

Czech economy performed better at the end of 2020

The Czech economy grew by 0.6% in the last quarter of 2020 despite the second wave of Covid-19. Exports supported the economic expansion, confounding markets which had expected a contraction. We remain optimistic about a recovery in the second half of the year, despite the current worsening of the pandemic and third Covid wave



Source: Shutterstock

Contraction avoided in 4Q20 thanks to net exports

The detailed structure of growth revealed that exports played an important role in the last quarter of 2020, increasing by 6.6% quarter-on-quarter. Also, government consumption increased significantly, by more than 5% compared to the previous quarter. On the other hand, the second Covid wave and new economic restrictions impacted household consumption, which fell by more than 4% QoQ while fixed investment also fell slightly again. Still, net exports contributed one percentage point to quarterly growth, explaining the positive quarter-on-quarter overall result in the face of the autumn Covid wave and tightened restrictions.

On the supply side, the manufacturing industry performed well in the last quarter, adding 2.3%

QoQ, the financial sector added 3.5% while information and communication activities contributed 2.2% QoQ and also increased slightly in year-on-year terms by 1.5%.

0.6%

Better than expected

4Q20 GDP growth (QoQ)

-4.7% YoY (SWDA)

Contraction moderated to -4.7% in 4Q20

From a year-on-year perspective, the economy declined by 4.7% after a 4.9% drop in 3Q (after revision, initially -5%). This was also a better than expected figure, but mainly due to net exports, which contributed 3.7 percentage points to YoY GDP growth. The decline in household consumption intensified to -8.3% YoY (subtracting -3.7ppt), with the drop in fixed investment worsening from -10% in 3Q to -12% YoY in 4Q (subtracting 3ppt).

Czech GDP details (% , ppt)

GDP structure (%)

| | 4Q 20 | | CNB f'cast | 3Q 20 | | 20 | 19 | 18 |
|-----------------------------|-------|------|------------|-------|------|-------|-----|------|
| | yoy | qoq | 4Q20 yoy | yoy | qoq | yoy | yoy | yoy |
| GDP | -4.7 | 0.6 | -5.4 | -4.9 | 7.1 | -5.6 | 2.2 | 3.2 |
| - household consumption | -8.3 | -4.2 | -7.6 | -3.6 | 5.8 | -5.2 | 2.9 | 3.3 |
| - government consumption | 4.9 | 5.5 | 3.5 | 0.1 | -0.7 | 2.9 | 2.2 | 3.8 |
| - investments & inventories | -18.9 | 1.8 | -19.1 | -16.8 | -8.2 | -12.6 | 1.6 | 7.8 |
| - fixed investments | -12.3 | -0.3 | -14.0 | -10.3 | -4.2 | -8.5 | 2.2 | 10.0 |
| - exports | 4.7 | 6.6 | 2.6 | -3.1 | 26.2 | -6.0 | 1.2 | 3.7 |
| - imports | 0.2 | 6.1 | -1.3 | -5.2 | 16.3 | -6.1 | 1.3 | 5.8 |

Source: CZSO, CNB, ING

Recovery expected after end of 2Q21

The domestic economy avoided a quarter-on-quarter decline in the last quarter of 2020, though this development was mainly driven by favourable exports. The current negative Covid situation and third wave have led to tighter restrictions which will impact growth in 1Q21, but if a full lockdown (including industry) is avoided, net exports could help to limit the negative economic consequences of tighter restrictions – though industrial companies are also struggling with supply chains disruptions in 1Q, which are negatively impacting production, mainly in the automotive sector.

Despite the current unfavourable developments in the pandemic, the Czech economy should start to recover from the end of the second quarter, which will likely push full year growth towards 3%. Last year, the domestic economy fell by 5.6%, while it fell by 4.5% in 2009.

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