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ČESKÁ CZECH  
BANKOVNÍ BANKING  
ASOCIACE ASSOCIATION

NEWS

Dear Colleagues,

Recent events have had a major impact on our daily lives. However, I am convinced that it is important to avoid being swallowed up by the war, the energy crisis or by the economic problems, and that one should perceive life not only through these serious problems, but also appreciate our everyday joys and worries.

The Czech Banking Association is currently focusing in particular on a project of measures to support the economy, which should be an alternative to the government's planned introduction of an extraordinary tax. However, we cannot forget the "day-to-day" agenda. In early October, a meeting of the assembly of member banks and building societies will take place. We will review the CBA's activities this year and discuss strategy for next year. Another extremely important "peaceful" activity of the Association is educating the public about finances and how to handle them safely.

That is why we are launching the very successful "Bankers Go to Schools" project from October, which is gaining more and more interest every year. This year, it will include a cyber security theme, and we will introduce [www.kyberhra.cz](http://www.kyberhra.cz), a version of cyber test, tailored to the pupils of primary and secondary schools.

I believe that in time, the space available for these activities will get back to normal.

I wish you a colorful autumn!

**Monika Zahálková**, Managing Director



## News of the Day

**CBA offers support worth tens of billions instead of extraordinary tax**



The Czech Banking Association (the CBA) [has offered a program to promote economy](#) as an alternative to the tax on extraordinary profit, the windfall tax. The government is considering imposing the tax on banks, energy companies or refineries.

The proposal, which according to the CBA's most sober estimates, could bring CZK 50 billion into the economy, focuses on four areas: support for affordable housing, financing the State Fund for Transport Infrastructure (SFDI), helping citizens to cover their financial obligations, investment in the digitization of the state and cooperation with the National Development Bank (NDB). *"These are strategic areas in which the government cannot make do with tax collection or EU subsidies alone, but should also use bank capital,"* said Tomáš Salomon, President of the CBA. The CBA considers the introduction of an extraordinary tax to be an ill-conceived and unfortunate solution, adding that the state expects completely unrealistic revenues from it. According to the CBA, it is better for the state to have a strong and cooperative banking sector on its side, with which it will be able to generate investments in the order of higher dozens of billions of crowns through mutual cooperation.

The Ministry of Finance has included banks in the proposal for the tax on extraordinary profits because of the high profits that banks, according to the Ministry, achieve thanks to the rise in the interest rate of the CNB, which gives them advantageous interest on funds deposited with the CNB. However, banks disagree with the Ministry's interpretation and point out, for example, that the Ministry's reasoning does not take into account the

impact of the growth of bank assets on profitability or the fact that 2021 represents a low benchmark for assessing profit growth. Instead of the tax, banks are offering to commit their capital to development projects in the areas of transport, affordable housing or the introduction of more favorable terms for borrowers in difficulty.



### **The CNB left rates unchanged**

At its monetary policy meeting, the Czech National Bank left the key interest rate unchanged at 7 %. Five members of the CNB Bank Board voted in favor of keeping the rate unchanged and two members voted in favor of raising it by 0.75 percentage point. Governor Aleš Michl confirmed that the CNB will continue to counteract extraordinary fluctuations in the koruna exchange rate and suggested that faster wage growth, together with higher fiscal deficits, could lead to a rate hike. However, the Czech Banking Association expects rates to remain stable until the end of the year. The market currently expects that the CNB base rate would be slightly below 6% until the end of 2023.

### **Pessimism is spreading through the economy**

Confidence in the domestic economy continues its downward slump. Entrepreneurs and consumers are more pessimistic, with confidence in the Czech economy falling to its lowest level since the survey began in January 2003. Households are becoming more concerned about the deterioration of their own financial situation, rising unemployment, and fears of price rises have grown again. Almost a third of households also report that they are already struggling to make ends meet. Confidence among entrepreneurs fell for the fourth month in a row. After nearly a

year, the proportion of businesses in the industry already expecting to reduce their production activity over the next three months has prevailed.

### **The CNB to issue a commemorative 1,000 CZK banknote to mark 30 years of the Czech crown**

The Czech National Bank will issue a special 1,000-koruna banknote commemorating the 30<sup>th</sup> anniversary of the CNB and the independent Czech currency. It will be a standard banknote with a denomination of CZK 1,000 (2008 version) with a portrait of František Palacký, but with a so-called additional print. The additional print, the design of which has not yet been published, will consist of the CNB's anniversary logo and the motif of the 1,000-koruna banknote stamp from 1993, referring to the monetary separation of the Czech Republic and Slovakia and the stamping of Czechoslovak banknotes. The additional print will not affect the value and validity of the banknote. The 1000 CZK banknote with an additional print will be produced in a limited quantity of 200 000 pieces and will be available from 8 February 2023, until stocks are depleted, in exchange for other Czech coins or banknotes only at the [cash desks of the CNB's territorial offices](#).

### **Inflation in the EU exceeds 10 percent**

[The inflation rate in the European Union](#) rose to a record 10.1 percent in August, compared with 9.8 percent in July. France had the lowest inflation in August at 6.6 per cent, followed by Malta (7 per cent) and Finland (7.9 per cent). By contrast, inflation remained highest in the trio of Baltic states: it was 25.2 per cent in Estonia, 21.4 per cent in Latvia and 21.1 per cent in Lithuania. Prices are also rising significantly in Hungary, where the inflation rate rose to 18.6 per cent. This is a significant jump compared to July, when it stood at 14.7 per cent. Hungary has thus pushed the Czech Republic (17.1 per cent), which had been in fourth place in recent months, down to fifth place.



# 50 bln. CZK

will bring to the state budget a bank's proposal to support the Czech economy

## From Legislature

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### **The amendment to the Act on Bankruptcy wants to shorten the period of debt settlement to three years**

The Ministry of Justice has prepared an amendment to the Act on Bankruptcy which should shorten the period of debt settlement for natural persons from five years to three years. The amendment is primarily intended to help self-employed persons overcome their business failure more quickly. However, the shortening of the discharge period is also necessary because the Czech Republic is part of the EU single market and must respect the same rules as any other Member State in the case of the self-employed. In the case of natural persons, it



is the Ministry's own initiative. Under the current rules, the debt settlement process takes five years, whereas for senior citizens it already takes three years. If 30 percent of the debt is not repaid in that time, the court decides. According to the Ministry, the new rules for debt relief may motivate more debtors in multiple foreclosures to finally resolve their adverse financial situation and rejoin the mainstream society and the legal economy with the prospect of freedom from debt. However, some experts say that reducing the period of time without distinction being made between borrowers will favor chronic defaulters at the expense of creditors.

# Financial Education

## **Bankers go to schools for the ninth time**

In October and November, experts from member banks will once again be heading out to lecture on the Basics of Financial Literacy and Cyber Security as part of the [Bankers Go to Schools](#) project. This financial education project, organized by the Czech Banking Association, has a nine-year tradition and is becoming increasingly popular among schools. It is aimed at pupils in the 8<sup>th</sup> and 9<sup>th</sup> grades of primary schools and students in the 1<sup>st</sup> and 2<sup>nd</sup> years of secondary schools and aims to develop their basic knowledge of finance and cyber security. This year's event also includes a special modified version of the interactive educational cyber test, [cybergame.cz](#), with questions tailored to this young generation. Through the Cyber Game, pupils and students can learn to recognize cyber scams and find out how to defend themselves. If you want to educate your children in this area, feel free to try out [Cyber Game](#) with them.



# Topic

## **Four bank proposals to support the Czech economy**

**Banks associated in the Czech Banking Association have developed a program of support to the economy in the current crisis, which they propose to implement instead of the extraordinary tax considered by the state. The Czech Banking Association has presented specific measures that could be applied in cooperation between the state and the financial sector in four key areas.**

### **Promoting affordable housing**

The state owns a lot of land. If it can release it quickly through individual towns and municipalities, with the help of banks, the construction of apartments and houses can be accelerated and cheaper long-term financing can be secured so that flats and houses for rent are available on better than market terms. The CBA has already approached all towns and municipalities with a population of over ten thousand and the response has been very positive, with about half of those approached interested in the project. Banks are prepared to participate in financing the construction of affordable housing with at least ten billion crowns and to support also the creation of a project office.

### **Financing of the State Fund for Transport Infrastructure (SFDI)**

The banks are ready to provide SFDI with a syndicated long-term unsecured loan of CZK 20 billion with drawdown in the first half of 2023 and a maturity of 15 years. The funds can be used to finance transport infrastructure including any existing as well as new projects within SFDI's responsibility (including land purchasing), taking into account ESG principles. Additional funds in the order of CZK 20-40 billion may be made



available by banks to finance specific SFDI projects from 2024 onwards.

### **Helping people manage debt burdens and mandatory expenditure**

A temporary reduction in the repayment of consumer loans and mortgages and the possible refinancing of loans into longer maturities would help reduce the monthly burden on households. In this case, the banks could help by reducing repayments by 20-30% for mortgage loans and 20-40% for consumer loans. For clients who are not in significant default, the banks want to accommodate them by deferring three to six loan repayments without the need to provide proof of income or other documents. According to preliminary calculations, the banks' contribution in the form of assistance to consumers could amount to nearly CZK 10 billion. Banks are also ready to help with the possible financing of investments in renewable energy sources on more favorable terms (green products) and thus, together with the credit obligation, reduce clients' energy repayments overall. This may include government assistance in distributing subsidies for renewable energy technology (pumps, PVPP, insulation, windows). For example, in the form of a repayment guarantee, which can further improve the conditions for consumers.

The banks also propose to include further investments in the digitization of the state in the program. The banks believe that they can be very useful in helping the process of distributing state benefits or subsidies to citizens. By using the BankID, banks can convey clients' applications for aid, addressed directly to potential government agencies. At the same time, the use of digital tools can be used to resolve the transmission of the necessary documents on account ownership that are required for the drawdown of state social benefits, or material need benefits, or pensions.

### **Cooperation with the National Development Bank**

The banks are offering the state to further strengthen the National Development Bank (NDB) by increasing its capital by CZK 10 billion, which would significantly strengthen its guarantee and lending capacity to finance infrastructure and energy self-sufficiency (by up to CZK 110 billion).

The minimum assessment of the benefit to the state of all the proposed

measures is CZK 50 billion. However, it can be expected that the overall effect would be significantly higher due to additional multiplier implementation effects.



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