

C Forecast of the Development of Macroeconomic Indicators

Sources of tables and graphs: CZSO, Eurostat

C.1 Economic Output

Latest development of GDP

In Q4 2012, seasonally adjusted real GDP⁴ fell by 0.2% (*versus stagnation*) QoQ. For the whole of 2012, GDP fell by 1.3% YoY (*versus 1.1%*), with the economy being in a recession throughout the year. In H2 2012, however, the depth of QoQ declines started to decrease, thus possibly signalling a weakening of the recession.

In YoY terms, gross domestic expenditure declined in Q4 2012 due to a 3.9% (*versus 3.5%*) drop in household consumption. Government consumption increased slightly by 0.5% YoY (*versus 0.3% decline*). Similarly, gross capital formation inched up 0.2% (*versus 0.7%*) with gross fixed capital formation decreasing by 4.1% (*versus 1.8%*), though. For the whole of 2012, all components of final consumption expenditure and gross capital formation contributed to a decrease in gross domestic expenditure of 2.9% (*versus 2.6%*).

When evaluating the aforementioned deviations, it is necessary to take into consideration that quarterly national accounts for 2012 have been revised. From the perspective of the forecast evaluation a very significant change can be found in the case of household consumption, where the December 2012 preliminary data showed a decrease of 2.4%, while the March preliminary data already informed of a drop by 3.9%. Also in the case of gross fixed capital formation, it is possible to explain a part of the deviation between the forecast and the published preliminary data by the revision of the time series for Q1 to Q3 2012. At the same time it is true to say that investment in physical capital can only be forecast with great difficulty; the time series show high degree of volatility. More detailed information on data revision for Q1 to Q3 of 2012 has been provided in Table C.1.1.

Exports grew by 2.2% (*versus 3.4%*) YoY in Q4 2012 and imports increased by 1.7% (*versus 2.7%*) YoY. In comparison with the beginning of 2012, the dynamics of exports and imports thus reached lower values, which can be attributed to considerably worse than expected development of economic situation of the main business partners.

Foreign trade contributed positively to GDP growth despite further deterioration in terms of trade, which

was reflected in YoY decline in real gross domestic income (RGDI) of 1.9% (*versus 1.6%*), i.e. a higher decline as compared to YoY decline in GDP.

Table C.1.1: **Revision of GDP and its components**

YoY real growth rates in %, differences in p.p.

	2012		
	Q1	Q2	Q3
Gross domestic product			
March 2013	-0.1	-1.8	-1.8
December 2012	-0.2	-1.6	-1.6
difference	0.1	-0.1	-0.2
Private consumption expenditure			
March 2013	-2.6	-3.7	-3.9
December 2012	-2.8	-3.1	-2.4
difference	0.2	-0.6	-1.5
Government consumption exp.			
March 2013	-2.2	-2.0	-0.4
December 2012	-1.9	-1.6	0.1
difference	-0.3	-0.4	-0.5
Gross fixed capital formation			
March 2013	1.5	-0.1	-3.4
December 2012	1.7	0.4	-2.9
difference	-0.2	-0.5	-0.5
Exports of goods and services			
March 2013	7.4	2.4	3.6
December 2012	7.4	3.2	4.0
difference	-0.1	-0.8	-0.4
Imports of goods and services			
March 2013	4.8	1.7	-0.6
December 2012	5.1	2.6	0.7
difference	-0.3	-0.9	-1.3

Nominal GDP decreased in Q4 2012 by 0.8% YoY (*versus 0.5%*). Considering the fact that the deflator development was estimated precisely, the whole deviation is due to a discrepancy between the preliminary data on GDP real growth and its estimate from the January Forecast. In 2012, nominal GDP reached CZK 3,843 billion, which almost precisely corresponds to the forecast of CZK 3,840 billion.

Considering the income structure of GDP, compensation of employees grew by 2.6% YoY (*versus 1.9%*) in Q4 2012, with total wage bill increasing by 2.6% (*versus 1.9%*). At the same time, the gross operating surplus dropped by 5.2% (*versus 3.7%*). The development was qualitatively in line with the forecast.

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

Higher than forecast growth of compensation of employees can be explained by an increased extent of tax optimisation before the end of 2012. The balance of taxes and subsidies recorded relatively higher dynamics with a growth of 7.2% (*versus* 6.0%). The drop in profitability in terms of the YoY decrease in the gross operating surplus was relatively strong. The development corresponds qualitatively to the course of the economic cycle as well as to the development of unit wage costs whereby a decrease in labour productivity in 2012 was accompanied by nominal wage growth. We assume that this discrepancy will cease to exist as the economy gradually recovers.

In connection with wage bill development, we would like to highlight the existing problem of converting to real terms and interpretation of the development of some quantities in real terms. Consumer price development can be recorded through changes in the consumer price index or the household consumption deflator, with the inflation rate recently exceeding deflator growth. When deflating total wage bill, which in current prices increased by 2.0% in 2012, using the average inflation rate (in 2012 it reached 3.3%) as the deflator we get a real decline of 1.3% in total wage bill. However, if we use the household consumption deflator for converting into real terms (in 2012 a growth of 2.3%), the real decline in wage bill would only amount to 0.3%. A relatively high difference of 1 p.p. in conjunction with a real decrease in household consumption of 3.5% allows room for a rather different explanation of the observed development. In addition, it is possible to easily imagine such a situation when the development of e.g. real wage bill (if these two measures of consumer prices are applied) is qualitatively different.

GDP forecast

The forecast for GDP and its expenditure components is influenced by the same key risk factors as in the January Forecast, however, it anticipates worse development of the external environment.

We think that economic output was stagnating in Q1 2013. From Q2 2013, the economy should start recovering, though for the whole of 2013 real GDP should stagnate in YoY terms (*versus* growth of 0.1%). For 2014 we expect GDP growth of 1.2% (*versus* 1.4%). From the perspective of the expenditure structure of GDP, the change in the forecast for 2013 has been brought about mainly by a decrease in the expected contribution of foreign trade to GDP growth. The modifications are based on the more pessimistic outlook for the economic development of the main

trading partners in 2013 and partially on a deepening of expected decrease in household consumption and gross fixed capital formation compared to the January Forecast, which results from the aforementioned revision of the data for Q1–Q3 2012. On the other hand, the expected recovery starting in Q2 2013 should be accompanied by moderate restocking.

We believe that the decline in household consumption in 2012 was caused by the negative development of households' real disposable income (when taking into account the inflation rate according to CPI) as well as by the increased effort of households to deleverage and increase the volume of their savings. We expect that both factors will also take effect in 2013 and forecast a decline in household consumption of 1.2% (*versus* 0.7%). We are cutting our forecast for 2013 especially with regard to the March 2013 revisions of quarterly national accounts data. For 2014 we expect to see a growth in household consumption of 1.0% (*versus* 0.9%). The expected consumption behaviour in 2014 is based on economic recovery, and thus also on the disposable incomes of households.

We estimate that government consumption will decrease by 0.2% (*versus* 1.0%) in 2013 and further by 1.7% (*versus* 0.9%) in 2014. The real decrease in government consumption is based on government's fiscal strategy.

Investment in physical capital recorded another decline in 2012. In our view, the existing development of gross fixed capital formation is the result of weak domestic demand, low dynamics of internal sources of financing of investment projects, which we can infer from the development of gross operating surplus, weak business confidence and low contribution of government investment with regard to the aforementioned fiscal consolidation. For 2013 we forecast a further real decrease in gross fixed capital formation of 0.4% (*versus* 0.1% growth). However, gross capital formation should go up by 0.9% (*versus* 0.1%) due to restocking. In 2014, gross capital formation is forecast to grow by 2.9% (*versus* 3.2%), while gross fixed capital formation could increase by 0.9% (*versus* 1.3%).

In 2013, similarly to 2012, the negative contribution of gross domestic expenditures to GDP growth will be mitigated by the positive contribution of foreign trade. This year, real exports should grow by 1.3% (*versus* 3.0%) with imports increasing by 0.9% (*versus* 2.3%). The lower resulting positive contribution of foreign trade to GDP growth of 0.4 p.p. (*versus* 0.7 p.p.) in 2013 results mainly from deterioration of the prospects for foreign demand for domestic products.

In 2014, the positive contribution of gross domestic expenditure (due to recovery of household consumption and investment) is expected to be higher than the also positive contribution of foreign trade, which should reach 0.3 p.p. (*unchanged*). We expect

C.2 Prices

Consumer prices

At the beginning of 2013, YoY inflation slowed down in line with the January Forecast.

YoY growth of consumer prices reached 1.7% (*versus* 1.9%) in February and could almost exclusively be attributed to administrative measures. They contributed by 1.6 p.p., of which the increase in both VAT rates of 1.0 p.p. to 15 and 21%, respectively, which occurred on 1 January 2013, accounts for 0.8 p.p.; the last year's increase in excise taxes on cigarettes of 0.1 p.p., the impact of changes in regulated prices (0.1 p.p., e.g. water and sewage rates in total, electricity, heating) account for the remaining part.

When examining contributions of individual segments of the consumer basket to YoY inflation in February, food and non-alcoholic beverages (0.8 p.p.) contributed most, followed by housing (0.7 p.p.), which constitutes the largest item in the consumer basket.

In spite of an increase in both VAT rates, **2013** should be characterized by moderate inflation. Neither oil prices (see Table A.1.3) nor exchange rate development (see Table A.4.1) will have a considerable impact on its dynamics according to forecast assumptions. Weak domestic demand, the Czech economic position in the negative output gap and the worsening situation on the labour market can be still regarded as main anti-inflation factors.

Similarly to 2012, inflation in 2013 will be fuelled by approximately three fourths by administrative measures, consisting of impacts of changes in indirect taxes and of changes in prices reported by the CZSO as regulated prices. As customary, the biggest part of these impacts was concentrated in the first month of the year. This year's increase in excise tax on cigarettes should be reflected in CPI mainly in Q2 (contribution of 0.1 p.p.). Administrative measures should contribute to YoY growth of consumer prices in December 2013 by 1.5 p.p. (*versus* 1.7 p.p.).

In the remaining quarters of 2013, YoY inflation should not slow down further, compared to Q1. We expect the **average inflation rate in 2013** to reach 2.1%

that exports will grow in real terms by 3.7% (*versus* 4.0%) and imports by 3.5% (*versus* 3.8%).

In 2013, the nominal GDP is likely to grow by 0.4% (*versus* 0.6%). For 2014 we forecast growth of nominal GDP of 2.1% (*versus* 2.0%).

(*unchanged*) with a YoY increase of 2.2% (*versus* 2.3%) in December.

The prices of industrial producers grow only slightly and do not represent any risk for the growth of consumer prices, but in the case of agricultural producers' prices, especially prices of plant products, considerable growth dynamics can be observed. For this reason, we continue to include food prices as an upwards risk for the forecast.

In 2014, the growth of consumer prices should be influenced by administrative measures to a lesser extent compared to this year. Concerning indirect taxes, we only envisage a further increase to excise tax on cigarettes, the impact of which on CPI should be 0.1 p.p.

In 2014, due to the only slight recovery of the Czech economy, inflation should be moderate, in YoY terms it should fluctuate during the course of the whole year in the lower half of the tolerance band around the inflation target provided by the Czech National Bank (see Graph C.2.1). We estimate an average inflation rate in 2014 of 1.7% (*versus* 1.8%) and YoY growth in December of 1.9% (*versus* 2.1%).

Deflators

In Q4 2012, the **gross domestic expenditure deflator**, which is a comprehensive indicator of domestic price development, grew by 1.0% (*versus* 1.1%) YoY.

We expect the gross domestic expenditure deflator to grow by 0.7% in 2013 (*versus* 1.0%) and by 1.2% (*versus* 0.8%) in 2014.

The value of the **implicit GDP deflator** increased by 0.6% (*consistent with the forecast*) YoY in Q4 of 2012 despite a worsening of terms of trade by 0.6% (*versus* 0.8%).

For this year, we envisage the GDP deflator to grow by 0.4% (*versus* 0.5%), in 2014 the deflator could increase by 0.9% (*versus* 0.6%).

C.3 Labour Market

The lengthy recession is already proving to have a rather pronounced influence on the Czech labour market. The unemployment rate is growing on seasonally adjusted data in both methodologies, employment has already seen a slight QoQ decrease. Wage development in Q4 was determined by the amount of one-off bonuses paid out for the purpose of “tax optimisation”.

Employment

According to the Labour Force Survey (LFS⁵), **employment** grew by 0.6% (*versus 0.8%*) YoY in Q4 2012, while the secondary sector already saw a decrease after stagnation in the previous quarter. Employment in services as a whole increased, however considerable differences could be observed among individual sectors: on the one hand employment is continuing to rise, e.g. in the finance sector and education; on the contrary sectors more sensitive to the economic cycle have already been recording a decrease for several quarters in a row (e.g. transport services and trade).

The trend of an increased proportion of self-employed persons in employment at the expense of employees is also evident, something which is most likely leading to the extension of “false-self employment” with negative tax impacts. Unfavourable economic conditions are also manifested by the considerable decrease of employers already since mid-2011; their contribution to YoY employment growth for 2012 was –0.2 p.p.

A higher decrease in employment is most probably being prevented by the efforts of companies to hold on to their high-quality employees: the share of part-time workers reached 6.4%. The increased efforts of employees to maintain or guarantee at least minimal work-related income can also be documented by the share of self-employed part-time workers: this ratio has already been increasing since mid-2011 and in Q4 2012 it reached a historical maximum of 9.1%. This development also resulted in a decrease in hours worked per employed of 1.2% in 2012.

We assume that the possibilities to hold on to existing employment have already been exhausted to a large extent. With respect to the delayed impact of recession, in 2013 we expect to see a decrease in employment by 0.2% (*versus stagnation*). For 2014 we already anticipate YoY stagnation of employment. We

continue to envisage the ongoing tendency towards an increase in the share of entrepreneurs.

Since 2011, **the employment rate** (aged 15–64) has been showing relatively stable and strong growth, in Q4 2012 it increased by 0.9 p.p. to 67.0%. This development is caused by higher working activity of individuals over the age of 45, especially in the 60–64 age cohort. However, the employment rate of population older than 15 years grew by 0.3 p.p. only.

The **activity rate** (for aged 15–64) grew YoY by 1.6 p.p. to 72.3% in Q4 2012. This value is a consequence of more cautionary households’ behaviour and efforts to compensate current or anticipated losses in terms of real disposable income, related to the worsening economic situation. A change in the demographic structure is also contributing considerably to increasing the participation rate, while this development will also continue in the years to come. (see Graph B.1.7).

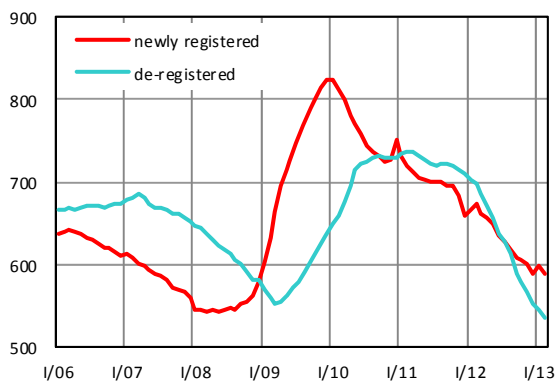
Unemployment

The tendency towards unemployment growth was confirmed by seasonally adjusted registered unemployment in the first two months of 2012, while the Presidential amnesty and subsequent registration of released prisoners at labour offices also impacted on the January figures. In the past few months, the increase in registered unemployment has been especially due to the decreasing ability of unemployed persons to find a job, either independently or with the assistance of labour offices which are apparently constrained in serving the unemployed. In February 2013, the 12-month sum of unemployed persons who had left registration files at labour office decreased to 535 thousand persons, while the total number of registered unemployed persons was 586 thousand persons. Thus the average length of unemployment is exceeding 1 year and is becoming a pressing social problem. In the longer-term, there is the risk that these persons will remain unemployed for a long time, which would subsequently lead to structural problems on the labour market (greater complications in adapting to work again, possible decrease in qualifications, etc.)

On the other hand, an increase in unemployment, in spite of the relatively long-lasting recession, has been slowed down by a continuing decrease in the number of new registrations. (A one-time increase in January was caused by the amnesty, in February the decrease was renewed.) Their 12-month sum was lower in February 2013 compared to 2006, with economic growth of 7.0% (see Graph C.3.1).

⁵ After 2011, the data from LFS in the text, graphs and tables are shown as published after the 2011 census..

Graph C.3.1: **Flows in Registered Unemployment**
12month moving sums, thousands of persons



According to LFS, the **unemployment rate** (aged 15+) reached 7.2% (*versus* 6.8%) in Q4 2012.

As a result of worse than expected development in Q4 2012 and a lower forecast of the performance of the Czech economy, we expect the unemployment rate to grow to 7.6% in 2013 (*versus* 7.3%). The seasonally adjusted unemployment rate should culminate in the course of 2014.

Wages

The wage bill and average wage was heavily influenced in Q4 2012 by the “tax optimisation”, i.e. the effort of high-income persons to avoid the newly introduced income tax effective above the ceilings of social security contributions (the so called solidarity tax).

The **average wage** (business statistics, full-time equivalent) increased in nominal terms by 3.7% (*versus* 1.6%) in Q4 2012. Therefore, a considerably higher

than expected volume of one-off bonuses could be observed for the purpose of their taxation in the yet more favourable tax system of 2012. The highest increases in terms of the average wage occurred in the finance and insurance sector (24.1%) as well as in the production and distribution of electricity, heat and gas (13.1%).

As a result of this development, we expect a considerable slowdown in average wage growth in Q1 2013, which will result in only a slight YoY increase in the nominal wage in 2013 by 1.8% (*versus* 2.0%).

In Q4 2012, **wage bill** (national accounts, domestic concept) increased by 2.6% YoY (*versus* 1.9%), while tax optimization effects also became apparent. In addition to this, and also considering a higher expected decline in the number of employees, we expect to see an increase in wage bill by just 1.4% (*versus* 1.9%) in 2013. We have decreased our forecast of wage bill growth to 2.7% in 2014 (*versus* 3.5%) also due to the deferral of an increase in the rate of social security contributions paid by employees by 2 p.p. and a decrease in the rate paid by employers by 2 p.p. from 2014 to 2015. Therefore, the effects of the expected partial compensation of a decrease in the net employees’ wages by employers will take effect one year later.

Combined with a decrease in labour productivity, a low increase in the nominal wage in 2012 resulted in the highest growth of unit labour costs since 2002 (by 3.8%). In 2013 and 2014, however, the growth of unit labour costs should not exceed 1.6%.

C.4 External Relations

(balance of payments methodology)

In 2012, the external imbalance, expressed as the ratio of the current account balance to GDP, reached –2.4% (*versus* –1.6%)⁶, and thus improved YoY by 0.3 p.p. The improvement was exclusively due to the results of the trade balance (improvement of 1.4 p.p.). The balance of the service surplus decreased by 0.2 p.p., the deficit in the income balance was higher by 0.9 p.p. and the balance of transfers shifted from surplus to deficit (deterioration by 0.1 p.p.).

After strong export markets growth⁷ in 2010 and 2011 (of 11.5% or 7.2%, respectively), the dynamics slowed down in 2012 due to a slow-down of our trading

partners to 0.9% (*versus* 1.3%). In 2013, we expect a decrease in export markets of 0.1% (*versus* 1.5% growth). For 2014 we anticipate to see the world economy recover, accompanied by the growth of export markets by 2.6% (*versus* 2.8 %). We also expect a slowdown in export performance growth, which indicates a change in the proportion of Czech goods volume on foreign markets, from 3.0% (*versus* 3.4%) in 2012 to 1.0% (*versus* 1.4%) in 2013 and 0.9% in 2014 (*versus* 1.0%).

A worsening of the external environment together with a decline in domestic demand was reflected in a slowdown in the foreign trade growth in the course of 2012. Since Q1 2012 when exports increased by 11.6%, its growth rates decreased to 2.4% in Q4. Import growth also slowed down from 9.0% to 2.1% in the course of the year. In total, exports in 2012 increased

⁶ A part of the worse result compared to the January Forecast is due to data revision for Q1–Q3 2012.

⁷ Weighted average of the growth of goods imports by the seven most important trading partner countries (Germany, Slovakia, Poland, Austria, France, the United Kingdom, and Italy).

by 7.0% and imports by 4.9%. The fact that export growth was ahead of import growth was reflected in an increase in the trade balance surplus which reached CZK 145.8 billion in 2012 (*versus CZK 151 billion*), i.e. CZK 55.4 billion more YoY.

Czech exporters succeeded in partially compensating the low demand growth (or its decline) of traditional foreign markets by shifting to other markets. Since 2005, the share of the EU as the main trading partner in exports decreased by 4.5 p.p. (to 81.2%) and in imports by 6.2 p.p. (to 65.4%). In relation to this, exports to other territories increased, such as the Commonwealth of Independent States (by 2.5 p.p. to the share of 5.6%), China (by 0.6 p.p. to 1.0%) and developing countries (by 0.5 p.p. to 3.9%). Similarly, the share of these territories in total imports increased – the countries of the Commonwealth of Independent States (by 1.2 p.p. to 8.9%), China (by 4.4 p.p. to 9.6%) and developing countries (by 1.5 p.p. to 7.2%).

In 2013, we expect to witness a strengthening of the impacts of unfavourable development of the external environment and further slowdown in the trade growth rates. With import growth lagging behind exports, we estimate the trade balance surplus to increase in 2013 to 4.1% of GDP (*versus 4.4%*), in 2014 to 4.3% of GDP (*versus 4.7%*).

The fuels balance deficit (SITC 3) reached 4.9% of GDP in 2012 (*consistent with the forecast*). Considering the oil price scenario, in the course of 2013 and 2014 we expect to see prices of fuels decreasing and the fuels balance deficit to decline – in 2013 to 4.8% of GDP (*versus 4.6%*) and in 2014 further to 4.3% of GDP (*versus 4.2%*).

The balance of the services surplus in 2012 dropped in annual terms by 0.2 p.p. to 1.3% of GDP (*consistent*

with the forecast). Exports and imports of services increased in all items. The trend from the previous periods continued when total expenditures for services increased more quickly than overall incomes and the balance of the services surplus decreased. Only in the case of transportation services did incomes increase at a faster rate than expenditures, expenditures for tourism and so-called other services surpassed incomes. The total balance was mostly influenced just by the quick growth of purchases of other services. For 2013 and 2014 we expect to see a further slight decline in the balance of the services surplus to ca 1.1% of GDP (*versus 1.0%*) or 0.9% of GDP (*versus 0.8%*), respectively.

The deficit in the income balance, which includes the reinvested and repatriated earnings of foreign investors, deteriorated in 2012 compared to the previous year by 0.9 p.p. and reached 7.5% of GDP (*versus 6.6%*). There was a considerable increase in the outflow of investment income in the form of dividends paid out to foreign owners of domestic direct investments. On the other hand, the balance of compensations of employees improved, though this has a considerably lower impact on the overall income balance. We expect that the deficit in the income balance will continue to grow and will reach 7.7% of GDP in 2013 (*versus 6.8%*) and 7.8% of GDP (*versus 6.9%*) in 2014.

Under the given circumstances we assume that there will be only negligible improvement in the current account balance in 2013 to –2.3% of GDP (*versus –1.3%*); we also expect to see an unchanged current account deficit in 2014 (*versus –1.2%*). A current account deficit at this level poses no risk in terms of macroeconomic imbalances.

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 17.81 CZK/PPS compared to the EU27 or 16.96 CZK/EUR compared to the EA12.

In 2009, as a result of the economic crisis, 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 were gradually recovering from the crisis, in Greece the absolute economic level is continuing to fall for the fifth year in a row. A slight decrease also occurred 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 all aforementioned countries. The biggest decline was observed in Greece where the total decrease in 2009–2012 reached 16 pps. On the other hand, economic level is increasing at the most rapid pace, compared to the average of the EA12 countries, in the Baltic States, however, in 2013 the speed of real convergence is expected to slow down slightly.

In the Czech Republic, the economic level of GDP per capita adjusted by current purchasing power parity reached approximately 20,500 PPS in 2012, corresponding to 75% of economic output in the EA12.

Since 2010, the Czech Republic experiences stagnation or only a minor growth of its relative economic level,

after a period of convergence during 2000–2007, when its relative economic level vis-à-vis the EA12 countries increased by 13 pps. Nevertheless, in 2011 it already surpassed the economic level of Greece and once again also that of Portugal while in 2013 it should also exceed the economic level of Slovenia.

An alternative way of calculating GDP per capita by means of the current **exchange rate** takes into account the market valuation of the currency and the resulting differences in price levels. In the case of the Czech Republic, this indicator was approx. EUR 14,500 in 2012, i.e. half the level of the EA12. Due to the expected slight depreciation of the koruna, we expect to see a slight decrease in both absolute and relative levels in 2013.

Concerning the price levels, the **comparative price level of GDP** in the Czech Republic decreased by 3 p.p. in 2012, thus reaching 67% of the EA12 average. The expected slight decrease in the price level by another 1 p.p. in 2013 should help maintain competitiveness of the Czech economy.