

## Summary of the Forecast

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

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

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

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

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

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

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

Table: **Main Macroeconomic Indicators**

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