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# NEWS

Dear Colleagues,

Russia's aggressive incursion into Ukraine knows no bounds, at least the economic ones. Within a few days, the Czech Republic, too, felt the consequences of Putin's rage. The collapse of a bank, the weakening of the crown, issues faced by the Skoda car factory, the difficulties of the ironworks, the outflow of Ukrainian workers from the construction and agricultural sectors and the influx of dozens of thousands of refugees.

All these issues are, however, only a trifle compared to what the Ukrainians themselves are experiencing. That is why I am proud to see solidarity and an effort to help everywhere in the Czech Republic and I am very happy that Czech banks are once again leading the way. Most of them are accommodating refugees by opening free bank accounts and adding a number of other benefits. In cooperation with the Ministry of Labor and Social Affairs, the Czech Banking Association has initiated the opening of mobile bank branches directly in refugee assistance centers.

At the same time, unfortunately, there is no doubt that the hyenas who are trying to exploit the situation and prey on the refugees are also on the lookout. Fraudulent fundraising efforts are appearing and, as in every crisis, we can expect an increased wave of cyber-attacks. Therefore, let's appeal to our clients not to become victims of social manipulation, believing that they are making contributions to support Ukraine, and not to allow hackers to gain access to their accounts.

Together, let's wish that the war ends as soon as possible!

**Monika Zahálková**, Managing Director



# News of the Day

## Mobile banks are helping Ukrainians with accounts



The Ministry of Labor and Social Affairs and the Czech Banking Association have organized an initiative thanks to which Ukrainian refugees can open free accounts at assistance centers in Prague and in Ostrava. Seven banks have opened their mobile branches there, while two others offer accounts directly at their branches. Gradually, mobile branches will be available in assistance centers also in other cities.

In accordance with a decision taken by the Government, refugees from Ukraine can apply to employment offices for an exceptional material assistance benefit to help them provide for their basic needs. The one-off benefit amounts to CZK 2,490 for adults, i.e., the subsistence minimum. Children receive their subsistence minimum from CZK 1,970 to CZK 2,770, depending on their age. Refugees can receive the first benefit in cash, but

further payments will be cashless. *"They thus have to have accounts, and we want to help with that. Banks are located not only in Prague; other cities will follow. We are always waiting for individual regional centers to ask us to do this, because of their better organization of the site,"* said Radek Šalša, the CBA's Marketing and PR Manager, adding that interpreters are available at the mobile branches so that they can speak in Ukrainian about opening an account.

The purpose of the mobile branches is to open accounts for refugees so that they can perform cashless withdrawals of aid and so that they do not burden the infrastructure of the labor offices when collecting aid in cash. Now they can open an account directly at the assistance center where they have come to handle other issues that are related to their stay in the Czech Republic so they don't have to go all the way to the bank. In most cases, banks make the opening of an account conditional on the presentation of a passport or of other identity documents.

Banks also offer Ukrainians the possibility of opening an account directly at their branches, free of charge. Along with this, various institutions offer various other benefits, such as initial financial assistance when opening an account, express issuance of a bank card without fees or free of charge payments to Ukraine.



## **Banks' profits increased by more than 20 billion last year**

The aggregate net profit of banks and savings banks in the Czech Republic increased by CZK 23.1 billion year-on-year to CZK 70.58 billion in 2021. The banks' balance sheet total at the end of the year amounted to CZK 8.524 trillion, up CZK 556 billion year-on-year. Profit from financial and operating activities of banks increased by CZK 3.9 billion, to CZK 184.3 billion, compared to 2020. Interest income fell by 1.4 billion,

to CZK 184.7 billion, while their fees and commissions income increased by 5.5 billion, to CZK 48.4 billion. The main factor behind the rise in profits was a marked drop in risk costs as well as growth of newly provided loans.

### **Mortgage volumes are falling, rates are going in the opposite direction**

The mortgage market continued markedly slowing down in February. The volume of mortgages granted has been falling rapidly, while rates are moving steadily upwards. According to data from the CBA's [Hypomonitor](#), the volume of mortgages granted fell by more than a fifth in January and the average interest rate on newly granted loans increased to 3.84 per cent. In February, banks and building societies granted mortgage loans in the total volume of over CZK 25.1 billion. Compared to January, this is a decrease of CZK 7.5 billion, i.e., by 23%. The same trend was followed by the number of mortgages granted, which fell by 23% in February, compared to the previous month, from 10 to 7.9 thousand. This is the lowest number of mortgages granted since January 2020, i.e., in almost two years.

### **Inflation continues to climb upward**

The annual rate [of inflation continued to accelerate significantly in February](#) to 11.1%, from 9.9% in January. The most important contributors to the February price increase were the usual factors already known from recent months. The price of electricity increased by 22.6% year-on-year (18.8% in January), while the price of gas rose by 28.3% (21.5% in January). Food also made a significant contribution to the rise in the overall price level, increasing by 6.9% year-on-year. The jump in prices of some commodities following Russia's aggression in Ukraine has not yet been reflected in February inflation. March inflation can therefore be expected to jump above 12%. Analysts expect the central bank to raise interest rates further towards the 5% level by the end of March in response to these developments.

### **Banks will contribute more funds to reserves to protect the credit market**

The Czech National Bank has increased the [countercyclical capital buffer rate](#) to 2.5 percent, effective April 2023. The CNB last increased the rate to 2 per cent at the end of November last year, with effect from January 2023. The countercyclical rate is currently 0.5 per cent. Its change is usually set one year in advance. Earlier, the Bank Board decided to apply a 1% rate from 1 July 2022, a 1.5% rate from 1 October 2022 and a countercyclical rate of 2% will be applied by the CNB from 1 January 2023 to 31 March 2023. The CNB informed that in taking its decision, the Board has taken into account the current standing of the Czech economy in the financial cycle, the extent of credit risks in the banking sector's balance sheet and the evolution of its vulnerability. It also took into account the significant increase in geopolitical uncertainties.

### **Expobank CZ changes owners**

A consortium consisting of Latvia's Signet Bank AS and US investors will become the [new owners of Czech Expobank CZ](#), whose main shareholder since 2014 has been Igor Kim, a Russian financier. The transaction is subject to the approval of the Czech National Bank, which has already been informed of the agreement. Once the CNB approves the transaction and once it is carried out, Expobank CZ will cease to have Russian shareholders. According to the bank, the announced agreement is the result of a long-term plan that has been discussed since 2021.

### **So far, Komerční banka has paid out 73 percent of deposits to Sberbank clients**

As of March 9, Komerční banka has processed 44,9 thousands applications from Sberbank CZ clients and paid out deposit compensations worth CZK 17,6 billion, or approximately 73 percent of deposits. The Financial Market Guarantee System started paying out deposit compensations to clients of Russia-linked Sberbank CZ through Komerční banka branches on March 9. The total number of clients is about 106,000 and the payouts amount to CZK 24.2 billion. Compensations will be paid out to Sberbank clients for three years, i.e., until March 2025. The guarantee system will pay 100 percent of client deposits through Komerční banka, up to a maximum of CZK 2,499,500

per depositor. The amount corresponds to the exchange rate of the koruna to the euro on 28 February. Under the law, deposits up to EUR 100 000 are insured. Not only companies or individuals, but also some regions and municipalities had their funds in Sberbank. For example, the Vysočina Region has CZK 2.4 billion left in the bank.







## The President signed the state budget

President [Miloš Zeman signed the State Budget Act](#), which was approved by the Chamber of Deputies with a deficit of CZK 280 billion. Zeman had originally criticized the budget proposed by the government of Petr Fiala and described it as inflationary. According to the approved and signed budget, the state will be able to start managing the economy the day after it is published in the collection of laws and ordinances. This will end the roughly two-and-a-half-month-long temporary budget period. Due to the Russian aggression in Ukraine and owing to the influx of refugees, it is very likely that the budget will be adjusted during the year.



## Amendment of some laws in the area of the financial market

On 14 March, the Chamber of Deputies approved a [bill](#) amending certain laws in the field of financial market, in particular in connection with the implementation of European Union regulations relating to the Capital Markets Union, and referred it to the Senate. The bill should, among other things, harmonize legislation on covered bonds with EU regulations. The deadline for the negotiating period in the Senate ends on 13 April 2022.

# Financial Education

## Supercharge your financial skills



The week of 21 March 2022 will see

the next year of the European Money Week (EMW), traditionally organized by the European Banking Federation (EBF), under the slogan "Supercharging Financial Skills". During EMW, national banking associations and the EBF organize dozens of activities across Europe to raise awareness of the importance of education in the field of personal finance. In addition to raising financial literacy, this year's EMW will also focus on the importance of financial competences in times of crisis. Do you have the right skills to make informed decisions about your money? Take a look at the EBF's special website [europeanmoneyweek.eu](https://europeanmoneyweek.eu), where, in addition to an overview of the activities organized as part of this year's EMW, you will also find a link to a quiz to help you answer the above question.



## **The energy crisis will require radical solutions**

**Inflation is rising at record levels, fuel and energy prices are up and down because of the war. There is no hope of a return to the pre-Ukrainian war era. In the last two years alone, the price of gas has risen 20-fold, while petrol and diesel prices have increased by about 40%. In the wake of the crisis, the Czech government has decided to introduce a "trifecta of oil measures", and experts also recommend reducing energy and fuel consumption as much as possible. Not only the Czech Republic, but the whole of Europe is going through an economic crisis. Part of the solution may be, among other things, a significant reduction in gas consumption from Russia as soon as possible, before the end of this year. Even so, we are facing a period when we will have no choice but to tighten our belts.**



## Getting rid of dependency

The invasion of Ukraine has not only aroused passions but has also led to a lot of debates. One of the most frequently debated questions was how to get rid of dependence on gas, oil and coal supplies from Russia. Two weeks ago, the European Commission (EC) therefore presented a plan to reduce consumption and gradually lessen dependence on Russian gas. According to the EC, the EU will reduce dependence by two thirds already this year and should completely end it by 2030 at the latest. Russian gas should be replaced by imports of liquefied gas and by a rapid increase in the use of renewable energies, but also by decreasing the energy performance of buildings. In some countries, the period pending a complete end of coal combustion will be extended. However, this will not jeopardize the plans of the Green Deal, in which the EU has committed itself to carbon neutrality by 2050 and to a 55 per cent reduction in greenhouse gas emissions by 2030, the EC said. EU also counts on the use of alternative energy resources. New wind and solar projects could replace 20 billion cubic meters of gas this year. Tripling the capacity of these plants by 2030 could reduce gas consumption by 170 billion cubic meters a year. *"In any case, getting rid of dependence on Russian gas is a gamechanger for Europe. Any illusion that Russia can continue to supply a substantial part of the natural gas that is supposed to help us transit to a low-carbon economy as a 'cleaner' option than coal is disappearing. The implications for energy policy will be far-reaching. Coal will have to be restored to favor for a transitional period, and we will see further strong development of renewable resources and the rehabilitation of nuclear power,"* commented Miroslav Zámečník, the Chief Advisor of the Czech Banking Association.

## Even one degree down counts

Reducing dependence on gas from Russia is not just a matter for the EC or national governments. Any household can contribute. Lowering thermostats by one degree Celsius could save Europe an additional ten billion cubic meters of gas this year alone. Such a move may seem unnecessary to some, but if the other recommendations were implemented alongside it, it would save a total of 155 billion cubic meters of Russian gas imports. The added bonus is the financial savings for households. In fact, lowering the thermostat by one degree translates into

a five to six per cent drop in energy consumption, which can mean up to several thousand crowns per year in Czech conditions.

### **Better on foot than by car**

Although the Czech Republic finds itself in the middle in the European fuel price rankings, the increase of these prices in the last two weeks has produced a considerable impact on our budgets. Although the government has lent a helping hand by introducing the so-called trifecta of energy measures (abolition of the compulsory blending of bio-components into fuel, abolition of road tax for cars, vans and trucks up to 12 tons, and control of margins of petrol station operators), the impact of these measures will only be reflected in fuel prices with a certain time lag. However, the decrease in prices in recent days was also due to lower oil prices on world markets and a stronger koruna. *"The uncertainty on the markets has slightly subsided in recent days, with the koruna returning to CZK 22 per euro and the price of Brent crude oil back to USD 100 per barrel, but fuel prices are still a fifth higher than they had been before the start of the war in Ukraine,"* says Jakub Seidler, the CBA's Chief Economist.

Expensive fuel and the easing of the covid situation are theoretically conducive to more frequent use of public transport or even walking. However, evidence from the period before the outbreak of the Ukrainian crisis does not yet confirm any significant return of passengers to trams, buses or to subway.

### **The price of Putin's invasion will be high**

In Europe, for quite understandable reasons, we are very concerned about the security dimension of a conflict with a nuclear power in the immediate vicinity of our territory, about trying to manage the inflow of refugees from Ukraine, about finding alternative suppliers. However, the impact of Putin's aggression will be felt mainly in everyday life. Even if, as we all hope, the situation in Ukraine comes to a good end soon. Above all, we have to accept that all European, and indeed world, economies will take a long time to recover from the invasion. Inflation in the Czech Republic has exceeded the level of 11% in February, and this has not yet reflected the new inflationary pressures associated with the sharp increase of the prices of many commodities following the outbreak of the war in Ukraine. *"March*

*inflation is thus likely to accelerate further above 12%. However, it is impossible to estimate where inflation may go this year, as it will depend on a number of circumstances, such as the duration of the conflict and the political reaction of the parties involved. The CNB is likely to raise its interest rates further towards the 5% threshold at the end of March. At the moment, the market expects that rates could go slightly above 5% this year,"* concluded Jakub Seidler.



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