

SUMMARY OF DEVELOPMENTS IN 2019

Macroeconomic Situation	Gross domestic product continued to grow for the sixth consecutive year, though the year-on-year momentum slipped slightly to 2.6%, which was 1.1 pp above the EU average. The main pro-growth factors were final consumption expenditure and fixed-capital investments. The year-on-year growth rate of the average consumer prices reached 2.8%. The unemployment rate further decreased to 2.0%, which was the lowest level in the EU and well below the EU average of 6.3%.
Monetary Policy and Foreign Exchange Market	The Czech National Bank increased its monetary-policy rates only once. The year-end two-week repo rate stood at 2.0% p.a. The average Czech koruna rate against the euro (25.7 CZK/EUR) virtually remained the same year on year.
Placement of Funds in the Financial Market	Total funds placed on the financial market increased by 7.4% to CZK 6.9 trillion, a growth rate above the five-year average. Investment funds reported the highest relative growth of their volume, rising by 18.9%. The largest absolute year-on-year increase was once again recorded in credit institution deposits (by CZK 285.9 billion), which remained the most significant item despite their modest decrease in the share of total funds to 68.5%.
Structure of Household Savings	Total household savings held in intermediary financial market products rose by 7.5% to CZK 4.0 trillion, which corresponded to the average growth rate of the past five years. The greatest absolute year-on-year rise was reported by demand deposits, which constituted 51.8% of total household savings. The allocation of the household savings increased the most for the investment funds, almost by 1 pp to 13.0% of total savings.
Household Indebtedness	Household indebtedness grew by 6.0% year on year to CZK 1.8 trillion. The largest slice of the debt (73.4%) was again constituted by housing loans. In spite of the indebtedness increase, the debt-to-GDP ratio of domestic households relative to the rest of the EU remained relatively low (32.2% of GDP).
Financial Market Entities	There were no substantial changes in the number of financial market entities, with the exception of capital market intermediaries and insurance intermediaries, given by the new re-licensing rules. In the key credit institution sector, two branches of foreign banks discontinued operations in relation to the Brexit, and one credit union was transformed to a bank. Two mergers occurred in the insurance sector.
Banking Sector	The banking sector reported growth again and confirmed its dominant position and stability. Total banking sector assets, including those of building savings banks, kept the growth momentum, rising by 4.0% to CZK 7.6 trillion. The total capital ratio increased to 21.3%, well above the regulatory minimum. Since 2014, it has grown by 3.3 pp. The non-performing loans ratio underscored its positive trend by falling to its lowest level (2.5%) since 2002. The sector's pre-tax profit increased by 11.0% to post also a record value of CZK 108.8 billion.
Interest Rates	The increases in the Czech National Bank's monetary-policy rates since 2017 were not considerably reflected in an increase in average market interest rates on client deposits or loans, these rates kept to their long-term low levels (the only exception were the company loans interest rates). The average interest earned by the deposits of non-financial businesses and by household deposits after moderate year-on-year growth reached the same level of 0.4% p.a. Average interest rates on household loans slightly declined to 3.7% p.a., while those of non-financial corporations climbed the second year in a row to 3.8% p.a.
Deposits and Loans	The volume of client bank deposits increased by 6.6% to CZK 4.7 trillion. Client bank loans grew at a slower pace (by 4.4%), reaching CZK 3.5 trillion. The ratio of client deposits to client loans in the banking sector was 137.4%, making it one of the highest within the EU.

- Mortgage Market** The total volume of new mortgage loans grew by 21.3% to CZK 474.4 billion, owing to the development in the segment of mortgage loans for the non-residential property (increase by CZK 85.2 billion). Conversely, the new mortgage loans for residential property declined in both the volume (by 0.7%) and the number of new contracts (by 5.4%), of which purely new mortgage loans for housing (new loans including increases, but excluding refinancing and other amendments to loan contracts) dropped by 14.5% to CZK 143.2 billion, likely with regard to the more stringent changes in the mortgaging conditions recommended by the Czech National Bank. At the end of the year, the total outstanding volume of mortgage loans reached almost CZK 2.0 trillion, after a remarkable year-on-year growth of 20.2%.
- Building Savings Banks** The number of newly concluded building savings contracts rose by 15.0% to 485,000, the highest figure since 2011. The total number of contracts in the saving phase recorded the first year-on-year increase since 2003 (by approximately 60,000) to 3.2 million contracts. The total savings of those participating in building savings schemes slightly increased (by 1.3%) to CZK 359.7 billion. The volume of new loans dipped by approximately 29% to CZK 47.8 billion, still the total outstanding loan volume (CZK 278.1 billion) was the highest since 2013. The average loan size of CZK 500,800 and the loan-to-saving ratio of 77.3% reached their highest values to date. The state direct contribution to these schemes was CZK 4.0 billion.
- Credit Unions** Total assets as well as the volume of deposits and loans in the credit union sector halved, resulting from the transformation of one institution (Moravský Peněžní Ústav - spořitelní družstvo) to a bank. The new amount of total assets of the credit union sector (CZK 10.2 billion) thus accounted for just 0.1% of the assets of all credit institutions. The total capital ratio came to a record high of 29.1%. The non-performing loans ratio went down by 7.2 pp to 15.7%.
- Non-Bank Financing Providers** The sector of non-bank financing providers reported an increase in total assets for the fourth consecutive year, this time up by 1.0% to CZK 432.7 billion. The total volume of loans rose by 2.2% and came to CZK 327.2 billion. The leasing companies increased their share to 79.2% of the assets and 77.7% of the loan volume of the sector.
- Regulated and OTC Markets** The main Czech stock index, the PX, climbed by 13.1% to 1 115.6 points, partially reflecting the growth in equity markets around the world. In contrast, the stock exchange trading volume tumbled by 20.5% to CZK 120.9 billion.
- Investment Firms and Asset Management** The volume of client assets of the non-bank investment firms resembled the development of the asset prices on global financial markets, when it rose by 12.5% to CZK 2.7 trillion. Similarly, the volume of assets entrusted to asset managers went up by 14.4% to almost CZK 1.6 trillion.
- Investment Funds** The volume of assets managed by funds climbed by an unprecedented CZK 101.8 billion to the total of CZK 694.6 billion. It was brought about by the rise of both the collective investment funds (17.8%) and the qualified investor funds (14.7%). From the perspective of the individual types of mutual funds in which resources were placed, mixed funds continued to dominate both the domestic (35.5%) and foreign (32.3%) fund segments. Nonetheless, this share of the mixed funds was due to the highest annual investments almost reached by the domestic bond funds (30.4%) and by the foreign equity funds (31.3%).
- Insurance Companies** Gross premiums written continued to step up for the third year in a row, this time by 6.6% to CZK 165.9 billion. It was driven by the non-life insurance that climbed by 13.2%, whereas life insurance fell by 5.0%. The number of total insurance contracts remained virtually unchanged (growth by 0.7%). On the other hand, the number of newly concluded insurance contracts was down by 1.0%, due to the drop in the new life insurance contracts (by 12.6%). The insurance sector had to cope with higher settlement costs due to the hurricane Eberhard and strong hailstorms. The insurance companies therefore resolved the second highest number of incidents in a decade.

Supplementary Pension Insurance and Supplementary Pension Savings Participants' assets in transformed and participation funds in the Pillar 3 increased by 9.0% to a total of CZK 487.1 billion. For the first time since the Pillar 3 reform, the number of participants increased year on year by approximately 5,000 to 4.46 million. The average monthly contribution made by participants increased to CZK 722 in supplementary pension insurance scheme and to CZK 800 in supplementary pension savings scheme. The share of participants benefiting from employer's contributions went up by 1.0 pp to 22.9%. The total direct state support paid to Pillar 3 participants rose by 3.1% to CZK 7.3 billion. The average annual appreciation of pension funds pursuing both dynamic investment strategies and balanced strategies was the highest to date. The average annual appreciation of the mandatory conservative funds and transformed funds did not surpass the average annual inflation rate.

Financial Market Legislation Legislation that took effect included an amendment to the Bonds Act and an amendment to the Currency Exchange Act that altered also the Payment Act. The adopted legislation at the European level related to risk reduction in the EU banking sector, the European System of Financial Supervision, regulatory requirements for investment firms, the pan-European Personal Pension Product, central counterparties supervision, cross-border payments, risks associated with non-performing loans, sustainable finance, growth market for small and medium-sized companies, cross-border distribution of investment funds, and covered bonds.

Overview of developments of selected indicators of credit institutions, non-bank financing providers, capital market and insurance companies is included below.

OVERVIEW OF SELECTED INDICATORS IN THE PARTICULAR FINANCIAL MARKET SEGMENTS IN 2019

Banks	2018	Year-on-year change		2019	Year-on-year change	
Balance sheet	CZK 7,329.5 bn	+3.8%	↑	CZK 7,621.8 bn	+4.0%	↑
Total capital ratio	19.6%	+0.3 pp	↑	21.3%	+1.7 pp	↑
Ratio of client deposits to loans	134.5 %	-0.6 pp	↓	137.4%	+2.9 pp	↑
NPL ratio	3.3%	-0.7 pp	↓	2.5%	-0.8 pp	↓
Client deposits	CZK 4,445.6 bn	+6.6%	↑	CZK 4,739.3 bn	+6.6%	↑
Client loans	CZK 3,306.4 bn	+7.2%	↑	CZK 3,450.5 bn	+4.4%	↑
Mortgage loans	CZK 1,651.6 bn	+10.2%	↑	CZK 1,985.9 bn	+20.2%	↑
Building savings banks	2018	Year-on-year change		2019	Year-on-year change	
Number of contracts	3.17 million	-1.4%	↓	3.23 million	+1.9%	↑
Savings	CZK 355.0 bn	-1.1%	↓	CZK 359.7 bn	+1.3%	↑
State contributions	CZK 3.9 bn	-0.8%	↓	CZK 4.0 bn	+1.6%	↑
Total loans	CZK 262.9 bn	+7.0%	↑	CZK 278.1 bn	+5.8%	↑
New loans	CZK 67.4 bn	+21.9%	↑	CZK 47.8 bn	-29.1%	↓
Loan-to-savings ratio	74.1%	+5.6 pp	↑	77.3%	+3.2 pp	↑
Credit unions	2018	Year-on-year change		2019	Year-on-year change	
Number of members	22.6 thousand	-26.8%	↓	12.2 thousand	-46.0%	↓
Balance sheet	CZK 20.2 bn	-12.4%	↓	CZK 10.2 bn	-49.8%	↓
NPL ratio	22.8%	+3.1 pp	↑	15.7%	-7.2 pp	↓
Total capital ratio	21.1%	+2.2 pp	↑	29.1%	+8.0 pp	↑
Non-bank financing providers	2018	Year-on-year change		2019	Year-on-year change	
Balance sheet	CZK 428.6 bn	+4.1%	↑	CZK 432.7 bn	+1.0%	↑
Total loans	CZK 320.3 bn	+4.6%	↑	CZK 327.2 bn	+2.2%	↑
Regulated and OTC market	2018	Year-on-year change		2019	Year-on-year change	
PX index	986.6 points	-8.5%	↓	1,115.6 points	+13.1%	↑
Volume of exchange trades on the PSE	CZK 152.0 bn	+4.6%	↑	CZK 120.9 bn	-20.5%	↓
Volume of exchange trades on the RM-System	CZK 2.8 bn	-12.0%	↓	CZK 2.2 bn	-22.2%	↓
Volume of OTC transactions	CZK 3,202.7 bn	-38.2%	↓	CZK 3,934.3 bn	+22.8%	↑
Investment funds	2018	Year-on-year change		2019	Year-on-year change	
Assets under management in collective investment funds	CZK 472.9 bn	-2.2%	↓	CZK 557.1 bn	+17.8%	↑
Assets under management in qualified investor funds	CZK 119.9 bn	+17.9%	↑	CZK 137.6 bn	+14.7%	↑
Insurance companies	2018	Year-on-year change		2019	Year-on-year change	
Balance sheet	CZK 520.1 bn	+1.6%	↑	CZK 490.3 bn	-5.7%	↓
Total gross premiums written	CZK 155.6 bn	+3.2%	↑	CZK 165.9 bn	+6.6%	↑
Gross claim settlement costs	CZK 92.6 bn	-4.2%	↓	CZK 101.4 bn	+9.6%	↑
Total insurance penetration	2.9%	-0.1 pp	↓	2.9%	+0.0 pp	↔
Pension funds	2018	Year-on-year change		2019	Year-on-year change	
Number of participants	4,451 thousand	-0.4%	↓	4,456 thousand	+0.1%	↑
Participants' assets	CZK 447.1 bn	+8.0%	↑	CZK 487.1 bn	+9.0%	↑
Share of contracts with an employer's contribution	21.9%	+1.0 pp	↑	22.9%	+1.0 pp	↑
Participant's average monthly contribution in transformed funds	CZK 680	+9.0%	↑	CZK 722	+6.2%	↑
Participant's average monthly contribution in participation funds	CZK 790	+1.8%	↑	CZK 800	+1.3%	↑
State contributions	CZK 7.0 bn	+1.9%	↑	CZK 7.3 bn	+3.1%	↑

Source: Association of Pension Management Companies of the Czech Republic (APS CR), Czech Capital Market Association (AKAT), Czech National Bank, Ministry of Finance