

16/2023



Dear Colleagues,

The end of the holiday season is approaching and we at the Czech Banking Association are trying to do our best to prepare for the upcoming autumn events. One of the key events will be the next series of our awareness campaign called #nePINdej!, which we are launching on 5 September. We can already tell you that we have included several new novelties in the campaign. For example, we have added new questions to the test, with the help of artificial intelligence, and we have also significantly expanded our entire communication strategy. Our goal is to reach as wide a public as possible and teach them how to identify online frauds and how not to fall for e-frauds.

In addition, new educational programs are being launched under the CBA EDUCA brand this autumn. The first is the CBA Finance for Non-Finance Managers. The educational management program was created in cooperation with Associated Professor Ladislav Mejzlík, Ph.D., Vice Dean of the Faculty of Finance and Accounting at the University of Economics and Business in Prague and President of the Chamber of Auditors of the Czech Republic, who is also the guarantor of the program. We have the last few vacancies available, so if you are interested in this topic, do not hesitate to apply; the vacancies are disappearing really fast.

Enjoy the rest of the holiday season.

Monika Zahálková  
Managing Director of the CBA



# News of the Day

## **The domestic economy is on the edge of recession; it will stagnate this year and will grow only slightly next year. Inflation will decrease significantly.**

The chief economists of the banks represented in the Prognostic Panel of the Czech Banking Association (CBA) have revised the economic development towards slightly weaker values. The new CBA forecast expects only very moderate growth of 0.1% in the domestic economy this year. Although the economy has recovered from the mild recession faster, its recovery in the first half of the year has been slow and the preliminary estimate of GDP for the second quarter confirmed that it is mostly stagnant. According to the current forecast, it will return to the year-on-year growth in the second half of the year and should already be growing by more than 1% in the final quarter. For the whole of this year, however, it will be broadly flat. Next year, economic growth will pick up and should be slightly above 2%. *"There are mixed messages from abroad, with weak external demand giving a less positive message in this respect and, in particular, the weak performance of the German economy. For this reason, too, only an overly cautious recovery of the domestic economy is expected for the second half of the year, which will only stagnate for the whole of this year,"* said Jakub Seidler, the Chief Economist of the Czech Banking Association.

Despite the high uncertainty of inflationary developments this year, inflation so far has been very close to the original expectations of analysts and the CNB, and so the overall inflation estimate for this year is unchanged from the previous forecast and remains at 11%. Similarly, the expected year-on-year inflation at the end of this year has changed only cosmetically, to 8.2% from 8.6%. Average inflation for next year is then estimated at 2.5%.

The forecast also assumes a considerable decrease in household consumption, which is expected to drop by almost 3% this year. Compared to the previous forecast, consumption will thus decrease more sharply, due to the weaker development of retail sales so far, which have decreased by 7% year-on-year in the first half of the year. Next year, it should return to growth of about 3%, which was common in the pre-pandemic times. Government consumption is expected to grow around 2% this year, but investment, which the new forecast revised downwards from May, will contribute less to growth. The combination of high interest rates and, in particular, economic uncertainty, has led to a marked reduction in investment activity by firms and households, so investment will be largely flat this year. Investment activity is expected to grow again next year at around 2.5%. In view of the weaker developments abroad, export growth is expected to be weaker compared with May, which was generally strong in the first half of the year, mainly due to the completion of backlog in the automotive sector following the easing of

difficulties in supplier relations. However, this trend is unlikely to be sustained in the second half of the year, as indicated by weakening new orders and leading indicators from industry.



## From the Market

### **Czech banks and insurance companies are quite resilient to adverse economic developments**

The Czech National Bank (CNB) has published the results of its supervisory stress tests. According to them, Czech banks and insurance companies are sufficiently resilient to a hypothetical worsening of economic conditions. Even in an adverse scenario, banks' consolidated capital ratio would drop to 17.5 per cent, which is still above the regulatory minimum of eight per cent. Similarly, insurance companies were tested and shown to have a sufficient capital buffer to cope with changes in risk factors. Even in an adverse scenario, the solvency ratio would be 156 percent, above the regulatory minimum of 100 percent. The CNB conducts these tests every two years in cooperation with selected institutions covering over 90% of the Czech market.

### **Non-banking firms provided financing of CZK 108 billion**

Members of the Czech Leasing and Finance Association (CLFA), which includes 37 non-banking companies, provided financing worth CZK 108 billion in the first half of this year, which represents a year-on-year increase of 5.5%. There was a significant increase in interest in financing for the purchase of passenger cars and photovoltaic equipment. Financing for the purchase of passenger cars increased by a quarter compared to the previous year, and financing for photovoltaics increased by almost 70%. Financing for entrepreneurs grew by six per cent to CZK 94 billion, while financing for consumer goods and services reached CZK 14 billion, an increase of almost five per cent compared to the previous year. Jana Hanušová, Chairperson of the Board of Directors of the CLFA, emphasized that non-bank financing in the Czech Republic continues to grow and has a positive impact on economic development, especially through the promotion of renewable energy and emission-free transport.

## The CNB ended the intervention regime, rates were unanimously kept at the current level

As expected, the Czech National Bank left interest rates unchanged at its August meeting. Surprisingly, however, it ended the intervention regime that had been in place since May last year, although the CNB had not had to intervene in favor of the koruna since October. Instead, it resumed the sales of the income on the CNB's international reserves, which lasted from January to April 2022, before the CNB started intervening. The new CNB summer forecast expects weaker economic growth than the previous one, similar inflation, a slightly weaker exchange rate of the koruna and a slightly slower decline in interest rates.

**ČBA FINANCE PRO NEFINANČNÍ MANAŽERY**

POSLEDNÍ VOLNÁ MÍSTA

**GARANT PROGRAMU**  
doc. Ing. Ladislav Mejzlík, Ph.D.  
Proděkan FFÚ VŠE  
Prezident Komory auditorů ČR

**I. modul: Základy finančního reportingu a jeho regulace**  
12. září 2023

**II. modul: Účetní závěrka - zdroj informací o firmě**  
26. září 2023

**III. modul: Mezinárodní pravidla reportingu**  
10. října 2023

**IV. modul: Daně a jak na ně**  
24. října 2023

# Commentary

## **Mortgage rates are lowest in the past 12 months**

Banks and building societies granted mortgage loans worth CZK 11.4 billion in July. The volume of mortgages granted thus dropped by 18 percent month-on-month. July is usually weaker in terms of activity on the mortgage market due to the holiday months which traditionally declines compared to June. This year's June decline was milder than normal seasonality and, after taking this effect into account, the volume of mortgages granted would even have risen slightly month-on-month, at a similar pace to June. The readings of recent months thus suggest that the mortgage market is recovering somewhat, although it remains subdued compared with the past. Interest rates continued to decrease in July, reaching 5.8%. This is the lowest level since last August.

**Jakub Seidler,**  
**Chief Economist of the CBA**



## **Debt-to-GDP ratio is growing only moderately**

The CBA forecast estimates the state budget deficit to be at 4% of GDP this year and 2.8% next year. The decline is due to a combination of the fading away of one-off expenditures related to compensations for high energy prices, the cyclical recovery of the domestic economy and the new consolidation package. Although deficits will be in the hundreds of billions of CZK, the government debt-to-GDP ratio is increasing relatively moderately. While it is still uncertain how much of the government's proposed package of measures to improve the state budget will eventually pass through the parliament, and while the appropriate form of some of the specific measures is open to debate, there is no doubt that this is a much-needed step that will help move the Czech public finances towards a long-term sustainable path.

**Michal Skořepa, economic analyst at ČS**



## **Wages will rise only at the end of the year**

Despite the previous economic recession, the labor market remains tight. The overall share of unemployed people in 2022 averaged 3.4%, only slightly higher than in 2018, when the labor market was already showing significant signs of overheating. The contemporary trends in the unemployment rate have been in line with expectations, so the estimate remains at 3.7%. It then improves slightly to 3.6% for next year. The market tensions are also reflected in the evolution of wages, which are expected to rise by 8.8% on average in nominal terms this year and by 6.5% next year, well above average. However, given double-digit inflation, average wages will fall by 2% for the whole of this year, but should start to rise slightly towards the end of the year and increase by about 4% next year.

Petr Sklenář, Chief Economist, J&T Bank

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## **Non-performing corporate loans lowest in 15 years**

Banking statistics for July show the lowest share of non-performing corporate loans in the last 15 years - below 3%. For entrepreneurs, the share of non-performing financial obligations is also decreasing, for consumer loans it is equal to the minimum from October 2019 and in the case of mortgages it is at an all-time low. Business deposits fell slightly month-on-month but are still recording significant year-on-year growth. If we compare how people and firms are complaining about the present while paying back in an exemplary manner, we can see that there is a discrepancy; the real misery is always reflected in the quality/lack of quality of bank loans. However, the collective psychology translates into a low appetite for borrowing and investment, which manifests itself as a disparity between a high savings rate and a weak investment rate.

### **Miroslav Zámečník, Chief Advisor, CBA**





**CBA EDUCA**



## Last available vacancies: CBA Finance for Non-Finance Managers

[CBA Finance for Non-Financial Managers](#) is a brand-new management training program for anyone who wants to practice financial management. Whether you are head of legal, operations, IT or a team leader in marketing or HR, you will go through the basics of financial reporting and auditing, international reporting, or tax in four sessions. The program starts on September 12 and ends at the end of October. It is also possible to register for individual modules. For details, please contact Vendula Vlková.

## Update on the questions for the proficiency tests

The CBA updated the sets of exam question for the insurance (Act No. 170/2018, Coll.) and capital markets investing (the Act on Capital Market Business). For a full summary of the changes, please visit the CBA EDUCA. The updated exam question sets will be uploaded to the portal on Friday, August 25, 2023, and the first exams based on the new question sets will be held on August 28, 2023. All exam participants will be notified by email the week of August 28 to September 1, 2023, of the changes to the updated question sets.







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