

19/2023



Dear Colleagues,

When you look out the window, you find it hard to believe that summer is definitely over, and autumn has begun. The sunny days still charge us with good mood and energy, and we used them to prepare the first autumn edition of the newsletter for you, which is full of information from the banking environment.

In the middle of September, the government approved a draft amendment to the Act on Identity Cards and the Act on Bankruptcy and Settlement (Insolvency Law). It no longer imposes a fixed date for the replacement of birth numbers with non-public identifiers of the citizen. Banks welcome the change, as we at the CBA understand that the introduction of a system based on the use of non-specific directional identifiers would currently be overly complicated and expensive at the same time for all entities that would be affected by the change. More good news is coming from the mortgage market. According to the CBA Hypomonitor data, we saw the highest value of mortgage originations in August since June of last year, which means the housing market is recovering slightly again.

And as there is never enough good news, we have some more for you. Our Liquidity Management Seminar was a huge accomplishment and that is why we have decided to repeat it. The next seminar is already scheduled for November, so if you missed the September one, do not hesitate to sign up. The vacancies are disappearing fast again.

Finally, in the context of our ongoing efforts to increase cybersecurity, we were pleased to present our #NePINdej! campaign at the Heroes Week, where we demonstrated our cyber-test to hundreds of visitors. We had a

special program for high school students and families with children visited our stand on Saturday.

Finally, I would like to use this opportunity to thank Dagmar Lindner, who is leaving the management of the Czech branch of Deutsche Bank, for her cooperation. I wish her the best of luck in the next stage of her life.



Monika Zahálková
Managing Director of the CBA

News of the Day

Birth numbers will be retained; it will be possible to prove one's identity also digitally in case of physical contact.

In mid-September, the Government approved a draft amendment to the Act on Identity Cards and the Act on Bankruptcy and Settlement, submitted by the Ministry of the Interior and the Ministry of Labor and Social Affairs. This confirmed the agreement reached between the Deputy Prime Minister I. Bartoš and the private sector to evaluate the project of phasing out birth numbers, including their replacement with non-public identifiers of citizens. The amendment to the Act on Identity Cards, which will now be discussed by the Parliament, therefore no longer imposes a fixed deadline for the change. The original intention, which was 13 years old, was to gradually replace birth numbers with other so-called non-specific directional identifiers in accordance with the Act on Basic Registers. Arguments in favor of this change at that time were based chiefly on the protection of the personal data of Czech citizens and the prevention of their misuse. However, the new draft emphasizes that birth numbers remain an irreplaceable identifier not only for public authorities but also for relationships governed by private law. According to the draft law, moving to other non-public directional identifiers

would require significant investments in existing information systems of private entities and applications for public administration area. Therefore, Ivan Bartoš, the Deputy Prime Minister for Digitalization argued in June that a fixed deadline for the end of birth number registration is not justified, especially given the rapid progress in digital identification. This decision is also in line with upcoming EU regulation.

In a further step towards digitalization, the Government has also approved a draft amendment to the Right to Digital Services Act, called the "E-Documents Act." The draft would allow citizens to identify themselves with a digital copy of a document instead of physical IDs in face-to-face contact with the authorities. However, digital copies do not replace physical IDs and will not be usable outside the country.

Installation of a special mobile application prepared by the Digital Information Agency (DIA) will be required to prove identity. The application will allow citizens to electronically request a digital copy of their document through the Citizen Portal, proving their identity in this request with a bank identifier or with other electronic verification. The digital copy will have the same legal effect as a physical ID.

The law is due to come into force on 1 January 2024 and digital versions of ID cards will be gradually accepted by various authorities and institutions.

However, a standard ID card will still be required for international travel.

Both approved changes represent a further step towards modernization and digitalization of the public sector, although they will require investment in technology and changes in procedures, not only within the public administration. The Government believes that these steps will lead to more efficient and secure public services.



From the Market

Banks' profit in the first half of the year increased by CZK 1.1 billion to CZK 55.7 billion

Czech banks and savings banks saw a year-on-year increase in net profit of CZK 1.1 billion in the first half of this year, reaching CZK 55.7 billion, according to data from the Czech National Bank (CNB). The banks' total assets reached CZK 9.982 trillion at the end of June, an increase of CZK 1.076 trillion compared to the end of 2022. However, the country's six largest banks saw their profits fall to CZK 37.1 billion compared to CZK 39.6 billion last year, which analysts attributed to a decline in net interest income. The six banks are now subject to the so-called "windfall tax", a 60% tax rate on excess profits to help the government cover the extra costs of regulating energy prices.

175,000 entities benefited from the graceful summer as regards payment of deductions

The graceful summer brought relief to nearly 143,000 self-employed persons and more than 32,000 employers, who were able to take advantage of the forgiveness of penalties totaling almost CZK 1.3 billion in repaying their social insurance debts. While self-employed persons have repaid debts worth CZK 630 million, the amount is still being quantified for companies. According to the Czech Social Security Administration (CSSA), the period of non-payment of contributions by self-employed persons does not count towards pension entitlement. They may not receive a pension. The settlement of the social contribution debt without penalties is made possible by a third round of the graceful summer from the beginning of July to the end of November. It can be used for contributions owed that should have been paid by the beginning of last October. This does not apply to situations where contributions, penalties and enforcement costs are recovered by a court distrainor. Borrowers can apply for the graceful summer only through the CSSA e-Portal.

CNB: Corporate loans at their lowest level this July since 2014

By the end of July this year, the volume of newly granted corporate loans amounted to CZK 402 billion, a 21% decline compared to the previous year. It is also the lowest level since 2014, according to the Czech National Bank. Companies have also been inclined to take loans in euros in recent years in response to higher interest rates. These euro loans now account for almost half of all loans granted.

European supervisory authorities warn of fragile economic prospects

The three European Supervisory Authorities (EBA, EIOPA and ESMA - ESA) have recently issued an alarming report on the risks in the EU financial system. They warn of growing economic uncertainty and urge all financial market participants to exercise caution. Recent years have brought a series of adverse events, i.e., the Russian aggression against Ukraine, the energy crisis, and US mid-sized banks turmoil in March 2023, which most financial institutions have navigated well. Nonetheless, the European economy continues to experience a period of heightened uncertainty which presents material financial stability risks that necessitate vigilance from all financial market participants. The economic outlook remains fragile, not least in the context of continued heightened geopolitical risks, high inflation, and an uncertain macro-financial outlook.

Commentary

Mortgage rates are below 5.8%

According to the latest data from the CBA Hypomonitor, the average mortgage interest rate dropped slightly below 5.8% in August 2023. This month, banks and building societies granted mortgage loans worth CZK 14 billion, a month-on-month increase of a quarter. This is the highest level since June last year. Although August is usually a more active month for the mortgage market than July, this year's increase exceeded normal seasonality. Year-over-year, the volume of mortgage originations rose 40% in August, the first such year-over-year increase since the end of 2021. However, we must take these numbers with a grain of salt as they compare to the low levels of last year. Despite the continued modest recovery in the mortgage market, values remain subdued compared to previous years.

Jakub Seidler,
Chief Economist of the CBA



Agricultural prices are significantly decreasing

Producer prices created a mixed impression in August. While agricultural producer prices continued to decrease appreciably month-on-month for both livestock and crop production, industrial producer prices rose above market expectations. The month-on-month increase was chiefly driven by a rise in refined petroleum product prices, which was related to the rise in world market oil prices. Food producer prices declined by 0.8%, the most since the end of last year, which is positive news in terms of further developments in food prices for households. Prices for services for businesses increased by 0.6%, mainly due to increases in prices for advertising services and prices for legal and accounting services. Thus, prices of services again pose a slight risk that price increases may start to move into these price ranges, as suggested by data at the beginning of the year.

Jakub Seidler,
Chief Economist of the CBA



From Legislature



New rules for non-performing loan administrators: license from the CNB will probably be necessary

Non-performing loan administrators are facing tighter rules. A [new draft law](#) on the non-performing loans market, discussed in the Chamber of Deputies in its initial reading in mid-September, will now require these credit servicers to obtain a license from the Czech National Bank (CNB) and meet new conditions. This change stems from a European directive; the Czech Republic is trying to adopt it in time to avoid possible European sanctions. Until now, only a trade license was required to trade in non-performing loans and the Civil Code was the main regulatory instrument. However, the newly proposed law changes this practice and introduces stricter regulation.

Non-performing loans, as they are often referred to include both non-performing loans and loans where there is a risk of repayment difficulties. Administrators of such loans will have to meet more demanding conditions in the future. Credibility, the transparency of the origin of finances and the requirements for the management of loans set out in the law will be the key criteria for obtaining a license. The Czech National Bank will also have a key role say in the supervision of both loan managers and traders with loans, ensuring a higher level of consumer protection and market transparency.

CBA EDUCA



Successful seminar on Liquidity Management will have a re-run

The highly anticipated Liquidity Management seminar was held on Tuesday 19 September, with keynote speakers Václav Novotný from Advanced Risk Management and experts from the CNB. Participants particularly praised the comprehensive view of liquidity risks, practical examples from 1997 to 2023 and insights from CNB regulators. Due to high interest, the organizers have scheduled the next date of the seminar for 21 November. Bookings and details are available on the [website](#).

#nePINdej! on Heroes Day

An event organized for high schools called the Heroes' Day took place at the Prague Exhibition Ground over the last week and for the general public over the last weekend. The Czech Banking Association was there for the first time with its #nePINdej! High school students listened to a short presentation about threats in cyberspace and then tried out an interactive cyber game. The public had the opportunity to try out a shortened version of the cyber-test on the spot. Hundreds of people visited the stand.

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