

Dear Colleagues,

Last week, the new CNB Bank Board met for the first time and, as expected, kept interest rates at 7%. At the CBA, we expect that the rates are unlikely to change before the end of the year. A scenario of faster-than-expected inflation, which, according to the CNB's new forecast, will approach the 20% threshold this autumn, mainly due to rising energy prices, might not force the Bank Board to raise the rates. Whether or not the CNB's decision is correct will become clear in the coming months. In any case, it is already certain that this autumn will not be easy for most of us. The economy is likely to experience recession, household budgets will start feeling the full impact of the ever-rising prices of energy, Covid will come back again, local elections will trigger a new wave of coalition negotiations and splits...

To make the best of this challenging period, we need to recharge our batteries. And now is the ideal time to do so, with summer at its imaginary peak and still a few weeks to go before the end of the holidays. So, enjoy the sunshine, relax, play sports, walk or bike for local trips, in short, spend beautiful days full of happiness with those you love.

I wish you a wonderful rest of the summer!

Monika Zahálková, Managing Director



News of the Day

The new CNB Bank Board has not changed rates



As expected by the market, the CNB Bank Board, meeting for the first time in its new composition, [has not changed interest rates](#). The base rate thus remains at 7%, whereas the Bank Board had previously raised rates significantly seven times in a row. At the same time, the central bank said it would continue to intervene against excessive fluctuations in the koruna exchange rate.

The question remains whether the central bank will keep rates unchanged until the end of this year, given that inflation is likely to rise further, up to 20 percent. According to Jakub Seidler, the analyst of the Czech Banking Association, interest rates are unlikely to change this year. *"In our opinion, interest rates will likely remain at their current levels and the CNB would only be inclined to raise them if the koruna exchange rate comes*

under significant pressure and the CNB no longer wants to operate on the market due to rapidly depleting foreign exchange reserves. A scenario of a faster-than-expected inflation might not force the CNB to raise rates, as it would probably be a supply-side inflation again, because the domestic economy and household consumption are gradually weakening, according to incoming data. Our base case scenario is therefore that rates will remain stable until the end of the year and that rate cuts will start at the end of the first and beginning of the second quarter of next year," said Jakub Seidler.

The CNB also published an updated economic forecast, expecting gross domestic product to grow by 2.3 per cent this year, while predicting a recession for the rest of the year, which will be driven by a drop in household consumption linked to a decline in real incomes. However, the bank said economic growth should recover next year and reach 1.1 per cent for the whole of 2023. Inflation is expected to increase to 20% in September and to average 16.5% for the whole year, according to the CNB's estimate. Bankers believe prices should rise by 9.5 per cent next year, compared with the 4.1 per cent inflation rate that the CNB was forecasting for 2023 as recently as in May.



The CBA warns against fraudulent bank websites

The Czech Banking Association [warns against phony bank websites](#) on the Google's search engine. The sites look like an original bank website, but they are fraudulent links that can cause people to lose money. The CBA recommends checking the address before entering access details. It is safer to enter it directly into the address bar rather than use a search engine. Inquiry links often appear to be paid advertising. The link will therefore be often displayed as the first in line by the search engine.

Economy strengthened slightly in Q2

The domestic economy grew by 0.2% in the second quarter of this year compared to the period January to March, according to the preliminary estimate of the Czech Statistical Office. Year-on-year growth then slowed from 4.9% to 3.6%. Analysts had expected the economy to show a slight quarter-on-quarter decline of 0.4%. The preliminary estimate is thus above expectations, despite the issues caused by the war in Ukraine and by the energy crisis. Household consumption and investment contributed to the year-on-year growth. The trade, transport, accommodation and food services sectors were the main contributors to value added growth, while construction and services in general performed well. In quarter-on-quarter terms, only domestic demand contributed to growth, while services grew slightly and construction and industry stagnated. [According to Jakub Seidler, the CBA's Chief Economist,](#) economic activity will slow down noticeably in the second half of this year and the economy is expected to enter a recession from a quarter-on-quarter perspective. Despite this, however, more favorable developments in the first half of the year and the low comparative base of the previous year push the estimate of full-year GDP growth for this year slightly above 2%. However, uncertainty remains high, especially in the context of future supplies of natural gas from Russia to the EU.

Cabinet approved increase in this year's state budget deficit

[The cabinet approved an increase in this year's state budget](#) deficit to CZK 330 billion. This is 50 billion more than the 280 billion approved by the Chamber of Deputies in March. Revenues of the amended budget amount to CZK 1.678 trillion, while expenditures amount to CZK 2.008 trillion. The Chamber of Deputies is expected to discuss the amended budget in September. The government has a majority of 108 out of 200 votes in the lower house, so it can be assumed that the budget will pass. The additional budget spending responds primarily to the need to compensate for some of the negative impacts of the war in Ukraine, in particular to the high inflation rate, the increase in energy prices, and the associated vulnerability of low-income and the vulnerable groups of population. The most significant item in the budget is the energy price assistance package, including in particular an energy saving tariff, state-

funded support for renewable energy sources or support for boiler stations and central heating. Of the CZK 66 billion package, about a quarter, or CZK 16.75 billion, will be covered by this year's budget. The state budget deficit at the end of July rose to CZK 192.7 billion from CZK 183 billion in June. At the end of July last year, the budget showed a deficit of CZK 279.4 billion, which was the worst June result since the Czech Republic has been founded.

Credit to residents exceeded the two trillion crowns threshold for the first time

According to banking statistics compiled by the CNB, the total volume of credit to residents in June exceeded CZK 2 trillion for the first time in the history of the Czech Republic. However, banks continue to report a very low proportion of non-performing loans across Europe. The year-on-year increase in deposits of the population amounted to CZK 120.7 billion in June, while the increase in loans was approximately CZK 161.7 billion and loans to the population thus reached CZK 2.003 trillion. On a month-on-month basis, both deposits and loans increased only marginally by a tenth of a percent in June, and the resulting balance between deposits and loans of the population decreased slightly month-on-month from May's CZK 1.094 trillion to June's CZK 1.089 trillion. Corporate loans grew very slightly month-on-month in June (by less than four-tenths of a per cent) but showed a 7.7% year-on-year increase to CZK 1.221 trillion. June, on the other hand, was marked by a significant decline in corporate deposits, which declined by 2.5% to CZK 1.323 trillion. The resulting balance of corporations vis-à-vis banks thus finished up CZK 101.6 billion.

People's confidence in the economy has plummeted to an all-time low

Confidence in the Czech economy weakened noticeably in July, mainly due to a decline in confidence in industry and to a further deterioration of confidence among households. Consumer pessimism has been growing for five months in a row, and in the first month of the holiday season, consumer confidence even fell to its lowest level since January 2003, when confidence surveys started. Consumers believe that their current

financial situation, as well as the overall economic situation in the Czech Republic, are deteriorating and that this negative trend will continue in the coming months. Confidence among entrepreneurs also declined in July, with a particularly noticeable drop in confidence in industry. Here, businesses revised their assessments of current demand downwards, but also of stocks (where problems in supplier relationships continue to manifest themselves) and of expected developments in manufacturing activity in the coming months. Industry confidence thus fell to its lowest level since March of this year, but is still noticeably above levels seen during the pandemic shutdown.

The number of new self-employed persons in the middle of the year was the highest since 2017

The increase in the number of entrepreneurs in the first half of the year amounted to 14,010 new entrepreneurs, the most in the same period since 2017. The largest increases were in Prague and in information and communication activities. 38,697 entrepreneurs started their business activity and 24,687 closed it. [This results from the analysis of CRIF](#) – the Czech Credit Bureau. The number of entrepreneurs increased in the first half of the year in all regions except Liberec, where 6 new entrepreneurs were added for every 10 entrepreneurs who closed down. On the other hand, Prague was the region in which new trades prospered the most. 21 new trades were established there for every 10 closed ones. Looking at the sectoral distribution, the highest growth was in information and communication activities, where 36 new trades were created for every 10 closed ones. However, transport and storage and administrative activities also prospered, with 25 new trades for every ten closed. Women accounted for 39% and men for 61% of the number of new trades.

Fed hikes interest rates

[The Federal Open Market Committee of the Federal Reserve raised the benchmark policy rate](#) by 0.75 percentage points lifting the target range of the federal funds rate to 2.25% to 2.50%. The interest rate hike is an attempt to slow down inflation, which is at its highest in four decades in the US. In its statement, the Fed added that it plans further rate hikes

despite evidence of a slowing economy. The Fed has already raised its benchmark interest rate by 2.25 percentage points since the start of this year. The latest data showed that the year-on-year rate of consumer price growth accelerated to 9.1 percent in June from 8.6% in May. This was the highest inflation rate since November 1981. Inflation is more than three times the central bank's two per cent target.



The Number of the Week

7.00 %
CNB two-week repo rate

The graphic features a photograph of the Czech National Bank building in the background. The text is overlaid on a dark blue gradient. The title 'The Number of the Week' is in white, and the rate '7.00 %' is in a large, bold, teal font. Below the rate, the text 'CNB two-week repo rate' is in a smaller white font.



From
Legislature

The graphic consists of a dark teal background with the text 'From Legislature' in a large, white, sans-serif font. The text is centered and framed by thin white vertical lines on either side.



Exporters affected by the war in Ukraine to be supported by guarantees

The Ministry of Industry and Trade (MIT) wants to create a new EGAP plus guarantee program for exporters

affected by the war in Ukraine. The operation of the program is to be provided for by an amendment to the Act on Insurance and Financing of Exports with State Support, which is currently in the comment procedure. A new fund is to be established at the Export Guarantee and Insurance Corporation to cover the obligations under the guarantees provided under the new program. According to the MIT, the government should inject CZK 500 million from the state budget into it this year. This initial contribution will always be replenished on the basis of a government resolution, especially in the case of non-compliance with the ratio between the fund and the total obligations of the export insurance company from the provision of guarantees. The ratio is proposed at eight per cent.

Financial Education

The CBA is launching training programs for managers



The Czech Banking Association is launching unique training programs for both middle and senior management from September. These come in three different formats, themed according to the target group. They range from non-financial professions (lawyers, doctors) to senior managers, CFOs and the TOP management of companies itself. 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 financing, corporate governance, investing, cryptocurrencies, etc. The lecturers of the program are leading representatives of Czech business, such as Tomáš Salomon, President of the CBA, Eva Zamrazilová, Vice Governor of the CNB, Martin Jahn, member of the Board of Directors of Škoda Auto, or Pavel Řežábek, Chief Economist of ČEZ. More information about the training programs can be found [here](#). The training capacity is becoming almost full so do not hesitate and register early.

The CBA will launch information campaign on cryptocurrency fraud



The Czech Banking Association, together with the Police of the Czech Republic, is cooperating with EUROPOL on an awareness campaign alerting to cryptocurrency frauds. As public interest in cryptocurrencies and possible investments in them is growing, so is the interest of fraudsters in this area. This is why fraudulent advertisements for cryptocurrency investments or more sophisticated scams using social engineering elements with the sole aim of getting the victim to invest in cryptocurrencies are becoming increasingly common, especially on social media. However, the money ends up in the crooks' accounts. The information materials that have been prepared introduce the public to the most common tricks of scammers and describe how to defend against their attacks. The campaign, entitled Finance Smoothly, will be launched [on the CBA's social media channels](#) on August 9, 2022, and will be free to share with all the Member Banks.



Gracious Summer returns

From September to the end of November, a large-scale event will take place for the second time to allow borrowers facing distraint procedures to wipe out their debts. Gracious Summer II offers forgiveness of accessions of a claim, i.e., default interest, penalties, etc., to borrowers who pay the outstanding original debt (principal) to their lenders and a lump sum reimbursement of the costs of distraint procedure; according to its authors and proposers, the repetition of last year's Gracious Summer is also the last case when this model of "debt relief" will be applied.

The Gracious Summer II, which builds on the success of last year's event, will take place on the basis of the approved law on special reasons for suspending the enforcement procedure and relates to execution disputes with public institutions. It therefore applies, for example, to debts owed to transport companies, hospitals, state-owned energy companies, unpaid fees to Czech Television and Czech Radio, as well as to health insurance companies. According to estimates, one third of foreclosures in the Czech Republic concern debts owed to public entities. Citizens with these debts facing distraint procedures (but not in insolvency) can get rid of all their debts if they pay the full amount of the principal and a lump sum compensation for the costs of the distraint procedure within a three-month period (from 1 September to 30 November). *"The Gracious Summer gives a real chance to debtors who are subject to enforcement proceedings by the state, region, municipality or their majority-owned organizations to get rid of some or even all of their "public" debts on rather favorable terms and within a short period of time. It thus represents a legal instrument that means real help and hope for a new start for debtors affected by foreclosure,"* said Filip Hanzlík, the Chief Lawyer and the Deputy Managing Director of the Czech Banking Association.

The amount compensating the costs of foreclosure has been doubled compared to last year to CZK 1,500 + VAT. The debtor must notify the distrainor in writing, not later than before 30 November, that he or she is requesting the initiation of the procedure under the Graceful Summer act. Another condition is that the distraint procedure was initiated before 28 October 2021. The Graceful Summer therefore does not apply to newly incurred debts and initiated executions. For the purpose of payment of the

principal, the debtor has the possibility to ask the distrainor in writing to communicate the amount of the principal due and the distrainor is obliged to reply to the debtor within 15 days.

The pardon does not apply to all foreclosures

The Gracious Summer does not apply to enforceable monetary penalties or other property sanctions imposed on the debtor in criminal proceedings for a deliberate criminal offence, claims for compensation for injury caused by a deliberate breach of a legal obligation, as well as claims by creditors for maintenance, claims for substitute maintenance and claims by creditors for compensation for personal injury.

Will private entities also get involved?

Certain private entities have voluntarily participated in the first round of debt relief and this year is likely to be similar. For example, the Gracious Summer program for clients of MONETA Money Bank has been running since June. In the first wave, Air Bank, Česká spořitelna, Komerční banka and Home Credit were also involved. *"Entities associated in the Czech Banking Association are not bound by the terms of the Gracious Summer, but if they decide to offer their clients an arrangement similar to the Gracious Summer, such an approach should be appreciated"*, said Filip Hanzlík.

The exact results of the first wave are not yet available

The first Gracious Summer ran from last October to this January. However, the overall results of the event are not yet known. According to data from the Chamber of Distrainors, the Gracious Summer contributed to the termination of 42,000 foreclosures and 15,000 borrowers were able to get rid of all their foreclosures. In total, the forgiven accessories amounted to over CZK 1.5 billion and the amount of repaid principal reached 390 million. However, according to the MPs, the authors of the law, these figures are underestimated because many cases are still pending.



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