

CB A | NEWS

01/2024

Dear Colleagues,

At the start of the New Year, I would like to wish you all good health, happiness, and joy. I hope that 2024 brings stability and peace to you and security to society.

Banks will continue to be an important and stable partner for citizens and businesses this year, as well as for regulators and the state. We strive to provide maximum support to our clients in better times, but also in more difficult ones.

This is undoubtedly going to be another intense year full of challenges. We got to be moving and be flexible to respond to the times and the current needs of people and businesses. We are ready to help build the bridge between private capital and public funding for projects. Together, we are doing our best to keep our clients safe and protect their finances in the face of ever-increasing cybercrime. We are committed to building a more sustainable future for generations to come. It will not be an easy year, but I have no doubt that we will live up to society's expectations.

Thank you all and I look forward to working with you this year.

Jan Juchelka

President of the Czech Banking Association



News of the Day

Mortgage market down, banks granted mortgages worth 150 billion last year

For the entire year 2023, banks and building societies granted mortgage loans in the volume of CZK 150 billion, of which new net lending without refinancing amounted to CZK 124 billion. This was a year-on-year decline of 24%. This is mainly due to the fact that the first half of 2022 was still strong in terms of mortgage originations and the higher reference base from this period is thus affecting the year-on-year comparison. As a result, there were 50% less mortgages originated year-on-year in the first half of 2023 and on the contrary, over 50% more in the second half of 2023. Compared to the pre-pandemic years 2017-2019, the volume of mortgages granted in 2023 was roughly one-third lower. *"In terms of initial expectations at the beginning of 2023, the reality was relatively favorable in the end and the volume of mortgages granted was on the high side. This was probably due to a combination of factors, ranging from the relaxation of rules in the area of income indicators by the CNB, to a slight decline in house prices or a slight reduction in the interest rates. This year, the mortgage market should continue to recover, and we can expect double-digit growth for the full year, but it will probably still not reach the levels of the pre-pandemic years,"* says Jakub Seidler, the Chief Economist of the Czech Banking Association.



From the Market

Monika Zahálková re-elected to the Board of Directors of the Guarantee System

Monika Zahálková, the Managing Director of the Czech Banking Association, has been reappointed to the Board of Directors of the Financial Market Guarantee System until 2029, a position she has held since 2021. The Board of Directors, composed of five members, including two CNB employees and two from the Ministry of Finance, is the supreme body of the Guarantee System, which has CZK 51.8 billion at its disposal and which ensures the payment of compensation for bankrupt financial institutions.

Building societies now help with administering subsidies

Since January, building societies have started to provide advice and mediate subsidies for energy-efficient housing. The new measure follows the reduction of

the maximum state support for building savings from CZK 2,000 to CZK 1,000 per year, which applies to both new and existing contracts. In cooperation with the Ministry of the Environment and the Ministry of Finance, building societies now offer advice and assistance in processing subsidies for energy-efficient housing at their branches, combined with the provision of suitable loans for clients. The move will increase the availability of subsidy programmes for home insulation and for other energy saving measures, while allowing people to deal with all the necessary matters in one place.

4 million customers used Bank Identity last year

Four million users used Bank Identity in 2023, a two-fold increase year-on-year. Six million citizens currently have it available. Last year, 15 million transactions were made through Bank iD on government portals and four million authentications on corporate websites. Approximately 1.6 million people logged on to private company portals last year. This year, Bank iD can be used by parents of ninth grade students and those interested in grammar schools for online registration for high schools, which is being prepared by Cermat and the Ministry of Education.

CNB completes evaluation of risk profiles of individual credit institutions

Last week, the Czech National Bank published the [Summary Results of the 2023 Review and Evaluation Process](#). The additional own funds requirement within Pillar 2 (P2R) weighted by the volume of risk-weighted exposures of individual banks was 2.8%. The requirement to cover interest rate risk and concentration risk is most prominently projected in P2R. The CNB has also evaluated the need for a Pillar 2 (P2G) additional capital guideline and reduced the number of banks with this requirement to one, with a need for 1% of risk-weighted exposures.

ECB tests banks' resilience to cyber-attacks

The European Central Bank (ECB) will conduct a [cyber resilience stress test on 109 banks](#) focusing on the response to and recovery from a cyber-attack. The test simulates an attack disrupting the banks' daily business operations and evaluates their response and contingency plans. Twenty-eight banks will undergo an enhanced assessment, covering different business models and geographies, to provide meaningful reflection of the resilience of the euro area banking system. The results, which will be announced in summer 2024, will be used for the wider supervisory assessment and will not have a direct impact on banks' capital requirements.

Commentary

Firms and households sit on their deposits

Something noteworthy has happened in the Czech economy since the covid pandemic: firms, trades and the population as a whole are showing a surplus of deposits over loans, which they are repaying extremely well. The only one who is getting massively indebted is the Czech state, whose bonds are bought by banks: at the end of November, their share of total holdings of domestic government bonds was 40.59%, or CZK 1,190 billion in absolute terms. By issuing bonds, the state covers its deficits, with a significant part of the deficit being caused by transfers to the population and the corporate sector. The circle may be closing, but it is not a healthy exercise.



Miroslav Zámečník,
CBA Chief Advisor

Inflation has fallen to 6.9% in December

December inflation dropped from 7.3% to 6.9%, while according to Reuters, analysts' estimate was 7.3% and the CNB's earlier estimate was 7%. Inflation was drawn down above expectations mainly by lower food prices, which fell by 1.5% month-on-month, i.e., significantly above the normal December trend. Inflationary pressures are thus gradually fading, although the lower-than-expected December figures were driven mostly by volatile items that can easily reverse their development. For the full year 2023, inflation was 10.7%, 15.1% in 2022. This year's inflation is likely to be around 3%, depending on the revaluation of prices at the beginning of the year.



Jakub Seidler,
CBA Chief Economist

From Legislature



Legislative outlook for 2024

A legislative and politically intensive period is expected in 2024, the penultimate year of the current parliamentary term. Key legislative topics will be the transposition of the European rules on debt relief of entrepreneurs, with a three-year debt relief period for consumers and self-employed persons expected. Another critical issue will be the law on collective judicial proceedings, which aims to minimise the potential for harassment and ensure transparent financing. The banking sector is preparing for the new law on banks and credit institutions, as well

as the transposition of the amended Consumer Credit Directive (CCD2) into the Consumer Credit Act. The year 2024 will also be crucial for the implementation of eIDAS and the EU ID Wallet project, which may significantly advance the digitisation of the Czech public administration



New year of CBA training programmes starts

In April, we are launching the next edition of the CBA Strategic Management for Top Managers and CBA Corporate Governance management training programmes. A total of six days with top leaders from business and academia, lectures on topical issues, practice-oriented panel discussions and networking await you. Apply at www.cbaeducaplus.cz before the end of February.



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