



Czech Republic

Politics, Economy,
Financial Market and Building Savings

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Association of Czech Building Savings Banks

Czech Republic



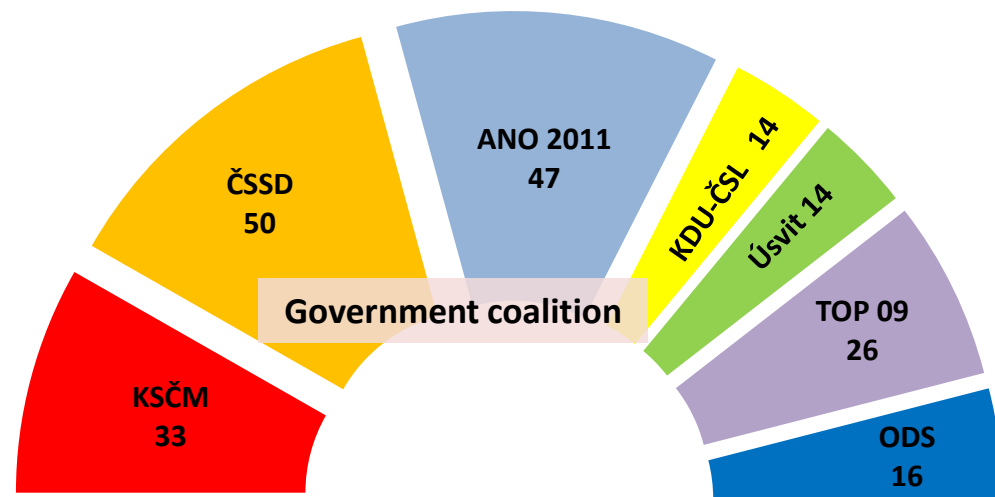
- Population: 10.5 million (2013)
 - GDP: €157bn (2013)
 - Average gross salary: CZK 26,287 (€970)
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- 5 building societies
 - more than 4 million contracts (3.83 savings + 0.425 building savings loans)
 - 752 thousand loans (incl. bridging loans)



€1 ≈ CZK 27.1 (Oct 2015)

Politics

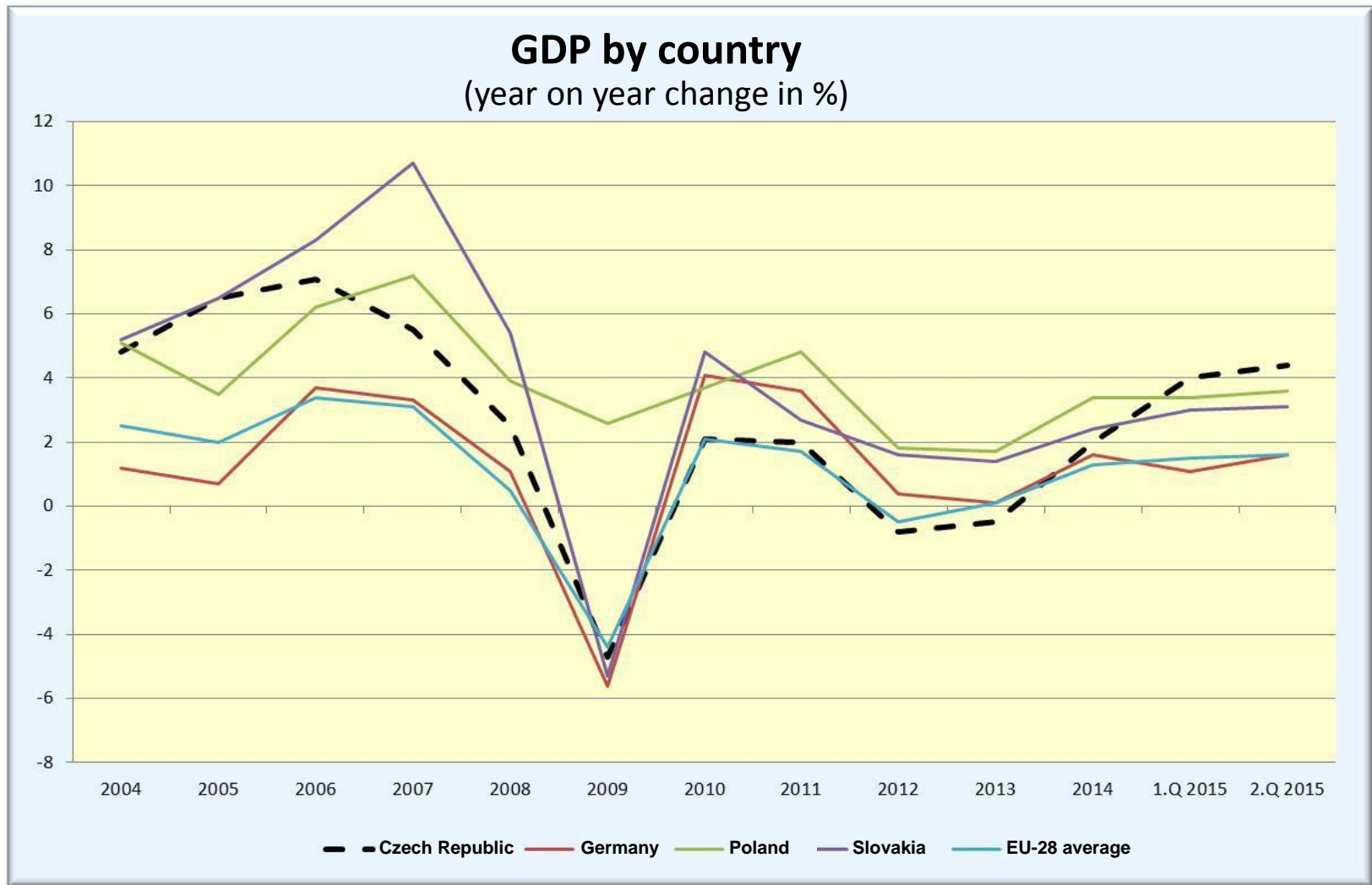
- After the President Václav Klaus, Czech politics became more pro-European.
- Distribution of seats in the Chamber of Deputies of the Czech Parliament
 - Centre-left government coalition with 111 votes
 - relatively high stability
 - pro-European
 - Opposition
 - right-wing: two former government parties
 - left-wing: one party
- More discussion on euro adoption



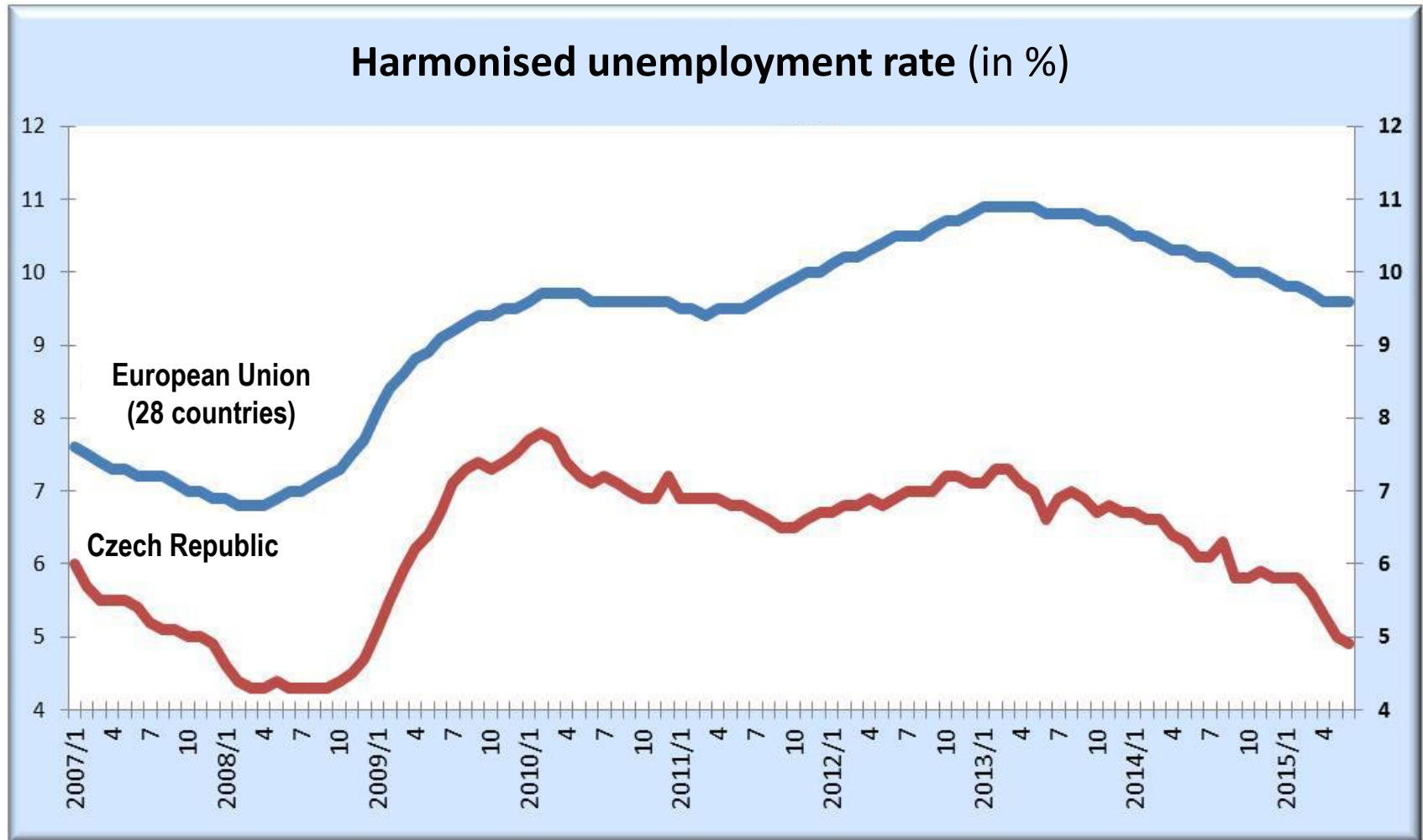
Key Characteristics of the Czech Economy

- **A small, open economy, highly dependent on foreign trade.** Strong trade and ownership relations with the EU.
- High share of manufacturing industry in the Czech economic structure (27% of gross value added in 2014).
- Long-term real convergence to developed countries, in 2014 the GDP per capita reached 84% of the EU average.
- Low inflation.
- Relatively low unemployment rate, **one of the lowest in the EU.**
- Fiscal consolidation: in 2014 deterioration of the general government deficit to 2% of GDP with a decrease in the general government debt to 42.6% of GDP.

GDP Development by Country

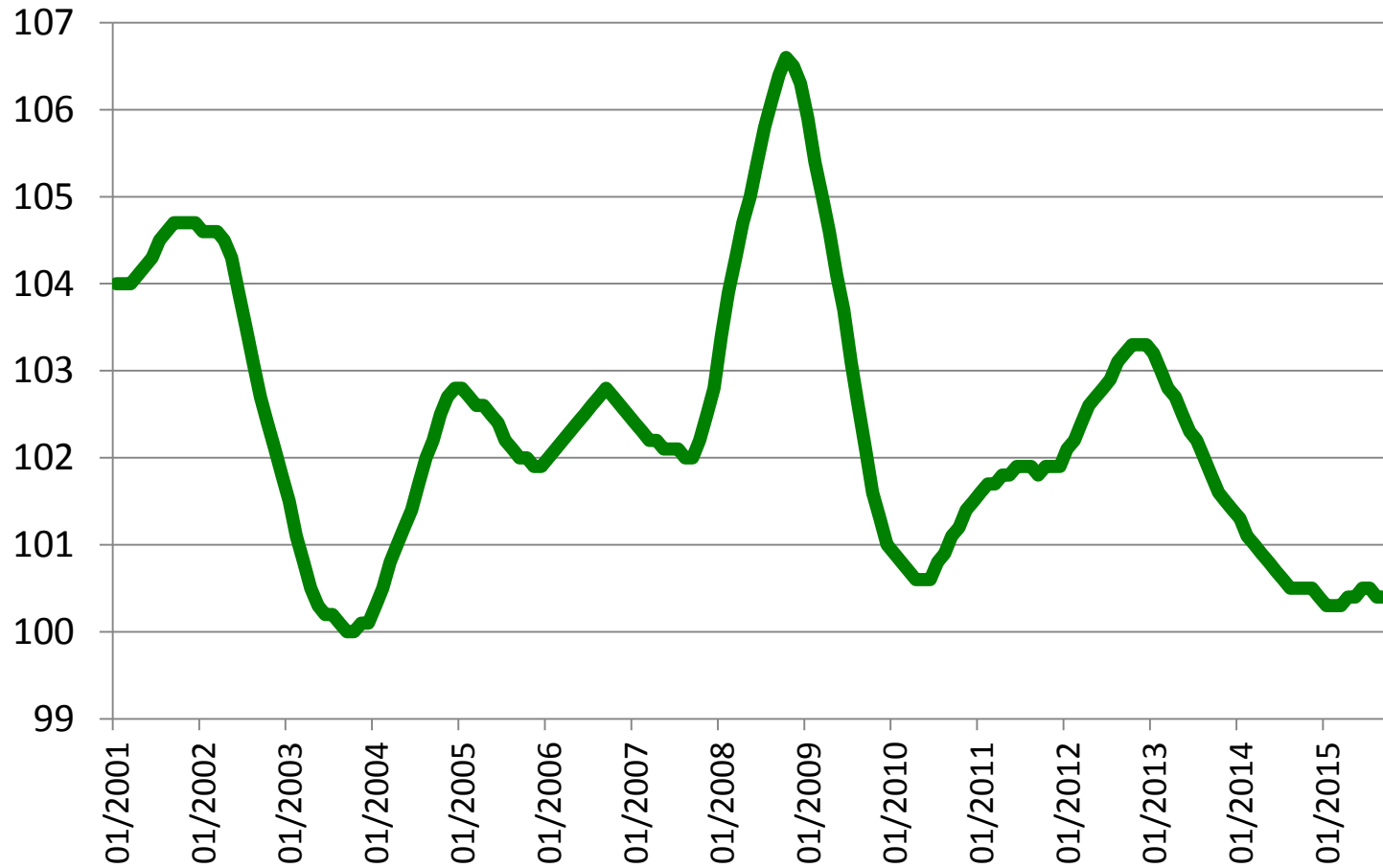


Low Unemployment Rate



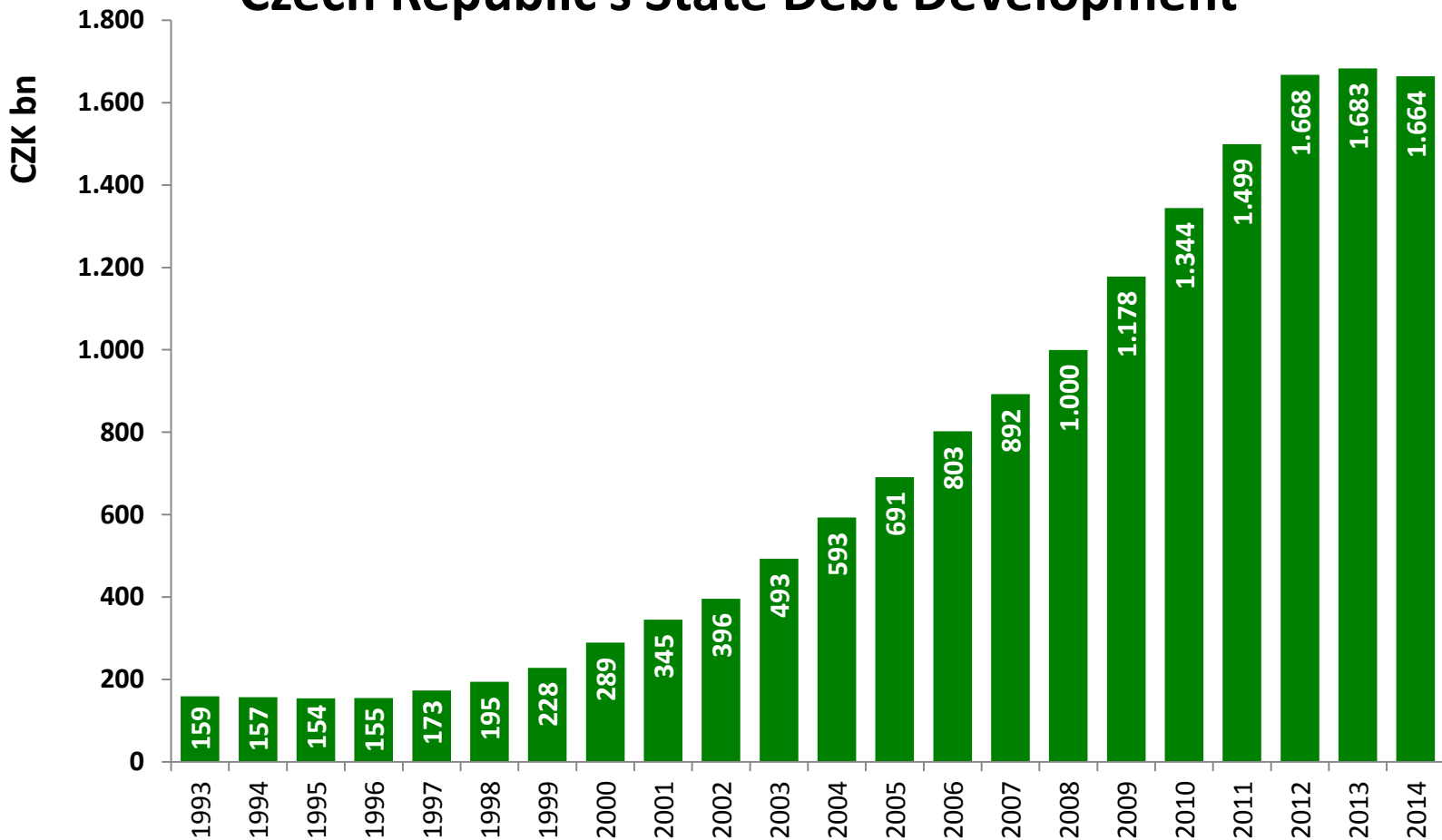
Inflation

Consumer price index - inflation rate (%)



Highly Dynamic State Debt Growth

Czech Republic's State Debt Development



- Last year the state debt decreased for the first time in 20 years, by CZK 19.7bn

Banking Sector

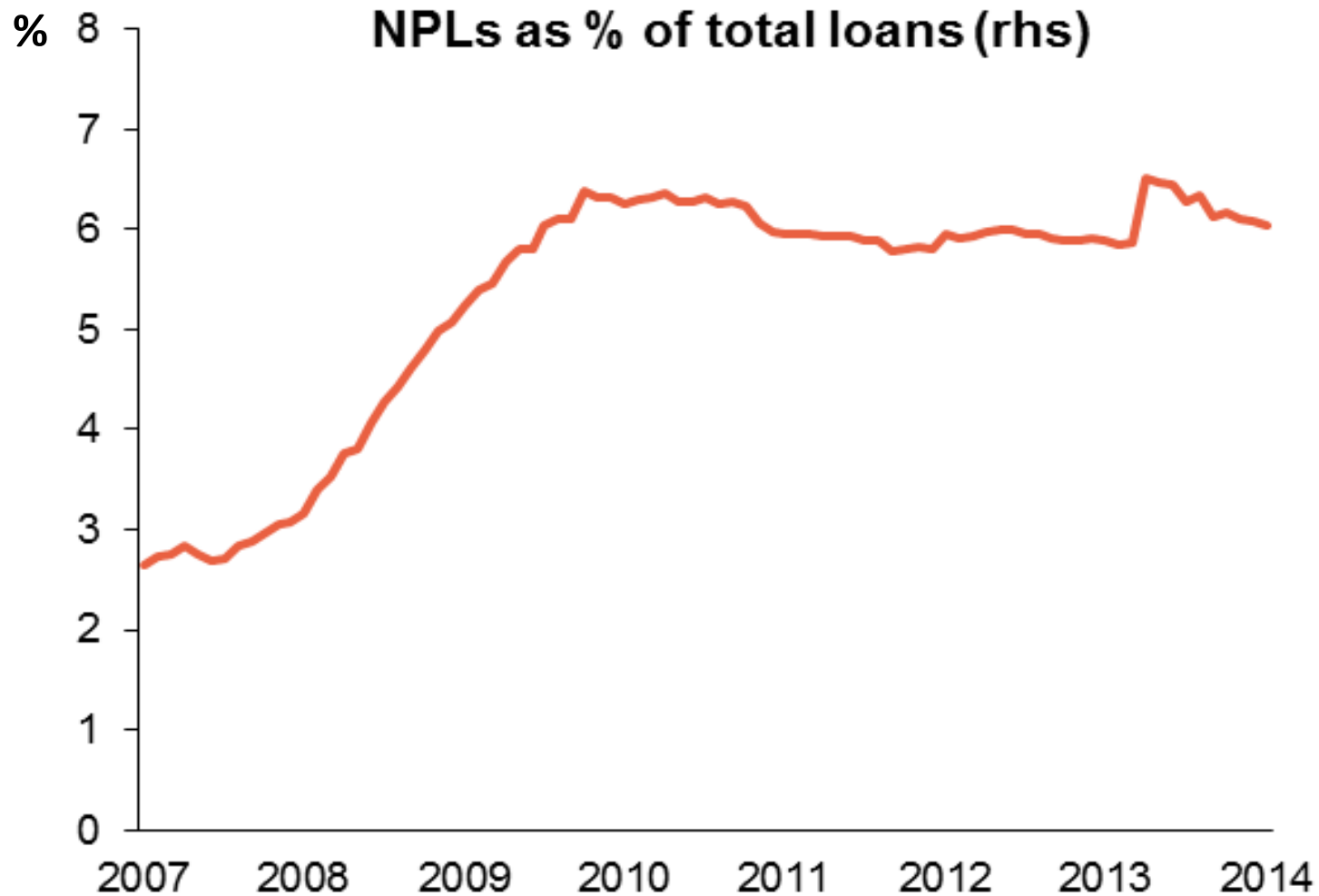
- In terms of ownership structure, the banking sector in the Czech is **highly international**. It is dominated by three large banking firms (55-60% market share), each of them (co-)owning one of the 5 building societies:
 - Česká spořitelna (Erste Bank Group)
 - **Stavební spořitelna České spořitelny**
 - Komerční banka (Société Générale)
 - **Modrá pyramida stavební spořitelna**
 - Československá obchodní banka (KBC Group)
 - **Českomoravská stavební spořitelna (with BSH)**
 - further building societies:
 - **Raiffeisen stavební spořitelna**
 - **Wüstenrot stavební spořitelna**
- Small and medium banks are increasing their activities
- The banking sector in the Czech Republic is
 - regulated by the Ministry of Finance of the Czech Republic
 - supervised and regulated by the Czech National Bank



Banking Sector

- The banking sector was only affected to a small extent by the financial crisis in 2008 – 2010.
 - Relatively low degree of default loans
 - Banks were restructured in 1990s (as part of the privatisation)
- It was negatively impacted by the economic recession in 2009.
- **Therefore, the argument of resistance of building savings to “financial market crises” does not have much strength in the Czech Republic.**

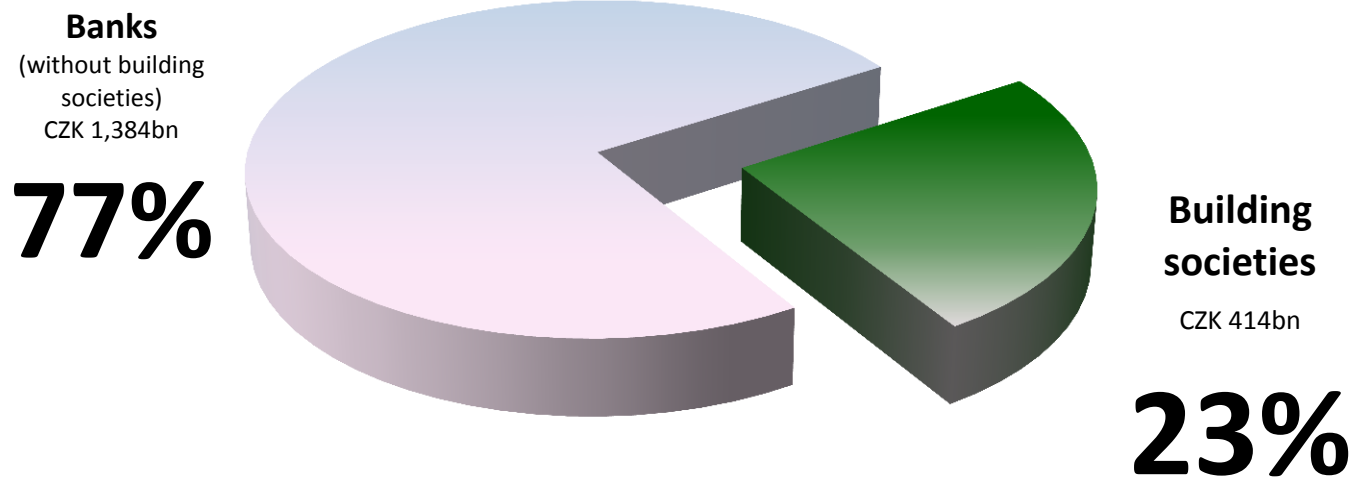
NPLs in the Czech Banking Sector



Source: CNB Financial Stability Report 2014/2015

Building Societies Play an Important Role

Household deposits in banks and building societies



The **deposits** of Czech households in the banking sector (including building societies) **amounted to CZK 1,798bn** (as at 31 December 2014).

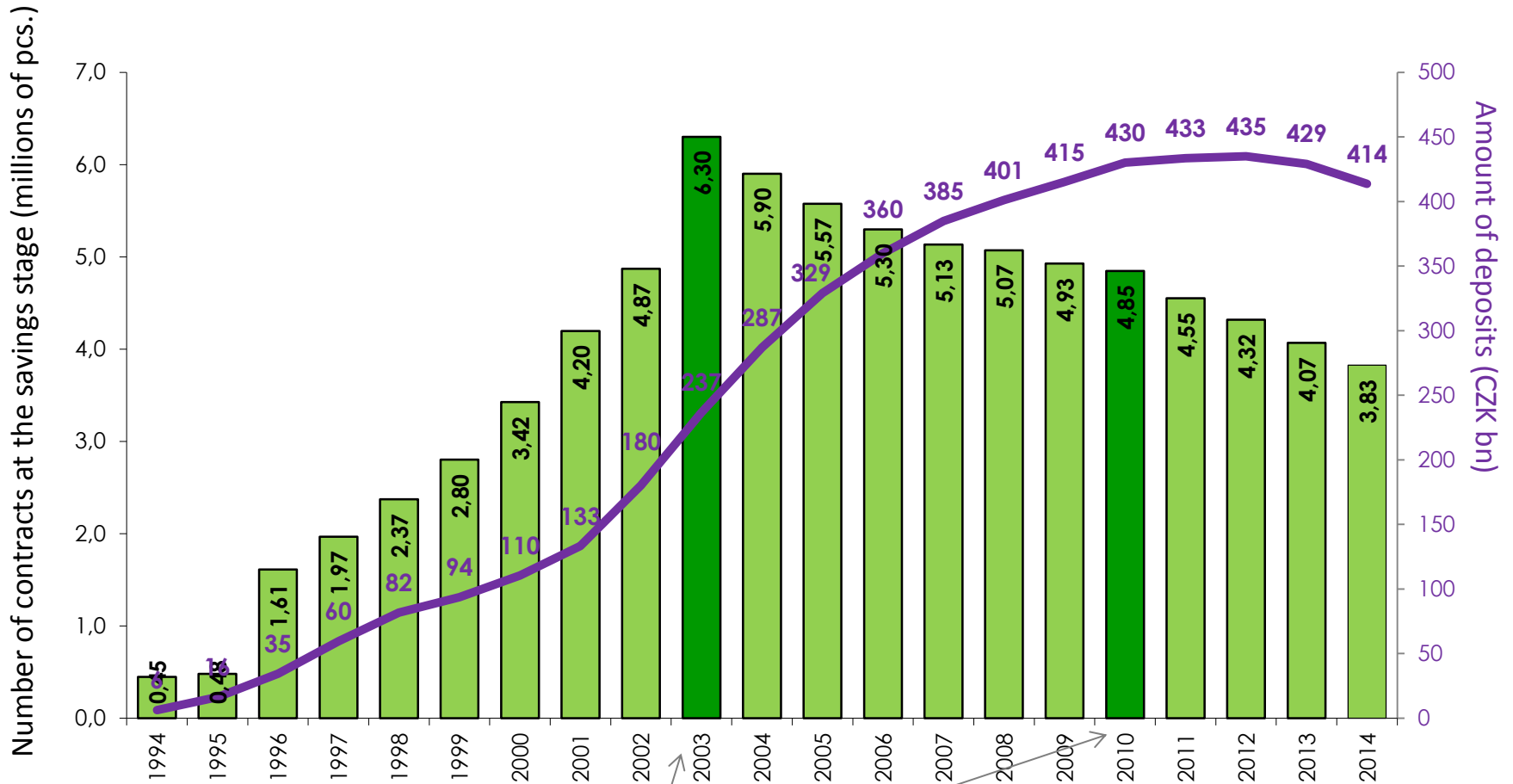
Building Savings Today

- **Minimum savings period is 6 years**
(in order to be entitled to a state subsidy)
- State premium of **10% of maximum CZK 20,000** (about €740)
 - The client receives up to CZK 2,000 (€74) a year from the state
- The most common **deposit rate on new contracts is currently 1%**.
After contract termination, the account balance (deposits, interests and subsidy) can be used for any purpose.
- Loans can only be used for housing purposes.
 - Interest rate: fixed rate of **1.99% - 4.30%** (bridging loans depending on the situation)
 - Building savings loans not secured by real estate - up to CZK 1 million (€37 thousand) depending on the building society.

Building Savings in the Czech Republic: Seeking Balance in Several Respects

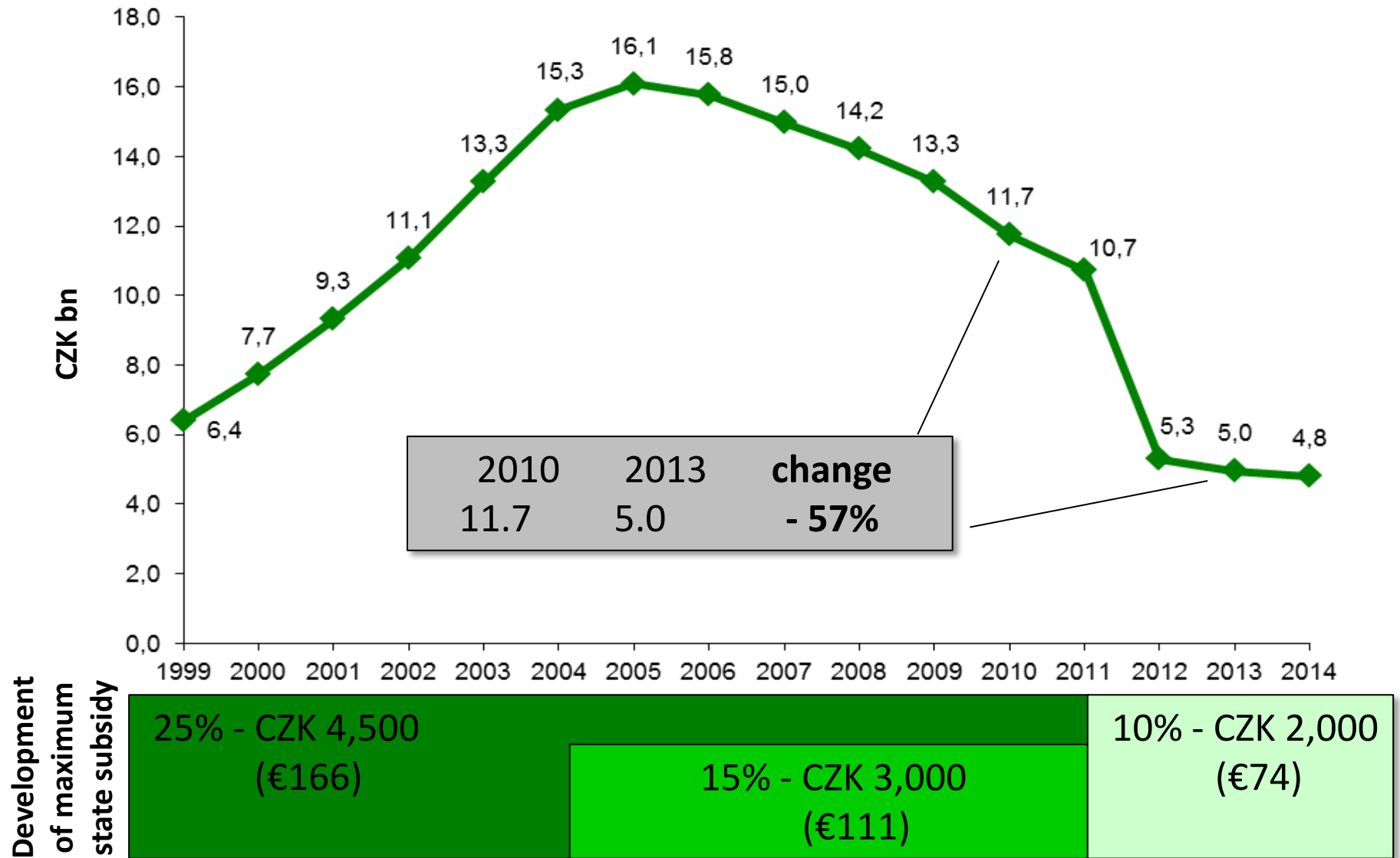
- After entering the Czech market in 1993, building savings **became very popular**, also thanks to the amount of state subsidy. 10 years later, **more than half the population had a building savings contract**.
- The Parliament decided that the state subsidy for new contracts was to be reduced from 2004. Since then, **building savings have been continually facing:**
 - **State subsidy change (from 2004)**
 - From 2008 new efforts for further reduction of the subsidy
 - **State subsidy change (from 2011)**
 - Long political discussion (2011 – 2013) about the existence of specialised building societies
 - Long term low interest rate environment

Number of Contracts and Deposit Volumes



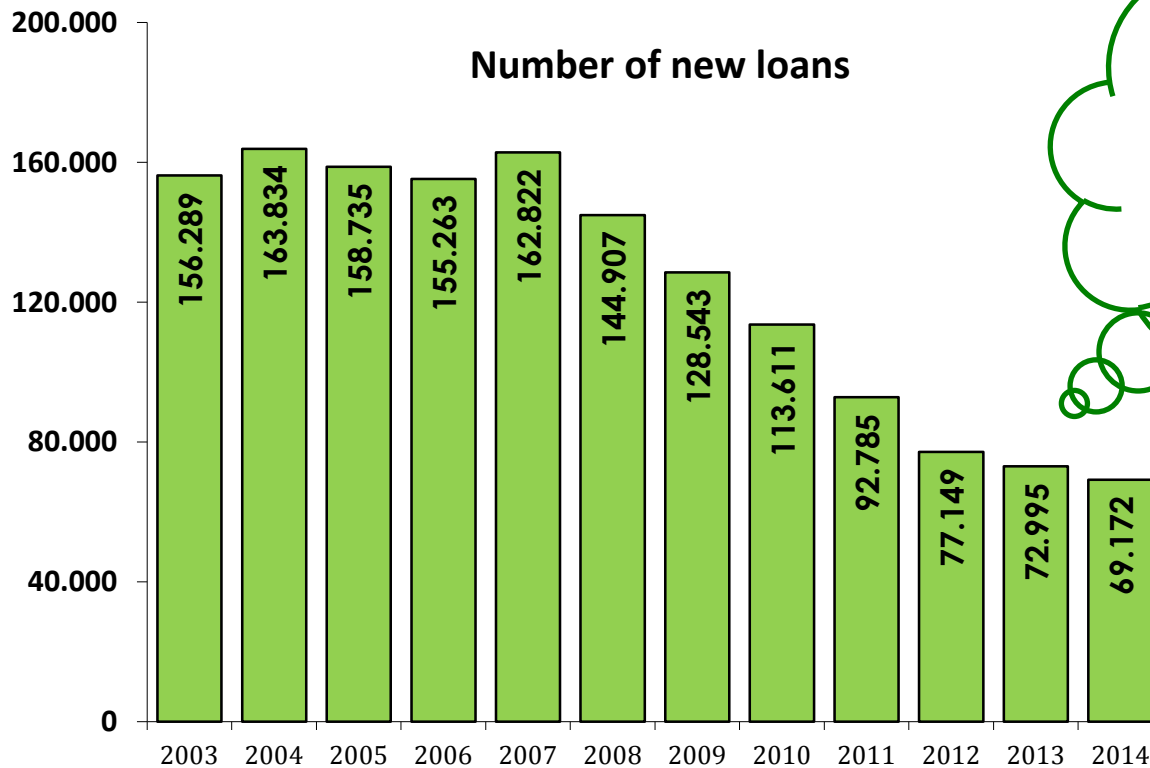
In 2003 and 2010, the decision to reduce the state subsidy was taken

State Subsidy Expenses are Steadily Decreasing



The State has Saved Expenditure

- State subsidy cuts have led to public expenditure savings but at the same time the number and volume of new loans have decreased.

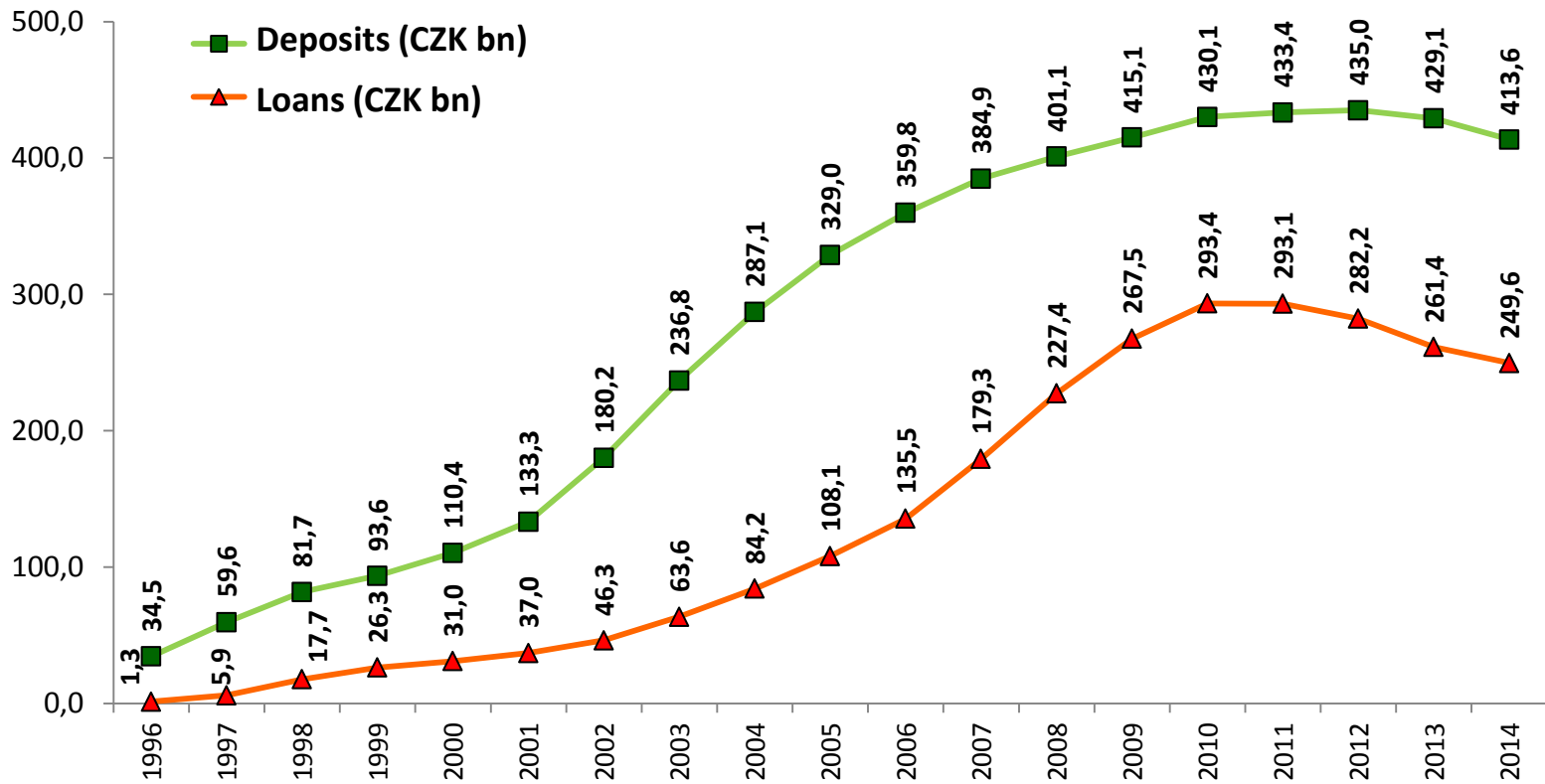


It is a question whether the loss on the revenue side of the state budget has not exceeded the expenditure saved.

The System is Playing its Part

- **In spite of the long-term decrease in the number of clients, the Czech building savings system is playing its part.**
 - **It provides home loans**
(about 60% of deposits have currently been lent out).
 - **And it has cumulated enough deposits for further lending.**
 - Unfortunately, these **deposits are expensive from the present point of view**. However, there are several instruments to respond to the situation:
 - Interest rate change after the period of 6 years
 - Contract terminations (with all their impacts on the future relationship with the client)

Deposits and Loans (CZK bn)



LTD (%)	3,8	10,0	21,6	28,1	28,1	27,8	25,7	26,9	29,3	32,8	37,6	46,6	56,7	64,4	68,2	67,6	64,9	60,9	60,4
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Thank you for your attention

Questions



Discussion