

Summary of the Forecast

According to the CZSO's current data, GDP recorded a significant QoQ fall of 1.3% in Q1 2013, which was the sixth QoQ decline in a row. However, the published data can be considered to be a generally very negative surprise. Even though the depth of this decrease was partially influenced by one-off factors (by stockpiling cigarette tax stamps in Q4 2012 or by unfavourable weather), it is obvious that the economy is not in good condition.

Even though we envisage gradual economic recovery for H2 2013, GDP should decrease by 1.5% this year, primarily due to the deep slump in Q1 2013. In terms of uses of GDP, the main factor behind this decline should be gross fixed capital formation. For 2014, we forecast the economy to grow by 0.8%.

Despite the 1 p.p. increase in both VAT rates, effective from 1 January 2013, average inflation rate should reach only 1.6% this year. In 2014, growth of consumer prices could further slow to 1.4%. In both years, the YoY inflation rate should fluctuate within the tolerance band of the CNB's inflation target.

Employment, which increased by 0.4% last year, could further grow by 0.5% this year. This somewhat paradoxical development results from a rise in the number of part-time jobs and a decline in the ratio of total hours worked to employment. For 2014, we are forecasting a slight decrease in employment of 0.2%. Unemployment rate should increase from last year's 7.0% to 7.5%, and there could also be its slight YoY increase in 2014. Growth of total wage bill could reach 0.7% this year and 2.1% in 2014. In both years, the wage bill growth rate is expected to slightly exceed the dynamics of nominal GDP.

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

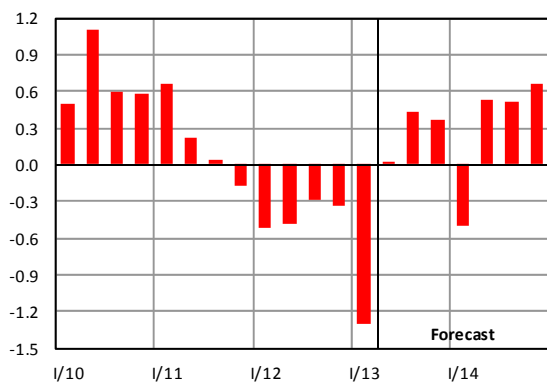
Forecast risks are tilted to the downside. In addition to further development in the euro zone, there is also the risk of low confidence in the Czech economy.

Table: **Main Macroeconomic Indicators**

		2010	2011	2012	2013	2014	2012	2013	2014
		<i>Current forecast</i>					<i>Previous forecast</i>		
Gross domestic product	<i>growth in %, const.pr.</i>	2.5	1.8	-1.2	-1.5	0.8	-1.3	0.0	1.2
Consumption of households	<i>growth in %, const.pr.</i>	0.9	0.5	-2.7	-0.8	0.4	-3.5	-1.2	1.0
Consumption of government	<i>growth in %, const.pr.</i>	0.2	-2.7	-1.2	0.5	-0.9	-1.0	-0.2	-1.7
Gross fixed capital formation	<i>growth in %, const.pr.</i>	1.0	0.4	-2.7	-4.3	-0.6	-1.7	-0.4	0.9
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.6	1.9	1.4	0.2	0.5	1.5	0.4	0.3
GDP deflator	<i>growth in %</i>	-1.6	-0.9	1.4	0.6	0.9	1.4	0.4	0.9
Average inflation rate	<i>%</i>	1.5	1.9	3.3	1.6	1.4	3.3	2.1	1.7
Employment (LFS)	<i>growth in %</i>	-1.0	0.4	0.4	0.5	-0.2	0.4	-0.2	0.0
Unemployment rate (LFS)	<i>average in %</i>	7.3	6.7	7.0	7.5	7.6	7.0	7.6	7.7
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	0.8	2.2	1.5	0.7	2.1	2.0	1.4	2.7
Current account / GDP	<i>%</i>	-3.9	-2.7	-2.5	-2.3	-2.4	-2.4	-2.3	-2.3
<u>Assumptions:</u>									
Exchange rate CZK/EUR		25.3	24.6	25.1	25.8	25.8	25.1	25.4	25.2
Long-term interest rates	<i>% p.a.</i>	3.7	3.7	2.8	2.0	2.2	2.8	2.2	2.3
Crude oil Brent	<i>USD/barrel</i>	80	111	112	106	101	112	108	102
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	2.0	1.5	-0.6	-0.5	1.0	-0.6	-0.4	0.6

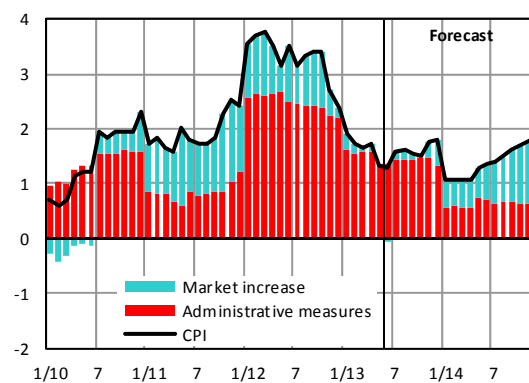
Gradual economic recovery expected

real GDP, QoQ growth in %, seasonally adjusted



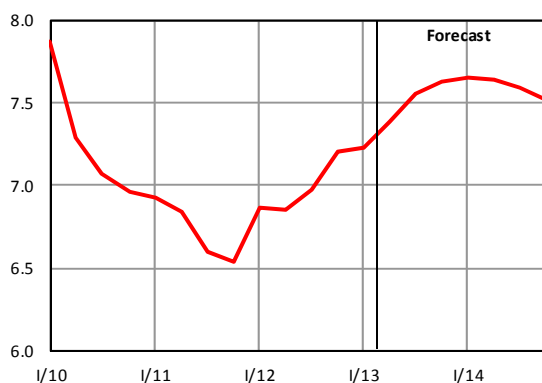
Inflation rate close to the CNB inflation target

decomposition of YoY growth in consumer prices, percentage points



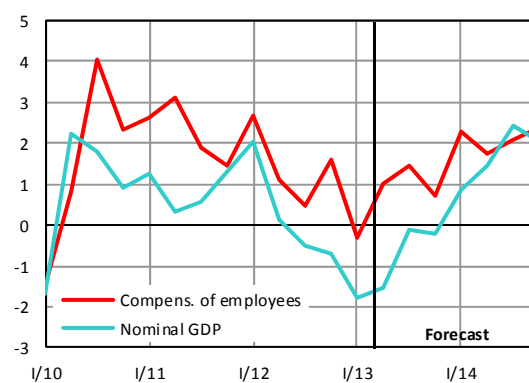
Unemployment culminating at the beginning of 2014

unemployment rate (LFS), in %, seasonally adjusted



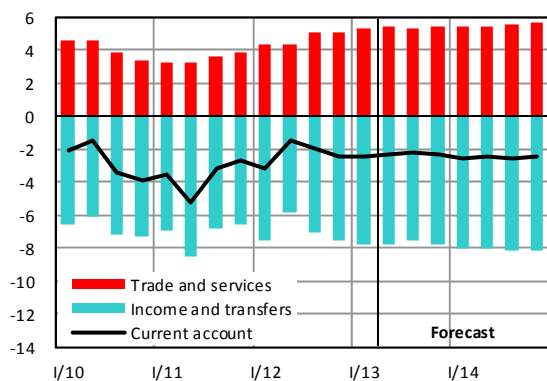
Rising share of compensation of employees on GDP

compensation of employees and nominal GDP, growth in %



Low current account deficit

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



Government sector deficit below 3% of GDP in 2013

general government balance, in % of GDP

