

Lower but still strong growth in 2016-2017

General Information



GDP	USD206bn (World ranking 51, World Bank 2014)
Population	10.5mn (World ranking 84, World Bank 2014)
Form of state	Parliamentary Democracy
Head of government	Bohuslav SOBOTKA (Prime Minister)
Next elections	2016, legislative (Senate)



Strengths

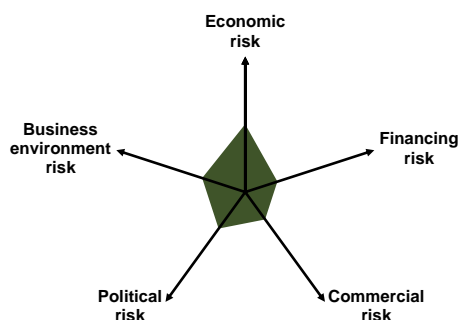
- EU membership and good international relations
- High income economy with fairly strong underlying macroeconomic fundamentals
- Solid monetary policy
- Manageable external debt burden
- Sound banking sector that has proven resilient to adverse shocks
- Favourable business environment

Weaknesses

- History of fragile coalition governments, resulting in often ineffective policymaking and slow reform progress
- High export dependence and unfavourable export structure

Country Rating

BB1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	28% 1	28% Germany
Slovakia	9% 2	10% China
Poland	6% 3	9% Poland
France	5% 4	7% Slovakia
United Kingdom	4% 5	5% Netherlands

By product (% of total)

Exports	Rank	Imports
Cars And Cycles	10% 1	8% Computer Equipment
Vehicles Components	8% 2	6% Electrical Apparatus
Electrical Apparatus	7% 3	5% Miscellaneous Hardware
Computer Equipment	6% 4	5% Vehicles Components
Engines	6% 5	5% Telecommunications Equipment

Source: Chelem (2014)

Economic Overview

Growth to continue at robust pace

The Czech economy gathered momentum and became the fastest growing in Central Europe in 2015, with real GDP accelerating to +4.2%, up from +2% in 2014. Domestic demand was the key growth driver last year, in particular fixed investment which rose by +7.3% (+2% in 2014). Moreover, inventories added +0.7pps to overall 2015 growth. Both private and public consumption increased by +2.8% (up from +1.5% and +1.8% in 2014, respectively). External trade activity eased slightly but remained strong in 2015, with exports increasing by +7% (+8.9% in 2014) and imports by +7.9% (+9.8% in 2014). As a result, net exports made a small negative contribution of -0.2pps to 2015 growth.

In Q1 2016, calendar-adjusted real GDP grew by +3% y/y, driven evenly by both domestic and external demand. Euler Hermes expects full-year GDP growth to moderate somewhat to +3% in both 2016 and 2017, as the strong rise in fixed investment will abate due to base effects while private consumption may pick up slightly. Exports and imports should continue to expand at a robust pace.

Strong macroeconomic fundamentals

The monetary policy framework is formally based on inflation targeting. However, concerned about potential deflation as well as a too strong koruna (CZK), the Czech National Bank (CNB; the central bank) lowered and has kept its key policy interest rate at 0.05% since late 2012 and launched interventions against the CZK and set the target exchange rate at CZK27:EUR1 in late 2013. The exchange rate targeting has worked so far. Deflation has also been avoided so far, however, headline inflation has been below the CNB's 2%±1pp target since the start of 2014. The CNB intends to keep the policy rate unchanged until inflation pressures increase markedly. Euler Hermes expects inflation to remain low and perhaps reach 1% at end-2016, though global oil prices will have an influence.

Public finances are favourable. The fiscal deficit narrowed to just -0.4% of GDP in 2015 and is forecast to remain below -1% in 2016. Public debt has fallen to a moderate 41% of GDP.

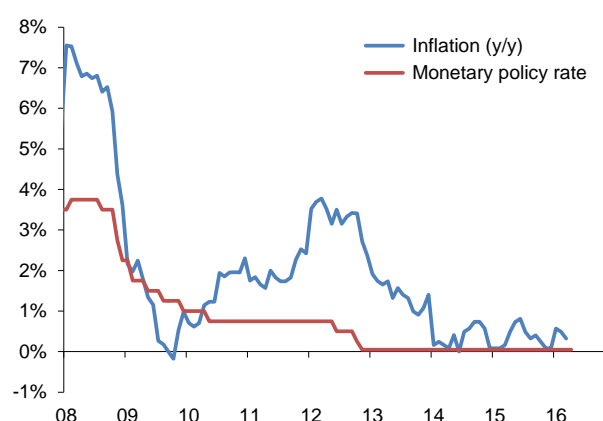
The external position is comfortable as well. The current account posted a surplus of +0.9% of GDP in 2015 and should remain in surplus in 2016-2017. Gross external debt is elevated in relation to GDP (about 70%) but moderate in relation to export earnings (83%) and the debt-service ratio is forecast at just 14% in 2016. Foreign exchange reserves stood at EUR64bn in March 2016, sufficient to cover almost six months of imports or, in other terms, all external debt payments falling due in 2016.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	2.0	4.2	3.0	3.0
Inflation (% end-year)	0.1	0.1	1.0	1.4
Fiscal balance (% of GDP)	-1.9	-0.4	-0.9	-1.0
Public debt (% of GDP)	42.7	41.1	41.0	40.5
Current account (% of GDP)	0.2	0.9	0.5	0.3
External debt (% of GDP)	69.1	70.0	71.0	71.5

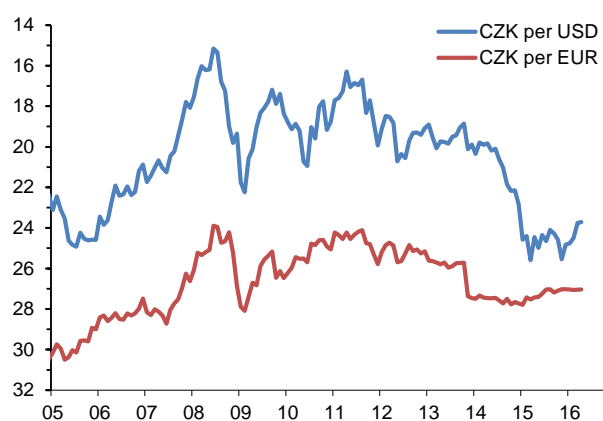
Sources: National sources, IHS, Euler Hermes

Inflation rate and monetary policy interest rate



Sources: National sources, IHS, Euler Hermes

Exchange rate of the CZK



Sources: Czech National Bank, IHS, Euler Hermes

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