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ČESKÁ BANKOVNÍ ASOCIACE CZECH BANKING ASSOCIATION

NEWS

Dear Colleagues,

November is traditionally full of economic forecasts for the current year and for the year ahead. In this respect, the Czech Banking Association is not lagging behind. Last week, the leading economists of the Member Banks who are represented on the Prognostic Panel published their expert expectations. Although some of the forecasts are slightly more optimistic than they were a quarter of a year ago, it is still certain that we will continue to face an uneasy period next year.
I wish we had not let the bad economic weather dampen our spirits. Nothing lasts forever, and the classic saying goes that if we want the rainbow, we've got to put up with the rain. Please read our current newsletter with this in your mind.

Monika Zahálková, Managing Director

Three quarters of Czechs expect help from the state when dealing with issues of housing finance

Seven out of ten Czechs are worried about rising housing costs. The biggest fears are rising prices for energy (93%), food and consumer goods (92%) and fuel (81%), according to a survey conducted by Ipsos Agency for the Association of Czech Building Savings Banks, which focused mainly on housing and on its financing.
People therefore expect help from the state. Three quarters agree that the state should help households to finance their housing needs in the coming years in various ways. In the case of financing of new housing, in particular by capping mortgage rates, increasing the availability of social housing and supporting the construction of new housing. For existing housing, the Czechs expect support from the state, in particular by

capping energy prices and providing housing and energy allowances.
One of the possible forms of supporting housing financing is building savings, which is currently used by a third of the population, while another third of the population used it in the past. 7 out of 10 Czechs therefore agree that state support for building savings of up to CZK 2 000 per year should be maintained. Only a third of the population (32%) is convinced that abolishing building savings and the associated state support would bring significant savings to the state budget.
The most frequent purpose for which people have used or plan to use the funds from building savings is housing. 6 out of 10 people who have completed their building schemes have used the funds that they had acquired for a purchase or reconstruction of real estate or for acquiring household equipment. About one tenth have used their building savings as a financial reserve, and less than one tenth have used it as savings for their children.

Price rises in the Czech Republic have slowed down

Year-on-year inflation dropped to 15.1% in October, from 18% in September, mainly due to the measures taken by the government, i.e., the energy saving tariff and the waiving of the renewable energy fee. Food was the most significant inflationary factor. The prices of food accelerated by 3.3% month-on-month and increased from 22% to 26% year-on-year. Higher inflation was also caused by prices of telephone and catering services. Conversely, the development of the imputed rent, in addition to prices of electricity, also led to lower inflation. Regarding the outlook for next year, the market expects inflation to remain around the 10% threshold for the whole of 2023, and both the CNB and the Ministry of Finance's estimates have been reviewed in this direction.

More in the commentary by Jakub Seidler, the Chief Economist of the CBA.

The share of bad bank loans stopped declining in September

The share of non-performing loans stopped falling in September. Although mortgages fell slightly compared to August, by 0.01 percentage point to a record low of 0.58 per cent, the share rose in the case of consumer loans slightly by 0.02 point to 3.99 per cent, while in the case of corporate loans it rose by 0.05 point to 3.33 per cent. More in the commentary by Miroslav Zámečník, the Chief Advisor of the CBA.

Industrial production in the Czech Republic increased year-on-year in September

September's industrial production accelerated to 8.3% year-on-year and thus ended slightly above market expectations, which had anticipated a similar annual growth rate as in August of 7.2%. However, as in the previous month, the annual growth was driven mainly by the low comparison base of the previous year, when industrial production, and especially car production, fell noticeably as a result of extraordinary shutdowns due to shortages of needed parts. Without this effect, the domestic industry would have already declined slightly year-on-year. Leading indicators indicate increasingly clearly that the industry is slowing down in the face of falling external demand and rising energy costs. Thus, for the whole of this year, the industry is likely to stagnate, having grown by 1.5% from January to September so far.

Tighter anti-money laundering law in the pipeline

The Ministry of Finance wants to tighten the law against money laundering. The proposed amendment would expand the number of entities that screen clients for possible laundering of the proceeds of crime. Insolvency administrators and operators of online lotteries or dealers in precious metals would also have to check clients. The amendment also raises the upper limit of fines for individuals who are guilty of failing to check an institution according to the law. The previous maximum fine was CZK 100,000, the new upper limit of the fine would be CZK 10 million. The Ministry of Finance has sent the amendment to the law to the process of inter-ministerial comments.

Businesses and people after 2020: what challenges do HR managers face in the new normal?

Heads of HR departments of Member Banks and of other major companies met at the Czech Banking Association. Together with Monika Zahálková, the Managing Director of the CBA, Peter Skondrojanis, Human Relations Consultant, and David Pavlík, the Chief Technology Officer at ShipMonk, the participants discussed the current and pressing issues burdening on the HR world. These were related to the functioning of teams after 2020, when a global pandemic swept the world. For example, they discussed whether and in what mode corporate employees returned back to their offices, how companies approach working from home, how the work of colleagues from home can be measured, or how to motivate teams that do not meet in person. The HR Managers' Meeting at the CBA is part of a platform of regular meetings of professionals across the banking sector and with representatives of other commercial entities.

Topic

November 2022: The domestic economy is heading into a mild recession, with gross domestic product stagnating next year. Inflation will fall more slowly and will be around 10% in 2023.

The chief economists of the banks represented in the Prognostic Panel of the Czech Banking Association have slightly increased their estimate of the growth of the domestic economy for this year to 2.5%. This is mainly because the economy has developed more favorably so far than expected in August. In the second half of the year, the domestic economy will enter recession, where it will remain at the beginning of next year. Growth for 2023 has therefore been revised down from 1% to 0.2%. However, the risks to the forecast remain significant due to the ongoing war and to developments on the energy market. Inflation has been revised upwards for next year in particular, mainly due to developments on the energy market. The forecast assumes inflation of almost 10% next year and about 5% at the end of the year.

Significant economic uncertainty persists, with many economies heading into recession

The world economy is still heavily affected by the launch of the Russian military aggression in Ukraine and the ensuing energy crisis, which will have a significant impact on European companies and households. The Chinese economy is still struggling with pandemic problems and the zero-tolerance policy of covid is still complicating the situation in supply chains. As a result, global economy is slowing down and many economies are moving into recession according to forward-looking indicators, in the light of the mounting inflationary pressures that have accompanied the tightening of monetary conditions by the major central banks. The coming winter will therefore be difficult to overcome in the light of the risks present, but next year will be more difficult than this year in terms of economic activity.

The domestic economy is entering recession

The CBA's new forecast for the domestic economy this year has only slightly increased growth towards 2.5%, mainly due to the smaller-than-expected economic contraction in Q3. Thus, despite the extraordinary uncertainty associated with the war conflict and the rapid rise of energy prices, the domestic economy performed above expectations. According to consensus, it had already contracted slightly by 0.4% in the third quarter, but the August forecast had predicted a slightly stronger decline. According to the current forecast, this will continue in the last quarter of this year, by 0.6%, and will continue in the first quarter of next year. The domestic economy will thus enter a relatively mild recession lasting for three quarters. From the second quarter of next year, the economy should already be growing moderately. In annual terms, however, it will be broadly flat next year. The achievement of pre-pandemic GDP levels is thus postponed until the last quarter of 2023, whereas most European countries have already reached this level.

Real wages will decrease noticeably this year and we expect a slight decline next year as well

Despite the economic slowdown and considerable uncertainty, the labor market remains resilient and the unemployment rate is the lowest in the EU. Although the latest data from the labor office suggest that a slight cooling of the labor market is already taking place, the overall unemployment rate for the whole of this year will not exceed 3.5% and will thus be only slightly higher than in 2018. The forecast does not foresee a more noticeable deterioration in the labor market even despite the expected arrival of the recession; the unemployment rate should rise slightly next year, but will still remain below the 4% threshold and will be lower than in 2017. Average wages are expected to grow by around 7% this year, as evidenced by government tax revenues and wage growth in industry.

Inflation will be close to the 20% threshold this year and will decline next year, but at a slower pace than expected in August

Due to government measures, inflation will be volatile this year as the implementation of the austerity package or the introduction of caps on electricity and gas prices will be reflected in it. At the end of the year, inflation should be slightly below 20%. For the whole of this year, it will reach 15.7%, with average inflation for 2024 expected to be 3.6% and 3% at the end of the year.

CNB rates have peaked and will fall slightly next year

The Czech National Bank left interest rates unchanged at its November monetary policy meeting and, unlike the August forecast, the new CBA forecast does not foresee further rate hikes. However, given the inflationary developments, interest rates will remain high for a longer period of time. The forecast envisages a slight reduction in the CNB base rate in the second half of next year, but it will be only a relatively modest reduction and we see the rate at 5.75% at the end of the year. At the end of 2024, the forecast then expects a key interest rate of 3.5%.
The exchange rate of the koruna should remain slightly below CZK 25 per euro over the next two years.

Consolidation of public finances will not be too fast due to exceptional circumstances

The CBA forecast estimates the state budget deficit for this year to be at 4.9% of GDP, which is similar to the August forecast. The ability to consolidate public finances has thus deteriorated significantly this year as a result of the adverse consequences of the war in Ukraine. However, despite the high deficits, the debt-to-GDP ratio is increasing relatively moderately in relation to inflation and will reach 44% next year.

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