

# Soft-landing to New Normal

Economic Research, Raiffeisenbank

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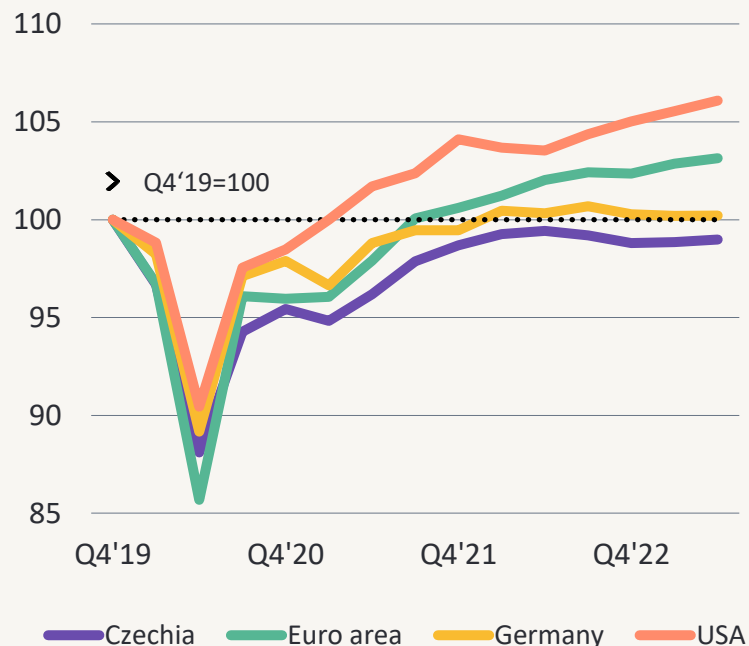
## Soft-landing followed by slow recovery

	2022	2023f	2024f
<b>Euro area</b>	3,5	0,5 ↓	0,8 ↓
Germany*	1,8	-0,3 ↓	0,9 ↓
<b>Czechia</b>	2,4	0,0 ↓	2,1 ↓
Slovakia	1,7	1,0 ↑	1,6 ↓
Poland	5,1	0,5 →	2,7 →
Hungary	4,6	0,0 →	3,0 →
<b>USA*</b>	2,1	2,0 ↑	0,9 ↑

change in  
last 3 months

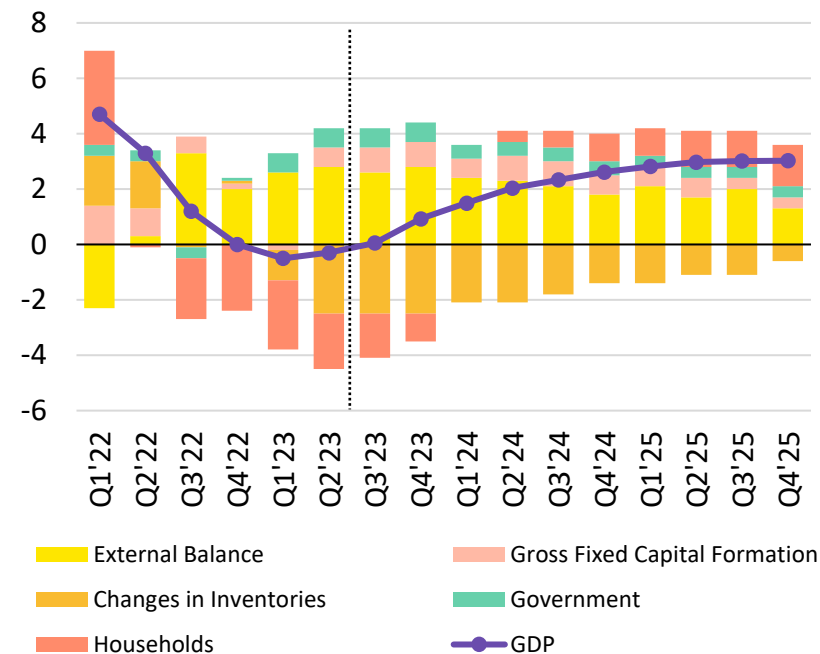
### Uneven global recovery

US economy's resilience positively surprised, but eurozone continues to be slowed by Germany



### Czechia remains below pre-Covid levels

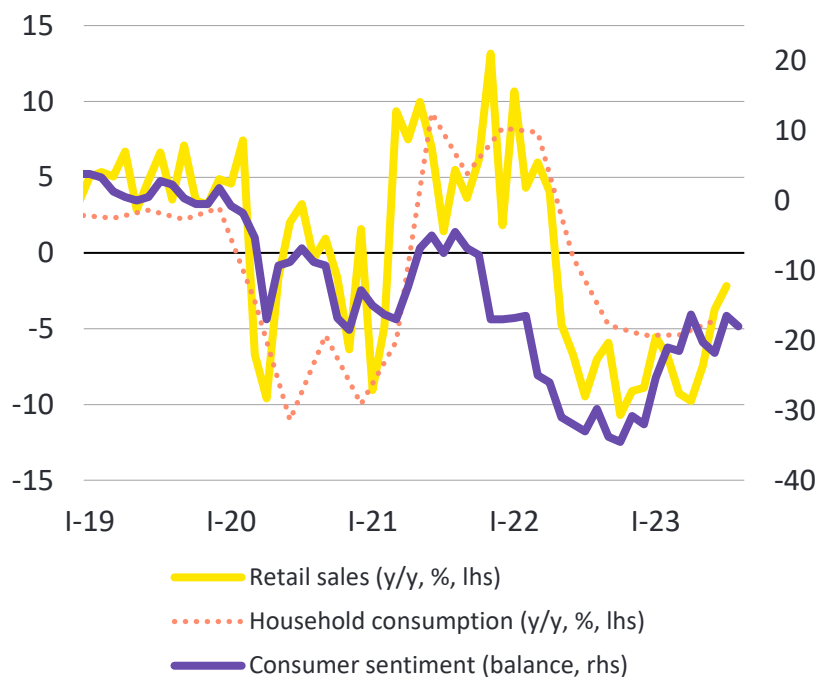
In the post-pandemic recovery, the domestic economy is at the back of the peloton. Even Germany is now just above the Q4'19 levels.



### Slow but balanced recovery in Czechia

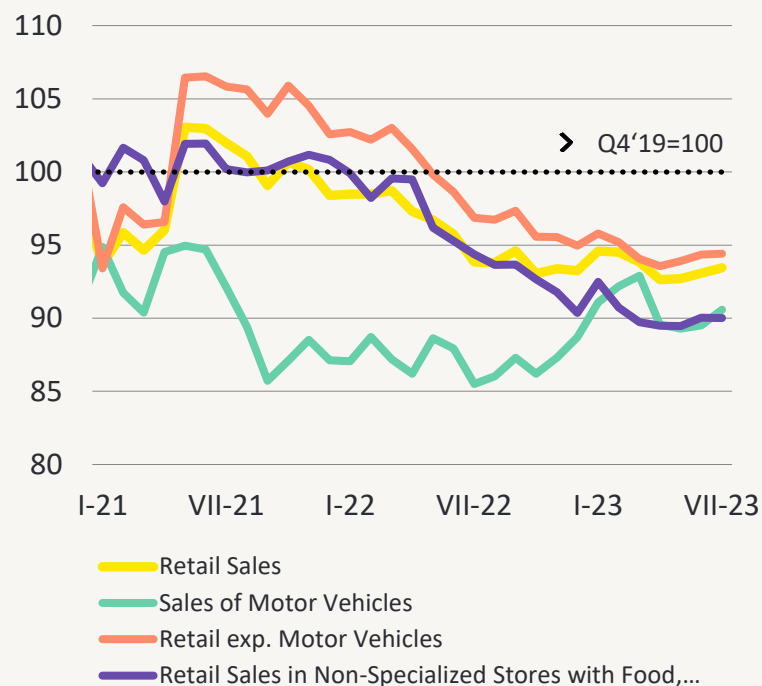
Consumer demand had been slowing the economy's performance in recent quarters. However, this should start to change at the turn of the year.

# Uneven retail development and weak consumer confidence



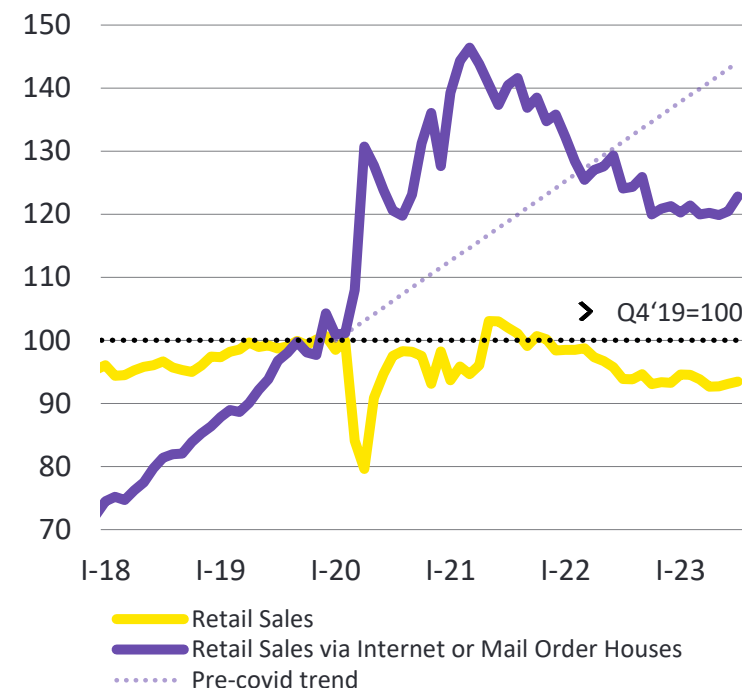
## Bad mood & Manic-depression of Czechs

Pessimism among Czech households dampened consumption and boosted the saving rate. However, as the mood gradually improves, sales should start to grow again.



## Unique shock => unique reaction

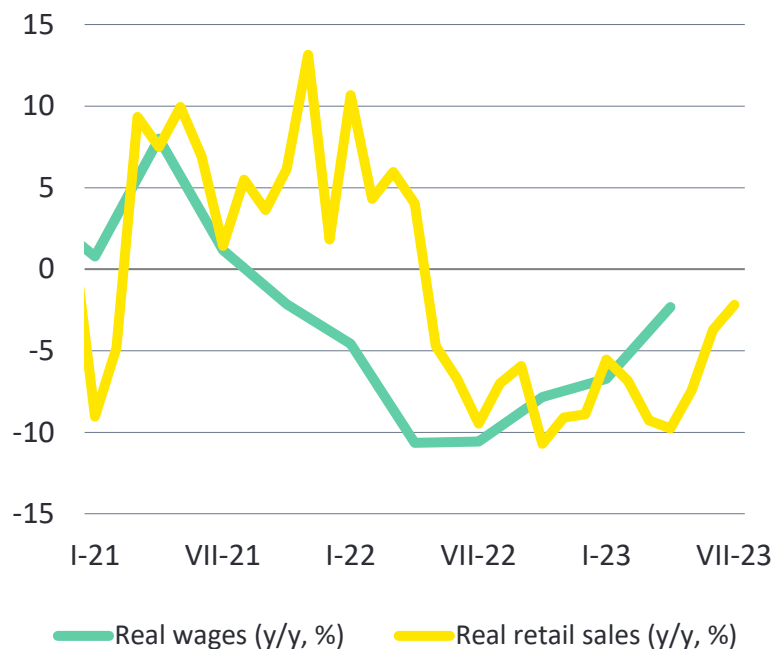
Unlike previous crises, this one in particular is unique due to a significant (real) decline in supermarket sales.



## Boom and bust in e-commerce

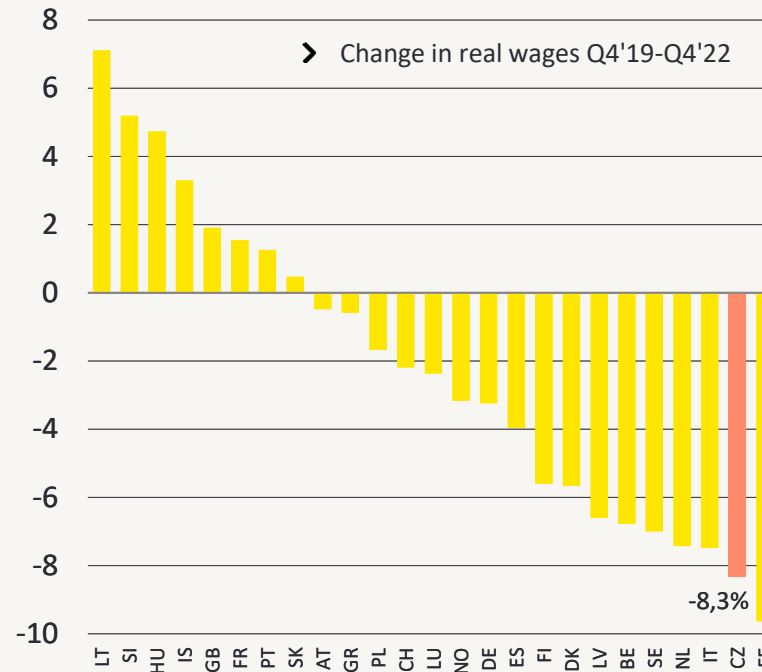
The significant growth in e-commerce has seen a correction. However, sales are still well above pre-covid levels.

# Sharp decline in real wages dampened domestic demand



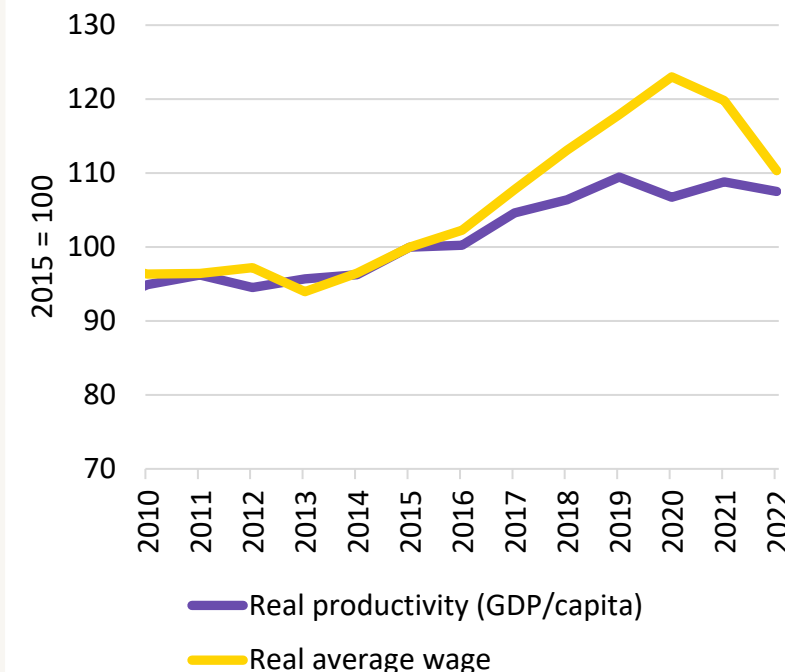
## Real wages in H2'23 may already grow

The decline in real wages, mainly due to high inflation, has been ongoing since mid-2021. This has led to a dampening of domestic demand.



## Czech real wage decline stands out

The decline in real wages in the Czech Republic was one of the strongest in Europe. In addition to high inflation, the lower performance of the economy played role.

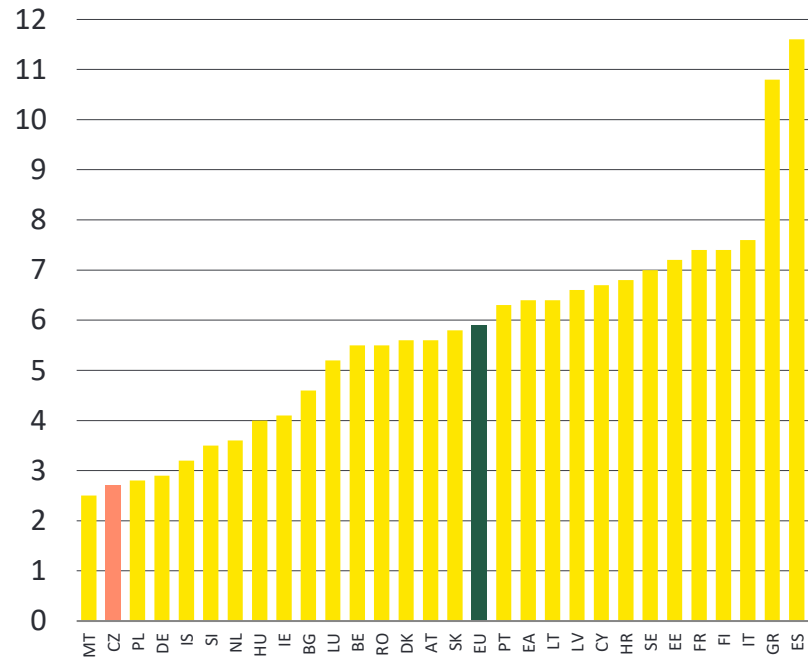


## Return of wages to equilibrium?

The scissors between productivity and average wages are closing rapidly.

***How to avoid the next painful correction? Steadily increase productivity through value added***

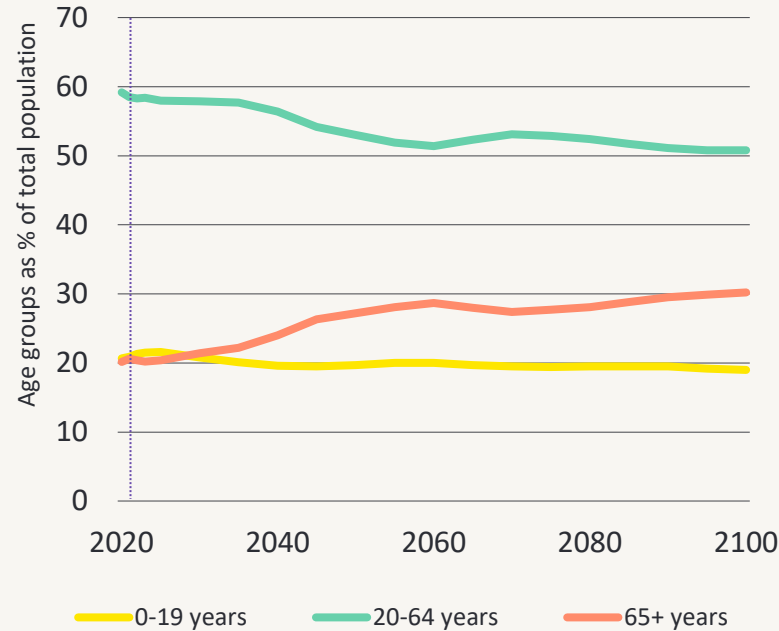
# Czech labour market resists economic slowdown



## Extremely low unemployment

Unemployment is at record low levels across the EU. Yet the Czech figures are unique and stand out in Europe.

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## Demography, aka blowing against the wind

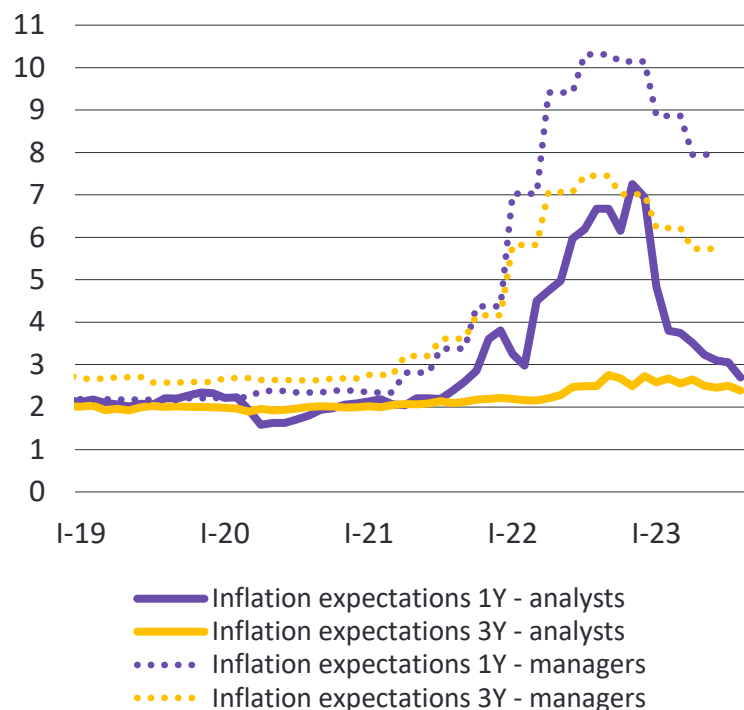
A natural "replenishment" of forces on the labour market cannot be expected. On the contrary, demographic developments will continue to contribute to the shortage of workforce on the Czech labour market.



## Phillips curve for the Czech Republic

High inflation with low unemployment + supply shock

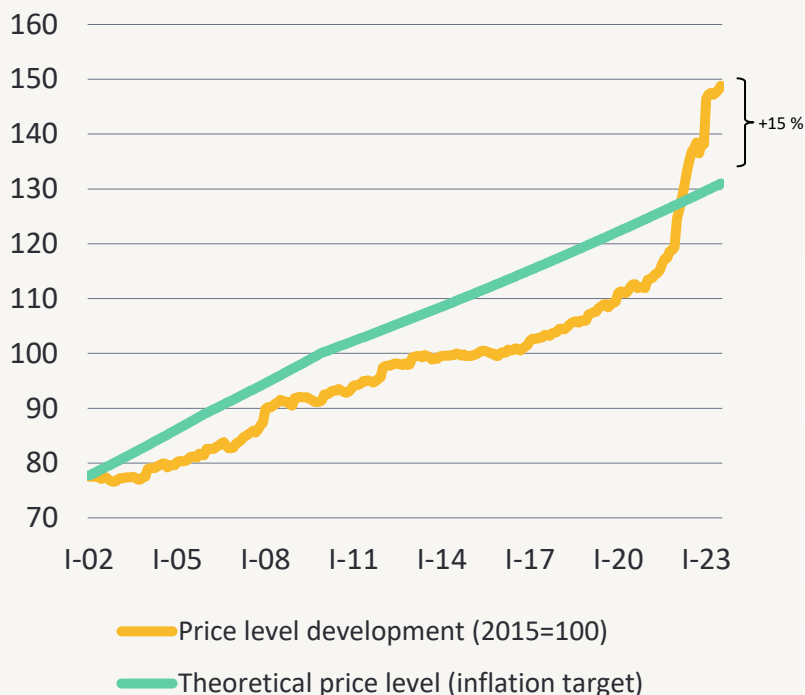
# Inflation - a problem of the past?



## Inflation expectations are receding

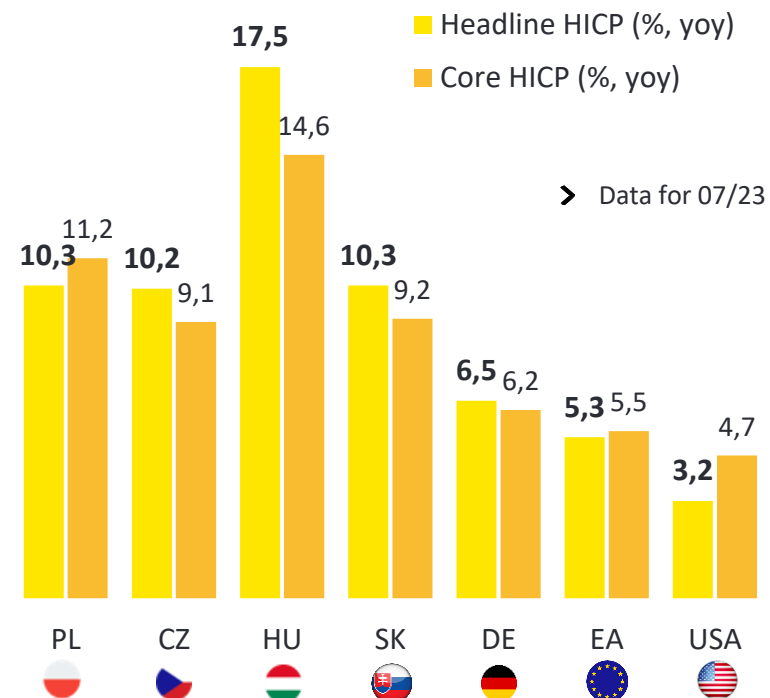
Inflation expectations are already falling but remain elevated among managers outside the financial sector. This may yet lead to higher price increases in January.

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## Period of "undershooting" inflation is over

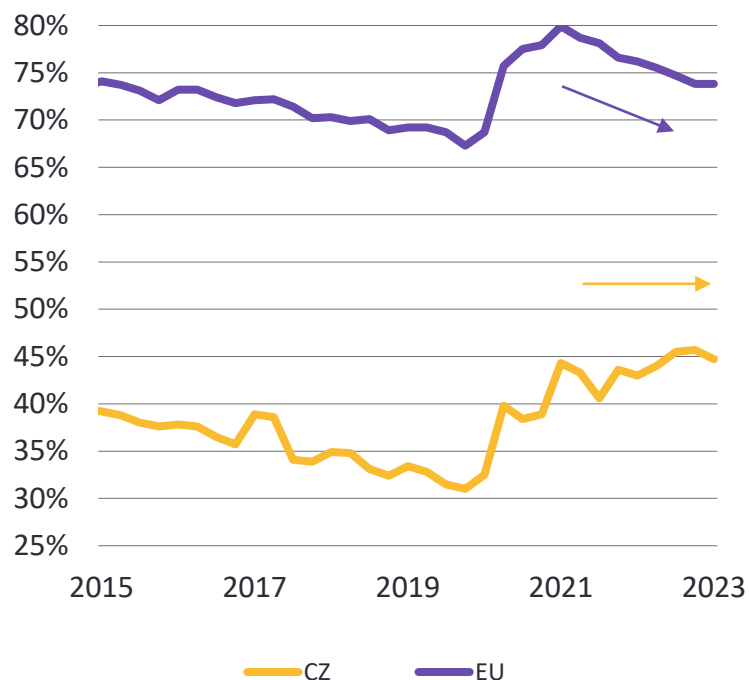
Since the introduction of the inflation target, Czech inflation has tended to be below it. However, the theoretical price level has been quickly surpassed in recent years.



## Inflation on the decline but still high

Although annual inflation is falling in most parts of the world, it remains well above the historical average. High core inflation continues to be a problem.

# Consolidation in Czechia is lagging behind the rest of Europe

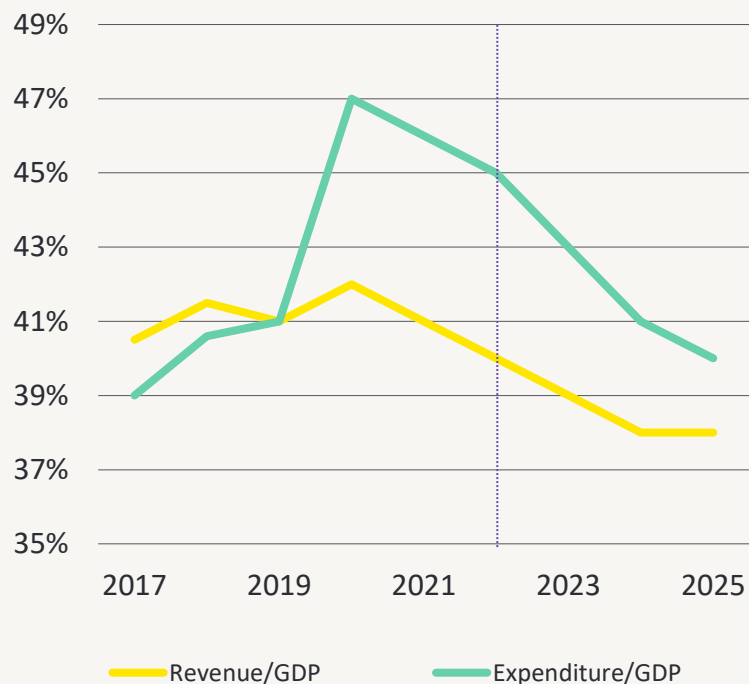


## Debt-to-GDP decline is only gradual

While in the EU the debt-to-GDP ratio has been falling since the beginning of 2021, in the Czech Republic we expect stagnation at 45%.

*It is difficult to (re)grow from debt on debt.*

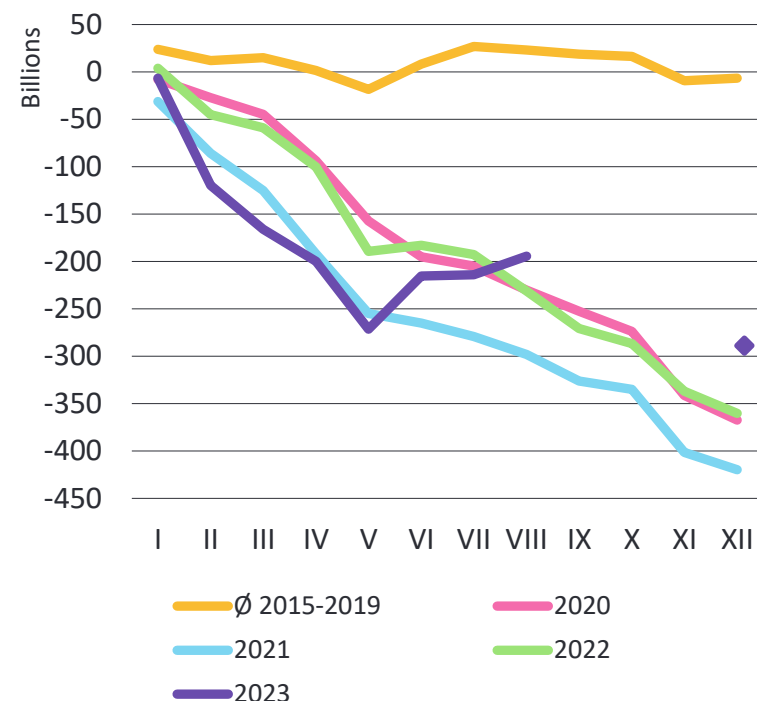
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## Government finances await consolidation

The promised consolidation will tighten the scissors between government revenues and spending. But it will not happen anytime soon.

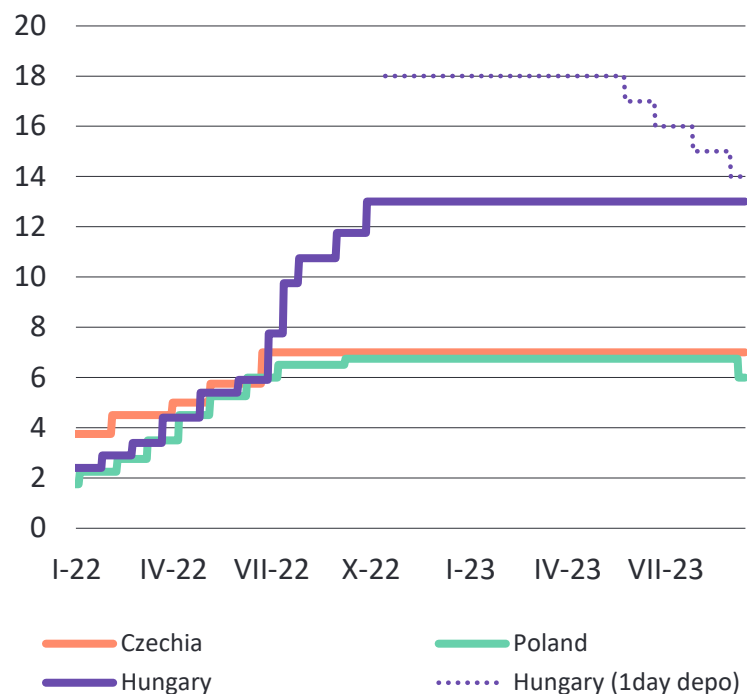
*Mandatory/quasi-mandatory spending eats up more than is collected in taxes*



## This year's deficit close to 300 billion CZK

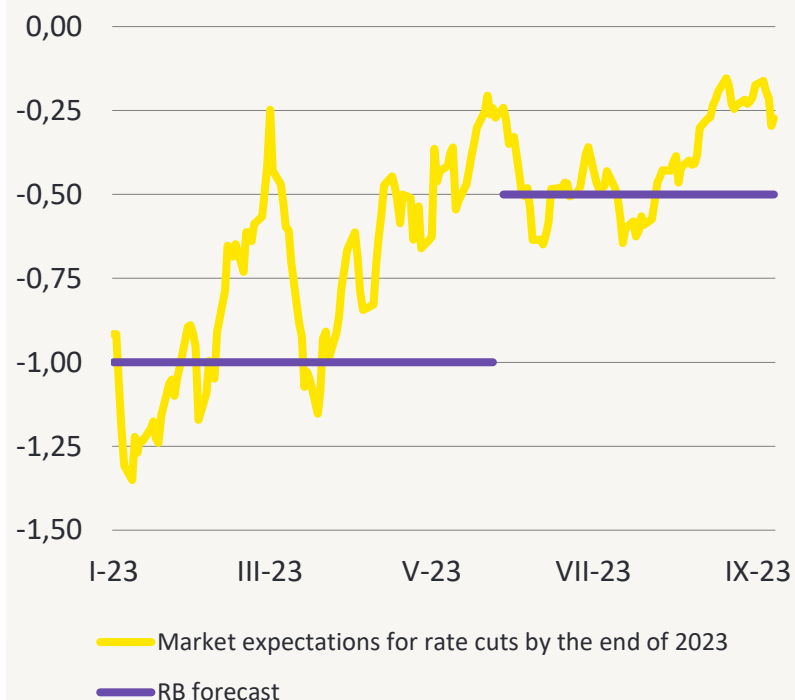
Thanks to higher corporate tax revenues and some one-off items, this year's deficit has halted its downward trend. However, it will still be a challenge not to exceed the approved deficit of CZK 295bn.

# CNB has the appetite (and eventually the room) to cut rates



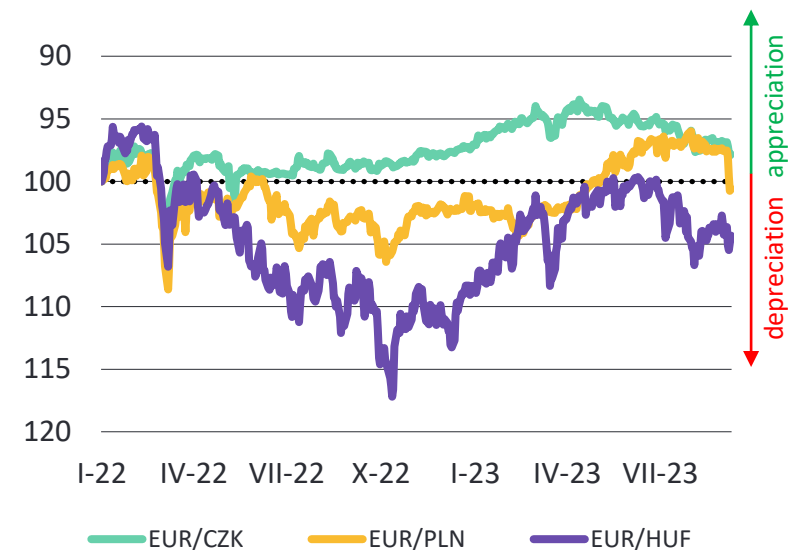
## Rate cuts have already started in the region

In Poland, the central bank cut the base rate unexpectedly aggressively (-75bps), while in Hungary monetary easing has been underway for longer.



## We expect a rate cut later this year

Despite the hawkish statements, we continue to expect a 50bps rate cut this year. Market rates imply an expectation of a cuts by around 30bps.



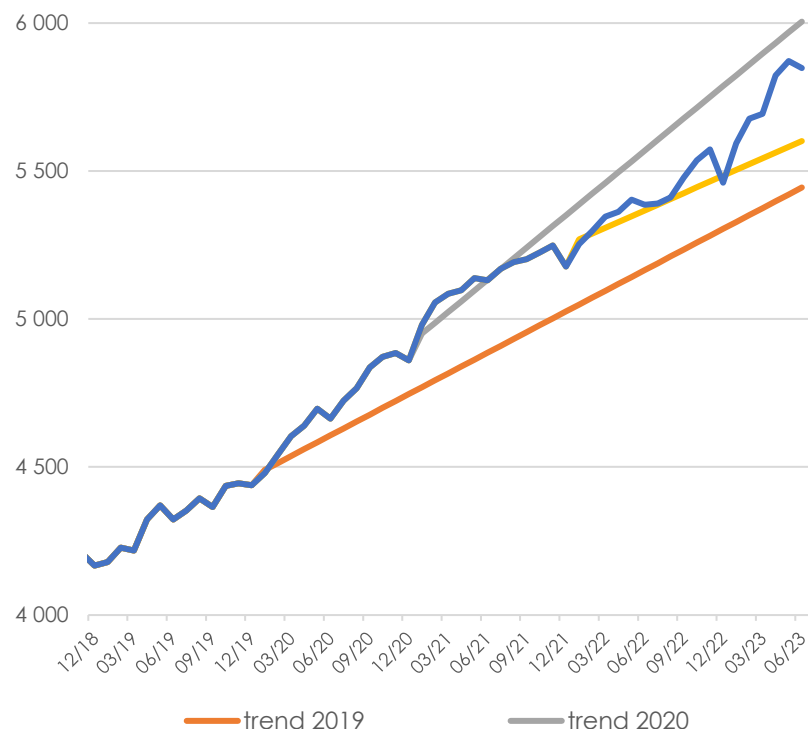
	eop	Q4'23	Q1'24	Q2'24	Q3'24
<b>EUR/CZK</b>		24,50	24,50	24,40	24,30

## Koruna remains under pressure

Together with the prospect of rate cuts, the koruna is coming under pressure. CZK has been weakening almost continuously since this spring.



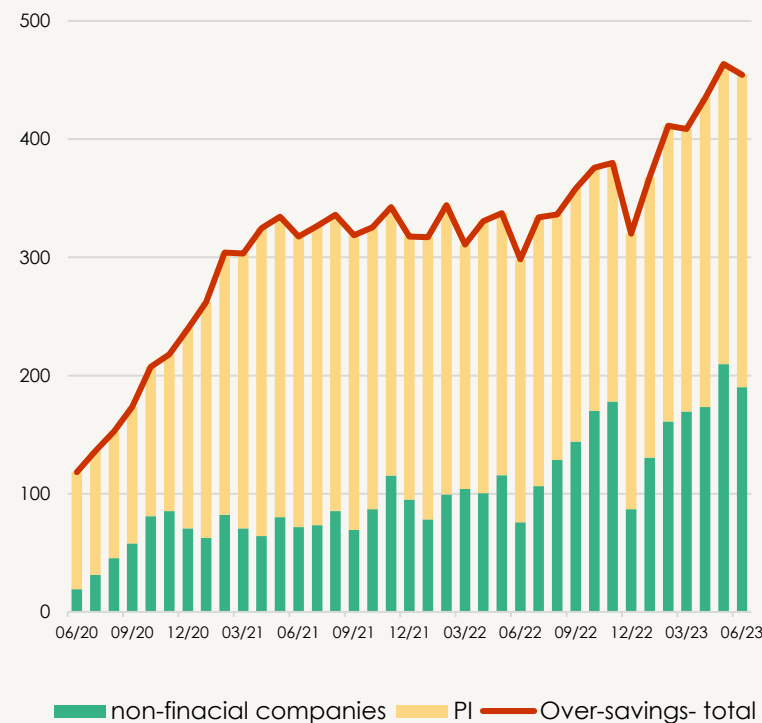
## DEPOSITS (government inst. excluding, CZK bn)



### Pace of deposit growth is picking up again

In the first half of this year, total deposits grew at their fastest pace in 5 years (+7.1% YTD), driven by a sharp increase in corporate deposits (+10% YTD). Deposits from the public have returned to their pre-covid growth rate (+3.3% YTD)

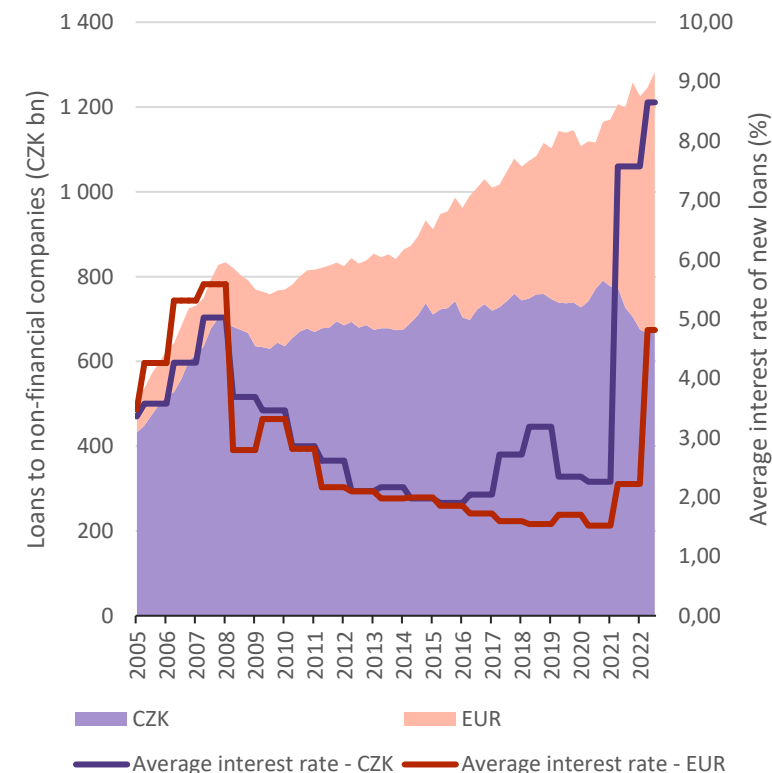
## OVER-SAVINGS (CZK bn)



### „Over-savings“ continue to swell

The total amount of over-savings is around 450 billion CZK. While households added 31 billion CZK in the first half of this year, the financial cushion for companies increased by 130 billion CZK.

## CORPORATE LAONS (CZK bn)



### High share of corporate loans in EUR

The share of euro-denominated corporate loans is the highest in history (47.5%). The interest rate differential between koruna and euro-denominated loans has narrowed significantly this year but is still interesting for companies.



**Thank you**  
for your attention



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**Author:** Helena Horská, Chief Economist,