

Dear Colleagues,

As the summer draws to a close, everyone is eagerly awaiting what the upcoming fall will bring. It might be the election results, additional price increases, or the ongoing debates on the state budget, which is now not just billions, but dozens or hundreds of billions short. I regard the "windfall tax," an extraordinary tax on banks, as a highly ill-conceived and ineffectual solution to close such a big budgetary gap. Having a solid companion by your side during a crisis is essential. And banks are unquestionably that. Additionally, they are willing to use financial tools to generate revenues for strategic state investments that will be significantly greater than those raised by the windfall tax or by the taxation of the so-called unearned profits. By the way, I vehemently disagree with the term "unearned profit" and consider it to be almost insulting.

For years, banks have been offering high-quality products and services to millions of customers, demonstrating time and time again that they are a reliable partner for both the government and their clients. They are prepared to assist once more and take an active role in a constructive discourse with the government that would benefit the Czech economy far more than useless regulation would, even if there is a legal basis for the government to do so.



Monika Zahálková, Managing Director

News of the Day

Mortgage rates are the highest in 12 years. Many of the applicants won't be able to get them.



Banks and building societies granted mortgage loans in the volume of CZK 10 billion in August. Compared to July, the volume and number of units granted decreased by about 15%, and by 78% year-on-year. This is shown by the statistics of the Czech Banking Association – the [CBA Hypomonitor](#). All banks and building societies providing mortgages on the Czech market supply data to it. *"The volume and number of mortgages granted in August decreased further month-on-month and was the weakest in the history of the time series since January 2020. If we use the official CNB statistics for a longer comparison over time, the August volume of mortgages granted was the lowest since January 2016. Thus, the mortgage market has declined noticeably this year due to a*

combination of high mortgage rates, tighter lending rules from the CNB, growing concerns about the economy and generally high property prices," says Jakub Seidler, the Chief Economist of the CBA. The interest rate on actual new mortgage loans rose to 5.76% in August from 5.42%, taking the average mortgage rate to its highest level since the turn of 2009 and 2010. The prices received of mortgages granted are consequently gradually catching up with their offer prices, which have moved in a fairly wide range from 6% to 7% in recent months, depending on the specific parameters of the mortgage. In recent weeks, however, offer prices have been broadly stable, which, taking into account also the evolution of market interest rates, suggests that mortgage rates may have already reached the peak.



Inflation slightly down after one year

Year-over-year price growth slightly slowed down from 17.5% in July to 17.2% in August. Month-on-month, prices rose by 0.4%, the weakest pace since December last year. The main factor behind the decline in inflation was a drop in fuel prices, which became 10% cheaper than in July. The CNB had expected August's year-on-year inflation rate to reach 19.3%, while market estimates were around 17.7%. We can thus say with certain caution that inflation probably reached its peak in July, while the less positive news is that its slowdown will be rather slower. This goes hand in hand with the CNB's intention not to raise interest rates any further, but instead to keep them at a higher level for longer. The central bank's rates will thus probably remain at their current level until the end of the year. Please read more in the [commentary](#) by Jakub Seidler, the Chief Economist of the Czech Banking Association.

Increase in the budget deficit passes through the first reading in the Parliament

The Chamber of Deputies supported an increase in this year's approved state budget deficit from CZK 270 billion to CZK 330 billion in the first reading. The government's amendment proposes the changes mainly because of the situation resulting from Russia's aggression against Ukraine as well as the high rise in prices, mainly of energy. The amendment increases both revenues and expenditures, which are expected to exceed CZK 2 trillion. Revenues of the amended budget amount to CZK 1.678 trillion and expenditures to CZK 2.008 trillion. Expenditures increased by CZK 115.1 billion, while the Finance Ministry expects revenues to be CZK 65.1 billion higher due to the development of the current economic situation and last year's profitability of firms.


ESA recommends to get ready for challenges connected with rising energy prices and inflation

The European Supervisory Authorities (ESAs) issued their [Autumn 2022 joint risk report](#) in mid-September, highlighting that the deteriorating economic outlook, high inflation and rising energy prices have increased vulnerabilities across the financial sectors. The ESAs advise national supervisors, financial institutions and market participants to continue to be prepared for a deterioration in asset quality and monitor their developments, closely monitor the impact of further increases in policy rates and of potential sudden increases in risk premia and the impact of inflation risks and continue carefully managing environmental risks and cyber risks to address threats to information security and business continuity.

ECB raises interest rate significantly

The European Central Bank (ECB) raised its key interest rate by a record 0.75 points to 1.25 percent in response to strong inflation growth in the euro area. At the same time, the bank [indicated](#) that it will continue to raise interest rates and predicted that the average annual inflation rate in the euro area will reach 8.1 percent this year. In July, the ECB raised its key interest rates for the first time since 2011 in response to soaring

inflation. This brought its key interest rate to 0.50 percent from the record low of zero percent it had been at since 2016.



The Number of the Week

5,76 % p.a.
interest rate of new mortgages in August according to the CBA Hypomonitor.

From Legislature

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Government capped energy prices

At its extraordinary meeting on Monday, 12 September 2022, the government approved in the evening hours an amendment to the [energy act](#) and at the same to Act No. [265/1991, Coll.](#), on the Competences of the Bodies of the Czech Republic in the Pricing Area, as amended, which will make it possible to

cap energy prices in cases of an emergency price situation. The government also approved a proposal amending Government Decree [No. 262/2022](#), Coll., on the allowance for payments of energy costs. The proposed legal amendments still need to be approved by both chambers of the Parliament and signed by the President.

Financial Education

CBA training programs for managers just starting



These days, the Czech Banking Association is launching its “Strategic Management for Top Managers”, a unique CBA training program. The authors of the program are Miroslav Zámečník, the Chief Advisor of the CBA and Jakub Seidler, the Chief Economist of the CBA. We have approached the top managers of not only the member banks. The participants will thus have the opportunity to meet and discuss with leading personalities of Czech business, such as Tomáš Salomon, the President of the CBA, Eva Zamrazilová, the Vice-Governor of the CNB, or, for instance, Miroslav Bárta, an archaeologist and Egyptologist. Given the current dynamic times, the program is mainly focused on geopolitical topics, energy issues, the future of international trade and finance, including digital currencies, as well as the support and development of the Czech economy and business in the new conditions. More information about the educational programs can be found [here](#). There are only a few last vacancies left, so if you are interested, you still have a unique chance to apply.

Questions for the Proficiency Examinations - Capital Markets and Insurance - have been updated



In connection with the new Act on Pan-European Personal Pension Product, the exam sets for the exams under Act No. 256/2004 Coll., on Capital Market Business, and for the exams under Act No. 170/2019 Coll., on the Distribution of Insurance and Reinsurance, were updated on 15 September 2022. A total of 34 new questions have been added to the examination sets. Exam tests will be updated in the first half of October, the exact date will be communicated by [CBA EDUCA](#) as soon as possible.

Topic

The windfall tax is an unfortunate solution. Banks have major reservations about the government's proposal

The windfall tax has been a frequently mentioned and highly controversial topic among politicians, economists and investors in capital markets in recent weeks. But what exactly does the windfall tax stand for? As the name suggests, it is an additional tax on profits that are translated as "windfall". This thus relates to profits that are not the result of an increase in the quality of services, the introduction of new products or the streamlining of processes, but profits that have been generated by unforeseen external influences. They are also often referred to as unearned and excessive profits. The Czech government, or rather the Ministry of Finance, is currently considering a temporary taxation of these profits.

The Czech government plans to introduce, albeit temporary, a tax on exceptionally high profits in three key sectors - banking and energy, plus refineries. This tax should be a sticking plaster over the state budget, which has to cope with the additional costs of helping citizens. However, extraordinary taxation does not make economic sense. The Czech Banking Association has fundamental concerns with the proposal.

1. **These are not really "excessive" or "undeserved" profits**, in most cases the higher profits are due to the growth of the sector - banks have more customers and are lending more. They have provided 25% more loans to households compared to 2019.
2. **The issue of the temporary nature of the proposed tax** - the Czech Banking Association believes that if the tax should be imposed at all, then on a one-off basis at most; imposing it for three years is completely unsystematic; moreover, there is a real risk of extending the duration of the tax depending on political moods. The CBA considers the tax to be a purely exceptional, temporary solution and advocates a detailed and, if possible, calm debate on a systemic and standard solution.
3. Banks want to support the prosperity and stability of the economy; the CBA would therefore consider it appropriate and effective that if a tax were to be introduced, it should also be clearly decided which specific (infrastructure or other nationally important) projects the funds raised would be spent on. The banking sector has clearly demonstrated a sincere desire to engage in a constructive dialogue with the State. **The banks, through the CBA, offered the State a robust set of measures that they would finance, which would achieve systemic substantial and long-term solutions and societal gains and values through the effective use of financial instruments, in an estimated volume of up to CZK 100 billion.** The proceeds of the tax will be at most 15-20 billion, significantly less than the Czech Fiscal Council's documents indicate.
4. A period of economic recession can be expected and banks are in principle prepared to support the real economy effectively in this period (as in the past). **However, in light of the upcoming events, banks will suspend projects and wait for the official wording of the relevant legislation**, which they will have to carefully evaluate in terms

of its impact on the banking sector and its ability to finance the economy robustly. For the time being, the banks have no information on whether or how the original working draft has changed or its content has been altered in light of various comments.

5. **The existence of a strong and well-capitalized banking sector is a major advantage for Czech consumers.** It should be noted that savings and term deposits of banks operating on the Czech market have long been yielding higher interest than in other countries.

6. If the calculation base for establishing the tax base should also include the covid years 2020-2021, especially 2020, the banks consider such a setting to be completely incorrect. A year-on-year comparison with pandemic years is still burdened by a low comparative base, as is the case for many sectors. The banking sector has been affected by the pandemic, too, with profits decreasing by one half, year-on-year, in 2020 and still remaining less than a quarter below 2019 levels in 2021. Thus, for the debate on the extraordinary nature of profits, the sector's profitability would be more appropriately compared to pre-pandemic years. In this comparison, the sector's profits in the first half of 2022 were one-fifth higher than in the first half of 2019. However, what should be added in this perspective is also the fact that the sector's total assets are also more than 20 percent higher and loans provided to households are a quarter higher. Thus, **the sector has grown significantly, which is also why it is generating higher nominal profits. However, in terms of the ratio of profits to assets, the slightly downward trend of recent years continues.**

7. If the tax were also to be imposed on certain subsidiaries of banking groups (e.g., leasing companies or insurance companies), this could be considered unfair and discriminatory, as **it would harm these entities in the relevant markets and thus distort these relevant markets.**



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