

Macroeconomic Forecast Czech Republic

July 2015

Macroeconomic Forecast of the Czech Republic

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ISSN 1804-7971

Issued quarterly, free distribution

Electronic archive:
<http://www.mfcz.cz/macroforecast>

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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 2016) and for certain indicators an outlook for another 2 years (i.e. until 2018). 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 the 12 original countries
EC.....	European Commission
ECB	European Central Bank
ESI.....	Economic Sentiment Indicator
EU27	EU28 excluding Croatia
EU28	EU consisting of 28 countries
Fed.....	Federal Reserve System
GDP.....	gross domestic product
GVA.....	gross value added
HICP	harmonised index of consumer prices
IMF	International Monetary Fund
LFS	Labour Force Survey
MFI	monetary financial institutions
pp	percentage points
rev.	revisions
SITC.....	Standard International Trade Classification
TFP.....	total factor productivity
VAT	value added tax

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 **7 July 2015**.

Notes

Published aggregate data may not match sums of individual items to the last decimal place due to rounding.

Data from the previous forecast (April 2015) are indicated by italics. Data relating to the years 2017 and 2018 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

Summary of and Risks to the Forecast

The Czech economy is growing rapidly. **Real GDP recorded enormous QoQ growth of 2.5%**. As in the fourth quarter of 2014, however, GDP growth was affected by the legal limit on vending tobacco products with old tax stamp (in the fourth quarter, the limit weighed on GDP growth). Given the volatility of GDP due to the changes in law, gross value added is a much more suitable indicator for assessing the course the economy.

Real gross value added increased by 1.3% QoQ in the first quarter of 2015, marking the highest increase since the fourth quarter of 2007. Gross value added rose in almost all sections of the economy, but most notably (just like in the previous quarter) in manufacturing – by 2.6%.

Economic growth was driven exclusively by **domestic demand**. Consumption of households and the government, as well as gross capital formation, increased in YoY terms. Exceptionally high contribution of change in inventories (including the stock of unfinished infrastructure projects) was due not only to restocking of the aforementioned tax stamps, but also to the ongoing upturn. In foreign trade, growth of the main trading partners' economies and increased imports, which reflect faster growth of domestic demand and high import content of Czech exports, offset each other.

Other basic macroeconomic indicators confirm the good state of the economy. Households continue to benefit from very **low inflation**. On the **labour market**, employment is increasing rapidly and unemployment is falling. **Current account** of the balance of payments has been in surplus since 2014.

In 2015, the economy is stimulated by several one-off factors. Firstly, it is a positive supply shock resulting from the **low price of oil** – on average the koruna price of Brent crude oil should be a quarter lower in 2015 than it was in 2014. Another positive factor is **fiscal stimulus**, the extent of which is estimated around 0.4% of GDP. The effect of the expansive fiscal policy is further intensified by the **drawdown of EU funds** from the financial perspective 2007–2013, which can be utilized by the end of 2015.

The unexpectedly strong economic growth in the first quarter is the principal factor behind a **sharp revision of the forecast for real GDP growth in 2015** from 2.7% to 3.9%.

Better performance of the real economy doesn't form a basis for a major revision of the forecast for tax revenues. This is due to the fact that tax revenues are

mostly determined by nominal aggregates. Compared with the previous Forecast, the forecast for nominal GDP growth has been revised only marginally (from 4.7% to 4.9%).

As far as individual expenditure components are concerned, gross fixed capital formation and change in inventories, which are tax ineffective, were subject to the biggest upward revisions. The greatest direct impact on tax revenues has nominal consumption and nominal wage bill. The forecast for these aggregates was changed only marginally.

The aforementioned factors should subside in **2016** and economic growth should reflect normal conditions and potential of the Czech economy.

Given that the legislation (that limits vending tobacco products with old tax stamps) is now anchored, extreme fluctuations in revenues from excise tax should not repeat. The anticipated higher price of oil, through its effect on the costs of firms, will have a proinflationary impact, just like the widening positive output gap that will increase the pressure on wage growth.

Fiscal policy will be marginally anticyclical, oriented at the reduction of the general government deficit. Completion of the EU projects financed from the previous financial perspective (2007–2013) and a slower start of drawdown from the new financial perspective 2014–2020 will weigh on growth of investment.

For these reasons, **the forecast for real GDP growth in 2016 remains unchanged at 2.5%**.

In our opinion, **risks to the Forecast** are **tilted to the downside**, especially due to the risks that we see in the external environment of the Czech economy.

The uncertainty related to the course of the Chinese economy, which could lead to a slowdown of European exports to this region, is a risk to the development of global trade. Continued tension in Ukraine or instability in the Middle East and Northern Africa, which could influence the developments on oil and natural gas markets, are other risks to the global economy. The situation of Greece, even though it is going through rather dramatic developments, should not have a significant direct impact on the Czech economy.

In the Czech economy, pressure on the exchange rate to appreciate below 27 CZK/EUR can emerge. However, the tools the CNB has are sufficient to prevent excessive appreciation.

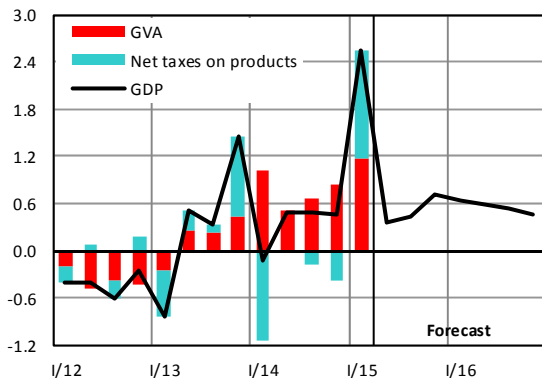
Table: Main Macroeconomic Indicators

			2010	2011	2012	2013	2014	2015	2016	2015	2016
			Current forecast						Previous forecast		
Gross domestic product	bill. CZK		3 954	4 023	4 042	4 077	4 261	4 469	4 647	4 467	4 644
Gross domestic product	growth in %, const.pr.		2.3	2.0	-0.9	-0.5	2.0	3.9	2.5	2.7	2.5
Consumption of households	growth in %, const.pr.		1.0	0.3	-1.5	0.7	1.5	2.9	2.4	2.8	2.3
Consumption of government	growth in %, const.pr.		0.4	-3.0	-1.8	2.3	1.8	2.0	1.6	1.7	1.6
Gross fixed capital formation	growth in %, const.pr.		1.3	1.1	-3.2	-2.7	2.0	6.4	3.1	5.3	4.2
Contr. of foreign trade to GDP growth	p.p., const.pr.		0.5	1.9	1.3	0.0	-0.2	-0.4	0.3	-0.3	0.0
Contr. of increase in stocks to GDP growth	p.p., const.pr.		0.8	0.2	-0.2	-0.6	0.6	0.9	-0.1	0.0	0.0
GDP deflator	growth in %		-1.5	-0.2	1.4	1.4	2.5	1.0	1.5	1.9	1.4
Average inflation rate	%		1.5	1.9	3.3	1.4	0.4	0.5	1.5	0.3	1.5
Employment (LFS)	growth in %		-1.0	0.4	0.4	1.0	0.8	1.0	0.2	0.7	0.2
Unemployment rate (LFS)	average in %		7.3	6.7	7.0	7.0	6.1	5.7	5.5	5.7	5.5
Wage bill (domestic concept)	growth in %, curr.pr.		0.6	2.2	2.5	0.4	1.9	4.2	4.1	4.0	4.1
Current account balance	% of GDP		-3.6	-2.1	-1.6	-0.5	0.6	0.5	0.2	1.3	0.9
General government balance	% of GDP		-4.4	-2.7	-3.9	-1.2	-2.0	-1.9	-1.2	-1.9	.
<u>Assumptions:</u>											
Exchange rate CZK/EUR			25.3	24.6	25.1	26.0	27.5	27.5	27.5	27.5	27.5
Long-term interest rates	% p.a.		3.7	3.7	2.8	2.1	1.6	0.8	1.3	0.6	0.8
Crude oil Brent	USD/barrel		80	111	112	109	99	61	68	60	68
GDP in Eurozone (EA-12)	growth in %, const.pr.		2.0	1.6	-0.8	-0.4	0.8	1.4	1.8	1.4	1.8

Source: CNB, CZSO, Eurostat, U. S. Energy Information Administration, own calculations

GDP should keep on growing without major fluctuations

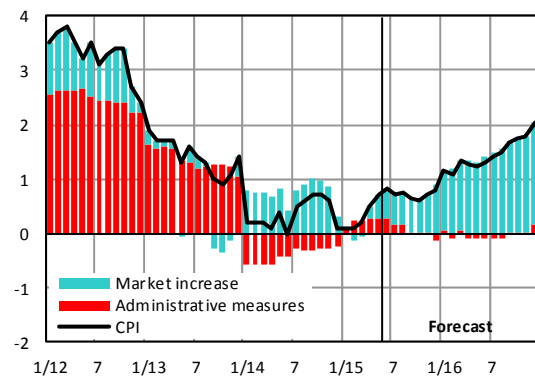
QoQ growth rate of real GDP in %, contributions of GVA and net taxes on products in percentage points, seasonally adjusted



Source: CZSO, own calculations

Inflation should approach the 2% target

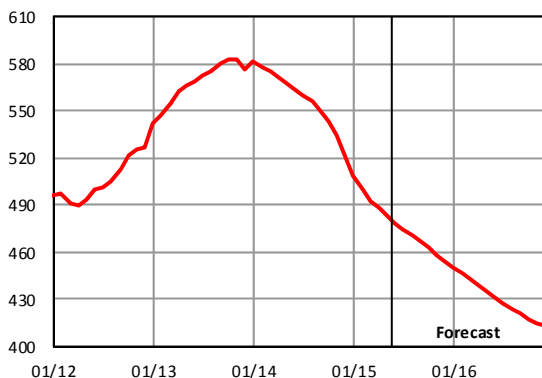
decomposition of YoY growth of CPI, contributions in pp



Source: CZSO, own calculations

Unemployment should continue to decline

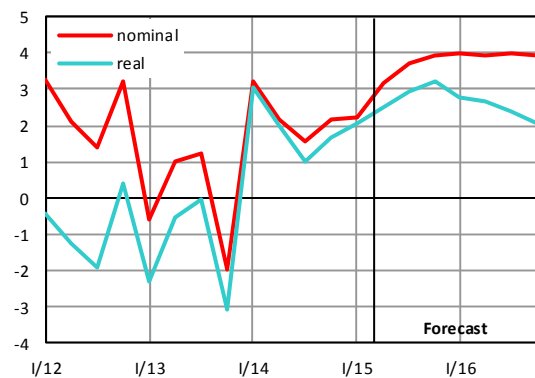
registered unemployment, in thousands of persons, seasonally adjusted



Source: Ministry of Labour and Social Affairs, own calculations

Real wage growth should exceed 2%

average gross monthly wage, YoY growth rate, in %



Source: CZSO, own calculations

A Forecast Assumptions

A.1 External Environment

Global economic recovery continues and the developments in individual regions remain diverse. The outlook continues to be characterised by a rather lower dynamics of world GDP growth. Low oil prices, a slow-down in the fiscal consolidation rate and expansionary monetary policy of central banks represent positive impulses for the world economy; nevertheless, geopolitical risks persist. A continued strengthening of growth dynamics can be seen in developed countries. Structural problems are still weighing on the growth potential in emerging countries, while the risk of external imbalances in connection with the announced tightening of the Fed's monetary policy has considerably strengthened.

The measures aimed at supporting the growth of the Chinese economy have not yet resulted in the expected effects and concerns about the lower growth rate continue to materialize. The growth of domestic demand is slowing down, and there are excessive capacities apparent across the economy. The growth rates of gross fixed capital formation and industrial production have reached the lowest values since 2008. Risks to the stability of the Chinese financial market persist; high lending activity of the local banks is not sustainable, and high debt rate of the local governments also raises fears.

The geopolitical tension in Ukraine continues. Sanctions against Russia imposed by the USA and the EU are still in force; moreover, in June 2015 the EU extended the sanctions until the end of January 2016. Owing to the fact that neither Russia nor Ukraine is among the important export markets for the Czech Republic, the direct macroeconomic effects of the conflict in Ukraine on the Czech economy should be minimal. The impact on individual states of the EU varies, depending on the extent to which the economies are exposed to Russia.

A.1.1 USA

The American economy stagnated in the first quarter of 2015 compared to the previous quarter (*versus growth of 0.7%*), but nothing suggests that the slow-down should be of a more permanent nature. The economy continued to be predominantly driven by consumption; on the contrary, unfavourable weather, foreign trade and a decrease in non-residential investment (particularly in the mining industry) and local government expenditures had a negative effect.

In 2015, domestic demand should remain the main driver of the US economy. Rising consumer confidence and increasing net worth of households (real estate prices are growing, the Dow Jones Industrial Average

and S&P 500 stock market indices are still hovering around record highs) will have a positive impact on household consumption. Pressure on the deleveraging of households and firms has eased, and sentiment indicators are rising. Lending activity of banks continues to rise.

The economy is still supported by the monetary policy. At the June Federal Open Market Committee meeting, the Fed confirmed its positive assessment of economic performance, mainly the labour market situation. Key rates have remained unchanged. A gradual tightening of the monetary policy is expected to start this autumn. The Fed expects the inflation rate to rise gradually towards the 2% target, given the expected improvement in the labour market situation and the dissipation of transitory effects of the low price of oil.

In May 2015, the unemployment rate remained at 5.5%, having declined by 0.8 pp YoY. The unemployment rate is expected to decline further towards 5% in 2015. Taking into account the low growth of the working age population and the stagnating participation rate, the economy is slowly approaching the full employment level. Full capacity utilization should lead to inflation pressures.

The forecast for GDP growth in 2015 has been decreased to 2.2% (*versus 3.0%*) due to the stagnation in the first quarter of 2015. In 2016, we expect GDP growth to accelerate to 2.9% (*versus 3.1%*). We still assume that growth should be driven mainly by private consumption and investment.

A.1.2 EU

Both in the EU28 and the EA12, quarterly GDP growth rate reached 0.4% (*in line with the estimate*) in the first quarter of 2015, matching the dynamics from the end of the last year. In a YoY comparison, GDP in the EU28 increased by 1.5% (*versus 1.3%*), whereas in the EA12 it grew by 1.0% (*in line with the estimate*). The developments in individual states of the EA12 remain widely varied. In many countries of the EA12, structural problems of economies are still weighing on an economic recovery.

The ECB continues the policy of quantitative easing. The expanded asset purchase programme resulted in a decrease in lending rates, increase in prices of shares and weakening of the euro. Positive impact on exports and gross fixed capital formation are thus expected. Purchases of securities totalling EUR 60 billion a month will be carried out at least until September 2016. An easing of monetary and financial conditions should support the return of inflation towards 2% through an

increase in investment and consumption. The monetary policy rates were not changed at the June meeting of the Governing Council.

The unemployment rate in the EU28 and the EA12 has been gradually decreasing since the second half of 2013. In May 2015, the unemployment rate in the EU28 and the euro area was 9.6% (YoY decrease of 0.7 pp) and 11.1% (YoY decrease of 0.6 pp), respectively. Considerable differences still persist among individual countries. The worst situation is still in Greece, where the unemployment rate stood at 25.6% in March 2015. Of the EU28 countries for which the data for May were available as of the cut-off date, the highest unemployment rate was recorded in Spain (22.5%), Cyprus (16.0%) and Croatia (15.8%); the lowest rate was recorded in Germany (4.7%).

The growth of economic activity should continue also in the second half of 2015, although we expect it to have a slightly faster dynamics than in 2014. Domestic demand supported by low inflation (positive impact on real wage dynamics), further improvement in the labour market situation and a very eased monetary policy, from which investments should also benefit, should contribute positively to growth. The weakened euro should support the growth of exports; however, strengthening domestic demand will also increase imports. In some countries of the euro zone, however, the high rate of unemployment will weigh on growth. Risks to the forecast include further developments in Greece (see part A.1.4 below) and the uncertainty related to the postponement of necessary reforms in some economies of the euro zone and the possibility of an escalation of geopolitical tensions. We expect GDP in the EA12 to grow by 1.4% in 2015 (*unchanged*) and accelerate to 1.8% in 2016 (*unchanged*).

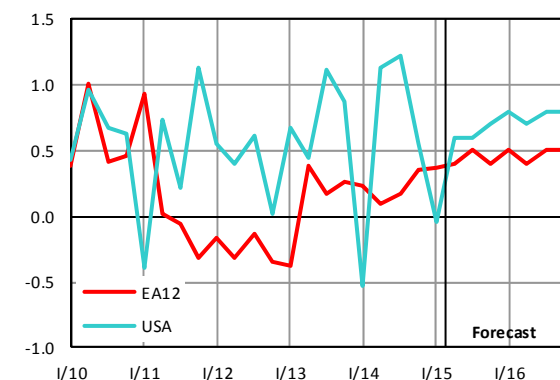
In the first quarter of 2015, **Germany** surprised with its slowdown of quarterly GDP growth to 0.3% (*versus* 0.5%), but we consider this slowdown to be temporary. Net exports had a negative impact due to a faster growth rate of imports; while gross capital formation stagnated. There are opinions that Germany could be at the end of the growth cycle connected with the reforms carried out in the past. Some uncertainty related to the outlook is also apparent from the recent values of Ifo and PMI indicators. However, high values of the GfK Consumer Climate indicator confirm positive sentiment of consumers. Low ECB rates also continue to have a positive effect on the economy; while household consumption is boosted by a very good situation on the labour market. Together, these factors are having a positive impact on the real estate market. The expected pickup in the output of developed economies and the high competitiveness of German firms should continue to positively contribute to growth. Lending standards have further eased, and loans to firms and households continue to grow in annual terms. We expect growth of 1.6% (*versus* 1.8%) in 2015 and a

further slight acceleration to 2.0% (*unchanged*) in 2016. Growth should be driven by consumption of households and investment.

After six quarters of a *de facto* stagnation, the situation in **France** is starting to improve. In the first quarter of 2015, GDP increased by 0.6% (*versus* 0.2%) QoQ, in particular due to household consumption and growing corporate profits; moreover, consumers' and firms' sentiment indicators suggest a continuation of recovery. Firms are expected to increase their demand for labour; the situation on the labour market could thus start improving. However, investments continue to stagnate; a more considerable recovery should be seen in the second half of 2015. Estimates of future government deficits have been significantly revised upwards, but the time limit for exiting the Excessive Deficit Procedure was extended until 2017. The required fiscal consolidation will have a negative effect on economic activity. In 2015, GDP growth could slightly accelerate to 1.3% (*versus* 0.8%). In 2016, we forecast GDP growth of 1.7% (*versus* 1.5%). Structural reforms on the labour market and in the budgetary and tax areas should have a favourable effect, but only with a lag.

Graph A.1.1: Growth of GDP in EA12 and in the USA

QoQ growth rate, in %, seasonally and working day adjusted



Source: Eurostat, own calculations

In **Poland**, GDP increased by 1.0% QoQ (*versus* 0.7%) in the first quarter of 2015. The high growth dynamics from the previous quarters again continued. Negative inflation and the improving situation on the labour market are supporting domestic demand, which should also be the main driver of growth in 2015. The decrease in the monetary policy rates in March 2015 should contribute to investment recovery, and the domestic currency, having been weakening since April 2015, will support exports. Poland exited the Excessive Deficit Procedure in 2015, but a further consolidation is probably inevitable in the medium and long term, particularly in the areas of health care and pension systems costs. Both in 2015 and 2016, we expect GDP to grow by 3.5% (*versus* 3.1% and 3.4%, respectively).

The GDP of **Slovakia** increased by 0.8% QoQ (*versus* 0.7%) in the first quarter of 2015, due to both domestic and foreign demand. Domestic demand should also

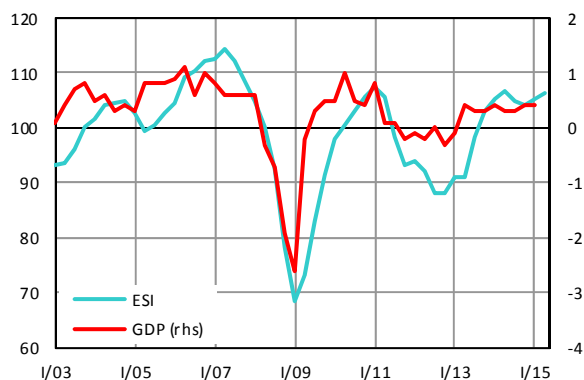
remain the growth driver in the future. Household consumption will be supported by the growth of real wages and increasing employment. Consumer sentiment indicators are favourable. The situation on the labour market is still improving and the unemployment rate was 11.8% in May 2015, i.e. 1.5 pp less YoY. The growth of corporate loans can be seen as an indication of future investments. In 2015, GDP growth could accelerate to 3.1% (*versus* 2.7%), the upward revision to the forecast reflecting, as in the case of Poland, strong economic growth in the first quarter of 2015. For 2016, we forecast slight growth acceleration to 3.5% (*versus* 3.0%). In 2016, the growth structure should be more balanced; in addition to domestic demand, net exports should also contribute positively to growth due to the growth of the economies of trading partners.

A.1.3 Business Cycle Indicators in the EU

The Economic Sentiment Indicator, which is published by the EC, increased in the EU in the second quarter of 2015. Compared to the previous quarter, the assessment of respondents in services, retail trade, construction and the consumer segment improved. On the contrary, slight confidence deterioration was recorded in industry. For the second quarter of 2015, the composite indicator signals an acceleration of QoQ growth of GDP in the EU, which is in line with the forecast.

Graph A.1.2: ESI and GDP Growth in the EU

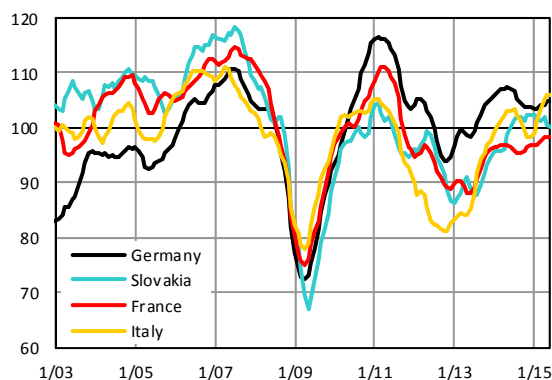
ESI – quarterly averages, GDP – QoQ growth rate in %, sa data



Source: EC, Eurostat

Graph A.1.3: ESI in Selected Trading Partner Countries

3-month moving averages



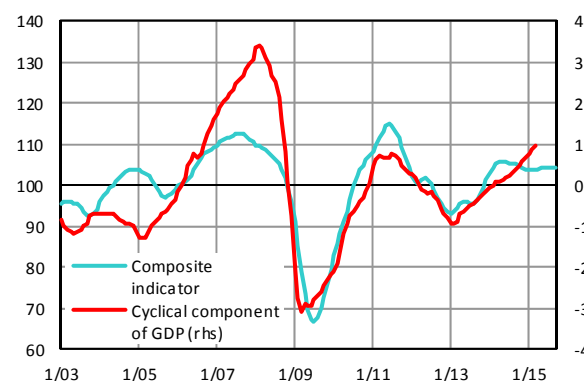
Source: EC

A gradual improvement of sentiment continued in France and until May 2015 also in Germany, where sentiment improved in services, retail trade and the consumer segment in the second quarter of 2015. On the contrary, sentiment in industry and construction deteriorated.

For the third quarter of 2015, the composite leading indicator signals more of a stagnation of the relative cyclical components of GDP in the EU as well as in Germany. In the third quarter of 2015, the QoQ growth of GDP in Germany and the EU as a whole could be approximately at the level of the previous quarters.

Graph A.1.4: Composite Leading Indicator – EU

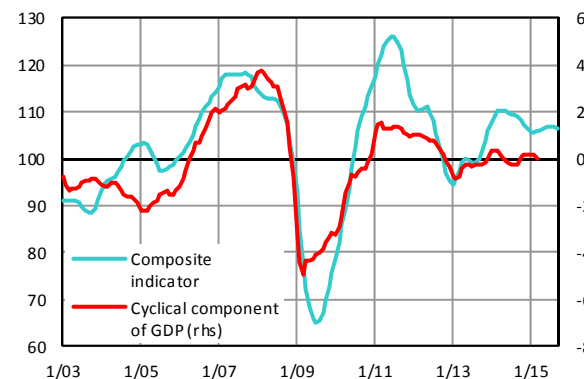
monthly data, 2005=100, cyclical component in % of trend GDP



Source: EC, Eurostat, own calculations

Graph A.1.5: Composite Leading Indicator – Germany

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



Source: EC, Eurostat, own calculations

A.1.4 Situation in Greece

The turn of June and July 2015 brought a number of events considerably increasing the uncertainty over whether Greece remains in the euro zone. It was mainly the introduction of capital controls and the announcement of bank holidays in Greece (the stock exchange also remains closed), which even further deepened the already considerable economic problems, yet this step was probably necessary given the circumstances. At the end of June 2015, the Governing Council of the ECB decided not to increase the limit for liquidity volume provided to Greek banks under the Emergency Liquidity Assistance (ELA). ELA represents a

key source of euro liquidity for the Greek banks at the time when they are facing a strong outflow of deposits.

Further, on 30 June 2015 Greece failed to repay a loan instalment to the IMF (four instalments merged into one instalment) in the amount of approximately EUR 1.6 billion, and on the same day the second bailout programme (the part financed by the European Financial Stability Facility) expired.

Greece was in a situation at the beginning of July 2015 when it had to quickly reach an agreement on another bailout programme or, in the case of a failure in the negotiations, to introduce its own (parallel at the beginning) currency, given the situation in the banking sector and likely steps taken by the ECB in relation to the Emergency Liquidity Assistance.

Political consensus over the third bailout programme for Greece was finally found, but future developments are still associated with a considerable degree of uncertainty, given the overall situation of the Greek economy and the banking sector, the domestic political situation in Greece and the considerably reduced trust between Greece and its international creditors. Regardless of the events to come in the next months, however, we assume that the impact of the developments in Greece (including the possible “Grexit”) on the Czech economy should be limited.

The direct impact through foreign trade can be significant for individual firms, but it will be negligible from the perspective of the economy as a whole. Imports from Greece in 2014 made up less than 0.2% of total imports, and the same was true for exports. According to the CNB’s data (balance of payments statistics), Greece accounted for approximately 0.4% of the total exports of services and for 0.7% of the total imports of services in 2014. Other states of the EU (except perhaps for Cyprus) should not be affected significantly by problems of the Greek economy through this channel either. In 2014, the EU was the destination for only 48% of the total Greek exports of goods, while the share of the EU countries in the Greek imports of goods was 49%.

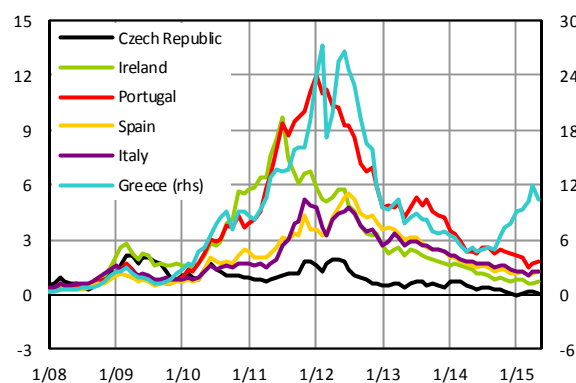
The sentiment of firms and households, naturally not only in the Czech Republic but also in the countries of our trading partners (mainly the EU states), could be negatively influenced by the developments in Greece negatively. Deteriorated expectations could be subsequently reflected not only in the development of investments and private consumption, but also through foreign demand in the results of the Czech Republic’s foreign trade.

The financial markets will certainly react to the developments in Greece. The stock market does not play an important role in the domestic economy, but this is not true for the government bond market. For the time being, the impact of the developments in Greece is

limited basically to Greek government bonds (a sharp increase in their yields); in the event of “Grexit”, bonds of other states of the euro zone, probably those from the “southern wing” could also be put under pressure. Potential spread of contagion on the bond markets would probably be mitigated by the impact of the quantitative easing, under which the ECB expands its balance sheet by purchasing, among other securities, government bonds of the euro zone countries (except for Greece). The Czech government bonds have long been considered trustworthy by the financial markets (see Graph A.1.6); a potential negative impact of an escalation of Greek problems on their yields would not need to be significant (however, it is also possible that yields on the Czech government bonds would fall).

Graph A.1.6: Spreads over German Bonds

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



Source: Eurostat

It is also necessary to emphasize that the Czech banking sector is, according to the CNB’s stress tests the results of which were published in the Financial Stability Report 2014/2015, sufficiently resilient to even very unfavourable shocks. Its exposure towards Greece is negligible.

With respect to the above-mentioned, a possible “Grexit” should not jeopardize Czech economic growth, but it could sooner or later raise doubts about other countries’ membership of the monetary union. From the institutional perspective (in particular the existence of the European Stability Mechanism and foundations of the banking union), the euro zone is better prepared to face unfavourable shocks. The current situation will certainly, sooner or later, open discussions about the future course of European integration.

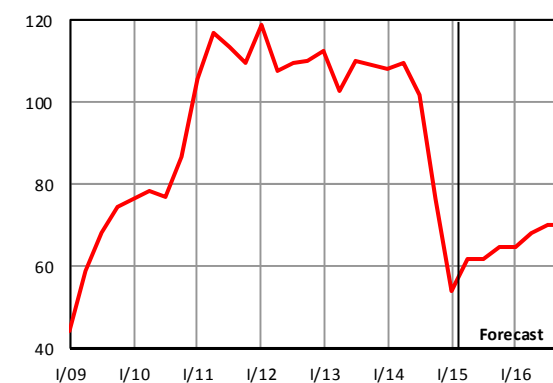
A.1.5 Commodity Prices

We estimate that the price of Brent crude oil averaged \$ 62/barrel (*versus* \$ 60) in the second quarter of 2015. The reason for the gradually increasing price is slightly accelerating global demand and an indication of a decrease in production in the USA, where the total number of oil wells has been decreasing for five consecutive months. In the USA, there has been a sharp decrease in investments in the mining industry, and the

average daily production of the biggest American oil fields has also been dropping. Producers reviewed their investment plans and are gradually adjusting to price conditions. The current risks also include risks of non-planned outages in the Middle East and Northern Africa. However, supply on the oil market is currently still exceeding demand and stocks are reaching high levels. A possible return of Iranian oil to the world markets has the same effect on the price. The gradual increase in the price expected in the forecast is in line with the situation on the futures markets. In 2015 as a whole, the price of Brent crude oil could average \$ 61/barrel (versus \$ 60), and could increase further to \$ 68/barrel (unchanged) in 2016.

Graph A.1.7: Dollar Prices of Brent Crude Oil

in USD per barrel



Source: U. S. Energy Information Administration, own calculations

Table A.1.1: Real Gross Domestic Product – yearly

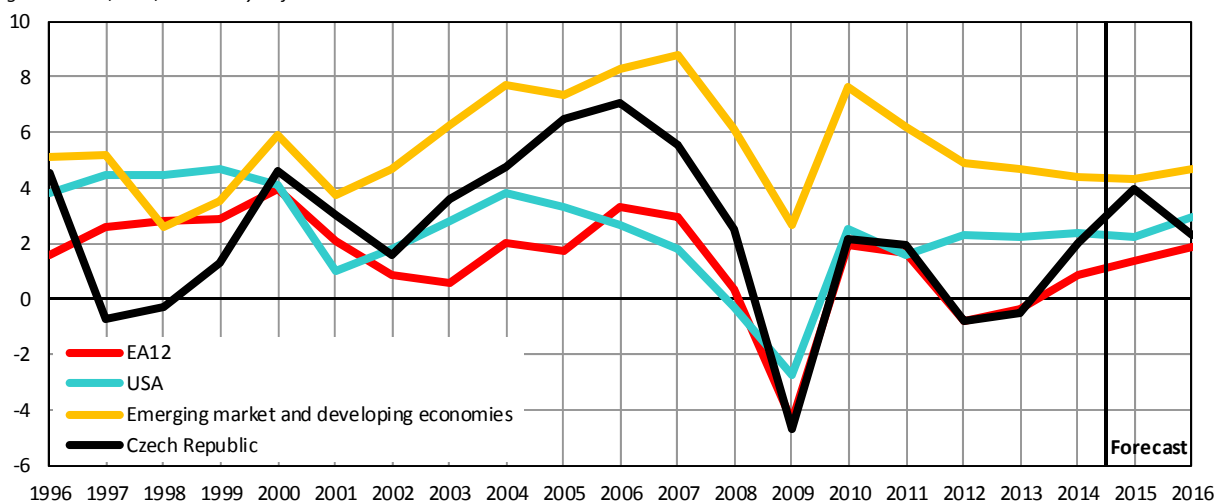
growth rate, in %, seasonally adjusted data (except for the Czech Republic)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
									Forecast	Forecast
World	5.4	2.8	-0.6	5.2	3.9	3.1	3.3	3.3	3.5	3.8
USA	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2	2.4	2.2	2.9
China	14.2	9.6	9.2	10.4	9.3	7.7	7.7	7.5	6.5	6.6
EU28	3.1	0.4	-4.4	2.0	1.8	-0.5	0.1	1.3	1.7	2.0
EA12	2.9	0.3	-4.4	2.0	1.6	-0.8	-0.4	0.8	1.4	1.8
Germany	3.4	0.8	-5.6	3.9	3.7	0.6	0.2	1.6	1.6	2.0
France	2.3	0.1	-2.9	1.9	2.1	0.2	0.7	0.2	1.3	1.7
United Kingdom	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7	2.8	2.3	2.4
Austria	3.5	1.3	-3.7	1.8	3.2	1.0	0.1	0.4	0.6	1.7
Hungary	0.5	0.7	-6.4	0.8	1.8	-1.5	1.7	3.5	3.0	2.2
Poland	7.2	3.9	2.5	3.7	4.8	1.9	1.7	3.5	3.5	3.5
Slovakia	10.7	5.4	-5.3	4.8	2.7	1.6	1.4	2.4	3.1	3.5
Czech Republic	5.5	2.7	-4.8	2.3	2.0	-0.9	-0.5	2.0	3.9	2.5

Source: CZSO, Eurostat, IMF, NBS China, own calculations

Graph A.1.8: Real Gross Domestic Product

YoY growth rate, in %, seasonally adjusted data



Note: Emerging market and developing economies comprising 154 countries (according to the IMF's classification)

Source: Eurostat, IMF, own calculations

Table A.1.2: Real Gross Domestic Product – quarterly

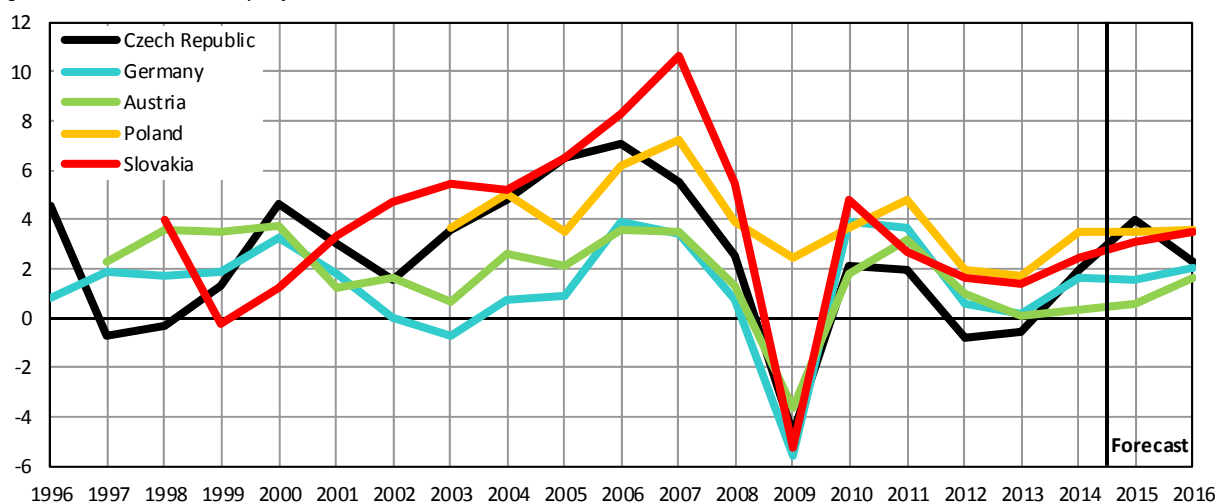
growth rate, in %, seasonally adjusted data

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast
USA	QoQ	-0.5	1.1	1.2	0.5	0.0	0.6	0.6	0.7
	YoY	1.9	2.6	2.7	2.4	2.9	2.3	1.7	1.9
China	QoQ	1.6	2.0	1.9	1.5	1.3	1.7	1.6	1.7
	YoY	7.6	7.8	7.4	7.2	6.9	6.6	6.2	6.4
EU28	QoQ	0.4	0.3	0.3	0.4	0.4	0.5	0.4	0.5
	YoY	1.4	1.3	1.3	1.4	1.5	1.7	1.8	1.9
EA12	QoQ	0.2	0.1	0.2	0.4	0.4	0.4	0.5	0.4
	YoY	1.0	0.8	0.8	0.8	1.0	1.3	1.6	1.7
Germany	QoQ	0.8	-0.1	0.1	0.7	0.3	0.5	0.5	0.6
	YoY	2.3	1.4	1.2	1.5	1.0	1.5	2.0	1.9
France	QoQ	-0.2	-0.1	0.2	0.1	0.6	0.4	0.4	0.3
	YoY	0.7	-0.2	0.2	0.0	0.8	1.3	1.5	1.7
United Kingdom	QoQ	0.9	0.8	0.6	0.6	0.3	0.6	0.8	0.7
	YoY	2.7	2.9	2.8	3.0	2.4	2.1	2.3	2.4
Austria	QoQ	-0.1	0.0	0.0	0.0	0.1	0.3	0.4	0.4
	YoY	0.8	0.5	0.3	-0.1	0.1	0.4	0.8	1.2
Hungary	QoQ	0.7	1.0	0.6	0.8	0.8	0.7	0.7	0.6
	YoY	3.6	3.8	3.4	3.3	3.3	3.0	3.0	2.8
Poland	QoQ	1.0	0.7	0.9	0.8	1.0	0.8	0.8	0.8
	YoY	3.6	3.4	3.4	3.5	3.5	3.6	3.5	3.5
Slovakia	QoQ	0.5	0.7	0.6	0.7	0.8	0.8	0.9	0.8
	YoY	2.2	2.4	2.5	2.6	2.9	3.0	3.2	3.3
Czech Republic	QoQ	-0.1	0.5	0.5	0.5	2.5	0.4	0.4	0.7
	YoY	2.2	2.1	2.3	1.3	4.0	3.9	3.8	4.1

Source: Eurostat, NBS China, own calculations

Graph A.1.9: Real Gross Domestic Product – Czech Republic and the neighbouring states

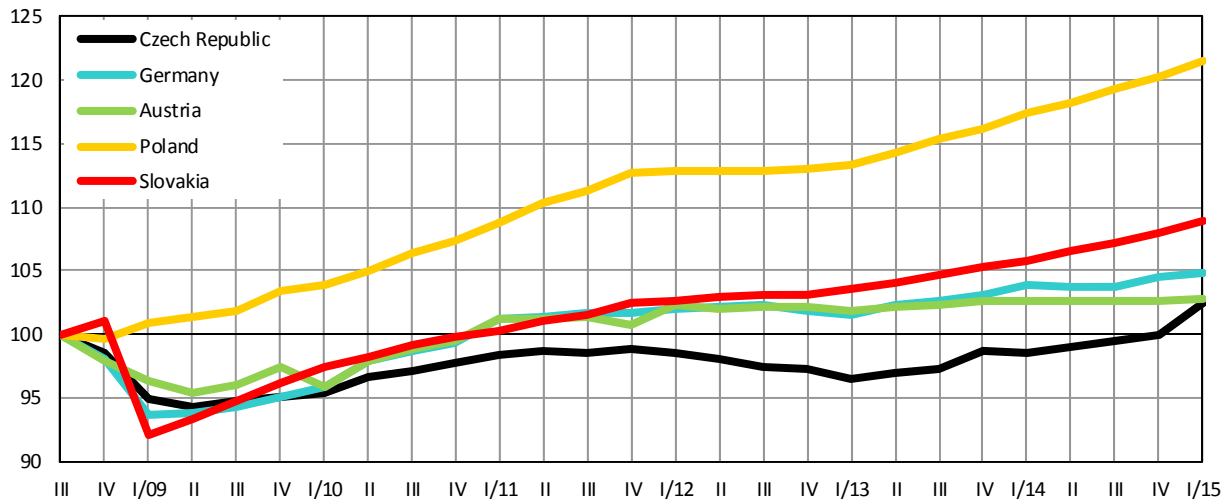
YoY growth rate, in %, seasonally adjusted data



Source: Eurostat, own calculations

Graph A.1.10: Real Gross Domestic Product – Czech Republic and the neighbouring states

Q3 2008=100, seasonally adjusted data



Source: Eurostat, own calculations

Table A.1.3: Prices of Selected Commodities – yearly

spot prices

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
		Forecast									
Crude oil Brent	USD/barrel	72.4	96.9	61.5	79.6	111.3	111.6	108.6	99.0	61	68
	growth in %	11.1	34.0	-36.5	29.3	39.9	0.3	-2.6	-8.8	-38.7	12.5
Crude oil Brent index (in CZK)	2005=100	96.0	106.7	76.1	100.0	129.5	143.8	139.9	134.6	99	112
	growth in %	-0.9	11.1	-28.6	31.4	29.5	11.0	-2.7	-3.8	-26.2	13.2
Wheat	USD/t	255.2	325.9	223.4	223.7	316.2	313.3	312.2	284.9	209	207
	growth in %	33.1	27.7	-31.5	0.1	41.4	-0.9	-0.3	-8.8	-26.8	-0.8
Wheat price index (in CZK)	2005=100	120.4	129.5	100.6	100.0	131.3	144.4	143.7	138.6	122	122
	growth in %	18.4	7.5	-22.3	-0.6	31.3	10.0	-0.5	-3.5	-12.1	-0.1

Source: IMF, U. S. Energy Information Administration, own calculations

Table A.1.4: Prices of Selected Commodities – quarterly

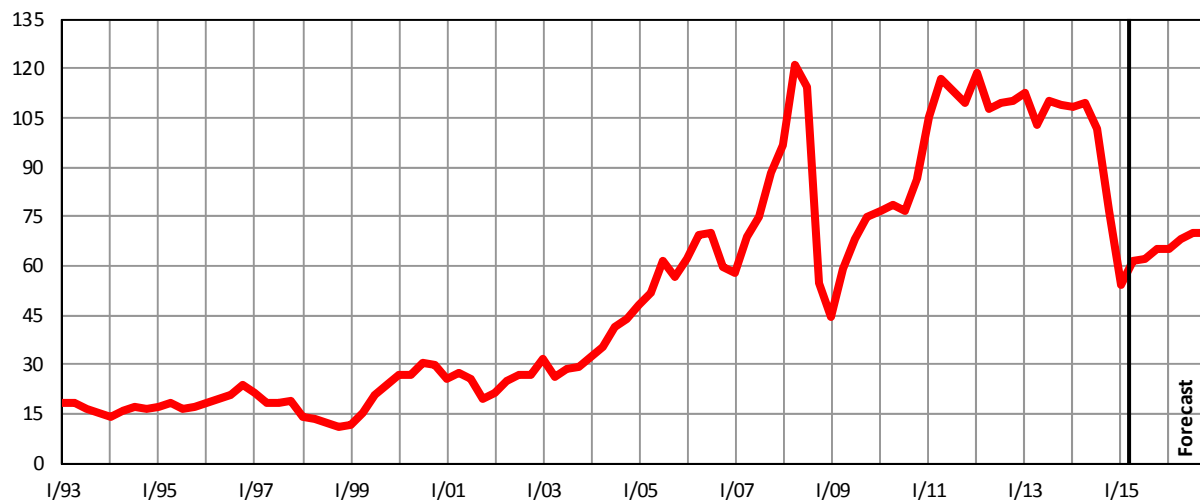
spot prices

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate			
Crude oil Brent	USD/barrel	108.1	109.7	101.9	76.4	54.0	62	62	65
	growth in %	-3.8	7.0	-7.6	-30.0	-50.1	-43.7	-39.2	-15.0
Crude oil Brent index (in CZK)	2005=100	142.7	144.6	139.9	111.2	87.3	101	102	107
	growth in %	-0.5	8.3	-1.3	-21.1	-38.8	-30.3	-27.0	-3.8
Wheat price	USD/t	297.1	322.1	262.5	257.9	232.5	197	200	205
	growth in %	-7.6	2.6	-14.2	-16.2	-21.7	-38.9	-23.9	-20.3
Wheat price index (in CZK)	2005=100	140.0	151.7	128.7	134.1	134.3	115	117	121
	growth in %	-4.4	3.9	-8.4	-5.5	-4.1	-24.3	-8.7	-9.9

Source: IMF, U. S. Energy Information Administration, own calculations

Graph A.1.11: Dollar Prices of Oil

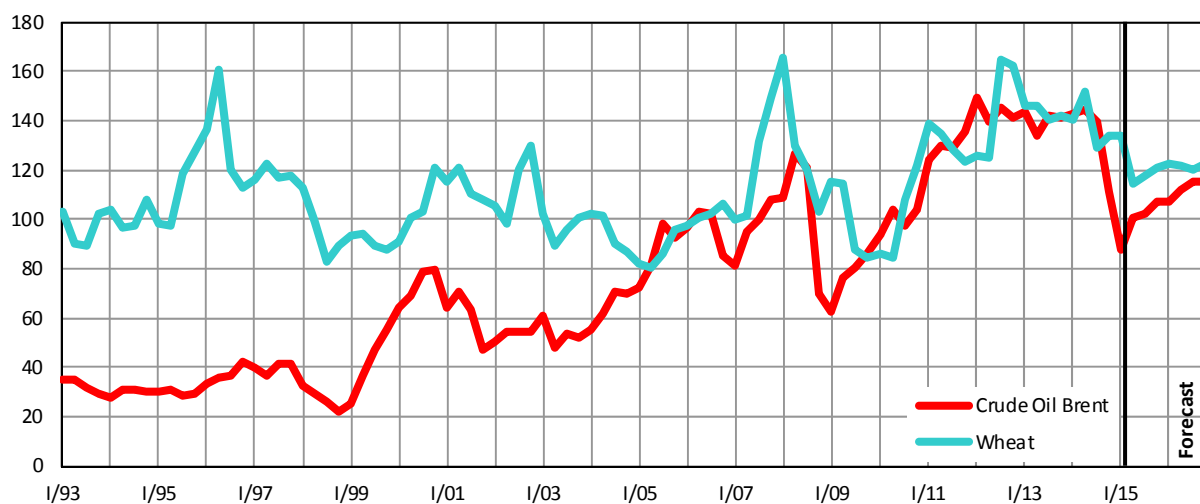
USD/barrel



Source: U. S. Energy Information Administration, own calculations

Graph A.1.12: Koruna Indices of Prices of Selected Commodities

index 2010=100



Source: IMF, U. S. Energy Information Administration, own calculations

A.2 Fiscal Policy

The general government sector deficit reached 2.0% of GDP in 2014, which was a deterioration of 0.8 pp in comparison with 2013. Major factors behind this development include the disbursement by the Deposit Insurance Fund to the clients of bankrupt credit unions amounting to 0.3% of GDP, a YoY decrease (on accrual basis) of revenues from the excise duty on tobacco products resulting from the introduction of limited time validity of tobacco stamps and, last but not least, more than 17% increase in investment of the general government sector. The rise was recorded primarily in the investment of local government (even though investment of the central government also increased) financed from the EU as well as from national sources. After a period of uninterrupted declines (since 2009), investment came close to the level of 2011.

The government's final consumption expenditure rose by 3.3% in nominal terms. This development, however, is primarily due to an increase in the expenditure of health insurance companies on health care, whereby they tried to compensate the drop in the revenues of health care institutions resulting from the abolition of selected health care fees. Purchases of goods and services (intermediate consumption) of the general government sector rose at a significantly slower pace than in 2013.

In the light of the aforementioned facts, one can assess the year 2014 positively. Despite the huge negative impact of the compensations disbursed to the clients of bankrupt financial institutions and the drop in the collection of excise duty on tobacco products, the deficit remained below 3% of GDP. At the same time, investment activity was renewed, which forms a sound basis for the future development.

The general government sector deficit is expected to decrease moderately to 1.9% of GDP in 2015. On the revenue side, the collection of excise duty on tobacco products should increase sharply. Despite the introduction of the second reduced rate on selected groups of commodities, VAT collection should also perform favourably. Collection of direct taxes should increase by more than 3%, driven (similarly as in 2014) especially by revenues from the corporate income tax.

Currently, better performance of the real economy doesn't form a basis for a major revision of the forecast for tax revenues, as they (with the exception of excise taxes that are paid on a per-unit basis) are determined by nominal aggregates and nominal GDP level has been revised only marginally. Moreover, a large part of the improvement in real output was driven by investment in inventories, which are tax ineffective. Compared with their development on cash basis, tax revenues in ESA 2010 methodology are presented on accrual basis, which means that neither excessive VAT returns, which

are contributing to a YoY deterioration in tax revenues, nor a reintroduction of tax credit for working pensioners (fiscal impact of returned tax revenues accrues to the year 2014) have an effect on them.

Growth of social benefits should accelerate due to the reintroduction of the pension indexation rule (inflation rate + 1/3 of real wage growth) that had been cancelled in the previous years. A new measure, which could not have been taken into account in the April Macroeconomic Forecast because it was unknown at that time, is a one-off extraordinary pension subsidy of CZK 600, which will be paid out in December. Fiscal impact of this measure is almost CZK 2 billion. However, we do not revise the expected dynamics of social benefits, because pension expenditures are forecasted in a conservative way and the year-to-date cash performance has led to the build-up of a buffer.

Subsidies from the EU (on accrual basis) are expected to record a high growth. On the expenditure side, they are connected with a significant rise in investment co-financed from the EU funds, which should occur in an effort to draw down the remaining funds from the programming period 2007–2013.

Investment is expected to increase substantially – by more than 29%. Its growth will be driven especially by the investment co-financed from the EU budget. However, purely national investment of the general government sector should also rise. This year's investment, deficit and debt will be also influenced by a one-off transaction in the form of inclusion of the principal of the lease of supersonic aircrafts JAS-39 Gripen, amounting to approximately CZK 10.5 billion.

Compared with 2015, the general government balance is expected to improve significantly next year. Fiscal effort of 0.4 pp should be primarily ensured by consolidation on the revenue side. Owing to the improving macroeconomic situation and a positive output gap the general government overall balance is expected at –1.2 % of GDP. Starting in 2016, tax revenues should start increasing gradually, due to the introduction of measures aimed at reducing tax evasion. These measures include electronic VAT reporting, fiscalization of cash payments and reorganizing the Financial Administration.

All VAT payers will have a new obligation to provide the Financial Administration with not only their tax declaration but also other information – the so-called electronic VAT report. This will comprise of a list of taxable transactions including the supplier and purchaser. The Financial Administration will be matching these reports, thus ensuring a better control over the eligibility of excessive returns and the tax liability itself.

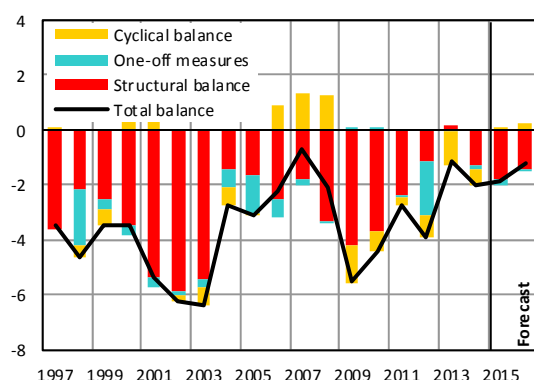
The basic premise of the fiscalization of cash payments is instantaneous reporting of sales to the Financial Administration in electronic form. Emphasis will be put on limiting the additional administrative burden for the liable entities (there will be a possibility of a one-off tax credit to compensate for the costs), and on the need to report only minimum information required for a proper control of tax liabilities.

Compared with 2015, growth of social subsidies should be somewhat slower, as the aforementioned extraordinary (pension) subsidy constitutes a one-off expenditure that should not repeat in 2016, thus weighing on the next year's dynamics.

The general government sector debt reached 42.6% of GDP in 2014. Compared with the previous year, the debt decreased both in nominal and relative terms, especially due to the management of state treasury liquidity.

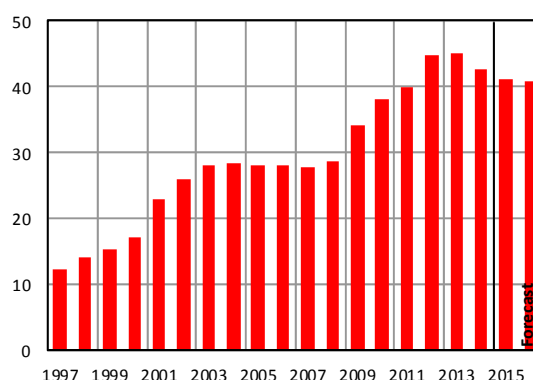
The state budget debt is expected to stabilize further in 2015. A minor increase in the level of the general government sector debt will be primarily due to the one-off imputation of the liabilities resulting from the lease of the supersonic aircrafts. The debt should reach 40.9% of GDP this year, its decline in proportion to GDP should thus continue. In 2016, the debt to GDP ratio should remain at this year's level.

Graph A.2.1: Decomposition of the Government Balance
in % of GDP



Source: CZSO, own calculations

Graph A.2.2: Government Debt
in % of GDP



Source: CZSO, own calculations

Table A.2.1: Net Lending/Borrowing and Debt

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
									Prelim.	Forecast	Forecast
General government balance ¹⁾	% GDP	-0.7	-2.1	-5.5	-4.4	-2.7	-3.9	-1.2	-2.0	-1.9	-1.2
	bill. CZK	-27	-85	-216	-175	-109	-158	-47	-85	-83	-57
Cyclical balance	% GDP	1.3	1.3	-1.4	-0.7	-0.3	-0.8	-1.2	-0.6	0.1	0.2
Cyclically adjusted balance	% GDP	-2.0	-3.4	-4.1	-3.7	-2.5	-3.1	0.1	-1.4	-2.0	-1.5
One-off measures ²⁾	% GDP	-0.3	-0.1	0.0	0.0	-0.1	-2.0	-0.1	-0.2	-0.2	0.0
Structural balance	% GDP	-1.8	-3.3	-4.2	-3.7	-2.3	-1.1	0.2	-1.3	-1.8	-1.4
Fiscal effort ³⁾	percent. points	0.7	-1.5	-0.9	0.5	1.4	1.2	1.3	-1.4	-0.5	0.4
Interest expenditure	% GDP	1.1	1.0	1.2	1.3	1.3	1.4	1.3	1.3	1.2	1.1
Primary balance	% GDP	0.4	-1.1	-4.3	-3.1	-1.4	-2.5	0.2	-0.7	-0.7	-0.1
Cyclically adjusted primary balance	% GDP	-1.0	-2.4	-2.9	-2.4	-1.1	-1.7	1.4	-0.1	-0.8	-0.3
General government debt	% GDP	27.8	28.7	34.1	38.2	39.9	44.6	45.1	42.6	40.9	40.9
	bill. CZK	1 066	1 151	1 336	1 509	1 604	1 804	1 840	1 816	1 829	1 899
Change in debt-to-GDP ratio	percent. points	-0.1	0.9	5.4	4.1	1.7	4.7	0.5	-2.5	-1.7	-0.1

1) General government net lending (+)/borrowing (-)

2) One-off and temporary measures are such measures that have only a temporary impact on public budgets. Besides their temporary impact on overall balance, these measures are usually of non-recurring nature and very often result from the events that are beyond the direct power of the government.

3) Change in structural balance.

Source: CZSO, own calculations

A.3 Monetary Policy, Financial Sector and Exchange Rates

A.3.1 Monetary Policy

The CNB's monetary policy can be characterised as very eased. Since November 2012, the **two-week repo rate** has been set at 0.05%, i.e. the technical zero. Since November 2013, the CNB has also been using the exchange rate as an additional monetary policy instrument, through the commitment not to allow strengthening below 27 CZK/EUR.

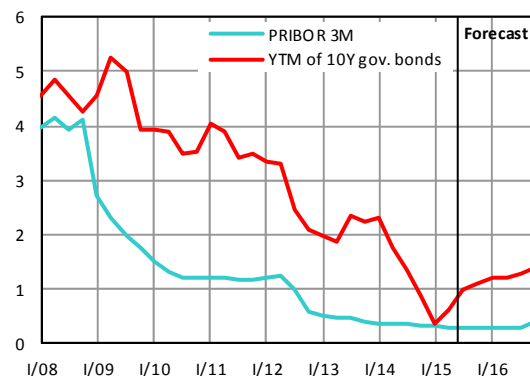
A.3.2 Financial Sector and Interest Rates

In the second quarter of 2015, the 3M (3-month) **PRIBOR** interbank market rate averaged 0.31% (*consistent with the forecast*). The 3M PRIBOR should also remain at this level in 2015 and 2016 (*unchanged*). We expect it to increase marginally only at the end of 2016, given the expected growth of monetary policy rates.

With respect to practically zero reference interest rates of the CNB, low inflation and moderate inflation expectations, long-term interest rates are at low values, despite a slight increase in the recent period. **The yield to maturity on 10-year government bonds** for convergence purposes reached only 0.62% (*in line with the forecast*) in the second quarter of 2015. We expect long-term rates to increase to 1.0% (*versus 0.6%*) in the third quarter of 2015, while in 2015 as a whole they could average 0.8% (*versus 0.6%*). With regard to the increasing inflation, we forecast long-term rates to increase to 1.3% (*versus 0.8%*) in 2016. The recent developments concerning Greece (see Chapter A.1.4) have basically not been reflected yet in the yields on the Czech government bonds.

Graph A.3.1: Interest Rates

in % p.a.



Source: CNB, own calculations

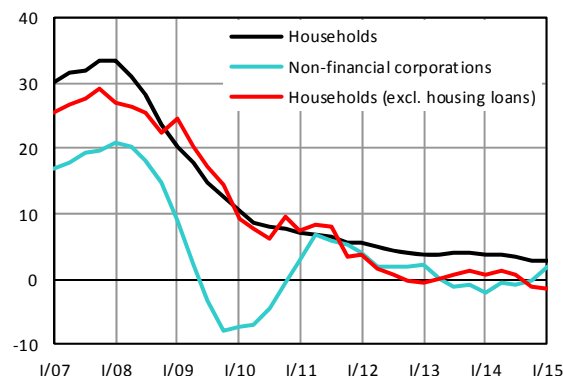
In April 2015, the CNB conducted another bank lending survey. The survey concluded that in the first quarter of 2015 credit standards further eased in all segments of the credit market. Banks expected a further easing of the standards in all segments and growth of demand for loans in the second quarter of 2015.

The growth of loans to households, driven by housing loans in the long run, has continued to be relatively low

(around 3%) in the year to date. Consumer loans continue to fall slightly, and so-called “other loans”, which include e.g. loans to sole traders, have practically been stagnating. The growth of loans to non-financial corporations has been accelerating since the beginning of 2015 in connection with the course of the Czech economy, foreign currency loans to non-financial corporations have recorded a slight increase (to 6–7%).

Graph A.3.2: Loans

YoY growth rate, in %

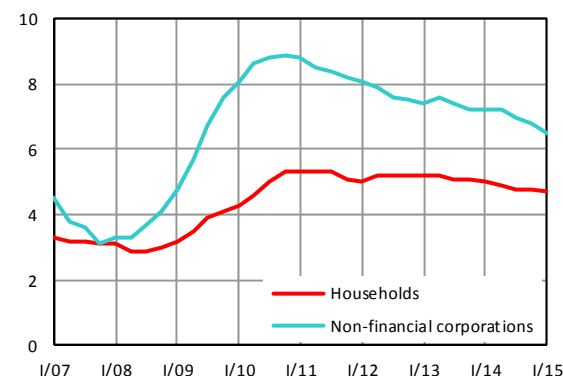


Source: CNB, own calculations

The share of non-performing loans in the total loans has been decreasing slowly, reflecting the improvement of the overall situation of the real economy. In the first quarter of 2015 the share stood at 4.7% for households (0.1 pp less QoQ, 0.3 pp less YoY) and at 6.5% for non-financial corporations (0.3 pp less QoQ, 0.7 pp less YoY).

Graph A.3.3: Non-performing Loans

ratio of non-performing to total loans, in %

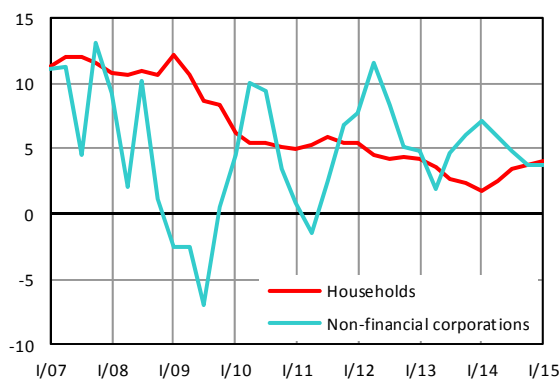


Source: CNB, own calculations

The growth of household deposits further accelerated slightly in the first quarter of 2015, but the growth rate is low from a longer-term perspective. The growth of disposable incomes of households, still relatively low, and reduced concerns about future developments are probably reflected here. In the first quarter of 2015, deposits of non-financial corporations were increasing at a similar pace as at the end of 2014.

Graph A.3.4: Deposits

YoY growth rate, in %



Source: CNB, own calculations

The Prague Stock Exchange Index PX slightly exceeded 930 points at the end of June 2015, which represented a QoQ decrease of 5.1% and a YoY decrease of 2.7%. Uncertainty regarding further developments in Greece was probably reflected on the market.

A.3.3 Exchange Rates

Throughout 2014 and during the first half of 2015, the CZK/EUR exchange rate hovered close to the level of

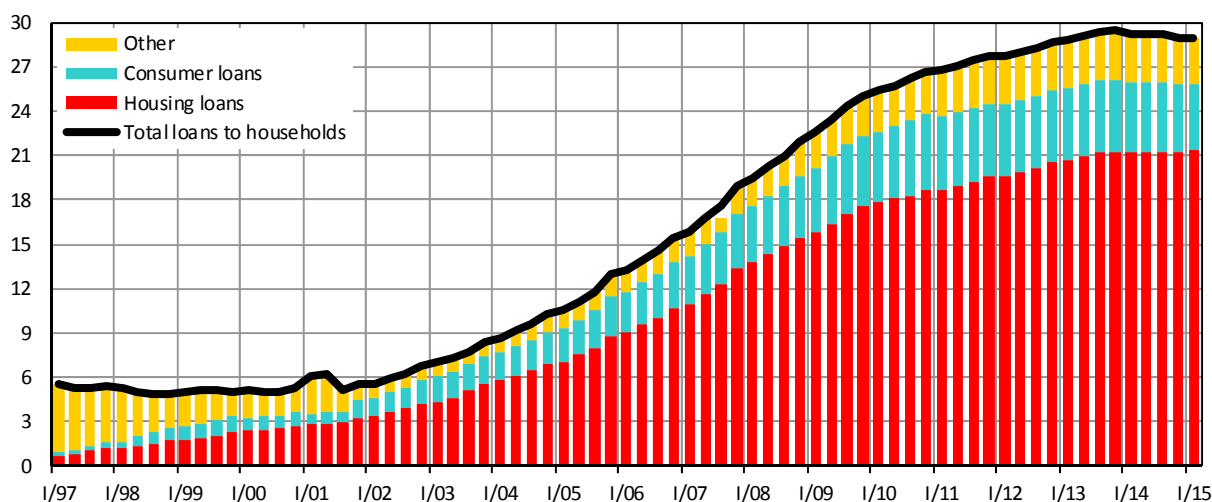
27.50 CZK/EUR. Except for temporary fluctuations above 28 CZK/EUR in August 2014 and at the beginning of 2015, the exchange rate was very stable, with small fluctuations only. In the first half of 2015, the CZK/EUR exchange rate weakened by 0.2% YoY on average.

The estimated development of the CZK/USD exchange rate is implied by the USD/EUR exchange rate, for which we have taken a technical assumption of stability at the level of 1.10 USD/EUR (*versus 1.05*).

It is not determined yet when and in what manner the CNB will stop using the exchange rate instrument. Based on the available information (especially the CNB's statement that it will not stop using the exchange rate as a monetary policy instrument before the second half of 2016), we have made a technical assumption that the exchange rate will remain stable at 27.5 CZK/EUR until the end of 2016. We expect that subsequently the koruna will again start strengthening slightly against the euro, approximately by 0.4% QoQ. The expected development is in line with the CNB's statement that it will not allow considerable appreciation of the koruna after it discontinues the exchange rate commitment.

Graph A.3.5: Ratio of Bank Loans to Households to GDP

yearly moving sums, in %



Source: CNB, CZSO, own calculations

Table A.3.1: Interest Rates – yearly

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
										Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	3.50	2.25	1.00	0.75	0.75	0.05	0.05	0.05	.	.
Main refinancing rate ECB (end of period)	in % p.a.	4.00	2.50	1.00	1.00	1.00	0.75	0.25	0.05	.	.
Federal funds rate (end of period)	in % p.a.	4.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	.	.
PRIBOR 3M	in % p.a.	3.09	4.04	2.19	1.31	1.19	1.00	0.46	0.36	0.3	0.3
YTM of 10Y government bonds	in % p.a.	4.28	4.55	4.67	3.71	3.71	2.80	2.11	1.58	0.8	1.3

Source: CNB, ECB, Fed, own calculations

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

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Households – MFI <i>(CR, unless stated otherwise)</i>											
– interest rates on loans	<i>in % p.a.</i>	7.53	6.93	6.64	6.81	7.00	7.01	6.83	6.46	6.03	5.57
– loans	<i>growth in %</i>	32.7	32.2	31.7	29.0	16.3	8.7	6.5	4.8	4.0	3.5
– loans without housing loans	<i>growth in %</i>	28.6	28.3	27.3	25.3	19.1	8.3	6.8	1.4	0.4	0.3
– interest rates on deposits	<i>in % p.a.</i>	1.24	1.22	1.29	1.55	1.38	1.25	1.20	1.18	1.01	0.84
– deposits	<i>growth in %</i>	6.1	8.2	11.8	10.8	10.0	5.6	5.4	4.7	3.2	2.9
– share of non-performing loans	<i>in %</i>	4.2	3.7	3.2	3.0	3.7	4.8	5.3	5.2	5.2	4.9
– loans to deposits ratio	<i>in %</i>	35	43	51	59	62	64	65	65	65	65
– loans to deposits ratio (Eurozone)	<i>in %</i>	94	99	99	94	89	90	90	87	84	82
Non-financial firms – MFI <i>(CR, unless stated otherwise)</i>											
– interest rates on loans	<i>in % p.a.</i>	4.27	4.29	4.85	5.59	4.58	4.10	3.93	3.69	3.19	3.00
– loans	<i>growth in %</i>	13.0	17.3	18.5	18.6	0.0	-4.8	5.2	2.5	0.1	-0.9
– interest rates on deposits	<i>in % p.a.</i>	0.99	1.08	1.41	1.80	0.87	0.56	0.52	0.56	0.41	0.29
– deposits	<i>growth in %</i>	5.7	10.5	10.0	5.7	-2.9	6.9	2.3	8.2	4.4	5.4
– share of non-performing loans	<i>in %</i>	5.7	4.5	3.8	3.6	6.2	8.6	8.5	7.8	7.4	7.1
– loans to deposits ratio	<i>in %</i>	107	113	122	137	141	125	129	122	117	110
– loans to deposits ratio (Eurozone)	<i>in %</i>	305	306	308	329	326	308	301	291	264	239

Source: CNB, ECB, own calculations

Table A.3.3: Interest Rates – quarterly

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Forecast	Forecast
Repo 2W rate CNB (end of period)	in % p.a.	0.05	0.05	0.05	0.05	0.05	0.05	.	.
Main refinancing rate ECB (end of period)	in % p.a.	0.25	0.15	0.05	0.05	0.05	0.05	.	.
Federal funds rate (end of period)	in % p.a.	0.25	0.25	0.25	0.25	0.25	0.25	.	.
PRIBOR 3M	in % p.a.	0.37	0.36	0.35	0.34	0.33	0.31	0.3	0.3
YTM of 10Y government bonds	in % p.a.	2.30	1.76	1.36	0.88	0.37	0.62	1.0	1.1

Source: CNB, ECB, Fed, own calculations

Table A.3.4: Interest Rates, Deposits and Loans – quarterly

		2013			2014				2015
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Households – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	6.09	5.96	5.83	5.73	5.62	5.52	5.40	5.28
– loans	growth in %	3.9	4.1	4.2	3.9	3.8	3.6	2.7	2.9
– loans without housing loans	growth in %	0.1	0.7	1.2	0.6	1.2	0.6	-1.2	-1.4
– interest rates on deposits	in % p.a.	1.03	0.97	0.94	0.92	0.87	0.81	0.77	0.72
– deposits	growth in %	3.6	2.7	2.4	1.8	2.6	3.4	3.7	4.0
– share of non-performing loans	in %	5.2	5.1	5.1	5.0	4.9	4.8	4.8	4.7
– loans to deposits ratio	in %	65	66	66	65	65	66	65	65
– loans to deposits ratio (Eurozone)	in %	84	84	84	83	82	82	81	81
Non-financial firms – MFI (CR, unless stated otherwise)									
– interest rates on loans	in % p.a.	3.23	3.17	3.09	3.06	3.04	2.98	2.93	2.88
– loans	growth in %	0.2	-1.2	-0.9	-1.9	-0.6	-0.9	-0.1	2.0
– interest rates on deposits	in % p.a.	0.42	0.39	0.36	0.34	0.32	0.26	0.24	0.22
– deposits	growth in %	1.9	4.7	6.1	7.1	5.9	4.9	3.8	3.8
– share of non-performing loans	in %	7.6	7.4	7.2	7.2	7.2	7.0	6.8	6.5
– loans to deposits ratio	in %	119	117	111	112	111	111	107	113
– loans to deposits ratio (Eurozone)	in %	271	262	248	242	247	239	230	217

Source: CNB, ECB, own calculations

Table A.3.5: Exchange Rates – yearly

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
Nominal exchange rates:											
CZK / EUR	average	26.45	25.29	24.59	25.14	25.98	27.53	27.5	27.5	27.2	26.8
	appreciation in %	-5.6	4.6	2.8	-2.2	-3.2	-5.6	0.1	0.0	0.9	1.5
CZK / USD	average	19.06	19.11	17.69	19.59	19.57	20.75	24.8	25.0	24.8	24.4
	appreciation in %	-10.5	-0.3	8.0	-9.7	0.1	-5.7	-16.4	-0.7	0.9	1.5
NEER	average of 2010=100	98.0	100.0	103.1	99.5	97.3	92.5	92	92	93	94
	appreciation in %	-3.2	2.1	3.1	-3.5	-2.2	-4.9	-0.7	-0.1	0.9	1.5
Real exchange rate to EA12¹⁾	average of 2010=100	97.7	100.0	101.6	99.5	96.4	92.2	92	92	93	96
	appreciation in %	-4.2	2.3	1.6	-2.1	-3.1	-4.3	0.0	0.3	1.1	2.7
REER	average of 2010=100	98.9	100.0	102.1	99.2	96.9	91.8	.	.	.	.
(Eurostat, CPI deflated, 42 countries)	appreciation in %	-3.7	1.2	2.1	-2.8	-2.3	-5.2	.	.	.	.

1) Deflated by GDP deflators.

Source: CNB, Eurostat, own calculations

Table A.3.6: Exchange Rates – quarterly

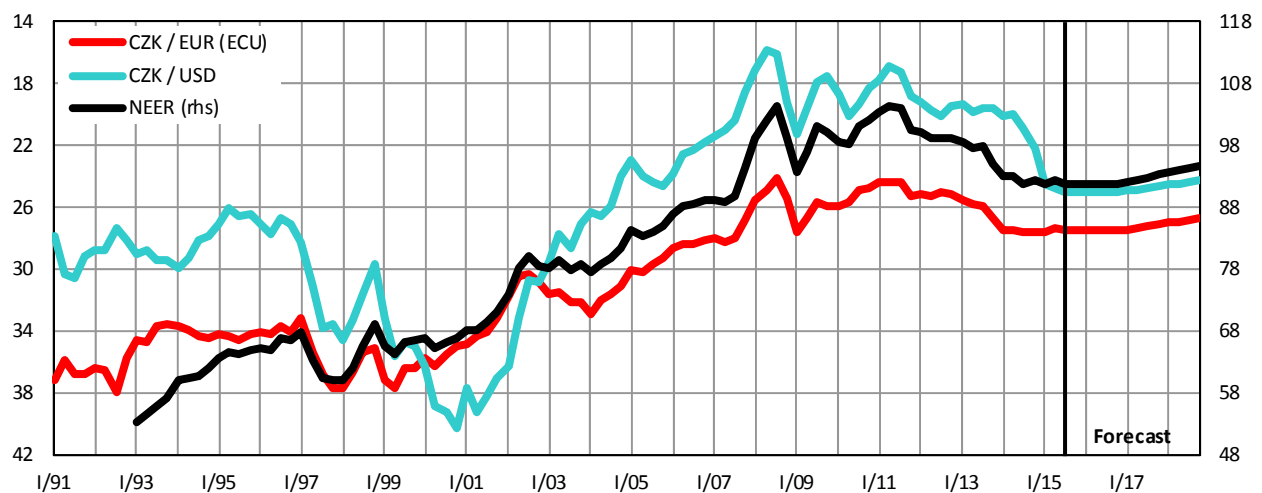
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	Forecast
Nominal exchange rates:									
CZK / EUR	average	27.44	27.45	27.62	27.62	27.62	27.38	27.5	27.5
	appreciation in %	-6.8	-5.9	-6.4	-3.5	-0.7	0.2	0.4	0.5
CZK / USD	average	20.04	20.02	20.84	22.10	24.55	24.79	25.0	25.0
	appreciation in %	-3.3	-1.2	-6.4	-11.4	-18.4	-19.2	-16.6	-11.6
NEER	average of 2010=100	93.0	93.0	91.9	92.3	91.7	92.3	92	92
	appreciation in %	-5.5	-4.7	-6.2	-3.0	-1.4	-0.7	-0.1	-0.5
Real exchange rate to EA12¹⁾	average of 2010=100	91.9	92.4	92.0	92.5	91.3	92	92	93
	appreciation in %	-5.7	-4.3	-4.7	-2.6	-0.6	-0.2	0.3	0.4
REER	average of 2010=100	92.9	92.1	91.0	91.4	.	.	.	.
(Eurostat, CPI deflated, 42 countries)	appreciation in %	-5.6	-5.3	-6.6	-3.2	.	.	.	.

1) Deflated by GDP deflators.

Source: CNB, Eurostat, own calculations

Graph A.3.6: Nominal Exchange Rates

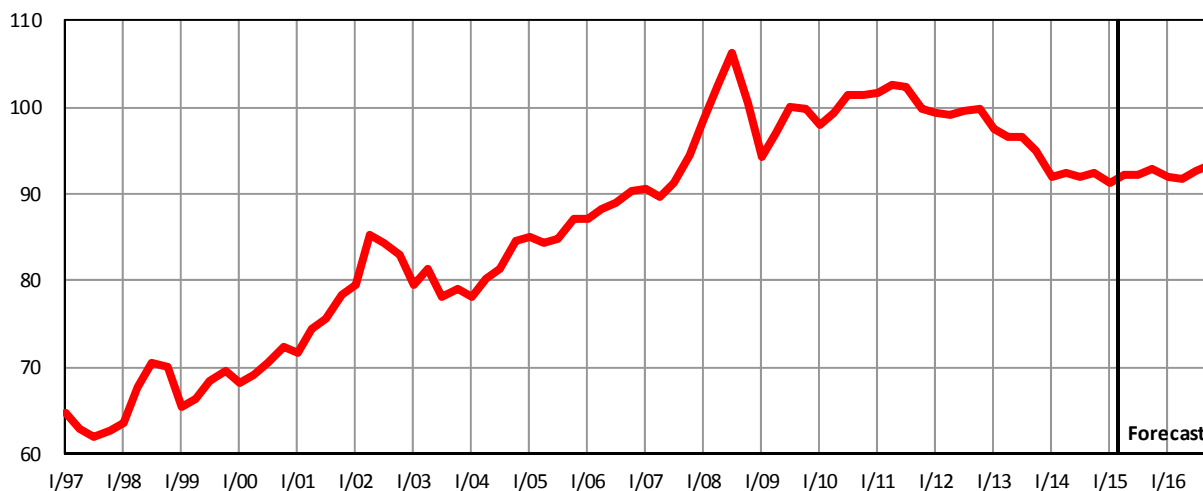
quarterly averages, average 2010=100 (rhs)



Source: CNB, own calculations

Graph A.3.7: Real Exchange Rate to EA12

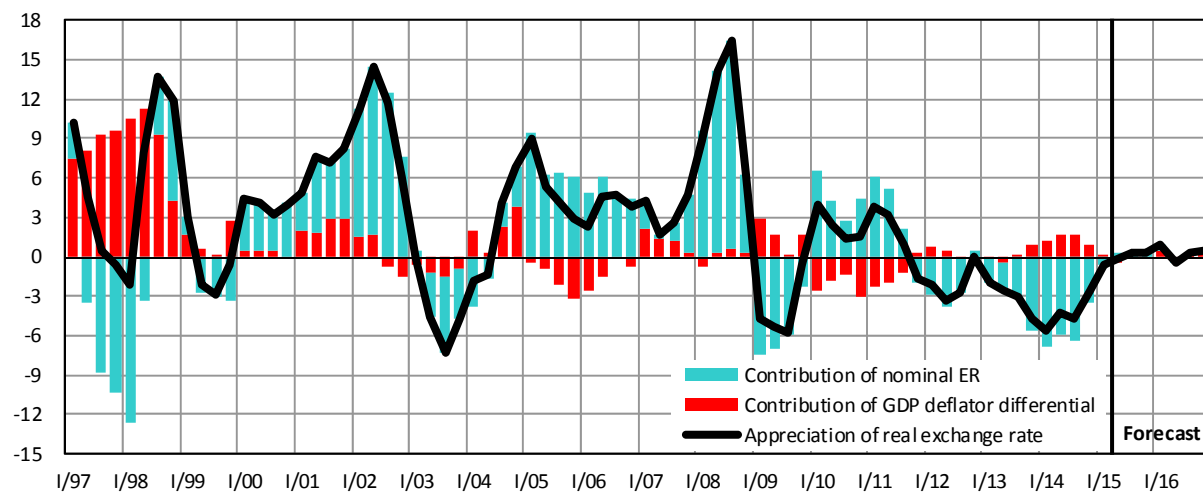
quarterly averages, deflated by GDP deflators, average 2010=100



Source: CNB, Eurostat, own calculations

Graph A.3.8: Real Exchange Rate to EA12

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



Source: CNB, Eurostat, own calculations

A.4 Structural Policies

A.4.1 Business Environment

The amendment to the Investment Incentive Act, which came into effect on 1 May 2015, introduced new stimuli and also removed some limiting conditions from the investment incentive system. The amendment extended the number of regions in which material support is provided for creating new jobs and the requalification or training of employees. In this connection, it introduced the concept of Special Economic Zones, in which the subsidy for a newly created job will be up to CZK 300,000 and exemption from property tax will stretch up to 5 years for new corporations. Investment incentives are also now provided to data centres and call centres that create more than 500 jobs. In contrast, the requirement for the minimum number of newly created jobs decreased for projects involving technological and strategic services centres, and the 75% limit on the maximum rate of support for low-tech sectors was abolished.

A.4.2 Taxes

In order to limit the informal economy and improve tax administration, on 3 June 2015 the government approved the draft **Act on Fiscalization of Cash Payments**. According to the new legal regulation, selected business entities will be obliged to keep records of their sales via a permanent electronic connection. In the first stage, firms doing business in accommodation and food service activities will join the system, followed three months later by firms in the wholesale and retail trade. The government will decide on any further extension of the system later. The motivation of the public to participate and control will be supported by the receipt lottery. The Act should come into effect in the first quarter of 2016.

On the same day, together with the previous draft act, the government approved the draft **act amending some acts in connection with passing the Act on Fiscalization of Cash Payments**. For the purpose of compensation of costs related to the introduction of fiscalization of cash payments, a one-off tax credit of CZK 5,000 will be provided to entrepreneurs. At the same time, food service activities that do not include the sale of alcoholic beverages will be reclassified from the basic VAT rate (21%) to the first reduced VAT rate (15%). The Act should also come into effect in the first quarter of 2016.

In order to put cigarette excise tax rates in line with the EU Directive requirements, on 3 June 2015 the government approved the **amendment to the Excise Tax Act**. In addition, the amendment introduces the three-year plan for regulating excise duties on tobacco products; this excise duty will be increased not only in 2016, but also in the two following years. The amendment should come into effect on 1 January 2016. With respect to the existence of the time-limit for the sale of tobacco

products taxed according to the previous rate, we do not assume any fluctuation of macroeconomic aggregates in these cases as in 2013–2015.

On 1 July 2015, the **amendment to the Excise Tax Act** came into effect which should help limit tax evasion. The amendment introduced global taxation of raw tobacco and the register of persons dealing with raw tobacco. At the same time, the amendment reduced deposits for smaller fuel distributors from CZK 20 to 10 million.

A.4.3 Power Engineering and the Environment

On 18 May 2015, the government approved the **Update of the State Energy Strategy of the CR**, in which it sets three top strategic targets of power engineering – safety, competitiveness and sustainability. At the same time, CO₂ emissions should decrease by 40% by 2030, as compared to 1990. In 2040, the share of annual electricity production from domestic sources in the total gross electricity production in the Czech Republic should be at least 80%, while the main sources of production will include nuclear fuel and renewable and secondary sources.

A.4.4 Labour Market

On 1 July 2015, the amendment to the **Act on Pension Savings** came into effect, aimed at stopping new participants from entering the fund system in the period prior to its abolition, thus reducing administrative requirements for settling participants' savings.

The draft **Act on Pension Savings Abolition**, approved by the government on 18 May 2015, will withdraw the possibility to transfer a part of insurance premium of pension insurance to private accounts in pension funds of the so-called second pillar. The funds saved will be paid out to participants or transferred as contributions to additional pension insurance or supplementary pension savings. The Act is scheduled to come into effect on 1 January 2016.

On 17 June 2015, the Chamber of Deputies approved the **amendment to the Employment Act**, which withdrew the possibility of granting and providing unemployment benefits to job applicants who occupy a position as member of a trading company. At the same time, the amendment introduces reduced working time. Employees to whom firms cannot assign work of minimally 20% of set weekly working time due to economic crises or natural disasters will be paid 70% of their wage (50% by their employer and 20% from the state budget). The benefit can be paid for a maximum period of six months with the possibility of one repetition, while the maximal amount of state contribution was set at 12.5% of the average wage. Every allowance application will be decided upon by the government. The amendment will come into effect on the first day

of the calendar quarter following the day of its announcement.

The Regulation on Material Support for Creating New Jobs and Requalification, approved by the government on 18 May 2015, should support the inflow of foreign investments. Material support of CZK 100,000 will now be introduced for a new job in regions with an unemployment share at least 25% higher than the CR's average, CZK 200,000 in regions with unemployment share at least 50% higher than the CR's average and CZK 300,000 in preferential industrial zones. Support for training and requalification will be up to 25% of costs in regions with an unemployment share at least 25% higher than the national average and 50% of costs in regions with an unemployment share at least 50%

higher than the CR's average. The regulation will come into effect on the day of its announcement.

A.4.5 Health Care

On 24 June 2015, the government approved an increase in payments to the public health insurance system by the state for state insured persons. From 1 January 2016, the monthly payment by the state for state insured persons will be increased from the current CZK 845 to CZK 870. The impact on the state budget due to higher payments by the state is approximately CZK 1.8 billion. This measure approved in the form of a Government Regulation should be fully reflected in an increase in the wages and salaries of health care employees.

A.5 Demographic Trends

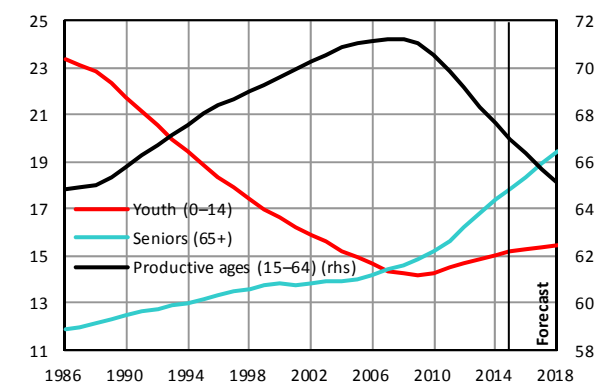
At the end of March 2015, 10.538 million people lived in the Czech Republic. Its population basically did not change during the first quarter of 2015. The population stability was a result of slightly positive net migration and a negative natural increase to the same extent.

Eleven thousand persons moved here from abroad (1 thousand less YoY), the highest number of them were from Slovakia, Ukraine and Russia. The number of persons moving abroad was 6 thousand (1 thousand more YoY).

The number of births reached 26 thousand, which corresponded to the level of the previous year. Compared to the extremely low mortality in the first quarter of 2014, the number of deaths (31 thousand) was 5 thousand higher YoY, but approximately at the level of 2013.

Graph A.5.1: Age Groups

shares on total population, in %



Source: CZSO, own calculations

As far as the age structure of the population is concerned, its estimates as of the beginning of 2015 were published. Compared to 1 January 2014, an increase in the number of persons was recorded in all five-year age groups above 65 years, in total by 57 thousand persons. Significant increases were also seen in the groups 40–44 years and 50–54 years, characterised by high participation on the labour market. In contrast, a significant decrease in population (in total by 46 thousand persons) was seen in the groups between 15 and 39 years.

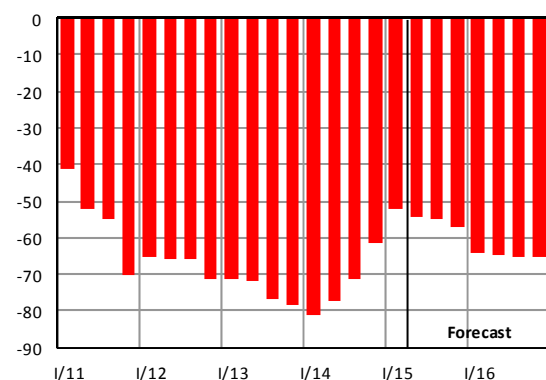
The total decrease in the **population aged 15–64 years** was 64 thousand persons. The tendency, which started in 2009 in the Czech Republic (see Graph A.5.1), thus continued. However, the trend decelerated somewhat in recent quarters (see Graph A.5.2), largely due to immigration. In the years to come, the working-age population should continue to decrease by approximately 60 thousand people a year in absolute terms, which is an annual decrease of approximately 0.9% a year. The economic impact of this situation is described in more detail in Chapter B.1.

In contrast, the structural share of **persons aged over 64 years** on the total population reached 17.8% at the beginning of 2015 and should regularly increase by approximately 0.5 pp annually.

The number of seniors in the population is significantly increasing due to the demographic structure and the ongoing rise in life expectancy, and it should exceed 2 million persons at the beginning of 2018. From the perspective of the sustainability of the pension system, however, the increases in retirement age are adequate to match the prolonging of the life expectancy in the next 20–25 years.

Graph A.5.2: Population Aged 15–64

based on LFS, YoY increases of quarterly averages, in thousands

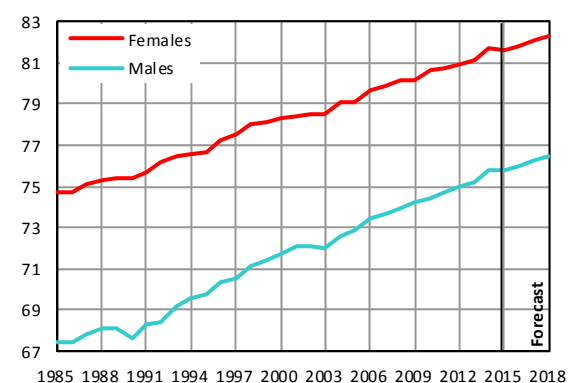


Source: CZSO, own calculations

The number of **old-age pensioners** is increasing more slowly than would correspond to the demographic development and rising statutory retirement age. In 2014, it increased by 15 thousand, which is less than an increase in the number of persons reaching their retirement age (26 thousand). In the first quarter of 2015, the YoY increase moderated further to 12 thousand pensioners (see Graph A.5.5). The entire increase can be attributed to pensioners with reduced pensions following early retirement, while the number of pensioners entitled to a full pension fell by 10 thousand. The share of reduced pensions has already reached 24.7%, compared to 19.6% at the end of 2010.

Graph A.5.3: Life Expectancy

in years



Source: CZSO

Table A.5.1: Demographics
in thousands of persons (unless stated otherwise)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
							<i>Forecast</i>	<i>Forecast</i>	<i>Outlook</i>	<i>Outlook</i>
Population (January 1)	10 468	10 507	10 487	10 505	10 516	10 512	10 538	10 542	10 544	10 545
<i>growth in %</i>	0.8	0.4	-0.2	0.2	0.1	0.0	0.2	0.0	0.0	0.0
Age structure (January 1):										
(0–14)	1 480	1 494	1 522	1 541	1 560	1 577	1 601	1 612	1 622	1 628
<i>growth in %</i>	0.2	1.0	1.8	1.3	1.2	1.1	1.5	0.7	0.6	0.4
(15–64)	7 431	7 414	7 328	7 263	7 188	7 109	7 057	6 993	6 928	6 866
<i>growth in %</i>	0.5	-0.2	-1.2	-0.9	-1.0	-1.1	-0.7	-0.9	-0.9	-0.9
(65 and more)	1 556	1 599	1 637	1 701	1 768	1 826	1 880	1 937	1 995	2 051
<i>growth in %</i>	2.9	2.7	2.4	3.9	3.9	3.3	3.0	3.0	3.0	2.8
Old-age pensioners (January 1)¹⁾	2 102	2 147	2 260	2 340	2 341	2 340	2 355	2 368	2 386	2 404
<i>growth in %</i>	2.0	2.1	.	3.5	0.1	0.0	0.6	0.6	0.8	0.8
Old-age dependency ratios (January 1, in %):										
Demographic²⁾	20.9	21.6	22.3	23.4	24.6	25.7	26.6	27.7	28.8	29.9
Under current legislation³⁾	36.1	36.6	37.4	37.8	38.3	38.8	39.3	39.8	40.3	40.8
Effective⁴⁾	41.8	43.6	45.9	47.9	47.6	47.2	46.9	47.0	47.2	47.6
Fertility rate	1.492	1.493	1.427	1.452	1.456	1.528	1.45	1.45	1.46	1.46
Population increase	39	-20	19	11	-4	26	4	2	1	-1
Natural increase	11	10	2	0	-2	4	-5	-7	-9	-11
Live births	118	117	109	109	107	110	102	100	98	97
Deaths	107	107	107	108	109	106	107	107	107	107
Net migration	28	16	17	10	-1	22	9	9	9	10
Immigration	40	31	23	30	30	42	.	.	.	.
Emigration	12	15	6	20	31	20	.	.	.	.
Census difference	x	-46	x	x	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).

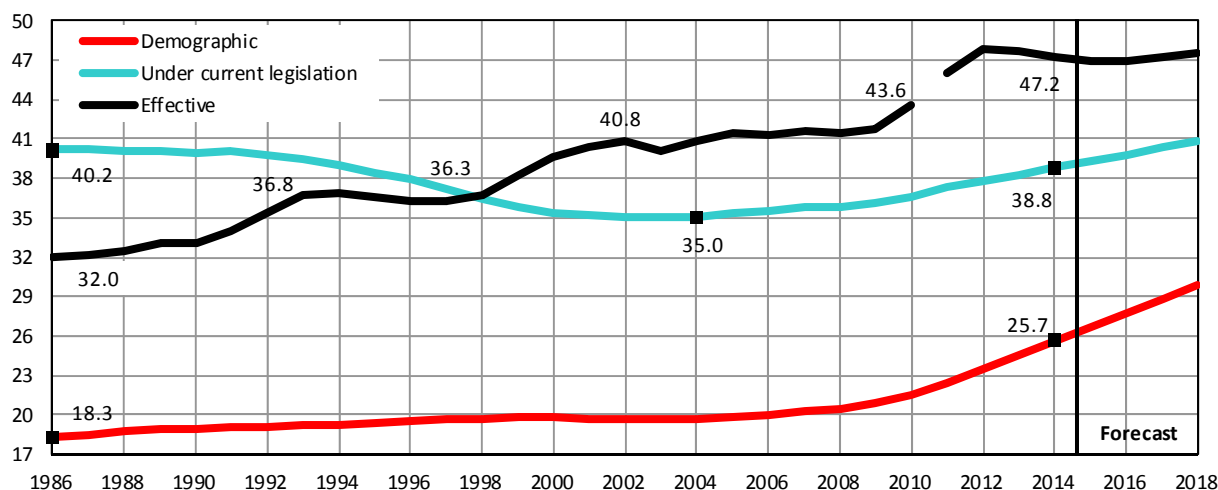
3) Dependency under current legislation: ratio of people above the official retirement age to the people over 19 below the official retirement age.

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

Source: Czech Social Security Administration, CZSO, own calculations

Graph A.5.4: Dependency Ratios

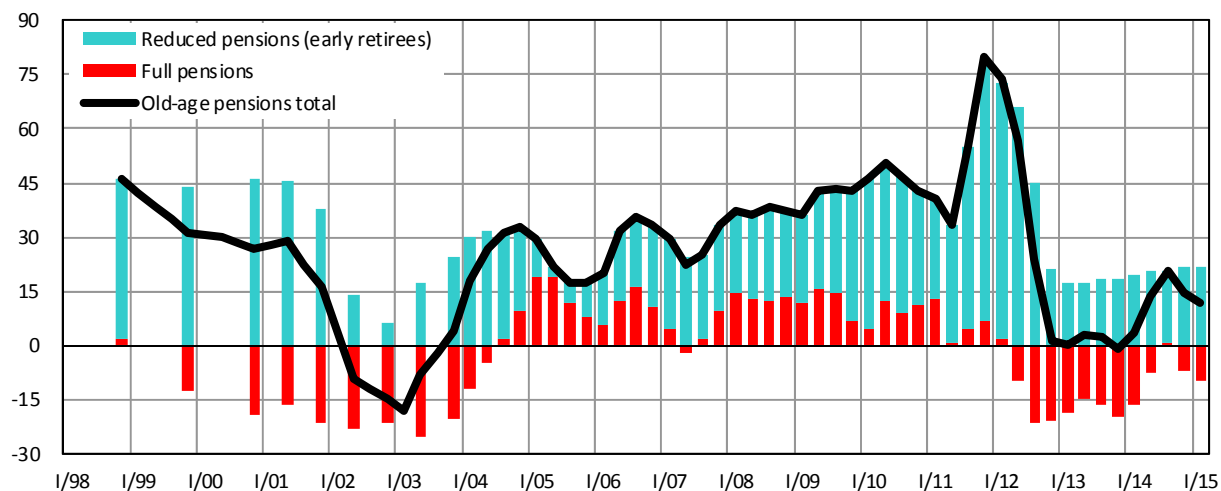
As of January 1, in %, inconsistent between 2010 and 2011 due to transfer of disability pensions to old-age pensions for people over 64 years



Source: CZSO, own calculations

Graph A.5.5: 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.

Source: Czech Social Security Administration, CZSO, own calculations

B Economic Cycle

B.1 Position within the Economic Cycle

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

The negative **output gap**, persisting in the Czech economy since the beginning of 2009, is gradually closing. According to our calculations, it already reached -0.1% only (see Graph B.1.1) in the first quarter of 2015. This result is reflected in the economy by the fact that the utilization of production capacities in industry has already reached the long-term average (see Graph B.1.5). On the labour market, the unemployment rate (LFS) is below its long-term average and the number of vacancies recorded by the Ministry of Labour and Social Affairs exceeds the average level. Neither the acceleration of wage dynamics nor demand-driven inflation can be observed in the economy yet. They will probably occur with a lag.

With respect to the faster dynamics of economic output (measured by gross value added) compared to the potential, the negative output gap should close during 2015. In the following years, the economy should find itself under the conditions of a positive output gap when any further stimulation by the economic policies could sow the seeds of future macroeconomic imbalances.

Having overcome a long-term period of recessions, stagnation or only weak recovery, the annual growth of **potential product** is gradually accelerating. According to our calculations, it was 1.5% in the first quarter of 2015, which we continue to consider as a result undervaluing the real possibilities of the Czech economy.

Growth acceleration is most apparent in **total factor productivity**. The contribution of its trend component, derived by the Hodrick-Prescott filter, which was nearly zero during the recession in 2012, reached 1.0 pp in the first quarter of 2015. With respect to the end point problem, however, this improvement will have to be confirmed in the following periods.

The long-lasting and deep slump in gross fixed capital formation in 2008–2013 by more than 17%¹ has led to

a drop in the contribution of **capital stock** from 1.3 pp in 2008 to 0.4 pp in 2013 and 2014. Considering the low ratio of investment aimed at expanding production capacities to capital stock, the current recovery of investment activity will only manifest itself in potential product dynamics with a lag – the contribution of the capital stock in the first quarter of 2015 was 0.5 pp.

The labour supply is being affected by a long-lasting decrease in the working-age population, caused by the process of population ageing (see Chapter A.5). In the first quarter of 2015, **demographic development** slowed potential product growth by 0.4 pp.

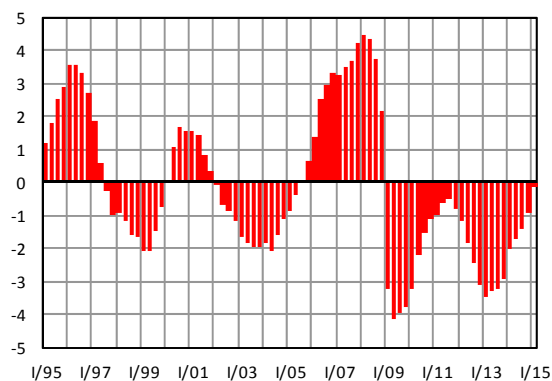
The negative impact of the decline in the population aged 15–64 years on the labour supply is fully compensated by an increase in the **participation rate** (the ratio of the labour force to the population aged 15–64 years). With respect to its anti-cyclical character, the decrease in its contribution to potential product growth from 0.9 pp in 2013 to 0.6 pp in the first quarter of 2015 can be explained by the economic cycle. In the following period, however, the structural factors of the participation rate – an increase in the number of inhabitants in age groups with a naturally high participation (see Chapter C.3) and an increase in the statutory and real retirement age – should start to predominate.

In the Czech Republic, the regular average working time is shortening. The structural component of this process can be explained by the fact that the average number of hours worked in the Czech Republic is high, compared to the standards of more developed countries. As the economic cycle progresses, however, the intensity of this factor is weakening. In the first quarter of 2015, the lower number of **hours usually worked** slowed potential product growth by only 0.2 pp versus 0.4 pp at the end of the recession in the first quarter of 2013.

¹ According to the up-to-date quarterly national accounts data, the depth of the slump in investment was lower, compared to the data available at the time when the April Forecast was prepared.

Graph B.1.1: Output Gap

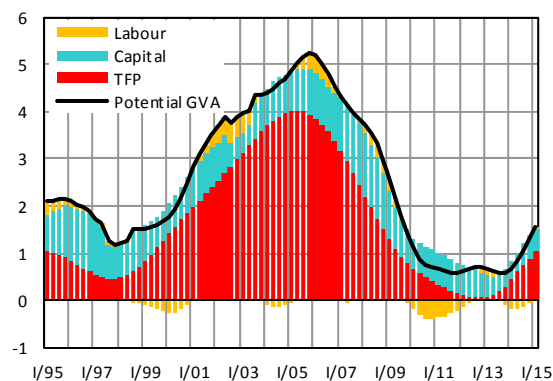
in % of potential product



Source: CZSO, own calculations

Graph B.1.2: Potential Product Growth

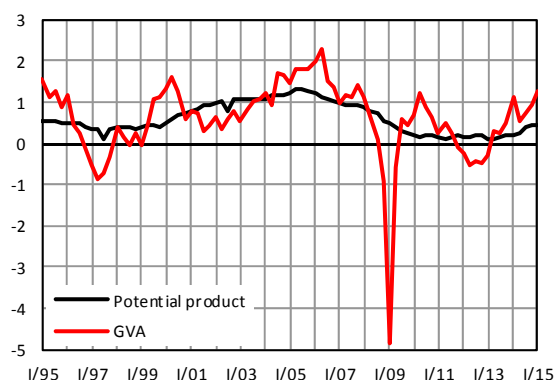
in %, contributions in percentage points



Source: CZSO, own calculations

Graph B.1.3: Potential Product and GVA

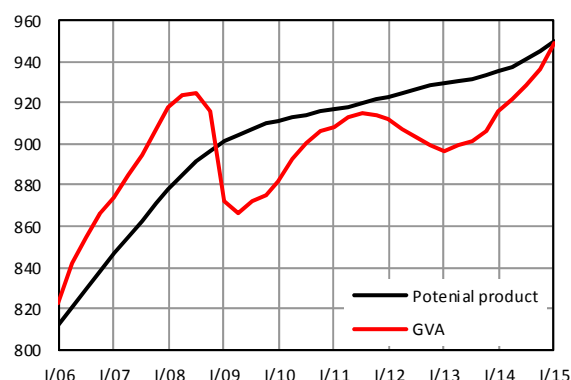
QoQ growth rate, in %



Source: CZSO, own calculations

Graph B.1.4: Levels of Potential Product and GVA

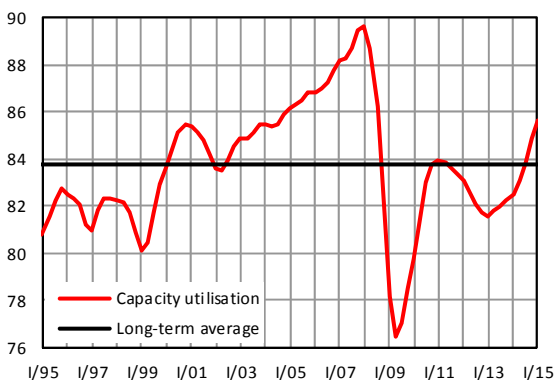
in bill. CZK of 2010



Source: CZSO, own calculations

Graph B.1.5: Capacity Utilisation in Industry

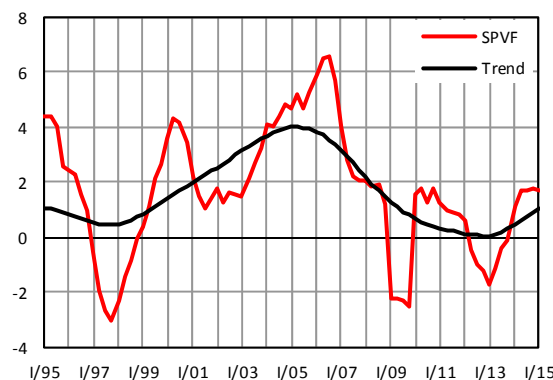
smoothed by Hodrick-Prescott filter, in %



Source: CZSO

Graph B.1.6: Total Factor Productivity

YoY growth rate, in %



Source: CZSO, own calculations

Table B.1: Output Gap and Potential Product

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 Q1
Output gap	per cent	2.6	3.7	3.7	-3.8	-2.0	-0.7	-2.1	-3.2	-1.5	-0.1
Potential product ¹⁾	growth in %	4.9	4.1	3.4	2.0	0.9	0.6	0.7	0.6	1.0	1.5
Contributions:											
– Trend TFP	perc. points	3.6	2.8	1.8	1.0	0.5	0.2	0.1	0.2	0.7	1.0
– Fixed assets	perc. points	1.0	1.2	1.3	0.9	0.7	0.7	0.6	0.4	0.4	0.5
– Demography ²⁾	perc. points	0.2	0.3	0.3	0.1	-0.2	-0.4	-0.5	-0.5	-0.5	-0.4
– Participation rate	perc. points	0.2	-0.2	0.0	0.3	0.2	0.3	0.8	0.9	0.6	0.6
– Usually worked hours	perc. points	-0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2

1) Based on gross value added
Source: CZSO, own calculations

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

B.2 Business Cycle Indicators

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

It follows from the development of the confidence indicators that the YoY increase in GVA in the second quarter of 2015 should remain approximately the same as in the first quarter of 2015.

The confidence indicator in construction improved considerably. However, we emphasize here that the correlation between the development of the confidence indicator in construction and GVA in this sector is very low, as is apparent from Graph B.2.2.

The consumer confidence indicator signals an improvement of growth dynamics of household consumption in the second quarter of 2015. The conclusion results from the fact that the development of the consumer confidence indicator leads household consumption behaviour by 1–2 quarters.

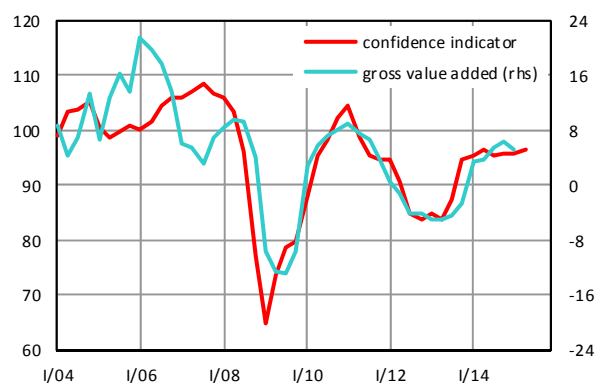
For the first quarter of 2015 the composite leading indicator signalled a higher QoQ growth of GDP than

was observed in the fourth quarter of 2014. The released data confirmed this signal, even though quantitatively it exceeded the forecast considerably (Graph B.2.6). Generally, the composite indicator cannot record one-off, administrative phenomena, such as the producers' stockpiling of tobacco tax stamps at the end of 2014 and its impact on the growth profile of the economy.

For the second and third quarters of 2015, the indicator basically signals stagnation of the relative cyclical component. It follows from Graph B.2.6 that the relationship between the composite leading indicator and the GDP relative cyclical component became loose at the end of the time series. Based on experience, however, we consider this to be only temporary. With regard to this problem, therefore, we are able to interpret the current signal only as a lower QoQ growth of GDP than in the first quarter of 2015.

Graph B.2.1: Confidence and GVA in Industry

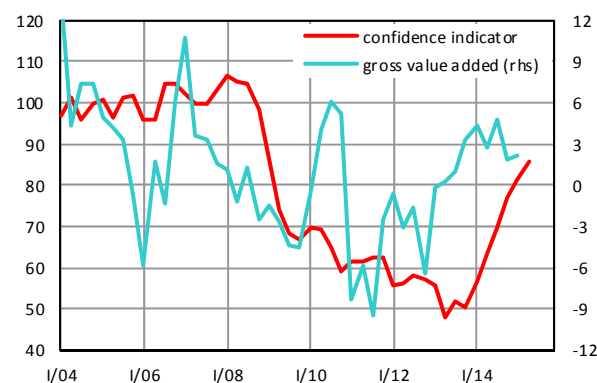
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO

Graph B.2.2: Confidence and GVA in Construction

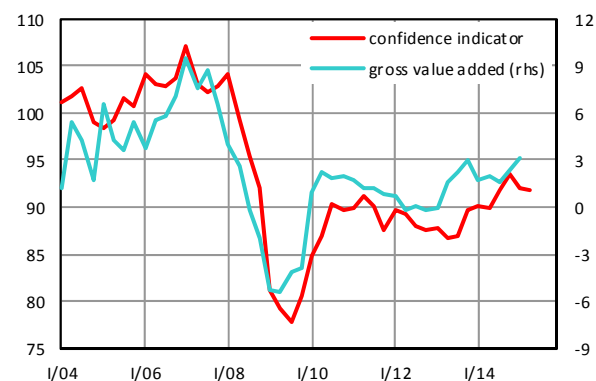
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO

Graph B.2.3: Confidence and GVA in Trade and Services

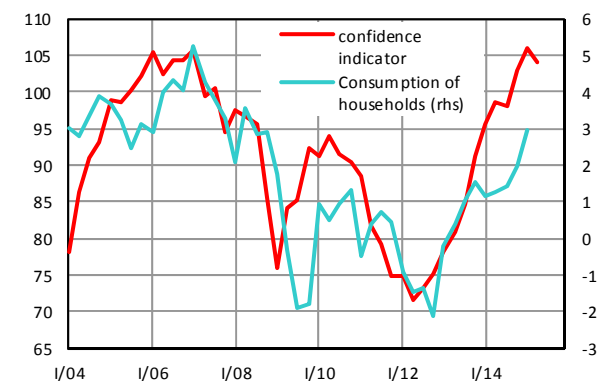
2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO, own calculations

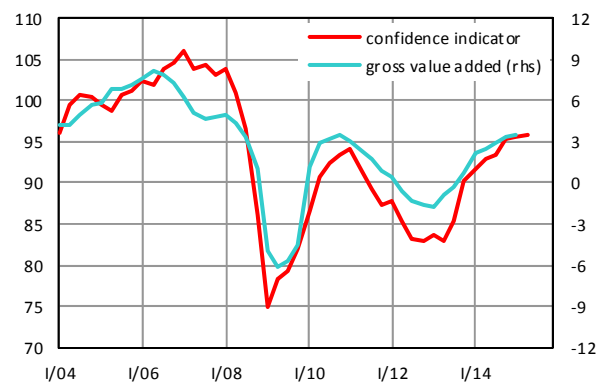
Graph B.2.4: Consumer Confidence and Consumption

2005=100 (lhs), YoY growth in % (rhs)



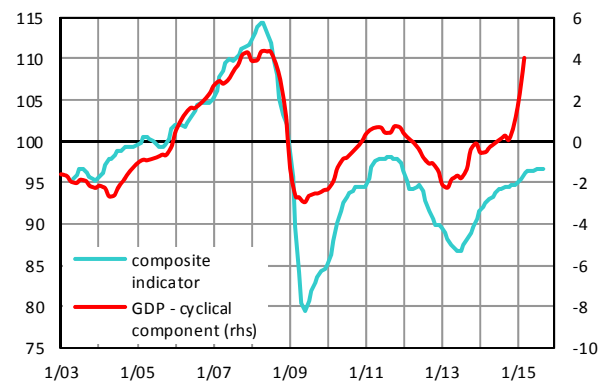
Source: CZSO

Graph B.2.5: Composite Confidence Indicator and GVA
 2005=100 (lhs), YoY growth in % (rhs)



Source: CZSO

Graph B.2.6: Composite Leading Indicator
 2005=100 (lhs), in % of GDP (rhs)



Note: Synchronized with cyclical component of GDP derived by statistical methods (Hodrick-Prescott filter)

Source: CZSO, own calculations

C Forecast of the Development of Macroeconomic Indicators

C.1 Economic Output

C.1.1 GDP in the first quarter of 2015

Economic performance measured by real GDP rose by 4.0% YoY (*versus 2.1%*) in the first quarter of 2015, while seasonally adjusted GDP increased by 2.5% QoQ (*versus 1.0%*). With regard to the fact that gross value added posted a QoQ growth of 1.3%, it is clear that net taxes on products contributed to GDP growth considerably. This was caused by the start of a normal course of revenues from excise duty on tobacco products after a drop in the fourth quarter of 2014, which resulted from legislative restrictions on the validity of tax stamps with the previous tax rate. From the perspective of GDP expenditures, this effect captures the high contribution of a change in inventories to GDP growth. However, there were some other factors (see below) behind the development of a change in inventories.

The YoY increase of GDP in the given period reflected increasing domestic and foreign demand. Due to the already mentioned change in inventories, the main growth factor was gross capital formation. As for the change in inventories, however, the inventories of production in progress also increased and, on the contrary, inventories of finished production decreased. This suggests a strong demand impulse. In the second place, final consumption expenditure of both households and the government contributed to the increase in GDP. The increasing domestic demand contributed to the strong growth of imports, resulting in a situation where foreign trade slightly weighed on GDP growth.

The growth of household consumption resulted from the increasing disposable income and consumer confidence, manifesting itself in a moderate YoY decrease in the gross savings rate. Household consumption was mainly supported by the increasing expenditure on non-durable goods and durable goods, nevertheless, the consumption of services and semi-durable goods also contributed to its growth. Household consumption increased in real terms by 2.9% (*versus 3.3%*). Government consumption was up by 2.6% (*versus 1.8%*).

Gross fixed capital formation was mainly supported by the increasing investment in transport equipment, other buildings and structures² and dwellings. Together with a number of other indicators of the development in construction, such as confidence indicators or construction output index, this confirms the recovery of

investment. Considering the extremely high YoY increase in inventories, gross capital formation rose considerably more than investment in fixed capital, specifically by 10.2% (*versus growth of 0.4%*).

The growth of exports was in line with the growth of export markets that was, however, higher than the previous forecast assumed. Imports were supported by recovering domestic demand and growing exports. Exports increased by 7.8% YoY (*versus 6.0%*) and imports by 9.0% YoY (*versus 6.8%*).

Import prices decreased faster than export prices, which translated into an improvement in the terms of trade of 0.6%. The resulting trading gain brought about a situation where real gross domestic income, which unlike GDP includes this factor, increased by 4.5% YoY (*versus 3.0%*).

Nominal GDP that increased by 5.2% (*versus 3.5%*) was supported mainly by the growth in the gross operating surplus of 5.7% (*versus 2.1%*) and compensation of employees of 4.0% (*versus 3.8%*).

C.1.2 Estimate for the second quarter of 2015

The estimate of GDP and its structure is based on the course of phenomena already observed in the previous period and commented on above. We estimate that GDP increased by 3.9% YoY (*versus 2.7%*) and by 0.4% QoQ (*versus 0.8%*). The decrease in QoQ dynamics of GDP is a result of compensation of a one-off increase in excise taxes in the first quarter of 2015.

We suppose that GDP growth was due, more or less equally, to growth of final consumption expenditure and gross capital formation. Due to increasing disposable income and consumers' confidence household consumption might have increased by 2.9% (*versus 2.8%*) and government consumption by 2.2% (*versus 1.7%*). According to our estimate, gross capital formation increased by 8.2% (*versus 5.8%*), with a decrease in the estimate of gross fixed capital formation growth in relation to newly disclosed data for 2014 and the first quarter of 2015 and a higher YoY increase in the change in stocks. Foreign trade probably had a neutral effect on GDP dynamics. We estimate that exports grew by 8.4% (*versus 5.6%*), following export markets' growth, and imports due to increased exports and domestic demand were up by 9.2% (*versus 6.7%*). The changes relate to higher than estimated growth rates of both variables in the first quarter of 2015.

² Other buildings and structures include both private and public investment into buildings (except dwellings) and infrastructure investment.

C.1.3 Forecast for the years 2015 and 2016

In 2015, economic growth should be driven exclusively by domestic demand; on the contrary, net exports should slightly weigh on GDP growth. Real consumption growth will be supported by very low inflation where an anti-inflationary effect of the decrease in the crude oil price will manifest itself considerably. The lower oil price will be favourably reflected also in the costs of firms, thus contributing to the higher growth of gross operating surplus. Domestic demand should also remain the dominant growth factor in 2016, while the contribution of foreign trade should already be slightly positive.

We expect that GDP will increase in 2015 in real terms by 3.9% (*versus* 2.7%) and by 2.5% (*unchanged*) in 2016. The increase in the forecast for GDP development is based on the development in the first quarter of 2015 when dynamics were supported by one-off factors in the form of the high contribution of indirect taxes or, on the side of utilization, by an increase in inventories of production in progress. We expect that a part of these inventories will be classified later as gross fixed capital formation.

Thanks to very low inflation, household consumption will be supported by the growth of real disposable income and, as supported by the boom survey data, by consumers' positive expectations. For 2015, we do not expect any significant contribution from consumer loans to resources for private consumption.

We are changing the forecast for real growth of household consumption upwards, although minimally. We expect that consumption will increase by 2.9% (*versus* 2.8%) in 2015 and by 2.4% (*versus* 2.3%) in 2016. In 2016, growth should slow primarily due to higher inflation.

We are slightly increasing the forecast for government consumption growth in 2015, in particular concerning data released for the first quarter of 2015. We expect that government consumption will grow by 2.0% in 2015 (*versus* 1.7%) and by 1.6% in 2016 (*unchanged*). Real growth of government consumption is determined especially by increasing compensation of employees (namely in the first half of 2015) and social benefits in kind, where a slightly deficit behaviour of health insurance companies (even when accounting for the increase in payments for state insured persons by app.

CZK 2 billion in each year) is expected. On the other hand, government consumption growth is hindered by consumption of goods and services, which attain one third of its growth in the previous years (around 1.6%).

The growth of gross fixed capital formation will be strongly supported by investment in projects cofinanced from EU funds. Based on released data on the development in construction we assume that the impact of these investments on the total gross fixed capital formation will be stronger than we expected before. A higher comparison base (in comparison with the April Forecast) is behind the revision of the forecast for the growth of investments in fixed capital in 2016. Firms' own resources for financing investment projects should grow relatively strongly. Similarly to households, we expect a rather limited use of credit in 2015. Furthermore for 2015, we expect the one-off effect of the purchase of the JAS-39 Gripen jet fighters that will be reflected in an increase in gross fixed capital formation and imports. Therefore, gross fixed capital formation should increase by 6.4% in 2015 (*versus* 5.3%) and by 3.1% in 2016 (*versus* 4.2%).

In 2015, we consider a considerable contribution of a change in stocks to GDP growth, which is related to both the already general economic growth and more intensive investment activity. Therefore we are increasing the forecast for gross capital formation growth in 2015 significantly more than corresponds to a change in the forecast for fixed capital formation. Hence, we expect gross capital formation to grow by 9.8% in 2015 (*versus* 5.2%) and by 2.6% in 2016 (*versus* 4.4%).

Export growth that will be mainly supported in 2015 by a low crude oil price (a favourable supply shock for economies of trading partners), together with the increasing domestic demand, will be reflected in import dynamics. Imports could increase by 9.4% in 2015 (*versus* 6.6%) and by 7.0% in 2016 (*versus* 6.6%). Exports could increase in 2015 in real terms by 8.2% (*versus* 5.7%) and in 2016 by 6.9% (*versus* 6.0%).

In addition to newly released data, the change in the forecast for export growth is also based on a change in expectations regarding the growth of export markets. The new forecast for import growth takes the faster growth of gross domestic expenditure and exports into consideration.

Table C.1.1: Real GDP by Type of Expenditure – yearly
chained volumes, reference year 2010

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK 2010</i>	3 865	3 954	4 031	3 995	3 974	4 053	4 211	4 314	4 414	4 516
	<i>growth in %</i>	-4.8	2.3	2.0	-0.9	-0.5	2.0	3.9	2.5	2.3	2.3
Private consumption exp.¹⁾	<i>bill. CZK 2010</i>	1 928	1 947	1 952	1 924	1 938	1 966	2 024	2 073	2 120	2 165
	<i>growth in %</i>	-0.7	1.0	0.3	-1.5	0.7	1.5	2.9	2.4	2.3	2.1
Government consumption exp.	<i>bill. CZK 2010</i>	807	810	786	772	790	804	820	833	845	856
	<i>growth in %</i>	3.0	0.4	-3.0	-1.8	2.3	1.8	2.0	1.6	1.5	1.3
Gross capital formation	<i>bill. CZK 2010</i>	1 029	1 074	1 094	1 050	997	1 041	1 143	1 172	1 203	1 240
	<i>growth in %</i>	-18.1	4.4	1.8	-4.1	-5.0	4.4	9.8	2.6	2.6	3.1
–Gross fixed capital formation	<i>bill. CZK 2010</i>	1 052	1 066	1 077	1 043	1 014	1 035	1 101	1 136	1 174	1 212
	<i>growth in %</i>	-10.1	1.3	1.1	-3.2	-2.7	2.0	6.4	3.1	3.4	3.2
–Change in stocks and valuables	<i>bill. CZK 2010</i>	-23	8	16	7	-18	6	41	36	28	28
Exports of goods and services	<i>bill. CZK 2010</i>	2 278	2 616	2 860	2 983	2 984	3 248	3 516	3 757	3 997	4 249
	<i>growth in %</i>	-9.8	14.8	9.3	4.3	0.0	8.9	8.2	6.9	6.4	6.3
Imports of goods and services	<i>bill. CZK 2010</i>	2 171	2 494	2 661	2 732	2 734	3 003	3 286	3 518	3 750	3 995
	<i>growth in %</i>	-11.0	14.9	6.7	2.7	0.1	9.8	9.4	7.0	6.6	6.5
Gross domestic exp.	<i>bill. CZK 2010</i>	3 763	3 831	3 832	3 746	3 726	3 812	3 986	4 078	4 168	4 261
	<i>growth in %</i>	-5.5	1.8	0.0	-2.3	-0.5	2.3	4.6	2.3	2.2	2.2
Methodological discrepancy²⁾	<i>bill. CZK 2010</i>	-6	0	0	-1	-1	-4	-5	-3	-1	1
Real gross domestic income	<i>bill. CZK 2010</i>	3 915	3 954	3 988	3 936	3 949	4 074	4 248	4 366	4 467	4 580
	<i>growth in %</i>	-3.7	1.0	0.9	-1.3	0.3	3.2	4.3	2.8	2.3	2.5
Contribution to GDP growth³⁾											
–Gross domestic expenditure	<i>percent. points</i>	-5.4	1.7	0.0	-2.2	-0.5	2.2	4.3	2.1	2.1	2.1
– consumption	<i>percent. points</i>	0.3	0.6	-0.5	-1.1	0.8	1.1	1.8	1.5	1.4	1.3
– household expenditure	<i>percent. points</i>	-0.3	0.5	0.1	-0.7	0.4	0.7	1.4	1.2	1.1	1.0
– government expenditure	<i>percent. points</i>	0.6	0.1	-0.6	-0.4	0.5	0.4	0.4	0.3	0.3	0.2
– gross capital formation	<i>percent. points</i>	-5.6	1.2	0.5	-1.1	-1.3	1.1	2.5	0.7	0.7	0.8
– gross fixed capital formation	<i>percent. points</i>	-2.9	0.4	0.3	-0.9	-0.7	0.5	1.6	0.8	0.9	0.8
– change in stocks	<i>percent. points</i>	-2.7	0.8	0.2	-0.2	-0.6	0.6	0.9	-0.1	-0.2	0.0
– Foreign balance	<i>percent. points</i>	0.5	0.5	1.9	1.3	0.0	-0.2	-0.4	0.3	0.2	0.2
– external balance of goods	<i>percent. points</i>	0.6	0.8	2.0	1.4	0.1	0.0	-0.2	0.4	0.3	0.3
– external balance of services	<i>percent. points</i>	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
Gross value added	<i>bill. CZK 2010</i>	3 483	3 583	3 654	3 622	3 603	3 702	.	.	.	.
	<i>growth in %</i>	-5.5	2.9	2.0	-0.9	-0.5	2.7	.	.	.	.
Net taxes on products	<i>bill. CZK 2010</i>	384	371	378	372	370	354	.	.	.	.

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.

Source: CZSO, own calculations

Table C.1.2: Real GDP by Type of Expenditure – quarterly
chained volumes, reference year 2010

		2014				2015			
		Q1 <i>Prelim.</i>	Q2 <i>Prelim.</i>	Q3 <i>Prelim.</i>	Q4 <i>Prelim.</i>	Q1 <i>Prelim.</i>	Q2 <i>Estimate</i>	Q3 <i>Forecast</i>	Q4 <i>Forecast</i>
Gross domestic product	<i>bill. CZK 2010</i>	946	1 015	1 037	1 054	984	1 054	1 071	1 101
	<i>growth in %</i>	2.2	2.1	2.6	1.0	4.0	3.9	3.2	4.4
	<i>growth in % ¹⁾</i>	2.2	2.1	2.3	1.3	4.0	3.9	3.8	4.1
	<i>quart.growth in % ¹⁾</i>	-0.1	0.5	0.5	0.5	2.5	0.4	0.4	0.7
Private consumption exp. ²⁾	<i>bill. CZK 2010</i>	462	490	503	512	476	504	517	527
	<i>growth in %</i>	1.0	1.3	1.6	1.8	2.9	2.9	2.9	3.0
Government consumption exp.	<i>bill. CZK 2010</i>	186	196	195	227	191	200	198	231
	<i>growth in %</i>	1.3	2.3	0.4	3.0	2.6	2.2	1.6	1.5
Gross capital formation	<i>bill. CZK 2010</i>	212	262	289	279	233	283	304	323
	<i>growth in %</i>	1.5	10.9	6.1	-0.4	10.2	8.2	5.3	15.7
– Gross fixed capital formation	<i>bill. CZK 2010</i>	230	248	266	291	236	259	281	325
	<i>growth in %</i>	1.1	2.9	3.0	1.1	2.5	4.6	5.4	11.9
– Change in stocks and valuables	<i>bill. CZK 2010</i>	-19	14	22	-12	-3	24	23	-3
Exports of goods and services	<i>bill. CZK 2010</i>	795	813	803	837	857	881	873	905
	<i>growth in %</i>	11.8	8.7	8.5	6.7	7.8	8.4	8.6	8.1
Imports of goods and services	<i>bill. CZK 2010</i>	709	744	751	798	773	813	820	881
	<i>growth in %</i>	11.6	11.9	8.8	7.5	9.0	9.2	9.1	10.3
Methodological discrepancy ³⁾	<i>bill. CZK 2010</i>	0	-1	-1	-2	1	-1	-2	-4
Real gross domestic income	<i>bill. CZK 2010</i>	949	1 022	1 043	1 060	992	1 064	1 081	1 111
	<i>growth in %</i>	3.5	3.8	3.9	1.6	4.5	4.1	3.7	4.8
Gross value added	<i>bill. CZK 2010</i>	871	930	943	958	902	.	.	.
	<i>growth in %</i>	2.3	2.5	3.2	2.9	3.6	.	.	.
	<i>growth in % ¹⁾</i>	2.1	2.4	2.9	3.4	3.5	.	.	.
	<i>quart.growth in % ¹⁾</i>	1.1	0.6	0.7	0.9	1.3	.	.	.
Net taxes on products	<i>bill. CZK 2010</i>	77	87	95	95	83	.	.	.

1) From seasonally and working day adjusted data

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

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

Source: CZSO, own calculations

Table C.1.3: Nominal GDP by Type of Expenditure – yearly

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
Gross domestic product	<i>bill. CZK</i>	3 922	3 954	4 023	4 042	4 077	4 261	4 469	4 647	4 821	5 006
	<i>growth in %</i>	-2.3	0.8	1.7	0.5	0.9	4.5	4.9	4.0	3.7	3.8
Private consumption ¹⁾	<i>bill. CZK</i>	1 918	1 947	1 984	1 998	2 030	2 070	2 143	2 227	2 322	2 416
	<i>growth in %</i>	0.2	1.5	1.9	0.7	1.6	2.0	3.5	3.9	4.3	4.0
Government consumption	<i>bill. CZK</i>	812	810	792	783	801	828	852	876	898	918
	<i>growth in %</i>	6.0	-0.3	-2.2	-1.2	2.4	3.3	2.9	2.8	2.5	2.2
Gross capital formation	<i>bill. CZK</i>	1 040	1 074	1 087	1 061	1 010	1 076	1 190	1 232	1 277	1 325
	<i>growth in %</i>	-16.8	3.3	1.2	-2.4	-4.9	6.6	10.6	3.5	3.6	3.8
– Gross fixed capital formation	<i>bill. CZK</i>	1 063	1 066	1 069	1 052	1 025	1 065	1 145	1 191	1 243	1 294
	<i>growth in %</i>	-8.7	0.2	0.3	-1.6	-2.6	4.0	7.5	4.0	4.3	4.1
– Change in stocks and valuables	<i>bill. CZK</i>	-24	8	18	9	-15	10	45	41	34	31
External balance	<i>bill. CZK</i>	152	123	159	200	236	286	284	312	324	347
– Exports of goods and services	<i>bill. CZK</i>	2 307	2 616	2 881	3 097	3 150	3 571	3 847	4 123	4 401	4 702
	<i>growth in %</i>	-9.3	13.4	10.1	7.5	1.7	13.4	7.7	7.2	6.8	6.8
– Imports of goods and services	<i>bill. CZK</i>	2 154	2 494	2 722	2 897	2 914	3 285	3 563	3 811	4 077	4 355
	<i>growth in %</i>	-12.3	15.8	9.1	6.5	0.6	12.7	8.4	7.0	7.0	6.8
Gross national income	<i>bill. CZK</i>	3 646	3 656	3 718	3 788	3 831	3 927	4 103	4 250	4 392	4 546
	<i>growth in %</i>	-2.9	0.3	1.7	1.9	1.1	2.5	4.5	3.6	3.4	3.5
Primary income balance	<i>bill. CZK</i>	-276	-297	-305	-253	-246	-334	-366	-397	-429	-460

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

Source: CZSO, own calculations

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

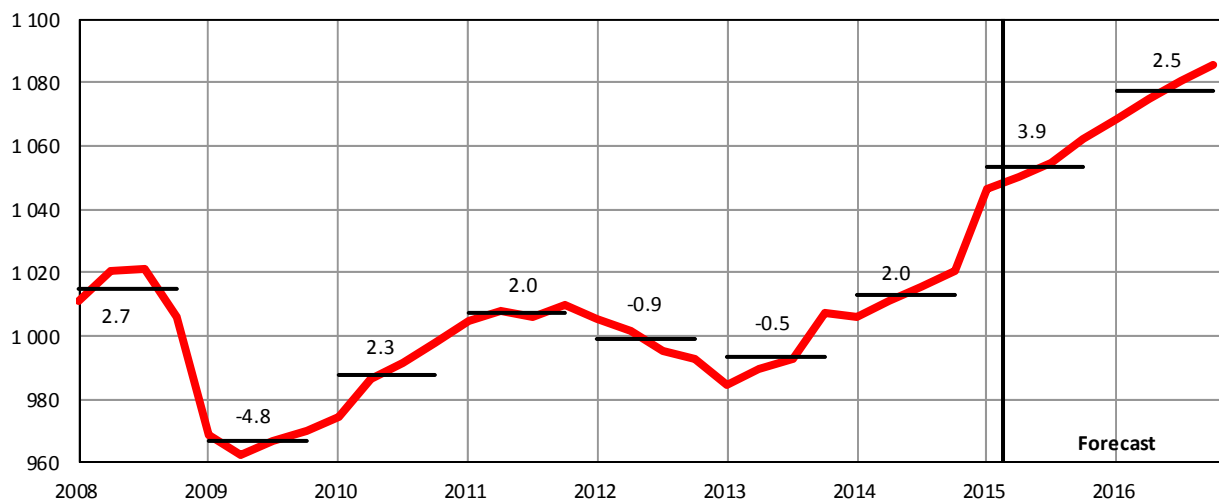
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Prelim.</i>	<i>Estimate</i>	<i>Forecast</i>	<i>Forecast</i>
Gross domestic product	<i>bill. CZK</i>	983	1 066	1 092	1 119	1 035	1 116	1 139	1 180
	<i>growth in %</i>	4.4	5.0	5.6	3.1	5.2	4.6	4.3	5.5
Private consumption ¹⁾	<i>bill. CZK</i>	485	515	531	539	500	533	550	559
	<i>growth in %</i>	1.4	1.8	2.4	2.3	3.0	3.6	3.6	3.7
Government consumption	<i>bill. CZK</i>	186	200	200	243	194	206	205	248
	<i>growth in %</i>	2.1	3.6	2.0	5.2	4.2	2.8	2.8	2.1
Gross capital formation	<i>bill. CZK</i>	217	270	299	290	243	294	316	338
	<i>growth in %</i>	2.6	12.9	8.9	2.0	12.1	8.8	5.7	16.4
– Gross fixed capital formation	<i>bill. CZK</i>	236	254	274	301	245	268	292	340
	<i>growth in %</i>	2.6	4.5	5.5	3.2	3.9	5.5	6.4	12.9
– Change in stocks and valuables	<i>bill. CZK</i>	-19	16	25	-11	-2	25	24	-2
External balance	<i>bill. CZK</i>	96	81	63	46	99	83	68	35
– Exports of goods and services	<i>bill. CZK</i>	872	892	887	921	939	960	956	991
	<i>growth in %</i>	16.9	13.3	14.2	9.5	7.7	7.7	7.8	7.6
– Imports of goods and services	<i>bill. CZK</i>	776	810	824	874	841	877	889	956
	<i>growth in %</i>	14.9	14.2	12.8	9.5	8.3	8.3	7.8	9.3

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

Source: CZSO, own calculations

Graph C.1.1: Gross Domestic Product (real)

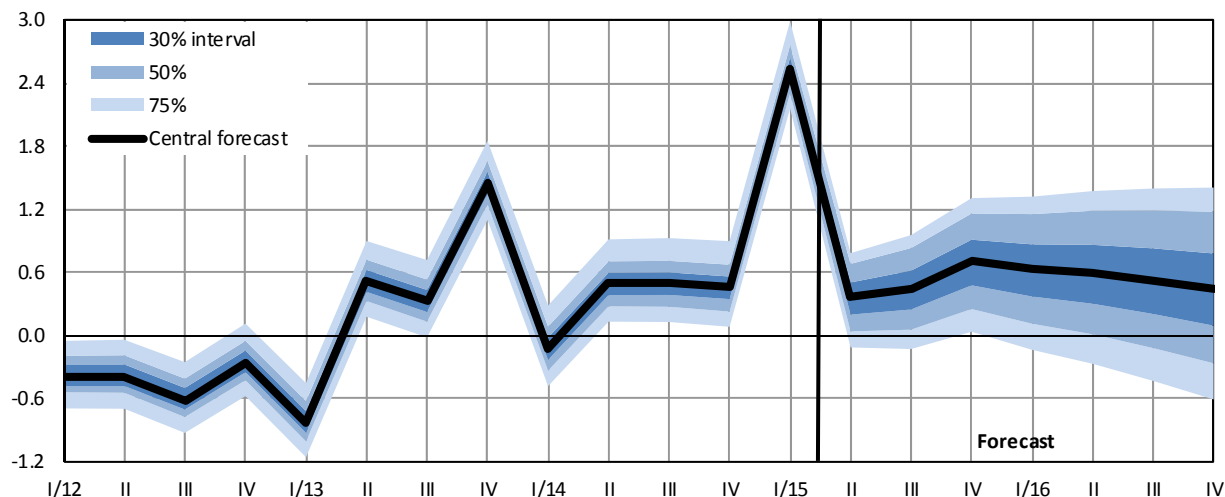
chained volumes, bill. CZK in const. prices of 2010, seasonally adjusted, growth rates in %



Source: CZSO, own calculations

Graph C.1.2: Gross Domestic Product (real)

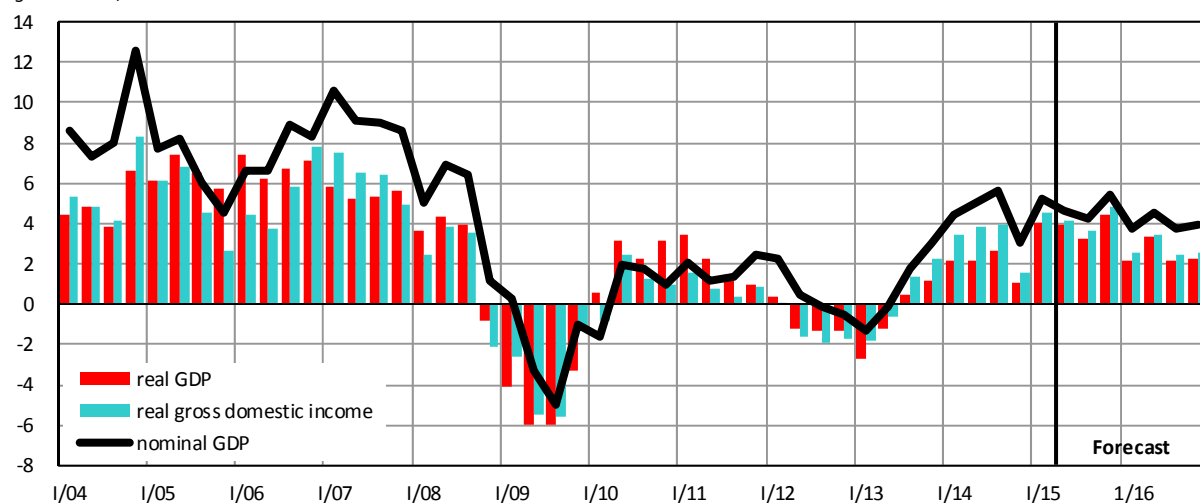
QoQ growth rate, in %, seasonally adjusted, past probability distribution reflects the actual distribution of data revisions, future probability distribution is based upon the MoF's forecasting performance



Source: CZSO, own calculations

Graph C.1.3: Gross Domestic Product and Real Gross Domestic Income

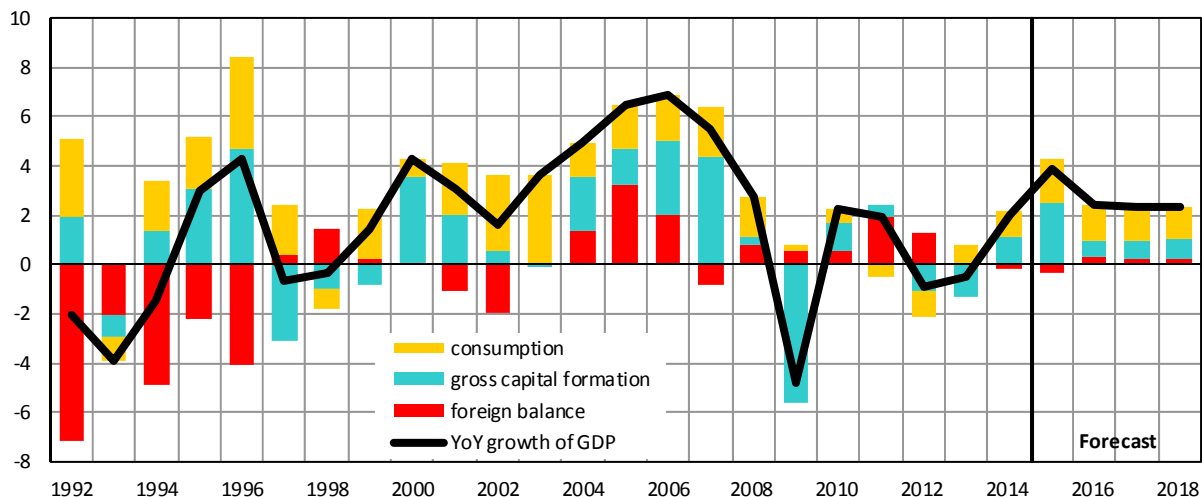
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.1.4: Gross Domestic Product (real) – contributions to YoY growth

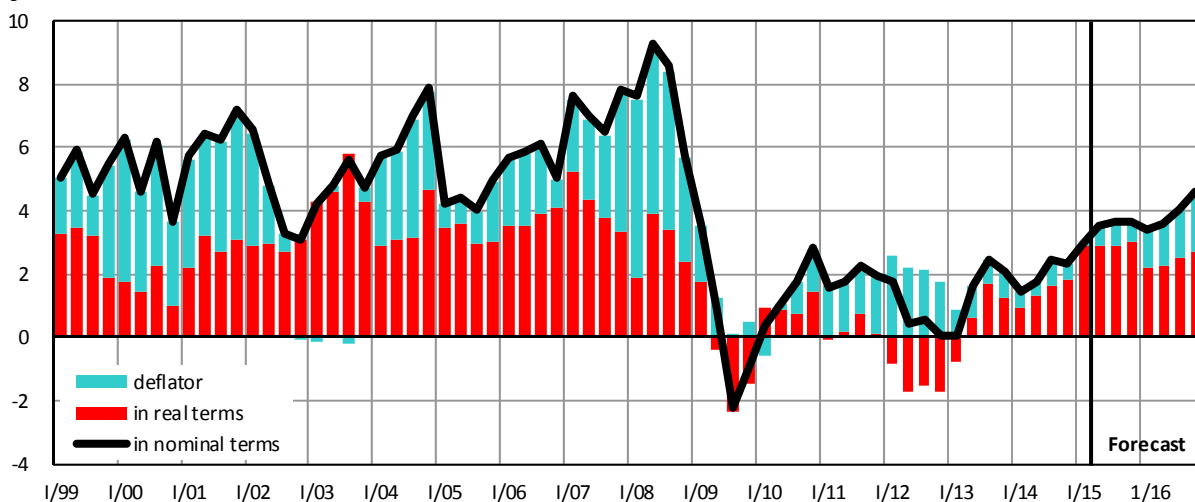
decomposition of GDP YoY growth, contributions in percentage points, GDP growth rate in %



Source: CZSO, own calculations

Graph C.1.5: Private Consumption (incl. NPISH)

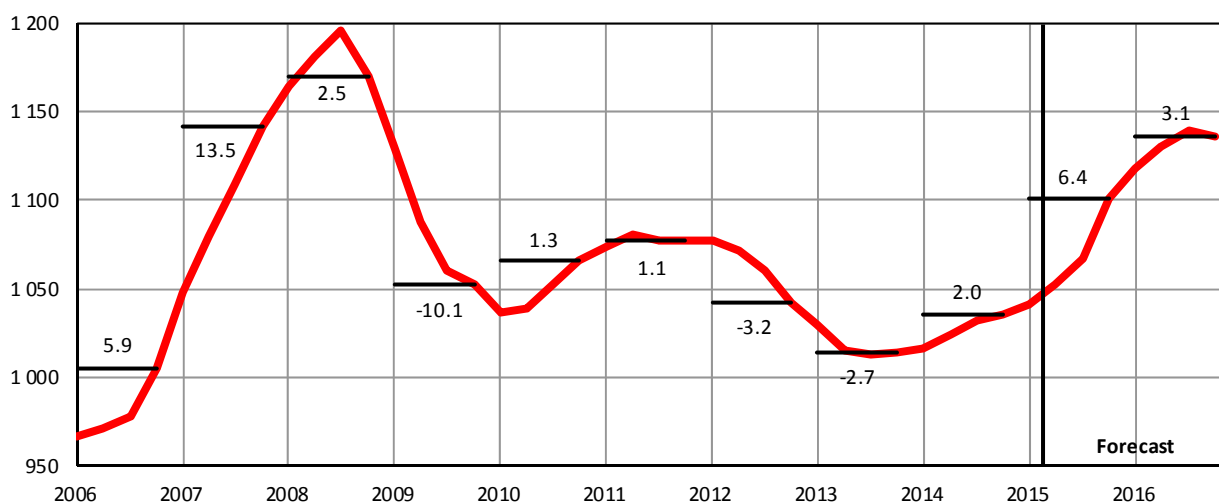
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.1.6: Gross Fixed Capital Formation

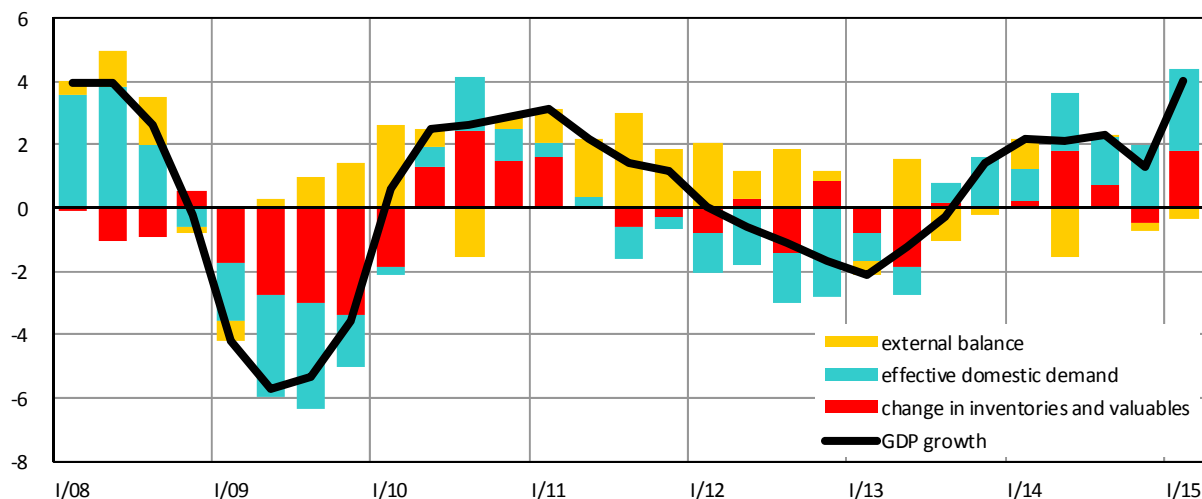
yearly moving sums, bill. CZK in const. prices of 2010, growth rates in %



Source: CZSO, own calculations

Graph C.1.7: Decomposition of Real GDP Growth

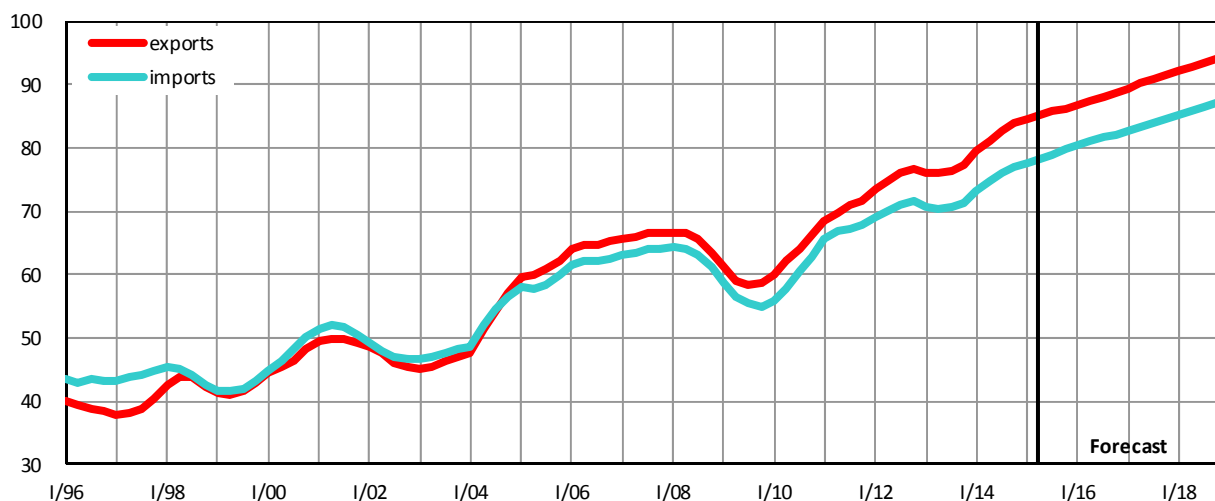
seasonally adjusted, YoY growth rate of GDP in %, contributions of individual components in percentage points



Source: CZSO

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

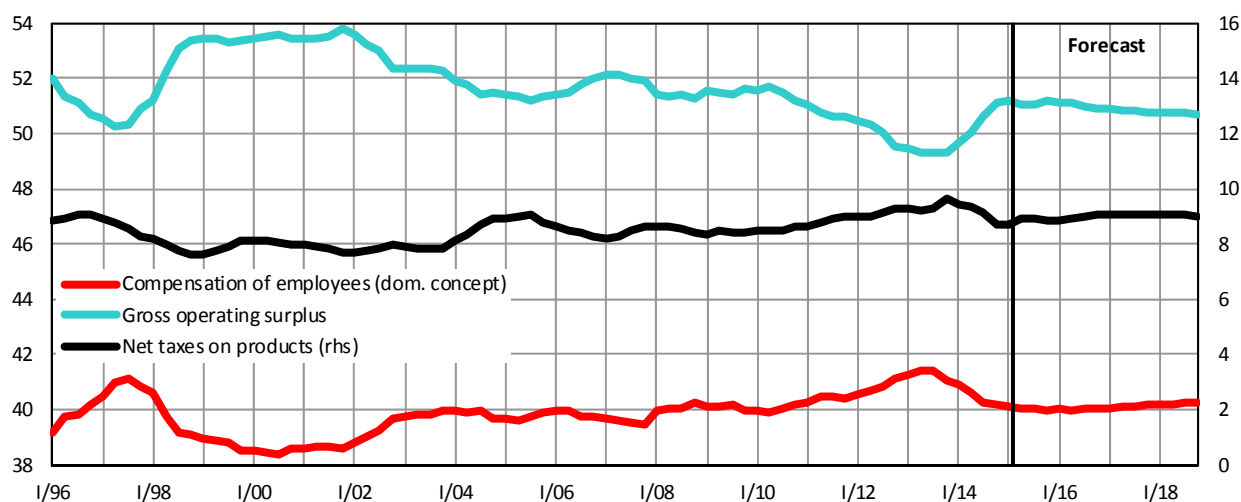
yearly moving sums, in %



Source: CZSO, own calculations

Graph C.1.9: GDP – Income Structure

yearly moving sums, in %



Source: CZSO, own calculations

Table C.1.5: GDP by Type of Income – yearly

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
GDP	bill. CZK	3 922	3 954	4 023	4 042	4 077	4 261	4 469	4 647	4 821	5 006
	growth in %	-2.3	0.8	1.7	0.5	0.9	4.5	4.9	4.0	3.7	3.8
Balance of taxes and subsidies	bill. CZK	329	341	360	376	392	370	394	421	437	451
	growth in %	-2.9	3.5	5.7	4.4	4.2	-5.7	6.7	6.9	3.8	3.2
– Taxes on production and imports	bill. CZK	430	447	488	507	532	524	.	.	.	.
	growth in %	1.5	4.0	9.0	4.1	4.8	-1.4	.	.	.	.
– Subsidies on production	bill. CZK	101	107	127	131	140	154	.	.	.	.
	growth in %	19.4	5.7	19.5	3.2	6.3	10.4	.	.	.	.
Compensation of employees	bill. CZK	1 569	1 589	1 626	1 663	1 675	1 712	1 786	1 860	1 937	2 016
	growth in %	-3.0	1.3	2.3	2.3	0.7	2.3	4.3	4.1	4.1	4.1
– Wages and salaries	bill. CZK	1 202	1 209	1 236	1 268	1 273	1 298	1 351	1 407	1 465	1 526
	growth in %	-2.0	0.6	2.2	2.5	0.4	1.9	4.2	4.1	4.1	4.1
– Social security contributions	bill. CZK	367	380	390	396	402	415	435	453	471	491
	growth in %	-6.1	3.7	2.5	1.6	1.4	3.3	4.8	4.1	4.1	4.1
Gross operating surplus	bill. CZK	2 024	2 024	2 037	2 002	2 011	2 179	2 289	2 366	2 447	2 539
	growth in %	-1.7	0.0	0.6	-1.7	0.4	8.4	5.0	3.4	3.4	3.7
– Consumption of capital	bill. CZK	841	850	863	879	906	916	947	983	1 020	1 058
	growth in %	3.6	1.0	1.6	1.9	3.0	1.1	3.4	3.8	3.8	3.7
– Net operating surplus	bill. CZK	1 183	1 174	1 173	1 123	1 105	1 263	1 342	1 382	1 427	1 481
	growth in %	-5.2	-0.8	-0.1	-4.3	-1.6	14.3	6.2	3.0	3.2	3.8

Source: CZSO, own calculations

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

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	Prelim.	Prelim.	Prelim.	Prelim.	Estimate	Forecast	Forecast
GDP	bill. CZK	983	1 066	1 092	1 119	1 035	1 116	1 139	1 180
	growth in %	4.4	5.0	5.6	3.1	5.2	4.6	4.3	5.5
Balance of taxes and subsidies	bill. CZK	78	96	107	89	85	107	111	92
	growth in %	-4.1	0.8	-1.5	-16.8	8.8	12.0	3.6	2.8
Compensation of employees	bill. CZK	411	424	423	454	428	443	442	474
	growth in %	2.5	2.2	1.8	2.6	4.0	4.4	4.5	4.4
– Wages and salaries	bill. CZK	310	321	321	346	321	335	335	361
	growth in %	2.0	1.9	1.3	2.4	3.3	4.4	4.5	4.4
– Social security contributions	bill. CZK	101	103	102	108	107	108	107	113
	growth in %	3.9	3.0	3.2	3.1	5.9	4.4	4.5	4.4
Gross operating surplus	bill. CZK	494	546	562	576	522	566	586	614
	growth in %	7.6	8.1	10.3	7.5	5.7	3.5	4.3	6.7

Source: CZSO, own calculations

C.2 Prices

C.2.1 Consumer Prices

The YoY growth in consumer prices accelerated more than expected by the April Macroeconomic Forecast, reaching 0.7% (*versus* 0.4%) in May 2015. The contribution of administrative measures was 0.3 pp and was largely due to an increase in the excise duty on tobacco products.

Year on year inflation is still being pushed down by a decrease in the crude oil price, even if less than at the beginning of 2015. This is well apparent in the contributions of individual divisions of the consumer basket. With a YoY decrease in fuel prices of 9.6% in May, the contribution of the division *transport* was –0.3 pp and this division weighed down on inflation the most. The largest contribution to the growth of prices was made by the division *alcoholic beverages, tobacco* (0.5 pp).

The year 2015 should be characterised by very low inflation, mainly due to a favourable supply shock in the form of a considerable decrease in the crude oil price. Average inflation rate will probably be nearly the same as in 2014.

Out of administrative measures³, not only the aforementioned increase in the excise duty (contribution of 0.3 pp) was already reflected in consumer prices, but also measures slowing down price growth, for example the introduction of the second reduced 10% VAT rate (contribution of –0.1 pp) or the abolition of most fees in health care (–0.2 pp). According to our assumptions, a decrease in the natural gas price should add to these measures in the second half of 2015; nevertheless, uncertainty regarding its extent and timing increased. In total, administrative measures should have nearly a neutral effect on inflation (see Graph C.2.2); their contribution to the YoY growth of consumer prices in December 2015 should be –0.1 pp (*unchanged*).

This year's inflation rate will be considerably formed by demand pressures as the output gap is expected to turn positive this year (see Chapter B.1) and demand is growing quickly. The koruna exchange rate should also have a pro-inflationary effect, though less significant than in 2014. The determining inflation factor in 2015 should be the price of Brent crude oil, which will be cheaper than in 2014 by approximately two fifths in dollar terms, according to the forecast assumptions (Table A.1.3). Unit labour costs should have a neutral effect on the inflation rate.

In 2015, the average inflation rate should reach 0.5% (*versus* 0.3%), with a YoY increase in consumer prices of 0.8% (*versus* 0.6%) in December.

In 2016, inflation should accelerate after the favourable supply shock dissipates. In 2016, the main inflation

factors should have a neutral effect (exchange rate, regulated prices) or a pro-inflationary effect (increasing demand in connection with the growing positive output gap, growth of crude oil prices and unit labour costs). Our forecast is based on the fact that the excise tax on tobacco products will increase further from the beginning of 2016 (contribution of 0.2 pp). In 2016, we now take into account a decrease in VAT in catering services from 21% to 15%, except for alcoholic beverages (contribution of –0.2 to –0.1 pp). The introduction of fiscalization of cash payments will probably have an opposite and similarly marginal effect on consumer prices.

We expect YoY inflation to return (after two years) into the tolerance band surrounding the 2% target of the CNB in 2016, and to fluctuate mainly in its lower half. **In 2016, the average inflation rate** should reach 1.5% (*unchanged*), with a YoY increase in consumer prices of 2.0% (*versus* 1.8%) in December.

C.2.2 Deflators

A comprehensive indicator of domestic inflation is the gross domestic product deflator, which is a resultant of the gross domestic expenditure deflator and the deflator of the terms of trade. In the first quarter of 2015, its growth of 1.1% (*versus* 1.3%) was caused by an increase in the gross domestic expenditure deflator of 0.9% (*versus* 0.5%) and by an improvement in terms of trade of 0.6% (*versus* 1.1%). While the growth of the household consumption deflator was nearly identical to the estimate, growth rates of the government consumption deflator and gross capital formation deflator were considerably higher, probably due to demand pressures resulting from accelerating investment dynamics.

For 2015, mainly due to a considerable decrease in the forecast growth of the terms of trade, we are decreasing the forecast for GDP deflator growth. We expect it to grow by 1.0% (*versus* 1.9%) in 2015 and further by 1.5% (*versus* 1.4%) in 2016. The terms of trade should increase by 0.4% (*versus* 1.9%) in 2015, as in 2016 (*versus* 0.6%). The gross domestic expenditure deflator could increase by 0.7% (*versus* 0.4%) in 2015 and further by 1.3% (*versus* 1.0%) in 2016.

The main change, i.e. a decrease in the growth of the terms of trade, is based on the observed higher decrease in export prices on the foreign markets and lower rate of the exchange rate devaluation in 2015.

³ They include changes in regulated prices (according to the CZSO reporting) and the impact of changes in indirect taxes.

Table C.2.1: Prices – yearly

			2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
									Forecast	Forecast	Outlook	Outlook
Consumer Price Index												
average of a year	average 2005=100		113.3	114.9	117.1	121.0	122.7	123.2	123.8	125.6	128.1	130.5
	growth in %		1.0	1.5	1.9	3.3	1.4	0.4	0.5	1.5	1.9	1.9
December	average 2005=100		112.9	115.5	118.3	121.1	122.8	122.9	123.9	126.4	128.7	131.2
	growth in %		1.0	2.3	2.4	2.4	1.4	0.1	0.8	2.0	1.8	1.9
of which the contribution of												
– administrative measures ¹⁾	percentage points		1.0	1.6	1.2	2.2	1.0	-0.2	-0.1	0.2	0.2	0.2
– market increase	percentage points		0.0	0.7	1.2	0.1	0.4	0.3	0.9	1.9	1.6	1.7
HICP	average 2005=100		112.4	113.7	116.2	120.3	121.9	122.4	123.1	125.0	127.5	129.9
	growth in %		0.6	1.2	2.1	3.5	1.4	0.4	0.6	1.5	2.0	1.9
Offering prices of flats	average 2010=100		104.3	100.0	95.1	96.1	97.2	100.7	.	.	.	.
	growth in %		-2.7	-4.1	-4.9	1.1	1.1	3.6	.	.	.	.
Deflators												
GDP	average 2010=100		101.5	100.0	99.8	101.2	102.6	105.1	106.1	107.7	109.2	110.9
	growth in %		2.6	-1.5	-0.2	1.4	1.4	2.5	1.0	1.5	1.4	1.5
Domestic final use	average 2010=100		100.2	100.0	100.8	102.6	103.1	104.3	105.0	106.3	107.9	109.3
	growth in %		1.5	-0.2	0.8	1.7	0.5	1.1	0.7	1.3	1.5	1.3
Consumption of households	average 2010=100		99.5	100.0	101.6	103.9	104.7	105.3	105.9	107.4	109.5	111.6
	growth in %		0.9	0.5	1.6	2.2	0.9	0.5	0.5	1.5	1.9	1.9
Consumption of government	average 2010=100		100.6	100.0	100.8	101.4	101.5	103.0	104.0	105.2	106.3	107.2
	growth in %		2.9	-0.6	0.8	0.6	0.1	1.5	0.9	1.2	1.0	0.9
Fixed capital formation	average 2010=100		101.1	100.0	99.2	100.9	101.0	102.9	104.0	104.9	105.8	106.8
	growth in %		1.5	-1.1	-0.8	1.7	0.1	1.9	1.0	0.9	0.9	0.9
Exports of goods and services	average 2010=100		101.2	100.0	100.7	103.8	105.6	110.0	109.4	109.7	110.1	110.7
	growth in %		0.5	-1.2	0.7	3.1	1.7	4.1	-0.5	0.3	0.3	0.5
Imports of goods and services	average 2010=100		99.2	100.0	102.3	106.1	106.6	109.4	108.4	108.3	108.7	109.0
	growth in %		-1.5	0.8	2.3	3.7	0.5	2.6	-0.9	-0.1	0.3	0.3
Terms of trade	average 2010=100		102.0	100.0	98.5	97.9	99.0	100.5	100.9	101.3	101.3	101.5
	growth in %		2.0	-2.0	-1.5	-0.6	1.2	1.5	0.4	0.4	0.0	0.2

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

Source: CZSO, Eurostat, own calculations

Table C.2.2: Prices – quarterly

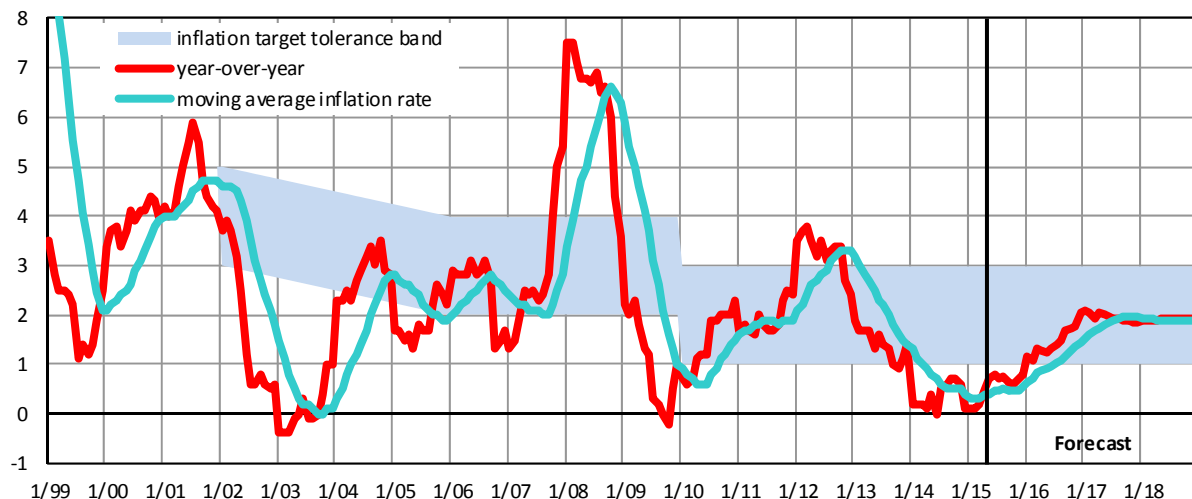
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast
Consumer Price Index	average 2005=100	123.0	123.2	123.3	123.1	123.2	124.0	124.2	123.9
	growth in %	0.2	0.2	0.6	0.5	0.1	0.6	0.7	0.7
of which the contribution of									
– administrative measures ¹⁾	percentage points	-0.6	-0.5	-0.3	-0.3	0.2	0.3	0.1	0.0
– market increase	percentage points	0.8	0.7	0.9	0.8	-0.1	0.4	0.6	0.7
HICP	average 2005=100	122.3	122.5	122.7	122.3	122.3	123.3	123.6	123.2
	growth in %	0.3	0.2	0.7	0.5	0.0	0.7	0.7	0.7
Offering prices of flats	average 2010=100	99.3	100.6	101.9	101.2	102.9	.	.	.
	growth in %	3.0	4.1	4.6	2.7	3.6	.	.	.
Deflators									
GDP	average 2010=100	103.9	105.1	105.3	106.1	105.1	105.8	106.4	107.2
	growth in %	2.2	2.8	2.9	2.0	1.1	0.7	1.0	1.0
Domestic final use	average 2010=100	103.1	104.0	104.4	105.4	104.0	104.6	105.1	106.0
	growth in %	0.6	1.0	1.5	1.4	0.9	0.6	0.7	0.6
Consumption of households	average 2010=100	104.9	105.2	105.6	105.4	105.0	105.9	106.4	106.2
	growth in %	0.4	0.4	0.8	0.5	0.1	0.6	0.7	0.7
Consumption of government	average 2010=100	99.8	102.2	102.3	106.9	101.4	102.9	103.5	107.5
	growth in %	0.7	1.3	1.5	2.2	1.6	0.6	1.1	0.5
Fixed capital formation	average 2010=100	102.5	102.6	103.0	103.5	103.9	103.5	104.0	104.4
	growth in %	1.6	1.6	2.3	2.0	1.3	0.9	0.9	0.9
Exports of goods and services	average 2010=100	109.7	109.7	110.4	110.0	109.6	109.0	109.6	109.5
	growth in %	4.6	4.2	5.3	2.6	-0.1	-0.6	-0.7	-0.5
Imports of goods and services	average 2010=100	109.4	108.9	109.7	109.5	108.7	108.0	108.4	108.5
	growth in %	2.9	2.1	3.6	1.9	-0.7	-0.9	-1.2	-0.9
Terms of trade	average 2010=100	100.2	100.7	100.6	100.5	100.8	101.0	101.1	100.9
	growth in %	1.6	2.1	1.6	0.7	0.6	0.2	0.4	0.5

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

Source: CZSO, Eurostat, own calculations

Graph C.2.1: Consumer Prices

YoY growth rate, in %

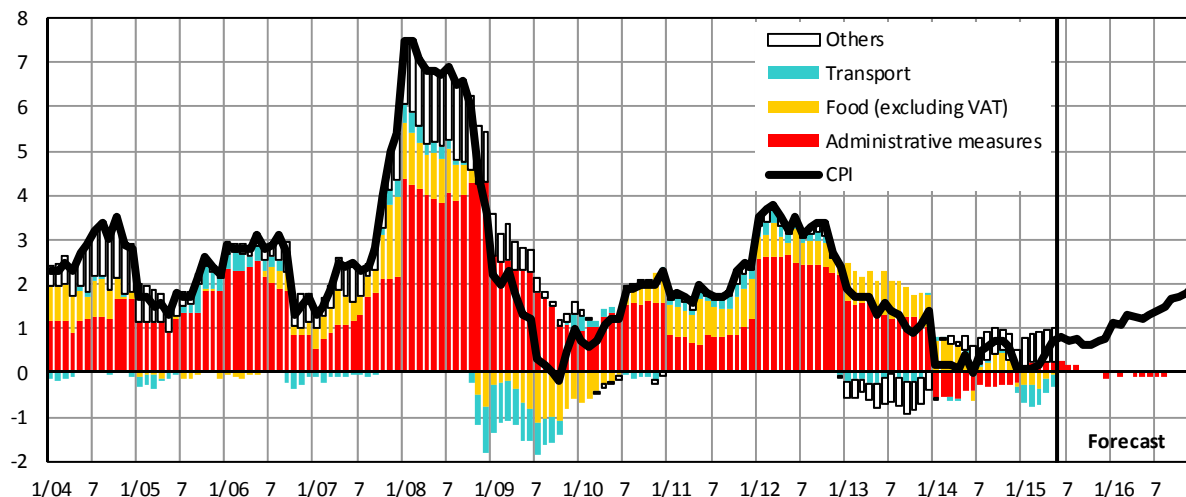


Note: For the years 2002–2005 the highlighted area represents target band for headline inflation, whereas from 2006 on it is the tolerance band of the CNB's point target for headline inflation.

Source: CNB, CZSO, own calculations

Graph C.2.2: Consumer Prices

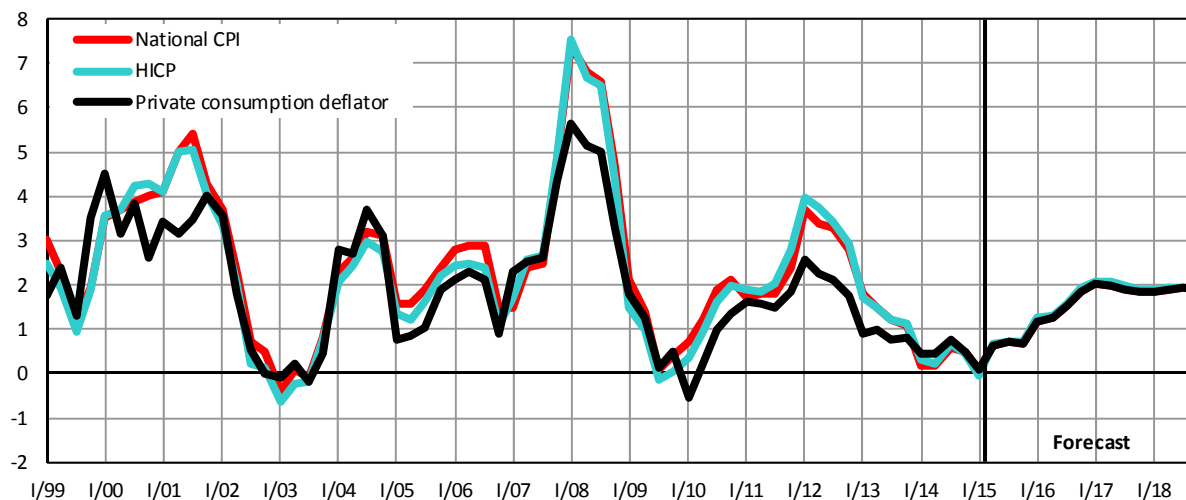
decomposition of YoY growth of CPI, contributions in pp, CPI growth rate in %, Transport excluding administrative measures and excises



Source: CZSO, own calculations

Graph C.2.3: Indicators of Consumer Prices

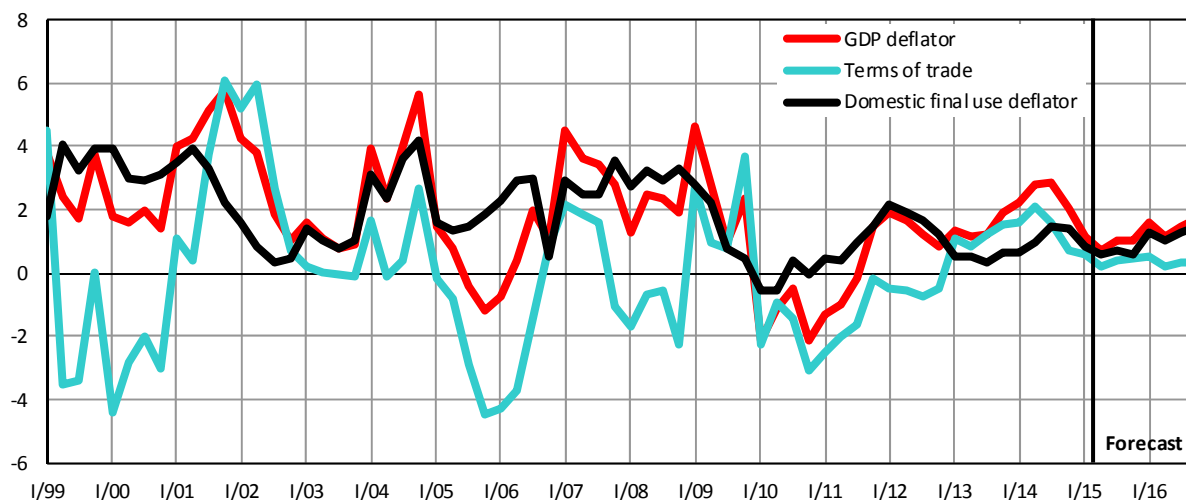
YoY growth rate, in %



Source: CZSO, Eurostat, own calculations

Graph C.2.4: GDP Deflator

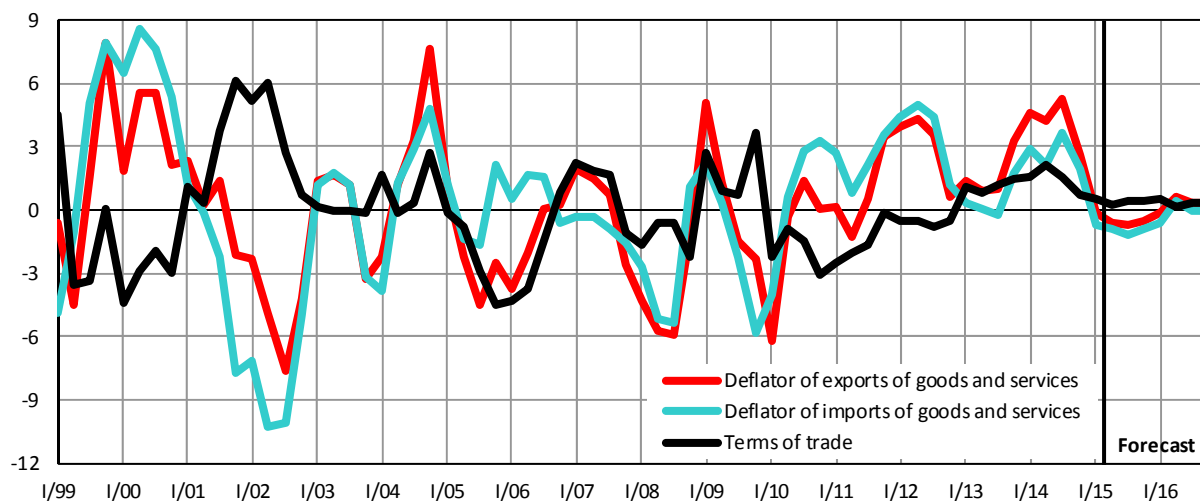
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.2.5: Terms of Trade

YoY growth rate, in %



Source: CZSO, own calculations

C.3 Labour Market

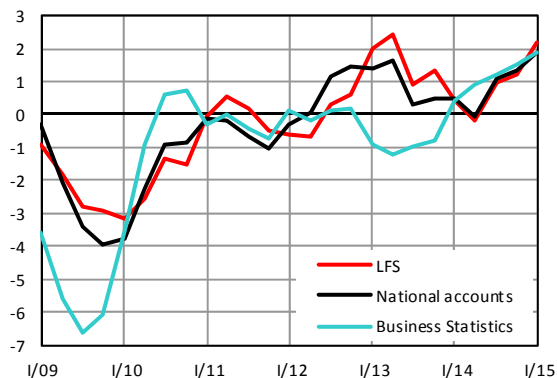
The labour market situation in the first quarter of 2015 was essentially in line with the improving position of the Czech economy in the economic cycle. While employment was still increasing and a decrease in unemployment continued, the increase in the average nominal wage can be considered as rather moderate in the current phase of the cycle.

C.3.1 Employment

According to the LFS, **employment** grew by 1.3% YoY (*versus 1.0%*) in the first quarter of 2015, due to a high increase of the number of employees of 2.2% (*versus 1.1%*). In contrast, the number of entrepreneurs decreased by 2.3% (*versus growth of 0.8%*). In addition to the continuing creation of permanent jobs, this development can also be explained by a likely one-off considerable shift of self-employed persons to the category of employees. This effect was considerable in particular in technical sectors and construction. In terms of sectors, the strongly increasing manufacturing still contributed most to employment growth.

Graph C.3.1: Employees in Different Statistics

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



Source: CZSO

Based on the better than expected development in the first quarter of 2015, we are increasing the forecast for employment growth in 2015 to 1.0% (*versus 0.7%*). We leave the forecast for 2016 unchanged at 0.2% as we still assume that employers will prefer the growth of wages to a further more significant increase in the number of employed persons. With regard to cyclical and legislative factors (in particular the limitation of lump-sum deductions applying to self-employed persons), we continue to expect a moderate decrease in the share of entrepreneurs in employment.

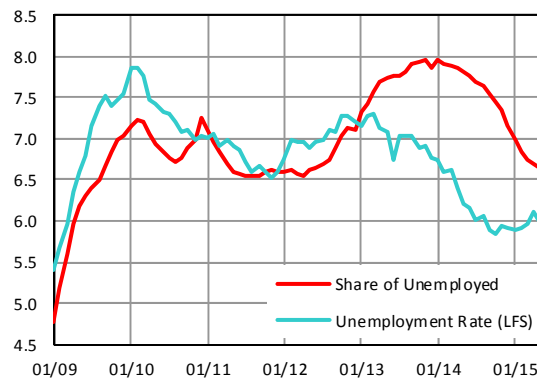
C.3.2 Unemployment

During 2015, the growth phase of the economy continued to manifest itself in a decrease in unemployment. The speed of this decrease, however, is rather lagging behind the course that could be expected in the current economic situation (this applies mainly to LFS statistics). The continuing more effective functioning of labour offices can be observed from the registered

unemployment statistics, but a decrease in the number of unemployed who found work on their own is also apparent. A similar picture can be seen when looking at unemployment according to the LFS in more detail. In the first quarter of 2015, the share of the short-term unemployed who have not found work increased. On the other hand, problems are already apparent in filling of work placements, which is implied by a considerably growing number of offered vacancies. The situation of the long-term unemployed is not getting any better either. The number of long-term registered unemployed (unemployed for 12 months and more) is decreasing considerably more slowly than in the previous periods and their share in the total was 46.6% in June. The LFS long-term unemployment on the seasonally adjusted basis has been more or less stagnating since the beginning of 2014. From an overall perspective it seems that structural factors will weigh on a further decrease in unemployment. These include mainly the frictions on the labour market (a mismatch between labour demand and supply), apparent especially in regions with traditionally low unemployment rates and a historically specific qualification of the labour force. In contrast, the positive aspect of the current development is a relatively fast decrease in the share of registered and LFS unemployed, reflecting the improving financial situation of households and probably also the restriction of jobs in the grey economy.

Graph C.3.2: Indicators of Unemployment

seasonally adjusted data, in %



Source: CZSO, Ministry of Labour and Social Affairs, own calculations

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

In the first quarter of 2015, the **unemployment rate** according to the LFS already only stagnated on the seasonally adjusted quarterly data. Despite the more dynamic economic growth, we still forecast only a slight decrease in the unemployment rate to 5.7%, in 2015 (*unchanged*), taking into account the aforementioned structural factors. We don't change the forecast of 5.5% for 2016 either.

C.3.3 Economic Activity Rate

The **economic activity rate** (15–64 year-olds) grew by 0.7 pp YoY in the first quarter of 2015 (*versus 0.6 pp*). At present, structural factors are having a positive effect on the development of the participation rate. These mainly comprise the increasing weight of cohorts with a naturally high economic activity rate (especially of those aged 40–49) and the increasing statutory retirement age. Due to the fact that the Czech economy should hover around its potential in 2015 (see Chapter B.1), cyclical factors of the development of the participation rate should not be important in the near future.

C.3.4 Wages

In 2015, the growth of the wage bill should accelerate. Both wage growth acceleration and an increase in the number of employees should contribute to this outcome. The only more important factor weighing on wage growth in ensuing years is a relatively low inflation rate.

The wage bill (national accounts methodology, domestic concept) posted the expected relatively strong YoY growth in the first quarter of 2015. However, the result has lagged behind the expectations (3.3% versus the expected 3.8%). These figures are not, however, too mutually comparable due to the revised time series. An increase in the wage bill in manufacturing of 5.3% contributed significantly to this outcome, together with the abatement of restrictions in the budgetary sphere. The growth of the wage bill in public administration, defence, education and health care reached 5.0%. In line with a considerable increase in construction output, the wage bill in this sector increased in annual terms for the first time since the end of 2010.

With regard to the favourable development of the budgetary cash collection of social security contributions, we estimate that the growth of the wage bill further accelerated in the second quarter of 2015.

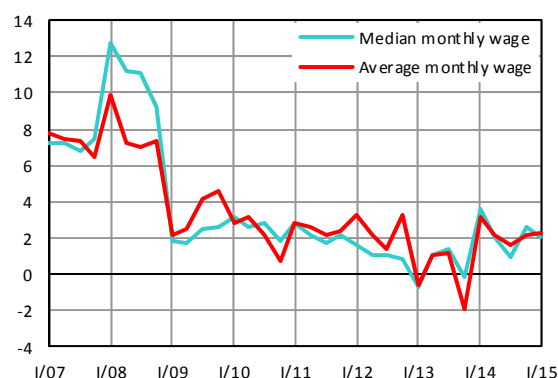
From the long-term perspective, the nominal increases in the wage bill will be supported by the solid growth of real labour productivity. In annual terms, however, this indicator is burdened with a statistical effect of a change in excise taxes on tobacco products in 2015 (for more details see Chapter C.1). We still expect a decrease in the difference between the registered

unemployment and data from the LFS, which would imply a decrease in the number of jobs in the grey economy, and thus an increase in the number of better paid jobs. The already mentioned mismatch between labour demand and supply should also have an effect in the direction of the acceleration of the growth of wages of current employees.

The wage bill could increase by 4.2% in 2015 (*versus 4.0%*); we also expect a similar growth rate in ensuing years. The aforementioned higher-than-expected growth in the number of employees should also contribute to this outcome. However, this development should not constrain the competitiveness of firms. Unit labour costs should remain at an acceptable level. At the same time we envisage an increase in gross operating surplus, thanks to the expected course of the economy. The ratio of compensation of employees to GDP should be near the long-term average of approx. 40%.

Graph C.3.3: Nominal Monthly Wage

YoY growth rate, in %



Source: CZSO

The average wage (business statistics, full-time equivalent) increased by 2.2% (*versus 2.9%*) in the first quarter of 2015, with the growth of wages in both the business and non-business spheres contributing to this outcome. The positive signal continues to be a relatively solid growth of the median wage (of 2.1%) with possible positive consequences for household consumption. For similar reasons as those relating to the wage bill and mentioned above, we expect growth of the average wage of 3.3% in 2015 (*unchanged*) and of 4.0% (*versus 3.9%*) in 2016.

Table C.3.1: Labour Market – yearly

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
								Forecast	Forecast	Outlook	Outlook
Labour Force Survey											
Employment	<i>av. in thous.persons</i>	4 934	4 885	4 872	4 890	4 937	4 974	5 026	5 034	5 040	5 043
	<i>growth in %</i>	-1.4	-1.0	0.4	0.4	1.0	0.8	1.0	0.2	0.1	0.1
– employees	<i>av. in thous.persons</i>	4 107	4 019	3 993	3 990	4 055	4 079	4 134	4 142	4 148	4 151
	<i>growth in %</i>	-2.1	-2.1	0.0	-0.1	1.6	0.6	1.3	0.2	0.1	0.1
– entrepreneurs and self-employed	<i>av. in thous.persons</i>	827	866	880	901	882	895	891	892	892	892
	<i>growth in %</i>	2.5	4.7	2.0	2.4	-2.1	1.5	-0.4	0.1	0.0	0.0
Unemployment	<i>av. in thous.persons</i>	352	384	351	367	369	324	303	293	288	284
Unemployment rate	<i>average in per cent</i>	6.7	7.3	6.7	7.0	7.0	6.1	5.7	5.5	5.4	5.3
Long-term unemployment ¹⁾	<i>av. in thous.persons</i>	109	160	144	161	163	141	.	.	.	.
Labour force	<i>av. in thous.persons</i>	5 286	5 269	5 223	5 257	5 306	5 298	5 328	5 328	5 328	5 327
	<i>growth in %</i>	1.0	-0.3	-0.2	0.7	0.9	-0.2	0.6	0.0	0.0	0.0
Population aged 15–64	<i>av. in thous.persons</i>	7 431	7 399	7 295	7 229	7 154	7 081	7 027	6 962	6 899	6 840
	<i>growth in %</i>	0.3	-0.4	-0.7	-0.9	-1.0	-1.0	-0.8	-0.9	-0.9	-0.8
Employment/Pop. 15–64	<i>average in per cent</i>	66.4	66.0	66.8	67.6	69.0	70.2	71.5	72.3	73.1	73.7
Employment rate 15–64 ²⁾	<i>average in per cent</i>	65.4	65.0	65.7	66.5	67.7	69.0	70.0	70.8	71.5	72.1
Labour force/Pop. 15–64	<i>average in per cent</i>	71.1	71.2	71.6	72.7	74.2	74.8	75.8	76.5	77.2	77.9
Participation rate 15–64 ³⁾	<i>average in per cent</i>	70.1	70.2	70.5	71.6	72.9	73.5	74.3	75.0	75.7	76.3
Registered unemployment											
Unemployment	<i>av. in thous.persons</i>	465.6	528.7	507.8	504.7	564.4	561.4	482	433	405	388
Share of unemployed ⁴⁾	<i>average in per cent</i>	6.1	7.0	6.7	6.8	7.7	7.7	6.6	5.9	5.6	5.4
Wages and salaries											
Average monthly wage ⁵⁾											
– nominal	CZK	23 344	23 864	24 455	25 067	25 035	25 607	26 400	27 500	28 600	29 700
	<i>growth in %</i>	3.3	2.2	2.5	2.5	-0.1	2.3	3.3	4.0	4.0	4.0
– real	CZK 2005	20 604	20 769	20 884	20 717	20 403	20 785	21 400	21 900	22 300	22 800
	<i>growth in %</i>	2.2	0.8	0.6	-0.8	-1.5	1.9	2.7	2.5	2.0	2.1
Median monthly wage	CZK	19 781	20 294	20 743	20 984	21 077	21 559	.	.	.	.
	<i>growth in %</i>	2.2	2.6	2.2	1.2	0.4	2.3	.	.	.	.
Wage bill	<i>growth in %</i>	-2.0	0.6	2.2	2.5	0.4	1.9	4.2	4.1	4.1	4.1
Labour productivity	<i>growth in %</i>	-3.1	3.4	2.2	-1.3	-0.8	1.4	2.9	2.3	2.2	2.3
Unit labour costs ⁶⁾	<i>growth in %</i>	2.6	0.0	0.6	3.1	0.6	0.1	0.1	1.6	1.7	1.7
Compens. of employees / GDP	%	40.0	40.2	40.4	41.2	41.1	40.2	40.0	40.0	40.2	40.3

1) Persons in unemployment for longer than 12 months.

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

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

4) Share of available job seekers aged 15 to 64 years in the population of the same age.

5) Derived from full-time-equivalent employers in the entire economy.

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

Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Table C.3.2: Labour Market – quarterly

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
							Estimate	Forecast	Forecast
Labour Force Survey									
Employment	<i>av. in thous. persons</i>	4 923	4 962	4 995	5 017	4 988	5 030	5 042	5 042
	<i>YoY growth in %</i>	0.8	0.2	0.8	1.2	1.3	1.4	0.9	0.5
	<i>QoQ growth in %</i>	0.3	0.0	0.5	0.5	0.4	0.1	0.0	0.0
– employees	<i>av. in thous. persons</i>	4 030	4 064	4 105	4 118	4 116	4 132	4 149	4 140
	<i>growth in %</i>	0.4	-0.2	1.0	1.2	2.1	1.7	1.1	0.5
– entrepreneurs and self-employed	<i>av. in thous. persons</i>	893	898	890	899	872	898	892	903
	<i>growth in %</i>	2.8	2.2	0.1	1.0	-2.3	0.0	0.2	0.4
Unemployment	<i>av. in thous. persons</i>	358	319	313	305	317	296	302	296
Unemployment rate	<i>average in per cent</i>	6.8	6.0	5.9	5.7	6.0	5.6	5.6	5.6
Long-term unemployment ¹⁾	<i>av. in thous. persons</i>	147	138	137	141	145	.	.	.
Labour force	<i>av. in thous. persons</i>	5 281	5 281	5 308	5 322	5 306	5 326	5 343	5 339
	<i>growth in %</i>	0.1	-0.6	-0.3	0.2	0.5	0.9	0.7	0.3
Population aged 15–64	<i>av. in thous. persons</i>	7 103	7 089	7 074	7 060	7 050	7 035	7 019	7 003
	<i>growth in %</i>	-1.1	-1.1	-1.0	-0.9	-0.7	-0.8	-0.8	-0.8
Employment/Pop. 15–64	<i>average in per cent</i>	69.3	70.0	70.6	71.1	70.8	71.5	71.8	72.0
	<i>increase over a year</i>	1.3	0.9	1.3	1.4	1.4	1.5	1.2	0.9
Employment rate 15–64 ²⁾	<i>average in per cent</i>	68.1	68.7	69.3	69.8	69.3	70.0	70.3	70.5
	<i>increase over a year</i>	1.2	0.9	1.3	1.5	1.3	1.3	1.0	0.7
Labour force/Pop. 15–64	<i>average in per cent</i>	74.4	74.5	75.0	75.4	75.3	75.7	76.1	76.2
	<i>increase over a year</i>	0.9	0.4	0.5	0.8	0.9	1.2	1.1	0.9
Participation rate 15–64 ³⁾	<i>average in per cent</i>	73.1	73.2	73.7	74.1	73.8	74.2	74.6	74.7
	<i>increase over a year</i>	0.8	0.4	0.5	0.8	0.7	1.0	0.9	0.6
Registered unemployment									
Unemployment	<i>av. in thous. persons</i>	619.1	565.9	536.6	524.2	546.0	482	451	447
Share of unemployed ⁴⁾	<i>average in per cent</i>	8.5	7.8	7.4	7.2	7.5	6.6	6.1	6.1
Wages and salaries									
Average monthly wage ⁵⁾									
– nominal	CZK	24 754	25 411	25 127	27 107	25 306	26 200	26 100	28 200
	<i>growth in %</i>	3.2	2.1	1.6	2.2	2.2	3.2	3.7	3.9
– real	CZK 2005	20 125	20 626	20 379	22 020	20 541	21 100	21 000	22 700
	<i>growth in %</i>	3.0	2.0	1.0	1.7	2.1	2.5	3.0	3.2
Median monthly wage	CZK	20 716	21 310	21 442	22 769	21 143	.	.	.
	<i>growth in %</i>	3.6	2.1	0.9	2.6	2.1	.	.	.
Wage bill	<i>growth in %</i>	2.0	1.9	1.3	2.4	3.3	4.4	4.5	4.4

1) Persons in unemployment for longer than 12 months.

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

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

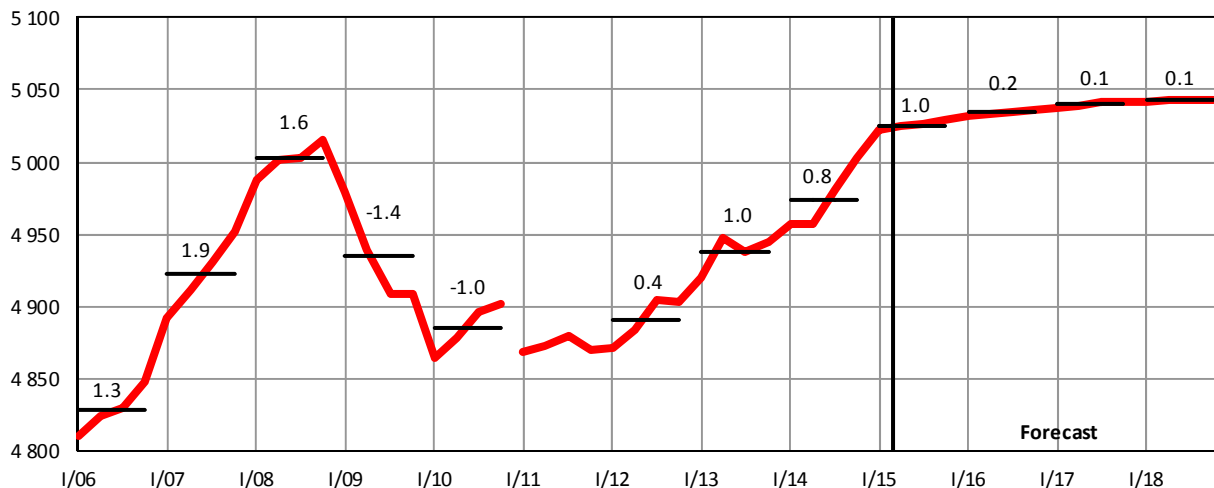
4) Share of available job seekers aged 15 to 64 years in the population of the same age.

5) Derived from full-time-equivalent employers in the entire economy.

Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Graph C.3.4: Employment (LFS)

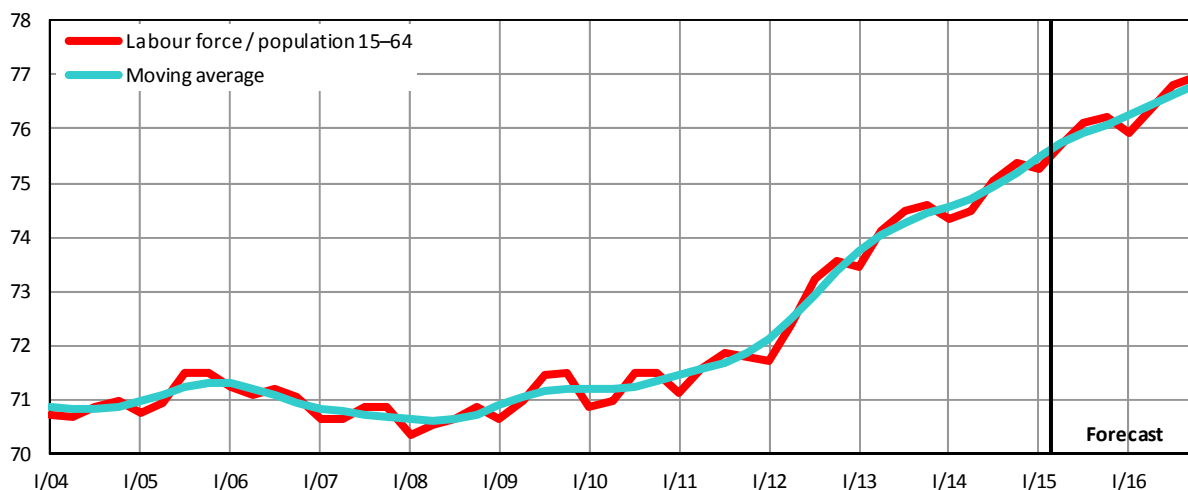
seasonally adjusted data, in thousands of persons, growth rates in %



Source: CZSO, own calculations

Graph C.3.5: Ratio of Labour Force to Population Aged 15–64

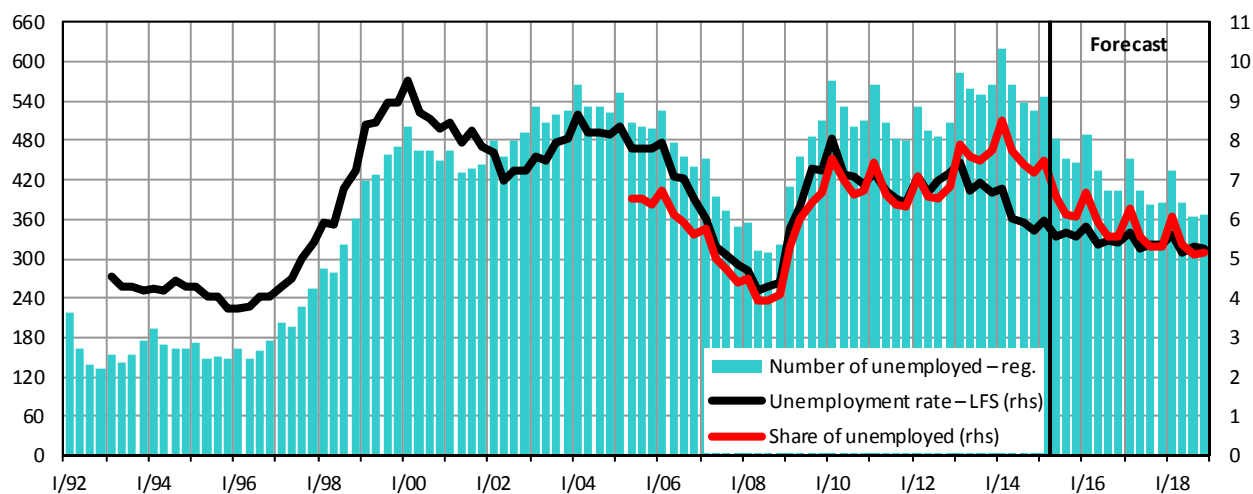
in %



Source: CZSO, own calculations

Graph C.3.6: Unemployment

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

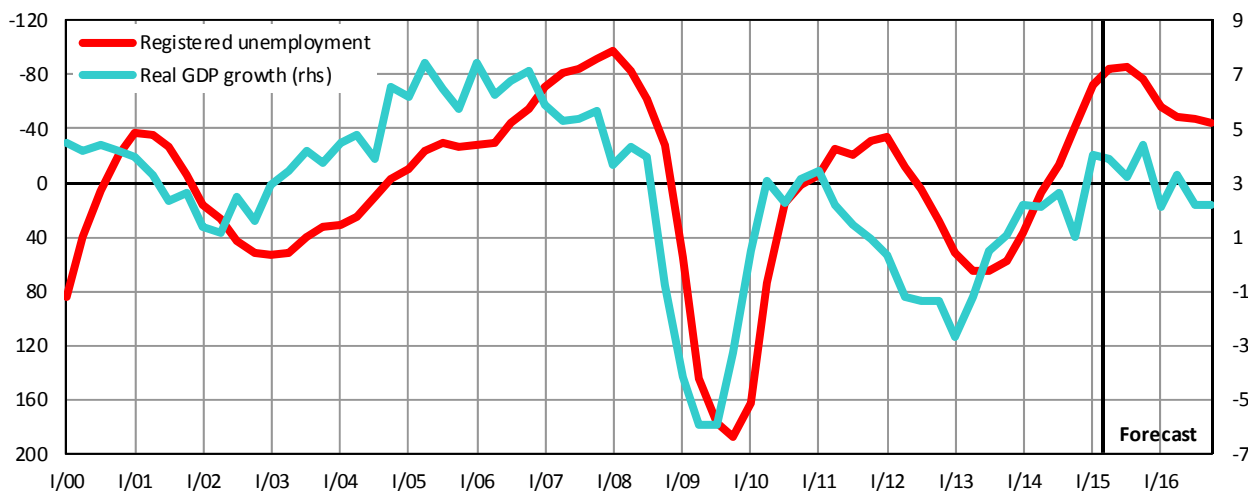


Note: Share of unemployed (Ministry of Labour and Social Affairs) is defined as a share of available job seekers aged 15 to 64 years in the population of the same age.

Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Graph C.3.7: Economic Output and Unemployment

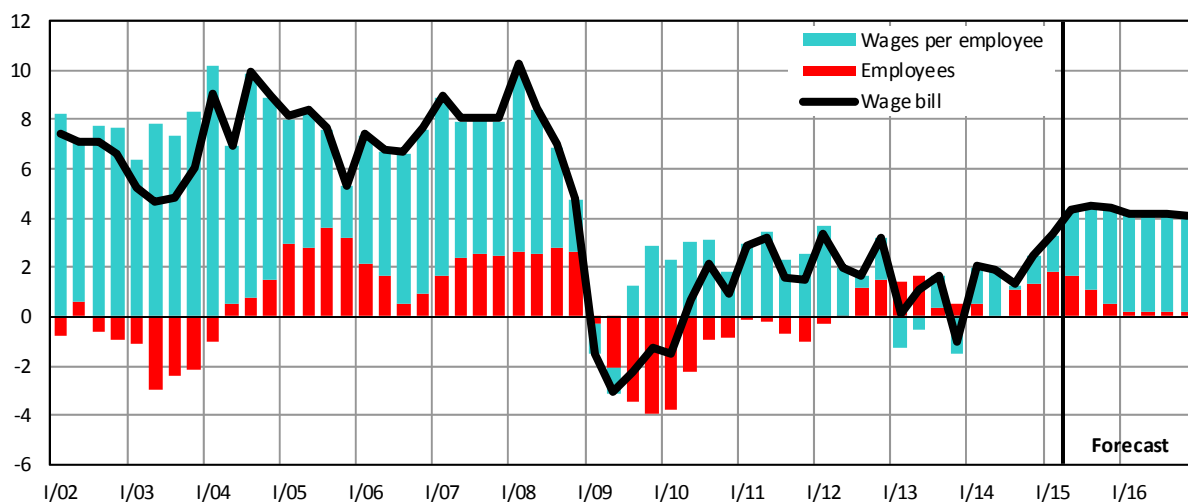
YoY real GDP growth rate in %, change in unemployment in thousands of persons



Source: CZSO, Ministry of Labour and Social Affairs, own calculations

Graph C.3.8: Wage Bill – nominal, domestic concept

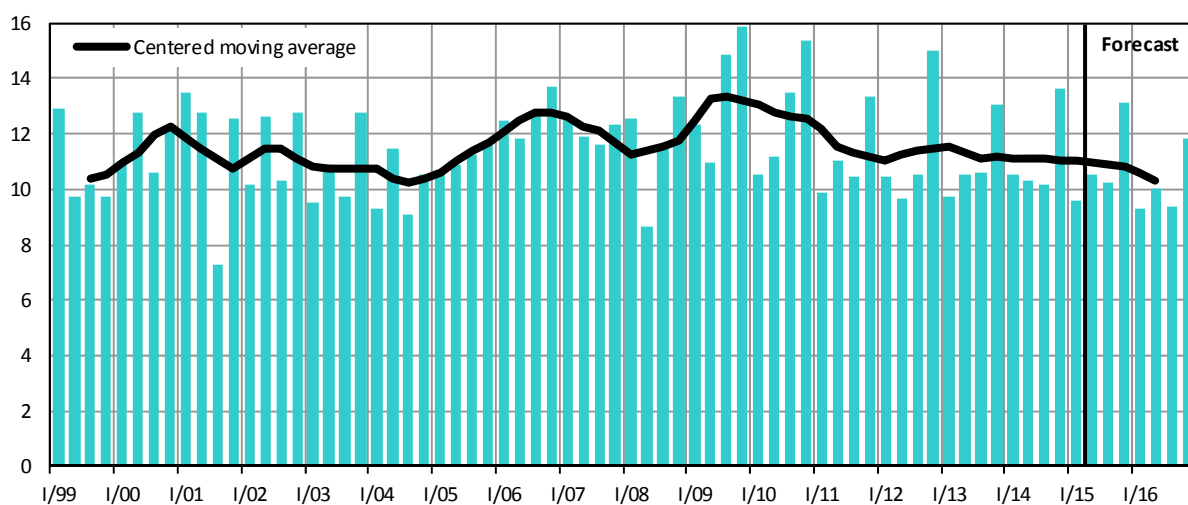
YoY growth rate, in %



Source: CZSO, own calculations

Graph C.3.9: Gross Savings Rate of Households

in % of disposable income



Source: CZSO, own calculations

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

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
										Forecast	Forecast
Current income											
Compensation of employees	bill.CZK	1 505	1 593	1 553	1 585	1 626	1 668	1 690	1 737	1 811	1 882
	growth in %	8.1	5.8	-2.5	2.0	2.6	2.6	1.3	2.8	4.3	3.9
Gross operating surplus and mixed income	bill.CZK	632	657	686	685	674	654	645	675	681	698
	growth in %	5.0	4.0	4.5	-0.2	-1.7	-2.9	-1.3	4.6	0.8	2.5
Property income received	bill.CZK	162	177	158	152	151	145	155	139	133	133
	growth in %	4.1	9.8	-11.0	-3.5	-0.9	-3.7	7.0	-10.5	-4.4	0.0
Social benefits not-in-kind	bill.CZK	471	493	535	542	553	566	563	577	601	614
	growth in %	11.9	4.7	8.6	1.2	2.1	2.4	-0.6	2.4	4.3	2.2
Other current transfers received	bill.CZK	126	143	141	140	139	151	147	148	155	160
	growth in %	8.3	13.2	-1.4	-1.0	-0.5	8.6	-2.8	1.0	4.8	3.0
Current expenditure											
Property income paid	bill.CZK	27	31	19	23	21	15	21	15	13	12
	growth in %	25.2	11.2	-36.7	17.7	-8.5	-27.2	40.5	-29.5	-14.5	-3.0
Curr. taxes on income and property	bill.CZK	161	145	140	137	149	151	159	166	172	179
	growth in %	11.9	-9.9	-3.0	-2.6	8.6	1.7	5.1	4.5	3.6	3.9
Social contributions	bill.CZK	616	637	603	621	640	654	670	697	725	754
	growth in %	9.5	3.3	-5.3	2.9	3.0	2.3	2.4	4.0	4.1	4.0
Other current transfers paid	bill.CZK	130	146	143	141	147	154	140	139	140	140
	growth in %	12.4	12.1	-1.6	-1.6	4.0	5.3	-9.3	-0.9	1.3	0.0
Gross disposable income	bill.CZK	1 961	2 106	2 168	2 182	2 187	2 210	2 211	2 260	2 331	2 401
	growth in %	6.4	7.4	3.0	0.7	0.2	1.0	0.0	2.2	3.2	3.0
Final consumption	bill.CZK	1 749	1 887	1 891	1 920	1 957	1 971	2 001	2 042	2 113	2 196
	growth in %	7.3	7.9	0.2	1.5	2.0	0.7	1.6	2.0	3.5	3.9
Change in share in pension funds	bill.CZK	26	24	17	15	16	15	35	35	36	39
Gross savings	bill.CZK	238	243	295	278	246	254	244	254	255	245
Capital transfers (income (-) / expenditure (+))	bill.CZK	-34	-25	-25	-29	-25	-21	-13	-32	-22	-24
Gross capital formation	bill.CZK	213	219	212	230	198	183	181	180	188	192
	growth in %	12.8	2.8	-3.1	8.8	-14.0	-7.8	-1.2	-0.3	4.2	2.2
Change in financial assets and liab.	bill.CZK	58	47	106	75	71	91	75	104	87	75
Real disposable income	growth in %	3.4	2.5	2.1	0.1	-1.4	-1.1	-0.8	1.7	2.6	1.5
Gross savings rate	%	12.1	11.5	13.6	12.7	11.2	11.5	11.0	11.2	10.9	10.2

Source: CZSO, own calculations

C.4 External Relations

The current account balance to GDP⁴ ratio reached 0.8% (*versus* 0.7%) in the first quarter of 2015, which was a YoY deterioration of 0.3 pp. This was mainly due to a deepening of the deficit of the balance of primary incomes of 1.5 pp and also a decrease in the surplus of the balance of services of 0.4 pp. On the contrary, the balance of goods improved by 0.8 pp YoY, as the balance of secondary incomes that, however, changed from deficit to surplus. The current account has recorded a surplus for the fifth quarter in a row.

Export markets⁵ increased by 4.7% on average in 2014. While in the second and third quarters of 2014 their growth was slowing down, at the end of 2014 it started accelerating again, and export markets increased by 5.3% (*versus* 2.7%) in the first quarter of 2015. With a more favourable development of the economies of the main trading partners, we can expect further growth of export markets. They could increase by 6.2% (*versus* 3.0%) in 2015 and by 5.4% (*versus* 4.1%) in 2016.

The forecast development for export markets should also be accompanied by an increase in export performance, which indicates a change in the share of the volume of Czech goods on foreign markets. The weaker koruna exchange rate, which positively influences price competitiveness of Czech exporters, also has an effect on the expected growth of export performance of 2.3% (*versus* 2.6%) in 2015 and of 1.5% in 2016 (*versus* 1.8%).

The growth rates of the volume of goods exports and imports have been gradually decreasing in the previous year; however, the surplus of the trade balance was increasing due to the fact that the growth of exports exceeded the growth of imports. In the first quarter of 2015, the surplus reached a record-high amount of CZK 240.4 billion, i.e. CZK 44.4 billion more YoY. The weaker koruna exchange rate and export and import prices were also reflected in the outcome of the trade balance. Terms of trade have been improving since the beginning of 2013. At the beginning of 2015, export prices decreased slightly (for the first time since the second quarter of 2011), but import prices decreased even more, and an improvement of the terms of trade continued. In 2015, the development of the terms of trade will also be influenced considerably by low crude oil prices. However, their positive impact on the overall prices of foreign trade is largely eliminated by a deterioration of the terms of trade for other important commodity groups, such as machinery and transport equipment, semi-finished products, consumer goods and chemicals. We estimate the deficit in the fuel balance (SITC 3) to be 2.4% of GDP (*versus* 2.6%) in 2015 and

2.6% of GDP (*versus* 2.8%) in 2016. This year's trade balance will also be influenced by a one-off purchase of the military air equipment (fighter jets JAS-39 Gripen) in the fourth quarter of CZK 10.5 billion.

With respect to the aforementioned information, we have considerably revised the forecast for the balance of goods downwards to 5.4% of GDP (*versus* 6.6%) in 2015 and to 5.8% of GDP (*versus* 6.7%) in 2016.

The trend of a decrease in the surplus of the balance of services has persisted without interruption since the end of 2012. It relates to less favourable dynamics of exports of services (lower growth or higher decrease) in comparison with their import, mainly in the most important item of the balance of services, i.e. tourism. The growth of the deficit of the balance of financial services and so-called other business services also had a considerable impact on the decrease in the total surplus of the balance of services, at the same time the surplus of transport services has been persistently decreasing. In total, the surplus in the balance of services reached 1.2% of GDP in the first quarter of 2015 (*versus* 1.3%). We expect that the gradual decrease in the surplus will continue. It should reach 1.1% of GDP (*versus* 1.3%) in 2015 and 1.0% of GDP (*versus* 1.3%) in 2016.

The deficit in the primary income balance, which includes the reinvested and repatriated earnings of foreign investors, deepened in the first quarter of 2015 by 1.5 pp YoY and reached 6.5% of GDP (*versus* 6.2%). 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 the overall balance of primary income. The expected increase in the profitability of firms related to the favourable economic development and export growth should contribute to the continuation of the long-term increase in the deficit. We estimate that the deficit in the primary income balance will reach 6.5% of GDP in 2015 (*versus* 6.4%) and will increase to 6.9% of GDP in 2016 (*unchanged*).

The expected slower growth or even stagnation of the surplus of the trade balance, a stronger decrease in the surplus of the balance of services and a quicker deepening of the deficit in the primary incomes imply a lower surplus of the current account. We estimate it will reach 0.5% of GDP (*versus* 1.3%) in 2015 and could decrease slightly to 0.2% of GDP (*versus* 0.9%) in 2016.

⁴ All quarterly data is provided in annual moving sums.

⁵ Weighted average of the growth of goods imports by the six most important trading partner countries (Germany, Slovakia, Poland, France, United Kingdom and Austria).

Table C.4.1: Balance of Payments – yearly

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
										Forecast	Forecast
Goods and services	bill.CZK	98	85	147	119	157	201	237	295	289	318
	% GDP	2.6	2.1	3.7	3.0	3.9	5.0	5.8	6.9	6.5	6.8
– goods	bill.CZK	10	-4	65	40	75	124	167	239	241	270
	% GDP	0.3	-0.1	1.7	1.0	1.9	3.1	4.1	5.6	5.4	5.8
– services	bill.CZK	88	89	82	78	81	78	70	56	49	47
	% GDP	2.3	2.2	2.1	2.0	2.0	1.9	1.7	1.3	1.1	1.0
Primary income	bill.CZK	-255	-148	-217	-250	-223	-238	-249	-259	-291	-322
	% GDP	-6.6	-3.7	-5.5	-6.3	-5.6	-5.9	-6.1	-6.1	-6.5	-6.9
Secondary income	bill.CZK	-8	-12	-19	-11	-18	-27	-10	-10	22	14
	% GDP	-0.2	-0.3	-0.5	-0.3	-0.5	-0.7	-0.2	-0.2	0.5	0.3
Current account	bill.CZK	-164	-75	-89	-142	-85	-63	-22	26	21	9
	% GDP	-4.3	-1.9	-2.3	-3.6	-2.1	-1.6	-0.5	0.6	0.5	0.2
Capital account	bill.CZK	22	26	51	38	13	53	82	32	56	16
	% GDP	0.6	0.6	1.3	1.0	0.3	1.3	2.0	0.8	1.3	0.4
Net lending/borrowing	bill.CZK	-143	-49	-38	-104	-72	-10	61	58	77	25
	% GDP	-3.7	-1.2	-1.0	-2.6	-1.8	-0.3	1.5	1.4	1.7	0.5
Financial account	bill.CZK	-110	-43	-72	-122	-75	12	68	48	.	.
– direct investments	bill.CZK	-179	-36	-38	-95	-47	-121	7	-134	.	.
– portfolio investments	bill.CZK	57	9	-159	-150	-6	-55	-93	90	.	.
– financial derivatives	bill.CZK	-1	3	1	5	4	-9	-5	-6	.	.
– other investments	bill.CZK	-2	-59	62	77	-9	116	-30	24	.	.
– reserve assets	bill.CZK	16	40	61	41	-17	80	188	73	.	.
International investment position	bill.CZK	-1 418	-1 534	-1 726	-1 823	-1 823	-1 864	-1 695	-1 520	.	.
	% GDP	-37.0	-38.2	-44.0	-46.1	-45.3	-46.1	-41.6	-35.7	.	.
Gross external debt	bill.CZK	1 377	1 862	1 956	2 164	2 312	2 434	2 733	2 857	.	.
	% GDP	35.9	46.4	49.9	54.7	57.5	60.2	67.0	67.0	.	.

Source: CNB, CZSO, own calculations

Table C.4.2: Balance of Payments – quarterly

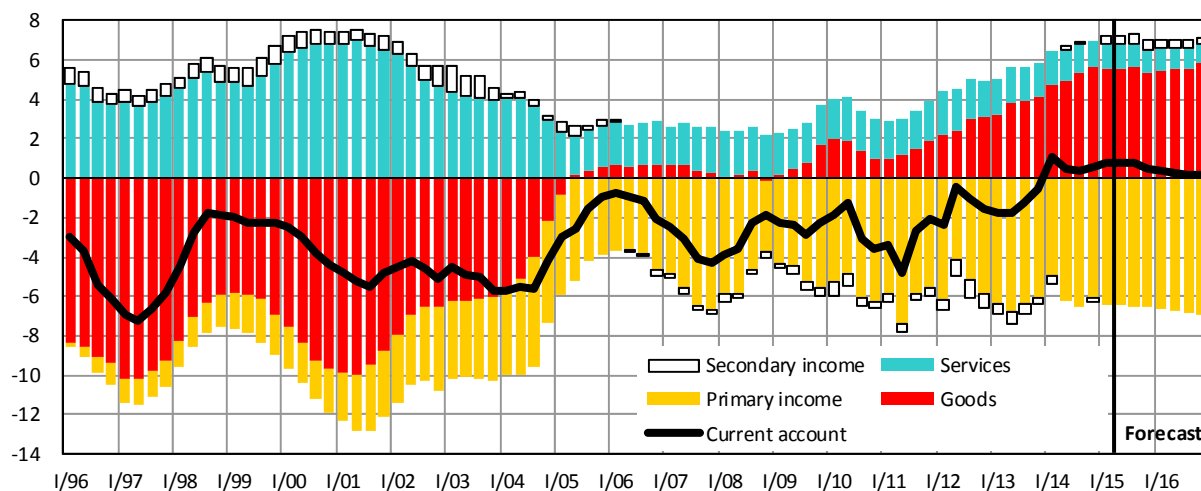
moving sums of the latest 4 quarters

		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	
Goods and services	bill.CZK	265	271	288	295	294	296	300	289
– goods	bill.CZK	196	205	225	239	240	243	250	241
– services	bill.CZK	69	66	64	56	53	52	51	49
Primary income	bill.CZK	-206	-260	-276	-259	-279	-283	-286	-291
Secondary income	bill.CZK	-14	10	3	-10	19	20	21	22
Current account	bill.CZK	45	20	16	26	34	33	35	21
Capital account	bill.CZK	103	100	46	32	41	46	51	56
Net lending/borrowing	bill.CZK	148	120	62	58	75	80	87	77
Financial account	bill.CZK	104	107	46	48	68	.	.	.
– direct investments	bill.CZK	-33	-94	-126	-134	-110	.	.	.
– portfolio investments	bill.CZK	-91	38	37	90	121	.	.	.
– financial derivatives	bill.CZK	-7	-6	-6	-6	-4	.	.	.
– other investments	bill.CZK	28	-78	-85	24	-25	.	.	.
– reserve assets	bill.CZK	208	247	226	73	86	.	.	.
International investment position	stock in bill.CZK	-1 542	-1 550	-1 564	-1 520	-1 307	.	.	.
Gross external debt	stock in bill.CZK	2 688	2 763	2 810	2 857	2 887	.	.	.

Source: CNB, CZSO, own calculations

Graph C.4.1: Current Account

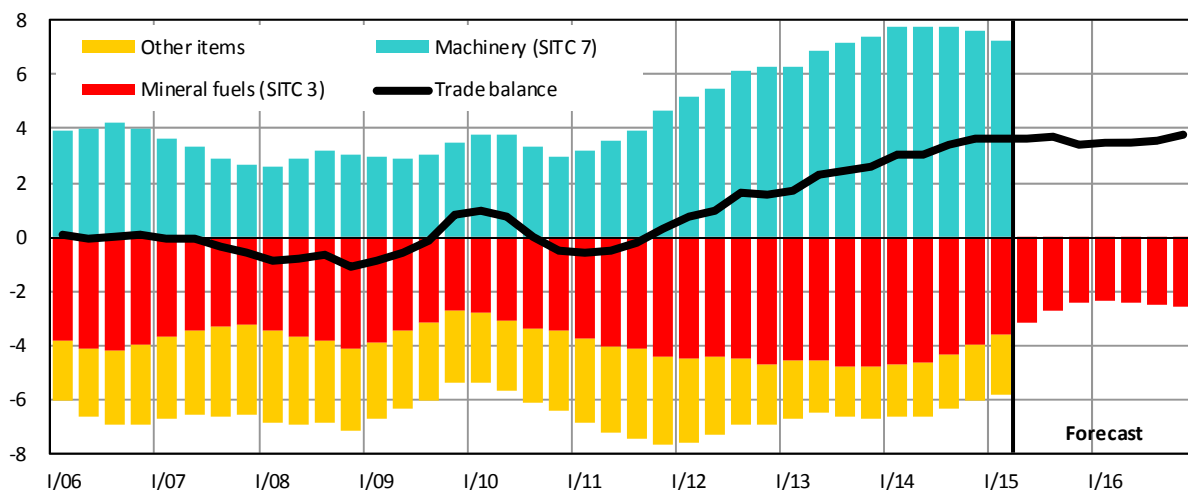
moving sums of the latest 4 quarters, in % of GDP, trade and service balances in BoP definitions



Source: CNB, CZSO, own calculations

Graph C.4.2: Balance of Trade (national concept)

moving sums of the latest 4 quarters, in % of GDP, in cross-border definitions

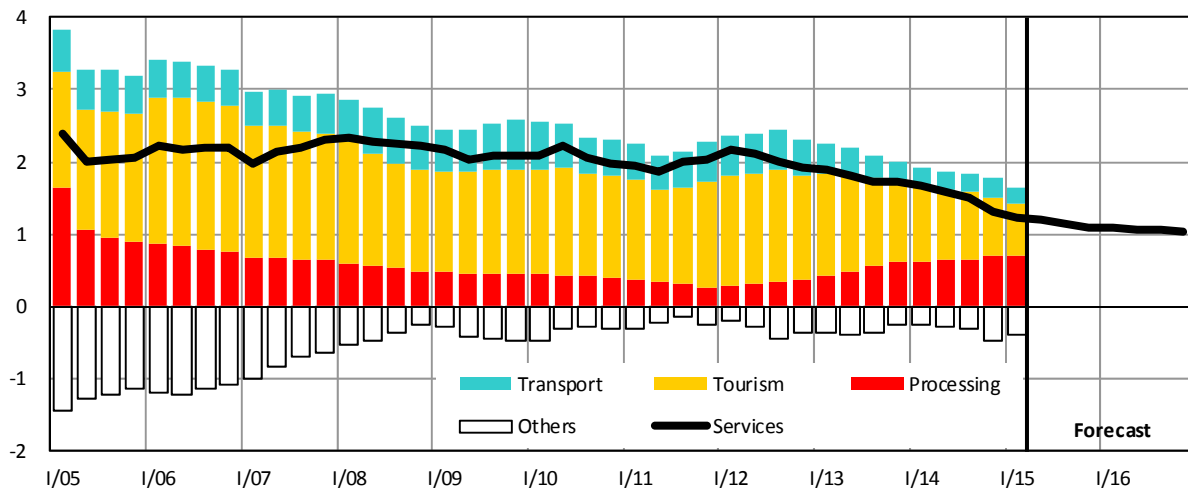


Note: The data in the chart show imports in cif methodology. For this reason, the chart is not comparable with Tables C.4.1 and C.4.2, where imports are in fob methodology.

Source: CZSO, own calculations

Graph C.4.3: Balance of Services

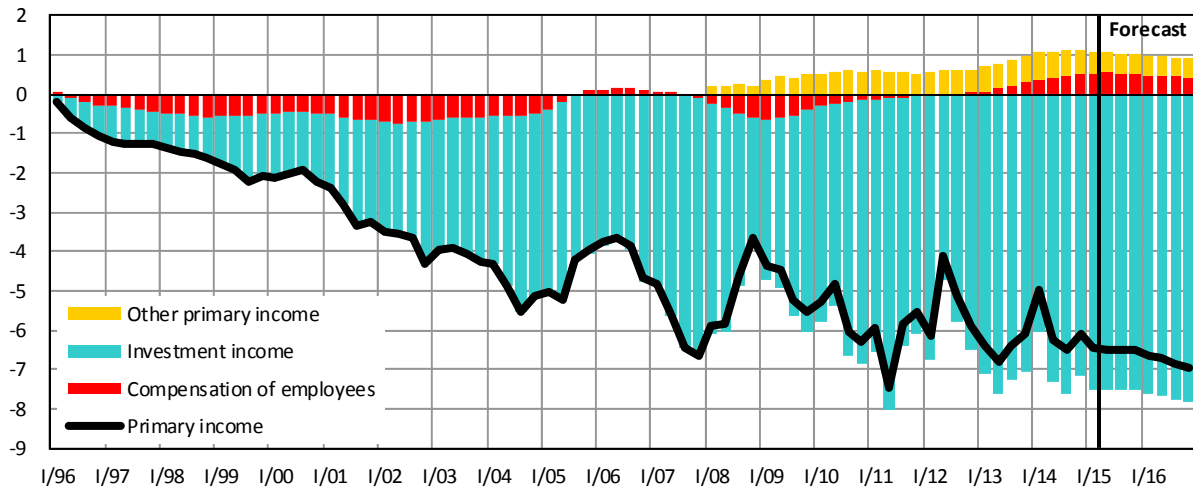
moving sums of the latest 4 quarters, in % of GDP



Source: CNB, CZSO, own calculations

Graph C.4.4: Balance of Primary Income

moving sums of the latest 4 quarters, in % of GDP



Source: CNB, CZSO, own calculations

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

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
		Forecast									Forecast
GDP ¹⁾	average of 2005=100	99.1	100.9	96.3	100.0	103.6	104.6	105.3	107.4	110	113
	growth in %	4.9	1.7	-4.5	3.8	3.6	0.9	0.8	1.9	2.1	2.6
Import intensity ²⁾	average of 2005=100	98.5	98.4	91.4	100.0	104.3	103.8	105.2	108.1	112	116
	growth in %	2.9	-0.1	-7.1	9.4	4.3	-0.5	1.4	2.8	4.0	2.8
Export markets ³⁾	average of 2005=100	97.7	99.2	88.0	100.0	108.0	108.5	110.9	116.1	123	130
	growth in %	7.9	1.6	-11.3	13.6	8.0	0.4	2.2	4.7	6.2	5.4
Export performance	average of 2005=100	94.6	97.0	97.8	100.0	101.9	105.8	104.1	108.7	111	113
	growth in %	3.4	2.5	0.8	2.3	1.9	3.7	-1.5	4.3	2.3	1.5
Real exports	average of 2005=100	92.4	96.3	86.1	100.0	110.2	114.8	115.5	126.2	137	147
	growth in %	11.6	4.2	-10.5	16.1	10.2	4.2	0.6	9.3	8.7	7.0
1 / NEER	average of 2005=100	110.5	98.9	102.2	100.0	97.1	100.6	102.9	108.1	109	109
	growth in %	-2.6	-10.5	3.4	-2.2	-2.9	3.6	2.3	5.1	0.7	0.1
Prices on foreign markets	average of 2005=100	96.3	102.4	99.3	100.0	103.8	103.5	102.7	101.7	100	100
	growth in %	2.9	6.3	-3.1	0.8	3.8	-0.4	-0.7	-1.0	-1.5	0.0
Exports deflator	average of 2005=100	106.4	101.2	101.4	100.0	100.8	104.0	105.6	109.9	109	109
	growth in %	0.2	-4.9	0.2	-1.4	0.8	3.2	1.5	4.1	-0.9	0.0
Nominal exports	average of 2005=100	98.3	97.4	87.2	100.0	111.0	119.4	122.0	138.7	149	160
	growth in %	11.8	-0.9	-10.5	14.7	11.0	7.5	2.2	13.7	7.7	7.0

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.

Source: CNB, CZSO, Eurostat, own calculations

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

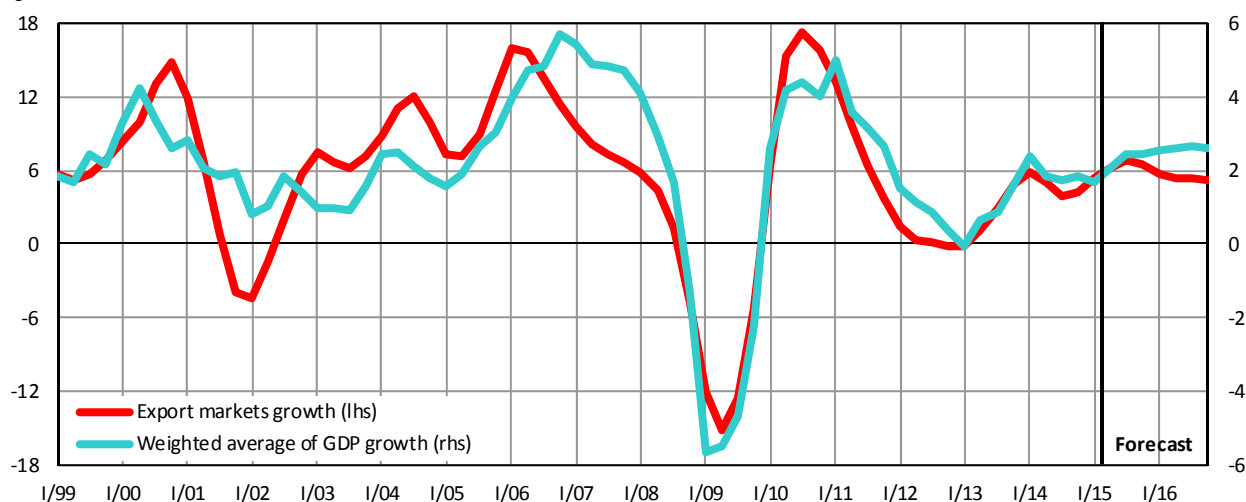
		2014				2015			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Estimate	Forecast	Forecast	
GDP ¹⁾	average of 2010=100	106.9	107.1	107.4	108.1	108.7	109	110	111
	growth in %	2.4	1.8	1.7	1.9	1.7	2.1	2.4	2.4
Import intensity ²⁾	average of 2010=100	107.2	107.7	108.2	109.4	111.1	112	113	114
	growth in %	3.5	3.2	2.1	2.3	3.6	4.0	4.3	3.9
Export markets ³⁾	average of 2010=100	114.6	115.4	116.3	118.3	120.7	123	124	126
	growth in %	5.9	5.1	3.8	4.2	5.3	6.2	6.9	6.5
Export performance	average of 2010=100	108.9	109.9	107.0	108.8	112.1	113	109	111
	growth in %	7.0	4.2	4.2	2.1	2.9	2.5	2.1	1.9
Real exports	average of 2010=100	124.8	126.8	124.4	128.7	135.3	138	136	140
	growth in %	13.4	9.5	8.2	6.5	8.4	8.8	9.1	8.5
1 / NEER	average of 2010=100	107.6	107.6	108.8	108.4	109.1	108	109	109
	growth in %	5.9	5.0	6.6	3.1	1.4	0.7	0.1	0.5
Prices on foreign markets	average of 2010=100	102.0	101.9	101.4	101.4	100.1	100	100	100
	growth in %	-1.2	-0.8	-1.2	-0.7	-1.8	-1.7	-1.2	-1.3
Exports deflator	average of 2010=100	109.8	109.7	110.4	109.9	109.3	109	109	109
	growth in %	4.6	4.1	5.3	2.4	-0.4	-1.0	-1.2	-0.9
Nominal exports	average of 2010=100	137.0	139.1	137.3	141.4	147.8	150	148	152
	growth in %	18.5	14.0	13.8	9.0	7.9	7.7	7.8	7.5

See notes to Table C.4.3.

Source: CNB, CZSO, Eurostat, own calculations

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

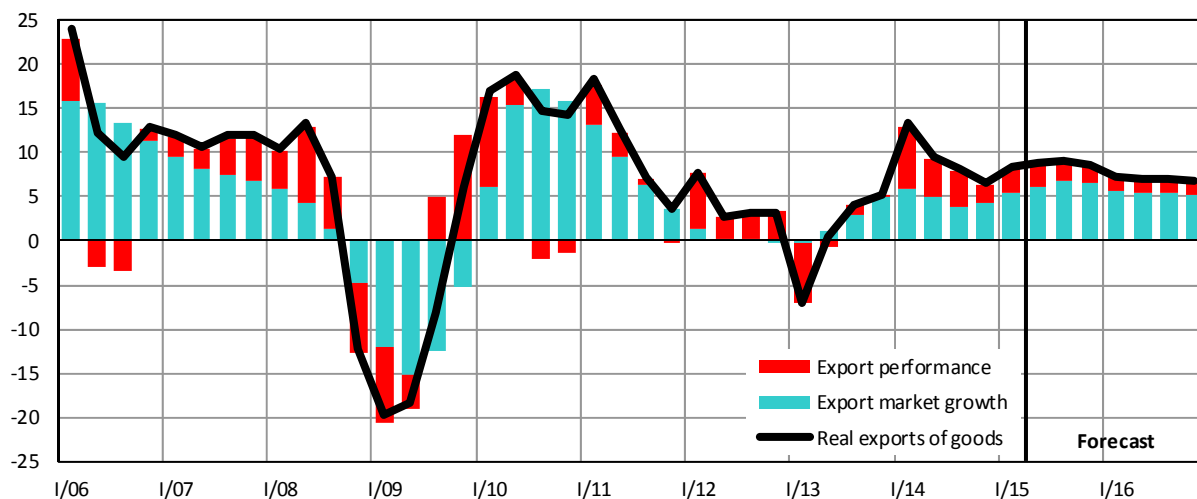
YoY growth rate, in %



Source: Eurostat, own calculations

Graph C.4.6: Real Exports of Goods

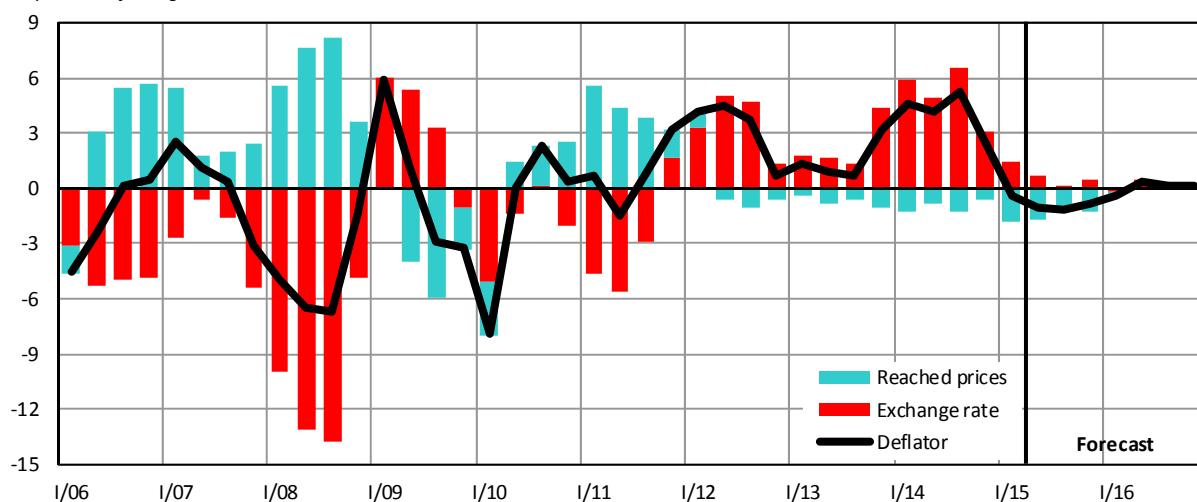
decomposition of YoY growth, in %



Source: CZSO, Eurostat, own calculations

Graph C.4.7: Deflator of Exports of Goods

decomposition of YoY growth, in %



Source: CNB, CZSO, own calculations

C.5 International Comparisons

Comparisons for the period up to and including 2014 are based on Eurostat statistics. Since 2015, our own calculations on the basis of real exchange rates have been used.

Using the purchasing power parity method, comparisons of economic output for individual countries within the EU are made in purchasing power standards (PPS). PPS is an artificial currency unit expressing a quantity of goods that can be bought on average for one euro in the EU28 territory after converting the exchange rate for countries using currency units other than the euro.

With the exception of Croatia, the level of GDP per capita converted by **current purchasing power parity** increased in all monitored countries in 2014. However, there was a slight decrease of the relative economic level towards the EA12 countries also in Greece and Estonia. In the Czech Republic, the purchasing power parity was 17.65 CZK/PPS compared to the EU28 and 17.13 CZK/EUR compared to the EA12. The economic level was circa 22,900 PPS, corresponding to 78% of the economic level in the EA12. In 2015 and 2016, the relative economic level of the Czech Republic should identically reach 80% of the EA12 average.

GDP per capita adjusted for the current **exchange rate** takes into account market valuation of the currency and the ensuing differences in price levels. In the case of the Czech Republic, this indicator was approximately EUR 14,700 in 2014, i.e. 48% of the EA12 level. Higher economic growth and slight improvement of the terms of trade due to a decrease in the crude oil price will contribute to an increase in the relative level to 50% of the EA12 average in 2015 and 2016.

When comparing price levels, the **comparative price level of GDP** in the Czech Republic decreased by 3 pp in 2014, thus reaching 62% of the EA12 average. The price level stagnation in 2015 and 2016 should still help the competitiveness of the Czech economy.

Through the decomposition of GDP per capita into individual components⁶ (labour productivity, labour market component and demographic component) it is possible to determine in detail the sources of economic growth. The results of the analysis are summarised in Graphs C.5.5 and C.5.6.

Labour productivity in the monitored countries has been increasing in the long run; however, its level is

still relatively low compared to the EA12 average. Although the economic crisis slowed down labour productivity growth, in 2008–2014 its absolute level did not decrease in any of the monitored countries. In the given period, a decrease in the relative level of labour productivity to the EA12 countries, however, was seen in Greece, the Czech Republic and Slovenia, while the increase in the relative level exceeded 9 pp in Lithuania, Latvia and Poland. In the Czech Republic, after a five-year period of stagnation, labour productivity was only 61% of the EA12 average in 2014.

In the case of the **labour market component**, which gives the number of hours worked per person in the working age, there is the opposite situation. From 2008 to 2014, the absolute level of this indicator decreased in all monitored countries, except for the Czech Republic. The highest slump due to a decrease in the number of hours worked of 22% was seen in Greece, i.e. 19%. With the exception of Slovakia and Slovenia, the relative level of the labour market component has long been exceeding the EA12 average in all countries – in Estonia, Latvia and the Czech Republic by more than 20 pp in 2014.

The share of the working-age population, captured by the **demographic component**, reached its peak in most monitored countries during the first decade of the 21st century and is now decreasing due to the population ageing. In 2008–2014, the sharpest decrease of 3.5 pp was recorded in the Czech Republic. Compared to the EA12 average, however, the demographic component is still higher in all monitored countries. In 2014, it exceeded the EA12 average by nearly 9 pp in Slovakia and by more than 6 pp in Hungary.

⁶ GDP per capita can be recorded as follows:

$$\begin{aligned} \text{GDP per capita} &= \frac{\text{GDP}}{\text{number of inhabitants}} = \\ &= \frac{\text{GDP}}{\text{no. of hours worked}} * \frac{\text{no. of hours worked}}{\text{population aged 15–64}} * \frac{\text{population aged 15–64}}{\text{number of inhabitants}} = \\ &= \text{labour productivity} * \text{labour market component} * \text{demographic component} \end{aligned}$$

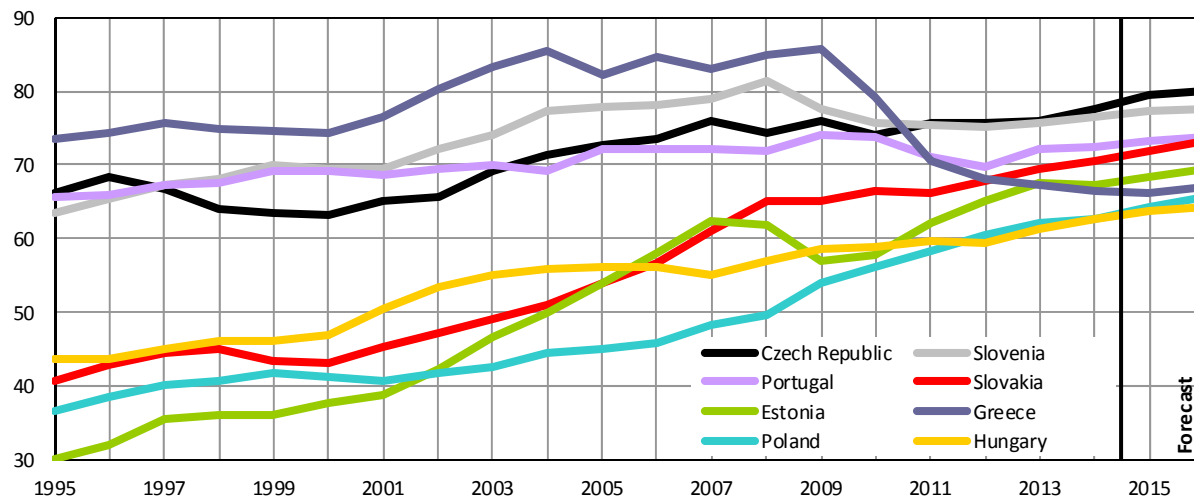
Table C.5.1: GDP per Capita – Using Current Purchasing Power Parities

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
										Forecast	Forecast
Czech Republic	PPS	21 600	21 100	20 200	20 600	21 600	21 800	21 900	22 900	24 000	24 900
	EA12=100	76	74	76	74	76	76	76	78	80	80
Slovenia	PPS	22 500	23 100	20 700	21 000	21 500	21 600	21 800	22 600	23 300	24 100
	EA12=100	79	81	78	76	75	75	76	76	77	78
Portugal	PPS	20 500	20 400	19 700	20 600	20 300	20 100	20 800	21 400	22 100	22 900
	EA12=100	72	72	74	74	71	70	72	72	73	74
Slovakia	PPS	17 300	18 500	17 300	18 500	18 900	19 600	20 000	20 800	21 700	22 800
	EA12=100	61	65	65	67	66	68	69	70	72	73
Lithuania	PPS	15 600	16 200	13 800	15 300	17 000	18 300	19 400	20 100	21 000	22 100
	EA12=100	55	57	52	55	60	64	67	68	70	71
Estonia	PPS	17 700	17 600	15 200	16 100	17 800	18 800	19 500	19 900	20 600	21 600
	EA12=100	62	62	57	58	62	65	68	67	68	69
Greece	PPS	23 500	24 100	22 900	22 100	20 100	19 600	19 400	19 600	19 900	20 800
	EA12=100	83	85	86	79	70	68	67	66	66	67
Poland	PPS	13 700	14 100	14 400	15 600	16 600	17 400	17 900	18 600	19 400	20 400
	EA12=100	48	50	54	56	58	60	62	63	64	66
Hungary	PPS	15 600	16 200	15 600	16 400	17 000	17 100	17 600	18 500	19 200	20 000
	EA12=100	55	57	59	59	60	59	61	63	64	64
Latvia	PPS	15 400	15 600	12 900	13 500	14 700	16 000	17 000	17 600	18 300	19 200
	EA12=100	54	55	48	48	52	55	59	59	61	62
Croatia	PPS	15 800	16 400	15 000	14 900	15 500	16 000	16 100	16 100	16 300	16 800
	EA12=100	56	58	56	54	54	56	56	54	54	54

Source: AMECO, CZSO, Eurostat, own calculations

Graph C.5.1: GDP per Capita – Using Current Purchasing Power Parities

EA12=100



Source: AMECO, CZSO, Eurostat, own calculations

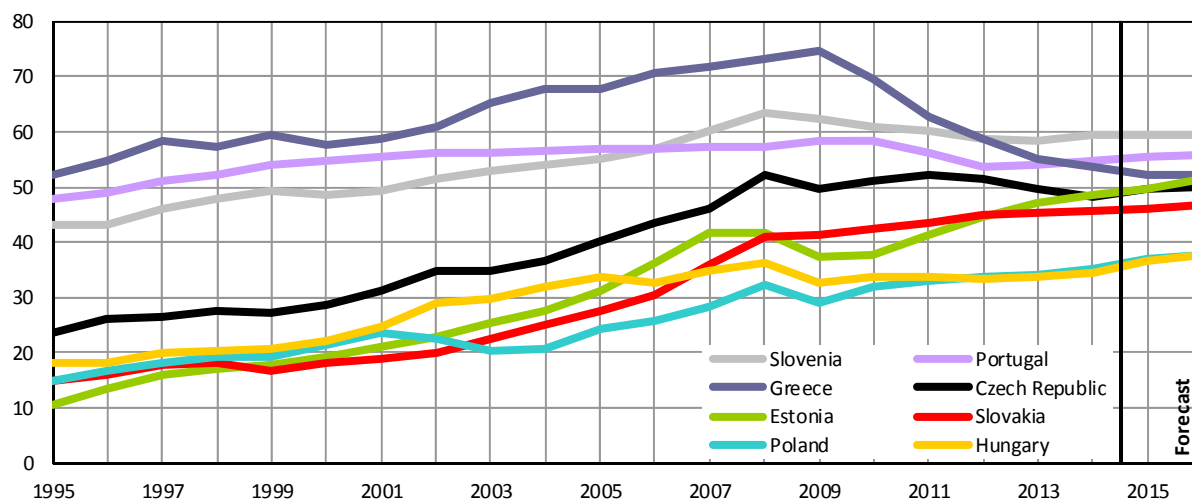
Table C.5.2: GDP per Capita – Using Current Exchange Rates

			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
												Forecast
												Forecast
Slovenia	EUR		17 400	18 800	17 700	17 700	18 000	17 500	17 500	18 100	18 500	19 100
	EA12=100		60	64	62	61	60	59	58	59	60	60
	Comparative price level	EA12=100	76	78	80	80	80	78	77	78	77	77
Portugal	EUR		16 600	16 900	16 600	17 000	16 700	16 000	16 200	16 600	17 200	17 900
	EA12=100		57	57	58	58	56	54	54	55	55	56
	Comparative price level	EA12=100	80	80	79	79	79	77	75	75	76	76
Greece	EUR		20 900	21 600	21 200	20 300	18 700	17 500	16 500	16 300	16 200	16 800
	EA12=100		72	73	75	70	63	59	55	53	52	52.3
	Comparative price level	EA12=100	87	86	87	88	89	86	82	80	79	78
Estonia	EUR		12 100	12 300	10 600	11 000	12 300	13 300	14 200	14 800	15 500	16 400
	EA12=100		42	42	37	38	41	45	47	49	50	51
	Comparative price level	EA12=100	67	68	65	66	67	69	70	72	73	74
Czech Republic	EUR		13 400	15 400	14 100	14 900	15 600	15 300	14 900	14 700	15 400	16 000
	EA12=100		46	52	50	51	52	51	50	48	50	50
	Comparative price level	EA12=100	61	70	66	69	69	68	65	62	62	62
Slovakia	EUR		10 400	12 100	11 800	12 400	13 000	13 400	13 600	13 900	14 300	15 000
	EA12=100		36	41	41	43	44	45	45	46	46	47
	Comparative price level	EA12=100	59	63	64	64	66	66	65	65	64	64
Lithuania	EUR		9 000	10 200	8 500	9 000	10 300	11 200	11 800	12 400	13 000	13 800
	EA12=100		31	35	30	31	35	37	39	41	42	43
	Comparative price level	EA12=100	56	61	58	56	58	59	58	60	60	61
Latvia	EUR		10 300	11 200	8 800	8 600	9 800	10 900	11 600	12 100	12 600	13 300
	EA12=100		35	38	31	30	33	37	38	40	41	42
	Comparative price level	EA12=100	65	69	64	61	64	66	65	67	67	67
Poland	EUR		8 200	9 500	8 200	9 300	9 800	10 000	10 300	10 700	11 500	12 100
	EA12=100		28	32	29	32	33	34	34	35	37	38
	Comparative price level	EA12=100	59	65	54	57	56	56	55	56	57	58
Hungary	EUR		10 100	10 700	9 300	9 800	10 100	9 900	10 200	10 500	11 400	12 100
	EA12=100		35	36	33	34	34	33	34	34	37	38
	Comparative price level	EA12=100	63	63	56	57	57	56	55	55	57	59
Croatia	EUR		10 200	11 200	10 500	10 500	10 400	10 300	10 200	10 200	10 300	10 600
	EA12=100		35	38	37	36	35	35	34	33	33	33
	Comparative price level	EA12=100	63	65	65	67	64	62	61	61	61	61

Source: AMECO, CZSO, Eurostat, own calculations

Graph C.5.2: GDP per Capita – Using Current Exchange Rates

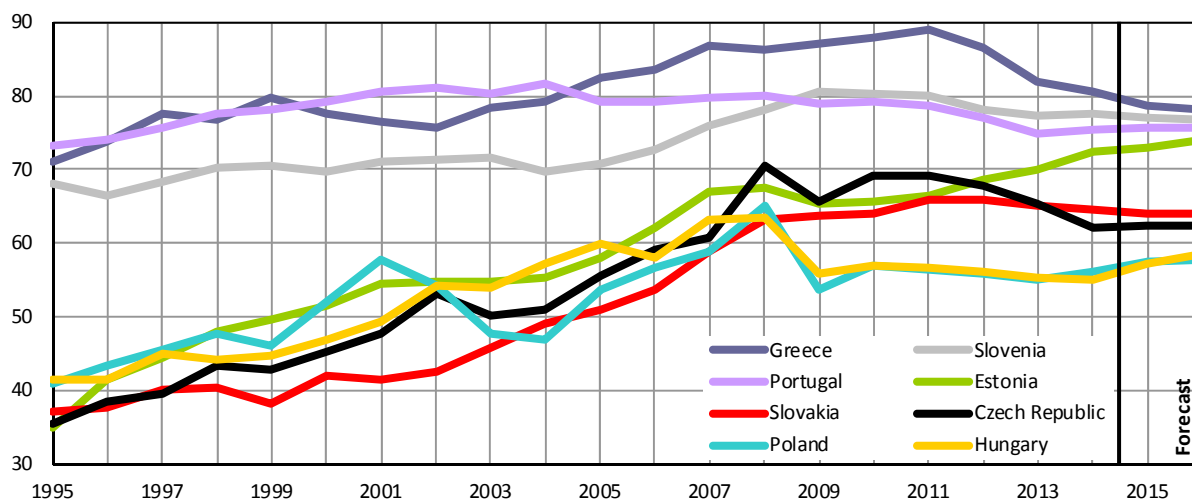
EA12=100



Source: AMECO, CZSO, Eurostat, own calculations

Graph C.5.3: Comparative Price Level of GDP per Capita

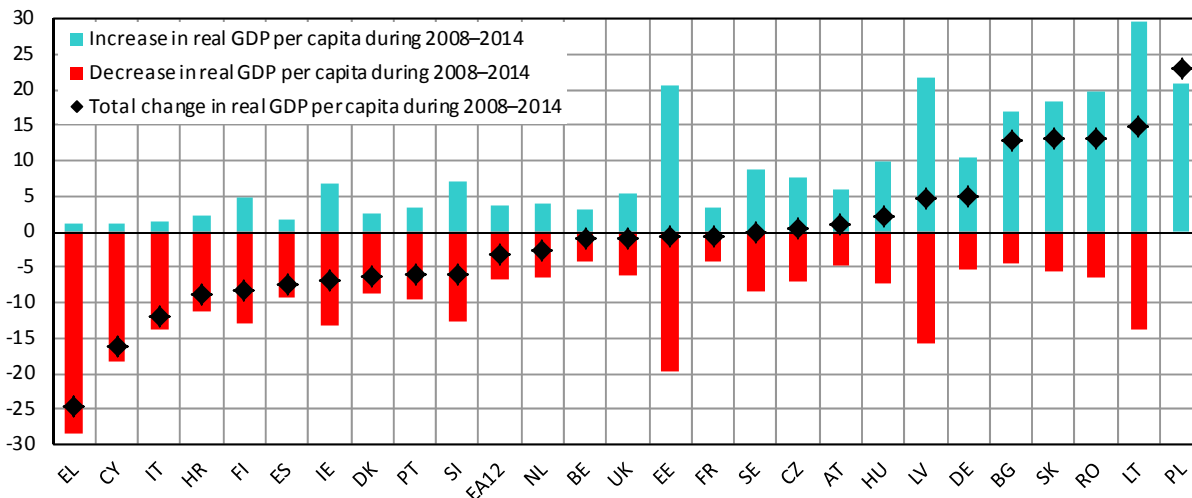
EA12=100



Source: AMECO, CZSO, Eurostat, own calculations

Graph C.5.4: Change in Real GDP per Capita during 2008–2014

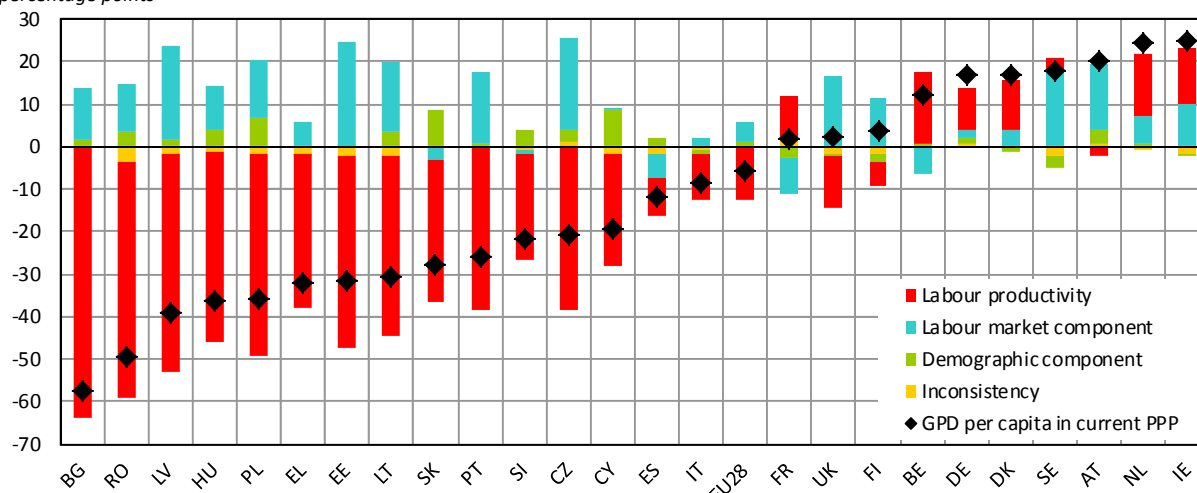
growth in %



Source: Eurostat, own calculations

Graph C.5.5: PPP Adjusted GDP per Capita Level Relative to the EA12 Average in 2014

in percentage points

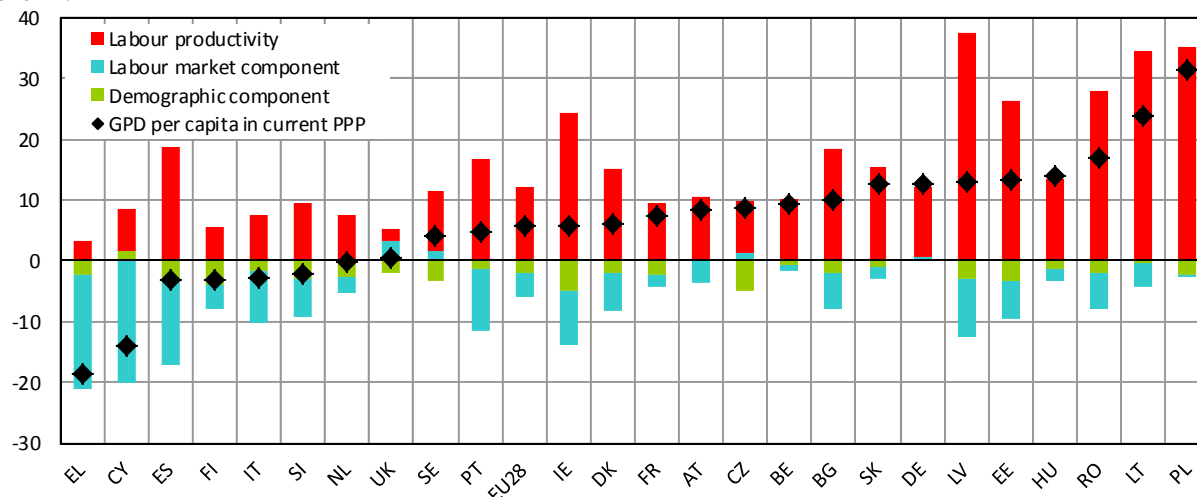


Note: The inconsistency is due to the fact that GDP is expressed in current purchasing power parity terms, whereas for the calculation of labour productivity, GDP in real purchasing power parity was used.

Source: Eurostat, own calculations

Graph C.5.6: Change in PPP Adjusted GDP per Capita during 2008–2014

growth in %



Source: Eurostat, own calculations

D Monitoring of Other Institutions' Forecasts

The Ministry of Finance of the Czech Republic monitors the macroeconomic forecasts of other institutions engaged in forecasting the future development of the Czech economy. The forecasts of 13 institutions are continuously monitored from publicly available data sources. Of these, seven institutions are domestic (CNB, Ministry of Labour and Social Affairs, domestic banks and investment companies) and others are foreign (European Commission, Organisation for Economic Co-operation and Development, IMF, etc.) The forecasts are summarised in Table D.1.

Table D.1: Consensus Forecast

		June 2015			July 2015
		min.	max.	consensus	MoF forecast
Gross domestic product (2015)	growth in %, const.pr.	2.0	3.8	2.8	3.9
Gross domestic product (2016)	growth in %, const.pr.	2.5	3.2	2.7	2.5
Average inflation rate (2015)	%	-0.1	0.9	0.3	0.5
Average inflation rate (2016)	%	1.3	2.0	1.7	1.5
Average monthly wage (2015)	growth in %	2.1	3.4	2.7	3.3
Average monthly wage (2016)	growth in %	3.4	4.1	3.8	4.0
Current account / GDP (2015)	%	-0.4	2.0	0.7	0.5
Current account / GDP (2016)	%	-1.1	1.8	0.6	0.2

Source: forecasts of individual institutions, own calculations

In 2015 and 2016, the monitored institutions expect economic growth of around 2.7%. According to the MoF's forecast, which already takes into account the unexpectedly strong growth in the first quarter of 2015 (partially due to administrative influences), real GDP should increase by 3.9% in 2015. For 2016, we expect economic growth of 2.5%.

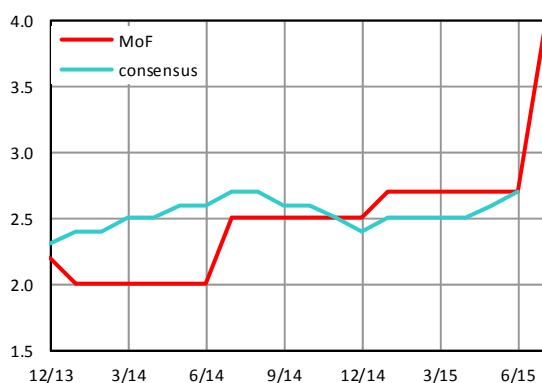
According to the institutions' estimates, the average inflation rate should be 0.3% in 2015 and 1.7% in 2016. The MoF's forecast is in line with these estimates.

According to the monitored institutions' forecasts, the nominal average wage should increase by ca 2.7% in 2015 and by 3.8% in 2016. According to the MoF's forecast, the average wage growth should be slightly higher and reach 3.3% in 2015 and 4.0% in 2016.

In the opinion of the monitored institutions, the current account of the balance payments should reach a slight surplus in 2015 and 2016 of approximately 0.6% of GDP. The MoF's forecast expects a negligibly lower surplus of 0.5% of GDP in 2015 and 0.2% of GDP in 2016.

Graph D.1: Forecast of Real GDP Growth for 2015

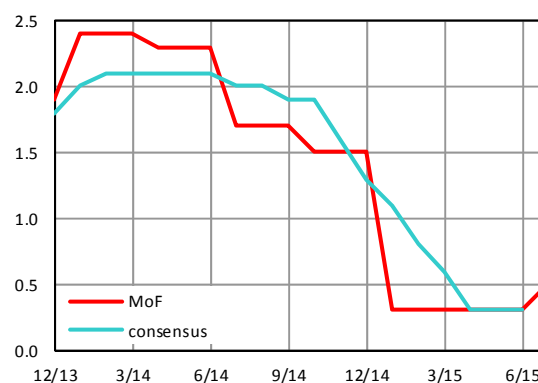
in %; the horizontal axis shows the month, in which the monitoring was conducted



Source: forecasts of individual institutions, own calculations

Graph D.2: Forecast of Average Inflation Rate for 2015

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



Source: forecasts of individual institutions, own calculations

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