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NEWS

Dear Colleagues,

The Czech Republic assumed the Presidency of the Council of the European Union for the next six months. This happened at a time which represents one of the most difficult periods in decades. On the one hand, we have to cope with the still lingering social and economic consequences of the covid pandemic, including the dynamically rising inflation and the enormous indebtedness of European countries. And then, severe international economic sanctions against Russia come in the next wave, as well as the huge flood of refugees with all its consequences and also the skyrocketing prices of fuel. We will undoubtedly also have to deal with the further economic consequences of the war and the strategic issue of getting rid of our energy dependence on the Russian oil and, especially, on the Russian gas. Financial services will, of course, also play a key role, ensuring financial market stability at national and European levels and sufficient protection for depositors, policyholders and consumers. As financiers, we can be pleased that the banking sector is still performing very well in European comparison and that it is achieving above-average results. It is obvious that we have an extremely difficult Presidency ahead of us, and we can only hope and believe that our Presidency will rise to the challenges. I wish you all the best!



Monika Zahálková, Managing Director

News of the Day

Czech Republic has set priorities for the Presidency of the Council of the European Union



At the beginning of July, the Czech Republic assumed the Presidency of the Council of the European Union for six months. Although the priority topics for the Presidency are prepared long in advance, the Russian aggression in Ukraine, combined with the unprecedented rise in energy prices, have reshuffled the Czech Republic's agenda for the period of its Presidency considerably. The issues of war and energy dependence on Russia have moved to the fore instead of the social and economic consequences of the covid pandemic. In the end, the Czech Republic set out [five basic priority areas](#) in its agenda for the key six-month period under the following motto: "Europe as a Task":

Managing the refugee crisis and Ukraine's post-war recovery

Flexible transfers of funds and the creation of the necessary structures to assist the most affected Member States, the inclusion of Ukrainian children in schools and women in the labor market.

Energy security

Transition to low-carbon and renewable energy sources, energy savings, diversification of resources, resilient logistics; the decarbonization of the EU industry and the transition from natural gas to hydrogen.

Strengthening Europe's defense capabilities and cyberspace security

Reinforcing security capabilities, in particular in partnership with NATO, investing in reducing technological dependence; focusing on cyber threats, the fight against disinformation and the security of cyberspace.

Strategic resilience of the European economy

Strengthening the resilience of supply chains; the adoption of a pan-European tool for the proving of a citizen's identity, the European Digital Identity Wallet, strengthening the transparency of cryptocurrencies and reducing the risk of their misuse.

Resilience of democratic institutions

Strengthening of the resilience of certain key institutions that have a major influence on maintaining and developing values of democracy and the rule of law in the EU.



Czech businesses are busily increasing bank deposits

Residents' deposits in banks have increased slightly by CZK 3.5 billion in May and have stayed above the level of CZK 3 trillion since August last year. At the end of May this year, they exceeded this level by CZK 80 billion. The total volume of loans to the population reached CZK 1.985 trillion amid an apparently receding mortgage wave and grew by just under 9 tenths of a percent month-on-month. Entrepreneurs did not "change" the total volume of loans or deposits in May and had almost CZK 116.7 billion more in deposits at the end of May than they owed to banks. Corporate deposits grew relatively significantly. Compared to April, they increased by a relatively significant CZK 20.7 billion to CZK 1.357 trillion. On the other hand, the stock of corporate loans fell slightly by CZK 667 million month-on-month, but increased by CZK 74 billion year-on-year (+6.6%) to CZK 1.216 trillion in May. This follows from the latest statistics compiled by the Czech National Bank.

Industry grew unexpectedly in May

Industrial production increased by 3.3%, year-on-year, in May, which was a pleasant surprise for analysts expecting stagnation. The growth in May represents the best result in the past 12 months and also the first positive trend after three months of decline. Automobile production was the biggest driver of production, up 10% y-o-y, but manufacture of electrical equipment (+7.5% y-o-y) and manufacture of chemicals (+9% y-o-y) also performed well. Industry thus reached the average level of 2019 in May. Construction production in the Czech Republic grew for the 13th month in a row, continuously since last May. However, industry performance has been weakening in recent months due to increasing energy and building materials prices. In May, the building industry grew by 3.3 per cent, year-on-year, compared to the growth of almost 17 per cent in February and almost 9 per cent in March. Please [read more in the commentary](#) by Jakub Seidler, the Chief Economist of the CBA.

The share of bad mortgages dropped to long-standing lows in May

The share of bad bank loans, i.e., the overdue loans, in the Czech Republic decreased again in May. In the case of mortgages, it has fallen by 0.02 percentage point since the beginning of the year to a record low

of 0.64%. For consumer loans, it was 0.22 points to 4.07 percent, and for corporate loans it was 0.02 points to 3.63 percent. Thus, in May, the share of bad loans in corporate loans and in personal loans in the Czech Republic were among the lowest in Europe. The development of non-performing loans is one of the most important indicators of the health of the economy. Given the confluence of a number of adverse factors, this share can be expected to increase in the coming months, with a corresponding delay when difficulties in making repayments are reflected in the classification. However, in both personal loans, not only mortgages, but also in the financing of consumption and in corporate loans, non-performing exposures are at a much lower level than, for example, after the global financial crisis at the beginning of the last decade.

Czech banks perform with above average results according to the European risk assessment

In early July, the European Banking Authority (EBA) published its [Risk Dashboard](#) for the first quarter of 2022. The report, which includes data from 60 European banks, notes, among other things, a slight decline in the return on equity (ROE) and a further decline in non-performing loans. The Czech banking sector once again demonstrates its stability in the assessment. All capital ratios for the Czech Republic show above-average values. Asset quality is also above the EU average, as is NPL coverage. Both the return on equity (ROE) and the return on assets (ROA) are more than twice the EU average, and we have one of the best cost-to-income ratios in Europe.

PMI index sank below 50 points

The Purchasing Managers' Index for Industry (PMI) released by S&P Global sank to 49 points in June from 52.3 in May, reaching a level signaling a decline in manufacturing for the first time since mid-2020. According to the survey, production in domestic industry fell the most sharply in two years, but was further accompanied by a decline in new orders and firms began laying off employees for the first time since September 2020. The leading industrial data are not optimistic, but this is not only true for the Czech Republic, but for the whole euro area.

According to the preliminary PMI for the euro area, industrial output fell slightly in June for the first time in two years and new orders decreased at the fastest pace since May 2020.



From Legislature

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Amendment to the law will favor low-emission vehicles

An amendment to the Income Tax Act, part of the government's package of support measures against rising fuel prices, has been in force since the beginning of July. The tax

measure is aimed at promoting electric mobility. Among other things, the amendment reduces the taxable income for an employee using a low-emission company car not only for work but also for private purposes (previously 1% of the entry price for each calendar month). Thus, for low-emission vehicles, the employee is only taxed on income equal to 0.5% of the entry price of the vehicle. It is therefore now more advantageous for employees to use a low-emission vehicle also for private use. Another important change is the abolition of the road tax for passenger cars, buses and trucks up to 12 tons and the abolition of the compulsory mixing of bio-components into fuels.

Financial Education

Bankers will go to schools again in the autumn



In October and November of this year, the Czech Banking Association, together with volunteers, experts from member banks, will launch the ninth year of [Bankers Go to Schools educational project](#). The project is intended for pupils in the 8th and 9th grades of elementary schools and students in the 1st and 2nd grades of secondary schools and high schools with the aim of acquainting them with the basics of financial literacy. It takes the form of two-hour interactive lectures on a chosen topic, where schools can choose between two topics: The Basics of Financial Literacy, or Cybersecurity. Based on feedback from lecturers and students, the lectures have been updated and topics of interest to students have been added. For example, basic information on investing and cryptocurrencies has been expanded. If you have a school in your area that you know could participate in the project, please send us their contact details [via](#)

[the registration form](#) and we will be happy to contact them at the end of the holidays with an offer to participate in the Bankers Go to Schools project.



Czech Presidency of the EU Council will address financial market stability

Within the framework of the six-month Czech Presidency of the Council of the EU, in addition to the "big" general objectives, a number of sub-tasks for different areas of the economy or politics have been prepared in detail. In the finance segment, these are mainly topics for the negotiations of the Council of the European Union composed of the Ministers of Finance and Economy, abbreviated as ECOFIN. In the area of financial services, the Czech Republic will in particular support the ensuring of the stability of the financial market at national and European levels.

"The Czech Banking Association has been actively involved in the discussions, preparations for and the carrying out of our Presidency through dozens of activities, co-organizing and actively participating in conferences (for instance, with the European Investment Bank, the Banking Magazine or the European Banking Institute), in cooperation with the Permanent Representation of the Czech Republic to the EU in Brussels and with the Ministry of Finance of the Czech Republic, or the Brussels think-tank Eurofi," said Petr Procházka, the EU and International Agenda support of the Czech Banking Association. From the perspective of the banking sector, there are five key areas for the Czech Presidency.

Banking regulation

In the banking sector, the key task will be to further strengthen the harmonization of banking law and to support the implementation of the international concept of Basel III (CRD VI/CRR III) prudential banking regulation. The Czech Republic will strive to achieve a common approach in the Council so as to minimize the tendency to dilute the Basel III concept and, on the contrary, to aim at compliance with uniform, standardized rules.

Transparency in capital markets

In the context of the capital market, the Czech Republic will support the development of capital markets and seek progress in the revision of the rules for the market in financial instruments in the Markets in Financial Instruments Regulation (MiFIR), which should contribute to a better functioning of capital markets and the transparency of investment service providers. Another important point is the creation of a single access point for information on businesses (ESAP), which will allow easy access to publicly available information on business ventures and investment products.

Green Bond Standard

Within the framework of dialogues, i.e., talks between the EU Council, the European Parliament and the Commission, the Czech Republic will lead talks on the draft EU Green Bond Standard (EUGBS), the revision of the Long-Term Investment Funds Regulation (ELTIF), or the revision of the Alternative Investment Fund Managers Directive (AIFMD), aiming at reaching a political consensus in the first two cases.

Fight against money laundering

In the area of anti-money laundering and combating the financing of terrorism (AML/CFT), the Czech Republic will actively support the creation of more effective and clearer rules and institutional setting as part of the work on the current legislative package.

Support for small and medium-sized enterprises

In terms of the set-up of financial instruments in the area of public aid, the CBA also considers the priority of competition to be crucial, where the Czech Presidency will pay attention, among other things, to the support of small and medium-sized enterprises. In this area, it will focus in particular on developing activities to overcome the challenges that SMEs are currently facing in the context of post-pandemic recovery, high inflation, rising energy prices and issues in supply chains.



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