

Czech Republic: Growth is better than expected

Revised GDP data from the Czech Republic suggests that the third-quarter was slightly better than the first estimate. The economy grew by 6.9%, but the second wave of the pandemic will push the last quarter into contractionary territory again but the overall outlook for 2021 should improve as vaccines become available



Source: Shutterstock

Better figures than expected

The Czech statistical office revised third-quarter GDP, and so the domestic economy grew by 6.9% quarter on quarter after plummeting by 8.5% in 2Q, and the year-on-year decline eased to -5.0% (after -10.7% in 2Q). Compared to previously published values, this is a slight improvement (flash estimate: + 6.2% QoQ, -5.8 YoY).

As expected, the breakdown confirmed a significant increase in household consumption and foreign demand. However, growth was significantly affected by the low base effect from the previous quarter due to the lockdown. Many sub-components recorded strong quarter-on-quarter growth, but they remained in decline year-on-year.

6.9% QoQ

Better than expected

3Q20 GDP growth

-5% YoY after -10.7 in 2Q

Third-quarter growth was particularly driven by exports adding 26% QoQ, after a 21% decline in the previous quarter.

As such, net export contributed 8.8 percentage points to 3Q quarterly growth. Also, household consumption increased by 5% QoQ (2.4 pp contribution), while investments fell further by 5% QoQ (-1.2 ppt), with their year-on-year decline intensifying to -11%.

Industry increased by 15% QoQ (-5.5% YoY) while services recovered less by around 5% QoQ (4.9% YoY).

Czech GDP structure in 3Q and comparison with the latest central bank forecast

	3Q 20		CNB f'cast	1Q 20		19	18
	yoy	qoq	3Q20 yoy	yoy	qoq	yoy	yoy
GDP	-5.0	6.9	-7.4	-10.7	-8.5	2.3	3.2
- household consumption	-3.9	5.0	-4.4	-8.3	-7.0	2.9	3.3
- government consumption	0.1	-0.6	4.5	1.7	-1.7	2.3	3.8
- investments & inventories	-16.4	-7.5	-8.2	-7.6	-5.9	1.5	7.8
- fixed investments	-10.7	-5.0	-5.1	-5.1	0.6	2.1	10.0
- exports	-3.1	26.2	-11.3	-23.4	-20.8	1.2	3.7
- imports	-5.1	16.3	-6.5	-18.2	-17.6	1.3	5.8

Source: CZSO, ING

Vaccine should improve prospects

However, these favourable growth numbers aren't as significant anymore given the second wave of the pandemic and subsequent lockdowns. In fact, we expect the economy to shrink again in the last quarter of the year.

For 2020, we expect the domestic economy to fall by almost 7% after today's favourable figures, but the pandemic is likely to hit the first half of next year hard again, however, in the last few weeks, the prospects for next year have significantly improved due to vaccine news.

As such, we expect the domestic economy to grow by more than 3% next year and accelerate further by 4.5% in 2022.

