

Dear Colleagues,

The Czech National Bank raised interest rates once again in response to accelerating inflation. Although there is no unanimous opinion among the economists as to how high the rate should or should not have risen, most people agree that an increase has been inevitable. The Czech Republic currently finds itself in a rather unflattering position within the European Union, with only the Baltic states showing faster increase in prices.

It turns out that high inflation is unfortunately unlikely to be a temporary, short-term phenomenon. After all, our central bank is not alone. The US Fed and the Bank of England have also raised interest rates and the European Central Bank is likely to take a similar step in the near future.

On the other hand, this year, after the break imposed by covid, there are almost no limits to spending some of our money at the seaside, in the Alps, in Paris... and anyone who follows the advice of the Czech Banking Association, which you will find in the Topic of this issue, can feel safer.

Have a great summer!

**Monika Zahálková**, Managing Director



# News of the Day

## Banks will help change banknotes withdrawn by the CNB from circulation



Commercial banks will help exchange banknotes that the Czech National Bank is gradually withdrawing from circulation. These are all banknotes with a thin silver stripe from 1995 to 1999, with the exception of the CZK 5,000 banknote. There are still more than 60 million of such banknotes in circulation. Members of the Czech Banking Association have adapted their deposit-taking ATMs so that they can recognize these banknotes and banknotes will also be exchanged by banks' cash desks.

*"It will be possible to exchange these banknotes at all bank branches with cash desks or deposit ATMs. Banks will accept them until the end of June 2024. After that, this will only be possible at the branches of the Czech National Bank, and for an unlimited period of time",* says Tomáš Hládek, a payments expert at the Czech Banking Association.

On 30 June 2022, the banknotes with denominations of CZK 100, 200,

500, 1,000 and 2,000 will expire. They are most easily distinguished from those that remain in circulation by their silver stripe. This is a protective element that crosses the banknote from top to bottom. Moreover, its color does not change when the banknote is tilted. The latest banknote version has a wider and golden stripe. When the banknote is tilted or turned slightly, the color changes from brownish-purple to green. The versions are further distinguished from each other by the year depicted on the face of the banknote and by certain other protective features.

The aim of this step is to have only one pattern in each value of commonly used money from CZK 100 to CZK 2 000. This will bring a great simplification not only for the inhabitants of the Czech Republic but also for foreigners. This will reduce concerns about whether this might be, for example, a counterfeit.

The CNB is withdrawing older versions of banknotes from circulation on an ongoing basis. Currently, people should only receive new banknotes in banks or in ATMs. However, the Czech Banking Association recommends people to still check the banknotes which they receive. There are no problems with replacing them afterwards.

The CNB publishes more detailed information about the banknotes issued on its special [website](#).



### **How can one save on holidays? Advice and tips in the next episode of CBA Focus**

High inflation and the weak exchange rate, kept by the Czech National Bank's at CZK 24.7, will affect holidays abroad and make them more expensive for everyone getting ready to travel. How to save at least a little money or where and under what conditions withdraw from ATMs – this was a topic discussed by the guests of [the next episode of the CBA](#)

Focus - Jitka Haubová, member of the Board of Komerční banka, Michal Čarný, Director of Mastercard Czech Republic and Slovakia, and Tomáš Hládek, expert on payments at the Czech Banking Association. Apart from the purely summer topics, they also discussed the latest innovations in the field of payments, from cards in mobile phones, to watches and rings that can do the same. The CBA Focus was again moderated by Daniela Písařovicová.

### **The CNB raised the rate by 1.25 percentage points**

At its last meeting in its current composition, the CNB Bank Board decided to raise interest rates sharply, this time by 1.25 percentage points. The base interest rate thus reached 7%, the highest level since 1999. The central bank is responding to the continued rise in inflation and to high inflation expectations. May inflation, at 16%, already exceeded market and CNB estimates, and statistics on producer prices predict that the price growth in June will also be substantial. It is expected that after the change of personnel, the new composition of the Bank Board will not be so much inclined to further rate increases. Moreover, according to estimates of the overall liquidity in the banking sector, the CNB is currently intervening in favor of the koruna, to prevent it from depreciating and to prevent a further growth of inflation due to the weaker exchange rate.

### **Agricultural producer prices continue to rise sharply**

May producer prices continued to rise across the board in both month-on-month and year-on-year comparisons. In particular, the significant increases of agricultural production indicate further subsequent increases in food prices and foreshadow continued inflation. Industrial producer prices rose by 27.9 percent year-on-year in May, following 26.6 percent increase in April. They rose by 1.9 per cent month-on-month, a slight slowdown from the 2.3 percent month-on-month increase in April. Agricultural producer prices increased 6 percent month-over-month (8 percent in April) and nearly 40 percent year-over-year (35.3 percent in April). Construction prices increased nearly 13.5 percent year-over-year in May.

## **Banks and mobile operators join forces because of digitization**

The Czech Banking Association (the CBA) and the Association of Mobile Network Operators (APMS) have signed a [memorandum on cooperation](#) to jointly support major public digitization projects and bring them closer to citizens. They will focus, among other things, on the development of the means of identity, the use of data boxes and electronic signatures. One of the first planned activities of both associations is cooperation on the upcoming review of the European eIDAS regulation. This concerns the electronic identification of citizens and services. Citizens of the Czech Republic will thus be able to identify themselves vis-a-vis the state and private parties through the electronic wallet, an application that will in the future enable online and offline identification and authentication. This activity will help the state to meet the conditions set by the European regulatory framework.

## **The CNB discussed the Financial Stability Report**

The CNB discussed the [Financial Stability Report](#), which served as the basis for the Bank Board's macroprudential policy settings. According to the CNB, the domestic financial sector remains stable and resilient to negative shocks, despite the deteriorating economic situation, as confirmed by new stress tests. The CNB has kept the countercyclical buffer rate at 2.5% (effective from April 2023), but is prepared to reduce the buffer to support banks' lending activity if the situation requires it. The CNB also confirmed the validity of the credit indicator limits (LTV/DSTI/DTI). According to the CNB, the overvaluation of real estate property prices has further increased to 40%.

## **EBA published its annual report**

The European Banking Authority (EBA) published its [annual report](#), summarizing its activities in 2021 and its intentions for 2022. Among its activities last year, the EBA highlighted the two-year EU-wide stress tests, which were key to assessing the resilience of financial institutions to adverse market developments, and the collection of detailed

information on the performance of 120 European banks, which formed the basis of its Risk Assessment Report.

### **Inflation is at a record high across the EU**

The inflation rate in European Union countries rose to 8.8 percent in May, breaking the record high value of 8.1 percent in April. The Czech Republic has the fourth highest inflation rate in the European Union, [according to Eurostat data](#). Only the Baltic states have higher rates. France and Malta reported the lowest inflation among the EU-27 countries at 5.8 percent. Across the 19 eurozone countries, inflation reached 8.1 percent, up from 7.4 per cent in April. Price increases continue to be driven mainly by energy and further rising food prices.

### **Fed raised interest rates the most in 28 years**

The U.S. Fed raised [its prime rate](#) by 0.75 percentage point, in line with analysts' expectations, to a 1.50 to 1.75 percent band. The prime rate increase is the largest since 1994. It is mainly due to the rapid rise in prices and, in recent weeks, the situation on the financial markets. The inflation rate for May in the United States surprisingly climbed to 8.6 percent, although analysts thought it had already peaked in April at 8.3 percent. Inflation in the US is now the highest since late 1981. The Fed, meanwhile, has set an inflation target of two percent.



# From Legislature



## Fighting fraud will allow breaking bank secrecy

The Committee on the Budget has recommended to the Chamber of Deputies to approve the government's [bill](#) on cooperation between the Czech Republic and the European Anti-Fraud Office (OLAF) and the related amendments to other laws. Thanks to these norms, the Ministry of Finance will be able, among other things, to break banking secrecy and request transaction listing from banks and credit unions and obtain information in the Central Register of Accounts in cooperation with OLAF. The draft law appoints the Ministry of Finance (MoF) as the competent authority for ensuring the coordination of

cooperation with OLAF and sets out its powers within the framework of this cooperation. In the Czech legal system, no authority has had such competence so far, whereas the EU requires it. The way cooperation with OLAF works in general is, that the Office forwards its audit recommendations to the managing authority in the Czech Republic through the MoF. On the basis of these recommendations, the latter will assess whether to initiate its own audit, which may result, for example, in a procedure for withdrawal of the subsidy, or whether to disagree with OLAF's recommendation.

# Financial Education

## Holiday Money Quiz

What tricks and tourist traps do scammers use? How do you find out that an ATM abroad is safe and in which countries do you hardly come across any? Why you shouldn't let your card out of your hand for a second. These and dozens of other questions can be answered on the website of [seznamzpravy.cz](http://seznamzpravy.cz) and of the Czech Banking Association dedicated to a [safe holiday](#). In the quiz, you can try to find out whether you can recognize such exotic banknotes as the Thai bath or the Vietnamese dong.





# Topic

## **CBA advises how not to underestimate holiday finances**

**After two covid years, almost half of Czechs are planning to go on holidays abroad this summer. Before travelling, one should think about how to pay on the holiday, what will be most advantageous, how to avoid unnecessary fees and prepare for the trip accordingly. Safety should also be considered. The Czech Banking Association has therefore prepared some tips that may come in handy when travelling abroad.**

Almost every second Czech plans to spend holidays abroad this summer, and travelers will once again be asking themselves again how to pay for their expenses on the spot. When travelling to places where cashless payment is already common, it is not necessary to carry large amounts of cash. However, if the holiday destination is somewhere where this method of payment is not as common, sufficient cash is a must.

### **Better change money in the Czech Republic**

When exchanging money before your holiday, it's safer to rely on domestic money changers and banks than those abroad. *"It may happen that banks and exchange offices abroad may not accept Czech currency at all. Just as Czech banks and exchange offices do not offer all foreign currencies,"* says Tomáš Hládek, a payments expert at the Czech Banking Association. *"If you are going to a country whose currency is not offered by the exchange offices in our country, you need to take dollars or euros with you, which you can exchange for the local currency,"* added Tomáš Hládek. Before actually exchanging money, it is advisable to know the approximate exchange rate of the currency against the koruna (current exchange rates are published by the CNB on its website), to find out the

currency conditions of the country and how its banknotes and coins look like, so that the money changers could not cheat you.

### **Check whether your card can be used to pay in the selected destination**

*"If you plan to pay by card abroad, it is advisable to check whether the country accepts the brand of card you want to use and whether it is common to pay by card. There are countries that may refuse certain types of cards. It is a good idea to withdraw money abroad only from ATMs that are clearly operated by banks. Other ATM operators may charge additional fees for their services, which will make cash withdrawals more expensive,"* explains Tomáš Hládek.

### **Beware of Dynamic Currency Conversion**

Many Czech banks offer their clients free cash withdrawals abroad, yet clients may be unpleasantly surprised by unfavorable exchange rates when withdrawing money or paying at a retailer. This can be caused by the "dynamic currency conversion" (DCC). If an ATM or payment terminal evaluates that a payment card has been issued in a different country from the one where it is currently being used for payment, it will offer two options for withdrawing money or making a payment: with conversion/without conversion.

When withdrawing/paying with conversion, although it is clear exactly what the exchange rate will be, these amounts are usually very disadvantageous and are burdened with a high margin of the local bank. If the option without conversion is chosen, the current rate offered by the client's home bank is used. While this is not the most advantageous, it is certainly comparable to the normal tourist exchange rate. The good news is that many Czech banks already allow their clients to block disadvantageous ATM withdrawals abroad directly in mobile or internet banking.

### **Fraudsters operate globally**

Just like at home, you need to be careful when using your credit card abroad. The loss of a card is a complication that can be resolved in cooperation with the bank, but it does restrict the traveler's access to their

finances for some time. There is also a risk that the card may be misused. This is why we recommend setting lower withdrawal and payment limits on the card before travelling and setting up notifications in online or mobile banking for all payments made. It's also a good idea to keep a contact phone number for your bank's customer service just in case. Attention should also be paid to the safe use of your smartphone, on which most of us have mobile banking apps and other sensitive data installed. By connecting to an unsecured public wifi network, travelers put themselves at risk of misuse of their data. It is therefore only prudent to connect to the internet using only your mobile data or possibly connect to a secure wifi network.

