

Summary of the Forecast

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

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

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

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

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

Table: **Main Macroeconomic Indicators**

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