

## Summary of the Forecast

According to our estimates, Czech economic output increased by 1.8% in the last year although the growth was gradually slowing during the first three quarters. There was even a slight QoQ decline of 0.1% in Q3. We expect the economy to remain at the same level in 2012, or with a slight gain of 0.2% in GDP. The change in comparison to the previous forecast is caused especially by the further escalation of problems in the euro zone and the worsened macroeconomic perspectives of our main trading partners. Nevertheless, continuing fiscal consolidation should have a certain influence as well. In 2013 economic output should increase by 1.6%.

We expect average growth in consumer prices of 3.2% in 2012, while the average inflation rate should reach 1.5% in 2013. The development of consumer prices will be significantly influenced by changes in VAT.

The situation on the labour market should reflect the slow economic growth and heightened uncertainty. Employment should decrease by 0.3% this year, and we anticipate no change in 2013.

The unemployment rate (LFS) should increase from the 6.7% estimated for last year to 7.0% this year, and another slight increase in unemployment may occur in

2013. The wage bill could increase by 2.0% this year and by 2.6% in 2013.

The current account deficit as a percentage of GDP should remain at a low and sustainable level.

According to preliminary estimates, the general government deficit improved significantly to 3.7% of GDP in 2011.

As a result of the deteriorated economic outlook, the general government deficit could deepen to 3.8% of GDP in 2012. Without additional fiscal measures, the general government balance would thus be 0.3 p.p. worse, compared with the government's target of -3.5% of GDP. Given the government's commitment to adhere to the deficit targets, some consolidation measures will have to be adopted.

Due to significant uncertainties about future development in the euro zone, the new Macroeconomic Forecast of the Czech Ministry of Finance is subject to significant downside risks. Future developments of the Czech economy will depend considerably upon whether and how quickly the current situation in problematic euro zone countries will be resolved.

Table: **Main Macroeconomic Indicators**

		2009	2010	2011	2012	2013	2011	2012
		Forecast					Previous forecast	
Gross domestic product	growth in %, const.pr.	-4.7	2.7	1.8	0.2	1.6	2.1	1.0
Consumption of households	growth in %, const.pr.	-0.4	0.6	-0.4	-0.7	0.7	-0.6	-0.5
Consumption of government	growth in %, const.pr.	3.8	0.6	-2.3	-2.5	0.1	-1.2	-0.5
Gross fixed capital formation	growth in %, const.pr.	-11.5	0.1	-0.3	0.1	2.1	2.1	1.4
Cont. of foreign trade to GDP growth	p.p., const.pr.	0.8	0.9	2.7	1.0	0.8	1.7	1.0
GDP deflator	growth in %	1.9	-1.7	-0.2	1.9	0.8	0.0	1.7
Average inflation rate	%	1.0	1.5	1.9	3.2	1.5	1.9	3.2
Employment (LFS)	growth in %	-1.4	-1.0	0.4	-0.3	0.0	0.4	-0.2
Unemployment rate (LFS)	average in %	6.7	7.3	6.7	7.0	7.2	6.9	6.9
Wage bill (domestic concept)	growth in %, curr.pr.	-2.1	-0.4	1.7	2.0	2.6	2.3	2.7
Current account / GDP	%	-2.4	-3.1	-1.9	-1.6	-1.7	-3.1	-3.3
<u>Assumptions:</u>								
Exchange rate CZK/EUR		26.4	25.3	24.6	25.6	25.3	24.3	23.9
Long-term interest rates	% p.a.	4.7	3.7	3.7	3.4	3.6	3.7	3.7
Crude oil Brent	USD/barrel	62	80	111	112	112	110	107
GDP in Eurozone (EA-12)	growth in %, const.pr.	-4.2	1.9	1.7	0.0	0.8	1.7	1.0

Note: The estimate for 2011 changed not only due to the actual economic development, but also because of the quarterly national accounts revision.