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NEWS

Dear Colleagues,

Easter holidays are over and I hope that you have enjoyed them with your loved ones and had an opportunity to recharge your batteries for the days and months ahead. Unfortunately, these won't be easy; As Tomáš Salomon, President of the Czech Banking Association said, „the party is over“.

The years of a relatively good economic situation are gone forever. The widespread decline has been triggered by the coronavirus, which has now been accompanied by the crisis related to the war in Ukraine. Unfortunately, everything points to the fact that there are lean times ahead.

However, trying to exculpate ourselves by blaming only the disease or the war would be playing the blame game. We know that economy advances in cycles and the downturn would have come anyway, although probably a less severe one. We all have kind of forgotten the rules of the economic cycle.

And it is hard to remember that mortgages already used to have rates about 10% and that it was not uncommon for inflation to reach levels above 10%.

The poorer years will now hurt us all the more.

On the other hand, how long would you enjoy a really endless party? Personally, I think that instead of wasting time by recalling the last party, it's better to look forward to the next one!

And I'm sure there will be another one. We'll just have to wait a while.

Wishing you all the best,

Monika Zahálková, Managing Director



News of the Day

Inflation continues to grow



Inflation set another record in March and it is likely to break that record again in the coming months. Prices rose by 12.7% year-on-year in March, compared with 11.1% in February. For the whole of this year, the rate of inflation will stand at about 13%, the highest since 1993.

One of the key factors behind the acceleration of prices in March was the increase in the prices of fuel. Fuel prices jumped up by a record 21.7%, month-on-month, and by as much as 50% year-on-year. Fuel alone contributed to increasing March inflation by 0.7 percentage points (ppt). However, also other traditional causes of price increases were also at work. The price of electricity rose by 24.7% year-on-year, while the price of gas rose by 37.7%. These factors contributed to a year-on-year acceleration of prices by 0.3 ppt, similar to February. However, the prices

of goods and services for home repairs or imputed rentals also continued to rise in March (16.3% from 15.7%) as a result of increases in the prices of building materials and new housing prices. Price growth in the housing category thus reached 17.6% year-on-year, the highest since the end of 1998.

The annual price growth is likely to be even higher in the period ahead. *"Inflation is likely to accelerate in the months ahead as further inflationary effects associated with the Russian attack on Ukraine are gradually reflected in prices,"* [said Jakub Seidler, the Chief Economist of the Czech Banking Association](#). According to him, the war in Ukraine is already pushing this year's inflation estimates higher to approximately 13%, with the peak of about 14.5% expected in the middle of the year. *"The market is expecting the Czech National Bank to increase rates towards 6% this year, given further inflationary effects,"* Jakub Seidler added.



CBA Focus focused on housing

The first episode of this year's "CBA Focus" roundtable focused on one of the most significant topics which moved the economy last year: the unprecedented increase in real estate prices and a record demand for mortgages. What are the reasons for the rising prices of housing? How much more will mortgage interest rates be pushed up and will prices of housing increase further this year? Is this a cause for concern or should the situation be accepted as a natural consequence of the work of market forces? These and other questions relating to the housing market were discussed by Daniela Písařovicová, the presenter, Tomáš Salomon, President of the CBA and the CEO of Česká spořitelna, Tomáš Nidetzský,

Deputy Governor of the CNB and Milan Ročko, co-author of the cenovamapa.org project. You can follow the discussion [here](#).

Zdeněk Tůma has become a member of the prestigious community of central bankers

The international organization Global Interdependence Center (GIC) [has appointed Zdeněk Tůma as the first Czech to become a member of the College of Central Bankers](#), a community of the former leaders of the world's central banks. A member of the Executive Board of the CBA, Chairman of the Supervisory Board of ČSOB and former Governor of the Czech National Bank thus joins a prestigious platform that provides a forum for former leaders of the world's central banks to share their experience. The College of Central Bankers enjoys a long and trusted rapport with current and former leaders of central banks around the world. As a result, it offers a distinguished, neutral platform for thought leadership on important macroeconomic and socially important topics – many in central banking and monetary policy.

Unemployment declined in March

[Unemployment in the Czech Republic declined to 3.4 %](#) in March, from 3.5 % in February. The total number of jobseekers dropped to 252 873, 10 560 fewer than a month earlier. Compared to February, the number of job openings decreased by 3,749, to 360,168. This still leaves more job openings than job seekers. The drop in unemployment has been expected and is related to the traditional seasonality and the arrival of warmer weather, which increases demand in agriculture, construction, forestry and logistics. Meanwhile, according to available data, the labor market has also absorbed more than 12 000 refugees from Ukraine. Further unemployment forecasts are highly uncertain, but the proportion of people out of work is expected to rise as the economy slows down. A new forecast from the Czech Chamber of Commerce expects unemployment to reach 4.5%, while the average rate of unemployment was 3,8 % last year.

Ministry of Finance has revised the economic growth forecast downwards

Czech economic growth will slow down to 1.2 % in 2022 and inflation will probably reach 12.3 %. [The Ministry of Finance of the CR predicted this in its April forecast.](#) In its January forecast, before the start of the war in Ukraine, the Ministry was much more optimistic, predicting economic growth of 3.1 percent and inflation of about 10 percent. Growth was similar last year, when the economy added a total of 3.3 percent. Zbyněk Stanjura, the Minister of Finance, admitted that even the updated forecast is very uncertain. However, the new forecast will also entail an amendment to the state budget law, which will be submitted by the Ministry before the end of June. So far, the additional expenditure related to the inflow of refugees is estimated at about CZK 50 billion.

Conditions for women entrepreneurship in the Czech Republic are below average

The fifth report of the [Mastercard Index of Women Entrepreneurs](#), which describes women entrepreneurship in 65 countries, attributes below-average results to the Czech Republic. The Czech Republic ranked 39th in terms of conditions for women entrepreneurship, which is three places higher than last year, but still ranks us at the level of countries such as Botswana, Peru, South Africa and Vietnam. Compared to other advanced economies, the Czech Republic lags behind especially in women's access to knowledge and in funding their entrepreneurship. The Czech Republic also scored very much below average in government support for small and medium-sized entrepreneurs. The level of entrepreneurial activity among men in the Czech Republic is two and a half times higher than among women. Among business leaders and business owners, the ratio of men to women in the country is three to one. According to the report, the best conditions for women entrepreneurship exist in the United States, New Zealand and Canada.

The income limit for the flat-rate tax will be doubled

Zbyněk Stanjura, the Minister of Finance, wants to double the income limit for the possibility of applying for a flat-rate tax. The minister will submit a draft amendment to the law before the end of May, that would increase the limit from CZK 1 million to CZK 2 million. In addition to this,

the amendment should also introduce more levy rates than the current flat rate. While a single rate of CZK 5,994 a year is now in place, two to three rates would be set up in the future, depending on the amount of annual income. The flat-rate tax regime is now open to self-employed entrepreneurs who are non-VAT payers and have annual business revenue of up to CZK 1 million and, at the same time, do not have any income from dependent activities. Last year, on average, around 65,000 self-employed persons paid taxes and insurance contributions on a flat-rate basis and the Ministry estimates that this year, the number will increase to 80,000.

The CNB issued a banknote with Karel Engliš

The Czech National Bank has issued a [commemorative banknote](#) that honors the creation of the Czechoslovak currency and bears the portrait of Karel Engliš, the Minister of Finance and Governor of the National Bank of Czechoslovakia in the First Republic. The banknote, in the nominal value of CZK 100, is only the second commemorative banknote in the history of the CNB, after the banknote with the portrait of Alois Rašín. The central bank plans a third issue in 2026 to mark the 100th anniversary of the National Bank of Czechoslovakia. It will be dedicated to Vilém Pospíšil, its first Governor. The commemorative banknote can be purchased from the CNB's [contractual partners](#).



The Number
of the Week

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SOS Ukrajina (Člověk v tísni)

From Legislature

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The President signed legislation on covered bonds

The President of the Czech Republic signed a [bill](#) amending certain laws relating to the financial market, in particular in connection with the implementation of European Union regulations relating to the Capital Markets Union. Among other things, the law harmonizes the regulation of covered bonds with EU regulations.

Financial Education

New e-course for fleet insurance distributors



CBA EDUCA offers an e-course called [the Fleet Insurance Distributor's Manual](#) to its clients, not only bank employees. According to the Act on Distribution of Insurance and Reinsurance, it is intended for all those who are involved in insuring their clients in a so-called fleet manner, for example, offering insurance against credit card misuse and others. In accordance with the law, the purpose of the courses is to ensure that every employee who is engaged with customers when offering financial products has expertise and is aware of all the legal obligations they have when dealing with customers. After studying the Fleet Insurance Distributor's Manual e-course and passing the final test, the employee will receive a certificate and will thus meet all the requirements for proficiency in selling fleet insurance.

Topic

Mortgages decreased by almost 50% year-on-year

In March, banks and building societies granted mortgage loans in the total volume of over CZK 30 billion. Although the volume of mortgages granted increased by CZK 5 billion compared to February, it fell by almost half year-on-year. This was indicated by the data contained in the [CBA Hypomonitor](#), which captures data from all domestic banks and building societies providing mortgage loans on the domestic market.

March seasonal growth, significant year-on-year decline

The growth in interest in mortgages that we saw in March did not change the overall downward trend; it was a seasonal issue. The first few months of the year are always the weakest in mortgage volumes and in March, the situation starts to turn around. Besides that, some of the clients hastened to take out a loan before the stricter regulatory rules of the Czech National Bank, which banks must comply with when providing mortgage loans from April, come into force.

Banks and building societies thus granted mortgage loans in the total volume of over CZK 30 billion in March. Of the total volume of mortgages in March, real new loans accounted for over CZK 25 billion, while refinanced loans accounted for less than CZK 5 billion. The volume of real new mortgages granted in March rose by CZK 5 billion, from CZK 20.8 billion to CZK 25.4 billion. Refinanced loans (internally or from another institution) increased from CZK 4.3 billion to CZK 4.9 billion. The number of newly granted mortgages also increased from 6.1 thousand in February to 7.4 thousand.

A number of factors will be reflected in the further development of the mortgage market. It will not only be the level of mortgage rates, but also the development of real estate prices and, without any doubt, the current uncertainty associated with the war in Ukraine. On the one hand, this is worsening economic prospects; on the other hand, it is increasing inflation and may thus motivate some households to purchase real estate. However, the new stricter credit limits from the Czech National Bank will have an impact on the overall figures," commented Jakub Seidler, the Chief Economist of the Czech Banking Association, on the situation on the mortgage market.

Rates are climbing up

As expected, mortgage rates continued to increase in March as well and the trend will continue in the coming months, given the further increase in market interest rates due to accelerating inflation. The interest rate on actual new mortgage originations increased to 4.15% in March, from 3.84% in February, which is roughly equivalent to the level existing in mid-2011. However, as in the previous period, this still captures contracts that were being negotiated with clients in earlier months, when interest rates were slightly lower. Therefore, the average rate for newly concluded contracts is still below the mortgage offered rates. These currently move within a very wide range, from 4.5% p.a. to 6% p.a., depending on the specific parameters of the mortgage. While interest rates on longer maturities, from which mortgage rates are determined with some delay, are at their highest level since 2008, interest rates on shorter maturities are at their highest level over the past twenty years. *"Market interest rates for longer maturities started to decline after the start of the Russian aggression in Ukraine due to growing uncertainty. But then, due to the expected acceleration of inflation and further reaction from the central bank, the trend reversed again and interest rates have not only returned to their previous levels, but are now up to one percentage point higher,"* explained Jakub Seidler.

However, a one percentage point increase in mortgage rates means an increase in monthly repayments of CZK 1,600 to CZK 2,000 for a mortgage of an average size. Compared to the 2% interest rate that was common on the market in earlier years, the current mortgage rate of 5% would mean a CZK 5,000 to CZK 6,000 increase in the monthly payment for an average mortgage per month.

Significant year-on-year decline

The double-digit year-on-year decline in the volumes and units of mortgages granted continued in March and intensified further, compared to February. According to the March CBA Hypomonitor, banks and building societies granted mortgages to households in a total volume of CZK 30.3 billion against more than CZK 56 billion last year. This represents a year-on-year decrease of more than 46%. The volume of newly granted loans of CZK 25.4 billion in March represents a roughly 30% decrease compared to the same month last year. It should be

added, however, that 2021 was quite exceptional in terms of mortgage originations and that it will not be repeated soon.



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