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| 09/2022 |

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| Dear Colleagues,Although bad news is pouring in from every direction, I will do my best to be optimistic this time and focus only on the positive news of the past two weeks.The big news is that the COVID statistics are slowly but surely going down and that a return to normal is within reach. Hopefully, this trend will last for a long time.  We all deserve it, and so does our economy.The planned repetition of the graceful summer undoubtedly represents another piece of good news and it is currently being approved. However, it can be assumed that the draft document, which has been prepared on the basis of an agreement between the coalition parties, will be passed by Parliament, so that debtors will once again have the opportunity to repay their debts to municipalities, health insurance companies or transport companies, for example, with no interest or other higher fees. |

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| The last piece of positive information I would like to mention is the fact that, despite rising inflation, the proportion of non-performing loans is not rising. On the contrary, it is declining and is still in the Czech Republic,  both in terms of corporate loans and loans to households, among the lowest in Europe in Europe. The development of non-performing loans is one of the most important indicators of the economy's health.Let us hope that there will be more and more of good news. I wish us all the best!**Monika Zahálková**, Managing Director |

 | Obsah obrázku osoba, interiér, pózování  Popis byl vytvořen automaticky |

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| News of the Day |

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| **Czech economy grew by 4.6 percent at the beginning of the year** |
| Obsah obrázku text, den  Popis byl vytvořen automaticky |
| According to the preliminary estimate of the Czech Statistical Office, domestic economy grew by 0.7% quarter-on-quarter, with year-on-year growth accelerating to 4.6% from 3.6%. “*Although the growth is good news, it should be added that two-thirds of it are already out of date given the Russian invasion of Ukraine at the end of February. For this year as a whole, moderate growth of about 1% is most often expected, but estimates should be used with care given the extreme uncertainty. The CNB is likely to raise rates further next week, but given recent comments by CNB officials, a more moderate increase of 25 to 50 points can be expected,"* Jakub Seidler, the Chief Economist at the Czech Banking Association, [commented on the preliminary GDP estimate](https://cbaonline.cz/ekonomika-vzrostla-mezirocne-o-46%22%20%5Ct%20%22_blank).The preliminary GDP estimate does not yet specify the details of economic development; the statistical office only said that the quarter-on-quarter growth was supported by investment activity and foreign trade. The year-on-year growth, which is, however, influenced by the comparative base of last year hit by another wave of the pandemic, was supported by household consumption and stock build, while foreign demand had a negative impact on the growth.On the one hand, the more favorable performance of the domestic economy in the final quarter of last year is good news, especially given the ongoing issues in supply chains and the negative effects of the energy crisis and accelerating inflation. On the other hand, the uncertainty of the current situation and the impact of Russian aggression on the economy make this figure largely outdated and its informative capability is thus noticeably reduced.*"Despite today's slightly more favorable figure, the uncertainty about future developments is still significant and it has escalated further in recent days given the future of natural gas supplies from Russia to the EU. This stagflation development will continue to pose a dilemma for the CNB's future decision-making,"* added Jakub Seidler. At the moment, the market expects the CNB to raise rates by half a percentage point in May and by another quarter point in late June, and rates will remain at this level until the end of this year. Rates' peak of about 6% is realistic, according to CNB officials. |

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| From the Market |

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| **Czech borrowers are holding on - banks still report a very low share of non-performing loans** Household deposits in banks took the reverse course in March, decreasing by almost 26 billion month-on-month. However, their total volume has remained above the level of CZK 3 trillion since August last year. At the end of March this year, their total amount was CZK 3.41 billion. Statistics compiled by the Czech National Bank (the CNB) also indicate that the year-on-year growth in demand for loans has more than doubled (11%). The March data already reflect the impact of the attack on Ukraine by the Russian army, but the impact of the conflict and the resulting consequences is not yet visible as regards non-performing loans. On the contrary, the share of loans adversely affected by the financial stress of the corporate sector and of households in the Czech Republic continued to decline in March. The shares of non-performing loans in both the corporate sector and of personal loans in the Czech Republic are among the lowest in Europe. |
| **CNB revokes licence of Sberbank CZ**The Czech National Bank [has revoked the licence](https://www.cnb.cz/en/cnb-news/press-releases/CNB-revokes-licence-of-Sberbank-CZ/) of Sberbank CZ. This decision became final and conclusive on 30 April 2022. The reason for revoking the licence was that Sberbank CZ has been unable to meet its obligations to clients since 25 February 2022. Further to the revocation of the licence, the CNB will file a petition to the court to appoint a liquidator of Sberbank CZ. |
| **Household confidence fell to its lowest level since 2012**The confidence indicators for April published last week by the Czech Statistical Office indicated a further deterioration in consumer confidence compared to the already very weak household confidence in March. Household confidence fell further in April and is at its lowest point since the end of 2012. The share of households expecting the economic situation to worsen and their own financial situation to deteriorate also increased slightly. A larger proportion of households also consider their current financial situation to be worse than it was a year ago. In the case of the corporate sector, confidence has surprisingly risen, namely in industry and services, and is the highest since the middle of last year.  Higher confidence in industry is driven entirely by better expectations over the three-month horizon, while in services, additional gradual abolition of pandemic restrictions is likely to have an impact. Although confidence indicators are slightly more optimistic for the corporate sector, growth is mainly driven by future positive expectations of firms in industry that production will improve markedly in the coming months, which is difficult to predict under the current uncertainty. [Please read more in the commentary, written by Jakub Seidler](https://cbaonline.cz/duvera-v-dubnu-dale-poklesla-u-domacnosti-ve-firmach-vzrostla),  the Chief Economist at the Czech Banking Association. You can subscribe to the commentary here. |
| **CNB and CSOB warn the public against fraudulent e-mails**The Czech National Bank and Československá obchodní banka [are warning the public against a fraudulent e-mail](https://cbaonline.cz/upozorneni-na-podvodne-jednani) that misuses the name of Tomáš Nidetzký, the CNB Deputy Governor, and the ČSOB trademark, to extort sensitive personal information from ČSOB clients, presumably login data for internet banking. The practice is known as phishing, when the perpetrator pretends to be the client's bank and, by clicking on a link to a fake internet banking site in an email, tries to fraudulently extract the client's login details to the real internet banking site and subsequently steal money from the client's account. Do not respond to this fraudulent email, which contains all the elements of fraudulent practices, including bad Czech, and certainly do not enter your login details! |
| **Czech debt grew the fastest in the whole of EU**According to [Eurostat data,](https://ec.europa.eu/eurostat/documents/2995521/14497745/2-22042022-BP-EN.pdf/90896015-2ac1-081a-2eef-ad8d5f2c0da1) the Czech Republic's debt grew at the fastest pace in the European Union last year. While the EU as a whole saw debt fall by 1.9 percentage points to 88.1 percent of GDP on average last year, the Czech Republic's debt increased from 37.7 percent to 41.9 percent of GDP. Together with the Czech Republic, the debt of six other countries has increased, but the Czech Republic is showing the largest increase. Even so, the Czech Republic was among the least indebted EU countries, with only Estonia (18.1 per cent), Luxembourg (24.4 per cent), Bulgaria (25.1 per cent) and Denmark and Sweden (both 36.7 per cent) showing lower overall debt. On the other hand, the most indebted country was Greece (193.3 per cent) despite a significant debt reduction, followed by Italy (150.8 per cent), Portugal (127.4 per cent), Spain (118.4 per cent) and France (112.9 per cent). |
| **Guarantee system started paying out institutional clients of Sberbank**The Financial Market Guarantee System [started paying out compensations for deposits to institutional clients of](https://www.garancnisystem.cz/Garancni-system-financniho-trhu-zahaji-dne-22-dubna-2022-vyplatu-institucionalnich-nahrad-Sberbank) Sberbank CZ through the branch network of Komerční banka. Institutional clients include payment institutions, small-scale payment service providers, electronic money institutions, small-scale electronic money issuers, brokers, court distrainors, whose accounts hold funds for beneficiaries and for registered creditors under the Enforcement Code. At present, there are seventeen enforcement agencies that maintain accounts for more than 17,700 clients. The guarantee system will pay out institutional client’s compensation for the deposits of each of their customers whose money was registered in an institutional client' account held with Sberbank CZ as at 28 February, up to a maximum limit of CZK 2,499,500 per customer. |
| **ECB: large banks can manage write-offs connected with Russia**All large banking companies in the euro area are able to meet capital buffer requirements even if they had to write off all their Russia-related assets. [This was stated by Andrea Enria, the head of banking supervision of the European Central Bank (ECB).](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter20420_Andresen_Fernandez_Garicano_Urtasun~6ffc08988f.en.pdf?0f07e215d552bf87b3f4ade4c63d75f8) Attacks by Russian troops on Ukraine and related sanctions by Western countries have already prompted some European banks to leave Russia or to start considering it. The ECB oversees the 115 largest banking companies in the eurozone. Even the banks most exposed to Russia can cope with any write-downs and maintain sufficient capital buffers, Enria said. Enria pointed out that the ECB is closely monitoring the banks' compliance with sanctions against Russia. |

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| From Legislature |

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| §**Graceful autumn may come after the graceful summer**The Ministry of Justice has distributed "Amendments to the Civil Procedure Code, the Enforcement Code and to Act No. 286/2021, Coll., the so-called Graceful Summer II" draft in an inter-ministerial comment procedure. The document is mostly a repetition of last year's public law so-called "Graceful Summer" with a few minor changes, but mostly affecting the debtor/obligor-distrainor relationship, in addition to an increase in the distrainors' fees. The scope of creditors/entitled perrons is not different from the previous Graceful Summer and is defined by reference to the legislation of the [2021](https://www.zakonyprolidi.cz/cs/2021-286)[Graceful Summer.](https://www.zakonyprolidi.cz/cs/2021-286) The draft has been prepared and circulated on the basis of a clear agreement among all coalition parties and can therefore in principle be expected to be adopted by Parliament, with effect from September this year. As regards the category of debts that the 'public sector' recovers without the use of distrainors (for instance by means of tax enforcement), these are not covered by the proposal as is also a political intention. According to earlier information, the "graceful summer" for tax and other enforcements is being considered, but as a separate piece of legislation. However, it is currently not clear how far negotiations within the government coalition have progressed and to what extent there is sufficient political will to adopt it. |

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| Financial Education |

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| Obsah obrázku text, porcelán  Popis byl vytvořen automaticky**How do cryptocurrency investment frauds work?**Fraudsters operating in the online world are very resourceful and they always keep up with the times. Together with higher awareness of cryptocurrencies, they have also focused on this area and unfortunately, they have already had many victims in the Czech Republic. A forthcoming educational campaign organized by Europol in cooperation with the European Banking Federation (EBF) and the Canadian Anti-Fraud Centre (CAFC) will focus on the way cryptocurrency investment fraud works. In the Czech Republic, the campaign will be roofed by the Czech Banking Association. Throughout May, you will find posts on the CBA's social networks, describing the types of attacks and advice on how to defend yourself. The campaign will be available to all the Member Banks for further use. |

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| Topic |

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| **Interest in mortgages is not declining, 13% of Czechs are planning to take them****Interest in mortgage loans is not declining despite higher interest rates and record real estate prices. Currently, 13 per cent of the population are considering taking out a mortgage, the same as a year ago. However, more and more people are interested in mortgages with longer maturities and with shorter interest rate fixation. This was revealed in a joint survey by [the Czech Banking Association and IPSOS research agency.](https://cbaonline.cz/cesi-a-hypoteky-2022-tz)** |
| The importance of mortgages is increasing every year. 60% of people would use a mortgage to buy a home, which is 7 percentage points more than last year. This is due to higher housing prices that increase the need to finance housing with a loan. People would then use their own savings mainly for renovations and home furnishings, similar to last year.**Interest rate, transport accessibility and type of real estate are decisive, while the influence of financial advisors is decreasing**With interest rates rising, Czechs are more likely to choose a mortgage provider based on a favorable interest rate or the amount of the monthly instalment. This is important for almost half of them, while last year, it was only less than a third. However, transport accessibility and the real estate type are becoming more important. More and more people are also interested in the nearness of other family members or in the time it takes to commute to work. By contrast, recommendations from financial advisers are less important to them. *"The Czech population perceives changes in the market associated with rising real estate prices and is therefore more sensitive than ever to mortgage pricing, often to the detriment of recommendations from a financial advisor. This concerns both the key parameter of the interest rate and the monthly payment itself, which is crucial for many citizens in the context of the long-term stability of the household budget,"* explains Michal Straka, financial market specialist at Ipsos.**On average, we are borrowing more money than last year, and more than 6 million is no exception**According to the CBA Hypomonitor, Czechs borrowed an average of CZK 3.3 million last year, while in 2020, it was CZK 2.8 million. The younger the applicants, the more money they plan to borrow. Young people up to 26 years of age (7%) would like to borrow the most, between five and six million crowns. The category of up to three million crowns is most common for people aged between 27 and 35 (27%). People aged 54 and over are the most likely to consider a loan of up to one million.**Interest in mortgages with longer maturity but also in shorter fixation is growing**Interest in longer-term mortgages is increasing thanks to rising real estate prices.  Most often, Czechs choose a maturity period of 25 to 30 years*. "For an average mortgage of CZK 3.4 million, the difference in monthly repayments at a maturity of 20 or 30 years is approximately CZK 4,000, and it is therefore logical that with the rapid rise in interest rates, households are increasingly interested in extending the length of maturity of the mortgage. However, according to the central bank's recommendation, it should not exceed the length of the mortgage applicant's economic activity, i.e., usually 30 years,"* explains Jakub Seidler, the Chief Economist at the Czech Banking Association.The growing interest rates also affect the choice of interest rate fixation. While the five-year fix has been the most popular so far, mortgages with a rate fixation of three years or even shorter are now the most popular.**Czechs use savings to finance the amount needed to buy real estate, a quarter of them have invested all the money they have saved**Skyrocketing real estate prices are also reflected in the amount that needs to be paid over and above the mortgage. Almost a quarter of Czechs have to invest all their savings in the real estate they are buying. About a third of them will pay the amount of CZK 200,000 from their savings, and a fifth will use their savings to pay over half a million. This is a significant increase compared to last year.**More than a fifth of net monthly income goes to mortgage repayments**A third of households use more than 20% of their net income each month to repay and less than a half of those planning a housing loan expect to do so. They see the biggest risk in the death or illness of a co-applicant for loan. About half of Czechs (47%) are also concerned about rising expenses. On the other hand, the least number of respondents see future problems in a break-up or divorce with their partners. |
| Obsah obrázku osoba, ruka  Popis byl vytvořen automaticky |

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