ADA Economics
Effective analysis to manage financial risk

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

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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.

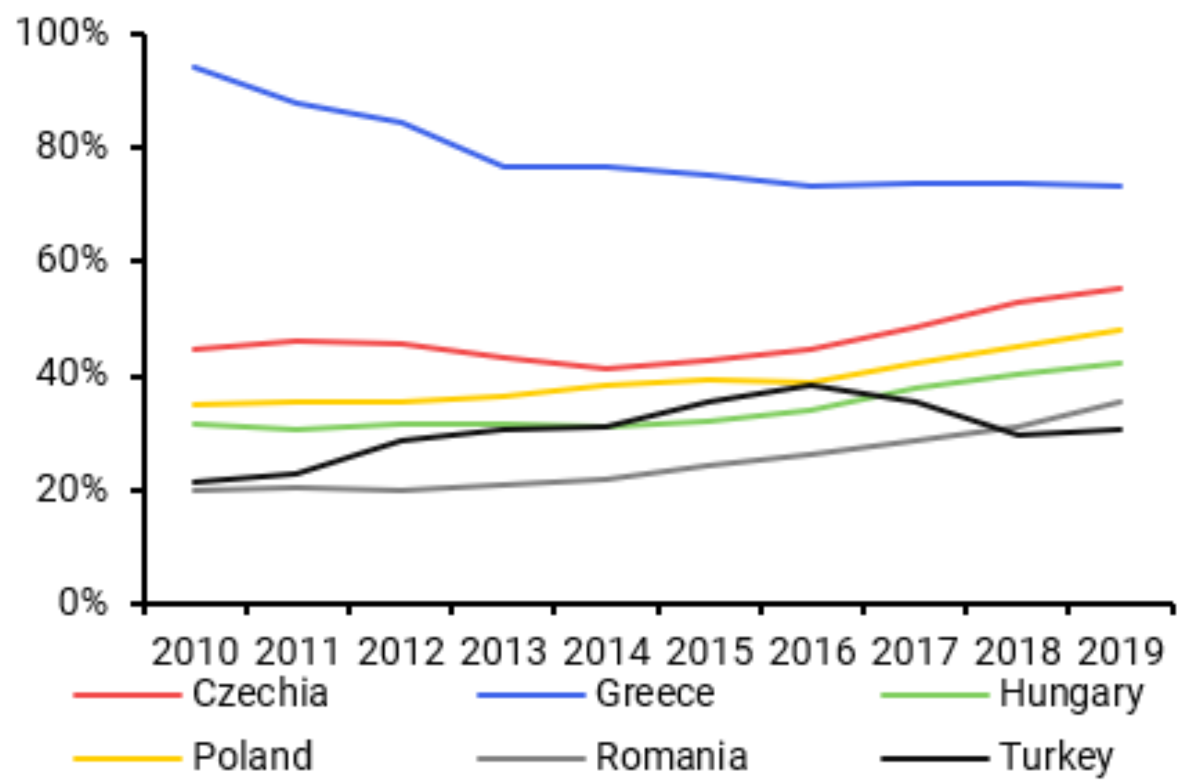
- Fixed investment in the first three quarters appears to be affected the worst among its CE peers, while the monetary transmission to retail lending rates has not materialised fully yet. A mild appreciating trend in the CZK should provide some form of monetary tightening, which should reduce the need 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.

Czech Republic in its regional context

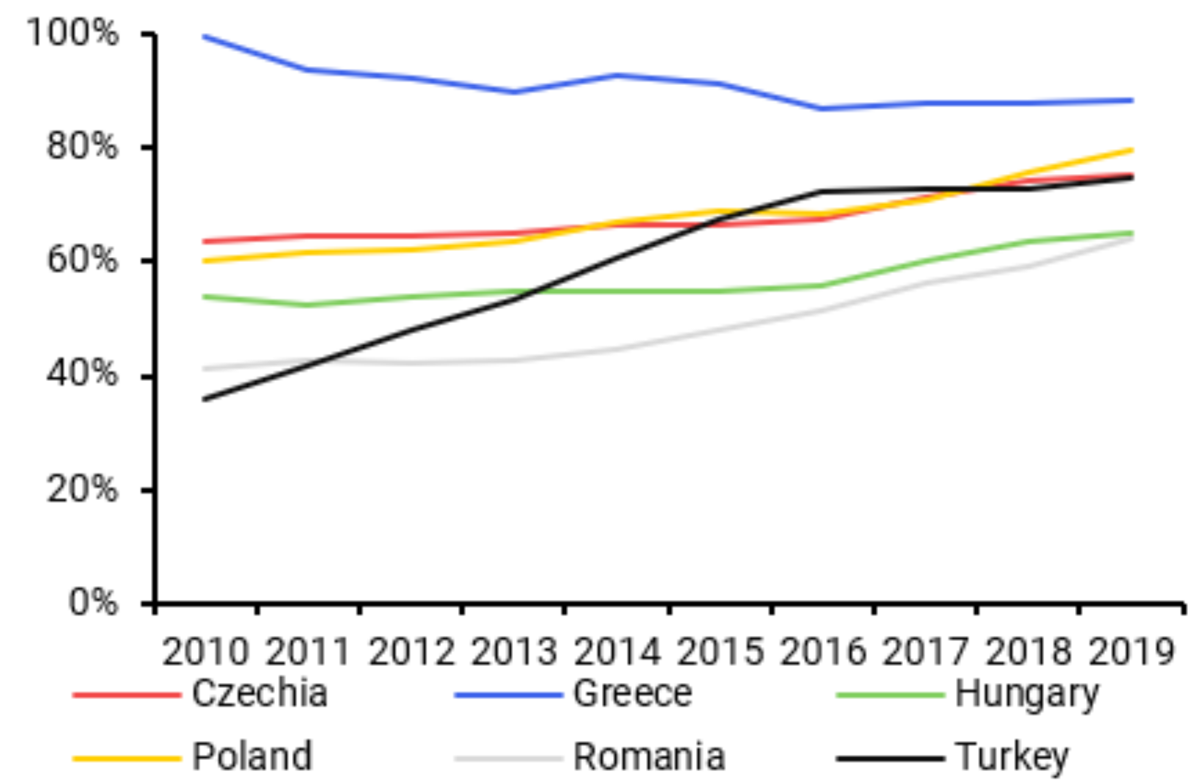
- Gross wages are c.70% of average Italian levels, second to Poland in CEE
- The debt of households and non-financial corporations has not responded meaningfully relative to GDP yet, but households' assets have seen a rush into equities this year
- The export recovery has lagged its peers, not clear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

CONVERGENCE FOR RESHORING CONSIDERATIONS

Avg. net annual earnings as % Italy



Price-adjusted avg. net annual earnings as % Italy



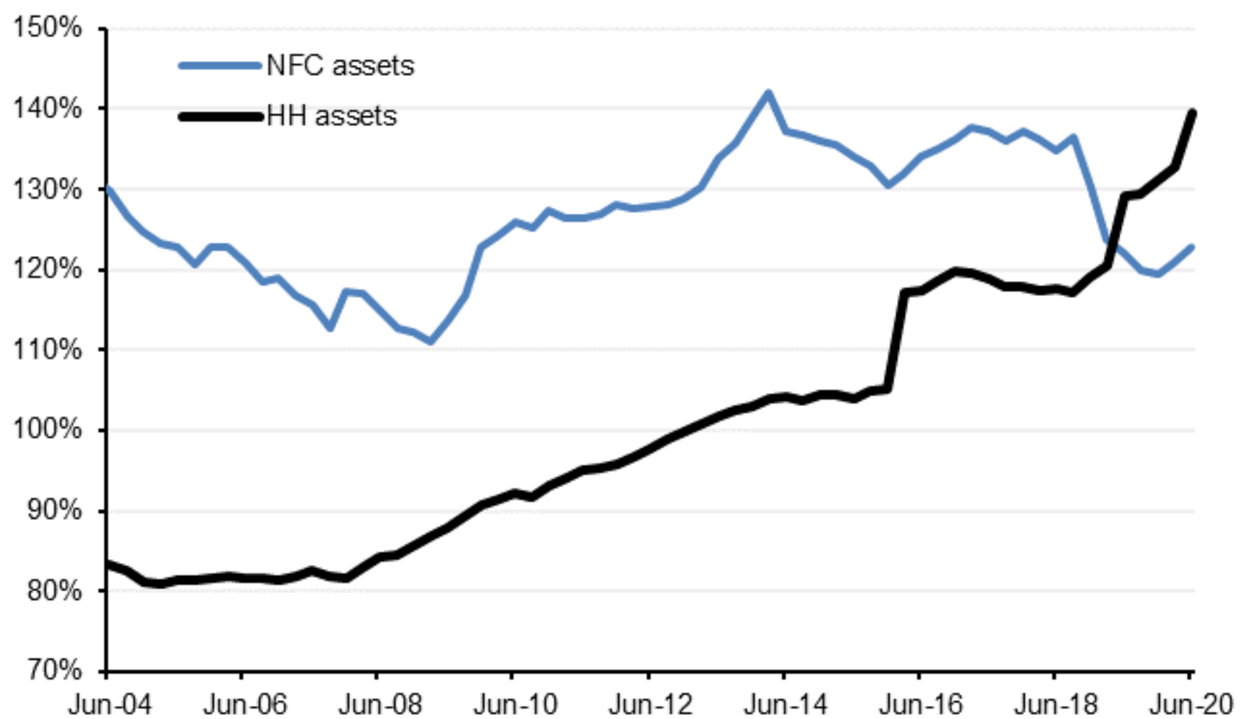
Sources: ADA Economics, CEIC , OECD, Eurostat, Turkstat

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).

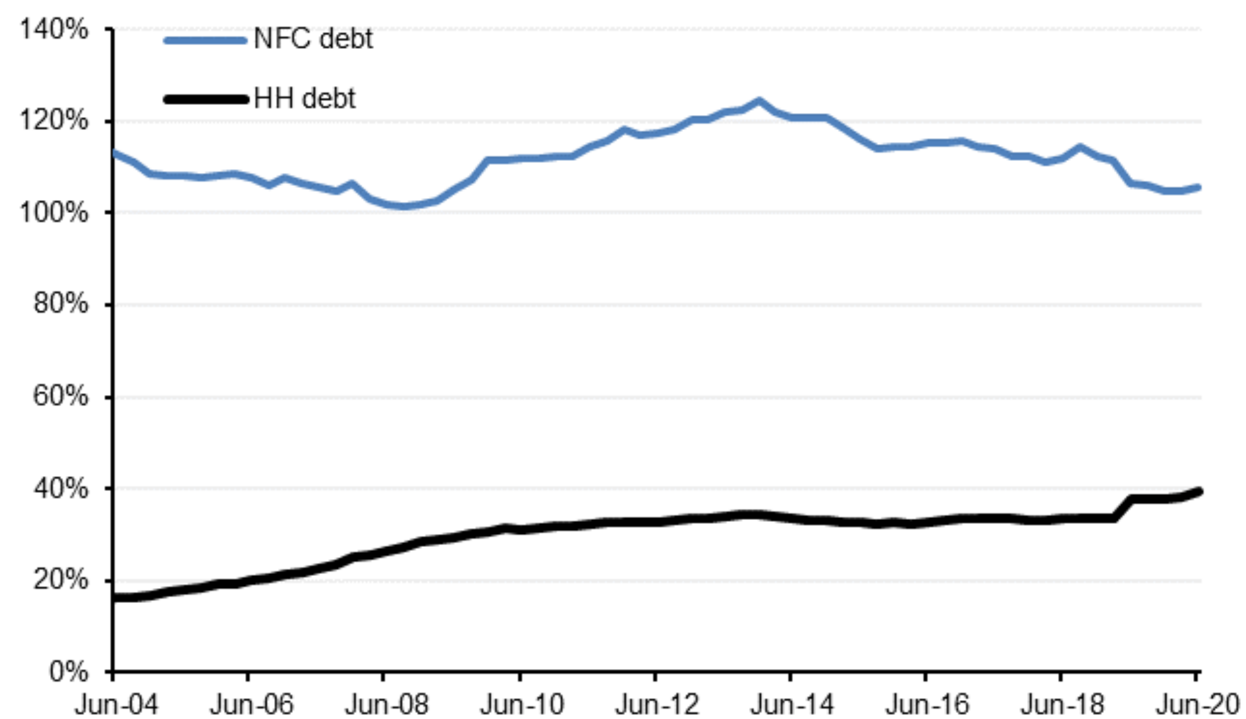
FINANCIAL ACCOUNTS OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS

- 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



Sources: ADA Economics, CEIC , CNB

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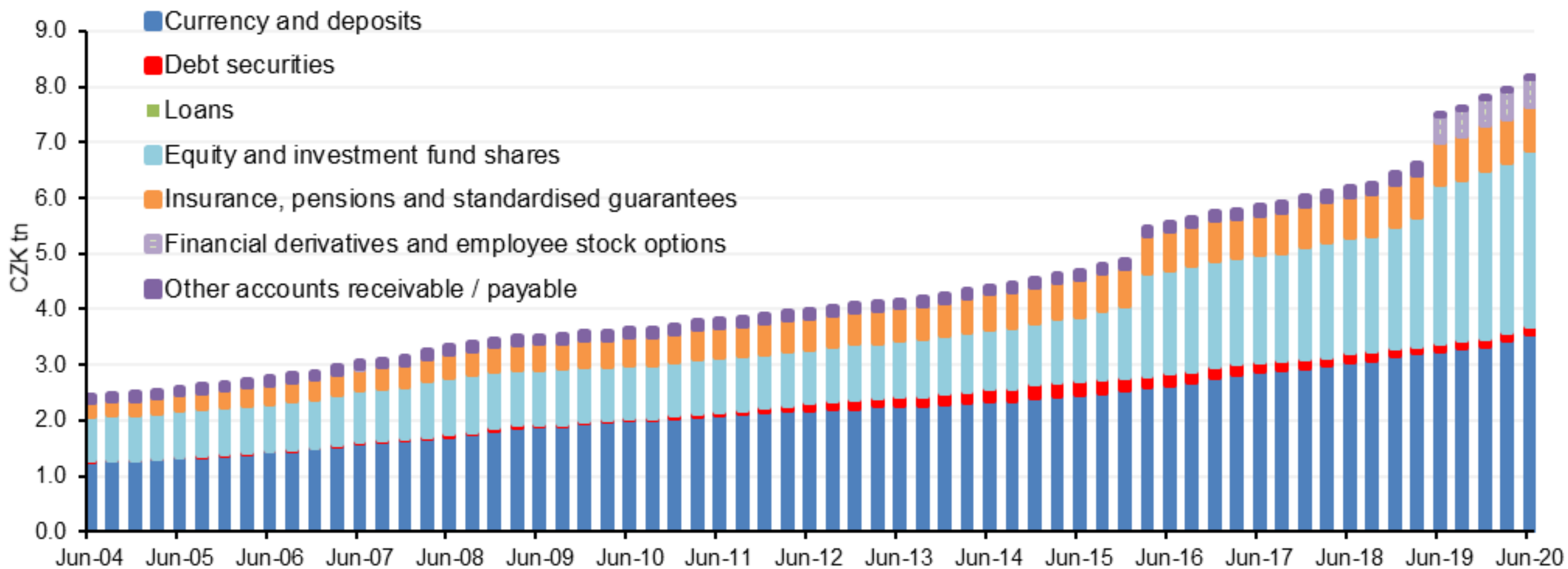
FINANCIAL ACCOUNTS OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS

- 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

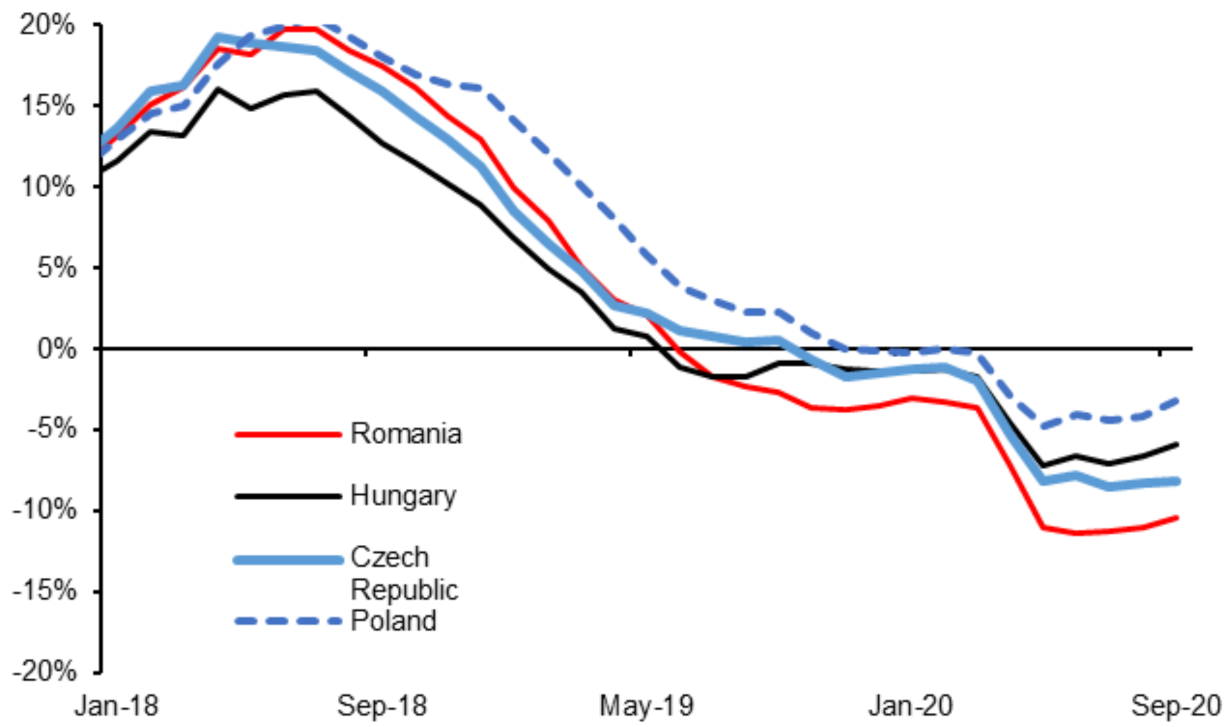


Sources: ADA Economics, CEIC , CNB

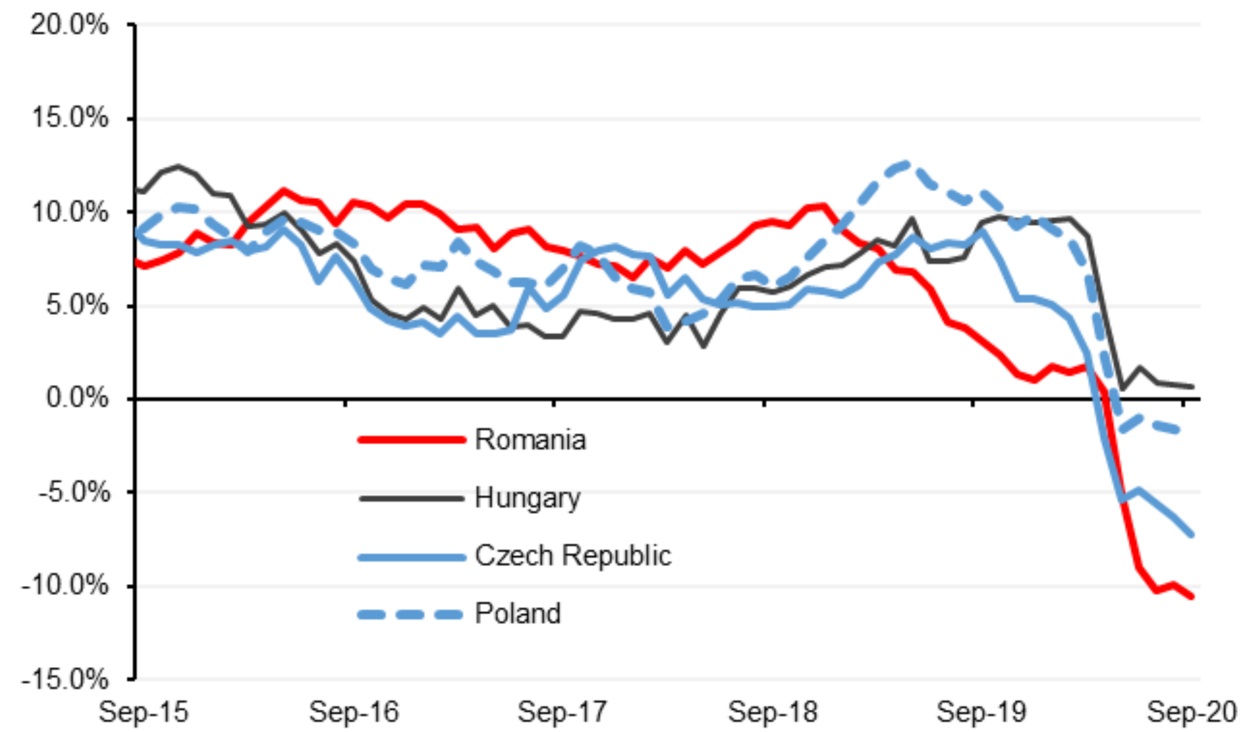
EXPORTS RECOVERY HAS BEEN WEAK

- 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



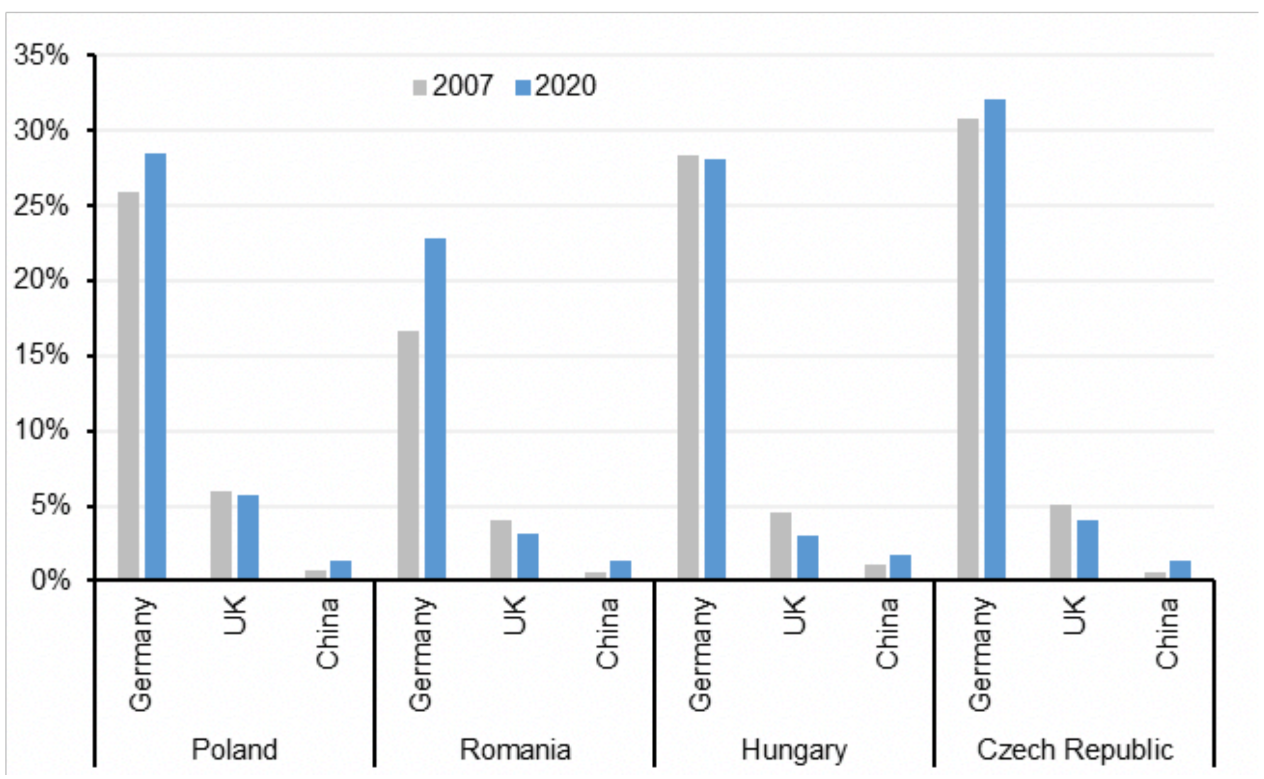
Exports: machinery and transport equipment (yoy)



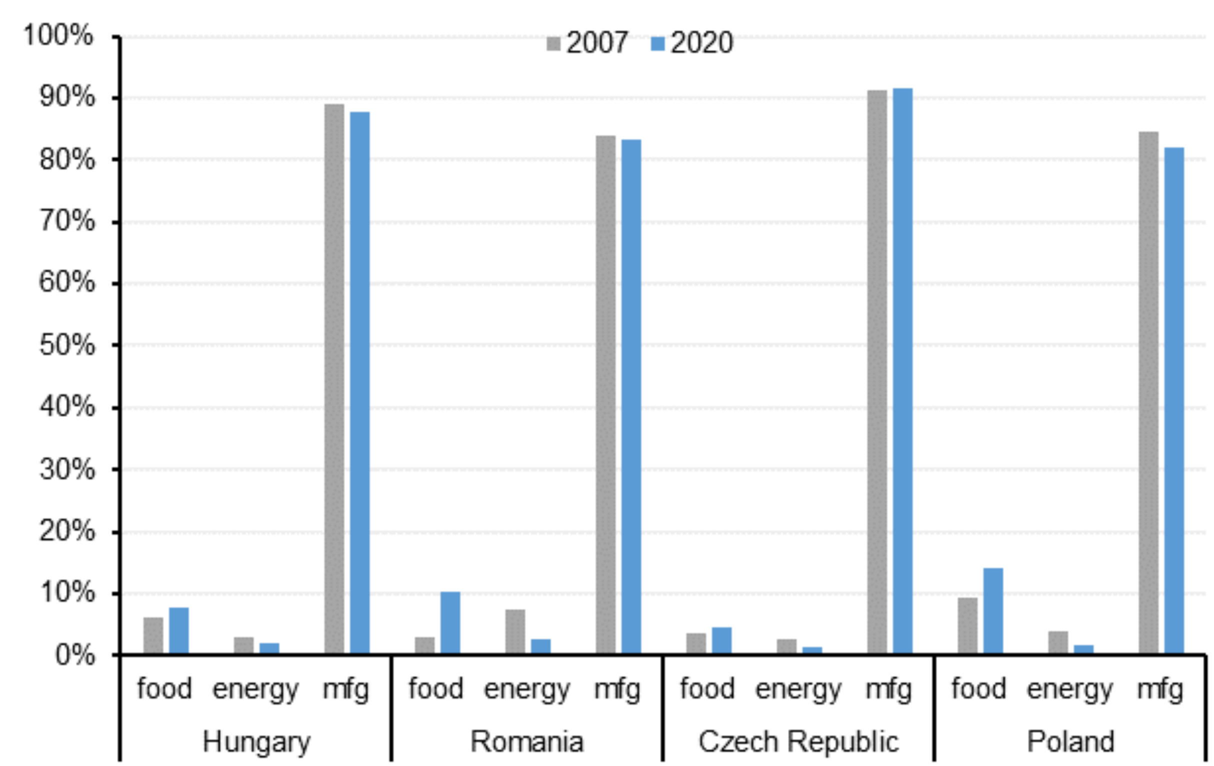
Sources: ADA Economics, CEIC
Note: data transformed into 12M rolling sum

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

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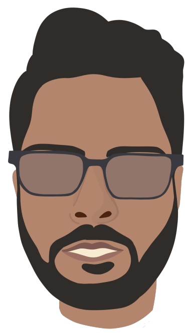

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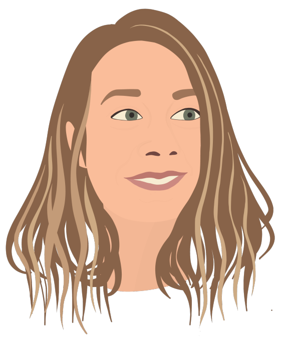

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