

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

Latest Development of GDP

This forecast is based on the national accounts data published by the CZSO on 1 October 2014. New data already fully correspond to the national accounts methodology ESA 2010 and they also reflect other methodical changes made by the CZSO. Due to changes in the whole historical time series (see Box C.1), the comparison of the estimate from the July Forecast with the actual data is purely formal, and cannot be interpreted in detail in terms of the forecast's success or failure.

In the second quarter of 2014, real GDP increased by 2.5% YoY (*versus 3.0%*). Growth was driven by domestic demand, both investment and final consumption expenditure (of both households and the government sector). In contrast, foreign trade made a negative contribution to GDP growth.

In quarterly terms³, GDP posted an increase of 0.3% (*consistent with the estimate*). Both final consumption expenditure and gross capital formation made a more or less equal contribution to the QoQ growth of GDP. Foreign trade mitigated GDP growth, as the growth of real imports surpassed the growth of real exports.

In the second quarter of 2014, household consumption increased in real terms by 1.5% YoY (*versus 1.7%*). In terms of the structure of household expenditure, growth was driven by expenditure on durable goods and services. Expenditure on non-durable goods saw only moderate growth. We should point out that in connection with the last recession of the Czech economy, this was by far the most affected part of consumption, which indicated that households faced income constraints. In contrast, the tendency to save manifests itself, at least initially, with the postponement of expenditure on durable and semi-durable goods.

Real gross capital formation increased by 9.3% YoY (*versus 5.5%*) in the second quarter of 2014, with growth of gross fixed capital formation reaching 5.6% (*versus 6.0%*). It is obvious from this that there was a sizeable YoY increase in the change of inventories⁴. Gross fixed capital formation grew especially due to

investment in other buildings and structures, other machines and equipment (now also weapon systems), and transport equipment. Investment in dwellings also increased slightly; nevertheless, in the light of how badly they were affected by the last recession, it is difficult to view the situation as a recovery or a turning point.

Real exports increased by 8.1% YoY (*versus 7.2%*) in the second quarter of 2014, while imports increased by 10.5% YoY (*versus 7.2%*). Foreign trade contributed negatively to GDP growth in the second quarter of 2014. However, there was a considerable improvement in the terms of trade, which is why the assessment of trade relations in real and in nominal terms differs. In the second quarter of 2014, real gross domestic income increased by 4.2% YoY (*versus 4.1%*).

In nominal terms, GDP increased by 5.2% YoY (*versus 4.5%*) in the second quarter of 2014.

Looking at the income structure of GDP, compensation of employees increased by 3.0% YoY (*versus 2.3%*) in the second quarter of 2014. Gross operating surplus increased by 7.9% (*versus 7.3%*). The high growth in gross operating surplus is a sign of the growing volume of internal sources for financing investment; relatively high growth in the compensation of employees contributed considerably to growth in gross disposable household income.

GDP Estimate and Forecast

We expect that the growth of investment and private consumption, which signals a pickup in domestic demand, will continue in the remainder of the year. Final consumption expenditure of households should be supported by the ongoing growth of real disposable income, while the effort to draw down as much EU funds from the financial perspective 2007–2013 as possible will have a positive impact on investment activity. The growth of domestic demand should be reflected in the dynamics of imports; growth of exports should be boosted by the subsiding effects of the depreciated koruna that had increased exporters' price competitiveness. Both exports and imports might keep growing at rates similar to those in the second quarter of 2014.

We estimate that real GDP increased by 0.4% QoQ (*unchanged*) in the third quarter of 2014. Both the composite leading indicator and the development of

³ QoQ changes referred to in the text are expressed using seasonally adjusted data; in other cases, seasonally unadjusted data are used.

⁴ This holds true for seasonally unadjusted data only. The contribution of the increase in the change of inventories to GDP is only 0.2pp after seasonal adjustment (see Chart C.1.7).

the composite confidence indicator support this estimate. For the fourth quarter of 2014 we forecast only a slight acceleration of quarterly GDP growth. The effect of stockpiling tobacco product tax stamps in connection with another planned increase in excise taxes will not be as pronounced as in the previous years, because new legislation limits the extent of stockpiling.

According to our estimate, real GDP increased by 2.9% YoY (*versus 3.3%*) in the third quarter of 2014. In terms of the composition of GDP by end use, we estimate that in the third quarter of 2014 consumption of households increased by 1.3% (*versus 1.4%*) and government consumption by 1.8% (*versus 2.2%*). Further, we revise the growth of gross fixed capital formation up to 4.7% (*versus 4.0%*). With regard to the estimated development of the economies of our main trading partners in the third quarter of 2014 and the data available for this period, we estimate that real exports increased by 7.3% YoY (*versus 6.6%*) and real imports by 8.3% YoY (*versus 6.5%*).

We forecast real GDP to increase by 2.4% (*versus 2.7%*) in 2014. The main reason for reducing the forecast is the downward revision of economic growth in the previous quarters due to the transition to the new standard ESA 2010. In 2015, we expect GDP to grow by 2.5% (*forecast unchanged*).

We forecast consumption of households to increase by 1.4% (*versus 1.6%*) in 2014. In 2015, we expect it to grow by 1.7% (*versus 1.4%*). The changes to the forecast are related partly to the revision of the time series for household consumption, and in 2015 mainly to the expected higher growth in real compensation of employees. We also expect a slight decrease in the households' gross savings rate due to the lower uncertainty perceived by households.

We expect government consumption to grow by 1.9% (*forecast unchanged*) in 2014 and by 2.0% (*versus 1.6%*) in 2015. We are increasing the forecast for growth of government consumption in 2015 due to relatively higher intermediate consumption and social benefits in kind.

Drawdown of money from the EU funds, faster growth of domestic demand as well as increasing internal sources for financing investment should all be reflected in the growth of real gross fixed capital formation of 4.5% (*versus 4.1%*) in 2014 and 4.9% (*versus 3.5%*) in 2015. The relatively high increase in the forecast for 2015 reflects updated information on the distribution of project financing from the EU funds, especially within the financial perspective 2007–2013. The impact of the lease of the JAS 39 Gripen jet fighters is also significant.

The contribution of the foreign trade balance to the growth of real GDP should be approximately zero in 2014 and 2015. We forecast real exports to grow by 8.3% (*versus 7.4%*) and real imports by 9.1% (*versus 7.2%*) in 2014. In 2015, we expect real exports to increase by 5.4% (*versus 4.8%*) and imports by 5.9% (*versus 4.7%*). The change to the forecast is partly given by the revision of the time series. Moreover, exports are affected by the downward revision to the forecast of growth of economies of the main trading partners and subsiding of the effects of depreciated koruna. In addition, the upward revision to the forecast of domestic demand growth impacts on imports.

Nominal GDP could increase by 4.8% (*versus 4.6%*) in 2014; for 2015 we predict its growth to slow down to 4.3% (*versus 3.8%*). The change to the forecast for 2015 is explained by a revision to the forecast of the terms of trade.

Box C.1: Revision of national accounts in connection with the transition to the ESA 2010 system of national accounts

On 1 October 2014, the Czech Statistical Office published a revised time series for the annual national accounts, primarily because of the transition to the new ESA 2010 system of national accounts. The CZSO describes these changes in detail on its website, together with other voluntary modifications affecting data sources or evaluation methods. In this box, we provide information on the differences between the annual data from national accounts based on ESA 2010 and the data that were up to date at the end of September and compiled according to the ESA 1995 system of national accounts. We are only concentrating on GDP and expenditure components at the following three levels: nominal level, real growth and growth of deflators. The information is summarized in Tables 1 to 3.

The level of nominal GDP increased considerably across the whole time series, which has mainly to do with the fact that expenditure on research and development as well as other military expenditure are now classified as gross fixed capital formation. Moreover, the lower limit on the classification of expenditure on small tools as gross fixed capital formation was abolished. As regards household consumption, this mainly involves an expansion of the term "housing fund" and the resulting additional consumption of housing services. In the aforementioned period, exports and imports increased

more or less equivalently due to the new accounting treatment of the so-called “merchandising”. The impact on the resulting balance of foreign trade has been minimal.

Table 1: **GDP and expenditure components – nominal levels**

		2008	2009	2010	2011	2012	2013
GDP	<i>ESA 1995, bill. CZK</i>	3 848	3 759	3 791	3 823	3 846	3 884
	<i>ESA 2010, bill. CZK</i>	4 015	3 922	3 954	4 022	4 048	4 086
	<i>difference in bill. CZK</i>	167	163	163	199	202	202
Private consumption	<i>ESA 1995, bill. CZK</i>	1 857	1 874	1 889	1 908	1 916	1 940
	<i>ESA 2010, bill. CZK</i>	1 887	1 891	1 920	1 957	1 970	1 999
	<i>difference in bill. CZK</i>	30	16	31	49	54	59
Government consumption	<i>ESA 1995, bill. CZK</i>	759	809	807	793	789	802
	<i>ESA 2010, bill. CZK</i>	766	812	810	792	783	802
	<i>difference in bill. CZK</i>	6	2	2	0	-5	0
Gross capital formation	<i>ESA 1995, bill. CZK</i>	1 114	896	940	937	898	865
	<i>ESA 2010, bill. CZK</i>	1 249	1 040	1 074	1 088	1 066	1 022
	<i>difference in bill. CZK</i>	136	143	135	151	169	157
Exports of goods and services	<i>ESA 1995, bill. CZK</i>	2 480	2 216	2 524	2 787	3 001	3 053
	<i>ESA 2010, bill. CZK</i>	2 544	2 307	2 616	2 881	3 098	3 155
	<i>difference in bill. CZK</i>	64	91	92	94	97	102
Imports of goods and services	<i>ESA 1995, bill. CZK</i>	2 388	2 064	2 397	2 628	2 786	2 806
	<i>ESA 2010, bill. CZK</i>	2 457	2 154	2 494	2 722	2 897	2 919
	<i>difference in bill. CZK</i>	69	90	97	94	112	113
Foreign trade balance	<i>ESA 1995, bill. CZK</i>	92	152	127	159	215	247
	<i>ESA 2010, bill. CZK</i>	87	152	123	159	200	235
	<i>difference in bill. CZK</i>	-5	1	-5	0	-15	-11

When it comes to the significant moments as regards the development of the Czech economy over the last 7 years, the revision of national accounts has slightly changed the view of the economic development in the recession which the economy entered in the fourth quarter of 2008 and from which it emerged at the end of the first half of 2009. According to the new data, the economic decline in 2009 was 0.3 pp (–4.8%) deeper. The role of domestic demand was stronger in this process: household consumption actually decreased, and did not increase, as the earlier data had indicated; on the other hand, the decline in gross fixed capital formation, although still very strong, was slightly lower compared to the original data. Foreign trade mitigated the decline in GDP slightly more than was first calculated. The other recession, through which the economy went over the last 7 years, lasted from the fourth quarter of 2011 to the first quarter of 2013. According to the current data, the decrease in GDP in 2012 was in fact slightly lower, as was the decrease in consumption and gross capital formation. The foreign trade balance in that year mitigated the GDP decline relatively less. The recovery in 2013 was stronger due to the smaller negative contribution of foreign trade to GDP growth – current data show foreign trade to have been neutral towards GDP growth in 2013.

As to the development of deflators, the considerable increase in GDP deflator growth in 2011 is worth noticing. This was due to an increase in deflators for household consumption and gross capital formation. In the whole period, there were minimal changes in the development of terms of trade, which are a result of export and import deflators. Changes in these deflators were also minor in scope; moreover, considering the terms of trade, they had the tendency to compensate each other.

Table 2: GDP and expenditure components – YoY real growth rates

		2008	2009	2010	2011	2012	2013
GDP	<i>ESA 1995, growth in %</i>	3.1	-4.5	2.5	1.8	-1.0	-0.9
	<i>ESA 2010, growth in %</i>	2.7	-4.8	2.3	2.0	-0.8	-0.7
	<i>difference in pp</i>	-0.4	-0.3	-0.2	0.1	0.2	0.2
Private consumption	<i>ESA 1995, growth in %</i>	3.0	0.2	1.0	0.5	-2.2	0.1
	<i>ESA 2010, growth in %</i>	2.9	-0.7	1.0	0.2	-1.8	0.4
	<i>difference in pp</i>	-0.1	-0.8	0.1	-0.3	0.4	0.3
Government consumption	<i>ESA 1995, growth in %</i>	1.2	4.0	0.2	-2.7	-1.9	1.6
	<i>ESA 2010, growth in %</i>	1.1	3.0	0.4	-2.9	-1.0	2.3
	<i>difference in pp</i>	0.0	-1.0	0.2	-0.2	0.9	0.7
Gross capital formation	<i>ESA 1995, growth in %</i>	1.9	-20.2	5.4	0.8	-5.0	-4.4
	<i>ESA 2010, growth in %</i>	1.2	-18.1	4.4	1.9	-3.7	-5.1
	<i>difference in pp</i>	-0.8	2.2	-1.0	1.0	1.3	-0.7
Exports of goods and services	<i>ESA 1995, growth in %</i>	4.0	-10.9	15.4	9.5	4.5	0.2
	<i>ESA 2010, growth in %</i>	4.2	-9.8	14.8	9.3	4.1	0.3
	<i>difference in pp</i>	0.3	1.1	-0.6	-0.2	-0.4	0.1
Imports of goods and services	<i>ESA 1995, growth in %</i>	2.7	-12.1	15.4	7.0	2.3	0.6
	<i>ESA 2010, growth in %</i>	3.2	-11.0	14.9	6.7	2.4	0.3
	<i>difference in pp</i>	0.5	1.0	-0.5	-0.3	0.2	-0.3

Table 3: GDP and expenditure components – YoY growth rates of deflators

		2008	2009	2010	2011	2012	2013
GDP	<i>ESA 1995, growth in %</i>	1.9	2.3	-1.6	-0.9	1.6	1.9
	<i>ESA 2010, growth in %</i>	2.0	2.6	-1.5	-0.2	1.4	1.7
	<i>difference in pp</i>	0.1	0.4	0.1	0.7	-0.2	-0.3
Private consumption	<i>ESA 1995, growth in %</i>	4.8	0.8	-0.2	0.5	2.7	1.2
	<i>ESA 2010, growth in %</i>	4.8	0.9	0.5	1.7	2.6	1.1
	<i>difference in pp</i>	0.0	0.1	0.7	1.2	-0.1	-0.1
Government consumption	<i>ESA 1995, growth in %</i>	3.4	2.5	-0.5	0.9	1.5	0.1
	<i>ESA 2010, growth in %</i>	3.5	2.9	-0.6	0.8	-0.1	0.1
	<i>difference in pp</i>	0.0	0.5	-0.2	-0.1	-1.6	0.0
Gross capital formation	<i>ESA 1995, growth in %</i>	0.1	0.9	-0.6	-1.1	0.8	0.9
	<i>ESA 2010, growth in %</i>	0.3	1.6	-1.1	-0.6	1.8	1.1
	<i>difference in pp</i>	0.2	0.7	-0.5	0.5	1.0	0.2
Exports of goods and services	<i>ESA 1995, growth in %</i>	-4.5	0.3	-1.3	0.8	3.1	1.6
	<i>ESA 2010, growth in %</i>	-4.3	0.5	-1.2	0.7	3.3	1.6
	<i>difference in pp</i>	0.2	0.3	0.1	-0.1	0.2	0.0
Imports of goods and services	<i>ESA 1995, growth in %</i>	-3.1	-1.7	0.6	2.5	3.6	0.1
	<i>ESA 2010, growth in %</i>	-3.1	-1.5	0.8	2.3	3.9	0.5
	<i>difference in pp</i>	0.1	0.2	0.1	-0.2	0.3	0.3
Terms of trade	<i>ESA 1995, growth in %</i>	-1.4	2.0	-1.9	-1.6	-0.5	1.4
	<i>ESA 2010, growth in %</i>	-1.3	2.0	-2.0	-1.5	-0.6	1.1
	<i>difference in pp</i>	0.2	0.0	0.0	0.1	0.0	-0.3

C.2 Prices

Consumer Prices

Year on year growth in consumer prices has been very low this year. In August it reached only 0.6% (*versus* 0.7%), of which 0.1 pp could be attributed to an increase in the excise tax on cigarettes and –0.4 pp to regulated prices, where a decrease in the price of electricity had the greatest impact.

As for the contributions of individual divisions of the consumer basket to YoY inflation, in August 2014 the largest contribution made the divisions *food and non-alcoholic beverages* and *alcoholic beverages, tobacco* (0.2 pp each), the smallest contribution the division *housing* (–0.2 pp).

The prediction that YoY inflation would not slow any more in the second quarter of 2014 was confirmed. For the third quarter of 2014, we are still forecasting its acceleration, which should also continue in the fourth quarter of 2014.

In spite of the weakening of the koruna due to the CNB's foreign exchange interventions, the year **2014** should be characterized by very low average inflation; it is likely to be the second lowest in the history of the independent Czech Republic, behind the year 2003. It is clear from Graph C.2.2 that very low inflation will be maintained due to the extraordinary development of administrative measures, the contribution of which to the YoY growth of consumer prices in December 2014 should be –0.2 pp (*versus* –0.3 pp).

The weakened koruna is likely to be the only significant pro-inflationary factor in 2014. In contrast, the still negative output gap does not allow growing demand to be more clearly reflected in prices. Despite the very loose monetary policy, both in the exchange rate and interest rate components, the **average inflation rate in 2014** should reach only 0.5% (*versus* 0.6%), with a YoY increase in prices of 1.0% (*versus* 1.4%) in December 2014.

In **2015**, several administrative measures should be reflected in consumer prices. The increase in the excise tax on cigarettes (contribution of 0.2 pp) will have an upward impact on price levels, whereas the introduction of the second reduced VAT rate of 10% on drugs, books and essential infant nutrition (–0.1 pp) and the abolition of selected fees in healthcare (–0.2 pp) will have a downward impact. Within the group of regulated prices, electricity prices should fall, although not as significantly as in 2014 (the expected

contribution is –0.1 pp compared to –0.4 pp in 2014). On average, regulated prices should stagnate in 2015.

Barriers preventing growing demand from being reflected in prices should gradually disappear in 2015, while inflation should be slightly boosted by a growth in unit labour costs (Table C.3.3). Unlike this year, the CZK/EUR exchange rate should tend to have a neutral impact on inflation. Similarly as in 2014, according to the forecast assumptions, the dollar crude oil price should be a slightly anti-inflationary factor.

In 2015, we expect YoY inflation to be in the lower half of the tolerance band of the 2% target of the CNB. **In 2015, the average inflation rate** could reach 1.5% (*versus* 1.7%), with a YoY increase in consumer prices of 1.6% (*versus* 1.8%) in December.

Deflators

The gross domestic expenditure deflator, which is a comprehensive indicator of domestic inflation, grew by 0.8% YoY (*versus* 0.1%) in the second quarter of 2014. In terms of its structure, this growth primarily resulted from an increase in the final consumption expenditure deflator, mainly the government consumption deflator. The growth of the gross (fixed) capital formation deflator also contributed to its rise. The factors underlying the development of the household consumption deflator are identical to those we mentioned above when analysing the development of the consumer price index. Growth of the gross fixed capital formation deflator as well as the household consumption deflator was influenced, to a certain extent, by the CNB's intervention in the form of the depreciation of the Czech koruna.

Terms of trade increased by 2.2% (*versus* 1.4%) in the second quarter of 2014. Terms of trade were also influenced by the depreciation of the Czech koruna.

The implicit GDP deflator, which is a result of the gross domestic expenditure deflator and the terms of trade, increased by 2.7% YoY (*versus* 1.5%) in the second quarter of 2014.

We forecast the gross domestic expenditure deflator to grow by 0.8% (*versus* 0.7%) in 2014 and by 1.1% (*unchanged*) in 2015. The terms of trade will probably grow by 1.8% (*versus* 1.1%) in 2014; for 2015 we expect growth of 0.9% (*versus* 0.3%).

In relation to these values, we forecast the implicit GDP deflator to grow by 2.4% (*versus* 1.8%) in 2014 and by 1.8% (*versus* 1.3%) in 2015.

C.3 Labour Market

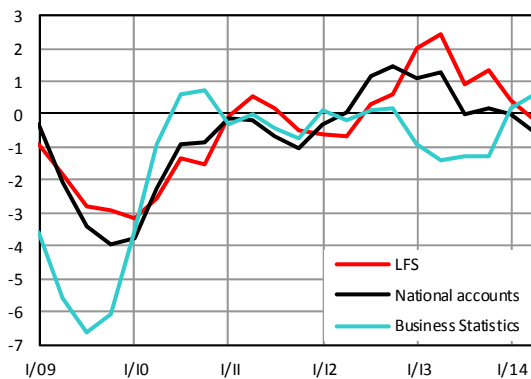
Employment according to the LFS was still behaving somewhat anomalously in the first half of 2014. Although its YoY growth continued, it was for the largest part due to an increase in the number of entrepreneurs. Such development neither corresponds to behaviour typical for a period of recovery nor to the business statistics. Unemployment according to the LFS continued to decline more significantly than registered unemployment, which was no surprise. Wage growth was also consistent with the recovery and with an increase in bonuses as well as the number of full-time jobs.

Employment

According to the LFS, **employment** grew by 0.2% YoY (*versus 0.3%*) in the second quarter of 2014, mainly due to an increase of 2.2% (*versus 1.2%*) in the number of persons in the category of entrepreneurs, while the number of employees decreased by 0.2% (*versus growth of 0.1%*).

Graph C.3.1: **Employees in Different Statistics**

YoY growth rate, in %, business statistics in full-time equivalent



Source: CZSO

In annual terms, the share of part-time jobs decreased slightly again in the second quarter of 2014. The increasing demand for labour resulted in the extension of regular working time and increase in overtime work. However, considering the repeated increase in the number of economically inactive persons caring for family members, neither can we exclude the decline in short-time working opportunities mainly for women aged 25–49 years. However, the rising number of own-account workers provides evidence that labour supply is still elevated since households want to secure extra income.

Considering that the change in the GDP growth forecast is only negligible, the forecast for employment development also remains virtually unchanged.

Employment could increase by 0.4% (*versus 0.5%*) in 2014 and by 0.3% (*versus 0.2%*) in 2015.

Since mid-2010, **the employment rate** of the population aged 15–64 has been showing continuous growth. In the second quarter of 2014, it increased by 0.9 pp YoY (*in line with the estimate*), while the forecast reflected both demographic development and employment.

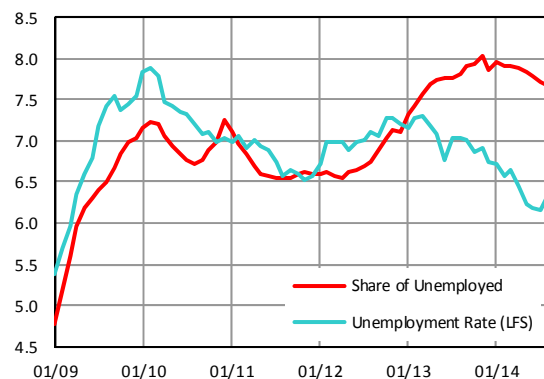
The **economic activity rate** (15–64 year-olds) grew by 0.4 pp YoY in the second quarter of 2014 (*versus 0.5 pp*). YoY increases in the rate of participation have been slowing gradually since the turn of 2012 and 2013, while in the second quarter of 2014 the seasonally adjusted rate of participation already decreased from the previous quarter. This could reflect the counter-cyclical (over the long term) character of participation in the Czech economy. In the forecast horizon, however, we expect a trend increase in the economic activity rate in the category of the 15–64 year-olds, due to changes in the demographic structure and the increasing statutory retirement age.

Unemployment

Compared to other EU states, the unemployment rate (LFS) in the Czech Republic is still one of the lowest. Nevertheless, the number of job applicants registered at labour offices at the beginning of 2014 has reached its highest level in the Czech Republic's history. With the expected continuous decrease in the number of registered unemployed in 2014, only stagnation or a very slight decrease in their number can be expected in annual terms.

Graph C.3.2: **Indicators of Unemployment**

seasonally adjusted data, in %



Source: CZSO, Ministry of Labour and Social Affairs, own calculations
Note: Share of unemployed (Ministry of Labour and Social Affairs) is defined as a share of available job seekers aged 15 to 64 years in the population of the same age.

The discrepancy between the LFS and registered unemployment (also apparent in the long-term unemployment figures) results from the fact that current legislation tolerates limited extra income during the registered form of unemployment, while the definition of unemployed persons according to the LFS excludes any remunerated work. In addition, registration at labour offices is a condition for being granted a range of social benefits.

The unemployment rate according to the LFS could reach 6.3% (versus 6.4%) on average in 2014, for 2015 we are not changing the forecast of 6.1%.

Wages

The relatively high increase in the wage bill and the average wage in the first half of 2014 should also continue in 2015, thanks to the pickup of the Czech economy, increasing real labour productivity and growing wage bill in the state administration.

In annual terms, the wage bill (national accounts methodology, domestic concept) again posted a considerable increase of 3.0% (versus 2.3%) in the second quarter of 2014. Comparison between the estimate and actual figures, however, is significantly limited by the transition to the ESA 2010 system of national accounts. In terms of sectoral structure, growth in the second quarter of 2014 was more or less balanced; another decrease in the wage bill was only evident in construction, where the wage bill has now been in decline since the fourth quarter of 2010. The uninterrupted decrease in the number of employees in this sector has had a considerable impact.

C.4 External Relations

(balance of payments methodology)

Chapter C.4 is based on the data valid until the introduction of new statistical standards according to the sixth edition of the Balance of Payments Manual (BPM6) in October 2014. This modification has resulted in considerable changes in the balance of the current and financial accounts, including their structure and the revision of data for the past. This chapter, in particular the tables, doesn't correspond to the new statistical data published in the period between the cut-off date and the publication of this Macroeconomic Forecast.

In annual sums, the current account of the balance of payments was -0.3% of GDP (*versus +0.2%*) in the second quarter of 2014, thus reaching an almost balanced level. A YoY improvement of the current account balance of 1.6 pp was mainly due to an increase in the surplus of the foreign trade balance of 0.9 pp and the surplus of the balance of current transfers of 0.7 pp. In contrast, the surplus of the

The positive development of the wage bill in the first half of 2014, however, will probably be compensated in the short run by a lower increase in the third quarter of 2014, which is suggested by a relatively weak wage increases in industry in July and August. On the other hand, a positive factor might be the stabilization in the proportion of part-time jobs, the hourly remuneration of which could be relatively lower in the current situation compared to standard forms of employment. In 2014, the wage bill could increase by 2.9% (*versus 2.8%*).

The improving situation in the private sector and the increase in the wage bill in state administration will have a positive impact on the increase in the wage bill in 2015. Compared to the last forecast, however, this increase will be mitigated by slightly lower than expected inflation. For 2015, we expect the wage bill to grow by 3.9% (*versus 3.8%*).

The average wage (business statistics, full-time equivalent) increased by 2.3% (*versus 2.2%*) in the second quarter of 2014, with both the business and non-business spheres contributing positively to this result. As far as sectors are concerned, manufacturing posted one of the highest increases - 3.0%. Further, a positive signal is the relatively solid growth in the median wage of 2.0%. The median wage increased by only 0.9% in 2013, the acceleration of its growth rate could impact positively on household consumption (households with lower incomes tend to have higher propensity to consume). For similar reasons as those affecting the wage bill, we expect the average wage to grow by 2.6% in 2014 (*versus 2.7%*) and by 3.8% in 2015 (*versus 3.7%*).

balance of services fell by 0.1 pp. The income balance deficit stagnated.

The YoY growth of export markets⁵, which gradually accelerated from the second quarter of 2013, slightly slowed in the second quarter of 2014 compared to the first quarter of 2014, slipping to 5.6% (*versus 6.2%*). Considering the less favourable outlook for the development of the external environment, we expect the slowdown in export market growth to continue throughout the whole forecast horizon. Export markets could increase by 5.2% (*versus 5.7%*) on average in 2014 and by 3.4% (*versus 3.6%*) in 2015.

⁵ *Weighted average of growth in imports of goods from the six most important trading partners (Germany, Slovakia, Poland, France, United Kingdom, and Austria)*

Export performance, which indicates a change in the share of the volume of Czech goods on foreign markets, should increase by 3.7% (*versus* 2.4%) in 2014, with its growth decelerate to 2.2% (*versus* 1.4%) in 2015. The improved price competitiveness of Czech exporters caused by the weaker exchange rate of the Czech koruna should have a positive impact on export performance.

Solid growth of foreign trade observed in the last quarter of 2013 continued at the beginning of the year. However, the relatively high growth rates of exports and imports were also influenced by a lower statistical base. The weaker exchange rate of the Czech koruna was also reflected by an increase in the trade balance surplus. It has also manifested itself in an increase in the koruna prices of exports and imports, with export prices increasing more quickly than import prices. The terms of trade have thus been improving since the beginning of 2013, contributing positively to the results of foreign trade. However, we expect the impact of the current loss of international trade growth dynamics to be reflected soon in a lower growth of Czech foreign trade. The surplus of the trade balance could reach 5.5% of GDP (*versus* 6.0%) in 2014 and could increase further to 6.0% of GDP (*versus* 6.5%) in 2015.

In annual terms, the deficit in the fuel balance (SITC 3) reached 4.7% of GDP (*versus* 5.0%) in the second quarter of 2014. With regard to the expected scenario for crude oil prices and the development of the koruna exchange rate, we assume that the deficit in the fuel balance will roughly stagnate in the course of 2014 and slightly decrease in 2015. It should reach 4.6% of GDP (*versus* 5.0%) in 2014 and 4.4% of GDP (*versus* 4.7%) in 2015.

For nearly four years, imports of services (on an annual basis) have been increasing at a higher pace than

exports of services, and the surplus of the balance of services has thus been decreasing in annual terms. Considering the fact that changes in the balance of transport services and tourism have been minor, the extremely volatile item of “other services” has recently been having the biggest impact on the total balance of services. In the second quarter of 2014, the revenue and expenditure of all items of the balance of services increased in annual terms, except for the purchase of so-called other services. The surplus of the balance of services has decreased by 0.1 pp YoY to 1.3% of GDP (*versus* 1.5%), with the most significant factor here being the stronger growth of expenditure compared to revenue from tourism. We expect the surplus of the balance of services to stagnate at this level in 2014 and 2015 (*in both years versus* 1.5%).

In annual terms, the deficit in the income balance, which comprises reinvested and repatriated earnings of foreign investors, decreased by 0.1 pp YoY to 7.6% of GDP (*versus* 7.5%) in the second quarter of 2014, although compared to the first quarter of 2014 the deficit in the income balance deepened. The decrease in the deficit in the first quarter of 2014 was caused by the postponement of payments of dividends from direct foreign investments until the second quarter of 2014, and therefore we consider it a one-off decrease. The trend of a gradual deepening of the deficit in the income balance should continue in future. The income balance could show a deficit of 7.6% of GDP (*unchanged*) in 2014 and 7.8% of GDP (*versus* 8.2%) in 2015.

Under the given circumstances, we assume that the current account will be balanced (*versus* +0.4% of GDP) in 2014. The current account of the balance of payments could show a negligible deficit of 0.3% of GDP (*versus* 0.0%) in 2015.

C.5 International Comparisons

In connection with the transition to the new ESA 2010 European standard of national accounts, data sources necessary for carrying out international comparisons were not available as of the cut-off date for the forecast. Therefore, on this particular occasion the chapter ‘International Comparisons’ is not included in the Macroeconomic Forecast.