Ministerstvo financí
ČESKÉ REPUBLIKY

REPORT ON FINANCIAL MARKET DEVELOPMENTS IN 2021

August 2022

CONTENTS

The data presented in this report were obtained from the specified sources in April and in May 2022 and may differ from data presented in previous editions of this publication because of revisions made in the meantime.

SUMMARY OF DEVELOPMENTS IN 2021

Macroeconomic Situation

As the economy recovered from the COVID-19 pandemic, gross domestic product grew by 3.3%, broadly parallel to the figures reported by neighbours such as Germany and Slovakia. Net exports were the only drag on GDP growth. As elsewhere around the world, there was a rise in the consumer price index, which climbed to 3.8%. The unemployment rate edged up to 2.8%, but remained the lowest in the EU. The general government sector again posted a deficit of roughly 6% of GDP, which was reflected in a 4.2 pp rise in the debt ratio to 41.9% of GDP.

Monetary Policy and Foreign Exchange Market

The CNB was one of the first central banks in the developed world to put up monetary policy rates in response to mounting inflationary pressures. The two-week repo rate increased dramaticallyfrom 0.25% to 3.75% p.a. The Czech koruna appreciated slightly to an average exchange rate of CZK 25.6 per EUR.

Placement of Funds in the Financial Market

The volume of funds placed in the financial market rose by 7.9% to CZK 8.1 billion. This was close to the average growth rate over the last five years. In absolute terms, deposits with credit institutions again increased the most year on year (by CZK 339.5 billion) and accounted for approximately two thirds of total funds. From the perspective of developments in how the placement of funds is structured, the share of resources managed in investment funds rose the most since the end of 2016, growing by 2.5 pp to 12.0%.

Structure of Household Savings

The volume of household savings placed in financial market products and instruments went up by 7.4% to almost CZK 5.4 trillion. As in the last five years, the largest absolute year-on-year increase (by CZK 147.8 billion) was again reported by demand deposits, which they expanded their share in total household savings (to 53.0%) more than any other product compared to the end of 2016. Household savings placed in investment funds posted the highest year-on-year growth rate, up by 25.7%. This was also their highest year-on-year relative growth in the last five years.

Household Indebtedness

Household indebtedness jumped by 9.5% to CZK 2.1 trillion, mainly on the back of an increase in lending for house purchases (by 11.1%). As a result, the share of these loans in total indebtedness went up again, amounting to 75.7% at the end of the year. The relative household-debt-to-GDP ratio nudged up again (by 0.8 percentage points to 34.6%), but remained on the low side compared with the rest of the EU.

Financial Market Entities

There were no significant changes in the number of entities in each sector, with the exception of a significant decline in the number of insurance intermediaries. In the main credit institutions sector, two branches of foreign banks closed down. In addition, the licence of two entities was terminated. Wüstenrot hypoteční banka a.s. was merged with MONETA Money Bank, a.s., and Československé úvěrní družstvo also exited the market. In the insurance sector, five entities stopped trading, while two branches of foreign insurance companies started operating. The number of pension funds increased by three.

Banking Sector

The banking sector (including building savings banks) recorded asset growth by 7.3% to CZK 8.6 trillion, and in doing so reaffirmed as usual its dominant position on the Czech financial market. The total capital ratio, a key factor in the sector's resilience, remained close to its long-term high of 23.5%. Profit before tax increased by almost 50% to CZK 85.9 billion, marking a recovery towards the levels recorded prior to the COVID-19 pandemic. This resurgence was driven primarily by a fall in impairment losses as the non-performing loans ratio shrank.

Interest Rates

The hike in the CNB's monetary policy rates in the second half of 2021 did not trigger a significant increase in average annual client deposit and lending rates up to the end of the year. In the case of average annual rates on deposits of both households and non-financial corporations slight decline was recorded, mainly due to developments in the first half of 2021. Average annual interest rates on loans were again close to their long-term floors, with the exception of non-financial corporations, where there was a modest uptick (by 0.1 pp).

Deposits and Loans

The volume of client bank deposits rose by 6.6%, indicating a year-on-year slowdown in growth momentum. Over the past five years, deposits have expanded by 46.1% to an all-time high of CZK 5.5 trillion. The year-on-year growth rate in client bank loans climbed to 7.0%, with the volume of lending hitting an all-time high of CZK 3.8 trillion. The ratio of non-performing loans to total client loans fell by 0.4 p.p. to 2.4%, the lowest level since 2002. There was little change in the ratio of client deposits to client loans in the banking sector (143.0%), which was again among the highest in the EU.

Mortgage Market

There was a moderate downturn in activity on the mortgage market, with 9.2% less volume of new mortgage loans granted, totalling CZK 888.7 billion. However, it was only the segment of mortgage loans for non-residential real estate and other purposes that contracted, while the more prevalent loans for residential housing posted robust 9% growth to a record CZK 644.2 billion. Of this volume, purely new mortgage loans (i.e. net of refixed and refinanced mortgages) granted to private individuals rose by 69.7% to a record CZK 367.9 billion. The total volume of outstanding mortgage loans also increased, climbing by 9.4% year on year to some CZK 2.4 trillion. This translated into a rise, over the last five years, of almost 60% in the residential housing segment, and more than double for non-residential property.

Building Savings Banks

Building savings banks entered into 450,000 contracts on building savings schemes and 68,000 loan contracts, a 23.9% increase. The volume of newly granted loans increased by a robust 68.0% to CZK 109.8 billion, the highest value in the history of building savings schemes. The total volume of outstanding loans rose by 8.8% to a record CZK 319.3 billion. Savings increased slightly (by 1.0%) for a third year in a row and amounted to CZK 366.3 billion. However, the share of household deposits with building savings banks as a proportion of total household deposits at credit institutions fell to the lowest level in the history of building savings schemes, i.e. 10.7%. The loan-to-savings ratio increased by 6.3 pp to an all-time high of 87.2%. The state paid CZK 4.2 billion in direct state contributions.

Credit Unions

Total assets in the credit union sector were down by 9.0% to CZK 9.1 billion and, as in the previous two years, accounted for just 0.1% of the assets of all credit institutions. The non-performing loans ratio fell by 2.8 pp to 26.2%. Although the total capital ratio slipped to 24.4%, this was still above the average recorded for the past five years. For the first time since 2016, credit unions as a whole posted profit before tax, which aggregated CZK 50.7 million.

Non-Bank Financing Providers

The total assets of the non-bank financing sector stagnated at CZK 420.2 billion, equivalent to about 5% of the banking sector. The volume of loans granted increased slightly by 0.7% to CZK 324.8 billion, but only one sub-segment – factoring and forfaiting companies – recorded growth, reporting a 26.6% increase in loans. In contrast, finance-leasing companies experienced a 1.4% decrease in the volume of loans granted, while other lending companies saw a decline of 0.6%.

Regulated and OTC Markets

The main Czech stock index, the PX, rose 38.8% to 1,426.0 points, half as much a gain as the euro area index. The volume of exchange trades climbed by 15.1% to CZK 154.7 billion, mainly owing to a surge in the prices of shares, which accounted for 90.8% of the volume traded. The volume of trading within RM-S, which focuses mainly on retail investors, grew by 5.9% to CZK 4.8 billion.

Long-Term Bonds of Non-Financial Corporations

The total volume of long-term bonds issued by non-financial corporations fell for the second year in a row (by 8.9%), declining to CZK 317.7 billion as a result of the year-on-year rise in interest rates, ebbing uncertainty in the wake of the COVID-19 pandemic, and the partial exhaustion of the potential for further growth due to the momentum achieved in previous years.

Investment Firms and Asset Management

The volume of assets of non-bank investment firms fell by 16.0% to CZK 24.9 billion, returning to the level of the end of 2018 after two years of growth. The volume of assets entrusted to asset managers increased by 10.6% to CZK 1.8 trillion. The year-on-year growth rate was thus approximately half the average from the end of 2016.

Investment Funds

The growth in asset prices on global financial markets and the net inflow of client investments were reflected in an almost 21% increase in the volume of assets under management in investment funds, which came to a record CZK 889.5 billion. Here, qualified investor funds grew faster (by 24.6% to CZK 181.9 billion) than the sector-dominating collective investment funds (by 20.0% to CZK 707.6 billion). In terms of the placement of funds in individual types of mutual funds, domestic funds saw a further increase in the share of mixed funds (by 2.5 pp to 46.0%) and a decrease in the share of bond funds (by 5.0 pp to 22.2%). Among foreign funds, equity funds increased their share significantly (by 5.8 p.p. to 40.1%), at the expense of bond funds (down 3.5% to 19.4%) and structured funds (down 2.4% to 7.2%).

Insurance Companies

Gross premiums written continued the upward trend started five years ago, increasing by 6.9% to CZK 179.6 billion. The overall strengthening of the insurance sector was driven by the non-life insurance segment (up 10.1%). Life insurance, on the other hand, was stagnant, dipping by 0.3%. The total number of insurance contracts increased by 7.1% to 30.4 million. The numbers of newly concluded contracts also rose (by 6.1%), both in the non-life (6.1%) and life insurance segments (6.6%).

Supplementary Pension Insurance and Supplementary Pension Savings

The total number of participants in Pillar III increased by 0.4% to 4.44 million people. This was the highest relative and absolute year-on-year rise since the 2013 private pension reform. The volume of participants' assets went up by 7.4% to CZK 566.7 billion, with the average monthly participant's contribution rising to CZK 781 for supplementary pension insurance scheme and CZK 829 for supplementary pension savings scheme. The share of contracts with an employer's contribution increased by 0.5 pp to 24.0%. The total direct state support paid to Pillar III participants rose slightly to CZK 7.6 billion. At year-end, the majority of participation funds with dynamic and balanced strategies outperformed the average annual inflation rate with their returns, while none of the mandatory conservative participation funds or transformed funds offered returns above the level of price growth.

Financial Market Legislation

Amendments to the CNB Act, the Banking Act and the Recovery and Resolution Act. At European level, legislation was adopted on CCPs resolution, benchmarks, capital market recovery, default risk management and the pan-European personal pension product. Topics discussed included the Digital Finance Package, consumer credit, European green bonds, a package covering the revision of the Solvency II and the setting up of recovery and resolution procedures for insurance and reinsurance companies, the implementation of Basel III, and a package of further proposals on the Capital Markets Union.

An overview of developments of selected indicators of credit institutions, non-bank financing providers, capital market and insurance companies is included in Table A2.1 in Appendix 2.

1 MACROECONOMIC SITUATION AND EXTERNAL DEVELOPMENTS

1.1 Macroeconomic Situation

The Czech Republic's economic development, measured by the year-on-year change in real gross domestic product, reported 3.3% growth in 2021, supported by the easing of anti-pandemic restrictions and the fading out of support measures (Table 1.1). This growth rate was broadly in line with Germany (2.9%) and Slovakia (3.0%). The EU aggregate (5.3%), the US (5.7%) and certain economies in the Central European region (Hungary and Poland) all recorded higher growth rates. As per tradition, China achieved the highest year-on-year growth among the economies monitored (8.5%). Taking into account the entire reporting period since 2016, China (41%), Poland (23%) and Hungary (20%) experienced the highest cumulative growth rates across the selected economies. The Czech Republic recorded much higher cumulative growth (12%) than, for example, Germany (5%) and the euro area (7%).

Table 1.1: Annual real GDP growth

As at 31 Dec (%)	2016	2017	2018	2019	2020	2021	Year-on-year change (pp)
United States	1.7	2.3	2.9	2.3	-3.4	5.7	9.1
China	6.8	6.9	6.7	5.2	1.6	8.5	6.9
European Union (27)	**2.0**	**2.9**	**2.1**	**1.8**	**-6.1**	**5.3**	**11.4**
Eurozone (19)	1.8	2.8	1.8	1.6	-6.5	5.3	11.8
Germany	2.1	3.0	1.1	1.1	-4.9	2.9	7.8
Austria	1.9	2.4	2.5	1.5	-6.8	4.6	11.4
United Kingdom	2.3	2.1	1.7	1.7	-9.3	7.4	16.7
Poland	3.2	4.9	5.4	4.8	-2.5	5.6	8.1
Czech Republic	**2.4**	**5.4**	**3.2**	**3.0**	**-5.8**	**3.3**	**9.1**
Hungary	2.1	4.5	5.4	4.6	-4.9	7.1	12.0
Slovakia	1.9	3.0	3.8	2.6	-4.4	3.0	7.4

Source: MoF (seasonally adjusted data)

Looking through the prism of domestic GDP expenditure components (Table 1.2), most components – especially gross capital formation (4.5 pp), followed by household consumption (2.0 pp) – had a positive impact on GDP. Net exports of goods and services had a negative impact (-3.8 pp).

The unemployment rate continued to rise for the second year, albeit at a slower pace. Nevertheless, the Czech Republic continued to report the lowest unemployment rate in the EU, once again well below the EU average of over 6%.

The general government sector posted a deficit of around 6% for the second year since the start of the COVID-19 pandemic; this was reflected in a 4.2 pp rise in the general government debt ratio to 41.9% of GDP, the highest level over the reporting period.

Table 1.2: Selected macroeconomic and fiscal indicators of the Czech economy

As at 31 Dec	2016	2017	2018	2019	2020	2021
Gross domestic product (real growth in %)	2.4	5.4	3.2	3.0	-5.8	3.3
of which: final consumption expenditure of households (pp)	1.8	1.9	1.7	1.3	-3.2	2.0
final consumption expenditure of government (pp)	0.5	0.3	0.7	0.5	0.7	0.6
gross capital formation (pp)	-1.1	1.7	2.0	1.2	-2.8	4.5
net exports (pp)	1.4	1.2	-1.2	0.0	-0.5	-3.8
Unemployment rate (% annual average)	4.0	2.9	2.2	2.0	2.6	2.8
General government balance (% GDP)	0.7	1.5	0.9	0.3	-5.8	-5.9
General government debt (% GDP)	36.6	34.2	32.1	30.1	37.7	41.9

Source: MoF, CZSO

In most of the economies monitored, the consumer price index accelerated year on year due to a combination of factors: a recovery in aggregate demand following the easing of anti-pandemic restrictions, the fading out of fiscal and monetary support measures, and misalignment in supply chains. In the Czech Republic, consumer prices rose by 3.8% year on year, the highest rate of growth in the reporting period (Table 1.3). Even higher values than in the Czech Republic were recorded in the US (4.7%) and in certain economies in the Central European region, i.e. Poland and Hungary (both 5.1%). There was a significant year-on-year increase in the rate of consumer price growth in the euro area (by 2.3 pp to 2.6%). By contrast, the Asian economies monitored, i.e. China and Japan, saw a decline in the growth rate of price levels.

Table 1.3: Consumer price indices in selected economies

Average in given year (%)	2016	2017	2018	2019	2020	2021
United States	1.3	2.1	2.4	1.8	1.2	4.7
China	2.0	1.6	2.1	2.9	2.5	0.9
Japan	-0.1	0.5	1.0	0.5	0.0	-0.2
Russia	7.0	3.7	2.9	4.5	3.4	6.7
European Union (27)	**0.2**	**1.6**	**1.8**	**1.4**	**0.7**	**2.9**
Eurozone (19)	0.2	1.5	1.8	1.2	0.3	2.6
Germany	0.5	1.5	1.7	1.4	0.5	3.1
Austria	0.9	2.1	2.0	1.5	1.4	2.8
United Kingdom	1.0	2.6	2.3	1.7	1.0	2.5
Poland	-0.6	2.0	1.7	2.3	3.4	5.1
Czech Republic	**0.7**	**2.5**	**2.1**	**2.8**	**3.2**	**3.8**
Hungary	0.4	2.3	2.9	3.3	3.3	5.1
Slovakia	-0.5	1.3	2.5	2.7	1.9	3.1

Source: CZSO, OECD

1.2 Monetary Policy and Foreign Exchange Market

In response to rising inflationary pressures, the CNB decided to raise interest rates dramatically in the second half of 2021, not only to levels well above those before the onset of the COVID-19 pandemic, but also to the highest levels in more than 10 years. Year on year, the key 2W repo rate rose the most ever recorded in the history of the Czech Republic (by 3.5 pp) to 3.75%. This move made the CNB one of the first central banks in the developed world (along with central banks in Chile, Hungary, Norway, Poland, New Zealand and Iceland) to raise monetary policy rates.

In contrast, the world's major central banks in the US, the euro area and Japan kept their key monetary policy rates at long-term lows in 2021 despite signs of rising inflation around the world (Table 1.4). A notable exception was the Bank of England, which made one increase of 0.15 p.p. to 0.25% in December. However, the central banks in both the US and the euro area announced that they would taper their asset purchase programmes in 2022. Investors in the financial markets increasingly expect the ECB to hike interest rate hikes in 2022 or 2023, and the US Fed already raised its key rate by 0.25 pp in March 2022. In Central Europe as a whole, as in the Czech Republic, significant rate hikes began in the second quarter of 2022, but they were lower than in the Czech Republic.

Table 1.4: Key monetary policy rates of selected central banks[1]

As at 31 Dec (% p.a.)		2016	2017	2018	2019	2020	2021
United States	Fed	0.50–0.75	1.25–1.50	2.25–2.50	1.50–1.75	0–0.25	0–0.25
Eurozone	**ECB**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Japan	BoJ	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
United Kingdom	BoE	0.25	0.50	0.75	0.75	0.10	0.25
Poland	NBP	1.50	1.50	1.50	1.50	0.10	1.75
Czech Republic	**CNB**	**0.05**	**0.50**	**1.75**	**2.00**	**0.25**	**3.75**
Hungary	MNB	0.90	0.90	0.90	0.90	0.60	2.40

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

[1] In the case of the Fed, these are the federal funds rates; in the case of the ECB, these are the fixed rates of main refinancing operations. Values for BoJ represent interest rates of the complementary deposit facility. In the case of BoE, these are base rates. Concerning the Visegrad countries, in the case of NBP these are the minimum money market intervention rates, in the case of the CNB the two-week repo rates and in the case of the MNB the three-month deposit rates.

For the most part, the Czech koruna, having slumped at the start of the COVID-19 pandemic in March 2020, steadily appreciated against selected currencies (Table 1.5). In the final quarter of 2021, this trend was accelerated when the CNB raised monetary policy rates, which made the Czech koruna and koruna-denominated assets more attractive to investors.

The Czech koruna's resulting average annual exchange rate appreciated against all the currencies monitored, with the exception of the pound sterling and the Chinese renminbi, against which the exchange rate remained virtually unchanged. The koruna appreciated the most against the Russian rouble and the Japanese yen (by around 9%). It gained 3% against the euro and 6.5% against the US dollar, while within Central Europe the Czech koruna strengthened by around 5% against the Hungarian forint and the Polish zloty.

Table 1.5: Average CZK exchange rates to major and regional currencies

Average exchange rate		2016	2017	2018	2019	2020	2021	Year-on-year change (%)
United States dollar	CZK/USD	24.4	23.4	21.7	22.9	23.2	21.7	-6.5
Euro	**CZK/EUR**	**27.0**	**26.3**	**25.6**	**25.7**	**26.4**	**25.6**	**-3.0**
Chinese yuan	CZK/CNY	3.7	3.5	3.3	3.3	3.4	3.4	0.1
Japanese yen	CZK/100 JPY	22.5	20.8	19.7	21.1	21.7	19.8	-9.1
British pound	CZK/GBP	33.1	30.1	29.0	29.3	29.7	29.8	0.3
Russian rouble	CZK/100 RUB	36.6	40.1	34.7	35.4	32.2	29.4	-8.7
Polish złoty	CZK/PLN	6.2	6.2	6.0	6.0	6.0	5.6	-5.6
Hungarian forint	CZK/100 HUF	8.7	8.5	8.0	7.9	7.5	7.2	-5.0

Source: CNB, MoF calculations

2 PLACEMENT OF FUNDS IN THE FINANCIAL MARKET

The volume of funds placed in the financial market[2] continued along a path of long-term growth, increasing by CZK 594.0 billion (7.9%) to CZK 8.1 trillion in 2021 (Table 2.1). This was the highest absolute increaseand approximately the average growth rate of funds in the reporting period since 2016.

Table 2.1: Placement of funds in the financial market

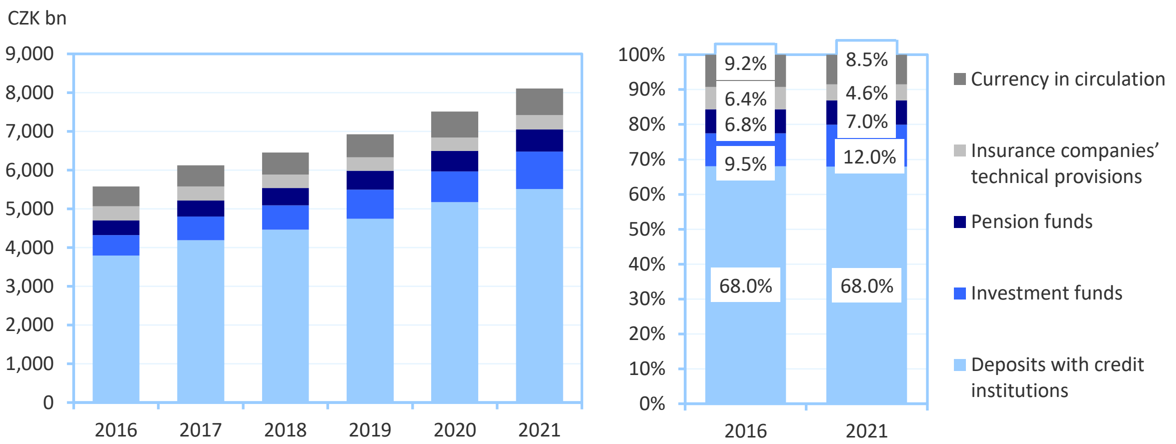
As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Deposits with credit institutions[3]	3,796.4	4,188.1	4,461.5	4,747.4	5,170.1	5,509.6	339.5	6.6
of which: building savings schemes	362.6	358.9	355.0	359.7	362.7	366.3	3.6	1.0
Investment funds	528.4	614.2	627.8	746.0	798.2	971.4	173.2	21.7
Pension funds	381.6	413.9	447.1	487.1	527.9	566.7	38.8	7.4
Insurance companies' technical provisions	358.6	359.5	345.3	348.3	349.8	369.2	19.4	5.5
Currency in circulation	514.3	548.3	571.2	598.9	668.1	691.2	23.1	3.5
Total	5,579.3	6,124.0	6,452.8	6,927.8	7,514.0	8,108.0	594.0	7.9

Source: AKAT, APS CR, CNB – ARAD, MoF, MoF calculations

The most significant item in terms of volume, i.e. deposits with credit institutions, again recorded the highest absolute increase in the volume of funds, as was the case throughout the reporting period. However, a lower absolute increase than in 2020 caused the share of deposits in total funds to fall slightly to 68.0%, back to the 2016 level (Graph 2.1).

As in 2016, 2017 and 2019, investment funds posted the highest growth rate among the categories of funds monitored, and even recorded their highest growth in both relative and absolute terms for the reporting period. This was instrumental in the fact that the share of funds placed in investment funds increased the most during the reporting period, i. e. by 2.5 pp. By contrast, the share of insurance companies' technical provisions decreased most markedly since 2016 (by 1.9 pp). In the reporting period, the share of assets in pension funds remained in a range from 6.8% to 7.0% of total assets, and the share of currency in circulation in total assets was around 9%.

Graph 2.1: Placement of funds in the financial market



Source: AKAT, APS CR, CNB – ARAD, MF, MoF calculations

Note: The right side of the graph shows the comparison of funds placement structure (in %) between 2016 and 2021.

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 funds of clients of financial institutions (private individuals and legal entities) that are placed in the financial market through the financial products offered by credit institutions, insurance companies, pension management companies and collective investment instruments, as well as currency in circulation (excluding cash held at bank cash counters). It does not include direct investments in securities.

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

3 STRUCTURE OF HOUSEHOLD SAVINGS

The volume of household savings placed in financial market products and instruments[4] continued its long-term growth during 2021, increasing by CZK 371.1 billion (7.4%) to almost CZK 5.4 trillion (Table 3.1). Although, in both absolute and relative terms, this was a lower year-on-year increase in savings than in 2020, in the reporting period since 2016, the growth achieved in 2021 was slightly above average in both absolute and relative terms.[5]

Table 3.1: Structure of household savings

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Demand deposits	1,755.7	1,958.5	2,139.7	2,276.6	2,687.9	2,835.7	147.8	5.5
Term deposits	623.3	563.3	571.3	591.1	537.8	570.1	32.3	6.0
of which: building savings schemes	353.8	349.3	345.2	350.3	352.0	356.2	4.2	1.2
Pension funds	381.1	413.1	446.6	483.7	523.2	560.8	37.6	7.2
Life insurance	278.9	277.1	265.2	267.6	268.4	269.3	0.9	0.3
Investment funds	375.8	433.7	451.6	533.4	566.5	711.9	145.5	25.7
Debt securities	197.8	161.5	128.6	145.3	158.3	146.1	-12.2	-7.7
Listed shares	58.1	71.8	69.7	219.9	240.9	260.1	19.2	8.0
Total	3,670.6	3,879.0	4,072.7	4,517.5	4,983.1	5,354.1	371.1	7.4

Source: CNB – ARAD, MoF calculations

Of the products monitored, the highest absolute year-on-year growth was again recorded – as in the whole reporting period (except for 2019, which was affected by a methodological change related to listed shares) – in demand deposits, which rose by CZK 147.8 billion to approximately CZK 2.8 trillion. Despite registering their lowest growth rate over the reporting period (rising by 5.5%), demand deposits continued to be the product that increased its share in total household savings the most compared to the end of 2016, up by 5.1 pp to 53.0% (Graph 3.1).

The volume of term deposits, excluding building savings schemes, increased by CZK 28.2 billion (15.2%) year on year. This was their highest absolute increase and growth rate in the reporting period. All this increase took place in the fourth quarter of 2021, whereas in the previous quarters of 2021 the volume of term deposits, excluding building savings schemes, had been declining. That suggests that this development could be related to the CNB's sharp increase in monetary policy rates in the last quarter of 2021. This gradually translated into the offer of higher rates on term deposits, making them more attractive than the usually lower-interest (or otherwise more restrictive) current or savings accounts with deposits transferable on demand. However, despite the growth in 2021, term deposits, excluding building savings schemes, were the product exhibiting the highest decline in the share of household savings, down 3.3 pp to 4.0% compared to the end of 2016.

Building savings schemes recorded a slightly smaller decline in their share of total savings than term deposits (by 3.0 pp) during the reporting period, even though the volume of household deposits in the sector of building savings schemes rose slightly year on year as well as in 2019 and 2020. The share of all deposit products in household savings fell to 63.6% in 2021, returning to around the same level as at the end of 2019.

The volume of household savings placed in investment funds recorded the highest growth rate, up by 25.7% year on year. This was also the highest growth rate over the reporting period. The absolute year-on-year increase almost matched that of the much more significant category of demand deposits. The increase in the volume of savings in investment funds can be attributed both to the inflow of new investments into domestic and foreign funds and to a substantial increase in the appreciation of funds.

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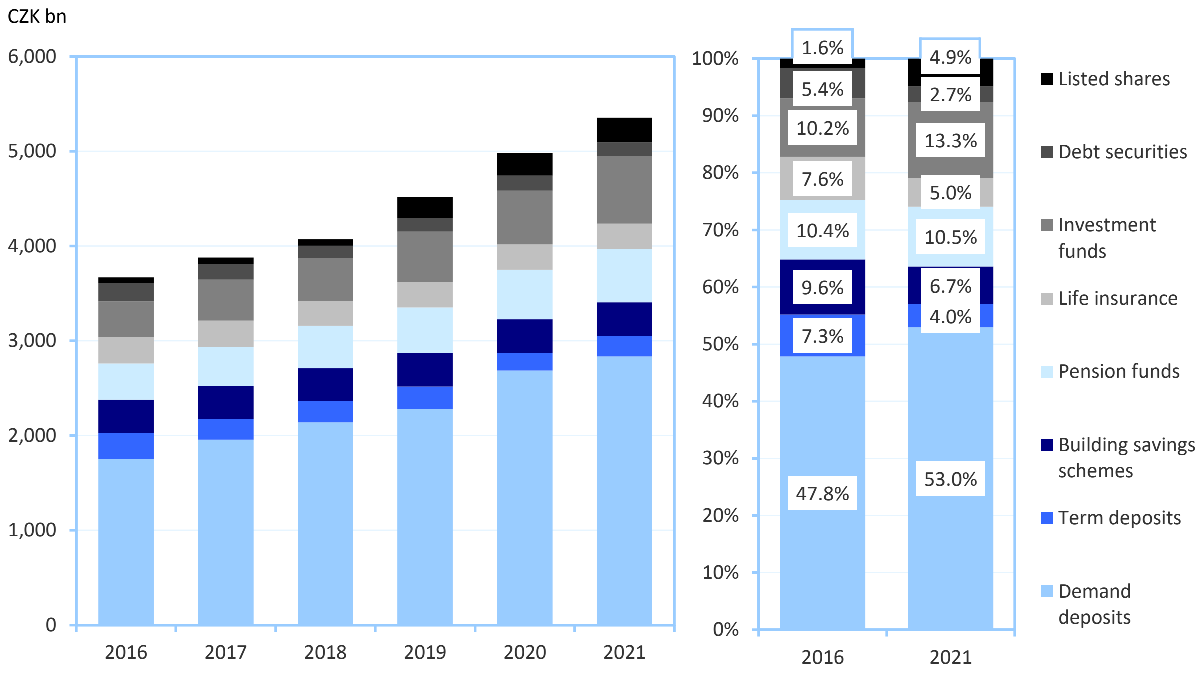
4 The term "savings" is used throughout the chapter to refer to household financial assets; these include households' CZK-denominated and foreign-currency funds placed in the financial market through the financial products offered by domestic and foreign credit institutions, insurance companies, pension management companies and management companies, and households' direct investments in debt securities and listed shares.

5 When comparing the growth in savings in 2021 with the average for the reporting period, the calculation of the average growth deliberately excludes developments in 2019, which were heavily influenced by the methodological refinement of estimates of the volume of shares and other equity interests held by households – this was the main reason for the significant increase, at the time, in the volume of listed shares (i.e. shares traded on regulated markets) as one of the monitored items of total savings.

Other factors contributing to the rise in total household savings were the increase of participants' assets in pension funds and an increase in the value of listed shares, both of which posted a slightly below-average year-on-year growth rate over the reporting period, and whose proportion of total savings essentially remained unchanged compared to 2020. Household savings in financially accumulating life insurance products, despite a slight increase, continued their steady decline in importance in 2021.

Debt securities were the only product monitored in the household savings structure that experienced a year-on-year decline in volume. The fall, occurring mainly in the fourth quarter of 2021, was due to a reduction in investment in corporate bonds and, to a lesser extent, bank bonds. The general decline in bond market prices, linked to rising interest rates, may also have played a part. As a result, the share of debt securities in total household savings dropped to 2.7% after three years of stagnation at 3.2%.

Graph 3.1: Structure of household savings



Source: CNB – ARAD, MoF calculations

Note: The right side of the graph shows the comparison of structure of household savings (in %) between 2016 and 2021.

4 INSTITUTIONAL ASPECTS OF THE FINANCIAL MARKET

4.1 Number of Financial Market Entities

In 2021, there were only minor changes in the number of entities in each sector, with the exception of an almost one-fifth decrease in the number of insurance intermediaries, brought about by a change in the licensing rules for these entities.

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

As at 31 Dec	2016	2017	2018	2019	2020	2021	Year-on-year change
Credit institutions							
Banks	45	46	50	49	49	46	-3
of which: foreign banks branches	23	23	27	25	25	23	-2
of which: building savings banks	5	5	5	5	5	5	0
Credit unions	11	10	10	9	8	7	-1
Capital market							
Investment firms (incl. foreign branches)	64	66	79	76	77	76	-1
Investment funds having legal personality	108	125	138	156	188	213	25
Management companies	28	30	31	35	39	44	5
Mutual funds	201	227	242	252	234	253	19
of which: qualified investor funds	60	79	89	94	90	104	14
of which: collective investment funds	141	148	153	158	144	149	5
Investment intermediaries	7,335	7,043	6,847	191	163	153	-10
Tied agents	26,612	26,448	21,409	18,409	13,470	14,229	759
Pension management companies	8	8	8	8	9	9	0
Pension funds	35	36	36	38	39	42	3
Insurance							
Insurance companies	54	49	48	47	44	41	-3
of which: branches of foreign insurance companies	24	21	20	20	17	18	1
Reinsurance companies	1	1	1	1	1	1	0
Insurance intermediaries	174,092	181,121	185,125	38,481	38,001	30,877	-7,124

Source: CNB, MoF calculations

The number of entities in the dominant **banking sector** decreased by three. Licence of Wüstenrot hypoteční banka a.s. has ceased to be valid at the beginning of 2021 after merging with MONETA Money Bank, a. s. In addition, two branches of foreign banks stopped operating: Poštová banka, a.s., pobočka Česká republika in June 2021 and PRIVAT BANK der Raiffeisenlandesbank Oberösterreich Aktiengesellschaft, pobočka Česká republika in December 2021. This sector was further consolidated in the course of 2021. In July 2021, Raiffeisenbank a.s. became the sole shareholder of Equa bank a.s., with the merger of Raiffeisenbank a.s. and Equa bank a.s. into one legal entity taking place on 1 January 2022.

In the **credit union** sector, the licence to act as a credit union of Československé úvěrní družstvo terminated in March 2021, reducing the number of these entities from eight to seven. Then, in September 2021, insolvency proceedings were opened against Československé úvěrní družstvo v likvidaci on the proposal of the liquidator, at which point this entity voluntarily decided to cease its operations.

In the **capital market**, the numbers of most entities increased. An increase in the number of entities was recorded by investment funds with legal personality (by 25 entities), management companies (by 5 entities) and mutual funds (by 19 entities in total, of which 14 in the category of qualified investor funds and 5 in the category of collective investment funds). On the other hand, the number of investment firms dealers decreased by one.

The number of **investment intermediaries** stabilised somewhat in 2021 after significant declines in 2019 and 2020, reflecting the new licensing rules for these entities. There was only a slight decrease in the number of investment intermediaries by 10 entities, while the number of tied agents increased by 759.

There was no change in the **pension management company** sector in 2021. Among **pension funds**, the number increased by three, with Akciový účastnický fond, Rentea penzijní společnost, a.s., Dluhopisový účastnický fond, Rentea penzijní společnost, a.s., and Povinný konzervativní účastnický fond, Rentea penzijní společnost, a.s. being granted permits in May 2021.

In the **insurance company** sector, five entities ceased operations in 2021, including AXA pojišt'ovna a.s. and AXA životní pojišt'ovna a.s. as part of the completion of the sale of AXA Group's activities in the Czech Republic, Poland and Slovakia to UNIQA Insurance Group AG. The other entities were Česká pojišt'ovna ZDRAVÍ a.s., Pojišt'ovna Patricie a.s., and the Czech Republic branch of the foreign insurance company Youplus Insurance International AG, pobočka pro Českou republiku. By contrast, two branches of foreign insurance companies launched operations: Fortegra Europe Insurance Company Ltd, pobočka pro Českou republiku and YOUPLUS Životní pojišťovna, pobočka pro Českou republiku.

The number of **insurance intermediaries** decreased by 7,124, i.e. by almost a fifth. Starting in 2019, the number of insurance intermediaries was significantly affected by changes in the regulatory framework for insurance and reinsurance distribution that were adopted in 2018. At the same time, the coronavirus crisis prompted a change in 2020 that saw the deadline for intermediaries who had been operating under the previous legislation to pass the proficiency tests extended by six months until the end of May 2021. Consequently, the effect of not meeting this obligation could be one of the reasons for the reduction in the number of insurance intermediaries in 2021.

In 2021, the number of entities operating on the Czech financial market on the basis of a **single European passport** fell in the credit institution, insurance company and management company sectors, but grew in the insurance fund sector (Table 4.2). The trend of a gradual, steady increase in the number of investment funds continued throughout the reporting period, while for credit institutions this trend was interrupted for the first time in 2021. Among insurance companies, the number of entities declined to the lowest level observed in the reporting period.

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

As at 31 Dec	2016	2017	2018	2019	2020	2021	Year-on-year change
Credit institutions	404	429	443	467	470	418	-52
Insurance companies	863	889	965	975	973	827	-146
Investment funds	1,268	1,370	1,661	1,723	1,834	1,927	93
Management companies	41	39	41	51	55	51	-4

Source: CNB – JERRS, MoF calculations

4.2 Guarantee Schemes

In the Czech Republic, there are two guarantee schemes to bolster the protection of clients and the financial market as a whole. These are the Financial Market Guarantee Scheme and the Securities Dealers Guarantee Fund.

The **Financial Market Guarantee Scheme** (GSFT) is the more significant in terms of the volume and scope of bailout funds. It was established in early 2016 by the transformation of the Deposit Insurance Fund (DIF) in the wake of changes to the regulatory framework.[6] The GSFT also manages the Crisis Resolution Fund (CRF). These GSFT-managed funds are autonomous entities from the perspective of their assets and accounting. The GSFT thus has funds that can be used to cover payments of compensation for deposits and funds to avert the potential failure of credit institutions and selected investment firms.

The GSFT is responsible for payments of compensation of deposits from the **DIF** when a bank, a building savings bank or a credit union is declared insolvent by the CNB or when a court decides that such an institution is bankrupt. The deposit guarantee scheme guarantees compensation for deposits held at banks, building savings banks and credit unions established in the Czech Republic. This compensation covers 100% of deposits, including

[6] Act No 374/2015 Coll., on recovery and resolution in the financial market, as amended.

interest, up to an amount equivalent to EUR 100,000 per client per institution. In certain statutory cases, the maximum compensation is increased to an amount equivalent to EUR 200,000.[7] In April 2021, the GSFT entered into a new framework agreement securing the payment of deposit compensation for the next four years. The "paying bank", to which the GSFT submits underlying documentation and funds for the payment of deposit compensation, is now Komerční banka, a.s., having taken over from Česká spořitelna, a.s., which had held this role since April 2017.

Credit institutions participating in the deposit guarantee scheme paid contributions[8] of CZK 1.3 billion to the DIF in 2021 (Table 4.3). Financial reserves at the end of 2021 came to CZK 37.3 billion. In 2021, the DIF paid out refunds of CZK 52.3 million. This was in connection with compensation for the clients of Československé úvěrní družstvo.

Table 4.3: Basic indicators of DIF

As at 31 Dec	2016	2017	2018	2019	2020	2021
Contributions (CZK bn)	2.1	0.9	1.0	1.1	1.1	1.3
Compensation payments (CZK mn)	3,291.0	261.0	25.0	-6.7[9]	0.0	52.3
Financial reserves (CZK bn)	27.9	30.3	31.7	34.1	35.5	37.3

Source: GSFT

The **CRF** is intended to finance crisis resolution for banks and selected investment firms. It pools resources for use in the event of a threat to the stability of any financial institution so that, bearing in mind the potential essential functions carried out by such an institution in the financial sector and the economy as a whole, it is not necessary to close it down or, where applicable, commence the compensation of deposits for its clients. In 2021, the CRF received contributions of CZK 4.3 billion from mandatory institutions, the highest amount since it was established.[10] Since 2016, the CRF's financial reserves have climbed to CZK 21.2 billion.

Table 4.4: Basic indicators of CRF

As at 31 Dec	2016	2017	2018	2019	2020	2021
Contributions (CZK bn)	3.0	3.0	3.1	3.5	3.8	4.3
Financial reserves (CZK bn)	3.0	6.0	9.2	12.8	16.7	21.2

Source: GSFT

The second guarantee scheme on the Czech Republic's financial market is the **Guarantee Fund of Investment Firms** (GFOCP), which is responsible for paying compensation to customers of investment firms that are unable to meet their obligations towards their clients. Its purpose is not to cover the risk of an impairment in the value of investments in securities. Clients receive compensation of 90% of the value calculated in accordance with the applicable provisions of the Capital Market Act,[11] up a maximum of EUR 20,000.

Table 4.5: Basic indicators of GFOCP

As at 31 Dec	2016	2017	2018	2019	2020	2021
Contributions (CZK mn)	164.6	191.7	198.9	249.5	223.4	281.1
Compensation payments (CZK mn)	1.1	0.3	0.1	0.0	0.0	0.0
Financial reserves (CZK bn)	1.0	1.1	1.3	1.1	1.2	1.3

Source: GFOCP

7 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.

8 The CNB's method for calculating the amount of the contributions that financial institutions pay to the DIF factors in not only the volume of covered deposits (i.e. deposits up to an insurance limit equivalent to EUR 100,000) but also the level of risk taken by an institution.

9 The negative value was due to the fact that, after the financial institution's compensation payments had been completed, the advance provided for compensation was sent back to the DIF by the paying bank, and that refunded advance was higher than the remaining compensation paid for 2019.

10 The CNB sets an annual target level of CRF contributions so that, by the end of 2024, the CRF target volume will be 1% of the total volume of covered deposit claims.

11 Act No 256/2004 Coll., on Capital Market Business, as amended.

The main source of the GFOCP's assets is contributions made by the entities involved, i.e. investment firms and management companies managing client assets. In 2021, the GFOCP received the highest volume of contributions in its history, amounting to CZK 281.1 million, with contributions increasing by CZK 57.7 million year on year. Financial reserves at the end of 2021 came to CZK 1.3 billion. No compensation was paid out of the GFOCP in 2021.

4.3 Financial Arbitrator

The Financial Arbitrator (FA) has been operating as an out-of-court resolution body for selected disputes between consumers and financial institutions on the financial market since 2003. Its remit has gradually expanded and the FA is now authorised to resolve consumer disputes almost across the entire financial market. The FA's competence includes the out-of-court resolution of consumer disputes related to payment services, non-payment accounts and passbooks, electronic money, consumer credit (including mortgages and building savings loans), building savings schemes, collective investment and investment services, currency exchange transactions, and life insurance. On the other hand, the FA does not yet have jurisdiction over disputes arising from financial services, such as supplementary pension insurance, supplementary pension savings, non-life insurance, and shareholder and bondholder disputes.

In 2021, the FA initiated 1,709 new proceedings, up almost 40% year on year (Table 4.6). There were a total of 2,820 disputes pending, with a further 1,111 previously initiated proceedings pending alongside the new ones, up 394 year on year. The most common new disputes (76%) were again related to consumer credit, with a 65% year-on-year increase by 508 proceedings. By contrast, the fewest new disputes related to building savings loans (36 applications). Of all pending disputes, approximately 67% were related to consumer credit (1,887 proceedings), 15% to payment services (422 proceedings) and 9% to life insurance (261 proceedings). The FA finally concluded 1,723 proceedings; the average length of proceedings concluded in 2021 was 238 days from the opening of the proceedings to the entry into force of the act concluding the proceedings.

Table 4.6: Number of proceedings commenced in individual years

As at 31 Dec	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Proceedings commenced	1,948	1,344	1,401	1,178	1,228	1,709	481	39.2
of which: payment services	117	138	130	141	179	209	30	16.8
consumer credit	233	338	513	664	786	1,294	508	64.6
life insurance	1,132	734	626	246	172	110	-62	-36.0

Source: FA, MoF calculations

4.4 Economic Results of Financial Institutions

All the financial market sectors monitored below recorded pre-tax profits and year-on-year profit growth in 2021 (Table 4.7). Insurance companies (73.6%) and banks (49.5%) achieved the highest relative profit gains. For insurance companies, the profit of CZK 30.9 billion was the highest observed in the reporting period. Pension management companies (a 12% increase), management companies (a 32% increase) and non-bank investment firms, including foreign branches (a 15% increase), also posted their highest profit levels. Banks again generated the largest amount of profit of all the financial market sectors monitored (a 70% share).

Table 4.7: Profit/loss of financial institutions before tax

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Banks	87.9	90.3	98.0	109.2	57.4	85.9	28.4	49.5
Insurance companies	13.2	10.4	17.4	20.1	17.8	30.9	13.1	73.6
Pension management companies	1.4	1.6	1.7	2.3	2.3	2.6	0.3	11.6
Management companies	1.1	1.2	1.4	1.5	1.5	2.0	0.5	32.3
Non-bank investment firms	0.8	1.0	0.8	0.8	1.2	1.4	0.2	13.3

Source: CNB – ARAD, MoF calculations

5 CREDIT INSTITUTIONS AND OTHER PROVIDERS OF ASSET FINANCING

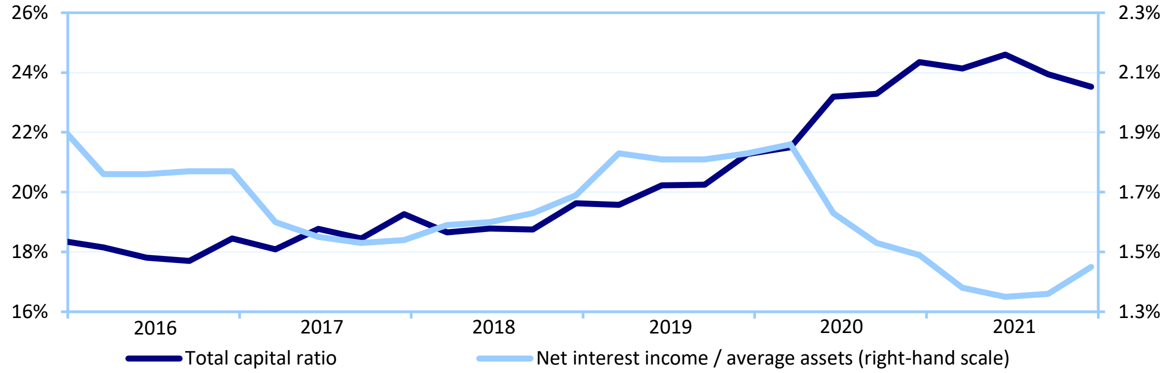
This chapter primarily focuses on credit institutions, specifically banks (the bulk of the chapter), including building savings banks (Chapter 5.7), and credit unions (Chapter 5.8). Specific topics are also covered, such as interest rates (Chapter 5.4), deposits and loans (Chapter 5.5), and mortgage loans (Chapter 5.6). The next chapter (Chapter 5.9) deals primarily with developments in the segment of non-banking financing providers. This sub-sector offers products[12] that are fairly close substitutes for bank loans and, if they are offered to retail clients, contribute towards the indicator of overall household indebtedness, which is the subject of the last chapter (Chapter 5.10).

5.1 Main Developments in the Banking Sector

The ongoing economic recovery, together with the hope that the effects of the COVID-19 pandemic were fading, was reflected in the banking sector. Total assets, client deposits and loans all reached new highs. In contrast to the 2020, there was an improvement in credit quality. Pre-tax profit increased by almost 50% year on year and came considerably closer to pre-pandemic levels, mainly due to a decline in provisioning against a backdrop where non-performing loans evolved more favourably than had been anticipated at the height of the COVID-19 pandemic. Long-term factors supporting the overall resilience of the sector also remained in place. These included the generally high capital adequacy ratio, above-average profitability, especially compared with euro area countries, and the high and long-term rising coverage of client loans with deposits.

The total capital ratio, as an indicator of the banking sector's capital adequacy, fell slightly by 0.8 pp year on year to 23.5% following the relaxation of the dividend restrictions introduced in 2020 in response to the potential impact of the COVID-19 pandemic (Graph 5.1). There were slight differences in the level of the total capital ratio across groups of banks by size or specialization, with large banks[13] again reporting a value close to the average (23.4%), medium-sized banks slightly above average (25.2%), and small banks (22.3%) and building savings banks below average (19.5%). The interest margin on assets, one of the key profitability factors, declined slightly year on year (by 0.04 p.p. to 1.45% p.a.); however, in response to the CNB's monetary policy rate increase, this indicator recorded growth in the second half of 2021.

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



Source: CNB – ARAD

Total banking sector assets, including those of building savings banks (Table 5.1), came to a new high of CZK 8.6 trillion at the end of 2021.[14] The year-on-year asset growth of 7.3% was close to the average for the reporting period, i.e. since the end of 2016. The growth rate of client loans increased by 2.8 pp year on year to

[12] Some similar services and products (for example, in the area of the payment system or provision of financing) are offered by entities that make greater use of information technology, such as peer-to-peer lending, crowd funding, etc.

[13] The CNB has constantly revised its classification of banks by total assets. This has a subsequent impact on the classification of the various banks and on the trends reported by indicators and ratios. Since 2016, large banks have been taken to mean banks with total assets exceeding 10% of the volume of total assets for the sector as a whole, while mid-sized banks have assets of 2-10% relative to the sector's total assets, and small banks have total assets below 2% of those of the sector as a whole.

[14] 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 appear, for example, in the case of indicators of the share of non-performing loans.

7.0%, while the growth rate of deposits, which were again the main source of growth in liabilities, fell by 2.3 pp to 6.6%. The resulting similar year-on-year growth rates of loans and deposits were reflected in the more or less stagnation of the deposit-to-lending ratio at 143.0%, near to its highest level for the reporting period.

Table 5.1: Basic indicators of the banking sector

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Total assets	6.019.4	7,064.5	7,329.5	7,623.6	8,018.0	8,603.4	585.3	7.3
Client loans	2.950.4	3,085.5	3,306.4	3,450.5	3,595.6	3,847.8	252.2	7.0
Client deposits	3.767.2	4,169.1	4,445.6	4,739.3	5,162.0	5,502.3	340.4	6.6
Ratio of client deposits to loans (%)	127.7	135.1	134.5	137.4	143.6	143.0	-0.6	-0.4
Total capital ratio (%)	18.5	19.3	19.6	21.3	24.4	23.5	-0.8	-3.4

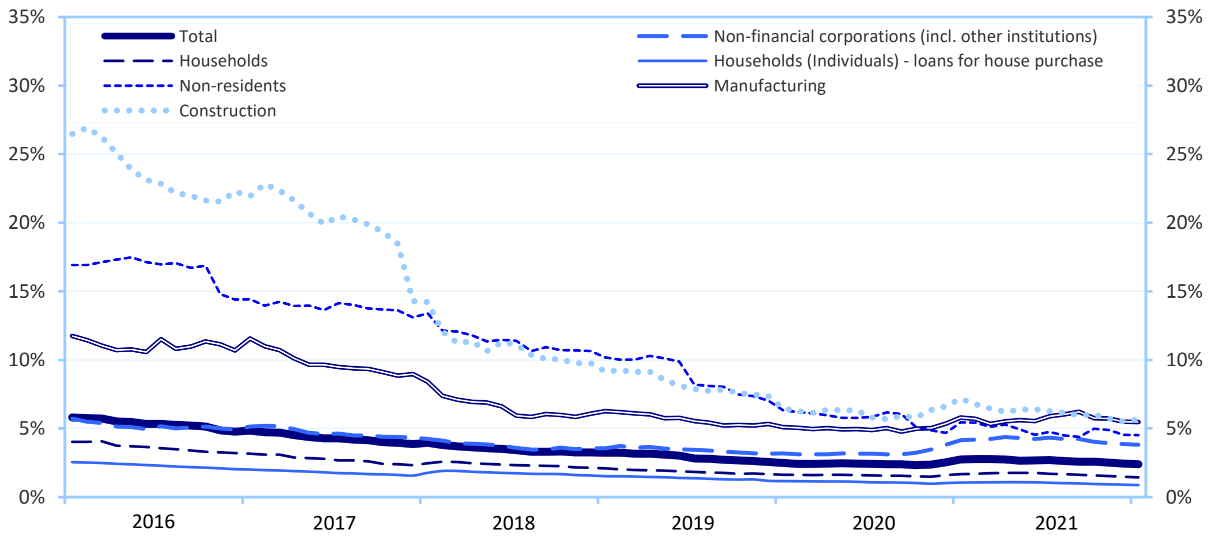
Source: CNB – ARAD, MoF calculations

5.2 Banking Sector Assets and the Credit Portfolio Quality

The structure of assets remained essentially unchanged year on year in terms of the most significant items. The dominant component remained loans and other client receivables, the share of which (44.7%) remained practically the same year on year. More than a quarter of assets (27.1%) were held by banks in the form of exposures to the central bank;[15] the share of this balance sheet item in the total fell by 1.5 pp year on year. Domestic central government bonds accounted for almost one eighth (11.5%) of assets; their volume increased by almost a quarter year on year and by almost 80% over the reporting period since the end of 2016, thus significantly magnifying the size of banks' exposure to the government sector. The CNB's stress test of Czech public finances in 2021 signalled increasing risks associated with the evolution of government debt, but did not, from the CNB's perspective, indicate a need to demand additional capital from credit institutions over the next three years in order to cover the risk of concentration of these exposures.

As client loans have long been a key item on banks' balance sheets, it is worth taking a closer look at their quality. The ratio of non-performing loans to total client loans fell year on year by 0.4 p.p. to 2.4%, the lowest year-end level since 2002. All the client sectors and industries monitored recorded a decline in the share of non-performing loans (Graph 5.2).

Graph 5.2: Share of non-performing loans by client sector and branches of economic activity



Source: CNB – ARAD[16], MoF calculations

[15] These tend to be repo transactions.

[16] The reporting methodology follows prudential business rules that have changed over time and therefore the data are not fully comparable.

The share of non-performing loans granted to non-residents registered the highest year-on-year decline among the sectors monitored, slipping by 0.9 pp to 4.5%. The share of non-performing loans in the dominant segment of loans for house purchase to households[17] improved again (by 0.2 pp.) to 0.9%; this was the lowest level seen since 2002. The share of non-performing loans granted to non-financial corporations fell (by 0.3 pp.) to 3.8%, while manufacturing (0.3 pp.) and construction (1.5 pp) posted declines to 5.5% and 5.7% respectively.

The share of foreign-currency loans in total client loans fell slightly year on year to 19.2%, i.e. by approximately 4% in relative terms, which is roughly in line with the appreciation of the Czech koruna against the euro, in which more than 90% of foreign-currency loans were denominated. The appreciation of the koruna should lead to a decline in this share.

However, developments again varied considerably from one client sector to another. Households maintained a negligible share of foreign-currency loans over the long term (approximately 0.2%), with financial institutions showing a significant increase (by 5.8 pp. to 34.9%) and non-residents also growing slightly (by 0.6 pp. to 75.8%). Among non-financial corporations, there was a clear 2.9 p.p. increase in the last four months of 2021 (to 34.6%), probably due to the increase in domestic monetary policy rates, which were reflected in a rise in interest rates on loans granted in Czech koruna and thus increased the attractiveness of foreign-currency financing. Over the six-year reporting period, the share of foreign-currency loans granted to non-financial corporations grew the most, by around half (11.8 pp).

5.3 Economic Results and Profitability of the Banking Sector

The banking sector's pre-tax profit for 2021 increased by CZK 28.4 billion year on year to CZK 85.9 billion, and was thus much closer to the levels attained before the COVID-19 pandemic (Table 5.2).

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

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Net interest income	109.9	112.1	129.8	145.7	126.9	128.9	2.0	1.6
Interest income	143.4	146.7	179.2	225.9	186.1	184.7	-1.4	-0.8
Interest expenses	33.6	34.6	49.4	80.2	59.2	55.8	-3.4	-5.8
Net fee and commission income	32.4	32.1	33.6	33.1	30.9	34.9	4.0	12.8
Fee and commission income	44.8	44.6	46.1	44.3	42.9	48.4	5.5	12.9
Fee and commission expenses	12.4	12.5	12.4	11.2	12.0	13.5	1.6	13.1
Administration costs	71.7	73.6	76.7	77.7	73.3	75.7	2.4	3.2
Other net income	17.3	19.7	11.4	8.1	-27.1	-2.2	24.8	-91.7
Total profit or (-) loss before tax	87.9	90.3	98.0	109.2	57.4	85.9	28.4	49.5

Source: CNB – ARAD, MoF calculations

Of the four aggregated items monitored, other net income again had the most significant impact on year-on-year profit development, growing by CZK 24.8 billion over the year. The growth of this aggregate category, encompassing several sub-items of the profit and loss account, was dominated by a decline in impairment losses (by CZK 25.7 billion).

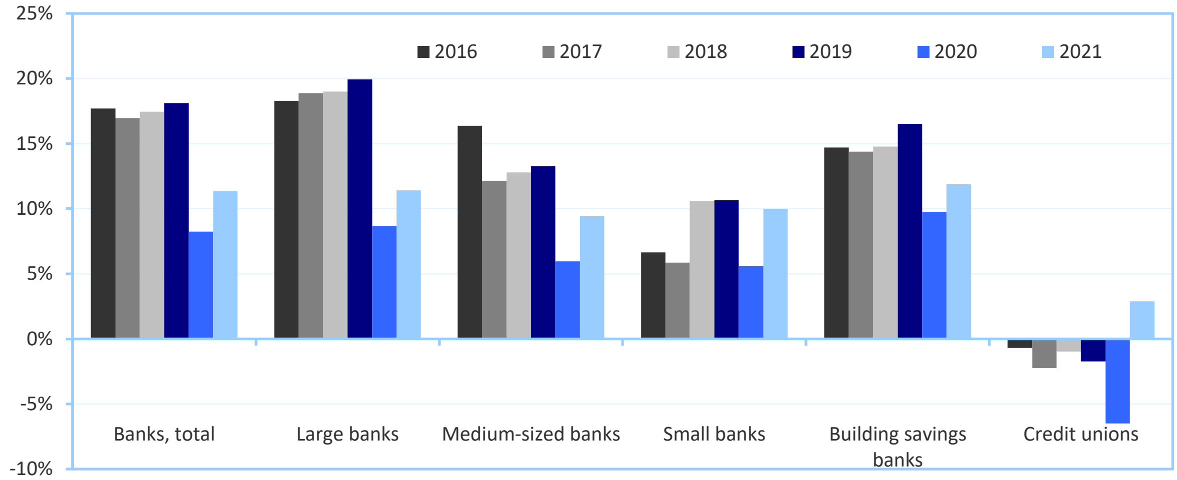
The growth in total profit was also boosted by a small 1.6% increase in net interest income to CZK 128.9 billion. The decline in interest expenses (by CZK 3.4 billion) was greater than the decline in revenues (by CZK 1.4 billion). As a result, interest income did not change much year on year. This was because, among other things, the year-on-year lower interest rate on funds allocated under repo operations at the central bank at the beginning of 2021 was "offset" to some extent by a renewed increase in interest rates, especially in the last quarter of 2021. Net fee and commission income also rose, climbing by 12.8% to CZK 34.9 billion, as the increase in income (by CZK 5.5 billion) exceeded the increase in the corresponding costs (by CZK 1.6 billion).

On the other hand, administrative costs had a moderately negative impact on profit as they rose by 3.2% year on year to CZK 75.7 billion.

[17] Specifically, it is the "private individuals" that are one of the 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.

As a whole, the banking sector posted a return on Tier 1 capital of 11.4%. However, despite significant year-on-year growth (by 3.1 pp), the profitability levels observed before the COVID-19 pandemic were not reached (Graph 5.3). Year-on-year growth occurred in all bank segments, whether grouped by size and specialization. The highest increase (by 3.7 pp) was recorded by small and medium-sized banks, which achieved relatively lower levels of profitability during the reporting period. Consequently, the differences between the different segments of banks narrowed. For the sake of comparison within the credit institution sector, the credit union segment posted a sharp increase in profitability (by 9.4 pp to 2.9% in 2021). Compared internationally, the profitability of the Czech banking sector continued to exceed that of the banking sector in the EU (by around half), especially in relation to the largest euro area countries.

Graph 5.3: Profit or (-) loss after taxation/Tier 1 capital (%)

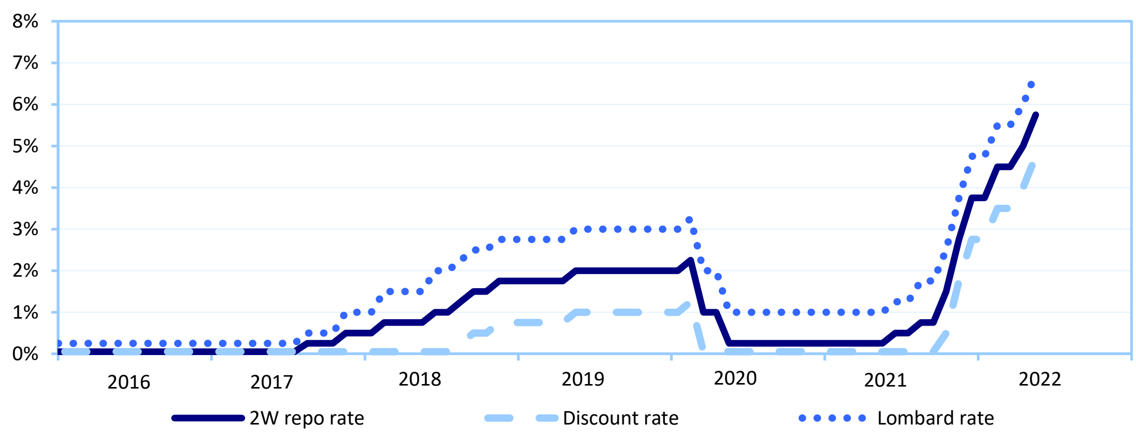


Source: CNB – ARAD

5.4 Interest Rate Development

Market interest rates are heavily influenced by the effects of monetary policy instruments. The CNB kept the key 2W repo monetary policy rate at 0.25% for most of the first half of 2021, having lowered it to that level during March and May 2020 in response to the possible effects of the COVID-19 pandemic. Subsequently, with inflation rates forecast to rise above the inflation target, the CNB was one of the first central banks in advanced economies to hike its interest rates. After five increases, the 2W repo rate had risen to 3.75%, a level last seen in 2008. Starting in October 2021, three hikes led to an overall increase in the 2W repo rate by 3 pp at the year end, or 1 pp a hike on average, instead of the usual 0.25 pp changes made in previous years. As the individual monetary policy rates moved significantly away from zero again, the spread between them also returned to its usual level of 1 pp (Graph 5.4). By the end of May 2022, the CNB had made three more rate increases, bringing the key policy rate to 5.75%, a level it last reached more than 20 years ago (in 1999).

Graph 5.4: CNB interest rates



Source: CNB – ARAD

The increases in monetary policy rates in the second half of 2021 did not affect the growth of most of the monitored average annual client deposit and lending rates (Table 5.3) during 2021. Deposits of both households and non-financial corporations again witnessed a slight year-on-year decline in average annual rates, mainly in response to developments in the first half of 2021. The average annual interest rate on loans in most of the categories monitored also fell and again hovered close to long-term lows. The average annual interest rate on consumer lending extended to households actually reached a new low. The exception was the average annual interest rate on loans to non-financial corporations, which rose by a slight 0.1 pp.

Table 5.3: Average interest rate

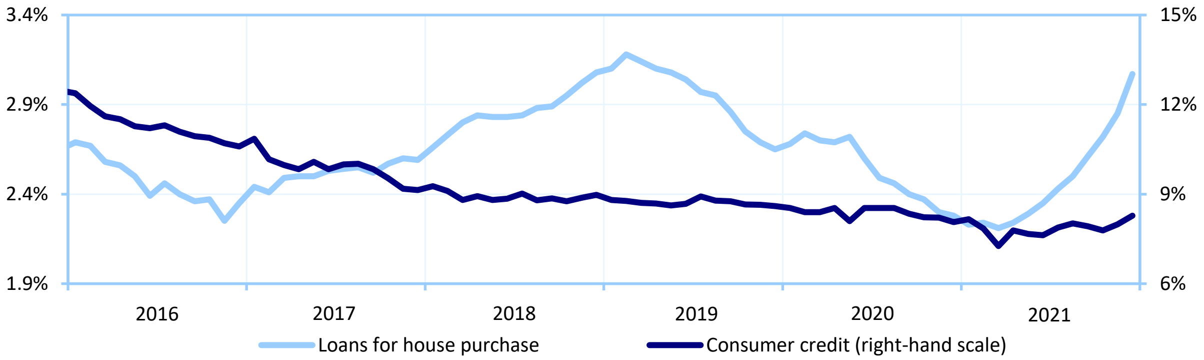
Average for the period (% p.a.)		2016	2017	2018	2019	2020	2021
Deposits	households	0.5	0.4	0.3	0.4	0.3	0.3
	non-financial corporations	0.1	0.0	0.1	0.4	0.2	0.1
Loans	to households	4.6	4.1	3.8	3.7	3.5	3.3
	for consumption	12.8	11.4	10.2	9.5	9.0	8.4
	for house purchase	3.1	2.7	2.5	2.5	2.5	2.4
	to non-financial corporations	2.6	2.6	3.1	3.8	2.9	3.0

Source: CNB – ARAD, MoF calculations

Note: Average rates on total CZK-denominated deposits and loans.

With household loans, it is appropriate to monitor not only the interest rate (as the main yardstick for the prices of such loans), but also a more comprehensive indicator that encompasses other loan costs in the form of APR.[18] The APR on newly granted consumer loans bucked the long-term downward trend and rose slightly by 0.2 pp year on year (Graph 5.5). The APR on newly granted housing loans rose by more than a third (0.8 pp) to 3.1%, thus matching its value from the end of 2018.

Graph 5.5: Annual Percentage Rate of Charge (APRC) of CZK loans provided by banks



Source: CNB – ARAD

5.5 Client Bank Deposits and Loans

The volume of client deposits[19] increased by 6.6% year on year and stood at CZK 5.5 trillion (Table 5.4). The annual growth rate was thus 1.1 pp lower than the average for the reporting period, driven mainly by developments in the financial institutions and non-resident sectors. While the three most important sectors by volume (households, non-financial corporations and general government) posted above-average year-on-year growth rates relative to total deposits, this was always slightly lower than the average growth rate of deposits in individual sectors over the reporting period since the end of 2016.

The absolute rise in total client deposits (by CZK 340.4 billion) was the third highest in the reporting period. As usual, households recorded the highest year-on-year absolute growth in deposits of all sectors, although the absolute growth was CZK 123.5 billion lower year on year. Their share in total deposits, which has long been above half, increased slightly to 59.3% in 2021. Non-financial corporations accounted for more than one fifth of the total (23.8%).

[18] The APRC (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.

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

In terms of the maturity structure of deposits, the share of demand deposits dipped by 0.6 pp to 82.2%. This was probably fuelled by the sharp increase in monetary policy rates during the last quarter of 2021, reflected in the rise in interest rates on longer-maturity deposits. Nevertheless, the share was still close to its highest levels to date.

Table 5.4: Breakdown of deposits with banks by client sectors[20]

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Households	2,209.3	2,370.2	2,558.5	2,725.5	3,056.8	3,264.7	207.8	6.8
Non-financial corporations (including other institutions)	916.1	996.9	1,041.2	1,094.8	1,217.9	1,308.9	90.9	7.5
General government	234.1	264.7	278.8	301.7	302.4	325.4	23.0	7.6
Financial institutions	161.7	260.4	282.5	310.8	260.2	273.2	13.0	5.0
Non-residents	209.5	237.2	244.9	262.8	274.7	273.9	-0.7	-0.3
Non-profit institutions	36.5	39.7	39.8	43.8	49.9	56.3	6.4	12.7
Total	3,767.2	4,169.1	4,445.6	4,739.3	5,162.0	5,502.3	340.4	6.6

Source: CNB - ARAD, MoF calculations

The volume of client loans grew by 7.0% to CZK 3.8 trillion (Table 5.5).[21] The year-on-year growth rate thus significantly exceeded the average for the reporting period, which was 5.6%.

Almost all sectors, with the exception of non-residents and non-profit institutions, reported significant year-on-year growth. Both main sectors recorded an acceleration of its growth rate, with households increasing by 3.4 pp and non-financial corporations by 5.5 pp. For non-financial corporations this was a return to growth after stagnation in 2020, while the growth rate of lending to households reached its highest value compared with the rest of the reporting period. In terms of absolute changes, as in previous years, the year-on-year increase in loans to households (by CZK 184.7 billion) was the most dominant; this sector's highest growth over the reporting period accounted for around 73% of total credit growth.

Table 5.5: Breakdown of loans with banks by client sectors

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Households	1,417.4	1,527.2	1,642.7	1,745.0	1,858.7	2,043.4	184.7	9.9
Non-financial corporations (including other institutions)	975.6	1,022.0	1,080.3	1,119.9	1,123.0	1,188.3	65.3	5.8
General government	48.1	44.4	48.8	49.3	54.0	58.6	4.6	8.6
Financial institutions	188.3	193.3	206.3	213.4	210.5	234.8	24.3	11.5
Non-residents	318.6	296.0	325.2	319.8	345.7	319.3	-26.3	-7.6
Non-profit institutions	2.4	2.7	3.2	3.0	3.7	3.3	-0.4	-11.0
Total	2,950.4	3,085.5	3,306.4	3,450.5	3,595.6	3,847.8	252.2	7.0

Source: CNB - ARAD, MoF calculations

5.6 Mortgage Market

Activity on the mortgage lending market[22] in 2021 was influenced, on the one hand, by a year-on-year correction in non-residential property lending after an atypically record-breaking previous year and, on the other, by further significant growth in residential property lending above the already record levels of the previous year. The very strong household demand for residential housing was influenced, among other things, by fears that

[20] The table lists bank deposits. The values are therefore different from Table 2.1, which shows all credit institutions deposits (i.e. including credit unions).

[21] A specific factor that influenced the above-mentioned development in bank lending to some extent, especially in 2020 and part of 2021, was the "credit moratoria" (see Box 1 in the Report on Financial Market Developments in 2020).

[22] As of 2019, in connection with changes to the regulatory framework, a mortgage loan is a loan whose repayment, including charges and interest, is at least partially secured by a lien on the property.

mortgage rates would rise in the future amid the CNB's gradual tightening of monetary policy and the continuing decline in the affordability of real estate.

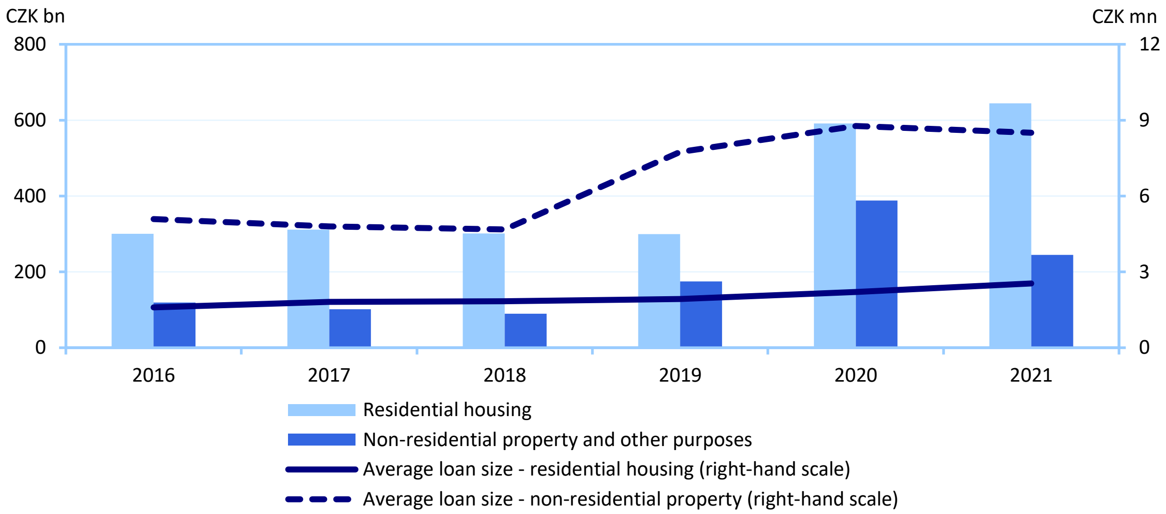
Although all newly granted mortgage loans (i.e. including refixations or refinancing)[23] registered a year-on-year decline in both total volume (by 9.2% to CZK 888.7 billion) and the number of contracts (by 9.7% to 282,200) in 2021, the main reason could be identified in the segment of mortgage loans for non-residential real estate and other purposes, which recorded a 37% decline in volume and a 35% decrease in the number of contracts (Table 5.6). In contrast, the segment of mortgage loans for residential housing experienced a significant 9% growth in volume[24] to CZK 644.2 billion. As a result, the share of new mortgage lending for non-residential property and other purposes in total new mortgage lending fell by around a third to levels before the unusual increase in this share in 2019 and 2020 (Graph 5.6).

Table 5.6: Newly granted mortgage loans by manner of acquisition

	As at 31 Dec	2016	2017	2018	2019	2020	2021	Year-on-year change	
								Abs.	(%)
Residential housing	number (000's)	188.2	171.4	164.6	155.7	268.5	253.5	-15.0	-5.6
	volume (CZK bn)	300.3	311.7	301.7	299.6	591.4	644.2	52.9	8.9
	share on volume (%)	71.6	75.4	77.1	63.2	60.4	72.5	12.1	20.0
	number (%)	88.9	89.0	89.6	87.3	85.9	89.8	3.9	4.6
	average volume (CZK mn)	1.6	1.8	1.8	1.9	2.2	2.5	0.3	15.4
Non-residential property and other purposes	number (000's)	23.5	21.2	19.1	22.6	44.2	28.8	-15.4	-34.9
	volume (CZK bn)	119.3	101.5	89.6	174.8	387.7	244.5	-143.3	-36.9
	share on volume (%)	28.4	24.6	22.9	36.8	39.6	27.5	-12.1	-30.5
	number (%)	11.1	11.0	10.4	12.7	14.1	10.2	-3.9	-27.9
	average volume (CZK mn)	5.1	4.8	4.7	7.7	8.8	8.5	-0.3	-3.1
Total	number (000's)	211.6	192.6	183.7	178.2	312.7	282.2	-30.5	-9.7
	volume (CZK bn)	419.7	413.2	391.2	474.4	979.1	888.7	-90.4	-9.2
	average volume (CZK mn)	2.0	2.1	2.1	2.7	3.1	3.1	0.0	0.6

Source: CNB – ARAD, MoF calculations

Graph 5.6: Newly granted mortgage loans by manner of acquisition



Source: CNB – ARAD, MoF calculations

[23] New mortgage lending consists of so-called net new mortgage lending (new mortgage lending entering the economy, including increases), refinanced mortgage lending (from another lending institution) and other lending arrangements (i.e. internal refinancing, refixing, consolidation, credit moratoria).

[24] The actual growth rate, by volume, in 2021 would have been even higher, as 12% of the 2020 volume comprised loans which had been secured with residential property and had been granted by banks to households, but were deferred under a statutory or contractual moratorium during the COVID-19 pandemic. Specifically, the moratoria in 2020 translated into an increase in new mortgage lending in the other credit arrangements category (Table 5.6). At the end of 2021, CZK 154.0 billion of mortgage loans had been deferred.

The strong growth in residential housing prices in particular[25] was reflected in the average amount of newly granted mortgage loans. The average amount of newly granted mortgage loans for residential purposes increased by CZK 0.3 million compared to 2020. In 2021, it reached an all-time high of CZK 2.5 million (Graph 5.6). Although the average amount of a newly granted mortgage loan for non-residential real estate fell slightly year on year in 2021 (by 3.1%), it remained at a high level of CZK 8.5 million.

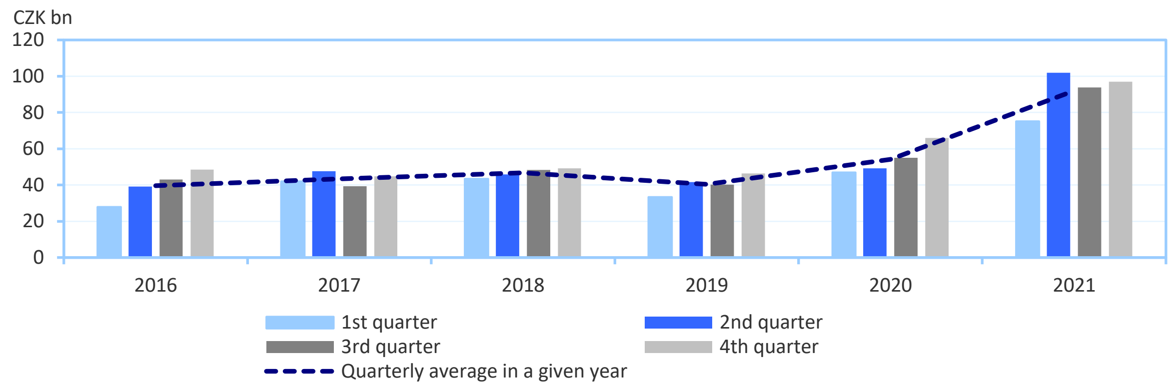
Significant year-on-year growth in the volume of newly granted mortgage loans for residential housing is particularly evident when narrowly defined to loans granted to the private individuals,[26] where it was reflected both in so-called purely new mortgage loans and refinanced loans. Both categories recorded not only record year-on-year volume growth rates (69.7% for purely new loans and 85.3% for refinanced loans) but also absolute growth rates (CZK 151.1 billion for purely new loans and CZK 42.1 billion for refinanced loans) (Table 5.7). The volume of purely new mortgage loans in 2021 was more than double the average (about CZK 180 billion) for the preceding five years. The average quarterly volume in 2021 was CZK 92.0 billion, 105.0% higher than the quarterly average of CZK 44.9 billion over 2016-2020 (Graph 5.7). Over the entire six-year reporting period, a total of almost CZK 1.3 trillion in purely new mortgage loans was thus granted to the private individuals for residential housing. So-called other credit arrangements, which include credit moratoria in addition to refixations, internal refinancing and consolidations, were the only category to record a year-on-year decline in volume (by 36.0%), mainly due to the end of the moratorium scheme introduced in response to the effects of the COVID-19 pandemic (Table 5.7).

Table 5.7: Newly granted mortgage loans (ML) to private individuals for residential housing

As at 31 Dec		2016	2017	2018	2019	2020	2021	Year-on-year change Abs.	Year-on-year change (%)
Newly granted ML (CZK bn)	Purely new ML	158.5	173.8	186.9	161.5	216.8	367.9	151.1	69.7
	Refinancing	33.5	38.2	34.6	29.2	49.3	91.4	42.1	85.3
	Other amendments	88.7	83.0	82.9	83.8	237.4	151.9	-85.5	-36.0
Share on total (%)	Purely new ML	56.5	58.9	61.4	58.8	43.1	60.2	17.1	39.8
	Refinancing	11.9	12.9	11.4	10.6	9.8	15.0	5.2	52.6
	Other amendments	31.6	28.1	27.2	30.5	47.1	24.9	-22.3	-47.3
Total newly granted ML (CZK bn)		280.7	295.0	304.4	274.5	503.6	611.2	107.7	21.4

Source: CNB – ARAD, MoF calculations

Graph 5.7: Purely new mortgage loans (ML) for residential housing granted by banks to private individuals



Source: CNB – ARAD, MoF calculations

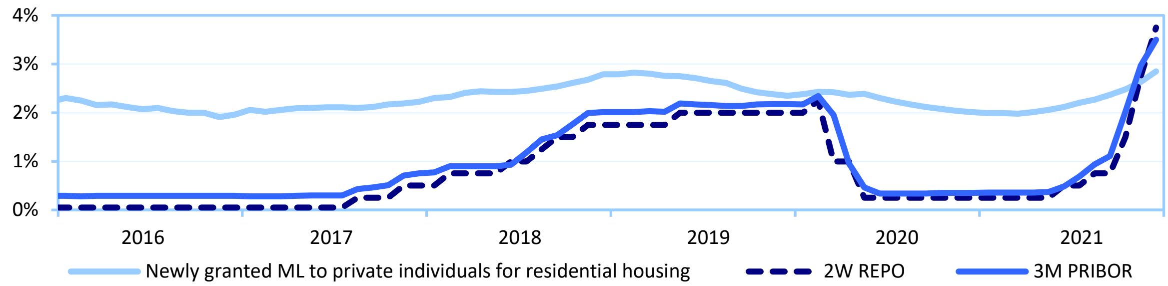
The average monthly interest rate on newly granted mortgage loans to the private individuals for residential housing was just below 2% for the first three months of 2021, but rose again to 2.01% p.a. in April 2021. It then

[25] According to the CNB's *Risks to Financial Stability 2021*, the momentum behind the pricing of residential real estate had intensified to the extent that housing was overvalued by around 25% as at the second quarter of 2021. The ratio of residential housing prices to household incomes was thus rising, with average house prices being affordable for only about 15% of households. In November 2021, the CNB responded to the risks arising from the potential unwinding of the spiral between property price growth and growth in housing loans by deciding to tighten the upper limit of the so-called credit indicators with effect from April 2022.

[26] A household sub-sector (i.e. employees, property income beneficiaries, pension recipients, and recipients of other transfers) excluding sole traders and homeowners' associations.

began to rise steadily until it reached 2.85% p.a. at the end of the year, the highest level in the reporting period (Graph 5.8). During 2021, the spread between the average mortgage loan rate and the CNB's key monetary policy rate (i.e. the 2W repo rate) was at its highest in May (1.81 pp), after which it declined to minus 0.9 pp at the end of the year, probably due to the CNB's policy rate hikes, when the value of the indicator was evidently influenced by the rates of loans pre-negotiated at lower rates and also by interest rates differing according to the fixation period.

Graph 5.8: Interest rates of newly granted mortgage loans (ML) and selected interest rates



Source: CNB – ARAD

The structure of all newly granted mortgage loans by interest rate fixation period was influenced by strong year-on-year growth in mortgage volumes together with expectations of rising interest rates. These factors resulted in a significant 41.1% year-on-year decrease in the volume of the category of new loans with a fixation period of up to one year (Table 5.8). The share of this category in the volume of newly granted loans thus fell by 11.5 pp year on year to 21.3%. Fixation from 1 to 5 years was again the most frequent category, with a share of 39.2%, up 7.7 pp year on year. Newly granted loans with a fixation of 5 to 10 years also increased their share, rising by 4.6 pp to 37.0%. In terms of the structure of the total outstanding volume of loans, the category of loans with a maturity of 5 to 10 years took up a share of 37.6% and thus exceeded (by 0.2 pp) the most significant category of loans with a maturity of 1 to 5 years for the first time.

Table 5.8: Mortgage loans (ML) by period of interest rate fixation

As at 31 Dec (CZK bn)		2016	2017	2018	2019	2020	2021	Year-on-year change	
								Abs.	(%)
Newly granted ML	floating/fixed up to 1 year	109.2	84.6	74.8	133.7	320.9	189.0	-131.9	-41.1
	over 1 and up to 5 years	201.4	212.9	182.6	164.7	307.5	348.0	40.5	13.2
	over 5 and up to 10 years	96.3	103.2	115.0	150.3	316.9	328.7	11.8	3.7
	over 10 years	12.8	12.4	18.9	25.6	33.8	23.1	-10.7	-31.7
	Total	419.7	413.2	391.2	474.4	979.1	888.7	-90.4	-9.2
Total unpaid principal	floating/fixed up to 1 year	300.4	285.7	309.3	466.6	520.3	503.1	-17.2	-3.3
	over 1 and up to 5 years	802.7	843.6	848.1	871.4	821.6	893.1	71.5	8.7
	over 5 and up to 10 years	219.4	304.2	419.1	549.9	741.9	899.4	157.6	21.2
	over 10 years	66.0	65.0	75.1	98.2	100.3	94.4	-5.9	-5.9
	Total	1,388.5	1,498.5	1,651.6	1,986.1	2,184.1	2,390.0	205.9	9.4

Source: CNB – ARAD, MoF calculations

The total number of outstanding mortgage loans reported only slight year-on-year growth (by 2.6%); this was the lowest rate over the reporting period. In terms of volume, mortgage lending again increased significantly year on year, growing by 9.4% (Table 5.9). The strong market-wide momentum from the end of 2016 saw the total amount outstanding increase by almost 60% for residential housing and more than double for non-residential properties. This dynamic development thus contributed to a further increase in the importance of mortgage lending for the domestic banking sector.[27]

[27] Private individuals, i.e. households excluding trades and housing associations, account for around 95% of the volume of bank lending to households. Of the CZK 1,948.1 billion in loans to private individuals, housing loans accounted for around 82%, consumer loans for 14% and other loans for 4%. Mortgage loans accounted for 94% of housing loans to private individuals and amounted to CZK 1,507.2 billion. The volume of outstanding mortgage loans grew at an average rate of 10% in the period from 2016 to 2021, and by the end of 2021 it made up three quarters (77.4%) of loans to private individuals and 39.2% of total bank loans; this share increased by 7.2 pp from 2016.

The average total amount outstanding also continued to rise steadily, with a further year-on-year increase to CZK 2.1 million. However, for the first time in the reporting period, this increase was driven solely by a rise in the average amount owed on residential mortgage loans (by 10.3% to CZK 1.6 million), while the average amount owed on non-residential mortgage loans fell slightly for the first time (by 2.9% to CZK 5.5 million), along with the share of this category in the total volume of loans (by 1.8 pp). This development reflected the sustained significant growth in the volume of outstanding residential mortgage loans, which averaged 9.1% in 2016–2020 and rose to 12.4% in 2021.

Table 5.9: Mortgage loans by manner of acquisition

As at 31 Dec		2016	2017	2018	2019	2020	2021	Year-on-year change	
								Abs.	(%)
Residential housing	number (000's)	779.3	824.3	858.3	920.8	956.6	975.3	18.7	2.0
	volume (CZK bn)	996.4	1,088.3	1,185.8	1,301.1	1,413.3	1,589.2	175.9	12.4
	share on volume (%)	71.8	72.6	71.8	65.5	64.7	66.5	1.8	2.8
	number (%)	87.8	87.9	88.1	87.8	87.4	86.9	-0.5	-0.6
	average outstanding amount (CZK mn)	1.3	1.3	1.4	1.4	1.5	1.6	0.2	10.3
Non-residential property and other purposes	number (000's)	108.4	113.2	115.6	128.5	137.3	146.9	9.6	7.0
	volume (CZK bn)	392.1	410.2	465.8	685.0	770.8	800.9	30.0	3.9
	share on volume (%)	28.2	27.4	28.2	34.5	35.3	33.5	-1.8	-5.1
	number (%)	12.2	12.1	11.9	12.2	12.6	13.1	0.5	4.3
	average outstanding amount (CZK mn)	3.6	3.6	4.0	5.3	5.6	5.5	-0.2	-2.9
Total	number (000's)	887.7	937.4	974.0	1,049.3	1,093.9	1,122.2	28.3	2.6
	volume (CZK bn)	1,388.5	1,498.5	1,651.6	1,986.1	2,184.1	2,390.0	205.9	9.4
	average (CZK millions)	1.6	1.6	1.7	1.9	2.0	2.1	0.1	6.7

Source: CNB – ARAD, MoF calculations

The share of non-performing mortgage loans in total (i.e. residential and non-residential) fell by 0.3 pp to 1.7% (Table 5.10). In the dominant segment of residential mortgage lending, this indicator reached its lowest value (0.7%) over the reporting period, reflecting 12% year-on-year growth in the volume of such loans and a 6% decline in the corresponding non-performing loans.

Table 5.10: Mortgage loans (ML) by categorisation

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Total outstanding ML	1,388.5	1,498.5	1,651.6	1,986.1	2,184.1	2,390.0	205.9	9.4
of which to private individuals for residential housing	944.1	1,035.6	1,131.4	1,236.3	1,342.9	1,507.2	164.3	12.2
Total non-performing ML	32.1	28.4	23.7	33.6	44.0	41.5	-2.5	-5.8
of which to private individuals for residential housing	15.3	14.5	13.0	11.4	11.9	11.1	-0.7	-6.1
Share of non-performing ML (%)	2.3	1.9	1.4	1.7	2.0	1.7	-0.3	-13.9
of which to private individuals for residential housing	1.6	1.4	1.2	0.9	0.9	0.7	-0.1	-16.3

Source: CNB – ARAD, MoF calculations

5.7 Building Savings Banks

Although building savings banks recorded a slight decline of about 3% in the number of newly concluded building savings contracts in 2021, the result was still 449,900, the third highest number for the reporting period. The average target amount increased sharply by 77.4% year on year to CZK 808,700, the highest in the history of building savings schemes (Table 5.11). The number of newly increased contracts,[28] 70,500, was the highest in the reporting period, slightly exceeding the 2016 figure. However, in 2021 the average amount of the increase was at its lowest, at CZK 170,000.

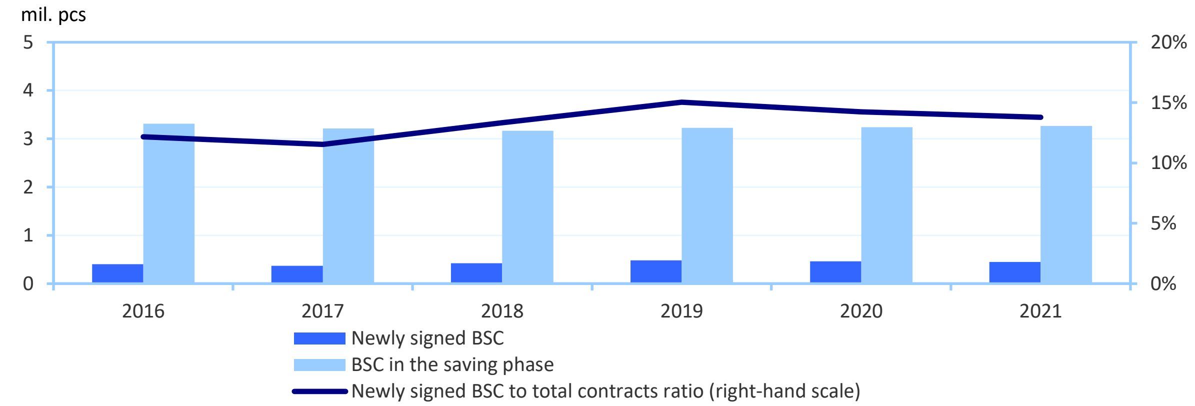
Table 5.11: Main indicators of building savings bank sector – savings

As at 31 Dec	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Newly signed contracts (thousands)	403.3	370.7	422.0	485.2	461.9	449.9	-12.0	-2.6
Average target value (CZK thousands)[29]	383.9	396.5	470.1	430.5	455.9	808.7	352.8	77.4
Newly increased contracts (thousands)	70.5	55.7	64.3	60.3	57.8	70.5	12.7	21.9
Average increase (CZK thousands)[29]	224.5	214.8	343.6	333.0	271.4	170.0	-101.4	-37.4
Contracts in the saving phase (thousands)	3,312.1	3,212.4	3,166.8	3,226.7	3,242.7	3,265.8	23.1	0.7
Savings (CZK bn)	362.6	358.9	355.0	359.7	362.7	366.3	3.9	1.0
Average saved amount (CZK thousands)	109.5	111.7	112.1	111.5	111.8	112.1	0.3	0.3
Share of household savings in the building savings banks on total household savings (%)	15.1	11.6	12.9	12.4	11.2	10.7	-0.5	-4.3
State contributions paid (CZK bn)	4.3	3.9	3.9	4.0	4.1	4.2	0.1	2.9

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

In 2021, the total number of contracts in the savings stage rose slightly year on year for the third year in a row, climbing by 23,100 to 3.3 million contracts (Graph 5.9). This confirmed the reversal first recorded in 2019, when the total number of contracts increased year on year for the first time after 15 years of continuous decline. At 13.8%, the share of newly concluded contracts in the total number of contracts in the savings stage was 0.5 pp above the average for the reporting period. In 2021, the state paid state contributions of CZK 4.2 billion, a slight increase of about 3% (Table 5.11).

Graph 5.9: Number of building savings contracts (BSC)



Source: Building savings banks, MoF, MoF calculations

After three years of faint continuous growth, the total amount saved stood at CZK 366.3 billion, which was the highest value for the reporting period, but amounted to growth of just 1.0% year on year. The average amount saved was CZK 112,100, equivalent to negligible year-on-year growth of 0.3%. The share of household deposits at building savings banks as a proportion of total household deposits at credit institutions fell to the lowest level in the history of building savings schemes, i.e. 10.7% (Table 5.11).

[28] A building savings contract is concluded for a specific target amount, i.e. the sum of deposits and state support (including interest) and the building savings loan. The target amount is increased mainly to adapt the contract to financing needs when the client applies for a building savings loan.

[29] Private individuals.

In their lending, building savings banks granted the highest ever volume of new loans, namely CZK 109.8 billion, a 68% increase on 2020 (Table 5.12). The number of new loans increased by just under a quarter, with the average new loan amount reaching an all-time high of CZK 1.6 million after recording its greatest year-on-year increase to date, i.e. CZK 422,500. Of the new loans, 99.8% (the highest share ever) were bridging loans.

The total volume of loans also reached an all-time high of CZK 319.3 billion following a strong year-on-year growth rate of almost 9%. The average amount of outstanding loans also hit an all-time high of CZK 650,700 after strong year-on-year growth of 15%.

The ratio of loans to the amount saved thus continued its steady growth. A slight 1% increase in the total amount saved, together with strong 9% growth in the total volume of loans, led to a substantial increase in this indicator in 2021, which was up by 6.3 pp year on year to 87.2%, i.e. to its highest value in the history of building saving schemes. The building savings system is "self-financing", i.e. building savings loans are sourced from funds in building savings schemes.[30] This shows that building savings banks have continued to increase the use of resources from participants (clients) for lending.

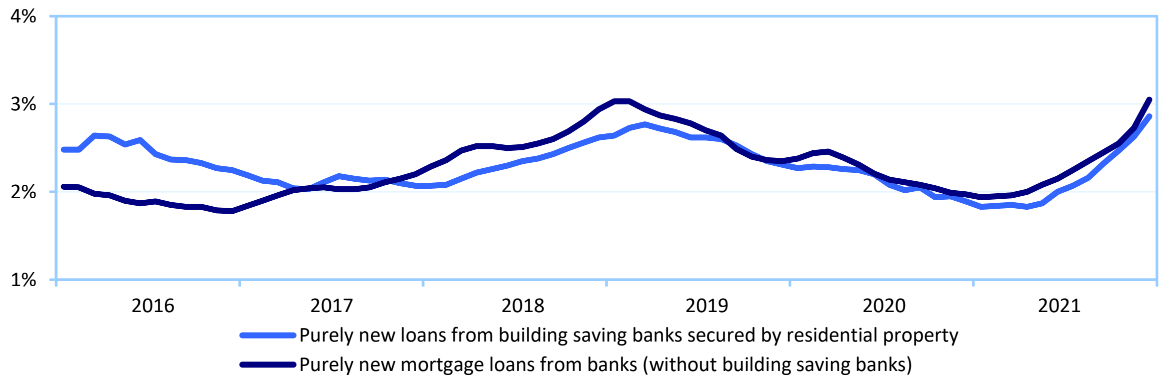
Table 5.12: Main indicators of building savings bank sector – loans

As at 31 Dec		2016	2017	2018	2019	2020	2021	Year-on-year change	
								Abs.	(%)
New loans	volume (CZK bn)	47.9	55.3	67.4	47.8	65.4	109.8	44.5	68.0
	contracts ('000s)	77.5	72.7	73.0	54.3	55.0	68.2	13.2	23.9
	average (CZK thousands)	617.8	761.0	923.8	879.5	1,188.5	1,611.0	422.5	35.5
Total loans	volume (CZK bn)	240.6	245.7	262.9	278.1	293.5	319.3	25.8	8.8
	contracts ('000s)	695.4	650.2	613.0	588.2	555.4	520.3	490.7	-29.6
	average (CZK thousands)	370.0	400.8	447.1	500.8	564.0	650.7	86.7	15.4
Loans-to-savings ratio (%)		66.4	68.5	74.1	77.3	80.9	87.2	6.3	7.8

Source: Building savings banks, MoF, MoF calculations

Building savings banks' interest rates on loans secured by residential housing continued to compete with commercial banks' mortgage rates in 2021. Savings banks' rates were an average of 0.14 pp lower each month in 2021 (Graph 5.10). The smallest spread in rates, of around 0.1 pp, was observed in October and November, while from the perspective of applicants, rates from building savings banks were at their most favourable in May 2021, when they were 0.21 pp lower than commercial banks' average mortgage rates.

Graph 5.10: Interest rates of purely new mortgage loans for residential housing purchase

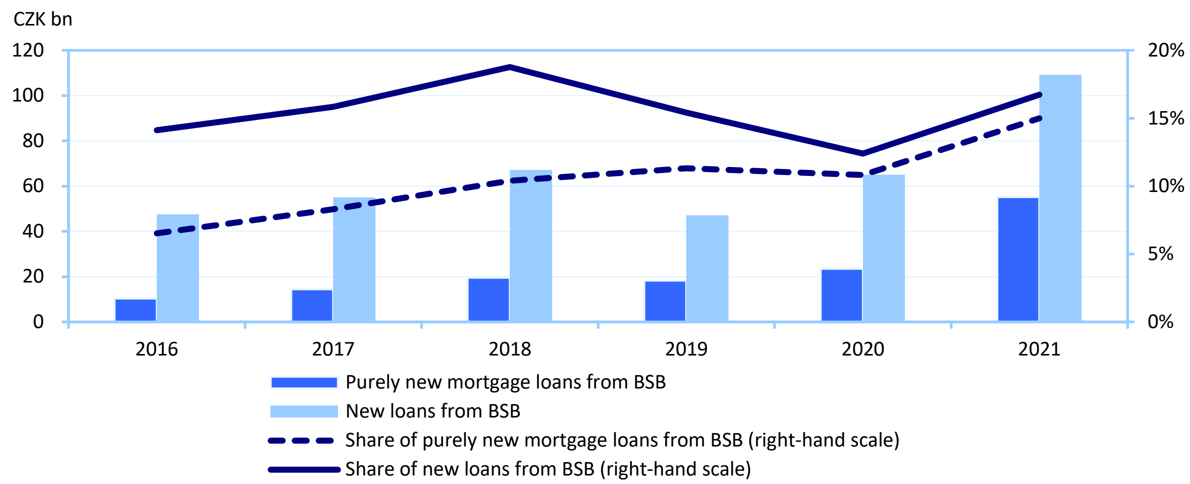


Source: CNB – ARAD

In the reporting period, building savings banks also achieved a historically high 15% market share of purely new mortgage loans in a situation where the mortgage market was very dynamic (see Chapter 5.6). The share of new loans from savings banks in total new housing loans stood at 16.7%, the second highest in the reporting period (Graph 5.11).

30 In 2021, 14 savers were needed for each new loan, i.e. in addition to the borrower, savings from a further 13 so-called friendly clients were needed. This is based on the ratio of the average amount of a new loan to the average amount of savings. With new lending volumes growing faster than deposits, this ratio increased from 6 in 2016 to 10 in 2020 and 14 in 2021.

Graph 5.11: Shares of new loans from building savings banks (BSB) on the loans for the house purchase



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

More detailed information about the building savings bank sector is published quarterly on the MoF's website at www.mfcr.cz (refer also to Table A2.2 in Appendix 2).

5.8 Credit Unions

Total assets in the credit union sector were down by CZK 0.9 billion year on year to CZK 9.1 billion at year-end 2021. As in the previous two years, they accounted for just 0.1% of the assets of all credit institutions.[31] Compared with the end of 2016, the sector's total assets decreased by CZK 25.1 billion, mainly due to the transformation of the two then largest credit unions, Záložna Creditas and Moravský Peněžní Ústav, into banks at the beginning of 2017 and 2019, respectively (Graph 5.12). As a result of these transformations, total loan and deposit volumes fell significantly in the years concerned. On a year-on-year basis, the volume of loans fell by 9.3%. Given the higher 11.2% decline in deposits, the deposit-to-lending ratio fell by 2.7 pp year on year to 123.9% (Table 5.13).

Table 5.13: Selected indicators of the credit union sector

As at 31 Dec	2016	2017	2018	2019	2020	2021	Year-on-year change Abs.	Year-on-year change (%)
Total assets (CZK bn)	34.2	23.1	20.2	10.2	10.0	9.1	-0.9	-9.0
Loans and receivables (CZK bn)	22.5	14.8	14.7	7.3	6.4	5.8	-0.6	-9.3
Deposits (CZK bn)	29.2	19.0	15.9	8.1	8.1	7.2	-0.9	-11.2
Deposit-to-loan ratio (%)	130.0	127.8	108.4	111.5	126.5	123.9	-2.7	-2.1
Share of quickly liquid assets to total assets (%)	25.9	30.1	30.1	51.4	49.1	46.0	-3.2	-6.4
NPL ratio (%)[32]	36.3	22.1	28.1	24.1	28.9	26.2	-2.8	-9.6
Total capital ratio (%)	16.2	18.9	21.1	29.2	26.7	24.4	-2.2	-8.3
Profit or (-) loss before tax (CZK mn)	-13.0	-76.0	-52.9	-30.3	-109.6	50.7	160.3	146.3
Return on Tier 1 capital (%)	-0.7	-2.3	-1.0	-1.7	-6.5	2.9	9.4	144.5
Number of members of credit unions (thousands)	51.6	30.9	22.6	12.2	12.0	11.4	-0.6	-4.8

Source: CNB – ARAD, MoF calculations

31 The total assets reported for the credit institution sector (i.e. banks including building savings banks and credit unions) at the end of 2021 were CZK 8.6 trillion.

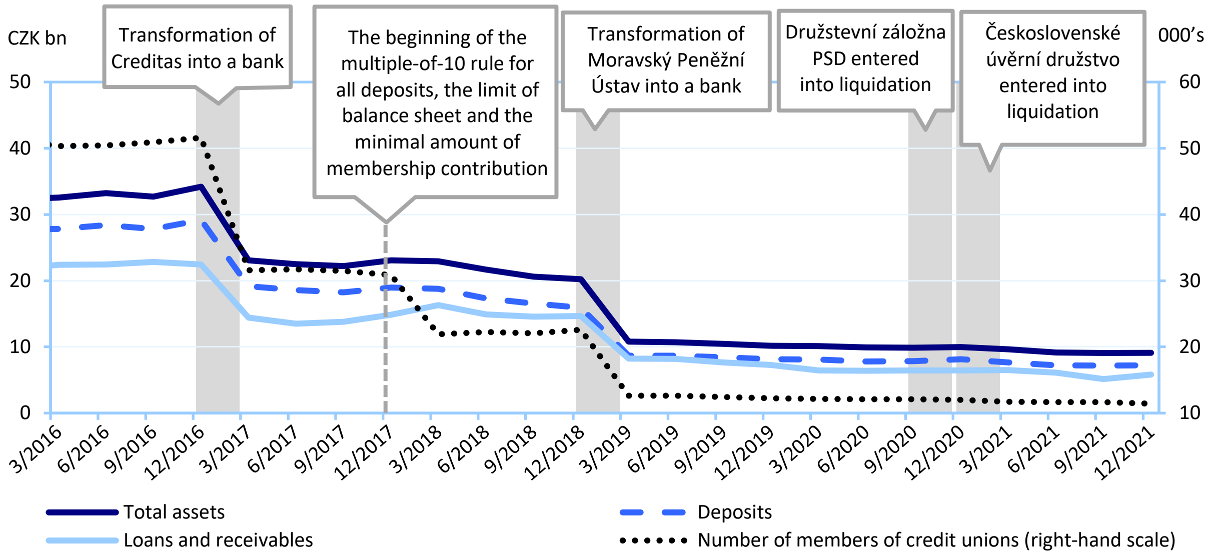
32 The ratio of non-performing loans and receivables is relative to the total exposure of loans and receivables other than those held for trading, measured by gross book value, excluding exposures to the central bank. Loans and receivables, expressed in the table in CZK billions, are presented at their net book value, i.e. loans and receivables measured at amortised cost are presented at their value adjusted for provisions and accumulated depreciation.

From the point of view of the stability of the credit union sector, there was a slight year-on-year decline in the ratio of non-performing loans and receivables to total loans and receivables by 2.8 pp to 26.2%, with the household segment contributing the most to this development. However, the level of the total non-performing loans ratio in the credit union sector remained well above that of the banking sector (see Chapter 5.2). The share of quickly liquid assets to total assets fell by 3.2 pp to 46.0% and the total capital ratio declined by 2.2 pp to 24.4%. Even so, these ratios were still above the average values for the reporting period since 2016 and also higher than the values recorded by the banking sector in 2021.

For first time in the reporting period, credit unions as a whole posted profit before tax, which aggregated CZK 50.7 million. Compared to 2020, credit unions were able to significantly reduce their interest and administrative expenses in particular and, on aggregate, did not report any losses from financial asset impairment, the increase in which had been one of the main reasons for the deepening of the sector's loss in 2020.

The number of credit union members decreased by a slight 600 year on year to approximately 11,400. However, the decline in the membership base was partly influenced by the entry of Československé úvěrní družstvo into voluntary liquidation on 25 March 2021 (Graph 5.12).

Graph 5.12: Total assets, deposits, loans and receivables and number of members of credit unions



Source: CNB – ARAD

5.9 Non-Bank Financing Providers

Non-bank providers of asset financing are an alternative to credit institutions in terms of debt financing options.[33] The share of these providers' total assets relative to the banking sector's total assets[34] has steadily declined since 2018, from around 6% to 4.9% at the end of 2021, a historical low. At the same time, the sector's total assets were approximately the same in absolute terms as at the end of 2020, rising by only 0.2% year on year to CZK 420.2 billion (Table 5.14).

The sector is split into three sub-segments – finance-leasing companies, other lending companies, and factoring and forfaiting companies. The shares of these sub-segments in the sector's total assets have been relatively stable in the long term. In 2021, although the share of finance-leasing companies in the sector's total assets fell by 1.3 pp year on year in favour of factoring and forfaiting companies, they remained the strongest representative of non-bank finance providers with a share of almost 77%. Finance-leasing companies recorded a year-on-year decrease in their assets by CZK 4.6 billion (1.4%) and other lending companies by CZK 0.6 billion (0.9%), whereas factoring and forfaiting companies increased their total assets by CZK 6.1 billion (24.8%).

33 The product portfolio of non-bank financing providers partly corresponds to the structure of bank loans (instalment sales, any-purpose loans, credit cards, revolving products) but they also have their own specific products or distribution models (leasing, peer-to-peer loans, reverse mortgages and various forms of online short-term borrowings). However, these entities are often linked by ownership and financially with the banking sector through financial groups.

34 The banking sector's assets in 2021 were CZK 8.6 trillion.

Table 5.14: Structure of assets by segments in the non-bank financing provider sector

As at 31 Dec		2016	2017	2018	2019	2020	2021	Year-on-year change	
								Abs.	(%)
Assets (CZK bn)	Financial leasing companies	301.4	322.7	335.1	345.3	327.9	323.3	-4.6	-1.4
	Other lending companies	59.5	63.9	66.2	66.7	66.7	66.1	-0.6	-0.9
	Factoring and forfaiting companies	22.5	25.3	27.2	25.9	24.7	30.8	6.1	24.8
Share of the sector's assets (%)	Financial leasing companies	78.6	78.3	78.2	78.8	78.2	76.9	-1.3	-1.6
	Other lending companies	15.5	15.5	15.5	15.2	15.9	15.7	-0.2	-1.1
	Factoring and forfaiting companies	5.9	6.1	6.4	5.9	5.9	7.3	1.4	24.5
Total assets (CZK bn)		383.4	411.9	428.6	437.9	419.3	420.2	0.9	0.2

Source: CNB – ARAD, MoF calculations

The total volume of lending within the sector (Table 5.15) increased slightly by 0.7% year on year to CZK 324.8 billion, with CZK 254.9 billion in loans to non-financial corporations and CZK 60.2 billion in loans to households. However, the overall increase was driven solely by loans from factoring and forfaiting companies, whose lending reached an all-time high of CZK 28.8 billion after strong 27% growth.

Table 5.15: Structure of loans by segments in the non-bank financing provider sector

As at 31 Dec		2016	2017	2018	2019	2020	2021	Year-on-year change	
								Abs.	(%)
Loans (CZK bn)	Financial leasing companies	219.0	234.2	243.6	254.5	249.7	246.3	-3.4	-1.4
	Other lending companies	44.9	48.9	51.6	51.1	49.9	49.7	-0.3	-0.6
	Factoring and forfaiting companies	20.1	23.2	25.1	24.0	22.8	28.8	6.1	26.6
Share of the sector's loans (%)	Financial leasing companies	77.1	76.5	76.1	77.2	77.4	75.8	-1.6	-2.1
	Other lending companies	15.8	16.0	16.1	15.5	15.5	15.3	-0.2	-1.3
	Factoring and forfaiting companies	7.1	7.6	7.8	7.3	7.1	8.9	1.8	25.7
Total loans granted (CZK bn)		284.0	306.2	320.3	329.6	322.4	324.8	2.3	0.7

Source: CNB – ARAD, MoF calculations

5.10 Household Indebtedness

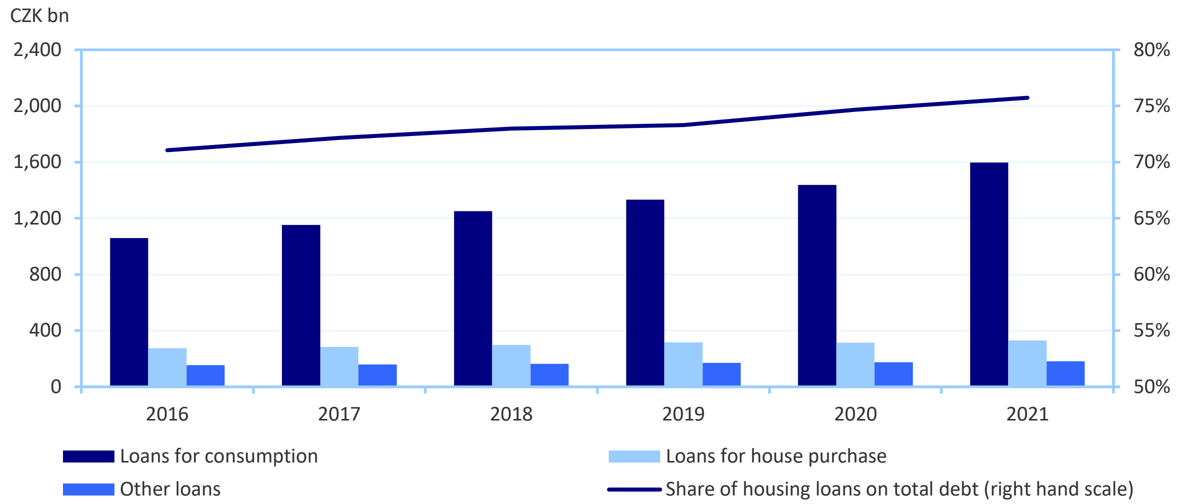
The share of households on total bank loans to clients rose steadily during the reporting period, climbing to a new high (53.1%). Households have thus long been a key client sector for banks, and it would therefore be appropriate to take a broader view beyond their relationship with the banking sector.

Total household indebtedness in relation to banks and non-bank financial institutions increased by CZK 183.3 billion to its highest ever level of CZK 2.1 trillion (Graph 5.13). The 9.5% year-on-year growth rate of total indebtedness was above the average for the reporting period (7.2%).

In terms of the structure of total indebtedness by purpose, the dominant housing loans (CZK 1.6 trillion[35]) were followed by consumer loans (CZK 329.6 billion) and other loans (CZK 182.4 billion), which mostly include loans granted to self-employed persons for business purposes. The year-on-year growth rate of housing loans rose again, this time by 3.1 pp to 11.1%, i.e. to a much higher value than the average growth rate for the reporting period (8.5%). After stagnating in 2020, loans for consumption grew by 5.1%, again well ahead of the average for the reporting period (3.9%). The growth rate of the volume of "other loans" (4.7%) also exceeded the average for the reporting period as a whole, which was 3.2%. The share of housing loans in total household indebtedness rose again by 1.1 pp year on year to 75.7%, and by 4.7 pp over the reporting period.

35 These data differ from indicators in Chapter 5.6 as they include not only mortgage loans but also all loans provided by building savings banks and consumer loans (all for the purpose of acquiring or investing in loans for residential housing, including the construction and improvement of residential property). Another reason for the difference in data is inclusion of loans provided to households (i.e. private individuals, sole traders, associations of apartment owners and non-profit institutions serving households) by non-bank financing providers.

Graph 5.13: Total household indebtedness

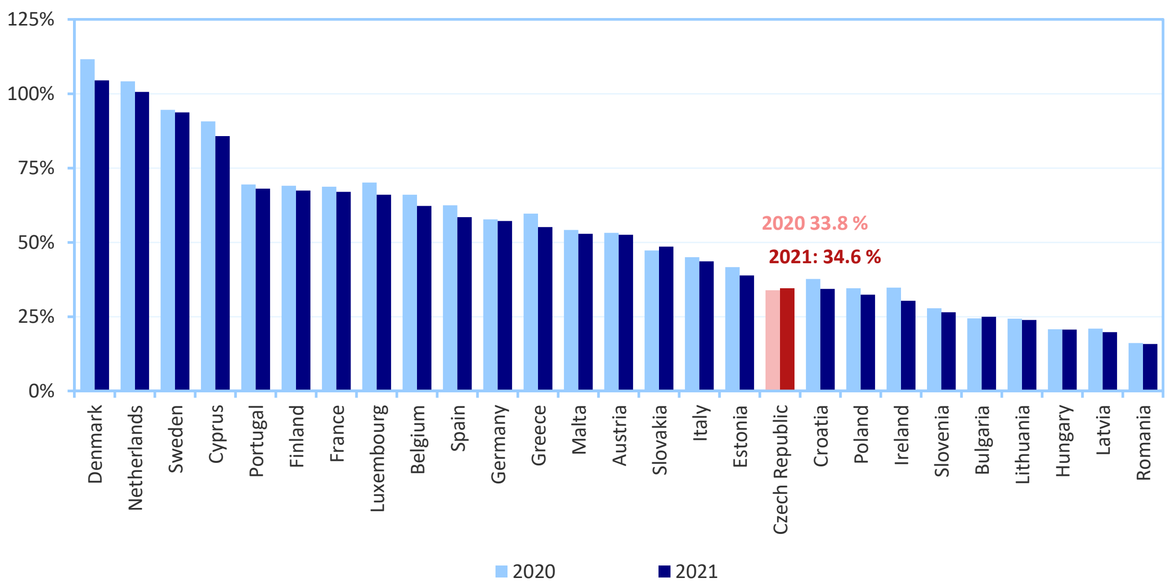


Source: CNB – ARAD, MoF calculations

Household indebtedness in the Czech Republic relative to GDP increased by 0.8 pp year on year to 34.6% of GDP.[36] Within the EU, the only other countries to record growth in this indicator were Bulgaria (by 0.5 pp) and Slovakia (by 1.3 pp). In the rest of the EU, economic recovery combined with trends in indebtedness contributed to a decline in household indebtedness relative to GDP.

The level of the household indebtedness in the Czech Republic remained relatively low compared to the rest of the EU (Graph 5.14), but the increase over the reporting period since the end of 2016 (3.6 pp) was relatively high compared to the rest of the EU. Only five countries recorded a higher increase than the Czech Republic – Germany (3.9 pp), Luxembourg (4.7 pp), Sweden (8.0 pp), France (10.0 pp) and Slovakia (10.3 pp). A number of countries, on the other hand, experienced significant declines during the period, notably Cyprus (30.4 pp), Ireland (22.5 pp) and Denmark (13.6 pp).

Graph 5.14: Volume of household indebtedness in countries in the EU relative to GDP



Source: ESRB

[36] 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 a year-on-year volatility resulting from the fluctuation of the exchange rate of the national currency in relation to the euro.

6 CAPITAL MARKET

6.1 Developments in Global Capital Markets

As in the second half of 2020, developments on global capital markets were mainly influenced by the effects of the easy monetary policy pursued by the global major central banks (see Chapter 1) and by hopes that the COVID-19 vaccination would have a positive economic impact.

All the stock market indices monitored (Table 6.1) recorded year-on-year growth in 2021. The global MSCI ACWI Standard index increased by 20.1% year on year, driven mainly by the growth of the main US equity index, the S&P 500 (up 26.9%), and in particular by a sharp rise in the share prices of the global technology companies included in it.

Also in the euro area, the Euro Stoxx 50 index saw strong growth (up 21.0%), while the main equity index in Germany (DAX) rose by 15.8%. The UK's main index, the FTSE 100, experienced recovery, gaining 14.3%, having exhibited the same rate of decline a year earlier. In contrast, Asian indices did not fare quite as well, with both China and Japan posting growth of just under 5%. Soaring energy and other commodity prices boosted Russian equities (up 15.1%). In Central Europe, the stock exchanges in Austria and the Czech Republic in particular performed well (up by around 39%). The indices in Hungary and Poland also rose by more than a fifth, while the main index of Slovak shares climbed by 15.1%.

Table 6.1: Annual performance of the global stock index and indices in selected countries

As at 31 Dec (%)	Index	2016	2017	2018	2019	2020	2021
World	MSCI ACWI	5.6	21.6	-10.4	25.2	14.1	20.1
United States	S&P 500	9.5	19.4	-6.2	28.9	16.3	26.9
China	SSE Index	-12.3	6.6	-24.6	22.3	13.9	4.8
Japan	Nikkei 225	0.4	19.1	-12.1	18.2	16.0	4.9
United Kingdom	FTSE 100	14.4	7.6	-12.5	12.1	-14.3	14.3
Russia	MOEX	26.8	-5.5	12.3	28.6	8.0	15.1
Eurozone	**Euro Stoxx 50**	**0.7**	**6.5**	**-14.3**	**24.8**	**-5.1**	**21.0**
Germany	DAX	6.9	12.5	-18.3	25.5	3.5	15.8
Austria	ATX	10.6	29.1	-19.7	16.1	-12.8	38.9
Poland	WIG	11.4	23.2	-9.5	0.2	-1.4	21.5
Czech Republic	**PX**	**-3.6**	**17.0**	**-8.5**	**13.1**	**-7.9**	**38.8**
Hungary	BUX	33.8	23.0	-0.6	17.7	-8.6	20.5
Slovakia	SAX	9.0	2.2	2.1	5.6	-1.7	15.1

Source: Market organisers, MoF calculations

Note: The figures show year-on-year changes in the closing prices of the given indices.

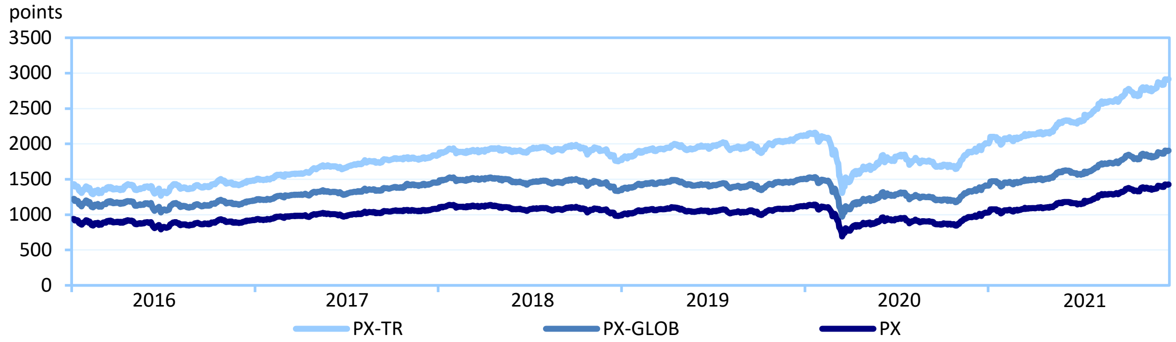
6.2 Regulated and OTC Market in the Czech Republic

In 2021, the Prague Stock Exchange's main equity index, the PX (Graph 6.1), registered its highest year-on-year growth rate (38.8%) since 2005, helped mainly by the favourable development of share prices in the international comparison of the over-represented banking and energy sectors.

The PX rose to 1,426.0 points, the highest level since 2008. Similarly, the PX-GLOB index, which includes all stocks traded on the PSE, posted a strong 35.3% year-on-year uptick. The last of the PSE indices monitored, the PX-TR, which takes into account not only capital appreciation but also other, mainly dividend yields, recorded an additional 6.6 pp growth compared to the main PX index.

The overall capitalisation of Prague Stock Exchange shares rose by 16.0% year on year. Comparisons across the reporting period and also of the developments in the main domestic issuers' capitalisation are hampered by the fact that selected foreign equities started to be traded in the Free Market segment in May 2018, which increased its size hundreds of times over and its share to more than 90% of the exchange's capitalisation. Therefore, in order to keep track of developments in the capitalisation of domestic, that is also more highly traded stocks, it is more appropriate to monitor the capitalisation of other segments with the exception of the Free Market segment, which grew by 19.5%. Cumulatively over the reporting period from the beginning of 2016, that figure increased by 26.7%.

Graph 6.1: Daily closing values of the PSE indices



Source: PSE

The total volume of stock exchange trades (Table 6.2) increased by 15.1% year on year, mainly due to the growth in the volume of shares, which was fuelled by their rising prices. The decline in the volume of trades in corporate bonds had the opposite effect. Year on year, both equities and corporate bonds thus continued along the path they had followed in 2020. However, the share of equities in the total trading volume fell slightly year on year to 90.8%, as there was a strong increase in trading in the still relatively marginal category of other assets, with 85% of trading coming from the subcategory of investment funds. Over the reporting period, despite growth in 2020 and 2021, total trading volumes fell by more than 10%.

Table 6.2: Volume of exchange trades on the PSE

Annual (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Shares	168.0	138.8	142.6	108.8	125.3	140.5	15.2	12.1
Corporate debt securities	4.2	6.2	9.2	11.9	8.5	7.0	-1.5	-17.7
Other assets[37]	0.2	0.4	0.3	0.3	0.6	7.2	6.6	1107.1
Total	172.4	145.3	152.0	120.9	134.4	154.7	20.3	15.1

Source: PSE, MoF calculations

The number of registered issues traded on the PSE increased by 27 year on year to 292 (Table 6.3), thus returning to the 2019 year-end level. This upswing was mainly driven by a reversal of the previous decline in the number of structured products, corporate bonds and investment funds. The decline in the number of financial sector bonds had the opposite effect.

Table 6.3: Number of registered issues on the PSE

As at 31 Dec	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Shares	25	23	53	54	55	55	0	0.0
Debt securities	115	116	112	118	105	110	5	4.8
of which: public sector	25	25	24	21	24	25	1	4.2
corporate sector	49	54	55	63	51	60	9	17.6
financial sector	41	37	33	34	30	25	-5	-16.7
Structured products	71	61	72	84	73	91	18	24.7
Investment funds	37	32	38	33	32	36	4	12.5
Other	-	-	3	3	-	-	-	-
Total	248	232	278	292	265	292	27	10.2

Source: PSE, MoF calculations

The volume of trades (Table 6.4) within the RM-S system (RM-SYSTÉM, Česká burza cenných papírů a.s.), which focuses mainly on retail investors, has long been lower than that on the PSE. Its year-on-year growth rate (5.9%)

[37] These include financial sector bonds, structured products (investment certificates and warrants) and investment funds.

was significantly lower than that of the PSE and registered a volume of CZK 4.8 billion. Despite the significant year-on-year growth rate in the volume of bond trading, its importance remained quite marginal.

Table 6.4: Volume of exchange trades on the RM-System

Annual (CZK mn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Shares	3,331.8	2,905.2	2,589.8	2,183.7	4,557.3	4,823.5	266.2	5.8
Debt securities	12.2	8.8	3.0	6.0	0.3	0.5	0.2	63.4
Total	3,346.6	2,917.4	2,599.5	2,190.4	4,557.7	4,824.8	267.1	5.9

Source: RM-S, MoF calculations

The volume of over-the-counter transactions settled within the Central Securities Depository (CSD) exceeded by an order of magnitude the activity of exchange trades throughout the reporting period (Table 6.5).[38] The year-on-year trend, with the exception of a decline in 2018, exhibited growth throughout the reporting period. This growth was at its highest for the reporting period in 2021, resulting in the peak value for the reporting period.

Table 6.5: Volume of OTC transactions within CSDP

Annually (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Total	2,137.0	5,180.7	3,202.7	4,365.3	4,897.7	9,125.1	4,227.4	86.3

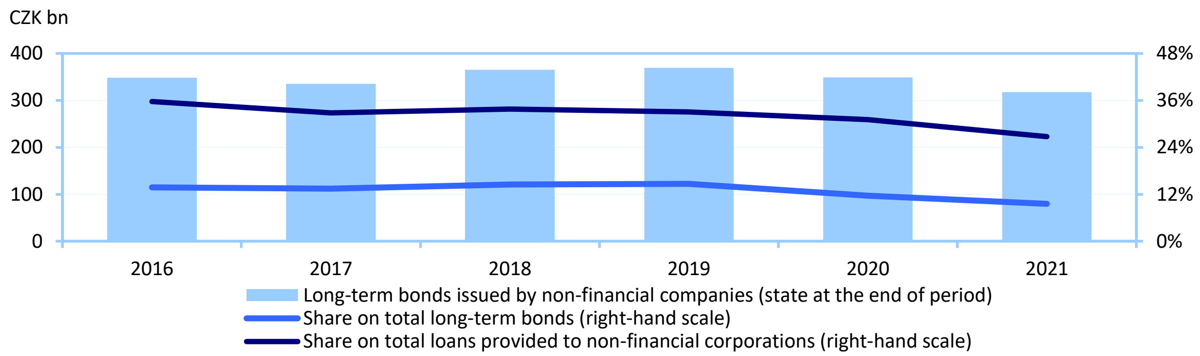
Source: CSDP, MoF calculations

6.3 Financing of Non-Financial Corporations by Long-Term Bonds

Long-term bonds represent an additional source of financing for non-financial corporations, i.e. manufacturing and trading companies, and an important segment of the capital market not covered in detail in the previous chapter. The total volume of long-term bonds issued by non-financial corporations fell year on year for the second year in a row, this time to CZK 317.7 billion, the lowest level during the reporting period (Graph 6.2). At the same time, the annual rate of decline rose by more than half (3.3 pp) to 8.9%. This development can be attributed to a continued combination of factors, including the year-on-year rise in interest rates, the receding economic uncertainty related to the effects of the COVID-19 pandemic, and the partial exhaustion of the potential for further growth in previous years, with the volume more than quadrupling between the end of 2008 and the end of 2019.

For the sake of comparison, the total volume of loans granted by banks to non-financial corporations was CZK 1.2trillion at the end of 2021 (see Chapter 5.5). Financing equivalent to 26.7% of the total volume of loans granted by the domestic banking sector were thus provided through long-term bonds. The decline in the value of this ratio over the reporting period (by 9.0 pp) was mainly due to a rise in bank lending by almost 22%, accompanied by a downturn in the volume of bonds by 8.8%.

Graph 6.2: Non-financial corporations long-term bonds – volume outstanding



Source: CNB – ARAD, MoF calculations

[38] As their reporting within the framework of the Prague Stock Exchange came to an end, over-the-counter transactions are now monitored more broadly at the Central Securities Depository.

6.4 Investment Firms and Asset Management

The volume of assets of domestic non-bank securities dealers fell by 18.5% to CZK 23.4 billion,[39] returning to the level at the end of 2018, which was the lowest in the reporting period (Table 6.6). In contrast, the volume of assets of branches of foreign entities increased (by 55.6%). In absolute terms, this increase (by CZK 0.5 billion) fell far short of offsetting the decline recorded among domestic non-bank securities dealers (down by CZK 5.3 billion). The share of foreign entities in total assets almost doubled year on year to 6.1%. However, domestic non-bank securities dealers still maintained their long-term dominance.

Table 6.6: Assets of the non-bank investment firms

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Domestic investment firms	23.7	24.1	23.4	25.8	28.6	23.4	-5.3	-18.5
Branches of foreign investment firms	0.5	0.5	0.3	0.5	1.0	1.5	0.5	55.6
Total	24.2	24.6	23.7	26.3	29.6	24.9	-4.7	-16.0

Source: CNB – ARAD, MoF calculations

The volume of assets under management of the Capital Market Association of the Czech Republic (AKAT) members increased by 10.6% to a total of CZK 1.8 trillion (Table 6.7). The growth rate was thus higher by approximately a half than the average for the reporting period (7.3%). Industry concentration did not change significantly year on year. The three largest asset managers, who are also AKAT members, continued to manage almost 56% of total assets. The five most significant entities accounted for more than 73%.

Table 6.7: Volume of assets under management by AKAT members

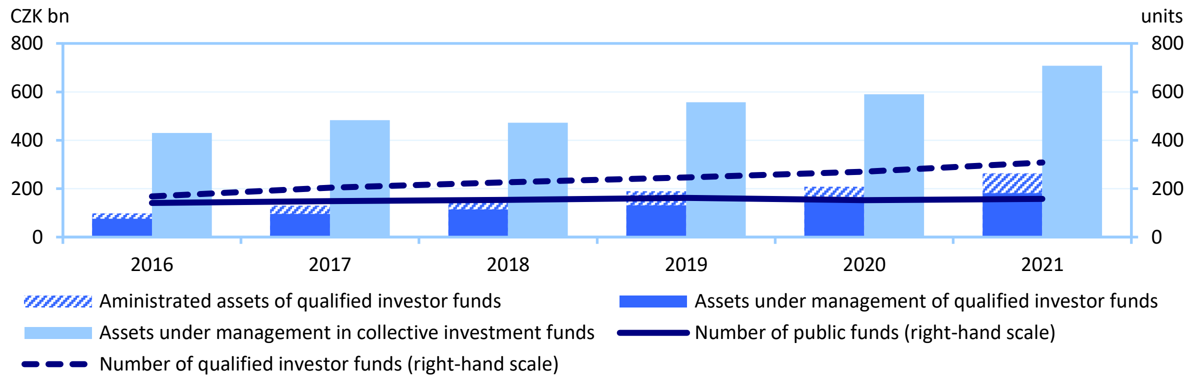
As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Total	1,288.4	1,378.1	1,368.1	1,565.0	1,655.8	1,831.7	175.9	10.6

Source: AKAT, MoF calculations

6.5 Investment Funds

The volume of assets under management in investment funds made up of collective investment funds and qualified investor funds[40] reached its highest level in the reporting period, CZK 889.5 billion, after strong growth of almost 21% year on year (Graph 6.3). This increase was fuelled by rising asset prices in global financial markets and by net inflows of client investments.

Graph 6.3: Structure of investment funds



Source: AKAT, CNB – ARAD

39 The CNB adjusted the scope of disclosure of information on the sector. This was first reflected in the Report on Financial Market Developments in 2019. Asset volumes are currently disclosed only for non-bank investment firms. In addition, the disclosure of certain categories of data, such as the volume of funds under management or client assets, has been suspended.

40 Collective investment funds collect funds from the public by means of investment fund share subscriptions or by issuing shares. They engage in joint investment or asset management. Qualified investor funds collect funds from professional clients to the extent of transactions or investment services relating to the securities on offer.

The volume of resources in collective investment funds increased by 20.0% year on year to a highest ever CZK 707.6 billion (Table 6.8). Of this, CZK 439.7 billion (62.1%) comprised domestic funds and CZK 267.9 billion (37.9%) was in foreign funds. Domestic funds grew by 17.2% year on year. The 24.8% increase in foreign funds was the highest in the reporting period, contrasting with average year-on-year growth of around 4% over the previous five years.

In terms of allocations to different types of mutual funds, differences between domestic and foreign funds persisted in 2021. The shares of individual fund types also changed significantly (Table 6.8). Among domestic funds, there was a decline in the share of domestic bond funds (by 5.0 pp to 22.2%) and a further strengthening of the still dominant mixed funds (by 2.5 pp to 46.0%) and equity funds (by 2.1 pp to 19.8%). After experiencing continuous growth, the share of domestic real estate funds reached a peak of 11.9% for the reporting period. Among foreign funds, equity funds increased their share significantly (by 45.9%), it was not until 2020 that they overtook mixed funds. Equity funds thus increased by 5.8 pp to 40.1% of the foreign fund portfolio, while mixed funds saw their share rise by only 0.5% to 31.8%. The share of bond funds fell the most, decreasing by 3.5 p.p. to 19.4%. The remaining funds accounted for 8.7%. This result reflected, among other things, the declining attractiveness and pricing of fixed-income bonds in an environment of rising inflation, together with the rising appreciation of equities and the related popularity of equity funds.

Table 6.8: Assets in individual types of unit trusts by domicile

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Domestic	**234.6**	**280.2**	**284.0**	**351.3**	**375.0**	**439.7**	**64.7**	**17.2**
Bond	70.7	71.1	60.1	106.6	102.0	97.6	-4.4	-4.3
Equity	33.6	44.3	46.2	51.2	66.5	87.0	20.6	31.0
Structured	0.3	0.2	0.0	0.7	0.7	0.7	-0.1	-7.5
Mixed	92.4	117.6	116.3	124.6	163.3	202.3	38.9	23.8
Funds of funds	20.0	24.1	24.8	30.0	0.0	0.0	0.0	-
Money market	0.5	0.4	6.8	0.0	0.0	0.0	0.0	-
Real estate	17.0	22.4	29.8	38.1	42.6	52.2	9.6	22.6
Foreign	**195.5**	**203.3**	**189.0**	**205.6**	**214.6**	**267.9**	**53.2**	**24.8**
Bond	53.4	47.6	39.6	45.7	49.1	51.8	2.8	5.7
Equity	47.7	55.0	53.7	64.3	73.6	107.4	33.8	45.9
Structured	27.2	26.7	24.0	23.8	20.5	19.2	-1.3	-6.2
Mixed	63.4	71.0	66.9	66.5	67.2	85.3	18.1	27.0
Funds of funds	0.2	0.3	0.3	0.3	0.0	0.0	0.0	-
Money market	2.6	2.2	4.1	4.5	3.5	2.8	-0.7	-20.7
Real estate	1.1	0.5	0.4	0.4	0.9	1.4	0.6	65.7
Total	**430.1**	**483.5**	**473.0**	**556.9**	**589.7**	**707.6**	**117.9**	**20.0**

Source: AKAT, MoF calculations

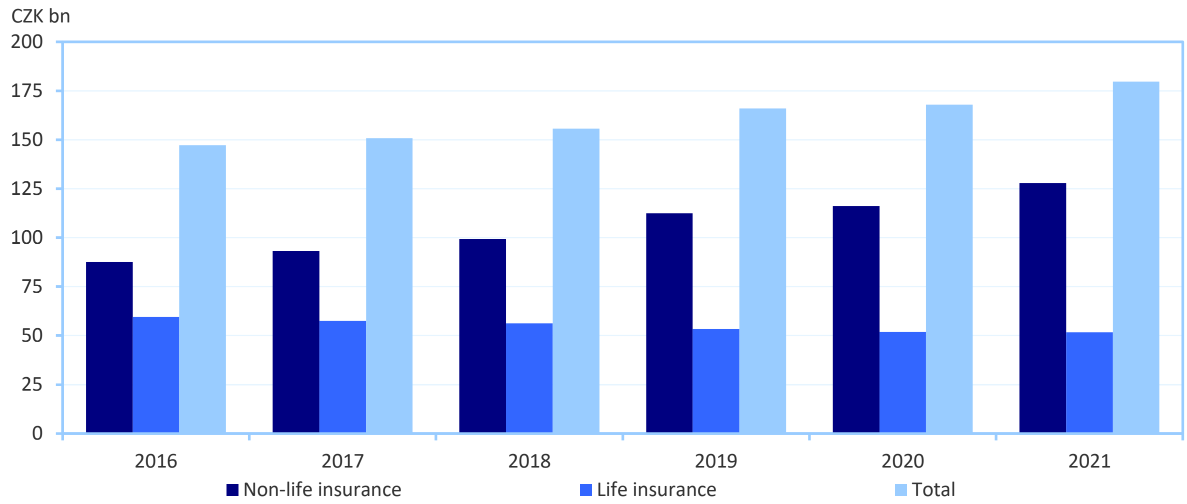
Qualified investor funds recorded a significant almost 25% year-on-year increase in the volume of funds under management by CZK 35.9 billion to CZK 181.9 billion (Graph 6.3), and thus increased their share in the total assets managed by the entire investment fund industry by a further 0.6 p.p. to 20.4%. Their share increased by 5.5 pp since the end of 2016. The volume of assets under administration also increased significantly year on year (by CZK 9.4 billion) to CZK 81.9 billion. Growth in both resources under management and assets under administration resulted in the highest volume of total resources managed and administered by qualified investor funds in the reporting period at CZK 263.8 billion, up by CZK 55.3 billion year on year. From 2016, total funds had kept to double-digit growth, reaching 26.5% in 2021. The share of assets under administration in the total assets of qualified investor funds rose by 7.8 pp since the end of 2016, hitting an all-time high of 31.0% in 2021.

7 INSURANCE

7.1 Insurance Companies

In terms of gross premiums written, the insurance sector reported growth in 2021, continuing the upward trend started in 2017. The overall year-on-year growth in premiums (6.9%) was driven by growth in the non-life insurance segment (10.1%), while the life segment saw a slight decrease in volume (0.3%). The life insurance segment thus continued its downward trend, although the year-on-year decrease in premiums was lower than in previous periods. In absolute terms, the total volume of gross premiums written was CZK 179.6 billion (Graph 7.1). Gross premiums written in life insurance amounted to CZK 51.7 billion, with CZK 9.7 billion attributable to single-premium contracts. Gross premiums written in the non-life insurance segment totalled CZK 127.9 billion. The most significant contributor to the increase in premiums written was the growth in premiums for income protection insurance (11.3%), followed by motor insurance (8.5%) and fire and other property damage insurance (7.9%). Despite the relatively higher annual growth rate of gross premiums written as a result of the economic recovery, the total insurance penetration ratio declined almost imperceptibly to 2.9% of GDP in 2021.

Graph 7.1: Volume of gross premiums written



Source: CNB – ARAD

Although the life insurance segment recorded only a slight year-on-year decline in gross premiums written, the continued growth of the non-life segment led to a change in the market shares of both segments. At the end of 2021, the ratio was 72:28 in favour of the non-life segment, further widening the gap between the gross premiums written of the two insurance market segments. In the long term, the trend of the dominance of the non-life insurance segment in the Czech insurance market was thus confirmed. This is the opposite of developed countries in Western Europe, where the life insurance segment dominates. The other Visegrad Four countries also reported a higher share of non-life insurance in the insurance market.[41]

In connection with the total number of insurance contracts, an increase of 5.5% in relative terms was identified in the life insurance segment (Table 7.1). A similar trend was observed in the category of newly concluded policies, which recorded annual growth of 6.6%. This development thus interrupted the declines in the number of life insurance contracts recorded during the reporting period.

The non-life insurance segment experienced an increase of 7.5% in the total number of insurance contracts. The number of new contracts concluded went up by 6.1%. Thus, in categories tracking the number of contracts, there was an increase. This replaced decreases in the number of contracts in 2020 and newly concluded policies in 2019 and 2020.

The last main indicator, gross claims costs, increased year on year in both insurance segments (Table 7.1). In total, these costs came to CZK 101.9 billion, equating to year-on-year growth of CZK 9.9 billion. The non-life

[41] According to EIOPA statistics, the shares of non-life and life insurance in other European countries at the end of 2021 were as follows: France 36:64; Germany 34:66; Hungary 55:45; Slovakia 56:44; Poland 68:32.

insurance segment made a greater contribution, increasing by almost CZK 8 billion. The growth in the volume of non-life insurance claims paid was mainly due to an increase in the volume of damage caused by the natural elements (Graph 7.2).

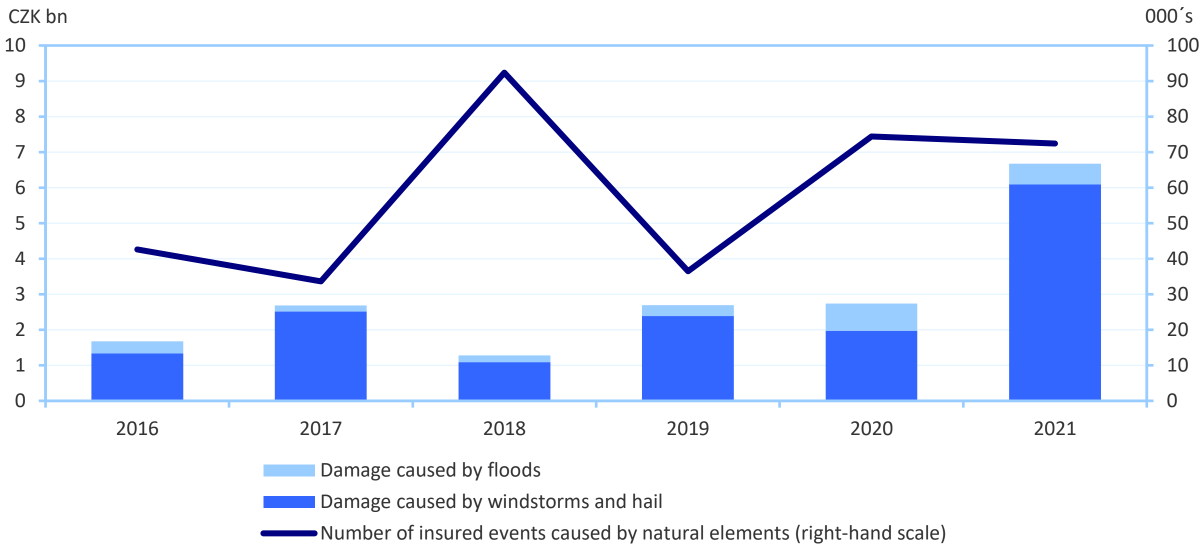
Table 7.1: Main indicators of the insurance market

As at 31 Dec	2016[42]	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Policies (000's)	27,119	27,945	28,789	28,514	28,362	30,389	2,027	7.1
of which: non-life insurance	21,099	22,080	23,031	23,144	23,098	24,836	1,738	7.5
life insurance	6,020	5,865	5,758	5,370	5,264	5,553	289	5.5
Newly concluded policies (000's)	11,353	12,006	13,138	12,651	9,584	10,173	589	6.1
of which: non-life insurance	10,669	11,372	12,516	12,108	9,120	9,679	559	6.1
life insurance	684	634	621	543	464	494	31	6.6
Total gross premiums written (CZK bn)	147.2	150.8	155.6	165.9	168.0	179.6	11.6	6.9
of which: non-life insurance	87.6	93.2	99.4	112.5	116.1	127.9	11.8	10.1
life insurance	59.6	57.6	56.2	53.4	51.8	51.7	-0.1	-0.3
Gross claim costs (CZK bn)	95.7	96.6	92.6	101.2	92.0	101.9	9.9	10.8
of which: non-life insurance	50.6	53.9	49.4	58.0	54.5	62.3	7.9	14.4
life insurance	45.1	42.6	43.2	43.2	37.5	39.6	2.1	5.5
Total insurance penetration (%)	3.1	3.0	2.9	2.9	3.0	2.9	-0.04	-1.3

Source: CNB – ARAD, MoF calculations

Figures from the Czech Insurance Association (CIA) show that although the total number of loss events caused by the natural elements decreased by 7.9% year on year, their total volume increased by 147.4% to CZK 6.8 billion (Graph 7.2). The largest contributor to the jump in the volume of claims was windstorm and hail, which increased by 209.2% year on year to CZK 6.1 billion. The volume of damage in this category thus rose to its highest level since 2013. This development was mostly influenced by a tornado that struck South Moravia in June. A less significant category was flood damage, which accounted for 8.6% of the total volume of damage caused by the natural elements. In a year-on-year comparison, there was a reduction in both the volume of claims (by 24.5%) and the number of insurance claims (by 25.6%) in this category.

Graph 7.2: Insured events caused by natural elements



Source: Czech Insurance Association, MoF calculations

42 Due to the different methodology (reporting by type of insurance in accordance with the Solvency II requirement), the 2016 data are not entirely consistent with the previous time series.

Total assets in the insurance sector increased by 6.7% to CZK 526.2 billion in 2021 (Table 7.2). The year-on-year growth rate of total assets was the highest since 2013, increasing by 5.5 pp compared to 2020. The most significant asset item, the volume of investments for which the policyholder does not bear the investment risk, saw only a slight increase of 1.2% year on year. Their share of total assets was 62.5%. The increase in investments where the policyholder bears the investment risk also contributed to a growth in assets. These investments were the second most significant asset item (with a share of 21%) and increased by 10.6% compared to the previous year. In terms of technical provisions (i.e. the liability side of the balance sheet), a 3.5% increase was identified. The reserve for unearned premiums increased by 10.1% year on year, with both life (16.6%) and non-life (9.9%) insurance reserves contributing to the increase. The life insurance reserve recorded a slight increase of 2.5%, replacing the decline started in 2015. There was also a 4.1% year-on-year increase in the reserve for outstanding claims, with positive contributions from both the life and non-life insurance segments (14.1% and 2.0% respectively).

Table 7.2: Main items of the balance sheet and profit and loss account of the insurance market

As at 31 Dec (CZK bn)	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Total assets	**491.8**	**511.7**	**520.1**	**487.1**	**493.0**	**526.2**	**33.2**	**6.7**
Investments	346.7	355.0	364.9	326.1	324.7	328.7	4.0	1.2
of which bonds and other fixed-income securities	274.4	259.2	253.8	238.9	240.8	245.5	4.7	1.9
Investments where policyholders bear the investment risk	88.2	93.3	88.2	98.3	100.1	110.7	10.6	10.6
Technical provisions	**270.4**	**266.3**	**257.1**	**250.0**	**249.7**	**258.4**	**8.8**	**3.5**
of which: provision for unearned premiums	25.8	24.7	26.1	27.7	28.9	31.8	2.9	10.1
life insurance provision	171.2	164.5	157.6	151.2	148.8	152.6	3.7	2.5
outstanding claims provision	61.9	65.7	62.3	61.2	61.2	63.8	2.5	4.1
Profit or (-) loss before tax	**13.2**	**10.4**	**17.4**	**20.1**	**17.8**	**30.9**	**13.1**	**73.6**
Result of technical account for non-life insurance	3.4	0.4	6.5	4.1	8.4	16.2	7.8	93.3
Result of technical account for life insurance	8.5	8.8	9.4	10.1	8.3	14.4	6.1	72.7

Source: CNB – ARAD, MoF calculations

From an economic point of view, the insurance sector reported a profit of CZK 30.9 billion in 2021 (Table 7.2). This represents an increase of 73.6% year on year and the highest profit for the insurance sector since 2008. The result of the technical account for life insurance increased by 72.7%, mainly due to an increase in investment income (47.6%) and a simultaneous decrease in investment expenses (8.8%). This result was also affected by a significant rise in the value of investment income related to non-recurring accounting transactions following the consolidation of one group operating in the insurance sector. The technical account result for non-life insurance also posted strong growth (93.3%). This result was mainly due to growth in premiums written (7.8%), which outpaced the rate of growth in gross claims costs (4.1%). However, there was also an extraordinary effect from the transfer of investment income from the non-technical account in connection with the realisation of the sale of an equity holding in one of the entities.

The profitability of the insurance sector is largely determined by the ability of individual insurers to detect insurance fraud. Czech Insurance Association figures show that insurers investigated a total of 11,407 suspicious insurance claims in 2021 (Table 7.3). Of the total number of claims investigated, CZK 1.2 billion of insurance fraud was detected, resulting in a slight 1.4% increase in the volume of fraud detected. However, the average amount of insurance fraud detected went down year on year by CZK 39.1 thousand to CZK 249.2 thousand. Although there was a year-on-year decrease in the average amount of fraud detected, from a long-term perspective, there had been an increase in the average amount in the preceding years, confirming the use of sophisticated fraud detection methods. Compared to 2015, the average amount of fraud in 2021 was almost CZK 100,000 higher.

Table 7.3: Development of investigated and detected insurance fraud

As at 31 Dec	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Volume of detected fraud (CZK thousands)	1,218.1	1,196.5	1,298.8	1,133.2	1,231.4	1,248.9	17.5	1.4
Average amount (CZK)	146,459	196,305	232,225	230,653	288,306	249,180	-39,126	-13.6
Suspicious incidents (pcs)	16,043	18,141	10,325	8,474	9,632	11,407	1,775	18.4

Source: Czech Insurance Association, MoF calculations

7.2 Insurance Intermediation

The total number of persons authorised to intermediate insurance[43] decreased significantly year on year and ended 2021 at approximately 31,000. Compared to 2020, the total number fell by more than 7,000, with reductions in the number of intermediaries recorded in all categories monitored (Table 7.4). Starting in 2019, the number of insurance intermediaries was significantly affected by changes in the regulatory framework for insurance and reinsurance distribution[44] that were adopted in 2018. These changes resulted in a decline in persons authorised to intermediate insurance and reinsurance between 2018 and 2019. At the end of 2018, more than 185,000 licences were recorded for the year as a whole, 95% of which were for individuals.

Table 7.4: Number of insurance intermediaries

As at 31 Dec	2019	2020	2021	Year-on-year change	
				Abs.	(%)
Independent intermediaries	1,164	1,121	829	-292	-0.3
Tied agents	35,049	34,648	28,473	-6,175	-0.2
Supplementary insurance intermediaries	2,268	2,232	1,575	-657	-0.3
Total	38,481	38,001	30,877	-7,124	-0.2

Source: CNB – JERRS, MoF calculations

[43] Besides insurance intermediaries, persons in the position of policyholders may also offer insurance to customers on a commercial basis (fleet insurance). Insurance companies are required to register these persons with the CNB; the CNB does not publish their numbers.

[44] Act No 170/2018 on insurance and reinsurance distribution, as amended.

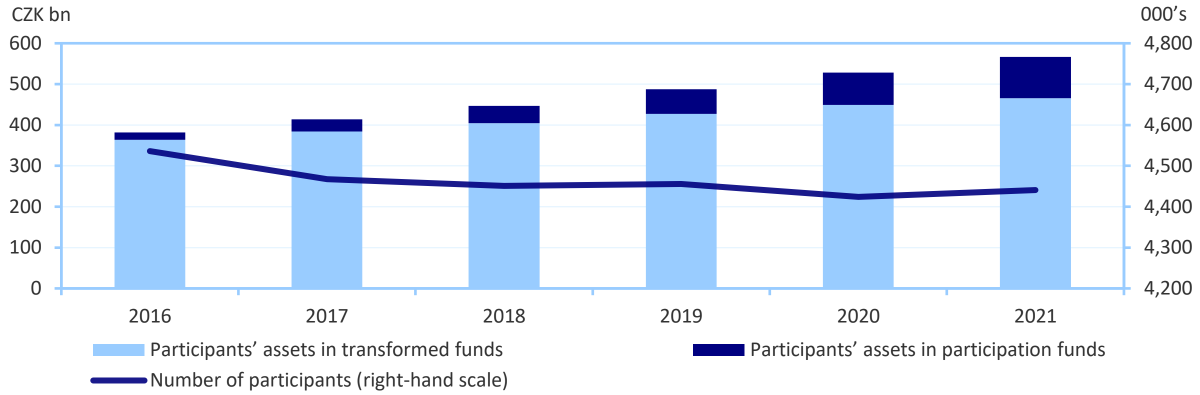
8 PRIVATE PENSION SYSTEM

8.1 Supplementary Pension Insurance and Supplementary Pension Savings

Participants' Assets and Number of Participants

Under the third pension pillar,[45] which consists of supplementary pension insurance scheme and supplementary pension savings scheme, participants' assets under management amounted to CZK 566.7 billion at the end of 2021 (Graph 8.1), after having grown by 7.4% year on year, i.e. by 1.0 pp lower than in 2020. The bulk of the assets continued to be placed in transformed funds, with their volume of CZK 465.8 billion accounting for approximately 82% of total assets. In the context of the reform of the private pension system in 2013, participants in the supplementary pension insurance scheme were automatically transferred to these funds, while the original terms and conditions of their supplementary pension insurance contracts were preserved (in particular the guarantee of non-negative appreciation). No new participants can enter the transformed funds, and, since 2013, under the third pension pillar it is only possible to enter the supplementary pension savings system, in which participants' assets increased by CZK 22.4 billion to CZK 100.9 billion in 2021.

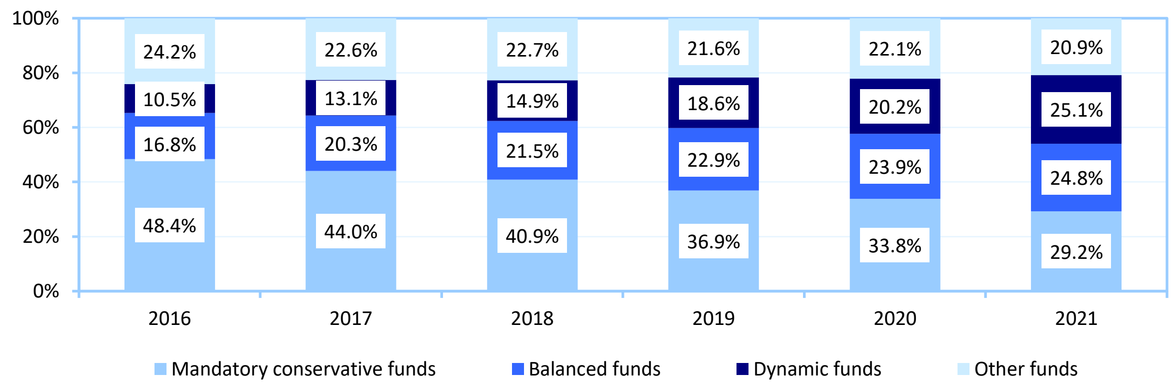
Graph 8.1: Participants' assets and number of participants in Pillar III



Source: APS CR, MoF

Under the supplementary pension savings system, participants' assets are placed in selected participation funds, according to the investment strategy chosen in advance by the participants from what is offered by the pension management company. In terms of the distribution of assets under management in the different types of participation funds in 2021, mandatory conservative funds still held the highest share (Graph 8.2), but funds with less conservative investment strategies that invest at least part of their resources in equities, i.e. balanced and dynamic funds, gradually increased their share of total assets. Dynamic and balanced funds have increased their share by 23 pp since 2016, and in 2021 they accounted for almost half of all assets of supplementary pension savings participants.

Graph 8.2: Structure of participants' assets managed in different types of participation funds



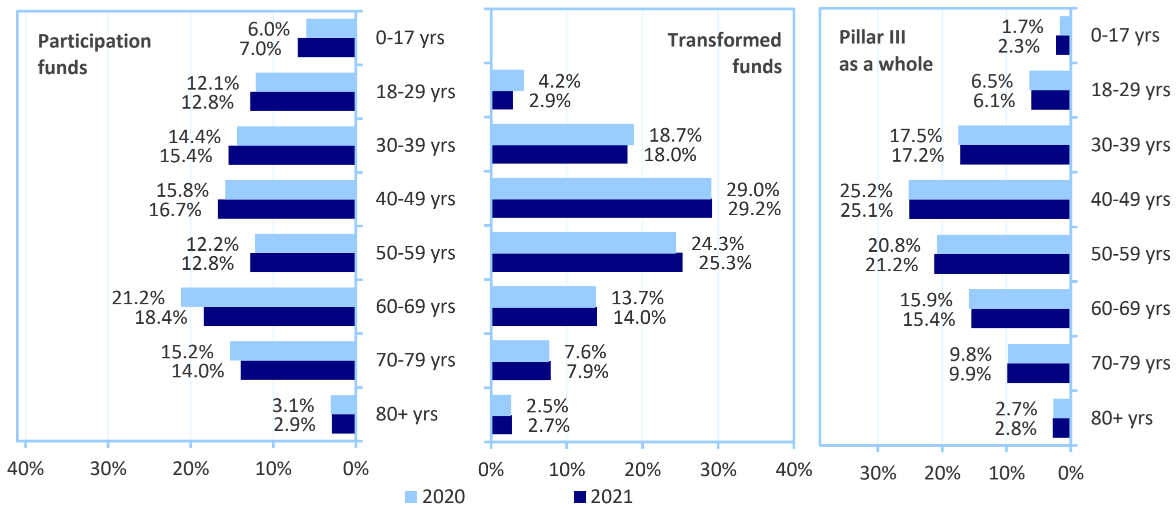
Source: APS CR, MoF calculations

45 Pillar I represents a mandatory pay-as-you-go pension system financed by the state. Pillar II, which was represented by voluntary retirement savings scheme, was started in 2013 and in 2016 was discontinued.

The total number of participants in the third pension pillar increased year on year by 0.4% (almost 16,800 persons) to 4.44 million (Graph 8.1). This was the highest absolute and relative increase so far since the reform of the private pension system in 2013. Almost 256,000 new participants joined participation funds during 2021, the highest number in the history of these funds. The total number of participants in participation funds thus rose to 1.45 million people; this 14.3% increase was 1.7 percentage points higher than in 2020. Conversely, the number of participants in transformed funds fell at the same 5.2% rate as in 2020 to 2.99 million.

In terms of the age structure of participants in the third pension pillar as a whole, participants aged 40 to 49 years were, as usual, the most represented bracket, accounting for 25.1% (Graph 8.3). The age structure of participants in the supplementary pension savings system continued to grow younger, with the share of participants aged 49 and under among new entrants continuing to rise, reaching 63.4%, almost 26 pp higher than in 2016. Among these new entrants, participants up to the age of 17 again increased their representation, accounting for 7.0% of all participants in participation funds at the end of 2021.

Graph 8.3: Age structure of participants in Pillar III

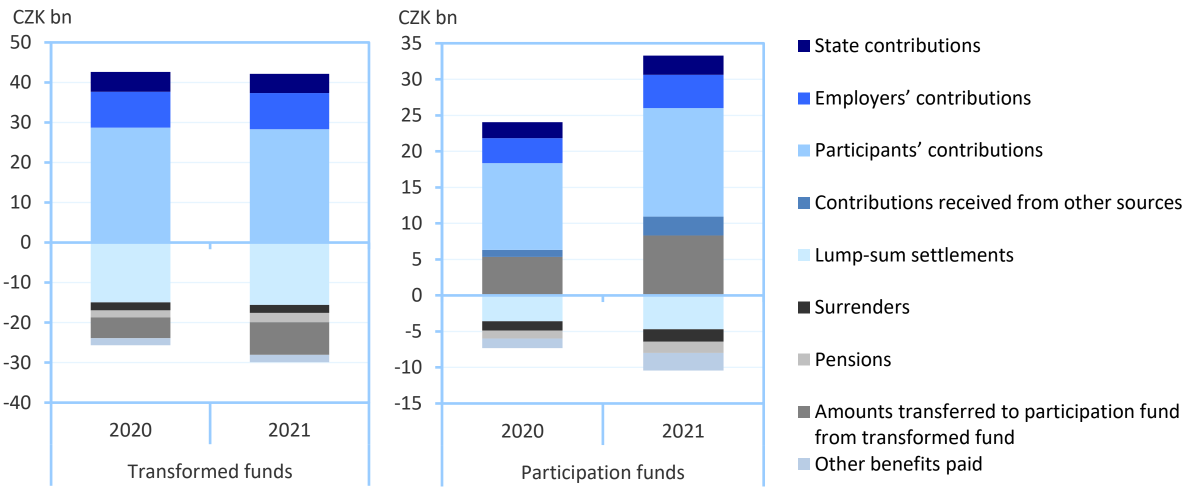


Source: MoF

Contributions and Benefits

Transformed funds again recorded a decrease in the balance between funds received and disbursed because of the discontinued admission of new participants. In contrast, among participation funds, assets received increased by CZK 9.3 billion year on year and significantly exceeded the volume of disbursements (Graph 8.4). The increasing number of new participants in the supplementary pension savings system fuelled a rise in the annual volume of participants' own contributions to CZK 15.1 billion, a rate about 5 pp higher (25.1%) than in 2020.

Graph 8.4: Contributions received and benefits paid in transformed and participation funds



Source: CNB – ARAD, MoF calculations

The volume of employers' contributions remained almost unchanged in the case of transformed funds (CZK 9.0 billion), while in the case of participation funds they increased by 0.8 pp higher growth rate compared to 2020, namely by 34.7% to CZK 4.6 billion. The structure of contributions received and how it evolved was similar for both types of funds, with the share of participants' own contributions falling gradually to around 67.3%, while the share of employers' contributions increased on average to 21.2%, with the remaining 11.5% of contributions received coming from state contributions.

71.5 % of payments from transformed funds[46] took the form of lump-sum settlements, the share of which fell slightly (by 1.3 pp) compared to 2020, while the share of pensions paid out increased by 1.9 pp year on year to 10.8 % and by 5.7 pp compared to 2016. In the case of participation funds, lump-sum settlements accounted for 45.0% of all payouts in 2021, while the share of pensions decreased by 0.3 pp year on year to 14.8% and by 4.0 pp compared to 2016.

In 2021, the average monthly participant's and employer's contribution levels for both transformed and participation funds experienced below-average absolute and relative increases from the perspective of the reporting period. The average monthly participant's contribution in the supplementary pension insurance system increased by CZK 27 to CZK 781, while the average monthly participant's contribution in the supplementary pension savings system was up by only CZK 17 to CZK 829 (Table 8.1). This continued the trend, started in 2018, of the gradual convergence of the average participant's contribution in the supplementary pension insurance system to the average amount saved by participants in the supplementary pension savings system (Graph 8.6).

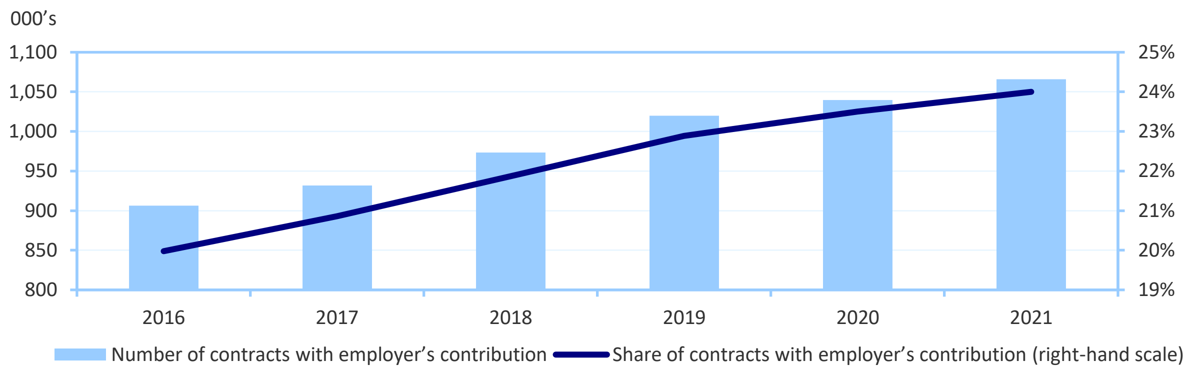
Table 8.1: Average monthly contributions in transformed funds (TF) and participation funds (PF)

	Average CZK/month	2016	2017	2018	2019	2020	2021	Year-on-year change	
								Abs.	(%)
TF	Participant's contribution	606	624	680	722	754	781	27	3.6
	Employer's contribution	770	837	877	914	1,017	1,055	38	3.7
	State contribution	124	120	128	133	137	140	3	2.2
PF	Participant's contribution	741	776	790	800	812	829	17	2,1
	Employer's contribution	846	885	973	989	1,099	1,143	44	4.0
	State contribution	156	159	160	160	161	161	0	0.0

Source: APS CR, MoF

For the sixth consecutive year, the number of participants whose employer contributed to their retirement savings in the third pension pillar increased year on year. At the end of 2021, a total of approximately 1,065,800 participants had employer's contributions currently being paid in their pension account (Graph 8.5), representing a 2.5% year-on-year increase and 17.6% more participants than in 2016. However, the growth rate of the share of these participants in the total number of participants slowed down again, with the share of contracts with an employer's contribution increasing by only 0.5 pp year on year to 24.0%. For economically active participants aged 18 to 64, the share of contracts with employer's contributions was 30.1%, with the highest share traditionally reported among participants aged 50 to 59 (35.0%).

Graph 8.5: Number of contracts in Pillar III with an employer's contribution

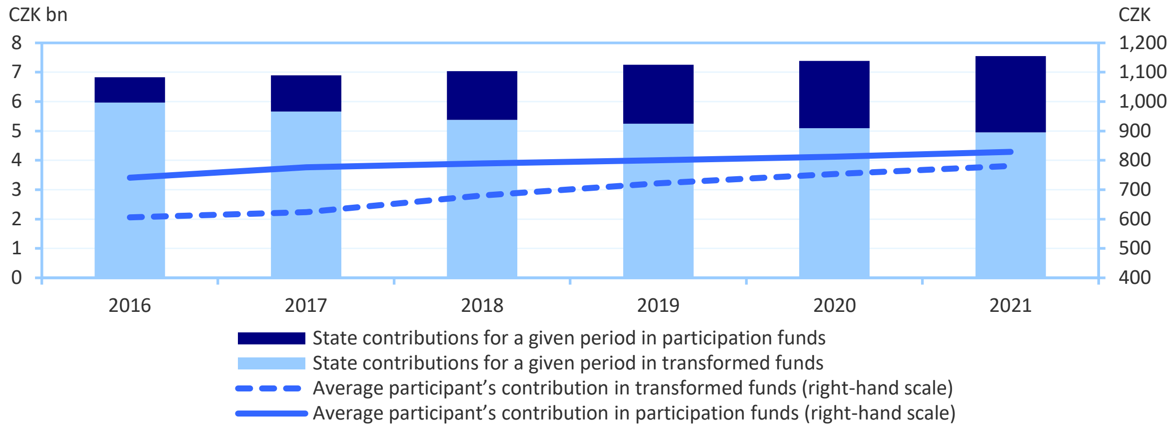


Source: MoF

[46] Excluding amounts transferred to participation funds.

The total amount of state contributions made for participants in the supplementary pension insurance and supplementary pension savings systems increased by CZK 160 million to CZK 7.6 billion in 2021 (Graph 8.6). Contributions paid to participants in the supplementary pension savings system accounted for 34.4% of this total direct state support.

Graph 8.6: State contributions and average monthly participant's contribution in transformed and participation funds



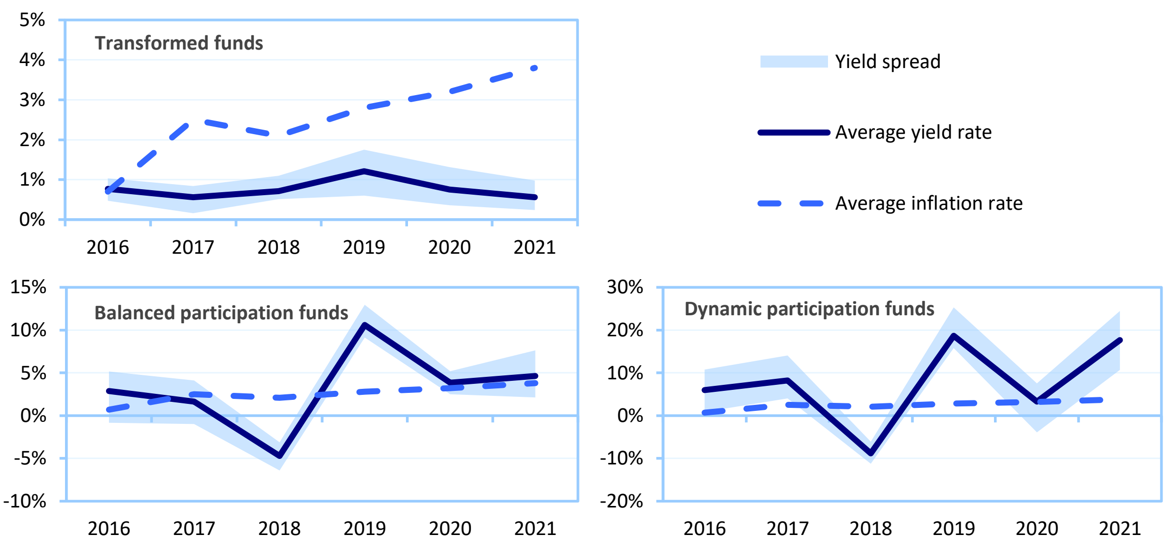
Source: MoF

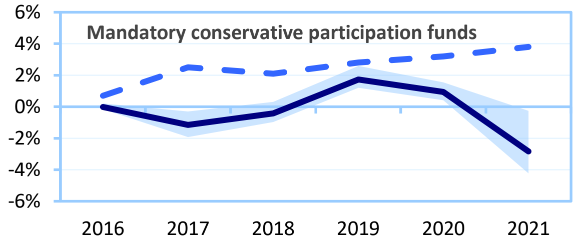
Profitability and Allocation of Pension Funds' Assets

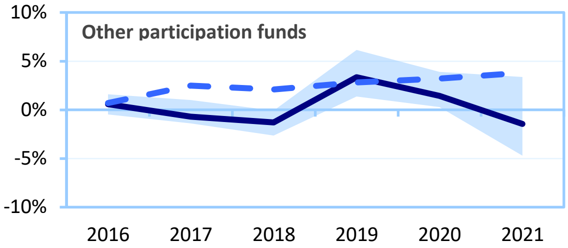
Compared to 2020, the overall economic result reported for pension funds decreased by 20.1% to CZK 4.6 billion. This was due to a year-on-year decrease in the profit of the transformed funds by almost 44% as a result of a decline in the value of the bonds to which the majority of the funds' resources had been allocated (Graph 8.8). In contrast, participation funds reported the second highest result since they came into existence (CZK 2.4 billion). In 2021, financial market developments in favour of more dynamic strategies meant that participation funds accounted for 53.3% of total pension fund profits, even though only 17.8% of all assets in the third pension pillar were held in participation funds.

By the end of 2021, most balanced participation funds and all dynamic participation funds had managed to outperform the average annual inflation rate of 3.8% with average yield rates of 4.6% and 17.7% p.a. respectively. For both types of funds, this was their second highest average yield rate since 2013. By contrast, mandatory conservative participation funds posted their worst performance ever, with none of them delivering a positive return to their participants and their average yield rate falling to -2.8% p.a. amid rising interest rates, which resulted in a decline in the value of the bonds that make up the bulk of the mandatory conservative funds' portfolios. In 2021, as in 2017 to 2020, none of the transformed funds offered appreciation in excess of the annual average consumer price index increase (Graph 8.7). In terms of average returns, the transformed funds repeated their worst performance from 2017 (0.56% p.a.).

Graph 8.7: Average yield rate in different types of pension funds



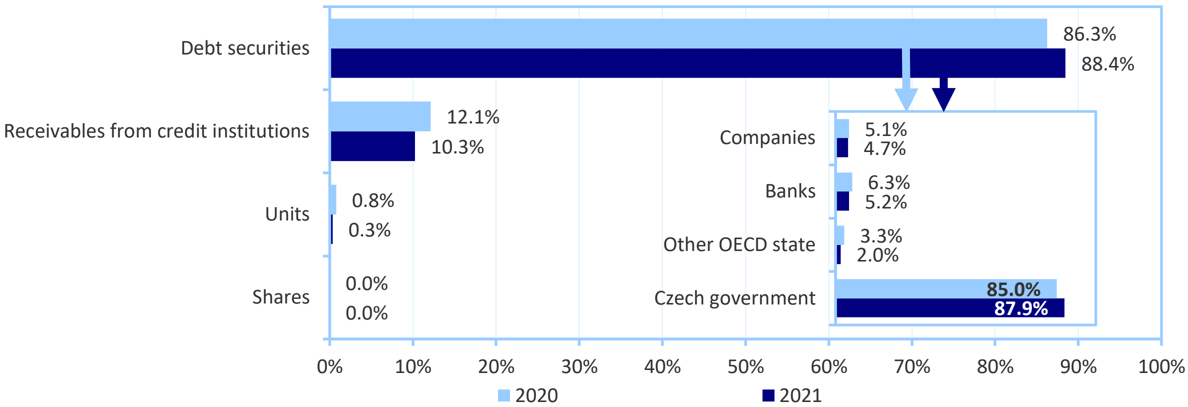




Source: APS CR, MoF calculations

Within the very conservative investment portfolio of the transformed funds, as in 2020, there was a slight increase in the share of debt securities (especially at the expense of receivables from credit institutions) and an increase in the share of Czech government bonds and treasury bills in the portfolio of securities held (Graph 8.8).

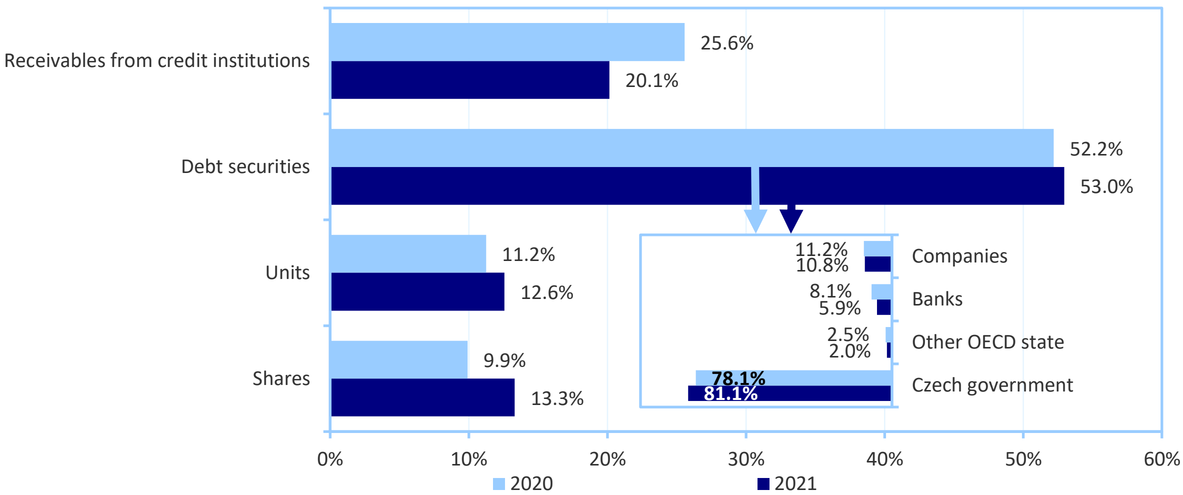
Graph 8.8: Allocation of transformed funds' assets and structure of debt securities according to their issuers



Source: CNB – AR MoF calculations

In the investment portfolios of participation funds, there was a more pronounced decline in the share of deposits placed with credit institutions than in the case of transformed funds, not only in favour of debt securities, but also in the increased volume of riskier asset classes taking the form of units and shares (Graph 8.9). This was fuelled in part by the significant appreciation of these instruments during 2021, which was reflected in the increase in their valuation in the balance sheets of participation funds. In the debt securities portfolio, government bonds issued by the Czech Republic again slightly strengthened their predominance.

Graph 8.9: Allocation of participation 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 A2.3 and A2.4 in Appendix 2.

8.2 Pension Management Companies

Pension management companies have been active on the financial market since 2013 as administrators of assets registered in the personal pension accounts of participants in participation and transformed funds. After stagnating in 2020, profit before tax from ordinary activities in the pension management company sector rose by 11.6% to CZK 2.6 billion in 2021 (Table 8.2), helped in particular by a significant increase in remuneration to pension management companies for the appreciation of fund assets, i.e. by almost 65% to CZK 0.9 billion.

The ratio of pension management companies' regulatory capital to their total capital requirement trended upwards over the reporting period, reaching an all-time high of 254.8% in 2021. This was attributable both to a slight increase in the volume of capital and, in particular, to a decrease in the capital requirements of pension management companies due to a change in the structure of the portfolio of transformed funds towards safer instruments in terms of risk weights (see Graph 8.8).

Table 8.2: Selected indicators of the pension management company sector

As at 31 Dec	2016	2017	2018	2019	2020	2021	Year-on-year change	
							Abs.	(%)
Profit or (-) loss before tax (CZK bn)	1.4	1.6	1.7	2.3	2.3	2.6	0.3	11.6
Equity, total (CZK bn)	8.9	9.0	9.3	10.4	12.5	12.8	0.3	2.4
Capital ratio (%)	119.9	139.7	153.8	167.8	215.9	254.8	39.0	18.1

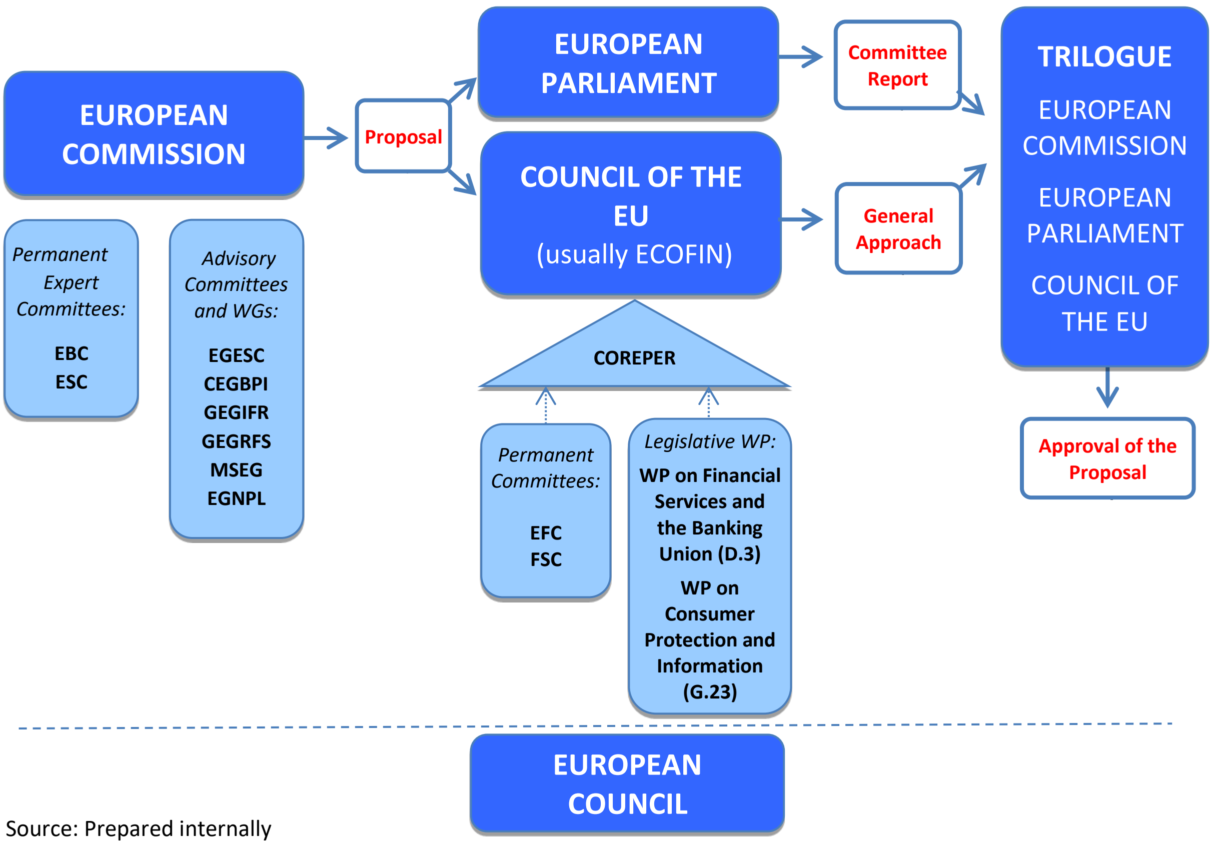
Source: CNB – ARAD, MoF calculations

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. Scheme 9.1 provides a basic description of this process. The preparation of legislative proposals falls within the competence of the European Commission (the "Commission"), which holds an "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 parties. The Commission's proposals are subsequently finalised, published on the Commission's website, and forwarded for the 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 the Committee on Economic and Monetary Affairs – ECON Committee). The output from the discussions is the approved Committee Report that includes a proposal for amendments to the Commission´s proposal. As far as the Council is concerned, the proposals are discussed by the representatives of the Member States within the relevant working party (WP) (in the case of financial services it is the D.3 WP on Financial Services and the Banking Union), and various ad hoc working parties that are established as required. The result from the meetings consists of a proposal of revised version that is submitted for approval in the form of a General Approach, first to the Permanent Representatives Committee (usually COREPER II), and then to the Council (most often in its ECOFIN configuration). The General Approach and the Report prepared by the appropriate committee of the European Parliament are the input materials for a "trilogue" – 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. More details about the individual proposals for directives and regulations are provided in Chapter 9.3.

Commission

The Commission is one of the EU's organs, which acts independently of the Member States and promotes 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 decision making levels and it has the largest administrative and expert apparatus of the EU institutions. 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 take legal actions if any breach of these treaties is discovered. Another key competence of the Commission consists of its participation in the EU 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), countries of the European Free Trade Association (EFTA) and European Economic Area (EEA), and the candidate countries for EU membership participate as observers.

Permanent Expert Committees

European Banking Committee (EBC)

The EBC acts as the Commission's advisory body during the preparation of EU implementing acts in the banking sector. The committee did not meet in 2021; there were only two silent written procedures. In June 2021, a silent procedure was held on a proposal for a Commission implementing decision that would extend transitional periods for the application of capital requirements to exposures to central counterparties. Since the process of the authorisation of existing central counterparties as qualified central counterparties had not yet been completed, an extension of the transitional period to 28 June 2022 was approved. In September 2021, silent procedure was held on a proposal for a Commission implementing decision concerning the list of third countries whose supervision and regulation requirements are equivalent for the purposes of access to exposures in accordance with the CRR.[47] Bosnia and Herzegovina and North Macedonia were proposed for the list of such third countries. This Commission Implementing Decision was subsequently adopted under number 2021/1753.

European Securities Committee (ESC)

The ESC is a committee of representatives of Member States that votes on implementing acts of the Commission within regulatory procedure with scrutiny (this does not apply to technical standards, which the Commission only formally approves). In 2021, the ESC voted a total of eleven times.

In eight cases, it was deciding on the equivalence of the regulatory framework of several third countries to the requirements of the OTC Derivatives, Central Counterparties and Trade Repositories Regulation (EMIR) and and three cases in relation to the termination of the London Interbank Offered Rate, so-called LIBOR.

In the area of regulatory equivalence, a proposal for an implementing decision on the equivalence of the US regulatory framework for central counterparties (CCPs) authorised and supervised by the US Securities and Exchange Commission with the requirements of EMIR was approved in January 2021. In March 2021, the implementing decision on the equivalence of designated contract markets in the US was amended. In May 2021, a vote was held that passed proposals for an implementing decision on the equivalence of the legal, supervisory and enforcement provisions of six jurisdictions – Brazil, Hong Kong, Canada, Australia, the US and Singapore – with the margin requirements of EMIR. In the context of the termination of LIBOR, an amendment to the list of

[47] 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 Regulation (EU) No 648/2012, as amended.

critical benchmarks was approved in June 2021 to which the Norwegian Interbank Offered Rate was added and LIBOR was removed from it. Two further votes in this field, namely on replacements for the euro overnight average rate benchmark, the so-called EONIA, and the London Interbank Offered Rate in Swiss francs, the so-called CHF LIBOR, were held in October 2021.

So far in 2022, the ESC has taken only one decision, in January 2022, when a significant proposal for an implementing decision to extend the temporary equivalence of the UK regulatory framework for CCPs to the requirements of EMIR was approved from the perspective of market infrastructure. This equivalence has been extended until 30 June 2025.

Other selected Commission platforms

Expert Group of the European Securities Committee (EGESC)
EGESC meetings are often held on the same day as ESC meetings if it is necessary for the ESC to meet in person (see above). There were several such meetings in 2021.

In March 2021, the Expert Group met to discuss the situation regarding the clearing of a large number of euro derivatives trades in the UK, the possible revision of MiFID II[48] and MiFIR,[49] the situation and preparatory work for the move away from LIBOR, and the forthcoming regulation related to the European Single Access Point for information on financial entities (ESAP). The purpose of the meeting was to obtain individual Member States' insights and update them on the forthcoming legislation.

In May 2021, the Expert Group discussed the Commission's implementing regulation supplementing MiFID as regards information requirements, product governance and position limits, and CRD as regards its application to investment firms, with a view to aiding the recovery from the COVID-19 crisis.

In July 2021, the Expert Group discussed what shape the future revision of the Central Securities Depositories Regulation (CSDR) might take.[50] This was the second time that the Committee had met to discuss different areas of the forthcoming CSDR revision. The purpose of the meeting was to gain an insight into Member States' positions on a number of targeted changes which, in the Commission's view, could help to fulfil the purpose of the regulation, i.e. to enhance the safety and functioning of settlement systems, and central depositories as their operators, in a more proportionate, efficient and effective way. Attention was paid, *inter alia*, to the scope of the regulation, the authorisation process, the freedom to provide services, settlement discipline, and the impact of technological innovations. The outcome of the discussion on CSDR, as well as the results of the public consultation, will serve as input for the reports the Commission is required to draw up when preparing the revision of a regulation. Amendments to the European Long-Term Investment Funds (ELTIF) regulation were also discussed in July 2021.[51]

Amendments to MiFIR were discussed in October 2021. These discussions subsequently led to the publication of revisions to ELTIF and MiFIR in November 2021 as part of the legislative package under the Capital Markets Union project. In October 2021, the Expert Group also discussed future listing changes as part of the revision of the Market Abuse Regulation (MAR)[52] and, marginally, EONIA/LIBOR changes.

In February 2022, the Expert Group addressed the issue of banning payment for order flow in the framework of the currently pending MiFIR. In March 2022, the Expert Group again discussed other technical aspects in light of the ongoing MiFIR negotiations.

Commission Expert Group on Banking, Payments and Insurance (CEGBPI)
The CEGBPI was established in 2013 and to a large extent replaced the European Insurance and Occupational Pensions Committee (EIOPC) and the European Banking Committee (EBC). Its objective is to provide the

48 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, as amended.

49 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, as amended.

50 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, as amended.

51 Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds, as amended.

52 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) 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, as amended.

Commission with support and advice during the preparation of legislative proposals and delegated acts associated with banking, payment services, and the insurance industry. The CEGBPI also functions as a platform for communication and the exchange of opinions between the institutions of the Member States and the Commission.

The Commission uses the CEGBPI in the banking formation, or bank regulation and supervision, *inter alia* for the consultation of forthcoming delegated acts based on the directive (CRD[53]) and the regulation on prudential requirements for credit institutions and investment firms (CRR). The Expert Group's in the banking formation met twice in 2021. The first meeting via videoconference, was held in March 2021 to discuss the double counting of the requirement under the LCR delegated act[54] and the specific liquidity buffer requirement in the Covered Bonds Directive (CBD).[55] This meeting also discussed possible CRR adjustments in the context of the resolution framework, specifically the topics of the indirect underwriting of internal MREL (daisy chains) and the clarification of aspects related to the treatment of groups with a decentralised resolution strategy. The proposed changes were designed to align the CRR regime with the international TLAC standard. The second meeting was held also via videoconference, in May 2021 and focused on changes to the prudential framework, including in relation to the treatment of innovative companies, the prudential framework for third-country branches, and the exchange of information between supervisory and tax authorities.

In 2021, the formation for payment services and payments met in March, June, November and December. The Expert Group mainly addressed the issue of instant payments and the involvement of payment service providers in the SEPA instant payments scheme. Member States shared their insights on strong authentication of card payment and there was a discussion on some articles of the Second Payment Services Directive and the Cross-Border Payments Regulation. Member States were briefed on the planned revision of the second Payment Services Directive. The Commission also published a proposal for a digital ID wallet, which should allow EU citizens to prove their identity and share electronic documents. Two meetings of the payment services and payments formation focused on international sanctions and instant payments. The key topic of these meetings was instant payments. Member States also commented on whether they had a national sanctions list in place and how their powers over compliance with these lists were divided. At the last meeting, there was a discussion on client screening in relation to international sanctions and sanctions lists. All meetings were held remotely.

The Expert Group's in the insurance formation met in February and twice in November 2021. A key topic of the February meeting and the first November meetings was the review of the Solvency II Directive, in particular areas related to long-term guarantees and long-term investments, proportionality, cross-border cooperation and group supervision, the setting-up of new macro-prudential instruments, reporting and harmonisation of the recovery and resolution framework. Other items on the agenda were the changes expected to be made to Commission Delegated Regulation 2015/35, namely long-term equity investments and long-term guarantees, in particular the volatility and matching adjustment, the extrapolation of the risk-free interest rate curve, the recalibration of the equity risk sub-module and the calculation of the risk premium. The second meeting in November focused on the Pan-European Pension Product (PEPP) Regulation,[56] with Member States informing the Commission of measures implemented so far, in particular in terms of the competent authority's supervisory powers, the conditions of the PEPP accumulation and payout phases, and sanctions. The Expert Group assessed the state of play of the bilateral EU-US agreement on prudential rules on insurance and reinsurance.

Government Expert Group on the Interchange Fee Regulation (GEGIFR)

The Expert Group was established in 2015 as part of the process of implementing the Interchange Fees for card based payment transactions Regulation (IFR).[57] It mainly problems arising during the implementation process. The meetings are also an opportunity to present Member States' observations and experiences, and to discuss cooperation. In 2021, meetings were held, by videoconference, in March and October, when the GEGIFR

[53] 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, as amended.

[54] Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

[55] Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU.

[56] Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP).

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

discussed issues related to the electronic and visual identification of payment cards, fees schemes, acquiring margins, and the circumvention of set thresholds. The Commission informed Member States of MasterCard and VISA's intention not to apply the thresholds set by the IFR regulation due to the UK's withdrawal from the EU. Member States also shared their recent experience of the implementation of the IFR.

Government Expert Group on Retail Financial Services (GEGRFS)
The GEGRFS, composed of representatives of Member States and the Commission, was set up in 2007 to deal with issues related to the provision and regulation of retail financial services. Since 2018, the main agenda has been a revision of the Mortgage Credit Directive (MCD),[58] a revision of the Payment Accounts Directive (PAD),[59] and financial education. During 2021, the Expert Group met in February and December. The Commission presented the conclusions of a study on the transposition of PAD, outlined potential options for switching accounts to a foreign bank, summarised and evaluated Member States' responses to PAD, and discussed the interplay between PAD and FATCA (the Foreign Account Tax Compliance Act). In addition, during 2021, a joint OECD/EU framework on adult financial knowledge and skills was developed by a specially established sub-group on financial education, which was subsequently published in January 2022. This created a non-binding standard for adult financial literacy in the EU. This material was developed by adapting and updating the OECD framework to the needs of the EU. The areas of sustainability and digitalisation were newly added.

Member States expert group on sustainable finance (MSEG)
The Expert Group on Sustainable Finance has been set up as a consultative body for the Commission and Member States on the Commission's forthcoming primary and secondary legislation (and, where appropriate, non-legislative activities) in the field of sustainable investment. The Expert Group has been meeting since June 2018 at roughly three-monthly intervals, and more frequently at times when legislative proposals are being drawn up. During 2021, discussions continued on the proposal for a delegated act on the Taxonomy Regulation,[60] a "complementary delegated act", which includes nuclear and natural gas power generation within the scope of the economic activities assessed. At another meeting in April 2022, the Expert Group primarily discussed the newly released report of the Sustainable Finance Platform, on the basis of which the Commission intends to issue a delegated act assessing the sustainability of economic activities for the remaining four objectives under the Taxonomy Regulation: the sustainable use and protection of water and marine resources; the transition to a circular economy; the prevention and reduction of pollution; and the protection and restoration of biodiversity and ecosystems.

Council of the European Union / ECOFIN Council

The Council of the European Union (the Council of the EU or the Council) brings together the ministers from the Member States, who meet and discuss or adopt proposals of legislative acts and other legal 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, coordinating the main direction of the economic policies of the Member States, ratification of agreements between the EU and other countries, approving the annual budget, developing the EU's foreign and defence policies, and coordinating the co-operation between the judicial organs and the police authorities in the Member States. The Council of the EU meets in various configuration (there are ten in total) according to the area to which the discussed materials belong. Each of the Member States sends its representative (minister) responsible for a particular area of policy to each of the meetings of the Council of the EU. The presidency of the Council of the EU 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 2021, the presidency was held by Portugal and Slovenia, in the first half of 2022 by France). The Council of the EU 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 Josep Borrell. Each of the Member States sends its representative (minister) responsible for a particular area of policy to each of the meetings of the Council of the EU.

The ECOFIN Council is the Council of the EU configuration consisting of the economics and finance ministers from the Member States (if budget issues are on the agenda to be discussed, the budget ministers also attend the

[58] Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010, as amended.

[59] 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.

[60] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

meetings). The competencies of the ECOFIN 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 cooperation 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 permanent or ad hoc working parties as well as expert committees within the structure of the Council of the EU, which prepare the ECOFIN agenda including pending 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 and the Banking Union (referred to as D.3).

The 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 that 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 the course of 2021, the EU Council's ECOFIN approved the general approaches to the Commission's proposals discussed by the Working Party on Financial Services and the Banking Union. In addition, it discussed and reported on agendas relating to the completion of the banking union, the deepening of the Capital Markets Union, non-performing loans, the fight against money laundering and terrorist financing, and measures related to the COVID-19 pandemic. Ministers were regularly informed at meetings about the progress in the negotiation of legislative proposals relating to financial services and the state of implementation of legislation in the area of financial market already adopted at national level.

At individual meetings, ECOFIN:

- held a policy debate on the Action Plan to tackle non-performing loans in Europe; took stock of work on legislative proposals in the area of financial services, in particular the forthcoming work on proposals concerning secondary markets for non-performing loans, the European deposit insurance scheme, the Motor Insurance Directive, and the Digital Finance Package (19 January 2021);
- took stock of the current economic situation and the economic outlook; prepared for the meeting of G20 finance ministers and central bank governors; was briefed on legislative proposals in the area of financial markets (16 February 2021);
- discussed the Memorandum of Understanding between the EU and the UK on financial services; was briefed on the EU Council Conclusions on the Retail Payments Strategy, informally adopted at the AGRIFISH Council; discussed the tax challenges posed by the digitalisation of the economy (16 March 2021);
- was briefed on the state of play of the work on the Capital Markets Union, with an emphasis on the creation of a European Single Access Point (ESAP); was briefed on the state of play of discussions on legislative proposals in the area of financial services and highlighted the completion of the legislative process under the Capital Markets Recovery Package (CMRP) (16 April 2021);
- received information on the negotiation of further steps towards the completion of the banking union; in relation to the negotiation of current legislative proposals in the field of financial services, the Presidency reported on the successful conclusion of negotiations on legislation on non-performing loans and on the almost completed legislative process on the Motor Insurance Directive; steps expected to find a common approach on the Digital Finance Package within the EU Council were mentioned; the Commission provided information on the preparation of the Solvency II revision (18 June 2021);
- expressed its general support for the strategy for financing the EU's transition to a sustainable economy and for the proposal for a regulation on European green bonds; requested the Commission to quickly draw up a delegated act, within the scope of taxonomy, that would specify the gas and nuclear energy

sector; the Presidency and the Commission jointly reported on the state of play of negotiations on financial markets legislation (13 July 2021);

- took stock of the anti-money laundering package adopted by the Commission (26 July 2021);
- was invited to express its views on the revision of prudential rules for insurance and reinsurance undertakings within the Solvency II framework; endorsed conclusions on the financing of climate action in view of the 26th Conference of the Parties to the UN Framework Convention on Climate Change held in Glasgow (5 October 2021);
- held a policy debate on a set of legislative proposals focusing mainly on the implementation of the remaining Basel III agreements; discussed the recent sharp increase in energy and consumer prices and the related political implications (9 November 2021);
- took note of the Presidency's regular progress report on the strengthening of the banking union, was briefed on the state of play on legislative proposals in the area of financial services; the Commission presented a package of legislative proposals to deepen the Capital Markets Union; appreciated the progress made on the legislative package on money laundering and terrorist financing and stressed the need to regulate crypto assets (7 December 2021).

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 ECOFIN's permanent committees. They have a permanent chairperson and do not apply a rotating chairperson rule. The FSC provides a forum for the preliminary higher-expert level discussion of issues associated with financial services and, together with the EFC, takes part in preparations for the individual ECOFIN meetings. Representatives from the finance ministries of EU Member States, the Commission, the ECB, and the European supervisory authorities (ESAs – the EBA, ESMA, and EIOPA) participate in the activities of the FSC. The FSC is also involved in the EU-US regulatory dialogue, in which the EU is represented by the Commission. The EFC's activities primarily consist of monitoring the economic and financial situation of Member States of the euro area and the EU as a whole, reporting to ECOFIN and the Commission, and participating in the preparation of the Council of the EU's activities in the economic and financial sector. The themes covered by the EFC are therefore much broader than those tackled by the FSC. EFC meetings are attended by representatives from the finance ministries of EU Member States, the Commission, the ECB, and the national central banks.

The financial market topics discussed by these committees during 2021 included the revision of Solvency II and a proposal for a directive establishing a framework for the recovery and resolution of insurance and reinsurance undertakings, the results of joint stress tests in the EU, the monitoring of progress on the Capital Markets Union project, recent developments in relations with the United Kingdom, future regulatory developments in the area of payments, EU Council conclusions on the Digital Finance Strategy, the proposal for an administrative arrangement on financial services with the UK, implementation and follow-up to address non-performing loans as a result of the COVID-19 pandemic, sustainable finance, EU Council conclusions as a follow-up to the European Court of Auditors Special Report 01/2021 on resolution planning, the state of play of discussions on the completion of the banking union, and a roadmap for possible next steps.

Working Party on Financial Services and the Banking Union (D.3)

The Working Party on Financial Services and the Banking Union is one of the EU Council's preparatory bodies. It discusses the Commission's relevant financial market legislative proposals before they are submitted to COREPER II and ECOFIN. 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 are published. Experts from each EU Member State attend the meetings of this working party. The party is chaired by a representative from the country currently holding the Presidency. Member States are represented by their financial attachés particularly during later phases of the discussion on proposals.

In 2021, negotiations were held on the Motor Insurance Directive, the proposal for a revision of Solvency II, the proposal for a directive governing the recovery and resolution framework for insurance and reinsurance undertakings, legislation to tackle with non-performing loans relating to the out-of-court realisation of collateral, the regulation on cryptoasset markets, the regulation on a pilot scheme for market infrastructure based on distributed ledger technology (DLT) and the regulation on the digital resilience of financial institutions, the regulation on European green bonds, the Consumer Credit Directive, the implementation of the Basel III international standard, the revision of the Markets in Financial Instruments Regulation, the revision of the Alternative Investment Fund Managers Directive, the regulation governing European long-term investment funds, a proposal to create a single access point for information about companies, establishing access to publicly available information on companies and investment products, and a legislative package revising the prevention of money laundering and terrorist financing.

Negotiations to strengthen the banking union also took place in 2021. This agenda had previously been the responsibility of the Ad Hoc Working Party on the Strengthening of the Banking Union (AHWP), which had been in place since January 2016 to discuss the Commission's proposal for the establishment of a European deposit insurance scheme (EDIS) and the Commission's communications on the completion of the banking union. The AHWP was cancelled at the beginning of 2021 and is now part of the newly renamed D.3 Working Group on Financial Services and the Banking Union. During 2021, the working party discussed, among other things, the practical aspects of operationalising the "hybrid EDIS model" (see Chapter 9.3 for more details), the interaction of EDIS with the planned revision of the crisis management and deposit insurance framework, and the setting of methodology to calculate banks' risk-weighted contributions, including possible indicators of sovereign exposures. The treatment of bank branches from third-country and entities not subject to CRD/CRR regulation under EDIS was also discussed. The topic of so-called options and national discretions or preventive and alternative measures in the context of EDIS was also addressed. The availability of instruments to meet the minimum requirement for own funds and eligible liabilities (MREL), deposit bail-in, cost-sharing and liquidation support in the resolution and liquidation system, and the possible harmonisation of bank liquidation procedures were also discussed in the second half of 2021.

Working Party on Consumer Protection and Information (G.23)

The Working Party on Consumer Protection and Information is one of the EU Council's preparatory bodies. It discusses the Commission's relevant consumer protection legislative proposals before they are submitted to COREPER and COMPET. 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 are published. In the Czech Republic, some topics are covered by the Ministry of Industry and Trade and others by the Ministry of Finance. The meetings of this working party include the participation of experts from the individual EU Member States. The party is chaired by an expert from the country holding the EU presidency. Member States may be represented by their financial attachés particularly during later phases of the discussion on proposals. Within the remit of the MoF, negotiations on the proposal for a new directive on consumer credit took place in 2021 and are continuing in 2022.

More information on the individual proposals discussed can be found in Chapter 9.3.

European Council

The European Council (EC) is the European Union's body and comprises the highest representatives from the Member States (heads of state and prime ministers), the President of the EC and the President of the Commission. The EC meets at least four times a year and defines the general political directions for the EU. The EC does not perform any legislative functions. The outcomes of a meeting are the EC 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 EC 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 (this office is currently held by Charles Michel); however, neither the permanent president nor the Commission President participates in EC voting. Decision-making of the EC takes place, 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 EC regarding the progress achieved by the EU (this will be discussed by both the Council of the EU and the European Parliament).

At European Council meetings during 2021, EU leaders agreed on a statement expressing their support for strengthening the euro's position on the international scene in order to bolster the EU's strategic autonomy while preserving an open economy, contributing to the stability of the global financial system and supporting European businesses and households. In June 2021, leaders reiterated their full commitment to completing the banking union and invited the Eurogroup in inclusive format to reach a prompt agreement on a roadmap with individual steps and a timetable for work. They also underlined their political support for the Capital Markets Union and called for the swift implementation of an action plan in this area. They agreed on the need to identify and address structural challenges related to the integration and development of capital markets, in particular in selected areas of corporate insolvency legislation. Progress was to be reviewed by the Euro summit at its meeting in December 2021. At that meeting, leaders stated they were looking forward to seeing the agreement amending the European Stability Mechanism Treaty enter into force and to the introduction of a backstop for the Single Resolution Fund as soon as possible. They recalled the political commitment to the banking union and invited the Eurogroup in inclusive format to finalise a work plan with individual steps and a timetable, paving the way for its completion. They also called for accelerated progress on deepening the Capital Markets Union.

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-eight[61] 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 main objectives of the OECD include policy coordination for the long-term economic development of member and non-member countries. The OECD coordinates the cooperation of its members in the sphere of economic and social policy negotiates new investments, and because the OECD brings together economically the most important countries in the world, it also has an important role to play in promoting the liberalization 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 132 countries.

Committee for Financial Markets (CFM)
The CFM is the OECD's main body involved in financial market issues. It provides a platform for discussing the financial markets developments and trends and the relevant measures for improving their functioning both in individual countries as well as at the broader supranational level. The members of the CFM consist of representatives from the finance ministries, 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, also participate in the committee's meetings, along with representatives from associated emerging economies. The CFM therefore provides a geographically broader platform for debate and the exchange of insights than is provided by other mechanisms, such as discussions between EU Member States. A specific characteristic of the committee's activities is the regular meetings with representatives from the private financial sector, at which important topics of common interest to both the public sector and the private sector are discussed, particularly developments and trends in the global financial market and other current topics.

Several meetings in 2021, which were always held by teleconference, focused mainly on OECD activities related to sustainable finance and digitalisation (artificial intelligence and decentralised finance). Other important topics of discussion were government funding support programmes in response to the COVID-19 pandemic, developments in global financial markets, non-bank providers of residential real estate finance, and strategies for responding to non-performing loans. Meetings in early 2022 addressed similar topics - again, sustainable finance, including responses to climate change, and digitalisation in finance were among the themes discussed.

Advisory Task Force on the OECD Codes of Liberalisation (ATFC)
CFM meetings are usually preceded by meetings of the Advisory Task Force on the OECD Codes of Liberalisation. The main attendees of task force meetings include some of the members of the CFM, the IPPC, and the OECD Investment Committee from various countries. Discussions in 2021, held by teleconference, focused on national measures related to financial markets with a potential impact on the liberalisation of capital flows.

Insurance and Private Pensions Committee (IPPC)
The IPPC is the main OECD body addressing insurance market issues, the supervision of the insurance sector, and private pensions issues, i.e. non-public pension security schemes.[62] The IPPC contributes to international cooperation, coordination, and a higher level of compatibility with regard to the regulation of the aforementioned sectors of the financial market. The committee comprises representatives from the finance

[61] Costa Rica became a new member (May 2021). In January 2022, the OECD Council decided to open accession negotiations for membership with six candidate countries – Argentina, Brazil, Bulgaria, Croatia, Peru and Romania.

[62] The topic of private pensions is dealt with by the WPPP under the IPPC.

ministries and those state administration authorities who are responsible for the insurance sector and private pensions. Meetings are also attended by representatives of the supervisory bodies of OECD member states. Open meetings are also attended by market or trade union representatives. In 2021, the committee met twice by teleconference. The June meeting mainly discussed risks arising from catastrophes, i.e. monitoring and mitigating them and covering gaps in their insurance coverage. The December IPPC meeting revisited climate risks, the role of the insurance industry in the recovery phase after the COVID-19 pandemic, the impact of pandemic mortality on life expectancy, the role of digitalisation in long-term and health care, and the integration of data related to ESG criteria in pension funds and insurance companies. The committee also reported on global insurance market trends based on OECD data gathering.

Working Party for Private Pensions (WPPP)
The WPPP addresses topics similar to those covered by the IPPC, but places a greater emphasis on the sector of pension funds, their asset managers, and the participants in private pension schemes (both individual and employee schemes). In 2021, the committee met virtually and addressed, among other things, the impact of the COVID-19 pandemic on pension savings, specifically mortality and life expectancy in the context of annuity-related mortality projections, as well as a report on the implementation of OECD recommendations on core regulatory principles for private pensions, the Roadmap for the Good Design of Retirement Savings Plans, employer involvement in pension schemes, lifelong non-guaranteed retirement income schemes, competition in fund-based pension schemes, the experience of implementing work in countries where they have developed pension schemes, and the programme of work for the period ahead.

Task Force on Financial Consumer Protection (TFFCP)
The objective of the TFFCP is to prepare international standards for consumer protection on the financial market, particularly as regards the supervisory architecture, the rules for dealing with customers, the resolution of consumer disputes, financial education, and financial inclusion. These high-level principles are reflected, to a considerable degree, by examples of regulatory practices already functioning in the EU. However, the process also acts in the opposite direction as a sort of template for newly drafted regulation (particularly for the OECD countries that are not EU Member States). In 2021, the task force was primarily concerned with collecting data on measures to help financial consumers affected by the COVID-19 pandemic and sharing these data with Member States, and preparing a review of the above-mentioned consumer protection principles on the financial market.

International Network on Financial Education (INFE)
The International Network on Financial Education is a platform comprising the institutions of not only the OECD member states (as a rule, the finance ministries and central banks). Its role is to create global strategy documents. The network's website[63] provides a gateway to information about financial education and data, resources, research, and reports. The MoF has been an INFE member and national coordinator since the network's establishment in 2008. In 2021, the joint OECD/EU financial competence framework for adults, a non-binding standard of financial literacy for adults in the EU, was created. This document was developed by adapting and updating of the OECD framework to the needs of the EU. The areas of sustainability and digitalisation were newly added.

The INFE also addressed support for seniors to ensure financial well-being in later life, increasing financial literacy in the workplace, and evaluating national financial education strategies. In light of the COVID-19 pandemic, vulnerable population groups and financial resilience have emerged as issues. Other important topics are digital financial education in terms of the use of digital tools and from the perspective of access to digital financial services and potential exclusion. In 2021, the INFE's materials focused on the inclusion of women, young people and SMEs, especially in the context of the COVID-19 pandemic. The INFE also published a report on financial resilience and digital transformation, which includes a set of suggestions and good practices on digital ways to disseminate financial education. In 2021, for the first time, the INFE became the global coordinator of Global Money Week, a financial education week held in March.

G20

The G20 brings together the finance ministers and the central bank governors from nineteen countries[64] 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

[63] http://www.oecd.org/finance/financial-education/

[64] 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.

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.

In 2020, the G20 was chaired by Italy and the summit was held in Rome in September. Here, G20 leaders:

- committed to building resilience in the non-bank financial intermediation sector and reducing the need for emergency central bank intervention by implementing the Financial Stability Board (FSB) work programme on non-bank financial intermediation;
- committed to assessing and addressing the vulnerabilities of money market funds in individual jurisdictions using the toolkit contained in the FSB Final Report, while recognising the need to tailor measures to specific jurisdictions;
- welcomed the progress made towards meeting the G20 Roadmap milestone for strengthening cross-border payments, and supported the quantitative global targets for addressing cost, speed, transparency and access issues by 2027, as set out in the FSB report;
- reiterated that no so-called global stablecoins should be launched until all regulatory and supervisory requirements are adequately addressed through the proper drafting of and compliance with relevant standards;
- invited the Committee on Payments and Market Infrastructures, the Bank for International Settlements, the International Monetary Fund and the World Bank to continue analysing the potential role of central bank digital currencies and the possible implications for the international monetary system;
- welcomed the FSB Committee's plan to address financial risks arising from climate change, the FSB report on the availability of data on climate-related financial stability risks and the FSB report on promoting globally consistent, comparable and reliable climate-related financial information; and
- endorsed the recommendations of the Financial Action Task Force to improve beneficial ownership transparency and called on countries to combat the laundering of money from environmental crime.

FSB

The creation and functioning of the Financial Stability Board (FSB) is closely linked to the G7 and G20. The FSB's immediate predecessor, the Financial Stability Forum (FSF), was established by the G7 in 1999. In April 2009, the Financial Stability Board was established on the initiative of the G20. In addition to promoting financial stability, it focused on promoting reforms in financial regulation and supervision. In practice, the transformation of the FSF into the FSB expanded the number of member countries participating in the work of this body to include institutions from G20 countries. Individual countries are represented on the FSB by bodies that aim to maintain financial stability (ministries of finance, central banks, supervisory and regulatory authorities). In addition, international financial institutions (the BIS, IMF, OECD, and World Bank) and international standard-setting bodies (the Basel Committee on Banking Supervision, Committee on Payment and Settlement Systems, Committee on the Global Financial System, IASC, IAIS, and IOSCO) attend meetings.

In order to ensure the global reach of the FSB, six Regional Consultative Groups (RCGs) have been established. The Czech Republic is represented in RCG Europe.

In 2021, representatives from member countries met regularly both at the FSB (plenary) level and within the individual Regional Consultative Groups. The Regional Consultative Group for Europe discussed global and regional vulnerabilities to the financial system, the resilience of the non-bank financial intermediation sector, the impact of climate change on financial stability, and regulatory and supervisory issues related to outsourcing and financial institutions' relationships with third parties.

In particular, the FSB's work programme in 2021 focused on addressing the vulnerabilities associated with the COVID-19 pandemic, enhancing the resilience of the non-bank financial intermediation sector, improving access to and the efficiency of cross-border payments, contributing to a better understanding of the financial risks associated with climate change, and ensuring a smooth transition from LIBOR to alternative reference rates.

In the context of the COVID-19 pandemic, the FSB published a summary report on lessons for financial stability from the pandemic experience and recommended appropriate ways to end the economic support measures put in place in response to the pandemic. In terms of enhancing the resilience of the non-bank financial intermediation sector, the FSB, in cooperation with IOSCO, presented a final report proposing measures to enhance the resilience of money market funds and made progress in assessing the vulnerabilities associated with open-end funds or margin calls. In order to achieve the more efficient execution of cross-border payments, the FSB set quantitative targets to address the cost, speed and transparency challenges faced by end-users of cross-border payments. Regarding financial risks arising from the impacts of climate change, the FSB issued recommendations to help develop frameworks for corporate disclosure of these risks and examined the availability of data to monitor and assess climate change risks in relation to financial stability.

In 2021, the FSB also published its final report on its assessment of the impact of reforms intended for global systemically important banks to reduce the "too-big-to-fail" problem. In the area of resolution, the FSB also assessed the functioning of the resolution groups established for global systemically important banks and reviewed progress made in implementing effective resolution regimes for banks, insurance companies and central counterparties. In this respect, it also looked in more detail at the issues of ensuring continuity of access to financial market infrastructure for institutions in resolution and potential problems in the write-down or conversion of securities.

BCBS

The Basel Committee on Banking Supervision (BCBS), operating within the Bank for International Settlements (BIS), is the main body setting standards for the regulation of banks globally. It also serves as a forum for cooperation on banking supervision matters. In addition, the Committee develops banking supervision standards and recommendations. The best-known standards are the International Standards on Capital Adequacy and the Basel Core Principles for Effective Banking Supervision. BCBS standards are not formally binding, but are respected and implemented in the national legislation of many countries, not just member states. In addition, the Committee focuses on improving cooperation and regular exchanges of information in the field of banking supervision. The BCBS was created by the central banks of the G10 countries in 1974. Its 45 members include central banks and supervisory authorities from 28 countries. It also consults within a broader group called the Basel Consultative Group, which includes representatives of other non-member countries, including the CNB. The Czech Republic is not a member of the BCBS, but is de facto represented by the representative for the European Union.

The BCBS work programme in 2021 focused on monitoring the timely and consistent implementation of standards, assessing the effectiveness of the reforms it proposed following the global financial crisis, assessing emerging risks and vulnerabilities, and strengthening supervisory cooperation. In view of the enduring persistence of the COVID-19 pandemic, the BCBS continued to monitor the related impacts on the resilience of the global banking system on an ongoing basis.

Besides periodically reviewing the impact of the implementation of Basel III standards on banks and assessing the status of implementation in individual jurisdictions, the BCBS also published an interim assessment report on whether the Basel standards implemented so far had worked as intended in light of the COVID-19 pandemic.

In terms of setting and modifying international standards, in 2021 the BCBS made technical changes to the rules on haircut floors for securities used to collateralise financial transactions and modified the way it reviews the methodology for assessing banks' global systemic importance. Standards relating to market risk disclosure requirements are updated and voluntary standards for sovereign exposure disclosures are issued with effect from 1 January 2023.

In addition to the above activities, the BCBS:

- published principles to improve banks' operational resilience, which aim to strengthen banks' ability to withstand operational risk events such as pandemics, cyber-attacks, technological failures or natural disasters that could cause significant operational failures of banks or widespread disruption to financial markets;
- made technical revisions to its principles for sound operational risk management;
- published a report examining how factors associated with climate change risks may affect banks and the banking system through micro- and macroeconomic transmission channels;
- published a report providing an overview of conceptual issues related to the measurement of climate-related financial risks, including an overview of measurement methodologies and their practical implementation by banks and supervisory authorities; and
- launched a public consultation on a proposal for the treatment of banks' crypto exposures and draft principles for effective management and supervision of financial risks related to climate change, with a view to improving banks' risk management and supervisory practices in this area.

9.3 European Financial Market Legislation

Recovery and Resolution of Central Counterparties (CCPRR)

In January 2021, a regulation on recovery and resolution of central counterparties (CCPs)[65] was published in the Journal with the aim of adopting a unified approach that will address the systemic risk of CCPs in a proportionate way to safeguard financial stability, preserve essential financial market functions and protect taxpayers. In line with this objective, the proposal introduces new institutes, the most important of which is a resolution authority and a concept of colleges, recovery and resolution plans, early intervention, resolution measures and guarantees, i.e. a "no creditor worse off" principle. It is worth mentioning that the adopted final text of the regulation largely reflects the long-term priorities of the Czech Republic, especially in relation to resolution tools. In particular, the trilogues succeeded in promoting more extensive loss-sharing by CCP shareholders and creating a second skin-in-the-game (an additional layer of own funds set aside to cover potential losses), and, conversely, protecting the initial margin and the funds of clearing system members, their clients and the clients of those clients from being used for this purpose.

Benchmarks Regulation (BMR)

In February 2021, an amendment to the Benchmarks Regulation was published in the Journal as a response to future changes related to the retirement of the London Interbank Offered Rate (LIBOR) benchmark, which is referenced in a large number of contracts and financial instruments and whose discontinuation potentially poses a significant risk to the functioning of financial markets in the EU. The regulation therefore seeks to legislate for a situation where a widely used benchmark, or "critical benchmark", is discontinued and the contracts or financial instruments under which the benchmark is a parameter cannot be renegotiated to include back-up contractual provisions by the time the relevant benchmark is retired.

Capital Market Recovery Package (CMRP)

In July 2020, the Commission published the Capital Market Recovery Package (CMRP), which aims to mitigate the economic impact of the COVID-19 pandemic and support the early recovery of capital market participants. The package includes targeted changes to MiFID II, the Prospectus Regulation, the Securitisation Regulation[66] and the CRR. It encompassed only measures that were not controversial and did not require in-depth analysis. In line with this objective, the purpose of the revision of the capital market rules (MiFID II and the Prospectus Regulation) is to facilitate investment in the real economy and to enable the rapid recapitalisation of EU companies. In addition, the MiFID II regime for commodity derivatives is being modified. Changes to the securitisation rules (the Securitisation Regulation and CRR) should help to increase the use of securitisation, thereby release of banks capital, respectively to increase their capacity to lend to the real economy without reducing prudential requirements. All proposals were approved in early 2021 and were subsequently published in the Journal (MiFID II and the Prospectus Regulation in February 2021 and the Securitisation Regulation and CRR in April 2021).

Cross-border Payments (CBPR)

In March 2019, a regulation amending the Cross-Border Payments Regulation[67] as regards certain charges on cross-border payments in the EU and currency conversion charges[68] was published in the Journal. The regulation harmonises charges for cross-border transactions in euro with charges for equivalent domestic payments in the national currency of the Member State. The regulation also aims to increase the transparency of charges applied to currency conversion. For card payments, there is a new obligation to express the advantage of the rate offered by the card issuer and the dynamic currency conversion (DCC) service provider as a percentage difference compared to (mark-up on) the ECB reference rate (or ECB rates for conversion in an EU currency other than EUR)

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[65] Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132.

[66] 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, as amended; Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, as amended; Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, as amended.

[67] Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001, as amended.

[68] Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges.

so that payment service users can compare alternative currency conversion options and their respective costs. This information is also to be sent to users electronically after a card transaction involving currency conversion. The regulation further extends the currency conversion information obligation by introducing the obligation for payment service providers to notify payment service users, when they place a payment order via internet or mobile banking and in EU currencies, of the cost of currency conversion before initiating the payment transaction.

The part of the regulation concerning the information obligation for DCC services and for payments involving currency conversion has been in effect since 19 April 2020. In April 2021, the part of the regulation relating to the sending of electronic messages with exchange rate information came into force. When a payer pays by payment card abroad, the payment service provider sends the payer information – by electronic message (e.g. SMS) – about the exchange rate used and the deviation from the ECB rate. This is repeated once more each month in which the payer pays by credit card in that (foreign) currency. This is similar to roaming text messages with mobile operators. In July 2021, a codified version of the Cross-Border Payments Regulation was issued under number 2021/1230 and came into force on 19 August 2021.

Addressing Risks Associated with Non-Performing Loans (NPLs)

In March 2018, the Commission adopted a proposal for a directive on credit servicers, credit purchasers and the recovery of collateral, and a proposal for a directive amending the CRR as regards minimum loss coverage for non-performing exposures. The declared objectives of this legislative package are to promote the development of secondary markets, to reduce the current number of NPLs and prevent them from accumulating in the future in banks' balance sheets, and to facilitate debts collection under secured loans granted to businesses.

The proposal for the directive aimed to protect secured creditors by a more efficient means of recovering money, out of court, under secured loans granted to businesses. The intention is also to remove barriers to credit management by third parties and the sale of loans with a view to the further development of the secondary market in NPLs. The regulation has been proposed in an effort to change the future conduct of credit institutions as regards their insufficient provisioning and tendency to keep NPLs/NPEs in their balance sheets for too long. As such, it introduces the prudential backstop, which effectively requires credit institutions to fully cover unsecured components of new non-performing exposures with Common Equity Tier 1 capital within the scope of Pillar 1 measures.

The proposal for the directive also introduces provisions on credit servicers, credit purchasers and the out-of-court enforcement of collateral. The first part of the directive concentrates on the regulation and support of the secondary market in non-performing loans. The scope of the directive on secondary markets is restricted solely to lending by credit institutions. A credit servicer is an entity that services credit for creditors. The proposal also defines what is meant precisely by credit servicing and what requirements are imposed on credit servicers. In addition, the proposal regulates what requirements apply to credit purchasers. The second part of the proposal concerns the out-of-court enforcement of collateral. It requires Member States to introduce into their legal systems at least one of the systems for the out-of-court enforcement of collateral (public auction, direct sale, or forfeiture of collateral).

The proposals were discussed by the EU Council at two speeds. The proposal for the directive was split into two parts. The part concerning secondary markets was approved by COREPER in March 2019. The part concerning the out-of-court realisation of collateral was separated and a general approach was adopted at COREPER in November 2019. Trilogues were expected to start, but have not yet taken place. In January 2021, the European Parliament's committee adopted a report on the secondary-market part of the proposal for the directive. Trilogues under the guidance of the Portuguese presidency began in February. The European Parliament drew on the EU Council's proposal as a basis, but adopted a number of additional amendments. A political agreement was reached in June 2021. The directive was published in the Journal in December 2021.[69]

The proposal for the regulation was approved in its first reading in the European Parliament in March 2019, and was subsequently approved by the EU Council in April 2019. The regulation was then published in the Journal[70]. The new instrument of the prudential backstop will apply to all non-performing exposures arising after the regulation takes effect.

[69] Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU.

[70] Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures.

Amendment of the Motor Insurance Directive (MID)
In December 2021, an amendment[71] to the Motor Directive was published in the Journal. This amendment encompassed: a response to selected rulings of the Court of Justice concerning the obligation of Member States to ensure that the operation of each motor vehicle is covered by liability insurance; the unification of the minimum amounts of claims that need to be covered by insurance contracts; provisions enabling Member States to inspect the insurance of vehicles that are normally based in another Member State, without stopping them; the introduction of the obligation of Member States to arrange for the coverage of the claims of victims deriving from loss events which the insolvency insurer is unable to cover; and a revision of the form on the confirmation of the loss ratio of liability insurance.

Pan-European Personal Pension Product (PEPP)
The Pan-European Personal Pension Product (PEPP) Regulation was published in the Journal in July 2019. The entry into force of the regulation was tied to the issuance of implementing regulations. In March 2021, the Commission Delegated Regulation supplementing the PEPP Regulation with regard to regulatory technical standards specifying the disclosure requirements, the costs and fees to be included in the cost cap and the risk-mitigation techniques for the PEPP was published in the Journal.[72] This was the act required for the PEPP Regulation to take effect. The PEPP Regulation therefore came into force in March 2022. Further implementing regulations for the PEPP Regulation were published in the Journal in June 2021.[73]

Sustainable Finance (SusFin)
The aim of the European sustainable finance initiatives is to safeguard the long-term competitiveness of the EU economy by integrating environmental, social and governance factors (ESG) into economic processes and transitioning to a low-carbon circular economy that makes more efficient use of resources.

In 2021, the first delegated act[74] on the Taxonomy Regulation for the first two climate mitigation and adaptation objectives was adopted and published, and a complementary delegated act with additional economic activities related to nuclear and natural gas power generation was added at the very end of 2021.[75] This complementary delegated act is set to take effect on 1 January 2023, unless vetoed by the EU Council or the European Parliament. At the end of 2022, the Commission is expected to issue a second delegated act covering the remaining four objectives: sustainable use and protection of water and marine resources; the transition to a circular economy; the prevention and reduction of pollution; and the protection and restoration of biodiversity and ecosystems.

In June 2021, the Commission adopted the Renewed Sustainable Financing Strategy, in which it took stock of the steps taken so far in its original strategy and set out in more detail those currently under way and planned, in particular the legislative proposals on green bonds and the CSRD[76] and CSDD[77] sustainability reporting directives. The strategy outlines the Commission's policy plan for the development of sustainable finance under the leadership of Ursula von der Leyen. It is a non-legislative document.

71 Directive (EU) 2021/2118 of the European Parliament and of the Council of 24 November 2021 amending Directive 2009/103/EC relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability.

72 Commission Delegated Regulation (EU) 2021/473 of 18 December 2020 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to regulatory technical standards specifying the requirements on information documents, on the costs and fees included in the cost cap and on risk-mitigation techniques for the pan-European Personal Pension Product.

73 Commission Delegated Regulation (EU) 2021/895 of 24 February 2021 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to product intervention; Commission Delegated Regulation (EU) 2021/896 of 24 February 2021 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to additional information for the purposes of the convergence of supervisory reporting; Commission Implementing Regulation (EU) 2021/897 of 4 March 2021 laying down implementing technical standards for the application of Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to the format of supervisory reporting to the competent authorities and the cooperation and exchange of information between competent authorities and with the European Insurance and Occupational Pensions Authority.

74 Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

75 Commission Delegated Regulation (EU) of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities.

76 Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting

77 Proposal for a Directive of the European Parliament and of the Council of 23 February 2022 on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937.

European Deposit Insurance Scheme (EDIS)
In November 2015, the Commission published a proposal for a regulation supplementing the Single Resolution Mechanism Regulation (SRMR)[78] with a view to establishing a European Deposit Insurance Scheme (EDIS). The system created is intended to complement the existing pillars of the banking union, increase depositor protection across participating countries, strengthen financial stability, and gradually reduce the problematic link between banks and national governments. The EDIS proposal should apply to deposit guarantee schemes in Member States participating in the banking union and to credit institutions associated with them. Based on the EU Council conclusions of June 2016, work on EDIS is continuing at a purely technical level.

In recent years, including 2021, EDIS discussions have focused on a "hybrid model", which would consist only of the repayable provision of liquidity to national deposit insurance schemes if their funds are insufficient to pay out insured deposits in the event of a bank failure in the relevant participating banking union state. In addition to introducing certain central elements at European level, such as a common fund, this hybrid model would maintain an important role for the existing decentralised system of national deposit guarantee schemes. However, the final form to be taken by EDIS and its deployment are uncertain due to persistent disagreements between Member States.

The agreement reached by Member States' leaders in June 2022 on the roadmap for the completion of the banking union calls on the Commission to publish follow-up legislative proposals on the extension of the bank crisis management framework and on the deepening of the harmonisation of national deposit insurance schemes by the end of 2022. Under the agreement, these proposals are not to include even an initial form of EDIS.

Digital Finance Package
In September 2020, the Commission released the Digital Finance Package, which comprises four legislative proposals: a proposal for a regulation on markets in cryptoassets (MiCA); a proposal for a regulation on the digital resilience of financial institutions (DORA); a proposal for a regulation on a pilot scheme for market infrastructure based on distributed ledger technology (DLT) (Pilot Regime Regulation); and a proposal for an amending directive in response to the adoption of the proposals for the DORA, MiCA and Pilot Regime Regulations. The package also includes two non-legislative measures: the Retail Payments Strategy and the Digital Finance Strategy.

The MiCA proposal creates a comprehensive regulation of the issuance of cryptoassets that do not fall under current European financial market regulation, in particular MiFID II or EMD2.[79] The proposal for the regulation distinguishes between three types of cryptoassets, i.e. tokens backed by other assets (whose value should be based on the underlying asset), e-money tokens (i.e. tokens whose regulation is linked to the regulation of electronic money) and other tokens, which include, for example, transfer tokens. The proposal includes rules for the issuance and offering of cryptoassets and establishes rules for obtaining authorisation to issue tokens backed by other assets or e-money tokens. It also sets out rules on the supervision of their issuers, including the regulation of when a particular e-money token or token backed by another asset becomes a significant token, which is subject to additional issuance-related requirements and subsequent supervision. Separate rules are set for cryptoasset service providers. The proposal regulates the conditions for authorisation to provide such services and the supervision of such providers. Special rules are also dedicated to the protection of crypto-market integrity and the prevention of crypto-market abuse. The Slovenian presidency held bilateral negotiations on the proposal in an attempt to reach a compromise. In November 2021, the EU Council mandate to negotiate with the European Parliament was approved at COREPER. The European Parliament adopted its position in March 2022 and trilogues were launched immediately. If the French presidency reaches a political agreement, the Czech presidency can be expected to work on the technical finalisation of the proposal.

The DORA proposal is a comprehensive regulation on the digital resilience of financial institutions, with a focus on preventing and addressing cyber risks. The proposal aims to replace sectoral digital resilience arrangements under individual EU directives and regulations in relation to financial institutions with a single directly effective omnibus piece of legislation. The proposal for the DORA Regulation, once adopted, is intended to stand

78 Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, as amended.

79 Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC.

alongside the current regulation of individual financial institutions, auditors and audit firms and will establish a uniform approach to operational risks arising from the use of information technology, the duty to notify supervisory authorities in the event of significant incidents (reporting), and ICT risk testing. It will also regulate the relationship with ICT services providers and introduce the oversight of critical ICT service providers. Last but not least, the proposal for the regulation promotes the sharing of cyber threat information among financial institutions, and between financial institutions and supervisory authorities. In November 2021, COREPER approved the EU Council's mandate to negotiate with the European Parliament. The French presidency launched trilogue negotiations, with the first preparatory group meeting at the EU Council in January 2022. At the third political trilogue in May 2022, a political agreement was reached between the EP, the EU Council and the Commission, and the final text will be fine-tuned in the course of technical trilogues under the French presidency.

The proposal for a pilot regime regulation contains special arrangements for central securities depositories and multilateral trading facilities allowing trading in DLT transferable securities. This is a special arrangement for a time-limited pilot regime of not more than six years from the granting of the authorisation. Under the pilot regime, such persons may apply for predetermined exemptions from current European rules. The proposal for a regulation lays down the conditions for granting, modifying and withdrawing permits. It includes rules governing the granting of exemptions and the setting of additional obligations and corrective measures. There are also rules on the operation and supervision of DLT market infrastructure. In addition, it covers cooperation between DLT market infrastructure operators, supervisory authorities and the ESMA. COREPER approved the EU Council mandate for the proposal in June 2021. It is expected that a solution to the modification of the CSDR covering the buy-in issue will be added to the proposal. As there was a time split between the discussion of this regulation and the amending directive, the amendment to MiFID II was included in the regulation under discussion. This amendment concerns a change to the definition of a financial instrument. It will now be explicitly stipulated that financial instruments include those issued via DLT technology. Trilogues were held under the Slovenian presidency in September, October and November 2021, and a political agreement was reached with the European Parliament in November 2021. The proposal for the regulation is currently being translated and is expected to be published in the Journal in spring 2022.

The proposal for an amending directive responds to the adoption of the proposals for the DORA, MiCA and Pilot Regime Regulations by making the necessary amendments to several directives. Specifically, these are the Statutory Audit Directive, the UCITS, the Solvency II, the AIFMD, the CRD, the MiFID II, the PSD II, and the IORP II. The directive requiring the most extensive change is MiFID II. The purpose of the changes made is to harmonise requirements for to secure financial institutions' systems against cyber-attacks across the financial market. The requirements will now be based on the DORA Regulation, i.e. they will not be regulated separately in each piece of legislation. Some of the current incident reporting will be removed from PSD II to DORA. The amending directive is being discussed in parallel with the DORA Regulation.

Consumer Credit Directive (CCD2)

In June 2021, the Commission published a proposal for a Consumer Credit Directive (CCD2) to replace the existing CCD.[80] According to the Commission, the proposal responds to digitalisation in financial services, new forms of lending – crowdfunding (lending between individual consumers via a platform), and Member States' different approaches to assessing the creditworthiness of consumer credit applicants. It also takes into account developments in the retail credit market at the time of the COVID-19 pandemic. It is proposed that this Directive (like the current one) be applied with maximum harmonisation and transposed within 24 months of its publication. In particular, the proposal extends the scope of the existing regulation to include the provision of crowdfunding credit services and also newly applies to loans below EUR 200, interest-free loans, operating leases, authorised overdrafts or short-term loans of up to three months with minimal fees. The new concept of a "summary of key information" (SECCO) is introduced. A new obligation for Member States to introduce a cap on the cost of credit – using at least one of the criteria of an interest rate cap, an APR cap or a cap on the total cost of credit – is also proposed. The proposal specifies the procedure to be followed by creditors when assessing the creditworthiness of a credit applicant and introduces the right of consumers to challenge the result of an assessment made on the basis of automated data processing. There is a new obligation for creditors to put in place mechanisms for leniency before initiating judicial recovery proceedings against defaulting debtors; this is a modification taken from the proposal for a directive on credit purchasers and credit servicers (the NPL Directive). Member States should also ensure that consumers receive adequate financial education and

[80] Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC, as amended.

accessible debt advice. Non-bank credit providers, credit intermediaries and providers of crowdfunding credit services should be appropriately licensed and supervised.

So far, 20 meetings of the EU Council working party have been held on the proposal and five compromise proposals have been submitted (one under the Slovenian presidency, four under the French presidency). In June 2022, COMPET approved the general approach. Compared to the Commission's original proposal, the main changes proposed relate in particular to the scope of the Directive (the removal of crowdfunding credit services, the exclusion of operating leases and payments for goods and services 90 days in arrears, the exclusion of all mortgages, the introduction of proportionality for free credit and certain other credit), price regulation (more general wording allowing Member States to use existing case law to comply with the obligation) and the implementation of the obligation to assess the creditworthiness of credit applicants. In the European Parliament, the IMCO and ECON committees are discussing the proposal and have formulated amendments to it, which should be put to a vote by the plenary in September 2022. Trilogues will be opened under the Czech presidency.

European Green Bonds (EuGBS)

In July 2021, the Commission published a proposal for a regulation on European green bonds. This regulation would regulate conditions for the issuance of "European green bonds", setting out requirements for bond issuers wishing to use the European green bond or EuGB label for the environmentally sustainable bonds they offer to investors in the EU. Funds raised from European green bonds should be used to finance economic activities that have a lasting positive impact on the environment, which is to be ensured by following the requirements of the Taxonomy Regulation. The compliance of European green bonds with the proposal for the regulation will be checked by external ESMA registered assessors. Any legal person may issue European green bonds. Several expert-level meetings were held on the proposal during 2021. In January 2022, an attaché-level meeting was held, where a compromise proposal was presented. The proposal for the regulation is now moving towards a general approach by the EU Council. Trilogues can be expected under the Czech presidency.

Revision of the Solvency II Directive

In September 2021, the Commission published a proposal for a directive amending the Solvency II Directive. This directive is a crucial legal instrument for the smooth functioning of the single market within the insurance sector. In particular, the review of Solvency II aims to provide better incentives for long-term sustainable financing of the national and EU economy, address a potential increase in systemic risk in the insurance sector, maintain a stable overall level of capital requirements for the insurance sector, ensure more effective application of the proportionality principle, adjust reporting requirements and improve the quality, consistency and coordination of supervision of insurance and reinsurance undertakings within a group and cross-border activities. In addition, the Commission is considering modifications to existing exemptions from Solvency II and proposing a new concept of low-risk companies and low-risk groups in the context of proportionality.

Five expert meetings were held on the proposal in the second half of 2021, followed by seven meetings under the French presidency up to the end of April 2022. The French presidency prepared draft compromise texts on provisions related to the European Green Deal (in particular the new obligation to draw up analyses of climate change scenarios and a review of sustainability risks), as well as draft compromise texts on macro-prudential instruments, reporting and disclosure, the quality of supervision, proportionality and cross-border supervision, and an overall draft compromise in April 2022, to be further discussed in May 2022. The approval of the draft revision of the directive is closely linked to the delegated act that is being discussed in parallel at EGBPI meetings. In particular, it addresses the provisions on long-term guarantees and long-term investments. The French presidency achieved a general EU Council approach in June 2022. Under the Czech presidency, it can be expected that the European Parliament will reach a position at the end of the presidency.

Recovery and Resolution of Insurance and Reinsurance Undertakings (IRRD)

In September 2021, the Commission published a proposal for a directive governing the framework for the recovery and resolution of insurance and reinsurance undertakings[81] (IRRD). The aim of the proposal is to establish a minimum harmonised framework for dealing with the consequences when an insurance or reinsurance undertaking is in financial difficulties. The establishment of harmonised policies and procedures will contribute to the timely and orderly resolution of an insurer's distress without disrupting the financial system or the real economy, while minimising the impact on insured persons. Minimum harmonisation, including the

[81] Proposal for a Directive of the European Parliament and of the Council of 22 September 2021 establishing a framework for the recovery and resolution of insurance and reinsurance undertakings and amending Directives 2002/47/EC, 2004/25/EC, 2009/138/EC, (EU) 2017/1132 and Regulations (EU) No 1094/2010 and (EU) No 648/2012.

definition of a common approach to the basic components of recovery and resolution procedures, will eliminate current inconsistencies and facilitate cross-border cooperation. At the same time, Member States will be left room to adopt additional measures at national level, as long as these measures are compatible with the principles, minimum requirements and objectives set at EU level. The proposal for the directive is closely linked to the revision of the Solvency II, in particular as regards the rules on prudential supervision.

The Slovenian presidency completed the first review of selected topics over the course of five meetings in the second half of 2021. Resolution tools and powers, objectives, conditions and general principles of resolution, valuation and guarantees were addressed. Up to the end of March 2022, the subsequent French presidency had organised four meetings on resolution objectives and general principles, a resolvability assessment, recovery and resolution plans for solo and group insurers. Resolution financing and resolution tools were also discussed. The Czech presidency will continue to discuss the proposal in an EU Council working party.

Implementation of the Basel III International Standards (CRR III/CRD VI)
In October 2021, the Commission published a proposal revising the Capital Requirements Directive and Regulation, known as CRD VI and CRR III. The proposal transposes into European law the remaining part of the international standard Basel III, which introduces, among other things, the new regulation of output floors (designed to reduce the variability of capital requirements calculated on the basis of "internal models"), the treatment of a standardised approach to measuring credit risk (increasing the risk sensitivity of this approach), an internal-rating-based approach to credit risk measurement, the establishment of a minimum capital requirement for CVA risk (the treatment of derivative valuations taking account of counterparty credit risk), the setting of a minimum capital requirement for operational risk, and provisions related to the resolution framework, in particular the indirect underwriting of internal MREL. The proposal also covers certain topics beyond Basel III, including a revision of macro-prudential instruments, a revision of the treatment of administrative penalties, a revision of the powers of supervisory authorities, the treatment of sustainable finance, the treatment of the "fit & proper" field, a change in the treatment of third-country branches, and the treatment of consolidation in relation to innovative companies or other digital financial businesses.

In November 2021, an initial expert meeting was held and the proposal was presented to the EU Council. Regarding the proposals linked to the resolution framework, the part thereof mainly regulating indirect underwriting of internal MREL was earmarked for adoption in accelerated procedure and an EU Council mandate for negotiations with the European Parliament was adopted at the COREPER meeting in December 2021.

By the end of April 2022, the French presidency had organised seven meetings, at which Member States had the opportunity to comment on various areas of the Commission's proposal and, where appropriate, to propose legislative amendments, which the French presidency would then present to the other Member States. Proposals aimed at finding a compromise were only presented by the French presidency towards the end of its mandate. The Czech presidency will build on this work with a view to achieving a general approach.

Capital Markets Union (CMU)
In November 2021, the Commission published a package of further legislative proposals under the Capital Markets Union (CMU) project, which aims to integrate capital markets. Four proposals were published as part of this legislative package: a proposal to create a single access point for information on undertakings (ESAP); a proposal for a review of the regulation governing European long-term investment funds (ELTIF); a proposal for a review of the Alternative Investment Fund Managers Directive (AIFMD); and a proposal for a review of the Markets in Financial Instruments Regulation (MiFIR). The capital markets union legislative package was presented to the EU Council in December 2021.

Financial and corporate sustainability information is currently fragmented, appearing in many languages and on many platforms. These inefficiencies pose a barrier to cross-border investing. The Commission is therefore proposing the creation of a European Single Access Point (ESAP) by ESMA. The ESAP would bring together publicly available information on EU companies and investment products. The proposal is not intended to introduce any new information obligations in terms of content, but only to centralise and harmonise the format of data already published. The French presidency announced plans for a general EU Council approach. If no general approach is reached by the French presidency, the Czech presidency will take over the negotiation of the proposals. The initiation of trilogues then depends on when the European Parliament's position will be known.

The market in long-term investment funds (ELTIFs) is relatively small and underutilised. There are currently only about 57 funds, and these can be found in just four EU countries. The review of the regulation governing

European long-term investment funds is primarily aimed at making investing in long-term investment funds more attractive. In particular, certain requirements regarding the offering of ELTIFs to professional customers are to be liberalised. The role of retail investors is also to be strengthened in order to encourage them to invest more in these funds. The proposal for the regulation was discussed at expert level up to the end of March 2022. A compromise proposal was published in March 2022. Attaché-level negotiations commenced in April 2022. The EU Council's general approach can be expected by the end of the French presidency. Trilogues will take place under the Czech presidency.

The aim of the review of the Alternative Investment Fund Managers Directive (AIFMD) is to increase the efficiency of financing by harmonising the legal framework for funds that provide loans to companies. The revised provisions are also intended to improve investor protection. This should be reflected, for example, in the fact that third parties to whom fund managers have delegated certain activities must comply with the same rules across the EU. The proposal for the directive will be discussed at expert level until mid-April 2022. A partial compromise proposal was published in March 2022. Attaché-level negotiations began in the second half of April 2022. The EU Council's general approach can be expected by the end of the French presidency. Trilogues will take place under the Czech presidency.

The review of the Markets in Financial Instruments Regulation (MiFIR) is primarily expected to affect data. According to the Commission, a well functioning market bassed on high quality market data. The changes proposed in this context should increase transparency. The new rules should also deliver a comprehensive view of trading conditions on exchanges across the EU. All investors, whether retail or professional, should have access to consolidated data across EU markets, regardless of the financial instruments involved. A partial compromise proposal is due to be presented in May 2022. The French presidency is unlikely to achieve a general EU Council approach. The Czech presidency will continue to discuss the proposal in an EU Council working party.

9.4 National Financial Market Legislation

Czech National Bank

During 2021, the legislative process of amending the CNB Act made progress. The draft was submitted to the Chamber of Deputies in June 2019 (Parliamentary document No 532). The draft amendment contained several partial substantive changes and legislative and technical corrections aimed at easier and, above all, uniform interpretation of the CNB Act. The substantive changes mainly included an extension to the range of monetary policy instruments and the range of subjects with which the CNB can engage in trading on the open market. Furthermore, there was a proposal to complement the CNB's authorisation to set an upper limit of selected credit indicators for consumer loans secured with residential property, thereby extending the macro-prudential policy instruments. The amendment was approved by the Chamber of Deputies in March 2021. In April 2021, the Senate debated it and returned it with amendments that were subsequently rejected by the Chamber of Deputies. The amendment was thus definitively approved in the wording approved by the Chamber of Deputies in March 2021 and took effect on 1 August 2021 as Act No 219/2021 Coll.

Credit Institutions

In 2021, the legislative process of amending the Banking Act and certain other laws continued. The Chamber of Deputies had been debating the amendment since June 2020 (Parliamentary document No 903). The bill transposes into Czech law amendments to the CRD, adopted together with an amendment to the CRR as part of a broader package of risk-mitigation measures in the banking sector, i.e. the Risk Reduction Measures Package (RRMP). The most important substantive changes under the proposed law included changes to the rules for the calculation of the capital requirement at Pillar 2 level, adjustments to capital buffers, changes to the regulation of financial holding companies and mixed financial holding companies, changes to the remuneration regime aimed in particular at taking into account the principle of proportionality and introducing the obligation to establish an intermediate parent undertaking for large non-EU groups. The bill also included related partial amendments to the systematics of the Banking Act, the Savings and Credit Unions Act, and the Capital Market Business Act. Primarily to harmonise the terminology, several other regulations were marginally affected. The amendment was approved by the Chamber of Deputies in June 2021. In July 2021, the Senate debated it and returned it with amendments that were subsequently accepted by the Chamber of Deputies. The amendment was promulgated in the Collection of Legislative Acts under number 353/2021 Coll.

Bank Recovery and Resolution
In 2021, the legislative process for the draft bill amending the Recovery And Resolution Act and other related acts[82] (Parliamentary document 904) continued. The bill transposed an amendment to the Recovery and Resolution Directive (BRRD II) forming part of the RRMP package with the aim, *inter alia*, of incorporating recent developments within the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) into Czech law. The aim of BRRD II, and therefore also of the bill, was to boost the resilience of regulated entities to potential economic shocks and help to strengthen the financial system by introducing or further clarifying the concepts geared towards those goals. Among the most important substantive changes to the proposed law were those related to the implementation of the total loss-absorbing capacity standard (TLAC), the distinction between the two main crisis resolution models of the institution in the group, the harmonisation of the instrument for deferring the maturity of liabilities (the moratorium), and the modification of provisions relating to the contractual recognition of the depreciation or conversion of depreciable liabilities. The bill was passed by the Chamber of Deputies in June 2021 and by the Senate in July 2021 and was subsequently promulgated in the Collection of Legislative Acts under number 298/2021 Coll.

Capital Market
In connection with the Government's adoption of the 2019–2023 Czech Capital Market Development Concept in March 2019, work started on an amendment that would implement legislative measures resulting from the Concept in the legal system. In 2021, the legislative process for a draft bill amending some acts in connection with the development of the capital market continued. The bill aimed primarily to introduce a long-term investment account and an alternative participation fund. The long-term investment account should be a new product on the financial market and an alternative to existing financial products offering tax-assisted retirement savings, such as pension funds and life insurance. Like these products, it is intended to create savings for old age. The new type of participation fund (an "alternative participation fund") is planned to serve as an alternative to existing dynamic funds. The fee policy for this type of fund should be set so loosely as to allow pension companies to invest, for example, in private equity fund assets, and to offer participants potentially higher returns, albeit accompanied by the higher risk attached to this investment. The bill also introduced a limited partnership for investment certificates. This sort of entity will be able to create sub-funds. A proposal was also made to mandate the use of the XML format for enforcement purposes, which should lead to a reduction in costs incurred by financial market participants when dealing with enforcement agents. In order to combat risky (fraudulent) bonds, the terms and conditions of issue of bonds without a prospectus (specifically issues up to EUR 1 million) were extended to include information on the issuer so that the investor can sufficiently assess the risk posed by the issuer and hence the whole issue (so far, the terms and conditions of issue, unlike the prospectus, have only contained information on the bond). The persons offering these bonds will publish the terms of issue on their websites. In addition, the Supplementary Pension Savings Act proposed measures to allow for greater mobility between transformed funds and participation funds. However, the legislative process, conducted under Parliamentary document No 993, was not completed by the end of the parliamentary term. According to the Government's plan of legislative work, the bill should be resubmitted to the Government by the end of June 2022.

Another amendment related to the capital market was a draft bill amending some acts in the area of the financial market, especialy in connection with the implementation of European Union legislation concerning the Capital Markets Union, which was approved by the Government in December 2020 and subsequently referred to the Chamber of Deputies (Parliamentary document No 1117). This draft bill contained a revision of legislation on capital requirements for securities dealers. Thus far, securities dealers had been governed by capital requirements for banks, which was unnecessarily burdensome for most of them, and therefore the regime was relaxed. Another area was legislation on covered bonds, which have yet to be harmonised at European level. Transposition into Czech law was rather minimalist as, for the most part, national legislation already satisfied the requirements of the directive. The proposal was also made to transpose, into Czech law, new rules on the cross-border offering of collective investment funds, which is to be made much easier and more transparent. The bill also implemented regulations on sustainable finance, known as green finance, and the provision of crowdfunding services. In addition, certain minor changes were made in connection with the revision of the rules governing the European System of Financial Supervision. The draft bill could not be debated before the parliamentary term ended. Therefore, in December 2021 an identical version of the bill was resubmitted to the Chamber of Deputies (Parliamentary document No 95), which approved it at first reading in March 2022. The bill was passed by the Senate in April 2022 and subsequently promulgated in the Collection of Legislative Acts

[82] Draft Bill amending Act No 374/2015 Coll., on recovery and resolution in the financial market, as amended and other related acts.

under number 96/2022 Coll.

Pan-European Personal Pension Product
In 2021, legislative work continued on the draft of an adaptation law on pan-European personal pension products and amending related acts (the Pan-European Personal Pension Product Act). The draft bill was approved by the Government in January 2021 and was debated by the Chamber of Deputies as Parliamentary document No 1145. The PEPP Regulation is binding in its entirety and directly applicable in all Member States. In this regard, the new legislation aimed to make the necessary adaptation to the legal order, in particular by designating a competent authority to exercise powers under the PEPP Regulation, defining professional competence requirements for the distribution of a pan-European personal pension product, adding certain information obligations, and defining the constituent elements of offences for breaches of the obligations under the Act and the PEPP Regulation, and fines and other measures. The subject of the PEPP Regulation was the introduction of a pan-European personal pension product. This made it possible to offer a harmonised long-term financial pension product with benefits, in particular, for EU citizens working in several Member States. The regulation seeks to create a more cost-effective and transparent market for voluntary pension savings managed on a pan-European scale. As it is not possible to interfere with the organisation of national pension systems, the introduction of the PEPP was not intended to replace or harmonise individual EU Member States' existing national pension systems. It is an additional supplementary personal pension product based on voluntary offer and voluntary participation that can be offered by a wide range of financial institutions. For example, insurance companies, banks, and investment companies will be able to offer PEPPs, i.e. it can take the form of an insurance product, a deposit or an investment product. The legislative process was not completed by the end of the parliamentary term. Therefore, in November 2021 an identically worded bill was resubmitted to the Chamber of Deputies (Parliamentary document No 61), which passed it in March 2022. The Senate passed it (Senate document No 218) in April 2022. The act was then promulgated in the Collection of Legislative Acts under number 91/2022 Coll.

Amendment to the Payment Act
In 2021, the legislative process of amending the Payments Act made progress. The draft amendment was submitted to the Chamber of Deputies in June 2020 (Parliamentary document No 863). The proposed changes are mainly a response to the adoption of the amendment to the Cross-Border Payments Regulation that seeks to deal with the expansion of the dynamic currency conversion service (DCC). This involves currency conversion offered by ATM operators when users make cash withdrawals or by merchants when users pay by card. The service may be offered when payment is made in a currency other than the currency of the payment account, i.e. Czech citizens may encounter this service abroad, whereas in the Czech Republic it is offered to foreign tourists. The amendment to the Cross-Border Payments Regulation, laying down rules on how exchange rates should be presented, has been adopted as this service may not have been transparent enough for consumers. These rules need to be supervised and enforced, with the CNB supervising ATM operators and the Czech Trade Inspection Authority supervising merchants. A licensing system is being introduced for independent ATM operators so that the CNB supervises the entities it has licensed.

The draft bill also amends the licensing arrangements for small-scale payment service providers and small-scale electronic money issuers. This is intended to ensure that only verified persons are granted the relevant authorisations. On the other hand, the bill ensures that these entities will have better access to payment accounts maintained by banks, which will help to increase competition in the payment services market. Administrative penalties have also been revised and some technical changes have been made that will contribute to the smooth application of the law.

The draft bill could not be debated before the parliamentary term ended. Therefore, in December 2021 it was resubmitted (Parliamentary document No 68). The draft bill was passed by the Chamber of Deputies in March 2022 and by the Senate in May (Senate document No 232). The act was then promulgated in the Collection of Legislative Acts under number 129/2022 Coll.

9.5 Non-Legislative Financial Market Activities of the MoF

Financial Education
The National Financial Education Strategy 2.0 (NSFV 2.0) outlines the basic direction that financial education in the Czech Republic should take in the coming years. The implementation of NSFV 2.0 is supported by the Financial Education Working Group (FEWG), which facilitates the fulfilment of NSFV 2.0 objectives and enables relevant stakeholders to meet and exchange information and experience. The FEWG's members are

representatives of the public sector, professional associations operating in the financial market, entities implementing financial education projects (NGOs, consumer associations, debt counselling centres), the academic sector, and education experts. The MoF, as mandated by the NSFV 2.0, also manages the National Financial Education Projects Register and every year coordinates Global Money Week, a financial education event. During 2021, the MoF also worked with the Czech Schools Inspectorate to devise questionnaires designed to measure the financial literacy of young people (primary and secondary schools) and to create a questionnaire for school head teachers to determine the method and extent of financial literacy should be taught.

The "Why get financially educated?" Portal

The MoF continuously maintains a financial literacy guidance portal called "Financial Literacy or Why Get Financially Educated?" https://financnigramotnost.mfcr.cz, which is designed for the general public and professionals alike. The portal provides a single point of access for information on the functioning and risks of the financial market, and on the system of financial education in the Czech Republic and abroad. The content includes, among others, family finances, including the creation of a household budget; the structure, institutions and products of the financial market; the contact details of consumer and debt counselling centres which provide free assistance in case of disputes with financial market institutions or, for example, in case of a difficult life situation; dispute resolution, advice and guidance focused primarily on over-indebtedness, debt relief and foreclosures; and links to interesting sites with projects, games and calculators in the Czech Republic and abroad. The National Financial Education Projects Register has also been launched on the portal. The MoF also regularly uses the portal as a platform to report on its legislative and non-legislative activities in the field of consumer protection and financial education, as well as on the latest developments in related European legislation.

Preparation of Questions for the Professional Examination of Distributors of Financial Products

The MoF, in cooperation with the CNB, ensures the preparation and updating of a set of questions for sectoral professional competence examinations – organised by accredited entities – for financial service distributors. The text of the questions is updated on an ongoing basis in response to identified suggestions and in close cooperation with sectoral professional associations. In 2021, the questions were updated in all regulated sectors, i.e. insurance, consumer credit and capital markets. Questions on the pan-European personal pension product are planned for publication in 2022.

Translation of Selected Laws into English

In 2021, an informative updated translation of the Investment Companies and Investment Funds Act, as amended by Amendment No 33/2020 Coll., was prepared and is available in the Legislation and Legislative Documents section of the Ministry of Finance website.

Innovation in the Financial Market

Since March 2021, the Ministry of Finance website has featured an Innovation Bulletin that highlights the latest developments in financial market innovation. The website also alerts the public to upcoming webinars organised by the MoF, to current developments in financial innovation, and progress in the regulation of the digital economy with implications for the financial market.

Instant Payments Consultation

In April 2021, the Commission published two public consultations on spot payments. The MoF published a link to the consultations on its website and invited stakeholders to engage in the consultation. The MoF itself did not engage in the consultation process as the questions were primarily addressed to payment service users and providers.

Ministry of Finance Warning on the Risks of Investment Tokens

In November 2021, the MoF warned the public about the risks of investment tokens. Recently, there has been a significant increase in the presentation of certain forms of investment referred to as investment tokens in the public space and in the media. Investment in investment tokens is not subject to capital market regulation and the investment token market is not supervised by the CNB. Losses arising from such investment are not covered by the DIF or the GFOCP.

Consultation on the Transposition of the Credit Servicers and Credit Purchasers Directive

In December 2021, the MoF prepared a public consultation on the transposition of the Credit Servicers and Credit Purchasers Directive. The aim of the consultation was to obtain industry professionals' views and suggestions on the use of the discretions contained in the directive. A working translation of the directive from the period before the directive was published in the Journal was also attached. Following the deadline for responses, the consultation was analysed, and this evaluation was also published on the MoF website.

LIST OF TABLES

LIST OF GRAPHS

LIST OF BOXES

LIST OF ACRONYMS AND ABBREVIATIONS

Abs.	absolute
AHWP	Ad Hoc Working Party on the Strengthening of the Banking Union
AIFMD	Alternative Investment Fund Managers Directive
AKAT	Czech Capital Market Association (Asociace pro kapitálový trh ČR)
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
APRC	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
a.s.	joint-stock company (akciová společnost)
ATFC	Advisory Task Force on the OECD Codes of Liberalisation
ATX	Austrian Traded Index
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlement
BMR	Benchmarks Regulation
bn	billion
BoE	Bank of England
BoJ	Bank of Japan
BRRD	Bank Recovery and Resolution Directive
BSB	building savings bank
BSC	building savings contract
BUX	Budapest Stock Exchange Index
CBPR	Cross Border Payments Regulation
CCP	Central Counterparty Clearing House
CCPRR	Central Counterparties Recovery and Resolution Proposal
CEGBPI	Commission Expert Group on Banking, Payments and Insurance
CFM	Committee for Financial Markets OECD
CMRP	Capital Market Recovery Package
CMU	Capital Markets Union
CNB	Czech National Bank
CNY	Chinese yuan – International currency code
COMPET	Competitiveness Council
COREPER	Comité des Représentants Permanents
CR	Czech Republic
CRD	Capital Requirements Directive
CRF	Crisis Resolution Fund
CRR	Capital Requirements Regulation
CSDD	Directive on Corporate Sustainability Due Diligence
CSDP	Central Securities Depository Prague
CSDR	Central Securities Depositories Regulation
CZK	Czech koruna (crown) – International currency code
CZSO	Czech Statistical Office
D.3	Working Party on Financial Services and the Banking Union
DAX	Deutscher Aktienindex (German stock index)
DCC	Dynamic Currency Conversion
DIF	Deposit Insurance Fund
DLT	Distributed Ledger Technology
DORA	Digital Operational Resilience Act
DSTI	Debt Service to Income
DTI	Debt to Income
EBA	European Banking Authority
EBC	European Banking Committee
EC	European Council
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council

ECON	Committee on Economic and Monetary Affairs
EDIS	European Deposit Insurance Scheme
EEA	European Economic Area
EFC	Economic and Financial Committee
EFTA	European Free Trade Association
EGESC	Expert Group of the European Securities Committee
EGNPL	Expert Group on non-performing loans
EIOPA	European Insurance and Occupational Pensions Authority
EIOPC	European Insurance and Occupational Pensions Committee
ELTIF	European Long-Term Investment Funds
EMD2	Electronic Money Directive
EMIR	European Market Infrastructure Regulation
EONIA	Euro Overnight Index Average
Council	European Council
ESAs	European supervisory authorities
ESC	European Securities Committee
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euro – International currency code
Euro Stoxx 50	Stock index tracking the performance of 50 blue-chip companies in the euro area
FA	Financial Arbitrator
FAC	Foreign Affairs Council
Fed	Federal Reserve System
FSB	Financial Stability Board
FSC	Financial Services Committee
FSF	Financial Stability Forum
FTSE 100	Financial Times Stock Exchange 100 Index
G.23	Working Party on Consumer Protection and Information
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
GEGIFR	Government Expert Group on the Interchange Fee Regulation
GEGRFS	Government Expert Group on Retail Financial Services
GFOCP	Guarantee Fund of Investment Firms (Garanční fond obchodníků s cennými papíry)
GSFT	Financial Market Guarantee Scheme (Garanční systém finančního trhu)
HUF	Hungarian forint – International currency code
IAIS	International Association of Insurance Supervisors
IASC	International Accounting Standards Committee
ICT	Information and Communication Technologies
IFR	Interchange Fee Regulation
IMCO	Committee on the Internal Market and Consumer Protection
IMF	International Monetary Fund
INFE	International Network on Financial Education
IORP	Institutions for Occupational Retirement Provision
IOSCO	International Organization of Securities Commissions
IPPC	Insurance and Private Pensions Committee
IRRD	Insurance Recovery and Resolution Directive
JERRS	Regulated institutions and registered financial market entities lists published by the CNB
JPY	Japanese yen – International currency code
LIBOR	London Inter-bank Offered Rate
LTV	Loan to Value
MCD	Mortgage Credit Directive
MiCA	Regulation of Markets in Crypto-assets
MID	Motor Insurance Directive

MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
ML	mortgage loan
mn	million
MNB	Central Bank of Hungary (Magyar Nemzeti Bank)
MOEX	Moscow Exchange Index
MoF	Ministry of Finance
MSCI ACWI	Morgan Stanley Capital International All Country World Index
MSEG	Member States expert group on sustainable finance
NBP	National Bank of Poland
Nikkei 225	Japanese Nikkei 225 Stock Average
NPE	Non-performing exposure
NPLs	Non-performing loans
NSFV	National Financial Education Strategy (Národní strategie finančního vzdělávání)
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
OTC	over-the-counter
O/N	overnight
p.a.	per annum
PAD	Payment Account Directive
pcs	pieces
PEPP	Pan-European personal pension product
PF	participation fund
PLN	Polish złoty – International currency code
pp	percentage point
PRIBOR	Prague Inter-bank Offered Rate
PSD II	Payment Service Directive
PSE	Prague Stock Exchange
PSFV	Financial Education Working Group (Pracovní skupina pro finanční vzdělávání)
PX	Primary PSE index
PX-GLOB	PSE index with wide base
PX-TR	PSE Total Return Index
RCGs	Regional Consultative Groups
RRMP	Risk Reduction Measures Package
RUB	Russian rouble – International currency code
S&P 500	Standard and Poor’s 500
SAX	Slovak Share Index (Slovenský akciový index)
SusFin	Sustainable finance
SRMR	Single Resolution Mechanism Regulation
SSE Index	Shanghai Stock Exchange Composite Index
TF	transformed fund
TFFCP	Task Force on Financial Consumer Protection
Tier 1	The core capital of a credit institution that includes equity capital and disclosed reserves.
TLAC	Total Loss-Absorbing Capacity
UCITS	Undertakings for Collective Investment in Transferable Securities
US	United States
USD	United States dollar – International currency code
WG	working group
WIG 20	Warsaw Stock Exchange (Warszawski Indeks Giełdowy)
WP	working party
WPPP	Working Party on Private Pensions
yrs	years
2W	two-week
3M	three-month

APPENDIX 1: FINANCIAL MARKET LEGISLATION

The following changes were made to the financial market legislation of the Czech Republic and of European Union in 2021 (the content of Appendix 1 reflects the state as of 30 April 2022):

A1.1 Cross-Sectoral Financial Market Regulations

1) European legislation and other initiatives published in 2021:

- Commission Delegated Regulation (EU) 2021/517 of 11 February 2021 amending Delegated Regulation (EU) 2017/2361 as regards the arrangements for the payment of contributions to the administrative expenditures of the Single Resolution Board;
- Commission Delegated Regulation (EU) 2021/1118 of 26 March 2021 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the methodology to be used by resolution authorities to estimate the requirement referred to in Article 104a of Directive 2013/36/EU of the European Parliament and of the Council and the combined buffer requirement for resolution entities at the resolution group consolidated level where the resolution group is not subject to those requirements under that Directive;
- Commission Delegated Regulation (EU) 2021/1340 of 22 April 2021 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards determining the content of the contractual terms on recognition of resolution stay powers;
- Commission Delegated Regulation (EU) 2021/1527 of 31 May 2021 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards for the contractual recognition of write down and conversion powers;
- Commission Implementing Regulation (EU) 2021/622 of 15 April 2021 laying down implementing technical standards for the application of Directive 2014/59/EU of the European Parliament and of the Council with regard to uniform reporting templates, instructions and methodology for reporting on the minimum requirement for own funds and eligible liabilities;
- Commission Implementing Regulation (EU) 2021/1751 of 1 October 2021 laying down implementing technical standards for the application of Directive 2014/59/EU of the European Parliament and of the Council with regard to uniform formats and templates for notifications of determination of the impracticability of including contractual recognition of write down and conversion powers;
- Decision (EU) 2021/789 of the Single Resolution Board of 31 March 2021 on discharge in respect of the implementation of the budget and on the closure of the accounts of the Single Resolution Board ('SRB') for the financial year 2019 (SRB/PS/2021/03).

2) Pending European legislation (including legislation published after 31 December 2021) 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 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institution groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities;
- Proposal for a Regulation of the European Parliament and of the Council establishing a European single access point providing centralised access to publicly available information of relevance to financial services, capital markets and sustainability;
- Proposal for a Regulation of the European Parliament and of the Council amending certain Regulations as regards the establishment and functioning of the European single access point;
- Proposal for a Directive of the European Parliament and of the Council amending certain Directives as regards the establishment and functioning of the European single access point;
- Proposal for a Directive of the European Parliament and of the Council on consumer credits;
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2011/83/EU concerning financial services contracts concluded at a distance and repealing Directive 2002/65/EC;
- Commission Implementing Regulation (EU) 2022/365 of 3 March 2022 amending Implementing Regulation (EU) 2018/1624 laying down implementing technical standards with regard to procedures and standard forms and templates for the provision of information for the purposes of resolution

plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council;

- EBA submission of the draft regulatory technical standards under Article 9a (1) and (3) of Regulation (EU) No 1093/2010 setting up an AML/CFT central database (EBA-2021-D-3737).

3) Acts that took effect in 2021:

- Act No. 298/2021 Coll. amending Act No. 374/2015 Coll. on Recovery and Resolution in the Financial Market, as amended.

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2021):

- Act No 96/2022 Coll. amending some acts in the area of the financial market, especially in connection with the implementation of European Union legislation concerning the Capital Markets Union (in effect as of 29 May 2022).

5) Secondary legislation:

- Official communication of the Czech National Bank No. 1/2021 of 4 February 2021 setting an annual target level for contributions to the Resolution Fund for 2021;
- Official communication of the Czech National Bank No. 3/2022 of 7 February 2022 setting an annual target level for contributions to the Resolution Fund for 2022.

A1.2 Capital Market Legislation

1) European legislation and other initiatives published in 2021:

- Regulation (EU) 2021/337 of the European Parliament and of the Council of 16 February 2021 amending Regulation (EU) 2017/1129 as regards the EU Recovery prospectus and targeted adjustments for financial intermediaries and Directive 2004/109/EC as regards the use of the single electronic reporting format for annual financial reports, to support the recovery from the COVID-19 crisis;
- Regulation (EU) 2021/557 of the European Parliament and of the Council of 31 March 2021 amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation to help the recovery from the COVID-19 crisis;
- Regulation (EU) 2021/2259 of the European Parliament and of the Council of 15 December 2021 amending Regulation (EU) No 1286/2014 as regards the extension of the transitional arrangement for management companies, investment companies and persons advising on, or selling, units of undertakings for collective investment in transferable securities (UCITS) and non-UCITS;
- Commission Delegated Regulation (EU) 2021/527 of 15 December 2020 amending Commission Delegated Regulation (EU) 2017/565 as regards the thresholds for weekly position reporting;
- Commission Delegated Regulation (EU) 2021/528 of 16 December 2020 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the minimum information content of the document to be published for a prospectus exemption in connection with a takeover by means of an exchange offer, a merger or a division;
- Commission Delegated Regulation (EU) 2021/529 of 18 December 2020 establishing regulatory technical standards amending Delegated Regulation (EU) 2017/583 as regards adjustment of liquidity thresholds and trade percentiles used to determine the size specific to the instrument applicable to certain non-equity instruments;
- Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms;
- Commission Delegated Regulation (EU) 2021/1254 of 21 April 2021 correcting Delegated Regulation (EU) 2017/565 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) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers;

- Commission Delegated Regulation (EU) 2021/1415 of 5 May 2021 supplementing Regulation (EU) 2017/2402 of the European Parliament and of the Council with regard to regulatory technical standards on the cooperation, exchange of information and notification obligations between competent authorities and ESMA, the EBA and EIOPA;
- Commission Delegated Regulation (EU) 2021/1348 of 6 May 2021 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria under which competent authorities may require changes to the compliance statement of non-significant benchmarks;
- Commission Delegated Regulation (EU) 2021/1349 of 6 May 2021 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for the competent authorities' compliance assessment regarding the mandatory administration of a critical benchmark;
- Commission Delegated Regulation (EU) 2021/1350 of 6 May 2021 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying the requirements to ensure that an administrator's governance arrangements are sufficiently robust;
- Commission Delegated Regulation (EU) 2021/1351 of 6 May 2021 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying the characteristics of the systems and controls for the identification and reporting of any conduct that may involve manipulation or attempted manipulation of a benchmark;
- Commission Delegated Regulation (EU) 2021/1352 of 6 May 2021 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying the conditions to ensure that the methodology for determining a benchmark complies with the quality requirements;
- Commission Delegated Regulation (EU) 2021/1383 of 15 June 2021 amending Delegated Regulation (EU) 2018/990 with regard to requirements for assets received by money market funds as part of reverse repurchase agreements;
- Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives;
- Commission Delegated Regulation (EU) 2021/2153 of 6 August 2021 supplementing Directive (EU) 2019/2034 of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for subjecting certain investment firms to the requirements of Regulation (EU) No 575/2013;
- Commission Delegated Regulation (EU) 2021/2154 of 13 August 2021 supplementing Directive (EU) 2019/2034 of the European Parliament and of the Council with regard to regulatory technical standards specifying appropriate criteria to identify categories of staff whose professional activities have a material impact on the risk profile of an investment firm or of the assets that it manages;
- Commission Delegated Regulation (EU) 2021/2155 of 13 August 2021 supplementing Directive (EU) 2019/2034 of the European Parliament and of the Council with regard to regulatory technical standards specifying the classes of instruments that adequately reflect the credit quality of the investment firm as a going concern and possible alternative arrangements that are appropriate to be used for the purposes of variable remuneration;
- Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation;
- Commission Implementing Regulation (EU) 2021/955 of 27 May 2021 laying down implementing technical standards for the application of Regulation (EU) 2019/1156 of the European Parliament and of the Council with regard to the forms, templates, procedures and technical arrangements for the publications and notifications of marketing rules, fees and charges, and specifying the information to be communicated for the creation and maintenance of the central database on cross-border marketing of AIFs and UCITS, as well as the forms, templates and procedures for the communication of such information;

- Commission Implementing Regulation (EU) 2021/1122 of 8 July 2021 amending Implementing Regulation (EU) 2016/1368 adding the Norwegian Interbank Offered Rate to and removing the London Interbank Offered Rate from the list of critical benchmarks used in financial markets established pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2021/2284 of 10 December 2021 laying down implementing technical standards for the application of Regulation (EU) 2019/2033 of the European Parliament and of the Council with regard to supervisory reporting and disclosures of investment firms;
- Directive (EU) 2021/338 of the European Parliament and of the Council of 16 February 2021 amending Directive 2014/65/EU as regards information requirements, product governance and position limits, and Directives 2013/36/EU and (EU) 2019/878 as regards their application to investment firms, to help the recovery from the COVID-19 crisis;
- Directive (EU) 2021/2261 of the European Parliament and of the Council of 15 December 2021 amending Directive 2009/65/EC as regards the use of key information documents by management companies of undertakings for collective investment in transferable securities (UCITS);
- Commission Delegated Directive (EU) 2021/1269 of 21 April 2021 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations;
- Commission Delegated Directive (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS);
- Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Strategy for Financing the Transition to a Sustainable Economy;
- Decision of the EEA Joint Committee No 253/2018 of 5 December 2018 amending Annex IX (Financial services) to the EEA Agreement [2021/1518];
- Decision of the EEA Joint Committee No 254/2018 of 5 December 2018 amending Annex IX (Financial services) to the EEA Agreement [2021/1519];
- Decision of the EEA Joint Committee No 255/2018 of 5 December 2018 amending Annex IX (Financial services) to the EEA Agreement [2021/1520].

2) Pending European legislation (including legislation published after 31 December 2021) and other initiatives of the European Commission:

- Proposal for a Regulation of the European Parliament and of the Council on European green bonds;
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments;
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds;
- Commission Delegated Regulation (EU) 2022/25 of 22 September 2021 supplementing Regulation (EU) 2019/2033 of the European Parliament and of the Council with regard to regulatory technical standards specifying the methods for measuring the K-factors referred to in Article 15 of that Regulation;
- Commission Delegated Regulation (EU) 2022/26 of 24 September 2021 supplementing Regulation (EU) 2019/2033 of the European Parliament and of the Council with regard to regulatory technical standards specifying the notion of segregated accounts to ensure client money’s protection in the event of an investment firm’s failure;
- Commission Delegated Regulation (EU) 2022/27 of 27 September 2021 amending Regulation (EU) No 236/2012 of the European Parliament and of the Council as regards the adjustment of the relevant threshold for the notification of significant net short positions in shares;
- Commission Delegated Regulation (EU) 2022/76 of 22 September 2021 supplementing Regulation (EU) 2019/2033 of the European Parliament and of the Council with regard to regulatory technical standards specifying adjustments to the K-factor ‘daily trading flow’ (K-DTF) coefficients;
- Commission Delegated Regulation (EU) 2022/244 of 24 September 2021 supplementing Regulation (EU) 2019/2033 of the European Parliament and of the Council with regard to regulatory technical standards specifying the amount of total margin for the calculation of the K-factor ‘clear margin given’ (K-CMG);

- Commission Delegated Regulation (EU) 2022/352 of 29 November 2021 amending Delegated Regulation (EU) 2019/815 as regards the 2021 update of the taxonomy laid down in the regulatory technical standards on the single electronic reporting format;
- Commission Delegated Regulation (EU) 2022/466 of 17 December 2021 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council by specifying criteria for derogation of the principle that approved publication arrangements and approved reporting mechanisms are supervised by the European Securities Markets Authority;
- Commission Delegated Regulation of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities;
- Commission Implementing Regulation (EU) 2022/389 of 8 March 2022 laying down implementing technical standards for the application of Directive (EU) 2019/2034 of the European Parliament and of the Council with regard to the format, structure, content lists and annual publication date of the information to be disclosed by competent authorities;
- Proposal for a Directive amending Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers.

3) Acts that took effect in 2021:

- none

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2021):

- Draft Bill amending some acts in connection with the development of the capital market;
- Draft Bill amending Act No 240/2013 Coll, on Management Companies and Investment Funds, as amended (expected to take effect on 1 January 2023).

5) Secondary legislation:

- Government Regulation No 432/2021 Coll., amending Government Regulation No 243/2013 Coll., on investment fund investments and techniques and instruments used for the purpose of portfolio management, as amended (in effect as of 1 January 2022);
- Decree No 570/2020 Coll., on the information obligation of certain persons doing business on the capital market towards the Guarantee Fund of Investment Firms (in effect as of 1 January 2021);
- Decree No 354/2021 Coll., amending Decree No 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms, as amended by Decree No 392/2017 Coll. (in effect as of 1 October 2021);
- Draft Decree amending Decree No 246/2013 Coll., on collective investment fund prospectus (statute) (expected to take effect on 31 July 2022);
- Draft Decree amending Decree No 244/2013 Coll., on more detailed regulation of some rules set out by the Act on Management Companies and Investment funds, as amended by Decree No 52/2016 Coll. (expected to take effect on 31 July 2022);
- Draft Decree amending Decree No 308/2017 Coll., on the more detailed regulation of certain rules in the provision of investment services (expected to take effect on 22 November 2022);
- Draft Decree amending Decree No 2/2019 Coll., on records of covered blocks (expected to take effect on 1 January 2023).

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

1) European legislation and other initiatives published in 2021:

- Regulation (EU) 2021/558 of the European Parliament and of the Council of 31 March 2021 amending Regulation (EU) No 575/2013 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 crisis;
- Commission Delegated Regulation (EU) 2021/539 of 11 February 2021 amending Delegated Regulation (EU) No 1222/2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council 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) 2021/930 of 1 March 2021 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards defining the nature, severity and duration of the economic downturn referred to in Article 181(1)(b) and Article 182(1)(b) of the same Regulation;
- Commission Delegated Regulation (EU) 2021/931 of 1 March 2021 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the method for identifying derivative transactions with one or more than one material risk driver for the purposes of Article 277(5), the formula for calculating the supervisory delta of call and put options mapped to the interest rate risk category and the method for determining whether a transaction is a long or short position in the primary risk driver or in the most material risk driver in the given risk category for the purposes of Article 279a(3)(a) and (b) in the standardised approach for counterparty credit risk;
- Commission Delegated Regulation (EU) 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of that Directive;
- Commission Delegated Regulation (EU) 2021/1527 of 31 May 2021 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards for the contractual recognition of write down and conversion powers;
- Commission Implementing Regulation (EU) 2021/249 of 17 February 2021 amending Implementing Regulation (EU) 2015/2197 with regard to closely correlated currencies in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2021/453 of 15 March 2021 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the specific reporting requirements for market risk;
- Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295;
- Commission Implementing Regulation (EU) 2021/763 of 23 April 2021 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council and Directive 2014/59/EU of the European Parliament and of the Council with regard to the supervisory reporting and public disclosure of the minimum requirement for own funds and eligible liabilities;
- Commission Implementing Regulation (EU) 2021/1018 of 22 June 2021 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of indicators of global systemic importance, and repealing Implementing Regulation (EU) No 1030/2014;
- Commission Implementing Regulation (EU) 2021/1043 of 24 June 2021 extending the transitional provisions on capital requirements for exposures to central counterparties laid down in Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2021/1971 of 13 September 2021 amending Implementing Regulation (EU) 2016/2070 laying down implementing technical standards on templates, definitions and information technology solutions to be used by institutions when reporting to the European Banking Authority and competent authorities pursuant to Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2021/2017 of 13 September 2021 amending Implementing Regulation (EU) 2016/2070 as regards benchmark portfolios, reporting templates and reporting instructions to be applied in the Union for the reporting referred to in Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2021/2005 of 16 November 2021 laying down implementing technical standards amending Implementing Regulation (EU) 2016/1799 as regards the mapping tables specifying the correspondence between the credit risk assessments of external credit

assessment institutions and the credit quality steps set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Council Implementing Decision (EU) 2021/325 of 22 February 2021 on the appointment of the Vice-Chair of the Supervisory Board of the European Central Bank;
- Commission Implementing Decision (EU) 2021/1753 of 1 October 2021 on the equivalence of the supervisory and regulatory requirements of certain third countries and territories for the purposes of the treatment of exposures in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Recommendation of the European Systemic Risk Board of 24 March 2021 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2021/2);
- Recommendation of the European Systemic risk Board of 30 April 2021 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2021/3);
- Recommendation of the European Systemic Risk Board of 26 July 2021 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2021/6).

2) Pending European legislation (including legislation published after 31 December 2021) and other initiatives of the European Commission:
- Proposal for a Regulation of the European Parliament and of the Council of 26 November 2015 amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme;
- Proposal for a Regulation of the European Parliament and of the Council amending regulation (EU) no 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor;
- Commission Delegated Regulation (EU) 2022/192 of 20 October 2021 amending the regulatory technical standards laid down in Commission Delegated Regulation (EU) No 1151/2014 as regards the information to be notified when exercising the right of establishment and the freedom to provide services;
- Commission Delegated Regulation (EU) 2022/439 of 20 October 2021 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the specification of the assessment methodology competent authorities are to follow when assessing the compliance of credit institutions and investment firms with the requirements to use the Internal Ratings Based Approach;
- Proposal for a Commission Delegated Regulation (EU) of 10 February 2022 amending Commission Delegated Regulation (EU) 2015/61 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards the liquidity coverage requirement for credit institutions;
- Commission Implementing Regulation (EU) 2022/185 of 10 February 2022 correcting certain language versions of Implementing Regulation (EU) 2021/451 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014;
- Commission Implementing Regulation (EU) 2022/193 of 17 November 2021 amending the implementing technical standards laid down in Implementing Regulation (EU) No 926/2014 laying down standard forms, templates and procedures as regards the information to be notified when exercising the right of establishment and the freedom to provide services;
- Proposal for a Directive of the European Parliament and of the Council amending directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, and amending directive 2014/59/EU.

3) Acts that took effect in 2021:
- Act No 49/2020 Coll., amending Act No 21/1992 Coll., on Banks, as amended, and amending Act No 253/2008 Coll., on certain measures against money laundering and the financing of terrorism, as amended, and other related acts (in effect as of 1 January 2021);
- Act No 174/2021 Coll., amending Act No 110/1997 Coll., on foodstuffs and tobacco products and on amendment of other related acts, as amended, and other related acts (amending Act No 21/1992 Coll., on Banks, as amended, in effect as of 12 May 2021);

- Act No 219/2021 Coll., amending Act No 6/1993 Coll., on the Czech National Bank, as amended (in effect as of 1 August 2021);
- Act No 353/2021 Coll., amending Act No. 21/1992 Coll., on Banks, as amended, and other related acts (in effect as of 1 October 2021).

4) **Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2021):**
   - Act No 261/2021 Coll., amending some acts in relation with further computerization of public authorities' procedures (amending Act No 21/1992 Coll., on Banks, as amended and Act No 96/1993 Coll., on Building Savings and State Contribution on Building Savings, as amended, in effect as of 1 February 2022).

5) **Secondary legislation:**
   - Decree No 209/2021 Coll., on the remuneration and reimbursement of expenses of the liquidator of a bank and a credit union (in effect as of 27 May 2021).

A1.4 Payment Services and Market Infrastructure Legislation

1) **European legislation and other initiatives published in 2021:**
   - Regulation (EU) 2021/1230 of the European Parliament and of the Council of 14 July 2021 on cross-border payments in the Union (codification);
   - Commission Delegated Regulation (EU) 2021/731 of 26 January 2021 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to rules of procedure for penalties imposed on third-country central counterparties or related third parties by the European Securities and Markets Authority;
   - Commission Delegated Regulation (EU) 2021/732 of 26 January 2021 amending Delegated Regulation (EU) No 667/2014 with regard to the content of the file to be submitted by the investigation officer to the European Securities and Markets Authority, the right to be heard with regard to interim decisions and the lodging of fines and periodic penalty payments;
   - Commission Delegated Regulation (EU) 2021/822 of 24 March 2021 amending Delegated Regulations (EU) No 1003/2013 and (EU) 2019/360 as regards the annual supervisory fees charged by the European Securities and Markets Authority to trade repositories for 2021;
   - Commission Delegated Regulation (EU) 2021/962 of 6 May 2021 extending the transitional period referred to in Article 89(1), first subparagraph, of Regulation (EU) No 648/2012 of the European Parliament and of the Council;
   - Commission Delegated Regulation (EU) 2021/1456 of 2 June 2021 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council by specifying the conditions under which the commercial terms for clearing services for OTC derivatives are to be considered to be fair, reasonable, non-discriminatory and transparent;
   - Commission Delegated Regulation (EU) 2021/1722 of 18 June 2021 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards specifying the framework for cooperation and the exchange of information between competent authorities of the home and the host Member States in the context of supervision of payment institutions and electronic money institutions exercising cross-border provision of payment services;
   - Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU;
   - Commission Implementing Decision (EU) 2021/85 of 27 January 2021 on the equivalence to the requirements of Regulation (EU) No 648/2012 of the European Parliament and of the Council of the regulatory framework of the United States of America for central counterparties that are authorised and supervised by the U.S. Securities and Exchange Commission;
   - Commission Implementing Decision (EU) 2021/583 of 9 April 2021 amending Implementing Decision (EU) 2016/1073 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) 2021/1103 of 5 July 2021 on the recognition of the legal, supervisory and enforcement arrangements of Brazil for derivatives transactions entered into by Brazilian institutions under the regulation of the Central Bank of Brazil as equivalent to certain

requirements of Article 11 of Regulation (EU) No 648/2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories;

- Commission Implementing Decision (EU) 2021/1104 of 5 July 2021 on the recognition of the legal, supervisory and enforcement arrangements of Canada for derivatives transactions supervised by the Office of the Superintendent of Financial Institutions as equivalent to certain requirements of Article 11 of Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories;
- Commission Implementing Decision (EU) 2021/1105 of 5 July 2021 on the recognition of the legal, supervisory and enforcement arrangements of Singapore for derivatives transactions supervised by the Monetary Authority of Singapore as equivalent to certain requirements of Article 11 of Regulation (EU) No 648/2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories;
- Commission Implementing Decision (EU) 2021/1106 of 5 July 2021 on the recognition of the legal, supervisory and enforcement arrangements of Australia for derivatives transactions supervised by the Australian Prudential Regulation Authority as equivalent to certain requirements of Article 11 of Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories;
- Commission Implementing Decision (EU) 2021/1107 of 5 July 2021 on the recognition of the legal, supervisory and enforcement arrangements of Hong Kong for derivatives transactions supervised by the Hong Kong Monetary Authority as equivalent to certain requirements of Article 11 of Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories;
- Commission Implementing Decision (EU) 2021/1108 of 5 July 2021 on the recognition of the legal, supervisory and enforcement arrangements of the United States of America for derivatives transactions supervised by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Farm Credit Administration and the Federal Housing Finance Agency as equivalent to certain requirements of Article 11 of Regulation (EU) No 648/2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories.

2) Pending European legislation (including legislation published after 31 December 2021) and other initiatives of the European Commission:

- Proposal for a Regulation of the European Parliament and of the Council of 16 March 2022 amending Regulation (EU) No 909/2014 as regards settlement discipline, cross-border provision of services, supervisory cooperation, provision of banking-type ancillary services and requirements for third-country central securities depositories;
- Proposal for a Regulation of the European Parliament and of the Council of 20 July 2021 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing;
- Commission Implementing Decision (EU) 2022/174 of 8 February 2022 determining, for a limited period of time, that the regulatory framework applicable to central counterparties in the United Kingdom of Great Britain and Northern Ireland is equivalent, in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council.

3) Acts that took effect in 2021:

- none

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2021):

- Act No 129/2022 Coll. amending Act No 370/2017 Coll., on Payments, as amended and other related acts (in effect as of 1 July 2022).

5) Secondary legislation:

- Decree No 401/2021 Coll., on certain reporting to the Czech National Bank in payments (in effect as of 1 January 2022);
- Decree No 485/2021 Coll. amending Decree No 141/2018 Coll., on reporting of major security or operational incidents by persons authorised to provide payment services (in effect as of 1 January 2022);

- Decree No 1/2022 Coll., on applications and notifications to perform activities pursuant to the Payment System Act (in effect as of 1 July 2022);
- Decree No 2/2022 Coll. amending Decree No 7/2018 Coll., on the pursuit of business of payment institutions, account information service providers, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers (in effect as of 1 July 2022).

A1.5 Insurance and Private Pension Systems Legislation

1) European legislation and other initiatives published in 2021:

- Commission Delegated Regulation (EU) 2021/473 of 18 December 2020 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to regulatory technical standards specifying the requirements on information documents, on the costs and fees included in the cost cap and on risk-mitigation techniques for the pan-European Personal Pension Product;
- Commission Delegated Regulation (EU) 2021/526 of 23 October 2020 correcting the Czech language version 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);
- Commission Delegated Regulation (EU) 2021/895 of 24 February 2021 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to product intervention;
- Commission Delegated Regulation (EU) 2021/896 of 24 February 2021 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to additional information for the purposes of the convergence of supervisory reporting;
- Commission Implementing Regulation (EU) 2021/897 of 4 March 2021 laying down implementing technical standards for the application of Regulation EU) 2019/1238 of the European Parliament and of the Council with regard to the format of supervisory reporting to the competent authorities and the cooperation and exchange of information between competent authorities and with the European Insurance and Occupational Pensions Authority;
- Commission Delegated Regulation (EU) 2021/1256 of 21 April 2021 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings;
- Commission Delegated Regulation (EU) 2021/1257 of 21 April 2021 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products;
- Commission Delegated Regulation (EU) 2021/2268 of 6 September 2021 amending the regulatory technical standards laid down in Commission Delegated Regulation (EU) 2017/653 as regards the underpinning methodology and presentation of performance scenarios, the presentation of costs and the methodology for the calculation of summary cost indicators, the presentation and content of information on past performance and the presentation of costs by packaged retail and insurance-based investment products (PRIIPs) offering a range of options for investment and alignment of the transitional arrangement for PRIIP manufacturers offering units of funds referred to in Article 32 of Regulation (EU) No 1286/2014 of the European Parliament and of the Council as underlying investment options with the prolonged transitional arrangement laid down in that Article;
- Commission Implementing Regulation (EU) 2021/178 of 8 February 2021 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 December 2021 until 30 March 2021 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) 2021/744 of 6 June 2021 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 March 2021 until 29 June 2021 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) 2021/1354 of 6 August 2021 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 June 2021 until 29 September 2021 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) 2021/1964 of 11 November 2021 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September 2021 until 29 December 2021 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) 2021/2006 of 16 November 2021 amending Implementing Regulation (EU) 2016/1800 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) 2021/1145 of 30 June 2021 on the application of Directive 2009/103/EC of the European Parliament and of the Council with regard to checks on insurance against civil liability in respect of the use of motor vehicles normally based in Montenegro and the United Kingdom.

2) Pending European legislation (including legislation published after 31 December 2021) and other initiatives of the European Commission:

- Commission Implementing Regulation (EU) 2022/186 of 10 February 2022 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 December 2021 until 30 March 2022 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;
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance;
- Proposal for a Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of Insurance and reinsurance undertakings.

3) Acts that took effect in 2021:

- Act No 527/2020 Coll. amending Act No 253/2008 Coll., on certain measures against money laundering and terrorist financing, as amended, and other related acts, acts related to the adoption of the Act on the Registration of Beneficial Owners and Act No 186/2016 Coll., on gambling, as amended (amendment to Act No 277/2009 Coll., on insurance, as amended, in effect as of 1 January 2021).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2021):

- Act No 91/2022 Coll. on the pan-European Personal Pension Product and amending related acts (in effect as of 11 May 2022);
- Draft Bill on motor vehicle liability insurance.

5) Secondary legislation:

- Decree No 115/2022 Coll. implementing certain provisions of the Act on the pan-European Personal Pension Product Act and amending the related decrees on professional competence (in effect as of 11 May 2022).

APPENDIX 2: SUPPLEMENTARY TABLES

Table A2.1: Overview of selected indicators in sector of credit institutions, non-bank financing providers, capital market and insurance companies

Banks	2020	Year-on-year change		2021	Year-on-year change	
Balance sheet	CZK 8,018.0 bn	5.2%	↑	CZK 8,603.4 bn	7.3%	↑
Total capital ratio	24.%	3.1 pp	↑	23.5%	-0.8 pp	↓
Ratio of client deposits to loans	143.6%	6.2 pp	↑	143.0%	0.6 pp	↑
NPL ratio	2.8%	0.3 pp	↑	2.4%	-0.4 pp	↓
Client deposits	CZK 5,162.0 bn	8.9%	↑	CZK 5,502.3 bn	6.6%	↑
Client loans	CZK 3,595.6 bn	4.2%	↑	CZK 3,847.8 bn	7.0%	↑

Building savings banks	2020	Year-on-year change		2021	Year-on-year change	
Number of contracts	3.24 million	0.5%	↑	3.27 million	0.7%	↑
Savings	CZK 362.7 bn	0.8%	↑	CZK 366.3 bn	1.0%	↑
State contributions	CZK 4.1 bn	3.5%	↑	CZK 4.2 bn	2.9%	↑
Total loans	CZK 293.5 bn	5.5%	↑	CZK 319.3 bn	8.8%	↑
New loans	CZK 65.4 bn	36.8%	↑	CZK 109.8 bn	68.0%	↑
Loan-to-savings ratio	80.9%	3.6 pp	↑	87.2%	6.3 pp	↑

Mortgage loans	2020	Year-on-year change		2021	Year-on-year change	
Purely new mortgage loans	CZK 216.8 bn	34.3%	↑	CZK 367.9 bn	69.7%	↑
Total loans	CZK 2,184.1 bn	10.0%	↑	CZK 2,390.0 bn	9.4%	↑

Credit associations	2020	Year-on-year change		2021	Year-on-year change	
Number of members	12.0 thousand	-1.9%	↓	11.4 thousand	-4.8%	↓
Balance sheet	CZK 10.0 bn	-1.7%	↓	CZK 9.1 bn	-9.0%	↓
NPL ratio	28.9%	4.8 pp	↑	26.2%	-2.8 pp	↓
Total capital ratio	26.7%	-2.6 pp	↓	24.4%	-2.2 pp	↓

Non-bank financing providers	2020	Year-on-year change		2021	Year-on-year change	
Balance sheet	CZK 419.3 bn	-4.2%	↓	CZK 420.2 bn	0.2%	↑
Total loans	CZK 322.4 bn	-2.2%	↓	CZK 324.8 bn	0.7%	↑

Regulated and OTC market	2020	Year-on-year change		2021	Year-on-year change	
PX index	1,027.1 points	-7.9%	↓	1,426.0 points	35.3%	↑
Volume of exchange trades on the PSE	CZK 134.4 bn	11.2%	↑	CZK 154.7 bn	15.1%	↑
Volume of exchange trades on the RM-System	CZK 4.6 bn	108.1%	↑	CZK 4.8 bn	5.9%	↑
Volume of OTC transactions	CZK 4,897.7 bn	12.2%	↑	CZK 9,125.1 bn	86.3%	↑

Investment funds	2020	Year-on-year change		2021	Year-on-year change	
Assets under management in collective investment funds	CZK 589.7 bn	5.9%	↑	CZK 707.6 bn	20.0%	↑
Assets under management in qualified investor funds	CZK 146.0 bn	11.7%	↑	CZK 181.9 bn	24.6%	↑

Insurance companies	2020	Year-on-year change		2021	Year-on-year change	
Balance sheet	CZK 493.0 bn	1.3%	↑	CZK 526.2 bn	6.7%	↑
Total gross premiums written	CZK 168.0 bn	1.2%	↑	CZK 179.6 bn	6.9%	↑
Gross claim settlement costs	CZK 92.0 bn	-9.1%	↓	CZK 101.9 bn	10.8%	↑
Total insurance penetration	3.0%	0.1 pp	↑	2.9%	-0,04 pp	↓

Pension funds	2020	Year-on-year change		2021	Year-on-year change	
Number of participants	4,424.0 thousand	-0.7%	↓	4,440.8 thousand	0.4%	↑
Participants' assets	CZK 527.9 bn	8.4%	↑	CZK 566.7 bn	7.4%	↑
Share of contracts with an employer's contribution	23.5%	0.6 pp	↑	24.0%	0.5 pp	↑
Participant's average monthly contribution in transformed funds	CZK 754	4.4%	↑	CZK 781	3.6%	↑
Participant's average monthly contribution in participation funds	CZK 812	1.5%	↑	CZK 829	2.1%	↑
State contributions	CZK 7.4 bn	1.9%	↑	CZK 7.6 bn	2.2%	↑

Source: AKAT, APS CR, CNB – ARAD, MoF, MoF calculations

Table A2.2: Main indicators of the building savings bank sector

As at 31 Dec		2016	2017	2018	2019	2020	2021
New building savings contracts	number	403,259	370,707	422,048	485,176	461,885	449,899
	change (%)	8.1	-8.1	13.8	15.0	-4.8	-2.6
Average target value for new building savings contracts with private individuals	value (CZK thousands)	383.9	396.5	470.1	430.5	455.9	808.7
	change (%)	3.4	3.3	18.6	-8.4	5.9	77.4
Building savings contracts in savings phase	number	3,312,077	3,212,427	3,166,824	3,226,733	3,242,740	3,265,839
	change (%)	-5.5	-3.0	-1.4	1.9	0.5	0.7
Paid state contributions	value (CZK bn)	4.3	3.9	3.9	4.0	4.1	4.2
	change (%)	-6.2	-7.8	-0.8	1.6	3.5	2.9
Average state contribution[83]	value (CZK)	1,342	1,373	1,397	1,434	1,461	-
	change (%)	1.2	2.3	1.7	2.6	1.9	-
Saved amount	value (CZK bn)	362.6	358.9	355.0	359.7	362.7	366.3
	change (%)	-5.6	-1.0	-1.1	1.3	0.8	1.0
Loans in total	number	650,214	612,982	588,165	555,368	520,333	490,714
of which: building savings loans	number	339,809	307,668	282,587	267,225	254,630	234,675
bridging loans[84]	number	310,405	305,314	305,578	288,143	265,703	256,039
	change (%)	-6.5	-5.7	-4.0	-5.6	-6.3	-5.7
Loans in total	value (CZK bn)	240.6	245.7	262.9	278.1	293.5	319.3
of which: building savings loans	value (CZK bn)	40.0	38.2	38.5	48.2	60.0	64.1
bridging loans[84]	value (CZK bn)	200.6	207.5	224.4	229.9	233.5	255.2
	change (%)	-0.8	2.1	7.0	5.8	5.5	8.8
Loans-to-savings ratio	ratio (%)	66.4	68.5	74.1	77.3	80.9	87.2

Source: Building savings banks, MF

83 The value is published in the course of the subsequent year.

84 Under Section 5(5) of Act No. 96/1993 Coll., on building savings schemes and state contribution for building savings schemes, as subsequently amended.

Table A2.3: Basic indicators of the supplementary pension insurance in transformed funds

As at 31 Dec		2016	2017	2018	2019	2020	2021
Supplementary pension insurance contracts[85]	number	3,999,304	3,709,605	3,494,140	3,327,507	3,154,028	2,988,958
	change (%)	-6.6	-7.2	-5.8	-4.8	-5.2	-5.2
State contributions for a given period	value (CZK bn)	6.0	5.7	5.4	5.3	5.1	5.0
	change (%)	-4.7	-9.6	-5.1	-2.3	-2.9	-2.7
Participants' contributions[86]	value (CZK bn)	29.6	29.4	28.4	28.2	27.7	27.3
	change (%)	-1.5	-2.4	-3.2	-0.6	-1.9	-1.6
Average monthly state contribution	value (CZK)	124	120	128	133	137	140
	change (%)	1.6	-1.6	6.7	3.9	3.0	2.2
Average monthly participant's contribution	value (CZK)	606	624	680	722	754	781
	change (%)	2.9	5.9	9.0	6.2	4.4	3.6

Source: MoF

Table A2.4: Basic indicators of the supplementary pension savings in participation funds

As at 31 Dec		2016	2017	2018	2019	2020	2021
Supplementary pension savings contracts[85]	number	536,759	757,549	956,820	1,128,131	1,269,989	1,451,812
	change (%)	48.5	41.1	26.3	17.9	12.6	14.3
State contributions for a given period	value (CZK bn)	0.86	1.24	1.66	2.00	2.29	2.59
	change (%)	59.0	44.3	34.1	20.8	14.5	13.1
Participants' contributions[86]	value (CZK bn)	4.07	6.07	8.24	10.01	11.59	13.35
	change (%)	58.3	49.1	35.7	21.5	15.8	15.2
Average monthly state contribution	value (CZK)	156	159	160	160	161	161
	change (%)	2.6	1.9	0.6	0.0	0.6	0.0
Average monthly participant's contribution	value (CZK)	741	776	790	800	812	829
	change (%)	2.6	4.7	1.8	1.3	1.5	2.1

Source: MoF

85 Data reflects number of policies, which are not closed in the relevant MoF records.

86 Participants' contributions are reported without the contributions paid by employers for their employees.

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