

Dear Colleagues,

A wave of extreme heat has swept across western and southern Europe in recent days, breaking century-old temperature records in many locations. It was and still is hot in the Czech Republic, too. And not only from the perspective of weathercasting. Government politicians have once again opened up the debate on new forms of taxation. This is logical. The situation in which the state budget and the public finances find themselves is not easy. The effects of the coronavirus pandemic and of the conflict in Ukraine are becoming more and more apparent. Inflation is slowly but surely starting to hit the 20% threshold, and so it is quite evident that the government is trying to find financial resources to help reduce the government deficit and to navigate through the coming difficult period in the best way possible. One of the ways being discussed is the introduction of a windfall tax. I understand these efforts and I can say on behalf of the banking sector that we are ready to support the economy as we have done so far, even in a difficult pandemic period.

However, let me appeal to the Government not to take any hasty decisions. They may ultimately do more harm than good. After all, we have the advantage of being able to learn from the mistakes of our neighbors, who introduced, for example, a sectoral tax in the past, but after a while preferred to abandon it. I believe that through constructive discussion with the political leadership, we will be able to find a solution that will ultimately help and benefit our economy.

I wish you all the best!

Monika Zahálková, Managing Director



News of the Day

Mortgage volume dropped again in June. The rate on new mortgages jumped to 5%.



Banks and building societies granted mortgage loans in the volume of CZK 19.3 billion in June. Compared to May, the volume and number of units of mortgages decreased slightly. However, in a year-on-year comparison, the decrease in the volume of mortgages granted increased to 65%. The interest rate on new mortgages - without refinancing - reached the 5% threshold in June, up from 4.64% in May. As expected, the growth of mortgage rates continues in line with the development of market interest rates. However, their further growth should slow down and will also depend on signals from the CNB, which will decide on interest rates in early August. The above information is based on data from the [CBA Hypomonitor](#), which captures data from all domestic banks and building societies providing mortgage loans.

"Both the volume and the number of units of mortgages granted decreased further month-on-month in June, while June figures have usually been stronger than figures for May in previous years. Activity in

the mortgage market is thus slowing down further and the volume of mortgages granted in June fell significantly not only in relation to the record previous year, but also noticeably compared to 2020. However, given the combination of high mortgage rates, tighter lending rules from the CNB, growing concerns about the economy and high real estate prices, this development is not too surprising," says Jakub Seidler, the Chief Economist of the CBA.

Slowing developments in the mortgage market are also reflected in the real estate market. Although, according to the Czech Statistical Office, offer prices of older flats accelerated significantly further in the second quarter of this year, with the year-on-year growth rate increasing from 17% to 25% (the highest since mid-2008), monthly data from CenovaMapa.org indicate that prices are already stagnating in a number of regional cities in June, and in some cases, including Prague, they are already decreasing.



From the Market

Producer prices continue to rise

Producer price growth continued throughout June. In agriculture, prices of crop production increased significantly, bringing the year-on-year growth in agricultural producer prices to 42.5% and in crop production to almost 60%. The situation is similar for industrial producers, especially for food production and refined petroleum products. The growth in prices of construction work also remains in double digits. While inflation figures from the manufacturing sector suggest that some prices have probably already peaked, the decline is relatively moderate for the time being and the upward pressure on final consumer prices is not yet over. Energy prices remain the most significant risk, as they continued to rise sharply in the third quarter as a result of uncertainty over gas supplies from Russia. In view of these developments, inflation will thus continue to accelerate in the coming months, and reaching the 20% threshold seems like a done deal from the current perspective. [Please read more in the commentary](#) by Jakub Seidler, the Chief Economist of the CBA.

The Bank Board divided competences

The CNB Bank Board met for the first time in a new composition and approved the [division of responsibilities](#) of its members for overseeing the CNB's specialized sections and separate departments. Each member of the Bank Board has oversight of several departments and sections, including the Internal Audit Department and Human Resources Departments (Governor Aleš Michl), the Monetary Department (Deputy Governor Eva Zamrazilová), and the Financial Regulation and International Cooperation Department (Deputy Governor Marek Mora), the Cash Department (Board Member Oldřich Dědek), the Licensing and Enforcement Department (Board Member Tomáš Holub), the Financial Stability Department (Board Member Karina Kubelková) or the Financial Market Supervision Department (Board Member Jan Frait). At the same time, the Board decided that the CNB's Financial Stability Department will be temporarily led by Libor Holub, the current Deputy Executive Director of the Department and Director of the Macroprudential Policy Division. Luboš Jemelka, Director of the Organizational and Protocol Division, will be temporarily in charge of the General Secretariat as of the same date.

Banka Creditas should be the new owner of Expobank CZ

Banka Creditas should become the new owner of Expobank CZ. Both banks have signed a sales contract. It is still subject to approval by the regulatory authorities - the Czech National Bank and the Office for the Protection of Competition. The amount of the transaction has not been disclosed by the financial institutions. [In a joint press release](#), the two banks also said that they continued to operate independently and that nothing has changed for their clients or employees.

Czechs underestimate the risk of low pensions

Czechs underestimate the risk of low retirement pensions, [according to a survey](#) by the Czech Association of Financial Counselling and Mediation Companies (CASF). Only 7% of respondents are concerned that retirement will negatively affect their family finances. In the 51 to 60 age group, which is approaching retirement age, 12% of people are concerned about the deterioration of family budgets. Only 14% of respondents maintain a clear financial plan with appropriate financial products that they update as their income and goals change. Only 45% of respondents plan how to cover current household expenses, and 13% of respondents do not even plan finances at all.

Czechs don't believe inflation will decrease soon

Czechs are skeptical about the price developments of goods and services, which are currently growing rapidly, they fear poverty and believe the government is not taking sufficient steps to improve the situation. A STEM [survey in June](#) showed that 82% of people do not believe that the inflation situation will improve soon. As many as 80 percent of respondents said they had to start saving more and cutting back on some of their needs because of rising energy prices. Almost 65% of people are worried about poverty and 84% of respondents say that the government is not taking sufficient steps to prevent a decline in the living standards of citizens. The situation linked to rising prices has also changed some preferences, so that a larger group of people would now prefer to increase social benefits instead of investing in environmental protection. The last time a majority of people in regular STEM surveys preferred social benefits to environmental protection was in 2001.



From
Legislature



The Chamber of Deputies approved a change in the definition of beneficial owners

The Chamber of Deputies approved an urgent [government amendment to the law on the registration of beneficial owners in the first reading](#). The amendment was necessitated by reproaches from the European Commission, which made the possibility of submitting the first Czech application for payment from the National Recovery Plan, which could bring as much as CZK 179 billion to the Czech Republic, conditional on the change in the Czech law. Under the amendment, which is now before the Senate, the beneficial owner will be the person who owns or controls the legal entity. The current legislation defines the beneficial owner as the ultimate beneficiary or the person with ultimate influence. The amendment also abolishes the exemptions from the law that previously applied to churches and religious societies, political parties and movements, professional and employers' organizations, hunters' associations and house unit owners' associations.



Constitutional Court deals with the obligation of banks to maintain free protected accounts

The Constitutional Court is deliberating on whether the obligation of banks to provide people dealing with distraint with free protected accounts does not violate the constitutional order. According to a group of 17 senators who filed a motion to repeal part of the Civil Procedure Code, there is a controversial sentence in the law, which is problematic. It states that "a financial institution shall not be entitled to payment for the establishment and maintenance of a protected account." The controversial phrase about the free maintenance of a protected account was included in the law as part of the amendments. According to a group of senators, the law favors people in distraint over other people in a difficult social situation, such as pensioners with minimal pensions and the unemployed. Moreover, it does not distinguish between debtors in different situations, for example, between the wife of an indebted gambler and people who are guilty of having caused culpable damage or owe the costs of criminal proceedings. The protected account is intended to serve people facing distraint with garnished payment accounts. It can be used to manage what is known as protected income.

Financial Education

The new Minister of Education wants to promote legal awareness and financial literacy.



Financial literacy is still not a compulsory subject, although it certainly deserves more attention. Vladimír Balaš, the new Minister of Education, Member of Parliament (STAN) and constitutional lawyer agrees. In his new role, he would like to focus on promoting legal awareness and financial literacy. However, he is not planning any major changes in education. You can hear more in his interview for the [Czech Radio](#).

Topic

Support the economy? Yes, but sensibly. Banks call for a systemic solution.

The situation in which public finances and the national budget currently are is very complicated. The energy crisis, closely linked to the conflict in Ukraine, is putting additional pressure on the state to help the economy. Therefore, we cannot be surprised that political representatives are trying to find new financial resources. Such efforts are now understandable and banks are prepared to support the economy. However, the arguments put forward in favor of a further taxation of banks, either in the form of a sectoral tax or a windfall tax, are often largely one-sided and do not take

into account all the relevant information. At the same time, we can look at extraordinary profits from various different perspectives, and we could thus point to a number of sectors that have made extraordinary profits even in the context of a pandemic.

The key is a systemic solution

The Czech Banking Association, which represents 99% of the banking market in the Czech Republic, prefers finding a systemic solution that is sustainable in the long term and is not burdened with decisions that will make investors in the banking sector, as well as in other sectors, uncomfortable in the long term. *"In a period when economic growth is generally expected to slow down, or more likely a period of economic recession, we need healthy and strong banks that will be able to finance the real economy,"* says Monika Zahálková, the Managing Director of the CBA.

The "excessive" profits this year are also due, in addition to higher interest rates, to a low comparison base after the pandemic or to double the number of mortgages granted in 2021, compared to the previous period. However, this level of profits is not sustainable in the long term. It will also be affected by the need to build up reserves for the 'rainy days' in the face of the coming cooling of economic activity. Higher interest rates themselves are also having a negative impact on lending activity, as evidenced by the 65% year-on-year decrease in new mortgage originations. Therefore, the tens of billions of crowns of tax revenue expected from extraordinary profits this year and next is unrealistic. Banks are also often blamed for having earned profit from the central bank's interest rates. However, this argument does not take into account the development of overall interest costs and their subsequent effect on, for example, lower rates on mortgages or consumer loans, than would be consistent with market rates. Furthermore, the long period of extremely low interest rates over the last ten years is not taken into account and the argument for extraordinary gains at higher interest rates is rather asymmetric.

Sectoral tax failed to be successful in many countries

The foreign experience with sectoral taxes is also not very convincing. Slovakia introduced a tax on the banking sector in 2012. The consequence was a large drop in profits in the sector and a reduction in lending dynamics. Therefore, the special bank tax was abolished in 2020 and the government signed a memorandum with the banks, which includes a commitment by the banks to finance public projects, the business sector

and government debt (through purchases of bonds).

Czech banks already hold nearly a trillion crowns worth of government bonds, which represents about 40% of their total volume. Moreover, they want to find solutions to help finance the economy. Already, the financial sector reinvests a much larger share of investment returns than other sectors.

Banks stand by their clients and are prepared to help them

Banks have shown in recent years that they are ready to help clients in difficulty. They have provided deferral of repayments to almost 350,000 households and to approximately 18,000 entrepreneurs, totaling CZK 443 billion.

"I believe that in constructive discussion, we can find solutions even today. We are willing to participate in systemic solutions. We want to support projects that represent investments in our future, whether in transport infrastructure or in a fundamental revival of the construction of affordable rental housing. We see the solution in the partnership of the state, the National Development Bank Group and commercial banks, as well as the entire financial sector," concludes Monika Zahálková.

