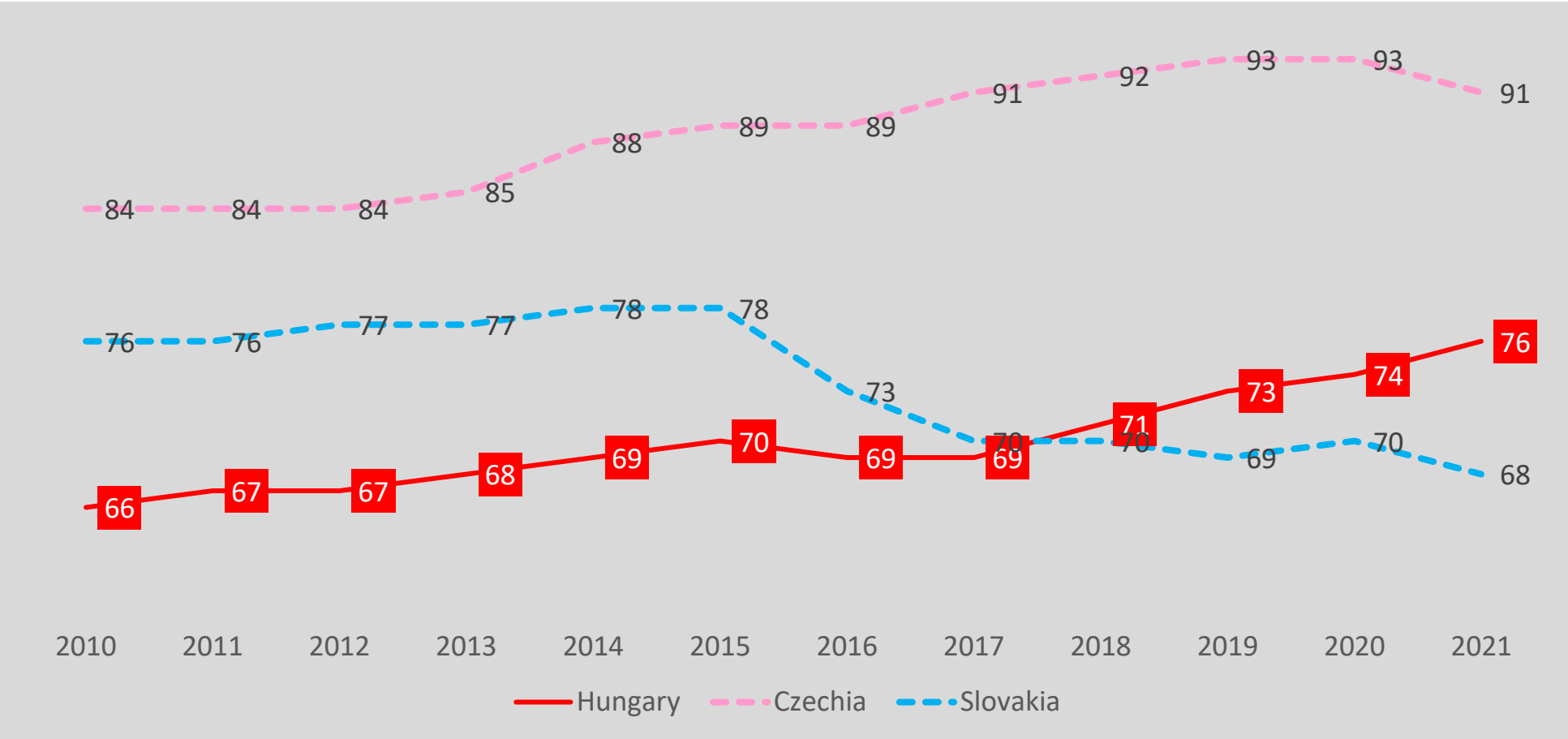




# A Short But Concise Comparative Analysis of Czechia, Hungary and Slovakia

Research Department

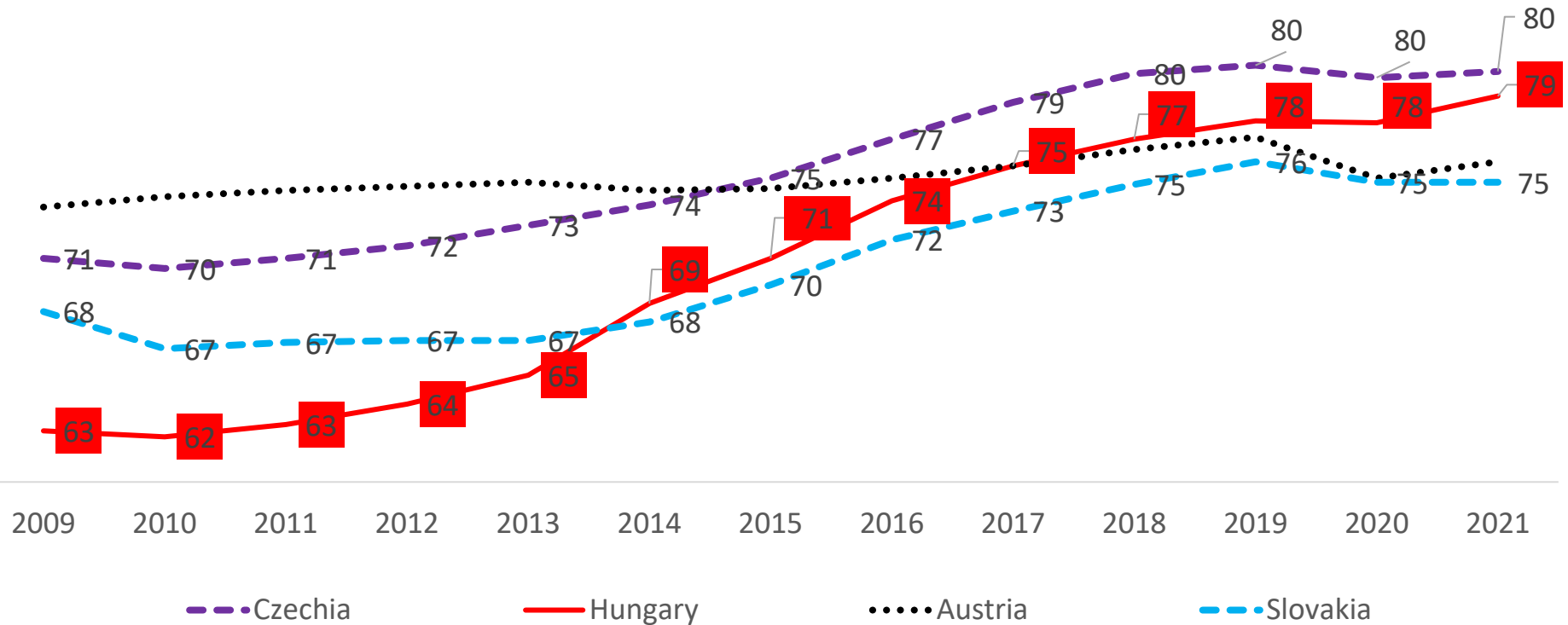
# GDP per capita in PPS (100=EU average)



**HU GDP/capita in purchasing power increased from 66% to 76% (in % of EU average)**  
**SK is a negative outlier (methodology is disputed though)**

# Employment ratio

Employment ratio (20-64 year)

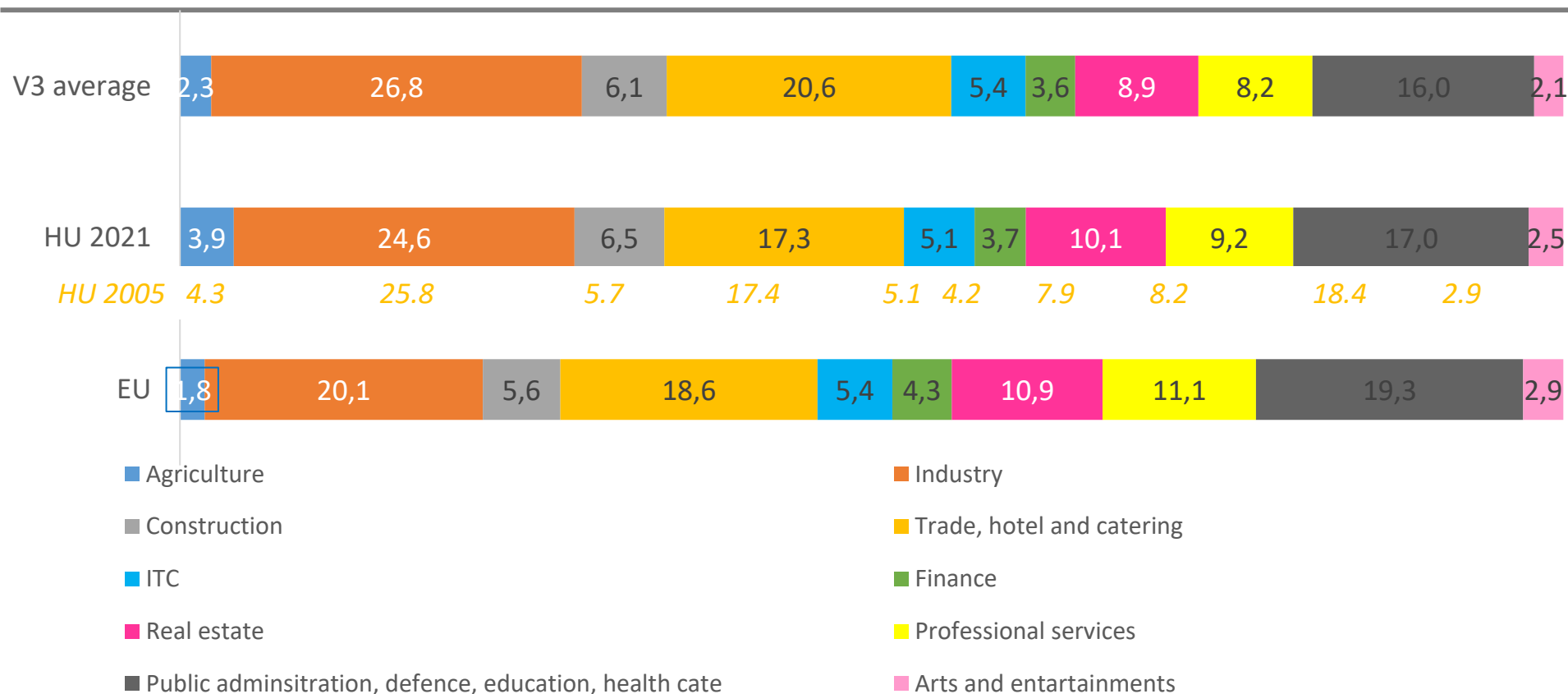


HU employment ratio was one of the lowest in the EU pre-2010

Significant increase in the 2010's in HU – employment ratio above EU27 average

# Structure of the economy in 2021

V4 have their own similarities (and more similar to DE than the rest of the EU)



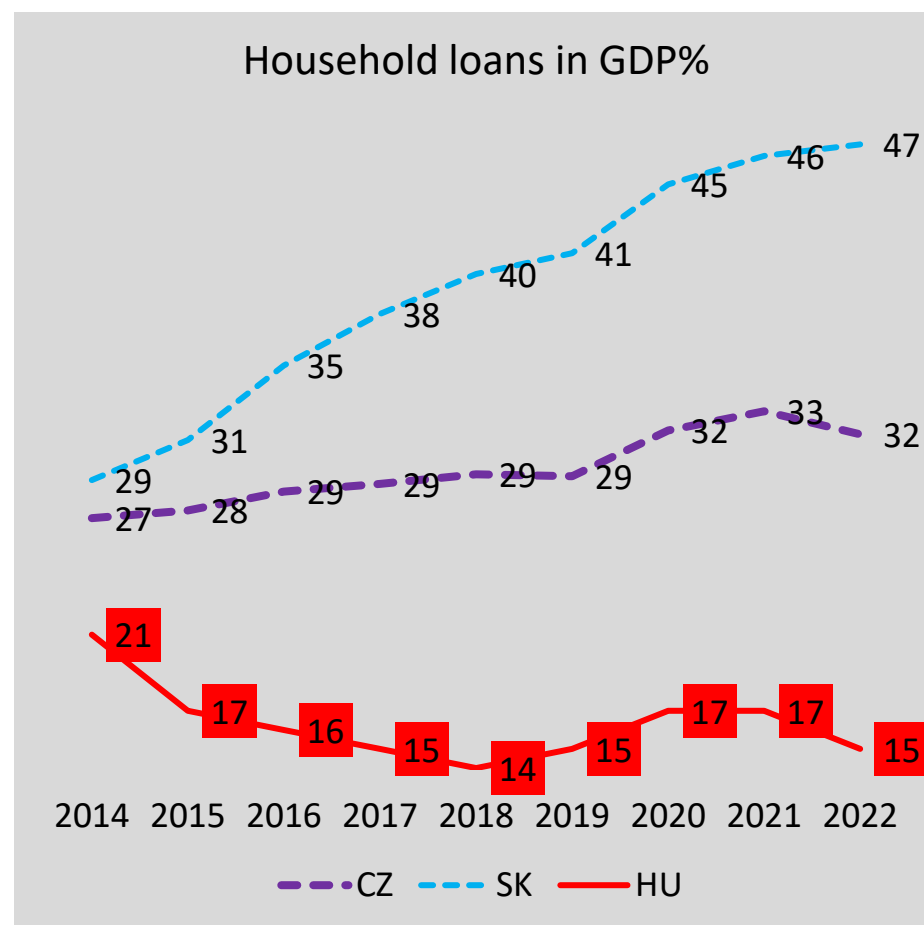
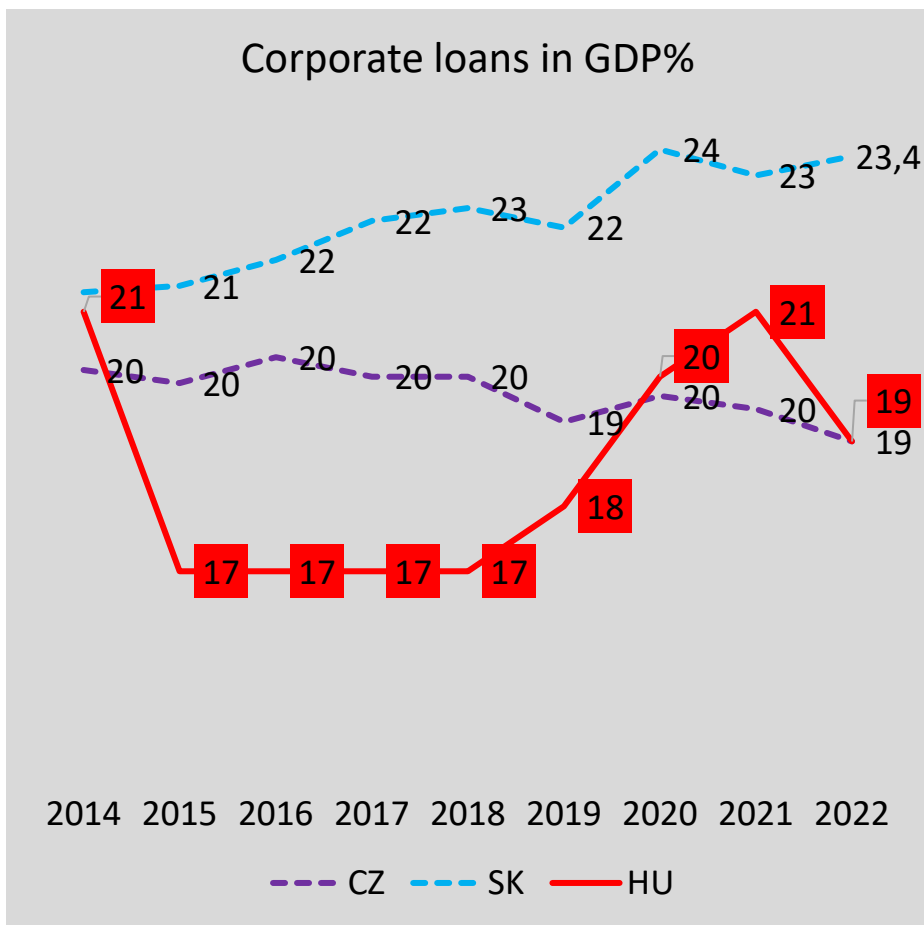
**Industry (and agriculture in HU) is more important in V4 vs. EU average**

**Professional and public services have lower weight in V4 in compared to EU average**

**HU economic structure is somewhat closer to EU 27 than V3**

**HU economic structure little changed since EU accession**

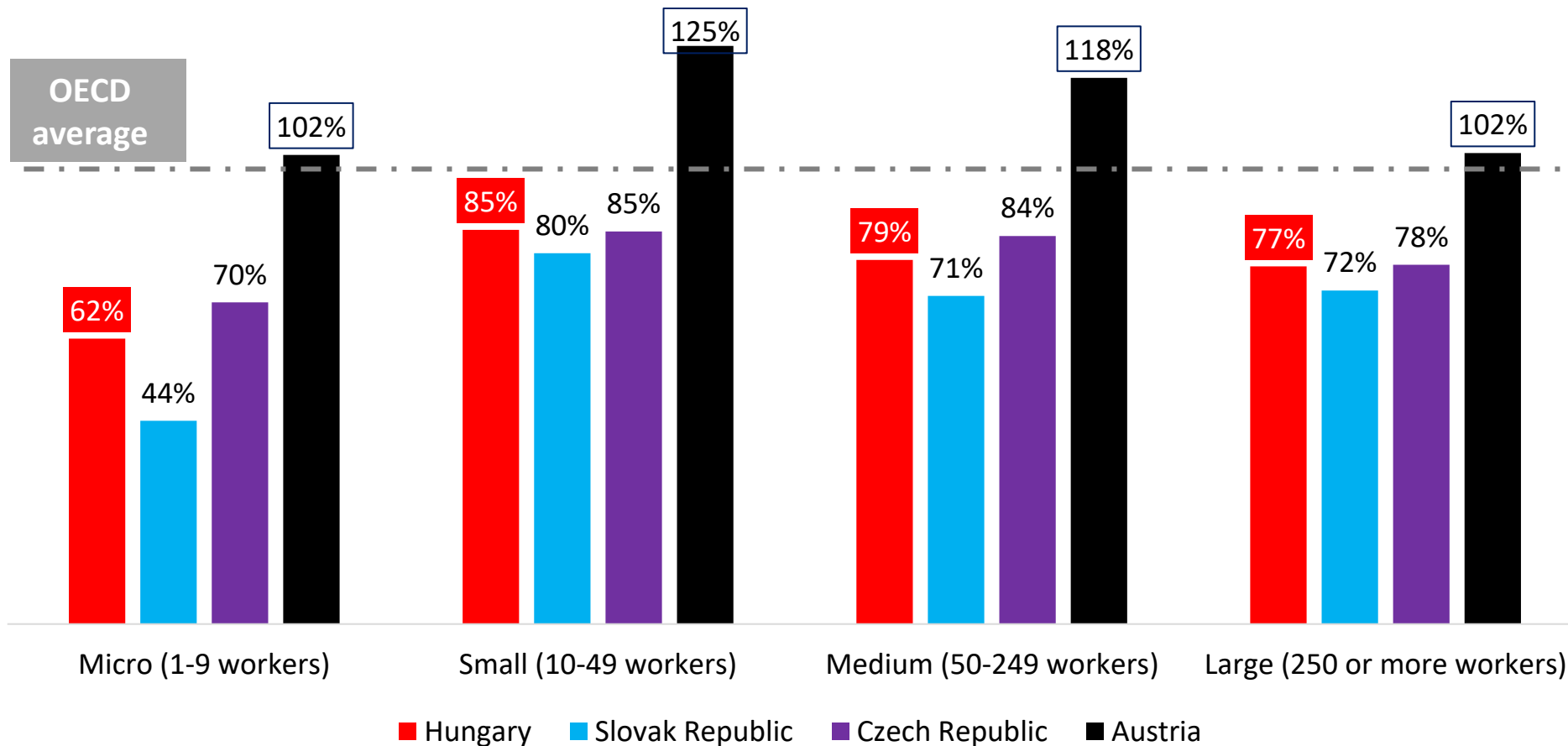
# Corporate and Household loans in GDP% (2014-2022)



Massive deleveraging in HU up until late 2010's

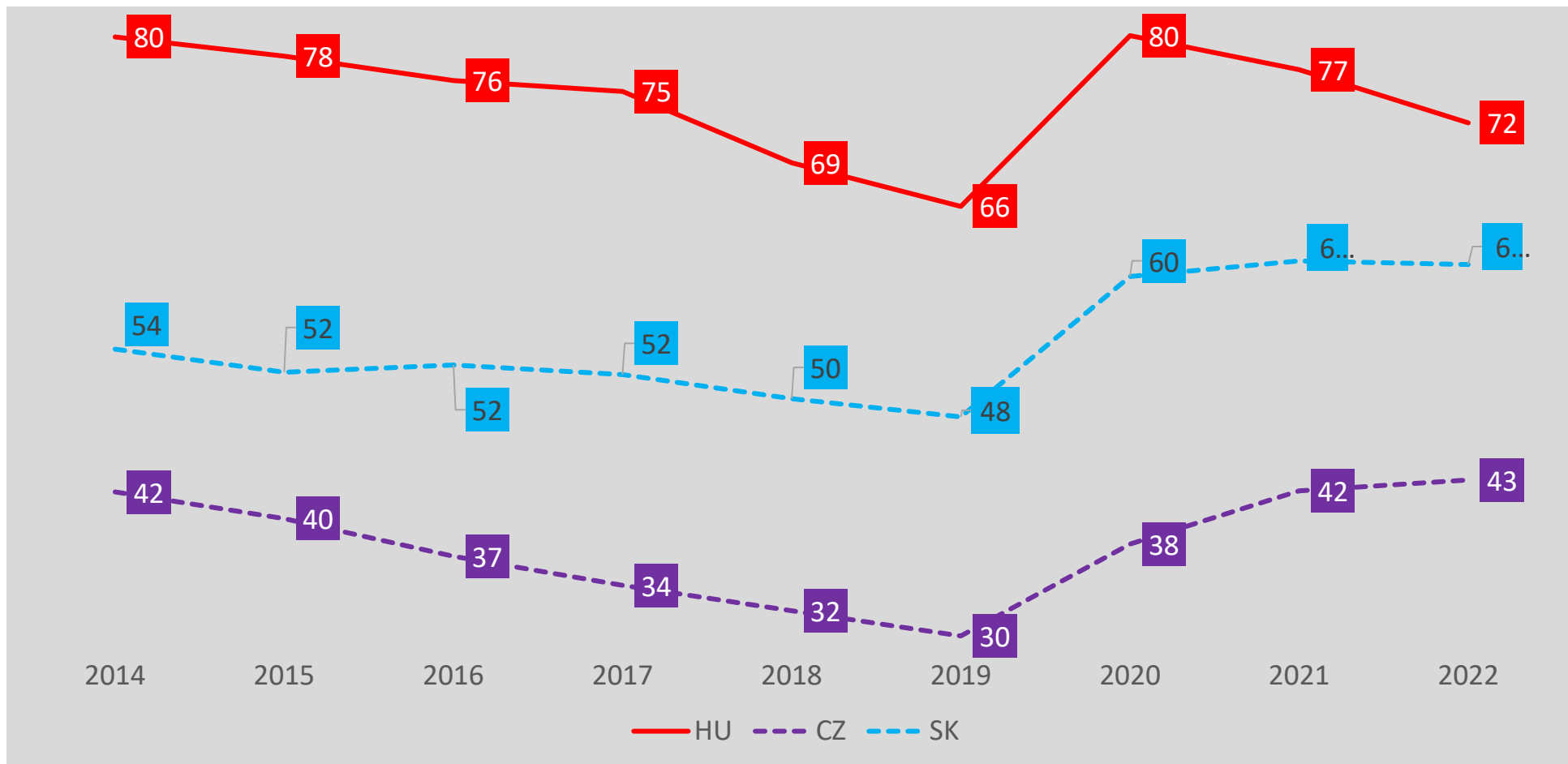
Corporate loan to GDP ratio is at V3 average, household loan to GDP ratio largely below peers

# Labour productivity by firm size (100=OECD average, 2020)



**HU labour productivity is at around V3 average (in each firm size)  
Significant labour productivity improvement is needed for convergence**

# Public debt to GDP (in GDP%)

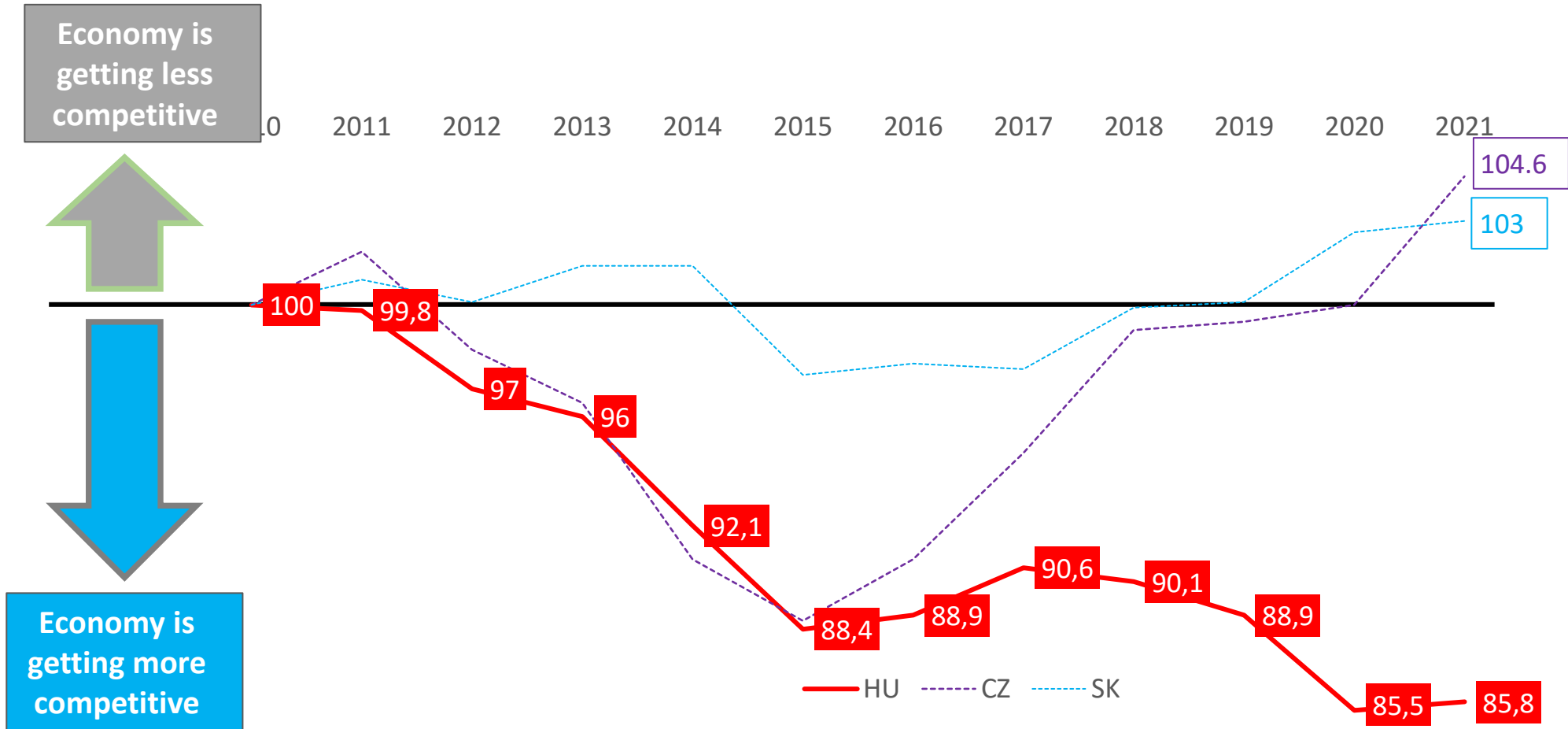


**HU public debt-to-GDP level is consistently higher than peers'**

**V3 debt-to-GDP level is above 2014 level (+5) in HU it is lower (-7) but the gap is still large**

# Real Effective Exchange Rate (REER 2010=100) developments

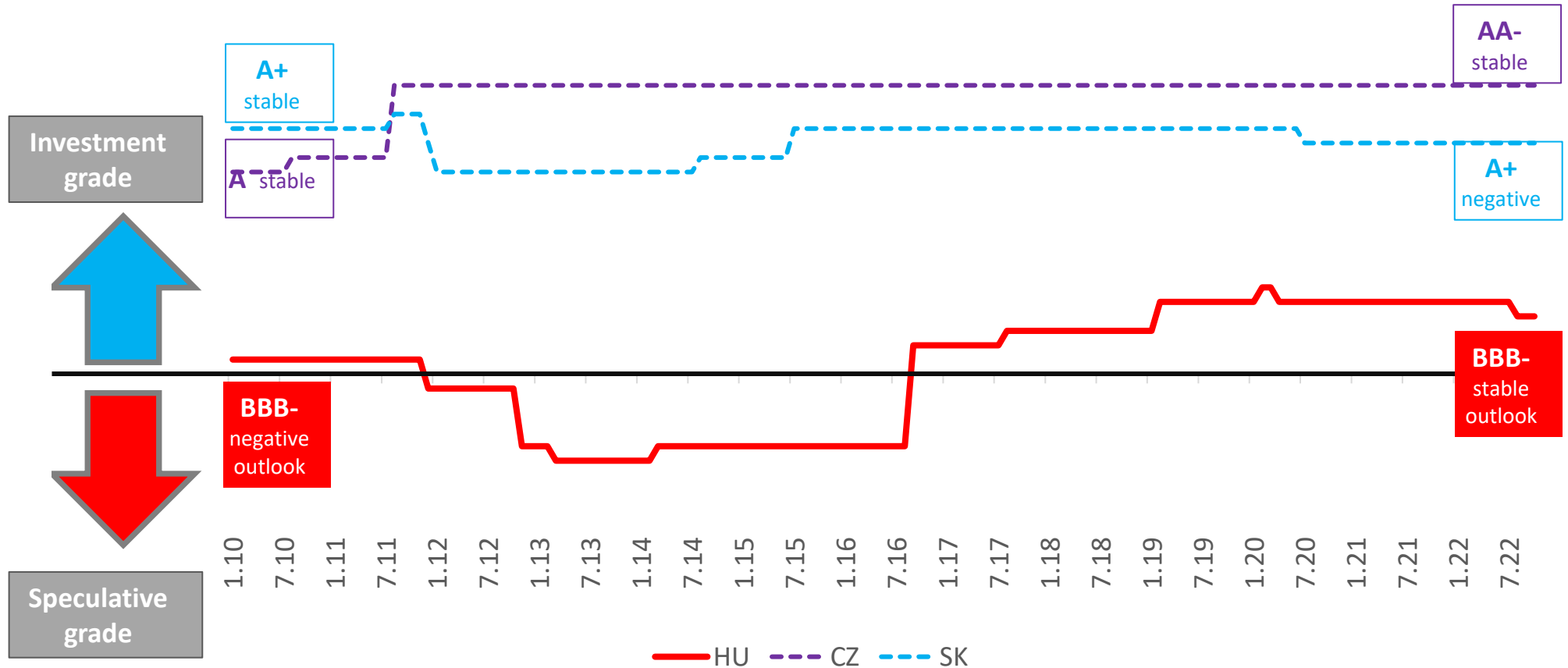
Weighted basket of the exchange rate divided by the price deflator (price index)



Average annual HUF depreciation is nearly 3% (vs. 1.3% CZK appreciation) since 2004



# S&P sovereign rating



HU country rating is several notches below peers

From Dec 2011 until Sept 2016 HU rating was not in investment grade

Reason: Large public debt and quality concerns of policies

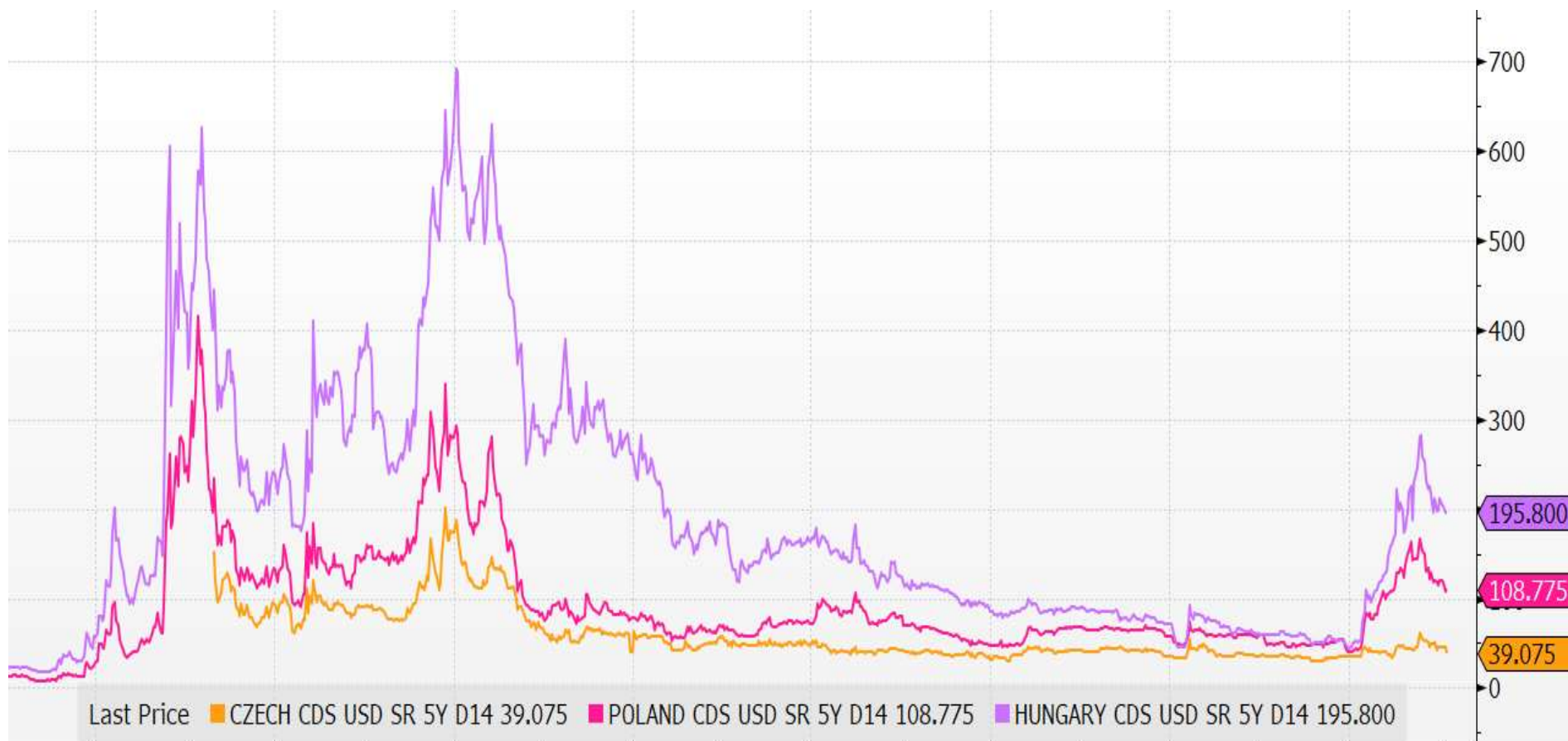
### 10-year yield spreads vs. Germany



CZGB10YR Index (Czech Republic Governments Bonds 10 Year Note Generic Bid Yield) 10-year yield spreads v Weekly 01JAN2007-01MAR2023 Copyright© 2023 Bloomberg Finance L.P. 01-Mar-2023 16:57:52

Source: Bloomberg

### 5-year CDS spreads



CT349923 Curncy (CZECH CDS USD SR 5Y D14) 5-year CDS spreads Weekly 01JAN2007-30JAN2023 Copyright© 2023 Bloomberg Finance L.P. 01-Mar-2023 17:03:09

Source: Bloomberg

# Challenges in 2023

# Banking Distress

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- **Recent events are single name problems** – mismanagement of risks / business
  - **No systemic banking crisis**
  - Idiosyncratic cases are quickly managed with targeted measures by authorities (see CS, SVB)
  - Central Banks (CB) distinguish between some spots of financial stress and rates policy
  - Ample provision of CB liquidity
  - Financing conditions key – CB rather want to tighten via rates than escalating risk premia (equity prices, credit spreads, etc.)
  - High(er) interest rates dig into weaker spots – some more idiosyncratic cases have to be expected for longer
  - **Ups and downs in financial market sentiment – elevated volatility in 2023/24**
-

# ECONOMIC OUTLOOK: EURO AREA

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Economic forecasts	2021	2022	2023f	2024f
<b>Gross domestic product*</b>	<b>5.3</b>	<b>3.5</b>	<b>0.3</b>	<b>2.0</b>
Private consumption*	3.7	4.3	0.0	1.5
Gross fixed capital formation*	3.9	3.8	-1.0	3.5
Exports*	10.5	7.2	4.2	5.0
Imports*	8.3	8.0	3.8	4.6
<b>Consumer price index*</b>	<b>2.6</b>	<b>8.4</b>	<b>5.2</b>	<b>2.7</b>
<b>Core consumer price index*</b>	<b>1.5</b>	<b>3.9</b>	<b>4.1</b>	<b>3.4</b>
Unemployment rate (%)	7.7	6.7	7.1	7.0
Employment (% yoy)	1.4	2.2	0.4	0.7
Current account balance (% of GDP)	2.3	-0.7	0.0	0.5
General budget balance (% of GDP)	-5.1	-3.5	-3.7	-3.3
Public debt (% of GDP)	95.4	91.9	90.7	89.9

\*average, % yoy

Source: Refinitiv, RBI, Raiffeisen Research

- **Current situation**

- Post Covid recovery vs. energy crisis
- Energy risks decreased but still strong headwind
- Tight labour market – many open jobs
- Output / demand below long term potential

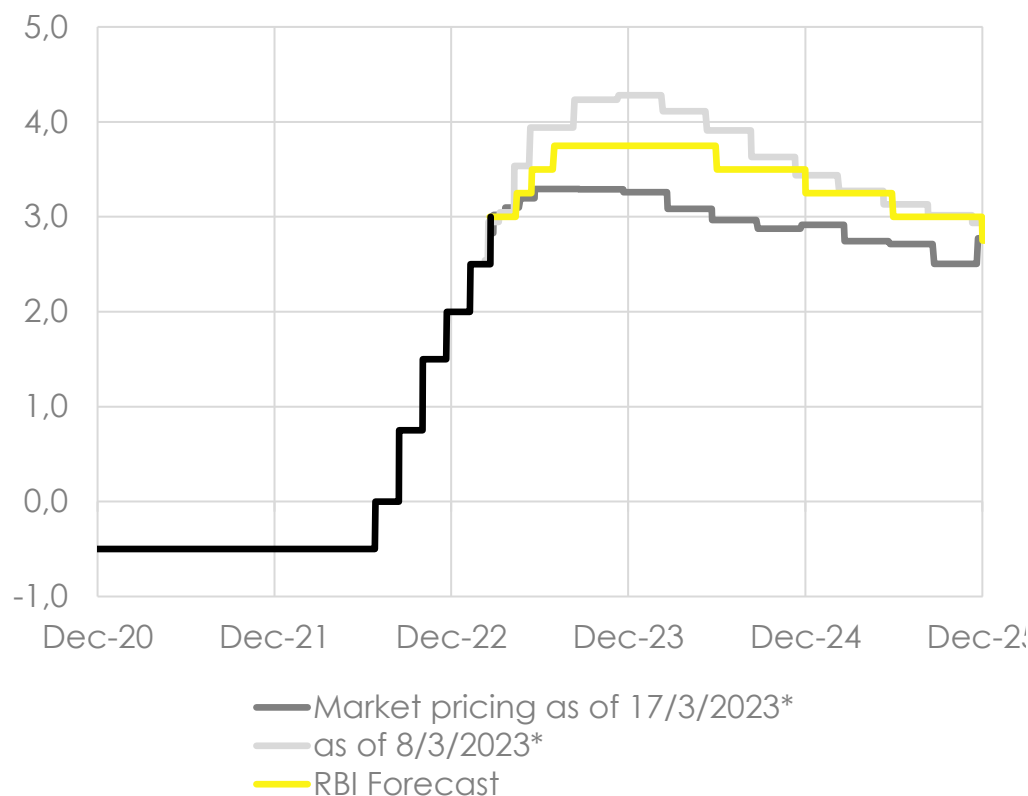
- **Negatives / risks:**

- Credit / monetary (over)tightening
- Sticky inflation
- War in the Ukraine
- Renewed turbulence on energy markets
- US weakness

- **Positives / support:**

- Fiscal policy
- China reopening
- Steady of supply chain bottlenecks
- Labour market robust against some weakening
- Pent-up savings

-> **Stagnation in H1 & mild recovery in H2 soft landing.**



By raising key interest rates by 50 basis points (bp), ECB signaled confidence in the stability of the financial system and determination to combat inflation.

The next steps will depend solely on further economic data releases and (new in the guidance) financial market conditions.

We think that the problems of individual banks are not a sign of general imbalances (no systemic crisis).

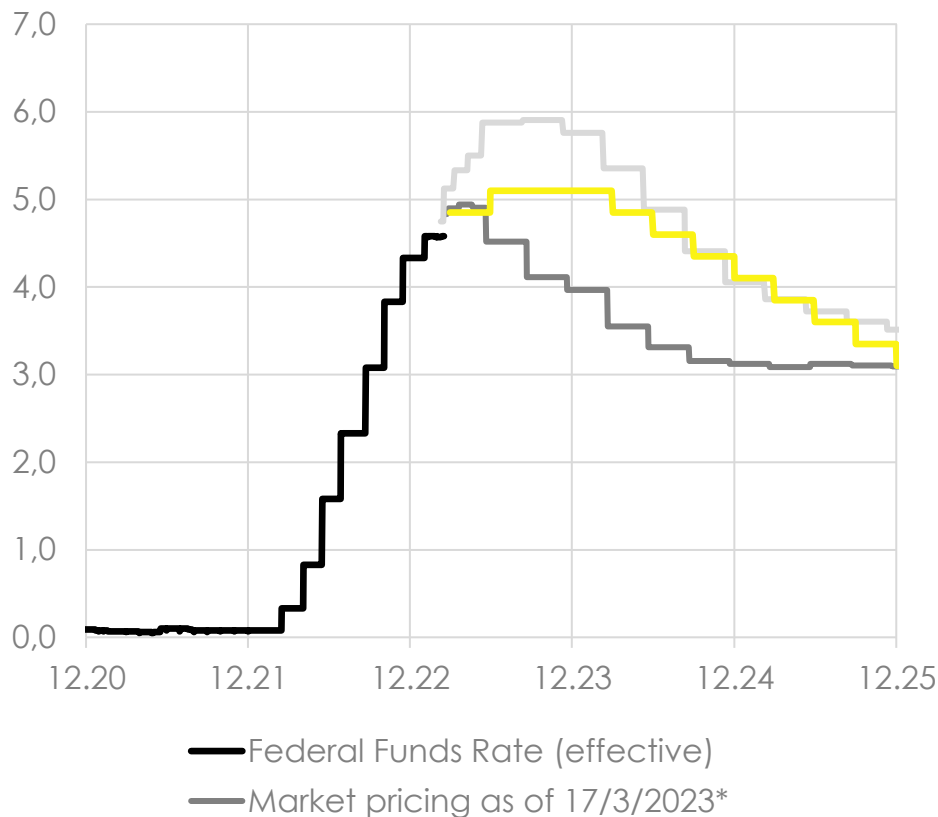
Moreover, nervousness & contagion risks can be better countered with liquidity instruments of a central bank. ECB is able and has stressed its willingness to apply such measures.

This means that interest rate policy is likely to be guided rather by the inflation outlook. Lagarde: Should the turbulence on the financial market subside, there is still “a lot of ground to cover”.

We expect the interest rate hike process to continue with steps of 25 basis points at least in May and June. In addition, a further step in July (25bp) seems likely to us.

Key interest rate expectations on the market have slumped. However, these have been extremely volatile for some time and were thus a poor point of reference.

\* based on short-term OIS forwards (€STR + 8.5 bp)  
Source: Refinitiv, RBI/Raiffeisen Research

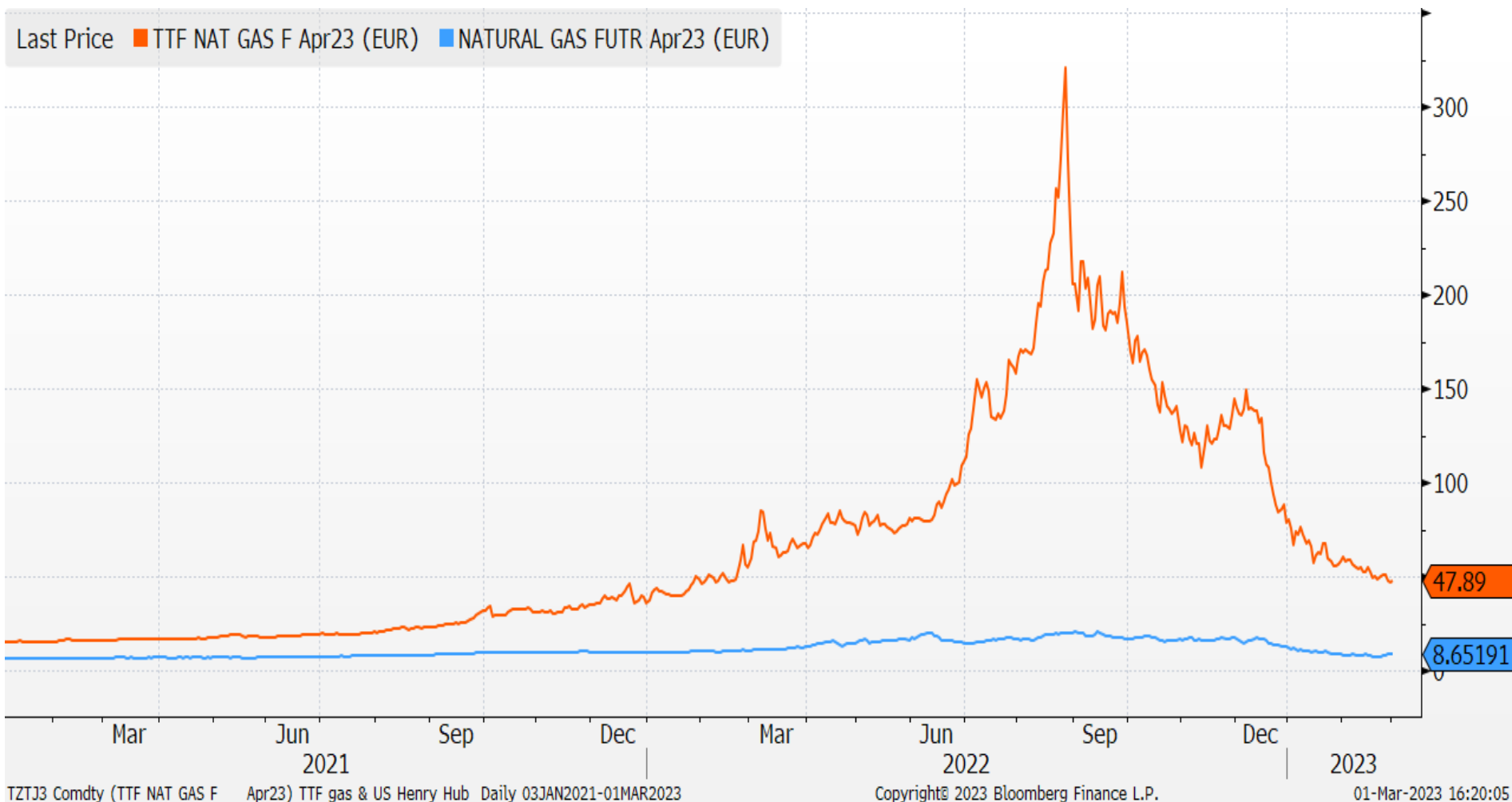


- Until the banking sector volatility hit, **US economic data** triggered hawkish repricing. And, Powell's testimony hinted towards the possibility of a 50 bp rate hike in March.
  - Core inflation seems to remain stubborn = inflation is stickier than initially assumed
- It has become more difficult to **simultaneously achieve financial and price stability**. More emphasis on tighter financial conditions and the lag with which monetary policy affects economy.
- Monetary policy might become more medium-term oriented and less responsive to individual data releases. Recent financial stability concerns should have pushed us **closer to the terminal rate**.
- **25bp hike** does pay tribute to recent events, while not losing sight of restoring price stability.
- If **financial markets stabilize** and if underlying inflation pressure does not ease **additional rate hikes of 25bp** in Q2 feasible. Subject to uncertainty, which should get smaller on Wednesday (FOMC meeting).

\* based on short-term OIS forwards (EFFR)  
Source: Refinitiv, RBI/Raiffeisen Research



### Dutch TTF gas & US Henry Hub gas (EUR/MWh)



Source: Bloomberg

# Modified gas price estimate

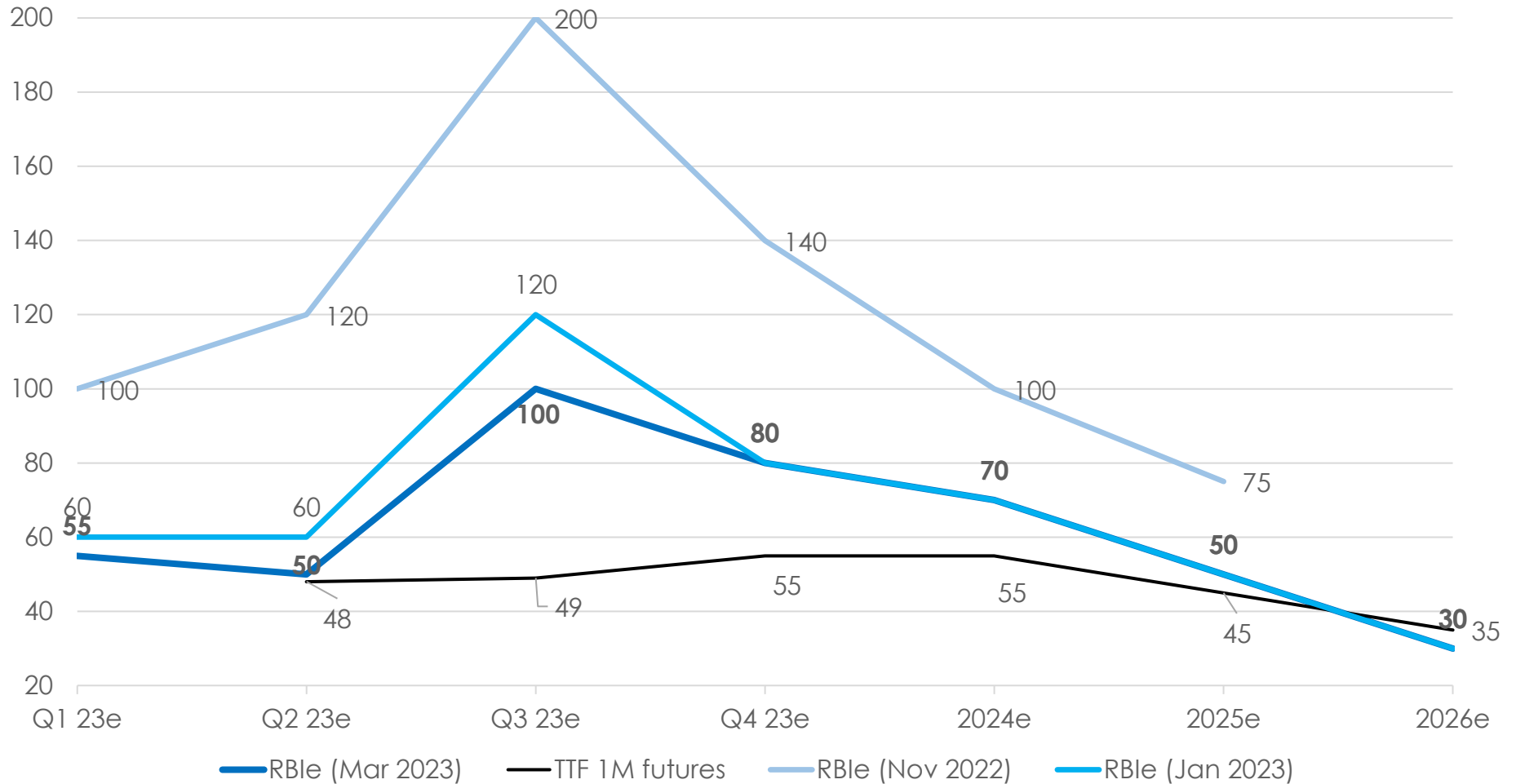
## Average 2023 gas price estimate (EUR/MWh, TTF)

**Nov 2022: 140**

**Jan 2023: 80**

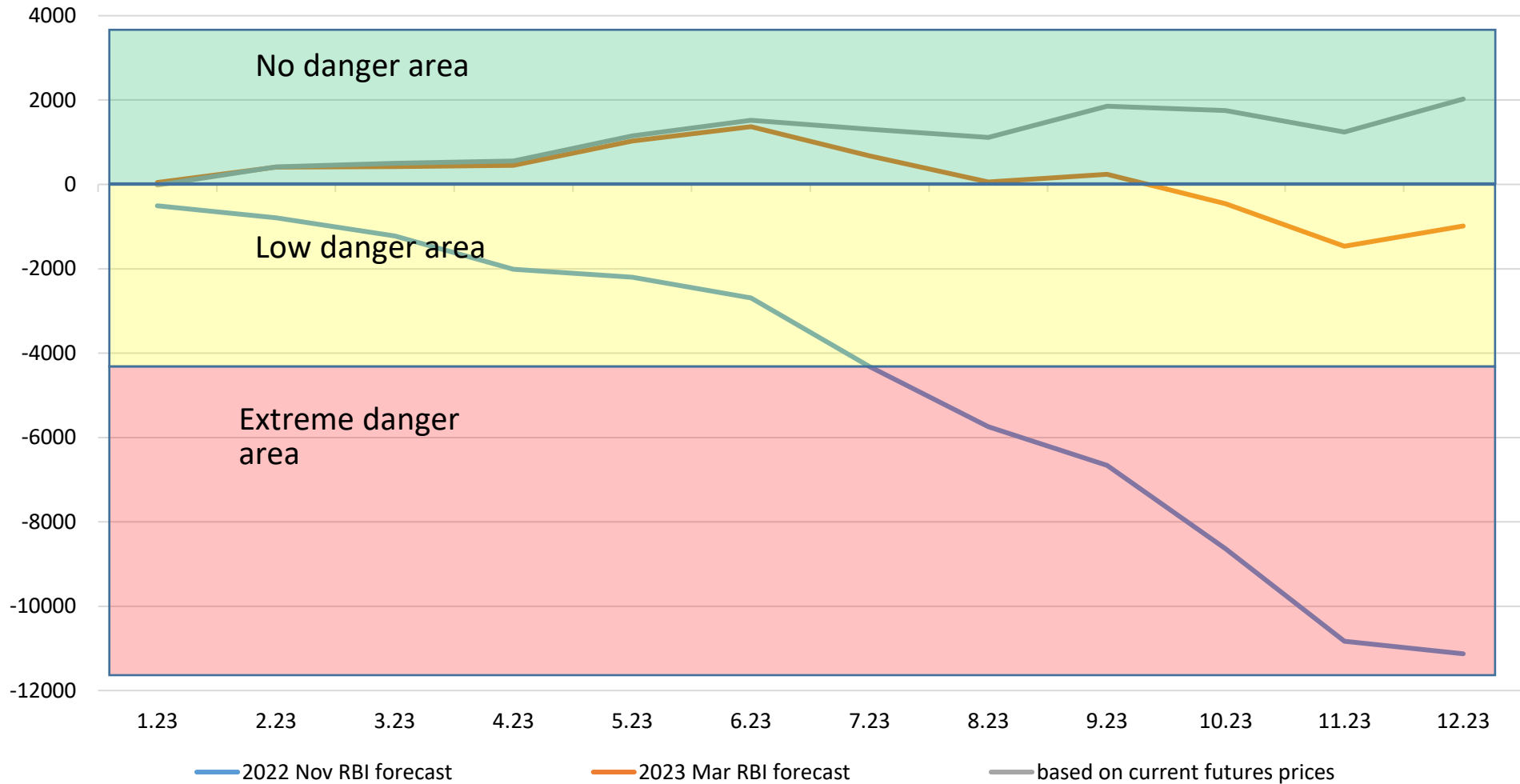
**Mar 2023: 70**

**Futures: 50**



# Lower energy bills result in improving external balance

*Cumulated HU trade balance scenarios (EURmn)*



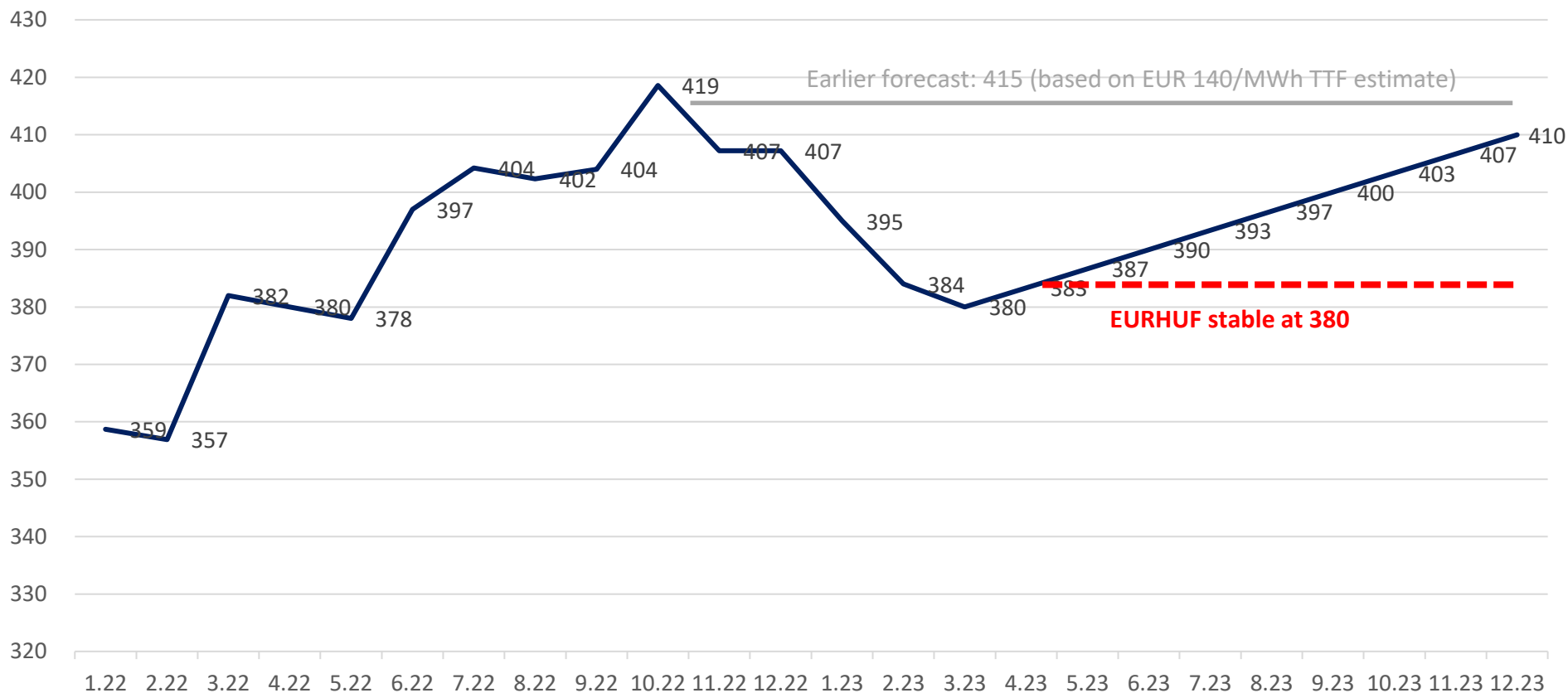
End of 2023: 410 vs. 415 previously (average for the year 394 vs 415 previously)

**HUF weakening scenario (base case):**

**MNB rate cuts**  
**Problems over EU funds resurface from Q2**  
**Higher energy prices in H2**

**EURHUF stable at 380 scenario:**

**Smaller and later rate cuts**  
**Problems over EU funds resolved in H1 Energy prices stay at current levels in 2023**



## Key Macro Indicators

Global	GDP (real, % yoy)				Inflation rate (CPI, avg % yoy)			
	2021	2022e	2023f	2024f	2021	2022e	2023f	2024f
Euro area	5.3	3.3	0.3	2.0	2.6	8.4	6.0	3.4
Austria	4.6	4.7	0.5	1.8	2.8	8.6	6.0	3.1
<b>CE</b>	<b>5.9</b>	<b>3.9</b>	<b>1.0</b>	<b>3.4</b>	<b>4.5</b>	<b>14.0</b>	<b>12.6</b>	<b>5.9</b>
Czechia	3.5	2.5	0.9	3.3	3.8	15.1	8.8	3.2
Hungary	7.1	4.5	1.0	3.5	5.1	14.5	18.0	6.0
Poland	6.8	4.6	1.0	3.6	5.1	14.3	13.8	7.5
Slovakia	3.0	1.7	1.0	2.5	2.8	12.1	9.8	3.9
Slovenia	8.2	5.5	1.7	2.5	1.9	8.8	5.9	2.8
<b>SEE</b>	<b>7.3</b>	<b>4.4</b>	<b>2.1</b>	<b>3.9</b>	<b>4.3</b>	<b>12.8</b>	<b>10.1</b>	<b>4.6</b>
Albania	8.5	3.9	3.0	3.9	2.0	6.7	4.8	2.8
Bosnia a. H.	7.4	4.0	1.5	3.0	2.0	14.0	6.0	3.0
Bulgaria	4.2	2.7	2.0	2.4	3.3	15.3	9.5	3.5
Croatia	13.1	6.3	1.2	2.7	2.6	10.8	7.5	3.3
Kosovo	10.8	3.0	2.9	3.7	3.4	11.2	5.8	2.2
Romania	5.8	4.5	2.3	4.5	5.1	13.8	11.3	4.8
Serbia	7.5	2.4	1.9	3.0	4.0	11.9	11.2	6.3
<b>EE</b>	<b>4.5</b>	<b>-6.6</b>	<b>-3.6</b>	<b>1.3</b>	<b>7.0</b>	<b>14.1</b>	<b>7.8</b>	<b>4.9</b>
Belarus	2.3	-4.7	0.0	1.0	9.5	15.2	13.9	12.5
Russia	4.7	-3.5	-4.0	0.9	6.6	13.3	6.7	4.0
Ukraine	3.4	-33.0	1.8	7.5	9.3	20.0	21.5	15.9

update: 6/2/2023