

Dear Colleagues,

The past two weeks in the financial sector were eventful again. New members of the Bank Board have been appointed, and Eva Zamrazilová, the Chairperson of the Czech Fiscal Council, was appointed as the new CNB Deputy Governor. Furthermore, the Bank Board has now been joined by Karina Kubelková, the Chief Analyst of the Czech Chamber of Commerce and advisor to Prime Minister Petr Fiala, and by Jan Frait, the current Executive Director of the CNB's Financial Stability Department. This is the first time that two ladies are members of the Bank Board at the same time. I have had the opportunity to meet both of them in person on several occasions, and I look forward to working with them all the more in the future.

Another significant event that resonated in the media and not only there, was the suspension of the long-prepared Air Bank-Moneta Money Bank merger. According to PPF, the owner of Air Bank, which also has a 30% share in Moneta, the reasons for the decision are recent changes in the Czech National Bank's capital requirements for financial institutions and negative economic developments that are changing the parameters of the originally planned merger. And it is the negative economic development that completes the trifecta of key events of the past 14 days. On Friday, the inflation rate for May was published. Its value does not give us much optimism.

We are getting poorer and we are facing probably the biggest belt-tightening since the 1990s. But if we exercise restraint and do not spend irresponsibly, we will not allow high inflation expectations to be fueled and we will strengthen the chances that the economy will soon recover from the current crisis.

I wish you all the best!

Monika Zahálková, Managing Director



News of the Day

The volume of mortgages granted increased slightly in May, but the significant year-on-year decline continues. Average rates on new loans increased and reached 4.64%.



In May, [banks and building societies granted mortgage loans in the volume](#) of just under CZK 21 billion. Compared to April, the volume and the number of units of mortgages granted increased again, which is a relatively normal development for the month of May. However, the year-on-year decline in the volume and number of mortgages has improved only slightly and it still amounts to approximately 60%. This was revealed by data from the CBA Hypomonitor, which captures data from all domestic banks and building societies providing mortgage loans on the domestic market.

The interest rate on actually newly granted mortgage loans increased to 4.64% in May, from 4.39% in April. The increase in rates has thus continued for 15 months successively and the average rate in May reached its highest level since mid-2010's. Mortgage rates now offered are mostly in a fairly wide range of 5.5% to 7%, depending on the specific

parameters of the mortgage. However, market interest rates have risen further in the last month, so it is to be expected that the growth of mortgage prices is still not over. "Market interest rates for longer maturities continue to increase gradually in line with accelerating inflation and rising interest rates abroad. For example, the 5-year rate is already slowly reaching the 6% level, while the 10-year rate recently surpassed the 5% level, where it was last 20 years ago. Market rates are thus currently about half a percentage point higher than they were a month ago. Prices of mortgages will thus continue to increase in the coming months in line with the ever-rising cost of money," says Jakub Seidler, the Chief Economist of the CBA.

The average amount of mortgage in May, as in April, decreased slightly compared to the previous months and was slightly below CZK 3.2 million. With stricter rules from the CNB and high interest rates increasing monthly repayments, some households had to reduce the intended mortgage amount. With the expected rise in interest rates, monthly instalments of new or refixed loans are also increasing. For example, an increase of one percentage point means an increase in the monthly payment of CZK 1,600 to CZK 2,000 for the average mortgage size. Compared to the 2% interest rate that was common on the market in earlier years, a 6% mortgage rate means an increase in the monthly instalment for an average mortgage of approximately CZK 7,000.



Year-on-year inflation climbs to 16%, highest in 29 years

Inflation noticeably accelerated further in May, to 16% from 14.2% in April, while the market had estimated 15.4% and the Czech National Bank had earlier estimated 14.9%. The acceleration of inflation was mainly driven by further increases in food prices, and to a lesser extent by increases in housing-related prices, from energy to rents, as well as of the prices of meals. The growth of food prices is likely to accelerate in the coming months, which, together with further increases in energy prices, will delay the start of the slowdown in the year-to-year price growth. For this year, the CBA thus estimates average inflation at around 14.5%. Given the faster rise in prices, the chances of a sharper CNB rate

hike adopted at the next meeting, by at least 1 percentage point, are also increasing. Please read [more in the commentary](#) written by Jakub Seidler, the CBA's Chief Economist.

The CNB Bank Board has new members

President [Miloš Zeman has appointed](#) Eva Zamrazilová, the Chairperson of the National Fiscal Council, as Deputy Governor of the Czech National Bank (the CNB) and Karina Kubelková, the Chief Analyst of the Czech Chamber of Commerce and advisor to Prime Minister Petr Fiala, and Jan Frait, the Executive Director of the CNB's Financial Stability Department, as new members of the Bank Board. They will replace the current governor Jiří Rusnok, Deputy Governor Tomáš Nidetzky and Board Member Vojtěch Benda in the Board in July. Eva Zamrazilová was member of the Bank Board from 2008 to 2014 and Jan Frait served on the Board from 2000 to 2006. Eva Zamrazilová has become the first woman to hold the position of a Deputy Governor in the whole history of the CNB. It is also the first time that two women will serve on the CNB Board at the same time.

The merger of Air Bank and Moneta will not take place

The long-planned [merger of Air Bank and Moneta Money Bank ultimately does not take place](#). Negotiations were halted at the initiative of PPF Group, which owns Air Bank and also has a 30% share in Moneta. The reason for PPF's decision is the negative development of the economy, which is changing the parameters of the originally planned merger, or recent changes in the Czech National Bank's requirements for the capital adequacy of financial institutions. Moneta agreed to the proposal to terminate the acquisition on the understanding that it would recover the costs invested to date. PPF has also committed not to increase its share in Moneta and to hold it for at least 12 months.

Real wages of most employees have decreased

The average gross monthly nominal wage in the first quarter of this year reached CZK 37,929, which is 7.2 per cent higher than in the same period of 2021. However, consumer prices increased by 11.2 per cent in this period, and therefore wages decreased by 3.6 per cent in real terms. Approximately two-thirds of employees will not reach the average wage. The median wage rose by 6.6 per cent year-on-year to CZK 31 923 in the first three months of the year. In real terms, 94 percent of all employees saw their wages decrease in the first quarter. Only approximately 115 000 employees, or roughly three per cent, in the

banking and insurance sector and in the real estate market, are now better off.

Komerční banka and Moneta will share ATMs

Komerční banka (KB) and Moneta Money Bank will share ATMs. The banks expect this move to increase the availability of cash services, but also to reduce maintenance costs. KB clients will be able to withdraw cash from Moneta's ATMs free of charge from June. At the same time, Moneta clients can already withdraw from all ATMs worldwide for free with their current account. The shared network will comprise 1,400 ATMs. Česká spořitelna now has 1,780 ATMs and ČSOB has just over 1,000.

Industry declined significantly in April

Industrial production in April reported a significant year-over-year decline of 3.8 per cent, after the industry had declined by 1.4 per cent in March. The deep decline in April is due to the relatively high comparative base of last year, when the industry was picking up after the end of the covid restrictions. Even so, industrial production declined month-on-month by 0.8%. While industrial production is roughly at pre-pandemic 2019 levels, car production remains 10% below, illustrating the complicated situation in this segment as a result of the lack of necessary components for production. However, car production showed improvement in April, increasing by 3% month-on-month. A survey among economists by Focus Economics forecasts domestic industry to grow by a modest 1.7% this year after 6.6% last year. That would mean that the industry this year would get only less than one percentage point above its pre-pandemic 2019 level.

Inflation in the euro area is rising

The year-over-year growth of consumer prices in the euro area accelerated to 8.1 percent in May, according to a flash estimate by Eurostat, compared with 7.4 percent in April. Inflation in countries using the euro thus climbed to another record. Inflation in the euro area is well above the European Central Bank's (ECB) target of two per cent. So far, the ECB is keeping its key interest rate at a record low of zero percent. However, the ECB is expected to start raising interest rates this year in a bid to curb price rises. The highest inflation in the eurozone in May was recorded in Estonia, where consumer prices rose by 20.1 percent year-on-year. By contrast, the lowest inflation rate was in Malta, where prices rose by 5.6 percent.



The Number of the Week

4.64 %

average rates on new mortgages
in May 2022

From Legislature

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Consumer protection: the Council of the EU adopts its position on new rules for consumer credit

The Council of the EU adopted [its position](#) (“[general approach](#)”) [on the revision of the consumer credit directive](#) last week. The revised Directive repeals and replaces the current 2008 Directive on credit agreements. Since 2008, the increasing digitization of the European economy has led to significant changes in the consumer credit market. It has led to the emergence of new products and new players offering credit through faster and simplified procedures, as well as to changes in the preferences in on-line shopping, especially following the recent COVID-19 crisis. The revision of the consumer credit directive accordingly modernizes and enhances consumer protection at European level. In particular, it aims to promote responsible and transparent practices by all players involved in consumer credit, for example by ensuring that credit information is presented in a clear and understandable way, and is adapted to digital devices. In addition, to protect consumers from irresponsible lending practices that could lead to over-indebtedness, the directive promotes financial education and debt advice, and lays down stricter rules for assessing whether or not a consumer will be able to repay his/her credit.

Financial Education

The CBA launches training programs for managers



The Czech Banking Association has newly launched educational programs for middle and top management. The programs have three different formats, thematically different according to the target group. They range from non-financial occupations (lawyers, doctors), to senior managers, CFOs and the top managements of businesses themselves. Civil servants are not left out either. Each program consists of three two-day modules and includes topics from the fields of finance, law, digitization, sustainable finance, corporate governance, investing, cryptocurrencies, etc. The lecturers of the program are leading representatives of Czech business. It is now possible to apply for the CBA Strategic Management and Finance Program. Please find out more information about the training programs [here](#).

Topic

Czech households have reversed their behavior: deposits in banks have increased significantly.

Despite the fact that the appreciation of bank deposits cannot recover the losses resulting from high inflation, Czech households trust the banking sector. This is evidenced by the significant growth in the amount of money that Czechs deposited in banks in April. A more cautious and conservative behavior is also indicated by the month-on-month decline in loans taken out by households.

Household deposits in banks rose by a massive CZK 35.4 billion month-on-month in April, which represents a substantial turnaround after a decline of almost CZK 26 billion in March. Total deposits have been above the three trillion crown threshold since August last year and stood at three trillion and seventy-six billion crowns at the end of April this year. The year-on-year increase in deposits of the population amounts to CZK 114 billion, i.e., an increase of less than four per cent.

Mortgage lending will decline

Statistics compiled by the Czech National Bank (CNB) also show that with the apparently declining mortgage wave, the total volume of loans to the population reached CZK 1.969 trillion, up 9% year-on-year. Month-on-month, however, lending has already declined by one per cent. A further probable decline in the coming months is likely to be influenced by the growing interest rates as well as by the CNB's stricter mortgage lending rules, which have just come into force since April.

The resulting balance between household deposits and retail loans then increased from CZK 1.053 trillion to CZK 1.108 trillion month-on-month. *"After March, which brought a significant decline of household deposits, probably in response to the closure of Sberbank branches, the situation turned around in April and deposits increased markedly. On the lending side, the CNB's stricter rules for assessing the income of mortgage applicants have come into effect, and the mortgage market will be further dampened in the coming months along with continued rate hikes. As a result, the total volume of loans taken out by households has fallen for the first time in a long time,"* said Miroslav Zámečník, the Chief Adviser of the Czech Banking Association.

However, according to him, the CNB's aggregate data do not provide a plastic view of the reality of individual households, which often react differently to developments, depending on their specific situation. There are households that are increasing their savings rate again despite inflation, and cutting back on consumption without being forced to do so for financial reasons. Others would consume if they had money to spare (about a third of households are virtually without any financial reserves, according to PAQ Research surveys). And yet another possible pattern of behavior is the desire to spend money before it loses value or to hedge it against depreciation.

Businesses have cut back on borrowing

The available CNB data also indicate that Czech businesses are prudent and cautious. In April, the stock of corporate loans declined by almost CZK 5.5 billion month-on-month, but the CZK 1.217 trillion achieved year-on-year represents an increase of CZK 75 billion (+6.6%). Deposits held by

corporations in banking institutions increased by about two billion compared to March, to CZK 1.336 trillion; the resulting balance with banks ended up at a surplus of CZK 111.8 billion.

"With few exceptions, businesses do not have strong reasons to invest; they wait and try to hedge by creating a financial cushion if their operating performance allows them to do so. The Czech corporate sector is known for its caution, which is reflected in the fact that as a whole, it would be able to settle all its liabilities to bank creditors and still have almost 120 billion left in deposit accounts. This phenomenon, which was previously unknown, first occurred only during the pandemic in July 2020," said Miroslav Zámečník.

Households and companies are repaying in an exemplary manner

Although many economic parameters are deteriorating and will continue to get worse in the coming months, households and businesses are observing a very strict financial discipline so far. Non-performing loan ratios for both corporate and personal loans are among the lowest in Europe, and continued to decline in April. The share of corporate non-performing loans dropped to 3.65% in April. This is well below the 8.2% level where it was at the end of 2011, let alone the 17.67% in January twenty years ago. Traditionally, Czechs have been very careful to pay their mortgages in an exemplary manner. The share of non-performing mortgage loans continued to break many years' lows and in April further improved its historical record, dropping to 0.66%.

The statistics on non-performing loans capture borrowers who have had difficulties repaying their obligations for at least three months before that. According to Miroslav Zámečník, these indicators are thus likely to get worse in the coming months.

