

Czech market – overview and update

Pavel Štěpánek

Prague, 20.02.2009
EBF Executive Committee Meeting



Structure of presentation

- Introduction to the Czech market – comparative tables + basic characteristics
- Update on global markets and crisis impacts on the Czech Economy
- The crisis and the Czech banking sector

Comparative tables for comparable countries – Population and GDP

	Population mil	GDP eur bil '07*	GDP '08 est PPP EU27=100
Czech Republic	10.3	127.5	80.6
Belgium	10.6	330.8	114.7
Greece	11.1	228.9	94.1
Hungary	10.0	101.1	61.5
Portugal	10.6	162.8	73.7

* Market prices

Source: ECB, Eurostat

3

Comparative tables 2007

	No of CIs	Pop* per CI	No. loc units	Pop/ l. units	Pop / ATM
CZ	56	184	1 862	5 541	3 129
BE	110	96	4 425	2 400	756
GR	63	177	3 699	2 902	1 654
HU	206	48	3 387	2 969	2 643
PT	175	61	6 030	1 759	721

*000's

Source: ECB

4

Comparative tables 2007

	No of Empl.	Pop / Empl.	Total CI assets*	Asset/ Empl.	5 largest**
CZ	40 037	258	140	3 497	65.7
BE	67 080	158	1 297	19 347	83.4
GR	64 713	173	383	5 923	67.7
HU	41 905	240	108	2 589	54.1
PT	60 975	174	440	7 218	67.8

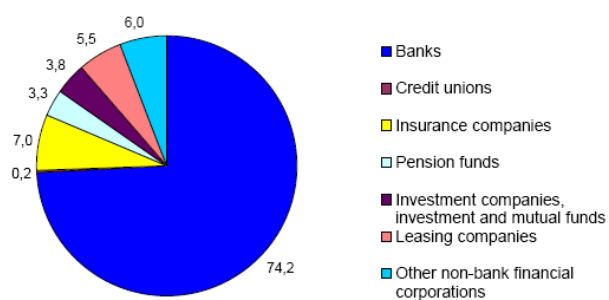
* Bil euro

** Share of 5 largest in total CI assets (%)

Source: ECB

5

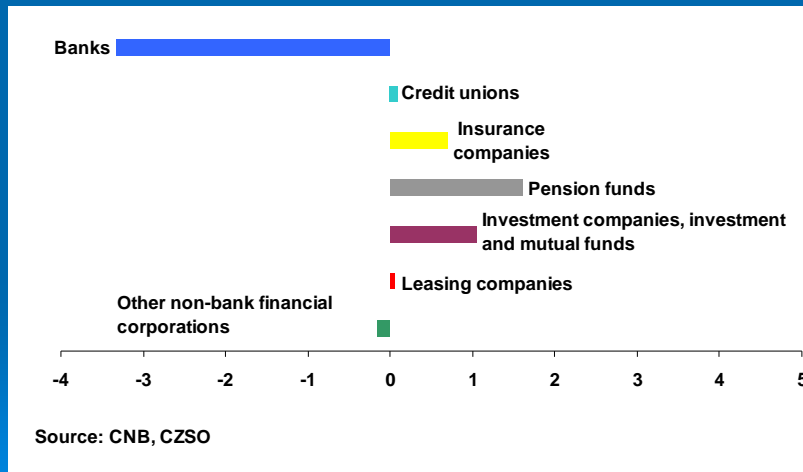
Financial sector assets: Shares in 2007



Source: CNB, CZSO

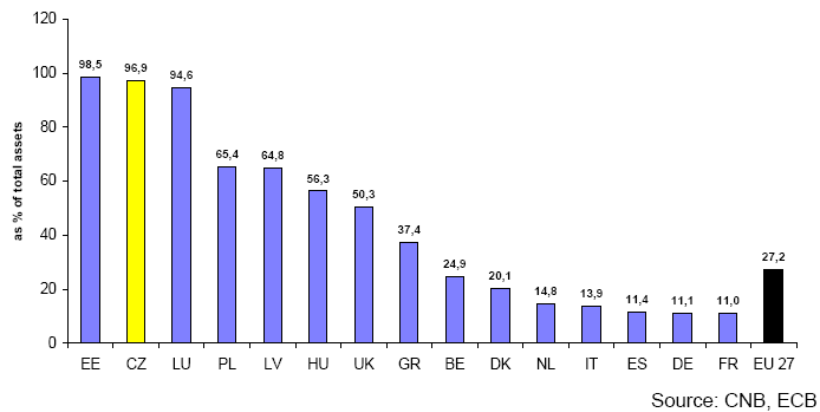
6

Growth (fall) in shares in financial sector assets 2001-2007 (in percentage points)



7

Foreign-owned bank assets in 2006



8

The Czech banking sector is also:

- 56 CI plus 250 „single passport“ providers from EU
- 97% of assets controlled by non-residents (91% by EU)
- 7.5 millions of retail clients accounts, of which 85% with electronic servicing (PC or phone)

9

Update on global markets

- Support programmes in place
- Liquidity of banks addressed in first instance, spreads on wholesale markets declining
- Full size of impact on assets quality, solvency and capital adequacy still unknown
- Real economy severely suffers, significant losses in corporate sector: second wave effects on financial sector
- Eurozone sovereign spreads diverging – financing needs in connection with the packages, issues of coordination and absorption capacity

Outlook generally quite uncertain, yet some hope for lending activities (but confidence remains an issue)

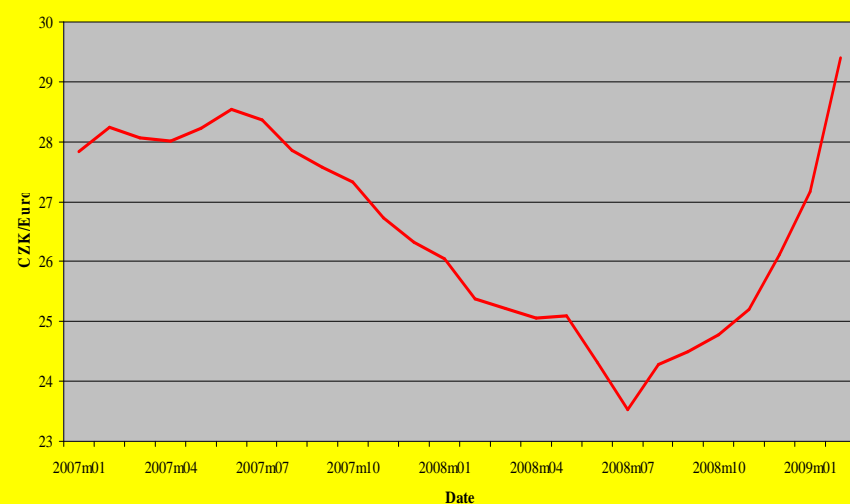
10

Crisis and Czech economy: resilience first, full impact now

- Adverse impacts mitigated until recently by trade and current account surpluses, a solid fiscal position, bank sector resilience
- However economy wide open (foreign trade to GDP ratio at around 170%)
- Starting by oct/nov 08 data about real economy rapidly deteriorate (double digit declines in industry)
- Increased volatility of variables, stand still of financial market, lending squeezed
- Czech exports concentrated in heavily cyclical industries
- Special concern: high car-intensity of GDP

11

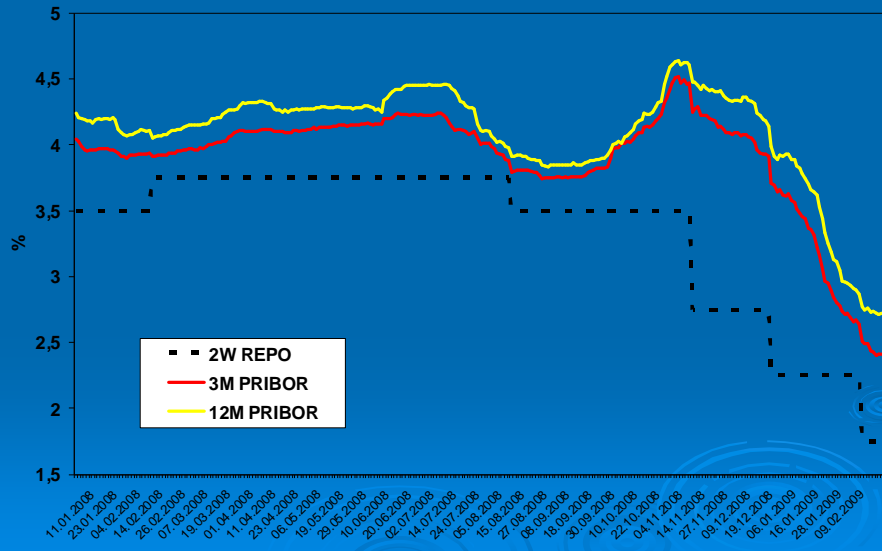
Exchange rate developments 2007/2009



Source: CNB

12

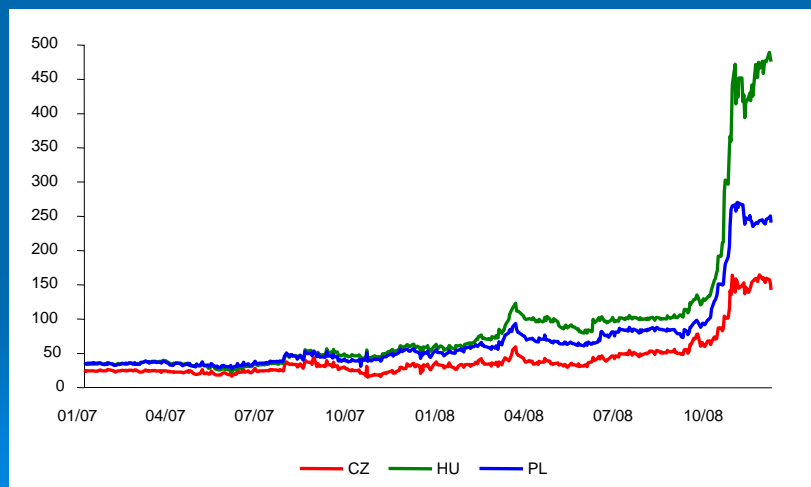
Developments of the repo and markets rates (%)



Data source: CNB

13

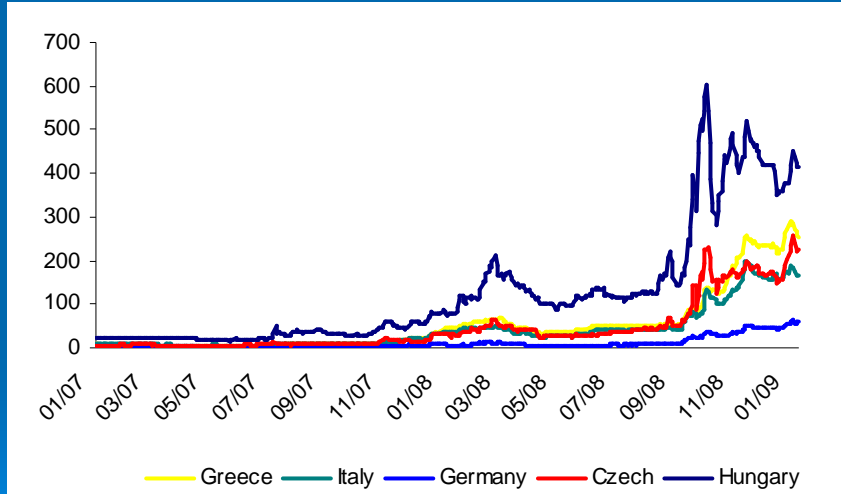
Risk aversion in Central Europe: spreads of gov. bonds denominated in euro, against German bonds



Source: JP Morgan

14

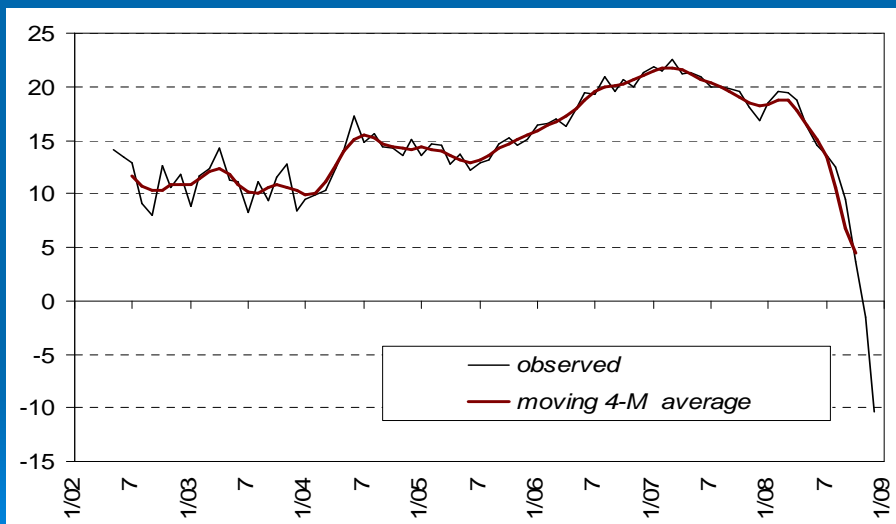
CDS of selected EU governments (5Y CDS, bps)



Source: Thomson Datastream

15

Aggregate Confidence Indicator



Source: Min Fin

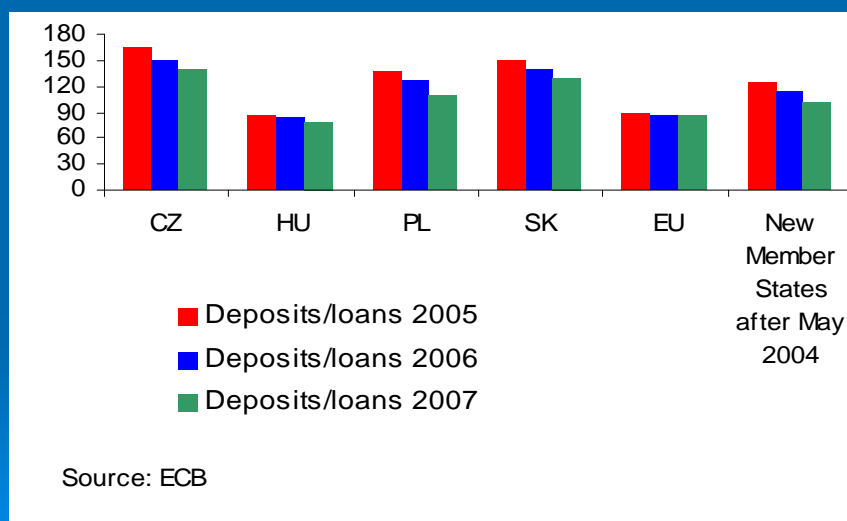
16

Czech banks: resilience to crisis impact?

- Liquidity buffer, about a quarter of assets in the system highly liquid
- Deposits to Loan ratio at 130%
- Loan impairment low for time being, but gradually increases
- No currency mismatch (negligible share of foreign currency loans in household loans)
- Negligible share of toxic assets
- Solid capitalisation
- Thin capital markets
- Generic space for growth (low level of bank assets/GDP)
- Parent-daughter issue – after privatisation, domestic banks were initially run as independent subsidiaries. Later they became much more integrated with their parent banks

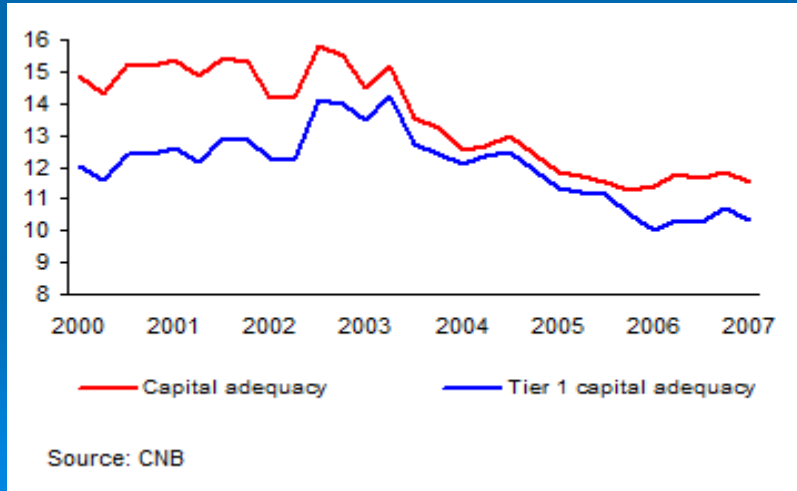
17

Financing of loans by primary deposits (in per cent)



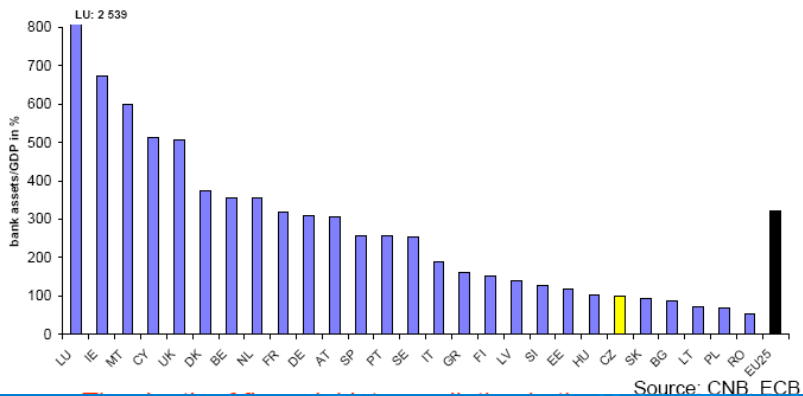
18

Capital adequacy (%)



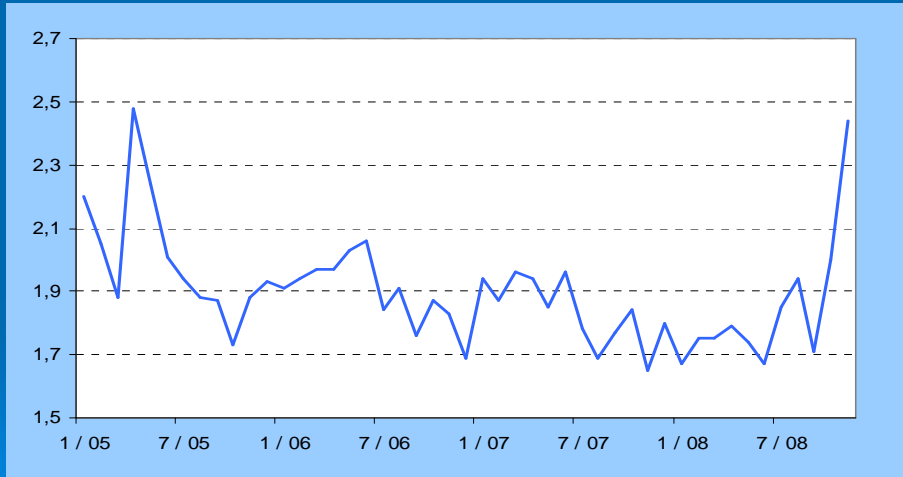
19

Financial intermediation in 2006



20

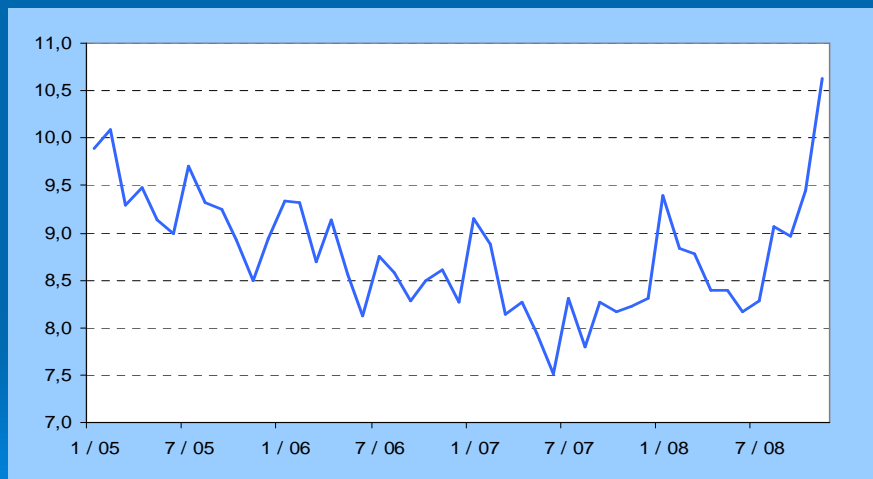
Spread between interest rate on new loans to firms and 2W repo rate



Source: CNB

21

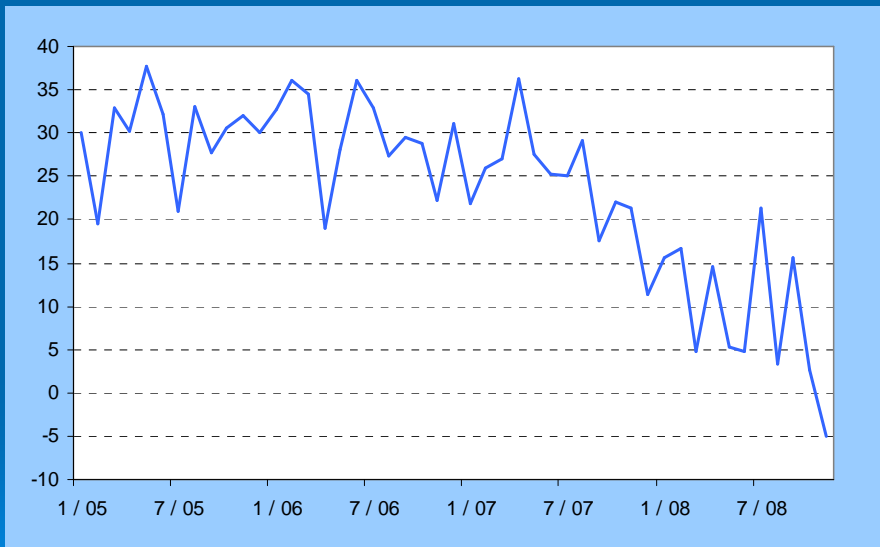
Spread between interest rate on new loans to households and 2W repo rate



Source: CNB

22

New Loans to Households



Source: CNB

23

New Loans to firms



Source: CNB

24

Czech banks: crisis impact, as seen from the City

- Spillover effects:
 - Confidence shaken
 - Drying-up of money and bond markets (impact on pension and money markets funds, insurance sector)
 - Significant increase of volatility
- Risk aversion (to the region, by the banks)
- Dramatic deceleration of mortgage as real estate market cools down
- Liquidity distributed unevenly
- Loan impairments grow as economy decelerates
- Profits down

The banking sector sustained – so far - the effects of crisis rather well. However the fundamental question is – **how long will it all last...**

25

THANK YOU

FOR YOUR ATTENTION

26