

Dear Colleagues,

You are now reading the last issue of this year's CBA NEWS. This has been a difficult year in many ways. Record inflation and the associated price increases, the war in Ukraine, high interest rates on loans, record fuel and energy prices. All of this has had an impact on the lives of perhaps every one of us. I am glad that the banking sector has remained, and continues to remain, an island of stability and security in these uncertain times. In the coming year 2023, banks will face a number of challenges. From continued digitization to proactive steps taken to deliver on their commitments in the field of sustainability. However, the role of banks in financing the economy and in helping customers who will be most affected by inflation and high prices will be key.

I would like to take this opportunity to thank in particular my colleagues who have had a challenging year and who have done a great job, but also, on behalf of our member banks, all our clients for their trust.

Above all, I wish you all good health, as much optimism and good cheer as possible, and let's hope that the next year will be much better than this year!

Monika Zahálková, Managing Director



News of the Day

Banks will face a number of challenges in 2023



The coming year 2023 will be marked by uncertainties, both for households and businesses. Although inflation will decrease slightly, we can expect that the effects of rising prices for energy, goods and services have yet to be felt. At the same time, banks are ready to support not only their clients but the economy in general and to a large extent to finance it. And although there are no signs so far that the situation of households and businesses is deteriorating significantly - after all, the development of non-performing loans is generally stable, even decreasing slightly - the experience of the past leads us to be cautious. Payment difficulties occur with a delay in times of crisis. This will give banks the opportunity to show that they are on their clients' side and can help them. Here, the role of front-line bankers, whether in branches or call centers, will certainly be

crucial. It will be necessary to approach clients proactively and individually, to help them with tolerance and advice

It is in communication with clients, whether in person or, more and more recently, digitally, that the Czech banking sector is doing very well and is certainly not lagging behind advanced countries. Analyzes of suspicious transactions, cyber-attacks, assessment of clients' creditworthiness, using chatbots, and even dealing with unstructured queries – all this is being increasingly entrusted to the hands of "robots". In fact, banks have become the driving force behind the computerization of the entire public administration in the Czech Republic through the Banking Identity. And this trend will be taken forward by them next year as well. For example, we are expecting the introduction of payments to a contact - instead of the recipient's account number, we will only need to know his/her mobile phone number. It is probably worth adding here that digitization does not only have a positive impact on customer experience, but in the long term it also has a positive impact on the economic performance of the banks themselves.

However, in addition to digitalization and customer experience, banks also face another challenge, which is sustainability. A number of Czech banks signed up to strengthening sustainable and responsible behavior with the joint CBA Memorandum on Sustainable Financing as early as 2021. 2022 has shown that banks are serious about their commitment. They are continuing their activities to reduce their own carbon footprint, for example by introducing green energy sources, changing their lending processes for environmentally damaging activities, or, on the other hand, by expanding their range of instruments to finance environmentally beneficial projects.

Nor can we forget the introduction of the windfall profits tax, which will have a significant impact on the banks' performance. The CBA has been saying from the beginning of this debate that banks do not have any extraordinary profits. The tax is to be calculated from the years 2018 to 2021, including the two pandemic years, when the economy significantly declined. It is thus not surprising that profits have grown significantly this year. However, the relevant comparison is with 2019, which was the last year before the covid. The latest figures from the end of September show that bank profits are 17% higher compared to pre-pandemic 2019.

However, total assets are also 17% higher. Profit on assets is therefore at the same level as in 2019. There can be no question of extraordinary or unexpected profits.



From the Market

Economy will be stagnant next year

According to the Czech Statistical Office, the domestic economy contracted by 0.2% in the third quarter of this year, year-on-year growth thus slowed down to 1.7% from 3.6% in the second quarter. The economic development was mainly driven by exports, but domestic demand declined above expectations, with household consumption decreasing particularly sharply. The domestic economy is thus heading into a recession, which will be driven mainly by weak domestic demand. According to Jakub Seidler, the Chief Economist of the Czech Banking Association, the Czech economy will be mostly stagnant or slightly declining next year, but the uncertainty of estimates is extreme and a less favorable development is thus quite likely in the context of the balance of risks. His estimates are confirmed by a survey by the Ministry of Finance based on forecasts by 16 domestic professional institutions. According to it, the gross domestic product (GDP) will increase by 0.1 per cent after this year's growth of 2.4 per cent. The economic downturn will mainly be caused by a decline in household consumption due to high inflation. However, price growth is expected to slow to 9.7 percent next year from 15.4 percent this year. Inflation should return to 2 per cent in 2025.

CNB kept unchanged the binding limits for the provision of mortgage loans and also decided to leave the countercyclical capital buffer rate unchanged

After discussing the autumn Financial Stability Report, the Czech National Bank's Bank Board [left the limits for the provision of mortgage loans unchanged](#). It also left unchanged the countercyclical capital buffer rate to protect the credit market, which is set to increase from the

current 1.5 percent to 2.5 percent at the beginning of April on the basis of earlier decisions. The central bank also noted that the financial sector in the Czech Republic remains highly resilient to the economic downturn. According to the CNB's estimate, apartment prices remain overvalued and a price correction can be expected in the first half of next year.

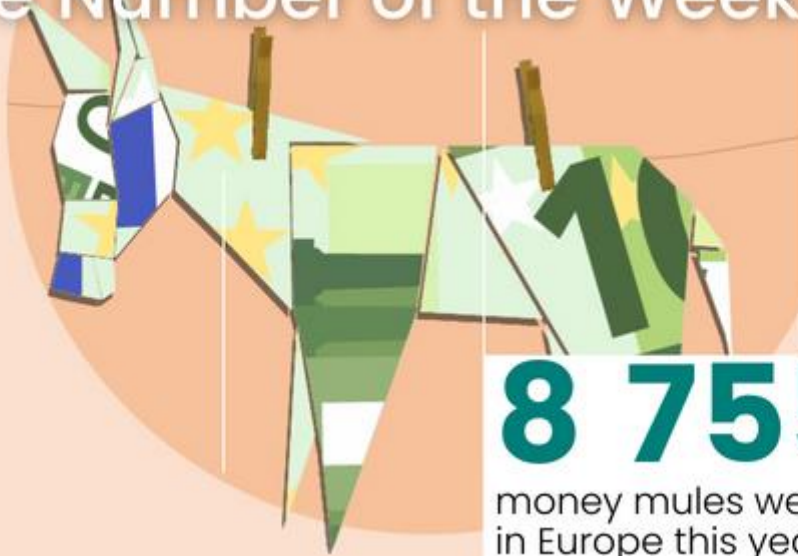
The number of building savings contracts is growing

Building societies concluded 326,496 building savings contracts in the three quarters. The number increased by 7.2 percent year-on-year. The total value of the target amounts of new building savings contracts is CZK 200 billion, the Ministry of Finance of the Czech Republic [said](#). The average target savings amount decreased by 24.5 percent, year-on-year, to CZK 610,000. The total number of construction savings contracts was 3.2 million at the end of September. The total number of loans at the end of the third quarter declined by 10,000 to approximately 481,000 compared to the end of 2021. In contrast, the total volume of loans increased by CZK 19.4 billion to CZK 338.7 billion.

European Commission wants to speed up introduction of instant credit transfers in euro

The European Commission has adopted a legislative [proposal](#) to allow all citizens and businesses with an account in the EU/EEA to make instant payments in euro. The Regulation amends the [SEPA](#) Regulation, setting out the following requirements for instant payments in euro: there must be a universal and affordable access to euro instant payments, confidence in such payments must be increased, and, in particular, the payer must be warned of possible error or fraud before making a payment, obstacles in processing euro instant payments must be removed, while at the same time persons subject to EU sanctions must continue to be carefully identified (providers will have to check daily that their clients are not on EU sanctions lists).

The Number of the Week



8 755

money mules were identified in Europe this year

From Legislature

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The new law on cooperation with the European Anti-Fraud Office likely to be approved by the Chamber of Deputies

The draft of the new law on cooperation between the Czech Republic and the European Anti-Fraud Office (OLAF) has passed through the second reading in the Chamber of Deputies of the Czech Republic and the Chamber of Deputies will probably approve it without amendments in the third reading. Among other things, the [draft](#) provides that the Ministry of Finance, in cooperation with OLAF, would be allowed to request transaction records from banks and credit unions and to obtain information from the central register of accounts. For example,

the law will also define bribery or other unlawful conduct damaging or endangering the financial interests of the European Union as fraud. The draft also regulates the processing of personal data and sets out penalties for failure to provide requested information.

Financial Education

Identify danger, don't be a money mule



For the eighth time, [European Money Mule Action \(EMMA8\)](#), a European event aimed at combating money mules' networks, took place this year. It has been jointly organized by EUROPOL, EUROJUST, INTERPOL and the European Banking Federation (EBF). During the course of it, 8,755 money mules and 222 recruiters were identified between mid-September and the end of November 2022. Worldwide, 2,469 arrests were then made. In total, 426 million crowns (€17.5 million) were prevented from being laundered by money mules. The use of money mules is particularly widespread in cybercrime and they are an important part of the money laundering environment.

The event also includes the [#DontBeAMule](#) ([#Nebudbilymkonem](#)) awareness campaign, which was launched in early December. The campaign educates the public on how these criminals operate, how to identify the signs of fraudulent behavior and what to do if you become their target. In the Czech Republic, the preventive and awareness-raising part of the campaign, called Don't Be a Money Mule, is once again sponsored by the Czech Banking Association, together with the Czech Police and the Prosecutor General's Office.

Topic

One in ten Czechs takes on risky debts

One tenth of people who have experience with loans are getting into risky indebtedness. The index of risky borrowing is thus ten percent this year. Compared to last year, when it was 11 per cent, the situation has slightly improved. Three quarters of Czechs have experience with loans. This was revealed in a survey conducted by the Czech Banking Association and the Ipsos agency.

The CBA's index of risky indebtedness is 10% this year

74% of Czechs have experience with loans. Most often they have borrowed for a car or motorbike (30%), home renovation (27%), consumer electronics (26%) or white goods (26%). On the other hand, two-thirds of respondents would never borrow for a holiday or adventure (68%), and Czechs are also reluctant to borrow for sports equipment (46%) or to pay off a loan with another loan (41%). Yet a tenth of people who have experience with loans are getting into difficult debts. This is a slight improvement compared to last year's 11%.

When you take a loan take it from a bank

Most Czechs take loans from banks; more than half of the borrowers (53%) borrowed from a bank, while less than a third (28%) took out a loan from a hire-purchase company. Approximately one fifth borrowed from relatives or friends (23%). When Czechs take out a loan from non-bank institutions, they usually do not care whether these providers are licensed by the Czech National Bank. Only a quarter of respondents check this fact. Even less (18 %) do so when it comes to taking a loan directly from a retailer. *"The fact that Czechs most often go to a bank for a loan is*

good news, because the level of risk is very low in this case. However, the surprising thing is that people often do not ask non-banking companies, for example, whether they have a license from the central bank. The level of risk in such a case is very high and unexpected situations can arise”, warns Filip Hanzlík, the Chief Lawyer and the Deputy Managing Director of the Czech Banking Association.

Payment behavior is paradoxically improving

Despite high inflation and the effects of the covid pandemic, people's ability to pay off their loans is still at a good level. The Czech Banking Association regularly monitors the development of bad loans. At the end of October, the share of non-performing loans stagnated at CZK 27 billion in nominal terms and thus decreased to 1.2% in relative terms. For mortgages, the share was 0.58%, the same as in September, but an all-time low. *"This is very good news for an economy that seems to have entered a recession and the media image is bad. While the aggregate statistics do not provide a plastic view of the financial position of individual households, it is however still true that households have more money in banks than they owe and continue to repay very well”,* says Filip Hanzlík, the Chief Lawyer and the Deputy Managing Director of the Czech Banking Association.

People most often borrow a lot, or, conversely, a little

Less than a fifth of Czechs borrow or have borrowed more than half a million crowns or, on the contrary, less than 20 thousand crowns. Czechs borrow smaller amounts of money mainly because they do not have enough cash (59%), 18% do not want to wait and save for selected goods, and 12% take advantage of favorable instalment plans. 14% of respondents said they did not have the opportunity to save. A tenth (9%) then wanted to buy goods on sale and did not want to rely on the sale lasting until they had the money. 7% of them took out a loan because they did not want to draw on their savings. Alarmingly, approximately one in ten Czechs would take out a loan to pay off another loan, most often from a bank (45%) or from relatives and friends (36%). *"Taking out a loan to pay off another loan is a very risky behavior We can lose our income from one day to the next, for example, because of an injury. Then we are unable to repay our debts and we can get into a so-called debt*

spiral. It is therefore important to continue to strengthen the financial literacy of Czech society", adds Michal Straka from Ipsos Agency.

When they can't repay, they try to defer repayments

Less than a third of borrowers (29%) would try to negotiate a deferral of repayments with their lender if they had problems with their ability to repay. Just under a quarter (24%) would borrow from relatives or friends. Almost a fifth (17%) would try to consolidate their loans with a bank and 9% of respondents said they would not deal with the situation at all.

