

## C Forecast of the Development of Macroeconomic Indicators

Sources of tables and graphs: CZSO, Eurostat

### C.1 Economic Output

#### Latest development of GDP

In Q1 2013, seasonally adjusted real GDP<sup>3</sup> fell by a surprising 1.3% (*versus stagnation*) QoQ, with the economy having remained in recession since Q4 2011. In a YoY comparison, economic output decreased by 3.0% (*versus 1.9%*).

Together with the publication of the quarterly national accounts for Q1 2013, significant revisions to the previous data, on which the April Forecast was based, were made. Basic overview of the changes in selected components of uses of GDP is presented in Table C.1.1. The table makes it clear that according to the original data, QoQ declines in GDP were slowing down in H2 2012. The revised data, however, make such an interpretation difficult to defend. YoY changes in GDP were revised only minimally, although considerable adjustments to certain GDP components were made. The dynamics of real household consumption was revised significantly upwards, while gross fixed capital formation was revised downwards. Export and import growth in Q4 2012 also changed considerably.

The recession led also to a decline in gross value added. In Q1 2013, it fell by 2.6% YoY in real terms, which corresponded to a QoQ decrease of 0.4% (based on seasonally adjusted data). A considerably deeper QoQ decline in GDP can be interpreted as a result of a significant drop in the balance of net taxes as – just like at the beginning of 2012 – stockpiling cigarette tax stamps preceded a hike in excise tax rates.

Both final consumption expenditure and gross capital formation as well as foreign trade contributed to a YoY decrease in real GDP in Q1 2013. In final consumption expenditure, household consumption decreased by 0.8% (*versus 1.7%*), while government consumption increased by 1.1% (*versus a decrease of 0.1%*). Both a decrease in gross fixed capital formation by 5.6% (*versus 2.4%*) and a YoY slump in inventories and valuables (in 2005 prices) of CZK 23 billion (*versus CZK 17 billion*) contributed to a decline in gross capital formation by 11.9% (*versus 6.1%*).

In Q1 2013, exports also decreased by 4.6% (*versus growth of 0.8%*) and imports by 4.7% (*versus growth of 0.4%*) in real terms.

<sup>3</sup> Unless stated otherwise, data presented in the text are not adjusted seasonally or for work days.

Table C.1.1: Revision of real GDP and its components  
YoY growth rates in % (unless stated otherwise), differences in p.p.

	2012			
	Q1	Q2	Q3	Q4
<b>Gross domestic product</b>				
<i>QoQ growth rates in %, seasonally adjusted</i>				
June 2013	-0.5	-0.5	-0.3	-0.3
March 2013	-0.5	-0.6	-0.4	-0.2
<b>Difference</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>-0.2</b>
<b>Gross domestic product</b>				
June 2013	-0.1	-1.7	-1.7	-1.3
March 2013	-0.1	-1.8	-1.8	-1.4
<b>Difference</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>
<b>Private consumption expenditure</b>				
June 2013	-1.7	-2.9	-2.7	-3.2
March 2013	-2.6	-3.7	-3.9	-3.9
<b>Difference</b>	<b>0.9</b>	<b>0.7</b>	<b>1.2</b>	<b>0.8</b>
<b>Government consumption exp.</b>				
June 2013	-2.6	-2.2	-0.9	0.6
March 2013	-2.2	-2.0	-0.4	0.5
<b>Difference</b>	<b>-0.4</b>	<b>-0.2</b>	<b>-0.5</b>	<b>0.1</b>
<b>Gross fixed capital formation</b>				
June 2013	0.1	-1.0	-3.9	-5.4
March 2013	1.5	-0.1	-3.4	-4.1
<b>Difference</b>	<b>-1.3</b>	<b>-0.9</b>	<b>-0.5</b>	<b>-1.3</b>
<b>Exports of goods and services</b>				
June 2013	7.3	2.3	3.4	3.1
March 2013	7.4	2.4	3.6	2.2
<b>Difference</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.9</b>
<b>Imports of goods and services</b>				
June 2013	4.8	1.7	-0.5	3.1
March 2013	4.8	1.7	-0.6	1.7
<b>Difference</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	<b>1.4</b>

Seasonally adjusted household consumption increased by 1.7% QoQ in Q1 2013. This was caused, with respect to its structure, in particular by strong YoY growth of expenditures on durable goods. In light of the fact that this part of total consumption is highly volatile, it is difficult to interpret the aforementioned development as a convincing sign of improvement.

An essentially negligible QoQ real increase in the same period could also be observed for gross fixed capital formation. Here, however, there was simultaneously further YoY real decline in all key types of investment. In addition, it is necessary to point out the fact that

QoQ relative changes in real household consumption and gross fixed capital formation show considerable instability *ex post* as a result of revisions.

After revising the data of the annual national accounts published on 30 April 2013, the view of household savings behaviour has changed. As such it has a critical effect in interpreting the development of household consumption. Until the aforementioned revision of the annual accounts data, very strong increases in the gross household savings rate were observed in recent years, which made it possible to interpret real declines in household consumption largely as postponement of current consumption (a lower marginal rate of time preferences or a higher rate of aversion towards risk), or as limitation of consumption as a consequence of repayment of debts accumulated in the past (with respect to the importance of national accounting categories, both can lead to an increase in savings). However, after the revision we observe an increase in the gross savings rate from 9.5% in 2008 to 11.4% in 2009, then a subsequent decline to 10.9% (*versus a small increase to 11.5%*) and 10.0% (*versus 9.8%*) in 2010 and 2011 respectively, and essentially a slight increase to 11.2% in 2012<sup>4</sup>. Any explanation of the decline in household consumption in 2012 and very weak growth in 2011 as a consequence of the savings rate development is harder to support following the data revision, and thus the direct negative impact of higher income restriction of households in the aforementioned years is emphasized.

Foreign trade contributed negatively to GDP growth despite improvement in the terms of trade. Real gross domestic income (RGDI) in Q1 2013 therefore decreased relatively less than GDP, specifically by 2.2% (*versus 2.1%*).

In nominal terms, GDP fell by 1.8% (*versus 1.5%*) in Q1 2013.

Considering the GDP income structure, compensation of employees decreased by 0.3% (*versus growth of 0.9%*) in Q1 2013, with the total wage bill decreasing identically by 0.3% (*versus growth of 0.9%*). At the same time, the gross operating surplus fell by 3.4% (*versus 4.8%*). The development of nominal wages starts to follow (gradually and with a delay) the negative development of productivity corresponding in general terms with the development of the economic cycle, so does the dynamics of gross operating surplus. The aforementioned declines in compensation of employees and gross operating surplus represent at

the same time a decrease in resources for consumption and investment.

### **GDP forecast**

The forecast for GDP and its expenditure components is influenced by risk factors similar to those in the April Forecast. The majority of changes results from revisions of the data from the national accounts and the surprisingly negative development of the economy in Q1 2013.

We assume that the sharp QoQ decline in real GDP in Q1 2013 was largely unique and we estimate QoQ stagnation of GDP in Q2 2013. For the whole of 2013, we forecast a decrease in real GDP by 1.5% (*versus stagnation*). As in the April Forecast, we expect the economy to start recovering slowly in H2 2013. In 2014, we forecast GDP growth of 0.8% (*versus 1.2%*). With respect to the structure of expenditure of GDP, the dominant change in the forecast for 2013 is a significant decrease in the contribution of gross domestic expenditure to GDP growth. Within this framework, the primary change was a decrease in the contribution to gross capital formation, which was caused both by the aforementioned data revision and further by the development of gross fixed capital formation and the change in inventories and valuables in Q1 2013. The positive contribution of the foreign trade balance was reduced only slightly.

The decrease in household consumption in 2012 was based on the negative development of real disposable income of households, which declined by 1.3%, and on a slight increase in the gross savings rate. We expect that both factors will also take effect in 2013 and we forecast a decline in household consumption of 0.8% (*versus 1.2%*). At the same time, we expect growth of the gross savings rate to 11.8%. In 2014, we forecast a growth in household consumption of 0.4% (*versus 1.0%*). The decrease in forecast growth is based on the lower expected growth of real disposable income and a relatively higher YoY increase in the savings rate compared to the April Forecast. Contrary to 2012, household consumption in 2013 and 2014 will be supported by significantly lower growth of consumer prices. However, this growth will be accompanied, particularly in 2013, by only negligible growth of nominal disposable income.

We expect government consumption to grow by 0.5% (*versus a decrease of 0.2%*) in 2013 and to decline by 0.9% (*versus 1.7%*) in 2014.

We understand the development of gross fixed capital formation as a result of weak domestic demand and

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<sup>4</sup> The savings rate for Q1 to Q3 2012 was decreased by revision by 1.0 p.p.

low dynamics of internal resources for financing investment projects. This is discernable from the development of gross operating surplus, and the low contribution of government investment in relation to the already mentioned fiscal consolidation. In 2013, we forecast a decrease in real gross capital formation of 5.7% (*versus growth of 0.9%*), with a decline in gross fixed capital formation of 4.3% (*versus 0.4%*). The current forecast in this respect responds particularly to the data revision and dramatic reduction in change in inventories in Q1 2013. For 2014 we forecast an increase in gross capital formation by 1.3% (*versus 2.9%*), with a decline in gross fixed capital formation by 0.6% (*versus growth of 0.9%*).

In 2013, the negative contribution of gross domestic expenditure to GDP growth will essentially be mitigated by the minimal positive contribution of foreign trade. We predict a decrease in real exports in 2013 of 1.1% (*versus growth of 1.3%*) and in imports of 1.4% (*versus growth of 0.9%*).

In 2014, GDP growth should be driven by a positive balance of foreign trade. We expect real exports to grow by 2.9% (*versus 3.7%*) and imports by 2.4% (*versus 3.5%*).

In 2013, nominal GDP will probably decrease by 0.9% (*versus growth of 0.4%*). In 2014, we forecast nominal GDP growth of 1.7% (*versus 2.1%*).

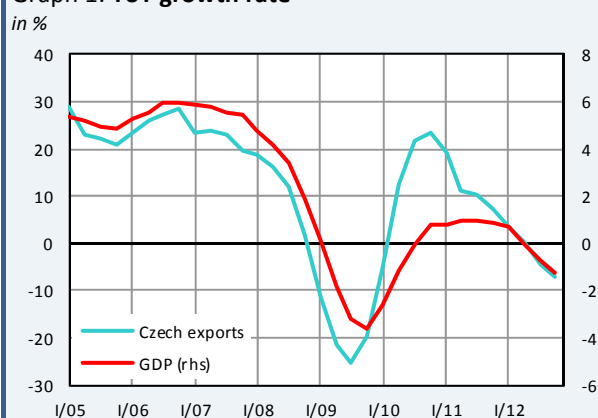
### Box C.1: Direct impact of the euro zone problem countries on the Czech economy

The Czech economy can doubtlessly be characterized as a very open economy (see Graph C.1.8). When looking at the territorial structure of our foreign trade, the considerable concentration of exports of goods to the EU or the EA countries is clear. Foreign trade would therefore be one of the channels through which any possible escalation of the debt crisis in the euro zone could influence economic development in the Czech Republic. This box only focuses on the possible direct impact of distressed states of the euro zone (Greece, Portugal, Ireland, Italy, Spain, Cyprus and Slovenia) on the Czech economy.

The share of Czech goods exports in the methodology of cross-border statistics to the aforementioned countries in the total volume of goods exports has been gradually rising since 2000, reaching its peak between Q2 2007 and Q1 2008, when it fluctuated at 9.2%. Since achieving the local maximum (8.7%) in Q2 2010, however, this share has been decreasing constantly to 6.7% in Q1 2013. More than half (3.5 pp) of this share is made up of exports to Italy, which is the seventh biggest export partner of the Czech Republic. The share of exports to Spain in total exports during Q1 2013 was 2.0%, and only 1.2% related to exports to the remaining aforementioned states. Thus a decrease in total Czech exports in direct consequence of a drop in demand in mentioned countries for Czech exports by 1% should not exceed *ceteris paribus* 0.07%. However, the direct impact on GDP would be, thanks to the highly import demanding character of Czech exports, approximately at half that level.

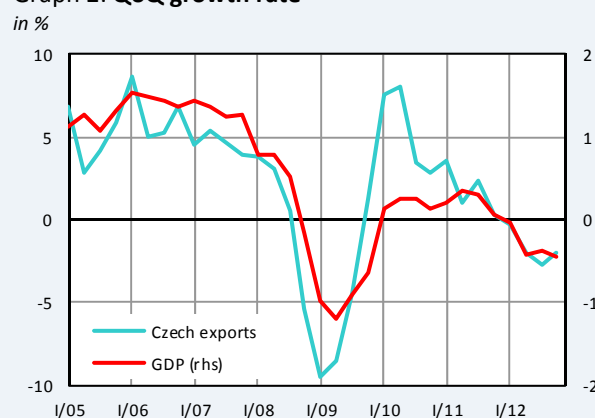
#### Czech exports of goods to selected countries and nominal GDP of those states

Graph 1: YoY growth rate



Source: CZSO, Eurostat

Graph 2: QoQ growth rate



Source: CZSO, Eurostat

Moving correlations between the growth of Czech exports of goods to selected economies and growth of their nominal GDP increased considerably in the period of a decline in both values in 2009. The strongest and most stable relationship has been achieved with the Italian economy for reasons of its geographical proximity and relatively strong business connections. In Graphs 1 and 2, we only present the qualitative relationship for YoY and QoQ growth. In last quarters, a decline in Czech exports to the aforementioned states as a consequence of the recession in distressed countries of the euro zone is evident. Nevertheless, Czech companies are coping with this fall in foreign demand by searching out new markets. Therefore, the recession in the peripheral countries of the euro zone need not directly affect the Czech economy in full. In conclusion, it must be noted that any indirect effects which would influence the performance of other countries of the EU with which the Czech economy is closely interconnected, and the growth of risks on the financial markets, would be much stronger.

## C.2 Prices

### Consumer prices

The YoY growth of consumer prices, which in May 2013 decelerated to 1.3% (*versus 2.0%*), was exclusively caused by administrative measures, of which 0.8 p.p. reflects the impact of a hike in both VAT rates by 1 p.p. effective from 1 January 2013, 0.5 p.p. reflects the impact of changes in regulated prices, while the remaining part reflects primarily the impact of a rise in the excise tax on cigarettes. Price development can be assessed as considerably mitigated, corresponding to the long-lasting recession.

The groups of regulated and market prices contributed to a quite significant May deviation in the recorded YoY inflation from the April Forecast. In the group of regulated prices, there was an unexpected MoM decrease in the prices of natural gas for households (by 6.2% with a contribution of approximately  $-0.2$  pp). In the group of market prices, telephonic and telefax services unexpectedly became much cheaper MoM (by 3.6% with a contribution estimated at  $-0.1$  pp). Both these prices declines have much to do with intensifying competition in the respective sectors.

With respect to the contribution of individual divisions of the consumer basket to YoY inflation in May, food and non-alcoholic beverages (0.7 pp) contributed the most while also showing the highest YoY dynamics (4.9%) of all divisions of the consumer basket.

In spite of an increase in both VAT rates, **the year 2013** should only show slight inflation. The deeply negative output gap can be identified as the main anti-inflation factor.

This year, inflation will be driven by administrative measures (see Graph C.2.2), which include the impact of changes in indirect taxes and changes in prices classified by the CZSO as regulated. An increase in the excise tax on cigarettes, which has so far been reflected in CPI only negligibly, should contribute 0.1 p.p. mainly at the turn of Q2 and Q3 2013. The contribution of administrative measures to a YoY increase in consumer prices in December 2013 should reach 1.3 p.p. (*versus 1.5 p.p.*).

We expect the **average inflation rate in 2013** to reach 1.6% (*versus 2.1%*) with a YoY increase of 1.8% (*versus*

2.2%) in December. The decrease in the forecast especially reflects the surprising slowdown of YoY inflation in May. The impact of considerably weaker than expected economic activity in Q1 2013 on the inflation forecast is mitigated by a lower decrease in household expenditure on final consumption than that expected in the April Macroeconomic Forecast.

**In 2014**, growth of consumer prices should be swayed by administrative measures to a considerably lesser extent compared to this year. In the sphere of indirect taxes, we only envisage a further increase in the consumer tax on cigarettes, the impact of which on CPI should be 0.1 pp.

In 2014, inflation should be very moderate in spite of the current extremely relaxed monetary policy in connection with the singularly slow recovery of the Czech economy. Nonetheless, it should no longer be mitigated by the strengthening of the Czech koruna (see Table A.4.1). In YoY terms, it should be in the lower half of the tolerance band of the CNB's inflation target during the whole of 2014 (see Graph C.2.1). We estimate **an average inflation rate in 2014** of 1.4% (*versus 1.7%*) and YoY growth in December of 1.8% (*versus 1.9%*).

### Deflators

**Gross domestic expenditure deflator**, a comprehensive indicator of domestic inflation, grew by 0.4% (*versus 0.5%*) YoY in Q1 2013.

We expect the gross domestic expenditure deflator to rise by 0.6% (*versus 0.7%*) in 2013. For 2014 we forecast growth of 1.1% (*versus 1.2%*).

The **implicit GDP deflator** in Q1 2013 grew YoY by 1.3% (*versus 0.4%*). One substantial variance between the forecast and reality was caused by a surprising improvement (growth) of the terms of trade by 1.0% (*versus a worsening of 0.3%*).

We forecast the GDP deflator to grow by 0.6% (*versus 0.4%*) in 2013 and by 0.9% (*unchanged*) in 2014. We consider the increase in the terms of trade that occurred in Q1 2013 to have been largely exceptional, and we are changing our forecast of their development only minimally.

## C.3 Labour Market

The lengthy recession is having a rather paradoxical influence on the labour market. As one would expect, the number of unemployed persons is growing (although not strikingly) and the YoY decrease in average wages and the wage bill in Q1 2013 cannot be explained just by transferring the payment of one-off bonuses to Q4 2012 for the purpose of tax “optimization”. On the other hand, employment continues to grow even after 6 quarters of recession. This has been made possible by a decrease in the ratio of total hours worked to employment and an increase in the share of part-time jobs. The labour market is proving to be very flexible in recession.

### Employment

According to the Labour Force Survey (LFS), **employment** grew by 1.0% (*versus 0.2%*) YoY in Q1 2013, in particular thanks to an increase in the tertiary sector. However, the secondary sector continued to decline, which was mainly the fault of the processing industry.

The number of employees increased considerably by 2.0% (*versus 0.1%*), most probably due to an increase in occasional employment (both formal and informal) since the increase in working hours did not correspond to such a high rise in the number of employees. However, we cannot exclude the preference of respondents, many of whom in actual fact work in the black economy, for declaring themselves in the category “employees”, since corporate statistics continued to show a decline in the number of persons in an employment relationship. One portion of the decline in the number of self-employed persons can also be explained by the real termination of their business activities as a consequence of the recession. The unfavourable economic conditions are shown in the continuing decrease in the number of employers (now since mid-2011).

We assume that the current high number of persons declaring “employee” status in surveys does not correspond to the economic situation, and that the possibilities for maintaining current employment alongside the rationalization of permanent employment and necessary efforts towards a growth in productivity will gradually cease to exist.

Bearing in mind the delayed impact of the recession, in 2013 we expect, after taking the result of Q1 2013 into account, an increase in employment of 0.5% (*versus a decrease of 0.2%*). In 2014, we already expect a slight YoY decline in employment of 0.2% (*versus stagnation*).

Since the beginning of 2010, **the proportion of employment in the population aged 15–64** has been showing stable and strong growth, regardless of economic output. In Q1 2013, it increased YoY by 1.3 p.p. to 68.0% (*versus 67.4%*). It seems almost unbelievable that in a period of lengthy and relatively deep recession this has been the highest YoY increase at any time since the LFS was launched in 1993. Increased employment was manifest most in persons over 45 years of age, in particular in the 60-64 year-old age group.

The **economic activity rate** (aged 15–64) grew YoY by 1.6 p.p. to 72.3% in Q1 2013. This is a consequence of the growing motivation of households to compensate by formal and informal economic activities for an actual (or expected) decrease in disposable income.

A change in the demographic structure has also contributed considerably to an increase in the participation rate (see Graph B.1.7). This development should also continue in the following years.

### Unemployment

The tendency towards unemployment growth was confirmed by seasonally adjusted registered unemployment in H1 2013 (the Presidential amnesty and subsequent registration of released prisoners at labour offices also impacted on the January increase). An increase in registered unemployment since the beginning of the year has been caused by a combination of an increasing number of newly registered persons and a decreasing number of persons who have found jobs independently (seasonally adjusted in MoM terms). In spite of this, considering the length and depth of the recession, the increase in unemployment cannot be considered critical.

According to LFS, the **unemployment rate** (aged 15+) reached 7.4 (*versus 7.8%*) in Q1 2013. The lower increase in unemployment in this concept was caused by the more frequent gainful involvement of persons outside employment relationships.

As a consequence of the lower than expected increase in the number of unemployed persons in Q1 2013, we forecast an increase in the unemployment rate (LFS) to 7.5% (*versus 7.6%*) in 2013 and to 7.6% (*versus 7.7%*) in 2014, when the seasonally adjusted unemployment rate should reach its maximum.

## Wages

Wage development in Q1 2013 was influenced, both in terms of the wage bill (national accounts) and the average wage, in particular by the greater than expected extent of paid bonus transfers to Q4 2012. This transfer was caused by the efforts of high-income earners to avoid the so-called solidarity tax, i.e. income taxation introduced since 2013 effective above the ceilings of social security and health care contributions.

In Q1 2013, the **average nominal wage** (business statistics, full-time equivalent) decreased YoY, for the first time since the beginning of survey, by 0.4% (*versus growth of 1.7%*). A higher than expected volume of paid out bonuses was combined with a more severe policy of austerity in the private sector as a consequence of the deteriorating economic situation. This policy can be evidenced by the low increase in the average wage in the processing industry (0.8%). Those industries with the highest volume of one-off bonuses saw a considerable decrease in the average wage in Q1 2013. One example is the banking and insurance

industry, where the average wage increased YoY by 23.2% in Q4 2012, nonetheless saw a YoY decline of 11.1% in Q1 2013.

As a consequence of these discretionary changes, in combination with the deteriorated economic situation, we are reducing the estimate of YoY growth of nominal wages in 2013 to 0.8% (*versus 1.8%*).

In Q1 2013, **payroll** (national accounts, domestic concept) also decreased YoY, specifically by 0.3% (*versus growth of 0.9%*), while the effects of tax optimization also became evident here. However, a more significant decrease was prevented by the continuing increase in the number of employees. For reasons similar to those for average wages, we expect only a slight increase in the wage bill of 0.7% (*versus 1.4%*). In 2014, we already estimate growth of the wage bill of 2.1% (*versus 2.7%*), especially thanks to the expected more favourable situation in the private sector. In contrast, the wage bill in the government sector should continue to remain more or less constant in 2014.

## C.4 External Relations

*(balance of payments methodology)*

In Q1 2013, the external imbalance, expressed as a ratio of the current account balance to GDP, reached -2.5% (*versus -2.4%*) in annual terms, thus improving by 0.6 p.p. YoY. The trade balance improved by 1.1 p.p. and the balance of transfers by 0.2 pp; on the other hand, the balance of the service surplus decreased by 0.2 p.p. and the deficit in the income balance increased by 0.4 p.p.

After a weak rise in the export markets<sup>5</sup> in 2012 (by 0.8%), they fell by 0.9% in Q1 2013. Stagnation or decline in the economies of main trading partners of the Czech Republic was also reflected in decrement of foreign trade. We expect a gradual recovery and return to growth in export markets to start at the end of 2013 at the earliest. This year export markets could decrease by 1.3% (*versus 0.1%*), in 2014, however, we expect a slight recovery of the world economy accompanied by a growth of export markets of 2.2% (*versus 2.6%*). Export performance growth, which indicates a change in the proportion of the volume of Czech goods on foreign markets, should slow down to 0.1% (*versus 1.0%*) this year. However, in the following year growth could gently accelerate to 0.8% (*versus 0.9%*).

The deterioration of the external environment together with weak domestic demand in the last two years has been reflected in the slowdown in the growth of foreign trade; export and import volumes started to decline in Q1 2013. Over the remainder of 2013, we expect a gradual return to very slow growth in the foreign trade volume. We estimate that the trade balance surplus will reach 4.0% of GDP (*versus 4.1%*) in 2013 and 4.1% of GDP (*versus 4.3%*) in 2014.

The deficit in the fuel balance (SITC 3) reached -4.8% (*versus -4.9%*) of GDP in annual terms for Q1 2013. Considering the crude oil price situation, we assume that in the course of 2013 and 2014 the prices of fuels will fall and the deficit on the fuels balance will decrease, reaching perhaps 4.7% (*versus 4.8%*) of GDP in 2013 and 4.4% (*versus 4.3%*) of GDP in 2014.

The increase in the purchase of services from abroad has exceeded their sales for more than two years (in annual totals), thus the balance of the service surplus has been decreasing for most of this period. Since the end of 2012, the lagging of exports behind imports has slowed, brought about when the surplus in the balance of so-called other services increased significantly with a strong growth of income and expenditure. The balance of transportation services has basically stagnated, only the balance of tourism showed any

<sup>5</sup> *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).*

small growth of surplus. The total surplus in the services balance in Q1 2013 dropped in annual terms by 0.2 p.p. to 1.4% of GDP (*versus 1.3%*). This year, the surplus in the services balance could stay at 1.4% of GDP (*versus 1.1%*), while in 2014 it could increase slightly to 1.5% of GDP (*versus 0.9%*).

The deficit in the income balance, which includes the reinvested and repatriated earnings of foreign investors, deepened in Q1 2013 in annual terms by 0.4 p.p. YoY and reached 7.9% of GDP (*versus 7.6%*). 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 compensation of employees improved, though this has a considerably lower impact on overall income balance. We expect that the deficit in the income balance will continue to grow and will reach 8.2% of GDP in 2013 (*versus 7.7%*) and 8.3% of GDP (*versus 7.8%*) in 2014.

Under the given circumstances, we assume that there will be improvement in the current account balance in 2013 to -2.3% of GDP (*unchanged*); we expect to see a current account deficit of 2.4% of GDP (*versus 2.3%*) in 2014. 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 CZK 18.03/PPS compared to the EU27, or CZK 17.31/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 have gradually recovered 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. In addition to the decrease in the absolute level, the relative economic level vis-à-vis the EA12 countries also declined in both aforementioned countries and Slovenia. The biggest decline was observed in Greece, where the total decrease in 2009–2012 has reached 16 p.p. In contrast, the economic level is increasing most quickly, compared to the average of the EA12 countries, in the Baltic States. However, in 2013 and 2014 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 was approximately 20,200 PPS in 2012, corresponding to 73% of the EA12 level. Since 2010, the Czech Republic has either been experiencing stagnation or a very moderate decrease in its relative economic level. This

period succeeded the period of convergence during 2000–2007, when the country's relative economic level vis-à-vis the EA12 countries increased by 13 p.p. In 2013, as a result of economic decline, the relative economic level of the Czech Republic could decrease by 1 p.p. to 72% of the EA12 average, and it could also remain at this level in 2014.

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 ensuing differences in price levels. In the case of the Czech Republic, this indicator was approximately EUR 14,500 in 2012, i.e. half the level of the EA12. Because of the expected slight depreciation of the koruna, in 2013 we are forecasting a slight decrease in both absolute and relative levels.

When comparing price levels, the **comparative price level of GDP** in the Czech Republic decreased by 1 p.p. in 2012, thus reaching 69% of the EA12 average. The expected slight decrease in the comparative price level by a further 2 p.p. in 2013 should help maintain the competitiveness of the Czech economy.