Czech Republic

The Czech economy experienced a decline of 0.1% in 2023. This outcome, reflecting economic stagnation, was slightly more optimistic than the forecasts at the beginning of the year had suggested. Household consumption negatively impacted growth, with a year-on-year decrease of 2.9%. The reduction in inventories, which had been accumulated in previous periods, also had an adverse effect, though it led to increased exports. Export was primarily driven by the automotive sector, whose production rose by a strong 17% year-on-year in 2023, significantly mitigating a more substantial decline in both the industry itself and the overall domestic economy.

The decline in household consumption was mainly due to a drop in real wages, which in 2022 was one of the sharpest among OECD countries (-9.4%) and continued in a milder form in 2023 (-2.4%), despite the EU's lowest unemployment rate and ongoing tensions in the labor market.

Inflation in 2023 reached 10.7%, down from 15.1% the year before. The rise in prices was concentrated primarily in January, while in the remaining months, it was more moderate. The decline in inflation was driven by a slower increase in food prices and housing costs, particularly energy; however, these categories remained in double digits growth. A year-on-year decline was recorded only in the transportation category, where fuel prices fell by 12% due to a drop in oil prices on global markets. Given the gradually easing inflationary pressures from a month-on-month perspective, the central bank initiated a monetary easing cycle at the end of 2023, reducing its key interest rate by a quarter percentage point from 7% to 6.75%, with the easing cycle continuing through 2024.

At the end of 2023, there were 46 licensed banks operating in the Czech Republic. The structure of the banking sector consisted of four large banks, six medium-sized banks, seven small banks, 24 branches of foreign banks, and five building societies. The total value of the banking sector's assets increased by about 11%, reaching CZK 9,890 billion (€400 billion), representing about 130% of GDP.

After 2020, when banking sector profitability fell by almost 50% amid the COVID-19 pandemic and the effects of government restrictions aimed at managing the crisis, profitability increased at a double-digit pace in 2021 and 2022 but stagnated in 2023 (CZK 104 billion vs. CZK 102 billion in 2022 after tax).

The share of non-performing loans slightly declined from 1.95% to 1.64%, reaching historical lows. Additionally, banks maintained a consistently comfortable level of capital and liquid assets, remaining highly resilient against potential adverse scenarios as assessed by the Czech National Bank's stress tests.

At the end of 2023, the total volume of bank loans increased by 7% year-on-year, reaching CZK 4,494 billion (€183 billion). New housing loans reached their bottom in the second half of 2022 amid higher interest rates and began to slightly recover through 2023. Still, due to the high base of the first half of 2022, new production fell in 2023 by 25%, with the volume of new yearly production returning to levels last seen in 2015. The average mortgage rate was 5.9% in 2023, with its peak in December 2022 at 6.1%.

In the area of corporate financing, new loans fell by one-third amid high interest rates. A decline was seen in both Czech koruna-denominated loans (-38%) and euro-denominated loans (-27%). However, due to lower euro rates, companies shifted towards euro loans, and the share of euro-denominated loans reached 51.5% in 2023, up from 47% the year before, while the average share in the 2014-2021 period was around 30%.

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