Risks to the Forecast

This Macroeconomic Forecast is based on a "**no-event" scenario**, in which the euro zone's debt crisis will not substantially escalate nor will any other geopolitical event having significant economic impact occur.

In any other scenario, it would be necessary to make speculative assumptions about specific events and their timing. On the other hand, we do consider it useful to more closely specify the balance and relevance of various risks.

Since publication of the Macroeconomic Forecast in January 2012, there have occurred two significant events which have considerably mitigated the **short-term risks** to future development.

The crucial restructuring of the Greek debt and release of the second EA/IMF bailout package have, from a short-term perspective, placated fears concerning the ability of the Greek government to honour its commitments. The ECB's second long-term refinancing operation provided euro zone banks with a large amount of liquidity for ca 3 years in order to get through a difficult period.

Nevertheless, not much has changed from a **medium-term perspective**.

The most recent data about the state of the Greek economy (YoY drop in GDP by 7.5% in Q4 2011 and by 13.2% between 2007 and 2011) and its level of competitiveness fed anxiety concerning the economic and political sustainability of the Greek consolidation strategy. Developments in other problematic economies on the periphery of the euro zone, and particularly in Portugal, could also prove risky.

Alongside those risks in the external environment, we also identify a significant **internal risk in the Czech economy:** a very low level of confidence in further economic advancement, especially among consumers but also in certain segments of the business sector (see more in Chapter B.2). This leads to more cautious microeconomic decisions and is probably one of the causes for the Czech economy's lagging behind its neighbouring countries (at roughly similar rates of fiscal consolidation).

We should also mention that this Forecast is based on presumptions about the form of fiscal consolidation for 2013 (on the revenues side, for example, this includes a hike in both VAT rates by 1 p.p.). The most probable variant has been applied, but this has yet to pass through the legislative process. Thus, it cannot be excluded that the final form of consolidation will be different in certain particularities.

On the other side of the risk balance, there is a **positive** possibility (albeit not with a very high probability) that recovery of the German economy could be faster than expected by the Forecast. This could greatly limit the impacts of a potential shock on the Czech economy.

Overall, it can be stated that **significant downside risks** for the scenario under consideration remain. In comparison to the January Forecast, however, their **probability** and intensity have **decreased**, especially for the short-term horizon.