

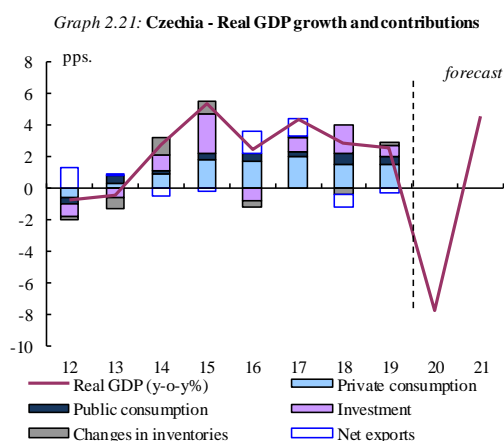
## 2.21. CZECHIA

Economic activity in Czechia reversed sharply as the COVID-19 pandemic brought significant disruptions, particularly to the country's large export-oriented manufacturing industry. Despite partial recovery in 2021, GDP is forecast to stay below its pre-crisis level.

Czechia implemented lockdown measures rather early in March and lifted most of them by the beginning of June. As a result, GDP in the first quarter of 2020 shrank by 3.3% compared to the previous quarter. Due to disrupted supply chains, investment was particularly hit, posting a quarterly drop of almost 10%. In the second quarter, when the country saw almost 7 weeks of lockdown, GDP is expected to show a contraction of 10¾%. The economy should gradually recover from the third quarter onwards, but the impact on client-facing services such as hospitality, tourism and transport may last longer. Consequently, GDP is estimated to increase by almost 4½% quarter-on-quarter in the third quarter and by 3½% in the fourth quarter leading to an annual decline by 7¾% in 2020.

In 2021, GDP is expected to grow by 4½%, only partially recovering the losses sustained in 2020. Private consumption is likely to remain the main driver of GDP movements, despite slower growth in wages and pension incomes. The fiscal measures adopted by the government in the first half of 2020 may help the economy avoid large scale layoffs. Investment is expected to rise in 2021, contributing to the upturn in economic growth.

The trade balance is likely to be negatively impacted by ongoing supply-chain disruptions and weaker demand in Czechia's key trading partners. This applies in particular to the automotive sector. As the drop in imports is expected to be less pronounced, net exports are likely to act as a drag on economic activity. The recovery in trade remains subject to significant uncertainties and depends on prospects in Czechia's key trading partners.



HICP inflation is projected to reach 2.8% in 2020, as the upward pressure from rising food prices is expected not to be fully offset by falling energy prices. Prices of services kept rising in the first half of 2020, but are expected to weaken over the remainder of the year also due to the easing of wage growth. Inflation is projected to drop temporarily below 2% at the start of 2021, despite an easing of the monetary conditions in both the exchange rate and interest rate components. Consistently with the projected pick-up in economic activity, it is expected to rise during the rest of the year and reach an annual rate of 2.2% in 2021.