

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.

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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.

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

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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.

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