

Czech Republic: GDP falls by 3.3% in the first quarter

Revised estimates of 1Q GDP brought a slightly better result, as the economy contracted by 3.3% quarter-on-quarter compared to -3.6% as stated earlier. The contraction was driven by investments but household consumption and exports also fell, while government consumption supported growth. For the year, we expect the Czech economy to contract by 7%



Source: Shutterstock

The GDP fall in 1Q was driven mainly by investment, which declined by -15% QoQ, including fixed investment, which contracted by 10% QoQ. Not surprisingly, household consumption was hit less, falling by 2% QoQ, but stagnating in year-on-year terms. Exports fell by 2.6% while imports declined more, by 3.5%, as investments are import-intensive. This meant that net exports contributed slightly to QoQ growth. However, the most significant pro-growth factor was government consumption, which increased by 5% and contributed 1.15 percentage points to quarterly growth.

The manufacturing industry fell by -3% QoQ given the fact that all car makers shut

down production in the second half of March. The impact of the restrictive measures on services was quite heterogeneous but mostly impacted services in accommodation, retail trade and restaurants, which fell by -5% QoQ. A less negative fall was experienced in finance and the public sphere. Construction increased slightly +0.7% QoQ.

-3.3%

1Q GDP contraction (QoQ)

-2.0 % in YoY terms

Better than expected

1Q20 print in line with the CNB estimate

The revised print was in line with the Czech National Bank's estimate although the structure of growth was a little bit different, as the CNB expected a less intense fall in investments (-11.4 vs -5.4) and more severe fall in foreign trade (-2.4 vs -5.8). However, it was in line with the CNB's baseline, which means that the central bank might avoid any non-standard monetary tools like quantitative easing, negative interest rates or FX-floor renewal, in our view.

Still, restrictive measures to halt the spread of the coronavirus affected only the last two weeks of March, and hit the economy so hard that the whole first quarter was dragged down significantly. The economic downturn in March alone was over 10%, and in the last weeks of March it was around 25%. Given that April was almost entirely affected by restrictions and May also returned to normal relatively slowly, it is clear that the decline in the domestic economy in 2Q will be in the double digits.

Czech GDP structure (%)

	1Q 20		CNB f'cast	4Q 19		19	18
	yoy	qoq	1Q20 yoy	yoy	qoq	yoy	yoy
GDP	-2.0	-3.3	-2.0	2.0	0.5	2.5	2.8
- household consumption	0.0	-2.0	0.4	3.2	1.0	3.0	3.2
- government consumption	7.1	5.2	4.7	1.7	-1.3	2.6	3.4
- investments & inventories	-11.4	-14.6	-5.4	9.2	8.6	3.3	5.7
- fixed investments	-5.5	-9.7	-0.9	4.6	4.1	2.7	7.5
- exports	-2.4	-2.6	-5.8	-1.5	-1.5	1.1	4.4
- imports	-2.1	-3.5	-4.0	1.4	1.2	1.5	5.9

Source: CZSO, CNB, ING

V-shape recovery less likely now

The overall economic downturn this year will largely depend on how quickly the economy recovers and returns to normal in the second half of the year, which is difficult to estimate. For now, we still expect the economy to decline by about 7% this year. However, a V-shaped scenario, ie a sharp decline followed by a rapid recovery, is becoming less likely. This is also due to the fact that many important economies abroad will continue to face the consequences of the coronavirus and

foreign demand will thus recover more slowly.

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research
+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com