Czech Republic starting second partial lockdown

The Czech government introduced a partial lockdown like it did during the first wave of Covid-19 in the spring. As industrial companies keep going, the impact might be slightly weaker now, though it will depend on the length of measures. As such, we expect the Czech economy to decline by 8.5% this year with risks skewed to the downside

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Second partial lockdown announced

The government announced a partial lockdown of the Czech economy, similar to the restrictions during the first wave of the Covid-19 outbreak in the spring. As of today, a number of stores will close, with the exception of the sale of a basic assortment of goods, such as food, drugstores or medicines. Selected services are also being closed. While the milder restrictions announced last week affected broadly about 3% of the economy (the Czech National Bank estimated 3.5%), the stricter restrictions announced yesterday should affect about 7-8% of the gross value added of the economy according to our estimates.

Milder impact as industry keep going

Compared to the situation in the spring, the current measures might be less economically negative, mainly due to the fact that production is maintained in the main industrial companies for the time being, especially car manufacturers, which decided to close production voluntarily in the spring. But the length of restrictions will also be crucial, as the current restrictions are announced till 3 November – but they are likely to be extended in some form, as the epidemiological situation may not improve quickly enough.

Czech economy to contract by 8.5% this year

Due to stricter restrictions, we now assume that the domestic economy will decline by about 5-6% QoQ in the last quarter of this year. This would mean that the year-on-year decline in the economy will deepen to around -12.5% in the last quarter, while it reached -11% in 2Q20. Under the above assumptions, the full-year decline of the domestic economy will get to around 8.5% (compared to -6.5-6% assumed before the arrival of the second wave of the Covid-19 outbreak). This scenario also assumes that 3Q20 GDP growth – published next week, will be relatively solid at around 4.5-5%, which is the current market estimate, while the CNB is being more conservative in its forecast with a 2.8% QoQ assumption.

However, the risk are clearly skewed to the downside as restrictions might further tighten or some companies might start to voluntarily limit production as during the spring, either to preventively protect employees, or the have a large number of employees ill or in quarantine.

-8.5% YoY

2020 GDP decline

revised lower due to new lockdowns

Deficit should not break the CZK500bn approved earlier

However, despite new economic restrictions and a new set of measures introduced by the government to support impacted companies, we still believe that the government deficit will not exceed the planned CZK500bn this year. Until the arrival of the second wave of the pandemic, the number was heading for a lower print of around CZK380bn for the whole year. As such, the currently approved deficit should have enough space for new and prolonged supporting measures.