

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.

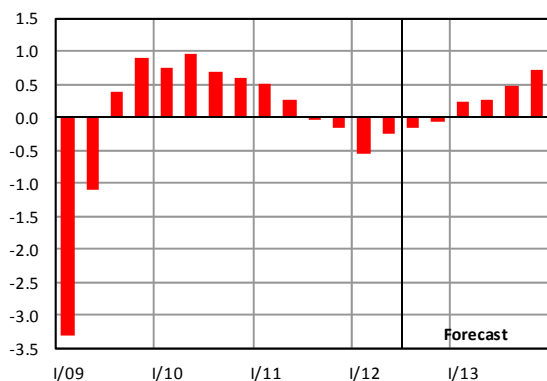
The Forecast remains subject to downside risks. Further development of the debt crisis in the euro zone continues to represent the main one. Its future escalation cannot be ruled out entirely, nor can be the possibility that the contagion will spread to other countries of the EU, including the Czech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

Table: **Main Macroeconomic Indicators**

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

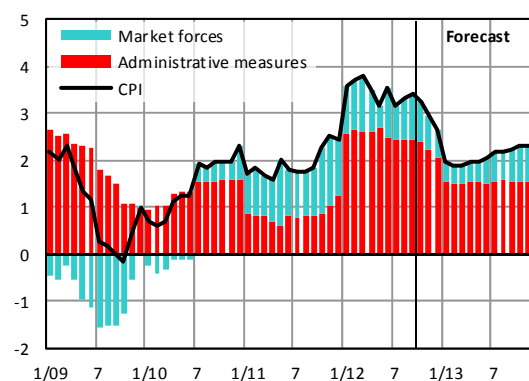
Czech economy in a shallow recession, recovery in 2013

real GDP, QoQ growth in %, seasonally adjusted



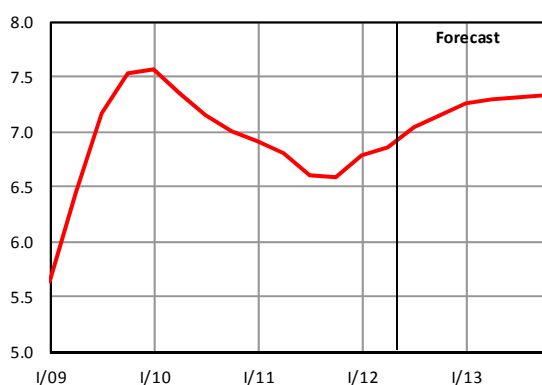
Moderate growth of consumer prices

decomposition of YoY growth in consumer prices, percentage points



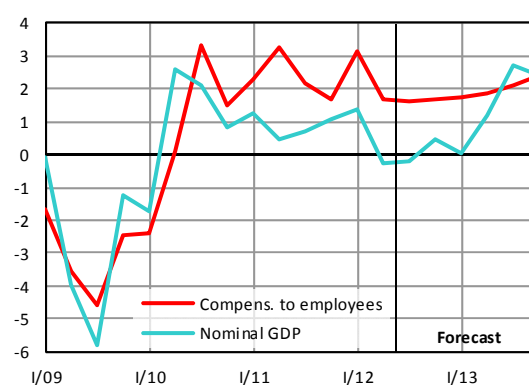
Tendency towards slight growth in unemployment

unemployment rate (LFS), in %, seasonally adjusted



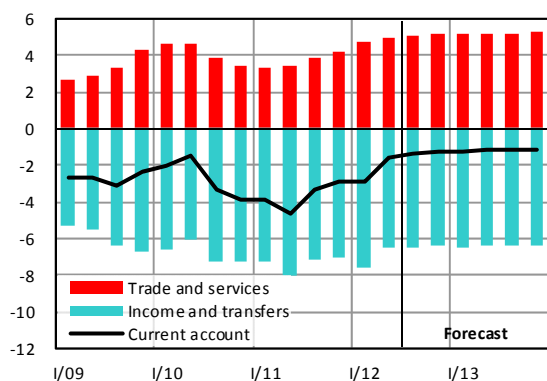
Growing share of compensation to employees on GDP

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

