

## Soaring Czech wages mainly driven by one-off factors

The 6.5% of Czech wage growth in 4Q20 is a positive surprise, but this quarter was affected by several one-off factors and bonuses for healthcare workers. This year we expect wage growth to slip below 3%



Source: Shutterstock

Forecasting Czech Republic wage dynamics for 4Q20 was filled with uncertainty and this is illustrated by the large spread in the estimates of the finance ministry (5.3% YoY) and the central bank (2.2% YoY) while the market estimate was somewhere in the middle at 3.1%.

Uncertainty was caused not only by the second lockdown but also by one-off bonuses in healthcare and the assumption that firms might optimize taxes and transfer end-year bonuses to the beginning of 2021 due to effective lower income taxes.

### Stronger than anticipated figure

But 6.5% nominal wage growth came as a surprise, beating all estimates.

In real terms, growth reached 3.8% - the highest since 1Q19. However, the positive figure was ultimately driven by a growth in the average wages in the health care sector, which rose by 31%

YoY contributing 2.4 percentage points - more than a third to year-on-year growth. Also, teacher's salaries grew by 10.6% YoY.

On the other hand, wages in administrative activities accelerated by almost 10%, but this was probably because of employees with below-average wages being let go as employment fell by 12% YoY in this segment. This is the highest year-on-year decline in employment after accommodation and food service activities (-18.9% YoY). Overall, employment fell by 2.9% YoY in the fourth-quarter

Wage growth was solid in the IT sector and grew by 6.5% YoY, and the manufacturing industry as preliminary figures have already signalled (+ 3.9%). The table below shows other sectors which saw wage growth declining but overall median wages increased by 5.4%.

## Highest/ and lowest wage growth in 4Q and past years (% YoY)

Sector (%YoY)	2017	2018	2019	2020	4Q20
Human health and social work activities	9.3	9.6	7.1	13.8	31.0
Education	6.0	11.3	11.9	7.8	10.6
Administrative and support service activities	5.3	7.1	6.7	9.5	9.9
Information and communication	5.3	7.4	3.7	5.6	6.5
Other services activities	4.4	5.8	6.6	2.6	4.7
Mining and quarrying	5.8	7.6	3.4	0.4	0.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.4	7.0	6.0	1.7	0.5
Financial and insurance activities	3.9	5.4	7.6	0.6	-0.4
Accommo. and food service	11.3	10.3	5.2	-2.1	-1.7
Real estate activities	6.1	8.0	6.3	-4.8	-5.7
<b>Total</b>	<b>6.7</b>	<b>8.2</b>	<b>6.4</b>	<b>4.4</b>	<b>6.5</b>

Source: CZSO, ING

## Czech wages likely to slow further in 2021

Although wages grew beyond expectations at the end of last year, this was mainly due to the pandemic, and health care workers battling Covid-19

This isn't really a game-changer for the central bank who expected weaker 4Q20 wage dynamics due to tax-optimization followed by strong 1Q21 (5.8% YoY).

For FY20, wages increased by 4.4%, which was also higher than expectations, though it was impacted by statistical anomalies including job losses of employees with below-average wages. This year, wage growth should slow further below 3%, though they will be supported by another 4.1% minimum wage growth since the beginning of 2021.

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