

Assessment of the Economic Impact of Covid19

July 27, 2020

This assessment is intended to assist members in their short and long-term planning by providing the outcome of discussions among board members. The board has been holding regular assessment sessions to share and discuss the impact within their industry and among their clients, customers and partners. These exchanges have been informed by research and input from our committees. This document is a working document which will be updated regularly, and all comments and suggestions are welcome. The document is divided into five sections: 1) duration of the crisis, 2) economic impact, 3) transformative effect, 4) effectiveness of government measures, and 5) business priorities.

Duration of Covid19 crisis

The duration of the pandemic depends on the development and global distribution of a vaccine. The duration of economic crisis caused by the pandemic will extend, with varying degrees of severity, at least six months after the virus is suppressed globally.

Duration of the pandemic. The timeline for comprehensive distribution of a vaccine remains unknown, and is estimated at 12-18 months or more. Technology advances in data analysis and major international funding initiatives could shorten that timeline. Oxford University's interim results showing a "robust immune response" in patients dosed with their trial vaccine raises the possibility of a breakthrough. Much about the virus remains unknown, and a King's College experiment raised questions about acquiring permanent immunity or achieving herd immunity.

Duration of the economic crisis. Until more is known about the virus and a vaccine is approved for mass distribution, society must balance restrictions of human interaction and open economic activity. A sufficient, affordable supply of quality personal protective equipment combined with individual responsibility can reduce the chance of outbreaks. Testing can narrow the geographic scope of restrictions required to quell any outbreak. This will lessen the severity of the economic impact. Nevertheless, outbreaks are probable.

Greater experience with the virus, and a global networks for sharing that experience, have and will continue to improve treatment and lower fatality rates. This should allow governments to utilize more targeted and lighter restrictions, and diminish the economic harm caused by the pandemic.

Once the vaccine is distributed globally, concerns about being infected will continue to damage businesses dependent on close interaction or indoor congregation for several months.

Companies should expect the direct Covid19 impact to last until the end of 2021. Having an action plan ready for an early discovery and distribution of an effective vaccine will not only create a competitive advantage for a company, but also the country.

Depth of Covid19 economic impact

The depth will depend on the duration and effectiveness of government's attempts to stretch the cost over several years using taxpayer revenue. The recently approved EU recovery plan and adjusted multi-year budget provides an opportunity for the government to create a national recovery and resilience plan that combines targeted support for severely impacted industries and regions with infrastructure investments that could reshape the economy to generate more value-added products and services. The government also faces key decisions in the next few months on whether to extend employment support or moratoria on bankruptcy and loan services.

The Czech Republic's dependence on car export and Prague's dependence on tourism complicate an immediate and strong recovery. Automotive purchases and air travel require consumer confidence in both finance and health safety, and these may be slower to return in the wake of the crisis.

Without further government intervention or a vaccine, the Czech GDP probably will retract by 5-8% in 2020. The deepest decline could occur in September or October. Growth in 2021 will require the EU Recovery Plan to be effectively spent. If the vaccine is distributed, the economy should stabilize or begin a period of uneven, slow growth sometime in the second half of 2021 or first half of 2022.

Transformative effect on the economy

The virus has mostly served to accelerate already existing trends. This can be seen in industries such as automotive sector, and also in the workplace with such trends as working from home.

Reliance on global supply chains probably will continue, but efforts to regionalize supply chains and reduce dependence on specific regions or counties will increase.

International travel probably will be severely curtailed until a vaccine is globally distributed. When it does return, economy travel may lag behind high-end travel due to the lasting impact of joblessness or reduced income.

The shift to working outside of the office (mainly from home) will reduce the need for office space, and change how office space is utilized. It may also lead to a workforce more evenly distributed along major highways and railines within 60 kilometers of major urban areas.

Impact of government measures

In terms of total amount of government intervention programs to date, the country compares favorably to other Central European countries.

The use of EU funds meant some business rescue programs initially excluded Prague. Establishing a national cap for the Anti-Virus employment support program meant that regions with higher wage

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levels (and higher costs-of-living) received less benefit from the program even though those regions were among those hit hardest by the virus and government restrictions.

Leveraging commercial banks and their risk-management systems through government guarantees meant that some companies most impacted by government restrictions could not be financed by the COVID programs due to little or no revenue.

The administration of some programs needs to be less procedural, and more focused on providing immediate relief to companies and citizens.

The key to the future effectiveness of government intervention now centers on the quality of the national recovery and resilience program, and its effective implementation.

Business priorities

National Recovery and Resilience Program. To maintain the prosperity generated since 1989, the focus of this program should be 1) to maintain household consumption without significant increase in household debt through employment support and loan guarantees, 2) to increase the value-added in the automotive industry and help prepare for major technological change, 3) to increase the commercial capacity of public research infrastructure (such as university labs) through joint investments to develop key technologies contributing to the EU's digital and climate goals, and 4) to invest in tourism infrastructure that will increase the revenue per tourist and turn the Prague Airport into the main hub for tourism travel into Europe from Asia and into central and eastern Europe from North America.

Construction Policy. Too many problems not associated with law are trying to be fixed by the Construction Act. Cities and towns need clear zoning rules that are based on an economic development plan (for instance, Prague wants to be a start-up hub, but lacks industrial space around its technological university). Permit offices need to be staffed by a sufficient number of competent people paid at market rates with incentives to approve projects quickly. The process of registering a complaint or appeal against a decision should carry some accountability, such as reimbursement of the cost of delays if the complaint is rejected.

Employment Support. AntiVirus Regime B may need to be extended and altered if the crisis continues in September. The program should take into account differences in overall employment and income in the regions. A supplemental short-term works program to support cultural workers, especially in major urban areas, could be considered.

Digital Economy. By moving first in the implementation of new digital technology, the country could gain a competitive edge that would benefit start-ups, improve quality of life, and make businesses and government operate with greater efficiency. Creating a two year tax break to help small business invest into remote office technology will help them adjust to possible government restrictions and help society lower the risks of further outbreaks. Accelerated depreciation on manufacturing investments into waste and energy reduction, combined with grants through the new EU budget framework, will increase the country's overall competitive position.