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Czech Republic under positive watch (A4)- economy benefits from good prospects in the car industry and household consumption

The Czech Republic is recovering from recessive effects as a result of debt crisis in the Eurozone. The economy regained momentum reaching solid growth of GDP by 2.0% in 2014 and even a higher growth of GDP by 2.5% is forecasted by Coface to be reached this year. The main driver of the Czech economy will be the export of passenger cars as well as the rising consumer consumption.

The dependence on external demand is strong as exports take 84% of country's GDP. So far the Czech exports benefit from having a national currency – the Koruna. Its depreciation made exports more competitive and this is further supported by the strategy of keeping the CZK/EUR exchange rate over 27 through foreign exchange rate interventions. Despite positive effects of that strategy, exports dynamics have been declining gradually in the course of 2014. The disappointing recovery of the main trading partner (Eurozone) and the deterioration of trade to eastern directions had a strong impact. Nevertheless, in 2015 Eurozone recovery should dwarf the negative impact of low volume of exports to Russia and insure positive growth levels for exports.

Passenger cars remain the flagship exported product in 2015

A significant part of Czech exports is driven by its automotive industry which arouses to be a country's specialty. Less than 7% of Czech passenger car production in 2014 was delivered to domestic consumers. It is the 13th world biggest producer of cars with 1.13 million of produced vehicles. Skoda is the biggest brand among car producers in the Czech Republic. Its global sales exceeded 1 million units last year with China becoming the strongest individual market where Skoda sold nearly a quarter of that amount.

In 2015 the Czech automotive industry will benefit from relative good prospects for the car industry. The Coface risk assessment indicates moderate risk in the automotive sector. Global sales are increasing with the highest dynamics in emerging countries where a middle class is growing. Although the Chinese economy will be growing at a slower pace this year, dynamics of car sales will remain positive. The same does not apply to the Russian market where car producers will suffer from a decreased propensity to spending, slowdown of the economy and depreciated local currency.

"The wide external exposition is especially evident in a case of automotive industry which produces mainly for exports. It has recovered bringing a support for Czech growth this year, but cannot be treated as a long-term contributor due to sensitivity of demand and manufacturing capacities of particular brands", explains Grzegorz Sielewicz, Coface Economist for the Central Europe Region.

Positive developments on labour market drive private consumption

The domestic demand plays a sizably role in the Czech economic growth, especially now with positive developments on the labour market contributing to rising private consumption. The unemployment rate reached 5.8% in December 2014, i.e. the lowest level since 2009 and one of the lowest results in the entire EU next to Germany and Austria. The household consumption expenditures rose by 2.1% in the first three quarters of 2014 vs. 2013. The very low inflation rate enhanced the purchasing power of consumers.

Over the last years the retail sector in the Czech Republic has become more matured and saturated. The afflux of foreign investors wanting to benefit from the rising share of middle class confirms a huge potential which global chains targeted. The competition became relatively fierce which contributed to a decrease in margins or even some companies going out of business. The past difficult economic conditions have still negative effect on companies' financial results whereas a certain level of fixed investments is necessary to keep the market penetration at profitable levels. Although consumers are more willing to spend money than before they are still selective and relatively price sensitive, which does not leave much room for companies to increase their margins.

For 2015 the solid household spending and investment appetite will support the retail sector this year. Positive prospects come also from consumer confidence indicators which jumped to a level last recorded in 2006 as well as the highest level in the CEE region. Nevertheless, further consolidation actions can be seen in the sector. As foreign retail companies have been fighting for margins amid cost optimization in global terms, some chains might exit markets such as the Czech Republic and other CEE countries. Such revised strategies of global market players could trigger opportunities for other companies willing to increase their market share.

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