Czech Republic

The Czech economy contracted by 5.5% in 2020 amid Covid pandemic and year 2021 remained effected by the pandemic measures as in many other European countries. The Czech economy contracted further in 1Q 2021 due to lockdowns, and post-covid recovery in the second half of the year was significantly slowed down by the supply-chain disruptions which interrupted industrial production, mainly automotive segment. Still, for the whole 2021, Czech economy grew by 3.5%, but in 4Q 2021 it remained still 1.3% below pre-covid 4Q 2019. From this perspective, recovery was one of the slowest among EU. Due to government measures, however, unemployment rate remained the lowest in the EU at 2.8% vs. 2.0% in 2019.

Due to recovery in households' consumption in 2H together with supply-chains disruption, inflation started to accelerate in mid-2021, hitting 4.1% in August (the highest print since end-2008) and getting to 6.6% in December (5.4% in HICP methodology not including – compared to domestic methodology – so called imputed rents, which was pushing inflation higher in 2H 2021 due to increasing property prices and prices of construction materials). For the whole 2021, the average inflation reached 3.8% (3.3 % in HICP). Due to mounting pro-inflationary measures, monetary policy started to react and the Czech National Bank started to increase rates since mid-year from 0.25% to 3.75% till the end of 2021.

At the end of 2021, there were 46 licensed banks operating in the Czech Republic. The structure of the banking sector consists of four large banks, five medium-sized banks, nine small banks, 23 branches of foreign banks and five building societies. The total value of the banking sector's assets increased by about 7%, to CZK 8 600 billion (€340 billion) representing about 141% of GDP.

After 2020, when banking sector profitability fell by almost 50% amid Covid-pandemic and the effects of government restrictions aimed at managing the coronavirus pandemic, the profitability increased by double-digit pace, but remained more than 20% below the pre-pandemic year 2019 (CZK 70bn vs. 47.5 in 2020 and 91 billion in 2019, after-tax).

The share of non-performing loans slightly declined from 2.8% to 2.4 %, getting to the levels even slightly below the ones before the Covid-crisis. In addition, banks maintained a consistently comfortable level of capital in accordance with the Czech National Bank's recommendations, strengthened by unpaid dividends in 2020 and partial restrictions in 2021.

At the end of 2021, the total volume of bank loans increased by 7 % year-on-year, reaching CZK 3 596 billin (€144 billion). Year 2021 was especially strong in terms of housing loans due to gradually increasing interest rates which pushed many households to speed up the decision related to mortgage financing. As such, volume of newly provided housing loans reached record-high CZK 408 billion, of which 370 billion represented mortgages. In year-on-year terms, this is almost 70% increase after still-very strong year 2020. Mortgage rate reached 3% in Dec 2021, the highest print since the beginning of 2014.

In the area of corporate financing, the increase in new loans reached almost 40% (CZK and FX-loan of equivalent CZK 844 billion vs 612 billion in 2020), the volume was supported also by anti-Covid guarantee measures for corporates, which were drawn at the volume of CZK 72 billion at the end of 2021.At the end of 2021, the total volume of client deposits reached CZK 5 502 billion, increased by 6.6% year-on-year Deposit-to-Loan ratio reached 148 %.`

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