Ministry of Finance
Financial Policy Department

Macroeconomic Forecast

Czech Republic

October 2012

Macroeconomic Forecast of the Czech Republic
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Table of Contents:

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 2013) and for certain indicators an outlook for another 2 years (i.e. until 2015). 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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List of Abbreviations:

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

Basic Terms:

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

Symbols Used in Tables:

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

Cut-off Date for Data Sources:

The forecast was made on the basis of data known as of **October 9**, 2012. No political decisions, newly released statistics, or world financial or commodity market developments could have been taken into account after this date.

Notes:

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

Data from the previous forecast of July 2012 are indicated by italics. Data in the tables relating to the years 2014 and 2015 are calculated by extrapolation, indicating only the direction of possible developments, and as such are not commented upon in the following text.

Summary of the Forecast

As of the closing date of this Forecast, just like at the end of October, it was still unclear what VAT rates would be valid in the upcoming years. This Forecast is therefore based on the assumption of VAT rates hike to 15% and 21%, effective from January 1, 2013.

Since the second half of 2011, the Czech economy has been in a shallow recession, and this situation will likely continue for the rest of this year. Economic activity should, however, gradually recover in the course of 2013.

We expect GDP to decrease by 1.0% this year, while in 2013 economic output could expand by 0.7%. The economy should be driven by significant foreign trade surpluses. Final consumption, however, should contribute negatively to growth, as should gross capital formation in 2012.

We look for consumer prices to rise by around 3.3% for 2012, while in 2013 the average inflation rate should reach 2.1%. The inflation will be significantly affected by changes in VAT rates.

Albeit with a lag, the labour market should be negatively influenced by the unfavourable economic situation. Employment, which should stagnate this year, could decrease by 0.2% in 2013. The unemployment rate should show a tendency towards slight growth. As compared to last year's 6.7%, it should reach 6.9% this year and 7.3% in 2013. The wage bill should grow by around 2% in this year and the next.

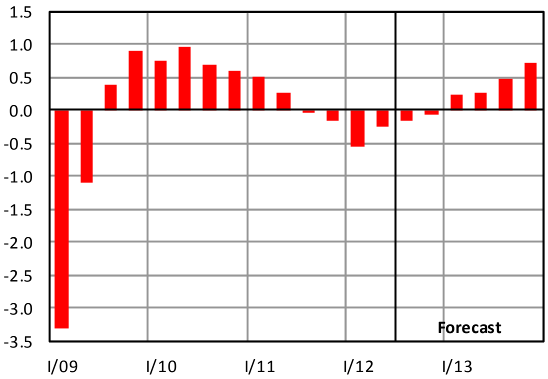
The current account deficit as a percentage of GDP should slightly exceed 1%, which would be a substantial improvement over previous years.

The Forecast remains subject to downside risks. Further development of the debt crisis in the euro zone continues to represent the main one. Its future escalation cannot be ruled out entirely, nor can be the possibility that the contagion will spread to other countries of the EU, including the Czech Republic.

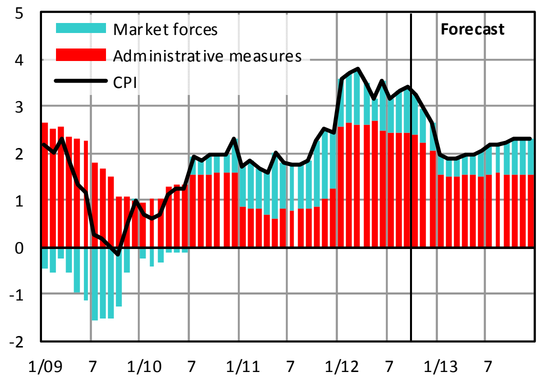
Table: **Main Macroeconomic Indicators**

		2009	2010	2011	2012	2013	2011	2012	2013
					Current forecast			*Previous forecast*	
Gross domestic product	*growth in %, const.pr.*	**-4.7**	**2.7**	**1.7**	**-1.0**	**0.7**	1.7	-0.5	1.0
Consumption of households	*growth in %, const.pr.*	**-0.4**	**0.6**	**-0.6**	**-3.0**	**-0.5**	-0.6	-2.2	0.1
Consumption of government	*growth in %, const.pr.*	**3.8**	**0.6**	**-1.7**	**-1.1**	**-1.3**	-1.7	-2.8	-0.8
Gross fixed capital formation	*growth in %, const.pr.*	**-11.5**	**0.1**	**-0.9**	**-0.6**	**0.3**	-0.9	-1.0	2.0
Cont. of foreign trade to GDP growth	*p.p., const.pr.*	**0.8**	**0.9**	**2.7**	**1.8**	**1.0**	2.7	1.2	0.7
GDP deflator	*growth in %*	**1.9**	**-1.7**	**-0.8**	**1.3**	**0.9**	-0.8	1.5	1.1
Average inflation rate	*%*	**1.0**	**1.5**	**1.9**	**3.3**	**2.1**	1.9	3.2	2.2
Employment *(LFS)*	*growth in %*	**-1.4**	**-1.0**	**0.4**	**0.0**	**-0.2**	0.4	-0.3	-0.2
Unemployment rate *(LFS)*	*average in %*	**6.7**	**7.3**	**6.7**	**6.9**	**7.3**	6.7	7.0	7.2
Wage bill *(domestic concept)*	*growth in %, curr.pr.*	**-2.1**	**-0.4**	**2.3**	**2.0**	**2.1**	2.3	1.9	2.5
Current account / GDP	*%*	**-2.4**	**-3.9**	**-2.9**	**-1.3**	**-1.2**	-2.9	-2.2	-2.6
Assumptions:									
Exchange rate CZK/EUR		**26.4**	**25.3**	**24.6**	**25.1**	**24.9**	24.6	25.3	25.2
Long-term interest rates	*% p.a.*	**4.7**	**3.7**	**3.7**	**2.9**	**2.7**	3.7	3.4	3.5
Crude oil Brent	*USD/barrel*	**62**	**80**	**111**	**113**	**115**	111	112	108
GDP in Eurozone (EA-12)	*growth in %, const.pr.*	**-4.4**	**2.0**	**1.4**	**-0.5**	**0.3**	1.5	-0.3	0.6

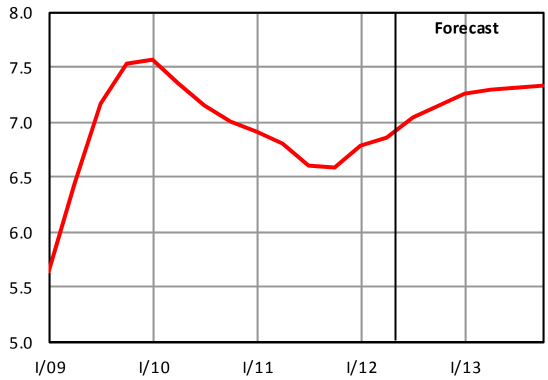
Czech economy in a shallow recession, recovery in 2013
real GDP, QoQ growth in %, seasonally adjusted



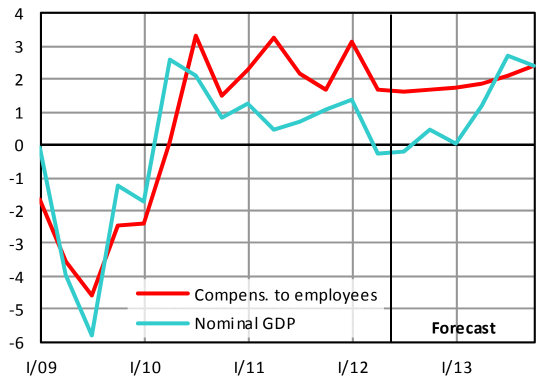
Moderate growth of consumer prices
decomposition of YoY growth in consumer prices, percentage points



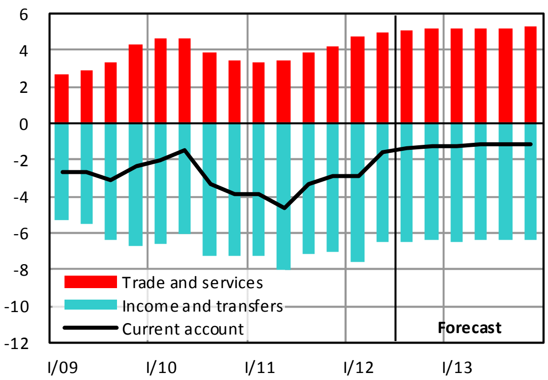
Tendency towards slight growth in unemployment
unemployment rate (LFS), in %, seasonally adjusted



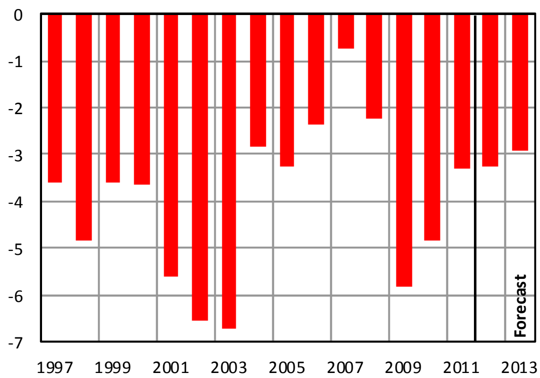
Growing share of compensation to employees on GDP
compensation to employees and nominal GDP, growth in %



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



General government deficit below 3 % of GDP in 2013
general government balance, in % of GDP



Risks to the Forecast

Similarly to previous forecasts, this Macroeconomic Forecast is based on a **“no-event” scenario.** On the one hand, this scenario anticipates no escalation of the situation in the euro zone during the forecast horizon. On the other hand, neither does it expect any fundamental positive breakthrough in resolving these problems. In this scenario, therefore, it is not necessary to make speculative assumptions about specific events and their timing, extent, and consequences.

In comparison to the Forecast from July 2012, the presumed scenario yields lower macroeconomic dynamics with approximately equal downside risks.

Short-term external risks have diminished in comparison with the previous forecast. The possibility of intervention by the ECB on the secondary government bonds market as part of the new Outright Monetary Transactions (OMTs) programme, initiation of the ESM long-term bailout fund and a certain shift in resolving the problems of the Spanish banking sector (see Chapter A.1) helped to calm the situation in the euro zone. The risk that a country or systematically important institution might collapse due to insufficient liquidity is relatively low. The exception is Greece, whose resources for financing deficit and debt repayment could run out in Q4. We anticipate, however, that Greece will manage to reach an agreement with the “Troika”, and international creditors will ultimately release another tranche of financial aid.

From a medium-term perspective, however, the situation is much more serious.

The euro zone as a whole has already entered into recession, and the economic situation in the peripheral countries is very bad. According to the European Commission’s estimates, the total economic decline in Greece for 2007–2012 could reach 19%, which unequivocally fits the definition of a depression (for comparison, the transformation decline in the Czech Republic reached ca 12% of GDP in the early 1990s). Over the recession in Portugal that is thus far 7 quarters long, GDP has cumulatively decreased by 4.5%. Italy has been in recession since Q3 2011 (aggregate decrease in GDP by 2.6%), as have Cyprus (decrease of 2.3%) and Spain (decrease of 1.3%). Moreover, it is not realistic to expect the situation in these countries to improve in the foreseeable future. The deep economic slump connected to the rise in unemployment inevitably brings with it social and political unrest.

Although those measures taken (e.g. initiation of ESM and OMTs) may lead to a temporary calming of financial markets, at the same time they expand the risks for the financing countries. The deepening of European integration, which would enable the removal of at least some shortcomings of the current institutional arrangement, is certainly not a short-term undertaking. Moreover, it is necessary to expect that member states will probably not altogether positively accept this process. The effects of structural policies that would raise the presently insufficient level of competitiveness of problem countries and thus help resolve the current problems can also only take effect after a considerable period of time.

The possibility that sooner or later the crisis will escalate is therefore entirely realistic.

Although the Czech Republic shows a roughly similar intensity of fiscal consolidation in comparison with neighbouring countries, it has markedly poorer macroeconomic results. This reveals the **internal risks within the Czech economy**. As compared to the July forecast, the risks of political instability and difficulty of predicting the business environment have been markedly highlighted. As of the end-October, economic entities still did not know what VAT rates will be valid from the beginning of 2013 or whether pension reform will be initiated. (This Forecast is based on the assumptions of VAT rate increases to 15% and 21% and implementation of pension reform, in accordance with the original budgetary documentation.) It is also still uncertain whether the laws regulating the reform of direct taxes and payments will be effective from the beginning of 2014.

Such uncertainty surely does not contribute to improving the very low level of confidence in further economic advancement. This concerns not only consumers, but also many segments of the business sector (see Chapter B.2). The low level of confidence leads to more cautious microeconomic decisions and is probably one of the causes for the Czech economy’s lagging behind those of neighbouring countries.

Overall, it can be stated that **in the medium term** the **significant downside risks** to the scenario under consideration will **remain high.**

A Forecast Assumptions

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

A.1 External Environment

Economic output

The outlook for the world economy has further deteriorated since the publication of the July Macroeconomic Forecast. At the same time, the main risks continue to be the further development in the euro zone, the ongoing slowdown in large emerging economies (China, Brazil, and India), and the possibility of a sharp drop in the US economy's growth in 2013 (problem of the so-called "fiscal cliff", see below).

After QoQ growth of 0.5% in Q1 2012, the **US economy's** growth slowed to 0.3% in Q2 (*versus 0.7%*). The dominant growth factors were household consumption and gross fixed capital formation. The labour market is developing positively, as the unemployment rate fell to 7.8% in September (under 8% for the first time since 2009). In October, moreover, the growth in new jobs was revised upwards.

Consumer confidence oscillated in the last three months, reaching a seven-month peak in September. Along with consumer confidence, the mood in industry and the development of new orders also point to economic expansion. The situation on stock markets improved at the end of summer when the Dow Jones Industrial Average rose to a level of 13,500 points. Nevertheless, caution is in order, as, due to the slump in real estate prices in recent years, the middle class has been considerably impoverished and the repercussions from reducing households' debt are far from overcome. Real estate prices have grown slowly, however, over the last several months, which may signal a more lasting recovery.

In the pre-election political context, the economy is supported primarily by measures from the central bank. In mid-September, the Fed announced that it will keep rates at current levels (i.e. 0–0.25%) until 2015. Referencing the persisting high unemployment rate, it also agreed to undertake a third round of quantitative easing.

The so-called "fiscal cliff", however, represents a great uncertainty, as at the end of this year temporary tax relief is set to expire and automatic cuts in federal spending will likewise occur. As long as the federal government expenditure ceiling is not increased before this deadline (which requires agreement between Republicans and Democrats), these measures will mean substantial fiscal restrictions that could considerably reduce economic growth in 2013.

We therefore retain the growth estimate for the US economy at 2.2% for 2012 and reduce it to 2.1% (*versus 2.4%*) for 2013.

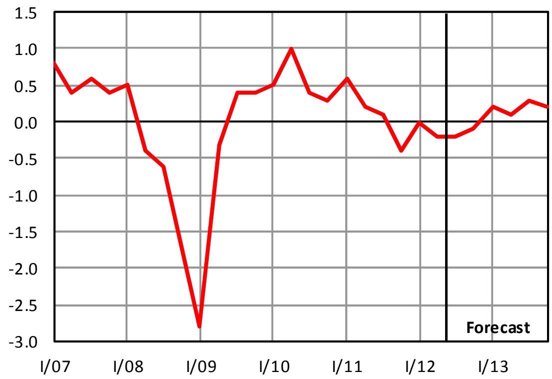
The **euro zone economy (EA12)**, which stagnated in Q1 2012, showed a QoQ decline of 0.2% in Q2. Net exports were practically the only factor contributing positively to development. Household consumption and gross fixed capital formation, on the other hand, contributed negatively. Moreover, performance in the euro zone remains considerably differentiated. Germany shows the best results among the large EA12 economies (QoQ growth of 0.5% in Q1 and 0.3% in Q2). The French economy has remained level now for three quarters in a row, and Italy and Spain are in recession – Italy since Q3 2011, Spain since Q4 2011.

The differences in the euro zone continue to be clearly evident in the unemployment rate. In August, that rate in the euro zone steadied at 11.4%, which nevertheless constituted YoY growth of 1.3 p.p. Spain, where already more than a quarter (25.3%) of the labour force is out of work, exhibited the highest unemployment in August, followed by Greece (24.4%, in June), Portugal (15.9%), Ireland (15.0%) and Slovakia (14.2%). In contrast, the unemployment rate in Germany has been holding steady at 5.5% since May. A distinct problem is the extremely high rate of unemployment among people under 24 (52.9% in Spain in August, 55.4% in Greece in June).

Such high unemployment rates understandably have negative implications on, for example, household consumption, which considerably complicates government efforts to consolidate public finances in those countries most affected by the debt crisis.

We have deepened the estimated economic decline for the euro zone to –0.5% (*versus –0.3%*) for 2012. For 2013, we expect GDP growth of 0.3% (*versus 0.6%*).

Graph A.1.1: **Growth of GDP in EA12**
QoQ growth in % (adjusted for seasonal and working day effects)



The **Polish economy** has begun to slow considerably. It achieved QoQ growth of 0.6% in Q1 2012, but this diminished to 0.4% for Q2. At the same time, infrastructure investments and continually strong household consumption helped the economy in the first half of the year. Nevertheless, unemployment rose slightly to 10.1% in August. In view of the declining economic growth dynamics, the government abandoned its plans to reduce the deficit to below 3% of GDP this year.

We expect the Polish economy to grow by 2.5% (*versus 2.7%*) in 2012 and to accelerate to 2.9% (*no change*) in 2013.

The **Slovak economy** grew by 0.7% QoQ in Q2 2012, and thus at the same pace as in Q1. This relatively strong growth was driven almost exclusively by exports, and in particular of automobiles. The unemployment rate remains high, reaching 14.2% in August. Growth in 2013 will probably depend heavily on the situation in Germany. In accordance with estimates of the Slovak Ministry of Finance and the National Bank of Slovakia, we have reduced our estimate to 2.1% (*versus 2.9%*).

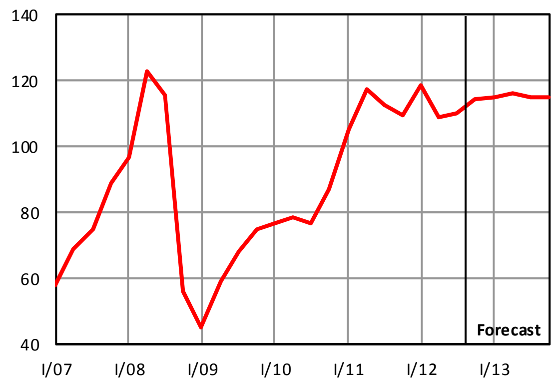
Commodity prices

The price of Brent crude oil reached an average of USD 110 per barrel (*versus USD 102*) in Q3 and thus remained almost unchanged in comparison with Q2, when the average price was USD 108.9 per barrel. Contrary to the previous forecast, pressure for a drop in prices weakened. The slowdown of the world economy (including China, India, and Brazil), possible further escalation of the crisis in the euro zone, and increased production should, however, continue to press downwards on prices. The strengthening of the euro against the dollar at the turn of August and September also contributed towards mitigating the pressure for a drop in oil prices.

Moreover, the possibility of a price increase is supported by the rise in marginal costs of production, which play an important role in price formation (this is, moreover, a constant factor that will influence price over mid- and long-term horizons). Although the third wave of quantitative easing surprisingly did not result in an immediate rise in commodity prices, the ECB and Bank of Japan have also joined the Fed in easing monetary policy. It may therefore be anticipated that the arrangements of these central banks will create conditions for moderate growth in oil prices next year. In addition, concerns persist regarding geopolitical unrest in the Middle East.

The forecast for the price of Brent crude oil has been raised slightly to USD 113 per barrel (*versus USD 112*) for 2012, and we anticipate a price around USD 115 per barrel (*versus USD 108*) for 2013. In the short-term perspective, however, risks to the forecast are high in both directions.

Graph A.1.2: **Dollar Prices of Brent Crude Oil**
in USD per barrel



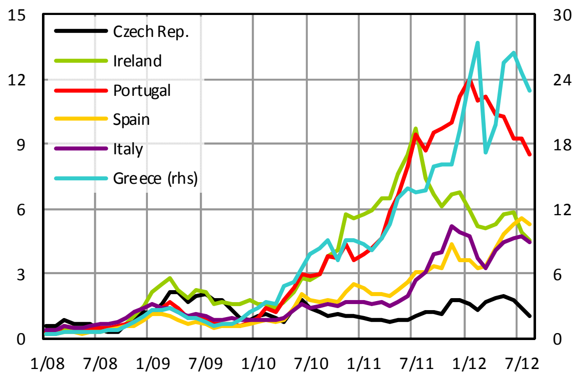
A sharp rise in grain prices was recorded at the turn of Q2 and Q3. The main cause was confirmation of the adverse weather (drought) forecasts and subsequent reduction in estimates of production volumes and revision of global supplies. If another downward supply revision occurs due to weather (which situation the derivatives market suggests), we may be faced with further growth in grain prices at the end of the year.

Debt crisis in the euro zone

With regard to developments surrounding the debt crisis in the euro zone, September was literally crammed with important events, particularly in comparison with August, which was relatively calm.

Graph A.1.3: **Spreads over German Bonds**

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



Speculation concerning the possibility of additional ECB interventions on state bond markets, which contributed to the relative calming of the situation on financial markets during August, was, in certain respects, confirmed at the beginning of September. On 6 September, the Governing Council of the ECB approved a new programme for purchasing government bonds on secondary markets, so-called Outright Monetary Transactions (OMTs). OMTs will replace the previous Securities Markets Programme (SMP) and will differ in many important aspects, despite the seeming similarity to SMP.

A necessary (but not sufficient) condition for any intervention in relation to OMTs will be activation of the ESM bailout programme with the possibility for intervention on the state bond market and fulfilment of the conditions agreed under the programme. For existing programmes, the ECB could then intervene whenever a given country strives to return to the primary government bond market. While Ireland has already successfully come back to the primary market[1], Portugal is expected to return in 2013. Meanwhile, on 3 October Portugal succeeded to exchange bonds payable in the next year (EUR 3.8 billion in volume) for bonds maturing in 2015.

Bonds with maturities of 1 to 3 years will be purchased as part of OMTs. Although no quantitative limits have been set *ex ante* for the volume of intervention, the intervention will be fully sterilised. For bonds purchased as part of OMTs, moreover, the ECB will not have the status of preferred creditor. In contrast to SMP, the new programme will also be significantly more transparent (with regular publication of information about those bonds purchased).

According to the ECB, interventions under OMTs should improve the functioning of the transmission mechanism of monetary policy in those euro zone countries where transmission is negatively influenced by mutual relations between the government sector and banks and, as stated by the ECB, “unfounded fears on the part of investors as to the possibility of a return to individual national currencies”. In the ECB’s opinion, poor economic policy is primarily responsible for putting the states in question into their situations, and while interventions through OMTs may help, they must be accompanied by corresponding reform measures. The question thus remains as to the extent to which the ECB will unwaveringly insist that fulfilment of the agreed conditions of the bailout programme is a necessary condition for any intervention. For the time being, however, the announcement of OMTs has itself calmed the situation in some financial market segments. For example, the yields of Italian and Spanish state bonds have decreased.

At the same time, Spain is considered to be a country that will sooner or later be forced to use financial assistance from the ESM (Spain has now already promised up to EUR 100 billion for recapitalising the banking sector). Although according to the results of the bottom-up stress test announced at the end of September it should not request more than EUR 60 billion, it is not entirely possible to exclude negative “surprises” in future.

Spanish banks, however, are not the only ones needing to increase capital. The recommendation of the European Banking Authority (EBA) from December of last year that 71 of 91 banks tested in the last round of European stress tests should strengthen their capital positions, or at least maintain them at the newly required level[2], led to the reinforcing of banks’ capital positions by more than EUR 200 billion in the first half of 2012. This was achieved only in small part by measures leading to a drop in risk-weighted assets.

Moreover, the European banking system may undergo relatively deep changes in future in connection with

[1] *At the end of July, Ireland organised an auction in which it offered bonds payable in 2017 (yield 5.9%) and 2020 (yield 6.1%). Investors also had the opportunity to exchange bonds payable in 2013 and 2014 for these bonds. In total, investors purchased EUR 5.23 billion worth of bonds, of which EUR 1.04 billion was from bond exchanges.*

[2] *At the end of June 2012, banks’ Tier 1 capital adequacy exceeded 9%, after having set aside a portion of capital as a capital cushion to cover exposures to state bonds.*

efforts to form a so-called banking union in the euro zone. On 12 September, the European Commission (EC) presented certain steps whose implementation should lead to this goal in the document “A Roadmap towards a Banking Union”. In general, it is anticipated that the creation of a banking union will require unified systems for the supervision of banking institutions and for deposit insurance as well as a unified framework for restructuring institutions that come into difficulties. The proposal presented by the EC focuses on the creation of a unified system for bank supervision, which would open up the possibility for direct recapitalisation of banks through the ESM long-term bailout fund. With the gradual transposition of all key competencies related to supervision to the ECB, it is anticipated that as from 1 January 2013 the ECB should administer supervision primarily over those banks that received assistance from public resources, and thereafter, as from 1 July 2013, also over large systemically important banks, then from 1 January 2014 over all remaining banks. The proposal thus aims to ensure the gradual creation of a unified framework for supervision starting from 1 January 2013. At the same time, special attention is devoted to certain potentially problematic areas, such as separation of bank supervision within the ECB from monetary policy, so that possible conflicts of interests (for example, an increase of interest rates consistent with the inflation target but inconsistent with the goal of financial stability) are minimised.

The EC’s proposal was discussed at an informal meeting of EU finance ministers and central bank governors (ECOFIN), held on 14 and 15 September in Nicosia. Reaching any agreement regarding the EC’s proposal, however, will be more than complicated. On one side stand the Netherlands and Germany who are against rushing to adopt an agreement, while on the other is France seeking swift arrival at an agreement – if possible even this year. The different stances of euro zone members and non-members also pose a problem. It is not clear, for example, what impacts collective supervision in the EA would have for states outside the euro zone given such situation wherein banks from euro zone countries own certain important banks in states outside the EA.

A decision of the German Constitutional Court, which on 12 September concluded (for now provisionally) that Germany’s participation in the ESM long-term bailout fund does not contradict the German constitution, also was an important event. In future, however, the amount of Germany’s undertaking is limited to the current EUR 190 billion and any further increase of that commitment must be approved by parliament. The German Constitutional Court thereby cleared the way to completing the process of ratifying the ESM Treaty, which thus went into effect on 27 September. The long-term bailout fund then started operating on 8 October, and on the same day the rating agencies Moody’s and Fitch awarded it their highest ratings (albeit Moody’s with a negative outlook).

Possible additional financial assistance programmes, therefore, will be funded primarily through ESM, which in contrast to EFSF and EFSM is designed to be a permanent institution and also will have its own capital at its disposal. ESM’s underwritten capital should reach EUR 700 billion, EUR 80 billion of which is apportioned to paid-in capital while the remaining EUR 620 billion will comprise so-called callable capital, which will be paid in upon request. The capital should be transferred in five tranches of EUR 16 billion. The first two tranches should be paid in by mid-October, the next two over the course of 2013, and the final tranche at the beginning of 2014. ESM’s lending capacity will reach EUR 500 billion, while the ratio of paid-in capital to issued bonds (i.e. to the amount of financial aid provided) should not fall below 15%. To ensure full lending capacity, it will be possible to accelerate the payment of capital. By mid-2013, moreover, it will be possible to achieve full credit capacity of EUR 500 billion also by connecting EFSF to new financial assistance programmes. The EFSF fund should, however, be primarily dedicated to financing the existing bailout programmes for Greece, Portugal and Ireland. The programme for recapitalising Spanish banks is expected to be transferred from EFSF to ESM, although in this case (in contrast to future programmes) ESM will not have the status of preferred creditor.

Greece’s negotiations with representatives of the IMF, ECB and EC (the “Troika”) for the time being remain unresolved. The release of additional financial assistance, which Greece *de facto* cannot do without (if further restructuring of Greek debt or the exit of Greece from the euro zone is to be prevented), depends on the outcome of these negotiations. Although the recent meeting in Athens between Chancellor Merkel and Greek Prime Minister Samaras may be interpreted as a signal that Germany would like for Greece to remain in the euro zone, the willingness of creditors (euro zone, IMF) to relax the conditions of the bailout programme, which would require additional financial assistance, nevertheless remains in question. At the same time, it is more than obvious that further fiscal restriction would deepen the Greek economy's problems even more.

Greece, together with Spain, thus continues to pose the main risk for further worsening of the debt crisis. In the event of escalation of the crisis, therefore, one still cannot entirely rule out the possibility that the contagion will spread to other euro zone countries, or even to the EU as a whole.

As a small open economy with very strong ties to EU countries, the Czech Republic would naturally be negatively impacted by any escalation of the debt crisis (impact on the expectations of households and companies, decrease in foreign demand). Nevertheless, its banking sector's high resilience to negative shocks and the credibility of its fiscal policy (to which the low yields of state bonds on the secondary market and very successful recent sale of Eurobonds, for example, testify) represent advantages for the Czech Republic.

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012 *Forecast*	2013 *Forecast*
USA	3.5	3.1	2.7	1.9	-0.3	-3.1	2.4	1.8	2.2	2.1
China	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.1	7.9	7.5
EU27	2.5	2.1	3.3	3.2	0.3	-4.3	2.0	1.5	-0.4	0.4
EA12	2.2	1.7	3.2	3.0	0.3	-4.4	2.0	1.4	-0.5	0.3
Germany	1.2	0.7	3.7	3.3	1.1	-5.1	4.2	3.0	0.8	1.0
France	2.5	1.8	2.5	2.3	-0.1	-3.1	1.7	1.7	0.2	0.6
United Kingdom	2.9	2.8	2.6	3.6	-1.0	-4.0	1.8	0.8	-0.4	1.0
Austria	2.6	2.4	3.7	3.7	1.4	-3.8	2.1	2.7	0.6	1.1
Hungary	4.8	4.0	3.9	0.1	0.9	-6.8	1.3	1.6	-0.9	1.0
Poland	5.3	3.6	6.2	6.8	5.1	1.6	3.9	4.3	2.5	2.9
Slovakia	5.1	6.7	8.3	10.5	5.8	-4.9	4.2	3.3	2.7	2.1
Czech Republic	4.7	6.8	7.0	5.7	3.1	-4.7	2.7	1.7	-1.0	0.7

Graph A.1.4: **Real Gross Domestic Product**
YoY growth in %, seasonally unadjusted data

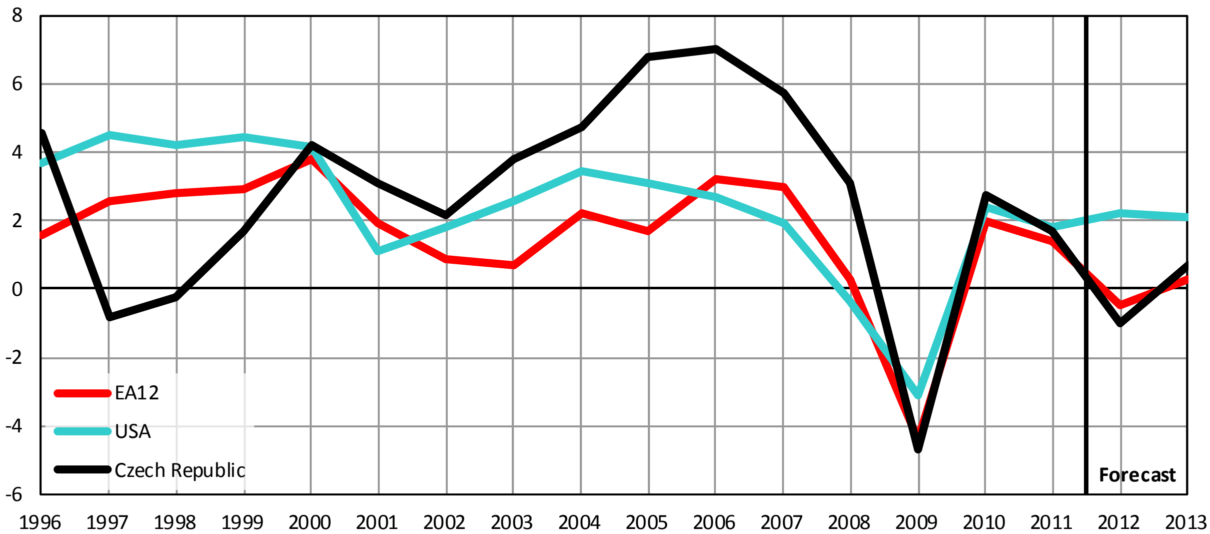
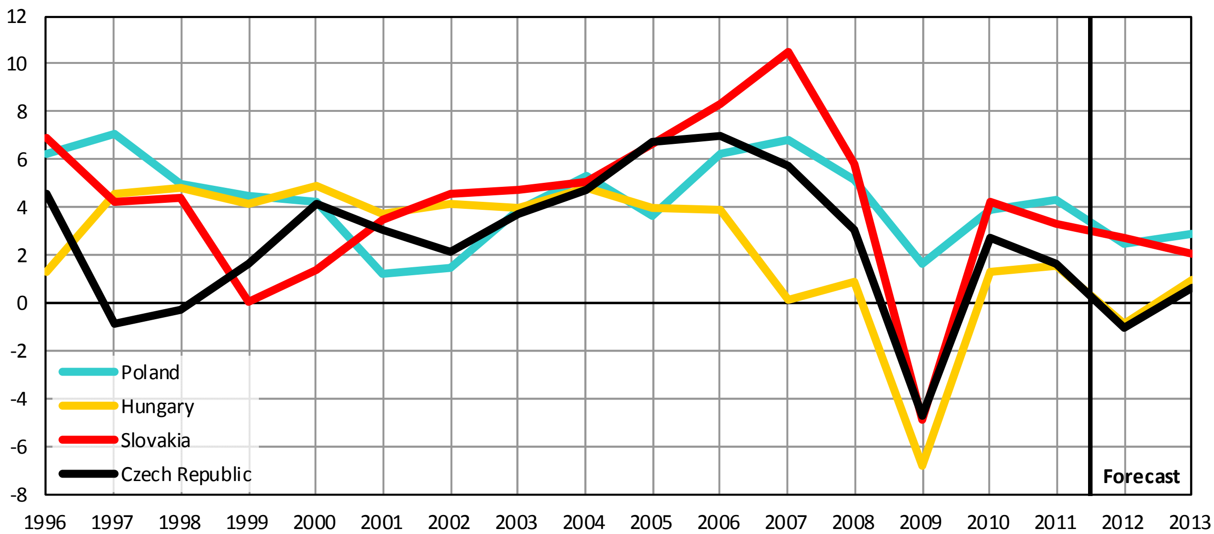


Table A.1.2: **Real Gross Domestic Product** – quarterly
growth in %, seasonally adjusted data

		2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3 *Estimate*	2012 Q4 *Forecast*
USA	*QoQ*	**0.0**	**0.6**	**0.3**	**1.0**	**0.5**	**0.3**	**0.4**	**0.5**
	YoY	1.8	1.8	1.5	1.9	2.4	2.1	2.2	1.7
China	*QoQ*	**2.2**	**2.3**	**2.4**	**1.9**	**1.8**	**1.8**	**1.6**	**1.7**
	YoY	.	.	.	9.1	8.7	8.1	7.3	7.1
EU27	*QoQ*	**0.6**	**0.3**	**0.2**	**-0.3**	**0.0**	**-0.1**	**-0.2**	**-0.1**
	YoY	2.4	1.6	1.4	0.8	0.2	-0.2	-0.6	-0.4
EA12	*QoQ*	**0.6**	**0.2**	**0.1**	**-0.4**	**0.0**	**-0.2**	**-0.2**	**-0.1**
	YoY	2.3	1.5	1.2	0.6	0.0	-0.5	-0.8	-0.5
Germany	*QoQ*	**1.2**	**0.5**	**0.4**	**-0.1**	**0.5**	**0.3**	**-0.1**	**-0.1**
	YoY	4.8	3.0	2.7	2.0	1.3	1.1	0.6	0.6
France	*QoQ*	**0.9**	**0.1**	**0.2**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
	YoY	2.4	1.6	1.6	1.2	0.3	0.2	0.1	0.1
United Kingdom	*QoQ*	**0.5**	**0.1**	**0.5**	**-0.4**	**-0.3**	**-0.4**	**0.1**	**0.3**
	YoY	1.4	0.8	0.4	0.7	-0.1	-0.6	-1.0	-0.3
Austria	*QoQ*	**0.6**	**0.4**	**0.0**	**0.2**	**0.5**	**0.1**	**-0.2**	**-0.1**
	YoY	3.9	3.6	2.1	1.2	1.1	0.8	0.6	0.3
Hungary	*QoQ*	**1.4**	**-0.3**	**0.0**	**0.1**	**-1.0**	**-0.2**	**0.1**	**0.2**
	YoY	2.4	1.7	1.5	1.2	-1.2	-1.1	-1.0	-0.9
Poland	*QoQ*	**1.1**	**1.3**	**0.7**	**0.8**	**0.6**	**0.4**	**0.3**	**0.3**
	YoY	4.6	4.7	4.1	4.3	3.4	2.5	2.1	1.6
Slovakia	*QoQ*	**0.9**	**0.9**	**0.7**	**0.8**	**0.7**	**0.7**	**0.5**	**0.4**
	YoY	3.5	3.4	3.3	3.4	3.1	2.9	2.7	2.3
Czech Republic	*QoQ*	**0.5**	**0.3**	**0.0**	**-0.2**	**-0.6**	**-0.2**	**-0.2**	**-0.1**
	YoY	2.8	2.1	1.3	0.6	-0.5	-1.0	-1.1	-1.0

Graph A.1.5: **Real Gross Domestic Product** – Central European economies
YoY growth in %, seasonally unadjusted data



Graph A.1.6: **GDP in the Czech Republic and the neighbouring states**
Q3 2008=100, seasonally adjusted data

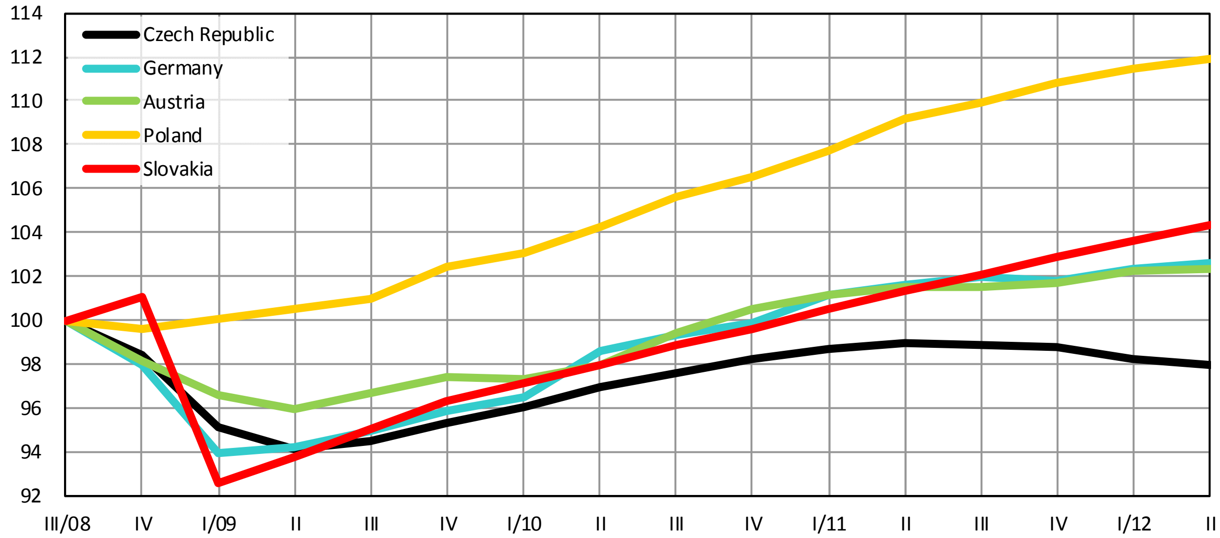


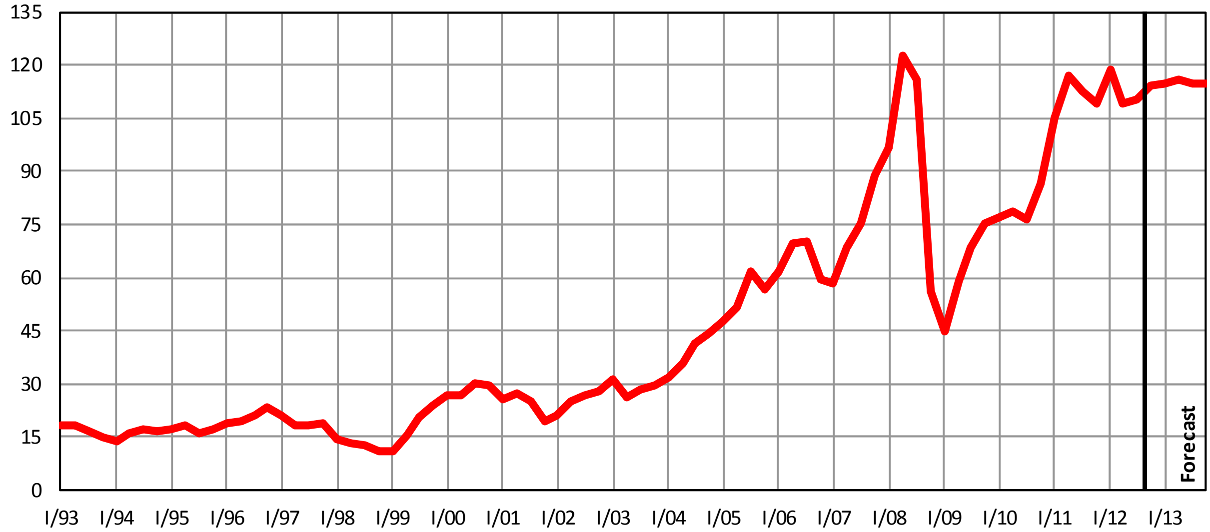
Table A.1.3: **Prices of Commodities** – yearly
spot prices

		2004	2005	2006	2007	2008	2009	2010	2011	2012 *Forecast*	2013 *Forecast*
Crude oil Brent	*USD/barrel*	**38.3**	**54.4**	**65.4**	**72.7**	**97.7**	**61.9**	**79.6**	**111.0**	**113**	**115**
	growth in %	33.0	42.0	20.1	11.2	34.4	-36.7	28.7	39.3	1.7	2.1
Crude oil Brent index *(in CZK)*	*2005=100*	**75.5**	**100.0**	**113.3**	**113.3**	**127.9**	**90.5**	**116.7**	**150.6**	**169**	**169**
	growth in %	21.1	32.4	13.3	-0.1	12.9	-29.3	29.0	29.0	12.3	0.0
Wheat	*USD/t*	**156.9**	**152.4**	**191.7**	**255.2**	**326.0**	**223.6**	**223.7**	**316.2**	.	.
	growth in %	7.3	-2.8	25.8	33.1	27.7	-31.4	0.1	41.4	.	.
Wheat price index *(in CZK)*	*2005=100*	**110.4**	**100.0**	**118.7**	**141.9**	**152.4**	**116.7**	**117.1**	**153.3**	.	.
	growth in %	-2.2	-9.4	18.7	19.6	7.3	-23.4	0.3	30.9	.	.

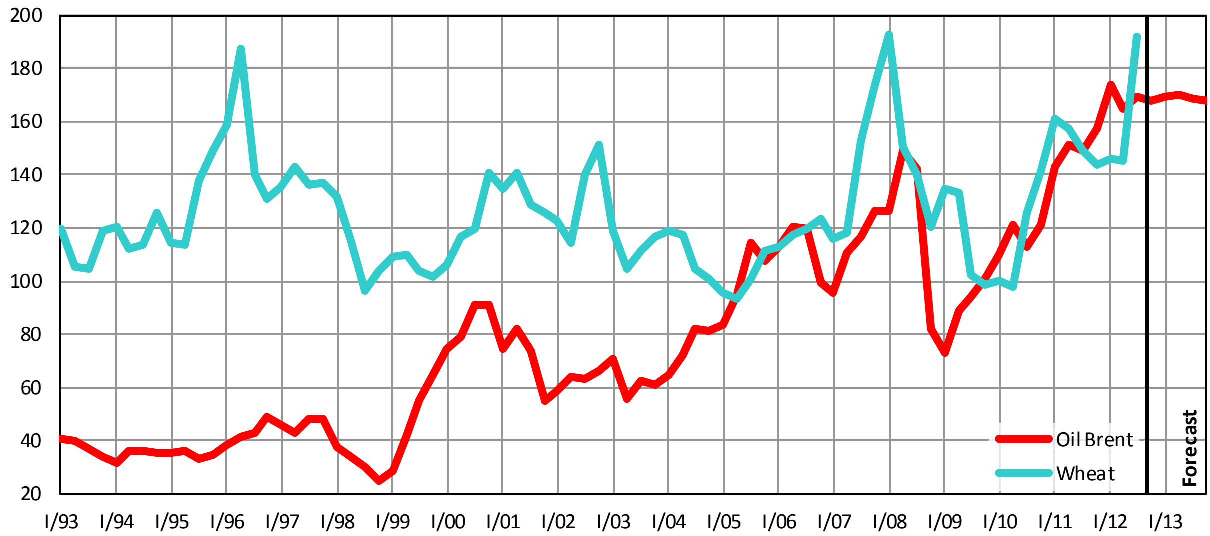
Table A.1.4: **Prices of Commodities** – quarterly
spot prices

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 *Forecast*
Crude oil Brent	*USD/barrel*	**104,9**	**117,1**	**112,5**	**109,3**	**118,5**	**108,9**	**110,0**	**114**
	growth in %	36,8	48,9	47,3	25,9	13,0	-7,0	-2,2	4,3
Crude oil Brent index *(in CZK)*	*2005=100*	**143,2**	**151,5**	**148,7**	**157,1**	**173,6**	**164,5**	**169**	**168**
	growth in %	30,3	24,8	31,8	29,5	21,3	8,6	13,6	6,8
Wheat price	*USD/t*	**330,5**	**339,0**	**315,6**	**279,7**	**278,8**	**269,0**	**349,5**	.
	growth in %	68,9	91,0	32,7	-1,4	-15,6	-20,6	10,7	.
Wheat price index *(in CZK)*	*2005=100*	**161,3**	**156,8**	**149,2**	**143,8**	**146,1**	**145,3**	**192,0**	.
	growth in %	60,9	60,1	18,7	1,4	-9,4	-7,4	28,7	.

Graph A.1.7: **Dollar Prices of Oil**
USD/barrel



Graph A.1.8: **Koruna Indices of World Commodity Prices**
index 2005=100



A.2 Fiscal Policy

According to the CZSO's current estimate, the general government deficit reached CZK 125.2 billion **in 2011**, which represents 3.3% of GDP. In comparison with the previous figure from April of this year, it worsened by 0.2 p.p., primarily due to a revision of accrued tax revenues in 2011 and changes to interest estimates in the area of financial leasing. Local and central government budgets worsened most severely (by nearly CZK 5 billion and more than CZK 3 billion, respectively). The health insurance subsector, on the other hand, improved slightly.

The current deficit estimate for **2012**, which the Ministry of Finance published in the Notification of Government Deficit and Debt on 1 October, is CZK 124.0 billion, representing 3.2% of GDP (*no change*).

Consequently, the cyclically unadjusted balance should improve by only 0.1 p.p. in comparison with 2011. Fiscal effort (defined as the YoY change in the balance adjusted in relation to the impact of the economic cycle and one-time operations) should nevertheless reach 0.8 p.p. this year due to the deeper negative output gap caused by the ongoing recession.

More marked change occurred in the structure of revenue and expenditure items. Due to a drop in household consumption, the revenue side recorded a negative adjustment in expected income from VAT and social contributions by 0.3% of GDP in total.

Expectations regarding the drawing of investment grants from EU funds were also adjusted. Due in particular to problems with determining the eligibility of selected expenditures in individual operating programmes, these were reduced by approximately 0.3% of GDP versus the original estimates. This problem subsequently leads to a decline in investment activity, and, in some cases, to financing of ongoing projects from national sources, in which case the accrued subsidies are not imputed to the revenue side of the general government balance. The majority of problems associated with payments under operating programmes should be resolved by the end of this year, and those remaining at the start of next year.

A reassessment of wage expenditures in the government sector was made on the spending side. The expectation was increased by approximately 0.3% of GDP on the basis of data for the first two quarters.

The most substantial savings are likely to occur in social spending (with the exception of pensions), for which cash performance data for the first nine months of this year show favourable results. Savings relative to plan also are anticipated for interest payments. Overall savings in interest payments and social benefits thus comprise more than 0.4% of GDP.

As in the last two years, a drop in government investments is also anticipated for this year, although significantly less dramatic. A reassessment was conducted in comparison to the previous forecast, especially due to problems with recognizing outlays in various operating programmes. The drop in investments also reflects the considerable uncertainty regarding the future.

As concerns government operating expenditures, a further drop of 4.5% in intermediate consumption is anticipated, reflecting especially the spending freeze approved at the beginning of this year.

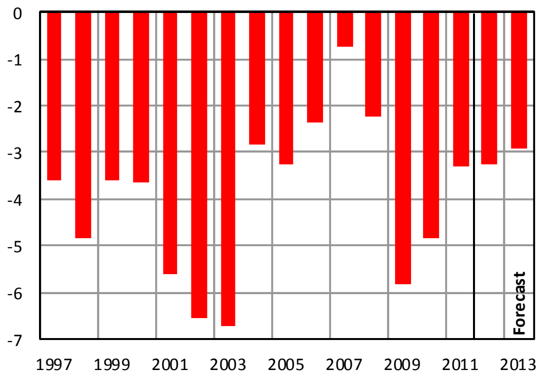
The aforementioned development will in turn be decisively evident in nominal expenditures on final government consumption, which in the end will evidently fall by only 0.1% compared with the original assumption (decrease by 1.6%). Fiscal policy for 2012 thus appears to be less restrictive than originally assumed.

A risk to this forecast is the amount of ineligible expenditures which the European Commission can refuse to pay and which were already invested from public resources. In such case, the deficit would have to be adjusted as the accrued subsidies for these issued resources had already been recorded under revenues.

For 2013, when the general government deficit should, in accordance with the excessive deficit procedure (EDP), be lower than 3% of GDP and continually sustainable below that threshold, we predict a balance of –2.9% of GDP. Due to the deeply negative output gap, the structurally adjusted balance should thus reach –2.0% of GDP. We are in the process of preparing detailed data on the expected development of public finances in the period 2013–2015 for November's Fiscal Outlook of the Czech Republic.

Graph A.2.1: **Net Lending/Borrowing**

in % of GDP



Graph A.2.2: **Government Debt**

in % of GDP

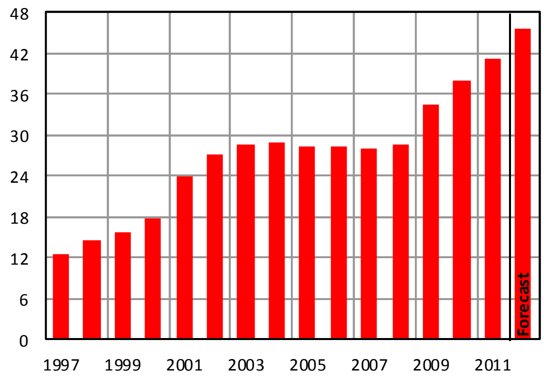


Table A.2.1: **Net Lending/Borrowing and Debt**

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
									Prelim.	*Forecast*	*Outlook*
General government balance [1]	*bill. CZK*	-83	-101	-80	-27	-86	-218	-183	-125	-124	-114
	% GDP	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.8	-3.3	-3.2	-2.9
Cyclical balance	*% GDP*	-0.6	-0.1	0.6	1.2	1.0	-1.1	-0.5	-0.2	-0.9	-1.0
Cyclically adjusted balance	*% GDP*	-2.2	-3.1	-3.0	-1.9	-3.3	-4.8	-4.3	-3.1	-2.4	-1.9
One-off measures	*% GDP*	-0.7	-1.2	-0.2	-0.3	-0.1	0.3	0.0	-0.1	-0.3	0.1
Structural balance	*% GDP*	-1.5	-1.9	-2.8	-1.6	-3.2	-5.1	-4.3	-3.0	-2.1	-2.0
Fiscal effort [2]	*percent. points*	4.3	-0.4	-0.8	1.1	-1.6	-1.9	0.7	1.4	0.8	0.1
Interest expenditure	*% GDP*	1.1	1.1	1.1	1.1	1.0	1.3	1.4	1.4	1.5	.
Primary balance	*% GDP*	-1.8	-2.2	-1.3	0.4	-1.2	-4.6	-3.5	-1.9	-1.8	.
Cyclically adjusted primary balance	*% GDP*	-1.1	-2.0	-1.9	-0.8	-2.2	-3.5	-3.0	-1.7	-0.9	.
General government debt	*bill. CZK*	848	885	948	1 023	1 104	1 286	1 437	1 568	1 737	.
	% GDP	28.9	28.4	28.3	27.9	28.7	34.4	38.1	41.2	45.5	.
Change in debt-to-GDP ratio	*percent. points*	0.4	-0.5	-0.1	-0.3	0.8	5.7	3.7	3.1	4.3	.

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

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

[2] *Change in structural balance.*

A.3 Monetary Policy and the Financial Sector

Monetary policy

The primary monetary policy instrument is the interest rate for **2W repo operations**, which the Bank Council reduced at the end of Q3 (effective from 1 October) to a historic low of 0.25%. The discount rate was then decreased by 0.15 p.p. to 0.1% and the Lombard rate by 0.75 p.p. to 0.75%. Possibilities to use non-standard monetary policy instruments are also being discussed. As a result, the **interest-rate spread** between the Czech Republic and the EMU has deepened to –0.50 p.p. and that relative to the US to 0–0.25 p.p. Interest spreads thus continue at very low levels and therefore do not constitute a fundamental cause for significant fluctuations in the CZK exchange rate.

Financial sector and interest rates

The **3M PRIBOR** interbank market rate averaged 1.0% in Q3 2012 (*consistent with the forecast*), which is also the value it could reach on average for the entire year (*versus 1.1%*). Considering the expected trajectory of CNB rates, we anticipate that next year 3M PRIBOR will reach an average value of 0.5% (*versus 1.1%*).

Research conducted in July regarding average daily turnovers on the interbank market showed a relatively significant decrease in the volume of deposit operations compared to April (caused mainly by the decrease in operations with non-residents having maturity of less than 1 week). While the volume of derivative operations (interest rate swaps) multiplied in comparison to April, the volume of forward rate agreements (FRAs) fell to zero.

Uncertainty on the interbank market, as measured by the spread between the 2W repo rate and 2W or 3M PRIBOR, remains stable after accounting for the typical fluctuation accompanying changes in the 2W repo rate.

Long-term interest rates have reached historically low values in the current period. Considering the Czech Republic's very good rating (Standard & Poor´s AA–, Moody's A1, Fitch Ratings A+; stable outlook for all agencies), relatively successful issues of state bonds can be expected in future. We estimate that the **yields to maturity of 10-year government bonds** (for convergence purposes) will reach on average 2.9% (*versus 3.4%*) this year and 2.7% (*versus 3.5%*) in 2013. The change in the forecast was caused by a sharp decline in government bond yields in recent months. The future development in the euro zone poses the greatest risk to the forecast of government bonds yields.

In July, CNB published findings from the first round of newly introduced examination of credit terms. The investigation concluded that in Q2 2012 banks (18 banks with over 90% share of the bank lending market participated in the research) tightened credit standards for corporate and consumer loans, while those for housing loans were relaxed. For Q3, the banks expected a toughening of credit standards for corporate loans and housing loans. The banks also anticipated that demand for corporate and housing loans would grow in Q3, while they expected decreasing demand for consumer loans.

The situation concerning loans in default has been stabilised, as in Q2 their share in total loans stood at 5.2% for households (0.1 p.p. less YoY) and 7.9% for non-financial corporations (0.6 p.p. less YoY). The ratio of loans to household deposits in the Czech Republic in the long term fluctuates just above 60% and is approximately one-third lower than in euro zone countries. We may note an even more distinct difference between the Czech Republic and the euro zone in the ratio of loans to non-financial corporations' deposits. In the Czech Republic this ratio is at a level of 120%, whereas in the euro zone it is 280–290%.

The Prague Stock Exchange's PX index has fluctuated around 950 points in recent weeks, which value is comparable to that from the same period of last year and represents a slight increase in comparison to Q2.

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

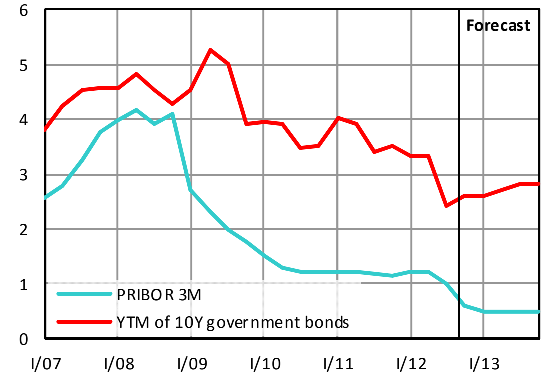
		2004	2005	2006	2007	2008	2009	2010	2011	2012 Forecast	2013 Forecast
Repo 2W rate CNB (*end of period*)	*in % p.a.*	2.50	2.00	2.50	3.50	2.25	1.00	0.75	0.75	.	.
Main refinancing rate ECB (*end of period*)	*in % p.a.*	2.00	2.25	3.50	4.00	2.50	1.00	1.00	1.00	.	.
Federal funds rate (*end of period*)	*in % p.a.*	2.25	4.25	5.25	4.25	0.25	0.25	0.25	0.25	.	.
PRIBOR 3M	*in % p.a.*	2.36	2.01	2.30	3.09	4.04	2.19	1.31	1.19	1.0	0.5
YTM of 10Y government bonds	*in % p.a.*	4.75	3.51	3.78	4.28	4.55	4.67	3.71	3.71	2.9	2.7
Households (*CR, unless stated otherwise*)											
– interest rates on loans	*in % p.a.*	8.09	7.53	6.93	6.63	6.81	7.00	7.00	6.83	.	.
– loans	*growth in %*	31.8	32.6	32.1	31.7	28.9	16.3	8.7	6.5	.	.
– deposits	*growth in %*	6.0	5.2	7.3	10.6	9.4	10.5	5.4	5.0	.	.
– share of non-performing loans	*in %*	4.8	4.2	3.7	3.2	3.0	3.7	4.8	5.3	.	.
– loans to deposits ratio	*in %*	26	33	40	48	57	60	61	62	.	.
– loans to deposits ratio (Eurozone)	*in %*	91	94	99	99	94	89	90	90	.	.
Non-fin. corporations (*CR, unless stated otherwise*)											
– interest rates on loans	*in % p.a.*	4.51	4.27	4.29	4.85	5.59	4.58	4.10	3.93	.	.
– loans	*growth in %*	3.3	10.3	13.9	16.7	17.5	0.2	-6.5	3.3	.	.
– deposits	*growth in %*	10.5	4.5	10.9	13.2	5.3	-1.7	4.8	0.9	.	.
– share of non-performing loans	*in %*	7.8	5.7	4.5	3.8	3.6	6.2	8.6	8.5	.	.
– loans to deposits ratio	*in %*	108	113	117	120	134	137	123	126	.	.
– loans to deposits ratio (Eurozone)	*in %*	294	290	292	296	315	315	294	286	.	.

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

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3 Estimate	Q4 Forecast
Repo 2W rate CNB (*end of period*)	*in % p.a.*	0.75	0.75	0.75	0.75	0.75	0.50	0.50	.
Main refinancing rate ECB (*end of period*)	*in % p.a.*	1.00	1.25	1.50	1.00	1.00	1.00	0.75	.
Federal funds rate (*end of period*)	*in % p.a.*	0.25	0.25	0.25	0.25	0.25	0.25	0.25	.
PRIBOR 3M	*in % p.a.*	1.20	1.21	1.18	1.16	1.20	1.23	0.98	0.6
YTM of 10Y government bonds	*in % p.a.*	4.03	3.90	3.40	3.50	3.34	3.31	2.4	2.6
Households (*CR, unless stated otherwise*)									
– interest rates on loans	*in % p.a.*	6.95	6.88	6.80	6.69	6.59	6.51	.	.
– loans	*growth in %*	7.1	6.8	6.4	5.6	5.7	5.2	.	.
– deposits	*growth in %*	4.5	4.9	5.6	5.1	5.3	4.3	.	.
– share of non-performing loans	*in %*	5.3	5.3	5.3	5.1	5.0	5.2	.	.
– loans to deposits ratio	*in %*	62	62	62	63	62	62	.	.
– loans to deposits ratio (Eurozone)	*in %*	90	90	90	90	88	88	.	.
Non-fin. corporations (*CR, unless stated otherwise*)									
– interest rates on loans	*in % p.a.*	4.00	3.99	3.88	3.87	3.87	3.86	.	.
– loans	*growth in %*	0.1	3.3	4.4	5.3	4.8	3.4	.	.
– deposits	*growth in %*	1.2	-3.6	-0.1	6.0	10.5	12.1	.	.
– share of non-performing loans	*in %*	8.8	8.5	8.4	8.2	8.1	7.9	.	.
– loans to deposits ratio	*in %*	126	128	130	120	119	118	.	.
– loans to deposits ratio (Eurozone)	*in %*	290	285	286	284	287	283	.	.

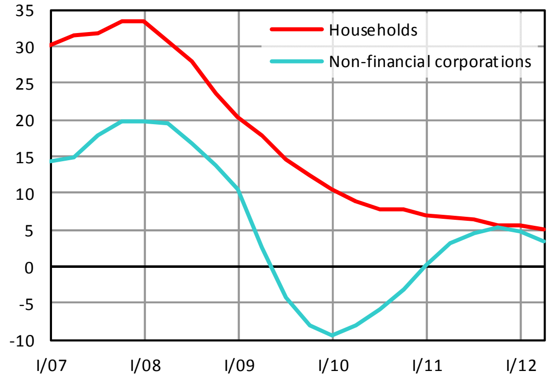
Graph A.3.1: **Interest Rates**

in % p.a.



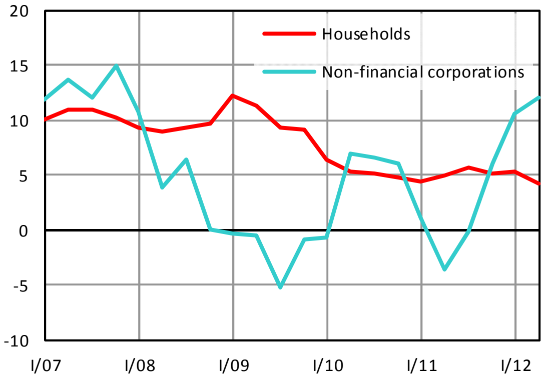
Graph A.3.2: **Loans to Households and Firms**

YoY growth in %



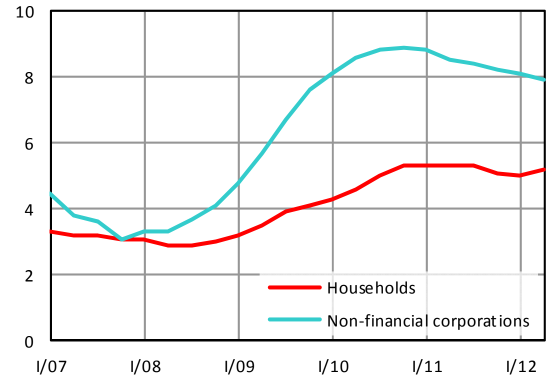
Graph A.3.3: **Deposits of Households and Firms**

YoY growth in %



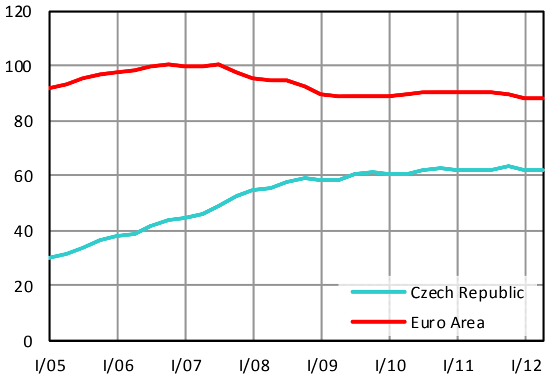
Graph A.3.4: **Non-performing Loans**

ratio of non-performing to total loans, in %



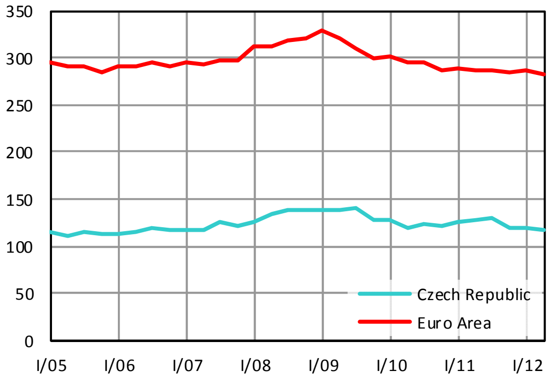
Graph A.3.5: **Households – Loans to Deposits Ratio**

in %

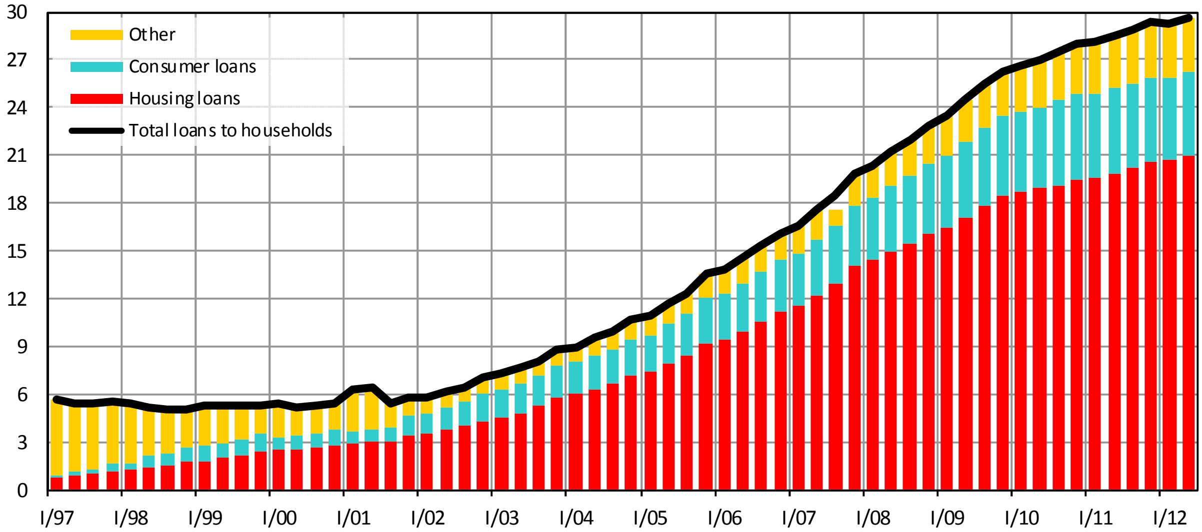


Graph A.3.6: **Firms – Loans to Deposits Ratio**

in %



Graph A.3.7: **Ratio of Bank Loans to Households to GDP**
yearly moving sums, in %



A.4 Exchange Rates

In Q3 2012, the CZK/EUR exchange rate averaged 25.07, thus weakening by 2.7% YoY. Although the koruna rate has oscillated around 25.20 CZK/EUR for several quarters due to investors' changing risk aversion, we nevertheless expect future development to continue along the koruna's long-term strengthening trend. Considering the lingering uncertainty over the debt crisis in the euro zone, negative interest rate differential versus the EMU, and lower rate of economic convergence to the EU average, the nominal and real exchange rates should be below the previous long-term trend for the entire forecast horizon.

The average rate should reach 25.1 CZK/EUR in 2012, while slight appreciation of ca 0.8% per year on average should resume thereafter. Should the crisis in the euro zone escalate, however, exchange rate volatility would certainly increase.

Graph A.4.1: **Exchange Rate CZK/EUR**
quarterly averages

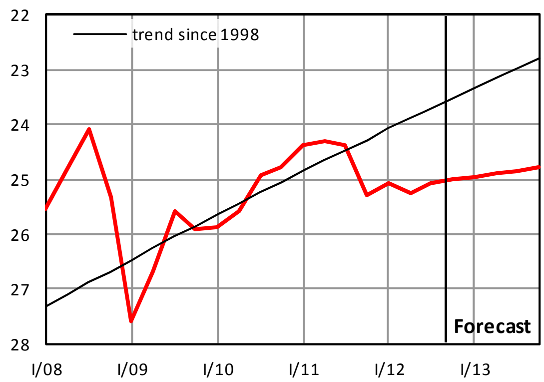


Table A.4.1: **Exchange Rates** – yearly

		2006	2007	2008	2009	2010	2011	2012 *Forecast*	2013 *Forecast*	2014 *Outlook*	2015 *Outlook*
Nominal exchange rates:											
CZK / EUR	*average*	**28.34**	**27.76**	**24.96**	**26.45**	**25.29**	**24.59**	**25.1**	**24.9**	**24.7**	**24.5**
	appreciation in %	5.1	2.1	11.3	-5.6	4.6	2.8	-2.0	0.9	0.8	0.7
CZK / USD	*average*	**22.59**	**20.31**	**17.06**	**19.06**	**19.11**	**17.69**	**19.5**	**19.1**	**19.0**	**18.8**
	appreciation in %	6.0	11.3	19.0	-10.5	-0.3	8.0	-9.5	2.1	0.8	0.7
NEER	*average of 2010=100*	**88.2**	**90.6**	**101.2**	**98.0**	**100.0**	**103.1**	**100**	**100**	**101**	**102**
	appreciation in %	4.8	2.7	11.7	-3.2	2.1	3.1	-3.3	0.8	0.8	0.8
Real exchange rate to EA12[1)]	*average of 2010=100*	**89.7**	**92.5**	**103.0**	**98.1**	**100.0**	**100.8**	**99**	**100**	**100**	**100**
	appreciation in %	3.8	3.1	11.3	-4.7	1.9	0.8	-1.4	0.5	0.2	0.2
REER	*average of 2010=100*	**86.2**	**88.7**	**102.1**	**98.1**	**100.0**	**102.4**	**.**	**.**	**.**	**.**
(Eurostat, CPI deflated, 36 countries)	*appreciation in %*	5.1	2.9	15.1	-4.0	2.0	2.4	.	.	.	.

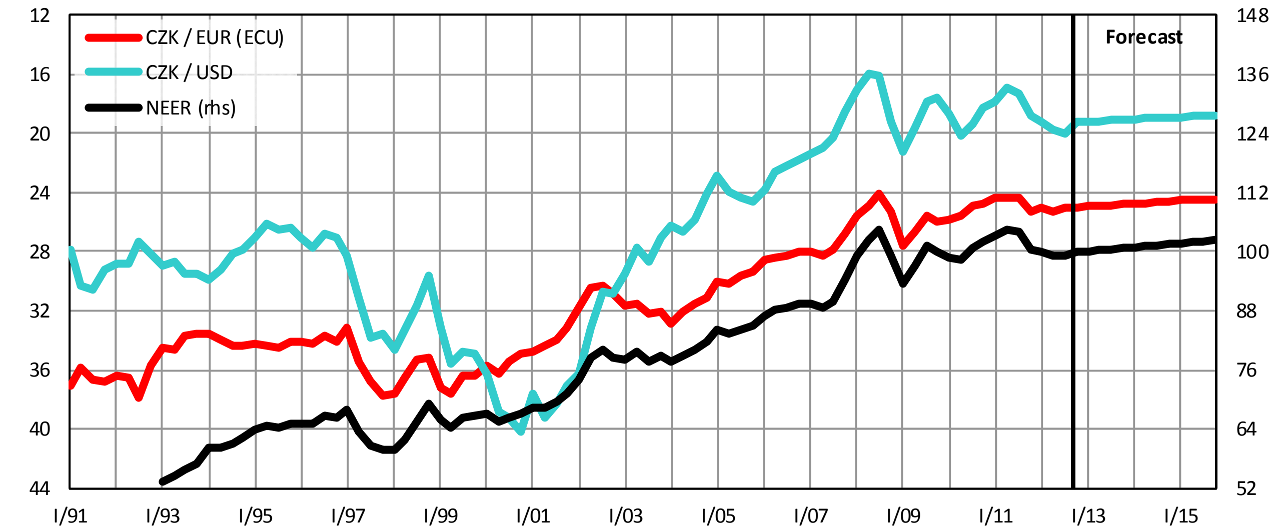
[1)] *Deflated by GDP deflators.*

Table A.4.2: **Exchange Rates** – quarterly

		2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3 *Estimate*	2012 Q4 *Forecast*
Nominal exchange rates:									
CZK / EUR	*average*	**24.37**	**24.32**	**24.39**	**25.28**	**25.08**	**25.3**	**25.1**	**25.0**
	appreciation in %	6.1	5.2	2.2	-1.9	-2.8	-3.7	-2.7	1.1
CZK / USD	*average*	**17.83**	**16.90**	**17.27**	**18.78**	**19.14**	**19.7**	**20.1**	**19.2**
	appreciation in %	5.0	19.3	11.7	-2.8	-6.9	-14.3	-13.9	-2.4
NEER	*average of 2010=100*	**103.4**	**104.3**	**104.0**	**100.6**	**100.2**	**99.2**	**99.3**	**100**
	appreciation in %	4.9	6.0	2.9	-1.6	-3.2	-4.8	-4.5	-0.7
Real exchange rate to EA12	*average of 2010=100*	**100.8**	**101.7**	**101.7**	**99.0**	**98.9**	**98.9**	**99**	**100**
	appreciation in %	3.1	2.3	0.3	-2.5	-1.9	-2.8	-2.3	1.3
REER	*average of 2010=100*	**103.1**	**103.3**	**103.4**	**99.8**	**101.4**	**99.9**	**.**	**.**
(Eurostat, CPI deflated, 36 countries)	*appreciation in %*	4.4	4.6	2.1	-1.5	-1.7	-3.3	.	.

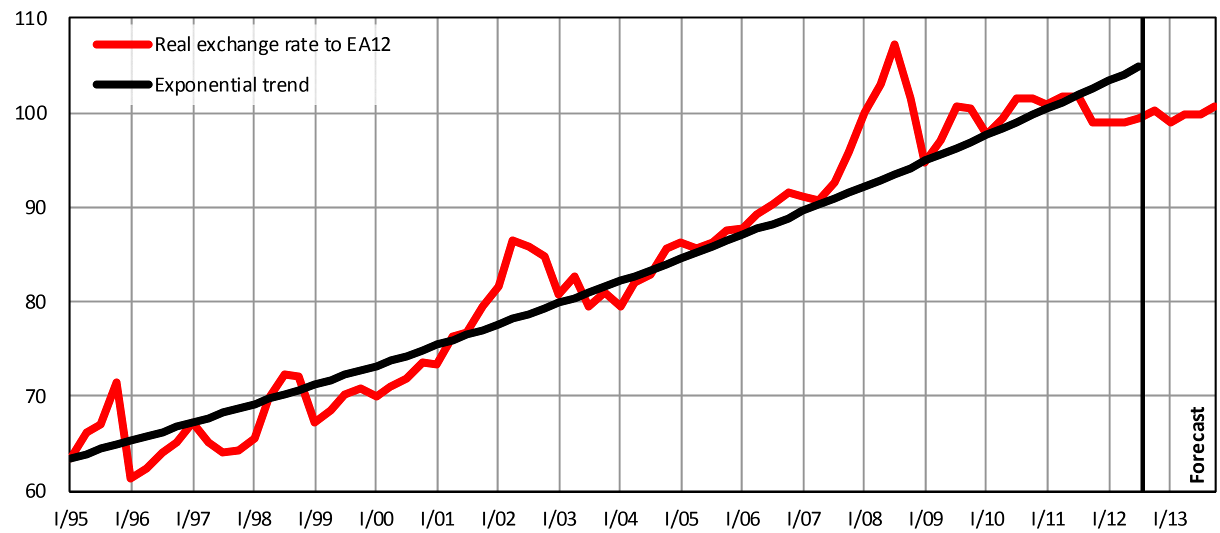
Graph A.4.2: **Nominal Exchange Rates**

quarterly average, average 2010=100 (rhs)



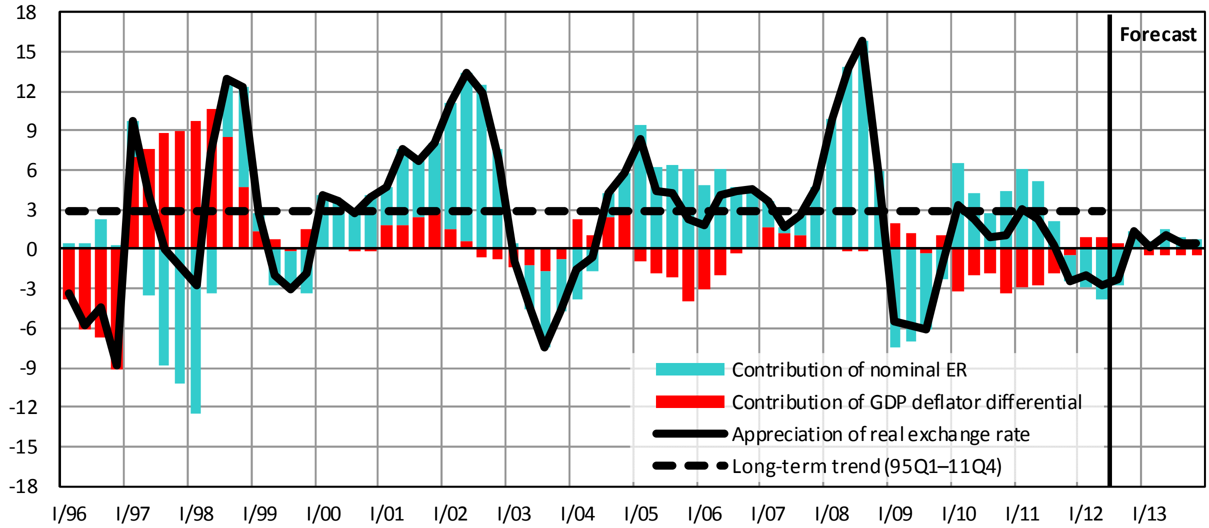
Graph A.4.3: **Real Exchange Rate to EA12**

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



Graph A.4.4: **Real Exchange Rate to EA12**

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



A.5 Structural Policies

Business environment

On 25 July 2012, the government approved an **amendment to the Commercial Code**, which should lead to improvement of payment discipline and reduction of secondary insolvency among companies. The basic term of payment for invoices will be set at 30 days, but it will be possible to prolong the period up to 60 days by agreement. In case of delivery of goods or services to a public procurer, extension to 60 days is the maximum and must be substantiated by the nature of the order. For other business relationships, the term may be extended beyond 60 days only if doing so will not be grossly unjust to the creditor. The amendment also sets the default interest rate at a minimum of eight percentage points above the CNB's reference rate. The amendment is expected to come into effect on 1 March 2013.

The purpose of an amendment to the **insolvency act**, signed by the President of the Czech Republic on 1 October 2012, is to prevent abuses of the insolvency law. According to the new legal regulation, a court will be able to reject a creditor's petition for insolvency if it is clearly unfounded and to establish a monetary penalty for such insolvency petition.

An **amendment to the act on protection of competition** approved by the Chamber of Deputies with comments from the Senate on 19 September 2012, should more readily expose cartel agreements. According to the amendment, participants in cartels who cease such operations of their own accord and report the other participants to the Office for the Protection of Competition will have the penalty reduced or entirely remitted. Last but not least, the amendment bars companies caught in cartel agreements from participating in public tenders and concession agreements.

Taxes

In order to strengthen the revenues side of the state budget and thereby gradually reduce the public finances deficit, on 6 September 2012 the government re-approved draft **legislation to amend taxation, insurance and other legislation related to decreasing public budget deficits** previously rejected by the Chamber of Deputies. According to the draft legislation, as from 2013 lump-sum cost deductions for personal income taxes will be limited to CZK 800,000 for activities included under the 40% deduction and to CZK 600,000 for the 30% deduction. At the same time, persons benefiting from deductions will not be able to apply the tax benefit for child support or the credit for a spouse. The real estate transfer tax will be increased from 3% to 4% and the withholding tax on income of non-residents from countries with which the Czech Republic has not concluded an agreement on preventing double taxation will be increased from 15% to 35%. Last but not least, the entitlement to an excise tax refund on diesel fuel for agricultural purposes will be decreased at first, and from 2014 abolished.

During 2013–2015, a 7% surcharge on the personal income tax will be temporarily introduced for incomes exceeding 48 times the average monthly wage, the basic income tax deduction for working pensioners will be abolished, and the maximum assessment base for health insurance premiums will be cancelled. During this period, the two VAT rates will be increased by 1 p.p. to 21% and 15%, respectively, while implementation of the uniform rate of 17.5% will be postponed until 2016.

An **amendment to the act on excise taxes** approved by the Chamber of Deputies on 26 September 2012 will raise the excise tax on cigarettes. The previously approved increase of the excise tax on cigarettes planned for 1 January 2014 will now be divided between 2013 and 2014.

On 26 September 2012, the Chamber of Deputies approved an **amendment to the VAT act**, according to which taxpayers, with the exception of individuals having turnover up to CZK 6 million, will be obliged to file electronically. The amendment also introduces the institution of an unreliable taxpayer, which will allow identification of higher-risk taxpayers abusing the VAT system, whose registration as VAT payers the tax administrator cannot directly cancel. Entrepreneurs accepting taxable payments from unreliable payers are exposed to a risk of liability for unpaid VAT. The amendment should come into force on 1 January 2013, and the provisions relating to electronic filing one year later.

Financial markets

Following the principle of responsible lending and strengthening the position of the consumer, on 22 August 2012 the government approved an **amendment to the consumer credit act**. From now on, a creditor will be able to provide a consumer loan only in the case that after evaluating the consumer's creditworthiness with expert care it will be apparent that the consumer will be able to repay the loan. The consumer will be able to withdraw from an agreement on intermediation of a consumer loan within 14 days from its conclusion without penalty and without stating a reason. Due to their frequent misuse, bills of exchange and cheques will be banned from use in connection with consumer loans. Last but not least, it will not be possible to use telephone numbers with a higher-than-usual price per minute for calling when offering, negotiating or intermediating consumer loans. The amendment is expected to come into force on 1 January 2013.

Education, science and research

On 1 September 2012, an amendment to the **act on pedagogical personnel** came into force. The amendment increases permeability between qualifications for individual types and levels of schools, provides additional regulation of direct educational activities, and addresses the issue of unqualified educators.

Energy industry and environmental protection

On 26 September 2012, the Chamber of Deputies approved the proposed **act on the conditions for trading in greenhouse gas emission allowances**. At present, allowances are allocated free of charge on the basis of historic emissions. In the period 2013–2020 the Czech Republic will have 645 million allowances at its disposal, of which 342 million will be sold by auction and 303 million allocated free of charge according to reference values defined by EU regulations. The number of freely allocated allowances will be gradually decreased during this eight-year period. Yields from the allowances will become revenue for the state budget, but at least 50% of revenues will be earmarked for the purpose of subsequent financing of activities related to climate protection. The act is expected to come into force on 1 January 2013.

The Chamber of Deputies overturned a presidential veto and on 19 September 2012 approved an **amendment to the act on energy management**, which should lead to a decrease in the energy demands of buildings. According to the amendment, starting from 2021 all new buildings will be built as buildings with almost zero energy consumption. New buildings used and owned by public authorities will do so already from 2019. Last but not least, the amendment regulates the mandatory energy certification of buildings. Property owners will present a certificate of energy requirements when selling self-contained units of existing buildings starting from 2013, and when renting beginning from 2016. Already existing residential or administrative buildings will obtain their certificates gradually over the period 2015–2019 depending on their floor space. The amendment will come into force on 1 January 2013.

The aim of an amendment to the **law on climate protection** which came into effect on 1 September 2012 is to maintain climate quality at levels that do not pose health risks. It reduces administrative burdens and strengthens incentives for those who reduce emissions beyond the scope established by law. Fees for atmospheric pollution remain in place and will be gradually raised from 2017 to 2021. Henceforth, only those firms whose fees for emission of harmful substances exceed CZK 50,000 will be obliged to pay those fees. Municipalities will be able to define low-emission zones in polluted areas, spas and localities in protected areas, and an industrial plant in the process of introducing new operations will need to put old ones out of operation so that there will not be an increase of emissions in the given area.

Labour market

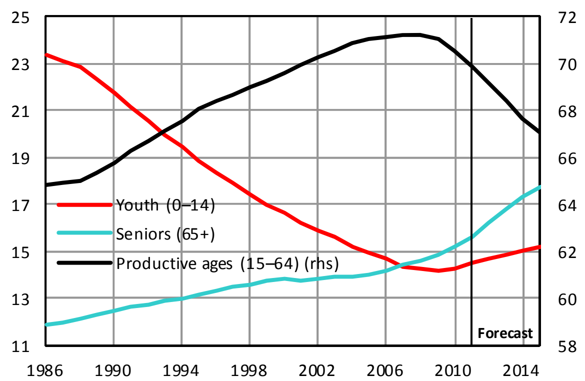
An **amendment to the act on supplementary pension savings** approved by the Chamber of Deputies on 26 September 2012 will allow persons close to retirement age to draw a pension from the system of additional pension savings even before reaching retirement age. Persons five years below the age necessary for entitlement to an old-age pension will be entitled to benefits from the third pillar. If the amount of individual payments reaches at least 30% of the average wage, the drawing of benefits will not influence the amount of pension entitlements from the pay-as-you-go first pillar or from public health insurance. Participants will be motivated to save in the third pillar by a state contribution and employers by tax benefits, as contributions from employers will be exempt from income tax up to CZK 30,000 per year. The amendment is expected to come into effect on 1 January 2013.

An **amendment to the act on pension insurance** which went into effect on 27 September 2012 will contribute towards stabilising the state budget's balance of revenues and expenditures. From 2013 to 2015, pensions will be valorised by one-third of the growth in prices and one-third of the growth in real wages.

A.6 Demographic Trends

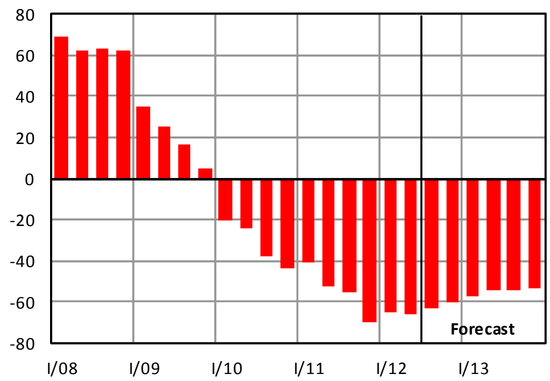
At the end of June of this year, 10.512 million people were living in the Czech Republic. During the first half of 2012 the population increased by 7 thousand inhabitants. The positive migration balance reached 8 thousand and the mortality exceeded births by 1 thousand. In comparison with the first half of 2011, the birth rate and positive migration balance decreased negligibly while the mortality rate increased.

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



Graph A.6.1 shows, that the structural share of the population aged 15–64 years has been rather dynamically decreasing since 2008. The lower boundary is crossed by the numerically weak age group born in the late 1990s, while the senior age group includes the highly populous generation born after the Second World War. Nevertheless, the Czech population still has an economically very favourable age structure, and especially in comparison to Western European countries (see Table A.6.1).

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



Note: This graph does not reflect the results of the 2011 census

Tab. A.6.1: **Structure shares of persons aged 15–64**
in %, as of January 1 of the given year

	2004	2008	2012
Slovakia	70.9	72.3	71.8
Poland	69.8	71.1	71.1
Czech Republic	70.8	71.2	69.1
Hungary	68.6	68.8	68.6
Austria	67.9	67.5	67.7
Germany	67.3	66.2	66.1
United Kingdom	65.8	66.4	65.9
Italy	66.6	65.9	65.7
Sweden	65.2	65.7	64.5
France	65.1	65.1	64.3

Note: The year 2012 includes the effects of census. United Kingdom and Italy year 2011.

The negative impact on the labour supply from decline in the working-age population is to a great extent compensated by effects within the age structure of the labour force, as proportions of age groups with high or growing participation are increasing. The extension of the retirement age and greater flexibility of the labour market have the same effect. The ratio of the labour force to working-age population has thus increased, thereby enabling maintenance of a stable or even slightly growing labour force (see Chapter C.3).

On the other hand, the structural proportion of persons over 64 years of age in the total population reached 16.2% at the start of 2012 and according to the middle variant of the CZSO's Demographic Projection should increase to nearly 20% by 2020. Both the number and proportion of seniors in the population are rising considerably due to the demographic structure and further continuation of the intensive process of increasing life expectancy.

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

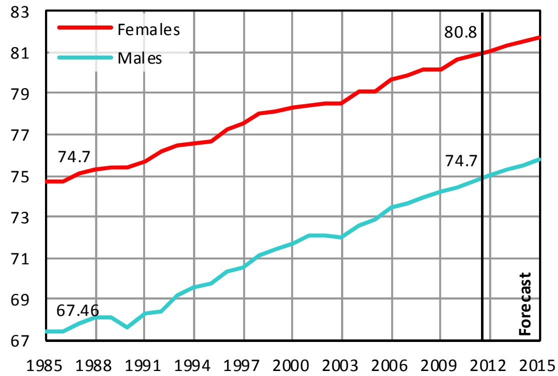


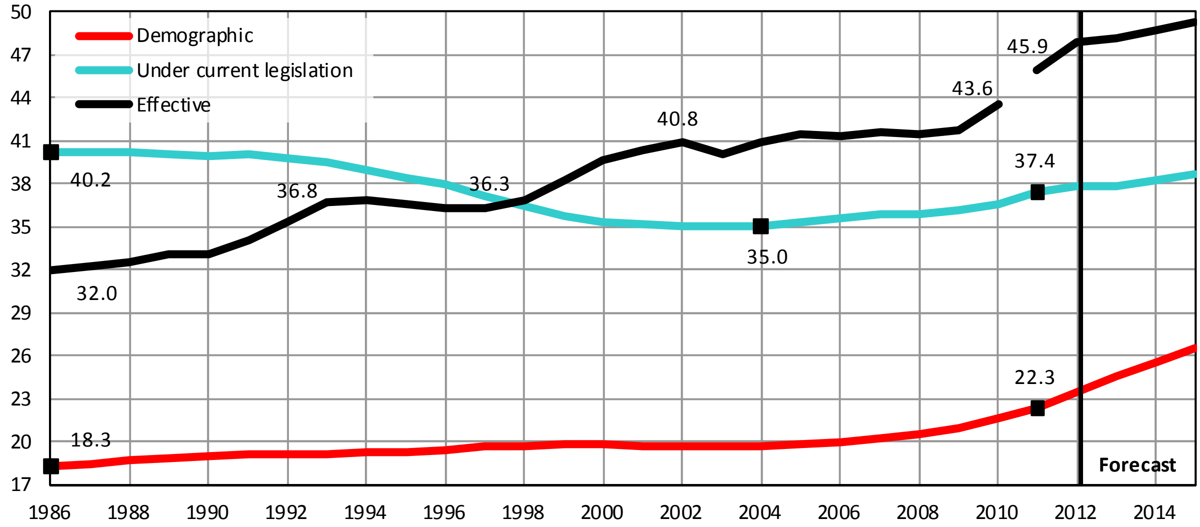
Table A.6.2: **Demography**
in thousands of persons

	2006	2007	2008	2009	2010	2011	2012 *Forecast*	2013 *Forecast*	2014 *Outlook*	2015 *Outlook*
Population (January 1)	10 251	10 287	10 381	10 468	10 507	10 487	10 505	10 539	10 571	10 601
growth in %	0.3	0.4	0.9	0.8	0.4	-0.2	0.2	0.3	0.3	0.3
Age structure (January 1):										
(0–14)	1 501	1 480	1 477	1 480	1 494	1 522	1 541	1 563	1 587	1 611
growth in %	-1.7	-1.5	-0.2	0.2	1.0	1.8	1.3	1.4	1.5	1.5
(15–64)	7 293	7 325	7 391	7 431	7 414	7 328	7 263	7 207	7 154	7 105
growth in %	0.5	0.4	0.9	0.5	-0.2	-1.2	-0.9	-0.8	-0.7	-0.7
(65 and more)	1 456	1 482	1 513	1 556	1 599	1 637	1 701	1 768	1 830	1 885
growth in %	1.5	1.8	2.1	2.9	2.7	2.4	3.9	3.9	3.5	3.0
Old-age pensioners (January 1)[1]	1 985	2 024	2 061	2 102	2 147	2260	2340	2 349	2 380	2 411
growth in %	1.0	2.0	1.8	2.0	2.1	.	3.5	0.4	1.3	1.3
Old-age dependency ratios (January 1, in %):										
Demographic[2]	20.0	20.2	20.5	20.9	21.6	22.3	23.4	24.5	25.6	26.5
Under current legislation[3]	35.6	35.8	35.9	36.1	36.6	37.4	37.8	37.8	38.2	38.7
Effective[4]	41.3	41.6	41.5	41.8	43.6	45.9	47.9	48.1	48.8	49.3
Fertility rate	1.328	1.438	1.497	1.492	1.493	1.42	1.52	1.53	1.54	1.55
Population increase	36	94	86	39	-20	19	33	32	31	29
Natural increase	1	10	15	11	10	2	8	7	6	4
Live births	106	115	120	118	117	109	114	113	112	110
Deaths	104	105	105	107	107	107	106	106	106	106
Net migration	35	84	72	28	16	17	25	25	25	25
Immigration	68	104	78	40	31	23	.	.	.	.
Emigration	33	21	6	12	15	6	.	.	.	.
Census difference	x	x	x	x	-46	x	x	x	x	x

[1] *In 2010 disability pensions of pensioners over 64 were transferred into old-age pensions.*
[2] *Demographic dependency: ratio of people in senior ages (65 and more) to people in productive age (15–64).*
[3] *Dependency under current legislation: ratio of people above the official retirement age to the people over 19 below the official retirement age.*
[4] *Effective dependency: ratio of old-age pensioners to working people.*

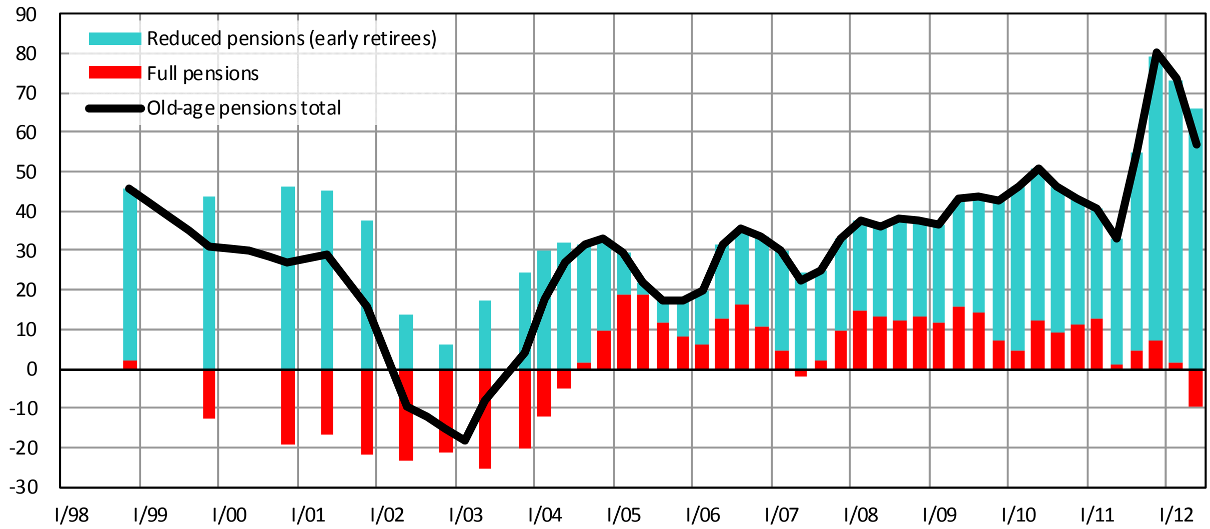
Graph A.6.4: **Dependency Ratios**

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



Graph A.6.5: **Old-Age Pensioners**

absolute increase over a year in thousands of persons



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

B Economic Cycle

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

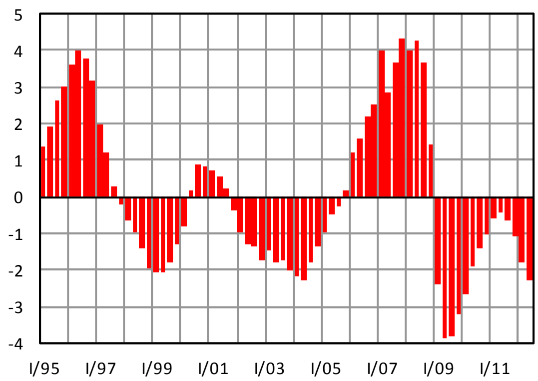
B.1 Position within the Economic Cycle

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

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

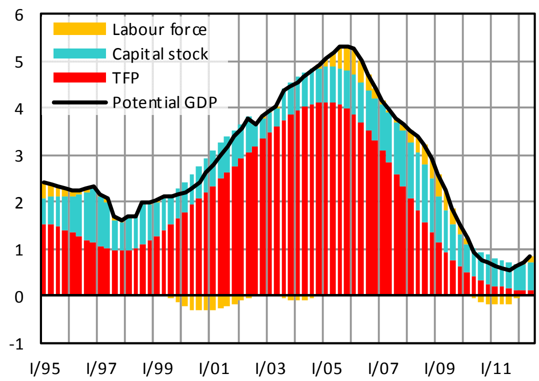
Graph B.1.1: **Output Gap**

in % of potential GDP



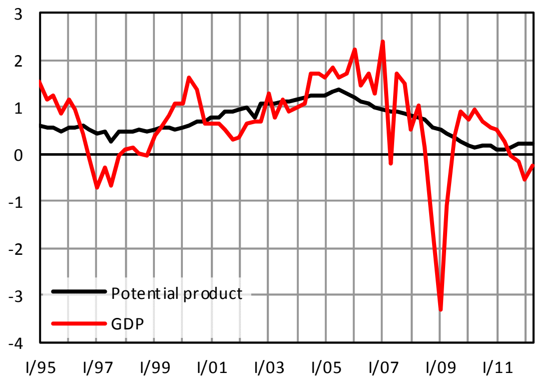
Graph B.1.2: **Potential Product Growth**

in %, contributions in percentage points



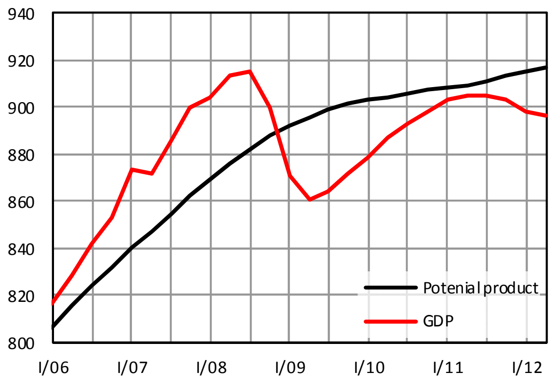
Graph B.1.3: **Potential Product and GDP**

QoQ growth in %



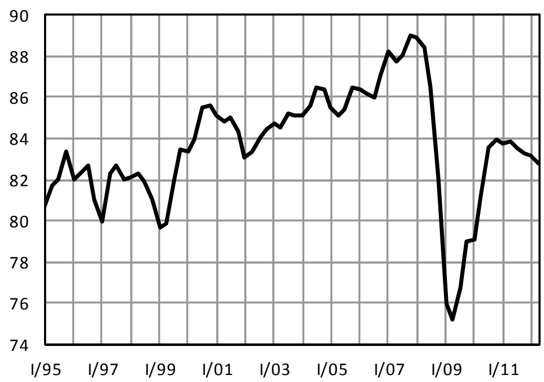
Graph B.1.4: **Levels of Potential Product and GDP**

in bill. CZK of 2005



Graph B.1.5: **Capacity Utilisation in Industry**

in %



Graph B.1.6: **Total Factor Productivity**

YoY growth in %

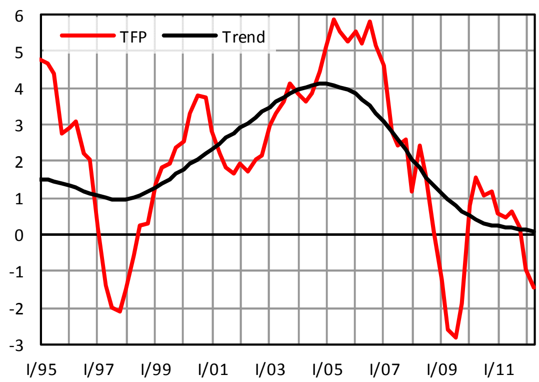


Table B.1: **Output Gap and Potential Product**

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 H1
Output gap	*per cent*	-1.8	-1.9	-0.4	1.9	3.7	3.3	-3.3	-1.7	-0.7	-2.0
Potential output	*growth in %*	4.2	4.7	5.2	4.9	3.9	3.2	2.1	0.9	0.6	0.8
Contributions:											
TFP	*perc. points*	3.7	4.0	4.1	3.6	2.7	1.7	0.9	0.4	0.2	0.1
Fixed assets	*perc. points*	0.5	0.7	0.8	0.9	1.1	1.2	0.8	0.6	0.6	0.6
Participation rate	*perc. points*	-0.2	-0.2	0.2	0.2	-0.2	0.0	0.3	0.2	0.2	0.4
Demography [1)]	*perc. points*	0.2	0.2	0.2	0.2	0.3	0.4	0.1	-0.2	-0.4	-0.3

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

Since the deep recession at the turn of 2008 and 2009, the Czech economy has constantly shown a negative **output gap**. With the modest recovery after the end of the recession, the gap was gradually reduced to –0.5% in Q2 2011, although the onset of a shallow recession in H2 2011 caused the production gap to deepen once again to –2.3% in Q2 2012.

Due to a relatively long period without significant economic growth, YoY growth in **potential product** fell below 1% in 2011 according to our calculations. We believe, however, that this estimate undervalues the reality.

The PP component most seriously affected is **total factor productivity** (TFP). TPF was 2.5% lower in Q2 2012 than at the peak of the cycle in Q3 2008 and has been decreasing QoQ for five quarters in a row. Its trend component, derived using the Hodrick–Prescott filter, grew by a negligible 0.1% YoY. The fact that the labour production factor is entered into the calculation according to the number of employed persons (which is stagnating) and not according to the number of hours worked (which has fallen dramatically – see Chapter C.3) may play a certain role here.

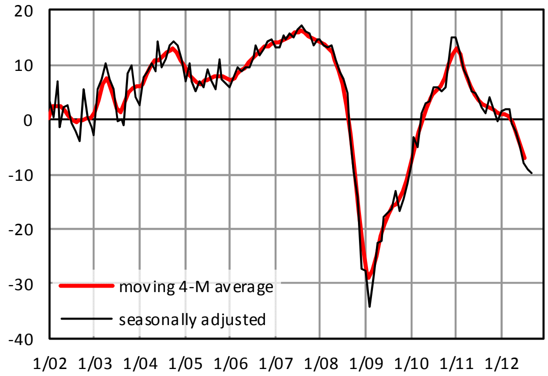
A drop in investment activity led to a decline in **capital stock's** contribution from 1.2 p.p. in 2008 to 0.6 p.p. in 2010, 2011, and the first half of 2012.

The **labour supply** has been markedly affected by the decrease in the number of working-age inhabitants, which stems from the process of population ageing as well as from a significant drop in immigration versus the situation recorded during 2006–2008. In the first half of 2012, the contribution of demographic development to potential GDP growth was negative, at –0.3 p.p. Nevertheless, the size of the labour force is not decreasing because the positive participation trend, measured as the ratio of labour force to the number of inhabitants aged 15–64, has accelerated and, with a contribution of 0.4 p.p., has become the second most significant factor in potential GDP growth.

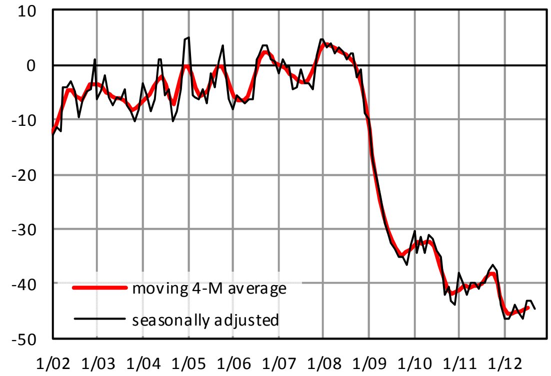
B.2 Business Cycle Indicators

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

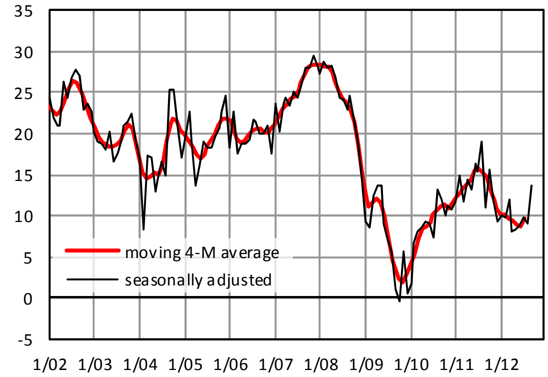
Graph B.2.1: **Industrial Confidence Indicator**



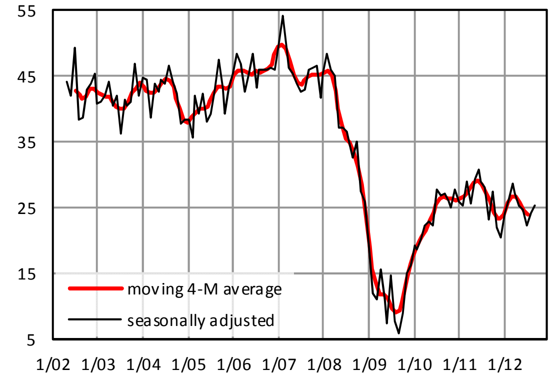
Graph B.2.2: **Construction Confidence Indicator**



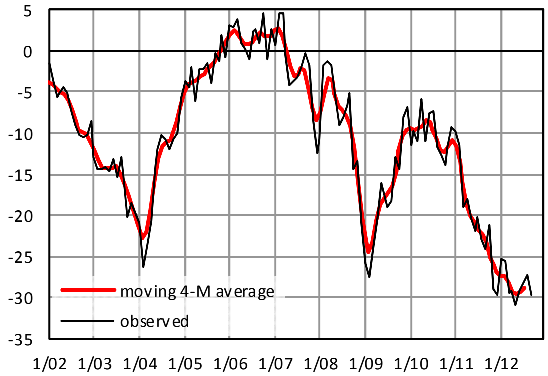
Graph B.2.3: **Retail Trade Confidence Indicator**



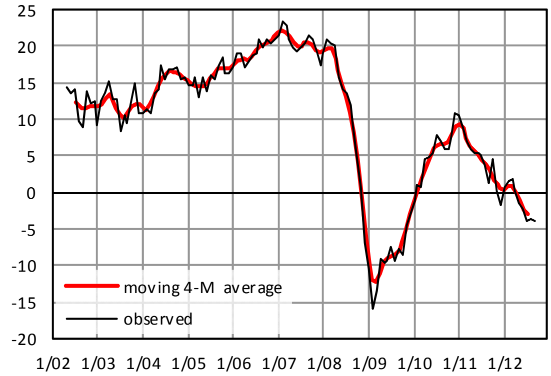
Graph B.2.4: **Selected Services Confidence Indicator**



Graph B.2.5: **Consumer Confidence Indicator**



Graph B.2.6: **Aggregate Confidence Indicator**



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

Business cycle indicators continued to develop in a predominantly negative manner during Q3 2012.

Most respondents evaluated total and foreign demand in **industry** in Q3 2012 negatively, with a slight decrease in negative assessments in the case of foreign demand in September 2012. The economic situation of businesses was assessed more pessimistically in Q3 as compared with the previous quarter. The three-month and six-month outlooks for the economic situation for the entire Q3 may be regarded as slightly poorer than for Q2 2012. The assessment of total and foreign demand in a three-month outlook also worsened slightly. The three-month outlook for employment clearly declined, which corresponds to the development of the outlook for overall demand and the economic situation of business.

Assessments as to the outlook for total demand in **construction** were unequivocally negative in Q3 2012, and on approximately the same level as in Q2.

According to respondents in **retail trade**, the assessment of the current economic situation and its three-month outlook slightly improved in Q3 2012. Its six-month outlook, on the other hand, more or less stagnated in comparison with Q2.

The assessment of the current economic situation in selected **services** sectors improved marginally in Q3 2012. Evaluation of the economic situation on a six-month horizon and the expected development of the number of employees in the coming 3 months essentially stagnated in comparison to Q2.

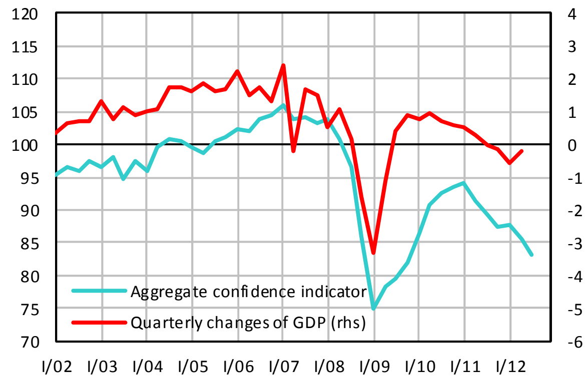
Consumer confidence continued to display extremely low values.

The **composite confidence indicator** showed a further QoQ decline in Q3 2012 (Graph B.2.6).

Using regression analysis, we quantified the relationship between the composite confidence indicator and the QoQ index of gross domestic product (GDP). The relationship between QoQ increments of GDP and lagged values of the composite indicator is a relatively loose one. Without the lag, the correlation between these two time series is ca 60%. The regression relationship between QoQ increments of GDP and the composite indicator (without lag) thus allows using at least the existing composite indicator published in advance of the quarterly national accounts. Below, we present only a qualitative graphical appraisal. It is clear that the composite confidence indicator is signalling further QoQ decline in GDP for Q3.

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

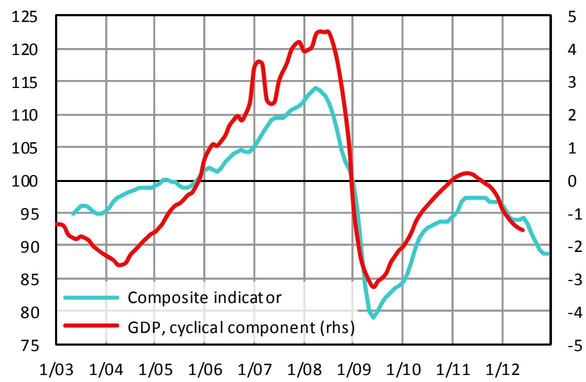
2005=100 (lhs), QoQ GDP growth in % (rhs)



For Q2 2012, the composite leading indicator correctly signalled a drop in the relative cyclical component of GDP, which was then confirmed by data published in September 2012. For Q3 2012, the indicator is signalling further decline of the relative cyclical component of GDP. Since the trend dynamics can reasonably be regarded as constant in the short term, the conclusion for QoQ GDP dynamics in Q3 is in accordance with the observations resulting from the comparison of QoQ changes in GDP and the composite confidence indicator. According to the composite indicator, the relative cyclical component should remain more or less level in Q4.

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

average 2005=100 (lhs), in % of GDP (rhs)
synchronized with cyclical component of GDP based on statistical methods (Hodrick-Prescott filter)



B.3 Business Cycle Indicators in the EU

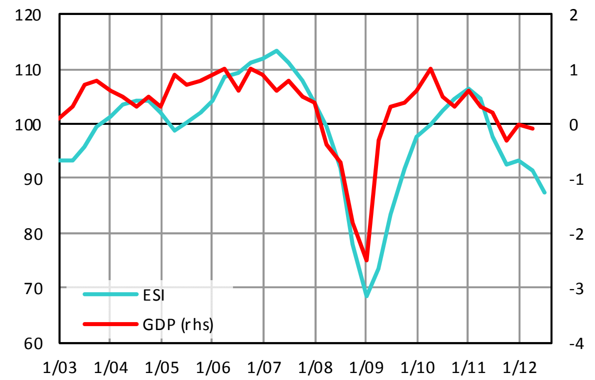
In the Czech Republic's main trading partner countries, the composite confidence indicator published by the European Commission declined further in Q3 2012. Similar development also occurred on the level of the EU as a whole. Worsening of the assessments in industry and in the services sector, which have an aggregate weight of 70% in the indicators, contributed most. For Q3 2012, the indicator signals further QoQ decline in GDP within the EU27.

Consumer confidence decreased markedly in Q3 2012, even in the hitherto respectably positioned Germany.

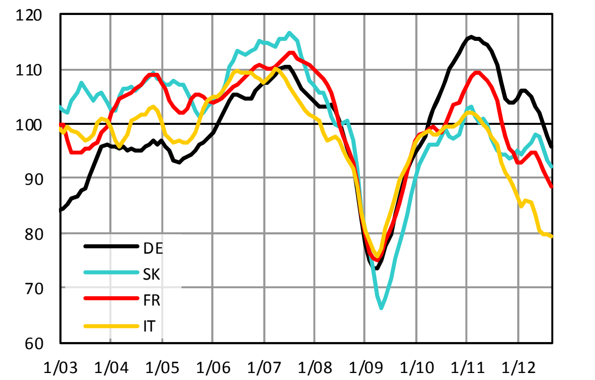
The composite confidence indicator has fallen sharply in Italy and in France. For Q3, the composite indicator signals a slowdown in QoQ GDP growth in Germany and Slovakia and acceleration of the decline in France.

The composite leading indicator signals a decline in the relative cyclical component by the end of 2012 both in the EU and in Germany. Considering the stable dynamics of potential product in the short term, the substantial decrease in the relative cyclical component can be attributed to the QoQ decline in GDP.

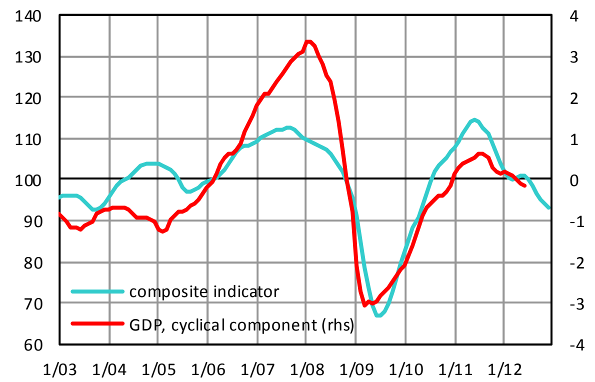
Graph B.3.1: **Aggregate confidence indicator and GDP growth in EU27**
indicator – quarterly averages,QoQ growth in %, sa data



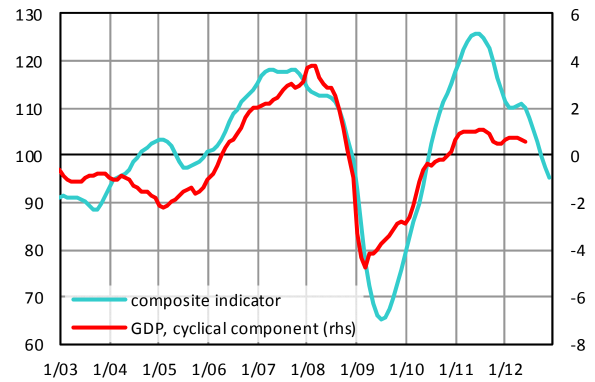
Graph B.3.2: **Aggregate confidence indicator, selected trading partner countries**
3-month moving averages



Graph B.3.3: **EU – composite leading indicator**
monthly data, 2005=100, cyclical component in % of trend GDP



Graph B.3.4: **Germany – composite leading indicator**
monthly data, 2005=100, cyclical component in % of trend GDP



C Forecast of the Development of Macroeconomic Indicators

Sources of tables and graphs: CZSO, Eurostat

C.1 Economic Output

Latest development of GDP

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

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

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

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

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

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

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

Forecast for GDP

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 1: **YoY real growth rates**

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

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

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

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

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

Table 3: **Nominal levels**

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

C.2 Prices

Consumer prices

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

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

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

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

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

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

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

Deflators

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

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

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

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

C.3 Labour Market

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

Employment

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

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

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

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

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

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

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

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

Unemployment

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

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

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

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

Wages

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

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

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

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

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

C.4 External Relations

(a balance of payments perspective)

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

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

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

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

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

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

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

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

C.5 International Comparisons

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

In using the purchasing power parity method, comparisons of economic output for individual countries within the EU are made in PPS (purchasing power standards). PPS is an artificial currency unit expressing a quantity of goods that can be bought on average for one euro on EU27 territory after exchange rate conversion for countries that use currency units other than the euro.

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

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

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

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

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

D Monitoring of Other Institutions' Forecasts

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

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

Table D.1: **Consensus Forecast**

		October 2012			October 2012
		min.	*max.*	*consensus*	*MoF forecast*
Gross domestic product (2012)	*growth in %, const.pr.*	-1.0	0.0	-0.7	-1.0
Gross domestic product (2013)	*growth in %, const.pr.*	0.4	1.7	1.0	0.7
Average inflation rate (2012)	*%*	3.2	3.9	3.4	3.3
Average inflation rate (2013)	*%*	1.9	2.7	2.3	2.1
Average monthly wage (2012)	*growth in %*	2.4	3.1	2.7	2.0
Average monthly wage (2013)	*growth in %*	2.1	3.3	2.9	2.1
Current account / GDP (2012)	*%*	-4.7	-0.2	-2.1	-1.3
Current account / GDP (2013)	*%*	-3.2	-0.4	-1.8	-1.2

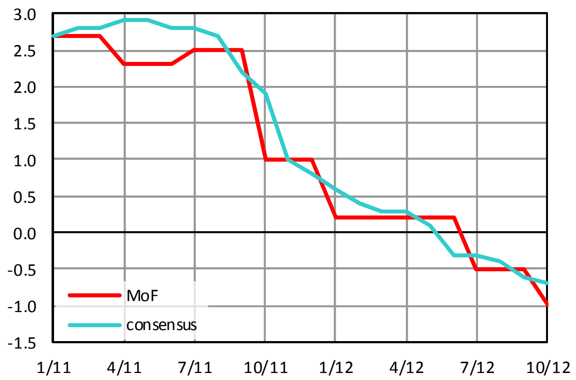
According to the monitored institutions, GDP could decrease by 0.7% in the current shallow recession. Nevertheless, all institutions expect moderate recovery with average GDP growth of 1.0% already for the following year. The Ministry's forecast is slightly more conservative for both years.

Due to impacts from the increase in indirect taxes, the monitored institutions expect the average inflation rate to rise to 3.4% for 2012. For the following year, however, these institutions anticipate a slowdown in consumer prices growth to 2.3%. The Ministry's forecast is in accordance with both estimates.

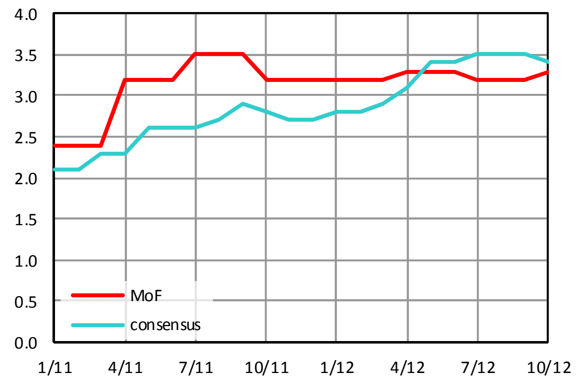
According to the monitored institutions' forecasts, the average wage should rise by 2.7% in 2012 while in 2013, in connection with the economy's expected recovery, growth is expected to accelerate moderately to 2.9%. The Ministry's forecast is more conservative for both years.

According to the monitored institutions, the current account deficit in the balance of payments should be around 2.0% of GDP in 2012 and 2013, thus remaining at a sustainable level. The Ministry's forecast expects that the current account deficit will decrease more markedly in comparison with 2011. Due to a rising surplus in the balance of goods and services and decrease in the incomes deficit, the current account deficit could slightly exceed 1% of GDP in 2012 and 2013.

Graph D.1: **Forecast of Real GDP Growth for 2012**
in %; the horizontal axis shows the month, in which the monitoring was conducted



Graph D.2: **Forecast of Average Inflation Rate for 2012**
in %; the horizontal axis shows the month, in which the monitoring was conducted



Tables and Graphs:

C.1 Economic Output

Sources: CZSO, MoF estimates

Table C.1.1: **Real GDP by Type of Expenditure** – yearly
chained volumes, reference year 2005

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
							Prelim.	*Forecast*	*Forecast*	*Outlook*	*Outlook*
Gross domestic product	*bill. CZK 2005*	3335	3526	3635	3465	3560	3619	3582	3607	3677	3774
	growth in %	**7.0**	**5.7**	**3.1**	**-4.7**	**2.7**	**1.7**	**-1.0**	**0.7**	**1.9**	**2.6**
Private consumption exp.[1]	*bill. CZK 2005*	1605	1673	1720	1714	1724	1713	1662	1654	1674	1712
	growth in %	**4.4**	**4.2**	**2.8**	**-0.4**	**0.6**	**-0.6**	**-3.0**	**-0.5**	**1.2**	**2.3**
Government consumption exp.	*bill. CZK 2005*	664	666	674	700	704	692	684	675	667	663
	growth in %	**-0.6**	**0.4**	**1.2**	**3.8**	**0.6**	**-1.7**	**-1.1**	**-1.3**	**-1.2**	**-0.7**
Gross capital formation	*bill. CZK 2005*	910	1051	1071	848	898.43	887	851	858	892	930
	growth in %	**10.2**	**15.5**	**1.9**	**-20.8**	**5.9**	**-1.3**	**-4.1**	**0.9**	**3.9**	**4.3**
– Gross fixed capital formation	*bill. CZK 2005*	851	964	1004	888	889	881	876	879	895	920
	growth in %	**5.8**	**13.2**	**4.1**	**-11.5**	**0.1**	**-0.9**	**-0.6**	**0.3**	**1.8**	**2.8**
– Change in stocks and valuables	*bill. CZK 2005*	59	87	68	-40	9	6	-26	-21	-3	11
Exports of goods and services	*bill. CZK 2005*	2286	2541	2642	2377	2768	3074	3206	3319	3469	3646
	growth in %	**13.8**	**11.2**	**4.0**	**-10.0**	**16.4**	**11.0**	**4.3**	**3.5**	**4.5**	**5.1**
Imports of goods and services	*bill. CZK 2005*	2129	2402	2467	2180	2529	2718	2774	2843	2956	3097
	growth in %	**10.8**	**12.8**	**2.7**	**-11.6**	**16.0**	**7.5**	**2.1**	**2.5**	**4.0**	**4.8**
Gross domestic exp.	*bill. CZK 2005*	3179	3390	3465	3271	3334	3299	3204	3195	3238	3310
	growth in %	**4.9**	**6.6**	**2.2**	**-5.6**	**1.9**	**-1.0**	**-2.9**	**-0.3**	**1.4**	**2.2**
Methodological discrepancy[2]	*bill. CZK 2005*	0	-3	-6	5	-6	-29	-46	-57	-69	-81
Real gross domestic income	*bill. CZK 2005*	3280	3488	3562	3423	3458	3457	3391	3388	3448	3534
	growth in %	**5.3**	**6.3**	**2.1**	**-3.9**	**1.0**	**0.0**	**-1.9**	**-0.1**	**1.8**	**2.5**
Contribution to GDP growth[3]											
– Gross domestic expenditure	*percent. points*	**4.7**	**6.4**	**2.2**	**-5.5**	**1.8**	**-1.0**	**-2.8**	**-0.3**	**1.3**	**2.1**
– consumption	*percent. points*	**2.0**	**2.1**	**1.6**	**0.6**	**0.4**	**-0.7**	**-1.8**	**-0.5**	**0.4**	**1.0**
– household expenditure	*percent. points*	**2.2**	**2.1**	**1.4**	**-0.2**	**0.3**	**-0.3**	**-1.5**	**-0.2**	**0.6**	**1.2**
– government expenditure	*percent. points*	**-0.1**	**0.1**	**0.2**	**0.7**	**0.1**	**-0.4**	**-0.2**	**-0.3**	**-0.2**	**-0.1**
– gross capital formation	*percent. points*	**2.7**	**4.3**	**0.6**	**-6.0**	**1.4**	**-0.3**	**-1.0**	**0.2**	**0.9**	**1.1**
– gross fixed capital formation	*percent. points*	**1.5**	**3.4**	**1.1**	**-3.1**	**0.0**	**-0.2**	**-0.1**	**0.1**	**0.4**	**0.7**
– change in stocks	*percent. points*	**1.2**	**0.9**	**-0.5**	**-3.0**	**1.4**	**-0.1**	**-0.9**	**0.1**	**0.5**	**0.4**
– Foreign balance	*percent. points*	**2.3**	**-0.7**	**0.9**	**0.8**	**0.9**	**2.7**	**1.8**	**1.0**	**0.6**	**0.6**

[1] *The consumption of non-profit institutions serving households (NPISH) is included in the private consumption.*
[2] *Deterministic impact of using prices and structure of the previous year for calculation of y-o-y growth.*
[3] *Calculated on the basis of prices and structure of the previous year with perfectly additive contributions.*

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

		2011				2012			
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
		Prelim.	*Prelim.*	*Prelim.*	*Prelim.*	*Prelim.*	*Prelim.*	*Estim.*	*Forecast*
Gross domestic product	*bill. CZK 2005*	851	917	916	935	850	902	903	928
	growth in %	**3.1**	**2.1**	**1.4**	**0.3**	**-0.2**	**-1.7**	**-1.4**	**-0.7**
	growth in % [1]	**2.8**	**2.1**	**1.3**	**0.6**	**-0.5**	**-1.0**	**-1.1**	**-1.0**
	quart.growth in % [1]	**0.5**	**0.3**	**0.0**	**-0.2**	**-0.6**	**-0.2**	**-0.2**	**-0.1**
Private consumption exp.	*bill. CZK 2005*	409	428	433	444	399	413	420	430
	growth in %	**-0.5**	**-0.5**	**-0.7**	**-0.8**	**-2.4**	**-3.5**	**-2.9**	**-3.2**
Government consumption exp.	*bill. CZK 2005*	163	171	168	191	162	169	165	188
	growth in %	**-0.3**	**-1.3**	**-3.0**	**-2.1**	**-0.5**	**-0.9**	**-1.8**	**-1.2**
Gross capital formation	*bill. CZK 2005*	190	226	249	221	174	212	243	222
	growth in %	**4.2**	**0.6**	**-3.4**	**-5.1**	**-8.7**	**-6.5**	**-2.6**	**0.7**
– Gross fixed capital formation	*bill. CZK 2005*	187	217	226	252	190	216	224	247
	growth in %	**-1.7**	**1.4**	**-2.6**	**-0.7**	**1.7**	**-0.5**	**-1.1**	**-1.8**
– Change in stocks and valuables	*bill. CZK 2005*	3	10	23	-31	-16	-4	19	-25
Exports of goods and services	*bill. CZK 2005*	756	783	751	785	813	802	777	813
	growth in %	**19.2**	**13.0**	**8.6**	**4.6**	**7.7**	**2.4**	**3.6**	**3.6**
Imports of goods and services	*bill. CZK 2005*	656	683	679	700	682	682	693	716
	growth in %	**16.9**	**10.0**	**3.7**	**1.1**	**4.0**	**0.0**	**2.1**	**2.4**
Methodological discrepancy	*bill. CZK 2005*	-9	-9	-5	-5	-15	-12	-9	-9
Real gross domestic income	*bill. CZK 2005*	810	875	876	896	801	852	857	881
	growth in %	**0.6**	**-0.1**	**-0.2**	**-0.3**	**-1.0**	**-2.6**	**-2.3**	**-1.6**

[1] *From seasonally and working day adjusted data*

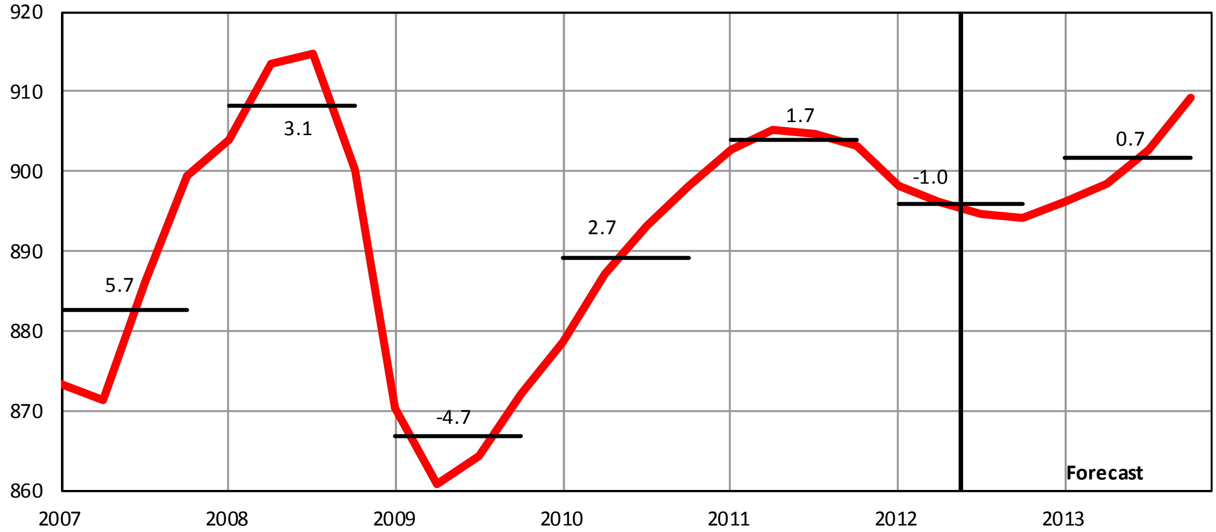
Table C.1.3: **Nominal GDP by Type of Expenditure** – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
							Prelim.	*Forecast*	*Forecast*	*Outlook*	*Outlook*
Gross domestic product	*bill. CZK*	**3353**	**3663**	**3848**	**3739**	**3775**	**3808**	**3820**	**3882**	**4015**	**4179**
	growth in %	7.6	9.2	5.1	-2.8	1.0	0.9	0.3	1.6	3.4	4.1
Private consumption	*bill. CZK*	**1629**	**1748**	**1883**	**1880**	**1900**	**1921**	**1924**	**1956**	**2025**	**2112**
	growth in %	6.0	7.3	7.8	-0.2	1.1	1.1	0.2	1.6	3.5	4.3
Government consumption	*bill. CZK*	**694**	**726**	**759**	**810**	**808**	**793**	**792**	**794**	**789**	**794**
	growth in %	4.0	4.6	4.6	6.6	-0.2	-1.9	-0.1	0.3	-0.7	0.7
Gross capital formation	*bill. CZK*	**928**	**1092**	**1114**	**898**	**947**	**934**	**906**	**926**	**975**	**1027**
	growth in %	12.4	17.6	2.0	-19.3	5.4	-1.4	-3.1	2.2	5.3	5.4
– Gross fixed capital formation	*bill. CZK*	**860**	**990**	**1031**	**927**	**923**	**913**	**919**	**934**	**964**	**1003**
	growth in %	6.9	15.0	4.2	-10.1	-0.5	-1.1	0.6	1.6	3.2	4.1
– Change in stocks and valuables	*bill. CZK*	**68**	**102**	**83**	**-29**	**24**	**21**	**-13**	**-8**	**11**	**24**
External balance	*bill. CZK*	**101**	**97**	**92**	**151**	**121**	**160**	**198**	**207**	**227**	**245**
– Exports of goods and services	*bill. CZK*	**2245**	**2498**	**2480**	**2233**	**2562**	**2854**	**3062**	**3175**	**3338**	**3516**
	growth in %	11.8	11.3	-0.7	-10.0	14.7	11.4	7.3	3.7	5.1	5.3
– Imports of goods and services	*bill. CZK*	**2144**	**2401**	**2388**	**2082**	**2441**	**2694**	**2864**	**2969**	**3111**	**3271**
	growth in %	11.5	12.0	-0.5	-12.8	17.3	10.4	6.3	3.7	4.8	5.1
Gross national income	*bill. CZK*	**3180**	**3401**	**3668**	**3489**	**3521**	**3549**	**3590**	**3641**	**3753**	**3887**
	growth in %	6.6	6.9	7.8	-4.9	0.9	0.8	1.1	1.4	3.1	3.6
Primary income balance	*bill. CZK*	**-172**	**-261**	**-180**	**-250**	**-254**	**-258**	**-230**	**-240**	**-262**	**-292**

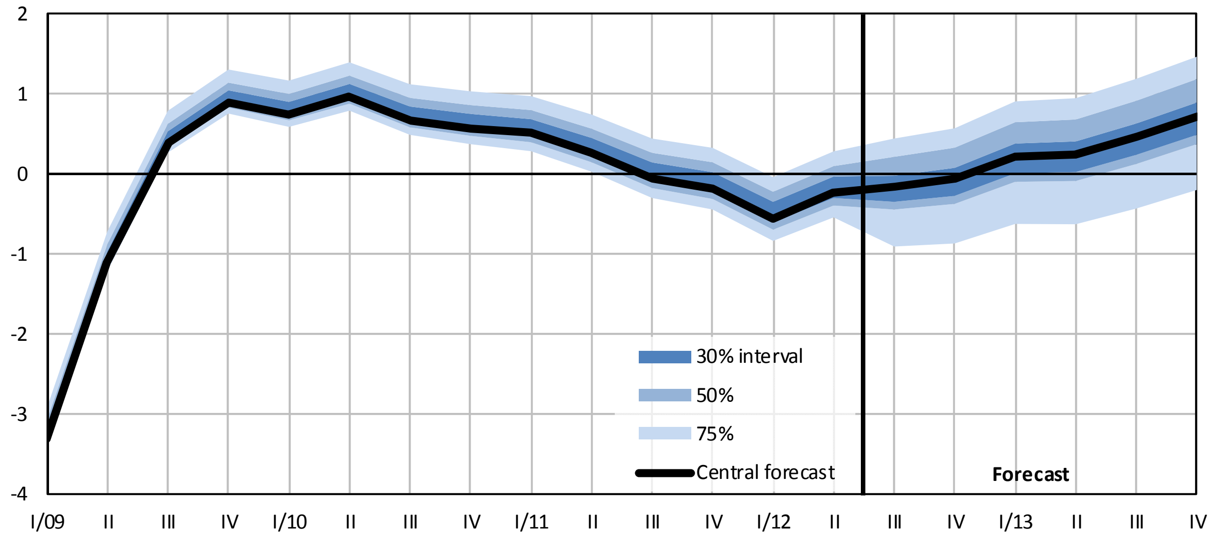
Table C.1.4: **Nominal GDP by Type of Expenditure** – quarterly

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	*Prelim.*	*Prelim.*	*Prelim.*	*Prelim.*	*Prelim.*	*Estim.*	*Forecast*
Gross domestic product	*bill. CZK*	**884**	**961**	**966**	**997**	**896**	**958**	**964**	**1001**
	growth in %	1.3	0.5	0.7	1.0	1.4	-0.3	-0.2	0.5
Private consumption	*bill. CZK*	**455**	**480**	**486**	**500**	**460**	**479**	**488**	**498**
	growth in %	1.2	1.2	0.9	1.2	1.0	-0.3	0.3	-0.4
Government consumption	*bill. CZK*	**181**	**194**	**191**	**227**	**183**	**194**	**190**	**226**
	growth in %	-1.1	-1.8	-2.9	-1.8	0.8	0.1	-0.8	-0.4
Gross capital formation	*bill. CZK*	**200**	**238**	**263**	**232**	**185**	**226**	**258**	**238**
	growth in %	3.7	0.1	-3.3	-4.7	-7.9	-5.3	-2.2	2.4
– Gross fixed capital formation	*bill. CZK*	**194**	**224**	**234**	**262**	**199**	**226**	**234**	**260**
	growth in %	-2.2	0.6	-3.0	0.1	2.7	1.1	0.1	-0.8
– Change in stocks and valuables	*bill. CZK*	**7**	**15**	**30**	**-30**	**-14**	**0**	**24**	**-22**
External balance	*bill. CZK*	**47**	**49**	**25**	**39**	**69**	**60**	**29**	**40**
– Exports of goods and services	*bill. CZK*	**693**	**721**	**694**	**746**	**768**	**764**	**748**	**781**
	growth in %	18.5	10.7	8.7	8.5	10.8	5.9	7.8	4.8
– Imports of goods and services	*bill. CZK*	**646**	**672**	**669**	**707**	**699**	**704**	**719**	**741**
	growth in %	20.1	11.2	6.2	5.8	8.3	4.8	7.5	4.8

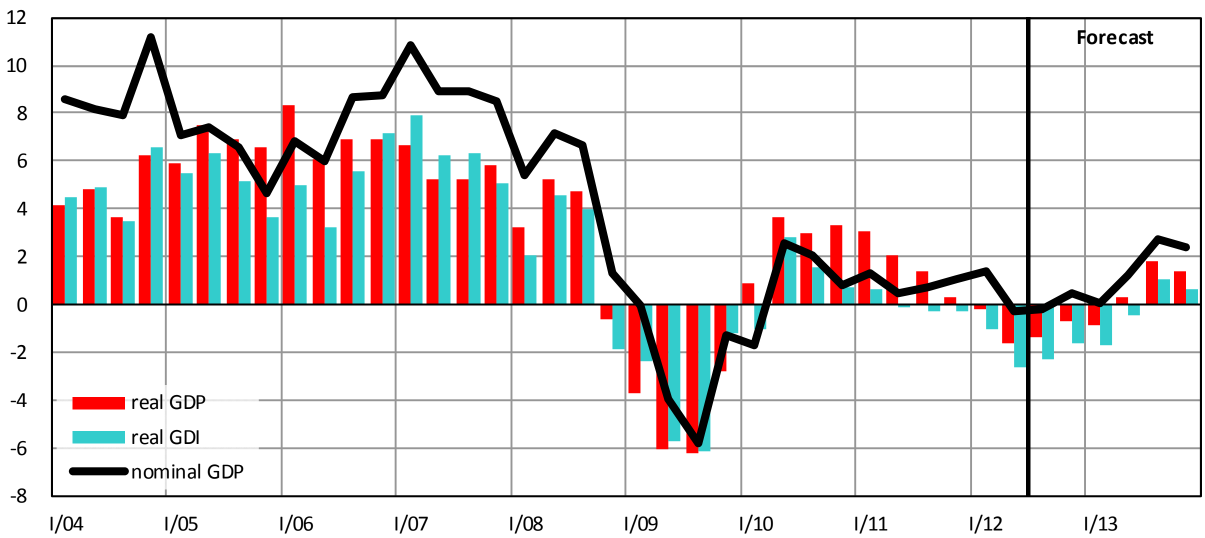
Graph C.1.1: **Gross Domestic Product** (*real*)
chained volumes, bill. CZK in const. prices of 2005, seasonally adjusted



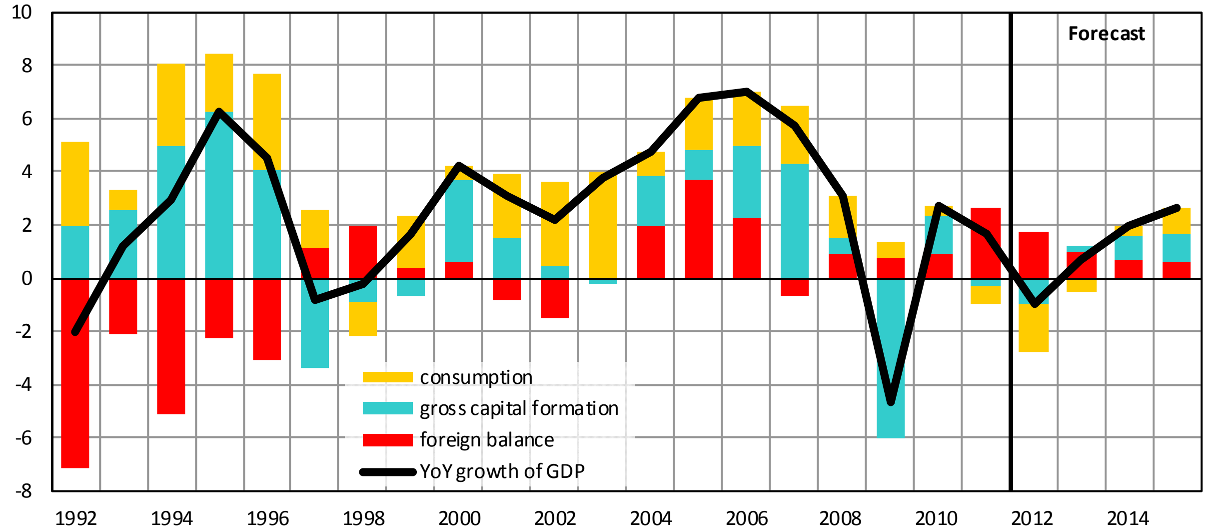
Graph C.1.2: **Gross Domestic Product** (*real*)
QoQ growth rate, in %, seasonally adjusted



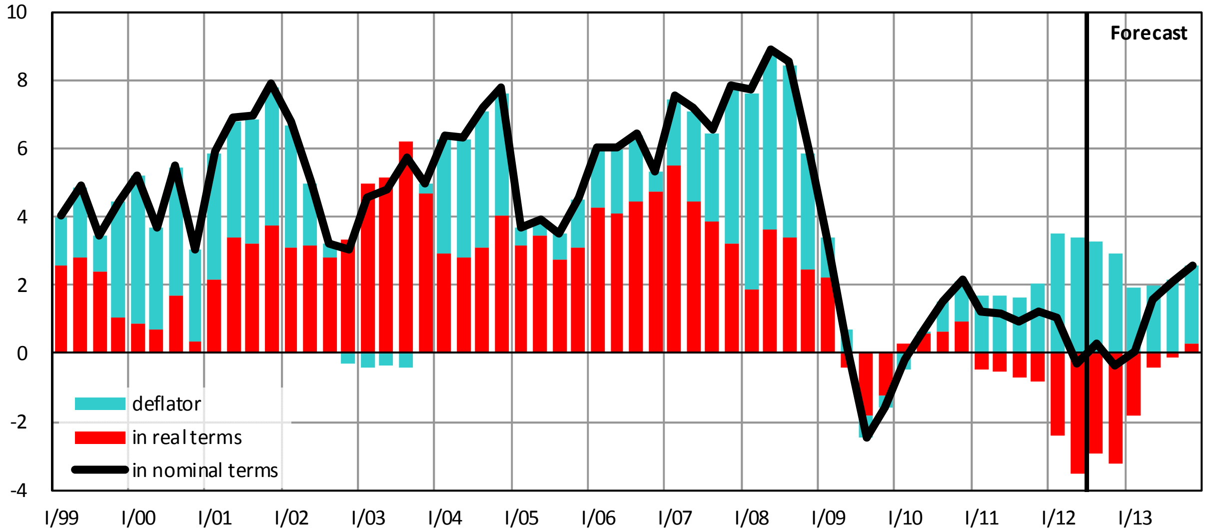
Graph C.1.3: **Gross Domestic Product and Real Gross Domestic Income**
YoY growth rate, in %



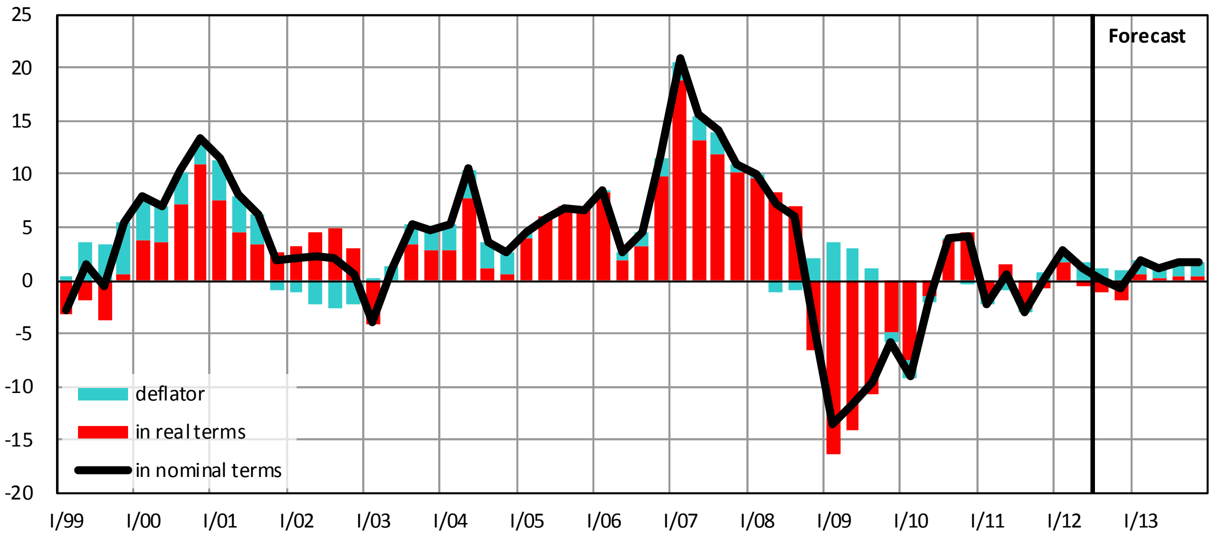
Graph C.1.4: **Gross Domestic Product** – *contributions to YoY growth*
in constant prices, decomposition of the YoY growth, in percentage points



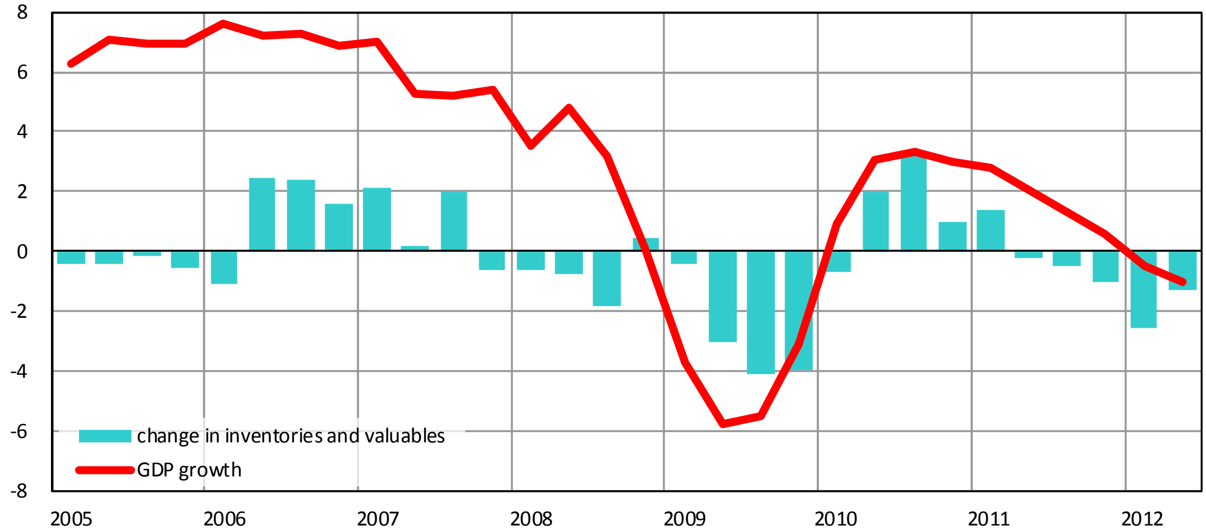
Graph C.1.5: **Private Consumption** (*incl. NPISH*)
YoY growth rate, in %



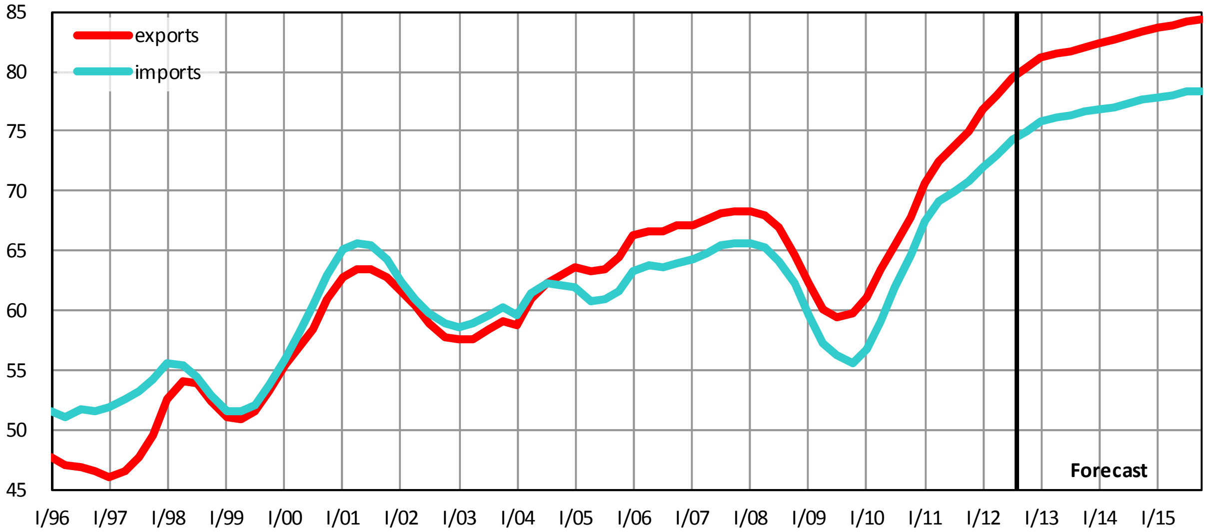
Graph C.1.6: **Gross Fixed Capital Formation**
YoY growth rate, in %



Graph C.1.7: **Change in Inventories and Valuables** (*real*)
seasonally adjusted, contributions to YoY growth of GDP in p.p.



Graph C.1.8: **Ratio of Exports and Imports of Goods and Services to GDP** (*nominal*)
yearly moving sums, in %



Graph C.1.9: **GDP – Income Structure**
yearly moving sums, in %

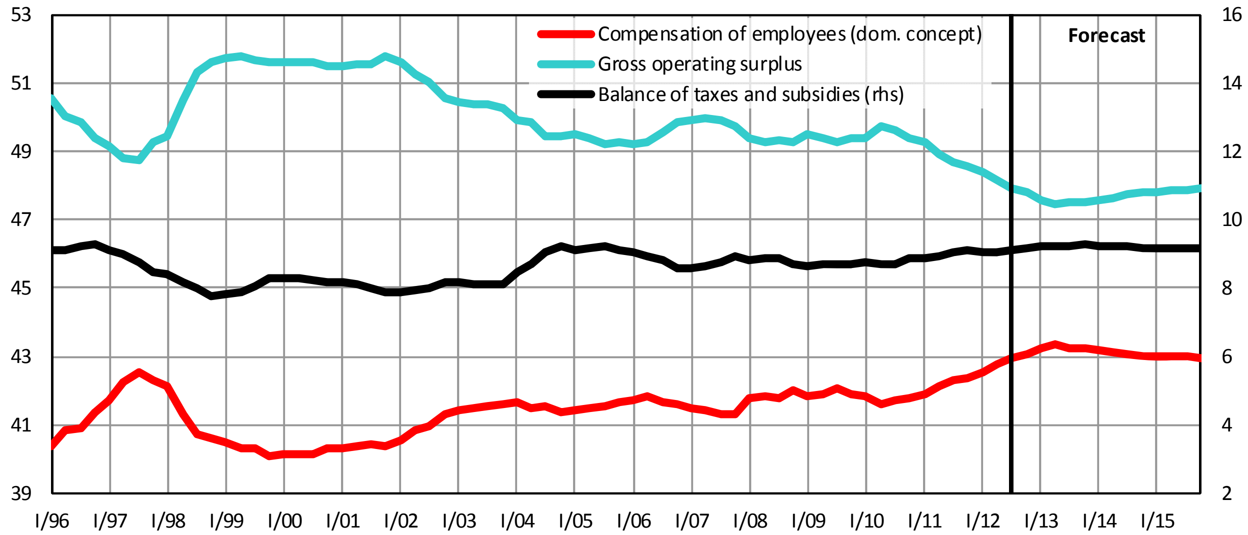


Table C.1.5: **GDP by Type of Income** – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
							Prelim.	*Forecast*	*Forecast*	*Outlook*	*Outlook*
GDP	*bill. CZK*	**3353**	**3663**	**3848**	**3739**	**3775**	**3808**	**3820**	**3882**	**4015**	**4179**
	growth in %	7.6	9.2	5.1	-2.8	1.0	0.9	0.3	1.6	3.4	4.1
Balance of taxes and subsidies	*bill. CZK*	**287**	**327**	**335**	**325**	**334**	**346**	**349**	**359**	**368**	**382**
	growth in %	1.5	13.9	2.5	-3.1	2.8	3.5	0.9	2.9	2.5	3.8
– Taxes on production and imports	*bill. CZK*	**364**	**407**	**419**	**425**	**434**	**452**	**457**	**470**	**481**	**498**
	growth in %	2.9	12.0	2.9	1.4	2.1	4.3	1.0	2.8	2.4	3.4
– Subsidies on production	*bill. CZK*	**76**	**80**	**84**	**100**	**100**	**107**	**108**	**111**	**113**	**115**
	growth in %	8.6	4.8	4.4	19.5	-0.4	7.0	1.6	2.5	2.0	2.0
Compensation of employees	*bill. CZK*	**1394**	**1513**	**1617**	**1567**	**1577**	**1613**	**1646**	**1679**	**1727**	**1794**
	growth in %	7.3	8.6	6.8	-3.1	0.6	2.3	2.0	2.0	2.8	3.9
– Wages and salaries	*bill. CZK*	**1053**	**1140**	**1226**	**1200**	**1195**	**1223**	**1247**	**1272**	**1327**	**1379**
	growth in %	7.2	8.3	7.5	-2.1	-0.4	2.3	2.0	2.1	4.3	3.9
– Social security contributions	*bill. CZK*	**341**	**373**	**390**	**367**	**382**	**391**	**399**	**407**	**400**	**415**
	growth in %	7.8	9.4	4.7	-6.1	4.1	2.4	2.1	2.0	-1.8	3.9
Gross operating surplus	*bill. CZK*	**1672**	**1822**	**1896**	**1847**	**1864**	**1848**	**1825**	**1843**	**1920**	**2002**
	growth in %	8.9	9.0	4.1	-2.6	0.9	-0.8	-1.3	1.0	4.2	4.3
– Consumption of capital	*bill. CZK*	**603**	**644**	**680**	**711**	**720**	**733**	**749**	**764**	**783**	**807**
	growth in %	4.6	6.8	5.6	4.5	1.4	1.7	2.3	2.0	2.5	3.0
– Net operating surplus	*bill. CZK*	**1069**	**1178**	**1216**	**1137**	**1144**	**1116**	**1076**	**1079**	**1137**	**1196**
	growth in %	11.6	10.3	3.2	-6.5	0.6	-2.4	-3.6	0.3	5.3	5.2

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

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Prelim.	*Prelim.*	*Prelim.*	*Prelim.*	*Prelim.*	*Prelim.*	*Estimate*	*Forecast*
GDP	*bill. CZK*	**884**	**961**	**966**	**997**	**896**	**958**	**964**	**1001**
	growth in %	1.3	0.5	0.7	1.0	1.4	-0.3	-0.2	0.5
Balance of taxes and subsidies	*bill. CZK*	**76**	**92**	**97**	**81**	**76**	**92**	**99**	**82**
	growth in %	1.4	4.5	4.1	3.7	0.2	0.2	1.3	1.7
Compensation of employees	*bill. CZK*	**384**	**400**	**400**	**430**	**395**	**406**	**407**	**437**
	growth in %	2.3	3.2	2.1	1.7	3.1	1.7	1.6	1.6
– Wages and salaries	*bill. CZK*	**289**	**302**	**304**	**327**	**298**	**307**	**309**	**333**
	growth in %	2.4	3.4	1.8	1.7	3.0	1.6	1.6	1.6
– Social security contributions	*bill. CZK*	**94**	**97**	**96**	**102**	**98**	**99**	**98**	**104**
	growth in %	2.1	2.9	3.2	1.5	3.4	1.8	1.6	1.6
Gross operating surplus	*bill. CZK*	**424**	**470**	**468**	**487**	**424**	**460**	**458**	**483**
	growth in %	0.4	-2.5	-1.2	0.1	0.0	-2.1	-2.1	-0.8

C.2 Prices

Sources: CZSO, Eurostat, MoF estimates

Table C.2.1: **Prices** – yearly

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
								Forecast	*Forecast*	*Outlook*	*Outlook*
Consumer Price Index											
average of a year	*average 2005=100*	102.5	105.4	112.1	113.3	115.0	117.2	121.1	123.6	126.5	129.0
	growth in %	**2.5**	**2.8**	**6.3**	**1.0**	**1.5**	**1.9**	**3.3**	**2.1**	**2.3**	**2.0**
December	*average 2005=100*	102.3	107.9	111.8	112.9	115.5	118.3	121.5	124.2	127.2	129.8
	growth in %	**1.7**	**5.4**	**3.6**	**1.0**	**2.3**	**2.4**	**2.6**	**2.3**	**2.4**	**2.0**
– of which contribution of											
administrative measures [1]	*percentage points*	**0.8**	**2.2**	**4.3**	**1.0**	**1.6**	**1.2**	**2.1**	**1.6**	**1.3**	**0.8**
market increase	*percentage points*	**0.8**	**3.3**	**-0.7**	**0.0**	**0.7**	**1.2**	**0.6**	**0.7**	**1.1**	**1.2**
HICP	*average 2005=100*	102.1	105.1	111.7	112.4	113.7	116.2	120.3	122.8	125.5	128.0
	growth in %	**2.1**	**3.0**	**6.3**	**0.6**	**1.2**	**2.1**	**3.5**	**2.1**	**2.3**	**1.9**
Offering prices of flats	*average 2005=100*	108.9	131.6	162.4	157.9	151.6	144.4	.	.	.	.
	growth in %	**8.9**	**20.8**	**23.4**	**-2.8**	**-4.0**	**-4.8**	.	.	.	.
Deflators											
GDP	*average 2005=100*	100.5	103.9	105.9	107.9	106.1	105.2	106.6	107.6	109.2	110.7
	growth in %	**0.5**	**3.3**	**1.9**	**1.9**	**-1.7**	**-0.8**	**1.3**	**0.9**	**1.5**	**1.4**
Domestic final use	*average 2005=100*	102.3	105.2	108.4	109.7	109.6	110.6	113.0	115.0	117.0	118.8
	growth in %	**2.3**	**2.8**	**3.1**	**1.2**	**-0.1**	**0.9**	**2.2**	**1.8**	**1.7**	**1.6**
Consumption of households	*average 2005=100*	101.5	104.5	109.5	109.7	110.2	112.1	115.8	118.3	121.0	123.4
	growth in %	**1.5**	**2.9**	**4.8**	**0.2**	**0.4**	**1.8**	**3.3**	**2.1**	**2.3**	**2.0**
Consumption of government	*average 2005=100*	104.6	108.9	112.6	115.7	114.8	114.6	115.7	117.5	118.1	119.8
	growth in %	**4.6**	**4.1**	**3.4**	**2.7**	**-0.8**	**-0.2**	**1.0**	**1.5**	**0.5**	**1.4**
Fixed capital formation	*average 2005=100*	101.0	102.7	102.8	104.4	103.8	103.7	104.9	106.2	107.7	109.1
	growth in %	**1.0**	**1.6**	**0.1**	**1.6**	**-0.6**	**-0.1**	**1.2**	**1.3**	**1.4**	**1.2**
Exports of goods and services	*average 2005=100*	98.2	98.3	93.9	93.9	92.5	92.8	95.5	95.7	96.2	96.4
	growth in %	**-1.8**	**0.1**	**-4.5**	**0.0**	**-1.5**	**0.3**	**2.8**	**0.2**	**0.6**	**0.2**
Imports of goods and services	*average 2005=100*	100.7	99.9	96.8	95.5	96.5	99.1	103.2	104.4	105.2	105.6
	growth in %	**0.7**	**-0.7**	**-3.1**	**-1.4**	**1.1**	**2.7**	**4.1**	**1.2**	**0.8**	**0.4**
Terms of trade	*average 2005=100*	97.6	98.4	97.0	98.4	95.9	93.7	92.5	91.6	91.4	91.3
	growth in %	**-2.4**	**0.8**	**-1.4**	**1.4**	**-2.5**	**-2.3**	**-1.2**	**-1.0**	**-0.2**	**-0.2**

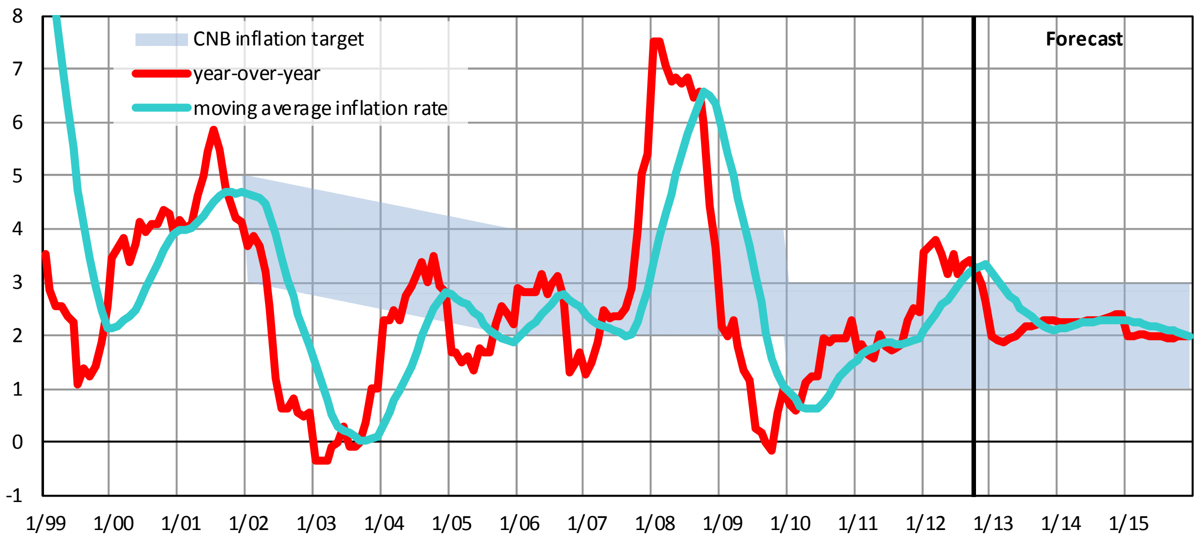
[1] *The contribution of increase in regulated prices and in indirect taxes to increase of December YoY consumer price inflation.*

Table C.2.2: **Prices** – quarterly

		2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3 *Estimate*	2012 Q4 *Forecast*
Consumer Price Index	*average 2005=100*	116.4	117.2	117.3	117.8	120.7	121.1	121.1	121.3
	growth in %	**1.7**	**1.8**	**1.8**	**2.4**	**3.7**	**3.4**	**3.3**	**2.9**
contr. of administrative measures	*percentage points*	**0.8**	**0.7**	**0.8**	**1.0**	**2.6**	**2.6**	**2.4**	**2.2**
contribution of market increase	*percentage points*	**0.9**	**1.1**	**1.0**	**1.4**	**1.1**	**0.8**	**0.9**	**0.7**
HICP	*average 2005=100*	115.3	116.0	116.4	117.0	119.9	120.4	120.4	120.5
	growth in %	**1.9**	**1.9**	**2.0**	**2.8**	**4.0**	**3.8**	**3.4**	**3.0**
Offering prices of flats	*average 2005=100*	147.3	144.4	143.5	142.2	143.7	146.1	144.9	.
	growth in %	**-3.5**	**-5.1**	**-5.2**	**-5.2**	**-2.4**	**1.2**	**1.0**	**.**
GDP deflator	*average 2005=100*	103.8	104.8	105.5	106.6	105.4	106.3	106.7	107.9
	growth in %	**-1.8**	**-1.6**	**-0.7**	**0.8**	**1.5**	**1.4**	**1.2**	**1.2**
Domestic final use deflator	*average 2005=100*	109.6	110.3	110.7	111.7	112.2	112.9	112.9	114.1
	growth in %	**0.6**	**0.6**	**0.9**	**1.3**	**2.3**	**2.3**	**2.0**	**2.1**
Terms of trade	*average 2005=100*	93.2	93.5	93.9	94.0	92.1	92.3	92.8	92.9
	growth in %	**-3.2**	**-3.0**	**-2.3**	**-0.9**	**-1.1**	**-1.3**	**-1.2**	**-1.2**

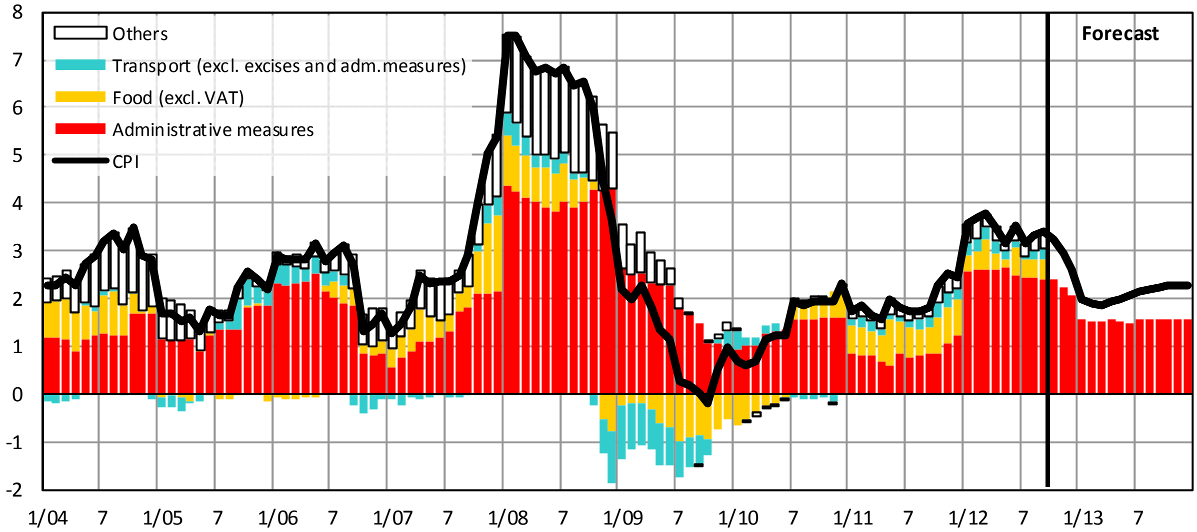
Graph C.2.1: **Consumer Prices**

YoY growth rate, in %



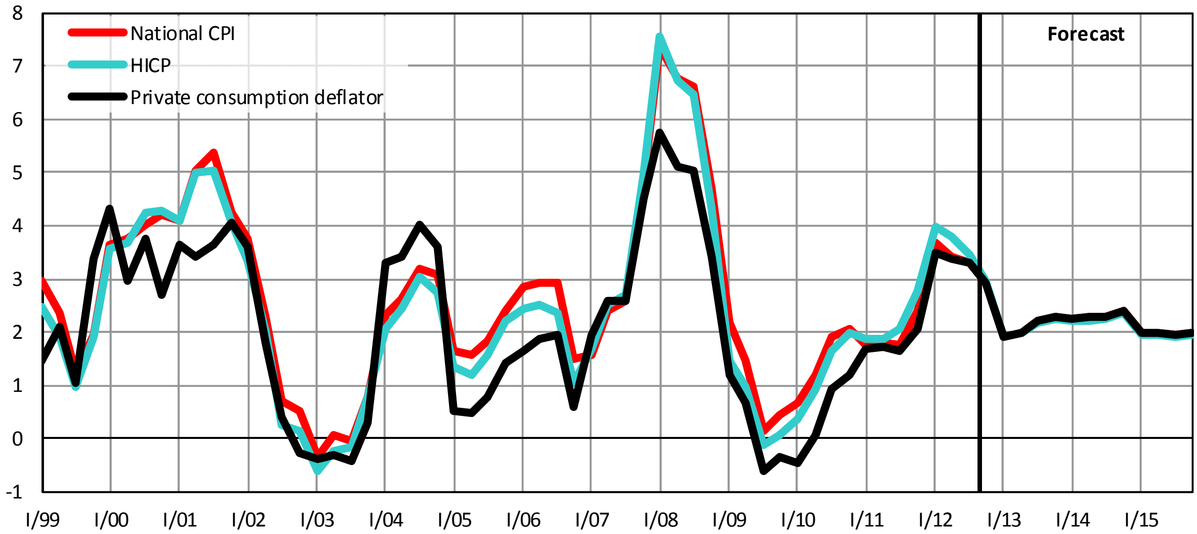
Graph C.2.2: **Consumer Prices**

decomposition of the YoY increase in consumer prices, in percentage points



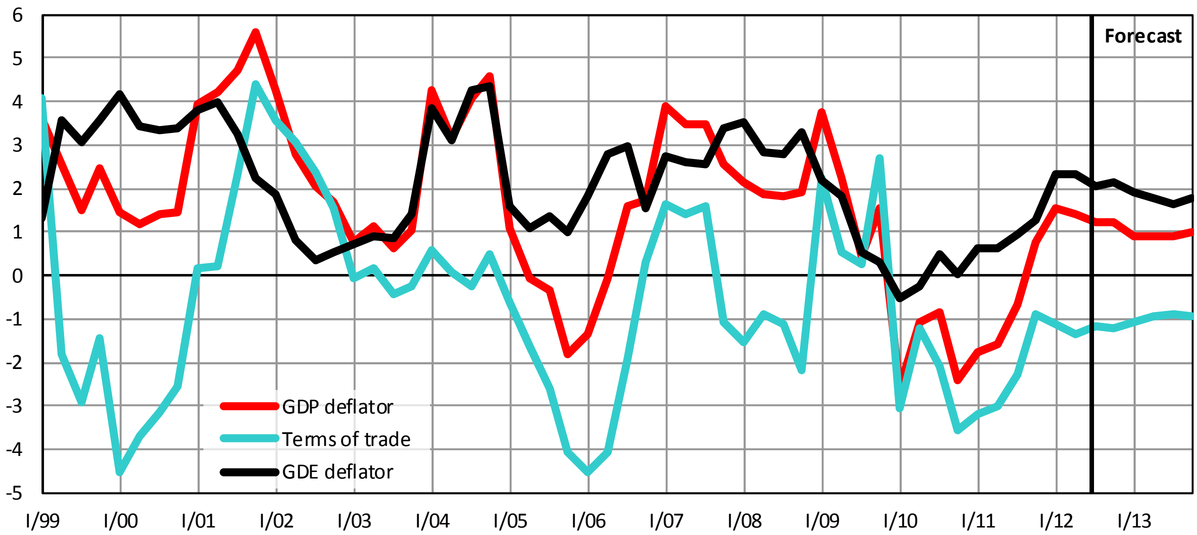
Graph C.2.3: **Indicators of Consumer Prices**

YoY increases, in %



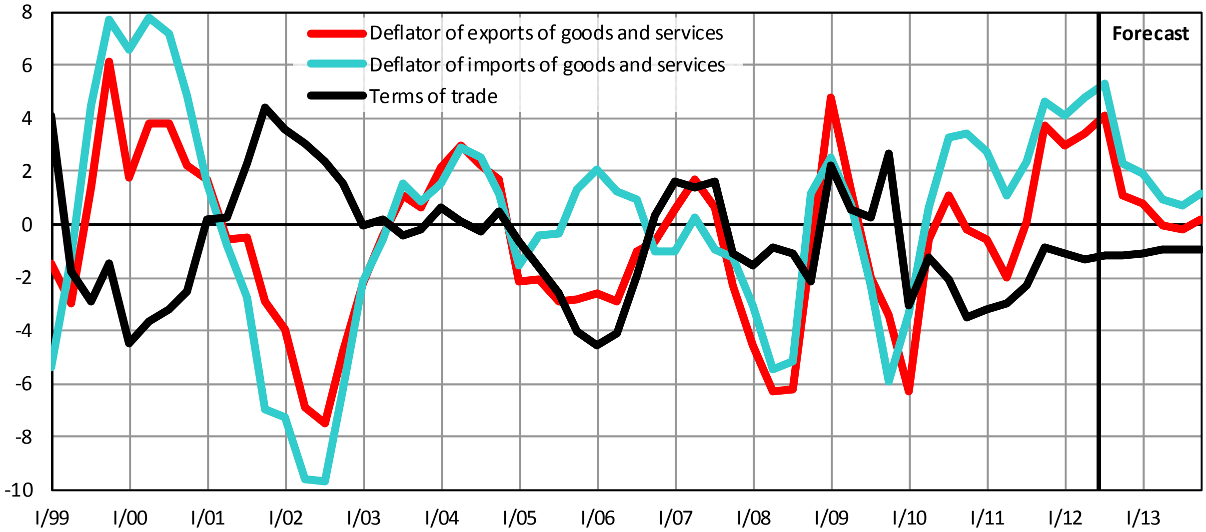
Graph C.2.4: **GDP Deflator**

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



Graph C.2.5: **Terms of Trade**

YoY increases, in %



C.3 Labour Market

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

Table C.3.1: **Employment** – yearly

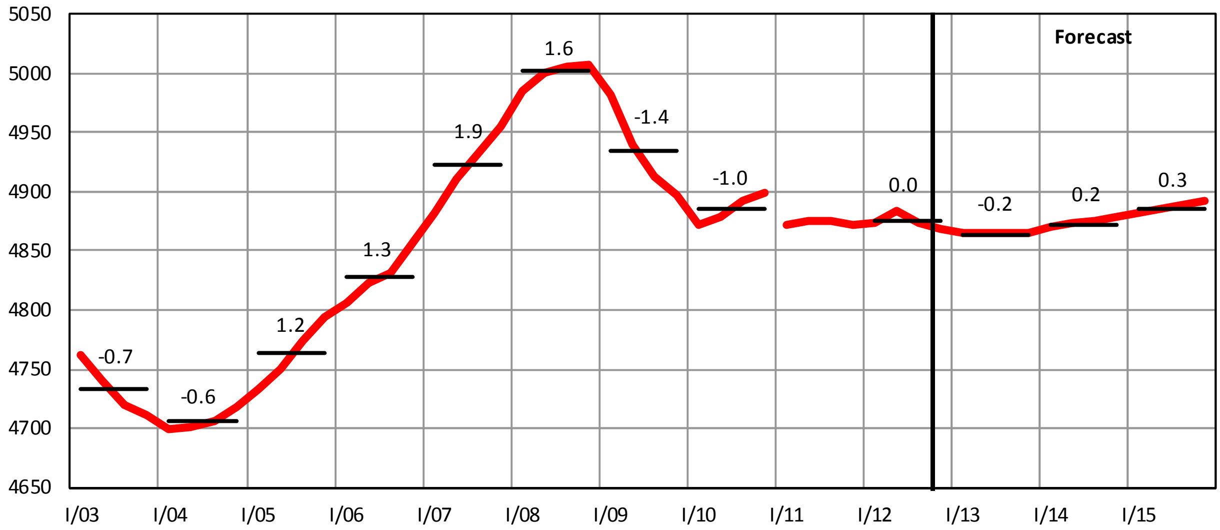
		2006	2007	2008	2009	2010	2011	2012 *Forecast*	2013 *Forecast*	2014 *Outlook*	2015 *Outlook*
Labour Force Survey											
Employment	*av. in thous.persons*	**4828**	**4922**	**5002**	**4934**	**4885**	**4872**	**4875**	**4864**	**4873**	**4886**
	growth in %	1.3	1.9	1.6	-1.4	-1.0	0.4	0.0	-0.2	0.2	0.3
– employees	*av. in thous.persons*	**4048**	**4125**	**4196**	**4107**	**4019**	**3993**	**3967**	**3949**	**3951**	**3958**
	growth in %	1.2	1.9	1.7	-2.1	-2.1	0.0	-0.6	-0.4	0.0	0.2
– enterpreneurs and	*av. in thous.persons*	**780**	**797**	**807**	**827**	**866**	**880**	**907**	**914**	**922**	**928**
self-employed	*growth in %*	2.2	2.2	1.2	2.5	4.7	2.0	3.2	0.8	0.8	0.7
Unemployment	*av. in thous.persons*	**371**	**276**	**230**	**352**	**384**	**351**	**364**	**382**	**377**	**366**
Unemployment rate	*average in per cent*	**7.1**	**5.3**	**4.4**	**6.7**	**7.3**	**6.7**	**6.9**	**7.3**	**7.2**	**7.0**
Labour force	*av. in thous.persons*	**5199**	**5198**	**5232**	**5286**	**5269**	**5223**	**5238**	**5246**	**5250**	**5252**
	growth in %	0.5	0.0	0.7	1.0	-0.3	-0.2	0.3	0.1	0.1	0.0
Population aged 15–64	*av. in thous.persons*	**7307**	**7347**	**7410**	**7431**	**7399**	**7295**	**7232**	**7177**	**7126**	**7077**
	growth in %	0.5	0.5	0.9	0.3	-0.4	-0.7	-0.9	-0.8	-0.7	-0.7
Employment/Pop. 15–64	*average in per cent*	**66.1**	**67.0**	**67.5**	**66.4**	**66.0**	**66.8**	**67.4**	**67.8**	**68.4**	**69.0**
Employment rate 15–64[1)]	*average in per cent*	**65.3**	**66.1**	**66.6**	**65.4**	**65.0**	**65.7**	**66.3**	**66.7**	**67.3**	**67.9**
Labour force/Pop. 15–64	*average in per cent*	**71.2**	**70.8**	**70.6**	**71.1**	**71.2**	**71.6**	**72.4**	**73.1**	**73.7**	**74.2**
Participation rate 15–64[2)]	*average in per cent*	**70.3**	**69.8**	**69.7**	**70.1**	**70.2**	**70.5**	**71.3**	**72.0**	**72.5**	**73.0**
SNA											
Employment (domestic concept	*av. in thous.persons*	**4981**	**5086**	**5204**	**5141**	**5055**	**5066**	**5070**	**5061**	**5071**	**5086**
	growth in %	1.3	2.1	2.3	-1.2	-1.7	0.2	0.1	-0.2	0.2	0.3
Hours worked	*bill. hours*	**9.01**	**9.12**	**9.37**	**9.07**	**9.07**	**8.99**	**8.86**	**8.85**	**8.86**	**8.87**
	growth in %	0.3	1.3	2.7	-3.2	0.0	-0.9	-1.4	-0.1	0.1	0.1
Hours worked / employment	*hours*	**1808**	**1793**	**1800**	**1764**	**1795**	**1775**	**1748**	**1749**	**1747**	**1743**
	growth in %	-1.0	-0.8	0.4	-2.0	1.7	-1.1	-1.5	0.1	-0.1	-0.2
Registered unemployment											
Unemployment	*av. in thous.persons*	**474.8**	**392.8**	**324.6**	**465.6**	**528.7**	**507.8**	**503**	**525**	**520**	**503**
Unemployment rate	*average in per cent*	**8.13**	**6.62**	**5.45**	**7.98**	**9.01**	**8.57**	**8.5**	**8.9**	**8.8**	**8.5**
Registered foreign workers											
Total	*av. in thous.persons*	**233.2**	**276.2**	**343.5**	**335.4**	**313.5**	**307.7**	**.**	**.**	**.**	**.**
	growth in %	19.4	18.5	24.4	-2.3	-6.5	-1.8	.	.	.	.
– employees	*av. in thous.persons*	**165.5**	**209.7**	**270.2**	**252.6**	**219.6**	**214.9**	**.**	**.**	**.**	**.**
	growth in %	26.1	26.7	28.8	-6.5	-13.0	-2.1	.	.	.	.
– self-employed	*av. in thous.persons*	**67.7**	**66.5**	**73.3**	**82.8**	**93.9**	**92.8**	**.**	**.**	**.**	**.**
	growth in %	5.7	-1.8	10.2	13.0	13.4	-1.2	.	.	.	.

[1)] *The indicator does not include employment over 64 years.*
[2)] *The indicator does not include labour force over 64 years.*

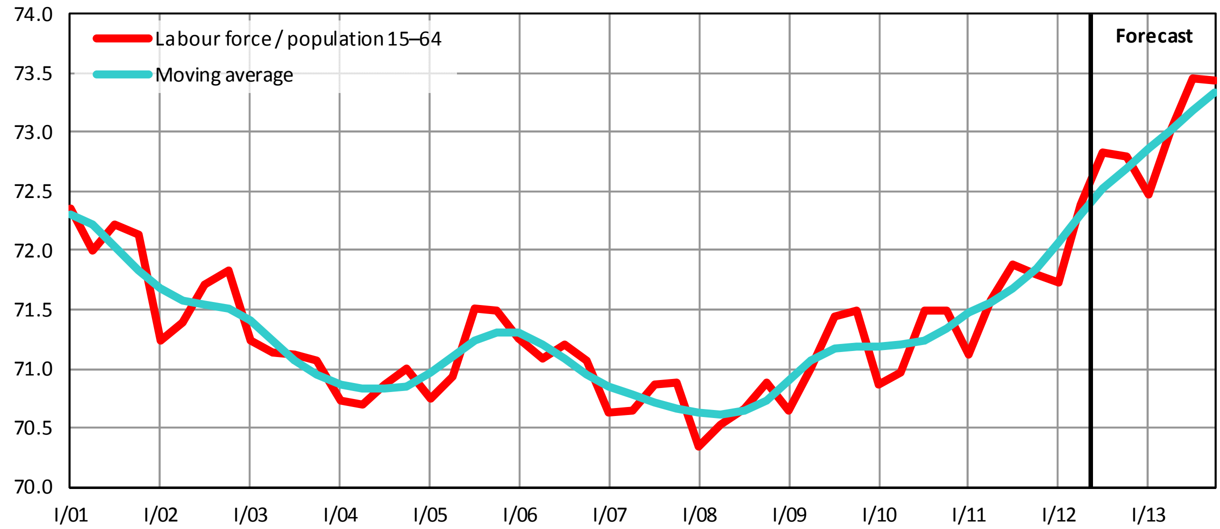
Table C.3.2: **Employment** – quarterly

		2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3 *Estimate*	2012 Q4 *Forecast*
Labour Force Survey									
Employment	*av. in thous. persons*	**4832**	**4876**	**4895**	**4885**	**4835**	**4888**	**4893**	**4882**
	YoY growth in %	0.7	0.6	0.3	-0.1	0.1	0.2	0.0	-0.1
	QoQ growth in %	.	0.1	0.0	-0.1	0.0	0.2	-0.2	-0.1
– employees	*av. in thous. persons*	**3961**	**4006**	**4014**	**3990**	**3937**	**3980**	**3982**	**3970**
	growth in %	-0.1	0.5	0.2	-0.5	-0.6	-0.6	-0.8	-0.5
– entrepreneurs and	*av. in thous. persons*	**871**	**870**	**881**	**895**	**898**	**908**	**912**	**912**
self-employed	*growth in %*	4.6	0.7	1.0	1.9	3.1	4.3	3.5	1.9
Unemployment	*av. in thous.persons*	**373**	**351**	**343**	**335**	**369**	**351**	**368**	**367**
Unemployment rate	*average in per cent*	**7.2**	**6.7**	**6.5**	**6.4**	**7.1**	**6.7**	**7.0**	**7.0**
Labour force	*av. in thous. persons*	**5205**	**5228**	**5238**	**5221**	**5204**	**5239**	**5261**	**5249**
	growth in %	-0.2	0.1	-0.2	-0.5	0.0	0.2	0.4	0.5
Population aged 15–64	*av. in thous. persons*	**7320**	**7304**	**7287**	**7271**	**7255**	**7238**	**7224**	**7210**
	growth in %	-0.6	-0.7	-0.7	-0.9	-0.9	-0.9	-0.9	-0.8
Employment/Pop. 15–64	*average in per cent*	**66.0**	**66.8**	**67.2**	**67.2**	**66.6**	**67.5**	**67.7**	**67.7**
	increase over a year	0.9	0.9	0.7	0.6	0.6	0.8	0.6	0.5
Employment rate 15–64	*average in per cent*	**65.0**	**65.7**	**66.1**	**66.1**	**65.6**	**66.5**	**66.7**	**66.6**
	increase over a year	0.9	0.8	0.7	0.6	0.6	0.8	0.5	0.5
Labour force/Pop. 15–64	*average in per cent*	**71.1**	**71.6**	**71.9**	**71.8**	**71.7**	**72.4**	**72.8**	**72.8**
	increase over a year	0.3	0.6	0.4	0.3	0.6	0.8	0.9	1.0
Participation rate 15–64	*average in per cent*	**70.1**	**70.5**	**70.8**	**70.7**	**70.7**	**71.3**	**71.7**	**71.7**
	increase over a year	0.3	0.6	0.3	0.3	0.6	0.8	0.9	1.0
SNA									
Employment (domestic concept)	*av. in thous. persons*	**5010**	**5065**	**5104**	**5084**	**5017**	**5078**	**5103**	**5082**
	growth in %	0.4	0.3	0.1	0.0	0.1	0.3	0.0	0.0
Hours worked	*bill. hours*	**2.35**	**2.37**	**2.06**	**2.21**	**2.35**	**2.30**	**2.02**	**2.19**
	growth in %	0.2	-1.0	-2.7	-0.3	-0.2	-3.0	-1.6	-0.9
Hours worked / employment	*hours*	**469**	**469**	**403**	**435**	**468**	**454**	**396**	**431**
	growth in %	-0.2	-1.3	-2.8	-0.3	-0.3	-3.2	-1.6	-0.9
Registered unemployment									
Unemployment	*av. in thous. persons*	**564**	**506**	**481**	**480**	**531**	**494**	**486**	**499**
Unemployment rate	*average in per cent*	**9.6**	**8.5**	**8.1**	**8.1**	**9.0**	**8.4**	**8.3**	**8.5**
Registered foreign workers									
Total	*av. in thous. persons*	**303.0**	**305.6**	**309.5**	**312.8**	**.**	**.**	**.**	**.**
	growth in %	-3.8	-3.4	-1.1	0.9	.	.	.	.
– employees	*av. in thous. persons*	**211.2**	**212.7**	**216.3**	**219.6**	**.**	**.**	**.**	**.**
	growth in %	-5.2	-2.6	-0.9	0.2	.	.	.	.
– self-employed	*av. in thous. persons*	**91.8**	**92.9**	**93.3**	**93.2**	**93.4**	**93.8**	**93.5**	**.**
	growth in %	-0.5	-5.1	-1.5	2.8	1.8	1.0	0.2	.

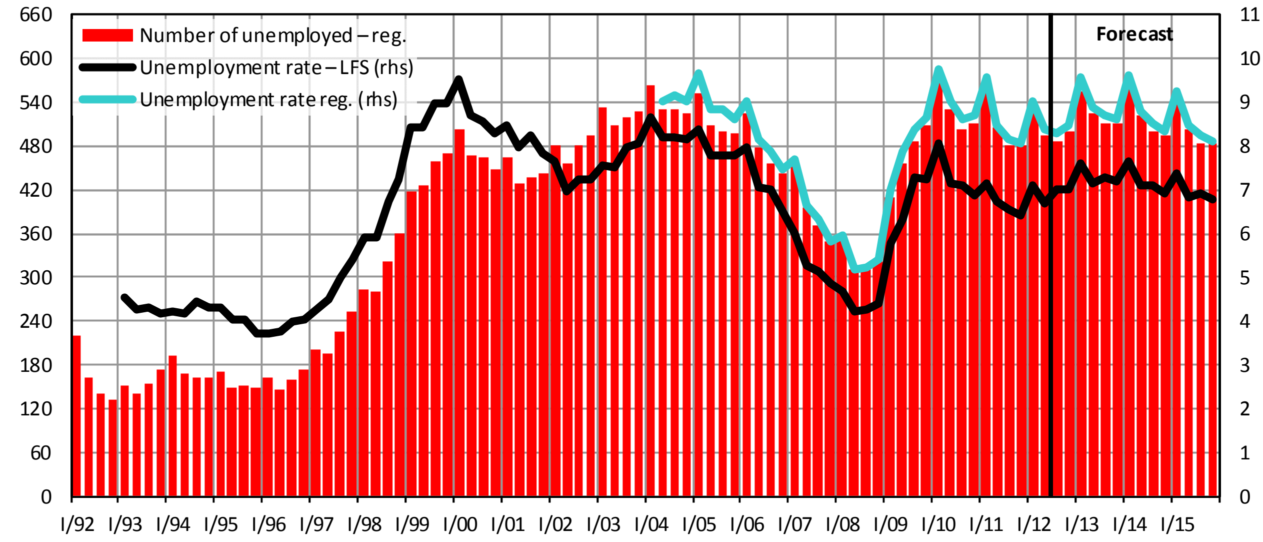
Graph C.3.1: **Employment** (LFS)
seasonally adjusted data, in thousands of persons, growth rates in %



Graph C.3.2: **Ratio of Labour Force to Population Aged 15–64**
in %



Graph C.3.3: **Unemployment**
quarterly average, in thousands of persons, in % (rhs)



Graph C.3.4: **Economic Output and Unemployment**
YoY increase of real GDP in %. Change in unemployment in thousands of persons

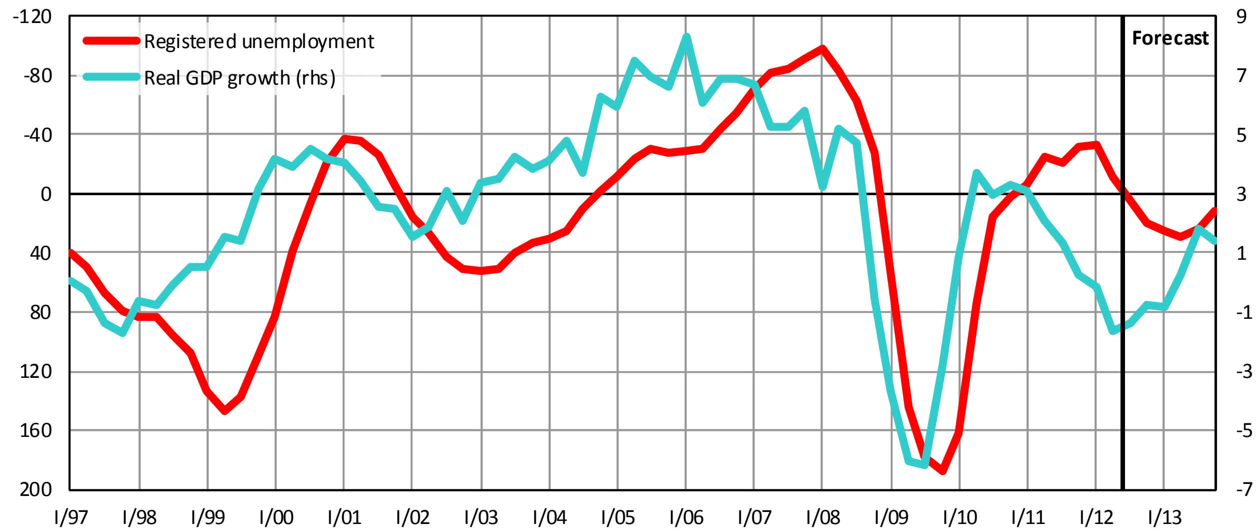
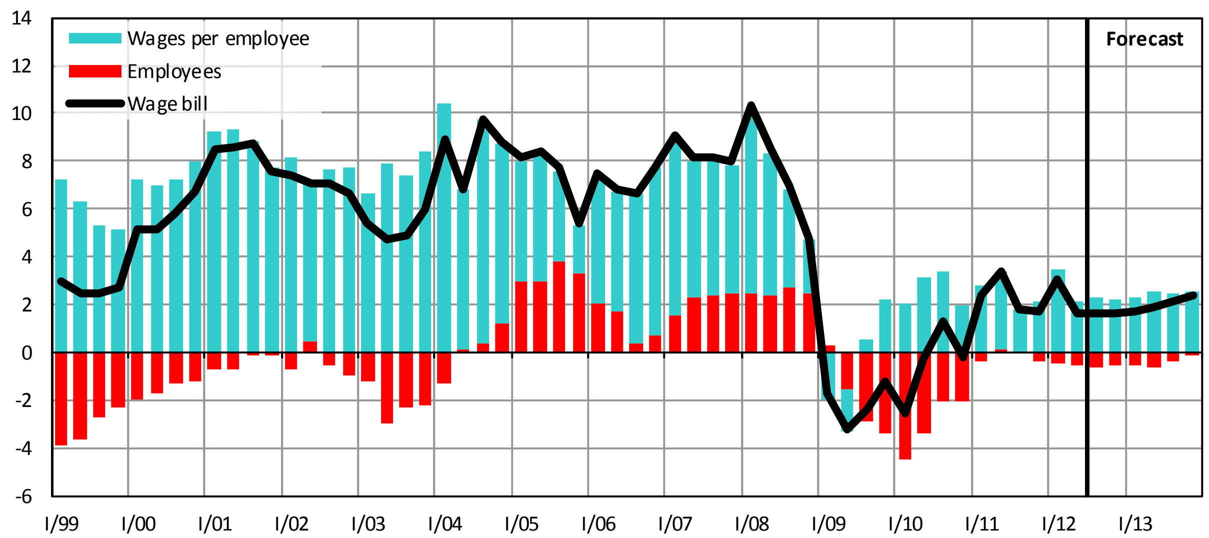


Table C.3.3: **Labour Market** – analytical indicators

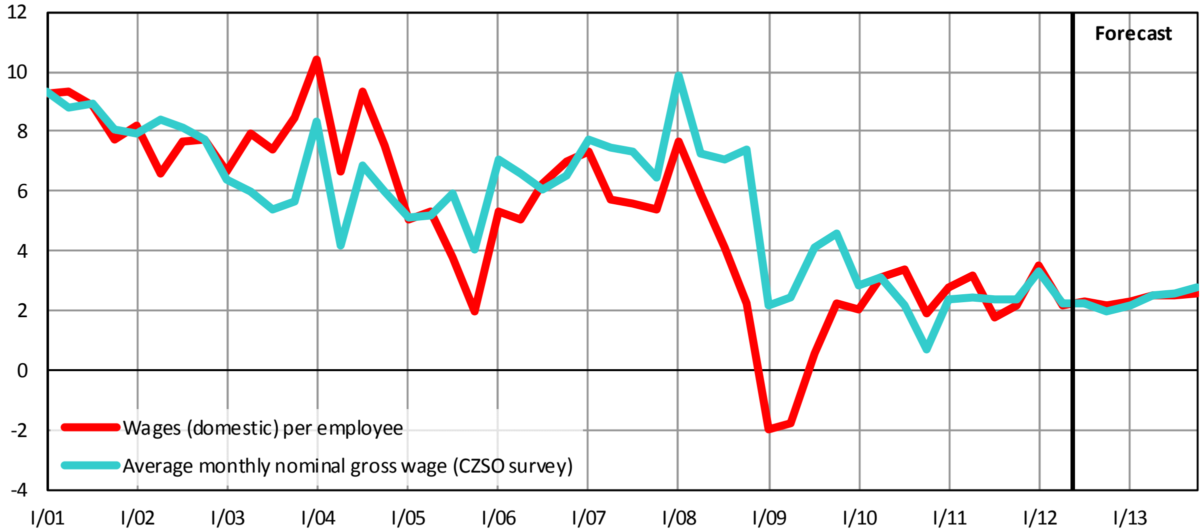
		2004	2005	2006	2007	2008	2009	2010	2011	2012 *Forecast*	2013 *Forecast*
Compensation per employee											
– nominal	*growth in %*	8.2	3.8	6.0	6.3	4.2	-1.2	3.7	2.5	2.6	2.5
– real	*growth in %*	5.2	1.9	3.4	3.3	-2.0	-2.2	2.2	0.6	-0.7	0.4
Average monthly wage [1]											
– nominal	*CZK*	17 457	18 336	19 536	20 947	22 592	23 353	23 858	24 433	25 000	25 700
	growth in %	6.3	5.0	6.5	7.2	7.9	3.4	2.2	2.4	2.4	2.5
– real	*CZK 2005*	17 781	18 336	19 053	19 865	20 147	20 610	20 753	20 850	20 700	20 800
	growth in %	3.4	3.1	3.9	4.3	1.4	2.3	0.7	0.5	-0.9	0.4
Labour productivity	*growth in %*	5.1	4.6	5.6	3.5	0.8	-3.5	4.5	1.4	-1.1	0.9
Unit labour costs [2]	*growth in %*	2.9	-0.7	0.4	2.6	3.4	2.4	-0.7	1.0	3.7	1.6
Compensations of employees / GDP	*%*	41.4	41.7	41.6	41.3	42.0	41.9	41.8	42.4	43.1	43.3

[1] *New time series: average wage is derived from full-time-equivalent employers in the entire economy.*
[2] *Ratio of nominal compensation per employee to real productivity of labour.*

Graph C.3.5: **Wage Bill** – nominal, domestic concept
YoY growth rate, in %



Graph C.3.6: **Average Nominal Wage**
YoY growth rate, in %



Graph C.3.8: **Gross Savings Rate of Households**
in % of disposable income

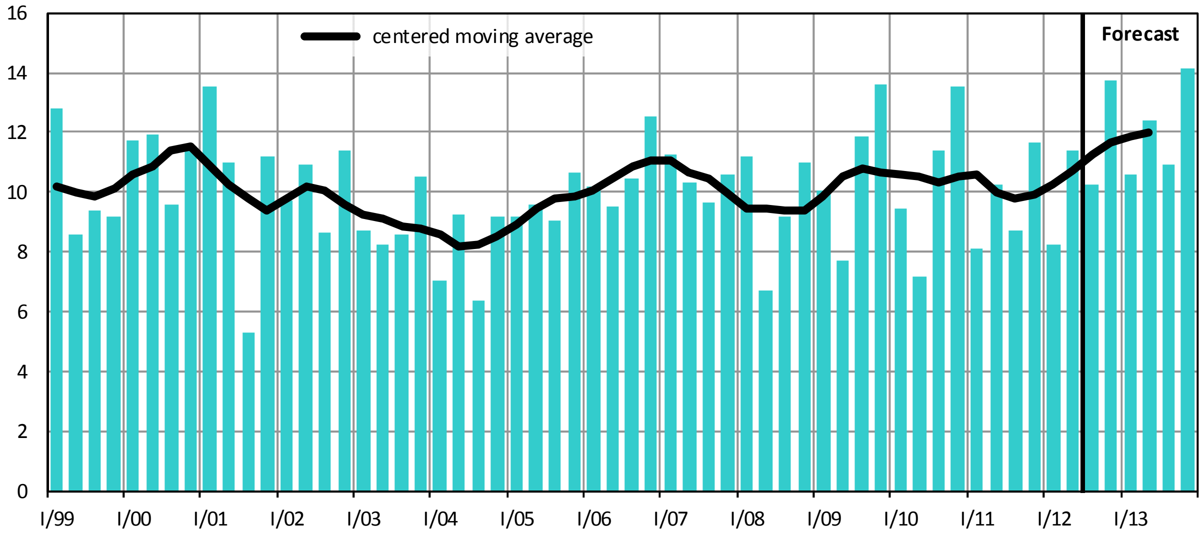


Table C.3.4: **Income and Expenditures of Households** – yearly

SNA methodology – national concept

		2004	2005	2006	2007	2008	2009	2010	2011	2012 *Forecast*	2013 *Forecast*
Current income											
Compensation of employees	*bill.CZK*	**1223**	**1302**	**1397**	**1510**	**1597**	**1556**	**1576**	**1610**	**1651**	**1686**
	growth in %	7.6	6.5	7.3	8.1	5.8	-2.6	1.3	2.2	2.6	2.1
Gross operating surplus	*bill.CZK*	**508**	**515**	**538**	**570**	**587**	**588**	**601**	**591**	**592**	**597**
and mixed income	*growth in %*	4.2	1.3	4.4	6.0	3.0	0.1	2.3	-1.6	0.0	1.0
Property income received	*bill.CZK*	**119**	**135**	**150**	**155**	**167**	**149**	**139**	**138**	**140**	**145**
	growth in %	7.0	13.0	11.5	3.1	8.2	-10.9	-6.7	-0.7	1.6	3.0
Social benefits not-in-kind	*bill.CZK*	**368**	**386**	**422**	**471**	**495**	**536**	**547**	**563**	**572**	**593**
	growth in %	3.7	5.1	9.1	11.6	5.1	8.4	2.0	2.9	1.6	3.7
Other current transfers received	*bill.CZK*	**100**	**104**	**113**	**122**	**137**	**139**	**134**	**137**	**142**	**148**
	growth in %	4.6	4.5	8.9	7.8	11.8	1.4	-3.3	2.3	3.7	4.0
Current expenditure											
Property income paid	*bill.CZK*	**20**	**19**	**21**	**26**	**30**	**18**	**20**	**18**	**20**	**20**
	growth in %	15.0	-6.6	10.6	26.5	12.8	-38.1	8.6	-9.9	13.7	0.0
Curr. taxes on income and property	*bill.CZK*	**141**	**144**	**144**	**160**	**146**	**141**	**141**	**154**	**159**	**162**
	growth in %	7.9	1.7	0.4	11.0	-8.6	-3.8	-0.1	9.1	3.2	2.1
Social contributions	*bill.CZK*	**483**	**515**	**564**	**618**	**638**	**605**	**623**	**640**	**658**	**676**
	growth in %	.	6.5	9.6	9.5	3.4	-5.3	3.1	2.6	2.8	2.7
Other current transfers paid	*bill.CZK*	**104**	**109**	**119**	**132**	**143**	**144**	**139**	**145**	**147**	**150**
	growth in %	6.1	4.7	9.4	11.0	8.3	0.7	-3.7	4.0	1.6	2.0
Gross disposable income	*bill.CZK*	**1569**	**1657**	**1771**	**1891**	**2025**	**2059**	**2074**	**2084**	**2114**	**2162**
	growth in %	5.4	5.6	6.9	6.8	7.1	1.7	0.7	0.5	1.4	2.3
Final consumption	*bill.CZK*	**1461**	**1516**	**1604**	**1720**	**1857**	**1852**	**1872**	**1893**	**1897**	**1927**
	growth in %	6.8	3.8	5.9	7.2	8.0	-0.2	1.0	1.1	0.2	1.6
Change in share in pension funds	*bill.CZK*	**17**	**19**	**23**	**26**	**24**	**17**	**15**	**12**	**15**	**27**
Gross savings	*bill.CZK*	**125**	**160**	**190**	**197**	**193**	**224**	**218**	**203**	**233**	**261**
Capital transfers											
(income (-) / expenditure (+))	*bill.CZK*	**-27**	**-31**	**-31**	**-36**	**-29**	**-26**	**-30**	**-33**	**-26**	**-23**
Gross capital formation	*bill.CZK*	**140**	**158**	**178**	**203**	**209**	**193**	**212**	**205**	**190**	**183**
	growth in %	4.8	13.2	12.4	14.2	3.0	-7.5	10.0	-3.6	-7.0	-4.0
Change in financial assets and liab.	*bill.CZK*	**12**	**34**	**43**	**30**	**12**	**56**	**35**	**31**	**68**	**101**
Real disposable income	*growth in %*	**2.5**	**3.7**	**4.3**	**3.8**	**0.7**	**0.6**	**-0.7**	**-1.4**	**-1.8**	**0.2**
Gross savings rate	*%*	**8.0**	**9.7**	**10.7**	**10.4**	**9.5**	**10.9**	**10.5**	**9.7**	**11.0**	**12.1**

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C.4 External Relations

Sources: CNB, CZSO, Eurostat, MoF estimates

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

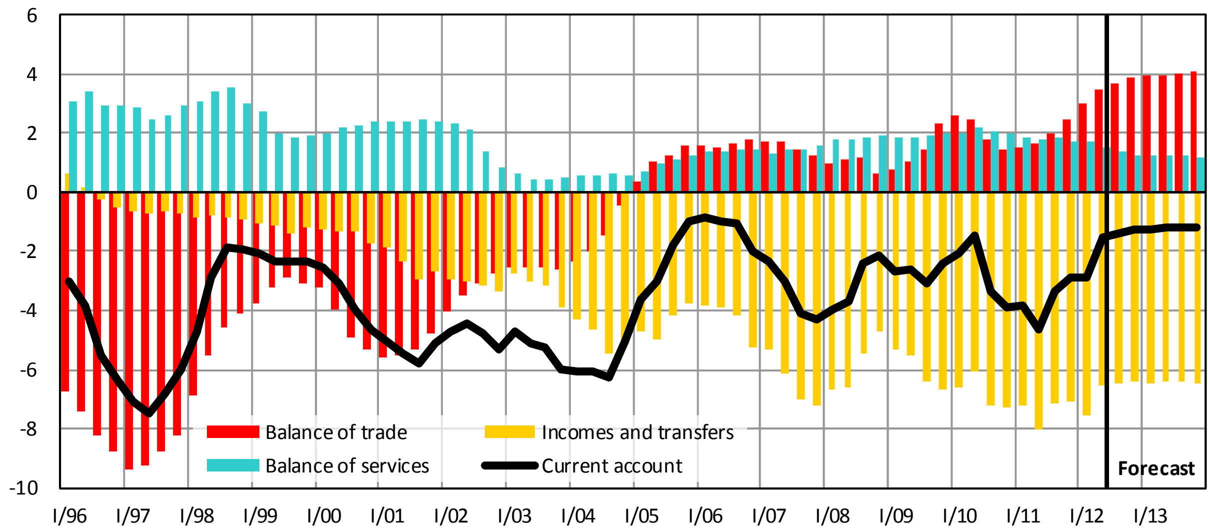
		2004	2005	2006	2007	2008	2009	2010	2011	2012 *Forecast*	2013 *Forecast*
Balance of goods and services	*bill.CZK*	3	86	108	106	100	161	129	160	196	205
-- balance of trade [1]	*bill.CZK*	-13	49	59	47	26	87	54	94	148	158
--- of which mineral fuels (SITC 3)[2]	*bill.CZK*	-72	-111	-139	-124	-167	-107	-138	-177	-191	-196
-- balance of services	*bill.CZK*	17	38	49	59	74	74	75	66	48	47
Balance of income	*bill.CZK*	-157	-128	-165	-255	-175	-250	-285	-272	-244	-254
– compensation of employees	*bill.CZK*	-16	4	3	-4	-19	-11	-1	-3	2	3
– investment income	*bill.CZK*	-141	-132	-168	-251	-156	-239	-284	-269	-246	-258
Balance of transfers	*bill.CZK*	6	11	-11	-8	-6	-1	9	2	-1	4
Current account	*bill.CZK*	-147	-31	-67	-157	-81	-89	-147	-109	-49	-45
Capital account	*bill.CZK*	-14	6	10	22	27	51	33	15	15	17
Financial account	*bill.CZK*	177	160	100	125	92	143	174	88	.	.
– foreign direct investments	*bill.CZK*	102	280	90	179	36	38	95	75	.	.
– portfolio investments	*bill.CZK*	53	-81	-27	-57	-9	159	150	6	.	.
– other investments	*bill.CZK*	23	-38	36	3	65	-53	-71	7	.	.
Change in reserves	*bill.CZK*	7	93	2	16	40	61	41	-17	.	.
International investment position	*bill.CZK*	-825	-837	-1084	-1418	-1545	-1728	-1830	-1895	.	.
Gross external debt	*bill.CZK*	1012	1144	1196	1377	1630	1639	1767	1873	1925	1942
Balance of goods and services / GDP	*per cent*	0.1	2.8	3.2	2.9	2.6	4.3	3.4	4.2	5.1	5.3
Current account / GDP	*per cent*	-5.0	-1.0	-2.0	-4.3	-2.1	-2.4	-3.9	-2.9	-1.3	-1.2
Financial account / GDP	*per cent*	6.1	5.1	3.0	3.4	2.4	3.8	4.6	2.3	.	.
IIP / GDP	*per cent*	-28.2	-26.9	-32.3	-38.7	-40.2	-46.2	-48.5	-49.8	.	.
Gross external debt / GDP [3]	*per cent*	34.5	36.7	35.7	37.6	42.3	43.8	46.8	49.2	50	50

[1] *Imports – fob since May 2004*
[2] *Imports – cif*
[3] *Ratio of external debt (in CZK) at the end of period to GDP (in CZK)*

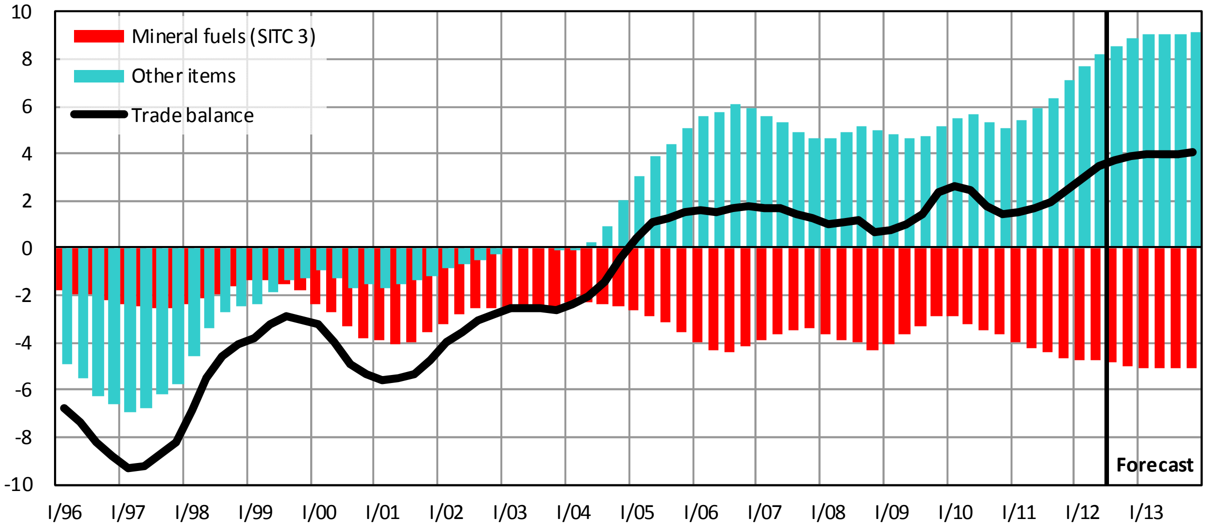
Table C.4.2: **Balance of Payments** – quarterly
moving sums of the latest 4 quarters

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Estimate	*Forecast*
Balance of goods and services	*bill.CZK*	128	130	145	160	181	190	194	196
-- balance of trade	*bill.CZK*	56	63	75	94	114	132	141	148
---- of which mineral fuels (SITC 3)	*bill.CZK*	-150	-160	-166	-177	-181	-179	-185	-191
-- balance of services	*bill.CZK*	71	67	70	66	66	58	53	48
Balance of income	*bill.CZK*	-283	-313	-280	-272	-290	-240	-242	-244
– compensation of employees	*bill.CZK*	-2	-2	-3	-3	-1	2	2	2
– investment income	*bill.CZK*	-281	-310	-277	-269	-289	-242	-244	-246
Balance of transfers	*bill.CZK*	10	8	8	2	0	-9	-6	-1
Current account	*bill.CZK*	-146	-175	-126	-109	-109	-59	-53	-49
Capital account	*bill.CZK*	31	21	9	15	15	15	15	15
Financial account	*bill.CZK*	185	244	115	88	133	44	.	.
– foreign direct investments	*bill.CZK*	94	99	57	75	94	77	.	.
– portfolio investments	*bill.CZK*	97	77	-3	6	71	57	.	.
– other investments	*bill.CZK*	-6	68	62	7	-31	-90	.	.
Change in reserves	*bill.CZK*	21	20	-45	-17	42	4	.	.
International investment position	*bill.CZK*	-1874	-1937	-1937	-1895	-1980	-1966	.	.
Gross external debt	*bill.CZK*	1714	1751	1829	1873	1916	1895	1924	1925

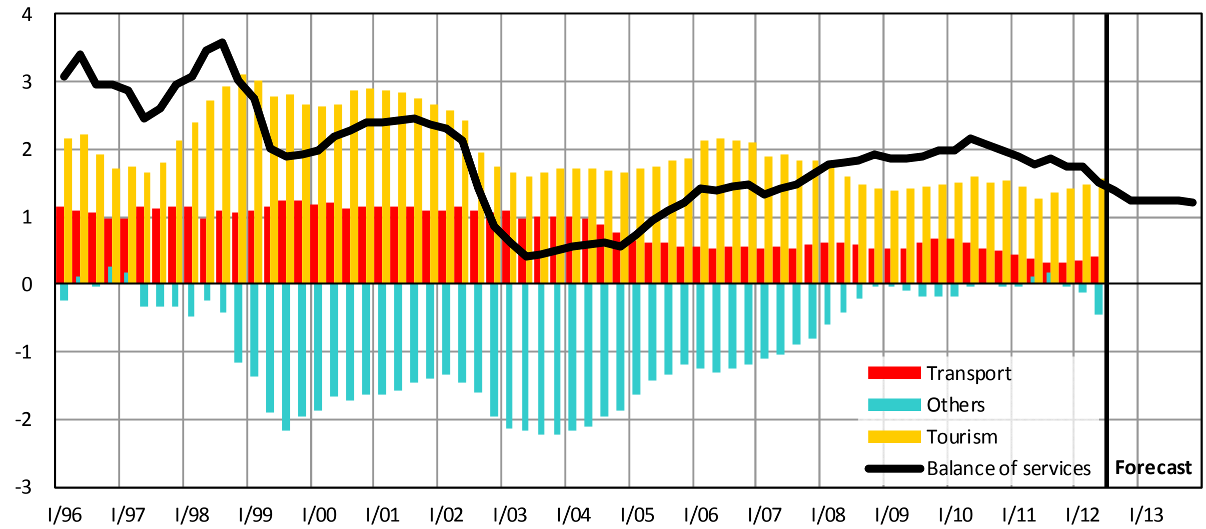
Graph C.4.1: **Current Account**
moving sums of the latest 4 quarters, in % of GDP, trade and service balances in BoP definitions



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



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



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

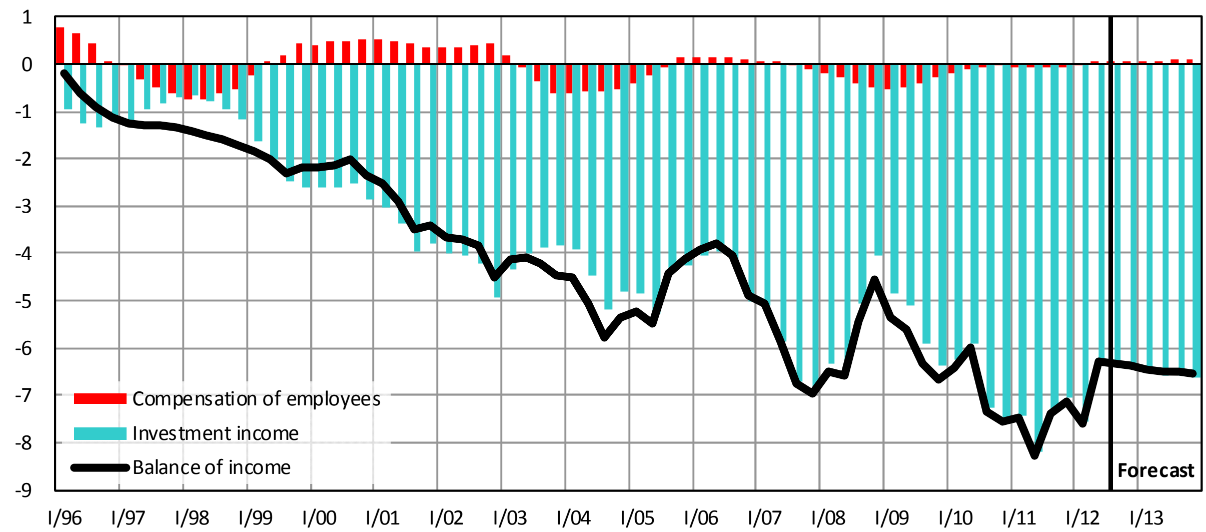


Table C.4.3: **Decomposition of Exports of Goods** – yearly

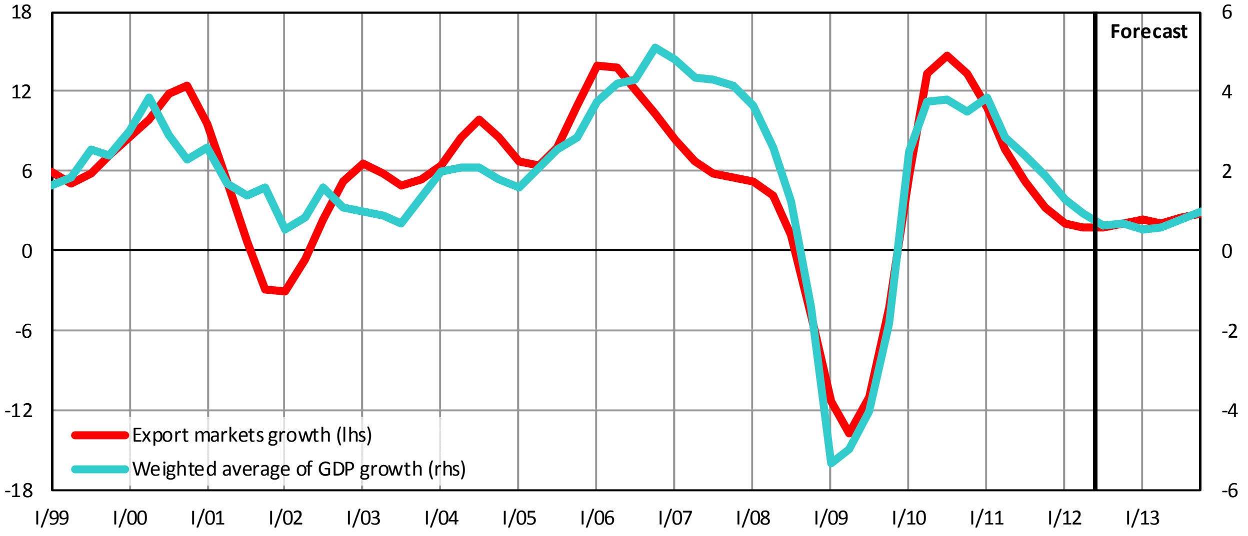
		2004	2005	2006	2007	2008	2009	2010	2011	2012 *Forecast*	2013 *Forecast*
GDP [1]	*average of 2005=100*	97.8	100.0	104.3	108.9	110.5	106.0	109.6	112.6	114	114
	growth in %	**2.0**	**2.2**	**4.3**	**4.4**	**1.5**	**-4.1**	**3.4**	**2.7**	**0.9**	**0.7**
Import intensity [2]	*average of 2005=100*	94.7	100.0	107.8	110.1	110.0	103.0	111.4	115.6	117	119
	growth in %	**6.2**	**5.6**	**7.8**	**2.1**	**-0.1**	**-6.3**	**8.1**	**3.8**	**1.0**	**1.7**
Export markets [3]	*average of 2005=100*	92.6	100.0	112.5	119.9	121.5	109.2	122.1	130.2	133	136
	growth in %	**8.4**	**8.0**	**12.5**	**6.6**	**1.3**	**-10.1**	**11.8**	**6.6**	**1.9**	**2.4**
Export performance	*average of 2005=100*	97.6	100.0	101.3	105.9	107.6	105.7	110.8	116.2	119	120
	growth in %	**5.0**	**2.5**	**1.3**	**4.5**	**1.6**	**-1.7**	**4.8**	**4.9**	**2.6**	**0.8**
Real exports	*average of 2005=100*	90.3	100.0	114.0	126.9	130.7	115.5	135.2	151.3	158	163
	growth in %	**13.8**	**10.7**	**14.0**	**11.4**	**3.0**	**-11.7**	**17.1**	**11.9**	**4.5**	**3.2**
1 / NEER	*average of 2005=100*	105.9	100.0	95.4	93.0	83.2	86.0	84.2	81.7	85	84
	growth in %	**-1.2**	**-5.6**	**-4.6**	**-2.6**	**-10.5**	**3.4**	**-2.2**	**-2.9**	**3.4**	**-0.8**
Prices on foreign markets	*average of 2005=100*	97.0	100.0	103.1	106.1	112.8	109.5	110.5	114.7	114	115
	growth in %	**3.5**	**3.1**	**3.1**	**2.9**	**6.3**	**-2.9**	**0.9**	**3.8**	**-0.4**	**0.9**
Exports deflator	*average of 2005=100*	102.7	100.0	98.4	98.6	93.8	94.2	93.0	93.7	97	97
	growth in %	**2.3**	**-2.6**	**-1.6**	**0.2**	**-4.9**	**0.4**	**-1.3**	**0.7**	**3.1**	**0.2**
Nominal exports	*average of 2005=100*	92.8	100.0	112.2	125.1	122.7	108.6	125.8	141.8	153	158
	growth in %	**16.4**	**7.7**	**12.2**	**11.6**	**-2.0**	**-11.4**	**15.8**	**12.7**	**7.7**	**3.4**

[1] *Weighted average of GDP of the seven most important partners – Germany, Slovakia, Austria, the United Kingdom, Poland, France and Italy.*
[2] *Index of ratio of real imports of goods to real GDP.*
[3] *Weighted average of imports of goods of the main partners.*

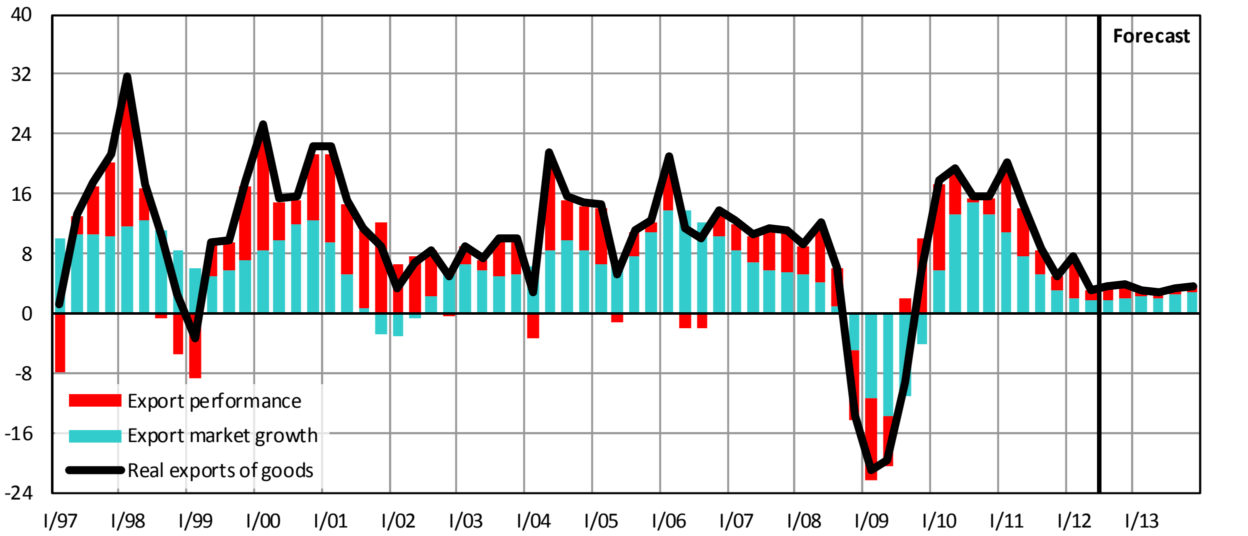
Table C.4.4: **Decomposition of Exports of Goods** – quarterly

		2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3 *Estimate*	Q4 *Forecast*
GDP	*average of 2005=100*	111.9	112.5	112.9	113.0	113.4	113.5	114	114
	growth in %	**3.9**	**2.8**	**2.4**	**1.9**	**1.3**	**0.9**	**0.6**	**0.7**
Import intensity	*average of 2005=100*	115.0	115.7	115.8	115.8	115.9	116.7	117	117
	growth in %	**6.7**	**4.7**	**2.7**	**1.3**	**0.7**	**0.8**	**1.1**	**1.4**
Export markets	*average of 2005=100*	128.8	130.2	130.8	130.8	131.4	132.5	133	134
	growth in %	**10.8**	**7.7**	**5.2**	**3.2**	**2.0**	**1.7**	**1.7**	**2.1**
Export performance	*average of 2005=100*	117.2	118.5	112.2	117.0	123.6	120.1	114	119
	growth in %	**8.6**	**6.3**	**3.3**	**1.8**	**5.5**	**1.3**	**2.0**	**1.7**
Real exports	*average of 2005=100*	150.9	154.3	146.8	153.1	162.3	159.1	152	159
	growth in %	**20.3**	**14.5**	**8.7**	**5.1**	**7.6**	**3.1**	**3.7**	**3.8**
1 / NEER	*average of 2005=100*	81.4	80.7	81.0	83.7	84.1	84.8	85	84
	growth in %	**-4.6**	**-5.7**	**-2.9**	**1.6**	**3.3**	**5.1**	**4.8**	**0.7**
Prices on foreign markets	*average of 2005=100*	113.7	115.2	115.3	114.7	113.7	113.6	115	115
	growth in %	**4.9**	**4.3**	**3.4**	**2.5**	**0.0**	**-1.4**	**-0.3**	**0.2**
Exports deflator	*average of 2005=100*	92.5	93.0	93.3	96.0	95.6	96.4	97	97
	growth in %	**0.1**	**-1.6**	**0.5**	**4.1**	**3.3**	**3.6**	**4.4**	**0.9**
Nominal exports	*average of 2005=100*	139.7	143.6	137.0	147.0	155.2	153.4	148	154
	growth in %	**20.4**	**12.6**	**9.2**	**9.5**	**11.1**	**6.8**	**8.3**	**4.8**

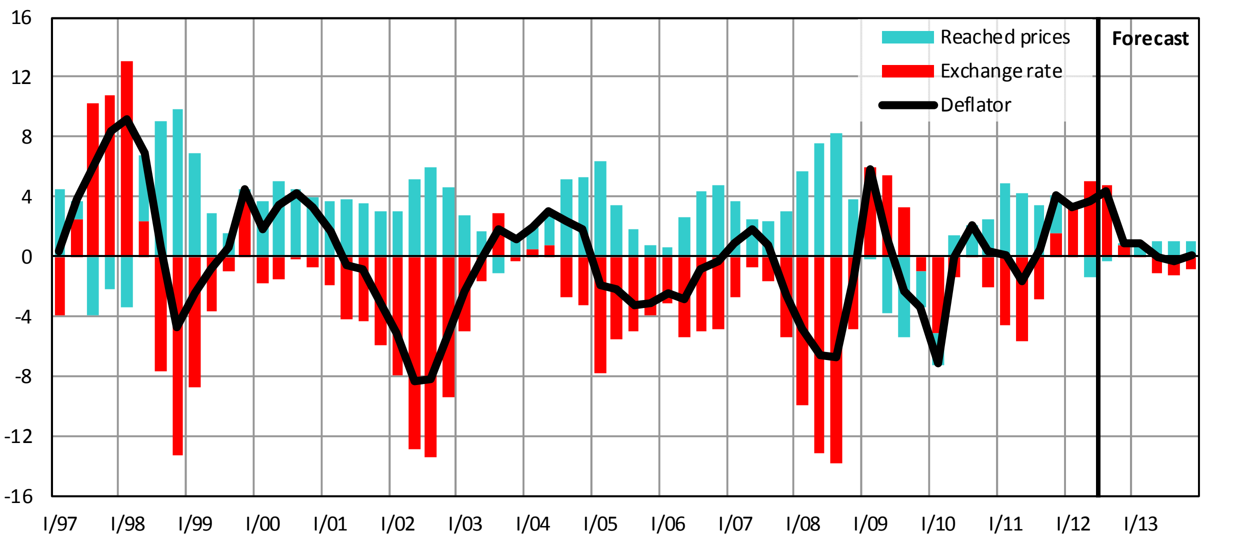
Graph C.4.5: **GDP and Imports of Goods in Main Partner Countries**
YoY growth, in %



Graph C.4.6: **Real Exports of Goods**
decomposition of YoY growth, in %



Graph C.4.7: **Deflator of Exports of Goods**
decomposition of YoY growth, in %



C.5 International Comparisons

Sources: Eurostat, OECD, IMF, MoF estimates

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

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
									Prelim.	*Forecast*	*Forecast*
Slovenia	*PPS*	**18 800**	**19 600**	**20 700**	**22 100**	**22 700**	**20 600**	**20 800**	**21 300**	**21 300**	**21 800**
	EA12=100	78	79	79	80	83	80	78	78	77	78
Czech Republic	*PPS*	**16 900**	**17 800**	**18 900**	**20 700**	**20 200**	**19 300**	**19 400**	**20 100**	**20 100**	**20 500**
	EA12=100	71	72	73	75	74	75	73	73	73	73
Greece	*PPS*	**20 300**	**20 400**	**21 800**	**22 500**	**23 100**	**22 100**	**21 400**	**20 100**	**19 400**	**19 600**
	EA12=100	85	82	84	82	84	86	80	73	70	70
Slovakia	*PPS*	**12 300**	**13 500**	**15 000**	**16 900**	**18 100**	**17 000**	**17 900**	**18 400**	**19 200**	**19 900**
	EA12=100	52	55	57	62	66	66	67	67	69	71
Portugal	*PPS*	**16 700**	**17 900**	**18 700**	**19 600**	**19 500**	**18 800**	**19 500**	**19 400**	**19 100**	**19 500**
	EA12=100	70	72	72	72	71	73	73	71	69	69
Lithuania	*PPS*	**11 000**	**11 900**	**13 100**	**14 800**	**15 400**	**12 800**	**14 100**	**16 600**	**17 400**	**18 400**
	EA12=100	46	48	50	54	56	50	53	61	63	65
Estonia	*PPS*	**12 400**	**13 800**	**15 600**	**17 500**	**17 200**	**14 800**	**15 700**	**16 800**	**17 400**	**18 300**
	EA12=100	52	56	60	64	63	58	59	61	63	65
Poland	*PPS*	**11 000**	**11 500**	**12 300**	**13 600**	**14 100**	**14 300**	**15 300**	**16 400**	**17 000**	**17 800**
	EA12=100	46	46	47	50	51	55	57	60	62	63
Hungary	*PPS*	**13 600**	**14 200**	**14 900**	**15 400**	**16 000**	**15 200**	**15 700**	**16 400**	**16 600**	**17 000**
	EA12=100	57	57	57	56	58	59	59	60	60	61
Latvia	*PPS*	**9 900**	**10 800**	**12 200**	**13 900**	**14 100**	**12 000**	**12 600**	**14 800**	**15 400**	**16 400**
	EA12=100	41	44	47	51	51	47	47	54	56	58

Graph C.5.1: **GDP p.c. – using current purchasing power parities**
EA12=100

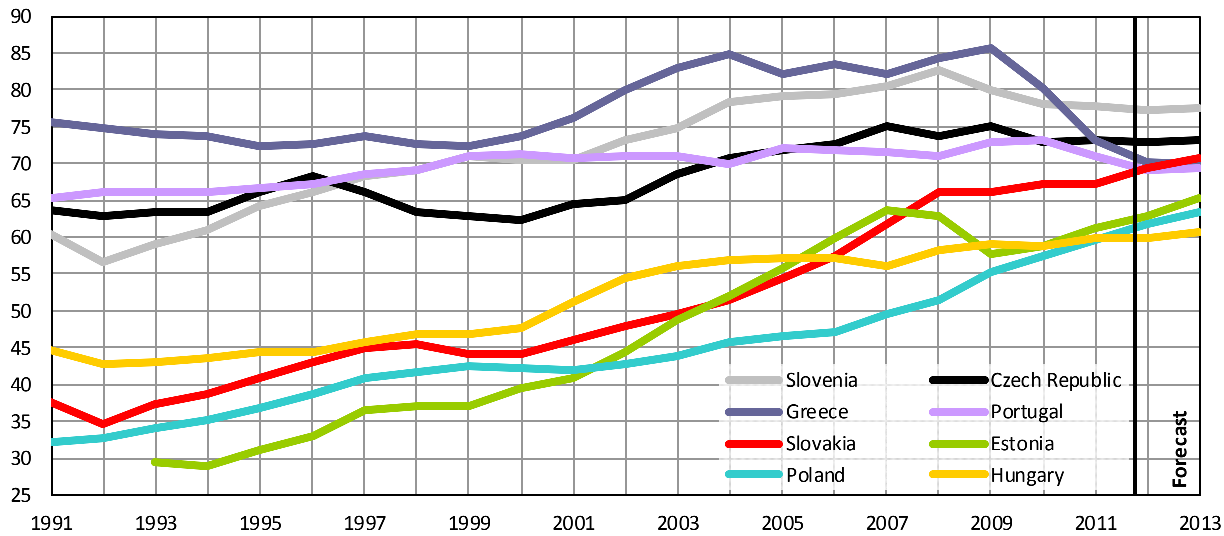
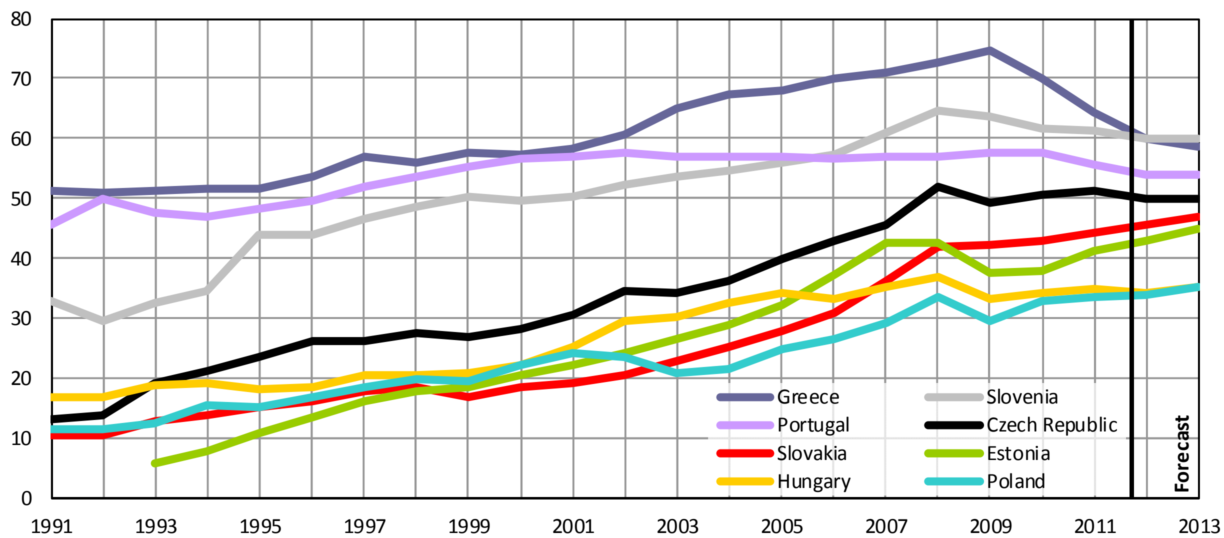


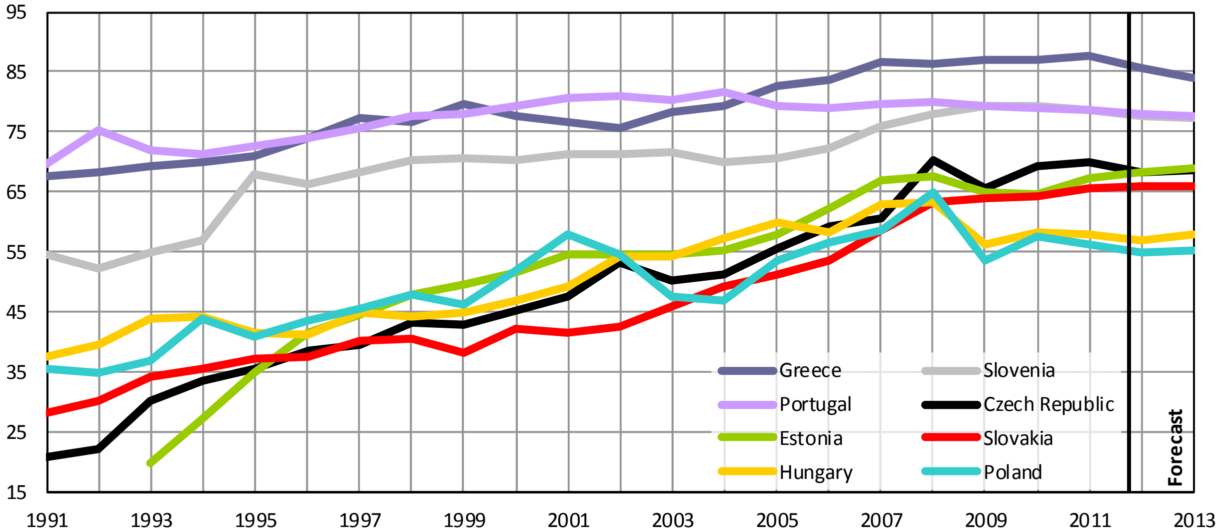
Table C.5.2: **GDP p.c. – using current exchange rates**

			2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
										Prelim.	*Forecast*	*Forecast*
Greece		*EUR*	**16 700**	**17 400**	**18 700**	**19 900**	**20 800**	**20 500**	**19 600**	**18 500**	**17 400**	**17 300**
		EA12=100	67	68	70	71	73	75	70	64	60	59
	Comparative price level	*EA12=100*	**79**	**83**	**84**	**87**	**86**	**87**	**87**	**88**	**86**	**84**
Slovenia		*EUR*	**13 600**	**14 400**	**15 400**	**17 100**	**18 400**	**17 400**	**17 400**	**17 600**	**17 400**	**17 700**
		EA12=100	55	56	57	61	65	63	62	61	60	60
	Comparative price level	*EA12=100*	**70**	**71**	**72**	**76**	**78**	**79**	**79**	**79**	**78**	**77**
Portugal		*EUR*	**14 200**	**14 600**	**15 200**	**16 000**	**16 200**	**15 800**	**16 200**	**16 000**	**15 600**	**15 900**
		EA12=100	57	57	57	57	57	58	58	56	54	54
	Comparative price level	*EA12=100*	**82**	**79**	**79**	**80**	**80**	**79**	**79**	**79**	**78**	**78**
Czech Republic		*EUR*	**9 000**	**10 200**	**11 500**	**12 800**	**14 800**	**13 500**	**14 200**	**14 800**	**14 500**	**14 800**
		EA12=100	36	40	43	46	52	49	50	51	50	50
	Comparative price level	*EA12=100*	**51**	**56**	**59**	**61**	**70**	**66**	**69**	**70**	**68**	**68**
Slovakia		*EUR*	**6 300**	**7 100**	**8 200**	**10 100**	**11 900**	**11 600**	**12 100**	**12 700**	**13 300**	**13 800**
		EA12=100	25	28	31	36	42	42	43	44	46	47
	Comparative price level	*EA12=100*	**49**	**51**	**54**	**59**	**63**	**64**	**64**	**66**	**66**	**66**
Estonia		*EUR*	**7 200**	**8 300**	**10 000**	**12 000**	**12 100**	**10 300**	**10 700**	**11 900**	**12 400**	**13 300**
		EA12=100	29	32	37	43	42	37	38	41	43	45
	Comparative price level	*EA12=100*	**55**	**58**	**62**	**67**	**68**	**65**	**65**	**67**	**68**	**69**
Lithuania		*EUR*	**5 300**	**6 100**	**7 100**	**8 500**	**9 700**	**8 000**	**8 400**	**10 200**	**10 700**	**11 500**
		EA12=100	21	24	27	30	34	29	30	35	37	39
	Comparative price level	*EA12=100*	**46**	**50**	**53**	**56**	**61**	**58**	**57**	**58**	**59**	**59**
Latvia		*EUR*	**4 800**	**5 600**	**7 000**	**9 300**	**10 100**	**8 200**	**8 100**	**9 800**	**10 300**	**10 900**
		EA12=100	19	22	26	33	35	30	29	34	36	37
	Comparative price level	*EA12=100*	**47**	**50**	**56**	**66**	**69**	**64**	**61**	**63**	**64**	**64**
Hungary		*EUR*	**8 100**	**8 800**	**8 900**	**9 900**	**10 500**	**9 100**	**9 700**	**10 000**	**9 900**	**10 400**
		EA12=100	33	34	33	35	37	33	34	35	34	35
	Comparative price level	*EA12=100*	**57**	**60**	**58**	**63**	**63**	**56**	**58**	**58**	**57**	**58**
Poland		*EUR*	**5 300**	**6 400**	**7 100**	**8 100**	**9 500**	**8 100**	**9 300**	**9 700**	**9 800**	**10 400**
		EA12=100	21	25	27	29	33	30	33	34	34	35
	Comparative price level	*EA12=100*	**47**	**54**	**57**	**59**	**65**	**54**	**58**	**56**	**55**	**55**

Graph C.5.2: **GDP p.c. – using current exchange rates**
EA12=100



Graph C.5.3: **Index of Comparative Price Level of GDP p.c.**
EA12=100



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