

## The Czech economy falls by 11% YoY in 2Q

Revised GDP figures were very close to their flash reading signalling an 11% YoY fall in the Czech economy in the second quarter of this year. Weaker foreign demand and household consumption are the main drivers



Mask wearing passengers on a tram in Prague

The structure of Czech GDP in the second quarter revealed that foreign demand, in particular, contributed to the economic downturn, with exports falling by a record 21% quarter-on-quarter (QoQ) and -23.3% year-on-year (YoY), and imports by 17.6% QoQ (-18%YoY). Weaker household consumption, down by 6% QoQ and 7.6% YoY, was the next big driver, while it only stagnated in year-on-year terms in the first quarter.

Investments including inventories also fell at a double-digit rate, although fixed investment itself grew slightly quarter on quarter and its YoY fall remained around 5%. However, only investment in infrastructure projects grew, while in transport or machinery equipment their year-on-year decline intensified. Investment in housing also fell slightly year on year, while it was still growing by 7% in the first quarter.

# -11% Czech GDP fall in 2Q (YoY)

-8.7% QoQ

Better than expected

On the supply side, it is not surprising that the manufacturing industry fell sharply, by 14.7% QoQ (-18% YoY), as carmakers shut down production in the second half of March and shutdowns spilt significantly into the second quarter. The impact of restrictive measures on services was heterogeneous, with the largest declines in trade, hospitality, transport and accommodation, where value-added fell by 20.5% YoY. IT and agriculture maintained year-on-year growth. Overall, the double-digit decline was driven to a similar extent by services and industry.

## Czech GDP structure (% YoY)

	2Q 20		CNB f'cast	1Q 20		19	18
	yoy	qoq	2Q20 yoy	yoy	qoq	yoy	yoy
<b>GDP</b>	<b>-11.0</b>	<b>-8.7</b>	<b>-12.0</b>	<b>-1.9</b>	<b>-3.3</b>	<b>2.3</b>	<b>3.2</b>
- household consumption	-7.6	-6.3	-8.0	-0.2	-2.4	2.9	3.3
- government consumption	1.8	-1.5	5.6	4.9	1.9	2.3	3.8
- investments & inventories	-10.2	-8.5	-15.8	-8.6	-8.2	1.5	7.8
- fixed investments	<b>-4.8</b>	0.9	<b>-21.4</b>	-5.2	-8.2	2.1	10.0
- exports	-23.3	-20.7	-28.1	-1.9	-1.7	1.2	3.7
- imports	-18.2	-17.6	-23.5	-1.4	-1.4	1.3	5.8

Source: CZSO, CNB, ING

Though refined GDP figures were revised slightly lower, they remain more favourable compared to the initial market consensus of -12.3%YoY and -10.1% QoQ. The figures are also slightly better than in the latest Czech National Bank forecast, which confirms our view that the CNB will remain on hold in the coming quarters ahead (see the table).

As revised figures did not change much from the preliminary estimates, we still expect the Czech economy to fall around 7% this year. However, the final figure will depend on the rate of the global recovery in the second half of the year, which remains more uncertain due to the Covid-19 situation. The range of 2020 GDP estimates in the market remains very wide, from -4.5 to -10%. Although the worst is behind us in terms of falling GDP, many economic indicators might start to deteriorate with a delay, and especially after the end of government support programmes, notably the unemployment rate.