

CZECH REPUBLIC Outlook 2021E: Orderly rebuilding post COVID-19

Raffaella Tenconi
Founder & Managing Director

2021E: In a nutshell

- Household spending and fixed investment have been badly affected by the COVID-19 restrictions, which has also resulted in a lacklustre recovery, if compared to other CE economies. Consumer surveys continue to signal elevated unemployment fears and a steep deterioration in the appetite for major purchases ahead. Income tax cuts next year may prove to be a good catalyst for restoring consumer spending, but a full GDP recovery does not appear likely before 2022E.
- We underscore that we have doubts that the global recovery will have long legs, as we see too much inflationary pressure building up over time, relative to the prospects for the labour market and the impaired monetary transmission mechanism in the Eurozone. We see a one-in-three chance of a recession in 2022E, rising to 40% odds of a recession in 2023E, if the current policy mix in Europe is not changed.

2021E: In a nutshell

- At its latest meeting (17 December), the Monetary Policy Council at the CNB accentuated the cautious tone that it had conveyed in its recent meeting, owing mainly to the elevated level of uncertainty originating from the rise in COVID-19 cases. The latest forecasts from the bank see upward pressure on the policy rate from the second half of next year; however, the chances for this to materialise remain slim, in our view.
- Fixed investment in the first three quarters appears to be affected the worst among its CE peers, while the monetary transmission to retail lending rates has not materialised fully yet. A mild appreciating trend in the CZK should provide some form of monetary tightening, which should reduce the need for rate hikes next year. However, in 2022E, the case for an equivalent of three 25bps rate hikes - either via policy rate or CZK appreciation – remains plausible, in our view.

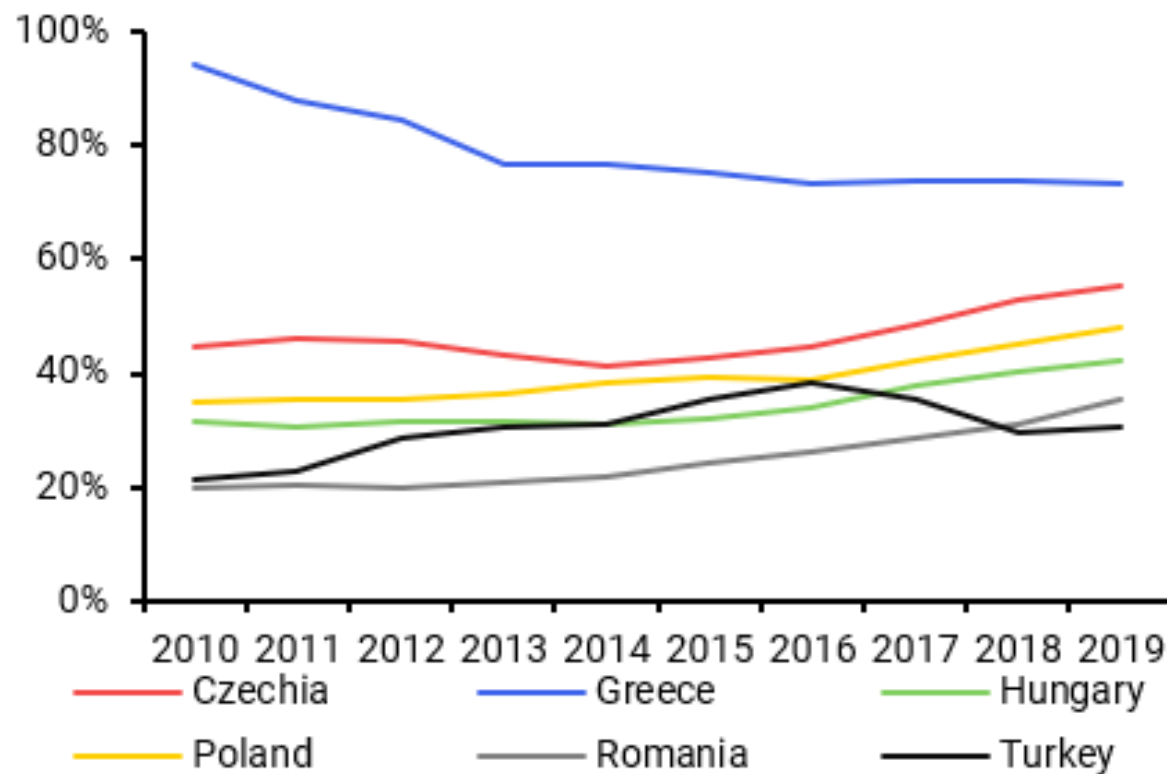
Note: this is an extract of our Czech Republic 2021 outlook, if you would like to discuss Czech Republic in detail please contact us.

Czech Republic in its regional context

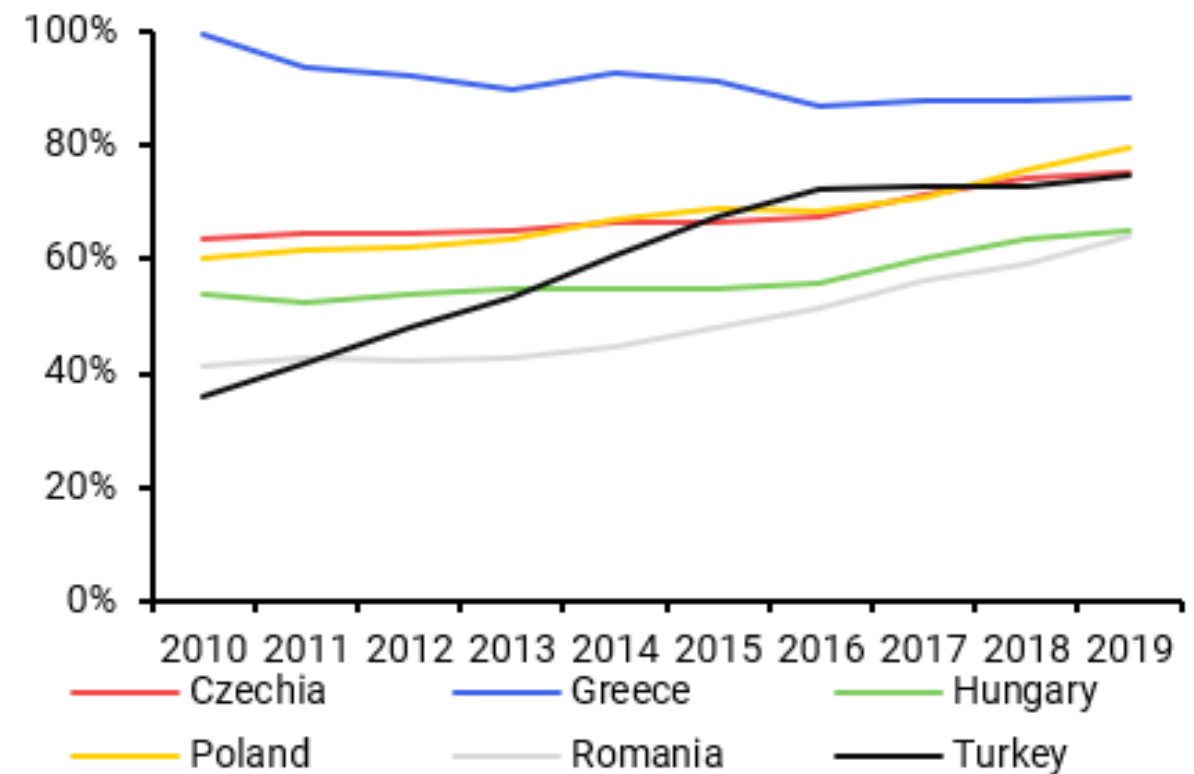
- Gross wages are c.70% of average Italian levels, second to Poland in CEE
- The debt of households and non-financial corporations has not responded meaningfully relative to GDP yet, but households' assets have seen a rush into equities this year
- The export recovery has lagged its peers, not clear why yet

CONVERGENCE FOR RESHORING CONSIDERATIONS

Avg. net annual earnings as % Italy



Price-adjusted avg. net annual earnings as % Italy



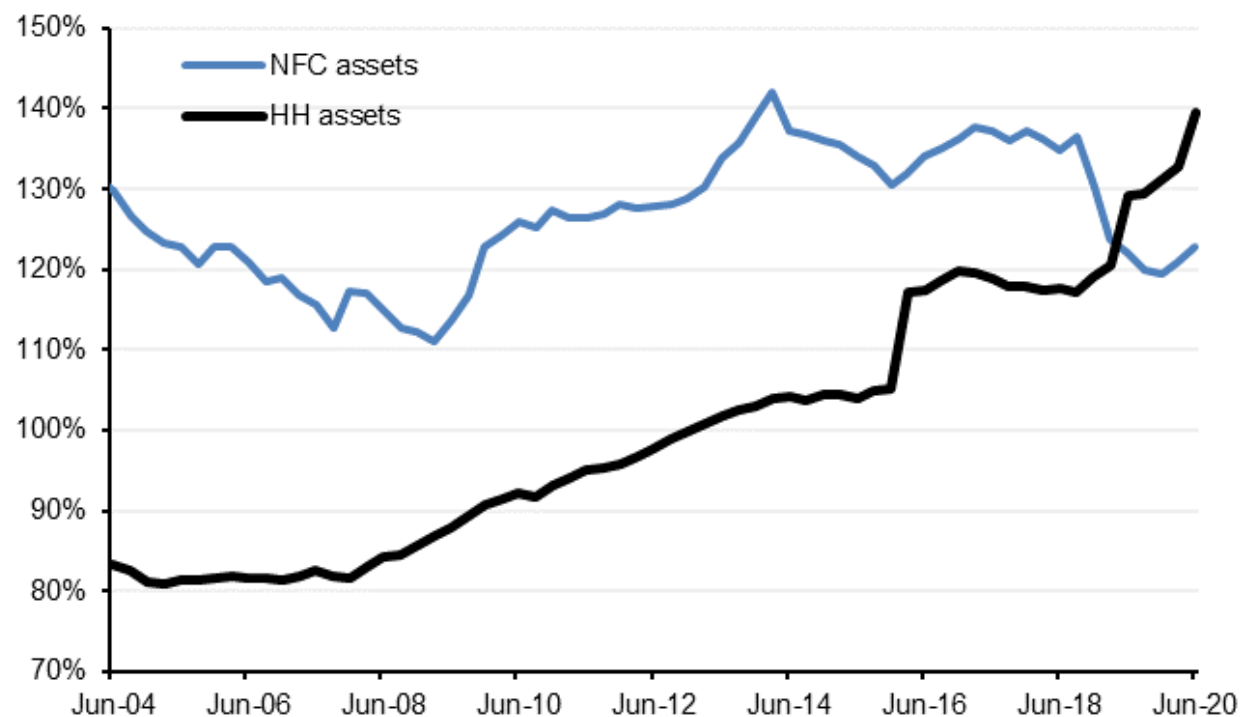
Sources: ADA Economics, CEIC, OECD, Eurostat, Turkstat

Annual net earnings of a single person without children earning a 100% of average earning. The Turkish estimate is based on rolling the average gross wage reported by Turkstat in 2014 (2007 TRY per month), converting it to EUR (aop) and applying a 28.5% average tax rate (OECD 2019).

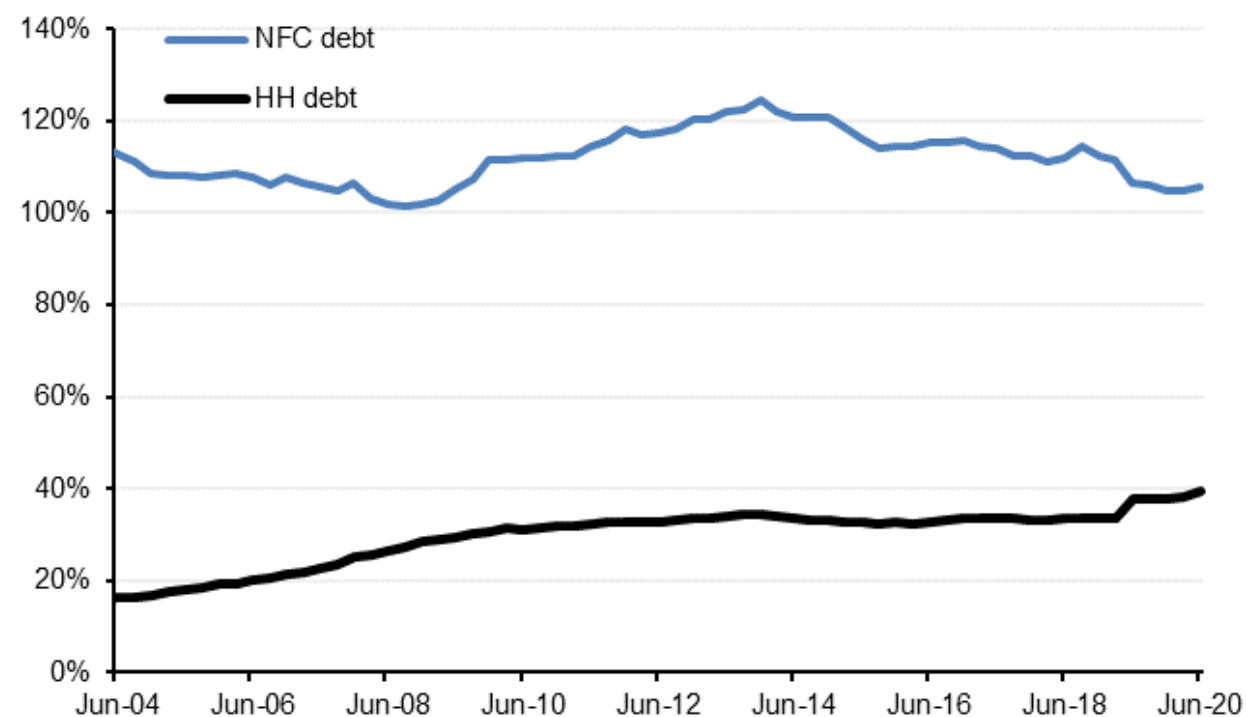
FINANCIAL ACCOUNTS OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS

- NFC debt has seen a 5% of GDP jump to 39% of GDP during the year vs. 2019, while assets have been supported primarily by a rise in precautionary liquidity appetite.

Assets to GDP



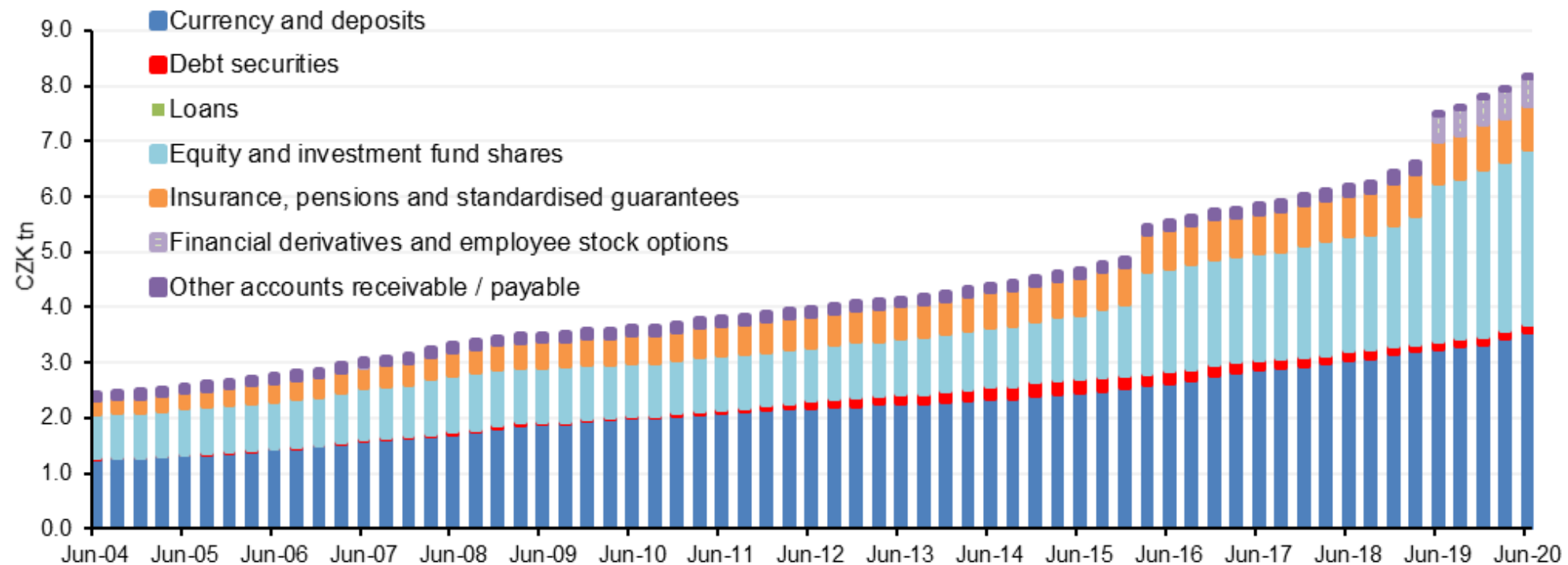
Debt to GDP



FINANCIAL ACCOUNTS OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS

- Households' assets have continued to see increasing inflows into equities, which gathered pace at the end of 2018.
- Moreover, households have capitalised on the discounts offered in the stock markets this year, as the first two quarters witnessed a rush into listed shares, with the allocation rising from CZK 79bn in 4Q19 to CZK 257bn in 2Q20.

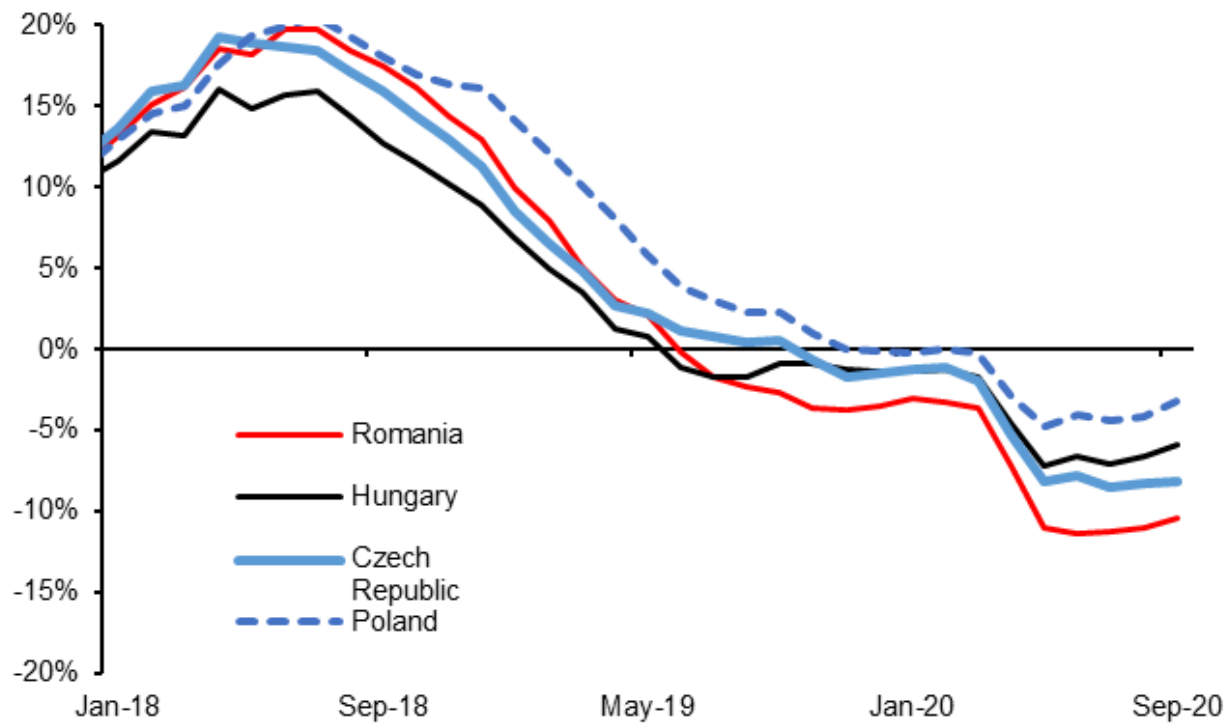
Household assets



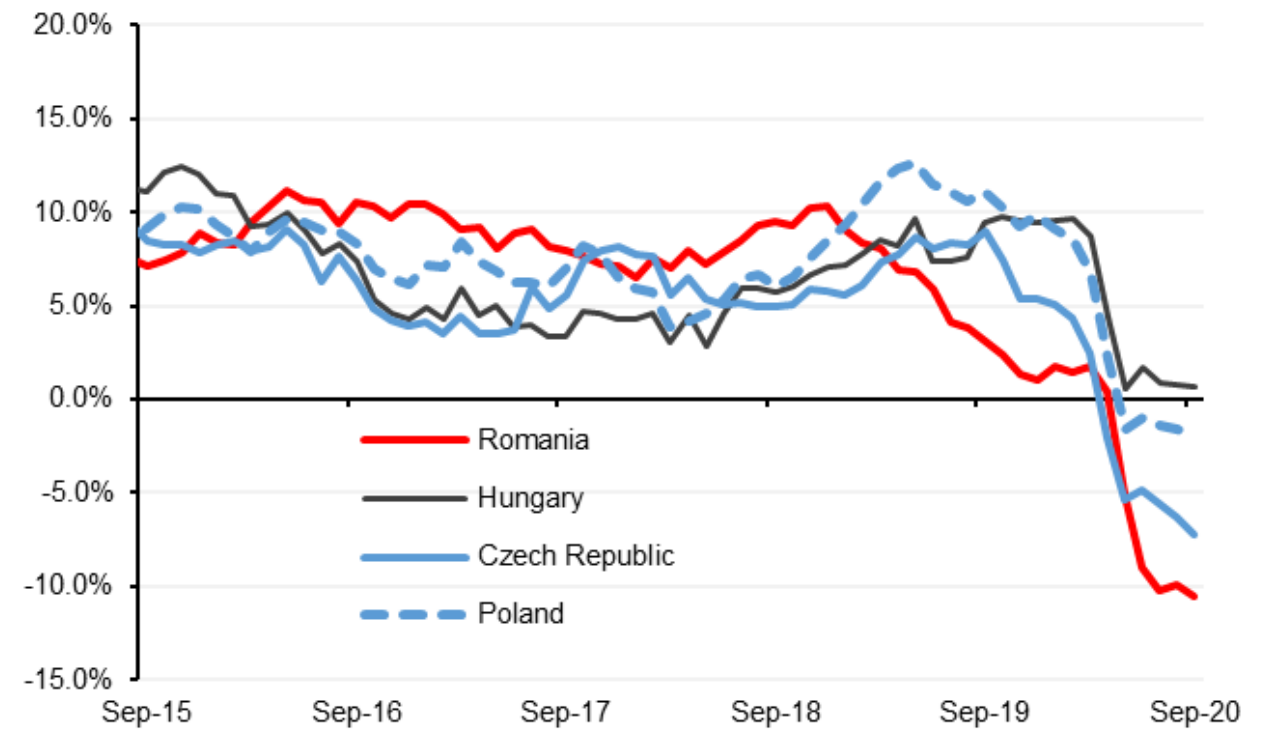
EXPORTS RECOVERY HAS BEEN WEAK

- The recovery of exports has performed just better than Romania, due primarily to a weaker pick-up in the major “machinery and transport equipment” category.
- Nevertheless, the assessment of the exports order book in the November survey has remained encouraging, but the finished stock has also picked up, which may depress production in the coming months.

Exports (yoy) in USD

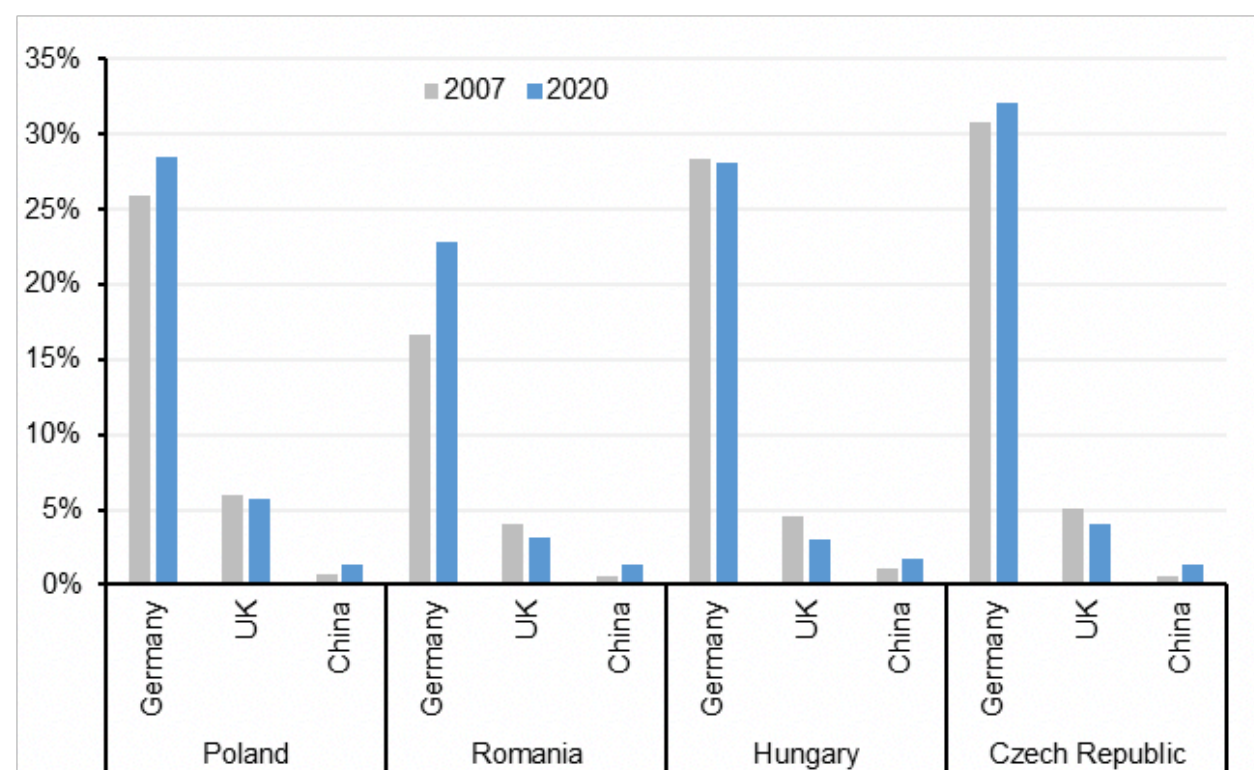


Exports: machinery and transport equipment (yoy)

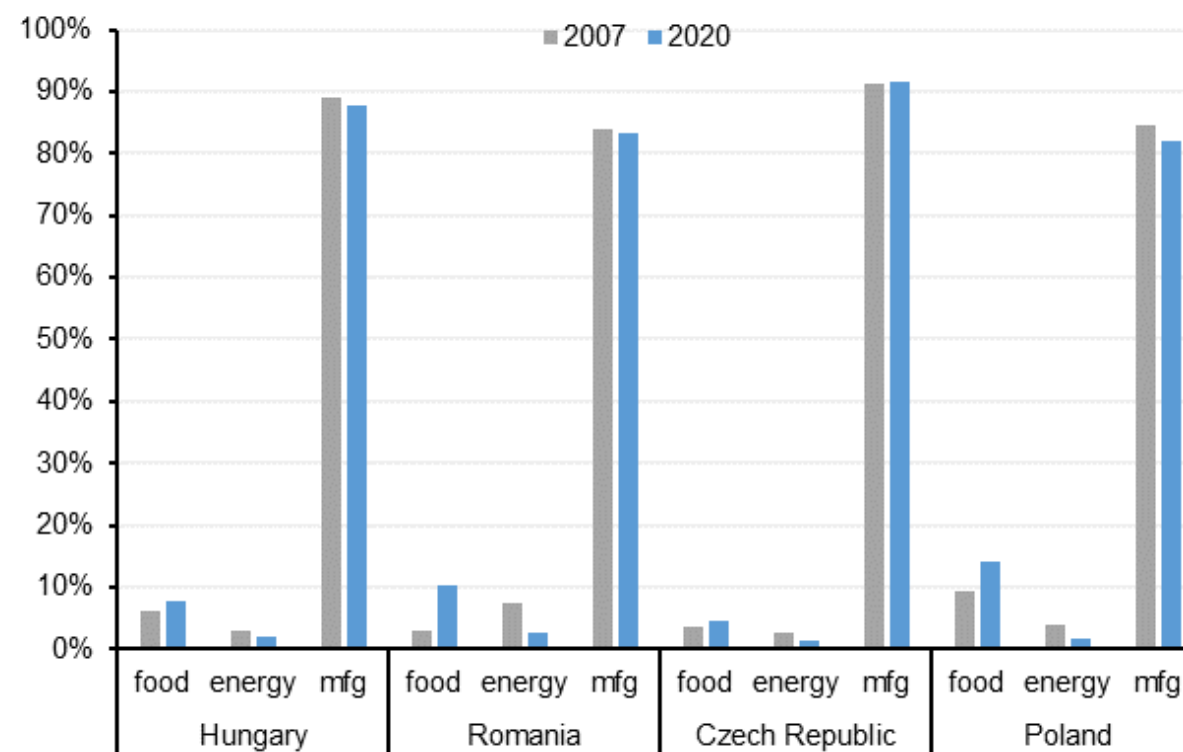


EXPORTS STRUCTURE FOR CE4

Share of export destinations



Share of commodities in exports



Sources: ADA Economics, CEIC

Note: the charts show share of exports for 2020 up to August 2020 for Romania and up to September 2020 for the rest

DISCLAIMER

I/ Copyright 2020 ADA. All rights reserved.

This report may provide information, commentary and discussion of issues relating to the state of the economy and the capital markets. All opinions, projections and estimates constitute the judgment of the author as of the date of the report and are subject to change without notice. ADA is under no obligation to update this report and readers should therefore assume that ADA will not update any fact, circumstance or opinion contained in this report.

The content of this report is provided for discussion purposes only. Any forward looking statements or forecasts included in the content are based on assumptions derived from historical results and trends. Actual results may vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision, and no investment decisions should be made based on the content of this report.

This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and particular needs of any specific person. Under no circumstances does any information represent a recommendation to buy or sell securities or any other asset, or otherwise constitute investment advice. Investors should seek financial advice regarding the appropriateness of investing in specific securities or financial instruments and implementing investment strategies discussed or recommended in this report.

This report should not be regarded by recipients as a substitute for the exercise of their own judgment and readers are encouraged to seek independent, third-party research on any companies discussed or impacted by this report. In accordance with rules established by the U.K. Financial Services Authority, macroeconomic analysis is NOT considered investment research.

Materials prepared by ADA research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of ADA.

To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. ADA research personnel's knowledge of legal proceedings in which any ADA entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of ADA in connection with the legal proceedings or matters relevant to such proceedings.

The information herein (other than disclosure information relating to ADA and its affiliates) was obtained from various sources and while all effort has been made to provide accurate information, ADA does not guarantee its accuracy. This report may contain links to third-party websites. ADA is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with ADA.

Any unauthorised use or disclosure is prohibited.

THE ADA TEAM



Raffaella Tenconi

Founder & Managing Director

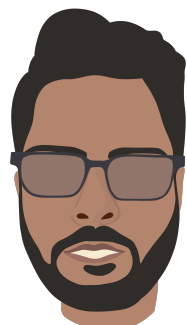
raffaella@adaeconomics.com



Alessio Chiesa

Economist
Exchange Rates & Bond yields specialist

alessio.chiesa@adaeconomics.com



Adnan Asif

Economist
Monetary Policy specialist

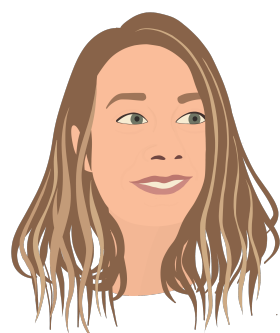
adnan.asif@adaeconomics.com



Guilherme Rodrigues

Economist
Inflation specialist

guilherme.rodrigues@adaeconomics.com



Viola Pititto

Executive Assistant

viola.pititto@adaeconomics.com



79, Alvington Crescent,
London E8 2NN,
UK

ADA Research@adaeconomics.com

Tel: +44 (0) 759 4704 277

www.adaeconomics.com