

## Risks to the Forecast

For 2013, the central scenario of the Macroeconomic Forecast inclines to a very gradual recovery of the Czech economy. In a YoY comparison, however, GDP should virtually stagnate. This stands in contrast to the October 2012 Macroeconomic Forecast that envisaged a slight growth of real GDP in 2013. The current forecast, however, assumes that the **risks are less tilted to the downside**.

As far as the assumptions of the central scenario on external environment are concerned, the **euro zone's prospects for this year have deteriorated** (just like in the Autumn 2012 European Economic Forecast of the EC). Greece is going through a deep depression, other countries in the south of the euro zone are undergoing a significant recession. Economic slump, accompanied by unemployment growth and negligible prospects for economic situation to improve soon, brings social and political unrest.

Other countries in the euro zone will not probably be able to avoid a slowdown in growth or even a shallow recession, with Germany (the most important trading partner of the Czech Republic) being no exception. This should result in a decline in demand for our exports, thus also in a decrease in the positive contribution of foreign trade to GDP growth.

Compared to the last Macroeconomic Forecast, however, a **reduction of risks relating to the debt crisis in the euro zone** could be seen. At the end of last year, the situation on the financial markets was gradually calming down, to which contributed e.g. the possibility of ECB's interventions on the secondary market for government bonds under the OMTs programme, launching of the ESM or reaching an agreement over the future destiny of the adjustment programme for Greece (see Chapter A.1).

In spite of this, we do not consider the situation in Greece to be sustainable in the long-term. The probability that the continuation of fiscal consolidation

under the conditions of economic depression (and taking into consideration the size of fiscal multipliers) will result, without any further concessions of official creditors, in the expected decrease in the share of government debt to GDP, is very low. The successful Greek bond buyback at least helped to considerably decrease the remaining exposure of private entities to Greek government debt, thereby lowering potential consequences of another debt write-off, should there be one.

**External risks also continue to prevail in the medium-term horizon**, even though the scope of these is also slightly decreasing. In the problematic countries in the south of the euro zone, positive effects of structural reforms and restructuring of the banking sector could begin to be felt. For countries currently financing the bailout programmes (or guaranteeing loans of bailout funds) for problematic countries, there is a risk of an eventual bailout loan non-repayment.

As far as internal risks are concerned, the central scenario of the forecast is accompanied by a slight deterioration of the expected decline in domestic demand in 2013. To a certain extent, **internal risks**, described in the previous forecast, **are materializing**.

The very **low level of confidence in further economic development** is persisting (see Chapter B.2). It leads to consumers' cautious behaviour and to an increase in the rate of savings to be on the safe side in case of further worsening of economic situation. Similarly, many segments of the business sector postpone some investment decisions for this reason. This factor is probably the most important reason explaining why the dynamics of the Czech economy is lagging behind those of its neighbouring countries.

Overall, it can be stated that **internal economic risks are also slightly tilted to the downside**.