

## Summary of the Forecast

According to the CZSO's current data, GDP decreased by 1.3% in 2012. Throughout 2012, the economy was in recession, from which it may emerge in H1 2013. Economic recovery is expected to be only gradual, though. In spite of that, GDP should stagnate at best in the whole of 2013, in YoY comparison. This year, the economy should be driven by net exports and, to a lesser extent, by gross capital formation. Their joint contribution to GDP growth should just compensate for the expected decline in household consumption.

GDP may increase by 1.2% in 2014, with positive contribution of both foreign trade and gross domestic expenditure.

Despite the 1 p.p. hike in both VAT rates, effective from 1 January 2013, the average inflation rate should only reach 2.1% this year; in 2014 consumer prices could increase by 1.7%. In both years the inflation rate should thus remain close to the CNB inflation target.

Employment, which expanded by 0.4% in 2012, is likely to decrease by 0.2% this year; in 2014 it is expected to

stagnate. The unemployment rate should go up from 7.0% last year to 7.6%, there could also be a slight increase in 2014. Growth of the total wage bill could reach 1.4% this year and 2.7% in 2014. In both years, total wage bill growth rate is expected to slightly exceed the dynamics of the nominal GDP.

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

According to the preliminary estimate of the CZSO, the government sector balance in 2012 ended up with the deficit of 4.4% of GDP. However, were there no one-off measures (financial compensation to churches and corrections of the non-refunded part of EU resources), the deficit would have amounted to 2.5% of GDP. This year, the government sector deficit should improve to 2.8% of GDP.

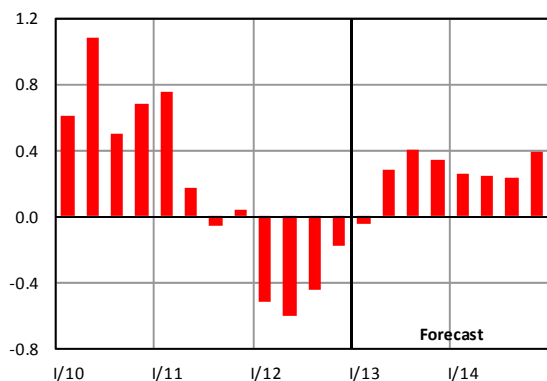
Forecast risks are tilted to the downside. In addition to further development in the euro zone, the low state of confidence in the Czech economy also poses a risk.

Table: **Main Macroeconomic Indicators**

		2010	2011	2012	2013	2014	2012	2013	2014
		<i>Current forecast</i>					<i>Previous forecast</i>		
<b>Gross domestic product</b>	<i>growth in %, const.pr.</i>	2.5	1.9	-1.3	0.0	1.2	-1.1	0.1	1.4
<b>Consumption of households</b>	<i>growth in %, const.pr.</i>	1.0	0.7	-3.5	-1.2	1.0	-3.0	-0.7	0.9
<b>Consumption of government</b>	<i>growth in %, const.pr.</i>	0.5	-2.5	-1.0	-0.2	-1.7	-0.9	-1.0	-0.9
<b>Gross fixed capital formation</b>	<i>growth in %, const.pr.</i>	1.0	-0.7	-1.7	-0.4	0.9	-0.8	0.1	1.3
<b>Cont. of foreign trade to GDP growth</b>	<i>p.p., const.pr.</i>	0.5	2.0	1.5	0.4	0.3	1.4	0.7	0.3
<b>GDP deflator</b>	<i>growth in %</i>	-1.4	-0.8	1.4	0.4	0.9	1.1	0.5	0.6
<b>Average inflation rate</b>	<i>%</i>	1.5	1.9	3.3	2.1	1.7	3.3	2.1	1.8
<b>Employment (LFS)</b>	<i>growth in %</i>	-1.0	0.4	0.4	-0.2	0.0	0.4	0.0	0.0
<b>Unemployment rate (LFS)</b>	<i>average in %</i>	7.3	6.7	7.0	7.6	7.7	6.9	7.3	7.4
<b>Wage bill (domestic concept)</b>	<i>growth in %, curr.pr.</i>	0.7	2.2	2.0	1.4	2.7	1.7	1.9	3.5
<b>Current account / GDP</b>	<i>%</i>	-3.9	-2.7	-2.4	-2.3	-2.3	-1.6	-1.3	-1.2
<u>Assumptions:</u>									
<b>Exchange rate CZK/EUR</b>		25.3	24.6	25.1	25.4	25.2	25.1	24.9	24.8
<b>Long-term interest rates</b>	<i>% p.a.</i>	3.7	3.7	2.8	2.2	2.3	2.8	2.2	2.3
<b>Crude oil Brent</b>	<i>USD/barrel</i>	80	111	112	108	102	112	105	102
<b>GDP in Eurozone (EA-12)</b>	<i>growth in %, const.pr.</i>	2.0	1.4	-0.6	-0.4	0.6	-0.4	-0.2	0.5

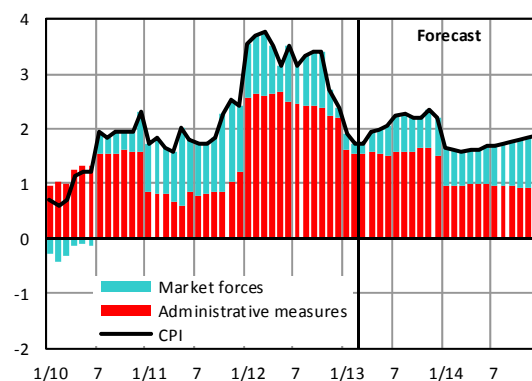
### Gradual economic recovery expected

real GDP, QoQ growth in %, seasonally adjusted



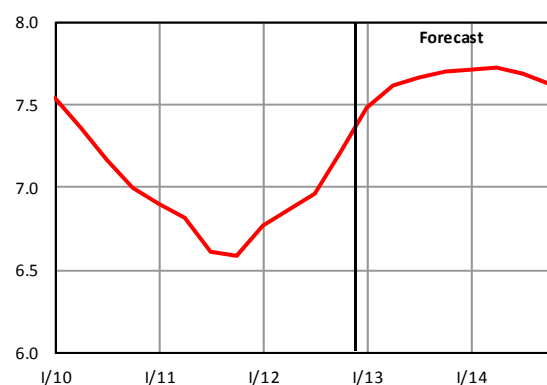
### Inflation rate close to the CNB inflation target

decomposition of YoY growth in consumer prices, percentage points



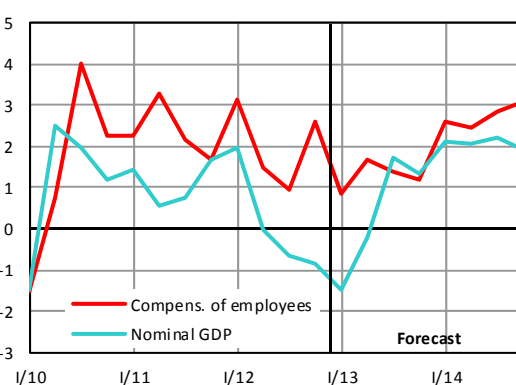
### Slight increase in unemployment rate this year

unemployment rate (LFS), in %, seasonally adjusted



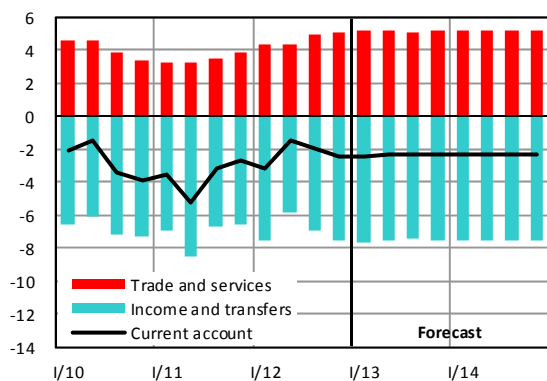
### Rising share of compensation of employees on GDP

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

