# REPORT ON FINANCIAL MARKET DEVELOPMENTS IN 2016

June 2017

# CONTENTS



The data presented in this report were obtained from the specified sources in April 2017.

# SUMMARY OF DEVELOPMENTS IN 2016

**Macroeconomic Situation**

Gross domestic product increased by 2.4% year-on-year. This represented a three-year continuous growth of the Czech economy. In year-on-year terms, the Czech economy grew faster than the EU average, which was 1.9%. The main pro-growth factors were household consumption and foreign trade. Price developments were mainly influenced by low prices of crude oil and oil products, and they were reflected in consumer prices and industrial producer prices. Real estate prices grew significantly, mainly due to lack of supply, growing interest in purchasing real estate as an investment opportunity, more eased credit conditions, and low interest rates.

**Monetary Policy and Foreign Exchange Market**

The monetary policy did not change over the course of the year. The CNB's response to a relatively low inflation rate was, similarly to previous years, an eased monetary policy. The central bank's key interest rates remained at “technical zero”, a level they had remained at since November 2012. Throughout the year, the central bank continued to intervene to maintain the Czech koruna's exchange rate against the euro close to the level of 27 CZK/EUR. For the entire year, the volume of foreign exchange interventions reached EUR 16.9 billion, i.e., approx. CZK 455 billion, which accounted for approximately one half of funds expended since the beginning of interventions in November 2013.

**Funds Available in the Financial Market**

The total volume of funds increased by 8.5% to CZK 5.23 trillion, which is the highest relative increase since 2008, since when the annual increments ranged between approx. 3 and 7%. The largest absolute growth was recorded again in deposits in credit institutions (by CZK 246.8 billion), which remained the most significant item. As in the previous for years, the greatest relative growth (by 15.5%) was recorded in the volume of funds placed in investment funds.

**Structure of Household Savings**

Total household savings kept in intermediary financial market products increased by 8.4% year-on-year to reach a value of CZK 3.24 trillion. Strong growth was recorded in demand deposits (15.6%), and there was also a significant increase in household savings in investment and pension funds (12.8% and 8.2%, respectively). On the contrary, there was again an outflow of funds in term deposits (-7.1%) and building savings (-5.6%). Over the past six years, demand deposits and investment funds gained importance in the structure of savings, whereas the representation of funds in term deposits and building savings schemes was steadily declining.

**Financial Market Entities**

The structure of financial market entities was stabilized without major changes in its core sectors. The most significant changes during the year include leaving of the market by ERB bank a. s due to the CNB revoking its license, and a merger of Wüstenrot insurance company and Wüstenrot life insurance company with Allianz insurance company. The original Deposit Insurance Fund transformed into a Financial Market Guarantee System, which also manages funds of a new Crisis Management Fund. The Financial Arbitrator is no longer competent to deal with business disputes in the area payment services provision.

**Banking Sector**

The total volume of assets of the banking sector (including building savings banks) increased by 8.5% and reached CZK 6.0 trillion at the end of the year, which is an acceleration in the growth rate by 5.5 pp. In the last five years, the size of the sector's balance sheet increased by 31%. The sector's financial results reached record values, with pre-tax profit of CZK 88.7 billion (a year-on-year increase by approx. 10%). The banking sector again showed a favourable development in many indicators, confirming its stability – the total capital ratio of 18.5% remained well above the regulatory minimum (an increase by 3.2 pp over five years) and the quality of loan portfolios improved thanks to a reduction in the share of non-performing loans to the lowest value (4.8%) since 2010.

**Interest Rates**

The CNB kept its key policy rate (the 2W repo rate) at 0.05% during the entire period and continued to maintain its exchange rate commitment (terminated in April 2017), which lead to a further decline of market interest rates to the lowest level in history. Over the past six years, a gradual decline in the interest rates of client deposits and loans could have been observed. As far as deposits are concerned, the interest paid on deposits of non-financial corporations continued to be lower (a decrease to 0.1% p.a.) in comparison to household deposits (a decrease to 0.5%). The interest rates on loans to households and non-financial corporations also declined – to 4.6% and 2.6%, respectively.

**Deposits and Loans**

The volume of client bank deposits increased year-on-year by 7.0% and attained CZK 3.8 trillion. The volume of bank loans increased by 6.0% to CZK 3.0 trillion. The increase in client loans and deposits since 2011 had a similar pace, with values of approx. 29% and 28%, respectively. In the long term, the banking sector has maintained ratio of client deposits to client loans above 125%.

**Mortgage Market**

The mortgage market showed the highest activity in history, with the volume of new mortgage loans in broad aggregation (including refinanced loans and loans with a new fixed rate) attaining CZK 417.5 billion, which was a year-on-year increase of 20.9%. The total amount of debt from mortgage loans was almost CZK 1.4 trillion. Most popular remained mortgage loans with fixed rates for 1 and 5 years, which accounted for 58% of the outstanding volume of mortgage loans and 48% of new mortgage loans. Due to an expected increase in interest rates in the long term, interest in loans with a fixed rate for over 5 years has also increased. Individuals, as traditionally the predominant category of mortgage borrowers, increased their indebtedness through mortgage loans by 8.9% to CZK 944.1 billion.

**Building Savings Banks**

In the building savings bank sector, there was a reversal in the negative trend of a declining number of new building saving contracts, which recorded, after a deep slump in 2015 (by 22.5%), a year-on-year increase by 8.1% to 403.3 thousand. However, this did not stop the continuous decline in the total number of contracts since 2003, and the sector closed the year 2016 with 3.3 million contracts in the savings phase, which is a year-on-year decrease by 5.5%. The downward trend continued for the fourth year also in terms of the total saved amount, which was CZK 362.6 at the end of the year. The volume of paid state contribution also decreased, to CZK 4.3 billion. On the other hand, new loans from building savings banks increased year-on-year by almost 5% to CZK 47.9 billion, which was a decline in the pro-growth trend compared to 2015 (by 18 pp), however, the reversal in loan provision activities was confirmed after the previous seven-year period. In terms of total volume of loans from building savings banks, the sector continued, for a sixth consecutive year, to decline; in 2016 by 0.8% to CZK 240.6 billion.

**Credit Unions**

The sector of credit unions, which was represented by 11 entities for a second consecutive year, reported a slight improvement in a number of financial indicators. The sector's balance sheet total strengthened by 5.8% to CZK 34.2 billion, deposits increased year-on-year by CZK 1.4 billion to CZK 29.2 billion, and the volume of loans and advances slightly increased (by CZK 0.8 billion) to CZK 22.5 billion. Since 2014, credit unions have succeeded in gradually slightly lowering the share of non-performing loans from 22.7% to 19.4% at the end of 2016, which is, however, compared to the banking sector (4.5%) still relatively high. The total capital ratio increased to 16.2%.

**Regulated and OTC Markets**

The main Czech stock index – the PX – recorded a year-on-year decline of 3.6% and oscillated under the threshold of 1,000 points throughout the entire year. That means that the negative development apparent in 2013 and 2014 returned; the PX index showed a slight growth only in 2015. In terms of trading activity on the organized market, there was a slight decrease in the volume of exchange transactions by 0.5% to CZK 172.4 billion, and a significant decrease in OTC transactions by 25.3% to CZK 412.3 billion.

**Securities Dealers and Asset Management**

The trading volume in the securities dealer sector increased by 4.9% year-on-year to CZK 62.1 trillion. These developments were due to a significant increase in transactions performed on own account of the securities dealer sector by CZK 7.9 trillion and a decrease in the volume of transactions involving the assets they manage for their clients by CZK 5.0 trillion. A decrease was recorded mainly by non-banking securities dealers and an increase by banking securities dealers. The volume of assets entrusted to asset managers grew by 11.1% year-on-year to total CZK 1.29 trillion.

**Investment Funds**

During the year, the volume of funds in collective investment funds increased by 13.1%, in absolute terms by CZK 50 billion. Over the past 5 years, it is an increase by approx. CZK 210 billion. By the end of the year, CZK 432 billion was placed in these funds, of which CZK 195.5 billion in foreign funds and CZK 236.5 billion in domestic ones. In relative terms, the fastest growth was recorded by funds in real estate funds, by 50.1% year-on-year. In absolute terms, the growth in mixed funds of CZK 19.3 billion exceeded all other kinds of funds. The volume of funds in qualified investment funds grew faster than in collective investment funds, thanks to a year-on-year increase by 27.4% to CZK 99.9 billion. These funds managed only CZK 47.7 billion at the end of 2011.

**Insurance Companies**

The gross premiums written decreased by 3.5% to CZK 148.1 billion, which was the lowest level of policyholders' spending for the past 6 years. There was a significant drop in life insurance (a decrease by 6.6% to CZK 58.3 billion); as regards, non-life insurance, there was a slighter drop (by 1.3% to CZK 89.8). On the contrary, pre-tax profit of CZK 13.7 billion recorded the best result since 2012.

**Retirement Savings**

Retirement savings scheme, i.e., Pillar 2 of the pension system, was terminated as at 1 January 2016. Approximately 84.5 thousand participants with funds totalling CZK 3.44 billion were registered in retirement funds before pay-out of funds at the end of the year.

**Supplementary Pension Insurance and Supplementary Pension Savings**

Funds totalling CZK 381.6 billion were registered by the end of the year in participating and transformed funds in Pillar 3 of the pension system, which is a year-on-year increase by 9.2%. The number of participants in Pillar 3 once again decreased, although less than in 2015 and 2014, specifically by 107 thousand to 4.54 million individuals. The average monthly contribution made by participants in supplementary pension insurance increased to CZK 606 and in supplementary pension savings to CZK 741. The share of contracts with employer's contribution slightly increased to 20%. The total direct state support paid to Pillar 3 participants increased to CZK 6.83 billion. In terms of structure of pension funds' assets, debt securities, represented primarily by Czech government bonds, have been dominant in the long term.

**Financial Market Legislation**

A new Act on recovery and resolution in the financial market and amendments to several other regulations, mainly the Act on banks, which transposes BRRD and DGSD, took effect in January 2016. Furthermore, a new Act on consumer credit, which now regulates all consumer loans including loans for residential real estate purchase, took effect in December 2016. In the course of the year, an amendment to the Insurance Act, transposing the Solvency II Directive, an amendment to the Act on insurance intermediaries regulating the method of commission and surrender calculation, and a technical amendment to the Building Savings Act passed the legislative process. At the EU level, priority themes remained activities associated with the establishment of the Capital Markets Union and the European Deposit Insurance Scheme. At the end of the year, an extensive package was published of five legislative proposals of the European Commission aiming to reduce risks and strengthen the banking sector in the EU.

# 1. MACROECONOMIC SITUATION AND EXTERNAL DEVELOPMENTS

## 1.1. Macroeconomic Situation

Economic growth in the Czech Republic in 2016 measured by the year-on-year change in real gross domestic product was 2.4%. The Czech economy thus outperformed the EU average of 1.9%. The main pro-growth factor became household consumption, which was supported mainly by positive labour market developments (low unemployment and wage acceleration) and by low inflation. The foreign trade contribution was equally important for the growth of gross domestic product (GDP), although the dynamics of import and export decreased year-on-year. Conversely, the slowdown in the economic growth was influenced by the factor of a high 2015 comparison base and the resulting decrease in investment in fixed capital, which was due to a decrease in the investment by the general government sector. In terms of sectoral breakdown in the economy, the best performance was recorded by activities in the area of real estate, agriculture, forestry and fisheries. Conversely, there was a decline in the construction sector.

From a global point of view, the GDP growth rate slowed down slightly in 2016, when the monitored major world economies, i.e., the USA, the EU, China and Japan, recorded a lower year-on-year growth than in 2015 (see Table 1.1). Despite the year-on-year decline in growth rates, the Chinese economy recorded, according to preliminary data for 2016, again the highest growth in international comparison, by 6.7%. Other major world economies grew at a rate below 2%. Central European countries recorded similar positive developments, with the fastest growing ones being Slovakia, 3.3%, and Poland with a year-on-year growth by 2.8%.

**Table 1.1: Annual GDP growth**

| Selected countries (%) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change (p.p.) |
|---|---|---|---|---|---|---|---|
| United States | 1.6 | 2.2 | 1.7 | 2.4 | 2.6 | 1.6 | -1.0 |
| **European Union (28)** | **1.7** | **-0.5** | **0.2** | **1.6** | **2.2** | **1.9** | **-0.3** |
| Eurozone (19) | 1.5 | -0.9 | -0.3 | 1.2 | 2.0 | 1.7 | -0.3 |
| China | 9.5 | 7.9 | 7.8 | 7.3 | 6.9 | 6.7 | -0.2 |
| Japan | -0.1 | 1.5 | 2.0 | 0.3 | 1.2 | 1.0 | -0.2 |
| Germany | 3.7 | 0.5 | 0.5 | 1.6 | 1.7 | 1.9 | 0.2 |
| United Kingdom | 1.5 | 1.3 | 1.9 | 3.1 | 2.2 | 1.8 | -0.4 |
| Russia | 4.3 | 3.5 | 1.3 | 0.7 | -3.7 | -0.6 | 3.1 |
| Poland | 5.0 | 1.6 | 1.4 | 3.3 | 3.9 | 2.8 | -1.1 |
| Austria | 2.8 | 0.7 | 0.1 | 0.6 | 1.0 | 1.5 | 0.5 |
| **Czech Republic** | **2.0** | **-0.8** | **-0.5** | **2.7** | **4.5** | **2.4** | **-2.1** |
| Hungary | 1.7 | -1.6 | 2.1 | 4.0 | 3.1 | 2.0 | -1.1 |
| Slovakia | 2.8 | 1.7 | 1.5 | 2.6 | 3.8 | 3.3 | -0.5 |

Source: Eurostat, IMF, OECD, NBS China, MoF

Note: Sorted by nominal GDP in 2016.

The domestic labour market situation reflected the economic growth in the past years (see Table 1.2). Since 2013, the general unemployment rate has declined gradually to 3.6% in December 2016. This was the lowest unemployment rate since 1993. Job vacancies put pressure on wage growth. The lack of labour force could thus be an obstacle to further economic growth in the future. The general unemployment rate averaged to 4.0% in 2016. In international comparisons, the Czech Republic had one of the lowest unemployment rates, well below the EU average, which was 8.5% in 2016.

**Table 1.2: Basic macroeconomic and fiscal indicators of the Czech economy**

| Indicators | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Gross domestic product (real growth in %) | 2.0 | -0.8 | -0.5 | 2.7 | 4.5 | 2.4 |
| Gross capital formation (p.p.) | 0.5 | -1.1 | -1.3 | 2.1 | 2.6 | -0.2 |
| Consumption (p.p.) | -0.3 | -1.0 | 0.8 | 1.1 | 1.9 | 1.6 |
| Foreign balance (p.p.) | 1.8 | 1.3 | 0.1 | -0.5 | 0.1 | 1.1 |
| Unemployment rate (MLSA[1], % of average for period) | 6.7 | 7.0 | 7.0 | 6.1 | 5.0 | 4.0 |
| General government balance (% GDP) | -2.7 | -3.9 | -1.2 | -1.9 | -0.6 | 0.6 |
| General government debt (% GDP) | 39.8 | 44.5 | 44.9 | 42.2 | 40.3 | 37.2 |

Source: CZSO, MLSA, Eurostat

The general government sector performance achieved a surplus of 0.6% of GDP in 2016. The improvement was mainly due to higher tax revenues, including social security contributions. The positive financial results were also reflected in the total general government sector debt indicator, which decreased from 40.3% of GDP to 37.2% of GDP. The decrease was also absolute, mainly due to reduction in state debt and municipality debt.

In terms of external relations indicators (see Table 1.3), the Czech Republic achieved a surplus in the current account of the balance payments of 1.1% of GDP in 2016, mainly due to a positive balance of trade in goods and services. The balance of goods and services exceeded the deficit of primary and secondary incomes. This deficit was influenced mainly by income from direct foreign investment in the form of dividends and reinvested earnings. The capital account, which is significantly influenced by subsidies and payment of funds in relation to the EU budget, ended at 1.1% of GDP in 2016. The financial account was in surplus from 2012 to 2016, and it was 2.5% of GDP at the end of the year.

**Table 1.3: Basic indicators of external financial relations**

| Indicators | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Current account (CZK bn.) | -84.8 | -63.3 | -21.8 | 7.9 | 11.3 | 52.6 |
| of that: balance of goods and services | 156.8 | 201.4 | 237.3 | 275.6 | 266.1 | 351.7 |
| of that: balance of primary and secondary income | -241.6 | -264.7 | -259.1 | -267.7 | -254.8 | -299.1 |
| Capital account (CZK bn.) | 12.7 | 53.0 | 82.4 | 32.3 | 101.9 | 53.5 |
| Financial account (CZK bn.) | -74.8 | 11.7 | 68.3 | 59.4 | 175.8 | 117.7 |
| Current account balance to GDP (%, current prices) | -2.1 | -1.6 | -0.5 | 0.2 | 0.2 | 1.1 |
| Capital account balance to GDP (%, current prices) | 0.3 | 1.3 | 2.0 | 0.7 | 2.2 | 1.1 |
| Financial account balance to GDP (%, current prices) | -1.9 | 0.3 | 1.7 | 1.4 | 3.9 | 2.5 |

Source: CNB, MoF

Price developments were in 2016, similarly to 2015, influenced mainly by low prices of crude oil and oil products. Their developments, or specifically the growth in the first half of 2016 and the subsequent oscillation around the level of USD 50 per barrel, were reflected in consumer prices and industrial producer prices, which decreased year-on-year. On the contrary, real estate prices grew significantly, mainly due to a lack of affordable apartments, greater attractiveness of purchase of real estate as an investment opportunity, affordable financing in an environment of low interest rates, and also due to a discrepancy between supply and demand limited by land use planning. In international comparison (see Table 1.4), the annual average of consumer prices development in the Czech Republic was above the EU and Eurozone levels, which were 0.3% and 0.2%.

[1] Measured by the Labour Force Survey Method.

**Table 1.4: Consumer price indexes in selected economies**

| Annual growth rate (%) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| United States | 3.2 | 2.1 | 1.5 | 1.6 | 0.1 | 1.3 |
| **European Union (28)** | **3.1** | **2.6** | **1.5** | **0.5** | **0.0** | **0.3** |
| Eurozone (19) | 2.7 | 2.5 | 1.3 | 0.4 | 0.0 | 0.2 |
| China | 5.4 | 2.6 | 2.6 | 2.0 | 1.4 | 2.0 |
| Japan | -0.3 | -0.1 | 0.3 | 2.8 | 0.8 | -0.1 |
| Germany | 2.1 | 2.0 | 1.5 | 0.9 | 0.2 | 0.5 |
| United Kingdom | 4.5 | 2.8 | 2.6 | 1.5 | 0.0 | 0.7 |
| Russia | 8.4 | 5.1 | 6.8 | 7.8 | 15.5 | 7.0 |
| Poland | 4.2 | 3.6 | 1.0 | 0.1 | -0.9 | -0.7 |
| Austria | 3.3 | 2.5 | 2.0 | 1.6 | 0.9 | 0.9 |
| **Czech Republic** | **1.9** | **3.3** | **1.4** | **0.4** | **0.3** | **0.7** |
| Hungary | 3.9 | 5.7 | 1.7 | -0.2 | -0.1 | 0.4 |
| Slovakia | 3.9 | 3.6 | 1.4 | -0.1 | -0.3 | -0.5 |

Source: OECD

## 1.2. Monetary Policy and Foreign Exchange Market

The monetary policy did not change in the Czech Republic over the course of 2016. The CNB, similarly to most of the monitored countries and their central banks (major world economies and Central European countries, except the USA), responded to the relatively low inflation by maintaining an eased monetary policy. The CNB maintained its monetary-policy interest rates at values from November 2012, i.e., at “technical zero”. Moreover, similarly to the previous years, it confirmed the commitment to intervene, if necessary, to weaken the exchange rate so as to maintain the koruna's exchange rate against the euro at the lowest at 27 CZK/EUR (see box 1.1).

**Table 1.5: Central bank's key interest rates**

| As at 31 Dec (% p.a.) | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| United States | FED | 0.00–0.25 | 0.00–0.25 | 0.00–0.25 | 0.00–0.25 | 0.25–0.50 | 0.50–0.75 |
| **Eurozone** | **ECB** | **1.00** | **0.75** | **0.25** | **0.05** | **0.05** | **0.00** |
| China | PBC | 6.56 | 6.00 | 6.00 | 5.60 | 4.35 | 4.35 |
| Japan | BoJ | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.10 |
| United Kingdom | BoE | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.25 |
| Russia | CBR | 5.25 | 5.25 | 5.50 | 17.00 | 11.00 | 10.00 |
| Poland | NBP | 4.50 | 4.25 | 2.50 | 2.00 | 1.50 | 1.50 |
| **Czech Republic** | **CNB** | **0.75** | **0.05** | **0.05** | **0.05** | **0.05** | **0.05** |
| Hungary | MNB | 7.00 | 5.75 | 3.00 | 2.10 | 1.35 | 0.90 |

Source: Fed, ECB, PBC, BoJ, BoE, CBR, NBP, CNB, MNB

Most monitored central banks continued to reduce rates or further ease monetary conditions (see Table 1.5). At its monetary meeting in March 2016, the ECB presented a set of additional measures. The main refinancing interest rate was reduced from 0.05% to 0.0%, the deposit facility interest rate, for which banks deposit financial funds with the ECB, fell deeper to the negative range from -0.30% to -0.40%, and the lending facility rate slightly decreased from 0.30% to 0.25%. At that meeting, the ECB also decided to increase the volume of monthly asset purchases (Asset Purchase Programme, APP) by EUR 20 billion to EUR 80 billion. Furthermore, the parameters of such purchases were extended, and corporate bonds in the investment rating range began to be purchased in spring 2016. Last but not least, a new series of four targeted refinancing operations (Targeted longer-term refinancing operations; TLTRO II) launched in June 2016. At its December monetary meeting, the APP programme was reduced by EUR 20 billion, i.e., to the original volume of EUR 60 billion, with effect from April 2017.

The United Kingdom central bank also eased monetary conditions. The Bank of England (BoE) cut key interest rates from 0.50% to 0.25% in August 2016. The rate cuts, which occurred for the first time since the end of

2009, were a response to the announcement of the results of the referendum on the United Kingdom's withdrawal from the EU. At the same time, the BoE announced start of purchase of corporate bonds worth GBP 10 billion and extension of purchase of government bonds, ongoing since 2009, by GBP 60 billion. Overall, holdings of government securities could now reach GBP 435 billion.

In March, April and May 2016, the Central Bank of Hungary (MNB) decreased its key interest rate three times, eventually to 0.9%. It also decreased its deposit rate to negative values to -0.05%. However, at its September meeting, the MNB introduced a relatively unconventional monetary policy instrument—a liquidity limit. That limit set the maximum amount of liquidity commercial banks could deposit with the central bank. With the introduction of this limit of HUF 900 billion, the central bank expected to displace HUF 200 to 400 billion from deposit instruments to the real economy. At its December meeting, the central bank decrease this limit by HUF 150 billion to HUF 750 billion with effect from the first quarter of 2017, which should lead, in the MNB's opinion, to further displacement of HUF 100 to 200 billion.

The Japanese central bank, Bank of Japan (BoJ), also decreased interest rates, to -0.1%, at the beginning of 2016. However, the newly introduced interest rates only applied to some deposits of commercial banks with the central bank. At its meeting at the beginning of 2016, the BoJ also left unchanged the existing annual programme of purchase of assets worth JPY 80 trillion. In September 2016, the plan was modified to purchases of government securities to keep yields of ten-year government bonds near zero.

The Central Bank of Russia, which had to respond to the economic recession, decreased, after announcement of a reduction in the dynamics of the economic slump and decreasing inflation rate, the key refinancing rate twice during 2016, by a total of 1 pp. Despite this decrease, interest rates were the highest among the monitored economies (10%).

The only monitored central bank to tighten its monetary policy was the US Fed. It increased interest rates by 0.25 pp in late 2015, which made the federal funds rate range between 0.25 and 0.50% most of the year 2016. In line with expectations and in response to further economic growth and inflation, Fed increased interest rates again in December 2016. The key interest rate increased by 0.25 pp to 0.50–0.75%. The deposit rate increased by 0.25 pp to 1.25%.

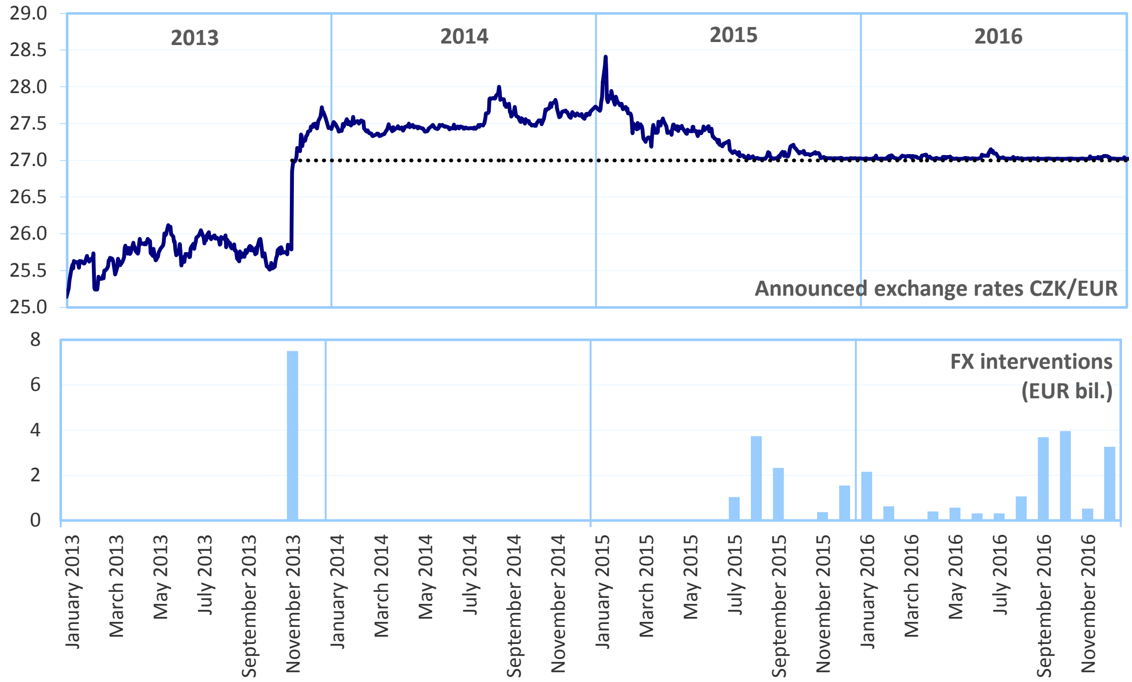
Neither the Polish nor the Chinese central banks changed the key monetary-policy rates in 2016. For the sake of clarity, the Chinese central bank used, in 2016, rather instruments to influence the exchange rate and administrative and regulatory measures.

**Box 1.1: Exchange rate commitment and intervention on the foreign exchange market**

The CNB used this commitment, introduced on 7 November 2013, to ease monetary conditions as its another monetary-policy instrument. The commitment lead, also in 2016, to direct and indirect currency interventions with the aim of preventing the Czech crown from strengthening below the level of 27 CZK/EUR. The date of the expected discontinuation of the exchange rate commitment was gradually postponed, it has to be added that transparently, from the beginning of 2015 to the second quarter of 2017. The actual end was on 6 April 2017.

In terms of volatility of the CZK/EUR currency pair, it has been decreasing since the second half of 2015 in comparison with the previous period. In 2016, the foreign exchange rate (FX) oscillated between 27.0 and 27.2 CZK/EUR. The volume of foreign exchange interventions, that is, trades closed by the central bank in order to maintain its exchange rate commitment, attained EUR 33.3 billion (approx. CZK 900 billion) from its introduction until the end of 2016, with one half of the amount accounting for 2016, when the central bank intervened in the amount of EUR 16.9 billion (approx. CZK 455 billion).

**Graph 1.1: Daily exchange rates announced by the central bank and the monthly levels of FX interventions**




Source: CNB

The developments of exchange rates of the Czech koruna against foreign currencies (selected currencies used in international trade of the Czech Republic or in the region, see Table 1.6) were influenced not only by the CNB's unilateral exchange rate commitment, but the key factors remained also major events in those countries. As already noted (in box 1.1), the exchange rate against the euro remained almost unchanged and its volatility was very low throughout 2016. In the context of development against the world's most important trading currency, the US dollar (see box 1.2), there was a moderate strengthening in terms of average exchange rates. However, in late 2016, the dollar's trajectory was directed towards strengthening of the dollar, that is, weakening of the Czech crown. This dynamics of the CZK/USD currency rate in late 2016 was caused mainly by continued quantitative easing by the ECB (due to transfer of influence through the exchange rate commitment), increase of Fed rates, and increasing performance of the US economy.

The koruna strengthened most (based on the average exchange rates) against the British pound, or more precisely the pound weakened against other world currencies as a result of the referendum on the United Kingdom's withdrawal from the EU. The exchange rate of the Czech koruna strengthened similarly against the Russian ruble, or more precisely the ruble weakened against world currencies. However, the trend of the CZK/RUB currency pair changed in 2016. Since May 2015, the ruble development was in the spirit of almost continuous weakening. In January 2016, there was a change, and the ruble started strengthening, mainly due to slightly increasing crude oil prices, recovery of the Russian economy, and at the end of 2016 also thanks to optimism about future relations between Russia and the USA. The koruna strengthened against the Chinese renminbi, but its volatility decreased significantly compared to previous years. The decrease in volatility was due to, among other things, an adjustment to the renminbi exchange rate and its linking to a basket of thirteen foreign currencies. As regards the last of the most important world currencies, Japanese yen, the average exchange rate of the Czech koruna weakened by approx. 10.8%. The CZK/JPY exchange rate kept weakening since the second half of 2015; however, it started slightly strengthening in late 2016.

Changes against currencies in the Central European region were relatively smaller. The koruna strengthened against the Polish zloty by 5.0% to an average 6.2 CZK/PLN. Volatility against Hungarian forint was lower compared to 2015, and the koruna strengthened by 1.4% against the forint, to an average 8.7 CZK/100 HUF.

**Table 1.6: Average CZK exchange rates relative to major and regional currencies**

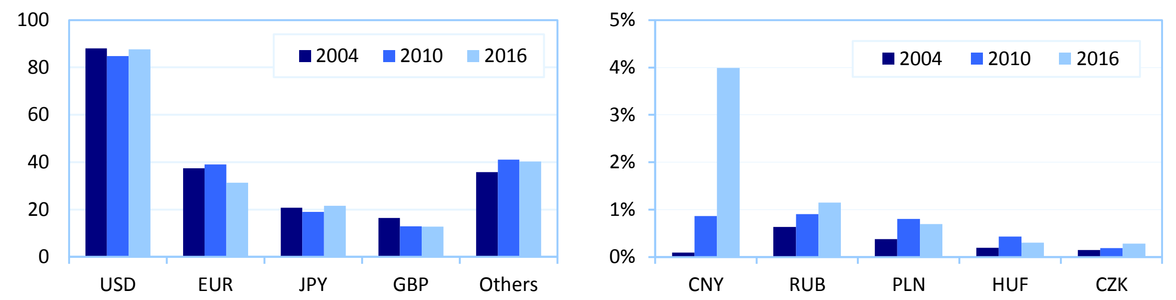
| Average exchange rate | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change (%) |
|---|---|---|---|---|---|---|---|---|
| United States dollar | CZK/USD | 17.7 | 19.6 | 19.6 | 20.7 | 24.6 | 24.4 | -0.7 |
| **Euro** | **CZK/EUR** | **24.6** | **25.1** | **26.0** | **27.5** | **27.3** | **27.0** | **-0.9** |
| Chinese yuan | CZK/CNY | 2.7 | 3.1 | 3.2 | 3.4 | 3.9 | 3.7 | -6.0 |
| Japanese yen | CZK/100 JPY | 22.2 | 24.6 | 20.1 | 19.6 | 20.3 | 22.5 | 10.8 |
| British pound | CZK/GBP | 28.3 | 31.0 | 30.6 | 34.2 | 37.6 | 33.1 | -11.9 |
| Russian ruble | CZK/100 RUB | 60.2 | 63.0 | 61.4 | 54.9 | 40.6 | 36.6 | -9.7 |
| Polish złoty | CZK/PLN | 6.0 | 6.0 | 6.2 | 6.6 | 6.5 | 6.2 | -5.0 |
| Hungarian forint | CZK/100 HUF | 8.8 | 8.7 | 8.7 | 8.9 | 8.8 | 8.7 | -1.4 |

Source: CNB

**Box 1.2: Statistics on usage of currencies on foreign exchange market**

According to statistics of the Bank for International Settlements (BIS), 4 world currencies maintained a majority in foreign exchange trades (USD, EUR, JPY and GBP), which are also reserves currencies of the International Monetary Fund (IMF). However, their influence weakened slightly, as their proportion in the total 200% share (currencies are traded in currency pairs) decreased from 162.8% in 2004 to 153.4% in 2016. A significant growth (in relative terms) was recorded mainly by emerging economies, when, for example, the importance of Chinese renminbi (which became another reserve currency of the IMF in 2015) increased from 0.1% to 4% over 12 years. The Czech koruna then improved in the overall statistics from 0.15% in 2004 to 0.28% in 2016.

**Graph 1.2: Foreign exchange market turnover by currency (% of average daily turnover in April)**




Source: BIS

# 2. FUNDS AVAILABLE IN THE FINANCIAL MARKET

The volume of funds available in the financial market[2] has been growing for a long time, as can be seen in Table 2.1. Over the course of 2016, it increased by CZK 410.5 billion (8.5%) to a level of approximately CZK 5.23 trillion, which is the highest increase since 2008, since when the annual increments ranged between approx. 3 and 7%.

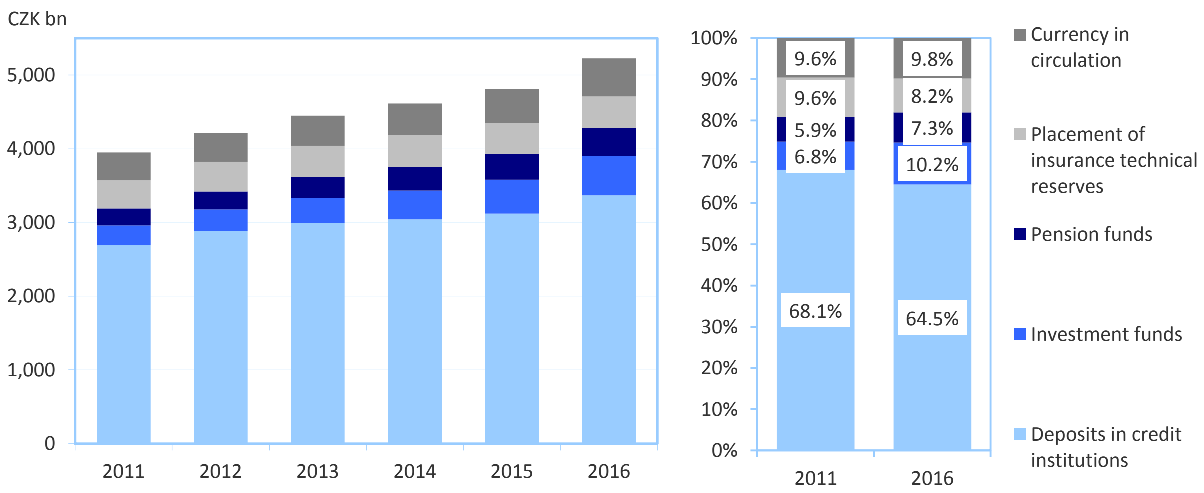
**Table 2.1: Funds available in the financial market**

| As at 31 Dec (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Deposits in credit institutions[3] | 2,690.0 | 2,883.9 | 2,995.8 | 3,041.5 | 3,122.1 | 3,368.8 | 246.8 | 7.9 |
| of which: building savings schemes | 433.4 | 435.0 | 429.1 | 413.6 | 384.2 | 362.6 | -21.6 | -5.6 |
| Investments funds | 270.2 | 291.8 | 339.9 | 392.2 | 460.4 | 531.9 | 71.5 | 15.5 |
| Pension funds | 232.1 | 246.6 | 282.3 | 318.7 | 352.6 | 381.6 | 29.0 | 8.2 |
| Placement of insurance technical reserves | 381.2 | 403.1 | 424.1 | 431.6 | 413.7 | 429.8 | 16.1 | 3.9 |
| Currency in circulation | 377.9 | 388.9 | 405.4 | 432.2 | 467.1 | 514.3 | 47.2 | 10.1 |
| Total | 3,951.3 | 4,214.4 | 4,447.6 | 4,616.1 | 4,815.8 | 5,226.3 | 410.5 | 8.5 |

Source: AKAT, APS CR, CNB–ARAD, MoF

The highest relative increase in funds has been reported by investment funds (collective investment funds and qualified investment funds) since 2012, and this trend was reconfirmed in 2016, although the percentage increase was 1.9 pp lower than in 2015. The increasing popularity of investment funds is related to the fact that in an environment of very low interest rates, they enabled participants to achieve relatively higher yields in the financial market. However, the increase in the volume of funds in investment funds was also due to an increase in valuation of assets in which these funds invested. The persisting influence of low rates probably also contributed to a higher year-on-year growth rate of currency in circulation as compared to 2015. A significant year-on-year growth was also recorded by funds placed in pension funds, although the growth rate slightly decreased over the last three years.

**Graph 2.1: Funds available in the financial market**




Source: AKAT, APS CR, CNB–ARAD, MoF

Note: The right side of the graph shows the differences in structure between 2011 and 2016.

2 This aggregate indicator is one of the ways used to express the size of the financial market by focusing on the intermediary financial market. It includes the monetary resources of individuals and legal entities that are allocated in the financial market through the financial products offered by credit institutions, insurance companies, pension management companies (previously the pension funds), and collective investment instruments, as well as currency in circulation. It does not include direct investments in securities.

3 Includes the Czech crown deposits of clients (residents and non-residents) in banks (including building savings banks), branches of foreign banks, and credit unions, but not including the CNB.

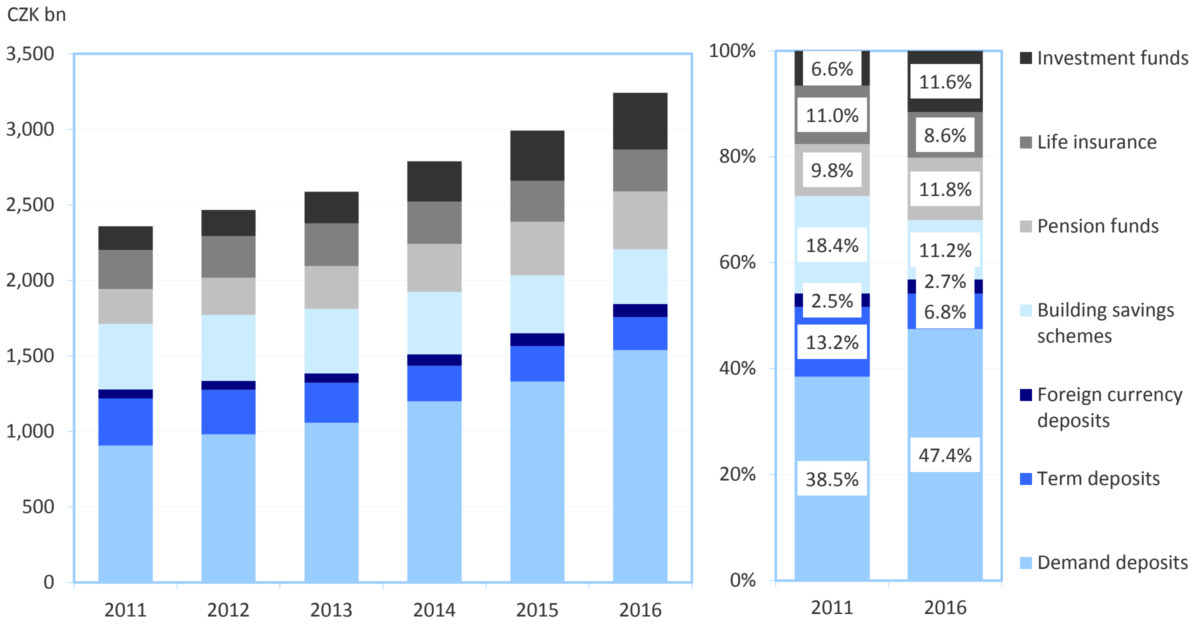
The largest increase in the absolute level of funds occurred during 2016 for the most significant item in terms of volume, that is, deposits in credit institutions, as was the case in 2010 to 2013 and in 2015. In 2014, investment funds were exceptionally prominent in this regard. The only decreasing item in 2016 was building savings schemes, for which, however, the volume of funds had been decreasing already since 2013.

Based on the development in the volume of funds in the individual categories between 2011 and 2016, the tendencies described below can be identified. As can be seen on the right side of Graph 2.1, the largest increase was in funds placed in investment funds (by 3.4 pp), followed by pension funds (by 1.4 pp). Conversely, there was a significant decrease in deposits in credit institutions (by 3.6 pp). More pronounced decreases in the relative importance of deposits on the total funds available in the financial market occurred mainly during 2014 and 2015. In previous years (until 2013), deposits in credit institutions steadily accounted for approx. 68% of all funds in the financial market; in 2016 less than 65%. The share of currency in circulation in total funds in the monitored period ranged between 9.1% and 9.8%, and its share had been slightly increasing every year since 2014. The share of the placement of insurance technical reserves in total funds available in the financial market, conversely, had been decreasing every year since 2011, to 8.2% in 2016.

# 3. STRUCTURE OF HOUSEHOLD SAVINGS

The volume of household savings kept in products offered on the intermediary financial market[4] has been gradually increasing over the past several years (see Graph 3.1). The year 2016 was not an exception, and the household savings increased by 8.4%, which is the greatest increase in the monitored period (2011–2016), to attain a total volume of CZK 3.24 trillion.

**Graph 3.1: Structure of household savings**




Source: APS CR, CNB–ARAD, MoF

Note: The right side of the graph shows the differences in structure between 2011 and 2016.

Demand deposits, which have grown in the long term, were again a product with the highest absolute growth in 2016, by a record-breaking amount of CZK 207.9 billion, which resulted in the highest relative increase (by 15.6%) and a year-on-year increase in their share in the household savings structure by 3.0 pp. On the contrary, an outflow of funds continued for a fifth consecutive year for term deposits, when their volume decreased by CZK 16.7 billion in 2016. An item that has been losing its importance in the long term is savings in building savings schemes. There was a year-on-year decrease in their share in total savings by 1.7 pp, and by 7.2 pp over the monitored period 2011 to 2016. The reason for this is the decreased attractiveness of building savings schemes (for more details see Chapter 5.8). In 2016, there was once again an increase in the share of deposits kept in foreign currencies, however, with a much lower intensity than in previous years 2014 and 2015, and the share of foreign currency deposits in total savings slightly decreased. In the monitored period, the share of bank institutions' products (deposits and building savings schemes) in the total structure of savings decreased by 4.6 pp. However, this downward trend stopped in 2016. Household kept 68% of their savings in these products, i.e., the same percentage as in 2015.

Household savings in investment funds again increased significantly year-on-year, by CZK 42.7 billion (by 12.8%), which is, however, already a lower increase than in 2014 or 2015. Although there has been a significant increase in the share of allocations of household savings to collective investment instruments, which was reflected in an increase in the share of funds kept by households in investment funds on the total savings structure by 5 pp to 11.6%, it did not reach its level at which it was prior to the crisis in 2007 (12.6%).

The share of savings placed by households in pension products did not change compared to 2015. Looking at a five-year timeframe, the segment of pension funds gained importance, with 11.8% of household savings (compared to 9.8% in 2011) being placed in it at the end of 2016. The share of insurance companies as

[4] Includes household savings that are placed on the financial market through financial products offered by bank institutions, insurance companies, and pension and investment companies. Direct investments made by households in securities, commodities, and real estate are not monitored.

managers of household savings for reserve-creating life insurance products had been slightly decreasing since 2012. In 2016, the share of life insurance in household savings decreased year-on-year by 0.5 pp, however, the absolute volume of savings in life insurance slightly increased by CZK 8 billion compared to 2015.

A more detailed analysis of the individual sectors is provided in Chapters 5 to 8.

# 4. INSTITUTIONAL ASPECTS OF THE FINANCIAL MARKET

## 4.1. Financial Market Entities

The structure of the financial market in the Czech Republic is stabilized without major changes in its core sectors. There were not brought any extraordinary changes either in 2016. Minor year-on-year changes in the number of entities did not fundamentally alter the existing competitive nature of individual segments of the financial market. One of the decisive criteria in the decision making of new applicants for permissions to carry out activities in the financial market is rather becoming the costs of entry into individual sectors.

A relatively less economically and administratively demanding method than building a completely new financial institution is purchase of an existing entity with a license and all its material and personnel equipment.[5] One-off strengthening of one's position in the market is also sometimes done by purchasing only a part of a client portfolio or an insurance tribe from another entity.

The **banking sector**, which accounts for about three quarters of the total assets of the financial market entities, has a decisive role in the Czech financial market. A group of 4 largest banks has a specific position as they can offer, through their comprehensive activities (through their subsidiaries but also foreign mothers), a wide range of financial services reaching also to other sectors of the financial market. Banks at the heads of financial groups thus dominate the market also from an institutional point of view.

The development in the number of entities in the Czech financial market over the past six years is shown in the following table.

**Table 4.1: Numbers of entities providing services in the financial market**

| K 31.12. | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| **Credit institutions** | | | | | | |
| Banks | 44 | 43 | 44 | 45 | 46 | 45 |
| of which: foreign banks branches | 21 | 20 | 21 | 22 | 23 | 23 |
| of which: building savings banks | 5 | 5 | 5 | 5 | 5 | 5 |
| Credit unions | 14 | 13 | 12 | 11 | 11 | 11 |
| **Capital market** | | | | | | |
| Securities dealers and branches of foreign securities dealers | 58 | 61 | 64 | 58 | 62 | 65 |
| Investment funds having legal personality | 58 | 77 | 88 | 83 | 91 | 108 |
| Investment companies[6] | 21 | 21 | 24 | 26 | 28 | 28 |
| Mutual funds | 157 | 165 | 176 | 191 | 195 | 201 |
| Qualified investment funds | 40 | 48 | 56 | 53 | 55 | 60 |
| Collective investment funds | 117 | 117 | 120 | 138 | 140 | 141 |
| Investment intermediaries | 10,070 | 8,810 | 7,670 | 7,554 | 7,464 | 7,340 |
| Tied agents[7] | 14,730 | 20,045 | 25,821 | 26,056 | 26,659, | 26,612 |
| Pension funds / companies | 9 | 9 | 10 | 9 | 8 | 8 |
| **Insurance** | | | | | | |
| Insurance companies | 54 | 53 | 52 | 53 | 55 | 54 |
| of which: branches of foreign insurance companies | 18 | 18 | 18 | 20 | 23 | 24 |
| Reinsurance companies | 1 | 1 | 1 | 1 | 1 | 1 |
| Insurance intermediaries | 137,486 | 147,971 | 156,217 | 163,204 | 169,024 | 174,092 |

Source: CNB

5 In the past, this was the case, for example, of sale of Austrian Volksbank CZ to Russian Sberbank or in an ownership change of the former Banco Popolare to the current Equa bank.
6 Including one branch of a foreign investment company.
7 Excluding tied agents of pension companies.

In the banking sector, Volksbank Löbau-Zittau eG voluntarily terminated its activities as at 1 January 2016. Conversely, Bank of China (Hungary) Close Ltd. Prague branch, odštěpný závod, obtained an operating license from 1 March 2016[8].

ERB bank, a. s., was forced to leave the market in October 2016. It was a small banking entity, and it was another case of the CNB revoking its license in the banking sector after 13 years. Insured deposits of ERB bank are being paid out through selected branch offices of Česká spořitelna, a.s., within three years from the date of commencement.

As far as the **capital market** is concerned, the numbers of entities slightly increased due to a higher demand for investment products following the growth of the real economy. The number of mutual funds increased by 6 entities, of which 5 entities were qualified investment funds. The number of securities dealers also increased, by 3 entities.

The numbers of investment intermediaries have been gradually stabilizing at a lower level. Significant declines in 2012–2013 were a one-off situation caused by a change in legislation. In 2011, an amendment to the Act on capital market undertakings redefined intermediary categories, whereby Level 2 investment intermediaries became tied agents for whom a separate register is maintained. The number of on-own-account investment intermediaries has therefore been gradually decreasing and, conversely, the number of tied agents has been increasing.

As regards the **insurance sector**, a branch of a Spanish company Compañía Española de Seguros y Reaseguros de Crédito y Caución, S.A., obtained an operating license. On the contrary, the insurance part of the Wüstenrot group ceased to exist, and the life and non-life insurance tribe was transferred to Allianz pojišťovna. This transfer resulted in the termination of 2 entities – Wüstenrot pojišťovna and Wüstenrot, životní pojišťovna.

Entities that operate in the financial market in the Czech Republic taking advantage of the EU's free movement of services and goods and performing activities on the basis of the single European passport supplement and extend financial products offered by entities with a CNB license. Their numbers in the credit institution and insurance company sectors grew annually; in the case of investment funds, a more significant growth was only recorded in the last 3 years. The development of the number of investment companies rather tended towards overall stagnation in the monitored period. As these entities do not have a reporting obligation towards the CNB, the exact scope of their activities cannot be determined. However, based on some individual findings, it is possible to infer that their offer of products and services is usually not aimed at the broad retail client base and is generally very specialised for only a specific market segment. Although the extent of their activities is limited in a certain way, these entities are an integral component of the financial market in the Czech Republic, which helps to increase its competitiveness and contributes towards a wider and more comprehensive product offer.

The development of the number of entities operating in the Czech Republic under the single European passport in the monitored period of 6 years is shown in the following overview (Table 4.2).

**Table 4.2: Number of entities operating in the Czech Republic under the single European passport**

| As at 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Credit institutions | 302 | 329 | 337 | 353 | 385 | 405 |
| Insurance companies | 695 | 714 | 743 | 789 | 824 | 882 |
| Investment funds | 1,214 | 1,157 | 1,165 | 1,268 | 1,340 | 1,430 |
| Investment companies | 47 | 46 | 45 | 47 | 46 | 48 |

Source: CNB–JERRS

## 4.2. Guarantee Schemes

The financial market in the Czech Republic includes two guarantee systems—the Financial Market Guarantee System and the Securities Traders' Guarantee Fund[9], which aim to strengthen protection of both retail clients-depositors and investors as well as the market as a whole.

8 Banka CREDITAS a. s., formed by transformation of Creditas credit union, obtained an operating license from the beginning of 2017.
9 Also known as Investor Compensation Fund.

The Financial Market Guarantee System (FMGS) was established on the basis of a new act on framework for the recovery and resolution of credit institutions and securities dealers[10] as at 1 January 2016 through transformation of the Deposit Insurance Fund (DIF). However, FMGS' competence and functions are broader as the newly established FMGS manages resources that may be used not only for disbursement of deposit compensation (which had been provided by the DIF until the end of 2015), but also for resolution of any problems of credit institutions and some securities dealers to avert their failure—to this end, a Crisis Management Fund was newly established. The original DIF became, as at the date of FMGS establishment, its internal unit with separate assets and accounting, similarly to the newly established Crisis Management Fund.

The FMGS provides management and use of funds intended to safeguard and maintain the stability of the entire financial market in the Czech Republic. To this end, it cooperates mainly with the MoF, the CNB and, where necessary, with similar systems in other EU Member States. The establishment of the FMGS represents a more comprehensive system of depositor protection and support for stability in the financial market than the DIF used to ensure. The changes in financial market security settings, reflecting requirements of EU regulations, should ensure a stable and strong safety network that will minimize any problems of financial markets in each country and the entire EU.

The FMGS will, similarly to the DIF in the past, ensure disbursement of deposit compensation in case some of the banks, building savings banks or credit unions is designated by the CNB as insolvent, or in case the court decides on bankruptcy of such an institution. The deposit insurance system provides insurance for credit balances on current, term or deposit accounts or bankbooks and deposits certified by a deposit certificate, depository bond or any other similar document. The deposit guarantee scheme guarantees compensations for deposits in banks, building savings banks and credit unions with their registered offices in the Czech Republic (a total of 33 entities as at 31 December 2016) amounting to 100% of deposits including interests, however, not exceeding amounts corresponding to EUR 100,000 per client per institution. In certain cases stipulated by law, the new legislation on deposit guarantee increases the maximum amount of compensation up to amounts corresponding to EUR 200,000[11]. An important change for depositors is also a shortening of the deadline for disbursement of deposit compensation from 20 to 7 working days, effective from 1 June 2016.

Deposits of clients in branches of foreign banks whose mother has its registered office in EU countries are guaranteed by a deposit guarantee scheme in place in the Member State where the mother has its registered office. Any compensation for deposits of clients of these branches would be paid by the FMGS based on instructions and to the account of the respective foreign deposit guarantee scheme.

The development of DIF's core indicators characterizing its main revenue and expenditure side for the previous six-year period is shown the following table.

**Table 4.3: Basic indicators of DIF**

| As at 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Contributions (CZK bn)[12] | 3.3 | 3.5 | 3.7 | 4.3 | 4.4 | 2.1 |
| Compensation payments (CZK mn) | 67 | 1,787 | 30 | 14,526 | 235 | 3,263 |
| Financial reserves (CZK bn) | 21.8 | 24.7 | 28.6 | 18.9 | 28.8 | 27.9 |

Source: FMGS

Higher claims for disbursement of compensation in 2014 were caused by disbursement of compensation in the sector of credit unions, in particular in the case of Metropolitní spořitelní družstvo and WPB Capital, spořitelní družstvo. In 2016, these were, for the most part, disbursements for clients of ERB bank a. s.

The Crisis Management Fund (CMF) is to fund resolution of crisis situations of banks and some security dealers. The CMF collects funds that can be used in the event of threat to the stability of one of the financial institutions so that it is not necessary to end its existence with regard to its possible essential functions it has

10 Act No 374/2015 Coll., on recovery and resolution in the financial market.

11 Increased compensation applies to deposits earned in specific life situations, such as sale of private immovable property used for housing, divorce settlement, collection of indemnity for injury, sickness, invalidity or death, inheritance, disbursement of a lump-sum pension, severance pay upon dismissal from work, compensation for damage caused by crime, etc.

12 Contributions of insured institutions paid to the DIP for each year. Between 2011 and 2015, these were contributions paid for the first to the third quarter of the respective year and the fourth quarter of the previous one. In 2016, it was a contribution paid for the fourth quarter of 2015, and an annual contribution for 2016 of CZK 879.4 million, calculated based on a new methodology.

in the context of the financial sector and the entire economy, and, where applicable, it can be used to commence disbursement of deposit compensation to the institution's clients. The total contribution of credit institutions to the CMF was approx. CZK 3 billion in 2016.

The second guarantee system in the financial market in the Czech Republic is the Securities Traders' Guarantee Fund (STGF). Its function is to ensure disbursement of compensation to clients of securities dealers who are not able to meet their obligations towards clients. The STFG therefore does not cover the risk of the loss of value of investments in securities. Client receive compensation equal to 90% of the value calculated in accordance with the applicable provisions of the Act on Capital Market Undertakings up to an amount of EUR 20,000 within three months of the date their claim is verified.

The main source of STFG's assets is contributions made by the involved players, i.e. securities dealers and investment companies that manage client assets. As the covered client assets remain (unlike in the case of deposits covered by the DIF) in the hands of the securities dealer only for a relatively short period of time but repeatedly, the amount of the annual contribution is calculated differently than in the case of the DIF, as 2% of the amount of fees and commissions collected for investment services provided during the past year. The volume of contributions collected by the STGF from securities dealers in 2016 totalled CZK 168.9 million. Over the same period, it disbursed CZK 1.1 million on compensation to clients of former securities dealers. The total amount of funds of the STGF as at 31 December 2016 was CZK 1.0 billion. However, the fund's net position is negative as it has a commitment to repay previously obtained financial aid from the state budget of CZK 1.1 billion.

## 4.3. Financial Arbitrator

The Financial Arbitrator (FA) is gradually becoming, since its establishment in 2003, when it was a non-judicial dispute resolution authority competent to decide certain consumer or entrepreneur disputes regarding the payment system, a non-judicial authority competent to resolve disputes between consumers and financial institutions across the entire financial market. Since 1 February 2016, the FA is no longer competent to resolve entrepreneur disputes in the area of payment service provision.

In contrast, already in 2016 the FA was competent to resolve disputes of consumers with financial institutions (providers and intermediaries) in the area of payment service provision; issue and re-exchange of electronic money; offering, brokering or provision of consumer credit or another credit, loan or a similar service; collective investment; offering, provision or brokering of life insurance; performing exchange transactions; brokering or provision of building savings; or in the provision of investment services under the Act on Investment Companies and Investment Funds.

Proceedings before the FA are free of charge and only initiated on the basis of an application filed by a consumer. The legally binding ruling of the FA is enforceable through the courts in accordance with the Code of Civil Procedure. If the parties to the proceedings do not agree with the FA’s ruling, it is possible to bring an action against the FA and obtain a court decision to replace the ruling.

As a result of expansion of FA's competences, the number of petitions to commence proceedings increases, and so did the number of enquiries raised. In 2016, the FA received 1,951 petitions to commence proceedings (see Table 4.4). The number of received and processed enquiries of the public increased by one third and attained 4 thousand. The most frequent subject of disputes and enquiries dealt with was complaints in the area of payment services and consumer credit. Following the extension of the FA's competences in 2013 by resolution of life-insurance disputes, the number of commenced proceedings increased sharply, and since 2015 it has represented the largest share in the total number of disputes.

**Table 4.4: Number of proceedings initiated in individual years**

| As at 31 Dec | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Abs. | (%) |
| Number of proceedings commenced | | 167 | 204 | 706 | 629 | 962 | 1,951 | 989 | 102.8 |
| of which: | payment services | 126 | 106 | 187 | 67 | 110 | 117 | 7 | 6.4 |
| | consumers credit | 37 | 141 | 502 | 317 | 190 | 233 | 43 | 22.6 |
| | life insurance | - | - | 13 | 224 | 639 | 1,132 | 493 | 77.2 |

Source: Annual reports of FA

Note: In 2013, the FA also dealt with 93,139 collectively filed disputed over a credit administration fee.

In most of the disputes resolved, the FA achieves an amicable settlement. As regards judicial review of decisions, institutions submitted FA's decisions to courts were only a few. Completed reviews show that courts rather confirm the FA's decisions.

The FA makes its major decisions available in full in a Collection of Decisions on its website (without specifying the identification data of the petitioners). The aim pursued by the Collection of Decisions is to inform the general public about the cases under consideration, and predictability of the FA's decision-making activities.

## 4.4. Economic Results and Number of Employees of Financial Institutions

Earnings before tax were positive in all financial market sectors. Their amount was above average in most sectors in the monitored period. The only exception was non-banking securities dealers with a 12.3% decrease in profit. The highest relative increases were recorded by pension companies (78.8%), insurance companies (36.8%) and investment companies (32.9%). For pension and investment companies, together with banks, which recorded the highest absolute profit increase (by CZK 8.2 billion), these were record-breaking values of profit generation in the entire evaluation period (see Table 4.5). The overall relatively good economic results in the financial sector are a positive starting point for its further development.

**Table 4.5: Profit/loss of financial institutions before tax**

| As at 31 Dec (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Banking financial institutions | 63.4 | 76.7 | 73.3 | 76.1 | 80.5 | 88.7 | 8.2 | 10.1 |
| Insurance companies | 11.4 | 15.0 | 13.2 | 8.7 | 10.0 | 13.7 | 3.7 | 36.8 |
| Pension funds / companies | - | - | -0.3 | 0.5 | 0.8 | 1.4 | 0.6 | 78.8 |
| Investment companies | 0.3 | 0.4 | 0.6 | 0.7 | 0.8 | 1.1 | 0.3 | 32.9 |
| Non-bank securities dealers (incl. foreign branches) | 0.7 | 0.7 | 1.1 | 0.9 | 1.0 | 0.9 | -0.1 | -12.3 |

Source: CNB–ARAD

During 2016, an average 72.7 thousand employees were employed in the financial market (an increase by 2.2%, see Table 4.6). The highest increases in employees were recorded in non-banking financial institutions. The growth in employment in the financial sector could have been related not only with improving quality of services for clients, but it can also be partly influenced by increased administrative burden following from regulatory requirements. Pension companies together with insurance companies reported a slight decrease in the average number of employees.

**Table 4.6: Average headcount of financial institutions**

| Average for the period | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Banking financial institutions | 39,124 | 39,923 | 39,375 | 39,105 | 39,216 | 39,991 | 772 | 2.0 |
| Non-banking financial institutions[13] | 13,855 | 14,251 | 14,598 | 15,272 | 15,689 | 16,427 | 790 | 5.1 |
| Insurance companies | 14,260 | 14,464 | 14,213 | 13,993 | 13,768 | 13,730 | -38 | -0.3 |
| Financial leasing companies | 2,586 | 2,457 | 2,277 | 2,064 | 2,020 | 2,063 | 72 | 3.6 |
| Pension funds / companies | 470 | 529 | 629 | 550 | 521 | 514 | -9 | -1.7 |
| Total | 70,295 | 71,624 | 71,092 | 70,984 | 71,214 | 72,725 | 1 587 | 2.2 |

Source: CZSO

[13] The CSO includes in this indicator credit unions, holding companies, investment companies, investment funds, leasing companies, pawnshops, non-banking credit providers, exchange offices, brokers, factoring companies, securities traders, investment advisors and brokers, and insurance agents and brokers.

# 5. CREDIT INSTITUTIONS AND OTHER PROVIDERS OF ASSET FINANCING

This chapter primarily focuses on credit institutions, specifically banks (the majority of the chapter), including building savings banks (Chapter 5.8), and credit unions (Chapter 5.9). Specific topics are also covered, such as interest rates (Chapter 5.4) and deposits and loans (Chapter 5.5). The final chapter (Chapter 5.10) deals primarily with the developments in the segment of non-bank financing providers. The sub-sector covered in the last section of this chapter offers products[14] that are fairly close substitutes for bank loans and, if they are offered to retail clients, contribute towards the indicator of overall household indebtedness.

Given the importance of households as the key client segment, a separate section (Chapter 5.6) addresses the development in household indebtedness and the level of this indebtedness in relation to both bank as well as non-bank financing providers.

## 5.1. Stability of the Banking Sector

Looking back at 2016, it can be restated that the banking sector reported overall stable results similarly to the previous years. As in 2015, the economic recovery helped improve the values of some indicators. This was reflected both in credit activity and in the tendency to a decline in the share of non-performing loans, and consequently in the increase in the overall profitability of the sector, despite a declining interest margin.

The long-term factors contributing to the sector's overall resilience, since the global financial crisis after 2008 and the subsequent instability in the Eurozone, remained in effect. In particular, these factors included a high and in the long-run increasing level of capital adequacy of the sector as a whole, a long-term high share of coverage of client loans by deposits and related to that low reliance on funding from the interbank market, a significant share of retail loans secured by real estate lien rights, and a relative low share of client loans provided in foreign currencies, in particular in the case of households.

The resilience of this sector to potential negative shocks has been repeatedly confirmed by the stress tests regularly performed by the CNB. According to the results published in December 2016 (based on the data from the end of the third quarter of 2016), the sector’s capital adequacy would remain above the 8% regulatory minimum even in case of materialization of a less likely adverse, “negative” scenario, which presumes a significant drop in the economic activity in the Czech Republic and abroad. In such case, the sector's capital adequacy would drop under 13%, and a total of 8 banks would fail to fulfil the minimum requirement (8%) for the amount of total capital ratio (representing approx. 13.5% of the sector's assets). In order to level up the capital adequacy, these 8 banks would have to increase their capital by CZK 8.6 billion (i.e., approx. 0.2% of GDP), which should not, according to the CNB, seriously threaten the stability of the sector as a whole.

The CNB also performs stress tests of bank liquidity. Both a macro-stress test and a survey of liquidity coverage and stable financing showed, according the central bank's statement, a high resilience of Czech banks to liquidity shock due to a strong base of client deposits, good capital adequacy on the side of liabilities, and a significant share of high-quality government bonds and exposures towards the CNB on the side of assets of individual banks. Less favourable characteristics of the banking sector liquidity in the Czech Republic remained low diversification of liquid reserve, where an increasing share of demand deposits and long-term loans, in the CNB's view, deepens risks associated with maturity transformation.

However, in the light of the current optimistic economic development and continued overall stability of the banking sector, the concept of financial stability paradox should be called to attention. It points out, in principle, a risk that in particular in the period of higher financial market stability, there may be increased likelihood of individual agents to act less prudently. Therefore, paradoxically, the future resilience of the financial system may be reduced due to increasing vulnerability and imbalances, the materialization of which usually only occurs later. One should, therefore, respond to these potential risks in advance at a time when the system as a whole appears relatively stable. From this point of view, the CNB has recently repeatedly mentioned, in its statements, issues of holding government bonds by the banking sector and provision of mortgage loans (see Chapter 5.7) in the context of real estate price developments.

[14] Some similar services and products (for example, in the area of the payment system or provision of foreign resources) are offered by entities on the border of the financial sector and information technology in areas such as peer-to-peer lending, crowd-funding, etc.

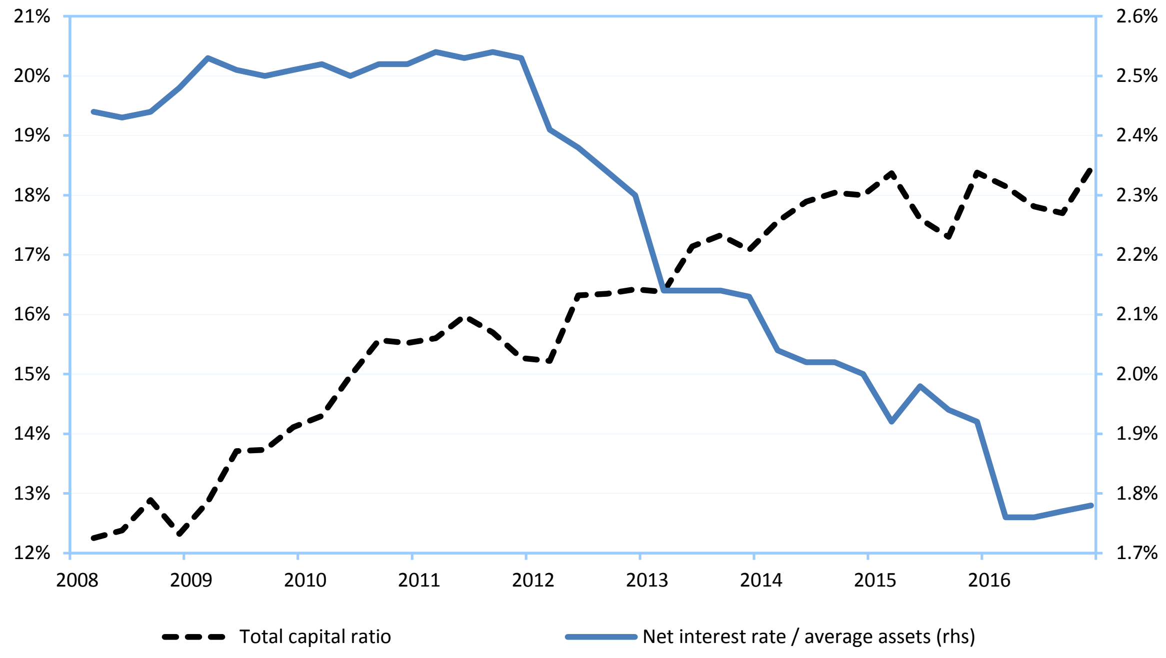
The main risk scenarios for the banking sector remain, in the CNB's view, a decline in economic activity accompanied by increasing credit and market risks, a long-term low interest rate environment, and volatility of asset prices associated with uncertainty in global markets. In the CNB's view, interaction of these factors may result in a decrease in the profitability of all segments of the financial market, including the banking sector, and weakening of its liquidity situation.

Despite a number of factors strengthening the sector's resilience and the overall favourable results of the CNB's stress tests, it should be pointed out in general that the overall development of the banking sector is also influenced by other partial factors potentially negatively affecting its resilience. The banking sector has to, inter alia, face a decrease in the net interest margin (a decline from 2.53% in 2011 to 1.78% in 2016—see Graph 5.1). Any efforts to offset this development through more risky transactions may lead to deterioration in the quality of bank assets and future losses. Other factors that may cause a decline in relative profitability may include both increasing competition in the sector itself and competition of emerging technology companies operating in the area of financial services (FinTech).

**Developments of bank total capital ratio**

The capital adequacy indicator of the banking sector (see Table 5.1) did not change significantly year-on-year[15] and it reached 18.5% (an increase by 0.1 pp). The banking sector thus maintained the size of the cushion of capital that could be used to cover unexpected losses. During the past six years, the banking sector has reported a slight year-on-year decline in the total capital ratio only once (at the end of 2011, by 0.25 pp). In contrast, a significant and continued increase can be observed in the longer horizon (see Graph 5.1). If we compare the value of this indicator in 2016 with the situation at the time of the global financial crisis (in the first quarter of 2008), it increased by approximately a half (by more than 6 pp). At that time, the total capital ratio stood at 12.3%. In general, however, an increase in capital adequacy may be the result of not only a greater volume of capital, but also due to a decrease in risk exposures. It is therefore important to prudently set the risk weights for the calculation of risk exposures, and to prudently set internal models for the calculation of the amounts of risk exposures.

**Graph 5.1: Total capital ratio and net interest income on assets**




Source: CNB–ARAD

[15] The minimal regulatory requirement is 8% of TREA (total risk exposure amount), i.e. the total volume of risk exposures. This was, however, updated to reflect the current version of the Capital Requirements Regulation and Directive, and additional capital requirements were introduced. In particular, this concerns the capital conservation buffer of 2.5% of TREA, which has been in effect since July 2014 and applies to the entire sector. In addition, in November 2014, the CNB implemented an additional reserve in the case of the largest banks to cover systemic risk (i.e. a systemic risk buffer) of up to 3% of TREA. In 2014, countercyclical capital reserve of 0.5% was also introduced. The overall capital requirement value that must be met by a specific institution may therefore be higher.

There are some differences in the value of the total capital ratio across groups of banks according to the size (or focus). The value of the indicator for the large bank segment ranged, also due to its relative weight, closest to the values of the total banking sector (17.9%). The medium-sized bank segment continued to report a rather above-average value of 20.5% (a year-on-year increase by 0.8 pp). Small banks, which previously showed rather below-average values, significantly increased their capital adequacy year-on-year to 18.9% (by 2.1 pp). The value of capital adequacy of building savings banks was relatively stable and only slightly below the average (17.5%). It should be noted, however, that the values of the capital ratio indicator do not necessarily have to fully indicate future resilience, because different risks may affect each segment differently in the future.

**International comparison of deposits and loans dynamics[16]**

As can be seen from Table 5.1, domestic banks have long been predominantly funded through client deposits. As a result, they show a lower dependence on funding from the interbank market, which contributes towards a relatively higher resilience of the banking sector. As a general rule, it applies that, during periods of acute liquidity problems, difficulties first appear in the interbank market where financial institutions lend to each other. On the other hand, client deposits are usually a more reliable and stable source of funding, if there is a liquidity crisis and if the public continues to have confidence in the deposit guarantee scheme.

**Table 5.1: Basic indicators of the banking sector**

| As at 31 Dec (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Total asset | 4,609.8 | 4,778.6 | 5,200.6 | 5,388.0 | 5,549.7 | 6,020.0 | 470.3 | 8.5 |
| Client loans | 2,304.3 | 2,360.0 | 2,514.3 | 2,634.9 | 2,782.4 | 2,950.4 | 168.0 | 6.0 |
| Client deposits | 2,914.0 | 3,127.6 | 3,340.1 | 3,435.1 | 3,520.7 | 3,767.2 | 246.5 | 7.0 |
| Total capital ratio (%) | 15.3 | 16.4 | 17.1 | 18.0 | 18.4 | 18.5 | 0.1 | 0.5 |

Source: CNB–ARAD

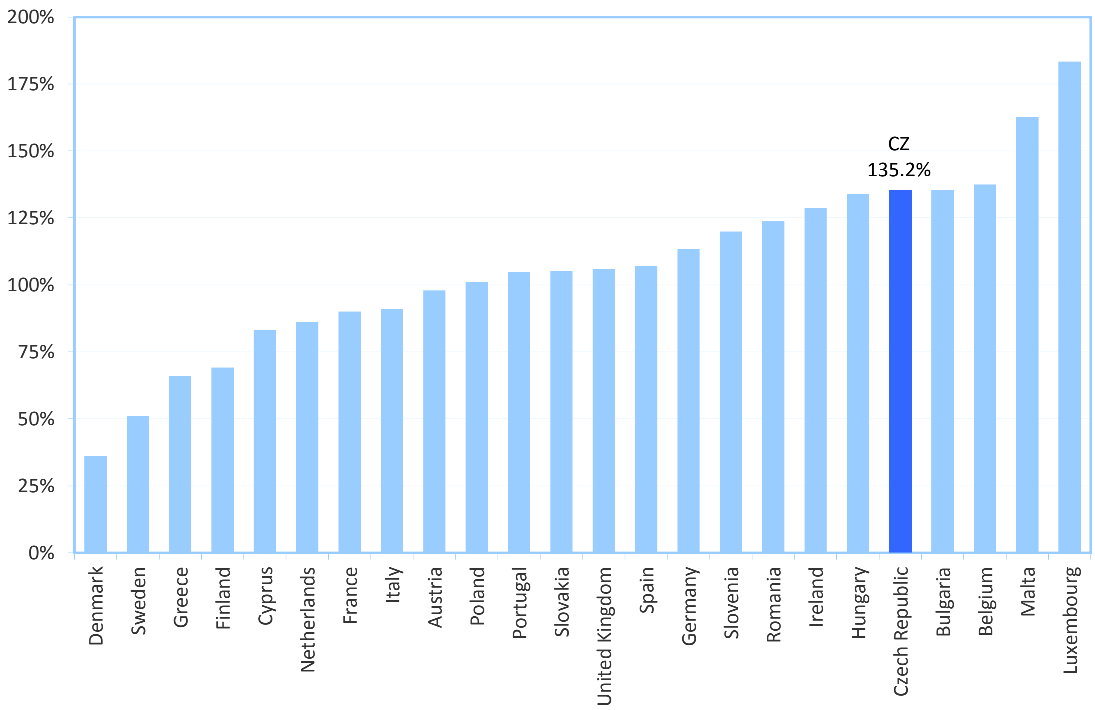
In international comparison, the deposit to loans ratio indicator (see Graph 5.2) in the Czech Republic has been relatively stable, and it attained 135.2% at the end of 2016 (a decrease by 3.0 pp).[17] This was a continuation of a trend when over the past three years the value of the indicator declined in total by 11.3 pp, however, it was still true that the volume of deposits received from clients was considerably higher in the Czech Republic than the volume of provided bank loans, and from this point of view the Czech banking sector is one of the most resilient ones in the EU against the risk of interbank financing volatility. Countries with the highest value of the indicator include (in addition to the Czech Republic) Bulgaria, Belgium, Malta and Luxembourg. Conversely, the least favourable values for this indicator were reported by, for example, Denmark and Sweden, where, in the past, there was a rapid increase in the volume of loans without a corresponding increase in client bank deposits.

From a long-term perspective, it is noteworthy that in recent years a higher increase in loan financing by deposits took place usually in countries where the banking sector had to undergo a certain form of recovery, whether in the context of the post-2008 crisis, the Eurozone's debt crisis or in connection with other issues. A number of countries have thus experienced a significant cumulative increase in the monitored indicator in recent years. These include non-Eurozone countries, such a Romania (by 41.3 pp), Bulgaria (by 41.8 pp) and Hungary (by 57.1 pp) as well as weakened Eurozone countries, of which some, however, reported a faster growth in the monitored ratio indicator (e.g., Ireland by 65.0 pp, Slovenia by 46.6 pp), and, conversely, growth was slower in some other countries—in Italy (by 20.6 pp), Portugal (by 18.5 pp) and Spain (by 16.9 pp).

16 This issue is also addressed in Chapter 5.5.

17 The international comparison uses the data published by the ECB specifying the volume of loans and deposits for monetary financial institutions (excluding the ESCB – European System of Central Banks) for the category of all non-financial institutions (including central governments). The figure for the Czech Republic is generally different from that published by the CNB in its analyses. One of the reasons for this difference is because the volume of deposits and loans used for calculating the ratio indicator does not include all deposits and loans. In the case of Eurozone countries, the figures only include deposits and loans of entities from Eurozone countries. In the case of other EU Member States, they only include deposits from and loans to domestic entities. The value of the indicator according to data in the CNB's ARAD system is usually lower, and it can also have a different development in time. At the end of 2016, the ratio of client deposits to client loans reported by the CNB was 127.7%.

**Graph 5.2: Client bank deposits to loans ratio in selected EU Member States (end of 2016)**




Source: ECB, MoF calculations

In general, however, it is difficult to find a universal interpretation and a clear-cut explanation of the development in the deposits to loans ratio indicator across countries. This is because its value may grow not only due to an essentially favourable development in the volume of deposits, but it may also be caused by a decrease in the volume of provided loans, inter alia, as a result of limited ability or willingness of banks to provide loans. In such a case, an increase in the value of this ratio may be an unfavourable sign. Another issue associated with the interpretation of this indicator is the necessity to put it into the broader context of the product structure of the specific national financial market and the structure of placement of savings in that given country; if, for example, the majority of retirement savings in a country were managed within the non-bank segment of the financial market. Although these funds could ultimately end up in the banks' balance sheets (and thus in the aforementioned indicator), they would only partially appear in, for example, the deposits made by retirement savings asset managers (e.g. pension funds and life insurance companies). In addition, from the perspective of the stability of the banks' financing, these sources cannot be equated with the more diversified retail deposits. This is because institutional deposits tend to be made by a lower number of subjects and may thus generally be more volatile.

However, the majority of the factors mentioned above, which could weaken the relevance of the indicator, do not apply in the case of the Czech Republic to a significant degree. The high value of this indicator in the Czech Republic did not result from an involuntary bank credit deleveraging due to an uncertainty in the financial markets or due to problems faced by banks. To the contrary, the banking sector is able to use as a source of financing a significant volume of the deposits made by households who place the majority of their savings in banks (see Chapter 3). The ratio of household deposits to total client deposits in banks has long ranged in the interval 50–60%.

Finally, it should be noted that the deposits to loans ratio evaluates the banking sector as a whole, which does not rule out the fact that some banks report a significantly lower value of the coverage of loans by client deposits and are more vulnerable in this regard. At the same time it applies that the total deposits to total loans ratio cannot be evaluated on its own but it must be interpreted within the context of the fact that over the past several years there has been a significant increase in the share of deposits kept in demand deposits.[18] On the side of banks' liabilities, there was thus an increase in use of sources of funding with shorter maturity (see Chapter 5.5).

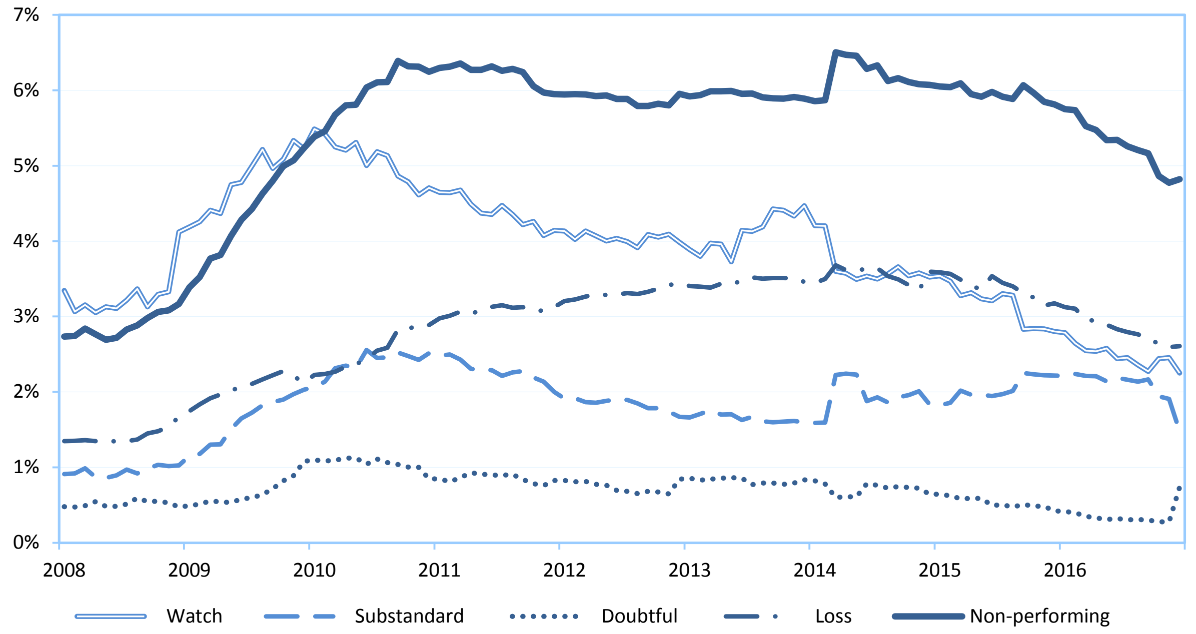
[18] For more details see Chapter 3. Structure of Household Savings and Chapter 5.5 Client Bank Deposits and Loans.

## 5.2. Banking Sector Assets

At the end of 2016, the total volume of assets of the banking sector including building savings banks (see Table 5.1) totalled CZK 6.02 trillion.[19] In comparison to 2015[20], the growth dynamics were slower and the balance sheet total increased by 8.5% in 2016 (as opposed to a cumulative 6.7% in 2014 and 2015). The developments of client loans (as opposed to deposits) did not show a similar increase in the growth rate compared to the previous year (an increase in the growth rate by only 0.4 pp). This may be an indication of less easy finding of long-term profitable lending opportunities. At the same time, one may not overlook, in looking at bank lending activities, the impact of the fact that some client segments may be financed from other sources, such as by the issuance of bonds (see Chapter 6.2).

In the case of loan provision activities, not only their volume but also the qualitative factors are important. As illustrated by Graph 5.3, the share of non-performing loans in total client deposits (provided to residents and non-residents) decreased year-on-year by 1.0 pp to 4.8%, which is the lowest value over the past seven years. By contrast, in 2011 to 2015, the value of the indicator did not change significantly and it oscillated around 6%. In 2002, when the banking sector faced major problems, this indicator even significantly exceeded 10%. Despite the significant year-on-year decrease, the current value of the non-performing loans ratio is still significantly higher in comparison to 2007 and 2008, when the value of this indicator was below 3% for a short time during some months. However, back then low values were also a result of a combination of temporary factors including economic growth and a considerable volume of newly provided loans, which thus increased the relative share of non-performing loans from the past.

**Graph 5.3: Non-performing loans categories by risk**




Source: CNB–ARAD, MoF calculations

In terms of development of the sub-structure (by the risk level; see Graph 5.3), the overall decrease in the share of non-performing loans was reflected differently. The share of the specific category of doubtful loans (the category with the second highest risk) in total loans increased year-on-year from 0.4% to 0.7% at the end of 2016. Conversely, the category with the highest risk—loss loans—showed a decrease in the share in total loans from 3.2% to 2.6%. The share of the two categories of non-performing loans with lower risks in total

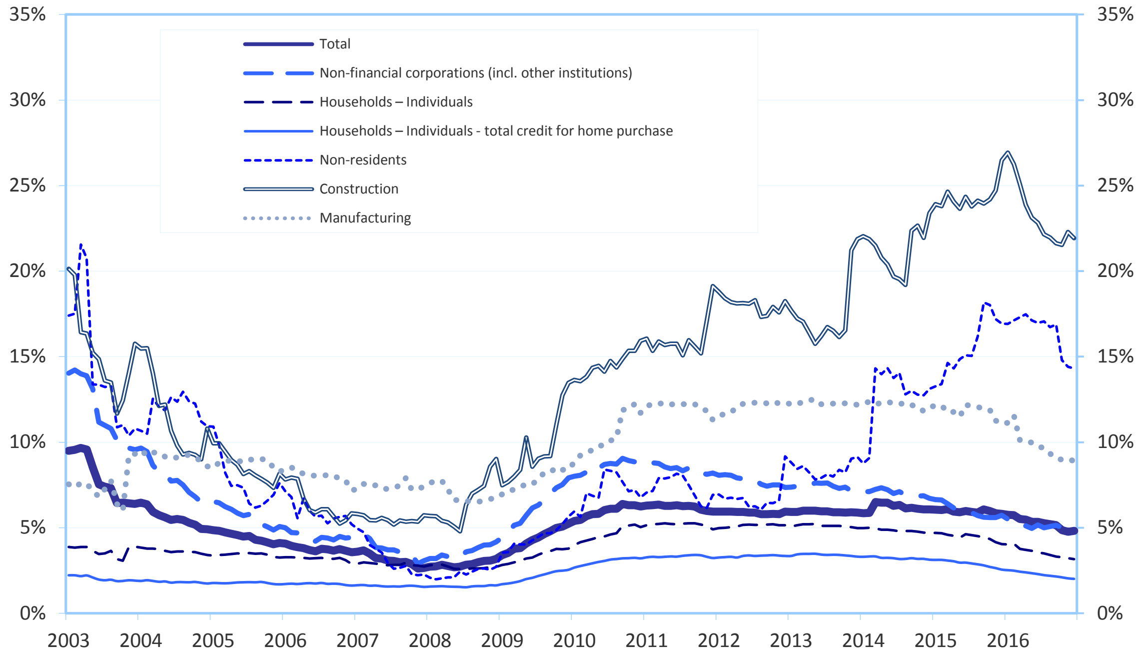
[19] These values, published in the CNB's time series ARAD system, differ from the values published by the CNB for example in its Supervisory Report due to different methodologies. These differences then may be reflected, for example, in the case of indicators of the share of non-performing loans.

[20] According to the CNB's information, banks optimized the structure of balance sheets at the end on 2015 in connection with new regulatory requirements (in relation to the Crisis Management Fund). This fact influenced the development of some balance sheet items and the balance sheet total.

loans also decreased significantly, in the case of watch loans from 2.3% (by 0.6 pp) and as regards substandard loans to 1.5% (by 0.7 pp).

Some differences (such as in the quality of loan portfolios and provisioning) can be observed across the individual segments of banks broken down by the volume of assets. It can be noted that in particular the group of small banks showed a higher share of non-performing loans combined with a lower provisioning coverage ratio.

**Graph 5.4: Share of non-performing loans by client segments**




Source: CNB–ARAD, MoF calculations

Graph 5.4 shows the quality of the loan portfolios, which is in this regard the most important factor due to the focus of the banking sector on provision of client loans. Favourable developments occurred in 2016 not only globally but also in the case of all monitored client subsegments. The share of non-performing loans provided to non-financial corporations decreased to 5.1% (by 0.6 pp). A lower share of non-performing loans in this segment was reported for the last time at the beginning of 2009, i.e. before the slowdown associated with then global financial crisis could have made an impact. Loans to households recorded a by one half higher year-on-year decline rate in the share of non-performing loans (by 0.9 pp) to 3.2%. In the long-term, households (individuals)[21] show a lower share of non-performing loans compared to financial corporations. This is mainly attributed to credit for home purchase, where the share of non-performing loans decreased to 2.0% (by 0.5 pp). Conversely, the non-resident segment achieved a significant decrease (by 2.6 pp), but the share of non-performing loans in this segment remains high (14.3%).

Data for subgroups of entities by sector of their economic activities developed similarly as in the case of non-financial corporations. The share of non-performing loans decreased both in the case of manufacturing industry (by 2.2 pp) and construction (by 4.5 pp) to 8.9% and 21.9%, respectively. In the manufacturing industry, lower figures were reached for the last time in 2008. Conversely, in the case of construction, a decrease to 2014 levels could be observed. However, it should be noted that the development of quality of provided loans does not necessarily reflect the overall health of the sector. It is primarily a depiction of the situation of the part of companies within the economic sector which accepted the loans in the past, not an overview of the current situation of the sector as a whole.

From the perspective of problems that may potentially arise in connection with the developments in exchange rates, it is essential to monitor loans denominated in foreign currencies. Their share in total loans did not

21 Individuals represent one of subsectors in the household sector (i.e., employees, recipients of property income, pension recipients, and recipients of other transfers), excluding sole traders and associations of apartment owners.

significantly change in 2016 and remained relatively low (more information is provided in the text below). This long-term situation continues to have positive implications with regard to the resilience of debtors (in particular, households) against changes resulting from exchange rate fluctuations, and, consequently on the functioning of the real economy and the stability of the financial sector.

The share of foreign currency loans to total loans was 19.6 % (an increase by 0.9 pp). As regards sectoral breakdown, the highest share of foreign currency loans was recorded for non-residents (77.0%), financial institutions (30.1%) and non-financial corporations (27.8%). While non-residents decreased the share of foreign currency debt (by 2.8 pp), there was a significant year-on-year increase in the case of financial institutions and non-financial corporations (by 5 pp, relatively by more than one fifth). In the case of exporting firms, however, it is often the case that the respective foreign currency cash flows needed to repay these loans are offset by their export revenues in foreign currencies, which significantly reduces the level of currency risk following from a foreign currency loan (in addition to any further hedging).

By contrast, households have long maintained essentially a negligible share of foreign currency loans (long-term lower than 0.2%). For this reason, the Czech Republic showed the lowest share of foreign currency loans in the group of non-Eurozone countries. However, the Czech Republic recorded, year-on-year, the highest growth rate of these loans in the EU28,[22] mainly due to the growth of the share of foreign currency loans provided to financial institutions and non-financial corporations.

## 5.3. Economic Results of the Banking Sector

**Profit&loss statement**

The banking sector's pre-tax profit in 2016 was CZK 88.7 billion (see Table 5.2). This is a profit increase by approx. 10%. The banking sector thus reported not only the highest level of profit in the monitored period, but also the highest profit growth rate since 2013. In the last 6 years, profit grew faster year-on-year only in 2012 (by 20.8%).

The development of the category of other items had a key effect on the overall profit, as it grew year-on-year by CZK 12.1 billion. A number of partial influences were reflected in it. A negative influence was in particular a decrease in profit from financial assets and liabilities held for trading and an increase in (total) provision of reserves. Conversely, a positive influence was in particular a decrease in impairment loss, an increase in profit from exchange differences, and an increase in dividend income.

Conversely, typical dominant profit and loss statement items such as net interest income, net fee and commission income and administration costs acted against total profit growth.

**Table 5.2: Selected items from the profit and loss accounts of the banking sector**

| Item (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Financial & operating income and expenses | 162.1 | 167.2 | 168.2 | 167.9 | 174.2 | 180.3 | 6.1 | 3.5 |
| Net interest income | 109.9 | 107.9 | 105.5 | 110.4 | 110.9 | 109.9 | -1.0 | -1.0 |
| Interest income | 172.3 | 170.4 | 154.8 | 158.9 | 150.9 | 143.4 | -7.5 | -4.9 |
| Interest expenses | 62.4 | 62.5 | 49.3 | 48.4 | 40.0 | 33.6 | -6.4 | -16.0 |
| Net fee and commission income | 39.1 | 37.3 | 37.1 | 36.0 | 34.6 | 32.3 | -2.3 | -6.6 |
| Fee and commission income | 50.0 | 49.2 | 49.9 | 49.0 | 47.9 | 44.7 | -3.2 | -6.7 |
| Fee and commission expenses | 10.9 | 11.9 | 12.8 | 12.9 | 13.3 | 12.3 | -1.0 | -7.1 |
| Administration costs | 66.0 | 66.6 | 65.8 | 70.2 | 70.7 | 71.4 | 0.7 | 0.9 |
| Other items | -19.5 | -1.9 | -3.4 | -0.1 | 5.7 | 17.8 | 12.1 | 213.3 |
| **Total profit or loss before tax** | **63.4** | **76.7** | **73.3** | **76.1** | **80.5** | **88.7** | **8.2** | **10.1** |

Source: CNB–ARAD, MoF calculations

[22] According to ESRB (Risk Dashboard, March 2017 – data as at the end of 2016), the share of foreign currency loans in total loans provided to "residents" (roughly an equivalent of domestic entities without monetary financial institutions and the government) was approx. 60% in Croatia, more than 40% in Romania and Bulgaria, approx. one fourth in Poland and more than one fifth in Hungary. In comparison, the value of this indicator for the Czech Republic was lower and only slightly exceeded 10%.

As noted above, net interest income slightly affected the decrease in profit (a decrease by 1.0%). In the previous two years, this item of the economic results always grew year-on-year. Moreover, this year-on-year decrease occurred in a situation when the total volume of interest-bearing assets was growing. Net interest income on average assets thus decreased from 1.92% in 2015 to 1.78% in 2016. In terms of absolute volume, net interest income was the same as in 2011. However, back then net interest income on average assets was 2.53%.

Interest income decreased year-on-year by 4.9%, in absolute terms by CZK 7.5 billion to CZK 143.4 billion. The impact of this income reduction to net interest income was not offset, due to their lower size, even by a decrease in interest expenses by 16.0%, when its year-on-year relative rate of decline was more than triple (in absolute terms by CZK 6.4 billion to CZK 33.6 billion). This was a continuation of a process where decreasing interest rates in the economy were reflected in the interest rates of bank assets and liabilities, that is, both in interest income and expenses. General challenges for bank management in an environment of low interest rates include essentially difficult reduction in the relative level of interest expenses under the zero lower bound and looking for opportunities for long-term profitable placement of free financial resources of banks with a long-term favourable combination of revenue and risk.

Net fee and commission income also decreased year-on-year (by 6.6%) to CZK 32.3 billion. This was the fastest relative and absolute year-on-year decrease in this indicator in the monitored period. The net fee and commission income decreased in 2016 although the respective expenses were decreasing faster (by 7.1%) than income (by 6.7%). The reason for this seemingly paradoxical development is the fact that income was, compared to expenses, more than tripled in absolute terms compared to expenses, and the absolute decrease in expenses was unable to offset the decrease in income. Net income thus continued in a long-term decrease, which lasted throughout the entire monitored period, during which this category showed a total decrease of 17.2%.

Similarly to 2015, the profit development was slightly negatively influenced by an increase in administrative costs by 0.9% to CZK 71.4 billion.

**Profit and profitability indicators**

Table 5.3 shows ratio indicators that allow for a better, or a different illustration of the relative importance of some items generating the sector's profits.

The ratio of net interest income to net fee income tended to grow long-term in the monitored period, and it came close to 3.4 times in 2016. The volume of net interest income remained virtually unchanged in 2016 compared to 2011. However, due to a decline in net fee and commission income, the importance of net interest income for the economic results of banks grew. This was then reflected in an increase in this ratio indicator.

The key importance of the net interest income item may also be illustrated in its comparison with profit from financial and operating activities, which was 61.0 % (an increase of 4.3%, or 2.7 pp). Conversely, the contribution made by the net income from fees and commissions to the profit from financial and operating activities reached a level of only 17.9%. The decrease in both these ratio indicators during the monitored period points to the fact that other items were increasingly contributing to the year-on-year increase in profit from financial and operating activities.

**Table 5.3: Banking sector profit ratios**

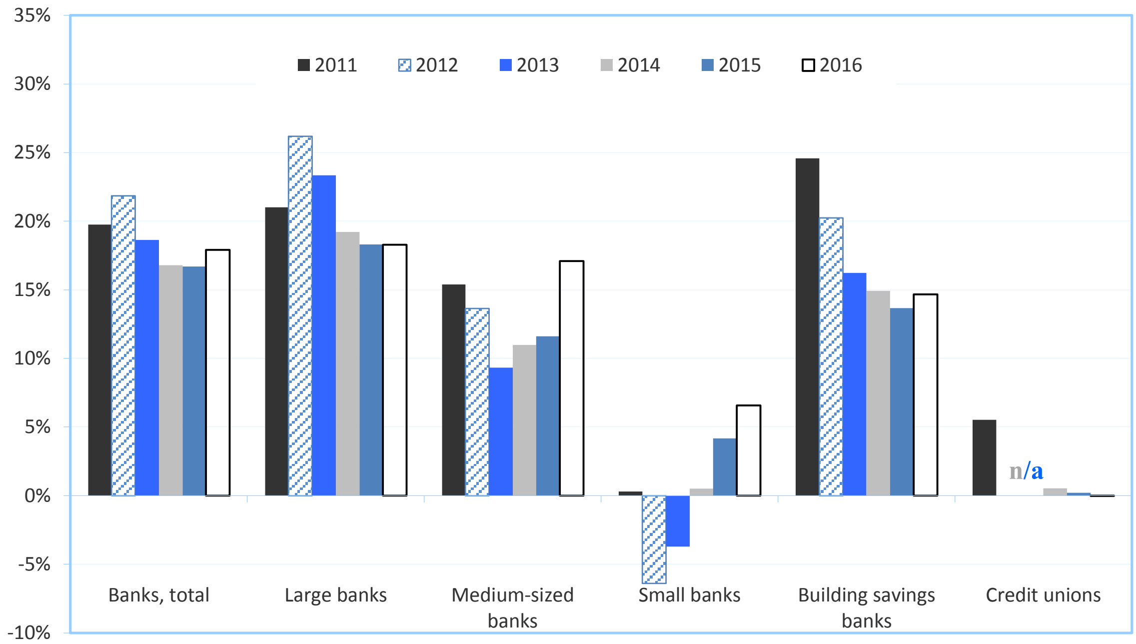
| As at 31 Dec (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change (%) |
|---|---|---|---|---|---|---|---|
| Ratio of net interest income and net fee and commission income | 2.8 | 2.9 | 2.8 | 3.1 | 3.2 | 3.4 | 6.0 |
| Ratio of net interest income and financial & operating income and expenses | 67.8% | 64.6% | 62.7% | 65.8% | 63.7% | 61.0% | -4.3 |
| Ratio of net fee and commission income and financial & operating income and expenses | 24.1% | 22.3% | 22.0% | 21.5% | 19.9% | 17.9% | -9.7 |

Source: CNB–ARAD, MoF calculations

As a whole, the banking sector reported profitability, or return on Tier 1 capital, at a level of 17.9% (a year-on-year increase of 1.2 pp). This was the first major reversal after the decline, or stagnation, of this indicator since 2012. In long-term comparison, however, these values represented a lower figure, as the profitability in 2009 was higher by 9 pp (i.e., approx. 27.0%). The reasons for the long-term decline in this ratio indicator may include both an increase in the denominator (long-term Tier 1 capital increase) and a decrease in the numerator (profitability), in particular net interest margin on assets. This margin on the average assets, decreased, between the beginning and end of the monitored period, relatively by 29.6% and was at 1.8%; between 2008 and 2013 it oscillated around 2.5%. In the long run, there are differences between results achieved by individual groups of entities of the credit institution sector (see Graph 5.5). The segment's profitability on Tier 1 capital of large banks[23] remained almost unchanged year-on-year (18.3%). On the other hand, a significant increase was recorded by the medium-sized bank segment (by 5.5 pp), whose profitability (17.1%) then came close to large banks in 2016, which traditionally report the highest profitability.

As regards building savings banks, the decrease in profitability stopped, and, conversely, showed a year-on-year increase to 14.7% (by 1.0 pp). Despite this increase, the profitability of this group of banks was by 9.9 pp lower than in 2011 and by 20.2 pp lower compared to 2008. At that time, building savings banks were the most profitable part of the banking sector; now, conversely, they show below-average profitability. In the case of the group of small banks, a continuation of a similar development as in the previous four years could be observed (an increase by 2.4 pp to 6.6%). For the sake of comparison, Graph 5.5 includes the profitability of the credit union sector, which reported a level of -0.02 %.[24]

**Graph 5.5: Profit (loss) after taxation/Tier 1 capital (%)**




Source: CNB–ARAD

## 5.4. Interest Rate Development

The development of market interest rates is influenced mainly by the effects of the CNB's monetary policy. As recently as in 2012, the central bank cut its key 2W repo rate three times (it gradually went from 0.75% down to 0.05%). Since its monetary policy rates came close to the "technical zero", the central bank could,

23 The division of banks according to the balance sheet total was continuously adjusted by the CNB, which subsequently affects the classification of individual banks and development of indicators. The division until 2012 (inclusive) was as follows: large banks with a balance sheet total exceeding CZK 200 billion, medium-sized banks with a balance sheet total CZK 50 to 200 billion, and small banks with a balance sheet total lower than CZK 50 billion. Since 2013, the threshold between medium-sized and large banks shifted to CZK 250 billion. Since 2016, the threshold has increased to CZK 400 billion, and the threshold between small and medium-sized banks was adjusted to CZK 100 billion.

24 The data for profitability of credit unions is not listed for 2012 and 2013 as in those years the information value of the data from the profit and loss statement was influenced by different reporting periods of entities in the credit union sector.

since 2013, no longer perform a similar reduction in its rates, and therefore also the spreads between rates were maintained (see Table 5.4). In autumn 2013, the CNB therefore decided to declare an exchange rate commitment, which it used as an alternative monetary policy instrument with the aim of weakening the value of domestic currency and maintaining it at a certain level.[25]

**Table 5.4: CNB interest rates**

| (%) | 31.12.2011 | 31.12.2012 | 31.12.2013 | 31.12.2014 | 31.12.2015 | 31.12.2016 |
|---|---|---|---|---|---|---|
| 2W repo | 0.75 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Discount | 0.25 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Lombard | 1.75 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |

Source: CNB–ARAD

The overview of average client interest rates in the Czech Republic in individual years (Table 5.5) illustrates a slight decrease both in the case of client deposits and loans (these are interest rates on all, i.e., not only new loans). As far as deposits are concerned, the interest paid on deposits of non-financial corporations continues to be lower compared to household deposits. The absolute value of the spread between interest rates on deposits of these two client segments did not change year-on-year (0.4 pp) as both indicators decreased by 0.1 pp.

The average interest rate charged on new loans to households and non-financial corporations also decreased over the course of the year. The size of year-on-year decrease in loan interest rates was the same as in 2015 for both categories, by 0.5 pp (to 4.6%) in the case of loans to households and by 0.2 pp (to 2.6%) in the case of non-financial corporations. Neither did change the pace of the year-on-year decrease in 2016 in the case of interest rates on loans to households for residential real estate, which attained 3.1% after a decrease by 0.4 pp. A faster decrease in interest rates was only reported by interest rates on loans for consumption, by 1.1 pp (to 12.8%); the decrease in 2015 was only 0.6 pp. With the exception of consumer loans, it can be said that the absolute value of loan interest rates maintained its year-on-year decline rate as in 2014–2015. However, in relative terms, the pace accelerated due to a lower comparison base.

**Table 5.5: Average interest rate [26]**

| | Average for the period (%) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Deposits | households and small entrepreneurs | 1.2 | 1.2 | 1.0 | 0.8 | 0.6 | 0.5 |
| | non-financial businesses | 0.5 | 0.6 | 0.4 | 0.3 | 0.2 | 0.1 |
| Loans | to households and small entrepreneurs | 6.8 | 6.5 | 6.0 | 5.6 | 5.1 | 4.6 |
| | for consumption | 14.6 | 14.5 | 14.6 | 14.5 | 13.9 | 12.8 |
| | for residential real estate | 5.1 | 4.8 | 4.3 | 3.9 | 3.5 | 3.1 |
| | to non-financial businesses | 3.9 | 3.7 | 3.2 | 3.0 | 2.8 | 2.6 |

Source: CNB–ARAD, MoF calculations

In the case of loans provided to households, it is worthwhile to monitor the more comprehensive indicator that includes the other costs associated with the loan (i.e. the annual percentage rate of charge, or APR) in addition to the interest rate (which is used as the basic measurement of the cost of the loan) (see Table 5.6).[27] Similarly to 2015, the APR rates on new consumer loans (the interest rates on loans in Table 5.5 are based on all loans, not only new ones) continued to decrease significantly in 2016 after essentially stagnating since the second half of 2013 (see Graph 5.6). The APR was 12.5% in December 2015 and a year later only 10.6% (a decrease by 1.8 pp). The APR on purchase of residential real estate decreased by 0.3 pp year-on-year (to 2.4%), i.e., by the same value as in the previous year. The cost of new loans for residential real estate thus reached historically the lowest value, with the contribution of competition in response to the central bank's monetary policy stance and to the development in the financial market and the real economy.

[25] For a more detailed description of the exchange rate commitment see a separate box 1.1 in Chapter 1.2. Monetary policy and foreign exchange market.

[26] The data apply to deposits and loans in CZK.

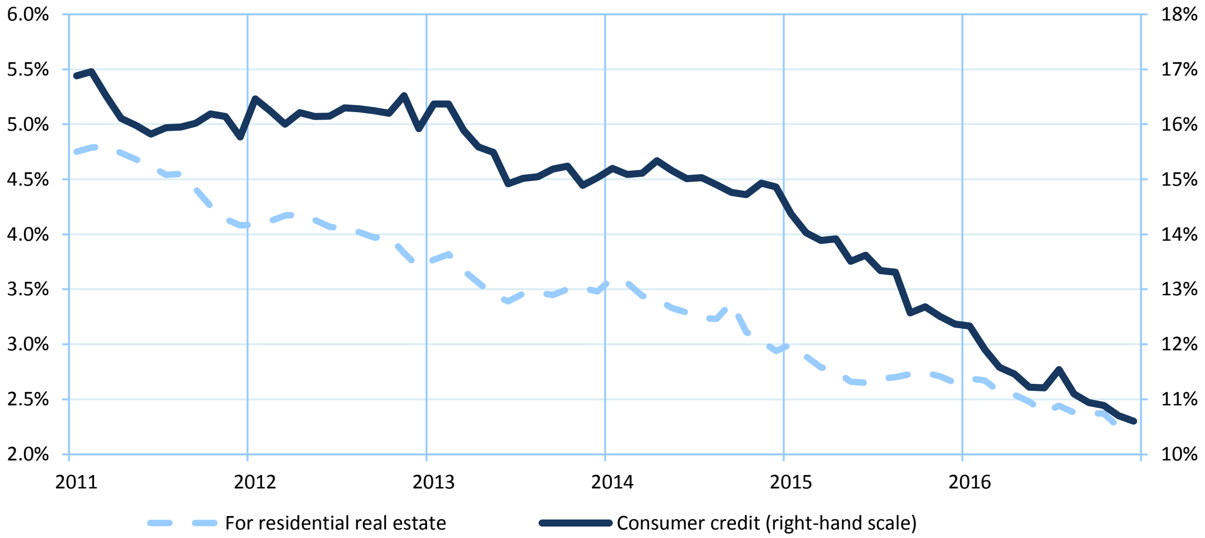
[27] The APR (annual percentage rate of charge) represents the percentage of the amount due that the client must pay over the period of one year in addition to the amortisation of the loan amount, specifically in relation to fees, loan administration, and other costs associated with using the loan. This is APR of new CZK loans provided by banks.

**Table 5.6: APR (Annual Percentage Rate) of CZK loans provided by banks**

| New loans, 2015 (%) | January | February | March | April | May | June | July | August | September | October | November | December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Consumer credit | 12.3 | 11.9 | 11.6 | 11.5 | 11.2 | 11.2 | 11.5 | 11.1 | 10.9 | 10.9 | 10.7 | 10.6 |
| For residential real estate | 2.7 | 2.7 | 2.6 | 2.5 | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.3 | 2.4 |

Source: CNB–ARAD

**Graph 5.6: APR (Annual Percentage Rate) of CZK loans provided by banks**




Source: CNB–ARAD

## 5.5. Client Bank Deposits and Loans

As illustrated in Table 5.7 below, the volume of client[28] deposits reached CZK 3.77 trillion in 2016 (an increase by 7.0%) and in the case of loans CZK 2.95 trillion (an increase by 6.0%). The year-on-year relative growth rate of the total volume of deposits did not change much (an increase by 0.4 pp). In contrast, the growth rate of bank loans increased much more significantly (2.8 times).

**Table 5.7: Sector breakdown of deposits and loans with banks [29]**

| As at 31 Dec | Bank deposits (CZK bn) | | | | Bank loans (CZK bn) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | Year-on-year change | | 2015 | 2016 | Year-on-year change | |
| | | | Abs. | (%) | | | Abs. | (%) |
| Households | 2,034.7 | 2,206.3 | 171.5 | 8.4 | 1,321.4 | 1,417.4 | 96.1 | 7.3 |
| Non-financial companies (including other institutions) | 921.6 | 921.8 | 0.2 | 0.0 | 920.9 | 976.1 | 55.2 | 6.0 |
| Government institutions | 214.3 | 233.7 | 19.3 | 9.0 | 58.2 | 48.0 | -10.2 | -17.5 |
| Financial institutions | 150.3 | 161.7 | 11.4 | 7.6 | 158.7 | 188.3 | 29.6 | 18.6 |
| Non-residents | 167.9 | 209.5 | 41.6 | 24.7 | 320.9 | 318.6 | -2.3 | -0.7 |
| Non-profit institutions | 31.9 | 34.3 | 2.4 | 7.7 | 2.3 | 2.0 | -0.3 | -12.8 |
| Total | 3,520.7 | 3,767.2 | 246.5 | 7.0 | 2,782.4 | 2,950.4 | 168.0 | 6.0 |

Source: CNB–ARAD

[28] The data do not include central bank or credit unions deposits or loans.

[29] The table lists bank deposits in CZK and in foreign currencies. The values are therefore different from Table 2.1, which shows only CZK deposits, moreover for all credit institutions.

In terms of absolute change in the volume of deposits, the greatest increase was recorded by the household segment (by CZK 171.5 billion) followed by non-residents (by CZK 41.6 billion). Households thus again increased their share in total deposits. At the end of 2016, they accounted for CZK 2.2 trillion of a total of CZK 3.77 trillion, i.e., 58.6%. Non-financial corporations, with a deposit volume of CZK 921.8 trillion (24.5% of all deposits), remain the second most important depositor despite a year-on-year stagnation of the volume.

As regards the dynamics of deposit growth, the growth rate of household deposits increased by almost one half (to 8.4%). The fastest growing segments, however, were non-residents (by 24.7%) and government institutions (by 9%). Non-residents more than tripled the growth rate of their deposits, and the figure for government institutions corrected its decrease by more than a third from the previous period. In contrast, deposits of non-financial corporations almost did not change year-on-year, although in the previous year they increased by almost 10%. Deposits of financial and non-profit institutions increased at a similar rate (by 7.6 and 7.7%), and both segments reported more than a double the growth rate compared to the previous year.

In terms of development in the deposit structure according to notice period, there was a continued increase in the relative share of demand deposits in total client deposits (to 78.6%).[30] This development was due to both the continuing increase in demand deposits (by 11.4%) as well as a decrease in term deposits (by 6.6%). This was a continuation of the long-term trend in the decrease in the share of term deposits.

The highest absolute increase in loans was recorded by the household sector (by CZK 96.1 billion), followed by non-financial corporations (by CZK 55.2 billion) and financial institutions (by CZK 29.6 billion). Households thus increased their debt to banks to a record-breaking value of almost CZK 1.42 trillion, which accounted for 48.0% of all client bank loans (a year-on-year increase by 0.6 pp). In contrast, absolute volume of indebtedness in the form of bank loans decreased in the case of government institutions (by CZK 10.2 billion), non-residents (by CZK 2.3 billion) and non-profit institutions (by CZK 0.3 billion). An alternative view of the structure and development of loans by type (i.e., not by sector) is presented in Table P2.1 in Appendix 2.

Due to the volume of loans for purchase of residential real estate, households are not only the most significant depositors in the long term, but also top the list of borrowers (since the end of 2008). The growth rate in the volume of bank loans provided to households (7.3%) did not essentially change year-on-year (an increase by 0.3 pp). The fastest growing loan segment were those provided to financial institutions (by 18.6%), and a year-on-year increase was also reported by non-financial corporations (by 6.0%). In all other segments, there was a decrease in the volume of loans—government institutions (by 17.5%), non-profit institutions (by 12.8%), and a slight decrease was also recorded by loans to non-residents (by 0.7%).

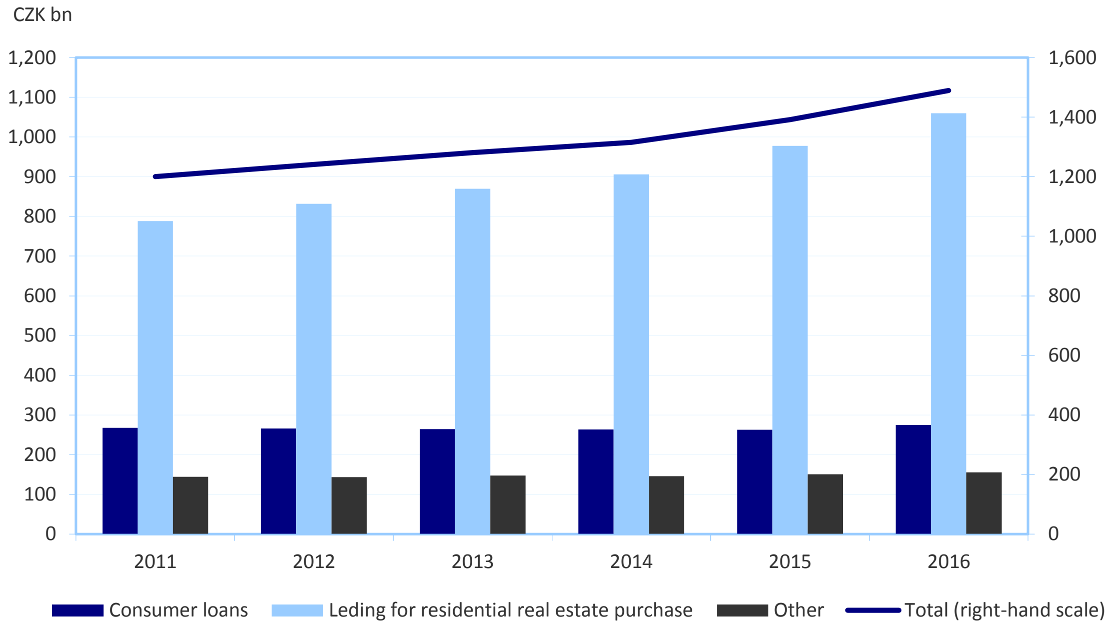
## 5.6. Household Indebtedness

Households have long been a key client segment, which requires an analysis of its broader position beyond its relationship to the banking sector itself. The total household indebtedness vis-à-vis both bank as well as non-bank financial institutions was almost CZK 1.5 trillion at the end of 2016 (refer to Graph 5.7). This represents an increase of CZK 97.7 billion or 7.0%, which means a further increase in the relative growth rate (by 1.2 pp) compared to the already dynamic trend in the previous year. The increase in indebtedness during 12 months of 2016 was almost 85% of the increase in indebtedness during three years 2012 to 2014 (i.e., 36 months).

Similarly to previous years, the development of indebtedness in individual loan segments showed a different trend or, more precisely, dynamics. The growth rate of lending for residential real estate purchase did not significantly change the dynamics of its growth year-on-year (by 0.4 pp to 8.4%). The volume of consumer loans reported growth for the first time in the monitored period (by 4.4% year-on-year). The category of other loans (in particular loans provided to self-employed persons for business purposes) continued to grow by more than 3% for a second consecutive year.

[30] This issue is also dealt with, from the point of view of households, by Graph 3.1, which shows separately deposits in building savings and in a foreign currency.

**Graph 5.7: Total household indebtedness**[31]




Source: CNB–ARAD, MoF calculations

In absolute terms, indebtedness in the category of lending for residential real estate purchase increased by CZK 81.6 billion (in 2015 by CZK 71.9 billion) to CZK 1.06 trillion.[32] Consumer loans reported an increase by CZK 11.6 billion, and their volume of CZK 274.5 billion was thus the highest since 2011. Household indebtedness due to the category of other loans did not change significantly; it increased by CZK 4.5 billion to CZK 155.1 billion.

Overall, the dominant category of household loans has long been lending for residential real estate purchase, whose share increased to 71.2% at the end of the monitored period (an increase by 0.9 pp). The reason for this development was, similarly to previous years, an increase of absolute volume of the lending for residential real estate purchase, and a slower growth in consumer loans and other loans.

As can be seen from Graph 5.8, the relative level of household indebtedness[33] relative to the size of the domestic economy, which indirectly also reflects household income, and thus their ability to repay their financial obligations, continued to be relatively low in the Czech Republic compared to the rest of the EU (30.3% of GDP).[34] In 2016, it grew again year-on-year, and its growth rate (by 0.8 pp) was the sixth highest in the EU. Only Lithuania (0.8%), Luxembourg (0.8%), Poland (1.1 pp), Belgium (1.8 pp) and Slovakia (3.4 pp) showed higher values.

Low levels of indebtedness were also reported by the other Central European Member States. This may be due to a relatively recent transition of these economies to a market economy, due to which the volumes of loans usual in Western Europe have not yet been accumulated.

In contrast, the greatest tendency to a decline in household indebtedness was reported by countries that either were at the epicentre of the recent debt crisis in the Eurozone (Cyprus by 5.8 pp, Greece by 4.3 pp,

[31] The data for loans provided by building savings banks represent the sum of the total value of "bridging" and "standard" loans provided by building savings banks.

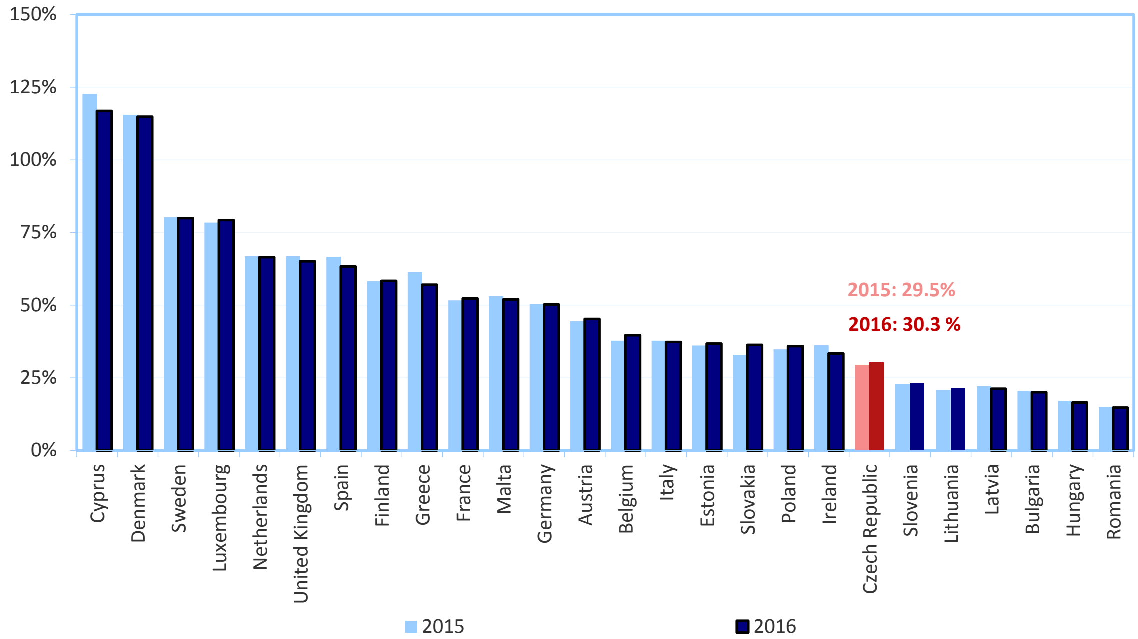
[32] These data differ from indicators in Chapter 5.7 as they include not only mortgage loans but also all loans provided by building savings banks and consumer loans (all for the purpose of purchasing or investing in housing). Another reason is inclusion of loans provided to households (i.e. individuals, sole traders, associations of apartment owners and non-profit institutions serving households) by providers of asset financing.

[33] According to ECB data on the volume of loans provided to households as reported in the balance sheets of monetary financial institutions, excluding the European System of Central Banks.

[34] The year-on-year development of this indicator has a limited interpretative value in the case of economies that use a currency other than the euro. In those cases the values may reflect the volatility resulting from the fluctuation of the exchange rate of the national currency in relation to the euro, which is subsequently used to express household indebtedness reported in the national currency converted to the euro as the common currency in the Eurozone.

Spain by 3.3 pp, Ireland by 2.8 pp) or in which borrowers faced difficulties to repay their obligations during the global financial crisis (Latvia by 0.9 pp, Hungary by 0.6 pp).

**Graph 5.8: Volume of household indebtedness in selected countries in the EU relative to GDP**




Source: ECB, Eurostat, MoF calculations

## 5.7. Mortgage Market

The activity in the mortgage market was again high, and 2016 recorded historically the highest volumes of mortgage loans. In terms of a broader aggregation that includes mortgage loans[35]—new ones, refinanced ones and ones with a new fixed rate—regardless of the purpose and client segments, new loans totalled CZK 417.5 billion, which was a year-on-year increase by 20.9% and acceleration of the year-on-year growth by 11 pp compared to 2015. As further shown in Table 5.8, the number of new mortgage loan contracts increased to 210.9 thousand, which is, unlike the volume of loans provided, a year-on-year slowdown in the growth rate from 20.1% to 16.4%.

The mortgage market achieved record results also from the point of view of a narrower aggregation, which applies limitation to mortgage loans to residential real estate to individuals—they totalled CZK 280.7 billion in 2016, whereas in 2015 it was CZK 217.8 billion. If further narrowed down to new loans without refinancing or new fixed rate, they totalled CZK 158.5 billion in 2016, in the previous year CZK 118.9 billion[36].

As far as the purchase purpose is concerned, most of new mortgage loans are usually for purchasing a residential real estate; it was 71.4% in 2016. This type of loans again recorded a year-on-year increase in the quantity and volume of new loans in 2016. The number of contracts increased by 27.5 thousand to 187.5 thousand contracts. The volume increased to CZK 298.1 billion, which meant a year-on-year increase in the growth rate from 21.5% to 25.9%. New mortgage loans for non-residential real estate and other purposes reported a lower year-on-year increase; their volume increased by 9.9% to CZK 119.3 billion. This increase caused the volume of new mortgage loans in this category reach again its maximum value from 2014.

[35] Mortgage loans are defined here as loans with at least 50% secured by real estate, provided for residential and non-residential real estate, and other mortgage loans including general purpose mortgages, without distinction of currency and behind all economic sectors of clients including accruing accessories. They also include loans provided by building savings banks where the loans are secured by real estate.

[36] Net new mortgage loans accounted for 56.5% of the total volume of new mortgage loans in 2016. In 2015, this share was 54.6% and in 2014 50.7%.

**Table 5.8: New mortgage loans by manner of acquisition [37]**

| As at 31 Dec | | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|
| | | | | | | Abs. | (%) |
| Residential property | total (000's) | 102.8 | 131.6 | 159.9 | 187.5 | 27.5 | 17.2 |
| | total agreed principal (CZK bn) | 166.4 | 195.0 | 236.8 | 298.1 | 61.3 | 25.9 |
| | share in total agreed principal (%) | 68.6 | 62.0 | 68.6 | 71.4 | 2.8 | 4.1 |
| Non-residential property and other purposes | total (000's) | 13.3 | 19.2 | 21.3 | 23.5 | 2.2 | 10.3 |
| | total agreed principal (CZK bn) | 76.3 | 119.3 | 108.6 | 119.3 | 10.8 | 9.9 |
| | share in total agreed principal (%) | 31.4 | 38.0 | 31.4 | 28.6 | -2.8 | -9.0 |
| Total | total (000's) | 116.1 | 150.8 | 181.2 | 210.9 | 29.7 | 16.4 |
| | total agreed principal (CZK bn) | 242.6 | 314.3 | 345.4 | 417.5 | 72.1 | 20.9 |

Source: CNB–ARAD

In terms of the total amount due (i.e. the outstanding volume)[38], there was a faster growth in the mortgage market than a year ago, to almost CZK 1.4 trillion at the end of 2016 (see Table 5.9). From this point of view, the prevailing share was generated by mortgage loans for residential real estate (71.8%), which totalled CZK 996.4 billion at the end of 2016. Moreover, their year-on-year growth rate increased from 8.1% to 9.1%. In the case of outstanding mortgage loans for non-residential real estate and other purposes, the year-on-year growth accelerated even more, from 4.9% to 14.0%. The outstanding volume of loans for non-residential real estate and other purposes increased year-on-year by CZK 48.1 billion to CZK 392.1 billion.

**Table 5.9: Total mortgage loans by manner of acquisition**

| As at 31 Dec. | | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|
| | | | | | | Abs. | (%) |
| Residential property | total (000's) | 687.0 | 711.0 | 757.7 | 779.3 | 21.6 | 2.8 |
| | total outstanding principal (CZK bn) | 790.4 | 844.7 | 913.1 | 996.4 | 83.3 | 9.1 |
| | share in total outstanding principal (%) | 73.4 | 72.0 | 72.6 | 71.8 | -0.9 | -1.2 |
| Non-residential property and other purposes | total (000's) | 81.1 | 97.3 | 100.1 | 108.4 | 8.3 | 8.3 |
| | total outstanding principal (CZK bn) | 286.3 | 327.8 | 344.1 | 392.1 | 48.1 | 14.0 |
| | share in total outstanding principal (%) | 26.6 | 28.0 | 27.4 | 28.2 | 0.9 | 3.2 |
| Total | total (000's) | 768.0 | 808.3 | 857.9 | 887.7 | 29.9 | 3.4 |
| | total outstanding principal (CZK bn) | 1,076.7 | 1,172.5 | 1,257.1 | 1,388.5 | 131.4 | 10.5 |

Source: CNB–ARAD

In addition to the purchase purpose, the structure according to the rate fixation period can be monitored in mortgage loans (see Table 5.10). This is strongly influenced by the development of interest rates and clients' expectations about their future development. The most popular with clients in 2016 were mortgage loans with fixation from 1 year to 5 years (CZK 200.1 billion, 47.9% of the volume of new loans). Their total outstanding volume increased by 12.0% to CZK 802.7 billion. The highest growth rate in the volume of new mortgage loans was recorded in the category of fixation from 5 to 10 years (101.7%). In 2016, new loans totalling CZK 95.6 billion were provided in this category, which could have been due to an expected increase in interest rates in the long-term time horizon. A significant increase was also recorded by the category of mortgage loans with fixation exceeded 10 years, where the volume of new loans in 2016 increased by 50.9% compared to 2015 to CZK 12.7 billion. However, even this growth did not prevent a year-on-year decrease in their total outstanding volume to CZK 66.0 billion, which means that its downward trend lasting at least since 2013[39] continued. There was a similar development in the case of mortgage loans with variable interest rates and

[37] The four-year monitored period was used due to availability of data from 2013.
[38] Since this is the state of outstanding volume including refinanced mortgage loans, one may not, in terms of methodological approach, for example, interpret the volume increase only as an increase in loans provided by banks or an increase in their willingness to provide loans, but it may also be a consequence of deterioration in the ability of borrowers to repay their liabilities.
[39] A longer time series is not available.

mortgage loans with fixation under 1 year, where the total outstanding volume of loans increased by 0.7% to CZK 300.4 billion despite an 2.5% increase in the volume of new loans.

**Table 5.10: Mortgage loans by period of interest rate fixation**

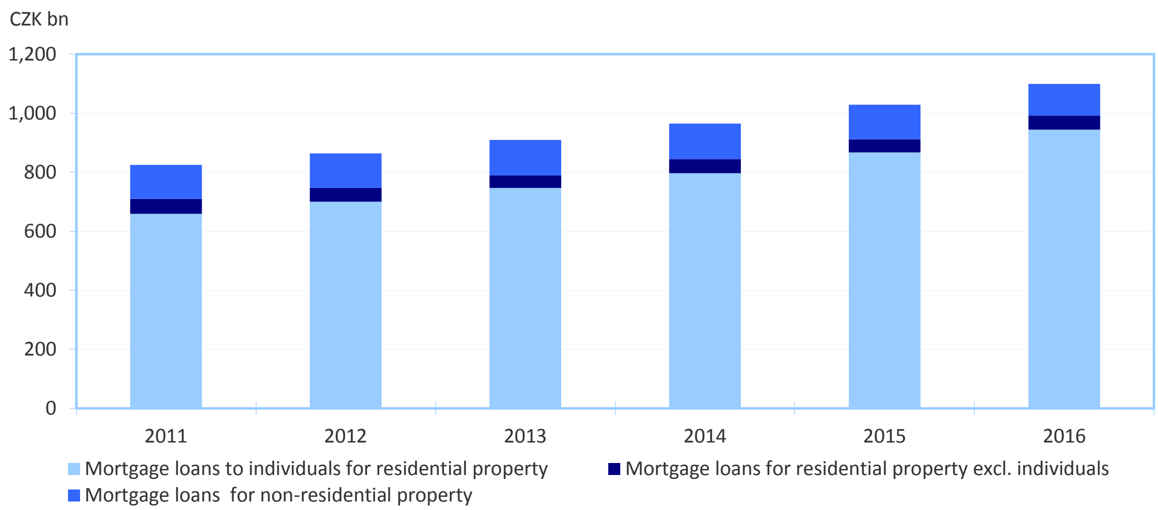
| As at 31 Dec | | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|
| | | | | | | Abs. | (%) |
| New mortgage loans (CZK bn) | Floating and fixing up to 1 year | 82.9 | 123.3 | 106.4 | 109.1 | 2.7 | 2.5 |
| | Fixing over 1 and up to 5 years | 137.0 | 159.6 | 183.2 | 200.1 | 16.9 | 9.2 |
| | Fixing over 5 and up to 10 years | 10.7 | 25.4 | 47.4 | 95.6 | 48.2 | 101.7 |
| | Fixing over 10 years | 12.1 | 6.0 | 8.4 | 12.7 | 4.3 | 50.9 |
| | Total | 242.6 | 314.3 | 345.4 | 417.5 | 72.1 | 20.9 |
| Total unpaid principal (CZK bn) | Floating and fixing up to 1 year | 273.0 | 307.6 | 302.5 | 300.4 | -2.1 | -0.7 |
| | Fixing over 1 and up to 5 years | 544.9 | 602.5 | 716.7 | 802.7 | 86.0 | 12.0 |
| | Fixing over 5 and up to 10 years | 116.4 | 122.9 | 117.9 | 219.4 | 101.5 | 86.1 |
| | Fixing over 10 years | 142.4 | 139.6 | 120.0 | 66.0 | -54.0 | -45.0 |
| | Total | 1,076.7 | 1,172.5 | 1,257.1 | 1,388.5 | 131.4 | 10.5 |

Source: CNB–ARAD

A narrower overview of only mortgage loans for the purchase of residential and non-residential real estate[40] is shown in Graph 5.9. The total outstanding volume of these loans reported growth again, which further accelerated in 2016 (the year-on-year growth rate increased from 6.1% to 7.0%). However, growth only applied to the category of mortgage loans for residential real estate, which increased almost by 9% to CZK 992.7 billion. The total outstanding volume of mortgage loans for non-residential real estate, in contrast, decreased year-on-year (by 10.4%), even more significantly than in 2015 (by 2.8%), to CZK 107.5 billion.

Traditionally, the dominant category of mortgage borrowers is individuals[41], who draw the largest share of mortgage loans for residential real estate (95.1% at the end of 2016). This client segment increased its indebtedness through mortgage loans for residential real estate[42] year-on-year by CZK 77.1 billion (i.e., by 8.9%) to CZK 944.1 billion, which represented a sustained growth rate from 2015 (when the growth was CZK 70.1 billion or 8.8%).

**Graph 5.9: Structure of mortgage loans for residential and non-residential property**




Source: CNB–ARAD

[40] These mortgage loans for residential and non-residential real estate do not include accruing accessories and general purpose mortgage loans.

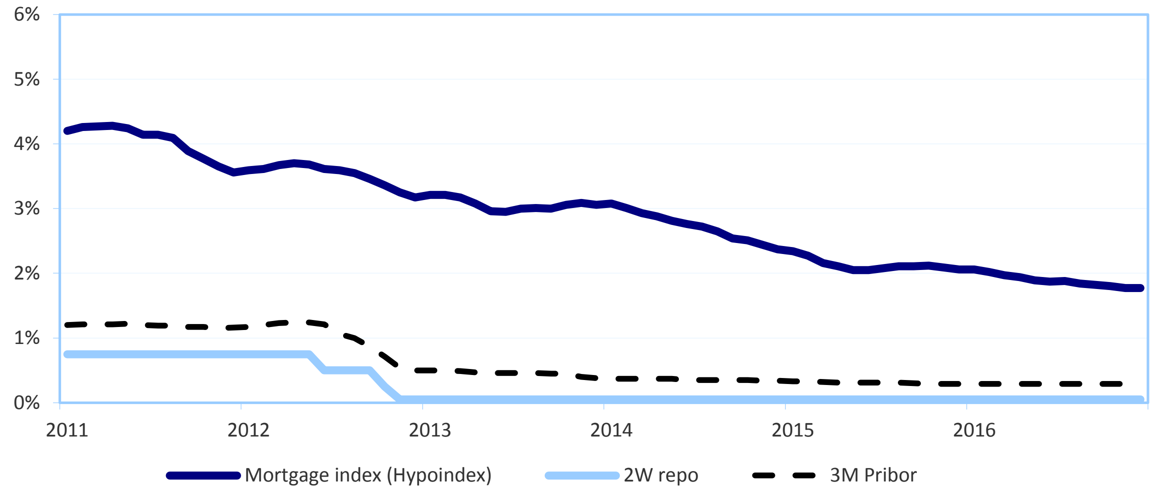
[41] Individuals represent one of subsectors in the household sector (i.e., employees, recipients of property income, pension recipients, and recipients of other transfers), excluding sole traders and associations of apartment owners.

[42] Mortgage loans provided to individuals (employees, recipients of property income, pension recipients, recipients of other transfers) to finance investment in residential real estate (including building land).

Development in interest rates of mortgage loans measured by the Hypoindex indicator[43] continued with a decrease in 2016, in a comparable intensity as in 2015 (a year-on-year decrease by 0.3 pp). In November and December 2016, interest rates of mortgage loans fell to the lowest level in the history of the Hypoindex indicator (1.77% p.a.), which can be designated as the bottom due to the development in the first months of 2017 (the Hypoindex value in March 2017 was 1.95%). The constant low rates at historic lows were thus among the main factors influencing the increase in mortgage market activity. Another such factor was tightening of the CNB's Recommendation for banks on the provision of mortgage loans (for details see box 5.1).

The spread between the interest rate of new mortgage loans and the basic monetary policy rate (that is, the Hypoindex and the 2W repo rate) also decreased to a historic low due to the decrease in the Hypoindex in the last months of 2016—1.72 pp. A more long-term view of the development of client, interbank and monetary policy rates is shown in Graph 5.10.

**Graph 5.10: Development of selected interest rates**




Source: Fincentrum, CNB–ARAD

It can be expected that the interest of households in mortgage loans would, due to the observed turnaround in the development of interest rates on mortgage loans at the end of 2017 and tightening of the CNB's Recommendation effective from April 2017 (for details see box 5.1), could gradually decrease with a delay. Stricter requirements for the share of own funds of applicants for loans for the purchase of residential real estate (10% and more of the property value) may lead to a decrease in the usage of new mortgage loans and, conversely, increase the interest in other types of loans (for example, loans by building savings banks or consumer loans). Another factor influencing, in 2017, the demand for loans for residential real estate purchase will be, in addition to the development of interest rates, the development of real estate prices, which increased significantly in the recent years due to market and institutional aspects (land use planning, granting of building permits). Optimism associated with the economic development, the current labour market situation and the low rate of indebtedness of Czech households may be among factors that will counteract the decline in interest in mortgage loans.

**Box 5.1: Restriction of sources of systemic risk associated with the real estate markets**

In the context of regular assessment of risks in the financial market, the CNB has been pointed out, for several years, the fact that a combination of a fast growth in loans secured by residential property in an environment of low interest rates and easing of credit conditions and increasing prices of residential real estate may lead to accumulation of system risks in the banking sector, in particular due to increasing volume of non-performing receivables related to the real estate market.

[43] The FINCENTRUM HYPOINDEX indicator is the weighted average interest rate which is applied to new mortgage loans provided to individuals during the given calendar month. The weights are the volumes of loans provided. The input data for the calculations are provided by the following banks: Air Bank, Česká spořitelna, ČSOB, Equa Bank, Expobank CZ (former LBBW Bank), Hypoteční banka, Komerční banka, Moneta Money Bank (former GE Money Bank), Raiffeisenbank, Sberbank CZ, UniCredit Bank, and Wüstenrot hypoteční banka.

Therefore, in June 2015, the CNB issued *Recommendation on the management of risks associated with the provision of retail loans secured by residential property*. The Recommendation urged credit institutions to more prudently comply with credit standards by establishing a maximum allowable loan-to-value[44] (LTV) of mortgage loans for residential real estate of 100%, and to establish, in a set interval under the maximum LTV value, allowable percentage of share in all mortgage loans of this type.

A second recommendation, due to signs of partial easing of credit standards, which could be a source of system risk in combination with the low interest rates and increasing real estate prices, was issued in 2016. The Recommendation included gradual tightening of the maximum LTV value and of the maximum percentage in a set LTV interval. In addition, the second Recommendation set the maximum LTV for mortgage loans for the purchase of residential real estate for further lease, which should not exceed 60%.

Recommended LTV values for mortgage loans for the purchase of residential real estate are summarized in Table 5.11).

**Table 5.11: Recommended limits on LTV for new retail loans secured by residential property**

| Recommendation | Effect | Maximum LTV limits | Maximum share of new loans secured by residential property with LTV in the given range | |
|---|---|---|---|---|
| | | | Given LTV range | Maximum share of new loans |
| I. June 2015 | from Q3 2015 to Q2 2016 | 100% | 90–100% | 10% |
| | Q3 2016 | 100% | 90–100% | 10% |
| II. June 2016 | Q4 2016 and Q1 2017 | 95% | 85–95% | 10% |
| | from Q2 2017 | 90% | 80–90% | 15% |

Source: Recommendation on the management of risks associated with the provision of retail loans secured by residential property from 2015 and 2016 (Official information of the Czech National Bank 6/2015 of 16 June 2015 and 6/2016 of 14 June 2016)

The Recommendation of the European Systemic Risk Board (ESRB) on the instruments of macro-prudential policy[45] lists, in addition to LTV, other credit indicators that can be used to prevent over-indebtedness of the household sector and high credit losses and subsequent threat to financial stability. The most commonly used indicators include LTV, loan-to-income[46] (LTI), debt-to-income[47] (DTI), and debt service-to-income[48] (DSTI). In the case of income credit indicators LTI and DSTI, the CNB urged in both its Recommendations that credit institutions set their maximum values internally.

With its recommended LTV values, the Czech Republic is one of EU Member States that monitor credit indicators and introduce comprehensive macro-prudential limits towards the real estate market to reduce the likelihood of occurrence of a financial crisis and to ensure resilience of the financial system and financial stability (see Table 5.12).

**Table 5.12: Active (binding or non-binding) residential real estate instruments in the selected EU Member States in 2016**

| | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **LTV** | | | | x | x | | x | x | | x | | | | x | x | | x | | x | x | x | x | x | | x | x | x | x | |
| **LTI/DTI** | | | | | | | | | | | | | | | x | | | | | | | | | | | | | | x |
| **DSTI** | | | | x | | | | x | | | | | | x | | | x | | | | | | x | | x | | x | x | |

Source: ESRB: National measures of macroprudential interest in the EU/EEA, April 2017

44 An indicator comparing the total amount of consumer's debt (loan applicant) from consumer loans secured by the same housing property to the secured value.

45 ESRB Recommendation on intermediate objectives and instruments of macro-prudential policy of 4 April 2013, ESRB/2013/1, Recommendation B.

46 An indicator providing a comparison of the amount of consumer's debt (loan applicant) from consumer loans secured by the same housing property to their income.

47 An indicator providing a comparison of the total amount of debt of a consumer (loan applicant) to their income.

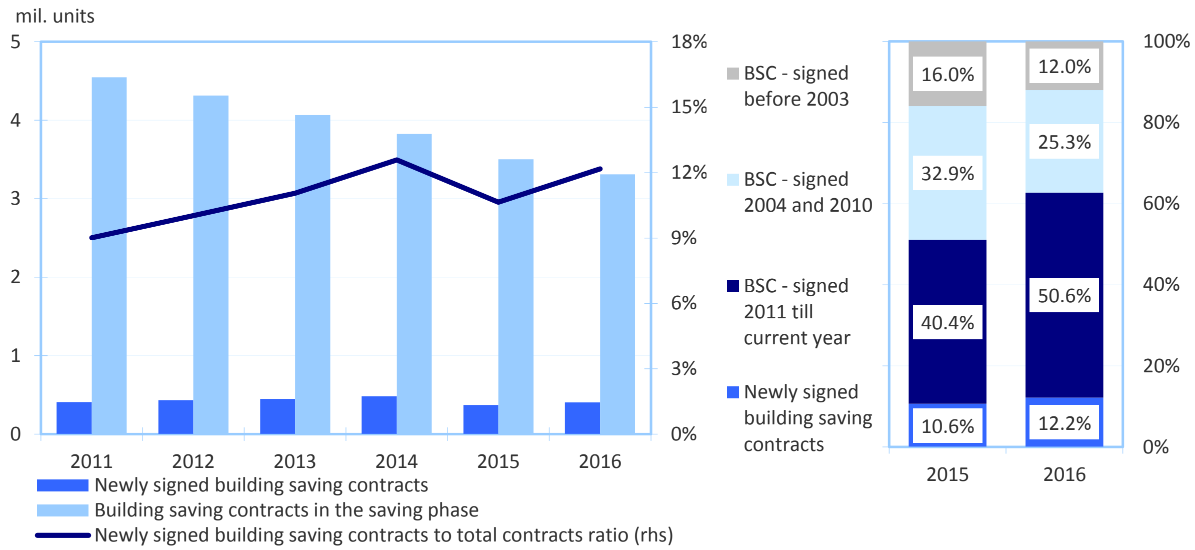
48 An indicator providing a comparison of the expenditure of a consumer (loan applicant) following from the total consumer's debt to their income.

## 5.8. Building Savings Banks

In 2016, there was a positive turnaround in the development of the number of newly concluded building savings contracts, which again exceeded 400 thousand contracts after a deep decline in 2015. Although the year-on-year increase in newly concluded building savings contracts was 8.1%, building savings banks did not manage to offset a 22.5% drop from 2015. In terms of annual renewal of the base of contracts in the savings phase, that is, the share of newly concluded contracts in the total number of building savings contracts, there was an increase from 10.6% to 12.2%. This development was probably also due to the fact that an amendment to the Building Savings Act enabled again, with effect from 2016, easier use of funds from the building savings account after the minimum saving period where the participant is a minor. However, the determining factor for conclusion of building savings contracts remained the development of deposit and loan interest rates. In the case of contracts concluded by participants mainly for saving purposes, a helpful fact was that interest rates on deposits under newly concluded building savings contracts remained, when taking into account interest-rate bonuses, at 1% p.a. in all five building savings banks. Taking into account the state contribution, building savings thus were, even in 2016, an advantageous savings product offering net annual return slightly above 3% p.a.[49]

The total number of contracts in the savings phase (see Graph 5.11), however, decreased again, to 3.3 million, although the decline rate decreased by almost 3 pp to 5.5%. In general, one can observe the trend that the group of contracts in the savings phase becoming “younger”, when at the end of 2016 were 62.8% of contracts in the minimum saving period[50]. The share of contracts concluded between 2004 and 2010 (i.e., under the conditions of maximum state contribution of CZK 3,000) in the total number of contracts in the savings phase decreased year-on-year by 7.7 pp to 25.3%. Also, the share of contracts concluded before 2004 (i.e., under the conditions of maximum state contribution of CZK 4,500) in the total number of contracts in the savings phase decreased year-on-year by 4.0 pp to 12.0%. This trend has long been influenced by the fact that building savings banks may, with certain legal restrictions, increase the interest rates on deposits or otherwise amend the conditions of their fee policies after the end of the minimum saving period, which they did in the past.

**Graph 5.11: Number of building savings contracts (BSC)[51]**




Source: Building savings banks, MoF calculations

[49] Net increase in value reflects the interest rates on deposits, the amount of state contribution, the amount of entry fees and other fees for account maintenance, and it corresponds to an optimum amount of monthly deposits with regard to the state contribution (i.e., CZK 1,700) and savings only during the minimum saving period (i.e., 6 years).

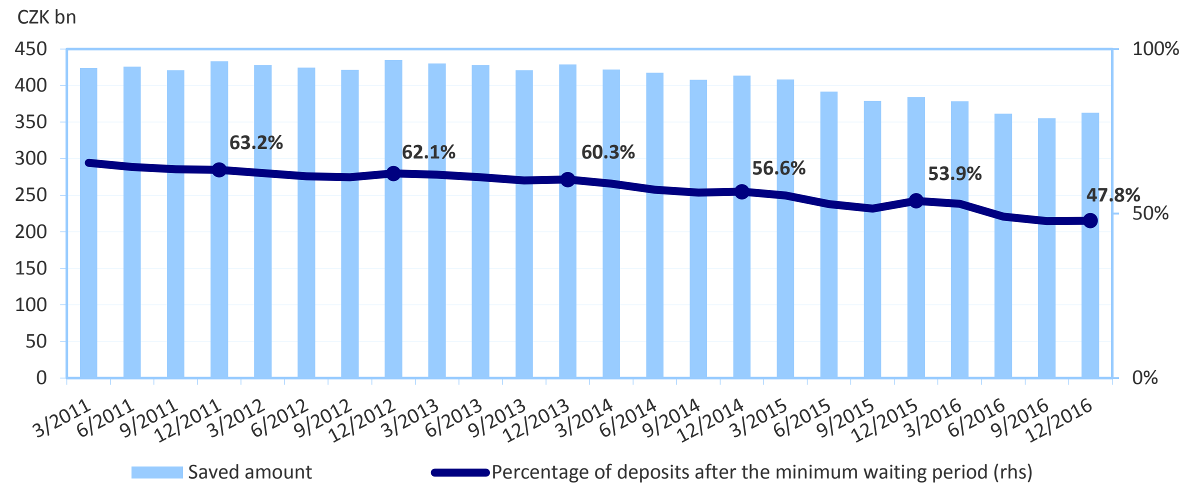
[50] The minimum saving period is one of the prerequisites for meeting the conditions for payment of state contribution, and it is a mandatory period for which clients have to save. It has been 6 years since 2004, before it was 5 years.

[51] During the existence of the building savings schemes, the state contribution has been decreased twice. During the first ten years, the state contribution was CZK 4,500. With effect from 2004, it was CZK 3,000 for all new contracts. The second decrease was in 2011 and it applied to all participants in the building savings schemes. Since that year, the maximum state contribution has been CZK 2,000 per participant.

The total amount saved by building savings schemes participants decreased in a fourth consecutive year, and it totalled CZK 362.6 billion at the end of 2016. An decrease in the year-on-year decline rate of deposits by building savings schemes participants, which decreased from 7.1% to 5.6%, can be seen as a positive aspect. In terms of the maturity structure of deposits, two types of deposits can be distinguished. Deposits deposited during the first six-year period of the contract (deposits in the minimum saving period) can be classified as term deposits, as a substantial part of the proceeds (i.e., in the form of state contribution) would not be realized by the participant in case early termination. Conversely, deposits after the minimum saving period represent, from this point of view, non-term deposits, which may be withdrawn from the account in a relatively short period of time, without loss of entitlement to the state contribution.

The trend of deposits after the minimum saving period has been declining in the long term (see the monitored period in Graph 5.12). Moreover, the 50% threshold was crossed in 2016, when the share of these deposits in total deposits attained 47.8% at the end of 2016. In the second half of 2015, there was a slight deviation from the decline trajectory, which was, however, restored in 2016.

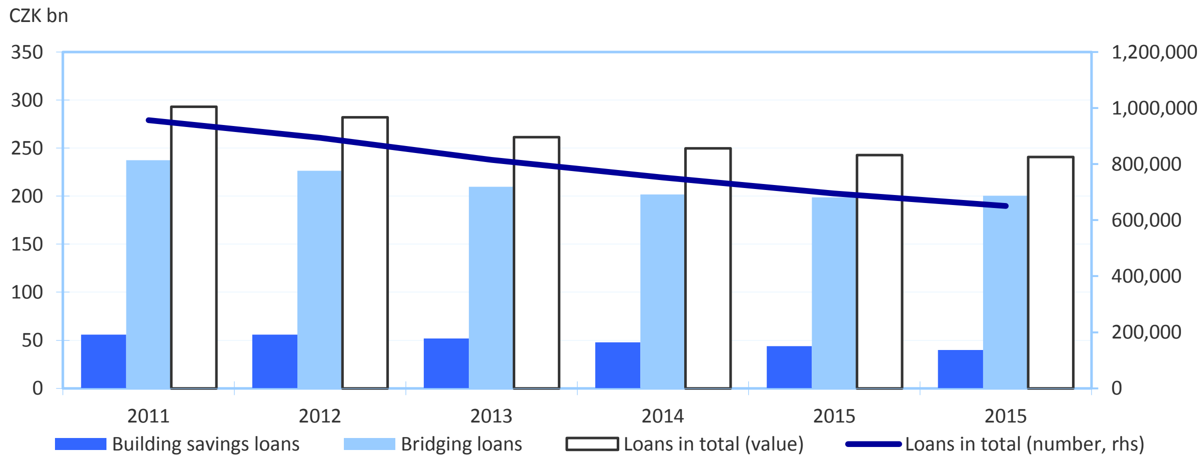
**Graph 5.12: Saved amount and percentage of deposits after the minimum waiting period**




Source: Building savings banks, CNB–ARAD

Despite the increased credit activity in the Czech banking market, the building savings banks sector suffered, for a sixth consecutive year, a decline in the total volume of loans (see Graph 5.13). That decreased year-on-year to CZK 240.6 billion. Since 2013, when the greatest year-on-year decrease (by 7.4%) in the volume of loans occurred, the decline rate decreased year-on-year to less than 1.0%. The decrease in the volume of loans in 2016 was caused by a decrease in building savings loans by CZK 3.9 billion (by 8.9%) to CZK 40.0 billion. On the contrary bridging loans, which account for 83.4% of the total volume of loans provided by building savings banks, recorded, for the first time since 2010, an increase by CZK 1.8 billion (0.9%) to CZK 200.6 billion.

**Graph 5.13: Volume of loans granted by building savings banks**




Source: Building savings banks

The more significant decrease in the saved amount compared to the total volume of loans provided by building savings banks was caused by an increase in the indicator of the share of loans in the saved amount—in total by 3.2 pp (see Table 5.13). This indicator had been decreasing significantly until 2014, and only in the last two years it recorded an average year-on-year increase by approx. 3 pp.

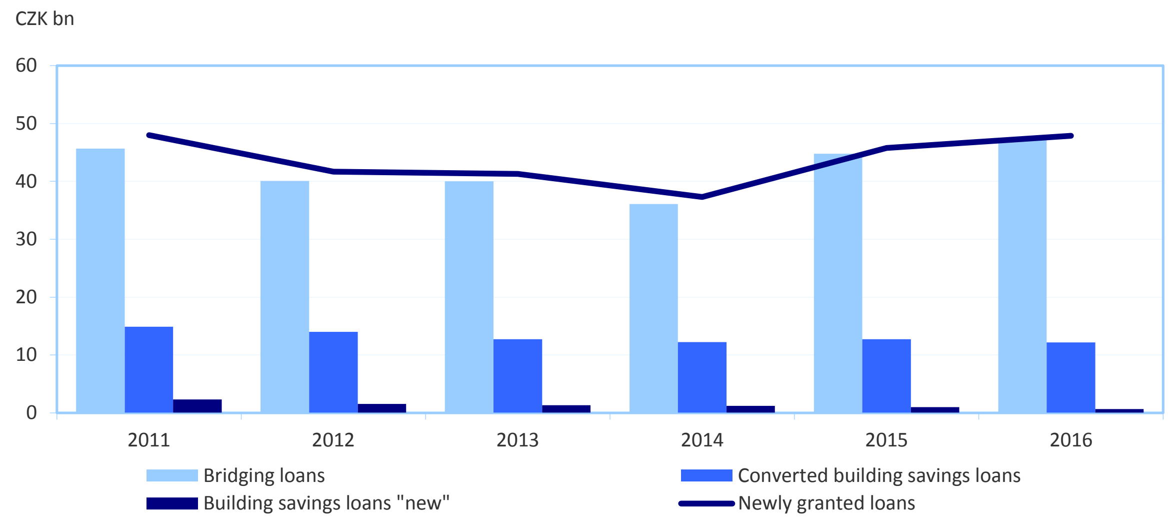
**Table 5.13: Main indicators for the building savings bank sector**

| As at 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Loans in total (CZK bn) | 293.1 | 282.2 | 261.4 | 249.6 | 242.7 | 240.6 |
| Saved amount (CZK bn) | 433.4 | 435.0 | 429.1 | 413.6 | 384.2 | 362.6 |
| Loans in total to saved amount ratio (%) | 67.6 | 64.9 | 60.9 | 60.4 | 63.2 | 66.4 |

Source: Building savings banks

The increase in new loans in 2016 did not, despite a year-on-year increase in their volume[52] by 4.6% to CZK 47.9 billion, did not match the increase from the previous year (see Graph 5.14). Nevertheless, building savings banks managed to maintain the pro-growth trend, which started in 2015, after six years of declining volume of newly provided loans by building savings banks, with a year-on-year increase by 22.7%. The increase in the volume of new loans compared to 2015 was again caused by interest in bridging loans, whose increase in the volume by 5.4% set off also a more than 30% year-on-year decrease in the volume of new building savings loans. As regards the quantity and volume of individual types of loans, 73.2 thousand bridging loans totalling CZK 47.2 billion and only 4.3 thousand new building savings loans totalling CZK 0.7 billion were concluded in 2016.

**Graph 5.14: New loans in the building savings bank sector**



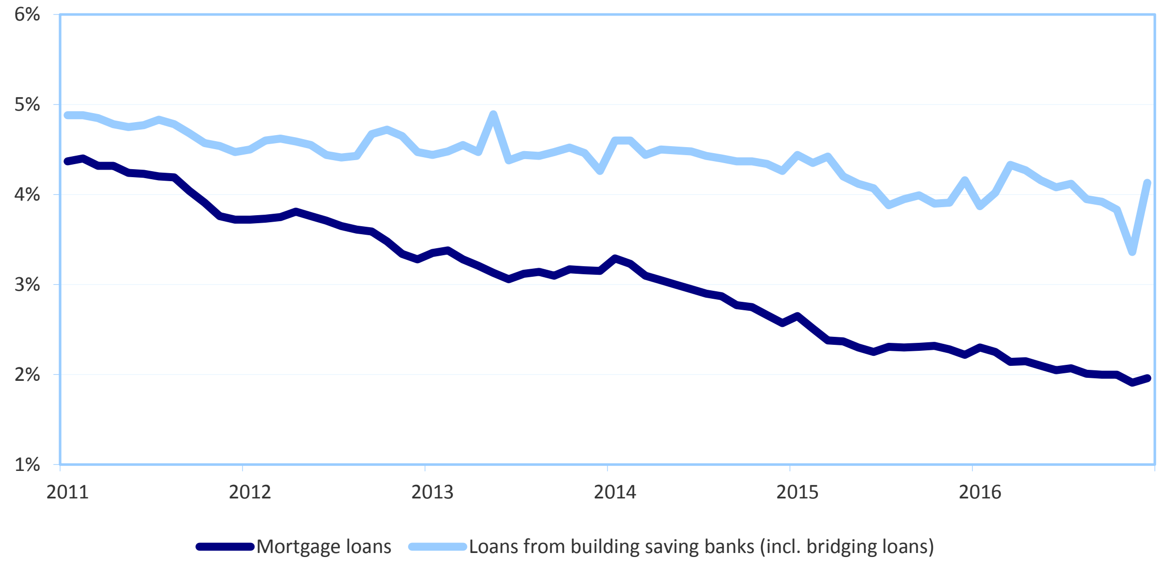

Source: Building savings banks

As can be seen in Graph 5.15, the average interest rate on newly drawn loans from building savings banks[53] decreased significantly during 2016, reaching 3.36% in November, but it increased again at the end of the year, to 4.13% p.a. By contrast, interest rates on mortgage loans continued to decline throughout 2016, albeit with a year-on-year decrease in the decline rate, to 1.96% p.a.

[52] New loans are the sum of new bridging loans (the light blue column in Graph 5.14) and new building savings loans (the dark blue column in Graph 5.14). A special category is “converted” building savings loans (these are not new loans), which were drawn by debtors as bridging ones, and at a certain point (once the allocation conditions have been met) they are converted into standard building savings loans with a new repayment schedule and under usually more favourable interest conditions.

[53] The line in Graph 5.15 depicting the interest rates on new loans from building savings banks includes the interest rates on new bridging loans and building savings loans.

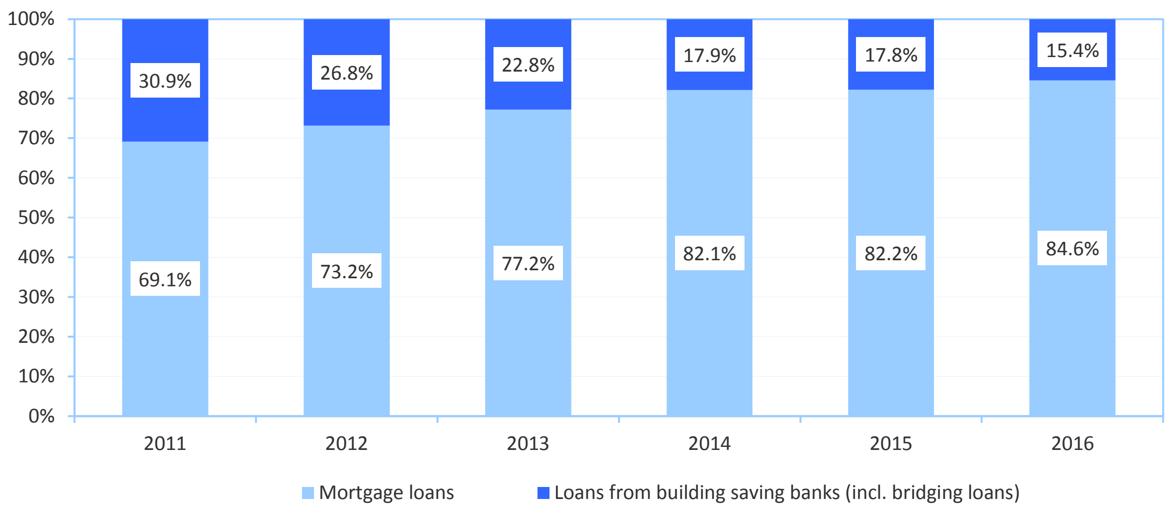
**Graph 5.15: Development of interest rates from new loans for house purchase provided to households**




Source: CNB–ARAD

The share of new loans from building savings banks in the volume of new loans for residential real estate purchase provided to households decreased, due to lower attractiveness of building savings loans, from 17.8% to 15.4% in 2016 (see Graph 5.16). Households thus gave significantly greater preference to mortgage loans in 2016; their share in new loans for residential real estate purchase to households[54] increased by 15.4 pp to 84.6% in the monitored period.

**Graph 5.16: Shares of new loans for house purchase provided to households granted by commercial and building savings banks**



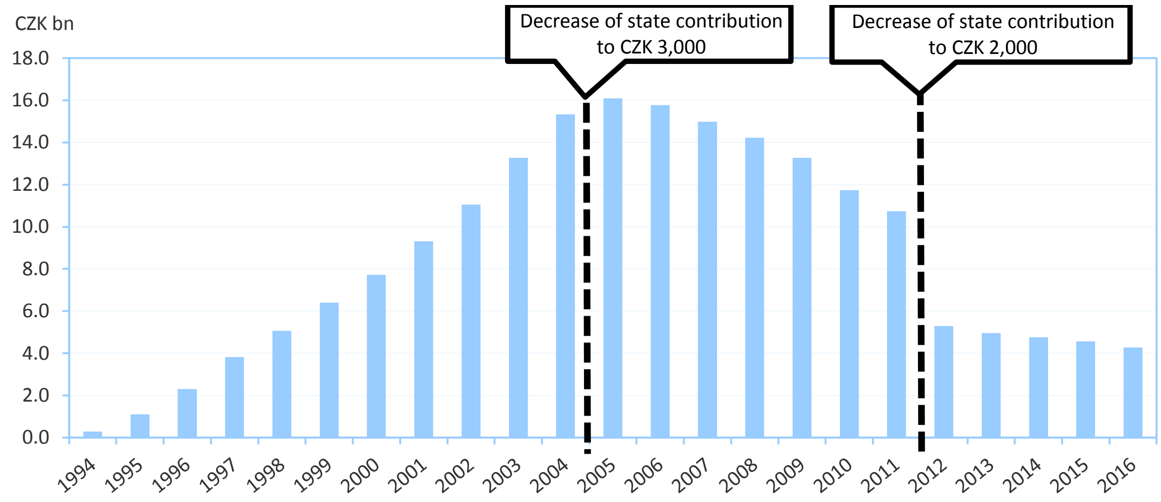

Source: Building savings banks, CNB–ARAD, MoF calculations

The state tries to motivate households to make long-term savings and subsequently invest in their own housing, and it therefore allocates resources from the state budget. In 2016, state contribution totalling CZK 4.3 billion was paid on building savings contracts, which was a decrease by 6.2% compared to 2015, and therefore a reinforcement of the downward trend, which had oscillated around 4% in the previous two years.

54 The indicator includes the indebtedness of households an non-profit institutions serving households towards credit institutions including credit unions, and towards asset financing intermediaries (financial leasing, factoring, consumer loans, hire purchase financing). The data on mortgage loans were obtained by subtracting building savings loans provided to natural persons, and they have therefore a different methodology than in the rest of this chapter and Chapter 5.7.

There was a more pronounced decrease in the amounts of state contribution paid between 2011 and 2012[55] (by 50.7%), which reflected a decrease in the maximum annual state contribution from CZK 3,000 to CZK 2,000. Overall, between 1994 and 2016 the government paid out state contributions totalling CZK 196.3 billion to participants in building savings schemes (see Graph 5.17).

**Graph 5.17: Paid state contribution**




Source: MoF

More detailed information about the building savings bank sector is updated and published quarterly on the MoF's website at www.mfcr.cz (refer also to Table P2.2 in Appendix 2).

[55] State contribution is paid for the previous year in arrears, therefore the effects of the measure to reduce state contribution that occurred in 2011 were not reflected until 2012. For this reason, in Graph 5.17 the designated decreases in state contribution are shifted one year forward from their effective date.

## 5.9. Credit Unions

The sector of credit unions reported stable results for a second consecutive year. There were slight improvements in a number of monitored indicators (see Table 5.14). 11 entities continued their activities in the market in 2016, of which the two largest credit unions represented, in terms of the asset size, approx. 65.4% of the sector at the end of 2016.

**Table 5.14: Basic indicators of the credit unions sector [56]**

| As at 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[57] | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Number of members of credit unions | 44,687 | 54,402 | 53,594 | 57,179 | 51,183 | 51,586 | 403 | 0.8 |
| Total assets (CZK bn) | 28.3 | 39.3 | 31.6 | 31.3 | 32.3 | 34.2 | 1.9 | 5.8 |
| Loans and advances (CZK bn) | 23.2 | 31.9 | 24.2 | 22.1 | 21.7 | 22.5 | 0.8 | 3.6 |
| Deposits (CZK bn) | 25.4 | 34.8 | 27.6 | 27.4 | 27.8 | 29.2 | 1.4 | 5.0 |
| Share of loans provided to deposits received (%) | 91.2 | 91.4 | 87.9 | 80.6 | 78.1 | 77.0 | -1.0 | -1.3 |
| Share of quick assets to total assets (%) | 13.1 | 14.4 | 18.8 | 23.8 | 27.4 | 26.3 | -1.1 | -3.9 |
| Share of non-performing loans to total liabilities (%) | 13.2 | 7.8 | 19.0 | 22.7 | 21.0 | 19.4 | -1.6 | -7.7 |
| Coverage of non-performing loans by allowances (%) | 13.8 | 16.4 | 16.6 | 18.8 | 18.5 | 17.2 | -1.3 | -6.9 |
| Total capital ratio (%) | 12.1 | 13.3 | 14.3 | 13.5 | 15.4 | 16.2 | 0.8 | 5.2 |
| Profit/loss (CZK mn) | 122.8 | 303.8 | -19.8 | 18.3 | 7.6 | -0.9 | -8.4 | -111.6 |
| Return on Tier 1 capital (%) | 5.5 | - | - | 0.5 | 0.2 | 0.0 | -0.2 | -110.0 |

Source: CNB–ARAD

The total balance sheet increased by 5.8% (approx. CZK 1.9 billion) to CZK 34.2 billion in 2016, so the sector's development was a growth for a second consecutive year. Despite this growth, the credit unions sector, in terms of asset size, accounted for less than 1% of the credit institutions sector.

The volume of deposits in credit unions increased year-on-year by CZK 1.4 billion to a total of CZK 29.2 billion. Therefore, the fears of some entities which, during the legislative process[58], considered a new tenfold-contribution rule too restrictive and argued with a future dramatic drop in deposits in credit unions, did not realize. From the entry into effect of an amendment in July 2015, the aggregate of new deposits of a credit union member must not exceed ten times the aggregate amount of paid-up basic membership contribution (see box 5.2 for an overview of changes). However, the restrictive effect was not confirmed over time; conversely, there has been a slight increase in the volume of deposits received.[59]

Provided loans and advances increased year-on-year by CZK 0.8 billion to CZK 22.5 billion. Overall, the sector showed a moderate and steady growth in loans provided, which, however, grew at a slower pace than deposits received (see Graph 5.18). This continued to contribute to a decline in the indicator of the share of loans provided to deposits received from 78.1% to 77.0%.

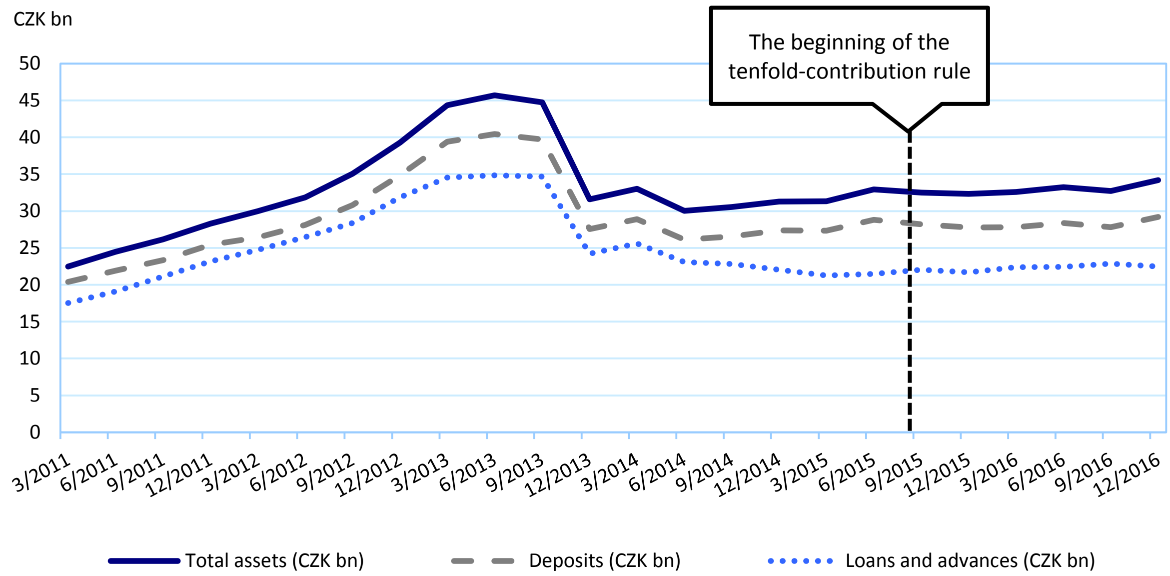
[56] For 2012 and 2013, no profitability data are available and interpretable for credit unions because of non-uniform fiscal years of the individual entities.

[57] Preliminary data for 2016.

[58] Act No 333/2014 Coll., Amending Act No 87/1995 Coll., on savings and credit unions and other related matters and supplementing Act of the Czech National Council No 586/1992 Coll., on income tax, as amended, as amended.

[59] From the third quarter of 2015 (i.e. after the effectiveness of the tenfold-contribution rule) by the end of 2016, the balance sheet total amount increased by CZK 1.7 billion, despite the effect of the so-called decrease in frontloading. The impact, not only of this effect, was then a large influx of deposits before the effectiveness of the tenfold-contribution rule. Deposits of members of credit unions increased by about CZK 1.5 billion in the first half of 2015, and deposits increased by CZK 1 billion from the third quarter of 2015 to the end of 2016.

**Graph 5.18: Total assets, deposits and loans and advances**




Source: CNB–ARAD

There was also an improvement in the indicator of the share of non-performing loans to total liabilities. This indicator, reflecting the situation in the sector, decreased year-on-year by 1.6 pp to 19.4%. However, it is still approx. 15 pp above the value of the share of non-performing loans of the banking sector. Last but not least, there was also growth in the total capital ratio by 0.8 pp to 16.2%, and it moved safely above the regulatory minimum.

On the contrary, the indicator of share of quick assets to total assets decreased year-on-year by 1.1 pp and was 26.3% at the end of the year. The indicator of coverage of non-performing loans by allowances also had a negative development; it declined by 1.3 pp, and at the end of 2016, the credit unions sector covered on average only 17.2% of non-performing loans. In the banking sector, however, the indicator of coverage of non-performing loans by allowances corresponded to 56.2% in the same period. The after-tax profit of the entire sector, after two previous profitable years, reached a negative value CZK -0.9 billion.

**Box 5.2: Description of the amendment to the Act on credit unions**

An amendment to the Credit Unions Act established new principles[60] aimed at increasing the stability and credibility of the entire sector. The main objective was to increase the participation of credit unions members in the operation of the union itself, and to strengthen the cooperative principle. Prior to the amendment, many credit unions required a membership fee of only CZK 1. Members were thus not motivated to manage their property rights, but they only sought to maximize the increase in value of their deposits or to obtain sources of funding. Therefore, since 2015, the aggregate of a credit union member's new deposits associated with an interest or a similar advantage, must not exceed ten times the aggregate values of a paid-up basic membership contribution and an additional membership contribution. An extension of this tenfold-contribution rule to all deposits up to CZK 200,000 deposited before 1 July 2015 will be effective from 2018.

Other legislative provisions will come into effect in the future. From 2018, there will be a requirement for a minimum membership contribution of CZK 1,000. The maximum amount of loan to members who are economically affiliated or to members who are close persons will also be limited, up to a total of CZK 30 million. Last but not least, the balance sheet total of credit unions will not be allowed to exceed CZK 5 billion, and from 1 January 2018 a credit union will have to transform into a bank or reduce its balance sheet total under this value.

[60] The amendment was prepared in line with the International Monetary Fund's Financial Sector Assessment Program, the findings of which were published in 2012, and the World Council of Credit Cooperatives.

The future development of the credit unions sector is, with regard to varied business strategies of individual entities influenced by regulatory changes, unclear. An important event in this respect was a successful transformation of the largest credit union Creditas, which has been operating as Banka Creditas since 1 January 2017.

## 5.10. Non-Bank Financing Providers

Non-bank asset financing providers are an alternative to credit institutions in terms of options available for obtaining loan financing. A number of these entities are linked financially with the banking sector through some of the financial groups. At the end of 2016 this segment of the financial market reported a balance sheet total of CZK 382.9 billion (see Table 5.15), which means that it has not been equal to even 10% of the balance sheet total of the banking sector for more than five years.

In 2016, the sector's balance sheet total grew by CZK 32.9 billion, i.e., by 9.4%. That represented a break in the current development as the volume of assets had not changed significantly between the end of 2010 and the end of 2015. Despite the growth in 2016, however, the volume of the sector's assets did not reach the historical high from 2008 (CZK 448.9 billion), that is, before the global financial crisis hit the financial markets.

The volume of loans provided (see Table 5.16) grew at a similar pace as the balance sheet total (by 9.7%) to CZK 283.1 billion. In the long term, it is the most important balance sheet item exceeding 70% of assets. At the end of the year, loans to residents accounted for more than 96% of the volume of loans, of which more than 77% were loans to non-financial corporations, and the rest loans to households. Loans to other sectors were negligible.

The sector of non-bank financing providers is usually broken down into three subsegments: financial leasing companies, other lending companies, and factoring and forfaiting companies. The breakdown of this sector's balance sheet total into subsegments changed slightly in 2016 in favour of the two smaller segments—other lending companies and factoring and forfaiting companies. Their assets grew faster than in the entire sector, by 12.9% and 16.3%, respectively. This was a partial correction of the 2015 development, when, conversely, the volume of financial leasing companies' assets grew faster than the rest of the sector.

The non-bank segment is a source of innovation, such as P2P loans, reverse mortgages or various forms of short-term loans. Despite the fact that most of the non-bank financing providers' activity are credit relationships with entrepreneurs, the segment of retail clients is also an important group of clients for these entities. Typical financial products provided in this case are consumer loans in various forms—hire purchases, (financing of purchases of goods or services), general-purpose cash credits and loans, credit cards and revolving products. Operative leasing (as opposed to financial leasing, which is subject to relatively strict regulation) has been on the rise in the retail market in recent years, although its product construction does not represent a traditional credit relationship, assuming a future change in ownership of the item financed.

To be able to provide retail credit services, including loans for the purchase of residential real estate (mortgages) or secured consumer loans (general-purpose mortgages), non-bank providers have been obliged, since 2016, to obtain a respective license from the CNB. In this respect, the number of small non-bank providers in the market is expected to decline sharply, as this regulatory change is associated with a general increase in the professional qualifications requirements placed on these persons (expertise, credibility, financial equipment) as well as a number of other rules strengthening consumer protection (creditworthiness assessment, early repayment, limit for fines).

**Table 5.15: Structure of assets by segments in the non-bank financing providers sector**

| As at 31 Dec (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Total assets | 356.1 | 346.3 | 342.1 | 354.5 | 350.0 | 382.9 | 32.9 | 9.4 |
| Volume of total assets (CZK bn) | | | | | | | | |
| Financial leasing companies | 265.1 | 259.3 | 253.1 | 261.4 | 280.9 | 304.3 | 23.4 | 8.3 |
| Other lending companies | 71.3 | 70.5 | 70.3 | 72.2 | 49.8 | 56.2 | 6.4 | 12.9 |
| Factoring and forfaiting companies | 19.7 | 16.6 | 18.7 | 20.9 | 19.3 | 22.4 | 3.2 | 16.3 |
| Relative share of the sector's assets (%) | | | | | | | | |
| Financial leasing companies | 74.4 | 74.9 | 74.0 | 73.7 | 80.3 | 79.5 | -0.8 | -1.0 |
| Other lending companies | 20.0 | 20.3 | 20.6 | 20.4 | 14.2 | 14.7 | 0.5 | 3.2 |
| Factoring and forfaiting companies | 5.5 | 4.8 | 5.5 | 5.9 | 5.5 | 5.9 | 0.3 | 6.3 |

Source: CNB–ARAD, MoF calculations

Financial leasing companies maintained the growth rate of the volume of assets. Their year-on-year growth was 8.3%, and the balance sheet total CZK 304.3 billion. As a result of a marked growth in the past three years, the volume of assets almost returned to the 2008 maxims (CZK 309.5 billion). The growth rate of the volume of loans provided slightly slowed down year-on-year to 8.1% (by 3.4 pp). The volume of loans was CZK 220.8 billion.

Other lending companies recorded a year-on-year increase in the balance sheet total by more than one eighth to CZK 56.2 billion. The volume of loans provided increased by 13.7% to CZK 42.2 billion.

The balance sheet total of factoring and forfaiting companies was CZK 22.4 billion (an increase by 16.3%) at the end of 2016. This was the fastest year-on-year growth rate since the global financial crisis. The volume of assets in this segment in the total assets of the sector was thus highest since the end of 2009. The volume of loans provided increased by 19.4%, compared to a decrease by 7.1% in 2015. A particularity of this segment stemming from its product structure is that 80% of loans provided were short-term loans to non-financial corporation residents with a maturity of less than one year.

**Table 5.16: Loans by segments in the non-bank financing providers sector**

| As at 31 Dec (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Loans provided | 266.3 | 256.6 | 246.9 | 255.8 | 258.1 | 283.1 | 25.0 | 9.7 |
| Volume of loans provided (CZK bn) | | | | | | | | |
| Financial leasing companies | 195.7 | 188.3 | 176.4 | 183.1 | 204.2 | 220.8 | 16.6 | 8.1 |
| Other lending companies | 54.7 | 54.6 | 54.6 | 54.6 | 37.1 | 42.2 | 5.1 | 13.7 |
| Factoring and forfaiting companies | 16.0 | 13.7 | 16.0 | 18.1 | 16.8 | 20.1 | 3.3 | 19.4 |
| Relative share of the sector's loans (%) | | | | | | | | |
| Financial leasing companies | 73.5 | 73.4 | 71.4 | 71.6 | 79.1 | 78.0 | -1.1 | -1.4 |
| Other lending companies | 20.5 | 21.3 | 22.1 | 21.3 | 14.4 | 14.9 | 0.5 | 3.6 |
| Factoring and forfaiting companies | 6.0 | 5.3 | 6.5 | 7.1 | 6.5 | 7.1 | 0.6 | 8.9 |

Source: CNB–ARAD, MoF calculations

# 6. CAPITAL MARKET

## 6.1. Global Market Development

The global capital market was affected by a number of events in 2016. As early as at the beginning of the year, the global stock and commodity markets got under a pressure of fears of a slowdown of the Chinese economy. In June, the main event was the United Kingdom's referendum on its withdrawal from the EU, which increased volatility on financial markets. The election of a new US president in November 2016 had a positive influence on most US stock markets due to declared tax cuts, higher investment and expenditure, and general deregulation. However, the election of Donald Trump had a negative effect on other markets, such as the Mexican one. In this context, a so-called large rotation, i.e., reallocation of invested funds from bonds to stocks, started to be mentioned. Another dichotomy then emerged in the field of monetary policy when the US central bank Fed proceeded to a further increase in monetary-policy rates, whereas the ECB continued to purchase assets under quantitative easing. Last but not least, there was a gradual increase in crude oil and oil product prices throughout the year in connection with the OPEC countries' agreement to restrict oil production. The prices of other commodities also grew with earlier fears of falling Chinese demand dampening.

**Stock market**

Global stock markets (see Table 6.1) measured by the MSCI ACWI stock index, which includes the developments of more than 2,400 stock titles in 23 developed and 23 emerging stock markets in the world, recorded a 5.6% growth. As regards indices focused only on developed market, there was a 5.3% growth. European indices of develop and emerging markets had overall different developments as the index of emerging markets increased year-on-year by record-breaking 21.5%, whereas the index of developed markets decreased by 3.4%.

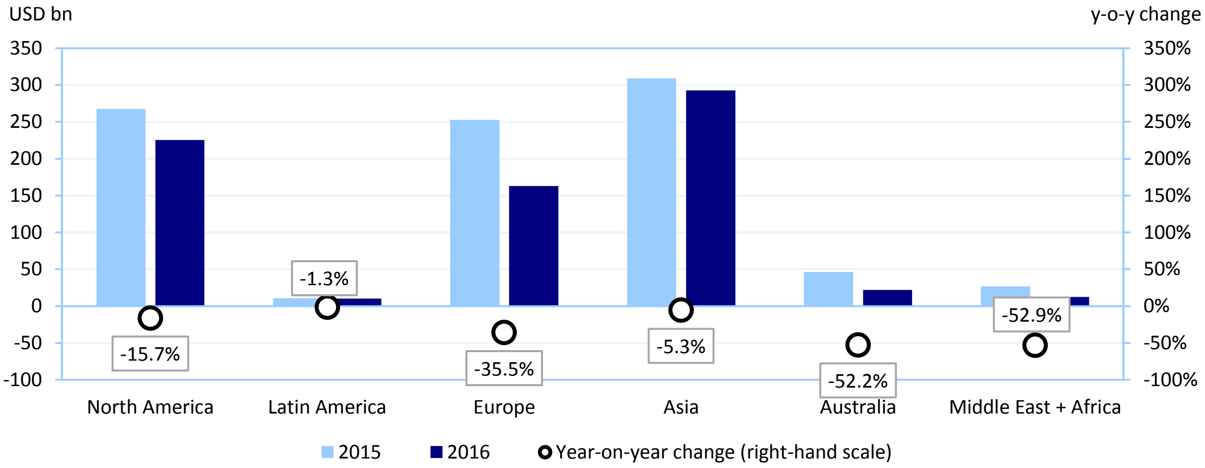
**Table 6.1: Values of global stock indices**

| Stock index (in USD) | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| MSCI ACWI Standard (emerging + developed markets) | as at 31 Dec | 299.5 | 339.8 | 408.6 | 417.1 | 399.4 | 421.8 |
| | Change (%) | - | 13.4 | 20.3 | 2.1 | -4.3 | 5.6 |
| MSCI World Standard (developed markets) | as at 31 Dec | 1,182.6 | 1,338.5 | 1,661.1 | 1,709.7 | 1,662.8 | 1,751.2 |
| | Change (%) | - | 13.2 | 24.1 | 2.9 | -2.7 | 5.3 |
| MSCI Europe Standard (developed markets) | as at 31 Dec | 1,255.5 | 1,445.8 | 1,759.2 | 1,608.2 | 1,522.7 | 1,471.1 |
| | Change (%) | - | 15.2 | 21.7 | -8.6 | -5.3 | -3.4 |
| MSCI EM Europe Standard (emerging markets) | as at 31 Dec | 395.3 | 473.4 | 437.7 | 296.6 | 244.4 | 297.0 |
| | Change (%) | - | 19.8 | -7.5 | -32.2 | -17.6 | 21.5 |

Source: MSCI, MoF calculations

In 2016, the volume of issues in global stock markets (see Graph 6.1) decreased year-on-year for a second consecutive year, by 20.5%. This trend can be attributed to low interest rates. These generally increase the price of investment instruments for investors and with relatively constant fixed costs for the new issue in the market they make this variant of financing more expensive compared to, for example, bank loans. The drop in issuance was therefore particularly significant in initial public offerings. Geographically, the volume of issues declined the most in Europe (by USD 89.8 billion to USD 162.9 billion) and in North America (by USD 42.1 billion to USD 225.3 billion).

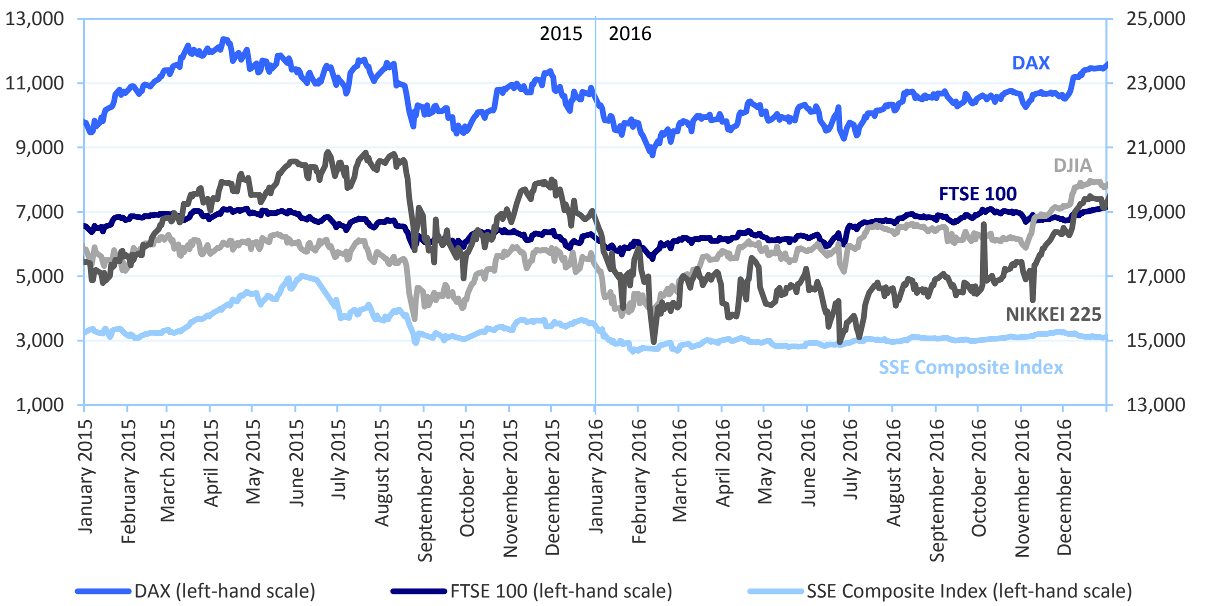
**Graph 6.1: Issuance activity on global bond markets**[61]




Source: Dealogic, MoF calculations

Focusing on selected indices[62] (see Graph 6.2) of the world's most important economies, the United Kingdom's FTSE 100 stock index recorded the largest relative increase in 2016. It grew, despite the expected negative effects of the United Kingdom's withdrawal from the EU, by 14.4% year-on-year. However, taking into account the decline in value of the British pound to global currencies, the development was no longer so favourable. Another monitored stock index was the US Dow Jones Industrial Average (DJIA), comprising 30 most traded US companies. The DJIA grew 13.4% year-on-year in spite of a significant drop at the beginning of 2016 marked by pessimism from the declining performance of the Chinese economy. The main driver of the index was expectations of pro-growth fiscal policy after Donald Trump's victory in the US presidential election, which caused a growth of almost 2,000 points. Optimism about the economic development, low yields and the ECB's policy also influenced the German DAX growth (by 6.9%). Japanese Nikkei 225 grew by 0.4%, similarly to DAX or DJIA also at the end of the year. A year-on-year decline (by 12.3%) was only recorded by the Chinese SSE Composite Index. This aggregate index lost its value mainly due to investors' concerns about the development of the Chinese economy and possible further devaluation of the Chinese currency renminbi.

**Graph 6.2: Major global indices**[63]




Source: Market organizers, MoF calculations

61 Geographical distribution represents the volume of issuer's shares according to its home country irrespective of the place of issue.

62 Indices are expressed in the domestic currency. For comparable returns from the perspective of foreign investors, it would be necessary to reflect the development of the exchange rates.

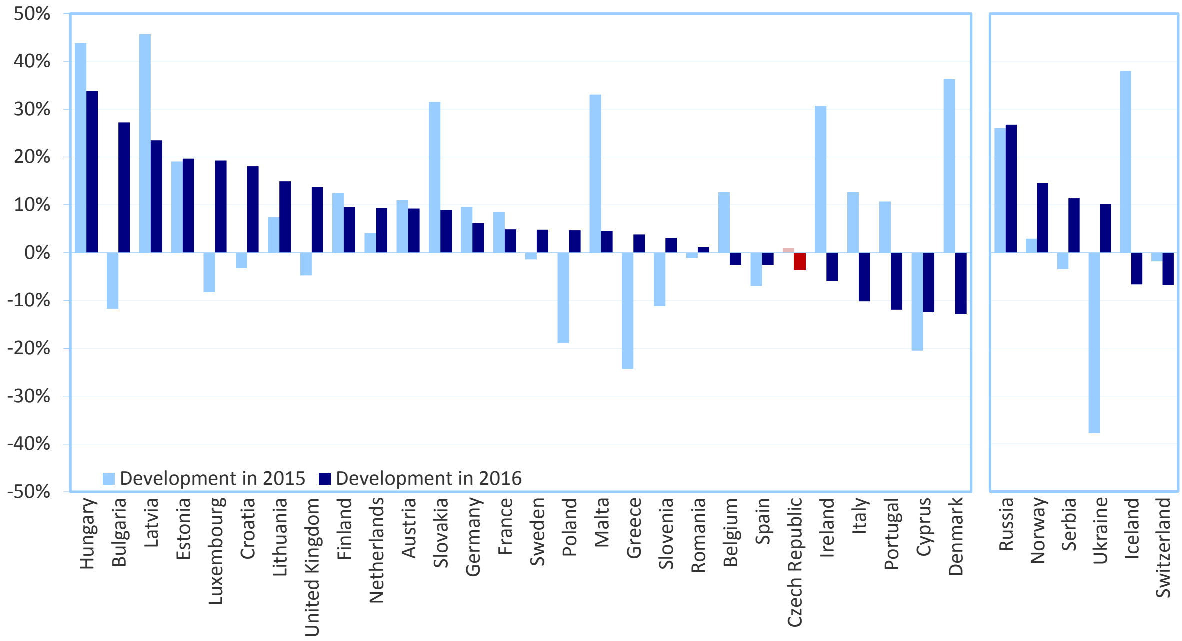
63 The data represents the daily closing values of the indices.

Looking at the stock indices of EU Member States (see Graph 6.3), it was generally possible to see a reduction in the spread between the most and least performing stock indices. In the segment of stock exchange indices in EU Member States, the greatest year-on-year increase was recorded by the Hungarian BUX index (by 33.8%), mainly due to a positive development in the petrochemical industry, the banking sector and telecommunication technologies. There was also a significant growth in the Bulgarian stock index SOFIX (27.2%), with a general growth in almost all stock titles, optimism among investors, the ECB's monetary policy with existence of a fixed exchange rate of the domestic currency, and, last but not least, at the end of the year thanks to a published Bulgarian Capital Market Development Strategy. Another significant growth was recorded by the Latvian stock index OMX Riga, which grew by 23.5% in 2016 and similarly to the Hungarian BUX grew at a double-digit pace for a second consecutive year. Conversely, the lowest performing indices included the Danish OMX Copenhagen 20, which declined by 12.8% due to a fall in the market's largest pharmaceutical company in the index. Declines were also recorded by the Cypriot index CyMAIN (by 12.5%) and Portuguese PSI 20 (by 11.9%).

In the member states of the Visegrad Four, there was an increase, in addition to the aforementioned Hungarian index BUX (a year-on-year increase by 33.8%), in the Slovak index SAX (by 9.0%) thanks to positive developments in the petrochemical industry. Polish WIG 20 grew at half the growth rate (by 4.7%) also thanks to positive developments in the petrochemical industry and also general growth in the financial sector. On the contrary, Czech index PX did not perform well and fell by 3.6% year-on-year compared to a slight growth in 2015. For a detailed description of the Czech index see Chapter 6.2.

Non-EU European countries also saw mixed developments. The best performing indices included the Russian MICEX, which grew by 26.8% in 2016 due to increasing prices of crude oil and oil products.

**Graph 6.3: Performance of significant stock exchange indexes in EU Member States and non-Member States**[64]




Source: Market organizers, MoF calculations

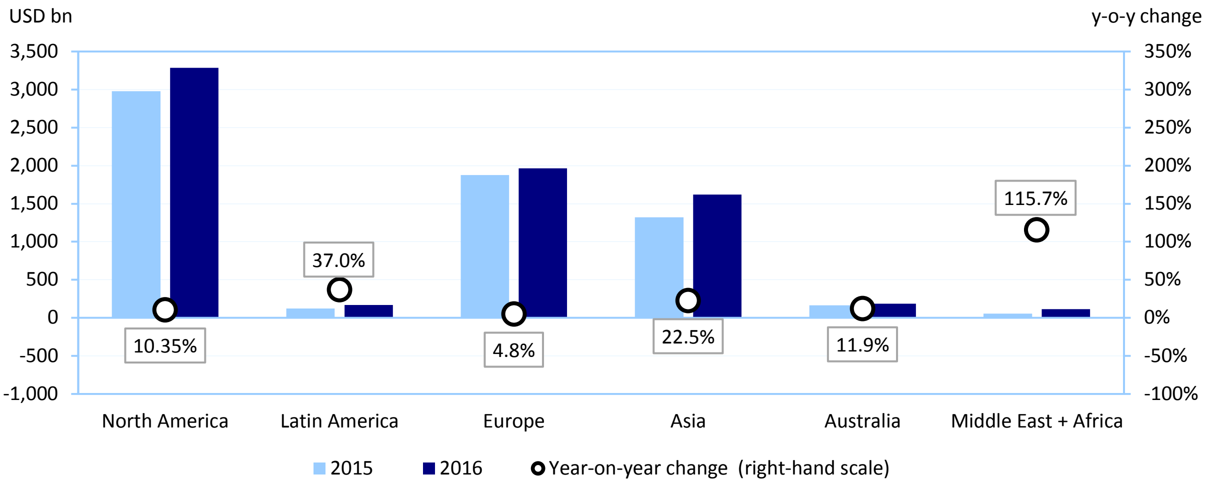
**Bond market**

Issues in global bond markets (see Graph 6.4) increased, unlike stock markets, by a total of 10.3% in 2016. The highest growth in the absolute issue volume was recorded by the North American market, i.e., the USA and Canada, by approx. USD 308.5 billion to USD 3,288 billion. The second largest volume growth was in Asian markets, by USD 297.8 billion to a total of USD 1,619.3 billion at the end of 2016. Issuers wanted to take

[64] Index performances are expressed through the daily closing values of the following indices in the end of a given year in their domestic currencies: Austria–ATX, Belgium–BEL 20, Bulgaria–SOFIX, Croatia–Crobex, Cyprus–CyMAIN, Czech Republic–PX, Denmark–OMX Copenhagen 20, Estonia–OMX Tallinn GI, Finland–HEX25, France–CAC 40, Germany–DAX, Greece–FTSE/ATHEX 20, Hungary–Budapest SE, Iceland–ICEX, Italy–FTSE MIB, Ireland–ISEQ 20, Latvia–OMX Riga, Lithuania–OMX Vilnius GI, Luxemburg–LuxX, Malta–MSE, Netherlands–AEX, Norway–OBX, Poland–WIG-20, Portugal–Euronext Lisbon PSI 20, Romania–Bucharest SE BET, Russia–MICEX, Serbia–Belex, Slovakia–SAX, Slovenia–Ljubljana Stock Exchange SBI TOP, Spain–IBEX-35, Sweden–OMX Stockholm 30, Switzerland–SMI, Ukraine–PFTS, United Kingdom–FTSE 100.

advantage of a low interest environment to secure funds against a possible interest rate growth. In terms of types of issued bonds, the highest volume increase was recorded in the segment of government and sovereign bonds.

**Graph 6.4: Issuance activity on global bond markets**[65]




Source: Dealogic, MoF calculations

Bond yields, as noted above, recorded decline in 2016 with a few exceptions. However, according to values in Table 6.2, this was a long-term trend. Among the monitored countries, the largest fall was recorded in the average ten-year yield on Russian government bonds, by 248 pp to 8.8% p.a. In the member states of the Visegrad Four, there was a slight year-on-year decrease in average rates of Hungarian government bonds, by 21 pp to 3.2% p.a., Slovak ones by 22 pp and Czech government bonds by 24 pp to 0.5% p.a. Conversely, growth was recorded in yields on Polish government bonds, by 38 pp to 3.1% p.a. In terms of international comparisons of average yields on ten-year government bonds, Japanese and German government bonds had the lowest interest rates, identically to 2015, also in 2016.

**Table 6.2: Yield to maturity of 10Y government bonds**

| Average in given year (% p.a.) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year (b.p.) |
|---|---|---|---|---|---|---|---|
| United States | 2.7 | 1.7 | 2.4 | 2.5 | 2.1 | 1.8 | -28 |
| **Eurozone** | **3.1** | **2.2** | **2.0** | **1.4** | **0.6** | **0.2** | **-45** |
| China | 3.9 | 3.5 | 3.8 | 4.1 | 3.4 | 2.9 | -47 |
| Japan | 1.1 | 0.8 | 0.7 | 0.5 | 0.4 | -0.1 | -41 |
| Germany | 2.6 | 1.5 | 1.6 | 1.2 | 0.5 | 0.1 | -40 |
| United Kingdom | 3.0 | 1.8 | 2.4 | 2.5 | 1.8 | 1.2 | -63 |
| Russia | 8.2 | 7.8 | 7.2 | 9.6 | 11.3 | 8.8 | -248 |
| Poland | 6.0 | 5.0 | 4.1 | 3.5 | 2.7 | 3.1 | 38 |
| Austria | 3.3 | 2.3 | 2.0 | 1.4 | 0.7 | 0.3 | -39 |
| **Czech Republic** | **3.7** | **2.7** | **2.2** | **1.5** | **0.7** | **0.5** | **-24** |
| Hungary | 7.8 | 7.8 | 6.0 | 4.8 | 3.4 | 3.2 | -21 |
| Slovakia | 4.9 | 4.1 | 3.5 | 2.0 | 0.9 | 0.7 | -22 |

Source: Thomson Reuters, ECB, MoF calculations

Note: The data represent the averages from the monthly closing yield values of the generic 10Y government bond. Ten-year Eurozone bonds represent data from the yield curve of government bonds rated AAA.

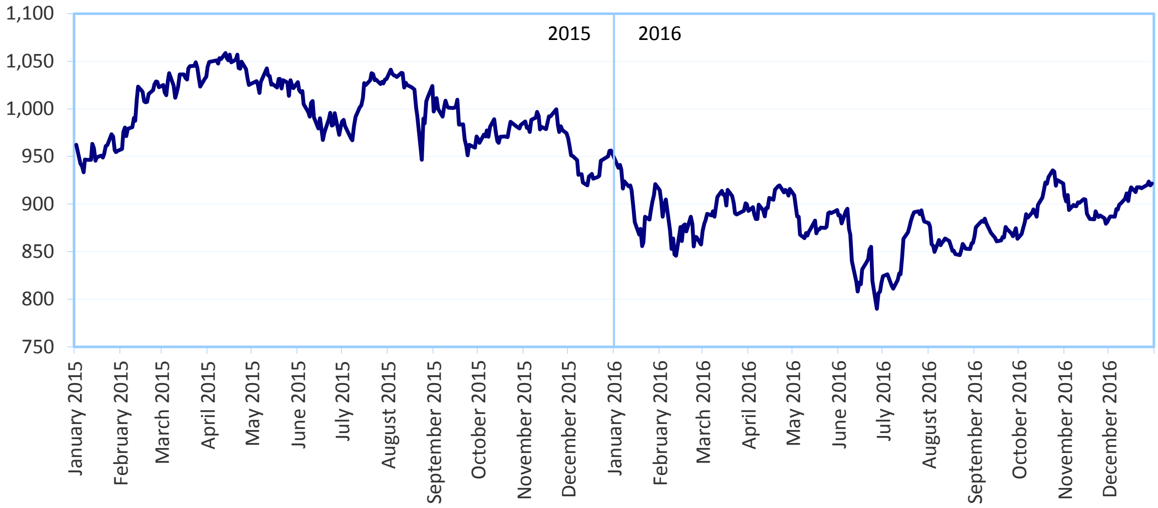
## 6.2. Regulated and OTC Market in the Czech Republic

The PX index (see Graph 6.5) followed the development of global indices in the first half of 2016, and responded with a decline from 956 points to the level of 850 points. The decline was due to pessimism about

[65] Geographical distribution represents the volume of issuer's bonds according to its home country irrespective of the place of issue.

the global economic development, which focused on the development in China and in commodity markets. Another drop (under the level of 800 points) occurred in June and July, when the driver was, similarly to other stock markets, in particular the referendum on the United Kingdom's withdrawal from the EU. However, optimism prevailed after the volatility caused by the referendum, and the PX index started growing slightly again. At the end of the year, the PX index ended at 921.6 points, which was a year-on-year decrease by 3.6%.

**Graph 6.5: Daily values of PX index** [66]




Source: PSE

In terms of long-term developments, the PX index changed its trajectory again (see Table 6.3). Contrary to growth in 2012 and 2015, there was a year-on-year decline as in 2011, 2013 and 2014. A similar development to the PX index, which reflects the weighed price development of only the most liquid stock, was also recorded by the PX-Glob index, which includes all traded stock on the Prague Stock Exchange (PSE). A year-on-year increase, of 1.8%, in the PSE was only recorded by the PX-TR index, which also reflects the development of the most liquid stock in time but taking into account dividend yields.

**Table 6.3: Values of PX, PX-TR a PX-GLOB indices**

| Indexes (closing price) | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| PX | as at 31 Dec | 911.1 | 1 038.7 | 989.0 | 946.7 | 956.3 | 921.6 |
| | *Change (%)* | -25.6 | 14.0 | -4.8 | -4.3 | 1.0 | -3.6 |
| PX-TR | as at 31 Dec | 1,181.3 | 1,397.9 | 1,389.4 | 1,384.9 | 1,455.9 | 1,481.6 |
| | *Change (%)* | -21.3 | 18.3 | -0.6 | -0.3 | 5.1 | 1.8 |
| PX-GLOB | as at 31 Dec | 1,160.5 | 1,295.8 | 1,239.5 | 1,183.8 | 1,241.0 | 1,198.4 |
| | *Change (%)* | -24.0 | 11.7 | -4.3 | -4.5 | 4.8 | -3.4 |

Source: PSE, MoF calculations

Probably the most important event on the PSE was the initial public offering (IPO) of Moneta Money Bank (formerly GE Money Bank). Other important events included splitting of Komerční banka's stock in a 1:5 ratio, commencement of trading with issue of Photon Energy stock, suspension of trading with NWR stock at the issuer's request, and termination of trading with issue of Pivovary Lobkowicz Group stock. The performance of individual constituents (stocks) of the PX index in 2016 is illustrated in Table 6.4. As far as the index is concerned, there were adjustments to constituents during the year. The issue of Pivovary Lobkowicz Group stock was removed from the index in March 2016, the issue of stock of the NWR mining company was removed in June, and, conversely, the issue of stock of Moneta was included in the index also in June.

[66] The data represents the daily closing values of the indices.

**Table 6.4: PX index constituents**[67]

| As at 31 Dec | Market capitalisation (CZK mn) | Trade volume (CZK mn) | Share price at the end of 2015 (CZK) | Share price at the end of 2016 (CZK) | Year-on-year change (%) |
|---|---|---|---|---|---|
| Erste Group Bank | 325,874.4 | 20,345.1 | 776.0 | 758.2 | -2.3 |
| ČEZ | 231,335.6 | 51,616.4 | 444.3 | 430.0 | -3.2 |
| Komerční banka | 168,193.6 | 49,872.8 | 990.0 | 885.0 | -10.6 |
| O2 Czech Republic | 80,595.2 | 8,346.9 | 251.0 | 259.8 | 3.5 |
| Vienna Insurance Group | 73,651.2 | 2,369.0 | 688.7 | 575.4 | -16.5 |
| Moneta Money Bank | 42,310.8 | 27,763.4 | 69.1 | 82.8 | 19.8 |
| Unipetrol | 33,329.3 | 1,381.9 | 160.0 | 183.8 | 14.9 |
| Philip Morris ČR | 25,061.8 | 3,389.4 | 11,999.0 | 13,096.0 | 9.1 |
| Stock Spirits Group | 11,290.0 | 462.8 | 50.9 | 56.5 | 11.0 |
| Central European Media Enterprises | 9,480.8 | 624.7 | 67.0 | 66.6 | -0.6 |
| Kofola ČeskoSlovensko | 8,180.0 | 117.7 | 490.0 | 366.9 | -25.1 |
| Pegas Nonwovens | 7,097.4 | 1,290.4 | 731.0 | 769.0 | 5.2 |
| Fortuna Entertainment Group | 4,461.6 | 322.5 | 80.5 | 85.8 | 6.6 |

Source: PSE, MoF calculations

Note: The value of the change in Moneta Money Bank's equity title reflects the change from the start of trading on 6 May 2016 to the end of 2016.

The most traded issues (see Table 6.4) have traditionally been stock of large capitalization companies such as ČEZ (a volume corresponding to approx. 22% of market capitalization was traded in the given year), Komerční banka (approx. 30% of market capitalization), and a newcomer in the PX index, Moneta Money bank (approx. 66% of market capitalization). The most significant stock exchange segment, according to the volume of trades (see Table 6.5), remained also in 2016 stocks with a total trade volume of CZK 168.0 billion. This segment has thus been dominant on the PSE since 2013–it accounted for 97.5% of all trades, which is 0.1% more than in 2016.

**Table 6.5: The volume of exchange trades on the PSE**[68]

| Annual (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Shares | 371.0 | 250.6 | 174.7 | 153.5 | 167.9 | 168.0 | 0.1 | 0.1 |
| Debt securities | 628.0 | 594.2 | 1.9 | 8.2 | 5.1 | 4.2 | -0.9 | -18.6 |
| public sector | 606.4 | 566.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - |
| corporate sector | 3.8 | 9.4 | 1.9 | 8.2 | 5.1 | 4.2 | -0.9 | -18.6 |
| financial sector | 17.8 | 18.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - |
| Structured products | 0.1 | 0.1 | 0.1 | 0.6 | 0.3 | 0.1 | -0.1 | -51.8 |
| Investment funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | - |
| Total | 999.1 | 844.8 | 176.8 | 162.3 | 173.3 | 172.4 | -0.9 | -0.5 |

Source: PSE, MoF calculations

In terms of the volume of OTC trades (see Table 6.6), there was a drop on the PSE in all segments. Absolutely the largest decline was in the bond segment with a year-on-year decline in OTC trades by CZK 136.3 billion. In terms of significance, however, stock exchange trades with bonds accounted for approx. 1% of total bond trades on the PSE, where OTC trades prevail. This trend has been evident since 2013, when the term "stock exchange trade" was newly defined in connection with introduction of the Xetra system. As a result, block trades were cancelled and replaced by OTC trades. These trades have then been reported in the statistics of the Central Securities Depository since 2013.

67 The data represents the daily closing values of the stocks.
68 The structured products include certificates and warrants.

**Table 6.6: The volume of OTC trades on the PSE**

| Annual (CZK bn) | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|
| | | | | | Abs. | (%) |
| Shares | 10.1 | 5.0 | 4.5 | 1.0 | -3.5 | -77.3 |
| Debt securities | 561.0 | 440.1 | 547.6 | 411.3 | -136.3 | -24.9 |
| Structured products | 0.0 | 0.0 | 0.0 | 0.0 | - | - |
| Total | 571.1 | 445.1 | 552.1 | 412.3 | -139.8 | -25.3 |

Source: PSE, MoF calculations

The number of registered issues traded on the PSE (see Table 6.7) increased by 2.1% in 2016. There was growth in the category of bonds, specifically corporate sector bonds, with an increase by 7 to 49 issues of corporate sector bonds at the end of 2016. There was a slight decrease in the number of issues in other bond items. In the category of structured products, there was a decrease by 18 registered issues, and the number of registered shares remained the same at the end of 2016. However, there was a significant increase in the category of investment funds instruments, which increased year-on-year by 20 registered issues. An impulse for further growth in these investment funds instruments could be, in many cases, also the effort to lower the tax upon fulfilment of a condition for acceptance for trading in the European regulated market.

**Table 6.7: Number of registered issues on the PSE**

| As at 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Shares | 26 | 28 | 26 | 23 | 25 | 25 | 0 | 0.0 |
| Debt securities | 95 | 98 | 110 | 116 | 112 | 115 | 3 | 2.7 |
| public sector | 21 | 20 | 21 | 24 | 26 | 25 | -1 | -3.8 |
| corporate sector | 15 | 27 | 32 | 38 | 42 | 49 | 7 | 16.7 |
| financial sector | 59 | 51 | 57 | 54 | 44 | 41 | -3 | -6.8 |
| Structured products | 81 | 30 | 103 | 68 | 89 | 71 | -18 | -20.2 |
| Investment funds | 0 | 0 | 0 | 0 | 17 | 37 | 20 | 117.6 |
| Total | 202 | 156 | 239 | 207 | 243 | 248 | 5 | 2.1 |

Source: PSE, MoF calculations

Another stock exchange in the Czech Republic, RM-Systém, česká burza cenných papírů a.s. (RM-System), which focuses mainly on small and medium-sized investors, also saw a decrease in the volume of trades in 2016 (see Table 6.8). On the one hand, there was a marginal growth in bond trades by approx. CZK 3.4 billion (38.7%), on the other hand, there was a significant drop in stock trades by CZK 618.2 billion (15.1%). As in previous years, however, the volume of trades on the RM-System was significantly lower than on the PSE.

**Table 6.8: The volume of exchange trades on the RM-System**

| Annual (CZK mn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Shares | 8,897.3 | 6,053.4 | 4,875.8 | 4,129.9 | 4,085.4 | 3,467.2 | -618.2 | -15.1 |
| Debt securities | 24.5 | 2.2 | 14.4 | 62.7 | 8.7 | 12.1 | 3.4 | 38.7 |
| Certificates | 0.6 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - |
| Total | 8,922.4 | 6,055.7 | 4,890.3 | 4,192.5 | 4,094.1 | 3,479.2 | -614.9 | -15.0 |

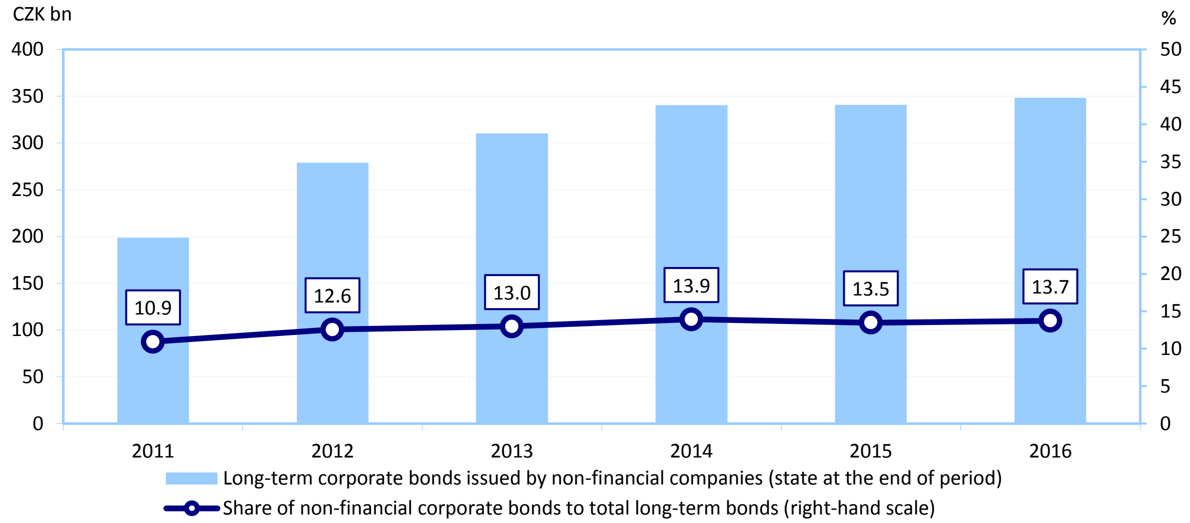
Source: RM-S, MoF calculations

From a long-term perspective, a trend of trading activity decline returned in 2016, which had been prevalent on the PSE and the RM-System since 2007 and had been interrupted in 2015. The causes of the repeated decline include the continued environment of low interest rates, which, on the one hand, lead to a general decline in potential yields across asset classes from investors' point of view and increased the price of offered instruments for issuers. At the same time, due to a low interest rate level, the capital market had an increasingly strong competitor in the banking sector because of the certain extent fixed costs of new issues.

On the other hand, the low interest rate environment created an additional incentive for investors to look for opportunities to capitalize on funds on capital markets.

As can be seen in Graph 6.6, non-financial corporations in the Czech Republic, that is, manufacturing and trading non-financial corporations, acquired, to a significant extent, long-term resources through bond issues. At the end of 2016, approx. 14% of the total volume of bonds was issued by non-financial corporations, in a total volume of CZK 348.4 billion. Compared to 2015, however, there was only a growth of about 2%, which could have been caused by competition of other segments of the financial market, including banks. Another reason for the stagnation in the total volume can be also the fact that there is already a limited number of entities in the market that would request additional sources of external financing under the given conditions. For the sake of comparison it can be stated that at the end of 2016 the volume of total outstanding amount of loans provided by banks to non-financial corporations was CZK 976.1 billion (see Chapter 5.5 Client Bank Deposits and Loans).

**Graph 6.6: Long-term bonds issued by non-financial companies** [69]




Source: CNB–ARAD, MoF calculations

Power Exchange Central Europe (PXE), formerly known as Energetická burza Praha, was purchased by the largest European commodity exchange, European Energy Exchange, in 2016. However, the PSE retained a share of one third and continues to closely cooperate with the PXE. It continues to serve primarily for trading derivative contracts with energy. As illustrated by Table 6.9, the PXE recorded a total increase in the volume of trades in 2016 (by 10.9%), with energy futures in the Czech market (5.7%) and foreign market (26.6%) recording the most significant growth. Conversely, the number of gas trades declined (by 22.3%).

**Table 6.9: Trading volumes on the PXE**

| Trading volume (EUR mn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Energy futures (CR) | 1,212.6 | 847.7 | 974.3 | 609.1 | 515.8 | 545.4 | 29.6 | 5.7 |
| Energy futures (other markets) | 114.9 | 21.9 | 186.9 | 162.3 | 298.1 | 377.3 | 79.3 | 26.6 |
| Energy spot trades | 1.7 | 74.0 | 0.0 | 0.0 | 0.0 | 0.0 | - | - |
| Gas trades | 0.0 | 0.0 | 0.0 | 16.8 | 61.1 | 47.5 | -13.6 | -22.3 |
| Total | 1,329.1 | 943.6 | 1,161.2 | 788.3 | 875.0 | 970.2 | 95.2 | 10.9 |

Source: PXE, MoF calculations

Note: Other markets represents Slovakia, Hungary, Poland and Romania.

[69] Data of long-term bond issuance realized by Czech residents, regardless of the location, method, or currency. The aggregate sum of the total long-term bonds matches the sum of issuances of government institutions, credit institutions, other financial institutions, and non-financial companies.

## 6.3. Securities Dealers and Asset Management

**Security dealers**

The securities dealer sector recorded a continued increase in attractiveness in all total indicators in the monitored period, and 2016 as not an exception either (see Table 6.10). Based on the number of clients (measured by the number of contracts), it grew year-on-year by 4.9% to a value exceeding 1.2 million. The volume of client assets compared to the previous year increased by 10.4% to CZK 4,193 billion, and the volume of managed funds grew by 13.1% and reached CZK 791.1 billion.

There were partial changes in the structure by managers. The number of contracts increased for bank as well as non-banking securities dealers, and it slightly decreased for investment companies. However, in terms of asset volumes, the development was different. Although most of the clients' assets continued to be registered by banking securities dealers, investment companies recorded a significant increase, to twice the level of 2015, whereas non-banking securities dealers lost attractiveness (a drop by 32.2%). Similarly to the volume of managed funds, a significant increase by 105.0% can be seen in the investment companies segment, and a slight increase of 6.6% in banking securities dealers; conversely, non-banking securities dealers recorded a decrease by 46.2%.

**Table 6.10: Selected indicators of securities dealer sector**[70]

| As at 31 Dec | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Total number of licensed entities | 64 | 67 | 71 | 66 | 71 | 73 | 2 | 2.8 |
| Banking sec. dealers | 26 | 25 | 28 | 28 | 28 | 27 | -1 | -3.6 |
| Non-banking sec. dealers | 32 | 36 | 36 | 30 | 34 | 38 | 4 | 11.8 |
| Investment firms | 6 | 6 | 7 | 8 | 9 | 8 | -1 | -11.1 |
| Number of clients (according to contracts, in thousands) | 886.1 | 875.9 | 909.7 | 1,007.8 | 1,195.9 | 1,254.9 | 59.0 | 4.9 |
| Banking sec. dealers | 744.7 | 707.9 | 705.6 | 757.7 | 906.1 | 920.9 | 14.8 | 1.6 |
| Non-banking sec. dealers | 141.3 | 167.4 | 203.5 | 249.3 | 288.8 | 333.0 | 44.3 | 15.3 |
| Investment firms | 0.1 | 0.7 | 0.7 | 0.8 | 1.0 | 0.9 | -0.1 | -8.3 |
| Value of clients' assets (CZK bn) | 2,545.1 | 2,725.4 | 2,987.9 | 3,331.2 | 3,798.4 | 4,193.0 | 394.6 | 10.4 |
| Banking sec. dealers | 1,968.6 | 2,103.2 | 2,344.9 | 2,622.6 | 3,047.2 | 3,334.1 | 286.9 | 9.4 |
| Non-banking sec. dealers | 467.2 | 416.3 | 417.6 | 458.6 | 492.4 | 333.6 | -158.7 | -32.2 |
| Investment firms | 109.3 | 205.9 | 225.3 | 250.0 | 258.8 | 525.3 | 266.5 | 103.0 |
| Value of managed funds (CZK bn) | 579.7 | 604.8 | 616.6 | 676.8 | 699.3 | 791.1 | 91.8 | 13.1 |
| Banking sec. dealers | 55.4 | 61.5 | 57.4 | 68.7 | 65.9 | 70.3 | 4.4 | 6.6 |
| Non-banking sec. dealers | 413.2 | 336.1 | 332.8 | 362.6 | 381.9 | 205.3 | -176.6 | -46.2 |
| Investment firms | 111.1 | 207.1 | 226.3 | 245.5 | 251.5 | 515.5 | 264.0 | 105.0 |

Source: CNB, MoF calculations

In terms of structure of managed assets (see Table 6.11), the most significant part (approx. 80%) was debt securities. Their volume increased by CZK 75.9 billion (13.7%) during the year, which can be attributed to the inflow of speculative capital from abroad and to investment in debt securities under the regime of the CNB's unilateral exchange rate commitment.

70 Managed funds represents entrusted funds by the customer to securities dealer for the purpose of providing an investment service for the management of the customer's property on a discretionary basis under a contractual arrangement. Clients' assets are all assets that securities dealer has in its power to provide any investment service.

**Table 6.11: Structure of managed assets**

| As at 31 Dec (CZK bn.) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Bonds | 458.8 | 482.5 | 486.5 | 551.0 | 553.3 | 629.1 | 75.9 | 13.7 |
| Shares | 28.2 | 21.7 | 16.7 | 19.6 | 21.5 | 21.9 | 0.4 | 1.6 |
| Collective investment securities | 62.7 | 65.6 | 80.3 | 91.9 | 104.5 | 120.2 | 15.7 | 15.0 |
| Money market instruments | 24.7 | 28.7 | 29.6 | 17.7 | 21.2 | 25.3 | 4.1 | 19.3 |
| Derivatives and other | 5.3 | 6.4 | 3.5 | -3.4 | -1.3 | -5.5 | -4.2 | 326.3 |
| Total | 579.7 | 604.8 | 616.6 | 676.8 | 699.3 | 791.1 | 91.8 | 13.1 |

Source: CNB, MoF calculations

In terms of another basic indicator—the volume of trades—there was also an increase, year-on-year by 4.9% to CZK 62.1 trillion (see Table 6.12). This slight increase was due to contradictory factors: an increase in transactions performed on own account by CZK 7.9 trillion and a decrease in the volume of transactions for their clients (i.e., based on management and other relationships) by CZK 5.0 trillion. A decrease in the volume of securities trades was recorded mainly in the sub-segment of non-banking securities dealers (by CZK 5.5 trillion), and an increase in bank SDS (by CZK 7.7 trillion) and investment companies (CZK 0.8 trillion). The segment of banking securities dealers has maintained in the long term its dominant position also in term of trades. In the case of only domestic banking securities dealers, this segment was involved in more than 76% of volume of trades, and together with foreign banking securities dealers it accounted for more than 87% of the volume of trades.

**Table 6.12: Volume of securities trades**

| Annual (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Banking sec. dealers | 44,423.7 | 48,397.1 | 49,778.7 | 59,539.3 | 46,460.0 | 54,143.4 | 7,683.4 | 16.5 |
| for clients | 7,638.7 | 7,720.6 | 7,579.3 | 6,079.1 | 5,565.7 | 5,909.6 | 343.9 | 6.2 |
| on own account | 36,784.9 | 40,676.5 | 42,199.4 | 53,460.2 | 40,894.3 | 48,233.8 | 7,339.5 | 17.9 |
| Non-banking sec. dealers | 2,702.9 | 1,806.7 | 23,051.9 | 33,607.3 | 12,724.5 | 7,183.2 | -5,541.3 | -43.5 |
| for clients | 2,097.1 | 1,469.0 | 22,744.9 | 33,250.3 | 12,070.7 | 5,967.6 | -6,103.1 | -50.6 |
| on own account | 605.8 | 337.7 | 307.0 | 357.1 | 653.9 | 1,215.6 | 561.7 | 85.9 |
| Investment firms | 44.2 | 156.8 | 84.5 | 76.8 | 62.8 | 813.3 | 750.5 | 1,195.7 |
| for clients | 44.2 | 156.8 | 84.5 | 76.8 | 62.8 | 813.3 | 750.5 | 1,195.7 |
| on own account | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - |
| Total volume | 47,170.8 | 50,360.6 | 72,915.1 | 93,223.5 | 59,247.3 | 62,139.9 | 2,892.6 | 4.9 |
| for clients | 9,780.0 | 9,346.4 | 30,408.7 | 39,406.2 | 17,699.1 | 12,690.5 | -5,008.6 | -28.3 |
| on own account | 37,390.7 | 41,014.2 | 42,506.4 | 53,817.3 | 41,548.2 | 49,449.4 | 7,901.2 | 19.0 |

Source: CNB, MoF calculations

**Asset management**

In terms of development of the volume of assets entrusted for management to members of the Czech Capital Market Association (AKAT), there was a year-on-year increase by 11.1% to a total of CZK 1.29 trillion in 2016. All the monitored financial groups recorded an increase in the volume of managed assets (see Table 6.13), with Generali Investments CEE (by 16.4%), NN Investment partners (by 19.2%) and AMISTA (by 113.2%) attaining the highest absolute year-on-year increases. In terms of the asset management concentration indicator, there was a slight decrease (by 1.3 pp), when the three largest financial groups managed approx. 56% of total assets in 2016.

**Table 6.13: Financial groups by value of managed assets of AKAT members**

| As at 31 Dec (CZK bn) | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|
| | | | | | Abs. | (%) |
| Generali Investments CEE, investiční společnost | 230.5 | 241.5 | 248.5 | 289.2 | 40.7 | 16.4 |
| Česká spořitelna | 176.7 | 212.3 | 216.3 | 224.5 | 8.2 | 3.8 |
| ČSOB Asset Management | 162.5 | 185.7 | 199.8 | 208.3 | 8.6 | 4.3 |
| Investiční kapitálová společnost KB | 117.5 | 138.6 | 140.2 | 147.2 | 7.0 | 5.0 |
| NN Investment Partners C.R. | 109.1 | 115.0 | 96.6 | 115.1 | 18.5 | 19.2 |
| AXA Investiční společnost | 57.8 | 58.0 | 61.4 | 69.5 | 8.1 | 13.2 |
| Conseq Investment Management | 27.3 | 37.1 | 41.7 | 46.1 | 4.3 | 10.4 |
| Raiffeisenbank | 17.3 | 20.1 | 24.8 | 29.7 | 5.0 | 20.1 |
| AMISTA Investiční společnost | 21.4 | 21.4 | 13.6 | 29.1 | 15.4 | 113.2 |
| J&T Investiční společnost | 10.9 | 12.6 | 17.8 | 24.9 | 7.1 | 39.8 |
| Other members of AKAT | 64.7 | 90.8 | 99.0 | 104.8 | 5.8 | 5.9 |
| Total | 995.7 | 1,133.2 | 1,159.7 | 1,288.4 | 128.6 | 11.1 |

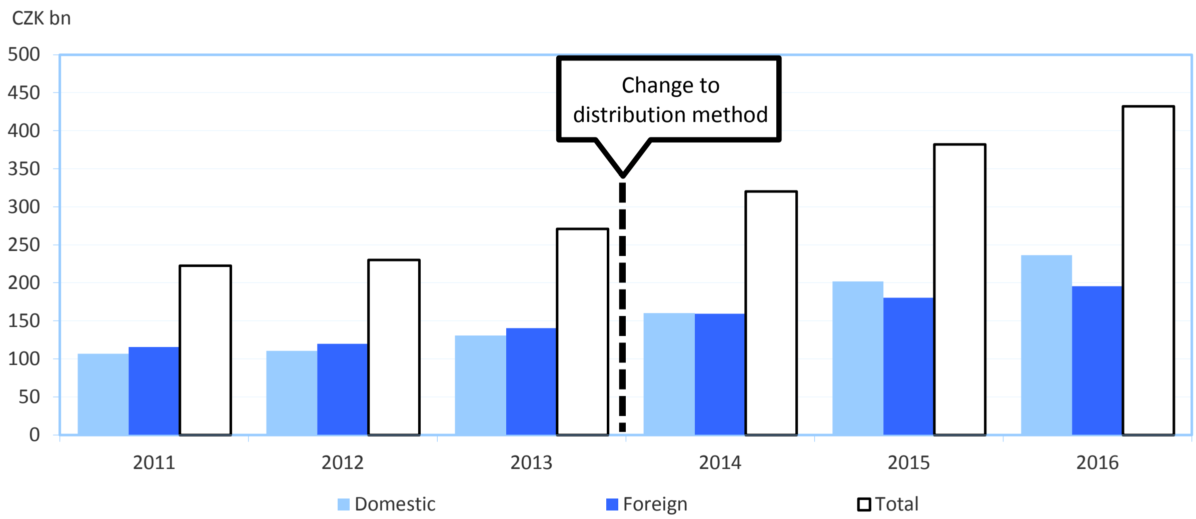
Source: AKAT, MoF calculations

## 6.4. Investment Funds

### Collective investments funds

During 2016, the volume of funds in collective investment funds increased by 13.1%, in absolute terms by CZK 50.0 billion. By the end of 2016, CZK 432.0 billion was invested in these funds, of which CZK 195.5 billion in foreign funds and CZK 236.5 billion in domestic ones. Higher year-on-year growth rate was recorded by domestic funds, by 8.7 pp more than foreign ones. This trend has continued for a third consecutive year. Given the fact that there was a change in the methodology of asset reporting in domestic mutual funds in 2014[71] (see Graph 6.7), while until then the data had corresponded to the volume of assets managed in domestic funds, there were no significant changes in the values of volume, and the higher growth in the volume of funds in domestic funds was caused mainly by the popularity of domestic funds themselves.

**Graph 6.7: Allocation of investments in mutual funds by domicile[72]**




Source: AKAT

[71] In 2014, the methodology of asset reporting in domestic mutual funds changed, i.e. the administrator's perspective was replaced by distribution perspective.

[72] In 2016, the 2014 and 2015 data was revised.

In terms of breakdown by type of mutual funds in Table 6.14, the volume of funds in all collective investment funds increased in 2016, except structured funds and money market funds. The largest increase was in mixed funds (by CZK 19.3 billion), bond funds (CZK 12.0 billion), and equity funds (CZK 11.9 billion). A slight decrease was recorded only by structured funds (CZK 0.8 billion) and money market funds (CZK 1.1 billion). From the point of view of economic interpretation, the decrease in the volume of funds in money market funds is logical in the context of low interest rates and the resulting low increase in value for investors investing in these funds mainly in short-term and low-risk securities. Domestic funds dominate over foreign ones in the following categories: funds of funds, real estate, bond and mixed funds. On the contrary, foreign funds dominate in the following categories: structured, money market and equity funds.

**Table 6.14: Assets in individual types of unit trusts by domicile**

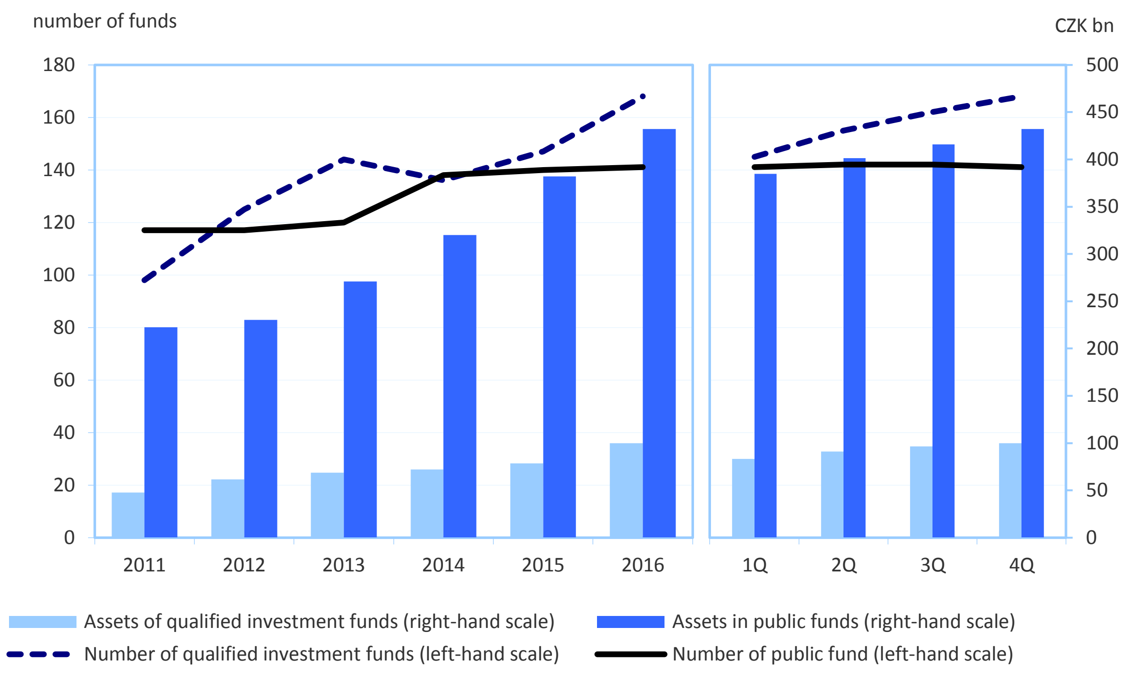
| As at 31 Dec (CZK bn) | 2015 | 2016 | | | Year-on-year change | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Abs. | (%) |
| Bond | 111.9 | 70.7 | 53.2 | 123.9 | 12.0 | 10.8 |
| Equity | 69.3 | 33.6 | 47.6 | 81.3 | 11.9 | 17.2 |
| Structured | 28.3 | 0.3 | 27.2 | 27.5 | -0.8 | -2.7 |
| Mixed | 137.8 | 93.8 | 63.4 | 157.2 | 19.3 | 14.0 |
| Funds of funds | 17.9 | 20.0 | 0.2 | 20.2 | 2.3 | 12.9 |
| Money market | 4.3 | 0.5 | 2.8 | 3.2 | -1.1 | -25.5 |
| Real estate | 12.4 | 17.6 | 1.1 | 18.7 | 6.2 | 50.1 |
| Total | 382.0 | 236.5 | 195.5 | 432.0 | 50.0 | 13.1 |

Source: AKAT, MoF calculations

### Qualified investment funds

Qualified investment funds, whose activities consist in collection of funds from qualified investors and conducting joint investments recorded a year-on-year increase in the managed funds by CZK 21.5 billion (by 27.4%) to CZK 99.9 billion (see Graph 6.8). In terms of share in the total volume of assets in funds, qualified investment funds accounted for approx. 18.8% of total assets of investment funds (i.e., including funds in collective investment funds). From the long-term perspective, this share hardly changed in the monitored period.

**Graph 6.8: Structure of collective investment funds[73]**




Source: AKAT, CNB

[73] In 2016, the 2014 data was revised.

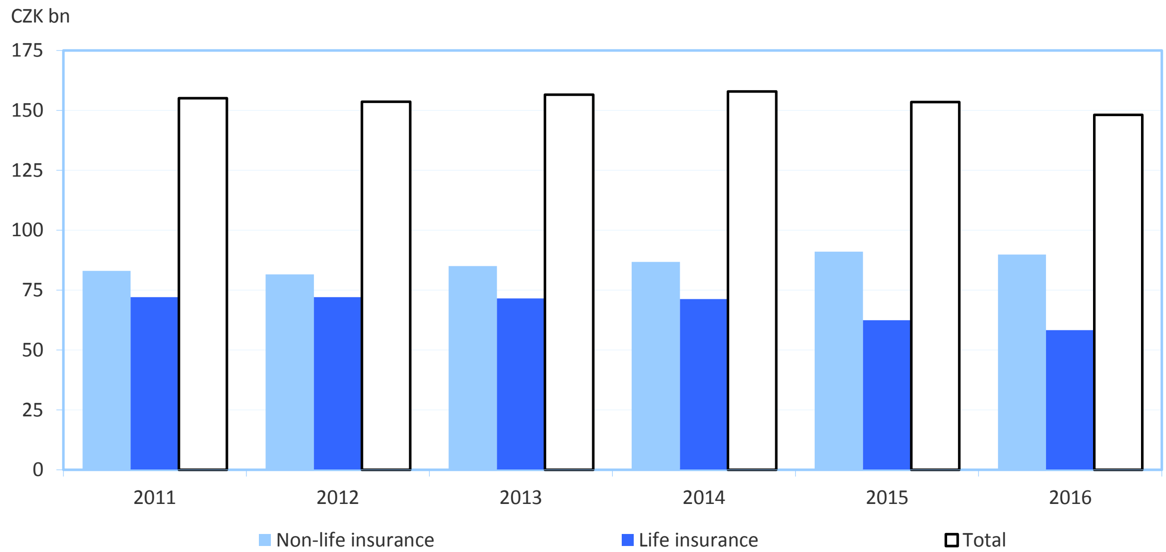
# 7. INSURANCE

The insurance sector can be considered a stabilized part of the financial market as well as the entire economy. Even in 2016 did insurance companies not manage to change a long-term stagnation trend in the development of premiums written, which slightly decreased compared to 2015. In terms of underwriting risk liabilities settlement, the course of 2016 can be considered standard, without any significant impact of extraordinary weather conditions. According to the Czech Insurance Association's data, elements caused damage totalling CZK 1.9 billion on insured property, and insurance companies dealt with 39 thousand insurance claims, which is 7% less than in 2015. The largest number and volume (80%) of damage were caused by storms and hail.

The overall evaluation of the sector over the past year is a very difficult task as with the amendment to the Insurance Act, which transposes the Solvency II Directive, coming into effect there were changes in the methodology of reporting, which makes the comparability of year-on-year data difficult. Under the Directive, selected indicators in life and non-life insurance are now reported according to the types of insurance, whose contents do not correspond to the previous breakdown by insurance branches. Some insurance market indicators will no longer be updated[74], and in some cases they will be replaced by reports with a similar structure of indicators. In reports of selected indicators, only sectors including more than 3 insurance companies are listed according to insurance branch; therefore, the total for life or non-life insurance need not be complete. The following evaluation, in particular of year-on-year data, therefore has to be approached taking into account the initial explanation. It is also the reason why the evaluation of this sector is partially reduced compared to the past.

The total gross premiums written continued its slight decrease, which started in 2015 (see Graph 7.1). It totalled CZK 148.1 billion, which is the lowest level in the monitored six-year period, as it was in the range of CZK 153–158 billion. There was only a minimum drop in the non-life insurance sector (a decrease by 1.3%). The life insurance sector thus contributed significantly to the total decrease (a decrease by 6.6%). This is a rather unusual phenomenon in the case of a favourable economic situation, because even when the insurance sector responds to a positive economic development with a certain delay, one could already expect, after three years of economic growth, higher interest in insurance protection and the associated willingness of clients to spend more for this purpose.

**Graph 7.1: The volume of gross premiums written**




Source: CNB–ARAD

With regard to the continued GDP growth and the decrease in the gross premiums written, the total insurance penetration[75] again decreased slightly, to 3.2% (by 0.2 pp). The insurance penetration indicator together with the ratio between the volume of life and non-life insurance (39:61), which has also slightly changed in favour

[74] This includes the following statements: Financial placement, Solvency, Basic information about life insurance by life-insurance branch, and a similar report for non-life insurance.

[75] It expresses the ratio between gross premiums written and nominal GDP.

of non-life insurance, shows that the Czech insurance market is moving away from trends in developed European insurance markets, where insurance penetration is approximately double the level, and the share of life insurance in the total number of collected premiums is approximately two thirds.

The situation in the insurance market is generally directly influenced by the development of the real economy. Nevertheless, even despite the current economic growth, it is not possible to expect more pronounced increases in premiums written. The main factors that have a negative impact on the development of the insurance market in the long run include slow removal of barriers and distrust between clients and intermediaries, or insurance companies themselves, in the taking out of insurance contracts. Persisting problems can still be seen in the overall complexity and lack of transparency of some insurance products, failure to fulfil the expected level of increase in value for reserve-creating products, and sometimes also the failure to meet expectations of the amount indemnity in the case of an insured event. The increasing necessary degree of regulation affecting the entire insurance sector does not contribute to overall simplification of insurance product understanding either.

On the contrary, from the perspective of policyholders' approach it can be said that many policyholders are underinsured with regard to the actual value of the insured property due to insufficient fluency of insurance contract updates. Moreover, insurance is still perceived by the vast majority of the public as a disposable family budget item, easily withdrawable in case of an imbalance between the budget's revenues and expenditures.

The results of a European survey conducted in late 2016 by the NN financial group in cooperation with the Tilburg University show that Czechs pay approx. CZK 1,100 monthly for all policies, which is not even a quarter of the EU average, when people pay approx. EUR 170 (i.e., CZK 4,600). The preference of property insurance before life insurance is also a long-term, historically rooted habit that fails to change in the Czech population. The aforementioned problematic approaches to the use of insurance products may also be related to the total lower level of financial literacy in the Czech Republic.

The insurance sector in the Czech Republic can be considered sufficiently competitive and territorially diversified in terms of domestic and foreign ownership. Two international insurance groups—Generali CEE Holding (Česká pojišťovna, Česká pojišťovna ZDRAVÍ and Generali pojišťovna) and Vienna Insurance Group (Kooperativa pojišťovna, Česká podnikatelská pojišťovna and Pojišťovna České spořitelny)—have long maintained a decisive share in the market, in total approx. 62%; the share of Vienna Insurance Group is 32%. Of the total number of entities (54[76]), at the end of 2016, 6 insurance companies provided only life insurance, 34 insurance companies were registered as providing non-life insurance, and 14 insurance companies were mixed, i.e., provided both life and non-life insurance. 16 insurance companies have a decisive foreign participation, 14 insurance companies have a decisive Czech participation, and 24 entities are branches of foreign insurance companies.

## 7.1. Development of Life and Non-Life Insurance

The unfavourable development of the insurance market is documented by a decline in the gross premiums written in both its subsectors. Life insurance totalled CZK 58.3 billion (a decrease by 6.6%), and non-life insurance totalled CZK 89.8 billion (a decrease by 1.3%). The stagnating, or rather slightly downward trend in the sector has failed to reverse for several years.

Evaluation of the development of the number of concluded contracts is also very difficult due to a methodological change in reporting. There are distortions mainly in the number of life-insurance contracts as the numbers of contracts with additional insurance to life insurance were reported separately but under to the new methodology according to types of insurance they are not reported separately. The lower number of insurance contracts was also influenced by a drop in the number of contracts with a one-off payment, which, however, have a negligible risk component and are based rather for the purpose of capitalization of funds, which fails to meet, in the current situation of low interest rates, the client's original expectations. The total number of non-life insurance contracts showed only a slight increase (1.5%). A positive impetus for future development can be draw from a more pronounced growth in new non-life insurance contracts (by 5.2%), to which increased sales of vehicles contributed (see Table 7.1).

76 Including the Czech Insurers' Bureau and without a reinsurance company.

**Table 7.1: Main indicators for Insurance sector**

| As at 31 Dec | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|
| | | | | Abs. | (%) |
| Number of policies (in thousands) | 28,157 | 27,748 | 26,652 | -1,096 | -3.9 |
| of which: non-life insurance | 20,417 | 20,355 | 20,656 | 301 | 1.5 |
| life insurance | 7,740 | 7,393 | 5,996 | -1,397 | -18.9 |
| Number of newly concluded policies (in thousands) | 11,955 | 10,861 | 11,106 | 245 | 2.3 |
| of which: non-life insurance | 10,889 | 9,920 | 10,434 | 514 | 5.2 |
| life insurance | 1,066 | 941 | 672 | -269 | -28.6 |
| Total gross premiums written (CZK bn) | 157.9 | 153.4 | 148.1 | -5.3 | -3.5 |
| of which: non-life insurance | 86.7 | 91.0 | 89.8 | -1.2 | -1.3 |
| life insurance | 71.2 | 62.4 | 58.3 | -4.1 | -6.6 |
| Total gross claim paid (CZK bn) | 105.0 | 99.7 | 98.7 | -1.0 | -1.0 |
| of which: non-life insurance | 46.7 | 48.5 | 48.2 | -0.3 | -0.5 |
| life insurance | 58.3 | 51.2 | 50.5 | -0.7 | -1.5 |
| Total insurance penetration (%) | 3.7 | 3.4 | 3.2 | -0.2 | - |

Source: CNB–ARAD

A favourable development of the economy, which is manifested in the dynamics of purchase of new technologies, fleet renewal and overall higher investment by entrepreneurs, who also make more use of insurance for consequential damage resulting from disruption of operations, which may often have more serious economic consequences than the actual property loss, should have an undeniable influence on non-life insurance. Liability insurance and all-risk insurance, i.e., coverage of all usual insurance risks, are becoming increasingly popular with entrepreneurs. However, these generally positive impetuses were reflected in the actual results of non-life insurance only marginally. Even when taking into account the extraordinary factor consisting in the termination of foreign activities of Česká pojišťovna, a.s., which represented approx. CZK 3.5 billion, there would only be a slight growth in premiums written (2.5%).

As regards motor third-party liability insurance and motor vehicle accident insurance, a process of further deepening of segmentation of clients continued on an individual basis in 2016. Higher-risk motorists are punished through a system of maluses with higher insurance rates; conversely, drivers with without damage caused will practically not see any increase in rates or their premiums get even lower through a bonus system. In view of an increase in claims for damages to health or death it can be expected that insurance companies will continue in the stabilization of insurance rates at a slightly higher levels in the case of motor third-party liability insurance.

As regards the area of life insurance, its main indicator—gross premiums written—followed a downward trend for a fourth consecutive year. The main reasons may include a persisting diversion from products with one-off premium in favour of risk-based products, or also the initial impact of stricter conditions reducing the motivation of intermediaries for conclusion of life insurance contracts due to coming into effect of an amendment to the Act on Insurance Intermediaries and Independent Loss Adjusters[77], which includes regulation of commissions and surrender. An increasing competitive pressure of the offer of savings products from different sectors of the financial market may also influence the decrease in life insurance in the part of reserve-creating policies.

With the amendment to the Insurance Act, transposing the Solvency II Directive, coming into effect, across-the-board material regulatory instruments such as the maximum technical interest rate or monitoring of the degree of solvency according to the CNB's original methodology were removed. The setting of the amount of guarantees provided to customers is the responsibility of each insurance company within its own risk profile and individual risk management system.

## 7.2. Economic Results of Insurance Companies

The insurance market had positive economic results in 2016. Pre-tax profit totalled CZK 13.7 billion, which is a year-on-year increase by almost 37% and the best result over the last 3 years. The profit growth was mainly

[77] Amendment to Act No 38/2004 Coll., on insurance intermediaries and independent loss adjusters, with effect from 1 December 2016.

due to the result of the non-life insurance technical account and investment returns. The economic results are a relatively good starting base for the sector's further development.

The balance sheet total of the entire sector increased year-on-year to CZK 492.5 billion (an increase by less than 2.0%), of which investment accounted for 70.6%. The sector's capital adequacy assessed on the basis of equity increased by 2.0%. By contrast, the volume of accounting technical reserves, reduced by the reinsurers' share, slightly decreased by 2.4% to CZK 269.3 billion compared to 2015.

The structure of domestic insurance companies' investment remained conservative. Of the total investment of CZK 430 billion, debt securities accounted for 67%, investment in investment funds 14%, stock 7%, structured bonds 5%, and real estate 1%. Other investment titles were less significant.

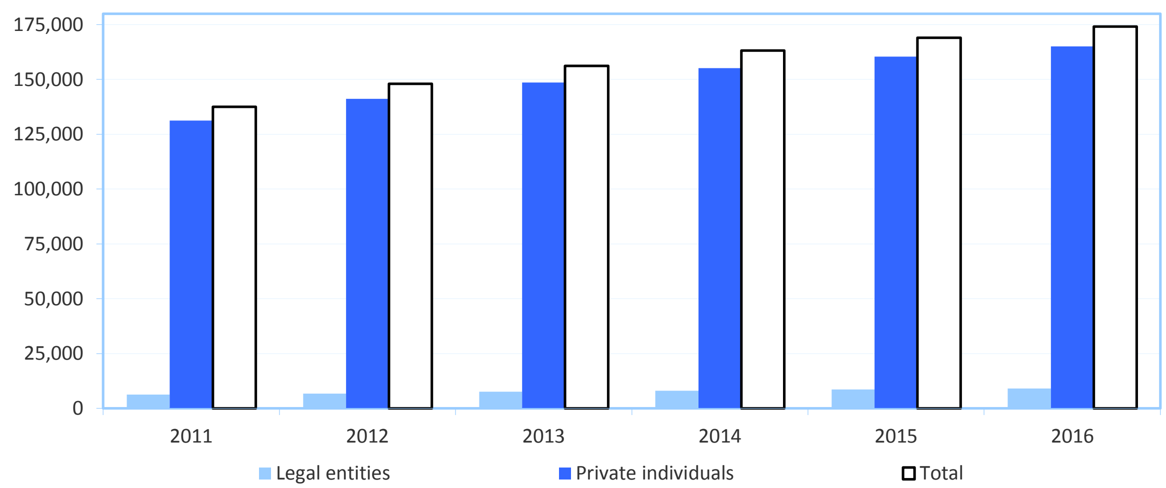
The financial results reported by insurance companies are also generally affected by their success in the battle against insurance fraud. According to the Czech Insurance Association's data insurance frauds totalling CZK 1.2 billion were uncovered in 2016, which is approximately the same as in 2015. The number of audited events increased by 1.9%. The number of insurance claims with uncovered insurance fraud also recorded growth by 3.6%. Most cases were uncovered in Prague. For a second consecutive year, the highest number of insurance frauds was uncovered in personal insurance. These are often activities of well organised groups, including involvement of cooperating medical staff. Insurance companies do not rely only on the human factor in their efforts to uncover insurance fraud. A number of insurers have invested in costly software systems that are able to identify and evaluate suspicious cases in advance.

The results of autumn common stress tests of the European Insurance and Occupational Pensions Authority and the Czech National Bank show that Czech insurance companies are sufficiently resilient to any adverse shocks. The testing showed that the sector as a whole has sufficient capital adequacy, and it is thus able to absorb relatively significant changes in risk factors[78].

## 7.3. Insurance Intermediation

The growth in the number of insurance intermediaries continued similarly to the previous years. At the end of 2016 there were over 174 thousand intermediaries and independent loss adjusters holding a license to carry out intermediary activities. As is obvious from Graph 7.2, the majority are individuals (95%) as compared to legal entities.

**Graph 7.2: The number of insurance intermediaries**




Source: CNB

Subordinated insurance intermediaries and exclusive insurance agents remained the largest two categories and together represented 88% of the total number of intermediaries. There were also 6 thousand intermediaries from other EU Member States in the market (see Table 7.2). During the year the licences of

[78] The tests were undergone by ten domestic insurance companies whose market share according to the gross premiums written was approximately 90% in 2015.

20 thousand entities were withdrawn, however, in most of the cases it was at the intermediary's own request. The register has been gradually cleared also due to more active activities of the CNB, which removes persons who are enrolled in it but are no longer active insurance intermediaries.

In the long term, the number of registered insurance intermediaries should also decrease due to the pending new legislation (the Insurance and Reinsurance Distribution Act), which unifies the procedure of acquisition of business licenses across the entire financial market. This pending legislation also includes measures to increase the professional qualifications of insurers, and strengthening of consumer protection, especially in the life insurance segment.

**Table 7.2: Number of insurance intermediaries by position (category)**

| Entity registered as at 31 Dec | 2015 | | | 2016 | | | Year-on-year change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | IN | LE | Total | IN | LE | Total | IN | LE | Total |
| TIE | 12,613 | 304 | 12,917 | 12,519 | 304 | 12,823 | -0.7 | 0.0 | -0.7 |
| SII | 104,601 | 3,254 | 107,855 | 107,881 | 3,514 | 111,395 | 3.1 | 8.0 | 3.3 |
| EIA | 39,659 | 358 | 40,017 | 41,070 | 380 | 41,450 | 3.6 | 6.1 | 3.6 |
| IA | 462 | 931 | 1,393 | 459 | 922 | 1,381 | -0.6 | -1.0 | -0.9 |
| IB | 146 | 634 | 780 | 148 | 635 | 783 | 1.4 | 0.2 | 0.4 |
| ILA | 142 | 118 | 260 | 150 | 113 | 263 | 5.6 | -4.2 | 1.2 |
| FII | 2,760 | 3,042 | 5,802 | 2,782 | 3,215 | 5,997 | 0.8 | 5.7 | 3.4 |
| Total | 160,383 | 8,641 | 169,024 | 165,009 | 9,083 | 174,092 | 2.9 | 5.1 | 3.0 |

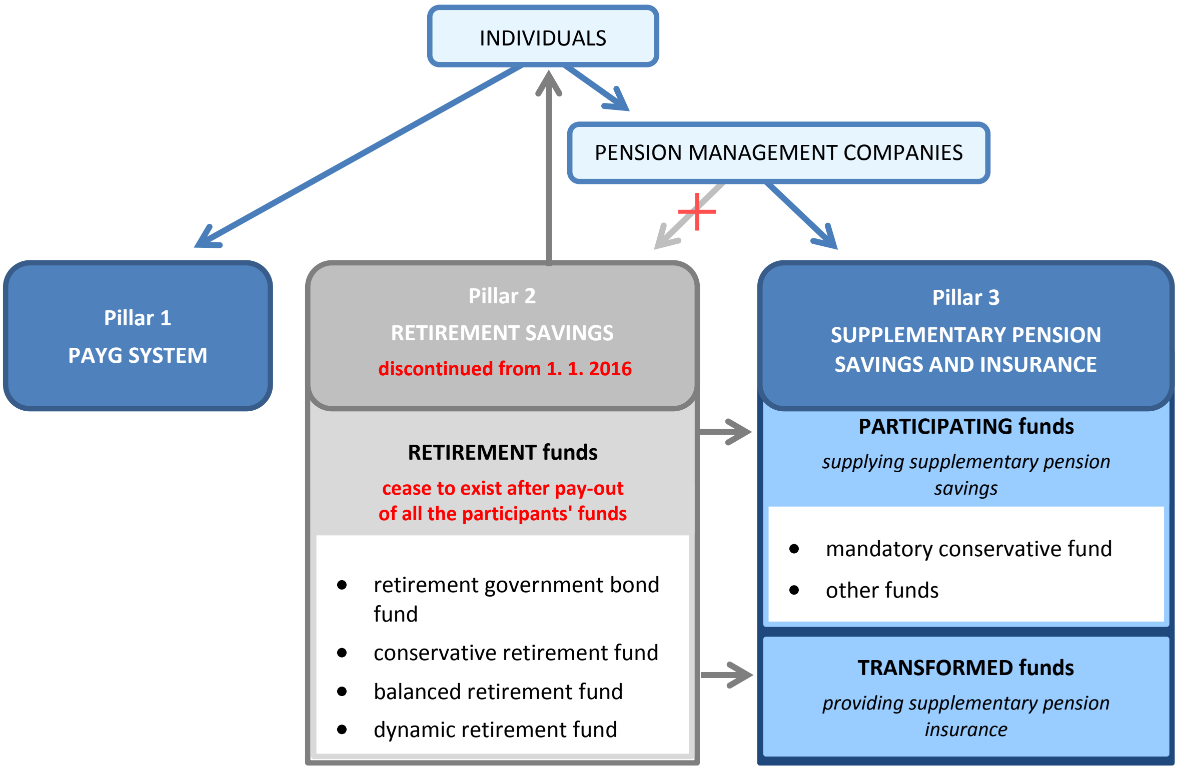
Source: CNB

Note: Explanation: TII = tied insurance intermediary, SII = subordinated insurance intermediary, EIA = exclusive insurance agent, IA = insurance agent, IB = insurance broker, ILA = independent loss adjuster, FII= foreign insurance intermediary, IN = individual and LE = legal entity.

# 8. PENSION SYSTEM

The pension system in the Czech Republic, which consisted of three pillars since the beginning of 2013, witnessed a significant change in its current structure in 2016 due to discontinuation of retirement savings, which represented Pillar 2 of the pension system, as shown in the following Scheme 8.1.

**Scheme 8.1: Structure of the pension system since 2013**




Source: Prepared internally

The retirement savings scheme consisted of transferring 3% of the employee's gross salary that is currently deducted for national pension insurance to a private individual retirement account managed by a pension management company under the condition that the employee contributes an additional 2% of their gross salary. The retirement savings scheme was discontinued from 1 January 2016. As of 1 July 2016, retirement funds entered liquidation and consequently they should cease to exist after pay-out of all the participants' funds. Participants were to inform, by the end of September 2016, their pension companies how they wanted their savings paid out—in cash through a postal order, to a bank account or by transfer to their account in the Pillar 3. Chapter 8.2 provided more detailed information about the discontinuation of the retirement savings scheme.

The pension system continues to include Pillar 1, which represents pension system, that is, a mandatory pay-as-you-go system financed by the state, and Pillar 3, which represents voluntary old-age savings supported by the state through state contributions and tax relief. Up to the end of 2012, the function of Pillar 3 existed only under the supplementary pension insurance scheme, which continues to exist as a part of Pillar 3 in the form of the transformed funds. These are the funds to which the savings of the participants in the original supplementary pension insurance scheme were automatically transferred. At the same time, the conditions of their supplementary pension insurance contracts were retained (namely the no-loss guarantee, the ability to receive an early pension, and the conditions that make it possible to terminate the contract and receive payments). It is no longer possible to join the supplementary pension insurance scheme. Individuals interested in saving under Pillar 3 may only join the supplementary pension savings scheme, where their savings are placed in one of the participating funds according to the investment strategy which the participant chooses from the pension management company's offer.

In connection with the discontinuation of the retirement savings scheme, i.e., Pillar 2, changes were made to the supplementary pension savings scheme, which are to make savings in Pillar 3 more attractive. Since the beginning of 2016, minor participants may also enter participating funds, the age of entitlement to pay-out of certain supplementary pension savings benefits decreased to 60 years (as is the case with the supplementary pension insurance), and pensions paid out for at least 10 years are now exempted from income tax. Since the beginning of 2017, the maximum amount Pillar 3 participants can deduct from the income tax base increased from CZK 12,000 to CZK 24,000, and the threshold for tax relief for the employer's contribution to supplementary pension insurance or supplementary pension savings increased from CZK 30,000 to 50,000. In order to support the provision of supplementary pension savings, the maximum amount of remuneration for mediation of supplementary pension savings doubled to 7% of the average wage, which was approx. CZK 1,813 in 2016 and it is CZK 1,890 in 2017.

## 8.1. Pension Management Companies

Pension management companies have managed the participants' assets that are kept in the individual pension accounts that make up the participating and transformed funds. Pension management companies also managed funds in retirement funds since 2013 before they had to be paid out. They were established as new entities, usually through the transformation of the original pension funds as a part of the overall pension system reform, which took place in 2013. The main purpose behind this institutional change was to guarantee the safety of the participants' funds through separating the assets of the participants from the assets of the shareholders, i.e. the fund managers.

Within Pillar 3, the pension management companies are legally obliged to offer one conservative participating fund with the investment limits defined in the law. They may, however, offer a range of other participating funds with variously structured portfolios (within the broader limits defined in the law). In the case of the already discontinued Pillar 2, the law obliged pension management companies to offer 4 pension funds to participants—dynamic, balanced, conservative and government bonds ones. In addition, the legislation defined the investment limits for each of these retirement funds.

As shown in Table 8.1, as in 2015, there were 8 pension management companies operating in the pension system at the end of 2016, of which all managed funds in participating as well as transformed Pillar 3 funds. In terms of number of entities, the pension management companies sector seems to be stabilized. After a reform, there were 10 pension management companies in the market, of which one decided to terminate its activities, and two companies merged. Discontinuation of Pillar 2 affected 5 pension management companies, which previously carried out activities including management of retirement funds (see the 2nd column in Table 8.1).

**Table 8.1: Number of funds of pension management companies in Pillars 2 and 3**

| Pension management company | Terminated Pillar 2 | Pillar 3 | |
|---|---|---|---|
| | Retirement funds | Transformed funds | Participating funds |
| Allianz penzijní společnost, a.s. | 4 | 1 | 3 |
| AXA penzijní společnost a.s. | - | 1 | 3 |
| Conseq penzijní společnost, a.s. | - | 1 | 3 |
| Česká spořitelna – penzijní společnost, a.s. | 4 | 1 | 3 |
| ČSOB Penzijní společnost, a.s. | 4 | 1 | 4 |
| KB Penzijní společnost, a.s. | 4 | 1 | 4 |
| NN Penzijní společnost, a.s. | - | 1 | 3 |
| Penzijní společnost České pojišťovny, a.s. | 4 | 1 | 4 |
| Total | 20 | 8 | 27 |

Source: APS CR

As at 31 December 2016, pension management companies managed a total of 55 funds, i.e., the same number as at the end of 2015. A significant change in the number of funds will occur in 2017 due to termination of 20 retirement funds after all participants' funds have been disbursed.

The pension management companies sector reported almost CZK 1.4 billion in pre-tax profit from standard activities in 2016, which is an increase by 78.8% (see Table 8.2). Achieving a record high profit is associated with a slight increase in the maximum statutory limits for remunerations for asset management and asset valuation of transformed and participating funds (except a mandatory conservative fund)[79], which is in force since 2016. Although the regulatory capital of pension management companies increased slightly, the ratio of the pension management companies' capital to their cumulative capital requirements dropped again, relatively significantly by 8.3 pp. This development cannot be viewed favourably, particularly due to the possible future risk of reduction in the market price of bonds, which make up the majority of the portfolio of transformed funds managed by the pension management companies. Due to statutory guarantee that the transformed funds will not decrease in value, if interest rates increase from their currently very low levels, and, as a result, there is an associated decrease in the price of the bonds held at market value, the pension management companies would have to make up any losses from their own equity.

**Table 8.2: Selected indicators in pension management companies sector**

| Indicator as at 31 Dec (in CZK mn or %) | 2013 | 2014 | 2015 | 2016 | Year-on-year change (%) |
|---|---|---|---|---|---|
| Profit (loss) for the accounting period before taxation | -271.4 | 528.9 | 780.4 | 1,395.2 | 78.8 |
| Equity, total | 9,129.5 | 8,322.9 | 8,796.3 | 8,900.0 | 1.2 |
| Capital ratio (%) | 148.5 | 139.7 | 132.6 | 124.3 | - |

Source: CNB–ARAD

## 8.2. Retirement Savings

The government's decision to discontinue Pillar 2 was issued in November 2014. Entry of new participants in retirement funds stopped based on an amendment to the Retirement Savings Act from 1 July 2015. Subsequently, on 28 December 2015, law on termination of retirement savings came into effect, and the possibility of savings in retirement funds terminated on 1 January 2016. Participants were to inform, by the end of September 2016, their pension companies how they wanted their savings paid out (by a postal order, to a bank account or by transfer to their account in the Pillar 3. According to information provided by the Association of Pension Management Companies of the Czech Republic (APS CR), most of 84,473 participants, whose funds in retirement funds totalled CZK 3.44 billion as at 30 September 2016, received payment to their bank accounts, and approximately one half had their money transferred to Pillar 3. The funds of the remaining approx. 4.5 thousand participants who failed to send their decisions to their pension management companies as to the manner of settlement of their retirement savings were sent to their personal tax accounts maintained by the Financial Administration. In such case, participants may request pay-out of their funds from the locally competent tax office. However, the tax office may use them preferentially to cover any tax arrears of participants.

Due to the manner of functioning of retirement savings, which was based on redirection of 3% of the participants' gross salary paid within the pension insurance scheme, i.e., Pillar 1, to their accounts maintained by pension management companies, the participants' state pension will be reduced in the future for the time they participated in Pillar 2. To maintain the percentage of the state pension and to avoid reduction in the rate in its calculation, every former participant in the retirement savings scheme may request from the Czech Social Security Administration, by 30 June 2017, information about the amount of the difference in pension insurance contributions, and pay the amount calculated by 29 December 2017. If they do not pay this amount, the state pension from Pillar 1 will decrease by approx. 0.3% per year depending on the length of insurance in Pillar 2.

A characteristic feature of the discontinued retirement savings scheme was, that Pillar 2 participants, as opposed to participants saving in Pillar 3, chose, in selecting their funds, rather risky investment strategies. At the end of 2015, 71.8% of all funds were placed in dynamic and balanced retirement funds, which, compared to other retirement funds, had statutory less strict investment limits and they could, for example, invest in shares. This phenomenon was to a large extent caused by the age structure of participants, as retirement

[79] In the case of transformed funds, the maximum remuneration for asset management increased by 0.2 pp to 0.8% of the total amount saved. Conversely, the limit for remuneration of pension management companies for asset valuation decreased by 5 pp to 10% of annual yields. In the case of participating funds except mandatory conservative fund, the maximum remuneration for asset management increased by 0.2 pp to 1% of the total amount saved, and the limit for remuneration for increase in value of assets increased by 5 pp to 15% of annual yields.

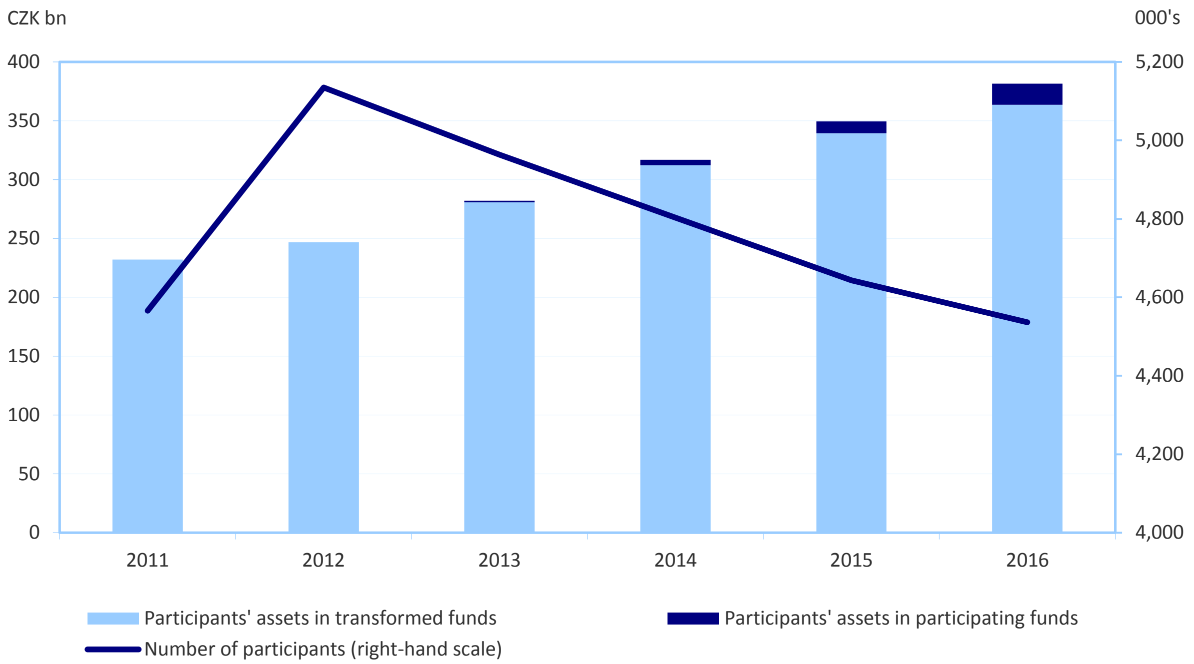
savings contracts were concluded mainly by relatively young people with a perspective of long-term horizon of valuation of savings.

## 8.3. Supplementary Pension Insurance and Supplementary Pension Savings

The participant assets in the transformed funds and in the participating funds totalled CZK 381.6 billion (see Graph 8.1) at the end of 2016, reflecting a year-on-year increase of 9.2%. Of this amount, assets totalling CZK 18.1 billion (an increase by 78.1%), which accounted for 4.7% of all of the Pillar 3 assets, were managed by the pension management companies in the participating funds at the end of the year. Most assets thus remained in transformed funds, which recorded a year-on-year increase by 7.1%.

Since the entry of a large number of new participants (a total increase of 569 thousand participants) in connection with the possibility to conclude contracts under the conditions of supplementary pension insurance only until the end of November 2012, the number of Pillar 3 participants has been decreasing. At the end of 2016, 4.54 million participants had their funds in Pillar 3, i.e., almost 107 thousand less than in 2015. Although the number of supplementary pension savings increased by a record-breaking 178 thousand in 2016, this increase in the number of persons in participating funds was not sufficient to cover the loss of clients in transformed funds. However, the fact that this was a lower decrease compared to 2015 and 2014, when the number of participants decreased identically by 160 thousand persons, can be viewed positively. At the end of 2016, almost 4 million participants were registered in transformed funds, and approximately 537 thousand people had their funds in participating funds[80].

**Graph 8.1: Participants' assets and number of participants in Pillar 3**



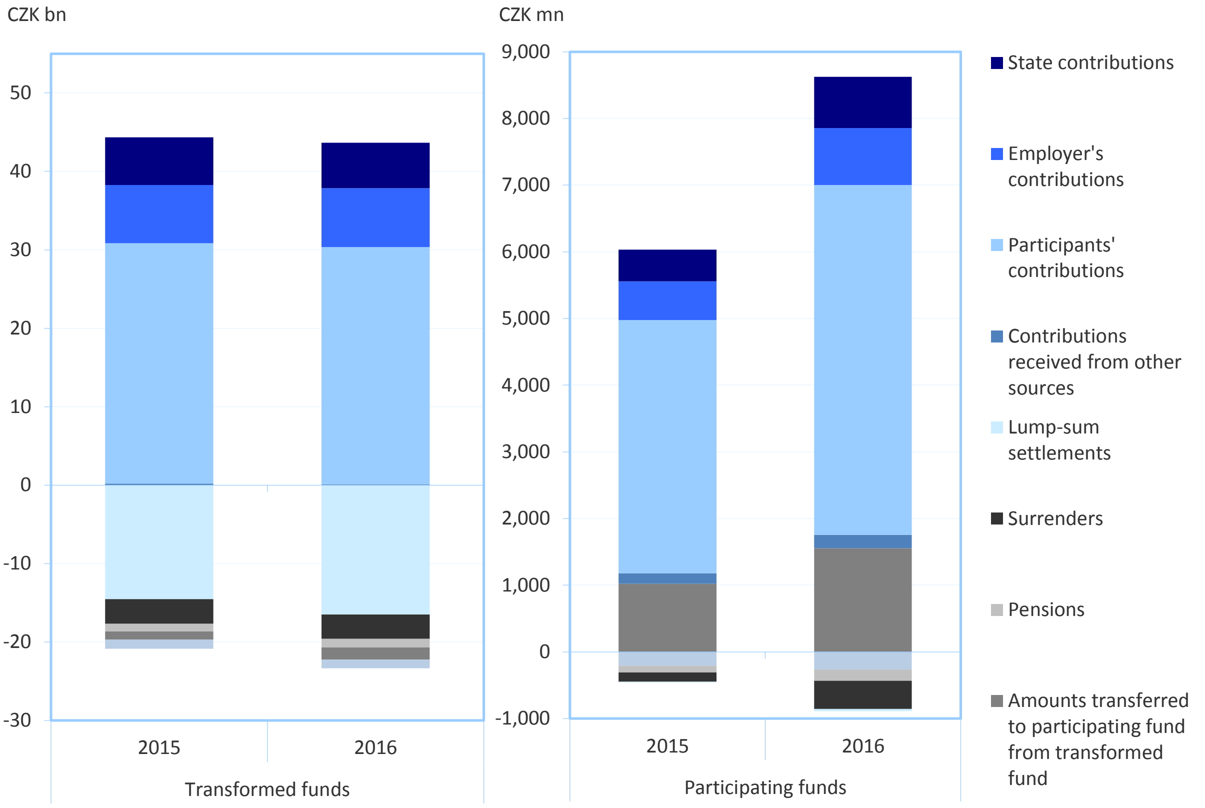

Source: APS CR, MoF

While transformed funds recorded again, in connection with their closing for new participants, a decline in the balance between received and disbursed funds, participating funds' income increased by more than CZK 2.6 billion compared to 2015, and they significantly exceeded the volume of disbursement funds (see Graph 8.2). The increasing number of supplementary pension savings participants significantly helped increase the total participants' own contributions. The overall increase in income compared to 2015 was also due to higher contributions provided by employers, and a significantly higher volume of funds transferred from transformed funds.

[80] The number of participants in the participating funds is based on the data that the MoF receives on a quarterly basis from the individual pension management companies. According to the data of the APS CR, as of 31 December 2016 there were almost 542,500 participants in the participating funds; according to the CNB's data, there were 542,000.

The disbursements from the transformed funds were also in 2016 most commonly made in the form of a lump-sum settlement. Conversely, in the case of participating funds, the disbursements of pensions largely dominated over lump-sum settlement. However, this preference is due to only a short-term functioning of participating funds and it may also be related to the use of a "pre-retirement"[81] by participants who moved their funds from transformed to participating funds. As at 31 December 2016, pre-retirement pensions were paid to 1,746 persons, which was an increase in the number of pre-retirement pensions by approx. 55%, and their average amount as at that date was CZK 9,593, about CZK 100 more than in 2015. Those participants who move their savings from the transformed funds may also choose to collect a regular retirement pension for tax optimisation purposes in the case of the disbursement of the contributions made by their employers.[82]

**Graph 8.2: Contributions received and paid in transformed and participating funds**




Source: CNB–ARAD

It can be seen from Table 8.3 that from the perspective of the age structure of the participants in Pillar 3, the middle generation (the 30–59 age group) continues to hold the dominant position. This group consists of persons of working age with statistically higher and more stable incomes, which provide a better environment to create financial reserves for retirement. The share of persons aged 30 to 59 gradually grew slightly, and it reached almost 63% in 2016. The absolute highest number of participants at the end of 2016 consisted of people in their forties, followed very closely by individuals in their thirties and fifties. However, while the number of individuals aged 40–49 slightly grew annually over the last 5 years, the number of participants aged 30–39 declined permanently, and together with individuals aged 18 to 29 they made a category that recorded the most significant decrease in the number of Pillar 3 participants in the monitored period. The change in the number of participants within the individual age groups may, however, be caused by people moving from one

81 Five years prior reaching pension eligibility age, the participants have the ability to either start collecting their pension in the form of a retirement pension for a predefined period of time, or to pay a one-time premium in order to start collecting a lifetime annuity or fixed amount annuity payments for a specific period of time. The ability to select a lump-sum distribution is conditional on reaching pension eligibility age.

82 The contracts for supplementary pension insurance that were made starting in 2000 offer two ways in which the savings can be paid out at the end of the savings period–a lump-sum settlement or lifetime pension payments. In the case of a lump-sum settlement, however, the employer's contributions are taxed at a rate of 15%. If the participant wants to collect their savings within a relatively short period of time, without having to pay the tax on the employer's contribution, they can transfer their savings to a participating fund prior to the end of their contract. Then, within the supplementary pension savings system, the participant can choose to receive pension payments for a specific period of time (no less than three years), during which the employer's contribution is not taxed.

age group to another as they age, and general development of the demographic structure of the population. For example, the continual increase in the number of participants in the 40–49 age group is apparently the consequence of the gradual shift of participants from the heavy birth years of the 1970s as they move into this age category. The age category that again reported the greatest increase in the number of participants in 2016 is the group of participants aged 70 and above.

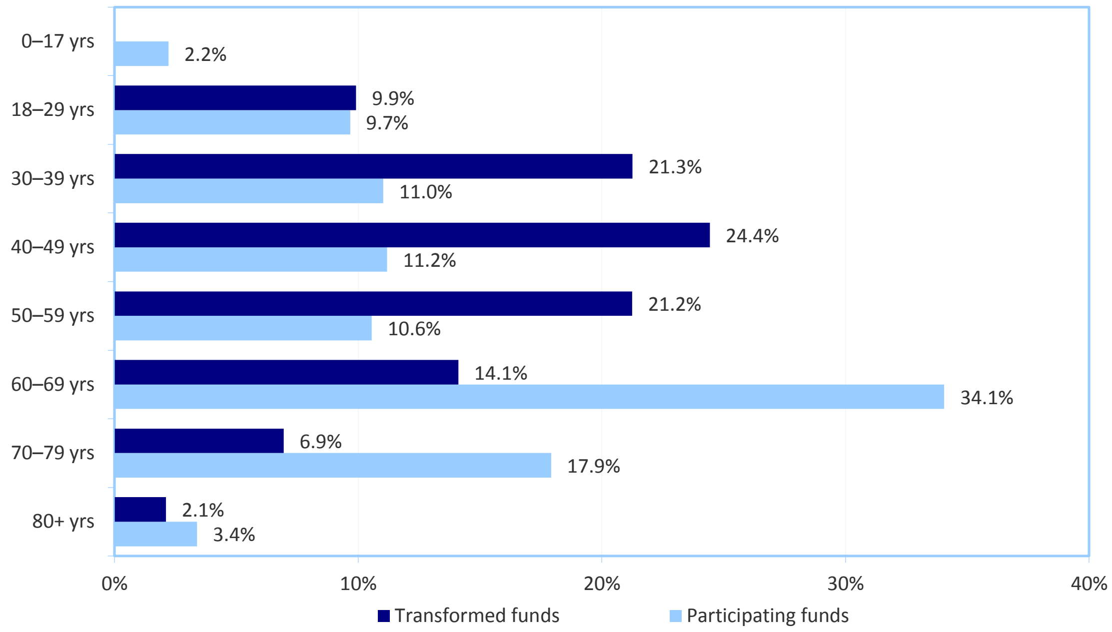
**Table 8.3: Participants in Pillar 3 by age**

| As at 31 Dec | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|
| | | | | | | Abs. | (%) |
| 0–17 yrs | - | - | - | - | 11,850 | 11,850 | - |
| 18–29 yrs | 785,707 | 695,938 | 606,441 | 519,692 | 448,427 | -71,265 | -13.71 |
| 30–39 yrs | 1,127,029 | 1,082,619 | 1,022,808 | 961,891 | 909,577 | -52,314 | -5.44 |
| 40–49 yrs | 996,302 | 1,002,963 | 1,009,655 | 1,019,504 | 1,037,135 | 17,631 | 1.73 |
| 50–59 yrs | 989,126 | 965,540 | 947,657 | 925,162 | 906,122 | -19,040 | -2.06 |
| 60–69 yrs | 814,754 | 786,819 | 771,081 | 760,747 | 747,016 | -13,731 | -1.80 |
| 70–79 yrs | 328,867 | 334,139 | 346,909 | 355,814 | 373,662 | 17,848 | 5.02 |
| 80+ | 93,077 | 95,326 | 98,583 | 100,206 | 102,274 | 2,068 | 2.06 |
| Total | 5,134,862 | 4,963,344 | 4,803,134 | 4,643,016 | 4,536,063 | -106,953 | -2.30 |

Source: MoF

When establishing participating funds, it was assumed that, given the possibility of using more dynamic investment strategies, these funds will increasingly target potential participants in younger or middle age. In 2016, almost 20 thousand new participants aged 18–29 concluded supplementary pension savings contracts, which is approx. 5.5 thousand participants more than in the previous year. There was an increase also in relative terms as this participant category accounted for 11% of all new participants, i.e., by 1 pp more than in 2015. Since 2016, minor participants may make savings in the supplementary pension savings scheme. Almost 12 thousand parents took advantage of the possibility to set up supplementary pension savings for their children in 2016. This new measure was more popular in the case of children under 9 years, who accounted for two thirds of all new minor participants of the supplementary pension savings scheme. The reason for increased interest of parents in setting up supplementary pension savings for children under 9 years is probably the possibility of payment of a partial surrender up to one third of the value of participant's funds without employer's contributions and provided state contributions, which a participant is entitled to when turning 18 years and provided that the savings period lasted at least 10 years.

**Graph 8.3: Age structure of participants in transformed and participating funds**

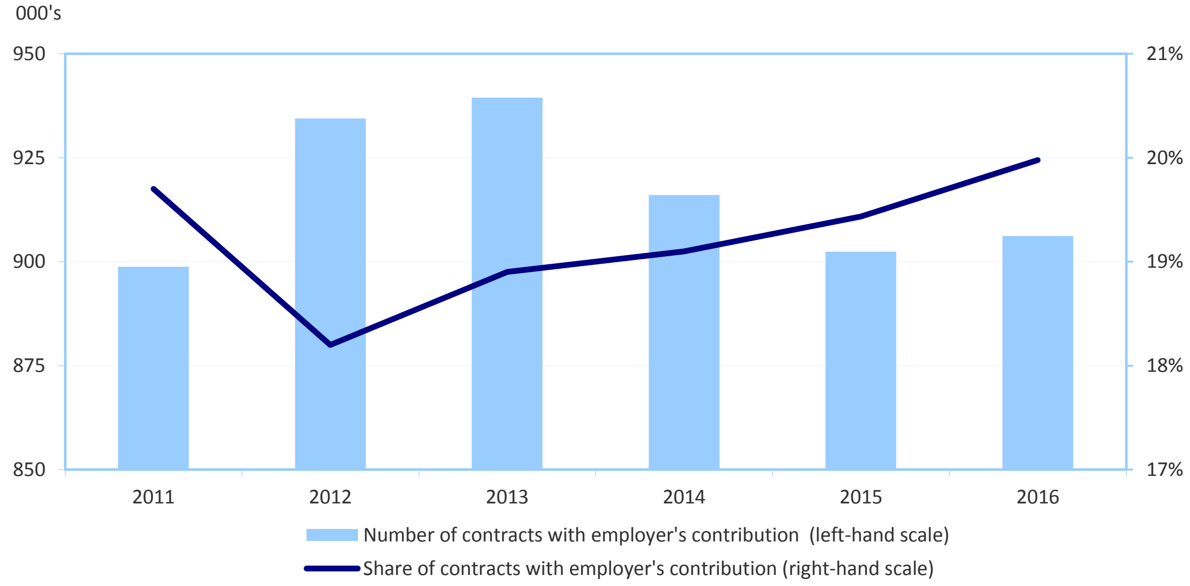



Source: MoF

Although the share of younger individuals in participating funds increased every year, persons over 60 years still dominated among supplementary pension savings participants (see Graph 8.3), who also represented almost 53% of all participants who concluded supplementary pension savings contracts in 2016. It is most likely that these participants are continuing to use the supplementary pension savings scheme as a means for investing their available funds, which, as they have reached retirement age, they will be able to start withdrawing, together with the state contributions, after a five-year saving phase.

The number of participants who receive contributions for supplementary pension insurance or supplementary pension savings from their employers increased by 0.4% in 2016 to approximately 906 thousand after the number of contracts with employer's contribution had decreased in the previous two years. As can be seen in Graph 8.4, a slight increase in the absolute number of participants was reflected, compared to previous years, in a slightly more dynamic increase in the number of participants with employer's contribution by 0.6 pp to 20%. The share of participants with the employer's contribution in the total number of Pillar 3 participants is thus gradually approaching its pre-crisis level, which was almost 22%. Since the employer's contribution is often used as a motivating and stabilizing factor in personnel policies, it is most often found in participants aged 35–59, who accounted for 76.5% of all participants with employer's contribution.

**Graph 8.4: Number of contracts in Pillar 3 with an employer's contribution**[83]




Source: MoF

One of the objectives of the reform of Pillar 3 that entered into effect in 2013 was to motivate participants to regularly save higher amounts through the new conditions for receiving the state contribution and obtaining tax relief[84]. In the case of supplementary pension insurance, the average monthly participant contribution did indeed significantly increase (by 22.2%) in 2013 to reach CZK 568. In 2016, the average participant's contribution in the supplementary pension insurance scheme increase by CZK 17, i.e., the most since 2014, and in the supplementary pension savings scheme even by CZK 19, after its amount had stagnated at CZK 722 in 2014 and 2015. As evidenced by the average contributions in each quarter of 2016 in Table 8.4, in both funds there was, as in the previous year, a higher growth rate in the fourth quarter, which is caused by the fact that many participants made extraordinary contributions at the end of the year to take advantage of tax relief. When compared to 2015, more participants took advantage of this opportunity. The average monthly contribution also increased in the case of employer's contribution, in transformed funds by CZK 35 to CZK 741, and in participating funds by CZK 8 to CZK 824. It is likely that, due to the increase of the threshold for tax relief

[83] Status as at 31 December for each given year.

[84] Starting 1 January 2013, the minimum monthly participant's contribution which receives a state contribution was increased from CZK 100 to CZK 300, and the monthly state contribution from CZK 50 to CZK 90. The minimum monthly participant's contribution for receiving the maximum state contribution was increased from CZK 500 to CZK 1,000, and the maximum monthly state contribution from CZK 150 to CZK 230. At the same time that the minimum contribution amount for receiving the maximum state contribution was increased, the rules for tax relief were also changed and this relief could only be claimed for monthly contributions of over CZK 1,000 as opposed to the previous CZK 500.

for employer's contribution starting from 2017, the growth rate will be the same or even increase in the following period.

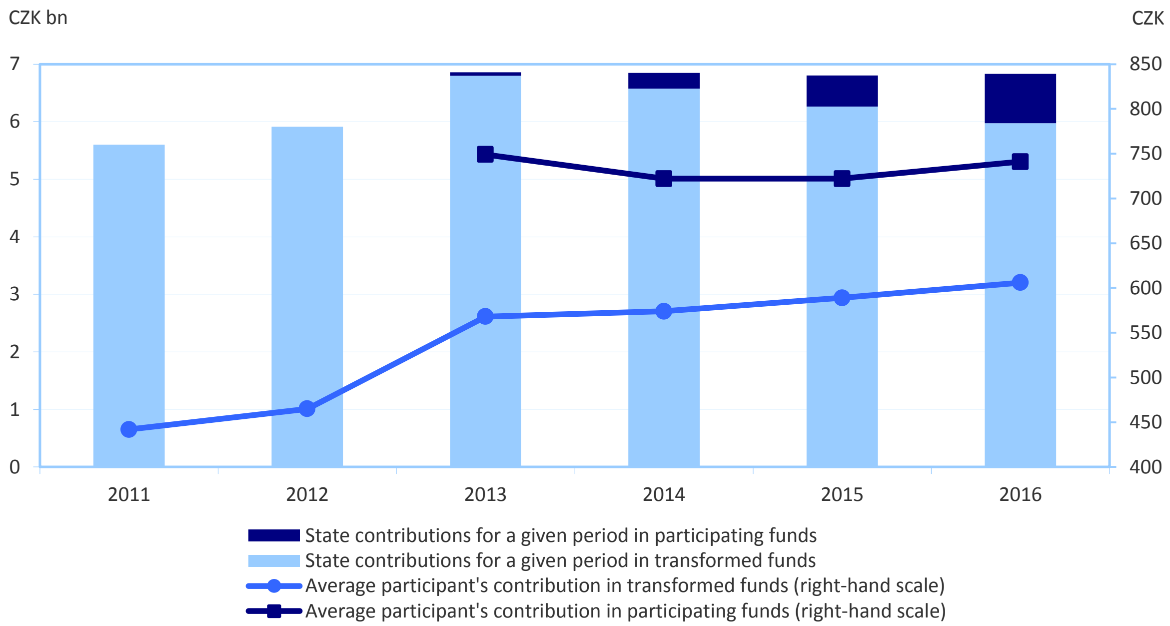
**Table 8.4: Average monthly contribution amount in transformed funds (TF) and participating funds (PF)**

| | Average CZK/month | 2012 | 2013 | 2014 | 2015 | 2016[85] | 2016 | | | | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 1Q | 2Q | 3Q | 4Q | Abs. | (%) |
| TF | Participant's contribution | 465 | 568 | 574 | 589 | 606 | 590 | 594 | 602 | 637 | 17 | 2.9 |
| | State contribution | 108 | 117 | 119 | 122 | 124 | 123 | 123 | 125 | 125 | 2 | 1.6 |
| | Employer's contribution | n/a | n/a | 682 | 707 | 741 | 731 | 733 | 731 | 770 | 35 | 4.9 |
| PF | Participant's contribution | - | 749 | 722 | 722 | 741 | 723 | 735 | 734 | 773 | 19 | 2.6 |
| | State contribution | - | 143 | 148 | 152 | 156 | 155 | 157 | 157 | 157 | 4 | 2.6 |
| | Employer's contribution | - | n/a | 802 | 815 | 824 | 813 | 828 | 807 | 846 | 8 | 1.0 |

Source: APS CR, MoF, MoF calculations

As a result of an increase in the average monthly state contribution per participant and a lower decline in the total number of participants compared to 2015, the total direct state contributions increased in the supplementary pension insurance and savings sector in 2016, namely by CZK 26 million to final CZK 6.83 billion (see Graph 8.5). In 2014 and 2015, there was a decrease in the total amount of state contributions. Of the total amount of direct state contributions paid for 2016, CZK 857 million was used for state contributions in participating funds.

**Graph 8.5: State contributions and average participant's contribution in transformed and participating funds**

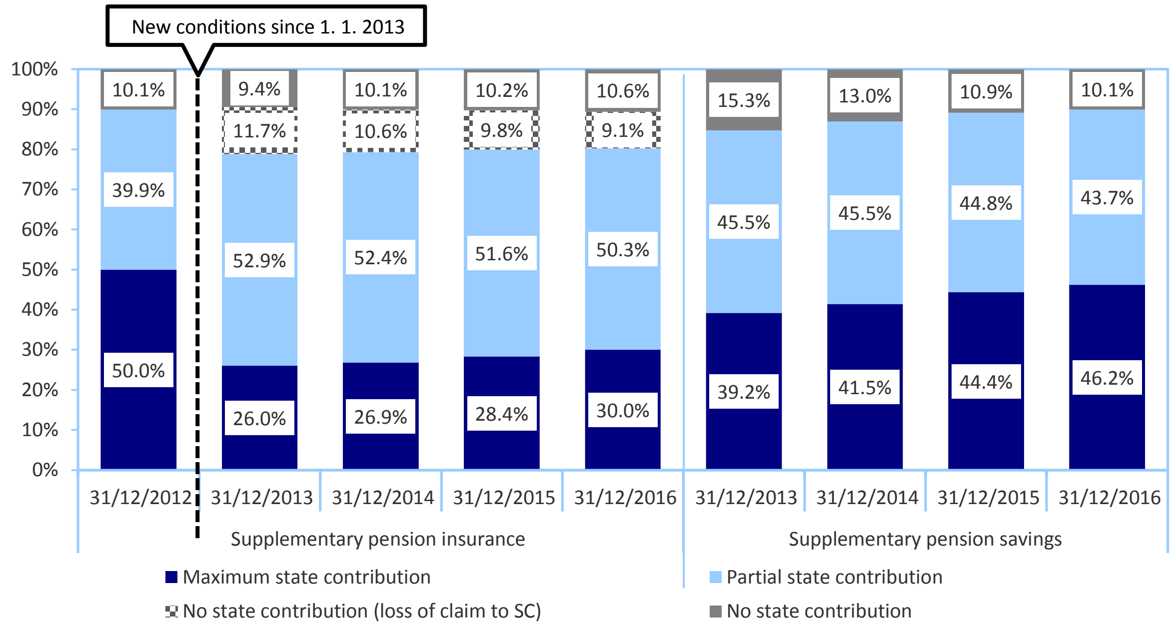



Source: MoF

Before a reform of Pillar 3, 50% of participants were paid the maximum amount of state contributions, i.e., CZK 150. Due to an increase in the minimum amount of participant's monthly contribution to be entitled to the maximum amount of state contribution from CZK 500 to CZK 1,000, this share decreased almost to one half in the case of transformed funds in 2013. In the following years, it reported an uninterrupted growing trend, and in 2016 it reached 30% of the total number of supplementary pension insurance participants (see Graph 8.6). In the case of supplementary pension savings, the share of participants with the maximum amount of state contribution also gradually increased, and in 2016 it almost came close to the level in the original structure of supplementary pension savings according to the amount of contributions at the end of 2012.

[85] This is the average for the full calendar year 2016 and it is thus lower than the average specified for the fourth quarter of 2015 in Table 8.4.

**Graph 8.6: Shares of supplementary pension insurance contracts with no, partial, and maximum state contribution (SC)**[86]




Source: MoF

As regards the stratification of the amount of state contributions in the base of contracts, it should be noted that all supplementary pension savings participants entered participating funds already under the new conditions for the calculation of the amount of state contribution, which makes it possible to consider the division of supplementary pension savings participants to be a structure to which the structure of participants in transformed funds could partially come close to in the long term. Graph 8.6 presents a comparison of the share of supplementary pension insurance and supplementary pension savings contracts that receive no state contribution, a partial contribution, or the maximum state contribution. Looking at these results, it is apparent that there would still remained sufficient room in the transformed funds for the potential growth of the average participant contribution. However, the most significant changes in the behaviour of participants regarding the set-up of the amount of their contributions occurred at the end of 2012 and in the first quarter of 2013, when a reform was carried out. In the context of the development of the structure according to the contribution amount until 2016, only gradual minor changes in the contribution amount may be expected in the following years in connection with how the financial situation of participants develops.

However, received state contributions only make up a part of increase in value of the funds deposited by participants. Pension funds promise further increase in value through payment of share in their annual profit. The after-tax profit of participating and transformed funds was CZK 3.026 billion in 2016, CZK 692 million more than in 2015. Profit was mainly due to transformed funds, which, with regard to the ratio of managed assets, generated almost 93% of the profit. However, participating funds showed a higher dynamics of profit generation in 2016, with after-tax profit of almost CZK 215 million, i.e., 5 times more than in 2015. Increase in value of participants' assets in transformed funds in 2016 reached, as estimated by APS CR, between 0.5 and 1.0% p.a. Revenues in participating funds in balanced and dynamic investment strategies with a higher proportion of shares ranged, in 2016, most often between 2 and 6% p.a., exceptionally even more.[87] In the case of mandatory conservative funds, increase in value ranged between -0.15 and 0.21% p.a. The average 2016 inflation rate of 0.7% was thus not exceeded by any conservative fund, and as estimated by APS CR, funds of participants in only 3 of 8 transformed funds increased in value above the average inflation rate.

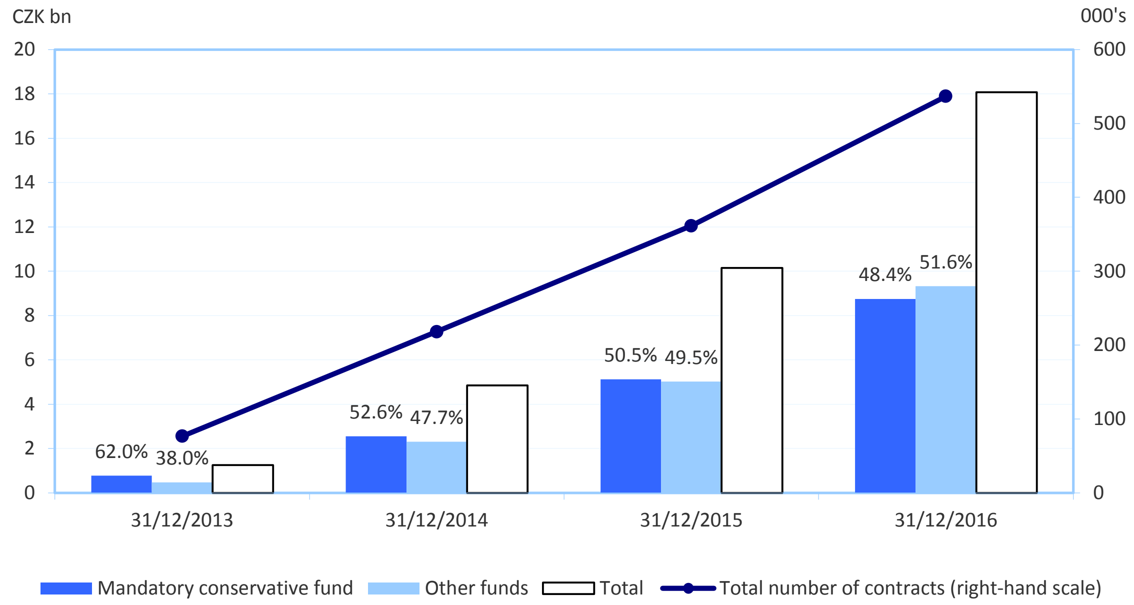
86 The data is based on the average number of contracts for the individual quarters for which the average participant's contribution amount equals the specified value during the period in question. This is the average for the relevant three months, which may not correspond to the contributions made in the individual months and thus there may be some distortion in the data. The average number of participants does not include those contracts that are still registered as active, but for which no information was provided with regard to the application for a state contribution. Loss of claim to state contribution applies to supplementary pension insurance participants whose amount of monthly contribution ranges between CZK 100 and 299 since the first quarter of 2013.

87 In the case of balanced strategies (predominance of bonds, a smaller share invested in shares or real estate), revenues ranged between -0.84% and 5.17%; in the case of dynamic strategies (funds largely invested on stock markets and in real estate) between 0.87% and 10.81%.

As follows from the above revenue ranges, capitalization of funds is closely related to the fund's investment strategy. In 2016, within the framework of saving in the participating funds, the pension management companies generally offered, as in the previous years, two to four different investment strategies, ranging from a conservative fund that includes assets with the lowest associated level of risk (e.g. government bonds, treasury bills, money market instruments, etc.) up to dynamic (share) funds with a significantly higher associated level of risk but with the possibility of higher yields. As can be seen in Graph 8.7, in terms of placement of funds of participating funds, mandatory conservative funds dominated until 2015, which have statutory investment limits, and every pension management companies providing supplementary pension savings is obliged to offer such a conservative fund. The predominance of mandatory conservative funds in the volume of funds over other types of funds, however, gradually declined, and in 2016, for the first time since the establishment of participating funds, other funds with less conservative investment strategies reached a higher volume of funds (51.6% of total funds).

The newly occurred predominance of other types of funds in the volume of funds over mandatory conservative funds is probably related to the changes in the age structure of participants, as the share of participants older than 60 years in the total number of supplementary pension savings participants decreased (by 1.6 pp), although this category of participants continues to dominate in terms of the age structure. The new possibility of entry of participants under 18 years of age has also probably contributed and will presumably contribute to the continued reduction in the share of mandatory conservative fund in the volume of funds. Although these participants are entitled to a partial surrender up to one third of the value of participant's funds without employer's contributions and provided state contributions upon turning 18 years provided that the savings period lasted at least 10 years, it can be expected that the parents of these participants could, due to the long-term investment horizon, prefer participating funds with more dynamic investment strategies at the expense of the mandatory conservative fund.

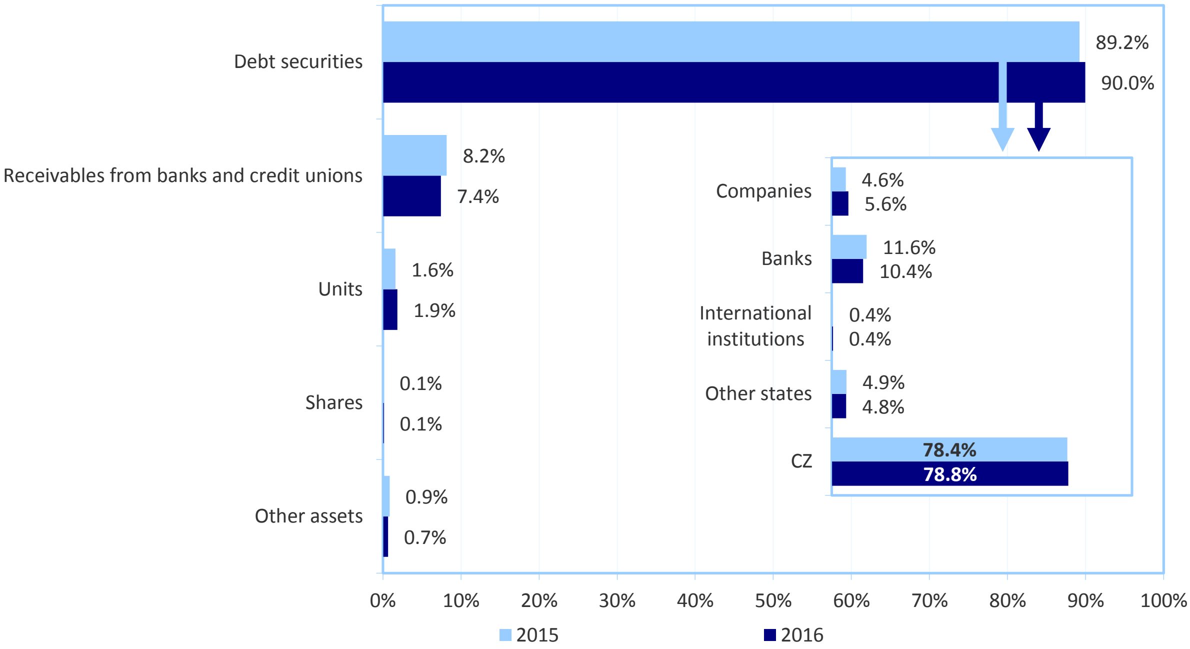
**Graph 8.7: Volume of assets managed in different types of participating funds**




Source: APS CR, MoF calculations

The investment portfolio for the transformed funds (see Graph 8.8) is retaining a very conservative nature in the long term, which, however, follows from the regulatory framework. In 2016, the share of debt securities in total assets increased slightly to 90%. As regards the bond structure, Czech government bonds continued to dominate, and compared to 2015, the share of bonds of business corporations increased at the expense of bank institutions. Deposits in credit institutions accounted for 7.4% assets in transformed funds. Shares and unit certificates had a negligible share in the portfolio.

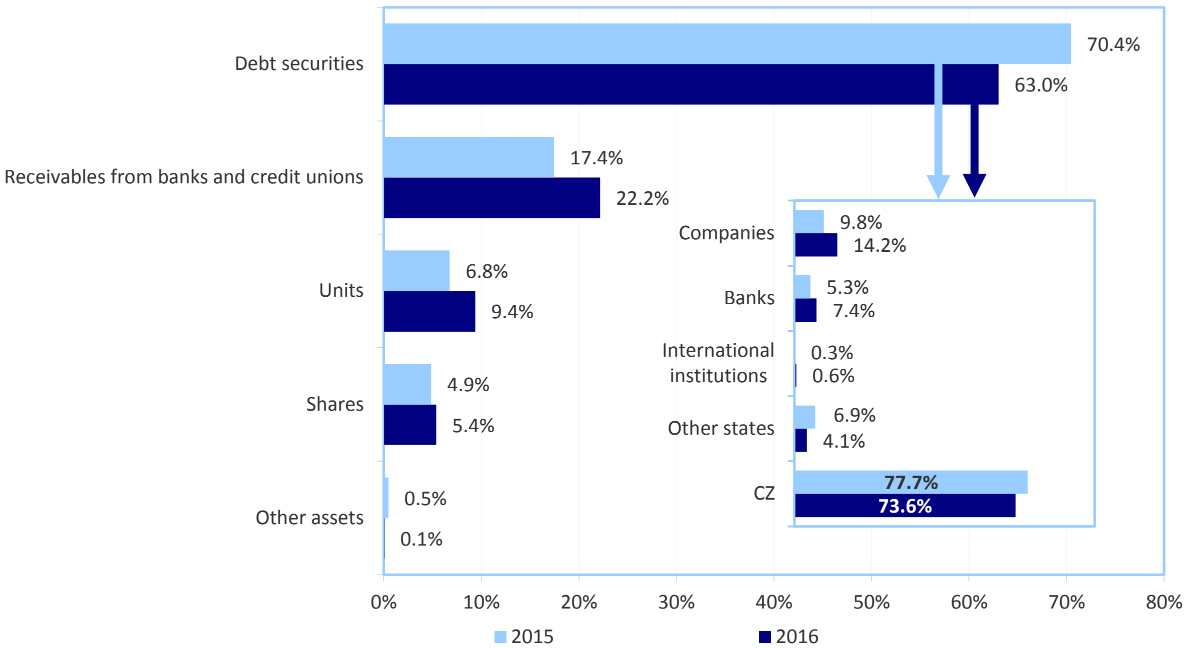
**Graph 8.8: Allocation of transformed funds' assets and structure of debt securities according to their issuers**




Source: CNB–ARAD, MoF calculations

In 2016, debt securities continued to prevail in the investment portfolio of participating funds due to a continuing important, although no longer predominant position of mandatory conservative funds. The debt securities consisted mainly of Czech government bonds and receivables from credit institutions, whose share increased also in 2016 at the expense of bonds (see Graph 8.9). However, as opposed to transformed funds, participating funds had more funds placed in bonds of business corporations, whose share, moreover, increased significantly compared to 2015. The share of unit certificates in the portfolio also recorded an increase, by 2.6 pp, and the stock share also increased slightly, which reflects the continued weakening of the position of mandatory conservative funds vis-à-vis other participating funds in terms of preference of participants in placing their funds.

**Graph 8.9: Allocation of participating funds' assets and structure of debt securities according to their issuers**




Source: CNB–ARAD, MoF calculations

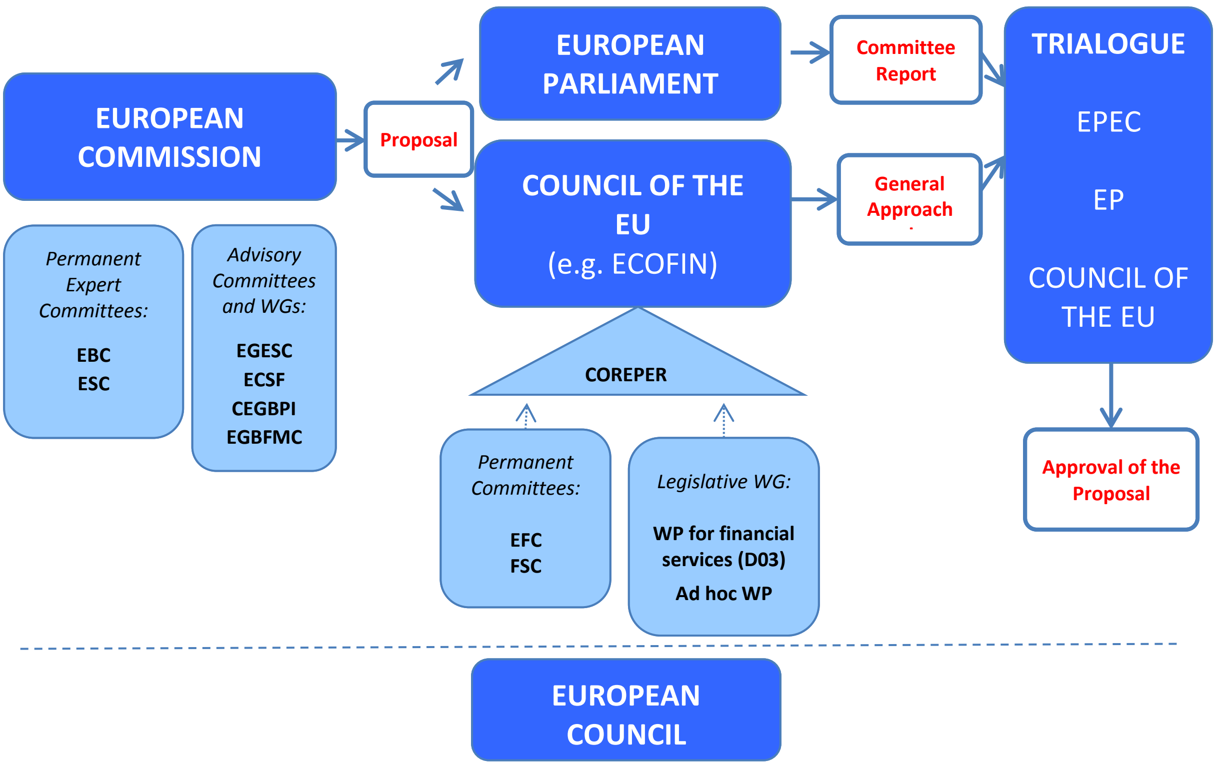
Some of the more detailed information about the supplementary pension insurance and supplementary pension savings sector, which is regularly published on the MoF website (www.mfcr.cz), is included in Tables A2.4 and A2.5 in Appendix 2.

# 9. FINANCIAL MARKET ACTIVITIES OF THE MOF AND FINANCIAL MARKET LEGISLATION

## 9.1. Ministry of Finance's Activities on the European Level

The MoF's activities on the European level are associated with the legislative process for discussing and approving the directives and regulations governing the financial market. Diagram 9.1 provides a basic description of this process. The preparation of proposed legislative acts falls within the competence of the European Commission (Commission), which holds a "initiative monopoly" within this particular area. In a number of cases, the Commission discusses its plans, and the text of its proposals, at an expert level with representatives from the Member States using the platforms provided by the permanent expert committees (referred to as Level 2 Committees), expert advisory committees, and working groups. The Commission's proposals are subsequently finalised, published on the Commission's website, and forwarded for parallel discussion by the European Parliament and the Council of the European Union (Council). At the level of the European Parliament, the proposals are discussed by the appropriate committee (proposals affecting the financial market are discussed by European Parliament Committee on Economic and Monetary Affairs – ECON Committee). The output from the discussions is compiled into an approved Committee Report and includes revisions to the original proposal submitted by the Commission. As far as the Council is concerned, the proposals are discussed by the representatives of the Member States within the applicable working party (WP), which, in the case of financial services, is the D03 WP on Financial Services), and various ad hoc working parties, that are established as required. The result from the meetings consists of a revised version that is submitted for approval in the form of a General Approach document, first to the Permanent Representatives Committee (usually COREPER II), and then to the Council, most often in its ECOFIN configuration. The General Approach document and the Report prepared by the appropriate committee of the European Parliament are the input materials for a "trialogue" – a tripartite meeting during which a compromise version of the directive or regulation is negotiated by three parties, specifically the Commission, the Council, and the European Parliament. The final version is then formally approved by the Council and the European Parliament and subsequently published in the Official Journal of the European Union (the Journal).

**Scheme 9.1: Basic structure of the European institutions within the context of the legislative process**




Source: Prepared internally

The following sections of Chapter 9.1 provide information about the topics discussed by the various structures of the Commission and the Council of the EU. More details about the individual proposals for directives and regulations are provided in Chapter 9.3.

**European Commission**

*The European Commission is one of the EU's supranational organs, which acts independently of the Member States and protects the Union's interests. The term "Commission" is used in two different ways: either in the sense of the College of Commissioners or to also include the full administrative body. The Commission participates at almost all levels of the decision-making process and, of all of the EU's organs, has the largest administrative and expert body at its disposal. Most importantly, the Commission is the "guardian of the treaties", which means that it ensures compliance with the basic treaties establishing the European Union and one of the Commission's official obligations is to lodge complaints if any breach of these treaties is discovered. Another key competence of the Commission consists of its participation in creating the Union's legislation. In this respect, it holds an "initiative monopoly" – only the Commission has the right to submit legislative proposals. Other powers entrusted to the Commission include the publishing of recommendations and opinions, the exercise of delegated power (delegated legislative power), and representing the EU externally, including maintaining diplomatic relations and negotiating international treaties. The Commission is also responsible for managing a majority part of the EU budget.*

*Various working groups and committees function within the Commission as its advisory bodies. Their meetings are held with the participation of representatives from the Member States. As far as financial services are concerned, these are usually representatives from the ministries and, in some situations, also from the central banks. In some cases representatives from the European Central Bank (ECB), European System of Financial Supervision – European Insurance and Occupational Pensions Authority (EIOPA), European Banking Authority (EBA), and European Securities and Markets Authority (ESMA), European Free Trade Association (EFTA) and European Economic Area (EEA) Member States, and the candidate states to the European Union participate as observers.*

**Permanent Expert Committees**

European Banking Committee (EBC)

The ECB acts as the Commission's advisory body during the preparation of EU implementing acts in the banking sector. This committee did not meet in 2016. In 2016, two silent written procedure votings took place about a draft implementing act concerning the extension of transitional periods in relation to the application of capital requirements for exposures to central counterparties. Since the process of authorization of existing central counterparties to qualified central counterparties has not completed yet, an extension of the transitional period till 15 June 2017 was approved. Moreover, there was a written procedure voting about a draft implementing decision of the Commission amending implementing decision 2014/908/EU on the equivalence of third countries for the purposes of the treatment of exposures according to the CRR[88]. This decision includes a list of third countries in which the prudential regulatory and supervisory framework is equivalent to the EU one, and a more favourable treatment of entities from these countries may therefore be adopted in relation to capital requirements.

European Securities Committee (ESC)

The ESC is a committee of representatives of Member States that has the right to vote on implementing acts of the Commission within regulatory procedure with scrutiny (does not apply to technical standards, which the Commission only formally approves). On 24 February 2016, a meeting was held (with regard to Art. 25(6) of EMIR[89]) regarding the equivalence of the US legal framework for counterparties (CCP), which are allowed and supervised by the Commodity Futures Trading Commission (US Exchange Regulator) in the meaning of fulfilment of requirements placed in this type of entities in the Regulation[90]. On 13 June 2016, a meeting was

[88] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the CRR with representatives of Member States, EBA and ECB (CRR).

[89] Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR).

[90] Commission Implementing Decision (EU) 2016/377 of 15 March 2016 on the equivalence of the regulatory framework of the United States of America for central counterparties that are authorised and supervised by the Commodity Futures Trading Commission to the requirements of Regulation (EU) No 648/2012 of the European Parliament and of the Council.

held (with regard to Art. 2a(2)) regarding the equivalence of US contract markets[91]. On 18 July 2016, a written procedure commenced regarding the inclusion of EURIBOR among critical benchmarks under the Benchmark Regulation (voted on 26 July 2016). On 6 October 2016, there was voting on the equivalence of central counterparties of the following countries (under Article 25 of EMIR): Brazil, Dubai International Financial Centre, United Arab Emirates, Japan (commodities), India and New Zealand. On 17 October 2016, a written procedure commenced regarding the equivalence of financial markets (under Art. 2(a) of EMIR) in relation to the following countries: Australia, Canada, Japan and Singapore (voted remotely on 31 October 2016).

**Other selected European Commission platforms**

Expert Group of the European Securities Committee (EGESC)

EGESC meetings are often held on the same as ESC meetings if it is necessary for the ESC to meet in person (see above). The EGESC group formally met in 2016 on the following dates: On 10 February 2016 as a regulatory workshop on crowdfunding and information strategies of small and medium-sized enterprises (SMEs); on 19 February 2016 as a workshop on the transposition of the MiFID II[92] and MiFIR[93]; on 13 June 2016 in relation to funding of SMEs, the OECD's Base Erosion and Profit Shifting (BEPS) initiative, on Call for Evidence: EU regulatory framework for financial services, and barriers to cross-border distribution of investment funds; and on 6 October 2016 on the Capital Markets Union and EMIR (exemption for pension funds from the obligation of central clearing, and access by third-country authorities to EU-based trade registries). In addition, a written procedure was initiated on 8 February 2016 on EuVECA and EuSEF. Moreover, on 12 July 2016, Member States were invited to notify the MAR Regulation[94], the MAR Directive on whistleblowing, and the CSMAD Directive[95]. On 17 October 2016, a written procedure was initiated in relation to non-EU central banks under MiFIR. On 9 December 2016, consultations began in relation to conflicting rules applicable to securities.

European Crowdfunding Stakeholders Forum (ECSF)

ECSF is a new group established in 2014. This group deals exclusively with the issue of crowdfunding, i.e., national regulations, best practices and the need to regulate crowdfunding at pan-European level. This topic is sometimes dealt with also at EGESC (18 December 2014 and 10 February 2016). The aim of the 17 February 2016 meeting was to collect, for a pending Commission report on the developments of crowdfunding in the European market, existing experience of Member States with the current national legislation, cross-border utilization and regulatory environment of crowdfunding, and to evaluate the overall awareness of the society about the opportunities, advantages and threats of crowdfunding as an alternative source of funding. On 3 May 2016, the Commission published a report on crowdfunding, where it finds it potentially the most appropriate future funding instrument for SMEs, subject to adequate regulation. However, the Commission does not plan to regulate crowdfunding at the EU level, nor does it assume further existence of a separate group for crowdfunding as this issue will be further addressed within the FinTech platform and the platform for barriers to free movement of capital.

Commission Expert Group on Banking, Payments and Insurance (CEGBPI)

The CEGBPI expert group as established in 2013 and to a large extent replaced the European Insurance and Occupational Pensions Committee (EIOPC). Its objective is to provide the Commission with assistance and advice during the preparation of proposals and delegated acts associated with banking, payment services, and the insurance industry. This CEGBPI also functions as a platform for communication and the exchange of opinions between the institutions of the Member States and the Commission.

[91] Commission Implementing Decision (EU) 2016/1073 of 1 July 2016 on the equivalence of designated contract markets in the United States of America in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council.

[92] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II).

[93] Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (MiFIR).

[94] Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (MAR).

[95] Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (CSMAD).

The Commission uses the CEGBPI in its configuration for the banking sector, or bank regulation and supervision, and for consultation of forthcoming delegated acts based on the CRD IV[96] and CRR. In 2016, it first meeting was held on 15 February 2016, when the discussion focused on the revision of regulatory options and national discretions in CRD IV, CRR and the Commission delegated regulation on the requirement of liquidity coverage or on future approaches and procedures in regulatory areas such as covered bonds, the issue of evaluation of regulation equivalence and EU supervision in relation to third countries, or on further developments in the area of regulatory technical standards prepared by the EBA. Furthermore, the group dealt with selected options and discretions (e.g., exceptions from large exposure limits or more favourable risk weights for public sector entities) contained in CRD and CRR. In its meeting on 26 April 2016, the Commission informed about a planned revision of CRD and CRR and the intention to create several working sub-groups of CEGPBI to discuss each topic in more details (e.g., the leverage ratio, proportionality, Pillar 2, counterparty risk, IFRS 9, large exposures). The discussion about selected topics of the revision continued in CEGBPI meeting on 22 June 2016, 19 July 2016 and 22 September 2016.

In the context of meetings of CEGBPI in its configuration for crisis management and crisis management mechanisms, meetings of the Working Party held on 27 January and 22 March 2016 dealt with the possibilities of implementation of a request by the Financial Stability Board (FSB) on standards on the total loss-absorbing capacity of global systemically important institutions (TLAC), and a revision of the Minimum Requirement for own funds and Eligible Liabilities (MREL).

In its configuration for payment services and payments, transposition of PSD II[97] by individual Member States was the main contents of meetings in 2016. The configuration met four times during 2016, for the first time on 18 February 2016. During the meetings, discussions were held on individual articles of the Directive and their transpositions into the legal systems of Member States.

In its configuration for the insurance industry, this expert group addresses not only expert issues, but also discusses various political topics associated with insurance and occupational pension insurance, including intermediation in the insurance industry. The meetings of the expert group are held with the participation of representatives from the Member State and the Commission. The representatives of the EIOPA supervisory authority and the countries of the EEA participate in the role of observers. The meetings also entail information from Member States about their progress in transposing the relevant EU acts. In 2016, the group dealt, among other things, with review of regulation on the capital requirement, specifically with assigning areas for review and proposing solutions for EIOPA, compulsory insurance for which specific requirements for policies are to be published by the Commission under the Solvency II Directive, and the Commission's initiative to create a pan-European pension product.

Expert Group on Barriers to Free Movement of Capital (EGBFMC)

This is a special format Working Party established in December 2014 under the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA). Its aim is to identify possible barriers to free movement of capital across all Member States. Where existing barriers to free movement of capital are identified, the group will assess whether such barriers can be removed through harmonisation, in which case it will propose to the Commission that the issue be referred to the appropriate group. Where these barriers are of a national character, it will be up to Member States to undertake to eliminate such an obstacle. The first meeting was held on 13 October 2015, in which the agenda for the following year was discussed. The second meeting took place on 26 January 2016, and it dealt with the issue of procedural regulation of withholding tax in relation to cross-border investment. The third meeting was held on 6 June 2016, and in addition to the aforementioned regulation of withholding tax, it dealt with obstacles to cross-border distribution of investment funds. On 11 July 2016, a technical workshop was held in relation to barriers to cross-border offering of investment funds. On 4 July 2016, the Member States were invited to complete a questionnaire on pension funds. On 24 March 2017, a Commission report was published regarding the CMU developments, titled “Accelerating the Capital Markets Union: addressing national barriers to capital flows”.

[96] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD IV).

[97] Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (PSD II).

**Council of the European Union / ECOFIN**

*The Council of the European Union (informally referred to as the Council of the EU) brings together the ministers from the EU Member States, who meet and adopt legislative acts and co-ordinate the functioning of individual policies. The key tasks performed by the Council of the EU include approving the EU's legislation, co-ordinating the main direction of the economic policies of the Member States, signing agreements between the EU and other countries, approving the annual budget, developing the EU's foreign and defence policies, and co-ordinating the co-operation between the judicial organs and the police authorities in the Member States. The presidency of the ECOFIN Council rotates every six months according to a pre-approved sequence (the Czech Republic held the presidency during the first half of 2009, and it will held the presidency again in the second half of 2022; in 2016, the presidency was held by the Netherlands and Slovakia, in the first half of 2017 by Malta). The Council does not have any permanent members, however, there is an exception, the Foreign Affairs Council (FAC), chaired by the High Representative of the Union for Foreign Affairs and Security Policy. This office is currently held by Federica Mogherini. Each of the Member States sends its representative (minister) responsible for a particular area of policy to each of the Council's meetings. The Council thus meets in various compositions (there are ten in total) according to the area to which the discussed materials belong.*

*The ECOFIN Council is the Council of the EU configuration consisting of the economics and finance ministers from the EU Member States (if budget issues are on the agenda to be discussed, the budget ministers also attend the meetings). The competencies of the Council include the adoption of measures in areas such as the coordination and supervision of economic policies; the monitoring of budgetary policy and the state of public finances in the Member States; the euro as the single currency; taxes; the financial markets; the free movement of capital; and economic cooperation with third countries. In addition, every year the ECOFIN council works in conjunction with the European Parliament to prepare and approve the EU budget. As a rule, the ECOFIN Council meets once a month. In addition, the economics and finance ministers meet informally in the presiding country once during its term. The governors of the central banks also participate in these informal meetings.* In addition, budgetary ECOFIN is usually convened once a year.

*The preparatory committee for the Council of the EU meetings is the COREPER, which also has two configurations—COREPER II has subject-matter competence over the area of financial markets.*

*There are a number of expert committees as well as permanent and ad hoc working groups within the structure of the Council of the EU, who lead active discussions regarding legislative proposals. In the case of financial services, these comprise the Economic and Financial Committee, the Financial Services Committee, and the Working Party on Financial Services (referred to as D03).*

*Approval of legislative proposals in all Council of the EU configurations has the same weight—where there is consensus on a proposal of all Member States at lower levels (Working Party, COREPER), the proposal may be referred to the Council of the EU for approval without discussion (as an A point). It can then be approved by any configuration of the Council of the EU (usually the one meet first); on the contrary, proposals falling under the competence of other Council of the EU configurations may also appear on the ECOFIN Council agenda as "A points".*

In 2016 the ECOFIN configuration of the Council of the EU approved the General Approach documents for the Commission's proposals that were discussed by the Working Party on Financial Services. Other tasks included discussion and the provision of information about the agendas associated with economic policy, banking union, taxes, investment promotion, financial markets, funding of terrorism or capital movements.

During the individual meetings, the ECOFIN Council:

- took note of the current situation in the area of banking union, following the entry into force of measures to ensure a sound resolution of bank failing institutions (15 January 2016);
- reviewed the implementation of relevant elements of the banking union (January to December 2016);
- decided not to oppose the adoption of commission delegated regulation laying down general principles and criteria for the investment strategy and rules for the administration of the Single Resolution Fund, and the commission delegated regulation in respect of duties of depositories and collective investment funds (12 February 2016);
- was informed of the progress made by the Ad Hoc Working Party on Strengthening the Banking Union as regards the Commission's draft regulation supplementing Regulation (EU) No 806/2014 to establish a European Deposit Insurance Scheme (EDIS), and measures contained in the Commission's Communication "Towards the Completion of the Banking Union" (8 March 2016);

- approved the conclusions to the European Court of Auditors' Special Report No 22/2015 on EU supervision of credit rating agencies (25 May 2016);
- was informed about the current situation regarding the completion of the banking union and adopted conclusions in which it summarized the steps so far and set key priorities for the period until 2024 in the area of reducing and sharing risks in the financial sector; in the context of establishment of the Capital Markets Union confirmed an agreement reached by COREPER on the rules governing prospectuses to be published when securities are offered to the public or admitted to trading; it confirmed an agreement reached by COREPER on draft rules for money market funds (MMFs); adopted a regulation and a directive on a one-year postponement of the time limit for the implementation of new securities markets rules; discussed work on a proposal to introduce a financial transaction tax (FTT) in 10 Member States; discussed Five Presidents' Report and related steps to complete the Economic and Monetary Union (EMU) (17 June 2016);
- discussed the completion of work on a post-crisis banking reform by the Basel Committee on Banking Supervision, adopted conclusions related to the Basel III framework; and decided not to oppose to adoption of commission delegated regulations supplementing MIFID II/MIFIR (12 July 2016);
- discussed the post-crisis banking reform by the Basel Committee on Banking Supervision, adopted conclusions related to the Basel III framework; decided not to oppose to adoption of commission delegated regulations supplementing MIFID II/MIFIR and regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs) (11 October 2016);
- discussed a possible postponement of the date of effect of the regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs) (8 November 2016); and
- was informed by the presidency about the current state of work on the proposed European Deposit Insurance Scheme (EDIS); discussed a legislative risk reduction measures package (RRM) in the banking sector submitted by the Commission; discussed about the CMU Commission Action Plan; took note of the progress in the consideration of a proposal to introduce financial transaction tax (FTT) in 10 Member States; and discussed the Five Presidents' Report, including steps to complete the Economic and Monetary Union (EMU) (6 December 2016).

**Financial Services Committee (FSC) and Economic and Financial Committee (EFC)**

The Financial Services Committee (FSC) and the Economic and Financial Committee (EFC) are two of the ECOFIN Council's permanent committees. They have a permanent chairman, they do not apply a rotating presidency rule. The FSC provides a forum for the preliminary expert level discussion of issues associated with financial services and, together with the EFC, takes part the preparations for the individual ECOFIN Council meetings. Representatives from the ministries of finance of the EU Member States, the Commission, the ECB, and the European supervisory authorities (EBA, ESMA, and EIOPA) participate in the activities of the FSC. The EFC's activities primarily consist of monitoring the economic and financial situation in the Member States, the Eurozone, and the EU as a whole; submitting reports to the ECOFIN Council and to the Commission and participating in the preparation of the Council of the EU's activities in the economic and financial sector. The range of topics covered by the EFC is thus significantly broader than in the case of the FSC. EFC meetings are held with the participation of representatives from the ministries of finance of the EU Member States, the Commission, the ECB, and the national central banks.

The financial market topics discussed by these committees in 2016 included the banking union and CMU, financial market developments, recovery and resolution of central counterparties, structural changes in the banking sector, non-performing loans, green financing, and regulation of the insurance sector.

**Working Party on Financial Services (D03)**

The Working Party on Financial Services is one of the Council of the EU's preparatory bodies, which discusses the relevant Commission proposals for financial market legislation prior to the time they are submitted to the COREPER II and ECOFIN Council. The Working Party thus covers a wide range of topics which vary according to the current stage of negotiations regarding a particular legislative proposal and if any new proposals were published. The meetings of this working party include the participation of experts from the individual EU Member States, who are led by the expert from the presiding EU state. In most cases, the Member States are represented by their financial attachés only during later phases of the discussion on the proposals. In 2016, the Prospectus Regulation, the Money Market Funds Regulation, and the amendment to the European Venture Capital Fund Regulation were negotiated. The Working Party also dealt with Proposal for a Regulation on establishing a Union Programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union policy making in the field of financial services for the period of 2017-2020.

In December 2016, negotiations began on a package of legislative proposals to reduce risks in the banking sector. The package includes draft revisions to the existing prudential regulatory rules contained in the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD), regulation on prudential requirements for credit institutions and investment firms (CRR), in the directive on the bank recovery and resolution (BRRD), and in the Single Resolution Mechanism Regulation (SRMR). Meetings of the Working Party regarding the aforementioned regulatory package continued in 2017.

**Ad Hoc Working Party on Strengthening the Banking Union**

The Ad Hoc Working Party on Strengthening the Banking Union, whose first meeting took place in January 2016, was established to discuss the Commission's proposal to establish a European Deposit Insurance Scheme (EDIS) and Commission's communication on the completion of the banking union, dealing in particular with the issue of risk reduction of financial systems.

More information on the individual proposals that were discussed is provided in Chapter 9.3.

**European Council**

*The European Council (EC) is the European Union's most important political body and comprises the highest representatives from the Member States (heads of state and prime ministers) and the President of the Commission. The Council meets at least four times a year and defines the general political directions for the EU. The Council does not perform any legislative functions. The outcomes of each meeting of the EC are* European Council conclusions*. Their purpose is to identify specific issues that are important for the EU, and to outline specific measures to be adopted or objectives to be achieved. The European Council conclusions may also set a deadline for reaching agreement on a certain matter or for presenting a legislative proposal. The EC may thus influence the EU's political agenda and determine its direction. The EC has a permanent president (Donald Tusk was re-elected in 2017); however, the neither permanent president nor the Commission President participates in EC voting. Decision-making of the EC takes places, with a few exceptions, through consensus. After each of its meetings it is obliged to submit a report on its meeting to the European Parliament. The EP also receives an annual written report prepared by the European Council regarding the progress achieved by the Union (this will be discussed by both the Council of the EU and the European Parliament).*

In its meetings in 2016, the EC dealt with, among other things, completion of the Economic and Monetary Union, including a plan for the completion of the banking union (in line with a roadmap presented by the ECOFIN Council), and called for adoption of respective actions in this area. In its conclusions, the EC called for an accelerated discussion of legislative proposals to increase resilience in the financial sector. The Capital Markets Union (CMU) was also discussed.

Compared to the previous years, in the context of relative stabilization in financial markets, the EC dealt with other topical issues—the United Kingdom's withdrawal from the European Union, external relations (situation in Ukraine, sanctions against Russia, situation in Syria and Libya), EU security, and fight against terrorism.

## 9.2. Ministry of Finance's Activities on an International Level

**OECD**

*The Organisation for Economic Co-operation and Development is an intergovernmental organisation of the worlds' thirty-five most developed countries, which have all adopted the principles of democracy and a market economy. The OECD was established in 1961 through the transformation of the Organisation for European Economic Co-operation (OEEC). The OEEC was originally established in 1948 to help administer the post-war Marshall Plan. The OECD coordinates the cooperation of its members in the sphere of economic and social policy, negotiates new investments, and promotes the liberalisation of international trade. The OECD's objectives are to facilitate further economic development; to suppress unemployment; and to stabilise and develop the international financial markets. The most important bodies within the OECD structure include the Council comprising the ambassadors from the OECD member states, the Executive Committee, the Secretariat led by the Secretary – General, and several expert committees.*

*Some of the OECD's activities transcend the national boundaries of its member states. The International Network on Financial Education (INFE) is only one example. It has 118 countries.*

Committee on Financial Markets (CMF OECD)

The CMF is the OECD's main body involved in financial market issues. It provides a platform for discussing the development trends in financial markets and the relevant measures for improving their functioning both in individual countries as well as at the broader supranational level. The members of the CMF consist of representatives from the ministries of finance, central banks, and other regulatory and supervisory authorities. Representatives from international financial institutions, such as the International Monetary Fund, the World Bank, and the Bank for International Settlements in Basel, also participate in the committee's meetings, as well as representatives from associate countries with developing economies. The OECD CMF therefore provides a geographically broader platform for debate and the exchange of experience than is provided by other mechanisms, such as discussions between the member states of the European Union.

A very specific characteristic of the committee's activities consists of the regular meetings with representatives from the private financial sector, at which important topics of common interest to both the public as well as the private sectors are discussed, particularly development trends in the global financial market.

The topics addressed in April and October 2016 meetings included, as usual, the financial market developments, this time with focus on the consequences of the low interest rate environment and risks arising from Brexit and from possible further increase in interest rates in the USA. The spring discussion with representatives of the private sector concerned developments in the bond markets and possibilities to strengthen their liquidity and resilience. In the autumn, risks and opportunities associated with development in the area of FinTech were discussed with the presence of representatives of global financial institutions and technology companies operating in this area. OECD representatives also presented a comparison of procedures applied in member states to assess the effectiveness of provision of guarantees for the SME sector loans. In 2017, in its April meeting, the CFM again dealt with market developments, but also with possibilities of a market solution for problematic assets of the financial sector.

The Advisory Task Force on the OECD Codes of Liberalisation usually meets during the same time frame as the CFM. The main participants at these meetings include some of the members of the CMF, the IPPC, and the OECD Investment Committee from various countries. They discussed in particular the process of revision of OECD Codes of Liberalisation.

Task Force on Financial Consumer Protection

The key objective of the Task Force on Financial Consumer Protection under the OECD is to prepare international standards for consumer protection on the financial market, particularly as regards the supervisory architecture, the rules for dealing with clients, the resolution of consumer disputes, financial education, and financial inclusion. These high-level principles reflect to a considerable degree the examples of already functioning regulatory practices in the EU, however, the process also acts retroactively as a sample for new regulation (particularly for the OECD countries that are not EU Member States). In 2016, the Task Force focused its activities mainly on the issue of financial innovation and digital technologies in the area of financial services. At the same time, work continued on the creation of an on-line international platform for sharing experience and approaches of OECD countries to consumer protection regulation and related non-legislative activities.

Insurance and Private Pensions Committee (IPPC OECD)

The IPPC is the main OECD body that addresses insurance market issues, the supervision of the insurance sector, and private pension issues (i.e. non-public pension security schemes). Within the IPPC, the Working Party for Private Pensions (WPPP) deals specifically with private pensions issues. The IPPC strives to attain international cooperation, coordination, and a higher level of compatibility with regard to the supervision of the aforementioned sectors of the financial market. The committee comprises representatives from the ministries of finance and those state administration authorities who are responsible for the insurance sector and private pensions. Representatives from the supervisory authorities of the OECD member states also participate in the IPPC meetings. In the case of open meetings, insurance market and trade union representatives may also attend.

In 2016, the Committee dealt with, among other things, cyber risk insurance, catastrophic risk financing, innovation in the insurance sector, the current low interest rate environment, and the impact of this situation on the insurance sector.

Working Party for Private Pensions (WPPP OECD)
The WPPP addresses similar topics as the IPPC, however, it places greater focus on the pension fund sector, its asset managers, and the participants in private pension schemes, both individual and employee ones. In 2016, Core Principles of Private Pension Regulation were adopted. The Working Party also focused on the admission procedures of Colombia and Costa Rica, the issue of supervision over large pension funds, pension financial advice, and the trend of transition from benefit-defined pension plans to contributed-defined ones.

International Network on Financial Education (INFE OECD)
The International Network on Financial Education is a platform comprising the institutions of not only the OECD member states (as a rule, the ministries of finance and the central banks). Its role is to create strategic documents at the global level. The Network's website[98] provides a gateway to information about financial education and the data, resources, research, and news from the individual member states.

During 2016, the INFE issued a final report comparing the results of measurement of financial literacy in adults in all participating countries, including the Czech Republic.[99] Following basic financial literacy competencies, the INFE submitted to G20 also financial literacy competencies for individuals aged 15–18. INFE's activities in 2016 also focused on increasing financial prosperity, financial education for women, financial education for SMEs and prospective entrepreneurs, and investment education.

Competencies for SMEs will be developed in 2017. Other topical themes include consumer loans and digitalization of financial services in the context of consumer protection in the financial market.

**G20**

*The G20 brings together the finance ministers and the central bank governors from nineteen countries[100] and the EU (which is represented by the presiding member state and the ECB). The G20 was established in 1999 as a forum in which the leading world economies are able to exchange their opinions regarding key issues related to the global economy. The Czech Republic is not a member of the G20 but is de facto represented by the representative for the European Union.*

The group was presided by China in 2016, and during the summit held in Changzou (September 2016), leaders, among other things:

- reiterated their commitment to adopt the remaining elements of the regulatory framework in the area of financial services and complete, timely and consistent implementation of already approved reforms;
- supported the completion of the Basel III framework by the end of 2016, without further substantial increases in the overall capital requirements;
- discussed the need to strengthen resilience of central counterparties;
- discussed the priorities, which are a consistent implementation of the total loss-absorbing requirements for banks (TLAC), efficient cooperation in the case of cross-border crisis resolution, and finalization of OTC derivatives reforms;
- dealt with the financial system risks including those related to shadow banking and asset management; and
- dealt with the issue of systemic risk in the insurance sector.

## 9.3. European Financial Market Legislation

**European Deposit Insurance Scheme (EDIS)**
On 24 November 2015, the Commission published a Regulation of the European Parliament and of the Council supplementing Regulation (EU) 806/2014 to establish a European Deposit Insurance Scheme. The proposal is to create a European Deposit Insurance Scheme to supplement an already approved Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The objective of the European Deposit Insurance Scheme is to strengthen the banking union, enhance protection of depositors, strengthen financial stability, and reduce the links between bans and states. The proposal should apply to deposit guarantee

98 http://www.financial-education.org/, http://www.oecd.org/finance/financial-education/
99 http://www.oecd.org/finance/financial-education/oecd-infe-survey-adult-financial-literacy-competencies.htm
100 The member states of the G20 are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the USA.

schemes in Member States participating in the banking union and to credit institutions associated with them. Based on the Council of the EU's Conclusions of 17 June 2016, the EDIS continues at an entirely technical level. Political debate was postponed until sufficient progress has been made in the area of risk reduction in banking sectors.

**Capital Requirements (CRD IV and CRR)**

Work on the preparation of legislative proposals and delegated acts based on CRD IV and CRR (published in the Journal of 27 June 2013) continued in 2016. This is a Commission delegated regulation, in particular on: the conditions for granting a data exemption[101], standards for assessment of benchmark portfolios standards and sharing procedures, additional liquidity outflows matching the needs of collateral, risks of options other than delta risks under the standardized approach to market risks and qualitative and appropriate quantitative criteria to identify categories of employees whose work activities have a significant impact on the institution's risk profile.

Work on the preparation of the regulatory technical standards and implementing technical standards of the European Banking Authority (e.g., for the methodology for identifying global systemically important institutions or for the information to be provided for credit institution authorization purposes and for the requirements applicable to shareholders and members of qualified holdings, and obstacles to the effective exercise of supervisory powers), which become directly effective after being issued in the form of regulations, but may, in some cases, require the adaptation of the national legal systems of the EU Member States, including the Czech Republic.

**Risk Reduction in the Banking Sector (RRM)**

On 23 November 2016, the Commission presented a package of five legislative proposals aimed at reducing risks and strengthening the banking sector in the EU. The package includes a revision of the CRD/CRR, Bank Recovery a Resolution Directive (BRRD) and the regulation establishing a Single Resolution Mechanism (SRM).

The CRD proposes changes in the following areas: exemption of some CRD/CRR entities, adjustment of the Pillar 2 rules, systems, procedures and mechanisms of the institutions' management and control systems, joint decisions on prudential requirements for individual institutions, changes in the distributions limits and Maximum Distributable Amount (MDA), the relationship between the combined capital reserve, Minimum Requirement on own funds and Eligible Liabilities (MREL) and MDA, adjustment of investment portfolio interest rate risk management requirements, financial holding and mixed financial holding, changes in the regulation of the remuneration system and, identification of systemically important institutions. The CRR proposes changes in the following areas: exceptions to the scope of application of capital and liquidity requirements, implementation of the TLAC, modification of rules for exposures to collective investment funds, changes to the rules for calculating capital requirements for market risk, changes to the rules for calculating capital requirements for counterparty risk, CCPs, adjustment of large exposures rules, leverage ratio, regulatory reporting by the supervisory authority and disclosure of information by institutions, introduction of Net Stable Funding Ratio as a mandatory liquidity standard, extension of preferential treatment of exposures to structural projects and exposures to SMEs, prudential framework for investment firms, mitigating the impact of IFRS 9, and introducing a tool for institution identification by EBA.

The main reason for the revision of the BRRD (and analogous adjustment to the SRMR) is a conceptual adjustment of the current rules on the MREL in relation to the implementation of TLAC rules. Furthermore, it is proposed to harmonize the moratorium as a tool for supervisory authorities as well as crisis management authorities and to adjust provisions on the contractual recognition of write-offs or conversions of depreciable liabilities. In order to allow for a more effective write-off of liabilities in the event of crisis resolution, a separate legislative proposal supplementing BRRD proposes to modify the ranking of creditors in insolvency.

In December 2016 work begun on the aforementioned package of negotiations in the Council of the EU at the level of working parties. It is to be expected that the negotiation process will not be completed before the end of the first half of 2017.

**Money Market Funds (MMFs)**

On 4 September 2013 the Commission published a proposal for a regulation on money market funds, which, in response to the experience during the financial crisis, recommends measures aimed at strengthening the stability of money market funds and ensuring their adequate liquidity. The proposed regulation places strict

[101] This is to allow institutions to use data for a period of two instead of five years for estimates of default probability, own estimates of default loss, and own estimates of conversion factors.

requirements particularly on money market funds with a constant net asset value (CNAV MMFs). Meetings of the Council of the EU's Working Party were not initiated until July 2014, which is a relatively long time since the publication of the proposal for the regulation. The last Working Party meeting in 2014 took place on 1 December 2014; agreement was thus not reached at that time and no further meetings of the working group were convened for a long time. The Dutch Presidency decided to resume negotiations and convened the first meeting on 13 April 2016 with a view to reaching an agreement at the Council of the EU by the end of June 2016. The Council of the EU endorsed a general approach without debate on 17 June 2016, bringing the proposal into trialogues. Trialogues took place in five meetings from July to November 2016. A political agreement was reached on 14 November 2016. In March 2017, linguistic modifications were made to the text, and on 16 May 2017 the final version of the proposal should be approved by the Council of the EU.

**Capital Markets Union (CMU)**

The CMU project aims to improve access to finance in the EU internal market, in particular for SMEs and infrastructure projects, as well as greater diversification of financial resources and overall improvement of the functioning of EU capital markets. The objectives of the project are set out in the CMU Action Plan published by the Commission on 30 September 2015. In addition, the Commission published the First Status Report on 25 April 2016 and Capital Markets Union – accelerating reforms on 14 September 2016. The Commission intends to continue, inter alia, on work on single pension products, covered bonds, barriers to cross-border investment funds and post-trade settlement, and removing national barriers to free movement of capital. On 23 November 2016, the Commission published a Communication on the outcome and continuation of the "Call for Evidence: EU regulatory framework for financial services" and also published a proposal for new rules on frameworks for preventive restructuring, second chance and measures to improve the efficiency of restructuring, insolvency and debt relief procedures.

**Securitization and STS Securitization**

Proposals for securitisation and STS securitisation regulations and related amendments to the CRR, published by the Commission on 30 September 2015 together with the CMU Action Plan, were discussed in the European Parliament committees in 2016. On 8 December 2016, the version of the European Parliament was approved by the ECON Committee. Subsequently, materials were sent out on 23 December 2016 comparing the Commission, Council and European Parliament proposals for comments to the Member States. Working meetings of the group and political trialogues began in January 2017 and will continue with a monthly periodicity at least until the end of the first half of 2017.

The proposal for a regulation harmonises in particular the securitisation requirements and regulates, in one places, the rules so far regulated by sectoral legislation (CRD, AIFMD[102] delegated regulation, Solvency II delegated regulation and forthcoming delegated UCITS IV[103] regulations), specifically basic rules for due diligence, risk retention, and transparency. It also sets new rules for STS securitisation, which is a new voluntary European label for less risky securitisations. This is also linked to lower bank capital requirements proposed in the CRR amendment and to the forthcoming changes in the solvency requirements of insurers in the Solvency II delegated regulation. Securitisation is not used much in the Czech market, especially for two reasons: the volume of trades from which the profitability of securitisation is largely dependent is low in the Czech Republic, and the banks located in the Czech Republic are sufficiently liquid. Massive use of securitisation in the Czech Republic can thus not be expected in the future either. In the negotiations, the Czech Republic aims especially at the clarity and ease of application of this regulation.

Areas identified in the trialogues as problematic included those limiting participants in securitisation markets to institutional investors only, due diligence requirements, risk retention, transparency, prohibition of re-securitisation, residual weighted average life of ABCP transactions (i.e., asset-backed commercial paper transactions), third-party use of STS compliance, supervision and third-party regime in the event of a proposal for changes in the regulation of STS securitisations.

In the context of the amendment to the CRR, the order of access to risk-weighted exposures, determination of capital requirements, scope and functional requirements for the Internal Assessment Approach (IAA), re-securitisation, macro-prudential oversight of the securitisation market, delegated acts and the introduction of a regular two-year report on the securitisation market seem as problematic.

[102] Directive (EU) 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (AIFMD).

[103] Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS IV).

**Prospectus**

On 30 November 2015, the Commission published a proposal for a regulation on prospectuses to be published when securities are offered to the public or admitted to trading. This regulation is to replace the Prospectus Directive. This is an important step towards creating the CMU. Negotiations took place from January to May 2016 and subsequently, in June, the general approach to the proposal was approved by COREPER and ECOFIN. On 19 July 2016, the ECON Committee published the final report on the proposal. The European Parliament discussed the proposal on 15 September 2016. A political agreement was reached on 7 December 2016. In the first quarter of 2017, linguistic adjustments were made to the text. On 16 May 2017, the Council of the EU will vote on the final version of the proposal.

**Insurance**

In 2016, the Commission issued a regulation to the Solvency II directive. These are Commission implementing provisions, which contain technical standards.

**Insurance Distribution (IDD)**

The revision of the Insurance Mediation Directive (IMD) responded to the need to strengthen consumer protection elements in the system, to ensure an internally consistent and mutually neutral regulation of financial services as a whole, both in terms of product and distribution, to unify approach to supervision and administrative penalties, and to simplify, or clarify, the regime of cross-border operation in the EU internal insurance market. The logic of the intended extension of the scope of the new regulation to direct sale of insurance by insurance companies lead to a change in the name to the Insurance Distribution Directive (IDD). The new Insurance Distribution Directive, which was approved on 20 January 2016, remains in the minimum harmonization regime and should be transposed into the legal orders of the Member States by 23 February 2018. In autumn 2016, the Commission launched transposition workshops to this end, which will continue in 2017.

**Key Information for Retail Investment Products (PRIIPs)**

The regulation on key information documents for packaged retail and insurance-based investment products, which came into effect on 24 December 2016, postponed the effect of the PRIIPs regulation[104] to 1 January 2018. This postponement should have enabled the Commission to revise the draft implementing provisions, some of which (related to the content and the form of the document compulsorily provided to retail investors) were rejected by the European Parliament. The new implementing regulations, prepared in cooperation with the European supervisory authorities, will be published by the Commission and sent to the legislative process in the first half of 2017.

**OTC Derivatives, Central Counterparties and Trade Repository (EMIR)**

The regulation on over-the-counter (OTC) derivatives, central counterparties, and trade repositories is referred to as European Market Infrastructure Regulation (EMIR). Implementing measures are published for this regulation on a regular basis. In 2016, this included in particular measures confirming the equivalence of the regulatory framework for CCPs of a number of third countries (USA, India, Singapore, Japan, Australia, New Zealand, Brazil, Dubai and the United Arab Emirates) and measures specifying the clearing obligation, including reporting requirements. Furthermore, a proposal for a regulation extending the transitional periods concerning the components of the pension scheme was published.

The main objective of EMIR is to decrease and, if possible, eliminate system risks with the assistance of several key principles, specifically a higher level of standardisation for OTC derivative instruments; the settlement of trades through central counterparties; the strict regulation of central counterparties; a higher level of transparency; and the obligation to provide information. In addition to the central counterparties and the trade repositories, both financial as well as non-financial institutions are subject to regulation.

**Central Securities Depositories (CSDR)**

The regulation on central securities depositories[105] is a part of a recently popular trend in the regulation of the market infrastructure. In 2016, implementing measures specifying the calculation of financial penalties, authorization, supervision and operational or prudential requirements as well as reporting and record-keeping requirements were issued.

[104] Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

[105] Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (CSDR).

The main objective of the regulation is to increase the security of settlement system operations and to remove the legal obstacles that exist due to the national provisions on the functioning of the systems and the central depositories as the operators of these systems, particularly the obstacles associated with differing provisions for settlement periods and the standards for central securities depositories from the perspective of prudential regulation and the ability to access to the national central securities depositories and the systems operated by them. In the long run, there should be a full dematerialisation or immobilisation of all securities traded in organised markets.

**Bank Structural Reform (BSR)**

The Commission published its proposal for a regulation on banking structural reform in January 2014. The Commission's proposal is based on the ideas presented in the Liikanen Report[106], however, it deviates from then quite significantly. As far as the stage of the discussion is concerned, the Council of the EU reached agreement on a general approach on 19 June 2015, but the European Parliament has still not adopted its position and trialogues could not be launched.

At the general level, the aim of the proposed regulation is to create a resilient, transparent, and responsible banking system and to decrease the risk of the failure of banks that are of such significance that the Member States cannot afford to not rescue them. These are referred to as too-big-to-fail (TBTF) banks. The proposed regulation also has the objective of supplementing the ongoing reform of the regulatory framework in the banking sector at the Union level.

The regulation will apply to approximately 30 largest banks in the EU and the banking groups to which these banks belong. Within these defined banking groups, a further differentiation will be made between core credit institutions (CCI) and trading entities (TE). The criterion for this differentiation will be whether the institution in question manages accounts for its clients that are included in a guarantee scheme for the institution's deposits (if such accounts are maintained, it is a CCI). Czech banks are typically CCIs (i.e., deposit banks). All of the CCI in the banking groups affected by the regulation will be prohibited from participating in proprietary trading (i.e. on own account, with the aim of achieving a profit and without a link to the services they provide to clients). In addition, the trading activities of the entire group will be subject to audits to ensure that they have not exceeded the defined trading thresholds for investment instruments. If they are found to have done so, the supervisory authority will require them to separate their trading activities from the CCI to a TE. This TE will not be allowed to offer its clients' accounts that are covered by a deposit guarantee scheme.

It appears that a general problem that exists with both the Liikanen Report as well as the Commission's proposal is the fact that since the Liikanen Report was published, certain regulatory measures have been adopted with the goal of strengthening the stability in the banking sector, including the possible separation of certain activities. The largest reform in this respect was the adoption of CRD IV, which has introduced considerably stricter prudential requirements for credit institutions, including TBTF banks. Another important regulatory directive is the BRRD, which gives the resolving authorities the ability to order the separation of certain activities if such a step is necessary to ensure the resolvability of a given credit institution or securities trader. The risks associated with OTC derivatives are very thoroughly addressed in the regulation on OTC derivatives (EMIR). In addition, at this time there is an initiative underway at the level of the G20 to implement TLAC, which would also address the issue of TBTF banks.

**Central Counterparty Crisis Resolution (CCPRR)**

On 28 November 2016, the Commission adopted a proposal for a regulation on the recovery and resolution of central counterparties. The draft regulation responds to the fact that the requirement of central clearing made by central counterparties (CCPs) introduced by the EMIR, on the one hand, limited certain risks, such as gross global market exposures or netting in bilateral transactions and reduced and improved transparency and pricing including risk assessment, however, on the other hand, contributed to other problems, in particular concentration of default risk on the settlement of derivatives trades using central clearing by all financial and large non-financial institutions in a limited number of CCPs, or groups thereof.

Large concentrations of risks in CCP would, in the case of their failure, very likely lead to a spill over effect in the failure of CCP members, which are mainly large banks, and their clients across the EU and beyond, and

[106] The Liikanen Report was issued by the Governor of the Finnish Central Bank and his Expert Team in February 2012 as a list of recommendations, aiming at higher regulation of the financial market beyond the EU and the Basel Committee frameworks, in particular towards separating traditional banking activities from investment trades at the level of legal entities. It also proposed the introduction of bail-in instruments and the setting of maximum LTV for mortgage loans secured by real estate.

trading on stock exchanges in the EU and other trading platforms using CCP services would stop and the whole European financial system would be greatly weakened. It is precisely from this point of view that the tools for resolving various crisis situations enshrined in the EMIR in which the activities of the CCPs is regulated is considered sufficient and, in this sense, the proposal supplements the existing rules. To a certain extent, this reflects a recently adopted set of rules on the recovery and resolution of credit institutions and investment firms (BRDD Directive), but it has its specifics with regard to the different nature of target entities. In these aspects, particularly due to the cross-border impact of CCPs' activities, which are not limited to the EU region alone, the proposal follows the international trends set by the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures – International Organization of Securities Commissions (CPMI-IOSCO).

The declared objective of the proposal is to adopt a unified approach that will address the systemic risk of CCPs proportionally in order to ensure financial stability, preserve the essential functions of the financial market and protect taxpayers. In line with this objective, the proposal introduces new institutions, the most important of which is a crisis management authority and a concept of colleges, recovery and crisis management plans, early intervention, crisis-management measures and guarantees, an a “no creditor worse off” principle.

**Institutions for Occupational Retirement Provision (IORP II)**
On 14 December 2016, directive on the activities and supervision of institutions for occupational retirement provision (IORP II) was adopted. It is a revision of the IORP I. The general objective of the directive is to promote savings activities within the framework of occupational pension schemes, to facilitate the cross-border activities of institutions for occupational retirement provision by removing the remaining obstacles, and to contribute towards the equitability and sustainability of pensions through the effective and prudent management of resources and risk management.

**Venture Capital and Social Entrepreneurship Funds (EuVECA/EuSEF)**
On 14 July 2016, the Commission proposed a revision of the European Venture Capital Funds Regulation and the European Social Entrepreneurship Funds, in particular following public consultation launched on 30 September 2015. The Commission has thus made progress in implementing the CMU Action Plan, which was also published at the end of the third quarter of 2015. The revised revision aims to support the emergence of European Venture Capital Funds (EuVECA) and European Social Entrepreneurship Funds (EuSEF), which should indirectly lead to improved SME access to funding. The European Parliament adopted an opinion on the proposal on 22 March 2017 and it will be discussed in trialogues on 11 May 2017.

**Retail Financial Services and Consumer Protection in the Internal Market**
On 10 December 2015, the Commission published the Green Paper on Retail Financial Services. It builds on a previous 2007 document and revises it. The aim of the Green Paper is to obtain from Member States an assessment of the current situation on the regulated market and suggestions on possible future legislative and non-legislative steps and to consult on various solutions the Commission is considering in the area of provision of retail financial services in the context of its activities. Public consultation on the Green Paper was launched at the beginning of 2016.

The main objective of the Green Paper is to support the internal market. It should improve both the position of consumers and the providers of these services through a more diverse range of products and the effects of international competition. The Green Paper identifies the fragmented internal market of retail services and the small volume of cross-border negotiated retail products, reflected in a high supply-side differentiation, as the main reason for a regulatory initiative at EU level. The Green Paper states that some natural barriers to the internal market (cultural, linguistic, related to the level of the financial market and the risks posed by it) are accompanied by artificial and unjustified barriers consisting in applying the providers' restrictions (e.g., technological or price ones) to negotiation of some financial products of making payment transactions (geo-blocking). Part of them are allowed by EU regulation itself, or the fact that it is created in the so-called minimum harmonization regime.

The Green Paper identifies as related shortcomings, limiting the functioning of market competition principles, also the relatively low level of possibility to consumer's switching to another provider of financial services at Member State level, and some cross-selling practices of financial service providers, in particular tying (tied sale of financial products). In the context of technological development, there are also problems with effective application of some consumer protection tools, typically information obligations and an adequate regulatory approach to financial innovation (P2P).

The Green Paper lists as the main tools for improving consumer protection in the retail financial market, in particular, sufficient amount of high-quality (transparent and comparable) information for the client, including information on products offered in other Member States, providing effective dispute resolution mechanisms, and creating guarantees in the context of liability insurance. On the part of providers, the intention is to focus on reducing the cost of cross-border provision of services, in particular to exploit the benefits of digitization (identity verification, cross-border acquisition of information to assess credit risks, etc.) and to allow for various forms of legal assistance.

## 9.4. National Financial Market Legislation

**Crisis Management in the Financial Sector**

On 1 January 2016, the Act on recovery and resolution in the financial market and related Act No 375/2017 Coll., amending some acts in relation to the adoption of the Act on recovery and resolution in the financial market and in connection with regulation of the deposit insurance scheme, came into effect. These laws implement the BRRD Directive, which aims to set up rules for the prevention and resolution of potential crises of credit institutions and security dealers. The underlying principle is that the cost of any crisis in these institutions should be borne primarily by shareholders and creditors through write-offs and conversion of their assets.

In the second half of 2016, legislative work was launched on a draft law amending the Act on recovery and resolution in the financial market and other related laws. The aim of the bill is to clarify and supplement some of the previously implemented provisions of the BRDD, such as provisions regarding the requirement for the contents of the contractual documentation of depreciable equity instruments, the moratorium or the CNB's power to impose an obligation on an institution to limit its exposure to another institution. Simultaneously, on the basis of experience with the functioning of the Financial Market Guarantee System, the proposed bill regulates some aspects of its functioning. The bill was approved by the government on 30 January 2017 and then passed to the Chamber of Deputies as the Parliamentary Document No 1023.

**Deposit Guarantee Schemes**

On 1 January 2016, Act No 375/2017 Coll. transposing into the Czech legal order the Deposit Guarantee Scheme Directive (DGSD), namely into the Act on banks[107] and the Act on credit unions [108], came into effect. The aim of the provisions contained in the DGSD is to harmonise the level of protection afforded to depositors and to ensure the same level of stability for the deposit guarantee schemes in all of the EU Member States. Depositors have a considerably improved access to deposit guarantee schemes due to a wider range of insured deposits, shorter payment periods (from 20 to 7 business days in the past), better information and harmonized funding requirements.

Following on Act No 375/2017 Coll., Decree No 12/2016 Coll., on the depositor information template concerning the deposit guarantee scheme for the client, came into effect on 20 January 2016.

**Building Savings Product**

In the course of 2016, the legislative process took place of a technical amendment to the Building Savings Act[109], which came into effect on 1 February 2017. The aim of this amendment is to make the enforcement of the conditions for granting state contribution to building savings more efficient. The amendment also introduces changes by adding a registered partner to close persons, and hence the possibility of granting a building savings loan to finance the housing needs of this person, and several minor adjustments are made to the transfer of information on returned state contribution, which should contribute to a better functioning of this exchange of information.

[107] Act No 21/1992 Coll., on banks, as amended.

[108] Act No 87/1995 Coll., on savings and credit unions and some related measures and supplementing the Act of the Czech National Council No 586/1992 Coll., on the income tax, as amended, as amended.

[109] Act No 461/2016 Coll., amending Act No 96/1993 Coll., on building savings schemes and state contribution to building savings schemes and on supplementing the Act of the Czech National Council No 586/1992 Coll., on income taxes, as amended by the Act of the Czech National Council No 35/1993 Coll.

**Czech National Bank**

Legislative work on the bill amending the Act on the Czech National Bank[110] and the Act on the circulation of banknotes and coins[111] was in progress in 2016. This is in part a technical amendment, but it brings several partial substantive changes and legislative and technical corrections aimed at an easier and above all uniform interpretation of this law. As regards substantive changes, there mainly include an extension of the range of monetary policy instruments and the range of subjects with which the CNB can conclude trades on the free market. Furthermore, it is proposed to complement the CNB's authorization to set the upper limit of selected credit indicators for consumer loans secured by residential property, thereby extending the macro-prudential policy instruments to the CNB's objective to ensure financial stability. The proposal further puts forward the possibility for the CNB to set up a legal entity or to participate in one to support performance of its tasks. Last but not least, the part regarding banknotes and coins is supplemented by an authorization of the CNB to issue commemorative banknotes and coins and trading coins.

The bill was approved by the government on 16 January 2017 and then passed to the Chamber of Deputies as the Parliamentary Document No 1009. The new law is expected to enter into effect in the second half of 2017.

**Credit Institutions**

Legislative work on the bill amending the Act on banks and the Act on credit unions was in progress in 2016. This is partly a technical amendment, which, however, brings several partial substantive changes. The existing legal regulations of the aforementioned legal norms put in line mutually and in line with other sectoral laws, the new Civil Code and the Business Corporations Act. A significant change is also the correction of the method of calculating the settlement amount on the credit union's assets.

The draft law also introduces a completely new regulation on the sharing of information about cyber-attacks among relevant financial market entities in order to create an efficient prevention tool in the area of cyber-security to limit the potential risks of harm arising from these attacks by strengthening the operational risk management associated with of attacks on information systems of banks. Last but not least, the draft law strengthens the protection of bank clients in cases where there is a change or any disposal of the bank's business unit or its part.

The bill was approved by the government on 13 March 2017 and then passed to the Chamber of Deputies as the Parliamentary Document No 1061.

**Capital Market I**

Act No 148/2016 Coll., amending the Capital Market Undertakings Act[112], and other related laws came into effect on 1 June 2016. The Act mainly contains implementation of EU legislation, namely an amendment to the Transparency Directive TD II[113], the Omnibus II Directive[114] in relation to the prospectus, the Central Securities Depositories Regulation (CSDR), an amendment to UCITS (UCITS V)[115], and the recommendations for the quality of corporate governance reporting.

Certain changes at the national level were the result of the need to respond to market developments and reflect findings from practice. The law seeks to:

- increase the attractiveness of capital undertakings, especially with regard to joint-stock companies with variable registered capital—the requirement for its registered capital was reduced to CZK 1 or

110 Act No 6/1993 Coll., on the Czech National Bank, as amended.

111 Act No 136/2011 Coll., on the circulation of banknotes and coins and on amendment to Act No 6/1993 Coll., on the Czech National Bank, as amended.

112 Act No 256/2004 Coll., on capital market undertakings, as amended.

113 Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 amending Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC (TD II).

114 Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) (Omnibus II).

115 Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions (UCITS V).

EUR 1, and the law allows the use of "SICAV" in the trade name; legal regulation of subfunds and SICAVs that do not create subfunds has been specified,

- simplify procedural issues in the area of capital market, in particular in relation to prospectus approval; among other things also in relation to the obligation to submit documents in Czech or English, as well as
- harmonize administrative fees in the financial market sector.

This Act further adapted the regulation on European long-term investment funds (ELTIF)[116], reduced the minimum amount of the initial investment in the qualified investment funds to CZK 1 million from the original EUR 100,000 when a suitability test is performed, and partly transposed an amendment to the Accounting Directive[117] in relation to issuers whose shares or bonds are admitted to trading on a regulated market. A new threshold of 1% was introduced for disclosing property interest in listed companies was introduced, with regard to a comparable threshold in the Business Corporations Act.

The Act amends the Capital Market Undertakings Act, the Capital Market Supervision Act[118], the Investment Companies and Investment Funds Act[119], the Administrative Fees Act[120], and the Income Tax Act[121].

**Capital Market II**

The legislative process of the draft law amending the Capital Market Undertakings Act and other related laws was in progress since 2015. The bill mainly contains changes to implement several EU acts in the capital market sector, namely MiFID II, MiFIR, MAR, CSMAD and the Commission Implementing Directive on Regulation as regards reporting to competent authorities of actual or potential infringements of that Regulation[122].

The government approved the draft on 8 June 2016, the Chamber of Deputies approved it, as Parliamentary Document No 869, on 27 April 2017, and then it was passed to the Senate as Senate Document No 126.

The coming into effect of the law is proposed as of 3 January 2018 with a view to the postponement of the effectiveness of MiFID II and MiFIR's and their implementing EU regulations (originally MiFID II and MiFIR were to come into effect on 3 January 2017). In view of the effectiveness of the MAR Regulation (3 July 2016), the Act will come into effect, for selected related amendment points, on the thirtieth day after the promulgation of this Act, i.e., presumably in August 2017. Earlier effectiveness is also proposed for some of the changes that are not directly related to MiFID II and they are national regulation or a clarification of the transposition of previously transposed directives.

Generally, the proposed legal framework is to contribute to greater efficiency and transparency in the financial market business. In response to technical progress in this area, a new trading platform in the form of an organized trading facility (OTF) is introduced, high-frequency trading is regulated and new systems for the disclosure and provision of information under an agreed mechanism are introduced. Adjusting the information obligations imposed on regulated entities and the rules of negotiations with customers enhances investor protection. The legal regulation of investment intermediaries is fundamentally redrafted. The amendment also harmonises and modernizes administrative penalties.

Motions to amend in the Chamber of Deputies primarily adapt three regulations—on transparency of securities financing transactions and of reuse (SFTR)[123], on key information documents for packaged retail and insurance-based investment products (PRIIPs), and on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (BMR). The transposition of the

116 Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds (ELTIF).

117 Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

118 Act No 15/1998 Coll. on supervision in the capital market area and on the amendment and supplementation of other Acts, as amended.

119 Act No 240/2013 Coll., on investment companies and investment funds, as amended.

120 Act No 634/2004 Coll., on administrative fees, as amended.

121 Act No 586/1992 Coll., on income tax, as amended.

122 Commission Implementing Directive (EU) 2015/2392 of 17 December 2015 on Regulation (EU) No 596/2014 of the European Parliament and of the Council as regards reporting to competent authorities of actual or potential infringements of that Regulation.

123 Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse (SFTR).

Commission Implementing Directive to the MAR Regulation is also being transposed as regards reporting to competent authorities of actual or potential infringements of that Regulation. Furthermore, the regulation of qualifying holdings is harmonized and transposed into an amendment to UCITS (UCITS V), and the Securities Traders' Guarantee Fund is amended.

The bill amends the Capital Market Undertakings Act, the Code of Criminal Procedure[124], the Trade Licensing Act[125], the Act on banks, the Credit Unions Act, the Capital Market Supervision Act, the Administrative Fees Act, the Criminal Code[126], the Financial Collateral Act[127], and the Investment Companies and Investment Funds Act.

**Bonds and Securities**

Legislative work in draft law amending the Act on bonds[128] and other related laws was in progress in 2016. In particular, the bill modernises the existing regulation of mortgage bonds and extends it to other types of so-called covered bonds. It proposes to newly exclude automatic maturity of covered bonds in the event of insolvency of their issuer (bank) and explicitly address the issue of repayment of mortgage loans covered by these covered bonds. The bill further addresses some of the weaknesses in bond law that have been brought to attention by practice, such as the absence of a security agent, a covered block monitor, an official receiver, or a lack of regulation of contingent convertible bonds (CoCos). Also, in relation to insolvency proceedings, the nature of the customer's assets and their surrender to customers is specified. Some terminological specifications are also made. The bill is not a transposing one. It is, therefore, national regulation, which, however, that takes into account existing EU legislation. The bill was approved by the government on 13 March 2017 and then passed to the Chamber of Deputies as the Parliamentary Document No 1062.

In addition to the Act on bonds, the draft law also amends the Code of Civil Procedure[129], the Building Savings Act, the State Housing Development Fund Act[130], the Act on the promotion of construction of cooperative dwellings[131], the Administrative Fees Act, the Capital Market Undertakings Act, the Insolvency Act[132], and the Act on framework for the recovery and resolution of credit institutions and investment firms.

**Investment Funds**

Legislative work on the draft amendment to the Government Regulation on the investing of investment funds[133] was in progress in 2016. The draft Regulation aims to increase the attractiveness of capital undertakings in the Czech Republic in response to practical issues encountered in its application. In particular, it abolished investment limits for qualified investment funds. Some terminological changes are made in relation to collective investment funds, and transposition is specified, especially with regard to the transitional six-month period when a fund is created. Furthermore, it specifies adoption of rules from general guidelines of CESR and ESMA. It also proposes to allow special funds invest up to 10% of their assets in qualified investment funds. The draft Regulation was approved by the government on 10 April 2017 and published in the Collection of Laws under No 133/2017 Coll. on 28 April 2017. It was set to come into effect on 1 June 2017.

**Distribution of Insurance Products**

In February 2015, the government submitted to the Chamber of Deputies an amendment to the Act on insurance intermediaries and independent loss adjusters (IIA)[134] for consideration. The proposal was a comprehensive amendment aimed at enhancing consumer protection in the sector, streamlining supervision and increasing demands on distributors of insurance products and services. Due to the disagreement on the

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124 Act No 141/1961 Coll., on criminal judicial procedure (Code of Criminal Procedure), as amended.

125 Act No 455/1991 Coll., on trade licensing, as amended.

126 Act No 40/2009 Coll., the Criminal Code, as amended.

127 Act No 408/2010 Coll., on financial collateral, as amended.

128 Act No 190/2004 Coll., on bonds, as amended.

129 Act No 99/1963 Coll., the Code of Judicial Procedure, as amended.

130 Act No 211/2000 Coll., on the State Housing Development Funds and amending Act No 171/1991 Coll., on the competence of the Czech authorities in matters of transfers of state property to other persons and on the National Property Fund of the Czech Republic, as amended.

131 Act No 378/2005 Coll., on the promotion of the construction of cooperative dwellings from the State Housing Development Fund and on the amendment of Act No 190/2004 Coll., on bonds, as amended.

132 Act No 182/2006 Coll., on bankruptcy and settlement (Insolvency Act), as amended.

133 Government Regulation No 243/2013 Coll., on the investing of investment funds and techniques to their management, as amended by Government Regulation No 11/2014 Coll.

134 Act No 38/2004 Coll., on insurance intermediaries and independent loss adjusters and the Trade Licensing Act (Act on insurance intermediaries and independent loss adjusters).

need and form of regulation of financial relations arising from the distribution of life insurance, the law was withdrawn by the government from the Chamber of Deputies in July 2015. In March 2016, the government submitted to the Chamber of Deputies a partial amendment to the IIA, which contained only regulation of financial relations in distribution (regulation of commissions and surrender). That was subsequently approved as Act No 295/2016 Coll. A comprehensive new law (Act on distribution of insurance and reinsurance), transposing the newly adopted Insurance Distribution Directive (IDD), will be submitted by the MoF to the government in the first half of 2017.

**Distribution of Consumer Credits**

On 1 December 2016, Act No 257/2016 Coll., on consumer credit, entered into effect. The law is a new comprehensive legal regulation of consumer loans (now including loans for residential real estate purchase), transposes the relevant EU legislation (MCD, CCD) and responds to occurring domestic problems in negotiating retail credit products. The law thus primarily strengthens consumer protection in the sector—tightens the requirements for non-bank providers and credit intermediaries, creates conditions for effective oversight of these people's activities, and improves consumer rights towards providers and credit intermediaries. For example, the law introduces a more transparent way of communicating certain key product information, restricts the overall amount of late payment penalties, improves the position of early redemption creditors, etc. Certain wrongs by credit providers are associated with considerable sanctions that should have a deterrent effect, which should lead to an overall improvement in the situation in this long-term problematic financial market sector. A fundamental change in the institutional nature is unification of licensing and supervisory powers under the CNB.

**Pension Reform**

At the end of 2015, Act No 376/2015 Coll., on the termination of pension savings, and Act No 377/2015 Coll., amending some acts in relation to the adoption of the law on the termination of pension savings with effect from 1 January 2016 were adopted.

The termination of pension savings followed the annual cycle of payment of premiums for pension savings. As of January 2016, pension insurance premiums were terminated; in July 2016, liquidation of pension funds began and the participants' funds were disbursed by the end of 2016.

The law amending some acts in relation to the adoption of the law on the termination of pension savings also included partial changes to Pillar 3, i.e., supplementary pension savings. These include, in particular, allowing children to enter the scheme, and easing of certain investment limits to allow a higher level of increase in value of the resources of the participants, and exemption of pensions paid for at least 10 years from income tax. Another change to Pillar 3 is, since 2017, higher tax support.

The set-up of Pillar 3 continued to be addressed by the Expert Committee on Pension Reform, which dealt mainly with the topic of possible introduction of mandatory employer contributions for demanding and high-risk professions.

**Insurance Sector**

During 2016, discussions continued of a draft amendment to the Insurance Act, which implements the Solvency II Directive into the Czech legal order. Delays in discussing the bill were due to a wide-ranging debate on the regulation of the remuneration of insurance intermediaries distributing life insurance products as proposed in the amendment to the Act on insurance intermediaries and independent loss adjusters (IIA). While this regulation did not have a direct link to the amendment to the Insurance Act, the Chamber of Deputies voted on the two draft laws jointly. The draft amendment to the Insurance Act was eventually approved on 24 August 2016 and published in the Collection of Laws under No 304/2016 Coll., together with the implementing decrees of the Czech National Bank No 305/2016 Coll., No 306/2016 Coll., and No 307/2016 Coll.

At the beginning of 2016, the Government Legislative Council discussed a draft law amending the Motor Third-Party Liability Insurance Act[135] and amending certain related laws, as amended. The bill responded to the judgement of the Court of Justice of 4 September 2014 in Case C-162/13 (Vnuk). The aim was to ensure the compatibility of national legislation with EU law. Compulsory motor third-party liability insurance was to be extended also to its operation outside public roads so as to cover any use of the vehicle in accordance with its

[135] Act No 168/1999 Coll., on liability insurance for damage caused while operating a vehicle and amendments to certain related legislation (Motor Third-Party Liability Insurance Act).

function. The draft amendment was not discussed by the government and a draft of the relevant European directive amendment is now pending.

During 2016, the MoF actively cooperated with the MRD in implementing the directive on package travel and linked travel arrangements[136], in connection with the new legislation on compulsory insurance of travel agencies in case of their bankruptcy. This proposed regulation was submitted to the Government of the Czech Republic for discussion in February 2017.

**Monetary Circulation**

On 20 August 2015, the government approved and subsequently passed to the Chamber of Deputies a government bill amending some Acts in the area of money circulation and foreign exchange, and repealing the Foreign Exchange Act[137]. The bill was adopted and published in the Collection of Laws as Act No 323/2016 Coll., and came into effect on 18 October 2016.

Act No 323/2016 Coll. is primarily a technical amendment to the Act on the circulation of banknotes and coins. Specifically, for instance, it simplifies the procedure for replacing banknotes and coins that are not standardly damaged and eases requirements for deposit ATMs so that only suspicious coins may be refused and may not be seized, which was technically difficult to implement.

**Payment Accounts**

On 24 February 2016, the government approved a government bill amending the Payment System Act[138] and related laws, and subsequently passed it to the Chamber of Deputies. The reason for submitting the bill was the transposition of the directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features[139]. The bill was adopted and published in the Collection of Laws as Act No 452/2016 Coll. A part of the law implementing the Interbank Fees Regulation and extending the scope of the Financial Arbitrator came into effect on 13 January 2017, and its part dealing the payment accounts on 1 March 2017.

The law brings an obligation for unification of the terminology of payment transactions, rules for the operation of comparative websites and an obligation to allow of a change of payment account (switching). The law also introduced an obligation of banks to offer a basic payment account. Another reason for submitting the bill is the adaptation of the Payment System Act to the regulation on interchange fees for card-based payment transactions[140].

In the course of the year 2016, a draft law on payment transactions was prepared, replacing the existing Payment System Act. The reason for the adoption of this law is primarily the need for transposition of the directive on payment services in the internal market (PSD II). The bill increases payment security standards and strengthens the rights of payment service users in the event of loss, theft or misuse of payment instruments, and regulates innovative ways of paying via the Internet.

The government approved the draft of the new Payment System Act in its meeting on 13 March 2017 and passed it to the Chamber of Deputies as the Parliamentary Document No 1059. In order to comply with the transposition deadline, the law should come into effect by 13 January 2018 at the latest.

## 9.5. Non-Legislative Financial Market Activities of the MoF

**Financial Education**

According to the National Strategy for Financial Education approved by the government, the MoF is a public administration body responsible for the area of consumer protection in the financial market and guaranteeing financial education as one of the key elements of consumer protection. The MoF heads the Working Group on Financial Education (WGFE), which provides a platform for the exchange of the opinions and information

[136] Directive (EU) 2015/2302 of the European Parliament and of the Council of 25 November 2015 on package travel and linked travel arrangements, amending Regulation (EC) No 2006/2004 and Directive 2011/83/EU of the European Parliament and of the Council and repealing Council Directive 90/314/EEC.

[137] Act No 219/1995 Coll., the Foreign Exchange Act, as amended.

[138] Act No 284/2009 Coll., on payment system, as amended.

[139] Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

[140] Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions.

about the experience of its members. These members include representatives from the public sector (the MoF, the MoE, other ministries and the CNB), representatives from professional associations operating in the financial market, entities that implement financial education projects (NGOs, consumer associations, debt advisory entities), representatives from the academic sector, and education professionals. The members of the WGFE try to find a common approach for improving the financial literacy of the Czech population. The WGFE did not physically meet in 2016.

**Revision of the National Strategy for Financial Education and related strategic documents**
In 2015, the MoF started working on the revision of the National Strategy for Financial Education. The revision process includes an assessment of the level of financial literacy amongst the adult population; the results were published in 2016[141]. An ad-hoc task force for competences, composed of members of the WGFE and other invited experts, which revised the financial literacy standards, which are the basis for the creation of framework education programs at elementary and secondary schools, was convened during 2016. Negotiations continued in 2017, and a commentary procedure is under way. The final form of standards should be published in the first half of 2017.

In 2017, the revision of the National Strategy for Financial Education will continue with consultations regarding the system of financial education in the Czech Republic, which will be the basis for revision of the strategy text, the next version of which will determine the direction of increasing financial literacy in the next period. Another strategic document, the MoF's General Policy for Consumer Protection in the Financial Market, will also be revised.

**The "Why to get financially educated?" portal**
MoF continuously administers an internet portal for financial education and financial literacy entitled "Why to get financially educated?", www.psfv.cz, which is designed for both the professional as well as the general public. The portal provides a single point for accessing information about the functioning and risks of the financial market, and about the system of financial education in the Czech Republic and abroad. The topics include, amongst others, family finances and how to create a household budget; the structure, institutions, and products of the financial market; dispute resolution; advice and guidelines focused primarily on over-indebtedness, debt relief, and debt collection orders; links to interesting Czech and foreign websites containing projects, games, and calculators; contacts for consumer and debt advisory organisations that provide assistance free of charge during disputes with financial market institutions or during periods of personal hardship.

**The concept of capital market development in the Czech Republic and cooperation with the World Bank and the European Commission**
At the beginning of 2016, the MoF processed received comments on market proposals regarding the forthcoming document titled "Concept for the Development of the Capital Market", which the MoF has been working on since March 2015 in cooperation with the Czech Capital Market Association and other market representatives and stakeholders. Subsequently, the MoF prepared its own version of the document, which was circulated in March 2016 for comments, and it convened a work force meeting. As most of the comments received were directed to the analytical section of the Concept, it was decided to cooperate with the Commission and the World Bank to make this analysis objective and easy to compare internationally. In October 2016, the MoF commissioned the World Bank to analyse the capital market in the Czech Republic and identify obstacles to its further development. The project is funded by the Commission under the Structural Reform Support Program (RSPP), which is set to operate in the years 2017–2020. The World Bank visited the Czech Republic for this purpose in December 2016 and February 2017, and the last visit is planned for June 2017. During the first two visits, the World Bank held more than 40 meetings with representatives of the market and state institutions. The World Bank report should be ready by the end of July 2017. Cooperation with the Commission and the World Bank should continue as far as possible.

Some substantive issues that have emerged in connection with the preparation of the Concept have been taken into account in the currently pending legislative proposals, others are being continuously discussed (e.g., personal pension account, multilevel securities records, private equity funds taxation, easement of pension funds' investments, subfunds of mutual funds or exchangeable bonds for limited liability companies). In connection with the preparation of the Concept meetings took place in the second half of 2016 focused on individual issues, for example with representatives of crowdfunding platforms on the potential of investment

[141] http://www.psfv.cz/cs/pro-odborniky/mereni-urovne-financni-gramotnosti.

crowdfunding in the Czech Republic, representatives of pension management companies on how pension funds abroad are important for the capital market and what obstacles the Czech pension funds currently face in this respect, and also with the Chamber of Licensed Executors with the participation of market representatives (all the associations and entities concerned) regarding the provision of information by financial institutions to executors. The proposals contained in the pending legislative proposals were also discussed with stakeholders on an ongoing basis. The findings from discussions on the development of the capital market in the Czech Republic are also used in discussions at EU level, especially within the framework of the Capital Markets Union project.

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# LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ABCP | Asset-Backed Commercial Paper |
| Abs. | absolute |
| ADA | Anti-Debt Alliance (Aliance proti dluhům) |
| ADR | Alternative Dispute Resolution |
| AIFMD | Alternative Investment Fund Managers Directive |
| AKAT | Capital Market Association (Asociace pro kapitálový trh České republiky) |
| APR | Annual Percentage Rate of Charge |
| APS CR | Association of Pension Management Companies of the Czech Republic (Asociace penzijních společností České republiky) |
| ARAD | Czech National Bank's time series database |
| b.p. | basis point |
| BEPS | Base Erosion and Profit Shifting |
| BIS | Bank for International Settlements |
| BMR | Benchmarks Regulation |
| bn | billion |
| BRRD | Bank Recovery and Resolution Directive |
| BSR | Regulation on Bank Structure |
| CA | current account |
| CCD | Consumer Credit Directive |
| CCI | core credit institutions |
| CCP | Central Counterparty Clearing House (ústřední protistrana) |
| CCPRR | Central Counterparties Recovery and Resolution Proposal |
| CEGBPI | Commission Expert Group on Banking, Payments and Insurance |
| CFM | Committee for Financial Markets |
| CMU | Capital Markets Union |
| CNAV MMFs | Constant Net Asset Value Money Market Funds |
| CNY | Chinese renminbi – International currency code |
| COREPER | Comité des Représentants Permanents (Committee of Permanent Representatives) |
| CPI | Consumer Price Index |
| CRD | Capital Requirements Directive |
| CRDWG | Capital Requirement Directive Working Group |
| CRF | Crisis Resolution Fund |
| CRR | Capital Requirements Regulation |
| CSDR | Central Securities Depositories Regulation |
| CSMAD | Criminal Sanctions for Market Abuse Directive |
| CZ | Czech Republic |
| CZK | Czech crown – International currency code |
| CZSO | Czech Statistical Office |
| ČS | Česká spořitelna, a. s. (commercial bank) |
| ČSOB | Československá obchodní banka, a. s. (commercial bank) |
| D03 | Working Group for Financial Services |
| DG FISMA | The Directorate-General for Financial Stability, Financial Services and Capital Markets Union |
| DGSD | Deposit Guarantee Schemes Directive |
| DIF | Deposit Insurance Fund |
| DSTI | Debt service-to-income |
| DTI | Debt-to-income |
| EBA | European Banking Authority |
| EBC | European Banking Committee |
| EBRD | European Bank for Reconstruction and Development |
| ECB | European Central Bank |
| ECOFIN | Economic and Financial Affairs Council |
| ECON | Committee on Economic and Monetary Affairs |
| ECSF | European Crowdfunding Stakeholders Forum |
| EDIS | European Deposit Insurance Scheme |

| | |
|---|---|
| EEA | European Economic Area |
| EFC | Economic and Financial Committee |
| EFCC | European Financial Conglomerates Committee |
| EFTA | European Free Trade Association |
| EGESC | Expert Group of the European Securities Committee |
| EIB | European Investment Bank |
| EIOPA | European Insurance and Occupational Pensions Authority |
| EIOPC | European Insurance and Occupational Pensions Committee |
| ELTIF | European Long Term Investment Funds |
| EMIR | European Market Infrastructure Regulation (Regulation on OTC derivatives, central counterparties, and business data registers) |
| EMU | Economic and Monetary Union |
| ES | Evropské společenství |
| ESC | European Securities Committee |
| ESCB | European System of Central Banks |
| ESMA | European Securities and Markets Authority |
| ESRB | European Systemic Risk Board |
| EU | European Union |
| EUR | Euro – International currency code |
| EURIBOR | Euro Interbank Offered Rate |
| EuSEF | European Social Entrepreneurship Funds Regulation |
| EuVECA | European Venture Capital Funds Regulation |
| FA | Financial Arbitrator |
| Fed | Federal Reserve System (Central Bank of the USA) |
| FSB | Financial Stability Board |
| FSC | Financial Services Committee |
| FTT | Financial Transaction Tax |
| G20 | Group of the world's biggest economies represented by finance ministers and central bank governors |
| GBP | British Pound – International currency code |
| GDP | Gross Domestic Product |
| GEGMCD | Government Expert Group on Mortgage Credit Directive |
| GEGRFS | Government Expert Group on Retail Financial Services |
| HFT | High-Frequency Trading |
| HICP | Harmonized Indices of Consumer Prices |
| HUF | Hungarian Forint − International currency code |
| IAA | Internal Assessment Approach |
| IBRD | International Bank for Reconstruction and Development |
| IDD | Insurance Distribution Directive |
| IIA | Act on insurance intermediaries and independent loss adjusters |
| IMD | Insurance Mediation Directive |
| INFE | International Network on Financial Education |
| IORP | Institutions for Occupational Retirement Provision Directive |
| IORP II | Directive on Institutions for Occupational Retirement Provision |
| IPPC | Insurance and Private Pensions Committee |
| JPY | Japanese Yen – International currency code |
| KB | Komerční banka, a. s. (commercial bank) |
| LCR | Liquidity Coverage Ratio |
| LE | legal entity |
| LFS | Labour force survey |
| LIBOR | London Interbank Offered Rate |
| LTV | Loan-to-value |
| MAD | Market Abuse Directive |
| MAR | Market Abuse Regulation |
| MCD | Mortgage Credit Directive |
| MDA | Maximum Distributable Amount |
| MEYS | Ministry of Education, Youth and Sports |

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|---|---|
| MFGS | Financial Market Guarantee System |
| MI | Ministry of the Interior |
| MiFID | Markets in Financial Instruments Directive |
| MiFIR | Markets in Financial Instruments Regulation |
| MIFR | Multilateral Interchange Fee Regulation |
| ML | mortgage loan |
| MLSA | Ministry of Labour and Social Affairs |
| MMFs | Money Market Funds |
| mn | million |
| MoF | Ministry of Finance of the Czech Republic |
| MRD | Ministry of Regional Development |
| n/a | not available |
| No | number |
| ODR | Online Dispute Resolution |
| OECD | Organisation for Economic Co-operation and Development |
| OEEC | Organisation for European Economic Co-operation |
| OPEC | Organization of the Petroleum Exporting Countries |
| OTC | over-the-counter |
| OTF | organised trading facility |
| p.a. | per annum (per year) |
| p.p. | percentage point |
| PF | participating fund |
| PI | private individual |
| PLN | Polish Zloty – International currency code |
| PLN | Polish Zloty – International currency code |
| PRIBOR | Prague Interbank Offered Rate |
| PRIIPs | Packaged Retail and Insurance-based Investment Products Regulation |
| PSD | Payment Service Directive |
| PSE | Prague Stock Exchange |
| PX | Primary PSE index |
| PXE | Power Exchange Central Europe |
| PX-GLOB | PSE index with wide base |
| PX-TR | PSE index that takes account of dividends (Total Return) |
| RM-S | RM-Systém |
| RRM | Risk Reduction Measures |
| RUB | Russian Ruble – International currency code |
| SC | state contribution |
| SFTR | Securities Financing Transaction Regulation |
| SFTR | Securities Financing Transaction Regulation |
| SMEs | Small and Medium Enterprises |
| SSM | Single Supervisory Mechanism |
| STGF | Securities Traders Guarantee Fund |
| STS | Simple, Transparent and Standardised Securitization |
| TBTF | too-big-to-fail |
| TD II | Transparency Directive |
| TE | Trading Entities |
| TF | transformed fund |
| TLAC | Total Loss-Absorbing Capacity |
| TPP | Third Party Provider |
| TREA | Total Risk Exposure Amount |
| UCITS | Undertakings for Collective Investment in Transferable Securities Directive |
| USA | the United States of America |
| USD | US Dollar – International Currency Code |
| WGFE | Working Group on Financial Education |
| WPPP | Working Party on Private Pensions |

# APPENDIX 1: FINANCIAL MARKET LEGISLATION

The following changes were made to the financial market legislation of the Czech Republic and of European Union in 2016:

## A1.1. Cross-Sectoral Financial Market Regulations

**1) European legislation and other initiatives published in 2016:**

- Regulation (EU) 2016/2340 of the European Parliament and of the Council of 14 December 2016 amending Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products as regards the date of its application;
- Commission Delegated Regulation (EU) 2016/1434 of 14 December 2015 correcting Delegated Regulation (EU) 2015/63 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements;
- Commission Delegated Regulation (EU) 2016/451 of 16 December 2015 laying down general principles and criteria for the investment strategy and rules for the administration of the Single Resolution Fund;
- Commission Delegated Regulation (EU) 2016/778 of 2 February 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to the circumstances and conditions under which the payment of extraordinary ex post contributions may be partially or entirely deferred, and on the criteria for the determination of the activities, services and operations with regard to critical functions, and for the determination of the business lines and associated services with regard to core business lines;
- Commission Delegated Regulation (EU) 2016/860 of 4 February 2016 specifying further the circumstances where exclusion from the application of write-down or conversion powers is necessary under Article 44(3) of Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms;
- Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the content of recovery plans, resolution plans and group resolution plans, the minimum criteria that the competent authority is to assess as regards recovery plans and group recovery plans, the conditions for group financial support, the requirements for independent valuers, the contractual recognition of write-down and conversion powers, the procedures and contents of notification requirements and of notice of suspension and the operational functioning of the resolution colleges;
- Commission Delegated Regulation (EU) 2016/1400 of 10 May 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the minimum elements of a business reorganisation plan and the minimum contents of the reports on the progress in the implementation of the plan;
- Commission Delegated Regulation (EU) 2016/1401 of 23 May 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms with regard to regulatory technical standards for methodologies and principles on the valuation of liabilities arising from derivatives;
- Commission Delegated Regulation (EU) 2016/1450 of 23 May 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities;
- Commission Delegated Regulation (EU) 2016/1712 of 7 June 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms with regard to regulatory technical standards specifying a minimum set of the information on financial contracts that should be contained in the detailed records and the circumstances in which the requirement should be imposed;
- Commission Implementing Regulation (EU) 2016/911 of 9 June 2016 laying down implementing technical standards with regard to the form and the content of the description of group financial support agreements in accordance with Directive 2014/59/EU of the European Parliament and of the

Council establishing a framework for the recovery and resolution of credit institutions and investment firms;
- Commission Implementing Regulation (EU) 2016/962 of 16 June 2016 laying down implementing technical standards with regard to the uniform formats, templates and definitions for the identification and transmission of information by competent authorities and resolution authorities to the European Banking Authority according to Directive 2014/59/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/1066 of 17 June 2016 laying down implementing technical standards with regard to procedures, standard forms and templates for the provision of information for the purpose of resolution plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council.

**2) Pending European legislation (including legislation published after 31 December 2016) and other initiatives of the European Commission:**
- Proposal for a Regulation of European Parliament and of the Council on establishing a Union programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union policy-making in the area of financial services for the period of 2017-2020;
- Proposal for a Commission Delegated Regulation (EU) on classes of arrangements to be protected in a partial property transfer under Article 76 of Directive 2014/59/EU of the European Parliament and of the Council;
- Proposal for a Directive of the European Parliament and of the Council on amending Directive 2014/59/EU of the European Parliament and of the Council as regards the ranking of unsecured debt instruments in insolvency hierarchy;
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/59/EU on loss-absorbing and recapitalisation capacity of credit institutions and investment firms and amending Directive 98/26/EC, Directive 2002/47/EC, Directive 2012/30/EU, Directive 2011/35/EU, Directive 2005/56/EC, Directive 2004/25/EC and Directive 2007/36/EC.

**3) Acts that took effect in 2016:**
- Act No 374/2015 Coll., on recovery and resolution in the financial market (in effect as of 1 January 2016);
- Act No 375/2015 Coll., amending some acts in relation to the adoption of the Act on recovery and resolution in the financial market and in relation to changes to deposit guarantee scheme (in effect as of 1 January 2016);
- Act No 257/2016 Coll. on consumer credit (in effect as of 1 December 2016);
- Act No 258/2016 amending some acts in relation to the adoption of the Act on consumer credit (in effect as of 1 December 2016).

**4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2016):**
- Act No 368/2016 Coll., amending Act No 253/2008 Coll., on selected measures against legitimisation of proceeds of crime and financing of terrorism, as amended (in effect as of 1 January 2017);
- Draft Bill amending Act No 374/2015 Coll., on recovery and resolution in the financial market (expected to take effect in the second half of 2017).

**5) Secondary legislation:**
- Decree No 381/2016 Coll. on application, notifications and the submitting of statements pursuant to the Consumer Credit Act (in effect as of 1 December 2016);
- Decree No 384/2016 Coll. on professional qualifications for the distribution of consumer credit (in effect as of 1 December 2016).

## A1.2. Capital Market Legislation

**1) European legislation and other initiatives published in 2016:**
- Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014;

- Commission Delegated Regulation (EU) 2016/908 of 26 February 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council laying down regulatory technical standards on the criteria, the procedure and the requirements for establishing an accepted market practice and the requirements for maintaining it, terminating it or modifying the conditions for its acceptance;
- Commission Delegated Regulation (EU) 2016/909 of 1 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the content of notifications to be submitted to competent authorities and the compilation, publication and maintenance of the list of notifications;
- Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures;
- Commission Delegated Regulation (EU) 2016/957 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the appropriate arrangements, systems and procedures as well as notification templates to be used for preventing, detecting and reporting abusive practices or suspicious orders or transactions;
- Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest;
- Commission Delegated Regulation (EU) 2016/960 of 17 May 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the appropriate arrangements, systems and procedures for disclosing market participants conducting market soundings;
- Commission Delegated Regulation (EU) 2016/2020 of 26 May 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on criteria for determining whether derivatives subject to the clearing obligation should be subject to the trading obligation;
- Commission Delegated Regulation (EU) 2016/2021 of 2 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on access in respect of benchmarks;
- Commission Delegated Regulation (EU) 2016/2022 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards concerning the information for registration of third-country firms and the format of information to be provided to the clients;
- Commission Implementing Regulation (EU) 2016/523 of 10 March 2016 laying down implementing technical standards with regard to the format and template for notification and public disclosure of managers' transactions in accordance with Regulation (EU) No 596/2014 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/378 of 11 March 2016 laying down implementing technical standards with regard to the timing, format and template of the submission of notifications to competent authorities according to Regulation (EU) No 596/2014 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/959 of 17 May 2016 laying down implementing technical standards for market soundings with regard to the systems and notification templates to be used by disclosing market participants and the format of the records in accordance with Regulation (EU) No 596/2014 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/824 of 25 May 2016 laying down implementing technical standards with regard to the content and format of the description of the functioning of multilateral trading facilities and organised trading facilities and the notification to the European Securities and Markets Authority according to Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments;
- Commission Implementing Regulation (EU) 2016/1055 of 29 June 2016 laying down implementing technical standards with regard to the technical means for appropriate public disclosure of inside

information and for delaying the public disclosure of inside information in accordance with Regulation (EU) No 596/2014 of the European Parliament and of the Council;

- Commission Implementing Regulation (EU) 2016/1368 of 11 August 2016 establishing a list of critical benchmarks used in financial markets pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council;
- Directive (EU) 2016/1034 of the European Parliament and of the Council of 23 June 2016 amending Directive 2014/65/EU on markets in financial instruments.

**2) Pending European legislation (including legislation published after 31 December 2016) and other initiatives of the European Commission:**

- Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive;
- Commission Delegated Regulation (EU) 2017/567 of 18 May 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to definitions, transparency, portfolio compression and supervisory measures on product intervention and positions;
- Commission Delegated Regulation (EU) 2017/566 of 18 May 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards for the ratio of unexecuted orders to transactions in order to prevent disorderly trading conditions;
- Commission Delegated Regulation (EU) 2017/568 of 24 May 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the admission of financial instruments to trading on regulated markets;
- Commission Delegated Regulation (EU) 2017/569 of 24 May 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the suspension and removal of financial instruments from trading;
- Commission Delegated Regulation (EU) 2017/570 of 26 May 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards for the determination of a material market in terms of liquidity in relation to notifications of a temporary halt in trading;
- Commission Delegated Regulation (EU) 2017/582 of 29 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards specifying the obligation to clear derivatives traded on regulated markets and timing of acceptance for clearing ;
- Commission Delegated Regulation (EU) 2017/572 of 2 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards on the specification of the offering of pre-and post-trade data and the level of disaggregation of data;
- Commission Delegated Regulation (EU) 2017/571 of 2 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the authorisation, organisational requirements and the publication of transactions for data reporting services providers;
- Commission Delegated Regulation (EU) 2017/573 of 6 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on requirements to ensure fair and non-discriminatory co-location services and fee structures;
- Commission Delegated Regulation (EU) 2017/574 of 7 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the level of accuracy of business clocks;
- Commission Delegated Regulation (EU) 2017/575 of 8 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards concerning the data to be published by execution venues on the quality of execution of transactions;
- Commission Delegated Regulation (EU) 2017/576 of 8 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution;

- Commission Delegated Regulation (EU) 2017/579 of 13 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on the direct, substantial and foreseeable effect of derivative contracts within the Union and the prevention of the evasion of rules and obligations;
- Commission Delegated Regulation (EU) 2017/577 of 13 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on the volume cap mechanism and the provision of information for the purposes of transparency and other calculations;
- Commission Delegated Regulation (EU) 2017/578 of 13 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards specifying the requirements on market making agreements and schemes;
- Commission Delegated Regulation (EU) 2017/580 of 24 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the maintenance of relevant data relating to orders in financial instruments;
- Commission Delegated Regulation (EU) 2017/581 of 24 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards on clearing access in respect of trading venues and central counterparties;
- Commission Delegated Regulation (EU) 2017/585 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the data standards and formats for financial instrument reference data and technical measures in relation to arrangements to be made by the European Securities and Markets Authority and competent authorities;
- Commission Delegated Regulation (EU) 2017/587 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of shares, depositary receipts, exchange-traded funds, certificates and other similar financial instruments and on transaction execution obligations in respect of certain shares on a trading venue or by a systematic internaliser;
- Commission Delegated Regulation (EU) 2017/583 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of bonds, structured finance products, emission allowances and derivatives;
- Commission Delegated Regulation (EU) 2017/588 of 14 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the tick size regime for shares, depositary receipts and exchange-traded funds;
- Commission Delegated Regulation (EU) 2017/584 of 14 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying organisational requirements of trading venues;
- Commission Delegated Regulation (EU) 2017/589 of 19 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the organisational requirements of investment firms engaged in algorithmic trading;
- Commission Delegated Regulation (EU) 2017/590 of 28 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the reporting of transactions to competent authorities;
- Commission Delegated Regulation (EU) 2017/592 of 1 December 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the criteria to establish when an activity is considered to be ancillary to the main business;
- Commission Delegated Regulation (EU) 2017/591 of 1 December 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the application of position limits to commodity derivatives;
- Proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds;

- Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits.

**3) Acts that took effect in 2016:**

- Act No 148/2016 Coll., amending Act No 256/2004 Coll., on capital market undertakings, as amended, and amendment of some related acts (in effect as of 1 June 2016).

**4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2016):**

- Draft Bill amending Act No 256/2004 Coll., on capital market undertakings., as amended, and amendment of some related acts (expected to take partially effect in August 2017 and 3 January 2018, MiFID II amendment);
- Draft Bill amending Act No 190/2004 Coll., on bonds, as amended, and certain related legislation (expected to take effect on 1 January 2018).

**5) Secondary legislation:**

- Decree No 52/2016 Coll., amending Decree No 244/2013 Coll., on further framework for certain rules of Act on management companies and investment funds (in effect as of 1 March 2016);
- Decree No 158/2016 Coll., amending decree No 233/2009 Coll., on applications, approval of persons and the manner of proving professional qualifications, trustworthiness and experience of persons, as amended (in effect as of 1 June 2016);
- Decree No 159/2016 Coll., amending decree No 234/2009 Coll., on the protection against market abuse and on transparency, as amended by decree No 191/2011 Coll., and on repealing decree No 114/2006 Coll., on fair presentation of investment recommendations (in effect as of 1 June 2016);
- Government Regulation No 133/2017 Coll., amending Government Regulation No 243/2013 Coll., on investment of investment funds and techniques to their management (in effect as of 1 June 2017).

## A1.3. Banking Sector Legislation, Including Building Savings Schemes and Credit Unions

**1) European legislation and other initiatives published in 2016:**

- Regulation (EU) 2016/1014 of the European Parliament and of the Council of 8 June 2016 amending Regulation (EU) No 575/2013 as regards exemptions for commodity dealers;
- Commission Delegated Regulation (EU) 2016/861 of 18 February 2016 correcting Commission Delegated Regulation (EU) No 528/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for non-delta risk of options in the standardised market risk approach and correcting Commission Delegated Regulation (EU) No 604/2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile;
- Commission Delegated Regulation (EU) 2016/1608 of 17 May 2016 amending Delegated Regulation (EU) No 1222/2014 with regard to regulatory technical standards for the specification of the methodology for the identification of global systemically important institutions and for the definition of subcategories of global systemically important institutions;
- Commission Delegated Regulation (EU) 2017/72 of 23 September 2016 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying conditions for data waiver permissions;
- Commission Delegated Regulation (EU) 2017/180 of 24 October 2016 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards for benchmarking portfolio assessment standards and assessment-sharing procedures;
- Commission Delegated Regulation (EU) 2017/208 of 31 October 2016 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for additional liquidity outflows corresponding to collateral needs resulting from the impact of an adverse market scenario on an institution's derivatives transactions;

- Council Implementing Regulation (EU) 2016/111 of 28 January 2016 implementing Regulation (EU) No 101/2011 concerning restrictive measures directed against certain persons, entities and bodies in view of the situation in Tunisia;
- Commission Implementing Regulation (EU) 2016/322 of 10 February 2016 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions of the liquidity coverage requirement;
- Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/313 of 1 March 2016 amending Implementing Regulation (EU) No 680/2014 with regard to additional monitoring metrics for liquidity reporting;
- Commission Implementing Regulation (EU) 2016/818 of 17 May 2016 amending Implementing Regulation (EU) No 1030/2014 laying down implementing technical standards with regard to the uniform formats and date for the disclosure of the values used to identify global systemically important institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/892 of 7 June 2016 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulation (EU) No 575/2013 and Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/1702 of 18 August 2016 amending Implementing Regulation (EU) No 680/2014 as regards templates and instructions;
- Commission Implementing Regulation (EU) 2016/1646 of 13 September 2016 laying down implementing technical standards with regard to main indices and recognised exchanges in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms;
- Commission Implementing Regulation (EU) 2016/2070 of 14 September 2016 laying down implementing technical standards for templates, definitions and IT-solutions to be used by institutions when reporting to the European Banking Authority and to competent authorities in accordance with Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/1801 of 11 October 2016 on laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for securitisation in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/2227 of 9 December 2016 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/230 of 17 February 2016 amending Implementing Decision 2014/908/EU as regards the lists of third countries and territories whose supervisory and regulatory requirements are considered equivalent for the purposes of the treatment of exposures according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2358 of 20 December 2016 amending Implementing Decision 2014/908/EU as regards the lists of third countries and territories whose supervisory and regulatory requirements are considered equivalent for the purposes of the treatment of exposures according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

**2) Pending European legislation (including legislation published after 31 December 2016) and other initiatives of the European Commission:**

- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012;

- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 in connection with a proposal for a Regulation of the European Parliament and of the Council laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012;
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme (EDIS);
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 as regards loss-absorbing and Recapitalisation Capacity for credit institutions and investment firms;
- Commission Delegated Regulation (EU) 2017/747 of 17 December 2015 supplementing Regulation (EU) No 806/2014 of the European Parliament and the Council with regard to the criteria relating to the calculation of ex ante contributions, and on the circumstances and conditions under which the payment of extraordinary ex post contributions may be partially or entirely deferred;
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

**3) Acts that took effect in 2016:**

- none

**4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2016):**

- Act No 461/2016 Coll., amending Act No 96/1993 Coll., on building savings schemes and state contribution of building savings schemes and amending Act of the Czech National Council No 586/1992 Coll., on income tax, as amended by Act of the Czech National Council No 35/1993 Coll. (in effect as of 1 February 2017);
- Draft Bill amending Act No 6/1993 Coll., on the Czech National Bank, as amended, and amending Act No 136/2011 Coll., on the circulation of banknotes and coins and on the amendment of Act No 6/1993 Coll., on the Czech National Bank, as amended, as amended (expected to take effect in the second half of 2017);
- Draft Bill amending Act No 21/1992 Coll., on banks, as amended, and amending Act No 87/1995 Coll., on savings and credit unions and other related matters and supplementing Act of the Czech National Council No 586/1992 Coll., on income tax, as amended, as amended (expected to take effect on 3 January 2018, the Part One Article I items 14, 130 and 134 take effect on 1 January 2019).

**5) Secondary legislation:**

- Decree No 431/2016 amending Decree No 71/2011 Coll., on form, structure and methods of keeping and administering of data which have to be kept by a bank or a foreign bank´s branch and provided by these entities to the Deposit Insurance Fund (in effect as of 1 January 2017);
- Decree implementing certain provisions of Act No 96/1993 Coll., on building savings schemes and state contribution of building savings schemes, as amended (expected to take effect in the first half of 2017).

### A1.4. Payment Services and Market Infrastructure Legislation

**1) European legislation and other initiatives published in 2016:**

- Commission Delegated Regulation (EU) 2016/592 of 1 March 2016 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on the clearing obligation;
- Commission Delegated Regulation (EU) 2016/822 of 21 April 2016 amending Delegated Regulation (EU) No 153/2013 as regards the time horizons for the liquidation period to be considered for the different classes of financial instruments;

- Commission Delegated Regulation (EU) 2016/1178 of 10 June 2016 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on the clearing obligation;
- Commission Delegated Regulation (EU) 2016/2251 of 4 October 2016 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards for risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty;
- Commission Delegated Regulation (EU) 2017/104 of 19 October 2016 amending Delegated Regulation (EU) No 148/2013 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards on the minimum details of the data to be reported to trade repositories;
- Commission Delegated Regulation (EU) 2017/389 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council as regards the parameters for the calculation of cash penalties for settlement fails and the operations of CSDs in host Member States;
- Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services;
- Commission Delegated Regulation (EU) 2017/391 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards further specifying the content of the reporting on internalised settlements;
- Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories;
- Commission Delegated Regulation (EU) 2017/610 of 20 December 2016 amending Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the extension of the transitional periods related to pension scheme arrangements;
- Commission Implementing Regulation (EU) 2017/105 of 19 October 2016 amending Implementing Regulation (EU) No 1247/2012 laying down implementing technical standards with regard to the format and frequency of trade reports to trade repositories according to Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories;
- Commission Implementing Regulation (EU) 2017/393 of 11 November 2016 laying down implementing technical standards with regard to the templates and procedures for the reporting and transmission of information on internalised settlements in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/394 of 11 November 2016 laying down implementing technical standards with regard to standard forms, templates and procedures for authorisation, review and evaluation of central securities depositories, for the cooperation between authorities of the home Member State and the host Member State, for the consultation of authorities involved in the authorisation to provide banking-type ancillary services, for access involving central securities depositories, and with regard to the format of the records to be maintained by central securities depositories in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/377 of 15 March 2016 on the equivalence of the regulatory framework of the United States of America for central counterparties that are authorised and supervised by the Commodity Futures Trading Commission to the requirements of Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/1073 of 1 July 2016 on the equivalence of designated contract markets in the United States of America in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2269 of 15 December 2016 on the equivalence of the regulatory framework for central counterparties in India in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;

- Commission Implementing Decision (EU) 2016/2270 of 15 December 2016 on the equivalence of approved exchanges in Singapore in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2271 of 15 December 2016 on the equivalence of financial instrument exchanges and commodity exchanges in Japan in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2272 of 15 December 2016 on the equivalence of financial markets in Australia in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2273 of 15 December 2016 on the equivalence of recognised exchanges in Canada in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2274 of 15 December 2016 on the equivalence of the regulatory framework for central counterparties in New Zealand in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2275 of 15 December 2016 on the equivalence of the regulatory framework for central counterparties in Japan in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2276 of 15 December 2016 on the equivalence of the regulatory framework for central counterparties in Brazil in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2277 of 15 December 2016 on the equivalence of the regulatory framework for central counterparties in the Dubai International Financial Centre in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/2278 of 15 December 2016 on the equivalence of the regulatory framework for central counterparties in the United Arab Emirates in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council.

2) **Pending European legislation (including legislation published after 31 December 2016) and other initiatives of the European Commission:**
   - Proposal for a Regulation of the European Parliament and of the Council on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and (EU) 2015/2365;
   - Proposal for a Commission Delegated Regulation (EU) amending Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the extension of the transitional periods related to pension scheme arrangements (expected to take effect on 17 September 2017).

3) **Acts that took effect in 2016:**
   - Act No 323/2016 Coll., amending some Acts in the area of money circulation and foreign exchanges and repealing Act No 219/1995 Coll., Foreign Exchange Act, (in effect as of 18 October 2016).

4) **Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2016):**
   - Act No 452/2016 Coll., amending Act No 284/2009 Coll., on payment system, and some related Acts (to take partially effect on 13 January 2017, the rest on 1 March 2017);
   - Draft of new Act on payment system (expected to take effect on 13 January 2018).

5) **Secondary legislation:**
   - Decree No 382/2016 Coll., amending Decree No 141/2011 Coll., on activities of payment institutions, electronic money institutions, small payment institutions and small electronic money institutions (in effect as of 1 December 2016);
   - Decree No 418/2016 Coll., amending Decree No 274/2011 Coll., on several issues of the Act on circulation of banknotes and coins (in effect as of 1 January 2017).

### A1.5. Insurance and Private Pension Systems Legislation

1) **European legislation and other initiatives published in 2016:**
   - Commission Implementing Regulation (EU) 2016/869 of 27 May 2016 laying down technical information for the calculation of technical provisions and basic own funds for reporting with

reference dates from 31 March until 29 June 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;

- Commission Implementing Regulation (EU) 2016/1376 of 8 August 2016 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 June until 29 September 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;
- Commission Implementing Regulation (EU) 2016/1630 of 9 September 2016 laying down implementing technical standards with regard to the procedures for the application of the transitional measure for the equity risk sub-module in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/1800 of 11 October 2016 laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/1868 of 20 October 2016 amending and correcting Implementing Regulation (EU) 2015/2450 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/1976 of 10 November 2016 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September until 30 December 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;
- Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (IDD) (recast);
- Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs).

**2) Pending European legislation (including legislation published after 31 December 2016) and other initiatives of the European Commission:**

- Commission Delegated Regulation (EU) 2017/669 of 16 December 2016 correcting the Bulgarian, Croatian, Czech, Estonian, French, Greek, Lithuanian, Maltese, Romanian, Slovak and Swedish language versions of Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- Initiative to create a standardized Pan-European Personal Pension product;
- Initiative to review Implementing Regulation 2015/35 on Solvency II, which should result in proposing changes probably in 2018.

**3) Acts that took effect in 2016:**

- Act No 376/2015 Coll., on termination of retirement savings (effective from 1 January 2016);
- Act No 377/2015 Coll., amending some Acts in relation to the adoption of the Act on termination of retirement savings (in effect as of 1 January 2016);
- Act No 304/2016 Coll., amending Act No 277/2009 Coll., the Insurance Act, as amended, and amending some related Acts (in effect as of 23 September 2016);
- Act No 295/2016 Coll., amending Act No 38/2004 Coll., on insurance intermediaries and independent loss adjusters and on amendment to the Trade Licensing Act (Act on insurance intermediaries and loss adjusters), as amended (IIA) (in effect as of 1 December 2016).

**4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2016):**

- Draft Bill amending Act No 340/2006 Coll., on activities of institutions for occupational retirement provision, as amended;
- Draft Bill on distribution of insurance and reinsurance and Draft Bill amending some acts in relation to the adoption of the Act on distribution of insurance and reinsurance.

**5) Secondary legislation:**

- Decree No 198/2016 Coll., amending Decree No 347/2006 Coll., implementing some provisions of the Act on financial conglomerates, as amended by Decree No 250/2013 Coll. (in effect as of 1 August 2016);
- Decree No 305/2016 Coll., on reporting by insurance undertakings and reinsurance undertakings to the Czech National Bank (in effect as of 23 September 2016);
- Decree No 306/2016 Coll., implementing some provisions of the Insurance Act (in effect as of 23 September 2016);
- Decree No 307/2016 Coll., on applications under the Insurance Act (in effect as of 23 September 2016).

# APPENDIX 2: SUPPLEMENTARY TABLES

**Table A2.1: Loans by type**

| As at 31 Dec (CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year change | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Abs. | (%) |
| Overdrafts and debit balances of current accounts | 143.3 | 142.9 | 143.6 | 148.2 | 150.9 | 156.5 | 5.6 | 3.7 |
| Consumer loans (excl. overdrafts and debit balances of current accounts) | 186.7 | 185.3 | 187.0 | 186.3 | 202.6 | 213.9 | 11.3 | 5.6 |
| Lending for house purchase excl. mortgage loans for residential properties | 143.8 | 138.6 | 132.2 | 127.1 | 126.9 | 128.8 | 1.9 | 1.5 |
| Mortgage loans for residential properties | 710.1 | 747.6 | 789.5 | 844.3 | 911.6 | 992.7 | 81.1 | 8.9 |
| Mortgage loans for non-residential properties | 114.8 | 116.6 | 120.2 | 120.7 | 117.9 | 107.5 | -10.4 | -8.8 |
| Other loans | 415.5 | 415.8 | 514.7 | 545.2 | 544.4 | 556.2 | 11.8 | 2.2 |
| Investment loans | 554.4 | 577.5 | 585.4 | 619.6 | 697.2 | 765.2 | 67.9 | 9.7 |
| Bridge loans | 4.0 | 2.7 | 2.6 | 2.5 | 0.5 | 0.5 | 0.1 | 13.5 |
| Trade receivables | 31.7 | 33.0 | 39.1 | 41.1 | 30.4 | 29.2 | -1.2 | -4.1 |
| Total | 2,304.3 | 2,360.0 | 2,514.3 | 2,514.3 | 2,634.9 | 2,782.4 | 147.5 | 5.6 |

Source: CNB–ARAD

**Table A2.2: Main development indicators for the building savings banks sector in the Czech Republic**

| As at 31 Dec | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| New building savings contracts | number | 410,461 | 433,093 | 449,588 | 481,439 | 373,096 | 403,259 |
| | change (%) | -23.0 | 5.5 | 3.8 | 7.1 | -22.5 | -8.1 |
| Average target value for new building savings contracts with private individuals | value (CZK thousands) | 346.2 | 366.1 | 370.8 | 336.0 | 371.1 | 383.9 |
| | change (%) | 15.2 | 5.7 | 1.3 | -9.4 | 10.5 | 3.4 |
| Building savings contracts in savings phase | number | 4,550,468 | 4,316,999 | 4,066,684 | 3,825,367 | 3,503,349 | 3,312,077 |
| | change (%) | -6.1 | -5.1 | -5.8 | -5,9 | -8.4 | -5.5 |
| Paid state contribution | value (CZK bn) | 10.7 | 5.3 | 5.0 | 4.8 | 4.6 | 4.3 |
| | change (%) | -8.6 | -50.7 | -6.4 | -3.9 | -4.2 | -6.2 |
| Average state contribution paid per building savings contract for the relevant year | value (CZK) | 1,324.0 | 1,312.3 | 1,315.7 | 1,314.7 | 1,326.5 | --- |
| | change (%) | -49.7 | -0.9 | 0.3 | -0.1 | 0.9 | --- |
| Saved amount | value (CZK bn) | 433.4 | 435.0 | 429.1 | 413.6 | 384.2 | 362.6 |
| | change (%) | 0.8 | 0.4 | -1.4 | -3.6 | -7.1 | -5.6 |
| Loans in total | number | 956,659 | 894,358 | 815,160 | 752,558 | 695,439 | 650,214 |
| of which: building savings loans | number | 552,999 | 521,312 | 471,441 | 425,508 | 380,873 | 339,809 |
| bridging loans [142] | number | 403,660 | 373,046 | 343,719 | 327,050 | 314,566 | 310,405 |
| | change (%) | -3.7 | -6.5 | -8.9 | -7.7 | -7.6 | -6.5 |
| Loans in total | value (CZK bn) | 293.1 | 282.2 | 261,4 | 249.6 | 242.7 | 240.6 |
| of which: building savings loans | value (CZK bn) | 55.8 | 55.7 | 51.7 | 48.0 | 43.9 | 40.0 |
| bridging loans [142] | value (CZK bn) | 237.3 | 226.5 | 209.7 | 201.6 | 198.7 | 200.6 |
| | change (%) | -0.1 | -3.7 | -7.4 | -4.5 | -2.8 | -0.8 |
| Ratio of loans in total to saved amount | ratio (%) | 67.6 | 64.9 | 60.9 | 60.4 | 63.2 | 66.4 |

Source: Building savings banks

[142] Loans according to Section 5 (5) of Act No 96/1993 Coll. on building savings and state contribution for building savings, as amended.

**Table A2.3: Allocation of pension funds' assets**

| As at 31 Dec (market prices, CZK bn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Share 2016 (%) |
|---|---|---|---|---|---|---|---|
| Bonds | 214.2 | 235.9 | 256.9 | 300.3 | 324.4 | 356.8 | 88.7 |
| Treasury bills | 0.6 | 6.8 | 0.9 | 1.7 | 4.7 | 0.0 | 0.0 |
| Shares | 1.0 | 0.6 | 0.9 | 0.5 | 0.9 | 1.4 | 0.4 |
| Unit certificates | 5.7 | 3.1 | 3.8 | 5.0 | 6.5 | 8.8 | 2.2 |
| Money and other assets | 26.0 | 26.8 | 34.9 | 31.7 | 36.5 | 35.1 | 8.7 |
| Total | 247.5 | 273.2 | 297.4 | 339.2 | 373.1 | 402.1 | 100.0 |

Source: APS CR, CNB–ARAD

**Table A2.4: Main development indicators for the supplementary pension insurance in transformed funds**

| As at 31 Dec | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Supplementary pension insurance contracts[143] | number | 4,565,741 | 5,134,862 | 4,886,675 | 4,585,149 | 4,281,621 | 3,999,304 |
| | change (%) | 0.8 | 12.5 | -4.8 | -6.2 | -6.6 | -6.6 |
| New supplementary pension insurance contracts | number | 457,033 | 1,128,020 | - | - | - | - |
| | change (%) | -7.8 | 146.8 | - | - | - | - |
| Supplementary pension insurance policies with employer's contribution | number | 1,271,934 | 1,317,563 | 1,339,000 | 1,313,766 | 1,289,925 | 1,272,665 |
| | change (%) | -1.0 | 3.6 | 1.6 | -1.9 | -1.8 | -1.3 |
| State contributions for a given period | value (CZK bn) | 5.6 | 5.9 | 6.8 | 6.6 | 6.3 | 6.0 |
| | change (%) | 1.7 | 5.6 | 15.0 | -3.3 | -4.8 | -4.7 |
| Participants' contributions[144] | value (CZK bn) | 23.4 | 25.5 | 33.0 | 31.6 | 30.1 | 29.6 |
| | change (%) | 0.9 | 8.8 | 29.3 | -4.3 | -4.6 | -1.5 |
| Average monthly state contribution | value (CZK) | 105.4 | 108.0 | 117.0 | 119.0 | 122.0 | 124.0 |
| | change (%) | 0.4 | 2.5 | 8.2 | 2.1 | 2.5 | 1.6 |
| Average monthly participant's contribution | value (CZK) | 441.7 | 465.0 | 568.0 | 574.0 | 589.0 | 606.0 |
| | change (%) | 0.5 | 5.3 | 22.2 | 1.1 | 2.6 | 2.9 |

Source: MoF

143 Data reflects number of policies, which are not closed in the relevant records.
144 Participants' contributions are reported without the contributions paid by employers for their employees.

**Table A2.5: Main development indicators for the supplementary pension savings in participating funds**

| As at 31 Dec | | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Supplementary pension savings contracts[145] | number | 76,669 | 217,985 | 361,395 | 536,759 |
| | change (%) | - | 184.3 | 65.8 | 48.5 |
| New supplementary pension savings contracts | number | 77,771 | 145,841 | 156,062 | 195,508 |
| | change (%) | - | 87.5 | 7.0 | 25.3 |
| of which transfer from supplementary pension insurance[146] | number | 1,284 | 14,221 | 12,959 | 17,705 |
| Supplementary pension savings policies with employer contribution | number | 13,461 | 40,719 | 72,358 | 111,137 |
| | change (%) | - | 202.5 | 77.7 | 53.6 |
| State contributions for a given period | value (CZK bn) | 0.062 | 0.270 | 0.539 | 0.857 |
| | change (%) | - | 335.5 | 99.6 | 59.0 |
| Participants' contributions[147] | value (CZK bn) | 0.342 | 1.341 | 2.573 | 4.072 |
| | change (%) | - | 292.1 | 91.9 | 58.3 |
| Average monthly state contribution | value (CZK) | 143 | 148 | 152 | 156 |
| | change (%) | - | 3.5 | 2.7 | 2.6 |
| Average monthly participant's contribution | value (CZK) | 749 | 722 | 722 | 741 |
| | change (%) | - | -3.6 | 0.0 | 2.6 |

Source: MoF

[145] Status at the end of period; data reflects number of policies, which are not closed in the relevant records.
[146] Participants' assets were transferred from transformed fund to participating fund according to § 191 Act No 427/2011 Coll.
[147] Participants' contributions are reported without the contributions paid by employers for their employees.

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