C Forecast of the Development of Macroeconomic Indicators

Sources of tables and graphs: CZSO, Eurostat

C.1 Economic Output

Latest development of GDP

Seasonally adjusted GDP fell by 0.2% (*versus growth of 0.5%*) QoQ in Q2 2012. Year on year, GDP[4] decreased in Q2 by 1.7% (*versus 1.2%*). On the expenditures side, the most significant factor in deviation between the forecast and reality was the greater YoY drop in household consumption. Deviations in the case of other expenditure items were significantly less important.

Economic output declined QoQ for the fourth time in a row, and the economy is therefore technically in recession. The QoQ decrease in GDP for Q1 2012 was revised from the original 0.8% to 0.6%, while the QoQ growth of gross value added (GVA) in Q1 2012 was revised from the original 0.2% to 0.7%. In Q2 2012, however, both figures decreased QoQ, with GVA falling by 0.7%. Recent development of economic output can therefore be characterised as a shallow recession. In this phase of the economic cycle, the economy is more vulnerable to external shocks.

Gross domestic expenditures declined YoY in Q2 2012 due to a drop in household consumption by 3.5% (*versus 2.6%*), decline in government consumption by 0.9% (*versus 4.0%*), and slump in gross capital formation by 6.5% (*versus 3.6%*). The deviation from the forecast shown by gross capital formation was caused by a decline in change in inventories and valuables in Q2 2012. The change in inventories and valuables is generally very volatile and subject to substantial revisions. According to the CZSO's original estimate, inventories and valuables decreased by approximately CZK 9 billion in Q1 2012 (in constant 2005 prices), but the CZSO revised this figure to a decrease of CZK 16 billion in September 2012. This revision thus amounted to 0.8% of quarterly GDP.

Foreign trade dynamics were lower with respect to the forecast, as exports grew by 2.4% (*versus 4.3%*) YoY while imports stagnated (*versus growth of 2.0%*). As regards foreign trade's resulting positive impact on GDP, however, there was no substantial deviation.

Foreign trade contributed positively to GDP growth in Q2 2012 despite deterioration in the terms of trade. This weakening was reflected in the YoY decline in real gross domestic income (RGDI) by 2.6% (*versus 1.8%*), representing a greater decrease than the YoY drop in GDP.

Nominal GDP declined YoY in Q2 2012 by 0.3% (*versus growth of 0.4%*). The main cause for the deviation was the aforementioned significantly greater YoY decline in real household consumption. Despite the large YoY imcrease in the deflator, household consumption recorded a decrease of 0.3% in nominal terms.

With regard to the income structure of GDP in Q2 2012, compensation to employees increased by 1.7% (*versus 1.3%*) and the gross operating surplus decreased by 2.1% (*versus 1.4%*). Qualitatively, development was in accordance with the forecast. Nevertheless, the balance of taxes and subsidies recorded considerably lower dynamics with growth of 0.2% (*versus 5.6%*). This was due to substantially lower growth in taxes on production and imports (especially VAT) and slightly higher growth in subsidies on production.

Forecast for GDP

The forecast for GDP and its expenditure components is influenced qualitatively by the same key risk factors as in the July forecast, i.e. by the high level of uncertainty regarding external developments relating to the Czech economy and the impacts of fiscal consolidation of public finances.

Due to a strong 2.9% decline in gross domestic expenditures, GDP should diminish by 1.0% (*versus 0.5%*) in 2012.

Within the scope of gross domestic expenditures, we have adjusted downwards especially the household consumption for 2012, which we expect will decline by 3.0% (*versus 2.2%*). The change of opinion is based on published data on the development of GDP expenditures in the first half of 2012. We believe that the drop in household consumption reflects both the decrease in real disposable household income and households' very low confidence in the economy. Gross disposable income adjusted for inflation decreased in the first half of 2012 YoY due to considerably lower growth in nominal disposable income versus inflation. The increase in the reduced VAT rate earlier this year of course contributed to inflation and to the decline in real disposable income. Real household consumption fell more than real

[4] *Unless stated otherwise, data presented in the text are not adjusted seasonally and for work days.*

disposable income in the given period. Therefore, the rate of savings has increased rather moderately for the time being. Considering the volatility of the savings rate, we do not yet regard this phenomenon as extreme and do not consider it to be a sign of a mass shift in households' preferences towards savings. On the other hand, the slightly decreasing volume of consumer loans in the given period also can be perceived as a result of households' lower demand for loans, and therefore as their greater preference for economising behaviour. We do not believe, however, that this would constitute a dominant influence on household consumption. We expect these phenomena to have an impact also in the second half of 2012, when they will be reinforced by negative effects stemming from the poorer outlook on the labour market.

In accordance with developments in the first half of the year, we expect a real drop in government consumption for 2012 by 1.1% (*versus 2.8%*).

Given low domestic demand, the uncertain outlook for foreign demand, and declining utilisation of production capacities, companies' needs to invest into physical capital are low. We expect that gross capital formation will drop by 4.1% (*versus 0.3%*) in real terms in 2012. Gross fixed capital formation will decrease by 0.6% (*versus 1.0%*). The low dynamics of internal resources for financing investment projects (which we may deduct from the development of the gross operating surplus), the low contribution of government investments in view of the aforementioned fiscal consolidation, and the austere behaviour of government institution units may be presented as reasons for the low expected investment activity. The cited data indicate that a substantial portion of the estimated decline in gross capital formation will be caused by a real decrease in inventories, which corresponds with their pro-cyclical behaviour.

The negative impact of gross domestic expenditures will be mitigated by the positive contribution of foreign trade. In 2012, we expect moderate growth in exports by 4.3% (*forecast unchanged*) and in imports by 2.1% (*versus 2.8%*). The significant difference between the expected growth of exports and imports stems from weak domestic demand.

For 2013, we forecast only a very slight decline in gross domestic expenditures, owing especially to growth in gross capital formation and a more moderate decrease in household consumption. Expected GDP growth of 0.7% (*versus 1.0%*) will thus continue to be driven by foreign trade. As from 2014, however, the main factor in GDP growth should be gross domestic expenditures.

We expect that nominal GDP will grow YoY in 2012 by 0.3% (*versus 0.9%*). The decrease in the expected nominal GDP growth rate is connected primarily with the stated decline in the outlook for household consumption dynamics and gross capital formation. Our view regarding the GDP expenditure deflators remains fundamentally unchanged.

Box C.1: **Revision of annual national accounts (NAs) and implications for the upcoming revision of quarterly NAs**

On 1 October 2012, CZSO published its regular revision of annual NAs, to be followed in December 2012 by revision of the quarterly NAs. In this box, we present brief information about the current differences between the annual data from the revised annual NAs and the annual data from existing quarterly NAs. We have focused only on GDP divided according to items of use on three levels: real growth rates, growth of deflators, and nominal level. The information is summarised in tables 1 to 3.

Considering the growth in GDP expenditures, household consumption growth was shifted upwards in the given years. The change is especially significant in 2011. In that same year, the growth rate of gross capital formation was also increased, especially in the change in inventories. This positive impact from domestic demand was significantly dampened, however, by the decrease in growth rates for imports and exports, wherein the export growth rate was decreased more over the entire period. The resulting impact of the stated changes on the GDP growth rate is small in the given years, but, especially in 2011, the perspective regarding the contributions of gross domestic expenditures and foreign trade to real GDP growth has changed in favour of gross domestic expenditures.

Table 1: **YoY real growth rates**

		2009	2010	2011
GDP	*annual national accounts, growth in %*	-4.5	2.5	1.9
	quarterly national accounts, growth in %	-4.7	2.7	1.7
	difference in p.p.	**0.2**	**-0.2**	**0.2**
Household consumption expenditures	*annual national accounts, growth in %*	0.2	1.0	0.7
	quarterly national accounts, growth in %	-0.4	0.6	-0.7
	difference in p.p.	**0.6**	**0.4**	**1.4**
Government consumption expenditures	*annual national accounts, growth in %*	4.0	0.5	-2.5
	quarterly national accounts, growth in %	3.8	0.6	-1.7
	difference in p.p.	**0.2**	**-0.1**	**-0.8**
Gross capital formation	*annual national accounts, growth in %*	-20.2	5.8	0.3
	quarterly national accounts, growth in %	-20.8	5.9	-1.3
	difference in p.p.	**0.6**	**-0.1**	**1.6**
Exports of goods and services	*annual national accounts, growth in %*	-10.9	15.6	9.4
	quarterly national accounts, growth in %	-10.0	16.4	11.0
	difference in p.p.	**-0.9**	**-0.8**	**-1.6**
Imports of goods and services	*annual national accounts, growth in %*	-12.0	15.9	6.7
	quarterly national accounts, growth in %	-11.6	16.0	7.5
	difference in p.p.	**-0.4**	**-0.1**	**-0.8**

With respect to deflators, the significant decline in growth of the household consumption deflator in 2011 is noteworthy. With regard to the impact on the change in growth of the GDP deflator, however, this is compensated by less deterioration in the terms of trade in the given year. Relative changes in export deflators were increased in the entire period, while relative changes in import deflators were reduced.

Table 2: **YoY growth rates of deflators**

		2009	2010	2011
GDP	*annual national accounts, growth in %*	2.3	-1.4	-0.8
	quarterly national accounts, growth in %	1.9	-1.7	-0.8
	difference in p.p.	**0.3**	**0.3**	**0.0**
Household consumption expenditures	*annual national accounts, growth in %*	0.8	0.3	0.5
	quarterly national accounts, growth in %	0.2	0.5	1.8
	difference in p.p.	**0.6**	**-0.2**	**-1.3**
Government consumption expenditures	*annual national accounts, growth in %*	2.5	-0.7	0.7
	quarterly national accounts, growth in %	2.7	-0.8	-0.2
	difference in p.p.	**-0.3**	**0.1**	**0.9**
Gross capital formation	*annual national accounts, growth in %*	0.9	-0.3	-0.5
	quarterly national accounts, growth in %	1.9	-0.5	-0.1
	difference in p.p.	**-1.0**	**0.2**	**-0.5**
Exports of goods and services	*annual national accounts, growth in %*	0.2	-1.3	0.9
	quarterly national accounts, growth in %	0.0	-1.5	0.3
	difference in p.p.	**0.2**	**0.1**	**0.5**
Imports of goods and services	*annual national accounts, growth in %*	-1.8	0.6	2.5
	quarterly national accounts, growth in %	-1.4	1.1	2.7
	difference in p.p.	**-0.4**	**-0.4**	**-0.2**
Terms of trade	*annual national accounts, growth in %*	2.0	-2.0	-1.6
	quarterly national accounts, growth in %	1.4	-2.5	-2.3
	difference in p.p.	**0.6**	**0.5**	**0.7**

The data presented above indicate that increase in the estimate of nominal GDP was necessitated in 2011. This rise in the estimate is caused mainly by higher nominal levels of household consumption and of gross capital formation. To a small degree, this increase was narrowed by a small worsening of the foreign trade balance surplus.

Table 3: **Nominal levels**

		2009	2010	2011
GDP	*annual national accounts, bill. CZK*	3759	3800	3841
	quarterly national accounts, bill. CZK	3739	3775	3808
	difference in bill. CZK	**20**	**24**	**34**
Household consumption expenditures	*annual national accounts, bill. CZK*	1874	1899	1922
	quarterly national accounts, bill. CZK	1852	1872	1893
	difference in bill. CZK	**22**	**27**	**29**
Government consumption expenditures	*annual national accounts, bill. CZK*	809	807	793
	quarterly national accounts, bill. CZK	810	808	793
	difference in bill. CZK	**0**	**0**	**0**
Gross capital formation	*annual national accounts, bill. CZK*	896	946	944
	quarterly national accounts, bill. CZK	898	947	934
	difference in bill. CZK	**-2**	**-1**	**9**
Exports of goods and services	*annual national accounts, bill. CZK*	2240	2555	2819
	quarterly national accounts, bill. CZK	2233	2562	2854
	difference in bill. CZK	**7**	**-7**	**-35**
Imports of goods and services	*annual national accounts, bill. CZK*	2088	2436	2664
	quarterly national accounts, bill. CZK	2082	2441	2694
	difference in bill. CZK	**7**	**-6**	**-30**
External balance	*annual national accounts, bill. CZK*	152	120	155
	quarterly national accounts, bill. CZK	151	121	160
	difference in bill. CZK	**0**	**-1**	**-5**

C.2 Prices

Consumer prices

YoY growth in consumer prices was 3.4% (*versus 2.9%*) in September. Administrative measures were the main source of inflation with a contribution of 2.4 p.p., of which the impact of changes in indirect taxes accounted for 1.2 p.p. Among regulated prices, prices of goods and services related to housing contributed particularly to YoY inflation in September (1.0 p.p.).

With respect to the contributions of individual segments of the consumer basket to YoY inflation in September, housing (1.3 p.p.), food and non-alcoholic beverages (1.2 p.p.), and transportation (0.4 p.p.) contributed most. Record-high fuel prices were recorded in the latter segment. The price of Natural 95 petrol reached 38.23 CZK/l and the price of diesel fuel reached 37.20 CZK/l.

This year, administrative measures will contribute approximately three-quarters of the inflationary effect, consisting in the impacts of changes to indirect taxes and changes in prices which the CZSO reports as regulated. We do not expect any fundamental price adjustments in Q4 within the group of goods and services with regulated prices. From that group, those goods and services related to housing should contribute most to the YoY rise in CPI for December 2012 (0.8 p.p.). Administrative measures should contribute 2.1 p.p. (*no change*) to YoY inflation for December 2012.

Very weak domestic demand will remain the main anti-inflationary factor also in Q4 2012. Food prices, on the other hand, represent a pro-inflationary risk. The **average inflation rate** should reach 3.3% (*versus 3.2%*) this year. YoY inflation should slow down through the end of the year, reaching 2.6% (*versus 2.4%*) in December. The slight increase in the forecast mainly reflects a weaker MoM decrease in September than would correspond to the standard seasonal fluctuation expected by the July forecast.

Administrative measures will have a dominant influence on inflation also in **2013**. The intended increase of both VAT rates by 1 p.p. to 15% and 21% from 1 January 2013 should be reflected in a 0.7 p.p. contribution to CPI growth. This measure could influence consumer prices already in Q4 2012. On the other hand, individual entities in the supply chain may absorb part of the impact on CPI into their margins at the start of 2013. Concerning indirect taxes, we continue to expect growth in the excise taxes on cigarettes (impact 0.1 p.p.).

Among regulated prices, one may once again expect the largest impact for CPI from electricity prices (0.2 p.p.). Prices for heating (0.1 p.p.) and water and sewage (0.1 p.p.) also should contribute more significantly to CPI growth. With regard to timing, the impacts of changes in regulated prices are traditionally concentrated in January, and, with respect to the individual sectors of the consumer basket, in housing. Like this year, administrative measures should be the source of approximately three-quarters of inflation in 2013, contributing 1.6 p.p. (*versus 1.7 p.p.*) to YoY inflation in December 2013.

Weak domestic demand and the persisting position of the Czech economy in a negative output gap will be the main anti-inflation factors also in 2013. In this environment, we do not consider the considerable anticipated growth in unit labour costs in 2012 (see Table C.3.3) to be a pro-inflationary risk. We estimate the **average inflation rate in 2013** at 2.1% (*versus 2.2%*) and YoY growth in December at 2.3% (*versus 2.4%*). Inflation will have the same expenditure character in 2013, and the contribution of market growth in prices should also remain very moderate.

Deflators

The **gross domestic expenditure** (GDE) deflator, which is a comprehensive indicator of domestic inflation, grew by 2.3% (*versus 2.1%*) in Q2 2012. This rise was very strongly influenced by the private consumption deflator, which in Q2 grew YoY by 3.4%.

We anticipate the GDE deflator to rise by 2.2 % (*versus 2.1%*) this year. In 2013, when we await a further increase in indirect taxes, the GDE deflator should grow by 1.8% (*versus 2.0%*).

The **implicit GDP deflator** in Q2 2012 grew YoY by 1.4 % (*versus 1.6%*). Higher growth of the GDE deflator relative to the rise in the implicit GDP deflator for Q2 2012 is due to worsening of the terms of trade by 1.3% (*versus 0.8%*).

We anticipate growth of the GDP deflator by 1.3% (*versus 1.5%*) for 2012, while for 2013 we predict it to rise by 0.9% (*versus 1.1%*).

C.3 Labour Market

The data for the first two quarters of 2012 and the data available for Q3 indicate an increasingly significant impact of the recession on the labour market. According to the Labour Force Survey (LFS),[5] employment continued to grow slightly in Q2 due to the contribution of self-employment, thereby also facilitating growth in the total labour force. Since the start of the year, however, seasonally adjusted unemployment has been increasing and the average real wage decreasing.

Employment

According to the LFS, **employment** grew by 0.2% (*versus a decline of 0.2%*) in Q2 2012 due to a further significant rise in the number of entrepreneurs without employees. In a QoQ comparison, seasonally adjusted employment also increased by 0.2%, which under recession conditions can be attributed to the efforts of businesses to maintain a maximum number of high-quality employees as long as possible as well as to the increased efforts of employees to maintain or secure at least a minimum salary. This can be further evidenced by a 3.2% YoY decrease in hours worked per employee in Q2 (according to national accounts). The outlook, however, is less optimistic due to the situation in segments where employment is sensitive to economic output (manufacturing industry).

The continually increasing number of self-employed persons is most likely due to further expansion of so-called "false self-employment", despite the increasing number of employment controls. This increase could also be affected by the influence of growth in the number of registered partially unemployed persons, who may be regarded as self-employed under LFS.

The number of employees decreased in Q2 by 0.6% (*versus 1.3%*) YoY. From a sector perspective, the decrease continued at a relatively fast rate in construction and state administration, while the number of employees in the manufacturing industry also decreased.

We expect employment to level off in 2012 (*versus a decrease of 0.3%*). The forecast change is caused by

[5] *Since 2011 (inclusive), data from LFS are stated in the text, graphs and tables in a manner after recalculation according to the 2011 census.*

relatively positive development in the first half of the year, though slight QoQ decreases in employment should occur in the coming quarters. We continue to forecast a 0.2% decrease in employment for 2013.

The **employment rate** (15–64 years) continued to grow strongly in Q2 2012 (by 0.8 p.p. YoY), reaching 66.5% (*versus 66.2%*). The increase in the employment rate of persons aged 15–64 is largely caused by a decrease in the potential workforce, as the total number of individuals in this age group is decreasing. Demographic effects contribute to this result, as highly populated retirement age groups with markedly lower employment rates exceed the 65 years-of-age limit.

The **economic activity rate** (15–64 years) also grew YoY by 0.8 p.p. to 71.3% in Q2 2012. In addition to demographic factors, this outcome is also caused by increased interest of the population to engage in the labour market, most likely as a consequence of residents' needs to compensate for present or anticipated losses of real disposable income in a worsening economic situation.

Unemployment

According to LFS, the number of unemployed persons in Q2 2012 stagnated in a YoY comparison. The tendency towards unemployment growth caused by increasing economic problems was confirmed, however, by increase in seasonally adjusted registered unemployment in Q3. Nevertheless, the rise in available and partially working applicants testifies to the increased efforts of the unemployed to actively resolve their situations.

Newly reported unemployment continues to decline relatively strongly YoY (by 10,000 persons in August and September 2012), and the entire increase in unemployment is due to difficulties in finding new jobs. Under these conditions, the duration of unemployment is substantially prolonged with all known negative effects, which constitutes a potential future risk.

The **unemployment rate** (LFS) reached 6.7% (*versus 7.0%*) in Q2, which signified stagnation YoY and an increase by 0.1 p.p. QoQ (after seasonal adjustment). The increase was caused almost exclusively by growth in the long-term unemployment rate.

We anticipate that the business cycle and employment trend will reflect growth in the unemployment rate (LFS) to 6.9% (*versus 7.0%*) in 2012 and 7.3% (*versus 7.2%*) in 2013.

Wages

The continuing nominal growth in the wage bill and average wage in Q2 2012 was surprising in the context of the economic performance. Although wage growth likely continued to affect mainly only a portion of employees in prosperous companies, it nevertheless results in further growth in unit labour costs in the economy.

When converting to full-time work equivalents, the **average** nominal **wage** increased by 2.8% in Q2 2012 in both the business and non-business sectors. Nevertheless, only certain sectors contributed significantly to this growth, and in particular the manufacturing and health care industries. In construction, on the other hand, the nominal wage decreased. The public administration austerity programme continued, as a result of which real earnings and numbers of employees are decreasing over the long term.

Due to the cautious approach of the private sector, as manifested, among other things, by continuing "tax optimisation" in accordance with the artificial increase in the portion of self-employed persons, and the expected stagnation of wages in public administration, in keeping with the previous forecast we expect only a moderate increase in the average nominal wage by 2.4% in 2012 (*no change*) and by 2.5% in 2013 (*versus 2.4%*). The real decrease in the total average wage should be 0.9% (*versus 0.7%*) in 2012. In 2013, the real average wage could rise by 0.4% (*versus 0.2%*), to which the lower inflation rate should also contribute.

The **wage bill** (national accounts, domestic concept) increased by 1.6% (*versus 1.3%*) YoY in Q2 2012. In agreement with business statistics, growth of the wage bill was reflected especially by higher growth in industry (by 2.6%). The continuing YoY decline in construction was also confirmed.

Taking into consideration the first half of the year, we have slightly increased the wage bill growth forecast for 2012 to 2.0% (*versus 1.9%*). The worsened economic outlook and projection for decline in employment even among persons with a higher average wage led to a decrease in the wage bill growth forecast for 2013 to 2.1% (*versus 2.5%*).

C.4 External Relations

(a balance of payments perspective)

In Q2 2012, the external imbalance, expressed as the ratio of the current account balance to GDP, reached on an annual basis –1.5% (*versus –2.3%*) and thus improved YoY by 3.1 p.p. The improvement was due to the results of the trade balance (improvement of 1.8 p.p.) and the income balance (improvement of 2.0 p.p.). The remaining current account items deteriorated slightly: the balance of services by 0.2 p.p. and balance of current transfers by 0.5 p.p.

Growth in export markets[6], which reached 6.6% in 2011, could slow to 1.9% (*versus 1.0%*) this year. For 2013, we expect only moderate recovery of the global economy accompanied by growth in export markets of 2.4% (*no change*). We also expect slower growth in export performance, which indicates the volume proportion of Czech goods on foreign markets, from 4.9% in 2011 to 2.6% (*versus 3.1%*) in 2012 and 0.8% (*no change*) in 2013.

Growth of foreign trade turnover has been decelerating since Q2 2011, but it still is achieving relatively solid results; exports increased by 9.0% and imports by 6.2% in annual aggregate for Q2 2012. The deceleration of demand in EU partner countries, for which exports increased by a below-average 6.0% (national concept), was partially replaced by export to other territories outside of the EU, where exports rose by 22.1%. For the remainder of 2012, we expect that foreign trade turnover growth will continue to slow and that the trade surplus will expand to 3.9% of GDP (*versus 3.5%*). In 2013, in addition to a slight recovery of global trade, the slump in domestic demand should moderate and the trade balance as a proportion of GDP reach 4.1% (*versus 3.2%*).

The deficit on the fuels balance (SITC 3) reached 4.7% (*versus 5.0%*) of GDP in annual terms for Q2 2012. Considering the oil price scenario, we expect the current high prices of raw materials to hold steady or grow slightly in 2012 and 2013. The fuels deficit should thus reach ca 5.0% of GDP (*versus 5.2%*) in 2012 and 2013.

The balance of services surplus shrank YoY by 0.2 p.p. to 1.5% of GDP (*versus 1.7%*) in Q2 2012. After a year of decreasing growth rates for revenues and expenditures, their growth accelerated again, while since the end of 2010 expenditures have been growing faster than revenues and the surplus balance has been gradually decreasing. In Q2 2012, the balance of other services deteriorated the most YoY due to significant increase of expenditures. The balance improved, however, in the tourism industry, and to a lesser degree also in transportation services. For 2012 and 2013, we expect the balance of services surplus to contract to ca 1.2% of GDP (*versus 1.7%*).

The deficit on the income balance, which includes the reinvested and repatriated profits of foreign investors, has been showing an improving tendency since mid-2011. In Q2 2012, it decreased by 2.0 p.p. YoY to 6.3% of GDP (*versus 7.6%*). Outflow of investment income in the form of dividends paid to foreign owners of domestic direct investments was lower, as were costs of compensation to foreign employees. A similar situation should continue also in 2013. We estimate an incomes deficit of 6.4% of GDP (*versus 7.5%*) in 2012 and 6.5% of GDP (*versus 7.6%*) in 2013.

In the circumstances, we estimate that the current account balance will markedly improve to –1.3% of GDP (*versus –2.2%*) in 2012, while the forecast for 2013 is –1.2% of GDP (*versus –2.6%*). A current account deficit in this amount definitely poses no risks of macroeconomic imbalances.

[6] *Weighted average growth in goods imports by the seven most important trading partner countries (Germany, Slovakia, Poland, Austria, France, United Kingdom and Italy).*

C.5 International Comparisons

Comparisons for the period up to and including 2011 are based on Eurostat statistics. From 2012, our own calculations are used on the basis of real exchange rates.

In 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 exchange rate conversion for countries that use currency units other than the euro.

According to updated Eurostat data, the purchasing power parity of the Czech Republic in 2011 was 18.07 CZK/PPS in comparison with the EU27, and 17.21 CZK/EUR in comparison with the EA12.

In 2009, as a result of recession, the absolute level of GDP per capita adjusted by **current purchasing power parity** declined in all monitored countries, with the exception of Poland. While most states gradually recovered from the recession, the absolute economic level has continued to fall for the fourth year in a row in Greece. A slight decrease also occurred in Portugal in 2011. In addition to the decrease in absolute level, the relative economic level vis-à-vis the EA12 also declined in both countries, while in Greece the total decrease for the period 2009–2012 should come to 16 p.p. Slovenia has also reported a continuous decrease of relative economic level since 2009. By contrast, the Baltic states have recorded the fastest increases in their economic levels compared to the EA12 average. In 2012, however, the pace of real convergence should slow considerably.

In 2011, the economic level of the Czech Republic expressed by GDP per capita as adjusted to current purchasing power parity was approximately 20,100 PPS, corresponding to 73% of the EA12's economic output. After a period of convergence, in which during 2000–2007 the relative economic level in the Czech Republic rose in comparison to EA12 countries by 13 p.p., there has been no change since 2010. Nevertheless, the economic level in the Czech Republic again surpassed that of Portugal in 2011 and for the first time reached the level of Greece.

An alternative way of calculating GDP per capita by means of the current exchange rate takes into account the market value of the currency and ensuing differences in price levels. In the case of the Czech Republic, this indicator was ca EUR 14,800 in 2011, i.e. approximately half (51%) the level of the EA12. Due to expected decrease of real GDP and slight devaluation of the koruna in 2012, however, we expect a decrease in both absolute and relative terms.

Looking at price levels, the **comparative price level of GDP** in the Czech Republic increased by 1 p.p. in 2011, thus reaching 70% of the EA12 average. An expected decrease of the price level in 2012 should help to boost the competitiveness of the Czech economy.