

23/2023



Dear Colleagues,

Last week has brought some exciting news in the field of payment systems and cybersecurity. Six Czech banks have introduced a new Payments to a Contact service, and two more will launch the service next year. This innovation, which allows clients to send money more easily - all they need to know is the recipient's mobile number - responds to the growing client demand for easier payment methods and has the potential to significantly facilitate everyday transactions.

On the other hand, we have to face ever-increasing threats in cyberspace. As the CBA survey showed, e-scammers have siphoned off almost a billion crowns this year and the number of cyber-attacks is still growing. These developments point to the continuing need to increase cyber security and public awareness in this area, particularly as the Cyber Security Index has slightly declined year-on-year. This is one of the reasons why we have once again been running the nePINdej! campaign since September, the central element of which is an interactive and playful cyber-test. It will teach you how to identify e-scam attacks and how not to fall for them.

Last week has also brought a shift towards the clarification of conditions under which a mortgage can be repaid early. In the third reading, the Chamber of Deputies approved an amendment to the Consumer Credit Act. The amendment will now be referred to the Senate. Failure to

approve the law could lead to limitation of long-term fixations or, in the extreme case, long-term fixations could disappear altogether. A fixation provides a guarantee to the client that he/she will not pay more for the mortgage during the given period, even if market interest rates rise. If clients did not have long-term fixations and mortgage rates were set according to the market, they would pay many times more in monthly instalments.

Have a good November,

Monika Zahálková
Managing Director of the CBA



News of the Day

Six banks have launched Payments to a Contact. This will simplify sending money between people

Instead of entering an account number in online or mobile banking, just enter the mobile phone number of the payee. This is made possible by the new Payments to a Contact service launched last week by six banks: Air Bank, Česká spořitelna, ČSOB, Fio banka, Komerční banka and Raiffeisenbank. Moneta and UniCredit Bank will launch the service next year. Clients must

actively sign up for the service and match their phone number with their bank account. The maximum payment amount for now is CZK 5,000. The register for payments to a contact is operated by the Czech National Bank. *"The service is available to all natural persons or self-employed persons who actively sign up for the new service. Banks are thus simplifying the process of sending money between people,"* says Monika Zahálková, the Managing Director of the Czech Banking Association.

The CBA survey showed that most clients prefer to pay to a mobile phone number, mainly because it is easier and faster to complete. Some of them also find it easier to find the mobile phone number. Over forty percent of respondents would use Payments to a Contact to send the maximum amount, i.e., five thousand crowns. A quarter of respondents would use the new service for transfers of up to one thousand crowns. The novelty is also intended to diminish the risk of mistakes when entering the wrong account number of the recipient. Almost forty percent of people have experience with making a mistake when entering a bank account number.

People must actively sign up for the Payments to a Contact service through their own bank. The numbers will then be registered with the Czech National Bank. *"In the register operated by the CNB, it is possible to keep multiple phone numbers for one account number, for example for a joint account of a married couple. Conversely, multiple account numbers cannot be assigned to one telephone number. Payment to a contact can only be made in Czech crowns. The maximum limit for one payment is CZK 5,000, the minimum amount is CZK 1,"* said Jan Schmidt, Executive Director of the CNB's Risk Management and Transactions Support Department.

Telephone numbers not included in the CNB register will not be able to accept payment to a contact. Therefore, the money will not leave the account. The recipient's account name, usually first and last name, will be displayed before the payment is sent. The maximum amount is limited to five thousand crowns for security reasons. However, it cannot be excluded that the amount could be increased in the future.



From the Market

E-scammers have already siphoned off CZK 1 billion this year. The Cyber Security Index, which monitors Czechs' prudent behavior in cyberspace, has dropped

In the first nine months of this year, banks detected almost 50,000 cases of cyber-attacks in which e-scammers siphoned off nearly CZK 1 billion. The average damage per client reached CZK 20,786. The Cyber Security Index, which measures the level of prudent behavior in the digital space, dropped slightly to 66 points from last year's 67 points. The good news is that the number of people who know a victim of a completed cyber-attack in their vicinity has dropped by ten percentage points. This was revealed in the latest survey by the Czech Banking Association and research agency Ipsos.

Building societies granted loans worth almost CZK 30 billion

Building societies granted loans worth CZK 29.4 billion in the first ten months of the year. Although this is a 43% year-on-year decline there was a 32% year-on-year increase in October. Compared to last year, the number of new building savings contracts has also decreased, while the target amount people save for has increased. This is based on data from all five Czech building societies available to ČTK. According to analysts, the building savings market has been affected by speculations about the impact of the government's proposals for the consolidation of public finances.

Economic growth in the eurozone will remain weak in the near term, ECB vice president says

Economic growth in the euro area will remain weak in the near term. This was stated by Luis de Guindos, the Vice-President of the European Central Bank (ECB). However, he said eurozone member states should not try to boost the economy by relaxing rules on discretionary bank buffers. De Guindos also warned of signs of weakening in the eurozone labor market, which has so far been seen as a bright spot in the economy. In addition, he said that inflation in the euro area was likely to bounce higher again in the coming months but should fall over the medium term.

| **Commentary** |

Economic growth will be below 2% next year

The CBA's new forecast for this year revised the evolution of the domestic economy slightly downwards, while a slight annual growth was still expected during the summer. We expect the economy to return to a moderate quarter-on-quarter growth in the last quarter and to see a 0.4% decline in GDP for the full year 2023. Economic growth will then pick up next year and should be slightly below 2%. The news coming from abroad continues to be mixed, but the slowing foreign demand is less positive for the domestic economy, especially in the industrial sectors, which are being felt more acutely in economies with a greater share of industry, including the Czech Republic. For this reason, the outlook for this year and next year has been revised downwards.

Jakub Seidler,
Chief Economist of the CBA



Household consumption will decline by more than 3% this year

The domestic economy is being dragged down mainly by household consumption, which is down by around 9% in real terms compared to the pre-pandemic level. The second worst performer in Europe is Germany, however, where consumption levels were only 1.7% below their levels at the end of 2019. Consumption was slightly lower also in Spain and France. In all other EU countries, real household consumption expenditure is higher. The main reason for this is the cut in real wages. We expect household consumption to drop by more than 3% this year, which is a

more significant decline than originally expected. Next year, household consumption should return to growth of around 3%, which was common in the pre-pandemic days.

Jan Vejmělek, Chief Economist at Komerční banka



Inflation to drop significantly next year

Assumptions for inflation this year remain close to 11%. The good news is that inflation is highly likely to drop significantly next year. We estimate it at 2.5%. This will be due to the fading of inflationary pressures combined with the high comparison base of this year. The bad news is that core inflation and especially inflation in services will remain visibly above the target. Moreover, prices of goods and services may be further pushed up by more expensive electricity in the corporate sector due to a higher regulated component. Even so, there will be room for interest rates to drop next year and we expect them to be at 4.5% at the end of 2024.

Jan Bureš, Chief Economist at Patria Finance and Economist at ČSOB



Mortgage market picked up noticeably in October

Banks and building societies granted mortgages worth CZK 16.1 billion in October. From a year-on-year perspective, the volume of mortgages granted in October was more than double and the year-on-year dynamics thus further accelerated compared to September, by 18%. However, October activity on the mortgage market is traditionally stronger than in September, and after adjusting for this effect, the month-on-month increase would still be almost 10%. Thus, data from the mortgage market suggest that activity is recovering slightly, although it remains noticeably below 2020/2021 levels. Interest rates continued to decline in October, getting closer to 5.7%, the lowest level in a year.

Jakub Seidler, the Chief Economist of the Czech Banking Association



From Legislature



The Chamber of Deputies supported the tightening of anti-money laundering rules

Deputies have supported the government's amendment to the Anti-Money Laundering Act which expands the range of entities obliged to screen their clients for possible laundering of proceeds from crime. The amendment, which was considered within an accelerated time period, is due to come into force in January. In addition to credit institutions and real estate agencies, it now also applies to insolvency administrators and online lottery operators. The AML law allows to determine the actual business owners and to prove the origin of assets or suspicious transactions.

The amendment raises the upper limit of fines for a violation of the rules to one million crowns for individuals. The proposal also allows for not performing a check of the client if there is a risk that the client would be warned against action taken by the Financial Analytical Office, while entities must immediately inform the FAO of suspicious transactions.



New rules for early repayment of mortgages approved

Deputies have approved an amendment to the Consumer Credit Act in the 3rd reading which brings clarity to the rules for early repayment of mortgages. Bank customers should pay a quarter of a percent of the outstanding principal for each year of the remaining term. In total, this amount will not be allowed to exceed one per cent of the pre-paid principal. The amendment also extends the range of situations in which a mortgage can be repaid early without penalty, namely in the event of the division of the spouses' community property in the event of divorce or

in the event of the sale of real estate, provided that at least two years have elapsed since the conclusion of the loan agreement. These changes will affect both new and existing contracts, but for existing ones only from the start of the new fixation, at the earliest from September 2024 (assuming the legislative process can be completed so that the amended law can enter into force on 1 January 2024). The Senate will now decide on the bill.

CBA EDUCA

ESG will bring together banks, businesses, government and non-profit sectors

The next in a series of ESG seminars will take place on 28 November. It will focus on new developments in this area, not forgetting the CSRD Directive, the EU taxonomy or the new ESG banking questionnaire. In a panel discussion, for the first time, representatives of banks, the corporate sector, the state, and the non-profit sector will discuss the current National Climate and Energy Plan for the Czech Republic. Details of the agenda and the registration form can be found on the website [HERE](#).



ESG ODBORNÝ SEMINÁŘ

28. 11. 2023
9.00–17.00, ČBA



Ondřej Veselovský
CRIF



Daniel Houska
VŠE v Praze



Jaroslava Kračúnová
Deloitte Legal



Filip Dvořák
Hospodářská komora



Petr Binhac
MPO ČR



Richard Juřík
MŽP ČR



Hana Kovářová
Komerční banka



Petr J. Kaláš
Czech BCSD



Jiří Koželouh
Hnutí DUHA



Ota Melcher
MF ČR



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