

07/2022



NEWS

Dear Colleagues,

I'm sure anyone would agree that the financial world doesn't like uncertainty; in any case, it doesn't like uncertainty on the scale that we are experiencing today. We are only guessing the rate at which consumer prices will increase and where energy and fuel prices will move. We do not know how far the central bank will go with interest rates and to what extent it will influence the exchange rate of the koruna. And even the recently approved state budget is probably no longer unchallenged. Let us hope that interventions in the budget will make economic sense and that they will not just ride on the wave of populism.

On the contrary, we can be practically sure that businesses and households have a difficult time ahead. After all, the weakened confidence in the development of the economy has already been confirmed by the economic surveys carried out by the statistical office, which, for the first time, have taken into account the impact of the war in Ukraine.

He who seeks, will certainly find much more bad news. But being a born optimist, I am nevertheless convinced that we should not get into a "crappy mood". There are more important things in life than percentages and tenths. In addition to health and a smile on our lips, this also includes the coming spring!

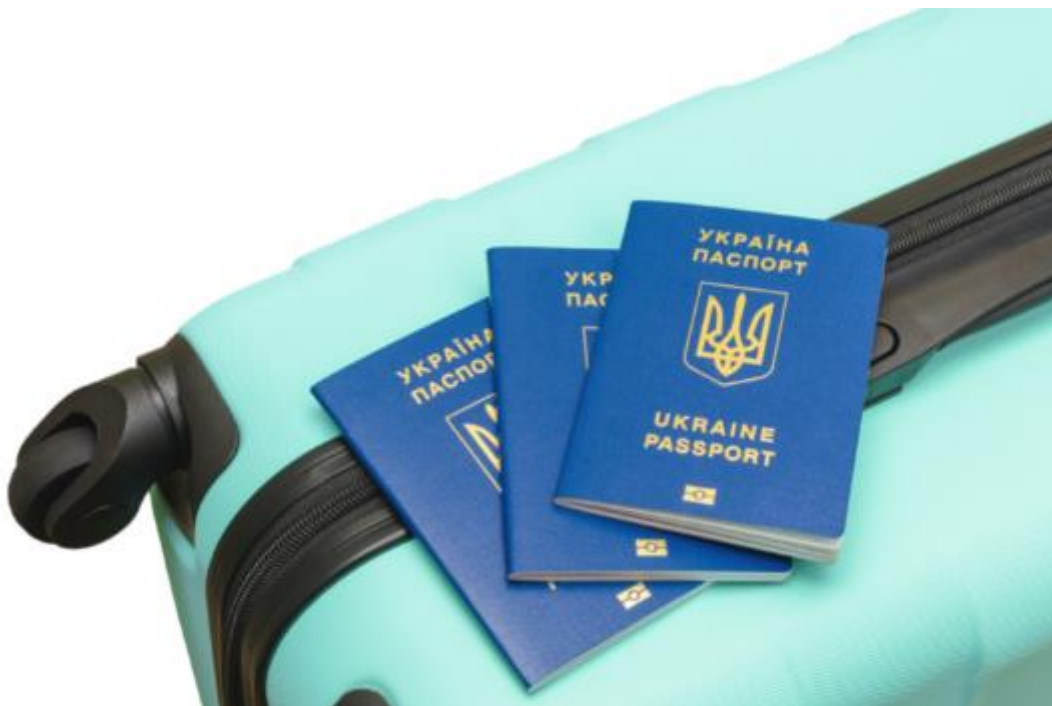
I wish us all only positive news, which we will now need more than ever.

Monika Zahálková, Managing Director



News of the Day

Banks help Ukrainians open accounts



Dozens of thousands of Ukrainians fleeing the war have already opened current accounts. The numbers are still growing and, according to estimates made by the Czech Banking Association, some 70,000 had been opened as of 29 March. More than a thousand account opening contracts are being concluded directly at the refugee assistance centres every day, and more are being concluded directly at bank branches.

At the same time, the Czech Banking Association has initiated talks on simplifying the methodology for persons' identification. The new methodology was developed after consultations with the Financial Analytical Office and with the Ministry of the Interior. *"We remain in contact with these authorities and we are ready to solve other issues promptly. Each bank assesses its own risks and decides to whom it will*

open an account. We try to help them as much as possible and simplify everything," said Monika Zahálková, the Managing Director of the CBA. Compared to other foreigners from countries outside the European Union, opening accounts for Ukrainian refugees is also easier in terms of submitting the required documents. In some banks they only need a biometric passport, while in others they need a stamp from the Alien Police Department, or a visa.

Mobile bank counters in assistance centres help to speed up the process. Other regional and smaller cities are joining those established in Prague. In addition to Brno and Ostrava, these include, for instance, Karlovy Vary, Liberec, Mladá Boleslav, Kutná Hora and Příbram. Other centres are under negotiation. Banks have approached Olomouc or Ústí nad Labem. The establishment of mobile counters was initiated by the Czech Banking Association, together with the Ministry of Labour and Social Affairs of the Czech Republic, mainly to help the overloaded Labour Offices, which are facing disproportionate numbers of applicants for benefits and where queues are forming for many hours.

Banks are also gradually removing the language barrier. They offer websites in Ukrainian, or instructions on how to use mobile banking. Ukrainian versions of internet banking have already appeared. Mobile branches have interpreters and the relationship managers are usually also fluent in Ukrainian. Because of this, banks are relocating their staff from the regions or hiring additional staff with linguistic skills.

Financial institutions offer a number of benefits to refugees. For example, in addition to free account opening and maintenance, they offer faster issuance of credit cards. Other benefits include waiving fees for sending money to Ukraine or for cash withdrawals using Ukrainian cards, or even a financial contribution when opening an account.



Confidence in the economy is the lowest in almost a decade

Russian aggression in Ukraine has caused a significant increase of uncertainty among households and entrepreneurs, according to the Czech Statistical Office's business opinion survey. [Consumer confidence in the economy has reached its lowest level](#) since 2013. In particular, households' fears of price increases rose significantly, reaching the highest level in the history of these surveys (since 2003). Consumers also expect the economic situation and their own financial situation to worsen. The level of confidence among businesses has so far sunk less sharply than among consumers in March. It has declined mainly in industry and in building industry, and to a lesser extent in retail trade, while it rose slightly in services, where the outlook for demand expected in the next 3 months has increased. However, the outlook for future economic developments deteriorated in all business segments surveyed. Turbulent times make predictions of future economic developments difficult. The CBA now expects inflation to be around 12% this year, with a peak of around 14% in the middle of the year.

Household loans increased despite weakening mortgages

According to the CNB data, [household deposits in banks increased](#) by 5.7% year-on-year in February, and by CZK 167 billion in nominal terms. The total volume of residents' deposits now stands at CZK 3.067 trillion. Despite a gradual decline in interest in mortgages, loans to households increased by 10.9% year-on-year, to CZK 1.972 trillion in February. The resulting balance thus stands at about CZK 1.095 trillion. In February, there was brisk month-on-month activity in corporate loans, which increased by more than CZK 49 billion (+4.14%), an increase of 9.14% year-on-year. At the same time, deposits held by corporations at banking institutions also increased to CZK 1.324 trillion. The resulting balance vis-à-vis banks thus ended at CZK 87.4 billion.

CBA warns against bazaar frauds

The Czech Republic is experiencing yet another wave of hackers' attacks. The number of so-called [bazaar frauds has skyrocketed, increasing tenfold in the last month alone](#). Attackers target mainly vendors who choose the so-called secure payment method, i.e. sending money from

card to card, for example through the so-called wallet of the selected bazaar. Clients of the VINTED bazaar should be particularly careful. These attacks are crafty mainly because the people who are deceived in this case are people who are trying to sell their goods and who are approached by a buyer. Therefore, they are more cooperative and fill in their card and access details. The principle is usually the same. The seller is usually contacted via WhatsApp by the counterparty saying that they want to make a payment for the goods using a credit card and sending the seller a link where to fill in the card details to receive the money. The CBA warns that customers should never access banks' websites from the links sent and respond to requests to fill in access details. Another sign of a potential fraud is the strict refusal to accept any payment method other than through a "secure payment gateway".

Mortgages are subject to stricter conditions

The Czech National Bank's new, [stricter conditions for mortgage lending have come into force](#) as at the beginning of April. These, together with rising interest rates, will further limit household demand for mortgage financing. Whereas until now, the conditions had only the form of a CNB recommendation, they are now required by the law. The CNB has thus reduced the mortgage loan-to-value (LTV) ratio to 80 per cent from the previous 90 per cent as of April, while restoring further income limits for mortgage lending. The limit for the DTI ratio, i.e., the applicant's total debt expressed in multiples of his/her net annual income, is 8.5 from April, and 9.5 for those under 36 years of age. The DSTI limit, the ratio between the total monthly debt service of the loan applicant and his/her net monthly income, is 45 per cent, and 50 per cent for those under 36 years of age.

Czech Republic exits two post-Soviet banks

The Czech Republic will withdraw from two international banks that are relics of the Council for Mutual Economic Assistance (CMEA). The [government decided](#) to withdraw from the international agreements under which the Czech Republic operates in the International Investment Bank (IIB) and the International Bank for Economic Cooperation (IBEC), and its opinion was also approved by the Chamber of Deputies. The Czech Republic has receivables in the form of paid-up capital and retained earnings in both banks with an aggregate value of

approximately CZK 2 billion. According to Finance Minister Zbyněk Stanjura, the government will try to conclude a settlement agreement within the six-month notice period. If unsuccessful, it will then enforce the amount as a claim. The Czech Republic had been considering leaving the post-Soviet banks for a long time, but the decision was accelerated by Russia's aggression in Ukraine.

CNB confirms loss of over 37 billion

The Bank Board of the Czech National Bank has approved the CNB's financial statements and the [CNB's financial report for 2021](#). According to the updated figures, the central bank posted a loss of CZK 37.7 billion last year after a record profit of CZK 91.7 billion the year before. The bank's accumulated loss from previous years thus rose to CZK 75.3 billion. The economic result was mostly affected by foreign exchange losses resulting from the appreciation of the koruna at the end of last year. Overall, the CNB posted a CZK 91 billion exchange rate loss last year, compared to a profit of CZK eight billion in 2020. Income on foreign reserve assets then contributed positively to the economic result by 80 billion crowns. The most profitable part of foreign exchange assets last year were equity shares. Investments in them earned the bank a record CZK 111 billion. By contrast, the central bank recorded a loss on bonds due to a fall in their market price. In connection with the increase in interest rates, the CNB also recorded a rise in the cost of monetary operations. This burdened the Bank's financial results with interest costs paid to commercial banks, amounting to CZK 24 billion.

Czech banks above EU average

The European Banking Authority (EBA) has published its [regular Risk Dashboard](#) of the European banking system for the fourth quarter of 2021. A comparison of data from 131 banks in European countries shows that capital and liquidity ratios in the European Union have remained strong, profitability has stabilized at higher levels than in the pre-pandemic period, and the non-performing loan ratios declined further. The indicators for the Czech Republic show values above the EU average. This time, the EBA also focuses on the follow-up risks arising from the Russian invasion of Ukraine and considers the secondary effects to be more serious.



The Number
of the Week

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SOS Ukrajina (Člověk v tísni)

From Legislature

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Chamber of Deputies approved amendment to the Act on the Payment System

[An amendment to the Act on the Payment System](#) has been approved by the Chamber of Deputies. Among other things, it introduces increased supervision of providers of the Dynamic Currency Conversion (DCC) services. The service is often offered when using a credit card abroad. The cardholder has the option to benefit from an immediate conversion of the amount charged into the currency in which their bank account is held. Often, however, the exchange rate used in such a conversion is less favorable. Therefore, the EU has previously made it mandatory to show the customer not only the amount but also the exchange rate used, the fees and a comparison with the last known exchange rate of the European Central Bank. The new regulation provides for public oversight of the provision of the DCC services - by the Czech National Bank in the case of ATMs and by the Czech Trade Inspection Authority in the case of retailers - and introduces the

obligation to have the appropriate license to operate for providers of the service.



The Chamber of Deputies supported tax allowances to help Ukraine

Donations given directly to Ukraine or to local non-profit organizations there should be tax deductible. This is envisaged in the government's [bill on tax measures](#) in connection with the armed conflict in Ukraine. The bill was supported by the Chamber of Deputies in its first reading at the end of March.

The law also provides for an increase in the limit for deducting the value of donations from the tax base, both for individuals and legal entities. For the years 2020 and 2021, it was possible to reduce the tax base by up to 30 per cent for gifts given, and this increased limit for individuals is now to apply for this year as well. For legal entities, this will apply to VAT return periods ending between 1 March this year and 28 February next year.

Financial Education

New questions for certification in the field of pension savings



The CBA EDUCA proficiency tests are back to normal following the relaxation of coronavirus measures. In-person examinations are already conducted without any restrictions, even without the obligation to cover the nose and mouth with a mask. In-person examinations are held in Prague, Brno and Ostrava. Due to the great demand, we also offer a proven system of distance exams. During the month of April, we will update the exam questions and study materials for the proficiency exams pursuant to Act No. 427/2011 Coll., on supplementary pension

savings. The new set of questions will be used from 20 April 2022. Details can be found [here](#).

Students from Vimperk go to the European finals



In the national round of this year's European Money Quiz (EMQ) competition, the winners were a pair of students from the fourth grade of the Vimperk General and Sports High School, Petra Hovorková and Matěj Rycheký, who qualified for the European finals. The EMQ is designed for primary school and high school students aged 13 - 15. It takes place online on the popular educational platform Kahoot! This year is the fifth year of Europe's largest financial literacy competition. The aim of EMQ is to promote financial education for young people in each European country through national banking associations. In the Czech Republic, the competition is organized by the Czech Banking Association. The European finals will take place online on 10 May and will be streamed live on YouTube.



Interest rates are the highest in more than twenty years

The Bank Board of the Czech National Bank raised interest rates by 0.5 percentage point last week. This was the fifth consecutive above-standard base rate increase of more than 0.25 percentage point. The base interest rate is currently 5%, which is the highest level since 2001. The Bank Board's decision was more subtle than the recommendation of the CNB's expert section, which had been leaning towards an even sharper rate rise of 0.75%, which was also expected by the market.

Inflationary pressures are increasing

The Bank Board met for the first time during the crisis in Ukraine, which further increased upward pressures on price developments. The last forecast assumed that inflation would peak in the first half of this year, but the new estimate is that inflation will continue to rise in the early spring months and remain high for the rest of the year. The peak in price growth is expected in May or June, when year-on-year inflation could reach up to 14%. Governor Jiří Rusnok said that in the latest forecast, there were markedly upside risks and uncertainties, especially in the short term, which required tighter monetary policy settings. *"Further interest rate hikes will not reverse the acceleration of inflation this year. As indicated by the first inflation figures coming in for March from neighboring countries, inflation will accelerate further on account of a number of inflationary factors related to the Russian war in Ukraine. However, by increasing rates further, the CNB is mainly trying to avoid the loosening of inflation expectations among households and businesses for the next few years, so that the rise in inflation in the Czech Republic does not last for a longer period,"* said Jakub Seidler, the Chief Economist of the Czech Banking Association.

At the same time, the Board is ready to continue increasing interest rates to anchor inflation expectations. According to the Governor, restoring price stability soon is the CNB's absolute priority, as it is a necessary condition for the long-term prosperity of the Czech economy. Currently, the market expects rates to rise to 5.5% over the next three months. After that, they will remain at that level for about a year. However, it is clear that the current extremely uncertain development may bring a number of surprises. Nevertheless, another rate hike in early May now seems quite likely.

Higher rate will make credit more expensive

Interest rates on bank deposits and loans depend on central bank rates. Higher interest rates make it more expensive for businesses to borrow for investment and operations, and make it more expensive for households to borrow for housing. At the same time, mortgage rates have been increasing since the middle of last year, i.e., since the CNB started raising rates. In February, the average mortgage rate even reached its highest level since the end of 2011. *"However, it can be assumed that, just as central bank rates will probably peak around the middle or in the second half of this year, consumer and mortgage rates will closely follow this",* Zdeněk Tůma, member of the Executive Board of the Czech Banking Association and Chairman of the Supervisory Board of CSOB, told CT 24.

However, in the longer term, interest rates will also increase in the case of savings products. Many banks already offer interest from 3% upwards on savings accounts. However, even the increase in deposit rates is not enough to keep up with current inflation.

So far, no exchange market intervention

The central bank has so far suspended intervention buying-in to support the koruna. According to Jiří Rusnok, the recent action has stabilized the exchange rate. While the bank is ready to resort to interventions again, it has not yet decided whether to use the artificial appreciation of the koruna to fight inflation. *"This channel would act faster on inflation, but its "strength" would depend on how significantly would the CNB let the koruna strengthen. Given the extraordinary inflationary pressures and the size of the CNB's foreign exchange reserves of over 60% of GDP, this approach would make sense in our view,"* commented Jakub Seidler.

Economic growth will slow down

The CNB expects domestic economic growth this year to slow down to 1.5%, i.e., to about half of its original estimate. The car industry in particular will be negatively affected. However, following the latest CNB decision and the further interest rate hike, it is obvious that the fight against inflation remains to be the priority for the central bank, while concerns over the undercutting of economic growth have been sidelined for the time being.



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