

Dear Colleagues,

Like every year, the Czech Banking Association has measured the Financial Literacy Index again in a survey. The index increased slightly, to 56 points, year-on-year. Although this is a slight increase, there is still no cause for joy. Indeed, we have plenty of room for further improvement. This is also why the CBA has long been trying to raise public awareness of finance and of financial products. We have a number of educational projects, some of which (such as Bankers Go to Schools or the European Money Quiz) already target school children. However, we also focus on the elderly, we have long been cooperating with the i60.cz server, and we also target low-income groups through the Debt Advisory Center - Counselling in Stringency.

Last year, we have launched the first year of a nationwide educational campaign on cyber security. It was very successful, so we have decided to continue it this year and are launching its second year on 1 September. This time, the campaign will be so extensive that we believe it will not escape attention, and as a result, we will be able to teach the public how to recognize and counter cyber-attacks in a playful way. You can read more on the subject in the next issue of the CBA NEWS.



Monika Zahálková, Managing Director

News of the Day

Financial literacy has slightly improved



[The Financial Literacy Index](#), which the Czech Banking Association (the CBA) has been regularly measuring each year, increased from 55 last year to 56 this year. It is still true that the higher the level of education, the better the financial awareness. While people with a university degree scored 62 points, those with a primary school education or an apprenticeship certificate scored only 48 points. The most difficult question was the one on the benefits of credit, which was answered correctly by less than a third of respondents (31%).

"In addition to education, people often gain knowledge through years of experience. This is shown by the fact that people over 50 achieved better results - 58 points on average. Overall, however, financial literacy in the Czech Republic is still insufficient from my point of view and people fail at

basic things. This then results in greater vulnerability. The Czech Banking Association is therefore trying to improve awareness of finance and financial products through a number of educational projects. Among the most popular are "Bankers Go to Schools" and the pan-European "European Money Quiz", which target children. In addition, due to increasing cyber-attacks, we are launching a large-scale educational campaign called Kybertest.cz in September," says Monika Zahálková, the Managing Director of the Czech Banking Association.

A survey by the Czech Banking Association also found that the current high inflation threatens the family budgets of three-quarters of Czechs. Six out of ten respondents think that their economic situation will deteriorate at the end of this year. Despite this, 41% of the people surveyed do not plan to protect their money from inflation. Approximately a third plan to transfer their funds to advantageous savings accounts, 14% want to invest in real estate, 13% in shares or bonds, and 9% in gold.

More than half of those surveyed are building up a financial reserve or some form of it. Half of them set aside up to CZK 2,500 per month. These savings would most often last them three months. Most often they put money aside for unexpected events. People set aside up to CZK 2,500 for retirement, but in addition to the financial reserve, they often have other financial security in the form of a house or an apartment.

According to the CBA survey, the lack of financial literacy is mainly due to school and family. About a third of respondents believe that even teachers themselves are not well trained in financial matters, and 54 percent of people think that children are not sufficiently taught about finances in the family. More than two-thirds of respondents think that the state should be mainly involved in financial education.



The free fall of mortgages continues

Mortgage financing is showing a sharp decline due to rising interest rates, tighter lending conditions and the deteriorating economic situation. According to the CBA's [Hypomonitor](#), the volume of mortgages granted in July reached CZK 11.9 billion, a drop of more than a third compared to June. In a year-on-year comparison, the volume of mortgages fell by 73%, compared to a 65% decrease in June. The volume of actual new mortgages granted (excluding refinancing) fell by CZK 5.9 billion in July, from CZK 15.7 billion in June, to CZK 9.8 billion. That's the least from 2016. The interest rate on new mortgages rose to 5.4% in July from 5% in June, the highest level since the beginning of 2010. The rise in mortgage rates is thus a delayed response to the development of market interest rates, which had been rising gradually until the middle of the year. In recent weeks, however, the trend has reversed, which will dampen the upward pressure on mortgage rates.

Milder growth of inflation was a surprise in July

Consumer prices rose by 17.5 percent year-on-year in July, [according to the Czech Statistical Office](#). The month-on-month price growth was 0.3 percent, which was a pleasant surprise for the market. Analysts were generally expecting inflation of around 18%. According to Jakub Seidler, the Chief Economist of the Czech Banking Association, the lower-than-expected growth was probably due to the methodology used by statisticians to project data from energy distributors' price lists into their figures. The main cause of the July acceleration in inflation was thus attributable to food prices. These rose by 1.4% month-on-month in July, with their annual growth rate rising from 18.7% to 20%. Energy price growth also contributed, but less significantly. In view of the announced changes to household energy prices, inflation is likely to increase further in the coming months, approaching the 20% threshold, where it will remain until the end of the year. A more noticeable slowdown in inflation can thus be expected at the beginning of next year, but it will probably still be in double digits.

The Czech Republic Pays by Card Project has been extended for two years

[According to the Ministry of Industry and Trade of the Czech](#)

Republic, about 25,500 entrepreneurs and local governments have received a free payment terminal or gateway under the Czech Republic Pays by Card Project as of the beginning of August. The Ministry has therefore decided to extend the project for another two years, until the end of March 2025. The project is particularly beneficial for small entrepreneurs, who can try out the cashless payment system and return it free of charge if it does not suit them. The payment terminal is offered free of charge for six months. Entrepreneurs and local governments that have not accepted cards in the last year are eligible. Zero transaction fees apply to card payment turnover of up to CZK 50,000 and above this amount, fees are charged according to the standard terms and conditions of the provider of the terminal.

According to data from Global Payments and Mastercard, the Czech Republic ranks among the European average in terms of availability of payment terminals. There are approximately 27 devices per 1,000 inhabitants. The champions are tourist destinations in Greece and Spain, while Germany is the worst.

The volume of loans from building societies decreased by a third year-on-year

Building societies granted loans worth CZK 43 billion from January to the end of July, which is one third less than in the same period last year. At the same time, savings banks concluded 312,500 new building loan contracts, an increase of 12%, according to data provided to the Czech News Agency by all five domestic savings banks. According to the Association of Czech Building Savings Banks, the drop in loans is mainly a statistical consequence of last year's figures, i.e., of a high comparison base. In 2021, savings banks provided loans worth a record CZK 110 billion. Moreover, the decline in lending is not as dramatic as it is for mortgages, according to the Association of Czech Building Savings Banks.

The Number
of the Week



56 points

the CBA Financial Literacy Index

From Legislature

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The Senate supports a constitutionally established right to pay in cash

At the beginning of August, the Senate approved a proposal by a group of senators around Jitka Chalánková from the ODS and TOP 09 club to [establish the right to pay in cash in the constitution in the first reading](#). The proposal to supplement the Charter of Fundamental Rights and Freedoms will now be discussed by Senate committees. According to Senator Jitka Chalánková, a large part of the population does not want the bank account, a payment card and a bank identity to become an obligation or a necessity. They reject this because of possible privacy checks, the need to have the necessary equipment, hacker attacks and possible interruptions of electronic connections or electricity supply, according to the justification for the proposed amendment. However, the draft respects the legal restriction on cash payments - amounts over CZK 270 000 must be conducted cashless to prevent crime and also because of prevention of criminal

activities and this applies also to the restriction of the right to pay in cash in the context of deprivation of liberty, for example in prisons.

Financial Education

CBA EDUCA conducted more than a third of all professional tests



The Czech National Bank has published an evaluation of the success rate of financial market proficiency tests for the second quarter of the year on its website. The results show that this year, there have no longer been any transitional periods for the performance of business and that the majority of the market therefore already possesses proficiency tests. Nevertheless, a total of more than 8,900 tests were conducted, of which more than 3,500 were conducted at the [CBA EDUCA](#).

Topic

The Banking Association improves outlook for economic growth

In an updated forecast, experts from the Czech Banking Association have improved their estimate of this year's growth of the domestic economy from 1.8% to 2.4%. The more optimistic outlook is based on the relatively favorable development of the

economy in the first half of the year. However, the economy will enter a recession in the second half of the year, which may continue into early 2023, when the CBA analysts expect growth of only 1%.

However, forecasts on GDP evolution and on other economic indicators are extremely uncertain due to the conflict in Ukraine and the development of energy markets. *"Although some of the economic disturbances such as difficulties in supply relations have eased in recent months, this does not bring much optimism in light of current events. The global economy is gradually slowing, the United States is already in recession and the eurozone economy is, by most estimates, heading into one in the second half of this year. However, the biggest risks still stem from future Russian gas supplies to Europe and further developments in the war conflict",* said Jakub Seidler, the Chief Economist of the CBA.

Economic growth will exceed 2% slightly

Economic growth will slightly exceed 2% this year, according [to the new CBA forecast](#). Compared to the estimates from May, the forecast has improved, which is mainly due to more favorable developments in the first half of this year. By contrast, the new forecast expects noticeably weaker growth next year, at around 1%, compared to the earlier estimate of 3%. However, this forecast does not assume a total stopping of Russian gas supplies to Europe during the coming winter. The Czech economy would then be among the most vulnerable in the EU due to its high dependence on industry. In terms of the structure of growth, household consumption is projected to be significantly constrained this year and next. Uncertainty will weigh heavily on firms' investment activity, but here the situation may be boosted by the drawdown of EU funds and, to some extent, by forced investment in the energy sector.

Inflation for the full year will be 15.7%

Price growth has accelerated in recent months, reaching 17.5% year-on-year in July, with inflation peaking at around 20% in the period ahead. For the whole of this year, the forecast therefore expects inflation of 15.7%, a noticeable revision from the previous estimate of 12% in May. Inflationary pressures are more pronounced, and the inflation outlook for next year is also being raised, particularly on account of energy price developments.

The Prognostic Panel expects average inflation of 8.3% next year, and slightly above 4% at the end of the year.

Real wages will fall rapidly

Average wages are expected to grow by around 7% this year. However, their growth will fall far short of inflation and real wages will therefore fall by more than 8%. Next year, the Prognostic Panel expects nominal wages to follow a similar trend, but real wages may continue to fall slightly as inflation remains higher. The question remains as to what pressure on wages will be exerted by the unions.

Rates are already (almost) at their peak

The faster-than-expected price growth has been reflected in a much faster rise in interest rates by the Czech National Bank. The CNB raised the base rate to 7% until the end of June and chose not to change rates in August. The CNB's summer forecast expects interest rates to remain stable until the end of the year, while the banks' consensus does not rule out a slight increase to 7.5% on account of faster wage growth and a possible escalation of uncertainty on the markets leading to higher pressure on the depreciation of the koruna. This will bring rates to a peak and their gradual reduction down to the value of 5.5% can be expected next year. The koruna exchange rate should remain slightly below CZK 25 per euro over the next two years. By the end of this year, the consensus expects the koruna to be around CZK 24.75 per euro, and the Panel thus assumes that the CNB will be active on the market until the end of the year and support the koruna by intervening. For next year, the outlook is more divergent and the koruna is expected to be at CZK 23.8 - CZK 25 per euro at the end of next year, reflecting the different assumptions about the euro-dollar exchange rate. However, the median estimate is CZK 24.6 per euro.

