

Czech Republic Business Forecast Report Q2 2014

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Abstracts

Core Views

The Czech National Bank (CNB)'s decision on November 7 to intervene in the foreign exchange market has led us to adjust our expectations for the CNB's monetary policy trajectory for 2014-2015. We now expect the authorities to continue with FX intervention through the course of 2014, and to begin hiking rates in 2015. At the same time, we reiterate our view that both demand-side and supply side disinflationary pressures have run their course in Q413.

The prospects for a new left-populist coalition comprising the Social Democratic Party (CSSD) and billionaire Andrej Babis' ANO party should further support our expectation for heightened spending, especially on infrastructure projects in 2014-2015. This should help the gradual economic recovery, given that fixed investment has been the weak link in the chain in the past few years. The Czech Republic is on a sustainable fiscal trajectory in the coming years due to low deficits and public debt.

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

We retain an upbeat outlook for the Czech economy in 2014-2015, and forecast real GDP growth to come in at 1.5% in 2014 and 2.4% in 2015. However, our growth forecast for 2014 remains below consensus as we do not believe export growth will be as robust as consensus projections suggest.

Key Risks To Outlook

A more pronounced slowdown in eurozone economic growth and in particular in Germany would have a negative effect on the Czech Republic's economic growth trajectory. Owing to the high degree of trade integration with Germany, the Czech Republic's economic recovery remains highly dependent on external demand remaining relatively receptive to Czech exports.

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