

Out-dated confidence figures mask a bleaker picture in the Czech Republic

Czech confidence improved in February, but this does not reflect the recent deterioration in the pandemic situation and stricter measures ahead. We still see Czech National Bank rate hikes coming in the fourth quarter of this year



Czech Prime Minister
Andrej Babis

Better confidence in the business sector

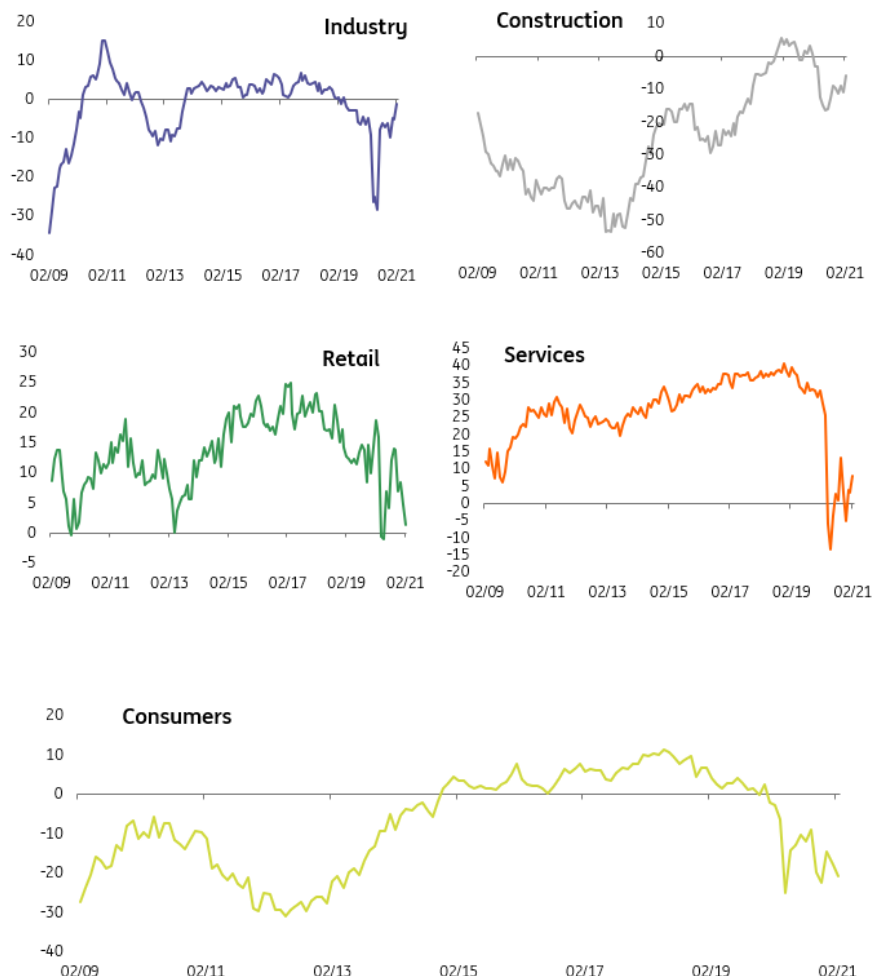
Confidence among entrepreneurs fell in January in all monitored segments, but most significantly in retail, where economic restrictions are most pronounced. In February, however, confidence increased in all segments except retail, where confidence approached to levels seen during the first Covid wave.

Households more worried

Household confidence fell further in February and is only slightly above the minimum levels seen in April and November last year. Compared to January, people are more worried about the general economic deterioration, their own finances, and a rise in unemployment. The intention to save has decreased; fears of rising prices are growing despite a slowdown in inflation in December and January.

Although part of the increase in business confidence was due to better expectations for the forthcoming three months (mainly in construction and industry), the figure does not reflect the latest developments in the pandemic situation, as data collection ended on 18 February. However, it can be assumed that if data had been collected more recently, business confidence would be weaker as the chances of stricter restrictions increase again.

Czech confidence in the key segments



Source: CZSO, ING

Anti-covid measures to be tightened again

The Czech economy is facing a third pandemic wave due to new coronavirus mutations. The number of identified cases published today for Tuesday exceeded 15-thousand, the highest number since the beginning of January. The health care system is showing the strain and the prime minister, Andrej Babis announced today that anti-Covid measures will need to be tightened again. They're likely to focus on renewed social distancing, which has become less observed in recent weeks, and action to stop the spread within companies through more testing and better mouth and nose protection.

We don't think we're looking at a full lockdown just yet. Even during the first coronavirus wave in March, industry didn't completely shut down, we only saw voluntary closures.

We still see CNB hikes coming in 4Q21.

Despite negative pandemic developments, we do not change our call for the CNB to hike rates in the fourth quarter of 2021, as a period of worsening corona-conditions was always possible. Still, we do expect a strong recovery from the second half of the year which would enable the CNB to start normalising interest rates later in the autumn.

