

# Czech Republic Business Forecast Report Q1 2015

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## Abstracts

### Core Views

Strong regional headwinds in the form of the Ukraine crisis and softer external demand are chipping away at the momentum behind the Czech Republic's recovery, as reflected in the Q314 GDP growth deceleration to 2.3% y-o-y from 2.7% in H114. The external economic outlook, which we expect to remain in place in 2015, will prevent growth from accelerating in 2015, underpinning our forecast of 2.6% real GDP expansion in 2015, from an estimated 2.4% in 2014. For 2016, we expect to see a moderate acceleration to 3.0%, in line with improving external demand.

The centre-left cabinet of Prime Minister Bohuslav Sobotka will continue on an expansionary fiscal trajectory in 2015-2016. Nevertheless, the government has ample fiscal space to finance higher expenditure and we do not expect to see deterioration in market perceptions of its sovereign risk profile.

We reiterate our view that the country will continue to post modest current account deficits for the foreseeable future. The country's status as a regional safe haven will ensure that stable financial inflows continue to cover the country's external financing needs.

### Major Forecast Changes

Having previously expected a weaker target for the koruna, we now expect the Czech National Bank (CNB) to maintain its current monetary policy stance in 2015. The CNB has signalled it will tolerate below-target inflation in the coming quarters, underpinning our re-assessment.

## Contents

Executive Summary  
Core Views  
Major Forecast Changes  
Key Risks To Outlook

### **CHAPTER 1: POLITICAL OUTLOOK**

BMI Political Risk Index

Domestic Politics

Junior Coalition Partner To Prevent Company Tax Rises

The ruling Social Democratic party (CSSD) will bow to its junior partner ANO's opposition to increases in business taxes, reflecting ANO's rising power. Despite their differences, the CSSD and ANO will maintain their coalition until its term ends in 2017.

Table: Political Overview

Long-Term Political Outlook

Further Western Integration Ahead

The Czech Republic will remain the most 'Western' of the CEE states over the next ten years, with per capita income set to reach the level of poorer pre-2004 EU member states by the early 2020s. The country will face some key challenges, namely fiscal pressures from an ageing population, relations between Czechs and immigrant minority groups, and potential frictions with Brussels. That said, the Czech Republic will remain among the most politically, socially and economically stable countries in Europe through the next decade.

### **CHAPTER 2: ECONOMIC OUTLOOK**

SWOT Analysis

BMI Economic Risk Index

Economic Activity

External Headwinds Chipping Away At Recovery Momentum

Soft external demand will constrain the Czech economic recovery in 2015, underpinning our forecast of 2.6% from an estimated 2.4% in 2014. For 2016, we forecast Czech GDP growth to accelerate to 3.0% in line with improving eurozone growth outlook.

Table: GDP By Expenditure

Fiscal Policy

Expansionary Fiscal Stance No Threat To Sustainability

The centre-left cabinet of Prime Minister Bohuslav Sobotka will continue on an

expansionary fiscal trajectory in 2015-2016. Nevertheless, the government has ample fiscal space to finance higher expenditure, and we do not expect to see deterioration in market perceptions of its sovereign risk profile.

Table: Fiscal Policy

Monetary Policy

Central Bank To Maintain Current Course In 2015

Having previously expected a weaker target for the koruna, we now expect the Czech National Bank (CNB) to maintain its current monetary policy stance in 2015. The CNB has signalled it will tolerate below-target inflation in coming quarters, underpinning our reassessment.

Table: Monetary Policy

Balance Of Payments

Safe Haven Status Ensuring External Financing

The Czech Republic's safe haven status will continue to attract financial inflows, and we do not see any major risks to its ability to meet its external financing needs for the foreseeable future.

Table: Balance Of Payments

## **CHAPTER 3: 10-YEAR FORECAST**

The Czech Economy To 2023

Effective Convergence

The Czech Republic is forecast to remain a positive convergence story through the coming 10 years, despite the severe adverse impact of the 2008-2009 global recession, with the eurozone accession policy anchor contributing to steady progress in a long-term government reform agenda, despite a target for accession yet to be decided.

Table: Long -Term Macroeconomic Forecasts

## **CHAPTER 4: OPERATIONAL RISK**

SWOT Analysis

Operational Risk Index

Operational Risk

Table: Operational Risk

Transport Network

Table: Emerging Europe – Transport Network Risks

Economic Openness

Table: Europe – Economic Openness Risk

Table: Top Five Trade Partners – Product Exports , 2007-2013

Table: Top Five Products Imported , 2007-2013

## **CHAPTER 5: KEY SECTORS**

### Infrastructure

Table: Construction And Infrastructure Industry Data

Table: Construction And Infrastructure Industry Data

### Oil & Gas

Table: Oil Production, 2012-2017

Table: Oil Production, 2018-2023

Table: Gas Production, 2012-2017

Table: Gas Production, 2018-2023

### Other Key Sectors

Table: Pharma Sector Key Indicators

Table: Telecoms Sector Key Indicators

Table: Defence and Security Sector Key Indicators

Table: Food and Drink Sector Key Indicators

Table: Autos Sector Key Indicators

Table: Freight Key Indicators

## **CHAPTER 6: BMI GLOBAL ASSUMPTIONS**

### Global Outlook

#### Warning Signs Growing

Table: Global Assumptions

Table: Developed States, Real GDP Growth, %

Table: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH

#### FORECASTS, %

Table: Emerging Markets , Real GDP Growth , %

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