -3.8 | -1.7 | -1.8 |
| One-off measures | % GDP | -1.5 | -0.7 | -0.3 | -0.1 | 0.0 | 0.0 | -0.2 | -2.1 | -0.2 | 0.2 |
| Structural balance | % GDP | -1.4 | -2.0 | -1.4 | -3.0 | -4.5 | -4.0 | -2.8 | -1.7 | -1.5 | -2.0 |
| Fiscal effort [2] | percent. points | -0.1 | -0.6 | 0.6 | -1.6 | -1.5 | 0.5 | 1.2 | 1.0 | 0.2 | -0.5 |
| Interest expenditure | % GDP | 1.1 | 1.1 | 1.1 | 1.0 | 1.3 | 1.3 | 1.4 | 1.5 | 1.4 | 1.5 |
| Primary balance | % GDP | -2.2 | -1.3 | 0.4 | -1.2 | -4.5 | -3.4 | -1.8 | -3.0 | -1.5 | -1.4 |
| Cyclically adjusted primary balance | % GDP | -1.9 | -1.7 | -0.6 | -2.1 | -3.2 | -2.6 | -1.6 | -2.4 | -0.3 | -0.3 |
| General government debt | % GDP | 28.4 | 28.3 | 27.9 | 28.7 | 34.6 | 38.4 | 41.4 | 46.2 | 46.1 | 47.9 |
| Change in debt-to-GDP ratio | percent. points | -0.5 | -0.1 | -0.3 | 0.8 | 5.9 | 3.8 | 3.0 | 4.8 | -0.1 | 1.9 |
|  |  | 885 | 948 | 1 023 | 1 104 | 1 299 | 1 454 | 1 583 | 1 775 | 1 775 | 1 880 |

*Note: Government debt consists of the following financial instruments: currency and deposits, securities other than shares excluding financial derivatives and loans. Government debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government. The nominal value is considered to be an equivalent to the face value of liabilities. It is therefore equal to the amount that the government will have to refund to creditors at maturity.*
*[1] General government net lending (+)/borrowing (–) including interest derivatives.*
*[2] Change in structural balance.*

# A.3 Monetary Policy and the Financial Sector

**Monetary policy**

The primary monetary policy instrument is the limit interest rate for **2W** (two-week) **repo operations**. Since November 2012, it has been at a historic and technical low of 0.05%, and in spite of the current economic recovery it will probably remain at this level. The **interest-rate spread** between the Czech Republic and the EA remained at –0.45 pp at the end of Q3 2013, while relative to the US it was at –0.20 to 0.05 pp.

For some time now the possibility of foreign exchange interventions by the CNB, which should contribute to a depreciation of the koruna, has been discussed. With regard to the gradual improvement in macroeconomic development, however, this possibility is becoming less likely, but it cannot be excluded completely. This risk is not included in the central scenario.

**Financial sector and interest rates**

In Q3 2013, the **3M** (3-month) **PRIBOR** interbank market rate averaged 0.45% (*in line with the forecast*). For the whole of 2013, as well as for 2014, we forecast an average value of 0.5% (*unchanged for both years*).

Uncertainty on the interbank market, measured by the spread between the 3M PRIBOR and the 2W repo rate, remains stable at values of around 0.40 pp.

Thanks to the credibility of fiscal policy, long-term interest rates should stay low; however, a slight correction of the current unprecedentedly low levels can be expected. Considering the fact that the Czech Republic's rating remains stable at a good investment level – Standard & Poor's AA–, Moody's A1, Fitch Ratings A+ (with a stable outlook from all these agencies) – it is possible to expect further successful issues of government bonds.

We expect that the **yield to maturity on 10-year government bonds** will average 2.1% (*versus 2.0%*) this year and 2.4% (*versus 2.2%*) in 2014.

In July 2013, the CNB conducted another bank lending survey, which concluded that in Q2 2013, the banks tightened credit standards for all sectors of the credit market. For Q3 2013, further tightening of credit standards for loans to non-financial corporations were expected, with a converse relaxation of standards for housing loans. Banks did not expect any change in credit standards for consumer loans.

In Q2 2013, interest rates on deposits decreased slightly to 1.0% for household deposits and 0.4% for corporate deposits. Interest rates on loans to both households and non-financial corporations continued to fall (see Table A.3.2). The growth rate of household indebtedness remains low. Growth of total loans to households is basically driven exclusively by housing loans; the volume of consumer loans has recently been flat. Loans to non-financial corporations are stagnating, which, given the ongoing increase in firms' deposits, implies weak investment activity.

The situation concerning non-performing loans remains stabilized. In Q2 2013, their share stood at 5.2% for households (unchanged YoY) and increased slightly to 7.6% for non-financial corporations (down 0.3 pp YoY). We can conclude that the recent economic recession had no significant adverse effect on NPLs.

At the end of September 2013, the Prague Stock Exchange's PX index was slightly above 950 points, i.e. a comparable value against the same period of 2012.

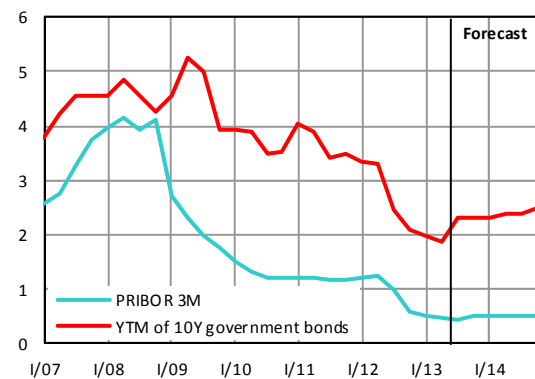Table A.3.1: **Interest Rates, Deposits and Loans** – yearly

| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 Forecast | 2014 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Repo 2W rate CNB** (*end of period*) | in % p.a. | 2.00 | 2.50 | 3.50 | 2.25 | 1.00 | 0.75 | 0.75 | 0.05 | . | . |
| **Main refinancing rate ECB** (*end of period*) | in % p.a. | 2.25 | 3.50 | 4.00 | 2.50 | 1.00 | 1.00 | 1.00 | 0.75 | . | . |
| **Federal funds rate** (*end of period*) | in % p.a. | 4.25 | 5.25 | 4.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | . | . |
| **PRIBOR 3M** | in % p.a. | 2.01 | 2.30 | 3.09 | 4.04 | 2.19 | 1.31 | 1.19 | 1.00 | 0.5 | 0.5 |
| **YTM of 10Y government bonds** | in % p.a. | 3.51 | 3.78 | 4.28 | 4.55 | 4.67 | 3.71 | 3.71 | 2.80 | 2.1 | 2.4 |
| **Households – MFI** (*CR, unless stated otherwise*) | | | | | | | | | | | |
| – interest rates on loans | in % p.a. | 7.53 | 6.93 | 6.63 | 6.81 | 7.00 | 7.00 | 6.83 | 6.46 | . | . |
| – loans | growth in % | 32.6 | 32.1 | 31.7 | 28.9 | 16.3 | 8.7 | 6.5 | 4.9 | . | . |
| – loans without housing loans | growth in % | 28.6 | 28.3 | 27.3 | 25.3 | 19.1 | 8.3 | 6.8 | 1.4 | . | . |
| – deposits | growth in % | 5.2 | 7.3 | 10.6 | 9.4 | 10.5 | 5.4 | 5.0 | 4.7 | . | . |
| – share of non-performing loans | in % | 4.2 | 3.7 | 3.2 | 3.0 | 3.7 | 4.8 | 5.3 | 5.2 | . | . |
| – loans to deposits ratio | in % | 33 | 40 | 48 | 57 | 60 | 61 | 62 | 65 | . | . |
| – loans to deposits ratio (Eurozone) | in % | 94 | 99 | 99 | 94 | 89 | 90 | 90 | 87 | . | . |
| **Non-financial firms – MFI** (*CR, unless stated otherwise*) | | | | | | | | | | | |
| – interest rates on loans | in % p.a. | 4.27 | 4.29 | 4.85 | 5.59 | 4.58 | 4.10 | 3.93 | 3.69 | . | . |
| – loans | growth in % | 10.3 | 13.9 | 16.7 | 17.5 | 0.2 | -6.5 | 3.3 | 2.5 | . | . |
| – deposits | growth in % | 4.5 | 10.9 | 13.2 | 5.3 | -1.7 | 4.8 | 0.9 | 8.2 | . | . |
| – share of non-performing loans | in % | 5.7 | 4.5 | 3.8 | 3.6 | 6.2 | 8.6 | 8.5 | 7.7 | . | . |
| – loans to deposits ratio | in % | 113 | 117 | 120 | 134 | 137 | 123 | 126 | 122 | . | . |
| – loans to deposits ratio (Eurozone) | in % | 290 | 292 | 296 | 315 | 315 | 294 | 286 | 273 | . | . |

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

| | | 2012 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 Estimate | Q4 Forecast |
| **Repo 2W rate CNB** (*end of period*) | in % p.a. | 0.75 | 0.50 | 0.50 | 0.05 | 0.05 | 0.05 | 0.05 | . |
| **Main refinancing rate ECB** (*end of period*) | in % p.a. | 1.00 | 1.00 | 0.75 | 0.75 | 0.75 | 0.50 | 0.50 | . |
| **Federal funds rate** (*end of period*) | in % p.a. | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | . |
| **PRIBOR 3M** | in % p.a. | 1.20 | 1.23 | 0.98 | 0.59 | 0.50 | 0.46 | 0.45 | 0.5 |
| **YTM of 10Y government bonds** | in % p.a. | 3.34 | 3.31 | 2.46 | 2.09 | 1.98 | 1.88 | 2.3 | 2.3 |
| **Households – MFI** (*CR, unless stated otherwise*) | | | | | | | | | |
| – interest rates on loans | in % p.a. | 6.59 | 6.51 | 6.42 | 6.31 | 6.21 | 6.09 | . | . |
| – loans | growth in % | 5.6 | 5.1 | 4.5 | 4.1 | 3.7 | 3.9 | . | . |
| – loans without housing loans | growth in % | 3.9 | 1.5 | 0.6 | -0.3 | -0.4 | 0.1 | . | . |
| – deposits | growth in % | 5.5 | 4.4 | 4.2 | 4.4 | 4.1 | 3.5 | . | . |
| – share of non-performing loans | in % | 5.0 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 | . | . |
| – loans to deposits ratio | in % | 64 | 64 | 65 | 65 | 64 | 65 | . | . |
| – loans to deposits ratio (Eurozone) | in % | 88 | 88 | 87 | 86 | 85 | 84 | . | . |
| **Non-financial firms – MFI** (*CR, unless stated otherwise*) | | | | | | | | | |
| – interest rates on loans | in % p.a. | 3.87 | 3.86 | 3.67 | 3.37 | 3.27 | 3.23 | . | . |
| – loans | growth in % | 4.1 | 1.9 | 2.0 | 1.9 | 2.3 | 0.3 | . | . |
| – deposits | growth in % | 7.8 | 11.6 | 8.3 | 5.2 | 4.8 | 1.9 | . | . |
| – share of non-performing loans | in % | 8.1 | 7.9 | 7.6 | 7.5 | 7.4 | 7.6 | . | . |
| – loans to deposits ratio | in % | 125 | 120 | 124 | 118 | 122 | 119 | . | . |
| – loans to deposits ratio (Eurozone) | in % | 282 | 280 | 274 | 257 | 257 | 253 | . | . |

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



PRIBOR 3M
YTM of 10Y government bonds

## Graph A.3.2: **Loans**
*YoY growth in %*



Households
Non-financial corporations
Households (excl. housing loans)
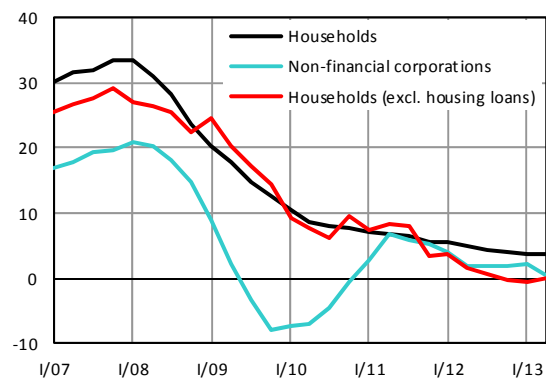
## Graph A.3.3: **Deposits**
*YoY growth in %*



Households
Non-financial corporations
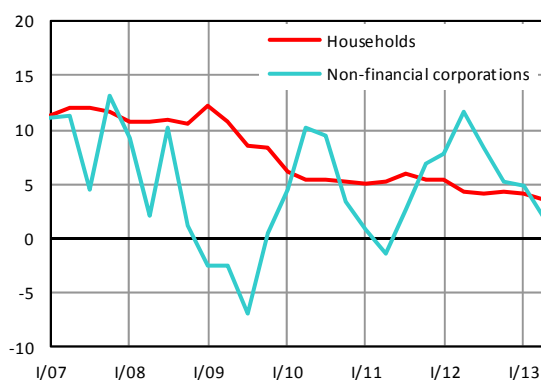
## Graph A.3.4: **Non-performing Loans**
*ratio of non-performing to total loans, in %*



Households
Non-financial corporations
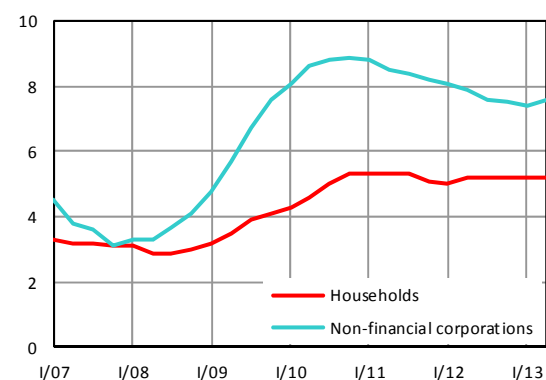
## Graph A.3.5: **Loans to Deposits Ratio** – Households
*in %*



Czech Republic
Euro Area
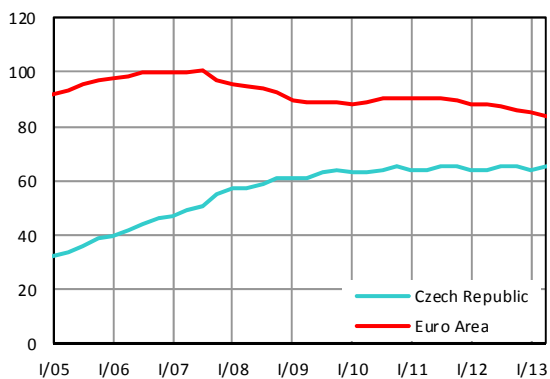
## Graph A.3.6: **Loans to Deposits Ratio** – Firms
*in %*



Czech Republic
Euro Area
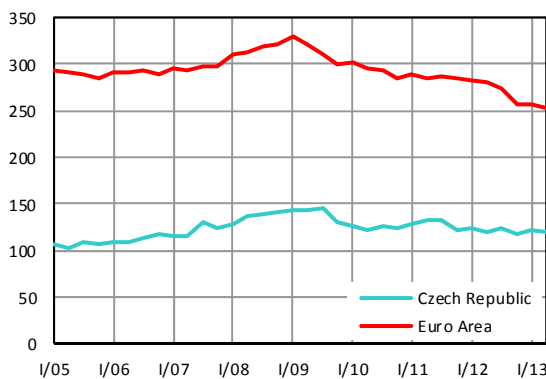
Graph A.3.7: **Ratio of Bank Loans to Households to GDP**
*yearly moving sums, in %*
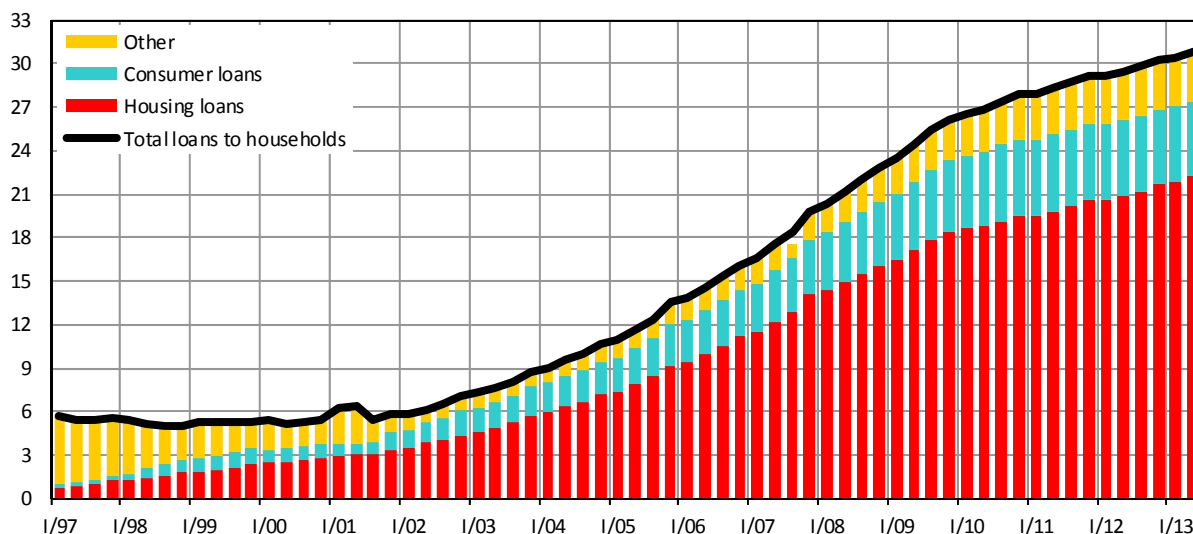


## A.4 Exchange Rates

The weak growth of the Czech economy and a negative interest-rate differential towards the EA resulted in the long-term appreciation of the CZK/EUR exchange rate coming to a halt in 2011. Having weakened in 2012 (on average by 2.2% YoY), the koruna depreciated on average by a further 2.4% in Q1–Q3 2013. Verbal interventions by the CNB aimed at easing monetary conditions also contributed to this development (see Chapter A.3).

Considering the absence of appreciation pressures on the CZK/EUR exchange rate, we have made a technical assumption that the exchange rate shall remain stable at the average level prevalent in Q2 2013 and Q3 2013 (25.8 CZK/EUR) in both the forecast and outlook horizon. If the debt crisis in the euro zone escalates,

considerable movements of the exchange rate in either direction cannot be excluded.

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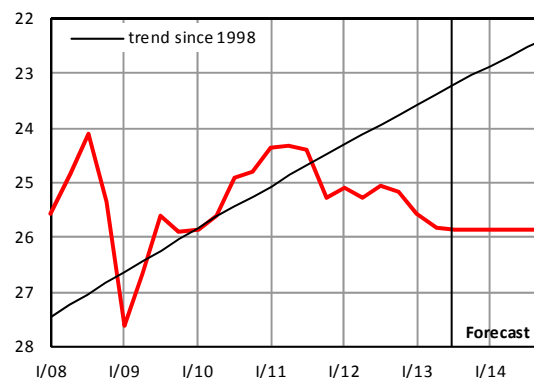


Table A.4.1: **Exchange Rates** – yearly

| | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | | | | | | | | *Forecast* | *Forecast* | *Outlook* | *Outlook* |
| **Nominal exchange rates:** | | | | | | | | | | | |
| **CZK / EUR** | *average* | 27.76 | 24.96 | 26.45 | 25.29 | 24.59 | 25.14 | **25.8** | **25.8** | **25.8** | **25.8** |
| | *appreciation in %* | 2.1 | 11.3 | -5.6 | 4.6 | 2.8 | -2.2 | -2.4 | -0.3 | 0.0 | 0.0 |
| **CZK / USD** | *average* | 20.31 | 17.06 | 19.06 | 19.11 | 17.69 | 19.59 | **19.6** | **19.9** | **19.9** | **19.9** |
| | *appreciation in %* | 11.3 | 19.0 | -10.5 | -0.3 | 8.0 | -9.7 | -0.2 | -1.2 | 0.0 | 0.0 |
| **NEER** | *average of 2010=100* | 90.6 | 101.2 | 98.0 | 100.0 | 103.1 | 99.5 | **98** | **98** | **98** | **98** |
| | *appreciation in %* | 2.7 | 11.7 | -3.2 | 2.1 | 3.1 | -3.5 | -1.6 | -0.2 | 0.0 | 0.0 |
| **Real exchange rate to EA12**[1] | *average of 2010=100* | 92.1 | 102.5 | 98.0 | 100.0 | 100.7 | 98.8 | **96** | **94** | **94** | **93** |
| | *appreciation in %* | 3.1 | 11.3 | -4.4 | 2.1 | 0.7 | -1.9 | -2.9 | -1.5 | -0.6 | -1.0 |
| **REER** | *average of 2010=100* | 88.7 | 102.2 | 98.1 | 100.0 | 102.4 | 100.1 | . | . | . | . |
| *(Eurostat, CPI deflated, 37 countries)* | *appreciation in %* | 2.9 | 15.1 | -4.0 | 2.0 | 2.4 | -2.2 | . | . | . | . |

[1] *Deflated by GDP deflators.*

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

| | | **2012** | | | | **2013** | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | | | | | | | Estimate | Forecast | Forecast |
| **Nominal exchange rates:** | | | | | | | | | |
| **CZK / EUR** | average | **25.08** | **25.26** | **25.07** | **25.17** | **25.57** | **25.83** | **25.85** | **25.8** |
| | appreciation in % | -2.8 | -3.7 | -2.7 | 0.4 | -1.9 | -2.2 | -3.0 | -2.6 |
| **CZK / USD** | average | **19.14** | **19.73** | **20.07** | **19.42** | **19.37** | **19.78** | **19.52** | **19.9** |
| | appreciation in % | -6.9 | -14.3 | -13.9 | -3.3 | -1.2 | -0.3 | 2.8 | -2.3 |
| **NEER** | average of 2010=100 | **100.2** | **99.2** | **99.3** | **99.2** | **98.4** | **97.6** | **97.8** | **98** |
| | appreciation in % | -3.2 | -4.8 | -4.5 | -1.3 | -1.7 | -1.7 | -1.4 | -1.6 |
| **Real exchange rate to EA12** [1] | average of 2010=100 | **98.6** | **98.4** | **99.0** | **99.1** | **96.9** | **96.5** | **95** | **95** |
| | appreciation in % | -1.8 | -3.1 | -2.6 | 0.1 | -1.7 | -2.0 | -4.1 | -3.8 |
| **REER** | average of 2010=100 | **101.4** | **99.9** | **99.7** | **99.3** | **99.6** | **98.5** | . | . |
| (Eurostat, CPI deflated, 37 countries) | appreciation in % | -1.7 | -3.3 | -3.5 | -0.5 | -1.7 | -1.4 | . | . |

[1]  Deflated by GDP deflators.

Graph A.4.2: **Nominal Exchange Rates**
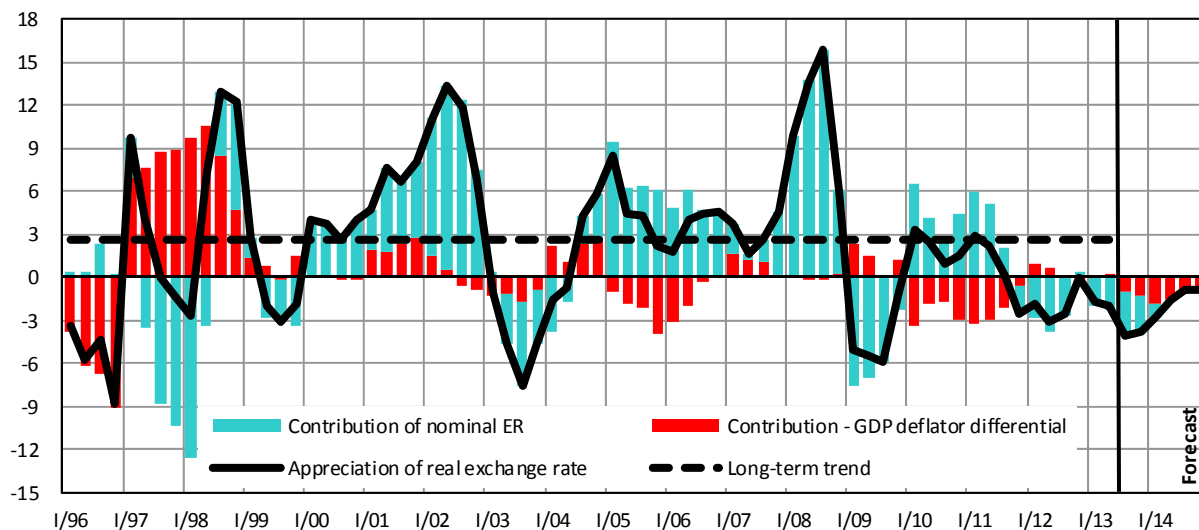*quarterly average, average 2010=100 (rhs)*
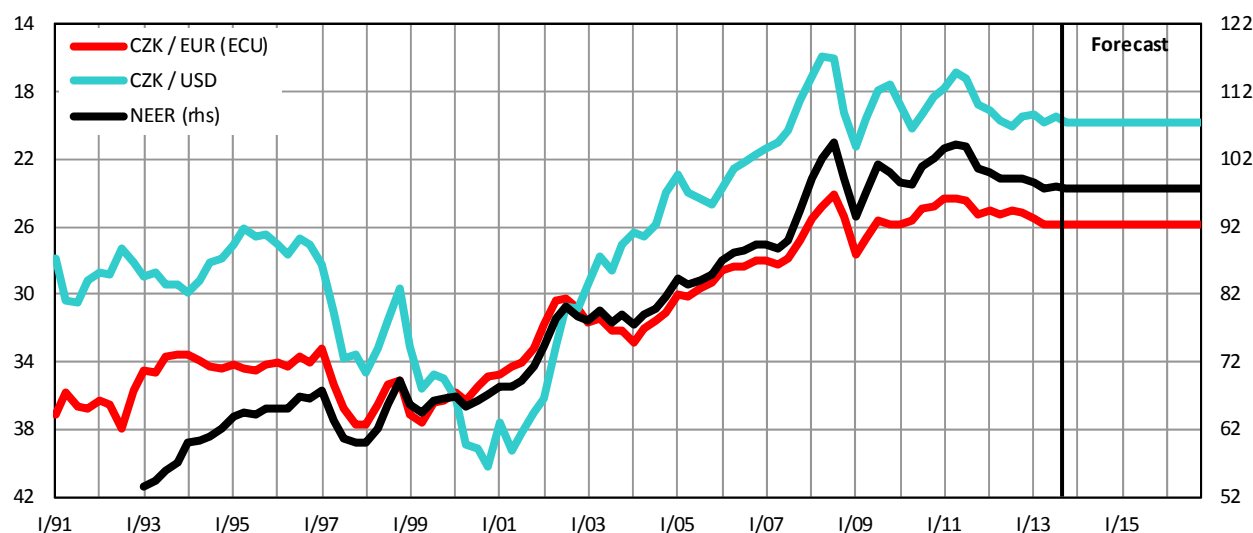


Graph A.4.3: **Real Exchange Rate to EA12**
*quarterly average, deflated by GDP deflators, average 2010=100*
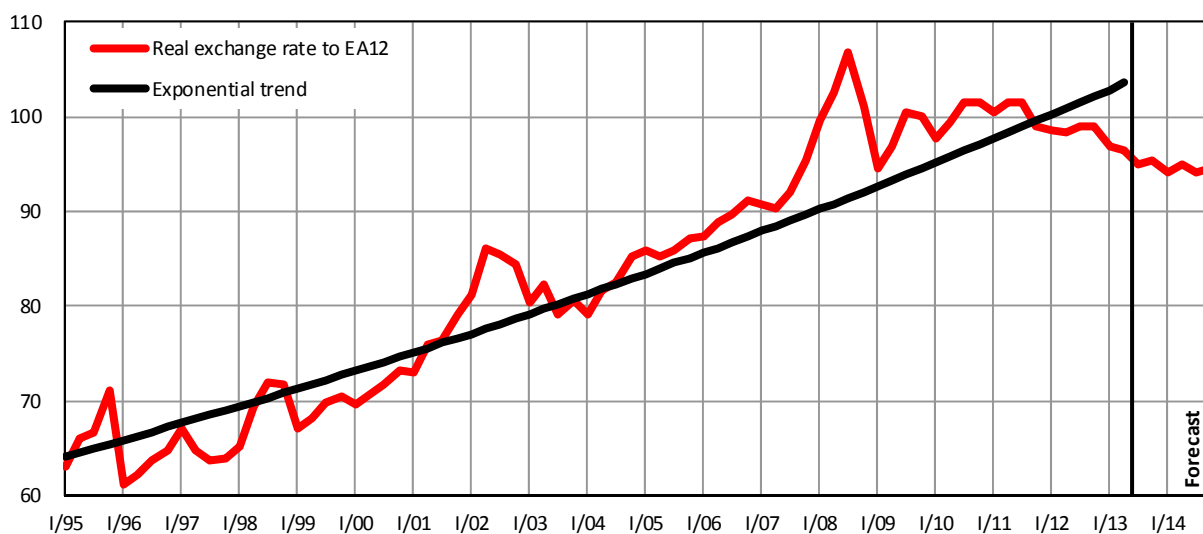
Graph A.4.4: **Real Exchange Rate to EA12**
*deflated by GDP deflators, YoY growth in %, contributions in percentage points*



# A.5   Structural Policies

On 13 August 2013, Jiří Rusnok's Cabinet, appointed by the President of the Czech Republic on 10 July 2013, resigned after losing confidence vote.

On 28 August 2013, the Chamber of Deputies was dissolved by the President of the Czech Republic, whereby discussions concerning all non-approved legislation was terminated (among others, the Act on Immovable Property Acquisition Tax, the Act on Change in Taxation Acts in Connection with the Recodification of Private Substantive Law, the Act on Building Savings, the amendment to the Act on Savings and Loan Cooperatives or the Act on Budgetary Responsibility). Some of these acts, though slightly modified, were later passed by the Senate in the form of statutory measures.

**Business environment**

On 2 August 2013, an **amendment to the Act on Insurance and Financing Exports with State Support**, which should boost exports, came into effect. According to the new legal regulation, commercial banks are allowed to grant loans to Czech exporters with interest rates fixed throughout the period of their drawdown and repayment. If the interest rate on the interbank market increases during this period, the difference will be paid by the state to the bank. If the interest rate decreases, the difference will be returned by the banks to the state. The loan rate will be fixed based on the CIRR rate (Commercial Interest Reference Rate) published by the OECD, which is considered to be the minimum rate not representing prohibited public support to private entities.

**A draft of statutory measure amending the Act on Public Procurement** was approved by the Senate on 10 October 2013. The draft retains the limit for public contracts at the current amount of CZK 3 million excl. VAT and cancels the institute of persons with special competences. Last but not least, it introduces a new mechanism for the new or repeated awarding of those public contracts, where there was only one bid left or delivered to a contracting entity for assessment. The draft is expected to become effective on 1 January 2014.

**Taxes**

Due to a comprehensive change in private law under the new Civil Code, on 10 October 2013 the Senate passed a **draft statutory measure on a change in tax legislation related to the private law recodification**. The statutory measure introduces a number of factual and terminological changes, as well as necessary changes in connection with establishing the Single Collection Point, the full launch of which is expected on 1 January 2015.

Major changes include extending the time-limit for the exemption of income of natural persons from the sale of securities from 6 months to 3 years, while an annual limit of CZK 100,000 will be introduced for the exemption of income from the sale of securities that are not part of a business property. The limit for the exemption of income from occasional activities or the occasional lease of movables not performed by an entrepreneur will be increased from CZK 20,000 to CZK 30,000. Income not subject to public insurance premiums (contract for work) will form a separate

taxable amount collected by withdrawal at a special rate, while the limit for monthly income will be increased from CZK 5,000 to CZK 10,000. Tax relief in respect of children will be limited to residents from the EU, Norway and Iceland. Deduction from the tax base will also be allowed for the acquisition of research and development results from research organizations. The maximum limit for the deduction of gifts for public benefit purposes will be increased to 15% for natural entities and unified at 10% for legal entities. In order to support exports, opportunities to include the value of outstanding receivables in tax costs will be extended, up to the amount of received insurance payments. The statutory measure is scheduled to come into effect from 1 January 2014.

In connection with the comprehensive change in private law, on 9 October 2013 the Senate passed the **draft statutory measure on immovable property acquisition tax** that should result in reducing the administrative burden of tax payers and the state. The draft cancels the Act on Inheritance Tax, Gift Tax and Real Estate Transfer Tax, while preserving the taxation of paid real estate transfers in the form of taxing the acquisition of immovable property. In the case of common transactions based on contracts of sale and contracts of exchange, the assignor remains the tax payer; nonetheless, the contracting parties will also be allowed to select the assignee as the payer. In other cases, the payer is the assignee. The draft will also decrease the number of cases in which submission of an expert opinion is obligatory according to valuation regulations on the ascertained prices of immovable assets, and will generally restrict the amount of written materials payers will be obliged to attach to their tax returns. The statutory measure should come into effect from 1 January 2014.

**Financial markets**

On 19 August 2013, an **amendment to the Act on Investment Companies and Investment Funds** came into effect. This should help make conducting business activities on the Czech capital market more attractive. The main changes include extending the group of admissible legal forms for investment funds, and

introducing separate regulation of the manager's and administrator's duties. The manager will perform their own portfolio management and related risk management, while the administrator will deal only with administrative activities related to investment fund management.

**Labour Market**

On 1 August 2013, an **amendment to the Employment Act** came into effect, which should contribute to liberalizing fixed-term employment contracts. In the case of serious operational reasons or because of the special nature of the work (culture, or seasonality in agriculture and construction), the amendment allows unlimited repeated fixed-term employment, i.e. the period of 3 years will not have to be met from the termination of the previous fixed-term employment relationship. For persons older than 18 years, the amendment also shortens the entitlement to rest between shifts from 12 to 11 hours.

**Energy industry**

An amendment to the Act on Supported Energy Sources that came into effect on 2 October 2013 should result in a decrease in financial burden both for electricity consumers and the state budget. At the same time, it should increase the predictability of future price levels. According to the new legal regulation, support for electricity production from renewable sources put into operation after 1 January 2014 will be terminated. Support will only be maintained for power plants put into operation until 31 December 2014, provided a building permit was granted to them before the amendment came into effect.

The amendment also sets out the maximum fee paid by consumers for supported energy sources, i.e. CZK 495/MWh; the remaining amount of required funds will be claimed directly from the state budget. Last but not least, from 1 January 2014 the amendment prolongs the solar tax for the whole life of solar power plants put into operation in 2010 and with output exceeding 30 kW.

# A.6 Demographic Trends

At the beginning of July 2013, 10.513 million people lived in the Czech Republic. Compared to the beginning of the year, the number of inhabitants decreased by 3 thousand. This decline was caused by a combination of negative natural increase (mainly due to a YoY decline in the birth rate) and nearly zero net migration.

According to the central variant of CZSO's new Demographic Projection, in the next few years the Czech Republic should reach its post-WWII population peak. The long-term tendencies of population change in the Czech Republic in relation to legislation postponing the statutory retirement age are described in Box A.6.

Graph A.6.1: **Age Groups**
*structural shares in %*
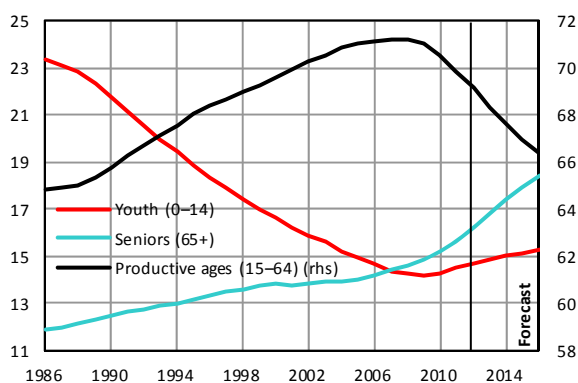


In terms of the age structure, the proportion of the population aged 15-64 has been sharply decreasing since 2008, and will almost certainly decline further (see Graph A.6.1). Persons born at the end of the 1990s, when the birth rate was very low, exceed the lower age limit of this group, while the population--strong generation born after WWII is gradually being classified as senior citizens.

Graph A.6.2: **Czech Population Aged 15–64**
*based on LFS, YoY increases of quarterly averages, in thousands*
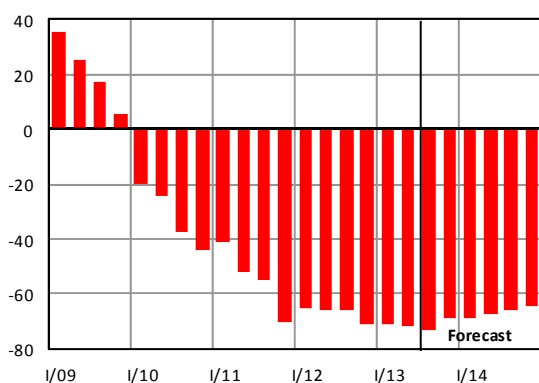


In absolute terms, the working-age population is decreasing by approximately 70 thousand people a year (see Graph A.6.2), or by 1.0% in relative terms. The economic impacts of this situation are described in more detail in Chapter B.1.

In contrast, the structural proportion of persons over 64 years in the total population reached 16.8% at the beginning of 2013, and increases by 0.5 pp annually. Both the number and the share of seniors in the population are significantly rising due to demographic structure and the further continuation of the intensive process of increasing life expectancy.

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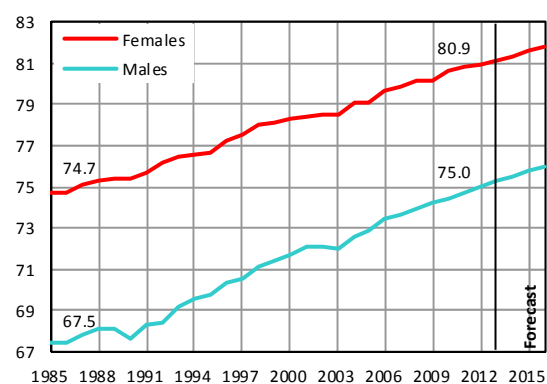


In H1 2013, as in 2012, stagnation in the number of old-age pensioners continued. However, we suppose this to be a temporary matter compensating for the unprecedented increase in 2011 (see Graph A.6.5), when potential future pensioners optimized the opportunity to retire during a period when rules for determining pension payments were changed.

The number of pensioners with reduced pensions after early retirement continues to rise, while the number of pensioners entitled to full pension has been decreasing YoY since Q2 2012.

Box A.6: **CZSO's Demographic Projection 2013**

After four years, the CZSO published the new Population Projection of the Czech Republic in July 2013. The new projection's basic input data is the population of the Czech Republic by gender and age units as of 1 January 2013, derived from the results of the Census of Population and Housing in 2011. In contrast to the previous projection, in the Projection 2013 the projected period is extended by further 35 years until 2100, specifically until 1 January 2101. The Projection depicts the complete future of practically all generations living today. The Projection has been drawn up in all three standard variants (low, central and high). The central variant is considered to be the most probable; nonetheless, its results must be interpreted not as a forecast, but rather as defining the centre of the range of expected development as given by the extreme variants.

The aim of the projection is to outline the direction of future population development and in particular point out those changes in the age composition which are inevitable and that will be most sharply evident in the case of the Czech Republic. However, this projection – an objective feature of which is its uncertainty – cannot foresee the sudden effects of external influences, for example deep economic crises, the attractiveness of international migration, changes in system of social measures, the direction and extent of progress in health care or epidemics of illnesses, all of which can influence in the short- or medium-term the mortality rate, birth rate or migration flows. Therefore, it is always necessary to understand that the results of the projection are conditional and to interpret them in relation to the input parameters.

With regard to the basic trends of the individual components of future population development, the new projection does not differ much from those examined by the last projection of 2009. The projection foresees a further decrease in the mortality rate, positive net migration in the long term and, in its central and high variants, an increase in the birth rate.

Graph 1: **Total Population**
*in thousands*
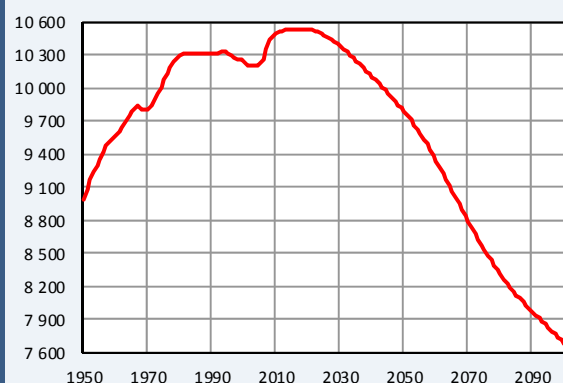
Graph 2: **Yearly Population Change**
*in thousands*
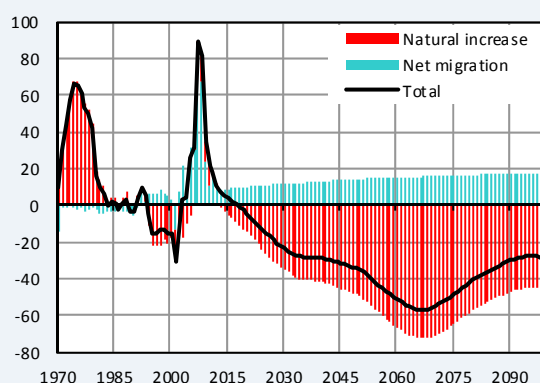
The basic output from the Population Projection is the size of population and its composition by gender and age disaggregated to individual years. In 1994–2002, after decades of growth, the number of inhabitants of the Czech Republic decreased, mostly as a consequence of natural changes. In 2003, the situation was reversed and the number of inhabitants again started increasing thanks to the positive balance of foreign migration. Since 2006, the number of new-born children has exceeded the number of persons dying; in spite of this, the increase in total number of inhabitants is mainly a result of the positive balance in foreign migration, which has nonetheless considerably decreased in recent years.

If the assumptions made for future development of the birth rate, mortality and migration are accurate, in the next few years the number of inhabitants of the Czech Republic will reach its post WWII maximum, followed by a decline in population in the not too distant future. According to the central variant, the number of inhabitants of the Czech Republic should decrease to 7.6 million by 2100, which in the contemporary territory of Czech Republic would correspond to the population around 1870.

**Graph 3: Fertility Rate**

*number of children per woman*
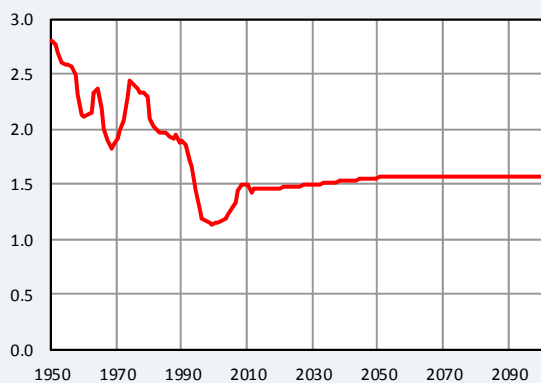


**Graph 4: Life Expectancy at Birth**

*in years*
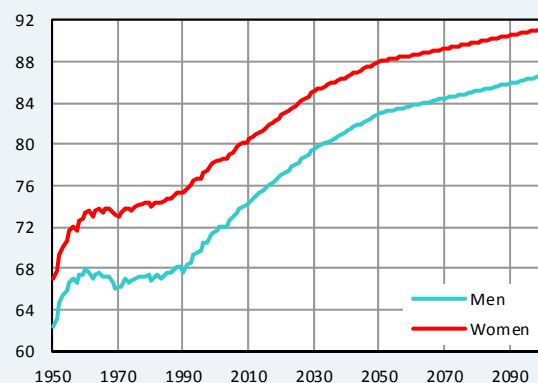


The assumption of birth rate development in the new projection is less optimistic compared to the previous one. In 2012, the total birth rate reached 1.45 children per woman and was lower than in 2008 (1.50 children per woman). The central variant of the projection includes the assumption of a gradual but slight increase in the birth rate to a value of 1.56, with, in the initial period of the projection, the continuation of the current trend of a rising average age of mothers. The long-term low birth rate (see Graph 3), far below a value ensuring zero natural increase (2.04), must inevitably be reflected in a decrease in the size of the population.

The assumptions regarding life expectancy are similar to those in the previous projection. In the central variant, life expectancy is expected to increase from the current 75.0 years for men and 80.9 years for women to 79.5/85.1 years in 2030, and later, rising at a reduced rate, to 83.0/88.0 years in 2050. By the end of the projection period, life expectancy would increase to 86.6 years for men and to 91.1 years for women.

**Graph 5: Age Structure**

*in % of total population*
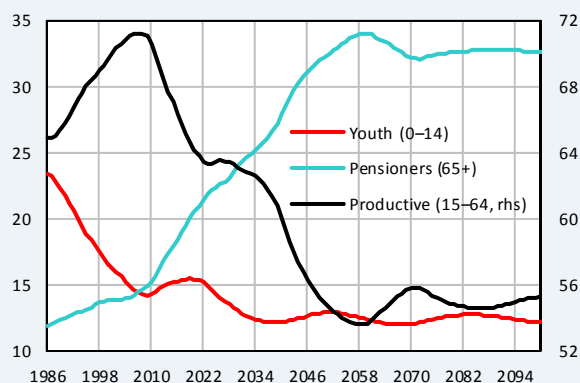


**Graph 6: Dependency Ratios**

*in %*
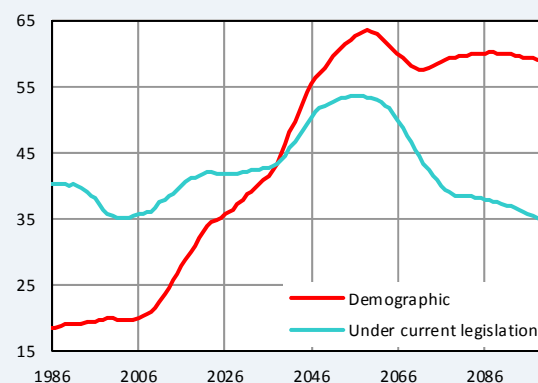


Pronounced changes in the population's age structure will have serious economic consequences. The population in the age category 15–64 years reached its peak in 2009 at the level of 7.431 million persons. Since then, it has been decreasing by approximately 70,000 persons annually. According to the central variant of the projection, this decrease should temporarily cease as late as around 2022. As a minimum response to such development, the economic environment must maintain the conditions for a further increase in the participation rate on the labour market, similarly as at present.

The pension system faces pressures from an ageing population. In addition to other parametric modifications, gradual postponement of the statutory retirement age without any defined upper limit appears to be the most important. The graph showing developments in the dependency ratio under current legislation (ratio of the number of people entitled to standard old-age pension to the number of persons older than 14 years without such entitlement) shows that under current conditions the system can be covered financially, with minor problems, approximately until 2040. When the extremely strong age groups born after 1975 retire, however, after 2040 this system will be exposed to a sharp increase in the legislative dependency ratio. Considering the fact that during this period children born in the next few years will be entering the labour market , the application of suitable structural policies or a suitably focused stimulation of the birth rate could mitigate this predictable problem.

## Table A.6.1: **Demography**

*in thousands of persons*

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 Forecast | 2014 Forecast | 2015 Outlook | 2016 Outlook |
|---|---|---|---|---|---|---|---|---|---|---|
| **Population (January 1)** | **10 287** | **10 381** | **10 468** | **10 507** | **10 487** | **10 505** | **10 516** | **10 524** | **10 530** | **10 534** |
| *growth in %* | 0.4 | 0.9 | 0.8 | 0.4 | -0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 |
| **Age structure (January 1):** | | | | | | | | | | |
| **(0–14)** | **1 480** | **1 477** | **1 480** | **1 494** | **1 522** | **1 541** | **1 560** | **1 578** | **1 594** | **1 606** |
| *growth in %* | -1.5 | -0.2 | 0.2 | 1.0 | 1.8 | 1.3 | 1.2 | 1.1 | 1.0 | 0.8 |
| **(15–64)** | **7 325** | **7 391** | **7 431** | **7 414** | **7 328** | **7 263** | **7 188** | **7 118** | **7 053** | **6 988** |
| *growth in %* | 0.4 | 0.9 | 0.5 | -0.2 | -1.2 | -0.9 | -1.0 | -1.0 | -0.9 | -0.9 |
| **(65 and more)** | **1 482** | **1 513** | **1 556** | **1 599** | **1 637** | **1 701** | **1 768** | **1 828** | **1 882** | **1 939** |
| *growth in %* | 1.8 | 2.1 | 2.9 | 2.7 | 2.4 | 3.9 | 3.9 | 3.4 | 3.0 | 3.0 |
| **Old-age pensioners (January 1)** [1] | **2 024** | **2 061** | **2 102** | **2 147** | **2260** | **2340** | **2341** | **2 352** | **2 380** | **2 408** |
| *growth in %* | 2.0 | 1.8 | 2.0 | 2.1 | . | 3.5 | 0.1 | 0.5 | 1.2 | 1.2 |
| **Old-age dependency ratios (January 1, in %):** | | | | | | | | | | |
| **Demographic** [2] | **20.2** | **20.5** | **20.9** | **21.6** | **22.3** | **23.4** | **24.6** | **25.7** | **26.7** | **27.8** |
| **Under current legislation** [3] | **35.8** | **35.9** | **36.1** | **36.6** | **37.4** | **37.8** | **38.3** | **38.8** | **39.3** | **39.9** |
| **Effective** [4] | **41.6** | **41.5** | **41.8** | **43.6** | **45.9** | **47.9** | **47.6** | **47.4** | **48.0** | **48.5** |
| **Fertility rate** | **1.438** | **1.497** | **1.492** | **1.493** | **1.427** | **1.45** | **1.45** | **1.45** | **1.45** | **1.45** |
| **Population increase** | **94** | **86** | **39** | **-20** | **19** | **11** | **8** | **6** | **4** | **2** |
| **Natural increase** | **10** | **15** | **11** | **10** | **2** | **0** | **-1** | **-3** | **-5** | **-7** |
| **Live births** | **115** | **120** | **118** | **117** | **109** | **109** | **107** | **104** | **102** | **100** |
| **Deaths** | **105** | **105** | **107** | **107** | **107** | **108** | **107** | **107** | **107** | **107** |
| **Net migration** | **84** | **72** | **28** | **16** | **17** | **10** | **9** | **9** | **9** | **9** |
| **Immigration** | **104** | **78** | **40** | **31** | **23** | **30** | **.** | **.** | **.** | **.** |
| **Emigration** | **21** | **6** | **12** | **15** | **6** | **20** | **.** | **.** | **.** | **.** |
| **Census difference** | **x** | **x** | **x** | **-46** | **x** | **x** | **x** | **x** | **x** | **x** |

[1] In 2010 disability pensions of pensioners over 64 were transferred into old-age pensions.
[2] Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).
[3] Dependency under current legislation: ratio of people above the official retirement age to the people over 19 below the official retirement age.
[4] Effective dependency: ratio of old-age pensioners to working people.

## Graph A.6.4: **Dependency Ratios**

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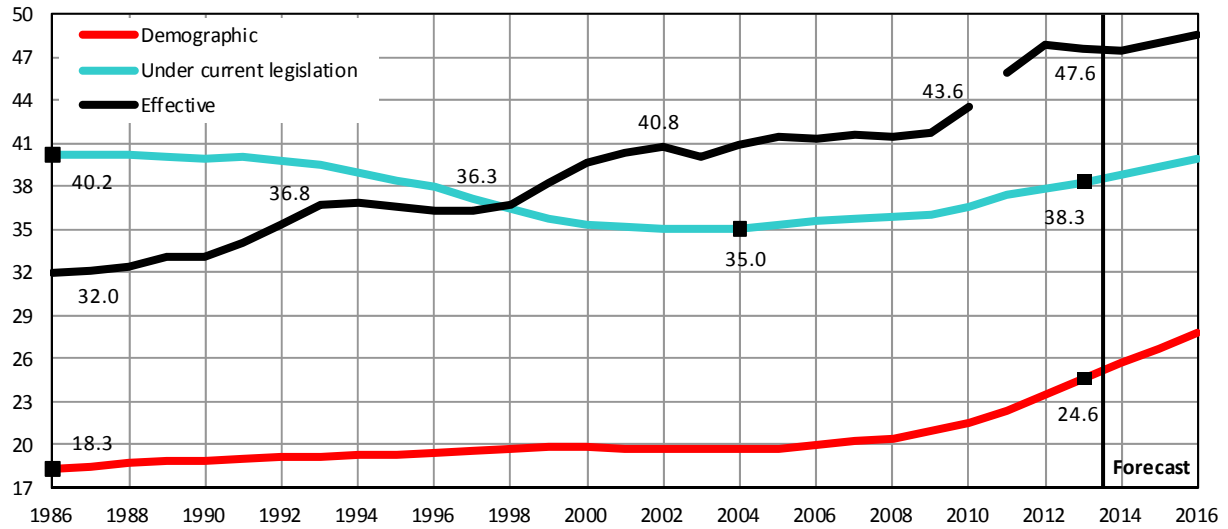


## Graph A.6.5: **Old-Age Pensioners**

*absolute increase over a year in thousands of persons*
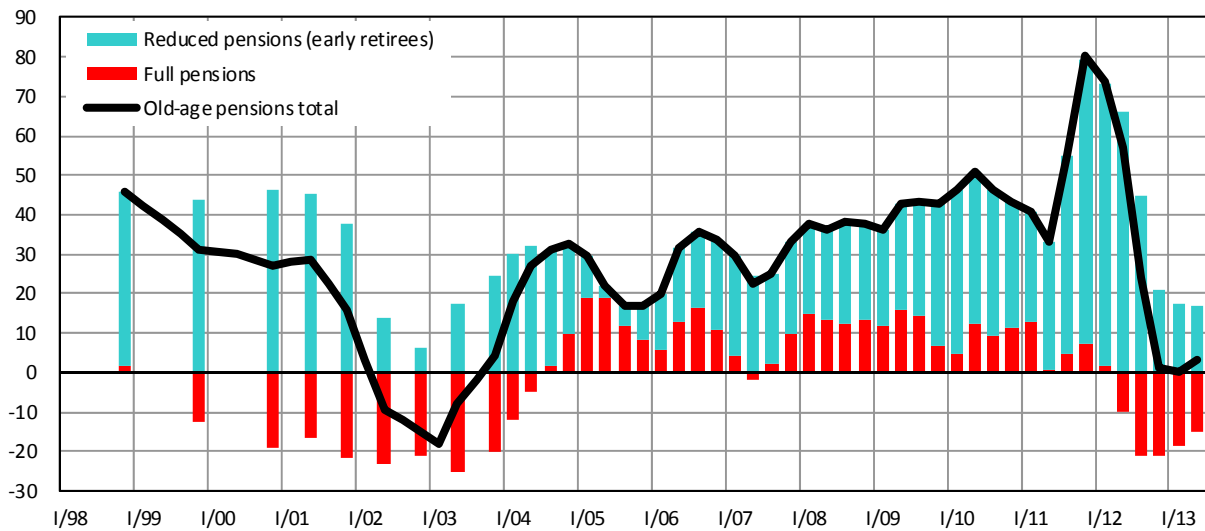


*Note: Transfer of disability pensions to old-age pensions for people over 64 years in 2010 is not included.*

# B  Economic Cycle

*Sources of tables and graphs: CNB, CZSO, EC, Eurostat, own calculations*

## B.1    Position within the Economic Cycle

*Potential product, specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of GDP to be achieved with average utilisation of production factors. Growth of the potential product expresses possibilities for long-term sustainable growth of the economy without giving rise to 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 analyse economic development and to calculate the structural balance of public budgets.*

*Under current conditions, when abrupt changes in the level of economic output have occurred, it is very difficult to distinguish the influence of deepening of the negative output gap from a slowdown in potential product growth. The results of these calculations display high instability and should be treated with caution.*

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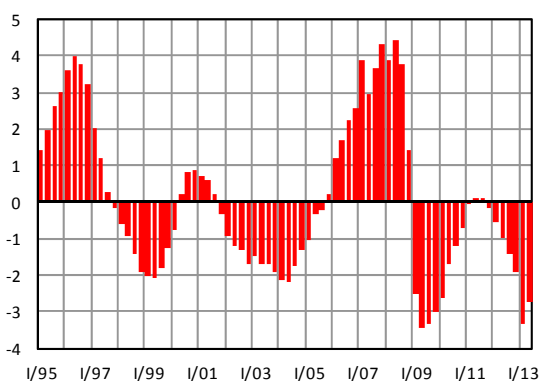


Graph B.1.2: **Potential Product Growth**
*in %, contributions in percentage points*
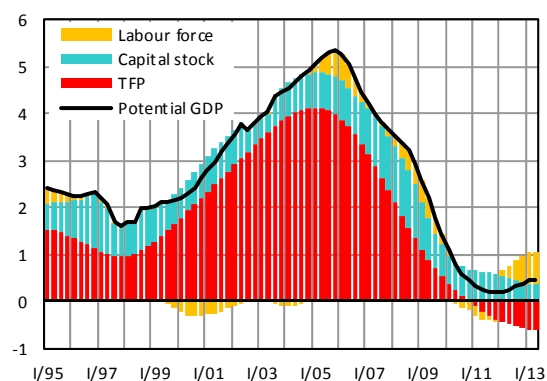


Graph B.1.3: **Potential Product and GDP**
*QoQ growth in %*
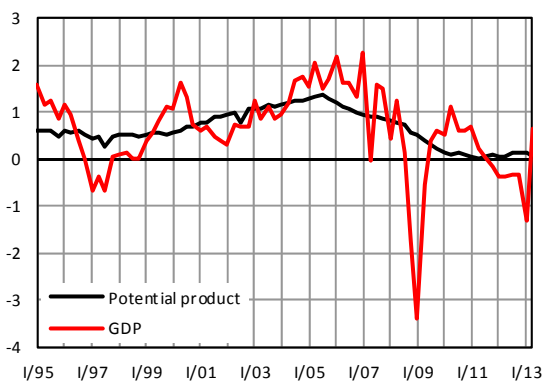


Graph B.1.4: **Levels of Potential Product and GDP**
*in bill. CZK of 2005*
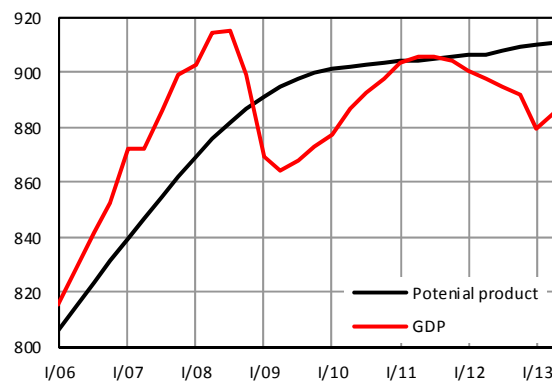


Graph B.1.5: **Capacity Utilisation in Industry**
*in %*
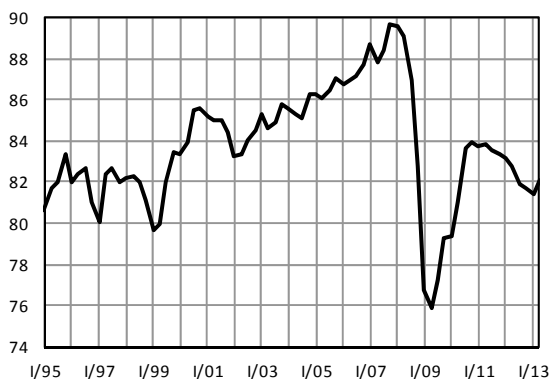


Graph B.1.6: **Total Factor Productivity**
*YoY growth in %*
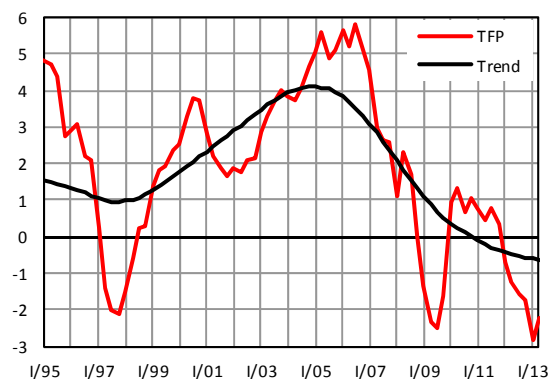
Table B.1: **Output Gap and Potential Product**

| | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 H1 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Output gap** | *per cent* | -1.8 | -0.3 | 1.9 | 3.7 | 3.4 | -3.1 | -1.6 | 0.0 | -1.2 | -3.0 |
| **Potential product** | *growth in %* | 4.7 | 5.2 | 4.9 | 3.9 | 3.3 | 2.0 | 0.7 | 0.2 | 0.3 | 0.4 |
| **Contributions:** | | | | | | | | | | | |
| −**Trend TFP** | *perc. points* | 4.0 | 4.1 | 3.6 | 2.7 | 1.7 | 0.8 | 0.2 | -0.3 | -0.5 | -0.6 |
| −**Fixed assets** | *perc. points* | 0.7 | 0.8 | 0.9 | 1.1 | 1.2 | 0.8 | 0.6 | 0.6 | 0.5 | 0.4 |
| −**Participation rate** | *perc. points* | -0.2 | 0.2 | 0.2 | -0.2 | 0.0 | 0.3 | 0.2 | 0.3 | 0.8 | 1.2 |
| −**Demography** [1] | *perc. points* | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 | 0.1 | -0.2 | -0.4 | -0.5 | -0.5 |

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

The so-called great recession at the turn of 2008 and 2009 plunged the Czech economy into a large negative **output gap**. Although it closed for a short time in Q2 2011 and Q3 2011 thanks to a slight recovery after the end of the great recession, the onset of another recession at the end of 2011 caused the output gap to widen once again to –3.3% in Q1 2013. Utilization of economic potential was as low as in Q2 2009 when the so-called great recession bottomed out. In Q2 2013, GDP lagged behind the potential by 2.8%.

Due to long periods of recession or sluggish economic growth, the YoY growth rate of **potential product** has been around 0.4% since 2011, according to our calculations. However, these estimates might in our opinion underestimate the reality.

The most seriously affected component of potential product is **total factor productivity**. In Q2 2013, TFP was 4.5% lower than at the peak of the cycle in Q3 2008, decreasing in QoQ terms since Q1 2011. Its trend component, derived from the Hodrick-Prescott filter, has been decreasing since mid-2010, which is reflected in the appreciably negative contribution of TFP to potential product growth. The fact that labour as a production factor enters the calculation in the form of the number of employed persons (which has been growing surprisingly strongly in spite of the recent long-lasting recession) and not in the form of the number of hours worked (which has been falling dramatically) plays a certain role here.

The decline in gross fixed capital formation, which has continued unabated since 2008, has led to a decline in the contribution of **capital stock** from 1.2 pp in 2008 to 0.4 pp in H1 2013.

**Labour supply** is affected by a reduction in the working-age population, caused by the population ageing process and by zero net migration. In H1 2013, demographic development slowed potential product growth by 0.5 pp.

Nonetheless, not only is the size of the labour force nondecreasing; it is even growing at a dramatic pace; in H1 2013 by 1.4% YoY. The negative impact of the decline in working-age population on labour supply is more than compensated by a sharp increase in the **participation rate** (ratio of the labour force to the population aged 15–64 years).

The effects within the age structure of the labour force are reflected here, with the structural proportions of age groups with high or growing participation (the demographic effect) increasing. We also see an increased motivation to work under difficult economic conditions supported by postponement of the retirement age (the participation effect). With a contribution of 1.2 pp, the participation rate remained the most important factor of potential product growth in Q1 2013 and Q2 2013.

# B.2  Business Cycle Indicators

*Business cycle indicators express respondents' views as to the current situation and short-term outlook and serve to identify in advance possible turning points in the economic cycle. Their main advantage lies in the quick availability of results reflecting a wide range of influences shaping the expectations of economic entities.[2]*

Graph B.2.1: **Industrial Confidence Indicator**
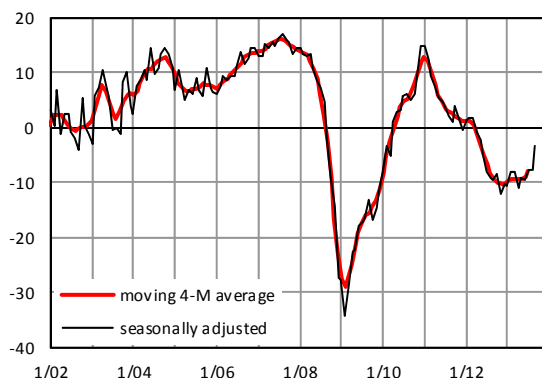


Graph B.2.2: **Construction Confidence Indicator**
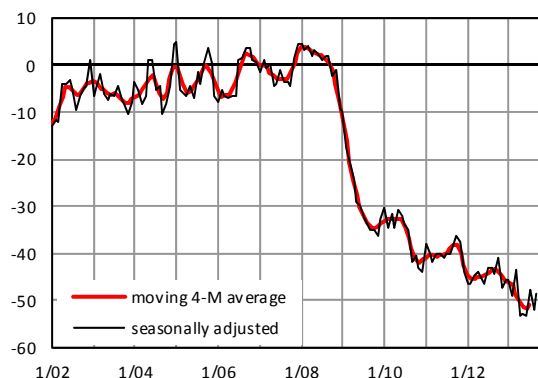


Graph B.2.3: **Retail Trade Confidence Indicator**
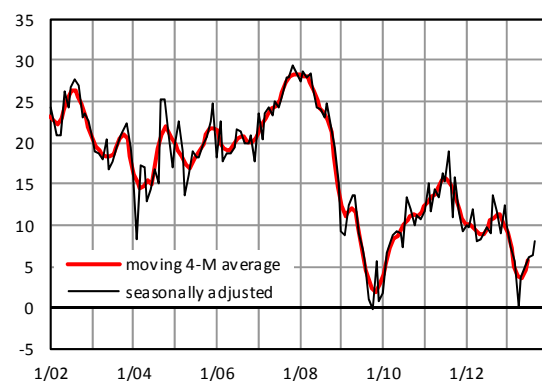


Graph B.2.4: **Selected Services Confidence Indicator**
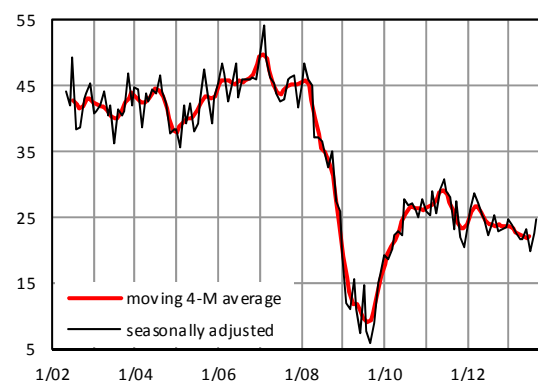


Graph B.2.5: **Consumer Confidence Indicator**
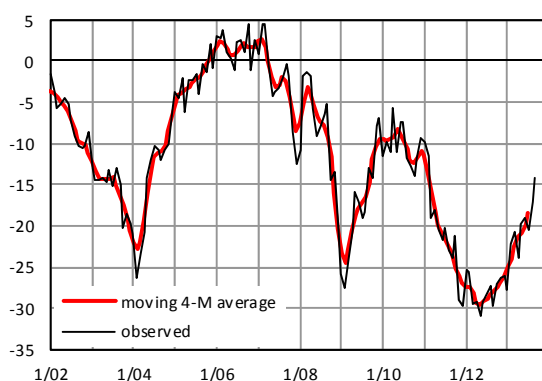


Graph B.2.6: **Aggregate Confidence Indicator**



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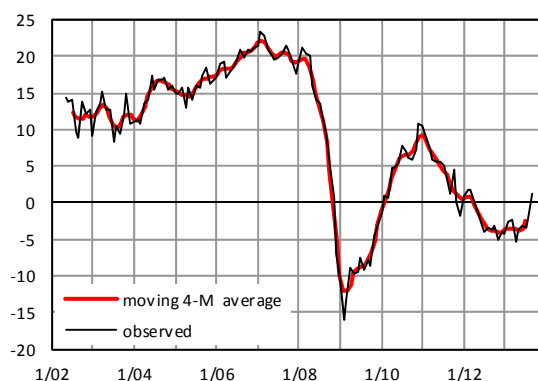
[2]  For the business cycle research methodology, see CZSO: http://www.czso.cz/eng/redakce.nsf/i/business_cycle_surveys.

In Q3 2013, compared with Q2 2013, the indicators in industry, construction, trade and selected sub-sectors of services improved slightly on average. However, this improvement was driven in particular by the development in September. The positive data published on QoQ GDP dynamics were probably reflected here.

In **industry,** the negative assessment has persisted, but the indicator improved in Q3 2013 relative to Q2 2013. Assessment of foreign demand improved, probably thanks to the positive development in the EU28 in Q2 2013. So far, the assessment of economic situation has not shown any convincing improvement, though.

The indicator for **construction** showed a slight QoQ improvement, though the assessment of respondents was overwhelmingly pessimistic. The 3-month outlook for total demand, which for this sector enters the calculation of the leading indicator, improved slightly.

The total indicator for **trade** increased on a QoQ basis. Moreover, positive responses among respondents were prevalent. The assessment of economic situation improved slightly, but the 3-month outlook for employment did not record any convincing movement.

The indicator for selected **service sectors** stagnated in QoQ terms, though the respondents responded mostly positively. The 3-month outlook for employment improved slightly.

**Consumer** confidence witnessed relatively stable growth in its value, but the assessment of respondents continued to be mainly negative.

The **composite confidence indicator** witnessed a QoQ increase in Q3 2013. Thanks to a very slight prevalence of respondents' positive replies, its September balance was even positive (see Graph B.2.6).

Although the relationship between the values of the composite confidence indicator and the QoQ changes in real gross domestic product is not particularly close (without any lag their mutual correlation is approximately 60%), it does at least enable us to utilize the fact that the composite indicator is published in advance of quarterly national accounts. In Graph B.2.7 we present only a qualitative graphic appraisal. It is clear that for Q3 2013, the composite confidence indicator signalled QoQ growth of GDP.

For Q2 2013, the composite leading indicator signalled a decrease in the relative cyclical component of GDP and a QoQ GDP decline, which the published data did not confirm. Part of the deviation can be attributed to the influence of stockpiling cigarette tax stamps as the

excise tax on tobacco and cigarettes was increased on 1 January 2013. This one-off effect contributed negatively to GDP development in Q1 2013, though in Q2 2013 its effect was positive. The composite leading indicator cannot capture these one-off effects. Another part of the deviation was probably caused by the surprisingly positive development of the European economy in Q2 2013. Last but not least, the estimate of the end of the relative cyclical component is affected by error depending on the method of estimate (the problem of the end point); this is considerably intensified by the fact that the currently published GDP data are certainly not definitive. With subsequent publications of the national accounts data, the course of the estimated relative cyclical component is thus most likely to undergo substantial revisions.

Graph B.2.7: **Composite confidence indicator and QoQ GDP growth**
*2005=100 (lhs), QoQ GDP growth in % (rhs)*
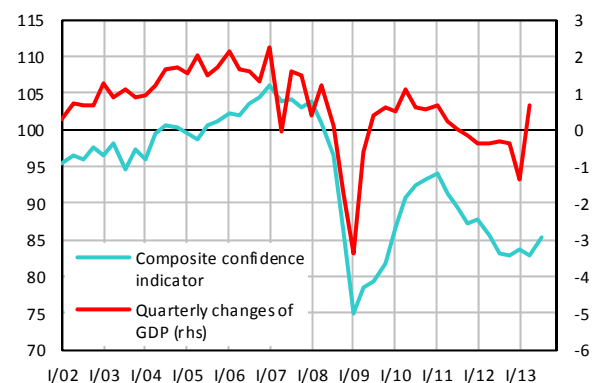


For Q3 and Q4 2013, the indicator signals closing of the negative output gap. With regard to the fact that the trend dynamics can be considered in the short term as approximately constant, this signal is consistent with a QoQ growth of GDP in H2 2013. At the very least, however, QoQ growth of GDP in Q3 2013 should not be higher than in Q2 2013.

Graph B.2.8: **Composite Leading Indicator**
*average 2005=100 (lhs), in % of GDP (rhs)*
*synchronized with cyclical component of GDP based on statistical methods (Hodrick-Prescott filter)*
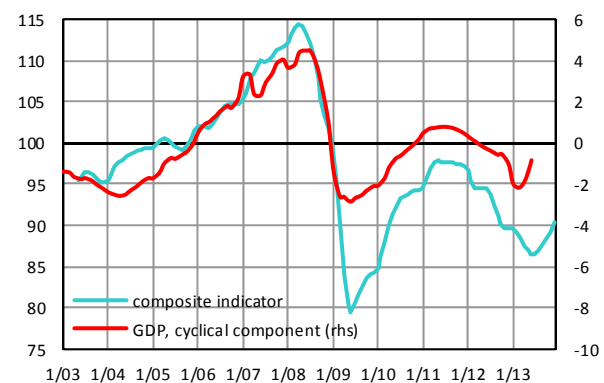
# B.3   Business Cycle Indicators in the EU

In Q3 2013, the composite confidence indicator (ESI) published by the EC for the EU28 recorded a sharp increase. All components of the indicator witnessed considerable improvement, partially in response to the positive GDP development in Q2 2013, though this also points to a similarly positive QoQ GDP growth in the EU28 in Q3 2013.

In Q3 2013, the composite confidence indicator rose in Germany, France, Italy and Slovakia. After the previous correction, optimism is once again returning to the economies of the main trading partners of the Czech Republic. This was also confirmed by the composite

Purchasing Managers Index (PMI) in Germany. In September, the PMI reached its 8-month maximum of 53.8.

For Q4 2013, the composite leading indicator signals growth of the positive relative cyclical component of GDP in Germany and the EU as a whole. Considering the stable short-run dynamics of potential product, supported by the European Commission's estimate of the output gap for 2013, the closing of the negative output gap in the production function methodology can be explained by a continuation of the economic recovery in H2 2013.

Graph B.3.1: **ESI and GDP Growth in the EU**
*indicator – quarterly averages, QoQ growth in %, sa data*
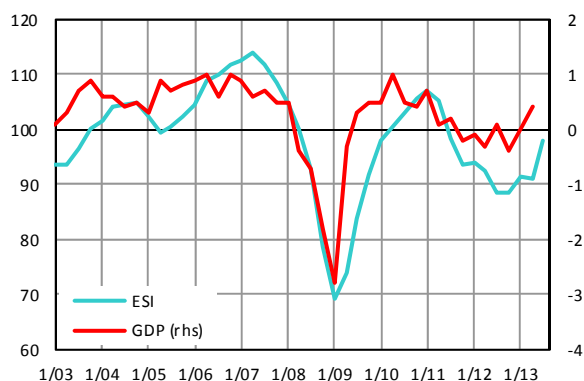


Graph B.3.2: **ESI in Selected Trading Partner Countries**
*3-month moving averages*
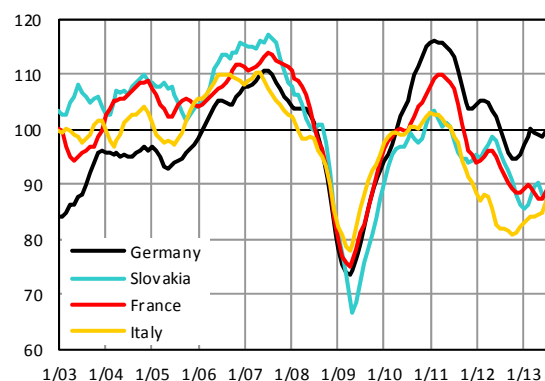


Graph B.3.3: **Composite Leading Indicator** – EU
*monthly data, 2005=100, cyclical component in % of trend GDP*
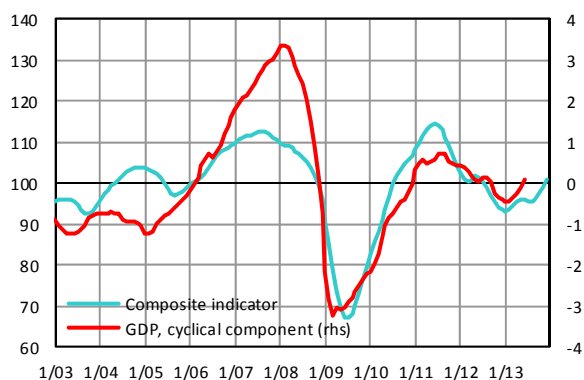


Graph B.3.4: **Composite Leading Indicator** – Germany
*monthly data, 2005=100, cyclical component in % of trend GDP*
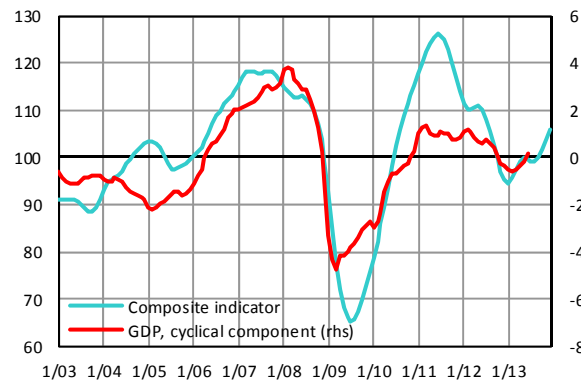
# C Forecast of the Development of Macroeconomic Indicators

*Sources of tables and graphs: CZSO, Ministry of Labour and Social Affairs*

## C.1 Economic Output

**Latest development of GDP**

In Q2 2013, real GDP[3] decreased by 1.3% YoY (*versus 1.9%*); in a QoQ comparison this represented growth of 0.6% (*versus stagnation*). The economy has emerged from a recession lasting since Q4 2011. Nonetheless, considering the still deeply negative output gap, such observation is of a purely formal character.

From the perspective of expenditures on GDP, the aforementioned QoQ growth of GDP was driven by foreign trade balance and change in inventories and valuables. The positive development in foreign trade balance was driven by an unexpected recovery of the European economy as well as weak domestic demand, which hampered imports. Any real-time interpretation of the development of the change in inventories and valuables is more or less a speculation, considering the frequency and extent of revisions of this item.

From YoY perspective, the aforementioned real decline in GDP resulted from a negative development of gross capital formation, involving both a real decrease of gross fixed capital formation and a negative YoY change in inventories and valuables. The contribution of household consumption was positive, but low. Hence, domestic demand continues to be very weak.

A slight improvement of economic activity in Q2 2013 can also be documented by the development of gross value added, which increased by 0.4% QoQ, i.e. less than GDP. Gross value added fell by 0.8% YoY in real terms. From this perspective, the unexpectedly high QoQ increase in GDP can be partially interpreted as a consequence of the volatility of the balance of net taxes in relation to stockpiling cigarette tax stamps during a change in the excise tax rate.

As part of expenditures on final consumption, household consumption increased by 0.1% (*versus a decrease of 0.9%*), while government consumption increased by 1.8% YoY (*versus 0.3%*). Both a decrease in gross fixed capital formation of 5.0% (*versus 5.2%*) and a decline in inventories and valuables with a contribution to GDP growth of −2.1 pp (seasonally adjusted) contributed to a strong YoY decrease of gross capital formation of 14.0% (*versus 7.7%*).

In Q2 2013, exports also increased by 0.5% (*versus a decrease of 0.3%*) while imports went down by 1.7% (*versus 0.8%*) in real terms.

Real household consumption increased YoY in Q2 2013, yet after a QoQ growth in Q1 2013 it fell by 0.1% QoQ. Considering the structure, the YoY real increase in household consumption was caused by a growth of expenditure on durable goods and on services. We should remember, however, that expenditures on durable goods are very volatile.

In the aforementioned period, gross fixed capital formation saw a real deterioration both in a QoQ and YoY comparison. There was simultaneously a further YoY real decline in all key types of investment. By simply observing investment development it is clear that domestic demand continues to be very weak.

Foreign trade contributed 1.6 pp (seasonally adjusted) to GDP growth, amid an improvement in the terms of trade. In Q2 2013, real gross domestic income thus decreased relatively less than GDP, specifically by 0.5% (*versus 1.9%*).

In nominal terms, GDP increased by 0.2% (*versus a decrease of 1.5%*) in Q2 2013.

Considering the GDP income structure, compensation of employees increased by 0.4% (*versus 1.0%*) in Q2 2013, with the total wage bill increasing by 0.1% (*versus 1.0%*). At the same time, the gross operating surplus and mixed income increased by 0.8% (*versus a decrease of 4.5%*). Taking into account inflation dynamics, however, the aforementioned nominal growth continued to represent a negative impulse for the development of households' real disposable income.

Between publishing the quarterly national accounts on 3 September 2013 and the preliminary report of the annual national accounts for 2012 on 1 October 2013 (the latter is also reflected in the modification of the quarterly national accounts) there were certain shifts in the GDP structure. Considering the fact that the set of data of 3 September 2013 entered as a data source in the preparation of the macroeconomic framework of the draft state budget for 2014, we consider it important to point out these changes, which are summarized in Table C.1.1.

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[3] *QoQ changes referred to in the text are expressed using seasonally adjusted data; in all other cases seasonally unadjusted data is used.*

## Table C.1.1: **Revision of GDP and its Components**
*YoY growth rates in %, differences in p.p.*

|  |  | 2012 | 2013 H1 |
|---|---|---|---|
| **GDP** | Oct 2013 | -1.0 | -2.1 |
| *constant prices* | Sep 2013 | -1.2 | -2.1 |
|  | *difference* | *0.2* | *0.0* |
| **Private consumption expenditure** | Oct 2013 | -2.1 | -0.7 |
| *constant prices* | Sep 2013 | -2.7 | -0.2 |
|  | *difference* | *0.5* | *-0.4* |
| **Government consumption exp.** | Oct 2013 | -1.9 | 1.5 |
| *constant prices* | Sep 2013 | -1.2 | 1.2 |
|  | *difference* | *-0.7* | *0.3* |
| **Gross fixed capital formation** | Oct 2013 | -4.5 | -5.7 |
| *constant prices* | Sep 2013 | -2.7 | -5.8 |
|  | *difference* | *-1.8* | *0.1* |
| **Exports of goods and services** | Oct 2013 | 4.5 | -2.4 |
| *constant prices* | Sep 2013 | 4.0 | -1.4 |
|  | *difference* | *0.4* | *-1.0* |
| **Imports of goods and services** | Oct 2013 | 2.3 | -3.3 |
| *constant prices* | Sep 2013 | 2.3 | -2.1 |
|  | *difference* | *0.0* | *-1.2* |
| **GDP** | Oct 2013 | 0.6 | -0.5 |
| *current prices* | Sep 2013 | 0.2 | -0.8 |
|  | *difference* | *0.4* | *0.3* |
| **Compensation of employees** | Oct 2013 | 1.8 | -0.1 |
| *current prices* | Sep 2013 | 1.5 | 0.1 |
|  | *difference* | *0.4* | *-0.3* |
| **Gross operating surplus and mixed income** | Oct 2013 | -1.2 | -0.1 |
|  | Sep 2013 | -1.6 | -1.5 |
| *current prices* | *difference* | *0.5* | *1.4* |

### GDP forecast

The forecast for GDP and its expenditure components is influenced by risk factors similar to those in the July Forecast; nonetheless, medium-term external risks have decreased.

Based on the data on the development of individual GDP expenditure components, the sources of gross value added and business cycle indicators, we assume that the relatively strong QoQ increase in real GDP in Q2 2013 will not repeat in Q3 2013 or Q4 2013. As in the last forecast, we expect the economy to recover slowly in H2 2013. For the whole of 2013, we forecast a decrease in real GDP of 1.0% (*versus 1.5%*); in 2014 GDP is expected to increase by 1.3% (*versus 0.8%*). With respect to the structure of expenditures on GDP, the change in the forecast for 2014 results from an increase in the contribution of gross domestic expenditure to GDP growth. We assume that as a

consequence of the planned support for several investment in infrastructure, the announced wage increases in certain segments of the government sector and their possible effect on the wage bill in the private sector, the development of gross fixed capital formation and household consumption will be slightly better than in the July Forecast. The positive contribution of the foreign trade balance has remained unchanged.

In H1 2013, household consumption was also negatively influenced by the development of households' real disposable income in consequence of tensions on the labour market as well as the resulting restricted pressure on the growth of nominal wages. We expect that this factor will also have an effect in H2 2013 and forecast an increase in household consumption of only 0.2% (*versus a decrease of 0.8%*), whereby the difference arises in particular from an increase in the dynamics of nominal wages. At the same time, we expect stagnation of the gross savings rate at 10.5%[4]. In 2014, we forecast an increase in household consumption of 0.9% (*versus 0.4%*). In addition to the aforementioned reasons, the change in the forecast is also caused by a modification of the inflation rate forecast.

We expect government consumption to grow by 0.8% (*versus 0.5%*) in 2013 and by 0.2% (*versus a decrease of 0.9%*) in 2014. The change in the forecast in 2014 reflects the draft state budget.

We understand the decrease in gross fixed capital formation to be the result of weak domestic demand and the low dynamics of internal resources for financing investment projects. This is discernible from the development of gross operating surplus, and the low contribution of government investment. In 2013, we forecast a decrease in real gross capital formation of 7.9% (*versus 5.7%*), with a decline in investment in fixed capital of 4.8% (*versus 4.3%*). The main modification to the July Forecast is based on a more pessimistic view of the development of change in inventories and valuables. For 2014, we forecast an increase in gross capital formation of 0.9% (*versus 1.3%*), while gross fixed capital formation should decrease by 0.8% (*versus 0.6%*).

In 2013, the negative contribution of gross domestic expenditure to GDP growth will be mitigated by the positive contribution of foreign trade. We predict a

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[4] *The gross household savings rate for 2012 was decreased by the aforementioned data revision from 11.2% to 10.8%. Thus the statement that low consumer confidence was reflected in a big increase in the savings rate becomes more relative. In H1 2013, there was even a YoY decrease in the savings rate of 0.3 pp.*

negligible decrease in real exports in 2013 of 0.1% (*versus 1.1%*) and a decrease in imports of 0.9% (*versus 1.4%*). This improvement of the forecast of the foreign trade contribution is based on the quicker recovery of the economies of our main trading partners.

## C.2 Prices

**Consumer prices**

The YoY growth of consumer prices reached 1.0% (*versus 1.5%*) in September. This was predominantly caused by administrative measures, of which 0.9 pp reflect the increase in indirect taxes and 0.3 pp reflect the impact of changes in regulated prices. Market influences thus decreased YoY inflation. The continuing disinflation is not in line with the July Forecast, and the contributions of both market and administrative influences have a share in the forecast error.

With respect to the contribution of individual divisions of the consumer basket to YoY inflation in September, the largest came from food and non-alcoholic beverage prices (0.7 pp), which have been showing the highest YoY dynamics (4.6% in September) of all divisions of the consumer basket right from the beginning of the year.

In Q4 **2013,** administrative measures will probably continue to be the determining influence in YoY inflation; we estimate their contribution to the December YoY growth of consumer prices of 1.2% (*versus 1.8%*) to be 1.1 pp (*versus 1.3 pp*). The **average inflation rate** should reach 1.4% (*versus 1.6%*) in 2013.

**The year 2014** should be marked with very low inflation, the forecast for which we have decreased, compared to the July forecast, in particular due to new information on the contributions of administrative influences.

The major element regarding the revision is the different assumption regarding the development of regulated prices, in particular electricity prices. If we ignore the hypothetical rent of owners, which is a specific item, the electricity subindex is the biggest individual item in the consumer basket, and will be affected by considerable price changes that should be made at the beginning of next year in three main parts of the total electricity price, excl. VAT. The non-regulated price of power electricity will very probably fall markedly in relation to price development at energy exchanges; the distribution price will most probably be decreased by the Energy Regulation Office in line with its price decision; and a ceiling of CZK 495/MWh (the contribution is CZK 583/MWh this year)

has been set out in new legislative measures for the contribution to renewable energy sources that is paid by consumers.

Based on the aforementioned facts and assumptions, we expect that the contribution of administrative measures to the YoY growth of consumer prices will be 0.1 pp (*versus 0.6 pp*) in December, of which −0.5 pp should account for electricity and 0.2 pp for an increase in excise taxes on cigarettes. Administrative measures should even decrease the YoY inflation in H1 2014 (see Graph C.2.2).

Total YoY inflation in H1 2014 should be very low, even far below the lower limit of the tolerance band of the CNB's inflation target. However, we do not assume that the Czech economy will be exposed to risks of any longer term deflationary development. It follows from the CNB's and the EC's surveys of inflation expectations that economic entities do not expect decreasing price levels. On the contrary, low inflation should have a positive impact on household consumption.

In connection with the aforementioned facts, we assume the **average inflation rate** in 2014 to reach only 0.7% (*versus 1.4%*), with December YoY growth of 1.4% (*versus 1.8%*).

The inflation forecast also reflects information that was not known at the closing date of the macroeconomic framework of the state budget for 2014 (for example, the consumer price index for September 2013 and the notification from several electric energy distributors of a significant decrease in power electricity prices). Considering the assumptions previously made (see Chapter A.3), when forecasting inflation, the risk of a CNB intervention to depreciate the Czech koruna could not be taken into account.

**Deflators**

**Gross domestic expenditure deflator,** a comprehensive indicator of domestic inflation, grew by 0.7% (*versus 0.3%*) YoY in Q2 2013.

In 2013, the gross domestic expenditure deflator could grow by 0.8% (*versus 0.6%*); for 2014 we predict the deflator to grow by 0.6% (*versus 1.1%*).

We expect that in 2014 exports will grow in real terms by 3.3% (*versus 2.9%*) and imports by 2.7% (*versus 2.4%*).

The **implicit GDP deflator** grew by 1.6% YoY (*versus 0.4%*) in Q2 2013. The substantial difference from the forecast was due to a relatively strong improvement (growth) of the terms of trade of 1.2% (*versus 0.1%*).

The GDP deflator could increase by 1.2% (*versus 0.6%*) in 2013; for 2014 we predict a growth of 0.5% (*versus 0.9%*). For the time being, we do not expect that the strong growth in terms of trade seen in H1 2013 will repeat within the forecast horizon.

# C.3  Labour Market

The labour market in the past recession behaved remarkably flexibly, even if such behaviour was not standard from the macroeconomic perspective. In line with expectations, the number of registered unemployed persons increased, although not too significantly. At the same time, however, in particular thanks to an increase in the number casual jobs undertaken due to an immediate need to raise income, employment was increasing (measured by the number of persons).

**Employment**

According to the Labour Force Survey (LFS), **employment** grew by 1.3% YoY (*versus 0.7%*) in Q2 2013, in particular thanks to a continuing increase in the tertiary sector. The secondary sector continued to decline, mainly in manufacturing and construction.

The number of employees increased considerably by 2.4% (*versus 0.8%*), probably again due to an increase in flexible forms of work, enabling employers to employ persons casually (both formally and informally) according to their current orders. Such change in the form of employment can be seen in a decrease in the number of active employees by 1.2% (full-time equivalent).

Future development in this area is extraordinarily uncertain. The labour supply will probably remain high (see the economic activity below). The demand will depend both on the intensity of economic recovery and the economic situation of the business sphere in relation to the need to increase labour productivity.

Unfavourable economic conditions have been seen in the continuing decrease in the number of employers (since mid-2011).

With regard to the situation on the labour market, after taking into account the result of H1 2013, we expect an increase in employment of 1.2% (*versus 0.5%*) in 2013. For 2014, we expect gradual

rationalization of the number of employees. The approved increase in jobs in the government sector (in the armed forces, labour offices and financial control) should contribute to an increase in employment of 0.4% (*versus a decrease of 0.2%*).

Graph C.3.1: **Employment** – different statistics
*YoY change in %, business statistics in full-time equivalent*
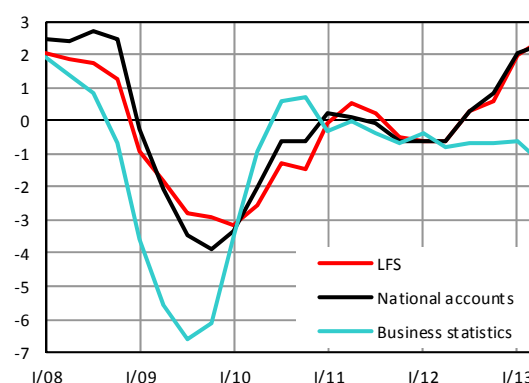


Since mid-2010, growth of the **employment rate** of the population aged 15–64 has been accelerating, irrespective of economic output. In Q2 2013, it increased by 1.3 pp YoY to 67.8% (*versus 67.4%*).

The increase in the employment rate was the most significant in the age category of 55–64 years and for persons with a university degree. According to the CZSO's most recent surveys, this trend can be expected to continue.

The **economic activity rate** (15–64 year-olds) grew by 1.7 pp YoY to 73.0% (*versus 72.7%*) in Q2 2013. This growth reflects in particular the increased motivation of households to compensate by formal and informal gainful activities for an actual (or expected) decrease in real disposable income.

In addition to an increase in work activity, a change in the demographic structure has contributed considerably (and will continue to contribute considerably in the next few years) to an increase in the participation rate (see Chapter B.1).

## Unemployment

Various indicators of unemployment provide a rather contradictory view of its development (see Graph C.3.2).

Graph C.3.2: **Indicators of Unemployment**
*seasonally adjusted data, registered unemployment in thousands of persons, unemployment rate (LFS) and share of the unemployed aged 15–64 (Ministry of Labour and Social Affairs) in %*
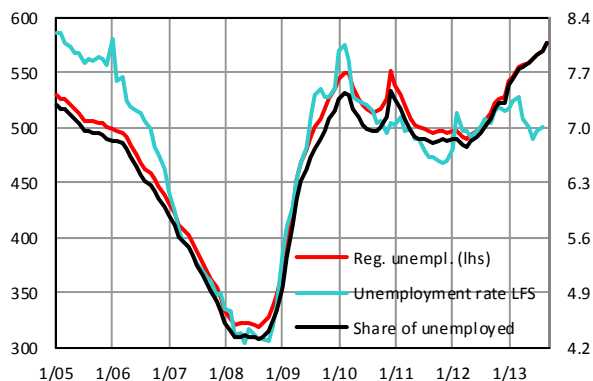


The tendency for the **seasonally adjusted registered unemployment** to grow was confirmed in Q3 2013. Considering the length and depth of the recession, the increase in unemployment is not critical, but since March 2013 the level of seasonally adjusted unemployment has been exceeding the historical maxima.

The fact that unemployment growth (including long--term unemployment) is more pronounced in lower age categories poses a new problem. The higher than usual number of new job applicants among graduates suggests that they are more poorly prepared to actively enter the labour market. A major social problem is the increase in the average duration of registered unemployment, already approaching 12 months.

In order to interpret the **unemployment rate according to the LFS**, it is necessary to take into consideration the definition of the unemployed person, i.e. someone who did not work even one hour during the reference week, was actively seeking employment and was able to start working within 14 days. By this definition, many registered unemployed persons can be considered as employed thanks to the possibility of gainful activities limited by time and remuneration. Under the conditions of an increase in the number of part-time and casual jobs, it is obvious that unemployment according to the LFS shows lower dynamics.

The LFS unemployment rate reached 6.7% (*versus 7.2%*) in Q2 2013. In a YoY comparison this represented stagnation. However, the sudden sharp QoQ decrease of 0.3 pp on seasonally adjusted data, the exact cause

of which we are not able to identify, is of course surprising (see Graph C.3.2).

As a consequence of the lower than expected increase in the number of unemployed persons according to the LFS in Q2 2013, we forecast only a slight increase in the unemployment rate to 7.1% (*versus 7.5%*) in 2013 and to 7.3% (*versus 7.6%*) in 2014, when the seasonally adjusted unemployment rate should peak.

## Wages

In contrast to the previous two quarters, the wage increase in Q2 2013 was no longer influenced by legislative or administrative changes. Generally, the cautious behaviour of enterprises and institutions in terms of remuneration has not changed. Higher income (functional) categories have continued to contribute to a moderate growth of wages.

In Q2 2013, the **average** nominal **wage** (business statistics, full-time equivalent) increased by 1.2% (*versus 1.0%*). In the business sphere, influenced by the current situation on the market, the average wage increased by 1.1% in nominal terms (a decrease of 0.4% in real terms), mainly due to an increase in the share of extraordinary bonuses (except for the industry and transport segments); the influence of overtime work further decreased. In the non-business sphere, the average nominal salary increased by 1.9% (by 0.4% in real terms). The rise in public administration and education that contributed considerably to this increase was limited however to Q2 2013, as it resulted in particular from bonuses paid out to employees with higher incomes.

Taking into account the data for Q2 2013 in combination with the changed outlook for the economic situation has resulted in a modification of the estimate for a YoY growth of the nominal wage in 2013 of 0.9% (*versus 0.8%*). We are not changing our forecast for 2014 of 2.3%, since in addition to a quicker growth of the wage bill we also expect higher employment dynamics.

In Q2 2013, **wage bill** (national accounts methodology, domestic concept) increased by only 0.1% (*versus 1.0%*). This wage bill stagnation is a consequence of the difficult income situation of the business sphere following the recession.

For 2013, we expect a slight increase in the wage bill of 0.8% (*versus 0.7%*). For 2014, in the context of both a slow gradual improvement in the economic situation and the government decision to increase funds for salaries in the budgetary sphere by 2%, we assume a growth in the wage bill of 2.5% (*versus 2.1%*).

# C.4 External Relations

*(balance of payments methodology)*

In Q2 2013, the external imbalance, expressed as a ratio of the current account balance to GDP, reached in annual terms −2.0% (*versus −2.3%*), thus deteriorating by 0.5 pp YoY. The income balance deficit deepened by 2.4 pp; on the other hand, the trade balance surplus increased by 1.5 pp. The balance of transfers improved by 0.3 pp, the balance of services by 0.1 pp.

Export markets[5], whose dynamics have been decreasing for two years in connection with the deteriorated external environment, decreased by 0.2% in Q1 2013. In Q2 2013, growth was again recorded, even if for the time being it is somewhat symbolic (0.2%). This improvement has not been reflected in foreign demand: exports to the most important partner countries are generally stagnant. We forecast a change to a gradual recovery of foreign trade and more significant growth of export markets not sooner than at the end of 2013. In 2013, export markets are expected to grow by 0.6% (*versus a decrease of 1.3%*). For 2014, we anticipate again seeing a slight recovery in the global economy, accompanied with a growth of export markets of 2.7% (*versus 2.2%*). Export performance, indicating a change in the share of the volume of Czech goods on foreign markets, should decline by 0.8% (*versus an increase of 0.1%*) this year, but it could grow again by approximately 0.7% (*versus 0.8%*) next year.

For H2 2013, with an improvement in the external environment and gradual growth of domestic demand, we expect an increase in the volume of foreign trade in goods. We estimate that the trade balance surplus will reach 4.7% of GDP (*versus 4.0%*) in 2013 and 5.0% of GDP (*versus 4.1%*) in 2014.

The deficit in the fuel balance (SITC 3) reached 4.9% (*versus 4.8%*) of GDP in annual terms for Q2 2013.

With regard to crude oil prices, we assume that in the course of 2013 and 2014 prices of fuel will decrease and the deficit in the fuel balance will slightly fall. We estimate it will reach 4.8% of GDP (*versus 4.7%*) in 2013 and 4.6% of GDP (*versus 4.4%*) in 2014.

In the course of H1 2013, incomes and expenditure of all components of the balance of services increased. After more than two years the active balance increased slightly. The biggest factor in this development was the sharp increase in incomes from so-called other services. The total surplus in the services balance in Q2 2013 increased in annual terms by 0.1 pp to 1.5% of GDP (*versus 1.4%*). This year, the surplus in the services balance could remain at 1.5% of GDP (*versus 1.4%*), while in 2014 it could increase slightly to 1.6% of GDP (*versus 1.5%*).

The income balance deficit, which includes the reinvested and repatriated earnings of foreign investors, deepened in Q2 2013 in annual terms by 2.4 pp YoY and reached 8.0% of GDP (*consistent with the forecast*). It was caused by a considerable increase in the outflow of investment income in the form of dividends paid out to foreign owners of domestic direct investments. The balance of compensations to employees nonetheless improved, although this has considerably less impact on the total income balance. We expect the income balance deficit to deepen further, even if only slightly. This year, it could reach 8.1% of GDP (*versus 8.2%*) and 8.2% of GDP (*versus 8.3%*) in 2014.

Under the given circumstances, we assume that there will be an improvement in the current account balance in 2013 to −1.7% of GDP (*versus −2.3%*); we expect to see a current account deficit of 1.4% of GDP (*versus 2.4%*) in 2014. A current account deficit at this level poses no risk in terms of macroeconomic imbalances.

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[5] *Weighted average of the increase in the import of goods for the six most important trading partners (Germany, Slovakia, Poland, France, United Kingdom and Austria).*

# C.5   International Comparisons

*Comparisons for the period up to and including 2012 are based on Eurostat statistics. Since 2013, our own calculations have been used on the basis of real exchange rates.*

*Using the purchasing power parity method, comparisons of economic output for individual countries within the EU are made in PPS (purchasing power standards). PPS is an artificial currency unit expressing a quantity of goods that can be bought on average for one euro on EU27 territory after converting the exchange rate for countries using currency units other than the euro. Using updated Eurostat data, the purchasing power parity of the Czech Republic in 2012 was CZK 18.03/PPS compared to the EU27, or CZK 17.31/EUR compared to the EA12.*

In 2009, as a result of the recession GDP per capita adjusted by **current purchasing power parity** declined in all monitored countries, with the exception of Poland. While most states have gradually recovered from the crisis, in Greece the absolute economic level has continued to fall for the fifth year in a row. A slight decrease also occurred in Croatia in 2010, in Portugal in 2011 and 2012 and in Slovenia in 2012. In addition to the decrease in the absolute level, the relative economic level vis-à-vis the EA12 countries also declined in these countries. The biggest decline was observed in Greece, whose relative level was more than 16 pp lower than in 2009. In contrast, the economic level is increasing most quickly, compared to the average of the EA12 countries, in the Baltic States. However, in 2013 and 2014 the speed of real convergence is expected to slow down slightly.

In the Czech Republic, the economic level measured by GDP per capita adjusted by current purchasing power parity was approximately 20,300 PPS in 2012, corresponding to 73% of economic output in the EA12. Since 2010, the Czech Republic has been experiencing stagnation in its relative economic level. This period succeeded the period of convergence during 2000–2007, when the country's relative economic level vis-à-vis the EA12 countries increased by 13 pp. With regard to GDP dynamics, the relative economic level of the Czech Republic vis-à-vis the EA12 should not change either in 2013 or 2014.

GDP per capita, when adjusted for the **exchange rate**, takes into account the market valuation of the currency and the ensuing differences in price levels. In the case of the Czech Republic, this indicator was approximately EUR 14,600 in 2012, i.e. half the level of the EA12. Because of the expected depreciation of the koruna toward the euro, in 2013 we are forecasting a slight decrease in both absolute and relative levels.

When comparing price levels, the **comparative price level of GDP** in the Czech Republic decreased by 1 pp in 2012, thus reaching 69% of the EA12 average. The expected slight decrease in the price level by a further 2 pp in 2013 should help maintain the competitiveness of the Czech economy.

# D Monitoring of Other Institutions' Forecasts

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

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

Table D.1: **Consensus Forecast**

|  |  | October 2013 | | | October 2013 |
| --- | --- | --- | --- | --- | --- |
|  |  | *min.* | *max.* | *consensus* | *MoF forecast* |
| **Gross domestic product** (2013) | growth in %, const.pr. | -1.5 | -0.4 | -0.8 | -1.0 |
| **Gross domestic product** (2014) | growth in %, const.pr. | 1.3 | 2.1 | 1.7 | 1.3 |
| **Average inflation rate** (2013) | % | 1.4 | 1.8 | 1.6 | 1.4 |
| **Average inflation rate** (2014) | % | 1.2 | 1.8 | 1.4 | 0.7 |
| **Average monthly wage** (2013) | growth in % | 0.4 | 1.2 | 0.9 | 0.9 |
| **Average monthly wage** (2014) | growth in % | 2.2 | 2.6 | 2.4 | 2.3 |
| **Current account / GDP** (2013) | % | -3.0 | -0.6 | -1.5 | -1.7 |
| **Current account / GDP** (2014) | % | -2.9 | -0.5 | -1.3 | -1.4 |

Forecasts of the monitored institutions predict on average a decrease in GDP in 2013 of 0.8%. Nonetheless, they are already envisaging economic growth of 1.7% in 2014. The MoF's forecast is slightly more conservative for both aforementioned years.

According to the average of the forecasts of monitored institutions, consumer prices growth is expected to be around 1.5% in 2013 and 2014. In contrast, the MoF envisages a considerably lower average inflation rate in 2014. This variance is probably largely caused by different assumptions for the development of electricity prices in 2014 (see Chapter C.2).

According to the forecasts of the monitored institutions, in 2013 and 2014 the average wage should increase by 0.9% and 2.4%, respectively. The forecast of the MoF is in line with both estimates.

According to the opinion of the monitored institutions, the current account deficit of the balance of payments should be around 1.4% of GDP in 2013 and 2014. Also according to the MoF's forecast, the current account deficit of the balance of payments should remain at a sustainable level, posing no risk in terms of macroeconomic imbalances.

Graph D.1: **Forecast of Real GDP Growth for 2013**
*in %; the horizontal axis shows the month, in which the monitoring was conducted*
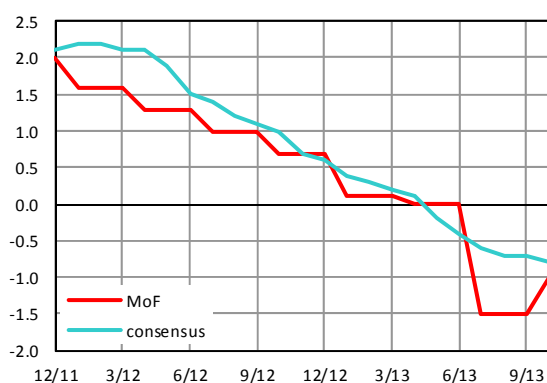
Graph D.2: **Forecast of Average Inflation Rate for 2013**
*in %; the horizontal axis shows the month, in which the monitoring was conducted*
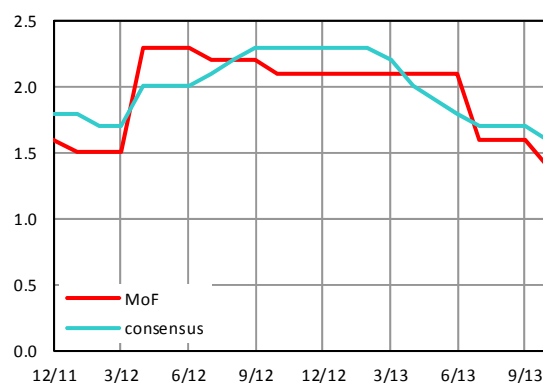
# Tables and Graphs:

## C.1 Economic Output

*Sources: CZSO, MoF estimates*

Table C.1.2: **Real GDP by Type of Expenditure** – yearly
*chained volumes, reference year 2005*

| | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Prelim. | 2013 Forecast | 2014 Forecast | 2015 Outlook | 2016 Outlook |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross domestic product** | bill. CZK 2005 | 3526 | 3635 | 3471 | 3557 | 3622 | 3585 | 3550 | 3598 | 3678 | 3779 |
| | growth in % | **5.7** | **3.1** | **-4.5** | **2.5** | **1.8** | **-1.0** | **-1.0** | **1.3** | **2.2** | **2.7** |
| **Private consumption exp.**[1] | bill. CZK 2005 | 1673 | 1720 | 1724 | 1740 | 1749 | 1711 | 1714 | 1730 | 1766 | 1810 |
| | growth in % | **4.2** | **2.8** | **0.2** | **0.9** | **0.5** | **-2.1** | **0.2** | **0.9** | **2.1** | **2.5** |
| **Government consumption exp.** | bill. CZK 2005 | 666 | 674 | 701 | 703 | 684 | 671 | 676 | 677 | 675 | 677 |
| | growth in % | **0.4** | **1.2** | **4.0** | **0.2** | **-2.7** | **-1.9** | **0.8** | **0.2** | **-0.3** | **0.2** |
| **Gross capital formation** | bill. CZK 2005 | 1051 | 1071 | 855 | 901 | 908 | 863 | 795 | 802 | 832 | 859 |
| | growth in % | **15.5** | **1.9** | **-20.2** | **5.4** | **0.8** | **-5.0** | **-7.9** | **0.9** | **3.6** | **3.3** |
| – **Gross fixed capital formation** | bill. CZK 2005 | 964 | 1004 | 893 | 902 | 905 | 864 | 823 | 816 | 837 | 863 |
| | growth in % | **13.2** | **4.1** | **-11.0** | **1.0** | **0.4** | **-4.5** | **-4.8** | **-0.8** | **2.6** | **3.1** |
| – **Change in stocks and valuables** | bill. CZK 2005 | 87 | 68 | -38 | -1 | 3 | -1 | -27 | -13 | -5 | -4 |
| **Exports of goods and services** | bill. CZK 2005 | 2541 | 2642 | 2354 | 2717 | 2977 | 3109 | 3108 | 3209 | 3356 | 3532 |
| | growth in % | **11.2** | **4.0** | **-10.9** | **15.4** | **9.5** | **4.5** | **-0.1** | **3.3** | **4.6** | **5.2** |
| **Imports of goods and services** | bill. CZK 2005 | 2402 | 2467 | 2169 | 2503 | 2678 | 2739 | 2714 | 2787 | 2909 | 3049 |
| | growth in % | **12.8** | **2.7** | **-12.1** | **15.4** | **7.0** | **2.3** | **-0.9** | **2.7** | **4.4** | **4.8** |
| **Gross domestic exp.** | bill. CZK 2005 | 3390 | 3465 | 3288 | 3351 | 3347 | 3252 | 3198 | 3221 | 3283 | 3355 |
| | growth in % | **6.6** | **2.2** | **-5.1** | **1.9** | **-0.1** | **-2.8** | **-1.7** | **0.7** | **1.9** | **2.2** |
| **Methodological discrepancy**[2] | bill. CZK 2005 | -3 | -6 | 7 | -1 | -18 | -31 | -29 | -34 | -42 | -50 |
| **Real gross domestic income** | bill. CZK 2005 | 3488 | 3562 | 3441 | 3482 | 3504 | 3455 | 3434 | 3474 | 3553 | 3650 |
| | growth in % | **6.3** | **2.1** | **-3.4** | **1.2** | **0.6** | **-1.4** | **-0.6** | **1.2** | **2.3** | **2.7** |
| **Contribution to GDP growth**[3] | | | | | | | | | | | |
| – **Gross domestic expenditure** | percent. points | **6.4** | **2.2** | **-5.0** | **1.8** | **-0.1** | **-2.7** | **-1.6** | **0.7** | **1.8** | **2.0** |
| – consumption | percent. points | **2.1** | **1.6** | **0.9** | **0.5** | **-0.3** | **-1.5** | **0.2** | **0.5** | **1.0** | **1.3** |
| – household expenditure | percent. points | **2.1** | **1.4** | **0.1** | **0.5** | **0.3** | **-1.1** | **0.1** | **0.5** | **1.1** | **1.3** |
| – government expenditure | percent. points | **0.1** | **0.2** | **0.8** | **0.1** | **-0.6** | **-0.4** | **0.2** | **0.0** | **-0.1** | **0.0** |
| – gross capital formation | percent. points | **4.3** | **0.6** | **-5.9** | **1.3** | **0.2** | **-1.2** | **-1.8** | **0.2** | **0.8** | **0.7** |
| – gross fixed capital formation | percent. points | **3.4** | **1.1** | **-3.0** | **0.3** | **0.1** | **-1.1** | **-1.1** | **-0.2** | **0.6** | **0.7** |
| – change in stocks | percent. points | **0.9** | **-0.5** | **-2.9** | **1.0** | **0.1** | **-0.1** | **-0.7** | **0.4** | **0.2** | **0.0** |
| – **Foreign balance** | percent. points | **-0.7** | **0.9** | **0.5** | **0.6** | **1.9** | **1.7** | **0.6** | **0.6** | **0.5** | **0.7** |
| – external balance of goods | percent. points | **-1.1** | **0.5** | **0.5** | **0.6** | **2.1** | **1.7** | **0.6** | **0.5** | **0.4** | **0.6** |
| – external balance of services | percent. points | **0.4** | **0.4** | **0.0** | **0.1** | **-0.2** | **0.0** | **0.0** | **0.1** | **0.0** | **0.1** |
| **Gross value added** | bill. CZK 2005 | 3190 | 3320 | 3148 | 3247 | 3305 | 3273 | . | . | . | . |
| | growth in % | **5.5** | **4.1** | **-5.2** | **3.1** | **1.8** | **-1.0** | . | . | . | . |
| **Net taxes on products** | bill. CZK 2005 | 336 | 316 | 321 | 310 | 316 | 311 | . | . | . | . |

[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.1.3: **Real GDP by Type of Expenditure** – quarterly
*chained volumes, reference year 2005*

| | | 2012 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** |
| | | *Prelim.* | *Prelim.* | *Prelim.* | *Prelim.* | *Prelim.* | *Prelim.* | *Estimate* | *Forecast* |
| **Gross domestic product** | bill. CZK 2005 | 854 | 902 | 903 | 926 | 829 | 890 | 905 | 926 |
| | growth in % | **0.1** | **-1.5** | **-1.5** | **-1.1** | **-2.9** | **-1.3** | **0.3** | **0.0** |
| | growth in % [1] | **-0.3** | **-0.9** | **-1.2** | **-1.4** | **-2.3** | **-1.3** | **-0.6** | **0.3** |
| | quart.growth in % [1] | **-0.4** | **-0.4** | **-0.3** | **-0.3** | **-1.3** | **0.6** | **0.4** | **0.6** |
| **Private consumption exp.** [2] | bill. CZK 2005 | 411 | 426 | 432 | 443 | 405 | 427 | 437 | 446 |
| | growth in % | **-1.3** | **-2.3** | **-2.2** | **-2.8** | **-1.5** | **0.1** | **1.1** | **0.8** |
| **Government consumption exp.** | bill. CZK 2005 | 157 | 164 | 163 | 186 | 159 | 167 | 164 | 186 |
| | growth in % | **-2.8** | **-2.5** | **-1.5** | **-1.0** | **1.3** | **1.8** | **0.2** | **0.2** |
| **Gross capital formation** | bill. CZK 2005 | 185 | 223 | 226 | 230 | 170 | 192 | 218 | 216 |
| | growth in % | **-5.1** | **-3.1** | **-11.5** | **0.5** | **-8.2** | **-14.0** | **-3.3** | **-6.1** |
| **– Gross fixed capital formation** | bill. CZK 2005 | 196 | 213 | 220 | 235 | 184 | 202 | 210 | 227 |
| | growth in % | **-1.7** | **-3.8** | **-5.0** | **-6.9** | **-6.4** | **-5.0** | **-4.7** | **-3.4** |
| **– Change in stocks and valuables** | bill. CZK 2005 | -11 | 10 | 6 | -6 | -14 | -11 | 9 | -12 |
| **Exports of goods and services** | bill. CZK 2005 | 790 | 778 | 756 | 786 | 748 | 782 | 769 | 808 |
| | growth in % | **7.8** | **2.6** | **3.9** | **3.6** | **-5.3** | **0.5** | **1.8** | **2.8** |
| **Imports of goods and services** | bill. CZK 2005 | 679 | 680 | 667 | 713 | 646 | 669 | 675 | 724 |
| | growth in % | **5.0** | **1.4** | **-0.4** | **3.1** | **-4.8** | **-1.7** | **1.3** | **1.5** |
| **Methodological discrepancy** [3] | bill. CZK 2005 | -11 | -9 | -7 | -4 | -8 | -8 | -7 | -6 |
| **Real gross domestic income** | bill. CZK 2005 | 820 | 869 | 870 | 895 | 805 | 865 | 871 | 893 |
| | growth in % | **-0.2** | **-1.8** | **-2.0** | **-1.5** | **-1.9** | **-0.5** | **0.1** | **-0.2** |
| **Gross value added** | bill. CZK 2005 | 785 | 826 | 823 | 839 | 767 | 820 | . | . |
| | growth in % | **0.7** | **-1.3** | **-1.7** | **-1.5** | **-2.3** | **-0.8** | . | . |
| | growth in % [1] | **0.3** | **-0.7** | **-1.4** | **-1.8** | **-1.7** | **-0.8** | . | . |
| | quart.growth in % [1] | **-0.1** | **-0.5** | **-0.5** | **-0.7** | **0.0** | **0.4** | . | . |
| **Net taxes on products** | bill. CZK 2005 | 70 | 76 | 79 | 86 | 64 | 72 | . | . |

[1] *From seasonally and working day adjusted data*
[2] *The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.*
[3] *Deterministic impact of using prices and structure of the previous year for calculation of y-o-y growth.*

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

| | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Prelim. | 2013 Forecast | 2014 Forecast | 2015 Outlook | 2016 Outlook |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross domestic product** | bill. CZK | 3663 | 3848 | 3759 | 3791 | 3823 | 3846 | 3852 | 3924 | 4070 | 4221 |
| | growth in % | 9.2 | 5.1 | -2.3 | 0.8 | 0.9 | 0.6 | 0.2 | 1.9 | 3.7 | 3.7 |
| **Private consumption** [1] | bill. CZK | 1748 | 1883 | 1902 | 1917 | 1935 | 1944 | 1970 | 1998 | 2074 | 2146 |
| | growth in % | 7.3 | 7.8 | 1.0 | 0.8 | 1.0 | 0.5 | 1.3 | 1.4 | 3.8 | 3.5 |
| **Government consumption** | bill. CZK | 726 | 759 | 809 | 807 | 793 | 789 | 801 | 814 | 826 | 837 |
| | growth in % | 4.6 | 4.6 | 6.6 | -0.2 | -1.8 | -0.5 | 1.5 | 1.7 | 1.5 | 1.4 |
| **Gross capital formation** | bill. CZK | 1092 | 1114 | 896 | 940 | 937 | 898 | 827 | 836 | 872 | 908 |
| | growth in % | 17.6 | 2.0 | -19.5 | 4.8 | -0.3 | -4.2 | -7.8 | 1.0 | 4.3 | 4.1 |
| − Gross fixed capital formation | bill. CZK | 990 | 1031 | 926 | 931 | 923 | 888 | 847 | 841 | 870 | 903 |
| | growth in % | 15.0 | 4.2 | -10.2 | 0.5 | -0.9 | -3.8 | -4.6 | -0.7 | 3.4 | 3.8 |
| − Change in stocks and valuables | bill. CZK | 102 | 83 | -30 | 9 | 14 | 10 | -20 | -5 | 2 | 5 |
| **External balance** | bill. CZK | 97 | 92 | 152 | 127 | 159 | 215 | 254 | 276 | 298 | 330 |
| − Exports of goods and services | bill. CZK | 2498 | 2480 | 2216 | 2524 | 2787 | 3001 | 3025 | 3158 | 3335 | 3544 |
| | growth in % | 11.3 | -0.7 | -10.7 | 13.9 | 10.4 | 7.7 | 0.8 | 4.4 | 5.6 | 6.3 |
| − Imports of goods and services | bill. CZK | 2401 | 2388 | 2064 | 2397 | 2628 | 2786 | 2771 | 2882 | 3037 | 3214 |
| | growth in % | 12.0 | -0.5 | -13.6 | 16.1 | 9.6 | 6.0 | -0.5 | 4.0 | 5.4 | 5.8 |
| **Gross national income** | bill. CZK | 3401 | 3668 | 3508 | 3506 | 3566 | 3561 | 3554 | 3616 | 3735 | 3857 |
| | growth in % | 6.9 | 7.8 | -4.3 | -0.1 | 1.7 | -0.1 | -0.2 | 1.7 | 3.3 | 3.3 |
| **Primary income balance** | bill. CZK | -261 | -180 | -251 | -285 | -258 | -285 | -298 | -308 | -336 | -364 |

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

Table C.1.5: **Nominal GDP by Type of Expenditure** – quarterly

| | | 2012 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1 Prelim. | Q2 Prelim. | Q3 Prelim. | Q4 Prelim. | Q1 Prelim. | Q2 Prelim. | Q3 Estimate | Q4 Forecast |
| **Gross domestic product** | bill. CZK | 907 | 967 | 968 | 1003 | 897 | 969 | 977 | 1010 |
| | growth in % | 2.3 | 0.5 | -0.1 | -0.1 | -1.2 | 0.2 | 0.9 | 0.7 |
| **Private consumption** [1] | bill. CZK | 465 | 485 | 492 | 503 | 465 | 491 | 502 | 511 |
| | growth in % | 1.7 | 0.4 | 0.5 | -0.6 | -0.1 | 1.3 | 2.1 | 1.8 |
| **Government consumption** | bill. CZK | 181 | 192 | 191 | 225 | 183 | 196 | 194 | 229 |
| | growth in % | -0.3 | -1.0 | -0.1 | -0.5 | 1.0 | 2.0 | 1.6 | 1.6 |
| **Gross capital formation** | bill. CZK | 192 | 232 | 235 | 239 | 177 | 200 | 226 | 225 |
| | growth in % | -4.3 | -1.8 | -11.3 | 1.3 | -7.7 | -14.1 | -3.6 | -6.0 |
| − Gross fixed capital formation | bill. CZK | 201 | 219 | 226 | 241 | 189 | 208 | 216 | 234 |
| | growth in % | -1.1 | -2.6 | -4.0 | -6.7 | -6.1 | -5.0 | -4.4 | -3.2 |
| − Change in stocks and valuables | bill. CZK | -10 | 13 | 8 | -2 | -12 | -8 | 10 | -9 |
| **External balance** | bill. CZK | 70 | 59 | 51 | 36 | 72 | 83 | 54 | 45 |
| − Exports of goods and services | bill. CZK | 759 | 754 | 730 | 759 | 728 | 764 | 748 | 787 |
| | growth in % | 12.1 | 7.0 | 7.6 | 4.3 | -4.1 | 1.3 | 2.5 | 3.7 |
| − Imports of goods and services | bill. CZK | 689 | 695 | 678 | 722 | 655 | 681 | 693 | 742 |
| | growth in % | 9.6 | 6.2 | 3.8 | 4.5 | -4.9 | -2.1 | 2.2 | 2.7 |

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

## Graph C.1.1: **Gross Domestic Product** (*real*)
*chained volumes, bill. CZK in const. prices of 2005, seasonally adjusted*
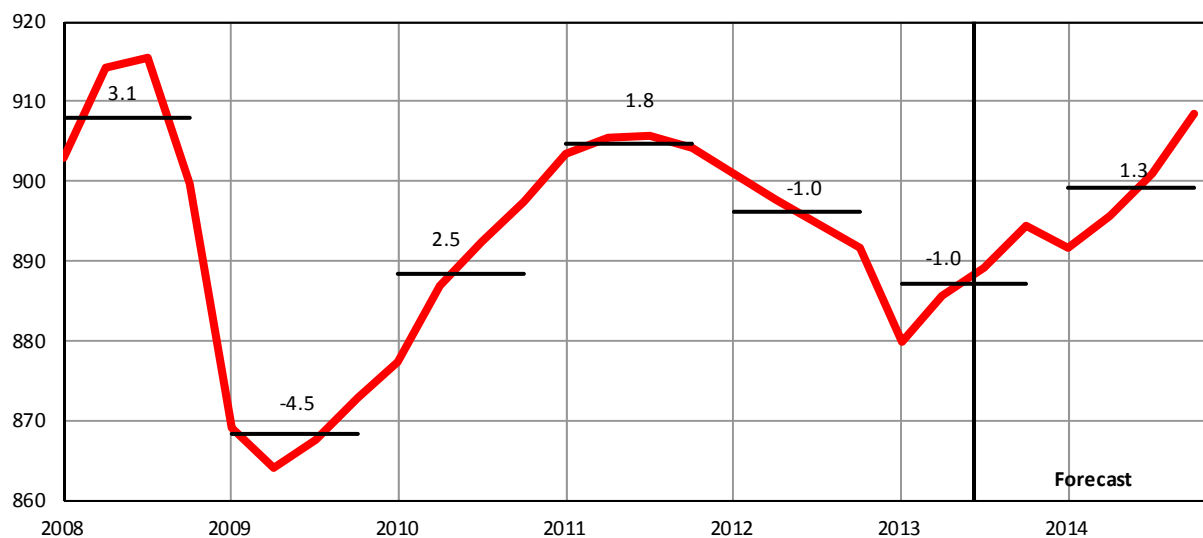


## Graph C.1.2: **Gross Domestic Product** (*real*)
*QoQ growth rate, in %, seasonally adjusted*
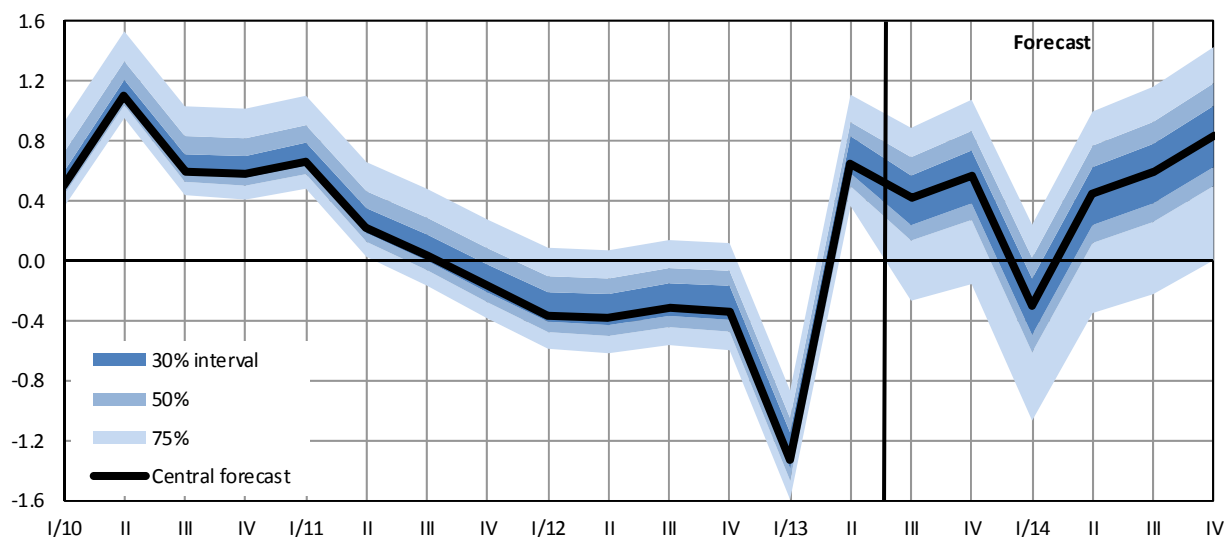


## Graph C.1.3: **Gross Domestic Product and Real Gross Domestic Income**
*YoY growth rate, in %*



43
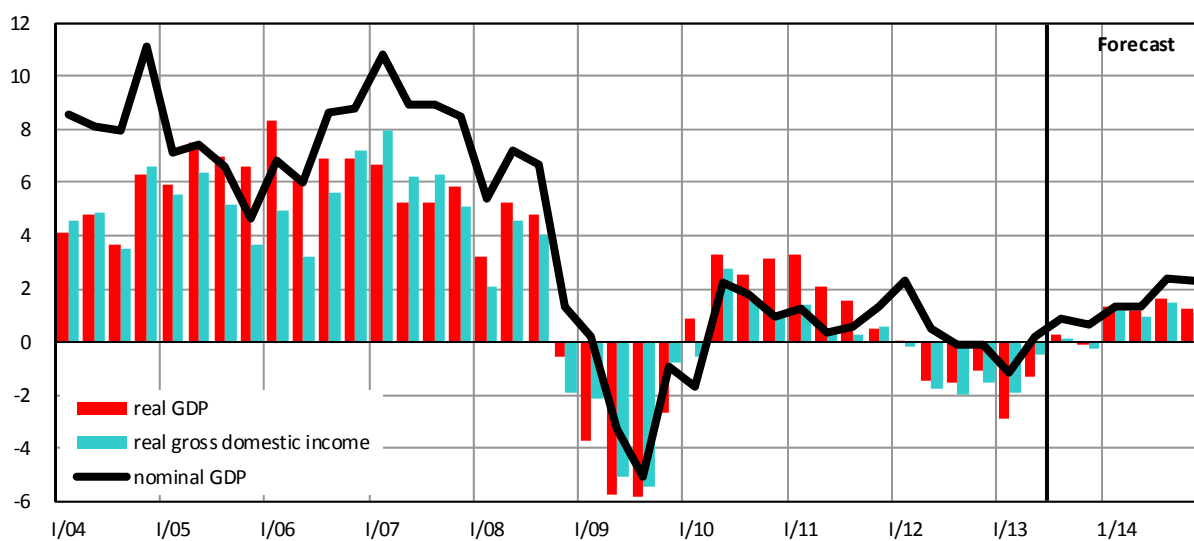
## Graph C.1.4: **Gross Domestic Product** – *contributions to YoY growth*
*in constant prices, decomposition of the YoY growth, in percentage points*



Forecast

- consumption
- gross capital formation
- foreign balance
- YoY growth of GDP
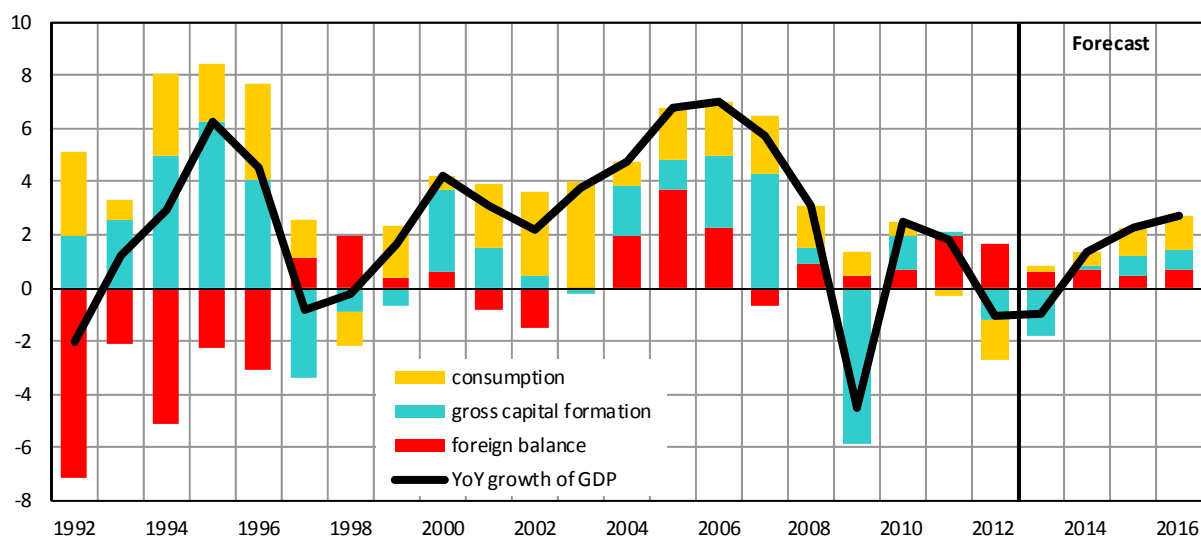
## Graph C.1.5: **Private Consumption** (*incl. NPISH*)
*YoY growth rate, in %*



Forecast

- deflator
- in real terms
- in nominal terms
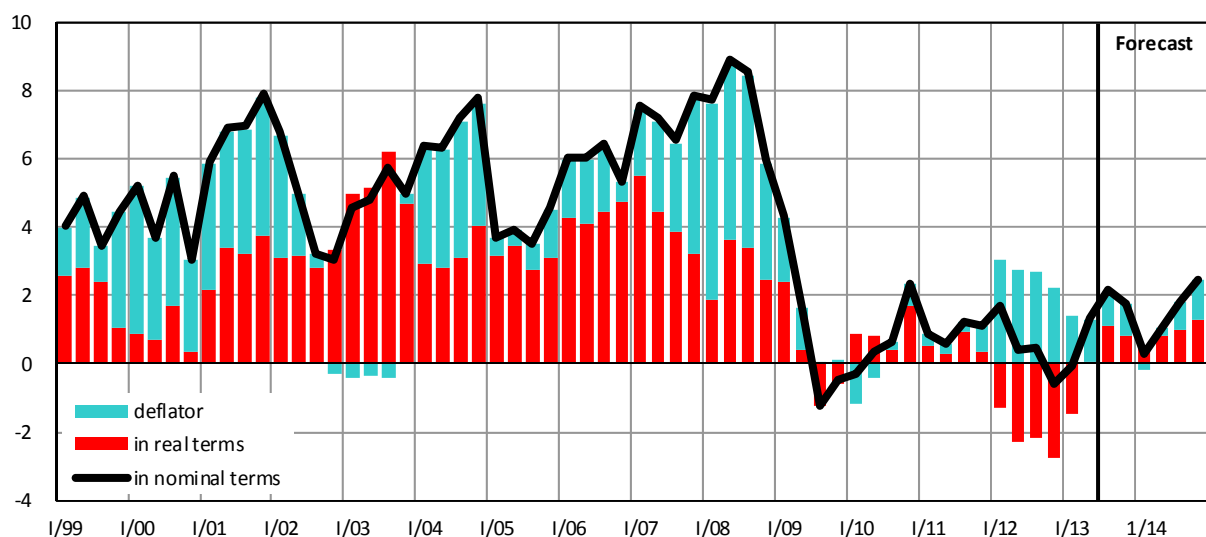
## Graph C.1.6: **Gross Fixed Capital Formation**
*YoY growth rate, in %*



Forecast

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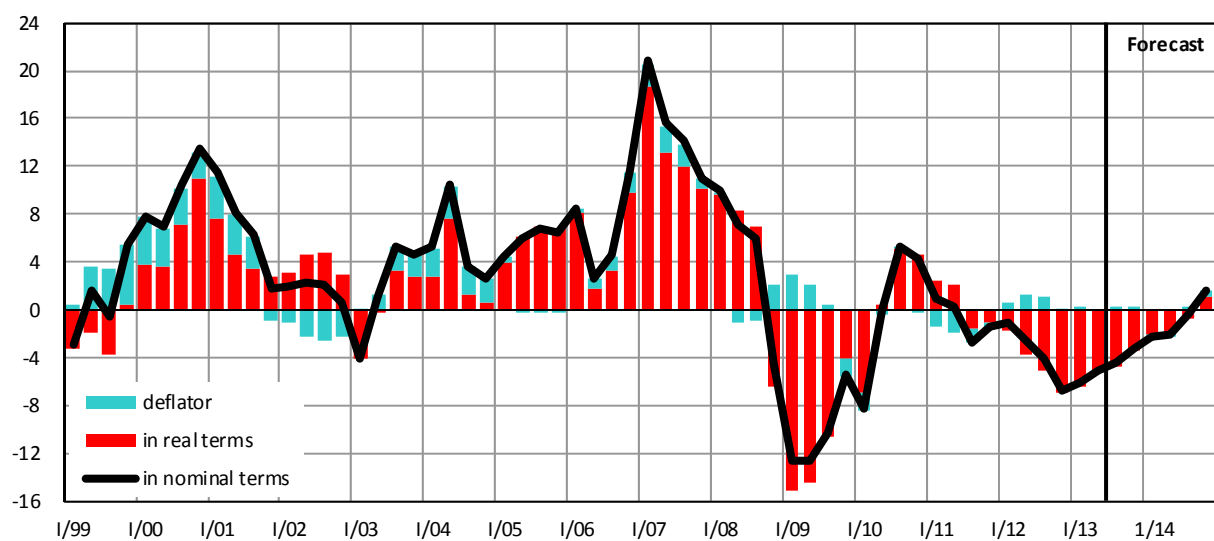
## Graph C.1.7: **Change in Inventories and Valuables** (*real*)
*seasonally adjusted, contributions to YoY growth of GDP in p.p.*
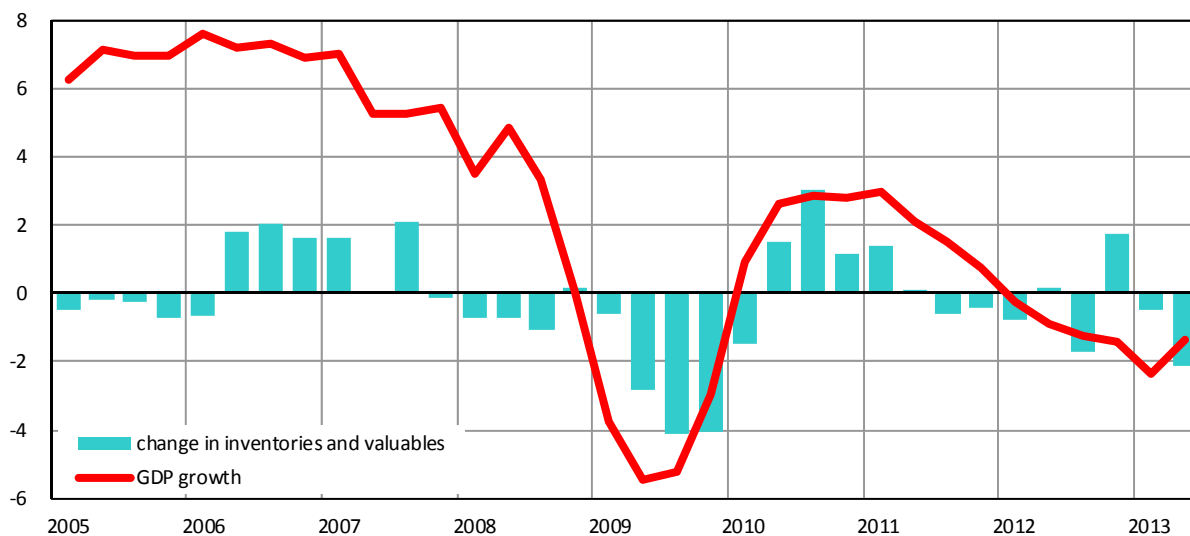


## Graph C.1.8: **Ratio of Exports and Imports of Goods and Services to GDP** (*nominal*)
*yearly moving sums, in %*
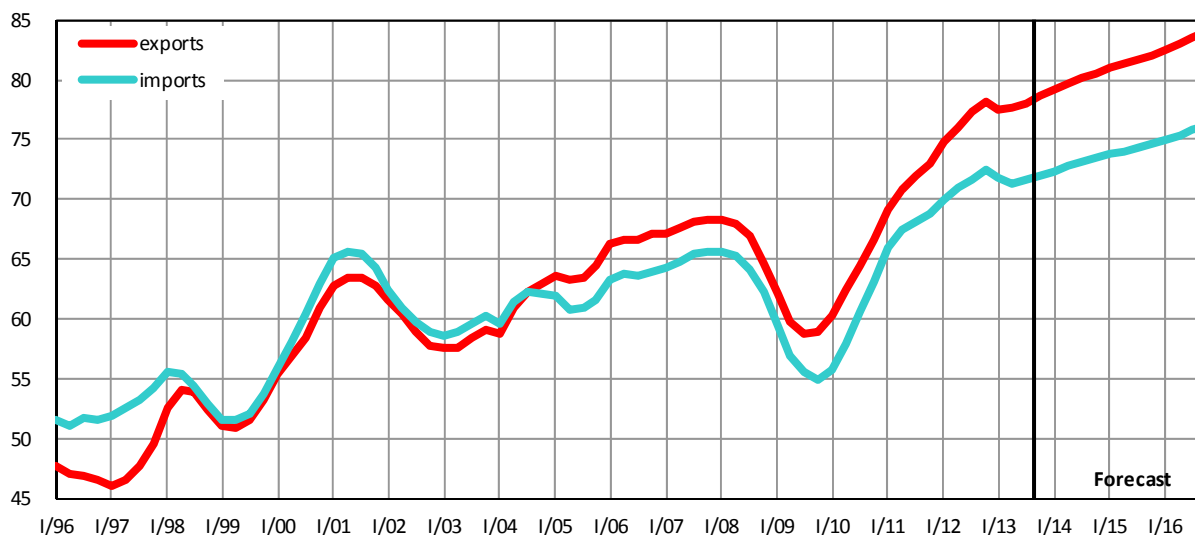


## Graph C.1.9: **GDP – Income Structure**
*yearly moving sums, in %*
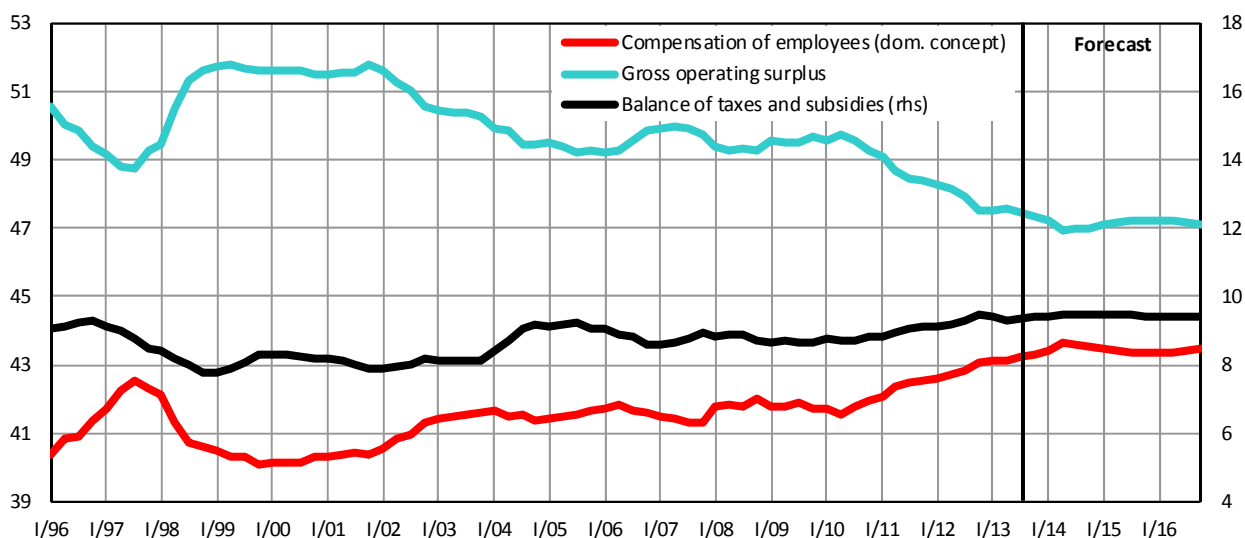
Table C.1.6: **GDP by Type of Income** – yearly

| | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Preliminary | Forecast | Forecast | Outlook | Outlook |
| **GDP** | bill. CZK | **3663** | **3848** | **3759** | **3791** | **3823** | **3846** | **3852** | **3924** | **4070** | **4221** |
| | growth in % | 9.2 | 5.1 | -2.3 | 0.8 | 0.9 | 0.6 | 0.2 | 1.9 | 3.7 | 3.7 |
| **Balance of taxes and subsidies** | bill. CZK | **327** | **335** | **325** | **334** | **349** | **363** | **361** | **372** | **384** | **397** |
| | growth in % | 13.9 | 2.5 | -3.1 | 2.8 | 4.3 | 4.2 | -0.5 | 2.9 | 3.2 | 3.6 |
| – Taxes on production and imports | bill. CZK | **407** | **419** | **425** | **434** | **457** | **471** | **469** | **481** | **494** | **509** |
| | growth in % | 12.0 | 2.9 | 1.4 | 2.1 | 5.3 | 3.2 | -0.4 | 2.4 | 2.7 | 3.0 |
| – Subsidies on production | bill. CZK | **80** | **84** | **100** | **100** | **108** | **108** | **108** | **109** | **110** | **111** |
| | growth in % | 4.8 | 4.4 | 19.5 | -0.4 | 8.6 | 0.2 | -0.3 | 0.8 | 1.0 | 1.0 |
| **Compensation of employees** | bill. CZK | **1513** | **1617** | **1567** | **1590** | **1626** | **1656** | **1668** | **1709** | **1765** | **1835** |
| | growth in % | 8.6 | 6.8 | -3.0 | 1.4 | 2.2 | 1.8 | 0.7 | 2.5 | 3.3 | 3.9 |
| – Wages and salaries | bill. CZK | **1140** | **1226** | **1201** | **1210** | **1237** | **1260** | **1268** | **1299** | **1359** | **1411** |
| | growth in % | 8.3 | 7.5 | -2.1 | 0.8 | 2.2 | 1.8 | 0.6 | 2.5 | 4.6 | 3.9 |
| – Social security contributions | bill. CZK | **373** | **390** | **367** | **380** | **389** | **396** | **400** | **410** | **407** | **423** |
| | growth in % | 9.4 | 4.7 | -6.1 | 3.7 | 2.4 | 1.8 | 1.0 | 2.5 | -0.9 | 4.1 |
| **Gross operating surplus** | bill. CZK | **1822** | **1896** | **1866** | **1867** | **1849** | **1827** | **1823** | **1843** | **1921** | **1989** |
| | growth in % | 9.0 | 4.1 | -1.6 | 0.0 | -0.9 | -1.2 | -0.2 | 1.1 | 4.2 | 3.5 |
| – Consumption of capital | bill. CZK | **644** | **680** | **710** | **720** | **731** | **746** | **759** | **774** | **798** | **821** |
| | growth in % | 6.8 | 5.6 | 4.4 | 1.4 | 1.6 | 2.0 | 1.8 | 2.0 | 3.0 | 3.0 |
| – Net operating surplus | bill. CZK | **1178** | **1216** | **1156** | **1147** | **1118** | **1081** | **1064** | **1069** | **1124** | **1167** |
| | growth in % | 10.3 | 3.2 | -4.9 | -0.8 | -2.5 | -3.3 | -1.6 | 0.5 | 5.1 | 3.9 |

Table C.1.7: **GDP by Type of Income** – quarterly

| | | 2012 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | | | | | | Prelim. | Prelim. | Estimate | Forecast |
| **GDP** | bill. CZK | **907** | **967** | **968** | **1003** | **897** | **969** | **977** | **1010** |
| | growth in % | 2.3 | 0.5 | -0.1 | -0.1 | -1.2 | 0.2 | 0.9 | 0.7 |
| **Balance of taxes and subsidies** | bill. CZK | **79** | **94** | **102** | **89** | **76** | **90** | **104** | **91** |
| | growth in % | 2.7 | 1.4 | 4.5 | 8.2 | -3.3 | -3.8 | 2.2 | 2.5 |
| **Compensation of employees** | bill. CZK | **400** | **409** | **406** | **441** | **397** | **410** | **413** | **447** |
| | growth in % | 3.0 | 1.5 | 0.9 | 2.0 | -0.7 | 0.4 | 1.8 | 1.4 |
| – Wages and salaries | bill. CZK | **302** | **310** | **309** | **338** | **300** | **310** | **315** | **343** |
| | growth in % | 2.8 | 1.4 | 0.8 | 2.4 | -0.8 | 0.1 | 1.8 | 1.4 |
| – Social security contributions | bill. CZK | **98** | **99** | **97** | **103** | **97** | **100** | **99** | **104** |
| | growth in % | 3.7 | 1.9 | 1.2 | 0.5 | -0.3 | 1.3 | 1.8 | 1.4 |
| **Gross operating surplus** | bill. CZK | **428** | **465** | **461** | **473** | **423** | **469** | **460** | **471** |
| | growth in % | 1.5 | -0.6 | -1.9 | -3.4 | -1.2 | 0.8 | -0.2 | -0.4 |

## C.2 Prices

*Sources: CZSO, Eurostat, MoF estimates*

Table C.2.1: **Prices** – yearly

| | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 Forecast | 2014 Forecast | 2015 Outlook | 2016 Outlook |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Consumer Price Index** | | | | | | | | | | | |
| average of a year | *average 2005=100* | 105.4 | 112.1 | 113.3 | 115.0 | 117.2 | 121.0 | 122.8 | 123.6 | 126.0 | 127.1 |
| | *growth in %* | **2.8** | **6.3** | **1.0** | **1.5** | **1.9** | **3.3** | **1.4** | **0.7** | **1.9** | **0.9** |
| December | *average 2005=100* | 107.9 | 111.8 | 112.9 | 115.5 | 118.3 | 121.1 | 122.7 | 124.4 | 126.5 | 128.1 |
| | *growth in %* | **5.4** | **3.6** | **1.0** | **2.3** | **2.4** | **2.4** | **1.2** | **1.4** | **1.8** | **1.2** |
| – of which contribution of | | | | | | | | | | | |
| administrative measures [1] | *percentage points* | **2.2** | **4.3** | **1.0** | **1.6** | **1.2** | **2.2** | **1.1** | **0.1** | **0.5** | **-0.5** |
| market increase | *percentage points* | **3.3** | **-0.7** | **0.0** | **0.7** | **1.2** | **0.1** | **0.1** | **1.3** | **1.2** | **1.8** |
| HICP | *average 2005=100* | 105.1 | 111.7 | 112.4 | 113.7 | 116.2 | 120.3 | 121.9 | 122.7 | 125.0 | 126.1 |
| | *growth in %* | **3.0** | **6.3** | **0.6** | **1.2** | **2.1** | **3.5** | **1.4** | **0.7** | **1.9** | **0.9** |
| **Offering prices of flats** | *average 2005=100* | 131.6 | 162.4 | 157.9 | 151.6 | 144.4 | 145.1 | . | . | . | . |
| | *growth in %* | **20.8** | **23.4** | **-2.8** | **-4.0** | **-4.8** | **0.5** | **.** | **.** | **.** | **.** |
| **Deflators** | | | | | | | | | | | |
| GDP | *average 2005=100* | 103.9 | 105.9 | 108.3 | 106.6 | 105.6 | 107.3 | 108.5 | 109.1 | 110.7 | 111.7 |
| | *growth in %* | **3.3** | **1.9** | **2.3** | **-1.6** | **-0.9** | **1.6** | **1.2** | **0.5** | **1.5** | **0.9** |
| Domestic final use | *average 2005=100* | 105.2 | 108.4 | 109.7 | 109.3 | 109.5 | 111.6 | 112.5 | 113.2 | 114.9 | 116.0 |
| | *growth in %* | **2.8** | **3.1** | **1.2** | **-0.3** | **0.1** | **1.9** | **0.8** | **0.6** | **1.5** | **0.9** |
| **Consumption of households** | *average 2005=100* | 104.5 | 109.5 | 110.3 | 110.2 | 110.7 | 113.6 | 114.9 | 115.5 | 117.5 | 118.6 |
| | *growth in %* | **2.9** | **4.8** | **0.8** | **-0.2** | **0.5** | **2.7** | **1.2** | **0.5** | **1.7** | **0.9** |
| **Consumption of government** | *average 2005=100* | 108.9 | 112.6 | 115.4 | 114.9 | 115.9 | 117.6 | 118.4 | 120.2 | 122.3 | 123.7 |
| | *growth in %* | **4.1** | **3.4** | **2.5** | **-0.5** | **0.9** | **1.5** | **0.7** | **1.5** | **1.8** | **1.2** |
| **Fixed capital formation** | *average 2005=100* | 102.7 | 102.8 | 103.7 | 103.2 | 102.0 | 102.7 | 102.9 | 103.1 | 103.9 | 104.7 |
| | *growth in %* | **1.6** | **0.1** | **1.0** | **-0.5** | **-1.2** | **0.8** | **0.2** | **0.2** | **0.8** | **0.7** |
| **Exports of goods and services** | *average 2005=100* | 98.3 | 93.9 | 94.1 | 92.9 | 93.6 | 96.5 | 97.4 | 98.4 | 99.4 | 100.3 |
| | *growth in %* | **0.1** | **-4.5** | **0.3** | **-1.3** | **0.8** | **3.1** | **0.9** | **1.1** | **1.0** | **1.0** |
| **Imports of goods and services** | *average 2005=100* | 99.9 | 96.8 | 95.2 | 95.8 | 98.1 | 101.7 | 102.1 | 103.4 | 104.4 | 105.4 |
| | *growth in %* | **-0.7** | **-3.1** | **-1.7** | **0.6** | **2.5** | **3.6** | **0.4** | **1.3** | **1.0** | **1.0** |
| **Terms of trade** | *average 2005=100* | 98.4 | 97.0 | 98.9 | 97.0 | 95.4 | 94.9 | 95.4 | 95.2 | 95.2 | 95.2 |
| | *growth in %* | **0.8** | **-1.4** | **2.0** | **-1.9** | **-1.6** | **-0.5** | **0.5** | **-0.2** | **0.0** | **0.0** |

*Note: The outlook for 2016 is in line with current legislation, assuming VAT rates unification at 17.5% effective from January 1, 2016*
[1] *The contribution of increase in regulated prices and in indirect taxes to increase of December YoY consumer price inflation.*

Table C.2.2: **Prices** – quarterly

| | | **2012** | | | | **2013** | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** Estimate | **Q4** Forecast |
| **Consumer Price Index** | average 2005=100 | 120.7 | 121.1 | 121.1 | 121.1 | 122.8 | 123.0 | 122.6 | 122.6 |
| | growth in % | **3.7** | **3.4** | **3.3** | **2.8** | **1.8** | **1.5** | **1.2** | **1.2** |
| **– of which contribution of** | | | | | | | | | |
| administrative measures [1] | percentage points | **2.6** | **2.6** | **2.4** | **2.3** | **1.6** | **1.4** | **1.2** | **1.2** |
| market increase | percentage points | **1.1** | **0.8** | **0.9** | **0.5** | **0.2** | **0.1** | **0.0** | **-0.1** |
| HICP | average 2005=100 | 119.9 | 120.4 | 120.4 | 120.4 | 121.9 | 122.2 | 121.8 | 121.8 |
| | growth in % | **4.0** | **3.8** | **3.4** | **2.9** | **1.7** | **1.5** | **1.2** | **1.1** |
| **Offering prices of flats** | average 2005=100 | 143.7 | 146.1 | 144.9 | 145.7 | 145.3 | 145.7 | 146.7 | . |
| | growth in % | **-2.4** | **1.2** | **1.0** | **2.5** | **1.1** | **-0.3** | **1.2** | . |
| **Deflators** | | | | | | | | | |
| GDP | average 2005=100 | 106.3 | 107.2 | 107.3 | 108.3 | 108.2 | 108.9 | 107.9 | 109.0 |
| | growth in % | **2.2** | **2.0** | **1.4** | **1.0** | **1.8** | **1.6** | **0.6** | **0.7** |
| **Domestic final use** | average 2005=100 | 110.8 | 111.5 | 111.6 | 112.4 | 111.7 | 112.3 | 112.5 | 113.4 |
| | growth in % | **2.4** | **2.2** | **1.8** | **1.4** | **0.8** | **0.7** | **0.8** | **0.9** |
| **Consumption of households** | average 2005=100 | 113.3 | 113.7 | 113.9 | 113.6 | 114.9 | 115.1 | 115.1 | 114.7 |
| | growth in % | **3.0** | **2.7** | **2.7** | **2.2** | **1.4** | **1.2** | **1.0** | **1.0** |
| **Consumption of government** | average 2005=100 | 115.0 | 116.7 | 116.9 | 121.2 | 114.7 | 116.9 | 118.5 | 122.9 |
| | growth in % | **2.5** | **1.6** | **1.4** | **0.5** | **-0.3** | **0.2** | **1.3** | **1.4** |
| **Fixed capital formation** | average 2005=100 | 102.7 | 102.9 | 102.8 | 102.6 | 103.0 | 102.9 | 103.1 | 102.8 |
| | growth in % | **0.6** | **1.3** | **1.1** | **0.2** | **0.3** | **0.0** | **0.3** | **0.2** |
| **Exports of goods and services** | average 2005=100 | 96.1 | 96.9 | 96.6 | 96.5 | 97.2 | 97.7 | 97.2 | 97.3 |
| | growth in % | **4.0** | **4.3** | **3.5** | **0.7** | **1.2** | **0.8** | **0.6** | **0.9** |
| **Imports of goods and services** | average 2005=100 | 101.6 | 102.2 | 101.8 | 101.3 | 101.5 | 101.8 | 102.6 | 102.4 |
| | growth in % | **4.3** | **4.7** | **4.2** | **1.3** | **-0.1** | **-0.4** | **0.9** | **1.2** |
| **Terms of trade** | average 2005=100 | 94.6 | 94.8 | 94.9 | 95.3 | 95.8 | 96.0 | 94.7 | 95.0 |
| | growth in % | **-0.4** | **-0.4** | **-0.7** | **-0.6** | **1.3** | **1.2** | **-0.2** | **-0.3** |

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

Graph C.2.1: **Consumer Prices**

*YoY growth rate, in %*
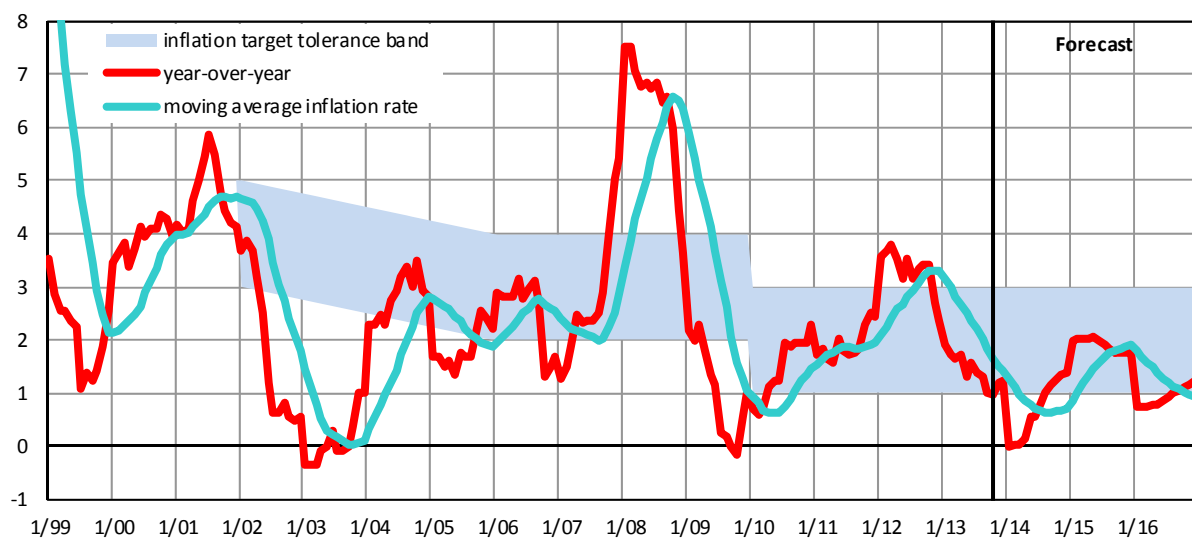


Note: The outlook for 2016 is in line with current legislation, assuming VAT rates unification at 17.5% effective from January 1, 2016

## Graph C.2.2: **Consumer Prices**

*decomposition of the YoY increase in consumer prices, in percentage points, Transport excluding administrative measures and excises*
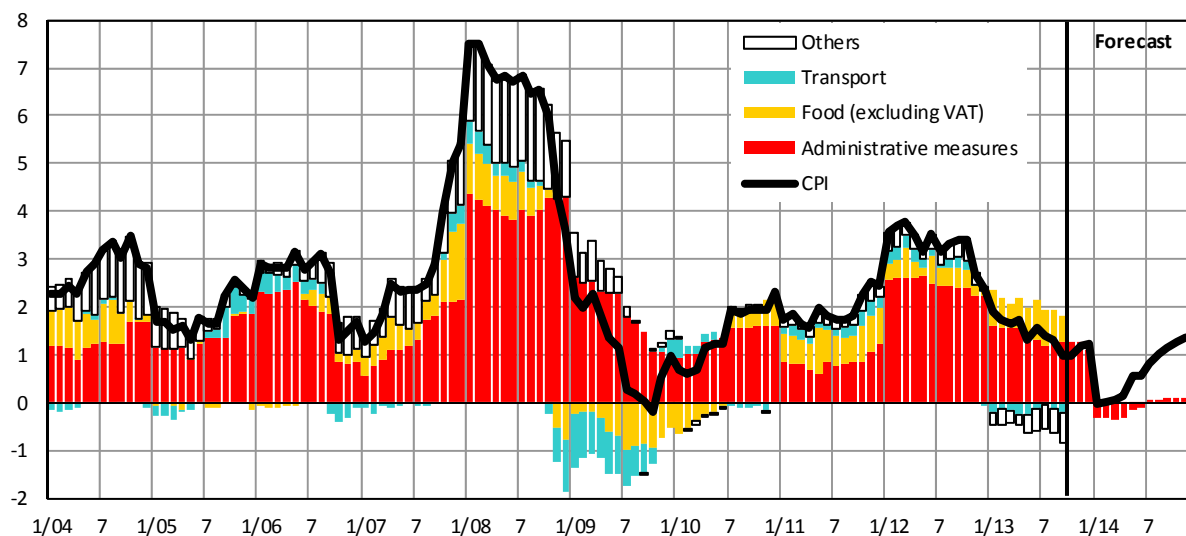


## Graph C.2.3: **Indicators of Consumer Prices**

*YoY increases, in %*
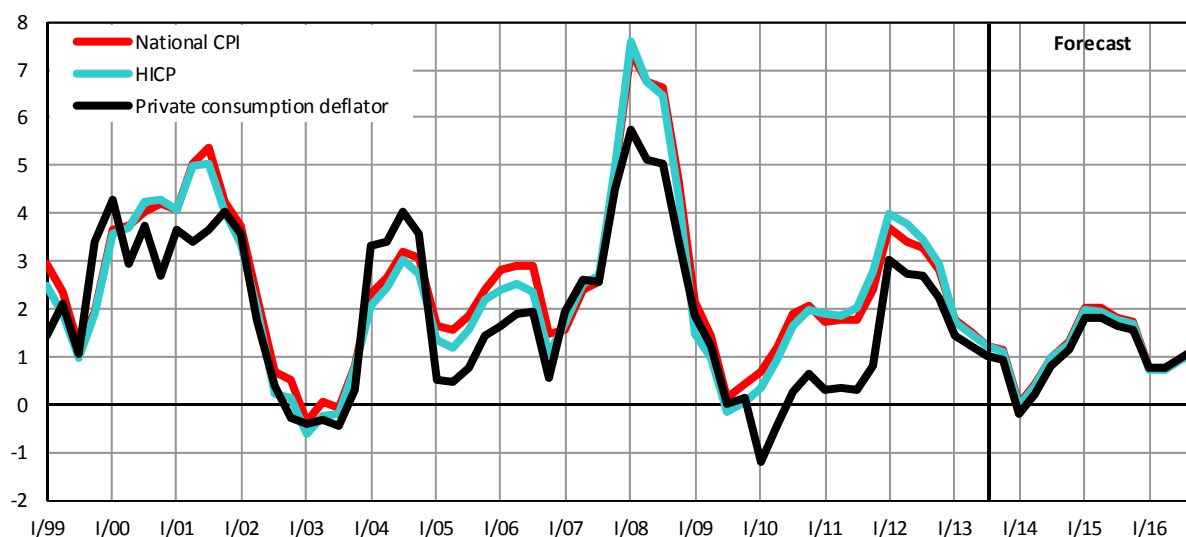


*Note: The outlook for 2016 is in line with current legislation, assuming VAT rates unification at 17.5% effective from January 1, 2016*

## Graph C.2.4: **GDP Deflator**

*YoY indices of final domestic use deflator and terms of trade, in %*
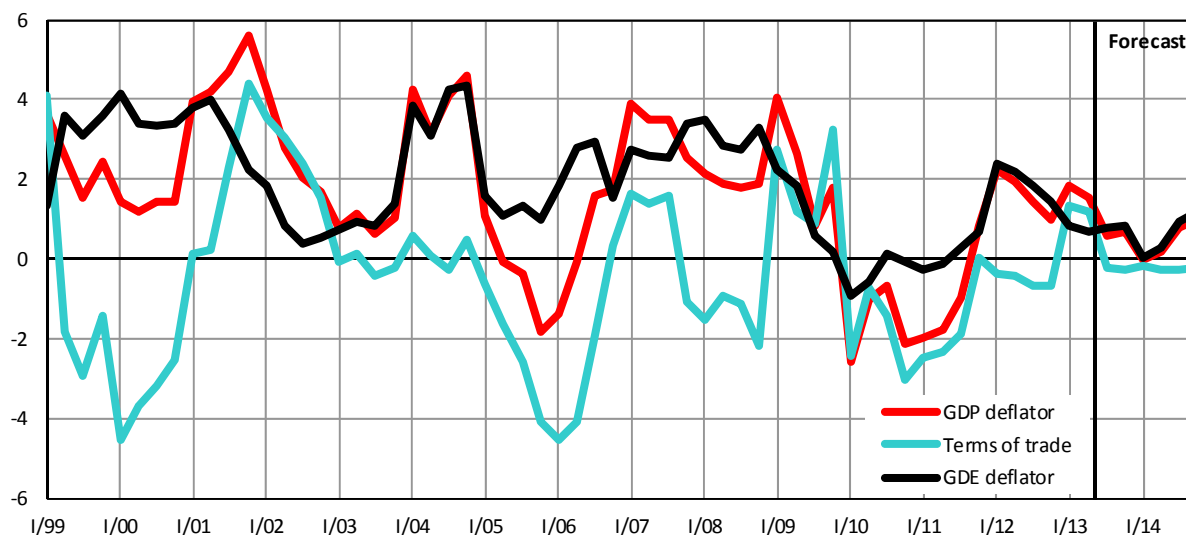
## Graph C.2.5: **Terms of Trade**

*YoY increases, in %*
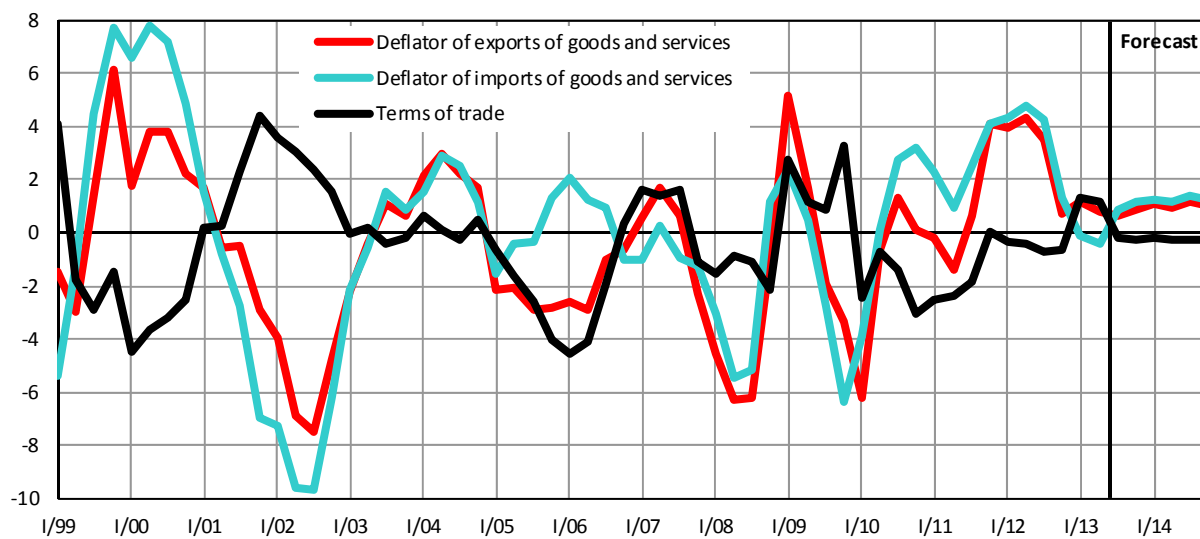
# C.3 Labour Market

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

Table C.3.1: **Employment** – yearly

| | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 Forecast | 2014 Forecast | 2015 Outlook | 2016 Outlook |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Labour Force Survey** | | | | | | | | | | | |
| **Employment** | *av. in thous.persons* | **4922** | **5002** | **4934** | **4885** | **4872** | **4890** | **4947** | **4969** | **4972** | **4974** |
| | *growth in %* | 1.9 | 1.6 | -1.4 | -1.0 | 0.4 | 0.4 | 1.2 | 0.4 | 0.1 | 0.1 |
| **– employees** | *av. in thous.persons* | **4125** | **4196** | **4107** | **4019** | **3993** | **3990** | **4062** | **4078** | **4080** | **4081** |
| | *growth in %* | 1.9 | 1.7 | -2.1 | -2.1 | 0.0 | -0.1 | 1.8 | 0.4 | 0.0 | 0.0 |
| **– enterpreneurs and** | *av. in thous.persons* | **797** | **807** | **827** | **866** | **880** | **901** | **885** | **890** | **892** | **893** |
| **self-employed** | *growth in %* | 2.2 | 1.2 | 2.5 | 4.7 | 2.0 | 2.4 | -1.7 | 0.6 | 0.2 | 0.1 |
| **Unemployment** | *av. in thous.persons* | **276** | **230** | **352** | **384** | **351** | **367** | **376** | **389** | **381** | **352** |
| **Unemployment rate** | *average in per cent* | **5.3** | **4.4** | **6.7** | **7.3** | **6.7** | **7.0** | **7.1** | **7.3** | **7.1** | **6.6** |
| **Labour force** | *av. in thous.persons* | **5198** | **5232** | **5286** | **5269** | **5223** | **5257** | **5323** | **5357** | **5353** | **5326** |
| | *growth in %* | 0.0 | 0.7 | 1.0 | -0.3 | -0.2 | 0.7 | 1.3 | 0.6 | -0.1 | -0.5 |
| **Population aged 15–64** | *av. in thous.persons* | **7347** | **7410** | **7431** | **7399** | **7295** | **7229** | **7157** | **7091** | **7026** | **6960** |
| | *growth in %* | 0.5 | 0.9 | 0.3 | -0.4 | -0.7 | -0.9 | -1.0 | -0.9 | -0.9 | -0.9 |
| **Employment/Pop. 15–64** | *average in per cent* | **67.0** | **67.5** | **66.4** | **66.0** | **66.8** | **67.6** | **69.1** | **70.1** | **70.8** | **71.5** |
| **Employment rate 15–64**[1] | *average in per cent* | **66.1** | **66.6** | **65.4** | **65.0** | **65.7** | **66.5** | **67.9** | **68.8** | **69.5** | **70.1** |
| **Labour force/Pop. 15–64** | *average in per cent* | **70.8** | **70.6** | **71.1** | **71.2** | **71.6** | **72.7** | **74.4** | **75.6** | **76.2** | **76.5** |
| **Participation rate 15–64**[2] | *average in per cent* | **69.8** | **69.7** | **70.1** | **70.2** | **70.5** | **71.6** | **73.1** | **74.2** | **74.9** | **75.2** |
| **SNA** | | | | | | | | | | | |
| **Employment (domestic concept** | *av. in thous.persons* | **5086** | **5204** | **5111** | **5059** | **5057** | **5077** | **5139** | **5161** | **5164** | **5167** |
| | *growth in %* | 2.1 | 2.3 | -1.8 | -1.0 | 0.0 | 0.4 | 1.2 | 0.4 | 0.1 | 0.1 |
| **Hours worked** | *bill. hours* | **9.12** | **9.37** | **9.09** | **9.16** | **9.16** | **9.15** | **9.03** | **9.09** | **9.08** | **9.06** |
| | *growth in %* | 1.3 | 2.7 | -3.0 | 0.8 | 0.0 | -0.1 | -1.3 | 0.7 | -0.1 | -0.2 |
| **Hours worked / employment** | *hours* | **1793** | **1800** | **1778** | **1811** | **1811** | **1802** | **1757** | **1762** | **1759** | **1754** |
| | *growth in %* | -0.8 | 0.4 | -1.2 | 1.8 | 0.0 | -0.5 | -2.5 | 0.3 | -0.2 | -0.3 |
| **Registered unemployment** | | | | | | | | | | | |
| **Unemployment** | *av. in thous.persons* | **392.8** | **324.6** | **465.6** | **528.7** | **507.8** | **504.7** | **565** | **598** | **571** | **513** |

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

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

| | | **2012** | | | | **2013** | | | |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | | | | | | | | Estimate | Forecast |
| **Labour Force Survey** | | | | | | | | | |
| **Employment** | *av. in thous. persons* | **4835** | **4888** | **4921** | **4917** | **4884** | **4953** | **4978** | **4974** |
| | *YoY growth in %* | 0.1 | 0.2 | 0.5 | 0.6 | 1.0 | 1.3 | 1.2 | 1.2 |
| | *QoQ growth in %* | 0.0 | 0.2 | 0.3 | 0.1 | 0.3 | 0.5 | 0.2 | 0.1 |
| – employees | *av. in thous. persons* | **3937** | **3980** | **4027** | **4014** | **4015** | **4074** | **4086** | **4073** |
| | *growth in %* | -0.6 | -0.6 | 0.3 | 0.6 | 2.0 | 2.4 | 1.5 | 1.5 |
| – entrepreneurs and | *av. in thous. persons* | **898** | **908** | **894** | **902** | **869** | **879** | **892** | **901** |
| self-employed | *growth in %* | 3.1 | 4.3 | 1.4 | 0.8 | -3.2 | -3.2 | -0.2 | -0.2 |
| **Unemployment** | *av. in thous.persons* | **369** | **351** | **368** | **380** | **393** | **358** | **373** | **379** |
| **Unemployment rate** | *average in per cent* | **7.1** | **6.7** | **7.0** | **7.2** | **7.4** | **6.7** | **7.0** | **7.1** |
| **Labour force** | *av. in thous. persons* | **5204** | **5239** | **5288** | **5296** | **5277** | **5311** | **5351** | **5353** |
| | *growth in %* | 0.0 | 0.2 | 1.0 | 1.4 | 1.4 | 1.4 | 1.2 | 1.1 |
| **Population aged 15–64** | *av. in thous. persons* | **7255** | **7238** | **7222** | **7200** | **7184** | **7166** | **7149** | **7131** |
| | *growth in %* | -0.9 | -0.9 | -0.9 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 |
| **Employment/Pop. 15–64** | *average in per cent* | **66.6** | **67.5** | **68.1** | **68.3** | **68.0** | **69.1** | **69.6** | **69.8** |
| | *increase over a year* | 0.6 | 0.8 | 1.0 | 1.1 | 1.3 | 1.6 | 1.5 | 1.5 |
| **Employment rate 15–64** [1] | *average in per cent* | **65.6** | **66.5** | **67.1** | **67.0** | **66.8** | **68.0** | **68.4** | **68.5** |
| | *increase over a year* | 0.6 | 0.8 | 0.9 | 0.9 | 1.2 | 1.6 | 1.3 | 1.4 |
| **Labour force/Pop. 15–64** | *average in per cent* | **71.7** | **72.4** | **73.2** | **73.6** | **73.5** | **74.1** | **74.9** | **75.1** |
| | *increase over a year* | 0.6 | 0.8 | 1.4 | 1.8 | 1.7 | 1.7 | 1.6 | 1.5 |
| **Participation rate 15–64** [2] | *average in per cent* | **70.7** | **71.3** | **72.1** | **72.3** | **72.3** | **73.0** | **73.6** | **73.8** |
| | *increase over a year* | 0.6 | 0.8 | 1.3 | 1.6 | 1.6 | 1.7 | 1.4 | 1.5 |
| **SNA** | | | | | | | | | |
| **Employment (domestic concept)** | *av. in thous. persons* | **5010** | **5069** | **5118** | **5111** | **5065** | **5134** | **5182** | **5175** |
| | *growth in %* | 0.0 | 0.3 | 0.5 | 0.8 | 1.1 | 1.3 | 1.2 | 1.2 |
| **Hours worked** | *bill. hours* | **2.40** | **2.37** | **2.07** | **2.31** | **2.29** | **2.36** | **2.07** | **2.31** |
| | *growth in %* | 0.6 | -1.5 | -1.6 | 2.1 | -4.5 | -0.5 | -0.1 | 0.0 |
| **Hours worked / employment** | *hours* | **479** | **467** | **405** | **451** | **452** | **459** | **400** | **446** |
| | *growth in %* | 0.5 | -1.7 | -2.1 | 1.3 | -5.5 | -1.8 | -1.3 | -1.2 |
| **Registered unemployment** | | | | | | | | | |
| **Unemployment** | *av. in thous. persons* | **531** | **494** | **486** | **508** | **582** | **559** | **551** | **569** |

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

## Graph C.3.3: **Employment** (LFS)
*seasonally adjusted data, in thousands of persons, growth rates in %*
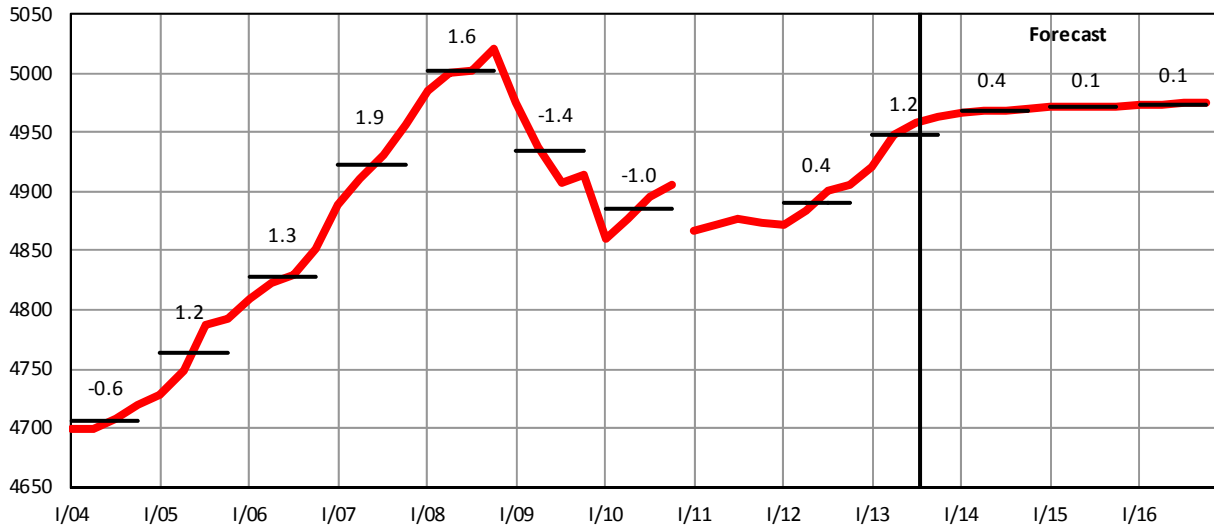


## Graph C.3.4: **Ratio of Labour Force to Population Aged 15–64**
*in %*
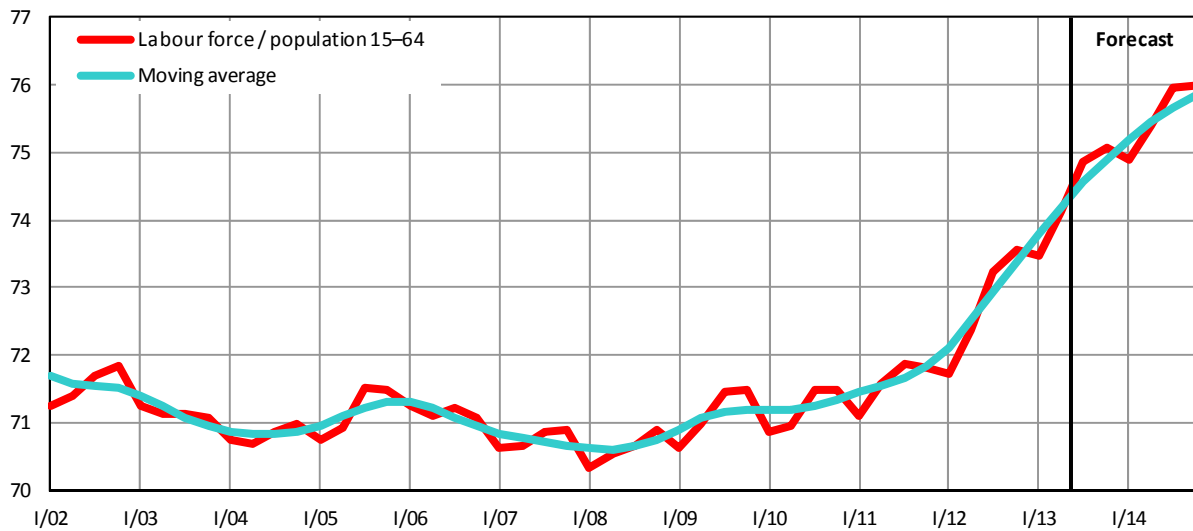


## Graph C.3.5: **Unemployment**
*quarterly average, in thousands of persons, in % (rhs)*
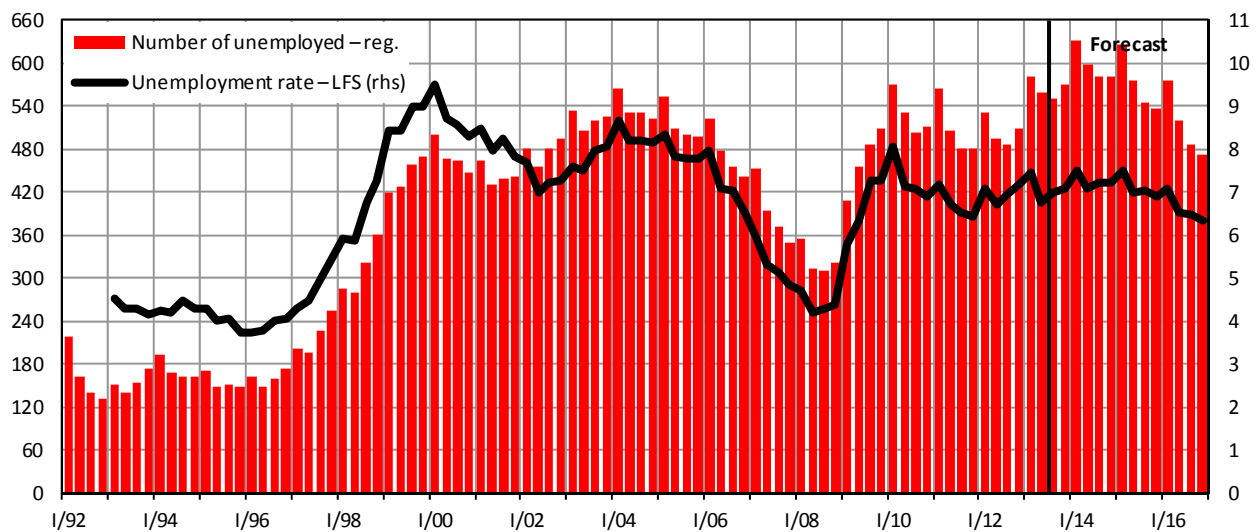
## Graph C.3.6: **Economic Output and Unemployment**

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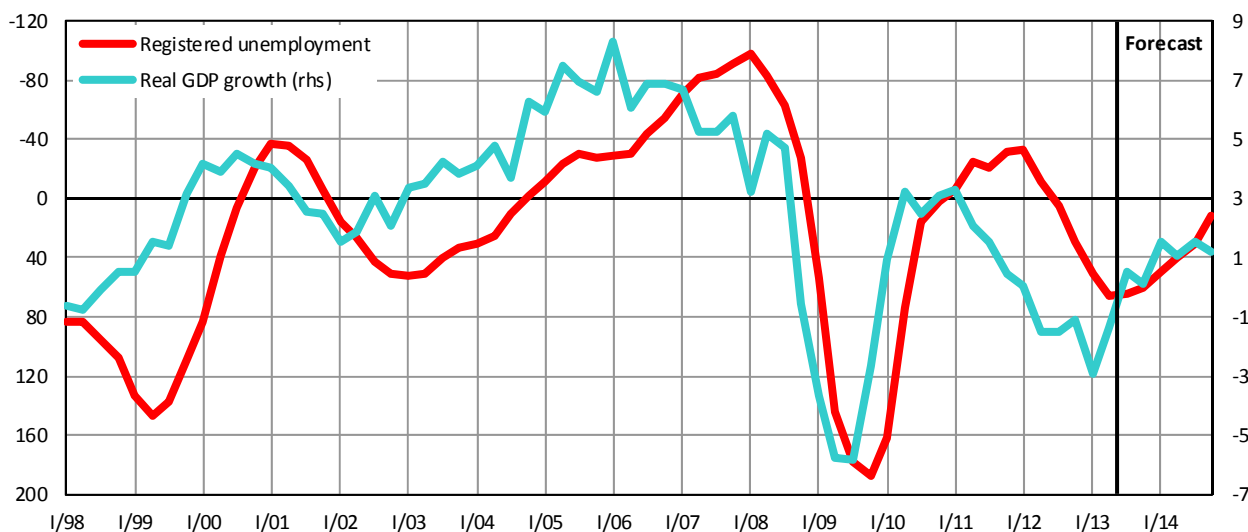


## Table C.3.3: **Labour Market** – analytical indicators

| | | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | *Forecast* | *Forecast* |
| **Compensation per employee** | | | | | | | | | | | |
| – nominal | growth in % | 3.8 | 6.0 | 6.3 | 4.2 | -0.6 | 3.1 | 2.3 | 1.9 | -0.9 | 2.1 |
| – real | growth in % | 1.9 | 3.4 | 3.3 | -2.0 | -1.7 | 1.6 | 0.4 | -1.4 | -2.4 | 1.2 |
| **Wage bill** | growth in % | 7.3 | 7.2 | 8.3 | 7.5 | -2.1 | 0.8 | 2.2 | 1.8 | 0.8 | 2.5 |
| **Average monthly wage** [1] | | | | | | | | | | | |
| – nominal | CZK | 18 336 | 19 536 | 20 947 | 22 592 | 23 353 | 23 858 | 24 452 | 25 109 | 25 300 | 25 900 |
| | growth in % | 5.0 | 6.5 | 7.2 | 7.9 | 3.4 | 2.2 | 2.5 | 2.7 | 0.9 | 2.3 |
| – real | CZK 2005 | 18 336 | 19 053 | 19 865 | 20 147 | 20 610 | 20 753 | 20 866 | 20 745 | 20 600 | 20 900 |
| | growth in % | 3.1 | 3.9 | 4.3 | 1.4 | 2.3 | 0.7 | 0.5 | -0.6 | -0.6 | 1.5 |
| **Labour productivity** | growth in % | 4.6 | 5.6 | 3.5 | 0.8 | -2.8 | 3.5 | 1.9 | -1.4 | -2.2 | 0.9 |
| **Unit labour costs** [2] | growth in % | -0.7 | 0.4 | 2.6 | 3.4 | 2.2 | -0.4 | 0.5 | 3.3 | 1.2 | 1.1 |
| **Compensations of employees / GDP** | % | 41.7 | 41.6 | 41.3 | 42.0 | 41.7 | 41.9 | 42.5 | 43.1 | 43.4 | 43.6 |

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

[2]  *Ratio of nominal compensation per employee to real productivity of labour.*

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

*YoY growth rate, in %*
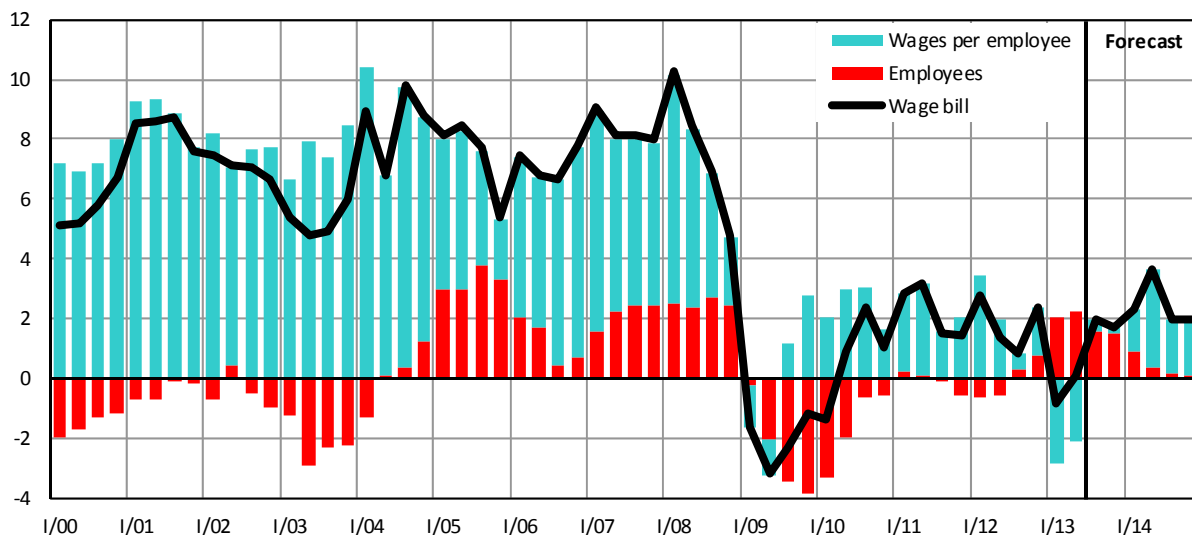
Graph C.3.8: **Average Nominal Wage**
*YoY growth rate, in %*



Legend:
- Wages (domestic) per employee
- Average monthly nominal gross wage (CZSO survey)

Graph C.3.9: **Gross Savings Rate of Households**
*in % of disposable income*



Legend:
- centered moving average
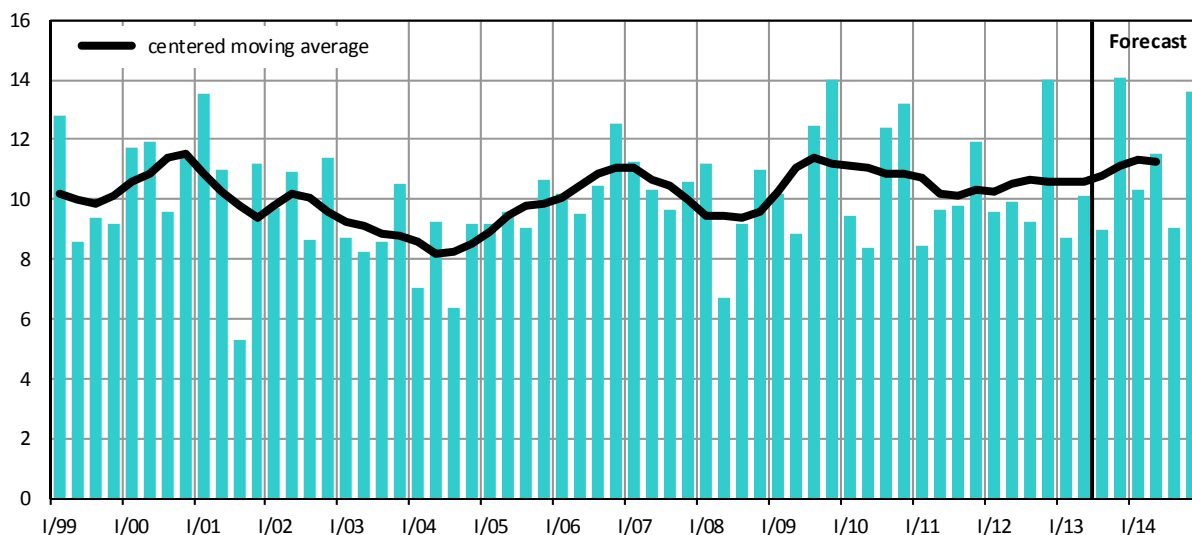
Table C.3.4: **Income and Expenditures of Households** – yearly

*SNA methodology – national concept*

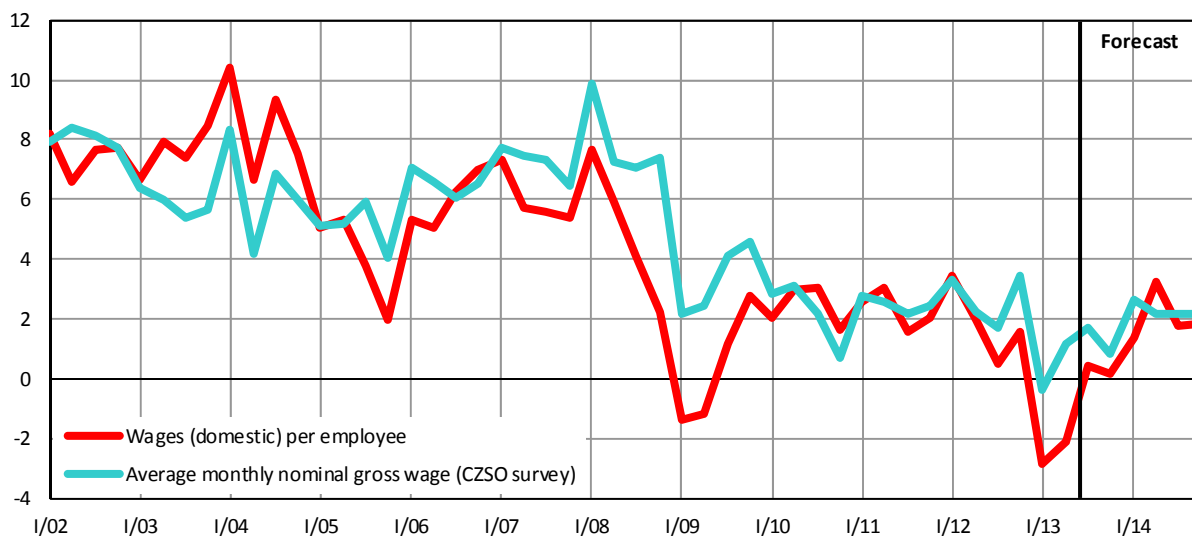| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 Forecast | 2014 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|
| <u>Current income</u> | | | | | | | | | | | |
| **Compensation of employees** | *bill.CZK* | **1302** | **1397** | **1510** | **1597** | **1557** | **1589** | **1627** | **1660** | **1676** | **1718** |
| | *growth in %* | 6.5 | 7.3 | 8.1 | 5.8 | -2.5 | 2.1 | 2.4 | 2.1 | 0.9 | 2.5 |
| **Gross operating surplus** | *bill.CZK* | **515** | **538** | **570** | **587** | **616** | **608** | **584** | **591** | **589** | **594** |
| **and mixed income** | *growth in %* | 1.3 | 4.4 | 6.0 | 3.0 | 5.0 | -1.4 | -4.0 | 1.2 | -0.2 | 0.8 |
| **Property income received** | *bill.CZK* | **135** | **150** | **155** | **167** | **155** | **151** | **154** | **141** | **139** | **140** |
| | *growth in %* | 13.0 | 11.5 | 3.1 | 8.2 | -7.3 | -2.8 | 2.3 | -8.8 | -1.5 | 1.0 |
| **Social benefits not-in-kind** | *bill.CZK* | **386** | **422** | **471** | **495** | **536** | **542** | **552** | **567** | **576** | **588** |
| | *growth in %* | 5.1 | 9.1 | 11.6 | 5.1 | 8.4 | 1.1 | 1.9 | 2.6 | 1.7 | 2.1 |
| **Other current transfers received** | *bill.CZK* | **104** | **113** | **122** | **137** | **137** | **135** | **134** | **146** | **151** | **156** |
| | *growth in %* | 4.5 | 8.9 | 7.8 | 11.8 | 0.5 | -1.8 | -0.8 | 9.2 | 3.0 | 3.6 |
| <u>Current expenditure</u> | | | | | | | | | | | |
| **Property income paid** | *bill.CZK* | **19** | **21** | **26** | **30** | **18** | **22** | **20** | **19** | **17** | **17** |
| | *growth in %* | -6.6 | 10.6 | 26.5 | 12.8 | -38.1 | 18.3 | -5.6 | -8.8 | -7.4 | 1.0 |
| **Curr. taxes on income and property** | *bill.CZK* | **144** | **144** | **160** | **146** | **141** | **137** | **148** | **151** | **150** | **153** |
| | *growth in %* | 1.7 | 0.4 | 11.0 | -8.6 | -3.7 | -2.7 | 7.8 | 2.4 | -1.2 | 2.4 |
| **Social contributions** | *bill.CZK* | **515** | **564** | **618** | **638** | **605** | **622** | **638** | **653** | **667** | **685** |
| | *growth in %* | 6.5 | 9.6 | 9.5 | 3.4 | -5.3 | 2.8 | 2.7 | 2.3 | 2.1 | 2.6 |
| **Other current transfers paid** | *bill.CZK* | **109** | **119** | **132** | **143** | **140** | **140** | **142** | **150** | **153** | **156** |
| | *growth in %* | 4.7 | 9.4 | 11.0 | 8.3 | -2.1 | 0.0 | 1.1 | 5.5 | 2.2 | 2.0 |
| **Gross disposable income** | *bill.CZK* | **1657** | **1771** | **1891** | **2025** | **2097** | **2104** | **2102** | **2131** | **2143** | **2184** |
| | *growth in %* | 5.6 | 6.9 | 6.8 | 7.1 | 3.5 | 0.3 | -0.1 | 1.4 | 0.6 | 1.9 |
| **Final consumption** | *bill.CZK* | **1516** | **1604** | **1720** | **1857** | **1874** | **1889** | **1908** | **1916** | **1941** | **1969** |
| | *growth in %* | 3.8 | 5.9 | 7.2 | 8.0 | 1.0 | 0.8 | 1.0 | 0.4 | 1.3 | 1.4 |
| **Change in share in pension funds** | *bill.CZK* | **19** | **23** | **26** | **24** | **17** | **15** | **16** | **15** | **25** | **29** |
| **Gross savings** | *bill.CZK* | **160** | **190** | **197** | **193** | **240** | **230** | **210** | **230** | **227** | **245** |
| **Capital transfers** | | | | | | | | | | | |
| **(income (-) / expenditure (+))** | *bill.CZK* | **-31** | **-31** | **-36** | **-29** | **-28** | **-33** | **-29** | **-24** | **-20** | **-19** |
| **Gross capital formation** | *bill.CZK* | **158** | **178** | **203** | **209** | **201** | **218** | **190** | **175** | **167** | **160** |
| | *growth in %* | 13.2 | 12.4 | 14.2 | 3.0 | -3.8 | 8.6 | -13.0 | -7.9 | -4.8 | -4.0 |
| **Change in financial assets and liab.** | *bill.CZK* | **34** | **43** | **30** | **12** | **66** | **44** | **49** | **77** | **80** | **104** |
| **Real disposable income** | *growth in %* | **4.7** | **5.3** | **3.7** | **2.2** | **2.7** | **0.5** | **-0.5** | **-1.2** | **-0.6** | **1.4** |
| **Gross savings rate** | *%* | **9.7** | **10.7** | **10.4** | **9.5** | **11.4** | **10.9** | **10.0** | **10.8** | **10.6** | **11.2** |

# C.4 External Relations

*Sources: CNB, CZSO, Eurostat, MoF estimates*

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

| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 Forecast | 2014 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance of goods and services** | bill.CZK | 86 | 108 | 106 | 100 | 161 | 129 | 149 | 196 | 240 | 261 |
| – balance of trade [1] | bill.CZK | 49 | 59 | 47 | 26 | 87 | 54 | 90 | 146 | 181 | 197 |
| – of which mineral fuels (SITC 3) [2] | bill.CZK | -111 | -139 | -124 | -167 | -107 | -138 | -177 | -189 | -185 | -180 |
| – balance of services | bill.CZK | 38 | 49 | 59 | 74 | 74 | 75 | 58 | 50 | 59 | 64 |
| **Balance of income** | bill.CZK | -128 | -165 | -255 | -175 | -250 | -285 | -256 | -289 | -312 | -322 |
| – compensation of employees | bill.CZK | 4 | 3 | -4 | -19 | -11 | -1 | 1 | 5 | 6 | 6 |
| – investment income | bill.CZK | -132 | -168 | -251 | -156 | -239 | -284 | -257 | -294 | -318 | -328 |
| **Balance of transfers** | bill.CZK | 11 | -11 | -8 | -6 | -1 | 9 | 3 | -1 | 6 | 4 |
| **Current account** | bill.CZK | -31 | -67 | -157 | -81 | -89 | -147 | -104 | -94 | -67 | -57 |
| **Capital account** | bill.CZK | 6 | 10 | 22 | 27 | 51 | 33 | 15 | 52 | 52 | 54 |
| **Financial account** | bill.CZK | 160 | 100 | 125 | 92 | 143 | 174 | 59 | 122 | . | . |
| – foreign direct investments | bill.CZK | 280 | 90 | 179 | 36 | 38 | 95 | 47 | 181 | . | . |
| – portfolio investments | bill.CZK | -81 | -27 | -57 | -9 | 159 | 150 | 6 | 43 | . | . |
| – other investments | bill.CZK | -38 | 36 | 3 | 65 | -53 | -71 | 7 | -102 | . | . |
| **Change in reserves** | bill.CZK | 93 | 2 | 16 | 40 | 61 | 41 | -17 | 80 | . | . |
| **International investment position** | bill.CZK | -837 | -1084 | -1418 | -1545 | -1728 | -1830 | -1818 | -1904 | . | . |
| **Gross external debt** | bill.CZK | 1144 | 1196 | 1377 | 1630 | 1639 | 1767 | 1877 | 1941 | 2047 | 2049 |
| **Balance of goods and services / GDP** | per cent | 2.8 | 3.2 | 2.9 | 2.6 | 4.3 | 3.4 | 3.9 | 5.1 | 6.2 | 6.6 |
| **Current account / GDP** | per cent | -1.0 | -2.0 | -4.3 | -2.1 | -2.4 | -3.9 | -2.7 | -2.4 | -1.7 | -1.4 |
| **Financial account / GDP** | per cent | 5.1 | 3.0 | 3.4 | 2.4 | 3.8 | 4.6 | 1.6 | 3.2 | . | . |
| **IIP / GDP** | per cent | -26.9 | -32.3 | -38.7 | -40.2 | -46.0 | -48.3 | -47.5 | -49.5 | . | . |
| **Gross external debt / GDP [3]** | per cent | 36.7 | 35.7 | 37.6 | 42.3 | 43.6 | 46.6 | 49.1 | 50.5 | 53 | 52 |

[1] *Imports – fob*
[2] *Imports – cif*
[3] *Ratio of external debt (in CZK) at the end of period to GDP (in CZK)*

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

| | | 2012 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 *Estimate* | Q4 *Forecast* |
| **Balance of goods and services** | bill.CZK | 169 | 168 | 194 | 196 | 199 | 228 | 231 | 240 |
| – balance of trade [1] | bill.CZK | 109 | 116 | 143 | 146 | 148 | 171 | 173 | 181 |
| – of which mineral fuels (SITC 3) [2] | bill.CZK | -182 | -180 | -183 | -189 | -187 | -189 | -186 | -185 |
| – balance of services | bill.CZK | 60 | 53 | 50 | 50 | 51 | 57 | 58 | 59 |
| **Balance of income** | bill.CZK | -289 | -216 | -258 | -289 | -303 | -308 | -310 | -312 |
| – compensation of employees | bill.CZK | 2 | 3 | 5 | 5 | 5 | 6 | 6 | 6 |
| – investment income | bill.CZK | -291 | -219 | -263 | -294 | -307 | -314 | -316 | -318 |
| **Balance of transfers** | bill.CZK | 1 | -9 | -11 | -1 | 6 | 4 | 12 | 6 |
| **Current account** | bill.CZK | -120 | -56 | -75 | -94 | -97 | -76 | -68 | -67 |
| **Capital account** | bill.CZK | 15 | 15 | 18 | 52 | 52 | 51 | 52 | 52 |
| **Financial account** | bill.CZK | 126 | 31 | 81 | 122 | 101 | 123 | . | . |
| – foreign direct investments | bill.CZK | 86 | 86 | 165 | 181 | 176 | 139 | . | . |
| – portfolio investments | bill.CZK | 71 | 57 | 86 | 43 | 36 | 69 | . | . |
| – other investments | bill.CZK | -31 | -112 | -171 | -102 | -112 | -84 | . | . |
| **Change in reserves** | bill.CZK | 42 | 4 | 16 | 80 | 54 | 81 | . | . |
| **International investment position** | bill.CZK | -1889 | -1893 | -1933 | -1904 | -1877 | -1920 | . | . |
| **Gross external debt** | bill.CZK | 1918 | 1928 | 1889 | 1941 | 1980 | 2025 | 2055 | 2047 |

[1] *Imports – fob*
[2] *Imports – cif*

## Graph C.4.1: **Current Account**
*moving sums of the latest 4 quarters, in % of GDP, trade and service balances in BoP definitions*
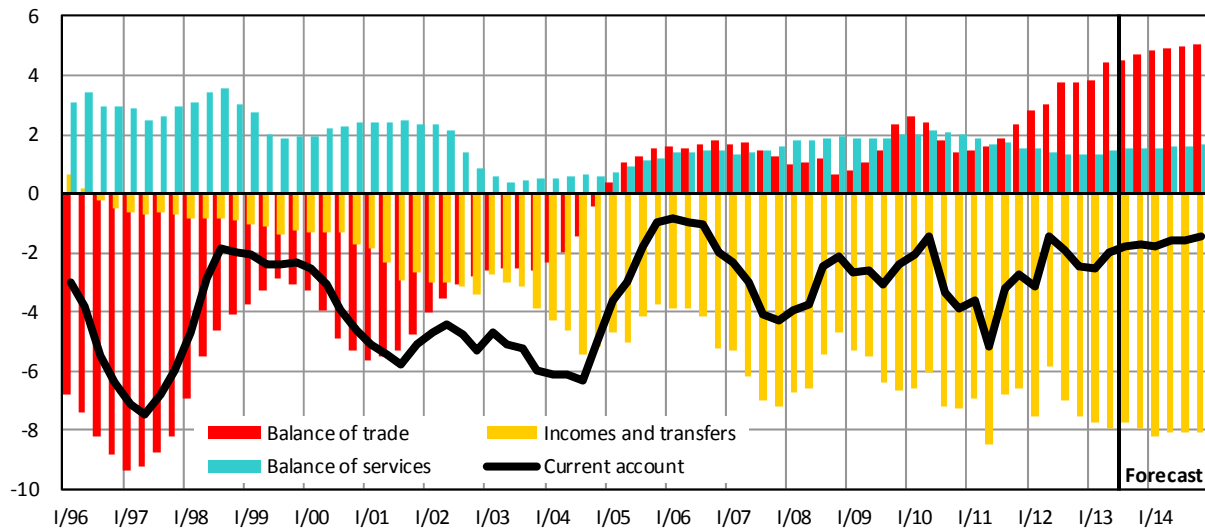
## Graph C.4.2: **Balance of Trade** (*exports fob, imports cif*)
*moving sums of the latest 4 quarters, in % of GDP, in cross-border definitions*
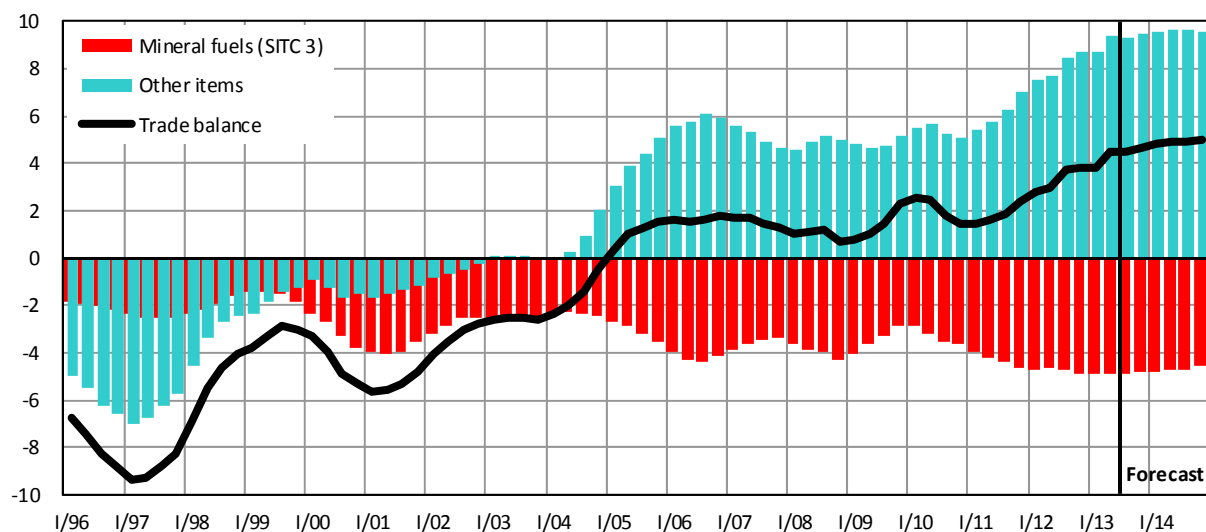


## Graph C.4.3: **Balance of Services**
*moving sums of the latest 4 quarters, in % of GDP*
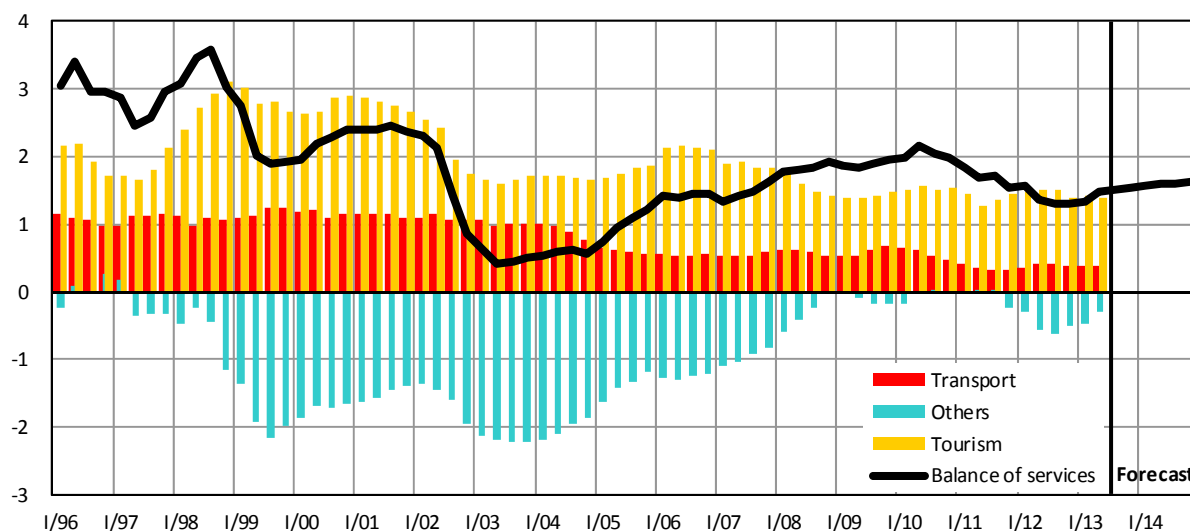


## Graph C.4.4: **Balance of Income**
*moving sums of the latest 4 quarters, in % of GDP*

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

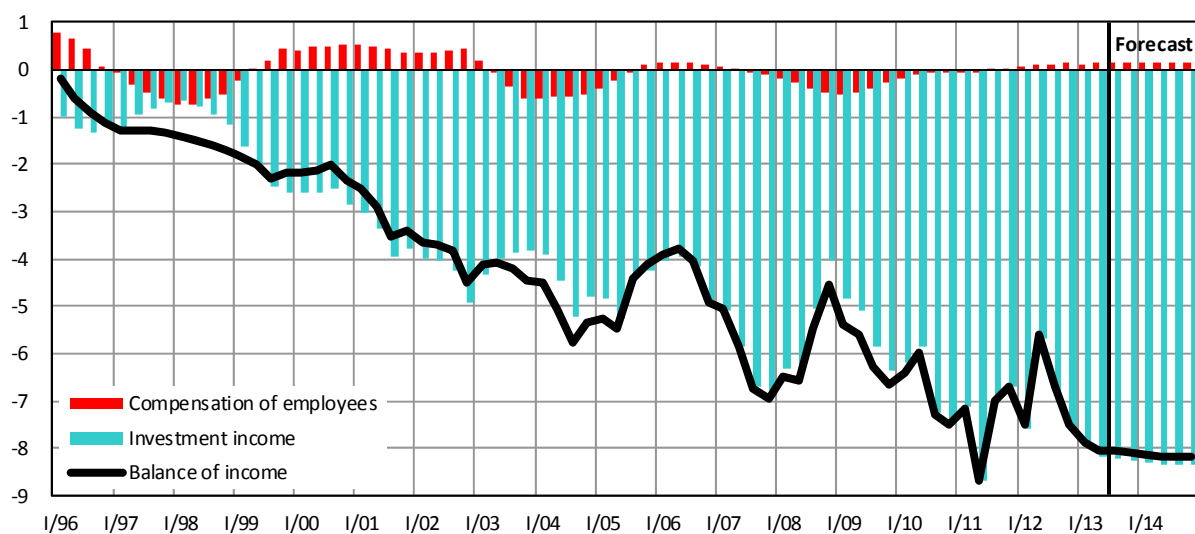| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 Forecast | 2014 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **GDP** [1] | *average of 2005=100* | 100.0 | 104.3 | 108.9 | 110.5 | 106.0 | 109.6 | 112.9 | 114.0 | 115 | 117 |
| | *growth in %* | **2.2** | **4.3** | **4.4** | **1.5** | **-4.1** | **3.4** | **3.0** | **1.0** | **0.7** | **1.6** |
| **Import intensity** [2] | *average of 2005=100* | 100.0 | 107.8 | 110.1 | 110.0 | 103.1 | 111.9 | 117.0 | 117.0 | 117 | 118 |
| | *growth in %* | **5.7** | **7.8** | **2.1** | **-0.1** | **-6.2** | **8.5** | **4.6** | **0.0** | **-0.1** | **1.1** |
| **Export markets** [3] | *average of 2005=100* | 100.0 | 112.5 | 119.9 | 121.5 | 109.3 | 122.7 | 132.1 | 133.4 | 134 | 138 |
| | *growth in %* | **8.0** | **12.5** | **6.6** | **1.3** | **-10.0** | **12.2** | **7.7** | **1.0** | **0.6** | **2.7** |
| **Export performance** | *average of 2005=100* | 100.0 | 101.3 | 105.9 | 107.6 | 105.5 | 109.4 | 112.3 | 115.9 | 115 | 116 |
| | *growth in %* | **2.5** | **1.3** | **4.5** | **1.6** | **-1.9** | **3.7** | **2.7** | **3.2** | **-0.8** | **0.7** |
| **Real exports** | *average of 2005=100* | 100.0 | 114.0 | 126.9 | 130.7 | 115.3 | 134.2 | 148.3 | 154.6 | 154 | 160 |
| | *growth in %* | **10.7** | **14.0** | **11.4** | **3.0** | **-11.8** | **16.4** | **10.6** | **4.2** | **-0.2** | **3.4** |
| **1 / NEER** | *average of 2005=100* | 100.0 | 95.4 | 93.0 | 83.2 | 86.0 | 84.2 | 81.7 | 84.6 | 86 | 86 |
| | *growth in %* | **-5.6** | **-4.6** | **-2.6** | **-10.5** | **3.4** | **-2.2** | **-2.9** | **3.6** | **1.6** | **0.2** |
| **Prices on foreign markets** | *average of 2005=100* | 100.0 | 103.1 | 106.1 | 112.8 | 108.8 | 109.5 | 113.8 | 113.3 | 112 | 113 |
| | *growth in %* | **3.1** | **3.1** | **2.9** | **6.3** | **-3.6** | **0.7** | **4.0** | **-0.4** | **-0.9** | **0.8** |
| **Exports deflator** | *average of 2005=100* | 100.0 | 98.4 | 98.6 | 93.8 | 93.6 | 92.1 | 93.0 | 95.9 | 97 | 98 |
| | *growth in %* | **-2.6** | **-1.6** | **0.2** | **-4.9** | **-0.3** | **-1.5** | **0.9** | **3.1** | **0.7** | **1.0** |
| **Nominal exports** | *average of 2005=100* | 100.0 | 112.2 | 125.1 | 122.7 | 107.7 | 123.7 | 138.0 | 148.3 | 149 | 156 |
| | *growth in %* | **7.7** | **12.2** | **11.6** | **-2.0** | **-12.2** | **14.8** | **11.6** | **7.5** | **0.6** | **4.4** |

[1] *Weighted average of GDP of the seven most important partners – Germany, Slovakia, Austria, the United Kingdom, Poland, France and Italy.*
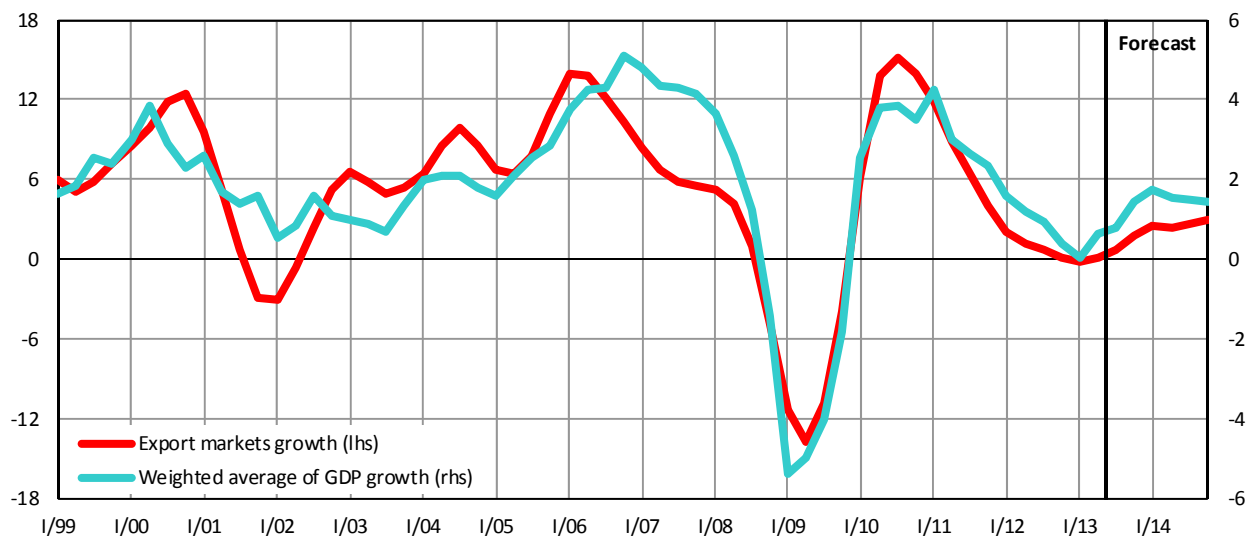[2] *Index of ratio of real imports of goods to real GDP.*
[3] *Weighted average of imports of goods of the main partners.*

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

| | | 2012 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 Estimate | Q4 Forecast |
| **GDP** [1] | *average of 2005=100* | 114.0 | 114.0 | 114.2 | 113.9 | 114.0 | 114.7 | 115 | 116 |
| | *growth in %* | **1.6** | **1.2** | **1.0** | **0.4** | **0.0** | **0.6** | **0.8** | **1.5** |
| **Import intensity** [2] | *average of 2005=100* | 116.8 | 117.4 | 117.1 | 116.7 | 116.5 | 116.8 | 117 | 117 |
| | *growth in %* | **0.4** | **0.0** | **-0.2** | **-0.3** | **-0.2** | **-0.5** | **-0.1** | **0.4** |
| **Export markets** [3] | *average of 2005=100* | 133.1 | 133.8 | 133.8 | 133.0 | 132.9 | 134.0 | 135 | 135 |
| | *growth in %* | **2.0** | **1.2** | **0.7** | **0.0** | **-0.2** | **0.2** | **0.7** | **1.8** |
| **Export performance** | *average of 2005=100* | 119.7 | 116.3 | 111.2 | 116.3 | 113.1 | 116.5 | 113 | 118 |
| | *growth in %* | **5.6** | **1.6** | **2.6** | **3.0** | **-5.5** | **0.2** | **1.2** | **1.2** |
| **Real exports** | *average of 2005=100* | 159.4 | 155.6 | 148.8 | 154.6 | 150.3 | 156.1 | 152 | 159 |
| | *growth in %* | **7.7** | **2.8** | **3.3** | **3.0** | **-5.7** | **0.3** | **1.9** | **3.0** |
| **1 / NEER** | *average of 2005=100* | 84.1 | 84.8 | 84.8 | 84.8 | 85.5 | 86.3 | 86 | 86 |
| | *growth in %* | **3.3** | **5.1** | **4.8** | **1.3** | **1.8** | **1.7** | **1.4** | **1.6** |
| **Prices on foreign markets** | *average of 2005=100* | 113.7 | 113.6 | 113.2 | 113.0 | 112.9 | 112.3 | 112 | 112 |
| | *growth in %* | **0.8** | **-0.7** | **-1.1** | **-0.6** | **-0.6** | **-1.1** | **-1.0** | **-0.8** |
| **Exports deflator** | *average of 2005=100* | 95.5 | 96.3 | 96.0 | 95.9 | 96.6 | 96.9 | 96 | 97 |
| | *growth in %* | **4.0** | **4.4** | **3.6** | **0.7** | **1.1** | **0.6** | **0.4** | **0.8** |
| **Nominal exports** | *average of 2005=100* | 152.3 | 149.9 | 142.8 | 148.3 | 145.3 | 151.3 | 146 | 154 |
| | *growth in %* | **12.0** | **7.3** | **7.0** | **3.8** | **-4.6** | **0.9** | **2.3** | **3.9** |

*See notes to Table C.4.3.*

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



Legend:
- Export markets growth (lhs)
- Weighted average of GDP growth (rhs)

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



Legend:
- Export performance
- Export market growth
- Real exports of goods
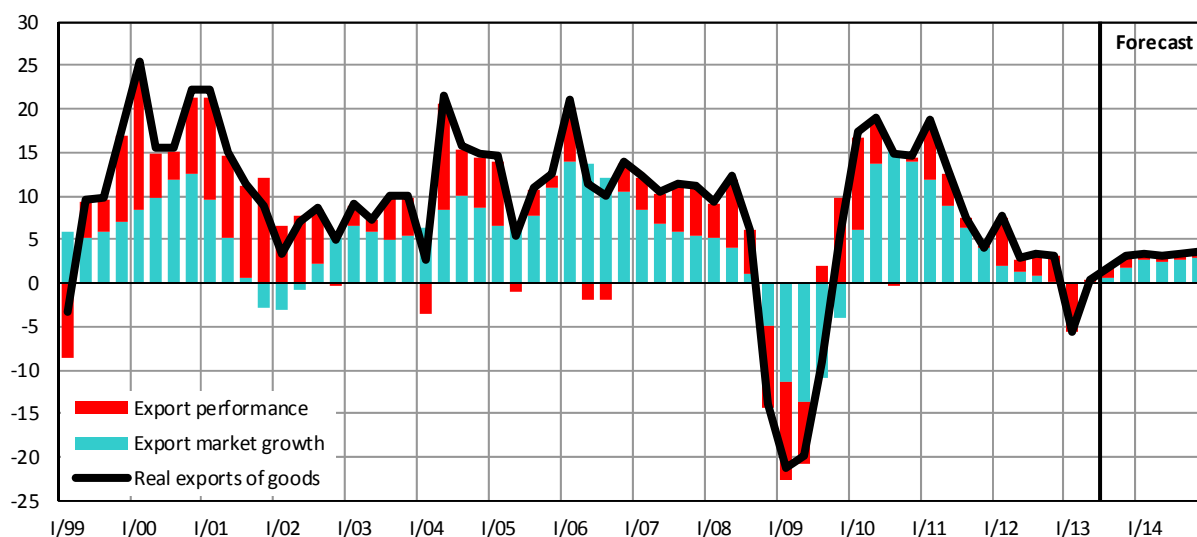
## Graph C.4.7: Deflator of Exports of Goods
*decomposition of YoY growth, in %*



Legend:
- Reached prices
- Exchange rate
- Deflator
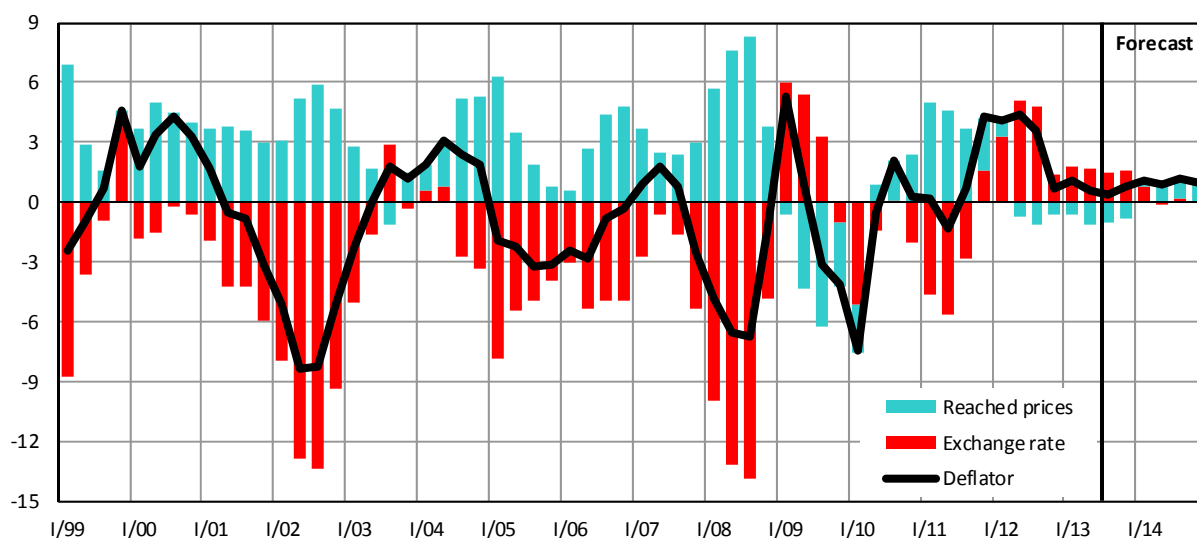
# C.5 International Comparisons

*Sources: Eurostat, OECD, IMF, MoF estimates*

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

| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Prelim. | Forecast | Forecast |
| **Slovenia** | PPS | 19 700 | 20 700 | 22 100 | 22 700 | 20 300 | 20 500 | 21 000 | 20 900 | 20 700 | 21 000 |
| | EA12=100 | 79 | 79 | 80 | 83 | 79 | 77 | 77 | 75 | 74 | 73 |
| **Czech Republic** | PPS | 17 800 | 18 900 | 20 700 | 20 200 | 19 400 | 19 500 | 20 100 | 20 300 | 20 400 | 21 000 |
| | EA12=100 | 72 | 73 | 75 | 74 | 75 | 73 | 73 | 73 | 73 | 73 |
| **Slovakia** | PPS | 13 500 | 15 000 | 16 900 | 18 100 | 17 100 | 17 900 | 18 500 | 19 100 | 19 500 | 20 200 |
| | EA12=100 | 55 | 57 | 62 | 66 | 66 | 67 | 67 | 69 | 70 | 71 |
| **Portugal** | PPS | 17 900 | 18 700 | 19 600 | 19 500 | 18 800 | 19 700 | 19 600 | 19 200 | 19 100 | 19 500 |
| | EA12=100 | 72 | 72 | 72 | 71 | 73 | 74 | 71 | 69 | 68 | 68 |
| **Lithuania** | PPS | 12 300 | 13 600 | 15 500 | 16 100 | 13 600 | 15 000 | 16 700 | 17 900 | 18 900 | 19 900 |
| | EA12=100 | 49 | 52 | 56 | 59 | 53 | 56 | 61 | 64 | 67 | 69 |
| **Estonia** | PPS | 13 800 | 15 600 | 17 500 | 17 200 | 15 000 | 15 500 | 17 200 | 18 000 | 18 800 | 19 800 |
| | EA12=100 | 56 | 60 | 64 | 63 | 58 | 58 | 63 | 65 | 67 | 69 |
| **Greece** | PPS | 20 400 | 21 800 | 22 500 | 23 100 | 22 100 | 21 200 | 19 900 | 19 200 | 18 700 | 19 100 |
| | EA12=100 | 82 | 84 | 82 | 84 | 86 | 79 | 72 | 69 | 67 | 67 |
| **Poland** | PPS | 11 500 | 12 300 | 13 600 | 14 100 | 14 200 | 15 300 | 16 200 | 16 800 | 17 300 | 17 900 |
| | EA12=100 | 46 | 47 | 49 | 51 | 55 | 57 | 59 | 61 | 62 | 63 |
| **Hungary** | PPS | 14 200 | 14 900 | 15 400 | 16 000 | 15 300 | 15 800 | 16 300 | 16 700 | 17 000 | 17 500 |
| | EA12=100 | 57 | 57 | 56 | 58 | 60 | 59 | 60 | 60 | 61 | 61 |
| **Latvia** | PPS | 11 100 | 12 500 | 14 300 | 14 600 | 12 700 | 13 200 | 14 700 | 15 900 | 16 900 | 17 900 |
| | EA12=100 | 45 | 48 | 52 | 53 | 49 | 49 | 54 | 57 | 60 | 63 |
| **Croatia** | PPS | 12 800 | 13 700 | 15 200 | 15 800 | 14 500 | 14 300 | 15 200 | 15 600 | 16 000 | 16 600 |
| | EA12=100 | 52 | 52 | 55 | 58 | 56 | 53 | 56 | 56 | 57 | 58 |

Graph C.5.1: **GDP p.c. – using current purchasing power parities**
*EA12=100*
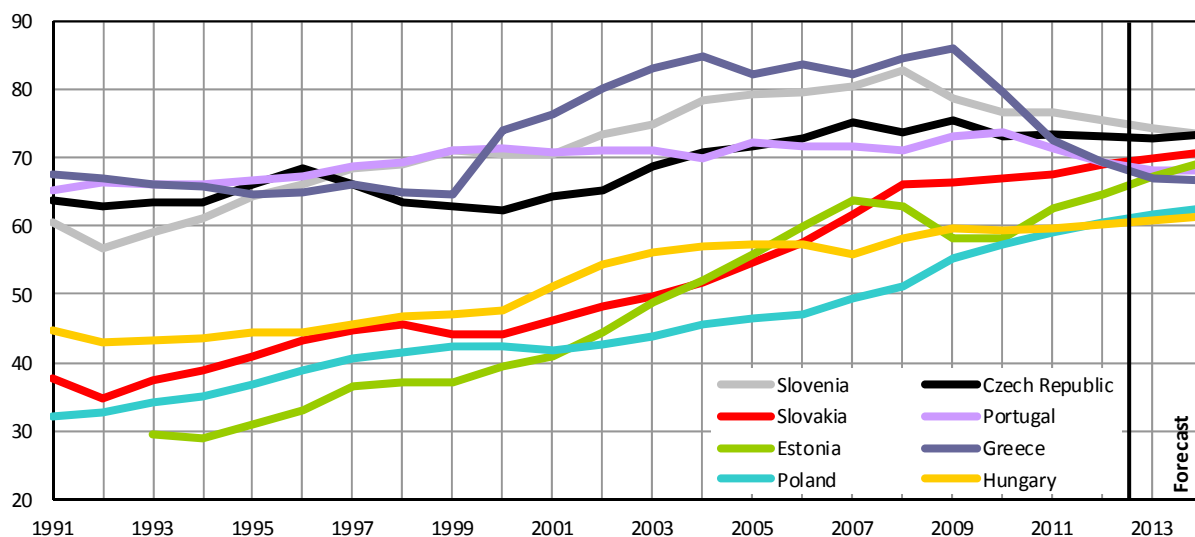
## Table C.5.2: **GDP p.c. – using current exchange rates**

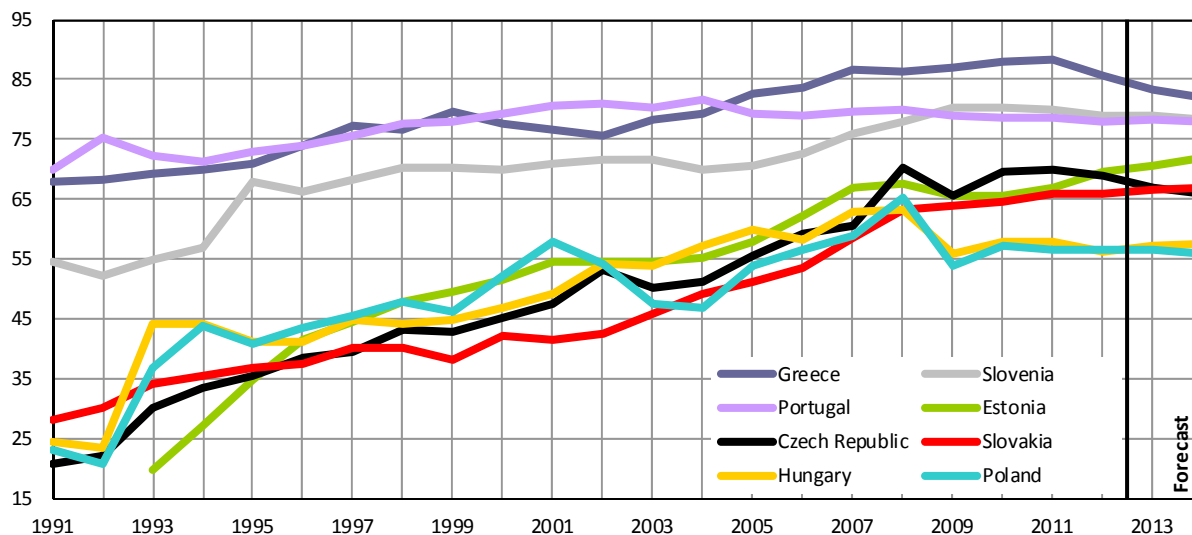| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Prelim. | 2013 Forecast | 2014 Forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Slovenia** | *EUR* | 14 400 | 15 500 | 17 100 | 18 400 | 17 300 | 17 300 | 17 600 | 17 200 | 17 000 | 17 100 |
| | *EA12=100* | 56 | 58 | 61 | 65 | 63 | 62 | 61 | 59 | 58 | 57 |
| *Comparative price level* | *EA12=100* | **71** | **73** | **76** | **78** | **80** | **80** | **80** | **79** | **79** | **78** |
| **Greece** | *EUR* | 17 400 | 18 700 | 19 900 | 20 800 | 20 500 | 19 600 | 18 500 | 17 200 | 16 300 | 16 300 |
| | *EA12=100* | 68 | 70 | 71 | 73 | 75 | 70 | 64 | 59 | 56 | 55 |
| *Comparative price level* | *EA12=100* | **83** | **84** | **87** | **86** | **87** | **88** | **88** | **86** | **83** | **82** |
| **Portugal** | *EUR* | 14 600 | 15 200 | 16 000 | 16 200 | 15 900 | 16 300 | 16 100 | 15 600 | 15 600 | 15 900 |
| | *EA12=100* | 57 | 57 | 57 | 57 | 58 | 58 | 56 | 54 | 53 | 53 |
| *Comparative price level* | *EA12=100* | **79** | **79** | **80** | **80** | **79** | **78** | **78** | **78** | **78** | **78** |
| **Czech Republic** | *EUR* | 10 200 | 11 500 | 12 800 | 14 800 | 13 500 | 14 300 | 14 800 | 14 600 | 14 200 | 14 400 |
| | *EA12=100* | 40 | 43 | 46 | 52 | 49 | 51 | 51 | 50 | 49 | 48 |
| *Comparative price level* | *EA12=100* | **56** | **59** | **61** | **70** | **66** | **70** | **70** | **69** | **67** | **66** |
| **Estonia** | *EUR* | 8 300 | 10 000 | 12 000 | 12 100 | 10 400 | 10 700 | 12 100 | 13 000 | 13 800 | 14 800 |
| | *EA12=100* | 32 | 37 | 43 | 42 | 38 | 38 | 42 | 45 | 47 | 50 |
| *Comparative price level* | *EA12=100* | **58** | **62** | **67** | **68** | **65** | **66** | **67** | **70** | **71** | **72** |
| **Slovakia** | *EUR* | 7 100 | 8 300 | 10 200 | 11 900 | 11 600 | 12 100 | 12 800 | 13 200 | 13 600 | 14 100 |
| | *EA12=100* | 28 | 31 | 36 | 42 | 42 | 43 | 44 | 46 | 47 | 47 |
| *Comparative price level* | *EA12=100* | **51** | **54** | **59** | **63** | **64** | **65** | **66** | **66** | **67** | **67** |
| **Lithuania** | *EUR* | 6 300 | 7 400 | 8 900 | 10 100 | 8 400 | 8 900 | 10 200 | 11 000 | 11 700 | 12 600 |
| | *EA12=100* | 25 | 28 | 32 | 36 | 31 | 32 | 36 | 38 | 40 | 42 |
| *Comparative price level* | *EA12=100* | **50** | **53** | **56** | **61** | **58** | **57** | **58** | **59** | **60** | **61** |
| **Latvia** | *EUR* | 5 800 | 7 200 | 9 600 | 10 500 | 8 600 | 8 600 | 9 800 | 10 900 | 11 700 | 12 500 |
| | *EA12=100* | 23 | 27 | 34 | 37 | 32 | 31 | 34 | 38 | 40 | 42 |
| *Comparative price level* | *EA12=100* | **50** | **56** | **65** | **69** | **64** | **62** | **64** | **66** | **66** | **67** |
| **Croatia** | *EUR* | 8 100 | 8 900 | 9 800 | 10 700 | 10 100 | 10 100 | 10 400 | 10 300 | 10 500 | 10 900 |
| | *EA12=100* | 32 | 33 | 35 | 38 | 37 | 36 | 36 | 36 | 36 | 36 |
| *Comparative price level* | *EA12=100* | **61** | **64** | **63** | **65** | **65** | **67** | **65** | **63** | **63** | **63** |
| **Poland** | *EUR* | 6 400 | 7 100 | 8 200 | 9 500 | 8 100 | 9 200 | 9 600 | 9 900 | 10 200 | 10 400 |
| | *EA12=100* | 25 | 27 | 29 | 33 | 30 | 33 | 33 | 34 | 35 | 35 |
| *Comparative price level* | *EA12=100* | **54** | **57** | **59** | **65** | **54** | **57** | **57** | **56** | **56** | **56** |
| **Hungary** | *EUR* | 8 800 | 8 900 | 9 900 | 10 500 | 9 100 | 9 600 | 9 900 | 9 800 | 10 100 | 10 500 |
| | *EA12=100* | 34 | 33 | 35 | 37 | 33 | 34 | 34 | 34 | 35 | 35 |
| *Comparative price level* | *EA12=100* | **60** | **58** | **63** | **63** | **56** | **58** | **58** | **56** | **57** | **58** |

Graph C.5.2: **GDP p.c. – using current exchange rates**
*EA12=100*
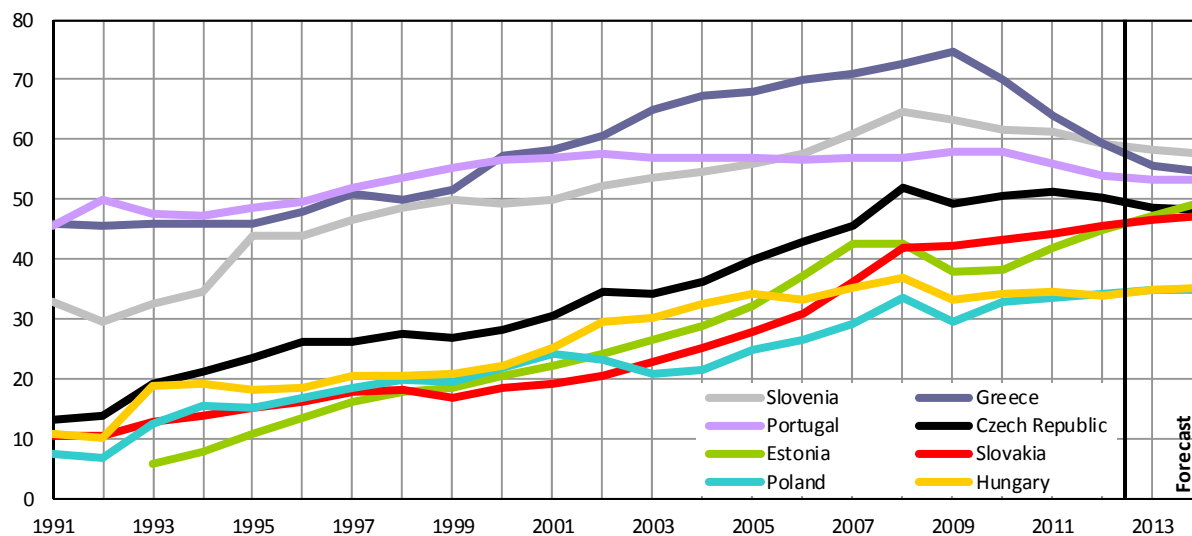


Graph C.5.3: **Index of Comparative Price Level of GDP p.c.**
*EA12=100*



Graph C.5.4: **Change in real GDP per capita during 2008–2012**
*growth in %*

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