

Summary of the Forecast

The Czech economy continues to be stuck in stagnation. In Q1 2012, the relatively deep decline in GDP of 0.8% on QoQ basis was due to accounting and methodical factors (for differing development of gross value added and taxes on products, see Box C.1), and thus it does not reflect the course of the business cycle. Given the unresolved euro zone debt crisis, it can be assumed that economic stagnation will more or less linger up to 2013.

We expect that a 0.5% decrease in GDP will be reported this year (due to the Q1 data). In 2013, however, the economy should grow by ca 1.0%.

From an expenditure perspective, the economy should continue to be driven by significant foreign trade surpluses, while all components of gross domestic expenditures will be either decreasing or stable.

We expect consumer prices to rise by around 3.2% in 2012, while in 2013 the average inflation rate should reach 2.2%. Inflation is and will be determined predominantly by the increases in VAT and in energy

prices, while growth in market prices should remain very moderate.

The labour market will likely be influenced negatively by the unfavourable economic situation and heightened uncertainty over future development. Employment should decrease by 0.3% this year and by 0.2% in 2013. Unemployment should rise to 7.0% for 2012 from last year's 6.7%, and another slight increase in the unemployment rate may also occur in 2013. The wage bill could grow by 1.9% this year and by 2.5% in 2013.

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

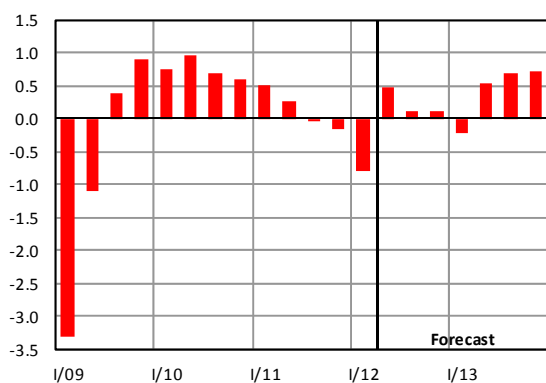
The crisis in the euro zone has intensified once again especially due to speculation concerning Greece's remaining in the currency union and the state of the Spanish banking sector. Its further escalation cannot be entirely ruled out, nor can be the possibility that the contagion will spread to other countries of the EU, including the Czech Republic.

Table: **Main Macroeconomic Indicators**

		2009	2010	2011	2012	2013	2011	2012	2013
		<i>Current forecast</i>					<i>Previous forecast</i>		
Gross domestic product	<i>growth in %, const.pr.</i>	-4.7	2.7	1.7	-0.5	1.0	1.7	0.2	1.3
Consumption of households	<i>growth in %, const.pr.</i>	-0.4	0.6	-0.6	-2.2	0.1	-0.5	-0.4	0.2
Consumption of government	<i>growth in %, const.pr.</i>	3.8	0.6	-1.7	-2.8	-0.8	-1.4	-3.7	-0.5
Gross fixed capital formation	<i>growth in %, const.pr.</i>	-11.5	0.1	-0.9	-1.0	2.0	-1.2	-0.5	2.1
Cont. of foreign trade to GDP growth	<i>p.p., const.pr.</i>	0.8	0.9	2.7	1.2	0.7	2.6	1.0	0.8
GDP deflator	<i>growth in %</i>	1.9	-1.7	-0.8	1.5	1.1	-0.7	2.0	1.4
Average inflation rate	<i>%</i>	1.0	1.5	1.9	3.2	2.2	1.9	3.3	2.3
Employment (LFS)	<i>growth in %</i>	-1.4	-1.0	0.4	-0.3	-0.2	0.4	-0.5	0.1
Unemployment rate (LFS)	<i>average in %</i>	6.7	7.3	6.7	7.0	7.2	6.7	7.0	7.2
Wage bill (domestic concept)	<i>growth in %, curr.pr.</i>	-2.1	-0.4	2.3	1.9	2.5	1.1	1.5	2.6
Current account / GDP	<i>%</i>	-2.4	-3.9	-2.9	-2.2	-2.6	-2.9	-2.4	-2.3
<u>Assumptions:</u>									
Exchange rate CZK/EUR		26.4	25.3	24.6	25.3	25.2	24.6	25.1	24.9
Long-term interest rates	<i>% p.a.</i>	4.7	3.7	3.7	3.4	3.5	3.7	3.4	3.5
Crude oil Brent	<i>USD/barrel</i>	62	80	111	112	108	111	115	113
GDP in Eurozone (EA-12)	<i>growth in %, const.pr.</i>	-4.2	1.9	1.5	-0.3	0.6	1.4	-0.3	0.7

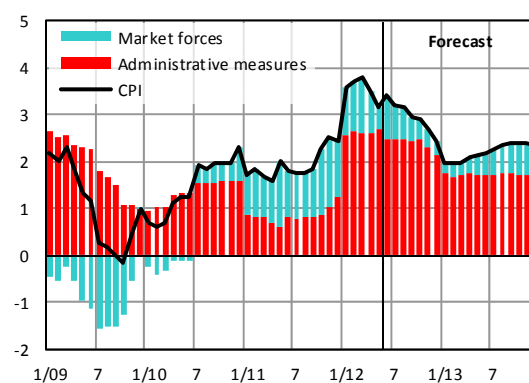
Graph 1: QoQ growth in real GDP

in %, seasonally adjusted



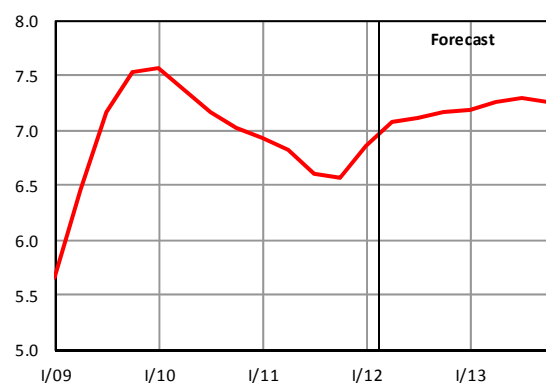
Graph 2: Consumer prices

decomposition of YoY growth in consumer prices, percentage points



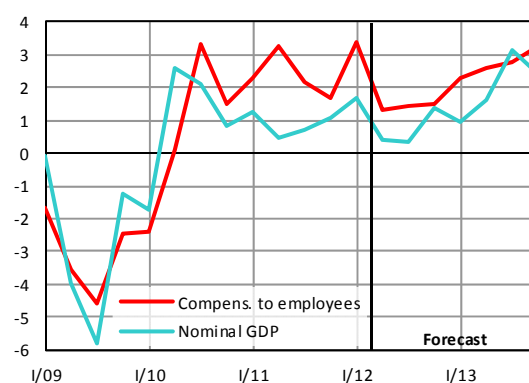
Graph 3: Unemployment rate (LFS)

in %, seasonally adjusted



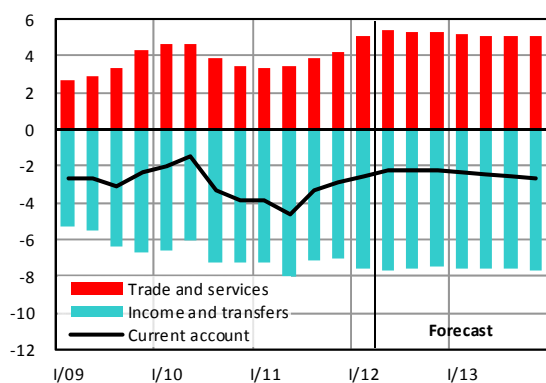
Graph 4: Compensation to employees, nominal GDP

growth in %



Graph 5: Current account

in % of GDP (moving sums of the latest 4 quarters)



Graph 6: General government balance

in % of GDP

