

Macroeconomic Forecast Czech Republic

April 2013

Macroeconomic Forecast of the Czech Republic

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Table of Contents:

Summary of the Forecast	3
Risks to the Forecast	5
A Forecast Assumptions.....	6
A.1 External Environment.....	6
A.2 Fiscal Policy.....	13
A.3 Monetary Policy and the Financial Sector	15
A.4 Exchange Rates.....	18
A.5 Structural Policies	20
A.6 Demographic Trends	22
B Economic Cycle	25
B.1 Position within the Economic Cycle.....	25
B.2 Business Cycle Indicators.....	27
B.3 Business Cycle Indicators in the EU	29
C Forecast of the Development of Macroeconomic Indicators.....	30
C.1 Economic Output.....	30
C.2 Prices	32
C.3 Labour Market	33
C.4 External Relations.....	34
C.5 International Comparisons	36
D Monitoring of Other Institutions' Forecasts	37
E Looking back at 2012	38
Tables and Graphs:.....	41
C.1 Economic Output.....	41
C.2 Prices	48
C.3 Labour Market	52
C.4 External Relations	58
C.5 International Comparisons	63

The Macroeconomic Forecast is prepared by the Financial Policy Department of the Czech Ministry of Finance on a quarterly basis. It contains a forecast for the current and following years (i.e. until 2014) and for certain indicators an outlook for another 2 years (i.e. until 2016). As a rule, it is published in the second half of the first month of each quarter and is also available on the Ministry of Finance website at:

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Any comments or suggestions that would help us to improve the quality of our publication and closer satisfy the needs of its users are welcome. Please direct any comments to the following email address:

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List of Abbreviations:

const.pr.	constant prices
CNB.....	Czech National Bank
CPI	consumer price index
curr.pr.....	current prices
CZSO	Czech Statistical Office
EA12	euro zone consisting of 12 countries
EC.....	European Commission
EFSF	European Financial Stability Facility
EMU.....	Economic and Monetary Union
ESM	European Stability Mechanism
EU27	EU consisting of 27 countries
GDP.....	gross domestic product
HICP	harmonised index of consumer prices
IMF	International Monetary Fund
LFS	Labour Force Survey
OECD	Organisation for Economic Co-operation and Development
p.p.	percentage point
prelim. ..	preliminarily

Basic Terms:

Prelim. (preliminary data)	data from quarterly national accounts, released by the CZSO, as yet unverified by annual national accounts
Estimate	estimate of past numbers which for various reasons were not available at the time of preparing the publication, e.g. previous quarter's GDP
Forecast	forecast of future numbers, using expert and mathematical methods
Outlook	projection of more distant future numbers, using mainly extrapolation methods

Symbols Used in Tables:

-	A dash in place of a number indicates that the phenomenon did not occur.
.	A dot in place of a number indicates that we do not forecast that variable, or the figure is unavailable or unreliable.
x, (space)	A cross or space in place of a number indicates that no entry is possible for logical reasons.

Cut-off Date for Data Sources:

The forecast was made on the basis of data known as of **March 25**, 2013. No political decisions, newly released statistics, or world financial or commodity market developments could have been taken into account after this date.

Notes:

In some cases, published aggregate data do not match sums of individual items to the last decimal place due to rounding.

Data from the previous forecast of January 2013 are indicated by italics. Data in the tables relating to the years 2015 and 2016 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

Summary of the Forecast

According to the CZSO's current data, GDP decreased by 1.3% in 2012. Throughout 2012, the economy was in recession, from which it may emerge in H1 2013. Economic recovery is expected to be only gradual, though. In spite of that, GDP should stagnate at best in the whole of 2013, in YoY comparison. This year, the economy should be driven by net exports and, to a lesser extent, by gross capital formation. Their joint contribution to GDP growth should just compensate for the expected decline in household consumption.

GDP may increase by 1.2% in 2014, with positive contribution of both foreign trade and gross domestic expenditure.

Despite the 1 p.p. hike in both VAT rates, effective from 1 January 2013, the average inflation rate should only reach 2.1% this year; in 2014 consumer prices could increase by 1.7%. In both years the inflation rate should thus remain close to the CNB inflation target.

Employment, which expanded by 0.4% in 2012, is likely to decrease by 0.2% this year; in 2014 it is expected to

stagnate. The unemployment rate should go up from 7.0% last year to 7.6%, there could also be a slight increase in 2014. Growth of the total wage bill could reach 1.4% this year and 2.7% in 2014. In both years, total wage bill growth rate is expected to slightly exceed the dynamics of the nominal GDP.

As a percentage of GDP, the current account deficit could stagnate at a level slightly exceeding 2% and should thus remain on a sustainable level.

According to the preliminary estimate of the CZSO, the government sector balance in 2012 ended up with the deficit of 4.4% of GDP. However, were there no one-off measures (financial compensation to churches and corrections of the non-refunded part of EU resources), the deficit would have amounted to 2.5% of GDP. This year, the government sector deficit should improve to 2.8% of GDP.

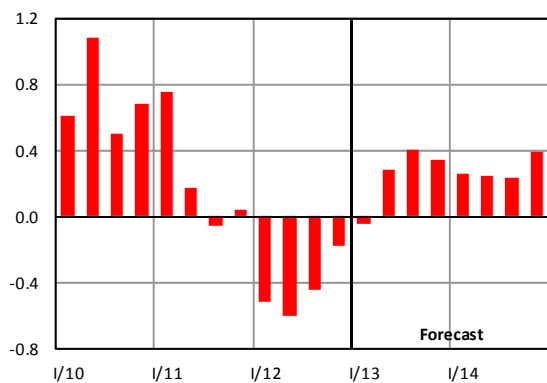
Forecast risks are tilted to the downside. In addition to further development in the euro zone, the low state of confidence in the Czech economy also poses a risk.

Table: **Main Macroeconomic Indicators**

		2010	2011	2012	2013	2014	2012	2013	2014
		<i>Current forecast</i>					<i>Previous forecast</i>		
Gross domestic product	<i>growth in %, const.pr.</i>	2.5	1.9	-1.3	0.0	1.2	-1.1	0.1	1.4
Consumption of households	<i>growth in %, const.pr.</i>	1.0	0.7	-3.5	-1.2	1.0	-3.0	-0.7	0.9
Consumption of government	<i>growth in %, const.pr.</i>	0.5	-2.5	-1.0	-0.2	-1.7	-0.9	-1.0	-0.9
Gross fixed capital formation	<i>growth in %, const.pr.</i>	1.0	-0.7	-1.7	-0.4	0.9	-0.8	0.1	1.3
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.5	2.0	1.5	0.4	0.3	1.4	0.7	0.3
GDP deflator	<i>growth in %</i>	-1.4	-0.8	1.4	0.4	0.9	1.1	0.5	0.6
Average inflation rate	<i>%</i>	1.5	1.9	3.3	2.1	1.7	3.3	2.1	1.8
Employment (LFS)	<i>growth in %</i>	-1.0	0.4	0.4	-0.2	0.0	0.4	0.0	0.0
Unemployment rate (LFS)	<i>average in %</i>	7.3	6.7	7.0	7.6	7.7	6.9	7.3	7.4
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	0.7	2.2	2.0	1.4	2.7	1.7	1.9	3.5
Current account / GDP	<i>%</i>	-3.9	-2.7	-2.4	-2.3	-2.3	-1.6	-1.3	-1.2
<u>Assumptions:</u>									
Exchange rate CZK/EUR		25.3	24.6	25.1	25.4	25.2	25.1	24.9	24.8
Long-term interest rates	<i>% p.a.</i>	3.7	3.7	2.8	2.2	2.3	2.8	2.2	2.3
Crude oil Brent	<i>USD/barrel</i>	80	111	112	108	102	112	105	102
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	2.0	1.4	-0.6	-0.4	0.6	-0.4	-0.2	0.5

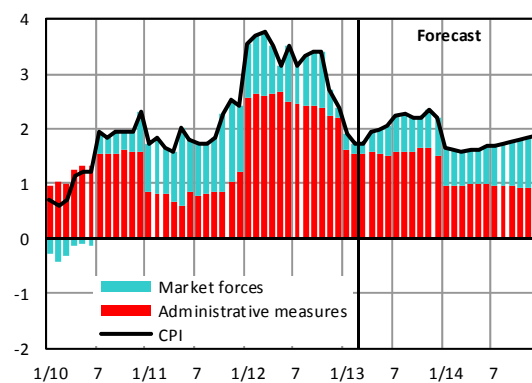
Gradual economic recovery expected

real GDP, QoQ growth in %, seasonally adjusted



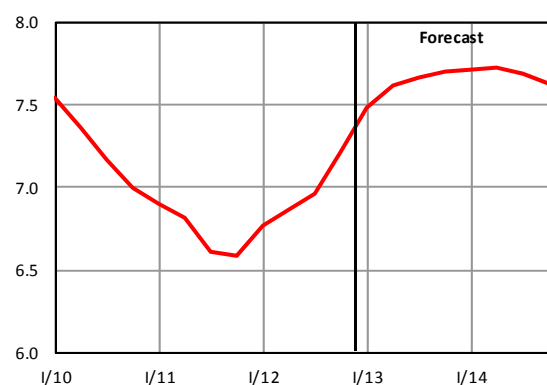
Inflation rate close to the CNB inflation target

decomposition of YoY growth in consumer prices, percentage points



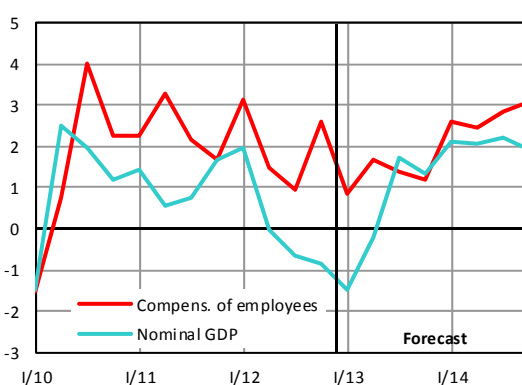
Slight increase in unemployment rate this year

unemployment rate (LFS), in %, seasonally adjusted



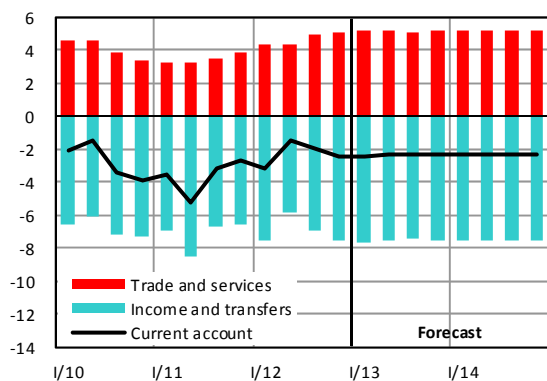
Rising share of compensation of employees on GDP

compensation of employees and nominal GDP, growth in %



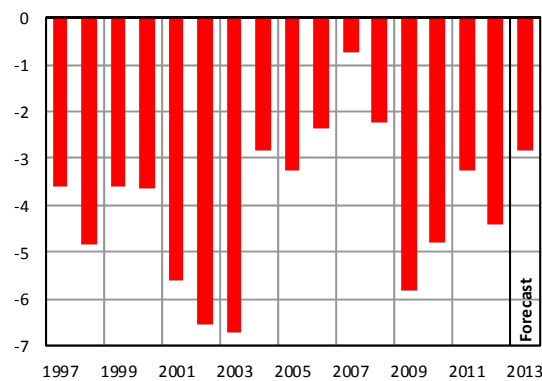
Low current account deficit

BoP – current account, in % of GDP (moving sums of the latest 4 quarters)



Government sector deficit below 3% of GDP in 2013

general government balance, in % of GDP



Risks to the Forecast

The central scenario of this Macroeconomic Forecast envisages that in YoY terms GDP will stagnate in 2013. **Nevertheless the risks of this forecast are slightly tilted to the downside.**

As far as the assumptions of the central scenario on the external environment are concerned, **the euro zone's prospects** for both this and the next year have **deteriorated further** (similarly to the Winter 2013 European Economic Forecast of the EC).

In Q4 2012, there was a surprisingly deep decline in the euro zone's economic activity, even in the "core" countries. The leading indicators provide mixed signals for the next 6 months to come.

The most important **economic risk** related to the external environment is, in our view, the threat of the recession being experienced in the south of the euro zone spilling over to the countries of the Czech Republic's main trading partners, especially to Germany. Should this risk materialise, it would result in an even more significant decrease in the contribution of foreign trade to the GDP change than expected in the Forecast.

In problematic countries, the economic situation is further deteriorating. Greece is in deep depression. According to the EC forecast, Greek GDP will have cumulatively declined by 23.6% this year, compared with 2007. Such an economic slump (already comparable to the Great Depression of 1929–1933 when e.g. US economic performance decreased by 28.5%, according to the OECD data) has not yet occurred in the post-war history of developed countries, with the exception of Latvia (whose GDP declined cumulatively by nearly a quarter between Q1 2008 and Q3 2009).

Compared with Q3 2010, the total economic decline in Portugal has already reached 7.0%. The Cypriot economy has so far shrunk by 4.2%, compared with Q2 2011. However, implementation of the bailout programme (a combination of fiscal restriction,

structural reforms and restructuring and significant downsizing of the banking sector) is likely to plunge the country into depression. Smaller in extent, though also significant, is the depth of the recession in Italy (cumulative GDP decline of 3.7%, compared with Q2 2011) and in Spain (cumulative decline of 2.5%). Sharp downturn in problematic economies, accompanied by rising unemployment rate and negligible prospects for the economic situation to improve soon, accelerates **political and social risks**. These are reflected e.g. in stalemate results of the Italian elections.

In comparison with the second half of 2012, we consider the short-term **risks related to the debt crisis in the euro zone** to be less serious. The situation on the financial markets has gradually settled down, contributed for instance by the possibility of ECB interventions on the secondary market for government bonds under the OMTs programme as well as launching of the ESM mechanism. However, as the course of negotiations on the bailout programme for Cyprus showed in March, almost nothing can be ruled out in this sphere either.

As far as internal risks are concerned, the central scenario of the forecast again envisages that domestic demand will decline in 2013. **Internal economic risks continue to be slightly tilted to the downside.**

The very low **level of confidence in further economic development** is persisting, although in February the business cycle indicator results in industry and among consumers suggested the possibility of a slight improvement.

So far, however, "hard" data confirm consumers' cautious behaviour and a precaution-driven (to be on the safe side should the economic situation worsen further) increase in the rate of savings. Similar situation is in the business sector, where many investment decisions are being postponed. This factor is probably the main reason explaining the "freeze" in domestic demand present in the Czech economy

A Forecast Assumptions

Sources of tables and graphs: CNB, CZSO, ECB, Eurostat, Ministry of Finance of the Czech Republic, IMF, OECD, The Economist, own calculations.

A.1 External Environment

Economic output

Similarly to the previous forecast, the outlook for the world economy varies significantly. In the USA, the mild recovery is continuing and the government measures temporarily ward off the threat of strong fiscal restriction. A rather favourable conditions can be seen on the stock markets. We are still far from witnessing economic recovery in the EU, the EU thus remains the least dynamic region. The Japanese economy has again slipped into recession, but there are expectations of growth induced by the government's fiscal stimulus. Emerging market economies are positively contributing to global growth, however, they face weak external demand. Sustaining rapid growth in China depends on successful reorientation to domestic consumption.

USA

In Q4 2012, the US economy saw QoQ stagnation (*versus 0.5% growth*), where decline in inventories and government consumption, especially defence expenditure, contributed negatively. For the whole of 2012, GDP increased by 2.2% (*consistent with the forecast*). In the course of the year, growth was driven especially by household consumption, partially also by foreign investment.

We are continuing to observe a favourable situation on the stock markets. The Dow Jones index climbed above the level of 14,000 points, thus reaching the record-breaking levels of 2007. In February we saw a boost in consumer confidence, with fears of the fiscal crisis temporarily wearing off. Considerable price increases can be observed on the real estate market. Favourable development is continuing in the energy sector, where energy cost reduction and job creation are expected. In February, the unemployment rate decreased by 0.2 p.p. to 7.7%, the lowest amount in the last four years. At the same time, the authorities are registering considerable growth in new jobs, especially in the construction industry. The economy continues to be supported by the Fed's highly accommodative monetary policy with interest rates unchanged ("at zero") for 3 years already. The Fed is using its dual mandate and has tied interest rates to the unemployment rate. Favourable development over the last months is however leading to speculations as to whether the third round of quantitative easing will be terminated this year.

The economic growth in the USA appears to be sustainable. For 2013, we have left estimated growth at 2.1%. We assume that growth will speed up in the second half of 2013. A favourable development on the financial markets, together with a turning point in terms of the situation on the real estate market, has resulted in improvement of the financial situation of households and it is expected that these factors will contribute to increased consumption during the course of the year. For 2014 we still expect GDP to grow by 3%. At the same time we expect that the problem of the medium-term fiscal consolidation will be resolved successfully.

EU

In Q4 2012, the euro zone's GDP dropped by 0.6% in QoQ terms (*versus 0.1%*), which represented a YoY decrease of 0.9% (*versus 0.4%*). On a QoQ basis, it was already the fifth decrease in economic performance in succession. Even though the situation in individual EA12 countries varies, it is possible to identify a decrease in household consumption as the main cause of the continuing recession. It is perhaps a consequence of strong fiscal consolidation applied since 2010. In comparison with the pre-crisis period, we are observing a significantly higher propensity to save.

In Q4 2012, **Germany** saw a considerable QoQ decline of 0.6% (*versus 0.1%*), especially due to a decline in exports. Nevertheless the current account surplus for the whole of 2012 exceeded 6% of GDP; moreover, further growth is expected this year due to the high level of competitiveness.

In Q4 2012, **France's** GDP decreased by 0.3% QoQ (*versus stagnation*). Despite good export dynamics, the economy stagnated in 2012 (*versus 0.1% growth*). There is a low consumer confidence and growing unemployment hinders a recovery in consumption.

Italy (since Q3 2011) and **Spain** (since Q4 2011), i.e. the 3rd and the 4th largest economy of the euro zone, are still in recession. In Q4 2012, **the British economy** also saw a QoQ decline, where GDP shrank by 0.3% (*versus 0.3% growth*). Fear of a triple-dip recession is intensifying. Out of 27 EU countries, 18 decreased in Q4 2012, Poland being the only growing economy among the bigger ones.

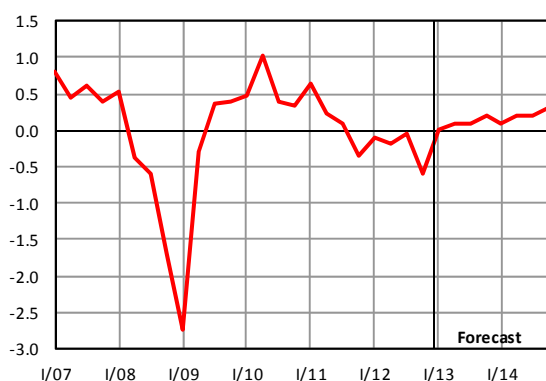
Divergences of development in the euro zone can be best illustrated as usual, by unemployment rate. In January, the unemployment rate in EA12 increased to 11.9% (1.1 p.p. increase YoY). The highest level of unemployment is newly recorded in Greece (26.4%, although the data refer to December 2012), further Spain (26.2%), Portugal (17.6%) followed by Slovakia (14.9%). On the contrary, the unemployment rate in Germany gradually declined to 5.3%. In addition to the economic dimension, the situation on the labour market in some countries also harbours a significant political dimension. Furthermore, high unemployment rates have unfavourable implications e.g. for household consumption, considerably aggravating government efforts to consolidate public finances.

The ECB's measures are conducive to stabilizing the situation in the EA12; the ECB has committed itself to leaving the interest rates at low levels for as long as deemed necessary. It appears, however, that an extremely accommodative monetary policy cannot fully compensate for unfavourable economic development with restrictive fiscal policies.

Due to a certain discrepancy between "hard" data and leading indicators, we have assessed the short-term outlook for the EA12 as considerably uncertain. We expect that GDP of the EA12 will decrease by 0.4% (versus 0.2%) this year, however, for 2014 we assume growth of 0.6% (versus 0.5%).

Graph A.1.1: **Growth of GDP in EA12**

QoQ growth in % (adjusted for seasonal and working day effects)



In **Poland** the rate of economic growth is slowing down, which was confirmed by data for Q4 2012. In 2012 the Polish economy grew by 2.0% (versus 2.3%), the lowest growth rate since 2009. Domestic demand stagnates, unemployment rate increased to 10.6% in January (0.7 p.p. increase YoY). In addition, the period of important one-off infrastructure investments connected to the European Football Championship came to an end. At the beginning of March, the central bank decreased rates to their historical low of 3.25%,

however, no major impact is expected here. The estimate for growth in 2013 was thus lowered to 1.5% (versus 1.9%).

In **Slovakia**, strong dependence on exports remains evident. Due to a weakening in foreign demand, GDP grew by just 2.0% in 2012, which, with the exception of 2009, is the lowest growth since 2000. Household consumption repeatedly fell, while unemployment continues to rise. We have lowered the estimate for growth in 2013 to 1.3% (versus 1.7%).

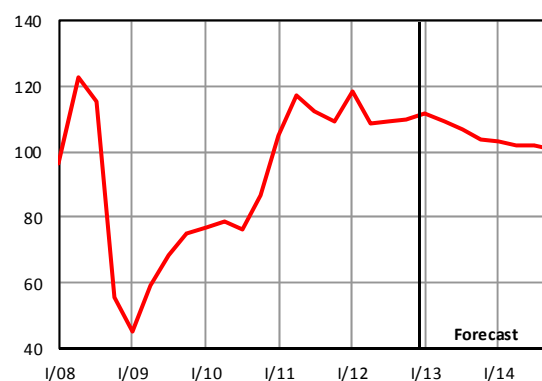
Commodity prices

In Q4 2012, oil prices averaged 110 USD/barrel. In 2012, the average daily price of Brent crude oil was 111.7 USD/barrel, a historically highest average price of crude oil. For Q1 2013 we expect that the price will amount to 112 USD per barrel (versus 108 USD).

In February 2013, the forecast for both global growth and demand for crude oil was revised and the market underwent a price correction. For the time being, the one-off risks of geopolitical character have ceased to pose a threat. For 2013 we expect to see a decline in the average daily price of crude oil to 108 USD/barrel (versus 105 USD), mainly as a consequence of a slowdown in global demand for crude oil and production capacity growth (especially in the USA). We expect that the gradual decrease in the crude oil price will also continue in 2014 where the price could reach an average of 102 USD/barrel (unchanged).

Graph A.1.2: **Dollar Prices of Brent Crude Oil**

in USD per barrel



In the first half of 2013, we expect to see wheat and maize prices stagnate at high levels. For the second half of 2013, long-term weather forecasts and the extent to which they become a reality will be crucial. In the case of wheat, there are speculations of a record-breaking harvest this year, the prices could drop at the end of this year.

Debt crisis in the euro zone

Political risks resulting from the outcome of the February parliamentary elections in Italy, as well as the risk of possible complications in negotiations on the bailout programme for Cyprus mentioned in the January Forecast, have to a certain extent in both cases become a reality.

In the Italian preliminary parliamentary elections held on 24 and 25 February, voters selected their representatives for the Chamber of Deputies and the Senate. Even though the centre-left coalition led by Pier Luigi Bersani's Democratic Party got the most mandates in both Chambers, it only has the absolute majority in the Chamber of Deputies (the majority for the winning entity is guaranteed here by the election system). However, to win the vote of confidence, the government has to have a majority support in both Chambers of the Parliament.

Therefore, considering the post-election arithmetic, it will be very difficult to form a government. Italy would in fact need a government with strong political mandate, which would enable it not only to carry out the much needed structural reforms, but also to address the unfavourable economic situation (in Q4 2012, GDP decreased by 2.7% YoY) coupled with a high level of government debt. These factors led to a downgrade in Italy's rating by the Fitch agency on 8 March (the rating was lowered by 1 notch, from A- to BBB+, negative outlook).

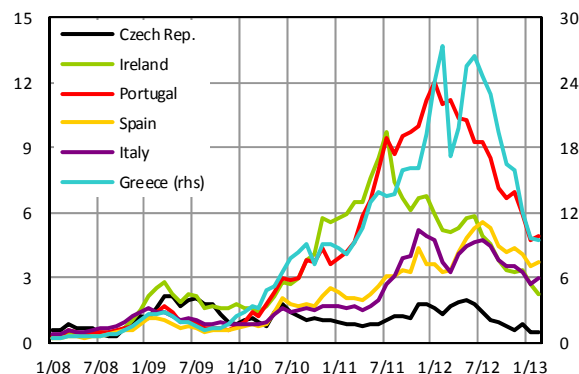
Both Ireland and Portugal are successfully continuing in their efforts to fully return to the primary market for government bonds. The fact that these two countries can once again enjoy investors' trust (the necessary condition for returning to the primary market) is evidenced not only by decreasing yields on their bonds on the secondary market (Graph A.1.3), but also by the results of recent auctions of government bonds and treasury bills. The treasury bill auctions in March were conducted against the background of the "Cypriot crisis" which was not, however, significantly reflected in the financial markets.

A relatively radical turning point in negotiations on the bailout programme for Cyprus was brought by the Euro Group's meeting held on 15 March in Brussels¹. The representatives of Cyprus left this meeting with the plan for one-off taxation of banking deposits, this should have been one of the measures to contribute to a reduction in financial aid provided to Cyprus under

the bailout programme. Due to this, the aid should have not exceeded EUR 10 billion (approx. 56% of GDP), which should have been consistent with the sustainable trajectory of government debt.

Graph A.1.3: Spreads over German Bonds

The difference between yields of 10Y gov. bonds of the respective country and yields of 10Y German bonds, in p.p., monthly averages



According to the original proposal, any deposits up to EUR 100,000 should have been taxed at 6.75%, any deposits above this limit should have been subject to the rate of 9.9%. In total, this measure should have earned up to EUR 5.8 billion. On 19 March the Cypriot Parliament voted on the version according to which any deposits up to EUR 20,000 would be kept "spare", the Parliament, however, unequivocally rejected the submitted proposal.

After this (undoubtedly surprising for the European political elite) rejection taken by the Cypriot Parliament, the Cypriot representatives tried to find an alternative solution which would enable them to get the required EUR 5.8 billion. The Cypriot Finance Minister even tried negotiating with Russian representatives for several days (at the beginning of 2012 Russia granted a loan of EUR 2.5 billion to Cyprus) regarding the possibility of supplying aid, however, these negotiations ultimately failed.

The pressure on reaching a quick agreement between Cyprus and the EU/IMF on the bailout programme, which would enable recapitalizing of several Cypriot banks severely affected by the write-off of "voluntary" Greek government bonds in March 2012, was applied especially by the ECB. On 21 March, the ECB notified willingness to provide, under the given circumstances (the absence of an agreement with the EU/IMF), Cypriot banks with liquidity under the so-called ELA (Emergency Liquidity Assistance) until 25 March only. Such a measure, should the ECB decide to take it, would result in complete collapse of the Cypriot banking system possibly posing a serious threat to Cyprus abidance in the euro zone.

¹ In addition, the Finance Ministers of the euro zone agreed with extension of maturity periods for the EFSF bailout loans granted to Portugal and Ireland.

On 22 March, the Cypriot Parliament passed several important acts including a regulation enabling the government to introduce capital controls (in practice these controls would amount to restrictions on cashless and cash operations) or legislative proposals regulating restructuring of the banking sector. Capital controls will have to be introduced (in order to prevent run on banks) before banks are reopened, which is expected to happen on 28 March.

Cyprus managed to come to agreement with the EU/IMF as late as at the Euro Group's extraordinary summit on 24 March in Brussels. The Cypriot banking sector should undergo a fundamental restructuring, which will, among other things, result in the sector being considerably downsized. The agreement also anticipates that the Laiki bank (the second biggest bank in the country) will be immediately resolved. Performing loans, other assets and insured deposits (up to EUR 100,000) will be transferred from Laiki to the Bank of Cyprus (the biggest bank in the country). The remaining assets and liabilities will subsequently be transferred to a bad bank, it is certain that any entities with uninsured deposits above EUR 100,000, just like the bank's shareholders and bondholders, will suffer considerable losses (no detailed information is available yet). However, the situation will not be much better for holders of uninsured deposits in the Bank of

Cyprus, as they will remain "frozen" until the Bank of Cyprus' recapitalization (losses cannot be ruled out afterwards either).

Since an emphasis on fiscal consolidation will be an essential feature of the bailout programme (it is expected that negotiations on the Memorandum of Understanding at the technical level will be concluded at the beginning of April) it is possible to expect a considerable deepening of the economic downturn in Cyprus, given the current situation and probable future development in the banking sector. The bailout programme could thus easily turn out to be insufficient.

In spite of political uncertainty in Italy and a recent escalation of tension relating to the bailout programme for Cyprus, the financial markets remain relatively calm. That said, an escalation of the debt crisis in the euro zone cannot be ruled out in the future. As a small open economy with very strong links to EU countries, the Czech Republic would clearly be negatively affected by a possible escalation of the debt crisis (the impact on expectations of households and firms, decrease in foreign demand). The main advantage of the Czech Republic is, however, the high resilience of its banking sector towards negative shocks and the credibility of its fiscal policy, as evidenced e.g. by the very low yields on government bonds.

Table A.1.1: **Real Gross Domestic Product** – yearly growth in %, seasonally unadjusted data

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
									<i>Forecast</i>	<i>Forecast</i>
USA	3.1	2.7	1.9	-0.3	-3.1	2.4	1.8	2.2	2.1	3.0
China	11.3	12.7	14.2	9.6	9.2	10.4	9.1	7.9	7.9	8.0
EU27	2.1	3.3	3.2	0.3	-4.3	2.1	1.5	-0.3	-0.2	0.7
EA12	1.7	3.2	3.0	0.4	-4.4	2.0	1.4	-0.6	-0.4	0.6
Germany	0.7	3.7	3.3	1.1	-5.1	4.2	3.0	0.7	0.5	1.6
France	1.8	2.5	2.3	-0.1	-3.1	1.7	1.7	0.0	0.1	1.0
United Kingdom	2.8	2.6	3.6	-1.0	-4.0	1.8	0.9	0.2	0.8	1.5
Austria	2.4	3.7	3.7	1.4	-3.8	2.1	2.7	0.7	0.7	1.5
Hungary	4.0	3.9	0.1	0.9	-6.8	1.3	1.6	-1.7	0.0	1.0
Poland	3.6	6.2	6.8	5.1	1.6	3.9	4.3	2.0	1.5	2.4
Slovakia	6.7	8.3	10.5	5.8	-4.9	4.4	3.2	2.0	1.3	3.0
Czech Republic	6.8	7.0	5.7	3.1	-4.5	2.5	1.9	-1.3	0.0	1.2

Graph A.1.4: Real Gross Domestic Product

YoY growth in %, seasonally unadjusted data

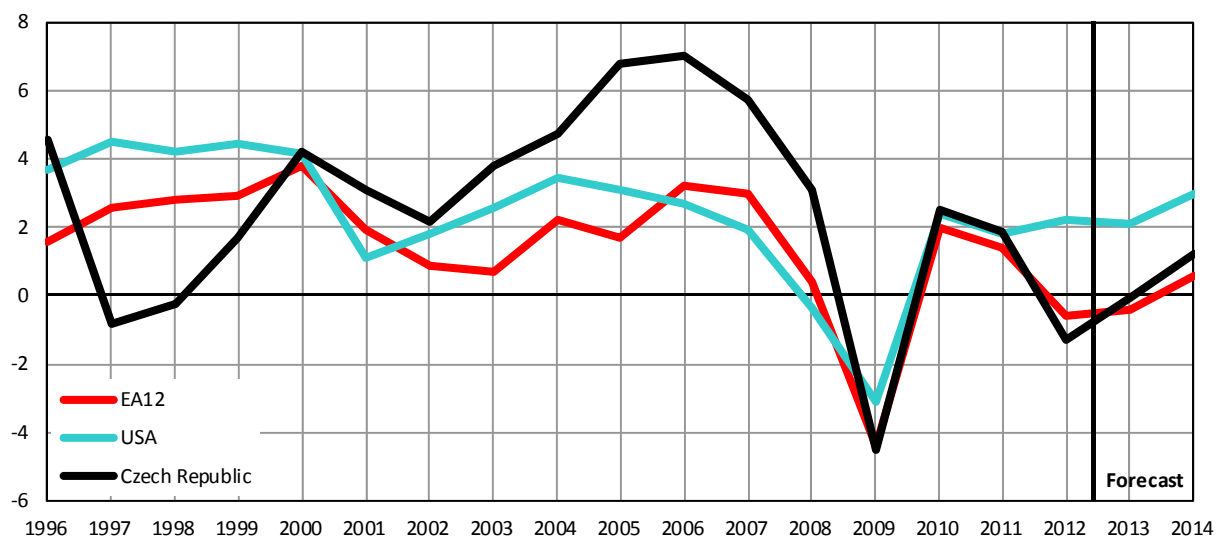


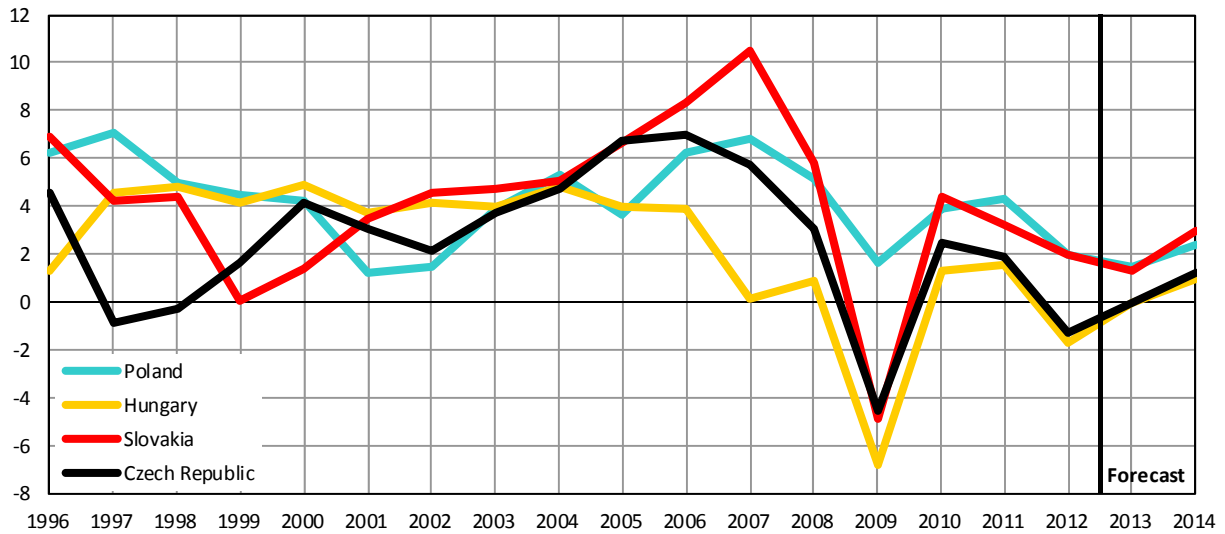
Table A.1.2: Real Gross Domestic Product – quarterly

growth in %, seasonally adjusted data

		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
USA	QoQ	0.5	0.3	0.8	0.0	0.5	0.5	0.8	0.8
	YoY	2.4	2.1	2.6	1.6	1.6	1.8	1.8	2.6
China	QoQ	1.5	2.0	2.2	1.8	1.9	1.9	2.0	2.0
	YoY	8.3	8.0	7.8	7.9	8.1	8.0	7.8	8.0
EU27	QoQ	0.0	-0.2	0.1	-0.5	0.0	0.1	0.2	0.2
	YoY	0.2	-0.3	-0.4	-0.5	-0.5	-0.3	-0.2	0.5
EA12	QoQ	-0.1	-0.2	-0.1	-0.6	0.0	0.1	0.1	0.2
	YoY	-0.2	-0.5	-0.7	-0.9	-0.8	-0.6	-0.4	0.4
Germany	QoQ	0.5	0.3	0.2	-0.6	0.2	0.2	0.5	0.4
	YoY	1.2	1.0	0.9	0.4	0.1	0.0	0.3	1.3
France	QoQ	-0.1	-0.1	0.1	-0.3	0.0	0.1	0.2	0.2
	YoY	0.2	0.0	-0.1	-0.4	-0.3	-0.1	0.0	0.5
United Kingdom	QoQ	-0.1	-0.4	1.0	-0.3	0.1	0.2	0.3	0.3
	YoY	0.3	-0.2	0.2	0.2	0.4	1.0	0.3	0.9
Austria	QoQ	0.4	0.1	0.1	-0.2	0.3	0.2	0.4	0.3
	YoY	0.8	0.6	0.8	0.5	0.4	0.4	0.7	1.2
Hungary	QoQ	-1.0	-0.5	-0.4	-0.9	0.3	0.4	0.4	0.5
	YoY	-1.2	-1.4	-1.8	-2.8	-1.5	-0.6	0.2	1.6
Poland	QoQ	0.4	0.1	0.3	0.2	0.4	0.5	0.5	0.6
	YoY	3.5	2.2	1.4	1.0	1.0	1.4	1.6	2.0
Slovakia	QoQ	0.3	0.4	0.3	0.2	0.3	0.3	0.5	0.4
	YoY	2.6	2.2	1.8	1.2	1.2	1.1	1.3	1.5
Czech Republic	QoQ	-0.5	-0.6	-0.4	-0.2	0.0	0.3	0.4	0.3
	YoY	-0.4	-1.1	-1.5	-1.7	-1.3	-0.4	0.4	1.0

Graph A.1.5: **Real Gross Domestic Product – Central European economies**

YoY growth in %, seasonally unadjusted data



Graph A.1.6: **GDP in the Czech Republic and the neighbouring states**

Q3 2008=100, seasonally adjusted data

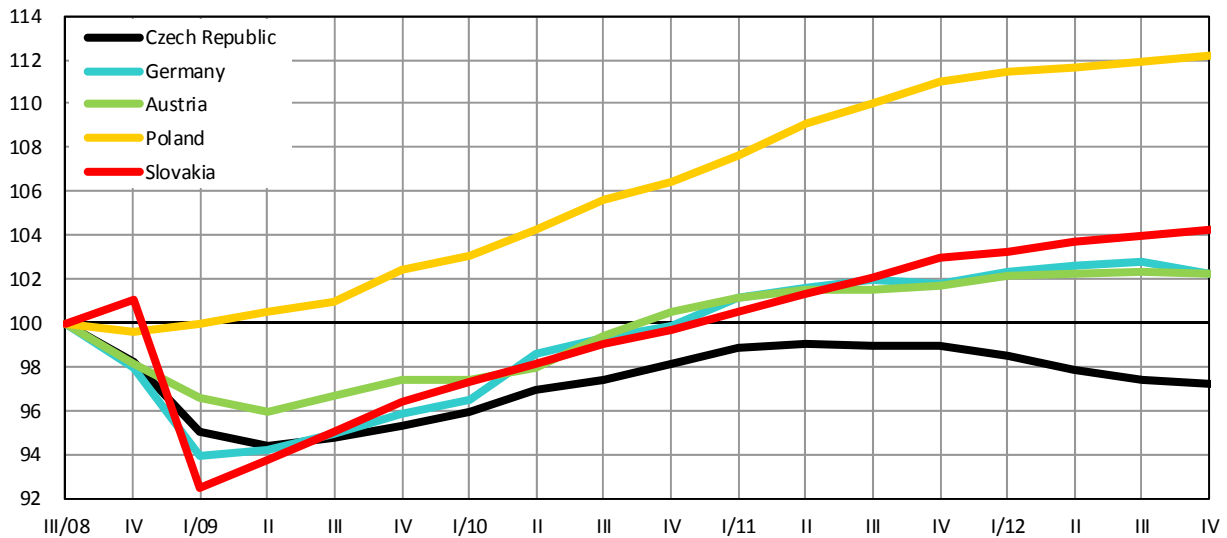


Table A.1.3: **Prices of Commodities – yearly**

spot prices

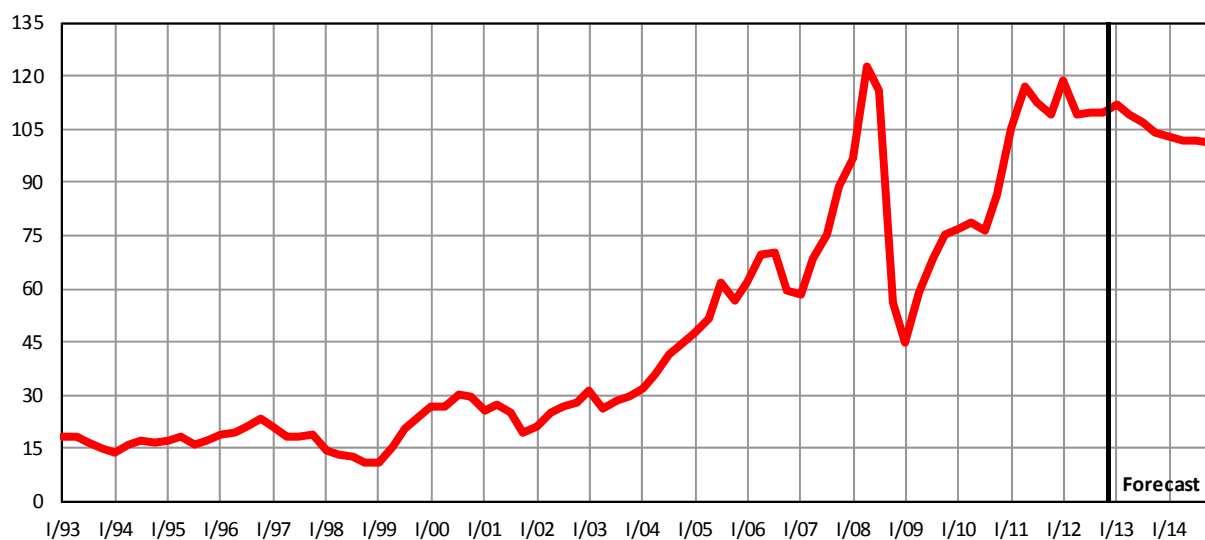
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
		Forecast									
Crude oil Brent	USD/barrel	54.4	65.4	72.7	97.7	61.9	79.6	111.0	111.7	108	102
	growth in %	42.0	20.1	11.2	34.4	-36.7	28.7	39.3	0.7	-3.3	-5.6
Crude oil Brent index (in CZK)	2005=100	100.0	113.3	113.3	127.9	90.5	116.7	150.6	167.8	162	151
	growth in %	32.4	13.3	-0.1	12.9	-29.3	29.0	29.0	11.4	-3.4	-6.6
Wheat	USD/t	152.4	191.7	255.2	326.0	223.6	223.7	316.2	313.3	.	.
	growth in %	-2.8	25.8	33.1	27.7	-31.4	0.1	41.4	-0.9	.	.
Wheat price index (in CZK)	2005=100	100.0	118.7	141.9	152.4	116.7	117.1	153.3	168.1	.	.
	growth in %	-9.4	18.7	19.6	7.3	-23.4	0.3	30.9	9.7	.	.

Table A.1.4: **Prices of Commodities – quarterly**
spot prices

		2012				2013			
		Q1	Q2	Q3	Q4	Q1 <i>Estimate</i>	Q2 <i>Forecast</i>	Q3 <i>Forecast</i>	Q4 <i>Forecast</i>
Crude oil Brent	<i>USD/barrel</i>	118.5	108.9	109.5	109.8	112	109	107	104
	<i>growth in %</i>	13.0	-7.0	-2.7	0.5	-5.5	0.1	-2.3	-5.3
Crude oil Brent index (in CZK)	<i>2005=100</i>	173.6	164.5	168.2	163.2	168	163	160	155
	<i>growth in %</i>	21.3	8.6	13.1	3.9	-3.0	-0.6	-4.9	-5.0
Wheat price	<i>USD/t</i>	278.8	269.0	349.5	355.7	.	.	.	.
	<i>growth in %</i>	-15.6	-20.6	10.7	27.2	.	.	.	.
Wheat price index (in CZK)	<i>2005=100</i>	146.1	145.3	192.0	189.1	.	.	.	.
	<i>growth in %</i>	-9.4	-7.4	28.7	31.5	.	.	.	.

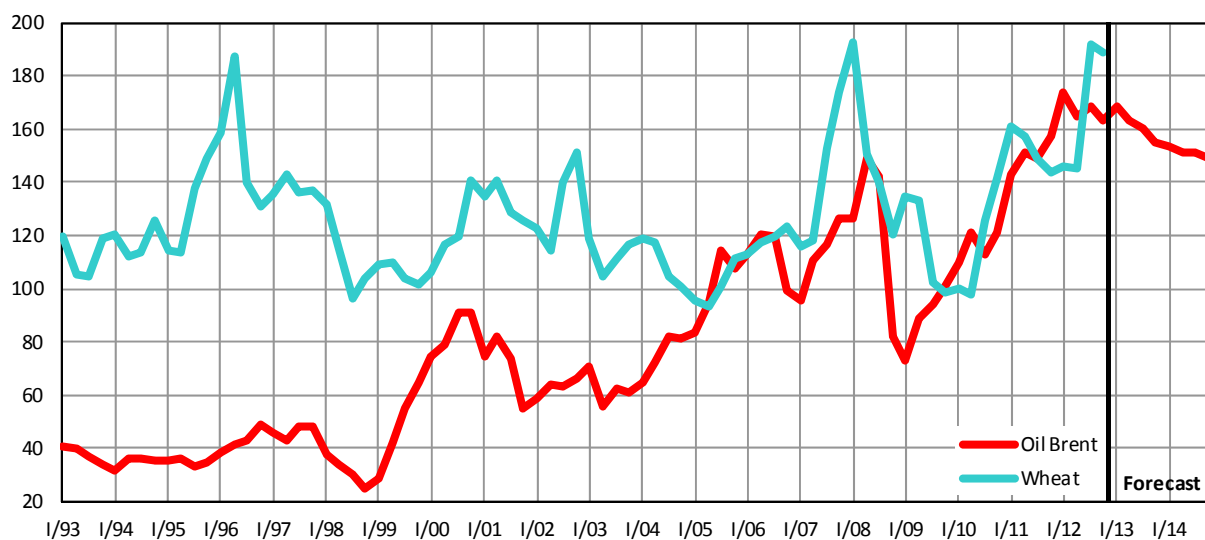
Graph A.1.7: **Dollar Prices of Oil**

USD/barrel



Graph A.1.8: **Koruna Indices of World Commodity Prices**

index 2005=100



A.2 Fiscal Policy

According to the preliminary estimate of the CZSO, the government sector balance ended up with the deficit of CZK 169.0 billion in 2012, representing 4.4% of GDP. The actual estimate is by 0.6 p.p. better, compared to the estimate of the MoF from January 2013. The result of the year 2012 is negatively influenced by the inclusion of financial compensation to churches totalling CZK 59.0 billion (approximately 1.5% of GDP) and also by corrections of the non-refunded part of EU resources amounting to CZK 12 billion (approximately 0.3% of GDP). Had it been adjusted for these one-offs, the January 2013 estimate of the deficit would have amounted to 3.2% of GDP, whereas the preliminary estimate of the CZSO, excluding those effects, would be 2.5% of GDP.

To a lesser extent, the difference from the January Macroeconomic Forecast stems from the revenue side, which ended up 0.1% of GDP better than originally expected. More favourable result is evident especially in the case of VAT, where higher income from Q1 2013 accrues to the year 2012. On the expenditure side, being by 0.5% of GDP lower than estimated, much lower than expected (by 0.4% of GDP) investment expenditure had the biggest impact. In YoY terms, investment expenditure thus significantly declined (by approximately 15% last year) in the third consecutive year. Savings amounting to 0.1% of GDP occurred also in case of social transfers.

In 2013, the MoF expects the general government deficit to reach CZK 109.6 billion, representing 2.8% of GDP. Thus the estimate of budgetary development is by 0.1 p.p. below the stated target.

Total revenues should increase by 1.2% from last year, mainly due to tax revenues, which should be 1.6% higher. However, a whole range of discretionary measures, from which mainly the increase of both VAT rates by 1 p.p. with the total effect amounting to CZK 15 billion should be the most influential, contribute to that increase. More considerable personal income tax collection, where the effect of discretionary measures

(especially abolition of the allowance for working pensioners, surtax of 7% for high-income earners and reduction of lump-sum expenditure deductions) could reach almost CZK 7 billion, is expected. Positive discretionary change is anticipated also in the case of excises (e.g. increase in the rate of tobacco tax) and real estate transfer tax (increase in the rate to 4%). On the contrary, loss in income from social security contributions, induced by the transfer of resources to the pension savings pillar, should have a negative effect of approximately CZK 6 billion.

Having significantly declined in the last year, capital transfers, used among other things to finance European projects, should increase by 5.4%.

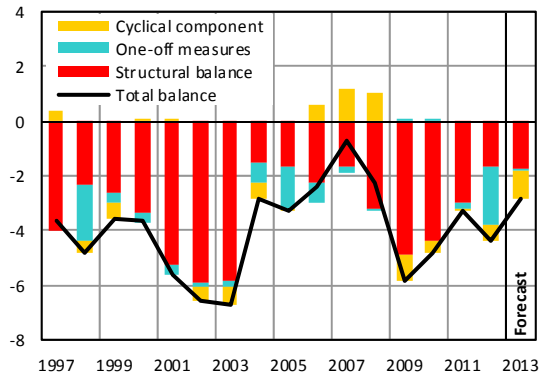
Expenditures should drop by 2.4%, but excluding the impact of the aforementioned one-off measures they would increase by 1.9%. Expenditures on final government consumption should be higher by 1.2% mainly due to growth of intermediate consumption. Unlike in the previous years when it was falling, intermediate consumption could increase by 2.2% due to autonomous development and the change in VAT rates. In the case of government investment, a reversal in the trend of the last years is expected. Thus, gross capital formation should grow by 4.1%.

The forecast does not consider the effects of a sale of frequency bands to mobile operators as well as a sale of emission allowances, which, if implemented in 2013, would improve the deficit. Downside risk, however, is represented by possible additional corrections of the non-refunded part of EU resources (there are ongoing negotiations with the EC). Risks to this year's deficit forecast thus seem balanced.

Government debt could increase by 6.4% this year, reaching the level of 48.5% of GDP by the end of the year.

Outlook for the years 2014–2016 will be published as a part of the April update of the Convergence Program of the CR.

Graph A.2.1: **Decomposition of the government balance**
in % of GDP



Graph A.2.2: **Government Debt**
in % of GDP

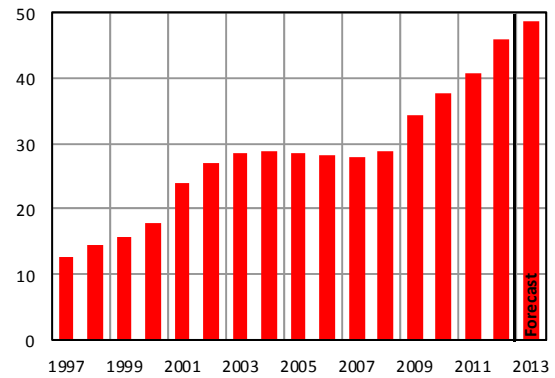


Table A.2.1: **Net Lending/Borrowing and Debt**

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										Prelim.	Forecast
General government balance ¹⁾	bill. CZK	-83	-101	-80	-27	-86	-218	-183	-125	-169	-110
	% GDP	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.8	-3.3	-4.4	-2.8
Cyclical balance	% GDP	-0.6	-0.1	0.6	1.2	1.0	-1.0	-0.5	0.0	-0.6	-1.0
Cyclically adjusted balance	% GDP	-2.2	-3.2	-3.0	-1.9	-3.3	-4.8	-4.3	-3.2	-3.8	-1.8
One-off measures	% GDP	-0.7	-1.5	-0.7	-0.3	-0.1	0.0	0.0	-0.2	-2.1	-0.1
Structural balance	% GDP	-1.5	-1.6	-2.3	-1.6	-3.2	-4.9	-4.4	-3.0	-1.7	-1.8
Fiscal effort ²⁾	percent. points	4.3	-0.1	-0.6	0.6	-1.5	-1.7	0.5	1.4	1.3	-0.1
Interest expenditure	% GDP	1.1	1.1	1.1	1.1	1.0	1.3	1.3	1.4	1.5	1.5
Primary balance	% GDP	-1.8	-2.2	-1.3	0.4	-1.2	-4.5	-3.5	-1.9	-2.9	-1.3
Cyclically adjusted primary balance	% GDP	-1.2	-2.1	-1.9	-0.8	-2.2	-3.6	-3.0	-1.8	-2.3	-0.3
General government debt	bill. CZK	848	885	948	1 023	1 104	1 286	1 437	1 569	1 759	1 872
	% GDP	28.9	28.4	28.3	27.9	28.7	34.2	37.8	40.8	45.8	48.5
Change in debt-to-GDP ratio	percent. points	0.4	-0.5	-0.1	-0.3	0.8	5.5	3.6	3.0	4.9	2.8

Note: Government debt consists of the following financial instruments: currency and deposits, securities other than shares excluding financial derivatives and loans. Government debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government. The nominal value is considered to be an equivalent to the face value of liabilities. It is therefore equal to the amount that the government will have to refund to creditors at maturity.

¹⁾ Balance in EDP methodology, i.e. general government net lending (+)/borrowing (-) including interest derivatives.

²⁾ Change in structural balance.

A.3 Monetary Policy and the Financial Sector

Monetary policy

The primary monetary policy instrument is the interest rate for **2W (2-week) repo operations**, which has been at a historical and technical low of 0.05% since November 2012. Therefore, it is not possible to completely rule out the possibility of interventions on the foreign exchange market. Due to stagnation of the ECB's main refinancing rate, **the interest-rate differential** between the Czech Republic and the Economic and Monetary Union remained at -0.70 p.p. at the end of Q1 2013, while the differential relative to the US reached -0.20 to 0.05 p.p.

Financial sector and interest rates

We estimate that the average value of **3M (3-month) PRIBOR rate** in Q1 2013 will be 0.5% (*unchanged*). For 2013 we forecast the value of 0.5% (*unchanged*), for 2014 a slight increase to 0.6% (*unchanged*).

Long-term interest rates should remain over the coming period at the current very low values or only increase slightly. Considering the fact that the Czech Republic's rating is constantly at a good investment level – Standard & Poor's AA-, Moody's A1, Fitch Ratings A+ (all with a stable outlook), it is possible to expect further successful auctions of government bonds.

In January, the CNB conducted another examination of credit terms and bank standards. The survey concluded that banks tightened credit standards for corporate loans in Q4 2012, while relaxing those for housing loans and leaving those for consumer loans unchanged. For Q1 2013, a further tightening of credit standards for corporate loans was expected, with a further relaxing of those for housing loans.

As far as development on the interbank market is concerned, a survey conducted in January 2013 showed that fluctuations in the volume of deposit and

repo operations were at slightly lower values than in the previous quarter. After decreasing in the previous quarter, the volume of derivative operations IRSs (Interest Rate Swaps) increased slightly (due to trading with non-residents), the volume of FRAs (Forward Rate Agreements) also increased. Uncertainty on the interbank market, measured by the spread between 2W or 3M PRIBOR and the 2W repo rate, remains stable at around 0.45 p.p.

This year, we expect **yields to maturity of 10-year government bonds** reaching 2.2% (*unchanged*) on average. They should remain at similarly low levels (2.3%) in 2014 (*unchanged*).

In Q4 2012, interest rates on loans to non-financial corporations decreased by 0.3 p.p. QoQ to 3.4%, rates on loans to households decreased by 0.1 p.p. to 6.3%. Rates on household deposits remained at 1.2%, those on deposits of non-financial corporations decreased by 0.1 p.p. to 0.5%.

The household debt contraction rate is continuing to slow down. Growth of their overall loans is driven exclusively by the growth of housing loans, while the volume of consumer loans is slightly decreasing. Coupled with a still considerable increase in deposits, the continuing slowdown in terms of the growth of loans to non-financial corporations may suggest a prevailing unwillingness to invest.

The situation concerning loans in default has been stabilized. In Q4 2012 their share stood at 5.2% for households (0.1 p.p. more YoY) and 7.5% for non-financial corporations (0.7 p.p. less YoY). Considering the unfavourable macroeconomic development, we can evaluate this as a very positive phenomenon, on the other hand, it is necessary to take into account that there is a certain lag time before loans in default become apparent.

Table A.3.1: Interest Rates, Deposits and Loans – yearly

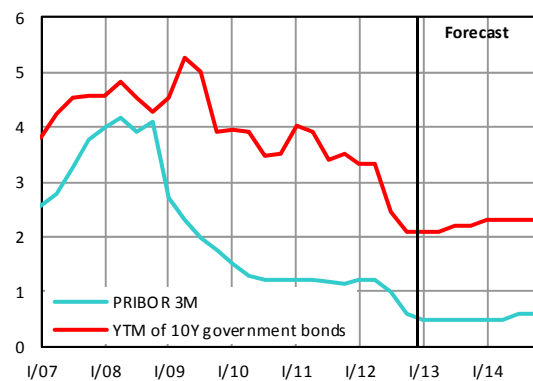
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
										Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	2.00	2.50	3.50	2.25	1.00	0.75	0.75	0.05	.	.
Main refinancing rate ECB (end of period)	in % p.a.	2.25	3.50	4.00	2.50	1.00	1.00	1.00	0.75	.	.
Federal funds rate (end of period)	in % p.a.	4.25	5.25	4.25	0.25	0.25	0.25	0.25	0.25	.	.
PRIBOR 3M	in % p.a.	2.01	2.30	3.09	4.04	2.19	1.31	1.19	1.00	0.5	0.6
YTM of 10Y government bonds	in % p.a.	3.51	3.78	4.28	4.55	4.67	3.71	3.71	2.80	2.2	2.3
Households – MFI (CR, unless stated otherwise)											
– interest rates on loans	in % p.a.	7.53	6.93	6.63	6.81	7.00	7.00	6.83	6.46	.	.
– loans	growth in %	32.6	32.1	31.7	28.9	16.3	8.7	6.5	4.9	.	.
– loans without housing loans	growth in %	28.6	28.3	27.3	25.3	19.1	8.3	6.8	1.4	.	.
– deposits	growth in %	5.2	7.3	10.6	9.4	10.5	5.4	5.0	4.7	.	.
– share of non-performing loans	in %	4.2	3.7	3.2	3.0	3.7	4.8	5.3	5.2	.	.
– loans to deposits ratio	in %	33	40	48	57	60	61	62	65	.	.
– loans to deposits ratio (Eurozone)	in %	94	99	99	94	89	90	90	87	.	.
Non-financial firms – MFI (CR, unless stated otherwise)											
– interest rates on loans	in % p.a.	4.27	4.29	4.85	5.59	4.58	4.10	3.93	3.69	.	.
– loans	growth in %	10.3	13.9	16.7	17.5	0.2	-6.5	3.3	2.5	.	.
– deposits	growth in %	4.5	10.9	13.2	5.3	-1.7	4.8	0.9	8.2	.	.
– share of non-performing loans	in %	5.7	4.5	3.8	3.6	6.2	8.6	8.5	7.7	.	.
– loans to deposits ratio	in %	113	117	120	134	137	123	126	122	.	.
– loans to deposits ratio (Eurozone)	in %	290	292	296	315	315	294	286	273	.	.

Table A.3.2: Interest Rates, Deposits and Loans – quarterly

		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	0.75	0.50	0.50	0.05	.	.	.	.
Main refinancing rate ECB (end of period)	in % p.a.	1.00	1.00	0.75	0.75	.	.	.	.
Federal funds rate (end of period)	in % p.a.	0.25	0.25	0.25	0.25	.	.	.	.
PRIBOR 3M	in % p.a.	1.20	1.23	0.98	0.59	0.5	0.5	0.5	0.5
YTM of 10Y government bonds	in % p.a.	3.34	3.31	2.46	2.09	2.1	2.1	2.2	2.2
Households – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	6.59	6.51	6.42	6.31	.	.	.	.
– loans	growth in %	5.6	5.1	4.5	4.1	.	.	.	.
– loans without housing loans	growth in %	3.9	1.5	0.6	-0.3	.	.	.	.
– deposits	growth in %	5.5	4.4	4.2	4.4	.	.	.	.
– share of non-performing loans	in %	5.0	5.2	5.2	5.2	.	.	.	.
– loans to deposits ratio	in %	64	64	65	65	.	.	.	.
– loans to deposits ratio (Eurozone)	in %	88	88	87	86	.	.	.	.
Non-financial firms – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	3.87	3.86	3.67	3.37	.	.	.	.
– loans	growth in %	4.1	1.9	2.0	1.9	.	.	.	.
– deposits	growth in %	7.8	11.6	8.3	5.2	.	.	.	.
– share of non-performing loans	in %	8.1	7.9	7.6	7.5	.	.	.	.
– loans to deposits ratio	in %	125	120	124	118	.	.	.	.
– loans to deposits ratio (Eurozone)	in %	282	280	274	257	.	.	.	.

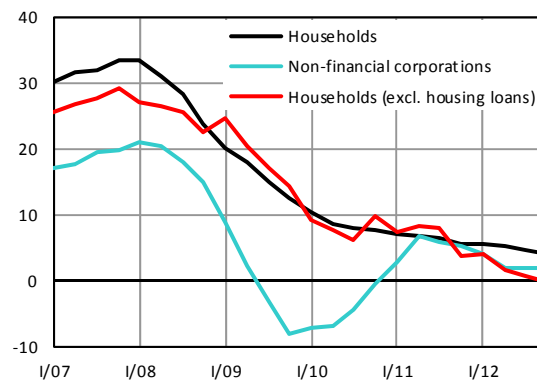
Graph A.3.1: Interest Rates

in % p.a.



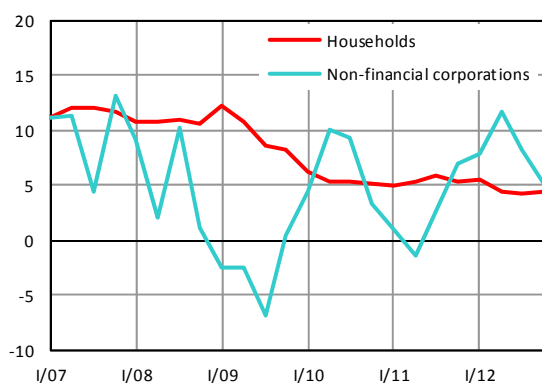
Graph A.3.2: Loans to Households and Firms

YoY growth in %



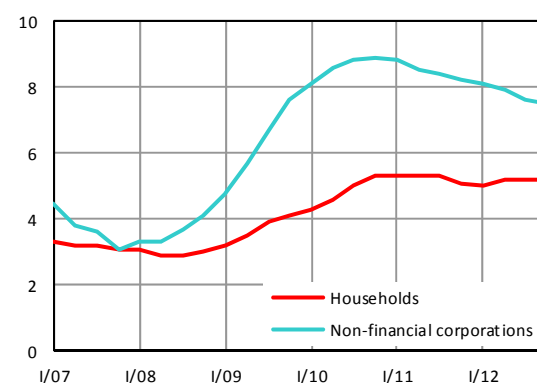
Graph A.3.3: Deposits of Households and Firms

YoY growth in %



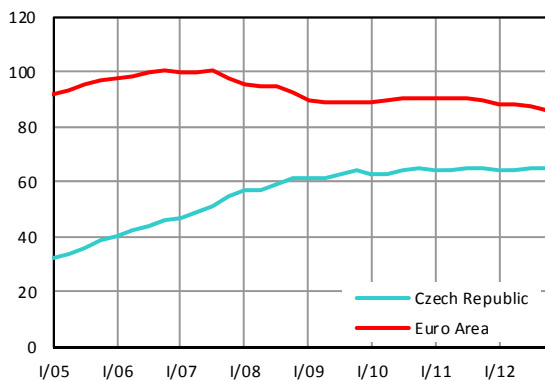
Graph A.3.4: Non-performing Loans

ratio of non-performing to total loans, in %



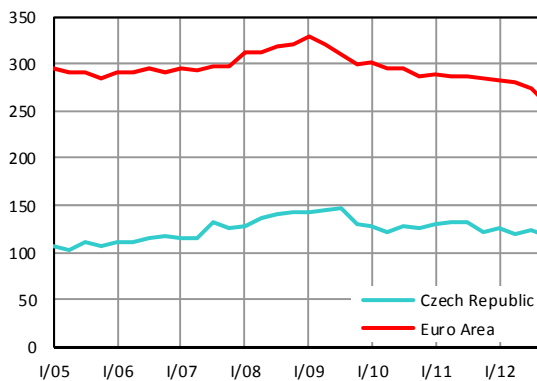
Graph A.3.5: Households – Loans to Deposits Ratio

in %



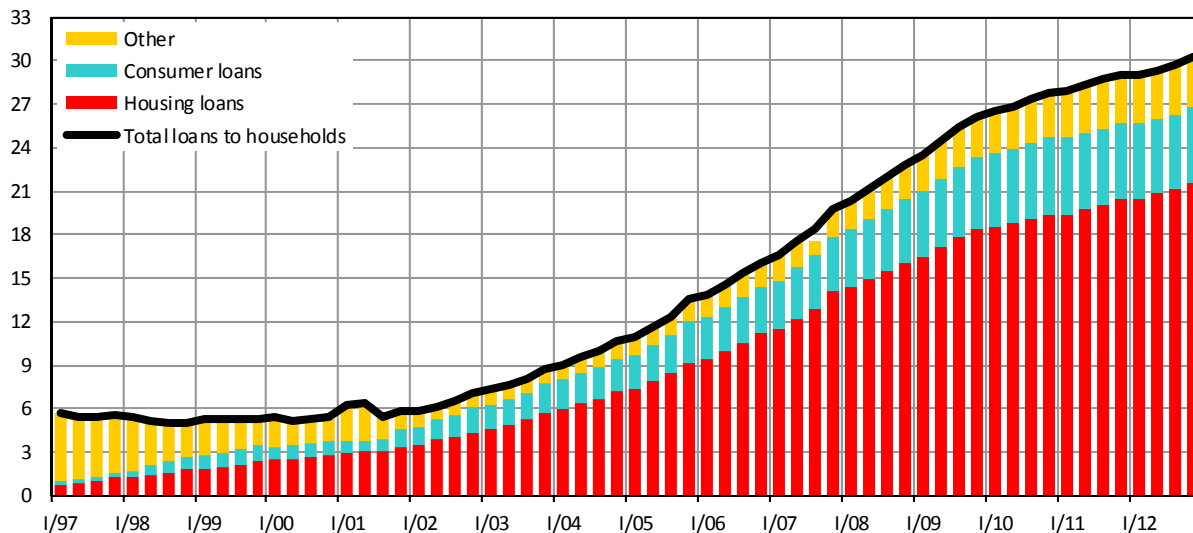
Graph A.3.6: Firms – Loans to Deposits Ratio

in %



Graph A.3.7: Ratio of Bank Loans to Households to GDP

yearly moving sums, in %



A.4 Exchange Rates

Weak growth performance of the Czech economy and negative interest-rate differential resulted in the long-term trend of the CZK/EUR exchange rate appreciation coming to a halt in 2011. In 2012, the exchange rate fluctuated above 25 CZK/EUR and in the absence of a substantial trend towards strengthening or weakening it reached an average value of 25.14 CZK/EUR. Compared to 2011, the rate was weaker by 2.2%, to which gradual reduction in the main interest rates from the CNB contributed in the second half of 2012. During the first two months of 2013, the koruna weakened further by 0.9%, while in this period the exchange rate could have been influenced by the declared possibility of foreign exchange interventions by the CNB.

The adopted scenario assumes that the rate will continue to fluctuate below the level of the last long-term trend for the duration of the forecast. However, the tendency towards moderate nominal and real appreciation should be maintained. In 2013, the

average exchange rate should reach 25.4 CZK/EUR, at a later point, the koruna should appreciate by 1.1% per year on average. In case of deterioration of situation in problematic countries of the euro zone, significant movements of the rate in both directions cannot be ruled out.

Graph A.4.1: Exchange Rate CZK/EUR

quarterly averages

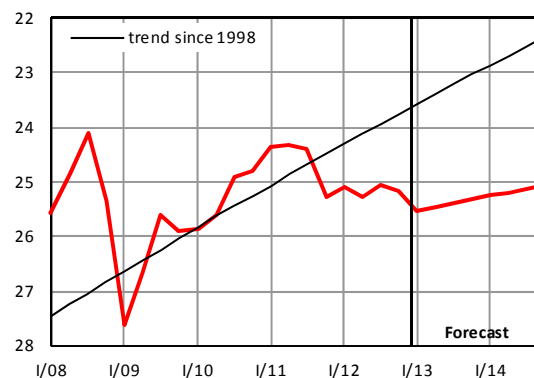


Table A.4.1: Exchange Rates – yearly

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
							Estimate	Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:											
CZK / EUR	average	27.76	24.96	26.45	25.29	24.59	25.14	25.4	25.2	24.9	24.6
	appreciation in %	2.1	11.3	-5.6	4.6	2.8	-2.2	-1.1	1.1	1.1	1.1
CZK / USD	average	20.31	17.06	19.06	19.11	17.69	19.59	19.6	19.3	19.1	18.9
	appreciation in %	11.3	19.0	-10.5	-0.3	8.0	-9.7	0.1	1.1	1.1	1.1
NEER	average of 2010=100	90.6	101.2	98.0	100.0	103.1	99.5	98	99	100	102
	appreciation in %	2.7	11.7	-3.2	2.1	3.1	-3.5	-1.2	1.1	1.1	1.1
Real exchange rate to EA12¹⁾	average of 2010=100	91.9	102.3	97.8	100.0	100.9	99	97	97	98	98
	appreciation in %	3.1	11.3	-4.4	2.3	0.9	-2.1	-1.7	0.2	0.5	0.2
REER	average of 2010=100	88.7	102.2	98.1	100.0	102.4	.	.	.	.	.
	(Eurostat, CPI deflated, 36 countries) appreciation in %	2.9	15.2	-4.0	2.0	2.4	.	.	.	.	.

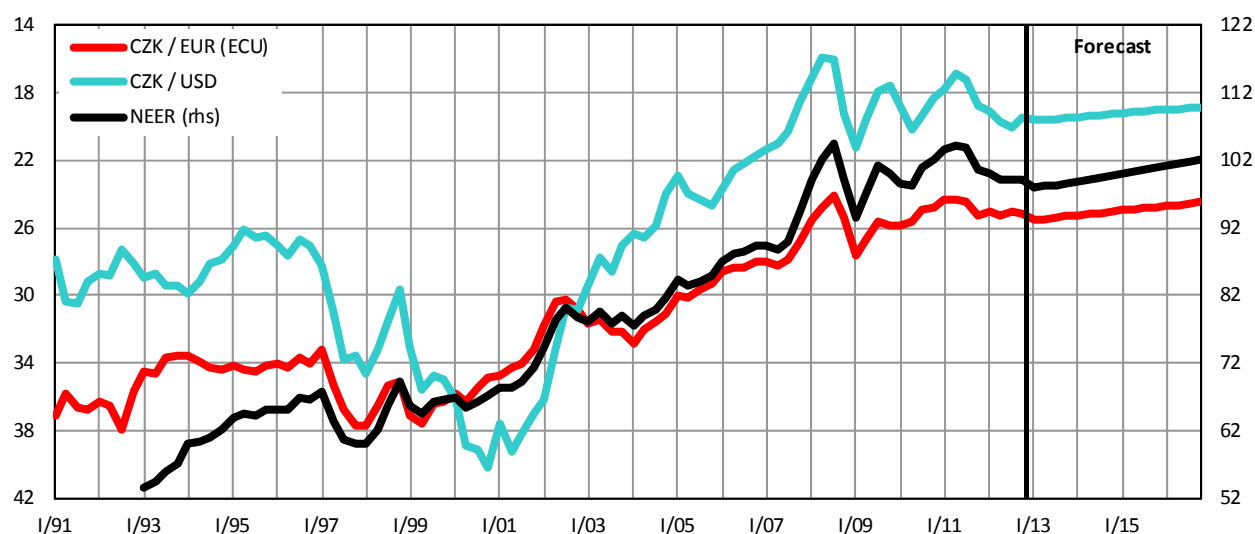
¹⁾ Deflated by GDP deflators.

Table A.4.2: Exchange Rates – quarterly

		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Estimate	Estimate	Forecast	Forecast	Forecast
Nominal exchange rates:									
CZK / EUR	average	25.08	25.26	25.07	25.17	25.5	25.5	25.4	25.3
	appreciation in %	-2.8	-3.7	-2.7	0.4	-1.8	-0.8	-1.3	-0.6
CZK / USD	average	19.14	19.73	20.07	19.42	19.6	19.6	19.5	19.5
	appreciation in %	-6.9	-14.3	-13.9	-3.3	-2.5	0.7	2.7	-0.3
NEER	average of 2010=100	100.2	99.2	99.3	99.2	98	98	98	99
	appreciation in %	-3.2	-4.8	-4.5	-1.3	-2.3	-1.1	-0.9	-0.6
Real exchange rate to EA12	average of 2010=100	98.6	98.5	98.8	99	96	97	97	98
	appreciation in %	-2.1	-3.2	-2.8	-0.2	-2.4	-1.6	-1.9	-0.9
REER	average of 2010=100	101.4	99.9	99.7	.	.	.	.	.
	(Eurostat, CPI deflated, 36 countries) appreciation in %	-1.7	-3.3	-3.5	.	.	.	.	.

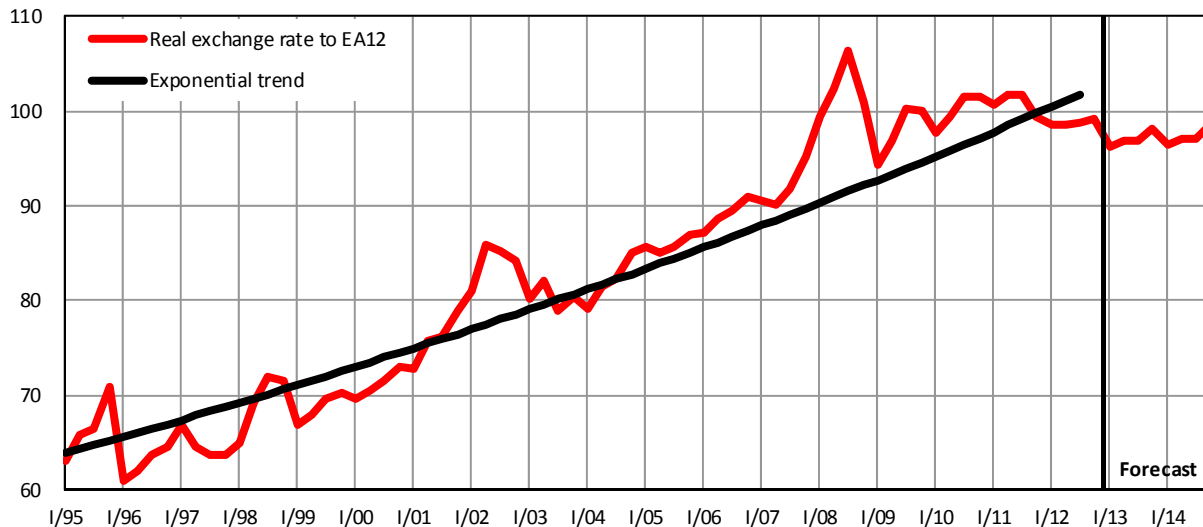
Graph A.4.2: Nominal Exchange Rates

quarterly average, average 2010=100 (rhs)



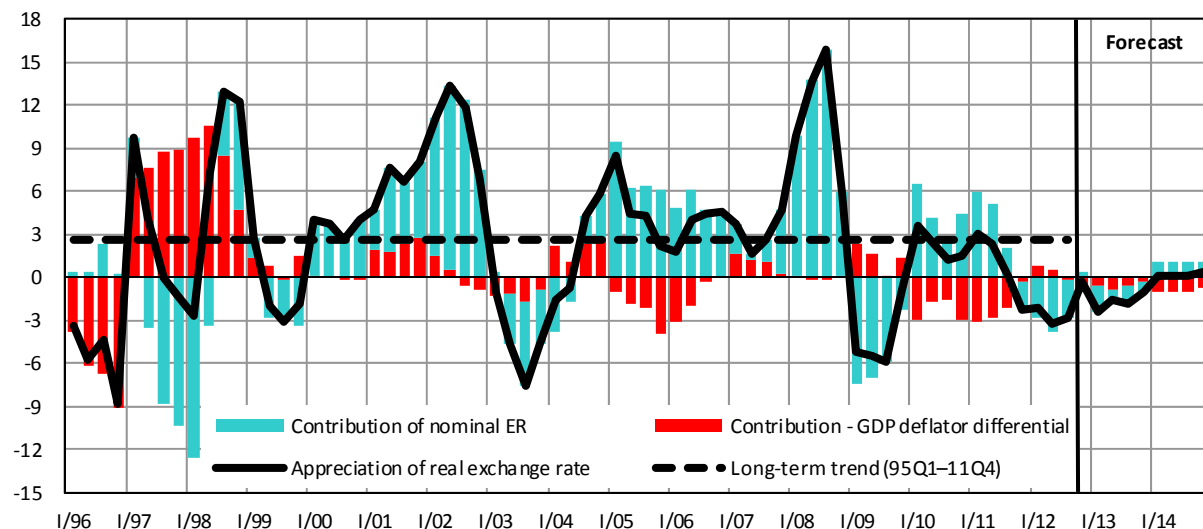
Graph A.4.3: Real Exchange Rate to EA12

quarterly average, deflated by GDP deflators, average 2010=100



Graph A.4.4: Real Exchange Rate to EA12

deflated by GDP deflators, YoY growth in %, contributions in percentage points



A.5 Structural Policies

Business environment

On 16 January 2013, the government approved a new **Government Strategy in the Battle against Corruption for 2013 and 2014**. The material includes an analysis of corruption perception and its economic impacts, basic strategic guidelines of fighting with corruption and a list of specific anti-corruption measures. Ten priority tasks, fulfilment of which will be considered paramount, include the Act on Civil Servants, the Conflict of Interest Act, the Act on Free Access to Information, revealing final owners, the protection of announcers, financial control and audit, ownership policy of the state, strategy and methodology of public purchasing, the Act on Public Prosecution and the Anti-Corruption Programme.

On 30 January 2013, the government approved Draft solution on measures to strengthen competitiveness and develop entrepreneurship in the Czech Republic from the perspective of legal regulations concerning environment protection. The measures concerning waste disposal and the nature, landscape and water conservation should reduce the administrative burden of entrepreneurs, however, at the same time they should not lead to a deterioration of environmental protection or breaching of obligations resulting from EU legislation.

Information and communication technologies

On 20 March 2013, the government approved the **Digital Czech Republic v. 2.0: Way to digital economy** strategy which aspires to contribute to the

development of electronic communications by 2020. The strategy supports the development of high-speed Internet, increasing accessibility and development of digital services and boosting digital literacy and skills in the area of information and communication technologies.

Financial markets

In order to make business relations more transparent and restrict the space for possible corruption, on 19 February 2013, the Chamber of Deputies approved **an Act on Increasing Transparency of Joint-Stock Companies**, limiting the anonymous ownership of bearer shares. This Act imposes on joint-stock companies with bearer certificated shares the obligation to choose among various means of transformation of these shares, i.e. physical custody at banks, book entry with the central banker or changing to registered shares. For the purposes of paying out dividends, shareholders holding certificated registered shares will be obliged to open an account with a banking institution allowing them to verify the shareholder's identification carried out by the company itself, but also to monitor the flow of dividends and other monetary payments for the benefit of the given shareholder.

On 25 February 2013, an **amendment to the Consumer Credit Act** came into effect, strengthening the position of the consumers. From now on, a creditor is able to provide a consumer loan only in the case that, upon evaluating the debtor's creditworthiness with expert care, it will become apparent that the debtor is able to repay the loan. From now on, the consumer will be able to withdraw from an agreement on intermediation of a consumer loan within 14 days upon

its conclusion, without penalty and without citing a reason for doing so. With respect to frequent misuse, it is prohibited to use bills of exchange and cheques in connection with consumer credit. Last, but not least, it is not possible to use telephone numbers with higher than a usual price for offering, arranging or mediating consumer credit.

Energy industry and environmental protection

On 19 March 2013, an **amendment to the Act on Integrated Prevention** came into effect, specifying the rules for permitting defined industrial and agricultural facilities. The amendment strengthens the emphasis on using the best available technical equipment representing manufacturing procedures which are most environmentally friendly, taking into account costs and benefits. At the same time, it specifies the conditions for granting exceptions and increases the emphasis on land and groundwater protection.

Education, science and research

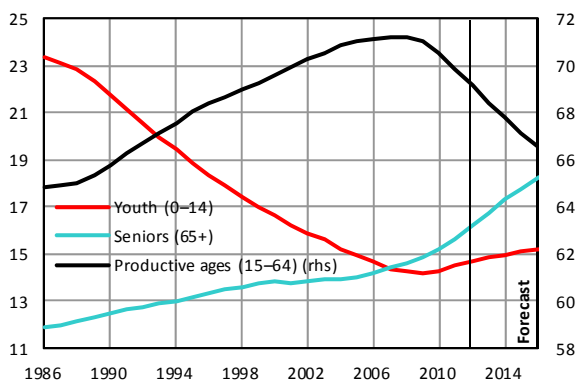
For the purpose of further development of vocational education, increasing practical usability of graduates and strengthening prestige of secondary vocational education system between 2013 and 2016, on 9 January 2013 the government approved **Draft new measures to support vocational education**. The measures should lead to increased pupil motivation at primary schools to choose secondary vocational branches, improving the conditions for cooperation of schools, founders of schools and employers, modifications to educational programmes and the system of financing the regional education system and last, but not least, also creating a preparatory system and means of obtaining qualifications for educational staff.

A.6 Demographic Trends

At the beginning of 2013, 10,516 million people were living in the Czech Republic. In the course of 2012, population growth amounted to a mere 11 thousand people, the lowest number since 2004. Natural population growth was more or less zero, thus indicating that the population increase is on account of the positive migration balance, which, however, still decreased by 8 thousand people YoY. It is likely that the economic recession considerably reduced the attractiveness of the Czech Republic for migrants.

A lower population growth due to reduced immigration and a low birth rate forced us to deduce assumptions of future demographic development from **the low variant of the CZSO 2009 Demographic Projection**, contrary to the medium variant used up to now.

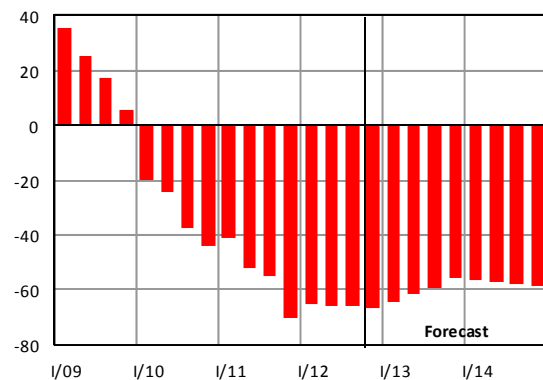
Graph A.6.1: **Groups by Age**
structure in per cent



In terms of age structure, the proportion of the population aged 15-64 has been sharply decreasing since 2008 and will perhaps continue to decline (see Graph A.6.1). Persons born in the very weak years in terms of the new-born population at the end of the 1990s exceed the lower limit of this age category, while the population-strong generation born after the Second World War is gradually being classified as senior citizens. In absolute terms the working-age population is decreasing by nearly 70 thousand people per year, in relative terms it is decreasing by 0.9% (see Graph A.6.2).

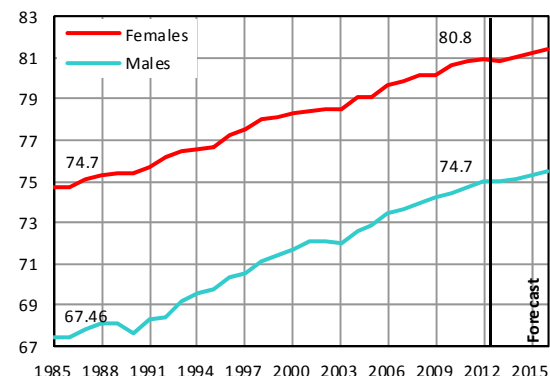
The economic impacts of this situation are described in detail in Chapter B.1.

Graph A.6.2: **Czech Population Aged 15–64**
YoY increases of quarterly averages, in thousands



On the other hand, the structural proportion of persons over 64 years in the total population reached 16.2% at the beginning of 2012, and according to the low variant of the CZSO's Demographic Projection, this should increase to more than 20% by 2020. Both the number and proportion of seniors in the population is significantly rising due the demographic structure and further continuation of the intensive process of increasing life expectancy.

Graph A.6.3: **Life Expectancy**
in years



In 2012, the number of old-age pensioners stagnated for the first time since 2003. However, we assume that this was a one-off matter compensating for the unprecedented increase in 2011 (see Graph A.6.5), when potential future pensioners optimized the opportunity for retirement during the period when rules for determining pension payments were changed.

Table A.6.1: **Demography**
in thousands of persons

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
							Forecast	Forecast	Outlook	Outlook
Population (January 1)	10 287	10 381	10 468	10 507	10 487	10 505	10 516	10 532	10 545	10 557
growth in %	0.4	0.9	0.8	0.4	-0.2	0.2	0.1	0.2	0.1	0.1
Age structure (January 1):										
(0–14)	1 480	1 477	1 480	1 494	1 522	1 541	1 560	1 573	1 592	1 608
growth in %	-1.5	-0.2	0.2	1.0	1.8	1.3	1.2	0.8	1.2	1.0
(15–64)	7 325	7 391	7 431	7 414	7 328	7 263	7 194	7 138	7 079	7 019
growth in %	0.4	0.9	0.5	-0.2	-1.2	-0.9	-0.9	-0.8	-0.8	-0.8
(65 and more)	1 482	1 513	1 556	1 599	1 637	1 701	1 763	1 821	1 874	1 930
growth in %	1.8	2.1	2.9	2.7	2.4	3.9	3.6	3.3	2.9	3.0
Old-age pensioners (January 1)¹⁾	2 024	2 061	2 102	2 147	2 260	2 340	2 341	2 370	2 398	2 424
growth in %	2.0	1.8	2.0	2.1	.	3.5	0.1	1.2	1.2	1.1
Old-age dependency ratios (January 1, in %):										
Demographic ²⁾	20.2	20.5	20.9	21.6	22.3	23.4	24.5	25.5	26.5	27.5
Under current legislation ³⁾	35.8	35.9	36.1	36.6	37.4	37.8	38.0	38.3	38.8	39.3
Effective ⁴⁾	41.6	41.5	41.8	43.6	45.9	47.9	47.6	48.4	48.9	49.4
Fertility rate	1.438	1.497	1.492	1.493	1.427	1.45	1.49	1.50	1.50	1.51
Population increase	94	86	39	-20	19	11	16	14	11	9
Natural increase	10	15	11	10	2	0	1	-1	-4	-6
Live births	115	120	118	117	109	109	110	108	106	104
Deaths	105	105	107	107	107	108	109	109	110	110
Net migration	84	72	28	16	17	10	15	15	15	15
Immigration	104	78	40	31	23	30	.	.	.	.
Emigration	21	6	12	15	6	20	.	.	.	.
Census difference	x	x	x	-46	x	x	x	x	x	x

¹⁾ In 2010 disability pensions of pensioners over 64 were transferred into old-age pensions.

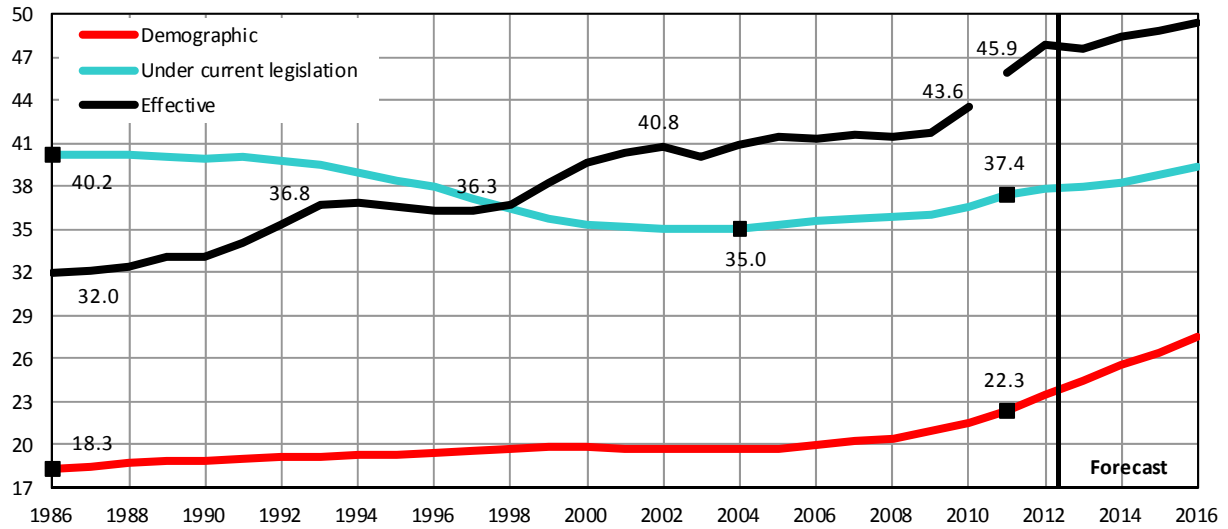
²⁾ Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).

³⁾ Dependency under current legislation: ratio of people above the official retirement age to the people over 19 below the official retirement age.

⁴⁾ Effective dependency: ratio of old-age pensioners to working people.

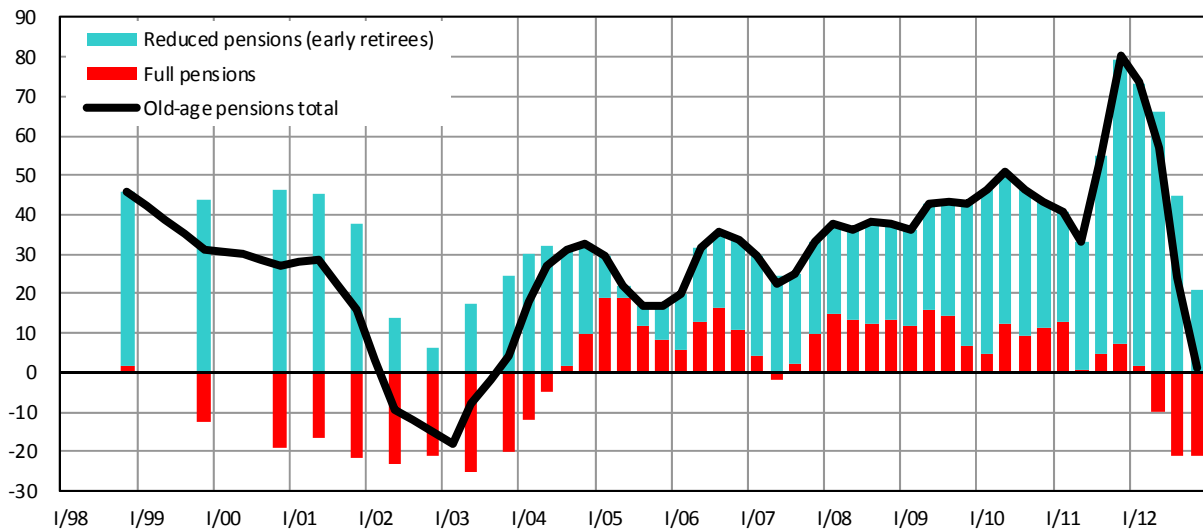
Graph A.6.4: Dependency Ratios

As of January 1, in %, inconsistent between 2010 and 2011 due to transfer of disability pensions to old-age pensions for people over 64 years



Graph A.6.5: Old-Age Pensioners

absolute increase over a year in thousands of persons



Note: Transfer of disability pensions to old-age pensions for people over 64 years in 2010 is not included.

B Economic Cycle

Sources of tables and graphs: CNB, CZSO, EC, Eurostat, own calculations

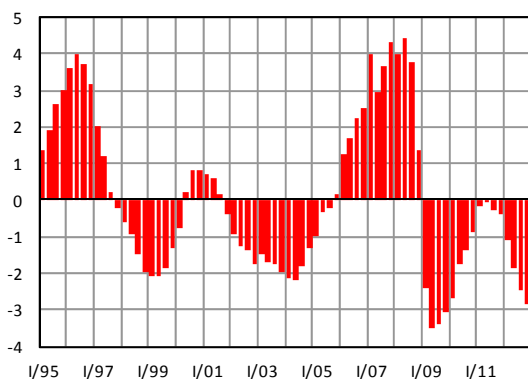
B.1 Position within the Economic Cycle

Potential product (PP), specified on the basis of a calculation by means of the Cobb–Douglas production function, indicates the level of GDP to be achieved with average utilisation of production factors. Growth of PP expresses possibilities for long-term sustainable growth of the economy without giving rise to imbalances. It can be broken down into contributions from the labour force, capital stock, and total factor productivity. The output gap identifies the cyclical position of the economy and expresses the relationship between GDP and PP. The concepts of potential product and output gap are used to analyse economic development and to calculate the structural balance of public budgets.

Under current conditions, when abrupt changes in the level of economic output have occurred, it is very difficult to distinguish the influence from deepening of the negative output gap from a slowing in PP growth. The results of these calculations display high instability and should be treated with caution.

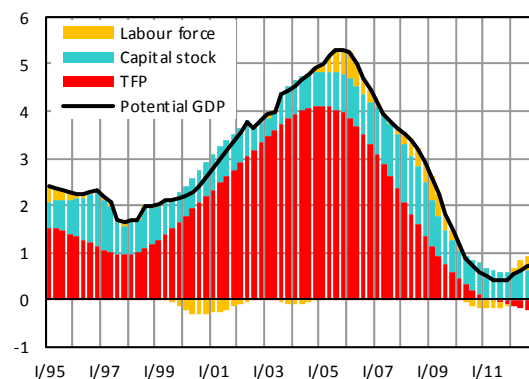
Graph B.1.1: Output Gap

in % of potential GDP



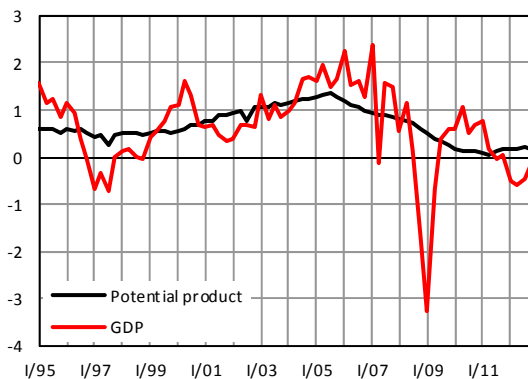
Graph B.1.2: Potential Product Growth

in %, contributions in percentage points



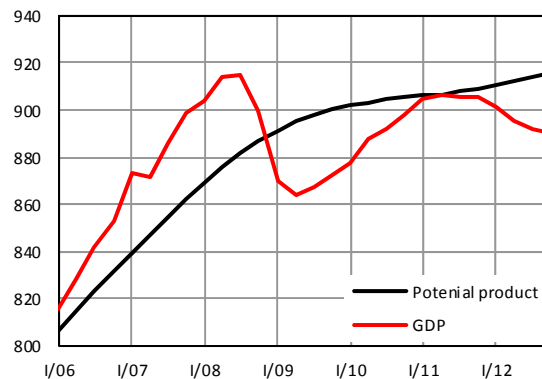
Graph B.1.3: Potential Product and GDP

QoQ growth in %



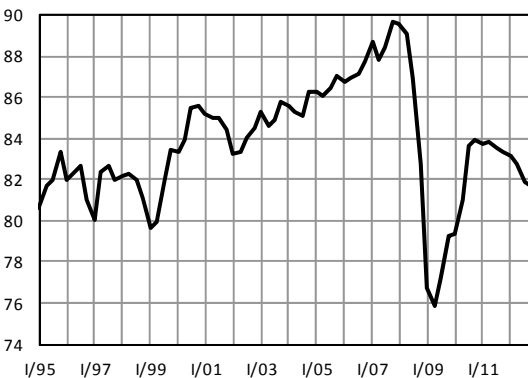
Graph B.1.4: Levels of Potential Product and GDP

in bill. CZK of 2005



Graph B.1.5: Capacity Utilisation in Industry

in %



Graph B.1.6: Total Factor Productivity

YoY growth in %

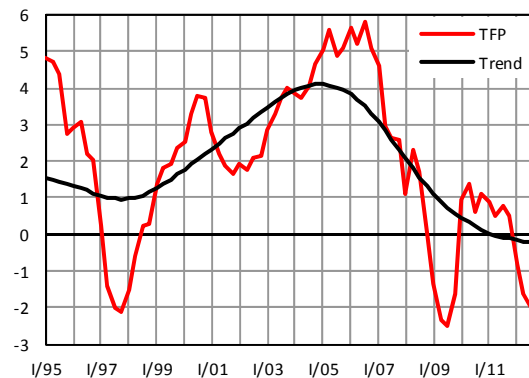


Table B.1: Output Gap and Potential Product

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Output gap	<i>per cent</i>	-1.7	-1.9	-0.3	1.9	3.7	3.4	-3.1	-1.7	-0.2	-1.8
Potential product	<i>growth in %</i>	4.2	4.7	5.2	4.8	3.9	3.3	2.0	0.8	0.4	0.6
Contributions:											
Trend TFP	<i>perc. points</i>	3.7	4.0	4.1	3.6	2.7	1.7	0.8	0.3	0.0	-0.2
Fixed assets	<i>perc. points</i>	0.5	0.7	0.8	0.9	1.1	1.2	0.8	0.6	0.6	0.6
Participation rate	<i>perc. points</i>	-0.2	-0.2	0.2	0.2	-0.2	0.0	0.3	0.2	0.3	0.7
Demography¹⁾	<i>perc. points</i>	0.2	0.2	0.2	0.2	0.3	0.4	0.1	-0.2	-0.4	-0.5

¹⁾ Contribution of growth of working-age population (15–64 years)

Since the so called deep recession at the turn of 2008 and 2009, the Czech economy has been in a negative **output gap**. With a modest recovery after the end of the recession, the gap almost closed in Q2 2011. The onset of a recession at the beginning of 2012, however, caused the output gap to deepen once again to -2.8% in Q4 2012.

Economic output has not yet exceeded the peak level of the previous economic cycle in Q3 2008. Due to a long period of recessions and/or sluggish economic growth, YoY growth of the **potential product** (PP) has remained below 1% since 2010, our calculations suggest. These estimates, however, may underestimate the reality.

The most seriously affected component of the PP is **total factor productivity** (TFP). TFP was 3.1% lower in Q4 2012 than at the peak of the cycle in Q3 2008. The recession of 2012 led to a renewal of QoQ declines. The TFP trend component, derived using the Hodrick-Prescott filter, even started decreasing in the course of 2012, leading to a negative contribution of TFP to PP growth. The fact that labour, as a production factor, enters the calculation in the form of the number of employed persons (which has grown slightly, even in spite of the recession) and not in the form of the number of hours worked (which has fallen dramatically, see Chapter C.3) may play a certain role here.

A drop in investment activity led to a decline in **capital stock's** contribution from 1.2 p.p. in 2008 to 0.6 p.p. in the years 2010–2012.

Labour supply has been affected by declining number of inhabitants in the productive age resulting from the process of population ageing as well as from a

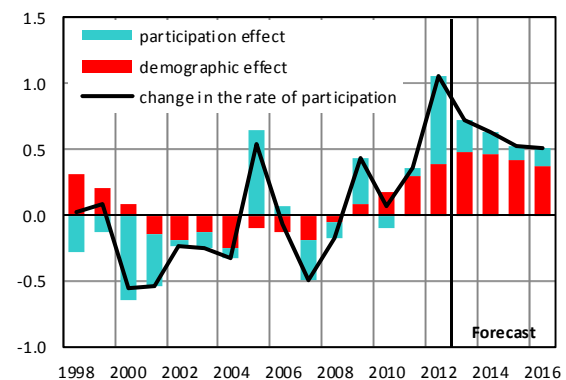
significant drop in immigration. In 2012, demographic development slowed down the growth of economic potential by 0.5 p.p.

Nevertheless, not only is the size of the labour force non-decreasing, but it is even growing at a rapid pace; in Q4 2012 by 1.4% YoY. The negative impact from a decline in the working-age population on the labour supply is being compensated by a sharp increase in the **participation rate**, measured as the ratio of the labour force to the population aged 15–64 years.

Effects within the age structure of the labour force are felt here, with structural proportions of the age groups with high or growing participation increasing (the demographic effect in Graph B.1.7²). Another factor is increased motivation to work under difficult economic conditions supported by postponing the retirement age (the participation effect in Graph B.1.7). With a contribution of 0.7 p.p., the participation rate has thus become the most important factor of PP growth.

Graph B.1.7: Participation rate

The ratio of the labour force to population aged 15–64, YoY change in %, contributions in p.p.

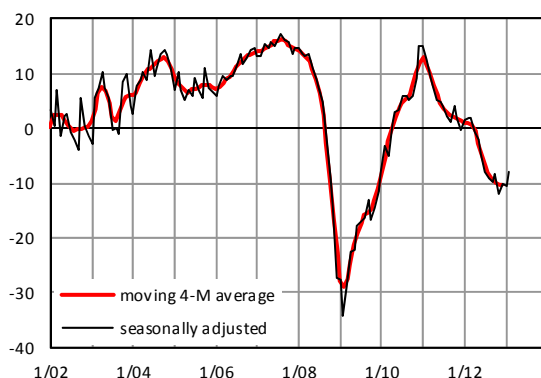


² The methodology of analysis is described in the Macroeconomic Forecast – January 2013, Box C.3.

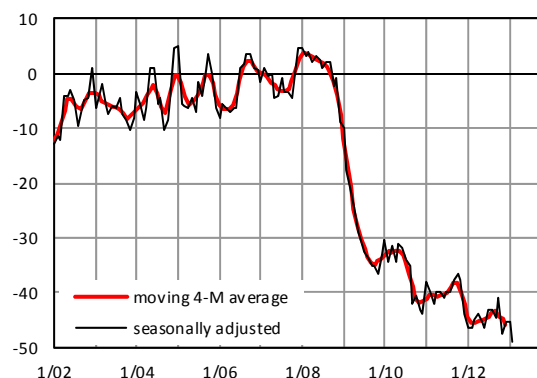
B.2 Business Cycle Indicators

Business cycle indicators express respondents' views as to the current situation and short-term outlook and serve to identify in advance possible turning points in the economic cycle. Their main advantage lies in the quick availability of results reflecting a wide range of influences shaping the expectations of economic entities.³

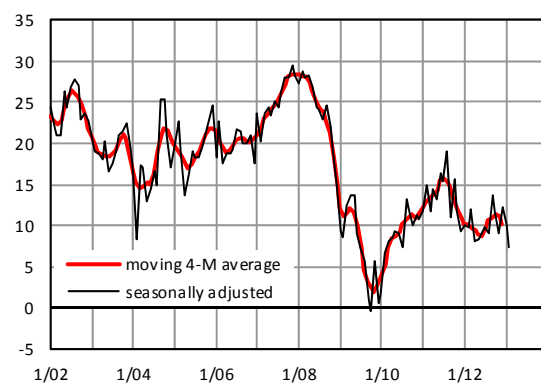
Graph B.2.1: Industrial Confidence Indicator



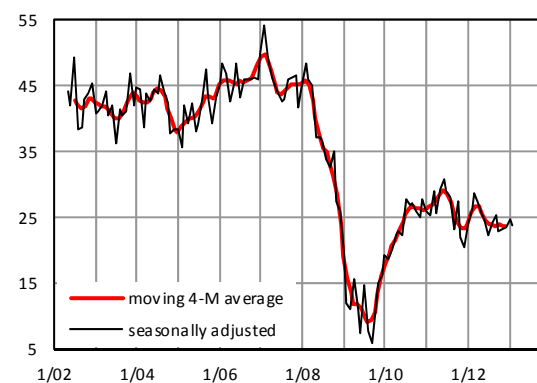
Graph B.2.2: Construction Confidence Indicator



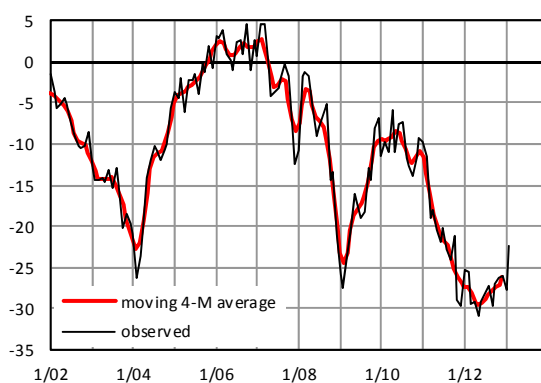
Graph B.2.3: Retail Trade Confidence Indicator



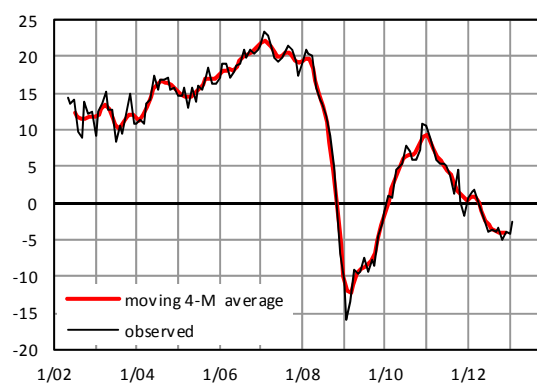
Graph B.2.4: Selected Services Confidence Indicator



Graph B.2.5: Consumer Confidence Indicator



Graph B.2.6: Aggregate Confidence Indicator



³ For the business cycle research methodology, see CZSO: http://www.czso.cz/eng/redakce.nsf/i/business_cycle_surveys.

In Q4 2012, indicators in industry, construction, trade and selected sectors of services demonstrated either a slight decrease or stagnation of their values, and basically similar development could have been seen in January and February 2013. The commentary on individual sectors provided below relates to the first two months of this year.

In **industry** the negative assessment of the three-month outlook for total demand, economic situation and employment prevailed. Although growth was observed in the overall indicator for industry at the beginning of 2013, considering this a turning point might be a false conclusion. In addition, it still holds true that the balance is negative, i.e. on average the respondents' pessimistic assessment prevails.

The indicator for **construction** continued declining, the respondents' pessimistic assessments being clearly dominant here. The three-month outlook for total demand witnessed a decline in both of the last two months.

In the case of the indicator for **trade**, positive reactions of the respondents dominated, but the indicator has recently declined. Especially negative development could have been seen in the case of the three-month outlook for employment.

In Q4 2012 and at the beginning of 2013, the indicator for selected sectors of **services** was rather flat, even though positive reactions of respondents still tend to predominate (see Graph B.2.4). Over the last months monitored, a further deterioration of the three-month employment outlook was observed on average.

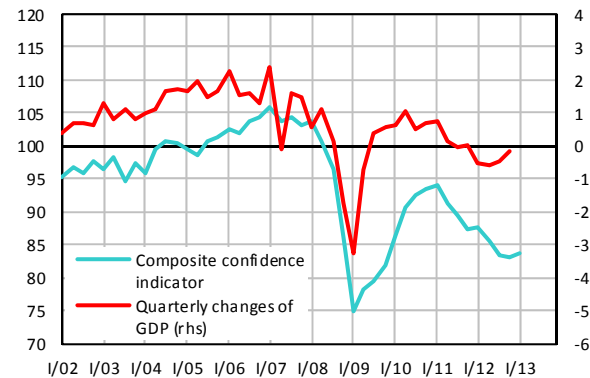
Consumer confidence continued to show very low values, though the indicator grew since the beginning of H2 2012. However, it is very difficult to find a clear relationship between the dynamics of household consumption and that of the consumer confidence indicator.

In Q4 2012, the **composite** confidence indicator was flat, whereas in January and February 2013 its value increased slightly (see Graph B.2.6). As is the case of the indicator for industry, however, for the time being it would be premature to consider this development a turning point. The relationship between QoQ changes in GDP and lagged values of the composite indicator is not very close. With respect to the fact that without any lag the correlation between these two time series is approximately 60%, the relationship between the composite indicator and QoQ changes in GDP enables

us to utilise the fact that the composite indicator is published in advance of quarterly national accounts. Below we present only a qualitative graphical appraisal. It is clear that for Q1 2013 the composite confidence indicator signalled a slight increase in quarterly dynamics of GDP, i.e. roughly a stagnation.

Graph B.2.7: **Composite confidence indicator and QoQ GDP growth**

2005=100 (lhs), QoQ GDP growth in % (rhs)

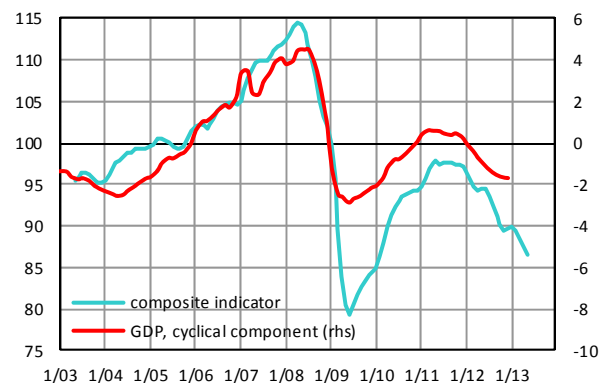


For Q4 2012 the **composite leading indicator** correctly signalled a drop in the relative cyclical component of GDP, which the data published in March 2013 confirmed. For Q1 2013 the indicator further signalled a slight drop in the relative cyclical component of GDP. Considering the fact that trend dynamics can be reasonably regarded as constant in the short term, the conclusion for QoQ dynamics of GDP in Q1 2013 is approximately in line with the observation based on comparing QoQ changes in GDP to the composite confidence indicator – i.e. a stagnation or a slight QoQ drop in GDP. For Q2 2013, the composite leading indicator implies that the relative cyclical component of GDP could decline.

Graph B.2.8: **Composite Leading Indicator**

average 2005=100 (lhs), in % of GDP (rhs)

synchronized with cyclical component of GDP based on statistical methods (Hodrick-Prescott filter)



B.3 Business Cycle Indicators in the EU

An improvement to the composite confidence indicator for the EU27, published by the EC, was observed in Q1 2013 (approximated by the average of January and February values, as no data for March were known as of the Forecast's closing date). Strongly negative sentiment is prevailing in all components of the indicator. Compared to the previous quarter, however, the evaluation in industry and services improved considerably. Consumer confidence did more or less stagnate, whereas the retail trade sector and construction deteriorated slightly. For Q1 2013 the composite indicator is signalling that the QoQ drop in EU27 GDP should slow down or come to a halt, which is in line with the forecast.

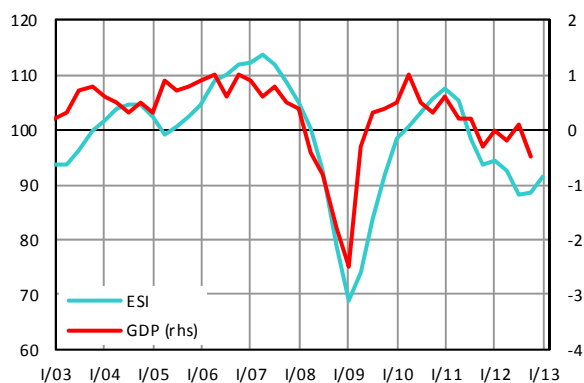
The composite confidence indicator continued to grow sharply in Italy and mainly in Germany in Q1 2013.

Contrary to expectations, German manufacturing PMI (Purchasing Managers Index) decreased in March, thus considerably reducing overall optimism. In France, the trend of a gradual return of confidence, which emerged at the end of the last year, is continuing. The Slovak composite indicator also reached the bottom, with the decline coming to a halt a few months later than in Germany.

For Q2 2013, the composite leading indicator implies that in the whole EU, and especially in Germany, the relative cyclical component of GDP should become less negative. Considering stable short-run dynamics of the potential product, supported by the EC's estimate of output gap for 2013, the closing of output gap can be explained by a return to economic growth in mid-2013.

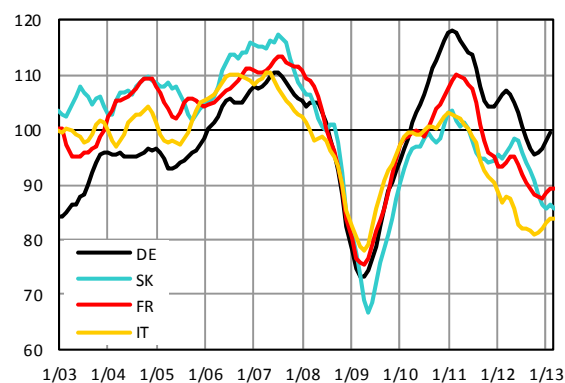
Graph B.3.1: Composite confidence indicator and GDP growth in EU27

indicator – quarterly averages, QoQ growth in %, sa data



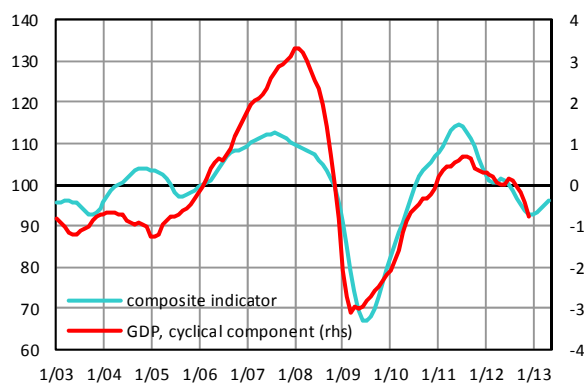
Graph B.3.2: Composite confidence indicator, selected trading partner countries

3-month moving averages



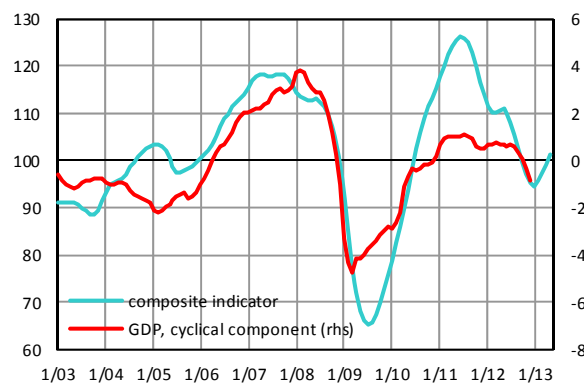
Graph B.3.3: EU – composite leading indicator

monthly data, 2005=100, cyclical component in % of trend GDP



Graph B.3.4: Germany – composite leading indicator

monthly data, 2005=100, cyclical component in % of trend GDP



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).

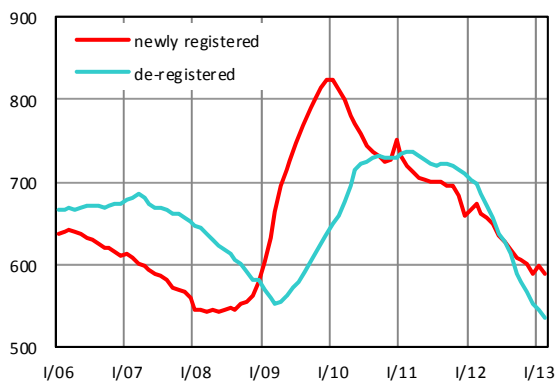
Unemployment

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.

D Monitoring of Other Institutions' Forecasts

The Ministry of Finance of the Czech Republic monitors macroeconomic forecasts of other institutions engaged in forecasting future development of the Czech economy. Forecasts of 11 institutions are continuously monitored from publicly available data sources. Of these, six institutions are domestic (CNB, Ministry of Labour and Social Affairs, domestic banks and investment companies) and others are foreign (European Commission, OECD, IMF, etc.). The forecasts are summarised in the following table.

Sources of tables and graphs: Ministry of Finance's own calculations.

Table D.1: Consensus Forecast

		March 2013			April 2013
		min.	max.	consensus	MoF forecast
Gross domestic product (2013)	growth in %, const.pr.	-0.3	1.0	0.2	0.0
Gross domestic product (2014)	growth in %, const.pr.	1.0	3.4	2.0	1.2
Average inflation rate (2013)	%	1.9	2.5	2.2	2.1
Average inflation rate (2014)	%	1.5	2.3	1.9	1.7
Average monthly wage (2013)	growth in %	1.5	2.8	2.2	1.8
Average monthly wage (2014)	growth in %	2.1	3.5	2.7	2.8
Current account / GDP (2013)	%	-2.2	0.1	-1.4	-2.3
Current account / GDP (2014)	%	-2.0	0.5	-1.3	-2.3

Forecasts of the monitored institutions predict a gradual recovery of the Czech economy. In 2013 they envisage GDP growth by 0.2% and in 2014 by 2.0%. The forecast of the MoF is more conservative compared to these estimates.

Consumer price growth is expected to slow down. The institutions monitored expect an inflation rate of 2.2% and 1.9%, respectively for 2013 and 2014. The forecast of the MoF is in line with both estimates.

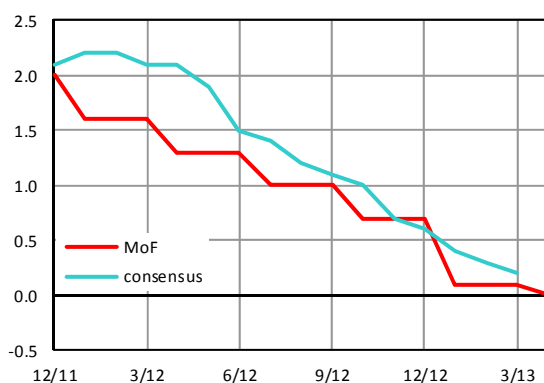
According to the forecasts of the monitored institutions, the average wage should increase by 2.2%

and 2.7%, respectively in 2013 and 2014. The forecast of the MoF is in line with both estimates.

According to the opinion of the monitored institutions, the current account deficit of the balance of payments should not surpass 1.5% of GDP in 2013 and 2014. Due to a worsening of the external environment, the MoF expects the deficit to reach 2.3% of GDP in both years. The current account deficit of the balance of payments should remain, however, on a sustainable level, posing no risk in terms of macroeconomic imbalances.

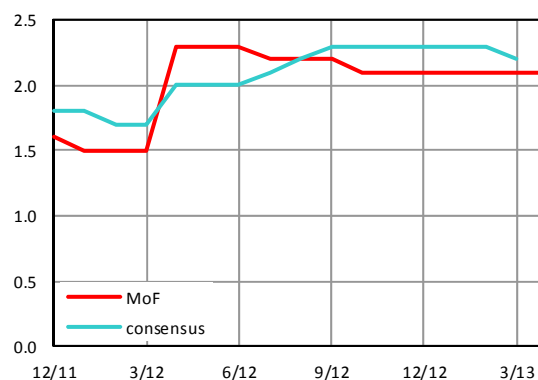
Graph D.1: Forecast of Real GDP Growth for 2013

in %; the horizontal axis shows the month, in which the monitoring was conducted



Graph D.2: Forecast of Average Inflation Rate for 2013

in %; the horizontal axis shows the month, in which the monitoring was conducted



E Looking back at 2012

Comparing the economic results with the respective forecasts represents an important part of the forecasting work. The MoF has carried out a comparison of the macroeconomic framework for the 2012 State Budget, based on the Macroeconomic Forecast of July 2011, with the first published data for this year. It is necessary to point out that these data

cannot be considered as final results of 2012, since the results will certainly be revised several times in the future (most likely, the first revision will already be conducted on 30 April when the results of the definitive annual national accounts for 2010 and semi-definitive accounts for 2011 will also be published).

Table E.1: The Macroeconomic Framework for the 2012 State Budget – Comparison with the Actual Data

		2012 State Budget (July 2011)				Outcome (April 2013)				Difference (outcome – forecast)			
		2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
		<i>Forecast</i>											
Gross domestic product	<i>growth in %, const.pr.</i>	-4.1	2.3	2.5	2.5	-4.5	2.5	1.9	-1.3	-0.4	0.2	-0.6	-3.8
Consumption of households	<i>growth in %, const.pr.</i>	-0.2	0.2	0.5	2.0	0.2	1.0	0.7	-3.5	0.4	0.8	0.2	-5.5
Consumption of government	<i>growth in %, const.pr.</i>	2.6	-0.1	-2.4	-2.1	4.0	0.5	-2.5	-1.0	1.4	0.6	-0.1	1.1
Gross fixed capital formation	<i>growth in %, const.pr.</i>	-7.9	-3.1	1.9	3.2	-11.0	1.0	-0.7	-1.7	-3.1	4.1	-2.6	-4.9
Cont. of net exports to GDP growth	<i>p.p., const.pr.</i>	-0.6	1.0	1.9	1.1	0.5	0.5	2.0	1.5	1.1	-0.5	0.1	0.4
GDP deflator	<i>growth in %</i>	2.5	-1.2	-0.8	2.6	2.3	-1.4	-0.8	1.4	-0.2	-0.2	0.0	-1.2
Average inflation rate	<i>%</i>	1.0	1.5	2.3	3.5	1.0	1.5	1.9	3.3	-	-	-0.4	-0.2
Employment (LFS)	<i>growth in %</i>	-1.4	-1.0	0.2	0.4	-1.4	-1.0	0.4	0.4	-	-	0.2	0.0
Unemployment rate (LFS)	<i>average in %</i>	6.7	7.3	6.7	6.4	6.7	7.3	6.7	7.0	-	-	0.0	0.6
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	0.0	1.2	2.3	4.4	-2.1	0.7	2.2	2.0	-2.1	-0.5	-0.1	-2.4
Current account / GDP	<i>%</i>	-3.2	-3.8	-3.9	-3.6	-2.4	-3.9	-2.7	-2.4	0.8	-0.1	1.2	1.2
Government sector balance	<i>% of GDP</i>	-5.9	-4.7	-4.2	-3.5	-5.8	-4.8	-3.3	-4.4	0.1	-0.1	0.9	-0.9
Assumptions:													
Exchange rate CZK/EUR		26.4	25.3	24.2	23.5	26.4	25.3	24.6	25.1	-	-	0.4	1.6
Long-term interest rates	<i>% p.a.</i>	4.7	3.7	4.0	4.3	4.7	3.7	3.7	2.8	-	-	-0.3	-1.5
Crude oil Brent	<i>USD/barrel</i>	62	80	110	112	62	80	111	112	-	-	1	0
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	-4.1	1.7	1.9	2.0	-4.4	2.0	1.4	-0.6	-0.3	0.3	-0.5	-2.6

It is obvious from the Table E.1 that the economic results of 2012 were considerably worse compared to the forecast. The year 2012 represented a period when the Czech economy was frozen in the recession, instead of the gradual and stable recovery after the year 2009. The economic cycle in the euro zone has been developing in a considerably worse manner. However, we cannot omit the internal factors inside the Czech economy that impacted considerably especially household consumption and fixed capital formation. The common feature of all factors mentioned is the fact that they can only be forecast and quantified with great difficulty in the horizon of 18 months (from July 2011 to December 2012) in the budgetary forecast.

In July 2011, a rather optimistic mood prevailed in both world and European economies. It appeared that the economies of the countries in the heart of the euro zone were recovering well from the deep recession at the turn of 2008 and 2009. In Q1 2011 the German

economy showed a QoQ increase in real GDP of 1.5%; Slovakia, Poland, Austria and France increased their performance identically by 1.0%. The problems of countries in the south of the euro zone, fluctuating at that time on the verge of stagnation (except for Greece), seemed to be bearable in the environment of strong economic growth, reaching 0.8% in the EA12 as a whole. Positive expectations regarding further development prevailed.⁸

Similarly, the Czech economy appeared to be in a good shape. For Q1 2011 the CZSO recorded QoQ growth of GDP of 0.9%, which was the highest level at that time since the end of 2007. (This figure was gradually made more precise, at present amounting to 0.7% and was surpassed by Q2 2010 with the currently valid growth of 1.1%). Growth was driven by foreign trade (a contribution of 2.0 p.p. in 2011, the highest level since

⁸ For example, OECD forecast for GDP growth of the euro zone in 2012 was 2.1%.

2006). Except for the fiscal deficit, which hovered below the EU average, however, the economy did not show any imbalances. It was thus expected that positive effects would also gradually reach household consumption and investment.

A favourable situation was also reflected in relatively optimistic economic forecasts (see Table E.2).

Table E.2 **Comparison with other official forecasts**

	Date of forecast release	GDP	Consumption of households	Gross fixed capital formation
		<i>growth in %, const. pr.</i>	<i>growth in %, const. pr.</i>	<i>growth in %, const. pr.</i>
CNB	<i>May 2011</i>	2.8	2.4	4.9
EC	<i>May 2011</i>	2.9	2.0	3.8
IMF	<i>April 2011</i>	2.9	-	-
OECD	<i>May 2011</i>	3.5	2.6	4.8
Average		3.0	2.3	4.5
MoF	<i>July 2011</i>	2.5	2.0	3.2

Even though we were aware of all the risks, we decided to opt for a neutral forecast which was in line with the situation at that time and did not deviate from opinions of other institutions which deal with economic forecasting. As can be seen from Table E.2, the MoF forecast was the most conservative with regard to uncertainties in the external environment and in terms of the reaction of domestic demand to fiscal consolidation measures underway, especially an increase in the VAT reduced rate from 10% to 14%, effective from 1 January 2012.

In the course of H2 2011 and H1 2012, however, the debt crisis escalated in some particular parts of the euro zone (uncertainties regarding the bailout programme for Greece when the bailout programme of May 2010 had appeared to be insufficient; speculations regarding the default of Greece and also its possible subsequent departure from the euro zone; problems in the Spanish banking sector). The positive effects of often unprecedented measures, such as a “voluntary” write-off of a part of the Greek debt in March 2012 and a massive liquidity injection provided by the ECB to banks as part of two extraordinary long-term refinancing operations in December 2011 and March 2012, were however beneficial only in the short-term. A change in this respect was brought as late as by the ECB’s announcement of introducing the new programme for purchasing government bonds on secondary markets (Outright Monetary Transactions), contributing considerably to settling of the debt crisis in the course of H2 2012 (see Graph A.1.3).

Austerity fiscal measures in problematic countries of the south of the euro zone resulted in deepening the recession there to an extent which exceeded all expectations. That said, the development on financial markets and fiscal consolidation effects also resulted in a slowdown in economic growth in countries in the heart of the euro zone. The pressure on increasing the capital adequacy of European banks could have to a certain extent resulted in a credit crunch. The unfavourable situation culminated in Q4 of 2012 when nearly all states of the euro zone (except for Slovakia and Estonia)⁹ recorded a QoQ decrease in GDP.

Surprisingly, this situation in the Czech economy was not directly apparent in the contribution of foreign trade to GDP development. It even managed to achieve a better result by 0.4 p.p. compared to the Forecast. Steady increases in Czech exporters’ performance, a slight weakening of the Czech koruna and above all a dramatic slump in domestic demand, which resulted in the slowdown of imports, all contributed to this outcome.

What was behind such a sharp decrease in domestic demand? It is possible to partially find an explanation in the fiscal consolidation currently underway. It seems that in the European context, however, the fiscal restriction in the Czech Republic was somewhat weaker. If we would use the the YoY change in the structural balance to approximate the magnitude of the restriction, based on data from the Winter 2013 European Economic Forecast, we can see that the restriction in the Czech Republic was weaker than the EU average (0.7 p.p. versus 1.1 p.p.). At the same time, development in the EU was not determined just by the “south”. Germany, for example, consolidated at the pace of 1.4 p.p. and in spite of that in 2012 recorded real GDP growth of 0.7%.

The sharp decline in confidence in further economic development is more likely to be the main cause of the fall in domestic demand. The sensitively perceived threat of unemployment, instability of the economic environment and dramatic news concerning the social impact of situations in countries worst affected have led to a more pronounced drop in consumer confidence than during the so-called deep recession (see Graph B.2.5). The consequence of this was consumers’ extremely cautious behaviour and an increase in the savings rate (from 9.8% in 2011 to the estimated 12.6%¹⁰ in 2012) to be on the safe side in case of a further worsening of the economic situation.

⁹ Data for Ireland were not known at the time of preparing this text.

¹⁰ Data were published only after the closing date of the text.

This, together with the not too significant slowdown in wage bill growth, has resulted in the sharp decline in real household consumption by 3.5%. The general condition of households was also considerably worse than at the beginning of the first phase of the recession at the turn of 2008 and 2009.

Similarly, a number of segments within the business sector postponed investment decisions for the same reason – resulting in a decrease in fixed capital formation of 1.7% and a decrease in inventories of 0.4 p.p. of GDP.

The forecast of consumer price growth was relatively precise, the slightly lower value was caused by the complete absence of demand inflation.

An apparent difference in GDP deflator growth (by 1.4% compared to the budgeted 2.6%) was primarily caused by a methodological change in the household consumption deflator. In July 2011 it still held true that the household consumption deflator growth for both current and previous years was more or less identical to that of the consumer prices inflation. With an inflation rate of 3.3%, however, the household consumption deflator increased by just 2.3% in 2012. Another factor was the lower than expected growth of the gross fixed capital formation deflator where low investment demand was observed.

A decrease in economic output also became apparent on the labour market, while an increase in the unemployment rate was partially mitigated by the labour market reform which introduced a number of measures with the objective of a greater flexibility to employment relationships between the employer and the employee and thus increasing both labour supply

and demand. It included e.g. a tightening of the rules for unemployment benefits (mandatory community service jobs, shortening of the reference period by one year), modifications of the probation period, severance pay, temporary employment and more flexible labour time arrangements.

Taking into account economic development, employment growth was, very surprisingly, completely in line with the forecast. This fact can be explained by the stronger than anticipated effects of labour market reform, especially through increased motivation to seek a job. Other factors include a change in households' behaviour due to a worsening of social conditions which led to an increase in labour supply. On the labour demand side, employers' efforts to limit staff dismissal also had a positive effect on employment development, which became evident in the decrease in hours worked per employee.

Coupled with the worse than expected economic situation of the private sector and a decrease in real labour productivity, this development resulted in lower nominal growth of the average wage and wage bill. The difference between the currently valid figures and the forecast, however, does not deviate from the past data revisions.

According to the preliminary estimate of the CZSO, the government sector balance in 2012 ended up with the deficit of 4.4% of GDP. However, were there no one-off measures (financial compensation to churches and corrections of the non-refunded part of EU resources), the deficit would have amounted to 2.5% of GDP. One can say, therefore, that the government succeeded in continuing with fiscal consolidation despite economic headwinds.

Tables and Graphs:

C.1 Economic Output

Sources: CZSO, MoF estimates

Table C.1.2: Real GDP by Type of Expenditure – yearly
chained volumes, reference year 2005

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
							Prelim.	Forecast	Forecast	Outlook	Outlook
Gross domestic product	bill. CZK 2005	3526	3635	3471	3558	3625	3579	3577	3620	3697	3791
	growth in %	5.7	3.1	-4.5	2.5	1.9	-1.3	0.0	1.2	2.1	2.6
Private consumption exp.¹⁾	bill. CZK 2005	1673	1720	1724	1741	1753	1691	1670	1687	1723	1766
	growth in %	4.2	2.8	0.2	1.0	0.7	-3.5	-1.2	1.0	2.1	2.5
Government consumption exp.	bill. CZK 2005	666	674	701	704	687	680	679	668	662	663
	growth in %	0.4	1.2	4.0	0.5	-2.5	-1.0	-0.2	-1.7	-0.8	0.1
Gross capital formation	bill. CZK 2005	1051	1071	855	904	907	877	885	911	942	972
	growth in %	15.5	1.9	-20.2	5.8	0.3	-3.2	0.9	2.9	3.4	3.2
– Gross fixed capital formation	bill. CZK 2005	964	1004	893	901	894	879	875	883	906	934
	growth in %	13.2	4.1	-11.0	1.0	-0.7	-1.7	-0.4	0.9	2.6	3.1
– Change in stocks and valuables	bill. CZK 2005	87	68	-38	3	12	-2	10	28	36	38
Exports of goods and services	bill. CZK 2005	2541	2642	2354	2719	2975	3090	3130	3246	3405	3588
	growth in %	11.2	4.0	-10.9	15.5	9.4	3.8	1.3	3.7	4.9	5.4
Imports of goods and services	bill. CZK 2005	2402	2467	2169	2511	2680	2730	2753	2850	2984	3137
	growth in %	12.8	2.7	-12.1	15.8	6.7	1.9	0.9	3.5	4.7	5.1
Gross domestic exp.	bill. CZK 2005	3390	3465	3288	3357	3353	3255	3240	3270	3329	3401
	growth in %	6.6	2.2	-5.1	2.1	-0.1	-2.9	-0.5	0.9	1.8	2.2
Methodological discrepancy²⁾	bill. CZK 2005	-3	-6	7	0	-17	-30	-34	-42	-51	-61
Real gross domestic income	bill. CZK 2005	3488	3562	3441	3481	3506	3448	3435	3468	3542	3637
	growth in %	6.3	2.1	-3.4	1.2	0.7	-1.7	-0.4	1.0	2.1	2.7
Contribution to GDP growth³⁾											
– Gross domestic expenditure	percent. points	6.4	2.2	-5.0	2.0	-0.1	-2.8	-0.4	0.9	1.7	2.0
– consumption	percent. points	2.1	1.6	0.9	0.6	-0.2	-2.0	-0.7	0.2	0.9	1.3
– household expenditure	percent. points	2.1	1.4	0.1	0.5	0.4	-1.8	-0.6	0.5	1.0	1.3
– government expenditure	percent. points	0.1	0.2	0.8	0.1	-0.5	-0.2	0.0	-0.4	-0.2	0.0
– gross capital formation	percent. points	4.3	0.6	-5.9	1.4	0.1	-0.8	0.2	0.7	0.8	0.8
– gross fixed capital formation	percent. points	3.4	1.1	-3.0	0.2	-0.2	-0.4	-0.1	0.2	0.6	0.7
– change in stocks	percent. points	0.9	-0.5	-2.9	1.2	0.2	-0.4	0.3	0.5	0.2	0.1
– Foreign balance	percent. points	-0.7	0.9	0.5	0.5	2.0	1.5	0.4	0.3	0.4	0.5
– external balance of goods	percent. points	-1.1	0.5	0.5	0.4	2.3	1.8	0.6	0.5	0.4	0.4
– external balance of services	percent. points	0.4	0.4	0.0	0.1	-0.3	-0.3	-0.2	-0.2	0.0	0.1

¹⁾ The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.

²⁾ Deterministic impact of using prices and structure of the previous year for calculation of y-o-y growth.

³⁾ Calculated on the basis of prices and structure of the previous year with perfectly additive contributions.

Table C.1.3: **Real GDP by Type of Expenditure – quarterly**
chained volumes, reference year 2005

		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK 2005</i>	853	901	900	925	837	897	912	931
	<i>growth in %</i>	-0.1	-1.8	-1.8	-1.4	-1.9	-0.4	1.3	0.6
	<i>growth in % ¹⁾</i>	-0.4	-1.1	-1.5	-1.7	-1.3	-0.4	0.4	1.0
	<i>quart.growth in % ¹⁾</i>	-0.5	-0.6	-0.4	-0.2	0.0	0.3	0.4	0.3
Private consumption exp.	<i>bill. CZK 2005</i>	407	421	426	438	400	416	423	432
	<i>growth in %</i>	-2.6	-3.7	-3.9	-3.9	-1.7	-1.2	-0.7	-1.4
Government consumption exp.	<i>bill. CZK 2005</i>	159	166	166	189	159	166	165	189
	<i>growth in %</i>	-2.2	-2.0	-0.4	0.5	-0.1	-0.1	-0.3	-0.1
Gross capital formation	<i>bill. CZK 2005</i>	189	230	228	231	177	229	242	237
	<i>growth in %</i>	-2.1	-0.5	-9.7	0.2	-6.1	-0.3	6.1	2.7
– Gross fixed capital formation	<i>bill. CZK 2005</i>	199	220	222	238	194	216	224	242
	<i>growth in %</i>	1.5	-0.1	-3.4	-4.1	-2.4	-1.9	1.0	1.3
– Change in stocks and valuables	<i>bill. CZK 2005</i>	-10	10	6	-8	-17	14	18	-5
Exports of goods and services	<i>bill. CZK 2005</i>	786	776	752	775	792	783	762	793
	<i>growth in %</i>	7.4	2.4	3.6	2.2	0.8	0.9	1.3	2.3
Imports of goods and services	<i>bill. CZK 2005</i>	677	684	665	704	680	688	672	713
	<i>growth in %</i>	4.8	1.7	-0.6	1.7	0.4	0.6	1.1	1.3
Methodological discrepancy	<i>bill. CZK 2005</i>	-11	-8	-7	-4	-11	-9	-8	-6
Real gross domestic income	<i>bill. CZK 2005</i>	819	867	867	894	802	861	875	897
	<i>growth in %</i>	-0.3	-2.1	-2.3	-1.9	-2.1	-0.7	0.9	0.3

¹⁾ From seasonally and working day adjusted data

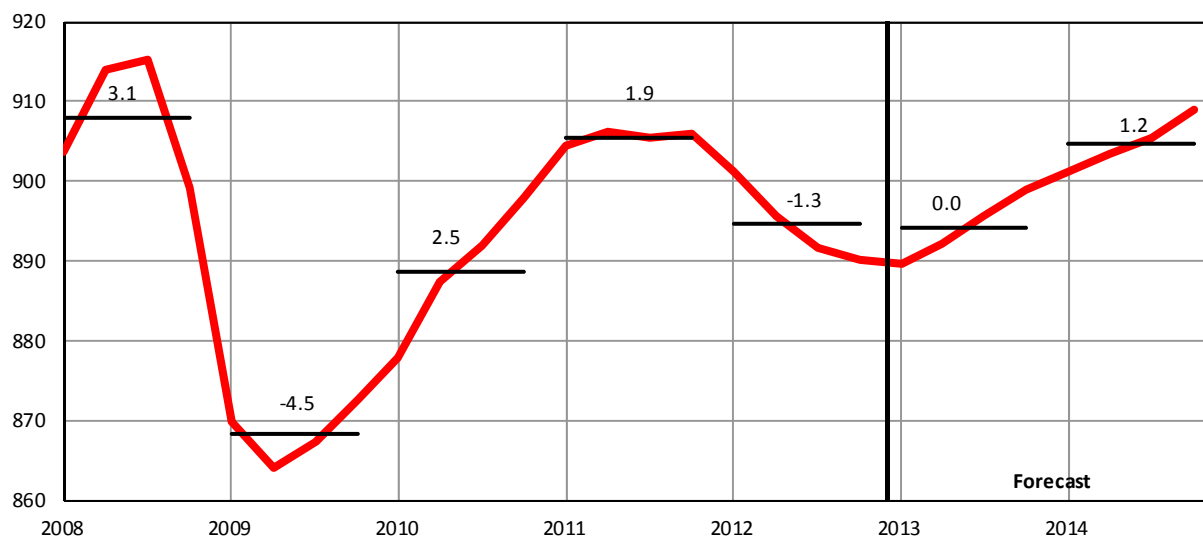
Table C.1.4: Nominal GDP by Type of Expenditure – yearly

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
							Prelim.	Forecast	Forecast	Outlook	Outlook
Gross domestic product	bill. CZK	3663	3848	3759	3800	3841	3843	3858	3939	4079	4228
	growth in %	9.2	5.1	-2.3	1.1	1.1	0.1	0.4	2.1	3.6	3.7
Private consumption	bill. CZK	1748	1883	1902	1926	1950	1924	1922	1965	2042	2116
	growth in %	7.3	7.8	1.0	1.3	1.2	-1.4	-0.1	2.2	3.9	3.6
Government consumption	bill. CZK	726	759	809	807	793	797	807	803	807	815
	growth in %	4.6	4.6	6.6	-0.2	-1.8	0.5	1.2	-0.5	0.5	1.0
Gross capital formation	bill. CZK	1092	1114	896	946	944	919	920	957	998	1037
	growth in %	17.6	2.0	-19.5	5.5	-0.3	-2.6	0.1	4.0	4.3	3.9
– Gross fixed capital formation	bill. CZK	990	1031	926	933	917	907	905	918	947	984
	growth in %	15.0	4.2	-10.2	0.7	-1.6	-1.1	-0.3	1.5	3.2	3.8
– Change in stocks and valuables	bill. CZK	102	83	-30	14	26	12	15	39	51	54
External balance	bill. CZK	97	92	152	120	155	204	210	214	232	260
– Exports of goods and services	bill. CZK	2498	2480	2216	2525	2787	2982	3058	3172	3350	3553
	growth in %	11.3	-0.7	-10.7	13.9	10.4	7.0	2.6	3.7	5.6	6.1
– Imports of goods and services	bill. CZK	2401	2388	2064	2406	2632	2778	2848	2958	3118	3293
	growth in %	12.0	-0.5	-13.6	16.5	9.4	5.5	2.5	3.9	5.4	5.6
Gross national income	bill. CZK	3401	3668	3508	3515	3572	3572	3577	3647	3759	3880
	growth in %	6.9	7.8	-4.3	0.2	1.6	0.0	0.1	1.9	3.1	3.2
Primary income balance	bill. CZK	-261	-180	-251	-285	-269	-271	-282	-292	-320	-349

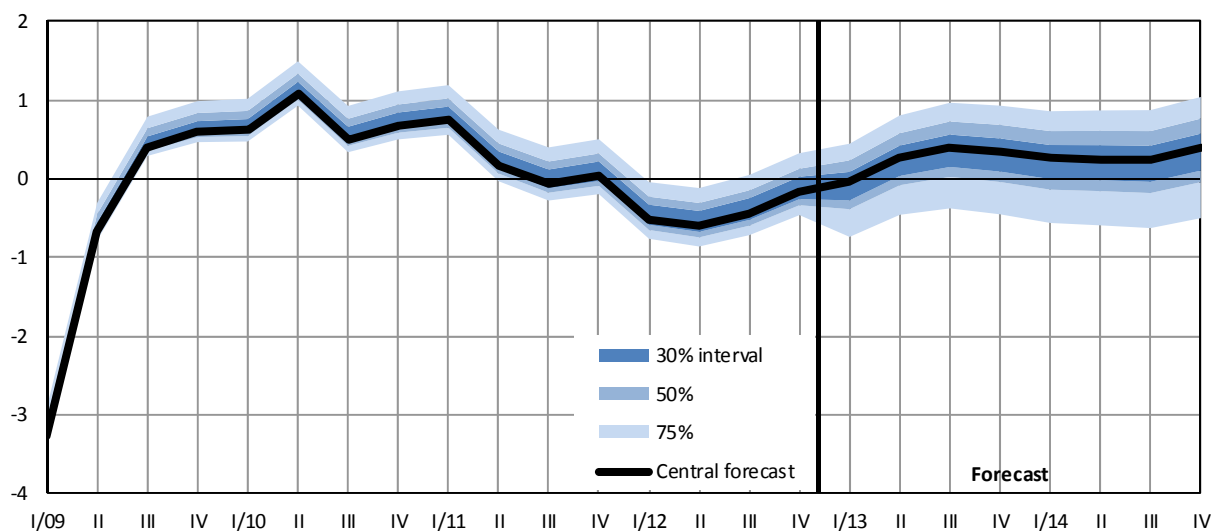
Table C.1.5: Nominal GDP by Type of Expenditure – quarterly

		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	Prelim.	Prelim.	Prelim.	Estimate	Forecast	Forecast	Forecast
Gross domestic product	bill. CZK	908	967	966	1002	894	965	983	1016
	growth in %	1.9	0.0	-0.7	-0.8	-1.5	-0.2	1.7	1.4
Private consumption	bill. CZK	462	480	485	497	457	479	488	497
	growth in %	0.1	-1.3	-1.8	-2.3	-1.0	-0.2	0.7	0.1
Government consumption	bill. CZK	182	194	193	229	184	196	195	232
	growth in %	0.3	-0.1	0.9	1.0	1.0	1.1	1.3	1.4
Gross capital formation	bill. CZK	197	242	239	241	184	238	251	247
	growth in %	-1.6	0.6	-9.3	0.5	-6.5	-1.6	5.3	2.2
– Gross fixed capital formation	bill. CZK	205	227	229	246	201	223	232	249
	growth in %	1.9	1.1	-2.5	-4.2	-2.3	-1.9	1.3	1.5
– Change in stocks and valuables	bill. CZK	-8	15	10	-4	-16	15	19	-3
External balance	bill. CZK	67	52	50	35	69	53	48	40
– Exports of goods and services	bill. CZK	755	752	726	748	774	768	743	772
	growth in %	11.5	6.7	7.1	2.9	2.5	2.2	2.3	3.2
– Imports of goods and services	bill. CZK	688	700	677	713	705	715	695	733
	growth in %	9.3	6.5	3.5	3.0	2.5	2.2	2.7	2.8

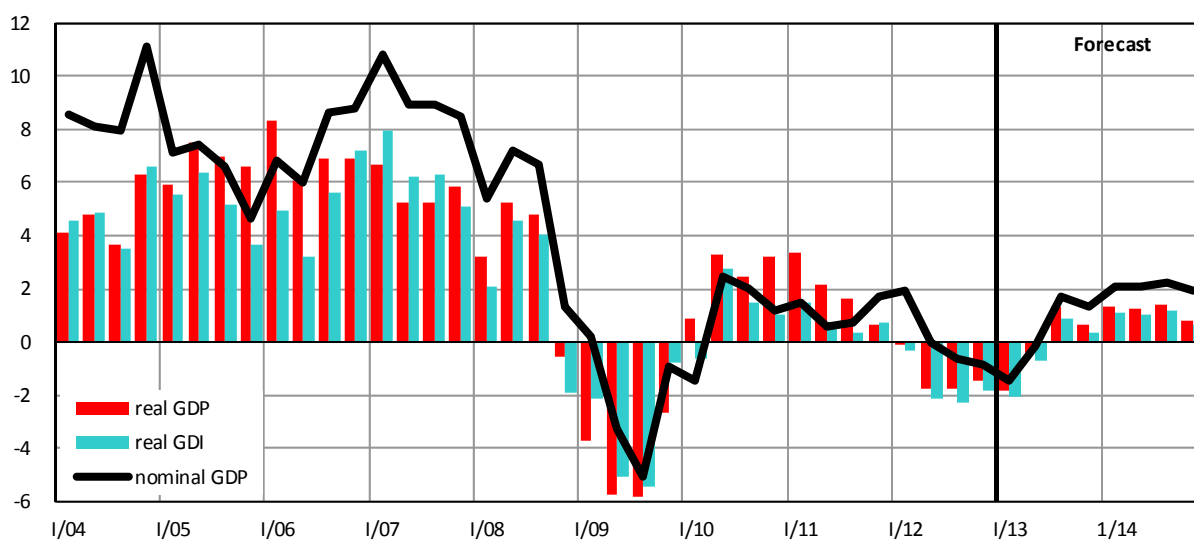
Graph C.1.1: Gross Domestic Product (real)
chained volumes, bill. CZK in const. prices of 2005, seasonally adjusted



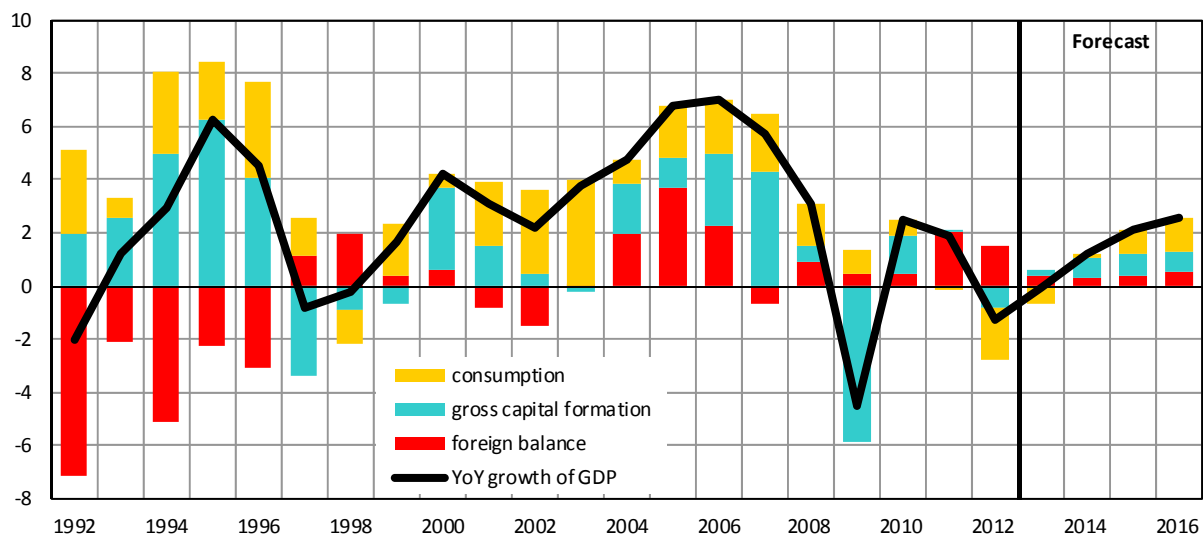
Graph C.1.2: Gross Domestic Product (real)
QoQ growth rate, in %, seasonally adjusted



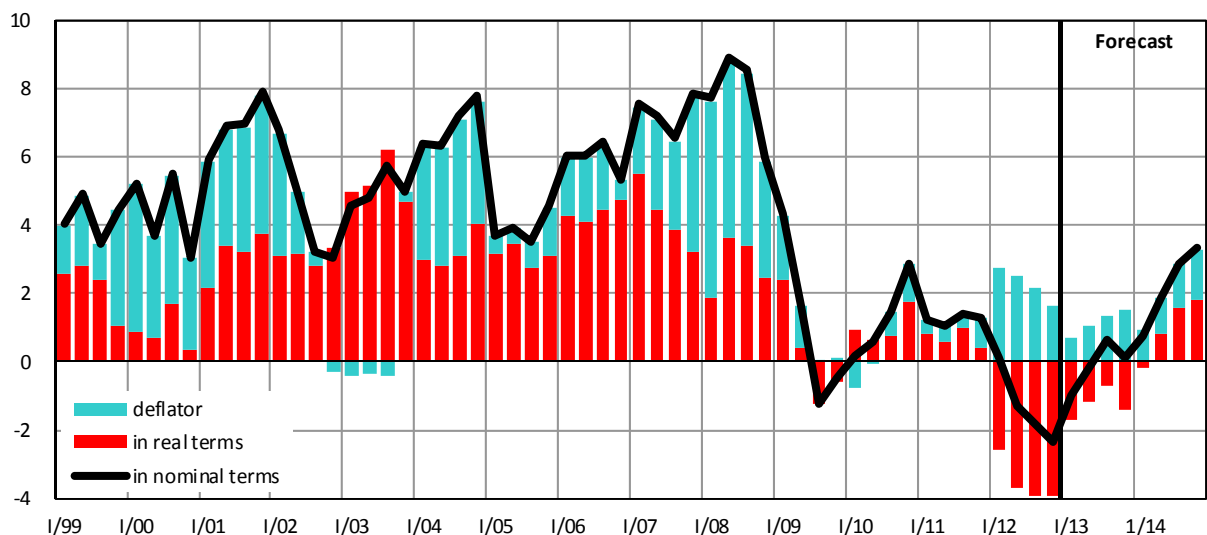
Graph C.1.3: Gross Domestic Product and Real Gross Domestic Income
YoY growth rate, in %



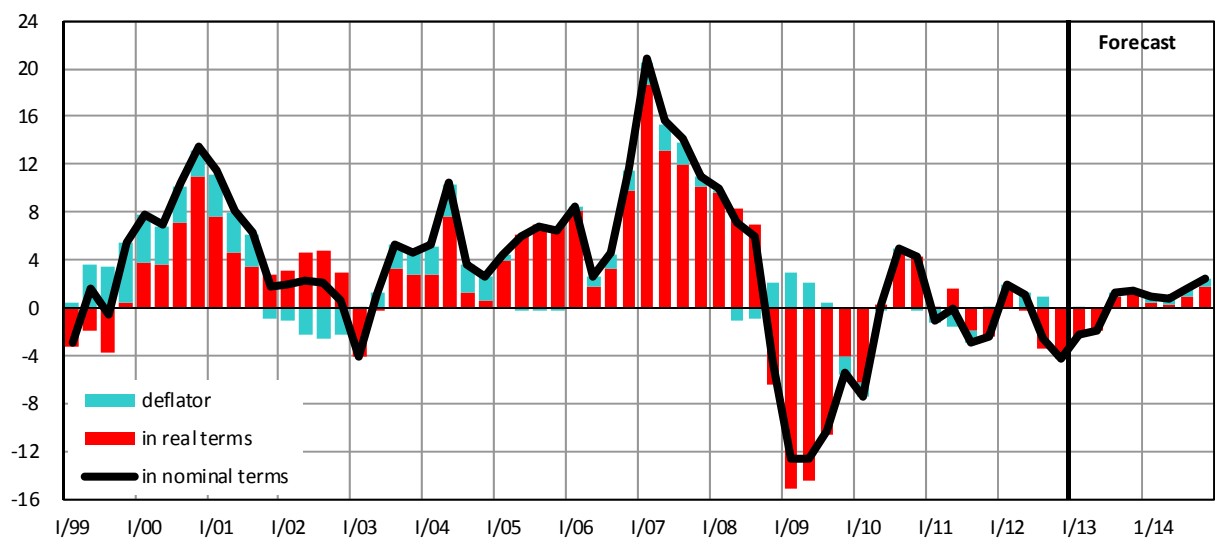
Graph C.1.4: Gross Domestic Product – contributions to YoY growth
in constant prices, decomposition of the YoY growth, in percentage points



Graph C.1.5: Private Consumption (incl. NPISH)
YoY growth rate, in %

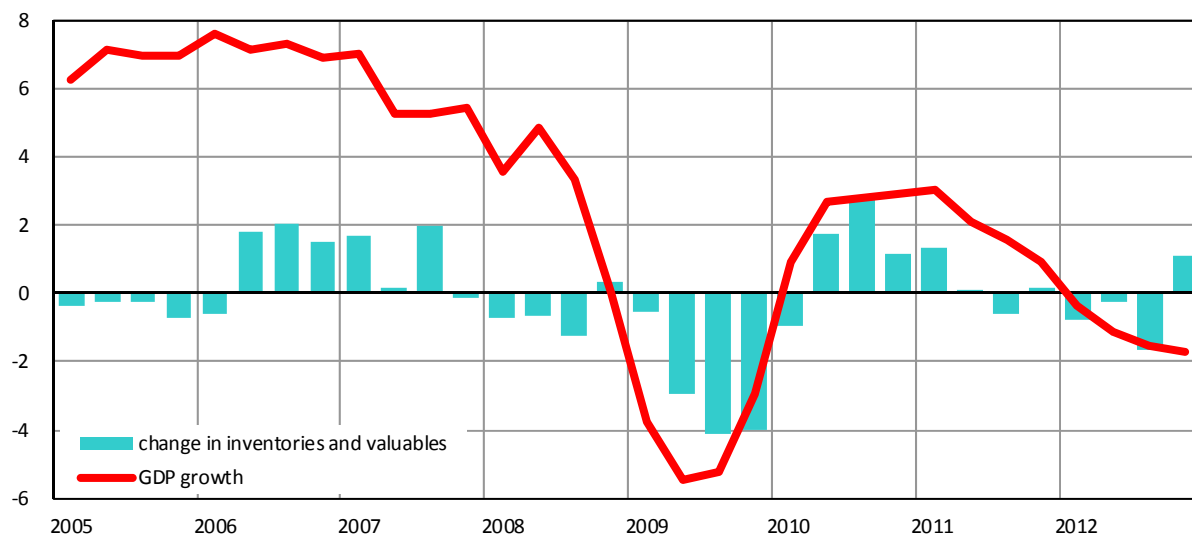


Graph C.1.6: Gross Fixed Capital Formation
YoY growth rate, in %



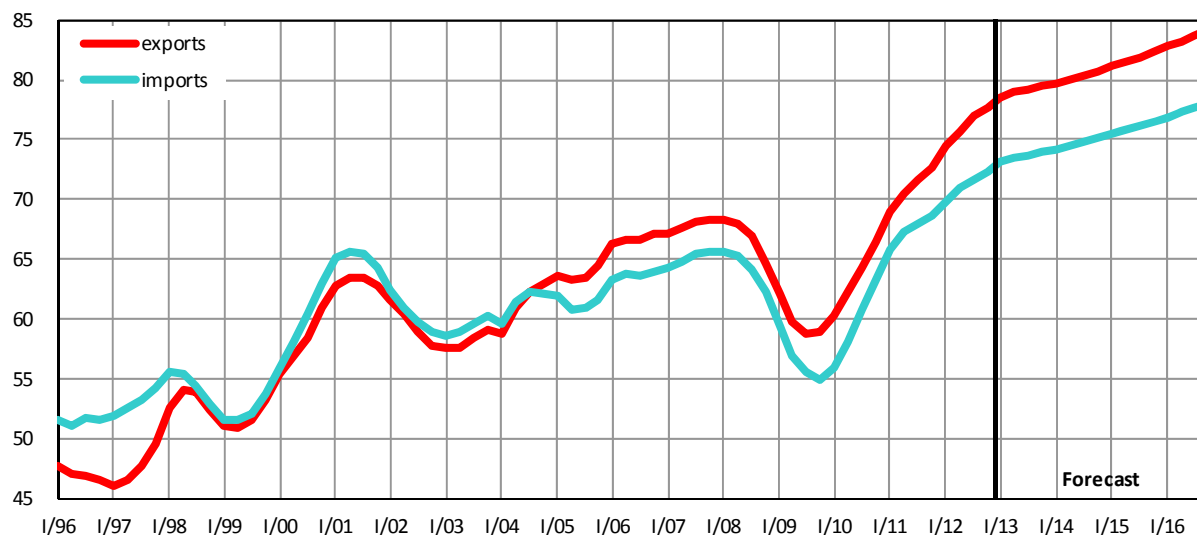
Graph C.1.7: Change in Inventories and Valuables (real)

seasonally adjusted, contributions to YoY growth of GDP in p.p.



Graph C.1.8: Ratio of Exports and Imports of Goods and Services to GDP (nominal)

yearly moving sums, in %



Graph C.1.9: GDP – Income Structure

yearly moving sums, in %

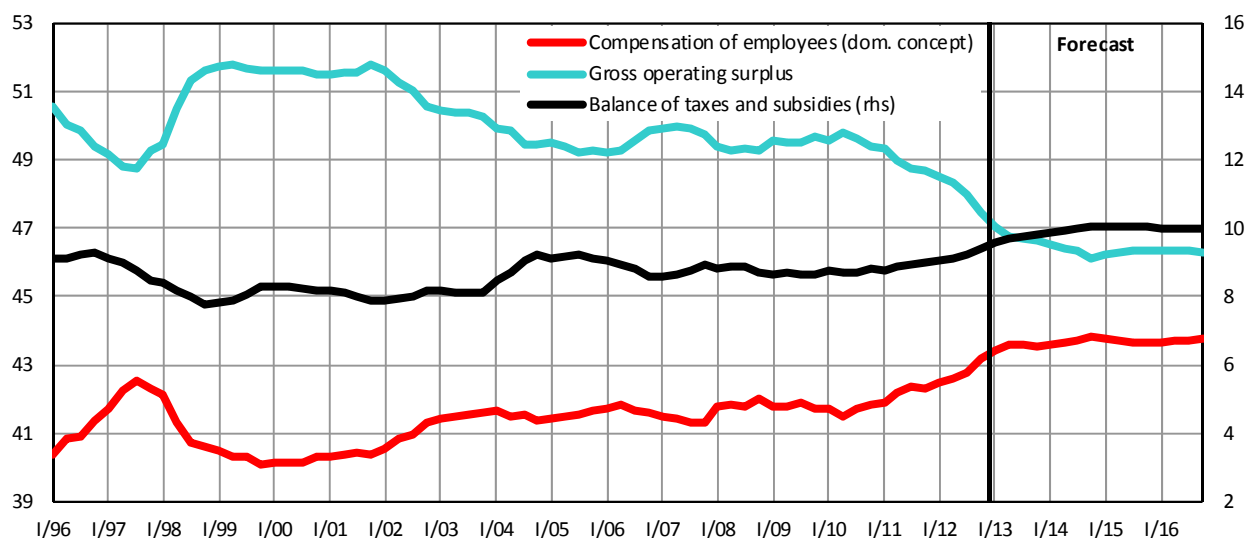


Table C.1.6: GDP by Type of Income – yearly

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
							Preliminary	Forecast	Forecast	Outlook	Outlook
GDP	<i>bill. CZK</i>	3663	3848	3759	3800	3841	3843	3858	3939	4079	4228
	<i>growth in %</i>	9.2	5.1	-2.3	1.1	1.1	0.1	0.4	2.1	3.6	3.7
Balance of taxes and subsidies	<i>bill. CZK</i>	327	335	325	334	345	362	379	396	408	421
	<i>growth in %</i>	13.9	2.5	-3.1	2.8	3.1	5.0	4.9	4.4	3.2	3.2
– Taxes on production and imports	<i>bill. CZK</i>	407	419	425	434	453	471	490	507	521	535
	<i>growth in %</i>	12.0	2.9	1.4	2.1	4.3	4.0	4.0	3.6	2.7	2.7
– Subsidies on production	<i>bill. CZK</i>	80	84	100	100	108	109	110	112	113	114
	<i>growth in %</i>	4.8	4.4	19.5	-0.4	8.6	1.1	1.0	1.0	1.0	1.0
Compensation of employees	<i>bill. CZK</i>	1513	1617	1567	1589	1626	1659	1681	1726	1780	1851
	<i>growth in %</i>	8.6	6.8	-3.0	1.4	2.3	2.0	1.3	2.7	3.1	4.0
– Wages and salaries	<i>bill. CZK</i>	1140	1226	1201	1209	1235	1260	1277	1312	1369	1424
	<i>growth in %</i>	8.3	7.5	-2.1	0.7	2.2	2.0	1.4	2.7	4.4	4.0
– Social security contributions	<i>bill. CZK</i>	373	390	367	380	391	400	404	415	411	428
	<i>growth in %</i>	9.4	4.7	-6.1	3.7	2.8	2.3	1.0	2.7	-1.0	4.2
Gross operating surplus	<i>bill. CZK</i>	1822	1896	1866	1876	1871	1823	1799	1816	1891	1956
	<i>growth in %</i>	9.0	4.1	-1.6	0.5	-0.3	-2.6	-1.3	1.0	4.1	3.4
– Consumption of capital	<i>bill. CZK</i>	644	680	710	720	733	755	770	787	811	835
	<i>growth in %</i>	6.8	5.6	4.4	1.5	1.8	3.0	2.0	2.2	3.0	3.0
– Net operating surplus	<i>bill. CZK</i>	1178	1216	1156	1156	1138	1067	1028	1029	1080	1120
	<i>growth in %</i>	10.3	3.2	-4.9	-0.1	-1.6	-6.2	-3.7	0.1	5.0	3.7

Table C.1.7: GDP by Type of Income – quarterly

		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
GDP	<i>bill. CZK</i>	908	967	966	1002	894	965	983	1016
	<i>growth in %</i>	1.9	0.0	-0.7	-0.8	-1.5	-0.2	1.7	1.4
Balance of taxes and subsidies	<i>bill. CZK</i>	80	93	102	87	84	98	107	92
	<i>growth in %</i>	4.9	2.1	5.8	7.2	5.0	4.7	4.5	5.5
Compensation of employees	<i>bill. CZK</i>	399	409	407	444	402	416	413	450
	<i>growth in %</i>	3.1	1.5	0.9	2.6	0.9	1.7	1.4	1.2
– Wages and salaries	<i>bill. CZK</i>	301	310	309	339	304	315	314	343
	<i>growth in %</i>	3.1	1.5	0.6	2.6	0.9	1.7	1.7	1.2
– Social security contributions	<i>bill. CZK</i>	97	99	98	105	98	101	99	106
	<i>growth in %</i>	3.2	1.6	1.9	2.6	0.9	1.7	0.4	1.2
Gross operating surplus	<i>bill. CZK</i>	430	465	457	471	409	452	464	474
	<i>growth in %</i>	0.4	-1.8	-3.3	-5.2	-4.8	-2.8	1.4	0.7

C.2 Prices

Sources: CZSO, Eurostat, MoF estimates

Table C.2.1: Prices – yearly

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
								Forecast	Forecast	Outlook	Outlook
Consumer Price Index											
average of a year	<i>average 2005=100</i>	105.4	112.1	113.3	115.0	117.2	121.0	123.6	125.7	128.1	129.5
	<i>growth in %</i>	2.8	6.3	1.0	1.5	1.9	3.3	2.1	1.7	1.9	1.1
December	<i>average 2005=100</i>	107.9	111.8	112.9	115.5	118.3	121.1	123.8	126.1	128.6	130.3
	<i>growth in %</i>	5.4	3.6	1.0	2.3	2.4	2.4	2.2	1.9	2.0	1.3
– of which contribution of											
administrative measures ¹⁾	<i>percentage points</i>	2.2	4.3	1.0	1.6	1.2	2.2	1.5	0.9	0.8	-0.1
market increase	<i>percentage points</i>	3.3	-0.7	0.0	0.7	1.2	0.1	0.7	1.0	1.2	1.4
HICP	<i>average 2005=100</i>	105.1	111.7	112.4	113.7	116.2	120.3	122.8	124.8	127.2	128.6
	<i>growth in %</i>	3.0	6.3	0.6	1.2	2.1	3.5	2.1	1.7	1.9	1.1
Offering prices of flats											
	<i>average 2005=100</i>	131.6	162.4	157.9	151.6	144.4	145.1	.	.	.	.
	<i>growth in %</i>	20.8	23.4	-2.8	-4.0	-4.8	0.5	.	.	.	.
Deflators											
GDP	<i>average 2005=100</i>	103.9	105.9	108.3	106.8	106.0	107.4	107.9	108.8	110.4	111.5
	<i>growth in %</i>	3.3	1.9	2.3	-1.4	-0.8	1.4	0.4	0.9	1.4	1.1
Domestic final use	<i>average 2005=100</i>	105.2	108.4	109.7	109.6	110.0	111.8	112.6	113.9	115.6	116.7
	<i>growth in %</i>	2.8	3.1	1.2	-0.1	0.3	1.7	0.7	1.2	1.4	1.0
Consumption of households	<i>average 2005=100</i>	104.5	109.5	110.3	110.6	111.2	113.7	115.1	116.5	118.5	119.8
	<i>growth in %</i>	2.9	4.8	0.8	0.3	0.5	2.3	1.2	1.2	1.8	1.1
Consumption of government	<i>average 2005=100</i>	108.9	112.6	115.4	114.6	115.5	117.2	118.8	120.3	121.8	122.9
	<i>growth in %</i>	4.1	3.4	2.5	-0.7	0.7	1.5	1.4	1.2	1.3	0.9
Fixed capital formation	<i>average 2005=100</i>	102.7	102.8	103.7	103.5	102.6	103.2	103.3	103.9	104.6	105.3
	<i>growth in %</i>	1.6	0.1	1.0	-0.3	-0.9	0.6	0.2	0.6	0.6	0.7
Exports of goods and services	<i>average 2005=100</i>	98.3	93.9	94.1	92.9	93.7	96.5	97.7	97.7	98.4	99.0
	<i>growth in %</i>	0.1	-4.5	0.3	-1.3	0.9	3.0	1.2	0.0	0.7	0.6
Imports of goods and services	<i>average 2005=100</i>	99.9	96.8	95.2	95.8	98.2	101.7	103.5	103.8	104.5	105.0
	<i>growth in %</i>	-0.7	-3.1	-1.7	0.7	2.5	3.6	1.7	0.3	0.7	0.5
Terms of trade	<i>average 2005=100</i>	98.4	97.0	98.9	96.9	95.4	94.8	94.4	94.2	94.2	94.3
	<i>growth in %</i>	0.8	-1.4	2.0	-2.0	-1.6	-0.5	-0.4	-0.3	0.0	0.2

Note: The outlook for 2016 is in line with current legislation, assuming VAT rates unification at 17.5% effective from January 1, 2016

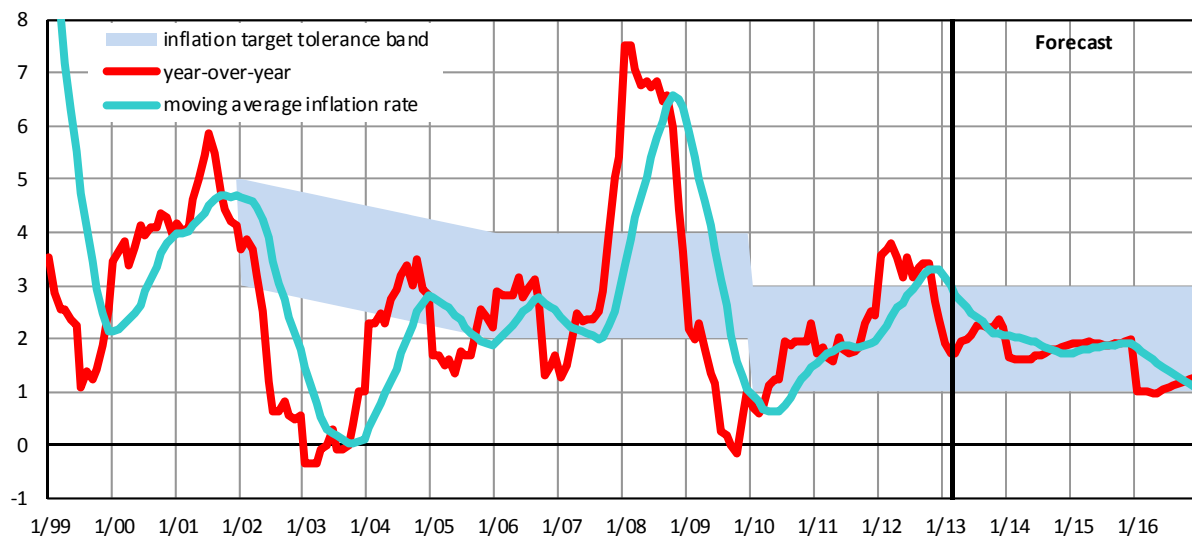
¹⁾ The contribution of increase in regulated prices and in indirect taxes to increase of December YoY consumer price inflation.

Table C.2.2: Prices – quarterly

		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Consumer Price Index	<i>average 2005=100</i>	120.7	121.1	121.1	121.1	122.9	123.6	123.9	123.9
	<i>growth in %</i>	3.7	3.4	3.3	2.8	1.8	2.0	2.2	2.3
contr. of administrative measures	<i>percentage points</i>	2.6	2.6	2.4	2.3	1.6	1.5	1.6	1.6
contribution of market increase	<i>percentage points</i>	1.1	0.8	0.9	0.5	0.2	0.5	0.6	0.7
HICP	<i>average 2005=100</i>	119.9	120.4	120.4	120.4	122.0	122.8	123.1	123.2
	<i>growth in %</i>	4.0	3.8	3.4	2.9	1.8	2.0	2.2	2.3
Offering prices of flats	<i>average 2005=100</i>	143.7	146.1	144.9	145.7	.	.	.	.
	<i>growth in %</i>	-2.4	1.2	1.0	2.5	.	.	.	.
Deflators									
GDP	<i>average 2005=100</i>	106.5	107.4	107.3	108.3	106.9	107.6	107.8	109.1
	<i>growth in %</i>	2.0	1.7	1.2	0.6	0.4	0.2	0.4	0.7
Domestic final use	<i>average 2005=100</i>	111.1	111.8	111.7	112.5	111.7	112.4	112.7	113.6
	<i>growth in %</i>	2.2	2.0	1.6	1.0	0.5	0.5	0.8	1.0
Consumption of households	<i>average 2005=100</i>	113.5	114.0	113.9	113.5	114.4	115.2	115.4	115.2
	<i>growth in %</i>	2.8	2.5	2.2	1.6	0.7	1.0	1.4	1.5
Consumption of government	<i>average 2005=100</i>	114.5	116.3	116.4	121.0	115.9	117.8	118.2	122.8
	<i>growth in %</i>	2.6	1.9	1.3	0.5	1.2	1.3	1.6	1.5
Fixed capital formation	<i>average 2005=100</i>	103.1	103.4	103.3	103.0	103.2	103.4	103.6	103.2
	<i>growth in %</i>	0.4	1.2	0.9	-0.1	0.1	0.0	0.3	0.2
Exports of goods and services	<i>average 2005=100</i>	96.0	96.9	96.5	96.5	97.7	98.1	97.5	97.4
	<i>growth in %</i>	3.9	4.2	3.5	0.7	1.8	1.2	1.0	0.9
Imports of goods and services	<i>average 2005=100</i>	101.6	102.2	101.8	101.3	103.7	103.9	103.5	102.7
	<i>growth in %</i>	4.3	4.7	4.2	1.3	2.0	1.7	1.6	1.4
Terms of trade	<i>average 2005=100</i>	94.5	94.7	94.8	95.3	94.3	94.3	94.2	94.9
	<i>growth in %</i>	-0.4	-0.5	-0.7	-0.6	-0.3	-0.4	-0.6	-0.5

Graph C.2.1: Consumer Prices

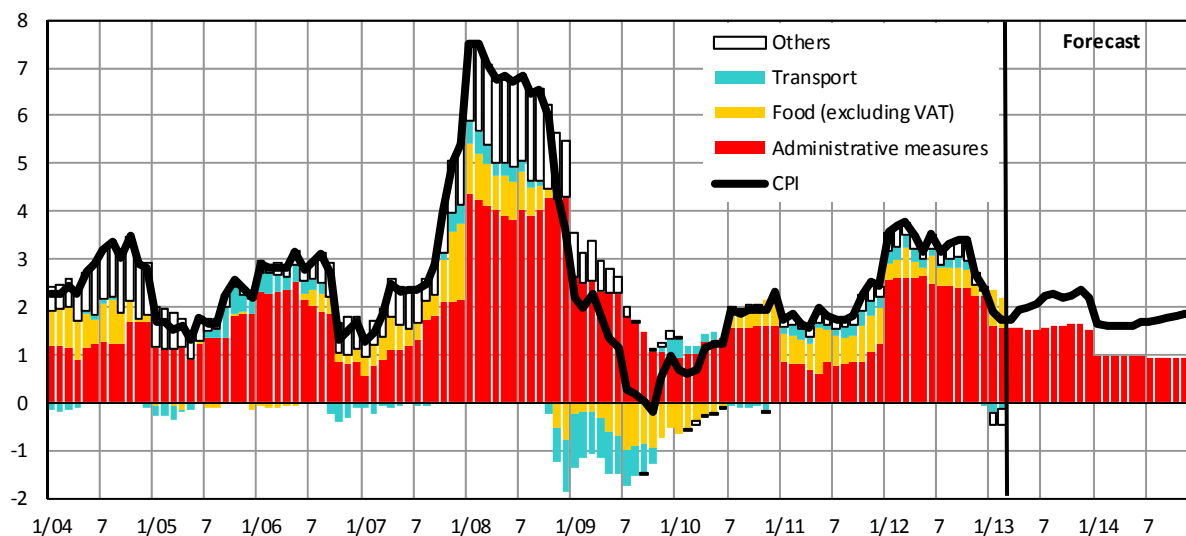
YoY growth rate, in %



Note: The outlook for 2016 is in line with current legislation, assuming VAT rates unification at 17.5% effective from January 1, 2016

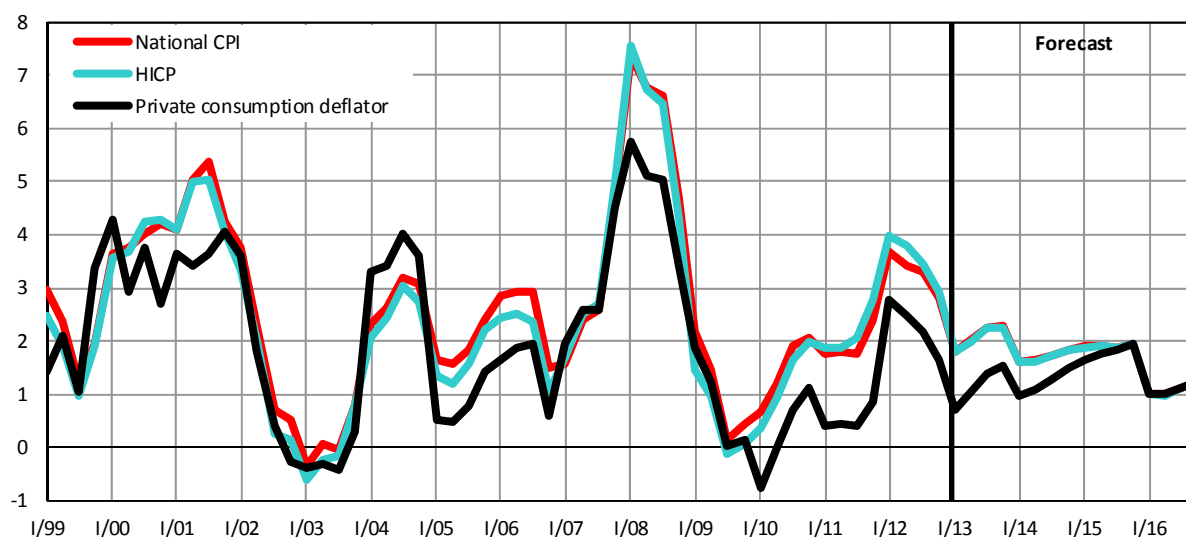
Graph C.2.2: Consumer Prices

decomposition of the YoY increase in consumer prices, in percentage points, Transport excluding administrative measures and excises



Graph C.2.3: Indicators of Consumer Prices

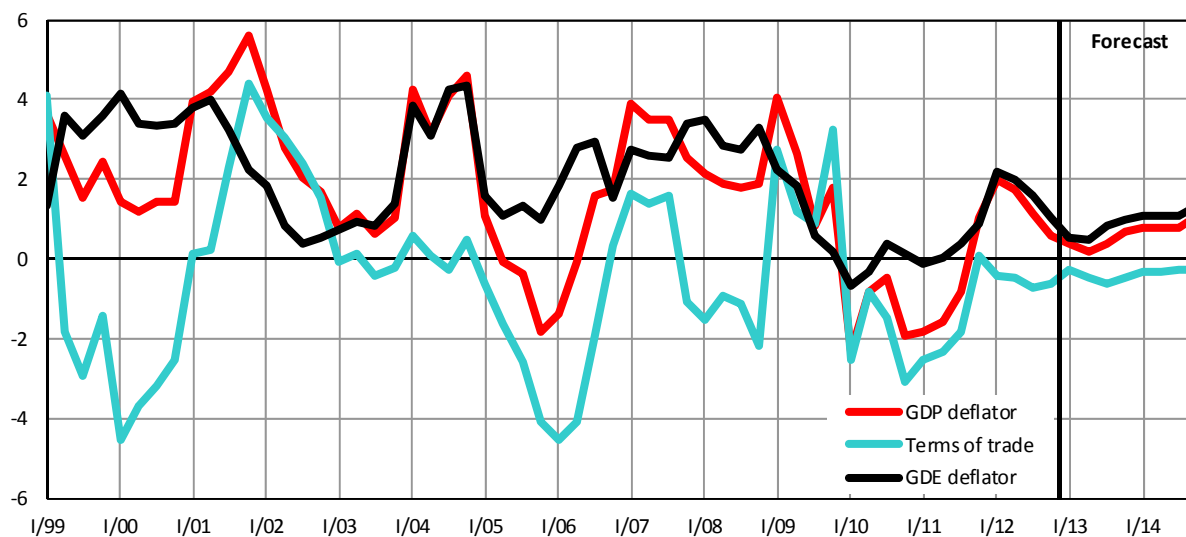
YoY increases, in %



Note: The outlook for 2016 is in line with current legislation, assuming VAT rates unification at 17.5% effective from January 1, 2016

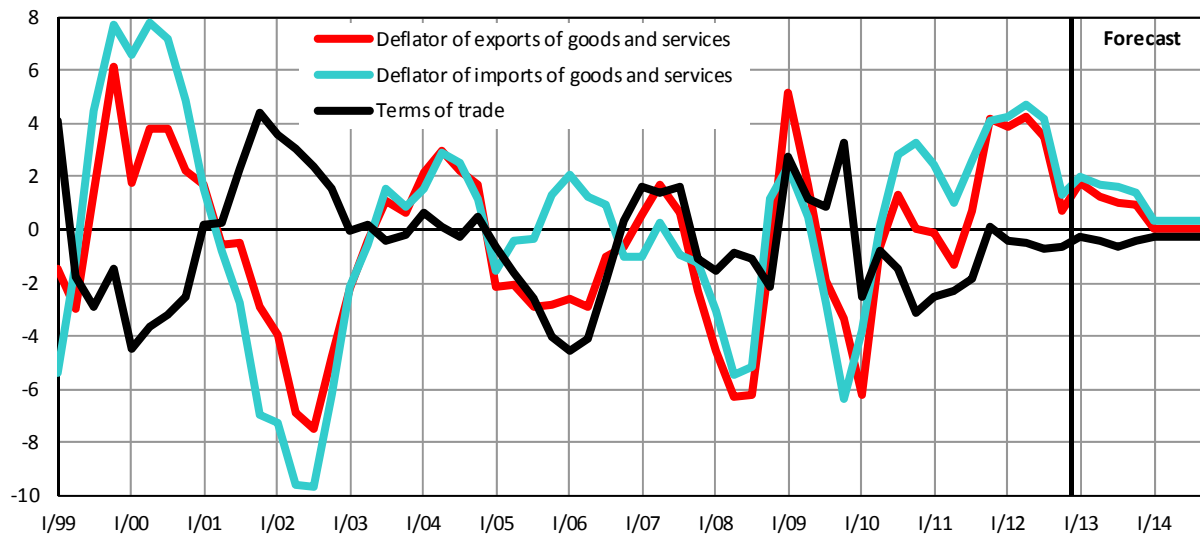
Graph C.2.4: GDP Deflator

YoY indices of final domestic use deflator and terms of trade, in %



Graph C.2.5: Terms of Trade

YoY increases, in %



C.3 Labour Market

Sources: CZSO, Ministry of Industry and Trade, Ministry of Labour and Social Affairs, MoF estimates

Table C.3.1: **Employment – yearly**

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
								Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	4922	5002	4934	4885	4872	4890	4881	4879	4885	4893
	<i>growth in %</i>	1.9	1.6	-1.4	-1.0	0.4	0.4	-0.2	0.0	0.1	0.2
– employees	<i>av. in thous.persons</i>	4125	4196	4107	4019	3993	3990	3978	3974	3977	3982
	<i>growth in %</i>	1.9	1.7	-2.1	-2.1	0.0	-0.1	-0.3	-0.1	0.1	0.1
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	797	807	827	866	880	901	903	904	908	911
	<i>growth in %</i>	2.2	1.2	2.5	4.7	2.0	2.4	0.3	0.2	0.3	0.4
Unemployment	<i>av. in thous.persons</i>	276	230	352	384	351	367	404	408	386	349
Unemployment rate	<i>average in per cent</i>	5.3	4.4	6.7	7.3	6.7	7.0	7.6	7.7	7.3	6.7
Labour force	<i>av. in thous.persons</i>	5198	5232	5286	5269	5223	5257	5285	5286	5271	5243
	<i>growth in %</i>	0.0	0.7	1.0	-0.3	-0.2	0.7	0.5	0.0	-0.3	-0.5
Population aged 15–64	<i>av. in thous.persons</i>	7347	7410	7431	7399	7295	7229	7169	7112	7052	6993
	<i>growth in %</i>	0.5	0.9	0.3	-0.4	-0.7	-0.9	-0.8	-0.8	-0.8	-0.8
Employment/Pop. 15–64	<i>average in per cent</i>	67.0	67.5	66.4	66.0	66.8	67.6	68.1	68.6	69.3	70.0
Employment rate 15–64¹⁾	<i>average in per cent</i>	66.1	66.6	65.4	65.0	65.7	66.5	66.9	67.3	68.0	68.7
Labour force/Pop. 15–64	<i>average in per cent</i>	70.8	70.6	71.1	71.2	71.6	72.7	73.7	74.3	74.7	75.0
Participation rate 15–64²⁾	<i>average in per cent</i>	69.8	69.7	70.1	70.2	70.5	71.6	72.4	73.0	73.4	73.6
SNA											
Employment (domestic concept)	<i>av. in thous.persons</i>	5086	5204	5111	5059	5072	5092	5081	5079	5085	5094
	<i>growth in %</i>	2.1	2.3	-1.8	-1.0	0.3	0.4	-0.2	0.0	0.1	0.2
Hours worked	<i>bill. hours</i>	9.12	9.37	9.09	9.16	9.28	9.17	9.14	9.12	9.13	9.13
	<i>growth in %</i>	1.3	2.7	-3.0	0.8	1.3	-1.2	-0.3	-0.2	0.1	0.0
Hours worked / employment	<i>hours</i>	1793	1800	1778	1811	1830	1800	1799	1796	1794	1792
	<i>growth in %</i>	-0.8	0.4	-1.2	1.9	1.0	-1.6	-0.1	-0.2	-0.1	-0.1
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	392.8	324.6	465.6	528.7	507.8	504.7	573	584	548	489

¹⁾ The indicator does not include employment over 64 years.

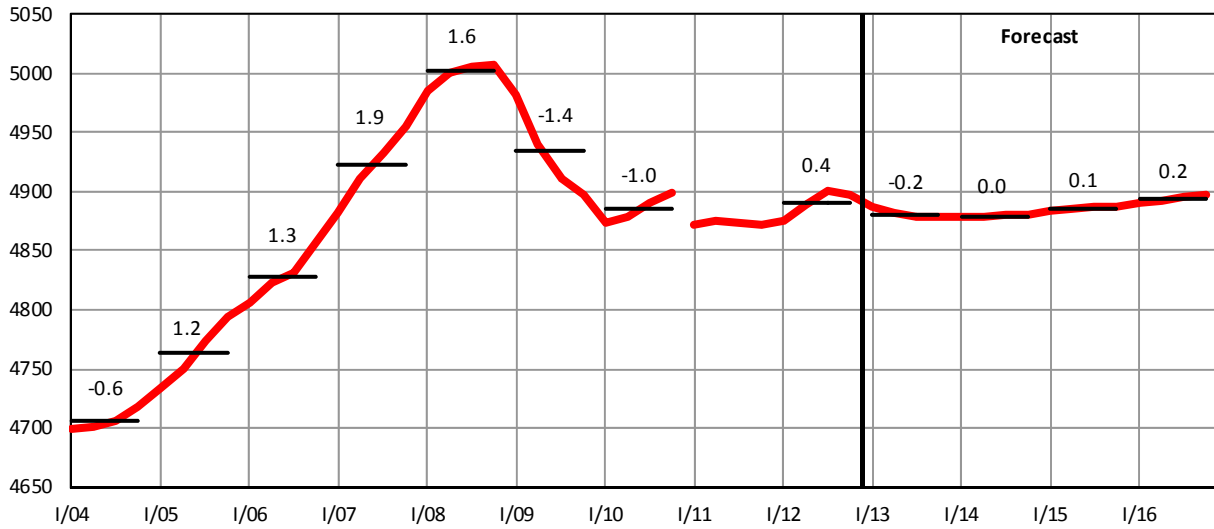
²⁾ The indicator does not include labour force over 64 years.

Table C.3.2: **Employment – quarterly**

		2012				2013			
		Q1	Q2	Q3	Q4	Q1 <i>Estimate</i>	Q2 <i>Forecast</i>	Q3 <i>Forecast</i>	Q4 <i>Forecast</i>
<u>Labour Force Survey</u>									
Employment	<i>av. in thous. persons</i>	4835	4888	4921	4917	4847	4882	4899	4897
	<i>YoY growth in %</i>	0.1	0.2	0.5	0.6	0.2	-0.1	-0.4	-0.4
	<i>QoQ growth in %</i>	0.1	0.3	0.3	-0.1	-0.2	-0.1	-0.1	0.0
– employees	<i>av. in thous. persons</i>	3937	3980	4027	4014	3943	3971	4005	3995
	<i>growth in %</i>	-0.6	-0.6	0.3	0.6	0.1	-0.2	-0.5	-0.5
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	898	908	894	902	904	911	894	903
	<i>growth in %</i>	3.1	4.3	1.4	0.8	0.7	0.3	0.0	0.1
Unemployment	<i>av. in thous. persons</i>	369	351	368	380	411	392	406	405
Unemployment rate	<i>average in per cent</i>	7.1	6.7	7.0	7.2	7.8	7.4	7.7	7.6
Labour force	<i>av. in thous. persons</i>	5204	5239	5288	5296	5258	5274	5305	5303
	<i>growth in %</i>	0.0	0.2	1.0	1.4	1.0	0.7	0.3	0.1
Population aged 15–64	<i>av. in thous. persons</i>	7255	7238	7222	7200	7190	7176	7162	7148
	<i>growth in %</i>	-0.9	-0.9	-0.9	-1.0	-0.9	-0.9	-0.8	-0.7
Employment/Pop. 15–64	<i>average in per cent</i>	66.6	67.5	68.1	68.3	67.4	68.0	68.4	68.5
	<i>increase over a year</i>	0.6	0.8	1.0	1.1	0.8	0.5	0.3	0.2
Employment rate 15–64	<i>average in per cent</i>	65.6	66.5	67.1	67.0	66.2	66.8	67.2	67.3
	<i>increase over a year</i>	0.6	0.8	0.9	0.9	0.6	0.3	0.1	0.2
Labour force/Pop. 15–64	<i>average in per cent</i>	71.7	72.4	73.2	73.6	73.1	73.5	74.1	74.2
	<i>increase over a year</i>	0.6	0.8	1.4	1.8	1.4	1.1	0.8	0.6
Participation rate 15–64	<i>average in per cent</i>	70.7	71.3	72.1	72.3	71.9	72.2	72.8	72.9
	<i>increase over a year</i>	0.6	0.8	1.3	1.6	1.2	0.9	0.7	0.6
<u>SNA</u>									
Employment (domestic concept)	<i>av. in thous. persons</i>	5012	5083	5141	5131	5023	5076	5117	5110
	<i>growth in %</i>	0.0	0.2	0.5	0.8	0.2	-0.1	-0.5	-0.4
Hours worked	<i>bill. hours</i>	2.41	2.38	2.07	2.31	2.40	2.38	2.07	2.29
	<i>growth in %</i>	-0.6	-2.6	-2.7	0.9	-0.3	-0.1	0.0	-0.7
Hours worked / employment	<i>hours</i>	480	469	403	449	478	469	404	448
	<i>growth in %</i>	-0.6	-2.8	-3.3	0.1	-0.5	0.1	0.5	-0.3
<u>Registered unemployment</u>									
Unemployment	<i>av. in thous. persons</i>	531	494	486	508	583	573	565	569

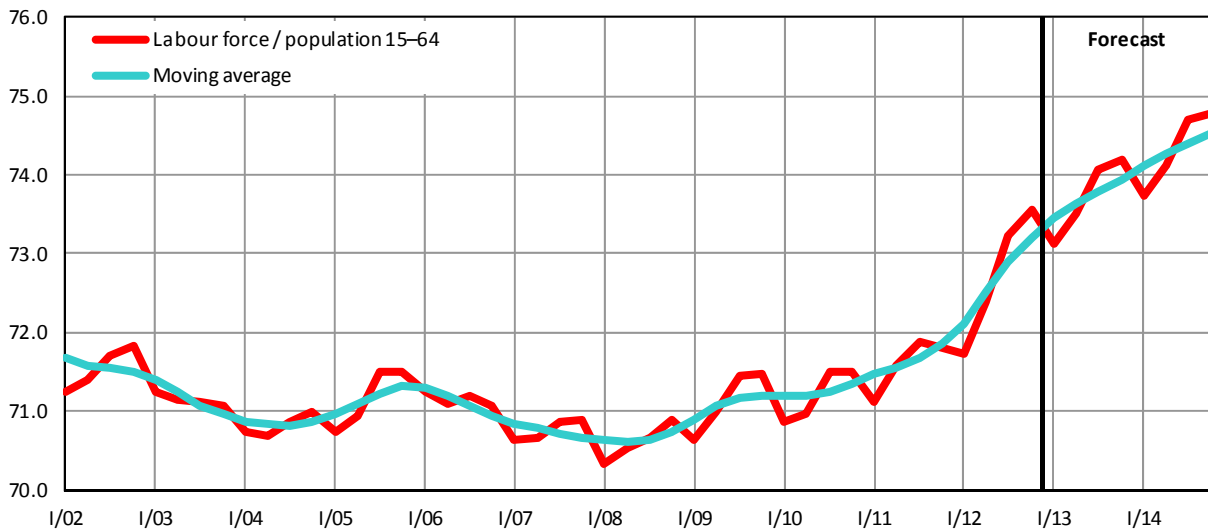
Graph C.3.2: Employment (LFS)

seasonally adjusted data, in thousands of persons, growth rates in %



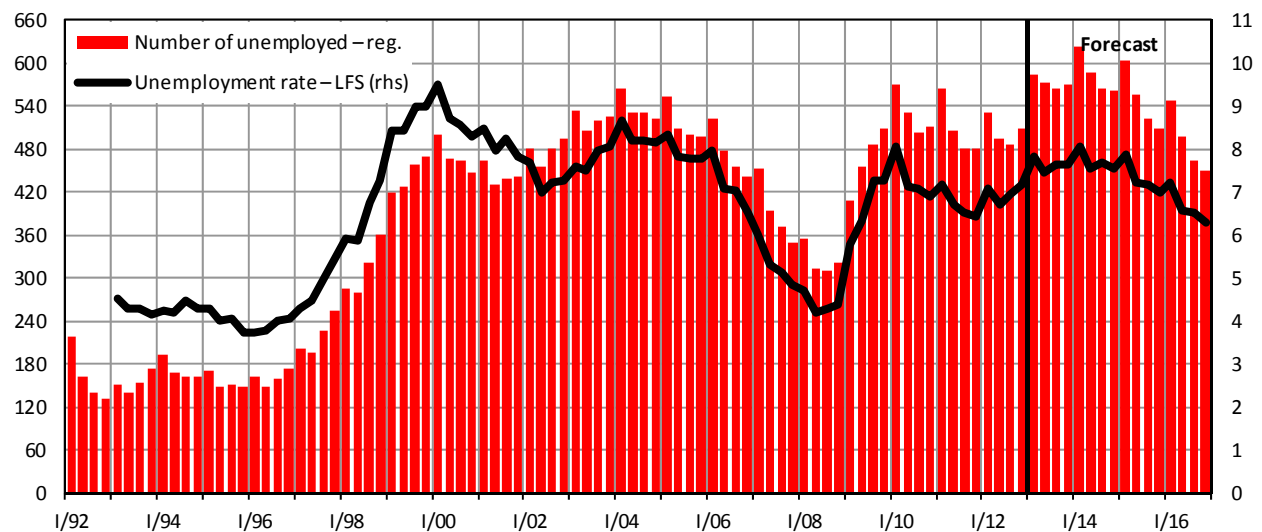
Graph C.3.3: Ratio of Labour Force to Population Aged 15–64

in %



Graph C.3.4: Unemployment

quarterly average, in thousands of persons, in % (rhs)



Graph C.3.5: Economic Output and Unemployment

YoY increase of real GDP in %. Change in unemployment in thousands of persons

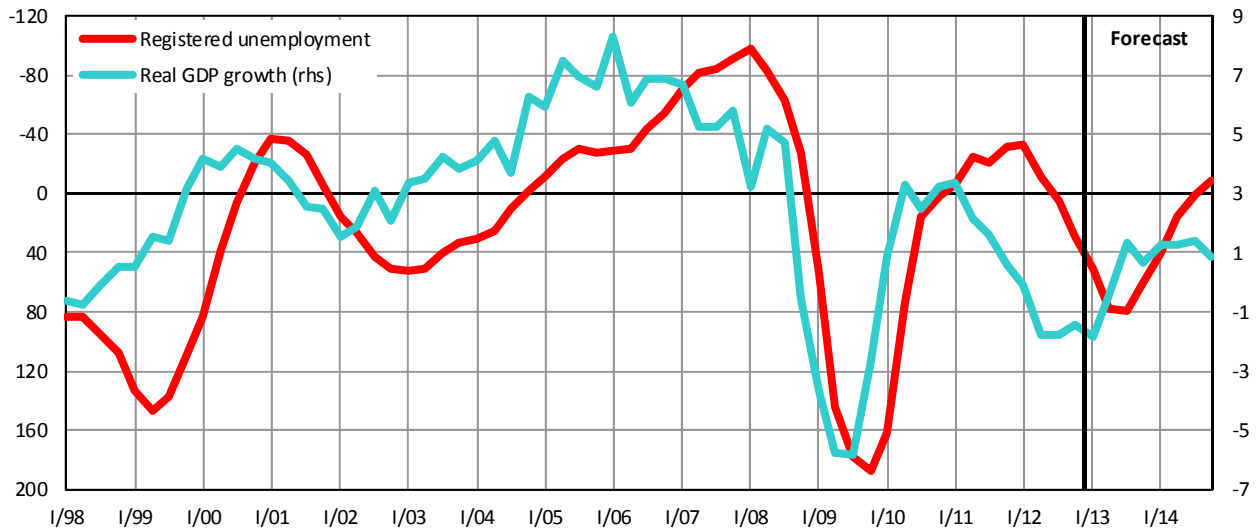


Table C.3.3: Labour Market – analytical indicators

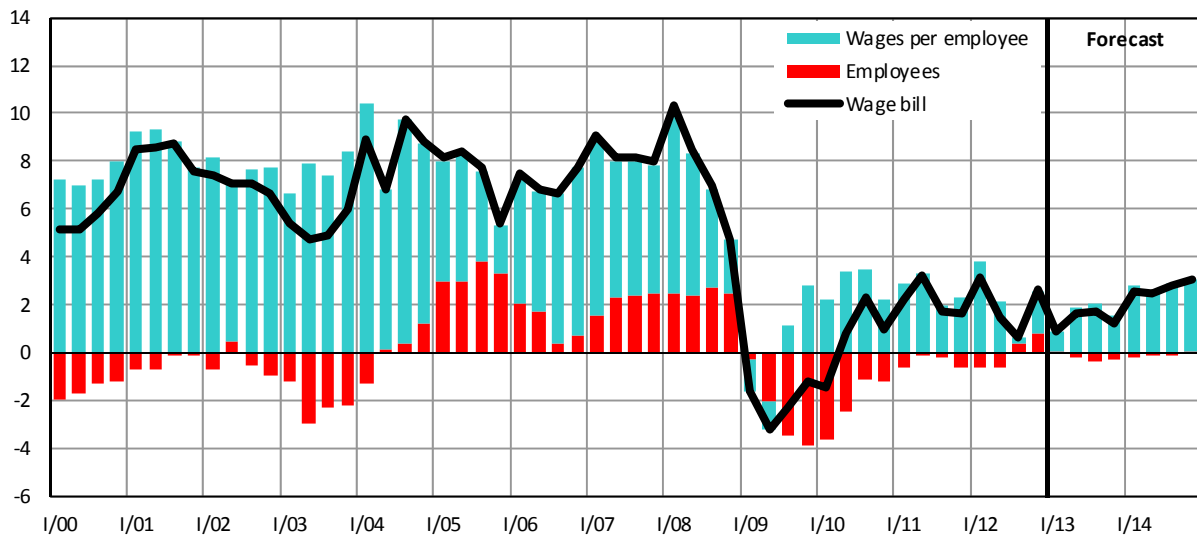
			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
											Forecast	Forecast
Compensation per employee												
– nominal	growth in %		3.8	6.0	6.3	4.2	-0.6	3.6	2.7	2.1	1.5	2.8
– real	growth in %		1.9	3.4	3.3	-2.0	-1.7	2.1	0.8	-1.2	-0.6	1.1
Wage bill	growth in %		7.3	7.2	8.3	7.5	-2.1	0.7	2.2	2.0	1.4	2.7
Average monthly wage¹⁾												
– nominal	CZK		18 336	19 536	20 947	22 592	23 353	23 858	24 433	25 100	25 600	26 300
	growth in %		5.0	6.5	7.2	7.9	3.4	2.2	2.4	2.7	1.8	2.8
– real	CZK 2005		18 336	19 053	19 865	20 147	20 610	20 753	20 850	20 700	20 700	20 900
	growth in %		3.1	3.9	4.3	1.4	2.3	0.7	0.5	-0.5	-0.2	1.1
Labour productivity	growth in %		4.6	5.6	3.5	0.8	-2.8	3.5	1.6	-1.7	0.2	1.2
Unit labour costs²⁾	growth in %		-0.7	0.4	2.6	3.4	2.2	0.0	1.1	3.8	1.3	1.6
Compensations of employees / GDP			41.7	41.6	41.3	42.0	41.7	41.8	42.3	43.2	43.6	43.8

¹⁾ New time series: average wage is derived from full-time-equivalent employers in the entire economy.

²⁾ Ratio of nominal compensation per employee to real productivity of labour.

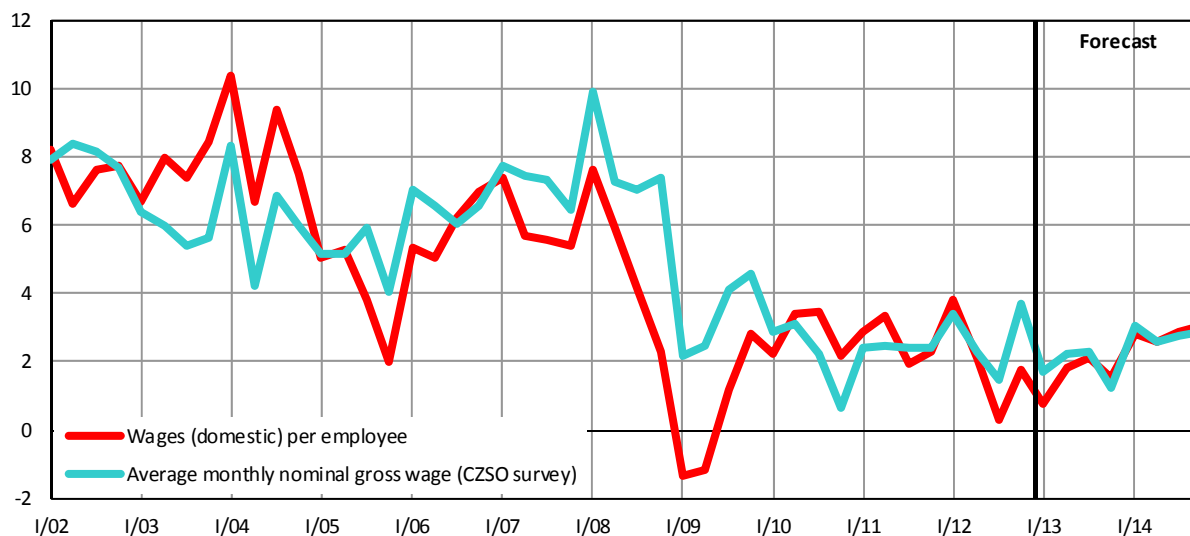
Graph C.3.6: Wage Bill – nominal, domestic concept

YoY growth rate, in %



Graph C.3.7: Average Nominal Wage

YoY growth rate, in %



Graph C.3.8: Gross Savings Rate of Households

in % of disposable income

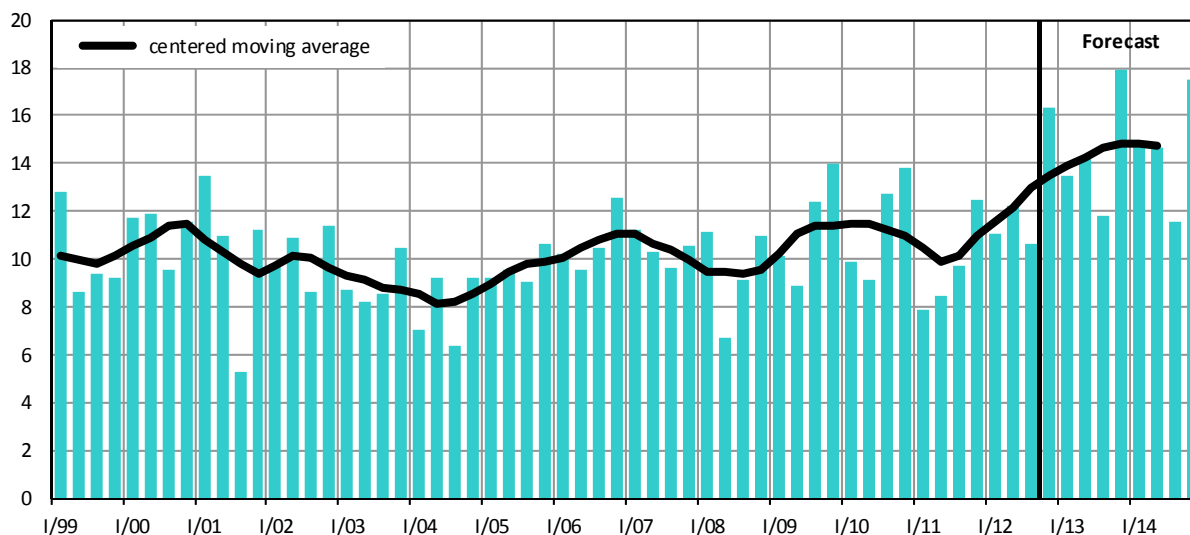


Table C.3.4: **Income and Expenditures of Households – yearly**
SNA methodology – national concept

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
									Estimate	Forecast	Forecast
<u>Current income</u>											
Compensation of employees	bill.CZK	1302	1397	1510	1597	1557	1589	1627	1664	1686	1732
	growth in %	6.5	7.3	8.1	5.8	-2.5	2.1	2.4	2.3	1.3	2.7
Gross operating surplus and mixed income	bill.CZK	515	538	570	587	616	629	606	602	602	608
	growth in %	1.3	4.4	6.0	3.0	5.0	2.0	-3.6	-0.6	0.0	1.0
Property income received	bill.CZK	135	150	155	167	155	144	141	152	157	162
	growth in %	13.0	11.5	3.1	8.2	-7.3	-7.0	-2.6	8.3	3.0	3.0
Social benefits not-in-kind	bill.CZK	386	422	471	495	536	542	554	566	584	597
	growth in %	5.1	9.1	11.6	5.1	8.4	1.1	2.1	2.3	3.1	2.3
Other current transfers received	bill.CZK	104	113	122	137	137	135	135	138	143	149
	growth in %	4.5	8.9	7.8	11.8	0.5	-1.8	-0.3	2.5	4.0	4.0
<u>Current expenditure</u>											
Property income paid	bill.CZK	19	21	26	30	18	22	21	21	21	21
	growth in %	-6.6	10.6	26.5	12.8	-38.1	20.5	-3.4	-2.1	-1.0	0.0
Curr. taxes on income and property	bill.CZK	144	144	160	146	141	126	148	145	146	150
	growth in %	1.7	0.4	11.0	-8.6	-3.7	-10.6	17.3	-2.3	1.3	2.7
Social contributions	bill.CZK	515	564	618	638	605	622	640	657	668	688
	growth in %	6.5	9.6	9.5	3.4	-5.3	2.8	2.9	2.7	1.7	3.0
Other current transfers paid	bill.CZK	109	119	132	143	140	140	141	146	149	152
	growth in %	4.7	9.4	11.0	8.3	-2.1	0.0	0.2	3.7	2.0	2.0
Gross disposable income	bill.CZK	1657	1771	1891	2025	2097	2128	2112	2154	2188	2237
	growth in %	5.6	6.9	6.8	7.1	3.5	1.5	-0.8	2.0	1.6	2.2
Final consumption	bill.CZK	1516	1604	1720	1857	1874	1899	1922	1897	1896	1938
	growth in %	3.8	5.9	7.2	8.0	1.0	1.3	1.2	-1.3	-0.1	2.2
Change in share in pension funds	bill.CZK	19	23	26	24	17	15	16	17	24	31
Gross savings	bill.CZK	160	190	197	193	240	244	206	273	316	329
Capital transfers (income (-) / expenditure (+))	bill.CZK	-31	-31	-36	-29	-28	-33	-29	-25	-22	-22
Gross capital formation	bill.CZK	158	178	203	209	201	221	194	183	176	169
	growth in %	13.2	12.4	14.2	3.0	-3.8	10.1	-12.3	-5.7	-4.0	-4.0
Change in financial assets and liab.	bill.CZK	34	43	30	12	66	55	40	114	162	182
Real disposable income	growth in %	4.7	5.3	3.7	2.2	2.7	1.2	-1.3	-0.2	0.4	1.0
Gross savings rate	%	9.7	10.7	10.4	9.5	11.4	11.5	9.8	12.7	14.5	14.7

C.4 External Relations

Sources: CNB, CZSO, Eurostat, MoF estimates

Table C.4.1: **Balance of Payments** – yearly

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
		<i>Forecast Forecast</i>									
Balance of goods and services	<i>bill.CZK</i>	86	108	106	100	161	129	149	196	201	205
– balance of trade ¹⁾	<i>bill.CZK</i>	49	59	47	26	87	54	90	146	160	171
– of which mineral fuels (SITC 3) ²⁾	<i>bill.CZK</i>	-111	-139	-124	-167	-107	-138	-177	-187	-186	-171
– balance of services	<i>bill.CZK</i>	38	49	59	74	74	75	58	50	41	34
Balance of income	<i>bill.CZK</i>	-128	-165	-255	-175	-250	-285	-256	-289	-296	-306
– compensation of employees	<i>bill.CZK</i>	4	3	-4	-19	-11	-1	1	5	6	6
– investment income	<i>bill.CZK</i>	-132	-168	-251	-156	-239	-284	-257	-294	-302	-312
Balance of transfers	<i>bill.CZK</i>	11	-11	-8	-6	-1	9	3	-1	4	10
Current account	<i>bill.CZK</i>	-31	-67	-157	-81	-89	-147	-104	-94	-90	-91
Capital account	<i>bill.CZK</i>	6	10	22	27	51	33	15	52	54	56
Financial account	<i>bill.CZK</i>	160	100	125	92	143	174	59	122	.	.
– foreign direct investments	<i>bill.CZK</i>	280	90	179	36	38	95	47	181	.	.
– portfolio investments	<i>bill.CZK</i>	-81	-27	-57	-9	159	150	6	43	.	.
– other investments	<i>bill.CZK</i>	-38	36	3	65	-53	-71	7	-102	.	.
Change in reserves	<i>bill.CZK</i>	93	2	16	40	61	41	-17	80	.	.
International investment position	<i>bill.CZK</i>	-837	-1084	-1418	-1545	-1728	-1830	-1818	-1904	.	.
Gross external debt	<i>bill.CZK</i>	1144	1196	1377	1630	1639	1767	1877	1941	1963	1963
Balance of goods and services / GDP ¹⁾	<i>per cent</i>	2.8	3.2	2.9	2.6	4.3	3.4	3.9	5.1	5.2	5.2
Current account / GDP	<i>per cent</i>	-1.0	-2.0	-4.3	-2.1	-2.4	-3.9	-2.7	-2.4	-2.3	-2.3
Financial account / GDP	<i>per cent</i>	5.1	3.0	3.4	2.4	3.8	4.6	1.5	3.2	.	.
IIP / GDP	<i>per cent</i>	-26.9	-32.3	-38.7	-40.2	-46.0	-48.2	-47.3	-49.5	.	.
Gross external debt / GDP ³⁾	<i>per cent</i>	36.7	35.7	37.6	42.3	43.6	46.5	48.9	50.5	51	50

¹⁾ Imports – fob since May 2004

²⁾ Imports – cif

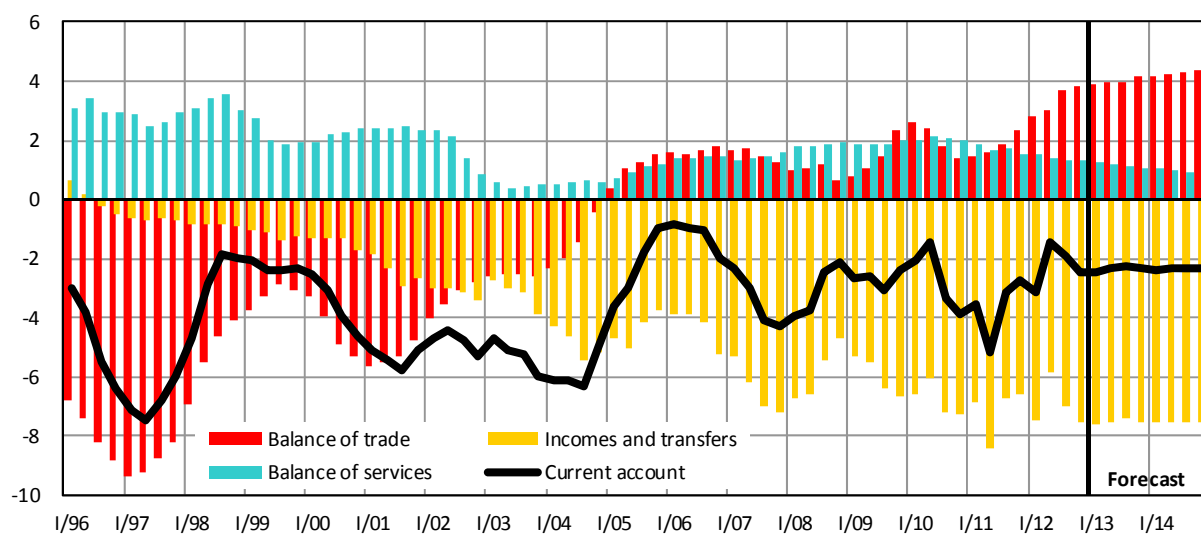
³⁾ Ratio of external debt (in CZK) at the end of period to GDP (in CZK)

Table C.4.2: **Balance of Payments** – quarterly
moving sums of the latest 4 quarters

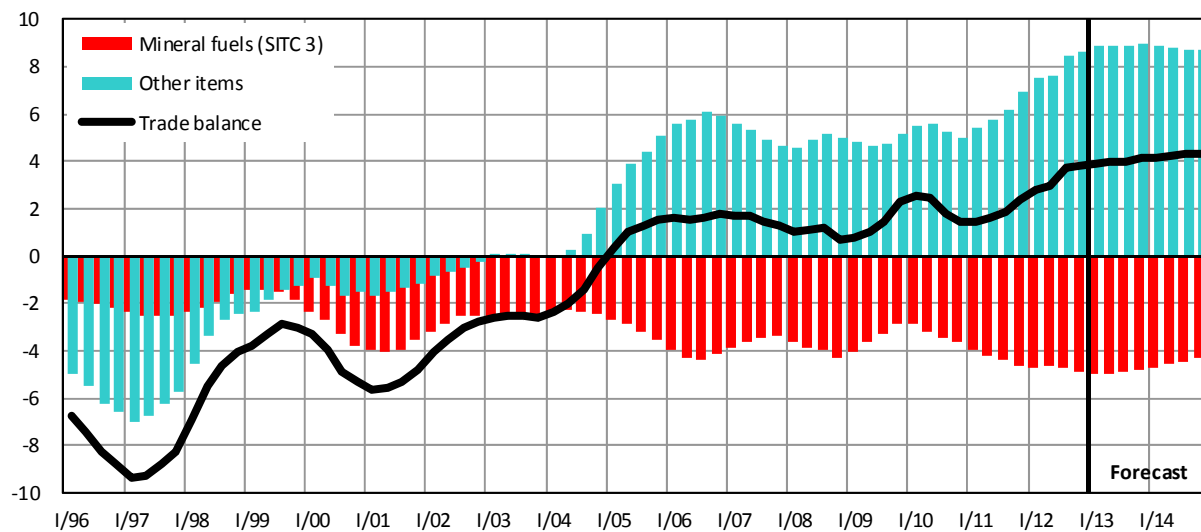
		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Balance of goods and services	<i>bill.CZK</i>	169	168	194	196	198	198	197	201
– balance of trade	<i>bill.CZK</i>	109	116	143	146	150	152	153	160
– of which mineral fuels (SITC 3)	<i>bill.CZK</i>	-182	-180	-182	-187	-189	-189	-188	-186
– balance of services	<i>bill.CZK</i>	60	53	50	50	48	46	44	41
Balance of income	<i>bill.CZK</i>	-289	-216	-258	-289	-290	-291	-293	-296
– compensation of employees	<i>bill.CZK</i>	2	3	5	5	6	6	6	6
– investment income	<i>bill.CZK</i>	-291	-219	-263	-294	-296	-298	-300	-302
Balance of transfers	<i>bill.CZK</i>	1	-9	-11	-1	-1	4	9	4
Current account	<i>bill.CZK</i>	-120	-56	-75	-94	-93	-89	-88	-90
Capital account	<i>bill.CZK</i>	15	15	18	52	52	53	53	54
Financial account	<i>bill.CZK</i>	126	31	81	122	.	.	.	.
– foreign direct investments	<i>bill.CZK</i>	86	86	165	181	.	.	.	.
– portfolio investments	<i>bill.CZK</i>	71	57	86	43	.	.	.	.
– other investments	<i>bill.CZK</i>	-31	-112	-171	-102	.	.	.	.
Change in reserves	<i>bill.CZK</i>	42	4	16	80	.	.	.	.
International investment position	<i>bill.CZK</i>	-1889	-1893	-1933	-1904	.	.	.	.
Gross external debt	<i>bill.CZK</i>	1918	1928	1889	1941	1930	1943	1967	1963

Graph C.4.1: **Current Account**

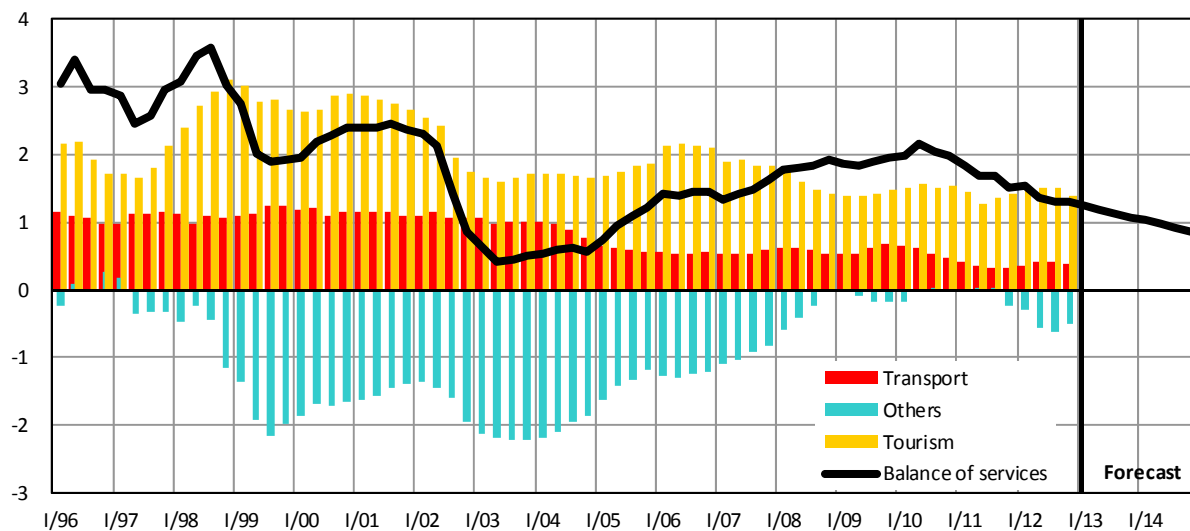
moving sums of the latest 4 quarters, in % of GDP, trade and service balances in BoP definitions



Graph C.4.2: Balance of Trade (exports fob, imports cif)
moving sums of the latest 4 quarters, in % of GDP, in cross-border definitions



Graph C.4.3: Balance of Services
moving sums of the latest 4 quarters, in % of GDP



Graph C.4.4: Balance of Income
moving sums of the latest 4 quarters, in % of GDP

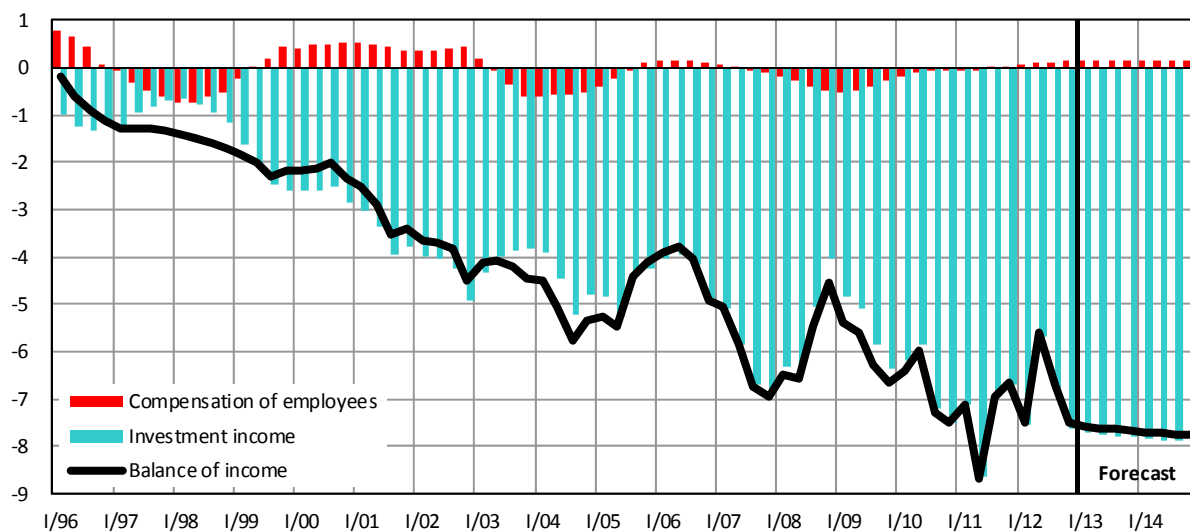


Table C.4.3: **Decomposition of Exports of Goods – yearly**

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
		<i>Forecast Forecast</i>									
GDP ¹⁾	<i>average of 2005=100</i>	100.0	104.3	108.9	110.5	106.0	109.6	112.6	113.5	114	115
	<i>growth in %</i>	2.2	4.3	4.4	1.5	-4.1	3.4	2.7	0.8	0.2	1.3
Import intensity ²⁾	<i>average of 2005=100</i>	100.0	107.8	110.1	110.0	103.0	111.1	115.9	116.1	116	117
	<i>growth in %</i>	5.7	7.8	2.1	-0.1	-6.3	7.8	4.4	0.1	-0.3	1.3
Export markets ³⁾	<i>average of 2005=100</i>	100.0	112.5	119.9	121.5	109.2	121.7	130.5	131.7	132	135
	<i>growth in %</i>	8.0	12.5	6.6	1.3	-10.2	11.5	7.2	0.9	-0.1	2.6
Export performance	<i>average of 2005=100</i>	100.0	101.3	105.9	107.6	105.6	110.2	113.7	117.1	118	119
	<i>growth in %</i>	2.5	1.3	4.5	1.6	-1.8	4.4	3.1	3.0	1.0	0.9
Real exports	<i>average of 2005=100</i>	100.0	114.0	126.9	130.7	115.3	134.2	148.3	154.2	156	161
	<i>growth in %</i>	10.7	14.0	11.4	3.0	-11.8	16.4	10.5	3.9	0.9	3.5
1 / NEER	<i>average of 2005=100</i>	100.0	95.4	93.0	83.2	86.0	84.2	81.7	84.6	86	85
	<i>growth in %</i>	-5.6	-4.6	-2.6	-10.5	3.4	-2.2	-2.9	3.6	1.3	-1.1
Prices on foreign markets	<i>average of 2005=100</i>	100.0	103.1	106.1	112.8	108.8	109.5	113.8	113.3	113	114
	<i>growth in %</i>	3.1	3.1	2.9	6.3	-3.6	0.7	3.9	-0.5	-0.1	1.0
Exports deflator	<i>average of 2005=100</i>	100.0	98.4	98.6	93.8	93.6	92.2	93.0	95.9	97	97
	<i>growth in %</i>	-2.6	-1.6	0.2	-4.9	-0.3	-1.5	0.9	3.1	1.2	-0.1
Nominal exports	<i>average of 2005=100</i>	100.0	112.2	125.1	122.7	107.7	123.7	138.0	147.9	151	156
	<i>growth in %</i>	7.7	12.2	11.6	-2.0	-12.2	14.9	11.6	7.2	2.1	3.4

¹⁾ Weighted average of GDP of the seven most important partners – Germany, Slovakia, Austria, the United Kingdom, Poland, France and Italy.

²⁾ Index of ratio of real imports of goods to real GDP.

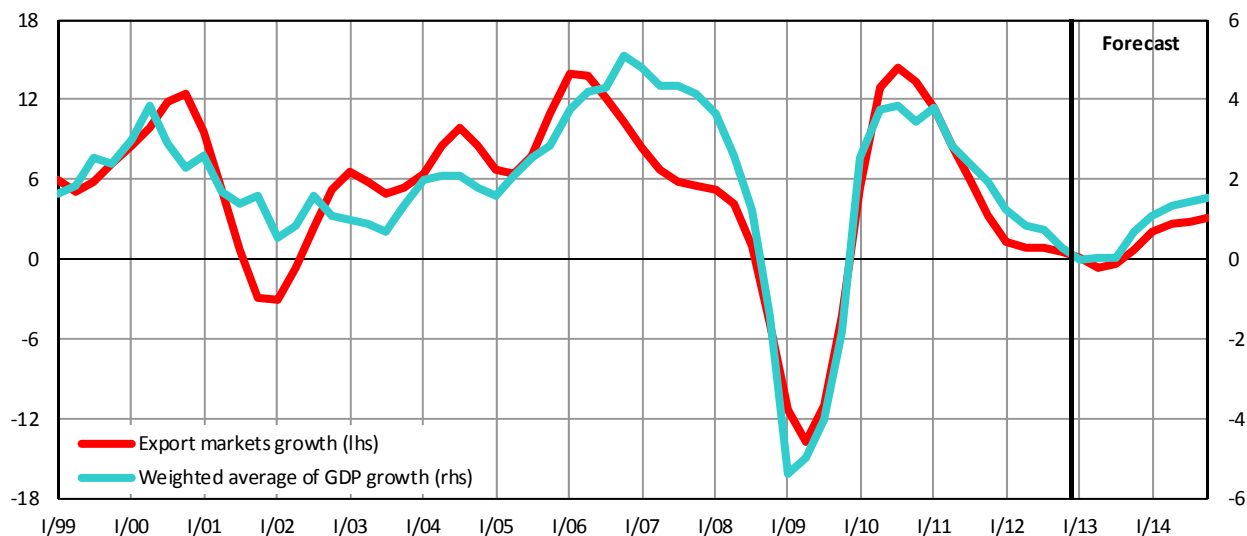
³⁾ Weighted average of imports of goods of the main partners.

Table C.4.4: **Decomposition of Exports of Goods – quarterly**

		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Estimate Forecast Forecast Forecast</i>							
GDP	<i>average of 2005=100</i>	113.3	113.4	113.7	113.3	113	113	114	114
	<i>growth in %</i>	1.2	0.9	0.7	0.3	0.0	0.0	0.0	0.7
Import intensity	<i>average of 2005=100</i>	115.5	116.3	116.4	116.1	116	116	116	116
	<i>growth in %</i>	0.1	0.1	0.1	0.2	0.0	-0.7	-0.4	0.1
Export markets	<i>average of 2005=100</i>	130.9	132.0	132.4	131.6	131	131	132	133
	<i>growth in %</i>	1.3	0.9	0.8	0.5	0.0	-0.7	-0.4	0.8
Export performance	<i>average of 2005=100</i>	121.5	118.4	112.4	116.1	122	120	114	118
	<i>growth in %</i>	6.0	2.2	2.5	1.3	0.3	1.2	1.3	1.3
Real exports	<i>average of 2005=100</i>	159.0	156.2	148.8	152.8	160	157	150	156
	<i>growth in %</i>	7.5	3.2	3.3	1.8	0.3	0.5	0.9	2.1
1 / NEER	<i>average of 2005=100</i>	84.1	84.8	84.8	84.8	86	86	86	85
	<i>growth in %</i>	3.3	5.1	4.8	1.3	2.4	1.2	0.9	0.6
Prices on foreign markets	<i>average of 2005=100</i>	113.6	113.5	113.1	113.0	113	114	113	113
	<i>growth in %</i>	0.7	-0.7	-1.2	-0.6	-0.6	0.0	0.0	0.2
Exports deflator	<i>average of 2005=100</i>	95.5	96.3	96.0	95.9	97	97	97	97
	<i>growth in %</i>	4.0	4.3	3.5	0.7	1.8	1.2	0.9	0.8
Nominal exports	<i>average of 2005=100</i>	151.9	150.5	142.8	146.6	155	153	145	151
	<i>growth in %</i>	11.8	7.6	7.0	2.6	2.1	1.7	1.8	2.9

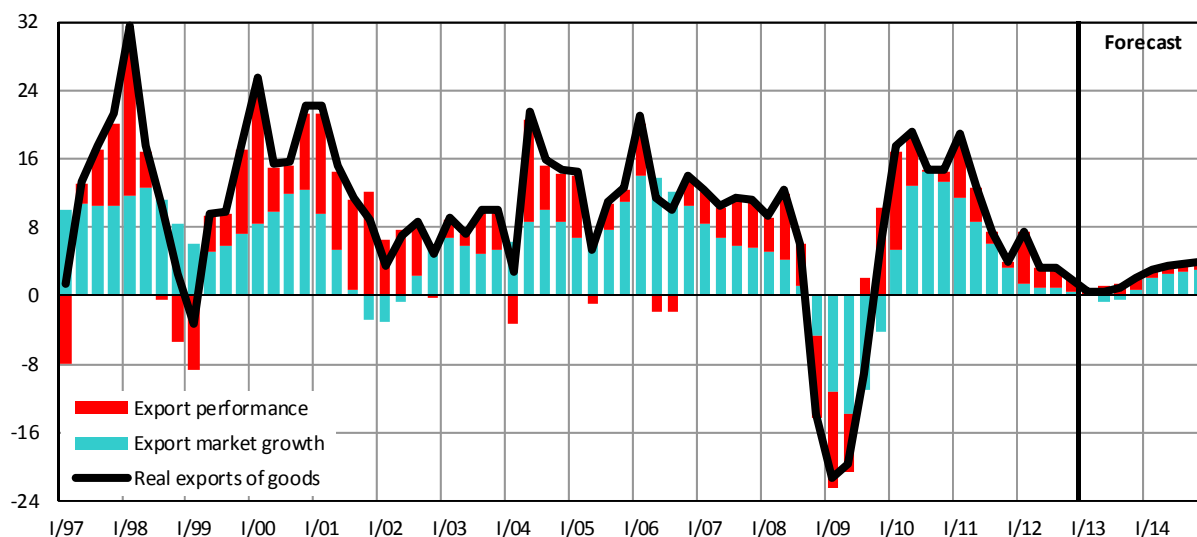
Graph C.4.5: GDP and Imports of Goods in Main Partner Countries

YoY growth, in %



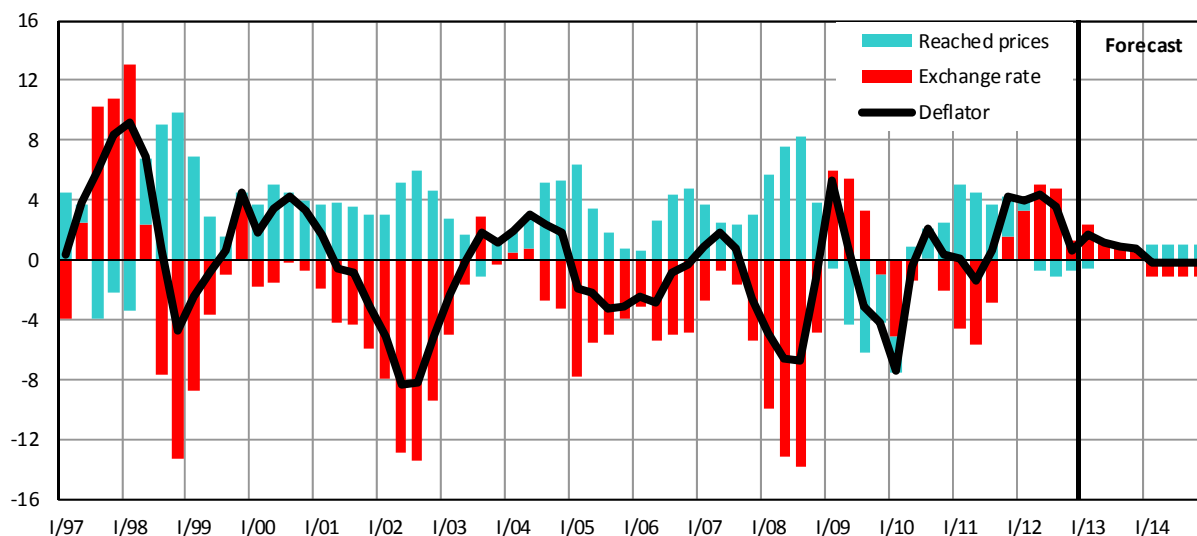
Graph C.4.6: Real Exports of Goods

decomposition of YoY growth, in %



Graph C.4.7: Deflator of Exports of Goods

decomposition of YoY growth, in %



C.5 International Comparisons

Sources: Eurostat, OECD, IMF, MoF estimates

Table C.5.1: GDP p.c. – using current purchasing power parities

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
									Prelim.	Forecast	Forecast
Czech Republic	PPS	17 800	18 900	20 700	20 200	19 400	19 500	20 200	20 500	20 800	21 400
	EA12=100	72	73	75	74	75	73	74	75	75	76
Slovenia	PPS	19 700	20 700	22 100	22 700	20 300	20 500	21 000	20 900	20 700	21 200
	EA12=100	79	79	80	83	79	77	77	76	75	75
Slovakia	PPS	13 500	15 000	16 900	18 100	17 100	17 900	18 400	19 100	19 600	20 400
	EA12=100	55	57	62	66	66	67	67	69	71	72
Portugal	PPS	17 900	18 700	19 600	19 500	18 800	19 700	19 500	19 400	19 300	19 800
	EA12=100	72	72	72	71	73	74	71	71	70	70
Lithuania	PPS	12 300	13 700	15 500	16 200	13 600	14 900	16 600	17 900	19 000	20 100
	EA12=100	50	52	57	59	53	56	60	65	68	71
Estonia	PPS	13 800	15 600	17 500	17 200	14 700	15 500	16 900	18 000	18 800	19 900
	EA12=100	56	60	64	63	57	58	62	65	68	70
Greece	PPS	20 400	21 800	22 500	23 100	22 100	21 400	20 100	19 100	18 500	18 900
	EA12=100	82	84	82	84	86	80	73	69	67	67
Poland	PPS	11 500	12 300	13 600	14 100	14 200	15 300	16 200	17 000	17 500	18 100
	EA12=100	46	47	50	51	55	57	59	62	63	64
Latvia	PPS	11 100	12 500	14 300	14 600	12 700	13 200	14 700	16 100	17 100	18 200
	EA12=100	45	48	52	53	49	49	54	59	62	65
Hungary	PPS	14 200	14 900	15 400	16 000	15 300	15 900	16 500	16 500	16 700	17 200
	EA12=100	57	57	56	58	60	59	60	60	60	61

Graph C.5.1: GDP p.c. – using current purchasing power parities

EA12=100

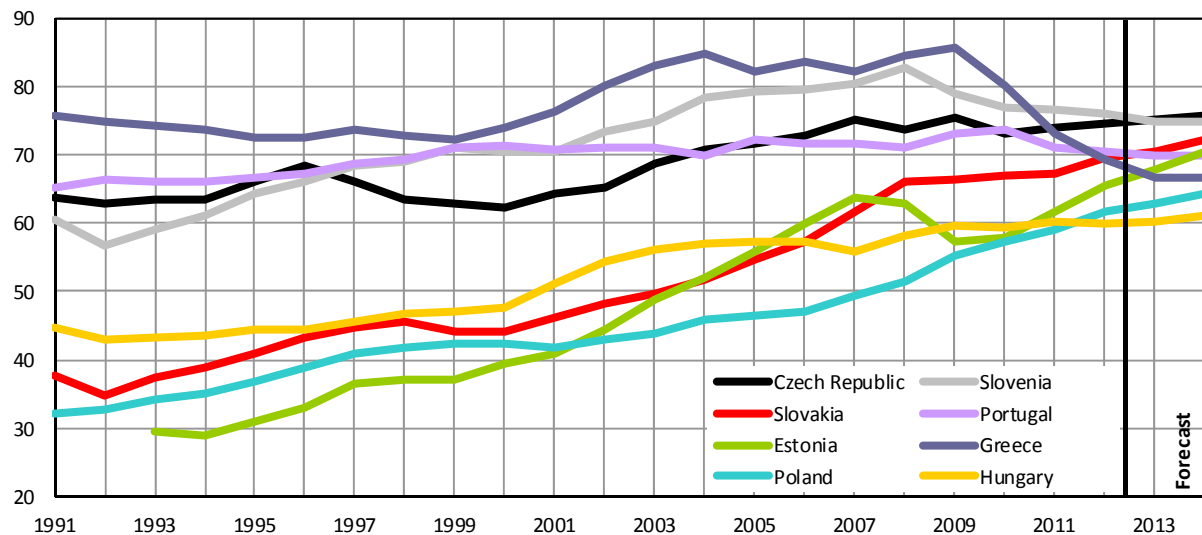
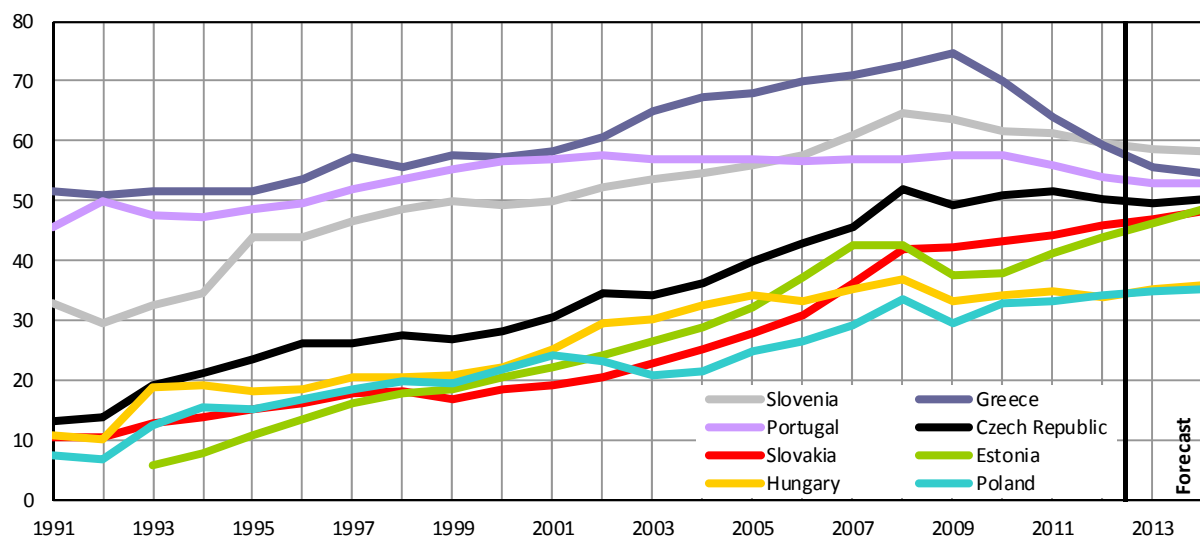


Table C.5.2: GDP p.c. – using current exchange rates

			2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
			Prelim. Forecast Forecast									
Slovenia	EUR		14 400	15 500	17 100	18 400	17 400	17 400	17 600	17 200	17 100	17 300
	EA12=100		56	58	61	65	64	62	61	60	59	58
	Comparative price level	EA12=100	71	73	76	78	80	80	80	79	78	78
Greece	EUR		17 400	18 700	19 900	20 800	20 500	19 600	18 500	17 200	16 200	16 200
	EA12=100		68	70	71	73	75	70	64	59	56	55
	Comparative price level	EA12=100	83	84	87	86	87	87	88	86	83	82
Portugal	EUR		14 600	15 200	16 000	16 200	15 800	16 200	16 100	15 600	15 500	15 700
	EA12=100		57	57	57	57	58	58	56	54	53	53
	Comparative price level	EA12=100	79	79	80	80	79	78	78	77	76	76
Czech Republic	EUR		10 200	11 500	12 800	14 800	13 500	14 300	14 900	14 500	14 400	14 900
	EA12=100		40	43	46	52	49	51	52	50	50	50
	Comparative price level	EA12=100	56	59	61	70	66	70	70	67	66	66
Slovakia	EUR		7 100	8 300	10 200	11 900	11 600	12 100	12 700	13 200	13 600	14 300
	EA12=100		28	31	36	42	42	43	44	46	47	48
	Comparative price level	EA12=100	51	54	59	63	64	65	66	66	66	67
Estonia	EUR		8 300	10 000	12 000	12 100	10 300	10 700	11 900	12 700	13 500	14 500
	EA12=100		32	37	43	42	37	38	41	44	46	49
	Comparative price level	EA12=100	58	62	67	68	65	66	67	67	68	69
Lithuania	EUR		6 300	7 400	8 900	10 200	8 400	8 900	10 200	11 000	11 700	12 600
	EA12=100		25	28	32	36	31	32	35	38	40	42
	Comparative price level	EA12=100	50	53	56	61	58	57	58	58	59	60
Latvia	EUR		5 800	7 200	9 600	10 500	8 600	8 600	9 800	10 900	11 600	12 500
	EA12=100		23	27	34	37	32	31	34	38	40	42
	Comparative price level	EA12=100	50	56	65	69	64	62	64	65	65	65
Hungary	EUR		8 800	8 900	9 900	10 500	9 100	9 700	10 000	9 800	10 200	10 700
	EA12=100		34	33	35	37	33	34	35	34	35	36
	Comparative price level	EA12=100	60	58	63	63	56	58	58	57	58	59
Poland	EUR		6 400	7 100	8 200	9 500	8 100	9 200	9 600	9 900	10 200	10 500
	EA12=100		25	27	29	33	30	33	33	34	35	35
	Comparative price level	EA12=100	54	57	59	65	54	57	56	55	55	55

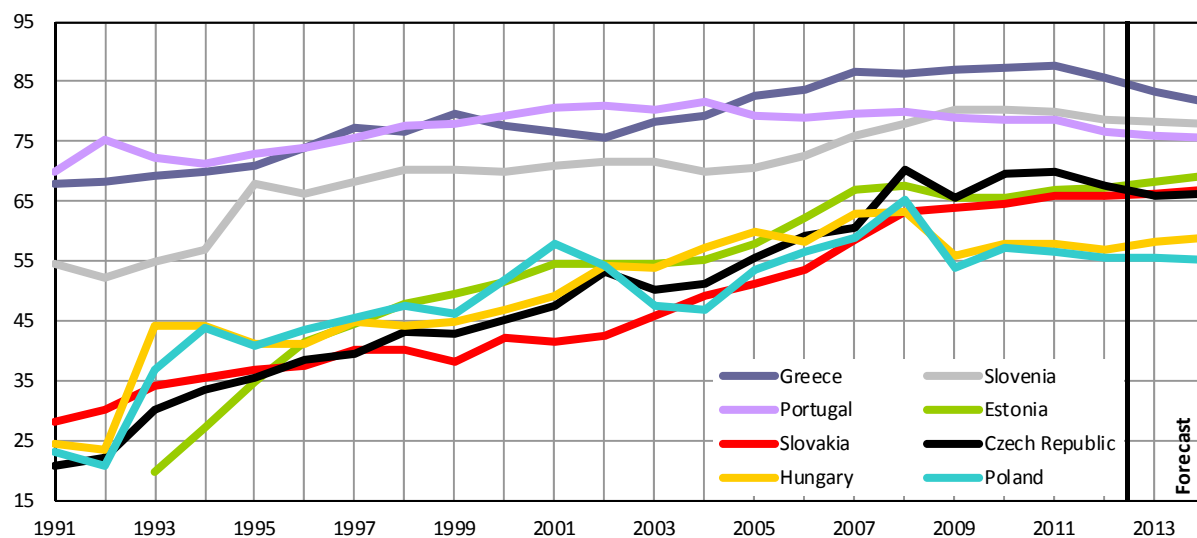
Graph C.5.2: GDP p.c. – using current exchange rates

EA12=100



Graph C.5.3: Index of Comparative Price Level of GDP p.c.

EA12=100



Graph C.5.4: Change in real GDP per capita during 2008–2012

growth in %

